AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 03/16/10 L=116.41 0.92 0.80% O=115.81 Hi=116.52 Lo=115.49 C=116.41
1
2
3
4
116.41
116.20
116.00
115.90
115.80
115.60
115.40
115.20
0.1500
0.1000
0.0660
0.0000
-0.0500
$TICK - 5 min NYSE 03/16/10 L=548 -90 -14.11% O=3 Hi=1173 Lo=-951 C=548
1,000
548
171
-200
-600
14:30
3/16
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

Today's "FED Day" action roughly followed the script exactly to what was expected on a Fed day. Take a moment to look back at prior reports for previous Fed Day actions.

Generally, the market gaps on a Fed day, rallies (or declines) and then consolidates (no opportunity) for approximately two hours before the announcement is given at 2:15 EST / 1:15 CST. At that time, the market usually makes a sudden surge, just as quickly, makes a sudden decline, and then also just as quickly makes the surge back in the original direction. Keep this in mind for the next Fed Day. I've been trying to train you to think of each day as a 'script' or 'pattern' (such as "Rounded Reversal," Trend Day, Fed Day, etc), because knowing the guidelines and expectations can give you a huge edge over other traders who do not think in terms of 'type of day structure.'

That being said, let's look at the 'ideal' trades for educational/efficiency examples.

Special note - for most traders, it is generally unwise to trade directly before or after a Fed announcement, as the pattern can be very violent, and in the scenario you are caught on the wrong side of a sudden move, you could lose a lot of money faster than you expected. As such, I have not labeled any idealized/safe trades during this period, while aggressive traders may have indeed traded successfully in this period. These reports are designed to be beneficial and educational to all traders, with a special emphasis on new and developing/intermediate traders.

1. GAP FADE

For the second day in a row, the market gave us a quick gap-fade trade, beginning with a bearish opening candle followed by a shooting star above the 5-min Bollinger Band. The best entry was as soon as price took out the low of the shooting star candle on the third bar, for an entry at $115.67 to target yesterday's close at $115.50, with a stop above the opening high of $115.84. This trade worked quite nicely, with a quick hammer candle forming on the exact filling of the gap, giving aggressive traders a chance to "flip and reverse" and then "Fade the Fade" (as I mentioned in yesterday's report).

2. FADE THE FADE/HAMMER

With a successful gap fill, some traders like to play the 'fade the fade' trade, which plays off the support level of yesterday's close (filled gap) with a trade set-up, particularly if a bullish candle forms, or if price tests a moving average.

In this case, a hammer formed off the $115.50 level, and the high of this candle was broken at $115.61, triggering an entry to play or a retest of the morning high of $115.84, which unfolded in three candles, forming a doji/shooting star candle at 9:15am, triggering an exit. These were both aggressive 'scalp' trades that required quick reflexes/decisions and precision in execution.

3. ASCENDING TRIANGLE, POPPED STOPS

Technically, you could have put on another trade on the hammer candle at 9:25 CST which almost tested the rising 20 EMA, but if not, then the next edge-based trade was the break above the $115.90 level, which happened to be the morning high along with the horizontal trendline that made up the ascending triangle pattern as drawn in the 5-min frame. Entry was as soon as price broke above the high at $115.90 to play both the "Popped Stops" trade (explained yesterday) and the ascending triangle break. Price also gave a strong bullish breakout bar, confirming entry as bearish stops were triggered. To capture the edge from this trade - as we don't know when the 'popped stops' situation will end - the goal is to hold as long as possible, until a confirmed sell-signal has triggered. In this case, a 5-wave fractal on a negative dual divergence with bearish reversal candles (that 'poked' outside the upper Bollinger) was enough for a sell signal and, for many traders, a 'flip and reverse' opportunity.

4. FIVE-WAVE FRACTAL, REVERSAL CANDLES, UPPER BOLLINGER SPIKE, DUAL DIVERGENCES

This was one of those 'gimme' trades that was perhaps so obvious to everyone... and as such (and also being a short-sale on a developing trend day/Fed Day) didn't give much profit.

I did a special chart for this trade, so look at the special Elliott Chart below for full details on the divergences and 5-wave fractal. The main idea was to short once either the trendline was broken, or the low of a doji was taken out, placing short-sale entry about the $116.10 area with a stop above the high of $116.23 to play for a minimum of a retest of the rising 20 EMA (and round number support) at $116.00 - which I labeled in the efficiency chart.

Aggressive traders might have held on a bit longer to try for a test of the 50 EMA, which we got at $115.90, but being right before the Fed announcement, it was probably best to clear out your position with a profit at any time here and be flat for the announcement.

I also showed a zoomed in chart of two potential trades aggressive traders could have taken - using divergences and the 5-wave fractals - but due to the volatile action, I did not label these as 'ideal' as this environment can be very, very tricky and hostile to new and even intermediate traders.

Many people call this a "1,2,3" or an "A,B,C" move (three-step progression), and today's post-Fed move was a classic example of the pattern that's expected... but keep in mind this is not magical and it doesn't always unfold this way (meaning, don't overleverage yourself in these times). I have received a handful of emails from traders who have either lost a large percent of their account, or lost much more money than expected by being overconfident, overleveraged, and inflexible in such a move, so it's not worth the risk to most people - trade when the waters are calmer and more predictable, at least from an edge-based standpoint.

Excluding the opportunities from the pre and post-Fed announcement, roughly 70 cents (7 @ES points) was possible in the morning trading session.

While there were afternoon opportunities (see next chart), they were very risky and volatile and required very quick reflexes, a strong understanding of the patterns/probabilities, and good money/risk management if something went wrong.

A zoomed-in view of the Fed announcement "three step" or "three phase" move.

Notice how the up and down corresponded perfectly to the Elliott's Fractals lesson (new momentum high/low on the 3rd wave; divergence on the 5th wave).

This is a great example chart of how to learn this concept:

3rd waves are met with momentum/TICK extremes while 5th waves are met with momentum/TICK divergences.

The morning 5-wave fractal into dual TICK and momentum divergence, combined with dual trendline break offered an excellent short-sale opportunity... that really didn't amount to much profit as it was a pure counter-trend trade.

The bear trap was sprung with the expected rally - 'busted' moves often result in a LARGER than expected move in the OPPOSITE direction, as shown above (due in part to stop-losses triggered).

As of now, and as you saw in the intraday action, it is advisable to trade from the long side more aggressively while price remains in this 'never-ending' rally mode. Remember that the basic premise of technical analysis is that "Trends, once established, have greater odds of continuing than of reversing." The current environment is proving that statement very true.

Your only short-sales should be intraday scalps ONLY while price remains above the 30 and 60 minute moving averages as shown. Even if you can't bring yourself to be long, DO NOT try to short this market unless there is a compelling signal... and even then, compelling signals have turned out to be traps. Odds favor higher prices to come, so at least protect your capital if you cannot bring yourself to trade long/buy.

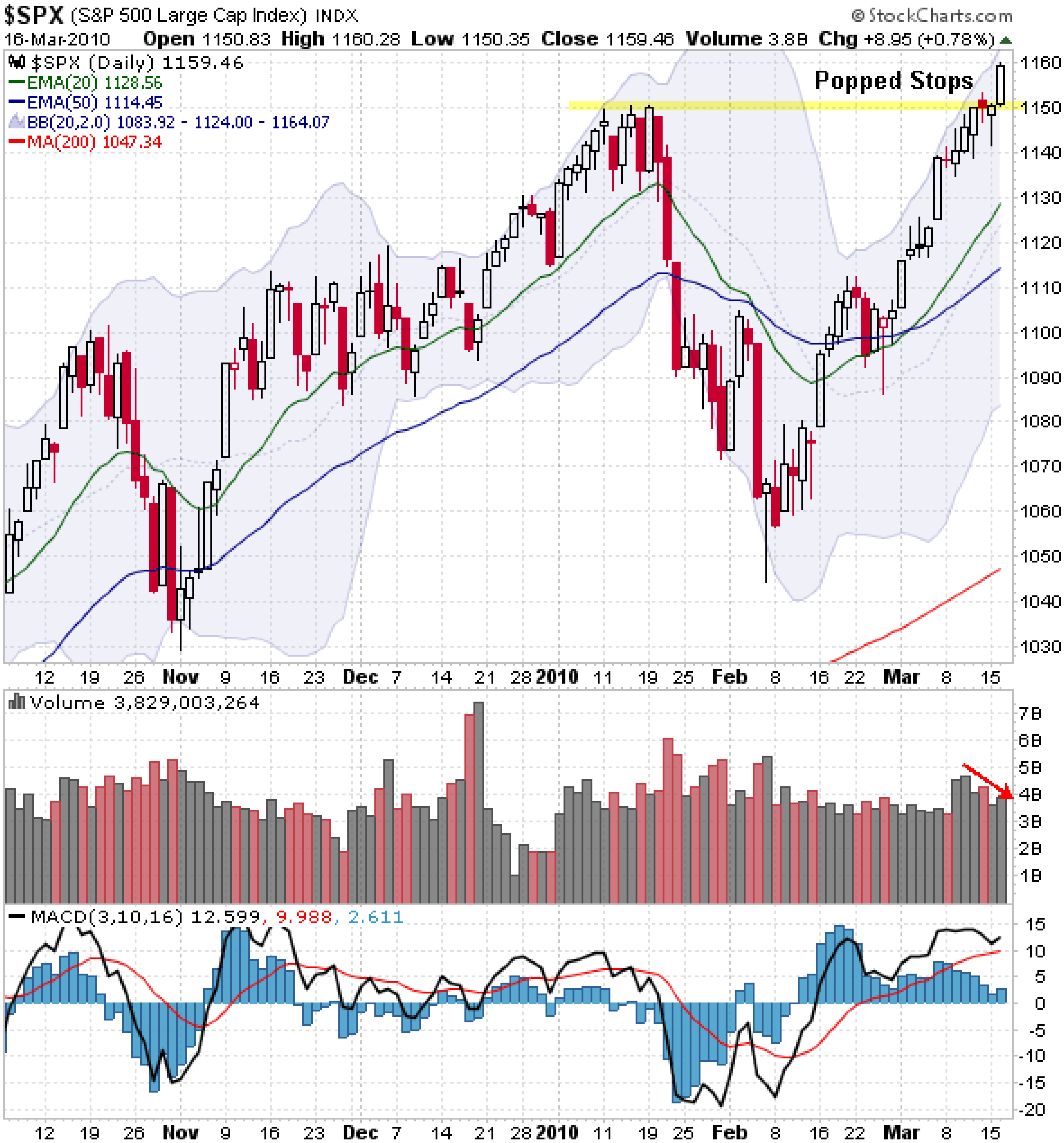
Comments are the same from the 30 min chart.

Your two options here are "Long/Buy" or "Out/Sideline."

Trends can go much longer than anyone suspects, and it appears that is exactly what is happening and has been happening... for the most part since March 2009!

Long/buy/bullish bias is favored while price remains above the 20 EMA and above $116.00. Caution is warranted if between $114.50 to $116.00, and a short-sale/bearish bias is favored ONLY if price breaks solidly under $114.50.

Remember that Friday is options expiration Friday, so we could get some choppy moves Wednesday and Thursday leading up to that day.



We are officially in the "Popped Stops" and "Open Air" environment I've been describing would likely happen on a solid break above 1,151. For now, we could see shorts/bears capitulate in the days ahead - barring anything unexpected - which would argue for a continuation of the range expansion mode higher, particularly if buyers who have chosen to sit on the sidelines decide this is a "This is it" moment where they just can't take the pain of watching the market rally so high without them - the capitulation of the sellers and the 'capitulation' of the sidelined/neutral traders could combine to see a massive impulse/positive feedback move to the upside.

It would be very vicious of the market to turn this into a bull trap (meaning, break above for two or three days and then collapse back under 1,150) but it is possible, so if you've gotten bullish here, place a stop above 1,150 in case the market caves in after a bull trap. If this doesn't happen, then we could therefore see a powerful continuation move to the upside... no matter what divergences exist and no matter how overbought the market is.