

AFRAID to **TRADE**

overcoming stock market fears *with* Corey Rosenbloom



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: The big move this week came in bond/note prices, with a stunning drop to the downside as yields increased. Price broke the rising trendlines, and now resembles a large-scale bear flag which forecasts lower prices (and higher yields) should the pattern complete next year. Watch support and if support is broken, target lower levels. I focus extra commentary this week on bonds/notes.

S&P 500: On a holiday week and very low volume, the S&P 500 crept above the critical 1,121 level, 'popping' the stops of the short-sellers. We need to watch very closely to know if this is a true breakout (if so, we should see higher volume next week) or a vicious bull trap that was triggered with low volume. Otherwise, as long as price is above 1,121, odds favor a move to 1,150 at a minimum and to 1,220 and beyond. COT data remain positive.

Gold: Gold found support at the \$1,050 key level, so watch this for clues as to what the next move ahead is for the precious metal.

Crude Oil: Like bonds, crude oil surprised traders by shattering overhead resistance and also drawing out the stop-losses of the short-sellers. We're still in a trading range, so watch for any move above \$81.

US Dollar Index: The dollar rallied and then pulled back slightly into the end of the week. Price hit an upside target, so watch the resistance levels highlighted and the terminology between "retracement" and "reversal."

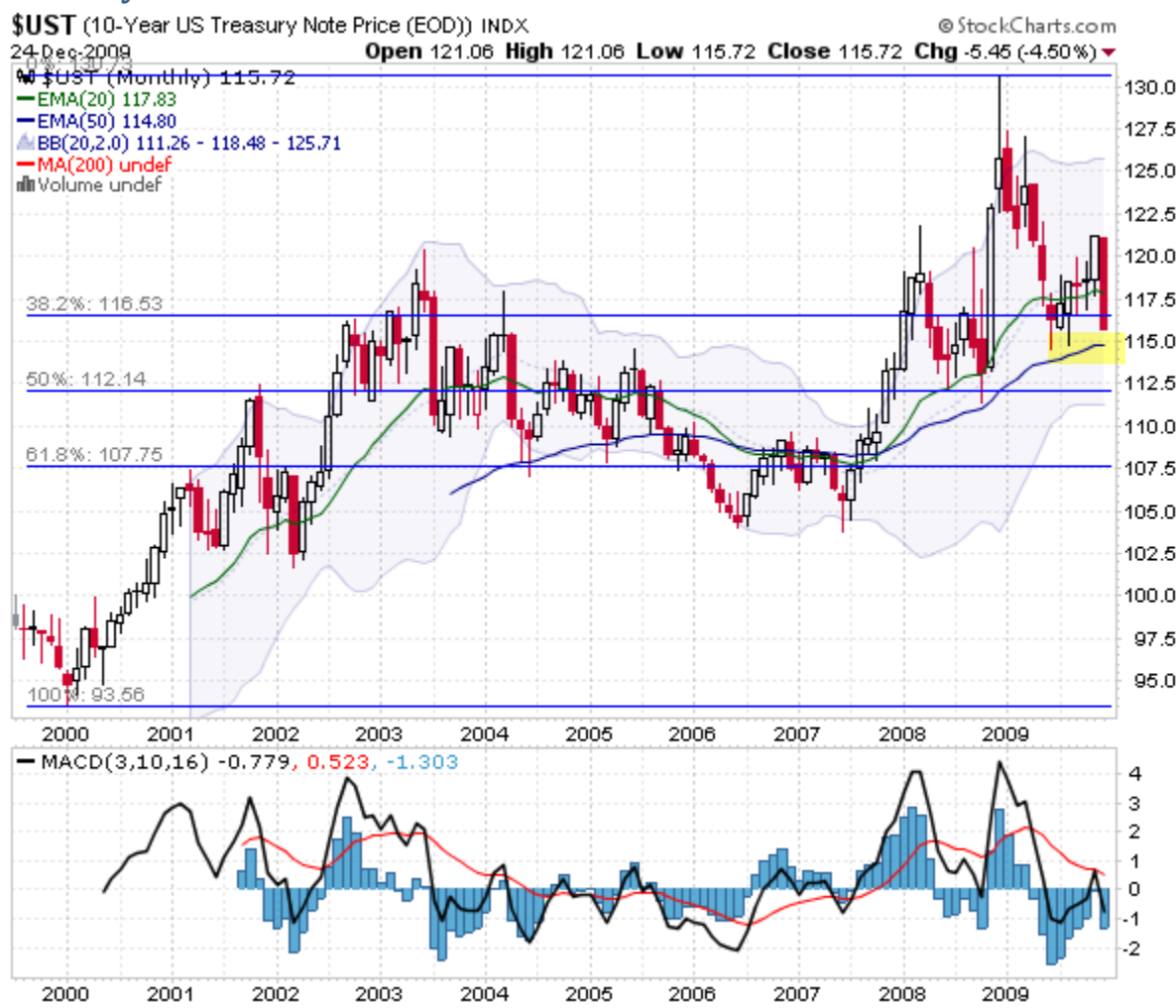
Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

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



The Treasury Markets were the focus of the major volatility/activity this week, and most people missed the move completely due to the holiday week. It serves as a lesson why watching trendlines and key price levels is so important - when key levels are broken, and especially in the unexpected direction, price can move very quickly as investors are trapped on the wrong side of a move. That's why I focus so much on highlighting boundaries and noting expectations in these reports - you place stops beyond boundaries because those zones are locations that price should 'not' go, and if so, then odds are price will continue to move in that direction, allowing for a repositioning.

We'll discuss this more on the lower timeframes - and dedicate more coverage to treasuries this week.

For the weekly frame, watch \$114.80 for support from the 50 month EMA, and if broken, then target a move back to \$112.15 at a minimum (prior support and 50% Fibonacci Retracement).

Otherwise, watch the lower timeframes for positioning or guidance.

Weekly



The possibility now exists that a large-scale bear flag is triggering an entry short (or exit) on the weekly frame. The recent multi-month rally took on the characteristics of a flag, though I was calling it a 'rising rectangle.' This is an example of how watching dominant trendlines and being neutral while price is in a trading range is so important. While we think we can predict the direction in which price will break from a consolidation pattern, there are many times our expectations are wrong, which can lead to sudden losses. The edge (trade positioning/set-up) comes from waiting once established trendlines are broken and then entering as one side of the market is thrown off balance and forced to stop-out (while the other side positions aggressively on a break... in this case, the buyers stopped out while the bond bears became aggressive).

Price shattered the expected support of the weekly converging EMAs (not as important in a trading range, as I've been mentioning) but more importantly, price broke the lower trendline. The short-term target is now \$114.40, though a move down to \$110.00 would officially fulfill the target of the larger bear flag over the next few months.

If the stock market continues to rise, bonds will continue to fall and would be expected to meet these targets so position accordingly. Watch for any sign of price support at the \$114.50 level, and if price trades under \$114.00, look for a move down to \$110.00 to come about if the stock market breaks to the upside and continues its rally.



I'm showing the weekly chart of the TLT (iShares 20+ Year Bond ETF), which you can use to trade, hedge, or speculate with bonds using the index \$UST or \$USB as I show in the reports.

You would treat TLT like a stock or ETF, only that you are paid regular dividends which are like the interest payments you would receive if you owned the bond.

Price has broken the \$91.34 61.8% retracement, and is set most likely to test the \$88.00 prior support level.

Any move under \$88.00 targets the \$85.00 level (prior support).

Daily



The daily chart shows the rising rectangle that was a corrective up-move instead of an impulsive up move. This throws the structure of bonds to the downside and places the balance of supply and demand in favor of the sellers/bears.

Watch for a move to test prior support at \$114.50, and any move under \$114.50 targets the \$110.00 level.

Remember, we look at price boundaries to make our decisions as whether or not to enter (yes, if near a boundary with a tight stop), stay long if long (yes if above key levels), and exit (yes, if boundaries are broken). Use this logic for all charts in these reports and pay particular attention to price/trend structure in conjunction with key levels.

When these levels are broken, odds favor a range expansion move.

Again, if stocks continue to break to the upside, bonds will continue to fall.

Any reversal back to the downside in stocks will provide a floor or support under bond prices and send them retracing higher - even if you don't trade bonds, it is very important to watch this market for clues in the stock market and what bond traders/investors are 'saying' about the outlook and expectations for the economy and especially inflation.



This is a comparison chart of the 30 year Treasury Note as a reference. When looking at Treasuries, remember that they exist in different denominations, and it's important to study the charts of the shorter term (Bills - less than 2 years), intermediate term (which is what I show here - Notes at 10 Years), and long term (Bonds - 30 years like above). The 10-year note is a fair trade-off between the short and long-term bond. You're aware of this if you trade or invest in bonds, but for those who are mainly stock or futures traders, realize that Treasuries are not just "bonds" and I show the 10-Year as a benchmark for analysis of how "bonds" in general are relating to the other markets - and if there are hedging or trading opportunities. Remember, bonds and stocks are generally inverse - and bond prices generally move inverse to crude oil and gold... and in the same direction (generally) with the US Dollar Index... though that relationship is not solid.

As seen above, 30-year Bonds also formed a similar trading range as did the 10-Year price and then broke to the downside simultaneously.

This means that yields are rising sharply, which underscores potential strength in the economy (which is bullish for stocks... if higher yields are tied to strengthening economic/GDP/Employment conditions and NOT rampant inflation in the future). Bonds are sensitive to inflationary concerns - falling on any sign of higher rates (from the Fed) or inflation (as in Crude and Gold, food, etc).

For a 'fundamental' perspective on the recent sudden move, see the following sources:

"Yield Curve at its Steepest Point Ever" - <http://www.cnbc.com/id/34514106/>

and

"Does Bond Market Signal Economic Boom or Has the Fed Warped the Message?"

<http://finance.yahoo.com/tech-ticker/does-bond-market-signal-economic-boom-or-has-the-fed-warped-the-message-395426.html>



Again, we see a closer look at the TLT exchange traded fund.

Price appears to be forming a head and shoulders pattern, and a bear flag has met its target at the \$90.00 per share level.

We could see a support bounce off the \$89.00 level, but any move under \$89 sets up an immediate target to play for \$86, and any move under \$86 (or \$85 - see weekly TLT chart) would argue for lower prices to test prior support levels like the \$75 level.

US S&P 500 (\$SPX)

Monthly



There is no major change on the SP500 Monthly structure from last week, only that price is 3 points above the critical 1,121 resistance level - the week ahead will be critical in determining whether this is a tricky 'false break' (bull trap) or "the real thing" so be very much on guard if bullish or bearish next week. Any move above 1,125 would imply that price has moved beyond 'trap' status, particularly if we see higher volume early next week, which would make the next target 1,150 (50 EMA), and then any move above 1,150 would target 1,230 (61.8% Fibonacci). If this is a true breakout, price will move higher quickly. Otherwise, look to trade a quick move down off the current resistance level as seen on lower frames.

Weekly



The Weekly Chart gives us the best glimpse into where the boundaries are and what to expect as we move into 2010. If price maintains a break above 1,121, THEN play for 1,150 at a minimum and then position long (or stay long) above 1,150 to play for 1,230.

Otherwise, short or stand aside if price moves back under 1,000, and trade short on any move under 1,080. No one can say with certainty which outcome will happen - particularly as end-of-year volume remains light, so that's why you must be prepared to trade or position for either outcome at the 1,121 level. Making money long-term is not about perfect accuracy, but knowing key levels and acting appropriately at those levels.

Keep in mind, there is chart 'open air' above 1,150 to the 1,230 area, so you would want to take advantage of that move should price continue higher.

Daily:



We see an upward sloping channel consolidation phase, with price being near the upper boundary of the consolidation pattern. Price closed at 1,126, which is right at the 'threshold' of 1,125 to give the market room to shake out in the event this break (on very low holiday volume) is indeed a bull trap. Monday or Tuesday next week should give us a clue as to what to expect, though it's quite possible the large funds will do whatever it takes to hold up the market (not sell shares) so they can close out 2009 with a strong return for clients in their portfolios. We could see selling and a down move early in 2010, but for now, the trend remains up despite negative volume and momentum divergences.

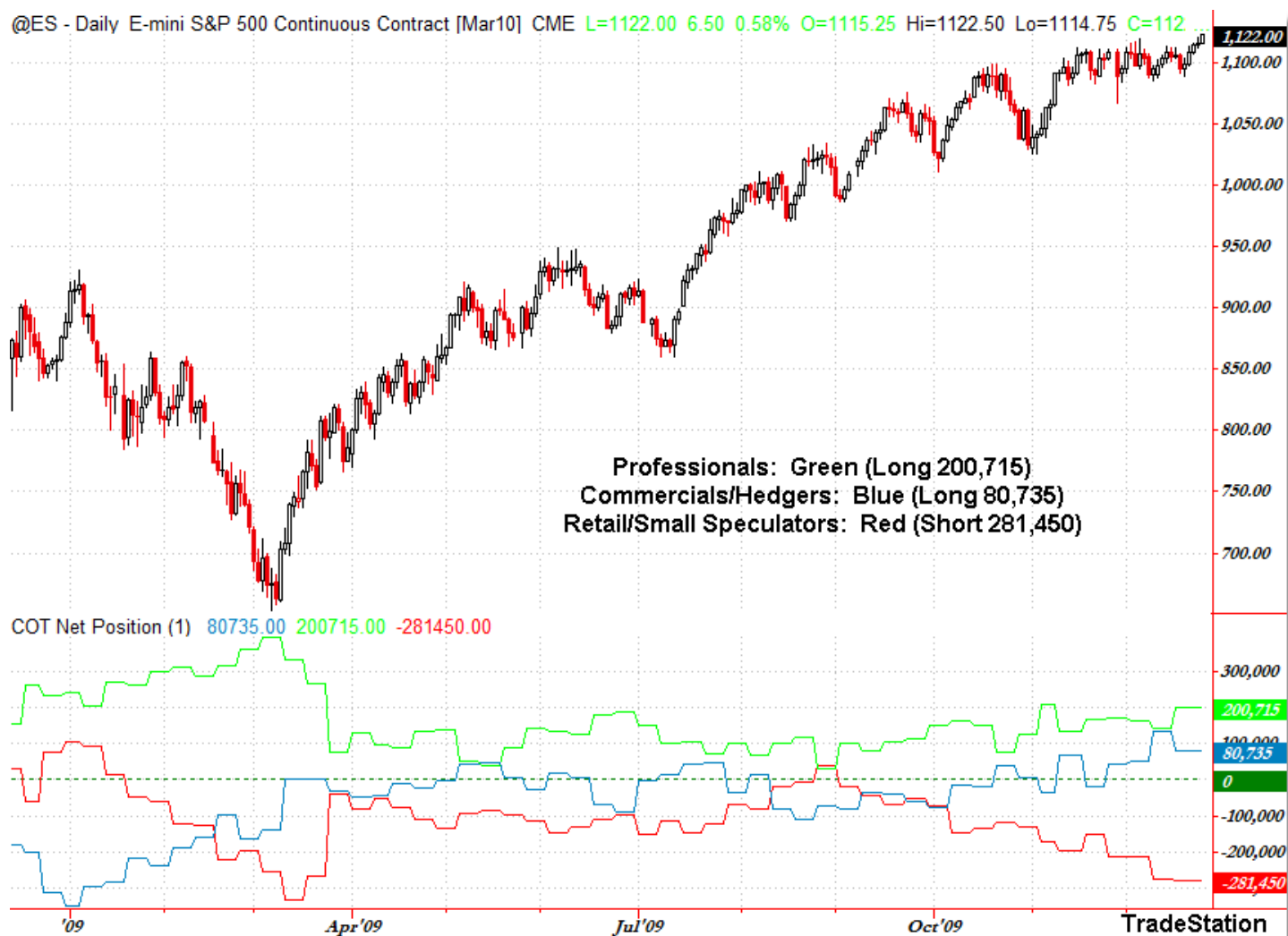


A "zoomed in" view takes us inside the recent rectangle that has formed since mid-November, which has led to an upside breakout (temporarily) in price.

Continue watching levels closely to see if volume returns and price truly breaks out at this level (that is, more buyers enter the market/buy shares) or if this rally was simply a vicious and calculated 'short squeeze,' meaning the new highs were made by conservative short-sellers (bears) with tight stops above 1,121. If so, then the market will fall next week and into early 2010.



While the break higher on the S&P 500 looks minimal, the break on the NASDAQ and Russell 2000 (not shown) do seem to indicate this is a true breakout. It might pay to be skeptical here to wait for proof of a break, though aggressive traders would want to get long now if they are not long already - I've been mentioning that any move above 1,121 in the S&P 500 would likely trigger a short-term "pop," and it looks like we're seeing that pop in the NASDAQ... though still on low volume.



The Commitment of Traders Data has been very good in forecasting the market and I hope you are paying attention to this signal.

As I've been highlighting in the last few weeks' reports, Insiders/Professionals/Large Speculators are net long 200,000 @ES (S&P mini) futures contracts while the "public" or small speculators/non-reportables are net short 281,000 contracts. Hedgers/Commercials represent the remaining 80,000 contracts long - though these are professionals as well. The picture that the COT data paints is very bullish, as the professionals are -with the exception of the March lows - at the most bullish stance of the year while the public is net short the most since the March low.

This chart makes you almost want to forget about everything else and just 'go with the professionals' who are committed long... and price continues rising.

While it's very important to know critical levels to watch - such as the Fibonacci and trendline zones near 1,121 - remember that supply and demand rule the market/prices, and not charts. That's why sentiment and Commitment of Traders data are so important to assess the supply/demand relationship ... and as far as the @ES mini futures show, the professionals are net long and the retail/small public is net short... a recipe for higher prices yet to come.

Weekly

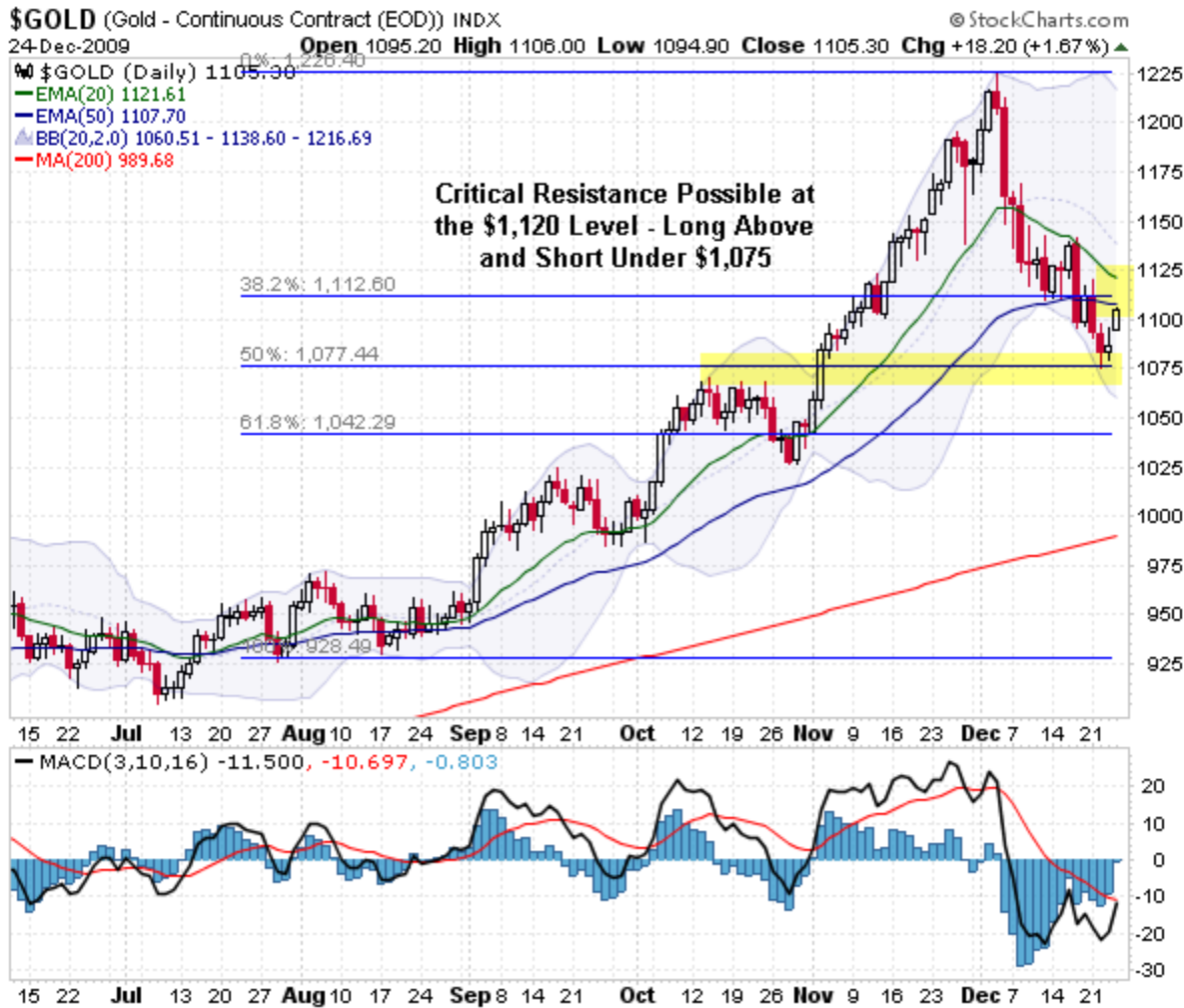


I mentioned last week to watch how price behaved at the potential \$1,100 support level - price failed to hold and then I mentioned the next target to watch was the 20 week EMA at \$1,050 and that appears to have held price as a support zone so far. A doji/hammer candle has formed, which could be the start of a bullish swing higher, so we'll need to watch how price behaves at this level.

Aggressive traders can trade long for a move back to the \$1,150 area at a minimum - and place a stop under the \$1,066 level.

However, there are levels that price needs to clear on the daily frame which could give us a clue as to how strong buyers are committing to supporting prices here.

Daily



Price supported off the 50% Fibonacci level from the late July and mid-August lows. This level was \$1,077, and price bounced off this level - which also slightly reflected prior price resistance (old resistance becomes future support) from the October highs.

As such, we'll need to watch this level - long above but short beneath.

For now, the 50 EMA (daily) rests at \$1,107 and the 20 EMA rests at \$1,121.

For now, price is under these levels, and they could hold as overhead resistance. Conservative traders or investors will want to see these levels taken out and price rising above \$1,125 to get long in anticipation of a new swing potentially to new highs.

Otherwise, watch these levels for clues as to whether to target \$1,200 (if broken to the upside) or the \$1,050 and even \$1,000 levels under if we start to break beneath \$1,075 as 2010 begins.

WTI Crude Oil (\$WTIC)

Monthly

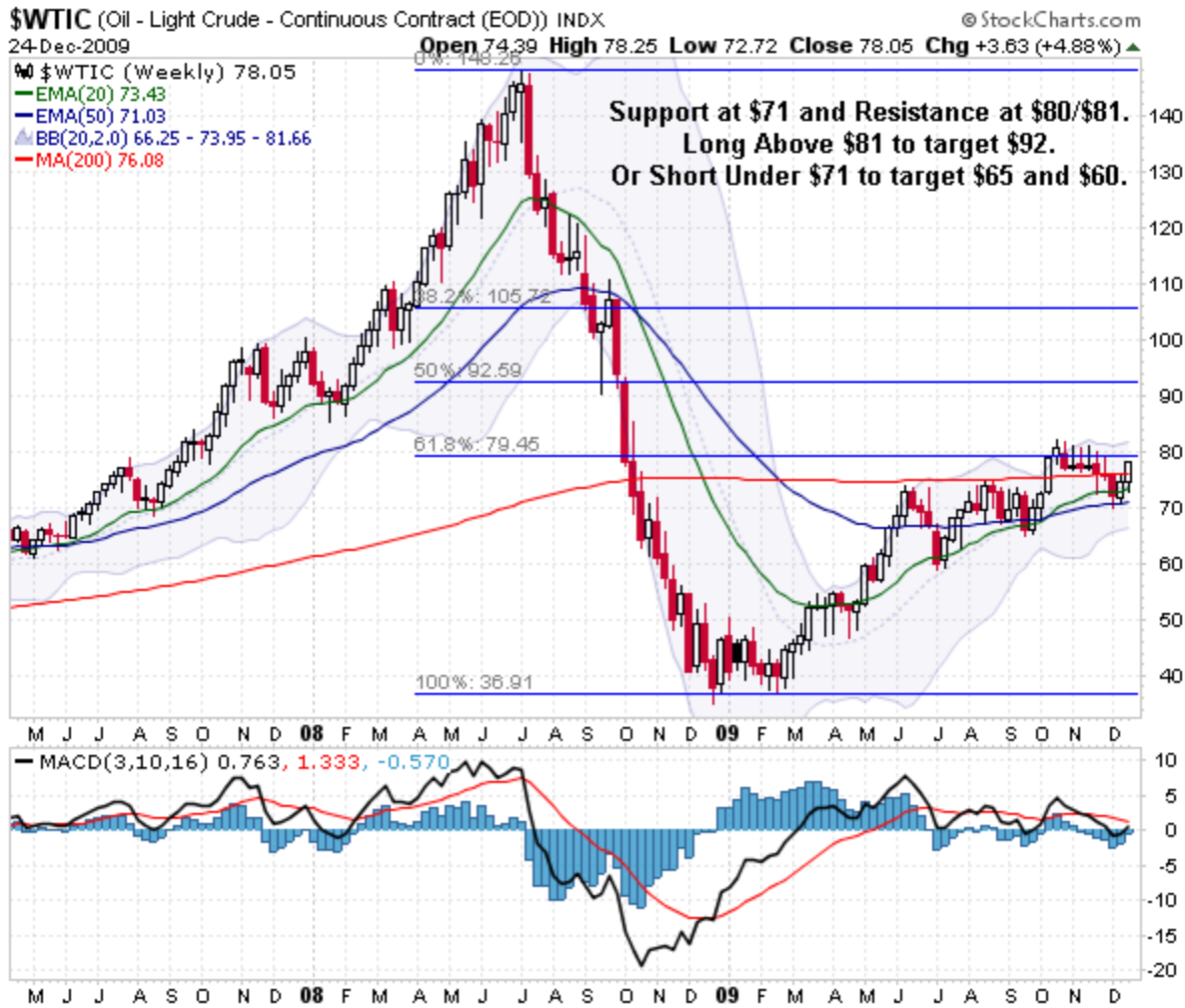


Like bonds, crude oil surprised many investors and traders by rallying strongly above expected overhead resistance (see daily chart).

I'm showing two levels of Fibonacci resistance - the larger term 50% retracement from the 1999 lows rests at \$78.47, while the intermediate term retracement (also 50%) from the late 2001 lows rests at \$82.82 - price has not risen above the intermediate term retracement, and price has not closed - on a monthly basis - above the longer term line.

Look for any move above these levels to put on a position to trade for a target near \$92.50.

Weekly



The weekly chart shows the key boundaries to watch in crude oil prices (index):

\$79.45/\$80 for overhead resistance and the \$71 level for support (trendline and 50 week EMA).

Any move above this level will likely target an 'open air' play to the \$92.50 level, while any move under \$70 will set-up a trade to play for \$65 and then \$60. For now, price remains in a trading range, and the daily chart offers better guidance for trading in this upward sloping range.

Daily



I mentioned last week how we might see a 'bear flag' style move lower as price retraced back into the convergence of the 20 and 50 EMA at the \$75 level (as price formed a shooting star). Crude oil has shown a bullish bias or tendency to 'blow out' short-sale signals, which gives the market an inherent or 'hidden' bullish bias by default.

The last three trading days was caused largely in part by short-sellers stopping out as there were key stop-losses placed above this level - again, this is why watching key levels is helpful both for putting on positions and for preventing large losses by exiting as price enters or breaks a key level (in other words, take a stop-loss as price moved above \$75.00 instead of holding on short as price moved two days higher to close above \$78).

For now, we could easily see a move back to challenge the \$80 level as resistance, and any move above \$81.00 would trigger more stop-losses of the short-sellers and also likely trigger new buyers/bulls to enter the market as price breaks to new highs (adding to positions).

For now, we'd want to be biased long, put on a position above \$80, look to stop-out under \$75, and look to short-sale under \$70.



I've drawn two dominant trendlines which form (continue) an ascending triangle (generally bullish).

Interestingly enough, price broke above the range, stalled, trapped the buyers, and then pulled back inside the triangle though it supported at the \$70 level (as expected and highlighted) and then broke back again outside this level.

Be long-biased as long as price is above \$75, very bullish above \$80, neutral from \$70 to \$75, and short-biased under \$70.

US Dollar Index (\$USD)

Monthly



No major change also in the monthly US Dollar Chart - though the weekly chart offers a formidable resistance level to watch.

The levels drawn on the monthly frame for potential overhead resistance include the \$79.25 and \$81.87 prices - the 20 and 50 month EMAs respectively.

Under classic technical analysis, this rally (month) in the dollar is currently classified a counter-trend rally (price is making lower lows and lower highs, and is under all EMAs).

Weekly



The level to watch for overhead resistance - which was a price target (exit with profit) is the \$79 area, which is the 61.8% intermediate scale Fibonacci retracement which roughly aligns with the 50 EMA at \$78.74.

A doji candle formed last week, so this is - at best - an "exit long" signal and an aggressive short-sale signal (stop above resistance) to play for a move back to the \$76.50 confluence level (see daily chart).

This stronger than normal retracement was anticipated well in advance, and I discussed this frequently in the report - the lengthy positive divergence is resolving with a positive price move to the upside as expected.

Daily



The next immediate swing for the Dollar could be back down to test the \$76.50 confluence EMA support level, so watch for any move back to that level and consider buying back, or holding long to play for a larger target. There is an overhead resistance confluence at the \$79 index level - 200 day SMA, 'horizontal' line, and upper Bollinger Band.

We could see a move up into this level, but for now, the trend (on the daily chart) has turned more positive but has not completed an official trend reversal yet. This move in December is classified as a 'single swing,' and we would need price to form a higher swing low before considering the trend to be reversed. However, the 20 and 50 EMAs have crossed 'bullishly' which is the precursor to a larger reversal that is ultimately possible.

Turn to the longer daily chart on the next page to see the full move in 2009 which has lead to this strong rally as 2009 concluded.



There is a complete 5-wave Elliott Fractal move that ended on a lengthy, multi-month positive momentum divergence into the December Index lows near \$74.50.

It's possible that we can expect at least an "ABC" three-wave move to the upside, but - like the birth of any potential new trend - we need to watch it very closely and guard our profits in the event that we are seeing a simple retracement and that the larger trend will push prices lower.

A rising dollar - true trend reversal - would be bearish for crude oil and gold, while if the Dollar resumes/continues its downtrend, it would imply that gold and crude oil would also continue rising.

At the end of the year, with low volume, markets can be volatile, so please be careful in your positioning and trade management. Large moves can occur suddenly so protect yourself with stops or other defensive measures on open profits.

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