AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was a clear victory for the bulls/buyers, and the morning action offered opportunities only to those familiar with the "Popped Stops" technique I mention often in these reports - today serves as one of the better examples of that concept - especially in the morning opening "Gap and Run" play.

The remainder of the day was stagnant and choppy and resembled 'range day' trading, which I consider "inefficient." Let's take it step by step.

1. 'POPPED STOPS'

There's no other way to describe the opening play than to use the "Popped Stops" technique, in that so many market participants it seemed were expecting a downward movement to start the week - and some were very strong in their conviction. This serves as an example where strong opinions can lead to large losses for the stubborn... and opportunity for the flexible intraday traders.

That's why I highlight levels to watch and state "Long Above $X" and "Short Under $X" because those levels are often where

A) "Pockets of Stop-Losses" are located
B) Entry Triggers for new buyers or sellers to enter the market

If our crystal balls told us exactly how price would behave on the next session, we would all be rich beyond our wildest dreams... but the market is ruled by supply and demand - and sometimes "unfulfilled expectations" - especially strong opinions - can result in major moves in the OPPOSITE direction as expected.

Today was a good example of that concept - and I teach you the "Popped Stops" Concept and trade set-up to help you take advantage of these moments.

As price gapped upwards 80 cents and formed two bullish bars in a row (eliminating any favorable expectation that the gap would be filled), you could have bought in long as an aggressive trader playing the "Popped Stops" method where you play off 'positive feedback' from short sellers who had good reason to get and stay short over the weekend were thus stopping out (buying to cover) at higher levels depending on their level of stubbornness which helped contribute (perversely in their view) to a rising market, along with new buyers rushing in to buy at fresh 2009 highs.

The combination of excited, new buyers getting long and then higher prices triggering stop-losses from the short-sellers (forcing them to BUY stocks to cover) help create "POSITIVE FEEDBACK" environments that sustain and create trend days on larger scales and "Popped Stops" trades on smaller scales.

Scan back over any of the days in the Idealized Trades archive to read more about, and see more examples of the "Popped Stops" trade.

Eventually the "Popped Stops" positive feedback 'runs out of steam' and price retraces, but calling that exact top is very difficult and generally does not constitute an "idealized trade." If you must do so, then watch for negative TICK divergences... and remember that in strong gaps and sustained moves, momentum divergences will be unreliable.

2. IMPULSE BUY, TRI-STAR DOJI, 20 SMA BOUNCE

Just after 11:00am, price formed three dojis in a row - a special pattern known as the "Tri-Star." This occurred on the 20 period Simple Moving Average (dotted transparent line in StockCharts.com chart) which was about 10 cents above the Exponential Moving Average - I prefer EMAs to SMAs intraday as the EMAs tend to track price closer and tend to "react" better in my opinion - but this is one example where the SMA did a better job of locating a support pullback.

In any event, the entry is as price takes out the high of the last doji at roughly the $111.20 level which gave way to a strong, singular bullish candle that traveled up into the upper Bollinger Band... and that's as far as price went.

The Impulse Buy set-up intends to buy after a new TICK, Price, and Momentum high - as price retraces to a support zone and perhaps forms a reversal candle. The conservative target is for a retest of the prior high ($111.40) and the aggressive target is for a new price high.

This is why range trading is generally inefficient (though we didn't know it was a range bias for the remainder of the session) - you have to do a lot of 'work' to find good trade set-ups, and then the targets are small due to the compressed price range.

If you didn't exit at the recent high or at the upper Bollinger Band, then you trade turned into a smaller profit at best, a scratch, or a small loss at worst.

3 (prelim) RINSE/WASH BOLLINGER SPIKE

I'm not sure whether or not to label this as an official 'trade,' given the power of the down-thrust into the 12:00 EST hour, but one could have bought - if one is an aggressive trader - after price took out the high of the two candles that spiked under the lower Bollinger Band on the 5-min chart (see TradeStation chart) and then played aggressively for a re-test of the upper Bollinger Band or for the retest of the recent high. This was more of a "range day" style trade, and if the trade 'worked,' then it would help confirm that the day structure was shifting away from that of a "Trend Day" and towards a "Range Bias" at best and "Rounded Reversal" at worst.

The stop would be placed under the rising 50 EMA if aggressive and just under the spike of the red candle if conservative.

3 (official) BOLLINGER TEST, WYCKOFF SIGN OF WEAKNESS, PLAYING FOR ROUNDED REVERSAL

This was an interesting set-up. If you were like me, you saw the new momentum, TICK, and new swing low in price at 12:15 EST and likely thought to yourself "This is a Wyckoff Sign of Weakness and I should be looking to short rallies if this is the beginning of a Rounded Reversal." I thought that same thing.

So as price rallied up to the upper Bollinger Band at 1:00pm EST and then broke down from a rising trendline (which resembled a bear flag that retraced to a new high), this was a great place to get short in anticipation of a potential absolute high for the day.

Price also formed a TICK divergence when compared to the 11:30 EST price high and TICK high of the morning which further seemed to argue for this bias.

The short was entered at the $111.50 area with stop above $111.60 and minimum target a retest of the $111.00 area and maximum target for a "Rounded Reversal" trend reversal.

4. Number 4 is not an actual trade set-up, given that in hindsight, structures are clear, but in real time, we take what we are given with the data we have.

The reference at number 4 is that price retraced to the rising 20 period EMA and formed both a doji (reversal) candle and a small 'spinning top' (also reversal) candle. For conservative traders, this was enough of a reason to - at least take some of the trade entered at the highs off the table if not exit the entire position when price rose above the high of the doji at $111.40. I would not necessarily call this a "long buy" trade set-up, as price was only 20 cents from the upper Bollinger and the market was arguably in a rangebound environment as evidenced by this time in the day.

This further underscores the difficulty of tight-range markets - targets are small and 'momentum' based trades don't work as expected.

5. MULTIPLE DOJIS AT HIGH, TICK DIVERGENCE, INTERNAL MOMENTUM DIVERGENCE, UPPER BOLLINGER

This WAS a trade set-up given that we were in some sort of range environment after the morning surge.

With all the small indecision candles and the negative momentum and - more importantly - negative TICK divergence (which formed an "Absolute" divergence going back to the morning TICK high at 11:30 am - see 1-min chart and an "Internal" divergence, comparing the TICK with recent price swing at the immediate highs).

Odds favored some sort of down move, particularly since this occurred at the upper Bollinger Band.

Entry was when price took out the low of any doji particularly at the $111.60 or $111.55 area and conservative target being the lower Bollinger Band at $111.25. A more aggressive target was to try to hold on to play for a "Rounded Reversal" should price break the 50 EMA which was the official "Line in the Sand" between a trend day (that fizzled out into a range compression environment) and Rounded Reversal.

Conservative Traders could have exited at the convergence of the 50 EMA and lower Bollinger Band at $111.25.

Both conservative and aggressive traders could have put on a fresh new position (not labeled) as price BROKE DOWN through this confluence support area, officially changing the day structure from "Trend UP" to "Rounded Reversal."

Notice the Wyckoff Sign of Weakness (from TICK and Momentum) at the lows at the breakdown zone which argued in favor of lower price lows yet to come.

6. LOWER BOLLINGER BAND, DOJI, CONVERGENCE OF 61.8% RETRACEMENT AND R2 PIVOT

While you could have taken this trade based on the doji at the lower Bollinger Band in a standard "retracement back to the 20 EMA" style trade (mainly for aggressive traders), there were three other bits of information that could have you putting on a long trade (buy) at the $110.80 lows.

A) Daily Resistance 2 Pivot Point at $110.83 (I'm not a huge fan of Pivot Points, but they can be helpful if they line up with other points of convergence)

B) 61.8% Fibonacci Retracement of intrday lows to intraday highs (at $110.84)

C) Rising 20 EMA on 30 min chart (see 30 min chart at end of report)

This would be an aggressive 'confluence' support entry long at the $110.80 level to play for a retracement back to target the falling 20 EMA (now convergence zone) at $111.20 on the 5-min chart. Stop would be under $111.80.

This trade worked well into the market close.


SPY - 5 min ARCX 11/16/09 L=111.21 1.59 1.45% O=110.38 Hi=111.69 Lo=110.32 C=111.28
Dojis Upper Bollinger TICK Divergences
Popped Stops
Tri-Star Doji
"Rinse/Wash" Bollinger Spike
Doji Bollinger
111.60
111.40
111.20
111.00
110.76
110.60
110.40
110.20
110.00
109.80
109.60
109.40
109.20
0.60
0.12
0.00
-0.12
$TICK - 5 min NYSE 11/16/09 L=773.00 294.00 61.38% O=36.00 Hi=1170.00 Lo=-1169.00 C=773.00
773.00
400.00
-22.78
-400.00
-800.00
14:00
11/16
10:00
11:00
12:00
13:00
14:00
15:00

Two examples of the "Wyckoff Sign of Weakness" development - the 11:00 CST signal failed to produce lower immediate price lows while the 1:30 CST signal did indeed do so.

This chart also shows the 'absolute' TICK divergence at the price highs of the day.

The 30min chart shows the best example of why the morning surged so strongly - in part due to the "Positive Feedback" environment of the converging buying power from new longs entering the market (buying) and old short-sellers from Friday or before covering their positions as stop-losses as price crested not only to a new swing high, but also into a fresh 2009 high (buying)

Volume rose (slightly) today, though what you'll find if looking at the 60min chart is that volume actually rose on a 'down-hour' bar.

Price supported on the rising 20 EMA on the 30min chart (which are always levels to watch for support in an uptrend) so the uptrend bias holds and higher prices are forecast from the trend and moving average structure.

Momentum also formed a new high on today's session, breaking the negative divergence that was setting in.

The 30min chart argues to be long above $110.00 and short to target $110 if price falls under $111.

Today's final hour volume spike was on a 'down-hour' bar so that's a slight non-confirmation. Unlike the 30min chart, the 3/10 Oscillator is showing a negative divergence with price... but combating that is the power of the uptrend, positive moving average structure, and liquidity that is coming from the US Treasury and US Government which continues to push equity prices higher.

There are two competing levels to watch on the S&P 500. As long as price can stay above 1,100, that's bullish and that - along with the trend and EMA structure - argues for higher prices yet to come.

However, as a reference, the 50% Fibonacci retracement of the entire Bear Market sits at 1,121, so many eyes and traders are going to be focused on that level, so it could be a 'magnet' pulling price up towards it as a 'test' to see if buyers can overcome the sellers who believe this level will hold as resistance. Watch that level on any upward move and don't let it throw you off guard.

A negative momentum and volume divergence remain in place as non-confirmations under price, but that does not seem to matter as long as the Government is committed to keeping the market rising (some would say 'artificially') and the economy stable through bail-outs, tax credits, and stimulus.