AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

I'll try to make each day's summary more concise, focusing on teaching/highlighting the best trades (lowest risk, highest probability) from an objective standpoint. A few subscribers have asked me to make the summaries slightly shorter so I will attempt to do that by clearly indicating the best opportunities in favor of writing a "step by step" summary of the day.

But first, there was an interesting interplay of the Elliott Wave count and another example of a 'partially completed' bear flag target overnight. Let's take a look at the @ES futures overnight chart with the Flag and Elliott Wave targets discussed last night:

Just like the potential bear flag pattern on October 18th, we had a similar set-up into the close and an almost identical "play out" in the overnight session that went to the 61.8% projection target before again bouncing solidly off this target and rising. Those who don't check the overnight market would assume the bear flag completely failed which is ... technically ... incorrect. The flag met its 61.8% projection target but not its "full flag" or 100% target.

Being the second time this has happened in such a short period, it bears repeating this point - targets gleaned from yesterday's close can and sometimes are met in the overnight market, and there's no chance for most traders to meet those targets - it is just a frustrating reality of the business where the insiders and professionals have an advantage over the majority of retail traders (in that they can play out expected price moves overnight).

The highlighed region reflects only what you see in the time when the actual stock market is open - the rest (after 10/20 and into this morning's open just before 10:00am) was the 'overnight' session.

Unless you bought to play the "popped stops" from traders who put on a bear flag position into the close, there was very little in terms of 'ideal' opportunity for you to enter on the morning's rise.

There was reason to enter on the 4th wave pullback as labeled, but we'll focus specifically on the first major 'edge' trade of the morning:

ELLIOTT'S FRACTALS, TOP OF THE BOLLINGER, NEGATIVE MOMENTUM AND TICK DIVERGENCE

As price tested above $110.20, price rallied into the upper Bollinger (which is not by itself a sell signal) which formed a negative momentum and TICK divergence as seen both on the 5 and 1 minute frames. More importantly - and as expected - price had completed an observable 5-wave fractal pattern into the highs.

The Elliott structure from yesterday could be said to have taken an "ABC" or three-wave counter-move down (as I described as the "Bear Flag" and alternate Elliott Count). It's sometimes hard to distinguish between a three-wave "ABC" and a 5-wave complete fractal - I should have mentioned that the down-move was in the context of an uptrend, making it a corrective or retracement pattern. Officially, it was a "Zig-Zag" for reference.

You could have shorted as the red bar began forming or after its completion at the $110.15 level for a minimum target of the 20 period EMA at $109.80 or a maximum target of a full "ABC" corrective phase bias (larger target). Ultimately, this price was the absolute high of the day... and could potentially be the high for some time to come if sellers pick up momentum here.

Ultimately, price formed a small "Bear Flag" (an "abc" move) down as it bounced gently off the rising 20 EMA and then cracked down to test the confluence of the 50 EMA and the Bollinger. Which brings us to our next trade....

BOLLINGER BAND, BULLISH ENGULFING, POSITIVE TICK AND MOMENTUM DIVERGENCE, 200 SMA TEST

If you remained short from the earlier trade, this was your final exit point (a countervailing buy signal). This was also a "get long point" if you were on the sidelines for a high probability, low risk trade (stop near $109.50, entry at $109.65, target $110.00 minimum or $110.20 - intraday high - maximum).

This could also be construed as a "Bull Flag" as a 45 degree angle line could be drawn, an "ABC" pullback structure observed. Ultimately, the Bull Flag failed, but one wonders how the day would have resolved without the final and swift down-move into the close.

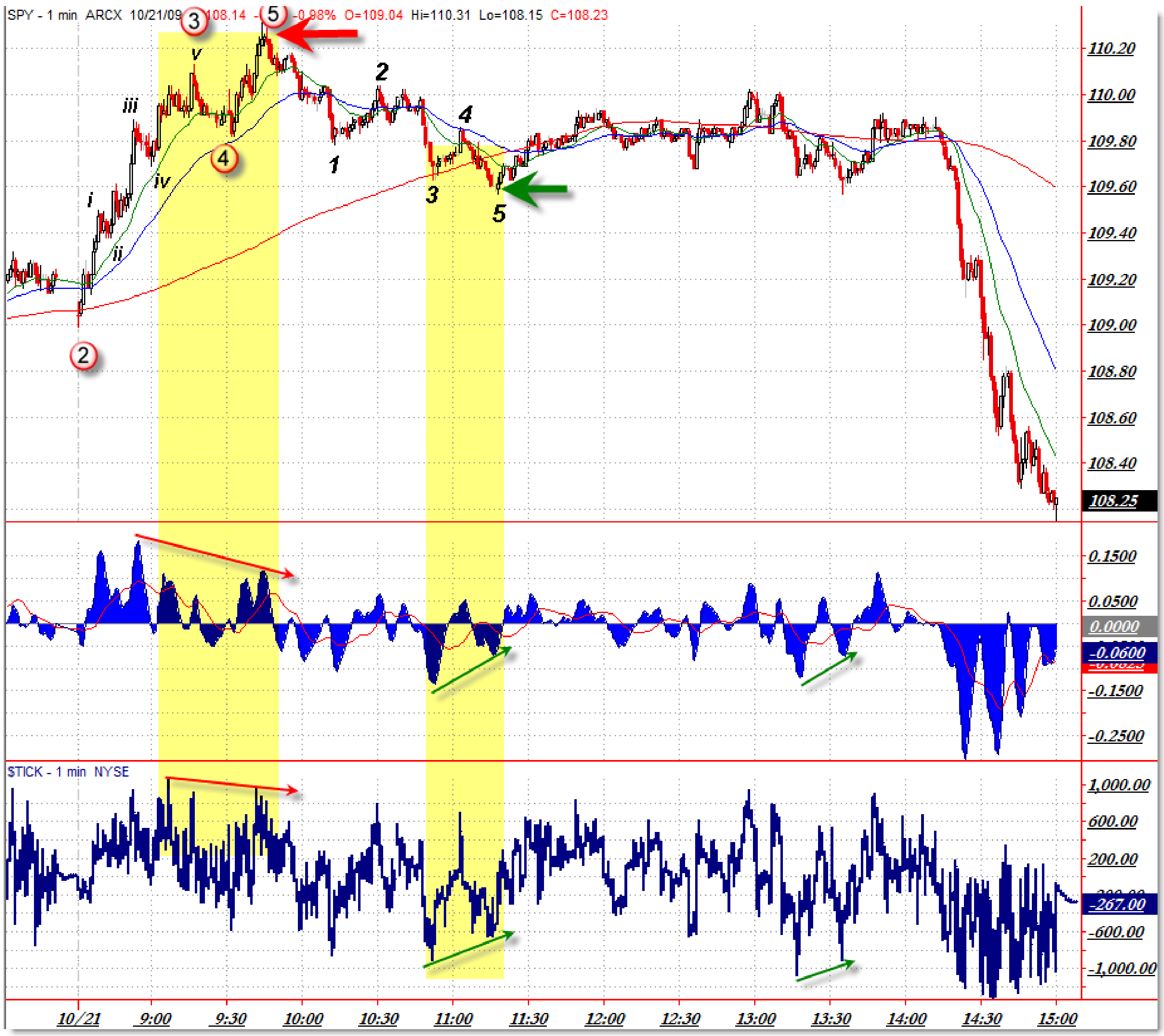
Ultimately, this bullish trade could have been exited as price faltered and then fell (failed to overcome) the $110.00 area which also corresponded with the upper Bollinger Band. Price ultimately entered a trading range into the close, making trading opportunities scarce and setting up the "Bollinger Band Squeeze" play.

BOLLINGER BAND SQUEEZE PLAY, SUPPORT BREAK

Let me first say that there was no way to know the market would fall so hard and so fast into the close... except noting that price was so overextended with multiple divergences and sell signals that the expectation "something has to break" came into play... but that does not give an entry nor does it give a "when" will it break.

The way the BB Squeeze Play works is to notice an obvious contraction in the Bollinger Bands and then enter on EITHER an upside or a downside break, place a stop on the opposite side of the Bollinger, and then play for a large target (range expansion) with the exit being a countervailing buy signal OR exiting at the close. That was the only trade that got you in at a decent time and kept you short for most of the ride down - anything else would have been chasing.

Not all Bollinger Band Squeeze (expansion) trades are this nice, but you never know when a price expansion trade will unfold like this with sudden and quick profits or not.



The 1-min chart shows the Elliott Fractal moves complete with dual TICK and Momentum divergences.

If you did NOTHING but trade this set-up (short-sell 5th waves on negative divergences; buy 5th waves on positive divergences), you would probably do better than most people who trade dozens of times per day. Etch this set-up into your memory.

The 5-min frame also highlights divergences and opportunities.

Well this changes things... finally.

There is a possibility that we are looking right now at the 2009 price high in the S&P 500... but we focus on intraday trading tactics with an open mind to the larger structure. Don't get too far ahead of yourself or get blindly biased bearish from this development.

Buyers/bulls have made a mockery of each and every prior sell signal and analysis that tried to call a 'top' in the market, and remember that we do NOT make money by calling tops or bottoms, but by TRADING and that's best done by "if/then" statements. Meaning, having flexibility to let the market and price speak for itself, aligning yourself in the direction of the set-up and trade targets played for, and keeping a close eye and willingness to take stop-losses when the market rises (or falls) to a level the charts or your analysis indicates it was against the probabilities to go there.

Remember, you make money by assessing the probabilities, taking the risk when the edge is in your favor, and managing the trade. Odds strongly favor a down-move from here with far more downside potential than upside potential, but that does NOT mean price has to fall or cannot continue rising. A stop would be placed above the $110.25 high if trying to swing-trade the market, and beyond any upper level if trying to trade intraday.

Please keep in mind that so many people are watching the market very closely and in the event that the market does rise to make a new high from here, it will continue to endlessly frustrate them which will result in numerous stop-losses being triggered... which gives YOU - the intraday trader - a special opportunity to profit from their stop-losses... which has been the dominant pattern that has occurred almost without fail since the July failed head and shoulders.

In one hour, price sliced through all possible short-term support levels.

Let me put on my analyst hat under NORMAL market conditions:

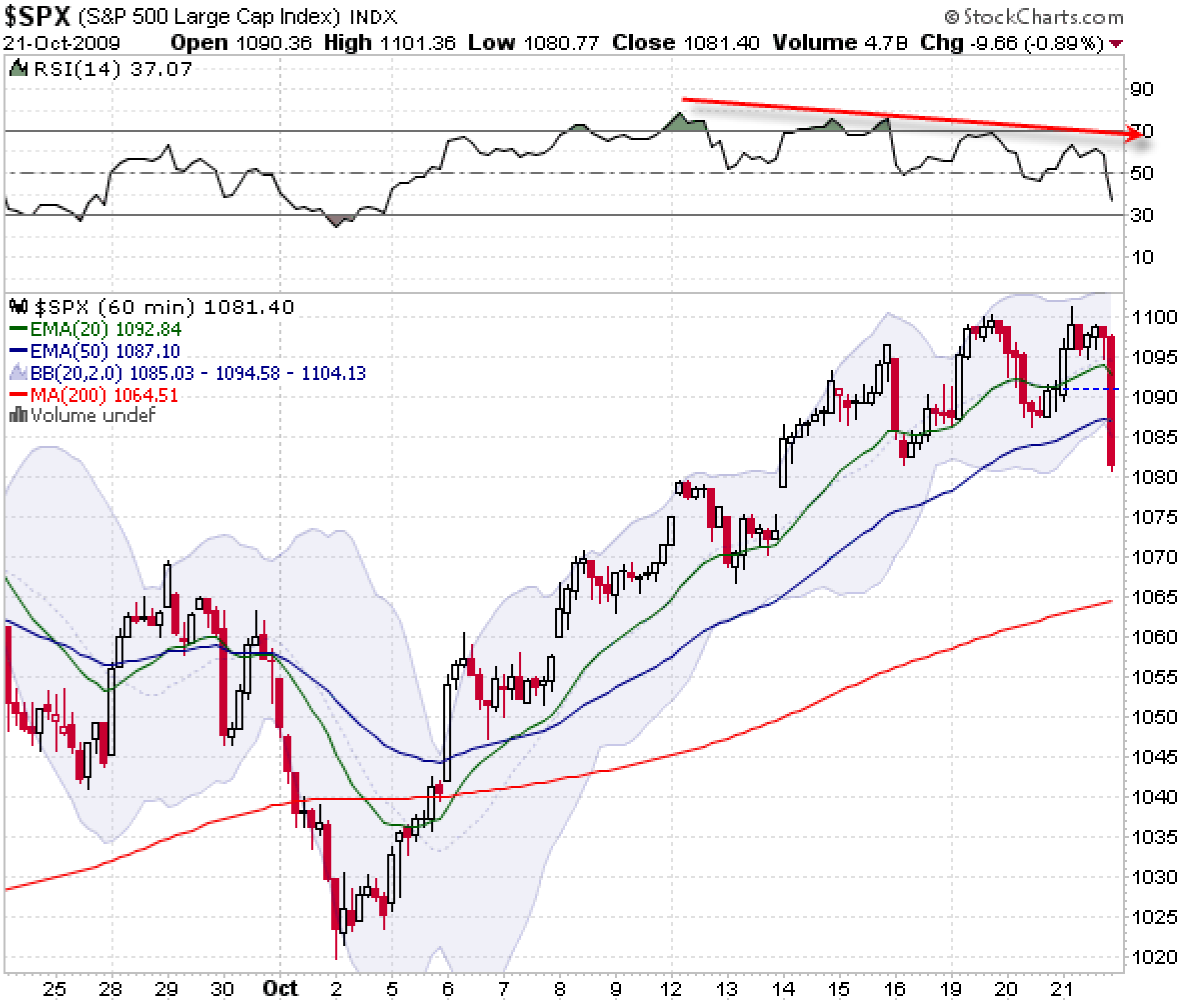
Price has formed an arc pattern into fresh 2009 highs into the $110.00 level which was a critical target and appears to be holding as resistance. Price inflected downwards after spiking into the upper Bollinger Band on the 30min, 60min, and daily charts, confirming a very overextended rally.

Looking deeper, price has formed these new highs on a lengthy, multi-swing negative momentum divergence which has served as a non-confirmation all the way up since the October 6th new momentum high. Volume also has shown a tendency to 'trail off' or decline as price rallied.

Taken together, this creates the overwhelming case for a market correction that could take price eventually to the $102 area once again if not lower... and possibly quickly (like a "rubber band").

Now let me put on my "The current reality" hat and discuss an important caveat:

For whatever reason which remains unknown to most market participants, the buyers/bulls have been very dominant in the supply/demand equation (which ultimately moves prices). Buyers continue to force short-squeezes which continue to drive the market higher. One could even say buyers have made a mockery of recent sell signals. This is something you should keep in mind when looking to swing trade this market short - there is a mysterious bullish strength there.



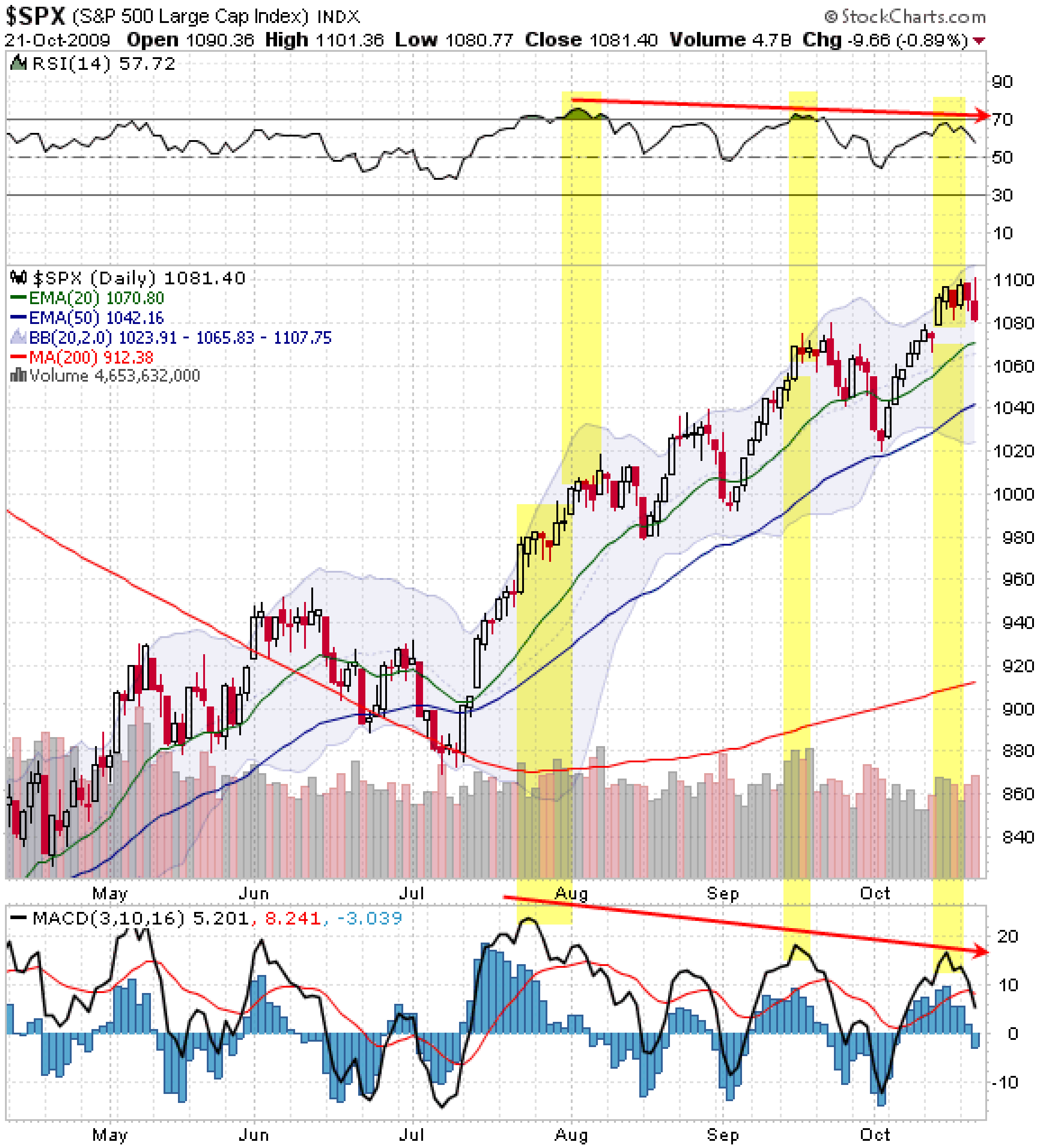
Another view of the 60min chart with the standard RSI.

I can't remember the last time I've seen a 4-push negative RSI Divergence.

Regardless of whether or not this is the 2009 price high, just looking back at recent history shows that price has experienced a retracement of around 60 points after forming multiple dojis or reversal candles at the upper Bollinger Bands (reference two times in August, and one time in September... and to an extent one time in June).

This means that a minimum price target logically exists at the 1,040 area, which happens to be the confluence of the rising 50 EMA and just above the lower Bollinger Band. Expect price to fall to this level, but watch to see if there's any sort of bullish rise off the rising 20 EMA at the 1,070 level.

A break of 1,040, and especially 1,000, would confirm that this massive bullish rally from the July lows and even the March lows had come to an end and that a downwards retracement that would carry price back to the 900 level at a minimum... but again, that move might take weeks if not months to play out so don't get ahead of yourself.



Another take on the daily S&P 500 which shows the hideous and lengthy negative momentum and RSI (oscillator) divergences with each new push to new highs.

This is just showing the standard RSI indicator.

A 'sneak peak' at additional analysis that shows an "AB=CD" or "measured move" pattern has completed itself into the full 100% Fibonacci Price Projection/Extension target at $110.28.

The multi-swing negative Momentum divergence is very concerning to the bulls, and hints of high odds of a correction.

Of bigger concern to me (for the bulls), as price has continued to rise, the TICK has continued to make lower intraday highs as price continued its rally in October.

Odds are overwhelming... though not guaranteed of course... that we get a down-move from these levels. An new 2009 high would break this bias, and would allow you to play for the "Popped Stops" strategy which could create a surprising up move (this chart was captured mid-day prior to the afternoon sell-off).