AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Another day demonstrates how "in control" or powerful/dominant the buyers remain. I'm going to stop using the word "bulls" and begin using "buyers" because I think that conveys a more clear meaning. "Bulls" mean those bullish and optimistic about higher prices in the near future. "Buyers" is a wider term, more true to the "supply/demand" relationship, and takes into account frustrated and disgusted 'buyers" who really are short sellers who are having to "buy" to cover, thus perversely driving prices higher and higher.

Remember, prices are driven by supply and demand - the intricate balance between buyers and sellers in aggregate. Shorts who are covering their positions add to the demand side, and thus are buyers just like buyers who are forced to sell with stop-losses when prices are declining add to the supply side. Sometimes, positions are put on or taken off forcibly - that has been the hallmark of a good part of mid-2009's rally to some extent. Short-sellers who take a signal to 'get short' from the daily or other intraday timeframe and then are forced to "cover" or buy as prices tread higher and stop them out again and again.

This is the logic behind what I describe in the "Popped Stops" trade, which has become one of my favorites recently.

The morning began with another upside gap - this time, up just under 80 cents, which was outside the realm of an expected gap fill - and with the three bullish bars off the open, that destroyed all expectation of a gap fill and clued us in that odds favored a possible trend day up - perhaps even the Type 3 version so we had to be aggressive and get in the mode to watch the internals and buy any pullback to the 20 EMA.

If by chance you got long off the open - an aggressive play - you should have noticed the three upper shadow doji-like candles above the upper Bollinger Band about 10:00am - this could have been an "exit" for anticipation to buy back after an expected pullback.

The pullback came, only it lasted roughly one bar before price rallied and took out the high of the $105.60 bar. This was - like yesterday - a sign that buyers were dominant and more stop-losses were subsequently being taken out, creating the positive feedback environments that drive intraday trends. The fact that price could not retrace back to the 20 EMA was a 'sign of strength' just like yesterday's early failed sell signals were precursors for a powerful day.

Price continued to rally unimpeded until we formed a shooting star doji candle at the upper Bollinger Band on an obvious negative momentum and slight flatline TICK divergence (remember, on expected trend days, we give more value to the TICK and less to oscillators).

As always, we still want to buy pullbacks to the 20 EMA - particularly when dojis form - like those of which did so before and after noon. The first line in the sand is the 20 EMA, and any break of the 20 EMA triggers a "magnet trade" down to test the rising 50 EMA, and any solid break of the 50 EMA officially negates any further expectation of a Trend Day and locks in place the "Rounded Reversal" bias. Both of these happened into 2:00pm.

By "Magnet Trade," I mean that on the break of the 20 EMA at $105.80 just before 1:00, aggressive traders can play for a test of the 50 EMA at $105.40 with a stop just above the 20 EMA at $105.80. This is a "Magnet Trade" because price has broken support and is "pulled" to the next logical level - the 50 EMA.

Upon a break of the 50 EMA, odds then shift to favor short-selling the market as the trend has reversed.

Volume rose during the afternoon down-move, confirming the move and along with new TICK and momentum lows, odds favored lower prices yet to come.

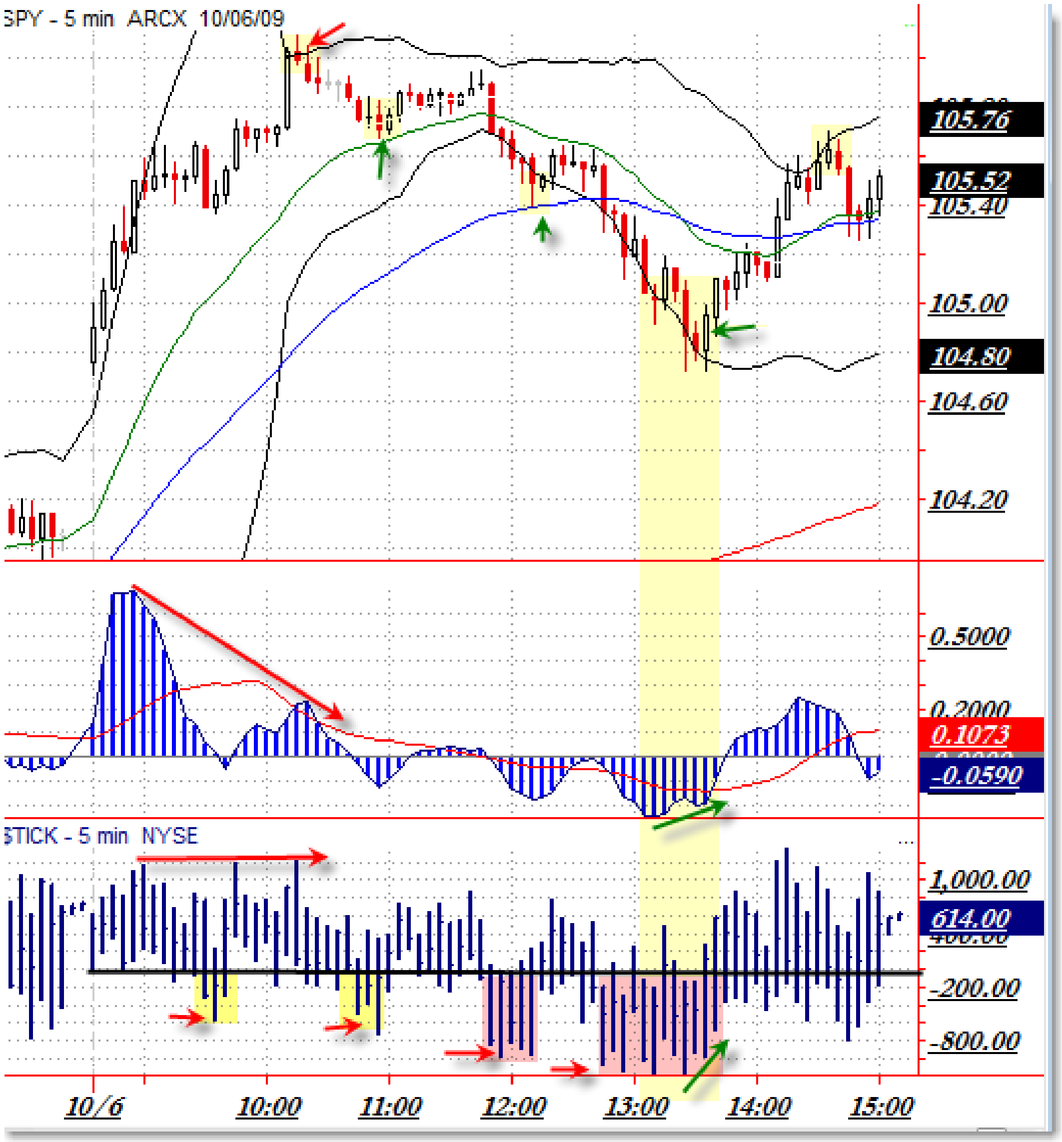
There was a positive momentum and TICK divergence (best seen on 1-min chart) at the absolute price lows of the day at $104.80, which also was a test of the morning open. Long lower-shadow candles formed, and more importantly, a Bullish Engulfing candle formed about 2:30 which should have caused you to cover (buy back) any short position and - for aggressive traders - flip and trade long to play for a scalp to the 20 EMA - another "magnet trade."

At this time, price resembled a Bear Flag off a new momentum low and pullback into confluence resistance at the $105.20 level. This was a very low-risk, high-probability spot to get short to play for a move down into the close. Entry was near $105.20 and the stop was above the 50 EMA at $105.30 with a minimum target of $104.80 or even a hold short until close.

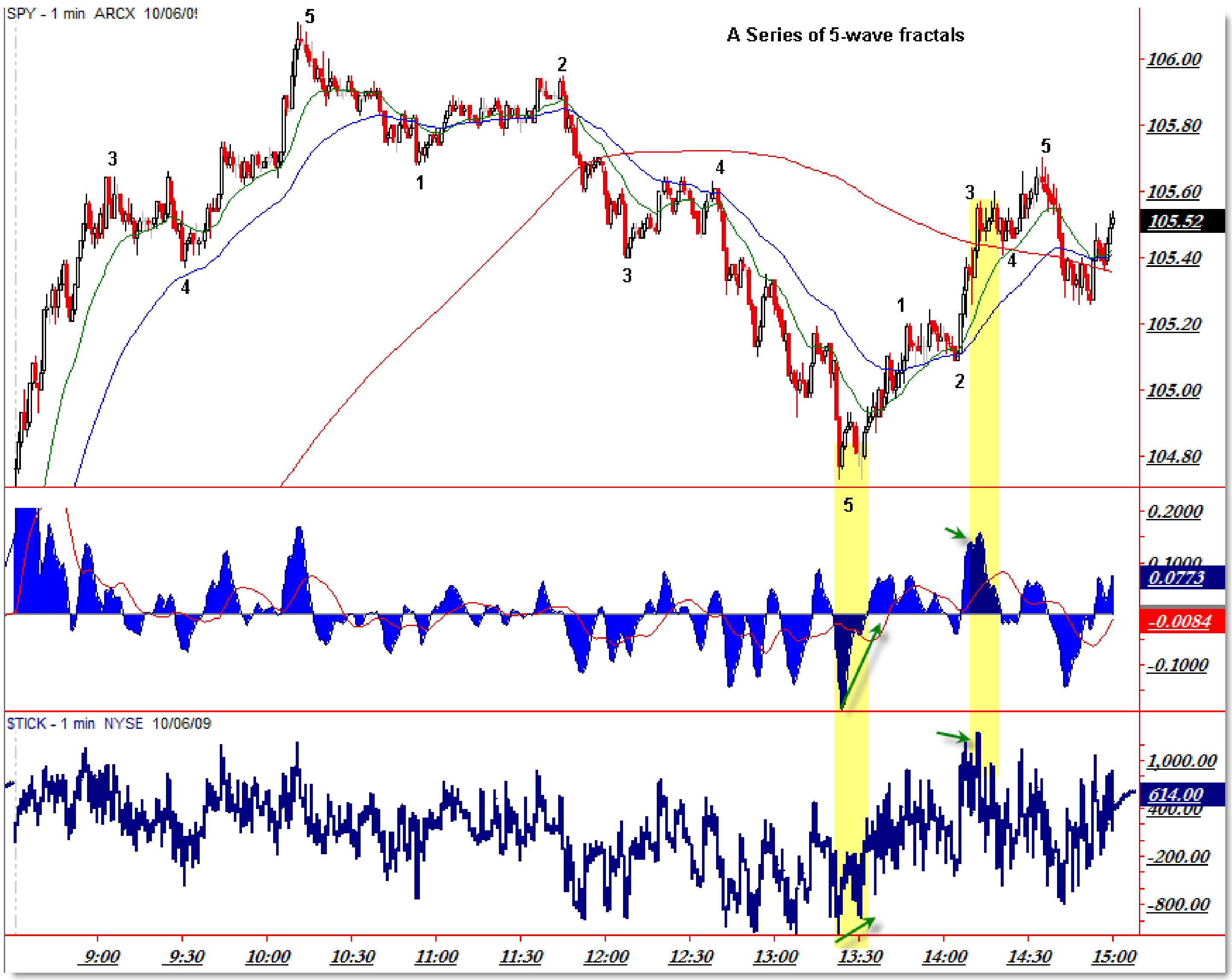
The trade began to tick lower and then suddenly failed and price rose unexpectedly - breaking EMA resistance overhead - into the close... but then falling into the actual close - supporting this time on the confluence EMA zone.

Word is that a market "Buy on Close" program triggered. "Buy Programs" do not take into account fundamental or technical analysis, and use any price weakness to send out orders to buy multiple stocks like basket orders for a large fund. That's why you sometimes see 'random' moves into the close, and why we have to understand that everything we do is about probabilities. There's no way to know in advance when a buy - or a sell - program will hit the market, and destroy any positive expectancy in a trade set-up.

That's why we use money management and logical stop-losses - if we knew what would happen next with absolute certainty at any time, we would load up with options and then play the move we foresaw happening. No one has a magic crystal ball, and so we all must use risk and money management... or avoid trading prospective set-ups into the close (particularly for new traders).



Notice how the TICK began the day distributed well above zero, with any negative TICK reading serving as an excellent buy opportunity. That served as confirmation of the Trend Day. However, the TICK began to flatline at the 1,200 level as price broke to new highs - a non-confirmation. Finally, the TICK sliced and stayed below zero at noon CST and - except for a few bars - stayed under for the next hour until price and TICK broke above resistance. A slight positive TICK divergence formed at the absolute intraday lows - arguing for some sort of reversal up.



A rendering of some of the 5-wave fractals that formed in price today - both up and down.

Trade the pullback (w4) into support after a 3rd wave with new momentum/TICK high or low, and then trade against the final 5th wave which forms divergences.

Otherwise, we see inside the day structure as to some of the TICK and momentum insights during price.

Pay attention to the final "3" I've labeled - the new TICK and Momentum high at that time was a signal to buy the first pullback to expect a higher price high yet to come - it did - though both a negative TICK and momentum divergence formed (not labeled) at the $105.70 highs prior to the final pullback.

In true form to the "Popped Stops" idea, there were stop-losses situated above the 50 EMA and the $105.00 area on the 60min frame. Those stops being triggered - and the buying which resulted - helped fuel prices higher into resistance at the $106.00 area.

Notice the shooting star outside the upper Bollinger Band that formed on the 60min chart that preceded today's reversal. This is how keeping an eye on higher timeframes - even glancing at them quickly - can help (along with lower timeframes).

Watch $104.75 for support in the SPY, which is the near confluence of the 20 and 50 EMAs.

Otherwise, today's new momentum high - the highest high on the chart - argues for higher prices yet to come (under the principle "momentum precedes price").

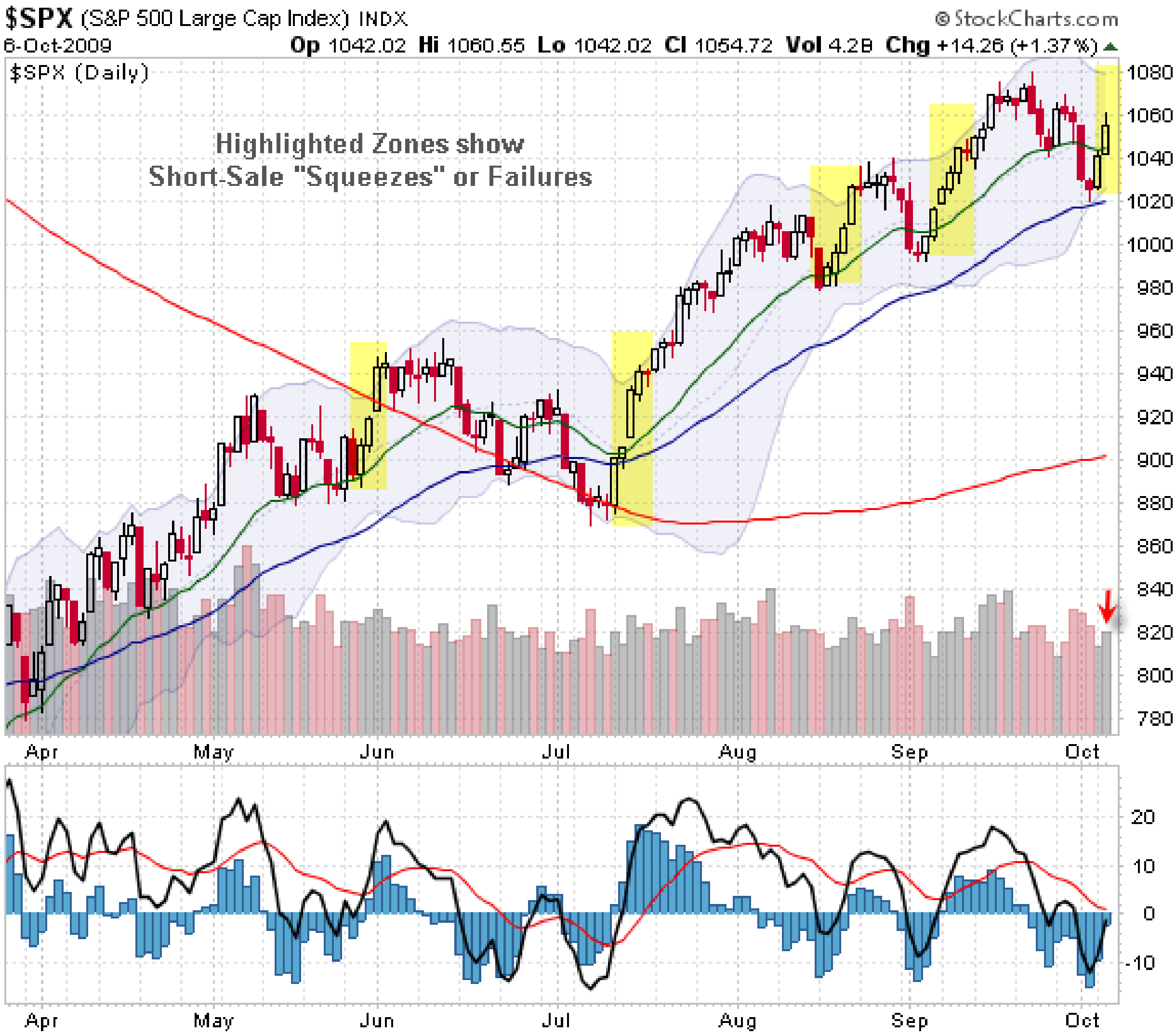
Join long on any break above $106.00.

Just for reference, the 61.8% Fibonacci retracement from the recent high at $108 to the low of $102 (that was a large swing down) rests at $105.65. Price is currently underneath this barrier after sneaking above it slightly today.

Watch this level tomorrow to see if it contains price, but on any break higher than $105.65 - the bias would be to the long side to expect higher prices.

Volume is still staying anemic/much lower than I would expect it to be on such large up days. That's a non-confirmation.

As you can see, there are various cross-currents playing out. Because of today's action, the structure looks more bullish than bearish, having violated/broken the "bear flag" pattern that looked to be setting up tomorrow (broken/busted sell signals often forecast higher prices... in part thanks to the stops of the short-sellers).



Technically, we could consider portions of these highlighted regions as "Short Squeezes" or "Popped Stops" rallies where the sellers were forced to cover.

It has happened four times in the last few months - it looks very suspiciously like it is happening again right now.

Now that we've firmly broken above the 20 day EMA, the pathway looks clear to test the 1,080 highs in the same method - strong up - as the prior four technical rallies after valid sell-signals were given.

This will be the bias going forward tomorrow - upward bias due to the expectation of 'history repeating itself' as seen by the highlighted zones.

(sometimes it helps to adjust the viewing size to 80% or less to see the chart images clearer in Adobe Acrobat if the images are blurry at higher viewing sizes).