

AFRAID to TRADE

overcoming stock market fears with Corey Rosenbloom



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Shorter-term timeframes show a consolidation rectangle for bond/note prices, but I raise the perspective to show an upward bias and expectancy from the higher timeframes for bonds. Strength in bonds is generally bearish for the stock market.

S&P 500: The stock market is giving a major sell signal on the monthly frame, but watch support from lower timeframe moving averages at the 980 level. The next week should give us a clue as to potential resolution of the current levels - a break above 1,100 would further thwart the bears, though odds seem to favor a downward move from here.

Gold: Gold remains hovering near highs, but not able to break them. I show breakout levels and support zones, and revisit the notion of "waiting" for confirmation and not being caught up in bias.

Crude Oil: Crude is flashing a potential sell signal on a "Throwback" rally into the lower trendline of a breakout of a triangle pattern. Any move up here would invalidate bearishness, but from here, odds favor lower prices.

US Dollar Index: The higher timeframes in the US Dollar Index continue to be bearish, though bulls have a powerful - if not final - chance to push price higher from here. Watch the levels shown in this week's report for clues.

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



I wanted to start with a different first chart that actually shows the 30-year Bond Price (\$USB) since the mid-1980s for a bit of depth perspective.

The trajectory of bond prices has solidly been upwards in a long-term rising channel since the early 1980s that continues 30 years later to this day.

You can also see that there have been three prior "spikes" (1993, 1998, and 2003) that have preceded the recent 2008 spike - which produced a pullback to the lower trendline. That has happened recently, so if history is any guide, then we should expect further upside prices in the established Bond Trend channel.

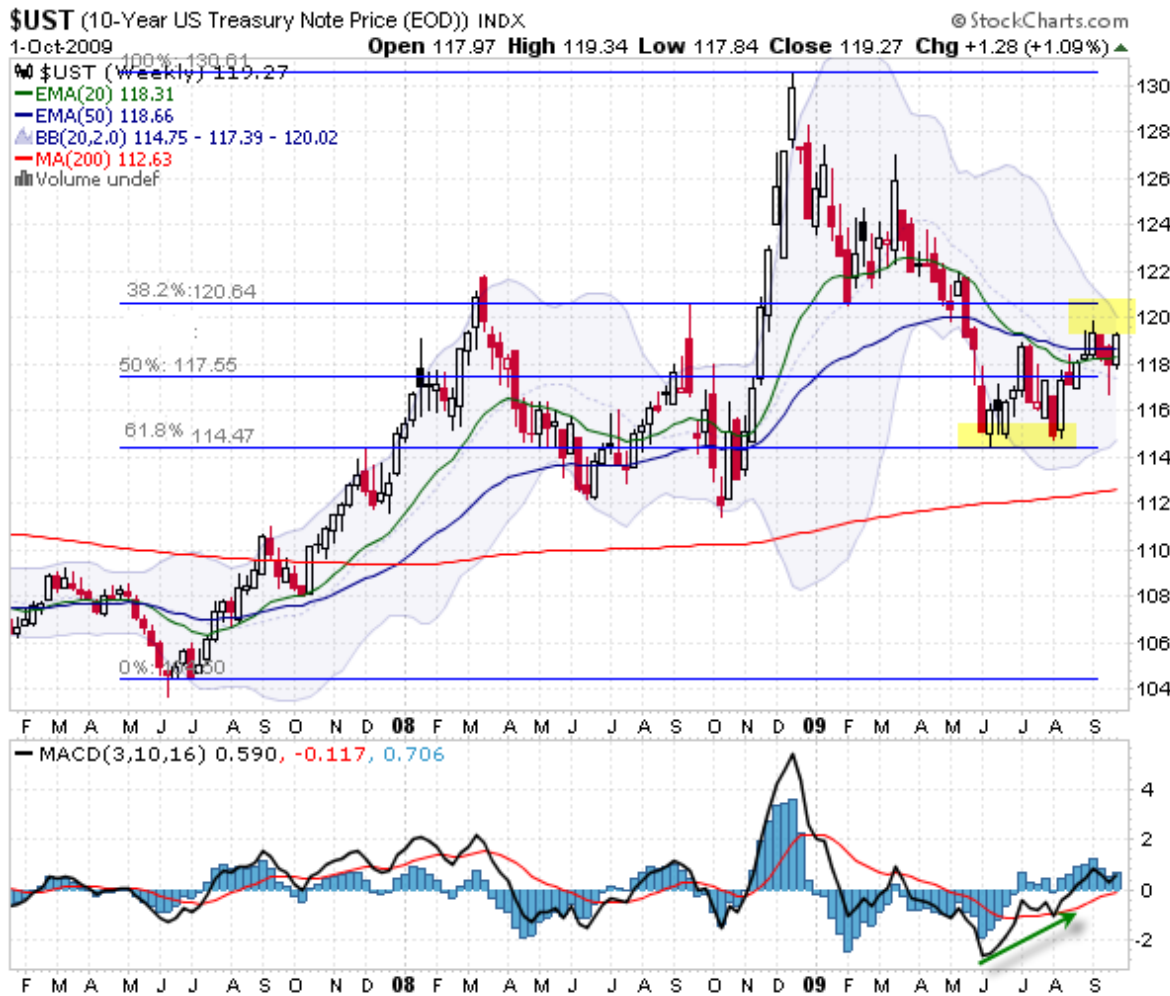
As such, higher timeframe prices argue for likely increased prices on bonds - let's now see the \$UST Ten-Year Note.



Carrying this logic forward, we would place an upside bias on bond/note prices, particularly since they have found support not only on long-term trendlines, but on monthly moving averages (50 month) as shown above.

A break above \$120 (index level) should confirm this bias - and we'll use the lower timeframes to see why the \$120 index level is so important.

Weekly



The weekly chart shows that prices also bounced off the 61.8% Fibonacci retracement (on a positive momentum divergence) at the \$114 level over the last few months. Price has also risen above the flattening 20 and 50 week EMAs (at the \$118.50 level) and we'd need to remain bullish as long as bond/note prices remain above these averages.

The \$120 level is important, as it reflects prior price support and resistance, as well as the 38.2% upper Fibonacci zone. A break above \$120 puts us into "open air" with no further overhead resistance.

The widely known bond ETF - symbol TLT - is showing positive momentum and a higher high into a bullish structure.

Keeping this bullish bias in mind, let's drop down to the daily frame.

Daily



Again, we see that a rising trendline (in fact, a channel) has formed since June, which terminates at the \$120 level. A break above \$121 places price above the 200 day SMA, which would certainly be a very bullish development and argue for an upwards trend change - and again the "open air" concept beyond \$121.

Bonds/notes have rallied almost non-stop for the last 8 or so trading days after gapping down to the \$117 level - that's bullish.

Price remains bullishly above the 20 and 50 day EMA as well.

The \$120 level could prove to be resistance, which would argue for a move down inside the price channel so there's no major trading signal just yet, but a break above index level \$120 and \$121 would argue for a bullish price reversal into which you could position or hedge.

A bullish breakout in bond/note prices would be bearish for the stock market - as money could rotate out of 'risky' stocks and into 'stable' bonds in aggregate.

Watch this closely in the week ahead.

US S&P 500 (\$SPX)

Monthly



By any objective standards, the S&P 500 has flashed a powerful sell signal (exit longs/get short) as we've pulled up and appear to be failing at the 20 month EMA (as well as SMA) - which is just shy of the round number 1,100 level (and the 1,122 level, which is the 50% Fibonacci retracement from the high to the recent low). The volume divergence is a non-confirmation of one of the most powerful rallies in stock market history.

The S&P 500 has a very bearish bias so long as price remains under 1,100, which flows down to the lower timeframes. Any move above 1,125 would overrule this sell signal - which is a logical place for investment/position trading stop-losses for those so inclined to position here with a relatively low risk, high probability trade. Nothing can be said bullish about price here on the monthly chart unless we close above 1,100 and then above 1,125.

Weekly



We now see the dominant Fibonacci grid from the 2007 highs to the 2009 lows - of note, the 38.2% retracement lies at 1,014, and the 50% retracement lies at 1,122. Price is also at the upper weekly Bollinger Band and appears to be failing at these levels.

While there is nothing bullish to say about the monthly chart, I have to point out a powerful potential "line in the sand" support level on the weekly frame - it comes from the direct confluence/crossing of the 20 and 50 week EMAs (20 EMA green is 983 and the 50 week EMA is at 984 to be precise). Bulls need to hold price above this level - and as such - it is declared the "line in the sand" for future expectations. It's likely that a close beneath 980 would be a major weekly sell signal as price cracks this expected support area - and could be an area to watch for conservative traders waiting to see if bulls can continue to push prices here. As such watch for any break beneath 980 to usher in selling that would likely take price down to 900 at a minimum, if not a fall back to the 800 or even 700 level if this rally was all 'smoke and mirrors' as some people suspect it was.

Again, we see the 1,100 and 1,122 levels as being their own bullish "lines in the sand," in that if bulls can close solidly above these levels, it would be a major defeat for short-sellers. Those are the two boundaries to watch for support and "trigger" levels. Again, the bearish bias bleeds down from the monthly chart (that, and the seasonally unfavorable month of October for equities).

Daily:



The Daily chart offers its own personal line in the sand for shorter term/swing traders. The 50 day EMA rests at 1,017, which held support on Friday's market trading session. The lower Bollinger Band also rests exactly at 1,017, so we need to watch this level extremely carefully for the implications and trading opportunities it presents. A break of 1,017 sets up a scalp down to test weekly EMA support at the 980 level, and a failure to hold 980 sets up an almost certain 'open air' test of 900.

However, bulls could pull more magic out of the hat and force an upswing off this 1,017 confluence support level, so I would not recommend aggressive shorting unless 1,017 is broken. Otherwise, watch price action closely early in the week to see if Bulls can pull any type of rally off confluence support, and if not, consider shorting under 1,017.

A negative momentum divergence - as well as a decrease in volume - has marked this lengthy rally since July's lows.

Gold

Monthly



Gold still remains at a precarious level but the structure remains unchanged.

The analysis is still the same - a break to new highs above \$1,030 per ounce should lead to a continual momentum move and price expansion to the upside, however since this is the dominant view, it would pay to look at what would happen if those views are unfulfilled - namely, in a price move lower.

Price has formed a sort of Mirror-Image pattern which has taken us back to the recent highs, but price has been unable to overcome them. The potential Elliott Wave structure places us in a "B" Corrective wave awaiting a "C" wave down, which would be invalidated with a close to new highs.

A distinct negative momentum divergence has also set-in at the recent 2009 price highs, which serves as a non-confirmation.

We see the 20 month EMA at \$900, so watch that for any expected support on a move down, though a break of \$900 leads to "Open Air" to the downside and a tradeable move upon support breaking.

Weekly



The Weekly chart shows the "V-Image" or "Mirror Image Foldback" pattern into the highs. If this is the dominant pattern, then we could expect a move down to complete the 'mirror image.'

However, there are key levels to watch for clues to the price pathway and opportunities ahead.

Again, any break to new highs above the \$1,030 highs from 2008 should lead to a positive feedback environment which would push price higher - this is the consensus view.

Price has failed to break to a new high, and in fact, formed a doji and then "Evening Star" type candle pattern above the upper Bollinger Band, which serves as a technical sell signal - which of course would be invalidated (stop-loss) on a price close to new highs.

Until then, price could fall back to test the breakout level at \$950, which would reflect the lower trendline as well as the 20 day EMA. Watch for a buy signal to develop at that point, OR if price fails to hold support at \$950, watch for a test of the 50 week EMA at \$925. Should price break \$925 and then break \$900 to the downside, I would expect a large-scale expansion move to the downside as many traders will be taken off balance by this move and forced to sell some of their position (via stop-losses). This would create an opportunity for the nimble swing or day-trader.

Daily



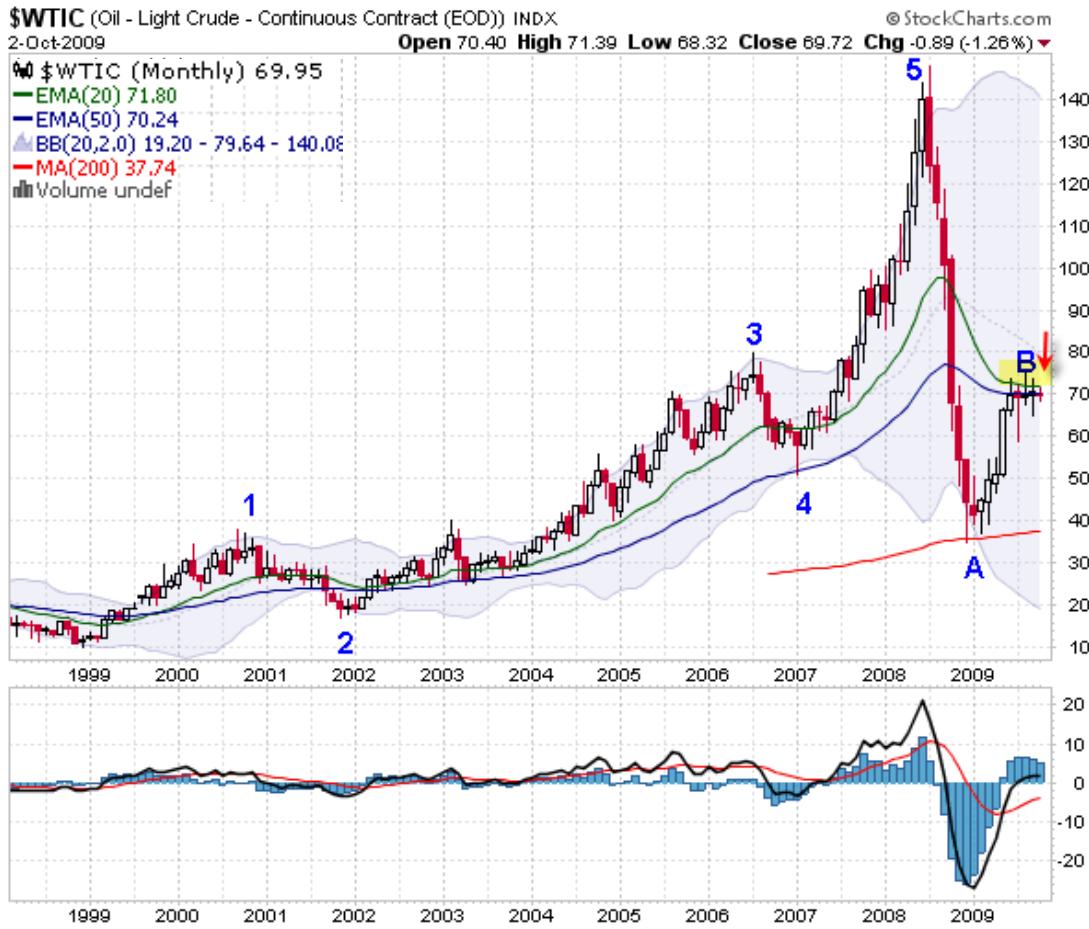
The same logic and discussion from the weekly chart plays out on the daily chart, only in more detail.

Price bounced off the support zone from the daily 20 EMA near the \$1,000 level, so watch to see if this level continues to hold. A break beneath \$1,000 would be quite bearish, though we would need to see how buyers behaved at the \$950 level (which is the Apex - technically the \$960 level).

Play long above \$1,030 and short under \$960 - particularly if price can enter the "pocket of stop-losses" that exist underneath the obvious triangle pattern.

WTI Crude Oil (\$WTIC)

Monthly



Crude Oil's structure also remains unchanged, which has a similar wave count as Gold, placing it at the termination of the "B" Wave up into confluence resistance, awaiting a possible "C" Wave down.

The \$70 to \$75 level continues to hold as overhead EMA resistance after a sharp rally off the 2009 lows.

A break above \$75 would argue against this bearish interpretation, but as long as price is under \$75, odds seem to favor the short or bearish side.

Weekly



We now see the "Lines in the Sand" from weekly EMAs and overhead Fibonacci zones in price.

First, price is supporting off the rising 20 week EMA which is now situated at the \$67 level. The weekly 50 EMA rests just shy of \$68 per share, which forms a confluence support zone.

Overhead, the price seems to be respecting the 200 week SMA which now sits at \$75.27.

As such, these are the expected levels into which price has consolidated into a daily chart triangle formation, and thus setting up the expectations for an expansion move bullish above \$75 or bearish under \$67.

A negative weekly momentum divergence has also set-in, which casts the odds slightly in favor of a downside break.

Daily

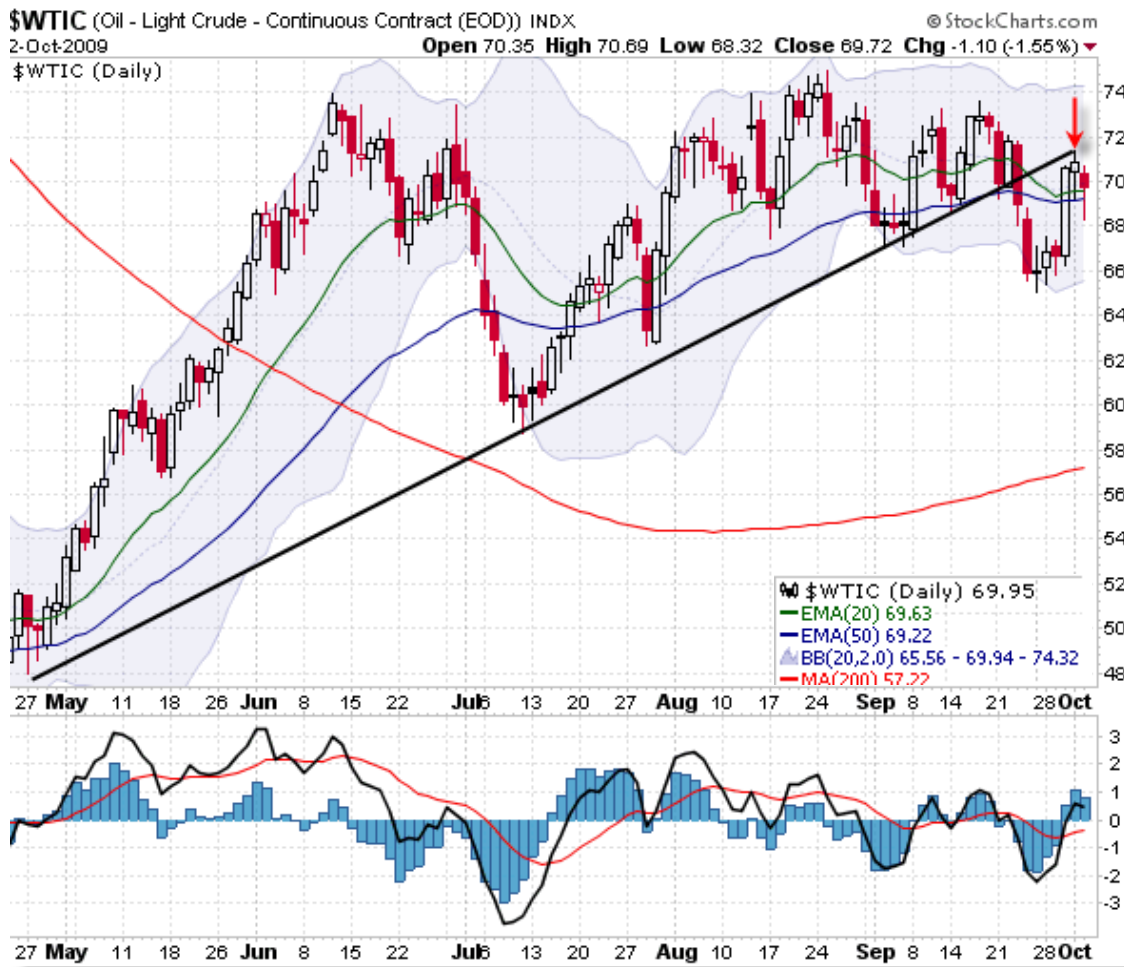


The daily chart gives us a clearer picture of the triangle consolidation pattern, which underscores the opportunities and expected target/breakout levels.

As of Friday's close, price had formed a "pullback" or "Throwback" to test the underside of the rising trendline after a clean break late last week.

This often gives a "second chance" opportunity for aggressive or even conservative traders to "get short" if they missed the breakout zone. It's a low-risk entry as the stop-loss would be placed above \$75 and the entry would be here, close to \$70. Short-term targets include the \$60 level (prior support) and \$57 (the 200 day SMA). Intermediate to longer-term targets include the \$50 level or all the way back to the \$40 lows.

A negative divergence has set-in at the recent highs, and the structure remains on the defensive unless we get a price break above \$75, which would invalidate the bearish position or expectations on Crude Oil.



This chart zooms us in on the daily frame to see the "Throwback" or "Last chance" trade entry short. A close above \$72.00 invalidates the short-sale trade (or aggressively above \$75) with entry being anywhere beneath \$70.

US Dollar Index (\$USD)

Monthly



No change in the structure of the US Dollar Index, which remains in a pervasive downtrend... with a "last chance" to rally (as seen on the lower frames).

Failure to force a price swing up here would result in a test of the \$71 area as the downtrend overcame any buying pressure that could have forced a rally at current levels.

Weekly



The weekly chart offers a bearish trend, as evidenced by lower price lows and lower price highs, as well as price being beneath all moving averages, and these moving averages being in the most bearish orientation possible. Under the "Trend Continuity" Principle, lower prices would be expected.

However, currently, bulls have some good evidence to mount a short-term or intermediate term counter-trend rally from here, which might be a potentially good scalping/swing trading opportunity long for aggressive traders.

Price has formed two doji candles (reversal/indecision candles) at the lower Bollinger Band at the \$76 level... on a positive momentum divergence. Those are bullish omens and we'll take a look at the daily chart for one more bit of evidence to suspect a possible retracement/reversal up from the \$76 level.

It's a make or break - failure for bulls to hold \$76 would argue for a play back to the \$71 lows at a minimum.

Daily



In addition to the bullish signals from the weekly chart, we see a complete 5-wave structure (Elliott Fractal), which is further evidence to expect a possible move up.

Due to the strong down-trend, I would suggest not getting very bullish unless bulls can close above the \$78 level (above the 50 day EMA). Otherwise, this is just a "pausing period" in the established downtrend.

Price has crossed above the 20 day EMA which is bullish, though look back to all the other times bulls did so but were met with another downward move. A close above the 50 EMA would be a valuable victory for bulls, and would allow a swing-trading opportunity in an expected move higher.

Otherwise, again, failure under \$76 means the higher timeframe trend was too dominant to the possible buying pressure here that could cause a short-term or intermediate term up move.

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