AFRAID to TRADE

overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 05/24/10 L=107.30 -1.81 -1.66% O=108.52 Hi=109.39 Lo=107.61 C=107.71
1
2
3
4
109.20
109.00
108.80
108.60
108.40
108.20
108.00
107.80
107.72
0.4000
0.2000
0.0000
-0.1377
$TICK - 1 min NYSE 05/24/10 L=-439 -587 -396.62% O=-73 Hi=1328 Lo=-1296 C=-439
1,000
600
200
-264
-439
-1,000
5/24
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 your standard "Rounded Reversal," which even took on a "Three Push" pattern, especially if you watched the futures this morning. Let's see the trades and learn the lesson from these set-ups:

1. CRADLE, RETRACEMENT, DOJI, EMA CONFLUENCE

Remember that the 'bias' or expectation from the higher timeframes was for a bounce/rally to occur, so the first actual set-up - notice the gap down this morning - was the doji candle that formed at the convergence of the 20/50 EMA, giving us the "Cradle Trade," at 9:00 at $108.60, either entering AT the EMA confluence at $108.40 or above the break beyond the doji high at $108.60. The stop was beneath the intraday low at $108.20 with a target for a higher high yet to come - which is exactly what occurred. The exit was most likely as price formed the spinning top/doji candle that peaked at $109.20, and expectation - given the potential new uptrend - was to play the next retracement to support, which was trade #2.

2. 50 EMA, LOWER BOLLINGER, DOJI/HAMMER CANDLE

Similar to trade #1, we had a stable pullback retracement to the rising 50 EMA along with the lower Bollinger. A hammer candle formed first, and then a doji candle at 10:45, and price triggered an official entry upon the break above the doji high at $108.65 with a stop under the 50 EMA/candle low at $108.55. The target again was for a higher high yet to come, upper Bollinger, or corresponding sell signal. That occurred at 11:25 as price formed yet another spinning top candle, this time at the upper Bollinger Band at $109.25. Though TICK made a new high, the 3/10 Oscillator did not, and if you were watching the chart closely, you probably saw the "Three Push" negative momentum divergence - I got a couple of email from some members asking about this pattern - yes, it was a valid Three Push pattern and yes it 'worked out' as expected! But the trigger (to short) really wasn't until price broke the lower trendline as drawn... unless you are a very aggressive/experienced trader who was willing to short and take a tight stop-loss if price continued rising beyond $109.40... which it almost did.

3. TRENDLINE BREAK, THREE PUSH PATTERN, NEGATIVE DIVERGENCES, EMA BREAKS

As mentioned above, there were actually three entries for this trade, depending on your aggression level, and it's a good opportunity to show the benefits and weaknesses of early/late entries.

If aggressive, you would have shorted either as price took out the spinning top low at $109.20 at 11:25am, or as price formed an "evening star" or took out the doji then shooting star candle at 12:00 also at $109.20 (a GREAT entry) - both times placing your stop above $109.40. Notice that you would have shorted near the absolute high of the session! That's not your goal, but sometimes it does happen.

If you are conservative in your tactics, then you waited until price broke the rising trendline at the $108.80 level at 12:45, which was a safer play because it had confirmation. Price also broke under the rising 50 period EMA then lower Bollinger (entry) then supported, forming a doji at the 200 SMA at 12:50... which you also could have taken as an exit signal. Most likely, you exited as price began its rally, breaking back above the 20/50 EMA confluence... unless you saw this as another Cradle Trade set-up.

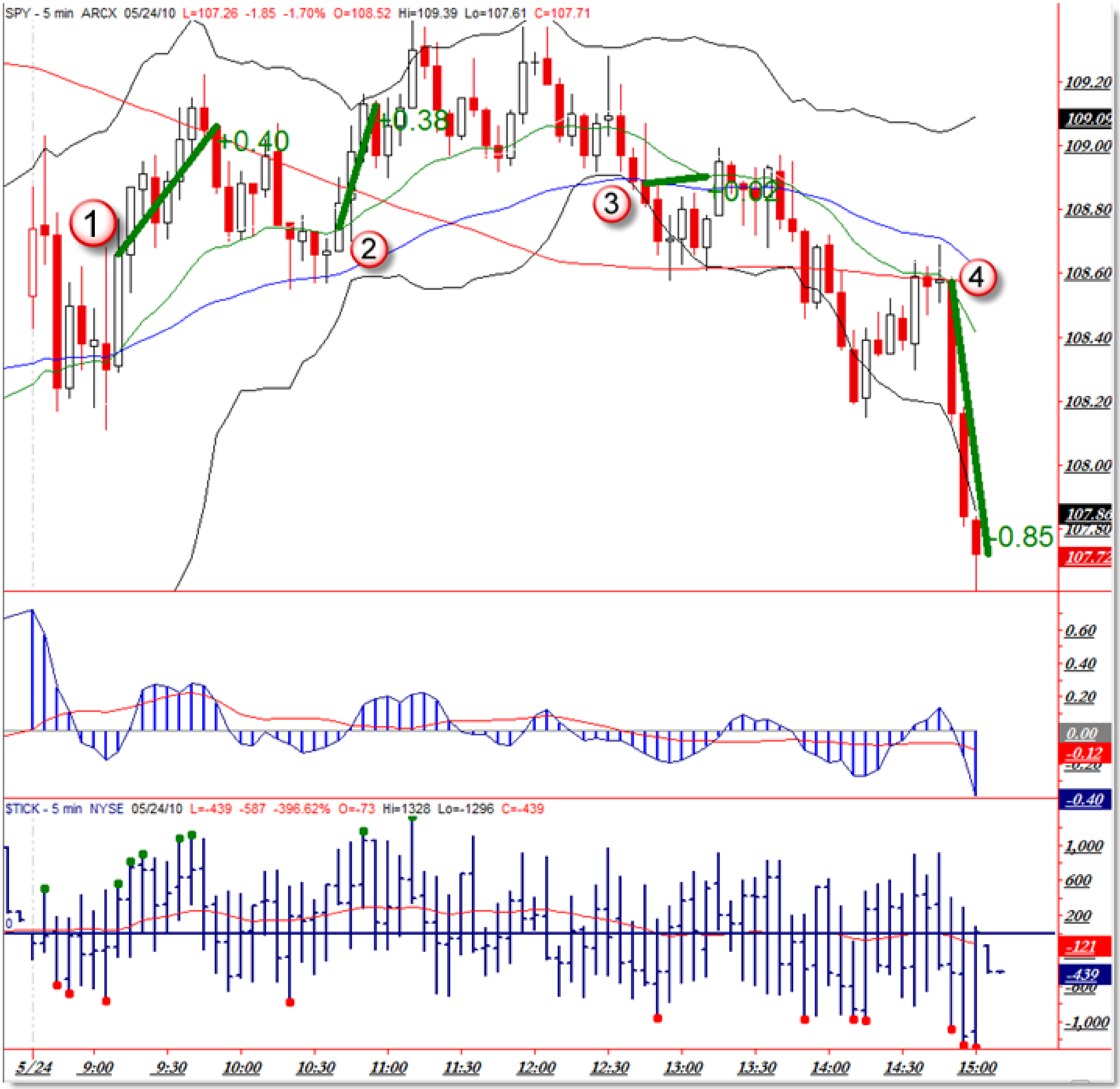
If you were conservative and entered at $108.80, then you probably 'scratched' on the trade as I've labeled in the Idealized Grid Chart - no profit. If you entered from the higher levels above $109.20, then you profited from the trade if you exited at $109.90. However, if you are truly aggressive and believed that we were seeing a trend reversal instead of just a gentle retracement swing, then you HELD ON through the retracement (akin to an Elliott Wave 2 retracement prior to the expected third wave down) and were able to profit all the way into the close... as you probably held short through the final 4th wave which was bear flag into the close.

If not, then you should have taken the final trade into the close - if your strategy allows for trading into the close - as it was an almost perfect trade set-up.

4. BEAR FLAG, WAVE 4 RALLY INTO EMA RESISTANCE, DOJI/SPINNING TOP

This was one of those trades that you'll remember for a while. We had a Wyckoff Sign of Weakness at 12:50 which came off of a three push negative momentum divergence, which hinted that the trend was now shifting to the downside, particular as price broke the rising trendline.

Price had already formed a three-wave move and now was retracing - in perfect bear flag trend channel lines - to the confluence again of the 20 and 50 EMAs at $108.60. Price gave you a stellar entry as a doji candle formed into resistance, then took out the doji low at $108.50 for your official entry with stop above the EMA high at $108.70. There really wasn't a clean target, because the close was near, but price fell sharply into the close, carrying further if you were trading futures and didn't exit right at the ETF close. Use this trade as a reference!



Using a moderate aggression level, and 'scratching' on trade #3, roughly $1.60 was possible in today's trading session.

The Wyckoff Sign of Weakness at 12:45 was a wonderful example of the Wyckoff Set-up (new TICK low when price is NOT making a new intraday low... particularly as price has formed negative divergences into the high).

Even if you don't trade futures - though many members do - it's helpful to watch futures for clues on the session, or to see if there was a pattern/structure that you might be missing if you only look at the NYSE session.

For example, this was one of the cleanest Three-Push "Triple Swing Negative Momentum Divergences" and Mirror Image Reversals I can remember - but you wouldn't have seen it if you didn't view the futures chart.

SO FAR TODAY			25 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
3,246,326.20	25,034,952	9:45	21,788,625.80	0.63
(1,186,801.00)	14,628,820	10:00	15,815,621.00	0.63
1,205,074.40	16,418,200	10:15	15,213,125.60	0.56
(2,986,557.24)	9,908,165	10:30	12,894,722.24	0.56
1,742,699.92	14,470,931	10:45	12,728,231.08	0.49
(1,377,565.56)	9,416,821	11:00	10,794,386.56	0.45
(4,339,011.20)	6,056,314	11:15	10,395,325.20	0.57
(6,032,100.56)	5,835,079	11:30	11,867,179.56	0.57
(4,677,636.24)	5,196,392	11:45	9,874,028.24	0.43
(2,953,206.32)	5,629,013	12:00	8,582,219.32	0.42
(3,217,125.00)	5,128,232	12:15	8,345,357.00	0.55
(2,950,492.44)	4,358,262	12:30	7,308,754.44	0.42
(1,416,301.48)	4,645,108	12:45	6,061,409.48	0.34
(1,624,501.24)	4,576,370	1:00	6,200,871.24	0.36
(3,087,131.60)	4,410,150	1:15	7,497,281.60	0.46
(2,354,810.76)	5,237,291	1:30	7,592,101.76	0.46
(2,676,762.28)	3,962,355	1:45	6,639,117.28	0.35
337,503.24	6,776,892	2:00	6,439,388.76	0.33
(2,444,214.64)	5,189,407	2:15	7,633,621.64	0.45
(5,697,642.44)	3,010,395	2:30	8,708,037.44	0.41
(5,140,375.92)	5,182,083	2:45	10,322,458.92	0.59
(4,153,761.68)	6,058,981	3:00	10,212,742.68	0.75
1,423,986.56	12,312,292	3:15	10,888,305.44	0.54
(5,197,013.92)	5,603,351	3:30	10,800,364.92	0.49
(4,522,371.32)	8,482,613	3:45	13,004,984.32	0.55
3,616,199.72	27,481,541	4:00	23,865,341.28	0.54
(2,171,676.65)	**8,654,231.15**	**Ave.**	**10,825,907.80**	**0.50**

Visualize with me, if you will. Today, most of the day we had a rally, except for the sell-off into the close.

Price was 'retracing' to the upside, yet as you can see, it did so on less volume today than the 25-day average.

What does that tell you?

The upward move is NOT being confirmed by volume, such that the up-swings are 'retracements' against the prevailing downtrend in price, and volume is surging on the downswings and declining on the upswings. This means we are likely to see lower prices still yet to come, at least from a comparative volume perspective. And it also says that we're likely in a new bear market or downtrend. We'll know for sure if we close under 1,044.

We did get a retracement as expected, but true to form, the retracement was VERY weak and occurred on LOWER volume. That hints that lower prices are yet to come, so get ready for that. Price broke downwards from an ascending triangle pattern today, and if you were looking at the 30-min chart, you could have taken an aggressive short as this occurred. It was the downward break through the rising trendline as described in the 5-min chart.

Odds are strong now that - barring any unforeseen bullish news - we will see $105.00 or lower over the next few days.

I always advocate watching the 20 and 50 EMAs on the 30 and 60 min chart, and here's why. Today's intraday high was almost exactly the falling 20 period EMA value on the 60 min chart at the $109.00 level. A tiny spinning top hourly bar formed, giving you a golden swing-trading (and intraday of course) shorting opportunity with a tight stop above the then high and playing for a potential full swing back to $106 at least if not $105.

That becomes our dominant viewpoint - unless we see price back above $109, then we expect price to test $106 and then our ultimate target of $105. Under $105 ($104 to be official) sends the target to $85. Yes. That's why it's absolutely important to see what happens here at $105.

If we can't get a bounce above 1,090 from such a bullish candle that inflected off the key support level as highlighted, then folks we can almost be assured we'll see 850 in the index at this rate.

The bias remains the same - if above 1,100, then target 1,140 for a retracement... BUT if we fall under 1,050 then 1,044 (the official February low... along with a Gann number) then we target next the July 2009 low near 850.

In times of crisis, price can fall fast - and that appears to be what's happening here. If bulls can't cause a retracement swing, then we could see another collapse and positive feedback loop as bulls sell their shares if under 1,050 (and funds liquidate) and bears will be going short if under 1,050, and we could have a similar repeat of the Flash Crash (though not as severe) where we just get a flood of sell orders hitting the market and plunging the index lower.

That's the parameters/environment we trade now. It all comes down to what happens at 1,050.