AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today gave us a run for our money! We began the day with a large gap (after favorable Alcoa AA earnings yesterday) which had very little odds of filling (it didn't) and then formed a "three push" pattern on clearly weakening momentum and TICK divergence, which gave way to a 'rounded reversal' day. You have to keep on your toes! Simply watching an opening gap and expecting higher prices for a trend day is not enough! Keep active through the day and constantly watch your market internals and 20 period EMA for clues. Once it broke at 1:00 off of weak internals, odds shifted greatly - and so should you - to favor a Rounded Reversal.

IMPULSE BUY

The first trade of the day was NOT a gap fade. Price gapped up 80 cents again, which puts us right beyond the expected odds that make it safe to play for a gap fill. On the second candle, price formed a bullish engulfing which further eroded the expectation of an expected gap fade. From the opening and the bullish action, odds favored a Trend Day so that should have put you into a mode of expecting to buy any pullback to the 20 EMA, particularly after the new momentum high and the gap formed (both signs of "impulse").

The impulse buy triggered at 10:00am on two candles with long lower shadows - one of which bounced off the rising 20 EMA. Entry was as close to the 20 EMA as possible at $106.30, but waiting for an up candle which ended at $106.45 was also an acceptable conservative play to get long. A conservative target would be the $106.80 morning highs, but a more aggressive and realistic target would be to play long until a countervailing sell-signal came into play... namely with the upper shadow dojis either into 11:00am (which wound up not even retracing to the 20 EMA) or with the dojis after 11:30am which formed outside the upper Bollinger Bands.

PULLBACK BUY

I'm not entirely sure I deem this an "idealized trade," but as long as we anticipate a Trend Day stance - and we should have until the 20 EMA was broken - then ANY pullback is a fresh buy on a Trend Day. As such, price retraced to $106.90 and formed two 'spinning top' candles just above the 20 EMA, and then price formed a strong candle to peak above the $107.00 level which triggered a fresh buy.

MAJOR SELL SIGNAL AND 'LINE IN SAND'

You can come at this from two different angles.

First, there was a "Triple Swing" negative momentum divergence into the $107.10 highs, which also was met with a powerful TICK divergence (that's a big deal - TICK means more than momentum on Trend Days). That's enough to cause you to exit any long positions and take a "wait and see" approach.

In addition, we had two 5 wave fractals coming into termination at these highs. Combine the charts together to see what I mean by this. The StockCharts graph shows the larger 5-wave fractal (which terminated on the "Three Push" pattern) but there was also an internal "fractalization" of the final 5th wave which had its own 5-wave fractal. When this happens - aka when you see a miniature 5-wave fractal coming to the end of a larger 5-wave fractal, then that's often a sign the odds favor a major reversal (or at least an "ABC" counter-wave phase) taking place.

As such, you had these 'forces' combating the expectation for continuation of the "Trend Day." Who won? Obviously the divergences and the 5-wave fractals, as price devolved down into a Rounded Reversal.

The two ways you can look at this are the following:

A) Conservatively: Exit any long/buy positions either as soon as you see these divergences, OR on a price break beneath the 20 EMA on the 5-min chart. Wait to 'get short' upon any downside break and two-bar close under the 50 EMA (which, you see, in today's action, did not yield fruitful results)

B) Aggressively: Exit all longs and "flip and reverse" short with a stop-loss above the $107.20 area and play IN ADVANCE of the Rounded Reversal

As does most days, the 'aggressive' stance paid off, as the $107.10 level was indeed the intraday high and the trend reversed to down from that level - you had plenty of chances to profit by shorting and then shorting any retracement back UP to the falling 20 EMA.

Thus, I deem the "Best Trade of the Day" as the two separate fractal 5-wave patterns ending on a negative TICK and Momentum divergence (and "three push" pattern). Study it for additional insights for the future.

Price swung hard to the downside afterwards and then retraced back up into the falling 20 EMA.

IMPULSE SELL, NEW TICK/MOMENTUM LOW, PULLBACK INTO 20-EMA, CANDLES, 'B' WAVE

Upper shadow candles poked above the 20 EMA at the $106.80 level, which gave us the second short-sale of the day with a stop above $106.90 and minimum target a retest of the $106.50 prior swing low (maximum target - continue to hold short until close).

Ultimately, price did retest the $106.50 level as expected, but this is why TRADE MANAGEMENT IS ACTIVE MANAGEMENT. At the retest, price formed two doji candles and then - more importantly - a bullish hammer candle which 'poked out' of the lower Bollinger Band. It also did so on a positive momentum and TICK divergence as shown.

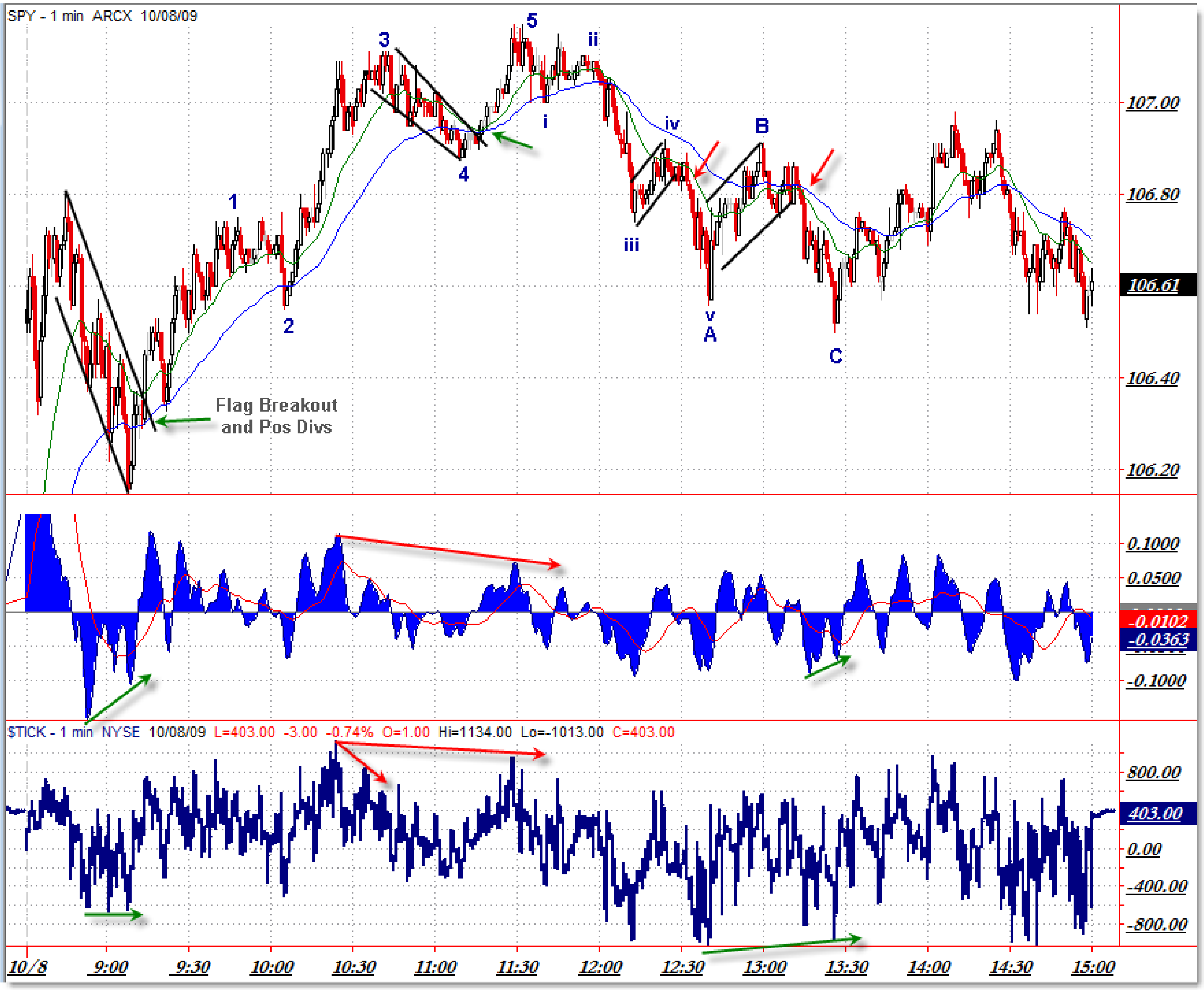
That gave us the following 'scalp' trade:

HAMMER, BOLLINGER BAND, TICK & MOMENTUM DIVERGENCE

Price traded (sliced) upwards through the 20 and 50 EMAs and then failed to overcome the upper Bollinger Band, which would be a trade exit point for you. Although you could have flipped and gone short up at the $106.90 level, time was winding down into the sometimes 'random' action of the close so it probably was best to take your profits on a long scalp and enjoy the day.

Circled numbers reflect larger fractal. See how the final circled 5th wave 'fractalized' into its own 5-wave affair (complete with third wave being the longest and forming new momentum & TICK high... meaning buy the 4th wave pullback to play for a new high as in any 5-wave fractal move).

Otherwise, we see Divergences as described above.

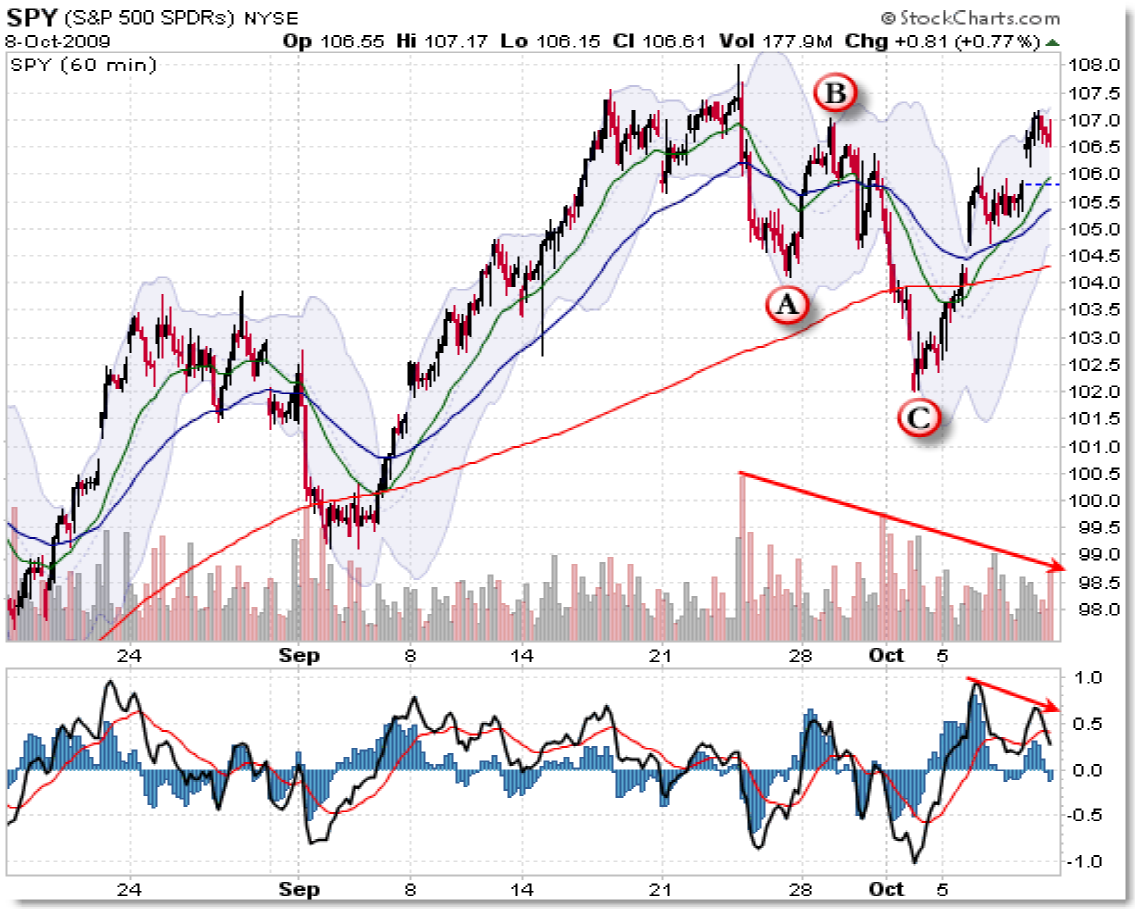


Though not discussed in the summary (I can't attempt to describe everything), we see various "flag" movements which also could have been used to trigger entry.

Enter on the break of an established trendline that forms a 'flag' pattern such as the patterns shown above. Bull Flags slope down (look for upwards break) and Bear Flags slope down (look for downwards price break).

Otherwise, we see more fractal counts of the price structure.

The 1-min chart can often show us divergences as well cleaner than the 5-min frame.



Starting with the 60-min chart.

I've heard some of your frustrations - I see them too - in terms of how to interpret the recent volume divergence. According to classical technical analysis, we would expect volume to rise (suggesting broad participation and enthusiasm) as price forms a rally to ensure that the move is 'valid' and confirmed.

This is NOT happening. Under classic rules, we would state that volume is NOT confirming the recent rally in price and to expect a downward move as a result. We also see a distinct negative momentum divergence that has set-in with the recent price highs.

This is also not happening. There have been numerous volume divergences throughout the whole rally and price continues to push higher despite all volume and momentum divergences. This is the current reality in which we operate.

Until proven otherwise - expect a continuation of the move to the upside, perhaps even to new highs, as a result of whatever force has been driving price higher. Expect it to continue to do so until we have evidence that A) the buying pressure/force has stopped or B) sellers/selling pressure is sufficient to overcome the force (what's happening now is that any time short-sellers put on positions, the buying force overtakes them and forces them to 'cover' which perversely drives the market higher). For those too confused/frustrated by this recent action (aka thinking that "the moment I put on a trade long, the market will reverse... but every time I put on a trade short, I get stopped out") remember that as a trader, you have discretion to take - or not take - trades whenever you feel the odds are in your favor. Simply stated, if you feel the odds are not in your favor, take a break from trading until the market comes into clearer focus for us.

Step back and observe the following objectively:

A 5-wave fractal move into prior price resistance that has formed a negative momentum divergence on the recent highs, and which has seen a steady 'drop-off' or non-confirmation in volume all the way up.

Any technical analyst would view the following statement as bearish, and would take a bearish/cautious stance. That is the official position, however as stated above, buyers have thrown caution to the wind and buying pressure/demand continues to overwhelm selling pressure/supply.

There are also plenty of support levels underneath the market (see 20 and 50 EMAs at $106.50 and $105.75 respectively) so I would suggest NOT getting bearish until price can break beneath $105.00 for anything other than scalp or intraday trades. The $108.00 level is a 'magnet' but it is unknown what will happen to price on a new 2009 high.

I repeat the same stance: Looking at this, we see a negative volume and hideous negative momentum divergence in price.

However, look back to the four prior highlighted regions. We saw the same thing and yet price continued to move higher. These valid sell signals draw in the short-sellers and then if price can be pushed slightly higher, an avalanche forms where shorts are triggered (stopped) out of their positions, which results in upward buying momentum.

The same thing is happening again - it doesn't matter if there's an explanation, it just matters that you are aware that it is happening and that you are not one of the ones being stopped out each time.

Despite the technical evidence to the contrary, buyers remain dominant and will be so until proven otherwise, so a bullish/upward bias - with minimum target 1,080 if not higher - is favored.