AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 07/15/10 L=109.69 0.04 0.04% O=109.61 Hi=110.06 Lo=108.17 C=109.68
1
2
3
4
5
110.00
109.80
109.72
109.60
109.40
109.20
109.00
108.80
108.60
108.40
0.2000
0.1049
0.0000
-0.0833
-0.2000
$TICK - 1 min NYSE 07/15/10 L=689 482 232.85% O=45 Hi=1700 Lo=-1391 C=689
1,500
1,000
689
0
-500
-1,000
7/15
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 one of those trading sessions that left your head spinning! It's also a permanent reminder that trading ahead of Options Expiration is risky/not easy, and how major news events can move stocks, so no matter what our positions intraday, we need to guard those and behave appropriately (take stops if the market unexpectedly reverses, or hold on to a winning position that suddenly picks up unexpected steam).

The whirlwind of news was the following:

Empire State Manufacturing Data were worse than expected, suggesting further economic deterioration
Industrial Production slowed from 1.6% in May to 0.1% in June, suggesting further economic slowdown

Goldman Sachs settled with the SEC, sending the stock soaring
Financial Regulation Bill passes Senate and moves to be signed by the President
BP announced that the effort to plug the oil spill in the Gulf was successful - no more oil leaking into the Gulf
Google (GOOG) missed earnings, sending the stock lower after hours

Mainly, it was the double-punch from Goldman Sachs settling (no more lawsuit) and BP announcing the oil spill cap was successful sent the market SOARING in a vicious loop of popped stops, bullish buyers, and panicked bears.

In an environment of news-driven events, positive feedback loops are extremely common, and trap those leaning the wrong way. Whether or not you believe all the news was released to spur the market higher at a time when it looked overwhelmingly like the market was about to plunge lower in a reversal (it doesn't matter either way), it happened, and the fall-out is a positive feedback loop where all the bears who shorted today are now sunk in their positions and have either covered into the close or will be covering if the market maintains its gains tomorrow morning.

It's also another reminder of the volatility and fast moves that occur just before OpEx, and at the end of the day. But, there were opportunities, and even if you got caught the wrong way, a typical stop-loss did you no major damage - and if it did damage you, then it should be a reminder not to "play loose" with stop losses because an outsized loss is only one trade away if you're not careful. Trading has always been, and will always be a game of probabilities and risk management. That's how you stay in the game long-term!

1. PRICE BREAKDOWN

I spent a great deal of last night's report explaining the high risk of expecting further upside movement, and the opportunity from any break of a key level because the market was poised for a likely reversal, and it could come quickly. This trade was a 'playing out' of that analysis, shorting when the low of the day at $109.20 was taken out, OR waiting until price cracked under $109 to put on a short-sale. The stop would be above $109.40 and the target would be as large as you could play for, but the hammer, bounce off $108.20, and dual divergences was a good short-term exit... and entry for aggressive traders who want to play a mean reversion move back to the 20 EMA.

2. MEAN REVERSION SCALP TO 20 EMA, DUAL DIVERGENCES, HAMMER

Remember, the market moves in wave-like structures, and after a large down move, we can expect some sort of minor (at least) pullback/retracement to correct part of the move, and usually that move takes price back to the 20 EMA - as was the case here. The entry was on the break above the hammer at $108.40 (and trendline) to play for a target to $108.70 - which you either exited on the first three-bar downswing at 10:00am or - if aggressive - to price pushed officially to the falling 20 EMA which occurred at 10:30 - for your exit. Given the new price, TICK, and momentum low, we would thus expect a new price low yet to come (especially in the context of the higher timeframe massive divergences), so we would look to short this rally into resistance for our next official trade.

3. IMPULSE SELL, 20 EMA, DUAL DIVERGENCES, TRENDLINE BREAK, ABC THREE-WAVE CORRECTION

This was your typical "short the first pullback after a new price, TICK, and momentum low" to expect a new low yet to come. The good entry was as price broke the trendline at the $108.60 level at 11:00am to play for a move at least back to $108. That didn't happen, so this shows where good trade management comes in. You would generally place a stop above the 20 EMA for this set-up (not exactly on it, but maybe 5 to 10 cents above it), though there was a clean positive dual TICK and momentum divergence, along with a hammer candle at the lower Bollinger - and a break above that candle high at $108.60 - for a scratch exit ahead of price rising potentially to stop you out. If you didn't stop out early, then you stopped out on the break above the 20 - or at least hopefully 50 - EMA at the $108.80 level.

And what again is my favorite saying in the market?

"IF something should happen but does NOT happen, then it often leads to a larger than expected move in the OPPOSITE direction."

Thus, this is your classic Popped Stops play where you could have entered on a bullish break above the 50 EMA. Call it manipulation if it makes you feel better, but it is the expected upside burst that occurs - and you can trade - when a very obvious (in this case, bearish) set-up FAILS and buyers push price into the "Pocket" of stop-losses above a known resistance level, which triggers those stops to be executed and price to surge. Quite simple once you understand it.

4. POPPED STOPS

There really isn't much to say on a popped stops trade - a busted major pattern often leads to a good play in the opposite direction when price busts the set-up and enters the "pocket" of stops - perhaps hitting your stop in the process. The wise traders will flip/reverse if price breaks above a very obvious level that it shouldn't, where an unwise trader will sit there losing money, wondering what went wrong and getting upset. The will eventually stop-out, often at a much higher price than they should have or planned to stop out - which is what keeps the positive feedback loop going - of bulls buying and bears short-covering. A safe exit was the doji outside the upper Bollinger at $109.20.

Notice the Wyckoff Signs of Strength that occurred all through this swing, suggesting a higher price high was yet to come.

The set-up that I didn't specifically mention was the Cradle (pullback to the 20/50 EMA crossover) with the spinning top at 1:00pm - which got its upside target and made the new swing high as expected. Good for you if you took that trade. The next best trade was a short into resistance on a dual divergence.

5. UPPER BOLLINGER, 200 SMA, DUAL DIVERGENCES, TRENDLINE/EMA BREAK

There were different entries into this position - either AT the resistance area at $109.30 if aggressive or on a break under $109.00 if conservative - but either way, the negative divergences and 5-wave fractal (starting with the morning low of $108.20) suggested that a reversal swing was likely. The stop was above $109.40... and this was another good example of how good management is key - price formed two spinning top candles at the lower Bollinger Band at $108.60 then broke above those highs - a conservative exit - and when price broke back above $109.00 and the confluence 20/50 EMA - you should ABSOLUTELY NOT have remained short. If you did... then you suffered greatly. This was a news-driven positive feedback loop from the positive news from Goldman and BP - and could not have been anticipated in advance. If you were short, you had three chances to exit during the rally - the break of the double-spinning top high at $108.90; the break above $109 and the 20/50 EMA confluence there; and your original stop at $109.40 above those swing highs. If you held short stubbornly into the close, then you need to work on your trade management and lessen your bias. This was ANOTHER example of "my favorite saying" (above) and how **Popped Stops** - which you could have taken - works.

It was a tricky day for bears, and even so, in the 5 trades listed, roughly $1.50 was possible.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	CST	15-min VOLUME	RANGE
(3,318,316)	10,043,554	8:45	13,361,870	0.58
(35,367)	10,245,421	9:00	10,280,788	0.58
5,725,332	18,568,316	9:15	12,842,985	0.39
4,905,558	13,245,966	9:30	8,340,409	0.31
(1,825,316)	6,165,158	9:45	7,990,474	0.31
(2,254,629)	4,762,637	10:00	7,017,266	0.32
(1,926,592)	5,459,207	10:15	7,385,799	0.31
(204,787)	6,041,629	10:30	6,246,416	0.26
(2,717,800)	3,333,596	10:45	6,051,396	0.25
(21,116)	5,306,960	11:00	5,328,076	0.25
(625,882)	3,869,387	11:15	4,495,269	0.33
(509,862)	3,305,969	11:30	3,815,831	0.26
(2,137,953)	2,042,894	11:45	4,180,847	0.27
(2,290,546)	2,226,066	12:00	4,516,612	0.29
(315,773)	3,875,410	12:15	4,191,183	0.29
1,480,946	6,477,066	12:30	4,996,120	0.32
906,552	4,973,086	12:45	4,066,534	0.33
(2,309,348)	2,419,084	1:00	4,728,432	0.30
(17,246)	5,455,270	1:15	5,472,516	0.34
(6,997)	6,010,109	1:30	6,017,106	0.31
302,070	5,569,133	1:45	5,267,063	0.34
(1,514,661)	3,941,305	2:00	5,455,966	0.39
1,427,093	8,310,458	2:15	6,883,365	0.44
3,477,575	11,502,549	2:30	8,024,974	0.49
6,534,316	16,984,662	2:45	10,450,346	
4,902,392	25,870,841	3:00	20,968,449	
293,447.80	7,538,682.04	Ave.	7,245,234.23	0.34

Mixed results from today's Relative Volume analysis - despite all the red numbers (underperformance from the 10-day SPY average), the numbers were almost identical (less than 1 million difference for most). So, today was a roughly moderate day until the massive Popped Stops bloodbath into the close, which was met with much higher than normal volume - a confirmation of the higher prices.

Reference back to yesterday's lengthy report and description of how today's Market Internals and swing compares - actually looks exactly like - that of June. If that's true, then we can expect higher price highs yet to come DESPITE the divergences... but the longer this lasts, the more violent the crash down will be when the market stops rising.

I think that the news events going into the close may have changed the structure, and might give us pause to analyze the market too deeply - remember, the market is driven by supply and demand and NOT indicators. That means that IF the chart is signaling overwhelmingly that the market is likely to go down, THEN bears will be shorting the market and bulls will be taking profits, BUT IF the market then continues rising and thwarts the expectations of the bears who are short, THEN you can expect the market to keep going higher in popped stops mode no matter what the chart shows. Reference March/April 2010, most of 2009, and the June 2010 rally. We're here to make money, not to call every single turn in the market, and as such, you should beyond a shadow of a doubt play long - SHORT TERM (intraday) above $110 to take advantage of the price burst higher that will occur if the bears panic buy and bulls rush back in to buy.

Don't overcomplicate it.

I'll make it even more simple. Get long to play popped stops intraday above $100, remain vigilant and neutral between $108 to $110 (the range), and play short/bearish under $107.50. Nothing else matters.

We have seen repeatedly that the market has a propensity to keep rising despite numerous non-confirmations, but that eventually these non-confirmations catch up with the market in a series of crashes after overextensions, but if the market continues the pattern of creeping higher despite all signals that it shouldn't, there's no point in sitting on your hands as the market creeps its way higher, popping out the stops of the bears who do not understand this and have not learned from recent history with REPEATED examples of this concept.

Risk is high for both bulls and bears - as the market could crash at any time (risk for bulls) but it also likely will keep creeping higher longer than everyone thinks it will (risk for bears), and perversely, if the market keeps creeping higher, it will do so from the popped stops of the bears. Take time to understand this concept or else you may be one of those bears who is doing the right thing based on what the signals and chart says, but keep stopping out because the bulls are relentless, clueless (to keep buying in such conditions), or the market is being held up. It doesn't matter where the demand is coming from, it's here and continues to push higher.

Continuing the thought that "This looks just like the rally into June's OpEx Friday" - it does. We now have two doji candles after a big up candle. Look back to June. Three dojis (the Friday was a doji day) after a big up candle. After a doji candle. After up candles. The move is identical in almost every way, as I showed last night.

So, if history repeats, we can expect a swing to lead to another bull trap above 1,100 or even 1,115 before the market crash on to test the 1,010 lows. That would continue the two patterns. A sustained breakout above 1,110 then 1,130 means that THIS TIME IT'S DIFFERENT and would suggest a further rally to test 1,150 or 1,170 - that would be a game changer marked by many popped stops of the bears and could happen quickly.

Anything less than that keeps the chart in the downtrend, with the expectation that resistance at 1,110 will hold and that the market will break back down to test 1,010. The next few days - through OpEx of course tomorrow - will be absolutely critical. BE AS CAREFUL AS YOU POSSIBLY CAN. There's so much going on right now and you're likely to be caught in a crosscurrent no matter which position you put on, so guard your positions closely tomorrow.