AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

The hallmark of today's activity should be remembered not so much for the impressive upside action, but for the stellar LACK of volume to confirm today's rally. We'll address that at the end of the report.

Today's "Type 2" Trend Day up (which was devolving mid-day into a "Rounded Reversal") was an impressive victory for bulls as they forced a bounce off the 1,040 support level which was the 20 day EMA and close to the 38.2% Fibonacci retracement. Let's first see the "idealized trades" and how we were able to recognize day structure as it progressed.

First, let me caveat by saying that - in general - Trend Days offer very few "idealized" trades like most days do. The type of trade entry on Trend Days is more akin to buying each and every pullback/retracement in price and trailing a stop initially under the rising 20 EMA and then as the day progresses, under the rising 50 EMA (as the "Line in the Sand" that divides the Trend Day from its Rounded Reversal Counterpart).

Any negative TICK reading is also a good "scalp" entry (buy) into the rising Trend Day structure.

Otherwise, there's not much to say about triangles, price patterns, or volatility. Trading on Trend Days is "efficient" (in that you do little analysis/work for larger profits) as opposed to Range or Normal Days where your work is "inefficient" (having to monitor various components and strategies/patterns/indicators to get smaller profits).

As such, it pays well to take full advantage of Trend Days when they occur... even if they devlove into Rounded Reversal structures or flatten out (like today) - the bulk of the profits can be made in the morning during the impulse rally.

That being said, the morning market opened with a 50 cent gap in the SPY - which places it in the realm of "Expect a Gap Fade" though today's action shows why it's a better idea to wait at least three bars OR until you see price making a move to fill the gap before joining short to play a "gap fade" trade. Sometimes waiting for proof can make all the differenc e.

Based on the statistics, you should have been anticipating a "Gap Fade" as your first trade (particularly with regards to the shooting star/long upper shadow candle on the second bar that ran outside the upper Bollinger Band). However, the third bar was a 'power up bar' showing strong impulse that either kept you sidelined (abandoning the 'gap fade' set-up) or stopped out (with all those who 'jumped the gun' on the morning's gap fade trade... contributing to futher upside action).

Take a look down to the 1-min chart to see the "Third of Third" concept. This is important to know, and it refers to the "heart" or "middle" of an impulse move. Generally, when you see price rise 5 bars in a row to the upside on the 1-min chart, then odds are that you're looking at the "Third of Third" concept, which means that we are probably in some type of larger "Third Wave" (Elliott terms) and that we just saw the "third" or the 'heart' of the most powerful wave.

In different terms, in Elliott Wave, if the third wave is the longest/most dynamic, then that third wave will itself sub-divide into 5 waves, and the "third wave" of the larger "third wave" will hold the most "power" or will be the "most dynamic part of the most dynamic wave."

The main idea is that you should expect upward action after seeing this concept, particularly if you're able to look backwards and see a larger "one and two" (first and second) wave. It doesn't necessarily mean you're long in advance of this - but it means that WHEN you see it, you should suspect that price will continue higher to finish out a possible 4th (wave down) and 5th (wave up) move which should lead to profits on the upside. DO NOT look to short the 4th wave.

This concept played out very well today which serves as an excellent education example: Understanding this concept - and the expectations it brings - would have made ALL the difference between a person waiting to get short and doubting the power of this morning's rally (leading to losses... or keeping them sidelined), and a person would got long and played (bought) pullbacks perhaps aggressively which led to quick and easy (easier) profits. That's why reading these reports each day is so important - these concepts I teach/highlight repeat themselves and knowing/understanding these concepts can make the difference between a good and bad / profitable or losing day.

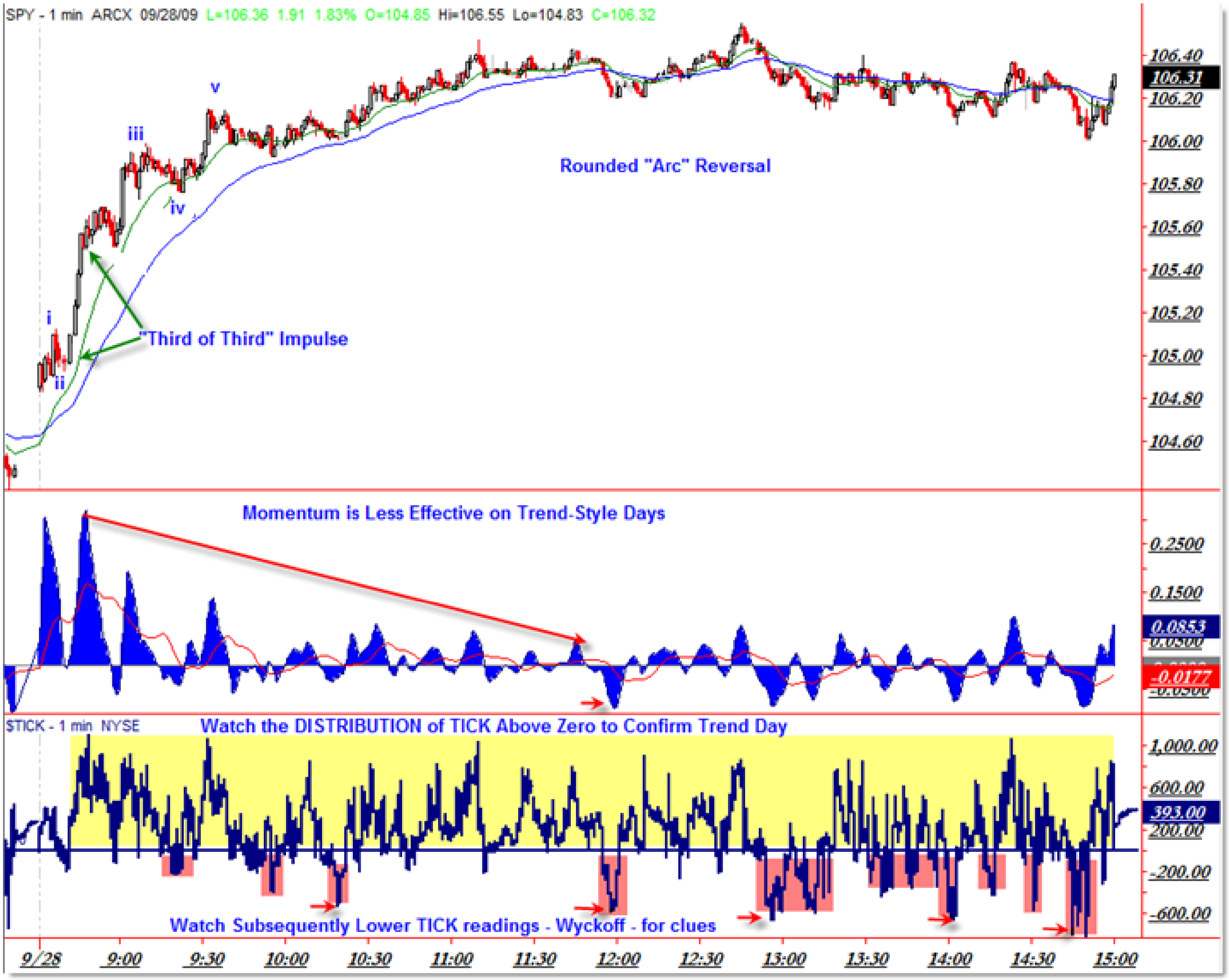
Without delving into specifics, realize that ANY pullback beneath zero in the TICK and ANY pullback to the rising 20 EMA was an "ideal" trade with a stop trailed beneath the rising 20 EMA.

The structure began to break down as the TICK started progressively making lower lows (see 1-min chart) which served as a non-confirmation as well as the "Wyckoff" sign of weakness concept (meaning the TICK should lead the price movement lower).

The momentum oscillator - as expected and as it always will on developing trend days - formed lengthy divergences, which should be taken with a grain of salt. Watch the TICK and structure of price to the 20 EMA on Trend Days - for better clues as to whether to expect higher prices or a rounded reversal.

Ultimately, price broke the 20 EMA at 2:00pm and then rallied (slightly) one last time but held with a doji candle on the confluence of the 50 EMA and the lower Bollinger Band - another long entry with the odds behind it. It was good only for a scalp, as price rallied one more time to fail at the upper Bollinger Band and then swing down to crack finally beneath the 50 EMA... only to rally into the close on the last two candles.

Let's take a moment to look more at the TICK and the "third of Third" concept.



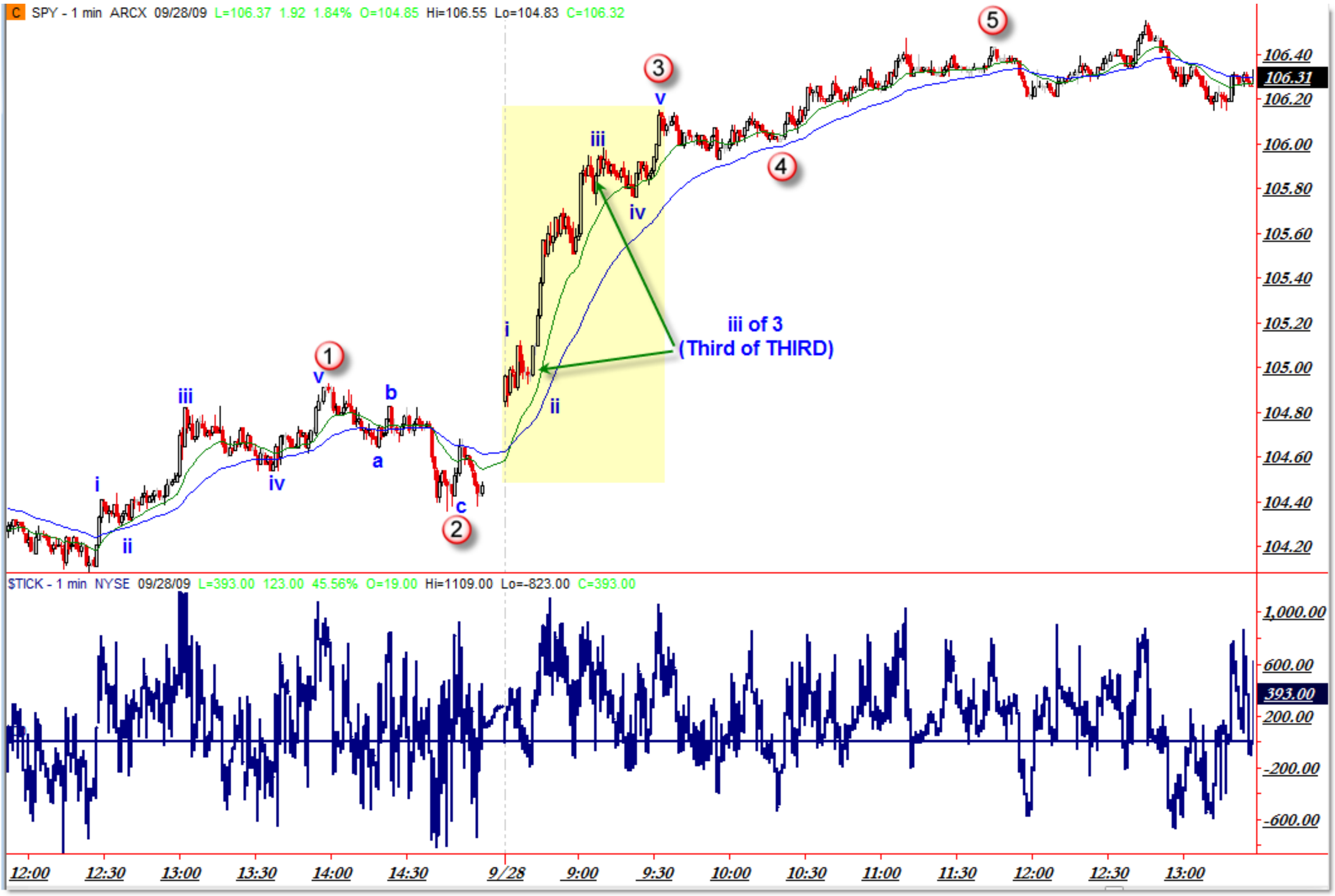
The next chart explains the "Third of Third" concept better.

This chart focuses on the lower lows in the TICK that occurred throughout the day.

With each lower TICK low, that serves as a non-confirmation of higher prices (in addition to the absolute value of the TICK divergences at the highs which I've not highlighted above).

This would have served to temper or reduce your bullish expectations with each subsequent new price high. It showed that a reversal was increasing in odds/probability - which is exactly what happened from mid-day on.

Also, pay attention to the DISTRIBUTION of the TICK - is it generally above or beneath zero? The answer to that question will help confirm or disconfirm whether or not we should expect higher prices as the day develops.



Anytime you see five or so candles in a row on the 1-min structure look as bullish as this, then it should clue you in that we're probably seeing some type of "Third of Third" wave. Remember, it's just like any pattern so it's not "sacred" or "absolute" but it's a concept that most people don't know how to notice, so recognizing this pattern as it develops can be a very effective skill.

Once you see the large impulse, look backwards to see if there might be a discernible wave 1 and wave 2, and if so, then you might find yourself in the third wave.

This also corresponds with the "Sweet Spot" trend reversal "trade" or "structural development" in which a higher high forms, then a higher swing low forms, then price rises to "TAKE OUT" (rise above) the prior swing high. You usually get a corresponding impulse here thanks to shorts covering and new longs buying new highs (positive feedback/virtuous cycle).

The main idea is to expect higher prices yet to come and position yourself to trade them - do NOT think "Well, price is too overextended - it can't go any higher" and especially do not short after such a development.

On the daily frame, bulls 'bounced' price off the rising 20 EMA at 1,045 into a successful up-day. This was a classic/standard retracement trade, and it tells us that the "buy the dip" mentality is still firmly entrenched.

Unless proven otherwise, odds favor a run-up back to test the 2009 highs about the 1,075 level, if not a full run to 1,100 or 1,124 which is the 50% Fibonacci retracement of the 'whole bear market."

I really don't like that volume was so low today - it leaps off the chart at you. That would be a classic "non-confirmation" of today's rally.

Markets can be pushed and endure "ghost" moves on lower volume (fewer participants/big funds are counteracting higher prices). That is a strange development on today's action on the daily charts. Bulls would have preferred to see higher volume on today's 1.8% index gain. This volume reading casts a pall on the bulls' "victory" today. Still, the path to 1,075 and even 1,100 seems open and may even serve as a "magnet trade" up there.

We see the 15-min structure has turned bullish with the positive momentum divergence preceding the upwards rally today (along with dojis at the lower Bollinger Band).

Price has come back to support on the rising 20 EMA and formed a bullish candle into the close.

Barring a breakdown of $106.00, odds would favor a continuation move to the upside thanks to the new momentum high, bullish EMA structure, and positive ending candle.

I still don't like that the volume was so anemic today.

The same is true in the 30-min frame.

A positive divergence preceded the rally, and the EMAs have crossed back bullishly and form expected support just beneath the $106.00 level.

We see a new momentum high that exceeded the momentum peak in late September - this bodes well for the bulls.

I would say to expect higher prices or a potential continuation of the up-move as the bias unless sellers can push price under $106.00.