AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 05/17/10 L=114.01 0.12 0.11% O=114.20 Hi=114.52 Lo=111.77 C=113.95
(1)
(2)
(3)
(4)
(5)
1
2
3
4
5
6
114.40
114.20
114.00
113.95
113.80
113.60
113.40
113.20
113.00
112.80
112.60
112.40
112.20
112.00
0.1500
0.0369
-0.0217
-0.1500
-0.3000
$TICK - 1 min NYSE 05/17/10 L=69 161 -175.00% O=-4 Hi=1420 Lo=-1575 C=69
1,000
500
380
69
-500
-1,000
5/17
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 roller-coaster days where both sides of the market got tricked. It looked like we'd have a bullish rally to complete the expected retracement... but that failed. Then we had a swift move to new lows, and the "line in the sand" test of the 50 EMA at 12:45 failed to produce a new low, thus resulting in a "Popped Stops" reversal that took us higher into the close. It's another testament to the active trading environment we're in currently!

1. CRADLE/RETRACEMENT BUY, DOJI, SUPPORT, ENGULFING

I mentioned in last Friday's report that the structure - positive divergences - seemed to hint that odds favored a continuation of the upward move/retracement that began prior to Friday's close. That's exactly what happened... but we did not retrace as high as might have been expected.

The first trade was a pullback buy with that higher bias in mind, executing either at the test of the 20/50 EMA confluence or after the doji high was broken at $113.80 with a stop under the doji low of $113.60. Price rallied one more bar then formed a bearish engulfing candle, hovered above support, then cracked under support after forming a shooting star/gravestone candle, stopping you out. Remember, a stop-out is NOT an automatic flip/reverse, but the failed rally and then breaking to a new intraday low - breaking under the drawn trendline - was.

2. TRENDLINE BREAK, EMA CONFLUENCE BREAK

Price could not rally as anticipated... or at least, could not rally beyond $114.50... and so we turn our bias back to the higher timeframe, which is in a pervasive downtrend that now targets the 1,100 ($110) level. Your short-sale entry occurred at 10:00am as price broke under the key support at the $114.50 level, placing your stop above $113.80 (the EMAs... or higher above $114.00 to be extra safe). Price fell in breakout mode as expected, and aggressive traders would have been inclined to hold short through retracements (unless we saw positive divergences... which we did not), but conservative traders would have exited as the price broke above the long-legged dragonfly doji at $113.00 to await a new short sale set-up.

If you exited, then your next short-sale set-up was a bear flag style trade with two dojis as confirmation that formed just shy of the 20 EMA at the $113.20 level at 10:50. Price fell sharply after this trade triggered with the break of the rising trendline (see 1-min chart).

There was a really interesting development here, and those of you who traded this in real time will remember this clearly. We had a massive sell-off that culminated in a new TICK, Price, and Momentum low, with odds favoring lower prices yet to come... thus any buy off the doji/spinning top would have been a counter-trend scalp ONLY - NOT playing for a reversal.

However, if you look extremely closely, we had a tiny positive TICK and Momentum divergence on the absolute low on the 1-min chart. We also had the final 5th wave of a 5-wave impulse (seen best on 1-min chart). We usually expect 5th waves + positive dual divergences to result in reversals, and if we would have seen a divergence on the 5-min chart, would have traded long for that reversal. As such, until we saw the Wyckoff Sign of Strength at 12:25, the bias was for lower prices yet to come.

3. COUNTERTREND SCALP

This was just a quick scalp trade with two entries - first, as price broke the high of the spinning top doji that bounced off the key $112.00 'round number' level (stop under $111.75) to target the falling 20 EMA at $112.80. The second official entry came as price broke the descending trendline at 12:20 which then formed the Wyckoff Sign of Strength on the day. Either way, counter-trend scalps are usually not appropriate for new traders.

4. 'LINE IN THE SAND' TRADE. 50EMA, UPPER BOLLINGER, DOJIS

This was one of those "Make it or Break it Trades," which would distinguish the present Type II Trend Day Down bias vs a "Rounded Reversal" or Failed (Type I) Trend Day. Remember, we can never know in advance what really is about to happen - we can only put on trades based on the odds/probabilities and then have a smaller stop than our expected target. That's how to achieve consistency and profits long term as a trader.

The Line in the Sand is always the 50 EMA on an expected Trend Day, and this time two doji candles formed and price broke the low of these doji candles at $112.80, triggering an entry with a stop above the recent high and round number resistance at $113.00.

The target was a retest of the lows, or other counter-buy signal. Price fell to test a rising short-term trendline off the low, formed a doji, then a hammer, then broke the high of these candles, to trigger your exit.

Keep in mind that we had just witnessed a Wyckoff Sign of Strength (new TICK high on the day when price is NOT making a new high or is FAR from making a new high - it argues that we could be seeing a reversal and that you should be cautious on any short sales). We did get the reversal as price consolidated then broke resoundingly above the 50 EMA, stalled a bit, then broke the horizontal line at $113.00, triggering your next trade.

5. POPPED STOPS/REVERSAL

This was a classic "Trend Reversal Confirmation" trade that also was a mini-Popped Stops play (forcing bears to cover as the last line of resistance was broken). You are to enter these trades as soon as possible and hold for as long as possible to try to capture the 'pain' of the bears who are late to realize that the trend is likely turning. A logical exit was the bearish engulfing candle at 2:15, but an aggressive trader would have held on long through this dip. Otherwise, the next trade entry was a simple trend pullback/impulse buy trade.

6. DOJI/ CONFLUENCE EMAS, IMPULSE BUY, TRENDLINE BREAK

Now that price had formed another (second) Wyckoff Sign of Strength and broken the downtrend of the day, the trend was up and we want to be buyers of pullbacks in an uptrend (to support). That came as price retraced to the 20/50 EMA confluence, formed a doji, then broke the high of the doji at $113.20 (stop at $113.00), sending price up into the close to target the 200 SMA or - more appropriately - the $114.00 level... which is what happened.

In volatile markets, it's hard to give an official 'ideal grid' that suits all members. Some of you are new/conservative, some experienced/aggressive, but most probably fall in-between. That's how I like to show the grid.

Always feel free to edit the grid to meet your style, though using a moderate aggression level and skipping on trade #3, roughly $2.50 was possible trading actively today with 4 'winning' trades and 2 losing (or scratch) trades (#1 and #4).

Where are we now?

We face a key test of overhead resistance at the $114.50 level - both short-term (not major) resistance.

It comes from the 30 and 60 EMAs (shown) as well as the prior high from this morning at $114.50.

If we get above $114.50, then play (trade) long for continued “Popped Stops” of the swing and intraday traders who might locate stops above that level. Be cautious doing this, because we have very important resistance at $115.00 (1,150) which is the known reference level that started the whole decline (it was the January 2010 price high).

Trade long if we’re above there, be neutral while we’re under $114.50 and $115.00, and go back to trading short if we can fall back under $113.00. Due to the positive divergence, we could see higher prices so swing traders will need to tighten up stops and be prepared to sit on the sideline if we do rise much further from here.

The 20 EMA now rests at $114.16 which is a key level to watch for tomorrow. The 50 EMA rests just above $115, which is also a key level.

The positive divergence (30 + 60 min) hints that we could see a continuation higher of the retracement/rally, so do be careful and prepared to trade that as an intraday trader if that development does occur.

Otherwise, watch closely to your intraday charts.

We've officially entered the "middle of nowhere," which actually refers to the middle of two key higher timeframe reference levels.

The bears' downside target is 1,100 (15 points from the afternoon low). The market has a key resistance level at 1,150 (10 points away) and then major EMA confluence resistance at 1,165 (20 points away).

The bias still remains for lower prices, but we've all seen the insane and improbable strength of the bulls to thwart even the best-laid bearish set-up, and it could happen again.

Tomorrow should give us more clarity, but the play is neutral here, 'popped stops' above 1,170, strong short bias under 1,100... but we remain exactly halfway between these levels at 1,135 so that means stick to your intraday charts for clues about which important level will be hit... and which will not.