AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

If you're as dizzy as I am after today's trading session, you're certainly not alone. The Jobs Report missed expectations, as the economy lost MORE jobs than forecast, and driving the unemployment rate to a headline flashing 10.2%... and 'real' unemployment (counting temporary and those who have simply stopped looking for work) to 17.5%.

17.5% of Americans are unemployed. That's the largest number since the Government began reporting the "lower" number (hiding the actual number) in 1994... and reported unemployment is now at the highest level since 1982.

As this is not a fundamental/economic commentary report, I'll leave it at that.

It is not our job to interpret the headlines - it is our job as intraday traders to recognize structure, set-ups, and opportunities and profit in either direction the market moves as best we can interpret it in real time.

So, let's find and study the trades that were possible - or educational examples - today so we can be better prepared for the future.

1. GAP FADE

This is one of those trades that - I'll be honest - I passed on due to my thinking that "there's no way the market will fill this gap with a poor jobs report like that." Though the gap filled... in three bars.

The gap was about 75 cents, which actually is beyond the expected range for odds to favor a gap fill, but the gap did fill. I won't expound upon this trade, but will note it for a referencial/statistical standpoint ... though in real time if you were watching the news (and the disappointed mood on CNBC), it would have been very difficult to conceive of the gap filling.

2. UPPER BOLLINGER BAND, THREE LONG UPPER SHADOWS, R1 PIVOT LINE, DIVERGENCES ON 1-MIN CHART

I will actually deem this the best trade of the day - given that the upper shadows were so pronounced outside the Upper Bollinger Band at the R1 Pivot (don't worry if you were not watching pivot points - I keep them as a reference and only pay attention if they happen to be a factor when I'm looking to put on a trade, perhaps from a divergence or other reason - like upper Bollinger Band Spikes).

See the 1-min chart to find the negative momentum and TICK divergences at the high which added to the probability of a successful short-sale trade. It was a rather aggressive trade, and the stop might have been larger than you were comfortable with, depending on where you entered (perhaps as the low of the dojis at $107.15 was taken out ... it would have been very difficult to enter in the price spikes - it's better to wait for them to form and take a position after the 5-min bar is complete).

The conservative target was a retest of the 20 EMA along with the support from yesterday's close at the $106.85 level... though you might have chosen to hold on as price was literally in a free-fall through this level. The next conservative target became the rising 50 period EMA at $106.65... but again, price was in a stellar free-fall. It was perfectly fine to exit profitably from here, (or taken off half your position) or for aggressive traders to wait for a countervailing BUY signal before exiting... such as the following.

3. FOUR LONG LOWER SHADOWS, BOTTOM BOLLINGER TEST (ALMOST), DAILY PIVOT POINT, POSITIVE DIVERGENCE

This was a great trade, and allows me to discuss the "Rinse and Wash" tactic which can be a good argument for larger stops at "obvious" entries.

Although I didn't label it, there was a 5-wave fractal progression down to the lows on the 1-min chart that ended on a positive TICK and momentum divergence just beneath the Daily Pivot Point at $106.39.

A NOTE ON PIVOT POINTS

(Pivot Points are auto-generated using yesterday's data, and you can add them to your chart by hand, or can use an indicator as I do in TradeStation - most software packages offer the "Floor Trader Pivot" indicator.

If your program doesn't offer it automatically, visit any number of websites with free pivot point calculators, or set up your own Excel Spreadsheet to do so.

The website: http://www.pivotpointcalculator.com/ is a good reference to use.

Never take a trade in isolation off a pivot point line, just like you wouldn't take a trade solely based on a Fibonacci line.

This trade was interesting, as two long lower shadows formed hammers that bounced off the Daily Pivot level. If you entered long during the formation of either of these bars, you likely placed your stop just under the Pivot Point at $106.40 or maybe as low as $106.30. Doing so led to a stop-loss at the low of the swing which was a very frustrating experience.

That's why I often advocate waiting to enter on the bar after a hammer or doji when the HIGH is taken out by the next candle. That particular entry strategy did not trigger until the bullish engulfing candle (4th candle at the lows) formed which not only allowed you to avoid the "Rinse and Wash" (the same logic as the "Popped Stops" - just a different term), but allowed you to have more confidence in taking a position as now a Bullish Engulfing Candle had formed.

Otherwise, a positive momentum and TICK divergence formed and was evident at the spike lows on the 1-min chart, further adding confidence to take the trade.

By this point in time, you might have been expecting a possible Range Day, and if so, then your target would NOT be the 20 or 50 period EMA (acceptable if you exited at these levels), but the upper Bollinger Band for an exit long trade.

Price chopped its way all the way to the upper Bollinger at $107.10, leading to a choppy but profitable trade. Leading to...

4. UPPER BOLLINGER, RANGE DAY BIAS, DOJI/SHADOW CANDLES, NEGATIVE DIVERGENCES

This was the true test as to whether to expect this to be a range day or not - if this trade set-up worked, odds then strongly favored that the remainder of the day would be flat.

The trade was successful, though price did not fall all the way down to the lower Bollinger Band. Remember not to let a profitable trade turn into a loss just because you are trying to play for the final few pennies (or points) of a move while you're so close to the target. It's ok to let a position retrace halfway on you sometimes, but never let it go all the way against you.

5. UPPER BOLLINGER, UPPER SPIKE SHADOW, NEGATIVE DIVERGENCE, RANGE DAY BIAS

Under the same "Range Day" Logic - looking for trade entries that occur at Bollinger Band Extremes when accompanied by Candles and/or momentum divergences - we see another example as price made a marginal new high above the prior swing high from the noon hour. Like the prior trade, this trade also fell a few pennies (points) shy of the target of the lower Bollinger Band.

6. BOLLINGER BAND, LONG LOWER SHADOW, HAMMER

Again, under the same "Range Day" logic, we had a hammer candle (red candle with long lower shadow) that was followed by another hammer (third candle after the long red hammer) that also 'poked' outside the lower Bollinger Band. The stop was under the $106.70 spike low and target for the upper Bollinger at $107.10 with entry near $106.80 or $106.90.

Range days tend to be 'inefficient' in that you're having to do so much work for much smaller profits.


SPY - 1 min ARCX 11/06/09 L=107.14 0.29 0.27% O=106.26 Hi=107.40 Lo=106.05 C=107.14
Divergences at R1
Divergences
3
5
5-Wave
Divergence Sell
1
2
4
Positive Dual Divergences at Daily Pivot
(with "rinse and wash" of stops)
107.40
107.35
107.30
107.20
107.16
107.10
107.00
106.90
106.80
106.70
106.60
106.50
106.39
106.30
106.20
106.10
0.3000
0.2000
0.1000
0.0133
-0.1000
-0.2000
-0.3000
$TICK - 1 min NYSE 11/06/09 L=438.00 -439.00 -50.06% O=-2.00 Hi=1208.00 Lo=-1160.00 C=438.00
1,200.00
800.00
438.00
0.00
-400.00
-800.00
11/6
9:00
9:30
10:00
10:30
11:00
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15:00

The higher time frames did not change much today. Price is still - currently - finding overhead resistance at the same levels mentioned in last night's report, but we're slightly above the $107.00 'round number' and prior price resistance level.

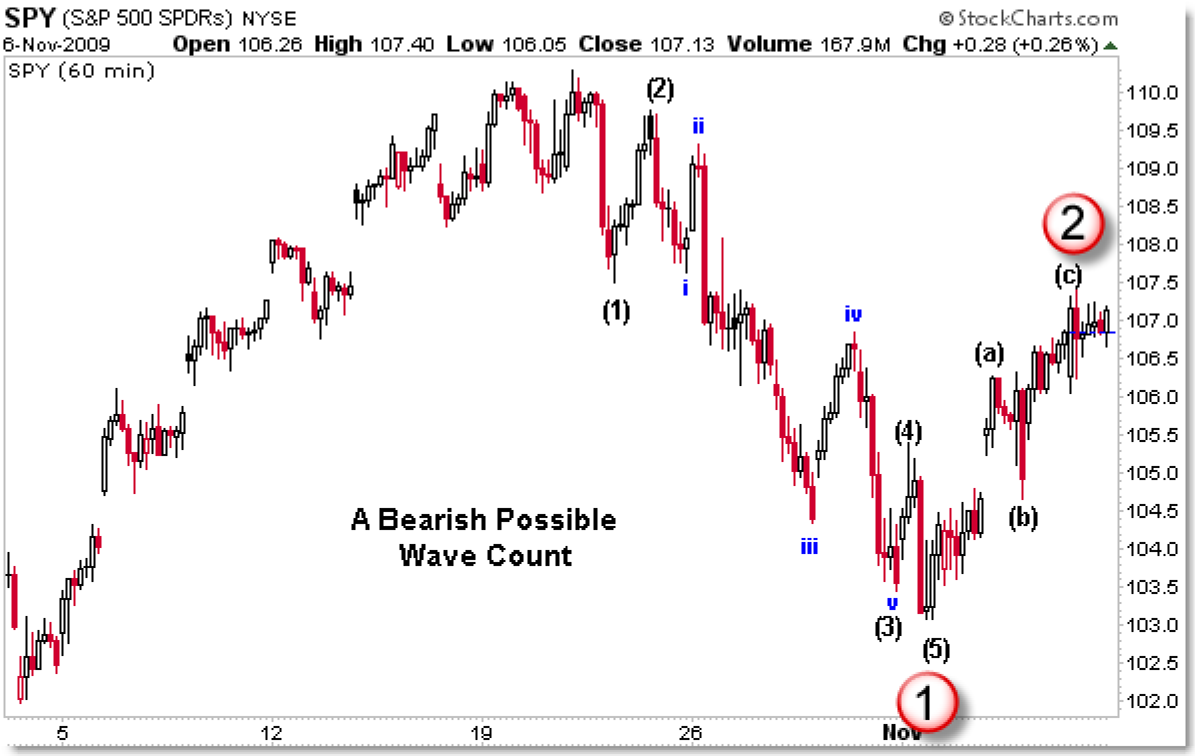
This is a 'make or break' moment for price, as any move higher here should lead to upside continuation in favor of yet another "Bear Trap" to push price up to retest or exceed the prior high - yet another devastating set-back to bears/sellers.

However, there are headwinds to overcome, namely the resistance here and the negative volume and negative momentum divergences... as well as the fact that this rally off the early November lows looks like a bear flag. Any breakdown of the lower trendline, and especially a break under $106.00... will clue us in that price was favored to retest or exceed the $103.00 lows in a bear flag-like impulse down.

Same logic as described above.

Negative momentum and volume divergence as price has rallied in a corrective-looking formation.

Any move up from here would 'bust' or invalidate these bearish non-confirmations, but odds do seem to favor a downside move ahead... but do be aware that there could still be - and probably is - an upward bias to the market, given that the Congress has extended the Homebuyer Credit which is bullish for the market. The government is literally spending money to help prop up the market by giving money to consumers and tax breaks to corporations so technical structure takes a back seat when the government is propping up the market with liquidity.



This is more me playing "chart art" than trying to make a prediction, but along with the negative volume and momentum divergences, here is a potential Elliott Wave count that shows a full fractal move down and then an "ABC" corrective move up... which fits with the Bear Flag thesis described above.

Again, a solid move up from here would invalidate this count, but this is one more headwind for buyers to overcome.

This count is similar to that of Elliott Wave International.

Allow me to play devil's (buyer's) advocate. I successfully highlighted the possibility in early October that the market could yet again rally to a new high due to the fact that it had done so three times in the past, after breaking a confirmed sell-short signal each time (break of Head and Shoulders neckline and three moving average breakdowns).

We broke under the 50 EMA, triggering a powerful short-sale signal which - so far - is a bear trap. Higher prices Monday, and a break (invalidation) of the divergences I mentioned above, should be the shot across the bow to let you know that odds would favor a retest or exceeding of the 1,100 high for the FIFTH vicious bear trap in a row.

On a separate aside, to add to the bearish bias, volume on the last four days of a market rally have consistently fallen each day. Volume rose during the recent market sell-off. Under classic technical analysis 101, that's bearish.

Have a good weekend!

(I will be at the Las Vegas Traders' Expo from Wednesday until Saturday, so reports may be shorter or delayed during that time).