AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

I hope you're starting to notice a pattern that's occurred over the last few days, one that would have helped you trade very nicely today as price followed an almost identical pathway as it did yesterday. That's another reason why it's important to do end-of-day analysis that these reports enhance - there are occasions when the lessons and trades I describe in this report will repeat almost exactly during the next trading session. You'll have a distinct edge if you understand the possibility of direct repetition and not get caught off guard with yet another failed bear flag in the morning, and then upon seeing this, you could have traded the pattern formed from yesterday's structure. Let's see.

1. GAP FADE

Depending on your risk tolerance, this either was your first trade of the day or it wasn't. According to the probability grid in the research report available to you, a gap of 15 cents had a 66% chance of filling. The gap did fill, but not before a sharp swing to new lows occurred, stopping out many if not all aggressive gap fade traders. This also shows why the research found it statistically (though of course not practically) best NOT to use stops - the gap did fill today officially, but not before a nasty down-move occurred. Conservative traders would likely have waited for the first candle's high at $106.89 to be taken out - it wasn't on the first few candles - before getting long. Aggressive traders would have walked up and shorted as the second candle of the day took shape. Again, most aggressive traders were stopped out while conservative traders might have totally passed on this trade.

Remember also from your research report that my model found that gaps less than 25 cents were generally not worth fading. Yes, odds favor a fill, but you do get these whipsaws enough to degrade profit, and the small target often isn't worth it (the model found). If you indeed skipped the gap fade, or were stopped out, then trade #2 was a much better opportunity.

2. POSITIVE TICK DIVERGENCE, LONG-LEGGED DOJI CANDLE, SPIKE OUTSIDE LOWER BOLLINGER

This was a nice set-up, particularly as price broke the high of the long-legged doji. Unfortunately, this was probably where a lot of people who faded the gap got stopped out - with a break under the candle lows at $106.55. This was a counter-trend scalp (aggressive), but again, we can take advantage of those as nimble traders. Conservative traders may have wanted to wait to short the first retracement... though we made a new momentum and price low, look carefully at the 5-min TICK chart which did NOT take out the prior TICK low from yesterday's close. That added a bit of bullish bias to the scalp trade that targeted the 20 or 50 EMA at the $106.80 level. For those who did not exit right at the 20 EMA, the $107.00 level was a perfect exit, given the confluences of resistance there. That also gave us enough reason to short.

3. BEAR FLAG, IMPULSE SELL, DOJIS AT RESISTANCE

Very savvy traders - or at least those of us who have been burned by yesterday's almost identical failed bear flag - might have been very suspicious of shorting at the $107.00 'bear flag' pullback. To be objective, it was absolutely an idealized trade as I define in these reports - no question about it - but here is a concept that is often not discussed that professional/experienced traders pick up on that new traders often don't - and perhaps shouldn't (you don't need to constantly second-guess a good set-up when you are a new trader - it invites confusion).

The standard play was to short at the $107.00 level, seeing the two dojis and upper shadow candles, and then play for a new low (or at least a retest of the prior low) at the $106.40 level. The stop would be above the $107.00 level, preferably above $107.15 or so. Again, from a probabilistic standpoint, it is generally not a great idea to pass on a trade because you think "it's going to fail." This trade should have been taken.

However, an experienced trader - armed with a gut feeling that something might be lurking to bust this pattern as has been the case in the last few sessions - probably still put on the position but did two things differently:

1. Gave the trade a very tight stop
2. Sat ready to flip and reverse to play Popped Stops in the event the trade failed

That's exactly what happened. The trade retraced to the 61.8% retracement of the then intraday high and low ($106.60) and then formed two lower shadow candles and began to rise off these levels. An experienced trader - or perhaps even a 'gun-shy' conservative trader - would perhaps take off the bear flag position and gather what's left of the profit.

Here's where the professional and the new trader differ.

A professional trader would have been much more likely to flip and go aggressively long on a break back above $107.00 to play the "Popped Stops" that could have been anticipated well in advance, particularly because price busted the exact same pattern yesterday with a similar "spring thrust" higher that was absolutely tradeable.

Because of that, and for educational purposes, I will call this particular busted pattern (only because the exact same thing happened yesterday) an idealized trade so as to teach the concept.

4. POPPED STOPS, BUSTED BEAR FLAG

This trade needs little other explanation, other than aggressive traders would have taken their stops if they were still holding short and flipped and reversed to take advantage of the busted flag pattern, playing the 'positive feedback' of the new buyers + old short sellers stopping out.

For the experienced Elliott Wave traders among us, this was certainly the third wave. A logical exit would have occurred either at the bearish engulfing (almost) doji at 10:35am at $107.40, or if you were really aggressive and believed this was a third wave that was subdividing (remember the "Third of Third" concept), then you would have held through the simple one-bar retracement and exited as divergences and dojis formed just after 11:00am.

You should also know that these dojis and divergences were NOT an idealized trade to short (for only but the most aggressive traders), and the structure called for a buy on the next pullback - wave 4. Again, almost identical to yesterday.

5. WAVE 4 PULLBACK (AFTER iii OF 3), IMPULSE BUY, DOJIS, TRENDLINE BREAKS (1-MIN)

This was perhaps the most obvious trade of the day, given that new TICK, Momentum, and Price highs came after the sharp rally into 11:00am. The best trade was to wait for a pullback to form, then get long to play either for a retest of the high or for a new high yet to come as expected (Wave 5).

Entry occurred near the 20 EMA as price broke the candle high after 12:00 at the $107.80 area. The stop wend under the 20 EMA and lower Bollinger at the $107.65 area. An exit was permitted as the doji formed at the $108.00 level at 12:30, though price did spike one more time to the absolute high of the day on a distinct and lengthy negative momentum and TICK divergence.

Remember, a simple trade exit (such as the doji) does not a new 'flip and reverse' trade make.

However, the doji then followed by a clear Bearish Engulfing Candle plus the 5-wave (obvious) structure combined with the 5-min and 1-min negative momentum AND TICK divergence... that was enough to expect a play at least back to the rising 20 EMA both for conservative and aggressive traders.

6. BEARISH ENGULFING, LENGTHY DUAL DIVERGENCES, 5-WAVE STRUCTURE

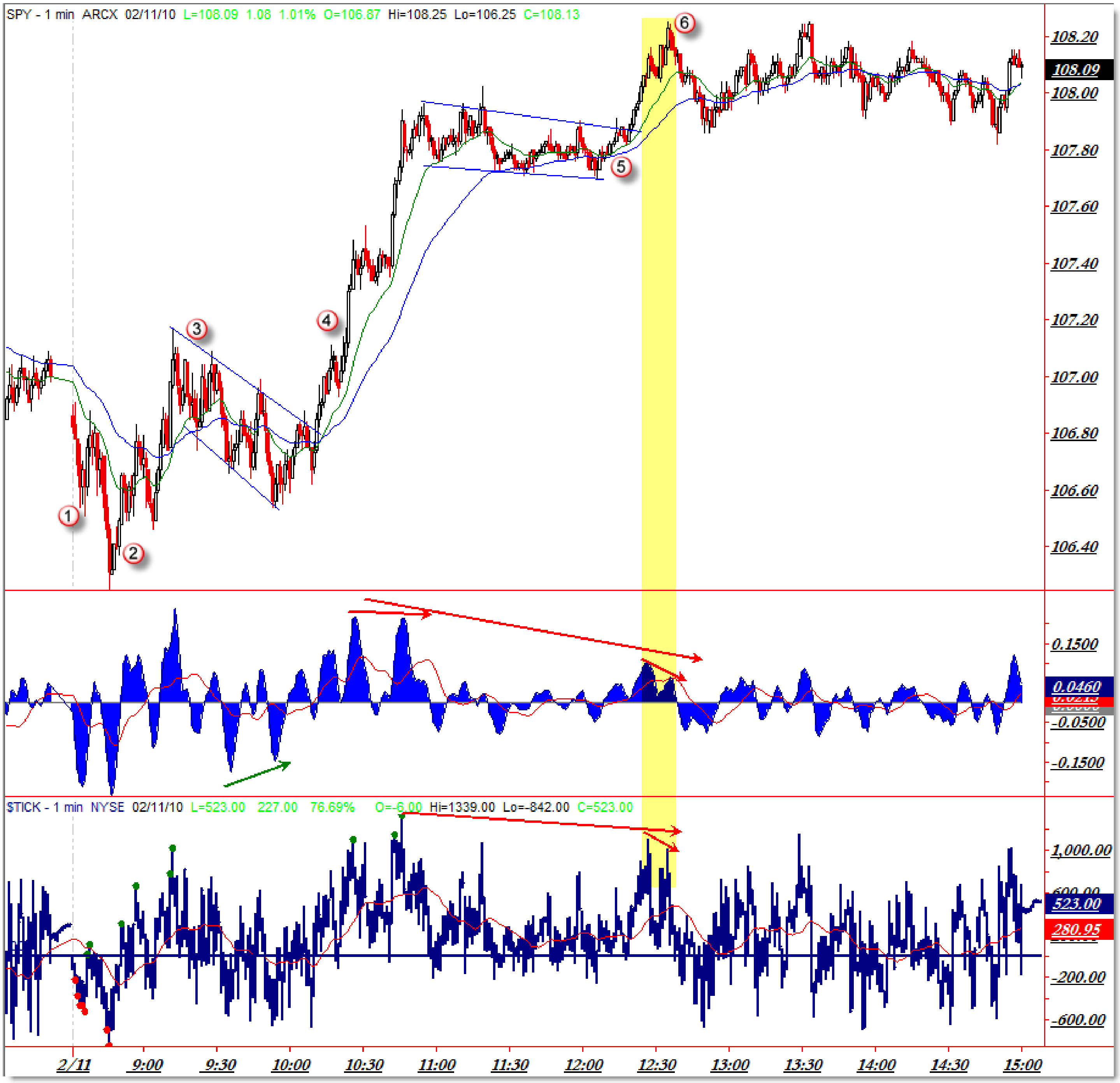
This was a fun trade, though slightly aggressive in nature. The bearish engulfing candle that formed at 12:40 'engulfed' the prior bullish spike high candle that formed literally in open air (I call it this because the high is occurring on an obvious negative TICK and momentum divergence. The analogy might be like a general charging forward with all of his troops as indicative of the 3rd wave 10:30 price surge, retreating slightly on the 4th wave at 11:30/12:00, then charging forward making progress, but with many men missing in his army. This is a good way to think of a negative divergence - a general charging forward with reduced strength, fatigued, and with less soldiers. He is much easier for the opposing army - sellers - to defeat).

Price fell during the next two bars to the rising 20 EMA, formed a distinct doji, which was your exit point.

I would not call this necessarily an ideal trade to get long, due to the lengthy divergence, but also not quite a safe trade for conservative traders to get short while price was above the 20 (in what could have definitely been a continuation of the prior trend day up).

Price never really broke under the 20 EMA, so taking a short for anything more than a scalp to play for a retracement BACK to the 20 EMA was a very aggressive move. As such, there were no further trades into the close.


SPY - 5 min ARCX 02/11/10 L=108.09 1.08 1.01% O=106.87 Hi=108.25 Lo=106.25 C=108.13
Third of Third
(1)
(2)
(3)
i
ii
iii
iv
v
1
2
3
4
5
6
108.20
108.09
108.00
107.90
107.80
107.60
107.40
107.20
107.00
106.80
106.60
106.40
0.3000
0.1000
-0.0127
-0.1000
$TICK - 5 min NYSE 02/11/10 L=523.00
1,000.00
523.00
97.01
-200.00
-600.00
14:00
14:30
2/11
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

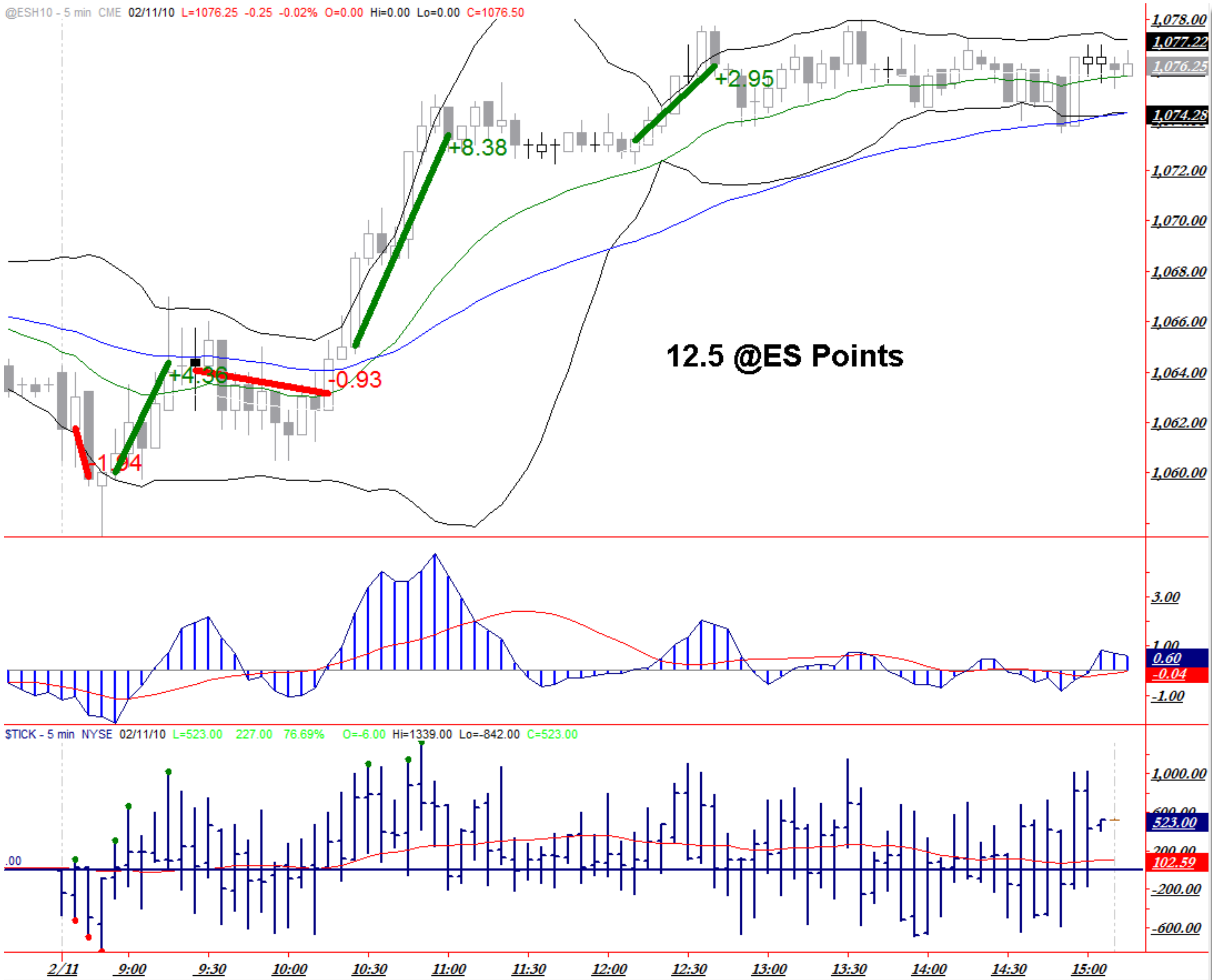

SPY - 1 min ARCX 02/11/10 L=108.09 1.08 1.01% O=106.87 Hi=108.25 Lo=106.25 C=108.13
1
2
3
4
5
6
108.20
108.09
108.00
107.80
107.60
107.40
107.20
107.00
106.80
106.60
106.40
0.1500
0.0460
-0.0500
-0.1500
$TICK - 1 min NYSE 02/11/10 L=523.00 227.00 76.69% O=-6.00 Hi=1339.00 Lo=-842.00 C=523.00
1,000.00
523.00
280.95
-200.00
-600.00
2/11
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

Yet another description on the importance of spotting the "Third of Third" wave and expecting higher prices yet to come, and also spotting the 5th wave (better if you spot 5th of 5th) and expecting a reversal.

I believe the rest of intraday Elliott is irrelevant in real time trading, particularly with the other forms of confluence we use.

With the exception of expecting a 5-wave fractal on impulses and 3-wave fractals during corrections, this is the ONLY time you should concern yourself with intraday Elliott wave.

Assuming that Trade #3 failed, though you probably managed to scratch a few bits of profit from it.



The way TradeStation calculates trendline bar values - which is what I use - it will not show the .25 increments the futures use. I round to the nearest .25 value.

This assumes a 2 point loss on trade #1; 4.25 gain on trade #2; 1 point loss on trade #3 (which technically was a gain, but I'm counting it as a failed trade), 8.25 gain on trade #4, and 3 point gain on trade #5. I'm assuming trade #6 was not taken, but if so, it would have produced roughly 2 points of profit, bringing the daily total to 14.5 points.

As long as we're under $108.50, we have no choice but to consider this rally swing a "counter-trend retracement into resistance," with the bias being to expect lower prices ahead. That's speaking from price structure, but we do see the 61.8% Fibonacci level as well as prior price resistance at the $108.30 level, so many traders are watching that as resistance and many stop-losses remain above the $108.50 level - correctly so.

The #1 expectation - due to the form of the rally and obvious negative volume divergence - is for a resolution to the downside, where swing traders are afforded an entry here short with a tight stop above $108.50, and intraday traders may first witness the potential turn-down from here, though the #2 expectation is to play "Popped Stops" on any further bullish strength here that would take a lot of traders off balance and scrambling to cover... creating opportunity for the intraday trader. Watch $108.50 for the key.

The same analysis goes for the 60min chart, only we see the distinct negative volume divergence during the last counter-trend rally (as I called it then too) in early February. Structurally, this is identical, only we've experienced a more frustrating, choppy retracement instead of a clean one.

This is not to say that price has to go down, but that odds strongly favor a downside resolution as long as we are under $108.50. Above $108.50, and the odds shift to favor a bullish resolution and the intraday opportunity to play long as short positioned swing and intraday traders stop out, creating higher prices.

The key test then would be if buyers could push price beyond $109.00.

We're still technically in a counter-trend retracement rally into resistance, and we would expect 1,090 to be formidable. It's the 20 day EMA, and held as resistance in early February.

We still expect the 1,040 area to be tested going forward, but the picture would be murky with a move back above 1,090 and bullish above 1,100.

Tomorrow sees the Retail Sales number at 8:30 EST, so any major surprise (good or bad) could send the market into a volatile swing pre-market so be sure and watch this number before trading tomorrow.