AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

This week has certainly been a week of "Expect the Unexpected" and today was certainly no exception.

There is generally at least a minimal retracement up after such a strong downward current we experienced yesterday, but today's full-day rally almost retraced the entire move down from the $109.90 price from which the swift down-move began. The strange, powerful, bullish/buying "force" I've been describing is still at work, and it appears that prices will continue to rise as long as this force is at work. Sellers remain unable to overcome buying power, and again, their stop-losses helped contribute to today's rally, particularly after 2:00pm's "Line in the Sand" was broken.

Let's take a look at the trades of today's action.

20 DAY EMA BOUNCE, TICK AND MOMENTUM DIVERGENCES, LONG LOWER SHADOW

The first major trade came at 10:00am which played off the target and potential support zone (however improbable we might of thought it - it still is a support zone until proven otherwise) from the daily 20 period EMA. At the time price tested this daily support zone (which you could have known in advance just by looking at the daily chart), price formed a positive momentum (especially on the 1-min) divergence and - more importantly - a steady positive TICK divergence starting with yesterday's lows.

A long lower shadow formed as well, and an "inside candle" or "harami" or even "spinning top" (the name is less important than the sentiment it showed - indecision and potential reversal). When the high of this candle at $107.85 was taken out, this was a long (buy) trade to play for a retest of the 20 EMA at the $108.20 level, with a stop under the intraday low at $107.50. Ultimately, this was just a 'retest' play and was intended as a scalp at the time.

Price exceeded the target and stagnated above the support from yesterday's close at $108.20.

BEAR FLAG, 5-WAVE FRACTAL, MOMENTUM & TICK DIVERGENCE, DOJI/SPINNING TOP, UPPER BOLLINGER BAND

I would deem this the "Best Trade of the Day" even though the trade failed. Remember, I'm not here to point at price highs and lows and tell you "You should have bought here and sold there." I'm trying to recreate the day with the information that was presented in real time AND trying to teach salient concepts that highlight high probability, low risk set-ups. We should judge set-ups by the criteria and confluences that occur at the time of recognition and entry... NOT by the result. Also, you should never blame yourself if you take a high probability set-up that results in a loss, as this trade did. Remember, there is the elusive bullish/buying 'force' that continues to drive prices higher despite high-probability sell signals across various timeframes.

That being said, we had the makings of a Bear flag and a 5-wave fractal Elliott Move (or 3-wave structure, depending on your wave count - either way, it puts price at a terminal point), as price moved up into the upper Bollinger Band and formed a spinning top / doji reversal candle. You can see the negative TICK and Momentum divergences that formed on both the 5-min and 1-min chart. The 38.2% Fibonacci retracement from yesterday's high to this morning's low was at $108.56, so that was also adding to the probabilities and confluences. To top it off, a large down-move (candle) formed suddenly after the doji, triggering entry if you were not already short.

As price stalled, it made a quick move to the downside, breaking the rising trendline from the morning and triggering official entry into the Bear Flag trade set-up. A stop was placed above the 50 EMA and upper Bollinger Band at $108.60... which was quickly hit.

The "Teaching Moment" here is simple. When a market SHOULD do something and it does not, then it sends a more powerful signal in the opposite direction... particularly because so many people are frustrated and will be stopping out at different levels (some move their stops further away in defiance and disbelief... which perverse fuels the bullish/buying fire up to take out more stops... this is the logic of the "stop pop" play).

Price flatlined and supported between the 20 and 50 EMA, setting up a price contraction that would be expected to give way to an impulse move. This also set-up the Bollinger Band Expansion Trade.

BOLLINGER BAND EXPANSION, POPPED STOP, 'LINE IN THE SAND' BREAK

As price crested back above $108.60, breaking and closing above the upper Bollinger Band, price triggered the "Bollinger Band Expansion" (or squeeze) Play which allows you to play for an unlimited target (either a higher timeframe target OR a countervailing sell signal from divergences or fractal waves... as we had into the close).

You were also taking advantage of the "Popped Stops" trade which I have described so frequently to you and I hope you are learning the power of this set-up. While others are confused and stopping out, you - though you may have been stopped out with them - can use this to your advantage and profit from their stop-losses.

The "Popped Stop" logic only works when something "shouldn't" happen and people take positions thinking price is going down (rightly so) and then place their stops above realistic or 'obvious' levels such as are described here. In the event price rises through these levels, it triggers stop-losses at different levels. People don't just magically 'stop out' at the same time - they drag their stops up to give themselves more room, as they just cannot believe how the market can continue rising. Maybe they will short a second position, or "double down" and get into a larger position short than anticipated.

As the market continues rising, eventually they will be forced out with a large stop-loss that will be very devastating to them. Your primary goal is to AVOID this type of behavior - realize that nothing is guaranteed, and you need to honor your stops. Your secondary goal is to profit from their behavior, having come to a deeper level of awareness of how trading actually works. It's NOT about flags and divergences - it's about watching those, taking the trades based on the probabilities, but realizing that - sometimes the better opportunities for profit come from trading failure patterns when they occur. No, you can't predict failure patterns in advance, but in the event that you're stopped out of a very logical trade, chances are OTHER people were stopped out two and that they will dig their heels in at higher prices.

If you get long and price continues to rise, when they finally 'throw in the towel' with a loss, that buying pressure converts into profit for your account.

Please take the time to understand this. It will save you so much pain and frustration in your trading.

Anyway, this logic I just described is the EXACT reason the third wave in Elliott Wave trading is the longest - it's in part due to stop-losses being triggered.

Once you saw the bullish surge after 2:00pm, you should have recognized this as a "Third Wave" at least, and if you took the time to look inside the structure to the 1-min chart, you most likely would have seen the "Third of Third" concept play out.

This told you that odds strongly favored higher prices into the close, which was exactly what happened.

We also had a new TICK high - Wyckoff Sign of Strength - into the 2:30 highs along with a new momentum high - both of which hinted that higher prices were yet to come and to be a BUYER on any pullback.

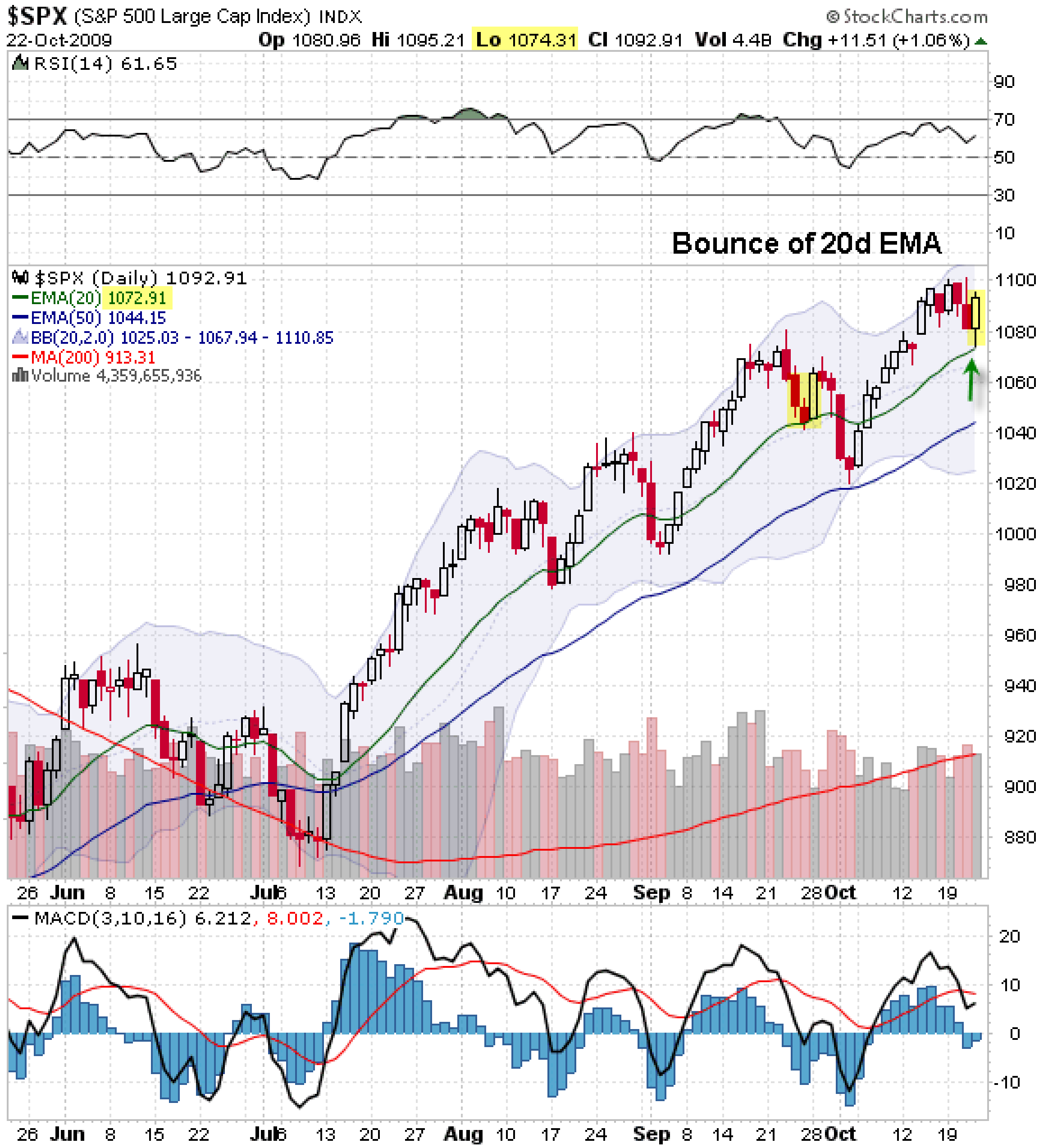
That final buy signal - wave 4 - came as price retraced to the 200 SMA on the 5-min chart and the 20/50 EMA on the 1-min chart. The trade ended with a test of the upper Bollinger Band on a negative TICK and Momentum divergence - price fell as expected into the close.


SPY - 5 min ARCX 10/22/09 L=109.57 1.34 1.24% O=108.19 Hi=109.68 Lo=107.50 C=109.33
Fractal Sell
5
3
4
Bollinger Band
Squeezes
(success)
(fail)
1
2
Line in Sand
"Stop Pops"
Bullish Engulfing:
REVERSAL
Bear
Flag
109.63
109.40
109.33
109.20
109.02
108.80
108.60
108.40
108.20
108.00
107.80
107.60
0.20
0.09
0.00
-0.09
-0.20
-0.40
-0.60
$TICK - 5 min NYSE 10/22/09
1,000.00
600.00
378.00
200.00
-200.00
-600.00
-1,000.00
10/22 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

Elliott Fractals - including the "third of third" concept - along with divergences.

Wave 3's often have new TICK and/or momentum highs. Buy the first pullback.

Wave 5's often have TICK and/or momentum divergences. Sell when price begins to fall after these divergences form.



Price rose off the rising 20 day EMA at the 1,072 level, which was indeed an expected target and support zone.

Believe me that any new move to new highs above 1,100 will trigger even more "stop-pop" trades you should be taking, as people just can't believe price could continue rising. Your goal is NOT to predict the market - it is to TRADE the market, which means you can expect price to fall, but in the event that price rises to a new high - you need to play off the frustration of all the people who are stopping out at new highs. Their stop-losses can translate into gains for your intraday trading account.

The extent to which people doubt the market can continue rising only serves as fuel for the bullish fire. Whatever bullish/buying force exists, it will continue to drive price higher until bears/sellers can overcome it. For now, they have not.

There's no need to repeat all the reasons price should go down.

Any break of $109.00 would be construed as a sell signal, as price would have broken beneath the confluence of the 20 and 50 day EMA. UNTIL THEN, it would be best to take a neutral position above $109.00 and a bullish "pop-stop" strategy above $110.00.

A break of $109.00 could trigger a trade down to the $107.50 level again, and any break of $107.00 would clue us in that odds favored a deeper retracement to $102.00 or even $100 over time.

The final candle on the hourly chart is indeed a bearish shooting star.

Again, buyers/bulls have made a mockery of the bears/short sellers and that is the environment in which we operate currently - it's quite unique and interesting.

Again, remain neutral and trade any intraday set-up you see so long as price is above $109.00.

Play popped stops above $110.00.

Trade short aggressively as long as price is under $109.00... should it retrace there tomorrow.

Fibonacci retracement levels to watch on any meaningful pullback:

38.2%: $101.30

50%: $98.50

61.8%: $95.66

Smaller bars reveal just how much the price action resembles an Arc formation coming up into the peak.

NOTE: I will be traveling to Wisconsin tomorrow for the weekend, so it is likely that Friday's "Idealized Report" will be delayed either a few hours or will be released Saturday, depending on scheduling and access to the Internet.