AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 1 min ARCX 05/13/10 L=116.10 -1.35 -1.15% O=117.13 Hi=117.68 Lo=115.89 C=115.99
$TICK - 1 min NYSE 05/13/10 L=296 -234 -44.15% O=-2 Hi=1010 Lo=-1277 C=296
117.60
117.40
117.20
117.00
116.80
116.60
116.40
116.20
116.00
0.1000
0.0363
-0.1000
-0.1937
1,000
600
296
-165
-600
-1,000
5/13
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

Today was one of those moments of the year where everything seems to come together and the opportunities are clearer than normal... or at least I hope that was your experience. I always say trading is like driving up a winding road in a fog. Sometimes, the fog will clear just enough for you to see a curve in the road and so you take action (a pattern and indicators point in the same direction). You swerve when you see an animal in the road. Sometimes you hit the animal if you don't see it coming. That's not good. If you drive slow enough, you won't fall off the mountain (don't take oversized risks). And there's no point in anticipating swerving 2 miles in the future because you think a deer will be in the road. If there's a deer, swerve. Don't plan to swerve 2 miles ahead of you. Take everything slowly, don't over-do it, and take advantages of breaks in the fog.

To me, and to some of you (thank you for your emails), today the fog cleared a little and you saw the next move ahead clearly. For those who have sent me emails so far, today was a good day for you. For those who are new traders, today is a GREAT example of what trading is all about. A lot work, but certain moments make it all worth it. Yes, the money's good when you master the concepts, but sometimes we just need those little psychological boosts that remind us "I CAN do this! I saw that pattern set-up, anticipated what would happen next, and then put the trades on with confidence and managed them well. And the market did what I expected!" It's hard, but not impossible.

I even gave you (and the world!) a heads-up in this morning's blog post:

http://blog.afraidtotrade.com/if-the-market-is-going-to-turn-down-it-will-do-so-here/

And - so far - the market did turn down, giving a near-perfect entry for swing traders and a wonderful opportunity for intraday traders.

1. POPPED STOPS

This was another "are you serious?" trade (at least I felt so) that was an almost identical repetition of the last two days where we had a gap (one down, one up) and then price paused halfway to filling the gap... then broke the trendline on a strong candle, triggering a "Popped Stops" entry. Go back and look at Tuesday's report - it was almost identical. That how these reports are helpful - history DOES repeat... sometimes exactly.

So the entry was $117.30 with an unlimited (theoretical) target, and stop near $117.00. It was safe to exit this trade as I show it, as price took out the low of the doji just under the Bollinger Band at the $117.45 level... though price rallied to a new high on a clear negative divergence that compelled a short-sale entry.

Trade #2 was one of the best trade set-ups all year... take some extra time to study it.

2. 20 DAY EMA AT 1,172, UPPER BOLLINGER, SPINNING TOP, NEGATIVE DUAL DIVERGENCE, TRENDLINE BREAK

On an intraday basis, this was a good stand-alone trade as price formed a 5-wave Fractal into the $117.60 level, forming a negative dual momentum/TICK divergence in the process along with a spinning top doji candle. Price broke the trendline (and low of the doji) at 9:45 at the $117.40 level, triggering your entry with a stop above $117.60.

What made this a golden trade was what I showed on the blog this morning. This price corresponded with the S&P 500 testing the underside of expected resistance at 1,172 - the important 20 day EMA. Combined all together, this was a compelling spot to put on a swing trade because your stop was above $118.00 (40 cents away) and minimum target is $115.00 or even beyond to $110.00. That also shows how swing traders can use the lessons in these reports to enhance your positions that you're going to put on as decided on the daily chart - watch for a corresponding entry on the lower frame charts and get a better execution. I also discussed this in last night's report.

These charts help intraday traders, so note where I have an exit, then I have a second entry (trade #3) for those looking to scalp instead of swing trade.

3. BEAR FLAG, WYCKOFF SIGN OF WEAKNESS

Trade 3 was a continuation of the bearish bias from the prior set-up that combined the daily chart with intraday divergences and trendline breaks. This was just another trendline break as shown. It also triggered a Wyckoff Sign of Weakness, as the TICK formed a new intraday low when price did not. That enhanced the odds that we would see new lows... and we did. I do have the exit for this trade at the $117.00 level for a potential 'range day' bounce off the morning support level.

4. SCALP, LOWER BOLLINGER, REVERSAL CANDLES, POSITIVE DUAL DIVERGENCES

On the swing low, price this time formed a positive momentum and TICK divergence and reversal candles. Interesting. That triggered a trade set-up as price broke the falling trendline or any reversal candle high. This trade didn't work out well, as price stagnated/consolidated then formed reversal candles at the 20 and 50 EMAs (which are actually less helpful on range days) so I suggested an exit there... though price did spike up through these levels.

This range and spike was what I would consider 'an animal dying,' in that bulls were unwilling to surrender, despite the overhead resistance, negative divergences, etc. That's not to say that the market HAD to fall; it didn't. We've seen bulls spring numerous bear traps. This could have been another one of them, and we would have played popped stops long above the intraday high. But this time... that didn't happen.

5. TRENDLINE BREAKS/NEGATIVE DIVERGENCES

In the interest of not making this a 20 page report, I'll just say look at the negative dual TICK and Momentum divergences that formed into the tiny swing high at 1:00pm. Price formed a doji at $117.40 then began selling off, slicing again through the 20 and 50 EMA (not as effective on range days... that what this was until the afternoon sell-off). Price broke the immediate trendline at $117.20 then the key - "Line in the Sand" - trendline (horizontal) at $116.90. That was your "last chance" short-sale... and price began its breakout slide from there, rewarding those who held short with confidence earlier from Trade #2.

Price formed a nice "third of third" (see 1-min chart), produced a new swing low afterwards... but ended the slide on a slight positive divergence and bullish hammer candle... which bounced us back to the 20 EMA (EXACTLY to that level... giving very aggressive traders a second-chance short) before plunging into the close.

Use this day as a reference for a lot of the educational concepts/trade set-ups I describe frequently in these reports.

Today was a 'scalpy' day, with the first 4 trades being 'range day' bias trades (small targets and stops). Trade #5 was the 'money trade' we were waiting for, and you would have missed it if you stopped trading after being frustrated in the morning session.

Markets don't reverse nicely/quaintly. They're often messy events like this - like an animal dying that instinctively thrash out (which is sort of a good analogy - bull dying, etc). Today's 'fluff' high may have been that final thrash.

Anyway. Roughly $1.80 was possible in today's trading activities... if you captured a large portion of the final sell-off.

A lesson in trendlines, LENGTHY negative divergences (preceding REVERSALS) and the Mirror Image/Rounded Reversal DAY structure and pattern.

If you just looked at price, you would say "Oh my - what a firm up-trend we have and a new high at $117.60. I'm bullish!" If you took into account the whole picture - lengthy multi-swing momentum AND TICK divergences (and volume), the broken trendline, the retest of the UNDERSIDE of the broken trendline, the doji, and the Head and Shoulders pattern that formed (look close), you would be looking at an irresistible short-sale reversal trade here.

SO FAR TODAY			25 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
2,798,481	17,261,041	9:45	14,462,560	$ 0.40
144,683	10,941,855	10:00	10,797,172	$ 0.38
(1,462,852)	8,853,272	10:15	10,316,124	$ 0.41
(922,144)	7,612,371	10:30	8,534,515	$ 0.37
(1,206,405)	8,681,695	10:45	9,888,100	$ 0.32
(2,555,987)	5,647,468	11:00	8,203,455	$ 0.35
(410,055)	6,890,233	11:15	7,300,288	$ 0.40
(3,642,406)	4,993,803	11:30	8,636,209	$ 0.30
190,496	7,481,463	11:45	7,290,967	$ 0.30
(941,476)	5,309,514	12:00	6,250,990	$ 0.37
(368,364)	5,164,652	12:15	5,533,016	$ 0.29
(541,979)	4,555,248	12:30	5,097,227	$ 0.26
(1,952,828)	2,566,081	12:45	4,518,909	$ 0.22
(945,438)	3,231,894	1:00	4,177,332	$ 0.30
(701,362)	4,190,026	1:15	4,891,388	$ 0.36
1,051,755	5,702,403	1:30	4,650,648	$ 0.24
1,764,558	5,801,425	1:45	4,036,867	$ 0.25
(1,229,515)	2,803,269	2:00	4,032,784	$ 0.35
(2,610,480)	2,878,422	2:15	5,488,902	$ 0.29
(2,717,168)	3,229,373	2:30	5,946,541	$ 0.42
(2,082,768)	4,842,244	2:45	6,925,012	$ 0.55
(775,752)	5,944,467	3:00	6,720,219	$ 0.38
4,098,355	11,291,367	3:15	7,193,012	$ 0.34
8,963,122	16,199,084	3:00	7,235,962	$ 0.38
9,262,265	17,904,780	3:45	8,642,516	$ 0.36
9,813,744	24,783,312	4:00	14,969,568	$ 0.51
500,788	7,875,414	Ave.	7,374,626	$ 0.35

Volume today was lower than the 25-day average across all 15-min periods in the SPY (except where green)... and if you keep up this chart by hand (or Excel) each day, you would have seen the reason why this chart can be important. Look at the relative volume comparisons on the morning rally to the new high that was met with a massive negative TICK, Momentum, and Relative Volume high - that meant odds favored a market gasping at straws to stay up which gave you a HIGH CONFIDENCE short-sale that you could even use as a swing trade entry. Then the market stayed flat through the session but sold off HARD, spiking higher in the last hour by 8 to 9 million shares above its 15-min average as shown. That's a BEARISH confirmation that this market is heavy here, supported by strings, and favors a sell-off into the future.

Market Facts:

Of the S&P 500 stocks, 65 were positive today while 433 were negative (ratio 0.15).

Up-Volume (volume of advancing stocks) was 11.65% of Total Volume.

It would appear we've formed a "Three Push" Reversal Pattern on this morning's (fake) new high. I call it fake because it was met with negative volume, momentum, and internals divergence. Another word you could use is "last gasp."

I advocated swing traders get short in last night's report due to the structure I was seeing, and the tight stop (above $117.50) relative to the reward (a potential move to $110.00 depending on where you exit). That is still in play and is 'playing out' nicely.

We've officially broken and closed under ALL 30 and 60 min EMA and trendline support... so using 'chart probabilities,' you would have to conclude that odds favor a continuation downside move... that could be swift tomorrow and into next week... unless the buyers (government, Goldman, etc) step in to prevent the fall. And that could happen, so don't swing trade your whole account short - if something looks too good to be true, it usually is. For now, barring any unforeseen surprise positive economic event or coordinated intervention (another trillion for Europe?), the market looks VERY weak here. A break under $115.00 would be the line in the sand that buyers would probably capitulate/sell.

I've been saying this to a few people and now will make it official in the report. To me, this feels like a "Dead Cat Bounce" (I drew the pattern for you above). It occurs after a sharp sell-off, the market rallies (usually on thinning volume and momentum into the final high) and then experiences a second crash. IF that is the case, then we're in store for a downside swing in the near future that could take us back to $110.00... or lower. **The key level to watch is $115.00 (index value 1,150).** If sellers push us under $115.00, then bulls no longer have any obvious support levels, and that would declare us in a short-term bear phase (meaning that all resistance is above us and there is no support below us - we're under all daily moving averages except the 200 SMA at 1,100/$110.00).

But nothing is guaranteed, so bears and swing traders should put stops above $117.50/$118.00 and IF buyers push price up to that level, then we'll see yet another vicious/hideous/awful (depending on your perspective) short-squeeze and a new round of "Popped Stops."

With the information we have now, to me at least, it seems that odds strongly favor a down-move next.

As mentioned, the key resistance to watch for today was the falling 20 EMA at 1,171 (was higher earlier in the day). That was our high of the day and it occurred on "fluff" (negative volume, momentum, and internal divergences). This was one of the easiest, simplest, highest probability, lowest risk set-ups. These things don't occur often, but when they do, it's best to take advantage of them. And a lot of traders did today; the market fell.

The key will be if sellers can push the market under 1,150, or whether some surprise intervention/bail-out will be announced (pardon my cynicism) that will hold the market at support above 1,150. If not... then we could be looking at the start of a new bear market (that's a larger-picture comment - not necessarily a day-trader comment).

We're neutral/bearish between 1,150 to 1,175; bullish play for popped stops (it will be vicious) above 1,175/1,180; and strong bearish under 1,150.