AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY

SPY - 1 min ARCX 07/12/10 L=108.19 0.23 0.21% O=107.60 Hi=108.24 Lo=107.15 C=108.03
1
2
3
4
108.20
108.10
108.02
107.90
107.80
107.70
107.60
107.50
107.40
107.30
107.20
0.1000
0.0463
-0.0093
-0.1000
-0.2000
$TICK - 1 min NYSE 07/12/10 L=-232 -898 -134.83% O=1 Hi=1132 Lo=-1260 C=-232
1,000
600
200
-18
-232
-600
-1,000
7/12
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 the third range day in a row, leading to potentially frustrating trading outcomes and small profit opportunities. On the higher timeframe, the market is behaving exactly in line with expectations and appears to be in the final stage of an expected and timely rally off the 1,010 low. However, to intraday traders, it can be difficult to capture profits from a market in a range transition from bull to bear, as rallies do not die easily.

1. TRENDLINE BREAK, RESISTANCE TEST

There were a few chances to enter this potential reversal set-up, given that price rallied to a new high on clearly declining market internals - failing to confirm the new high. That puts you on guard to short any breakdown in price, particularly from a trendline ($108) or 20 period moving average (5-min - $107.90). A very, very aggressive trader could have shorted at the break of the spinning top at the upper Bollinger at $108.10, but the logic is the same. Short a pullback in a rally that traded into resistance (I kept saying how $108 was the upper resistance target in the band between $107 and $108) that formed classic negative divergences.

The first target was the 20 EMA (if you got short near the high) but the second target was a move back to the 50 EMA at the $107.70 level. An aggressive trader, confident of a likely reversal instead of a simple retracement, would have held short for an unlimited target and exited perhaps on the swift bullish engulfing candle at the $107.40 level. Such an aggressive trader should have certainly exited on the Popped Stops play - or failed bear flag - that triggered at 11:30, giving you your second trade.

2. POPPED STOPS

Look closely at the rally into the 20/50 EMA confluence at 11:00am. An aggressive trader would have taken a short-sale here to play for a late Cradle Sell signal and/or Impulse Sell (or Bear Flag - same thing) with an entry as price tested the 20 EMA at $107.50. A conservative trader would have waited for a candle close under the rising trendline or preferably the long-legged candle with a low at $107.40... which never happened. This is one of those examples of "Go/No Go" where conservative traders edge out aggressive trader with a particular example, but aggressive traders tend to win out in the general edge, not just the accuracy edge.

That being said, an aggressive trader would have entered and immediately stopped out on the swift break above $107.60 (tight stop) and then played long for Popped Stops (quick reflexes), while a conservative trader would have been mere ticks away from a short-sale entry that did not officially trigger. They could have gotten long for Popped Stops if they play those sort of short-term opportunities - this example occurred on a break above confluence EMA resistance on a failed Bear Flag trade, zapping the stops of those who were short and popping price up to the higher Bollinger Band at $107.80, the exit for the trade.

3. IMPULSE BUY, WYCKOFF SIGN OF STRENGTH, SPINNING TOP, EMA CONFLUENCE

This was an interesting and sudden trade - a "blink and you miss it" opportunity. Not the type I like to highlight in the reports to teach these concepts, but in the trading range environment we're in, you have to take the profits and opportunities as they come... or stand aside and wait for the market to break into a range expansion mode.

We wish to buy shares after a new Momentum and TICK high forms - especially Wyckoff Signs of Strength - when price retraces back to the support of a key moving average - such as the EMA confluence at $107.65 at 11:30. The price formed a spinning top and broke above a short-term declining trendline at $107.70, giving entry, with a stop under the EMA confluence at $107.60. Unfortunately, this trade did not produce a marvelous gain, but did exactly as expected, in producing a new high in price. Remember: "New momentum highs and new price highs forecast higher price highs yet to come after a retracement to support." Classic trade.

4. DUAL NEGATIVE DIVERGENCE, HANGING MAN CANDLE/SPINNING TOP, UPPER BOLLINGER

This was a set-up that was announced well in advance by the price action feeling "heavy" (an experienced trader term to describe a market creeping its way higher that 'feels' like to reverse soon) which was confirmed with negative TICK and Momentum divergences. The good entry was as price broke the two lower shadow lows at the $108 level to target a potential reversal, or a test of the 50 EMA. Price fell only back to the $107.70 level, formed a bullish engulfing candle, triggering your profit exit for a smaller target than expected, and the suggestion to stand aside into the close as the market continued its frustrating and low-opportunity, low efficiency range trading structure ahead of Alcoa earnings.

Using the ideal grid structure, roughly 85 cents was possible in today's trading range environment.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
(3,139,378.50)	10,792,273	9:45	13,931,651.50	0.53
(2,055,995.10)	9,747,437	10:00	11,803,432.10	0.53
(8,196,967.40)	6,053,670	10:15	14,250,637.40	0.42
(3,817,911.90)	5,153,842	10:30	8,971,753.90	0.34
(5,002,999.40)	4,170,716	10:45	9,173,715.40	0.34
(3,152,014.10)	5,226,658	11:00	8,378,672.10	0.33
(538,178.00)	7,664,682	11:15	8,202,860.00	0.32
(3,141,933.50)	3,562,308	11:30	6,704,241.50	0.26
(3,482,797.40)	2,616,201	11:45	6,098,998.40	0.28
(2,619,138.80)	2,375,043	12:00	4,994,181.80	0.27
(774,351.50)	4,156,196	12:15	4,930,547.50	0.37
(2,091,397.50)	2,291,419	12:30	4,382,816.50	0.28
(1,327,953.70)	3,337,375	12:45	4,665,328.70	0.29
(2,489,853.30)	2,271,676	1:00	4,761,529.30	0.28
(1,733,724.20)	2,429,975	1:15	4,163,699.20	0.31
(2,288,048.50)	2,556,490	1:30	4,844,538.50	0.31
(2,065,750.70)	2,782,667	1:45	4,848,417.70	0.33
(1,653,762.40)	3,057,056	2:00	4,710,818.40	0.29
(3,960,273.00)	1,474,649	2:15	5,434,922.00	0.34
(2,510,460.10)	3,427,675	2:30	5,938,135.10	0.35
(2,076,870.20)	3,532,510	2:45	5,609,380.20	0.32
(3,435,543.90)	2,841,734	3:00	6,277,277.90	0.44
(2,605,166.40)	4,022,648	3:15	6,627,814.40	0.46
(5,157,592.00)	4,234,824	3:30	9,392,416.00	0.52
(7,779,780.60)	4,287,274	3:45	12,067,054.60	
(11,966,139.70)	11,361,470	4:00	23,327,609.70	
(3,425,537.76)	**4,439,556.46**	**Ave.**	**7,865,094.22**	**0.36**

Here is our updated 10-day relative SPY volume comparison across the 15-min time periods. Notice a pattern?

Friday, we had the exact same picture - a price rally on lower volume on EVERY SINGLE time of the day. The rally continued (technically) today, with the exact same picture.

This convincingly is a classic negative volume divergence that hints of a reversal as the likely future expectation in the price structure. Higher prices, lower volume = divergence/warning signal/reversal signal.

The longer this continues, the more we begin to expect another mini-crash as opposed to just any other downward swing in price. Reference the mini-crash from 1,130 to 1,010 - seen on the next chart - that materialized from a similar situation in late June.   The longer this situation continues- and yes price can keep rallying on negative divergences - the more we thus expect a crash. While divergences do not mean price will reverse tomorrow, it means that swing traders should immediately take profits and aggressive traders can begin shorting with a stop above 1,100 if they are willing to take the risk of a slowly creeping market for the potential reward of a fast drop yet to come in the market. Conservative traders must wait for a price break lower to enter short.

Updated chart of market internals shows that the Breadth, TICK, and VOLD divergence got worse again today, with breadth and VOLD remaining negative (almost) all day, despite the new recovery high in price into the upper target at 1,080. While this does not guarantee a down move yet to come, it places the odds **strongly in favor** of one.

Notice the word 'potential.' Alcoa's earnings beat expectations today and the @ES futures rallied as a result. If they can keep the market up, then they can trigger a round of popped stops from the bears to take us to the overhead confluence at $109 (1,090). Keep in mind that, while we are certainly forming a rounded reversal structure (fact), there may be one or two more pops to go higher before the market rolls over into its expected and forecast downswing yet to come. Thus, we are in a frustrating period perhaps in the next few days where the market is like a dying animal that is cornered and lashing out - if you try to touch it (short it) before it dies (officially gives a signal, such as a break under $107), then you probably will get hurt. Again, look back at the "death gasp" or 'final breath' that triggered the vicious bull trap to 1,130 ($113) after a MASSIVE negative volume, breadth, and momentum divergence. Yes, the market died then and fell into a 120 point collapse in 10 days, but it was best to wait until the market broke price support before entering short - otherwise you got stopped out unless you had a stop above 1,130 - most swing traders didn't (they had it above 1,120 and got nailed... right before the market collapsed as expected).

(comments continued). We are in a similar situation with a rally that is clearly and obviously dying to all who can see it. We are at the overhead target at $108, and the 61.8% Fibonacci retracement rests at $108.60. Confluence resistance rests thus at the $109 level, so a vast number of stop-losses are placed above $109 from the swing traders - yours might be there too. Thus, a sudden move above $109 in the next few days pops these stops and sends the market higher in another potential 'last gasp' rally.

Main idea: Volume is going down. Momentum is going down. Breadth is going down. Price faces lots of overhead confluence resistance here. A clean 5-wave fractal is present and concluding. THE MARKET WILL ALMOST CERTAINLY REVERSE, and to the extent that the market 'stays alive' in these overextended conditions - and I would NOT call them 'manipulated' yet - this swing by all classic counts is very normal... but any continued overextension higher WILL be abnormal - means that the eventual resolution of this situation WILL be violent to the downside. Again, aggressive traders can consider shorting in this high-risk area (for both bulls and bears) while conservative swing traders need to wait for a confirmed break and short the fall under $107. Intraday traders must be very aware of new developments.

I kept this chart clean, but reference the 38.2% Fibonacci retracement (from 1,220 to 1,010) at 1,090 along with the 50d EMA at 1,093, and the 50% Fibonacci retracement at 1,114 along with the 200 day SMA at 1,111.

If the market does pop tomorrow higher, then watch 1,090 as the next massive overhead resistance price target. In the event that buyers pop bearish stops above 1,090 - and there will likely be a lot of them there, then expect to see 1,110. That would be the lower probability scenario. It is more likely - from a technical purism (chart) standpoint - that the negative momentum, volume and breadth divergence will overwhelm the bulls and embolden the bears, continuing the downtrend that is currently in force, swinging us back down over the next week or more to 1,010 at a minimum.

Swing traders, we are at a zone for a potential short-term swing shift to occur (this expected rally looks to be coming to an end at the 1,080/1,090 area), so be prepared, and day traders... we may have to endure more choppiness while the market transitions. Again, look at the frustrating three doji days in a row in mid-June at the 1,120 level - that was NO fun. But then look at the opportunity that came AFTER the market 'did what it was supposed to do' and collapsed after being held up beyond what was normal (technically, it shouldn't have rallied above 1,100 at that time). Blatant overextensions often lead to harsh collapses, while 'normal' price behavior tends to lead to normal swings. You need to be able to read the subtle differences in what "should" happen and what should not - from a probability standpoint.