AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today served as an excellent reference example, so be sure and print out this day and the lessons from it - particularly in regards to the "Rounded Reversal" and Multiple Points of Confluence at the $110.50 lows - which was probably one of the lowest risk, highest probability opportunities I've seen in a while.

1. GAP FADE, TWO LOWER WICKS, DOJI NEAR BOLLINGER

The morning started with a 30 cent gap which was certainly within the statistical odds of filling, so the first trade should have been to find a spot to get long to play for a retrace of the morning gap. I like to give at least two bars (10 min) to see how price is behaving off the open, and the second bar formed a nice long-legged doji candle, and as price began to rise off the close of the doji (making it official), you could have entered long at the $110.85 area to play for a fill back to $111.20 with a stop under $110.70. This trade filled within the next two bars.

2. 'FADE THE FADE,' UPPER WICK SPIKES, YESTERDAY'S CLOSE

This was a more advanced trade, which has you looking for reversal candles or other entry (short) signals as the gap is filled. In this case, we had two long upper shadows and - if you waited for the close - a shooting star bearish candle that formed underneath the confluence of yesterday's close ($111.20) and both the 20 and 50 EMA (near $111.10). A stop would go above $111.20 while a conservative target is to play for a retest of the prior lows under $110.80... which fell just a few pennies shy of a full test of the lows before price formed a long-legged doji and traveled back to test the underside of the 20 and 50 EMA again... giving a 'second chance' entry.

3. TWO UPPER SHADOWS, SPINNING TOP/DOJI, CONFLUENCE OF 20 AND 50 EMA (RETRACEMENT)

This trade did not have to be any more sophisticated than "Sell short rallies into resistance during a down-trend."

To be more scientific, a spinning top formed just under the falling 50 EMA which also was itself just shy of the yesterday's close line at $111.20.

An aggressive entry formed as price tested the 50 EMA at $111.10 though a more conservative (safe) entry short came when price broke both the low of the spinning top doji AND broke beneath the $111.00 "round number" support zone. Both cases played for a retest of the $110.80 level and aggressive traders could have held on (at least half your position) to play for a marginal new low or countervailing buy signal.

4. MULTIPLE CONFLUENCE SUPPORT, SPIKE OUTSIDE BOLLINGER, POSITIVE TICK AND MOMENTUM DIVERGENCE

(Along with a 5-wave fractal)

Let's start with the 5-wave fractal into the morning lows. With the trend being down, simple methods argued in favor for lower prices due to the trend structure (it could have been a trend day). However, advanced methods argued in favor for a stronger than normal retracement or even a full trend reversal, morphing into a Rounded Reversal day.

A 5-wave internal fractal move terminated into a multi-swing positive momentum divergence along with a distinct and obvious positive TICK divergence, all of which occurred at the lower Bollinger Band on the 5-min chart. A candle spike also took place.

This was enough reason to take an aggressive buy, particularly with a move above the close of the doji at $110.60 to play for - at minimum - a return to the 20 EMA or - more appropriately - a deeper than normal retracement to the 50 EMA. Very aggressive - or confident - traders could have taken this signal as an early sign of a potential "Rounded Reversal," though that was an aggressive move which likely needed confirmation of a breaking above the 50 EMA to be more certain.

What else was there that caused me to perk up attention at these lows?

One thing to do when price is retracing down from a full swing is to put up a quick Fibonacci grid from the swing low to the swing high. Those who did so - as seen in a chart later in the report - saw that the 38.2% Fibonacci Retracement came in at the $110.60 area. That was a good fact to know.

In addition, at the time of the price pullback, those watching the 20 EMA on the 60min chart (I encourage you to do so - which is why I show the 30 and 60 minute charts on each day's report) saw that price had pulled back into the potential support zone - at roughly $110.55 - of the rising 20 EMA on the 60 min chart.

It's unlikely you'll find all of these developments in real time, and doing so is not even the point. You need to learn these methods, keep the ones that make sense, and then find at least two or three 'confluences' that argue in favor of a low-risk, high probability trade. The purpose of these reports is to show and teach you methods and opportunities that may have passed you (and even me) by in real time, but through studying these opportunities at the end of the day, we learn them deeper and then will be able to recognize more opportunities the next time they occur in real time, leading to greater consistency and - hopefully - higher profit.

5. IMPULSE BUY, CONFLUENCE SUPPORT

Trade five was interesting - after a new momentum and TICK high, this triggered the "Wyckoff Sign of Strength" development which - upon a retracement back to support via the 20 or 50 EMA - triggered the "impulse buy" trade.

Unfortunately, price fell solidly through the expected support level, which most likely took you out with a stop-loss if you entered just before the 1:00pm EST candle that broke these levels.

If you were on the sidelines and saw that this candle appeared, then price formed a type of doji, and then rose back above these EMAs, you still could have put on the Impulse Buy trade that would have targeted the upper Bollinger and prior swing high at $111.20. It was also fine if you passed on this trade as well.

The main idea was - now that price was in a confirmed rounded reversal - to be a buyer on pullbacks - ideally to support. Price did a "Rinse and Wash" (sudden 'pop stop') through support and then continued higher as expected. Into an irresistible exit long/sell short (scalp) signal.

6. DOJI (EVENING STAR) AT UPPER BOLLINGER ON NEGATIVE TICK AND MOMENTUM DIVERGENCE

To be clear, this initially was a counter-trend scalp to play back to the 50 EMA (due to the divergences, we expected a deeper than normal retracement). Aggressive traders could have taken this as a potential trend reversal signal, though with less conviction (only a singular momentum swing, though a clear TICK divergence) as the morning reversal.

The trade was entered as price took out the low of the doji (or aggressively at the upper Bollinger Band after a 'hanging man' candle) at the $111.30 area to target $111.00 with a stop above $111.40.

The trade actually did retrace deeper than expected... to the lower Bollinger Band, giving us a risky "Line in the Sand" trade.

7. BOLLINGER BAND DOJI, FAILED HEAD AND SHOULDERS PATTERN (POPPED STOPS)

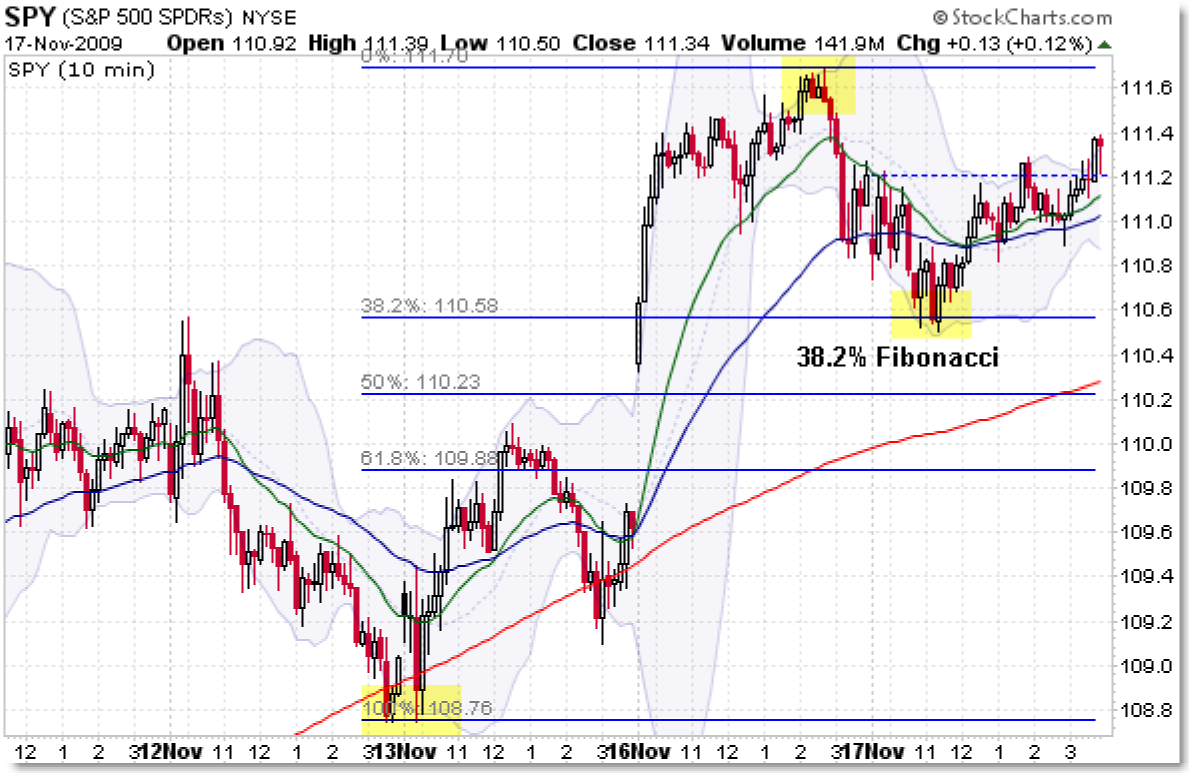
If we just look at the 5-min chart, we see a long-legged doji at the lower Bollinger Band - a singular reason to get long and place a stop just under the doji.

If we look a little deeper, we see something else.

On the 1-min chart, price looked like it was forming a Head and Shoulders reversal pattern, which would have been confirmed with a break of the trendline as drawn. There was also reason that price could have put in the intraday high at $111.30 due to the negative TICK divergence, so there was reason to be bearish.

However, instead of breaking bearishly through the support line (neckline), price rallied strongly off this zone, taking the stop-losses (buy to cover) of any short sellers who tried to jump the gun on the head and shoulders pattern (enter before completion).

This upward movement created a slight positive feedback loop into the close, which was an aggressive trading opportunity.



This chart shows the 38.2% Fibonacci retracement of the Nov. 13 price lows to the Nov 16 price highs.


SPY - 5 min ARCX 11/17/09 L=111.21 0.00 0.00% O=110.92 Hi=111.39 Lo=110.50 C=111.34
EMA resistance Candles
Confirmation
Divergence Doji at BB
Gap Fade
Major Reversal Trade
Doji at BB and Support
111.60
111.50
111.40
111.36
111.33
111.20
111.10
111.00
110.92
110.80
110.70
110.60
0.0883
0.0451
0.0000
-0.1000
-0.2000
$TICK - 5 min NYSE 11/17/09 L=392.00 -381.00 -49.29% O=1.00 Hi=1051.00 Lo=-951.00 C=392.00
800.00
392.00
105.15
-400.00
-800.00
14:00
11/17
10:00
11:00
12:00
13:00
14:00


SPY - 1 min ARCX 11/17/09 L=111.20 -0.01 -0.01% O=110.92 Hi=111.39 Lo=110.50 C=111.34
Failed Head and Shoulders triggers "Stop Pop"
$TICK - 1 min NYSE 11/17/09
1
2
3
4
5
i
ii
iii
iv
v
a
b
c
111.33
111.30
111.20
111.10
111.00
110.90
110.80
110.70
110.60
0.0500
0.0123
-0.0500
-0.1500
1,000.00
600.00
392.00
191.00
-200.00
-600.00
11/17
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

Again, today gave an excellent - almost textbook example - of the positive divergences in both TICK and Momentum preceding an absolute price reversal - changing day structure.

Remember that Friday is Options Expiration, so we could continue to have choppy conditions as large funds 'square away' their positions prior to Friday (that's been the case in prior options expiration weeks).

Expect higher volume and more choppy environments... and a realization that "portfolio rebalancing" will take a larger role than classic chart patterns and 'popped stop' logic. Some of the moves can be truly random, leading to frustrating trading outcomes on what otherwise would have resulted in the expected outcomes from patterns and structures.

For now, look to stay long above $111.00 and watch for any breakdown of $111.00... any break beneath $110.50 would trigger a short-sale bias.

Watch $110.50 which is the rising 20 EMA on the 60 min chart; and beneath that is the $110.00 level (50 EMA).

Otherwise, using classic analysis, the trend is up which argues for higher prices.

We could be entering another 'choppy toppy' period similar to that seen on the left side of the chart as price forms an orderly type of 'roll-over' or rounded reversal... but it may be too early to call that.

The current chart shows Fibonacci retracement levels to watch on any type of intermediate price pullback. The 50% Fibonacci retracement is at 1,121, so watch that level closely on any up-move into that area.

Otherwise, looking back at prior swing highs, we could be in the middle of a choppy short-term roll-over pattern.

REPORT NOTE:

I will be in Las Vegas from Wednesday until Saturday for the Trader's Expo, and reports may be shorter or delayed or sent out in the next morning if I am unable to use my laptop during the afternoon to write/publish the reports.