AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Greetings from Las Vegas, Nevada and the Trader's Expo!

I've already met a few fellow traders and I'm looking forward to hearing more about what other colleagues think about the current market environment!

Let's get right into today's action.

We had a relatively tight range day, and I along with many other traders are noticing a pattern. In the past, I remember 'fearing' Options Expirations days because they were so choppy and 'random' as funds balanced out positions without regard to normal technical patterns. What seems to be happening now is that this 'random' rebalancing action occurs in the days BEFORE Friday, making almost the whole week or at least a good portion of it choppier than normal. As such, trading conditions are more difficult, and patterns that would work under 'normal' environments don't seem to hold up.

This is in part because funds 'rebalance' – in that if they get "too long" they have to buy puts, sell short, or do something else to 'hedge.' And then say they get "too short," then they have to rush out and buy calls, buy @ES futures, or some other technique – all of this happening across many funds create these choppy, tight-range moves.

Keep that in mind for Thursday and Friday… although OpEx Fridays recently have not been so bad – again, it seems most of the 'action' takes place during the week – as in now.

1. OPENING MOVES

I'm hesitant to insert an "Idealized Trade" here, but this does serve as an example of the volatile conditions on OpEx weeks. It would have been expected that the hammer-like long-legged candle (second candle of the day) that bounced off the 50 EMA would trigger a long (buy) trade upon price taking out the high of this candle – and that was a good assumption to play long for the upper Bollinger Band and the prior swing high into yesterday's close. This trade took off suddenly, leaving you little to no room to profit if you were not long aggressively off the EMA bounce.

There also wasn't much time to get short at the highs, as price fell precipitously from the $111.40 area, forming a bearish engulfing candle in its wake. This should have left most people sidelined, waiting for a better opportunity or for volatility to subside. Price fell to the lower Bollinger Band quickly and then gave us the first real trade of the day.

2. LOWER SHADOW SPIKE AT BOLLINGER, FLAT TICK AND POSITIVE MOMENTUM DIVERGENCE (1-MIN)

On the 5-min chart, price was still very volatile, but a spike occurred outside the lower Bollinger Band at 9:55 EST. Price ultimately swung to new lows after a bullish bar, but look at the 1-min chart to see the trade set-up that occurred. It is often not enough to take a long off of a Bollinger Band test – this example shows why it's best to find positive TICK or momentum divergences – particularly on the 1-min frame – to accompany your bias to trade long.

This occurred as price fell to an absolute low – particularly with the 3/10 Momentum Oscillator as well as a 'flat-line' TICK divergence (though this if an 'iffy' interpretation). I would have recommended entering on the tiny three-push divergence on the 1-min chart… but price had one final swing low (which formed an absolute momentum divergence) before finding a bottom and rallying in an up-move. This underscores the difference between aggressive traders – who would have been entering on the divergence and test of the Bollinger Band – and conservative traders – who would have been entering ONLY after bullish reversal bars formed OR price crossed above the 20 or 50 EMA on the 1-min chart, which occurred later.

Either way, the target was to retest the 20 and 50 EMA at the $111.00 level to exit at that confluence resistance level to see what occurred in price next.

Remember that when the EMAs compress, this is a confirmation of a RANGE DAY and as such, we should be looking to set-up trades on tests (and candles) that form at the upper and lower Bollinger Band as well as be on the look-out for momentum divergences. On Range Days, moving averages almost become irrelevant for targets and trade set-ups – the opposite of a trend day.

I also want to mention the possibility of taking an “Impulse Sell” trade here following a new price, TICK, and Momentum Low. This would have been acceptable, given that a long-legged doji formed just under the EMA confluence. Aggressive traders would have taken a short here and been immediately stopped out.

Two comments – the EMA structure was roughly flat to slightly bearish at this time. This is expected as a new downtrend emerges, but generally there should be more separation between the averages for more confidence.

Second, for conservative traders, this trade would not have triggered because price did not cross the low of the doji – sometimes it pays to wait!

As soon as the Impulse Sell set-up failed, that was information that a Range Day bias was taking hold instead of a possible fresh down-trend or trend day – moves that “should” work that fail can signal structural shifts. In other words, a failed ‘expected’ pattern can give helpful information if you are open to receive it (and not frustrated by being stopped out).

3. HAMMER/DRAGONFLY DOJI AT LOWER BOLLINGER BAND

I didn’t see any other trades to take until this point – again working under the hypothesis that the day was a Range Day as confirmed by the flat EMAs.

The breaking of the high of the dragonfly doji was an entry for conservative traders, and the test of the lower Bollinger Band and prior support zone at $110.90 was a trigger for an aggressive entry. In both cases, the play was for a test of the upper Bollinger Band… which wasn’t very far away at $111.10.

That’s why I call range days “Inefficient” – you do a lot of work for very little gain.

I would call out an “idealized Trade” to short at the $110.00 level as price formed a bearish reversal candle, but the target was only for the $110.90 area, not enough to justify putting on a trade. The stop was above $110.00 and entry around $110.95-$111.00 and minimum target $110.90. Not all set-ups generate favorable risk-reward relationships – so this trade was probably best skipped. Price did crack the support level, but there was no way to know this would occur in advance from an ‘edge’ standpoint, so I don’t deem a trade taking place here.

4. BULLISH ENGULFING HAMMER, LOWER BOLLINGER BAND, POSITIVE MOMENTUM DIVERGENCE

This was an idealized trade. With price forming a quick upward retracement and then making a new low at the lower Bollinger Band at $110.60, price formed a Bullish Engulfing Hammer candle which triggered entry upon the completion of the candle and/or the taking out of the high of the candle (immediately upon open of next 5-min bar). The trade set-up was to target the 20 and 50 EMA for conservative traders (but remember – it’s a range day) or for a play up to the upper Bollinger Band at $110.10… which worked. Again, moving averages have LESS significance for targeting on Range Days.

5. BEARISH ENGULFING AT UPPER BOLLINGER BAND

This was also an aggressive style trade, for as price did test the upper Bollinger Band at $110.10 (2:30 EST), price formed an upper shadow candle and then took out the low of that candle three bars later. The trade set-up was the same – play for a retest of the lower Bollinger Band and place a stop above the $110.00 high.

It was ok to pass on this trade if you felt the risk/reward was insufficient.

Price fell a few cents shy of a full test of the Bollinger, and a bullish hammer-like reversal candle formed at the $110.90 lows, which triggered another aggressive “Range Day” trade.

6. BULLISH HAMMER-LIKE CANDLE JUST ABOVE LOWER BOLLINGER BAND

Remember, on Range Days, the best trades often come from fading moves into Bollinger Bands when reversal candles form at or near them.

This set-up was aggressive in that price did not actually test t he lows of the Bollinger Band before rising, leaving another skewed or roughly equal reward to risk relationship.

The exit was as price tested the $110.10 level again, though this time price exceeded it slightly.

7. SHOOTING STAR AT UPPER BOLLINGER, NEGATIVE MOMENTUM, AND NEGATIVE TICK DIVERGENCE

Under the same logic, unless you had turned off your computer for the day in frustration due to the range day (which often is not a bad idea if you feel you are not understanding the intraday structure, or feel the opportunities are sub-par for the day) Price pulled back to the midline of its range – the EMA consolidation zone and an aggressive trader would have entered short after the Shooting Star formed, and a conservative trader would have entered short as the low of the shooting star was taken out.

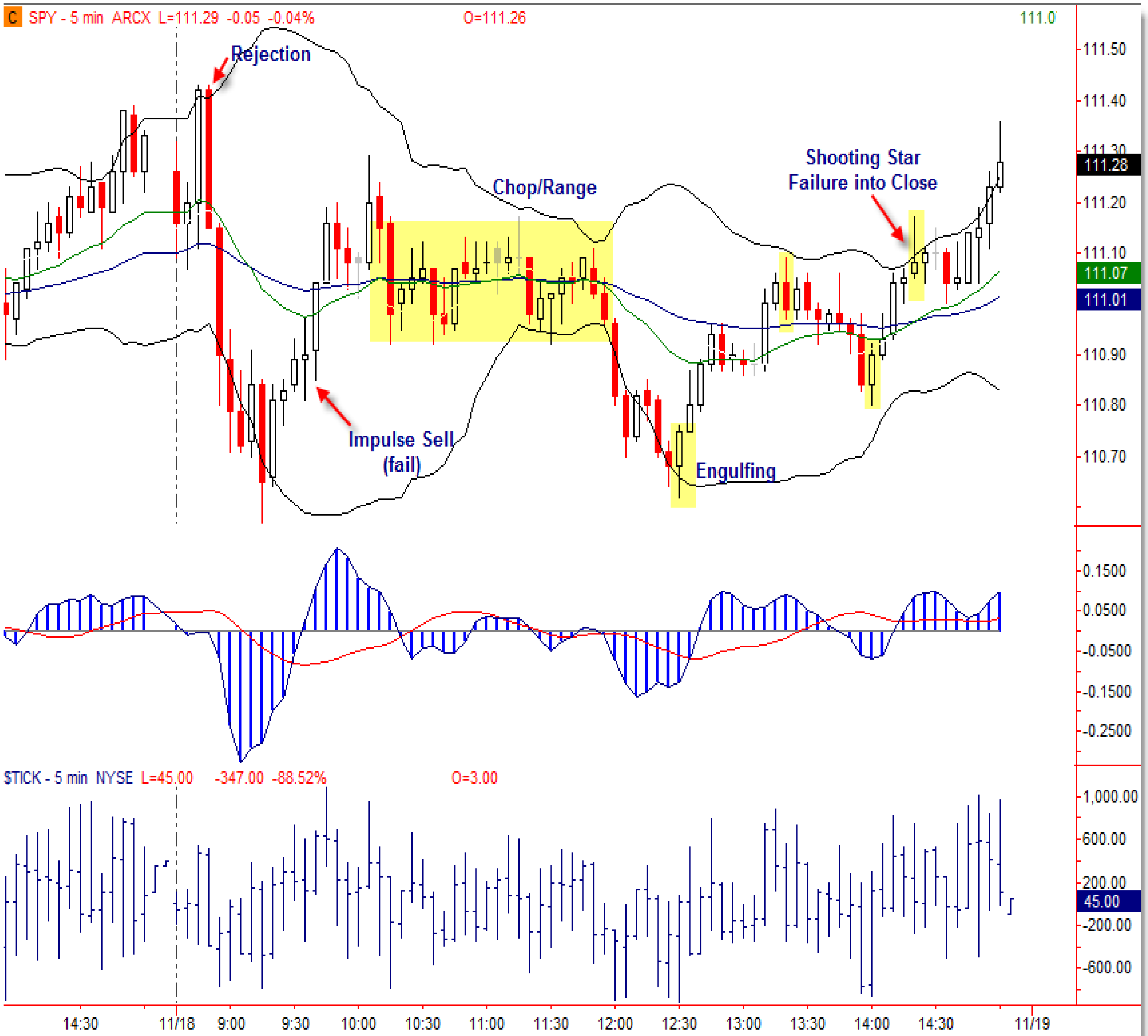
A stop would be placed above the spike at $111.20… which unfortunately was taken out as price rallied strongly into the close. This is a situation of an “Idealized Trade” failing – remember that I don’t just pick the trades that worked like magic. My goal is to stress educational concepts to apply to real-time trading tactics.

There was no way to know that the price would reverse strongly off the $111.00 level, particularly given that price had ‘chopped’ through it in a clear range formation. We had to assume that range formation would continue.

However, as I’ve mentioned before, many traders will avoid trading the last 30 minutes or the close due to ‘random’ moves that occur due to fund rebalancing and repositioning – in other words, price movement that is close to random that does not adhere to classical price patterns and set-ups.

This stop-loss argues in favor of that ‘random’ action into the close.

This also underscores the “Bullish Force” at work again as I’ve mentioned in prior reports.


SPY - 5 min ARCX L=111.29 -0.05 -0.04%
O=111.26
Rejection
Chop/Range
Shooting Star
Failure into Close
Impulse Sell
(fail)
Engulfing
111.28
111.07
111.01
$TICK - 5 min NYSE L=45.00 -347.00 -88.52%
O=3.00
45.00
14:30
11/18
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
11/19


SPY - 1 min ARCX L=111.29 -0.05 -0.04%
O=111.26
111.20
111.40
111.28
111.20
111.12
111.00
110.90
110.80
110.70
1
2
3
4
5
0.1000
-0.0000
-0.1000
-0.2000
$TICK - 1 min NYSE L=218.00 -174.00 -44.39%
O=3.00
1,000.00
600.00
218.00
-200.00
-600.00
11/18
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

The structure and trend continues until proven otherwise with EMA and support breaks – so far that has not happened yet.

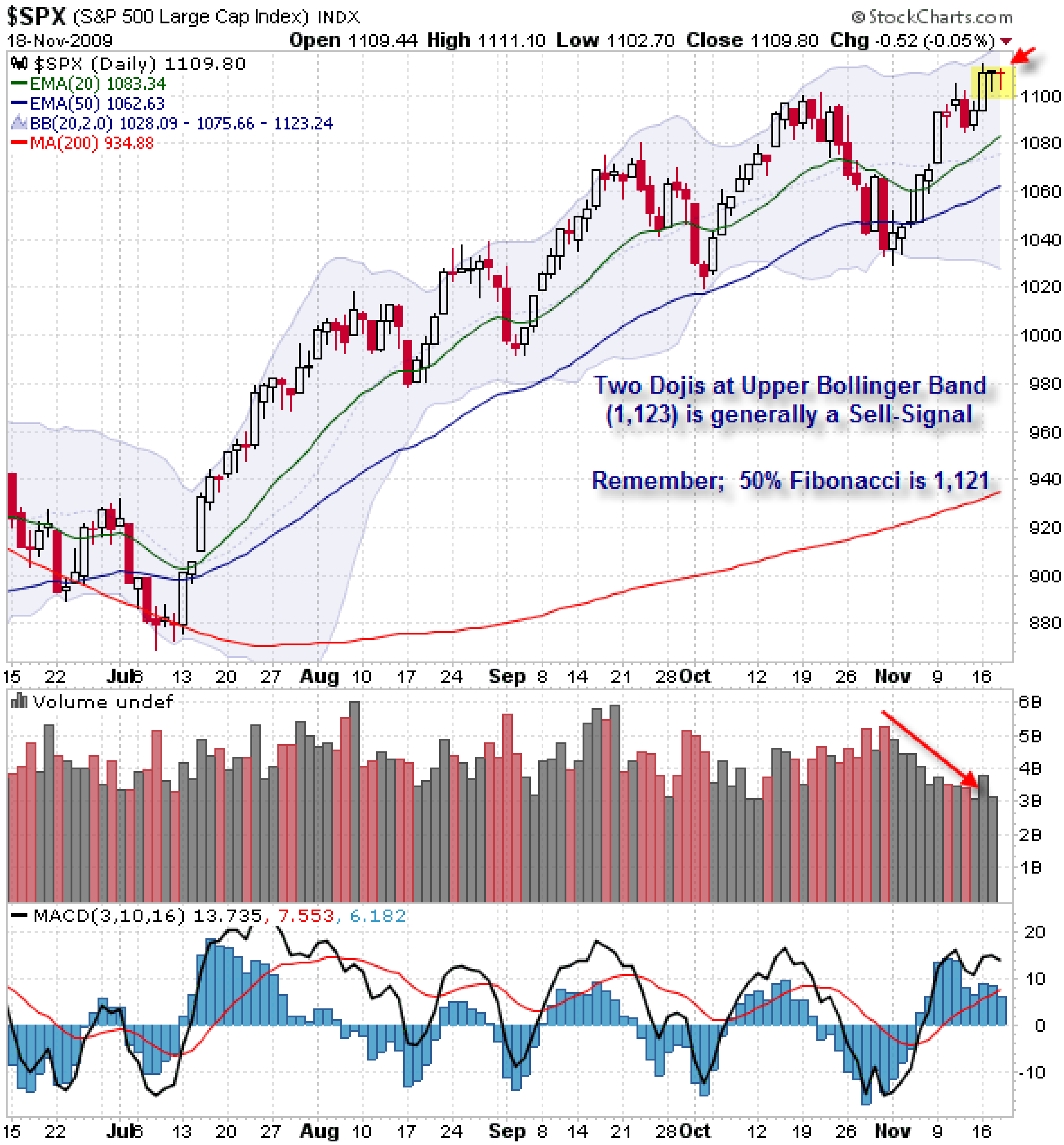
It has been a very choppy week, and the boundary lines are drawn - $110.50 as support and $111.50 as resistance.

A breakout above either of these levels should lead to a sustained move in a Range Expansion Style breakout play. Watch for that and watch momentum/price to pick-up on any move outside of these levels.

Not much to add on the 60 min structure.

Follow price action on the intraday level with these levels and higher guiding structures in mind.

Remember that it's "Options Expiration" week and that the market could be building up a coiled spring for a breakout move.



Two quick notes – though the internal "trend" structure of the 30 and 60 minute charts remain bullish/positive, there is something to note on the daily frame. Price has formed two dojis at the highs of the last two sessions near the upper Bollinger Band. That's generally a sell-signal, and you can look back to the past few months to see each time this has occurred and the "choppy toppy" action that preceded a quick fall back to the 20 EMA – which would target at least 1,080 if not slightly lower.

That's the dominant picture occurring now, and also the 50% Fibonacci retracement of the "whole bear market" remains permanently at 1,121. Watch price VERY closely for any hint of a reversal should price rally up to that critical level.

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.