AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 1 min ARCX 04/19/10 L=119.84 0.48 0.40% O=119.01 Hi=119.93 Lo=118.47 C=119.81
1
2
3
4
119.85
119.80
119.60
119.40
119.20
119.00
118.80
118.60
0.1000
0.0640
0.0000
-0.1000
-0.2000
$TICK - 1 min NYSE 04/19/10 L=254 651 -163.98% O=-1 Hi=1158 Lo=-1396 C=254
800
400
254
0
-400
-800
-1,200
4/19
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30

Today had both bullish and bearish outcomes! It was officially a rounded reversal (or possibly a "V-Spike," depending on your definition of both) structure day. The main thing to learn from today's action was that price bounced squarely off the rising 20 day EMA as a positive Momentum and Internals divergence formed at the low - it shows you how to incorporate levels on a higher timeframe and structure on a lower frame (for confirmation and entries).

1. GAP FADE, DOJI/HAMMER, LOWER BOLLINGER

While technically not a classic gap fade (the gap was too small), the first trade was a bounce off support and two reversal candles at the lower Bollinger Band which then broke the trendline and EMAs on the 1-min chart (triggering entry at the $119.20 area, which broke the trendline and the high of the reversal candles). The stop was under the low of the session at $119.00 (also 'round number' support) and the target was a play back to the moving averages at the $119.50 level, or for aggressive traders, a move back to the upper Bollinger at $119.70. Remember, there are conservative (late) and aggressive (early) entries AND exits, so that's why I often don't label specifics on the chart for each trade - you should read and study these reports according to the type of trader you are and not try to flip between conservative (risk-averse) and aggressive (risk-seeking) strategies.

This trade hit all targets, giving you exits along the way, though the structure at the highs called for a reversal or sell-short trade.

2. GRAVESTONE DOJI/SHOOTING STAR, EMA BREAK, 5-WAVE FRACTAL, M.DIV (1-min)

There were actually a lot of confluences that built this trade set-up, so I'll list them instead of describing them:

Shooting Star candle peaking beyond $119.80 at the upper Bollinger Band
A break under this shooting star (triggered entry) at $119.65
A 5-wave "Elliott Fractal" on the 1-min chart combined with a negative momentum divergence on 1-min
Prior price high (into Friday's close) at $119.80

The aggressive entry was at $119.60, though it may have been better - to be safe - to wait for a break under the 20 EMA at the $119.45 level. This trade targeted the most recent swing low and the support zone at $119.00 which also happened to be the lower Bollinger Band. If you didn't exit at $119.00, then the logical exit was as price bounced higher to $119.20. The next trade was a quick 'turn-around' short as support broke suddenly.

3. SUPPORT BREAK, DOWNTREND

This was a simple 'support break' that occurred in the context of a downtrend (lower price lows & highs when combined with a downward sloping EMA structure on 5-min chart). There was no magic to this trade - just short a break under $119.00 to play a breakout move and hold it as long as possible (breakout fashion) ... this time playing "Popped Stops" in a sense to the downside (bulls were stopping out). The best exit was as price formed a hammer at the $118.60 level at 11:00am then broke above the hammer... but also as price bounced off the major target of the 20 day EMA (see additional charts). This was indeed a 'take profits' support zone, and was an aggressive "get long" trade for those who are comfortable trying to buy a bottom in a downtrend. The buy trade targeted the 20 EMA at the $118.90 area and was successful, but the final trade came on a confirmed break and shift in trend structure.

4. WYCKOFF SIGN OF STRENGTH, EMA BREAK, TREND REVERSAL

Speaking of trends, price formed a higher high, higher low, then took it out (the "Sweet Spot) as price broke above the 50 EMA at $119.00 (also round number support). This caused a "Popped Stops" (this time of the bears) rally which was really a short-squeeze. Look closely to see the clear Wyckoff Sign of Strength - one of the best recent examples - one that was signaled WELL in advance of a positive trend reversal. In general, you want to hold these trades as long as possible (meaning NOT exiting on a single candle signal) - exiting when you see divergences or some confluence sell-signal. This occurred at the 2:15 time (labeled below) as reversal candles formed on a negative momentum AND TICK divergence at the upper Bollinger, and price took out the low of the candles ... though we did get a rally to new highs.

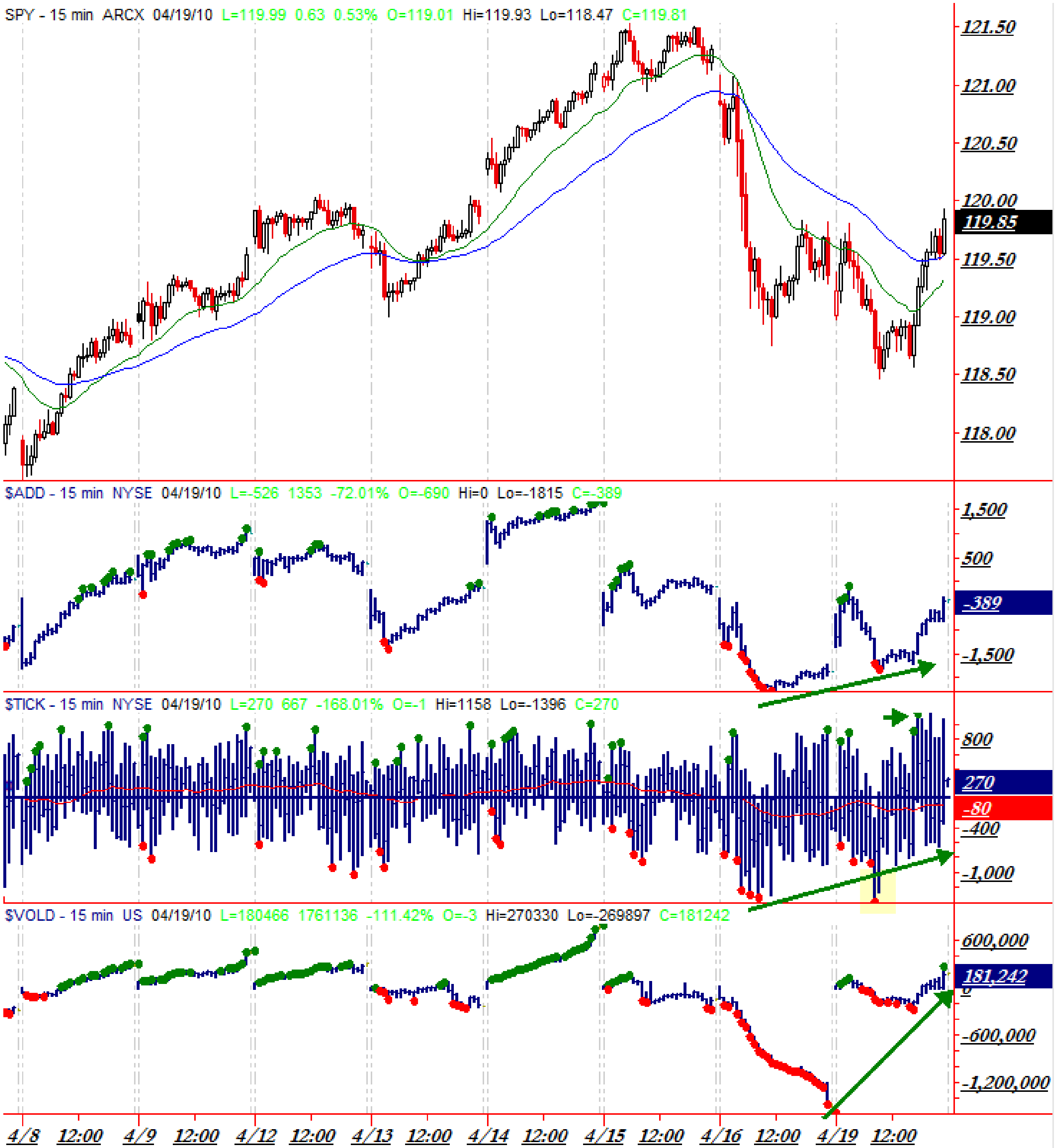
Using the 'ideal grid' and a moderate aggressive level (not trying to call tops or bottoms, but waiting for price to break above or below a reversal candle before entering), then roughly $1.50 (15 @ES points) was possible today.

Notice the exit on the 4th trade took place at a low point, but you could have held on aggressively to try to play for a larger move up in 'popped stops' mode. I chose this as an exit due to the negative momentum and TICK divergence in confluence with reversal candles (notice the upper shadows) and price taking out the low of these candles at $119.60. Ultimately, price went higher.

Divergences do work! Usually. Today's low formed on a distinct positive momentum divergence as a hammer candle marked the absolute low, which also found support off the 20 day EMA in the SPY.

It therefore should have been no surprise that a buying rally - and short-covering - occurred after a successful test of support, giving you (the intraday trader) a nice opportunity to profit from a bounce off support that formed a positive divergence on the lower timeframes.

For now, notice the confluence resistance (50 EMA, upper Bollinger, and 50% Fibonacci - all short-term) at $120.00 to see if that's all we can get for an upside bounce, or if we carry beyond $120.00, then we could easily see a return to $121.50 or beyond to $122.25.



Internals flashed a positive divergence as we pushed to new lows into noon, serving as a bullish signal along with the positive momentum divergence.

The picture still shows 'open air' above $120.00 if buyers can push above there with internals strengthening along with it.

The dominant trendline still remains intact, with boundaries currently at $121.00 and $119.25. It's possible that we had a bear trap that followed a bull trap, shocking traders on both sides of the market and sending price back to test the midpoint (middle trendline - not drawn) at the $120.00 level. If you look really closely, the EMAs on the hourly chart did NOT cross bearishly, but that may only be semantics.

Price is back above the EMAs, and any move above $120.00 should lead to a continuation up-move to test the $121.00 level. Otherwise, be prepared to short a move under $118.50 which now seems to have a lower probability of occurring than a continuation up-move - though still stay alert.

Be sure to read today's blog post:

http://blog.afraidtotrade.com/sp500-teaches-the-importance-of-rising-20-day-ema-in-trend/

as I have highlighted in prior reports of the probabilities favoring a test of this level - which is exactly what happened. This also shows how to use higher timeframe charts (I show these charts for a reason!) in conjunction with your set-ups and trading decisions intraday.

The bullish hammer that formed off support is a traditional/classic buy signal, which would likely be confirmed with a continuation move above 1,200 that could send us back to test the 1,215 high if not on to the confluence weekly resistance at 1,225/8.