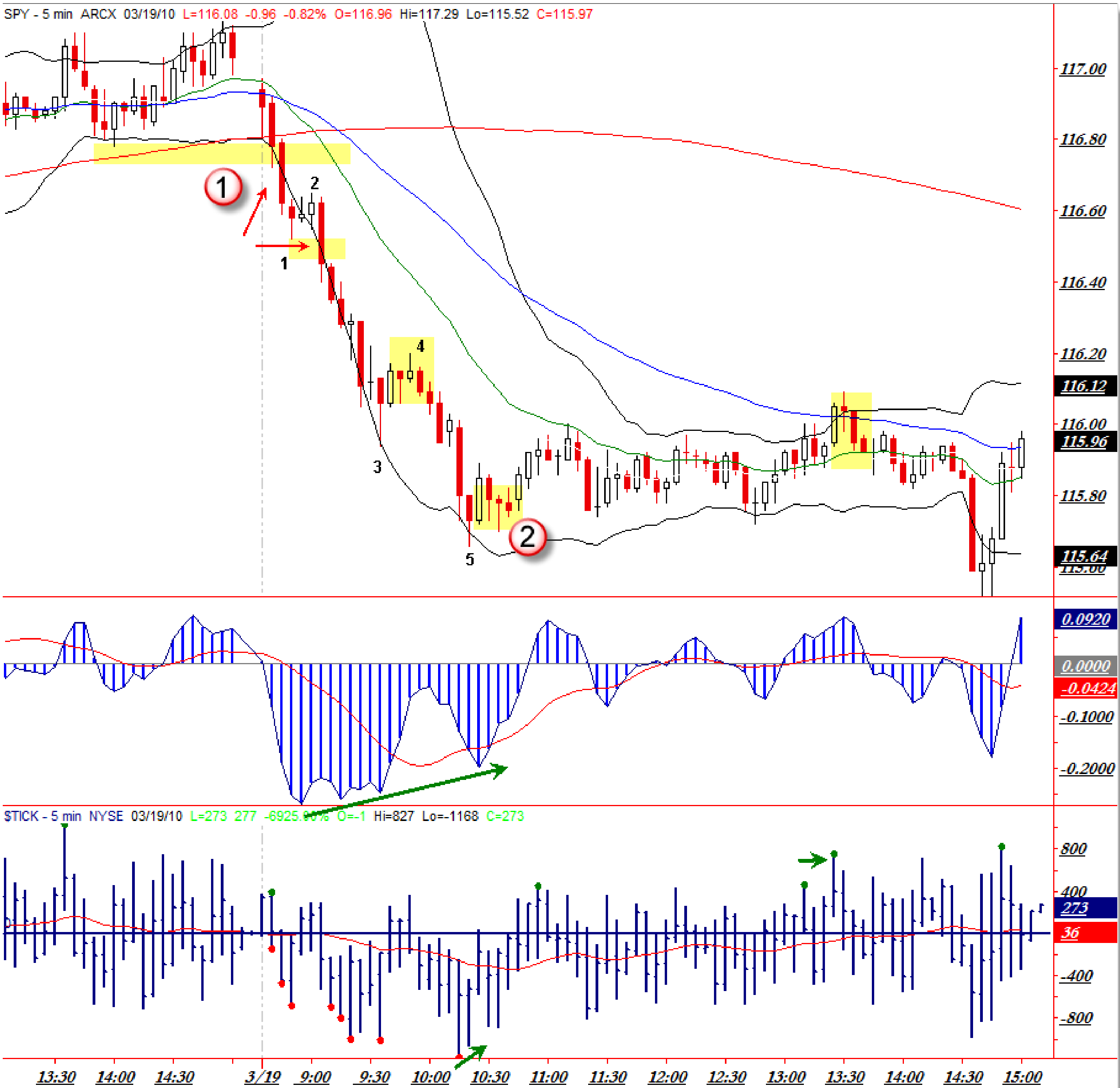
AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 03/19/10 L=116.08 -0.96 -0.82% O=116.96 Hi=117.29 Lo=115.52 C=115.97
$TICK - 5 min NYSE 03/19/10 L=273 277 O=-1 Hi=827 Lo=-1168 C=273
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Today's Options Expiry Friday lived up to its name - with the exception of the morning sell-off. Expiry days are often choppy, range days with random price action as funds balance positions prior to Saturday, when March options officially expire. They often engage in hedging or rebalancing of portfolios, which can cause 'random' moves in stocks.

1. SELL OFF, BREAKING OF 30M EMA

The first trade was a "get in or miss the boat" trade where most new traders - who often prefer to enter on pullbacks - never got a comfortable pullback, while those aggressive/experienced traders with an eye to higher timeframes and the probabilities - that we could see a sell-off today - were able to enter short confidently and hold as long as possible for a range breakout (breakdown) move.

The best entry was as soon as price solidly broke the 20 EMA on the 30min chart at the $116.75 level, or broke under the two doji-ish candles at 9:00, breaking under $116.55 to trigger a short-sale. Otherwise, the market never really gave a pullback to enter short.

In this case, you could have put on positions using the 1-min chart on any pullback to the 20 or 50 EMA - that's really the only management that would have gotten you 'comfortably' short. Remember not to chase a market if you feel you just cannot enter into a momentum or 'positive feedback' (impulse) move - stick to your plan instead of jumping into a trade because you feel you are missing the action.

With the new momentum and TICK low at 9:30, odds favored lower prices yet to come, so you could have shorted again on the 9:45 pullback as price broke back under $116.00 to play for a new swing low.

Amazingly, price formed a very clean 'Elliott Fractal' five-wave move (complete with divergences) as seen on the 1-min chart. If you haven't learned this pattern yet, take the time to scan the archives to do so.

A good exit for the short-sale was as price tested the 60min 20 period EMA at the $115.75 level, or as price formed a bullish candle after a lengthy positive divergence (including a dual divergence) as seen on the 1-min chart.

For AGGRESSIVE traders, this situation allowed for a tight scalp or 'flip and reverse'.

2. RETRACEMENT, DIVERGENCES, 5-WAVE FRACTAL

The main idea is to exit or perhaps 'flip and reverse' once a five-wave fractal ends with a dual divergence, as was the case here especially on the 1-min chart. In addition, price formed a lower shadow and then bullish engulfing candle at 10:15 just above $115.80, which set-up an entry to play for a retrace to the confluence resistance level of $116.00 and the 20 EMA on the 5-min chart.

I call this aggressive because the move was a clean counter-trend move that requires excellence in trade entry and exit (execution and management) and most new traders have difficulty or mess up counter-trend trades. This trade - if executed perfectly - was only good for 20 cents (2 @ES points), so it was fine to sit this one out as well.

A trader could have shorted the pullback into the 20 EMA at 11:00am, so this could have been a set-up as well, but price wound up consolidating in true "Expiration" nature, pinning about the $116.00 level, giving no major opportunities for trade set-ups. It really was a good day to start the weekend early! Trying to trade into the close would have resulted in whipsaws on both sides, as we got a false break up and then false break down to end 'pinned' at $116.00.

As seen from the tight price compression starting at 10:30am, there was really only one good trade set-up this morning, and it came right off the open or after price broke under the two bullish bars at 9:15. The remainder of trades were mini-scalps that yielded little profit - and that's what we would expect to see on an Options Expiration Friday.

If you took the first trade short and held until the 'flip and reverse' buy signal, then roughly $1.00 was possible... but if you missed the morning sell-off, very little was possible from an 'ideal' trades standpoint. There are traders do take options exprations off... and today's action justifies them.

Today's action showed the importance of monitoring the higher timeframes for trading decisions and support, given that price sliced sharply under the rising 20 period EMA at the $116.75 level and immediately tested then broke the 50 EMA, letting us know that this sell-off had momentum and to continue with a short-sell/seller's bias until proven otherwise.

As such, the 30 min chart has taken on a suddenly ominous and bearish posture that would tend to forecast lower prices yet to come in terms of the new momentum low, negative/bearish EMA crossover (potentially setting up the "Cradle" trade), and surge in downside volume (ignore the final 40m volume spike at the end of the day - it was related to rebalancing and options expiration).

Now it is the bulls who have to prove themselves on the 30-min frame, given that $116.25 forms a solid resistance level. Be bullish above $116.25, bearish beneath, and very bearish under $114.50.

The bullish posture is 'hanging by a thread,' meaning price has retraced now deeply to the rising 50 EMA and lower Bollinger Band on the hourly frame. Should sellers continue to push price lower, breaking this support area at $116.00, then odds favor a quick 'pop' down to test the prior swing low at $114.50. Should sellers take price below $114.50, we could see a sharper sell-off back to test $112.00.

However, sellers have to break support first. The final hourly bar closed as a hammer at confluence support, so it is reasonable to expect a potential rally to form here. What happens early Monday at this level will be key to whether this seemingly impossible uptrend continues, or breaks down as everyone suspects it will.

It looks like the "Popped Stops" burst above 1,155 might have come to an end yesterday, with buyers backing off and sellers shorting at the highs (or bulls taking hard-earned profits). Volume picked up (rose) today as the market sold-off, but the increase is in part due to Options Expiration, so don't read too much into that yet.

Officially, we have an evening star-style candle pattern at the upper Bollinger Band, which is a classic sell signal, and as I mentioned in last night's report, aggressive traders could have started shorting yesterday or today to play for a retracement back to 1,150 at a minimum or even as far as 1,120. Watch for a potential 'overbought' retracement/down swing to start here in what could be a horrendously vicious 'bull' trap (where price breaks slightly to a new high and then collapses lower, after having caused the bears/short-sellers to cover ... popped stops).

Trade long (more Popped Stops) above 1,170, but be cautious/bearish biased short-term in the next few days unless we see strength early Monday morning. Also, watch if the Congress passes the Health Care bill this Sunday afternoon - if so, watch the futures closely before trading Monday to see how the market reacts to the divisive bill.

A quick glance at the larger picture shows that price has an "Open Air" pathway to test the confluence resistance at 1,225 (200 week SMA and 61.8% Fibonacci Retracement).

That being said, this week formed a spinning top candle at the upper Bollinger Band on slightly less volume than last week (divergence) and - given the overextended nature of the market - that's a bearish sign.

Keep in mind that - if price clears 1,175, the next overhead resistance confluence target is 1,225.