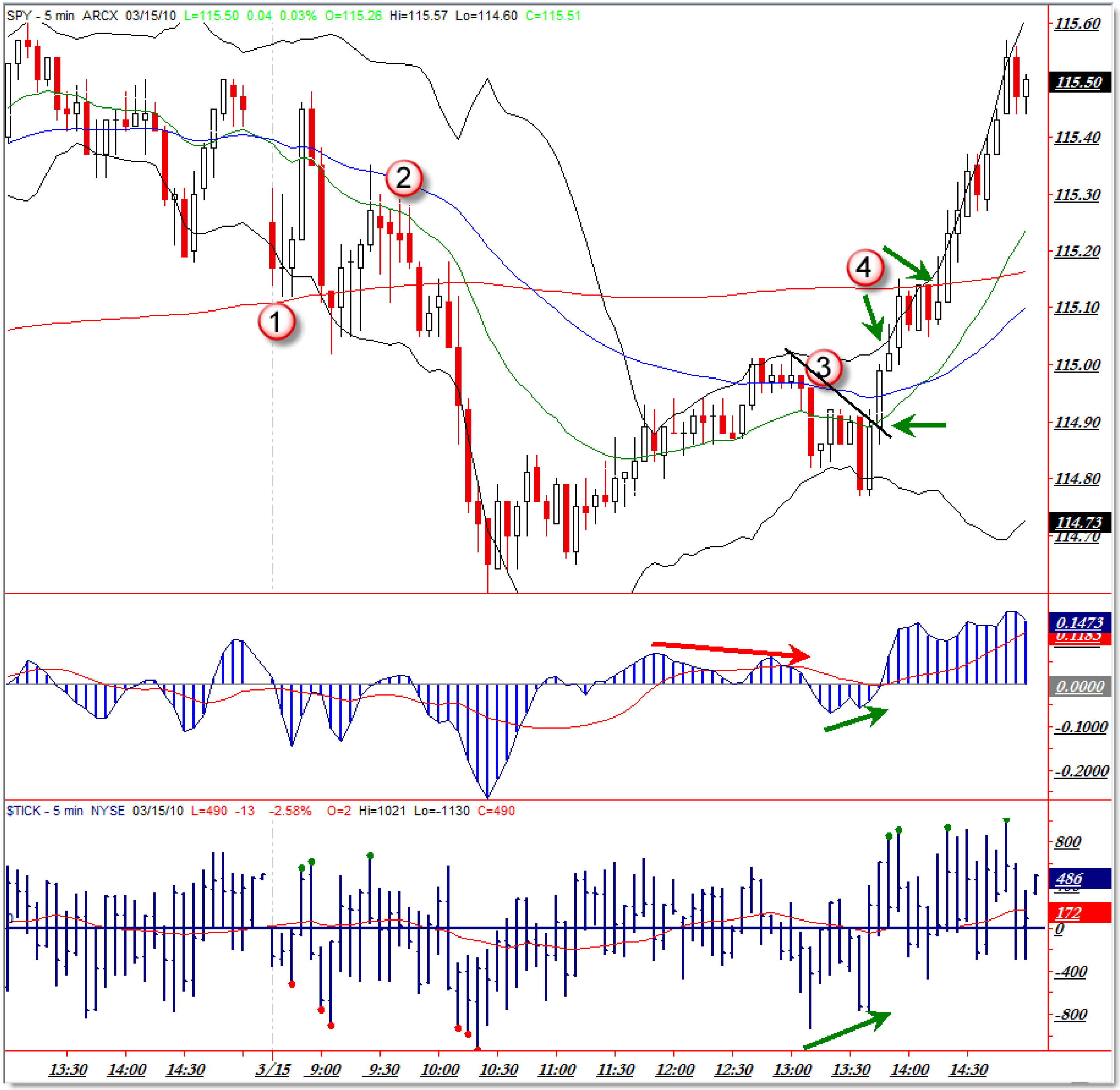
AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report



SPY - 5 min ARCX 03/15/10 L=115.50 0.04 0.03% O=115.26 Hi=115.57 Lo=114.60 C=115.51
1
2
3
4
115.60
115.50
115.40
115.30
115.20
115.10
115.00
114.90
114.80
114.73
114.70
0.1473
0.0000
-0.1000
-0.2000
$TICK - 5 min NYSE 03/15/10 L=490 -13 -2.58% O=2 Hi=1021 Lo=-1130 C=490
800
486
172
0
-400
-800
13:30
14:00
14:30
3/15
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30

Today was a testament to the relentless strength of the bulls/buyers (whatever their source), who absolutely refuse to let the market slip (retrace) in any meaningful degree. Such is the reality of the market at the moment, and you must be aware of this mysterious and seemingly unrelenting bullish force that continues to buy into new highs, pushing the indexes further overextended and invalidating seemingly obvious and classic sell-signals. This is also a testament to the market being driven by supply and demand (and that demand/buying can come from bears/sellers in the form of 'popped stops' and short-squeezes) instead of neat chart patterns as absolutes. While the bullish force remains, it will continue to guide/color our trading decisions.

1. GAP FADE

The morning started with a 25 cent overnight gap which had better odds of filling than not, and that's exactly what happened. I like to give at least 5 minutes or even 10 minutes (1 or 2 bars) before making a 'fill or no fill' decision so that I can see how the market is shaping up and how the candles form.

In this case, the second candle was a long-legged doji candle at $115.15 that closed at the lower Bollinger and 200 SMA - which had a decent chance of holding as support, providing a low-risk stop (stop under $115.10) and gap fill (larger) target of $115.45. Still, a 'perfect' or ideal entry if you did not take the aggressive 'bounce' off support was as price broke above the high of the 3rd candle at $115.24 to play for $115.45. This trade actually unfolded in one 5-min bar, showing that many traders still enjoy fading gaps!

After a successful fill, many traders will short-sell, expecting the gap price to hold as resistance, which is often called a "Fade the Fill" trade. I didn't list that as an ideal trade because there wasn't a nice reversal candle at the intraday high (more of a price rejection candle than a doji or shooting star), but an aggressive trader could have shorted the move down from the $115.45 level to play for a retest of the morning low at $115.10.

Price was in a technical downtrend, so it was another aggressive trade to try to play the hammer candle at 9:00am back to the 20 EMA (a scalp), so this also could have been another trade taken only by aggressive traders (aggressive meaning willing to buy EXACTLY at support to play for small, precise targets instead of putting the odds in their favor by combining methods as described as 'ideal' trades in the reports for safer plays). Aggressive traders often have lower accuracy rates but tend to profit more than conservative traders, as seen here by two trades (a short and a buy) that I have not listed as ideal. We move now to the next 'ideal' set-up.

2. DOJIS AT EMA RESISTANCE, DOWNTREND, BEAR FLAG, TRENDLINE BREAK

The goal of taking an 'idealized trades' strategy is to put the odds solidly in your favor (though never guaranteeing a successful outcome) through non-related methods (candles, internals, moving averages, momentum oscillator, etc) while having a clear stop-loss (point where the idea is invalidated) and target. As a whole, aggressive traders need LESS confirmation and play for larger targets while conservative traders need MORE information and often play for smaller targets. There are no 'one-size-fits-all' strategies.

That being said, we had a downtrend established (lower swing lows and highs, as well as a negative EMA structure) and price retraced back to the 20 and 50 EMA resistance level at the $115.20 zone. For more confirmation, roughly three doji candles formed at this level - and the break under any doji would have triggered an entry (if not aggressively short from the 20 EMA at $115.25) about the $115.10 level. The stop would be placed above the 50 EMA at $115.20 to target at a minimum a retest of the morning low of $115.00, though it was also advised to continue holding short to see if a downtrend really would develop - and it did. In such situations, the exit is not specified, but the goal is to hold short as long as possible, triggering exit at a countervailing buy signal.

In this case, the exit was when a bullish engulfing candle formed at the lower Bollinger at the $114.75 level at 10:30am (which also was a prior price support zone).

I did not label this rally as an "ideal trade" because it was a counter-trend bounce into (expected) resistance in the context of a prevailing downtrend after a new momentum, price, and TICK low formed intraday, so only aggressive traders would have tried to buy long to play for a retracement to the 20 EMA.

Here is another example where experience comes into play - in that I've said at least 10 times (days) that this exact set-up - I call it an "Impulse Sell" or "Bear Flag" - has failed, almost comically. As a result, you could have passed (not taken) on this trade set-up (I received emails thanking me for stressing this point the last time this happened... and it happened again today) and thus saved yourself a stop-loss today.

Also, the bear flag/impulse sell never actually triggered short as price did not form reversal candles at either the 20 or 50 EMA (5-min). However, once price broke above the 50 EMA, two doji candles and a shooting star formed along with a negative divergence and a break of a rising trendline. This triggered entry... **but it still failed**.

3. DUAL DIVERGENCES, UPPER BOLLINGER, TRENDLINE BREAK, SHOOTING STAR/DOJI

Look closely to see the dual divergences in both momentum and TICK as price formed dojis just above the 50 EMA and into the resistance of the 5-min Bollinger Band. The entry was triggered once price was back under the 50 EMA and broke the rising trendline as price broke back under the $115.00 key resistance level.

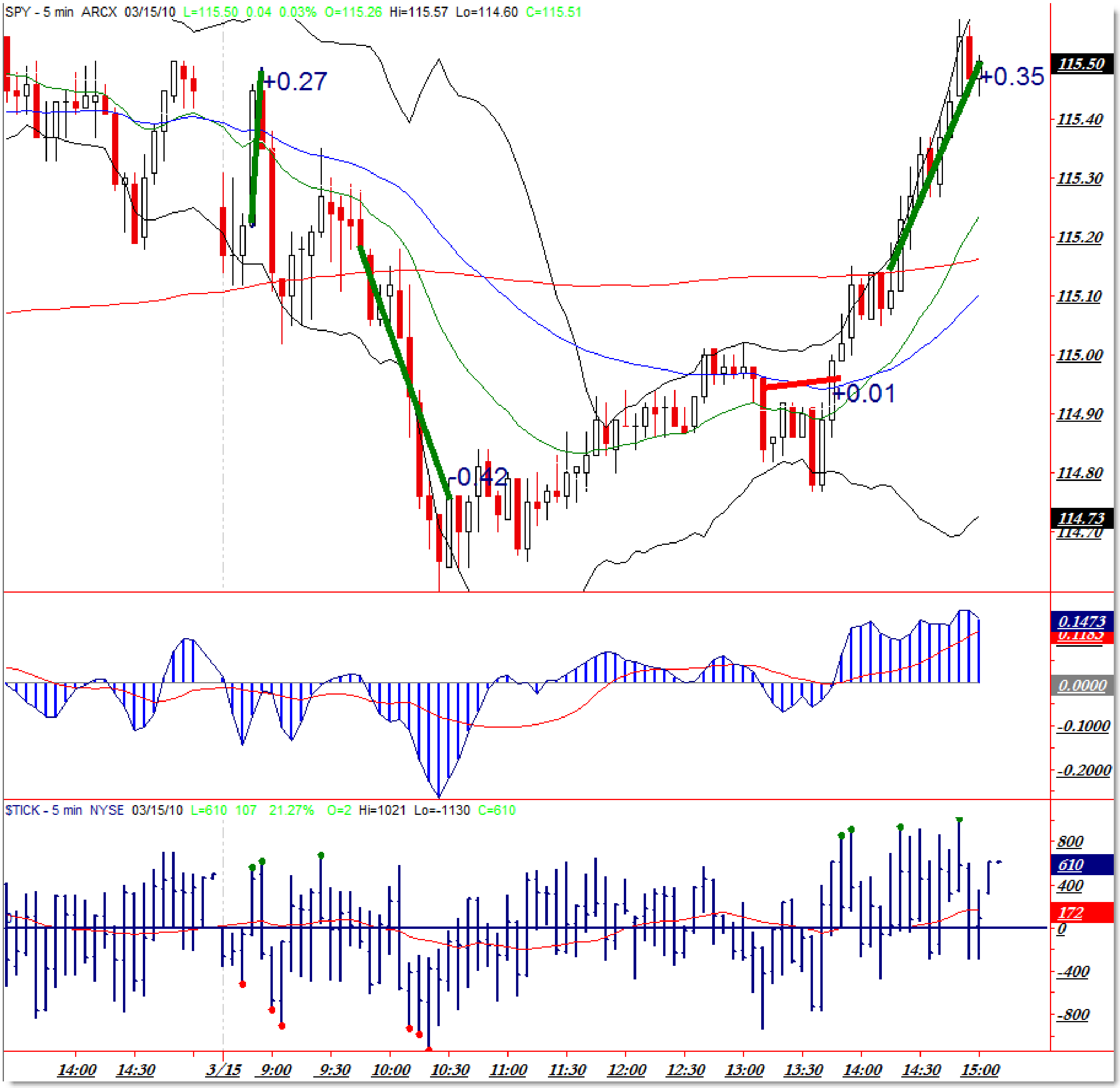
The target was for a retest of the morning low of $114.60, but this gives us a great example of the absolute importance of trade management.

In the 'efficiency' grid, I have the trade stopping out on a break back above the 50 EMA which is a bit inefficient, but realistic. You could have chosen to take profits at the hammer that formed on the 5-min lower Bollinger Band at $114.80 for a quick 20 cent potential profit (roughly 2 @ES points), or for a 'last chance' exit at the positive dual divergence (both on 5-min and 1-min chart) on the 'poke' and rejection outside the lower Bollinger Band (5-min) also at $114.80. That would have gotten you a profitable exit, but if you tried to play for a full target, you would have stopped out with a loss on this trade - which is what I'm showing below to be fair.

4. POPPED STOPS

Given that this trade just failed, and that price had formed a dual positive divergence, the famous "Popped Stops" situation set-in as bears/sellers once again rushed for the exits, and a short-squeeze was born. You should be keenly aware of this concept, and if you choose not to trade it (that's fine), you should at least under NO circumstances continue holding a failed short-sale position in this kind of environment (new TICK highs, breaking of resistance, failed short-sell signal).

I list three trade entries into this 'run-away' momentum move - the most aggressive being the trendline break at $114.90 as seen on the 1-min chart. The more reasonable entry came as price broke the prior swing high and key resistance at $115.00... and the final or conservative ("prove it to me") entry came as price broke the 200 SMA on the 5min chart at $115.10. Pay close attention to the new intraday TICK highs at 1:45 CST as price broke above $115.00. This was the Wyckoff Sign of Strength signal that told you that odds favored higher prices yet to come... and they sure did. It shows us that bears/short-sellers are 'jumpy,' and eager to cover their positions, which perversely creates bullish fuel which carried price higher into the close. You are to hold popped stops plays as long as possible (until there is a valid sell signal) or all the way into the close.



With three winners and 1 loss, just over $1.00 was possible (roughly 10 @ES Points) in today's trading, using a 'moderate' standard. An aggressive trader would have taken two more trades in the morning as labeled, as well as trying to play long on the rally from 11:15am... and also entered long (and stopped out earlier) around the $115.00 level to play the "Popped Stops" instead of where I show entry at $115.15.

A nice example of the "Rounded Reversal" or "Mirror Image" pattern that completed a full 'arc' into prior support (where the arc began) before a new rally began.

Rounded Reversal are easy to identify and can be very easy (and sometimes fun) to trade, as the pathway ahead is clear (a mirror image of the rally).

The pattern won't always play out perfectly, but when it does, it can lead to quick profits.

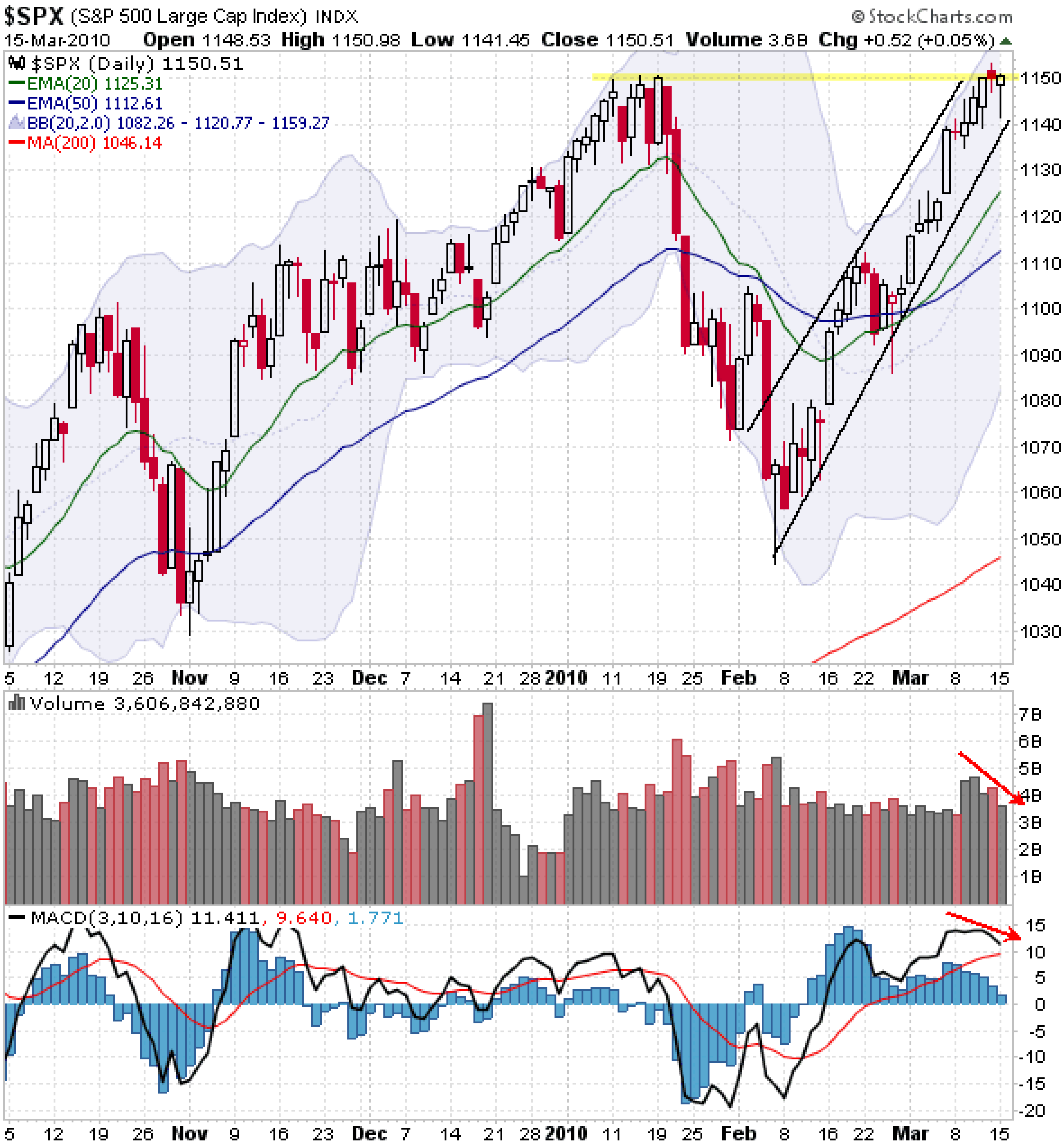
Price broke under the $115.00 area briefly today, forming two doji candles and luring in short-sellers before popping their stops and squeezing them out in one of the dozens of recent 'short-squeeze' rallies. That is the reality of the market now - the buyers - from wherever they are - are literally mocking the short-sellers/bears which should lead you to trade more "popped stops" set-ups intraday.

For now, if the 'popped stops' rally continues, expect a move back to $116.00 and on any break above $116.00, continue playing aggressively long as a massive short-squeeze could still be in the future.

Otherwise, remain unbiased and stay focused on your intraday charts for trading opportunities.

The short-sell signal still has NOT yet triggered, with a break under the 50 EMA at the $114.50 level. Until that happens, and as perverse or strange as it seems, odds still favor upside prices yet to come due to the bullish relentlessness and 'nervousness' of the sellers/bears. Until the current dynamic changes, then we will continue to see higher prices no matter what the charts or fundamentals say.

That being said, only short if price makes a solid break under $114.50 or preferably $114.00 unless you're doing a day-trade.



The play remains the same - unchanged. IF price/buyers break solidly above 1,150 (1,155), THEN we would expect a massive short-squeeze to carry price rapidly higher, creating a great trading opportunity for intraday and perhaps even swing traders to profit from the continuous 'pain' of the bears/sellers. Thus, trade long on a range expansion move above 1,153/1,155.

Everything else - with the exception of the 'popped stops' play - is arguing for a downside resolution, as a doji formed Friday and a 'hanging man' candle formed today at the upper Bollinger Band and prior resistance level (potential double-top), all of which formed on a negative momentum and volume divergence in one of the most overextended rallies in market history.

In a perverse reality of the market, BECAUSE it is so 'obvious' to traders that price "HAS" to fall/retrace/decline, then should the opposite happen (a break above 1,155), THEN a massive short-squeeze will occur, sending prices potentially skyrocketing higher as the bears/sellers cover their positions and new buyers enter, putting on breakout-buy positions.