

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

overcoming stock market fears *with* Corey Rosenbloom



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

### Summary Comments

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**Ten-Year Notes:** Notes remain a monthly uptrend, but are facing the apex (breakout) of a triangle compression pattern that could breakout in the next two weeks so be sure to know the boundaries and implications.

**S&P 500:** Next week should be the key in knowing whether the odds favor a move back to 1,225 in breakout and "short squeeze" mode (tradable) or another retracement/break to the downside to test 1,100 at a minimum. Most markets will react according to what investors/traders do here at 1,150 and follow suit accordingly.

**Gold:** Gold is forming an interesting inflection, and remains bullish above \$1,100 but bearish (for a retest of \$1,000 only) under \$1,100. I show two potential patterns that could be developing in gold.

**Crude Oil:** Crude oil may have broken down and forming a sell-swing after breaking a bearish rising wedge and negative intraday divergences... but again if the SP500 breaks 1,150, we could see a similar "short squeeze" in oil.

**US Dollar Index:** The Dollar Index looks poised to fall in the week ahead, particularly as we see negative divergences and a rounded reversal playing out, but there is support at the \$79.50 level, so it is worth watching what happens at that potential support zone for clues as to how deep this retracement will be.

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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



The 10-Year note price chart shows why long-term trendline analysis can be very helpful, both in finding trade entry (on pullbacks to established trendlines) and trade exits/flip and reverse (at key breaks of established trendlines).

For now, and until we see a break under the \$115.00 level, the dominant trendline is a rising one, currently at the \$117.50 level, as price remains above both the 50 and 20 month EMAs - all of that is bullish which argues for higher prices... unless we see a break under \$117.50 which would set-up a play back to \$115.00, and a move under \$115.00 breaks the recent consolidation and argues for a trend reversal for position traders. We're not there yet, though.

## Weekly



I see two dominant ways to interpret the weekly chart. First, I've been assuming that price is forming a sideways rectangle consolidation between \$114.50 and \$121.00. This would assume that price would continue within this range until proven otherwise with a break.

However, a new pattern appears dominant, and it's the symmetrical triangle pattern (trendlines) I've drawn above for you. This implies that price is forming a tight compression at the \$119 and \$116.50 area, with the apex converging at \$118, suggesting that price is building the energy to make a power/impulse move in either direction on a break outside of the trendlines. Remember, bond prices can move rapidly, as seen from the October to December \$18 move. There are two potential catalysts that would send price surging or falling - which would be a solid, breakout move to the upside in the S&P 500 that tests 1,125 quickly, which would send bond prices plunging back to \$112 or lower. The alternate scenario would be a sharp and violent sell-off in stocks that drives investors to the safety of bonds, driving bond prices higher. Watch for any major move in stocks and the subsequent break from the trendlines shown here in bonds/notes.

## Daily



The daily chart shows the dominant short-term trendlines to watch in bonds/notes, as well as the expected course of movement should price remain within this range (\$117 to \$119.50).

If buyers do not push bonds higher off the 20/50 EMA level (moving averages are less reliable in a trading range), then we would expect a retest of the \$117.00 which would imply stocks would continue rising, breaking above the 1,150 level. Any break under \$117.00 targets the \$116.00 level immediately, just in the same way that an upside break above \$119.50 would target \$121.00 quickly.

It's often better to wait for a confirmed break and trade it rather than trying to profit from a tight consolidation range in price.

# US S&P 500 (\$SPX)

## Monthly



The main thing to watch on the monthly chart is the 50 month EMA, currently situated at 1,146... and price is slightly above that level (1,149) presently. Should price break above 1,150 solidly, then this would be a future support area, but for now it could hold as potential resistance (along with the prior 2010 high). We can see the negative volume divergence (which does not seem to be a factor in stopping the rally) clearly here.

Also, a break above the 50 month EMA clears the final hurdle on the monthly chart and places price in bullish "Open Air" in which the next level of resistance comes from the weekly chart at 1,225.

## Weekly



The simple play/decision matrix is the following:

"IF price rises solidly above 1,150, THEN play long to target an 'open air' (no resistance) move to target 1,225." It would probably be best to cover shorts to see if buyers can drive price up to the next confluence level of resistance instead of holding short into what could potentially be a quick impulse move of at least 75 points higher and attempt to re-short at that level if you are bearish. Swing traders can take advantage of this potential move. However, the key will be a confirmed break of 1,150, and not a break of 2 points (Friday's action does NOT count as a breakout). The week ahead will be absolutely critical in determining what the next swing in price is likely to be - with a sharp upside bias if above 1,160 and a sharp downside bias if sellers break a rising wedge and drive price back to 1,100. See the various charts below to get a clearer picture of the possibilities and how best to trade them as we learn more information this week.

## Daily:

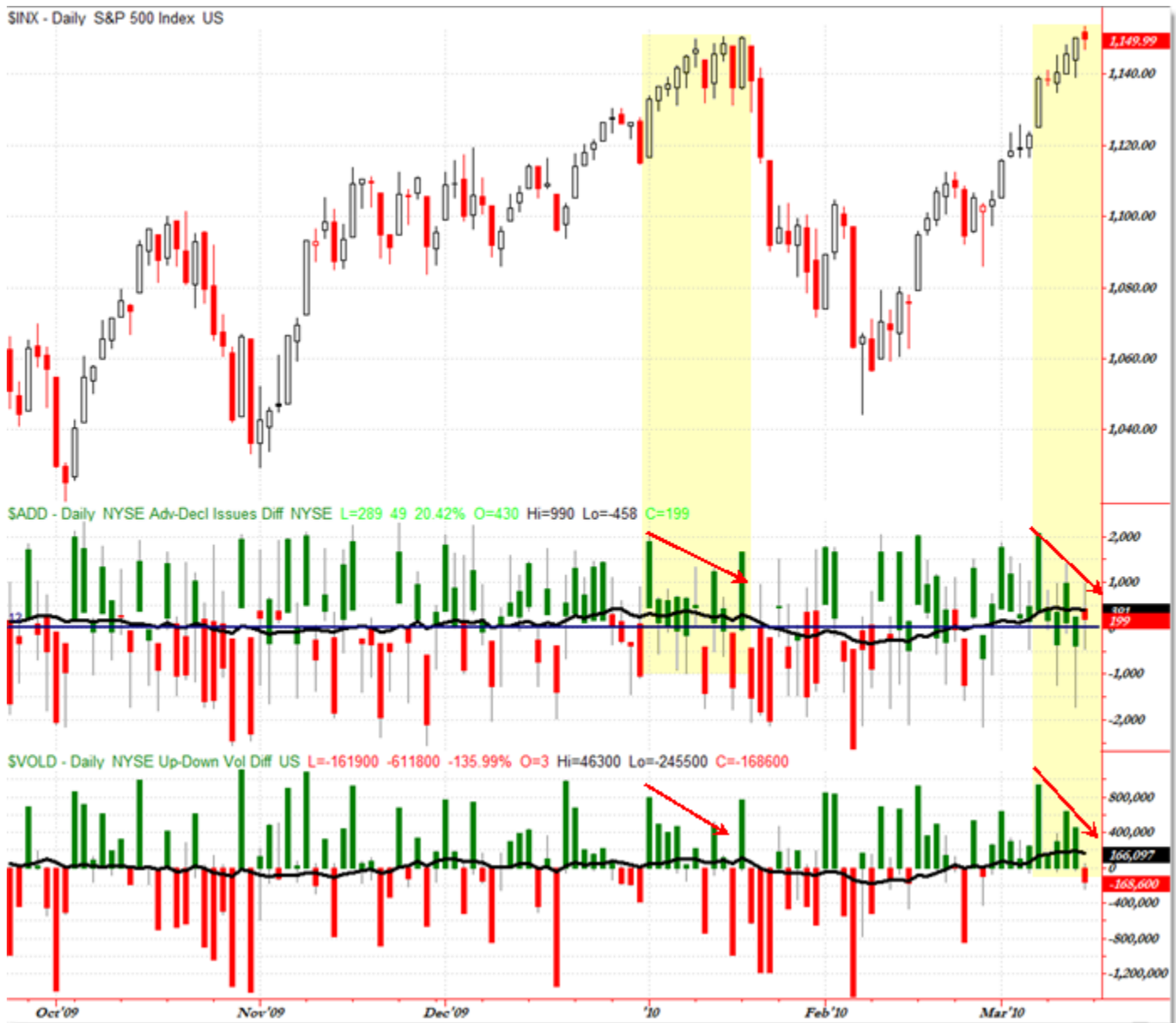


In a normal environment, we would state "There is a doji reversal candle at a prior price resistance level which also is the upper Bollinger Band (and 50 month EMA). Odds favor a retracement back down to 1,110 at least as the next play," but what could override this is the underlying bullish bias/short-squeezes that have been driving the market higher, and any solid move above 1,155 is likely to trigger a flood of covering (buying) from those who are swing and position trading short as they capitulate... which will be combined with new buyers (perhaps skeptical so far) buying the market in a breakout-style trade which will create a positive feedback loop of higher prices.

There's no way to know exactly what will happen, but it appears that we will get a resolution and clarity one way or the other this week, so be prepared to manage your swing and position trading positions accordingly, with 1,150 being the boundary (don't hold short above 1,155 if price is in breakout mode; don't hold long under 1,140 if price is plunging lower). You can always put on another position, but the resolution off this level is likely to be strong/powerful/impulsive, so don't get caught holding a losing position if we do get a sharp break either way.



A quick update on the dominant Andrews Pitchfork Grid shows that the midpoint (50% line) rests just above the 1,151 recent high and will rest at the 1,155 level in the next few days. Notice how this level provided support for each of the mid/late 2009 quick pullbacks - the level could provide resistance. If buyers push back above the 50% line, then we would expect a play back to the upper line (61.8%) which would rest at the 1,225 confluence resistance level in the weeks ahead.



Market Internals, as shown by the Advance minus Decline (NYSE) and Volume Difference are showing classic non-confirmations and divergences as we just made a fresh recovery high (though on a doji indecision/reversal candle on a potential exhaustion gap intraday). This is clearly NOT the picture of bullish strength, and is not what buyers want to see this close to a potentially large breakout. We would have to declare this chart is sending a bearish/non-confirmation message, hinting for a downside resolution.

Notice the last time we had a similar picture - January 2010 just before a 100 sharp point drop in the index. If history repeats, then the future would be a fast downside move... but in the event buyers (in whatever form) push price beyond 1,155, then we would likely see a surge in price, volume, and internals as short-sellers cover (driving price higher).

## @ESM10 - Daily E-mini S&amp;P 500 Continuous Contract [Jun10] CME



Throughout the entire rally from 2009, one of the most reliable indicators - in my opinion - has been the CoT charts, which is why I keep publishing them each week. While the professionals are still net long 200,000 @ES contracts and the public/retail/small speculators are still short 101,000 contracts, we do see a minor shift, in that professionals are 'less long' than last week and the retail speculators are 'less short' than they were last week, which - although still bullish - is clearly not as bullish as the spike in February that preceded the sharp rally. It hints that professionals are selling (bearish) and that retail investors ("dumb money") are buying (or at least covering their short positions/stopping out). We want to FOLLOW the pros and do the OPPOSITE of the retail... as seen in the next chart.

## @ESM10 - Daily E-mini S&amp;P 500 Continuous Contract [Jun10] CME



First, notice that as of September 2008, the retail (red - 'dumb money') was net long 400,000 contracts while the professionals (green) went from net sellers to net buyers, and then this ratio/lines crossed over in late October/early November 2009 ahead of the official market bottom. Notice how the retail (dumb money) were net short 300,000 contracts at the absolute lows while the professionals ('smart money') were net long 400,000 contracts at the lows - a dramatic shift. The professionals have remained net long for the entirety of the rally while the retail/small investors have remained net short. Again, this has been one of the most reliable indicators of the future, and we're still in a bullish mode, but less bullish than last week (slightly).

Otherwise, I'm showing two recent 'bearish rising wedges,' that - if history repeats - could lead to a sharp/violent sell-off in price in the weeks ahead... or else with an upside break, this classic pattern will fail, resulting in a 'larger than expected' move to the upside (opposite direction than expected). Here is a 'zoomed in' view of the recent wedge:

\$INX - 65 min S&P 500 Index US



I've actually drawn two types of wedges - notice the two slightly different upper trendlines. This pattern often precedes a crash/collapse in price (look to the prior chart to see the mini-crash (100 point sell-off) from the prior wedge that broke in January 2010). Either way, price is about to make a potentially large range expansion move, while many traders expect a downside break, an upside break would also cause a violent move of vicious 'short-covering' which would be tradable from a swing and intraday standpoint.

# Gold

## Monthly



Gold's monthly target - based on the two prior events of a spike outside the upper Bollinger Band - remains the 20 EMA at the \$1,000 level.

Gold still remains in a powerful uptrend by all accounts, so be careful about being short gold for anything more than a short-term swing or intraday trade while we're still above \$1,000. The picture would change **ONLY** with a move under \$1,000, so until then, the long-term trend solidly remains 'up.'

## Weekly



We could very easily see a sharp sell-off back to the \$1,050 and then potentially the \$1,000 level in the event that the stock market broke solidly to the downside in the week ahead, and that gold broke its rising 20 week EMA currently at \$1,100. As such, how traders behave at the \$1,100 level will be key as to what to expect going forward in gold.

It's bullish above; bearish (small target) beneath.

Otherwise, we have the potential for a larger scale bull flag in gold (discussed in the prior two reports) which would likely play out if stocks broke 1,150 to target 1,225, which you would want to be long gold in that scenario.

## Daily



There are two dominant short-term trendlines - first the falling trendline that extends to the \$1,060 level, and price is bullish as long as it's above this trendline (having broken it in mid-February). The second trendline is the horizontal line at the \$1,100 level - an important confluence support area. This would be the short-term line in the sand that divides your bias from bullish (above) or bearish to target \$1,100 (below).

There's also one more short-term pattern I wanted to discuss in gold, as well as labeling the two expected pathways depending on what happens here at \$1,100.



These arrows are hypothetical 'pathways' based on the data available as of today - these pathways will change as new data arrives each day, but they do provide reasonable expectations in the event that price conforms to the pathway. The pattern I'm showing is a potential bullish 'rounded reversal,' that would send price back to the \$1,225 level if the pattern plays out to completion, which is possible and would be confirmed with a retest swing up to \$1,140 and a break above \$1,145/50 (in which the target simply becomes \$1,225).

The alternate pathway is a break of the \$1,100 level, which would send price lower to test the \$1,045 level, and if sellers break price there, then back to \$1,000.

# WTI Crude Oil (\$WTIC)

## Monthly



No major change in crude oil this week, as we have rallied back into the \$82.00 resistance level. Like stocks, a break above \$82 would lead to a 'short-squeeze' rally into the \$90/\$92 area potentially.

Until then, pay close attention to the lower timeframes to see not only the range, but the key levels to watch for any signs of a breakout.

## Weekly



The weekly chart shows two conflicting signals: the persistent 'creeper' uptrend and positive structure to the moving averages (bullish) vs the lengthy negative momentum divergence (bearish). What's most important to watch is how price behaves here as a weekly doji candle has formed at the upper resistance level, which would hint for a bearish resolution, falling potentially as low at \$70. Buyers might consider taking profits here in the event that the \$82 resistance level holds and a retracement swing develops next week. Otherwise, look to cover shorts and play long for a breakout move - along with stocks - on a solid break above \$83/\$84.

## Daily



The daily chart shows the lengthy consolidation rectangle since October which has clear boundaries at \$82 and \$70.

For the time being, price could be forming a bearish rounded reversal pattern, and the negative divergence along with two long upper shadows, a doji (Thursday) and a bearish engulfing candle (Friday) all hint that odds overwhelmingly favor a 'retest' or 'retracement' swing down to the \$78 level if not lower as the next likely play in price.

A concentration of stop-losses - like stocks - rest above the \$84.00 level, so any bullish push above that level would trigger a short-squeeze and breakout play. In the absence of that, odds favor a downward move ahead.



This is another hypothetical road map for the pathway ahead in oil, which argues that price could be forming a 'rounded reversal' to the downside which could fall back to the \$75.00 level or lower (if it is a full rounded reversal, it would test \$70).

Otherwise, on any upward move beyond \$84.00, we would likely see a short-squeeze and breakout move that would be tradeable.

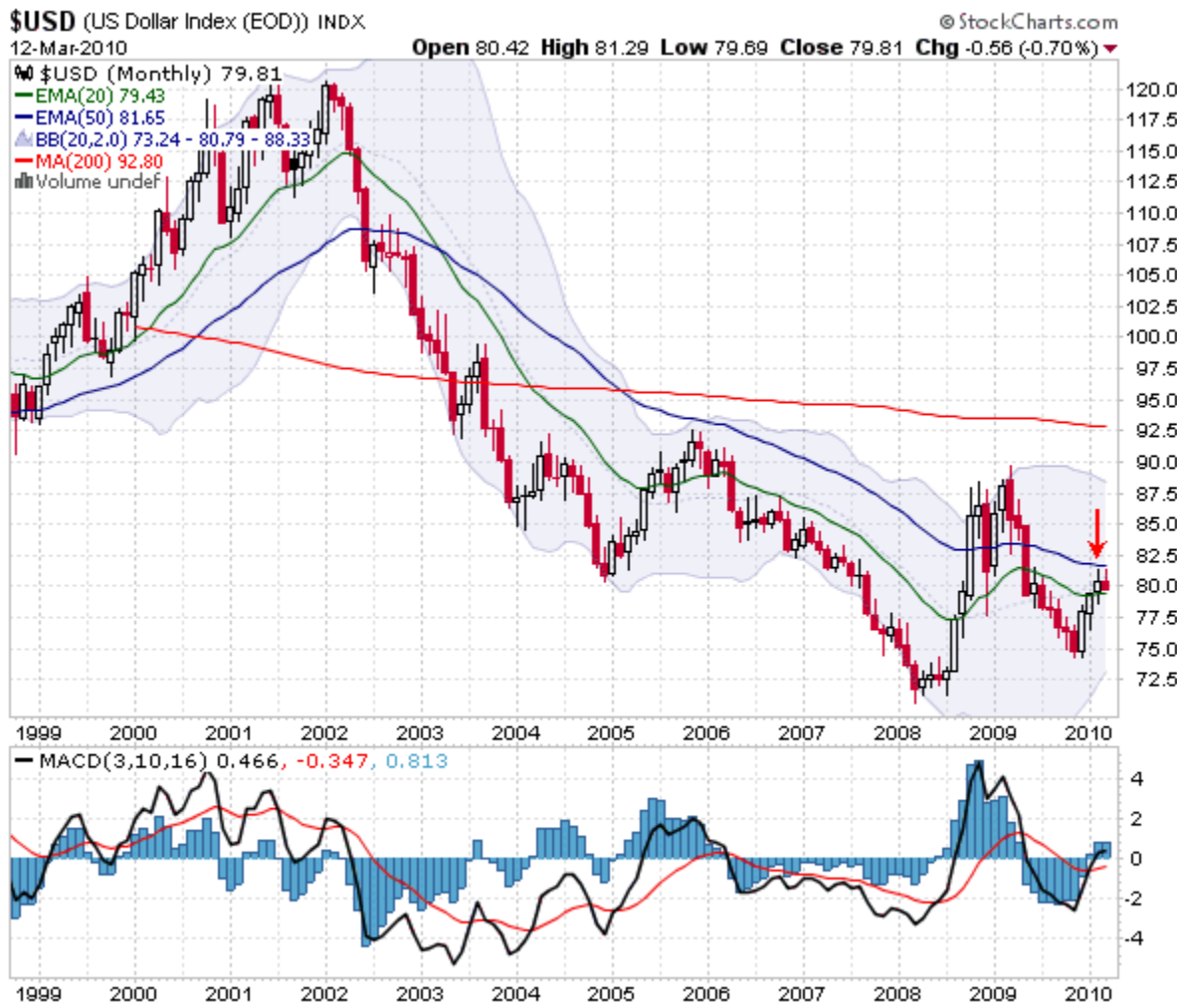
@CL(D) - 65 min Crude Oil Continuous Contract [Apr10] NYMEX



Similar to the rising wedge on the S&P 500, crude oil is forming its own lengthy bearish rising wedge pattern which may have given a breakdown/sell-short signal on Friday. As long as price remains under \$82.00, it is a short with odds strongly favoring downside action (notice the lengthy, multi-swing negative momentum divergence that formed during the price rising wedge).

# US Dollar Index (\$USD)

## Monthly



The US Dollar index appears to be unable to rise above the \$81.00 confluence (multi-timeframe) resistance level, and one of those resistances I've been highlighting is the falling 50 month EMA at \$81.65.

February formed a "spinning top" (reversal) candle at this resistance level, and so far we're seeing a shooting star candle (not complete) which is a bearish omen as price tests resistance.

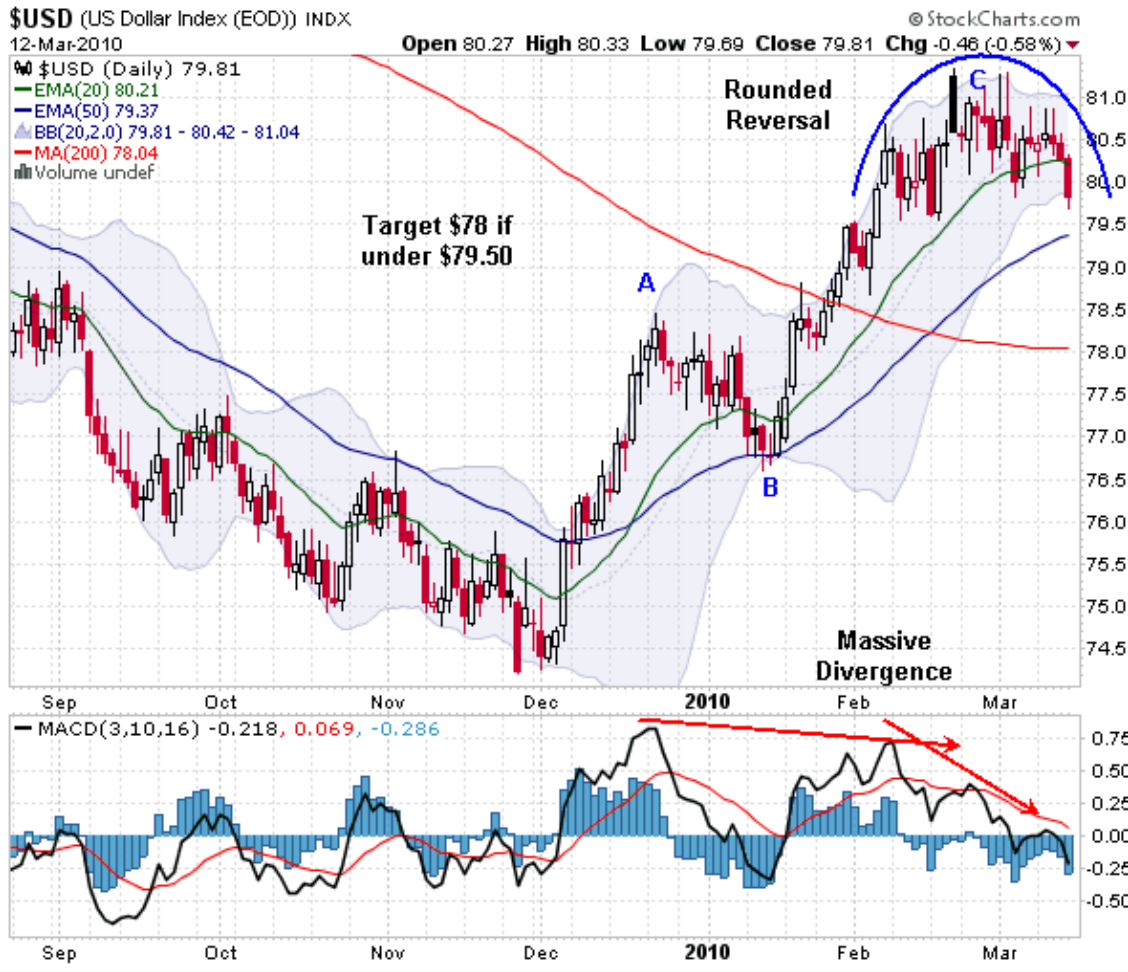
From this chart, it would be argued that odds favor a lower move ahead for the dollar using a technical purist approach... but charts deal in probabilities, so watch for any positive break above \$82.00 to disconfirm the bearish bias.

## Weekly



I've been mentioning the doji candles that have formed over the last four weeks, highlighting indecision, at the key \$81.00 level (also the 200 week SMA at \$80.37). This week we formed a bearish candle inflecting down from resistance as expected, and we would thus expect price to continue falling at least to the \$79.00 level to test the EMA support zone there.

## Daily



The daily chart is perhaps the most revealing, in that we appear to be forming a rounded reversal pattern complete with a massive (lengthy) negative momentum divergence on the recent 'finger' spike above \$81.00. This was also the "Bull Flag" target I've been highlighting, so caution/bearish bias is favored for the present moment while price appears to be forming a classic retracement at the moment that could find support about the \$79.50/\$79.00 level. Should price break solidly under \$78.50, it would suggest that the next target would be \$76.50. In the event that price completed an "ABC" bull flag style structure, we could see a return to the prevailing downtrend in the dollar, but let's not get too far ahead of ourselves until we see what happens to the S&P 500 at the 1,150 level.

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