AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 1 min ARCX 05/14/10 L=113.91 -2.08 -1.79% O=115.12 Hi=115.33 Lo=112.87 C=114.04
$TICK - 1 min NYSE 05/14/10 L=-96 -392 -132.43% O=-6 Hi=1257 Lo=-1337 C=-96
1
2
3
2
1
3
4
5
a
b
c
115.20
115.00
114.80
114.60
114.40
114.20
114.00
113.90
113.80
113.60
113.40
113.20
113.00
0.1295
0.0263
-0.0500
-0.1500
-0.2500
1,000
600
271
-96
-600
-1,000
9:00
9:30
10:00
10:30
11:00
11:30
12:00
12:30
13:00
13:30
14:00
14:30

Not only does it feel good when the market does 'what it is supposed to do,' but it can lead to some nice profits too! I took a bearish tone in last night's report and felt we were due for a sharp sell-off and made you aware of that... and that's exactly what happened.

1. MARKET BREAKS 1,150

This was a play off the evening research and importance of 1,150 as I showed in last night's report. It's an aggressive move to short without a set-up, but you also make more money by taking more chances than what's safe. Case in point, 1,150 was a key reference level ($115) and when that level broke, I warned of a market sell-off. Those taking advantage of that bias/information would have had to short right off the open, as the 'ideal' set-up came with three entries for trade #2.

We gapped down hard and then immediately started a decline, so your goal was to get short as soon as possible and place a stop above the opening high of $115.20. Your second goal - in breakout fashion - was to hold the trade as long as possible to capture the most profit from a market in breakout/sell-off mode from a move to new highs on what I argued were "fluff" (fake, non-confirmed, lengthy divergences, etc). You could have exited as a bullish engulfing candle formed at 9:00am... or chosen to hold for a bigger target... and then re-entered at any of the three 'entries' I label for trade #2... or scalped them all if very aggressive.

2. THREE ENTRIES, IMPULSE SELL, TRENDLINE BREAKS

This was one of those "get short on any pullback" situations, and we had three specific entries - all of which occurred on trendline breaks as shown in the 5 or 1 min chart. Depending on your aggression level, you could have entered any or all of them. In a down-trend sharp sell-off move - especially one that was expected well-in advance - little pullbacks are like a train roaring ahead that slows down just enough for you to jump on board. If you don't jump on board when it slows down... it's really difficult to jump aboard if not impossible (psychologically). You also get a much better stop-loss placement in these cases.

The ideal exit level was NOT after a single candle formed (remember that a market WILL retrace in a downtrend and keep hitting new lows, particularly if we keep seeing new TICK and momentum lows) but after divergences or something else happens that forms a normal buy signal.

UNDER NO CIRCUMSTANCES should new traders - or even experienced traders - try to call a bottom in a downtrend market, particularly in what we had in the morning which was shaping up to be a Type III Trend Day. However, the chart shifted to make being short risky - as I'll describe in trade #3 - which allowed for aggressive traders to put on a scalp long.

3. 5-WAVE ELLIOTT FRACTAL, POSITIVE DUAL DIVERGENCE, TRIPLE-SWING DIVERGENCE, TRENDLINE BREAK, ROUND NUMBER SUPPORT

As far as I could tell, there was nothing magical about the 1,130 support level ($113) other than it was a 'round number.' As long as we're under 1,150, we target 1,100. Anything along the way is just an intermediate pause. But still, price formed a three-push triple swing positive momentum divergence which ended with a positive TICK divergence at 11:10am that also culminated in the completion of a 5-wave Elliott Fractal (as drawn). You should be aware by now that markets tend to turn/reverse or at least pause/retrace after a nice 5-wave fractal completes on a positive divergence... especially dual divergences. When this price and indicator formation occurs at a key support level - not that $113.00 was key, but it was 'round number' support - then you should take off your short-sale trades for a profit and aggressive traders can put on a 'scalp' long/buy position, partciularly after price breaks a declining trendline as it did at 11:30 at $113.20. That was your aggressive entry with a stop under $112.95.

Minimum target: falling 20 EMA at $113.60. Ideal target: upper Bollinger Band at $113.75. Maximum target: 50 EMA at $114.00... but that didn't happen.

You could have exited at the test and shooting star at $113.50 at the 20 EMA... or aggressively held on (because that was a lot of 'confluence' information that odds favored a steeper than normal retracement) to the upper Bollinger and the shooting star/doji that formed there. Either way, your trade was a profit.

Price then entered a consolidating range, making it both risky to short (particularly after the Wyckoff Sign of Strength at noon), but also risky to go long while we were under the falling 50 period EMA on the 5-min chart (that's the official "Line in the Sand" between a trend day continuation or reversal).

You certainly could have scalped up and down in the range, but even that was tricky. Price did actually break the EMA into the close... with not enough time to put on a nice 'popped stops' trade, which would have been the case had the structure set-up an hour earlier or so.

Using the ideal grid, you could have profited anywhere between $1.20 and $2.00 today, depending on how aggressively you took the morning short... or if you did at all... or if you got chopped around viciously in the afternoon session.

This is the typical structure for a sharp sell-off (range expansion) that ends in a frustrating consolidation period (range contraction). Remember the Price Alternation Principle.

SO FAR TODAY			25 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
13,937,509	28,907,222	9:45	14,969,713	$ 0.41
7,066,622	18,146,498	10:00	11,079,876	$ 0.40
6,341,786	17,000,652	10:15	10,658,866	$ 0.41
2,860,694	11,503,716	10:30	8,643,022	$ 0.38
(1,040,701)	8,834,304	10:45	9,875,005	$ 0.32
(1,811,232)	6,433,838	11:00	8,245,070	$ 0.37
8,032,888	15,733,627	11:15	7,700,739	$ 0.42
11,654,531	20,820,088	11:30	9,165,557	$ 0.30
3,119,317	10,586,719	11:45	7,467,402	$ 0.31
1,495,888	7,913,503	12:00	6,417,615	$ 0.38
6,770,262	12,659,311	12:15	5,889,049	$ 0.31
3,597,878	8,928,956	12:30	5,331,078	$ 0.27
1,374,645	6,046,546	12:45	4,671,901	$ 0.23
1,952,148	6,254,761	1:00	4,302,613	$ 0.30
2,059,238	7,068,942	1:15	5,009,704	$ 0.37
1,797,166	6,586,369	1:30	4,789,203	$ 0.25
3,610,409	7,836,431	1:45	4,226,023	$ 0.25
2,699,784	6,863,354	2:00	4,163,570	$ 0.36
1,014,293	6,581,689	2:15	5,567,396	$ 0.30
3,931,093	10,131,418	2:30	6,200,325	$ 0.42
1,164,479	8,291,332	2:45	7,126,853	$ 0.56
653,407	7,543,382	3:00	6,889,975	$ 0.38
(632,444)	6,712,169	3:15	7,344,613	$ 0.35
5,150,079	12,670,467	3:00	7,520,388	$ 0.39
3,914,048	12,830,261	3:45	8,916,213	$ 0.38
15,323,090	30,917,762	4:00	15,594,672	$ 0.51
4,078,341	11,684,743	Ave.	7,606,402	$ 0.36

We're back in the "market is beating the 25-day average" again... after underperforming the last two days.

I argued that this hinted at a reversal in price yesterday... and that's what we got.

Today, we see a confirmation of downside action all day... that gave way to a bullish confirmation and short-squeeze (short-covering) ahead of the weekend. Notice the sharp rally in volume into the close as price rose.

It's always fun when the chart works out as expected!

For now, we see positive divergences at the $113.00 level that should - and is - preceding a retracement, perhaps as high as $114.50 which is currently the falling 20 EMA on the 30min chart (or $115 which is the 20 on the 60min).

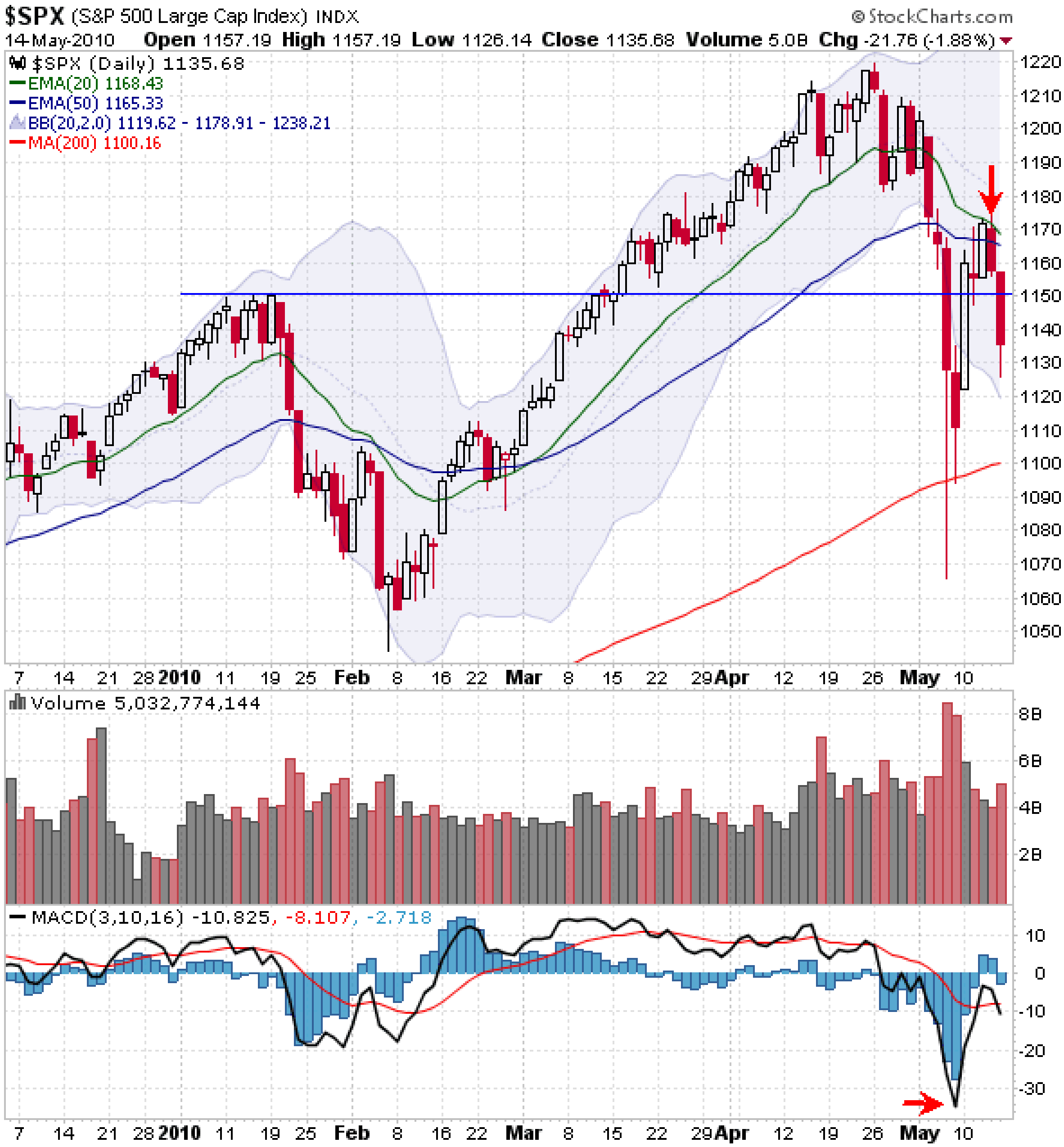
For now, swing traders could have taken a profit on the divergences and reversal structure intraday and then try to re-short after this expected and normal rally completes itself. A move from $117.25 (stop above $117.75) to $113.00 in two-days is just about perfect!

We're in neutral 'retracement' bias now as what appears to be a normal upward retracement begins.

Learn the lessons from the sell set-up that we had play out today. Patterns repeat in the future, and don't be too upset if you missed playing this set-up. As Mark Douglas says, the market is a river of opportunities.

For now, we do expect a natural one/two day upward move that could retest $115... but be watching your intraday charts for any non-confirmations, rounded reversal patterns, or other sell-signals that could trigger you back short.

If we get above $116.00, then we could be looking at something larger than an orderly/normal retracement so be aware of that.



Today, we saw exactly what was 'supposed' to happen. This makes us favor the "Dead Cat Bounce" pattern I highlighted in yesterday's report. The "Dead Cat Bounce" Play is alive! (sorry -bad humor)

As long as we stay under 1,150, we remain in bear mode and could see a deeper sell-off continue in the larger picture. The likely short-term target is 1,100 which is a 'round number' level and the rising 200 day SMA.

This bias would be off the table with a move over 1,170 which would trigger popped stops - it's best to be prepared rather than biased, but for now, odds still favor lower prices yet to come. That doesn't mean we'll get there in a straight line, though. Markets move, wave, and retrace, but shouldn't break key levels. For the bears, the market should not break above 1,150, but if it does, it shouldn't break above 1,170. If it's above 1,150, be neutral and if above 1,170, be bullish. Otherwise, keep your eye on the 1,100 target.

A quick glance at the weekly chart shows us - from a technical analysis standpoint/explanation - why we had a sharp sell-off from the key target of the 1,220 level. Negative lengthy divergences + 200w SMA + 61.8% Fibonacci Retracement (1,228) = GREAT odds for sell-swing... which is what we got.

Sell-swings target lower moving averages, which we hit, so pay attention to keep weekly reference levels of 1,138, 1,150, and 1,090 as labeled above.

Have a great weekend!