AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report


SPY - 1 min ARCX 05/05/10
$TICK - 1 min NYSE 05/05/10
117.80
117.60
117.40
117.20
117.00
116.83
116.60
116.40
116.20
0.2000
0.1000
0.0257
-0.1000
1,000
600
200
-124
-351
-600
-1,000
5/5
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

We did get a rally as expected... but it happened after a downside gap! And then after price filled the gap, we devloved into an afternoon rounded reversal pattern. We're either forming a double bottom pattern here... or about to break down to test 1,150. Today's lesson is that you can't let bias - as much as possible - guide your decisions. In other words, those who said "Price is under 1,170 and price HAS to go down now" (which was absolutely logical) were caught off guard by the morning rally, just as those who said "Well now we're back above 1,170 and that gap was a vicious bear trap and we're now in popped stops mode and here we go again higher" got caught off guard in the afternoon sell-off.

The lesson is to monitor internals and divergences very closely... because we had a positive divergence in the morning that forecast a likely rally just as we had a dual negative divergence at noon EST that forecast that a reversal was likely. Price, not bias, is king. We have to have opinions about where price is likely to go, but we can't let those opinions overrule what we're seeing on the charts.

1. LOWER BOLLINGER, POSITIVE INTERNALS DIVERGENCE, SPINNING TOP, BULLISH ENGULFING HAMMER

This took most traders by surprise but it was telegraphed well in advance if you looked closely. Price gapped sharply lower this morning (amid pictures of rioters/fire in Greece on TV) and formed a wild down/up swing, then formed a spinning top candle which was then 'engulfed' by a bullish engulfing hammer candle. ALL of this happened on a positive divergence in ALL three market internals as I posted in this morning's blog post:

http://blog.afraidtotrade.com/morning-check-on-market-internals-may-5/

Price also broke the trendline on the 1-min chart. So an entry was placed on the break of the spinning top and trendline at the $116.40 level to target a gap fill back to $117.50... or AT LEAST (perhaps more appropriately) to the falling 20 or 50 EMA on the 5-min chart. Price rallied very quickly up to the 20 EMA, formed a doji candle, but only broke this low by a penny, leaving you in that murky zone of "Do I exit or do I hold on?" A conservative trader would certainly have exited at the $116.80 level while an aggressive trader would have exited if price continued lower beneath the doji candle. As such the reversal was quick and price rocketed through the 20 EMA to form another doji that this time formed a small TICK divergence as price broke back under the low of the doji - which I labeled as a logical exit just above $117.00.

Price consolidated at this time, giving few clues as to direction, but then the next trade came from a nice symmetrical triangle break.

2. SYMMETRICAL TRIANGLE BREAK, POPPED STOPS

Price formed a nice triangle pattern into 11:00am then broke the upper boundary at the $117.20 level, triggering a range expansion trade that corresponded shortly after with a break to new intraday highs, triggering a "Popped Stops" play on top of the triangle break as bears were forced to cover at new intraday highs.

The best exit for this trade was after price took out the low of the spinning top candle that formed at 11:25 at the prior overhead resistance level (1,175 on the SP500 from yesterday's resistance). Look closely to see the 1-min negative dual TICK and momentum divergence that should have at least been a warning that 'all bullish things are not right.' This high was the terminal wave of a nice Elliott Fractal... and the trendline/moving average break shortly after gave you a short-sale entry.

3. ELLIOTT FRACTAL, TRENDLINE BREAK, DUAL DIVERGENCES, SPINNING TOP

Where you entered short depends on your aggression level, with an aggressive trader entering close to the known resistance level at 1,175 ($117.75) as we began to trade down from that level AFTER a negative dual TICK and momentum divergence failed to confirm the new intraday high into resistance.

A moderate trader would take a short after the trendline was broken at the $117.55 level at 11:30, while a conservative trader may have passed, not wanting to trade counter-trend, or decided to short only after price broke the 20 and 50 EMA confluence at $117.30.

Either way, the best exit was after the massive bullish candle formed off the lower Bollinger Band at the $117.05 level.

4. TRENDLINE BREAK, WYCKOFF SIGN OF WEAKNESS

This was a continuation - of sorts - of the prior short sale trade, only the trade entry was triggered as price broke the rising trendline (1-min) at the $117.20 level. Notice also that the TICK formed a new intraday low on the prior downswing while price did not, creating a Wyckoff Sign of Weakness. This teaches to look to sell the first pullback after the Wyckoff signal... but we should be cautious in this environment of multiple failed bearish signals.

Still, price triggered entry with the trendline break which then gave us a Rounded Reversal style trade to play for a range expansion move or a full reversal. This meant to hold on as long as possible, with the logical exit price being the break above the spinning top at the lower Bollinger at 2:00 CST as shown.

An aggressive trader could have flipped/reversed here to scalp long to play for a retest of the 20 EMA... which was successful as well.

Using a moderate aggression level, roughly $1.75 (17 @ES points) were possible in today's trading session, though flexibility and no bias were required.

SO FAR TODAY			25 DAY AVERAGE		Today
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE	Range
15,821,418	27,569,012	9:45	11,747,594	$ 0.31	$ 0.68
10,094,435	18,880,081	10:00	8,785,646	$ 0.31	$ 0.70
10,710,398	19,172,764	10:15	8,462,366	$ 0.29	$ 0.40
7,336,382	13,938,216	10:30	6,601,834	$ 0.30	$ 0.42
3,634,221	11,541,435	10:45	7,907,214	$ 0.27	$ 0.54
5,733,382	12,248,899	11:00	6,515,517	$ 0.26	$ 0.38
5,944,325	11,454,842	11:15	5,510,517	$ 0.29	$ 0.46
78,276	6,545,952	11:30	6,467,676	$ 0.23	$ 0.35
(453,981)	5,349,909	11:45	5,803,890	$ 0.20	$ 0.36
5,184,040	9,829,429	12:00	4,645,389	$ 0.20	$ 0.46
3,699,771	7,992,457	12:15	4,292,686	$ 0.24	$ 0.38
2,279,218	6,422,924	12:30	4,143,706	$ 0.19	$ 0.38
3,592,471	7,266,499	12:45	3,674,028	$ 0.18	$ 0.48
2,081,415	5,450,980	1:00	3,369,565	$ 0.22	$ 0.38
1,460,066	5,183,662	1:15	3,723,596	$ 0.27	$ 1.06
846,290	4,119,289	1:30	3,272,999	$ 0.18	$ 0.36
3,403,503	6,422,114	1:45	3,018,611	$ 0.19	$ 0.29
1,979,812	5,069,028	2:00	3,089,216	$ 0.27	$ 0.27
2,477,248	6,542,145	2:15	4,064,897	$ 0.21	$ 0.28
4,131,758	8,385,273	2:30	4,253,515	$ 0.25	$ 0.26
8,389,327	13,098,658	2:45	4,709,331	$ 0.22	$ 0.66
9,554,220	14,469,920	3:00	4,915,700	$ 0.23	$ 0.43
3,190,769	8,415,037	3:15	5,224,268	$ 0.24	$ 0.29
3,612,826	8,807,943	3:00	5,195,117	$ 0.28	$ 0.38
5,247,766	11,813,555	3:45	6,565,789	$ 0.28	$ 0.41
5,992,478	18,398,364	4:00	12,405,886	$ 0.30	$ 0.42
4,846,994	10,553,400	Ave.	5,706,406	$ 0.25	

Like yesterday, volume at every single 15-min span (except on) was higher than the (updated) 25 day average, but on a Rounded Reversal day, it's difficult to isolate that into buyers or sellers... perhaps both.

Range for each 15-min session was higher on all categories.

The intraday high today was actually a test of the falling 20 EMA on the 30min chart as seen above - that's why it's important to reference higher timeframe averages... if doing so does not confuse you for the session.

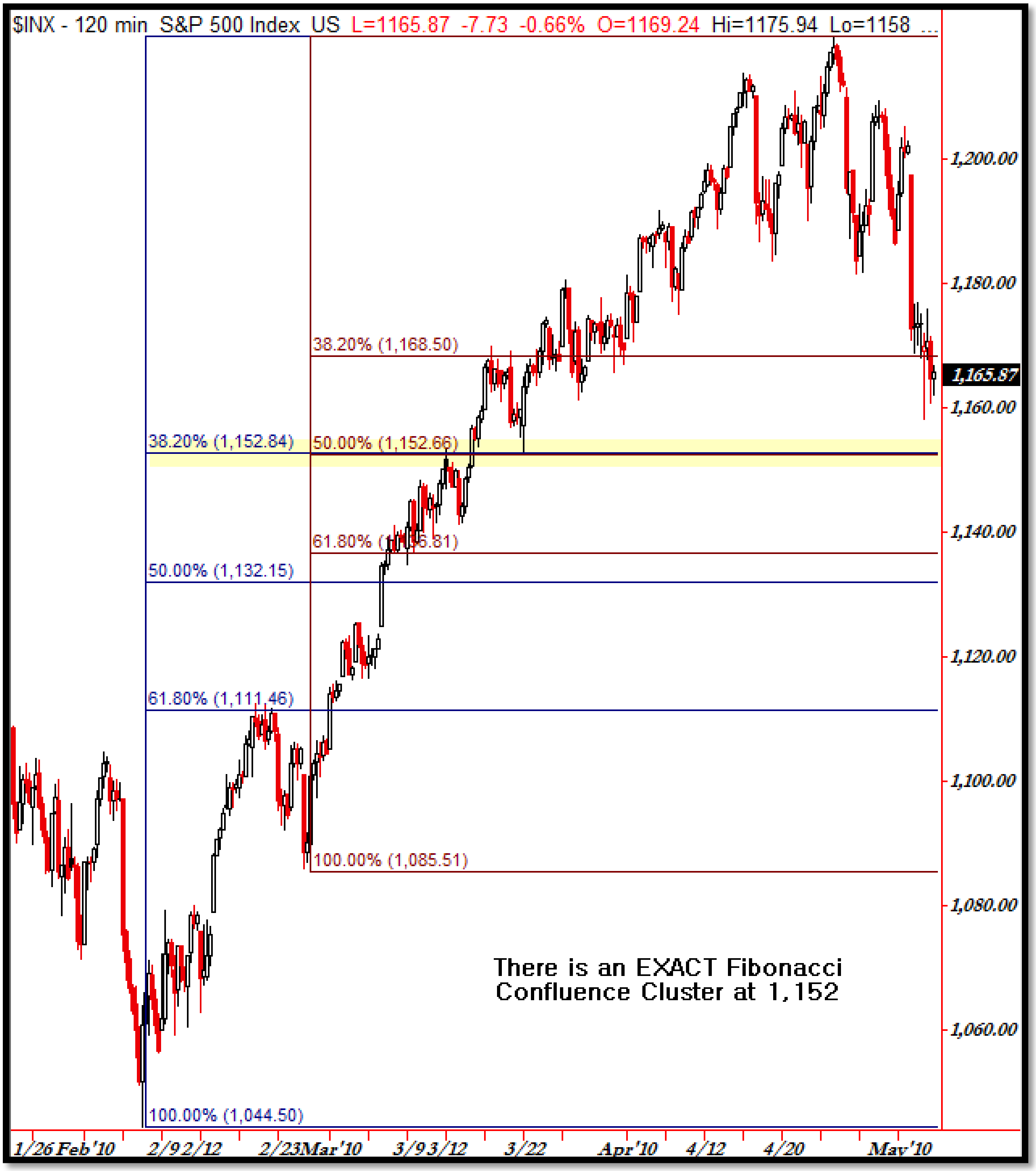
Otherwise, the 20 EMA remains expected resistance just above the $117.00 level and tomorrow the 50 EMA will be at $118.00.

If sellers crack back under $116.00, trade short to target $115.00, otherwise be neutral/stick to developments as they happen on the session without having a bias.

If you did not trade this range breakaway move as well as you expected, use it as a reference for what happens when price establishes a known trading range and then solidly breaks out of it - we get range expansion.

Don't try to find bottoms, just play IN the direction of the range expansion.

The 20 EMA rests at the $118.00 level, so the play is 'neutral' above $116 to $118; bearish (to target $115) if under $116, and bullish for another round of popped stops and frustrated bears if above $118.



For reference, the 38.2% and 50% Fibonacci retracements as drawn converge exactly at the 1,152 level, adding another level of confluence to the 1,150 support zone which serves as a downside target.

If sellers push to 1,150, odds are strong that we'll find at least temporary support there, allowing an opportunity.

However, if sellers push us under 1,150... we could be looking at a much deeper pullback that would take us to 1,100 or even 1,050... but let's not get ahead of ourselves unless that happens.

Interestingly enough, or perhaps totally irrelevant, all spikes in volume recently have occurred on sell/down days. That's usually a hallmark of a distribution phase in price ahead of a market top, so at least keep that in mind... but notice also that the exact same pattern happened in January... before price broke to new highs in a stunning/massive short-squeeze that took us to new recovery highs.

For now, watch 1,150 as key support and don't be surprised if we head higher from here. It will pay to let the dust settle and eliminate bias as much as possible... bias as in "This market HAS to fall!" or "They've popped so many stops and mocked bears so much that this is another bear trap so price HAS to rise." Stay close to the market and don't get caught trading the wrong way in a directional move.