AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

I know that many people were thinking "The market is so overextended that it cannot go any higher - thus I will be a short-seller today." That is not the appropriate mentality so long as price continues on the pathway it is going. Once we break beneath moving averages on the 30 and 60 minute timeframe, then you can consider shorting but one thing I am trying to instill in you is that there is SOMETHING ELSE going on which continues to drive price higher despite the overextensions, negative divergences, overbought conditions and you need to realize this and "suspend belief" accordingly. As such and UNTIL proven otherwise, a bullish bias remains on all intraday timeframes and trades.

As an overview, I'm showing the "Arc Formation" or "structure" to today's intraday activity. No, this arc was not evident until the breakout to the upside at 2:30 EST (until then, it resembled an "Ascending Triangle") however it is the dominant pattern now.

Price is reaching the "parabolic" phase (notice the arc) and once price breaks through the arc, then that will be a change in angular momentum or structure, but until then, the arc pattern is dominant. If anything, it's an interesting way to look at price structure sans indicators.

Let's walk through each major high-probability, low-risk trade that presented itself within the day structure.

First, let me say that the Day Structure favored a "Range Day" or "Normal" day which is often the case after a Trend Day - let that be a lesson. According to the Range Expansion and Contraction principle, we would expect markets to alternate phases... so today had the bias for a range day, particularly after beginning with a 50 cent gap down that was (almost instantly) filled off the open.

GAP FADE

The first trade of the day - with a gap of around 50 cents in the SPY - is to trade against the gap to try for a "gap fill" or gap fade. Generally, the entry is taken on the second or third candle (10 or 15 minutes into the trading day to give room to 'shake out' and confirm that an upward move is unfolding) with a stop placed at least 10 cents below the low of $108.80. The target is yesterday's close at $109.30. Price moved quickly to fill the gap, however, price fell about 9 cents shy of the full gap fill, and a sudden down-bar formed just shy of closing the gap. If you used a trailing stop strategy, you most likely exited with a profit, however most people were probably shaken out either with a small profit or a scratch (or tiny loss) on the gap fade attempt. Gap fades should not take all day to occur and should work within the first two hours of trading as a general rule. Price reversed downwards at a level not known to be expected resistance.

HAMMER CANDLE, PIERCE OUTSIDE BOLLINGER, TICK AND MOMENTUM DIVERGENCE

Perhaps this was the best trade of the day, given that a "range bound day" was favored over a second trend day in a row. Remember from prior reports that on range days, the expected play is always to trade dojis or reversal candles at Bollinger Band extremes, particularly when a TICK or momentum divergence presents itself. Those create the best opportunities, as shown above. The stop is at least 10 cents under the candle low (near $108.70) with a target being the opposing (upper) Bollinger Band OR a countervailing sell signal.

Moving averages do NOT work as targets since on range days, price slices through them without stopping.

You could have taken your exit as the doji formed (with two prior upper shadows) just after 11:00am at the $109.10 area or waited (aggressively) for a full test of the upper Bollinger which came after another down swing intervened (which again formed at the $109.10 area).

BOLLINGER SPIKE, DOJI/REVERSAL CANDLE, TICK AND MOMENTUM DIVERGENCES

The exact same trade set-up now from the short-side just after noon EST as price formed yet again an almost identical pattern that triggered an irresistible entry, this time with stop-loss above the $109.30 highs and target for the lower Bollinger Bands (or other buy signal).

Price fell back down to the $109.00 area and came just shy of the lower Bollinger Band situated at $108.95. Price formed a sort of "engulfing" candle as price tested the rising 50 period EMA (again, not a big signal on range days) and the upper trendline that could have been drawn from the prior two morning lows. This looks a lot clearer in hindsight than it did in real time, of course, but it's generally fine to exit shy of a target if price seems to be rising. They say the "final few cents are the hardest to get" and some traders stubbornly hold on for the last few pennies of a successful trade as price moves to... but not reaches... a price target. They hold on until the trade retraces (wipes away) all of their gains and a winning trade then turns into a loss.

It's certainly a decision and a balance you'll have to make, but always monitor your trades for signs of any non-confirmations or warning signals that threaten your position. In the case of the morning gap fade and the afternoon truncation of the Bollinger Band target, price fell just pennies shy of each target.

In keeping with the range day theme, price retraced back to the upper Bollinger and formed two doji candles in a row at 1:30pm at the $109.20 level, triggering another short-sale signal.

This time, the short-sale signal failed, and when a short-sell signal that *should* work fails, it often sends a MORE POWERFUL signal in the opposite direction, perhaps that the structure of the day is changing and we need to be aware of any further positive developments that we might want to take advantage... particularly with the "Popped Stops" trade I describe here so often.

That was exactly the case today as it was yesterday into the close (another reason reading and understanding these reports is so important - history can sometimes repeat the same trade or structural change two days in a row... yesterday showed us a "popped stop" run up to new highs after the intraday highs were taken out).

POPPED STOPS

After the sell signal failed, price then broke afresh to new 2009 highs... taking with them all short-sellers who placed close stops (stop-losses) just above the highs made yesterday. As price hit these 'Pocket of Stops,' it gave you an opportunity to "Scalp long" to take advantage of those swing or even intraday traders who were trying to trade the market short (anticipating a top, no doubt).

Refer back to prior days reports on the "Popped Stops" trade, which I'm finding to be quite productive and lucrative intraday. The main idea is that you scalp long as stop-losses from the sellers are triggered as price either invalidates a common short-sale set-up (trade) or pops to fresh 2009 highs.

The final trade was an "Impulse Buy" for those bold enough to trade into the sometimes random action of the close (fund rebalancing). After forming a new price, momentum, and TICK high, the trade is to "Buy the First Pullback" into support, which is often the 20 period EMA (or sometimes a Fibonacci retracement if the swing is great enough).


SPY - 5 min ARCX 10/15/09 L=109.65 0.34 0.31% O=108.78 Hi=109.72 Lo=108.73 C=109.65
Bollinger Doji
"Popped Stops"
Failed Sell Signal
Breakout!
Bollinger Spike on Divergences
Impulse Buy
Doji
Gap Fade
Bollinger Hammer Divergence
109.70
109.67
109.64
109.60
109.50
109.40
109.30
109.19
109.10
109.00
108.90
108.80
0.2000
0.0963
0.0474
0.0000
-0.1000
-0.2000
$TICK - 5 min NYSE 10/15/09 L=-37.00 -406.00 -110.03% O=-32.00 Hi=919.00 Lo=-941.00 C=-37.00
1,000.00
600.00
200.00
-37.00
-200.00
-600.00
10/15
9:30
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14:30

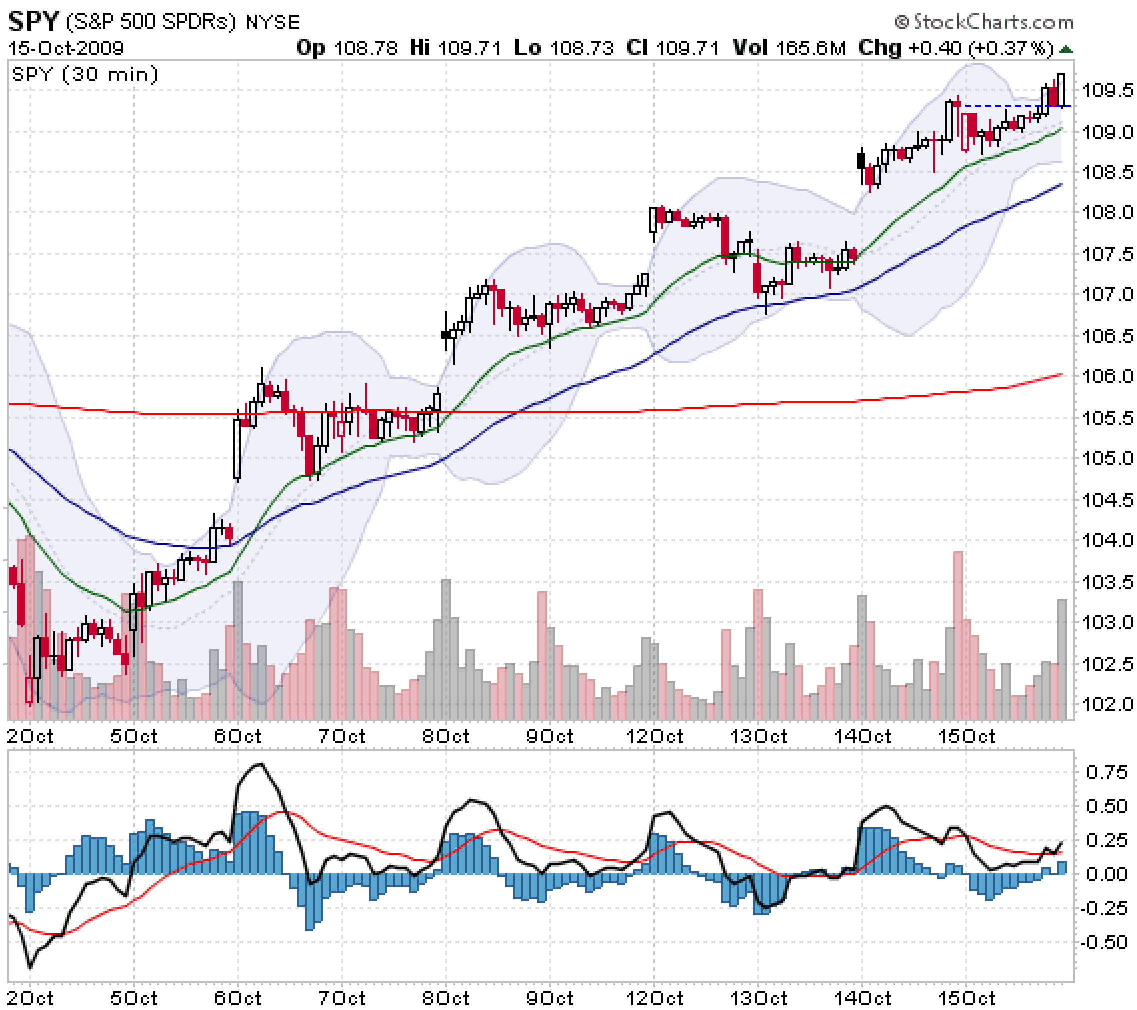
As for the "Where do we go from here" and "what do we expect for tomorrow?" - the answer is the same as it has been for the last week as I've been highlighting to you.

The summary is that - despite all the chart evidence to the contrary (volume divergences, momentum divergences, spike outside upper Bollinger, overbought readings in oscillators), buyers are solidly in control and they remain so. Therefore, a bullish bias remains and continues indefinitely until we start to see price deterioration beneath the 20 period EMA on the 30 and 60 minute intraday charts. Until then, your best trades will come from buying pullbacks and scalping long on each new high... as was the case yesterday and today.

As for those who cannot fathom buying at these new price highs and overextended conditions - that is fine too. I understand your frustration, but do avoid short-selling into this 'new bullish reality' until we see PROVEN (proof) signals that sell signals are working. In fact, it's better to sit on the sidelines than to fight such a powerful rising force. Short sellers continue to contribute to the "Popped Stops" plays that you could be taking advantage of intraday.

No, the rally will not last indefinitely, and yes the rally will end at some point. Your job as a trader is NOT to call tops or bottoms or to predict the market with certain accuracy - your job is to make money, and that is best done with an open mind, a flexible strategy, and the knowledge to know when to adjust course and play the game in the event the rules have changed.

As such, here are views of the current intraday structures:



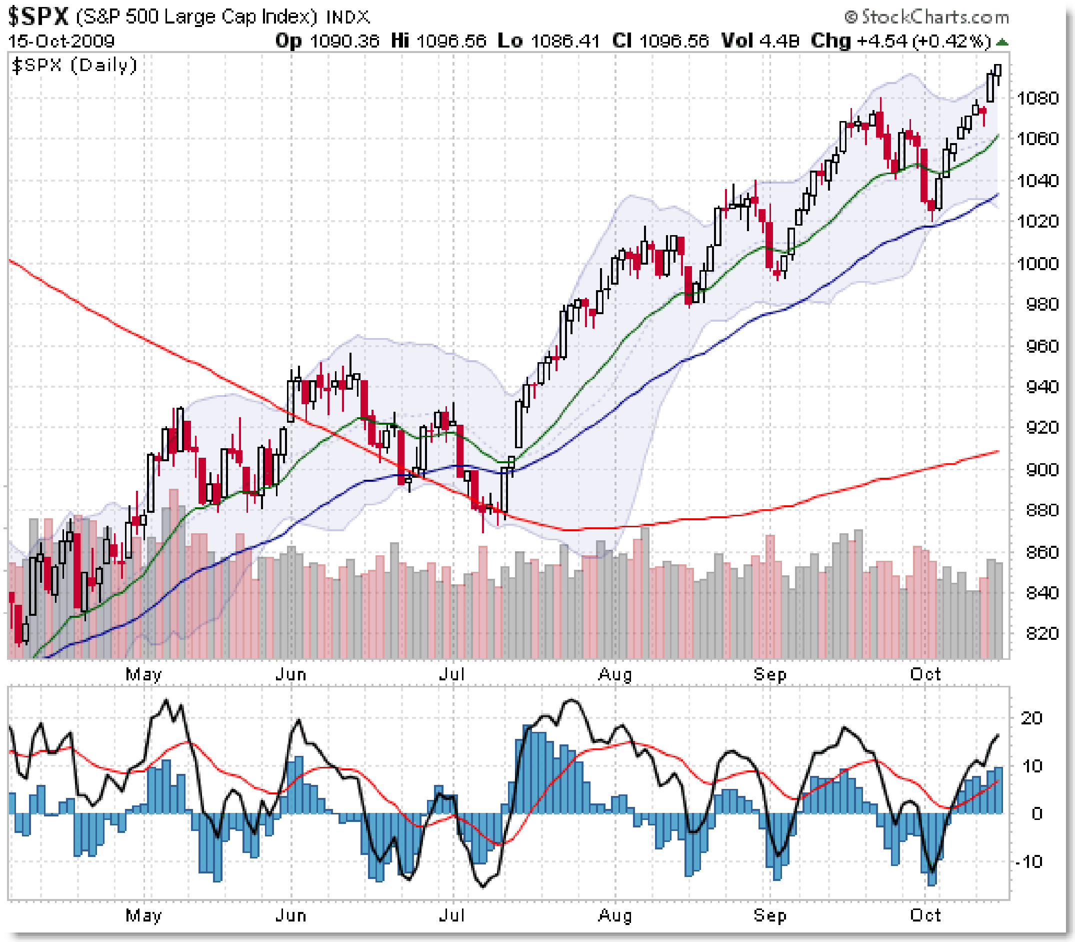
The support level to watch on the 15-min chart is $109.00. You should under no circumstances short the market unless price is underneath $109.00.

Secondary support to watch comes in at the $108.50 level, which (will be) the confluence of the 50 EMA and the lower Bollinger Band.

Again, we see importance at the $108.50 level, which is just beneath the rising 20 period EMA on the 60-min chart.

Avoid shorting for anything other than an intraday trade (aka do NOT put on a swing trade short) as long as price remains above this level.

The bias continues to be to the upside as long as the bullish/buying force remains in place as it seems entrenched.



Despite what I've been saying about the "Buying Pressure" overpowering all sell signals, under normal classic analysis, this would be probably one of the best places to get aggressively short, given that price is grossly overextended above the upper Bollinger Band at the "Psychologically Significant" (or "round number") price of 1,100 in the S&P 500.

The next level of expected resistance - beyond 1,100 - is 1,121, which is the 50% Fibonacci retracement of the entire bear market. It would be monumental to see buyers push price beyond 1,121.

Using classic risk/reward assessment, in the event that price continues to rise, a likely resistance point would be either 1,100 or 1,121. In the event that price falls from here, which the odds seem to suggest (though the bullish force is thwarting the odds), a likely target would be 1,020 at a minimum and 900 at a maximum.

Given that playing for 20 points on the upside vs risking 80 points or even 180 points to the downside is not an intelligent risk/reward play. In other words, it is against the probabilities and the risk/reward relationship to get long here.

That does NOT mean that price will stop going up - it just means that odds are heavily stacked to the downside... which continues to frustrate traders who are aware of this who continually see higher prices. This is the reality of the market at the current snapshot in time, and the best bias seems to be one of neutrality given these facts. It would be one of the smartest decisions from a risk/reward standpoint to short at these levels given the small risk to large reward... but given the buying pressure and their ability to overcome all prior sell-signals, these new short sellers might also meet the same 'stop-loss' as those before them. If you're willing to take the risk knowing that bulls have been solidly in control, this would be a great time to get short... but be aware that you could easily get stopped out as buyers continue their charge.

IN OTHER UPDATES:

One of the major stories of the day is the 3.2% rise in Crude Oil today, most of which came at the end of the session where you see the breakout in the SPY above. That is a major story that continues to add to the overall bullishness of the market. Crude Oil also broke above some resistance levels and is forming its own "popped stops" trades as shorts scramble to cover, pushing prices higher.

Also, tomorrow (Friday) is an Options Expiration Friday (though not quadruple witching) and I know some traders enjoy making a long weekend (not trading these days).

Keep in mind that options expiration days often have higher volume than usual and tend to more random moves than usual (resulting in busted patterns). The main reason is that funds are forced to rebalance their portfolios to take into account losing and winning options positions along with other management needs which creates almost random moves up and down that have little to do with the patterns or the day structure.

It's probably best not to avoid trading tomorrow, but consider doing so on reduced positions and not getting overly excited by any one particular buy or sell signal, unless we start to gap strongly lower in the morning and develop a trend day to the downside - that would certainly be interesting and probably worth trading.