AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 1 min ARCX 04/13/10 L=120.12 0.38 0.32% O=119.62 Hi=120.04 Lo=119.00 C=119.83
1
2
3
4
1
2
3
120.00
119.87
119.80
119.60
119.40
119.20
0.1000
0.0500
-0.0207
-0.0500
-0.1000
$TICK - 1 min NYSE 04/13/10 L=364 134 58.26% O=-120 Hi=1008 Lo=-930 C=364
1,000
600
364
200
66
-200
-600
4/13
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

In another 'failure to decline' day... or successful in rallying (depending on your perspective), the market yet again busted through a sell signal, declining as expected and as I highlighted was very likely in last night's report, but price found support and broke subsequent sell signals and divergence to chug steadily higher in pure "Popped Stops" fashion. It comically reminds me of the old (modified) statement, "Fool me once, shame on you. Fool me a dozen times, Mr. Market... shame on me."

I cannot recall how many times I've warned that this rally was likely to continue despite the divergences and non-confirmations and overbought condition - I've mentioned the only plays are "Long/Buy" or "Out/Neutral." I've also carefully highlighted each and every failed sell signal in every report - they all serve as educational references on how to learn or assess the market's "Character" or behavior (which is more important than any indicator you can use). If the market is going up and continues to bust sell signals and divergences, then one of two things happen:

If you keep relying on your indicators (no matter how reliable they have been in the past) and fight the market character by trying to trade short against the market and trying to call a top, you won't change the market. You'll only lose money.

If you realize the character and realize that the market is mocking sell signals, then you either turn them off, ignore them, or do whatever you can to trade with a buy bias as long as the market continues its rally, continues to pop stops, and continues to bounce off moving averages and trendlines - no matter how overbought the market is and how much you feel a pullback is imminent. Doing so will make you money - until the character changes the other way (and we return back to a state of normalcy).

1. (POST) CRADLE TRADE, SPINNING TOP, 20/50 EMA

The market gapped down and then suddenly filled the gap this morning, rallying up into a spinning top at 9:00am which formed into the 20 and 50 EMA at the $119.70. That was your aggressive sell (with a stop above $119.80) but the better sell - given that the market could have busted right on through the EMA resistance - was a break under the spinning top low at the $119.60 level to play for a lower low yet to come. Price fell sharply (you should hold as long as possible) until forming a doji at 9:30am and then a long lower shadow at $119.00. You should have exited your trade as price began its rally off the 'round number' support at $119.00 for maximum profit, but you should also have seen the higher timeframe moving average support and 38.2% Fibonacci Level there (see later chart). With all that support (and positive divergence), you probably should have put on a buy trade at that point to see if the market could retrace to the 20 EMA.

2. 38.2% FIBONACCI SUPPORT, LOWER SHADOW, DOJI, POSITIVE DUAL DIVERGENCE, BULLISH ENGULFING

Look at the 30-min chart to see that price bounced off the lower Bollinger and 50 EMA (as well as the mid-point of the trendline) at the $119.00 level (also 'round number' support). Price then formed a bullish engulfing candle at 9:45 triggering an official entry (if you weren't playing aggressively with a quicker entry as close to $119.00 as possible - the official entry came at $119.20). The target was a retracement to the 20 EMA at the $119.40 level, with a stop under $119.00. While the rally to EMA resistance produced an exit signal, you should have been very, very skeptical about trying to short-sell the rally into resistance.

I know at least 10 times and probably up to 15, I've shown recent days where this exact pattern failed miserably, and today was no exception. For whatever reason, this "Bear Flag" and "Impulse Sell" have been 'mocked' by the market (triggered and then busted with a stop-loss) repeatedly. I have an aggressive entry (long) when price busted this pattern on the 1-min chart (which was also a triangle - trade 3) but you could have also put on trade #3 where it's labeled in the 5-min chart - at the initial pullback. Either way, it was a trade.

3. TRIANGLE (1-MIN), POPPED STOPS, EMA CONFLUENCE, TRENDLINE/FLAG BREAK

Trade 3 actually has two possible entries depending on your confidence and aggressive level. The first was the moment price broke back above the 20 EMA at 11:30, busting the "Bear Flag" and "Impulse Sell" (for the 15th time!) which also corresponded with a triangle break (1-min).

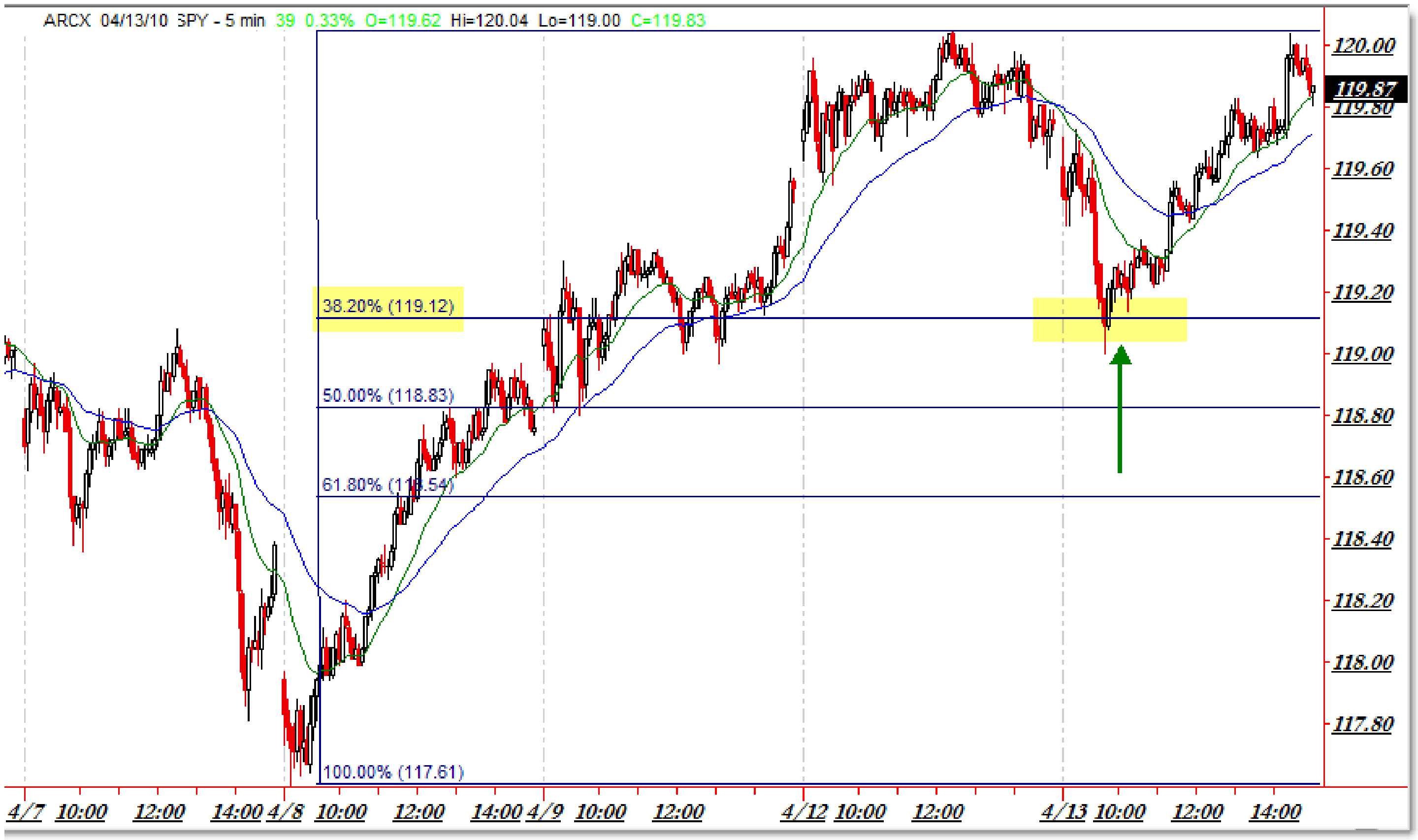
The second, safer entry was as price retraced after the breakout (and new TICK highs... notice that price formed new intraday TICK highs at 10:15am prior to the 'failed' Flag - pay attention to these because it should have prevented you from getting short). Price broke a trendline and mini-flag (1-min) which also found support from the 200 SMA and 50 EMA at $119.50. This trade was akin to a 'Popped Stops' play where the target was to hold as long as possible until a sell signal formed. The best exit was at 1:00pm CST when price formed two doji candles at the $119.90 level at the upper Bollinger. If you were an aggressive trader, you might have considered shorting here to scalp a move back to the 20 EMA (it worked) but not to continue holding short unless the morning trendline (and 50 EMA) was broken. It wasn't.

4. POPPED STOPS

Price consolidated for the rest of the afternoon, but the final opportunity came just before the close when price broke a key intraday resistance level at the $119.85 level to allow for a scalp to target $120.00.. which happened very quickly.

I did want to label it as an idealized trade, but it was an aggressive tactic to play for such a small target into the close.

If you didn't get tricked into shorting the (would be) failed Bear Flag at 10:45am, then you could have profited around 90 cents in four successful trades (more if you are an aggressive trader who enters AT support or resistance levels instead of waiting for official entry signals via breaks of candle highs/lows).



This was a powerful signal if you saw it - that is, if you use short-term Fibonacci Retracements on your charts.

Starting with the April 8th low and drawing to yesterday's high of $120.00, we see the 38.2% Retracement came at the $119.12 level, just above where price found ultimate support off $119.00 (round number).

It also officially completed a "Saucer" or "Rounded Reversal" or Mirror Image Pattern into prior price support.

Under the saying, "The Market Continues to RALLY AT ANY COST," the market did just that - defying negative volume, momentum, and breadth divergences to burst off support (seen above) at $119.00 to test the new recovery highs at $120.00.

Instead of complicating the analysis, you can simplify it as:

"You're LONG for popped stops above $120.00 (up to $122.50 eventually) or you're flat/neutral if you can't bring yourself to buy at these prices. For whatever reason, the market is mocking short-sellers and repeatedly dashing their accounts."

Remember that Friday is Options Expiration, so we could see some strange moves and higher volume as a result.

It might be beneficial to take everything off the chart and just look at the two dominant rising trendlines as drawn above and play bounces long and short from it.

Price currently is at the upper level of the trendline, so we would expect to see a retracement back to the lower trendline at the $118.50 level, but perhaps all we'll see is a move back to $119.00. Who or whatever is holding this market up just refuses to let it go down, and the neat adherence to the trendline shows that there is at least some control and order to the recent rally.

Fighting it is and has been a losing endeavor. I'll say it again: "Long or Out. No Shorts for anything other than an intraday scalp" unless we're under $117.50.

At the risk of being extremely repetitive, nothing else matters but the non-stop rally. Well, except rising trendlines and moving averages.

1,200 is a key resistance level that everyone is watching, so be prepared for the market to trade sideways at least if it can't break above it... or to trade "Popped Stops" long if it breaks above it. The next confluence resistance level remains at 1,225 so look for the market to shoot to that level if above 1,200.

Being options expiration, we could see intraday 'randomness' and higher volume on the next three days.

BONUS CHART:

Today was very similar to the many days in the past which started out with a downside gap or downside move first thing and then - surprisingly - (though it's not surprising anymore) rallied into the close, busting a morning Bear Flag. This is probably the 15th time this has happened in the last few months. This is April 8, 2010.