AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 06/22/10 L=109.66 -1.75 -1.57% O=111.41 Hi=111.90 Lo=109.41 C=109.57
1
2
3
111.80
111.60
111.40
111.20
111.00
110.80
110.60
110.40
110.20
110.00
109.80
109.57
0.1500
0.0500
-0.0170
-0.1500
$TICK - 1 min NYSE 06/22/10 L=-431 -631 -315.50% O=-1 Hi=1265 Lo=-1435 C=-431
1,000
500
0
-283
-431
-1,000
6/22
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 sharp sell-off day again where traders who focused on the larger picture likely profited very nicely, while others were caught in the intraday chop and sell-off.

Remember during last week's reports where I continued to highlight the 'creeping' price that was 'artificially' driven higher on declining momentum, volume, breadth, and internals? And I mentioned that IF price was indeed artificially held up, that it would collapse soon? This appears to be the collapse that market internals forecast. Markets are driven by supply and demand, but if markets are held up/jammed up/melted up on declining internals, then it's like a rubber band being stretched and stretched. Eventually the force will surrender (stop pulling on the rubber band) and when it does, the snap-back will be proportional to how far the band was stretched. Small stretch? No problem. Big stretch? Big problem. Think back to how forcefully the market was held up in April which led to the May crash. While the market is clearly not stretched as far now as it was then, we are seeing the snap-back which is taking the form of violent, vicious 'dislocations' to the downside... and intraday traders who fully understand this concept are making quick profits during the 'return to earth' that the market is experiencing currently.

Take time to understand this concept. I can summarize it in the following:

Market up, internals down = non-confirmation: retracement favored. Crash very low probability.

Market up up up, internals down, down, down = lengthy non-confirmation: REVERSAL favored (snap-back). Crash possible, and odds of crash increase to the extent that the market was 'stretched' beyond normal (held up).

1. TRENDLINE BREAK, BEARISH ENGULFING, 50 EMA PULLBACK

Keep in mind that the market retraced back to the 50 EMA at 9:00, formed a mini shooting star candle then an almost bearish engulfing, triggering a short-sell on the trendline break at $111.60 or $111.40. The target was a retest of the $111.80 level or lower Bollinger - neither of which officially happened, but price did give a nice warning signal in the form of a positive dual divergence and two reversal candles... and the trendline break gave us trade #2.

2. 5-WAVE FRACTAL, DUAL DIVERGENCE, REVERSAL CANDLES, TRENDLINE BREAK

You can see the dual divergences on the 1-min chart, and the final spinning top on the 5-min chart which then gave way to a trendline break at 9:30 at the $111.20 level, triggering your official entry (if you did not choose to get long from the exact test of $111.00 - round number support). Your stop was under $111.90 to target either the upper Bollinger or underside of the 50 EMA. Price tested both at 10:30am, giving another bearish engulfing candle just before 11:00am, triggering your exit if you did not do so already off the test of the 50 EMA and Bollinger at $111.50.

Price devolved into a trading range and eventual symmetrical triangle boundaries, so the best trades - if you chose to take them - were bounces off the trendlines or Bollinger Bands... but it was a better idea to wait for a break of the pattern - either to the upside or downside... and the downside break was harsh.

3. SYMMETRICAL TRIANGLE BREAK

I posted a blog update about this after the fact which describes how to set targets for triangle breakouts:

http://blog.afraidtotrade.com/a-rare-double-intraday-triangle-example-in-spy-june-22/

The main idea is to recognize the symmetrical triangle as a neutral pattern and prepare to play a break outside the trendlines. An aggressive trader places a trade on the breakdown candles, particularly if they are wide range candles that also form new TICK or momentum lows - as the candle at 12:30pm did. The stop often goes on the OPPOSITE side of the breakout trendline, and in this case, that happened to be above $111.40 (breakout at $111.10). Price snapped back two candles that threatened your stop, but hopefully did not stop you out. This was a "last gasp" of the bulls and akin to a "Finger" trade... which then led to a doji at the 50 EMA (evening star) and then the second breakdown with new TICK low at 1:00pm ... before another one-bar up candle spooked you... and then price collapsed shortly after to reach the target at $110.00. This is done by taking the height of the triangle (drawing trendlines yourself) and then subtracting that distance from the breakout price. I show this also in the blog.

The best exit was as price formed reversal candles and slight positive divergences at the $110.00 level instead of trying to be a hero and hold short for a lower target... though indeed that did occur.

Roughly $1.40 was possible in today's trading, made possible by the range breakout play from the triangle.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
(6,199,216.90)	10,395,709	9:45	16,594,925.90	0.45
(3,020,758.60)	9,450,013	10:00	12,470,771.60	0.45
(779,010.40)	11,967,293	10:15	12,746,303.40	0.32
409,592.70	9,710,187	10:30	9,300,594.30	0.33
214,848.90	8,299,272	10:45	8,084,423.10	0.36
(1,765,396.30)	5,302,653	11:00	7,068,049.30	0.28
(2,397,855.00)	5,364,582	11:15	7,762,437.00	0.25
(1,316,840.70)	5,141,774	11:30	6,458,614.70	0.25
191,569.10	6,268,442	11:45	6,076,872.90	0.26
(1,196,895.00)	4,130,203	12:00	5,327,098.00	0.28
(2,548,694.30)	2,744,458	12:15	5,293,152.30	0.26
(716,151.10)	3,498,764	12:30	4,214,915.10	0.25
(1,318,927.78)	2,841,386	12:45	4,160,313.78	0.26
(1,856,470.11)	1,986,788	1:00	3,843,258.11	0.25
(2,721,400.44)	2,611,004	1:15	5,332,404.44	0.34
(15,019.33)	4,248,725	1:30	4,263,744.33	0.30
1,727,940.00	6,115,009	1:45	4,387,069.00	0.29
1,558,933.22	6,502,626	2:00	4,943,692.78	0.31
574,271.33	7,192,811	2:15	6,618,539.67	0.29
452,892.33	6,215,578	2:30	5,762,685.67	0.30
4,920,322.89	9,992,765	2:45	5,072,442.11	0.34
10,288,361.00	17,092,728	3:00	6,804,367.00	0.54
2,889,537.67	11,133,229	3:15	8,243,691.33	0.47
(1,329,953.67)	10,032,940	3:30	11,362,893.67	0.43
(522,494.89)	11,817,781	3:45	12,340,275.89	
(1,947,418.67)	20,135,127	4:00	22,082,545.67	
(247,085.92)	**7,699,686.42**	**Ave.**	**7,946,772.35**	**0.33**

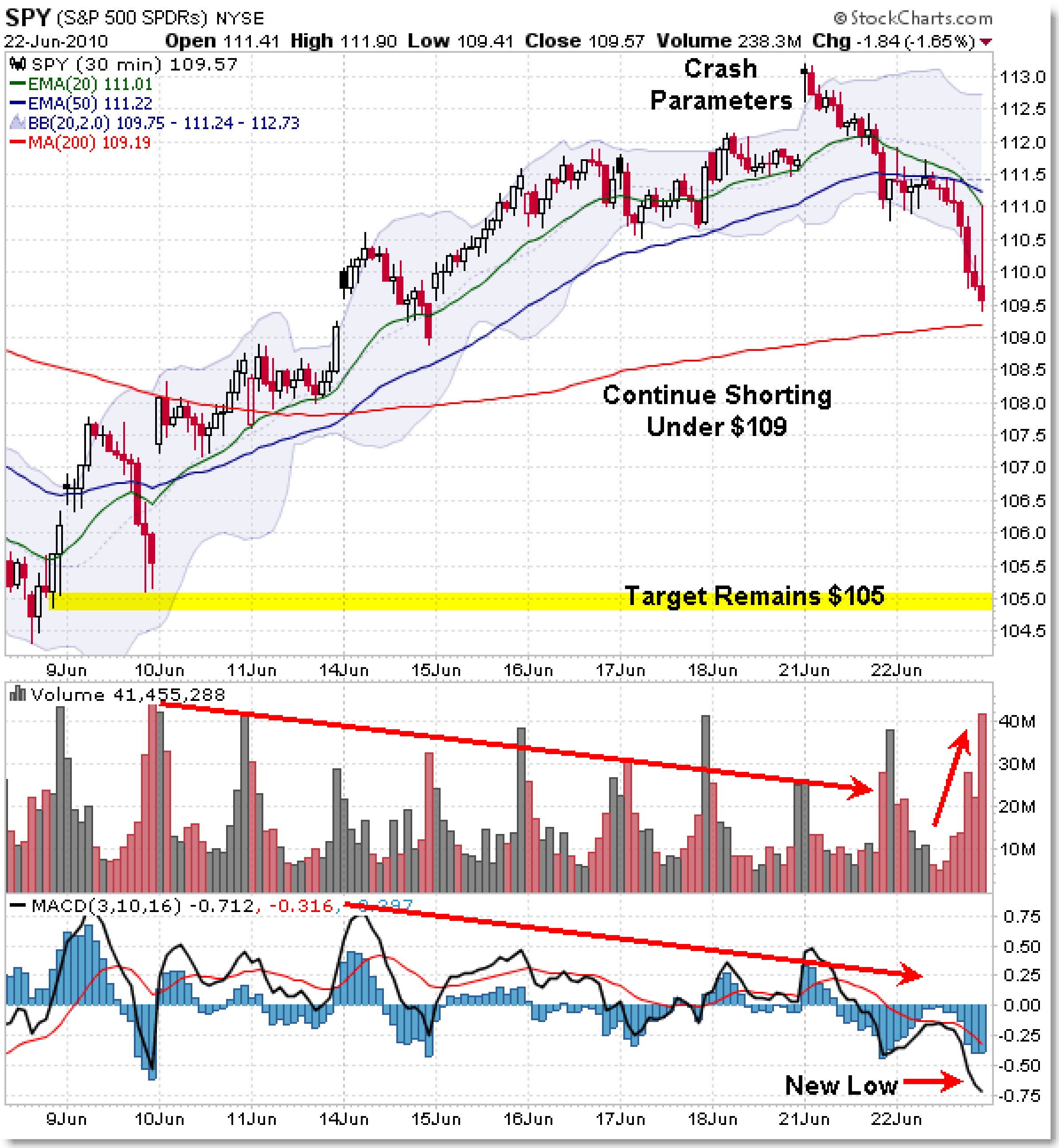
During the Sell-off

I stated in last night's report that the Relative Volume charts have been SCREAMING for a market correction and now we are finally getting it. That's the value in this type of analysis and why I publish it in each night's report - you can't get it anywhere else unless you keep the same data yourself.

This has been very helpful in assessing the strength of moves, and today's chart CONFIRMS the downward action after highlighting multiples days of NON-CONFIRMATIONS as the market continued its rally.

The highest volume (relative) of the day came during the sell-off as a confirmation of lower prices as buyers/bulls rushed to the exits.

The signal is - and remains - bearish.



This is the worst outcome for all market participants in terms of swing traders (not intraday). Price gapped up on Monday morning, washing away bears' stop-losses (unless over $113) and then many bulls rushed in to buy the breakout... only to get trapped violently in a potential market crash. Now that the 'trap' has occurred, it increases the odds that we will see a continuation of the down move to our target at $105. It could happen very quickly in a 'crash' situation, which appears to be what is happening so far.

Any further move under $109 - the market failing to support here - will trigger more selling and shoring, adding to the bearish bias and sending the market down to $105 partly through self-fulfilling prophecy.

The new low in momentum and surge in downside volume also increase the odds that we will see lower prices ahead.

This market now belongs to the bears, and that is the case unless we can see a move back above $111.

This is so far the final Elliott fractal count showing a completed 5-wave progression to the $113 high that ended on a vicious (obvious) negative momentum and volume divergence that warned of a potential crash ahead. Granted a move from $113 to $109.50 is not considered a "crash" but it likely did come as a violent shock to those who were looking at price only and not internals. As I said last night and many times before, INTERNALS DO MATTER.

The market was being held up on declining ... everything ... and now the market is snapping back from that overbought, artificial situation. For those who keep up with Elliott notation, we are either seeing an ABC three-wave progression down... or worse... the start of a larger-scale wave 5 (or 3) down from $113.

Don't get too caught up in that yet - just be aware that odds strongly favor downside action UNLESS the market can recover these losses as a result of a positive rally from tomorrow's Fed Day meeting/announcement.

A quick chart of the daily SPY showing the violent "Finger" trade and potential "crash" parameters that have set-up. Odds strongly favored a down move via the declining momentum, volume, breadth, and internals as price formed three doji candles at the 50 day EMA and upper Bollinger Band. Buyers pushed one (potentially) final time up to raid the stops of bears... and the raid did not lead to further buying of the (now) false breakout. Such "Finger" trades (to put it nicely) often precede violent reversals to the downside.

Want to see the last time this happened? look at the final push to new highs on April 26th as the market bled lower on declining internals, volume, momentum, etc. Now, I certainly do NOT believe that the next down move will be a crash similar to that of May, but we have set-up our own likely mini-crash that is the probable outcome UNLESS there is some surprise bullish news from tomorrow's Fed meeting which will jam the market higher and knock out the bears who just re-positioned short.

The same analysis goes for the SPX as the SPY. Same finger, same decline in volume, same false break above the 20 EMA.

Under classic technical analysis - as in, unless bulls jam the market back to the upside - then we are almost assured of a move back down at least to 1,050... and if we crack 1,040... well, we will address that if we get there.

REMEMBER, tomorrow is a Fed day so that is the only major thing that could prevent the selling avalanche that appears ready to take the market lower. Take time this evening to go back through the archives and study prior Fed Day activities - the pattern is usually similar.