AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 03/12/10 L=115.56 0.11 0.10% O=115.95 Hi=115.97 Lo=115.14 C=115.55
1
2
3
4
5
$TICK - 5 min NYSE 03/12/10
13:30 14:00 14:30 3/12 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

Ugh. While waiting for a potential breakout, the market remained in a sideways rectangle trading range all day which ended the session in a bear trap into the close. The market began the day with a vicious bull trap, tricking all those who bought in the morning session or just after market open into thinking we had the breakout we expected... in what became a vicious filled gap move.

Reference yesterday's report with regard to trading within a compressed range - the lessons are identical today - and take a moment to read a recent post by Dr. Brett Steenbarger entitled "Why Do Traders Lose Money in Slow Markets?"

http://traderfeed.blogspot.com/2010/03/why-do-traders-lose-money-in-slow.html

1. TRENDLINE BREAK, SHOOTING STAR, GAP FADE

The bias was to trade aggressively long and to expect upside action by yesterday's price breakout and rally into the close. We did get the rally and 'burst' as expected (gapping up 50 cents from yesterday) but that was the high of the session. This is also why I encourage giving the market 5 to 10 minutes at least to 'shake out' and give a clear direction on the first few candles to see what is likely to happen.

In this case, we had a strong price rejection bar that led to two doji candles and then a long upper shadow shooting star that closed at $115.70 at the upper Bollinger. Notice that the TICK was not surging to new highs when compared to yesterday, so that was a bit of 'intra-day' non-confirmations. A trader might have put on a short-sale position at the break under the 'flag-style' trendline or the low of the shooting star at $115.70 to try to play for a gap fill back to $115.45 or a retest of the 20 EMA at $115.40 or a move (aggressively) to the 50 EMA at the $115.20 level. Look closely at a chart I annotated later in the report which shows the key Fibonacci retracement confluence forming at $115.15, which served as an "exit if you're not flat already" signal and then 'flip and reverse' signal.

2. DUAL CONFLUENCE FIBONACCI, 50 EMA, SPINNING TOP, 5-WAVE FRACTAL, POSITIVE DUAL DIVERGENCE

This was probably the best trade set-up of the day, due to the confluence support in conjunction with a reversal candle, a five wave mini-fractal, and positive TICK and momentum divergence (see 1-min chart for these).

Remember, our goal is to put the odds in our favor using price principles, price patterns, and confluence support and resistance areas, and this is a great example of how to do that effectively intraday.

Aggressive traders would have looked to put on a buy before waiting for the candle confirmation, by entering as price tested the $115.20 confluence level (with a stop under $115.10) while conservative traders would have waited for the spinning top to form (which then was followed by a Bullish Engulfing candle) and perhaps even a break back above the 20 EMA at the $115.35 level. Either way, the aggressive target was a move back to the intraday high or the upper Bollinger Band at the $115.80 level, or as always on any counter-sell signal.

In the efficiency chart, I listed this trade as a "scratch," because price formed a bear flag like rally and then broke the trendline (see 1-min chart) and formed two bearish candles. Still, aggressive traders - looking to play edge - would have kept their stop at the $115.10 level while a conservative trader would have exited at this trendline break. Price then bounced solidly off the 50 EMA and tested the $115.60 level before forming a shooting star and sell-signal.

This trade serves as a lesson that even the best trade set-ups do not always produce the perfect outcomes we would like. Trading is, and forever will be, a game of probabilities and never certainties.

The next two trade set-ups were taken from the discussion from yesterday, regarding reversal candles at Bollinger Bands.

3. SHOOTING STAR, UPPER BOLLINGER

Price did not technically test the upper 5-min Bollinger, so this was a quick, aggressive scalp that conservative traders might have ignored or missed totally - and that's fine.

Price formed a shooting star candle that ended at the $115.60 level and then broke the low of the candle at $115.49 two candles later, triggering an entry short with a stop above the $115.65 level to play either for the lower Bollinger ($115.20) or another buy signal.

Like the prior trade, the set-up did not reach its Bollinger Band target, but formed a hammer candle instead at 11:00am, triggering a near 'scratch' exit... though of course price did officially test the lower Bollinger shortly thereafter.

By this time, you should have realized (at least) two things:

1. Trading is very choppy and difficult today (thus you might want to decrease position size or limit your trades)

2. Price is forming a lengthy consolidation pattern and could breakout at any time

It was better if you heeded the advice of suggestion 1, because the rest of the day resulted in false breakouts and choppy, tight range moves.

4. DUAL DIVERGENCE, DOJI, UPPER BOLLINGER

This trade was a 'fade,' which was set-up due to the range-day bias, which triggered entry when price broke the low of the doji candle at the upper 5-min Bollinger which also contained a clear negative dual divergence on the 1-min frame.

Entry was at $115.55 with a target for the lower Bollinger Band at $115.35 which was hit with little interference. Remember to IGNORE or at least discount the value of moving averages (for targets/support/resistance) on Range Days.

The next trade set-up was actually a breakout/breakdown range expansion trade (similar to yesterday) ... that failed.

5. BREAKOUT TRADE, RANGE EXPANSION, BOLLINGER AND TRENDLINE BREAK, TRIANGLE

While yesterday's symmetrical triangle breakout set-up worked perfectly, today's failed miserably. It only underscores the reality that there is a strong buying force giving a bullish bias to the market and 'invalidating' or 'busting' many short-sale signals.

Entry occurred when price broke the morning trendline and prior price level at the $115.30 level to play for a potentially large range expansion target, particularly with regard to the 'finger' or 'exhaustion' gap that formed just off the open (giving the day a downward bias). The stop was above the $115.50 level which could have been trailed down as price broke sharply lower, but you would want to hold on short as long as possible in the event that we did get price acceleration to the downside, which could result in a large profit. Unfortunately, buyers stepped in at the close (underscoring a second point that many traders often avoid trading the final 30 minutes due to 'random' re-balancing by portfolios/funds. This trade was best exited as a 'scratch' when price formed a long lower shadow hammer (NOT an exit signal) and then formed a bullish engulfing bar two candles later at 2:35 CST at the $115.30/35 level, though aggressive traders might have held short and stopped out as price tested $115.50 just before the close.


SPY - 5 min ARCX 03/12/10 L=115.57 0.12 0.10% O=115.95 Hi=115.97 Lo=115.14 C=115.46
$0.82 Possible
3 Wins
2 "Scratches"
-0.43
+0.02
+0.13
+0.17
+0.07
$TICK - 5 min NYSE 03/12/10 L=503 -277 -35.51% O=-2 Hi=816 Lo=-913 C=503
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Showing the convergence dual Fibonacci Retracement grids that marked the intraday low today.

Starting with the two prior swing lows at the $114.35 and $114.62 levels and drawing to the intraday high today, we see the two grids - 50% and 61.8% - align at the $115.15 level.

You could have drawn this grid shortly after price formed the morning high as you tried to find out where price might find a 'hidden' or confluence level of support to play for (as a short-sale target) or a flip-and-reverse buy signal.

The $115.15 level corresponded at that time with the 5-min 50 period EMA.

Today reminds me of the famous phrase "The market exists to confound the majority of the traders the majority of the time" and that's evident today. Traders who were short reacted by covering this morning while other traders saw the breakout as a chance to get long for a breakout... but as of the close, the new highs were merely a vicious "Bull Trap" and could turn out to be a "Finger" trade (where a market breaks key resistance with a spike and then immediately collapses after gasping out a new high). This also underscores the benefit of intraday trading tactics and monitoring price developments, especially at such highly charged, endlessly analyzed/discussed areas like this (1,150).

However, until we see a price break under $115.00 and then $114.50, we must concede that the trend remains up and that a large number of stops (and buy orders) rest on a clean break (not just by 2 points) above 1,151 which hasn't happened yet. A clean break will lead to a potentially large short-squeeze... but if the "Finger" trade plays out (also called a "Key Reversal Bar" or "Exhaustion Gap,") then we are on the cusp of a good swing trading short-sale opportunity and downward bias. The funds and traders now have the weekend to analyze the market clearer and make decisions.

Today showed a slight negative volume divergence and a long-term (multi-swing) negative momentum divergence (which hasn't resulted in much downside action on the prior two times - labeled - this has happened recently). Remember that divergences are NOT short-sale signals, but are simple non-confirmations that need trendline or EMA breaks to trigger a short-sale. That has NOT happened yet. Until proven otherwise, there is a bullish force underscoring the market that continues to make almost a literal mockery of the bears/short-sellers (remember today's bear trap and the many times the intraday bear flag has failed).

Prepare again for popped stops on a break above $116.00 but be just as ready - and unbiased - to trade a move short under $115.00 and especially $114.00.

Under any normal market environment, this would be a very obvious short-sale swing trade set-up, given that we're seeing a slight negative momentum divergence and a doji candle form at the upper Bollinger Band and at the prior "double top" resistance from the 2010 highs. This is not a normal market environment - it has an inherent bullish bias you need to take that into account here.

The play remains the same: prepare for a potentially large short-squeeze and eventual target of 1,225 on a solid (not just 2 point) break above 1,150... but target the 1,110 level for a normal and expected pullback from the overbought/overextended market condition here. Intraday traders will be best suited to take advantage of the resolution of this resistance level.

A quick glance at the weekly chart shows us another "Open Air" pocket in the event that buyers push price (and shorts buy to cover) above 1,150/1,155.

The 200 week SMA rests at 1,226 while the 61.8% Fibonacci Retracement of the 'entire' bear market rests at 1,228. There would be no technical (price) boundaries until this confluence resistance level.

The alternate is that price forms a "double top" here and heads back lower to test 1,100 as a potential support area.

Do not be caught short if price begins rallying sharply next week on higher relative volume - you can always re-short on a move back under 1,150 if that is your perogative.