



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes are showing bullish strength/resilience and have broken above the month-long consolidation period. A bullish rise in bonds is generally negative for stocks and commodities.

S&P 500: The S&P 500 has challenged the underside of the 50% Retracement at 1,121 and is forming weekly dojis on a negative volume and momentum divergence - bearish. However, any upward movement would 'shock' the bears and create a vicious cycle of even higher prices, so take nothing for granted and tread lightly until a reversal is confirmed.

Gold: Gold's 12% monthly rise is stellar and argues how powerful a price breakout can be (range expansion). Gold has hit weekly triangle targets and remains grossly overextended from moving averages and at the upper Bollingers. Look at the past times this has happened for clues to a possible retracement down ahead.

Crude Oil: Bearish undertones now underlie crude oil, though we have two specific "lines in the sand" to watch for the future of this closely watched commodity.

US Dollar Index: No major change in the US Dollar Index this week - trend remains down though advanced technicals argue for a reversal. Downside target includes \$71, though a break above \$77 would argue for a reversal up which would underscore the reversals respectively in all other markets.

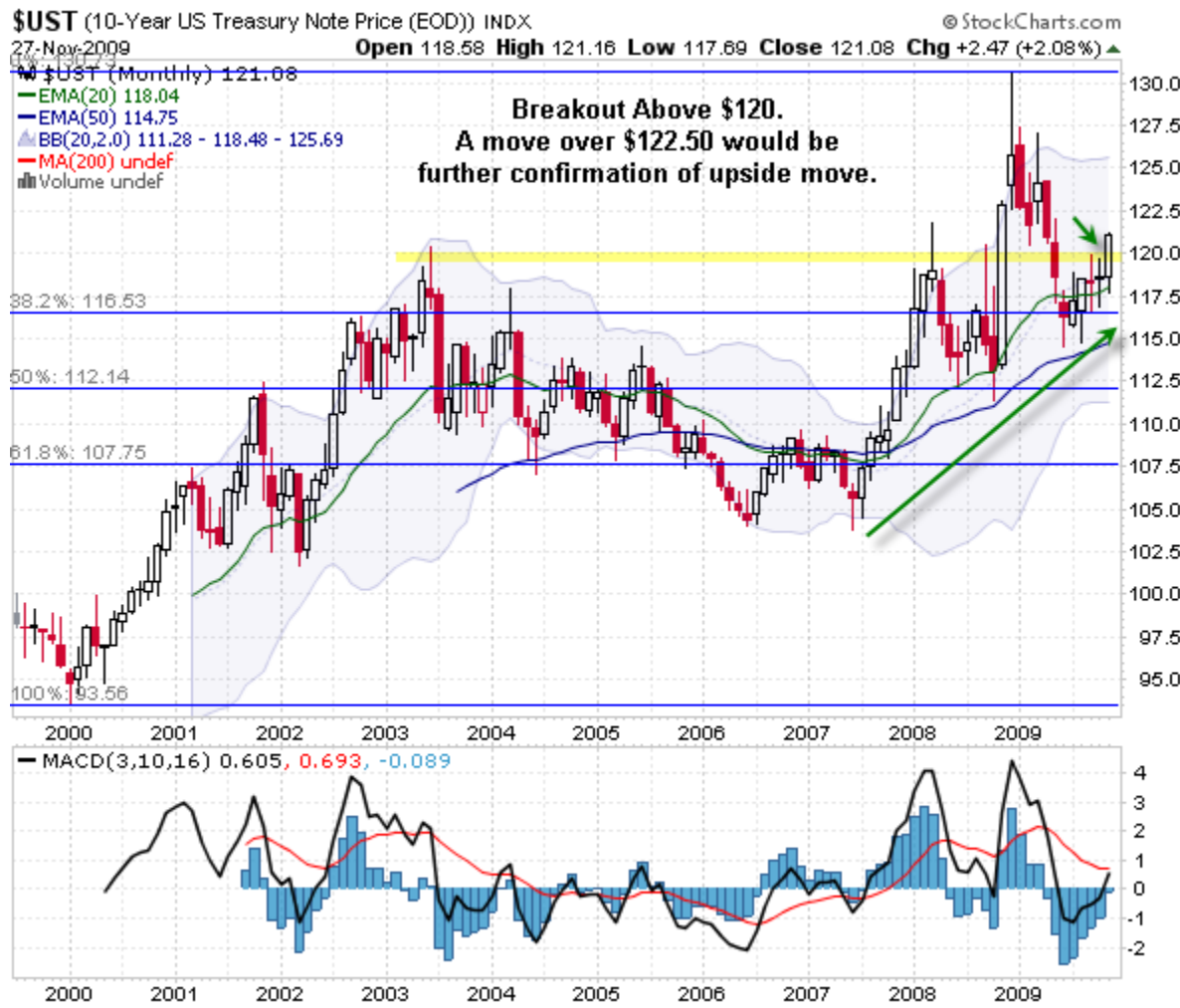
Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

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 broke their upper resistance line as well as prior price resistance near \$120 during this shortened trading week - look at the daily chart to see just how powerful the break was (three up-days in a row).

In general, this is quite bearish for stocks/commodities, provided that bonds continue to trade higher and sustain the \$120 breakout price level. It would imply that investors were 'fearful' about the future and would be rotating money out of stocks and into bonds. Yields would decline and commodities would decline in general as well.

Definitely pay close attention to how bonds move next week since this week was a holiday week that ended with a quick global market correction.

The trend and EMA structure of the 10-Year Note is still up which hints at higher prices ahead.

Weekly



Notes broke upwards above the September 2008 price high and could suddenly challenge the \$122 level from the March 2008 highs which could be a resistance level.

A break above \$122 would argue strongly for higher prices ahead in a breakout move that would have bearish implications for stocks. Bonds rise in general when investors want safety with their money and feel that stocks are overpriced (or risky for the near future). Generally, investors buy shorter maturities (1 or 2 year bills) though some buy 10-year notes as well. Stocks and bonds in general are inversely correlated in part due to this reason - both markets compete for investor cash.

Price is above the 38.2% Fibonacci level and momentum is on an upward trendline along with price.

This could be a bull trap, in which price will move back under \$120 and into the multi-month trading range I've been describing, so watch for that possibility. Otherwise, any sustained move over \$120 is bullish (continuation/breakout) for bonds and bearish for stocks (at resistance).

Daily



The daily chart shows the breakout most clearly - four up-days in a row - three of which broke solidly above the \$120 resistance level I've been highlighting as a potential breakout zone that has now come to pass.

The alternate interpretation is that we are in a rising trendline rectangle, in which case price has also broken above that rectangle as well.

Watch for a continuation move to the upside, though do pay attention to the isolated doji that now resides above the upper Bollinger Band on the daily frame (probably better to wait for a pullback to support before buying instead of chasing a breakout).

US S&P 500 (\$SPX)

Monthly



Bonds are breaking bullishly out of a consolidation pattern while the S&P 500 challenges the underside of the 50% Fibonacci Retracement level at 1,121 on a negative volume divergence and grossly overextended conditions. That's certainly not bullish, though the market is giving a sell signal only to aggressive traders trying to fade (go against) market strength. Conservative traders should watch lower timeframes for confirmation of an expected down-move instead of "jumping the gun" in the event that prices continue rising and blow past 1,121, in which case that would trigger a 'buy long' bias to take advantage of the stop-losses of the short-sellers who shorted in advance of an expected market turn. Watch the 50 month EMA at 1,150 in the event of an upward break, and otherwise, odds seem to favor a retracement.

Weekly



Though nothing is ever guaranteed in investing or trading, some people are calling this development a 'slam dunk.' Odds from a classic technical analysis standpoint do overwhelmingly favor downside ahead - some of those include an overextended rally that has come into the underside of the 50% Fibonacci retracement on a persistent negative momentum and volume divergence (non-confirmations). Elliott Wave analysts are calling this a three-wave correction into this area. Two dojis (indecision/reversal) candles have formed at these confluence levels near 1,120 in the S&P 500.

Aggressive traders can go ahead and take profits or begin short-selling here with a stop above 1,130 (any move above 1,125 should lead to 'popped stops' of short-sellers who would be forced to buy to cover on an upside break, creating positive feedback) while conservative traders could wait for a breakdown under the 1,000 level (expected support) to be sure of a turn in the market ("Let the market tip its hand.")

Any move above 1,150 would argue for a "New Bull Market" while the expectation is for a retracement down to start.

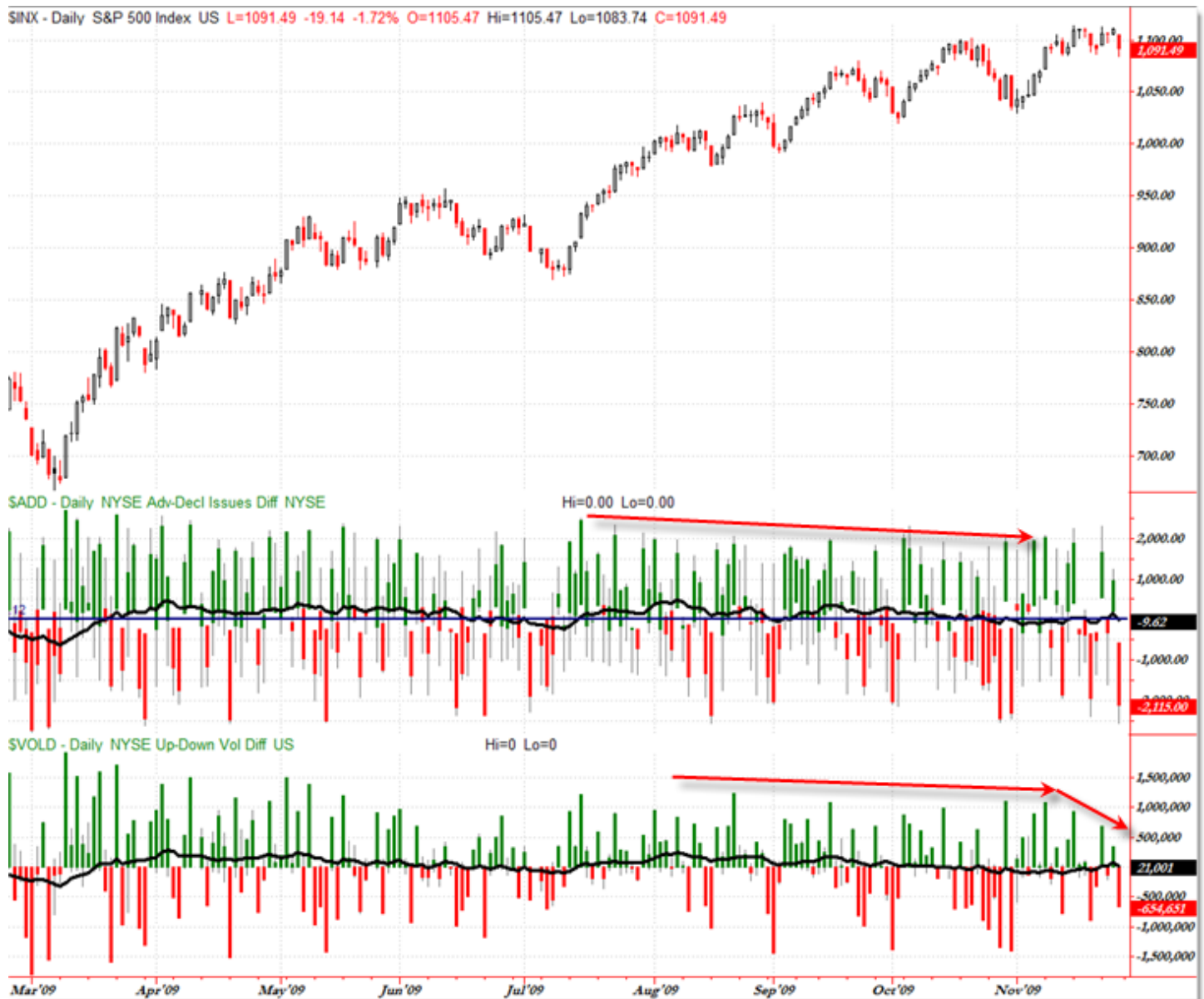
Daily:



Speaking of daily levels to watch, watch for a move under 1,090 (we're three points under that) to target the 50 day EMA at 1,070, and then look for any move under 1,070 to have the potential to test the 1,040 level, and any move under that - breaking a higher low - to target the 1,000 level which would be a line in the sand to watch to see how far this expected retracement goes.

Again, any sudden move above 1,120 to new highs would trigger a flood of buy orders from short-sellers taking stop-losses which would create positive feedback (short-sellers buying; bulls/buyers buying).

I've highlighted the five times in the last few months when price has undergone "Choppy-Topy" periods which have resulted in exactly the same way each time - a sharp down move into support followed by a multi-day swing up to new 2009 highs. This is the road map ahead if this cycle continues. What's different this time is the massive negative momentum and volume divergence that began in early November.



This is an update of the "Breadth" and "Internals" chart showing the S&P 500 compared with

- A) \$ADD - NYSE Advancers minus Decliners for the Day ("Classic Breadth")
- B) \$VOLD - NYSE Up-Volume minus Down-Volume (volume flowing into advancing stocks minus volume in decliners)

These are two ways to look at the "Internals" (pure view).

The picture is one of continued non-confirmation - as price is making fresh 2009 index highs, breadth and volume of breadth is trailing lower (negative divergence/non-confirmation).

That's bearish but does not in itself guarantee a price reversal. It's certainly something to keep a close watch.



Since breadth/internals can be volatile (changing day by day), I've taken a 20 period simple moving average of the high, low, and close of both indicators of internals shown above to smooth out the signal.

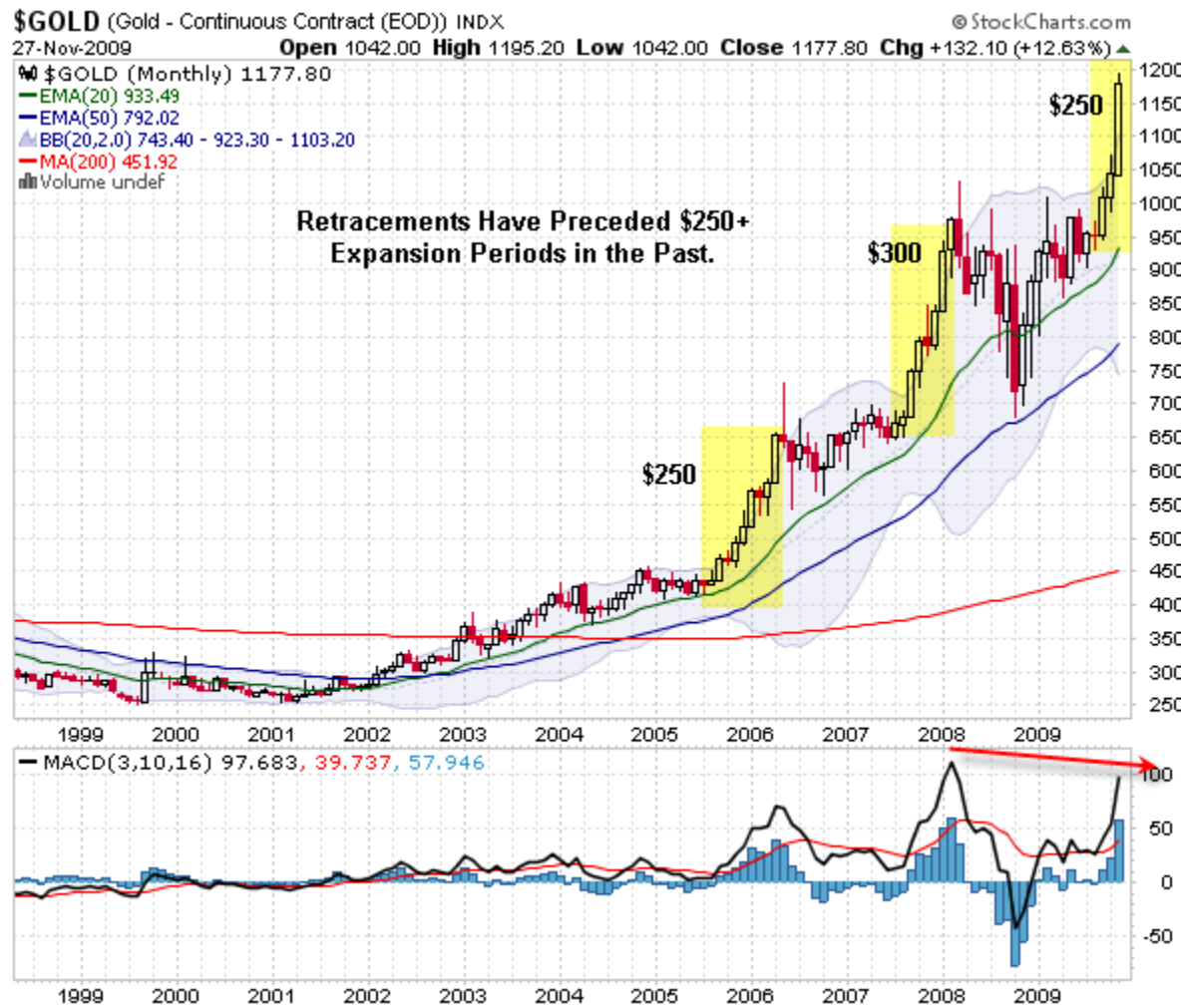
We see a lengthy negative divergence in the "Market Internals" on a monthly moving average basis as shown.

There has been a 'tick up' in the average in the last week, but the average is much lower than its peak in April and secondary peak in August 2009.

Again, this hints of a price reversal/retracement ahead... or that the risk of being very long stock at these levels is high.

Gold

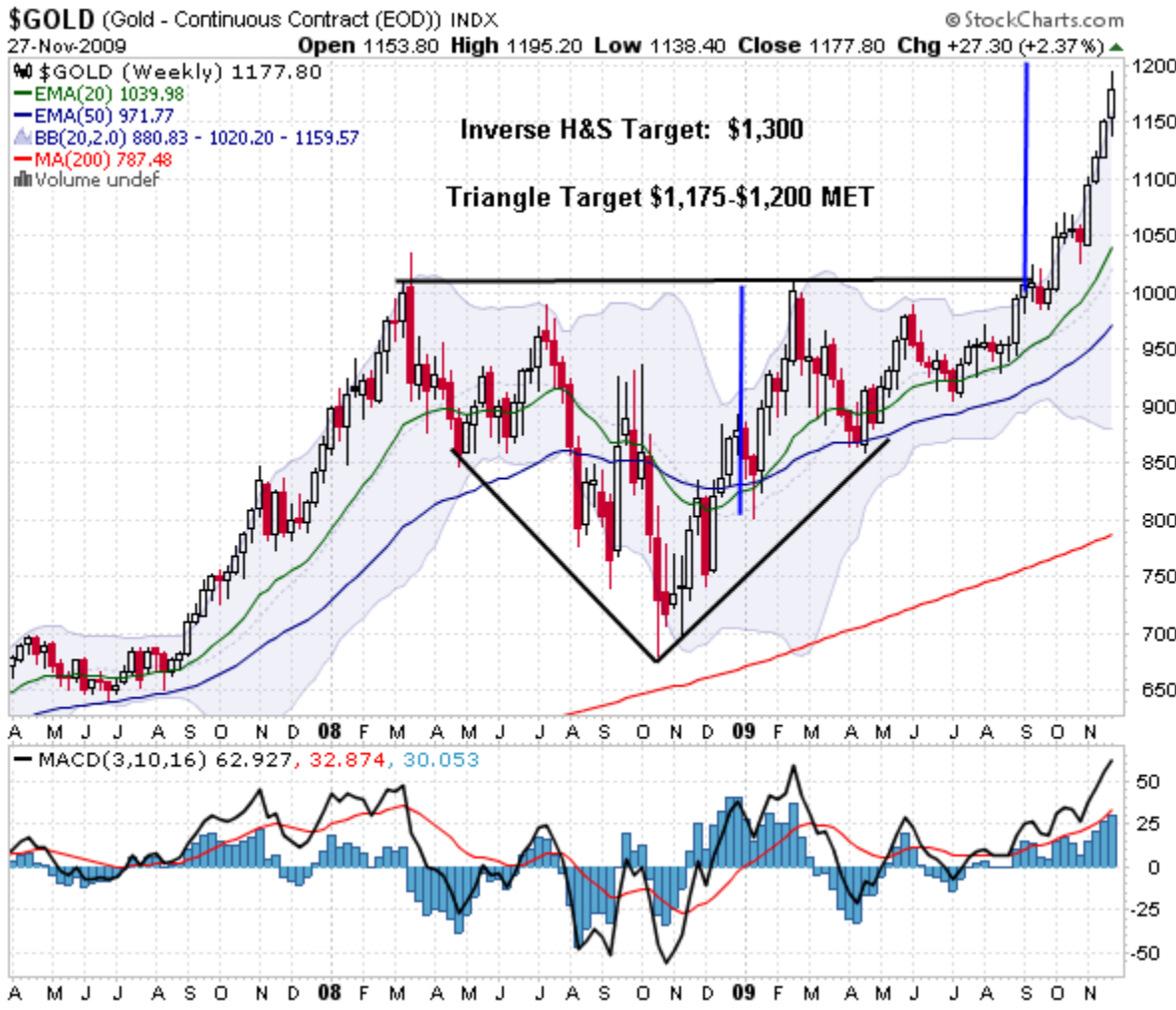
Monthly



Gold is up \$132 (12.7%) in November (with one trading day tomorrow to go) - absolutely phenomenal - and this underscores the power of a price breakout, long-term uptrend, and lower timeframe price targets (pattern). We reached the \$1,175 target I've been mentioning from the Weekly Chart triangle breakout (targets explained in prior updates as well as this update). Price has a tendency to pause as buyers - with profits - take those profits (sell) which often causes retracements in the price charts.

We're at one of those potential turning points at the \$1,200 level as shown in the three highlighted zones I've drawn/labeled. A retracement has followed after a sustained move of \$250 (to \$300) over the course of a few months. Price is grossly overextended here, and though there are still upside targets and a persistent, powerful uptrend, no market can rise forever, and - just like stocks - the probability of a retracement down is higher than that of another up \$120 (12%) month. Buy-ins to trends occur at pullbacks to retracement/support zones, and that is the expected short-term play for gold in the coming months.

Weekly



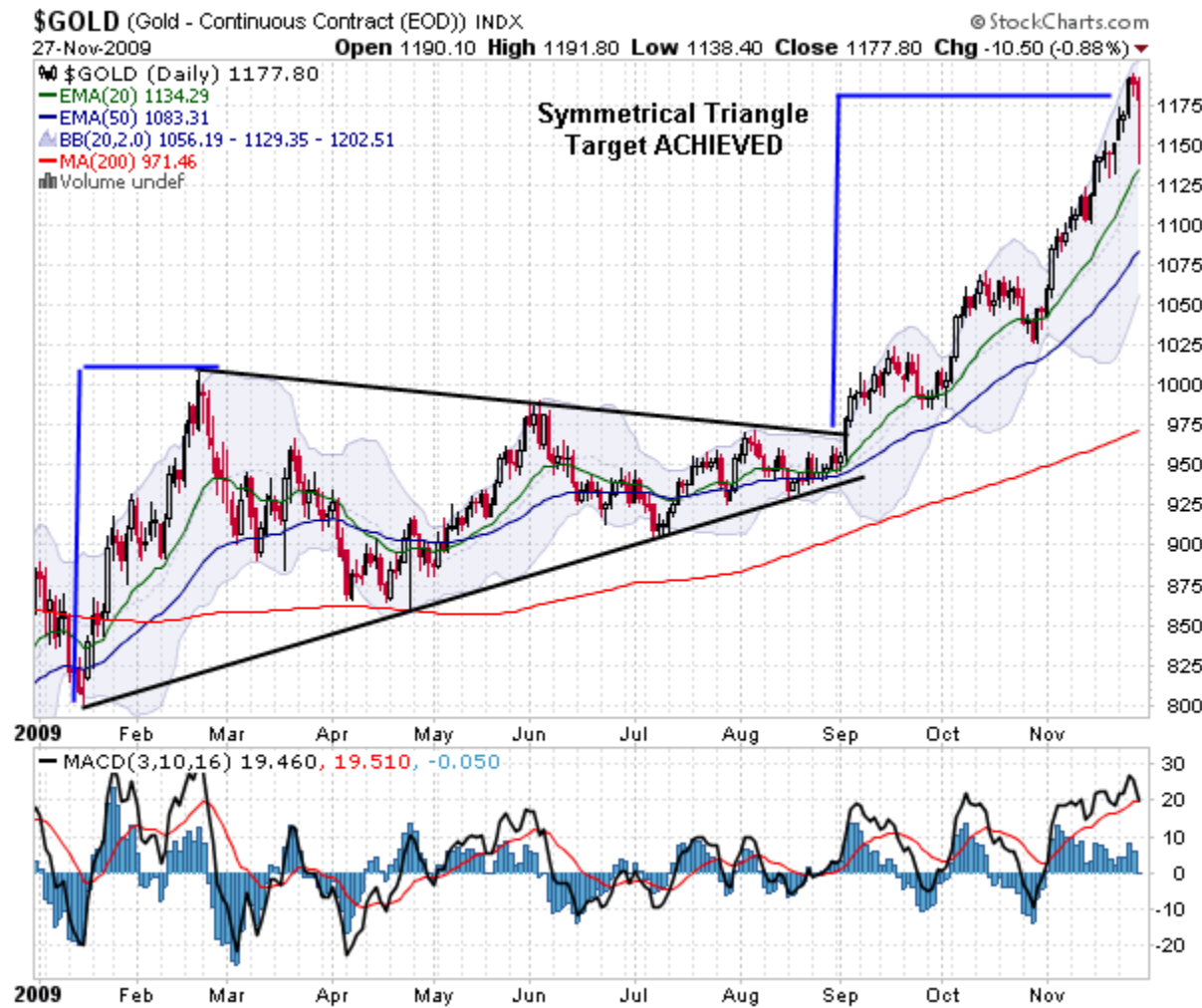
I'm showing the price projection target again for both the Inverse Head and Shoulders (\$1,300) and the 2009 triangle pattern (\$1,175 to \$1,200 - blue lines). \$1,200 is also a 'round number' resistance area, and price appears to be gearing up for a potential retracement down from this area.

Otherwise, price remains stretched above the upper Bollinger Band (overbought) on a flatline (or negative) momentum divergence.

There's no selling candle here on the weekly chart, but again the risk of a downward move is higher than the reward of an upward move at these levels.

Price has broken out of the triangle and \$1,000 resistance level as expected and as I've discussed, so the market is overextended here. Odds do favor higher prices to come, but the next likely move is a down-move retracement as seen from early 2008 and early 2009.

Daily



We see closer inside the Triangle Price Projection target near \$1,175 which was achieved this week.

The "Dubai Shock" shook gold to the tune of a \$60 overnight price drop over Thanksgiving that was quickly recovered on Friday. This underscores the risk of a grossly extended market - the market is so top-heavy that even a slight bit of bearish news can send investors scrambling for the exit (taking profits) which causes sudden 'shock' moves in overextended commodities.

Price did support on the rising 20 EMA which is the first expected target for support.

Risk is high for both bulls and bears at these overextended levels and volatility is clearly increasing. The trend remains up, moving averages remain positive, so use any pullback as a buying opportunity... but watch the dominant arc pattern as shown below.



There's a potential for price to break the rising arc that has formed since the April lows.

Be mindful of this development, and be on guard against any sudden down-move in price once the arc is broken to the downside.

Until then, the arc is expected to continue to support price on any pullback as price 'goes parabolic' and risk increases.

WTI Crude Oil (\$WTIC)

Monthly



Crude Oil continues to remain on perilous ground, having been unable to clear the overhead resistance area at \$80 per barrel, which is thus deemed the "Line in the Sand" to determine whether or not to expect another long-term retracement lower perhaps to the \$60 level or a break to new 2009 highs and confirmation of a new bull market.

It also appears that price will form another monthly 'doji' or indecision candle at this level, which will hint that resistance will hold (the month ends Monday).

Weekly



The last few weeks have given us three 'doji' indecision candles and upper shadow candles under the \$80 level which also hints that resistance may hold (buyers have been unable to drive prices higher). However, a support level has formed under price at the \$70 and \$72 level (50 and 20 EMAs respectively).

One of these levels is going to have to break - and it would argue for bullish breakout above \$81 and for bearish retracement under \$70. Watch these levels.

A negative momentum divergence has formed under price at the fresh 2009 highs.

Daily



A more immediate or close line in the sand has formed - the \$74 to \$76 level.

There has been prior price resistance at the \$74 level (which could now turn into support under the "Polarity Principle") so watch for any up-move in next week.

For now - very short term - price is compressed between the 20 day EMA at \$77.85 and the 50 day EMA at \$76.10 - very interesting. With the exception of Friday's 'shock' opening, price has closed in between these levels for the last few days.

That's why it's important to watch \$81 for a sustained bullish (tradable) breakout or under \$74 which would target \$65 and any break of \$65 would target \$60.

Remember - the goal is never to know the future - that's impossible.

It's to prepare for likely outcomes and manage your position and risk accordingly and 'go with the market' ... and take advantage of those buyers or sellers as a group that are 'leaning the wrong way.'

That's why trading with "If/Then" statements often works better than playing for "absolutes."

US Dollar Index (\$USD)

Monthly



No major update on the monthly US Dollar chart.

It's still in the most bearish position possible with a long-term target of \$71 - or a retest of the early 2008 lows barring any reversal on the lower timeframe occurring near current levels.

Weekly



There is the potential for a "Rounded Reversal" to form as shown on the weekly chart, but we may need to strike to slightly lower levels to let the 'smooth transfer from supply to demand' to occur orderly in an arc.

Barring this, there is a 'last stop' line at the \$74.50 level, which reflects the "Polarity Principle" in that the level held as support in November 2007 and resistance in June 2008. It could currently hold as support - a last bastion of hope for dollar bulls - and on a break of this level, there is very little in the way of support before a retest of the \$71 level is complete.

Daily



We see the same chart as before, and same count which shows a completed fractal 5-wave pattern into the \$75 lows on a multi-swing, multi-month positive momentum divergence. These 'advanced technicals' are bullish, and compete directly with the "basic technicals" which are bearish - in the sense that the trend is clearly down (no doubt about that) and the EMA structure is in the most bearish orientation possible. Selling pullbacks to the 20 or 50 EMA has been the best strategy so far, and will be until price rises above \$76 or especially \$77 which would break above two key swing highs and argue for a trend reversal at best or at the minimum a deeper than normal retracement, perhaps back to \$79.

Again, aggressive traders/investors can go ahead and position long in anticipation/expectation of a trend reversal - though this is risky and is - by nature - counter-trend.

Conservative traders/investors can remain short or take profits and only begin trading long on any confirmed break above \$77, which would place the odds strongly in favor of a trend reversal.

Should the Dollar Reverse and head higher, it would argue that stocks and crude oil (and gold) would fall while bonds/10-year Notes rose.

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