AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 02/25/10
1
2
3
4
110.80
110.71
110.60
110.40
110.20
110.00
109.93
109.80
109.60
109.40
109.20
0.40
0.12
-0.40
-0.80
$TICK - 5 min NYSE 02/25/10
Wyckoff
1,000.00
600.00
440.00
224.03
-200.00
-600.00
14:30
2/25
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 was almost identical in script to the pattern I've been highlighting - which is the

"Morning Weakness (usually gap)"
Morning Bear Flag... that fails
Mid-Day "Popped Stops"
5-Wave Fractal
Weakness/Divergences into the close

Look back on prior days that mention the word "script" or the blog post:

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

Apparently, we will be adding one more day to the "How many days?" question.

From last night's report, there was a strong bias for a downside move, potentially even a "Wave 3" sell-off as noted. We did get the expected "hard" sell-off that was forecast/expected... but again it happened overnight and then we did not see a full trend day down as was possible. Instead, the overnight sharp sell-off devolved into a "Popped Stops" reversal day.

Though it was possible for aggressive traders to try to trade long after the long-legged doji before 9:00am - it was certainly not an ideal trade and was good only for a small scalp long... and NEVER to play for a trend reversal. The concept is "Momentum precedes price" and large overnight gaps down with new momentum, price, and TICK lows should forecast/precede new price lows in the immediate future, giving rise to a trade set-up to short once price completes a pullback retracement into resistance. That was our first trade.

1. IMPULSE SELL, FLAG/TRENDLINE BREAK, 20 EMA (almost), DOJI AND BEARISH ENGULFING

You could have entered short on the doji at $109.40 at 9:45am (once price broke the low at $109.40) and placed a stop above the $109.60 area to play for a new price low (or at a minimum, a retest of the prior lows near $109.10), or you could have entered later at about the same price when price fell from (almost) testing the 20 EMA at $109.50 - a bearish engulfing candle formed and completed at $109.38 at 10:00am, so this trade had two clean entries short (both stops would go above $109.60).

Price fell back to the lower Bollinger Band and tested the prior low (not officially the spike low, but the morning lows from three candle extremes) at the $109.15 area. Price formed a bullish engulfing candle and then a doji - and either of those would have been a great exit signal with a profit of up to 30 cents (roughly 3 @ES points).

Price formed new TICK lows on the session here, so it was thus logical to expect new price lows yet to come, and look to get short on a retracement swing (again, not tradable from the long side) into the 20 or 50 EMA.

2. DOJIS AT 20 AND 50 EMA - TWO ENTRIES - BOLLINGER

Price cracked above the 20 EMA at 11:05 and formed four doji candles in a row, triggering a possible entry when price broke under these doji lows and under the 20 EMA, but as soon as that happened, price formed a lower shadow and then a strong power bar moving back above the 20 EMA. Conservative traders would have placed a stop back above the doji highs at $109.40 if short, which would have been immediately stopped out.

The next official trade entry came as price tested the 50 EMA and upper Bollinger or when price broke back under the 20 EMA. However you played this trade, it failed. One thing you might have noticed (should have noticed) was the

Wyckoff Sign of Strength on the spike doji high at 11:50am at the $109.60 level - which might have actually prevented you from trying to get short after a hidden "Wyckoff" sign of strength. Still, I found it hard not to at least try to short while we were still under the 50 EMA for some sort of reaction down.

No matter where you entered (if you did), you were stopped out when price rose above the intraday swing high and 50 EMA at $109.60, and due to the Wyckoff Sign of Strength and expected downside bias (shared likely by a majority of market participants), you had permission/evidence to "flip and reverse" to play Popped Stops.

3. POPPED STOPS

This is becoming a broken record, or at least this is the 5th time in recent history that this has happened almost identically.

Nothing more to say on this trade than to flip and reverse if you were stopped out on a break to new highs, to play the "pocket of stops" that existed above this critical inflection level (prior price high + 50 EMA). It marked the "line in the sand," and many traders 'bailed out' in a vicious short-squeeze that allowed you to profit from their losses if you were quick enough to take advantage of this set-up.

The exit is often the first sell-signal or weakness/reversal candles/divergences which likely occurred at the $110.20 level.

Seeing this as a "Third of Third" (see 1-min chart) and understanding this principle (if not, go back and review prior reports with the description "Third of Third" - remember you have access to all archives - that is the best way to learn these principles... they DO repeat) - then you were to wait and sidestep the "Wave 4" pullback and get ready to buy the first move back into support to play for a "new price high yet to come" (according to the momentum principle and the Elliott Wave Principle).

The pullback and breakout (see 1-min chart) gave you a trigger to enter your "Wave 5" trade.

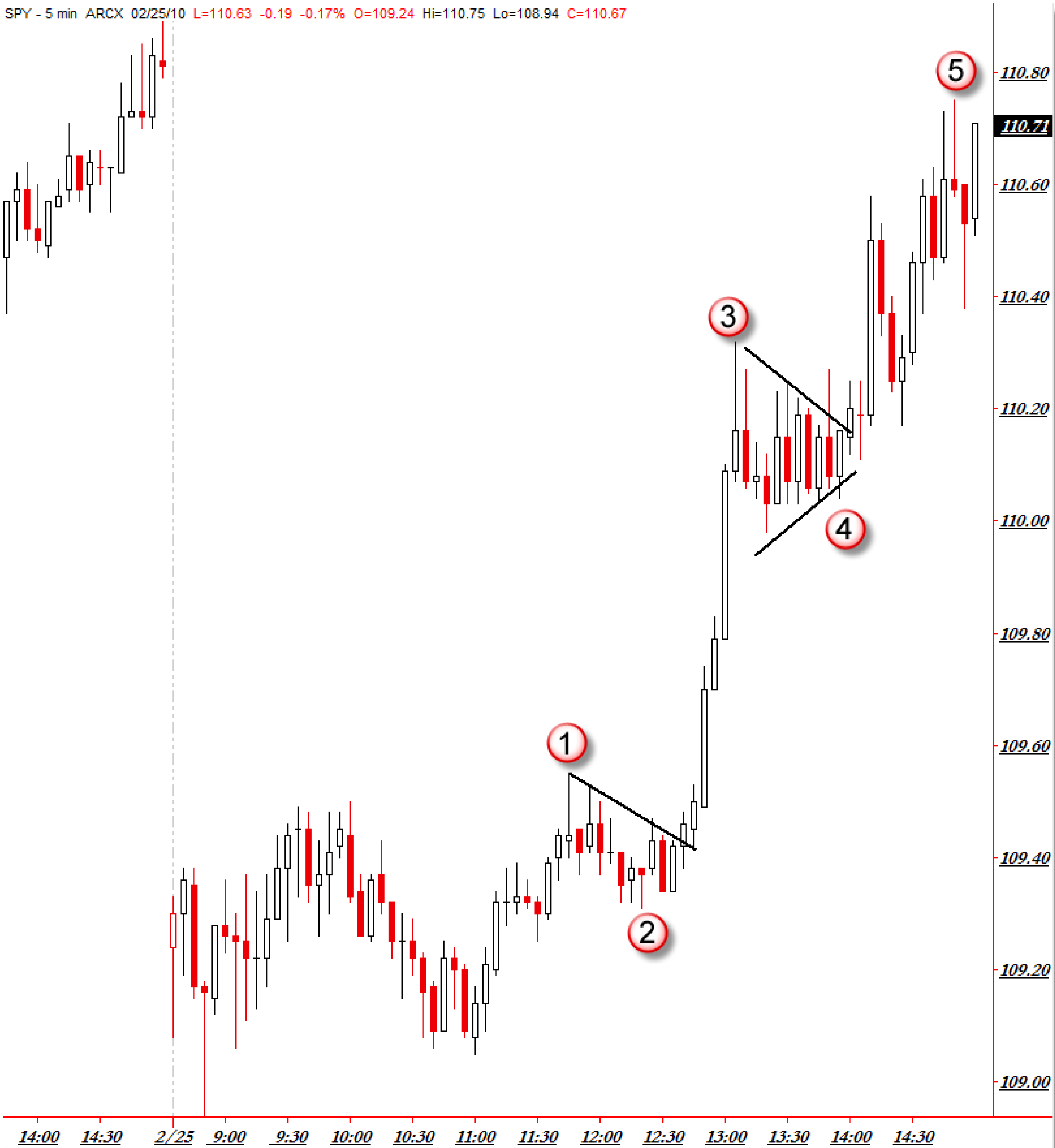
4. 5TH WAVE PLAY, RANGE BREAKOUT, IMPULSE BUY

This was a simple trade, as price formed an expected consolidation after a momentum/price impulse/burst, meaning your goal was to buy the first retracement after such an impulse to play for a new price high yet to come (with a stop under support/EMAs at $110.00).

This trade gave a 'shake-out' that probably led to you exiting on the spike outside the upper Bollinger or the bearish candle that formed afterwards, though aggressive traders could have held on through the shake-out (aggressive traders want to hold as long as possible to capture edge), which would have worked out into the close.

I'm showing that roughly 85 cents was possible today in four trades - three winners and one stop-loss.

Depending on your style, your 'potential profit' for the day will usually be less if conservative and more if aggressive.



Example of intraday "Elliott's Fractals," making special note of the power of the 3rd wave that - once completes - should lead to a pullback (wave 4) which is NOT tradeable, but the break above a trendline, or the move into support - IS tradable to play for the final 5th wave, should it materialize.

Waves 1 and 2 are often impossible to forecast or see in real-time.

Interesting. The downside action was certainly anticipated, but it happened overnight, allowing opportunity only for those who "swung trade" short or traded overnight/morning futures.

Price hit the $109.00 level, which was both the 50% Retracement as shown above, but also the 38.2% retracement of the February lows of $104.50... making it a confluence Fibonacci Zone that happened to coincide with a 100% Bear Flag projection target at $109.00.

So I guess it shouldn't be so surprising that we saw a bounce off that confluence support zone, but I think once the bounce happened, bears/short-sellers panicked and helped in part drive prices beyond what we would have expected for a rally. Still, intraday traders are always able to profit from unexpected moves better than swing traders are.

For now, watch $111.00 to continue playing "Popped Stops." Otherwise, watch it to be resistance.

We see price tested the 38.2% retracement, formed two doji candles, and then surged. This shows why it can be important to watch higher timeframes in conjunction with your 5 and 1 min (or 15 min) charts - they'll show things that might be helpful to know on the 5-min frame.

Where do we go now? The structure remains the same. The expectation is for a continuation of a down-swing as shown above, given that price is inflecting downwards from a descending trendline.

Because the expectation is for downward prices - and it's likely a widespread assumption - be prepared to trade long for "Popped Stops" of the swing traders who are forced to cover - and the new buyers who will come in - if price crosses solidly above 1,110/1,115. Keep in mind that we are hovering at the support of the 20 and 50 day EMAs... for now. As such, the pathway down is clear when price breaks under 1,090/1,080 to target the 1,050 area again should we see further selling soon.

Tomorrow is a **BIG economic day** (GDP, PMI, Sentiment, Home Sales) so be sure to check Bloomberg for details:

http://www.bloomberg.com/markets/ecalendar/index.html

Treat tomorrow as a cautious "**Big News" day** where the market can make violent, unexpected swings as it reacts to the data if there are any surprises.