AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 5 min ARCX 05/10/10 L=116.27 5.01 4.50% O=115.81 Hi=116.65 Lo=114.91 C=116.16
A
B
C
1
2
3
4
116.60
116.40
116.20
116.14
116.00
115.80
115.60
115.40
115.20
115.02
0.3000
0.0597
-0.1000
-0.3000
$TICK - 5 min NYSE 05/10/10
800
493
199
0
-400
-800
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 goes without saying that this is not necessarily a safe market still for brand new traders - stick to simulation if you feel out of touch with the volatile market. I heard from more than one trader today who was caught the wrong way on Thursday, then decided to play short on Friday, and got caught with major losses at today's open. Remember, the #1 goal is NOT make as much money as possible - it's guard your capital first and THEN make money in a risk-controlled, consistent, day-by-day method. That means staying out when you feel like your strategies aren't working, or the market has become too volatile for your comfort level (which differs for each trader). Safety first - then profits second.

Otherwise, you might make money a few days and then lose more than you made in a single day... or week. Remember that some traders destroyed their careers (or at least a large portion of their account) either by being too long (bought) on Wednesday/Thursday, and then others - fully convinced that "the bear is back" - lost careers today. There's no shame in sitting on the sidelines when you need to - there is shame in trading in a market volatility environment for which you are unprepared and risking your whole account to try to make a lot of money quickly in volatile conditions. Yes, you can make money... but the opposite side is that you can lose it just as quickly. Best to aim for steady, consistent gains day by day and week by week rather than looking to hit a major one-day homerun ... which carries with it outsized risk.

That being said, if you kept your analysis and opinion/bias simple today, there were some of the easiest opportunities to profit today we've seen all year. With the exception of Trade #3 which didn't work as spectacularly as planned, you could have summarized every single trade today as:

"See Trendline Break, Take Trade"

But of course, I'll show you what's beyond the trendline into other ways you could have had confidence to take the trades of the day.

1. ABC RETRACEMENT, TRENDLINE BREA, TINY POSITIVE DIVERGENCE

We had a massive gap-up, which should have PREVENTED you from trying to short the gap. Yes, an aggressive trader might have caught a partial gap fill from the spinning top at 9:00am that moved $1.00 lower, but after such a large gap, we should be looking to buy the market on the next move into support.

Price gave us an "ABC" three-wave retracement (or 5 wave if you count the marginal new low that formed the divergence - either way, it was at the end of a fractal wave) to the $115.30 level complete with a mini-positive dual divergence at 9:45... which also could be considered a "Finger" trade (rinse/wash) if you got long off the prior 9:30am bullish candle. This required a wide stop - below the intraday low of $115.25. Remember, don't trade if you feel the risk is too high... but you generally have to use wider stops in a volatile market (which is why such trading is not ideal for new traders who aren't comfortable with wide stops and wide targets).

Your official, safe entry was as price broke the trendline at 10:00am at the $115.70 level, which targeted a move back to the $116.60 level, or of course exiting (good trade management) at any valid short-sale signal (like a broken trendline!).

This valid sell signal came prior to the target being hit - occurring at 11:00am as we formed another 5-wave mini-fractal into the upper Bollinger, formed another mini-divergence, shooting star candle, and then immediately broke a rising trendline at the $116.15 level - triggering an exit and a 'flip reverse' short.

2. MINI-FRACTAL, MINI-DIVERGENCE, UPPER BOLLINGER, SHOOTING STAR, TRENDLINE BREAK

In addition to all I mentioned above, price broke the rising trendline at 11:00am, triggering you a short-sale entry at $116.15 or as price broke under $116.00. The stop was placed above $116.40 and minimum target a retest of the $115.30 level from the morning low, though you certainly could have targeted the rising 50 EMA for an aggressive play and held short until we got another buy signal... which is what happened.

Price failed to support off the 20 EMA, slicing through it after a slight 30-min pause, then immediately we had a swift move (most likely 'popped stops' of those who tried to get long at the 20 EMA) down to the area of the 50 EMA at $115.20, as a spinning top formed and price took out the high of the spinning top AND a declining trendline. There was a very minor positive divergence, but the new TICK, Momentum, and Price low at 12:15 hinted that a new low in price was yet to come. That should have prevented you from 'flipping and reversing' to trade long, though an aggressive trader certainly can do so.

The next trade came after the new low came on a CLEAR positive TICK and momentum divergence at the key $115.00 support level, so an aggressive trader could have gotten long at 1:00. Otherwise, you should have gotten long as the descending trendline was broken shortly after at 1:30 at $115.40.

3. TRENDLINE BREAK

I'm stating this trade through the eyes of a moderate aggressive trader, who waited for price to break the trendline as shown to trigger entry. Otherwise, aggressive traders would have entered off the divergence and immediate bounce off $115.00. The entry was $115.40 with a stop-loss under the recent swing low at $115.00 (actually $114.91) or if you regarded the prior horizontal support line at the $115.05 level. If you were confident and honored your stop, without dragging it up (nothing wrong with doing so once you have a profit or feel you're going to lose the profit you have), then you were fine and managed to hold on to this trade through the afternoon 'shake-out' that hit a low of $115.10.

If you got scared or conservative and went ahead and exited your long position during the shake-out, then you got 'shaken out' at the low of the swing and resulted in a nasty stop-loss hit of around 30 cents. Those are rare for the type of trading style I teach, but in volatile conditions if you try to 'play scared,' they will happen. I annotated today's "Idealized Grid" numbers fairly to reflect a trader getting stopped out here. Remember that an aggressive trader would have held the position unless price traded back under $115.00... which it did not, so an aggressive trader would not have taken trade #4.

4. SECOND CHANCE ENTRY

Price then began to rally off the trendline as drawn in what we call a 'last chance' or 'second chance' entry. Trendlines, once broken, change polarity from support to resistance (and vice versa). If you were stopped out earlier (frustratingly at the low of the swing! It happens!) then you had a second chance entry to try for a second buy position, this time with a much tighter stop under $115.00 again. This trade worked out as expected, getting an upward move into the close.

If you traded emotionally and were frustrated at the recent large loss, then you missed this opportunity. That is why we say that emotions can really harm your trading - they cause you to fearfully exit a position in a 'shake-out,' and then cause you to miss the next opportunity because you are frustrated due to the prior lost. The worst thing to do would be 'flip/reverse' out of 'revenge trading' and then take a DOUBLE loss as you held short into the close.

I don't talk about emotions enough in the reports - but this is a clear example of how strategy prevails over emotion.

To be fair, I'm showing what it would look like if you mis-managed trade #3 in the worst way possible. Even with that 40 cent loss, roughly $1.50 was possible in today's action.

Assuming you held on and did not get stopped out at the low (meaning you did not take trade 4), then closer to $2.00 was possible.

SO FAR TODAY			25 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
27,301,463	41,073,103	9:45	13,771,640	$ 0.38
17,289,360	27,591,959	10:00	10,302,599	$ 0.37
11,069,460	20,965,348	10:15	9,895,888	$ 0.40
8,077,186	16,302,825	10:30	8,225,639	$ 0.35
6,036,402	15,724,266	10:45	9,687,864	$ 0.30
11,652,457	19,765,141	11:00	8,112,684	$ 0.34
6,872,406	13,877,166	11:15	7,004,760	$ 0.37
1,093,443	9,390,876	11:30	8,297,433	$ 0.28
1,907,844	8,746,464	11:45	6,838,620	$ 0.26
2,470,957	8,332,416	12:00	5,861,459	$ 0.33
933,906	6,116,538	12:15	5,182,632	$ 0.30
467,449	5,450,472	12:30	4,983,023	$ 0.24
2,697,676	7,028,013	12:45	4,330,337	$ 0.21
161,166	4,116,910	1:00	3,955,744	$ 0.29
11,800,119	16,647,711	1:15	4,847,592	$ 0.34
7,153,842	11,543,953	1:30	4,390,111	$ 0.23
4,971,125	8,718,275	1:45	3,747,150	$ 0.24
5,338,431	9,027,606	2:00	3,689,175	$ 0.34
3,726,299	9,002,583	2:15	5,276,284	$ 0.27
709,452	6,376,085	2:30	5,666,633	$ 0.42
(612,225)	6,028,337	2:45	6,640,562	$ 0.54
(884,196)	5,620,441	3:00	6,504,637	$ 0.35
640,405	7,662,756	3:15	7,022,351	$ 0.32
1,551,393	8,149,713	3:00	6,598,320	$ 0.36
701,637	8,716,492	3:45	8,014,855	$ 0.34
12,935,811	27,029,672	4:00	14,093,861	$ 0.30
5,617,818	12,654,043	Ave.	7,036,225	$ 0.33

Average 15-min volume numbers continue to rise so keep this as the updated 25-day average.

Volume was still higher in every timeslot except the end of the day, so we'll see the average 25-day volume range increase tomorrow as well.

The key for tomorrow and this week - on the intraday frame - is going to be the test of support as you see above at $115.00. We're forming a bullish EMA line of potential support there, along with the highs from January 2010.

Short bias under $114.50, long/neutral bias above.

There's an additional level to watch on the 60-min chart that you need to keep as a reference.

The 60min chart confirms that $115.00 is an important level (20 EMA) but now we add the falling 50 EMA at $116.25. Thus, price is "trapped" between EMA support and resistance, which gives us a breakout play in either direction. We should be neutral until price is above $116.00 (bullish) or beneath $115.00 (bearish).

The key will come from the daily chart I think.

So far, price/traders are respecting the key moving averages. Right now, that was the 1,100 level that I highlighted Friday as absolutely critical confluence support - I mentioned that the next upside target would be the 1,150 area. I didn't expect it to happen in one day! But such is the volatile nature of the market right now. It's driven mainly by news of Europe and fears of a global contagion. The nearly $1 trillion loan/aid package was enough to calm fearful investors today, and may be enough to stem the tide of the selling. We'll know chart-wise if buyers can rise above the 20 and 50 day EMAs, currently positioned (and heading for a bear cross which will set-up another cradle trade like that of early February) at 1,175 and 1,167 respectively, forming a confluence near 1,170. The market is technically a short-sale bias under 1,170, neutral from 1,170 to 1,180, and bullish for ANOTHER popped stops/busted bear trap rally to test 1,225 if above 1,180. Yes, that CAN happen.

For the next few days, watch the 1,150 level as key support along with 1,170 as key resistance. Neutral in-between.