AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

See TradeStation chart for a better breakdown of Trade Opportunities today.

Today represents one of those good "trading lessons" to learn, which continues to remind me why I prefer the technical (charting) model of trading and analysis. I let two earnings reports and the surge in the @ES futures as a result to bias my analysis last night - it was the logical thing to assume.

Had I not heard of the blow-out (positive) in earnings by Apple and Texas Instruments, I would have noted the rounded reversal pattern and deterioration in momentum and structure heading into yesterday's close. Noting that would have kept me from expecting a surge to the upside in this morning's trading!

We did get that surge, as we'll see from the overnight futures just before the NYSE open... but worse than expected housing numbers, and the reality that the housing market was propped up in large part by the $8,000 tax credit which is set to expire November 30th, sent the futures and then the stock market lower which - with unfulfilled expectations of higher prices as a result of better earnings (other companies this morning reported better than expected earnings), resulted in today's negative (downside) action DESPITE better than expected earnings. The technical structure ultimately triumphed over the news, and there are a lot of people in the trading world right now scratching their heads as to how the market could possibly be lower after so many positive earnings surprises.

It's a reminder that we as technicians and intraday traders should focus on structure and the probabilities inherent within these structures (trend, volume, price, momentum, etc). We take trades based on probabilities and can never be certain of the future... in part because of economic and earnings reports and surprises which inherently cannot be predicted. That's part of what makes trading both fun (when reports benefit your position) and frustrating (when all your analysis points to - say - a downward bias and then the market surges up on unexpected economic news).

The lesson is to stick with your price analysis, be aware of reports (don't let them blindside you), but also realize that the odds are best assessed by the charts which - as the argument goes - 'digest' or take into account everything that can be known in advance.

It doesn't happen often, but we all can get distracted by the headlines and earnings.

What's beneficial about intraday trading is that we can do our research in the evening, formulate a strategy (or bias), for example "The market should be higher tomorrow because the futures are up and Apple along with a few other companies reported really good earnings which surprised the market. Thus, I want to be a buyer tomorrow." Once the market opens, you can assess whether or not your bias was correct, which allows you to trade calmly and feeling "in control" in the event that the market does rise, increasing your confidence and profits because you were prepared.

In the event the market does the opposite of what's expected, you can stand aside on the sidelines and - if the situation breaks support areas you were watching - you can flip your bias and trade to the downside to make money. Sometimes you can make more money when what "should" happen does not happen - as is a GREAT example today. So many people expected - almost thought it was a given (myself included) - that the market would rise today right out of the gate.

However, when this didn't happen, as an intraday trader who opens each day 'flat,' you can quickly take advantage of all those unfulfilled expectations and stop-losses being triggered (the "stop pop!" strategy) and profit nicely from the unexpected down-move.

Keep these lessons in mind and realize that we deal in probabilities, and the best traders are those who can out-think the crowd, know what the crowd is thinking, and fade the crowd when they are wrong ... or when what "should" happen does not happen.

HEAD AND SHOULDERS NECKLINE BREAK, UNFULFILLED EXPECATIONS ("STOP POP")

In terms of trade set-ups, the first trade could have come right off the open as price broke the low of yesterday's "rounded reversal" formation at $109.80. This also resembled a "Head and Shoulders" reversal pattern which put a downside target (neckline break) at $109.40 (the neckline was 40 cents, which when subtracted from the neckline at $109.80 gives us the $109.40 target to play for short).

A stop would have been placed at least 10 cents above the intraday high at $110.00 which is also round number resistance. Price met the target of this trade quickly.

BEAR CRADLE TRADE, IMPULSE SELL

After the new price and momentum low, price then retraced in a quick pullback to the confluence of the 20 and 50 period EMAs at the $109.80 levels, triggering a (slightly late) Bear Cradle trade (enter as a reversal candle or price retraces into the crossover zone of the 20 and 50 period EMA after a new momentum low and retracement back into this resistance area). The stop was - again at the $110.00 level and the target was a potential trend reversal at best, and a minimum target of a retest of the intraday lows at $109.30.

Price again achieved the lows quickly, and then supported off the confluence of the 200 period SMA, lower Bollinger Band - all of which formed on a positive Momentum (but NOT TICK) divergence, setting up an "exit-short" trade and triggering an aggressive "buy long" trade to play quickly for a retest of the falling 20 period EMA. A stop again was placed at least 10 cents under the intraday low at $109.20. The trade odds were enhanced by a long lower shadow outside the lower Bollinger Bands. Conservative traders might have chosen to pass on this trade and wait for a higher probability, lower risk entry at the retracement to the 20 period EMA.

RETRACEMENT SELL, DOJI AT RESISTANCE, BEAR(ISH) FLAG

There wasn't a specific 'name' for this trade (similar to an "impulse sell") but it was a high probability, low risk trade.

Price did retrace back to the $109.60 area, which was 20 period EMA after a 45 degree angle retracement that resembled an imperfect "Bear flag" trade. A doji formed at this level, which triggered an aggressive entry just after the doji formed and a conservative entry as the low of the doji was taken out by the next bar. The stop would be placed at least 10 cents above the 50 period EMA at $109.70.

This trade again targeted the intraday swing low at $109.20 for a minimum target, or a new swing low for an aggressive/maximum target (meaning, exit this short trade at the first sign of strength such as a positive reversal or positive divergence). You also could have taken off half of your position as the intraday lows were retested.

Price broke solidly through the $109.20 lows - again keeping with Trend Day fashion which became the dominant expectation once these lows were taken out... and with force.

Price ultimately formed a "Three Push" reversal pattern on the 1-min chart, and a distinct positive momentum and flatline TICK divergence into the $108.70 lows. Checking quickly the 30min chart, we see that two dojis in a row formed at the lower Bollinger Band which also served as an "exit short" and then for aggressive traders, a "flip and scalp long" signal. Price also formed two long lower shadows on the 15-min frame also outside the lower Bollinger Band.

For those who drew a quick Fibonacci grid off prior lows, we see that the $108.84 price was the 38.2% Fibonacci retracement of yesterday's high to October 13th's low. That was probably difficult to see in real time, but you can draw quick Fibonacci retracement grids to note key prices.

BEAR FLAG, 20 EMA, UPPER BOLLINGER, IMPULSE SELL (failed to meet full target)

Price then retraced off this divergence - which again was an aggressive buy/long signal for those willing to take the risk - back up to the 20 EMA (the minimum target for long trades) and formed a shooting star and type of bearish engulfing at the $109.10 level which was just beyond the 20 EMA and at the upper Bollinger Band. This was another short-sale signal with a stop above $109.10 and a target for a retest of the intraday lows OR a continuation of the trend day bias.

Price fell lower off this level, but abruptly reversed in a one-bar candle reversal at the $108.80 level which was probably best exited early either with a small profit or a 'scratch' as price retraced back above the 20 EMA at $109.00.

At this point, you should have taken a Neutral or "Wait and See" approach to ascertain whether the Trend Day bias (down) would hold, OR that price would break above the 50 EMA and then force a "Rounded Reversal" (the "line in the sand" for Trend Days). As seen, price broke above the 50, turning the day officially into a "Rounded Reversal," and giving you permission to buy dips in anticipation of a possible trend reversal back up. Price ultimately floundered, slicing through the moving averages in a "Range Day" style end to the day which offered little opportunity in what appears to be a corrective move up.

The 5-min chart reflects some of the key entries and set-ups that occurred.

I've zoomed in on the "Three Push" divergence which was a particularly good example today.


SPY - 1 min ARCX 10/20/09 L=109.44 -0.35 -0.32% O=109.95 Hi=109.99 Lo=108.68 C=109.29
Flag/Wedge
Entry
Entry
1
2
3
Three Push!
$TICK - 1 min NYSE 10/20/09 L=11.00 -448.00 -97.60% O=17.00 Hi=1046.00 Lo=-1088.00 C=11.00
110.00
109.90
109.80
109.70
109.60
109.50
109.40
109.30
109.21
109.10
109.00
108.90
108.80
0.1000
0.0500
-0.0010
-0.0500
-0.1000
800.00
400.00
11.00
-400.00
-800.00
10/20
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00


SPY - 1 min ARCX 10/20/09 L=109.42 -0.37 -0.34% O=109.95 Hi=109.99 Lo=108.68 C=109.29
A Focus on the "Three Push" Pattern
109.70
109.60
109.50
109.40
109.30
109.21
109.10
109.00
108.90
108.80
1
2
3
0.1000
0.0400
-0.0010
-0.0800
-0.1400
1
2
3
$TICK - 1 min NYSE 10/20/09 L=11.00 -448.00 -97.60% O=17.00 Hi=1046.00 Lo=-1088.00 C=11.00
400.00
11.00
-400.00
-800.00
9:30
10:00
10:30
11:00
11:30
12:00

A focus on a very large Bear Flag beginning with yesterday's highs into the 11:00am EST pullback - the flag met and exceeded the 100% Projection Target at $106.73.

Two "Elliott Fractal" waves are included.

The way it looks to me, the move off the morning lows into the afternoon was a corrective 4th wave which should give way to a 5th wave impulse lower... but we'll need a break beneath $109.00 to confirm that.

A break upwards above $109.40 would clue us in that the "Flag" was actually just an "ABC" Three-Wave corrective move which has fulfilled its target and that a new impulse fractal higher is starting.

The structure is flashing a daily sell signal bias to target at least the 1,070 area, which is the 20 period EMA if not further back to the 1,040 area.

A negative volume and momentum divergence continue to set-in under price.

There is still the "bullish" or "buying pressure" force that seems to manifest with each sell signal, so be aware of that upward bias to the market.

Tomorrow's trading day would be expected to have a downward bias, barring any unforeseen earnings announcement (as we saw today!).

30-min structure showing a possible "Arc Reversal" formation completing (peaking) which has developed a lengthy negative momentum divergence.

Price is sandwiched between the 20 and 50 EMA - watch for ANY move lower on tomorrow's trading day to signal a higher timeframe sell signal which will carry forth into the intraday trading bias. Watch $109.00 for support.