AFRAID to TRADE

overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 03/03/10
2
(Aggressive ONLY)
1
3
4
Flag
112.90
112.80
112.70
112.60
112.50
112.48
112.40
112.30
112.28
112.20
112.14
112.10
0.2000
0.1000
0.0033
-0.1000
$TICK - 5 min NYSE 03/03/10 L=-21.00 -608.00 -103.58% O=2.00 Hi=1011.00 Lo=-1306.00 C=-21.00
1,000.00
600.00
200.00
-21.00
-600.00
-1,000.00
14:30
3/3
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

If you look closely, today's form and structure - and even opportunities - mirrored those almost exactly to yesterday's trading session. This underscores the importance of reading and studying these reports and doing your own analysis - even on bad days. You learn from every trading session you do - or observe - and it's possible (in fact, uncannily eerie) that you'll see very similar opportunities repeat... sometimes the next trading day in a row.

You could have taken yesterday's trade set-ups and overlaid them on today's session, with the only exception being that price did not swing to a new afternoon high today. Due to the lengthy divergences, the trading tactics were slightly different, in that we had a more conservative approach for trading long (the lengthy divergences decrease odds of further upside), and I still feel we are in a 'popped stops' environment driven by sellers instead of buyers, so that situation could end violently at any moment - like today's afternoon session.

1. PULLBACK "POPPED STOPS" BUY, 20/50 EMA, HAMMER

Another benefit of reading these reports and studying price action each day would have revealed to you that the "gap fade" trade has not worked at all the last three days, so there was no bother in trying to fade it, particularly when a hammer candle formed at the confluence of the 20 and 50 EMA. This set-up a retracement trade entry and an opportunity yet again to play the "popped stops" of all those who got short in the last few hours of yesterday's session, and rushed to exit (driving the market higher).

Trade execution took place when price broke above the high of the hammer candle at the $112.40 level, with a stop under the 20 EMA (intraday low) at $112.30 to play "Popped Stops" or a move into the upper Bollinger or beyond (or other sell signal). A good exit signal came as price spiked outside the Bollinger and then formed a spinning top candle at the $112.65 level, which was a "take profit" signal but NOT a "get short" signal.

Although I didn't label it as I did in yesterday's session, the next pullbacks - which did not quite make it all the way back to the 20 EMA or else I would have called them "Idealized Trades," (especially if reversal candles formed) - were trading opportunities to buy into a prevailing up-move. It was generally less safe due to the higher timeframe divergences, but as you see, price continued its rally up to test just under $113.00.

2. ROUND NUMBER RESISTANCE, SHOOTING STAR, UPPER BOLLINGER, MULTI-DIVERGENCES

Despite all the evidence suggesting the trend was likely to reverse, this was still an aggressive trade because it bet against a long-confirmed prevailing trend. Trends can't go forever, but it's often safer to bet for reversal trades AFTER price has broken key support lines or trendlines. That doesn't mean aggressive/experienced traders can't take advantage of shorting into a key resistance level that's forming reversal candles and lengthy negative divergences, but I want to be careful to make that distinction - new traders should wait to play reversals after confirmed price breakdowns, while aggressive traders can short as price tests resistance. Reference yesterday's report for more information on the similar set-up yesterday and my lengthier discussion there - it's really the exact same set-up.

The main idea was that price formed a slight new high on a negative TICK divergence at 10:30am at the upper Bollinger (after forming a shooting star/long upper shadow candle at 10:00). It was safer to wait for price to break the lower trendline as seen on the 1-min chart, which triggered an entry near $112.87 and stop-loss at the $113.00.

A quick comment here - especially for swing traders reading the reports. This was one of the better swing trading entries using the lower timeframe to pin-point a very accurate, low risk entry to play for a much larger, multi-day down target (still holding short now). At key inflection points, or after lengthy divergences, swing traders can execute any of the trades mentioned here and just hold for a larger target (higher timeframe target) instead of exiting where I label exits. This would have got you short near the $112.80 level, stop above $113.00, and you're holding short for a test of $111.00 and perhaps even lower. I wanted to make the distinction, because an intraday trader might have chosen to exit on a retest of the 20 or 50 EMA, while a swing trader would have held short through this 5-min EMA to play for a higher timeframe target.

That being said, the intraday trader likely exited as price tested either the 20 or 50 EMA at the $112.60 or $112.70 price levels.

Price chopped around between the averages for the next hour, not really generating a trade set-up long or short until we broke under the key $112.50 level, triggering the next safe trade.

3. BREAK UNDER $112.50, REVERSAL SALE

This entry came quickly, as price shattered the $112.50 prior support level, and given the negative/bearish structure, this was a safe level to short. The target was a potential reversal, so the exit came on the next buy signal, which was the bullish Engulfing Candle at the $112.25 level... but due to the new price, TICK, and momentum low, this was certainly NOT a 'flip and go long" signal, but a "ride out the retracement" on the sideline and get ready to short as price pulls into resistance... the Impulse Sell trade.

4. IMPULSE SELL, BEAR FLAG, DOJI AT 20 EMA, TRENDLINE BREAK

This was another instance of a nice set-up... that was destroyed by the rampant and uncanny upside bias we have in the market right now - it's like a cork or a ball being pushed down in water that, as soon as it is pushed down, it pops up again. Still, this was too good an opportunity to pass up, and it may work for swing traders, but did not provide satisfaction into the close.

This was the classic "sell the first retracement after a new price, TICK, and momentum low," and the first retracement took us back to the 20 EMA where a doji candle formed at the $112.35 level. Price not only took out the low of this doji, but broke under a rising trendline (see 1-min) which triggered entry at the $112.30 level, and a stop placed - for very conservative (low-risk) traders - above the 20 EMA at the $112.40 level. The target - at a minimum - was a retest of the prior low if not lower... keeping in mind this trade set-up very near the close (so it didn't have time to play out as much as if it would have formed earlier in the day).

Aggressive traders would have placed a stop above the 50 EMA at the $112.48/50 level, so it would have kept them in until the close, potentially profiting from the trade, but most ways you played this - other than having a loose stop and hanging in there until the close (aggressive) - resulted in either a loss or a scratch.

This underscores that it's often difficult to trade into the close, where random price moves are more likely to occur (as funds rebalance their positions ahead of the close without regard to the technicals/chart structures).

Taking a moderate aggression level, roughly 66 cents was possible in today's trading action (3 wins; 1 loss).

This assumes you were conservative on the rally into such massive divergences, and then waiting for a trigger to get short (the break under $112.50) for anything more than a scalp. Aggressive traders would have profited more.

Market internals forecasting a downside reversal starting here, as evidenced by three day divergences (more for the TICK) and two (long and short-term) trendline breaks.

If anything, it is very much unsafe to swing trade long here, though it would be safer to swing trade short under 1,115.

This shows why price can continue rising despite lengthy divergences in momentum, breadth, and volume (it happened in mid-February, prior to the sharp $3.00 sell-off you see above). The technical structure is almost identical to that period, and as such, we must expect it to resolve in the same direction - down.

Any move under $112.00 will likely be met with further selling and profit-taking (downward action), setting up a nice trade entry, though any move above $113.00 will trigger the stops from the new short sellers, which will create yet another popped stops rally to new highs, which also will be tradeable from an intraday basis only.

Structure is similar to the 30-min chart, only we can see the mid-February (22nd) divergences and the sell-off that followed. It's likely we'll see some sort of similar sell-off, due to the negative momentum, breadth, and volume divergences... but because markets are driven by supply and demand, scalp long intraday for more "popped stops" as bears/sellers - unable to believe price can continue rising - will stop-out, driving price higher and allowing tradeable scalps for the intraday trader. It is generally deemed very unwise to be swing trading long here in the midst of all these divergences and non-confirmations.

In addition to the lower timeframe divergences mentioned above, we have two 'in the air' doji candles that have formed just under the 1,130 level and the upper daily Bollinger Band - aggressive traders will begin shorting here or on a break under the low of today at 1,115 to target a scalp move back to 1,100 or a deeper pullback if price falls under 1,090, which could go as far back down to the 1,050 level.

Price is riding in 'open air' or more appropriately titled "thin air" meaning the recent price highs have not been supported by momentum, breadth, or volume. That doesn't mean price *has* to come down, but odds are around 75% or greater that it is going to (from an anecdotal standpoint).

Be prepared to swing or intraday trade any move - and remember that Friday brings us the big monthly Jobs Report which could generate volatility depending on how the market reacts to the numbers.