AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 03/10/10 L=115.04 0.58 0.51% O=114.51 Hi=115.28 Lo=114.41 C=115.02
Popped Stops
Popped Stops
1
2
3
$TICK - 5 min NYSE 03/10/10
115.28
115.20
115.10
114.98
114.90
114.80
114.75
114.70
114.60
114.50
114.40
114.30
114.20
0.2000
0.1000
0.0367
-0.0430
-0.1000
-0.2000
1,000.00
594.00
233.28
-200.00
-600.00
-1,000.00
14:30
3/10
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

While today wasn't the great trading day yesterday was, it still afforded some good opportunities for trading profits, and the day structure was yet another almost repetitive script day from yesterday, particularly in the morning swing. It is very important that you take the time to understand what I mean by "Day Structure," as that will dictate the opportunities for trades and indicators to watch (and not watch) for the session. Also, on days where the market does repeat structures back-to-back (it's been happening a lot lately), then you have an absolute roadmap to the future if the market continues on the script. Print and use these reports as references when you feel the market is repeating a structure very closely.

Due to the structure and commentaries across the board, the widespread sentiment is for a market decline ahead, and so ANY upward movement will 'pop the stops' of those who are acting on this bearish bias (rightly so) and thus drive price higher - that's been the dominant play of the last few weeks... and it repeated today, but not with the violent breakout that is possible if the S&P 500 rallies above 1,150 (triggering a massive wave of stops). But before discussing that, let's look at three opportunities for trades and - as always - learn from these real-world events.

1. CRADLE, DOJI, PULLBACK POPPED STOPS

In an almost identical structure to yesterday's open, we had the exact same set-up trigger, only this time the doji/spinning top candle did not pullback completely into the 'cradle crossover' of the 20 and 50 EMA at the $114.65 level. Again, the $115.00 level is acting like a magnet, and so any pullback above the 20/50 EMA structure was a buy, though the break above the doji candle at $114.75 was the official entry for all traders (though aggressive traders might have tried to pick up a buy closer to the EMAs). The stop was under $114.60 and the target - for the cradle - is a counter-sell signal (hold it for as long as possible). This was particularly true in the environment of "Popped Stops" where further upside movement is frustrating to the sellers in an environment where prices seem to be rising relentlessly.

Because price broke above $115.00 at 9:30am, this was also a "Popped Stops" trade (notice the big range bar) if you weren't long already, and I suggested that the exit be a break under the trendline as the negative divergences formed.

Remember, we're trying to play the stop-loss triggers of the short sellers when combined with new longs/buyers entering. It's a weak structure when internals and momentum are making negative divergences at the highs... and the trendline break was both the final straw to go ahead and book profits and flip and scalp short for those aggressive enough to do so.

2. DUAL NEGATIVE DIVERGENCES, 5-WAVE FRACTAL, TRENDLINE AND 20 EMA BREAK

I call this aggressive because it was trading short against a seemingly unstoppable trend move (multi-day rally), though we did see negative dual divergences and a clear trendline and 20 EMA break, so a decent entry was triggered as price cracked back under the $115.00 level, hinting that the "Popped Stops" burst was over for the time being. A conservative target would be a move back to the 50 EMA and lower Bollinger at $114.90, but - being aggressive - traders might have tried to hold on to this trade longer to see if we had a similar outcome/resolution to the same pattern as yesterday - which was a swift downside move. We did, and again, this tried to take advantage of a full reversal against the $115.00 level (failure to hold/sustain a breakout).

Being an intraday trader, it was best to go ahead and exit once a spike hammer/doji candle formed at 11:30 at the 200 SMA and the Daily Pivot (while I have a chart that shows the Pivots for the day, I rarely mention them in the reports - it's up to you whether you use them or not as an added potential level of confluence support or resistance. Pivot Points have their advantages and disadvantages). The price had completed a 5-wave fractal into this 5-min candle and then formed a strong candle followed by another hammer. This - again for aggressive traders - was a chance to scalp a long (buy) play back to the 20/50 EMA confluence and see whether or not the price would hold resistance there for a potential Impulse Sell/Bear Flag... with the reality that this pattern has been failing almost every time it sets up.

3. TWO HAMMERS, DAILY PIVOT, 200 SMA, LONG LOWER SHADOW DOJI

This was for aggressive traders only as mentioned above, as price formed a five-wave fractal (see 1-min chart) into a positive 3/10 Momentum Divergence at the Daily Pivot Price of $114.44. The 5-min chart formed a hammer and doji candle, so the official trigger was either above the doji at $114.62 or above the hammer at $114.67 to target the EMA confluence at $114.80 (with a stop under the low of $114.40). Notice that the risk/reward was skewed on this trade - that's why it was an aggressive trade not to be taken by conservative traders.

Price did begin to form a reversal candle structure at the 20/50EMA confluence, triggering an exit.

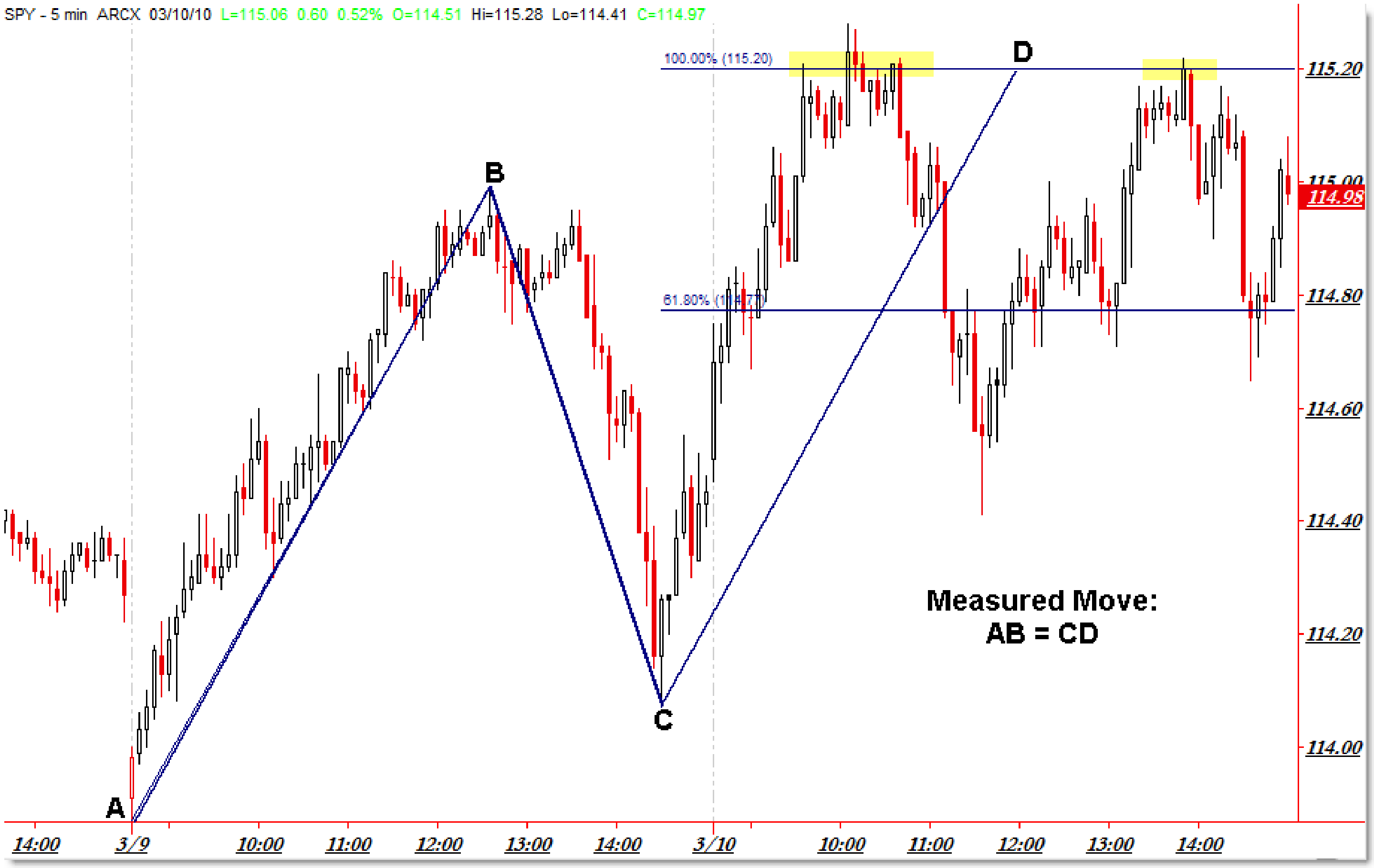
Depending on your aggression level and how closely you read these reports and how many times you've been burned by this set-up recently, determined whether or not you took the Bear Flag/Impulse Sell set-up at 12:15.

I'm not labeling it as an ideal trade because of the extraordinarily high failure rate this trade has suffered recently... and this is one of the key goals in this report. Not only do we learn trade set-ups, structure, and how to manage positions, but we also learn market character and what set-ups are NOT working. It's been clear to us all that this set-up has NOT been working... and lo and behold, it didn't work today.

A final trading opportunity for aggressive traders came when price broke back above $115.00 to trigger a second round of potential "Popped Stops," buying long on a price break above $115.00. However, like last time, we saw a negative TICK and Momentum divergence, giving us less confidence that we would see the sharp rally higher as expected. Price never broke the high of the morning session at $115.28, and so if you traded Popped Stops here, the opportunity was short-lived.

With the market putting a crack in the ceiling, it appears that buyers are attempting to push price through the level but have so far been unsuccessful. The next attempt to push price through might very well trigger the massive rally as expected, but we'd need a break of the S&P 500 above 1,150, which is the level most funds/traders are using as their "line in the sand" instead of the $115.00 on the SPY fund.

Just over $1.00 ($1.03) was possible using a moderate aggression level (sidestepping the 12:15 failed bear flag but also not taking advantage of the afternoon popped stops). This translates roughly to 10 @ES points.



I always enjoy highlighting "AB=CD" structures/patterns in the market.

These are similar to Bull Flags (and are traded exactly the same), only these structures retrace deeper than a flag and often have a more elongated "impulse" or flag pole.

Still, once you suspect you're seeing a rally off a "C" pullback/retracement, use your Fibonacci Projection Tool to target the 100% projection as shown above (or just copy and paste a line) to arrive at a target.

You can trade the move up, say from $114.40 (trendline break) to target $115.20 as an opportunity, and then flip and reverse short (which is what most people use this pattern to do, instead of trading the "CD" leg) and short any weakness down from the $115.20 target... because by that time you will see the entire AB=CD pattern.

Notice how the target held resistance twice today.

A Trendline Only look at price, showing rising black trendlines but also a tight triangle-like compression (blue) forming.

Note the compression in swings which highlights a market moving into a value area and building energy for a breakout into a 'thrust' or impulse move... one way or the other.

We could see some more compression between $115.20 and $114.70 tomorrow, but the market is coiling like a spring and would be expected to break in a trend expansion mode after the compression is complete.

Strangely, today did not change the structure or expectations as defined in last night's report.

Odds still favor a down-move from here due to the divergences and overextended conditions, but because this is so obvious, it should not be surprising in the event that buyers push price beyond $115.00 (now $115.20) which would trigger a massive short-squeeze for those swing and position traders who hold the 1,150 level as the final line in the sand. As an intraday trader, you can take advantage of whatever the resolution is... but it's likely to be big however it's resolved.

As an aside, take a close look at volume to see that 'bullish' volume is declining and 'selling' volume (as seen by each bar) is rising (look also at the 60min chart). Still, divergences are NOT a reason to get short, so you need a trendline break or preferably a break under $114.00 to trigger short (many other traders will likely join you).

Continuing the volume thoughts, see the larger red bars recently than gray bars. Also see the lengthy negative divergence in momentum (and compare that to Feb. 16-22 and then March 2-3). We got a deeper pullback in February than in March, and we're seeing a similar divergence, so the expectation is for a fall in price.

Again, stick to the intraday frames, remove your bias (whether you feel price HAS to go down or whether price HAS to break to new highs) and trade the outcome as it plays out on your intraday charts and be prepared for a potential big impulse move (including potential gaps) in either direction.

Quick fun market stats:

349 S&P 500 stocks advanced today while **145** declined (ratio 2.41).
77% of the volume today (Up-Volume of Total SP500 Volume) was "Up-Volume" (volume flowing into advancing stocks).

It's strange - while the intraday charts are shown odds overwhelmingly favoring a sell-off (divergences, dojis at the highs on 60min frame), the daily chart is showing an increase in volume and momentum as price challenges the key 1,150 resistance area (and upper Bollinger). That's one reason traders are having difficulties trying to read the market right now. Remember - markets are ruled by supply and demand, and you make money by trading probabilities and opportunities and NOT by making predictions/forecasts. As such, your "IF/THEN" statement remains "IF price breaks solidly above 1,151, THEN odds favor a massive short-squeeze rally carrying price higher (popped stops) which would be a very, very easy opportunity to profit from the breakout to new recovery highs." and also "IF price falls/fails to overcome resistance here (as expected by many traders), THEN we will trade short on the retracement back to the 1,100 level, taking advantage of intraday short-selling opportunities."

Whatever you decide to do intraday, do NOT get caught holding a swing trade short if volume, momentum, and price begin to accelerate on a break above the 1,155 level. This has the potential to get very exciting this week (or early next).