AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Unfortunately, today had both good and bad news for the bulls and bears - you really had to be nimble on today's Range Day or else you suffered frustrating losses on nice set-ups - a hallmark of a range day. Keep in mind today is the day before the big "Jobs Report" which is announced before tomorrow's open - so the end of day surge was likely due to funds/traders squaring up (covering shorts) or getting long to bet on a better-than-expected number. Unfortunately, the late day surge 'busted' a rounded reversal in formation. There were some teachable moments from today:

GAP FILL

The morning trade with a gap less than 60 or 65 cents is to try for a gap fill. There's no magic way to capture every gap perfectly - it's often a balance between early or late - sometimes it pays to be early; sometimes it pays to be late. Here, we got an initial downward move that resulted in a tight consolidation in advance of the ISM Non-manufacturing Index (which came in at 48.4; slightly lower than the consensus of 48.8, but higher than last month's 46.4 number). If you had the gap-fade trade on already (short), then you suffered another "heat swing" or swing up that threatened your stop - and took you out if your stop was NOT just beyond the intraday high - but kept you in if it was.

Please reference yesterday's report for a discussion on tight vs loose stops - that discussion was very pertinent today on the gap fill.

After the spike up, price then plunged down to the target of $99.80 (yesterday's close), exiting with a profit.

"***FADE the FADE" + Doji spike + Lower Bollinger + 1min positive Momentum Divergence***

Generally, with a successful gap fade, we get a play back to test higher levels, particularly if yesterday's close comes in at some other confluence support level, or there is an internal (lower timeframe) divergence of some sort. That was the case with the volatile long-lower shadows at the $99.80 levels as seen on the 5-min chart (please refer to the TradeStation chart - the StockCharts.com chart had a false spike high - data error). This zone was certainly an 'exit short' and strong enough to put on a long to play for (target) the falling 20 EMA at the $100.10 level. The stop-loss would have been beneath the intraday low at $99.60 with entry at or near $99.80 / $99.90 for target $100.10. This trade worked very well.

Impulse Sell

Where the red arrow is labeled on the StockCharts.com chart, an "Impulse Sell" trade was entered which played off the new TICK and momentum low - in anticipation of a lower price low yet to come and a potential downward structure for the day. There was a slight rounding in price as it tested the underside of the 20 EMA and the stop was just above the 50 EMA at $100.15. Ultimately, this trade failed and was stopped out into what resembled a "bull flag" breakout on the 1-min chart. Unless you were nimble and aggressive enough to recognize this as a good short-sale, with stops just above this level, you could have scalped very quickly the upward pressure that came from stops triggering out ... but that was a very aggressive play.

The better play was to stand aside and see what price had in store, or if we could pullback into some sort of resistance - the R1 Pivot (TradeStation) resided at $100.33, and the upper Bollinger Band was just above this level.

Test of R1 + Negative Momentum Divergence on 1-min chart

This scalp trade is shown in the final 1-min chart in the report - price rallied into R1 and formed a small negative divergence which was good to try for a small short-sale scalp with a quick entry near $100.30 and stop just above $100.40 with a target of just above the $100 "round number" support level (small scalp). This trade worked quickly and likely was available to aggressive scalp traders.

Price has a tendency to consolidate around lunch, so opportunities are reduced.

Failed 1:00 breakout + Dual Triangle Breakout

This was interesting. Reference the 1-min chart to see the converging trendlines and the breakout from the triangle pattern at this time which triggered a nice long (buy) trade. Price only managed to sneak above R1 to trigger in fresh buy orders... only to crush them with a bearish engulfing triangle and descent to challenge the daily Pivot (blue) at

$99.50. There's no way to spin this one - it was a failed pattern and likely led to the downside test as stop-losses from the longs were triggered out.

Daily Pivot + Bottom Bollinger + Extended Trendline Support
This trade is "stretching it" but it's good to look back and learn as much as we can - it prepares us to expect anything in real time. The lesson is that sometimes it pays to 'stretch' trendlines (extend into the future), as shown in this example (see 1-min chart).

This would have been a decent place for a tight stop to play for a test again of the R1 (red) pivot. The stop would be beneath $99.90 with entry above $100.00 and target of $100.33 (remember, each 10 cents in the SPY is equivalent to 1 point in the @ES Futures which returns $50 per contract traded... use the SPY or $SPX for structure/trades/levels but - if you are experienced - use the futures or leveraged ETFs for additional profit - this goes for all reports done).

In my assessment, there was no way to know that price would surge so cleanly into the close (I found no one who could point to a 'news' reason for the rise). It was likely traders squaring away for tomorrow's market moving "Jobs" report which you need to know will be the dominant force tomorrow morning.

If the 'big boys' know something we don't, it might be that the report will show unemployment has fallen lower than expected (like last month) and that the market will rally hard on this news. Or it could be shorts - who won nice victories this week - taking off risk in the event that the market gaps up strongly off the open tomorrow.

I'm not going to make a hard prediction for tomorrow, given that the day's structure will develop based on the REACTION to the report - many times, "Jobs Report" days result in Trend Days up or down so be prepared to trade aggressively should we see a large gap and higher than normal volume - in either direction.

From Bloomberg: http://www.bloomberg.com/markets/ecalendar/index.html

POWERED BY ECONODAY

Employment Situation

Released on 9/4/2009 8:30:00 AM For August, 2009

	Prior	Consensus	Consensus Range
Nonfarm Payrolls - M/M change	-247,000	-200,000	-365,000 to -115,000
Unemployment Rate - Level	9.4 %	9.6 %	9.4 % to 9.7 %
Average Hourly Earnings - M/M change	0.2 %	0.2 %	0.0 % to 0.3 %
Average Workweek - Level	33.1 hrs	33.1 hrs	33.0 hrs to 33.2 hrs

Be sure to take a moment to read the Bloomberg page from Econoday for more information and background.

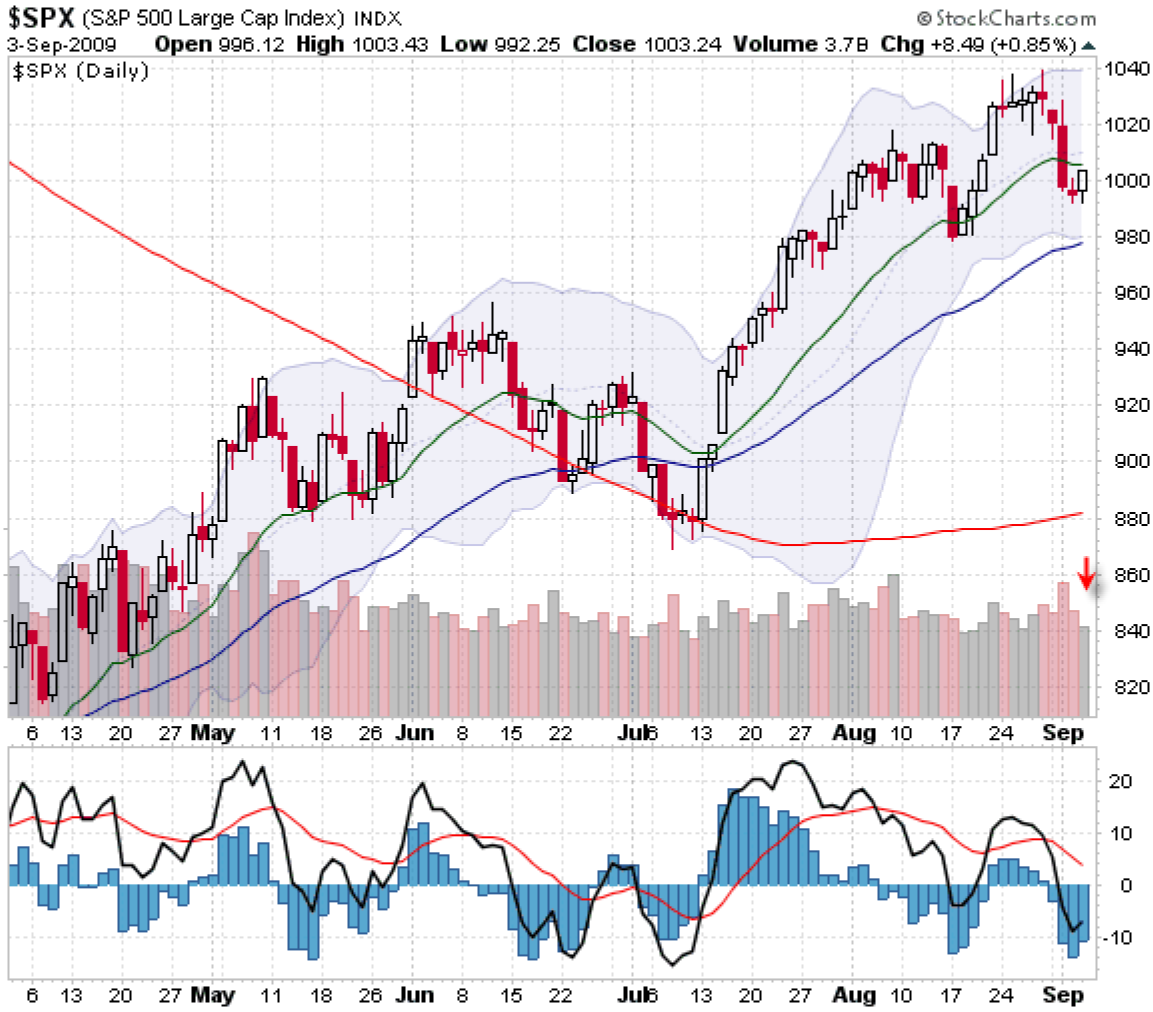
Highlighted zones reflect key turning points in the market between the R1 (red) and daily pivot (blue) lines.

Otherwise, the long lower shadows at 9:30 CST preceded the rally higher.

An Elliott fractal formed as price rose into the close on a distinct and obvious negative TICK divergence.

The highlighted zone is a 'teaching moment' of how it can pay to extend trendlines from upper resistance to provide future support.

The 1-min chart shows 'idealized' trade entry & exit locations in a more visual manner, plus it provides a closer look at the morning session - which often is much clearer to trade for me than the remainder of the day.



Volume ran at a lighter pace today, which is a non-confirmation of the rally which took price just underneath the falling 20 day EMA - that's bearish.

However, the Jobs Report (reaction) will dictate structure and opportunities (as in, will this resistance hold or break?).

Monday is a holiday, so it could be that Friday's volume will be lighter, which could result in more price volatility due to fewer participants.

Gold continues to surge - you need to be paying attention to this.

Surging gold is often a sign of expectation of inflation ahead - or that market participants are worried about the US Dollar and want 'hard assets' (there is often rotation between soft/paper assets - like stocks and bonds... denominated in 'paper' Dollars... gold and silver (which is also surging and hit a fresh 2009 high today) are hard assets that are expected to gain in value during economic uncertainty... though that was not necessarily the case in October 2008....).

Moves like this don't happen everyday... take a moment of your time to read more about the surges in Gold and Silver.