AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today gave us some good trading opportunities and two failed signals which were frustrating. Still, we're here to learn from the good and the bad trades, so let's get right down to it!

First, I mentioned in last night's report that the clean bear flag trade had likely 'failed' as a result of the sudden upward move into the close which seemed to invalidate the flag trade. This upward move did invalidate an intraday movement to the downside, however in the larger scope of things, the "bear flag" trade did remain the dominant pattern and carried over into this morning's price action.

It was very similar to the action on September 14th, both in your subscriber report and in the blog post "Bear Flag in SPY but No Time to Act!" (http://blog.afraidtotrade.com/great-bear-flag-spy-example-but-no-time-to-act/)

The premise is that a trade set-up (pattern) occurs but the "clock runs out" on the day, such that you can't take advantage of the pattern if you're a true day trader (exit all positions on close) but you can let structure guide you in the event that the pattern does play out into the morning session, which is often the case. I should have given targets in last night's report to "play for" in the event that the flag did indeed carry over into the morning session which indeed was the case.

I'll include part of my blog post this afternoon in regards to this trade, which you can read at http://blog.afraidtotrade.com/lessons-from-oct-13-morning-ideal-bear-flag/

It describes the bear flag in much more detail.

Waking up flat this morning, we had a 50 cent gap which made a quick two-bar move to the upside, though a doji formed just underneath the 20 EMA. If you were trying to fade the gap, it would have been a good idea to exit once price took out the low of the doji, or when price took out the intraday low just shy of $107.40.

If you were seeing the bear flag as the dominant pattern, price projection targets became the $107.03 which was a 100% projection or complete 'measured move' of the flag.

What we see is that price actually extended (moved) to the 138.2% extension (projection) of the flag, which is the second target in the event that the 100% line is solidly broken.

The Fibonacci Extension Grid (Drawn from the "Pole High" to the "Flag High" is shown in this chart:

Refer to my post "How to Project a Measured Move for a Flag" for specifics on how this is created:

http://blog.afraidtotrade.com/how-to-project-measured-move-flag-targets-in-tradestation/

(Logic is applicable for any platform - not just TradeStation)

With the flag behind us, price touched the $106.76 target to the penny and began a strong rally candle. The lesson is that Fibonacci price projections - particularly from a Flag as this - serve as "flip and reverse" points for aggressive traders. Conservative traders may want to see a bullish reversal candle or have some other technical evidence before going long.

Though not quite a bullish engulfing, the strong candle that formed off the $106.76 lows triggered an entry to play for the falling 20 period EMA near $107.20. This trade was successful with an exit at 10:00am CST.

At this point, we would want to be a short-seller for at least two reasons. First, price formed a new TICK and momentum low on the session, so we want to be a seller of the first rally in an expectation of a new low yet to come - this is the "Impulse Sell" trade.

Second, counting from the high, it looks like the impulse down was a 3rd wave impulse, and we can easily spot a "1 and 2" wave decline that comprised the flag. Thus, if this is indeed a 4th wave rally into resistance, we want to short it to play for the 5th wave.

The stop would be placed either above the 20 EMA at $107.20 (minimum stop at $107.30) or even above the 50 EMA at $107.35.

Price made a downward movement and then suddenly - though preceded by two dojis - began rallying without ceasing once price broke above the 20 EMA.

This is a good example of the "Popped Stops" concepts as it relates to a high-probability trade set-up. For all traders (myself included) thinking that new morning lows were likely thanks to the bearish moves in the morning and resistance at the 20 EMA, we all placed stop-losses above the 20 EMA as mentioned above.

The moment price began to creep higher, these stops were triggered for losses. Remember, the "Popped Stops" logic ONLY is effective when a VALID or "obvious" sell-signal is generated, then an "obvious" place to locate stops is given - known as the "pocket" (moving averages, pivot points, prior highs, etc) and then price begins to "slice" into this "pocket" of stops. At this point, you do have to take a stop-loss if you were short (which is no problem), but sometimes you can flip and reverse in the event that price is moving strongly through the pocket, because all those who took the same trade as you will be losing money as well and stopping out at higher levels, creating upwards momentum after an obvious signal fails.

That was one of the only ways to take advantage of the morning rally - to understand the "Stop Pop" mentality and then take advantage of the unexpected move to the upside which created a "positive feedback" environment. No, unfortunately, not all failed signals generate the "popped stops" phenomena but it's helpful to know in such cases.

Otherwise, the next trade came at the peak of the morning impulse to the upside, in which price found resistance at yesterday's close and formed a doji candle. Price would also form a negative TICK and momentum divergence (see 1-min chart for clarity) into the $107.65 price highs of the day. I've labeled a small 5-wave impulse during this swing up to note that the divergence also occurred into resistance and outside the upper Bollinger Bands on a final 5th wave fractal... an excellent place to short with a tight stop to play for a trend reversal.

The minimum target was the confluence of the 20 and 50 EMA at the $107.40 zone, which set-up the "Cradle" Trade.

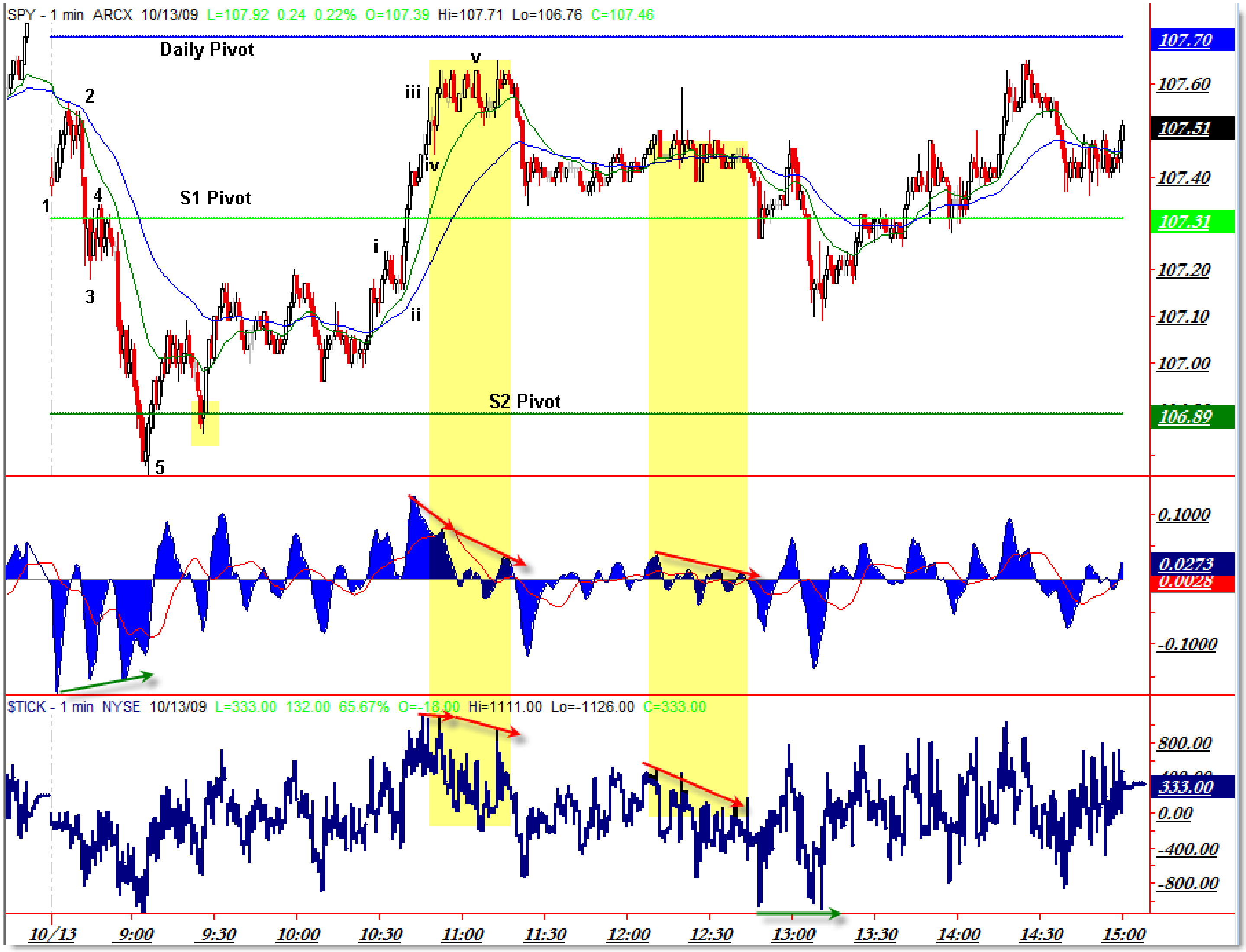
The Bullish cradle sets up when the 20 and 50 period EMAs cross bullishly (20 rising above the 50) and price then pulls back as close as possible to this exact crossover point and then forms some sort of reversal candle (in this case, a doji). An entry is taken as soon as the doji high is taken out (or as close to the moving averages as possible) with a stop-loss at least 10 cents or greater beneath the convergence of the moving averages. The minimum target is a retest of the prior high and maximum target is a trend reversal.

Price meandered (consolidated) and rose slightly after the cradle triggered at 11:30am CST and then began to bounce repeatedly off the 20 and 50 EMA. The BEST cradles work immediately, so as more time passed, this was clearly not becoming one of the best trades - the best trade set-ups of any kind often work immediately. It's been said that "time kills a positive expectancy" especially in intraday trading. An hour later, price failed to meet its upwards price objective and the downward swing just before 1:00pm resulted in a failed or "stopped out" Cradle.

At this point, it became evident that the EMAs were converging, and price had not made any impressive trend moves (the morning down-move was retraced soon after it formed) and so this should have clued you in that we were in the middle of a "Range Day" trading environment. This should have told you to trade off candles (spikes) or divergences at Bollinger Band extremes. The final two trades of the day were of this caliber.

First, we had a long-legged doji appear on a flatline TICK divergence outside the lower Bollinger Band.

The target... and flip and reverse... was a test of the upper Bollinger Band, and as price formed two upper shadows at the $107.65 level, that triggered the final short-sale trade of the day (if you're willing to trade into the close). Whether you exited as price tested the moving averages or into the close, the short-sale trade was profitable.



Pay attention to momentum and TICK divergences, such as those shown here in the highlighted region.

I took a bearish tone in last night's blog post, noting the "Dual Three Push" pattern on both the daily chart and the 15, 30, and 60 minute charts.

I know of no better sell-signal that that of which is occurring now - a three push pattern on two timeframes, a negative volume divergence, a negative momentum divergence, and price coming off two dojis on the daily chart at the upper Bollinger Band extremes.

However.

The over-arching bullish force refuses to surrender, and as long as buyers (or buying pressure including short-sellers buying to cover) outnumber (overwhelm) sellers (profit taking selling/short-selling pressure), then the price will continue its "Creeper" upward trend. Under any normal environment, this would be one of the most obvious, best, lowest risk, highest probability short-sale set-ups... and it is. A stop is placed above $108.50 (at a minimum) with a downside price target of $101 at a minimum for a risk-reward.

That being said, use caution if deciding to take this trade or deciding to carry forward a bearish bias into the intraday session tomorrow (which is the favored bias) as a result of the bulls/buyers seeming to make a mockery of prior sell signals (as I've been mentioning in these reports).

These are not ordinary times and the continually rising prices despite technical, fundamental, and quantitative evidence (probabilities) to the contrary is frustrating to many traders across the board.

If $107.26 is broken to the downside, then the next likely 'scalp' would be to play for a test of the 50 EMA and lower Bollinger Band on the 60 min frame at $106.53. Otherwise a break above $108.05 is a quick and aggressive "long buy" to play for the "Popped Stops" logic which could create a sudden and quick impulse move to the upside which you want to take advantage.

Two dojis at the upper Bollinger Band on a negative momentum and volume divergence... with a "Three Push" pattern.

Aggressive traders can go ahead and put on a swing trade short to play for a retest of $102 at a minimum with a stop above $108.50 or even $109.00.

Those taking this trade need to be aware that buyers are still in control, so please pay attention to any upward move and be prepared to exit and even consider flipping and reversing to take advantage of others who find this trade irresistible... but are forced to stop out in the event buyers push price to a fresh new 2009 high.

REMEMBER that the Federal Reserve Meeting Minutes from their last meeting will be released tomorrow at 2:00pm EST so this could be a market mover but not like an actual Fed Day. Also remember that Friday is an "Options Expiration" date so be prepared to experience "random" moves on Wednesday, Thursday, and of course Friday as funds square away positions in anticipation of the expiration weekend (higher volume and volatility).

UPDATE

As of 6:13 EST, the S&P 500 futures had surged to fresh new 2009 highs as seen in the chart below in part thanks to positive guidance from Intel (INTC).

Please keep this in consideration to see if the overnight market can sustain these highs, and IF SO, then odds are that the cash/ETF markets will also rise to new 2009 highs, popping out the stops of the short-sellers as mentioned previously, giving you opportunities to scalp long tomorrow.

Otherwise, if the futures remain at new 2009 highs, then you should **not be putting on short-sale positions** until price again breaks down beneath the 60min moving averages as shown on these reports.