

AFRAID to **TRADE**

overcoming stock market fears *with* Corey Rosenbloom



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes:

Notes rose last week, forming a bullish picture on the daily chart and into resistance on the weekly. The bias is up until proven otherwise.

S&P 500:

No major change on the S&P 500 - the bias is bearish unless a close above 1,030 occurs - price is hovering at key resistance with non-confirmations of new highs. Still, any upward movement would trigger stop-losses from the bears and would create a momentum move up.

Gold:

The BIG story this week was gold's massive breakout of the often mentioned triangle formation. The price did not break \$1,000, which is the last line in the sand - a break above would likely trigger a strong impulse move up, though until then, we need to see how the \$1,000 level holds.

Crude Oil:

Crude continues to show overhead resistance at the \$75 level, so a downward bias is preferred, though a close above \$75 would invalidate that view and a close above \$80 would trigger a bullish stance. Weakness here would set a target of \$60 to play for.

US Dollar Index:

No change in the dollar - the higher timeframe trends are all down, but there is strong bullish hope at the \$77/\$78 level where an upward reversal is likely/expected. Failure for bulls to push price higher here would set-up a test of the recent lows so bulls must defend \$77 and they have a good chance at doing so.

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.

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

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

Monthly



Notes are still on a tentative buy signal, provided they hold above \$117 in the near future, as price has bounced off the Fibonacci and 50 month EMA at the \$114.50 level, which would be expected to be intermediate support. There is a confluence support area also at \$117 which reflects the 50% Fibonacci price and the 20 EMA as seen above.

Pulling the perspective back, price remains in a confirmed uptrend as evidenced by higher highs and higher lows, as well as a positive structure to the dominant EMAs (bullish).

A price break above \$120 would strongly confirm a bullish bias and could send prices as high as \$125, though a break below \$114 would trigger an intermediate sell signal.

Weekly



We see that price is having slight difficulty overcoming the confluence of the 50 and 20 EMA on the weekly frame - both situated at \$118 and \$118.50 - the averages themselves are in a slightly bearish to neutral orientation and have proven to hold resistance on the late June swing.

We see that price formed a 'double bottom' as noted in prior reports at the \$114 level (an excellent aggressive buy signal - complete with positive divergence) and are continuing higher as a result of that buy signal.

If buyers can push prices above \$119, then a test of \$120 would seem imminent, and any solid close above \$120 would trigger a confirmation buy signal and send prices higher - presumably which would occur should the stock and crude oil markets find respective resistance and begin declining (money would rotate in part into bonds/notes).

For now, watch \$118/\$119 as resistance with a bullish bias, and \$114 as critical (line in the sand) support.

Daily



The daily chart has flipped bullish, in that price has risen above the 20 and 50 day EMAs and they have themselves crossed over bullishly - price even triggered a "Cradle Trade" that preceded the strong run-up in price this week (that was countered/retraced in part by a weak showing Friday).

We see that the \$117/\$118 level on this frame should be expected to hold as support (we observe support/resistance levels on each timeframe for a holistic picture) - and a break beneath those would likely trigger a sell signal down to the \$115 area.

Again, there's a bullish bias to note/bond prices here, but we'd like to see a clean break of \$119 and especially \$120 for confirmation.

US S&P 500 (\$SPX)

Monthly



I'm highlighting the volume bars here because we need to see that volume has been trailing off solidly all the way through the price rise off the March 2009 lows - that's a vicious non-confirmation, though tempered by the fact that volume as a whole trails off during the summer months.

Price has rallied into overhead resistance via a prior support low from 2004 and the falling 20 month EMA along with - as seen in the weekly chart - the 38.2% Fibonacci retracement of the entire bear market. Odds are this level will hold as resistance... but as has been evidenced the last few weeks, the bulls seem to have some sort of relentless strength.

Weekly



I've labeled the dominant Elliott Wave Count, which seems to call for a swing down over time to test the 666 lows yet again into the future, though the 4th wave is not required to end here. We could still see a price pulse to 1,100, but that is becoming harder to argue due to the various non-confirmations and overhead resistance levels... but again, bulls have overcome prior sell signals, and the bearish stop-losses have only added fuel to the upward fire.

We see a negative volume and momentum divergence on the current price highs of 1,030, so we need to keep watching this for follow-through to the downside. It's so hard to find a place to short because virtually any pullback has so far been met with fresh buying, again triggering out stop-losses of the sellers. Structurally, watch the 20 and 50 EMAs - at 950 and 970 - if bulls can sustain price here and the EMAs cross bullishly, it could be a major deal which would draw in more buyers as a result. Let's drop to the daily chart for more information.

Daily:



We see the entire move for 2009 so far and the dominant Fibonacci grid to the downside ASSUMING the 1,030 levels are the highs - these would all be levels to watch for bounces/targets/support on any swing down. Note again the roughly 5 dojis in a row (labeled) that formed at the recent price highs, which serve as a glaring non-confirmation of the highs, along with the volume divergence and negative momentum divergence. Using classic technical analysis, one would likely find a short-sale irresistible at these levels (with a stop-loss perhaps above 1,040 or 1,050 and minimum target 900 if not larger for an intermediate trade) but I caution you that the bulls have thwarted each and every sell-signal on the way up, so the 'old rules' are a little bent in 2009 in part due to the massive injection of liquidity into the capital markets which in part overrules the technicals (chartists) and quants (algorithmic traders).

To me, it looks like price is forming a very large arc formation ... or perhaps a massive head and shoulders formation (expect a mirror image fold-back from here if so) but it may be too early to call that. Without a doubt, a break to new

2009 highs would be bullish - trigger even more short-sale stop-losses and force a momentum move up to test 1,100 if not 1,120... though this is a reduced possibility. Keep in mind that when the opposite outcome happens than is widely expected, price creates a larger-than -expected/forecast move in the opposite direction.

Case in point, when so many people were discussing May to July's Head and Shoulders pattern, price confirmed a break of the pattern, trigger short... but immediately price surged without stopping as all who were short were forced to cover.

The graph below reflects most of that "how could this happen?" rally that resulted from the broken head and shoulders.



This is the recent arc formation which should be dominant, and the levels to watch. A break beneath 980 would trigger an "open air" trade lower, though a break above 1,040 would trigger a momentum move up as a result of bloodied bears covering that you could scalp as a quick and easy profit.

Gold

Monthly



The dominant story in the media was gold's breakout this week - let's take a few perspectives of this move.

The above Elliott Wave count appears to be the dominant count, with at least two alternate counts. This count assumes we are in a corrective "B" Wave up which - upon ending - would issue in a "C" wave down to retest the \$700 level in the upcoming months or into 2010.

Everyone knows that the \$1,000 level is critical for gold - a break solidly above that 'psychological' barrier will almost certainly trigger a momentum impulse higher as shorts cover and new longs eagerly and aggressively buy strength... or as investors 'panic' into gold as a store of safety. We're not there yet, and remember that markets almost always have a tendency to confound and confuse (and thwart) the majority... and the majority view is almost overwhelmingly bullish gold... with some seeing a strong, runaway move up as a certainty/matter of time (aka sentiment is very high).

Play gold one swing at a time and don't get too caught up in sentiment - stay objective and trade by price levels instead of baises.

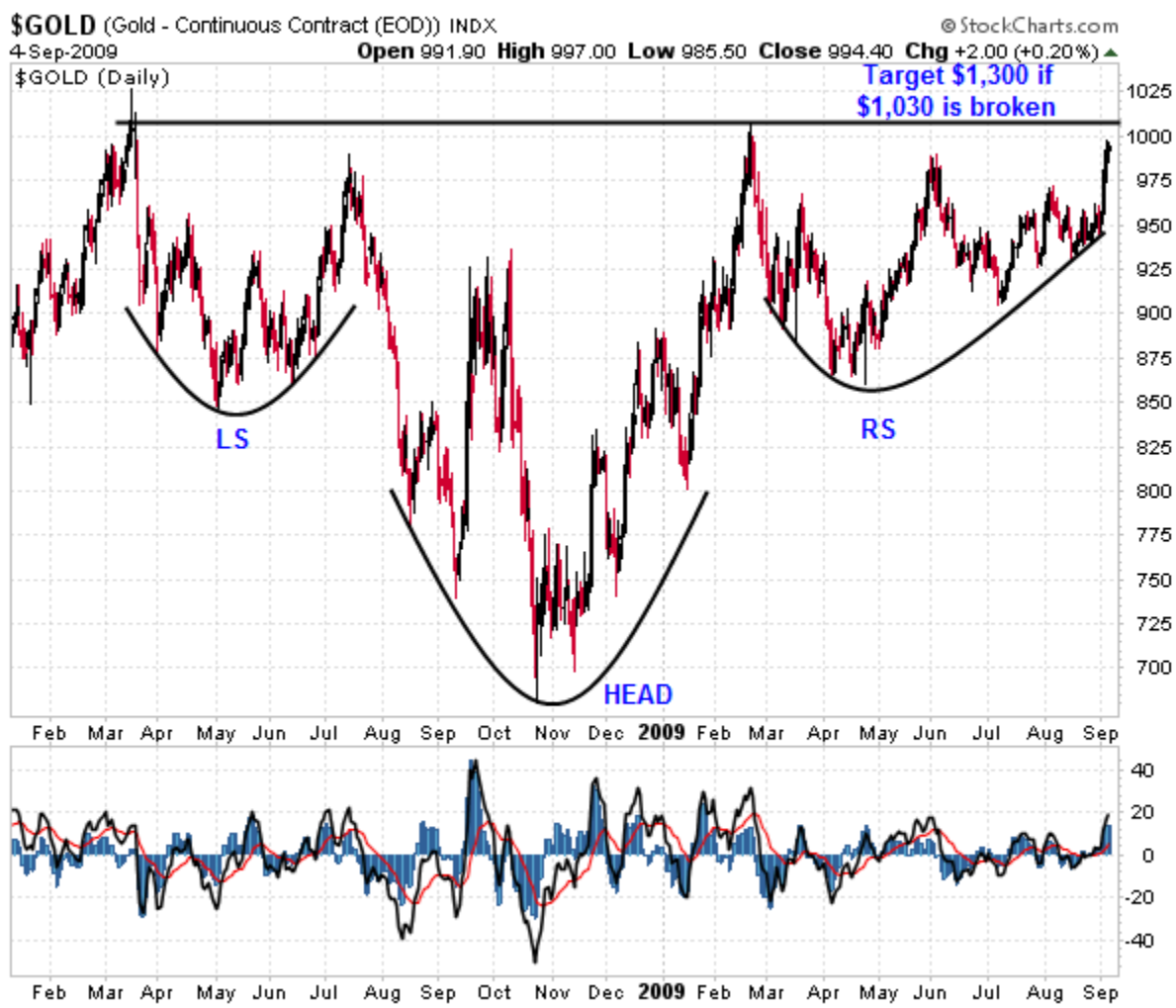
Weekly



On the weekly frame, we see that gold has indeed broken the dominant triangle I have been highlighting for the last few weeks (in the report). The scalp play was to get long upon a break of the triangle, which occurred on a gap (at least in GLD) and play for \$1,000 as an expected 'scalp' or 'swing' target and then exit to see what price would do at this level.

I would recommend waiting to see how price responds to the \$1,000 level before putting on an intermediate time trade, because we could get a 'sucker's rally' up and then crush the longs which would create a strong momentum move down. A clean break of \$1,030 would probably be enough for most traders on the sideline to go ahead and join long, creating further bullish momentum and give us the fuel to reach the classic triangle upside target near \$1,200.

There is another dominant pattern which I've mentioned before, and a close above \$1,030 could trigger this as the dominant pattern:



This is the updated Inverse "Head and Shoulders" that some analysts are touting.

Classic technical analysis teaches us to take the distance of the head to the neckline (\$700 to \$1000) and then project that distance upwards on any confirmed break of the neckline ($\$1,000 + \$300 = \$1,300$).

My only reservations are that - generally - an inverse head and shoulders comes after an extended price decline... it is a reversal pattern. This pattern formed at fresh highs for gold, and would argue that the 2008 - present move was a mere consolidation in an uptrend... in other words, you can't reverse an uptrend with a bullish reversal.

Second, the right shoulder formed a clean triangle and is not symmetrical to the left shoulder. That's not a big deal, but it does deter us from a classic pattern.

Still, whether a triangle or head and shoulders, any break to new highs would likely trigger a massive price expansion upwards that you would want to trade/invest (with a stop under \$1,000 on a break).



We're not there yet... despite the bullish fervor.

We cleanly and clearly broke the internal triangle, which led for a quick scalp as expected and forecast to the \$1,000 level.

However, to get seriously bullish gold, we'd need to break the external triangle or upper trendline as shown above.

Daily



The daily chart shows the expected price surge that occurred on any break above the upper or lower trendlines (as based on the price expansion/contraction principle).

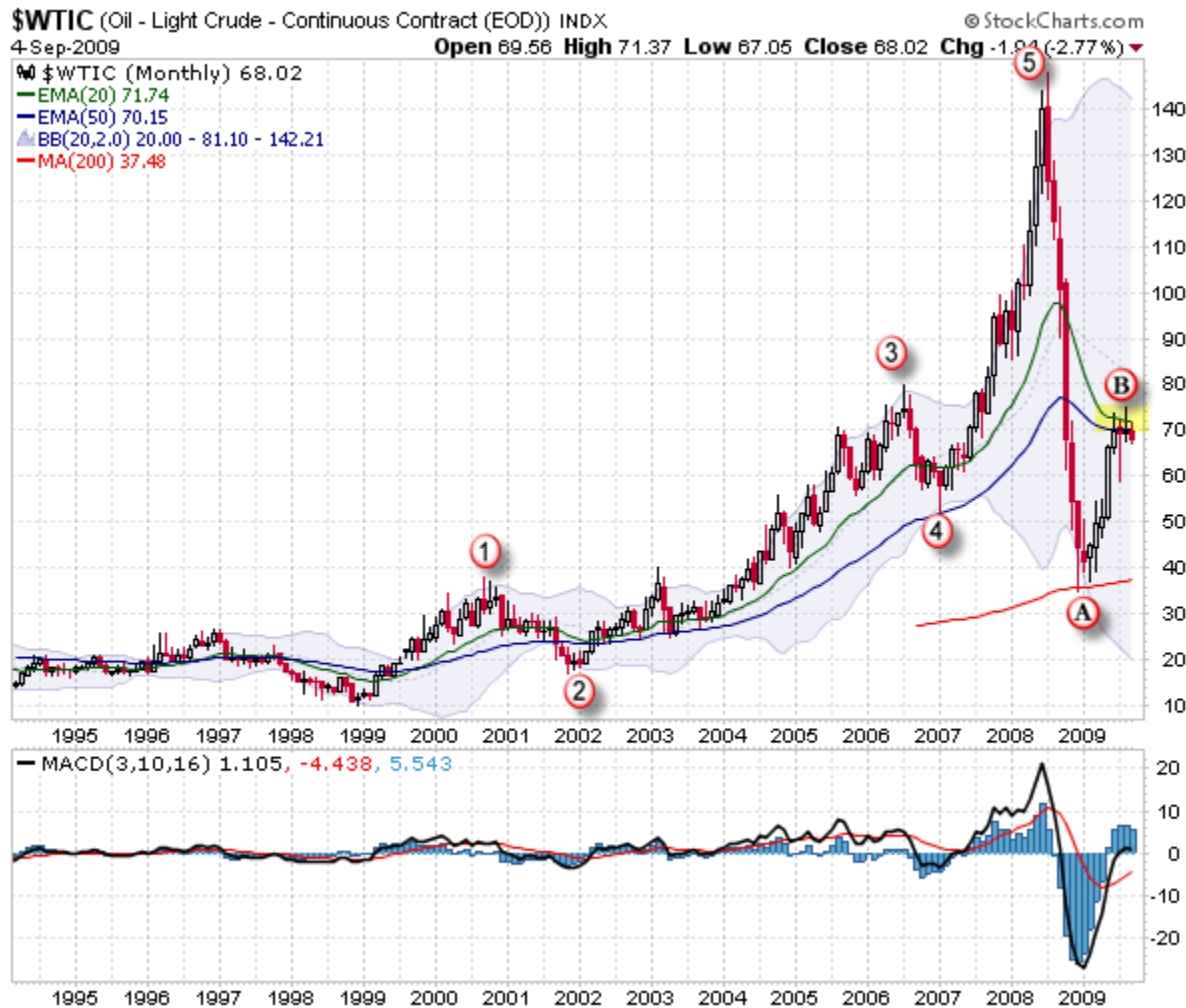
Momentum also broke the triangle along with price in a bullish confirmation.

Should price find resistance at the \$1,000 level, it would shock and disappoint tens of thousands if not hundreds of thousands of investors - many of which have stop-losses under \$930 or \$900. In the event that price unexpectedly fails to hold higher levels and swings lower to these levels, you need to be prepared to scalp short and profit from these stop-losses being triggered.

Remember, always be prepared - don't get carried away by bias and watch the price closely for signs of strength or weakness (confirmations or non-confirms).

WTI Crude Oil (\$WTIC)

Monthly



No change at all in monthly crude oil - unless we get a solid close above \$80, then the Elliott Count shown above is dominant, in that we're likely ending a "B" Wave counter-move up and are set to begin a "C" wave down that could challenge - over time - the \$40 level.

The monthly structure shows overhead EMA (and Fibonacci) resistance, so odds favor a down move (stop-losses above \$80).

Weekly



We can fine-tune our expected level of resistance on the weekly chart, which comes in first at the 200 week SMA at \$75 (price can't seem overcome this level yet) and then above that is the 38.2% Fibonacci retracement at \$78. The upper weekly Bollinger Bands also provide resistance - so the odds overwhelmingly favor a move down off these levels, but do be sure to watch the 20 and 50 week EMAs which are situated just below price at the \$65 level.

A negative momentum divergence has set-in, which fails to confirm the recent fresh 2009 highs.

Daily



The daily chart shows a more bearish picture than the weekly, as price has broken beneath the 20 and 50 EMAs... though we have formed a tri-star doji in similar fashion to the S&P 500 in July's 'busted' pattern. These three daily dojis are likely the result of price supporting on the weekly 50 EMA as shown in the previous chart, so we need to wait to see which EMA will hold before taking a confident position - though again odds seem to favor the downside.

Price could try a support rally here or could break solidly to target \$60 on any whiff of a downside move into next week.

Again, a negative momentum divergence has formed on the daily chart into the marginal fresh 2009 highs which formed with bearish tails (upper shadows) which also failed to confirm the higher prices.

US Dollar Index (\$USD)

Monthly



The US Dollar Index remains to sit on the edge of a cliff - for lack of a better term.

The structure has not changed since last week, and the expectation is still for a possible inflection (reversal) move up off strong support.

The longer price sits at 'critical' support, the less likely the support level is to hold - it would indicate that sellers are "eating up" (or combating) the demand (buyers) are giving in trying to defend these levels.

For now, we would expect support to hold, but realize that \$78 and \$77 reflect ... for lack of a better term ... the last line of defense for dollar bulls. Failure here would almost certainly send the price down to challenge the \$71 level again, which would result in surging crude oil and perhaps gold prices as well (along with a rising stock market).

Weekly



Here, we see \$78 reflects the 61.8% Fibonacci retracement as shown.

Price has formed a downward impulse into this support zone on a positive weekly momentum divergence, shifting the odds in favor of some sort of bullish 'retracement' or impulse move up either of short term or perhaps intermediate term degree (meaning an excellent place to consider a trade with a tight stop under \$77 and target \$80 or beyond depending on your aggression level).

Recall that the S&P 500 stands at expected resistance; Bonds stand at expected support; Crude Hovers beneath expected resistance; and the Dollar hovers at expected support. These levels are all that stand in the way of a continuation of prior strong trends in all markets, so a failure for all these levels to hold here would trigger continuations of current trends.

For now, markets are pausing, as traders/investors are forced to make decisions at these critical turning points.

Daily



Continuing the thought, we see a 5-wave progression to the downside (fractal) in the Dollar, which adds weight to the "We Suspect Price to Support" argument (complete with a double bottom as in bonds).

The reversal has NOT triggered yet, and we're in the neutral to bullish zone. A price break above the 50 day EMA at \$79 would be enough to believe that odds solidly favored a price reversal up, though aggressive traders can go ahead and pick up a bullish position here with a very tight stop under \$77 in advance of a possible reversal.

A triple-swing positive momentum divergence has formed on the dollar index, which could precede a bigger price reversal up. Given that sentiment is overwhelmingly bearish on the dollar, any upward move would be received with confusion and frustration (and stop-losses) for those who can see no other direction for the dollar but down.

As mentioned last week, the trend picture/technical structure of the dollar is bearish on all timeframes in terms of swing highs/lows and the EMA structure (and price being beneath all EMAs). If dollar bulls cannot hold support at \$77 or \$78, then the higher timeframes will crush the dollar lower... but for now, let's see if a strong bullish move can form here.

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