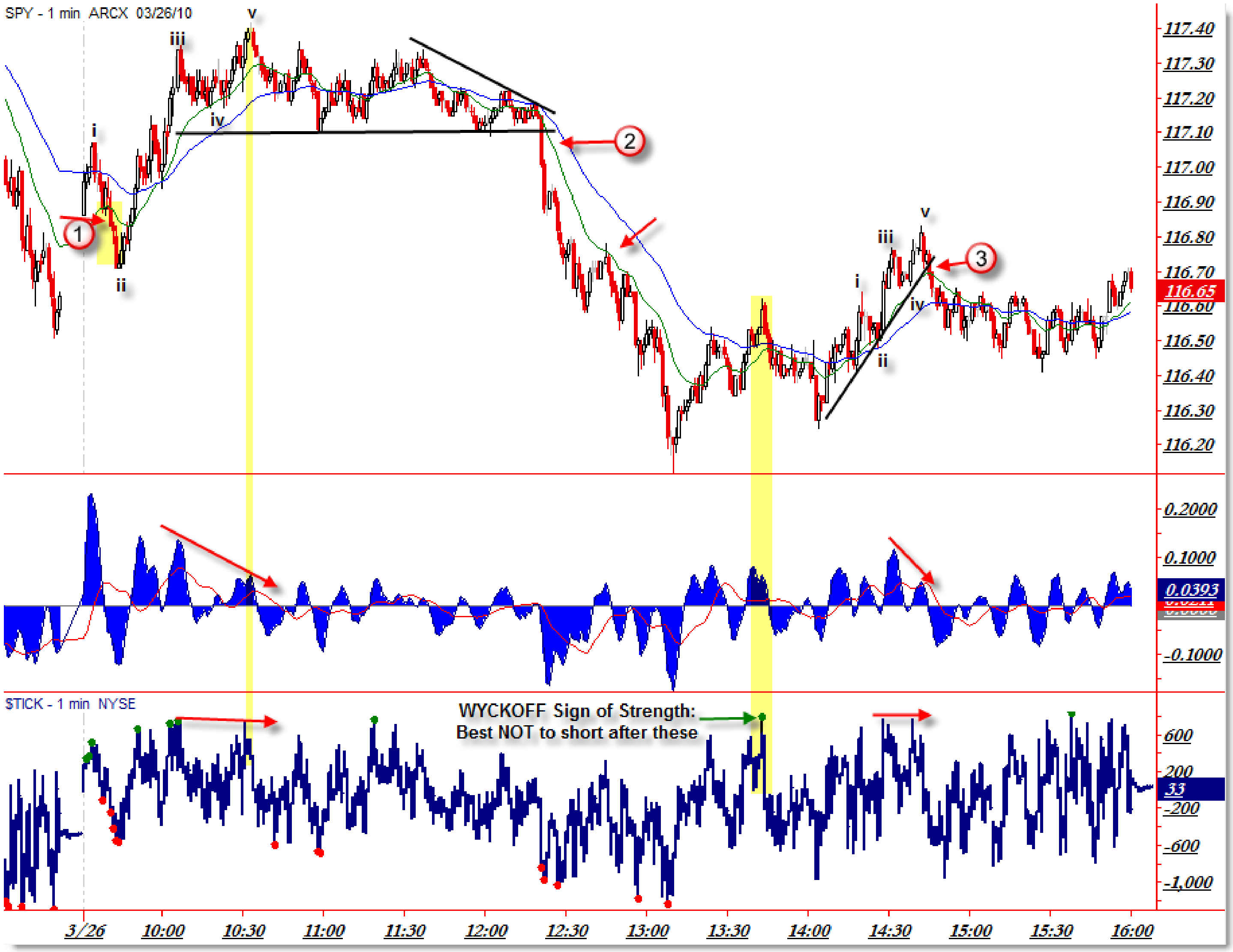
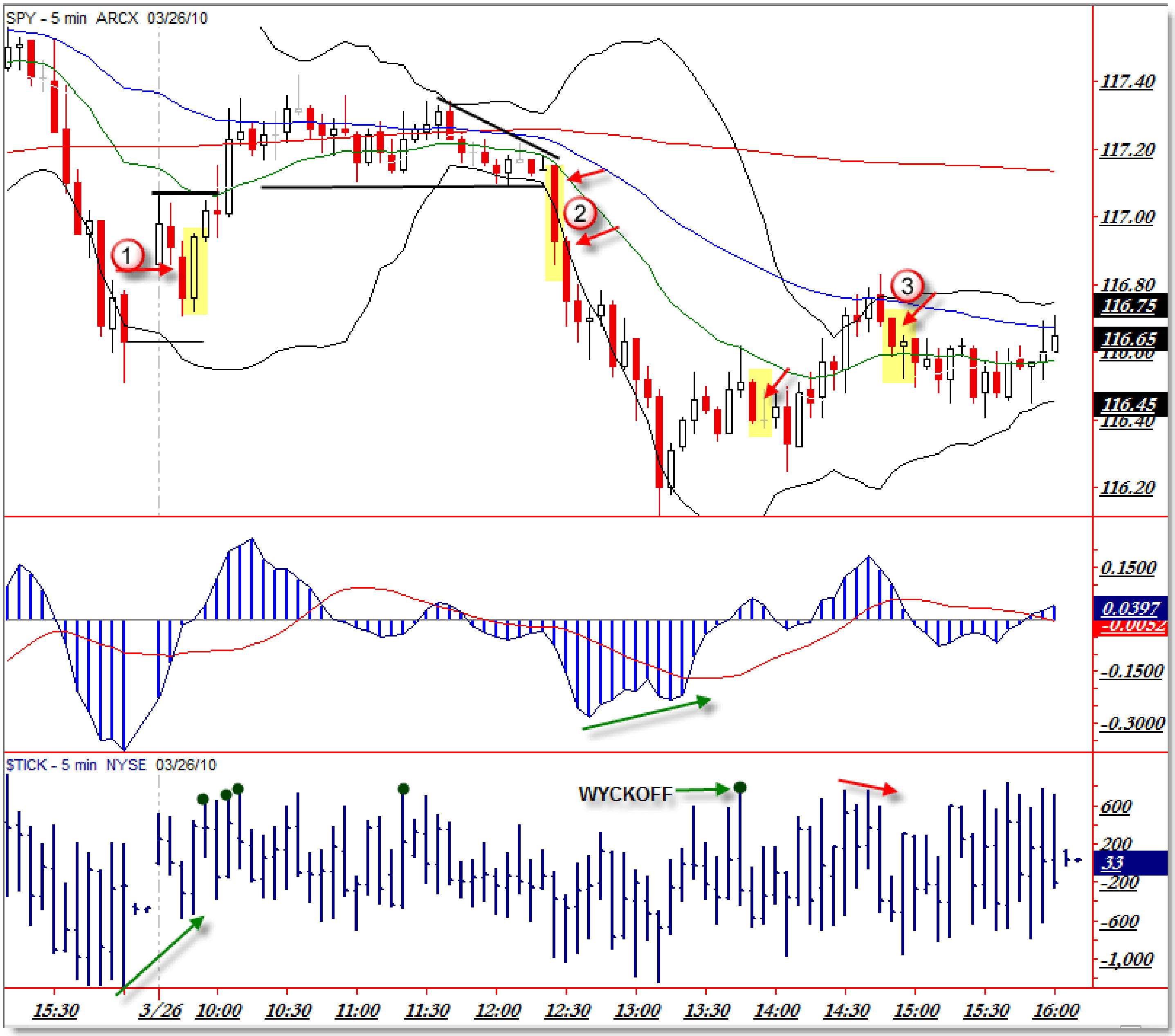
AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report




SPY - 5 min ARCX 03/26/10
117.40
117.20
117.00
116.80
116.75
116.65
116.45
116.20
1
2
3
0.1500
0.0397
-0.1500
-0.3000
$TICK - 5 min NYSE 03/26/10
WYCKOFF
600
200
33
-200
-600
-1,000
15:30
3/26
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30
15:00
15:30
16:00

Greetings from New Orleans!

Tonight's report will be an abbreviated version of the text, though we will still describe the trade set-ups and lessons via the 5 and 1 min charts as usual. Today's 'takeaway' comes from the Wyckoff Sign of Strength preceding the end-of-day reversal, which should have – at a minimum – prevented you from taking the 'bear flag' short sale… which has failed to produce a winning outcome at least 13 times in recent history (see prior reports for failed bear flag).

1. **GAP FADE**

The opening trade was your standard gap fade, with price gapping up roughly 25 SPY cents – well within the expected probability of filling, and price began to make a downward move, taking out the opening low at $116.86 and triggering you short if you were not already.

Unfortunately, not all gap fade trades work – that's why we have percentages of successful trades, and even a 70% chance of historical success reveals that 30% of the time, the gap failed to fill. That's what happened today – it was a low-probability occurrence (a failed gap in the morning) but it happened, and it should have triggered your stop loss above the swing high at $107.07 if you had not exited already. Not all trades win – this is a good example of a trade that 'should' have worked that didn't. Blame it on the inherent and unstoppable bullish momentum that has tripped up many sell signals recently!

For very aggressive/astute traders, you could have 'flipped and reversed' and gone long for "Popped Stops" once price broke to a new intraday high and that would have led to a profitable 'scalp' trade given that an unexpected move happened and short-sellers were forced to cover (driving prices higher).

The market consolidated, leading to the second trade being a range breakdown (and triangle) trade.

2. **TRIANGLE BREAKDOWN, RANGE BREAK, BOLLINGER SQUEEZE**

According to the "Range Alternation" principle, price alternates between range contraction (triangles, rectangles, Bollinger Squeezes, low ATRs, etc) and rang expansion (trend moves, impulse moves, etc). Once price had formed a clear trading range and established a boundary (horizontal trendlines), you would be looking to play a breakout of that range – which occurred as price broke the 'key support' zone of $117.00, triggering a trade with a stop above $117.20/30. With breakout trades, you want to hold as long (a time) as you possibly can to take advantage of the positive feedback or 'impulse' of the move, which means you don't want to get shaken out at a single doji candle. I show the exit being two strong bullish candles off a positive momentum divergence at the $116.40 level – where aggressive traders could have flipped, gone long, and played for a retracement back to the 20 EMA at $116.60, but keep in mind that is an aggressive counter-trend trade.

The better point of execution (short) would be when price retraced to the 20 EMA, formed a reversal candle, and then began trailing lower, setting up a bear flag or impulse sell trade.

HOWEVER. Keep in mind that these trades as a whole have been failing frequently, and the most important lesson to learn today was that the flag high at $116.60 actually formed a Wyckoff Sign of Strength… hinting that a positive price reversal was at hand, and – from a probability standpoint – preventing you from short-selling this move as a conservative trader, or looking to play (long) a potential reversal. Either way, it was best to SKIP this trade from either standpoint (again, due to the new intraday TICK high while price was far away from making a new high). This is a very important concept to grasp, so be sure you learn it well.

The next trade was the doji then bearish engulfing candle (along with 5-wave fractal) that ended at the 50 EMA and upper Bollinger at the $116.80 level.

3. **UPPER BOLLINGER, 50 EMA, 5-WAVE FRACTAL, NEGATIVE TICK DIVERGENCE, DOJI/ENGULFING**

This was similar to the prior 'flag' or retracement trade, only this time price was at the upper Bollinger and the 50 EMA, and a slight negative TICK divergence had formed (see 1-min chart) along with a complete 5-wave fractal. Conservative traders may have decided to sit this trade out too, because had the day played out in true Rounded Reversal fashion (forecast by the Wyckoff signal), then we would likely be looking for a trend reversal and break above the 50 EMA (which would have set-up a buying opportunity).

Still, all trades are 'risky' and are betting either that a key level will break… or hold. In this case, it was a bet that the 50 EMA and upper Bollinger would contain price, and the entry was triggered with a break under the doji or bearish engulfing candle at the $116.70 level, with a stop above $116.85.

The exit on this trade was tricky, and I honestly see no ideal or perfect zone, given that price merely went into a consolidation zone, so this trade was at worst a scratch and at best a very small profit.

When in doubt, the 1-min chart is often a good guide, and It was showing the possibility of a rounded arc pattern itself, yet still that makes for a difficult exit. You probably should have exited this trade as soon as you felt price was bouncing around and not traveling to the downside as expected – like trade #1, not all trades are perfect… and an underlying bullish bias still remains in this market.

Counting the morning failed gap fade and end-of-day scratch, roughly 70 cents was possible today by capturing the range breakout move in the afternoon… and avoiding the would-be failed bear flag signal at 1:45 CST.

One bit of advice – there is a tendency that, after a really good day (I would consider yesterday to be 'really good' in terms of the expected patterns working well in terms of set-up and outcome), you can expect the next day to be 'not so good' as today showed.

Wouldn't it be perverse if price is forming a bull flag here? Or perhaps an AB=CD measured move? It's too early to state that yet, but here are the facts.

We have a flat-line 3/10 Momentum divergence that ended today's low, and price broke and closed under the 20 and 50 EMA on the 30min chart. Also, the EMAs have crossed over bearishly today (for the first time on the chart above), setting up a potential 'roadblock' of resistance and a cradle trade. Keep that in mind.

Should price rally back above these EMAs and the $117.00, then go long for popped stops, but until that happens, have a neutral to bearish bias.

Wouldn't it be perverse (like the bull flag) if price formed yet another bear trap here with a break under the EMAs? It's still a possibility and it's happened twice before (highlighted) so at least keep this in the back of your mind if you are bearish here.

Bears need to see a break and close under $116.00 (it served as support today) for an official signal, as price still remains in a confirmed uptrend, and shorting it (for a reversal) – while potentially profitable – is still an aggressive move currently.

Under normal circumstances, this would be a blatantly obvious sell signal – or at least "take profits" signal, given that a bearish engulfing/key reversal bar formed yesterday and today formed a doji after an overextended rally on a negative momentum divergence. That may be the case, but the retracement would be expected to take us at least back to 1,150 and then 1,130 if it were a deep retracement (20 and 50 EMA respectively).

Keep in mind that this is not a short-sale for conservative traders, but aggressive traders willing to step in front of a prevailing trend that has not (yet) confirmed a reversal.

Stick to your intraday charts and monitor the action very closely for any additional clues on Monday.