AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Welcome back from the holidays! There's been an interesting sequence of events (namely the Dubai Global Market Sell-off and partial recovery) since last week, so let's get right into the action!

This report will contain a brief "Idealized Trades" summary of Friday's half-day action in the section after Monday's trading is explained.

1. IMPULSE SELL

The market was in a downward bias (downtrend on the 5-min chart) coming into Monday's trading session, so that helped guide trading decisions - meaning trades that retraced into resistance had better odds of a pay-off than counter-trend trades.

The first such trade was an early "Impulse Sell" which set-up after the new price and momentum low and then the retracement back to the 20 EMA that formed shortly after. The entry was as price retraced to the 20 EMA at the $109.80 level, with stop near $109.90 and target for a retest of the lows at $109.20. Unfortunately (for bears), price managed only to retrace to the $109.40 area, coming up shy of the target, though price did test the lower Bollinger Band before buyers stepped in to drive prices higher.

Depending on your aggression level, this trade either resulted in a small target (for those who exited at the retest of the Bollinger Band) or a scratch/small loss (for those who had a profit but held on to play for the full target which turned into a loss).

Price then broke bullishly above the 20 EMA, creating a mini-popped-stops environment that retested the 50 EMA and convergence resistance at the $110.00 level. Price initially appeared to form resistance at this area, and it was acceptable for aggressive traders to take a short-sale here, but there was not enough information to put on a high confidence, low risk trade until the 10:30 period on a final weak swing to new intraday highs... setting up our second trade.

2. DOJIS AT UPPER BOLLINGER, DUAL NEGATIVE TICK & MOMENTUM DIVERGENCES, 5-WAVE FRACTAL

This was perhaps the best trade of the day. both in confirmation and downside (expected) action. Again, price was structurally in a down trend, and - even if price was devolving into a trading range - two dojis at the upper Bollinger Band serves as a low-risk entry, and the probability of success was enhanced by the negative momentum and TICK divergences as seen on the 1-min chart - use that as a reference.

The entry was as soon as price took out the low of the dojis and broke the $110.00 "round number" level (triggering stop-losses of buyers who had placed stops under that level) and minimum target was a retest of the lower Bollinger Band at the $109.40 area, or a retest of the prior morning lows at the $109.20 area - the stop loss was above the doji high at $110.20.

Price met both targets and exceeded them with only one positive 'doji' candle that formed at Friday's close level of $109.60.

Because price had formed such a strong impulse down and re-confirmed the downtrend structure, odds favored lower prices yet to come... making us sellers of the next pullback into resistance.

3. IMPULSE SELL, DOJI AT 20 EMA, 5TH WAVE EXPECTATION

Using the same logic as Trade #1, price was in a downtrend, formed a new Price, TICK, and Momentum low, and thus odds favored lower prices yet to come - so we want to be short-sellers on the first retracement back into overhead resistance, which is usually the 20 period EMA or a Fibonacci retracement level.

Dojis (technically spinning tops) triggered the entry short just after 12:00 EST at the $109.30 level with a stop above $109.60 and target $109.00 - a retest of the afternoon low or even holding for a lower low yet to come.

As seen, price made a sudden impulse move down to the $109.08 level before forming a choppy trading range environment with the 20 EMA still holding as resistance with expectation of lower prices due to the trend structure.

However, both Momentum and the TICK began to show internal strength (positive divergences) with price, and this was a non-confirmation of lower prices. Conservative traders should have been taking profits from positions established near the $109.40 level while aggressive traders could have held on - ignoring the divergences - and played for a new low.

At 1:20, the structure officially changed, and the bearish pressure gave way to a bullish upside breakout, which allowed aggressive traders to try to play for "Popped Stops."

4. "POPPED STOPS,' DOJI AND HAMMER AT PRIOR SUPPORT, POSITIVE DIVERGENCES

This is similar to a "Wyckoff Sign of Strength" where indicators begin showing you clues to the future before price does, and on a breakout above the 20 EMA, many short sellers' stops were taken out, creating upward pressure. The Doji and especially the bullish (like) engulfing hammer hinted strongly at a possible trend reversal on the session, which would be confirmed into a "Rounded Reversal" on a break above the 50 EMA.

Aggressive traders could have seen these candles and the divergence and the break above the 20 EMA and then taken action quickly to play the "Popped Stops" of the bears (they themselves likely stopped out as well).

The stop was under the $109.10 level, and minimum target $109.50 - or the 50p EMA.

Aggressive traders also could have held in anticipation of a Rounded Reversal Forming while conservative traders waited patiently for a confirmed break above the 50 EMA.

5. "FLAG" - TRENDLINE BREAK, ROUNDED REVERSAL CONFIRMED, BULLISH BREAKOUT

Price did break above the 50 EMA shortly before 2:00 EST, but it did so at the upper Bollinger and on a long-legged gravestone doji - not the most bullish place to get long.

Traders should have taken a neutral stance in anticipation of another test to break above the 50EMA - or on a pullback from the resistance from yesterday's close at $109.55 to be sure of the upward bias and edge trade.

By all objective standards, the break of the declining trendline (best seen on 1-min chart) and re-break back above the 50 EMA triggered the best spot to get long - the $109.45 area with a stop under the most recent swing low down to the $109.30 area.

If you treated this as I did like a bull flag, then the upside target was $109.75 to $109.80 - where price found initial resistance (the red bar around 3:30). This was a great exit by any means, but price continued higher into the close, highlighting bullish strength and underscoring the "power" of the Trend Concept and the Rounded Reversal structure.


SPY - 5 min ARCX 11/30/09 L=109.76 0.30 0.27% O=109.48 Hi=110.20 Lo=106.63 C=109.94
1
2
3
4
5
110.20
110.12
110.00
109.97
109.90
109.80
109.70
109.60
109.50
109.40
109.30
109.20
109.14
109.10
0.2500
0.13
0.0500
0.00
-0.0500
-0.1500
-0.2500
$TICK - 5 min NYSE 11/30/09 L=78.00 743.00 -111.73% O=3.00 Hi=1322.00 Lo=-1181.00 C=78.00
1,200.00
800.00
400.00
248.44
78.00
-400.00
-800.00
11/30
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00


SPY - 1 min ARCX 11/30/09 L=109.76 0.30 0.27% O=109.48 Hi=110.20 Lo=106.63 C=109.94
1
2
3
4
5
2
3
4
5
Rounded Reversal
Wyckoff
$TICK - 1 min NYSE 11/30/09 L=78.00 743.00 -111.73% O=3.00 Hi=1322.00 Lo=-1181.00 C=78.00
110.20
110.10
110.00
109.97
109.90
109.80
109.70
109.60
109.50
109.40
109.30
109.20
109.10
0.2000
0.1000
0.0013
-0.1000
-0.2000
1,200.00
800.00
417.31
78.00
-400.00
-800.00
11/30
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

Let's switch gears for a moment and look back at Friday's half-day holiday trading session to highlight three "ideal trades" worth mentioning for reference/examples.

With the news of the Dubai World default, global markets fell roughly 3% (including our own futures market) and gold fell $60 - a major move for the precious metal. This was the environment we were greeted with on Friday - that is, assuming you chose to trade during the holiday session.

Though you certainly could have traded the opening gap, I was not inclined to do so and stood aside to let the market shake-off the aftermath of the global sell-off, looking to be a short-sellers of strength into overhead resistance. The chart above shows one of the best trade confluences, in that price rallied in a 45 degree channel up to the 61.8%

Fibonacci retracement of Wednesday's close to Friday's open (aka - the 'gap') and then formed a dual negative divergence both in the 3/10 oscillator (external divergence) and a tiny divergence in the TICK on the absolute price high. Until then, the TICK had been confirming price highs, hinting that higher price highs were yet to come.

A doji formed on the 1-min chart as price retraced up to the 61.8% retracement, which was the 'line in the sand' between expecting a (low probability) full gap fill or a retracement back down. Entry was as soon as the low of the doji was taken out OR on a break of the lower trendline with a stop above the doji at the $110.30 area.

This also came into the convergence of the upper Bollinger Band and the 50 period EMA on the 5-min chart - lots of confluence to have confidence to put on a short-sale, tight stop position.

Initial downside targets included the 20p EMA (conservative) or a minimum move down to the 38.2% retracement of the morning impulse up at the $109.55 area - this ultimately was as far as price retraced... giving us a second possible trade.

2. 38.2% FIBONACCI, ABC RETRACEMENT, POSITIVE MOMENTUM DIVERGENCE

This admittedly was a trade only for aggressive traders, but it did provide a low-risk, decent (I wouldn't say "high") probability entry. Price formed a 3-wave retracement down against the morning strength and tested the 38.2% Fibonacci retracement area on a Positive 3/10 Momentum divergence.

Entry would be as soon as price took out the high of the spinning top-like candle and an initial target would be a retrace back to the 20 EMA or - more appropriately - the 50 EMA at the $110.20 level.

Price did retrace to this level and formed a long upper shadow candle that could not close above the falling 50 period EMA just before noon CST.

3. DOWNTREND, UPPER SHADOW CANDLE, 50P EMA RESISTANCE

This also was an aggressive trade, given that markets on holidays - particularly into the close - can be very volatile. Still, the edge comes from the structure (downtrend), EMA resistance, and the tight stop when compared to the reward if the trade works in our favor (the monetary edge).

The 1-min chart was not showing divergences as price came into resistance, making this an even more aggressive short-sale... that happened to work out favorably for sellers.

The minimum target would be a retest of the $109.55 support level (prior swing low), though very aggressive traders could have held profitably into the close.


SPY - 5 min ARCX 11/30/09 L=109.88 0.42 0.38% O=109.48 Hi=110.20 Lo=106.63
61.80% (110.23)
50.00% (109.86)
38.20% (109.49)
0.00% (108.30)
0.00% (110.32)
38.20% (109.55)
50.00% (109.31)
61.80% (109.07)
100.00% (108.30)
1
2
3
111.00
110.50
109.97
109.50
109.00
108.50
0.2000
0.1287
0.0000
-0.1000
-0.2000
$TICK - 5 min NYSE 11/30/09 L=78.00 743.00 -111.73% O=3.00 Hi=1322.00
1,200.00
800.00
400.00
248.44
78.00
-400.00
-800.00
11/27
9:00
9:30
10:00
10:30
11:00
11:30
11


SPY - 1 min ARCX 11/30/09 L=109.80 0.34 0.31% O=109.48 Hi=110.20 Lo=106.63
61.80% (110.23)
50.00% (109.86)
38.20% (109.49)
0.00% (108.30)
38.20% (109.55)
50.00% (109.31)
61.80% (109.07)
100.00% (108.30)
1
2
3
110.20
109.97
109.80
109.60
109.40
109.20
109.00
108.80
108.60
108.40
0.2000
0.1000
0.0013
-0.1000
-0.2000
$TICK - 1 min NYSE 11/30/09
1,200.00
800.00
417.31
78.00
-400.00
-800.00
9:00
9:30
10:00
10:30
11:00
11:30
12:00

Quick note that price remains within the trading range boundaries I've been describing in the last few reports - nothing has changed. We're still in that range.

Interestingly enough, price found support at the $109.00 level today which is clearly the lower boundary of the range. This is why taking special note of the end of these reports for these summaries is important - and writing down the price levels mentioned.

Due to classic trend analysis, odds favor price to remain 'bouncing' around in this range (meaning an upward bias for the next few days) until a breakout occurs - either bullish above $111.50 or bearish under $109.00.

This is the dominant structure to guide intraday trading until a breakout occurs.

I try to be unbiased in these reports, and let the price charts speak for themselves, and note areas of conflicts - for example, the 30 min chart argues strongly in favor of bullish action higher as price remains in a trading range (rectangle).

However, as it stands now, the 60min chart could be arguing for a potential "Rounded Reversal" of price to begin moving to the downside, and that the current $110.00 level would serve as confluence resistance via the 20 and 50 EMAs converging at these levels. Remember that during trading ranges, we must rely less on moving averages which flatline - in fact, flat moving averages are indicative of a trading range.

The way to converge these two timeframes is to say if price can overcome (break above) $110.00 and especially $110.20, then odds would favor that the 30min "Trading Range" bias would be dominant to argue for a retest of the $111.50 highs. However, if price starts to head lower from here, then we would defer to the 60min chart for increased probabilities of a "Rounded Reversal" for a potential larger move lower than just the $109.00 target (support).

Strangely enough, the daily chart is now arguing for a possible retest of the highs - or at least a potential support bounce off the rising 20 day EMA at 1,091 (price opened at this level and closed at 1,095). This is bullish as long as price is above this level... despite the negative volume and momentum divergence.

As such, watch for bullish continuation as long as price is above this level (deferring back to the 15-min 'range' thesis) and play for a minimum target of the 50 EMA at 1,071 on any break of 1,090 in the next few days.