AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 06/28/10 L=107.61 -0.26 -0.24% O=108.03 Hi=108.32 Lo=107.14 C=107.51
$TICK - 1 min NYSE 06/28/10 L=-73 -150 -194.84% O=-2 Hi=1363 Lo=-1004 C=-73
1
2
3
4
5
108.30
108.20
108.10
108.00
107.90
107.80
107.70
107.60
107.48
107.40
107.30
107.20
0.1500
0.0500
0.0000
-0.0680
-0.1500
1,200
800
400
-73
-400
-800
6/28
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 one of those choppy range days that you look back and ask yourself "So, why did I trade so much today? And was it really worth it?" Range days are often highly inefficient activities, and by that I mean you do a LOT of work and analysis during the day - and usually put on more trades than you anticipate because you flip/reverse too much - and get very little back from it at the end of the day for your efforts.

Contrast this with the efficiency of trend days, where all you do (ok, not all you do) is watch the TICK and then buy or sell pullbacks to the moving average all day long for as long as the trend day lasts. You wind up with much bigger profits for virtually no work - it's not hard to short pullbacks to the 5-min moving average and monitor for major TICK divergences.

That's oversimplifying it but you get the point!

1. DOJI, TICK DIVERGENCE, OVERSOLD SCALP

This was a mean-reversion style trade that anticipated a movement back to the 20 or 50 EMA after a sell-off took price far from it. A hammer formed that spiked under the lower Bollinger (a 'scary' candle at the time) but a crystal clear positive TICK and momentum divergence formed on the 1-min chart that triggered your entry when price took out the high of the hammer/doji at $107.40. Your stop was under the intraday low perhaps at $107.10 and your target was either the 20 or 50 EMA at the $107.70 level. Price did make its expected swing up as expected, starting your day off to a good start.

2. IMPULSE SELL, RETRACEMENT SELL

Of course, the second trade was not as nice as the first - in fact, the second trade was a busted pattern that later led to a "Popped Stops" play. Price retraced back to the 20/50 EMA and then formed a spinning top candle which triggered an aggressive entry at the $107.70 level or $107.60 as price took out the candle low. The stop was above $107.75 - the 50 EMA and swing high. Price fell for two bars and then extremely suddenly reversed to the upside. Unless you were watching the 1-min chart, there was no easy way to salvage this short-sale trade so you perhaps took a big (relative) loss on this one, but because the trade failed so miserably, it gave you a chance to play "Popped Stops".

I didn't label the "Popped Stops" trade on the chart specifically because it happened so quickly, but for very aggressive traders, you could have taken a quick long above $107.80 to play indefinitely for Popped Stops, with a reasonable exit being the doji/shooting star at the upper Bollinger at 10:00am at the $108 level.

3. 5-WAVE FRACTAL, UPPER SHADOWS, CRYSTAL-CLEAR NEGATIVE DUAL DIVERGENCE, UPPER BOLLINGER

This was one of those trade set-ups that you kick yourself violently if you didn't take it if you saw it set-up in real time. These are exactly what we're looking for as intraday traders - spots where lots of signals align to give a low-risk, high probability set-up. Let's start with the 5-wave Elliott fractal move - clean - to the $108.30 high. On the final 5th wave, we see four upper shadow candles including a final doji - all of which formed not only at the upper Bollinger Band, but all formed on one of the clearest negative TICK and momentum divergences in a while. This was a very high-probability, low-risk short. The easiest entry was as price took out the doji candle at $108.10, and the target was a potential trend reversal or at least an "ABC' three-wave move (which we got) to the downside. It was acceptable to exit on the two hammer candles that formed at 11:30 at $107.85, but aggressive traders may have held on through the B wave up to play the C wave down that took us down to $107.50 at 12:30pm CST.

4. TRENDLINE BREAK, DUAL DIVERGENCES, ABC END

I don't often mention it, but just like a 5th wave signals a "reversal" trade, the potential end of an ABC pattern triggers a similar potential reversal trade. That aside, price broke a rising trendline, formed reversal candles, and bounced off the lower Bollinger Band, signaling entry at $107.70 to play for a bounce back to the moving averages or potentially as high as the upper Bollinger Band - which was hit at $108.00. This gave an excellent exit for the position.

You could have also shorted here to play a move back down to the averages - but it was a quick trade.

5. DUAL DIVERGENCES, REVERSAL UPPER SHADOWS, UPPER BOLLINGER, RANGE DAY

By now you should have been extremely confident that the day was a Range Day which meant that the best trades came from reversal candles forming at the Bollinger Band extremes, particularly as divergences formed. In addition, price took out the $108 level which triggered an official entry if you did not short the test of the upper Bollinger at $108.10. Either way, this trade was successful whether you exited at the moving averages or the move back down to the lower Bollinger.

Remember, during range days, we ignore moving averages (price slices through them as if they're not there) and target the opposite Bollinger Band.

Using the ideal grid above, roughly $1.00 was possible in today's trading session, though that figure extends from $0.60 to $1.25 depending on how you traded the "Trade 2" situation - if you skipped it completely, played the popped stops afterwards or not, or got stopped out.

The remaining trades were classic set-ups without major problems in the context of a tight range day.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
(1,813,454.80)	11,410,374	9:45	13,223,828.80	0.46
390,004.00	11,342,870	10:00	10,952,866.00	0.46
(212,275.20)	11,519,300	10:15	11,731,575.20	0.40
(1,394,017.70)	7,095,107	10:30	8,489,124.70	0.37
(40,054.00)	8,270,691	10:45	8,310,745.00	0.32
(675,785.20)	6,763,889	11:00	7,439,674.20	0.26
(204,624.20)	6,329,431	11:15	6,534,055.20	0.26
(1,066,110.50)	4,538,568	11:30	5,604,678.50	0.28
(489,023.40)	4,820,798	11:45	5,309,821.40	0.26
(1,291,879.20)	3,706,456	12:00	4,998,335.20	0.28
309,453.30	5,379,896	12:15	5,070,442.70	0.24
181,036.20	4,405,626	12:30	4,224,589.80	0.29
112,255.30	3,832,318	12:45	3,720,062.70	0.29
(620,089.90)	2,789,097	1:00	3,409,186.90	0.25
(786,631.20)	3,507,214	1:15	4,293,845.20	0.31
(1,521,578.50)	2,685,332	1:30	4,206,910.50	0.29
(1,335,553.10)	2,936,485	1:45	4,272,038.10	0.27
(1,686,185.30)	2,716,598	2:00	4,402,783.30	0.30
(3,162,201.10)	1,966,862	2:15	5,129,063.10	0.37
(2,558,151.40)	3,167,028	2:30	5,725,179.40	0.30
(2,056,398.90)	4,530,009	2:45	6,586,407.90	0.38
(4,501,058.50)	2,861,308	3:00	7,362,366.50	0.44
(4,140,142.30)	4,326,263	3:15	8,466,405.30	0.53
(4,417,475.60)	5,955,198	3:30	10,372,673.60	0.44
(5,912,199.20)	4,504,968	3:45	10,417,167.20	
(7,234,415.90)	13,315,956	4:00	20,550,371.90	
(1,774,098.32)	5,564,524.69	Ave.	7,338,623.01	0.34

I forgot to mention it Friday, but Friday was a "Russell Index" rebalancing day, which accounts for the higher volume and flat price.

Volume today was muted on the consolidation, which is expected - it shows no conviction either way which means that a great deal of the market participants - including the "Big Boys" - are unsure about the next big move in the market. That's a different story, though.

Volume ran much lower today than the 10-day SPY volume as seen above, with the exception of very small 'outperforms' in the afternoon session.

Unfortunately, because price did nothing much today, as did volume, this indicator sends no clear signal right now.

We now move to a purely neutral directional bias in the market as it stands today. Why? Price is forming a clear symmetrical triangle pattern as shown - triangles are evidence of a range contraction phase after a range expansion phase, and from an edge/trading standpoint, you're best to wait for a price breakout in either direction rather than trying to guess in which direction the market will break.

You really could make arguments either way, for an up or down break, so your choice will have no better than a 50% probability of working - random. Wait to trade the breakout.

For argument's sake, the bearish camp holds that the upper moving averages, particularly on the 60min frame, hold as resistance. The bullish camp holds that the bounce off the $107 level (61.8% retracement) when combined with the clear triple-swing positive momentum divergence - tips the odds in favor of the bulls.

Let the market argue this one out and then trade in the direction of the 'winner' of the argument.

The 61.8% Fibonacci Retracement rests at the $107.60 level, which is roughly where price closed today. This is a logical level to expect a bounce, and perhaps this is the only bounce we get in the context of a larger down move.

Otherwise, we have the falling 20 period EMA at the $108 level.

As I mentioned on the 30 min chart, let the market play this out and join in on the side of the winner of the 'supply/demand' or 'bull/bear' battle here.

Friday and Monday closed with doji reversal candles at the 1,070 important price level. It's not a critical turning point like a move above 1,120 or under 1,040 would be, but 1,070 still is important because it is roughly between these two 'game-changing' zones.

We will probably know more information about the resolution of this short-term pause in the market, such that a move under 1,070 would likely lead to a continuation move back down to 1,040 and a move above 1,080 would likely push us back to 1,110.

The signals are too conflicted to predict in which direction price will break. We may know by the next couple of days, however. This would be a low-risk spot to place a trade if you are more concerned with edge (small stop/larger target) than accurately calling the market swings.