AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 03/29/10 L=117.30 0.72 0.62% O=117.17 Hi=117.53 Lo=116.69 C=117.32
1
2
3
117.44
117.40
117.34
117.20
117.17
117.00
116.80
116.60
0.5000
0.4000
0.3000
0.2000
0.1000
0.0261
$TICK - 5 min NYSE 03/29/10 L=230 197 596.97% O=1 Hi=861 Lo=-952 C=230
800
400
230
107
0
-400
-800
3/29
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

Being a range day, today's trading opportunities were limited, and so were the potential profits. Also, we had two very strange occurrences - that of opposing signals from the 3/10 oscillator and the intraday TICK - something that rarely happens in such blatant fashion - and we'll discuss this.

1. GAP FADE

The overnight gap was roughly 50 cents, which was in the 50% chance of a fill, which requires a trigger to short (break under the low, or reversal candle). The morning gave us four long upper shadows - bearish signals - hinting that odds were shifting to expect downside action, and a good trigger short occurred when price broke under the shooting star candle at $117.27 (8:50am CST). The stop went above the intraday high (same candle) at $117.50 to play for a full gap fade/fill back to $116.65, though it would be good trade management to see what 'happened' as price tested either the 20 or 50 EMA.

As it were, price formed a long lower shadow hammer/doji candle at 9:35, triggering a logical 'protect profit' exit at the break above this candle and back above the 200 SMA at the $117.15 level... which gave aggressive traders a 'flip and reverse' potential opportunity.

2. 'FLIP AND REVERSE,' HAMMER, BOUNCE OFF 20 EMA, WYCKOFF SIGN OF STRENGTH

This was also technically an "Impulse Buy" trade, as price formed a new high (along with momentum) and the trade is to buy the first retracement - usually to the 20 EMA or a Fibonacci level. This time a hammer formed at the 20 EMA, thwarting the earlier gap fade and giving aggressive traders a chance to play long, almost in a 'failed gap fade' trade (to pop the stops of those who were short the gap fade and forced to cover as price moved to new highs).

The best entry was as soon as price took out the high of the hammer at $117.15 with a stop under the intraday low of $117.00, which was also critical/key support. The Impulse Buy trade targets only a retest of the prior high (or slightly beyond), so as price began to form reversal candles at the upper Bollinger and prior high at the $117.50 level, that was a great place to exit with a profit. The shooting star and doji candle at the upper Bollinger - with divergences - provided an almost irresistible 'scalp' short to play for a move back at least to the 20 EMA.

3. UPPER BOLLINGER, SHOOTING STAR AND DOJI, DUAL NEGATIVE DIVERGENCE, PRIOR MORNING RESISTANCE

This was a unique set-up, and one that was aggressive too because this was the turning point between a continuation of the trend day bias (obtained by the opening gap and failed gap fill, as well as price being above both moving averages) and a potential range day play. Either way, aggressive traders could have played at this 'pivot point' that would have defined the day (bullish for trend day if price broke through these 'sell signals,' and bearish or neutral for a range day if price fell back to test the EMA). Note: This was also an "Elliott's Fractal" 5-wave set-up.

As it were, price fell back to test the 20 (and then 50) EMA and formed bullish reversal candles at both the 200 SMA, lower Bollinger, and 50 EMA, triggering a buy set-up around noon for those willing to play for a small target to the upper Bollinger Band.

Remember your definitions of conservative and aggressive when trading, and how that relates to your personal style. It's always aggressive to trade AGAINST a prevailing trend, and usually we start those trades as small scalps (small targets, usually back to the 20 EMA) and potentially hold them if we see any further signs of reversal (price breaking the EMA). Conservative traders usually are best to pass on 'fade' trades unless they are willing to play for a small target and 'work hard' (have excellent/quick reflexes and execution skills) to get that profit. This trade made roughly 20 cents of profit (SPY, and up to 2 @ES points) for all the effort of recognizing the divergence, doji, and resistance.

The range day bias continued, meaning we could expect to play "ping-pong" between the upper and lower Bollinger Bands, and you can list those as trades, but these were not ideal trades because the target and stop were roughly equal, and in all cases, the target was roughly 15 to 20 cents at best (doable, but sometimes it's just better to take the day off).

I did want to discuss the end-of-day activity that should have kept you sidelined, which is the stance you should take with blatantly conflicting signals in price, the 3/10 Oscillator (or other indicator you use), and the TICK. Look closely at the 1-min chart above to see what I mean.

At 1:30pm CST, we had a new TICK low that formed NOT on a new price low (Wyckoff Sign of Weakness) which was accompanied by a positive 3/10 Oscillator (momentum) divergence in both the 5 and 1 min chart. What is a trader to do? In light of confusing and conflicting signals, you are to stay sidelined - there's no point in risking your money for a trade where you are confused about the signals and outcome. Will price fall in respect of the new TICK low? Or will price rise as a result of the divergence?

Later, the exact OPPOSITE situation occurred with a new TICK high while price was not making a new intraday high (a Wyckoff Sign of Strength) but this time the momentum oscillator was likewise diverging (negative).

This may come into play in the future, but today the end result was small no matter what your course of action. Price remained in the trading range and closed back inside the range.

In a choppy, difficult day of trading, roughly 50 cents was possible in the event that you jumped out of the failed gap fade on time and did not get chopped violently from noon on... or slightly more was available if you chose to 'scalp' within the afternoon choppiness. It's not a good idea for new traders to trade in times they know or suspect will be choppy... even though so many wind up doing so anyway.

Be smart, and be where the opportunities are... even if that means you make 2 or so trades per day. It's quality and probability/edge that counts - NOT quantity.

Are you sensing the repeating them here? You should be.

Bear Trap.
Bear Trap.
Bear Trap.

This should - at a minimum - prevent you from shorting, even if you can't bring yourself to trade aggressively long.

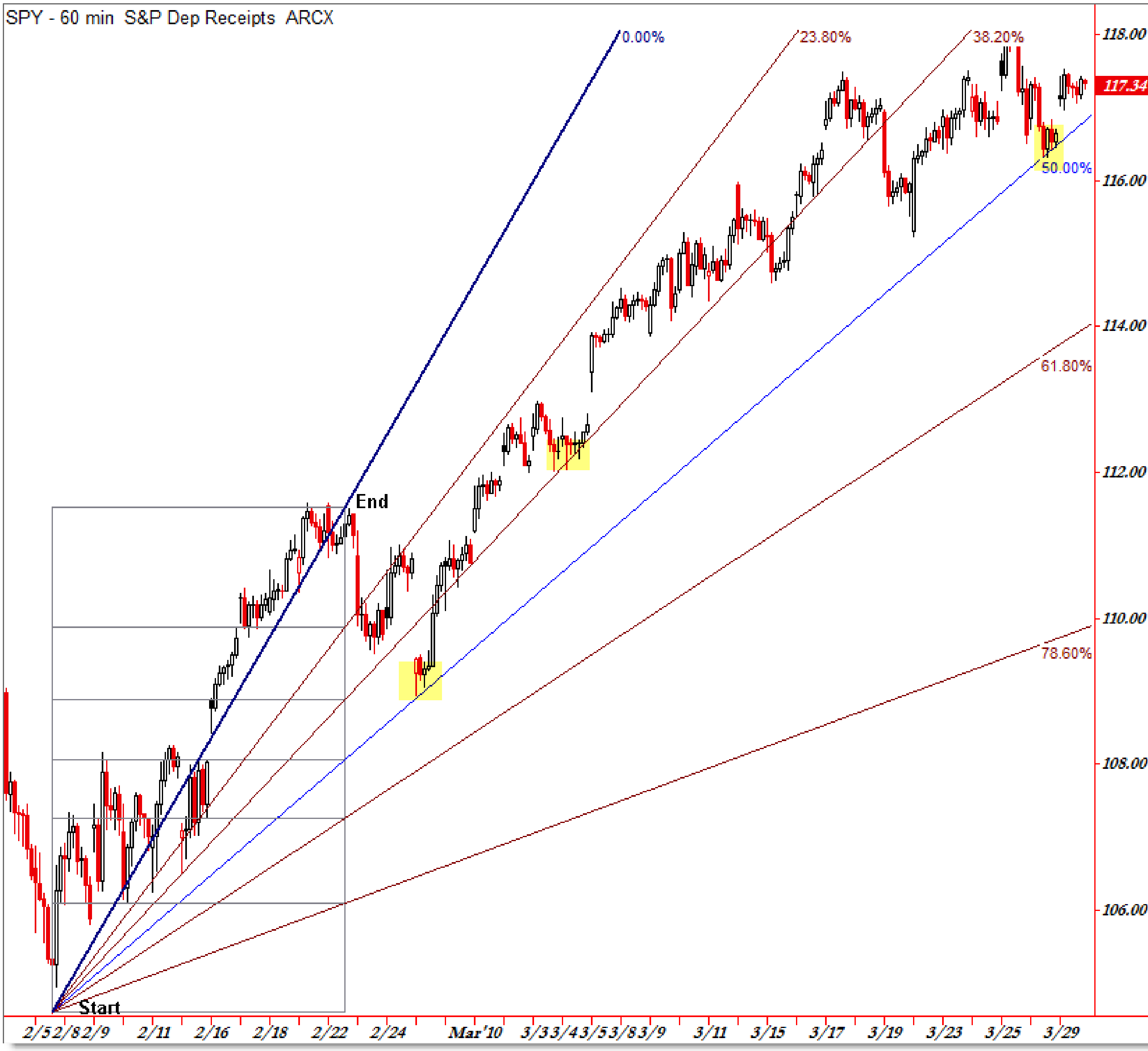
Such is the market character now and it is absolutely essential that you understand it, or else you'll be endlessly stopping out and turning over your money to those who understand the character ... that of a 'mysteriously' rising market. It's almost as if normal rules are being turned on their head, where any sell signal is actually a buy signal that generates momentum as scared bears rush to cover their short positions (popped stops), and intraday traders are best situated to profit from busted or failed patterns. It is better to expect this pattern to CONTINUE rather than reverse.

Continuing the thought from earlier. Trap. Trap. Trap.

The week ahead should be expected to have low (even very low) volume, which means the 'big funds' can push the market either way they want it to go, and it would be possible to see them continue to push it higher with lower and lower volume (that's been the theme so far at least).

No matter how hard it feels psychologically, by now I hope you understand what I've been stressing to you each day in these reports - your options are "Long/Buy" or "Neutral/Out" and NEVER short for anything more than an intraday trade (with the exception if you are an experienced, aggressive trader willing to step in front of a pervasive trend and honestly willing to take a tight stop-out for a trade-off of an early entry should price fall).

The EMAs remain in the most bullish position possible and price is making higher highs and lows - that is the textbook definition of an uptrend, which should make you a buyer of dips until/unless price is under the 50 EMA or $116.00 level.



A bonus chart for advanced readers showing the Fibonacci "Fan" lines from the February low to the February high as drawn.

Lines extend up from the respective Fibonacci values (23.8%, 38.2%, 50.0%, etc). Notice how price supported last week off the 50% Fan line.

Think of these as trendlines that most people do not see, which help contain or reveal 'structure.'

Today shows you not only why price is 'king,' but why you should understand the importance of 'character' and 'structure' of the market. The current "character" is one of almost blatant mockery of short-sellers (evidenced through numerous 'traps' and busted patterns) and "structure" is one of 'creeping and non-stop uptrend' which has yet to break the tight rising channel/trendlines.

We all know the market is overextended well beyond what it should be, but that doesn't change the fact that the market continues to get more overextended and keep busting sell signals (doji/shooting star at/near upper Bollinger with negative divergence).

While you are certainly aware that odds favor at least a retracement, just step back and look at what the market has done since early February. It's probably in your best interest to keep trading intraday and NOT try to call a top to this move unless price is under 1,150. I know it's very difficult to position here as a swing trader, but remember, if you sit on the sideline, you can't lose money... either from a continued creep higher against all odds if you're short... or a sudden, large sell-off (like that in January) if you're long. Stick to your strategies and not your emotions.