AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 06/21/10
1
2
3
4
113.20
113.00
112.80
112.60
112.40
112.20
112.00
111.80
111.60
111.36
111.20
111.00
0.0389
0.0000
-0.0500
-0.1500
$TICK - 1 min NYSE 06/21/10 L=200 217 -1276.47% O=-1 Hi=1175 Lo=-1499 C=200
800
400
200
-111
-400
-800
-1,200
6/21
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's intraday action can be described as a stellar win for those with strong stomachs/conviction who either were watching the glaring non-confirmations in internals/volume/momentum I've been showing, or who had great doubts on the sustainability of the market rally on the news that China said it would allow the Yuan to float... notice the news was "said" and not "China allowed...". That's a big difference, and I spoke with a few traders today who shorted all day long because they focused on the bigger picture of the weak news + tenuous market position. On the other hand, today was a big defeat for traders who reacted to the breakout and flipped and reversed long and held long all day- at least in the short-term. We may still get some upside action, but for now, it's probably best to label today's action as a vicious/hideous bull trap that could even be a final "finger trade" that is the last straw to send the market lower on its failure to sustain (hold) the breakout above 1,120. Let's see the trades - remember using the information we had at the time and not hindsight - and then focus on how the structure is holding together for the next few trading days ... remember there is a Fed Day announcement Wednesday.

1. 5-WAVE FRACTAL (1-MIN), TRENDLINE BREAK, LONG LEGGED DOJI, POPPED STOPS

Again, we don't know that the market is staging a collapse later in the afternoon, so as intraday traders, we are looking for any signal bull or bear for a short term trade. The bias was to trade long if above 1,120 for popped stops, so any buy signal was a good entry to play out that expected bias. The first set-up came as price broke the declining trendline and completed a 5-wave mini-fractal on the 1-min chart after forming a clean long-legged hammer/doji at the $112.80 level. This trade placed a stop under the intraday low at $112.50 and targeted a move back to the opening high at $113.10 or intraday high at $113.20. Three bars later, price tested the intraday open at the $113.00 level and then began to fall, breaking the lower trendline and signaling an exit for a small profit.

You could have shorted here to try to play a scalp move back to the rising 20 EMA at the $112.50 level which would have been a successful trade, but given the bias of the day, it was a good idea also to look for the next buying opportunity in which could have shaped up as a trend day up (only later did it devolve into a trend day down).

2. TRENDLINE BREAK, BOUNCE OFF 20 EMA AND LOWER BOLLINGER BAND, DUAL DIVERGENCES

This was more in line with the classic trade set-ups we're used to, as price bounced off the lower Bollinger Band and 20 EMA (just beneath it) at the $112.40 level at 10:00am CST, forming a bullish engulfing candle and trendline break as the trigger long. The target again was a move up to the $113 level with a stop under $112.40... but price formed multiple doji reversal candles along with a flat-line to negative TICK divergence (1-min) which told us that the bullish argument was suspect. Due to the range breakout from the key 1,120 level, we would expect a continuation to the upside as sellers (bears) were forced to cover and the other side of the equation was that we would expect bulls (buyers) to buy the breakout to keep the rally going. In the absence of buyers buying, the market could not hold on to its gains.

It was best to exit this trade with a scratch or even small loss as price broke back under the 20 EMA and trendline at the $112.60 level at 10:30am, and then aggressively initiate a "Flip and Reverse" position under the statement - my favorite - "If something SHOULD happen (price should have rallied) but does not, then it often leads to a larger than expected move in the OPPOSITE direction." Trade #3 was an attempt - successfully - to take advantage of that condition.

3. FLIP/REVERSE, 20 EMA BREAK, TRENDLINE BREAK

This was an aggressive move so don't feel bad if you missed this opportunity - learn from it for the next time. This was a key turning point intraday, as either the market would hold support at the 20/50 EMA zone, sustaining a bullish bias for popped stops... or would break under these levels, officially reversing the intraday trend and expectations to the downside. You could have entered short on the break of the 20 EMA at $112.50 or the 50 EMA later at $112.35, partciularly as price broke under the doji candle at 11:15am. Thus, there were actually two entries for this trade. Price began to form dual positive divergences and a rounded structure, as well as a bullish engulfing candle and trendline break at the $112.20 level at noon, so that was an excellent exit and potential 'buy long' trade... that ultimately failed. You could have passed on the 'buy long' trade because price was so close to its upside target - the 20/50 EMA convergence at $112.30- which indeed held as resistance.

4. KEY SUPPORT BREAK, REVERSAL

Price formed a Wyckoff Sign of Strength at 1:30 (13:30) which temporarily negated any strong bearish biases, but the bearish bias was back as price failed to sustain a potential bullish breakout and then collapsed to new intraday lows, breaking under the important support at $112.00, and triggering a breakout/support break trade set-up akin to a trend reversal.

The stop was above $112.10 or higher with a theoretically unlimited target - though the best exit was the successful test of the $111.00 level (a likely target) as reversal candles formed and then later a positive divergence move into the close.

On a side note, I have been constantly highlighting the non-confirmations (negative divergences) in momentum, volume, and internals/breadth on all timeframes during the end of this recent move up. I have been saying that the longer 'they' stretch this market higher on declining internals, the worse the 'snap-back' reversal down will be. While 'they' can hold a market up longer than we like them to, gravity eventually wins, and when the force - bullish buyers - cease buying and supporting the market, then the market has a tendency to collapse suddenly. Though a 2% move is certainly not a collapse, today's intraday range was a 2% move from the opening high to the intraday low. Again, those traders who understand the divergence principles could have taken the larger picture into view and profited from the deteriorating structure and price falling as expected today - though still the large gap was a difficult thing to overcome psychologically. The high of the day was the opening gap, and had price rallied beyond that, we would have expected a continuation of the trend day higher - but in absence of that happening, we turn to the bigger picture - that of a market rallying higher that is NOT being supported by any sort of classical mechanism in terms of volume, momentum, and breadth.

As such, that market must come down. Though WHEN it comes down is never easy to spot - as the rally into the April 2010 highs tells us. Be on guard - INTERNALS DO COUNT.

Scratching out on the two bullish trades (1 and 2), roughly $1.10 was possible with the two short-sell trade set-ups of the day.

Here is what I mean by the "market being supported on weak internals."

Breadth, TICK and VOLD all made intraday spike highs on June 15th, though the market continued rallying higher beyond that day. Look closely at the TICK highs and VOLD highs on this morning's gap up - they were clearly NOT confirmed by TICK or VOLD. Breadth, despite its morning spike, also DID NOT overtake the level seen into the close on June 15th.

To those who understand how market internals are essential to support a rising market, today's sell-off did not come as a surprise.

SO FAR TODAY			25 DAY AVERAGE	
DIFFERENCE	15-min VOLUMI	EST	15-min VOLUME	RANGE
(7,813,038.67)	14,569,506	9:45	22,382,544.67	0.60
(4,988,140.19)	11,217,702	10:00	16,205,842.19	0.60
(9,469,150.43)	6,299,875	10:15	15,769,025.43	0.48
(6,241,872.43)	6,826,324	10:30	13,068,196.43	0.50
(4,667,150.00)	6,568,740	10:45	11,235,890.00	0.56
(2,028,706.76)	7,480,042	11:00	9,508,748.76	0.48
(4,897,574.14)	4,873,515	11:15	9,771,089.14	0.42
(3,944,945.27)	5,091,572	11:30	9,036,517.27	0.37
(4,763,245.00)	3,306,555	11:45	8,069,800.00	0.41
(2,880,101.73)	4,940,882	12:00	7,820,983.73	0.36
(2,375,951.09)	5,768,434	12:15	8,144,385.09	0.35
(1,471,676.95)	4,586,998	12:30	6,058,674.95	0.41
(1,431,078.41)	4,551,089	12:45	5,982,167.41	0.40
(1,942,988.14)	4,072,593	1:00	6,015,581.14	0.39
(2,500,269.45)	4,138,446	1:15	6,638,715.45	0.40
(4,379,786.23)	2,026,558	1:30	6,406,344.23	0.36
(484,593.41)	5,826,786	1:45	6,311,379.41	0.44
(3,018,023.77)	3,771,185	2:00	6,789,208.77	0.45
(2,164,446.64)	5,712,696	2:15	7,877,142.64	0.45
(2,359,822.86)	5,323,332	2:30	7,683,154.86	0.44
(6,284,255.86)	2,403,822	2:45	8,688,077.86	0.44
(3,837,465.48)	6,545,698	3:00	10,383,163.48	0.67
1,939,584.52	12,432,499	3:15	10,492,914.48	0.57
1,912,954.38	14,806,684	3:30	12,893,729.62	0.83
(2,294,477.05)	12,655,733	3:45	14,950,210.05	
(8,858,123.86)	19,193,236	4:00	28,051,359.86	
(3,509,397.88)	**7,115,019.31**	**Ave.**	**10,624,417.19**	**0.47**

Again, we had lower 25-day relative volume on ALL timeframes save two - during the heart of the market sell-off into the close.

Again, you don't need me to tell you this is bearish from a relative volume perspective.

Notice how today's open - a VERY big gap - was met with almost 8 million LOWER shares than the 25 day average - that was clue #1 that the breakout was in question and very suspect.

The reversal to the downside proves this out.

It is quite possible that the market gave a final "Finger Trade" before a sharp downside move. The picture from internals, volume, and momentum all hint that odds favor - but do not guarantee of course - a downside resolution from here. The 'finger' builds that case - it is called "excess" in Market Profile terms and takes the form of a nasty bearish engulfing candle on the daily chart.

Anyway - be prepared to short aggressively if the market (SPY) breaks under $110.50. It would confirm the bearish candle and trigger a fresh set-up as panicked bulls/buyers liquidate (sell) who are trapped from buying stocks today.

Alternatively, look to play a bounce off support if the bulls have the courage to step in front of this sell signal today. As an intraday trader, you have the power to choose when to participate - and in that way, the risk is smaller to intraday traders. Swing traders who were correctly holding short likely were forced to stop-out if they did not have their stop placed above $113.00.

We see a continuation of the analysis mentioned above. Look at the hourly bars - with the exception of one bar, every single hour of the day was lower than the last. That does NOT a bullish picture make.

Still, potential support rests at $110.50, and I would call it important support. Buyers could step in here, but if bears take the market under $110.50 and then $110.00, expect the original thesis - that we test $105 - to kick in as the next target and likely swing forward in price.

Under classic technical analysis, today gave us one of the most powerful sell signals there is. We need follow-through in the form of a move under 1,100 to confirm the sell signal officially, but the market has given us three doji candles (reversal candles) and then followed that up with a stunning bearish engulfing candle today that 'popped' weak stops above 1,120 and then crushed the bulls who bought the suspected breakout. Price also officially tested the upper Bollinger Band at 1,130 - for trivia's sake.

Short aggressively any move under 1,100 to target 1,050 at a minimum, but - as an unbiased trader - prepare to get back long on a break back above 1,130. Notice that we could be forming a very similar pattern to that of February on the initial break above the 50 EMA, crack back under it, and then rally up to new highs. That possibility is not yet off the table, but unless we can get back above 1,130 soon, it certainly will be.

Notice how 1,110 serves as the rising 200 day SMA - watch it for potential support. The market is a powder keg right here - trade very carefully and monitor all positions closely and as unbiased as possible.