AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today reminded me in part of Tuesday, when the market participants paused in front of a large economic announcement the next day. Friday morning at 8:30am EST. Here is the chart of expectations from Bloomberg.com:

POWERED BY ECONODAY

Employment Situation

Released on 11/6/2009 8:30:00 AM For October, 2009

	Prior	Consensus	Consensus Range
Nonfarm Payrolls - M/M change	-263,000	-175,000	-200,000 to -55,000
Unemployment Rate - Level	9.8 %	9.9 %	9.9 % to 10.1 %
Average Hourly Earnings - M/M change	0.1 %	0.1 %	0.1 % to 0.3 %
Average Workweek - Level	33.0 hrs	33.1 hrs	33.0 hrs to 33.1 hrs

http://www.bloomberg.com/markets/ecalendar/index.html

As usual - and as happened last time - any positive surprise (in the event that the economy ADDED jobs last month) would be expected to send the market surging higher, giving you plenty of opportunity to profit handsomely from a powerful trend day.

On the flipside, any job losses greater than -200,000 could send the market falling in a tail spin, given that - from the consensus I can gather - the market is poised for a positive surprise so any negative surprise could be devastating.

Thus, look to the charts at the end of the report for guidance and key levels to watch/know in advance as usual, but realize that the market will be dictated tomorrow by the reaction to the jobs report instead of the 'usual' end-of-day technicals.

Trades

SWEET SPOT, POPPED STOPS

Similar to yesterday's strong positive open, we had a large opening gap - this time about 70 cents. That's in the 'neutral' zone to expect a fade (fades are favored under 55 cents general) and the market failed to have (much) downside retracement before skyrocketing higher on a powerful 5-min candle, which could have triggered a long/buy for aggressive traders.

Those - like myself - who enjoy pullbacks had to wait for the market to retrace part of the move before feeling comfortable to enter, which occurred on a 4 candle pullback that was preceded by a large upper shadow Shooting Star candle. A doji formed at the $106.00 "round number" support level, and then price began to rise in a semi-bullish engulfing candle from this level.

Like yesterday, if you missed buying in long at the pullback, you certainly could have gotten long as price crested above the morning high of $106.35 which also would have taken out the "Fed Announcement" swing high... or you could have waited to get long at the $106.40 level for a potential "Popped Stops" trade (taking out the stops of those who felt the $106.00 or $106.40 level would hold as resistance).

Price crested up to form multiple dojis in a sideways correction that formed a - not surprising - negative momentum divergence but did form a rather surprising and pronounced negative TICK divergence... again just like yesterday's morning action (almost exactly).

DOJI, WAVE 5, TICK AND MOMENTUM DIVERGENCE

This trade was certainly an "exit longs" but also was an aggressive short sale, given the amount of dojis and the negative divergences forming. The initial (conservative) target was the rising 20 EMA while the more aggressive target was the rising 50 EMA at the $106.10 level. For those who faded the prior price high - again an aggressive move given that it was a counter-trend scalp, the trade worked out well.

DOJIS, HAMMER, CONFLUENCE OF 50 EMA AND BOLLINGER BAND, 50% FIBONACCI RETRACEMENT

One of the best trades of the day came at the noon EST pullback to the confluence zone of the 50 EMA and the lower Bollinger Band. Four dojis and two bullish hammers formed within a 30-minute period as price arced its way up from this support level, which also happened to be the 50% Fibonacci retracement from the morning low to the intraday high (see 1-min chart).

The logical stop-loss would be under $106.00 with a target of a retest of the prior highs at $106.60... which was achieved without much resistance.

A nice sell signal (exit long - not necessarily get short) came on a negative TICK and momentum divergence as a doji formed as indicated in the 5-min chart.

Price traded in a range and again made a slightly new price high on a negative TICK and momentum divergence with a 'poke' outside the upper Bollinger Band just before 2:00pm. Aggressive traders could have treated this as another counter-trend scalp to play for either the 20 EMA or the 50 EMA - both of which were successful targets - but again it was an aggressive trade as it was fading the established trend.

MULTIPLE DOJIS, CONFLUENCE OF 50 EMA AND BOTTOM BOLLINGER

This was almost an identical trade as the prior support bounce, and the parameters were the same, only the entry and stop were higher than before. Entry came as price formed multiple dojis at the $106.40 level and a stop was beneath the confluence of the 50 EMA and lower Bollinger at $106.30. The target was a retest of the swing highs at the $106.70/80 level which was met quickly in three sudden up bars... that formed three upper shadow wicks outside the upper Bollinger which again served as a nice 'exit longs' condition with a profit.

Seeing the price range, one could have shorted as price poked back above the upper Bollinger and played again for the 20 EMA (exited), and then flipped and reversed long when price took out the high of the final doji prior to the last two up-bars, but that was aggressive, fast-reflex, choppy trading into the close which happened to be effective, but roughly inefficient to an extent.


SPY - 5 min ARCX 11/05/09 L=106.83 1.91 1.82% O=105.66 Hi=106.88 Lo=105.44 C=106.85
Dojis
Exit/Sell Signals
Dojis Buy at Confluence Support
Impulse Buy/Flag
Dojis Buy at Confluence Support
Sweet Spot
106.86
106.60
106.40
106.34
106.20
106.00
105.80
105.60
105.40
105.20
105.00
104.80
0.40
0.20
0.04
-0.20
-0.40
$TICK - 5 min NYSE 11/05/09
Technically, a Negative TICK Divergence All Day Long
877.00
400.00
0.00
-400.00
-800.00
11/5 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

One of the main lessons comes from drawing a quick Fibonacci grid from the morning lows to the morning highs and asking "what are the levels to watch for a potential turn-around or support level?" The answer was the $106.10 level, which was the 50% Retracement (that - again - corresponded with the 50 period EMA on the 5-min chart and the lower Bollinger on the 5-min chart). Here, we also had the 1-min 200 period SMA.

Don't worry if you don't find all these sources of confluence in real time - finding two or three indicators that align at a certain level is often enough to generate a low-risk trade. The purpose of these reports in part is to teach you different methods to find confluences and tactics that work best for you - remember we trade in real time under conditions of uncertainty, so the more you can learn and review after the market is closed, the better you'll be in real time.

Not much to say about tomorrow, other than the Jobs Reaction will dictate whether we break through overhead resistance at the $107 level - via the upper Bollinger Band, 200 period SMA, and prior price high from October 29th.

If we do break above $107 with a gap, it may pay to have an aggressive long (buy) bias, but if not, watch the lower EMAs for support on any downside move on a disappointing announcement.

Otherwise, there are negative volume and momentum divergences underlying today's high which serve as non-confirmations.

The same structure is evident on the 60-min frame, only this time I'm showing the dominant Fibonacci grid, which places price just above the 50% retracement at $106.71.

We see the negative volume divergence as price has been rising which is bearish, however we do finally see a positive (bullish) cross-over in the 50 and 20 period EMA which is structurally bullish from a trend perspective.

On the daily chart, price rose above the 20 day EMA at the 1,061 level and now stands a hair bullishly above all eMAs on a pathway that could again retest the prior highs at 1,100.

A positive report and positive market reaction will clue us in that odds will favor a test of the highs in YET ANOTHER bear trap and expected multi-day positive gain just like that of August, September, and October.