AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 06/23/10 L=109.10 -0.47 -0.43% O=109.64 Hi=110.03 Lo=108.48 C=109.23
110.00
109.80
109.60
109.40
109.21
109.00
108.80
108.60
1
2
3
0.1000
-0.0058
-0.1010
-0.2000
$TICK - 1 min NYSE 06/23/10 L=77 508 -117.87% O=-4 Hi=1259 Lo=-1253 C=77
1,000
600
200
77
-200
-600
-1,000
6/23
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 a typical "Fed Day" with the same "ABC" pattern that seems always to happen directly after the announcement. If you ask me, this is one of my biggest pet peeves in intraday trading - though the Fed doesn't announce any change to interest rate policy (at least over the last several meetings), and only makes minimal text changes to its prior "Fed Day" release, the market almost ALWAYS (at least over the last several number of Fed Days) makes the same little pattern of identical volatility - usually a sharp "trick you" move down, followed by a sudden, usually $1.00 SPY surge up, followed again by an equally sudden down move. Why this happens is beyond me but it is a repeating pattern that aggressive traders can trade and make a lot of money quickly - though because volatility increases so suddenly and the market could move either way, it's not the best environment for new traders to trade. Stay in the safer set-ups that aren't driven by news or Fed events. There are no trade set-ups (in the classical sense) in the hour before the Fed announcement (price often consolidates) and then there are no classic set-ups after the announcement. Those who play the expected "ABC" move do so in a volatile, risky environment driven by a repeating pattern instead of classic set-ups using classic indicators/price principles.

1. TRENDLINE BREAK, 20 EMA TEST, BEARISH ENGULFING

In the context of "crash mode" and a downtrend (5-min), we look to short pullbacks to the 20 EMA, which happened this morning. To make the trade better (or less risky), time your entry with a break under the rising trendline that price broke just after 9:00am at the $109.30 price. This was one of those 'either you were in it or you weren't' trades that favor aggressive traders who shorted closer to the 20 EMA test at the $109.40 level. If you were in this trade, the best exit was as price bounced in a semi-bullish engulfing candle that took price to $108.80. I would not recommend trading the bounce-back rally - though you could have - to target the 20 EMA... as the better trade was to short the pullback again into the 20 EMA.

2. IMPULSE SELL, 20 EMA TEST, BEARISH ENGULFING, TRENDLINE BREAK

This was very similar to the first trade, only it gave a reasonable entry. Notice the bearish engulfing candle that hit the falling 20 EMA exactly at the $109.20 level - that was your aggressive short, while your conservative short came as price broke under that candle low or the rising trendline at the $109.00 level (also breaking round number support). The stop was above the 20 EMA at $109.20 and target was a retest of the morning low or the lower Bollinger - which occurred as another bullish reversal candle formed - triggering a decent exit particularly as price formed dual positive divergences at 11:00am.

An aggressive trader might have considered getting long due to the divergences here, but I recommend waiting until we get a clean break above the 20 EMA just to be safe... which occurred at 11:30.

3. 20 EMA BREAK, DUAL DIVERGENCE

This was a simple breakout trade based on the dual TICK and momentum divergences at the 11:00am low at $108.80 and then the confirmation signal for entry coming as price broke above the 20 EMA and $109.00 'round number' level. The stop would go under $108.80 and target would simply be the 50 EMA at the $109.30 level - which was hit at 12:15 as a doji/reversal candle formed which also corresponded with the 50 EMA.

For safety - and unless you are aggressive and have traded many Fed days in the past - I do not recommend trading prior to, or after a Fed announcement. You can certainly make money... but you can lose it just as fast.

Taking the three trade set-ups listed, roughly 90 cents was possible in today's trading session, provided you did not trade the "Fed ABC Pattern".

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUM	EST	15-min VOLUME	RANGE
(88,980.10)	16,225,461	9:45	16,314,441.10	0.51
(1,463,379.20)	10,981,477	10:00	12,444,856.20	0.51
8,981,673.30	22,810,864	10:15	13,829,190.70	0.32
(113,819.30)	9,438,547	10:30	9,552,366.30	0.32
1,702,167.20	9,850,922	10:45	8,148,754.80	0.34
778,159.30	7,904,185	11:00	7,126,025.70	0.26
(2,071,832.50)	5,140,794	11:15	7,212,626.50	0.25
(1,639,642.30)	4,352,235	11:30	5,991,877.30	0.26
(3,066,860.40)	2,767,504	11:45	5,834,364.40	0.27
(80,528.40)	5,273,351	12:00	5,353,879.40	0.29
(2,085,128.30)	3,121,224	12:15	5,206,352.30	0.27
(2,014,300.60)	2,404,848	12:30	4,419,148.60	0.26
(540,484.00)	3,431,358	12:45	3,971,842.00	0.27
1,114,376.60	4,990,827	1:00	3,876,450.40	0.25
420,176.00	5,599,234	1:15	5,179,058.00	0.28
(969,598.30)	3,330,696	1:30	4,300,294.30	0.31
(2,017,008.20)	2,219,666	1:45	4,236,674.20	0.26
(1,422,101.80)	3,559,293	2:00	4,981,394.80	0.34
(1,242,717.90)	5,163,168	2:15	6,405,885.90	0.36
9,351,155.40	16,267,456	2:30	6,916,300.60	0.29
11,202,985.60	18,106,777	2:45	6,903,791.40	0.35
4,171,892.40	12,111,871	3:00	7,939,978.60	0.44
5,587,203.30	14,270,556	3:15	8,683,352.70	0.56
3,474,367.40	14,169,145	3:30	10,694,777.60	0.41
919,287.40	13,066,081	3:45	12,146,793.60	
(3,525,821.60)	17,757,980	4:00	21,283,801.60	
975,432.35	9,012,135.38	Ave.	8,036,703.04	0.33

I've started to track 10 day volume as opposed to 25 day volume to gloss over the "May panic" sell-off phase so as to get a better picture of volume trends/comparison.

Today being a Fed day means that we would naturally expect higher volume, particularly on the ABC pattern that forms after the announcement, and that' exactly what we got.

Fed days distort these type of volume comparisons, so let's see how tomorrow plays out.

It's entirely possible that we're seeing a mini-Elliott fractal move play out as labeled above. If so, expect $109.50 to hold as "wave 4" peak resistance and prepare for a 5th wave yet to come.

Elliott Wave aside, one would expect the $109.50/$110 level to hold as confluence EMA resistance (also on 60m), so any move above $110 will spook out the bears/short-sellers and could trigger another popped stops play - so don't be so biased that you feel the market HAS to go down, particularly post Fed. Sometimes strange things happen the day after a Fed meeting so - as intraday traders - be prepared.

Structurally, odds are still tipped in favor of the bears, though.

If we can't get a bounce off the $108.50/$109.00 level, expect a hard sell-off yet to come which could complete a "Mirror Image" or "rounded reversal" style pattern that will take us back to $104.50.

We are still in sell-off mode as forecast by the lengthy negative divergence in volume and momentum (and internals), so that will be the bias until proven otherwise with a break above $110.50 or $111.

Keep in mind that the 60min chart is showing confluence EMA - and a bearish crossover - at the $110.50 level, so that is expected to hold as resistance. If not, then expect popped stops above $111.

This is the potential larger-scale Elliott Wave count which places us in a fractal 5-wave move down. The alternate - bullish - count is that instead of 123, we label ABC which would confirm us in an upward impulse, but unless we break 1,130 again, odds favor the bearish count.

Elliott Wave possibilities aside, the 1,120 held as key resistance and a "Finger" trade (vicious bull trap) formed, and because of that, we should expect further downside action in a sharp rejection of the potential (failed) breakout.

We've now broken back under all EMA support (daily) and thus suspect that we will be seeing a test again of 1,050.

Unless we see any move back above 1,100 then 1,120, we strongly should suspect a move back to 1,050.