AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

(See TradeStation 5-min and 1-min chart for full trade annotations - they showed structure better)

Today was probably the most "range day" I can remember in quite some time. In general, "range day" trading results are inefficient, in that you do a lot of work, trading, and analysis, for small profits at the end of the day. As such, many traders take the day off when they've been struggling in the morning on what is shaping up to be a tight range day.

One of the main lessons I want you to learn is to recognize/assess type of day structure as early as possible - don't just mindlessly put on and take off trades. Know what your expectations are for type of day structure (Trend, Range, Rounded Reversal) and then trade accordingly... more active on trend days; less active on range days unless you are more of a "mean reversion" trader in which you would be much more active on range days and less active on trend days. There's no magic answer to any trade - it depends on your own trading style and strategy and risk tolerance.

Let's jump right into all the 'idealized' trade examples you could have taken for the day (for use in "efficiency analysis" and lessons for the future).

GAP FADE

With a gap of 25 cents, odds do favor a gap-fade, and this gap filled within two bars, so only the most aggressive traders got a decent fill on the morning gap fade trade. Remember, once a gap fills, there's a possibility to play in the opposite direction, as in the second trade.

"FADE THE FADE" + LONG UPPER SHADOW

On the second candle, we formed a long upper shadow at the $105.65 level, and as we came back under yesterday's close at $105.50, you could have taken a quick short-sale scalp to play for a possible re-test of the morning low at $105.12. Again, this trade happened quite quickly and completed also within two bars.

The fact that two trades in a row completed in two bars - both of which were mean reversion trades - gave you plenty of reason to expect that today would NOT be another trend day (it is very rare to get three trend days in a row). As such, your strategy should have been to watch the market, and look to be in a "range fading" or "range day" mode until proven otherwise (via failures of "fade" trades at Bollinger Bands).

LESSON: On expected Range Days, DIVERGENCES are much more important to watch, as are the outer BOLLINGER BANDS and the BEST TRADES are often some sort of reversal candle at the outside of a Bollinger Band when a spike candle (wick) occurs. Don't try to over-think these trades.

LESSON: MOVING AVERAGES are virtually irrelevant on Range Days. Don't look to buy, sell, or play for a target to a moving average like we would on a Trend Day.

LESSON: What I mentioned above for range days is the OPPOSITE for trend days (moving averages are more important and Bollinger Bands are LESS important).

NEGATIVE MOMENTUM DIVERGENCE, UPPER SHADOW CANDLE, UPPER BOLLINGER BAND.

There probably wasn't a nice trade long from the swing-up from $105.10 to the $105.80 level, and many traders probably got chopped around in that period. However, the next trade came at the $105.80 highs with the upper candle shadow that poked outside the Upper Bollinger Band on a negative momentum divergence. The target was a retest of the swing lows at $105.10, but price formed an upward reversal at the $105.30 level, just under the 50 EMA (again, less valuable on range days). You could have taken an exit as price crossed back above the $105.50 level for a small profit - again, trading tactics are more difficult on range days.

11:00am SHOOTING STAR, UPPER BOLLINGER, THREE-PUSH NEGATIVE DIVERGENCE

This was the BEST trade of the day by far in my opinion. Price swung to a new intraday high on a clearly and obviously established Range Day bias and formed a long upper shadow that stuck outside the upper Bollinger Band on a triple-swing (Three Push) negative momentum and a "flatline" TICK divergence.

Entry was as price broke the low of the shooting star/doji at $105.75 and target was a retest of the $105.30 lows (prior swing low). The trade worked very well. Notice again why we should NOT have played for a target of the moving averages - price took no notice of them at all.

Another reason to exit the trade was that price touched the lower Bollinger Band and began to form a bullish reversal candle... which brings us to our next trade.

12:00 BULLISH CANDLE AT LOWER BOLLINGER BAND ON 1-MIN "THREE PUSH" PATTERN AND TICK DIVERGENCE

See the 1-min chart for the complete breakdown of this trade, and the distinct positive TICK and "Three Push" momentum divergence that occurred here.

On the 5-min chart, we had a touch outside the outer Bollinger Band on a slight positive momentum divergence - again, Bollinger Band tests become more important reasons to enter/confirm trade set-ups. Generally look for something ELSE to confirm entry (like a candle or a divergence) rather than taking action as price tests the Bollinger Band (I use standard settings - nothing unusual about Bollinger Bands - 20 period and 2 standard deviations).

This trade could have targeted the upper Bollinger Band (again do NOT set targets of moving averages on range days) which triggered a profitable exit at the $105.60 level. You could have put on a short here, but momentum was not forming a divergence, so it was a lower probability trade. As opposed to the next trade...

UPPER BOLLINGER, NEGATIVE MOMENTUM DIVERGENCE, UPPER SHADOW, BEARISH CANDLE, TICK DIVERGENCE

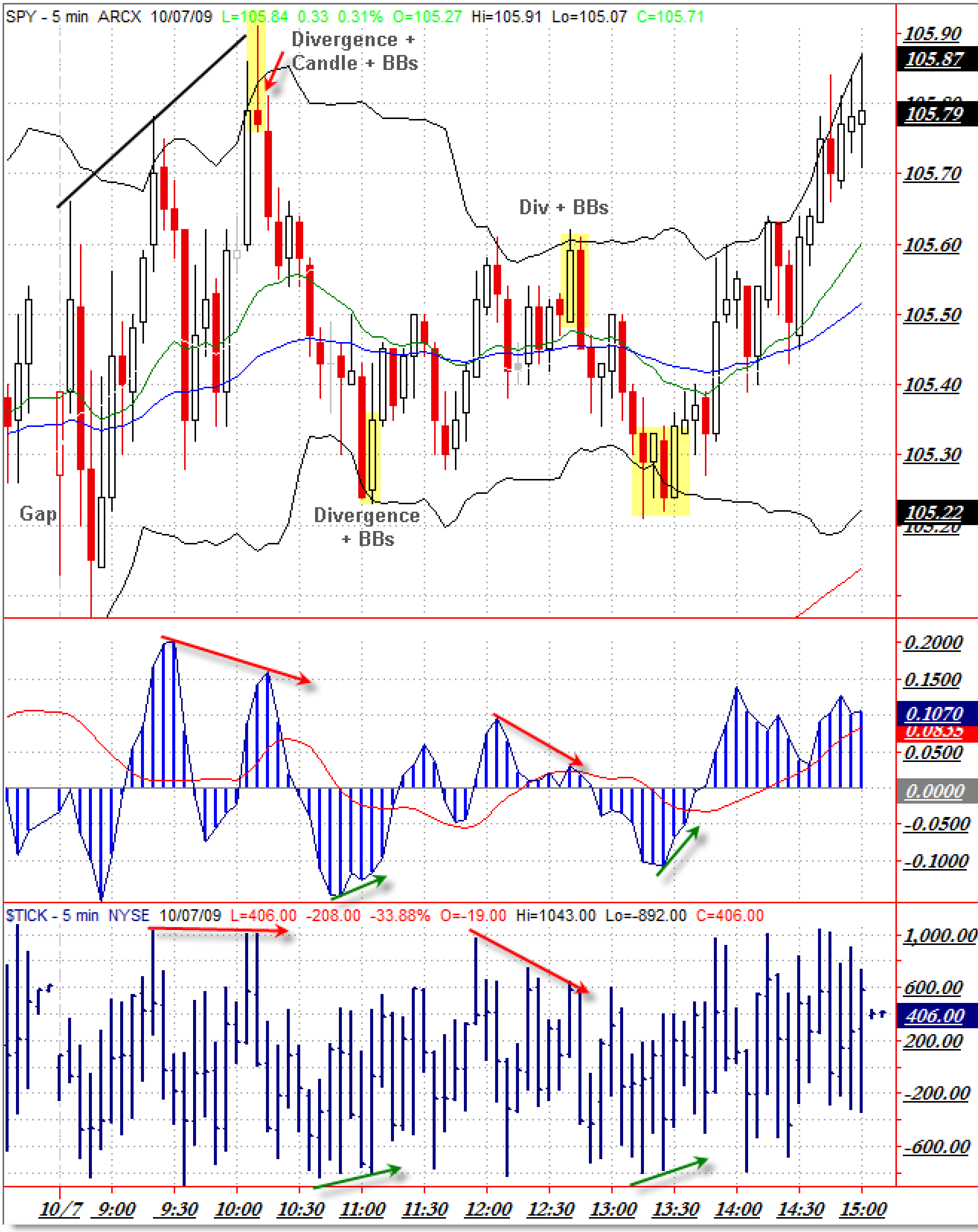
This was also a powerful trade set-up. Price swung back up to test the $105.60 level at the upper Bollinger Band (5-min) on a distinct negative momentum and - especially - TICK divergence. The entry would be on any down-move from this level - or even aggressively at the $105.60 level before a down-move materialized. We see that the down-move materialized instantly, with a harsh down candle that signified more people were watching this position play out. A bearish engulfing candle appeared which triggered a conservative (or late) short-sale with a target of the prior swing low at $105.20 (or the lower Bollinger Band).

Keep in mind on ALL of these range/fade trades, a stop would go at least 10 cents away from the most recent swing high or low upon which you are entering long or short (or 1 point in the @ES or respective ETF or stock being traded).

2:00 BOLLINGER BAND, HAMMER CANDLE, LOWER SHADOWS, POSITIVE TICK AND MOMENTUM DIVERGENCE

I sound like a broken record, but the next trade set-up occurred just after your recent trade exit, as you were met with a bullish hammer candle, a swing down to a slight break of the low of the hammer (also outside the lower Bollinger Band) and then a clear Bullish Engulfing Candle (triggering entry if you weren't long off the hammer). A positive TICK and Momentum divergence clearly formed, and the play was for a retest of the $105.60 area. Again, ignore moving averages on Range Days - by now, it was absolutely undeniable that the day structure was that of a tight range day.

You could have taken the same "flip and trade short" logic at the 3:10pm upper Bollinger Band and negative momentum divergence, but this time the trade failed as price continued higher. Remember, moves at the end of the day tend to be more "random" thanks to fund rebalancing and end-of-day adjustments. Patterns are far more likely to fail at this time.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Divergence + Candle + BBs
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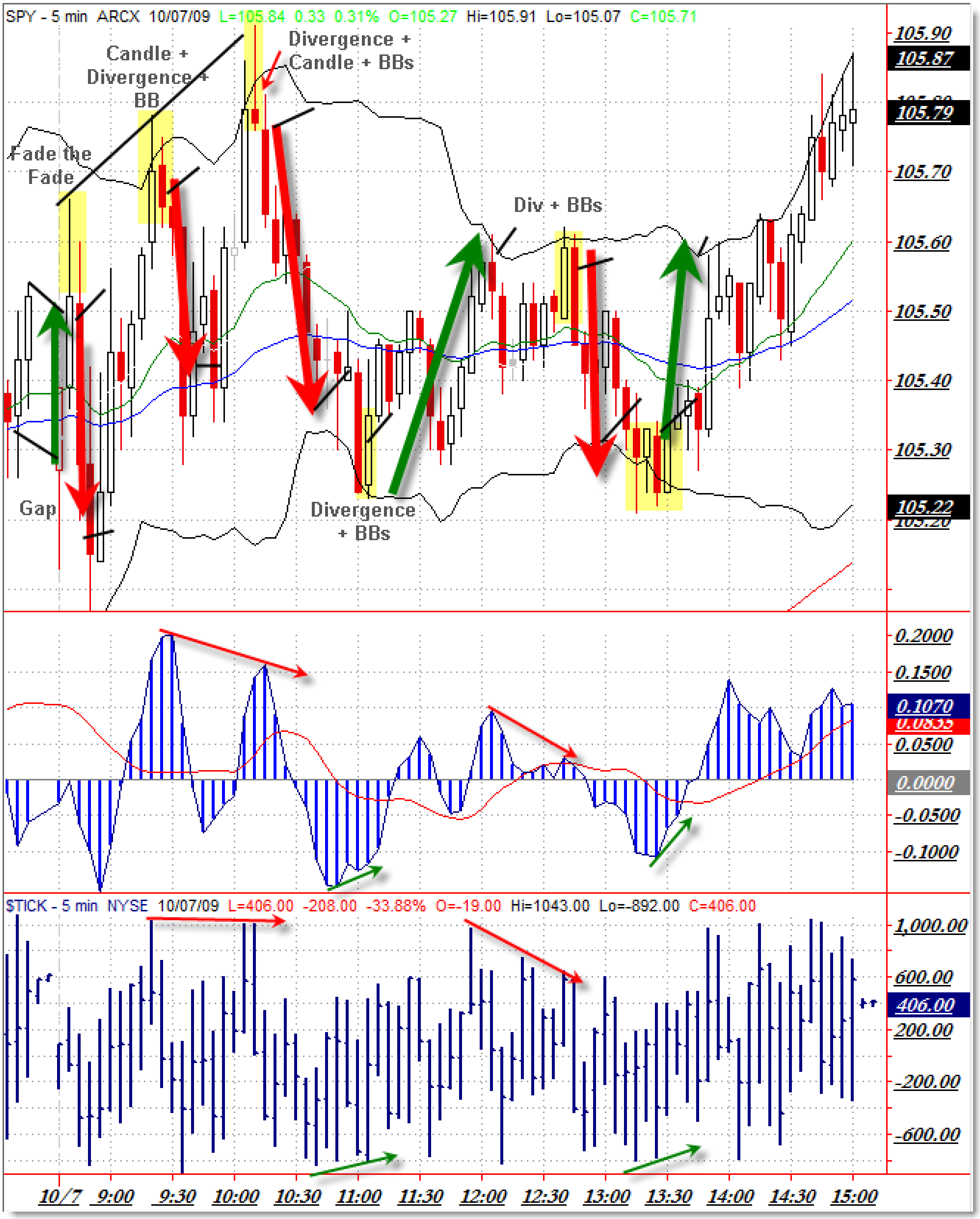

Chart shows all the 'theoretically possible' idealized trades (for education purposes for the future) that were described in the prior write-up.

Though not mentioned in the summary, there were at least three trend channels you could have observed and taken a trade the moment these trend channels were broken (to play a quick trade).

These reports are meant to be educational to open your eyes to new trading techniques and strategies - I can't show everything that happened, only what I choose to focus on for teaching moments to help you recognize and feel confident trading these patterns/set-ups when you see them in real time each day.

On to the 'prediction' side.

As mentioned in last night's report, the buyers are still in control and today had an upward bias as a result. Tomorrow also has an upward bias for the same reason, though I think we need to see buyers break above $106.00 to put on a fresh long position or bullish bias. Breaking above $106.00 would further trap short-sellers and cause them to cover (pushing price higher) as well as bringing out new buyers to play for a move back to test recent highs.

The main idea is that there seems to be "Open Air" (magnet trade) above $106.00 until price challenges the $107.50 or even $ 108.00 high. Support appears to be at the $105.00 area (see moving averages) and we would be bearish under $105 and strongly bullish above $106.00.

I'm STILL concerned as a technical analyst by the negative volume divergence which is a stellar NON-confirmation of the recent rally... but buyers have shown a tendency to ignore such developments. It's just very confusing.

Same logic on the 30min frame.

Negative volume divergence, but clear support at the $105.00 level and clear "open air" above $106.00.

Finally, I'm operating under the "History Repeats itself" Hypothesis which means I expect - until proven otherwise - a similar and strong up-move to take us up to new highs in perverse "short squeeze" fashion.

All the technical signals point to the downside (negative momentum, negative volume divergences, overextended rally) but we've seen these exact same signals lead to sellers being crushed by strong up-waves in the market as labeled here.

Until proven otherwise by a strong down-day, the expectation remains that buyers will continue to overpower sellers and drive price to test the 1,080 highs or beyond.