AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today gives me a great opportunity to discuss a "Type III" Trend Day which is the strongest of all of the Trend Day structures.

Type III days are defined by a pre-market open announcement or report (in this case, it was the commitment by the G-20 announcement that Global Leaders and governments will continue to support financial markets at any cost, meaning governments across the world will keep "stimulus measures in place"). This is an admission that "things are not as they seem" in the global economies and that additional need for stimulus is needed... which is bullish for global equity markets, including our own.

The second thing to watch pre-market is the opening gap, which is often 'large' as Type III Trend Days begin.

There is no way to know from the open what type of trend day we will have, we just know that we won't be having a trend day with a large gap, particularly if price rises instantly off of the morning open.

The next phase is to watch the first hour range to see if price continues to go higher, and to compare the first hour range volume to prior days (this can be done with the indicator $TVOL in TradeStation, or by drawing a moving average on your volume charts and looking to see if price now is above or below that average when compared to prior opening sessions).

We then turn to Market Internals (TICK, Breadth, Volume, TRIN) to see if the rally is continuing and then focus our analysis and trade set-ups on the 20 period exponential moving average on the 5-min chart both to see if price remains above this level (odds remain strong for trend day if so) and to buy all pullbacks to the rising EMA.

We watch the TICK to make sure it is staying concentrated above the zero line (watch the distribution of TICK bars on the 5-min chart) and watch out for any significant new TICK lows. As long as the TICK and price remain strong, you can use ANY negative TICK as a buying opportunity (go long when the TICK drops beneath zero on a Trend Day) as seen on the 1-min chart.

Finally, watch internals and watch the price and the moving averages all day to set-up trades.

Keep it simple, do NOT overcomplicate a trend day, and DO NOT allow yourself to short-sell a position on a trend day for anything other than a miniscule scalp. On trend days, you are better off NOT shorting at all as long as price is above the 20 period EMA. Wait for pullbacks and then re-establish long/buy positions.

You are monitoring the averages and internals in the event that a "Rounded Reversal" develops, in which you would short a break beneath the 50 EMA, known as the "Line in the Sand." Until then, the odds favor higher prices and any attempt to short against the trend day will result in a small gain at best and - more likely - a small or even very large loss.

Remember, the rules are changed on Trend Days, so we don't look as much at our oscillators or indicators (particularly RSI or Stochastic) because they will give false sell-signals or false negative divergences (as is the case in the 3/10) all day long. Sometimes, it's even better to delete these indicators from our charts and JUST watch the TICK, Breadth, and 20 and 50 period EMAs both to confirm structure and to set-up trades.

Do not try to do complex Elliott Wave counts, don't get too caught up in Fibonacci retracements, don't look for complex patterns (like head and shoulders), and don't make trading any harder for you.

You can actually meet your monthly financial trading goals by excellence in execution (trading aggressively and properly) on Trend Days if you recognize the structure early enough and the day plays out according to expectation.

Instead of discussing this day in intricate detail - keep it simple as I've described above - I will just mention something that I found very puzzling about today's trend day.

Oh - there really were only three "Idealized Trade" official entries in today's trading:

First, as price began to rise, you could have entered long particularly as price broke above $108 (I told you from last Friday's report to be biased/trading long while price was above the breakout resistance zone of $107) which could have been a "Popped Stop" kind of play.

Second and Third, there were only two clean pullbacks to the rising 20 period EMA - both of which were labeled with green arrows and in both cases, a doji or bullish hammer formed, further confirming trend entry.

Your goal on a trend day is to GET LONG AS EARLY AS POSSIBLE and stay long with a core position until the close of the session, trailing a stop-loss either under the 20 period EMA (conservative) or under the 50 EMA (aggressive).

You degrade performance with over-sophistication on pure trend days.

CAVEAT

I did again want to mention something ... odd... about today's trend day that I've received a few emails about already from subscribers and clients.

"Why did price keep going up after a lengthy morning TICK divergence?"

I asked myself this same question too during my morning trading.

I'll even admit that I was less aggressive in my trading as a result, and more conservative, watching for any weakness to short as a result of the lengthy negative TICK and Breadth (Advancers minus Decliners) divergence. I don't have a precise answer as to why this developed as long as it did, and why price continued to rise almost as if the divergence never occurred.

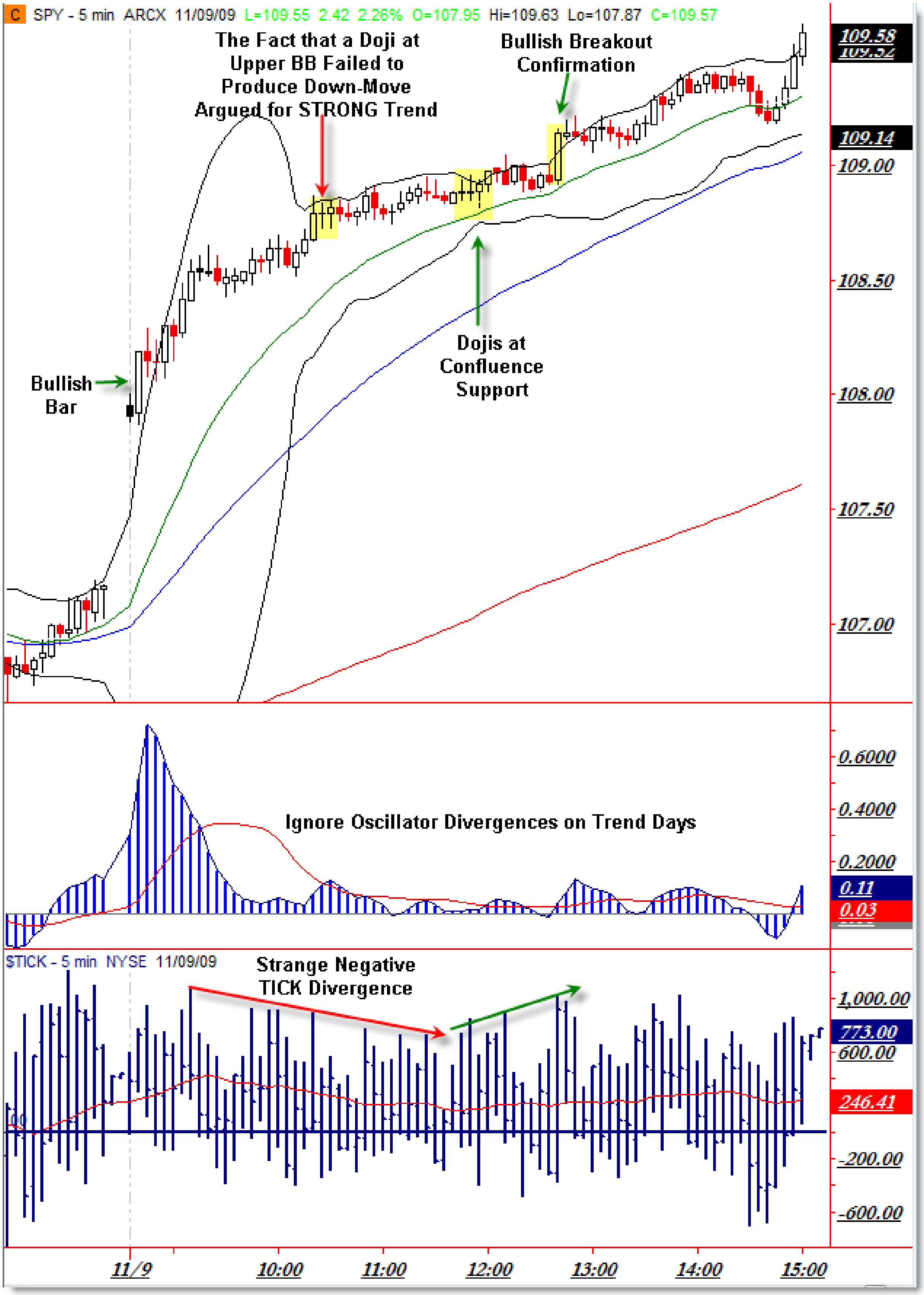
Looking into the Breadth Divergence, the Decliners increased as the morning session progressed which served to bring down the overall Breadth reading so that is why "Breadth" declined, and that may also be a similar reason to understand the TICK divergence.

Remember that the TICK is a measure of the NYSE stocks - around 2,500 in number (though not all are stocks - some are bond funds) - and we get the number of stocks "Ticking" up (on an up-tick) at a given moment minus all of the stocks at that moment on a down-tick. The absolute number - like 1,000 - is the differential... so maybe 1,500 stocks were having an up-tick while 500 were having a down-tick, resulting in a 1,000 net number.

TICK Divergences occur when fewer stocks are 'ticking' to new highs, even though an index - like the S&P 500 - is at a new price high. The most frequent reason this occurs is because of the weighting of the index. For example, if Microsoft, Google, Exxon-Mobil, IBM, Intel, and other leading stocks are on an "up-tick" pushing their prices higher along with the S&P 500 because they are weighted so heavily... and then more stocks that have very low weighting on the index are either not 'ticking up' or are actually declining, then the TICK will pick-up the movement of the stocks and weight them all EQUALLY as an "up" or "down" tick, while the Index will rise because it weights some stocks stronger than others.

That is the logic behind TICK divergences and why they are more important than momentum divergences.

So, I won't fault you for being cautious if you observed the lengthy divergences and doubted the strength of the rally. However, price should have eliminated these doubts by 1:00 EST because a new marginal TICK high occurred and then beyond a shadow of a doubt (of expecting a reversal down) after the strong up-bar and new (relative) TICK high as price surged after 1:30 EST off of the 20 period EMA (successful) test.



Any negative TICK reading is a 'scalp' buy entry on powerful trend days.

Also, if price is very extended from the 20 EMA on the 5-min chart and you want to be a buyer, look down to the 1-min chart to buy pullbacks to the 20 or 50 EMA on the 1-min chart. This is a more aggressive strategy, but it will allow you to get into a rising momentum price expansion market instead of standing on the sidelines while you wait for a nice pullback that may come far too late.

I was correct in assuming that a price breakout - and 'overruling' of overhead resistance and 'busting' of the potential bear flag pattern - would result in a "Popped Stops" or price expansion move to the upside... I just didn't know it would be so strong!

That's why I encourage trading by "numbers" or by price levels. The levels I show are often 'lines in the sand" between buyers and sellers, and if you know these, you can anticipate price action into the future without knowing exactly which way price is going to break (which is impossible 100% of the time). This is the "trading by "if/then" statements, such as

"I expect price to fall tomorrow due to a bear flag pattern and negative volume divergence, but I know that a move above $107 will trigger not only stop-losses for those already short in anticipation of the bear flag, but it will bring in new buyers as overhead resistance is broken"

Keep this logic in mind when interpreting my higher timeframe charts with key levels "long" and "short" to watch.

I mentioned in Friday's report that we could be having ANOTHER Failed Bear Trap move that will lead to new highs in the S&P 500. I mentioned it almost in passing but that is now the dominant expectation - and one that has already resulted in new highs for the Dow Jones.

Folks, take the time to learn and apply the "Popped Stops" strategy which I discuss very frequently here as it will keep you safe from all of these traps so many bearish traders are falling into (do NOT bias yourself one way or the other in your intraday trading - take advantage of busted or failed patterns for intraday profits).

The expectation now is for new highs to be made in the SPY as a result of the past four bear traps doing the exact same and leading to new highs... as shown below.


$SPX (S&P 500 Large Cap Index) INDX
© StockCharts.com
9-Nov-2009 Open 1072.31 High 1093.19 Low 1072.31 Close 1093.08 Volume 3.7B Chg +23.78 (+2.22%)
$SPX (Daily) 1093.08
EMA(20) 1064.78
EMA(50) 1050.29
BB(20,2.0) 1032.00 - 1071.57 - 1111.14
MA(200) 925.81
In what appears to be ANOTHER (the 5th) Bear Trap, price is now poised to make a new index high.
Volume 3,704,950,016
MACD(3,10,16) 12.289, -1.282, 13.571