

AFRAID to TRADE

overcoming stock market fears with Corey Rosenbloom



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes continue to remain within a trend channel, and it would be helpful to assess the outcome of the other markets to determine which outcome for bonds/notes is favored – a break above \$120 or beneath \$115.

S&P 500: The S&P 500 continues to remain overextended and forming negative divergences into overhead resistance... which has ceased to stop the bullish tide. Watch 1,100 and 1,021 next week as odds overwhelmingly favor – though do not guarantee – a down move.

Gold: Gold has hit price targets at the \$1,050 and \$1,060 level as shown. Any move higher than \$1,060 would argue for higher price yet to come, but until then, it would be logical to expect price to retrace some of the recent gains.

Crude Oil: Crude oil remains the strongest of the markets, having busted a sell signal and forced a momentum move higher. Remain bullish above \$80/\$81 and neutral beneath, but bearish under \$75.

US Dollar Index: No major change in the US Dollar Index – price continues its slide, though the \$74.50 area could be an inflection point... one of many that have failed as the battle between trend continuation and reversal persists.

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



Bonds stayed locked within the \$120 and \$115 trend channel, and nothing has changed this week.

The monthly chart shows overhead resistance at the \$120 level from the 38.2% Fibonacci retracement from the 2002 lows. Any break above \$120 would be very bullish and would argue for a price expansion up at least to \$125 if not beyond. Until then, the assumption is that price will remain within the trading range shown and that a downward move is favored.

There is another cross-current – should the stock market peak along with the dollar index reversing in the coming weeks, this would put bullish pressure on bonds to send them higher.

Weekly



The weekly chart does a better job of showing the current trading range in which bonds reside. The \$119/\$120 area is overhead resistance via the 20 and 50 EMAs along with the 61.8% retracement of the 2008 lows (not a traditional use of Fibonacci).

Support comes in at \$114 from the lower Bollinger Band (actually at \$115) and prior price support zones. The expected play is for bonds to trail lower to test support at \$114, though a stop-loss (flip and reverse) could be placed above \$120.

Otherwise (big picture) bonds/notes have been in a downtrend since the 2008 peak and – as such – odds favor lower prices ahead UNLESS the stock market peaks at current levels and investors rush into bonds (selling stocks to buy bonds).



A quick chart of the \$UST (as shown above – 10-year Note Price) and the S&P 500. \$UST is the solid line while S&P 500 is the candle chart with moving averages.

Bonds and stocks trade inverse *generally* which has been the case as shown for the duration of this chart. However, bonds have a slight leading edge at times to stocks.

As the stock market bottomed in July and began rising to the current 1,100 highs, the UST (10-year note) actually formed a double (or triple) bottom in August. With each new HIGH in the S&P 500, Bonds should be making a new LOW but they are not. In fact, Bonds and stocks are rising together currently... which is not the generally expected play.

Continue watching this because it could be a stealth indicator that the investors “in the know” are actually selling stocks and moving into bonds/notes while the general public is rushing into buy stocks.

Daily

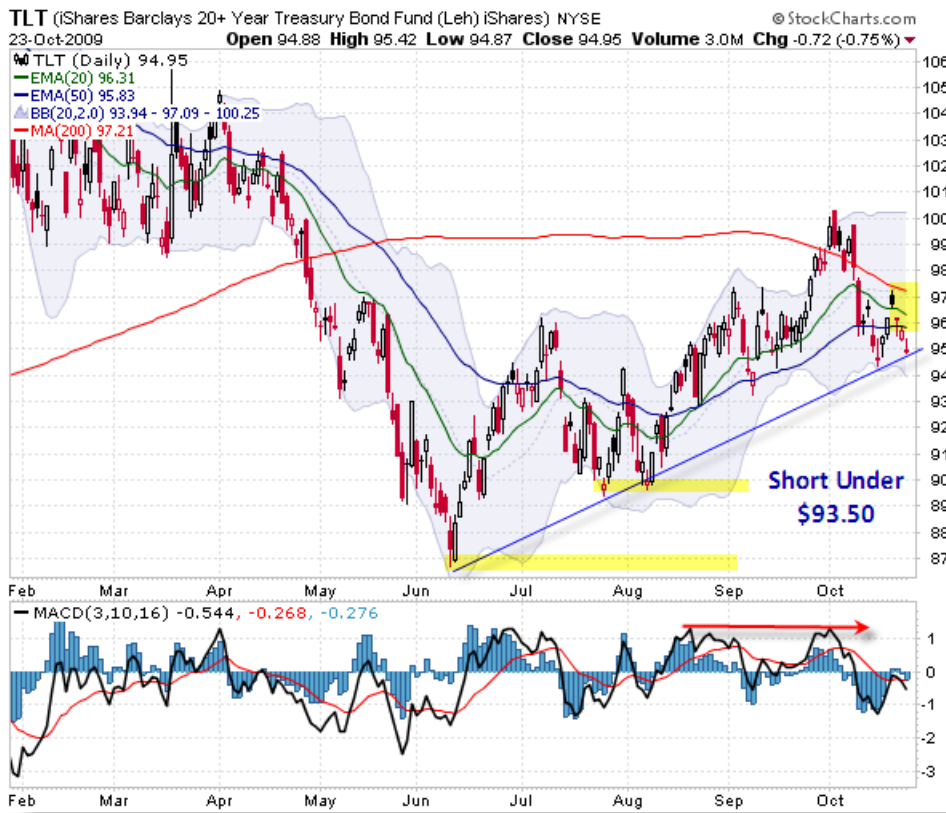


No major insights from the daily chart that have not already been mentioned... other than a slight negative momentum divergence has formed on the recent 'double top' into the \$120 level.

Price is under all EMAs on the daily chart, but barely. Price is in a trading range, so the moving averages hold less value than in a trending environment.

A possible target remains the \$115 area with a stop above \$120.

Again, should stocks start to fall from here, bonds/notes would be expected to rise, so it might be better to watch stocks for clues in bonds for the time being.



A quick look at the ETF “TLT” which reflects the 20+ Year Treasury Bonds and is a popular Bond ETF.

Watch for a trendline break under \$95 which would trigger a fresh short-sale signal with a stop above \$98 or even \$100.

Initial targets include \$90 and even \$87.

A bounce from \$95 here (bullish) would target \$100 to play for a long (buy) target.

US S&P 500 (\$SPX)

Monthly



No major change in the orientation of the S&P 500 since last week.

Price remains in an overextended, 8 month rally off the March 2009 lows.

Price has now hit a key target, or expected resistance level – being the “psychological” 1,100 target and is just under the critically important 1,121 level, which is the 50% Fibonacci Retracement of the entire bear market.

The reward for playing long is too low to overcome the risk to the downside, should prices begin falling here. This would be a likely profit-taking point for longer-term investors on ANY sign of weakness from here.

In the event that price rises above 1,125 (1,130), then the next overhead level is roughly the 1,156 level (50 month EMA) and then 1,228 (61.8% Fibonacci retracement). Any move over 1,130 would call the bearish case into severe question, but as long as price remains under 1,125, then odds and probability favor the downside bias from a risk-reward standpoint as the current expectation.

Weekly



The weekly chart shows us that there is “open air” above 1,121, so any move above 1,125 should trigger a ‘long’ bias to capture this ‘open air’ along with the stop-losses of the short-sellers.

There is a negative momentum divergence, negative volume divergence, overhead resistance at 1,121, and an “ABC” three-wave corrective move into resistance. Nothing is bullish about these developments.

However, as mentioned last week, there is a battle between ‘simple’ analysis and more ‘advanced’ analysis – meaning, “the trend is up, so buy pullbacks in an uptrend” is a “technical analysis 101” concept that forms the basis of many trading strategies. However, advanced technical analysis methods – such as showing the Elliott Wave count, negative divergences, and Fibonacci resistance – are all united in a bearish bias (being that price is overextended with non-confirmations).

This is what has made this rally so difficult for most people to trade – because of the conflict.

From a trading standpoint, again the odds favor downside action beginning right here, but any move above 1,125 would negate that powerful sell signal. You could short here with the knowledge that buyers are dominant and that you could indeed be stopped out – but that is the basis of any trade or investment – making probabilistic decisions under uncertainty.

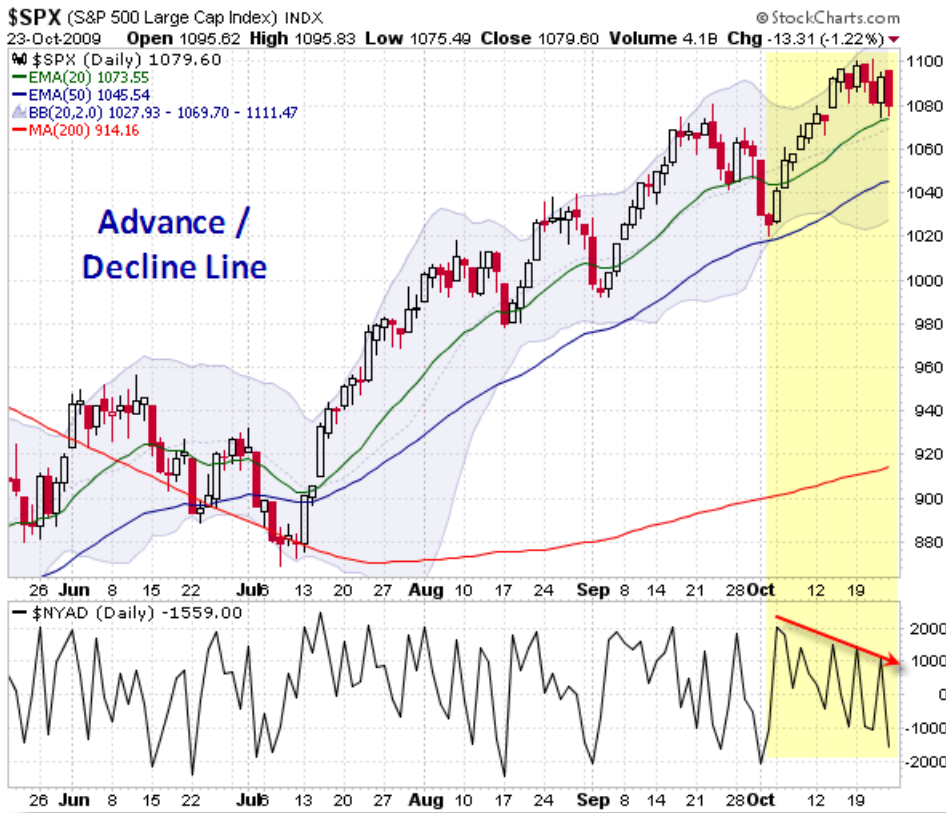
Daily:



The daily chart best shows the conflict between “Basic” analysis and “Advanced” analysis. ANY pullback to the 20 (or 50) day EMA has been an excellent low-risk successful buying opportunity. This is how price behaves in a solid, healthy uptrend and is how buy signals are generated.

However, everything outside of the moving averages is glaring ‘non-confirmation,’ including the negative volume divergence and negative momentum divergence (akin to the “Three Push” reversal pattern).

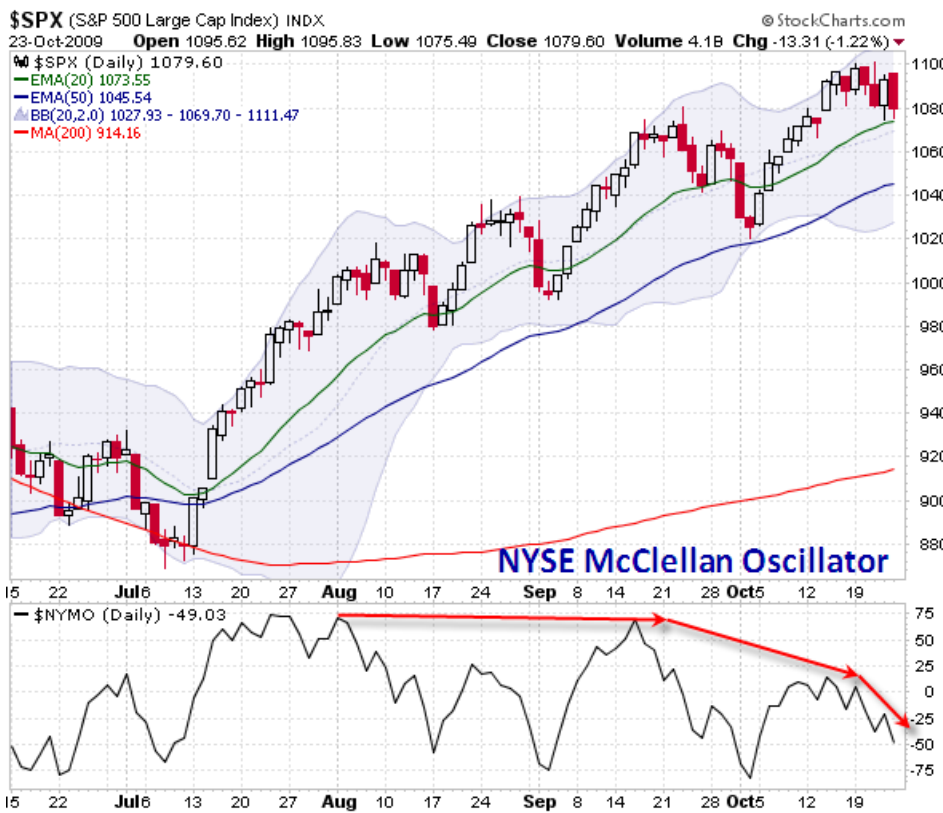
On the daily frame, it appears that a down-swing is imminent, though of short-term duration (like the prior brief 4% to 5% down-swings) or intermediate duration (like 15% or greater) is unknown now – odds favor a larger correction than normal but it has yet to materialize. Bulls do seem to be running on borrowed time, though a valid sell signal will be triggered only when price breaks the 50 EMA (unless you are comfortable shorting here at the highs with a tight stop).



Two charts showing “Breadth” per “Advancers and Decliners.” This is attempting to look deeper into the health of the market.

The picture also is bearish, with the NYSE Advance/Decline Line forming a distinct and obvious negative divergence... meaning fewer stocks are advancing each day relative to decliners, which often signals the buyers have run out of steam and a market correction – of short or intermediate term degree – is imminent.

To look for yourself, the symbol is \$NYAD in StockCharts.com.



Beyond the NYSE Advance/Decline Line, we see the NYSE McClellan Oscillator (which is a comparison moving average of Breadth, like we see above... it’s in essence a MACD indicator on the \$NYAD) also forming a distinct negative divergence.

In other words, the smoothed average of advancers and decliners is also forming a lengthy (three-push) negative indicator divergence with new price highs.

NONE of this guarantees price will fall, but it puts the odds overwhelmingly on the bearish or caution side, so you need to be keenly aware of these bearish non-confirmations.

Gold

Monthly



I've been showing two distinct Elliott Wave long-term counts for Gold – and this is the more “bearish” of the counts.

This is generally the view held by Elliott Wave International which places the current rally from the 2008 lows as a “B” Wave Rally in which a “C” wave correction down will follow.

Apart from the Elliott Count, we see the most bullish orientation possible for the monthly moving averages, an extremely strong trend, and price being above all moving averages. It is very difficult to take a bearish position in spite of all this ‘trend’ structural evidence. However, a negative momentum divergence has formed under price, which serves as a bearish non-confirmation of the recent price highs.



The alternate Elliott Count places us perhaps in the 3rd fractal wave of a final 5th wave advance, which – if this is the dominant wave structure – explains how we will reach the lofty \$1,300 price target as projected from the Inverse Head and Shoulders pattern.

On the monthly frame, watch \$900 and \$800 for support as shown from the 20 and 50 month EMAs.

Weekly



I'm showing a new pattern – one I've not heard discussed elsewhere. It is the "Measured Move" in gold, which starts with the late 2007 to early 2008 impulse and then adds this value – roughly \$350 – to the October 2008 lows near \$700 per ounce. This gives us a target of \$1,050 for gold under the "Measured Move" pattern which was achieved in the last two weeks.

As described on the daily chart, there is also a target at \$1,060 that was hit which was a price projection target from a daily bear flag. With both targets hit, it is possible a short-term pullback could be the next likely move.

A negative momentum divergence has also set-in as shown at the right side of the chart with the new price highs.

In addition, two dojis (weekly) have formed at the most recent price highs, which are bearish developments, particularly as price poked outside the upper Bollinger Band – that is a classic sell signal.

It would be bullish to see a move up outside \$1,060 that would negate these confluence targets and shake off (bust) the dojis at the upper Bollinger but UNTIL that happens, odds – with the exception of the trend structure - favor an immediate swing back to test the \$1,000 level.

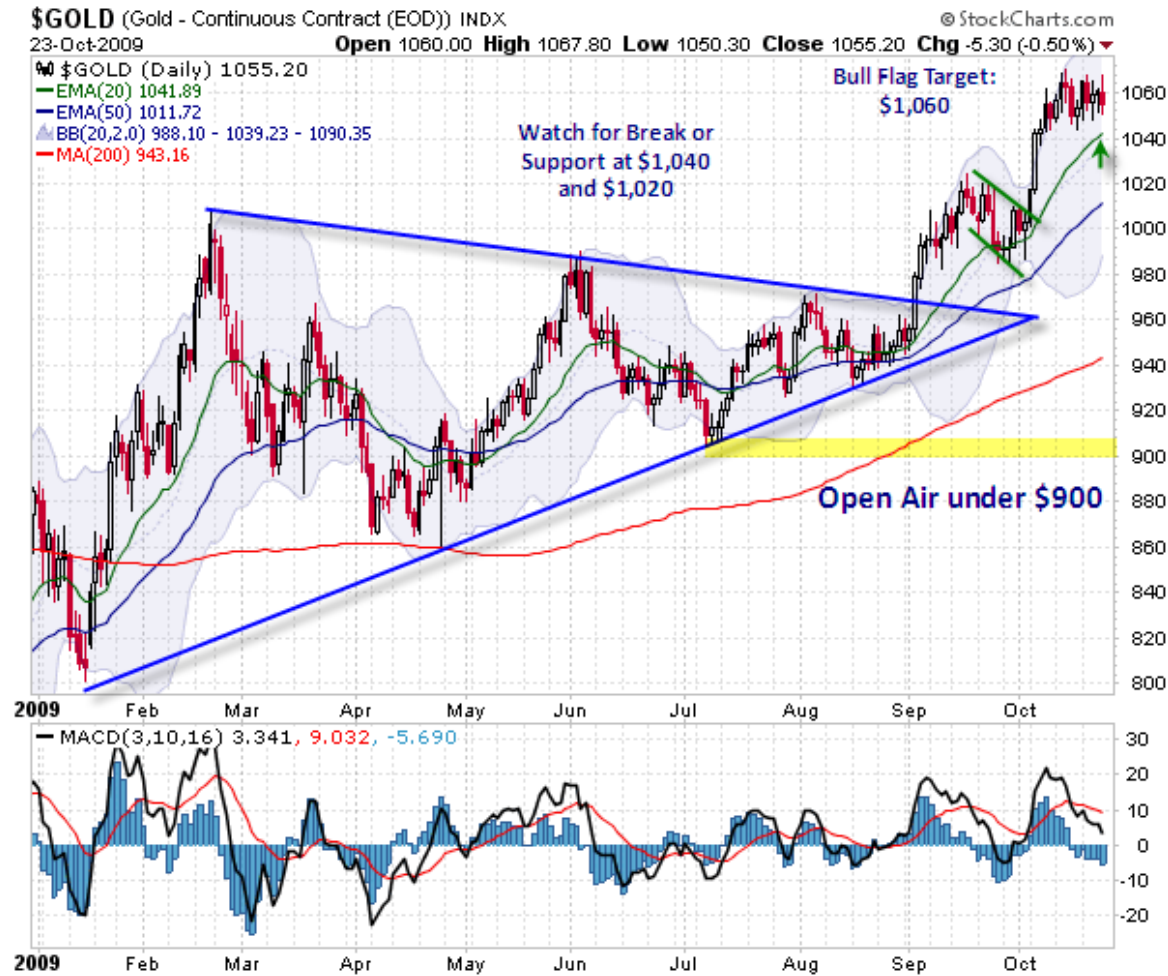


I'm showing the Inverse Head and Shoulders pattern that I've been describing over the last few weeks. The entry was a break above \$1,000 with a target of \$1,275 to \$1,300. If this is the dominant pattern, then gold could rise to this level rather quickly over the next few months... but let's not get ahead of ourselves yet.

As long as gold stays above \$1,000 per ounce, I would recommend being bullish, however, on any break of \$1,000, watch for a test of the 20 week EMA for support and if that level fails, watch the \$950 level which would be the 50 day EMA and back into the heart of the consolidation zone (triangle) for support.

A break beneath \$950 will trigger a test to \$900 (most likely) and then any break of \$900 will trigger many stop-losses from people who could not envision gold falling, and any break of \$850 would open the 'pocket' of open air that could pull price all the way back to \$700.

Daily



Again, we see 'open air' under \$900, but until price comes back to this level, we see bullish potential and lower support from the daily 20 EMA at \$1,040 and then the 50 EMA just above \$1,000 (not to mention the 'psychological' support of \$1,000).

Gold has shown a tendency – generality – not a rule – to travel along with the stock market and against (opposite) the dollar.

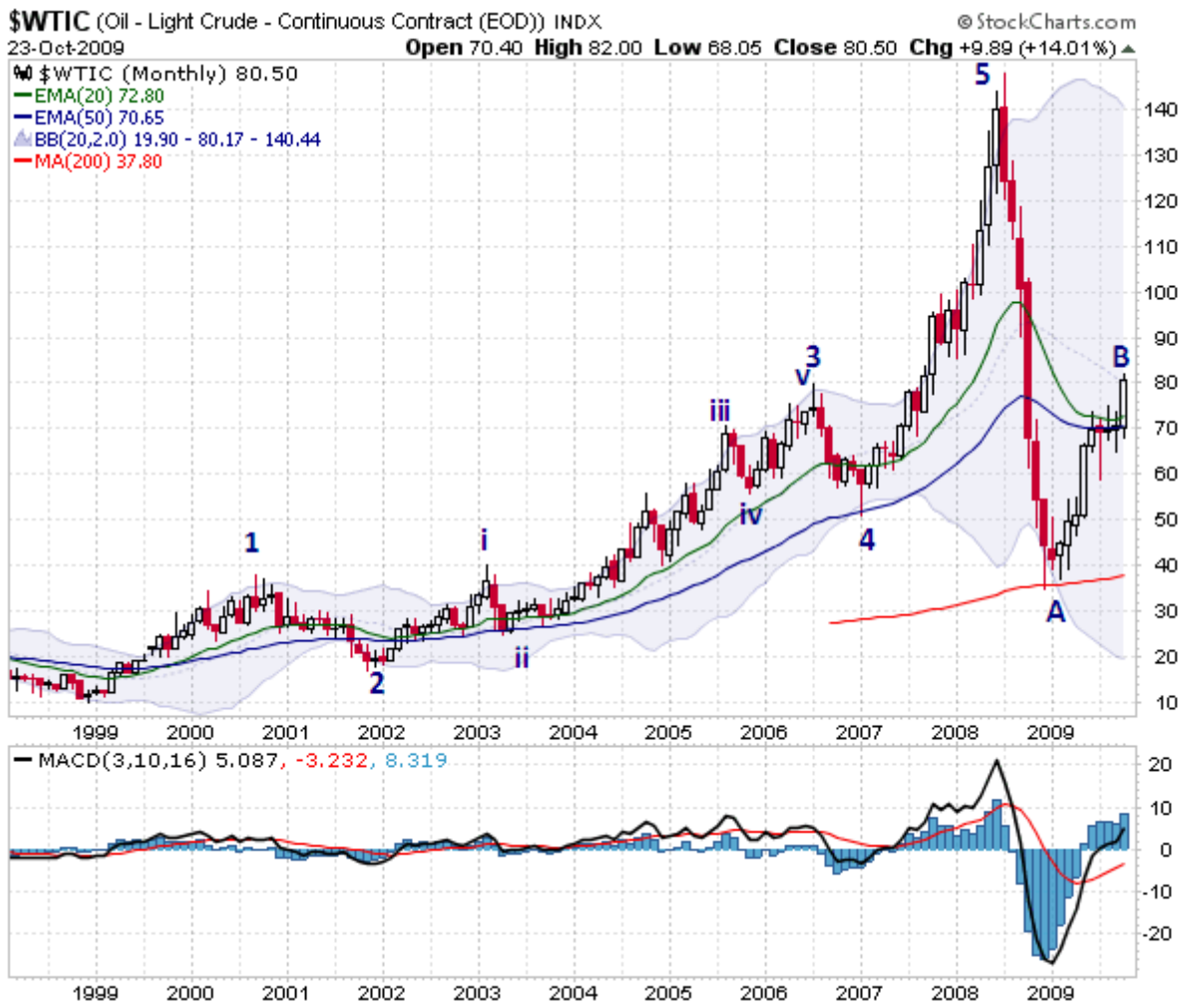
Keeping with our intermarket thesis, IF the stock market begins to fall at resistance, and IF the dollar begins to strengthen, THEN we would expect downward pressure/prices in gold.

If not (ie if stocks break above resistance at 1,120 and the dollar continues to fall to the possible \$71 target), then gold will continue a strong rise.

Herein lies the benefit of intermarket analysis (aka "Cross-Market Analysis") which allows you to form an "Inter-market" opinion and a larger picture of the broader markets and how one market influences another.

WTI Crude Oil (\$WTIC)

Monthly



Crude Oil gave us a powerful break to the upside over the last two weeks which has held into the high close on Friday.

This count reflects what I believe to be the dominant (primary) Elliott Wave Count, which labels crude oil as being in a “B” wave rally and the \$80 to \$81 level as being a critical resistance level to watch.

A continued move above \$80 puts this count at risk, but as long as price is under \$80, then this appears to be the most logical count.

Price ‘busted’ a short-sale signal that was given from three dojis at overhead resistance (the 20 and 50 period EMA) which was a powerful and unexpected move – this shows underlying and hidden strength in that buyers were able to overcome the selling pressure which these technical signals gave. The stop-losses from the sellers in part contributed to the upward pressure.

Weekly

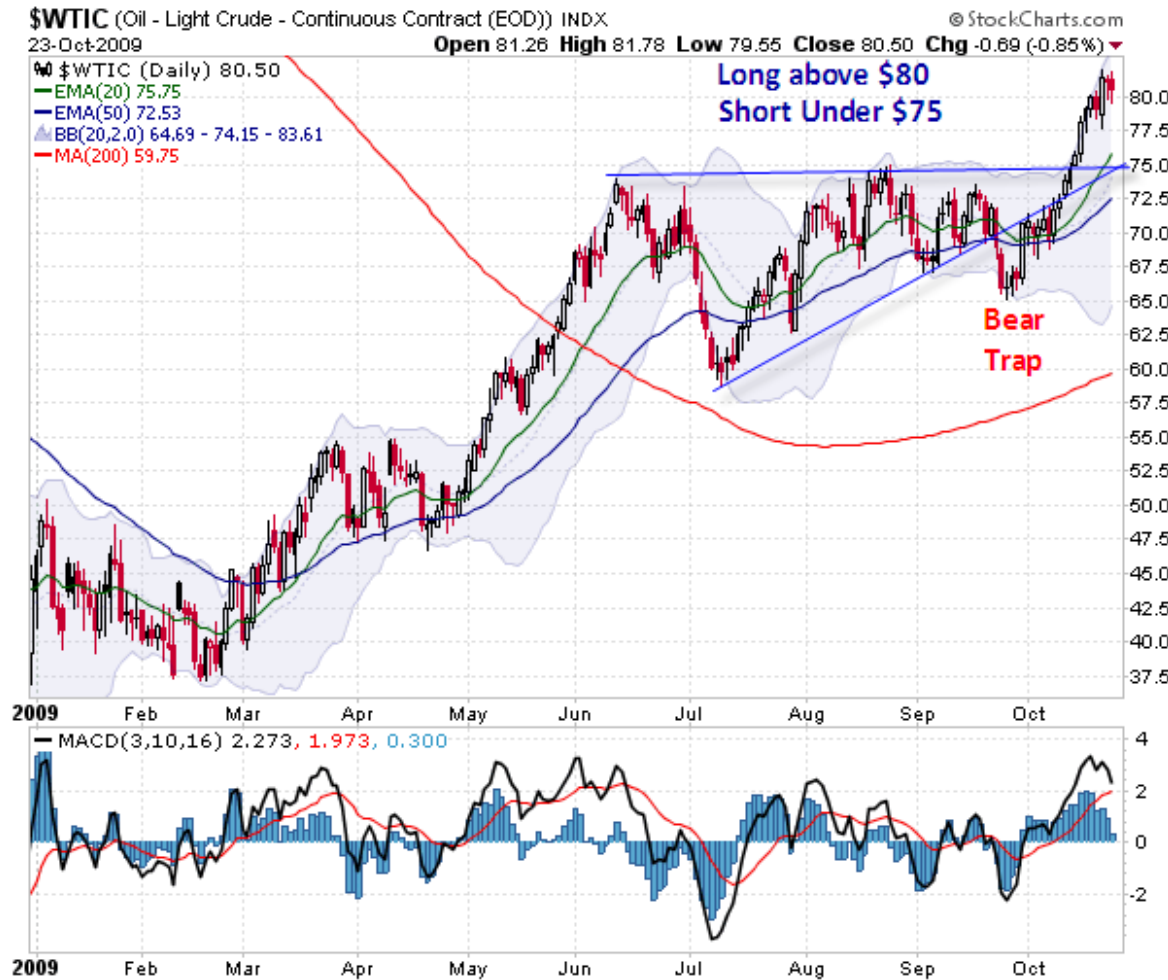


In keeping with the price targeting and expectations, any move above \$81 should result in a continuation to the upside to test the \$92.94/\$93 level which reflects a prior support level (spike) as well as the 50% Fibonacci retracement.

If sellers manage to push price back beneath \$80, then we would expect the journey of price to continue to challenge the \$70 level (confluence EMA support on the weekly chart) and even the \$60 level for a maximum down-move (before reassessing).

Like gold, a negative momentum divergence has formed and – also like gold – any move DOWN in the stock market would be bearish for crude oil as well as any move UP in the dollar would be bearish for Crude Oil.

Daily



Crude Oil sprung a “Bear Trap” unexpectedly in October after breaking downwards from an ascending triangle pattern (that had a target of \$60 per barrel). The upward break above \$75 – the point to place stop-losses – triggered these stop-losses and helped fuel the recent move (along with new buyers) to the recent \$80 price highs (new highs for 2009).

The \$75 area is now a powerful and expected support area which, if broken, would almost certainly lead to a move down to \$60, and even \$60 over time.

Otherwise, we would expect to be bullish as long as price remained above \$80, though the next likely move seems to be a down-move to retest the \$75 level, given the currently overextended conditions and reversal candles at the upper Bollinger Band.

Remember the intermarket thesis – if Stocks Fall and the Dollar strengthens, then Crude Oil (and Gold) will fall from their overbought conditions and bonds will likely strengthen – a REVERSAL of Trends.

If Stocks break through 1,121 resistance and the Dollar breaks to new lows, then Crude Oil and Gold will both break to new highs and bonds/notes will trail lower to test the lower side of their trendline – a CONTINUATION of trends.

US Dollar Index (\$USD)

Monthly



The US Dollar Index continues its slide on a trajectory to test the 2008 lows if a reversal or retracement up does not occur within the next few weeks.

The monthly chart offers us no clues, other than to say the trend is strongly down, with price being beneath all EMAs, and these moving averages being in the most bearish orientation possible (the exact opposite of gold).

Weekly



With the maximum target being \$72/\$71, this is the pathway that the Dollar will travel UNLESS price can rally off the prior support zone in 2007 of roughly \$74.50. As long as price is beneath \$75 and \$74.50, the play is for a retest of the \$71 lows. However, like the inverse of the stock market, price is deeply overextended to the downside and is forming lengthy positive momentum divergences... as well as forming another 'doji' candle at the lower Bollinger Band... signals which have failed in the recent past as the down-trend (selling pressure) overswept buyers/bulls at lower levels trying to catch a falling knife.

Let's turn finally to the daily chart.

Daily



We do see a complete 5-wave Elliott structure into the recent lows, but that does not mean a turn is imminent, only probable.

Friday's action was a near bullish engulfing candle after a gravestone doji that formed at the lower Bollinger Band... but it was one of many that have failed to yield a reversal.

As such, unless you are an aggressive trader willing to accept risk, you should likely wait until we see price strength above \$76 or even \$77 preferably before getting long, though a reversal up could form at any time.

A multi-swing positive momentum divergence has formed under the index, which is a non-confirmation of recent lows, but again, price is not required to rise because a divergence forms – it just serves as a non-confirmation of lower prices.

Like stocks, the Dollar reflects the battle of basic TA (Trend) vs advanced TA (positive divergences, Elliott Wave, Candles, Bollinger Bands, etc).



As a bonus, we see the Euro Index (\$XEU) which is roughly a mirror image for the US Dollar Index.

The Euro tends to trade in line (positively correlated) with the US Stock Market and the Gold/Crude Oil (Commodities) market. Generally speaking, the Euro is inverse US Bonds and the US Dollar Index.

I show this only for reference, as we see the same overextended conditions, complete 5th wave pattern, and lengthy negative momentum divergences – just inverse of the Dollar Index.

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