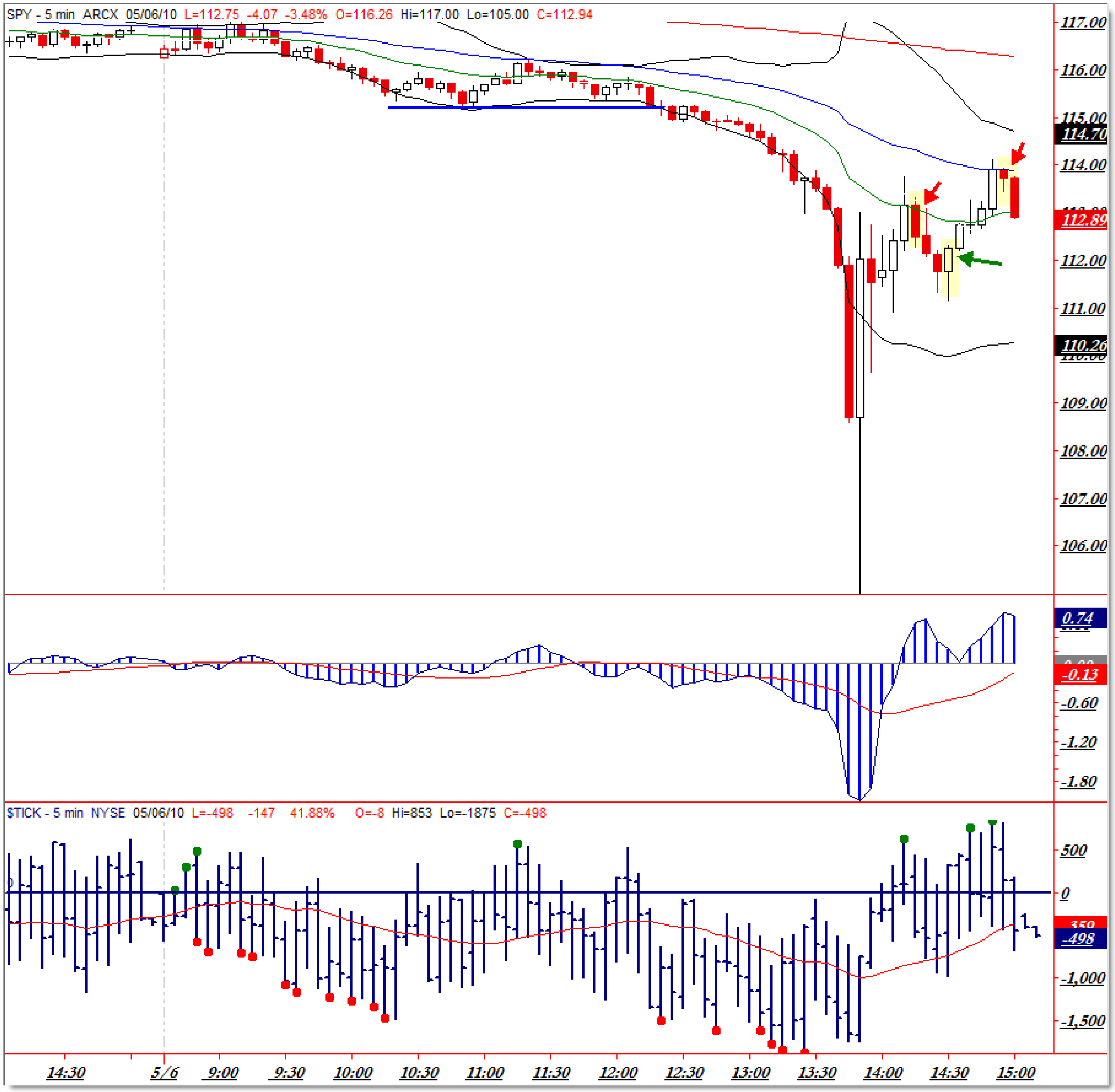
AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report




SPY - 5 min ARCX 05/06/10 L=113.01 -3.81 -3.26% O=116.26 Hi=117.00 Lo=105.00 C=112.94
1
2
3
THEN the market Collapsed
$TICK - 5 min NYSE 05/06/10 L=-498 -147 41.88% O=-8 Hi=853 Lo=-1875 C=-498
117.00
116.50
116.00
115.50
115.00
114.70
114.50
0.1500
0.00
-0.13
-0.3000
600
200
-200
-350
-498
-1,000
-1,400
12:30
13:00
13:30
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5/6
9:00
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13:00

On a day that we will be talking about for quite some time in the future, let's take a quick moment to review some of the core principles I am to teach you in these reports.

1. Do NOT try to buy a bottom on Trend Days

My guess is that there were hundreds if not thousands of traders who blew their account out today and will never trade again. I sincerely hope you are not one of them - today reminds us that when a trend is established, odds favor trend continuation. Stock market crashes are very rare, but they do not come without warning which you as an intraday trader can pick up on the intraday timeframes.

2. ALWAYS watch the higher timeframes for reference prices - NEVER ignore a key reference level

I have been saying to you constantly that 1,150 was the key level to watch. We would expect a bounce off that level, so scalping there to play a bounce was perfectly fine, but a key level is a key level for a reason. In the event sellers drive price below 1,150 or 1,147 as a reference (to get outside the "rinse/wash/finger" zone), then you should have taken your stop-loss IMMEDIATELY and without protest. A trader also should look to short sale ONLY after we breakdown through this very, very important level.

In the event that we broke under 1,150, I told you it would be a game changer that would target at least 1,100. Below that was the February low at 1,050. I expected this to happen over the next few weeks if price broke under 1,150, but those levels were hit immediately. Markets crash. Today the market crashed, and it hit all those downside target levels in one day. The probability of lower prices was high as long as we were under 1,150, so you should have been playing short or being guarded/defensive while under 1,150. No one can forecast market crashes, but we can watch reference levels to place stops and put on/take off positions. 1,150 was that level that divided bull and bear.

3. Lengthy negative momentum and internal divergences can precede a market crash

This crash did not appear out of thin air. I have been highlighting the negative momentum and internal divergences that have undercut almost the entire rally off the February lows. The rally itself violated a Wyckoff Sign of Weakness and busted strong sell-short signals. This market was floating "in thin air" and it was very dangerous to swing trade it long because at ANY DAY we could have a crash.

On the same note, it was dangerous to swing trade it short(sale) because of the persistent (and seemingly manipulated) consistent 'melt-up' to high prices. I dedicated one day in the reports to explain to you the concept of "Musical Chairs" and how the music would soon stop.

The music stopped. And the market crashed.

If you felt as I did, it was extremely frustrating to continuously play "Popped Stops," meaning valid sell-short signals were busted, and the only way to make money was to play long after busted valid signals. When the market is strung out like that, the return to normalcy is hard. Today, the market returned to normal and the market crushed buyers who felt invincible, and validated bears who felt almost extinct.

However, you cannot call the exact day of a market crash - you can only be on guard when conditions indicate that odds are more favorable than usual for a crash. We have been in that 'weird zone' since mid-March. Look back over prior reports in my summary where I said "Market Rallied AT ANY COST." Today, the market paid the cost.

As strange as it is to say this, today was normal. Today was expected... eventually. It would have been abnormal (it already was) for the market to keep rallying bit by bit day by day 20 of 25 trading days higher, 9 weeks up in a row.

This was normal. Violent. Devastating. But normal.

A market that is driven beyond its fair value price ... that forms massive negative internal and momentum and volume divergences... WILL correct. And it will often correct hard. And it seemingly comes out of no where. And no one knows exactly when it will happen... but it will happen. And it did. And a lot of people who got long at the top got hurt.

I will describe the first three trades prior to the crash. The goal of these reports is to teach you repeatable trading opportunities and patterns that you can find on your own and trade in your own account each day. A market crash cannot be replicated, so your goal is to protect yourself instead of trying to make a killing.

1. TRENDLINE BREAK, BREAK UNDER $116.

I had also mentioned to take a short-sale bias if we broke back under $116.00 (prior lows) to target $115.00. This was the first trade, which was triggered at 9:45am when price broke the $116.00 level. A stop was slightly above $116.00 with an ultimate target to test the $115.00 level, or the $115.20 level, which was the confluence of the two Fibonacci Levels I mentioned in last night's report. I labeled that as the best place to exit the trade. Because of the new TICK low and downtrend, it was risky to trade long for a bounce here, but aggressive traders could have done so.

2. TEST OF 1,150, POSITIVE DUAL DIVERGENCE, BULLISH ENGULFING

The next opportunity came as we officially tested the 1,150 ($115.00 level) and we DID form a positive dual momentum and TICK divergence, giving you an aggressive trade... but safer than the prior bounce.

Price then formed a bullish engulfing candle off the majorly important low, giving you a trigger long at the $115.40 level if you did not get long off the official test of 1,150 in the index, or just above $115.00 on the SPY (1,151 in the @ES futures).

The target was a nice retest of the 20 or 50 EMA (preferably the 50 due to the divergences) which occurred as price formed a reversal candle off the overhead resistance at $116.00 - your exit.

You could have gone ahead and entered a short-sale trade at the $116.00 level, but that was slightly more risky as... and when I say this now it sounds silly but retrace your steps back to this time... price could have formed a reversal off the dual divergence and key bounce off the very important 1,150 index level. We also had a bullish Wyckoff Sign of Strength that could have led to a reversal. That's why it was slightly more risky to get short at the $116.00 level, but aggressive traders will do so because of the risk/reward, given that the target - a retest of $115.00 - was much larger than a 10 or 20 cent stop above $116.00. That trade worked. The better trade was waiting for the downside break under $115.00... which was a trade well-planned in advance.

3. BREAK UNDER 1,150/$115.00

That's all you have to say about this trade. The play was "IF under 1,150, THEN short-sale." The corollary was "IF under 1,150 THEN take a stop-loss if long, particularly if swing trading."

This was a breakout trade, and so it did NOT have a downside target, but instead your goal was to hold on to the breakout trade as long as possible - that's what I say to every breakout trade.

WHY? Because SOMETIMES, rarely but sometimes, price will really breakout and you'll be positioned to profit from the rapid range expansion move. Today was the exception, as most breakouts produce reasonable targets, but SOME of them produce 'black swans' like today. You should NOT NOT NOT exit a range breakout trade - particularly if we break under a key daily level - until we get a compelling reason to do so, like a major bullish candle that forms on a positive divergence or tests some higher timeframe support.

I've been saying that there was NO LEVEL under 1,150, and that if sellers broke it, it would be a game changer. Now, I didn't expect it to break today, but it did - that's why I've also been expressing you be NEUTRAL in your views and unbiased. IF under 1,150, THEN short. Depending on your aggression level, you enter short when you feel we have a breakout and positive feedback loop. Aggressive traders will short at 1,149 while a conservative trader might not short until 1,145. Either way, the play is short.

Then the market crashed.

From 1,150, the S&P 500 fell to 1,065. There was no way you could have exited at the low, but the best place to exit was the rally/bullish candle that formed where I froze the 1-min chart at the 1:15pm time at the $113.50 level.

For most newer traders, it was best to watch the market crash instead of trying to trade it - you can get into some real danger if you mis-manage a trade in the midst of a market crash. Your #1 goal should be to preserve your capital - not load the boat with futures contracts when you see the market moving quickly. As you see from the first chart, the market regained almost all the sudden 'crash' just as fast as it crashed.

I pointed out three arrows on the first chart to highlight potential trades that were quite profitable, but sometimes it's best to sit back and be safe, particularly if you are a conservative trader.


SPY - 1 min ARCX 05/06/10 L=112.91 -3.91 -3.35% O=116.26 Hi=117.00 Lo=105.00 C=112.94
1
2
3
117.00
116.50
116.00
115.50
115.00
114.50
114.00
113.50
0.2000
0.09
0.00
-0.2000
-0.37
$TICK - 1 min NYSE 05/06/10 L=-498 -147 41.88% O=-8 Hi=853 Lo=-1875 C=-498
400
139
-498
-800
-1,200
-1,600
13:30
14:00
14:30
5/6
9:00
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You could have profited over $2.00 in trading profits quickly PRIOR to the market crash using our normal methods.

I did not label any trades after the crash, but an aggressive trader could have taken them for additional profits.

SO FAR TODAY			25 DAY AVERAGE		Today
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE	Range
9,814,210	21,772,864	9:45	11,958,654	$ 0.32	$ 0.60
5,883,190	14,793,453	10:00	8,910,263	$ 0.32	$ 0.59
5,388,231	14,111,316	10:15	8,723,085	$ 0.30	$ 0.44
3,792,488	10,533,067	10:30	6,740,579	$ 0.31	$ 0.67
4,023,631	12,055,947	10:45	8,032,316	$ 0.28	$ 0.48
11,450,384	18,427,852	11:00	6,977,468	$ 0.28	$ 0.42
9,516,112	15,371,908	11:15	5,855,796	$ 0.30	$ 0.70
14,065,375	21,081,038	11:30	7,015,663	$ 0.24	$ 0.59
5,863,003	11,869,694	11:45	6,006,691	$ 0.22	$ 0.43
11,999,851	17,110,505	12:00	5,110,654	$ 0.21	$ 0.47
7,989,887	12,635,155	12:15	4,645,268	$ 0.25	$ 0.47
4,483,634	8,801,538	12:30	4,317,904	$ 0.20	$ 0.70
2,914,701	6,739,761	12:45	3,825,060	$ 0.19	$ 0.39
6,599,214	10,200,658	1:00	3,601,444	$ 0.24	$ 0.37
5,709,177	9,693,943	1:15	3,984,766	$ 0.28	$ 0.62
13,679,609	17,365,512	1:30	3,685,903	$ 0.19	$ 0.42
8,378,462	11,698,439	1:45	3,319,977	$ 0.20	$ 0.63
9,709,639	13,153,177	2:00	3,443,538	$ 0.30	$ 0.46
21,302,146	26,102,650	2:15	4,800,504	$ 0.25	$ 1.00
32,089,081	37,433,862	2:30	5,344,781	$ 0.40	$ 1.33
52,828,142	59,302,169	2:45	6,474,027	$ 0.52	$ 5.01
46,023,487	52,364,691	3:00	6,341,204	$ 0.31	$ 9.80
35,270,272	41,626,438	3:15	6,356,166	$ 0.29	$ 2.82
26,452,508	32,420,203	3:00	5,967,695	$ 0.33	$ 1.93
18,312,081	25,499,131	3:45	7,187,050	$ 0.31	$ 1.76
25,114,469	38,076,825	4:00	12,962,356	$ 0.30	$ 1.24
15,332,807	21,547,761	Ave.	6,214,954	$ 0.28	

We were 15 million shares above the 25 day SPY average.

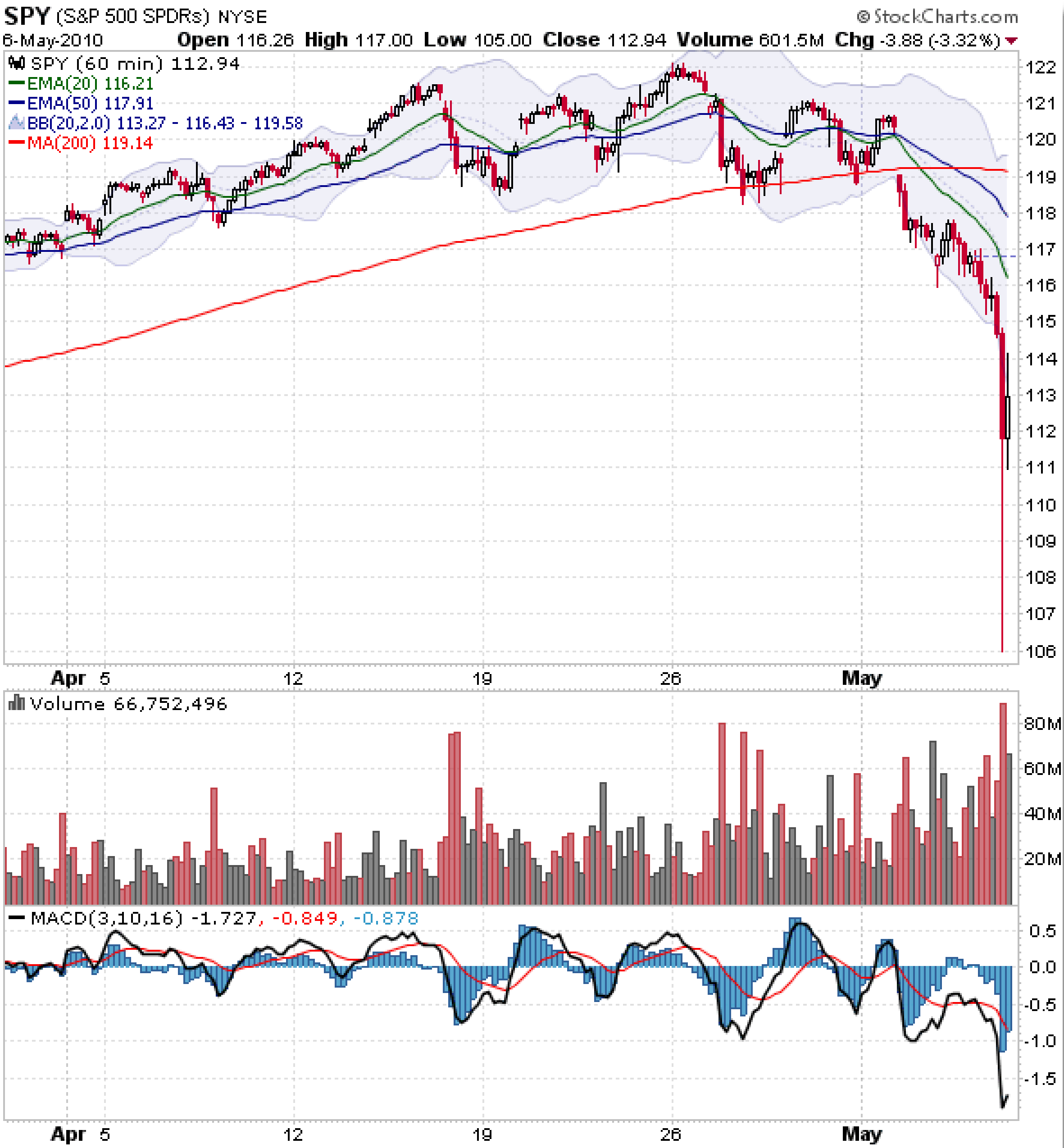
The sell-off was broad and affected almost every stock, driving the indexes much lower. Volume surged at every single timeframe.

This 25-day average is your new reference for your trading day, as it includes today's action.

We are still in crash parameters, but even still, the 20 EMA served as an excellent reference for trading today's intraday chart.

The goal now is to stick closely to your intraday charts, watch internals very closely, guard your positions closely, and trade any movement tomorrow.

The Jobs Report will be released tomorrow an hour before the market opens, and it will dictate the open, though statistics on prior crashes would hint that we would expect to see a bounce rally tomorrow... unless the Jobs Report is worse than expected.



With the market in crash mode, the swings are very, very wide and levels to watch far away.

Stick close to your intraday frames and reference levels.

What levels do we watch now? They've all been tested. The play has been "IF under 1,150, THEN target 1,100 and IF under 1,100, THEN target 1,050." We hit all those levels (falling 10 points shy of the February low) today. Thus all levels, including Fibonacci levels, have been tested successfully/officially.

I recommend waiting to see how the market responds/digests today's activity, along with how the market reacts to tomorrow morning's Jobs Report. Newer traders should trade very cautiously... but so should advanced traders.

	Prior	Consensus	Consensus Range
Nonfarm Payrolls - M/M change	162,000	200,000	110,000 to 500,000
Unemployment Rate - Level	9.7 %	9.6 %	9.6 % to 9.8 %
Average Hourly Earnings - M/M change	-0.1 %	0.2 %	0.0 % to 0.3 %
Av Workweek - All Employees	34.0 hrs	34.0 hrs	34.0 hrs to 34.1 hrs

http://www.bloomberg.com/markets/ecalendar/index.html