AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min

Today was another testament to the larger "Range Alternation Principle," in that price alternates between range expansion (sometimes in the form of "Trend Days" like yesterday) and range contraction (as in today's "Range Day"). Keep in mind that it is generally rare to see two trend days back-to-back (though anything can happen in the market!).

Let's take a look at the key trades and opportunities, so as to let them sink in and be prepared to trade these set-ups the next time they occur.

1. GAP FADE

This was a simple trade set-up, which was a 53 cent gap to try the fill. From the research 'teaser' chart I sent to you, a 50 cent gap (in 2009) had a 54% chance of filling - certainly not impressive, but enough to give an edge for the trade. As such, when price rose over the first candle and back inside the Bollinger Band, this triggered entry (in that range, depending on how much time you like to give a gap to 'prove' it is likely to fill. Price rallied quite rapidly to fill the gap to the $110.40 area, formed two doji candles at the gap fill resistance zone, and gave you your next opportunity.

2. FADE THE FADE, TWO DOJI, 20 EMA

This was a simple trade that formed into the resistance of yesterday's close (a successful gap fade often results in an opposite trade if we start to see reversal signals into the gap fill). This occurred at the $110.40 level with two doji candles, and an entry triggered either at this zone or as price took out the low of the second doji at $110.32. The safe target was for a retest of the prior morning low at the $109.80 level, which occurred probably quicker than expected.

Price then formed a new price, TICK, and Momentum low, clueing us in that we should be ready to sell the first pullback/retracement into the 20 EMA... which occurred shortly thereafter. To my more aggressive readers, you could have traded long as the long-legged hammer candle formed to try to scalp back to the 20 EMA... but this was a risky counter-swing trade... that nonetheless worked. Conservative traders would be waiting to short into resistance.

3. IMPULSE SELL, BEAR FLAG, TWO DOJI, CONFLUENCE EMA RESISTANCE, 61.8% FIBONACCI

There was enough confluence at the $110.05 level (including the $110.00 'round number' resistance itself) to make this the best opportunity of the day. The trade was anticipated well-in advance via the new price, TICK, and Momentum lows... shorting the first pullback is a powerful trade. This time, price formed two doji candles at the convergence of the 20 and 50 EMAs along with the 61.8% Fibonacci retracement (as shown later). This trade also targeted - at a minimum - a retest of the morning low at the $109.60 level... at which more doji candles and then a bullish engulfing candle formed on a positive 'dual' divergence, setting up your next 'edge-based' opportunity.

4. DUAL DIVERGENCE, LOWER BOLLINGER BAND, DOJI, ENGULFING, 5-WAVE FRACTAL

The 5-wave fractal is "iffy" by most standards (since wave 4 entered the price territory of wave 1) so this might count out better as an ABC, but remember our goal is NOT to be an Elliott perfectionist intraday, but to seek out and find 5-wave fractals themselves and see if divergences accompany the final fifth wave. If so, we probably want to trade any reversal that may occur... as this one did.

To accompany the fractal, we did see a dual TICK and Momentum divergence form as price spiked outside the lower Bollinger Band. A doji and then bullish engulfing candle formed, triggering an aggressive entry at the lower Bollinger at $109.60 or a safer entry as price took out the high of the long-legged doji ($109.68) or the clear bullish engulfing power candle ($109.73). There were a few targets for this trade, depending on how much conviction you felt that the market had put in a key low and was forming a reversal. If conservative (in doubt that this was a reversal), then you exited as bearish candles formed at the 20 EMA at the $109.80 level (I chose this outcome for the calculations below). If moderate, then you exited at the test of the 50 EMA at the $109.92 level. If aggressive, then perhaps you held on to the close to play for a true reversal, or exited as price began to move back inside the Bollinger Bands after the sharp spike outside at the $110.10 level. Either way, this was a great trade with plenty of confirmation, though it was on the aggressive side.

The spike outside the upper Bollinger caused a new TICK high but not a new price high, which is our classic Wyckoff Sign of Strength. I hope you are picking up on these formations in your personal trading, as a signal occurs at least once every day it seems now.

While you can't put on a trade during a Wyckoff signal, you are expected to buy the first pullback into support to play for a reversal in price, confirmed by momentum and/or TICK. This first pullback came at 1:00pm CST, but price sliced quickly through the 20 EMA before forming a reversal candle. The reversal candles actually formed at the underside of the 20 and 50 EMA, which should have given you pause. Price never closed above these upper shadow candles, and thus an entry was not triggered at this time - price then fell sharply lower to test the lower Bollinger Band, this time forming a positive momentum and TICK divergence and a long-legged doji, making it safe to play for higher prices with a tight stop.

5. DIVERGENCE, LOWER BOLLINGER, DOJI, BUY-IN AFTER WYCKOFF

This was a sort of "line in the sand" trade, meaning a tight stop was used to see if price would rally to fulfill the bullish signal from the Wyckoff new TICK high... or collapse through support and violate the signal. The stop was under the lower Bollinger Band at $109.70 and the trade was officially triggered AT the Bollinger Band (for aggressive traders) or as price took out the high of the doji at $109.85. The target was for a retest of the prior high at $110.20 or the upper Bollinger at $110.10. Price only managed to retrace to the upper Bollinger Band, forming another sudden spike (not creating a new TICK high) before collapsing to the prior support level (leaving nimble/quick traders to exit near the highs with a profit).

Price then bounced back and forth into the close between the two Bollinger Bands in a Range Day fashion, though I generally don't recommend trying to capture small bounces into the market close. It certainly could be done though, if you have the patience to do so!


SPY - 5 min ARCX 02/03/10 L=109.88 -0.50 -0.45% O=109.88 Hi=110.48 Lo=109.51 C=109.90
1
2
3
4
5
Range
110.40
110.20
110.10
110.00
109.86
109.80
109.69
109.60
0.2000
0.1000
0.0323
-0.1000
-0.2000
$TICK - 5 min NYSE 02/03/10 L=-105.00 -139.00 -408.82% O=-23.00 Hi=1167.00 Lo=-1087.00 C=-105.00
800.00
400.00
-105.00
-400.00
-800.00
13:30
14:00
14:30
2/3
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

These "Efficiency Analysis" charts show a reasonable expectation of profit - using a moderate/compromise risk-tolerance level - based on the Ideal Trades mentioned above for educational purposes.

Efficiency Analysis is designed to help you compare your entries and exits/fills to the 'ideal' movement so as to compare your percentage of efficiency in your trading. For example, in trade #3 - the Impulse Sell - I marked entry when price took out the low of the spinning top/doji at resistance and then exited as price retested the $109.60 prior low which was a target. I'm not starting at the high and ending with the low - that's impossible in real-time. I'm trying to recreate what was realistically possible to achieve, and then you can compare your results to that. So this trade yielded a potential profit of 38 cents, and if you entered later and profited 30 cents from the move, then your trade efficiency was 78% (you achieved 78% of what was theoretically available). Newer traders should set their efficiency goal near 50%, while advanced traders should set it closer to 80% on most trades. Do not be discouraged if you do not achieve a 100% efficiency rate on your trades, but set your goal to achieve as much as possible. This is how you become a professional and improve your trading performance objectively.

This 1-min chart focuses on TICK and Momentum divergences, along with the two major Fibonacci Grids that you could have drawn today.

The end-of-day highs retraced to the 61.8% level - which would have been helpful to know.

I like to highlight Elliott Fractal moves on the 1-min chart as references.

If you do not do Elliott analysis, feel free to skip these charts.

Remember that the goal is not "perfection" but to look for spikes in the 3rd wave and divergences in the 5th wave to confirm/set-up trades.

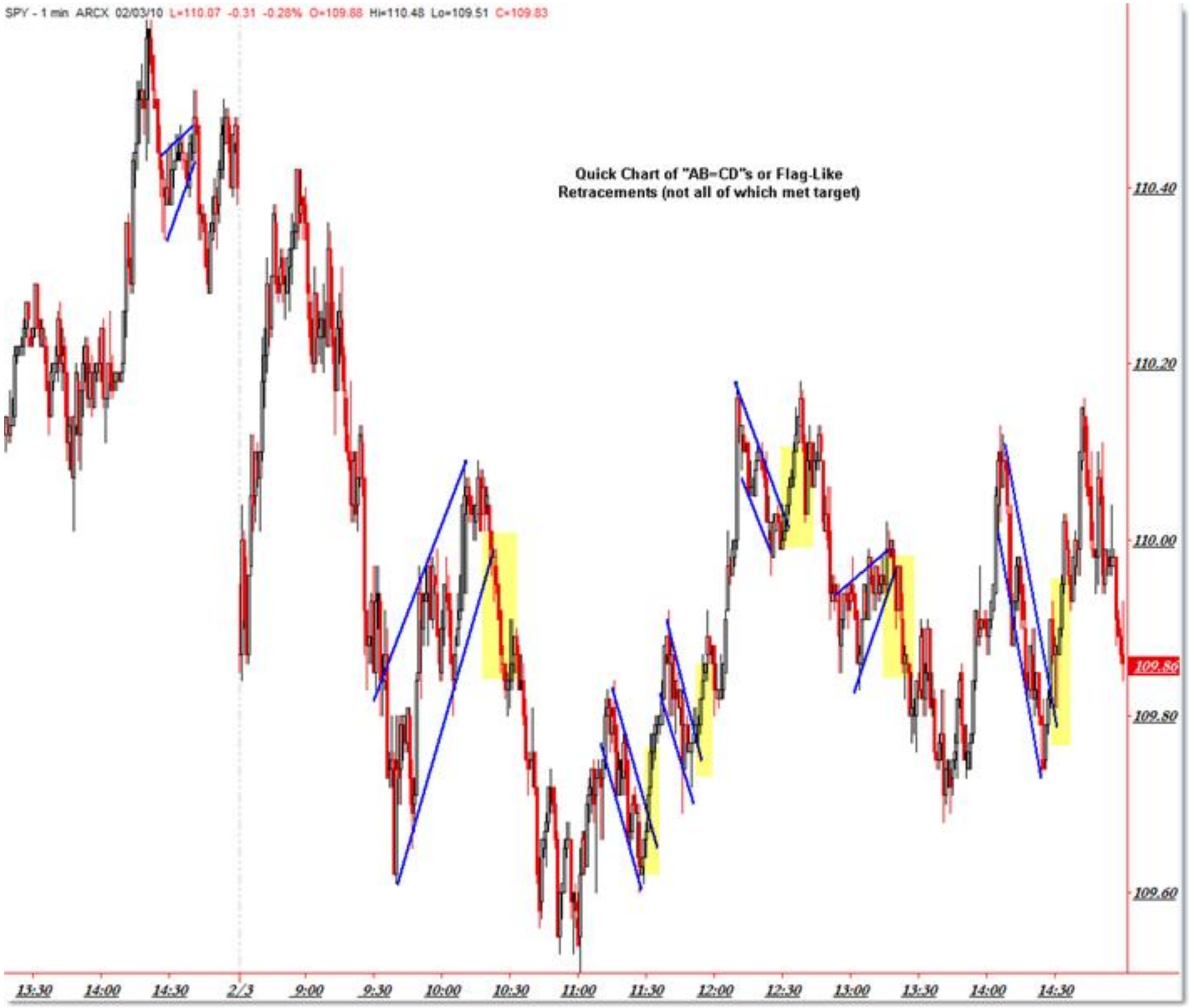
The 3/10 Oscillator works very well for identifying/confirming potential wave counts.

As a hint when applying real-time Elliott...

3rd waves tend to be dynamic and produce new momentum lows or highs, signaling a continuation is likely.

5th waves tend to produce divergences, signaling a reversal is likely.

DO NOT try to apply intricate Elliott Wave analysis intraday - you will become terribly frustrated unless you have a good deal of experience with this concept. Focus on 3rd and 5th waves ONLY.



Today also gave us some good examples of retracement/flag style trades.

Price retraced to the 38.2% Retracement, so it is unsurprising we are seeing resistance here.

The $110.50 level is key, with a break above leading to a push to the $110.30 level (50% Retracement and 200 period SMA) if not the $112.50 level (61.8%).

Should price break under $109.50 here, it would suggest strong odds for a play down to the $107.50 level.

Watch for a bullish break to trade long above $110.50 or a bearish break under $109.50 to trade short.

I'm still classifying this as a "Counter-Trend Retracement" for the time being.

The same analysis goes for the 60min chart.

The 20 EMA supports just above $109.50, so any break under here would signal odds favored a move to test the prior lows (or likely exceed them).

Otherwise, a move above $110.50 signals that the next resistance level would be the $111.30 level which could continue to $112.00.

The volume is lighter and the rally is 'angular,' which keeps it in the "counter-trend rally" definition.

Quick analysis shows that the 1,110 area is expected to be formidable resistance, as it is the "Cradle Crossover" of the 20 and 50 day EMAs which have yet to officially cross bearishly (though are just over 1 point apart).

As such, we would expect resistance to come in here, but any bullish break above 1,110 will (likely) be met with shorts covering creating a 'popped stops' rally higher. Until that happens, we would be safe to assume a bearish 'higher timeframe' posture and be ready to shift on any sustained move above 1,110.

BONUS CHART: For reference to the Fibonacci Confluence Method - drawing to key swing lows from a swing high and then noting the confluences as well as the "Open Air" between the confluences. Should price break under a confluence area into open air, odds favor a move down to the next confluence support area. We have lots of confluence at the upper level because price has formed mini-swings since August to the January high. The retracements are the standard 38.2%, 50.0%, and 61.8% drawn from the high.