AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY

SPY - 1 min ARCX 05/18/10 L=111.73 -2.22 -1.95% O=114.88 Hi=115.22 Lo=112.03 C=112.40
1
2
3
4
5
6
7
8
115.00
114.50
114.00
113.50
113.00
112.50
112.41
0.6000
0.4000
0.2000
-0.0413
-0.2000
$TICK - 1 min NYSE 05/18/10 L=-544 -613 -888.41% O=1 Hi=920 Lo=-1494 C=-544
1,000
500
0
-113
-544
-1,000
5/18
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 a rather unusual day for a few reasons. First, by the end of the day, we had stayed within an almost perfect parallel trend channel all day long - that's quite rare. Second, we gapped up into a key 'line in the sand' level at 1,150 as expected (doing so on lower morning TICK highs), and then declined from there. That's not so unusual, but was a great example of combining higher timeframes. Third, there were an unusual number of 'simple' trades. By simple, I mean retracement entries on the break of a trendline - like a bear flag - that just kept repeating seemingly indefinitely. Don't let easy opportunities like that pass you by.

Today is a testament to market structure and character/behavior. It's also a testament to keeping it simple when the market is performing a repeating pattern like that. You literally could have pulled everything off the chart today except for maybe the 20 period EMA just as a reference, and traded both long and short (preferably short only into the upper channel) as long as we remained within the stable boundaries of the trendline, which you could have seen happening from noon on. The purpose of this section is to teach you how to trade better - this is one of the best lessons you can learn. Don't overcomplicate your charts, find out the 'character' of the market if possible, and then trade the simple, recurring patterns that come from structure... and don't let indicators throw you off or confuse you, nor the thought process "well, that just can't happen again" because it can.

1. GAP FADE, TRENDLINE BREAK, $115.00 RESISTANCE

This was nothing more than a trendline break and potential gap fade once we saw price break a second trendline at the $115.00 level at 9:30. You actually could have entered short on the first trendline break right at $115 at 9:00am, but that was a bit aggressive given that price just gapped up a dollar (low odds of filling). I mentioned in last night's report that $115.00 was a logical target and logical resistance level - a line in the sand level - and buyers failed to overcome this level. That should have been your guiding thought as you saw price come down from this level.

You would place a stop above $115 and target the 20 EMA (conservatively) at $114.25 or for a full gap fill to $114.00. Either target was hit, though you also could have continued holding short until we had a nice confluence support level and a long-legged doji form at 10:00am, which gave you your second trade of the day.

Remember - we had no clue that price would be down-trending all day. At the time, this was a low-risk, high probability buy set-up.

2. LONG LEG DOJI, 50/200 MA SUPPORT, LOWER BOLLINGER

I would have been more confident in this trade had it also formed some sort of positive divergence, but it didn't. Entry was as soon as price took out the high of the doji candle at $114.07 with a stop under the candle low at $113.78 (yes, volatile times call for wider stops and targets). This trade initially targeted the 20 EMA, though the actual target was larger - perhaps a full move back to $115.00. However, price failed to hold above the 20 EMA and then formed reversal candles, breaking under the 20 EMA and later forming a negative TICK divergence (1-min), which gave you a 'take profits' sell and a sell-short once price broke the trendline.

3. NEGATIVE TICK DIVERGENCE, TRENDLINE BREAK

Keep in mind we were still above the 50 EMA, so it's tough to call this a downtrend at this exact moment, but price did form a small negative TICK divergence then broke the rising trendline as drawn (1-min) before breaking solidly (big bar) under the 50 EMA, 200 SMA, and lower Bollinger. Strangely enough, this did not form a new TICK or momentum low (5-min) on the session. I found that odd.

Price formed a spinning top candle which was a logical exit, though price fell one more time under $113.50 then rallied in corrective mode to form a Cradle Sell trade... that spiked a little too high for comfort.

4. CRADLE SELL, TRENDLINE BREAK

Depending on your aggression level, you either waited for price to break the underside of the rising trendline as drawn, which would have kept you safe from a 'finger' and a whipsaw, or you entered short on the shooting star that formed at the crossover of the 20 and 50 EMA - the famous "Cradle Trade." If you took the cradle trade and used a tight stop, then you were stopped out as price formed a 'rinse/wash' above the confluence EMAs at the $113.75 level to spike gently above $114.00. However, if you kept a wide stop, you were safe.

Either way, the price fell back under the EMAs and then broke a rising trendline, triggering an official entry. Price fell sharply for the next five bars, forming a spinning top at the lower Bollinger and then breaking the high of the spinning top, giving you your 'take profits' signal.

5 and 6 TREND CHANNEL RETRACEMENT TRADES, TRENDLINE BREAKS

Trades 5 and 6 were roughly identical in entry logic, consisting of a rally in the context of a now confirmed downtrend, with entries being when price broke the rising trendline or retraced to the 20 EMA, forming a reversal candle. Stops were just beyond the trendline or 20 EMA and target would be the lower trend channel or any major bullish candle.

7. TRENDLINE BREAK, POSITIVE DUAL DIVERGENCE

Writing quickly on trade 7, it was perhaps not the smartest trade because it was playing counter to a lengthy, confirmed, and obvious downtrending session, but still price did form a positive Dual Divergence (TICK and Momentum) and then broke a falling trendline to trigger entry as shown. The stop would be under the then intraday low of $112.00 with a target the 20 EMA at $112.75 which was hit in two bars.

8. RETRACEMENT TRADE

At that time, you could have put on the final trade, which was a simple trend retracement pullback trade. Both of these trades happened so quickly, that it's likely you skipped these, or otherwise were late in entry/exit unless you had lightning fast reflexes and were glued to your screens.

These are not the trades I like to highlight as wonderful trades, because I like to have trades that set-up in advance, give a clean entry, clean target, and last more than 10 minutes. But, in a volatile market, I guess we take what's presented to us, or else play conservative and stay sidelined if we feel the action is too fast.

Today was a pretty aggressive trading day, with many chances for profitable trades. Adjust the chart to your skill level, but using a moderate aggression level, roughly $3.50 was possible today taking the trade set-ups above.

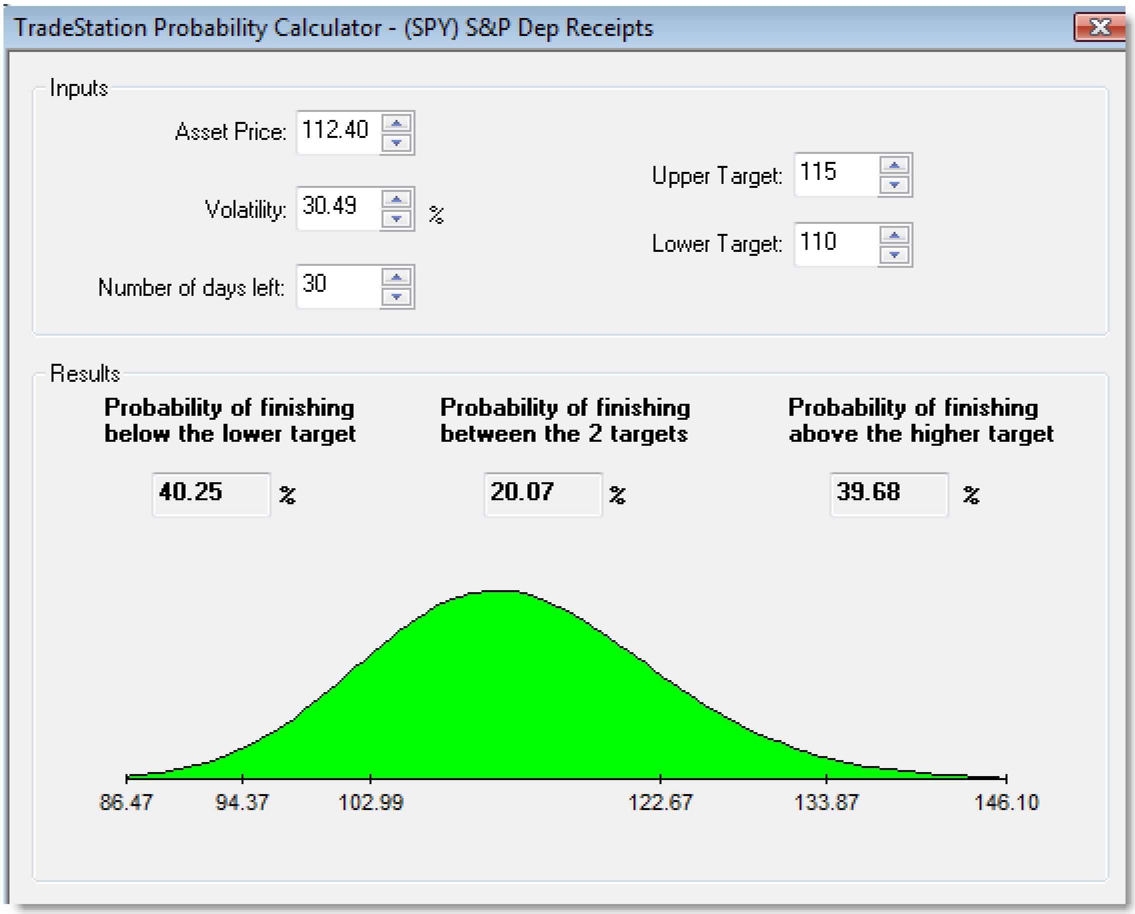
Remember, pay attention to market structure - the day remained contained within seemingly obvious parallel descending trend channels... and in that sense, that should have shaped your trading plans instead of trying to figure out when to get long or when the market would bottom for the day.

SO FAR TODAY			25 DAY AVERAGE	
DIFFERENCE	15-min VOLUM	EST	15-min VOLUME	RANGE
(1,495,374.44)	16,937,602	9:45	18,432,976.44	0.52
(891,811.16)	12,773,709	10:00	13,665,520.16	0.52
44,430.88	13,098,822	10:15	13,054,391.12	0.46
(2,234,065.21)	8,357,053	10:30	10,591,118.21	0.47
1,268,779.42	13,370,098	10:45	12,101,318.58	0.45
7,177,933.29	17,429,395	11:00	10,251,461.71	0.39
567,664.88	10,570,221	11:15	10,002,556.13	0.45
(4,592,390.17)	7,155,360	11:30	11,747,750.17	0.50
(1,820,727.75)	7,485,896	11:45	9,306,623.75	0.36
(115,522.58)	8,141,982	12:00	8,257,504.58	0.39
1,673,788.50	9,772,836	12:15	8,099,047.50	0.50
8,201.79	6,692,034	12:30	6,683,832.21	0.37
(1,523,970.38)	4,333,863	12:45	5,857,833.38	0.32
4,838,915.17	10,163,669	1:00	5,324,753.83	0.27
9,358,489.58	15,656,588	1:15	6,298,098.42	0.36
4,151,043.13	10,589,423	1:30	6,438,379.88	0.45
7,346,112.04	12,791,870	1:45	5,445,757.96	0.29
8,386,348.13	13,709,259	2:00	5,322,910.88	0.29
4,540,093.79	11,399,101	2:15	6,859,007.21	0.39
2,906,040.79	10,975,061	2:30	8,069,020.21	0.36
7,715,995.21	16,982,644	2:45	9,266,648.79	0.52
4,524,098.29	13,487,506	3:00	8,963,407.71	0.70
7,400,801.46	17,192,959	3:15	9,792,157.54	0.47
2,777,095.50	12,225,143	3:30	9,448,047.50	0.41
4,534,088.46	16,202,294	3:45	11,668,205.54	0.48
5,211,273.33	25,211,130	4:00	19,999,856.67	0.44

Today was certainly a day where relative volume analysis helped. During the morning session (the gap up), we had lower 25-day relative volume (non-confirmation) which gave better odds of a gap fade.

However, as price began its sell-off mid-day, notice how the relative volume surged to the upside (9 million more shares than normal at 1:15 EST) which confirmed the selling pressure and hinted that lower prices were yet to come.

That's exactly what happened throughout the remainder of the session, and the bearish relative volume surge could carry over into tomorrow's trading session with a bearish bias, particularly if we break under $112.00.



Here's a fun little chart from TradeStation's Options Volatility Probability Calculator that allows you to input the current price and the days left, along with the upper price target and lower price target, and - using the current volatility percentage, it calculates the odds AS THEY EXIST TODAY of the market closing above the upper target, beneath the lower target, or staying between these two targets that you specify.

While this tool is best used by options traders, stock or index traders can use it to calculate probabilities of these targets being hit for a stock.

That being said, there's a 20% chance that the SPY will be between $110 and $115 30 days from now.

There's an equal - 40% chance - that it will be either above $115 or beneath $110. Keep in mind that this calculation does NOT take into account direction, but only volatility. Interesting, nonetheless.

The bullish close/recovery yesterday did carry us up to the key level I mentioned, which was the 1,150 / $115.00 price level as initial resistance. That level held... and held in a big way... as price steadily declined after failing to overcome this resistance level.

Price fell all the way down to the most recent short-term support at $112.00, which is made so from yesterday's low. This will be the key level to watch tomorrow - short if under $112.00 to get us to our target of 1,100 / $110.00... which could be a support level... or continue shorting if sellers break us through that level as well.

Be cautious on any move up through $112.50 then $112.75, and be prepared to play popped stops if we break above $113.00 potentially.

The 60min chart shows a similar structure. Notice the volume and momentum decline that preceded the recent sell-of - let that be a great lesson for the future.

As for now, volume has increased during the sell-off, which serves as a confirmation of lower prices, but we still have two support levels to contend with and don't be surprised if these levels hold. They're $112.00 short-term support ant $110.00 KEY support. If under $111.00... then the next logical level becomes $105.00.

The big chart news of today was that we had a daily Death Cross of the 20 and 50 EMAs at 1,160. That's generally a late signal that a trend has reversed, but we had a similar pattern in early February that did not result in a trend reversal, so keep that in mind before you rush out full short here.

We still have two key levels of support to contend with on the indexes - 1,110 and 1,100 as drawn.

Anything under 1,100 sends the next support zone and price target to 1,050.