AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 03/11/10 L=115.48 0.51 0.44% O=114.70 Hi=115.48 Lo=114.35 C=115.47
1
2
3
4
5
6
115.46
115.40
115.30
115.20
115.10
115.00
114.90
114.80
114.72
114.60
114.50
114.40
0.1500
0.1147
0.0500
0.0000
-0.0500
-0.1500
$TICK - 5 min NYSE 03/11/10 L=429.00 -178.00 -29.32% O=-21.00 Hi=1194.00 Lo=-815.00 C=429.00
1,000.00
600.00
428.00
273.00
-200.00
-600.00
14:30
3/11
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

I mentioned in last night's report that we would likely be staying within the boundaries I drew on the chart for you (offering intraday trade set-ups) but that we were working towards the apex, which put us on guard to expect a range expansion breakout trade set-up. That was exactly the case, and when the market travels in the parameters/range you expected, you can profit nicely. That's not saying you know the future, but saying you have a reasonable expectation as to what's likely to happen, and then you have the conviction to trade it as it unfolds, or as you drew your "market price roadmap."

Today is a great example of that concept, where all trade set-ups - with the exception of the breakout - were identical in terms of price moving into the 5-min Bollinger Bands in conjunction with the prevailing trendlines and either taking a trade entry/exit at the trendlines/Bollingers, or - conservatively - from the break of reversal candles at these levels.

Instead of repeating the exact same thing for each trade set-up (reversal candle + Bollinger + Reversal Candle + divergences in some cases), I'll make the blanket statement I do when discussing trading tactics on range days, or within a larger compression:

"During a Range Compression Period or during expected/confirmed Range day,

- focus your attention on entry/exits, and targets for the Bollinger Bands,
- particularly if reversal candles form at Bollinger Band Extremes
- IGNORE the 20 and 50 EMAs (price ignores them too - so should you)
- watch for divergences, but feel free to take entry/exit in the absence of divergences
- be on alert for any range breakout and don't drag your stop, or risk getting caught in an expansion move"

Usually you'll know the day structure by 10:30/11:00am CST, or at least have a general sense of what to expect based on what happened in the morning (and overnight) session.

Some traders refuse to trade range days and that's perfectly fine as well.

Here are the abbreviated versions of the key trade set-ups you could have taken today:

1. LONG LOWER SHADOW, HAMMER, SPINNING TOP, LOWER BOLLINGER, PRIOR PRICE SUPPORT

The two reversal candles at the lower Bollinger & higher timeframe trendline (technically, price supported on the prior swing low from $114.40 instead of a trendline... this was actually a slight 'bear' trap early in the session instead of a trendline bounce... so this was slightly a more aggressive set-up) triggered entry as soon as price broke the spinning top and hammer high at the $114.55 level with a stop under $114.40 to target a conservative scalp trade back to the convergence of the 20 and 50 EMA at the $114.90 area.

As price retraced to this zone, a spinning top candle formed and price broke under the candle low, signaling a conservative exit (take profits). I kept this as a hold through the moving averages, targeting the more moderate/aggressive level of the upper Bollinger or the $115.00 key resistance level instead of labeling an exit at the EMAs, but you should trade this based on your risk tolerance/aggression/experience level.

You should NOT have entered short at the spinning top doji candle at the 20/50 EMA convergence unless you are a very aggressive trader, because the market has literally been making a mockery of this trade set-up in recent weeks. I received emails this afternoon from readers thanking me for stressing this point - particularly in yesterday's report - that this set-up (for whatever reason) is out of favor with the market (I call it a 'bear flag' or "impulse sell"). They said it saved them money because they otherwise would have taken this short, but have now become skeptical and decided to pass on this particular set-up. Remember - the market has a character/behavior, and trade set-ups go in and out of fashion. For now, this set-up early in the trading session has failed at least 5 to 7 times if not more in the last few weeks - I've documented each failure in the reports.

As price tested the $115.00 area, the "will it break?" and "will we play Popped Stops?" logic came into focus, but price formed a long upper shadow and then spinning top candle, triggering both an exit (if you did not do so already) and a 'flip and reverse' short.

2. UPPER SHADOW, SPINNING TOP, BOLLINGER BAND, TRENDLINE

This time price did pull back into the upper trendline mentioned in yesterday's report, which happened to correspond with the upper Bollinger Band and a reversal candle. The aggressive trader entered at the trendline (as close as possible) and Bollinger Band (perhaps $115.00) while the conservative trader waited for a break under the spinning top candle at $114.95. The target was for a move back to the lower Bollinger Band, lower trendline, or other counter-buy signal.

You could have exited at 10:45am as price formed a doji and a bullish engulfing candle at the $114.80/85 level, but aggressive traders who held for the full target would have exited either at 11:30am at the $114.70 level, or very aggressive traders would have held short through the sell-bar to wait for a reversal candle to form (because price could have continued lower in theory). The super-aggressive exit - and then flip and reverse - came as two doji-like candles formed at the $114.65 level at 11:30.

Pay close attention to the TICK divergences on the 1-min chart - this was a trade set-up that was telegraphed well in advance for you.

3. DOJI CANDLES, BULLISH ENGULFING, LOWER TRENDLINE, LOWER BOLLINGER

Now that price structure had 'obeyed' the Bollinger Bands on the prior two trades, we would thus expect it to do so here. Trade entry was confirmed as price broke above the candle shadows at the $114.70 level to target either $115.00 or the upper Bollinger... which happened at 12:15 or at the 'surprise' price swing up to the $115.05 level, which formed a negative TICK and momentum divergence... and the fourth opportunity.

4. DUAL DIVERGENCE, TWEEZER TOP, UPPER BOLLINGER, TRENDLINE

Similar to the other trades, we would expect price to remain within the trendlines and Bollinger Bands, so an entry triggered short at $114.95 (break of prior candle low) or aggressively at $115.00 to play for an expected resistance move down. Price formed a hammer/doji at the lower Bollinger Band and dominant trendline just after 1:00, triggering your profitable exit at the $114.75/80 level, and a 'flip and reverse' for aggressive traders, or a break above the hammer/doji high at $114.85 for conservative traders.

5. TRENDLINE, BOLLINGER BAND, HAMMER/DOJI CANDLE

This trade was the 'flip and reverse' of #4, with an entry at the $114.85 level. All trades have a stop-loss beyond the recent swing high or low but beyond the trendline and Bollinger Band as labeled in each trade. Keep in mind that we are nearing (actually at) the apex of the symmetrical triangle, meaning it might have been best to skip this trade and await the expected price breakout either up or down from the symmetrical triangle pattern (I actually posted a blog entry about this just before the breakout occurred). An aggressive trader would have held long through the break above $115.00 and the upper trendline, not triggering trade #6, but if you passed on this trade, you most certainly should have taken trade #6 if you are comfortable with breakout trading strategies/tactics.

6. SYMMETRICAL TRIANGLE BREAKOUT

This trade set-up was also telegraphed well in advance. We can see price compression (converging price swings - mentioned in last night's report - a tightening of range and the Bollinger Bands - and then expect that a range expansion move is likely to occur. This is according to the "Range Alternation" Principle (price alternates between states of range compression and range expansion).

The edge comes from trading a breakout above a trendline or Bollinger Band IF you are willing to assume the risk (of a false breakout/whipsaw). In this case, entry would have been shortly after price broke above the $115.00 level or $115.10 for a bit of confirmation with a stop on the opposite trendline at the $114.90 level. Due to the fact that we're so near the 1,150 S&P 500 level and the likely powerful impulse move up that will occur if buyers break past this level, you should have had confidence and held on to this trade for as long as possible, enduring the slight pullback to play for the expected new highs according to the range expansion principle.

Remember, no one knows what is going to happen next, but you trade probabilities based on price principles (such as the range expansion/contraction principle). Breakout modes are positive feedback situations which can lead to quick profits if you are comfortable buying new intraday highs and holding through them - and it takes a high aggression level to do so.

Exit was at the close, given that price did not form any major sell signal in between, though it was acceptable for conservative traders to exit at the reversal candles and slight pullback at 2:30 CST. This was just a 'wave 4' normal pullback after a confirmed third wave, so it was safe to hold long through this pullback... or buy back once price retraced to support (it didn't) to play the final 5th wave forecast by the new price, TICK, and momentum high.

Take the time to learn these concepts and have confidence in your growing knowledge and abilities.

This 'moderate' efficiency chart assumes you waited for price to take out reversal candles before entering.

I provided a special 'aggressive' version today that assumes you bought/sold as price tested the trendlines/Bollingers instead of waiting for confirmation.

If you entered and exited as close to the Trendlines and Bollinger Bands as possible - not waiting for confirmation - then you had a chance for higher profit on the session.

While it's often safer to wait for confirmation of a trade set-up, realize that you are sacrificing profit for increased certainty... it's a balance that only you can satisfy in your own trading.

I meant to mention in last night's report that the rollover from the March to the June contract is now in effect.

For most (depending on your charting platform), your symbol will now be @ESM10.

Showing the trendline break and symmetrical triangle break that triggered the breakout trade this afternoon.

We're now in "Breakout Mode" and if we get a further price rally overnight and into tomorrow morning's session, then we will be clearly playing "Popped Stops" in a potential breakout trend day up tomorrow.

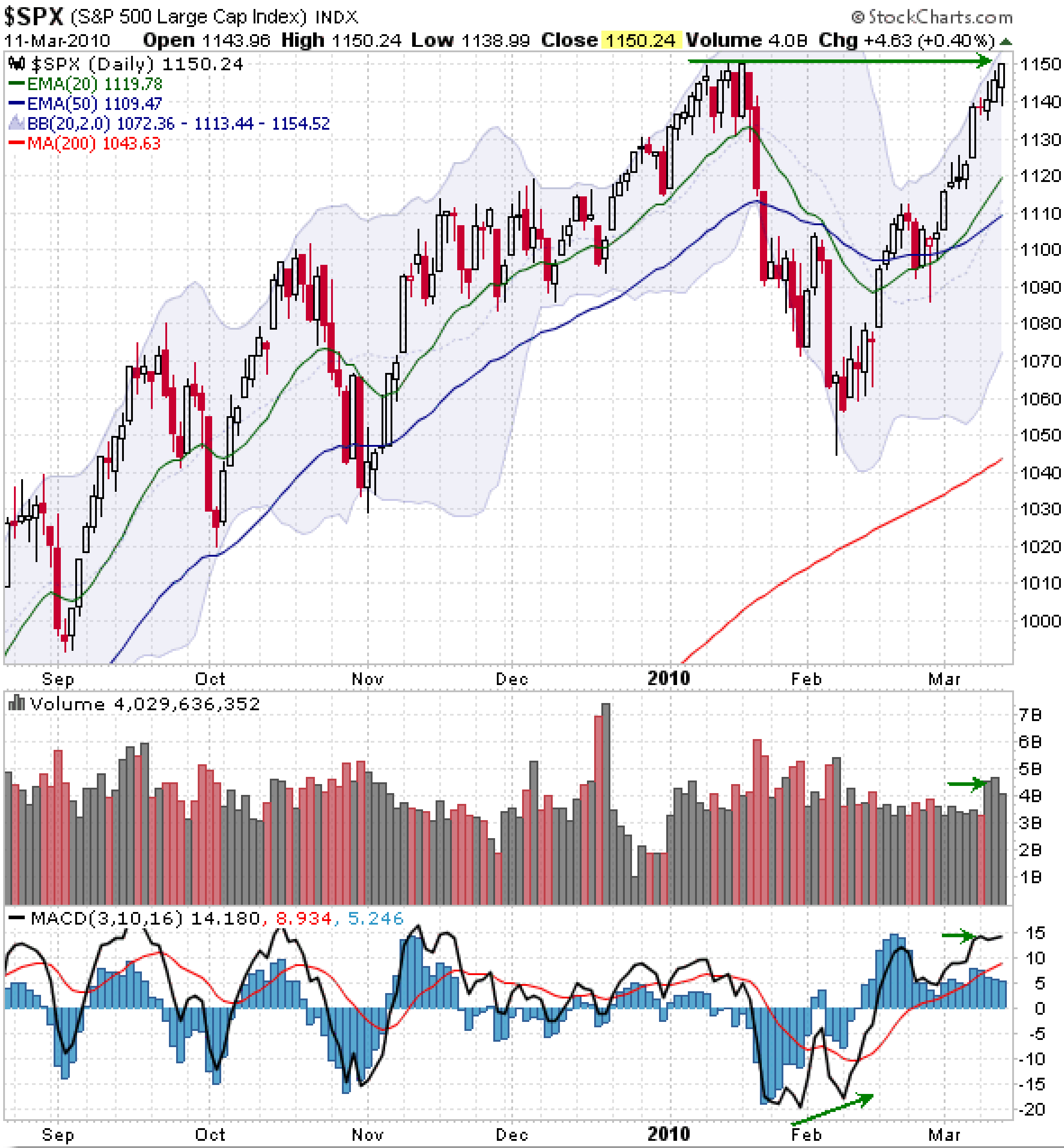
If not, then we will be watching price very closely for divergences or other signs of weakness as price challenges the all important 1,150 level (we're there now). Give a little room for a possible bull trap (a break to 1,151/1,152 does not count as a breakout if price falls back under 1,150) but be also prepared to trade aggressively long on a continuation of breadth, momentum, volume, and price increases.

In the unexpected event that price breaks under $114.50 tomorrow, be prepared to short that aggressively.

This situation expresses the importance of WAITING for confirmation before automatically swing trading short based on a divergence in any kind (volume, breadth, or momentum). PRICE is king, not divergences, and as seen above, we never came close to getting a short-sell swing trade signal (which would have been a break under the 50 EMA). Divergences - being counter-trend - require confirmation that other trades do not.

As such, we're in a bullish 'popped stops' mode that could form tomorrow with a continuation swing up, so trade aggressively long if that is the case to take advantage of the swing traders stopping out.

If not, watch price closely and target $114.00 if sellers drive price under $114.50 in a (now) unexpected collapse.



Bulls are not out of the woods yet, but the technical structure is confirming the higher prices and potential for a breakout, and the expected impulse breakout move that would likely occur on a solid move above 1,150 (likely over 1,155 to convince the short-sellers to cover en masse).

Volume and momentum are picking up, and the last two candles have been powerful bullish candles, though they occur at a prior resistance and upper Bollinger Band level.

Be prepared for a potential big day Friday and trade accordingly if we do get the "Popped Stops" move.