AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

This is my new and improved way of counting intraday Elliott Waves.

Just kidding! Subscriber response was unanimous last night that you enjoyed me labeling (at least) one chart with numbers and corresponding those with my description of specific trades - so I will continue to do that for us.

I will use the StockCharts.com chart for numbers and the TradeStation chart for quick chart text.

I've also received some emails asking "why did you not label this trade?" and the answer is often that I missed it in real time and going back over my afternoon analysis, so those emails help me as well. There really are far more opportunities that occur than I can discuss each day, so my goal is to highlight the best examples for teaching/reference purposes - both in the trades that worked out and the ones that didn't. We're interested in learning these consistent, repeatable trade set-ups and - of course - they are not going to 'work' every time.

I select and label/describe trades by the importance of the lesson and not just those that work out for a profit. I try to keep each day's summary as close to what I saw while trading in real time, and then what I may have missed that I *should* have seen, and then what make good 'teaching moments' for you (which benefits me in the process - the more times we all see these trades, the more prepared we'll be, more opportunities we will see, and more confidence we will have in taking these trades as they set-up - or we see them set-up - in real time, whether we are futures traders, leveraged ETF traders, regular SPY, QQQQ, DIA, IWM traders, or even sim traders!)

Remember from last night's report that I argued in favor of a near-imminent reversal in price thanks to volume divergences and momentum divergences, along with the daily chart showing two dojis in a row. You should use the second half of these reports to set up a bias for the next trading day based on the higher timeframes and levels I highlight to watch - which are usually higher timeframe moving averages, prior price highs and lows, and sometimes Fibonacci levels.

There's no way to know exactly what will happen the next day - particularly if a major economic report is due - but in the absence of any surprises, these levels should hold sway over the next day's trading and you need to at least write them down or reference them as you trade the 5-min or 1-min charts and not be caught off guard when price interacts with one of these key levels.

Anyway, with a negative bias for the day, we should have been watching cautiously on the bullish side and waiting for potential opportunities on the downside. Or, waiting to play "Popped Stops" in the event of a bullish morning surge.

1. TWO SPIKE CANDLES, DOJI, UPPER BOLLINGER BAND, 1-MIN TICK & MOMENTUM DIVERGENCE, 5-WAVE FRACTAL

There was a lot going on during this set-up - making it a high probability, low-risk trade.

Let me first say that you could have scalped long as price rose strongly on the bullish bars, as this was in part due to stop-losses being triggered and the "Popped Stops" phenomenon coming into play. I won't specifically describe it as "ideal" though, as it was a very aggressive move that was short-lived into these bearish developments, setting up an even better trade.

Price was very volatile at the highs, but by the time the long legged doji had formed outside the upper Bollinger Bands on the 5-min chart, that was a bearish entry signal - especially for aggressive traders watching the 1-min chart in conjunction with the 5-min.

The 1-min chart showed a tight negative TICK and momentum divergence at the absolute price high (a spike) and you could have shorted up at the $110.50 level with a stop above that high and played for a pullback to the convergence of the 20 and 50 EMA along with yesterday's close at $110.15 for a quick scalp-short trade that played out in three bars.

2. IMPULSE BUY, CONFLUENCE SUPPORT

As price hit this target, slightly exceeding it, you should have recognized that a new Momentum High had formed along with a (slight) new TICK high - meaning odds favored higher prices after a retracement. We chose to 'short-sell' the retracement back into confluence support, so now we could 'play long' to target at least the intraday highs if not a slightly higher high. Price rose to about 15 cents shy of the absolute high, forming a shooting star at the $110.20 level, and that was probably enough reason to exit with a small profit for conservative traders, or hold on to see if we could get an EMA bounce for aggressive traders. Conservative traders who exited this trade probably walked away with either a small profit or a scratch while aggressive traders might have held on until the trade was fully stopped out.

The failure of an "Impulse Buy" to "work" is a bearish omen that should cause us to watch structure more closely to see if EMAs cross or how price behaves in relation to them ... price sliced violently through the confluence support area, formed a tiny doji, and then plunged downward to retest the intraday lows. This looks like a Cradle Sell signal - and good for you if you took the doji short - but price fell so fast that I won't deem this an 'ideal' trade.

The large impulse to the downside - complete with new TICK and momentum low - and the length/severity of it - should have reminded you of a possible Third Wave in formation (particularly because you could look back and see the 1 and 2 waves now that the 3rd was in formation) which clued you in that lower prices were yet to come (likely) after a retracement/pullback.

Though aggressive traders could have bought long at the "Bollinger Dojis" as seen on the TradeStation chart and played for a retest of the 20 EMA, that was a very aggressive move and it was more appropriate to wait for price to come into resistance, form a type of reversal candle, and then short sell that rally into resistance.

3. WAVE FOUR INTO 20 EMA, TWO DOJIS

This could also be called an "Impulse Sell" but it's more appropriately deemed a "Wave 4 retracement into resistance" particularly since the 'third wave' was so strong.

If you are not an Elliott-Wave sort of trader, then just note that the prior impulse was strong, resulting in a new price, TICK, and momentum low and that odds favored lower prices yet to come, which is the logic of the Impulse Sell trade.

You could have shorted the doji that formed at the $109.60 level and played for a minimum target of a retest of the prior low or even a lower low yet to come, and placed a stop conservatively above the 20 EMA at $109.65, or aggressively above the 50 EMA at $109.80.

This gives me a chance to describe a "Rinse and Wash" or to describe how wider/larger stops can be of benefit from time to time - like this.

Price fell a few pennies shy of making a new low at the $103.35 level, and then quickly shot 4 candles up in a row, which - for most people - resulted in a smaller profit than expected as price quickly swept against you after being in the "profit zone" if you did not exit at the lows. A frustrating experience for sure.

If your stop was 'aggressively' above the 50 EMA (few people do this), then you would have been fine as price did make a new low at $109.20, giving a doji and a positive divergence to exit with a profit.

You can think of this as a "Popped Stops" rally in reverse - as evidenced by price's collapse after "rinsing and washing out" all the close stop-losses above the 20 EMA. These are frustrating events but are part and parcel of the market game.

Price gave a second-chance entry as a long upper shadow (further evidence of 'popped stops') formed as price spiked outside the upper Bollinger Band and just beneath the confluence crossover of the 200 SMA and 50 EMA. You could have entered (or re-entered) short here with a stop-loss above the $109.70 confluence resistance zone to play for a retest of the lows... or the playing out of the expected "lower price low yet to come" via the 5th wave. It turned out that this move was just an extended "ABC" three-wave corrective phase (you can't always know this in advance) and then price did fall to new lows as expected, completing a 5-wave fractal move into a positive divergence.

4. 5-WAVE FRACTAL MOVE COMPLETES INTO LOWER BOLLINGER, POSITIVE DIVERGENCE, & DOJI

This was a great opportunity to play for a price reversal at best and an "ABC" three-wave retracement at worst into the 20 or 50 period EMA.

A stop would be placed under the doji low and conservative target placed at the 20 EMA near $109.40 and then aggressive target the 50 EMA at $109.60. Price rallied all the way up to the 50 EMA before forming a strong bearish engulfing bar that spiked to the upper Bollinger Band and convergence of the 50 EMA at the $109.60 level.

5. LINE IN SAND, 50 EMA, UPPER BOLLINGER, NEGATIVE DIVERGENCES, BEAR FLAG

Taking this trade was a "Make or Break" in that ANY close above the 50 EMA would argue for a Rounded Reversal, and cause you to play long from that point. However, if price failed to rise above this level, it would be a confirmation of the potential Trend Day structure in play.

It really wasn't until price failed to rally above the 50 EMA here - the "Line in the Sand" that the Trend Day was officially confirmed - structure could have turned into a bullish rounded reversal thanks to the divergences as labeled... but the higher timeframe selling was too powerful to allow prices to rise.

I call this a "Bear Flag" because of the 45 degree angle move up AND the parallel trendlines.

As seen on the 1-min frame, either the breakdown from the trendline or the re-test rally up to challenge the underside of the trendline was the entry.

The official target was the $109.00 support zone, which was hit and then quickly exceeded. I would say an exit at the $109.00 level was sufficient as the final half-hour can be a puzzling environment for most people to trade.

Price closed very near this level, so holding until the close (exiting just prior) was not a bad strategy with this trade either - given that the day was officially confirmed as a trend day at that point.


SPY - 5 min ARCX 11/12/09 L=109.05 -1.10 -1.00% O=110.00 Hi=110.57 Lo=108.75 C=109.04
Bollinger Doji
EMA Cross
Impulse Sell & Second Chance Rally
Flag into Resistance w Bearish Engulfing
Impulse Buy (failed)
Bollinger Dojis
110.40
110.20
110.00
109.80
109.60
109.45
109.20
109.03
108.75
0.2500
0.1500
0.0500
-0.0243
-0.1050
-0.2500
$TICK - 5 min NYSE 11/12/09 L=-347.00 -679.00 -204.52% O=-35.00 Hi=973.00 Lo=-1160.00 C=-347.00
800.00
400.00
0.00
-347.00
-800.00
11/12
10:00
11:00
12:00
13:00
14:00

An extended look at the 5-min chart shows TICK and momentum divergences failing to confirm the recent high and the "rounded reversal" structure which appears to be the dominant short-term technical pattern.


SPY - 1 min ARCX 11/12/09 L=109.07 -1.08 -0.98% O=110.00 Hi=110.57 Lo=108.75 C=109.04
Short at Return to Trendline
Flag Break
$TICK - 1 min NYSE 11/12/09 L=-291.00 -623.00 -187.65% O=-35.00 Hi=973.00 Lo=-1160.00 C=-291.00
110.40
110.20
110.00
109.80
109.60
109.40
109.20
109.03
0.2000
0.1000
0.0473
-0.1000
800.00
400.00
0.00
-291.00
-800.00
11/12
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

Negative volume and momentum divergence labeled.

Could see bounce tomorrow from doji at lower Bollinger and 50 EMA, but odds seem to be indicating a trend reversal (of at least short-term duration) is more favorable than a run to new highs now.

Until we get back above $110.50, the odds favor lower prices, so any up-movement would be a scalp only.

Stay short-biased under $109.00.

We see a possible support level at the $108.50 area via the 50 EMA on the 60 min frame, so watch this both as a potential target and support zone.

A hammer has also formed at the lower 60min Bollinger Band so an upwards retracement is certainly not out of the question here.

A move beneath $108.50 would be very bearish.

It would appear that we have reached the apex (peak) of a short-term swing up in the market.

Given that price has sliced through the 20 EMA on prior pullbacks, look for the 50 EMA to be a short-term potential target - or the 1,060 index level.

Also watch for the market to travel down to at least the 1,040 level.

A break under 1,020 would argue for an intermediate trend reversal... but as intraday traders, we have perhaps a few weeks before that possibility happens.