AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 1 min ARCX 04/23/10
1
2
3
Popped Stops
Ascending Triangle
Descending Triangle
121.80
121.70
121.60
121.50
121.40
121.30
121.20
121.10
121.00
120.90
120.80
120.70
0.2000
0.1000
0.0352
0.0073
-0.1000
$TICK - 1 min NYSE 04/23/10
WYCKOFF
800
456
332
0
-400
4/23
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've ever played musical chairs as a child or have children who have played the game not long ago, then you'll related to this example.

You're walking around a circle of chairs and the music is playing, and when the music stops, you rush for a chair and sit down. The person still standing when the music stops loses the game. The market right now sure feels like we're all walking around a circle of chairs and we keep looking over to the guy controlling the music and he's been playing the music for an uncomfortably long amount of time and - not only are we getting tired of walking - but we're getting really anxious because we know the music could stop at any moment.

It's generally accepted that you should play the music for no more than a minute or two between rounds - else you start to have a socially awkward moment where people really don't know what to do. It's as if we're playing musical chairs when the music has been going for over 5 minutes now and it really, really should stop - it's feeling very awkward and we all keep looking at each other silently asking "when is he going to stop the music?" but what should we do and what should we NOT do?

We should not rush and jump in a seat while the music is still playing. That will disqualify you from the game as well. When the music is playing, you keep walking forward (or in a circle). That's how the game works. When the music stops, you rush for a seat. For now, the market music keeps playing, and those who have tried to rush for a seat have ... well it's not been pretty.

Keep this humorous, yet sadly realistic image in your mind as you trade each day. The music plays on.

1. POPPED STOPS

With a break to a new high over the last two days prices, the best thing to do was play "Popped Stops." I had a couple of questions from members - along with emails of thanks for stressing the Popped Stops play - asking when exactly to enter. That depends on your trading style, either as an aggressive or conservative trader as always. All trades are like that. If you're aggressive, then you'll walk up and go long the moment we're .25 or .50 points in the @ES futures above a new high, or a few pennies above a recent high in the SPY (or related ETF). It's more risky - as today's first trade was (it failed) - but you'll get in earlier with a tighter stop if you're aggressive.

If you're conservative, you want proof, so you're going to check market internals (TICK and Momentum made a divergence as we broke to new highs - see 1-min chart, so you might have decided NOT to enter this trade) and then want price to clear a certain threshold - say .75 to 1 @ES point or maybe 5 to 10 cents on the SPY - before you put on your trade. Generally, with breakout trades, the earlier the better in my opinion because you're playing for a firecracker moment - the "Tipping Point" (to quote Malcolm Gladwell) where bears throw in the towel, cursing and screaming and blow out of the market by buying to cover their short and new bulls - like yourself - rush in as price breaks to a new high. Price can break gently to a new high - as today showed - but the Tipping Point NOT occur, or buyers unable to overcome the new sellers at the resistance level (it actually WAS a resistance level from April 15 - see insert chart). In that case, you want to take a tight stop if price falls a few cents (or quarter points) BACK inside the breakout zone - exit quickly - and don't hold in that case - it could be a bull trap.

There's no magic to it - truly understand what's happening. It's a battle between supply and demand, and breakouts represent "checkmate" for one side and total domination by the other side... what results is an impulse move that you can trade for as long as the "Feedback Loop" lasts. The morning trade failed, the afternoon trade succeeded. The tipping point occurred in the afternoon, not in the morning.

2. DESCENDING TRIANGLE BREAK, 20 EMA BREAK

This was a similar situation, only not really "Popped Stops." It was a simple trendline break which happened to be a descending triangle (you should NOT automatically regard these as bearish patterns) and break above the 20 EMA - not much more to it.

Price also broke back above $121.00, so we had three levels of resistance that broke at 11:00 (so maybe it was Popped Stops after all). You were to enter as soon as you felt the odds favored a breakout, which would have been above $121.00 with a stop perhaps at $120.80 or $120.90 and target at least a retest of the high or confirmed sell signal.

While you could have held this trade long and perhaps should have, I labeled an exit at 12:15 at the divergence and reversal candles at the upper Bollinger and the following candle breaking these lows at the $121.30 level.

3. POPPED STOPS

There's really not much I can say that I haven't already said when it comes to Popped Stops.

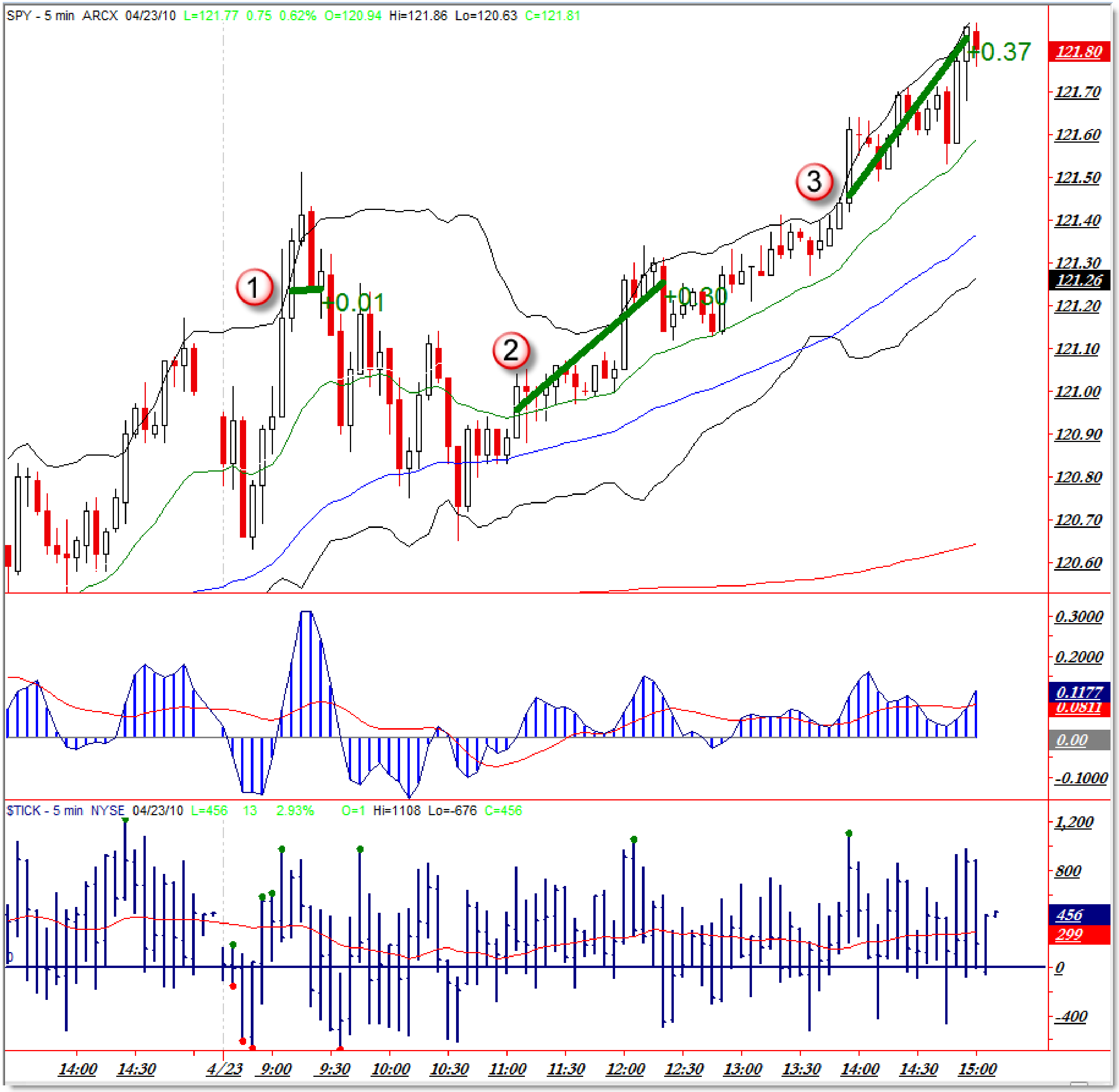
If you don't understand this concept, browse back through the archives and read all about it.

Go long when price breaks a key resistance level and enters the "Pocket" of stop-losses (and buy breakout orders) from the bears and - if bears cover, then it skyrockets the market higher.

I would suggest you take all potential Popped Stops plays because of the inherent edge in the pattern. The stop is very small if the 'tipping point' doesn't form (10 cents or .50 @ES points or perhaps larger) and the target is theoretically unlimited (actually, a valid counter-sell signal). If you're stopping out for .50 to 1 @ES point (5 to 10 SPY cents) and profiting 3 to 5 or more @ES points (30 to 50 SPY cents), then you have an inherent edge and should not complain when a trade fails.

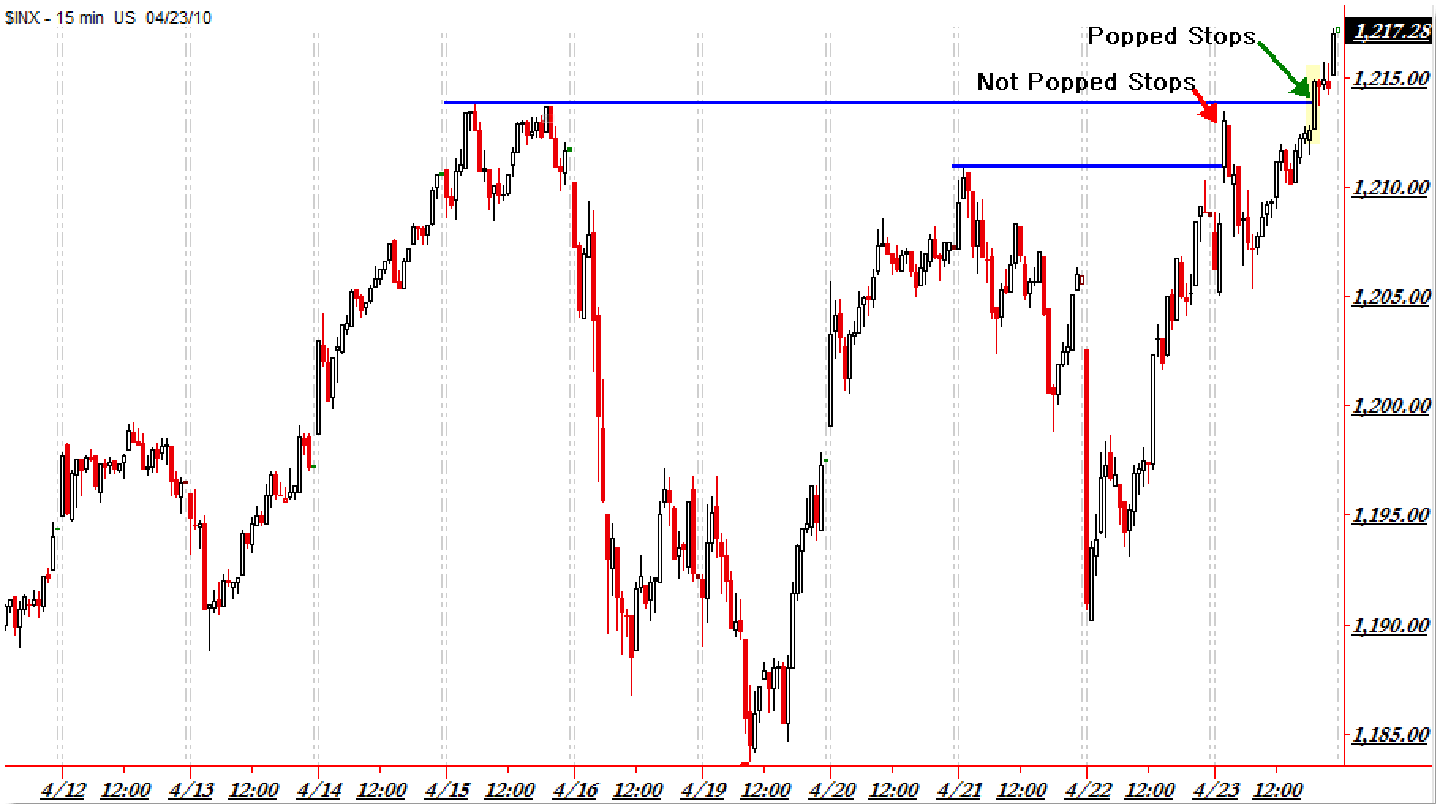
We trade EDGE not perfection. You also have to try to hold on as long as possible with a Popped Stops Positive Feedback Play else you won't capture the edge from the trade... as in if you're stopping out 1 @ES point and jumping out when you get 1 or 2 @ES points... when had you held, you would have profited 3, 5 or more @ES points.

These are unique trades that should be placed in their own category in your risk management plan.



Using the ideal grid, roughly 67 cents was possible, assuming that you took the first "Popped Stops" play that failed, then the morning and afternoon breakouts.

It was a relatively simple day and I hope you profited from it from how aggressively I've been describing the reality that we're in - that of a non-stop bullish rally with Popped Stops above almost every new high. Those who fight this will likely continue to lose money (but that doesn't mean you should rush out there and have your whole portfolio leveraged long - this is a very tricky market that is best traded intraday right now).



Why did the morning "Popped Stops" play fail (at least, not get a nice breakout) but the afternoon trade work?

That's because the market actually did not break to a new recovery high this morning, though it did break above the prior high of the last two trading sessions, triggering some popped stops, but also triggering in new short-sellers/bears who put on new positions (short) as price tested the 1,215 level, or the resistance from April 15th.

However, once price broke to new highs above 1,215, those same bears, and perhaps many more, were forced to cover, driving the market higher.

Popped Stops is not magic, but is based on supply and demand. It's logical to expect price to fall at a resistance level and thus short it and place a tight stop above resistance... at least that's a smart thing to do normally (it's been very unintelligent to do so recently). And when bulls/buyers drive price up and overcome the 'selling' (supply) from the bears and price enters the "pocket" or zone where bears have placed stops, then we have a sudden rush of buy orders that trigger - both from NEW BULLS who are buying breakouts (as I advise you strongly to do) and from OLD SELLERS who are buying to cover.

This whole phenomenon will stop when bears stop shorting and 'throw in the towel,' but evidently they have not gotten the message yet so their pain and mistakes (not seeing the bullish undercurrent that seems to have an unlimited source) is your gain as an intraday trader.

The 30min chart is showing a potential for a rising or ascending triangle to form, with price breaking out of the triangle into today's close. Keep a close watch on price and have a bullish bias above $121.50, but a neutral/guarded bias if we slip back inside the trading range/trend channel by going under $121.50 Monday.

If we slip back inside the trading range, expect a move back to $120.00. If not, expect a potential breakout surge early next week to rocket price to $122.50.

We’re at a very interesting inflection in the market.

On one hand, we have the impulse for “Popped Stops” to keep driving the market higher, so that would be the dominant expectation.

HOWEVER, we’re directly testing the rising trendline that has been all-important for the duration of this rally, meaning we would expect a downward move to form as a result of the test of the upper trendline... so we need to stick to our intraday charts and scalp the move that happens because the upper trendline conflicts with the ascending triangle (potential pattern) and “Popped Stops” breakout to new highs.

Early next week will be key.

Now that we've cleared to a new recovery high, the expectation is that we'll move up to the 1,225 level that I have been mentioning frequently in the reports. It's best to trade by "IF/THEN" assumptions and never by absolutes.

A lot of this move - at least recently - has been driven by short-sellers covering and being utterly puzzled by the higher prices. We remain in a Positive Feedback Loop until proven otherwise, and the break to new highs could trigger higher prices to test 1,225 if bears are covering at these levels.

Stick to your intraday charts - it's probably not worth remaining long as a swing-trader to try to squeeze out the last 10 points of profit from a risk/reward standpoint, but do as you feel best.

If the market's going to find a top, chart-wise, it's going to do so here at the 1,225 level (10 points above).

The 61.8% Fibonacci Retracement intersects the 200 SMA at the 1,225 level, which has long-since been our target I've been discussing since we broke above 1,150. The play was "IF above 1,150, THEN target 1,225" and we're now at that level.

Now the play is to wait patiently here to see if buyers can break above this resistance... and if so then there's really nothing left chart-wise above 1,225. No more Fibonacci, no more Moving Averages - it's open air and that would potentially be a major game-changer, so watch what happens in the next week as we test the 1,225 level. It's logical to expect some sort of downside action to form here at the 1,225 level so be on guard and ready to trade that... but if we don't, then trade the breakout which will - you guessed it - trigger out more bears and drive the market higher in even more positive feedback loops.