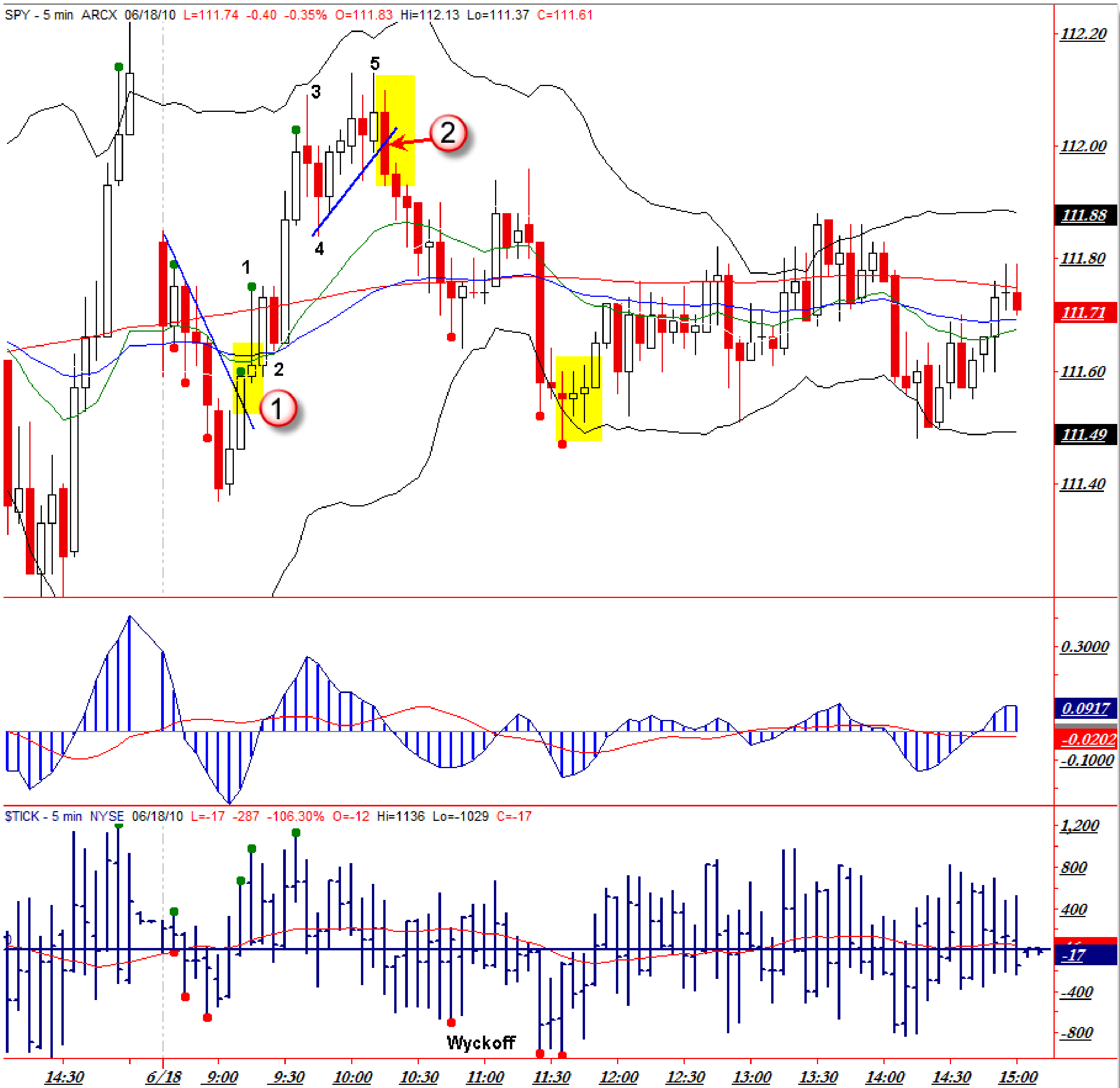
AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY




SPY - 1 min ARCX 06/18/10 L=111.50 -0.64 -0.57% O=111.83 Hi=112.13 Lo=111.37 C=111.73
1
2
3
4
5
①
②
112.20
112.10
112.00
111.90
111.80
111.71
111.60
111.50
111.40
0.1000
0.0275
-0.0143
-0.1000
-0.2000
$TICK - 1 min NYSE 06/18/10 L=-17 -287 -106.30% O=-12 Hi=1136 Lo=-1029 C=-17
1,200
800
400
142
-17
-400
-800
6/18
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

Due to today being a Quadruple Witching, and that many traders choose to sit out these days (take a three-day weekend) when they occur, today's trade analysis will be short but the 'forecasting tomorrow' section will be longer.

There isn't much to learn today, as expected, today was a tight range day with relatively random moves due to funds rebalancing for the Quadruple Witching. There were two key opportunities I did want to highlight:

1. FLAG BREAK

This was nothing more than the same type of trade set-up we've been seeing recently off the morning session. Go long on a trendline break and confluence EMA break at the $111.65 level just after 9:00CST, place a stop under $111.40 and target the morning opening, $112.00, or a refill of the gap. The gap filled and price hit the $112 target, forming dual negative divergences, upper shadow reversal candles, which triggered your exit... and 'flip/reverse' for trade 2.

2. FLIP/REVERSE, 5-WAVE FRACTAL, NEGATIVE DUAL DIVERGENCES, UPPER SHADOWS, TRENDLINE BREAK

On a day where everything else was mostly noise, this was actually once of the cleanest examples of this type of trade in a while.

The logic builds off a 5-wave fractal move into a dual negative TICK and momentum divergence which sets the stage for a likely reversal in price. The reversal candles - a break under their lows at the $112 level - and the break of a short-term rising trendline - also at $112 - triggered your entry. This also occurred into the key resistance of the 50 day EMA at $112 also - a higher timeframe confluence resistance.

You would place a stop above the intraday high at $112.12 to play for a trend reversal (aggressive) or a scalp back to the lower Bollinger or respective moving averages (20 or 50) if conservative. A good, safe exit was a break above the falling trendline and hammer + two doji candles at 11:00am.

Unless you did like I suggested yesterday for a Range Day - meaning trade doji/reversal candles at the upper and lower Bollinger Bands and IGNORE moving averages - which you could have done for the rest of the session - there were no excellent or ideal trades. Given the 'character' of the market - a Quadruple Witching - this is exactly what you would expect - a rangebound, somewhat random market that doesn't adhere well to classic technical analysis because the fund are rebalancing their portfolios without regard to the intraday charts as usual.


SPY - 5 min ARCX 06/18/10 L=111.49 -0.65 -0.58% O=111.83 Hi=112.13 Lo=111.37 C=111.61
+0.36
-0.22
1
2
112.20
112.00
111.88
111.80
111.71
111.60
111.49
111.40
0.3000
0.0917
-0.0202
-0.1000
$TICK - 5 min NYSE 06/18/10 L=-17 -287 -106.30% O=-12 Hi=1136 Lo=-1029 C=-17
1,200
800
400
-17
-400
-800
14:30
6/18
9:00
9:30
10:00
10:30
11:00
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13:30
14:00
14:30
15:00

A quick comment - the market - or at least SPY - is forming a large-scale intraday symmetrical triangle with upper boundary at the $111.80 level and lower boundary at $111.60 and 'midpoint' $111.70.

Look to play potential breaks from this pattern on Monday.

SO FAR TODAY			25 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
(7,916,942.95)	15,135,123	9:45	23,052,065.95	0.62
(6,785,141.19)	9,791,046	10:00	16,576,187.19	0.62
(6,730,135.43)	9,418,057	10:15	16,148,192.43	0.49
(6,588,431.38)	6,665,845	10:30	13,254,276.38	0.50
(3,294,647.76)	8,019,015	10:45	11,313,662.76	0.58
(3,015,549.29)	6,587,993	11:00	9,603,542.29	0.52
(6,209,653.29)	3,943,388	11:15	10,153,041.29	0.42
(5,574,697.45)	4,100,473	11:30	9,675,170.45	0.38
(2,902,904.09)	5,349,636	11:45	8,252,540.09	0.41
(5,387,503.64)	2,604,638	12:00	7,992,141.64	0.37
(4,911,137.64)	3,382,639	12:15	8,293,776.64	0.36
(1,630,969.73)	4,642,054	12:30	6,273,023.73	0.42
(3,529,589.14)	2,510,156	12:45	6,039,745.14	0.41
(3,769,366.45)	2,385,934	1:00	6,155,300.45	0.40
(3,180,448.23)	3,663,649	1:15	6,844,097.23	0.40
(4,219,517.05)	2,328,763	1:30	6,548,280.05	0.36
(2,036,368.55)	4,543,301	1:45	6,579,669.55	0.46
(1,342,727.73)	5,587,894	2:00	6,930,621.73	0.46
(3,695,938.95)	4,206,952	2:15	7,902,890.95	0.44
(3,733,260.36)	4,260,701	2:30	7,993,961.36	0.45
(5,796,169.19)	3,025,016	2:45	8,821,185.19	0.45
(7,390,821.19)	3,074,126	3:00	10,464,947.19	0.68
(5,312,520.43)	5,245,891	3:15	10,558,411.43	0.59
(8,263,695.14)	4,831,851	3:30	13,095,546.14	0.86
(9,852,768.33)	5,170,557	3:45	15,023,325.33	
(15,056,776.57)	13,299,377	4:00	28,356,153.57	
(5,312,603.12)	**5,529,772.12**	**Ave.**	**10,842,375.24**	**0.49**

I actually went back and checked the volume data with TradeStation (I import volume data into Excel with TD Ameritrade data), and it's correct - volume data differ slightly from vendor to vendor. On an options expiration day, having such low relative volume is EXTREMELY rare. I'm not exactly sure what to make of it, other than to say that in low-volume environments, we can have sharp volatile moves that emerge from these conditions, and with the market so overextended on declining momentum and internals, one would expect that resolution to be to the downside. Expect, but not guarantee, of course.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
(2,205,656.67)	15,135,123	9:45	17,340,779.67	0.49
(3,818,642.44)	9,791,046	10:00	13,609,688.44	0.49
(4,559,727.22)	9,418,057	10:15	13,977,784.22	0.42
(3,347,941.89)	6,665,845	10:30	10,013,786.89	0.39
(1,047,761.78)	8,019,015	10:45	9,066,776.78	0.41
(1,539,127.78)	6,587,993	11:00	8,127,120.78	0.40
(5,499,289.89)	3,943,388	11:15	9,442,677.89	0.34
(3,218,993.10)	4,100,473	11:30	7,319,466.10	0.31
(1,677,717.70)	5,349,636	11:45	7,027,353.70	0.31
(3,896,563.90)	2,604,638	12:00	6,501,201.90	0.29
(2,623,003.50)	3,382,639	12:15	6,005,642.50	0.34
(43,837.30)	4,642,054	12:30	4,685,891.30	0.31
(1,563,126.50)	2,510,156	12:45	4,073,282.50	0.31
(1,511,841.00)	2,385,934	1:00	3,897,775.00	0.29
(1,604,411.00)	3,663,649	1:15	5,268,060.00	0.34
(2,235,084.30)	2,328,763	1:30	4,563,847.30	0.34
(257,093.90)	4,543,301	1:45	4,800,394.90	0.35
(191,985.80)	5,587,894	2:00	5,779,879.80	0.38
(2,344,469.80)	4,206,952	2:15	6,551,421.80	0.36
(2,032,166.60)	4,260,701	2:30	6,292,867.60	0.39
(3,227,451.90)	3,025,016	2:45	6,252,467.90	0.36
(4,266,295.10)	3,074,126	3:00	7,340,421.10	0.62
(2,919,122.90)	5,245,891	3:15	8,165,013.90	0.51
(6,867,433.10)	4,831,851	3:30	11,699,284.10	0.62
(7,924,314.90)	5,170,557	3:45	13,094,871.90	
(9,608,046.10)	13,299,377	4:00	22,907,423.10	
(3,078,119.46)	**5,529,772.12**	**Ave.**	**8,607,891.58**	**0.39**

The grid above shows the 10-day average of SPY volume, to take away some of the volatility of the "Flash Crash" aftermath.

Even THEN, we see massive volume divergences... lower relative volume, across EVERY SINGLE 15-min period today.

This should cause you to be either extremely careful... or extremely bearish. ***This is not normal.***

The alternate scenario from another market sharp sell-off here is a further continuation of this divergence situation as we had in April with price rising in 'thin air,' but everything else (internals, etc) trailing lower..., prior to a market crash.

If that happens again, just take it in stride intraday and be very careful - the longer a market stays overextended on declining momentum and internals, the greater the odds of a crash... not just a correction.

The "Line in the Sand" on the 30-min frame remains $111.00 for support (edge of cliff) and $112/$112.50 for an expected breakout to the upside (which would shock the majority of market participants).

Due to the negative internal, volume, and momentum divergences, the bias is 'strong short' at these levels, but do not let any short-sale bias cloud your judgment or keep you short if we break out above $112.00 cleanly - which WOULD likely trigger a big short-squeeze and massive potential upside break... that you would want to trade long intraday.

No need to get fancy here - either we break under $111 and collapse, or we don't, and shock the market by breaking out above $112. Either way, the play is to prepare for, and trade a breakout - bulls will be trapped if we go down; bears will be trapped if we go up.

No change from yesterday. We remain at the key $112.00 'line in the sand' level, as we continue our negative volume, breadth, and momentum divergences as price cannot yet break above $112.00. We would look to short aggressively any move under $111 and especially $110.50 to target a return to $105 over the next few days - which could happen quickly if the market was supported artificially at the highs. On the flipside, any break above $112 - for more than a single bar - would likely force remaining bears/short sellers out of their positions, triggering further "Popped Stops" that you would want to play long intraday.

Use this as you try to form a composite picture of how the daily and lower timeframes are interacting: the 50day EMA rests at $112.23, which is holding as a WALL of resistance on the lower frames. On the lower frames, we have crystal clear negative momentum and volume (and breadth) divergences as we come into contact with this "wall" of resistance at $112. This is a 'no-brainer' short sale opportunity here, and my guess is a LOT of traders are taking it.

That does NOT mean price is ***required*** to fall here - rather, we would craft our "IF/THEN" statement - and trades - accordingly:

"Odds are OVERWHELMING that price will fall from here, which gives me a chance to place a very tight stop above $112.50 and play for a target of $105. HOWEVER, because I know that this trade is so obvious to everyone, no matter what methods they use, I also know that traders will be placing stop losses above $112.00, $112.50, and $113.00, creating a 'pocket' of stop-losses there. Should buyers push price up into the pocket, we could expect a vicious popped stops move as those bears cover. Thus I'll consider scalping intraday long above $112/$112.50."

The same analysis for the daily SPY goes for the daily SPX.

In this chart, I drew the three "Pathways Forward" for price. Scenario 1, we inflect down from 1,120 back to 1,040 and if so, then likely break under 1,040. This appears to be the most likely - but of course not guaranteed - scenario.

The alternate scenarios have us in "Popped Stops" mode - similar to that of March and April - up to 1,170 at a minimum, and a vicious 'popped stops' breakout - over time - will take us to 1,220. The 1,170 scenario - on a breakout - is much more likely than 1,220.

Understand these as the likely scenarios going forward short-term.

Another reason to believe 1,120 as KEY resistance: The 20 month EMA rests currently at 1,119.87, or rounded up to 1,120.

This aligns with the 50 day EMA. Any move above 1,120 'clears us into open air' above that level to 1,150/1,170, just as any move under 1,040 clears the way for 850.

I posted last week about this and it's true:

"The Bulls will do ANYTHING to keep from falling into the Market Abyss"

http://blog.afraidtotrade.com/ bulls-willing-to-do-anything-to-avoid-falling-into-market-abyss/

The stakes are high - under 1,040 and it's highly probable we'll see 900 before long.