AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Bears finally got a down move that did not end in a "Rounded Reversal," which is the genesis of a longer-term down-move if bears can keep up the pressure.

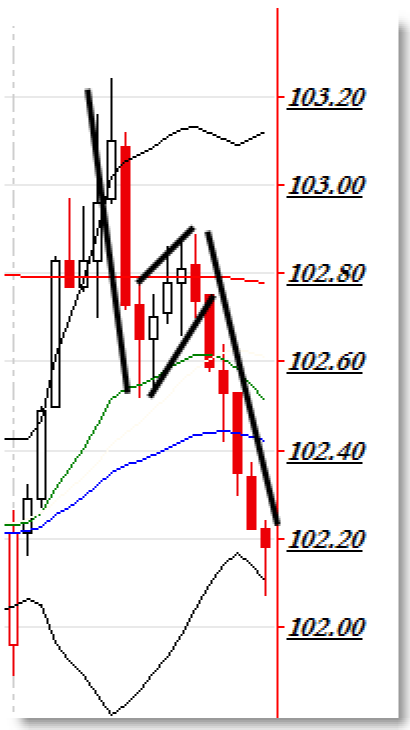
The day began with a quick gap-fill of 50 cents (5 @ES Points) which was only achieved if you jumped in long after the first bar - the gap did not give a nice retracement entry, nor was there any down continuation of the morning open.

When the gap filled, it was likely best to stand aside (as there was no major buy signal - gap fills often lead to a reaction move down in the direction of the gap... stated differently, closing a down gap often results in resistance).

Price actually moved over $1.00 (10 @ES Points) right off the open which was further frustrating to the bears and almost certainly triggered some frustrated bears to turn into reluctant bulls and trade from the long-side, particularly with the pullback to the rising 20 EMA near 10:00 am EST. That was a good trade set-up - the new momentum high and volume spike led to a 'buy' when price retraced to the confluence price zone of $102.50 for yesterday's close and the rising 20 EMA - with a tight stop just beneath $102.50.

The trade failed to overcome resistance at the falling 200 period SMA and the moment price broke down beneath all the EMA and prior close support about the $102.50 level, odds shifted strongly to favor downside action.

The initial down-thrust created a quick Bear Flag trade for those who were overly bearish:



Ultimately, price surged beneath the target (as shown to the left) and unfolded into a large momentum move down on surging volume, which served as a confirming signal of market acceptance of lower prices (hinting lower prices ... value... was yet to come).

I really can't conceive of how to gather the entire move down using classic methods, with the exception being taking a short and trailing a stop the moment price broke the consolidation zone, morning open, and round number support at the $102 level. Otherwise, there was little reason to be overtly bearish, especially given that price had just formed a swing high and began floating down from that level before picking up momentum.

Again, the volume spike served as a 'confirming signal' as in Market Profile Theory that "value" was being accepted (by volume) at lower levels, signaling that lower prices were likely until all the selling pressure was 'shut-off' for the session.

Ultimately, with such a large swing down, the bias became "expect new price lows" after any retracement/pullback particularly to the falling 20 EMA or any spike TICK high above zero.

In other words, the bullish open devolved into the potential to have a "Trend Day Down" (Type 2 due to the morning upward impulse).

However, as price continued to range lower, there was a persistent positive momentum divergence (remember the 3/10 oscillator is less effective on true trend days) as well as the TICK. In addition, price appeared (to me at least) to be forming a possible "Rounded Reversal" which was a common pattern in August and would have been confirmed with a break and close above the 5-min 50 period EMA. UNTIL price broke the 50 EMA, odds objectively favored a Type 2 Trend Day down bias, which still meant shorting rallies until proven otherwise.

Price bounced down off the 20 EMA at least three times, allowing quick, leveraged scalp trades for those so inclined.

Otherwise, if you were anticipating a "Rounded Reversal" structure, the three dojis at the lower Bollinger Bands at 1:00 EST (complete with TICK and 3/10 Divergence) gave plenty of reason to enter a long trade with a tight stop beneath $100.25 to play for a similar upward move upon a break of the 50 EMA. Aggressive traders would have gone long at the $100.25 lows + dojis + divergences, though a conservative trader would have waited for an official break and close above the 50 EMA - in this instance, it paid to be conservative.

Price never even touched (tested) the falling 50 EMA, and just after 3:30, price plunged to a new intraday low at the $100 level on another volume spike. The close was chaotic - as usual - with a sudden up bar then down bar.

Let's look at lower charts to see additional insights.

The 5-min TradeStation chart - with TICK - shows numerous TICK divergences that ultimately proved good only for small scalps - elsewise they were false signals. Also, on a trend day down, ANY spike up in the TICK is a short-sale trade that is good for a scalp. Notice the distribution (percentage) of negative TICK readings as opposed to positive readings - the TICK can be a great gauge for market internals and confirmation for day structure.

The 1-min chart showed a nice negative TICK and 3/10 divergence at the absolute morning high, which gave a great short-sale scalp signal with a stop just above $103. Price broke above the daily R2 Pivot (not shown) and the "round number" resistance at $103 and above the upper Bollinger Band on the 5-min chart with a bearish reversal candle. Other than the gap fade, that was the next-best trade of the morning session.

I drew a small horizontal line at the $102 level to reflect the "Bull/Bear" line that - when broken - led to a waterfall move down... though it was virtually impossible to anticipate the fury of the selling once support was broken.

The 60 min chart shows potential support at the $100 level both from the rising 200 period SMA and the "round number" price.

However, we see that volume surged and momentum plunged - both of which *confirm* the lower prices and hint that the market is finally accepting lower 'value' (Market Profile) and that the market must fall to 'shut off' the sellers (just as the market must rise to "shut off" buyers).

A break of $100 would most likely be a strong short that is good for a swing trade or longer... and would certainly bias the intraday charts (aka greater confidence/leverage in short-sale set-ups).

The 30min chart shows a similar picture, only a clearer picture of the volume surge on the lower prices.

It's likely that today's morning drop was an internal 3rd wave fractal due to the violence and 'verticality' of the move.

Unless there's some countervailing news, the $97 level as seen as support from August 17-19 is the obvious 'swing' target. We're halfway there already.

The dojis at the highs *finally* seem to be catching up with the market, with a swift down-move as expected.

Price broke the daily 20 EMA, so again $97 is a natural target (50 EMA along with the lower Bollinger Band) though failure at this level could send prices back to $87.50... but let's not get ahead of ourselves yet.