

AFRAID to TRADE

overcoming stock market fears with Corey Rosenbloom



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes remain in a Trend Channel with a bullish bias from the higher frames and a 'consolidation' or neutral bias from the lower frames. Watch the breaking of the daily channel for a signal.

S&P 500: I discuss the current structure and note the "Musical Chairs" mentality of the current rally. I also describe the "Popped Stops" reality and at least 5 short squeezes - including our current one in play.

Gold: The biggest intermarket news this week came from Gold's new lifetime high. A short-term target (flag) is complete and I show targets for the Triangle and Inverse Head and Shoulders pattern, as well as note not to get too caught up in the gold euphoria and watch for any signs of non-confirmation.

Crude Oil: Crude Oil remains under a dominant trendline, though any upward action next week will help invalidate the technical sell signal the triangle break gave us recently.

US Dollar Index: Strangely, no major change in the expectation/outlook for the Dollar. Trend structure remains overwhelmingly bearish, however this is the last chance for Dollar Bulls to stage a counter-trend rally. The \$76 level is key.

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

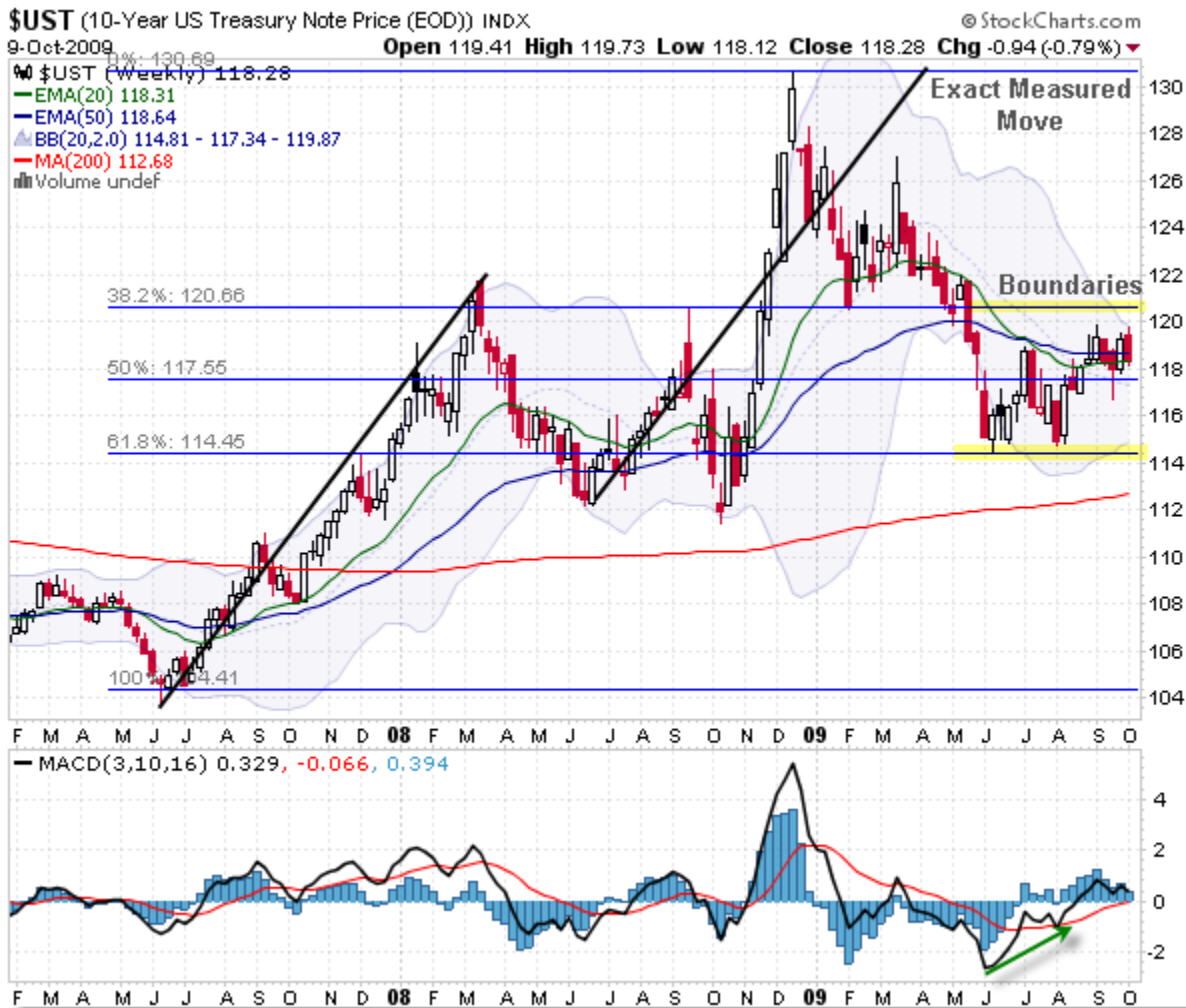


From the monthly perspective, a bullish stance on bonds/notes is suggested, with price remaining in a long-term up-trend and the EMA structure remaining bullish with price above the 20 and 50 (short and intermediate) month Exponential Moving Averages.

Also, support appears to be at the \$116/\$117 level via the 38.2% Fibonacci retracement (\$116.45) in conjunction with the 20 month EMA at \$117.68. These are key levels to watch for potential support from the monthly frame.

Otherwise, the 50 month EMA rests at \$114.48.

Weekly



The black lines reflect a "Measured Move" that achieved its exact target, which I find very interesting.

Otherwise, there are two boundary levels to watch via the weekly frame, and they come from the confluence of the 38.2% (\$120.66) and 61.8% (\$114.45) Fibonacci levels and the upper and lower Bollinger Bands (\$119.87 and \$114.81 respectively).

Otherwise, price is within a range that is clarified by watching the daily chart.

Trend structure remains tentatively (nascent) bullish, but more likely the dominant trend is "sideways."

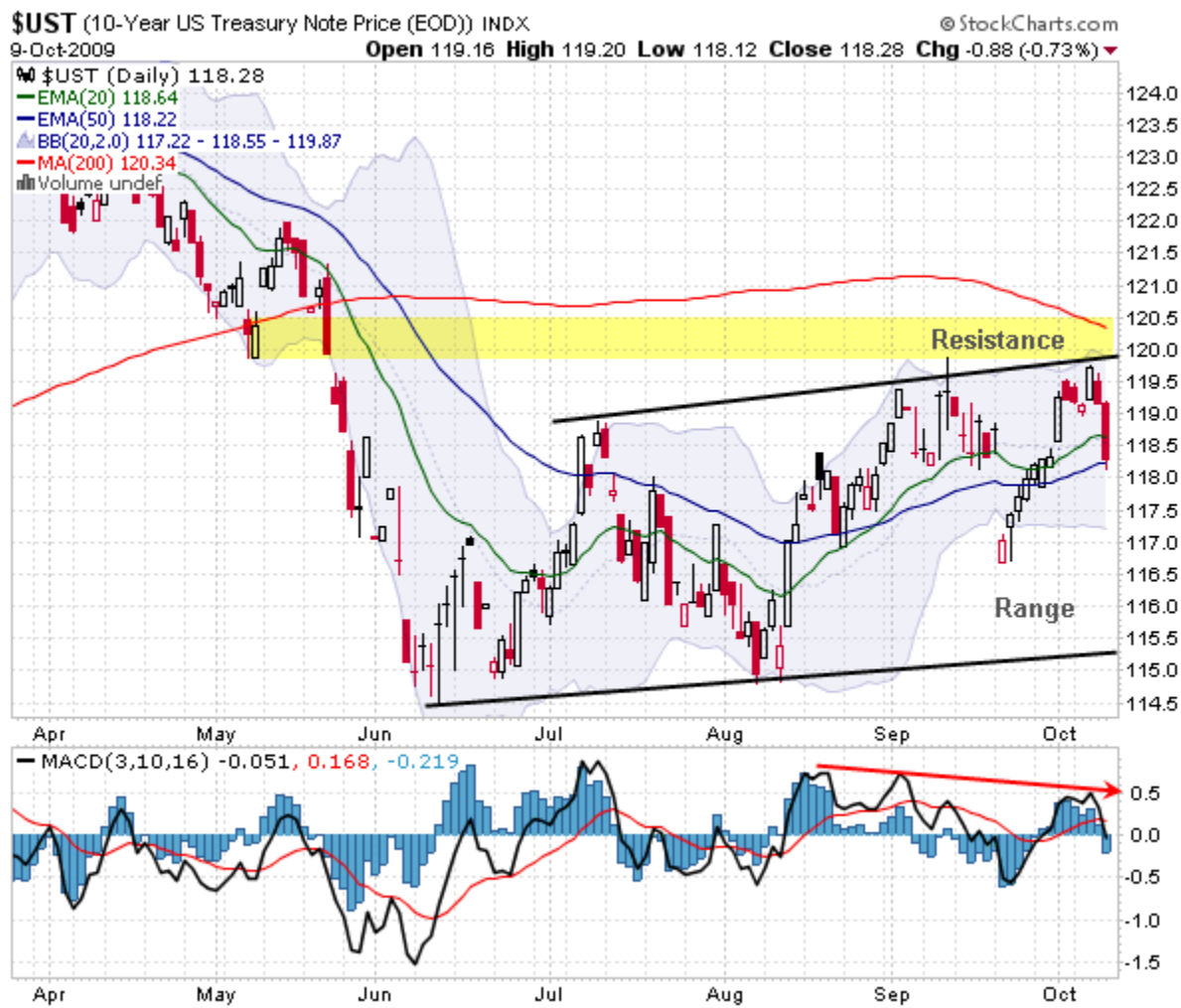
Daily



This daily chart specifically shows two levels of Fibonacci confluence grids which converge at the \$121 level. The blue grid is drawn from the \$111.35 October 2008 lows to the December 2008 highs, while the red grid is drawn from those same highs to the June 2009 \$114.65 lows.

The larger 50% retracement rests at \$120.96 while the most recent grid's 38.2% retracement rests at \$120.75 - an almost exact confluence.

This level also corresponds with the falling 200 day simple moving average at \$120.34.



This standard chart shows a dominant "range" which is created by connecting at least two swing highs and lows. The upper resistance boundary rests at \$120, while the lower boundary is just beneath \$115.50.

The expectation is for price to continue within this channel until a breakout above \$120 (I would suggest a breakout above \$121 would be more significant and clue us in that higher prices were likely) or beneath \$115 to take interest. Until then, bonds/notes should remain 'trapped' within this range, which gives a slightly bearish short-term bias (to test lower levels within the trend channel).

A quick 'inter-market' note - should the Stock Market begin to fall next week or turn down from here, it would put bullish pressure on bonds as investors sell stocks and buy bonds, most likely resulting in an upwards channel break.

Should the market continue to rise from here, odds are that bond prices will remain steady or fall as money is taken out of bonds to 'chase' stocks.

US S&P 500 (\$SPX)

Monthly



The current stock market rally continues to break levels of expected resistance - with the most recent 'resistance casualty' being the 20 month EMA at 1,056 and the 20 month SMA at 1,059. It is being referred as the "Melt Up," as opposed to a "Melt Down" like we saw in October 2008. On the monthly frame, we see no resistance until the 1,121 50% Fibonacci line as well as the 50 month EMA at 1,155.

Otherwise, the negative volume divergence is still in place, which has been of no concern to buyers as the rally has persisted strongly off the March lows.

Weekly



Taking an objective viewpoint, the Weekly Chart has turned into a mighty bullish position, given that price has broken above the 38.2% Fibonacci retracement at 1,014 and has continued to support above this level. In addition, we have just received a "Golden Cross" technical signal, thanks to the bullish crossing of the shorter term 20 week EMA above the intermediate term 50 week EMA (both at the 990 level) which now is expected to hold as support on any pullback. This is combined with the 'psychological' 1,000 level as support.

Last week's bar was akin to a "Bullish Engulfing" candle, spanning the range of the last few weeks but falling just shy of a fresh new high. The only overhead resistance to discuss is again the 1,121 50% Fibonacci line, which everyone is watching very closely. I'm showing what I believe to be the dominant Elliott Wave count, which places us toward the latter part of a counter-trend 4th wave in anticipation of a 5th wave yet to come. However, a solid close above 1,150 and especially 1,200 would lead me to believe that the 5th wave ended at the March lows and that this rally is actually part of a New Bull Market Wave 1.

Daily:



Let's first discuss the highlighted boxes on the chart. Prior to each "box," the market gave a valid and classic technical analysis sell signal - mostly from negative momentum and volume divergences, though the last four signals have had the same divergences but have been accompanied by bearish breaks of the rising 20 day EMA (triggering a sell signal). After each sell signal, price rallied sharply which leads me to believe that a vast part of the buying pressure was a "short squeeze" or shorts 'buying' to cover (combined with investors or swing traders who took profits long (exited the market) buying back into the market chasing price higher). That is NOT the formula for a healthy market or long-term bullishness. Such surges triggered by fear... fear of loss on the part of the short-sellers and fear of missing out on the part of those who exited their longs... are generally not sustainable.

However, these are the realities of the market, and the reality is that - whatever bullish/buying force that is driving prices higher - it continues to do so and is almost holistically dominant over the sellers/bears. As such, a conundrum exists.

On the one hand, everyone sees the 'bearish' evidence, in the form of negative momentum and negative volume divergences which serve as "non-confirmations" of higher prices. They also see the grossly overextended nature in price and the almost straight up rally which we feel is unsustainable... thus triggering short selling. The technical indicator (chart) probabilities are overwhelmingly in favor of downside action ahead for price. Thus, classic analysts must be bearish.

However, there is a force driving prices higher and as long as that force continues to buy stocks and drive prices higher (causing more short sellers to cover), then prices will go higher. When this force stops buying, then prices will fall. As long as this force is dominant, technical, quantitative, and fundamental indicators/analysis will be less effective, particularly as each form of analysis is in conflict with the wishes of the buying force.

Remember, supply and demand move prices - via buying and selling imbalances.

As traders/investors, you have three choices if you find yourself puzzled by the recent rally, and each must make his or her own decision as to how to position.

- 1) Stand aside and wait for the market to "make more sense," which keeps you out of the market as price continues to rise, though you can't force yourself to enter the market (buy) because of all the evidence that a decline is likely.
- 2) Continue to 'short' the market on each sell signal... which could lead to additional losses in the market.
- 3) Remain or get long (if not already) in acceptance of the reality that this environment is charged with an upside bias.

Many analysts, myself included, have referred to the latter parts of this rally as a game of "Musical Chairs." Eventually, the force will stop buying. Eventually, the music will end. Eventually price will decline. To believe otherwise is to state that the S&P 500 will top 1,600 (make a new high) in a steady and unprecedented month after month rally.

However, the music continues, and betting against the music is costly. I've heard many people say "The moment I get long is the moment the market will start falling." If that is the dominant psychology, then the market will continue rising until all the people who want to get long, do get long, leaving no further buying pressure on the sidelines. The market is not usually a friendly place.

So, the analysis from a variety of sources will continue to come back the same "Sell now, market overextended, overhead resistance, October is the worst month for stocks" and that is the classic/correct way to interpret the charts. However, as long as this buying force/pressure continues, the market will continue rising and the market will turn lower only after this force stops. No technical, quantitative, or fundamental analysis will tell you when this force will stop buying.

Analysts remain in "no-man's land" as they have to note the overextension of the rally, negative volume divergence, and overhead resistance... but cannot recommend shorting either because each 'sell signal' has resulted in a hideous upside pop as shown by the highlighted regions.

Gold

Monthly



The big news this week came from the gold market, which hit a fresh new lifetime high!

Fresh new highs in any market often result in "short-covering" - which I call "stop pops" intraday - which pushes prices higher in relatively predictable bursts, which provide excellent scalping (small targets with larger positions) opportunities - like I've been mentioning in these reports for gold if it made a new high.

That opportunity presented itself this week.

Looking at the weekly frame, we see a powerful uptrend in the price of gold, key support at the \$900 level (and then the \$800 level) and the most bullish orientation possible from the key moving averages.

The only concern is that price is above the upper Bollinger Band (not a major concern in a fresh new bull swing ... see early 2006 and late 2008 for the last time price remained above the upper Bollinger Band) and a negative momentum divergence has set-in. The dominant opinion is to be bullish gold at these new highs.

Weekly



According to classical technical analysis (price patterns), gold has triggered two upwards price projections.

2009 Triangle: Height=\$200. Breakout=\$975. $\$975 + \$200 = \$1,175$

2008-2009 Inverse Head and Shoulders= Head to Neckline Distance = \$300. Neckline = \$1,000. Target = \$1,300

These are the prices classic technicians will be watching (and are already predicting).

These are the targets to watch and play for, but I wouldn't be doing my job if I didn't caution that because the overwhelming majority of traders/speculators are bullish (some of which see higher prices in gold as an undeniable reality), a contrarian point of view - or at least some caution - might be warranted, because in the event that gold does start to fall, even slightly, it will take these people by surprise, driving prices lower in the same "popped stops" logic as described above which could result in an avalanche move down... however unlikely.

Daily



A short-term Bull Flag met its target on Thursday, which was \$1,060 (also known as a "Measured Move") and so we could have a short-term pullback from that level so watch for that possibility next week.

Otherwise, all signs point upwards, though expected support levels on any pullback include the \$1,000 level, \$960 (apex of triangle) and \$900.

Again, should price somehow make its way lower, it would enter the "pocket of stop-losses." Unless this happens, odds are strong - and expectations are high - that gold will continue to the upside as inflation fears kick in with a potentially recovering economy.

WTI Crude Oil (\$WTIC)

Monthly



For now, monthly crude oil's structure remains unchanged, which places key overhead resistance at the \$72 level which is reflected with the 20 EMA (\$72.01) and 50 EMA (\$70.33). The expectation from a wave point of view is to expect the "B" corrective wave to be complete and a "C" impulse wave down to begin... though (like the Wave 4 theory in stocks), any further upward movement, particularly above \$80, would argue that this count would be less likely, and that a 'new bull market' wave was underway.

Should the economy truly recover, then crude oil prices will rise. However, if there is a "double dip" or a worsening of economic conditions, then crude oil will fall. It all hinges on the health of the US economy going forward into the end of the year.

Weekly

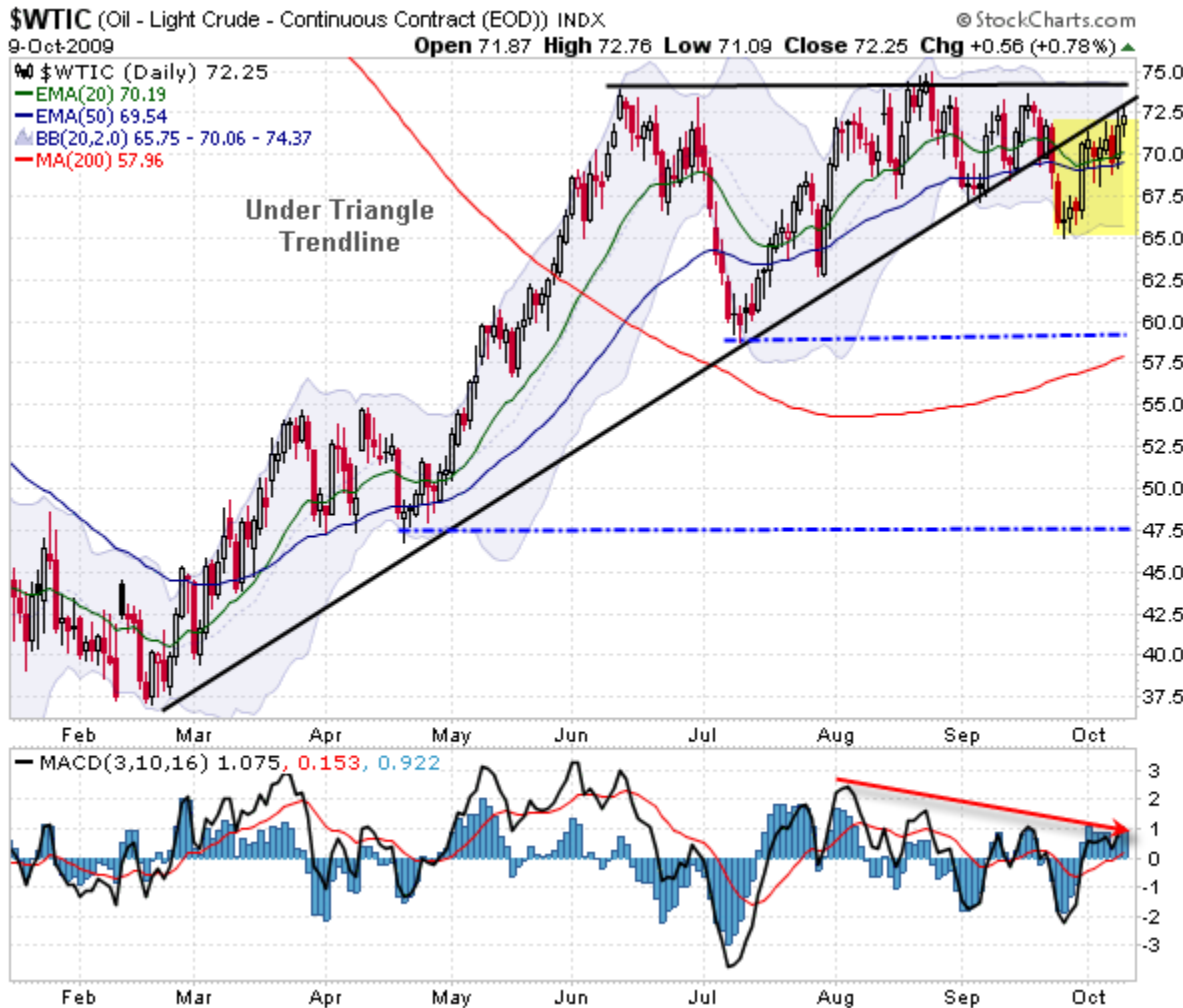


From a classic point of view, overhead resistance rests at \$75.34 (200 week SMA) as well as \$75.49 (upper Bollinger Band). Beyond that level, \$79.31 (38.2% Fibonacci) would be expected to hold as resistance.

It would be a complete game-changer if Crude Oil can break and remain for a few weeks above \$80.

Until then, the odds from a classic point of view favor downside prices, as evidenced by overhead resistance and a negative momentum divergence forming under price.

Daily



The daily chart shows a very interesting pattern. Let's focus on the dominant symmetrical triangle in Crude Oil prices. Price officially broke down from the lower trendline in mid-September, and - though price has rallied - price remains underneath that dominant lower trendline. This trendline is the line in the sand, and it currently rests about the \$73 level.

Should price break above \$73 in the week ahead, then it would invalidate the triangle and argue for higher prices to test the resistance at the \$75 level, but until that happens, classic odds/probabilities favor lower prices ahead, again thanks to a decline in momentum and overhead resistance... and the breakdown of a triangle pattern.

Initial downside targets include the \$60 level and then the \$47.50 level.

US Dollar Index (\$USD)

Monthly



Let's pull the perspective back and see the US Dollar Index from 1983.

Price plunged into the latter part of the 1980s, stabilized into a "Rounded Reversal," rose from 1995 onwards and then took another precipitous dive beginning in 2002.

Price has now formed a long-term positive momentum divergence (comparing the late 2004 lows near \$80 with the current 2008 lows near \$70) which preceded the recent sharp rally in late 2008 from \$70 to \$90, which took price to the 38.2% Fibonacci retracement (shown in prior reports) at the \$90 level.

For now, price remains in a pervasive downtrend and is beneath all key monthly moving averages... and the averages themselves are in the most bearish orientation possible.

Unless the Dollar can stage a rally here (see lower timeframe charts), then odds are that price will test the \$70 level and perhaps even crack to a new low within the next few months.

Weekly



I've been showing in the last few reports how this is the "Last Chance" for the Dollar Index to stage either a short-term (few months) retracement or intermediate term (perhaps into mid to late 2010) retracement/reversal .

This is due to a positive momentum divergence, price being at the lower Bollinger Band, bullish " long lower shadow" candles forming (including two dojis), and a 5-wave Elliott fractal move (see Daily chart).

This is just like the Stock Market - there is plenty of reason to think - from a chart perspective - that a rally can form here (including oversold and overextended conditions) but the Dollar continues to fall.

The trend structure, price structure, and moving average structure remain bearish, and unless these factors mentioned above can cause a short-term rally to the upside (with a stop-loss beneath \$75.50), then price will likely continue falling to challenge the next level of support at the \$71 area (driving commodity and stock prices higher).

If and when the Federal Reserve begins to strengthen (raise) Interest Rates, then the Dollar will rise (bonds will fall).

Daily



We see a closer view of the "potential bullish factors" which could turn the dollar index higher, including a lengthy multi-swing positive momentum divergence and "Three Push" Pattern (the most recent lows formed an internal positive momentum divergence), 5-wave Elliott fractal move into the \$76 lows, and price movement outside the lower Bollinger Band along with a "Bullish Engulfing" (almost) candle on Friday's close.

These are the technical pieces that argue for a possible retracement/reversal back to the upside, which would be confirmed with a break above \$78 (and trigger a long position). Aggressive traders can trigger in long here with a stop beneath \$75.50 or \$75.00... while conservative traders may want to wait for a break above \$78 to consider going long.

Otherwise, a break to a new low will be yet another short-sale signal which would argue that the trend structure (and sellers) overruled (invalidated) the possible chance of a reversal from these levels here.

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