AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today had some interesting and unexpected moves - from the large gap that filled to the choppy, rangebound trading until 3:00 which led to a false break-up (officially filling the gap) before falling into the close. Let's take it trade by trade.

GAP FILL

Today's gap fill is an interesting lesson. Statistically, it will go down as a "filled gap" day, however, as those of you who traded it know, it was anything but a standard gap fill trade.

The SPY gapped down 80 cents which is just on the cusp (almost outside) the realm of expecting NO gap fill (we expect gaps of about 65/70 cents or less to fill, but there's a 'no-man's land' from 65 to 85 where the edge is not favorable, and then any gap greater than 90/95 cents is NOT expected to fill, and can be precursors for trend days).

This was complicated by the fact that price began to surge off the open in the first 10 minutes, triggering most people to enter long to play for some percentage (50% at a minimum) of the gap fill. This is another lesson where loose stops vs tight stops benefits your accuracy/profit... but makes you quite nervous intraday. The stop would have been placed 10 cents or so beyond the intraday low of $105.80 no matter where you entered long, and then almost sensing your stop-losses, price swooped down to challenge these stop-losses at these levels - probably picking some of us off down there at the intraday lows. Again, wider stops keep you in more trades that turn into winning trades, but when wide stops are hit, they leave a larger mark on your account than small stops. You can make up for this differential by taking larger positions with smaller stops and smaller positions with wider stops ... though that is another lesson.

LOWER SHADOWS BOUNCE + MOMENTUM + TICK DIVERGENCES BUY

In the event that you were stopped out of your gap fill position, you should have flipped back long after seeing four long lower shadow candles, one of which formed a 'hammer' under the lower Bollinger Band which was combined with a 5-min and (clearer) 1-min positive TICK and Momentum divergence. Again, the stop would go about 10 cents or more beneath the low of $105.70 and entry would be aggressively in the $105.70/$105.80 level or conservatively as the high of the hammer was taken out above $105.80. The initial target was a retracement/pullback to the 20 EMA, situated at the $106.20 level which occurred very quickly.

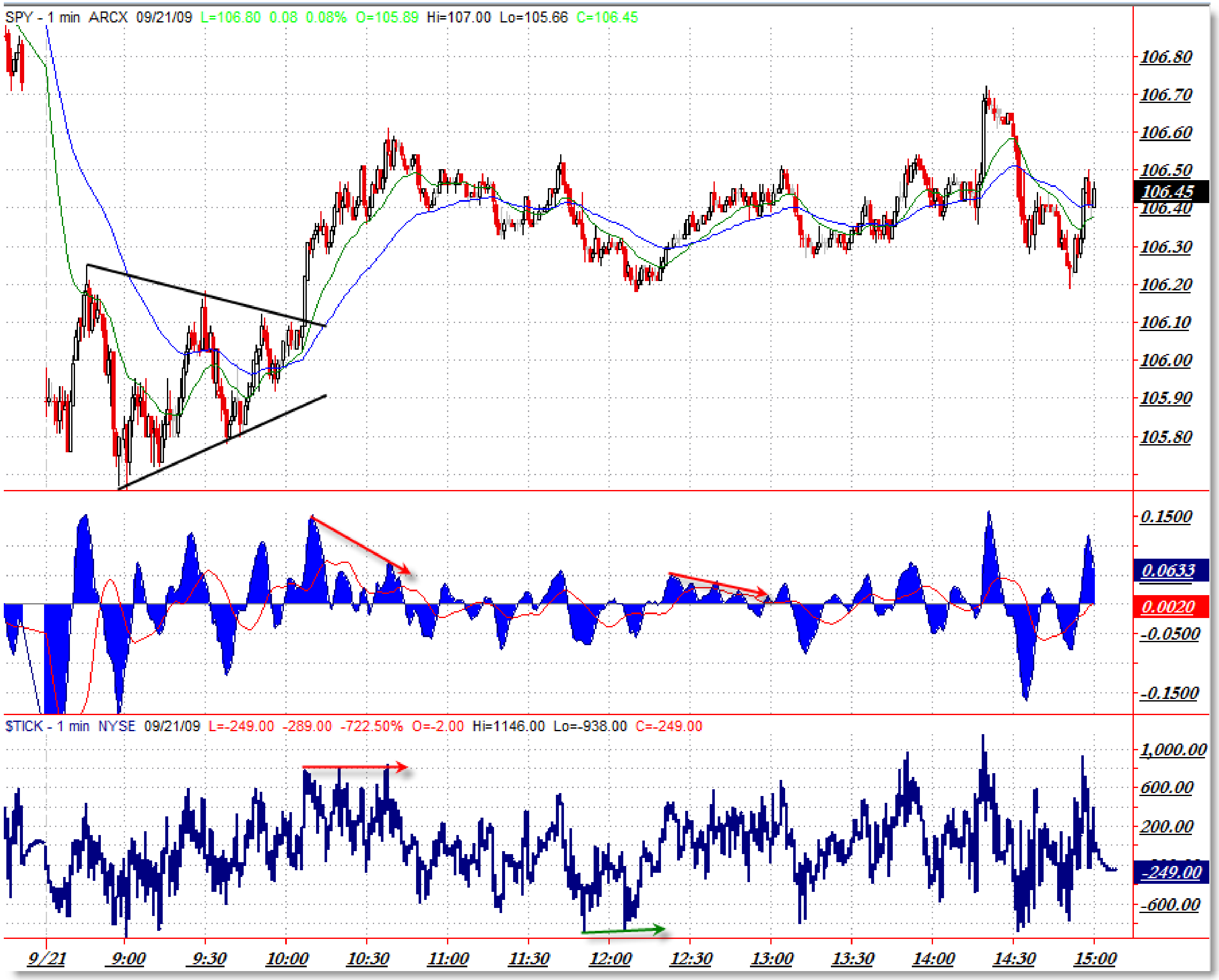
A doji reversal candle formed off this level, and as the low of the doji was taken out, if you were still long, you should have exited your position at this time so as not to let a quick, counter-trend scalp to the upside turn into a loss. Counter-trend moves require swifter action and quicker reflexes.

Price then found support, and eventually, you would have been able to draw converging trendlines to contain the price from the open to 11:00am, which resulted in a triangle pattern. At this point, we would have been waiting for a triangle breakout play to break above the $106.10 trendline (which also happened to be the 20 EMA) and the $105.90 area (lower trendline). Although it seemed in real-time that the price would have broken to the downside (again, because the 20 EMA was above price), the break was to the upside which should have generated a long buy (again, capturing stops from those in the morning who were betting short and now have to cover... and from late-comers to the 'gap-fade' trade).

The target then became the 50 EMA at $106.40, or aggressively for a full gap fill back to the $106.70 area. Price fell just shy of completely filling the gap, and then we moved into a nebulous range-bound environment where market internals remained bearish (breadth, Up/Down volume, TICK concentration). Volatility contracted, and though it looked like we were getting a "1:00 afternoon breakout" trade to the downside, price only managed to support on the lower Bollinger Band and then rally back up inside the range - creating a false short-sell signal which resulted in even more short-covering (that's been the name of the gap for the last few weeks). It's like trying to push a buoyant ball down in water - the further you push it down, the faster it pops back up to the surface.

Price had one more trick up its sleeve for traders, in that we got a false upside break and power-bar to the upside that was confirmed with volume. Price hit exact resistance at yesterday's closing price and then turned immediately lower from that level. This underscores the point that it is so important to have yesterday's closing price up on your chart - perhaps as a horizontal line - to see how price reacts to this level - sometimes as a target, and other times as a confluence trade entry.

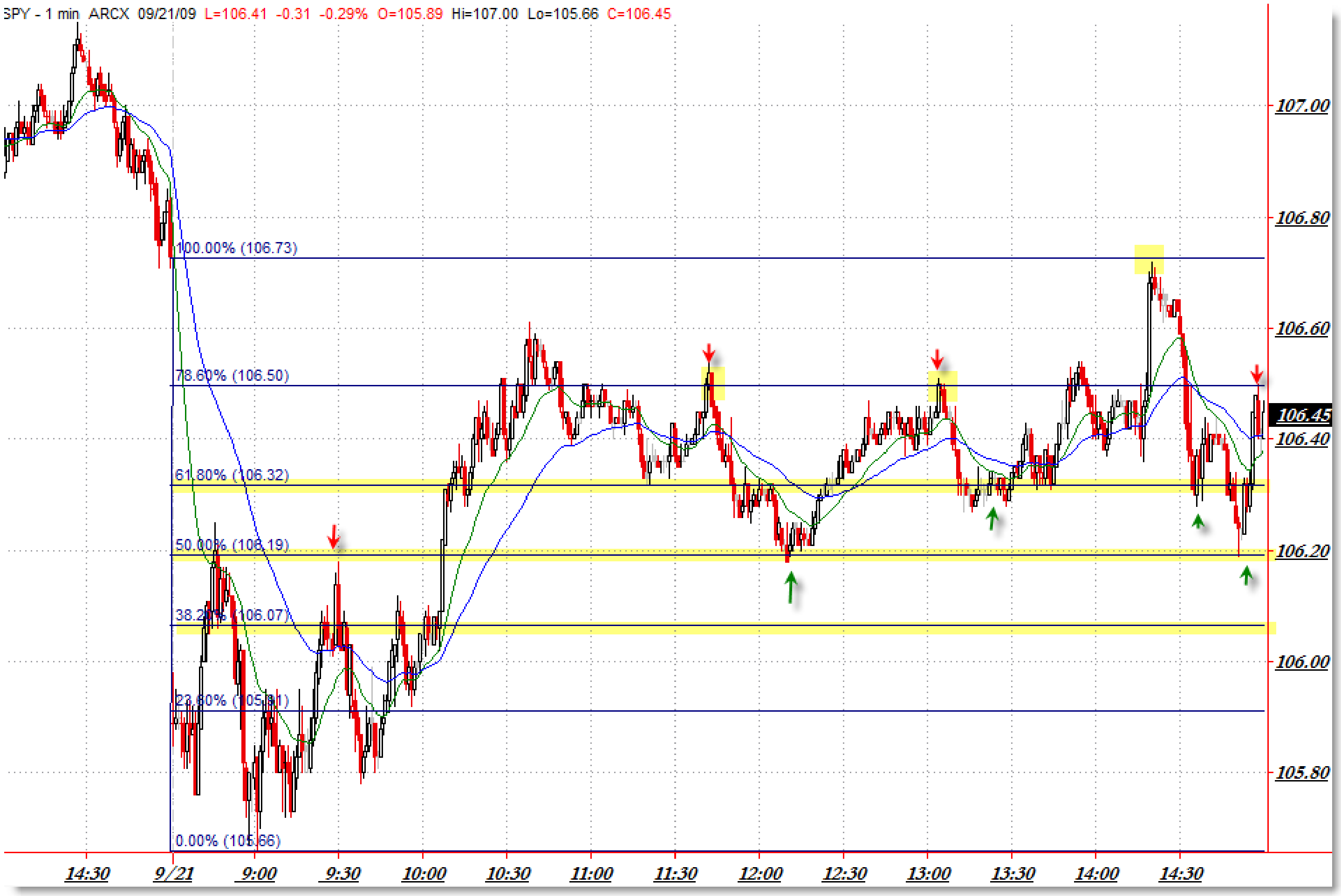
There was a slight TICK divergence with the highs on the upswing as shown above. Otherwise, there was a flat-line TICK divergence at the 1:00 EST (this chart is in CST) timeframe. We see that the 200 period SMA converged with the upper Bollinger Band AND yesterday's closing price near $106.70... all of which was too much for bulls/buyers to overcome.



The 1-min chart is always helpful to reveal structure and the internals of moves/trade set-ups or structural developments we see on the 5-min (or 15-min) charts.

The main 'educational' take-aways here were the negative momentum and flatline TICK divergences going into the $106.60 intraday price highs (that formed an 'arc' formation) at 12:00 EST. We saw a similar pattern occur at the 1:00 rally that showed similar non-confirmations.

Otherwise, this was a choppy, relatively difficult to trade day - not all days can be perfect in execution and structure.



For a quick "lesson" - drawing a Fibonacci retracement grid from yesterday's close to the morning's intraday low produced the following grid which was one more level of confluence to help in making trading decisions.

Remember, never make decisions in isolation using one indicator (like a hammer candle, a single moving average, etc). Put price action in context and look for confluences across non-correlated trading methods. You don't have to try to use them all - just enough that make sense to you to put the odds in your favor as best you can intraday in real time.

I've highlighted the 38.2%, 50%, and 61.8% retracements, though I've added the non-conventional 78.6% and 23.8% zones as well.

We broke the 50 period EMA along with the lower Bollinger in today's opening gap... which bulls quickly regained. Bulls continue to use any pullback as a reason to put more capital to work... one has to wonder where all this money is coming from to continue pushing the market higher, unbalancing the demand/supply equation to the upside.

Watch this chart for any further signs of price movement/weakness to the downside, particularly with a daily close under $106.00.

A new momentum low formed on today's trading session, which is bearish and could signal lower price lows yet to come... under classic/normal models (remember, this environment is permeated with vicious and un-ending upside action).

Key take-away: Watch for continued support here, or else look to short a price move under $106/$105.50.

We could be seeing the start of a short term trend reversal... or just one more in a series of bear traps that - with the shorts covering - propel price to new highs.

Strangely, volume is decreasing as price falls, which is actually quite a bullish CONFIRMATION of higher prices. I haven't seen anyone talking about this yet, so watch it.

In an uptrend, we would expect volume to expand/rise during the up phases and contract/decline during the down phases (of price) which would be the 'picture-perfect' example of a healthy uptrend. In essence, that's what we're seeing here, despite the gross price extensions to the highs.

Still, looking at the 50 EMA at $105.50... I would deem any solid break beneath $105.50 to be a sell signal with caution (caution coming from the fact that bulls are running the show at the moment).

Remember that we still have dojis at the highs at the upper Bollinger Bands on the Daily Chart - that's a short-term sell signal that should bleed its bias down to the intraday frames where you trade... but do watch the power of the bulls.