AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 1 min ARCX 03/30/10 L=117.37 0.05 0.04% O=117.46 Hi=117.83 Lo=116.91 C=117.39
117.80
117.70
117.60
117.50
117.40
117.37
117.30
117.20
117.10
117.00
1
2
3
4
5
0.1000
0.0000
-0.0267
-0.1000
$TICK - 1 min NYSE 03/30/10 L=192 -38 -16.52% O=10 Hi=999 Lo=-1184 C=192
600
192
-31
-200
-600
-1,000
3/30
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30

True to this week's expectation of low volume and choppy conditions, today was just that. Odds are we'll see this type of frustrating action on Wednesday and Thursday, unless there is some sudden effort by funds to continue jamming the shorts and pushing the indexes higher - remember Friday is a market holiday.

Generally, the #1 goal of a "Range Day" is to AVOID overtrading, but that's always easier said than done! In all honesty, unless your strategy and talent calls for it, you are better off avoiding trading in most choppy range day environments - you'll likely overtrade, take stop-losses due to random chance, frustrate your emotions, and then make mistakes due to unforced errors because you're emotional. Honor your daily stop-capital limits (if you have them - you should) if they're hit, and trade LESS when stopped out twice in a row NEVER more.

With that, let's review some of the 'ideal' trade set-ups of the day.

1. BREAK TO NEW HIGHS, PULLBACK TO 20 EMA, DOJI

This was a relatively simple opening trade, that took advantage of a doji candle (third candle) at the 20 EMA. This was your entry for aggressive traders at $117.35, with a stop under the 50 EMA at $117.25. Conservative traders waited for price to break the high of the doji and beyond the upper Bollinger Band at the $117.45 level, also with a stop under $117.25, to play for a new swing high or even breakout move ... or retracement trade off the 20 EMA with confirmation.

The trade worked out probably better than expected, with a clean exit at one or any of the doji candles that burst outside the upper Bollinger Band at the $117.75 level, getting the day off to a great start.

2. FOUR DOJI, UPPER BOLLINGER, NEGATIVE TICK DIVERGENCE

Due to the range day bias this week is expected to have, it was safe to play counter-trend moves, at least for scalping purposes back to the 20 or 50 EMA. That's exactly what this trade was, in taking advantage of the doji candles with a trigger short with the break under the fourth doji (you could have entered before that) at $117.68, with a stop above $117.85 and minimum target 20 EMA at $117.45 and maximum target 50 EMA at $117.35. It probably was best to go ahead and exit the trade either as price tested the 50 EMA or on the 'rebound' back up from the 50 EMA and then play long for a continuation of the uptrend move higher, given that price formed a reversal candle at the 50 EMA.

3. RETRACEMENT RALLY, HAMMER OFF 50 (AND 20) EMA

This was your standard classic retracement trade, as price was expected to bounce to a potential new high off the 20 or 50 EMA pullback. The trigger to buy was either as price tested the 50 EMA (aggressive) at the $117.35 level, or more appropriately when price broke the spinning top and hammer candles at the $117.50 level, which happened at 9:30 CST. The stop was under the 50 EMA, and as you are probably aware (those who took this trade), it was stopped out almost as quickly as it set-up, leading to a small loss... and this was one of those dreaded "buy the high tick" situations where price triggered a long, rose slightly above the trigger, and then trapped the longs in a swift downside move.

Because a pattern that SHOULD have worked just failed with a stop-out, breaking both the morning price low AND the 50 EMA, this was a sudden "flip and reverse" to play the popped stops of those who just got long (and weren't as savvy as you to exit immediately). I know we haven't had many examples of it lately, but the "Popped Stops" concept works in both directions!

4. POPPED STOPS, MORNING LOW BREAK, 50 EMA BREAK

This was a relatively quick execution, and should have been entered at least for aggressive traders. The $117.40 area was key support, not only from the 50 EMA but also from the prior opening swing low at the $117.40 level. Remember this statement:

"When price SHOULD do something but then does the unexpected, it often leads to a LARGER than normal move in the OPPOSITE direction"

This development - and trade - is proof-positive of that concept, but it takes an experienced and aggressive trader to take a quick stop (appropriately - newer traders have a tendency to hold on when a trade goes against them, hoping it will come back) and then - more than that - flip and reverse short.

New traders tend to want to flip and reverse on ALL trades they get stopped out on - which is not the case. A flip and reverse is only appropriate when a blatantly obvious, or easily recognized trade set-up fails badly and often breaks a critical support level in the process. THEN you can take a quick stop and try to capitalize on all the other intraday traders who either are now "holding and hoping" and will stop-out at a lower level, or the other professionals who are now entering short for a breakout play. Either way, the positive feedback loop that should form can lead to a great trade set-up.

Again, this has been happening mostly to the upside with short-squeezes, but it absolutely happens to bulls as well. The goal is to hang on as long (or in this case, short) as possible, which usually is a counter-buy signal. This happened with the positive divergence and bullish engulfing candle at 10:30am.

5. DUAL DIVERGENCE, BULLISH ENGULFING, LOWER BOLLINGER, $117.00 KEY SUPPORT

If you haven't noticed already, many trades have been confirmed or triggered off the $117.00 'round number' level. This is another example. Aggressive traders would have looked to put on another 'flip and reverse' situation here at the bullish engulfing candle, and as price took out the high of the candle at $117.10 with a stop under $117.00 to play for a minimum target of a quick 'reflex' scalp to the 20 (or 50) EMA at $117.30. Price began to form numerous reversal candles at the 20 EMA at $117.25, giving you plenty of time to exit your long trade with a profit.

It was up to you to decide what to do next. I've been writing non-stop about the 'mysterious' bullish bias in the market that continuously 'pops stops' and creates short-squeezes, and also how many (up to 15 now it seems) bear flags (just like this) have failed. For most traders, it was probably best to stand aside and see what happened here... and standing aside was the right move. Price sliced through the 20 then 50 EMA, forming a 5-wave fractal and spinning top at the 5-min upper Bollinger Band.

I actually didn't label any further 'idealized trades' because price was in a tight trading range, making the best trade set-ups reversal candles at Bollinger Band extremes (preferably with a TICK or momentum divergence), so you could have played any of those simple set-ups into the close... or just taken the rest of the day off as each swing would have offered you a maximum move of 30 cents... which is fine but frustrating and draining.

I zoomed in on the first half of the trading session, as I labeled more trades than usual and did not label any into the consolidation close.

Four of five trades were theoretical winners, with the third trade failing (it turned out to be an unexpected bear flag).

This allowed for benchmark comparison of roughly 74 cents being possible, unless you took profitable trades in the afternoon session (in which you would raise your benchmark comparison for efficiency analysis).

The 30-min chart is now showing a dominant consolidation pattern, taking the shape of a Symmetrical Triangle with a volume contraction. In general, this is bullish, but remember that we EXPECT this week to be tight/constricting in range as well as volume, so this is following expectations. Maybe the triangle will break on Monday after the Jobs Report.

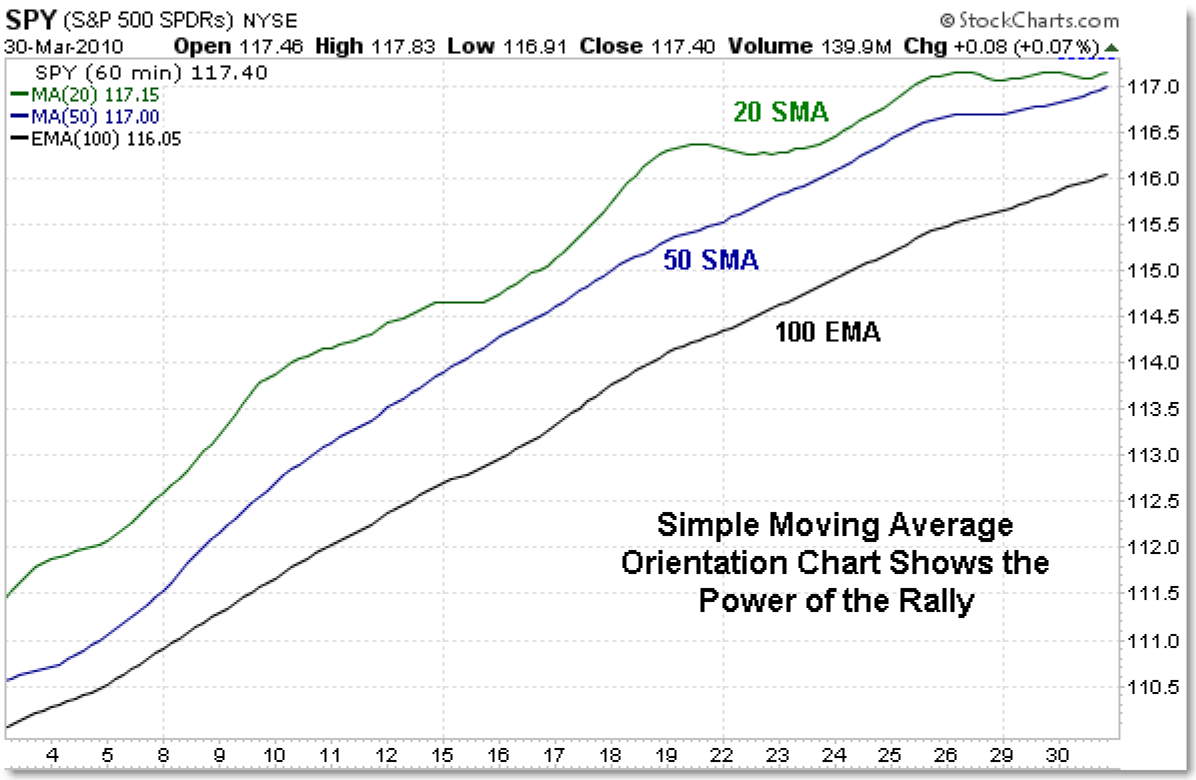
Keep in mind that the monthly Jobs Report - a big market mover - will be released Friday, though the stock market will be closed... and traders might be expected to exit positions ahead of the report so as not to 'gamble' with the numbers (trading futures is fine, but you won't be able to get out of overnight stock positions in the event a bad number comes out... though the expectations are positive).

Anyway, the triangle boundaries currently rest at the $117.80 and $117.00 levels and will likely be tightening further, squeezing price towards the apex and leaving intraday abysmal trading opportunities in the wake.

The price boundaries - not trendline boundaries - rest at $118.00 and $116.00, giving us a $2.00 range to work with. Realistically, the bounds have tightened to $117.00 and $117.80, so keep that in mind.

The text I've been writing for weeks still remains the bias and dominant expectation (though I have received emails from some of you who keep trying to short this market):

Long or out



I wanted to underscore the point of the power of the current uptrend we're having, by showing a simple moving average comparison.

Look at the 20 and 50 SMA along with the 100 EMA (smoothed) to see the current 'most bullish orientation' possible.

I know we all want to get fancy with our analysis (I know I do), but sometimes it pays to go back to technical analysis 101 which states that

"Trends, once established, have greater odds of continuing than of reversing"

and that moving averages are the best indicators to use in a strongly trending market.

Keep this chart in the back of your mind going forward.

As impossible as it may be, we're still within the tight rising trend channel that began off the February lows. We're almost 150 points higher in 2 months time in a vertical rally that has defied all resistance levels with abandon.

We have a negative momentum and volume divergence serving as a non-confirmation, but keep in mind that PRICE is king, not indicators (which only help us see possibilities for the future in price based on historical tendencies).

We all know that price cannot sustain this trend channel forever, and we all know it's going to end. But it's best from a trading standpoint - especially if you are a new trader - to WAIT until price breaks under the trend channel (and preferably under 1,150) to short-sell for anything more than an intraday scalp. Let the professionals get beat up trying to short this steam-roller and take advantage of any continued "popped stops" plays that occur, particularly with a break above 1,180 (go aggressively long there). Otherwise, it's understandable if you cannot bring yourself to buy this grossly overextended market - just remain sidelined and/or taking intraday trades only.