

# AFRAID to TRADE

overcoming stock market fears *with* Corey Rosenbloom



## Weekly Inter-market Technical Report

### Summary Comments

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**Ten-Year Notes:** The \$115 area remains a critical support zone to watch. Retracement up bias if above, though a strong bearish bias if price is under \$115.

**S&P 500:** The S&P 500 continued its rally and did not 'fall apart' as many expected as the New Year began (just the opposite). That is inherently bullish, and if price can break above 1,150 this week, then target 1,220.

**Gold:** Gold appears to be in another impulse swing to the upside, though watch for any move under \$1,120 and \$1,100 to invalidate any expected bullish swing in gold.

**Crude Oil:** Like the S&P, crude oil broke to new recovery highs above old resistance, and if buyers can maintain prices here, we then have upside targets near the \$90 level.

**US Dollar Index:** The Dollar is actually the most difficult market to forecast this week, as price is compressing between an expected support and resistance level - and \$79 is a multi-timeframe resistance area. Watch other markets for clues as to whether the support level at \$77 or resistance level at \$79 will break.

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A DECLINING Dollar (Index) is generally 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.

# Corey's Intro Notes:

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Happy 2010!

I wanted to open this week's report with brief overview comments on some of the key developments in the major markets that have occurred as 2010 began with a strongly bullish start in equities and a stunning decline in bond prices (bonds and stocks often trade inverse each other).

One of the benefits I hope I provide you with in these reports is an unbiased, 'technical purism' approach to the markets, with a keen focus on key levels to watch for support/resistance and trading opportunities. A lot of what I highlight in these reports are important levels that would confirm or disconfirm a bias or price move - or "lines in the sand" between expecting a bullish or bearish move.

These lines occur on all timeframes depending on what type of investor or trader you are, as position traders/portfolio managers will be focused more on the monthly and weekly charts I discuss while swing and day traders will be most focused on the daily charts for guidance. However, there are key lines that affect all traders/investors.

It is advisable to remain in a position as long as price is traveling towards a target or key zone, and equally advisable to locate stop-losses beyond these key zones. The bias and positions will come from the underlying trend, strength of the trend (absence of volume or momentum divergences), and distance from a 'line in the sand' support or resistance zone. That is how I recommend using these reports - both to generate and confirm trading positions/targets and to augment the research you do on a fundamental/news level - this report is a technical purism approach.

***For specific comments on what has changed this week*** - we have major changes in Stocks and Crude Oil - both of which have now risen bullishly above key lines in the sand for the time being, which has major bearing on the expected future while price remains above these critical levels (targets given in report).

Stocks broke above the 1,121 50% Fibonacci Line and are now racing towards the 1,150 target - any move above 1,150 makes it extremely difficult if not impossible to hold any bearish position or bias, because the next target becomes the confluence at 1,200 and 1,220 (see charts).

The same is true in Crude Oil, which is positively correlated with stocks, and we are also breaking a critical overhead resistance level (38.2% Fibonacci and prior resistance) at the \$80/\$81 level. As long as price remains above \$81, then the next upper resistance target is the \$90 level.

If price falls back under this level, then we would be seeing a vicious bull trap which has taken out stop-losses of the short-sellers and drew in new buyers as these levels have been broken - and would thus have a bearish bias under \$80 in crude oil and 1,120 (1,100) in stocks. However, these lines divide bullish and bearish expectations - and so many traders treat them as such (creating self-fulfilling prophecies and respective price movement).

10-Year Notes have their 'line in the sand' at the \$115 level. Gold's 'line in the sand' is \$1,000.

That being said, although we may be experiencing a vicious whipsaw buy as price has broken above these levels (we will know if stocks rise above 1,150 and crude oil rises above \$83 - those will greatly reduce the probability of a whipsaw),

from a price purism (chart purism) approach, the signals of broken overhead resistance is inherently bullish and we need to treat that as such, regardless of the thinking that "...the market is so overextended, it just can't rally any more."

## 10-Year Treasury Notes (\$UST – Price)

### Monthly



Notes are appearing to bounce off the expected \$115.00 support level, so watch for this possibility of a counter-bounce up, but look to lower timeframe levels for potential targets (\$117).

Any move under \$115 would immediately target a trade/move to the \$112.50 level, and any move under \$112.50 sets up another target at \$107, but more likely a move all the way back to test prior 2007 lows at the \$105 level.

See the weekly chart for this possible move.

## Weekly



Again, \$114.50 is the “Line in the Sand” between expecting a potential triple-bottom support move or a move back to the \$105 level in the coming months.

I’m showing a potential bear flag set-up that has already triggered a sudden entry in mid-December (sell-off) but price is now at a critical expected support level. The bias has shifted negative on bonds, and it appears that price is forming impulse waves to the downside and corrective waves to the upside, and price is under the 20 and 50 EMA and is making lower highs and lower lows on the weekly frame... arguing that price is stuck in a downtrend with lower prices yet to come.

Again, any move under the \$114 level triggers a play to \$112 and then to \$104.

## Daily



It is possible that the next 'swing' in bonds is to challenge overhead resistance from the daily EMAs at the \$117/\$118 level, or even perhaps all the way to the lower trendline at \$118.50.

For now, with the new momentum low and price breakout from the rising rectangle (potential bear flag on weekly chart), odds favor lower prices yet to come, though \$115 has proven to be a formidable support level.

Consider being short under the \$115 index level, and watch for any move higher than \$118.50. The bias would shift back to the upside on any break higher than \$118.50 (short-sale stops would be located there).

# US S&P 500 (\$SPX)

## Monthly



The monthly S&P 500 chart shows the 1,150 level as the final objective line in the sand between a bull and bear market. Buyers have already driven price above the critical 1,121 level (50% Fibonacci), and the next overhead target is the 50 EMA (monthly) which rests at 1,150. Any move higher than 1,150 triggers a buy set-up to target 1,200 if not long already above 1,121.

We're seeing a negative volume divergence that has been discussed frequently, but so far it has had no bearing on price.

## Weekly



This is what I was referencing in the introductory section - price has risen cleanly above a critical resistance area (1,121 - 50% Fibonacci) and now appears headed to the 1,220 confluence resistance area. Price is making higher highs/higher lows and is above both key moving averages, so the picture is bullish strength from that perspective, but the rally is propped up on declining volume and momentum - serving as non-confirmations of the rally from an 'internal' standpoint. Ultimately, price is king (and is what makes money) so we have to follow price signals instead of demanding that price reverse.

Price is taking out short-sellers' stop-losses here (short squeeze) and if buyers continue to push price higher, then the next resistance level is 1,220. It is not recommended to be bearish as long as price is above 1,150 - we could see a swift upside move to 1,220... or a swift downside move if price cracks lower under 1,100.

## Daily:



I've been mentioning that the upside target if price was above 1,121 was the 1,150 area, though price is making it there very laboriously, riding the upper Bollinger Band in yet another "popped stops" rally.

The picture is of the purest bullish strength, in that price continues to make higher highs/lows and the moving averages are in the most bullish orientation possible - it is grossly ill-advised to short as long as price is above these levels (except intraday). Don't try to call a top, and only short if price is under 1,120 or especially 1,100 (again, unless intraday).

Volume is picking up, but that is mainly because the holiday low-volume season is over.

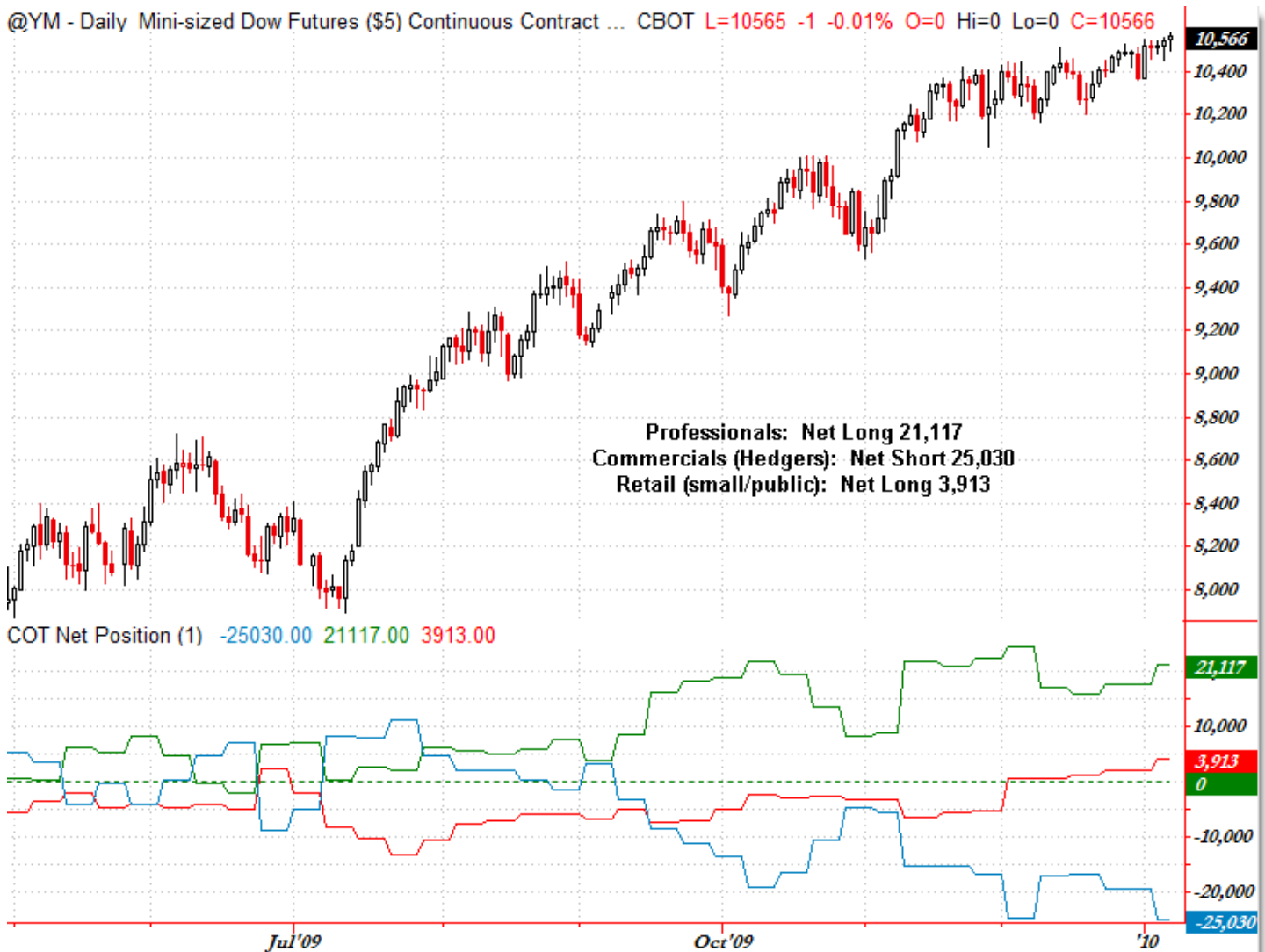


I've been saying some very bullish comments on stocks, but let me temper that now with the most recent "revealing" update on the CoT (Commitment of Traders) data (seen in TradeStation).

While I've been highlighting the data to you to show reasons to expect higher index prices - which was about the only indicator forecasting higher prices which have proven true - we now see a slight 'bearish' shift in the data that you need to be aware of, despite the bullish chart position and broken overhead resistance levels.

Professionals were net long 200,000 futures contracts in the last two reports and are now net long 'only' 93,073, suggesting that professionals are lightning up (selling) long (bought) positions. That's interesting, but what is VERY interesting is that the retail public (small speculators) have turned very bullish in the last week, and while the public is still net short 46,190 contracts, this is a dramatic improvement from being net short 280,000 as seen in last week's report. Pay less attention to the blue line (commercials) when interpreting CoT data.

This tells us that professionals - while still long - are 'less long' and the public (often wrong) - while still net short the market, are 'less short' or are 'getting bullish.' This isn't cause to rush out and sell stock, but it is a warning signal that the charts will not show you - professionals selling positions while the retail public is buying positions (getting bullish).



We see a slightly different picture in the @YM Dow Mini futures contract.

Without a lengthy explanation, we see professionals are still net long 21,000 contracts, though off of their December high of 30,000 and the retail public has now turned net bullish (in terms of holding contracts) and now hold almost 4,000 contracts net long.

Commercials (hedgers) are holding 25,000 short, but that is most likely to 'hedge' a long portfolio and has less bearing on the interpretation ... professionals are still long but 'less long,' while the public is 'dipping their toe in the water' and have remained still short until December where the public flipped net long holding Dow futures.

The professionals are often correct (about the future) while the retail (small specs) are often wrong.

This isn't quite a sell signal, but it's a non-confirm of higher prices.

@ESH10 - 120 min E-mini S&P 500 Continuous Contract [Mar10] CME



Without being an extremist - and still being a technical purist - I wanted to highlight the possibility for a large sudden decline (or massive 'short squeeze rally up') due to the tight compression in price, as seen on the 120min @ES chart.

This is a classic 'bearish rising wedge' which often breaks to the downside, but by the close Friday, price has broken to the upside.

For short-term traders, watch this pattern and be ready to short any sudden move to the downside to play for lower levels such as 1,100, 1,090, and 1,080 (prior price lows) and also be ready to play more 'popped stops' long on any range expansion move up should this traditionally bearish pattern fail.

# Gold

## Monthly



Gold's major action is best seen on the lower frames, but the monthly chart is still showing a bullish uptrend, though as I've been mentioning, the last two times price spiked so strongly, it has retraced back to the 20 month EMA (or worse in 2008).

If so, then the longer-term picture places us in a potential correction (down-move) to test the \$1,000 level.

However, there are lower frame support levels to watch along the way, and remember that the larger-picture trend remains sharply up.

## Weekly



Again, the \$1,000 level in gold is the “line in the sand” between bull and bear - as any move under that level violates all major weekly support zones (moving averages and prior resistance levels).

Until then, price is bouncing nicely off the rising 20 EMA at the \$1,075 level, and could be back to test prior highs at the \$1,200 level or beyond, especially if stocks and oil continue to rise (I would say gold would hit/exceed these targets if we move beyond 1,150 in stocks and \$83 in oil).

Any move above \$1,150 should confirm the bias to expect a retest of \$1,200, so keep watching that closely.

## Daily



Price rallied after a bear trap occurred under the 20 and 50 EMA. Price is now above that level, and the bullish bias is back, and will be confirmed with a trade set-up (if not already long) if price can cross above \$1,150 to target \$1,225 with a stop under \$1,110.

Watch support at the 20 and 50 day EMAs at the \$1,100/\$1,125 level and otherwise be long above, and short (biased) under \$1,100.

# WTI Crude Oil (\$WTIC)

## Monthly



It's still possible that Crude Oil remains in a "B" wave rally, though if we break above \$92, I would call that 'bearish' count into question in favor of a more impulse one. For now, price broke above the \$81 'critical' level and so we must be bullish biased while price remains above \$81 (bearish under \$80).

This could be a 'trick' or 'whipsaw' created by rebalancing in commodity funds (and new ETFs buying commodities/stocks) but for now, buyers have pushed price above the critical level and so we're likely seeing a short-squeeze that could trigger additional buying. If we do not see higher prices, then we'll know this was a purposeful short-squeeze and that sellers are driving prices higher, but objectively, the bias is long above \$81 and short under \$80.

Look to the weekly/daily charts to see why \$90 is the next level to play for long on any move higher, especially above \$84 for confirmation.

## Weekly



The weekly chart gives the best picture in regards to the broken overhead resistance and next level target at \$90.

The \$80 level served as long-term overhead resistance with many doji candles forming there (along with a negative momentum divergence).

However, buyers invalidated these bearish signals, breaking above the key \$81 level last week and setting up a bullish bias to target the next resistance level (50% Fibonacci retracement) at \$92.94.

We're still seeing a negative momentum divergence (non-confirmation) but that is likely fueling fire to the upside as short-sellers in crude oil are now covering as a 'well-known' resistance level was broken last week.

Next week will tell us if this was just a 'trick' designed to take out stops of the short-sellers or the 'real thing' if buyers continue pushing prices beyond \$83 and \$84.

## Daily



Here we see a clearer representation of the bullish ascending triangle I've been mentioning.

Price officially broke out in October 2009, but came back (bear trap) and tested lower support at \$70 and then broke out not only above the \$73 trendline but also the prior \$81 spike high in October.

I'm showing the likely 'classic' price projection target, which is to the \$90 level (depending on how strict you draw the trendlines/triangle), which also corresponds with the \$92 level (50% Fibonacci), so this is a logical place to expect price to travel towards (long) in the next few weeks if this is not just 'short-covering' here.

Consider a stop under \$80 and especially the daily EMAs at the \$77 level.

# US Dollar Index (\$USD)

## Monthly



The monthly chart shows overhead resistance expected in the dollar at the \$79.09 area (20 EMA).

We'll find that to be a confluence resistance area, and if commodities and stocks continue their breakout, then we would expect the dollar to decline.

View lower frames for better targets.

## Weekly



There is a confluence resistance area at \$78.66 (50 EMA) and \$78.62 (upper weekly Bollinger Band) so it would be difficult for buyers to push price beyond that confluence level.

\$79 is a confluence level on multiple timeframes as well.

However, \$77 is a support zone on the daily and weekly chart, and price is 'triangulating' (compressing) between these levels right now, so prediction/trading becomes difficult.

Watch for a break above \$78 to target a move to the \$79 resistance area, otherwise watch for a move under \$77 to target lower levels, or potentially an end to the dollar rally IF commodities and stocks continue their rally.

Otherwise, watch for the dollar to rally if commodities and stocks begin trading lower in the weeks ahead.

## Daily



We see a similar picture as on the weekly chart, in terms of a support zone at the \$77 level and resistance at the \$79 level. How stocks and commodities resolve will affect which support or resistance level the dollar will break, and predicting that right now would be very difficult.

On another note, the new price and momentum highs would forecast higher prices expected yet to come for the dollar index, but again there is critical resistance at the \$79 area. Any move above \$80 would be resoundingly bullish and would likely be very bearish for stocks and commodities, as it would be difficult to see a continued environment with a rising dollar, stocks, gold, and crude oil.

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