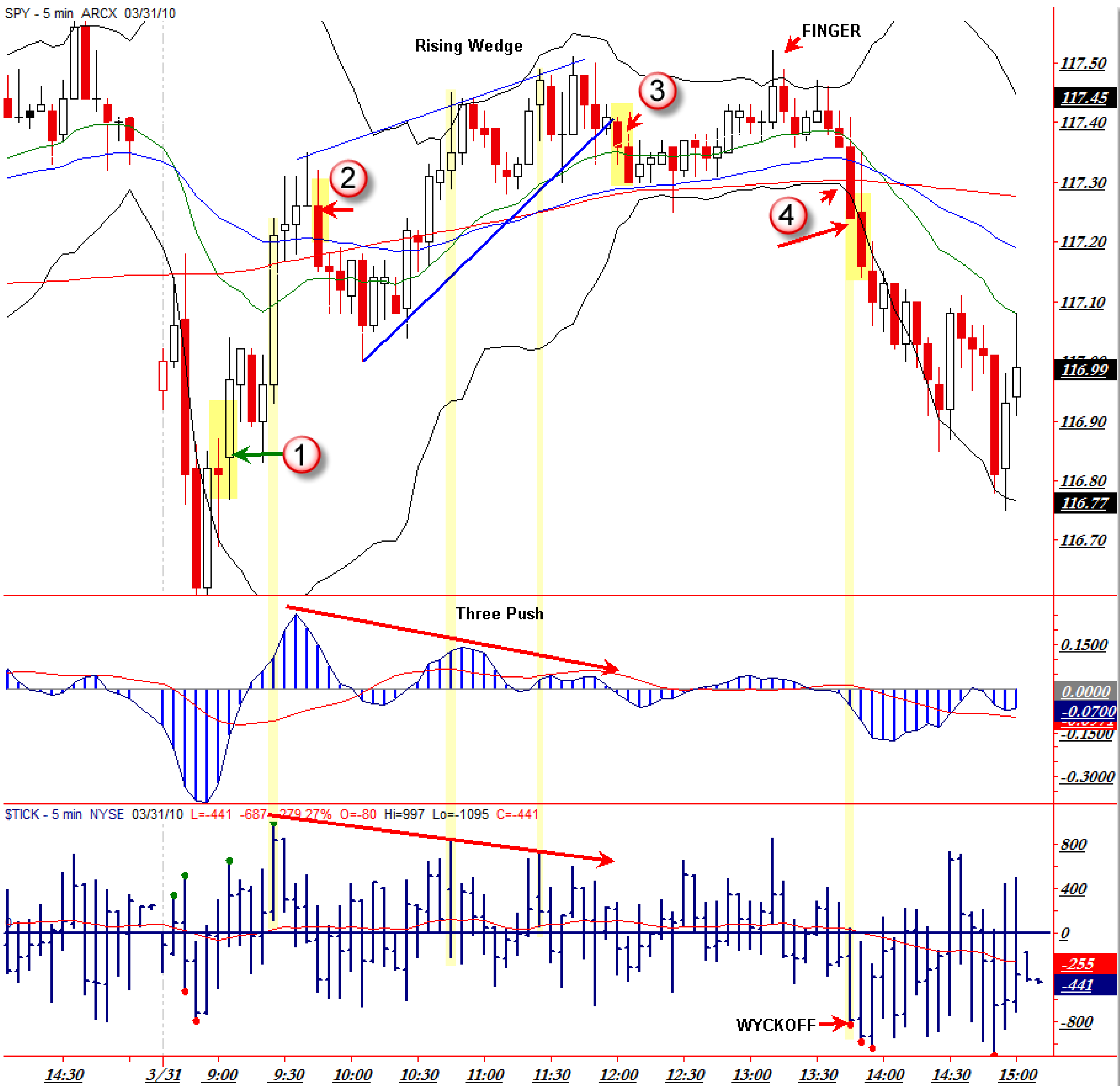
AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report




SPY - 1 min ARCX 03/31/10 L=117.13 -0.27 -0.23% O=116.95 Hi=117.52 Lo=116.61 C=117.00
1
2
3
4
WYCKOFF
117.50
117.40
117.30
117.20
117.10
116.99
116.90
116.80
116.70
0.1000
0.0333
-0.0053
-0.1000
-0.2000
$TICK - 1 min NYSE 03/31/10
800
400
0
-193
-441
-800
WYCKOFF
3/31
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 gave us a great example of the "Rounded Reversal" Day structure along with one of the best "Finger" trades I've seen in a while. Let's get right down to the lessons!

1. BULLISH ENGULFING, DOJI, LOWER BOLLINGER, TICK DIVERGENCE (1-MIN)

There was a "go/no go" trade (enter or not) on the morning gap of 40 cents, and today's action shows why it's preferable to wait at least 10 to 15 minutes to see what price is doing (shaking out) before committing to a trade. The first two candles were 'go for gap fade' but the third candle showed a dramatically different story - collapsing in short order under the intraday low and preventing a buy entry probably as you got ready to put on a buy. If by chance you got long early, you should have stopped out quickly under $116.90.

The first trade was a retracement 'scalp' after the Bullish Engulfing and doji candle at 9:00am - specifically as price rose back above $116.90 to target $117.10 or $117.20.

As an aside, there was also a Measured Move Pattern (see chart below) or Bear Flag that had its price projection (support) low at $116.54, which provided a 'hidden' or less-obvious support zone (and trade entry opportunity). Thanks to one of my more astute readers/members for pointing this out to me this morning!

As price rallied up to the 50 EMA, you should have exited, and noted the divergences and upper shadows, triggering your second trade.

2. UPPER SHADOWS, DOJI, NEGATIVE DIVERGENCES (1-MIN)

Look closely at the 1-min chart to see the negative TICK and momentum divergences at the 9:45am intraday highs of $117.35. As upper shadows formed and price took out the shooting star (gravestone doji) candle at 9:40am, this triggered an entry short at the $117.25 level which also broke a morning trendline. The stop was above the $117.40 level (then the intraday high). This also came into resistance at the gap fill zone from yesterday's close (the gap technically missed a full fill by 2 cents, but was in the resistance zone).

As you can see, price did not form the expected downward move, reversing suddenly off the key $117.00 level (which was a conservative exit target) and price broke a trendline on the 1-min chart, triggering an exit there, or officially once price broke back above the 50 and 200 moving averages (where I labeled the efficiency grid) having trailed your stop under this level once price was beneath these averages. This trade - as great as it seemed - was a scratch.

An aggressive trader likely 'flipped and reversed' and played long in popped stops or breakout fashion, but that was made questionable by the new intraday high at 10:45 that formed on a blatantly obvious TICK and Momentum divergence, leaving you in a neutral position.

Price formed a bearish rising wedge and a three-push pattern, then broke under the trendlines, triggering an extremely high probability trade... that led to one of the best "Finger" trade examples I've ever seen.

3. THREE PUSH PATTERN, BEARISH RISING WEDGE, MASSIVE TICK DIVERGENCE

Keep in mind that we are likely to see more 'strange' things this week (we already have - think Monday's dual Wyckoff Signals that counteracted each other). It's common to see a three-push pattern with a triple-swing negative momentum (3/10) divergence, but I can't recall the last time we've seen this clear of a negative TICK divergence. I think the last example I saw was something I used as a slide in the Los Angeles Expo in June 2009... and that was on the 1-min frame.

Use this chart today as one of the best examples of a multi-swing negative TICK (and momentum) divergence on the 5-min chart, which signaled (forecast) the afternoon sell-off... but it wasn't that easy (it rarely is).

With a signal that powerful, odds are very strong for a full price/trend reversal, so it is safe to play a reversal trade (that triggers) with a larger position in a more aggressive style. Remember, PRESS YOUR EDGE when odds are strongly in favor of a successful trade.

The trade entry - dojis and a break of the trendline and then 20 EMA - was very clear, but what happened next was very frustrating, underscoring one of the advanced concepts traders have to deal with when something looks 'too good to be true.'

Price did fall initially, then swung viciously back up to make a new absolute high with a sudden spike (stopping out conservative traders who had their stop too tight) moments before a violent collapse that was expected and forecast by the massive non-confirmation (divergence) in price and internals.

Testing shows that the wider you keep your stop, the better you'll tend to do long-term, and this is a grand example of that. If you shorted at $117.40 near noon CST and kept a stop at least 10 cents above the intraday high of $117.51, you were perfectly fine if you had the conviction to hold short. If you had your stop a penny above the high, well, unfortunately you were likely stopped out at the exact high tick of the day.

On the efficiency grid, I actually show a scratch/stop-out for this trade, but realistically, an advanced/experienced trader would likely have held short unless price rose above $117.55 to play for a high probability short. The efficiency charts reflect performance for moderate aggressive traders.

This is a "FINGER" trade, and is one of the most frustrating developments a trader can face. It's when a blatantly obvious reversal is near, forecast with a multi-swing divergence, and then price triggers an entry short (breaks moving averages and trendlines) but then just before falling as expected, price rallies up to a new high in swift fashion, shaking out the weak hands and delivering them a stop-loss (often at the absolute high) and THEN price collapses harder than expected (or perhaps, exactly as expected... but with you not on board because you were stopped out).

If you're stopped out on a Finger trade, it pays to immediately get back into your position instead of sitting on the sideline, because the finger is often the absolute high (or low) before a reversal in trend. One of the best examples I remember on this on a daily frame recently is the Dollar Index reversal in December 2009.

After forming a new high on a 'finger,' price then fell slowly then absolutely collapsed, setting up the final trade if you weren't short already.

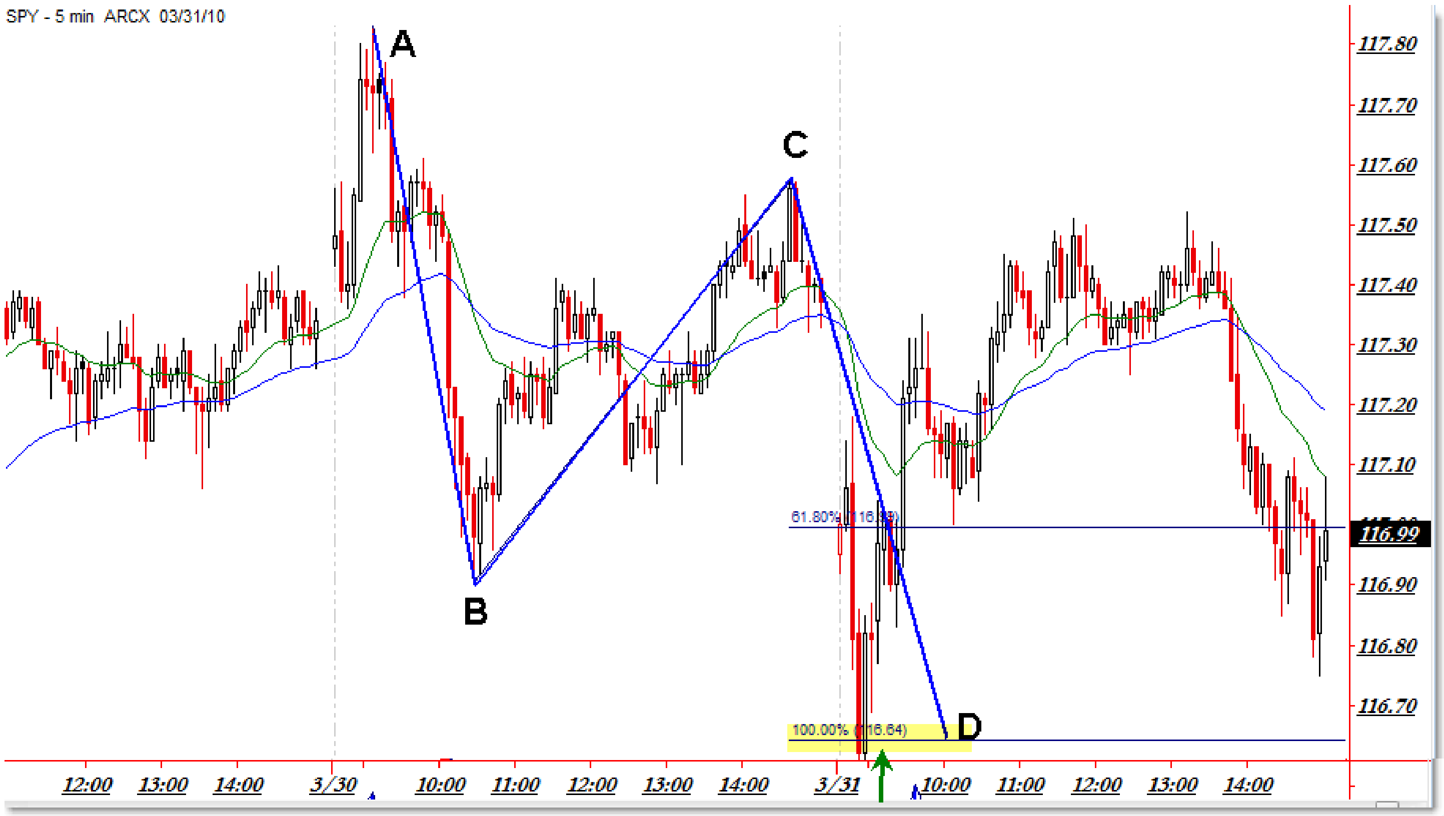
4. FINGER, EMA BREAKDOWN, ROUNDED REVERSAL FALL/MIRROR IMAGE

The moment price broke under the $117.25 level (EMAs, lower Bollinger, prior support), this was a breakout trade short (could also be called a Bollinger Squeeze) that allowed for a large target (counter-buy signal) with a stop above $117.50. This also confirmed the Rounded Reversal structure of the day and the 'mirror image' downside move.

The exit was likely as price rose back above $117.00 on a strong bullish engulfing candle... though even then, price fell to another low before rallying sharply into the close.

Counting trades 2 and 3 as scratches, roughly 65 cents was possible from the first and fourth trades as mentioned.

In the event that you held short with conviction through the 'finger' at 1:00 (not getting stopped out), then you could have had more profit, especially if you added an extra lot (or position) on the confirmed breakdown.



Measured Move Pattern targeted the (almost) exact low of today's downward action in the morning, giving you a chance to 'buy long' earlier than the doji candle.

AB=CD patterns are like flags, but are more 'symmetrical' in structure.

I mentioned the triangle formation in yesterday's report, and now the pattern is almost certainly the dominant price pattern as expected.

Don't try to get fancy or advanced with your analysis or trading - a consolidation pattern contracts to an apex and then the best trade comes from playing a breakout (with a tight stop in the event it is a trap) from the upper or lower trendline.

The prevailing wisdom seems to be that we will have a downside breakout (as price is forming divergences and a rounded reversal shape on higher frames) but you should treat consolidations as neutral patterns.

The 'rounded reversal' or 'arc' formation is evident on the 60-min frame, though the dominant short-term pattern is a consolidation triangle with trendline boundaries just under $117.00 and above $117.50.

Thursday could be another range or consolidation day, but remember that today (Wednesday) ended the First Quarter (for funds) so Thursday begins a new quarter and Friday gives us both a holiday (Good Friday) and the release of the "Jobs Report" which is odd given that markets will be closed.

The resolution to this triangle will depend on the market reaction to the Jobs Report, so use caution.

I drew a little arc pattern on the daily chart above (as well as highlighting the negative divergence).

Trade aggressively long if price rises above 1,180.

Otherwise, unless the Jobs report is a big bullish/positive surprise, the technical structure is hinting for a downside retracement/correction at least to the 1,150 level on a completion of the rounded arc.