AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 06/29/10 L=104.05 -3.48 -3.24% O=106.02 Hi=107.51 Lo=103.55 C=104.21
$TICK - 1 min NYSE 06/29/10 L=-630 -557 763.01% O=-1 Hi=999 Lo=-1358 C=-630
1
2
3
4
5
6
7
9:00
9:30
10:00
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14:00
14:30
15:00

Two points. That's the difference between me and other professional technical analysts officially declaring the S&P 500 in an official new downtrend after having closed under the "Line in the Sand" support - final barrier between bulls and bears - at 1,040. A close under 1,040 - especially for two days in a row - changes everything. But until that happens, 1,040 remains the line in the sand - and I was reminded of a quote today: "The more authority the level has, the more authoritative the break."

That means that we ALL know that 1,040 is the level - from the first time chartist to the 30-year veteran of technical analysis. And if the market breaks and holds under that level, we will be in a different world from a charting perspective. Remember that the July 2009 head and shoulders pattern failed with a trap - and that remains a remote possibility here as long as 'they' can keep the market above 1,040. So far, 'they' have.

Today was an active trading range that took advantage of two facts: During Type 3 trend days, we short all pullbacks to the 20 EMA and when the market interacts with a key line in the sand on the daily chart, we buy (scalp) pullbacks to that level - our stop is small in the event support breaks - but odds favor a bounce more than a break. Those statements underscored every trading opportunity today in simplest terms: Trend Day vs 1,040 "Line in the Sand" support. As a day trader, you could play the bounces or falls from both points.

1. BREAKDOWN

This was just an entry after a large gap down and resolution of the "no edge" bias I explained last night. I explained that "IF under $107, THEN target $105 or $104.50" We hit $104 today - so that target is achieved. The first trade was just a "hold your nose" and get short to play for the downside target - which was hit shortly after the open. Don't kick yourself if you passed on this trade because you felt you were chasing - unless you watched the 1-min chart, there was no clean entry.

2. BOUNCE OF $104, TRENDLINE BREAK

This also was an aggressive trade that played off the fact that 1,040 was ABSOLUTE final support in the SP500, so any bounce off this level was a trade. We bottomed at 1,042, broke a declining trendline, and triggered entry in the SPY at the $104.50 level to play for a retracement swing back to the falling 50 EMA and the $105 level - both of which were hit. This trade required a large stop - under the intraday low - so it's understandable as well if you felt the risk (up to 40 cents or larger, depending on entry) was not worth this trade.

3. IMPULSE SELL, TREND DAY BIAS, 20 EMA

This was a typical short-sell that formed on a bear-flag like set-up as price broke the rising trendline after bouncing down from the falling 20 EMA. Entry at the $104.80 level, stop above $105, target the prior low at $104.20. Price actually bounced with two bullish candles off the lower Bollinger and broke through the declining trendline at the $104.00 level, triggering your 'guard profits' exit.

4. TRENDLINE BREAK, BOUNCE OFF LINE IN SAND SUPPORT

I've been writing about how the bulls will do anything possible to prevent the market from cracking under 1,040. This was a higher low that formed, so it was reasonable to get long here to expect a potential trend reversal to the upside and "Popped Stops" play particularly if you believe the bulls (government?) will step in to prevent collapse. Shortly before, the media showed an impromptu meeting of President Obama with Fed Chair Ben Bernanke - at which time I cynically thought (perhaps you did too) "They must be serious about supporting the market here - they brought out the President and the Fed Chair at the White House." However, the bounce was short-lived and this trade ultimately achieved a small target of the 20 EMA instead of a full reversal. Supply and Demand rule markets... and supply (selling) was far too powerful for bulls to overcome today.

5. 20 EMA PULLBACK

This was another standard EMA pullback trade with two entries as shown - at either pullback. The price action took on the formation of an arc sell-off, triggering exit when price broke through the arc (1-min).

6. BOUNCE OFF 1,040

This was another 'cynical' play that 'they' would save the market yet again at 1,040. We expect "Lines in the Sand" to hold until they don't, and they usually hold a few times before they break - that was the simple logic behind buying on each test of 1,040. Price did form a spinning top at the lower Bollinger, and the target again was a retest of the 20 or 50 EMA. The bulls recovered more ground here and took price up to the 50 EMA just shy of the $105.00 per share level... but the failure for bulls to push beyond the 50 EMA - which would have been the trigger to get long or stay long for Popped Stops and the expectation of a Reversal - gave us another short-sell opportunity.

Notice that the TICK formed new intraday highs in a Wyckoff Sign of Strength - a precursor to a trend reversal. This may have made you more cautious to short-sell the next set-up, but ultimately the Wyckoff Sign of Strength failed.

7. 50 EMA RETRACEMENT, BREAKDOWN, TREND DAY

By this time in the day, it was obvious we were facing either a Type 2 (weaker) or Type 3 (perfect) trend day. This was the turning point in the structure, and you could have set-up a trade short anytime after bulls failed to break over the $105 level. There were actually three entries - first as close as possible to the resistance at $105, second on a trendline and 20 EMA break at $104.60, or finally - the big one - a break under the $104 level (which was short-lived).

A good exit was as price tested the $104 level to anticipate another bounce (that occurred only after a sudden break). If you played the move into the close, you were being very aggressive - at such a key price level, bulls and bears are out in full force and the market can be very volatile as seen into the close.

It will be very interesting to see what happens tomorrow.

There were too many opportunities depending on your aggression level to assess a standard profit target for the day. I show some of the trades today, totaling up to $2.50 during today's session, but depending on your aggression level and how you reacted to the 1,040 'line in the sand' vs trend day expectation, you could have expected more or less in the way of profit.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	EST	15-min VOLUME	RANGE
1,568,458.05	19,897,100	9:45	18,328,641.95	0.54
5,457,399.29	19,017,641	10:00	13,560,241.71	0.54
13,390,063.67	27,381,138	10:15	13,991,074.33	0.43
5,565,489.90	16,101,916	10:30	10,536,426.10	0.41
3,367,272.33	12,906,425	10:45	9,539,152.67	0.40
5,956,139.10	14,146,745	11:00	8,190,605.90	0.38
2,638,093.10	11,065,598	11:15	8,427,504.90	0.33
662,965.45	8,043,148	11:30	7,380,182.55	0.32
34,246.73	6,938,570	11:45	6,904,323.27	0.32
(1,532,696.14)	4,788,457	12:00	6,321,153.14	0.32
1,745,686.32	8,048,273	12:15	6,302,586.68	0.32
2,924,409.36	7,775,938	12:30	4,851,528.64	0.31
(1,168,033.82)	3,848,548	12:45	5,016,581.82	0.32
(548,335.00)	4,059,071	1:00	4,607,406.00	0.28
(277,833.05)	4,754,724	1:15	5,032,557.05	0.35
2,574,696.05	7,020,734	1:30	4,446,037.95	0.33
5,441,679.18	10,336,731	1:45	4,895,051.82	0.37
933,803.18	6,477,087	2:00	5,543,283.82	0.40
1,856,472.05	8,614,138	2:15	6,757,665.95	0.41
(156,151.00)	6,792,882	2:30	6,949,033.00	0.41
309,908.10	7,903,055	2:45	7,593,146.90	0.39
2,524,663.71	11,948,192	3:00	9,423,528.29	0.63
(615,451.00)	8,787,936	3:15	9,403,387.00	0.56
9,619,005.81	22,074,580	3:30	12,455,574.19	0.71
7,236,663.29	20,893,498	3:45	13,656,834.71	
18,714,405.33	42,751,081	4:00	24,036,675.67	
3,393,193.08	12,398,969.46	Ave.	9,005,776.39	0.41

There's no two ways about it - the relative volume chart shows higher relative volume across almost all periods, particularly during the opening sell-off. This must be interpreted as a bearish confirmation of today's sell-off, which hints at the potential for lower prices ahead - but it all comes down to what happens at 1,040.

I mentioned that the triangle formation was a neutral, range compression pattern that would give us a clue about whether to target the $111 level or $104.50 level on a break... and within an hour of the open, we already had achieved our downside target. Strange (and frustrating) how that works. Price targets work, but sometimes the market moves to achieve them overnight - like occurred today.

Anyway, we closed right at the $104.00 level. This level is the LAST line of defense for the bulls - think of it like a big battle. If sellers/bears break through $104, then it will be a resounding and absolute defeat for the bulls and bears will be expected to march price down to $85/$90, which is the next stronghold for the bulls.

Nothing else matters but the outcome here at $104. A break under targets $100 immediately, then anything under $100 targets $90 then $85.

Bulls will do whatever it takes to hold this level - they have shown that already. Do not underestimate their potential - and for the market to rally from here.

However, the momentum, breadth, and volume seem to indicate that this level will NOT hold.

This is a key turning point in the market that everyone is watching - and the resolution here should be absolute.

Bonds broke out strongly today, and they actually broke out yesterday as I indicated in my afternoon post:

http://blog.afraidtotrade.com/bond-funds-tlt-and-ief-nearing-major-breakout-price/

If we take that signal from the bond market breakout, it signals that money is flowing FROM stocks TO bonds, or that investors are much more risk-averse. To be blunt, bonds have a tendency to lead stocks, so if this breakout to the upside holds, then we will almost certainly see lower prices yet to come in stocks. Watch the TLT and IEF funds.

Other than that, 1,040 is it. We all know it - we're all watching it. The government knows it, the hedge funds know it, and anyone looks at a chart knows it. That does not mean that price HAS to crash through this level, but all interested parties are aware that the break under 1,040 might be the trigger for a vicious positive feedback loop that sends the market much lower. If anyone's out there that has the power and desire to hold the market up (if you believe in tricks), they're going to try it. If they can't push it up here... it will most likely be the official beginning of a new bear market.