AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min


SPY - 1 min ARCX 02/22/10 L=111.18 0.04 0.04% O=111.55 Hi=111.58 Lo=110.83 C=111.16
1
2
3
4
1
2
3
4
5
111.50
111.40
111.30
111.20
111.13
111.10
111.00
110.90
0.1000
0.0287
0.0000
-0.0570
-0.1000
$TICK - 1 min NYSE 02/22/10 L=572.00 -104.00 -15.38% O=5.00 Hi=972.00 Lo=-984.00 C=572.00
800.00
572.00
400.00
0.00
-212.03
-400.00
-800.00
2/22
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

Today gave us a near-perfect "Rounded Reversal" in structure, which serves as a reference to learn this important trading concept. Rounded reversals allow for trading in both directions, and "Wyckoff Signs of Strength/Weakness" are key to anticipating the second-half of the day, should a complete reversal form.

1. GAP FADE

The first trade was a simple "fade or no fade" decision regarding the opening gap of roughly 30 SPY cents. According to the Gap Research chart, this had around a 62% chance of filling, meaning it was a good trade to try to play for a gap fade this morning on any sign of weakness off the opening. The first bar was a sharp down bar and then an aggressive trader could have entered short on a break under the $111.45 low (first bar's low) to play for a retest of $111.20 with a stop above the intraday high of $111.60). This trade was a successful fill, which called for a quick exit as soon as price tested yesterday's close (for conservative traders), though some aggressive traders may have decided to hold on to see how far price could fall - perhaps even to the $111.00 level.

Price formed a long-legged hammer/doji candle off this $111.00 level, so an aggressive trader might have decided to get long on a break above the candle high at the $111.15 area... but this trade would have quickly been stopped out with the sudden downward candle at 9:00am. The plunge to new lows did give another aggressive entry to trade long, if only for a scalp, due to the divergences here.

2. 'SCALP,' TICK DIVERGENCES, BULLISH ENGULFING, LOWER BOLLINGER

This trade perhaps was best passed on by conservative traders, due to the higher timeframe bias to the downside (thanks to the lengthy negative breadth/internal/volume/momentum divergences on the higher timeframes). However, that's not to say as an intraday trader, you can't 'scalp' out some hard-fought gains as price swings in both directions intraday.

Price formed a bullish engulfing candle at the lower Bollinger (5-min) which - if you turn to the 1-min chart - you then saw a positive TICK and 'flatline' momentum divergence in the 3/10 Oscillator, along with a (not labeled) 5-wave mini-fractal move into the $110.85 low. This scalp was entered long above the break from the close of the prior candle at $110.95, or more appropriately, above the high of that candle which also was a break above the key $111.00 level. No matter where you entered, the stop was under the daily low of $110.83 to play for a minimum target of the 20/50 EMA convergence at $111.15... though it also was safe to try to hold on for a slightly larger target, which would be either a retest of the intraday high (a very low probability move) or a counter-sell candle/signal like a doji. That's exactly what happened at 9:30 CST, with two doji candles above the 20 and 50 EMAs at the $111.30 level.

Normally, we would trigger short on an impulse sell signal (or bear flag) here, but the last few days have "failed" that signal (see my posts on the "pattern" or "script" the market is following, so it was best to skip on shorting while price was above the 20 and 50 EMA (though we did get a move back down almost to the intraday lows).

The next 'bigger picture' set-up was the break of the triangle consolidation pattern that formed into the 11:30am time.

3. TRIANGLE BREAK, WYCKOFF SIGN OF STRENGTH, POPPED STOPS

This was a fun trade to take, because the market yet again was following a script at this time. See prior reports, and my prior blog post:

http://blog.afraidtotrade.com/how-many-times-will-the-spy-sp500-repeat-the-same-pattern-intraday/

Apparently, it will repeat it one more time.

Morning Weakness
Rally into what "looks like" a bear flag/impulse sell
Bust through overhead EMAs, breaking the pattern and sending price surging (popped stops)
5-wave fractal move into the close on negative divergences before a sell-off into the close

The market is using the same playbook... almost exactly with few variations.

So, the third trade was both a symmetrical triangle break, confluence EMA break, and a "Popped Stops" play, getting long on the breakout above $111.15 to play for a 5-wave fractal, or hold until we see a counter-sell signal.

This time, the "popped stops" range expansion rally was not straight up, but had two retracement swings (both of which were buying opportunities if you missed the initial breakout), but the best thing to do was to hold firm long, riding the wave of frustrated "popped stops" from the bears/sellers until you saw a clear sell signal or a complete five-wave fractal into negative divergence... which set-up your exit and 'flip and reverse' fourth trade of the day.

4. FIVE-WAVE FRACTAL, NEGATIVE DIVERGENCES, DOJI, BEARISH ENGULFING, UPPER BOLLINGER

This trade perhaps was the most 'telegraphed' (anticipated) trade of the day, given that we had a five wave fractal move that progressed on declining momentum (see 1-min chart) and ended finally on a clear negative TICK divergence.

There were a couple of places to execute short, including the close under the doji after the bearish engulfing candle at 3:30 at the $111.40 price. Alternatively, conservatively, you could have waited for a break of the 1-min trendline (see 1-min chart) at $111.30 - but in both cases your stop was above the recent swing high at $111.50.

Being a reversal trade, this was a play to hold short to target lower support levels, or hold short into the close. Luckily for you, price collapsed suddenly (though clearly not without warning!) giving you quick "windfall" profits and a doji candle to exit upon the close prior to the quick bounce off $111.00.

Efficiency Analysis is always meant - not to discourage you - but to measure up how much profit you accumulated from the set-ups you took, vs what was available to see realistically at the time the trade set-ups occurred. The charts I show are meant to show "moderate" risk levels (balancing conservative and aggressive strategies) and are meant as guideposts for you to compare your personal trading results each day.

Compare your entries and exits to the logical entries and exits (never absolute highs and lows) and compare - as a percentage - what you captured.

Remember, you will have an advantage over other traders who do NOT look at the concept of "Market Structure" or "Market Character." The Rounded Reversal pattern is such a characteristic or structural component as seen above that will help guide your trading decisions, particularly as we trade intraday within the boundaries of the pattern, and now shorting once the pattern is broken. A "mirror image" (which would mean a sharp price decline) could occur if the pattern is to complete totally (which would look like a sagging bridge or the letter "M").

If volume, momentum, and internals are to be believed, then the market (from a bullish standpoint) is in serious jeopardy/trouble. While the markets are ruled by supply and demand and could keep rising theoretically, if we take a technical analysis (comparing price to volume and indicators), then odds are overwhelming for a downward move... but the signal (execution) for that move has yet to occur. The signal would be a clean break under $111.00 in the SPY, which would break the lower Bollinger Band and 20 EMA (also the 20 EMA on the 60min chart). It would also violate a trendline drawn from the February 16th low (not shown).

Price is rallying literally 'in thin air,' and the risk - but not guarantee - for a correction is high. From a swing trading perspective, this market would only be a buy if we saw volume and breadth rise sharply with a price break above $111.50. Otherwise, the bias is to be neutral here and ready to short aggressively if we see any downside action beneath $110.00 on rising volume as price falls to the downside, particularly if sellers can take out $110.50.

The bias remains the same - odds favor a retracement/correction back down to the $108.00 level, but sellers are going to have to break through short-term positive EMAs first, so this is not yet a 'done deal,' which is why caution and intraday trading is warranted. It's so strange right now - we have critical non-confirmations and divergences which are only "warning" signs, but we need to wait for a signal to short on a breakdown through support... unless you are an aggressive trader and willing to take a tight stop-loss if you want to go ahead and execute short here to get a better fill in the event price does begin to fall lower.

Price is in a very weak technical position, having broken above the key 1,100 level, taking out the stop-losses of the short-sellers (short squeeze) but not truly drawing in new buyers to continue driving prices higher. It's an odd truth that prices can rise due to short-covering and not enthusiastic buying, and that appears to be what is happening now, placing the market on extremely risky 'thin ice.'

Until we see any sign of downside action, continue trading with an intraday bias and be prepared to continue trading the "popped stops" and 'unexpected' upside breakouts that will drive more short-covering and thus higher prices just like what happened with prior "popped stops" multi-day rallies in early September, October, and November.