

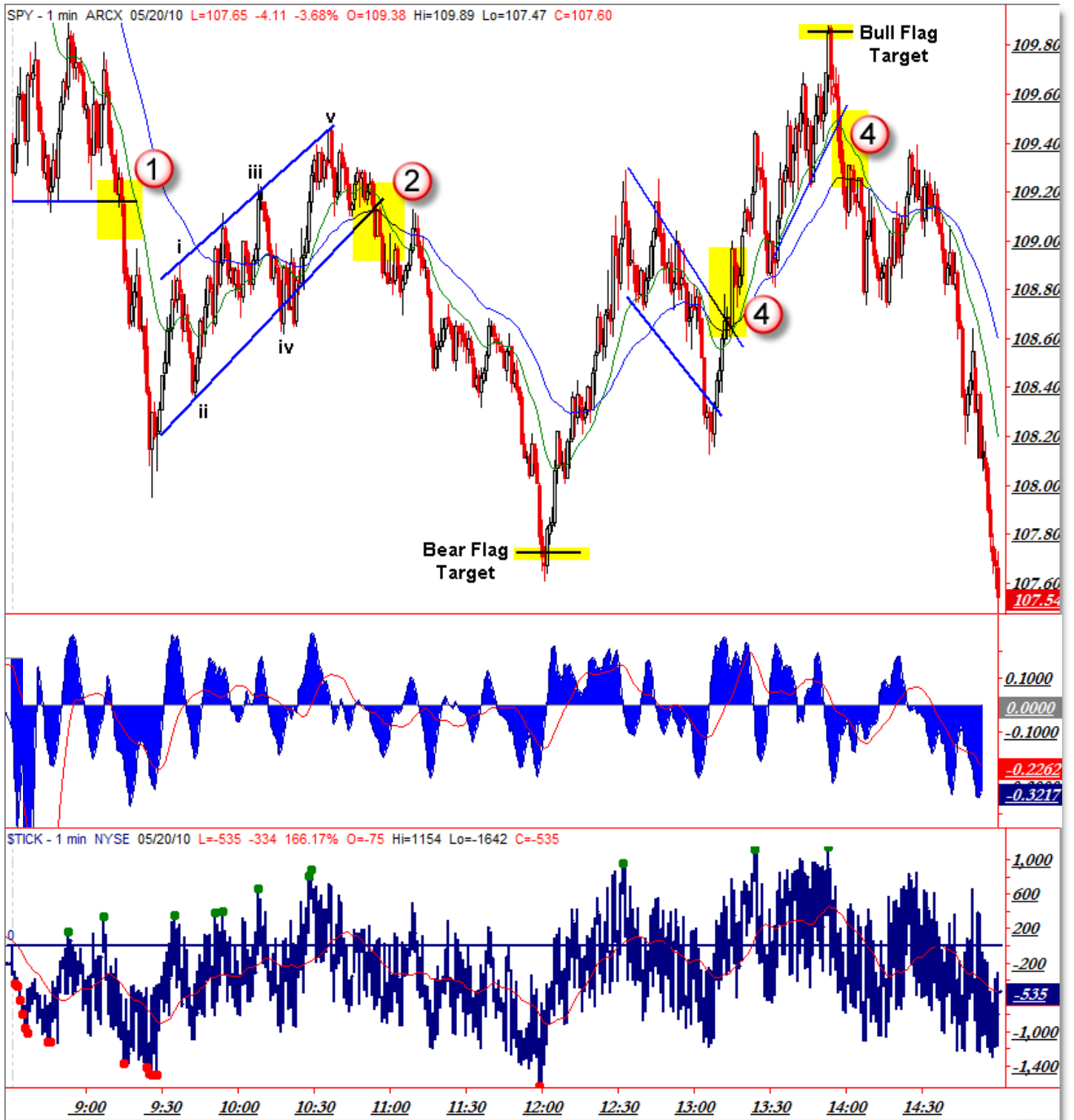
AFRAID to TRADE

overcoming stock market fears *with* Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY





Today was a testament to my new favorite market saying:

“When something SHOULD happen but does NOT happen, then it often leads to a larger than expected move in the OPPOSITE direction.”

1,100 was key confluence support, and we had positive internal divergences backing up the assumption that odds favored a rally today... and they did. The alternative, or the “IF/THEN” statement (as I prefer to trade by, rather than getting biased in a direction) was,

“Yes, we expect a bounce, but if we see a move under 1,100 and thus “no bounce,” we will expect a harsh sell-off and thus short.”

That’s exactly what happened. Futures traders could see it happening before the market opened, and once the market opened, we had gapped down under 1,100 - the key level - and then it was “game on” to expect a positive feedback loop (bears shorting/bulls stopping out selling) for lower prices. The end result? The indexes fell 4% today, placing us in what certainly feels like “Free-fall” mode which is just the opposite of what we had going up when it felt like the market would never stop melting up, and that the market kept breaking resistance and sell signals. Now, it feels like the market won’t stop going down, keeps breaking key expected support levels, and is making a mockery of the bulls.

With that in mind, and if we keep seeing this continue, I would say we are now in a bear market mode, the trend is turning (if it hasn’t already turned into a downtrend) and we should adjust accordingly.

1. BREAKOUT TRADE, POPPED STOPS

This was “Popped Stops” in reverse - this time unfortunately for the buyers/bulls who had gotten long to swing or position trade off yesterday’s rally off the key 1,100 level. It didn’t work out for them, and so they had to rush simultaneously for the exits, selling their positions for a loss. For intraday traders, however, that was an opportunity to short, and as seen on the 1-min chart, once we broke support at the \$109.00 level, that was a quick, aggressive trade set-up to play into a positive feedback ‘popped stops’ loop for as long as possible, trailing a stop all the way down.

The best exit was as price took out the high at \$108.40 of the bullish candle as seen on the 5-min chart. Notice we had formed a tiny positive momentum divergence on the 1-min 3/10 Oscillator (tiny as in from a few bars past, not from the morning gap low).

I would NOT have suggested trading long to try for a pullback move to the 20 EMA, which actually is what happened, but to get ready to short the breakdown and/or sell signal that formed into the 20 EMA... the impulse sell/bear flag set-up.

2. IMPULSE SELL, BEAR FLAG, TRENDLINE BREAK, DOJIS

This was a ‘gimme’ trade if you understand the momentum principle. New price lows + new momentum (or TICK) lows precede new price lows yet to come... after a pullback. So, get short the pullback. In this case, the best entry was either after price took out the reversal candle (dojis) low at the \$109.00 level, placing a stop above \$109.40 (wide stop) and playing for a full flag projection target to the \$107.60 level (shown in a separate ‘flag’ chart) or waiting for any confirmed buy signal (divergence, etc). The other entry was as price took out the rising trendline (1-min) at the \$108.80 level.

If you did not exit exactly at the flag price projection target (\$107.70), then you should have exited either as price took out the high of the (almost) bullish engulfing bar, or broke the falling trendline on the 1-min chart. Due to the new TICK, momentum (not counting the morning gap), and price low, you would be expecting a new price low yet to come, so you would similarly get ready to short at the first pullback to the 20 EMA IF a reversal candle formed... but it did not.

Instead, price sliced through the 20 EMA and then formed a Wyckoff Sign of Strength signal at 12:30 (new TICK high on the day while price is NOT making a new high). This threw cold water on your bearish expectations, and led you to believe that we could have a potential trend reversal, or at a minimum, that a new price high could yet be around the corner. We generally look to buy the first retracement after a Wyckoff Sign of Strength, if you are aggressive.

That actually turned out to be a bull flag trade set-up as well.

3. WYCKOFF, BULL FLAG, HAMMER

This was also an aggressive play that looked to buy a retracement after a Wyckoff Sign of Strength and potential bull flag trendline break. It also had a bullish hammer-like candle at 1:10pm, so the entry was as price rose above this candle high at \$108.50 to play for a full 100% bull flag projection (as shown in a lower chart) to \$109.70 (or other sell-signal).

That's what happened, and you should have exited either at \$109.70 or as price came down from that level, with the long upper shadow candles there and the trendline break (and bearish engulfing candle) shortly after.

Because we had a price projection target, negative momentum divergence, negative TICK divergence (look closely and exclude the final spike), we had a chance to get short here on a break of the rising trendline.

4. BULL FLAG TARGET, NEGATIVE DIVERGENCE, TRENDLINE BREAK, REVERSAL CANDLES

When price achieves a full price projection target from a bull flag, it can also be a sell-short signal by itself. Otherwise, traders would continue holding on beyond the target for a bull flag. We also saw a negative momentum and tiny TICK (1-min, excluding spike high) divergence at the \$109.70 level, then price formed a bearish engulfing candle and sliced back through the confluence EMAs at the \$109.00 area, giving you plenty of chances to enter safely.

I would suggest that the exit for this trade was as price began to rise back above \$109.00, taking out prior candle highs to protect yourself in the event we had another (frustrating to bears) rally into the close.

We didn't, and although I did not label it as an ideal trade (it happened so fast and I often don't advocate new traders to trade into the close), you could have taken a short as price broke back to take out the prior swing low at \$108.80... for a windfall profit and unexpected sharp sell-off into the close.



Depending on your skill and aggression level, \$2.88 was possible today, including a small 'scratch' for trade #4.

If you did decide to short into the close, you could have added a quick extra \$1.00 to your day... but it all unfolded in 20 min... far too fast for most traders to position themselves.

SPY - 5 min ARCX 05/20/10 L=107.50 -4.26 -3.81% O=109.38 Hi=109.89 Lo=107.47 C=107.74



The day's two flags; bear and bull.

To project the target for a flag, draw a Fibonacci Price Projection tool from the high to the low (of the pole) and then to the high of the flag to project a bear flag target (in this case, \$107.70) and vice versa for a bull flag.

Alternately, measure the distance from the high to the low of the pole and then subtract that (copy/paste) from the high of the flag. In Fibonacci terms, it's the 100% projection... or "Measured Move."

SO FAR TODAY		EST	25 DAY AVERAGE	
DIFFERENCE	15-min VOLUME		15-min VOLUME	RANGE
13,585,581.04	33,386,919	9:45	19,801,337.96	0.56
6,756,529.96	21,525,880	10:00	14,769,350.04	0.56
6,972,982.28	21,276,580	10:15	14,303,597.72	0.52
17,384,838.16	29,816,775	10:30	12,431,936.84	0.51
4,865,961.96	17,842,092	10:45	12,976,130.04	0.47
2,660,435.84	13,885,461	11:00	11,225,025.16	0.45
3,542,498.80	14,128,941	11:15	10,586,442.20	0.47
1,724,026.44	13,918,456	11:30	12,194,429.56	0.52
1,254,169.12	11,036,007	11:45	9,781,837.88	0.40
71,280.04	9,011,396	12:00	8,940,115.96	0.42
(946,626.28)	7,553,368	12:15	8,499,994.28	0.54
2,854,930.92	10,165,210	12:30	7,310,279.08	0.41
932,711.44	7,095,374	12:45	6,162,662.56	0.34
8,265,246.88	14,503,694	1:00	6,238,447.12	0.32
10,320,937.96	17,913,369	1:15	7,592,431.04	0.41
10,698,207.56	18,193,088	1:30	7,494,880.44	0.49
10,968,120.28	17,458,522	1:45	6,490,401.72	0.32
6,323,546.44	12,660,286	2:00	6,336,739.56	0.31
6,058,316.68	13,768,852	2:15	7,710,535.32	0.42
5,586,028.28	14,417,473	2:30	8,831,444.72	0.40
8,736,857.48	19,191,086	2:45	10,454,228.52	0.56
11,122,452.28	21,151,177	3:00	10,028,724.72	0.72
3,925,105.96	14,698,348	3:15	10,773,242.04	0.52
3,028,290.32	13,290,988	3:30	10,262,697.68	0.45
3,971,586.52	16,506,770	3:45	12,535,183.48	0.51
24,489,173.60	46,751,759	4:00	22,262,585.40	0.47
6,736,661.15	17,351,841.19	Ave.	10,615,180.04	0.47

Every day that you see the left side 'difference' green is a day that confirms the direction of the close, in this case a bearish/down close. That's because today's volume was higher in all 15-min periods (except one) than the 25 day average.

If you're using this as a reference to track 15-min volume by hand intraday, the new 25-day average is updated as such.



Although at the time, it didn't seem it was going to be the case, what we have today is just a simple retracement back to the falling 20 EMA with multiple doji/reversal candles... a classic sell-set-up in the context of a declining trend.

I suspected the \$111.00/\$110.00 level would at least give some sort of retracement, but because it didn't (it gave a \$2.00 swing into yesterday's close), it helped contribute to today's vicious sell-off.

What now? Though we had a positive momentum divergence at the mid-day low, sellers closed the session pushing prices to the absolute low of the day. That's bearish, and the trend is clearly down, which suggests that lower prices are yet to come.

The next 'line in the sand' target is \$105.00... and if we don't bounce soon, we will certainly see it.



Price also formed dojis and retraced to the falling 20 EMA on the 60-min chart. Moving averages are more important in a trending environment, as we can see above.

Volume has been surging every day since the lengthy negative volume divergence preceded the peak on May 13th.

This confirms the downtrend, warns that we are seeing a period of institutional distribution, and hints at even lower prices yet to come.

The next short-term downside target is \$105.00.

Remember that tomorrow is an Options Expiration day, so be a little cautious and keep that in mind if things 'feel' weird tomorrow.



Support failed. Miserably. Sellers clearly and unquestionably overtook buyers today, pushing the index down to threaten to make a new 2010 low, and placing us just above the 'panic' (flash crash') low from May 6th.

The Dead Cat Bounce pattern/play that I've been describing appears to be the dominant pattern, and is playing out exactly on cue. I'm very surprised that we couldn't bounce even a little (more than a few hours) which reminds us of the days when the market wouldn't stop rallying... it appears the tide has turned, and if so, then we are now in a bear market. I would be much more confident in calling this an official bear market, and will do so, if price falls under the next expected target at 1,050. If so, then the next target becomes 850. Also, price would have put in a lower low, lower high, then taken out the prior lower low on a large scale... which is the official definition of a trend reversal. For those who use the 200 day SMA as a reference, then today officially places the market in an official bear market. Why does that matter? Because funds tend to watch that average, retail investors hear about people talk about it on the news and then call their broker and say "sell everything!!". The target, and key, remains 1,045/1,050.