AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 1 min ARCX 05/11/10 L=115.66 -0.50 -0.43% O=115.07 Hi=117.36 Lo=114.91 C=115.83
1
2
3
117.20
117.00
116.80
116.60
116.40
116.20
116.00
115.82
115.60
115.40
115.20
115.00
0.2500
0.1500
0.0500
0.0000
-0.0613
-0.1500
-0.2500
$TICK - 1 min NYSE 05/11/10 L=280 -207 -42.51% O=-65 Hi=1370 Lo=-1118 C=280
1,200
800
400
280
66
-400
-800
5/11
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

We had a more normalized trading day today (still volatile), unless you count a $1.20 gap as normal (it's not). We had a successful Popped Stops play and then an unsuccessful one. There's still a lot of uncertainty with traders/investors, and we're not out of the bearish woods just yet.

1. POPPED STOPS

Look at the first 5-min chart to see the horizontal resistance area at the $116.00 level, not to mention $116.00 as a key 'round number' level. Price gapped down sharply this morning to test support at $115.00, leaving traders to believe we would be heading lower, but the bulls had something else in mind - driving price higher to fill the gap.

The entry came just before 10:30am as the bulls overcame key resistance at $115.80 then immediately at $116.00 - and a stop was placed under the 50 EMA (trailed) at $115.50 (yes - wide stop). You could have tightened up your stop after the initial surge to protect profits and trail it under the 20 EMA until price broke the level later at 1:00pm at $116.80... but I would have suggested exiting where I drew the line in the idealized grid at the 12:00pm dual divergences, upper Bollinger, and reversal candles (and trendline break) which set-up something very interesting - I even wrote a blog post about it so be sure to read that today if you haven't already:

http://blog.afraidtotrade.com/gotta-watch-the-finger-intraday-traders-endure-finger-trade-may-11/

The main idea is that an aggressive trader would have shorted in this area and then had to endure a nasty rally - the Finger - before the market fell as anticipated. If the trader had a tight stop above $117.00 - most of them would - then they would get stopped out immediately on the "finger" rally. Very frustrating.

Even more frustrating is trade #2 which was a viciously failed Popped Stops play that tried to capitalize on the upward movement and prior "Popped Stops" plays that have so far devastated the bears many times.

2. POPPED STOPS (Fail!)

With the bulls driving price beyond $117.00 and above the horizontal resistance there (also from the 50 day EMA as I mentioned this morning - and you should have referenced - at S&P 500 value 1,167). With the major bullish engulfing candles bouncing off the rising 20 EMA - despite the negative dual TICK and momentum divergence (it mattered... only after a vicious finger), this triggered an exit if you were short from the prior move and a 'flip/reverse' long for popped stops with a stop under the rising 20 EMA at the $116.80 level, or more appropriately, above the breakout level at $117.00.

If you entered near $117.10 then stopped out at $117.00, then that was certainly no problem - but to be fair and to be more realistic, I drew up the ideal grid for a 35 cent stop-loss - holding on until price broke the 20 EMA. Either way, it was a rotten situation that hurt both bulls and bears... but the aftermath of the finger was very profitable for those who were there to trade it... or those that held short from an earlier level (with strong stomachs!).

3. FINGER TRADE, 20 EMA BREAK, TRENDLINE BREAK, REVERSAL BIAS

Divergences do matter, but it's hard to know exactly WHEN they matter. It's also hard to play a counter-trend reversal trade - that's why it's best to wait for confirmation via a trendline or key moving average break.

That happened at 1:00pm with price breaking solidly under $116.85 - the 5-min 20 EMA. This was your safe-short entry (stop above $117.00) to play for a minimum retest of the 50 EMA at $116.40. However, being a breakdown trend reversal potential trade, you could have played for a theoretically unlimited target (higher timeframe target or 5-min buy signal) which is usually the best strategy.

I have you holding through the sudden pop up to the 50 EMA at 1:30, though you certainly could have taken profits at the $116.20 level... but then immediately re-shorted at a pre-Cradle Trade (one of my favorites). The doji at the confluence of the 20 and 50 EMA at $116.40 was an (early) Cradle trade with a stop above $116.55 and entry at $116.40. The safe profitable exit was as multiple TICK and momentum divergences formed and price rose off the $116.60 level.

Assuming you took the "Popped Stops" trade and lost almost 40 cents, still, roughly $1.50 was possible in your trading activities today. Volatile days offer more reward but much more risk - conditions like this often call for reduced position sizes to accommodate for the larger stops, targets, and volatility to prevent your account from swinging wildly.

SO FAR TODAY			25 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
7,064,018	21,243,928	9:45	14,179,910	$ 0.39
5,696,343	16,345,092	10:00	10,648,749	$ 0.37
362,282	10,442,537	10:15	10,080,255	$ 0.41
1,313,309	9,710,381	10:30	8,397,072	$ 0.36
(1,992,417)	7,819,061	10:45	9,811,478	$ 0.31
(977,181)	7,263,604	11:00	8,240,785	$ 0.35
1,674,129	8,839,750	11:15	7,165,621	$ 0.38
(1,405,407)	6,973,209	11:30	8,378,616	$ 0.29
3,893,987	10,984,680	11:45	7,090,693	$ 0.29
2,445,010	8,517,741	12:00	6,072,731	$ 0.35
3,806,833	9,221,510	12:15	5,414,677	$ 0.31
(590,682)	4,494,667	12:30	5,085,349	$ 0.25
2,851,310	7,298,862	12:45	4,447,552	$ 0.22
3,503,702	7,649,225	1:00	4,145,523	$ 0.29
(1,004,465)	3,905,260	1:15	4,909,725	$ 0.34
473,361	4,974,839	1:30	4,501,478	$ 0.24
2,800,520	6,698,823	1:45	3,898,303	$ 0.24
6,782,889	10,766,846	2:00	3,983,957	$ 0.34
3,772,810	9,168,348	2:15	5,395,538	$ 0.28
8,200,890	14,148,684	2:30	5,947,794	$ 0.43
7,614,644	14,505,245	2:45	6,890,601	$ 0.55
1,580,195	8,272,956	3:00	6,692,761	$ 0.36
3,593,155	10,853,023	3:15	7,259,868	$ 0.34
6,365,137	13,262,030	3:00	6,896,893	$ 0.37
4,021,303	12,275,373	3:45	8,254,070	$ 0.35
4,479,461	18,908,742	4:00	14,429,281	$ 0.51
2,935,582	10,174,785	Ave.	7,239,203	$ 0.34

Today's 25-day averages continued to increase.

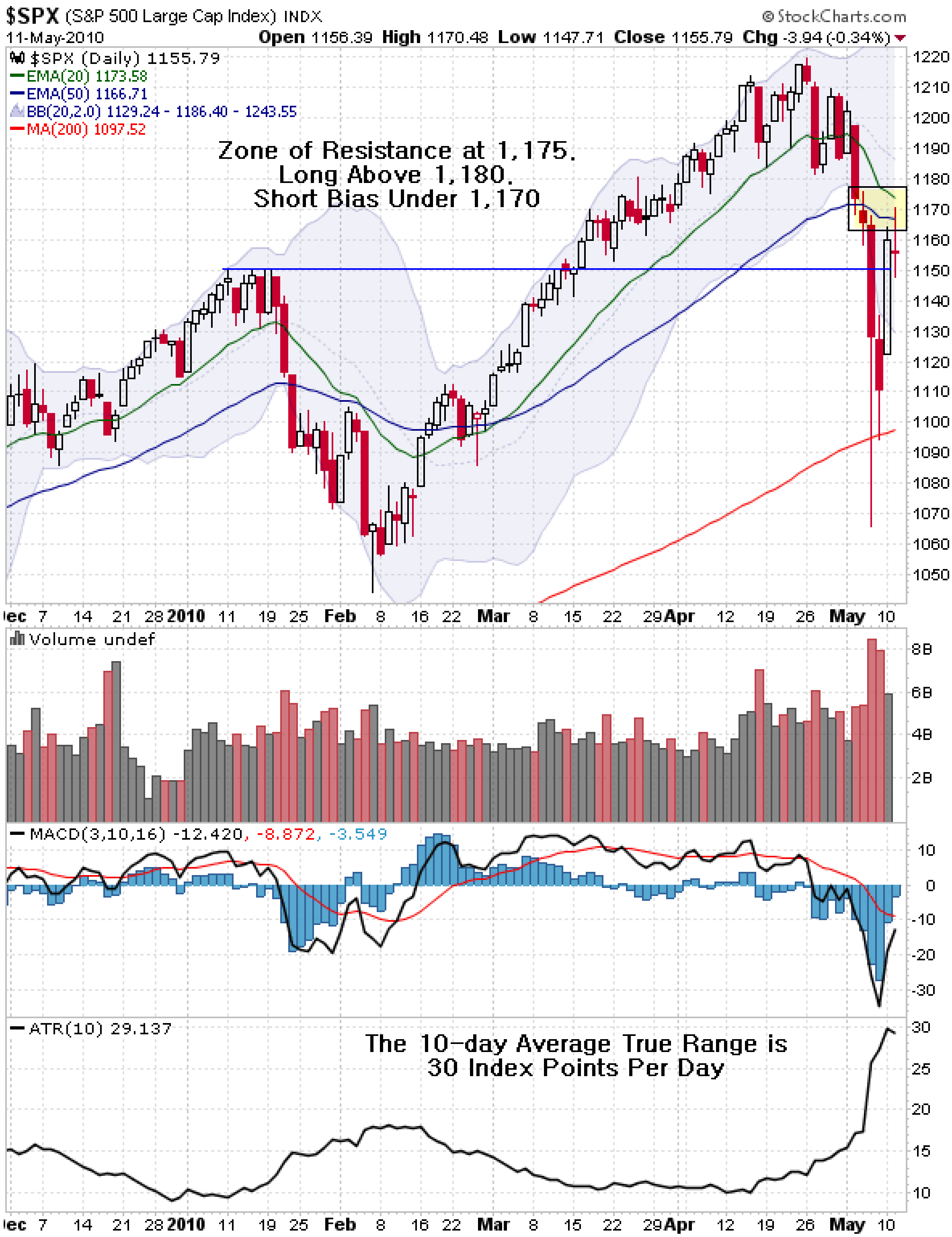
Today's 15-min volume is still markedly higher (3 million above average) but we're coming back into alignment at some of the periods... actually underperforming the average as seen in red at certain periods.

The structure on the 30min chart turned more bullish today with a positive EMA cross and price bouncing solidly off EMA support as shown.

Watch $115.00 for key support as the "Line in the Sand" and be prepared to short if under $115.00 and trade long if above $117.30 (today's high).

Today gave the recent consolidation a more bullish 'spin,' but that still doesn't change that we're still trapped between the 20 and 50 period EMAs (60-min) and between the Fibonacci Grid as drawn - that should keep you neutral until we get a breakout one way or the other.

After big moves, markets need to pause and 'digest' the volatility - and that's what's going on now.



The main points on the daily chart include the overhead resistance pocket from 1,166 to 1,175 as shown above, as well as the support zone here at 1,150 (January high). We're trapped with a long-legged spinning top (indecision candle) between these levels, and my guess is that more people expect the market to trade down under 1,150 than above 1,180. You as an intraday/swing trader should keep these levels in mind - a breakdown under 1,150 creates a positive feedback move DOWN while a break above 1,180 will likely create a positive feedback loop UP. Notice the 10-day ATR value has spiked to 30, which means traders do better to be safe in high volatile environments than risky.