AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 1 min ARCX 04/26/10 L=121.35 -0.46 -0.38% O=121.85 Hi=122.12 Lo=121.23 C=121.35
1
2
3
$TICK - 1 min NYSE 04/26/10 L=272 -184 -40.35% O=27 Hi=866 Lo=-1037 C=272
4/26
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 was basically a wash, with the market tricking traders on both sides of the market in a not-so-fun day of range consolidation and negative divergences at the highs. This day would have been made easier by focusing on the higher timeframes, particularly the rush to the upper trendline and negative internals divergence that took place early this morning which would have cast a very bearish shadow over today's trading, and we did see the sell-off into the close that was forecast by these two signals... but not before being head-faked by the market on a false breakout and failed Wyckoff Sign of Strength at 1:30. With that in mind, let's study the trades of the day.

1. TRENDLINE BREAK/TRIANGLE

The first trade as labeled really was nothing more than a retracement trade in an established uptrend that has long since been confirmed, and price pulled back to the moving averages and formed a descending triangle trendline... which you could even describe as a flag trendline.

If you didn't buy on the pullback to the 20 EMA (which took a stop under the 50 EMA as price found support halfway between these averages), then your best trade was to buy back into the prevailing uptrend - hoping to capture more "Popped Stops" which have been working quite well - on a break of the established trendline as drawn, triggering entry at the $121.85 level at 10:00am.

Price rallied higher to test the intraday high, made a slight new high and left you wondering whether to hold on to the trade for a potential Positive Feedback Loop of Popped Stops, or to tighten up your stop in the event the negative TICK and Momentum divergences at the highs took over and sent prices lower. As it was, the positive feedback loop did NOT develop so you should have taken profits quickly as price began to take out the low of the prior doji candle at the $121.95 level. Buyers were unable to sustain a breakout above $122.00, leaving an official "Bull Trap" on the chart (and a smaller than expected or desired profit for Trade #1).

It would not necessarily been a great idea to short here, given that we could have experienced a popped stops surge - taking you with it (stop-loss), but for aggressive traders watching the higher timeframes (see later charts), we were at the upper dominant trendline with negative market internal divergences developing:

http://blog.afraidtotrade.com/negative-market-internals-divergence-undercut-highs-for-april-26/

Price consolidated for the rest of the session and found support multiple times at the $121.60 level. A descending triangle trendline formed, and then price officially broke above this trendline at 1:00, triggering our second official trade.

2. DESCENDING TRIANGLE TRENDLINE BREAK, WYCKOFF SIGN OF STRENGTH, BOUNCE OFF SUPPORT

There was a lot going for this trade, at least in terms of the 'character' of the market. I've highlighted many times where the market set-up a bearish or short-sell trade, triggered entry, and then exploded to the UPSIDE, creating a positive feedback loop ("Popped Stops") as the new bears were forced to cover immediately on a break above resistance. It looked like that was the dominant play here with a full-day descending triangle pattern forming and an upside break with new intraday TICK High (Wyckoff) at 1:00. That triggered a buy at $121.70 with a stop-loss under $121.60.

However, this time the trick was on the buyers, as price hit resistance with a clear doji candle at the upper Bollinger at $121.90 and a negative dual divergence (see 1-min). This likely called for you to drag your stop-loss higher, which was triggered as price broke under the 20 and 50 EMA at the $121.70 level, leading most likely to a losing trade. That's ok - how many times have the bulls been thrown under the bus by the market? It was a better play probabilistically to take the long trade and risk a stop - which happened - than to bet against the bulls (short the breakout) and risk a higher chance of a stop. As such, remember my favorite phrase for you:

"If something SHOULD happen but does not, then it often leads to a larger than expected move in the OPPOSITE direction."

And that's exactly what happened with a break under $121.60.

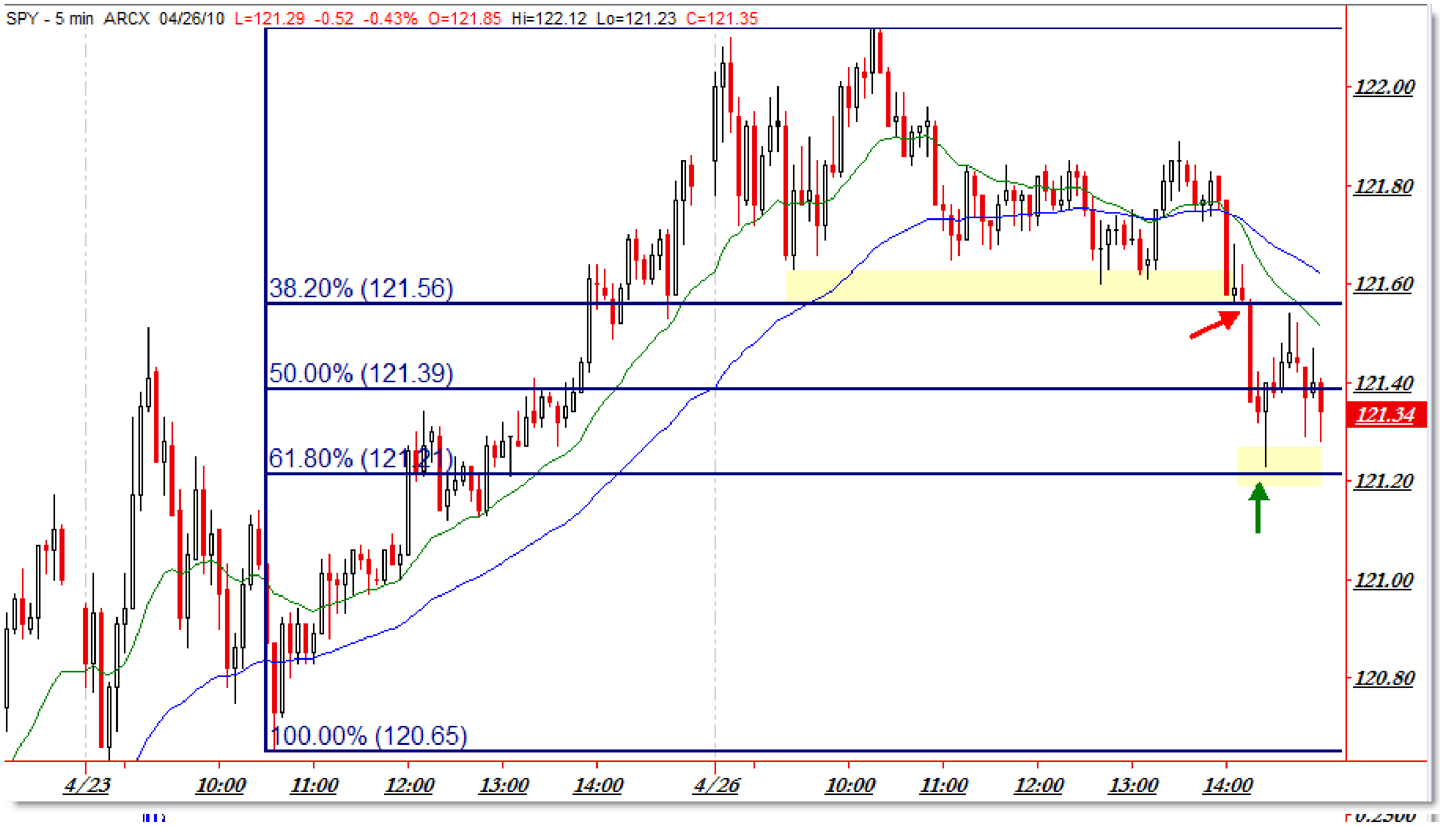
3. DESCENGING TRIANGLE BREAKDOWN (official), SUPPORT BREAK, BULL TRAP TRIGGERED

In addition to being a descending triangle (that lasted all day) trade, it was a "finger" in the eye of the bulls (which you may have been one) and a "Popped Stops" play for the bulls who just got long and decided to hold long instead of stopping out when price officially broke under $121.60.

True to the bullish nature of price, this trade didn't last very long, as a long-legged shadow candle bounced firmly off the 61.8% Fibonacci Retracement (see chart) at $121.20 on a very small positive TICK divergence (see 1-min).

The exit was when price broke the high of this candle at the $121.40 level if you did not take your exit at the 61.8% retracement as drawn.

Using the ideal grid trades as described above, you could have profited roughly 30 cents - a very low number but not all days are perfect. Trade #2 most likely ended up in a loss no matter how you played it.



From the April 23 low, we see that price supported for most of the session just above the 38.2% retracement at $121.56. However, upon the break of this level, price fell to test the 61.8% level, found a bottom, and bounced higher into the close.

Fibonacci grids - drawn as soon as you perceive we have put in a swing high for the day - can be very helpful in guiding your decisions and levels to watch into the future.

SO FAR TODAY			25 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
(75,871)	10,067,277	9:45	10,143,148	$ 0.29
2,286,144	10,145,672	10:00	7,859,528	$ 0.29
(820,256)	6,584,190	10:15	7,404,446	$ 0.29
1,928,946	8,088,957	10:30	6,160,011	$ 0.26
85,092	7,136,224	10:45	7,051,132	$ 0.22
42,818	5,277,394	11:00	5,234,576	$ 0.23
(1,547,707)	3,492,010	11:15	5,039,717	$ 0.22
(2,090,990)	3,065,180	11:30	5,156,170	$ 0.18
(1,401,662)	2,862,797	11:45	4,264,459	$ 0.17
376,959	4,041,197	12:00	3,664,238	$ 0.17
30,148	3,623,284	12:15	3,593,136	$ 0.19
144,175	3,433,001	12:30	3,288,826	$ 0.16
(659,052)	2,515,701	12:45	3,174,753	$ 0.15
(205,338)	2,672,736	1:00	2,878,074	$ 0.19
(1,064,812)	2,593,200	1:15	3,658,012	$ 0.26
(1,397,849)	1,581,274	1:30	2,979,123	$ 0.16
2,212,761	5,017,469	1:45	2,804,708	$ 0.21
(899,213)	2,475,595	2:00	3,374,808	$ 0.22
(419,046)	3,267,724	2:15	3,686,770	$ 0.20
811,279	4,514,794	2:30	3,703,515	$ 0.21
(2,044,966)	1,809,941	2:45	3,854,907	$ 0.21
(465,051)	3,540,061	3:00	4,005,112	$ 0.20
1,914,576	6,456,043	3:15	4,541,467	$ 0.22
3,057,871	7,443,719	3:00	4,385,848	$ 0.22
(637,582)	4,929,936	3:45	5,567,518	$ 0.23
1,293,586	11,727,802	4:00	10,434,216	$ 0.30

Volume in the SPY as a whole (15-min bars) was 18,000 shares higher than average today, despite most of the 15-min time periods being less than the average for the last 25 trading days. That means today was nothing special in terms of comparative volume, which underscores the obvious - today was a range day.

We've actually been 'trapped' in a rising parallel trend channel (see 60min chart) and we touched the upper level of the channel today and began heading lower.

For tomorrow, odds seem to favor a continuation of the sell-off we saw begin today, locking the $122.00 high in place for the time being and expecting a test of the lower rising trendline at the $120.00 level over the next few trading sessions. The negative volume and momentum divergence support this view - odds strongly favor downside retracement action in the next one or two trading sessions - but it's not an all-out short-sale swing trade yet.

Remember that Wednesday is a Fed Day so we're likely to see further consolidation/contraction going into tomorrow.

As you can see by the prior red-arrows and short-term sell-offs (just called 'retracements') that formed, we're now expecting to do an additional retracement perhaps back down to $120.50 or even $120.00. Keep in mind that the lower trendline rises each day, so the support line will be higher into the future.

If we see price under the 20 EMA at $121.26, expect a move back to the $120.50 area.

It would be remarkable if this was all the selling we saw and price bounced off the 20 EMA on the 60min chart.

Either way you describe the chart or define little waves (or is it all one single wave?!), we're quite long in the current swing rally and have locked in a persistent negative momentum divergence since early March and a recent volume divergence.

Still, there's significant resistance at the 1,225/1,228 area (61.8% Fibonacci) and that's long been the target I've been saying we're likely to hit if we were above 1,150 and it looks like that's exactly what's happening. This is no time to be long to play for the remaining 5 to 10 points to test this level officially.

Even still, if we're above 1,230, then we play "Popped Stops" again to 1,250 or beyond as bears across the board will be forced to throw in the towel officially if we break and sustain above 1,230 and then 1,250.

Until then, stick to your intraday charts and play the swings and opportunities that form.

We are expected to consolidate/pause until Wednesday's Fed Meeting Announcement.