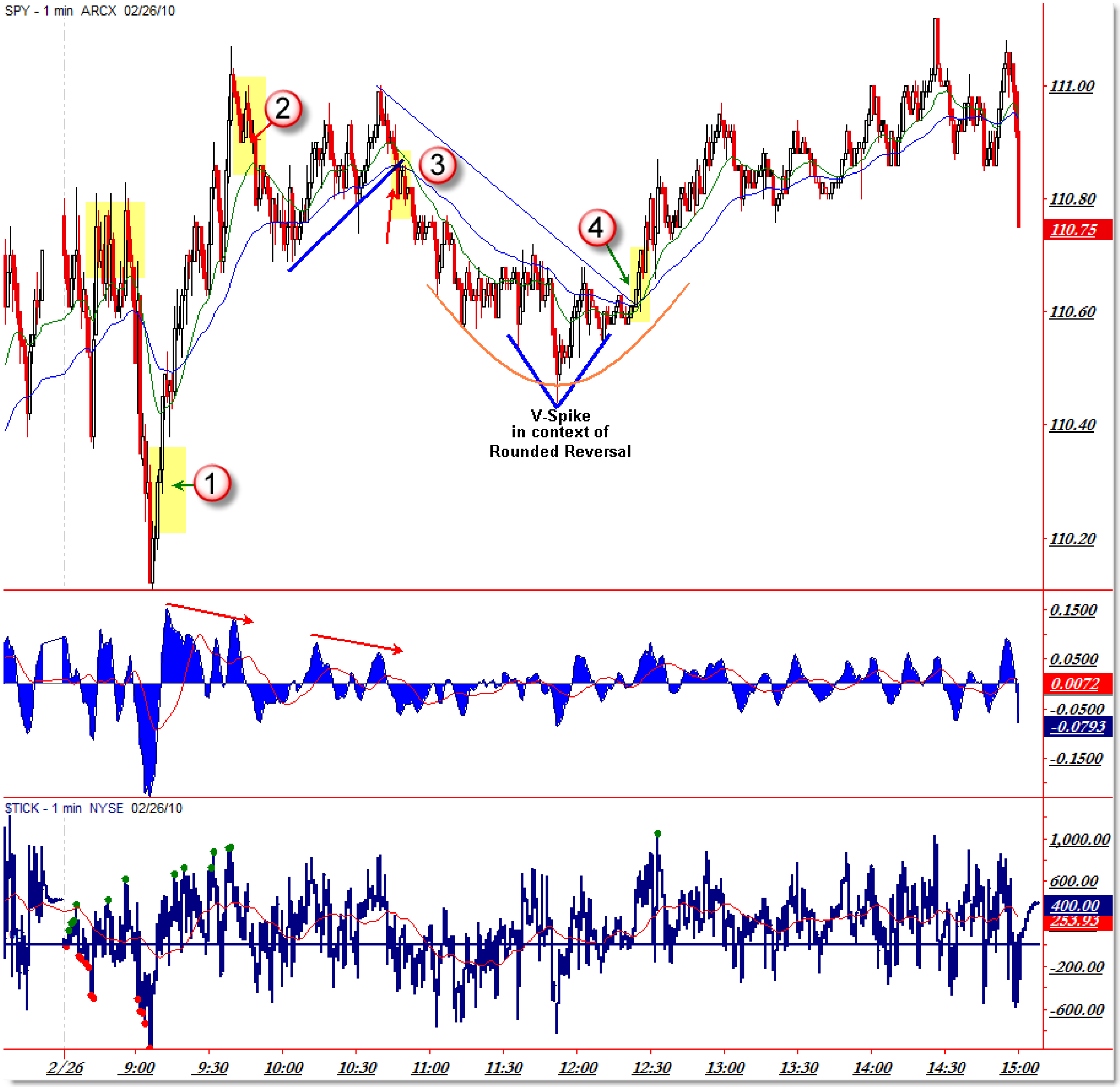
AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report




SPY - 5 min ARCX 02/26/10
Risky
1
2
3
4
111.07
111.00
110.80
110.75
110.60
110.40
110.20
110.00
109.80
109.60
109.40
0.4000
0.3000
0.2000
0.1000
0.02
-0.06
$TICK - 5 min NYSE 02/26/10
1,000.00
600.00
400.00
263.59
-200.00
-600.00
12:30 13:00 13:30 14:00 14:30 2/26 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

True to its nature, today - being a 'big news day' - had violent swings in both directions as the majority of the reports were released in the morning - that made trading in the morning a riskier endeavor than usual and so smaller position sizes and more caution was warranted.

The day was a "Rounded Reversal" with a "V-Spike" bottom that's worth studying. For now, here are the trades we can learn from today.

1. SPIKE HAMMER CANDLE, 50 EMA, BOLLINGER, 200 SMA

First, let me highlight the first trade could have been a short-sale via the TICK and momentum divergences right off the open, but in an environment of three major economic reports, it's often safer to stand aside. The first hour was very choppy, but there was a sudden down-move that theoretically could have been traded, though in practice it was difficult.

Price on the 5-min chart formed a long-legged doji/hammer candle at 9:10am which bounced off the 50 EMA, 200 SMA, and lower Bollinger. This was an aggressive trade because there was no divergence on the 1-min frame, so the entry was as soon as price took out the high of the hammer candle at $110.33 to play for a retest of the prior high at $110.80 or slightly beyond. This trade progressed very quickly to its target, and exceeded it to the $111.00 level, at which time it became important to watch for further upside potential, which would allow for playing "Popped Stops" on a sustained move above $111.00... otherwise, the first test of this level often results in a move down from resistance.

That was the second trade, again for aggressive traders who were comfortable shorting after an impulse move up... not the safest thing to do for new or beginning traders, but I still wanted to highlight it as an opportunity for reference.

2. SPINNING TOP/DOJI AT UPPER BOLLINGER (5-MIN), $111.00 KEY RESISTANCE

Knowing that $111.00 was key resistance was important in setting up this potential trade, and seeing the spike (upper shadow) above the upper Bollinger Band which then gave way to a spinning top/doji candle at $111.00 led for an entry short when price broke the low of the spinning top at $110.90. The stop was above $111.10 with a minimum target to play for the rising 20 EMA at the $110.70 level, which was met as price formed two doji candles here, allowing for a clean exit for your short-sale.

We were seeing muted TICK and momentum readings, when compared to yesterday's afternoon action, so it probably was not the safest environment to get long at these dojis at the 20 EMA, but it was certainly an opportunity to play for a retest of the $111.00 level - which occurred. Due to the divergences, I'm not listing this specifically as an "ideal" trade. It was best to remain sidelined to see if buyers could trigger the "Popped Stops" and get long above $111.00, or wait to see if $111.00 would hold as resistance and prepare the next short-sale trade if that was the case.

The breaking of the 1-min trendline at the same time the 5-min 20 EMA was broken yielded the next simple short entry.

3. TRENDLINE BREAK, 20 EMA BREAK, RESISTANCE HOLDING

This was a safer trade, given that price was forming dual TICK and Momentum divergences when compared with yesterday afternoon's action. This trade simply can be defined as the following:

"Dual Divergence as price moved into the $111.00 resistance zone, which triggered an entry as soon as price broke the 1-min trendline and 5-min 20 EMA at $110.80."

The play was for a quick retest of the rising 50 EMA at a minimum at $110.60, so this did not allow for much profit, but it was a high probability play that succeeded. The stop was just above entry at the $110.85/90 level (due to the small target).

Price then began to form lower prices on positive momentum divergences (see 1-min and 5-min chart) and formed a "V-Spike" candle on the 1-min frame in what appeared to be a Rounded Reversal pattern.

This led us to believe that price had decent odds of rising from there, but we needed to see positive trendline breaks and a rise back above the 20 EMA (5-min) to execute long - that happened at 12:30 which also formed a nice Wyckoff Sign of Strength.

4. ROUNDED REVERSAL, V-SPIKE, TRENDLINE/EMA BREAK (INTO WYCKOFF)

Execution for this trade took place when price broke the 1-min trendline and 5-min EMA at the $110.60 level to play for a retest of the $111.00 key resistance. Shortly after entry, we received a new TICK high on the day which was further confirmation that odds favored higher prices yet to come, and most likely an 'open air' move back to challenge the $111.00 area.

Remember, new TICK highs when price is not making new intraday highs - except for the first thirty minutes - is known as the "Wyckoff Sign of Strength," and forecasts higher prices yet to come (or also known as a "Hidden" sign of strength).

We saw price rally back to the $111.00 area, this time forming negative momentum (and TICK) divergences, calling for an exit and - for aggressive traders - a short-sale at the upper level to play for another move down. Keeping options and opinions open, we also were to anticipate trading long on any solid break above $111.00.

Price flirted with the $111.00 level, spiking above and then quickly slicing back down, so there really weren't any great trades into the close as buyers and sellers pushed against each other for dominance.

Sellers clearly won the battle into the close, but there really wasn't an opportunity - unless you were an aggressive trader who shorts at resistance without waiting for confirmation.


SPY - 5 min ARCX 02/26/10 L=111.00 0.33 0.30% O=110.77 Hi=111.12 Lo=110.11 C=110.74
+0.45
-0.15
-0.18
+0.15
$0.93 Possible
$TICK - 5 min NYSE 02/26/10 L=400.00 -32.00 -7.41% O=-2.00 Hi=1058.00 Lo=-963.00 C=400.00
13:30
14:00
14:30
2/26
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

The play remains the same. Be prepared to trade a quick "Open Air" move higher at least to $111.50 on any solid - not just by a few pennies - break above $111.00, preferably on higher volume. This would be the classic "Popped Stops" play, and any move higher than $111.50 puts us in open air to retrace to higher levels.

Until then, the strong bias is for downside prices to materialize... but if they don't, it will almost certainly lead to a tradeable 'short squeeze' higher because so many traders are expecting a downside resolution. Be prepared.

Price rests currently under the key 61.8% Fibonacci Retracement from the 2010 highs to the 2010 lows as shown.

There was a "finger" trade as price gently broke above this level on vicious negative divergences, but price has since fallen back under the key level.

Downside action is favored, but on any break above $111.00, be prepared to trade or scalp long - remember, supply and demand (buying and selling) rule markets - not Fibonacci Grids or moving averages (meaning people place stops above these levels, and if buyers push into these levels, the 'popped stops' will create upwards movement). If bulls can't overcome sellers at resistance, then price will fall as most people expect.

Sometimes charts lend themselves to simplicity - now is one of those times. We don't know exactly which way price will break, but the key levels are obvious to everyone, and as a result, action is likely to occur and perpetuate (meaning, once we get a resolution, we should see the other side capitulate, creating positive feedback - all of which is tradeable from an intraday perspective, or swing trading once a break occurs).

The levels are 1,111 to break bullish to the upside to test 1,150 most likely; or

1,085 to break bearishly to the downside to slice through open air to test 1,050 again.

Being that markets are driven by supply and demand, we are unsure which side (bulls or bears) will capitulate (throw in the towel), so it is safer to wait until this happens and then trade in the direction of the price break.

Not much help here short-term from the weekly chart. We see the importance of 1,150, but also the importance of the 1,085 level, which is the 20 week EMA. A crack through 1,085 sends price to the 50 week EMA at 1,050... and a crack/break under 1,050 sends price to test 850 and perhaps lower if a 'panic' selling mode begins.

Until we get a break either way, stay nimble and to your intraday charts.