AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY - 5 min ARCX 03/08/10 L=114.17 -0.08 -0.07% O=114.26 Hi=114.52 Lo=114.07 C=114.26
$TICK - 5 min NYSE 03/08/10 L=613.00 -249.00 -28.89% O=-4.00 Hi=950.00 Lo=-665.00 C=613.00
114.50
114.42
114.30
114.27
114.20
114.10
114.00
113.90
0.1000
-0.0073
-0.1000
1,200.00
800.00
613.00
400.00
91.06
-400.00
13:30
14:00
14:30
3/8
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's tight range day left much to be desired in terms of idealized trade set-ups and opportunities. The range today was 50 cents and the best strategies were fading reversal candles on divergences at the Bollinger Band Extremes.

While you certainly could have taken more trades than I labeled today, I am only highlighting two opportunities from an 'idealized' educational perspective. Remember that not all days offer fantastic opportunities, and you should not expect to make a lot of money on flat/range days when compared to the opportunities afforded on a trend day.

Due to the "Popped Stops" and range to upward bias, I would not have suggested trying to short the opening move, but to have bought any of the two pullbacks that slightly tipped under the 20 EMA, though I did not label either as ideal trades (price was in a trading range forming negative TICK and momentum divergences when compared to Friday's closing action).

As such, the first trade of the day should have been a short once the lower trendline and 20 EMA was broken on a breakdown from a symmetrical triangle.

1. SYMMETRICAL TRIANGLE BREAK, 20 EMA BRAEAK

This was one of the classic "Ideal Trades" set-ups I often discuss, which combined a symmetrical triangle consolidation price pattern (note the trendlines) with declining values (as expected) in the TICK and Momentum.

The entry was as soon as price broke under the lower trendline at the $114.30 level (or for aggressive traders... at the break under the doji at the upper trendline at the $114.40 level... but be aware that this triangle could have broken to the upside so entering at the upper line is riskier) which happened to correspond with the 20 EMA, which had slightly been providing support on the 5-min frame.

The target was for roughly a 30 cent move (height) subtracted from the breakout zone ($114.30) which corresponded with the "round number" price of $114.00. The stop would logically be placed above the upper trendline at the $114.40 area.

In this case, active trade management was key (meaning not all trades hit their intended target, and it's important to exit on any sign of a reversal signal). Price fell quickly towards its target, but ultimately formed a hammer candle at 10:30 followed by a break above this hammer at the $114.13 area at the lower Bollinger Band (5-min) and - if you looked closely - a completed 5-wave fractal into a positive dual TICK and momentum divergence on the 1-min chart (that ended about the $114.10 level). That was certainly enough to exit your short trade, particularly on the break above the hammer candle, and it was a potential "flip and reverse" signal for very aggressive traders. The buy trade would be good for a scalp only, because price formed new TICK, momentum, and price lows on the session, hinting that lower prices were yet to come.

However, as has been the case many days in the last couple of months, price has formed a similar pattern and then rallied back to the 20 EMA - an "impulse sell" or "bear flag" trade - and then 'busted' this pattern, so if you were waiting to get short, you needed to wait for confirmation in the form of a reversal candle at the 20 EMA followed by a clean break under that candle.

Though we had a doji at $114.20 at 11:15, price did not break the low of the doji, so no short-sale trade was triggered... and as has been the recent history, this potential trade set-up was invalidated (not triggered) but a quick price break back above the 20 EMA. There really wasn't a nice ideal trade set-up until the next opportunity at 1:15 CST.

2. FIVE WAVE FRACTAL, NEGATIVE DUAL DIVERGENCES, UPPER BOLLINGER, RANGE DAY, DOJIS

The price action formed a nice 5-wave fractal, complete with 'powerful' third wave that ended at noon with a new TICK high on the session (Wyckoff Sign of Strength). Price did not pull back far enough to warrant a nice long/buy entry except again for aggressive traders (buying the break of the triangle on the 1-min frame), but price did trigger an ideal trade once the 5th wave played out as expected into the upper Bollinger on a negative TICK and momentum divergence, that formed a trigger with a reversal candle/doji and a break under the candle low.

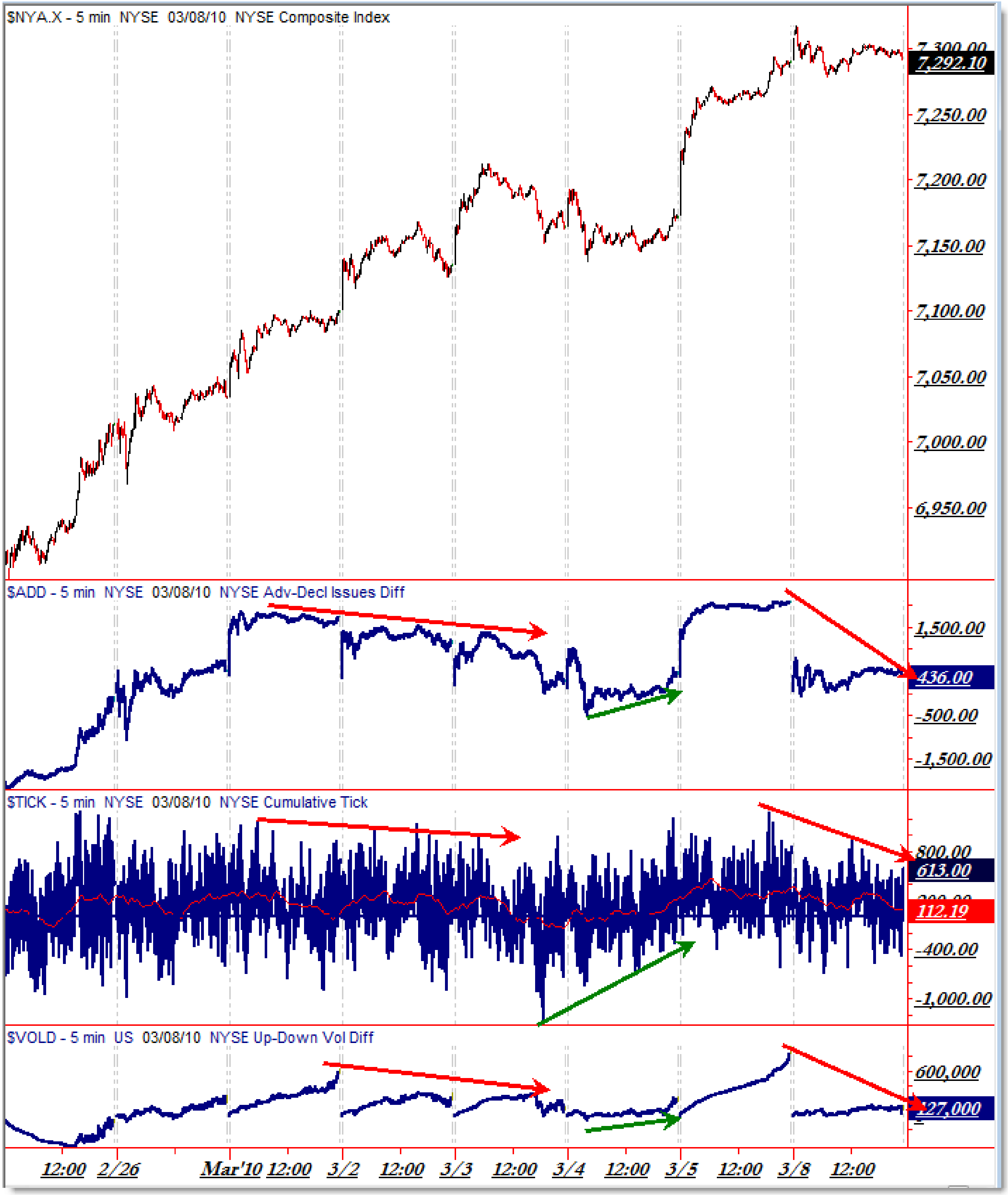
You could have triggered short with a break under the first doji at 12:30 CST at $114.40, or if you did not short there, wait for a trendline break and similar candle low break at 1:00 also at the $114.40 level. Your stop was to be placed above $114.50 to target - at a minimum - the 50 EMA and lower Bollinger (5-min) at $114.30 (one-to-one reward to risk... you also could have passed on that trade if that's not enough) or for a full reversal to target the intraday lows at $114.10 (not achieved before the close).

True to its range-day nature, price fell to the lower Bollinger Band, bounced, then formed a quick new low, triggering a small profitable exit after the sell-off and bounce off support.

There were no other 'ideal' entries into the close - such is the nature of Range Days - very few opportunities and it takes a lot of work and precision to turn a profit on these 'inefficient' days.

Ugh. Using a moderate aggression level, roughly 25 cents (2.5 @ES point) was possible today. Using aggressive methods, more profit was available at a higher risk (as in shorting the morning highs or buying after the Wyckoff Sign of Strength at noon... but even that would not have helped pushed potential profit more than around 50 cents for the day).

According to the Range Expansion/Contraction principle (alternation), this is the expected outcome after such a strong trend day as Friday. Tomorrow should give us more opportunities.



This is the NYSE Index (instead of the S&P 500) so as to compare NYSE market internals directly to price (although the picture is the same in the SP500). We're seeing another negative divergence with price and internals (a non-confirmation) though last time (March 3rd) failed to produce much of a down-move. It's worth noting though.

Price continued the "creeper trend" higher, though it did so as mentioned earlier on lower breadth, volume, and momentum from Friday's rally.

This would suggest that odds favor another corrective move to 'work off' this overbought condition, so shorting under $114.00 would be the likely play. However, notice the last time we were in a similar situation - early March - which failed to produce much of a down-move (and did not trigger an official short-sale with a break under $112.00).

We're in that same boat where we need that breakdown to trigger a short-sale bias, otherwise we can expect this creeper trend to continue, despite the probabilities to the downside.

Thus, trade long (scalps) above $114.50 for more popped stops, otherwise, look to short moves under $114.00.

The 60min chart is a continuation of the comments made on the 30-min chart, with the addition of the "Bull Flag" and potential "ABC" Elliott Wave notations (both of which would imply that a top/target of $114.50/$115.00 was achieved).

There's obviously nothing that says that price is required to fall, but it's riskier to be long/buyer here due to the lengthy negative volume divergence and the recent negative momentum (and breadth) divergence.

The 1,150 level is a logical upside resistance target, so we would be unsurprised if buyers rose price to that level to test it, and a break above 1,150 would be a strong buy signal, forcing out larger stop-losses from the bears in a potentially large (continuation) short-squeeze. Thus, it is obvious to all traders than 1,150 is a key line in the sand, so as an intraday trader, you can take advantage of a move up through this level, or - as seems to be the probability - at least a retracement swing back down to 1,100.

While we're under 1,150, the risk remains with the buyers, in that a sell-off could occur at any time, though if we're above 1,150, the risk will shift to the sellers, given that holding short above this level would be likely holding short through a powerful short-squeeze fueled rally ... so be on guard this week for either possibility.