AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 07/20/10 L=108.60 1.31 1.22% O=105.87 Hi=108.56 Lo=105.82 C=108.48
1
2
3
108.47
108.20
108.00
107.80
107.60
107.40
107.20
107.00
106.80
106.60
106.40
106.20
106.00
0.1500
0.0340
-0.0500
-0.1500
$TICK - 1 min NYSE 07/20/10 L=924 280 43.48% O=-6 Hi=1608 Lo=-852 C=924
1,400
924
569
200
-200
-600
7/20
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 is perhaps one of the most outstanding examples of my favorite statement - and market reality - at work:

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

Traders who failed to understand this concept, and played by the overwhelming technical (chart) evidence that suggested odds strongly favored lower prices today, suffered greatly. Markets are moved by supply and demand, NOT indicators. And when the chart shows a high probability move that is obvious to many, many traders, those same traders will position themselves in the direction of that "too obvious" move - in this case, short-selling. As traders, we must follow the odds and probabilities as revealed through the charts - not from our biases be it bullish or bearish. We must be willing to take stops when trades fail to perform as expected instead of trying to impose our - perhaps in this case bearish - will on the market. Doing so can lead to massive losses, as today shows. However, to the experienced trader who is unbiased, focused on the charts, and able to adapt, today was an 'easy' trading session of profiting from the pain of the bears/short sellers as price broke twice above key levels, Popping bearish stops along the way.

Remember - the market is comprised of buyers and sellers. Once a buyer enters a position, he places stop-losses. Once a short-sellers enters a position, he also places stop-losses. If the market moves in a way to trigger a large amount of traders to take a particular position - in this case, short-selling - then IF buyers can overcome that selling pressure and then raise the market price into the "Pocket" of stop-losses (remember, stops are not all placed at the same level, but in layers depending on the risk-tolerance of the trader), THEN the market will rise violently in "Popped Stops" fashion as buyers are buying and sellers are buying to cover their shorts.

This is a reality of the market that so many people do not understand - that's why we deal in probabilities, not certainties, and why supply and demand move prices, not charts. As traders, our goal is to assess the probabilities, trade when we see an opportunity, monitor price while we have an open position on, and exit if price breaks our initial expectation and triggers or stop... or exit when price moves in the way we expected to reach our target.

How buyers overcome the massive wave of sellers is a whole other question, but the fact is that it happened, and it resulted in the afternoon Popped Stops 'positive feedback' loop that gave traders a relatively simple chance to profit from the market dashing the expectation - and positions - of the short-sellers, forcing them to cover.

The earliest clue that "something else was going on" was the failed short-sell signal from 10:00am - notice the quick burst that arose from the market 'busting' that classic pattern. That was your first clue that "things were not right" and that the "market was not behaving as it should" and that perhaps there could be a higher timeframe player present (to quote Market Profile Theory). That fact was confirmed with the break to new highs in a impulse move starting at 12:30 - and from then anyone who remained short did so against the odds... and those nimble traders who jumped in long did so to play "Popped Stops" which worked out quite nicely. Study this in more detail if you do not understand this concept - it's not clearly explained in most books, and this is something you learn from trading experience - not from books. Knowing this can be the difference in a successful career or not - but if you trade long enough, you'll learn it.

1. IMPULSE SELL, 20/50 EMA CONFLUENCE, BEARISH CANDLE BREAKS

Price retraced in an "ABC" three-wave structure (correction) into the confluence of the 20 and 50 EMA at the $106.60 area, triggering a short-sale at that level with a stop above $106.80, though a proper exit was after price broke the doji/spinning top low at the $106.50 level. Unfortunately, this was one of those "Gotcha!" set-ups where buyers immediately busted the set-up, leading instantly to a stop-loss and impulse "popped stops" move to the upper Bollinger Band. This was one of those high probability trades that failed, but when it failed, it gave you information. The market 'should' have fallen here, but the fact that it didn't gave the first clue that buyers may be stronger than we think they are, or that there may exist a higher timeframe buyer(s) that are not watching intraday charts (think Warren Buffett or billion dollar funds like him putting on a position for fundamental reasons - he (his brokers) will buy every intraday dip to establish a multi-million share position, which will overcome the sellers and bust intraday short-sale patterns).

Anyway - price consolidated for the lunch period, and then the next set-up was a nice Popped Stops play.

2. POPPED STOPS

I explained the logic earlier, and there isn't much to say other than when price breaks to new highs, particularly when a lot of bears/short sellers expect that NOT to happen (and they have stops above the highs), then it often leads to a sudden buy impulse of Popped Stops where bears rush to cover along with bulls - and intraday traders like you who buy breakouts (if you do) - which sends the price soaring higher, leaving those long to profit from it. You want to hold long as long as possible, and the bearish candle and break under its low at 1:00pm was a good exit.

3. POPPED STOPS

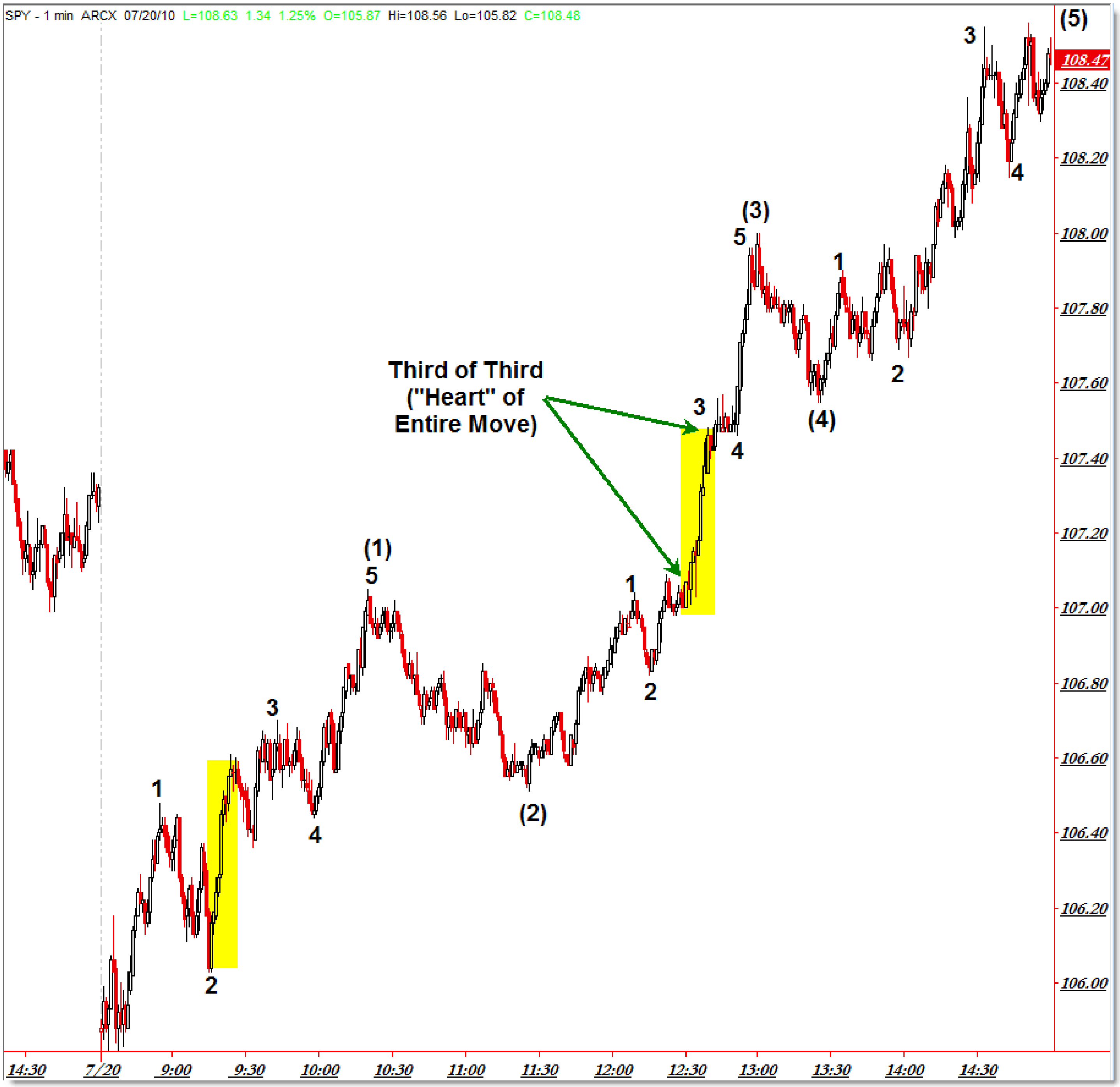
Same type of discussion, though you could have bought long as an Impulse Buy on the pullback to the rising 20 period EMA at the $107.80 level - notice the bullish candles PRIOR to the breakout at $108.00 - which was a round-number expected resistance level. More stops were placed above $108, and so the bullish breakout above $108 triggered a new round of popped stops, which you could have traded long into the close.

It was a day of "Popped Stops" where the possible profit was roughly 80 cents, though the potential for devastating losses existed today if you stubbornly fought the price action.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	CST	15-min VOLUME	RANGE
3,715,263.30	16,922,112	8:45	13,206,848.70	0.50
(169,122.10)	9,986,284	9:00	10,155,406.10	0.50
(1,181,952.40)	9,870,990	9:15	11,052,942.40	0.40
296,132.80	8,341,278	9:30	8,045,145.20	0.30
404,449.40	7,034,085	9:45	6,629,635.60	0.32
483,839.70	6,694,259	10:00	6,210,419.30	0.28
1,615,767.60	8,270,934	10:15	6,655,166.40	0.27
2,672,625.20	8,155,533	10:30	5,482,907.80	0.24
(386,653.80)	4,454,141	10:45	4,840,794.80	0.24
(1,191,539.70)	3,555,729	11:00	4,747,268.70	0.23
(917,881.00)	3,442,753	11:15	4,360,634.00	0.21
(774,577.60)	2,662,555	11:30	3,437,132.60	0.24
(903,493.60)	1,836,812	11:45	2,740,305.60	0.24
(462,477.20)	3,055,994	12:00	3,518,471.20	0.24
(40,668.80)	3,489,971	12:15	3,530,639.80	0.28
(681,015.90)	3,638,000	12:30	4,319,015.90	0.29
5,761,681.00	9,755,332	12:45	3,993,651.00	0.29
7,324,412.60	12,081,715	1:00	4,757,302.40	0.25
1,324,458.00	6,259,343	1:15	4,934,885.00	0.30
3,587,755.60	9,247,005	1:30	5,659,249.40	0.28
1,649,879.10	6,449,853	1:45	4,799,973.90	0.33
398,938.20	5,466,811	2:00	5,067,872.80	0.37
(255,907.50)	6,419,537	2:15	6,675,444.50	0.39
2,878,070.70	11,480,652	2:30	8,602,581.30	0.42
2,870,784.40	13,897,423	2:45	11,026,638.60	
333,780.30	22,086,823	3:00	21,753,042.70	
1,090,482.63	7,867,535.54	Ave.	6,777,052.91	0.31

Given that today was essentially a "one-sided market" from noon onwards, we are seeing the expected volume comparison - given that bulls 'popped' bears' short positions.

According to the volume chart, this is a narrow confirmation of today's up-move, so it will not be surprising if we continue to see further upside action, but we'll need to watch very closely. This could also just be a one-day violent short-squeeze that ended and will result in a further downside action, but there's no way to tell for sure right now so watch closely tomorrow.



I wanted to show again the "Third of Third" Elliott Concept that I find so helpful in intraday trading.

If you see a blatantly obvious sharp impulse move upward in price - as we see at 12:30 to 1:00 - look backwards in the day to see if you can trace out a "Wave 1 and Wave 2." If you can, then you're probably currently in a Third Wave, meaning a 4th wave pullback is yet to come, as is a push to new highs on the 5th wave. The "Heart" of the move is the fractal "Third Wave" of the "Third Wave" as seen above.

Knowing this - and assuming price continues to trace out the remaining Elliott Waves - gives you an enormous advantage of those who fail to see this concept - or worse, are shorting into it.

Taking the July 14th high to today's low (not spike low), we see that the 61.8% Fibonacci retracement rests at 1,083 - today's closing high. That's interesting - because it could halt the move up, but if not, and if price breaks above 1,085 - then the chart will suggest that something else (bullish) is going on - meaning that this is not a retracement up into Fibonacci resistance, but instead potentially a swing that could continue rising to take out - or at least test - the 1,100 level.

So, watch what happens at 1,085 tomorrow very closely.

Today serves as a reminder that we trade probabilities, not certainties, and when something on the chart seems so obvious (that the downswing was likely to continue), it can lead to very, very violent moves (short-squeezes) if a large majority of traders who are short are suddenly forced to cover.

Think moviegoers in a crowded theater who all must rush for a single exit when a fire is suddenly discovered in the theater that blocks the main exit. All must rush for the same exit, and in so doing, people are crushed - bears were crushed today as they all ran for the exits.

Price achieved the lower probability outcome today, and in so doing, it took out the short-term participants who were betting with the higher probability move as they should have been doing. That's why we have stops - and do NOT fight the tape when price breaks a key level of resistance such as I highlighted at the $107.50/$108 level. Look how powerful the move was when price broke these levels - everyone who was short had to (or should have) cover, and that popped the market higher. What now? Simple - if this impulse continues to pop out bears who are still holding short, then play intraday long above $108.50. If this truly was just a one-day short-squeeze, then we will head lower. Either way, we'll know more by tomorrow's close if this was a one-day wonder or the beginning of a vicious rally that will decimate bears.

The gap lower today lured in many, many bears to short-sell, though price did not break solidly under the $106 level. These same bears were forced out of their positions on a bullish break above yesterday's close and high, as well as the massive EMA confluence at the $107/$107.50 level.

If we see a move tomorrow above $109, then expect a likely retest of $110 in an unexpected bullish surge that will continue to decimate bears who refuse to believe this could happen - it can.

Otherwise, regroup your bearish expectations if price breaks back under $107, and especially under $106.

If this was a one-day wonder where the market was artificially pushed up (manipulated) by a few funds to pop-out the bears, as opposed to many true bulls buying eagerly, then we could see a violent downside crash later in the week.

Odds were overwhelming for a continuation downswing lower - but I mentioned to watch what happened at 1,060 very closely - sellers did not break under this key level, and that failure began today's short-squeeze. We're still under daily resistance at 1,100, so the bearish bias remains, but we're more neutral now. In the event that buyers push this market above 1,100 - prepare to trade long intraday for a potentially powerful popped stops bullish break above 1,100 that could send us immediately to 1,130. Anything less than a break above 1,100 continues our downside bias to expect 1,010 to be tested, particularly if price falls lower to crack under 1,060.

BE VERY SAFE while we're between 1,060 and 1,100.