AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Another very interesting day in the market. I'm hearing that a few of you had some great difficulty in trading today's session. Let's start with a narrative that walks through the structure and idealized trades for educational and 'efficiency analysis' purposes.

The overriding factor in today's session was the morning Jobs report as expected. The number came in worse than expected (I mentioned consensus last night was for a loss of 170,000 jobs, with the range extending to a loss of perhaps as high as 235,000 jobs. The morning number showed that 263,000 jobs were lost, which was outside the range of expectations - a devastating hit to the economy and the market. The economy lost more jobs in September than it did in August - not a good sign of economic recovery.

And the market responded in kind, dropping the futures 10 @ES points (over 100 Dow Points) instantly as a result. That was what we had to work with as we got our day ready to trade the opening session. I captured a chart of the morning session for you to see.

The expectation was thus for a Trend Day down - perhaps a strong Type 3 trend day down as a result.

However, as the market opened - down $1.00 in the SPY which is just beyond the boundary to expect a statistical gap fill, price actually began to rally. With the exception of about 5 down-bars, the market filled the gap, with price action picking up in the final three bars. With the downward bias, downward impulse, and negative economic report, odds were solidly against a fill so it was a lower probability trade to attempt a fill... but just because something is low probability does not mean it cannot happen - as the morning's gap fill action showed.

Unless you were an aggressive trader, you should not have expected a gap fill from the morning session and should have been waiting to 'get short' on any pullback a la "impulse sell" or "bear flag" style trade.

The first "ideal" trade of the morning came at the 10:30am EST area, when price retraced all the way to fill the gap and formed a doji/spinning top candle at the $103.00 level that filled the gap. You would have entered short with a stop above the falling 50 EMA at $103.30 to play for a retest of the morning low at $102.00 (or slightly above).

This trade began to work almost instantly with an impulse bar down which confirmed that odds favored lower prices, and to remain with the trade. Price formed a bumpy ride before forming two lower shadow candles (and a near bullish engulfing candle) about 11:50. Price had also retraced to the 61.8% retracement of the morning high to the morning low. This should have at least caused you to bring down your stop loss to above the 20 EMA and - aggressively continue playing for the $102.00 level or conservatively taken the trade off the table with a profit at the $102.60 level.

By the time price formed the actual bullish engulfing candle at 12:00 noon, you should have exited the trade with a profit. Price broke above the 20 EMA, placing us in "no-man's land" inbetween the 20 and 50 EMA. There was nothing wrong with scalping a small position to see if price could have tested the 50 EMA, but that was probably a trade best passed.

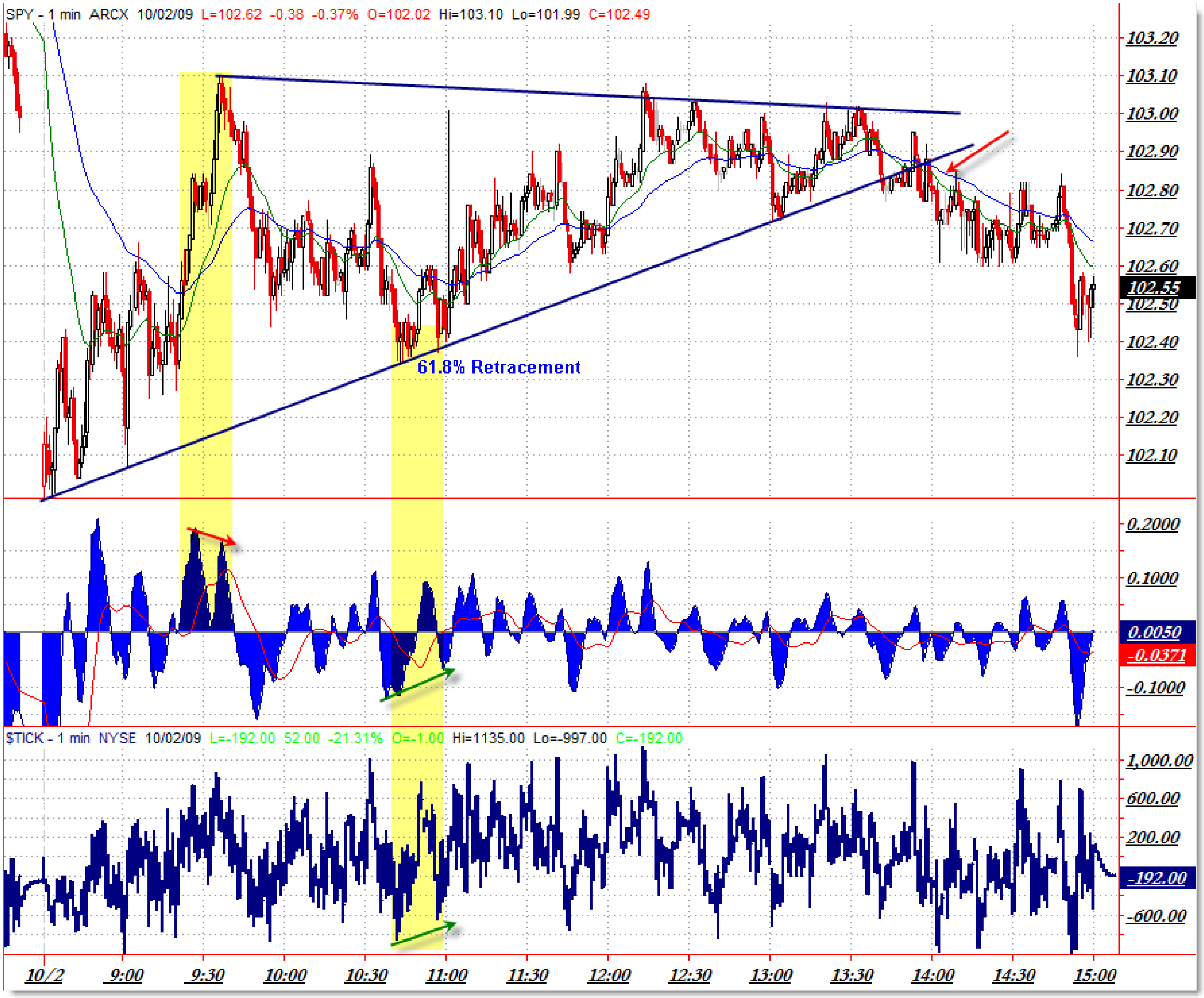
Price then broke above the 50, causing a bullish bias to the day, but I would have suggested to wait until price solidly broke and closed above the boundary of the "round number" $103.00 level as well as yesterday's close (same level). Notice that price never did so. You should have been in "Wait and See" mode to see if bulls could break above $103.00 solidly, and if so, to join long to play for a price expansion move up. You also should have recognized the up-sloping trendline that connected all the prior swing lows and waited to play short on a break of this line - in essence, we are awaiting a price breakout trade (afternoon breakout).

The breakout came - which really was only the second "idealized trade" of the day, at 3:00pm EST as price broke beneath the rising lower trendline and the confluence of the 20 and 50 EMAs. A stop would be placed above $103.00 - preferably $103.10. You would play for a price expansion move to the downside.

The expected move down did come, but price did not form a sharp impulse lower - it chopped around painfully until falling sharply into the close, triggering a "market on close" profitable exit.

Despite all the volatility, the best, calmest, most thoughtful trades (thus, educational examples) came from looking to short the pullback into the gap retracement (Impulse Sell/Bear Flag, doji) and then playing short the "triangle" breakdown in the afternoon.

Notice how the TICK formed an "arc" formation along with price. Technically, the day structure was a "Rounded Reversal" that began with an impulse gap. That's still bearish. Though the triangle dominated the technical structure of the day session.



We always watch the 1-min chart to confirm what we're seeing on the 5-min structure. You can often pick up more divergences or see price structure clearer (there's more bars) on the 1-min frame.

Mainly, today's trading focused on the impulse down after the morning gap fill, the choppy, trade-less consolidation in the afternoon, and then the trendline break into the close.

This chart shows the @ES mini-futures contract with respect to the morning "Jobs Report," sharp downward thrust as was expected, and the rally up which was totally unexpected and which caught so many traders off guard.

Today's action reminds me why it's best to watch the charts and not get influenced or biased by economic reports - no matter how large they are. Recognize that they will be released on a given day, know what the expectations are, know what the report says, but leave it at that. I found myself very bearish after the report was released and it caused me to miss the upward action of the morning session and found myself holding on too long after the "impulse sell" signal down. We are traders because we can take advantage of short-term price action, structure, trade set-ups, and opportunities that should not be driven by personal bias. Many times, price will do the opposite thing which is expected by the majority... or even the opposite thing that makes sense/logic. Do NOT try to rationalize or explain price moves - watch price, watch the internals, watch for known opportunities and structural shifts, and place 'ideal' trades.

It would have been far to easy to say "The report is bad, therefore the day will be sharp down" which is the logical thing to assume. We play a game of risk, probability, and opportunity - logic sometimes is not in the trading equation. Keep this in mind going forward - it's a hard but valuable lesson to learn.

(Reference the last "Fed Day" announcement when everyone was bullish and prices continued to rise and the meeting announcement was bullish "The Recession is over, the economy is recovering, and we'll keep rates low." Recall how fast and hard the market fell on that 'bullish' news that the Recession was over. That may prove to be the peak of the recent market rally.)

Where does price go from here?

Before discussing that, let's have a "Teaching Moment" on Higher Timeframe Analysis.

Ask yourself a quick question - what was one potential reason why price found a morning bottom at 1,019 in the S&P 500 index and rallied upwards?

One answer (among many) was that 1,017 was a logical price and support target (that I had mentioned previously) thanks to the rising 50 day EMA and the lower Bollinger Band. Enough short-sellers took their profits at that target level and enough bulls entered the market long to stem the selling of the morning - thus creating upwards momentum.

Assume that the "Jobs Report" didn't happen and that the market gapped down normally to this target. Some of you would rightly be bullish under the logic "there will be a bounce off the rising 50 EMA" and may have gotten long into the large gap and actually participated in the filling of the gap.

That's part of the reason price targets and expected support levels work - in part, they are 'self-fulfilling prophecies.'

But enough on that - this is a lesson on how knowing expected daily chart levels to watch - targets - can help you either assess or temper your trading on the intraday frame. Perhaps knowing this in advance would have caused you not to get as aggressive shorting right when the market opened. You still could have gotten very aggressive if the level broke in expectation of a Trend Day down, but wait until you see the level break before getting aggressively short. Notice that there is "Open Air" underneath the 50 EMA down to the 900 level. But until that level is broken, it will be expected to hold as support - that's why we would refer to it as the "Line in the Sand."

Speaking of that, we ARE above the Line in the Sand on Friday's close, having endured a bullish rally off the 1,017 target level.

However, there's still a bearish pall over the market thanks to the "Rounded Reversal" back to the downside intraday and the overall feeling of "this market has gone too far, too fast" to the upside and the negative news that's been dribbling out about the economy.

As such, a BEARISH stance is favored, but tempered/cautious UNTIL we break beneath 1,017 (preferably a break beneath 1,000) in the S&P 500 Index.

The 60min chart shows a possible pathway:

First off, the New Momentum Low on today's session forecasts that an actual price low is "yet to come", so we should be shorting any pullback to the 20 EMA or any sort of "ABC" fractal rally up.

Second, the trend structure is officially now in a 60min downtrend - price has made lower lows and lower highs, and the EMA structure is bearish.

I've also drawn a possible Elliott Wave count showing either an "ABC" three wave larger correction with a 5-wave fractal "C" wave unfolding... or instead of waves ABC, we are seeing waves 1, 2, and 3, in expectation of a 4th up and then 5th down.

Don't get caught up in the count - just realize that odds seem to favor lower prices yet to come and unless we can rally above 1,040, this will be the expected bias going forward into next week.

Have a great weekend!

Corey