AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 07/16/10 L=106.83 -2.85 -2.60% O=109.09 Hi=109.21 Lo=106.45 C=106.79
1
2
3
109.00
108.80
108.60
108.40
108.20
108.00
107.80
107.60
107.40
107.20
107.00
106.80
106.66
-0.0280
-0.2000
-0.4000
Wyckoff, but
it failed
$TICK - 1 min NYSE 07/16/10 L=-521 -1210 -175.62% O=1 Hi=1153 Lo=-1202 C=-521
1,000
600
200
14
-200
-521
-1,000
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

Finally! A downside resolution to the daily overhead confluence resistance, continuous decline (negative divergence) in volume, momentum, and breadth/market internals. I sort of expected this might happen on Monday after today's expiration, as was the pattern in June, but it's yet another concrete reminder that - as I have been taking extra effort to remind you each evening - risk is high when markets are overextended with massive divergences: the market can - and almost certainly WILL - collapse (not just retrace nicely) at any point in time after such massive non-confirmations. But it's also risky for the bears because "they" (the "big boys" + not-so-smart traders who are buying, unaware of the non-confirmations) can keep jamming the market up artificially, thus overextending the market beyond the normal rhythm or swing... which is exactly what leads to violent crashes like today. I hope you were able to profit from at least some of today's sell-off - the signal for an impending sharp down-move could not have been more clear, though it was certainly possible for the market to be jammed higher to test the 1,110 confluence before the crash. Apparently, that didn't happen.

Just a quick reminder to new and semi-new members - as there really aren't that many trades today.
I consider myself to be a technical purist, which means I interpret the charts to the best of my ability/experience and seek to be as free from directional bias as possible, leaving the charts and technical (price) structure to make decisions for my analysis and trades. As such, I'm interested in knowing the dominant trend, strength/weakness of that trend (as seen by momentum, internals, volume, and duration of trend), overhead resistance levels that would pause or reverse an up-move, underside support levels that would pause or reverse a downswing, and major chart levels that would change definitions from an uptrend to downtrend, or would reverse/change/challenge a short-term expectation. From that, you put on positions when the odds favor a successful outcome, manage risk by placing stops beyond the point(s) that the market should not go (ie, beyond a key support/resistance level), and play for targets that a market should travel towards. The charts reveal probabilities, not certainties, and as such, I am not upset by a stop-loss or change in my expectations that were derived from the charts, because I obtained those expectations from the charts.

That's a one-paragraph explanation of how I analyze, trade, write these reports, and advocate you to do the same by following along in the commentary and chart analysis each day - and as always I'm so thankful for your feedback that I receive and for you being a member! The markets are fun - at least to me! - and this isn't rocket science. It's not easy, but it's not rocket science. So have as much fun as possible, manage the risk and your emotion/bias (the market HAS to go up, or the market HAS to go down), and manage your positions with confidence, as a technical (chart) purist, where price is the ultimate arbiter of your decisions.

A reminder about Type III Trend Days:

On a type III Trend Day, which usually occurs when there is a higher-timeframe expectation for a big move, or after a big news announcement, there is ONLY ONE strategy that works consistently:

Trade in the direction of the trend day, shorting pullbacks to the 20 EMA on the 5-min chart and tailing a stop - if not holding a core position short - above the 20 EMA, and DO NOT UNDER ANY CIRCUMSTANCES take a counter-trend (long) trade UNLESS price breaks above the 50 EMA. Be neutral between the 20 and 50 EMA, otherwise continue shorting EVERY SINGLE up-move into EMA resistance.

If you do ANYTHING different than that, you are very likely to lose money on one of the simplest, most efficient days of the month. These days occur at most once or twice per month, and they are your best chance to make your monetary goals for the week or even month, if you trade them just like that AND the market continues to move in the direction of the initial trend all day long. For heaven's sake IGNORE the 3/10 Oscillator and be skeptical of the TICK, but do watch what the TICK says, in terms of divergences and any Wyckoff signals. But even as today shows, the price is all that matters, and the positive feedback loop of the downward spiral can overrule even TICK divergences and Wyckoff Signals.

DO NOT overcomplicate this - keep shorting as long as price stays under the falling 20 EMA. Don't count Elliott Waves, don't throw on Fibonacci grids, and DO NOT BUY. If you messed up today, don't fret - there will be more days like this.

1. SUPPORT BREAKDOWN, BREAK UNDER $109

I honestly - probably like most people - expected the surprise rally into the close to carry forward to today's session and continue for popped stops in a classic "they're manipulating the market higher" phase. Though "they" pushed the market higher into the close, they weren't able to keep it up with against the negative news of the morning. And - as strange as it may sound to *expect* further manipulation (I'm a realist, not an idealist), the market *SHOULD* have traveled higher on the BP, Goldman Sachs, and earnings news. The fact that it DID NOT trade higher this morning brings us back to my favorite statement - that you should have tacked to your monitors:

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

And my gosh - it sure did. It led to a Type III Trend Day. The big news was that Consumer Sentiment dropped from a reading of 76 prior all the way down to 66.5 in today's release. Oops. That understandably and expectedly sent the market plunging lower. However, we trade off the charts, not the news.

So, your entry was as price broke the swing low from yesterday's closing period at $108.50, if you did not decide to short on a clean break under $109. The best exit for this trade - which was a windfall profit - was the bounce and candle break along with the trendline break at the $108.00 level. That was your initial "red flag" that the day could be a trend day, so we would want to short the expected pullback to the 20 EMA.

2. "ABC" CORRECTION, 20 EMA, TRENDLINE BREAK, IMPULSE SELL, BEARISH ENGULFING

This was a classic short-sale entry on an "ABC" pullback to the falling 20 EMA after a large momentum move lower. Price broke the rising trendline and formed a bearish engulfing candle at the $108.00 level (also a "round number" price resistance level), triggering your entry with a stop above $108.20 to play for a minimum target of a retest of the morning low at $107.60 or for a new swing low. If you had confidence that we were in a breakdown phase - as I've been showing you each night due to the lengthy negative divergences and "artificially supported" market that often leads to downside mini-crashes - like we had today - then you could have put on a position trade here instead of a typical intraday trade, meaning play for a larger target. Either way, you were likely to trail your stop just above the 20 EMA, which led to a profitable exit at 12:30am on a Wyckoff Sign of Strength an push above the 20 EMA.

3. DOJI, 20 EMA PULLBACK, BEARISH ENGULFING

But the Wyckoff Sign of Strength and TICK divergences (momentum divergences are irrelevant on a Trend Day) failed, leading you to put on a new short-sale position on the break under the bearish engulfing low and move under $107. Remember, $107 could certainly have been a support zone, so I understand if you tried to put on a reversal position there, but it failed to materialize. When price failed to support meaningfully at $107, you knew that odds strongly favored a Type III Trend Day, meaning get short, stay short, and monitor the 20 EMA. You could have trailed your stop above the 20 EMA, and price never got above it, so you should have exited profitably into the close - that's what I mean by "Type III Trend Days are efficient." It sounds crude to say and oversimplisitic, but as long as price is moving lower in trend day fashion, short ALL pullbacks to the 20 EMA, trail your stop above the 20 EMA, and DO NOT GET LONG. It won't always work, but the times it does will lead to very simple profits like this - remember, our goal as traders is to capture edge over time - not from every single day. This is part of a broader trading strategy of opportunity maximization - so don't focus on each individual trade, but how it fits into a larger structure - if you try to outsmart the market, you will miss easy profits you could have achieved today.

Unless you tried to get long at any point in time - which you almost certainly wound up with a loss - then roughly $1.50 was possible in today's session.

Not all days are like this - of course - but take advantage of the ones that are.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	CST	15-min VOLUME	RANGE
1,464,234	15,202,784	8:45	13,738,550	0.54
5,138,986	16,805,572	9:00	11,666,586	0.54
3,767,201	16,987,586	9:15	13,220,385	0.40
1,074,896	9,734,438	9:30	8,659,542	0.34
(1,264,395)	7,029,254	9:45	8,293,649	0.32
(2,093,016)	5,485,224	10:00	7,578,240	0.31
(1,402,068)	5,605,678	10:15	7,007,746	0.31
943,455	7,100,965	10:30	6,157,510	0.27
399,292	6,315,755	10:45	5,916,463	0.26
1,221,237	6,591,731	11:00	5,370,494	0.28
1,702,626	6,528,443	11:15	4,825,817	0.28
1,516,538	5,737,974	11:30	4,221,436	0.27
(1,116,718)	2,705,767	11:45	3,822,485	0.28
235,720	4,246,205	12:00	4,010,485	0.27
666,767	5,045,189	12:15	4,378,422	0.32
(559,664)	3,897,800	12:30	4,457,464	0.31
1,687,304	6,378,753	12:45	4,691,449	0.31
1,772,925	6,532,113	1:00	4,759,188	0.29
(1,389,895)	3,998,517	1:15	5,388,412	0.35
(1,213,292)	4,756,371	1:30	5,969,663	0.32
(643,989)	5,489,177	1:45	6,133,166	0.37
(936,133)	5,712,844	2:00	6,648,977	0.43
1,051,832	8,928,749	2:15	7,876,917	0.49
2,998,132	12,982,725	2:30	9,984,593	0.50
3,115,936	14,822,041	2:45	11,706,105	
9,626,915	32,887,153	3:00	23,260,238	
1,067,878.02	8,750,338.77	Ave.	7,682,460.75	0.35

What does a comparative/relative volume analysis confirmation look like?

This.

Volume rose in almost all 15-min periods in the SPY as price plunged lower all day long - a volume CONFIRMATION of the lower prices.

Bigger picture? Last week, I was careful to show you all the up-days with lower volume - NON-CONFIRMATIONS and label them evidence of a BEAR MARKET RALLY ... and today is the likely start of the resolution, meaning volume moves WITH the trend (or it's expected to) and today's rise in volume - granted it was OpEx Friday - hints that the market remains mired in a bearish down trend, as volume goes DOWN during the up swings and goes UP during the down swings.

Signal? Lower prices are likely yet to come.

If you're new as a member, study this chart very closely, in terms of how negative momentum, volume, and breadth (not shown) divergences DO lead to eventual reversals, but TIMING entry into the reversal is difficult because a market can rally longer than expected on declining momentum, volume, and breadth/internals. I showed you also the "Distribution Volume Bars" as they occurred and I'm showing them again here - THEY MATTER. This is a classic distribution top that precedes a down-move. Classic. 100% Classic Example.

What now? We could see a short-term bounce off the 200 SMA, lower Bollinger, and 38.2% Fibonacci as shown at the $106.50 level, but if we don't look for a move to $106 to provide initial support for a bounce. If sellers push us under $106 tomorrow, then we would expect a collapse lower, given that odds favor a bounce off the $106.50 area.

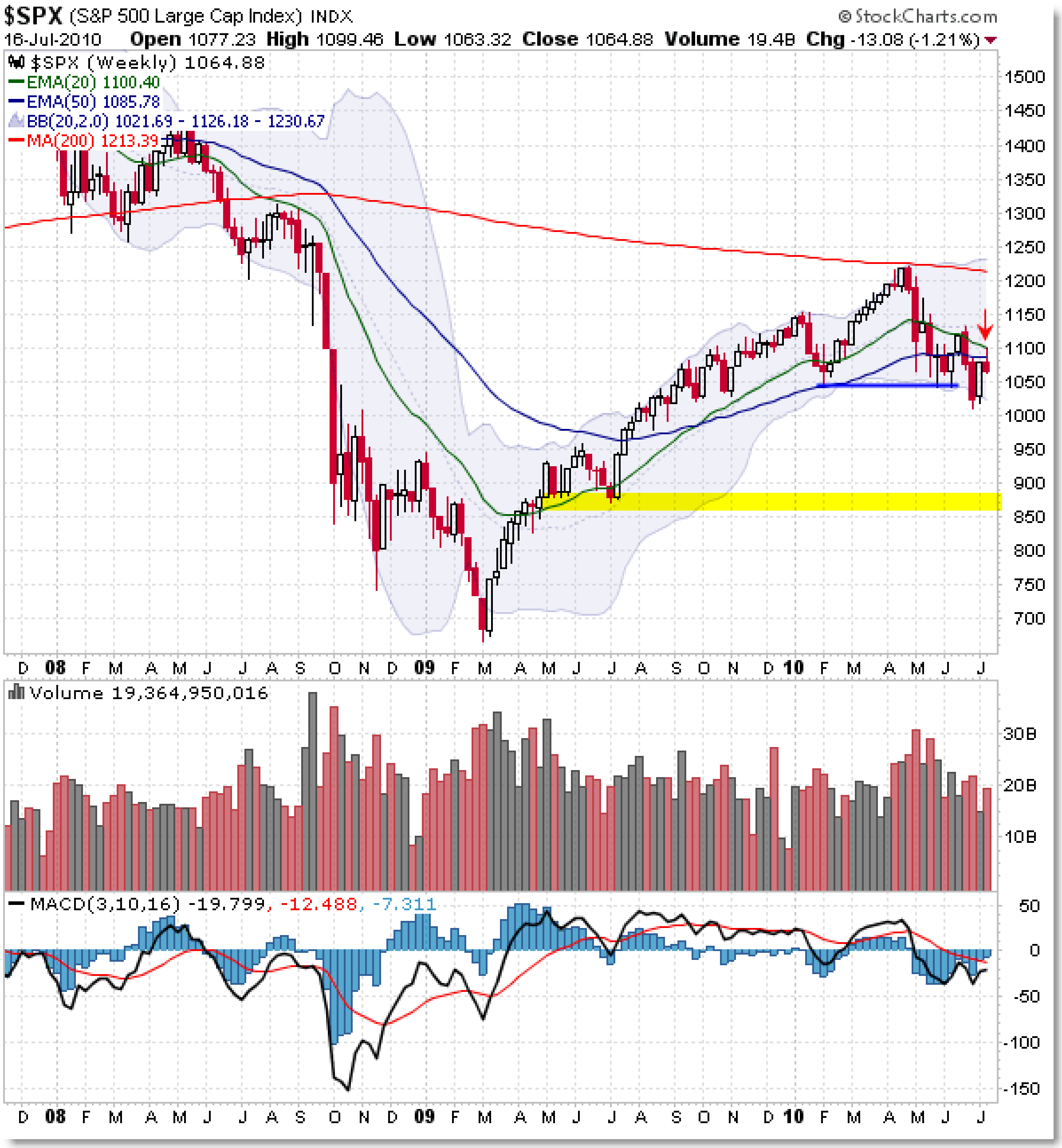
The context is that the up-rally that began in early July has ended, the market rallied into resistance as expected (no harm, no foul), and now the sellers are dominant in an impulsive swing (bear market down-swing) to the downside. Notice the new momentum low that formed today, which suggests lower prices still are yet to come.

What's our target? Simple - a move back to test the $101/$100 level hit in early July, if not lower. The market will not get there in one or two days - it will swing up and down on the journey there, just like you see on the left side of the chart in June. This will be the dominant technical (chart) expectation UNLESS (remember, we have to know levels that disprove our expectations and remain unbiased) we see a break above $110, which would trigger a violent round of "popped stops" sending the market higher, though that's certainly the lower probability outcome.

As long as we're under $110, and I'd even say under $109, expect price to travel over the next few weeks to retest $101.

No point in overcomplicating this (another of my favorite sayings!). The market rallied exactly as we expected into the confluence resistance at 1,090/1,110 (actually peaking in-between at 1,100 - funny). The rally was a counter-trend rally, and now we likely have begun a new bear market swing to the downside in the context of the larger confirmed bear market/down-trend, and - barring any move above 1,110 and especially 1,130 which would destroy the bear market expectations - we thus expect the next swing in price to take us back to 1,010 or even lower.

It's important to note that - whatever you may be hearing in the news media - the price is following a classic script almost to the letter - so that's at least comforting (or should be). Expect the market to wind its way lower to test if not break the 1,010 low over the next few weeks (from a chart-purist standpoint).



Quick peek at the weekly chart:

All EMAs are above price, serving as resistance (notice the 20w EMA rests at 1,100 - which was this week's high ... interesting), and a break to new lows under 1,000 will lock in the head and shoulders pattern, officially reverse the weekly trend (it's already technically in a down-trend, but just by a very miniscule amount right now), and send the next downside 'larger picture' (primary trend) target to the 850/900 level as shown.

It's important to note that IF price falls under 850 over time, then we would expect a retest of 666.