AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 07/13/10 L=109.63 1.60 1.48% O=109.15 Hi=110.09 Lo=108.93 C=109.69
1
2
3
110.00
109.90
109.80
109.70
109.66
109.60
109.50
109.40
109.30
109.20
109.10
109.00
0.2000
0.1000
0.0000
-0.0853
$TICK - 1 min NYSE 07/13/10 L=834 1066 -459.48% O=-2 Hi=1279 Lo=-801 C=834
1,000
834
600
293
-200
-600
7/13
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 another reminder how bias can be dangerous and how we must constantly monitor our charts for new details... and how bias is extremely bad and focusing on probabilities (a la Mark Douglas and many others) is good. The bearish undercurrents - divergences and broader 'economic fears' - drew in the bears/short sellers yesterday, while today' popped their stops in a very violent gap and trend day rally into the close. Remember - in this environment, intraday trading strategies tend to be favorable to swing trading strategies, because you can react to new information quicker. We'll look at today's trades and update on the developing structure, but do keep in mind that today's rally and pop - though not necessarily a high probability outcome - is absolutely normal in the context of the current structure and the bearish stop-losses above 1,080 (which were hit with the bullish buying on Alcoa and other positive economic news).

1. BULL FLAG, POPPED STOPS

While theoretically you could have anticipated the upward action off the open, given that the futures were high and bears were being squeezed out of their positions, it's almost always best to wait for a clean entry if possible, unless you are an aggressive trader and enter breakout moves into Popped Stops plays.

Keep in mind that on the daily chart, we had an upside target of 1,090 and then 1,110 as I've been showing, and the market moved very quickly and stalled at the 1,090 area. Still, the first 'good' trade was a breakout above the declining trendline on an "ABC" pullback just above the 20 EMA in a Bull Flag type set-up that triggered an official entry at the $109.20 area at 10:00am. The stop went under the 20 EMA or the prior price low just above $109.10 to play for an upside target at the $109.80 level. The best exit for this breakout and popped stops trade was the evening star/doji outside the upper Bollinger at $109.85, which gave the maximum opportunity for profit without exiting too soon. I would not suggest shorting after such a strong upside impulse that produced a new TICK high, but an aggressive scalper trader certainly could have done just that.

2. 20 EMA PULLBACK, BULLISH CANDLES, IMPULSE BUY(ISH).

We look to buy the first retracement after a new price, TICK, and momentum high. Though we didn't get the momentum high, we ceratinly had a new price and TICK high which resembled - at the time - some sort of third wave impulse (notice the power candles). That meant that odds favored a higher price yet to come, so the best buy-in was a retracement back to the rising 20 EMA, or trendline break.

The initial trendline break came at 11:00am at $109.70, though it did not produce a new high. Price officially tested the rising 20 EMA, forming two spinning top/hammer candles just before noon, triggering a buy at $109.60 or on the break above these candle highs at $109.70. The stop was under the 20 EMA, preferably under $109.50... and unfortunately that stop was hit quickly as price broke down from a horizontal trading range. That break led the market to fall to the 50 EMA, and an aggressive scalper could have played that breakdown, but a conservative trader would do best to wait for the next set-up after minimizing losses. Luckily, the next set-up was clean.

3. DUAL POSITIVE DIVERGENCE, DOUBLE BOTTOM, BOUNCE OFF BOLLINGER & 50 EMA

Remember, on a trend day - which is what the structure was - hinges on support at the rising 50 EMA, which is the "Line in the Sand" between a trend day continuation or a Reversal. It's also a spot to look for a trade entry if possible in favor of the trend day. Price formed both a Double Bottom price pattern at $109.30 and also formed a clean positive TICK and momentum divergence as it tested the 50 EMA and lower Bollinger, setting up an aggressive (buy AT support) entry at $109.30 or a conservative (buy AFTER price breaks a candle high or trendline) buy at $109.45. Either way, this trade stopped under $109.30 and targeted the intraday high at $109.90 or beyond. A good exit for the trade was teh negative TICK divergence and test of the upper Bollinger at the $109.90 level at 2:00pm, though price overextended to new highs on a weakening structure (crystal clear negative TICK and momentum divergences).

The final trade - for very aggressive traders willing to trade into the close - was a short-sell on the break under the doji and shooting star candle at the upper Bollinger at the $110 'round number' resistance. Notice the divergences. This trade unfolded in 10 minutes before the close for a quick 40 cent profit and retest of the 50 EMA.

Of the three trades - two winners - roughly 80 cents was possible today with a moderate-level aggression strategy.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
2,743,675.70	17,260,322	9:45	14,516,646.30	0.54
(881,541.60)	10,875,115	10:00	11,756,656.60	0.54
(4,504,586.70)	9,549,023	10:15	14,053,609.70	0.42
(3,712,912.40)	5,054,812	10:30	8,767,724.40	0.32
(2,226,085.60)	6,800,623	10:45	9,026,708.60	0.34
(2,689,312.00)	5,569,968	11:00	8,259,280.00	0.32
(3,416,834.50)	4,614,536	11:15	8,031,370.50	0.34
(3,497,488.10)	3,058,774	11:30	6,556,262.10	0.26
3,335,595.60	9,947,238	11:45	6,611,642.40	0.26
2,176,897.10	7,556,037	12:00	5,379,139.90	0.27
736,966.90	5,699,472	12:15	4,962,505.10	0.35
(153,631.00)	4,209,581	12:30	4,363,212.00	0.26
(1,184,796.40)	3,441,445	12:45	4,626,241.40	0.28
(1,726,067.20)	3,062,836	1:00	4,788,903.20	0.28
181,144.80	4,437,914	1:15	4,256,769.20	0.31
653,352.90	5,810,398	1:30	5,157,045.10	0.32
(1,979,303.10)	2,861,629	1:45	4,840,932.10	0.33
(1,047,306.10)	3,768,725	2:00	4,816,031.10	0.29
(1,851,959.70)	3,762,529	2:15	5,614,488.70	0.32
(1,464,626.60)	4,618,673	2:30	6,083,299.60	0.34
(1,182,002.70)	4,415,974	2:45	5,597,976.70	0.31
(2,403,691.30)	3,986,062	3:00	6,389,753.30	0.43
136,167.00	7,034,839	3:15	6,898,672.00	0.44
(3,141,755.20)	6,283,490	3:30	9,425,245.20	0.53
(5,037,201.40)	7,310,396	3:45	12,347,597.40	
456,087.90	24,946,780	4:00	24,490,692.10	
(1,218,508.22)	**6,766,815.04**	**Ave.**	**7,985,323.26**	**0.35**

Hmm. It's a mixed bag from today's relative volume chart.

Initially, volume rallied off the opening gap, which supported the upward move and suggested higher prices yet to come - and they did - but then volume underperformed the 10 day average until noon EST.

For the most part, volume underperformed the 10-day average as seen, leading to a daily average underperformance of 1.2 million SPY shares - NOT what you want to see if you're a bull.

We could be going into yet another "popped stops" market melt-up phase where volume declines steadily as price rises - those are very frustrating for sure, but we are here to trade the **reality of what is, and not the fantasy of what should be.**

Continuing that thought, a good deal of today's pop higher was bears/short sellers rushing for the exits - buying to cover. They do add demand, and you should not remain short above $109. This is where intraday traders have an advantage over swing traders. Though odds favored resistance holding at the $108 level with multiple divergences, IT DID NOT, and so on that turn of events, a positive feedback loop occurred as expected, with bulls buying on the better than expected news and bears buying to cover.

I mentioned that swing traders with conservative tactics would need a trigger to get short and that trigger never came close to forming - which would have been a break under $107, so they were fine. The break above $108 is significant from a short-term standpoint, and gives the edge for the moment to the bulls, as bears are clearly thrown against the ropes.

The market is in "Open Air" territory right now, which means that there is no further lower timeframe (intraday) resistance, but there is resistance here on the daily chart (1,090) and at 1,110. Thus, the way for higher prices is clear from lower timeframes.

However, we still have a pesky negative momentum and volume divergence as seen, though internals improved today.

What now? Stick to your intraday charts, swing traders stay on the sideline, trade moment-by-moment, and do NOT be guided by bias (either "The market HAS to fall because of divergences" or "The market HAS to rally because of good economic news). If we break above $110, expect strongly for a move to test $111. A move above $111 sends us to $113, and a move beyond $113 will pop a massive amount of bearish stops.

The market could not close significantly above the 50 day EMA at 1,093 and that's - so far - important. That may very well change tomorrow as Intel just reported MUCH better than expected earnings, so that will most likely lead to a further continuation of this rally. Given that we rally tomorrow, expect to see 1,110 and then 1,120 as the next significant overhead resistance level - a break higher sends us there almost without a doubt - remember, there is open air (no resistance) until the 1,110 level - so we will almost certainly see that level with further upside.

Friday is Options Expiration, so we could see the market rally to test the 1,120 prior high and possible exceed it, giving a bull trap as was the case last month... which would be an eerie development.

Still, monitor your intraday positions closely and realize that **if** the market holds above 1,090 here, we will almost certainly see 1,110.