

# **AFRAID** to **TRADE**

overcoming stock market fears *with* Corey Rosenbloom 

## ***Weekly Inter-market Technical Report***

### Summary Comments

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**Ten-Year Notes:** Price remains in a trading range that constricted more last week. Watch for a break up above \$120 or beneath \$117 (or \$115) before establishing a new position.

**S&P 500:** I add additional commentary on the S&P 500, which remains under critical resistance as various non-confirmations from volume, momentum, and breadth form to argue for a downward move... that might actually prove to be yet another bear trap.

**Gold:** Gold hit the \$1,100 target and this level could serve as short-term resistance, given the bearish undertones (divergences, complete 5-wave count) into this level. A move above \$1,100 argues for higher prices yet watch for at least a short-term pullback from here.

**Crude Oil:** Crude Oil continues to be the most volatile market, swinging up and down 3% on different days last week. Still, the \$81 level is the line in the sand between being a bull or bear on Crude.

**US Dollar Index:** No major change in the US Dollar Index. Still the \$77 level is critical to watch to expect an upward turn in the Index, but until that happens, the overall downtrend remains strong and a break of \$75 would trigger an expectation to continue back down to \$71.

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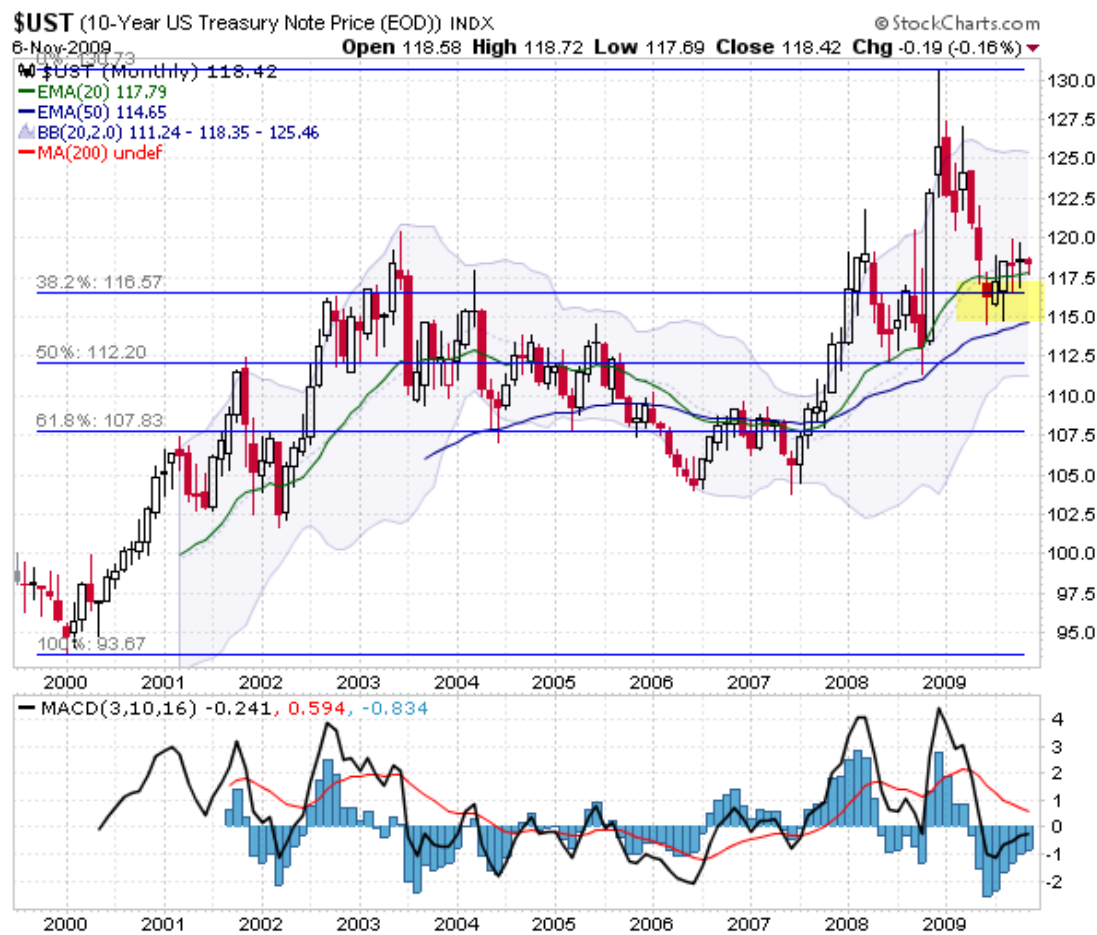
Remember, a DECLINING Dollar (Index) is BULLISH for Stocks and Commodities and is BEARISH for Bond Prices

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



As last week, Treasuries seem to be the hardest market to call, as prices remain in a trading range (the last two months show 'dojis' or indecision candles, and the lower frames show a constricting range), so the simple, 10,000 foot view is to be long a break above \$120 (which would correspond with a falling stock market) or short under \$115 (which would correspond with a continually rising stock market).

If you must trade within the current \$5 index range, then look to the lower frames for reference and target points.

As a general statement, note prices remain in an uptrend, the moving average structure (and price structure) remain bullish, and price is above all EMAs, arguing that they would be expected to hold as support. Also, the long-term 38.2% Fibonacci retracement rests at \$116.50, which has held as support for the last two months' low prices.

Simple structure would place the odds in favor of higher prices, but that doesn't make interpreting the short-term moves easy.

## Weekly



The weekly chart gives us a better frame of reference for the support and resistance zones - being \$120.60 (Fibonacci) and \$120 (Bollinger Band at prior price resistance) as resistance; \$114.50 being support (Fibonacci and prior support).

Between those zones/boundaries, price is constricting, potentially building up for an expansion move, but keeping note prices tightly bound within a \$5 range.

## Daily



The daily frame shows these boundaries even clearer, and shows a 'hidden' recent support boundary that now exists at the \$117 level for support and \$120 for overhead resistance.

A breakdown of \$117 could send price in a tradeable move down to the \$115 area, and of course a break of \$115 would be a short-sale position entry... just as an upward break of \$120 would be cause to establish a long/buy position in bonds/notes.

Momentum - along with price - continues to compress and consolidate, and a breakout could lead to an expansion move.

Bonds generally trade inverse stocks in the current environment, as a downturn in the stock market would likely be good for bonds (bullish), though further price strength and a break above the 1,100 S&P index level would be bearish for bonds.

# US S&P 500 (\$SPX)

## Monthly



Though a straight-up month-over-month rally without stopping for price to retrace to catch a breath is certainly possible - it is very, very, very improbable that we continue to receive seven more 'up' months in a row.

Any reasonable chart analysis would be calling for an "exit longs" and even "consider going short" right here, as price has rallied up into the 1,100 price target, 50% Fibonacci retracement, 20 week EMA, and prior support (new resistance) line - all of which converge at the 1,100 level. This rally has also occurred on declining volume since the rally began, serving as a non-confirmation of the rally. Being long at these levels is doing so against the odds/probabilities, however just because the odds favor a down-move does not mean that price will automatically reverse and fall... though it is difficult for most traders to envision higher prices from here without some sort of pullback and the 1,100 confluence resistance level seems like the highest probability place for a decline of short to intermediate degree to materialize.



## Daily:



One quick point - look at the highlighted range to see that on the last five days of rallies (this week), volume has been lower on every single day - and that's taking into account Wednesday was a "Fed Day" and Friday was a "Jobs Report" day. That is a bearish internal non-confirmation of higher prices according to classic technical analysis.

But we again see the battle - the "TA 101" concept of "trend" and "structure" remain positive and bullish (higher highs, higher lows as well as the most bullish moving average structure possible). However, underneath the positive, bullish trend, we see non-confirmations as mentioned in volume, market internals, and the 3/10 Momentum oscillator on the prior three swing highs (non-confirmations). Other than the "Basic" up-trend occurring, I can find nothing to argue in favor of higher prices and plenty to argue in favor of lower prices. However, making money is not the same as 'being a 100% correct analyst' and I do my best to keep an open mind when conducting market analysis, so it is entirely possible that prices continue to rise, overriding these 'advanced' concept non-confirmations. Personally, I do feel like this is a game of musical chairs, in that when the bullish 'music stops,' then the market will careen lower, but it is theoretically impossible to tell exactly when the 'music will stop.' A lot of the upward rally is due to the Obama Administration and

the Treasury 'flooding' the Economy with liquidity in terms of the government bail-outs, Homebuyer and (previous) "Cash for Clunkers" Tax Credits and extension of Unemployment benefits along with the (necessary) low interest rates. Thus, liquidity - flooding the economy with money - will cause stock prices to rise (it is inflationary as it weakens the US Dollar against other currencies and - in general - drives commodity (gold, Crude Oil, etc) prices higher (creating liquidity bubbles).

Thus, the 'analyst's problem' is that he might read all these negative non-confirmations into the charts (divergences, overhead resistance, etc) but none of that matters when the government is flooding the economy with liquidity. Neither does a rising Unemployment Rate which, in turn, causes the Government to act MORE to flood MORE liquidity into the economy pushing stock prices even higher.

Technical, Quantitative (statistical) and even Fundamental Analysis are all based on observing/studying past price behavior, quantifying it, and then seeing the patterns (or structures) repeat into the future and expecting the same result (for example, each time there has been a negative breadth divergence with stock prices, prices have declined after the divergence formed). However, we are seeing perhaps unprecedented Government Interjection and Assistance into the Financial Markets. As such, these historically valid and back-tested patterns are failing to produce the expected results (so far).

What I see happening is that the market is getting more overextended, breadth and volume divergences are getting more obvious and stretched, and more and more non-confirmations (momentum, etc) continue to form... all without producing the expected simple (stable) pullback in price.

What I fear may happen is that when the stimulus is released, or some other negative geo-political/economic event happens, that the 'fundamentals' or "historical nature" of the stock market will catch up with all the 'unnatural' stimulation that has been occurring, resulting in a horrific and sudden down-move in the market... that would be very similar again to the "musical chairs" example where the music suddenly stops and the 'game' is over.

That is the systemic risk in a continually rising market being stimulated with extreme liquidity without a healthy/stable pullback in price. You could remain long in these conditions and continue to profit... but face the risk of waking up one morning to a lock-limit down market that has fallen greater than 5% overnight (it happened in January 2008) and then a return to the 7 days in a row of falling prices as seen in October 2008 (where the Dow Jones fell over 900 points in a single day). As a strategist/manager, you could always remain long but protect your portfolio with puts.

The other interpretation is that the market is rising because the Economy really is stabilizing and that this is a healthy rally and that we have seen both the bottom in the Economy and the Stock Market. Answering that question is beyond the scope of this report, which is designed to assist you as a "Technical Purist" approach to inter-market structure and opportunities using generally accepted charting methods to arrive at logical targets to play for as well as support and resistance levels to watch.

It is up to you to determine whether you believe that this rally is part of a true, healthy economy and if so, then prices will continue to rise above these resistance levels and non-confirmations.

If you believe the economy has not bottomed and that 'another shoe will drop,' - be it from the 'consequences' of the Federal Reserve 'printing money' and injecting capital markets with liquidity or the potential collapse of the Commercial Real Estate market causing a second "meltdown" similar to the sub-prime housing market... or by some other future unknown catalyst - then you will be more inclined to accept the bearish undertones hinted by the advanced/intermediate methods of technical analysis.



In playing "Buyer's Advocate," this is a similar representation of a chart I presented to you in early October which asked the same question and showed the exact same start of a rally to new highs.

The last four times price has formed a classic bearish Sell Signal (by breaking under key moving averages, triggering in valid short-sell orders), price has instantly 'broken' (busted) that sell signal and taken out the stop-losses of the short sellers, driving the market to a new high each time.

We could be five days into yet another sudden and unstoppable march to new 2009 highs in the 5th vicious bear trap since July.

This remains a possibility to watch closely... and not be stubbornly short against if it continues to materialize.

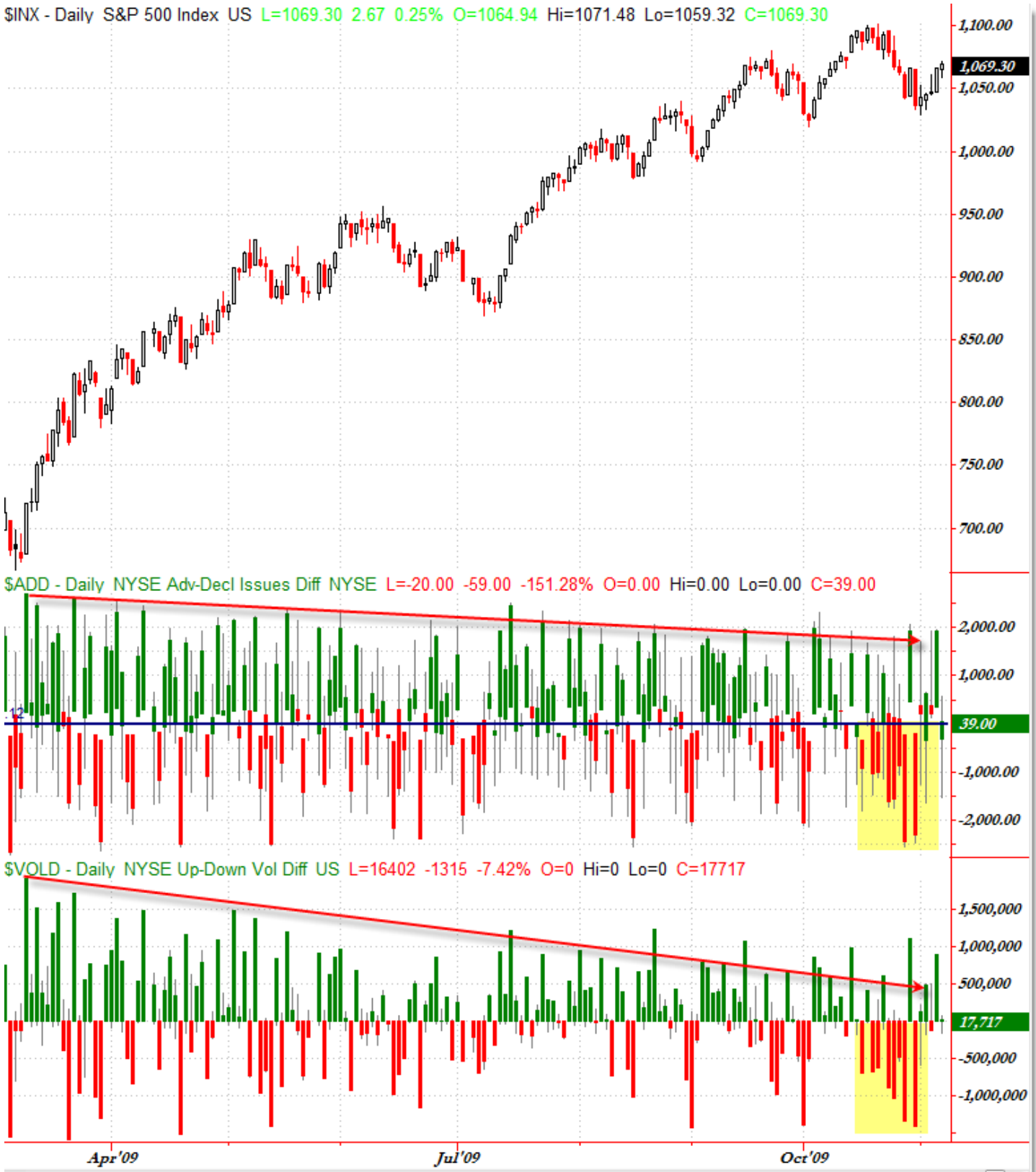
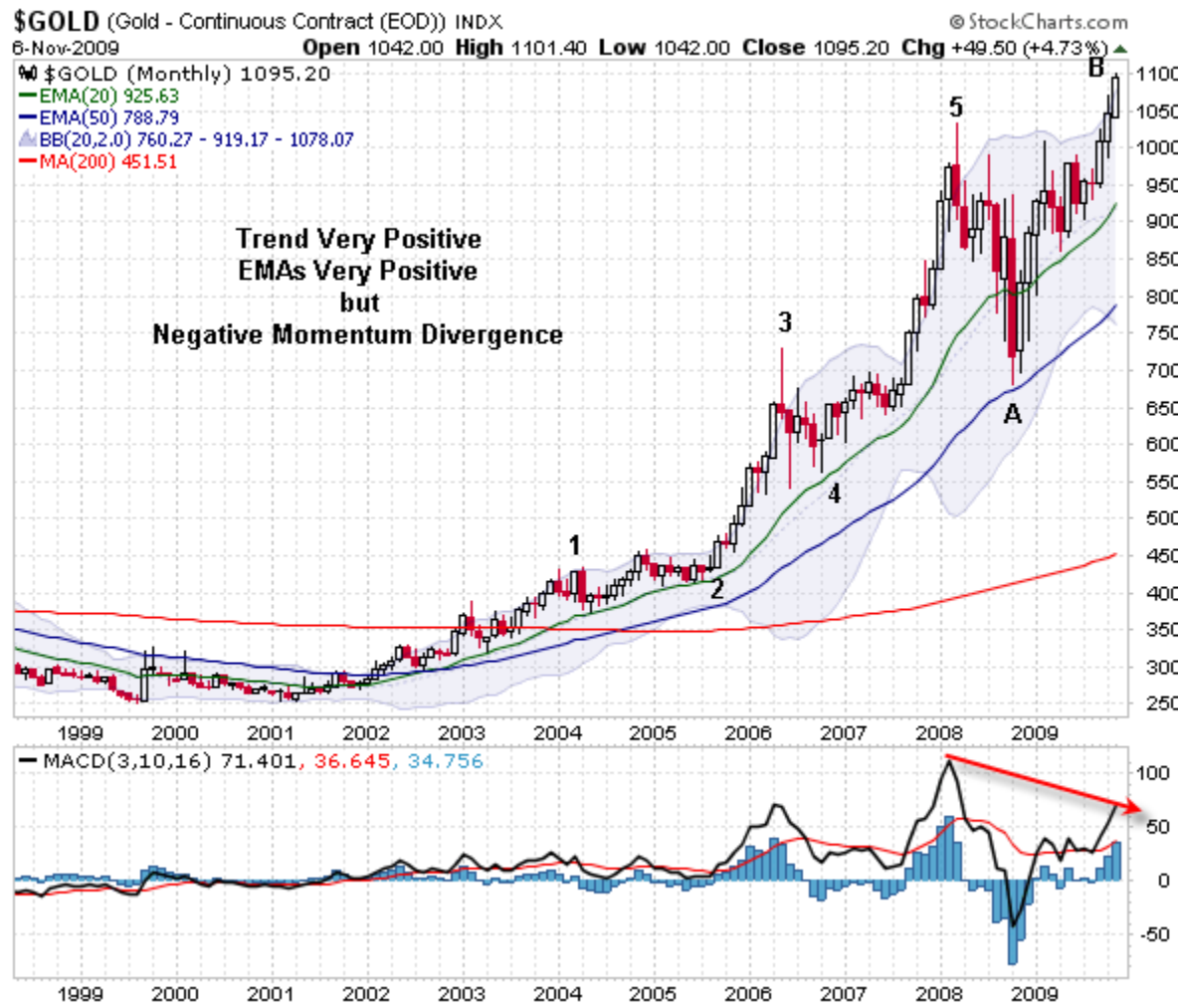


Chart of the entire rally off the March lows when compared with "Market Internals." Breadth as the upper grid (Advancers Daily minus Decliners Daily - NYSE) and then Up-Volume minus Down-Volume (NYSE) Daily. Both show a long-term non-confirmation of deteriorating market internals with higher index prices - a bearish non-confirmation.

# Gold

## Monthly



Monthly gold prices - from a simple, Technical Analysis 101 standpoint - continue to reflect the most bullish posture possible, given that price continues to make long-term higher swing highs and higher swing lows and there is no sign of interruption of this progress. Also, price is well-above all moving averages, and these averages are in the most bullish orientation possible.

Stepping beyond TA 101, we see that price is overextended, having risen over 2.5 standard deviations above its 20 month average and is thus at the upper Bollinger Band - that's not necessarily a sell signal by itself, as you can see from the price rises in early 2006 and late 2007/early 2008.

Price is forming a negative momentum divergence which serves as a non-confirmation of higher prices - though again this does not trigger a rush to the exits by itself.

Always keep the larger structure in mind while weaving down to the lower timeframes to see the next like swing ahead in price.

Gold is in a primary uptrend.

## Weekly



Slipping down to the weekly chart, showing the last three years, we see that price has broken above critical resistance at the \$1,000 level and is experiencing an upward, powerful swing to new all-time (record) highs as expected when a resistance level is broken (positive feedback occurs).

Again, we see the positive price and moving average structure - lending back to TA 101 principles - which is bullish. The 20 EMA at \$1,000 and the 50 EMA at \$950 would be expected to hold as support on any pullback, along with the 'round number' support at \$1,000.

Moving beyond the basic technicals, gold is also overextended in this upswing on the weekly chart and is situated above the upper Bollinger Band. Though price can continue 'riding' the Bollinger, eventually price will retrace, so it is generally not a good idea to put on NEW buy positions at the upper Bollinger Band. Reference the sudden reversals down from March 2008, July 2008, and February 2009 how trying to buy at the TOP of a price swing is like playing musical chairs - eventually the upwards move will stop.

Also, a negative momentum divergence has formed under price's new highs, which serves as a non-confirmation from momentum... though again not a reason in isolation to run for the exits yet until we see some sort of downturn in the price itself.

## Daily



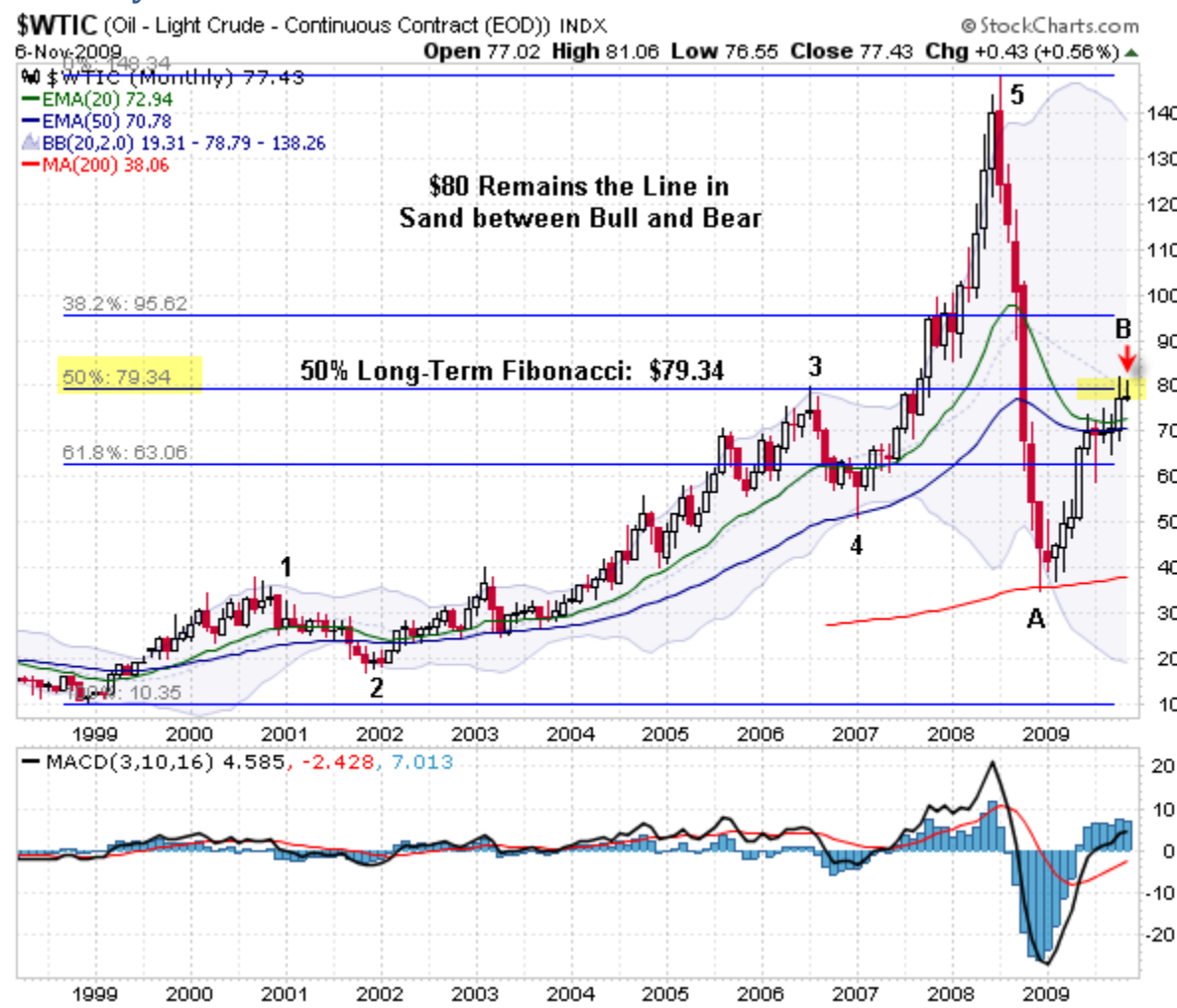
Again, going back to the 'basic' TA 101, which states that the trend and moving average structure is up, and in fact, in the most bullish orientation possible - thus the trades and positions should all be long/buy while in this structure. However, as noted, that does not mean the price will go straight up without retracements, particularly back to the moving averages, which offer excellent, low-risk buying opportunities.

As such, right now, it would seem the immediate short-term 'next likely swing' in price would be a down-move to retest the \$1,040/\$1,050 area which could offer a trade-able short-term set-up (with stop above \$1,100). Price has reached a short-term target of \$1,100 and has done so on a terminal 5-wave fractal move into the upper Bollinger Band on two bearish 'indecision' candles (doji and spinning top) which have formed on a negative momentum divergence. You can hold to see if price can rally above \$1,100 early next week, but if not, then the next likely swing appears to be back down to test underlying support if not greater.

Again, reference back to prior times the price reached an overextended position above the upper Bollinger Band - each time resulted in a brief pullback/retracement.

# WTI Crude Oil (\$WTIC)

## Monthly



Crude Oil continues to have volatile swings each day - up and down 2% - and this is characteristic of the 'struggle' going on between buyers and sellers at key technical (chart) levels - namely the \$80 per barrel level.

This level is VERY important because you should be bullish above \$81 and bearish under \$80 (to simplify the analysis). The \$80 level is the convergence of two Fibonacci retracement grids as well as a prior price resistance area (from 2006).

Also, the Elliott Wave structure as detailed above is calling for the end of a "B" wave rally into overhead resistance in favor of a "C" wave back down ... and any higher move well-above \$80 and \$90 will serve as non-confirmation of this count.

Structurally, price is 'retracing' or rallying against the horrible price drop from \$147 to \$35 that occurred in 2008, placing us in a technical 'retracement' rally.

## Weekly



Furthering the idea of the \$80 level as being key, we see the shorter term 38.2% Fibonacci retracement at \$79.53 as well as the upper Bollinger Band at \$80.69. Price has formed three upper-shadow wick candles (spinning top and bearish doji) over the last three weeks, lending the technical odds to favor some sort of pullback.

Again, any move above \$81 will trigger the stops of those short crude oil and could lead to a burst higher, but the general expectation from the charts is for odds to favor lower prices as overhead resistance lurks at \$81/\$81 and a negative momentum divergence has formed under price at these levels.

Watch the \$70 area as a weekly target for any pullback that forms (or the daily chart for shorter term targets).

## Daily



I'm drawing extended trendlines on the daily chart to show where these trendlines would extend into the future - namely the \$73 area (horizontal trendline) and \$77.50 (rising trendline) - off of which price is stabilizing after Friday's near 3% decline (thanks to the Unemployment Rate reaching 10.2%, crimping demand for fuel/oil).

The trend structure remains positive, and price is above (slightly) all key EMAs, though any further downside action - particularly beneath \$75 - would further show a deterioration of this structure.

Again, the daily chart shows short-term support levels to watch (\$77.50, \$75.00, \$72.50, \$65.00, \$60.00). These will also be targets to play for should price continue lower.

Otherwise, be long-biased should Crude Oil rise definitively above \$81.00.

Crude Oil is likely to fall if the stock market falls in the weeks ahead... and will rise higher if stocks continue to rise higher so you can get a close approximation of the next likely move in Crude by watching the S&P 500.

Crude Oil also has an inverse relationship with the US Dollar Index, so if the US Dollar Index reverses and travels higher, then Crude Oil will fall. However, should the US Dollar Index continue falling, Crude Oil will continue rising.

This is the benefit of Intermarket Analysis - watching other market structure to get clues on a particular market.

# US Dollar Index (\$USD)

## Monthly



There is little to say about the monthly structure of the US Dollar Index, other than this is one of the most persistent downtrends one can imagine. Price has fallen from the \$120 peak in 2001 to the \$71 lows in 2008.

Price retraced 38.2% of the decline before heading back lower.

Should the downtrend continue, price will test if not break beneath the \$71 support level (a trend following target), though there are technical (chart) reasons to expect at least a minor retracement, if not possible trend reversal, from the charts of the lower timeframe.

Barring any sudden upside movement soon, the trend bias is to continue to expect lower prices to target the \$71 level.

## Weekly



Again, it's a battle between the "TA 101" concepts of "Trend" and "structure" (both of which are unequivocally bearish) and the more advanced concepts such as Elliott Wave and Momentum Divergences, both of which are arguing strongly for a reversal in the US Dollar Index.

We see a complete 5-wave move into the \$75 lows culminating with a lengthy positive momentum divergence (which can precede price reversals) as well as price dipping under the lower Bollinger Bands in October before forming a doji and then (semi)-Bullish Engulfing candle pattern.

On any upward move, a logical short-term target would be the \$78 level for initial resistance and then the \$79 level (20 week and 50 week EMA respectively).

A move beneath \$75 would argue that the strong downward trend would continue, despite the 'advanced' charting evidence to the contrary.

## Daily



This is the generally accepted current short-term Elliott Wave count on the US Dollar Index. It argues for a retracement phase to the upside, which would be confirmed as the likely price pathway on any positive move above the 50 day EMA at \$76.62. Look back to the upward swings from March to April and then in June to see the most recent upward swings in the Dollar (retracements against the downtrend). We have 'bullishly' retraced from \$75 to just under \$77 in the last few weeks as forecast by the bounce off the Lower Bollinger Band, but so far price has found resistance at the target of the 50 day EMA just under \$77.

We can see inside the lengthy, multi-swing positive momentum divergence on the daily frame which argues as a non-confirmation for lower prices and as a signal/hint for higher prices ahead.

Again, we have a battle between the "Trend" (down) and the lengthy positive momentum divergence and complete fractal Elliott Wave count.

Be neutral between \$75 and \$77, short under \$75, and long (biased) above \$77.50.

As usual, if the US Dollar Index does 'bottom' here and reverses its trend upwards, then US Stocks will fall along with Crude Oil and (likely) Gold while bonds/notes will rise.

The opposite is true if the US Dollar Index continues its downtrend, breaking under \$75 (stocks will continue rising).

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