AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


C SPY - 5 min ARCX 03/02/10
Aggressive
Cradle
1
2
3
112.70
112.60
112.57
112.50
112.40
112.30
112.20
112.16
112.10
111.99
111.90
111.80
0.4000
0.3000
0.2000
0.1000
0.0000
-0.0390
-0.0847
$TICK - 5 min NYSE 03/02/10
1,000.00
587.00
200.00
70.24
-200.00
-600.00
14:30
3/2
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 reminder that, while we can remain in a period of negative divergences while price rises, eventually, the negative divergences and non-confirmations WILL overpower the uptrend, sending price falling rapidly once the 'rubber band' snaps back (market resolves the divergences to the downside).

However, the 'finger' spike high at 1:00pm CST shows us why it's still very difficult to short a market just because it's showing negative divergences - price spiked to one more high before collapsing 75 cents in 2 hours, creating the entire range of the day and violently trapping those who were long at the highs.

1. TREND RETRACEMENT TRADE, 20 EMA

This trade was almost identical to yesterday, in both bias and structure. I had written to be scalping long if the market broke above $112.00 for more popped stops, and that's exactly what happened.

It was a safer bet to wait (not try to fade this gap in 'popped stops' territory) to see if we get a retracement into the support of the 20 EMA and then put on a long (buy) position, which is exactly what happened at 9:25 when a long lower shadow candle formed. Price took out the high of this candle at $112.29, triggering a safe entry there with a stop under the 20 EMA (and prior low) at the $112.10 area to play for a retracement back to the high at $112.50 or slightly beyond (perhaps the upper Bollinger).

It was also acceptable to exit on the doji(s) and shooting star candle that formed at the $112.45 level at 10:00am just before the swing to the upper Bollinger Band. This trade was good for around 30 cents with a 15 cent risk and was a simple pullback/retracement trade entry.

For commentary's sake, I am not labeling the downdraft or short-sale trade that you could have taken at 11:00am as an idealized trade. It was for advanced/experienced/aggressive traders, as we had divergences and a 1-min trendline break, but due to price being in "Popped Stops" mode, an apparent Trend Day up, and - most importantly - having just made a new TICK high - shorting while price was above the 20 EMA was clearly an aggressive move that was good only for a quick scalp. It would good for about 15/20 cents if you took it, but I want to instill discipline in new/developing/conservative traders that it's usually not safe to short directly after a new intraday TICK high - it forecasts higher price highs yet to come (they did) which means it's safer to buy the retracement into support. If you are an aggressive trader, you might want to add this 'scalp' short to your analysis/end-of-day review, but not for conservative traders.

The next trade was to buy the pullback from the new price/TICK high. Being under the 20 EMA, it was safer to wait until price rose back above the 20 EMA for most traders, though it was certainly ok for aggressive traders to buy as dojis formed on the lower 5-min Bollinger - just above the 50 EMA.

2. TRENDLINE BREAK, IMPULSE BUY (in theory), TREND DAY PLAY

Even though I'm sure a lot of us thought it would be a Rounded Reversal day - nothing wrong with thinking that - it's still a bad bet to trade against a trend for most traders (especially new traders). As such, the next trade - safe trade - was once price rose back above the 20 EMA and then broke the 1-min trendline as shown to trigger an entry at the $112.51 level to play either for a retest of prior highs, an afternoon "1:00 Breakout" play, or a new high. This trade unfolded in four sudden rally candles which ended in two upper shadows above the upper Bollinger Band, one of which was a shooting star doji. This was your exit at the $112.65 level with a profit and - for most traders - NOT a 'flip and reverse' position.

Why? Price just made a new intraday TICK spike high, which was a bullish development, and under the same principle as the morning trade, it was safer to stand aside instead of shorting this high unless you are an aggressive trader.

Remember, it goes without saying, but it's also worth repeating - we do NOT know what is going to happen in the future, and so we trade by principles and concepts and strategies so that we can achieve consistency. It's not usually a good idea to short for anything other than a quick scalp after a new TICK high on the session, so the best play - unless you were scalping short to exit on a test of the 20 or 50 EMA - was to stand aside and look to see if any buying opportunities formed.

Price formed a hammer at the 1:30 CST time, but did NOT take out the high of the candle, so this did not trigger an entry. Price then sliced under the 50 EMA, placing the odds favoring a potential rounded reversal or trend reversal, but that was not yet an entry set-up.

Price bounced around and then broke back under the 50 EMA in a strong selling bar that formed a Wyckoff Sign of Weakness, which was a new momentum low (see 1-min chart) and new intraday TICK low (when price was not making an intraday low).

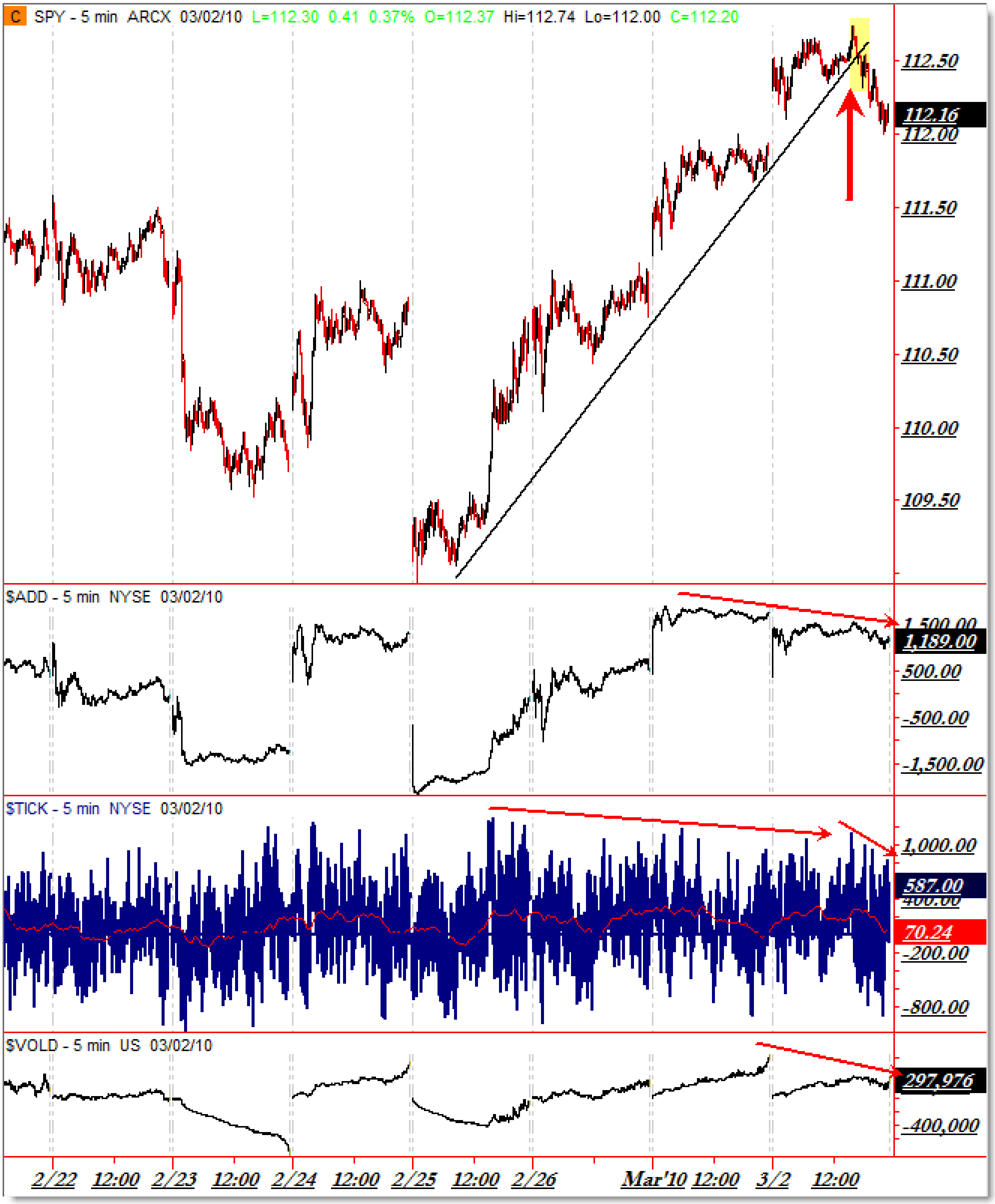
NOW, we had a Wyckoff Sign of Weakness, price under the 50 EMA, and then our execution (trade) came from the famous Cradle set-up (a pullback into the crossing of the 20 and 50 EMA on the 5-min chart). That gave an entry!

3. CRADLE TRADE, DOJI, WYCKOFF SIGN OF WEAKNESS

This was a trade I hope you took if you saw it in real time. Price formed a nice doji candle at the 20 and 50 EMA crossover, signaling an aggressive entry at the EMAs ($112.40) or a conservative entry when the next bar took out the low of the candle at $112.32. Either way, the stop was slightly above $112.45 and the play was for a trend reversal trade that could have lasted into the close (or until a compelling buy signal formed).

You could have held short into the close, or exited on any upward move due to the positive divergence (3/10) on the 1-min chart, though price never really gave a buy signal on the 1-min chart due to price staying under both EMAs.


SPY - 5 min ARCX 03/02/10 L=112.22 0.33 0.29% O=112.37 Hi=112.74 Lo=112.00 C=112.20
+0.33
+0.17
-0.28
$0.78 Possible
$TICK - 5 min NYSE 03/02/10 L=587.00 -124.00 -17.44% O=-2.00 Hi=1138.00 Lo=-880.00 C=587.00
14:30
3/2
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



The Trendline Break and triple negative Divergences argue strongly for a downside tradeable move. Be prepared to trade any bounce long off $112.00, or to short aggressively under $112.00.

Today was another "Popped Stops" rally on lower volume (except the end of day) and lower momentum - further signs that bears/sellers are driving the market higher and not buyers, which places us on high alert for any sort of downside move, specifically breaking back under $112.00 to target $111.50 or lower. There would be a trigger short on a break under $112.00, so prepare to short under that, but realize that we could get a continuation rally higher off the 20 EMA as shown above, so be prepared and stick to your intraday frames still - popped stops rallies can last longer than expected and that's what we're seeing now.

The 60min chart shows a negative momentum and volume divergence at the recent highs, hinting that downside action is favored over further upside action. Reference February 19/22 for the last time this happened, and the sudden decline that happened after that.

Be prepared to trade short on any weakness here, and suspend belief again and trade long above $112.50 into "open air" territory (play price, not biases).

The daily chart formed a shooting star/doji style candle today at the upper Bollinger Band, and the negative volume and momentum divergence argue strongly for a downside price resolution here. Aggressive traders can go ahead and short now, but conservative traders would want to wait to short on any break under 1,000, and then aggressively (swing trade even) under 1,090 to target 1,050 at a minimum.

For now, we're still in "open air" territory so it pays to stick with your intraday frames and be prepared to trade in both directions (though odds favor the downside) let the remaining stops get triggered (if any remain) here (which has created this popped stops rally).