AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was an interesting day to label - it was technically a "Range Day" though perhaps it might better be referenced as a "Failed Breakout" Range Day.

Still, there were some good trades to study - let's see them.

MORNING GAP FADE

We opened up about 20 cents above yesterday's close - remember I had said in last night's report there was a bullish bias going into this morning's open. That played out quickly to the upside, but not before some wildly volatile action commenced.

The first trade was likely a "Gap Fill" after waiting the two or three bars to see some sort of downward impulse before getting short (larger discussion on yesterday's report). This time, you would have seen a long upper shadow candle poking outside the upper Bollinger Band - which would have triggered you short to play from $106.70 to $106.30 (40 cents) with a stop-loss about 10 cents or more above the intraday price high just shy of $106.90. Remember, for the gap-fade trade, your stop is based above the current high and target is ALWAYS yesterday's close.

Here again, we have one of the many lessons I've shared with you on "STOP LOSS LOGIC," in that Close Stops (conservative) often result in more failed trades (but smaller losses per trade) and Loose Stops result in more winning trades but bigger hits when the trades failed.

When you took the gap-fade near $106.70, it was your strategy for stop-losses that resulted in a positive trade as expected, or losing trade (too tight). In my experience - and hopefully you are seeing that with these reports - WIDER stops tend to be preferable to TIGHTER stops, though that doesn't feel comfortable and I don't like wide stops any more than you do. In this case, had you placed your stop 15 cents or 20 cents greater than the $106.88 morning high, then you would have been fine - as price swung up to the $107.02 level. You probably should have placed your stop above the "round number" of $107.00 anyway - you know to place stops just beyond round numbers if possible.

Anything less would have netted a "stop-loss" which would have been fine, but you would have needed to get back short again if you saw the momentum and TICK divergence - as well as long upper shadow at the high - but then we had a sharp momentum move to the downside which occurred so suddenly that it would have been difficult to get short on the way down if you weren't already short.

Again, learn the lesson from this scenario even if you didn't trade it.

Price formed a long lower shadow on the immense candle - but I probably would not deem an "idealized trade" anywhere in the consolidation period as seen on the 5-min chart - price was moving too quickly between price zones to take much advantage. If anything, you could have put on a long scalp at the confluence of the 50 EMA along with yesterday's close, but even that would have been a tight scalp with higher risk (stop 10 cents or so just beneath the rising 50 EMA).

BEAR FLAG BREAK, IMPULSE SELL

Price formed an "ABC" three-wave pullback (as labeled) into the 61% Fibonacci zone of the morning's high to low. It also did so on a dual-trendline move/retracement, which looked like a bear flag (though not a perfect one by any means). You could have also noticed the new momentum and TICK low coming off this price swing, and waited to short the first pullback which set-up the "Impulse Sell" Trade.

Either way, entry was in the $106.50 zone (just beneath that) and the stop was above $106.60/$106.70 with a target of about $106.60 or lower (which was not reached). Remember, we actively manage trades, and price gave us plenty of reason to exit in advance of a full flag target.

WAVE FOUR/IMPULSE SELL, CRADLE SELL

As price plunged down from the flag breakdown zone, we had yet another new momentum, price, and TICK low which set-up another "Impulse Sell" trade which happened to correspond with a potential "Fourth Wave" pullback into the 11:30am zone. This occurred as price retraced back up into the $106.20 level where the 20 and 50 EMAs 'converged' into the "Cradle."

The stop would have been above yesterday's close at $106.30 and target as either a retest (conservative) of the $105.90 lows or a price slightly below the $105.90 lows OR for a full completion of the prior mentioned Bear Flag down to $105.60.

Ultimately, price gave a "flip and reversal" signal, which set-up the next trade.

ELLIOTT FRACTAL 5TH WAVE, MOMENTUM DIVERGENCE, TWO LONG-LOWER SHADOW CANDLES/HAMMER

I'm surprised at how frequently these patterns repeat - again, that underscores the importance of these (or your own) daily summaries.

By this time, you should have seen the 5-wave downward pattern - complete with new momentum low on the 3rd wave - and been expected the potential end of the 5-wave fractal at some point under $106.00. We had a large candle down but then a reversal up that formed a hammer candle, leaving two long lower shadows. At this time - as price came back to $106.00, you should have EXITED any short-sale position and flipped and reversed long because of these two candles, the piercing of the lower Bollinger Band, the 5-wave fractal, and the positive momentum divergence. The TICK gave a lower low however - it won't always give perfect divergences like we enjoy seeing, but don't make a decision to overrule all this technical evidence (bullish) building just on a new TICK low.

You should have bought as price rose back above $106.00 and played at least for an "ABC" three-wave correction back above the EMAs. We got this nice "ABC" (not labeled) three-wave (A up, B down, C up) structure that retraced us just shy of the 61.8% Fibonacci level of the day's high and low, along with a negative momentum and TICK divergence into the $106.50 "Double Top" swing at 2:00pm. If you were still long, you should have exited your long positions at this time and then either aggressively flipped short, or preferably stood on the sideline to see how price reacted to the 20 and 50 EMA on the next suspected pullback.

There was an initial support, then large-candle break of the line, but then price reversed on a tag outside the lower Bollinger Band and then we had the typical "random" price action into the close (edgeless opportunities).

5-wave structure showing new TICK/Momentum lows ("sell the first pullback") which then led to the final 5th wave Divergence ("buy the Divergence"). Price formed a distinct TICK and Momentum divergence into the afternoon's double top pattern before heading lower.

Per member request, I'll try also to post a 5-min view of the @ES Futures Chart. As a reminder, I show the SPY to be applicable to most members. I personally trade the @ES but realize that not all people do. My thinking is that you can use the daily summary I give for the SPY and then apply the techniques you learn to the SPY, DIA, QQQQ - or any leveraged or inverse fund such as SDS, SSO, QID, and others. Of course, as you get more experience, you'll probably want to play these techniques out in the futures market, which is the logical progression most traders make as they gain experience and a solid understanding/strategy in intraday activity (which is what I'm instilling with these reports).

The 1-min SPY is presented, which shows a deeper look into the 5-min structure - particularly with regard to new TICK or Momentum Highs along with divergences as labeled. Elliott Structures often fractalize nicely on the 1-min chart, but I suggest you don't try to be an Elliott perfectionist intraday - stick with the CONCEPTS of new momentum/TICK low as the hallmark of a third wave and then watch for any divergences on being the possible terminal point of a 5th wave.

Today's reversal from early morning highs didn't help the bulls/buyers. We're in the middle of a price swing here, so we could go either way, but I would suggest the structure now looks more bearish (odds favor a retest at least of the 20 EMA) as opposed to bullish like yesterday - particularly in regard to the failure for bulls to sustain the highs of the morning.

A few readers/members have commented to me about the appearance of a "Three Push" reversal on the recent three impulses off the July low. Yes - that could be the case, but the most recent price high formed a higher momentum reading... plus the middle swing is too short. The classic Three Push has three symmetrical swings on three higher highs in price with three lower lows in the momentum oscillator - we're not seeing that so it's not a "classic" pattern, but that doesn't mean the divergence won't kick in to push prices lower.

For those so interested, today's activity - and yesterday's high - was unable to rise above the 61.8% Fibonacci retracement of the prior price swing as shown... with exception of the morning spike which was quickly rejected.

It would appear that a possible short-term "Head and Shoulders" has formed as seen, meaning a break of the neckline (about the $106.00 area) would trigger a sell-short bias to target prior lows under $104.50.

I'd be bullish above $106.50 and bearish under $160.00 tomorrow, and neutral as long as we're inbetween as shown above.