

AFRAID to **TRADE**

overcoming stock market fears *with* Corey Rosenbloom



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes:

Note prices are forming a consolidation which appears to be a support zone and could flip higher in the week ahead. Look at the daily and then weekly chart to note levels that - if broken to the upside - will lead to continuation.

S&P 500:

The S&P 500 is grossly overextended (which is not enough to get bearish) and is coming into critical resistance at the 1,007 and 1,014 area. The possibility for a major top here exists, but the bulls have dominated any bearish efforts so far so it's best to wait until we're sure the bulls have weakened before taking long term positions here.

Gold:

Gold remains in a triangle consolidation pattern, though I give both upside and downside targets and discuss

Crude Oil:

Crude remains in a downward sell-signal off the monthly chart, though Thursday & Friday's unexpected rally could shake up this structure.

US Dollar Index:

The Dollar is finely balanced at support from both a Fibonacci and Elliott Wave perspective. With the expectation for a bounce up, we need to watch this level as a crack beneath \$78.30 would mean we had further to go down.

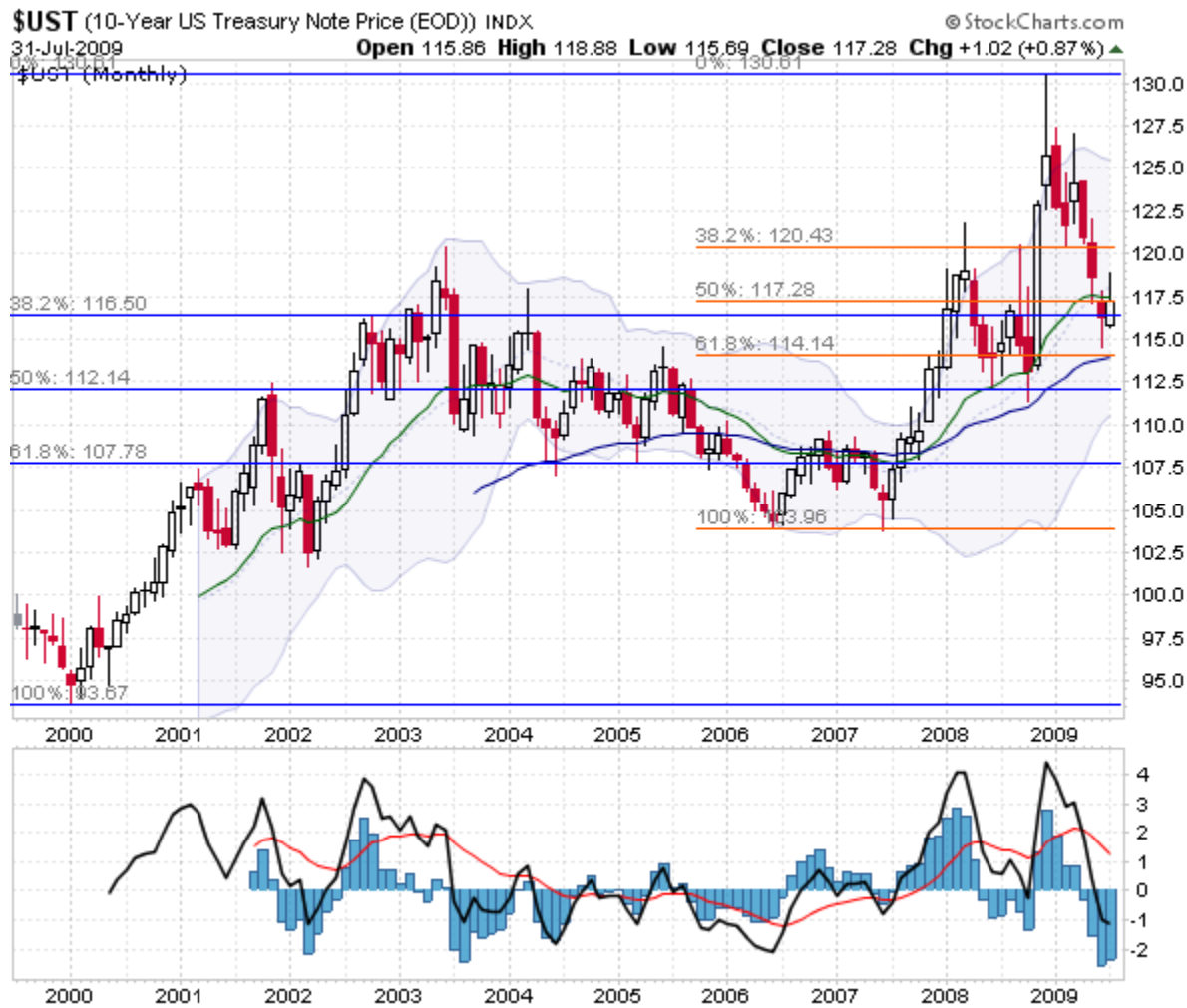
Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

A RISING Dollar (Index) is BEARISH for Stocks and Commodities and is BULLISH for Bond Prices.

Treasury Yields generally follow in the direction of the stock market and are always inverse bond/note prices.

10-Year Treasury Notes (\$UST – Price)

Monthly



10-Year Note prices on the monthly chart remain 'trapped' about the two converging Fibonacci grids of \$117.28 and \$116.50.

The main point of reference on the monthly chart is the \$114.14 area, which reflects the 61.8% retracement and the convergence of the rising 50 month EMA. Should bond/note prices manage to break this level at \$114, it would be a very, very significant development.

The monthly structure remains in an uptrend, and price in June bounced solidly off this \$114 critical support zone to form a hammer, and with July's bullish price action permanently locked in place, odds seem to hint that higher bond/note prices (lower yields) could be yet to come (which would be bearish for stocks).

Weekly



Here we see a closer look at the critical \$114 support level which reflects the 61.8% Fibonacci level off the 2007 lows to the 2008 highs.

It's very possible that price has formed an "ABC" corrective move down into this level, hinting that the corrective phase is ending and that a bullish phase could be yet to come.

It's important first to note that the 20 and 50 week EMAs converged bearishly at the \$119 level, which is officially a bearish development - particularly given that price inflected downwards off this level sharply in early July. The prior week printed a bullish candle (opening at the lows and closing at the highs) and there is some room to run to test the \$119 level.

Should price continue downwards, the \$114 level would be the logical target and we would want to see prices stay above that level or else we would have to flip to a very bearish stance on bonds (which would be good for stocks).

Let's look at a very critical level on the daily chart that should give us additional clues.

Daily



We see price failing to overcome the falling 50 day EMA, currently at \$117.50. We need to watch this level very closely, as if price can rise above \$117.50 (not far away) and break above the 50 EMA, then we would get an almost certain 'magnet trade' up to challenge the "cradle" crossover at the \$119 level (as seen on the weekly chart).

It's possible that bonds/notes have completed an "ABC" downward correction at the \$114.50 level, and if this is the case, then we could see a bottoming process (consolidation) form on this chart which would again be bearish for stock prices.

The critical areas to watch logically are breaking \$115 to the downside (which would trigger a 'magnet trade' down to \$114, and breaking \$114 would shift the structure undeniably to the downside) and \$118 which would trigger a 'magnet trade' up to \$119, and breaking above \$119 would undeniably shift the structure to the upside.

As we remain trapped in a consolidation between key Fibonacci zones, it's best to wait until one of the above levels mentioned is broken... though if the stock market falters and begins a down-swing from current levels, the play would be 'long bonds' to take advantage of weakness in the stock market as money flowed into bonds, so I'd keep a closer eye on the upper levels (unless stocks continue to rally as they have been).

US S&P 500 (\$SPX)

Monthly



If we keep up with the Intermarket Thesis, then Bond Prices are perhaps finding support and forming a 'bottoming process' which the S&P 500 seems to be coming into critical resistance and forming a possible "topping process." Nothing is guaranteed, but we do best to look at the clues and make a best assessment from them, and note areas where our thesis will be proven wrong (which serve as excellent stop-loss markers).

Taking the 2007 high to the 2009 low, we note that the 38.2% upward Fibonacci retracement rests at 1,014 - a number that has been brandished around quite a bit. The November highs are 1,007, so the market has been gunning for these levels. There are a lot of stop-losses planted above those levels, so just like was the case when the Head and Shoulders pattern was broken, and resistance was broken at 954, if bulls can push prices just above these levels, we'll see yet more short-covering and higher prices, which would be the play IF bulls can tip prices points above these levels.

But until then, the structure clearly indicates a rally that is running into expected resistance via the 200 month SMA and the 38.2% Fibonacci resistance. See last week's report for the Elliott Count which remains unchanged.

Weekly



Here we take a closer look at the Fibonacci grid, and in this case note that price has risen slightly above the 50 EMA which resides at 964. The 1,000 level will provide "psychological" resistance, and again we have the 1,007 November 2008 high with the 1,014 Fibonacci level. It will be VERY significant if buyers can push prices beyond (above) these levels, as there is almost a widespread acceptance that these levels will turn back the current rally... but bears have been wrong all the way up as all expected resistance levels have been broken so my suggestion is to WAIT until critical levels are taken out to the downside before shorting... however, price is so overextended that you cannot justify getting long on such an overextended, overbought condition - only the aggressive and day-traders should do so here.

I wouldn't be doing my job if I didn't mention that there was a distinct possibility that we could be seeing a significant high in the market being formed in the week ahead, so aggressive traders might want to go ahead and enter short with a tight stop above 1,020 (or above) to try to play for this AGGRESSIVE entry - conservative traders should wait until we see clean downside momentum, and perhaps retracements, to enter short. Under NO circumstances should you put on a buy position (swing trade or position trade) here - if price can clear 1,020, this could change the calculus, but for now - with the information we have now - price is just underneath MASSIVE resistance, and the risk long-side thanks to an over-extended, 5-month rally and opportunity exists to the downside. In terms of risk/reward, the short-sale stop-loss would be around 30 points and the longer term target could go back to the 700 level... but nothing is guaranteed.

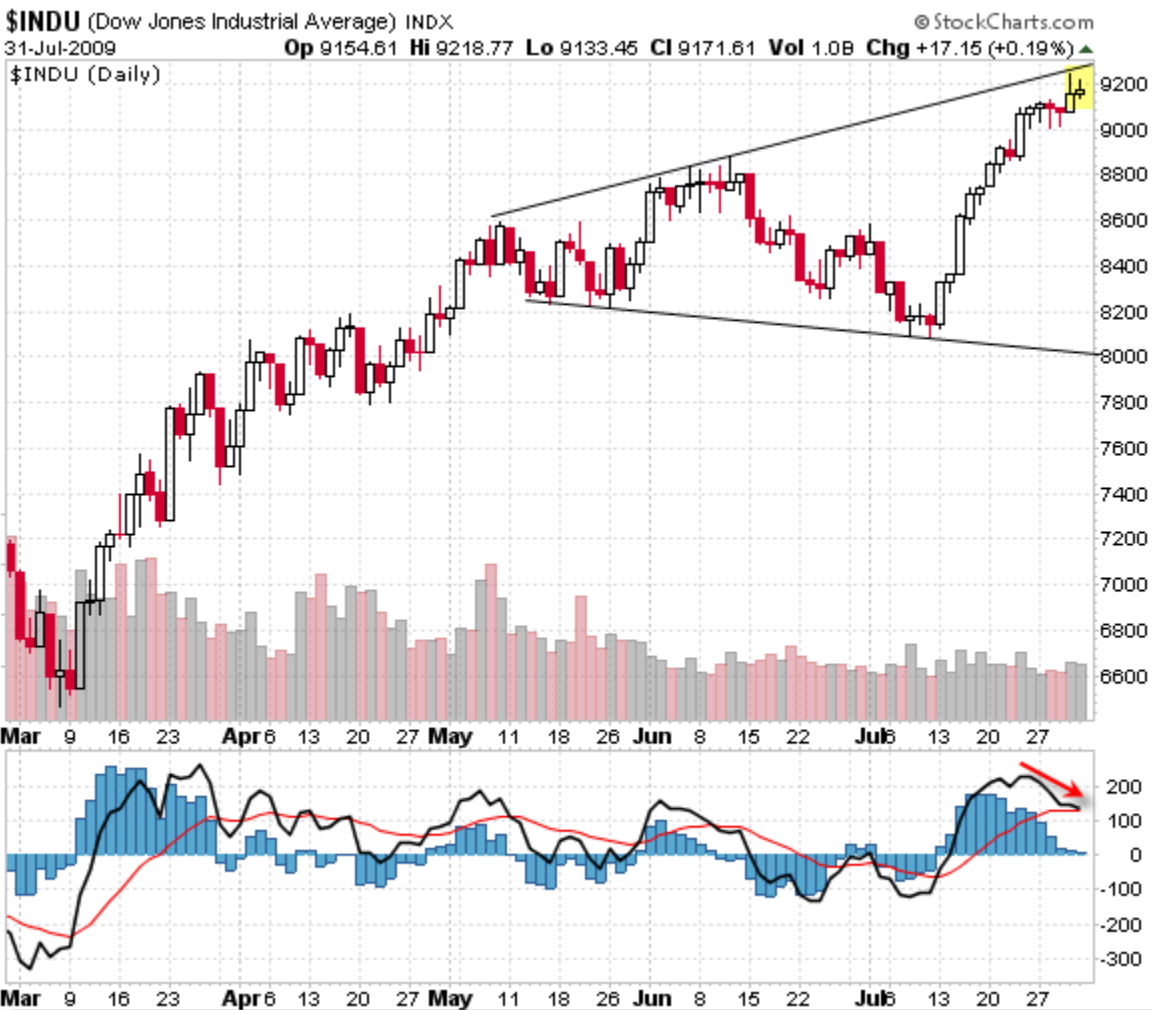
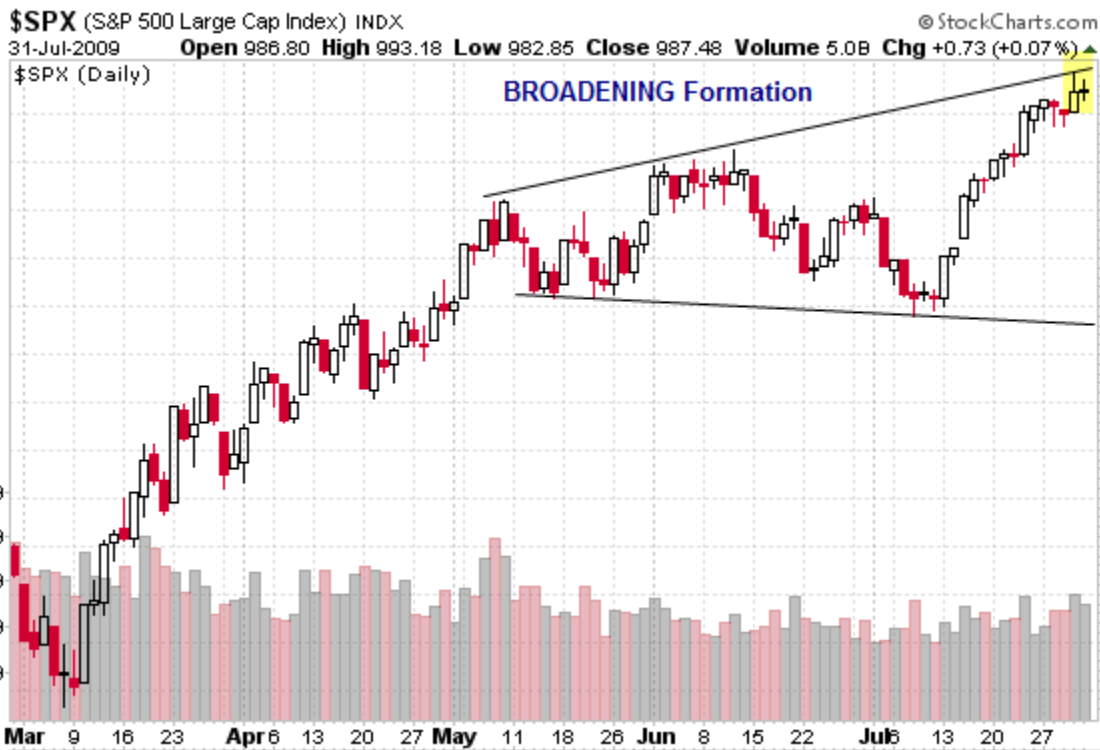
Summarizing the weekly chart, watch to see if 1,014 is broken to the upside next week - if not, it would be a major short.

Daily:



One thing that's interesting is that we're now seeing a volume pick-up in the S&P 500 as price rallies to higher levels. Granted, the volume is muted due to the summer months (doldrums) but in comparing the relative trend of volume, it has been higher which - in a way - confirms these prices. A LOT of short-sellers have been forced to cover into this rally, so that has driven prices higher as well. The Head and Shoulders pattern was a two-month sideways correction in an extremely powerful and relentless up-trend that began off the March lows. The 3/10 Momentum Oscillator seems to be 'hooking over' at the highs and price has formed numerous dojis (reversal candles) at the highs - both of which hint that a retracement swing is right around the corner, but we also have to respect that the bulls have dominated the market in July and this is an unusual dynamic in the market.

Again, price is grossly overextended and showing reversal signals just under critical resistance... but bears have been stopped out all the way up so it's perhaps not best to be a hero and try to call tops - wait for confirmation then act.



The two upper charts show "Broadening Formations" in both the Dow and the S&P 500. The fact that the upper trendline intersects the 1,000 zone in the S&P 500 (again, CRITICAL resistance) adds further bearish fuel to the fire. Broadening Formations often represent a chaotic market out of balance (evidenced by wide swings) and very often resolve sharply to the downside. The last time we saw this pattern was on the Dow Jones Index in 2007 and early 2008 as the market formed its significant top.



This 60-minute internal chart reflects that an Arc Formation has dominated price, and we're reaching the apex (top) of the arc, and doing so on a POSSIBLE Three-Push Reversal Pattern. This means that we could see this as the absolute highs, or get one more 'last breath' rally higher into the 1,007 or 1,014 area, but the structure is weakening significantly - this is not the picture of bullish strength.

Again, I don't want to go too far out on a limb, but we could be seeing a significant top form this week in the S&P 500, but what gives me doubt is the fact that buyers are so dominant and the government seems to be committed to doing whatever it takes to ensure that prices continue higher... and you can't fight the Trend and you can't fight the Fed (which has been pumping money into the system) and you can't fight the Government (or Goldman Sachs!) and so even though classical technical (chart) methods ALL are pointing to a significant top and price weakness ahead, this appears NOT to be a 'classic' environment so this is why you should not jump in short, blind to these bullish forces behind the scenes.

BE CAUTIOUS and WAIT for proof that bears are taking the upper hand (aka moving averages are broken on the 60m chart, volume surging as price falls, new momentum lows forming, etc).

Gold

Monthly



The monthly structure on Gold remains unchanged - this chart reflects the permanent structure (meaning the last candle is the last trading day in July) which actually was a bullish candle - akin to a hammer.

The levels to watch here would be the \$875 level (20 month EMA) and of course the \$1,000 level, upon which all eyes are fixed.

Price remains in a strong uptrend and price is above all moving averages (which all are in the most bullish position possible).

The Elliott Count drawn (one possible interpretation) shows that price is in a corrective "B" wave up which could give-way to a "C" wave decline to target the \$700 level... but let's not get too far ahead of ourselves until we see some proof one way or the other.

A break above \$1,000 would invalidate a bearish view and a break beneath \$825 would invalidate a bullish view.

Weekly

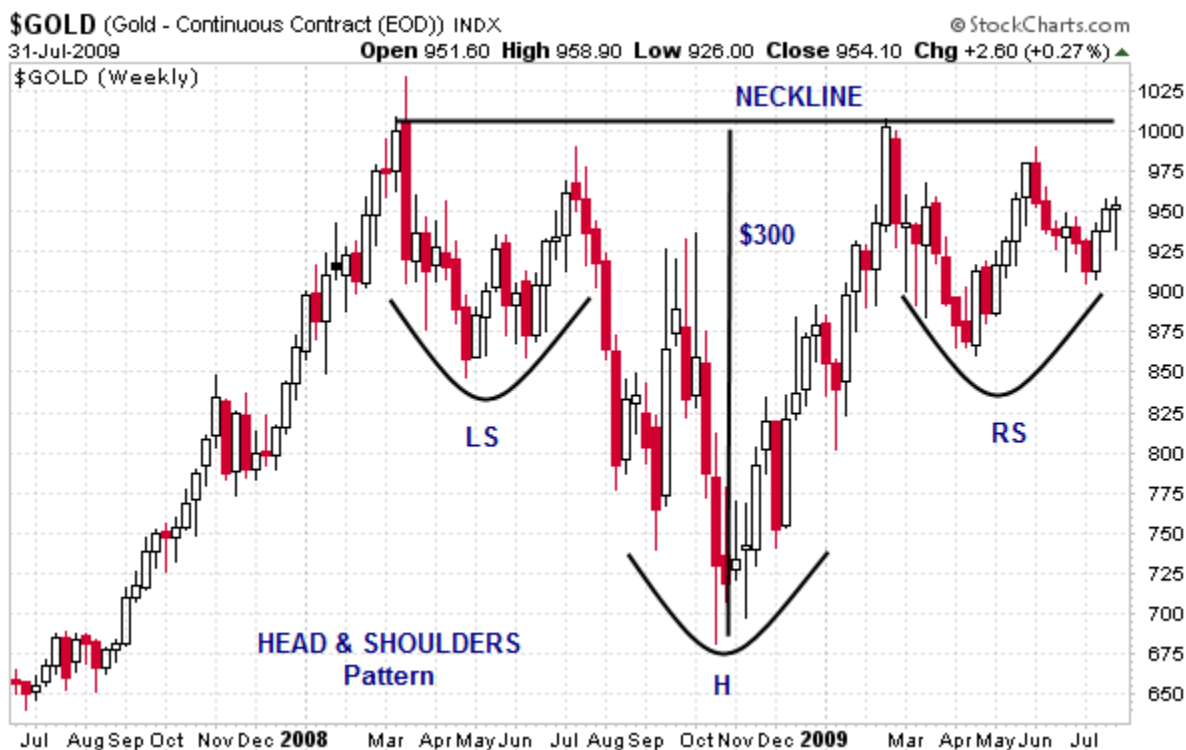
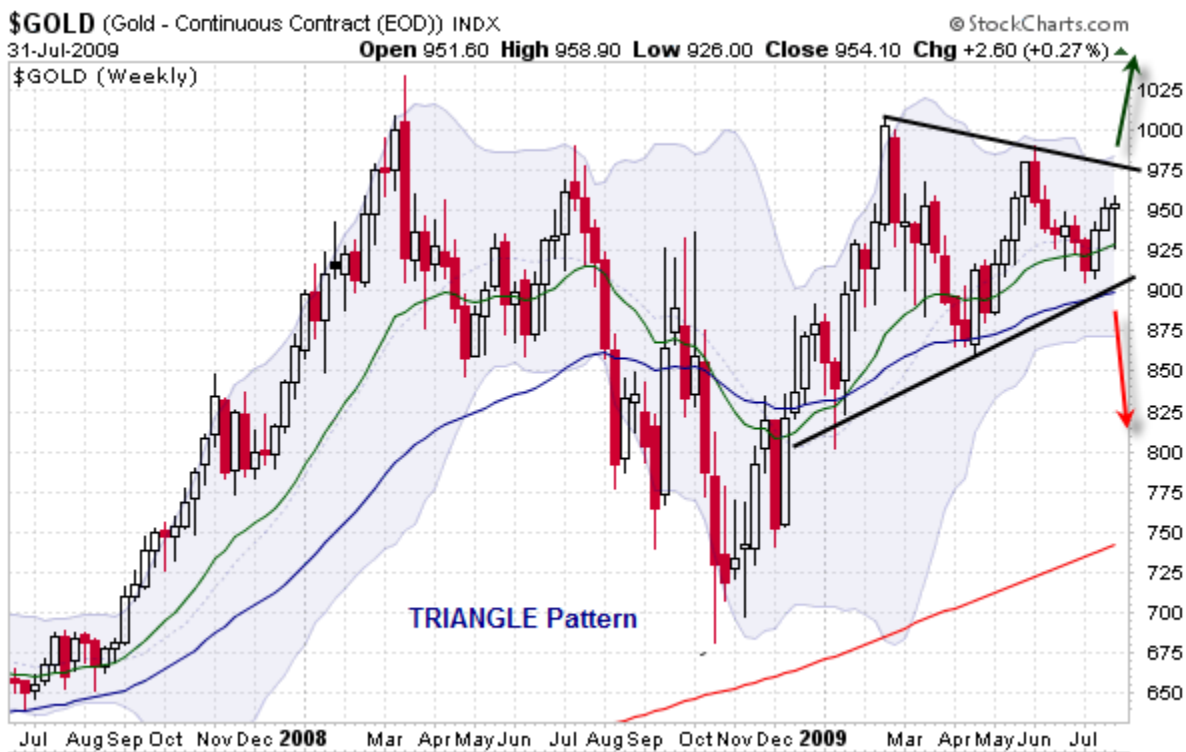


Here we see a more detailed chart with two Fibonacci grids drawn. The critical level to watch is the \$825 level, which reflects a key Fibonacci confluence. Price seems to be respecting the grids drawn off the 2007 lows and 2006 lows - both drawn from the roughly 1,000 highs.

The key take-away from the weekly chart is that price is in a contracting triangle (perhaps symmetrical triangle) with an upper boundary at \$975 and a lower boundary near \$925.

The principle we wish to use is the "Price Alternation" principle, which states that price alternates between periods of range contraction and range expansion.

This means that - although we should not try to predict the 'breakout' - once we see a confirmed price break-out, we should join IN the direction of the breakout (with a stop on the opposite side) because it will likely lead to a trend or momentum move that we can ride for profit. For now, we need to wait for that breakout to join. Only day-traders or nimble swing traders should trade within a confirmed and known consolidation triangle.



I'm showing two possible interpretations for weekly gold prices. The Triangle implies a break either way to target a move of at least \$200 points up or down from the breakout (\$1,150 to the upside or \$750 to the downside).

I'm less confident in the interpretation of the second chart, but others in the technical field are noting its possibility (that of an Inverted Head and Shoulders) so I wanted to present that to you as well. If the Inverted H&S pattern is dominant (price breaks above \$1,000) then we would have a target of \$1,300 to the upside.

Daily



The dominant interpretation from gold comes from the weekly chart, but the daily chart shows a Fibonacci level that is being respected off the 2009 lows to the 2009 highs.

Price recently bounced strongly off the \$930 level which reflected the 38.2% retracement. Price is now challenging the \$960 highs of July after forming a strong swing down which led to a doji off the Fibonacci level to a strong day up (Friday - up 2%).

Still, we are in a consolidation phase, so price movements will be choppy and difficult to trade - long term traders should WAIT until price breaks beneath \$850 or - more favorably - above \$1,000.

Generally, the government would prefer gold not rise above \$1,000, which would break a psychological barrier, and could cause fear in the general public, particularly from some of the headlines that this milestone will trigger (in terms of those calling for hyper-inflation thanks to the 'money printing' policy of the Federal Reserve). It could cause selling in the stock market, which the Government does not want.

Those who advocate a 'deflationary hypothesis' (that the economy is in worse shape than we're being told and that commodity prices will fall as there will be little money for people/businesses to purchase them) act as a counter to the hyper-inflationists. Part of the reason we're seeing a consolidation is due to this 'battle' of the different theses.



This zoomed-in view shows a better look at the current daily triangle.

WTI Crude Oil (\$WTIC)

Monthly



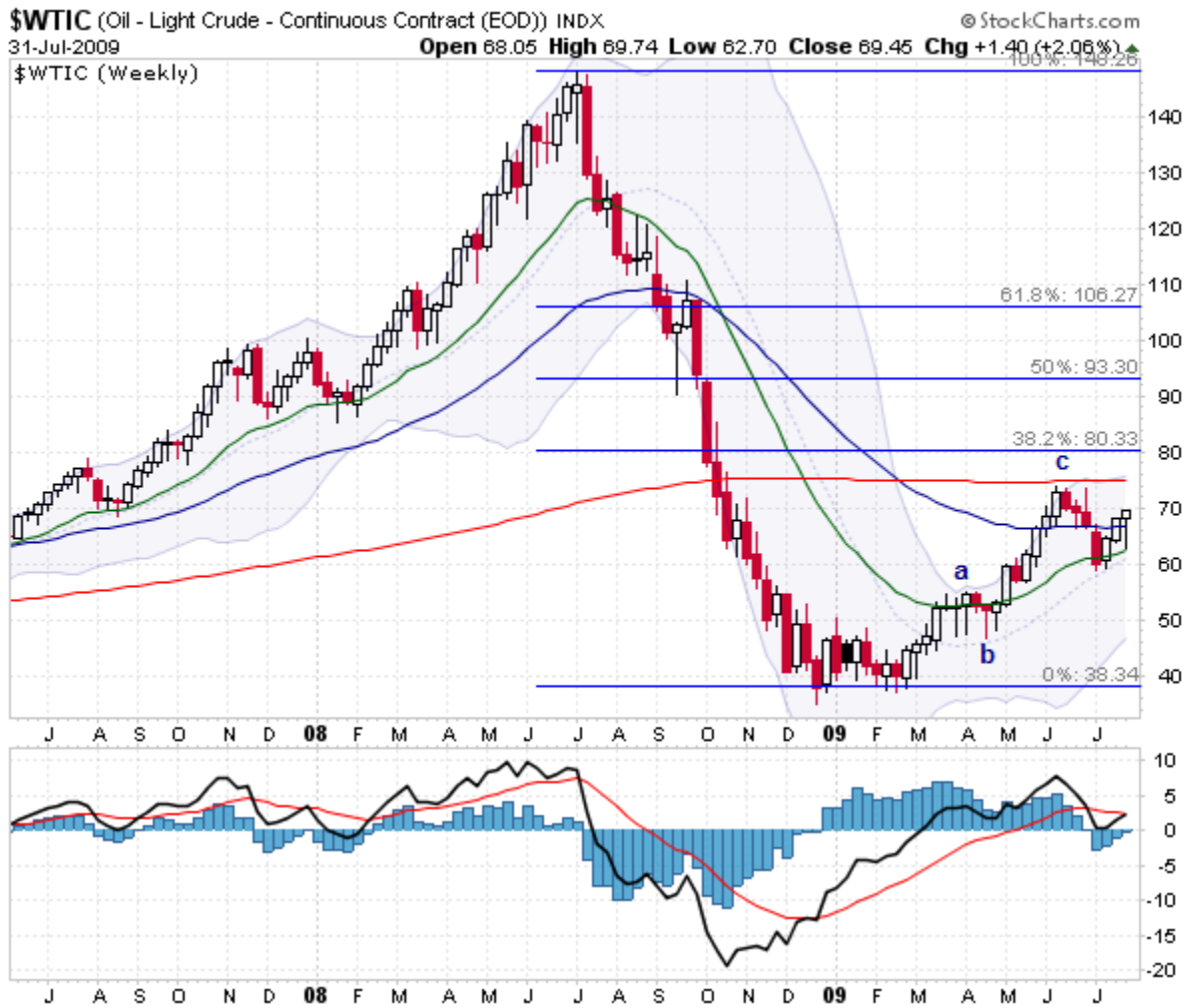
The monthly chart of Crude Oil remains the same.

Price is in a "B" Wave rally up to the \$70/\$75 area (which has long-since served as a target) and we're finding resistance at this level.

The 'hanging man' doji (dragonfly doji) at EMA resistance is now permanent (July has ended) and serves as a significant bearish sell-signal (that would be invalidated with a close above \$75 and especially \$80).

The monthly chart gives us a 'sell signal' until proven otherwise.

Weekly



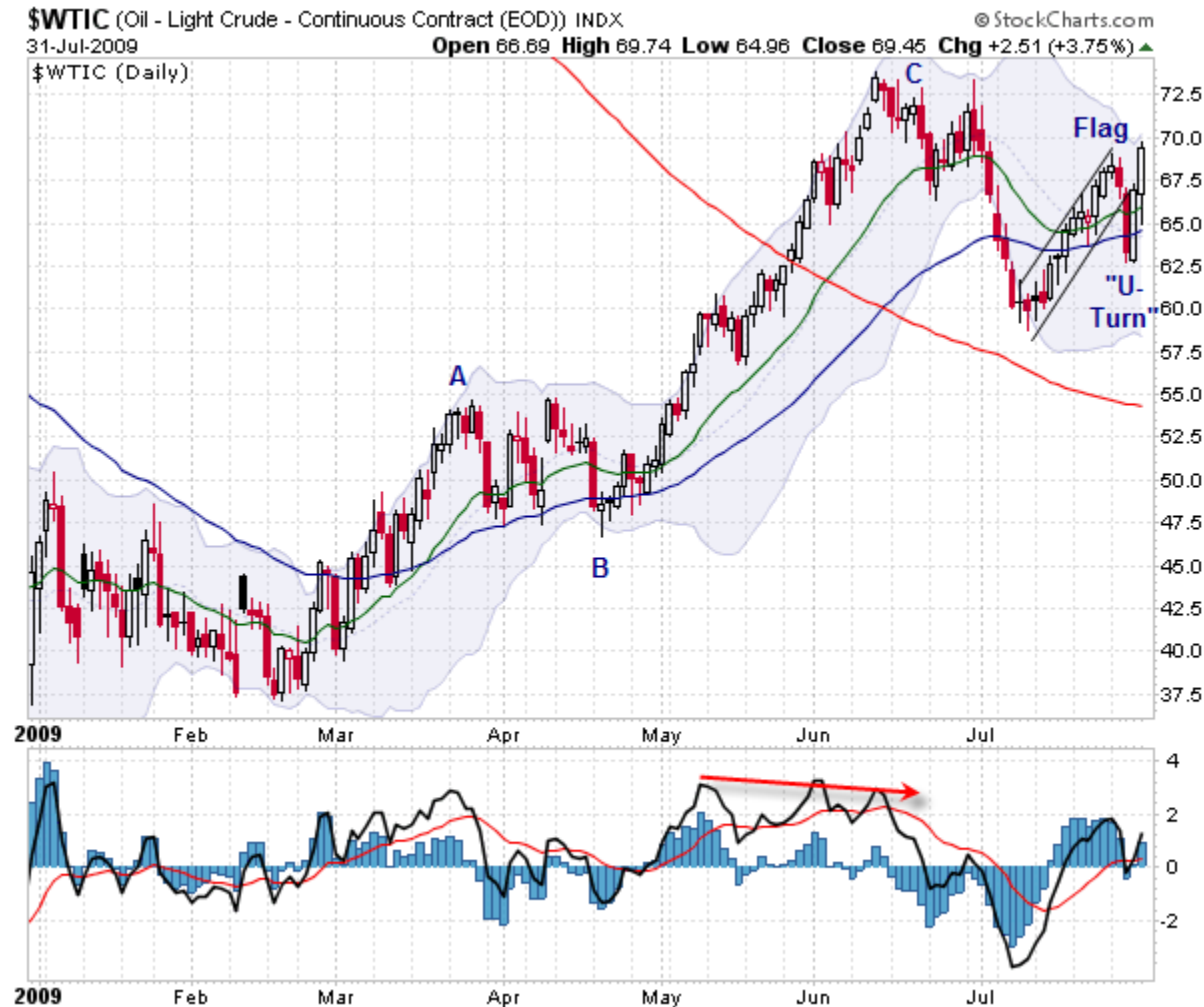
We see the internal structure of the massive collapse in Oil prices that ended in early 2009.

So far, we're seeing an orderly and expected 'correction' (which has taken an "ABC" Corrective rally) into key resistance via the 200 week EMA just under the 38.2% Fibonacci level at \$80.00.

It's possible we have begun the "C" wave down to test the \$40 level, but recall that a price swing up to the \$80 level would not invalidate this view.

We remain bearish crude oil so long as price is under the \$80 threshold with a potential target near \$40.

Daily



Crude (and Gold) surprised a lot of traders Friday (and Thursday) with a massive rally from \$62.50 to \$70.

Until then, price was breaking cleanly down out of a bear flag pattern, with two strongly bearish bars as Wednesday closed. It looked like a "5th wave down" (if you can count the respective waves down from the June highs).

The strength and bullish 'pivot' (or U-Turn) came off a level that was not a specific moving average or Fibonacci support, so that was unusual. The strength of the rally was also unusual, and leads us to believe that a good part of the rally was short-covering from a clean and clear bearish sell signal (as seen on the daily chart) that traders were participating. As price rose unexpectedly, traders (short) began to cover, which drove the price higher.

The government is also cracking down sharply on crude oil speculators, many of whom appear to be short as price was falling, and perhaps a portion of Thursday & Friday's action was speculators covering in the heat of this news.

Either way, the two power-bars were officially counter-trend and inflected off no logical/known support, so perhaps it's best to stand aside as this fundamental or sentimental news force plays itself out and the patterns become clearer.

Until proven otherwise (a close above \$75), the structure remains bearish.

US Dollar Index (\$USD)

Monthly



The Monthly Dollar chart remains in a persistent downtrend, and price is beneath all EMAs, and the EMAs are in the most bearish orientation possible.

Let's look down to the weekly chart for additional clues.

Weekly



The Elliott Count I've been showing on the Dollar appears to remain the dominant count, in that after the retracement up in fractal wave iv (4), then we expected price to swing down to challenge the \$78 level for support in a wave v fractal move - this is occurring.

For the moment, price sits at a CRITICAL inflection point. The 61.8% Fibonacci retracement sits at \$78.30 (off the 2008 lows to the 2009 highs) and price closed at \$78.29. In terms of Elliott Wave, price has completely fulfilled the requirements for the "C" wave (five-wave internal fractal) to be complete, though it would end on a truncated 5th wave (no problem). The fact that this has happened as price tests the 61.8% 'final' Fibonacci retracement leads to the possibility that we could be seeing a critical turning point here in the Dollar Index to the upside.

A stop would be placed perhaps under \$78 in the event that support is broken and you're caught long anticipating a reversal.

A break beneath \$78 would invalidate this bullishness and would let us know that wave v had a bit more to go on the downside, and would almost certainly target \$77 if not lower (perhaps \$76).

Watch closely the dollar index this week to see if we bounce above this absolutely critical level (bearish for stocks) or crack through it (bullish for stocks).

Daily



The daily chart shows a more detailed Elliott Wave count. Again, price has fulfilled the requirements 'technically' for a 5th wave to be complete... though normally we would expect a 5th wave (in this case) to make a new low. Price could also be forming a double-bottom here.

Either way, price is at a critical level upon which a break beneath or an inflection up will give us additional clues.

Let's review quickly the intermarket charts as they stand now:

Bonds at possible support bouncing higher;

Stocks grossly overextended at critical Fibonacci and prior high resistance

Gold trapped in a consolidation pattern, waiting for an expansion move up or down (at any moment)

Crude seeming to be in a down-structure, though hitting resistance on an unexpected swing up

Dollar Index sitting at critical support

Markets are finely balanced, and it won't take much to get a clearer picture. Be prepared to put on some swing or even position trades in the week ahead if these inflections hold - it could set the stage for the rest of August or beyond.

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