AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today gave us a classic example of the "Rounded Reversal" day structure... and I prefer to call the day a "Rounded Reversal" as opposed to a flat range day (officially).

There were some good trading opportunities, so let's see them one by one:

GAP FADE

The morning session gapped down roughly 30 cents in the SPY, which is certainly in our range of expected gap fades. The gap fade completed in only three bars, so if you waited past the first five-minutes - perfectly acceptable to let the market shake-out after the open - the opportunity was almost lost. Most people - and I recommend - waiting at least 5-minutes or even fifteen minutes (depending on the size of the gap) to see if price is making any attempt to fill the gap, and if so, then to join in to play for a gap fill. As this example shows, this strategy leaves little room for profit on small and sudden gaps, but it can be helpful on larger gaps to keep you from buying a down gap that falls from the open, leading to a quick stop-loss as price never made an attempt to rise. This is part of the balance of gap-filling.

As a reference, price fell to the rising 20 period EMA which could have served as a bit of confluence... but even that would have required quick reflexes.

IMPULSE BUY

This trade triggered and finished just as quickly as the gap-fade.

As price surged to a new intraday high, forming a new momentum high with it, odds favored a higher price high yet to come after an initial pullback (the "Impulse Buy" logic). The pullback came swiftly as price tested the $109.55 level, which held the confluence of yesterday's close (dotted line) and the rising 20 period EMA. The stop would be placed under the 20 EMA and target would be a retest or exceeding of the prior $109.80 high... or countervailing sell-signal that developed just before 11:00am EST.

DOJI (TURNED EVENING STAR), NEGATIVE MOMENTUM, TICK, AND BREADTH DIVERGENCE, UPPER BOLLINGER

This was a very high probability, low-risk trade in that we had a convergence of a negative TICK (internal), Momentum (price concept), and Breadth (advance-decline internal) divergence (seen in 1-min chart). That's plenty of reason to expect some sort of deeper price retracement or even reversal alone... but divergences alone do not give specific entries.

A doji formed just shy of the upper Bollinger Band, and one can enter short as soon as the next candle (bar) breaks UNDER the low of that Doji, which occurred at $109.80, triggering a short-sale trade entered near $109.80 with stop above the high, and - in this case - above the $110.00 'round number' resistance (another reason to get short... round number resistance).

The conservative target would be a retest of the $109.60 'yesterday's close' level and then moderate to aggressive target would be the rising 50 period EMA at the $109.35 level... both of which were hit. Remember that such trades are "Trend Reversal" trades, and are inherently more aggressive than simple pullback/retracement trades in the direction of the established trend.

The $109.30 level was logical to expect a support bounce, and thus a place to exit your short-sale as the 50 period EMA came into confluence with the lower Bollinger Band. Price ultimately fell through this level.

It was acceptable to put on a scalp-buy here (at confluence support) but it would have been quickly stopped out as price fell sharply through the support zone.

Instead of playing long, the best trade became an expectation to get short on the first retracement, as a new price and momentum low had formed... setting up the Impulse Sell.

IMPULSE SELL, YESTERDAY'S CLOSING RESISTANCE, 50% FIBONACCI RETRACEMENT

This was an interesting trade. The goal is to 'get short' into expected resistance after price has formed a new price, momentum, and TICK low. Generally, the 20 EMA holds as resistance, and if not the EMA, then one of the 38.2%, 50%, or 61.8% Fibonacci retracements of the prior impulse swing lower.

In this case, if you entered short at the 20 EMA, whether or not you had a winning trade depended on your stop-loss placement. If it was just above the EMA, then you were stopped out. If it was above the 50% or the 61.8% Fibonacci retracement (shown in a separate chart) then you likely resulted in a winning and profitable trade.

You also could have entered short as price found resistance at "yesterday's close" level again of $109.55 (and placed a stop above this level).

Either way, the target was for a retest of the prior $109.20 low or - more likely - a new price low yet to come on the day... and it did.

There was also an internal "Bear Flag" trade you could have taken if you were following the 1-min timeframe.

BEAR FLAG TARGET (1-MIN), LOWER BOLLINGER SPIKE (5-MIN), POSITIVE MOMENTUM DIVERGENCE (5-MIN)

This trade combined the price projection target of the 1-min bear flag and the 5-min Bollinger Band structure along with a positive divergence - the strong bullish candle argued for a possible retracement trade that targeted a move back to the confluence resistance zone of the 20 and 50 EMA at the $109.30 level.

The stop was placed under the afternoon lows at $109.00 (also "round number" support and an additional confluence reason to consider buying). Price moved quickly upwards to test this level, allowing a profitable trade.

The lunch session offered few trades as price chopped around the confluence (flat) 20 and 50 EMA until price surged strongly above them, forming a new TICK High on the session, which I call a "Wyckoff Sign of Strength."

WYCKOFF S.o.S, CRADLE BUY

The Wyckoff Sign of Strength is a 'hidden' source of price strength as the TICK (internals) makes a new intraday high while price does not - it hints that a trend reversal is possible, and that we should look to be buyers on a pullback into support.

Also, a bullish "Cradle" Trade formed as price rallied off the confluence zone at the $109.30 level with a strong bullish Engulfing (almost) candle, triggering a long trade either as price pulled back into the cradle crossover (aggressive at $109.32) or as price took out the high of the engulfing candle at $109.43. The stop was under the EMAs - under $109.30 and target for a possible trend reversal, which would be confirmed if price took out the 11:30 EST high of $109.50... which it quickly did. With this structure complete, the Rounded Reversal became the dominant structure, making us look to buy pullbacks in the trend.

DOJI, UPPER BOLLINGER SPIKE, TWO DOJIS, NEGATIVE MOMENTUM AND TICK DIVERGENCES

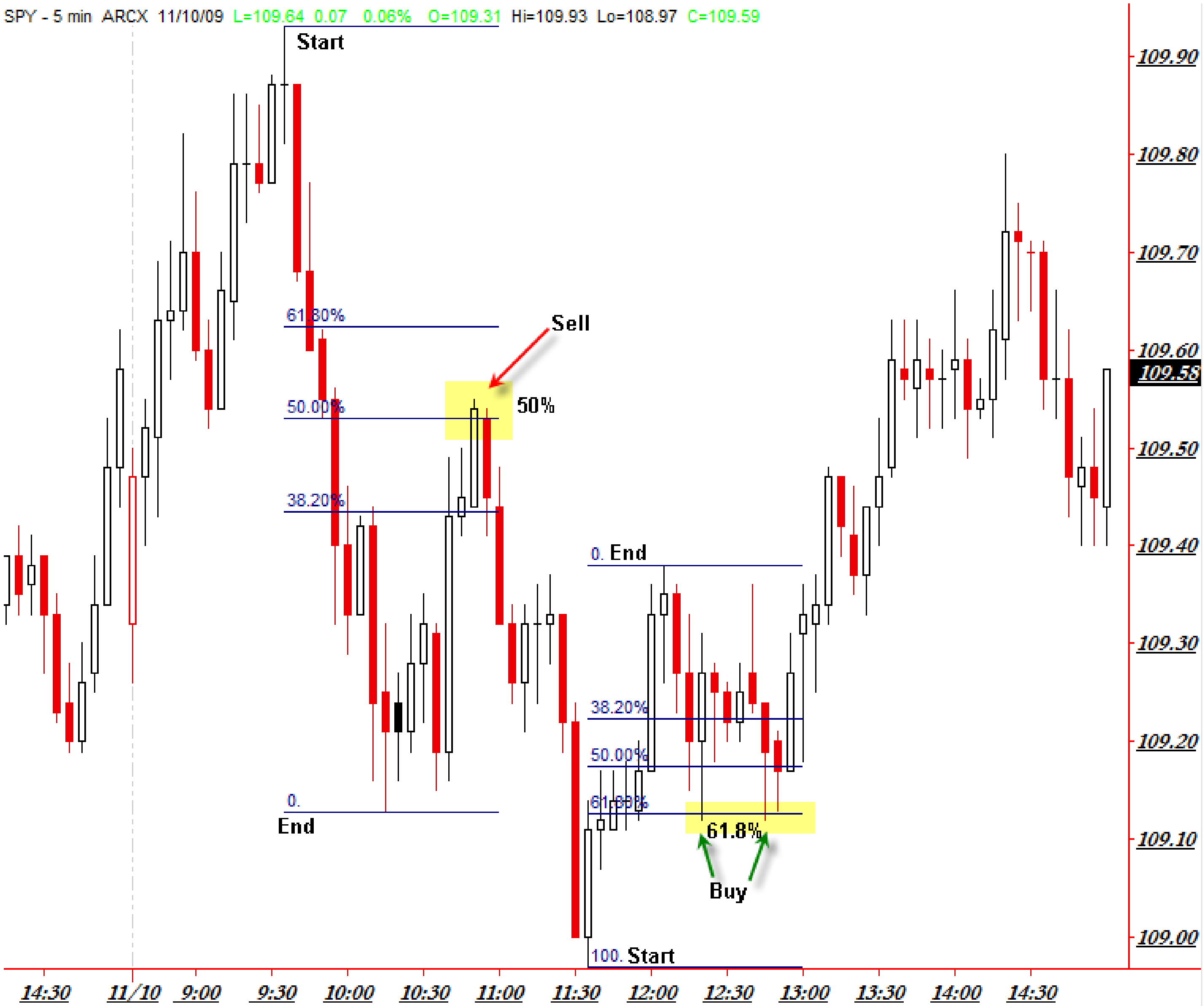
Any long trade should have been exited with a profit as price spiked outside the upper Bollinger Bands and formed two dojis - all of which occurred on a negative TICK and Momentum divergence. This was also enough evidence to "get short" and play for a move back down to test the rising 20 EMA (or perhaps even the 50 EMA - if you were more aggressive). A stop would be above the spike high of $109.80 and profitable exit near the close.


SPY - 5 min ARCX 11/10/09 L=109.65 0.08 0.07% O=109.31 Hi=109.93 Lo=108.97 C=109.58
Doji Sell/Bollinger Divergence
Doji Upper Bollinger Divergence
Gap Fade
Impulse Sell
Cradle Engulfing
Bollinger Spike on Positive Divergence
Wyckoff Sign of Strength
$TICK - 5 min NYSE 11/10/09 L=323.00 -456.00 -58.54% O=-2.00 Hi=1062.00 Lo=-1149.00 C=323.00
109.90
109.80
109.72
109.60
109.58
109.50
109.41
109.30
109.20
109.10
0.1000
0.0190
-0.0837
-0.2000
800.00
323.00
0.00
-400.00
-800.00
11/10
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00

To further argue for a bullish reversal bias toward the end of the day, price broke bullishly above a long-standing down-sloping trendline as shown above.

We also see the "Bear Flag" that formed nicely mid-day.

I'm also showing a rare but powerful "Breadth" divergence (symbol $ADD in TradeStation) which forecast a price/trend reversal.



A quick review in Intraday Fibonacci.

Starting with the high of an impulse and drawing to the low of a swing (as shown), the software generates the 38.2%, 50%, and 61.8% retracements into which we watch for possible turning points in price. In this example, the market reversed at the 50% retracement ($109.55) which was also a confluence zone of yesterday's closing price.

The second, smaller grid showed a bullish retracement of where to find potential support, and the market found it at the 61.8% retracement at the $109.12 area.

Never use Fibonacci grids in total isolation (look for confluences - like moving averages or prior support/resistance price zones), but they can be helpful in finding where price might find a reversal (aka - helpful in both establishing stop-losses and price entries for trades).

Quick analysis shows that price remains in a bullish short-term trend, having bounced off the rising 20 EMA on the 30min chart and the $109.00 'round number' area.

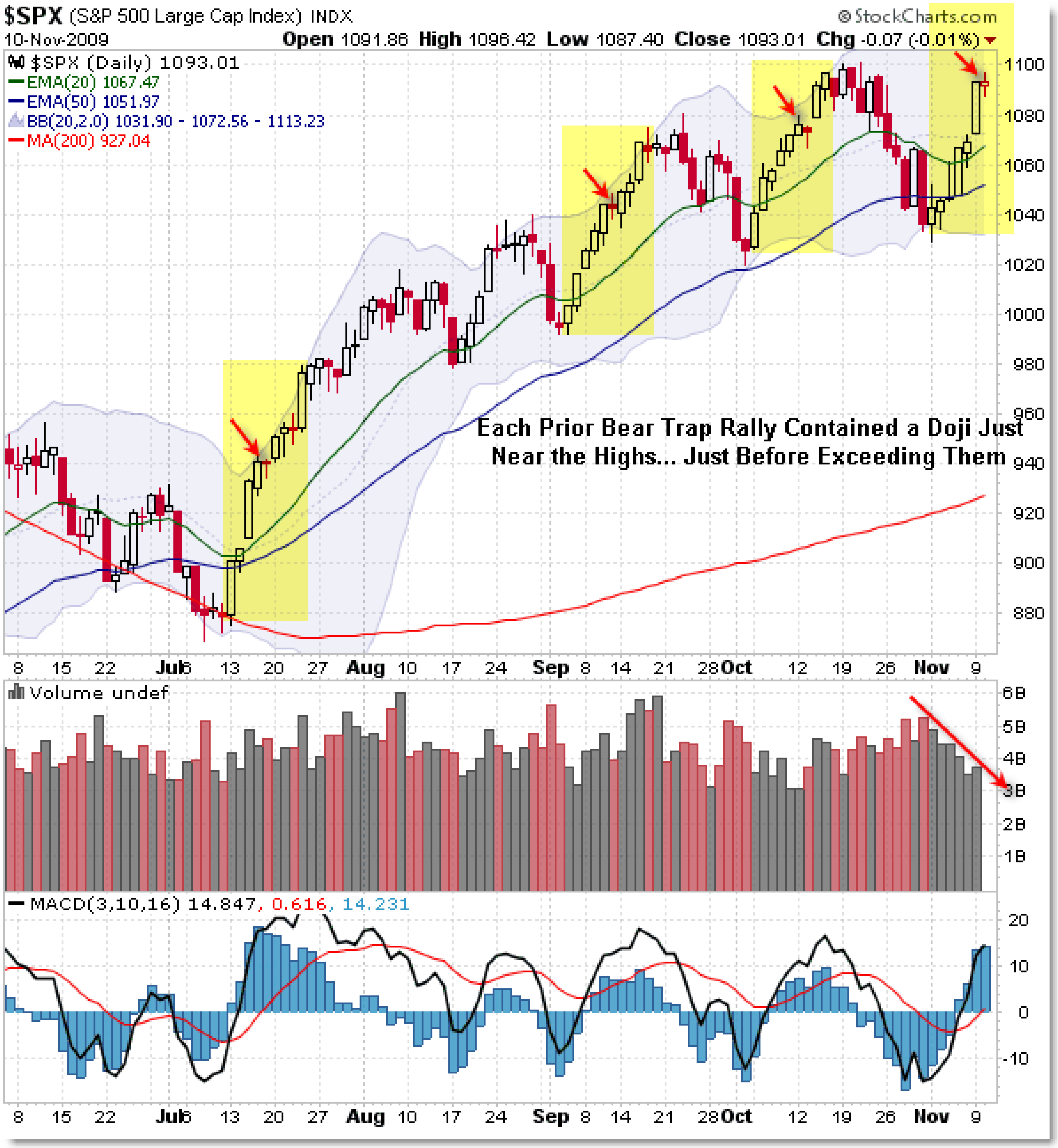
Continue the long-bias above $110.00... but watch cautiously to see if this area will be resistance tomorrow (tomorrow is a Federal Holiday, though the market WILL be open... volume will be lighter).

Any move above $110.00 will trigger the "Popped Stops" trade (scalp long to play against those who are swing-trading or positioned short) to give an upward bias.

Watch out for the negative momentum divergence, which is a factual non-confirmation of the rally in terms of broader participation - it's a sign of overextension... but not a sell-signal by itself.

We see the complete negative volume divergence on this rally phase which is a gross non-confirmation... but remember that supply and demand (buying and selling) drive prices, NOT non-confirmations. Wherever that buying pressure is coming from, it has shown itself to be stronger than the selling pressures, and - to an extent - this rally has been in part driven by short-covering/short-squeezes (buying to cover) which threatens to push the index to a new 2009 high... which will trigger even more stop-losses to push prices even higher.

As an intraday trader, you can take advantage of this reality, no matter how frustrating it may seem.



As a (recent) historical observation, on the recent 'bear trap' rallies (excluding late August), we see that price formed a doji on all three rallies at the recent price highs JUST BEFORE breaking higher to push price up to new highs.

If history is a guide, then this pattern will play out with price pushing to a new high tomorrow and perhaps into Friday.

Under normal circumstances, this doji at prior highs on a negative volume divergence would be a powerful, high-probability/low-risk sell-short signal.

Not in this market where the government is flooding the economy with liquidity, driving stock prices higher as a result.

Wait to see if buyers can push prices higher tomorrow, and if so, then be prepared to scalp/trade long as even more short-sellers' stops are taken out, driving the price to new highs. If not, look to short as price breaks higher timeframe moving averages or on the short-term intraday set-ups you see.