AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today is a great example of the current environment we are in with the current market.

Stock prices are overextended and have multiple non-confirmations in the form of negative divergences at overhead resistance. The technical picture calls for lower prices.

However, there has been an underlying bullish "force" pushing prices higher, triggering more stop-losses from the sellers and driving prices even higher. This force does so against a host of reasons to sell stock or to sell short.

The bulls are fighting uphill as long as price remains under 1,120. Bulls are playing a game of "Musical Chairs" where - eventually - the music will end and we will have a downward move in the market.

The pressure of the sellers (in the supply and demand equation) is a force that is growing, and when the bullish force (from whatever source - overseas buyers, hedge fund 'games/manipulations,' retail investors who sold stocks/mutual funds in December/January who have been on the sideline and are now rushing into the market, government stimulus, etc) stops buying, or when the combined selling pressures overcome the bullish 'force,' then the market will fall... and it could fall hard in the event that the market was being propped up or manipulated artificially.

But that's a completely other story.

I mentioned in Friday's "Idealized Trade" report that - barring any unforeseen news - the technical structure favored an up-move into today's session, based on positive divergences and a completed 5-wave fractal structure into Friday's closing lows. This indeed was the case, and the bias did carry forward into today's opening session.

However, that upward action which was expected formed a peak, rolled over gently (multiple dojis on negative momentum & TICK divergences), and then plunged to new lows.

We have now entered a downward/retracement/sell phase for the short-term trend, and that bias will be the driving factor going forward unless price forms yet another "Bear Trap" as has been the case each time it seemed as if price was due for a meaningful retracement. Though the bearish case looks stronger now, do use caution because buyers have shown a tendency to 'bust' any and all sell signals since June and July.

OPENING SURGE

There really wasn't an "idealized trade" to take off the morning rise, with the exception that you took forward the upward Bias and set-ups that triggered into Friday's close as I described. The morning session was simply price playing out the upward momentum from Friday's bullish divergences - there were no simple entries long on Monday Morning with the exception of just after the open when price rose above the 50 period EMA in a "Bollinger Band" style long/buy trade.

With the Bollinger Band - or any 'upward bias' trade with an unspecified target, you are to exit on any prevailing SELL signal... and today's sell signal was one of the most pronounced signals there was... though it did NOT forecast such a precipitous drop ahead of time.

MULTIPLE DOJIS NEAR UPPER BOLLINGER BANDS, NEGATIVE MOMENTUM AND TICK DIVERGENCES, 5-WAVE FRACTAL

Even from a neutral, basic standpoint, the 5 dojis at the intraday highs of $109.20 were a glaring non-confirmation of higher prices. Beneath the price dojis, we see a clean and clear negative Momentum AND TICK (more important) Divergence - especially on the 1-min charts. Looking at the 1-min charts, we also see a complete 5-wave "Elliott Fractal" move into these divergences. This was an ideal place to exit longs and then flip and reverse short to play for a minimum target of the 20 EMA at $108.80 or the 50 EMA at $108.60.

IMPULSE BUY

Remember, I try to assess the market in these reports with the information we had at the time instead of saying "Buy the low of the day and sell at the high." These reports are meant to be educational to teach structure and concepts.

As such, there was reason to take an "Impulse Buy" trade as price tested the 20 period EMA and formed a hammer and then (semi) Bullish Engulfing candle just after 11:00am. The stop would be beneath the 50 EMA at $108.60 and target $109.20 - the intraday price high. The trade failed just as quickly as it triggered, as the next 10 minutes sent the price down to challenge the confluence area of the 50 EMA, Bottom Bollinger, and 200 SMA. As such, this would also have been a valid trade set-up.

50 EMA TEST, 200 SMA TEST, BOTTOM BOLLINGER TEST, DOJI

There is a bit of debate about this set-up. Generally, it is advised to wait for a close above the high of a doji to trigger an entry long - especially for conservative traders. This did not happen. For aggressive traders, they will take entry as soon as price tests a known confluence support area, and might not wait until the full candle (5-min bar) completes - in essence, entering ahead of a doji OR entering the moment the 5-min bar closes and the doji is complete.

In this case, we are buying long to try for a test of the intraday high with a stop just under all the confluence support mentioned above at $108.60. This trade - if entered - failed just as quickly as it could have been put on as the next bar was a sharp downward candle that broke through all support levels... which leads us to one of my favorite trades, and really the only thing technically (chart-wise) that could have gotten you short ahead of the sudden water-fall plunge.

STOP-POP, SUPPORT BREAK TRADE

Yes, the "Stop Pop" logic works just as effectively in the opposite direction. For all the traders expecting upward prices for a variety of reasons, and all the traders who just bought after teh confluence support area mentioned above, their stops would all be placed (mostly) beneath these confluence zones and under the 50 EMA - which is the "Line in the Sand" for type of day structure. In other words, we will no longer be able to expect a trend day up once price falls through the 50 EMA and remains underneath.

As such, you could have entered short, seeing a valid buy set-up fail, along with the "line in the sand," and then traded or held short until you saw a countervailing buy signal (such as a divergence).

The violence of the 11:30 bar was in part to longs stopping out when combined with a powerful selling force/pressure.

At this time, you could have looked backwards and seen a "1 and 2" fractal move down off the highs (remember, in Elliott logic, the 1 and 2 waves are often impossible to predict in real-time... the structure only makes sense when the powerful impulse of the 3rd wave appears... which is a good example today). Seeing a powerful and sustained move - see the 1-min chart - you could have recognized this as a "Third of Third" or at least some type of "Third Wave," and expected lower prices yet to come... which indeed was the case.

Other than the hammer and spinning top near noon, every bar was a down bar - and the ideal trade is to SHORT after a pullback occurs ... or for aggressive traders... to try to play a piece of a possible 4th wave pullback into resistance... wich was the next trade.

4TH WAVE RETRACEMENT TO 20 EMA WITH POSITIVE MOMENTUM AND FLATLINE TICK DIVERGENCE

There was also an internal 5-wave fractal count which would have been the dominant fractal to watch.

The trade is to buy after a bullish candle forms - particularly under the lower Bollinger Band - and try to play for the falling 20 EMA. This trade worked in an "ABC" fashion as corrective waves unfold, which gave us a chance to play for the final 5th wave down.

IMPULSE SELL, 5TH WAVE PLAY

Price gave two entries into the "Impulse Sell" trade (sell short after a pullback to resistance after a new momentum and price low have formed) which occurred where the two arrows are labeled. The stop would be placed either 10 cents above the 20 EMA (tight) or above the 50 EMA (loose stop). In any event, neither stop was threatened and the target was a retest of the intraday price low at $106.80. The impulse sell trade succeeded just before 3:00pm.

I hesitate to call the final move up into the close an "idealized trade," but you could have taken a long position as price formed a lengthy positive momentum divergence after a 5-wave fractal move down all day. Ultimately, price found resistance at the 50 EMA before ending the day near the lows of the session - a truly bearish day.


SPY - 5 min ARCX 10/26/09
Dojis with Divergences at Upper Bollinger after 5-wave Fractal
Impulse Sell Entries
5-Wave Fractal into Divergences
1
2
3
4
5
$TICK - 5 min NYSE 10/26/09

Pay special attention to today's 1-min chart, which shows the concept of the "Third of Third" wave as a great example.

Otherwise, we see "Wyckoff" Signs of Weakness in both momentum and TICK in the morning session that preceded the afternoon down-surge. When price AND TICK/Momentum make new lows on the session, then odds favor ACTUAL price lows are yet to come (such is the logic of the "impulse sell" trade).

Where does that leave us?

As price peaked at $110.25 in the SPY, we had a multi-swing negative momentum and volume divergence. Now, as price is falling in a down-swing, volume is RISING, which is serving to confirm the down-move.

Price is very choppy and difficult to trade - it's not necessarily as easy as "get short and get rich." IF this is indeed the top of this swing, then we would expect to see what we're seeing now. Envision the bulls as dying animals who are fighting with everything they have left to keep the market higher. If they prevail (in driving the market to new highs), it will take enormous strength, but they will keep giving everything they have as long as they have a chance to do so before 'rolling over and dying.'

Translation - we will continue to see such choppy, confusing, and volatile swings in both directions until one side is decisively overpowered.

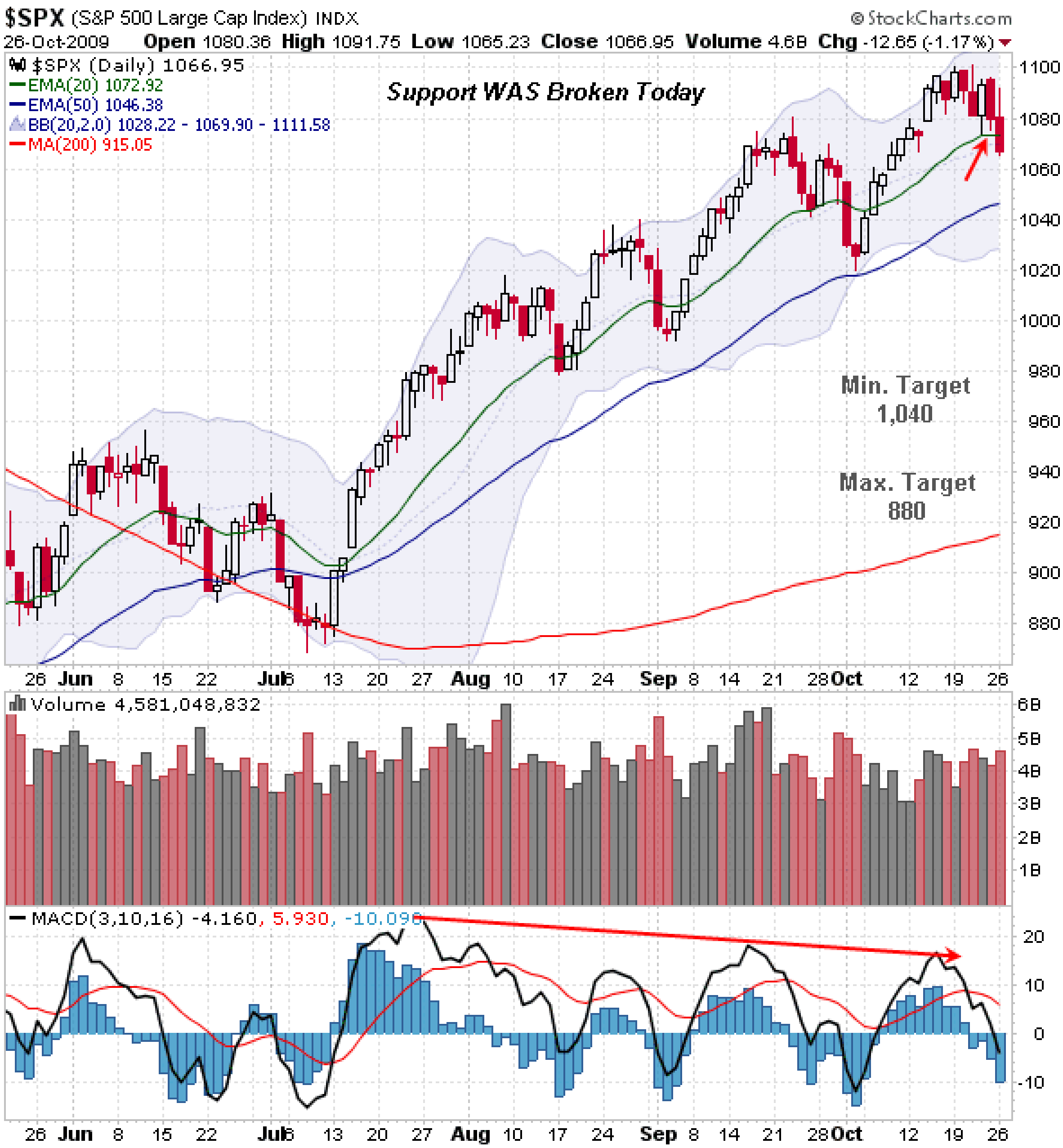
I haven't drawn it, but visualize the "Arc" or "Rounded Reversal" forming as the dominant structure in price. If so, and if the pattern completes, then we would expect an eventual move back down to the $102.00 level, which is now the intermediate term target.

For now, watch for a possible bullish surge off of $107.00 which reflects the lower Bollinger Band and the 200 period SMA on the 60 minute chart. Otherwise, we see Fibonacci lines at $106.14 (and $105.15).

If bulls can't push price higher here off from $107, then it would be an almost certain sell-short signal to target $102 as the next likely pathway for price.

Otherwise, watch the $108.00 to $108.50 area as possible resistance.

In summary - long (playing 'popped stops') above $108.50 and short underneath but be aware that bulls could force a rally tomorrow to take us back to test $108.00. Short aggressively under $106.50 and especially $106.



The Bulls lost the 20 day EMA as support.

The next short-term support target - from the daily frame - is the 50 day EMA at 1,045.

Don't get too far ahead of yourselves, but a possible intermediate target exists at the 880/900 level over time.

As intraday traders, however, take it one day and one (high probability, low risk) trade at a time.