AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today, the market gave us a Type III Trend Day which - arguably - are the easiest, most efficient types of days to trade if you are aware of how to trade these days AND if the market continues to move lower in Type III Trend Day fashion into the close (or at least gives you enough profitable 'scalp' trades before stalling or even reversing into the close).

Instead of walking through the full trading day, I will note the best set-ups to take in general on Trend Days - don't try to out-think or out-guess the market ... and never speak the words or think the thought "Well, the market has gone down too much, it has to reverse at some point."

Tips for Trend Days:

Watch Market Internals, such as TICK:

TICK: Make sure the TICK remains concentrated (average) beneath the zero line. This serves as a confirmation of stock/market weakness and as long as we stay averaged under Zero without major TICK spikes when price crosses above the 50 EMA, then continue to trade short.

In general, during a trend day, ANY positive TICK value, particularly when seen in combination with a pullback to the 20 EMA and even better when a reversal candle (such as a doji) forms, then that is an aggressive short-sale signal.

Watch for New TICK Lows - New TICK lows further confirm the downtrend bias and hint that actual price lows are yet to come.

BREADTH: There are no signals you can take from watching breadth, but keep an eye on the Advancers and Decliners and then the Difference (Breadth) Between them.

As long as breadth (difference) continues to deteriorate, then this CONFIRMS the bias for the Trend Day and places the odds to favor continuation of the Trend Day.

Watch for sudden or unexpected reversals in Breadth to disconfirm Trend Days.

VOLUME: In general, volume should run higher than average on a Trend Day. You can get an early gauge on this by comparing first hour volume to prior days to see if we're running much higher, average, or below average. Odds increase for a Trend Day so long as volume is generally above average.

As such, the "Ideal Trades" of the day come from entering short at the 20 EMA, particularly when a doji or some other reversal candle forms.

A stop is placed and trailed above the 50 EMA, which marks the "Line in the Sand" from an indicator basis to watch for Continuation (as long as price is under the 20 EMA, expect Continuation; if price touches the 50 EMA, you can enter short, but it also might be better to be neutral until price can fall back under the 20. Flip and go long to play for a Rounded Reversal in most cases when price breaks above the 50 EMA on the 5-min chart).

You can exit your scalps either on a test of a prior price low or on a piercing and reversal (bullish candle) off the lower Bollinger Band.

In general, you should ignore the 5-min 3/10 Oscillator AS LONG as price is under the 50 EMA. It will give false divergences (just like moving averages are useless in range days) on powerful trend days like this.

Remember that you cannot know in advance whether a day will be a trend day or not, but the best days begin with a gap. In this case, the gap filled (which would have been the first trade of the day, particularly since the first bar/candle formed a doji/hammer) and then you would have exited as price tested yesterday's close at $106.40 for a profitable trade.

Though you could have shorted here to play the "Fade the Fade" (or play short IN the direction of the gap once it has filled), it might have been a better trade to wait to see a new momentum and new price low and then enter short on the first retracement... which occurred at 10:15 EST (first red arrow).

Price then plunged to a new price and new momentum low, which triggered either a Bear Flag or an Impulse Sell trade, particularly as price formed a bearish candle as it tested the upper 20 EMA. From this point on, you should have suspected the possibility of a Trend Day AS LONG as price remained under the 20 and 50 EMA, meaning to short all pullbacks and monitor the Internals.

All red arrows forward reflect those trades.

The only other note to mention is that price did retrace to test the "Line in the Sand" of 50 EMA after 1:00, but price formed a long, upper shadow doji that hit the upper Bollinger and the 50 EMA - stop-losses should have been just beyond this zone and another short-sale trade placed either aggressively at this level or conservatively when price formed multiple long-upper shadow candles underneath the 20 EMA. It's ok to be neutral as long as price is between these averages.

Otherwise, there were multiple dojis at the 20 EMA to enter short to play for scalps.

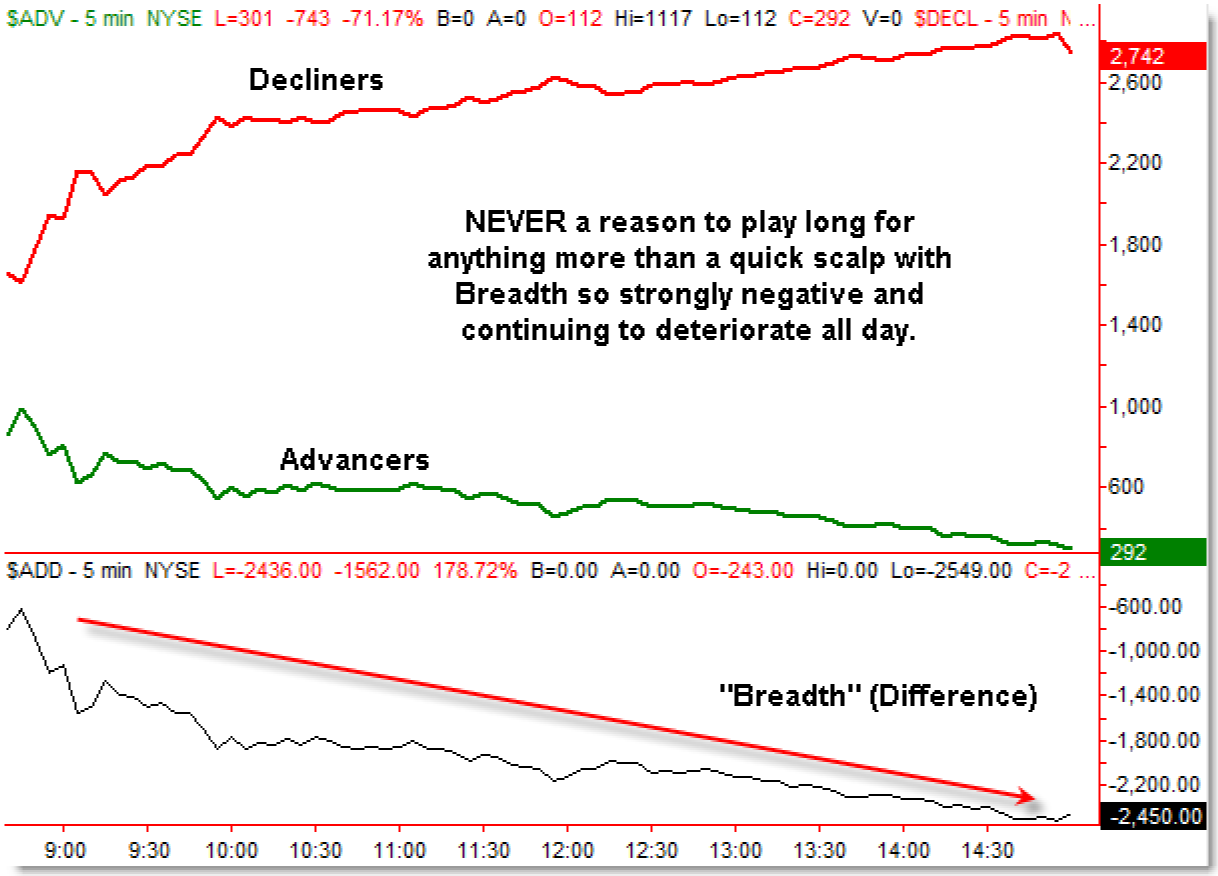
An alternate play that I like to do is to put on a small position short (instead of just scalping for smaller targets) the moment you feel the odds are sufficient to favor a Trend Day and then trail a stop above the 50 EMA. You can even add to the "Core" position each time price retraces back to the 20 EMA and continue to build a large position into the close while still scalping in and out on tests of the 20 EMA and tests of the lower Bollinger (or prior price low). The Core Trade Strategy helps take better advantage of the edge inherent in Trend Days which are rare, but (relatively) easy to trade with high probability of returns (high efficiency... less work for easier/more profits).

Watch the "Concentration" or "Average" of the TICK to ensure that the distribution of TICK values stay under Zero all day.

This serves as an "internal" confirmation of the Trend Day bias.

You can also continue watching for New TICK Lows which continued into the close for further proof of a continuation of the Trend Day bias.

Though I don't mention it, it's not impossible to scalp long on a Trend Day Down, but I find it's often not worth the hassle as long as price is under the 20 EMA. If so, play for very small scalps long - just realize you'll get higher probability and lower risk by trading IN the direction of the trend so don't make these days more difficult for yourself.



A look at Breadth ($ADV green; $DECL red; $ADD Difference black)

As long as the "Breadth" line continues to move lower (ie, as long as more stocks trade down on the day than those that trade up), this serves as an internal CONFIRMATION of the Trend Day.

Do not try to fight the trend and - again - do not get caught up in thinking "Well, price has gone down too much - it can't go down any more so I'll go ahead and get wrong."

1-min structure highlights each TICK value above zero which - when taken in conjunction with the 5-min chart - set-up excellent short-sale entries.

Linda Raschke is famous for calling these set-ups "Whack a Mole."

(ie: Short the market anytime the TICK manages to poke its head up in positive territory on a Trend Day down)

Price continues to accelerate to the downside, extending the 'arc channel' lower instead of bouncing off lower support. The 30min chart is showing a slight positive divergence, but in runaway moves without meaningful pullbacks/retracements, oscillators lose a little bit of their forecasting value (like moving averages in a range day).

Volume is higher during this expected downward correction, but is trailing off as prices continue to make new lows.

On the 30min frame, the 20 EMA rests at $105.50 and the 50 EMA at $106.50.

Watch moving averages for structure and opportunities in impulse (down) markets.

Remember that markets fall faster than they rise and we're seeing that now, which is somewhat of a relief, given that the market was 'running on fumes' in terms of lengthy negative momentum and volume divergences along with overextended conditions.

Though the 30min chart is forming a divergence, the 60min chart is not, having made three new momentum lows which have a tendency to forecast actual price lows yet to come. Again, we see volume surging (confirming) during the decline, but volume is making lower peaks relative to when the decline phase began.

Price has broken beneath the 61.8% Fibonacci retracement (near $105.17) which clues us in that the likely final target could be a retest of the $102.00 area at a minimum.

The failure of price to rise today off of the dojis, positive divergence (5-min), and 200 SMA shown above is a telling sign and helps explain - in part - why the market fell so hard today (among other economic/fundamental/technical reasons). The "Popped Stops" logic and trades are working in reverse, this time hurting the bulls (buyers with stop-losses) instead of the bears. When price hits 'pockets' of stops, it often exacerbates a move in progress, creating positive feedback.

This is important. Price broke and closed beneath the 50 day EMA at 1,046 (price closed at 1,042). This is a classic and wide-spread sell signal that could cause people to take notice (and initiate fresh short sale positions) and would trigger a 'pocket' of stop-losses of swing trading buyers/bulls who have located stops under this average. Look to play aggressively short if we get any continuation of the down move tomorrow.

Otherwise, it's possible for this area to serve as another vicious bear trap (see prior times when price closed under the 20 day EMA, only to reverse on the next session).

Thus, this is "MAKE OR BREAK" for the bulls/bears.

Tomorrow, the GDP report will be released which could be a market moving announcement. Consensus is that the US Economy will show an annualized growth rate of 3.0% as the report is released at 8:30 EST - one hour before market open. If this report is worse than that, we could see a selloff and trend day down tomorrow... and just the opposite if the report comes in much better than expected.