AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Greetings again from Las Vegas and thank you to all those who attended the webinar yesterday! I got a chance to meet with a few subscribers and blog readers after the presentation and wound up spending a few hours chatting afterwards. I enjoyed meeting everyone and am thankful for all your support. For those who missed the live webinar, I believe the MoneyShow.com will be archiving the event in the near future and I will let you know when they give me the link.

My apologies for the delay in yesterday's report – Thursday was a social day and it's back to work on Friday!

It's still options expiration week, and so trading conditions remain choppy and difficult because funds are rebalancing their portfolios… so that doesn't leave room to discuss much "Idealized Trades" due to the flat range that occurred after the initial morning drop that I – probably along with most of you – expected to devolve into a trend day down.

Looking back from an educational standpoint, I would only describe the first two trades on the 5-min chart as ideal (or at least worth referencing for the future), though there were some nice, quick "Dual Divergences" on the 1-min frame.

1. Price gapped down roughly 80 cents from yesterday's close, breaking higher timeframe EMAs (I mentioned the "battle" between the intraday EMAs as potential support and the daily major sell signal thanks to the two dojis at the highs… the higher timeframe usually "wins out" as the downward move is evidence). This was not a gap that was fadeable, as the market moved quickly lower off the open, decreasing the odds of a gap fill. Eighty cents is generally outside the range of an expected fill.

Unless you went in short as an aggressive play, there was not a clean entry into the trade. I like to trade retracements after a momentum move forms, as this gives more precise targets and stops. The first such entry came when a flag-like pattern occurred (see 1-min chart in particular) as price broke beneath the rising trendline to trigger an entry short to play for a minimum of a retest of the low, or a play for new lows (odds favored new lows thanks to the large impulse move, new momentum, and new TICK lows). As we moved to new lows, a countervailing buy signal formed, which could have been taken by aggressive traders.

2. DOJI, POSITIVE MOMENTUM DIVERGENCE, LOWER BOLLINGER BAND

Keep in mind that odds favored a Trend Day at this time – so that is why this was an aggressive move (trading long on an expected Trend Day Down). The play was to target a retest of the 20 EMA at $109.50 from an entry near $109.25 with a stop under the intraday lows under $109.15. Again, this was a counter-trend scalp. The trade worked well.

3. BOLLINGER BAND TEST, SHOOTING STAR

On an expected Trend Day down, we want to short-sell into strength – which often refers to retracement moves into the 20 or 50 period EMA on the 5-min chart, or on any negative divergence on the 1-min chart.

One could have entered as price tested the falling 20 EMA at $109.50... or else shorted as price tested the upper Bollinger Band and 50 EMA at the $109.60 level – in either case, a stop would be placed above the upper Band and 50 EMA (particularly) at the $109.60 level. Remember, the 50 EMA is the "Line in the Sand" between a "Trend Day Down" (expected) and a "Rounded Reversal" (which… later occurred).

The conservative target was a retest of the lower Bollinger Band at $109.20 or aggressively for a new price low yet to come (Trend Day). The price did test the lower Bollinger Band and then formed a sort of Bullish Engulfing candle, triggering a short-sale exit and potential trade set-up long (again, playing off a reversal candle off the lower Bollinger Band).

4. BOLLINGER BAND TEST, BULLISH ENGULFING

This was an interesting development like I mentioned on yesterday's Failed Impulse Sale trade that clued us in that structure might be changing.

With a failure of price to fall to a new low, we had to question the Trend Day bias at least as long as price was "Reacting" off Bollinger Bands – that's typical Range Day behavior (price slices through Bollinger Bands on Trend Days).

We were then put into a holding position or neutral bias going forward to see how price reacted, and whether or not to expect a Rounded Reversal or a continuation of the expected Trend Day.

If you chose to enter long after the Bullish Engulfing, then the target was a retest of the $109.60 level which was the upper Bollinger Band which happened to coincide with the falling 50 day EMA.

This set-up a confluence resistance trade and a test of the "Line in the Sand."

5. UPPER BOLLINGER, 50 DAY EMA, NEGATIVE INTERNAL DUAL DIVERGENCE

This used the same logic as the Bollinger Band tests on range day, only this time we had the 50 EMA above price and – importantly – a dual negative TICK and Momentum divergence on the 1-min chart. That WAS enough to trigger both a conservative and aggressive trader entry short at $109.60 with a target of the lower Bollinger Band at $109.30.

Not much of a target, but such is the targets during tight range conditions – what I call "Inefficient Trading."

6. BOLLINGER BAND TEST, HAMMER, DOJI CANDLES

This trade took into account that the Trend Day bias had faded, and that we were expecting a "Range Day" structural shift or even a Rounded Reversal taking place. In other words, if this trade "worked," then we would have confirmed a Range Day structural shift (if we had not already decided that before).

During Range trades, we look to trade (fade) tests of the Bollinger Bands when candle reversal signals – such as dojis – form. A stop is always placed just under the most recent price extreme and target is always the opposite Bollinger Band.

One could have also taken a short-sale trade at 3:00 EST under the same logic (spike outside upper Bollinger) but this trade would have failed to achieve its target of a test of the lower Bollinger Band – this failure hinted stronger at a Rounded Reversal.

7. TRIANGLE BREAKOUT

This was a simple trade, as the price consolidated around the 20 and 50 EMAs (remember, EMAs become less effective during Range Conditions) and as the price reached the apex of the triangle, the entry is when price breaks above the upper (or lower) trendline to play for a range expansion move on a breakout.

The fact that price did break out confirmed the Rounded Reversal… into the close.

As a note, during choppy conditions, there is not a lot of commentary I can provide in terms of deep insights in rangebound conditions. Traders often abhor these conditions, and some stop trading for the day when they continuously are chopped around with little result.

New TICK highs (Wyckoff Signs of Strength) at the end of the day.

Mini-Divergences as seen on the 1-min chart.

Trend Channel into the close.

Quick notes – I always show these charts for this reason – once higher timeframe EMAs are broken, this can create great intraday opportunities.

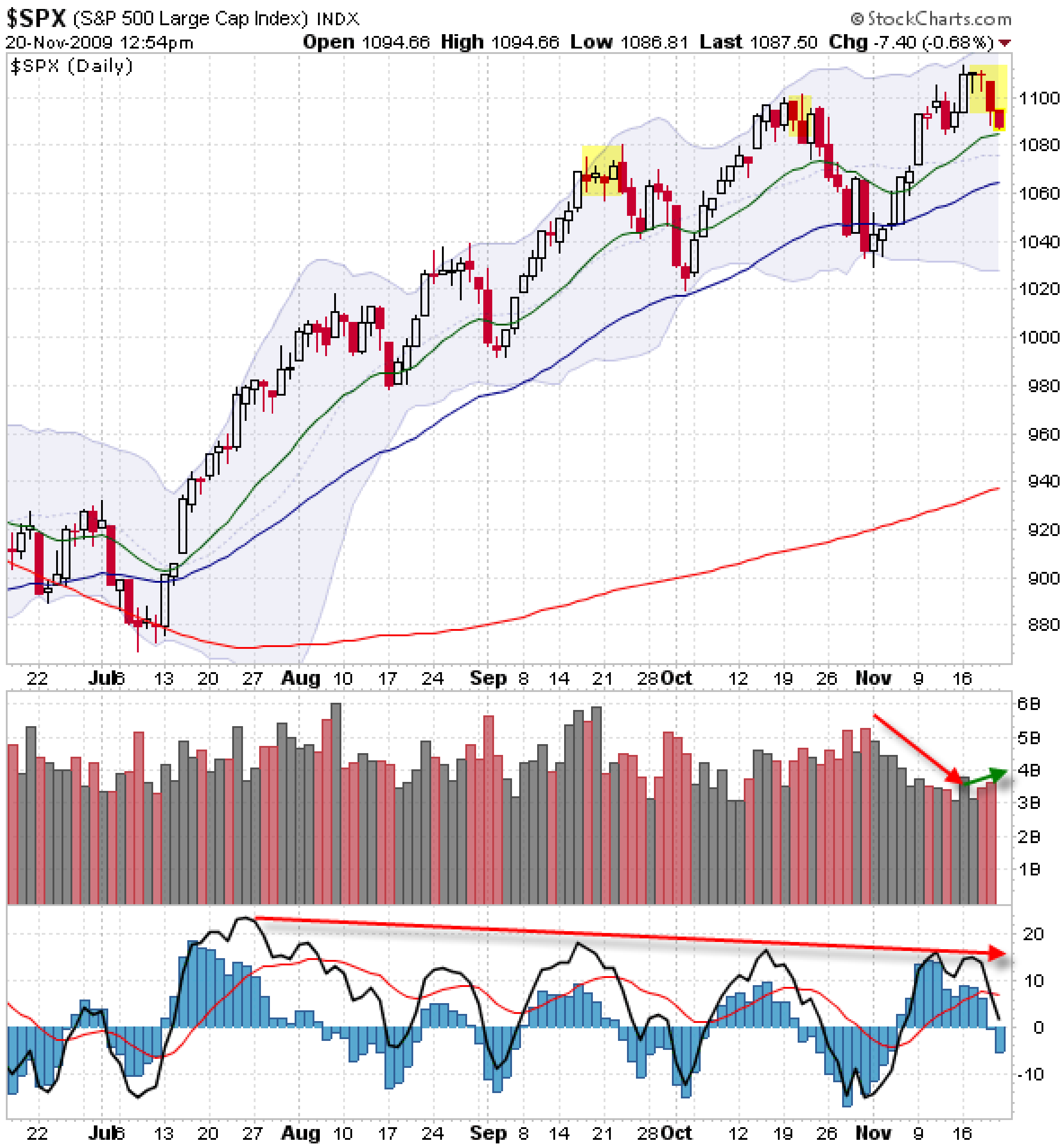
The opening break of both the 20 and 50 EMA triggered an aggressive short-sale bias.

Price retraced higher to challenge the underside of the 20 EMA into the close, which now looks like a "bear flag" as we see a downward inflection from this level on a new momentum low.

It would appear lower prices are favored, perhaps to the $108.00 level… though the $109.00 level itself could provide support from the prior price support on November 13th.

Price also tested the underside of the 50 EMA, triggering a short-sale bias as well that we're seeing play out this morning. We also see a new momentum low and a "Cradle Crossover" trade as the EMAs have crossed.

Odds now favor downside action (similar to what we've seen the last few months on a symmetrical swing) and I've drawn Fibonacci levels to watch for possible support/target levels.



The initial target – 20 EMA – is being tested currently, but it seems to have good odds of failing (price breaking underneath it) to set-up a test of the 1,060 level or lower.

If you look closely, there's been a pattern since September of a market low to form at the first of the month, strong rally to the middle of the month, and then pullback/retracement at the end of the month.

If this pattern repeats now – as it seems to be – then the target to play for could be the 1,050 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.