AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 04/06/10 L=119.03 0.27 0.23% O=118.42 Hi=119.25 Lo=118.29 C=119.01
1
2
3
4
5
119.20
119.10
119.01
118.90
118.80
118.70
118.60
118.50
118.40
0.1000
-0.0133
-0.1000
$TICK - 5 min NYSE 04/06/10 L=401 -544 -57.57% O=-72 Hi=983 Lo=-720 C=401
800
401
37
-400
4/6
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

It was another one of those "The market is going to continue rallying no matter what" days, and you should be in tune with that notion now. Statistically, you're better off betting with a trend or a dominant move than against it, as the last few weeks continue to prove. Though any day may be the top, it hasn't happened yet and might not happen for the next few days (or weeks) so you're still better off with a bullish bias UNTIL proven otherwise.

1. GAP FADE

This was a standard/classic gap fade with nothing magical about it. Price gapped down roughly 40 cents, with the second candle taking out the gap high and the fourth candle taking out that high. It's best to wait at least 15 minutes to see how the market is 'shaking out,' placing your entry perhaps as soon as price took out the long-legged doji from the third candle at the $118.50 area to play for a fill back to $118.80 with a stop under the $118.30 low in a decent risk to reward.

The first few bars of the trade were the 'make or break,' in that price potentially could have found resistance at the 20 and 50 EMAs at the $118.60 level (cradle crossover), but traders with the bullish confidence to hold long got the full target back to the $118.75/80 level, though it was probably best to exit in the consolidation of 10:00am rather than continuing to hold for a full target (which was met at 11:00am).

2. EMA BOUNCE, DOJI, SPINNING TOPS

There really wasn't a nice name for this trade, which took advantage of the (seemingly impossible) bullish uptrend continuation and 'popped stops' with two entries.

First, for aggressive traders, you would have entered long after the doji high at the $118.75 level (10:00am) or the two spinning top candles shortly after were taken out, or as close as possible to the 20/50 EMA confluence at $118.60.

For conservative traders, you would have (and should have) treated this opportunity as a "Popped Stops" play and entered long ONLY on a breakout to new highs beyond $118.80 which happened at 10:30.

This trade really didn't 'take off' as expected, leaving you to scratch out with a small profit as price tested and failed to exceed the upper Bollinger at the $118.90 level - the red candle at 10:45 was a good spot to exit, if not the break of the doji candle at 11:00am. Notice the New TICK High that took place, which should have absolutely prevented you from trying to short-sell these doji candles at the upper Bollinger.

3. SUPPORT BUY

We were followed quickly by a Wyckoff Sign of Weakness (new TICK low) at 11:30am, which should have led you to think bearishly if price broke under the 50 EMA at the $118.70 level. However, it did not do so, instead forming three tight range spinning top/doji style candles on the confluence support at $118.70 and then breaking back above the 20 EMA and above these candle highs at $118.75, triggering your next entry (if your strategy calls for trading during the lunch period - most traders don't).

Like Trade #2, this set-up did not lead to a grand target or a breakout, so it was best to exit it on the reversal candles at the upper Bollinger at the $118.90 level. Notice the new TICK high on the day at 12:05 which - again - should have kept you bullish as it negated the prior Wyckoff Sign of Weakness (I get that question a lot) that just formed, flipping your bias back to the bullish side and trying to play pullbacks or breakouts... and NOT shorting while price is above the 50 EMA.

4. POPPED STOPS, BREAKOUT

Finally, we got the rally we were expecting!

At 1:00pm, price formed a strong engulfing candle, breaking both above $118.90 then $119.00, triggering a buy around the $118.95 area to play simply for "popped stops" and a horizontal resistance line breakout. This actually was a great "Popped Stops" example (enter as close as possible to the breakout to play off the agony and 'short squeeze' that bears - who are forced to cover - initiate).

You should hold these trades as long as possible (again, a single doji does NOT count as a sell signal), with the logical exit being the 1:45pm break and sell-bar after a lengthy TICK (and momentum) divergence... allowing very aggressive traders a short-sale entry.

5. DUAL DIVERGENCE, BEARISH CANDLES, TRENDLINE BREAK, 5-WAVE FRACTAL

I think you can see this set-up best on the 1-min chart, including the dual divergences and the mini five-wave fractal that resulted in a trendline break at the $119.20 level and bearish engulfing(ish) candle at 1:50, taking out the two spinning tops on the 5-min chart.

If you chose not to get short here, then this was at least your exit (see how it takes more than a single doji to get a 'take profits' signal from popped stops?).

You were to hold this trade short at least to the rising 20 EMA (scalp pullback) at $119.05, though aggressive traders may have chosen to hold to try for a retest of the 50 EMA at $119.95, which was an excellent exit as a bullish engulfing(ish) candle formed as price rallied into the close.

Notice that all the trades - with the exception of the aggressive afternoon 'fade' short, were long/buy trades. Those trying to call tops - and putting on short-sale positions - continue to drive the market higher when they stop-out (buy to cover). Keep that in mind.

Using the trades listed, roughly 85 cents was possible today in yet another low-range contraction day.

For reference, the 14-day (average) ATR value for the SPY is $1.19 while the ATR for the S&P 500 (daily) is 11 points.

The 5-min current ATR ranges between 10 and 15 cents over the last few days.

I've re-drawn the recent triangle breakout (which achieved its target of $119.00 today as I wrote in last night's report) to declare a support zone at the $118.00 level (and widening of the triangle into an ascending triangle instead of a symmetrical triangle).

What's worrisome... and has been the case the whole way up... is the negative volume and momentum divergences that the market seems to be ignoring with abandon.

Still, the bias remains "Long above $119.00 for popped stops and breakout continuation," neutral under $118.70 (for pullback) and short ONLY under $117 or preferably $116.00.

Price is at the top of a short-term rising rectangle pattern, suggesting that we could see a pullback over the next few days, but if history is any guide, the pullback will be shallow and yet another buying opportunity as price (potentially) declines to the $118.00 or $117.50 support area.

You'd need to be an intraday buyer still on any sustained rally to new highs, which will continue to "Pop Stops" and give you some 'easy money' trading long intraday. The next logical upper target is $120.00.

Note the negative volume and momentum divergences which hint that odds favor at least a short-term pullback (which would be negated with a solid move above $119.00).

Keep in mind that 'odds favor' mean that odds are greater than 50% that a pullback is suspected using data from the chart, but even events with a 5% chance of happening can and do still happen.

"Remember the last time the market went down? No? Neither do I." Sorry - bad joke, but it's partly true!

Today's SPY volume was 60 million shares under the 20 day moving average, as was the case yesterday.

While price continues to make new highs, volume, breadth, momentum, and the McClellan Oscillator (moving average of breadth) fail to make new highs... and in fact are showing gross divergences. Yet price still rallies. The last time we had volume this low was over the Christmas holiday... a few weeks prior to a massive decline.

Price remains within the boundaries of a dominant rising trendline since the February lows, which honestly is all that matters chart-wise. Though we see volume and momentum divergences - and mark my words they WILL catch up with price eventually - it's still not a good idea to be the 'brave bear' that calls the top while price is showing such strength.

Though it's repetitious I know, you need to understand (if you don't already) that your only options (for anything other than day trades) are long/bullish or out/neutral. That remains the case.

Remember that 1,200 is a logical 'round number' resistance target that may be acting like a magnet (price already achieved the 1,090 triangle target I mentioned yesterday). If we're above 1,200, then it's on to 1,225.