AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today showed some interesting volatility, but fortunately, all major turns in the intraday session were preceded by dual TICK and Momentum Divergences.

StockCharts.com had data/price issues in the morning for the SPY, which is why the S&P 500 Index is shown instead. I suggest focusing on the TradeStation charts for cleaner data in today's report.

GAP FADE

We had a morning gap of 50 cents in the SPY and then the first five minute bar was positive. Then, price began to fall in what triggered a "Gap Fade" short-sale trade with entry as soon as you felt comfortable that the gap had odds of filling, which usually is by the 3rd or 4th candle for most traders (most avoid shorting directly off an opening gap on the first bar). The stop is at least 10 cents above the intraday high and a full target is a complete fill, though some traders take off half their position (scale out) on a 50% fill... which was an appropriate strategy today.

The gap filled roughly only 50%, so those who exited at the halfway point or used trailing stops profited from the failed gap fill while others either took a smaller profit or small loss on the trade.

When gaps "should" fill but fail to fill, that usually sends a more powerful signal in the OPPOSITE direction - in this case, to trade to the upside.

POPPED STOPS, PRICE BREAKOUT ABOVE PRIOR SWING HIGH, PRIOR POSITIVE DIVERGENCE

The structure going into Monday's trading (from Friday) was that of a positive momentum divergence on the 5-min chart with possible rounded reversal forming. The rounded reversal and upward movement became the dominant pattern, which was confirmed as soon as price made a new swing high above the prior $104.50 resistance level, confirming a new uptrend in price and triggering a "Sweet Spot" trade to the upside. This corresponded with the positive economic report on the ISM Manufacturing Index (actual 55.7 vs consensus of 53 and then 52.6 prior month). It was unsurprising then that the market rose swiftly on the good news.

What WAS surprising was that the market fell precipitously in the hours following the report, despite how positively the TV media reported the numbers. This is another lesson on how being aware of economic reports, but not getting caught up in the hype of them, leads to better trading strategies (in other words, the market does not always do exactly what seems logical from economic reports). The market actually gave a powerful non-confirmation and then 'warning signals' before reversing... which we see here.

5-WAVE FRACTAL MOVE INTO 200 SMA AND UPPER BOLLINGER BAND WITH NEGATIVE TICK AND MOMENTUM DIVs:

Combine the 1-min and 5-min chart to better understand how the charts forecast the intraday reversal and how you could have both scalped short (or at least exited longs) and then entered just prior to the watershed downfall thanks to the "Sweet Spot" trade and EMA support breakdown, along with the breakdown of a symmetrical triangle (entry).

The red box on the 1-min chart reflects the 5-wave Elliott fractal move into new highs and the negative momentum and TICK divergence that greeted (failed to confirm) the new price highs on the session. That served as an "exit longs" (take profits) signal and a 'sell short' signal ONLY for aggressive traders.

The scalp was to play short to target the rising 20 EMA at the $104.70 level, which was met with three long lower-shadow bullish candles at support, which served as an "exit short" and then "trade long" signal on a pullback from the highs.

IMPULSE BUY

Sidebar - these bullish candles at the 50 and 20 period EMAs served as a classic "impulse buy" trade (buy the first pullback/retracement into support after a new price and momentum high to play for a retest of the prior highs). Entry was near $104.70 with target $105.40 - the intraday highs and stop beneath $104.60 - the rising 50 period EMA.

This trade failed, as price only managed to rise to the $105.00 level before reversing sharply lower.

At this time, it became evident as price formed a symmetrical triangle pattern, that the apex was forming into noon EST and that a price breakout up or down was imminent - it's often a good idea to wait to see in which direction price breaks from a triangle before taking a range expansion (pattern expansion) trade.

In this case, despite the bullish biases from the prior morning movement, new momentum highs, and rising moving averages, price sliced definitively downwards through both the 50 EMA and the lower Bollinger Band, ejecting downwards into a "Bollinger Band" expansion trade alongside the Triangle Breakdown trade, and triggering the pocket of buyers' stop losses at these levels which triggered the "Sweet Spot" or "Trend Reversal" trade.

Remember, it is my contention that you cannot forecast the first and second wave of an Elliott fractal, but the 3rd wave holds the key. In this case, price fell through support, triggering stop-losses of the buyers (downside action) as new short sellers entered, playing short from the triangle breakdown signal and broken support... thus creating the positive feedback condition that underlies almost all 3rd wave movements in all timeframes.

The "Sweet Spot" has a theoretically unlimited target, which actually means to hold short WITHOUT a profit target (though a stop-loss would be placed above the moving averages or triangle breakdown and then trailed above the 20 period EMA as it falls with price). The exit signal comes when price either forms positive divergences or bullish candles, or some sort of countervailing buy signal - which translates to an "exit short" signal.

In this case, we had a Bullish Engulfing Candle at the 1:00 EST lows, which triggered a 'sell-out' trade to stand on the sidelines and wait to re-short the market on a pullback/retracement to the falling 20 period EMA.

WAVE 4 RETRACEMENT, DOJI, EVENING DOJI STAR, IMPULSE SELL, BEAR FLAG

This would perhaps be the 'best trade of the day,' given the levels of confluence that occurred here. Price clearly formed a third-wave impulse to the downside, meaning - if the count is correct - then a new low is yet to come, which was also forecast by the new TICK and Momentum Low (momentum precedes price).

So, we wanted to be short-sellers of any pullback. The doji that formed just under the 20 EMA gave us that entry, with a stop above $104.00 and minimum target of a retest of the $103.10 lows.

Price did form a quick sell-off to test these lows, but we formed a "Truncated Fifth" wave, a rare occurrence where the final (terminal) 5th wave only re-tests the prior lows (forming a double bottom) instead of making an absolute low. A hammer formed off the Lower Bollinger Band and then was greeted with a (semi) Bullish Engulfing candle... which gave us our next trade.

HAMMER, 5-WAVE FRACTAL, BOLLINGER BAND, BULLISH ENGULFING, POSITIVE MOMENTUM AND TICK DIVERGENCE

This 'buy long' trade was not just for aggressive traders given the positive TICK and Momentum divergences that formed, along with the hammer and bullish engulfing candle at the "Double Bottom" retest of the lows. An entry would be made as price broke above the hammer high, or above the strong bullish engulfing candle's high with a stop underneath the intraday low of $103.08. The target would be a retest or even exceeding of the 50 period EMA on a potential "ABC" or three-wave structural move up (A up; B down; C up). This occurred in classic fashion into the close.

It never ceases to amaze me how the work of RN Elliott in the 1930s is still applicable to us today on the intraday timeframes of the major market indexes! The day ended with a negative momentum divergence into the final swing up.


SPY - 5 min ARCX 11/02/09 L=104.43 0.87 0.84% O=104.13 Hi=105.41 Lo=103.08 C=104.32
Popped Stops
Sweet Spot and Triangle Breakdown
Doji Impulse Sell Wave 4 Flag
Wave 5 Positive Divergence Candles Bollinger
1
2
3
4
5
105.00
104.50
104.44
104.37
104.00
103.66
103.50
0.50
0.30
0.21
0.11
0.00
-0.10
-0.30
-0.50
$TICK - 5 min NYSE 11/02/09 L=717.00 1226.00 -240.86% O=11.00 Hi=1073.00 Lo=-1456.00 C=717.00
800.00
717.00
400.00
0.00
-400.00
-800.00
-1,200.00
Nov'09
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00

Both the 5-min and 1-min chart show the Divergences and Opportunities of the Day. Dual Divergences are correlated with price reversals, and we see three great examples above.

I've also drawn in the two 5-wave Elliott Fractal moves both up and down intraday. I got a few emails from subscribers showing me/asking me if they were indeed seeing these 5-wave moves correctly in real time, and yes, particularly with the third-wave being so strong, the count was valid. Many of you are catching on to the lessons I'm showing each day and the concepts I'm explaining and are incorporating them into your intraday trading tactics and I'm very proud of you for that - that is indeed the goal of these type of reports - to open your awareness to new opportunities and trading tactics by showing multiple examples of these concepts each and every day.

As a bonus 'teaching moment,' here we see an advanced technique - that of using the Fibonacci Price Projection/Extension tool available in most software packages to set possible price reversal targets.

Using the intraday high and drawing down to the first swing low at 10:00 CST... and then drawing the extension grid to the rally high at 10:30, we get the following grid (which can be done as early as 10:30am CST or 11:00am... well in advance of the price lows).

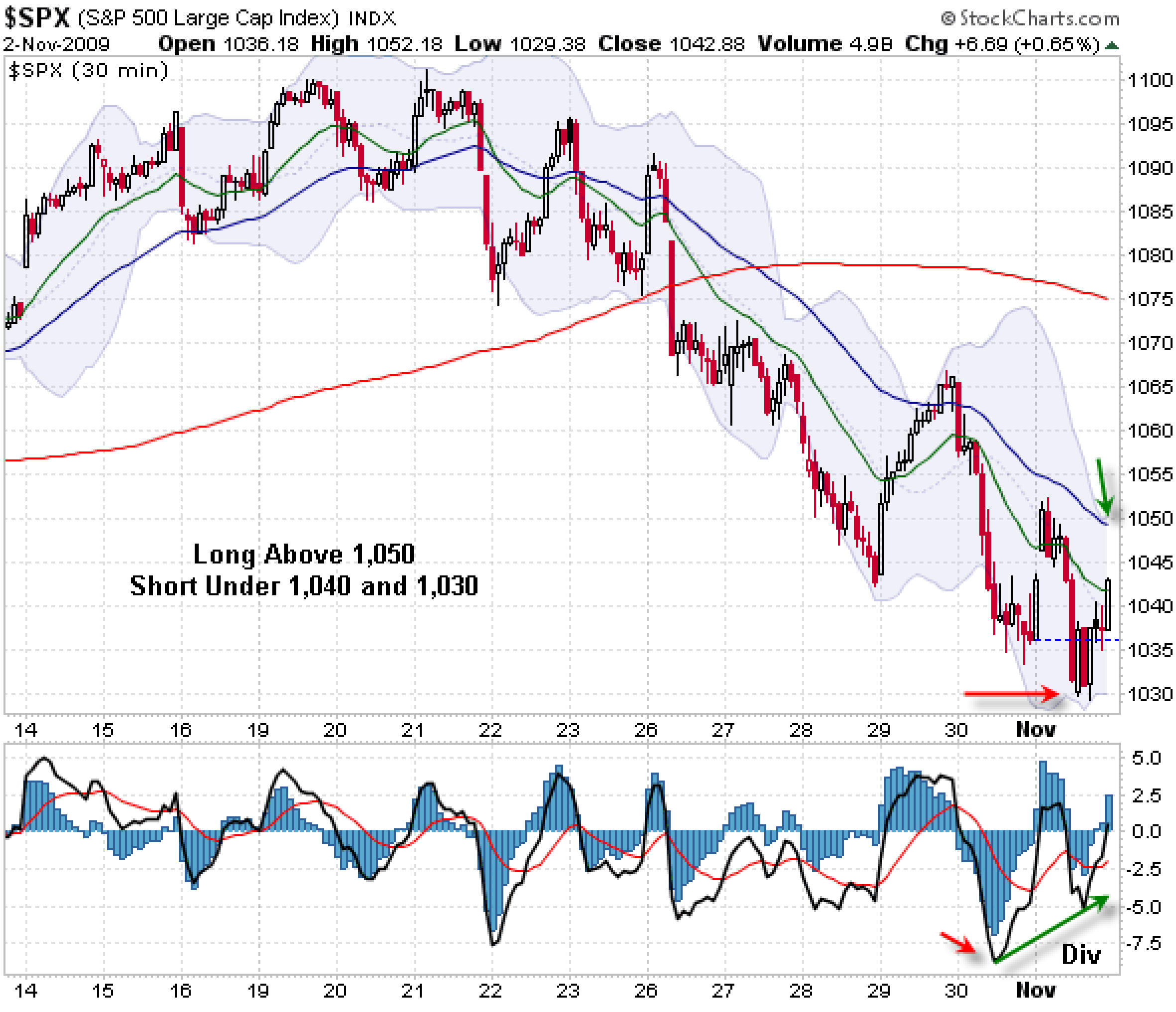
We see different levels to watch for potential targets for intraday reversals.

First, note that price 'tried' to reverse to the upside after bouncing off the 100% price projection at $104.36. This would have been comparable to a Bear Flag target.

Price also 'tried' to rally off the 161.8% price projection of the prior swing at $103.88 and then failed just shy of the 138.2% projection.

Once price failed under the 138.2% projection, the next target was the 261.8% Fibonacci projection which happened to come in at $103.09... and the intraday low of the session was $103.08. Price found support and reversed at the 261.8% Fibonacci 'projection' as seen above.

Doing this type of analysis is not required by any means, but it can be helpful to find 'hidden' support and resistance levels - or potential market turning points - that most intraday traders will never see coming.



We see a positive divergence going into today's price lows, and a negative structure to the prevailing moving average structure.

As such, look to trade long on any further upside movement that breaks above the 20 EMA at 1,043 and especially if price can rise above the 1,050 intraday highs (creating a new swing high) and the 50 period EMA at 1,050 along with the upper Bollinger Band there. These will be expected to hold as resistance on any upside movement, but if price can overcome them, it will help serve as an early signal that structure may be changing to favor a retracement to the upside.

Otherwise, continue trading with a short/sell bias under 1,030.

Tuesday Nov 3

FOMC Meeting Begins

Motor Vehicle Sales
CONSENSUS

ICSC-Goldman Store Sales
• 7:45 AM ET

Redbook
• 8:55 AM ET

Factory Orders
CONSENSUS • 10:00 AM ET

4-Week Bill Auction
• 1:00 PM ET

AMEX Select Sector SPDRs		Close	Change	% Chg
XLB	Materials	29.60	+0.26	+0.89%
XLV	Health Care	28.19	+0.12	+0.43%
XLP	Consumer Staples	26.08	+0.25	+0.97%
XLY	Consumer Discretionary	27.08	+0.26	+0.97%
XLE	Energy	55.60	+0.35	+0.63%
XLF	Financial	14.17	+0.12	+0.85%
XLI	Industrial	25.58	+0.29	+1.15%
XLK	Technology	20.73	+0.12	+0.58%
XLU	Utilities	28.34	-0.05	-0.18%

(Source - StockCharts.com)

(Calendar - source Bloomberg.com)

Tomorrow starts the "Fed" Meeting, with the policy/announcement coming Wednesday (which could result in a trend day) so watch tomorrow's session carefully and be ready for even more volatility, particularly if the economic announcements surprise the market. Always check http://www.bloomberg.com/markets/ecalendar/index.html to read about what's in store for tomorrow and what the reports might mean for the market.

From a technical perspective, we're officially under the expected support levels from the 50 period EMA at 1,047 and both sets of trendlines - one from the July lows (which ends at 1,080) and the other from the three prior price lows which ends near 1,047 also. Stay bearish as long as price is under these levels, but watch closely to see if buyers can step back in and force yet another "Bear Trap" which would be surprising but - clearly - not unprecedented.

It would be very bullish for buyers to regain 1,060 which would likely call for a retest of the 1,100 highs.

The reaction to the Fed Meeting will likely tell us which of the two scenarios will play out - a 'bear trap' and retest of the highs... or a continuation of broken support leading to lower targets including 1,000, and then 900.