

AFRAID to TRADE

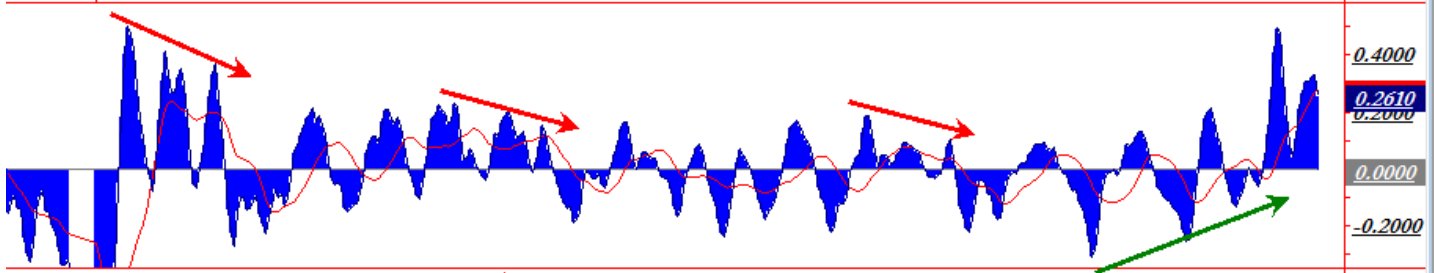
overcoming stock market fears *with* Corey Rosenbloom

Daily "Idealized Trades" Report

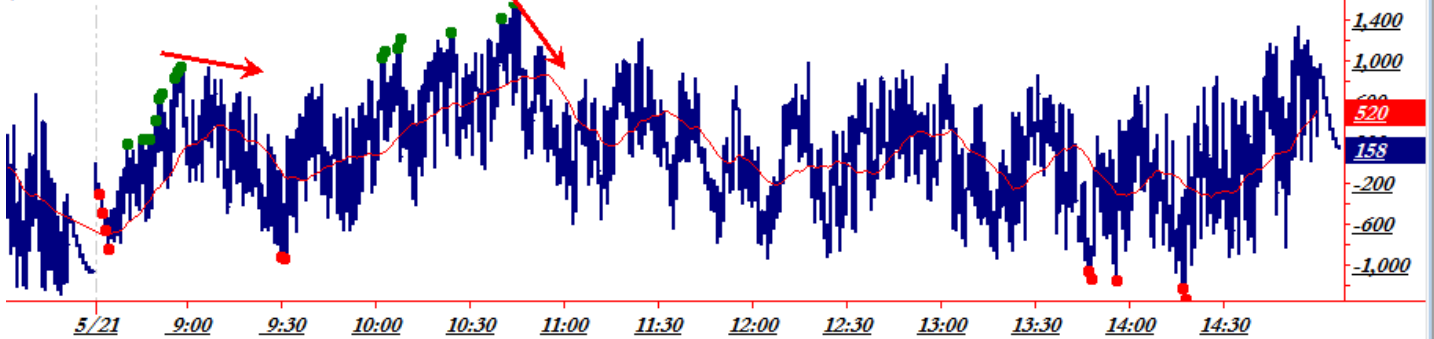
S&P 500 ETF: SPY



SPY - 1 min ARCX 05/21/10 L=108.87 1.33 1.24% O=105.91 Hi=109.38 Lo=105.36 C=108.87



STICK - 1 min NYSE 05/21/10 L=158 1221 -114.86% O=-68 Hi=1564 Lo=-1340 C=158



Today reminds us why many new traders - and even some experienced ones - take an early weekend and avoid trading Options Expiration Fridays. All traders should be more cautious than normal on Expiration days because there is a higher degree of random noise in the price action, and virtually all patterns are more likely to fail than normal. Why? Patterns are based on supply/demand of traders putting on and taking off positions. On an Options Expiration Friday, we have large funds that are putting on and taking off positions without regard at all to the charts, but with regard to how net long, short, or flat their fund is - and they will get the fund back to neutral if that is the goal, which often results in very random moves as this process goes on across the trading universe, with little traders being thrown about as the big funds position and reposition themselves for when options expire on Saturday.

That doesn't necessarily mean that you should run away screaming and never trade an Options Expiry Friday, but it does mean that things that usually work might not work, and you're more likely to be stopped out by random moves than normal. Still, let's look at some of the potential trades as is our custom of learning from each day.

1. BEAR FLAG, IMPULSE SELL, 50 EMA, SHOOTING STAR

Keep in mind we gapped down almost \$2.00 in the SPY under \$106 (keep in mind the logical target was \$105), and then immediately began a rapid rally that suddenly filled the gap - most likely too quickly for you to position yourself... and even then a \$1.50 gap is unlikely to fill. But this one did.

The first ideal set-up occurred as price retraced back to the 50 EMA resistance, formed a shooting star candle, and then price took out the low of the candle. If aggressive, you could have entered immediately as price began falling from the \$108.50 level, or entered as the shooting star low was taken out under \$106.80. The stop was above \$106.50 (yes, a 50 cent stop... if the volatility is too much, you must remain on the sidelines and not trade) and target a retest of the \$106.00 low... but again, good trade management saved you.

Price fell as expected for the next 20 min, then formed a spinning top candle that bounced just off \$107.00, then the next bar was a nice bullish engulfing candle that took out the high of the spinning top at \$107.50. That was your exit to protect yourself in the event that the trade failed - it did - and stand to the sidelines.

The next trade was a nice "Popped Stops" play as we broke back above the 50 EMA after a failed selling expectation.

2. POPPED STOPS, EMA BREAK

My guess is that a lot of traders thought we were going to go lower, and positioned themselves accordingly. Where will they logically place stops if short anywhere in the morning? Above the intraday high at \$106.50 and above the 50 EMA - that is where you would expect to find a "Pocket" of short-sellers' stop-losses, which means if the price hits that level, you should enter long to try to take advantage of those stops that will be triggered if price rises into the "pocket." It did, and price shot up two strong bullish buy bars that ignited a short-squeeze rally "Popped Stops" that took us up to \$109.30. The reversal candles and negative divergences at the \$109.00 level were logical exits.

If you noticed we just moved \$almost 3.50 from intraday low to high - that's a LOT for a standard day, but today was NOT a standard day. High volume and high volatility are expected on OpEx days - today was no exception!

3. REVERSAL CANDLES, NEGATIVE DUAL DIVERGENCES, TRENDLINE BREAK

If you looked closely - I provided a zoomed-in chart - you would have seen a crystal clear negative TICK and momentum divergence on the absolute price high, and chosen to short-sale after price broke the rising trendline or under a 5-min reversal candle as labeled. I drew this in the idealized trades chart and then labeled a quick exit as price took out the doji high from the bounce off the 20 EMA, making this a scratch trade (didn't really work), but if you managed to be

aggressive and hold on, then you could have shorted at the exact high of the day and played for a reversal for a larger target down. I'll count this trade, like trade #1, as an effective failure. Such is what happens on OpEx days.

4. BEAR FLAG, DOJIS, SHOOTING STAR, ENGULFING, TRENDLINE BREAK

The last logical trade was a great set-up that took advantage of two doji reversal candles and then a bearish engulfing shooting star that formed at the \$108.50 level, breaking under the 20 and 50 EMA lines.

On days like this that are high volatility, it's best to 'slow down' the action by viewing a 1-min chart closer for trade entries/exits, particularly on big trendline breaks, such as the rising 'flag' style trend channel that triggered entry at the \$108.50 level (\$108.65 - doji low) with a stop above the shooting star high at \$108.94 - or above \$109.00 for good measure.

Like trade #3, we had a decent bounce and reversal candles that probably took you out with a smaller profit target than expected, as I labeled in the idealized grid, though again if you were aggressive and held on through the bounce, you achieved a full target and would have exited on either of the two later bounces that occurred.

The final massive swing up into the close reminds us why it can be fatal to trade aggressively into the close on an Options Expiration Friday. That's where the most random moves occur - and today is a great example.

Price did form divergences and a doji before the rally, but the move was caused in part by short-covering/short-squeeze and through portfolio rebalancing on a larger scale that 'flattened out' the portfolios in preparation for options expiring. Not sure you could have done much to profit from this move unless you were extremely attentive, had quick reflexes, and were a very aggressive/experienced trader.



Today's volatility means there was a huge variation in what was possible, so it's not really fair for me to make an official call. Officially, I would consider trades #1, #3, and #4 as failures on any other day, but for today's options expiration day, failed trades from classic set-ups are par for the course!

This should be a valuable lesson in why it's very important to trade safe, with smaller size, during Options Expiration Fridays.

SPY - 1 min ARCX 05/21/10 L=108.87 1.33 1.24% O=105.91 Hi=109.38 Lo=105.36 C=108.87



A zoomed in chart of the 1-min move into the price high on the session, with the triple negative momentum divergence that formed alongside a crystal clear 400 stock difference negative TICK divergence that then led to a rising trendline break and decent trade entry - if you were quick enough to take it.

The high of the day was made on a doji/spinning top that was 'eaten' by a bearish engulfing candle.

SO FAR TODAY		EST	25 DAY AVERAGE	
DIFFERENCE	15-min VOLUME		15-min VOLUME	RANGE
31,807,101.04	53,210,781	9:45	21,403,679.96	0.62
23,541,881.76	39,230,191	10:00	15,688,309.24	0.62
13,469,008.40	28,427,019	10:15	14,958,010.60	0.54
6,466,378.80	19,278,608	10:30	12,812,229.20	0.54
4,673,074.52	17,273,448	10:45	12,600,373.48	0.46
1,055,042.84	11,691,016	11:00	10,635,973.16	0.45
2,617,057.48	13,019,850	11:15	10,402,792.52	0.47
7,132,244.32	18,967,906	11:30	11,835,661.68	0.53
7,385,415.52	17,277,195	11:45	9,891,779.48	0.41
7,611,996.16	16,554,052	12:00	8,942,055.84	0.42
4,014,352.96	12,581,499	12:15	8,567,146.04	0.55
329,346.68	7,712,012	12:30	7,382,665.32	0.42
1,967,202.04	7,982,942	12:45	6,015,739.96	0.34
1,757,429.48	7,921,258	1:00	6,163,828.52	0.35
(327,398.64)	7,133,392	1:15	7,460,790.64	0.45
857,707.80	8,400,819	1:30	7,543,111.20	0.44
1,488,580.00	8,104,358	1:45	6,615,778.00	0.34
(451,450.20)	5,903,157	2:00	6,354,607.20	0.33
890,490.84	8,574,164	2:15	7,683,673.16	0.44
1,693,708.64	10,595,984	2:30	8,902,275.36	0.41
(4,156,942.32)	6,241,415	2:45	10,398,357.32	0.58
2,605,298.84	12,862,072	3:00	10,256,773.16	0.75
(1,404,599.04)	9,324,783	3:15	10,729,382.04	0.53
9,760,963.36	20,562,480	3:30	10,801,516.64	0.47
6,296,341.64	19,219,236	3:45	12,922,894.36	0.53
24,338,202.04	47,587,156	4:00	23,248,953.96	0.51
5,977,632.11	16,755,261.27	Ave.	10,777,629.16	0.48

It's funny - we continue to have days that are well-above the past 25 day average. That's probably because we're in another 'crisis' mode in the markets.

Still, this is the new/updated chart of the 25-day average 15-min volume in the SPY to use as a reference.



The downtrend bias continues, which argues in favor of lower prices yet to come, but look closely and you'll see that we have a positive momentum divergence forming as price broke today above the 20 EMA into the close.

The trendline as drawn rests at the \$109.00 level, so look for traders to cover shorts (short squeeze) and bulls to step back in if we get a move above \$109.00 Monday.

Otherwise, if sellers take us back under \$107.00, expect the full target to be hit at \$105.00 over time.



The \$109.00 level is also confluence with the falling 20p EMA on the 60min chart, making it the line in the sand. Officially, it's \$109.50, but do keep a watch on that level into Monday.

We see a similar positive momentum divergence that undercuts the recent low and argues that we could see a retracement, so keep that in mind and be prepared to trade accordingly.

As I've said before - and as has happened - if we do NOT get a retracement above \$109.00, then expect further massive/sharp sell-offs to take us down to \$105.00 or even lower if bulls can't hold support at the key \$105.00 level.



We tested the lower target from the February 2010 closing low at the \$1,055 level, so the question now is:

“Do we count this as an official ‘test’ and target achieved, and thus expect this to be a double bottom formation?”

If so, then we should see a bounce take us back above 1,100, which is the key level to watch if this is going to lead to a retracement to 1,150. If buyers can only take us to 1,100, then we start to see another sell swing down develop, then get ready to target 1,050, 1,044, and lower if buyers can’t hold the 1,050 level.

The market rests here at an absolutely critical level so be very cautious and as unbiased as possible, ready to react to any new information price gives us next week.



Interestingly enough, we closed the week almost exactly on the 50 week EMA at 1,089. That could be significant, and we could see a bounce from here so be prepared for that possibility.

Other weekly levels to watch include 1,048 (lower Bollinger), 1,014 (38.2% Fibonacci), 1,121 (50% Fibonacci) and 1,133 (20w EMA - the high of this week).