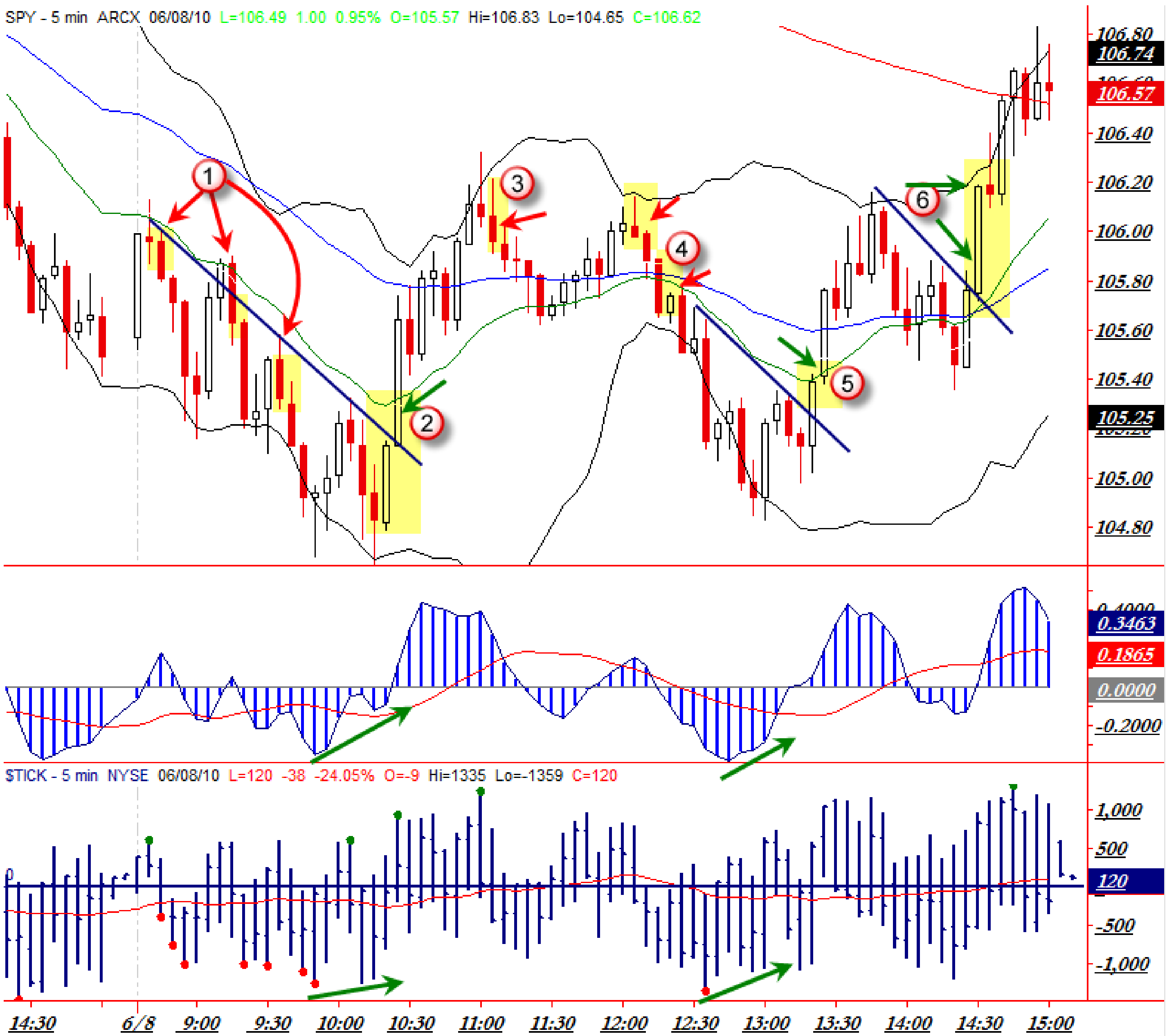
AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

SPY (SPY 500 ETF) 5-min



SPY - 1 min ARCX 06/08/10 L=106.55 1.06 1.00% O=105.57 Hi=106.83 Lo=104.65 C=106.62
1
2
3
4
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106.80
106.57
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106.00
105.80
105.60
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105.00
104.80
0.3000
0.1500
0.0267
-0.1500
$TICK - 1 min NYSE 06/08/10 L=120 -38 -24.05% O=-9 Hi=1335 Lo=-1359 C=120
800
120
-400
-1,000
6/8
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15:00

Greetings from Los Angeles, California! Pasadena, technically, but LA is one massive city, especially when seen approaching the airport from the plane. Today's report is on time, but Wednesday's report will be delayed into the evening and possibly as far as Thursday morning.

The lesson from today's trading is clear: Watch key lines in the sand! These are not magic levels, but they are VERY important levels that EVERYONE is watching, and thus take action when the market tests (touches) a key level. The last time this happened was the 1,170 level then 1,100 level (both overhead 'line in sand' resistance areas). The 1,040 level is far more important than both levels as I've been highlighting, and you could have entered a buy trade with that in mind as we tested that level today and formed positive divergences. Pay close attention to the end-of-report charts for more information and opportunities to watch in the days ahead.

1. RETRACEMENT TRADES

This was a simple set-up, and took advantage of the prevailing downtrend in price and target – as I've been showing – of $105.00 to $104.50. There were actually three set-ups (counting the move right off the open) but I'm classifying them all as a single trade so tonight's report doesn't show 10 trades – three of which were identical.

In a retracement trade, we short as price retraces to a key resistance area, which is a moving average (usually the 20 EMA on the 5-min chart) or a dominant trendline. You can exit at the lower Bollinger Band, or when price forms a reversal candle/buy signal as shown in the idealized grid. There was nothing magical about these scalp trades.

2. TRENDLINE BREAK, WYCKOFF SIGN OF STRENGTH, BOUNCE OFF $105.00 AREA

This is the trade where you could have kept your analysis as simple as "I know that the line in the sand is $105.00 to $104.50. So, if I see any type of buy signal (divergence, reversal candle, trendline break), I'm going to go aggressively long and put a stop either under $104.50 or beyond the intraday low at the time."

And that's exactly what happened. Entry officially - $105.20 (trendline break) with a handful of upper targets. A swing trader could have held this, and continued holding this long and not worried about intraday swings down. The risk/reward is superior from a higher timeframe perspective. If the market fell to stop you out, you would lose far less than what you targeted, which was $107, $108, or $110 (you would lose about 30 cents to play for a $3, $4, or $5 target). Remember, professional trading is not necessarily about calling the market exactly in terms of tops and bottoms, but taking advantage of EDGE – which usually comes down to smaller stops in relation to larger targets when taking high quality/probability set-ups.

Either way, you could have exited either at the 50EMA at $105.80 or the upper Bollinger Band and 'round number' resistance at $106.00 as shown. The doji and divergence gave you a reversal trade short. For those who follow Wyckoff Signals, notice the neat Wyckoff Sign of Strength PRIOR to the test of the bottom – that gave you extra insight that the market could be turning back to the upside (10:00am new TICK high).

3. SHOOTING STAR/DOJI, MOMENTUM DIVERGENCE, UPPER BOLLINGER

This was a classic reversal trade, as price retraced to the upper Bollinger Band, broke a trendline, formed a shooting star/doji candle, and a negative momentum divergence (both on 5-min and 1-min). Entry was on a break under $106.00 and target the lower Bollinger Band or other sell signal… and technically this trade failed unless you held short for the breakdown an hour later. In the grid below, I have the trade as a scratch, rather than a winning trade, but trade #4 was similar.

4. DOJI/SPINNING TOP, UPPER BOLLINGER, $106.00, TRENDLINE BREAK, EMA BREAK, DIVERGENCE

There really wasn't much different here, though we did have clearer trendline/moving average breaks at the $105.80 levels. This trade did work, leading for a larger win than trade #3.

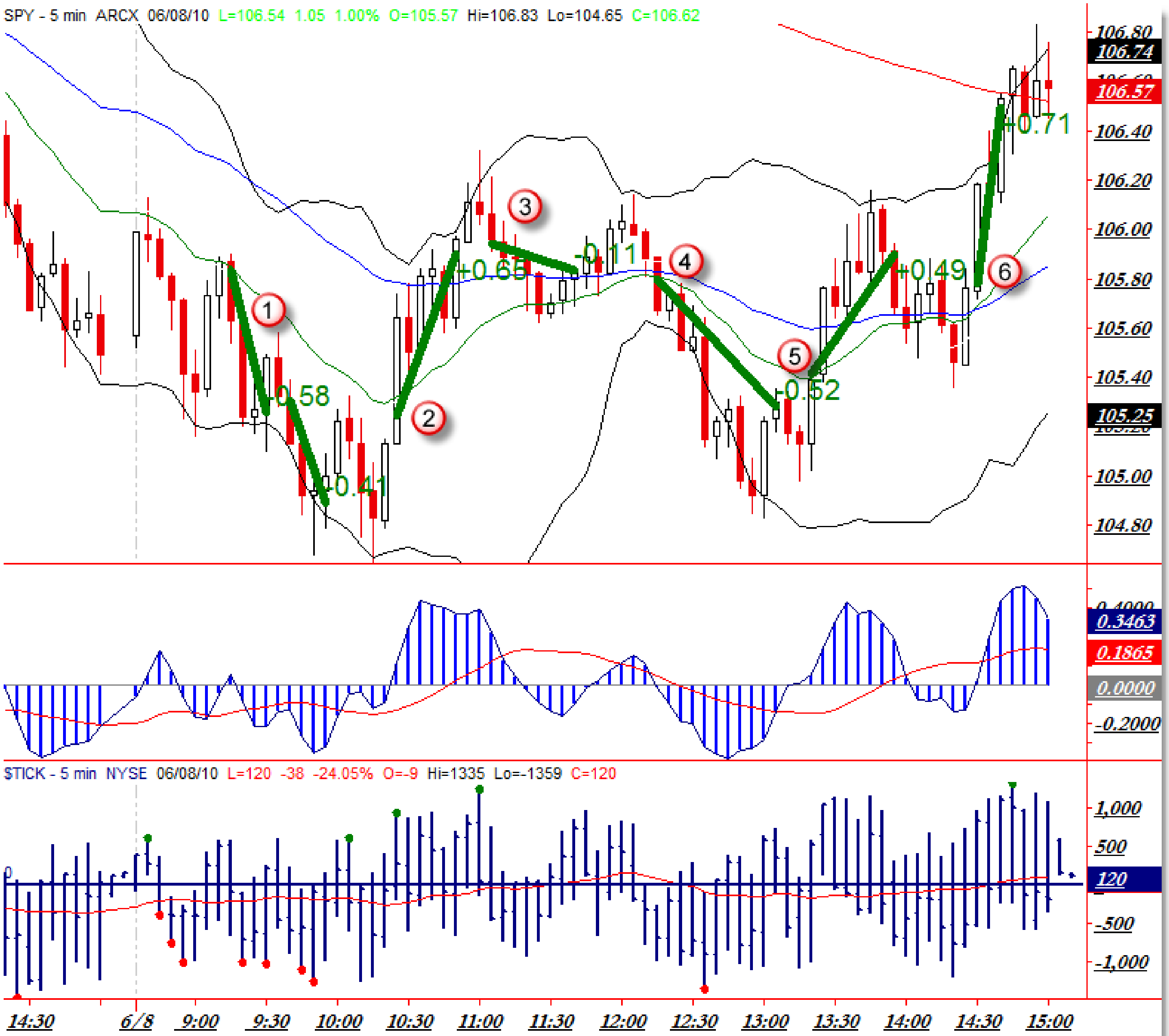
5. TRENDLINE BREAK, POPPED STOPS

Admittedly, this was not a perfect trade, given that price formed a new TICK low and would have set-up a short-sale on a clean retrace and reversal candle to the 20 EMA, but before a short could trigger, price surged, breaking the prior three candles (bullish engulfing) and then breaking the 20/50 EMAs, leading you to play "Popped Stops" if you were aggressive enough to catch this move. If not, no problem – Popped Stops plays are for advanced traders who can shift positions/biases quickly as new information enters the equation.

This is another example of "If the market should do something (go down), but doesn't (breaks resistance), then it often leads to a larger than expected move in the opposite direction (up)." That's the logic of a quick Popped Stops trade.

6. POPPED STOPS, BULL FLAG, TRENDLINE BREAK

This was a similar logic trade, except we had a bullish impulse prior and a clean retracement down that gave way for a trendline break at the$105.80 level. Your entry was there, or on the break to a new swing high at $106.20, either way you were playing against bears/short-sellers who were thinking the market would continue lower. The rally lasted until the close of the session, placing us in the position we are on the higher timeframe charts – just under EMA resistance, but with bullish wind in our sails after a successful test and bounce off the critically important "Line in the Sand" that everyone is (or should be) watching.


SPY - 5 min ARCX 06/08/10 L=106.54 1.05 1.00% O=105.57 Hi=106.83 Lo=104.65 C=106.62
1
-0.58
-0.41
2
+0.65
3
-0.11
4
-0.52
5
+0.49
6
+0.71
106.80
106.74
106.57
106.40
106.20
106.00
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105.25
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104.80
0.3463
0.1865
0.0000
-0.2000
$TICK - 5 min NYSE 06/08/10 L=120 -38 -24.05% O=-9 Hi=1335 Lo=-1359 C=120
1,000
500
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-500
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14:30
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This is a good example of how setting targets and expectations are very effective, both in swing and intraday trading. The bias has been "IF under $110.00, THEN target $105.00/$104.50" and we achieved the downside target today, bouncing (so far) sharply off the key line in the sand support. I cannot underscore how important this level is for all market participants – and the bulls/buyers know how important this level is for them to hold.

We hit the key support level today as a positive divergence formed on multiple timeframes. As strange as it sounds, the market now belongs to the bulls and it's likely we'll see a bullish swing off support. However, if bulls lose this opportunity to rally prices – giving you intraday trading opportunities with it – and the market sinks back under $104.50, then the next target is $85.00 (intermediate term). As long as we are above $104.50, the $85 target is NOT yet in play/not official from a short-term trading standpoint. Looking forward, we can expect to see price challenge the $107.00 level, and any break above $107.00 is bullish that could target us back to $110.00, as technically, we are in an official short-term trading range. For Elliott followers, the recent move to test $104.50 unfolded in 5 fractal waves.

This chart shows the rangebound expectation – a move back to $111.00 IF buyers can clear above overhead EMA resistance at the $107 and $108 level. If so, then prepare to swing or intraday trade long to the upper target of $111 and be prepared to trade breakout long/bullish above $111.00.

$104.50 really is the key determinant between bull and bear – bull bias above… bear bias underneath.

Notice the divergences as we hit this level today.

The key level to watch on the index is 1,040. We're still in a neutral holding pattern until we break under 1,040, in which case we would expect a range expansion move down, or back above 1,110, which targets 1,150 or beyond. While we're still in this trading range between 1,040 and 1,100, neither bull nor bear is favored, and we must stick to our intraday charts for opportunities. Don't get too bearish – we could see a bounce off the key level – but also don't get too bullish – we could see a bounce back to 1,100 then a collapse through 1,040.

We can never know what's about to happen in the future – the charts give us insights into the supply/demand imbalance and bull/bear 'power' – where traders are likely to take action (stopping out or entering new positions). That's why key dividing lines are important – and for now, we've bounced off the LAST line of support for the bulls. Again, as long as we're above that level, it's up to the bulls (and bears short covering) to push us higher.

Trade with these parameters in mind – everyone is watching these levels. Watch the positive divergence that formed as well. Until proven otherwise with a break and close under 1,040, the divergence is bullish.