AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

[Apologies - StockCharts.com charts/site was down at time of report publication]

Today was an interesting one for sure! It gave us excellent examples to trade divergences and the "Elliott's Fractals" method I highlight so often that I hope you picked up on in part on today's trading.

Let's start the daily lesson!

Gap Fill Support, Doji, 20/50 EMA (5-min)

The morning opened with a 20 cent gap that filled quicker than you could have set-up a reasonable trade, so I won't count that as an 'idealized' lesson today, though the 'bounce-off' doji support into the 20 EMA WAS a great first trade right off the open. The entry was either aggressively as price completed the doji at $102.90 or conservatively once price broke above the high of the doji at $103.00 (round number resistance as well) with a stop being placed beneath the confluence of the 20 and 50 EMA (and lower Bollinger Band) at $102.75. The minimum target was a retest of the $103.20 intraday high, though you certainly could have targeted a higher price or taken half a trade off at the intraday high to 'let the rest ride' for an unspecified target. At this time, there was little reason to think the day would end up a trend day up due to there being no major expected economic news and there was no large morning gap.

Bull Flag or "Sweet Spot" Long at 11:00am EST

The second trade would have been buying the first retracement off a new momentum high into the support of the rising 20 EMA, which occurred near 11:00am. It just so happened to form a converging trendline and a strong candle that erupted above the upper trendline, triggering an entry at $103.40 to play for a "measured move" or a pure "bull flag" trade which targeted $103.80 as a "measured move" target (take the 'pole' or initial impulse that began at $102.80 and ended at $103.40 (60 cents) and then add that to the perceived bottom of the flag once price has broken the upper trendline - the low was $103.20 so the target - rough estimate for simplicity - was $103.20 + $0.60 = $103.80).

The stop-loss was beneath the rising 20 EMA at $103.20 or even aggressively as low as $103.00. The entry was either aggressively at $103.20/30 or conservatively upon the break at $103.40 for a favorable risk/reward - the trade actually exceeded the upside target, though if you held beyond the target, you certainly should have exited upon the bearish bar just before 12:00 EST.

There was no justification to short - though aggressive traders could have targeted the rising 20 EMA for a quick though very aggressive scalp.

Price had formed a new TICK, momentum (barely), and price high at the $104 level, which was prior key resistance and marked a test of a fresh new high for 2009... so naturally this would serve initially as a likely barrier.

The pullback/retracement back to the 20 EMA ... with a bullish engulfing candle at $103.80... could have served as a bullish entry to play back for a test or exceeding of the $104.00 level, though the trade ultimately stalled at the intraday highs, leaving any long to exit with a profit or a scratch - a good set-up for a trade but little followthrough.

THE BEST TRADE of the DAY

"Elliott's Fractal," Negative TICK and Momentum Divergence, Doji above Bollinger Band

I deem this trade at 1:30 EST (the TradeStation charts are in CST) to be not only the best trade of the day, but an excellent educational example of 'ideal' trade set-ups to learn, study, and act aggressively when they set-up in real time - that's the purpose of these reports and I hope you used your growing knowledge to take advantage of this low-risk, high reward opportunity.

The initial aggressive short could have been entered as close to $104.00 as possible after the doji formed on the 5-min chart above the upper Bollinger Band (which was preceded by a long upper shadow on the prior candle). You could place a tight stop about 10 cents above the intraday (established) high at $104.08 (so, stop-loss above $104.20) and target a minimum of the rising 20 EMA, though with all those confluences forming in your favor, you would have done well to play for a pure reversal or a larger target... or at least trailed a stop on any short trade.

Price immediately sliced through the 20 EMA, which set-up the next scalp target to be the rising 50 EMA (the 'line in the sand' on up-days) which rested at $103.60. At this point, you could have taken off half the position and let the rest ride, though aggressive players could have seen how much this initial trade off the highs - into a reversal... or at least an "ABC" three-wave correction... had to offer. Ultimately, price did form the "ABC" correction down to the $103.20 level, which set-up an 'exit' or 'flip and reverse' trade due to the long lower shadows and momentum divergence.

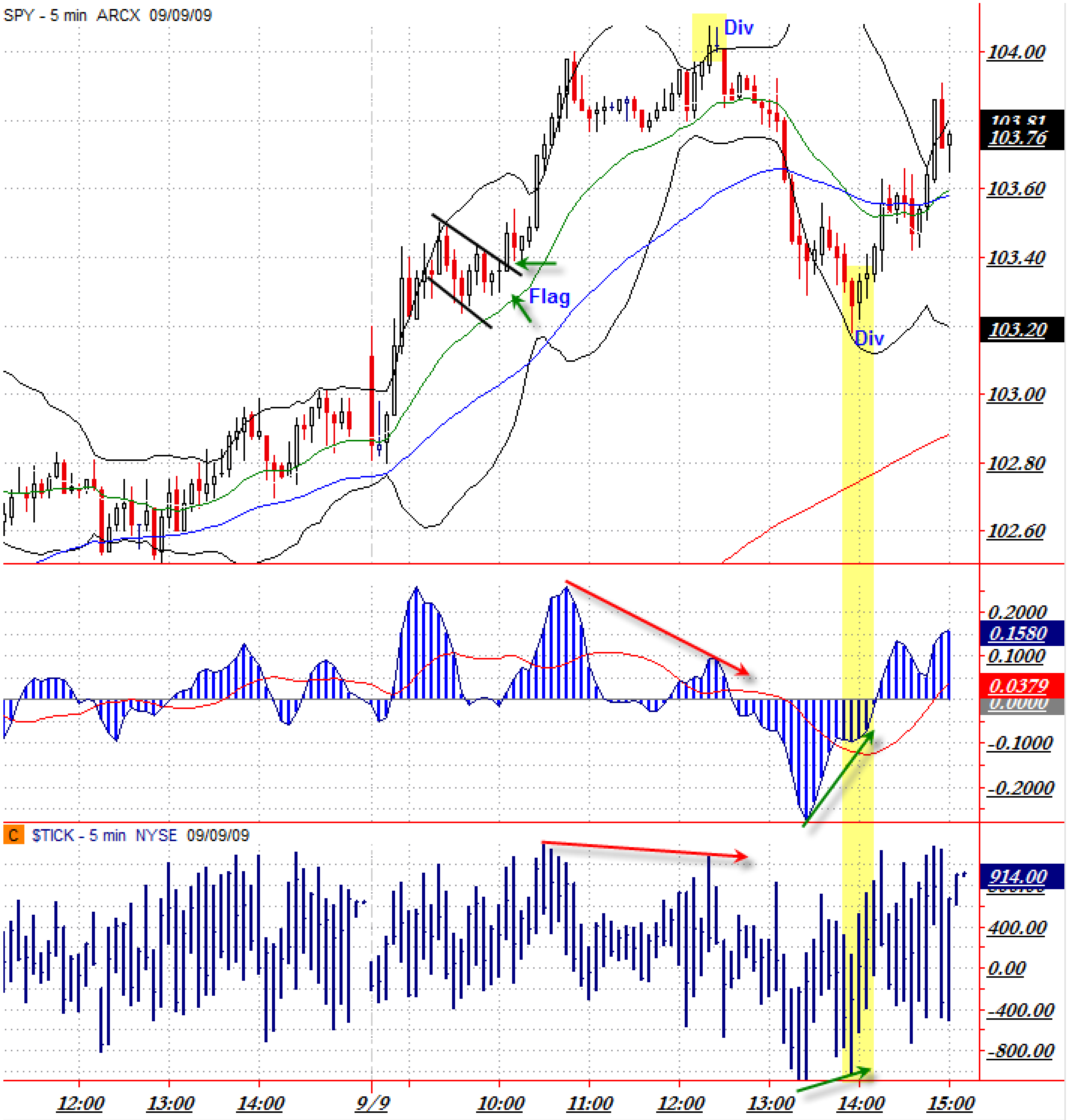
Long Lower Shadows, "ABC" Fractal, TICK and Momentum Divergence

As price hit the $103.20 level, price began to rise and this triggered an exit-short and aggressive 'flip long' because this established (locked in) the positive momentum and TICK divergence as shown - which was a great 'buy' signal (take a look at the divergence on both the 5-min and 1-min frames).

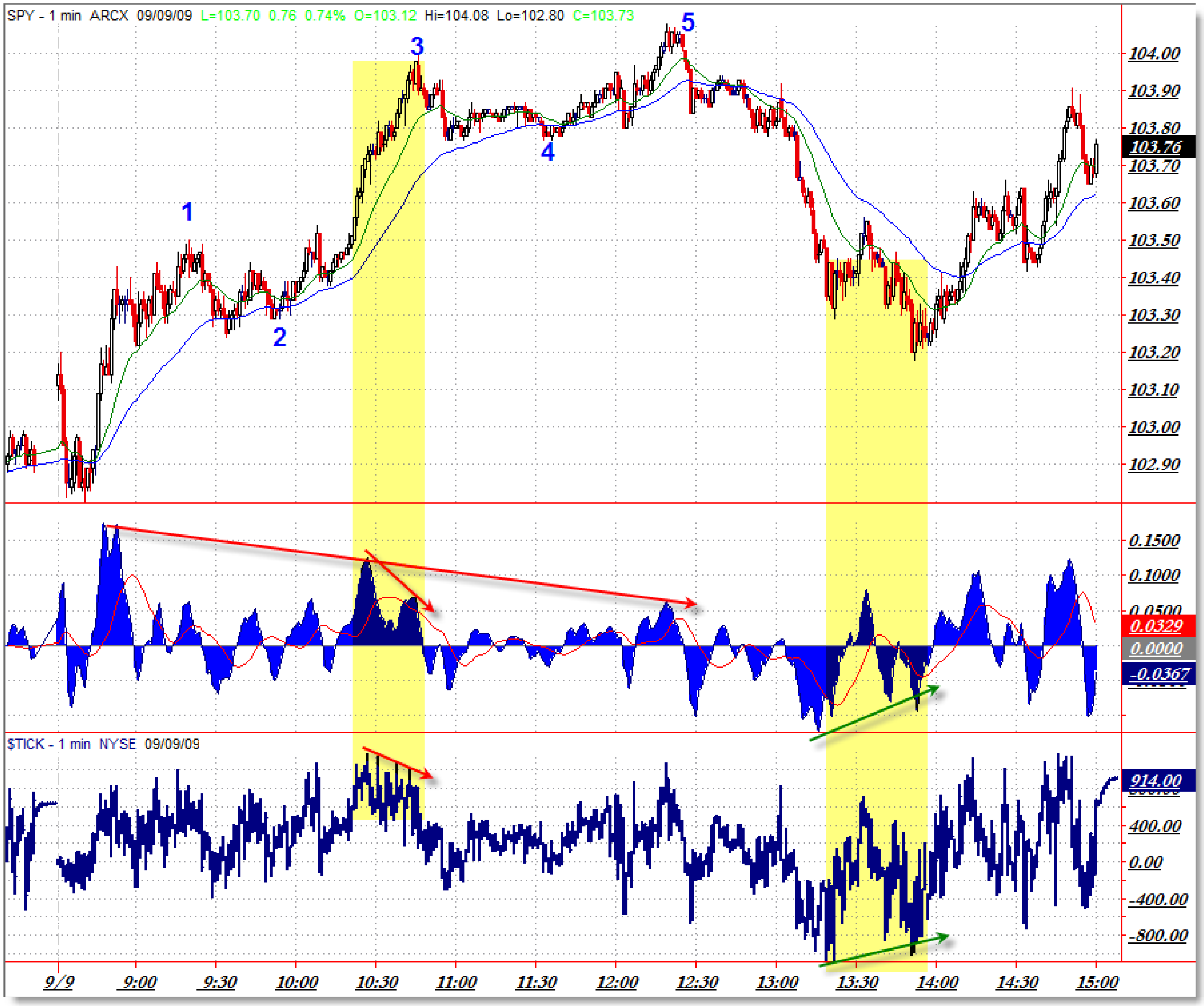
The scalp target for this divergence buy set-up was the confluence of the 20 and 50 EMA which rested at $103.60 which triggered an exit long for profit.

EMA Confluence, Bearish Engulfing, Doji (trade failure)

I would deem the price action and bearish candles, complete with a type of bearish reversal candle at the $103.50 level to be sufficient to trigger a final short-sale entry at the $103.50 area with a stop near $103.70 to play for a minimum retest of the $103.20 area... though this trade ultimately failed and was stopped out for a loss. Remember, even in ideal set-ups, we can't guarantee a win - we just play the odds from the confluence and the low risk relative to larger reward. Price rose higher into the close, busting this pattern (and - in hindsight - forming a bull flag into the close).



This chart shows the "Elliott Fractal" move - particularly the strength/impulse of the 3rd wave, which resulted in a "buy the 4th wave" mentality and then "short the final 5th wave" when divergences formed. An "ABC" three-wave pattern unfolded into its own positive momentum divergence, signaling a fresh buy set-up.



The 1-min structure always confirms what we're seeing on the 5 or perhaps 15 minute frame - and serves as decision support or opportunity enhancement.

One could argue that "Three Push" pattern formed into the intraday high as seen by three lower peaks in the 3/10 oscillator which accompanied three new price highs. The TICK diverged on the final swing high, giving confidence and allowing us to play aggressively upon any price weakness at the highs.

The final afternoon swing low was also accompanied with a distinct positive momentum and TICK divergence which is best seen (clearly) through the 1-min chart.

On the 15-min frame, we see a negative momentum divergence, as well as a negative TICK divergence at the recent price highs. There is also an "Arc Down" formation in the TICK, which generally is expected to lead price lower. The expected Classic TA play is for a move down off these levels due to the overhead resistance and negative TICK and Momentum Divergence, but as seen in the lower chart, you really have to take 'classic' sell-signals with a grain of salt - classic sell signals have drawn in the bears/sellers appropriately, and then rinsed them all out with vicious short-squeezes all the way up. Expect resistance to hold as the 'probability' play but also be prepared to scalp long if these sell-signals (structure) fail, which would create another upward burst as bears' stops are covered (buy to cover).

The Daily S&P 500 chart shows three distinct valid sell-short signals that caused short-sellers to enter fresh positions... only to be blown out (causing higher prices) in the next few days. This is the structure I've been warning for caution, noting that "any and all" valid short-sell daily signals that likely would have worked well in the past just continuously fail to work in this onslaught higher. You need to be aware of this tendency if not already, which allows you to scalp long to play the 'pain' of these short-sellers intraday and be keenly aware of the upward overwhelming bias in the market. Remove your bias and remove the sentiment "why is this happening" from your vocabulary and understand that markets are moved by buyers/sellers which is supply and demand... not charts, not fundamentals, not quantitative analysis. While going long is generally risky in a grossly overbought market... so is going short when whatever force continues to push the market higher is in control... and until proven otherwise with an undeniable sell-signal, the bulls will rule the day and thus the upward bias to the market persists until supply (sellers) can convincingly overwhelm (overbalance) the buyers (demand). Do watch the 1,037/1,040 level tomorrow for expected resistance but also do not be surprised/upset should it break... be prepared to scalp long to play the stop-losses that persist above these levels on any break. Be careful but nimble.