AFRAID to TRADE

overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 03/17/10 L=117.04 0.63 0.54% O=116.76 Hi=117.48 Lo=116.42 C=117.07
117.42
117.30
117.20
117.10
117.00
116.90
116.80
116.71
116.60
116.50
116.40
2
2
3
0.3000
0.2000
0.1257
0.0000
-0.0925
$TICK - 5 min NYSE 03/17/10 L=254 -294 -53.65% O=1 Hi=1255 Lo=-1022 C=254
1,200
800
400
254
51
-400
-800
3/17
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 was another testament to the "Popped Stops" phenomenon and 'failure' to get more than a few points on a short-sale set-up . Until proven otherwise, we're still in 'Popped stops' mode which places a solid bullish bias under price, and today's Trend Day bias - which broke down in the afternoon - was dominant as shown in the trade set-ups.

1. TREND RETRACEMENT/PULLBACK TRADE, DOJI/SPINNING TOP

This trade would have been more 'ideal' if price retraced all the way to the 20 EMA (5-min) but in strongly trending markets - as we have now - that is not often the case. As such, we have to be prepared in advance to put a buy order in as soon as we see price start to rally from a decent (not one or two candle) pullback. In this case, we had a spinning top and then a hammer-like candle at 9:30 at the $116.70 level, and official entry was as soon as price took out the high of the second candle at $116.87 with a stop under the 20 EMA at $116.75 to play for a move back to the intraday high $117.10 or just beyond, such as a counter-sell signal.

Price rallied non-stop (save for one candle) until spiking outside the upper Bollinger Band at 10:30 at the $117.20 level then forming two reversal/doji candles, any of which could have been your profitable exit.

Given that price and TICK formed new highs just before 10:30, UNDER NO CIRCUMSTANCES were you to try and short-sell a play back to the rising 20 EMA. This was a trend day bias that began with a gap in a clear and well-explained "Popped Stops" environment where price has a tendency to keep rising no matter what. And that's exactly what happened. DO NOT short sell when price is above the 20 EMA and price has made a new high along with TICK... unless you are a very aggressive trader, and even then, it's often still best to wait on the sidelines patiently for your next buy order to trigger on the immediate pullback. It's all about risk/reward and edge - and the best trades come IN the direction of a trend day unless price breaks under the 20 EMA.

2. RETRACEMENT TRADE, 20 EMA, DOJIS/HAMMERS, BOLLINGER BAND SQUEEZE PLAY

This trade was similar to the first trade, with entry coming as price broke the hammer/doji highs (there were two hammers) at the $117.10 level at noon CST. The stop would be under the 20 EMA and Bollinger - along with 'round number' support at $117.00.

What happened next was interesting, in that we got a Bollinger Band Squeeze Play when the Bollinger Bands compressed and then price formed two bullish breakout candles above the upper Bollinger. Contrary to what you may have been taught, when the Bollinger Bands compress and price breaks and closes outside of the Bollinger Bands, then this is actually a BUY signal (not a short-sell signal) and can be played for a range expansion play (hold long until a counter-sell signal occurs, especially on an expected trend day such as this).

Like the first trade, price rallied for an hour and only formed one sell bar (not enough to get you out - price did not break under the low of the red 5-min candle at 12:30). The actual sell came as price 'spiked' outside the upper Bollinger (two long upper wicks/shadows) at the $117.40 level and then broke the low of the spinning top candle at $117.38 at 12:30 CST.

Once again, price and TICK (discount the 3/10 oscillator on trend days) made new highs, so you were NOT to short-sell the expected retracement to the 20 EMA. We were to wait for a nice pullback to the 20 EMA to get long again to play for trend continuity.

However, during the pullback, price swung quickly (too quick for a nice entry) to form a higher low and then suddenly/immediately broke under the 20 EMA and then fell just as quickly to the 50 EMA. I know what you're thinking: "But if I would have shorted at the high, I could have profited from that."

True, but the next time you try to short after a new TICK high, the opposite will happen and price will make a shallow retracement and then surge to new highs - look at what happened from 10:30 to 12:30. You trade concrete set-ups that have proven edge and high probability, and this means avoiding certain trades, including trying to short after a new TICK and Price highs on a suspected Trend Day.

You can always show me exceptions to all rules, but we are striving for consistency, edge, and realistic probabilities of success based on historical patterns. Perhaps 2 times out of 10, you'll get a reversal like you saw here, but 8 of 10 times, you'll stop out... and you'll sometimes get caught on the wrong side of a trend move and lose far more money on the times you're wrong than the times you're right. THIS is the definition of "Edge" and "Probabilities" and will be what ensures your consistency and success as a trader - not calling every single market turn. Study this concept more if you don't understand it - new traders often want to be right all the time, but not only is that not possible, but striving for accuracy can trip you up psychologically when the natural probabilities play against you.

In short, it is ONLY safe to short on a rising trend day when price has broken under the 50 EMA, unless you are a very advanced trader playing for a small target.

As such, the final trade set-up came as price did break under the 50 EMA, formed new TICK lows and thus a nice Wyckoff Sign of Weakness (a wonderful example here), and pulled back to test the underside of the EMAs, setting up *almost* a cradle sell signal into the close.

3. BEAR FLAG, *ALMOST* CRADLE, WYCKOFF SIGN OF WEAKNESS

Take time to review the Wyckoff Signal from prior reports. The main idea is that TICK forms a new intraday low when price has NOT, meaning odds favor lower prices yet to come. Thus, you want to short-sell the first pullback into EMA resistance after a Wyckoff Sign of Weakness... and that happened at 2:15 at the $117.10 area, with an entry as soon as price took out the prior candle low (shooting star/hanging man) and also crossed under the "round number" support of $117.00 to target a retest of a prior swing low or a full reversal.

Keep in mind what I've been saying about virtually ALL short-sell signals being 'busted' and almost 'mocked' by the buyers... and this was no exception. Thus, you should have exited as a hammer formed at 2:30 CST at the lower Bollinger Band when price broke above the hammer high at $116.85. Price then rallied into the close, failing to trigger yet another bear flag set-up (breaking above the 20 and 50 EMA into the close).

Remember that Friday is Options Expiration, so we could see a greater degree of 'randomness' tomorrow (busted patterns) but still trade as normal unless the first few 'edge-based' trades stop you out unexpectedly.

Until proven otherwise, this 'mysterious' bullish force is still dominant, and you should keep that in mind as an intraday trader -leaning more heavily on buy/long set-ups and monitoring any short-sale set-up very closely for signs of failure.


SPY - 5 min ARCX 03/17/10 L=117.08 0.67 0.58% O=116.76 Hi=117.48 Lo=116.42 C=117.10
+0.23
+0.27
+0.21
1
2
3
117.42
117.30
117.20
117.10
117.00
116.90
116.80
116.71
116.60
116.50
116.40
0.3000
0.2000
0.1257
0.0000
-0.0925
$TICK - 5 min NYSE 03/17/10 L=254 -294 -53.65% O=1 Hi=1255 Lo=-1022 C=254
1,200
800
400
254
51
-400
-800
3/17
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


SPY - 1 min ARCX 03/17/10 L=117.04 0.63 0.54% O=116.76 Hi=117.48 Lo=116.42 C=117.10
$TICK - 1 min NYSE 03/17/10 L=254 -294 -53.65% O=1 Hi=1255 Lo=-1022 C=254
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 know a lot of traders are left 'in the dark' as to why the market continues to rally, but the explanation - in part - is simple, and it's the "IF/THEN" statement I've been explaining for some time. "IF price rallies above 1,151 (solidly), THEN we will see a continued range expansion move up as bears/sellers capitulate and new buyers jump in, creating a surge higher."

That's exactly what we're seeing, and what we likely will continue to see until all bears/short sellers have covered, or buyers stop 'buying' in this impulse breakout move. We're in the "open air" zone (no major overhead resistance until 1,225), and it would now not be surprising to see the market continue up to that level unless there is a major change.

For you, the intraday trader, the story is the same and continues without change as of today - keep trading/scalping long while price remains above the 20 EMA and under NO circumstances put on a short-sell for anything other than an intraday scalp. If you cannot bring yourself to buy the market in this overextended condition, then stand aside but do NOT bet against it.

Comments continued, in that we see the principle "Trends, once established, have greater odds of continuing than of reversing." Also "trends can continue longer than most people expect."

Your options are this: "Long or out." Short is NOT an option unless price collapses first under the 20 and then 50 EMA. Let the market prove itself before you try to swing trade short while we're in "open air" and "popped stops" mode (that's been since we've been above 1,151 this week... and above the 20 EMA as shown above except for a minor bear trap on the 15th).

Do not overcomplicate this - this is trend continuity 101 until the trend has reversed (Martin Pring style logic ... ride the trend until the weight of the evidence proves the trend has reversed).

We are in the 'open air' breakout/expansion mode I've been describing would be the play and likely outcome if buyers pushed price beyond 1,151 and that is exactly what has happened.

Until proven otherwise with a price move under the 30 and 60 min EMAs, odds STILL favor trend continuation despite the oversold condition... remember, this rally is being fueled in large part by swing and position traders (funds) who are forced to take a reluctant stop-loss here or else they risk losing even more money. This is what is driving the market higher, and the market will continue higher as long as bears continue to stop-out and in some cases even add fuel to the bullish fire by 'flipping and reversing' (not just buying to stop out, but then buying to get long). As an intraday trader, you could and SHOULD be taking advantage of this reality as long as it lasts. It certainly can't last forever, but **it is the reality of the moment.**