

AFRAID to **TRADE**

overcoming stock market fears *with* Corey Rosenbloom



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Note prices are understandably trading inverse stock prices, as investors move for safety. If stocks continue to fall, bonds will continue to rise, and we are in a bullish breakout mode so far in bond prices.

S&P 500: Instability remains in the stock market, and we could be on our way to target the \$1,100 level soon unless we see a move back above \$1,150. Those are simple levels to remember, but are the keys for now.

Gold: Gold is the beneficiary of instability/fears of European economic turmoil, as investors sold Euros and moved into the stability of gold. This will continue to be the play while fear is in the system, and gold has long had a technical (chart) target of \$1,300... which is now \$50 away.

Crude Oil: Crude oil faces a major test of the \$70 level... which will be the key to the future for oil prices.

US Dollar Index: The dollar continues its stellar rise, indicating a fear/crisis mentality befalls larger investors, and that will likely continue to send the Dollar higher – perhaps to \$90 as a logical level – unless we see some of the fear come out of the global markets. If not, then the dollar will continue its rise, stocks will continue their fall, as gold and bonds continue to benefit/rise. Oil will suffer if it is perceived that the global economy – especially China – will turn back down to a potential second recession.

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.

In times of crisis, gold links to bonds and the dollar and decouples from oil and the stock market (happening now).

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

Monthly



We still officially remain in breakout mode, as price eclipsed the declining trendline at the \$118.00 level, putting us in a bullish breakout mode as investors sought safety in bonds/notes.

Support remains the trendline and 20 month EMA at \$118.00 – so we remain in a mode of expectation for higher bond prices to come as long as we're above there.

The long-term trend – and moving average structure – is up.

Weekly



Last week, I highlighted the breakout above the \$118.00 key zone – we remain in breakout mode.

A quick note about what that means – it implies that large-scale investors are entering the safety/stability of bonds and coming out (selling) of stocks. This could be that they sense more bad news to come on the economic front, or just to protect/take profits.

Either way, we could be looking at further upside in bonds if buyers push the index above \$121 – the November 2009 high. If so, then we could see a move up to \$126 which would imply a sharp sell-off and potential continued panic in stocks.

Daily



After pulling back from the spike high last Thursday (stock market crash), bonds pulled back as expected, but sharply recovered on Friday – gapping to the \$120 area.

Bonds – 10-year notes – are a little more volatile than normal, which reflects unstable conditions across the board, particularly as gold surged to new highs this week. Gold and Bonds have become positively linked recently, which is what happens during a panic or sharp sell-off in the stock market/economy. If the signal holds, we could be in for further downside in stocks.

If we rise above \$121, it would be a strong signal to enter bonds/exit stocks, as we could get a positive feedback loop that carries us higher, particularly if we see further panic in the week ahead.

Any news that stabilizes the stock market would send investors out of bonds and back to stocks, so watch that and realize that all markets have taken on extra volatility lately.

US S&P 500 (\$SPX)

Monthly



Reference back to last week's large-scale update regarding Elliott Wave counts. I don't update Elliott counts every week – they don't change.

For now, the key levels to watch for positioning on the monthly frame are 1,150 (we're under there), 1,100 (that's our next downside target while we remain under 1,150), and if we break under 1,050 (the 200 SMA and prior low from 2010), then we would be targeting 850 or lower... that's why it's important to watch these higher timeframe support levels as a guide. We're still (technically) above the rising trendline as shown but a close under that level is a sell signal.

Weekly



The weekly chart provides good guidance for us as to what levels are most important. Again, we see the 1,150 level (actually 1,140 which is the 20 EMA), and then under that 1,100 (actually 1,090 – the 50 EMA). That’s a confluence to watch/stay bearish under 1,150 to target 1,100 for a potential support bounce.

Technically, the trend still remains up, and will be the case until we see a close under 1,050, or a negative crossover in the 20/50 EMA ... which is weeks away - if that occurs.

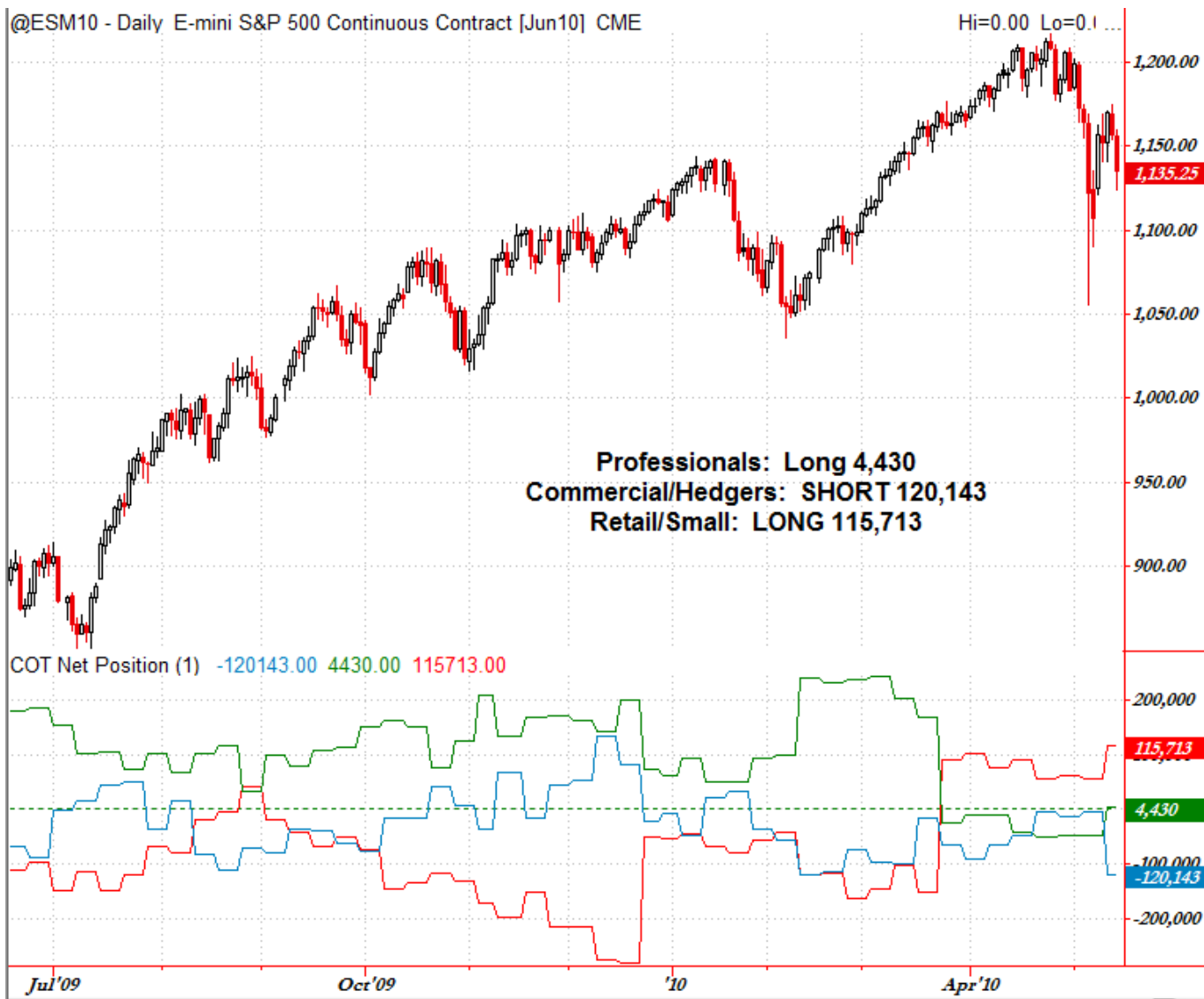
The key level to watch was 1,225, and we have solidly inflected downward from there... though much more violently than expected.

Daily:



This week literally took us all on a roller coaster. I wrote last week that we would likely see a move back up to test 1,150 at least, if not the 50 or 20 EMA... though I didn't expect it to happen in one day! But it did... and the market inflected back down from that level as expected. Moving averages – especially convergences – reflect resistance and short-sell trade set-ups with a low risk – a stop above 1,170 and entry from 1,160 to 1,170. That was an excellent swing trade that put you in the profit zone far quicker than expected. We target 1,100 though it may not be a straight line down there.

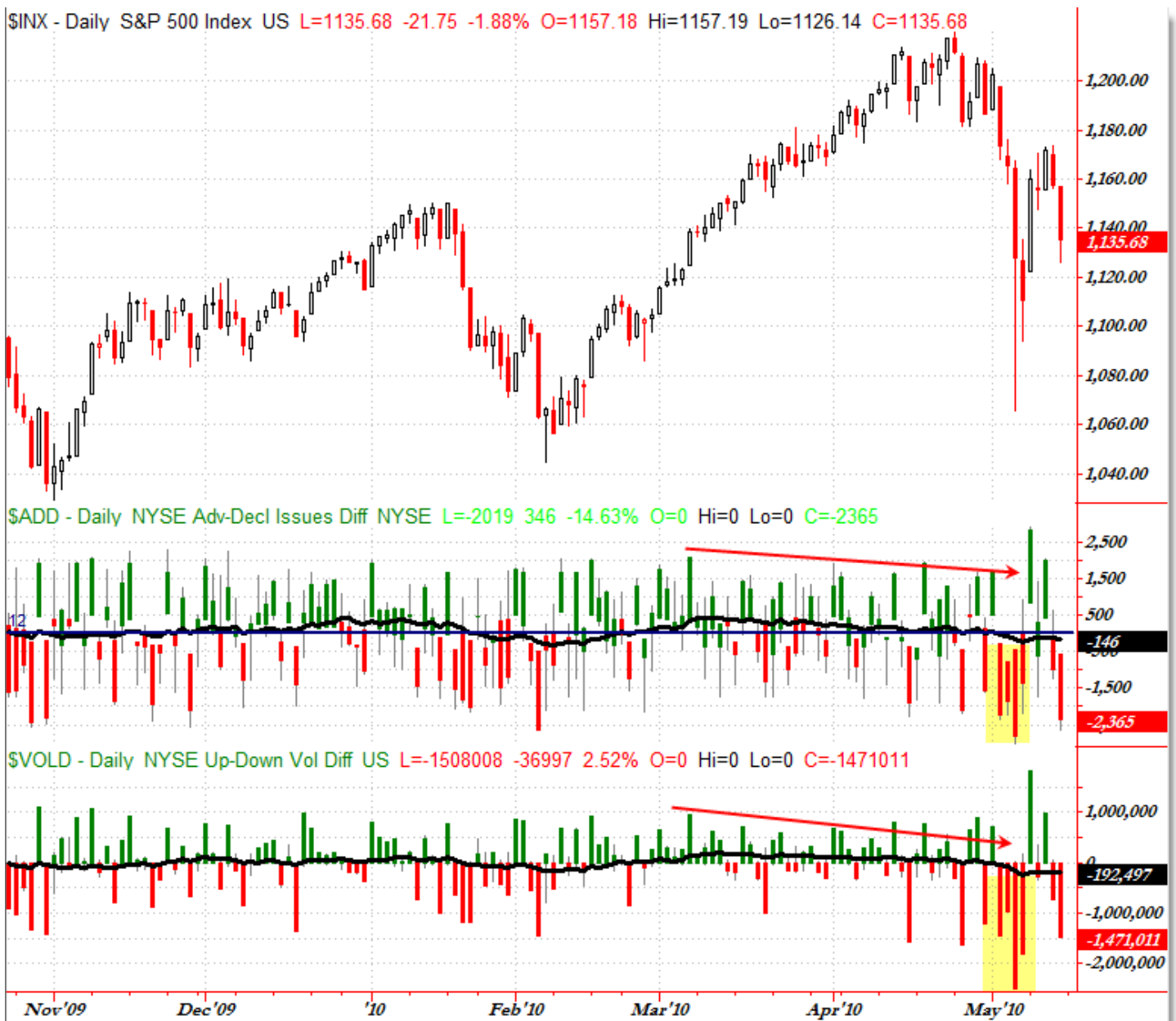
I drew a picture of a **Dead Cat Bounce** pattern, which looks like the dominant short-term pattern. If so, then we would expect a second swing down perhaps to new lows – at least to 1,100 – to fulfill the pattern after we had an initial sell-off, sharp rally, then yet to come is the downside action as shown. Patterns help us visualize future potential – but do not guarantee it.



We had a very strange change this week in the CoT data. The retail public/small speculator/non-reportables/dumb money increased their net long position after the sell-off. They are now net long 115,700 @ES contracts. Professionals also increased their net position and went from 50,000 net short to 4,000 net long. Interesting. I would have figured the retail public would flip short after last week's panic... but remember the CoT data are delayed and only updated once per week (usually Tuesday).

The big change was from the Commercials/Hedgers, which are usually not regarded heavily in CoT analysis. If we were talking about coffee, we would be talking about coffee farmers and coffee producers (Maxwell House, etc) as "Commercials/Hedgers." The remaining would be pure speculators trying to make a profit off of price moves in coffee, not hedging positions (farmers want to sell coffee at the highest price and then companies want to buy coffee at the cheapest price. The futures markets help hedge their desires and protect their interests... while speculators – us – try to profit from moves in the coffee market).

It's not that clear in the @ES... because you can't eat an @ES or do anything with an @ES futures contract except speculate... or hedge a large portfolio. It could be that commercials/large funds rushed out to short the @ES futures contracts to protect their long/buy portfolios as a matter of safety. We'll have to keep watching this closely. It's still bearish, nonetheless, with the small speculator net long at the level they are.



We saw both an extreme low followed by an extreme high (that happens) in our Breadth chart recently. This happened also during the worst part of the market crash in 2008 – they are called ‘snap-back’ rallies... or short-squeezes.

We’ve had a concentration of low/negative breadth readings, which typically precedes lower price lows yet to come, so the message from breadth extremes is that the market has turned more bearish/distribution than in the past, so it also hints that we could be seeing lower prices ahead.

Keep in mind that a rally above 1,180 temporarily negates bearish calls and targets for the meantime.

The best play seems to be remain bearish while the indexes are under 1,150, neutral if we’re in a range from 1,150 to 1,170, bullish for ‘popped stops/short-squeeze’ if we’re above 1,175. Target 1,100 (or lower) while under 1,150.



Special Gann Squares and Andrews Pitchfork update chart.

Levels are the same – the market peaked just beyond the 1,212 level and now failed to overcome the Gann number at 1,178. We're under the 1,143 number, and the next lower level is 1,110.

Notice that Friday's low was on the rising Andrews Pitchfork line as drawn... the same line/angle which met the low in February. I find that interesting.

We could get a bounce off that level... but if we slice under it (the low of Friday at 1,126), we would certainly continue to target 1,100.

Gold

Monthly



In my opinion, the main thing you should learn from gold's monthly chart is that we have a massive uptrend that continues to push prices to higher and higher levels. This is the most bullish picture you could ever hope to see in a major market... and it argues for even higher prices yet to come.

For actual target levels, we turn to lower frames.

Weekly



A lot of traders are targeting \$1,300 which is very logical – it's the Inverse Head and Shoulders Target as drawn from the October 2008 low to the \$1,000 'neckline' level (\$300) which is then added to the breakout at \$1,000 to give us a target of \$1,300. It seems to be that the market will likely hit that level.

We're overextended from the rising 20 week EMA at \$1,150, but that's fine – we were in this condition from August to November of 2009 and in a strong trending market – especially one that's sent higher by fears of a European Recession/Contagion/Debt Crisis/Euro Currency devaluation. As long as investors fear further declines in the Euro and destabilization in Europe, it's likely gold will continue its rise (short Euro/long gold... sell stocks/buy gold). That seems to be the logic of the bigger players in the market at least.

Daily



We've completed an almost perfect arc as drawn above. The last three candles give me pause to be super bullish, because they're all reversal candles that have formed in a grossly overextended chart. Be cautious here as we could see a pullback to \$1,200 before a continuation move higher. \$1,220 remains an important short-term support level, and if we start to move to a new high beyond \$1,250, then odds become overwhelming that we will see \$1,300 or beyond.



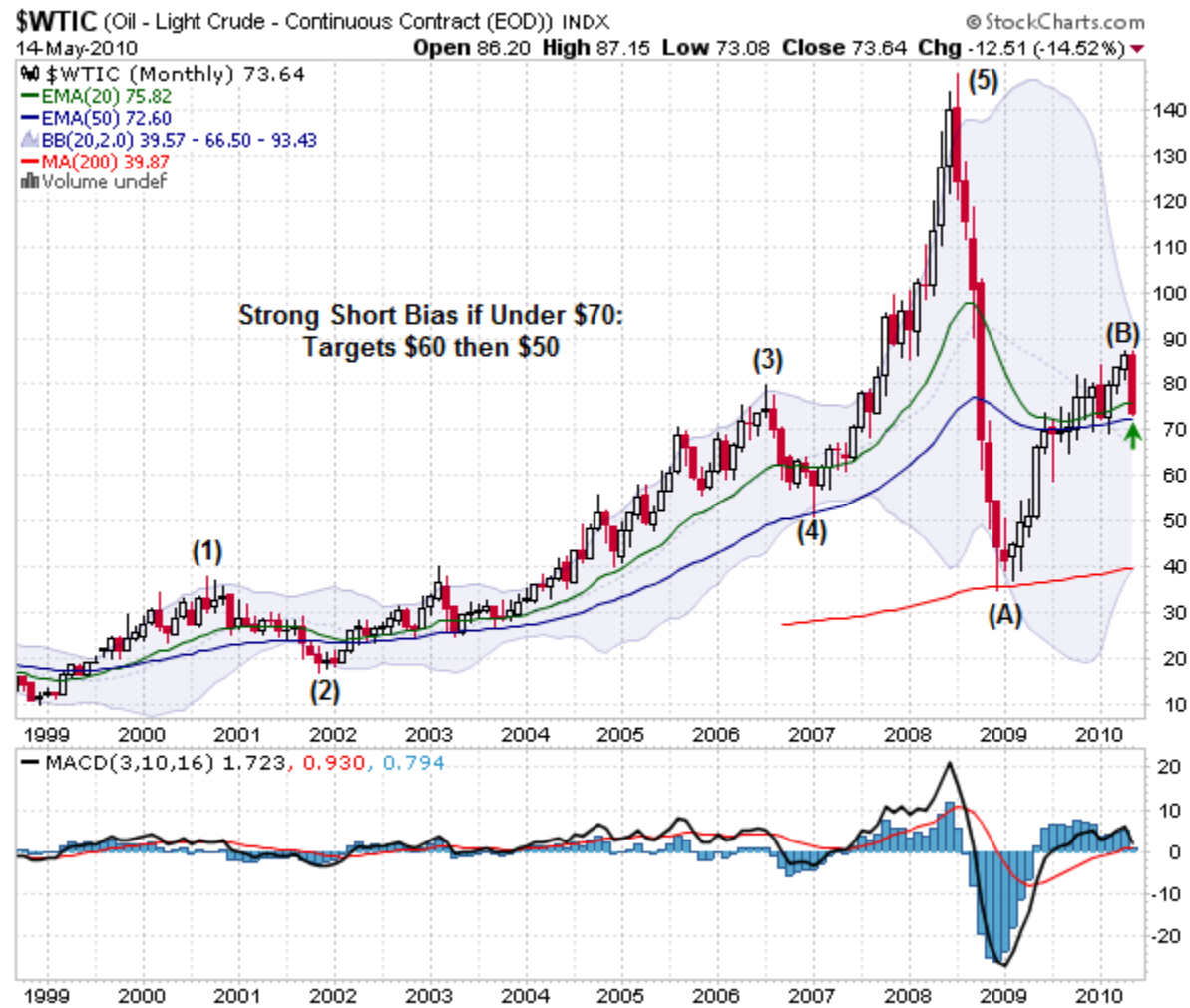
Special Gann Squares and Andrews Pitchfork Chart on Gold.

There's a Gann number – surprisingly – at \$1,250 which is where we look to be making a short-term pause. The next number above is \$1,285, and the number under us – which will be key to watch – is \$1,215. Gann numbers are not magic – nothing is – but when we break through one level, we expect to head to the next number. Also, if we break down through a number, we expect to find support at a lower number. Like trendlines (you can think of these as equally spaced horizontal trendlines), these are more 'zones,' than absolute prices.

We also came in contact this week with a rising Andrews Pitchfork trendline that aligned with the \$1,250 Gann number. That's where these type of 'advanced' charts are helpful – to uncover 'hidden' areas of a chart that could have significance when combined with other forms of analysis.

WTI Crude Oil (\$WTIC)

Monthly



The monthly char of crude oil is stunning – showing a loss so far of 14.50% (\$12.50) in the price of crude oil.

Such is the nature of a lengthy negative divergence that has persisted for months (see weekly chart).

However, price still remains in a trendline channel structure and does remain above the 50 month EMA at \$72.60. That's the key level to watch as seen on the monthly frame.

If the Elliott Count is correct, it would suggest we would be in for lower prices ahead as a "C" wave down develops which would correspond with a sell-off lower in stocks.

Unlike gold, crude oil and stocks remain positively correlated. In times of panic, gold links with bonds and the US Dollar Index as a 'hedge' or means of safety... unlike stocks and oil which are closely tied to the economy and are 'risk' assets.

Weekly



Depending on how you draw the trendline, we are at the lower level of the rising trendline currently, which is important to note.

We could get a bounce here – that would be expected as we remain within a trend channel – but if we don't get a bounce, then we could see the character of the market change and we could enter that “Wave C Down” which would take us to \$60, then \$50 or even lower... which would correspond with a sharp sell-off in stocks and a continued rise in the US Dollar Index.

Daily



It seems extremely natural/expected – looking at the daily chart – that we would get a retest of the \$70 level, which is the lower support line from the December and February lows as drawn. The gap down Friday made that the dominant expectation.

Crude is in danger, but is not yet in full sell-off mode... but we would take a very bearish bias if sellers can drive prices under \$70 which is absolutely the last line of defense/support that is preventing a full bear market in crude oil.

The new momentum low (oscillator) hints that further lower prices are yet to come. We would doubt the bearish view, or at least push it out further, if we see a sharp rally next week that takes us to or above \$79.00.



The Gann Chart (and Andrews Pitchfork) shows key levels to watch are \$80.50, \$71.71 (where we are now) , and then \$63.00 if under that.

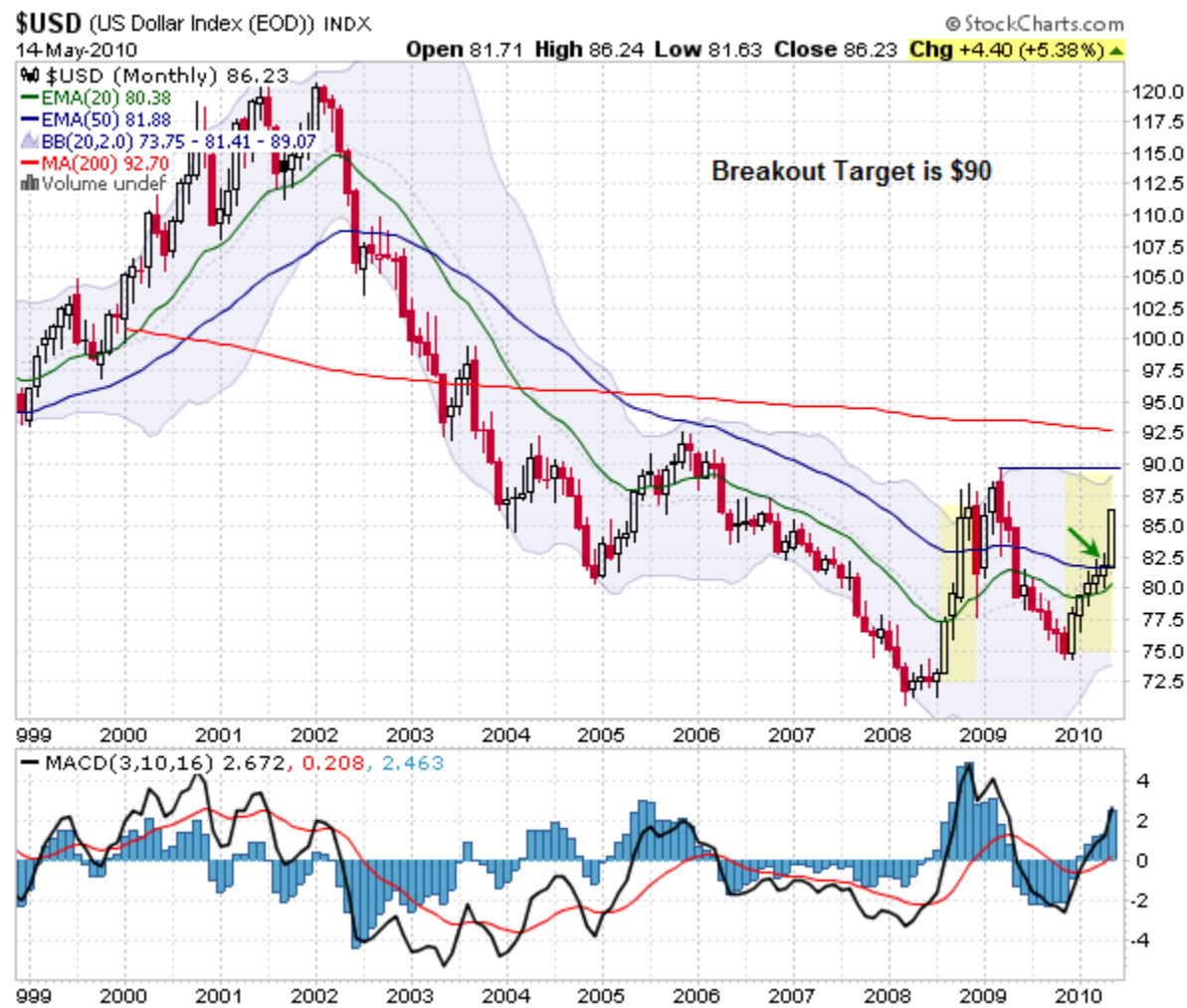
We've already broken under the Andrews Pitchfork line that I have drawn... doing so last week at the \$81 level which was a clean sell-signal that met its target objective.

We're now testing prior lows, so any move under \$70 sends us into likely 'positive feedback' mode that could see a test of \$60.

Recall that this is a 'roll-over' continuous futures contract, so the prices you see are different from the index you see in StockCharts or other software programs.

US Dollar Index (\$USD)

Monthly



I've been highlighting the \$82.00 level as a very important level to watch – and now we see why. It was a key 'line in the sand,' and buyers drove the Dollar through that level and a "positive feedback loop" sent price soaring this week, driving the index up over 5% for the month (that's a big move for a currency index... and the month is half-complete).

For now, we appear to be drawing a similar pattern to the 'panic' events of late 2008 that sent the Dollar Index from \$72.50 to \$90... and we could see or exceed \$90 in the weeks/months ahead, so \$90 remains a logical target.

A rising dollar is currently a 'fear' play mainly driven by investor fears in Europe that corresponds with falling stock and crude oil prices, and surging gold and bond prices. That is the CURRENT intermarket structure until the 'panic' is taken out of the equation.

Weekly



Compare the current week to week rally in the Dollar to that of October 2008 at the heart of the financial crisis. I find that interesting. Instead of bailing out companies, we're bailing out countries... and so investors are understandably worried, and the flood OUT of the Euro has benefitted the dollar.

The dollar index is a basket of currencies of relative strength, so if investors feel the US will grow faster than Europe – as that seems almost certain – then they will sell European currencies (Euro) and buy American currencies (Dollar). They're also buying gold as they fear debt/intervention is destabilizing stock markets, making gold more attractive and a safer place to store money.

It's the classic "Hard Asset" (gold/silver) vs. "Soft/Paper Asset" (currencies/bonds/stocks).

Daily



I have been saying that the \$82.00 level is very critical to watch, and now that investors have sent the index beyond that level, we are in a bullish breakout mode that continues to this day. The new Momentum high and new price high – and strong up-trend (notice the moving averages) along with no major price resistance until \$90 – give us odds of higher prices STILL yet to come.

That is, unless there is other news in Europe (the \$1 trillion bail-out plan did not help so far) takes some of the fear out of the system. Unless that happens, we'll continue to see a higher dollar, higher gold, higher bonds, lower stocks, and lower oil.

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