AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Greetings from New York City! Thank you to all of you who attended today's presentation either in person (it was great meeting you!) or via webinar. Today's report underscores two of the three principles I discussed – the first two trades were retracement trades in an established uptrend, while the final trade was a triangle breakout range expansion play. Today was also a textbook Type III Trend Day – a good one to reference. Let's learn the lessons from today's session.

1. **TREND DAY PULLBACK/CANDLE BREAK**

This trade simply can be defined as buying a pullback after a large gap-up move that had low odds of filling (See Gap-Fade statistics research). In strong trends, price does not pull back fully to the 20 EMA (a perfect set-up), but instead will pause on the way there, finding support on the 1-min chart and sometimes forming positive divergences (as was the case). Remember, many of the best trades come from buying pullbacks after momentum impulses in trending environments – and this trade underscores that point.

Entry occurred either with the doji candles at 10:00am CST (aggressive) or more appropriately, when price broke in two strong candles, breaking the high of the doji at $108.75. The stop would be conservatively beneath the candle lows at the $108.50 level, or beneath the 20 EMA if aggressive (which was likely more appropriate) at the $108.25 level. If this was too far away, then it was fine to place a stop under the candle lows. Either way, the minimum target was a retest of the intraday high at $108.90, or even the $109.00 level (or beyond). This was achieved as price rallied four bars to form a small doji candle and then a downward bar at the $109.10 level, triggering an exit with profit. Price and TICK formed new highs, triggering the second pullback trade (all systems go for expectation of trend continuation).

2. **TREND DAY PULLBACK, DOJI, BULL FLAG, 50% FIBONACCI**

This trade was one of the best set-ups of the day, given the amount of confluence that occurred – which is the purpose of these reports (to teach the strategies/methods with clear examples). The concept was to buy a pullback on an established (likely) trend day (due to the opening gap, positive structure of the EMAs, and new TICK/Price highs). Remember, we generally must ignore the 3/10 Oscillator on powerful trend days. A doji formed at 11:15am at $108.60, triggering an entry on the break of that level.

An even better execution tactic came from the lower timeframe – specially the one-min chart, as we saw a clean bull flag retracement that formed into the 50% Fibonacci retracement level as shown. It also converged with the rising 20 period EMA. Execution triggered as soon as price broke above the upper trendline at the $108.95 level, or aggressively at the test of the 50% Fibonaccin retracement (of the morning low and high) at $108.80. The target was a measured move to the $109.50 level (which actually wasn't quite met). This is an example of trade management tactics, wherein a full price target was not met, but a countervailing sell signal occurred at the upper Bollinger Band as doji candles formed on the 5-min chart at the $109.35 level. If you see the 1-min chart, you see a small five-wave fractal that ended with an abrupt pullback. A trade exit should have been taken shortly after, though technically if you held for the full target, it was met later. It was better to take your profit as soon as price began to inflect lower and wait to re-buy the market on a move into support.

I highlighted the pullback at 1:00 CST, showing a trend day pullback which was a trade set-up, but it was just a simple pullback trade into the 20 EMA and I did not devote a full description as an idealized trade to it.

That was not the case for the final trade of the session, which underscored the "Range Alternation Principle" and triangle breakout.

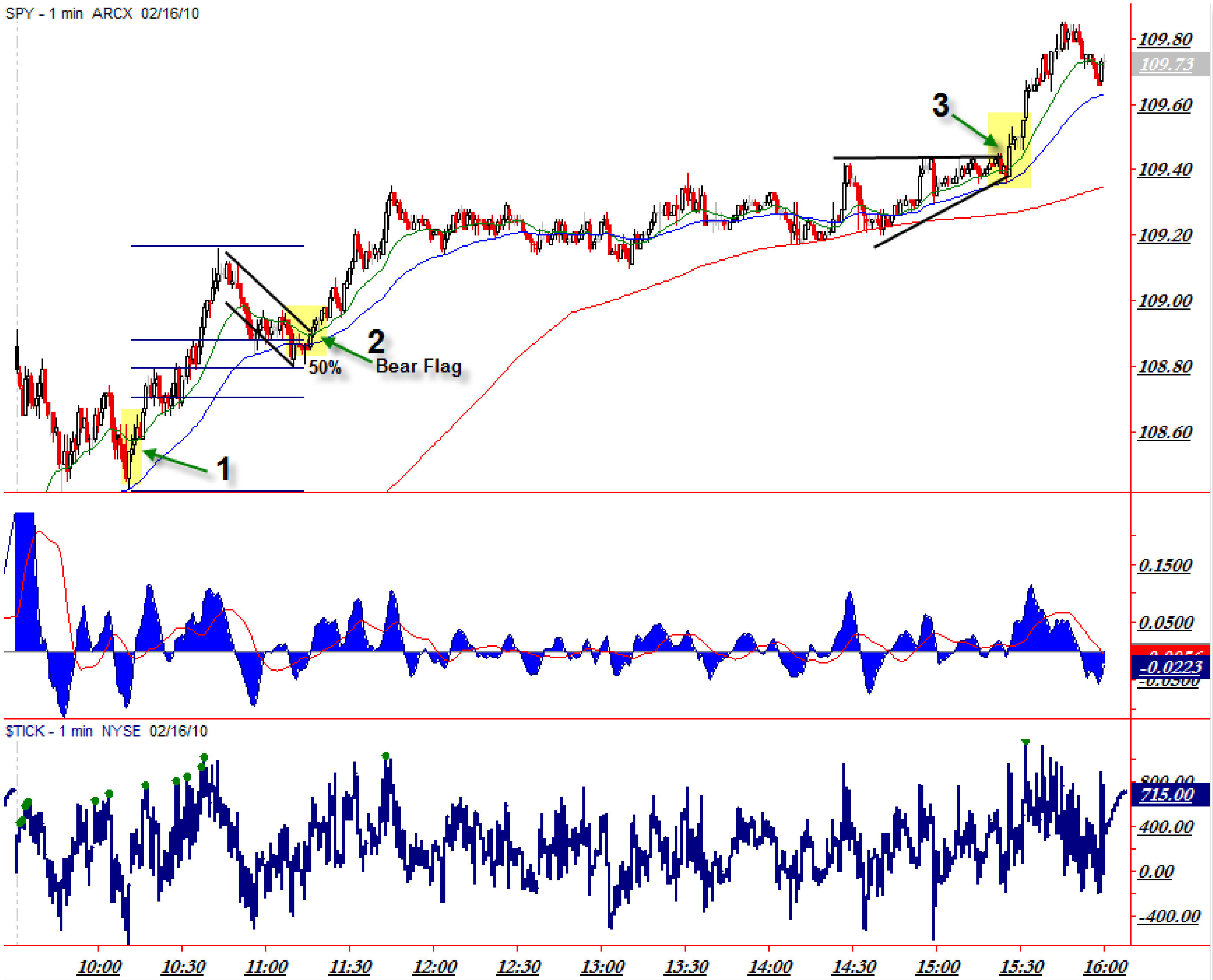
3. TRIANGLE BREAKOUT

Under the principle "Price alternates between periods of range contraction and expansion," we expect contractions in price to lead to a breakout that often offers a tradable edge – which usually comes in the form of a breakout.

This trade is best identified on the one-min chart with the triangle trendlines (an ascending triangle), with the apex breakout coming at $109.50 at 2:30 CST. The entry was at the breakout at $109.45 – if you are comfortable taking trades into the close – with a stop being under the lower trendline (and 1-min EMAs) – under $109.40.

This trade rallied until price formed reversal candles (5-min) at the upper Bollinger Band, triggering an "exit with profit" move. Also, look closely at the 1-min chart to see the distinct negative TICK and momentum divergence that preceded the reversal.


SPY - 5 min ARCX 02/16/10
1
2
3
109.73
109.60
109.40
109.20
109.07
108.80
108.60
108.40
108.20
108.00
107.80
107.60
107.40
Ignore Divergences
0.6000
0.4000
0.1497
0.0000
$TICK - 5 min NYSE 02/16/10
New TICK Highs
715.00
400.00
0.00
-400.00
15:30
2/16
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00
15:30
16:00


SPY - 1 min ARCX 02/16/10
1
2
50%
Bear Flag
3
109.80
109.73
109.60
109.40
109.20
109.00
108.80
108.60
0.1500
0.0500
-0.0223
$TICK - 1 min NYSE 02/16/10
715.00
400.00
0.00
-400.00
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00
15:30
16:00

Quick commentary – in the technical structure, we see an unexpected upside break which triggered the 'Popped Stops" rally upon the break of the upper trendline. This also shows the range expansion/contraction principle. Upon the gap above the trendline resistance drawn last Friday, shorts were forced to cover (popped stops) while longs aggressively bought- both driving the market higher in Trend Day fashion.

For now, the $110.00 level is key, as is the prior swing high at $110.50. I would expect further upside to bust through resistance if buyers push through $110.00 – triggering more stop-losses of the short sellers, granting intraday opportunity. Otherwise, look to short weakness at this important resistance level.

Continuing that thought – we have the 50% Fibonacci Retracement at the $109.86 level (roughly $110.00). Again, any move higher should send price rallying at least to test prior resistance. It's apparently still tough to be a bear in this environment.

If above $110.00, target higher levels – otherwise be on guard for this to hold as resistance. Bulls may be gaining the upper hand.

The critical line in the sand is 1,100 – the 50% Fibonacci Retracement from the recent high to low, and also 50 day EMA.

The play is simple – long for 'popped stops' above (perhaps to 1,110 at least… very bullish above that), or watch for a potential retracement down to form here.

The volume reading today was one of the lowest volume day of the year – which is a non-confirmation of today's trend day. The market is sending mixed signals – overhead resistance on a rally with weak volume is bearish… but because of this signal, ANY break above 1,100 should create a further short-squeeze rally higher.

SUBSCRIBER NOTE: Due to travel tomorrow (leaving New York at 3:00 EST and arriving home at 9:30 EST, Wednesday's report will be published on Thursday). Reports will resume as usual Thursday afternoon.