AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

I hope everyone had a wonderful holiday weekend!

Let's get right back to learning from intraday patterns and opportunities - though today was a Range Day at the highs (following a large gap-up), there was plenty to learn. Let's walk through.

First, on any large 1% gap, we would NOT expect the gap to fill - we should NOT have played any gap-fill strategy in the event that a Trend Day up formed, which was the dominant expectation going into the morning (due to the gap). Price made an initial push down, shallow retracement up, and then equal push lower to form a standard retracement "Zig-Zag" or "ABC" 3-wave counter-move.

I deem the long-legged doji at 10:00am to be the BEST trade of the day, which offers the most learning potential. First, the morning impulse was retraced by a three-wave structure into the rising 20 EMA on the 5-min chart; into the 61.8% Fibonacci retracement (if you thought to draw it quickly) using yesterday's close to this morning's open (Fibonacci need not always be drawn to absolute swing highs and lows - a valuable lesson - in this case, we want to know "What percent has price retraced the gap?" The Fibonacci retracement tool gave us the answer).

Also, price formed a positive momentum divergence on the 1-min chart as price tagged beneath the lower Band with a long lower shadow. To recap:

"ABC" 3-wave standard retracement
Long-Legged Doji on 5-min chart
61.8% "Fibonacci" Gap Fill
Positive Momentum Divergence on 1-min chart
Price Spike outside lower Bollinger Band on 1-min chart

There were other factors, but your goal is NOT to see all of these in real-time - your goal is to align three or so of these in real-time, make a decision, assess stop-loss (which would be beneath the rising 20 EMA or beneath $102.30) and target (which would be - at minimum - a retest of the $103.00 morning gap high). You could have entered long after price rose above the high of the doji at $102.55 to play for a $103.00 target with a stop-loss beneath $102.30... which gave a 45 cent target to a 25 cent loss (4.5 point @ES target for 2.5 point @ES loss).

These kind of moves are what I'm constantly trying to show you in these reports. It's a more delibrative, alignment of methods approach to trade-setups which allow reduced emotion/stress. Seeing these patterns over and over drills the points home and should cause you to be a better trader as a result. Keep this in mind when reading/studying these reports.

We expected price to rise to a new high in a possible "Trend Day Up" fashion, but alas the triple-top and final doji/shooting start after 11:00am on a negative 5-min and 1-min TICK and Momentum divergence gave us enough reason to exit long (perhaps to play for a re-entry) and consider going short at this level for an aggressive scalp back to the 20 EMA. Ultimately, price overshot the target and tested the $102.50 level just above the 5-min closing low of $102.50.

Yet another doji poking beneath the lower Bollinger Band gave another quick scalp entry long, but by this time (the lunch hour), I would not have expected any explosive move until potentially into the afternoon - such was the price move up (was muted at best).

It looked like a bear flag was forming at the 1:00 frame, and price broke sharply lower out of the flag to test yet again the $102.50 level for support, which was also the lower Bollinger Band and the rising 50 EMA which I deemed to be the "Line in the Sand." Any break beneath this level (for at least two closing bars) would be enough to destroy the upward bias (given thanks to the large gap) and trigger a "Rounded Reversal" expectation for the remainder of the day.

Another LEARNING LESSON is just that - price tested the "Line in the Sand" level at the 50 EMA on a potential "Trend Day Up" but it did not break beneath this level, thus the Trend Day up assumption - while damaged - was still valid and expected.

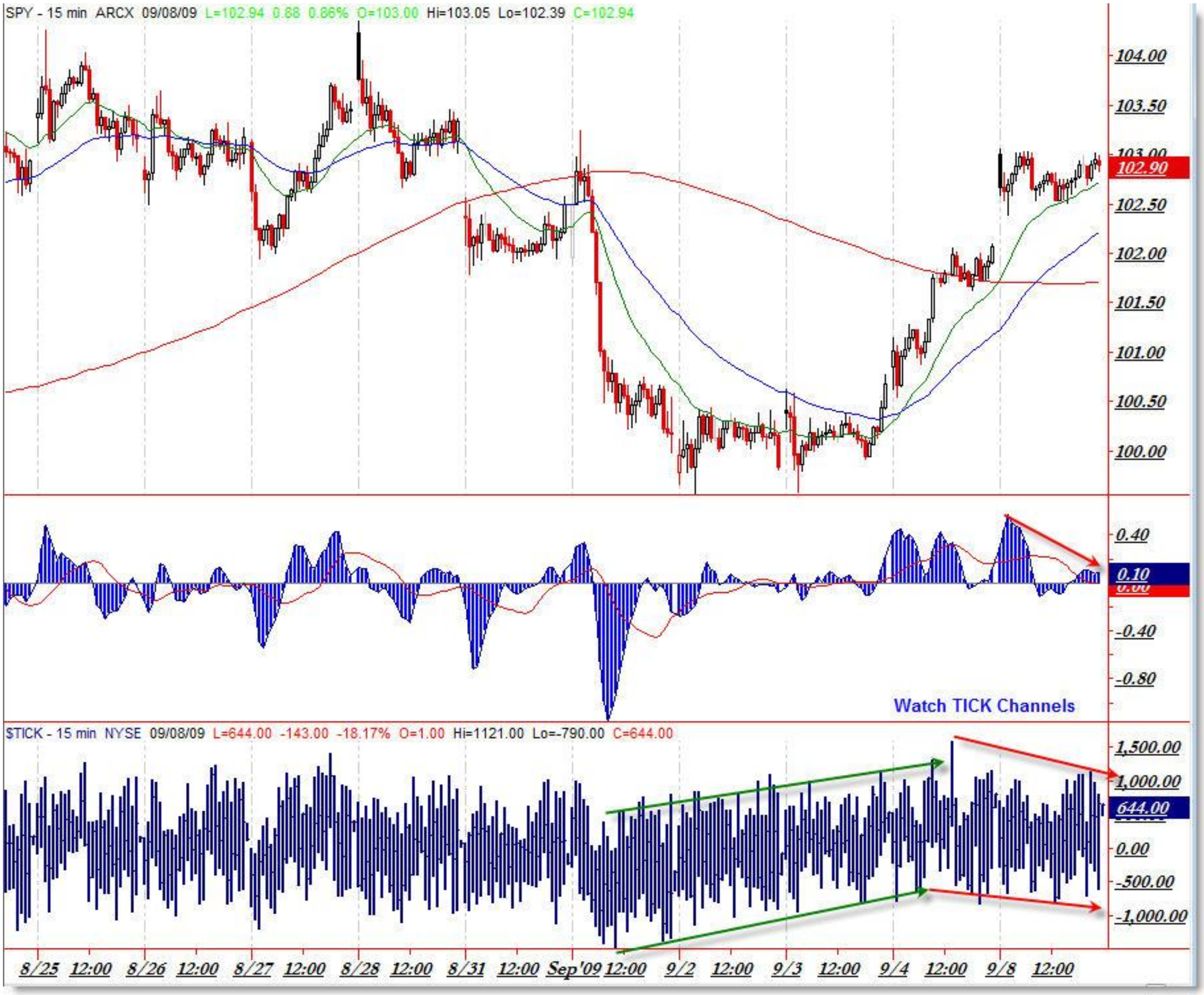
Ultimately, price found support off this level, which you could have traded as an aggressive play long at/near $102.50... or more conservatively as price broke overhead resistance at the $102.70 area... both of which gave positive trading results/profits.

Price rose into the close, giving one final pullback to the rising 20 EMA for any last-minute scalp entries for those so-inclined to play 'end-of-day' moves.

The TradeStation 5-min chart above (which adds the TICK) shows these structures in a different perspective, complete with TICK divergences and readings - both of which were important in confirming - or non-confirming - price moves in terms of highs and lows.

I'm showing three points during the day where we had TICK and Momentum Divergences, which served either as excellent trade entries based just on this structure, or trade exits if you were caught in the wrong direction,

Otherwise, the 1-min structure is mainly meant to confirm what you're seeing... or trade set-ups you are preparing to take... on the 5-min frame.



Stepping into the prediction mode...

Price has rallied off the "Rounded Reversal" formed off the early September lows. We've retraced almost 80% of the highs above $104 to the lows of $100, which is a solid retracement, though - unless we get any upside move tomorrow - price (bulls) is in trouble.

We see a negative momentum divergence ... which isn't exactly clear here on the 15 min chart but much clearer on the 30 or 60 minute frames... and a clean downward sloping TICK channel which should give the bulls pause.

Notice how the TICK Channel rose as price was making new lows in early September... the TICK was making higher lows and higher highs ahead of the price reversal. It's possible that we're seeing that same signal in reverse... which would hint to expect lower prices... but for now, bulls have the upper hand and there's no point going short against them until we break the 20 and 50 EMA as seen here on the 15min chart (meaning a clean break beneath $102.00).

Otherwise, we see a negative volume and persistent negative 3/10 Momentum divergence on the daily SPY frame.

That's not something a bull would want to see.

Combine that with the fact that price formed a doji today and we have odds favoring a downward move... though as I've cautioned so many times since July... bulls don't seem to mind that charts show that the odds are against them - in fact, the bulls seem to relish the charts telling them 'they can't go higher.'

So due to the supply/demand imbalance - which is ultimately what drives prices - bulls are in control despite technical (chart) evidence to the contrary.

As such, caution is warranted on both sides of the market.