AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today gave us another Trend Day up - continuing the relatively unexpected move off the gap lows from Friday's "Jobs Report" disappointment. The ISM non-manufacturing economic data came in slightly better than expected prior to the market open, showing a reading of 50.9 actual as compared with 50.0 as consensus - that was bullish. Were it not for that, odds favored a down-move/bias to this morning's open.

So we started the morning with a 40 cent gap in the SPY, which was fadeable and fell pennies shy of a full gap fill on the second bar, thus invalidating the "gap fade" trade (or at least making the fill so quick that it was very difficult to profit from it).

Remember that gaps serve as momentum moves - and show signs of imbalance in the market. Immediately after the swing down to fill the gap (if one bar can be called that), price rallied hard, breaking above prior resistance at the $103.00 level which I mentioned to watch closely. A break above $103.00 no doubt triggered out short-sellers' stop-losses, and helped with the upward momentum in prices.

We had a sharp pullback following a long upper shadow candle (that was preceded by a 'spinning top' or indecision candle outside the morning Bollinger Band) which set-up a quick, aggressive entry short, but again, the two-bar downward movement was probably too quick for most people to catch and wasn't thus an "idealized trade."

Where was the first "Idealized Trade?" To some, it was the pullback into the support of the confluence of the 20 and 50 EMA at the $103.00 level following a new price and momentum high (odds favor buying the first pullback into support). For this trade, the stop would be at least 10 cents if not more beneath the 50 EMA, which was at $102.90 (thus, stop would be less than $102.80). This is another lesson in "loose" vs "tight" stops. A stop less than that would have resulted in a stop-out prior to the expected move. The minimum target for the Impulse Buy trade was a test of the morning high at $103.60 - which was achieved relatively quickly in a 5-wave internal progression.

The second "Idealized Trade" was a Confluence resistance level as seen via the 200 SMA, upper Bollinger along with a doji and two upper shadows on the candles - one of which poked outside the upper Bollinger Band. As mentioned, there was also a 5-wave fractal move (best seen closely on the 5-min chart or even 1-min) into these highs. A negative momentum divergence also formed which further enhanced the odds of a successful short-sale trade. The stop was above the doji highs at $103.70 and target back to $103 if not lower. However, price ultimately supported on the rising 20 EMA, which clued us in that bulls were stronger than we thought. By buying in here and causing a rally where they did, they also invalidated a "Wyckoff Sign of Weakness" signal - which - when powerful sell signals like I mentioned here are voided - it often sends a MORE POWERFUL signal in the opposite direction (in that buyers were able to overcome all this technical evidence against them).

That was your first major sign that we could have a trend day up on our hands - that and market internals had clearly been skewing to the upside (I recaptured the Breadth and of course TICK charts for you).

Price ultimately swung to a new high above the $103.70 "doji" levels, again reconfirming odds favoring a trend day (from that point forward) though we languished at these highs. Here is a great "teaching moment" lesson for you. I say it many times, but you must rely less on any price-based indicator - including momentum oscillators like the 3/10 MACD - on Trend Days. All of them will give false signals. In the advent of a powerful trend day, you really need to turn them off and focus on the 20 period EMA on the 5-min chart as well as the market internals for trade set-ups and confirmation.

A "Three Push" momentum divergence trade set-up at the 1:00 highs but it went head-first into the Trend Day notion. This also reflects why you can't just trade patterns and be profitable - you have to take the patterns in the context of day structure - trend or range. In this case, with a failed "Wyckoff Sign of Weakness" under its belt, if the bulls could push through this Three Push and triple negative momentum divergence, then it would send a powerful signal that odds still favored much higher prices - and that you should be buying pullbacks or scalping long new highs aggressively.

Notice that people were shorting at these levels and placing stop-loss orders above the $103.80 highs as expected. This set-up the nice "Pocket of Stops" trade that I mention frequently (when sell signals are busted, the stop-losses triggered - buy to cover - create quick long-scalping opportunities as stops are 'picked off' at new highs).

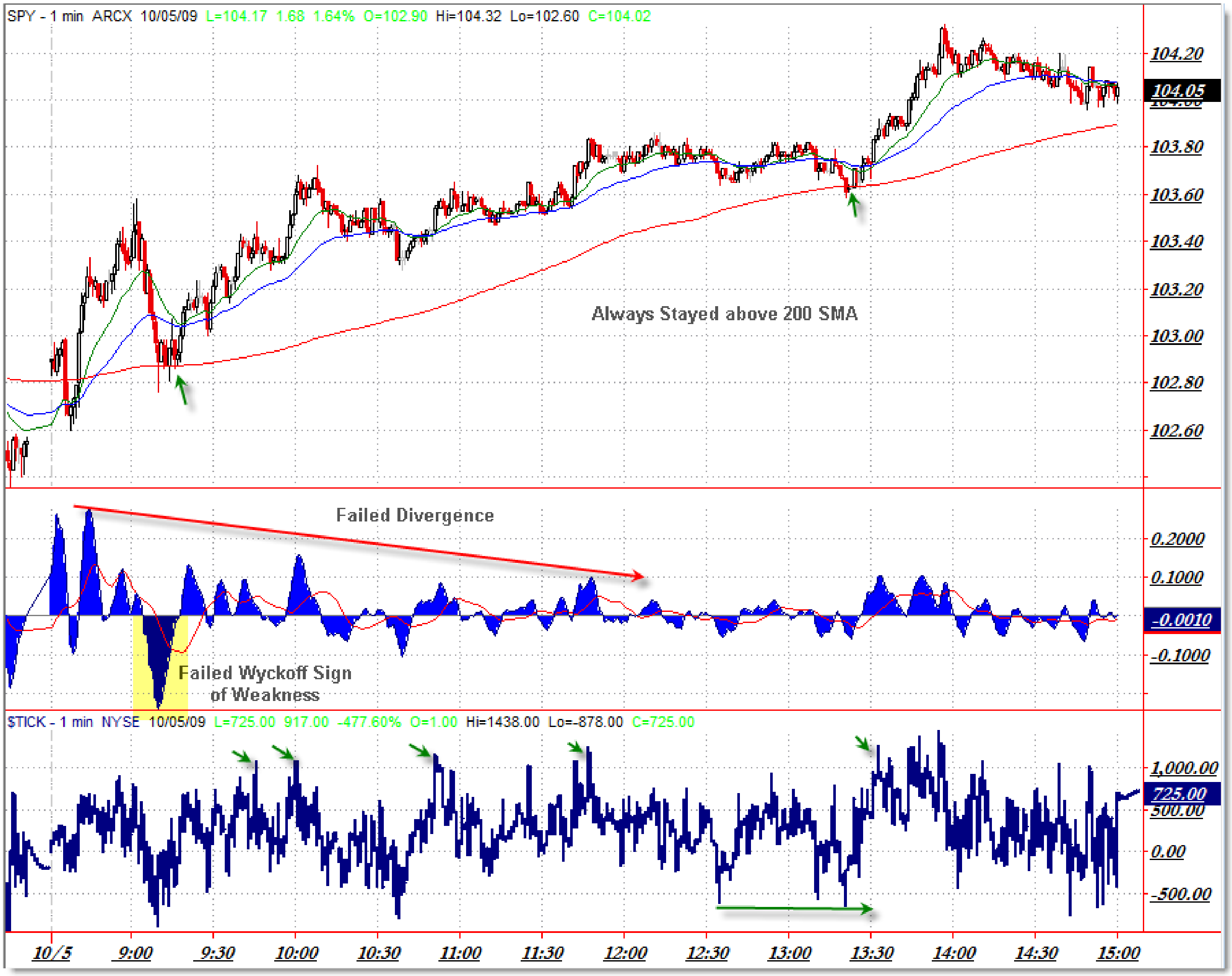
This happened once price bounced off the "Line in the Sand" - being the 50 EMA at $103.60 (also forming a doji and two long lower shadow candles at the lower Bollinger Band - setting up a nice buy trade).

Again, the large momentum move up was in part a result of shorts covering, creating upward momentum, along with new longs buying. Failed 'obvious' trades that result hit pockets of stops can result in relatively easy money to be made quickly - and momentum moves as seen above.

Ultimately, a very long upper shadow shooting star doji candle formed outside the upper Bollinger Band and that was all bulls could muster - that was an aggressive short-sale signal - or more appropriately an "exit longs" signal and then price fell into the close.

Notice the concentration of the TICK above zero all day long. On such days when the TICK stays above zero, ANY pullback beneath zero - especially one in which price supports on the rising 20 EMA - is a strong buy signal.

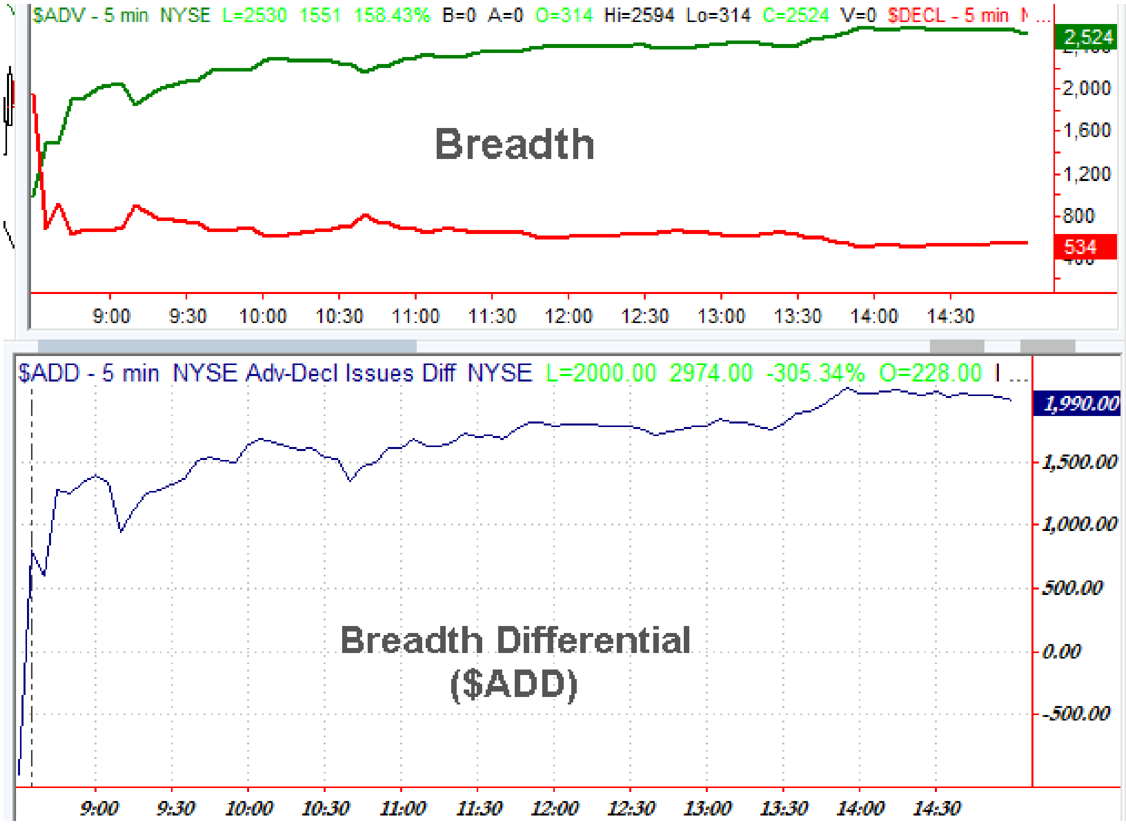
Momentum Oscillators FAIL on such days. We also continued to have new intraday TICK Highs all day long - another sign of confirmation with expectation of higher prices yet to come.



Not much to say on the 1-min frame today.

Bulls invalidated the "Wyckoff Sign of Weakness" structure (new momentum low when price does not make a new momentum low) and the fact that this failed sent a signal that bulls were powerfully in control of the day structure.

Price remained above the 200 SMA on the 1-min frame all day long- bouncing twice off this level.



There was absolutely no non-confirmation from Market Internals all day long - breadth (number of advancers vs decliners on the NYSE) continued to strengthen all day long as shown both in the absolute values (Green for $ADV and Red for $DECL) and the Difference Line (bottom panel) - which to me shows a better/cleaner picture because you're mainly interested in the difference.

This underscores why we need to "throw out" momentum and other oscillators on suspected Trend Days.

Again, no matter how much you feel price has gone "too far," it can and often does go "further" on trend days.

Market Internals are one of the first places to clue into whether they are confirming the Trend Day - meaning "expect higher prices and continue to buy pullbacks," or disconfirming it - meaning "be cautious and get ready to short as soon as price breaks beneath the 50 period EMA on the 5-min chart.

Where does that leave us for the future?

The 15-min structure turned bullish, but volume is plunging during the rally - that's a NON-confirmation of higher prices, and leads me to believe this is more of a corrective move until proven otherwise by higher volume or continual breaking of overhead resistance levels.

Namely, the $104.75 level. It reflects the 200 SMA as seen here as well as the 50 EMA on the 60 min chart. A break above $104.75 would be bullish and argue that we were in for even higher prices - but until then, it is the line in the sand and the structure seems to be corrective (I say that due to the volume divergence and 'flag-like' shape).

The Volume Divergence and "Flag Shape" are seen clearer on the 60-min frame.

Unless price cleanly breaks $104.50 ($104.75), then odds must favor lower prices. Though a break above overhead resistance would - like I mentioned earlier - trigger even more short sellers to cover, creating perverse upwards momentum (perverse to the sellers, that is - welcome news to the buyers - it's all in what side of the market you are on).

A price break beneath $103.50 or even $103.75 would likely trigger the "Bear Flag" trade and call for a clean short-sale bias to play for a target near $100.

I'm really surprised at the volume. Take a close look. The last two days that have been up have shown anemic volume, and the lowest volume days of 2009 (of the last 9 trading days, only 2 days have been up days; 7 have been down days).

As a classically trained technician, there is NO other way to interpret that than to be skeptical, call it a "non-confirmation," and expect lower prices as a result. Look to see that the 20 day EMA resides at 1,043, which could serve as overhead resistance.

That being said, I've said it many times in these reports that whatever force is driving the buyers/bulls is dominant over the bears, and if that force continues, bulls will bowl over this technical non-confirmation as they have bowled over all the others - leading more short-sellers to cover and perversely pushing this rally higher as a result. There are no magic bullets and no way to know the future in trading - only to assess the odds and probabilities and current environment structure. The odds and probabilities clearly favor the sellers/bears... but the environment clearly favors the bulls. That's why trading in this environment is a bit more tricky than it appears. Use caution and watch the two levels I've shown here.