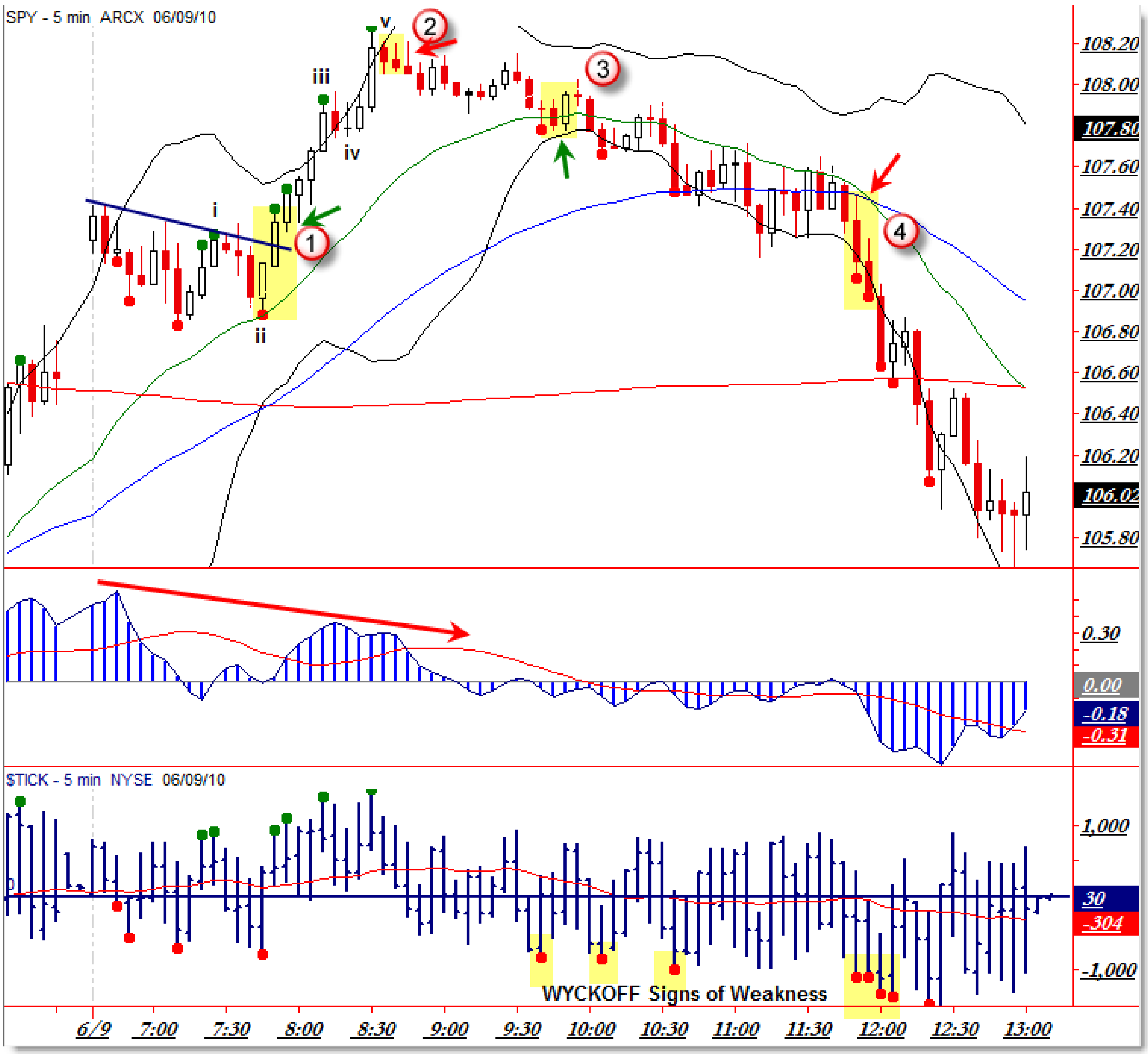
AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report



Greetings again from sunny Los Angeles! Thank you to the members who attended today's Breakout/Retracement/Reversal presentation at the Expo – I had a great time and hope all attendees did as well.

Today was a bit shocking in terms of the reversal, but it gives us a chance to take a look 'under the hood' to see what happened, why it might have happened, and at what point we could have been convinced of a trend reversal… namely there were perfect Wyckoff Signs of Weakness mid-day that preceded the reversal, which seemingly occurred out of thin air.

1. TRENDLINE BREAK, POPPED STOPS, BULLISH EXPECTATION

I mentioned last night that odds favored higher prices ahead, which is what we got, so our goal as intraday traders is to find locations to play that expectation if we see those signals. The first good signal came on a break of the trendline as drawn at the $107.40 level, with a stop under the key support (and lower trendline) at $107.00. Breakout trades have theoretical unlimited targets, so hang on through those little retracements and exit only if we get a move into a higher timeframe trendline/moving average (we did at $108.00 – 60min 50 EMA), so it was best to hold this trade until then.

The bias again was "long above $107, but watch $108, then long bias again above $108" but the market did not rise much beyond $108.

2. 5-WAVE FRACTAL, TRENDLINE BREAK, PUSH INTO $108

Though this was the high of the day, we had no way of knowing that at the time it occurred. In fact, price formed a new TICK high and a very small negative momentum divergence just beyond the $108.00 level. If you are aggressive, you could have shorted when price moved back under $108 to target the rising 20 EMA at the $107.80 level, but it was just as well – and perhaps even better – if you skipped this trade, as it was just as likely that we broke out to the upside in a continuation trend day. That's why we looked to buy the first pullback into EMA support… which failed.

3. 20 EMA, DOJI, TREND DAY BIAS, LOWER BOLLINGER

Again, we have to assess the data we have at the time – we can't see the future in real time, and so given the information, it was a better probability play to bet on the day trend continuing up than of trying to play a reversal in the absence of a major divergence or any overarching sell signal.

So the entry was as price bounced back off the 20 EMA and took out the doji high at $107.85. The stop – conservatively – was under the 20 EMA and a more aggressive stop was under the lower Bollinger Band at $107.70/75. This trade failed. Not all trades work! We trade probabilities, not certainties.

Though, when this happens, it's time to pull out my favorite quote for you again!

"When something SHOULD happen but does NOT, it often leads to a larger than expected move in the OPPOSITE direction."

Because the trend day did not continue, and because price did not bounce off the rising 20 EMA/doji, then it (eventually) led to a sharp and sudden reversal.

How could we have seen this reversal in advance?

There's no magic way to do so, but there was a New TICK low at 11:30 CST (my chart above is converted to Pacific Time) which is our classic "Wyckoff Sign of Weakness," then we had three Wyckoff Sell Signals in a row (labeled), and those often occur prior to a reversal… or at least in the context of a deteriorating trend. Price tried to support off the 50 EMA but it was a very choppy situation as price formed a series of small lower lows and lower highs. In real time, this was a bloody chop-fest, or to borrow a phrase from Connie Brown – "the chop from hell."

There really wasn't an excellent/optimal sell signal until trade 4, which was a price breakdown from an established (short term) trendline.

4. TRENDLINE BREAK, CRADLE SELL

When the 20 and 50 EMAs cross 'bearishly' and price rallies back up into the "cradle" of resistance (crossover), then that is our classic "Cradle Sell" trade, and you can enter short right there at $107.50. Being a trend reversal and unexpected (to the broader public perhaps) sell-off, you could have stayed short for as long as possible, including a move into the close. Don't feel bad if you exited earlier, but when price is in a 'positive feedback loop,' you often do well to take advantage of remaining short for the duration of the move, which can go longer than expected. Don't let a little wiggle stop you out of a breakout mode.

Using the ideal grid/moderate aggression level, 3 trades were winners and one was a loser.

Just over $2.00 was possible, but it took courage to hold the breakout trade into the close.

This is the updated "advanced analysis" Gann Squares (horizontal lines) and Andrews Pitchfork (blue) grid.

Main idea: Gann Number 1,044 is still clearly in play, but we know that 1,040 is the line in the sand. It just also 'magically' happens to be a key Gann Number.

Today's high of 1,077 was the upper Gann Number – I find that interesting. These numbers are permanent, so you can use them as a reference.

Other big news: We have officially broken and closed under the Andrews Pitchfork lower trendline, which currently rests at the 1,075 level. When a market breaks a lower Andrews trendline that it's been in for quite some time, that's a signal that the trend is (or has) reversed. Keep that in mind.

This market is on the thinnest piece of ice imaginable… but as long as it's above 1,040, it remains on the ice, not in the abyss.

On the 30min chart, we literally reversed course in mid air. Ouch. Nothing there to stop us.

We were bullish above $107.00 for a continuation of the breakout and positive divergence play I discussed last night, and we did get a move up to $108.00, but price stopped dead in its tracks.

The main idea is that this market is very weak, and everyone knows that the key level is $104.50, and that a break under that level will be a game changer.

Neutral bias here, VERY bearish bias under $104.50, bullish breakout bias above $108.50.

We did have a logical reason why price reversed on the 60 min chart – it hit the upper Bollinger Band and nipped just above the 50 EMA and $108.00 level. Otherwise, this was a random reversal (except for the SP500 hitting the Gann Squares price of 1,077).

Don't get fancy here – be careful and cautious while we remain in a (seemingly downward sloping) trading range, but above the key level of $104.50. Bulls will literally do ANYTHING possible to hold this level, so we could see more market tricks ahead.

It appears that the 5-wave down thesis remains correct, and that the market posture is shifting to the downside. We're still not under the 1,040 level, which would be a definitive – can't take it back – game changer, meaning prepare to short aggressively on a break of 1,040 for a minimum target of 1,000 and a potential target of 850 (eventually).

We still have a positive/bullish momentum oscillator – so far – but the EMA structure shows powerful resistance overhead. As long as we're above 1,040, we're likely to remain choppy, but I do think that a solid move under 1,040 – not just a nip under by a couple of points – would shift the market structure officially to a downtrend and cause bullish hold-outs to sell (potentially liquidating entire portfolios) and break skittish, beat-up bears (wounded repeatedly from late 2009) to enter short sell positions.

Watch/monitor price very closely here – we are quite literally on the edge of a technical (chart) cliff. The market has not fallen over yet, but once it does, it becomes difficult to imagine how they get back on top of the cliff once they fall off.