AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

If yesterday was a Type 1.5 Trend Day up, Today was a Type 2.5 Trend Day up. I would have credited today as a "Type 3" only if we had a large overnight gap that preceded the impulse up, cluing is in ahead of time that odds favored a trend day.

I hope you're paying attention to these reports, because history is repeating, and that was quite evident again today when price broke above expected resistance at the $100.20 level - once price broke this level, short-sellers' stops were taken out all the way up, which created a momentum move identical to that of yesterday. Please refer back to last night's discussion for insights on "when expected and obvious resistance fails."

I would not classify an 8 cent gap as a 'gap' so I'll call the morning session open roughly equal to last night's close, which did not offer a morning gap to fill.

As has been the case on prior market trading days in August, the tendency has been for the market to open in one direction and surge in that direction without ceasing, as I've highlighted each time in the reports. The play is always the same: the only way to take advantage is to go ahead and 'market order' yourself into a perceived run-away move and not anticipate a clean, comfortable entry. If such plays are outside the realm of your trading strategy, then if you do not perceive a low-risk, high-probability entry (such as a pullback), then you do not trade. It's best not to chase any market move unless you have the experience to do so. There will always be other opportunities and do not berate yourself for not capturing every penny possible from the trading day. Stick with the edge and how you understand edge concepts.

Alternatively, you could have entered when price solidly broke above $100.30 which - as discussed - cleared out all the stop-losses (from short sellers) which would have created a positive expectancy for you to scalp long, playing off the demand that their stop-losses generated.

Otherwise, the first meaningful pullback was near 10:15 EST as price fell three bars to form a clean doji just above the 20 period EMA. Price actually formed two dojis here, and you could have bought long just as price crested above the high price of either doji candle to play for a higher high, which came shortly later where the red arrow is indicated. A stop would have been placed beneath the rising 20 EMA to guard against further downside.

Price formed a momentum divergence at the 10:45am highs as reversal candles formed and a down-swing began. It was at this time that we had a higher TICK value on the session, but a technical lower TICK high when compared with the noon TICK high of Wednesday's session (at a lower price level). I interpreted this as a divergence with both momentum and yesterday's TICK high and anticipated that this could be a key intraday price high to watch.

Price consolidated tightly during the lunch period, offering very few opportunities. My bias was bearish due to the negative divergences and 5-wave fractal Elliott pattern as well. An unbiased approach might have seen the two green arrows as buying opportunities, but I would deem that a lower-probability outcome due to the non-confirmations as mentioned above.

The next interesting point to discuss is the "Line in the Sand" text I've labeled. What happens here is that if you're anticipating a reversal to the downside - or a Rounded Reversal to form - then the "Line in the Sand" or the point at which the odds convincingly shift to favor a reversal is when price breaks beneath the 50 period EMA on the 5-min chart. As such, we have to take a neutral stance until price either rallies off this level or cracks beneath it, as the odds drop to around 50/50 (which gives us no accuracy edge).

Price formed a small doji at this level and then began to rally. The moment price broke back above the prior $100.90 price high (which was the recent swing and then looking back to the prior morning high), then the odds flip back convincingly to the long (buy) side, which gave us one more up-thrust with the same logic as the "When Expected Resistance is Broken," meaning short-sellers were stopped out which helped create upward momentum that you could have scalped for a profit.

Remember, we are looking to trade when we feel we have alignment - as best we understand and perceive in real time - of the:

1) Accuracy Edge (meaning, we know that the pattern, or a combination of non-related methods pointing in the same direction gives a greater than 50% chance of a winning trade)

2) Monetary Edge (meaning that if we put on a trade based on an accuracy edge, we need our stop-loss to be smaller than our profit target - perhaps by a factor of two or three. So if our stop-loss is 15 cents, our profit target should ideally be at least 30 cents if not larger for a decent 'monetary' edge)

In this example, as price sat on the 50 period EMA, we had a Monetary Edge in either direction (the stop if you were biased short was just above the swing high and the target was a larger swing low; but if your bias was to the upside, your stop was just beneath the confluence of the rising 50 EMA and the lower Bollinger Band and your target was a new swing high).

I generally prefer to align the "Accuracy Edge" with the "Monetary Edge" in trading, meaning I'd like to see price either BREAK above the key high or break beneath the Bollinger and 50 EMA before committing a position.

This same logic goes for any and all trade set-ups I discuss, which is what I'm trying to teach you through multiple pattern repetition through these daily reports. It's about understanding when the Accuracy Edge comes in to play and then discerning if there is a sufficient reward to risk ratio - and if so, to put on the trade with confidence and with little hesitation.

Let's see alternate charts for closer insights.

Overlaying the TICK, we see the divergence mentioned above.

There was also a nice positive TICK divergence that set-up just as price challenged the rising 50 EMA - which helped tip the odds - if you saw it - that a positive (upward) resolution might be brewing.

I've also overlaid a 5-wave Fractal pattern - complete with negative TICK and momentum divergence - that gave the expectation for a price top at the $100.90 level. Price broke to the upside at the close to form a swing high.

One thing to keep in mind - as a reader pointed out to me - is that classic patterns mean less when Options Expiration draws near. Friday is an Options Expiration "Friday" and so the large funds are not so much applying classic "supply and demand" relationships - nor is psychology driving the market... both of which contribute to the success of the patterns and structures I teach and trade.

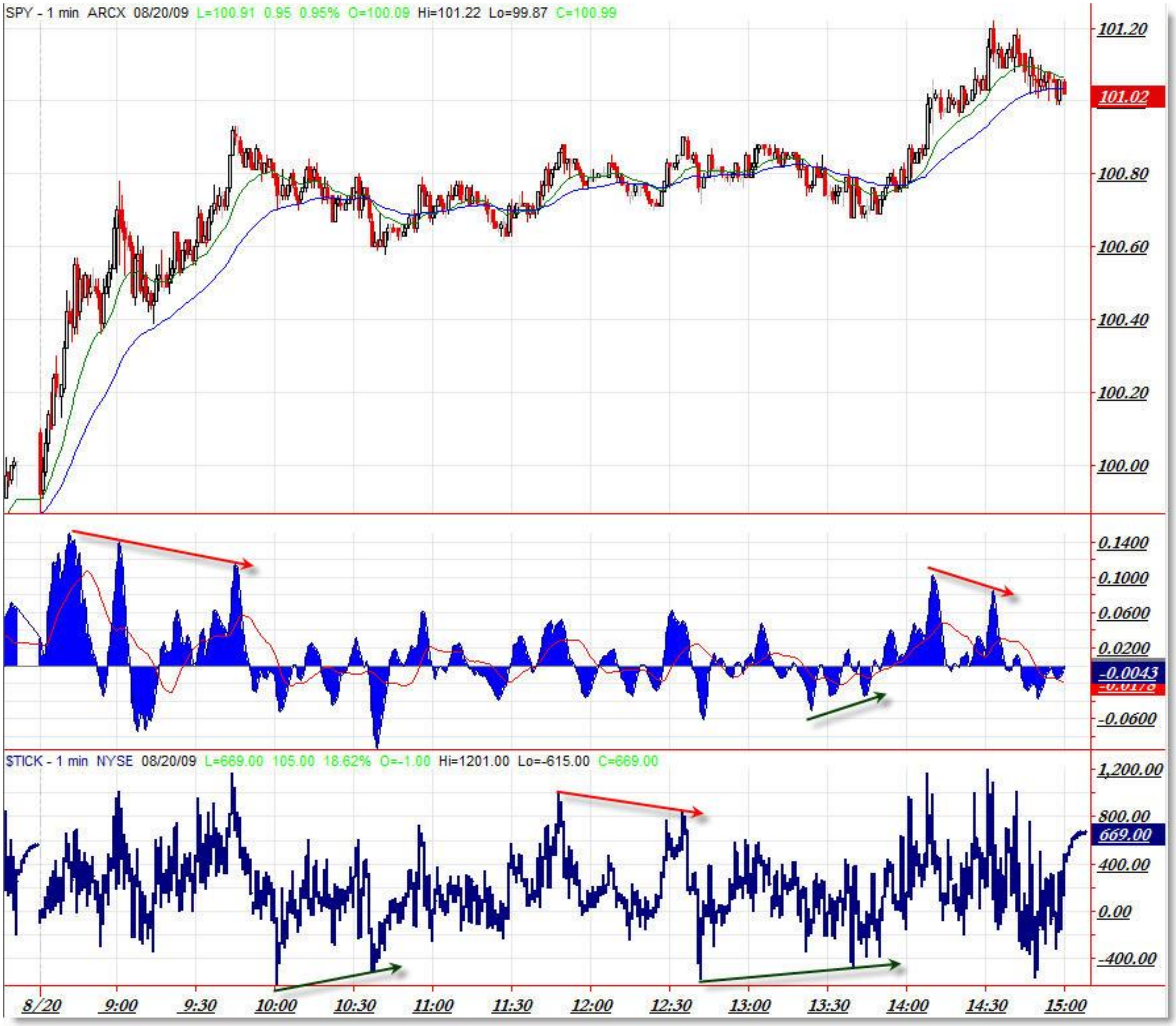
Funds must balance and re-balance/ hedge and re-hedge their portfolios and that creates 'random' volatility as a result.

That's why you hear intraday traders curse "Options Expiration" days (or days prior) - their favorite patterns that they know to work have a higher probability of breaking down while other forces are temporarily at work.

Funds have a certain position they have to maintain and when the market rises above this, they have to sell out or re-adjust their options to get back in alignment, and then when the market heads lower than they would like, they have to re-balance that in their portfolios by buying and re-hedging to get a balanced portfolio.

The aggregate actions of all portfolio managers doing this - who trade very large options positions - creates the 'random' movement that violates classic patterns and set-ups that work under 'normal' market conditions.

In fact, many traders 'take off' the two or three days prior to monthly Options Expirations - it keeps them sane!



This chart shows the internal divergences in the TICK and 3/10 which gave short-term scalping or trading opportunities, as well as served as confirmation/non-confirmation with what you were seeing on the 5-min or higher charts.

Reference prior evening reports for my discussion on the "Price Arc" and lengthy negative momentum divergences which is still the dominant structure for price at the moment.

The expectation still is that the arc will complete (price has merely returned into the price trendlines of the original arc off the June lows) which means that a potentially significant down-move is the expected bias for the future.

UNTIL price breaks above BOTH of the 'lines in the sand" as drawn above - meaning the S&P 500 would need to close solidly on higher volume above 1,020 - then the bias is overwhelmingly to the downside and odds favor a price reversal to guide you in your next week of trading.

My recommendation is to be biased/positioned short beneath 1,020 and then stopped out and biased long for yet another 'smack in the face' to the bears (which would create yet another momentum move up due to their stops being taken out) should price break above value 1,020 in the S&P 500.

The Broadening Formation I've been discussing since July is still clearly in-tact and price could challenge the lower boundary over time - but don't get ahead of yourself.

This pattern is dominant UNLESS we get a close outside the upper boundary, meaning that a down move is far more favored from a technical purism standpoint.

Hint: Tomorrow is Options Expiration Friday (again) so do be careful and cautious in your trading unless we get a sustained move or some type of Trend Day. The bias historically for any expiration day is a flat, choppy, somewhat random market.