AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

The market gave us yet another "Range Day" to work with, and I would suggest going back and re-reading the lessons from the October 7th "range day" lessons - use it as a reference for range day trading tactics.

As we have a holiday weekend ahead of us (Columbus Day, though the Stock Market will be open... volume will likely be light again), let's move quickly through this report and the lessons from today's trading activity.

We did not have a morning gap, which clued us in that - at a minimum - we should not be expecting a trend day. This assumption held true all day long. In addition, I have been showing you on the daily frame why I'm convinced price is heading higher on the S&P 500 (highlighted regions from prior 'failed' sells signals combined with a bullish/upward bias in general) so that should have been another assumption - to expect higher prices on today's session unless proven otherwise (by breaking higher time frame moving averages).

The point of having a bias is that it can create expectations and take you out of "reaction" mode for the morning session. If you have a bullish bias, and you prepare yourself to be a buyer on the first trade of the day, then that's one less decision you have to make IF the market begins to conform to your expectation.

However, if you expect a bullish open and price gaps down or otherwise goes against your bias, that's fine - just stand aside until you see the market action clearer or understand what happened (perhaps an economic report was released, earnings announcement shook the street, etc - things you can't foresee).

In terms of 'idealized trades,' there wasn't a superb trade I saw until the cluster of upper shadow candles at the 11:30am EST frame that all poked outside the upper Bollinger Band on a negative momentum and TICK divergence. I actually deem this the "best trade of the day" because there was an expectation of a range day; price was at the highs of the session, price had shown a consolidation pattern in the morning session, and four candles poked outside the upper Bollinger Band on momentum and TICK divergences.

Price was also struggling to overcome "round number" resistance at the $107.00 level.

A short would be taken close to $107 with a minimum/maximum target of a retest of yesterday's close and/or a close (or test) of the lower Bollinger Band (both of which would have yielded profitable exits).

Remember, on expected Range Days, moving averages have LESS importance, so do NOT use them (usually) for setting up price targets or stop-losses. Bollinger Bands tend to work better on expected Range Days for targeting and entry/exits.

Price fell to the $106.65 level before forming another positive momentum and TICK divergence (see 1min chart) at the lower Bollinger Band... but this time without a major (well-known/common) reversal candle pattern.

This triggered a "flip and reverse" position where you exited your short trade and then flipped back long - again under the assumption that today was a range day - and placed a stop under $106.60 (or $106.50 to be safe) and played for a target either of a retest of the prior high at $107.00 (aggressive) or any touch of the upper Bollinger (conservative). Price did touch the upper Bollinger (again, slicing through the moving averages as if they were not there) at the $106.95 level before forming a bearish engulfing candle which triggered both an exit and another - 'short sale' trade. There was another negative TICK and momentum divergence at these highs (again, see 1-min chart).

The target again was a test of the lower Bollinger Band. The Bollinger Bands tightened and price came one penny shy (don't try for absolute perfection in trading) of testing the lower Bollinger Band with both a quick spike down and then a smaller doji at the lower (compressed) Bollinger Band. This was a good exit and an aggressive long - I would not officially deem a long at these levels to be an "ideal" trade, but aggressive traders could have taken a long at these reversal/doji candles in the price compression of the moving averages and Bollinger Bands.

Price did begin to rise and then gave us a "Popped Stops" trade (going long on intraday highs which takes advantage of short-sellers 'stopping out' which creates buying pressure) as we crested to new intraday highs and into a new momentum (and TICK) high on the session.

This underscores how I use Elliott Wave intraday. I argue that you CANNOT anticipate a first or a second wave, but that once you see a strong impulse and THEN you can look back and observe a possible first and second wave, THEN you can buy the first pullback (which is nothing more than what I call an "Impulse Buy" trade after a new momentum/TICK high) which happens to be a play for the 5th wave.

As an aside, notice the nice 'shooting star' candle that poked outside the upper Bollinger Band at the crest of the third wave.

Price did support off the rising 20 EMA (which was a 'line in the sand' - had price broken back under the 20, it would have confirmed the Range Day in play) which created a "Wave 4 pullback" and "impulse buy" trade to hold for either a test of the prior high or an absolute new high. The session ended on a bullish note into the weekend, which is a confirmation that buyers still hold the power in the current supply/demand equation/imbalance.

(pure day-traders use 'exit on close' strategies)

Bloomberg's "Econoday" Calendar forecast shows a Holiday for Monday, though the Stock/Futures markets will be open.

We see the effects and trade set-ups that divergences form, or help uncover for us who watch divergences.

I'm showing the "Daily Pivots" or "Floor Trader Pivots" (standard indicator) which are of marginal help on most days. Never take a signal off a single indicator, but notice that the same test of the 5-min Bollinger Bands and momentum divergences (as shown here) occurred as price tested the "Daily Pivot," which added one more layer of confidence for a high-probability, low risk trade.

There's no need to repeat what I've been saying for the last 3 or 4 "prediction" pieces at the end of these reports.

Buyers are in control; buyers remain in control; the 'pure price' and moving average structure remains bullish (price above all EMAs, price supporting off of all EMAs, EMAs in the most bullish position possible; price continuing to make higher highs and higher lows).

Odds are that price will continue higher to test 2009 highs.

I'm tempted to tell you to ignore completely the negative momentum and volume divergences which have set-in. "Something else" is going on which renders these classic indicators invalid... remember, it's buying and selling that move prices... not indicators.

Price especially on the 60-minute timeframe looks well-poised to test the $108.00 highs (1,080 in the S&P 500) with "open air" as I've been highlighting to you all the way up.

Barring any major news event over the weekend (which would be - by definition - unpredictable), then the technical structure - despite negative divergences - clearly indicates that odds favor a test back up to the $108.00 level with a bullish bias unless price starts breaking down beneath the 15, 30, and then 60min EMAs.

A zoomed in version of the "highlight" chart which shows the powerful rallies that have occurred after a valid short-sale signal (for swing traders) has formed.

Whatever force is driving the market higher is almost - and it appears openly - toying with sellers/bears.

Until this force stops (until selling pressure overtakes buying pressure), odds favor history repeating itself and a similar (if perverse) rally playing itself out just as it did in the three prior times shown here.

Have a great weekend!