AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

Today was another one of those 'reversal' days, but the reversal should NOT have come as a surprise. Understand for a moment WHY it is so important for buyers/bulls to hold support at 1,040, and that they'll do anything possible to hold it there and keep the market up. Notice that ALL trades today were bullish/buy trades. Though it doesn't always work out as nicely, today is a great example of the importance of watching the higher timeframes and then playing out your 'bias' or expectations on the lower timeframes when corresponding trades set-up and trigger.

1. POPPED STOPS, BULLISH BIAS ABOVE $108

Believe it or not, there are a ton of bears out there – nothing wrong with that, but intraday, some of the bears will panic and cover on any break of an intraday level, and the break to new highs after a gap, and above the reference $108 level (mentioned the last two reports) gave the bias to the bulls/buyers. Thus, you should have been prepped to trade long on breakouts or pullbacks respectively.

I call this Popped Stops but it was more of a breakout trade long, entering on the break back above $108.00 or $108.20 (intraday high) from the opening gap. Stop under $107.80, target is unlimited (sell signal). The best place to sell probably was as price began to fall from the $108.80 level – notice the grand shooting star that formed, and price took out that low at $108.60. While you could have shorted here, it was best to await a new spot to get long due to the new price, momentum, and TICK high.

2. TRENDLINE BREAK, BULL FLAG, IMPULSE BUY

As I stressed in yesterday's presentation, a new price high + new momentum high + new TICK high places the odds strongly in favor of a HIGHER high yet to come after an immediate pullback/retracement, so the trade idea is to BUY on the first pullback to expected to support.

That occurred either off the $108.00 level or as price took out the hammer high at $108.20 (as drawn), to target a new high in price, or a retest of the prior high. The stop was under $108.00. The momentum principle, as described above, is a concept and not a 100% hard/fast rule – we trade edge/probabilities, not certainties. As you can see, price did NOT travel up to form a new high, but instead formed a shooting star and two doji candles just under the upper Bollinger Band on very small negative momentum (1-min) divergence. As price broke these candle lows at the $108.60 level, it was probably a good idea to protect profits and exit prior to price achieving its target at $108.80. This is active trade management. If you held on, you should have exited as price broke the 20 EMA at $108.20 – but that meant you let a profit turn into a loss – bad trading. This is a good example of how something SHOULD happen (price makes new high after new price+TICK+Momentum high) but does not – and also after that failure, price then turned to the downside.

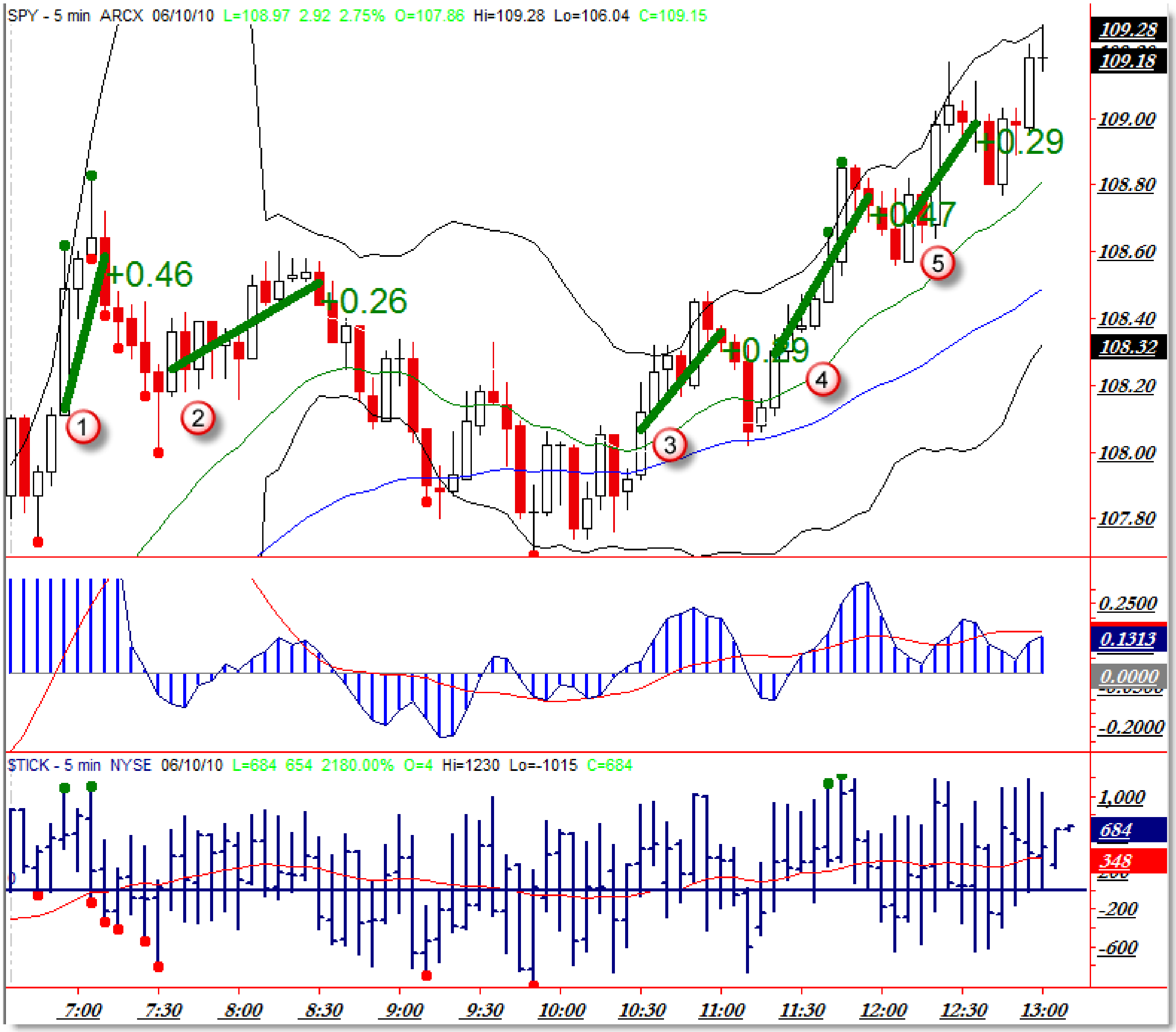
I don't really recommend any trades in here, not only was price choppy, but the only opportunities were small scalp trades during a choppy period. The next best trade was the trendline break following a positive divergence and rounded reversal-like structure.

3. ROUNDED REVERSAL, MOMENTUM DIVERGENCE, DOJI, TRENDLINE BREAK

This trade was signaled in advance by the positive momentum divergence and rounded nature to price as it hit new intraday lows. It would have made the trade easier if we got a divergence in TICK as well, but that didn't happen. So the best trade entry was as price broke back above the trendline, 5-min moving averages, and $108.00 level, placing your stop at $107.75. In practice, you could have held this trade long/bullish all the way into the close, but there were two identical additional 'scalp' plays you could have taken long along the way up for the recovery into the close.

4 and 5: BULL FLAG, 20 EMA PULLBACK, TRENDLINE BREAK

For all practical purposes, trades 4 and 5 (and even 6 if you took it into the close – not labeled) were simple, nothing special retracement pullbacks in the context of a rising market with a rising EMA structure. Buy either as price tests the rising 20 or 50 EMA, forms a reversal candle and takes out its high, OR breaks above the declining trendline. Place your stop under the moving average and target a new swing high, upper Bollinger Band test, or reversal candle.



A reminder on how to use this grid:

I had a good conversation with a member today at the Expo and it reminded me that I should clarify why I publish this grid each day. I call this the "Efficiency Grid," and its purpose is not to make you feel bad or that you missed all these opportunities, but rather to allow you to compare your entries and exits to the ideal/perfect entries and exits given the information you had at the time. We miss great trades because of psychology/fear/greed/the last trade failed/we were away from the computer, etc etc etc. This chart is to highlight the structure and opportunities that existed and allow you to answer the following specific questions on each trade:

Did I even see this trade set-up? Did I completely miss it? If I saw it, did I enter too early or too late? Did I mismanage the trade (not set target appropriately, let a single candle scare me out, not sell when price hit my target)? Did I exit too early or too late?

The idea is to use this as a learning tool to make yourself better – focusing on your weaknesses and improving them. I hold that if you achieved 50% efficiency, then you had a great day. Experienced traders need to be at 60% efficiency or higher, meaning if I state that $2.00 was possible and you achieved $1.00 in net profit for the day, then your efficiency was 50%. If I state that $1.00 was possible and you achieved 25 cents, then your efficiency is 25%. You can calculate end-of-day efficiency or trade-by-trade efficiency. Also, you can adjust this grid to your needs – if you didn't feel like a trade I labeled was worth taking, then eliminate it from the grid and calculate your own efficiency. I am not the arbiter of the market – it's up to you and your risk tolerance and personal trading strategy to determine what was right for you and where you can be improving yourself and your trading practices each day.

Roughly $1.90 was possible today.

A quick note that today's action officially broke us above the 61.8% retracement and 200 SMA at $108.50. Thus, as long as we're above $108.50, we target the upper resistance level at $111.00 as labeled. Officially, we're in a trading range with an abyss below us and lots of resistance above us – this is not the time to play gunslinger.

The 60min chart reveals exactly the boundaries of the trading range in the SPY: $105 and $111. Simple enough.

As long as we're between those, we expect the range to continue – thus our target to $111. However, on a break of $111, we would expect price to move back to $115 in a choppy, vicious move that would come in contact with multiple timeframes of overhead EMA resistance.

A break under $105, however, would mean the official end of the uptrend that started in 2009 and set our official intermediate price targets to $85 and even $66.

Main idea: We're trapped in a trading range on the edge of a cliff. Think of these levels as guard rails. On one side lies safety but with a few fences to jump over (moving averages), and on the other side… a dark abyss. Though it sounds silly, you need to think of the current structure in those terms. The big market players think in those terms and they know that the market could probably not be supported further – and that the bears/sellers would take over – under 1,040 then 1,000. It would likely create/further a panic that would scare away buyers until we retested a prior support at 850.

Short-term however, 1,100 is key. The 20 day EMA rests at 1,093, 200 day (more important) at 1,107, and 50 day EMA at 1,122. Underneath us is a positive momentum divergence which adds a little weight to the bullish scale until proven otherwise with a break and 'fatal blow' under 1,040.