AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

This is getting repetitive... but profitable in terms of Three Simultaneous Trend Days in a row.

I wanted to start with an encouraging quote from member Terry on her success in trading today's trend day thanks to reading the last two days' lessons in these reports:

"I think I'm finally getting it thanks to your Idealized Trades! It's just the beginning of the day that I'm never sure of."

"Finally made a well-executed day trade thanks to you, Corey! Next time I'll buy more shares."

Way to go! That's exactly the idea and purpose behind me writing these daily reports - these concepts repeat. Not necessarily the next trading day (though - ironically - they did!) but the more times you see these patterns and learn these lessons, the more confidence you'll have to put on the actual trades and trade with confidence and new knowledge.

Instead of seeing random squiggles in the price charts, you'll start seeing structure, objective trade set-ups and opportunities, and though you might start practicing with a simulated account, you'll eventually transition to the real account, or if you're already trading live, you'll start to incorporate these techniques into your repertoire which should increase your knowledge and awareness of type of day structure and unique trading opportunities based on 'confluence across non-correlated methods' (it's simpler than it sounds).

Please read Wednesday's and Thursday's reports, specifically for the "Teaching Moments" on trading a trend day and how to confirm it with internals/volume and moving averages.

GAP FADE

Starting out, we had a roughly 35 cent opening gap, and the first trade with such a gap is to try to fade it. If you entered on the second bar, odds are you were stopped out by the sudden thrust to the downside that lasted all of two minutes that probably took out a good deal of stop-losses for those trying to play for the gap fill.

The exact same bar that swept down first (see 1-min chart) to make new intraday lows under $106.00 also surged higher to fill the gap - I don't expect many people to have profited from this morning's swift gap fill, but this is another case where larger stops - theoretically and practically - would have been the difference between a winning and losing trade.

Moving on, many times with a successful gap fill, the next trade is to short the move into resistance - called the "Fade the Fade" or to trade in the direction of the gap, entering as we see a move down off the overhead resistance line while a stop is placed 10 cents or so above yesterday's close. The initial target is a retest of the opening price or more appropriately, the morning price lows - both of which resulted in quick but profitable trades.

CRADLE SELL and IMPULSE SELL with DOJI/SHOOTING STAR

Price did retest the intraday lows and formed a hammer/doji at the lower Bollinger band, and the 200 period SMA which - only for aggressive traders - could have been yet another quick entry. This morning was strange in that we had swift up and down moves both into support and resistance which actually did offer reversal candles in both directions upon which to enter and exit. It probably was a better idea to stand aside off this hammer/support doji around 10:00am.

The better idea - seeing as that a new momentum low formed on the prior swing - was to wait for an "Impulse Sell" which actually turned into a "Cradle Sell" (higher probability) trade.

The logic was to be a short-seller on the first retracement after a new intraday price and momentum low - and generally confluences of the EMAs serve as nice overhead areas of resistance... when the EMAs cross, this is known as the "Cradle" and when a doji or other reversal candle forms - such as the shooting star/doji - then that triggers the Cradle Trade (which happened to correspond with the "impulse Sell").

The entry was at the EMA confluence with a stop above this level. The difference was the price targets. The Impulse Sell only plays for a retest of the prior price lows - which was hit over the next 30 minutes. The Cradle attempts to enter short early prior to a trend reversal, and as such, tends to have a larger (theoretically unlimited) target (exit on countervailing buy signal or positive divergences). Either way, this set-up worked well.

In theory, aggressive traders could have exited this short-sale position and flipped and reversed long as price formed dojis/bullish hammer candles at the lower Bollinger Band with a stop underneath this level and a play back to the 20 EMA for an aggressive scalp. Conservative traders could have waited to re-enter as price retested the upper 20 EMA... which also happened quickly.

BEAR FLAG (1-MIN), 5-MIN DOJI AT 20 EMA PULLBACK

A doji formed at the 5-min 20 period EMA (a classic short-sale signal) which also corresponded with a bear flag on the 1-min chart. Again, the target for this trade was a retest of the intraday lows near $105.55 with entry near $106.00 (which was also 'psychological resistance') with a stop above this level.

This trade worked quite well too.

DESCENDING TRIANGLE BREAK AND TREND DAY CONFIRMATION/SWEET SPOT

By this time, it could have (should have) been apparent that price was in a trading range (NOT necessarily assuming that a Trend Day down was forming... harkening back to Terry's comment that it is difficult to know when we have a trend day or not). There is no magic formula or no magic indicator to tell you we are going have a trend day or not. If there's a large opening gap (there wasn't) or some major news report (GDP, Fed Day, Jobs Report - there wasn't), then odds will be much higher that we form a trend day... but that wasn't the case today. True, we were trading the day AFTER a GDP report which can also be volatile, but at this time - at the time the Triangle formed - it was probably a 50%/50% chance that we would bounce off this support zone and continue in the range or drop down to break to new lows - perhaps strongly - which would confirm or flip the odds to favor a trend day.

We didn't have to wait long. Price broke hard OUT of the triangle pattern (if you didn't see the pattern, then you should have noted the horizontal support zone near the $105.50 level) - falling 50 cents (.50%) in a single 5-minute bar - that helped overrule the thinking that today might be a range day and tipped the odds - though did not necessarily confirm at that moment - to favor a trend day down.

Remember, triangle breaks and breakouts from consolidation offer trading opportunities, so you could have entered short at the breakdown of $105.50 with a stop above the upper trendline at $105.75.

Price began to "ride" the lower Bollinger Band (this also does NOT happen on Range days, but it does on Trend Days) so with each new price low and with each new large selling bar, odds increased that we had a trend day developing.

Sidebar: Identifying Trend Days

I used this example/explanation at my presentation at the Los Angeles Traders Expo when describing how to identify Trend Days. Today serves as a good example to repeat that story of how identifying trend days is like the difference between Tornado Warnings and Watches.

I live in the South, and we are prone to experience Tornados, particularly as the seasons change (initial condition).

It is extremely rare for a tornado to drop out of the sky randomly. If odds favor a tornado forming, you'll generally know it. You can sometimes feel it if you walk outside in the color of the clouds and the strange, eerie wind pattern or the darkness of the clouds. In other words, tornados give warning signs before forming.

You can have dark clouds and a thunderstorm, but no tornado; however, you can't have a tornado without a thunderstorm or at least dark clouds preceding it.

That's the same way with a Trend Day. Most of the time, you will NOT have a trend day. It would be silly to walk outside and say "Hmm. Maybe we'll have a tornado today" when the weather is sunny. In reality, most days in the market are range days or normal days... or weak trend days (thunderstorms).

However, if there is a major report (again, GDP, Fed Day, Jobs Report) or some other economic report, and then if the market opens with some type of gap (particularly a large gap), then odds are much higher that the day will resolve into a trend day (... that a tornado will form).

As the day goes on, you can 'look out the window' (watch volume, watch the TICK Concentration, watch for new TICK/momentum lows, watch breadth, watch price action, watch the price relation to the 20 EMA) and see just "how dark the skies look." The darker the sky and the 'weirder you feel' (intuition from past experiences), then the higher the odds that a Trend Day will form.

Today didn't start out like a normal trend day, but the "clouds were stormy." It really could have gone either way, but as soon as price broke under the descending triangle and fell 50 cents in 5-minutes and then began "riding the lower Bollinger Band" along with the TICK and momentum then making a new low, you should have then prepared yourself for the possibility of a Trend Day (tornado) and become hyper-aware of watching price action even closer.

It ultimately is up to you to make the determination when the day strongly favors a trend day or not (or whether this thunderstorm is likely to produce a tornado), and once you make that determination, it is your responsibility to trade aggressively and change your tactics to take the most advantage possible of the unique and profitable opportunities a trend day presents you.

You literally can make your whole month's goal of profit when you trade a trend day appropriately and aggressively AND that trend day resolves into a true trend day in line with your strategies instead of forming a "Rounded Reversal" (that - is out of your control).

Or... as I hear from some people who email me... you can lose an entire month (or more) of earned profits if you continue to buy long during a powerful Type III trend day (like today).

The strategies on a trend day are simple and I've explained them in the prior two days' reports - short ANY pullback to the 20 EMA, watch the Internals, short any positive TICK on a down trend day, and exit either at a test of a prior low or a test of the lower Bollinger Band.

You can also put on a core position literally at ANY time once you feel the odds favor a trend day and then trail a stop above the 50 EMA.

Watch for TICK divergences (momentum divergences are of less value) and shifts in market internals. The line in the sand is the 50 period EMA on the 5-min chart. The day becomes a rounded reversal if price breaks and sustains above this level. Otherwise, continue staying short and - unless you have experience - AVOID taking any long set-up (for anything more than a quick scalp) as long as price is underneath the 20 EMA. DO NOT DO IT. Never let yourself utter the thought "price has gone down so much" or "it has to reverse."

There was one component to today's trading that I wanted to discuss - which was indeed the positive TICK and momentum divergence that led to an "ABC" rally up to the upper Bollinger Band. This occurred at 1:30 EST. Price formed a doji at the upper Bollinger, giving a short-sale signal... or aggressive traders could have scalped long as price began to rise off the lower Bollinger off the positive TICK and momentum divergences.

A Rounded Reversal certainly could have formed... but you still are better off shorting retracements up AS LONG as the price is under the 50 EMA.

Ultimately, and NOT surprisingly, the positive divergence failed and price fell to a lower low on the session prior to rallying... and then falling yet again... into the close (bouncing down off the confluence of the 50 EMA and the upper Bollinger Band).

Also, in the morning session, note that new TICK and Momentum Lows CONFIRMED the trend day assumption, meaning you should have shorted ALL rallies as long as TICK and Momentum continued to make new lows.

Momentum Precedes Price!

New TICK and Momentum lows forecast lower price lows yet to come.

The "line in the sand" could have been the positive TICK and momentum divergence at 1:30 EST... but the power of the trend was so strong that price invalidated this otherwise buy signal (that could only have worked for a small scalp).


SPY - 1 min ARCX 10/30/09 L=103.64 -3.01 -2.82% O=106.30 Hi=106.62 Lo=103.44 C=103.56
Descending Triangle Break
Sell All Pullbacks
Flag
Watch for Dual Divergences
106.50
106.00
105.50
105.00
104.50
104.00
103.64
0.1500
0.0500
0.0000
-0.0771
-0.1220
-0.2500
$TICK - 1 min NYSE 10/30/09 L=-509.00 -833.00 -257.10% O=-10.00 Hi=750.00 Lo=-1396.00 C=-509.00
400.00
0.00
-509.00
-800.00
-1,200.00
10/30
9:00
9:30
10:00
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11:00
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15:00

I mentioned in yesterday's report that it looked like price was forming a bear flag into (some) resistance areas, particularly on the 60 min chart. This WAS indeed the case and price has fallen to meet the (estimated) targets of this bear flag set-up... which in theory could have kept you short all day in terms of integrating higher structure into your trading decisions on the lower timeframe.

A new momentum low on the 30min chart forecasts new price lows yet to come, and any pullback (up) particularly into the moving averages would be a good short-selling opportunity.

New momentum low also on the 60min frame AND a look at how volume is confirming the down-move - both of which are bearish from a classical technical analysis standpoint and argue for lower prices yet to come.

As a caveat, price is on the lower Bollinger Band of both the daily chart and the 60minute chart, so it would certainly not be out of the realm of possibilities, and might even be expected, for Monday's trading (to see a retracement up).

Again, we have broken under the 50 EMA at 1,047 so remain biased short as long as price is under that key support level. Conveniently enough, price is at the lower daily Bollinger Band, and the EMA structure on the weekly chart converges at the 1,000 level, so I would not recommend getting aggressively short until we see a close under 1,000.

A break of 1,000 would target the 900 level.

Watch price closely and do not assume the market will necessarily fall straight down to lower targets - bulls will put up a fight if they have any strength to do so (again, like a dying animal as mentioned in a prior report).