AFRAID to TRADE

overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 07/09/10 L=107.69 0.53 0.49% O=107.13 Hi=107.97 Lo=106.93 C=107.96
1
2
Arc Trendline
107.93
107.90
107.80
107.70
107.60
107.50
107.40
107.30
107.20
107.10
107.00
106.90
0.1500
0.1000
0.0453
0.0120
-0.0500
$TICK - 1 min NYSE 07/09/10 L=666 -172 -20.53% O=-1 Hi=1380 Lo=-869 C=666
Wyckoff
1,000
666
509
200
-200
-600
7/9
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 Rangebound, Choppy, Low-Efficiency day, and so there aren't many trades for me to discuss - not even in hindsight to teach lessons from. I strongly suggest trading less frequently on days like this, or else you risk further degrading your already low edge of profiting on such days. The day didn't start out terrible, but the majority of the day certainly was - speaking specifically about the middle. If today was a sandwich, the bread was mildly acceptable but the meat was definitely rotten. It's a reminder that some professional day traders specialize in trading only the morning, only the afternoon/close, or both, but very few professionals make outsized gains in the "lunch doldrums" session - especially on a Friday with very little economic news out. Still, let's look quickly at these trades and then move on to what to expect next week.

1. NEGATIVE MOMENTUM DIVERGENCE, TRENDLINE BREAK, UPPER SHADOWS, UPPER BOLLINGER

This was actually a great trade - I shouldn't belittle it. It was a classic rangebound push to new highs, and I had stated last night that if we broke above $107, to continue trading long to target the $108 level - and - once again - that is exactly what happened. As strange as it might seem, the market IS following the classic script - there is absolutely nothing at all unusual about what is happening - but that doesn't mean the intraday trading is all that fun or profitable while the market continues its expected retracement higher.

That being said, you actually could have traded long for the whole morning session, but there were no idea entries, so I did not label them.

The best morning trade was actually to 'fade' the rally by shorting as price came down from the two bearish upper shadow candles at the $107.70 level (remember I told you that there was a "Gann Squares" Number at 1,077 - very interesting). The 3/10 Oscillator on the 1-min and 5-min chart showed clear negative divergences, and the official entry was the price break under the rising trendline at $107.50 to target a minimum swing of the rising 20 EMA at $107.30, or a lower swing back to the lower Bollinger or rising 50 EMA - neither of which were hit officially. However, price did form a hammer and bullish reversal candles on a bounce just above $107.00, so that was your exit if you did not do so already.

And, unless you were an extreme fader who enjoys range days - yes, there are traders that benefit very well on range days - then you had absolutely no edge-worthy opportunity. Buying and shorting at the Bollinger Band extremes netted you a maximum move of 20 cents - not really worth the effort. Best to wait out the consolidation and prepare the eventual break - and if no breakout came, then head out for an early weekend.

The breakout did come, and it was a clean Popped Stops play as usual .

2. POPPED STOPS

This Popped Stops play actually was telegraphed in advance by a stealthy rise in Breadth, an upwards slope to the price (though that's not ultra important), and eventually a Wyckoff Sign of Strength (TICK high on the session) which occurred immediately before the Popped Stops official breakout entry, when price crossed the $107.60 level in a powerful candle. You could have exited as price broke under the rising trendline at the $107.80 level, though if you didn't, you likely scratched on the trade by exiting quickly into the sharp down bar. In the rare event you held through this big down bar, you got your full profit as the market closed on its highs.

There's not much to say about today's opportunities - there were two of them as I see it.

They would have netted up to 50 cents profit - a reminder that, as traders, we really must take advantage of the days where opportunities are plentiful, because not all days are that way.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
(3,082,989.60)	10,950,969	9:45	14,033,958.60	0.54
(4,265,434.70)	7,974,442	10:00	12,239,876.70	0.54
(6,995,386.90)	7,593,328	10:15	14,588,714.90	0.47
(1,626,688.80)	7,604,977	10:30	9,231,665.80	0.38
(3,608,443.50)	6,061,885	10:45	9,670,328.50	0.32
(4,356,779.30)	4,580,881	11:00	8,937,660.30	0.35
(3,681,509.90)	4,266,690	11:15	7,948,199.90	0.34
(4,151,983.60)	2,864,364	11:30	7,016,347.60	0.29
(2,837,006.30)	3,580,294	11:45	6,417,300.30	0.27
(2,897,691.70)	2,468,930	12:00	5,366,621.70	0.29
(3,408,979.20)	1,577,162	12:15	4,986,141.20	0.34
(2,813,836.20)	1,883,448	12:30	4,697,284.20	0.29
(2,563,939.20)	2,273,818	12:45	4,837,757.20	0.31
(2,166,171.00)	2,775,757	1:00	4,941,928.00	0.31
(1,686,537.70)	2,841,220	1:15	4,527,757.70	0.32
(2,799,798.00)	2,591,701	1:30	5,391,499.00	0.31
(2,984,819.20)	2,436,230	1:45	5,421,049.20	0.34
(2,058,494.10)	2,657,657	2:00	4,716,151.10	0.29
(1,962,353.20)	3,755,571	2:15	5,717,924.20	0.34
(3,278,005.90)	2,786,923	2:30	6,064,928.90	0.35
(3,031,837.60)	2,579,568	2:45	5,611,405.60	0.32
(204,924.60)	6,091,185	3:00	6,296,109.60	0.46
(2,713,640.10)	4,069,917	3:15	6,783,557.10	0.48
(3,592,771.30)	6,145,933	3:30	9,738,704.30	0.56
(5,691,695.40)	6,838,764	3:45	12,530,459.40	
(10,104,026.20)	14,917,669	4:00	25,021,695.20	
(3,406,374.74)	**4,775,741.65**	**Ave.**	**8,182,116.39**	**0.37**

Do not adjust your screen - this is not a mistake!

Yes, volume in the SPY was down EVERY single 15-min period relative to the last 10 day average - and you should already know what that means.

It is a glaring non-confirmation and bearish divergence that warns of a likely reversal in price yet to come. That's not to say the reversal will come Monday - it might - but that the market is rising again on borrowed time - from a volume standpoint.

Be careful and be ready to trade short on any breakdown intraday.

In addition to volume treading lower (as we'll soon see), all three key market internals are trailing lower, and are down from the July 7th peak.

Also, despite price being about 10 points higher than yesterday's close, Breadth, VOLD, and TICK are at the exact same levels seen at yesterday's close.

All of which points to a simple conclusion - the market is rallying on borrowed time and will reverse soon - moreover, this is a bear market rally and not the beginning of a new bull market. The longer this situation continues - and we already know that **a market can continue to push higher on declining internals/volume/momentum longer than we expect it to** - the more harsh/violent the downside resolution will be.

I've labeled a clean 5-wave fractal, but note that the 5th wave can continue extending higher - it doesn't have to stop at $108. It might, but it's not required to do so.

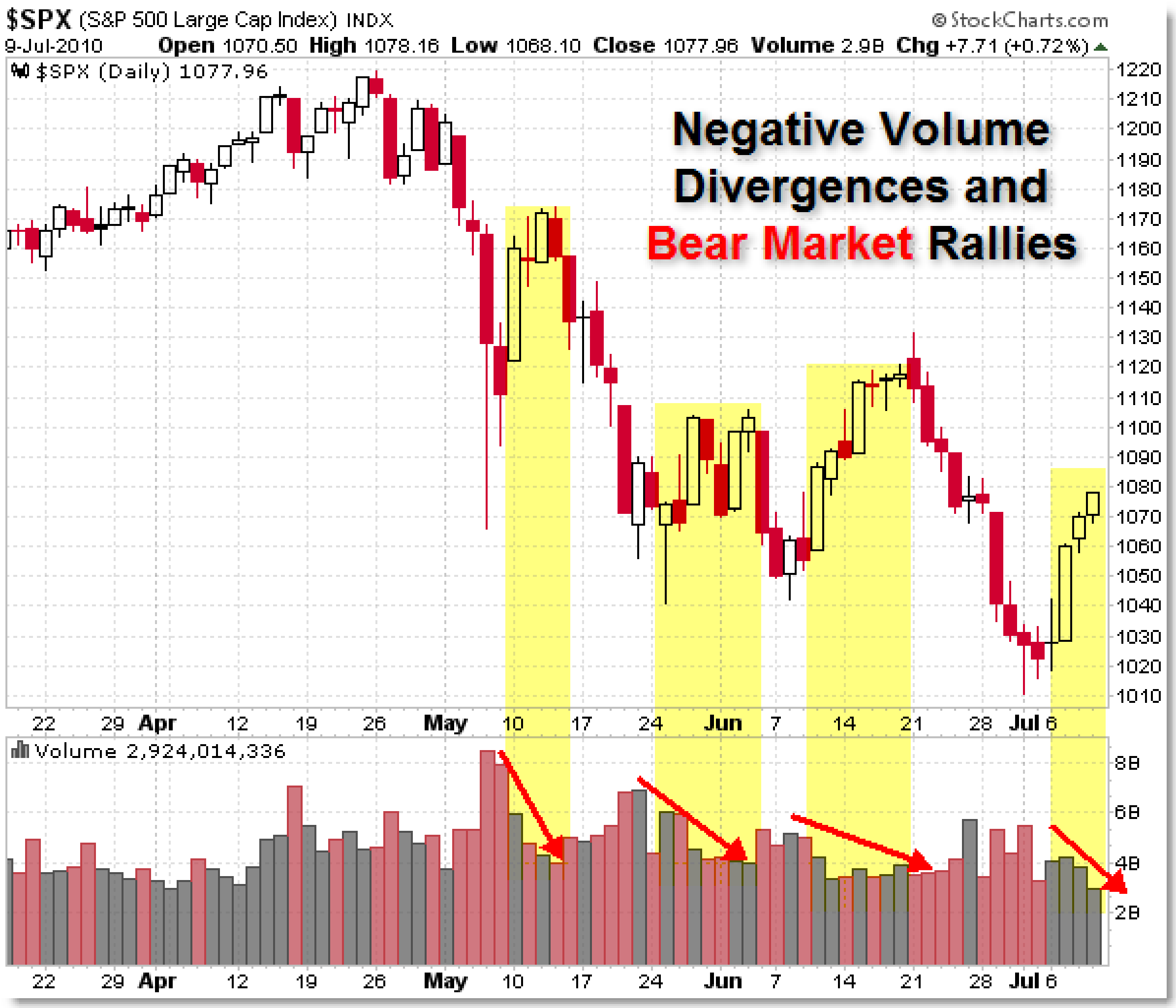
What's most important to note is that price is extending higher on a negative volume and now a negative momentum divergence - both of which are classic NON-confirmations and hint that a reversal is soon yet to come. As many of you are aware, the market can continue rallying higher on deteriorating volume, momentum, and divergences, so you shouldn't walk up and short JUST BECAUSE these indicators are diverging with price, but do realize that the situation is repeating where price is stretching on thinner support. It's not manipulation yet, as the move up is very normal, but if we get above $109 and breadth, volume, and momentum are STILL diverging, then you can expect another mini-market crash yet to come. Right now, we're just expecting another down swing to materialize in the context of the larger down trend - no sign of another collapse. But do keep in mind that the risk increases each day that we continue higher - and we certainly can continue higher.

I've been saying it's likely that we'll see a move up into the $107/$108 area and that's exactly what we have here - and it even looks possible for the market to test $108.60 which would converge with the 61.8% Fibonacci Retracement and prior price high. Anything above $109 is suspect and would perhaps lead to more popped stops from aggressive bears still holding short with a wide stop.

As I posted on the blog, the two potential upside targets in the daily SP500 include the confluence at 1,090 (50d EMA at 1,095 and 38.2% Fib at 1,090) and 1,110 (lots of confluence there). It would be unlikely that we pop above 1,090, but if we do, expect to see 1,110. And, if this is something more than a bear market rally and we go all the way in a single swing above 1,130, expect a potentially larger/continued short-covering rally as high as 1,170 - but that hasn't happened yet and odds favor lower prices as long as we remain under 1,130 - which is the information we have to work with now.

The next chart hyper-focuses on recent volume signals.

http://blog.afraidtotrade.com/upside-levels-to-watch-on-the-daily-sp500-july-8/



A reminder to new traders on how we define bull and bear markets. Remember the phrase "Volume GOES WITH the trend." That is the first assumption. If we believe that as true, then a simple observation of recent market swings from the April 2010 high shows that volume clearly is rallying (rising) during market declines and is diverging (falling) during market rallies. That places the structure into a downtrend (aka "bear market") until proven otherwise.

Look very closely at the declines in volume as price rallied - that's Bear Market 101.

We are seeing the current rally exhibit the same negative volume (momentum, and breadth) divergences as the past three 'bear market' rallies, all of which resulted in lower prices (with the exception of the June 7th's two day swing lower).

Structure would change ONLY if price broke above 1,130, and until then, we must objectively assume - opinion free - that the market - in terms of moving average orientation, price structure, and volume signals - is in a bear/down trend.


$SPX (S&P 500 Large Cap Index) INDX
© StockCharts.com
9-Jul-2010 Open 1028.09 High 1078.16 Low 1018.35 Close 1077.96 Volume 15.0B Chg +55.38 (+5.42%)
$SPX (Weekly) 1077.96
EMA(20) 1104.13
EMA(50) 1086.64
BB(20,2.0) 1026.94 - 1128.16 - 1229.38
MA(200) 1214.67
Volume 14,989,534,208
MACD(3,10,16) -23.357, -11.514, -11.844