AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

We did get a trend day off the Jobs Report (Trend Days or Rounded Reversals are the dominant expectation for such days - they are very rarely 'range' days) as expected, though it did not start out the way a Trend Day usually does. As such, we will officially classify today as a "Type II" Trend Day (less powerful/dynamic than a Type III. Had we gapped up strongly and not filled the gap, and formed this upward pattern, it would have been Type III).

GAP FILL, DOJI AT BOLLINGER SHORT

The first trade was a kind of gap-fill or retracement off the open - the first bar filled the measly 20 cent gap instantly, but we had a swing up into the upper 5-min Bolllinger at which two bearish (long-legged) candles formed - particularly the second doji. You could have placed an aggressive trade as price broke the closing (or low) of the doji at $101.00 and then played to target yesterday's close at $100.60 for a 40 cent target with a 20 cent stop (above $101.20 - intraday highs). This trade worked almost instantly - and might have been too quick for some traders.

SUPPORT OF Y'DAY CLOSE, SPIKE DOJI, RISING 20 EMA... "Impulse Buy"

The next trade seemed to come just as quick. You should have exited your short of the morning with a profit and then watched as a dragonfly doji (very long lower shadow tail) formed (which often reflects price 'rejection' at major turning points - especially support zones) and entered long after the doji formed or after price broke above the high of the doji. Your stop would be beneath the 20 EMA ($100.50) for conservative traders and beneath the 50 EMA (preferable) at $100.40 for moderate to aggressive traders. The target - a la "Impulse Buy" (buy the first pullback after a new momentum high) would be at a minimum a test of the intraday high at $101.00 (round number resistance). This gave a 25 to 30 cent (2.5 to 3 point @ES) target for an equivalent stop (20 or 30 cents) making the trade a "one to one" which might have been passed over by some people - remember it's preferable but not required to have an exact two (or three) to one reward to risk ratio. This trade worked very well with the price rise to test the prior highs.

TRI-STAR DOJI, UPPER BOLLINGER, MOMENTUM DIVERGENCE, TICK DIVERGENCE

It looked like this trade set-up (the multiple dojis just before 11:00am) would give us a much larger downside target, or perhaps be an intraday high... but taking a short at this level (with a stop just beneath $101.40) did not yield a stellar profit. The minimum target would be another test of the intraday lows/yesterday's support at $100.60... but instead price found support at the rising 20 EMA. It would have been a good idea to go ahead and exit the trade as dojis formed off the 20 and price broke the high of the doji at $101.00 - this either would have resulted in a scratch (no harm, no foul) or a very small profit. The stop-out of this trade should have led you to assess price structure, and there was no buy signal until price broke to new intraday highs at $101.20.

In retrospect, it looks like 11:00am was a great long/buy set-up - and it was - (dojis, 20 EMA pullback), but in real-time it was hard to envision price rising higher due to the non-confirmations.

As usual, when a good, widely known set-up is 'busted,' then price will rise in the opposite direction as stop-losses are triggered. That's just what happened at 12:00.

"SWEET SPOT" and ELLIOTT 3rd WAVE CONFIRMATION BUY

For those familiar with my teachings on the "Sweet Spot," I hope you recognized the break to new highs above the doji as a "Sweet Spot" (and price forming a swing higher high off the open, swing higher low both at 10:00am and 11:00am... that the break of the prior high at $101.20 would trigger a "Sweet Spot" and hint that a 3rd wave was forming).

http://premium.afraidtotrade.com/shop/product.php?id_product=13 (Lesson "Trend Confirmation and the 'Sweet Spot'").

This triggered a buy at the $101.20 level to play for a large target (one of the few set-ups that allow playing for an unlimited target) with a stop under the most recent swing low at $100.80. The exit for the "Sweet Spot" is a counter-vailing trend reversal signal... which never came. Theoretically, you would have been long into the close.

Those familiar with advanced or intermediate Elliott Wave likely should have recognized the strong power thrust bars as the golden "Third of a Third" wave (which is the heart of an impulse move where the momentum reaches a peak, thrusting price higher and hinting that higher prices are yet to come... though so are divergences into those highs).

Notice also the surge in volume which confirmed the impulse/participation which further hinted higher prices (structure) were yet to come.

We got a sideways 'correction' into 1:00pm which triggered the "1:00pm Breakout" trade as price crested to new highs... but the trade was short-lived. Price formed a long upper shadow and then two doji-like candles before falling in a 5-bar downswing into support.

This was NOT a short-sale signal, even though we formed a 3/10 momentum divergence. It is NOT an edge-based trade to fade extremes on a trend day, even if you can scalp out 10 cents. It's generally not worth the risk if the prevailing trend reasserts itself - it can lead to very large losses - avoiding very large losses is a top priority.

BOLLINGER DOUBLE-DOJI, 4TH WAVE SUPPORT, POSITIVE MOMENTUM DIVERGENCE

The final "idealized" trade came in at 2:30 with the dual doji formation at the bottom Bollinger Band on the 5-min chart (which was a test of the rising 200 period SMA on the 1-min chart as well as the 1-min Bollingers).

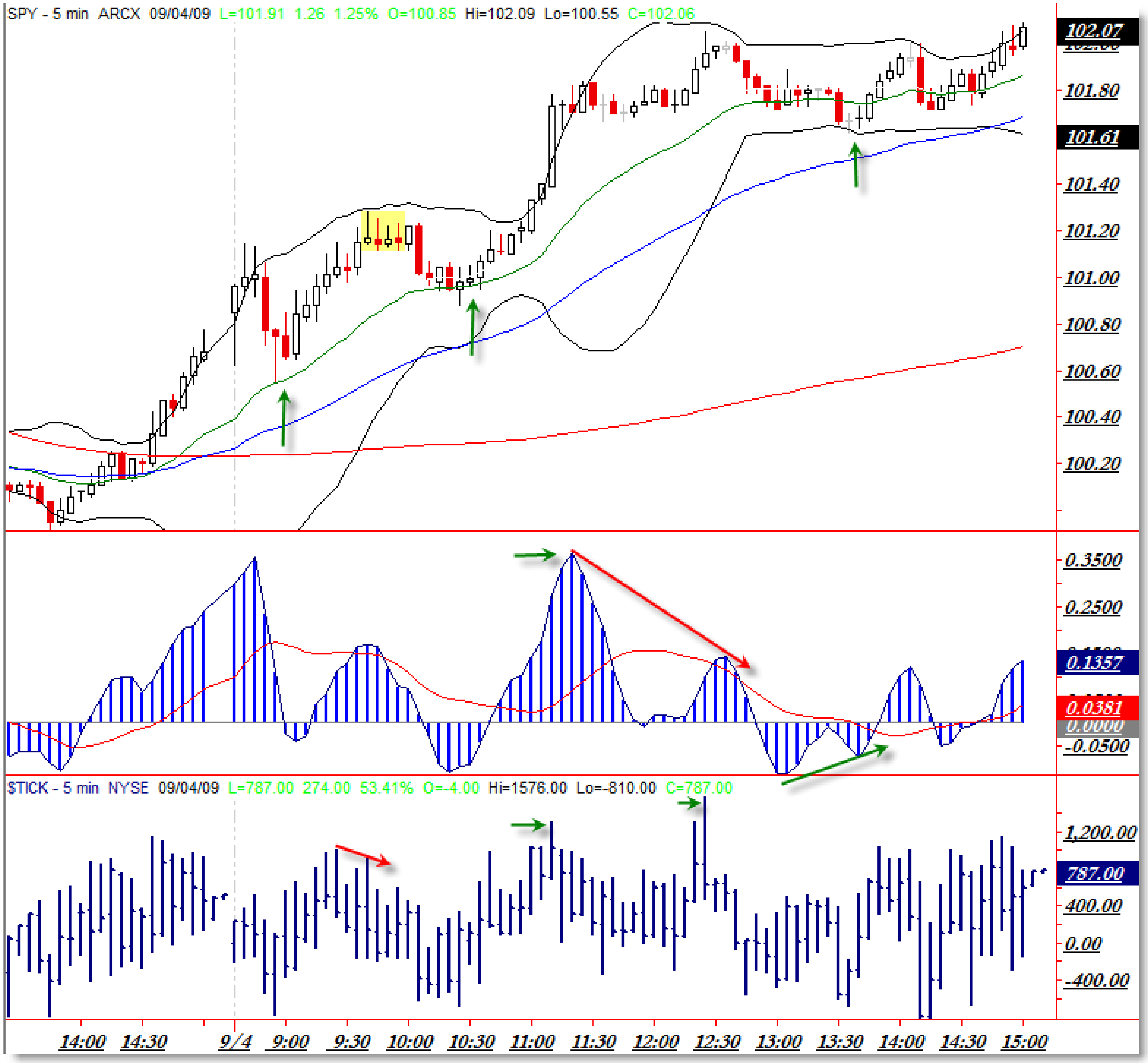
The stop was to be placed beneath the rising 50 EMA at $101.50 and a target for a new intraday high (or exit on close). Price ultimately chopped around into the close (meaning we could still be in a corrective phase) though the trade was exited (either at the highs or at the close) with a profit.

You could have also seen this as a clean "ABC" (a down; b up; c down) wave into support and bought off that logic.

If the Elliott interpretation above is correct, then it looks like we're still in a corrective 4th wave that could take prices higher into a final 5th wave impulse into Tuesday. A solid morning move above $102.00 would confirm this view though a break under $101.60 would disconfirm it.

I'm showing the internal fractal waves (particularly that of the 3rd wave) to highlight the importance of understanding the "fractal" nature of price.

Notice the momentum high at noon was a 3rd wave which called for buying the first pullback to play for a 5th wave. On the divergence, you could have shorted the 5th wave for a very tight scalp to play for an "ABC" move which came, though as mentioned above, shorting on a developing (likely) trend day is generally not advised, even for very small targets.



There was a TICK divergence in the morning, and then two "Wyckoff" New TICK Highs that forecast higher prices yet to come.

Otherwise, we see two effective momentum divergences.

This chart highlights the "third of a [larger] third" wave concept - complete with new TICK and 3/10 High.

A trendline drawn off the lows also helped support price mid-day.

For those not interested in Elliott, skip this chart, otherwise, this is a complete fractal breakdown - excellent example - of fractal wave components on a very small timeframe.

Charts like this always fascinate me that the teachings of RN Elliott in 1930 are applicable on the SPY 1-min chart in late 2009. Absolutely amazing.

Now onto prediction mode.

Price formed a "Rounded Reversal" as seen above, which was the dominant larger picture structure of today's trading.

We're seeing 5-min momentum divergences into the highs, though it sure feels like price could support here and carry us up to challenge the value area or price highs near $103.

Draw a horizontal line from the constant lows of August 31 and you'll find that price is now sitting at that current resistance zone (which was once support).

Adding to the 'resistance' theory, price is now sitting just above the 50% Fibonacci level drawn from the late August highs to the recent lows. If broken, the 61.8% level will come into effect as a target.

The $102 level has provided support twice in the past and it could provide resistance here.

A lot could happen over the long weekend, so that makes the technical (chart) picture more cloudy.

Have a great holiday weekend!