AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was another "Fed Day" and the price action eerily followed almost exactly the pattern I showed you in last night's report - that of the September 23rd Fed Day with a gap up, flat action mid-day, upward volatile movement after the announcement... and a crash into the close.

What's interesting is that the price action found resistance at the 20 day EMA as I highlighted also last night as a possible target and found support both from yesterday's close (into today's close) and from the rising 50 day EMA - I find that very interesting and a good example of why you should be looking at daily (or 60 or 30 minute charts) and knowing these values (for example, 1,060 as the 20 day EMA) as both targets to play for and expect possible new trades at these levels. That's why I show you end-of-day higher timeframes so you can make note of these levels as see if price breaks or fails at these levels intraday... or more importantly, if you know that the 20 day EMA resides at 1,060, then you should have been more confident to take a short-sale trade as price rallied into this level on a 'dual' negative TICK and momentum divergence - it was one more piece of evidence that you had that other traders did not.

Remember that the focus of these reports, and of my trading/teaching style, is to focus on "Idealized Trades" both in real-time and as an end-of-day review. As such, I will only label two trades "Ideal" today - I do not recommend newer or sometimes even intermediate traders try to trade the "ripples" from the Fed Day announcement without prior experience in doing so.

Let's discuss these trades.

1. TREND DAY EXPANSION, BREAK ABOVE NEW HIGH, 'SWEET SPOT' TRADE

The first trade would NOT have been a gap-fade because price gapped almost $1.00 in the SPY and we had reason to expect a Trend Day in advance - the Fed Announcement. Fed Days are unique in that price can form a trend day much easier than on other days... until the announcement.

As such, you should have considered buying the first pullback into support after the new price and momentum high off the morning gap. There really wasn't a clean 'pullback' into support, so the 'ideal trade' - particularly for conservative traders - was to take the "Sweet Spot" trade as price crested to a new high after the morning doji high at $105.60. Sweet Spot trades can allow you to play for large targets, and the exit signal is a countervailing sell-short signal, as we'll see in the next trade.

Sweet Spots trigger when price forms a new high (along with new momentum high), price retraces, and then price forms a higher high - taking out the prior high in price. These are tantamount to buying into the middle of a potential and expected 3rd wave in the Elliott structure, or at the objective point of a trend reversal. In this case, the buy-in point came during the 5th wave, but the main idea is to be buying into a price expansion move after a new price and momentum high in the event that a clean retracement does not form.

As price rose, we had perhaps the best trade of the day - or the easiest one for me to spot today at least.

2. 20 DAY EMA TEST, NEGATIVE TICK AND MOMENTUM DIVERGENCE, BEARISH ENGULFING

Again, I mentioned to watch the 1,060 area as the 20 day EMA for both a target and overhead resistance, and to remain long if price broke above this level. As price moved upwards into this level in the morning ($106.00 in the SPY), price action began to stall and momentum (3/10 Oscillator) had clearly formed a negative divergence, but more importantly, the TICK formed a glaring negative divergence with the intraday price highs. Pay more attention to TICK divergences than momentum divergences on potential trend days, especially when we see them unite with an identical signal as this did.

To make matters even easier, price formed a few dojis (though we continued to slip to new highs) and then - more importantly - formed a bearish engulfing candle at the 11:00am highs (even more telling on the 1-minute chart... where the divergences were even clearer).

This was an "exit long" and "reverse and trade short" signal with a stop above the intraday high and minimum target (conservative) for a test of the 20 EMA at $105.80. If you were playing for a trend reversal off this level, then the 50 EMA would have been a more aggressive target. Exiting as price tested the rising 20 EMA and lower Bollinger Band at $105.80 was also a good idea, though price continued to fall lower and then drifted for the rest of the afternoon into the Fed Announcement.

I mentioned in advance yesterday that price tends to trade flat prior to the announcement, so there were no trades to be taken then. I also mentioned that Fed Day reactions tend to be very volatile, and swing in both directions but usually have a three-phase move. It is best for newer and even intermediate traders to stand aside through this action.

For those so brave enough to do so, there was a negative momentum divergence as price re-tested the $106.20 (1,060 in the S&P 500) overhead resistance level (second divergence at that critical level) so that would have been a good place to short, particularly as price formed a long upper shadow outside the upper Bollinger and then formed two spinning tops and a doji candle - all of which showed odds favored a retracement - most likely to the 20 EMA at $105.80 for a trade. In the same nature as the prior Fed Day, price tried to rally off the 20 and 50 EMA... and then collapsed.

That makes two Fed Days, two "positive" reports from the Federal Reserve (the economy is slightly improving and we are going to keep Interest Rates low for some time)... and two drastic price declines into the close.


SPY - 5 min ARCX 11/04/09 L=105.18 0.53 0.51% O=105.51 Hi=106.33 Lo=104.65 C=104.89
Divergence Short
Trend Day Long
Major Divergence and 5-Wave Fractal
1
2
3
4
5
$TICK - 5 min NYSE 11/04/09 L=-47.00 -934.00 -105.30% O=26.00 Hi=1061.00 Lo=-1173.00 C=-47.00
11/4
10:00
11:00
12:00
13:00
14:00
15:00

The one-minute chart showed the divergences better than the 5-min chart, particularly in the morning trades.

The 1-min chart shows me why it's generally a low-edge, high-risk (the opposite of what you want to trade) near 'random' price action that occurs in the unpredictable 'ripples' from the moment the Fed Decision is announced.

Standing aside and not trading is better than trying to get rich playing these moves and losing a large amount of money quickly.

I wanted to show you again the September 23rd Fed Day announcement and how similar it was to today's action (with the exception of the morning gap and downward drift today's action had).

History does repeat and that's why reviewing the market action each day and learning these patterns is so important for your trading.

The 30min structure initially gave a positive EMA cross today as price gapped and moved higher, triggering a buy-signal, though the Fed Action - which found support on the 50 EMA on the 30min chart - sent price into a spiral and we have closed underneath these levels, threatening to cancel the bullish structure that just developed.

If price can rise back above these EMAs, look to be biased long, but any solid move through $104.50 sets up the expectation that we'll test $103.00 again.

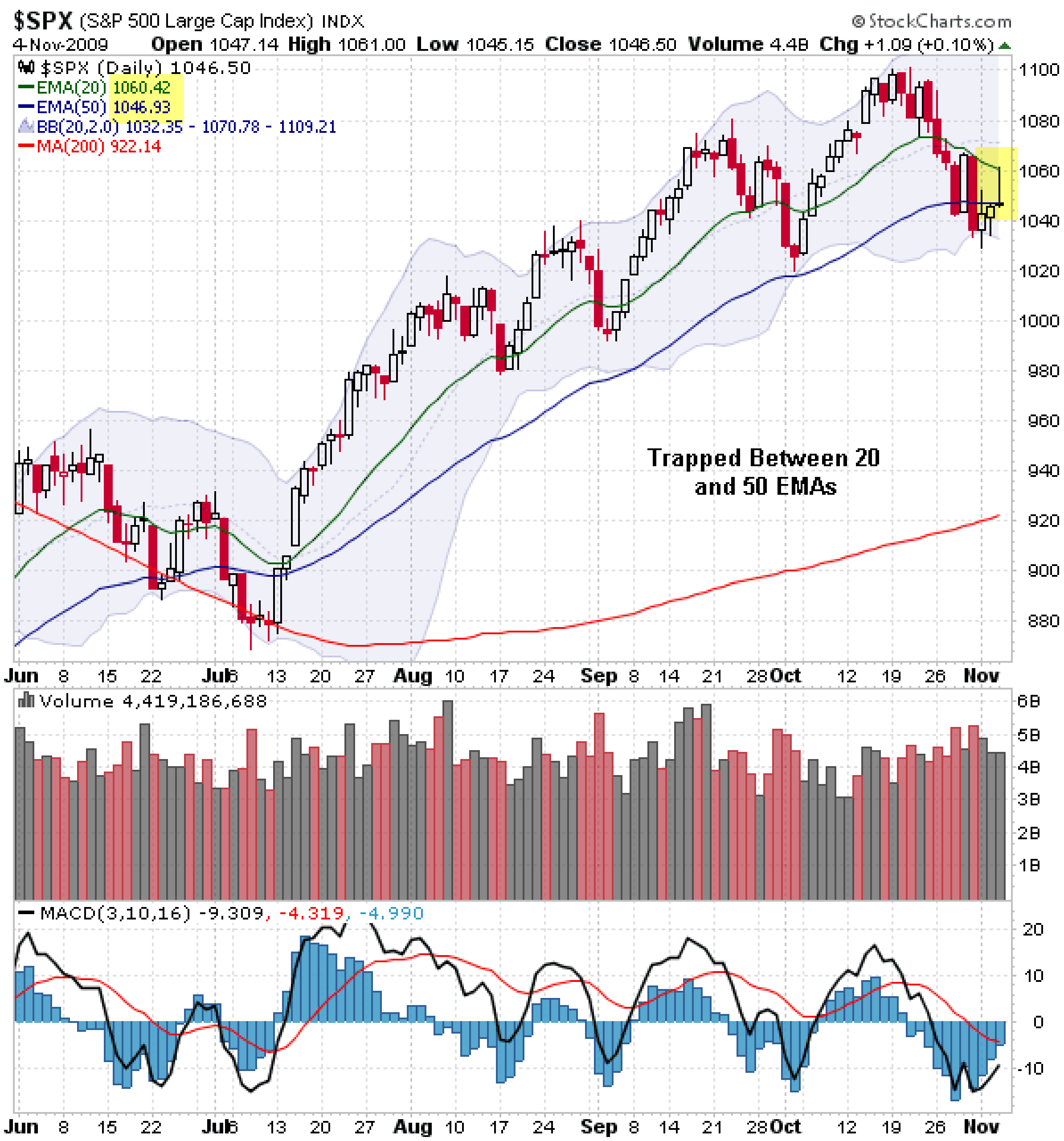
The new momentum high and bullish crossover suggests higher prices yet to come... but do watch very closely with an open mind tomorrow and remember the big "Jobs Report" is Friday which could send the market moving strongly in either direction if another "surprise" is given.

The structure is not quite as bullish on the 60min frame, as price is under the 20 and 50 EMAs, and these averages still are in a bearish posture, though the 20 EMA is rising.

Volume formed a negative divergence as price rose off the early November lows.

These are conflicting signals and also levels to watch for biases going forward.

Again, any down-move from here should set-up a bias to test $103... but be also watching for an upward move to place us back above these EMAs and in a more bullish expectation.



More levels to watch on the daily chart for clues.

Any downside move from here would solidly break under the 50day EMA again (we closed less than a point under it today) and set-up a bias to test the November lows (or break them). The 20 day EMA resides at 1,060, and that came into play during today's session that helped you set up a trading opportunity short as price failed to rise above this level.

Volume was lower today, which isn't a good sign for bulls given that the majority of the day - until the final hour - was up.