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 second Type III Trend Day in the opposite direction thanks to a positive GDP report coming in better than expected (up 3.6% as opposed to the estimate of 3.0%). Again, just like yesterday, these 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 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).

Like yesterday, I will include the "lessons on trading trend days" with the terms flipped to reflect the Up Trend Day - the logic is exactly the same.

Tips for Up Trend Days:

Watch Market Internals, such as TICK:

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

In general, during a trend day, ANY negative 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 buy long signal.

Watch for New TICK Highs - New TICK highs further confirm the upward bias and hint that actual price highs 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 improve, 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 long at the 20 EMA, particularly when a doji or some other reversal candle forms.

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

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

In general, you should ignore the 5-min 3/10 Oscillator AS LONG as price is above 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 did not fill and we had the GDP report, which is an early indication that we might have a trend day.

As such, today's "Idealized Trades" report is simple to highlight the educational trading opportunities - "BUY ALL PULLBACKS to the 5-min EMA especially when a bullish candle signal - doji - forms."

You can also watch for the TICK to fall beneath zero to confirm a pullback and buy once the TICK rises back above zero - see 1-min chart.

Trend Days often begin with an "impetus" or reason - such as the "Jobs Report," a Fed Day, or a GDP report... which happened to be today's reason. A better than expected GDP report was the fuel that propelled the market higher in trend day fashion, starting with an opening gap that was not filled.

You could have entered long as price formed a bullish engulfing candle after an 'almost' pullback to the 20 EMA at 10:45 EST. Remember the strategy - place a stop under the 50 EMA and play either for prior price highs, or the upper Bollinger. Consider putting on a core position when you feel the odds favor a Trend Day playing out.

There was one point to highlight in today's session, and that's the 11:30am EST action which formed a 5-wave Fractal move into a triple-swing negative momentum and TICK divergence at resistance. This was the defining point for the market, in that if sellers could step up and cause a down-move from this structure, it would have potentially invalidated the Trend Day. As such, it was a short-sale trade opportunity for aggressive traders, thanks to the numerous dojis also at the upper Bollinger Band. The target was a scalp back to the 20 EMA.

Should this trade fail, and price continue higher to 'break above' for a new high, then this would officially confirm odds strongly favored a Trend Day up - meaning bulls were able to break/invalidate a normally powerful confluence sell signal.

The target for the short-sale to the 20 EMA was achieved, and price formed bullish dojis/hammer candles at the rising 20 EMA, triggering a long buy trade and then price surged to new highs into noon. You could have played the "Popped Stops" play or put on a core trade at this time, knowing that bulls/buyers were firmly in control of the day structure in that the classic confluence sell signal failed to produce anything more than a paltry pullback to support.

From that point on, you should have ignored the 3/10 Oscillator (or any momentum indicator) and focused on price and its relation to the 20 EMA (and 50 EMA) and the market internals such as Breadth and TICK as explained above.

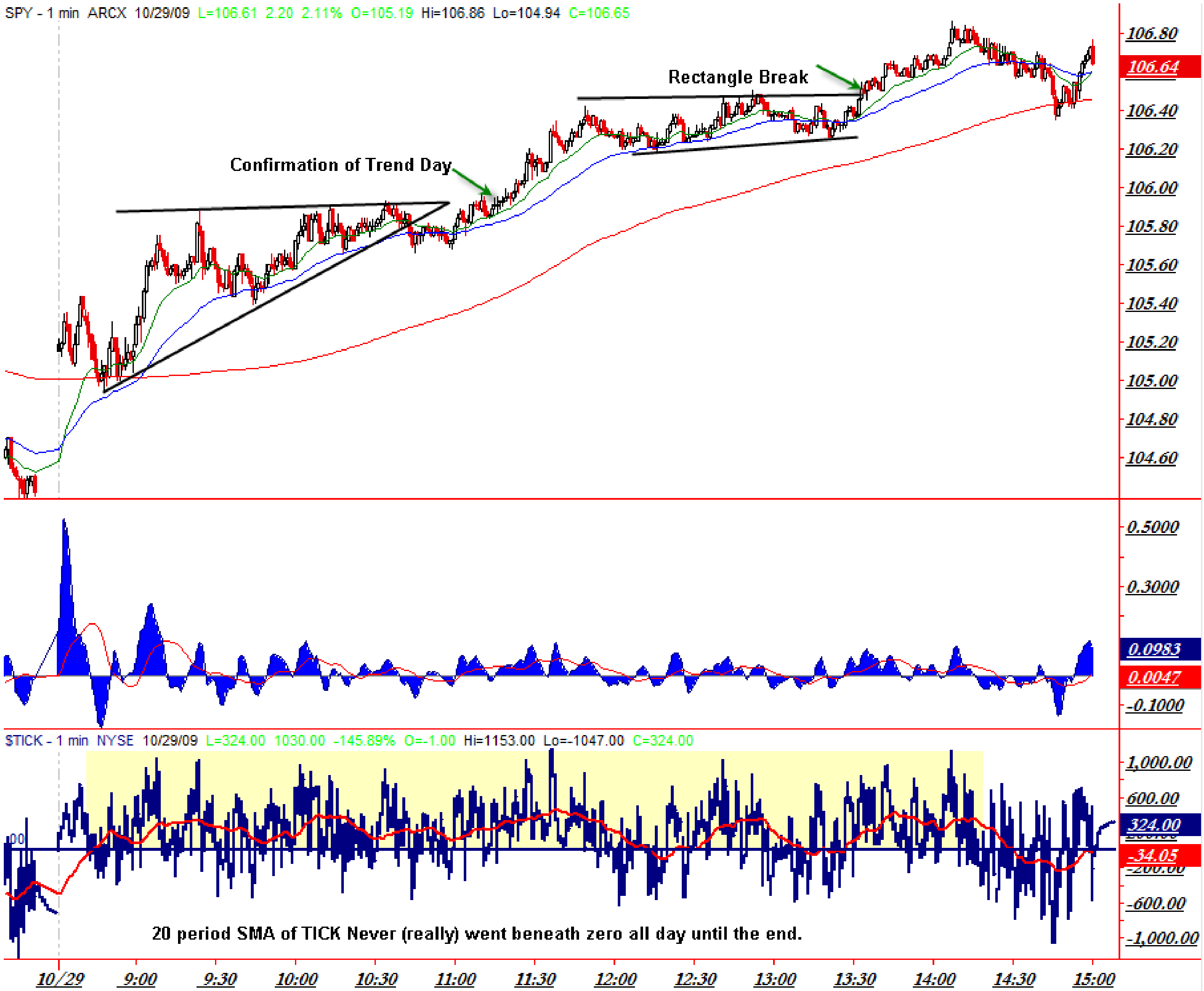
Price gave one more golden opportunity to buy long at the 2:00pm pullback with an exit either at the upper Bollinger Band or into the close.

Trend Days are very important because you can meet your monthly monetary goals in a single session if you trade aggressively and the market continues in Type III fashion (or you protect your risk in the event the price rolls over into a Rounded Reversal upon breaking beneath the 50 EMA).

If you are unaware of how to trade trend days, refer to the today and yesterday's report, and be sure to read back over all reports in the Premium Archives pertaining to Trend Days.

Bulls/Buyers overcame the morning 5-wave fractal move that ended with multiple dojis and a negative TICK and Momentum divergence. The fact that this classic short-sale confluence signal only produced a tiny pullback and then price popped to new highs gave you the objective confidence needed to trade long and buy future pullbacks in Trend Day fashion.

Also, any negative TICK reading was also a scalp buy signal.



I'm showing a 20 period SMA on the 1-min TICK chart to show that the moving average stayed above the zero line all day with the exception of a few bars - this further confirmed the power of the up day and as such, should have prevented you from shorting and encouraged you to trade long.

If you tried to short-sale the day or fade the trend day all day long, as harsh as it may sound, you must change your thinking and avoid this behavior. Trend days flip everything on its head (in terms of classic 'mean reversion' trading) and you will result in losses - possibly large losses - when trying to fade a Trend Day.

It is only safe to fade a trend day for anything more than a tiny scalp (as mentioned above) when price breaks through the 50 EMA - known as the "line in the sand."

Unless the 20 EMA crosses bullishly above the 50 EMA, then the structure - as of now - simply looks like a retracement against a prevailing downtrend and even has a resemblance to a bear flag.

However, remember how many times the market has lured in bears/sellers only to begin a 7 or 8 day non-stop rally.

Watch objectively to see if that happens again off these lows.

The 60min chart shows a tiny blip under the 61.8% Fibonacci retracement at $105.07, which was a slight bear trap to intraday traders... and we see that part of today's rally was short sellers' stops being taken out in addition to new buyers coming in.

There's a negative volume divergence against the recent down-move.

On the 60min frame, we see two levels to watch. A break above $107.00 clears the way for "Open Air" for price to reach higher levels so it's best to trade long above $107.00 with a stop under that level.

Otherwise, watch for a break under $106 as mentioned above which would set-up a trade back down to test the $105.00 level.

Recall that tomorrow is the end of October, so there is a slightly bullish historical tendency to the last two trading days of a month (and first two or three of a new month).

A bonus chart of the IWM - Russell 2000 ETF:

The S&P 500 (SPY) is facing resistance at $107.00 and the IWM is facing overhead resistance at the $58.25 level (20 period EMA). The IWM also completed a beautiful "rounded arc" patter or "Mirror Image Foldback".

Volume has surged during the down-phase.

Take a look at the negative volume and momentum divergences that preceded the top.

The Russell has a tendency at times to lead the S&P 500 (as does the NASDAQ) so it often is very helpful to do analysis on these ETFs and Indexes even if we don't trade them specifically.

Price successfully supported after a slight breach of the 50 day EMA at 1,047.

The index now rests just beneath the daily 20 EMA at 1,068. As such, a break and sustained action above 1,070 would be a likely clue that odds favored YET ANOTHER "bear trap" to be sprung and YET ANOTHER massive rally back to the highs as seen each time price broke beneath the 20 EMA and then immediately rallied to new highs.

It's too early to make that call yet, but do keep these levels and that possibility in mind.