AFRAID to TRADE
overcoming stock market fears with Corey Rosenbloom

Daily "Idealized Trades" Report

S&P 500 ETF: SPY


SPY - 1 min ARCX 08/12/10 L=108.48 -0.82 -0.75% O=107.65 Hi=109.02 Lo=107.60 C=108.63
1
2
3
4
109.00
108.80
108.65
108.60
108.40
108.20
108.00
107.80
0.1500
0.0500
-0.0203
-0.1500
$TICK - 1 min NYSE 08/12/10 L=-324 360 -52.63% O=-11 Hi=1336 Lo=-1157 C=-324
WYCKOFF
1,200
800
400
-74
-324
-800
8/12
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

Well, that would have been a perfect and expected "Rounded Reversal" pattern were it not for the unexpected breakout and pattern failure into the close. Do not be frustrated when markets do not "fall" as they should, and do not underestimate the relentlessness of the 'bulls' to support this market from falling into the abyss. If they're going to attempt to save the market from collapse, they'll need to try here. Once the index breaks under 1,000, it will be much harder to hold the market up. There were some good - and some frustrating trades in today's 'technically' rangebound 'rounded reversal' structure, so let's learn about them!

1. GAP FADE, SELL FAIL, POPPED STOPS, TRENDLINE BREAK, SPINNING TOP

Trade #1 is actually more of a lesson in the opportunities - and never object certainties - that arise in real time as we make decisions under pressure. First, if you like to fade the gap, then the trade was to get long as early as possible - around 10 min or 15 min into the session - when you saw price rallying very sharply off the opening low. A true gap fader will hold on to the trade until price retraces all the way to, or just shy of yesterday's close, so they would have held through the two down-swings that formed before I label trade #2.

If you didn't have confidence that the gap would fade, you could have taken the alternate position and shorted the market as it fell shy of testing the falling 20 EMA at $108.80 and shorted on the break under the bearish candle at 9:15am. I didn't specifically label that trade as TICK and momentum were making new highs, but there was nothing wrong with shorting here. If you did short there, then you probably got stopped out not long after on the break above the falling trendline at the $108.50 level - which triggered trade #2 due to the failure.

This trade happened very quickly, as price "should" have kept falling lower but did not - forming a spinning top candle at the $108.30 level then breaking sharply - on a new TICK high - above both the falling trendline and the 20 EMA. This was a sudden "Popped Stops" reversal play for aggressive traders, positioning long above $108.60 and placing a stop under $108.20 - a stop too wide for many traders. Price made a push up, swung down to a higher low, formed a hammer, and then pushed back to the upper Bollinger Band, 50p EMA, and round number resistance at $109 - which should have triggered the gap faders out of their trade, eliminated any long, and then prepared for a sell signal to short.

2. BOLLINGER, 50 EMA, SPINNING TOP, ROUND NUMBER, DUAL DIVERGENCES

I think it was the divergences that made this such as irresistible trade - in addition to price forming a reversal candle at the convergence of three types of resistance - 50 EMA, $109 pure price, and upper Bollinger. You could have triggered short on the break and close under the spinning top at $108.80 or waited for price to break under the 20 EMA. The stop would be above $109.

Here's where money management/risk management comes in. Technically, this trade 'worked' but there was no need to hold long through the rally that formed at 11:00am. So, I have this trade stopping out on the break back above the 20 or the 50 EMA - both of which resulted in a scratch - despite the trade being so 'obvious.' It was also a type of bearish rising wedge. Anyway - we're traders, not 100% accurate market forecasters, so if you held on or exited early depends on your conviction and aggression level - and experience. Either way, price re-triggered a short entry in a similar manner for the third trade which - for some - was merely a continuation or "threatening stop" situation of the prior trade #2.

3. TRENDLINE BREAK, 20 EMA BREAK, BEARISH CANDLES

The logic carries forward with this trade as was the logic of trade #2. Notice the rising trendline that broke with a sharp sell candle just shy of $109 and the upper Bollinger Band, triggering an entry under $108.80, stop above $109, and breakdown target. We did get some good mileage out of this trade, but it too 'failed' at 1:00pm with a strong bullish candle off of a small dual divergence.

4. SELL FAIL, POPPED STOPS, EMA BREAKOUT

Like trade #1, this trade had a few entries. If you were brave, you took this trade early on the pattern failure, but for most traders, the official entry came on the break above the 20 or 50 EMA at $108.60 or $108.80 to play for a Popped Stops situation... that slightly developed but not with the ferocity that was possible. Price pushed back to $109.00, formed a clean spinning top/doji candle at the upper Bollinger, and then a bearish engulfing candle - triggering your exit somewhere under $109 - if you waited for the full reversal candle to form, you likely had a scratch on the trade. The market stagnated again into the close, giving no opportunity.

In today's idealized grid, roughly $1.20 was possible in today's session unless you jumped in to play the gap fade earlier than I listed the entry.

SO FAR TODAY			10 DAY AVERAGE	
DIFFERENCE	15-min VOLUME	CST	15-min VOLUME	RANGE
8,878,818.90	24,340,636	8:45	15,461,817.10	0.37
3,617,891.60	13,837,973	9:00	10,220,081.40	0.37
1,737,584.40	12,262,014	9:15	10,524,429.60	0.35
1,949,977.70	8,957,441	9:30	7,007,463.30	0.30
(351,720.30)	6,269,417	9:45	6,621,137.30	0.29
383,041.30	7,215,566	10:00	6,832,524.70	0.21
2,948,190.30	9,064,655	10:15	6,116,464.70	0.25
704,266.70	5,526,546	10:30	4,822,279.30	0.16
1,457,371.20	6,504,095	10:45	5,046,723.80	0.18
399,435.80	3,784,320	11:00	3,384,884.20	0.19
307,568.70	3,462,006	11:15	3,154,437.30	0.21
(52,865.30)	2,713,559	11:30	2,766,424.30	0.18
(125,720.10)	2,665,829	11:45	2,791,549.10	0.19
622,129.70	3,091,645	12:00	2,469,515.30	0.19
295,005.20	3,168,783	12:15	2,873,777.80	0.20
2,656,821.70	5,686,337	12:30	3,029,515.30	0.19
501,923.70	3,582,945	12:45	3,081,021.30	0.24
1,432,397.10	4,409,283	1:00	2,976,885.90	0.24
(294,499.00)	3,324,883	1:15	3,619,382.00	0.27
(2,176,607.20)	3,813,576	1:30	5,990,183.20	0.25
(951,187.70)	5,144,042	1:45	6,095,229.70	0.29
(216,553.90)	5,399,179	2:00	5,615,732.90	0.28
3,635,163.00	9,608,360	2:15	5,973,197.00	0.33
899,727.55	7,874,950	2:30	6,975,222.45	0.30
1,644,319.55	10,802,347	2:45	9,158,027.45	
(1,572,876.91)	14,440,373	3:00	16,013,249.91	
1,089,600.14	**7,190,413.85**	**Ave.**	**6,100,813.70**	**0.25**

On today's down day, volume was still higher across the board, safe for the afternoon 'rally' phase.

It's still a confirmation of the lows today which suggests we are in a downtrend and that lower prices are yet to come.

We've had three successive down-gaps - gaps that do not fill are often signs of impulses/momentum that forecast even lower prices yet to come. Remember - there are three specific types of gaps: Breakaway gaps (that start a price move), measured gaps (or 'middle gaps' that come at the middle of the move... that may or may not fill) and exhaustion gaps that form at the end of the move and fill instantly. Always try to distinguish when looking at any gap as to what type it might be.

Volume is increasing as the market sells off in a classic "Dow Theory" confirmation of lower prices. Like I said, if we do keep moving lower, it's not going to be without smaller rallies which you can short into and trade intraday. Now might be another chance to short if the market continues lower after rallying/retracing up to the $109 level and failing to overcome it as resistance - the 20p EMA on the 30 min chart exists here as does the 200 period on the 60-min chart.

It certainly looks like price is playing out a "Mirror Image" pattern with the "down" move on the right being more harsh than the "up" move on the left. That's a very common pattern we've been seeing lately. Notice the volume trend and how it relates with price - FALLING during rallies and RISING during sell-offs. That's bearish and further evidence that we're likely in a higher timeframe downtrend, and that lower price lows are expected - back to $106 at a minimum.

Still, watch what happens short term at $109 - it looks like the gap, moving averages, and "round number" price will serve as resistance, so be prepared to continue shorting if that's the case, or to play popped stops intraday if not.

From an Elliott perspective, we're moving DOWN in impulsive waves and moving UP in corrective waves, further arguing for a higher timeframe downtrend bias.

Speaking of Elliott Wave, it's possible we've officially begun the 3rd wave down - but don't get too caught up in the labels yet. We may wind up substituting "A" for 1, "B" for 2, and "C" for 3 but that doesn't matter right now, as if we're in a "C" or "3", the picture is the same - we expect a 5-wave structure to draw us back under 1,100... and potentially down to 800... or all the way back to 666 over time - but as intraday traders, don't overbias yourself to that structure.

The next daily chart target is 1,060 and there is 'open air' down to that level now that sellers broke the index under 1,100. Look for 1,100 to be resistance and continue a short-sale bias until we retest 1,060, and increase your downward expectations to target 1,010 on a breakdown under 1,060.