

AFRAID to TRADE

overcoming stock market fears *with* Corey Rosenbloom



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: True to their form, bonds maintain a neutral, consolidation pattern between \$115 and \$118.

S&P 500: The big thing to watch next week will be how the S&P 500 reacts to major and obvious resistance at 1,225/1,228. It's widely expected that we'll see a down move begin on a test of that level, but should buyers continue to surprise and drive price higher than 1,230, be prepared to reaffirm the bullish trend with a breakout.

Gold: Gold returned to the structure we saw last week - trapped between short-term support and resistance. It will be best to see what happens early in the week and watch the \$1,160 level for a bullish break and target to \$1,225, or else watch the \$1,160 level as resistance.

Crude Oil: Like gold, crude oil fell then remained trapped between key support and resistance. Watch the \$82 level for support, though it looks logical to expect a continued rally to challenge the recent highs.

US Dollar Index: The Dollar also - not to be outdone - rallied then fell late in the week, remaining between its short-term support and resistance levels as well. \$82.50 remains key resistance - a breakout could see \$84.00 - but support also rests at \$80.00, and a break under could see a new fall in the dollar.

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



No major change in Treasuries this week, as we continue to remain between a descending triangle at the \$117.50 level, the 20 month EMA at \$117.70, and the horizontal trendline at \$121.00. The key support level to watch is \$115.00, and the expectation is that we remain rangebound until we get a clean break above \$118, which would correspond with a stock market sell-off, or perhaps more likely eventually, a solid break under the \$115.00 support line.

Weekly



The Fibonacci retracement grid helps show us the two-year trading range price has endured, between \$121.00 and \$115.00. We're still within that range, and the best bias is to expect that range to continue. Bonds offer safety for investors and aren't expected to fluctuate in price - that's exactly what we're seeing.

We're at a key resistance level at the \$117.50/\$118.00 level as shown above (red arrow), and any break above \$118.00 should send price back to the upper line at \$121.00, but as seen on the daily chart, the \$118.00 level also houses the descending triangle line.

Daily



We see the dominant short-term trendlines on the daily chart - with the key support being \$115.00 and key resistance line being \$118.00. Above \$118.00 is the prior price high at \$119.00, and again the expectation is for price to continue trading within this range unless something majorly unexpected happens in the stock market.

A massive rally that emerges will send bond prices lower, while a massive sell-off will send bond prices higher, otherwise the current stability will keep bonds range-bound.

US S&P 500 (\$SPX)

Monthly



Folks, this is what we've been waiting for. We're now at the 61.8% Fibonacci retracement at 1,228 (we're actually 10 points under it), so we play the resistance game again. This is like it's been with other resistance levels - price tests the level, pulls back, and then manages to break above it, continuing the rally. Investors and traders will play the game again - will the market break above 1,225? It would be very unexpected if we do not see at least a down week or perhaps series of down weeks as a result of price testing this very significant technical level, so be prepared to adjust accordingly. However, should we see a clean break above 1,230 in the week(s) ahead, then it would likely trigger another massive short-squeeze and breakout rally, sending price up to 1,250 or beyond. It would be very, very difficult if not impossible to be a bear above 1,230 and 1,250, so this is it.

Weekly



The weekly chart shows why the 1,225 level is important, and has long-since served as a target as I've mentioned in the reports once we broke above 1,150 - we're there and the analysis was correct in projecting price to that level.

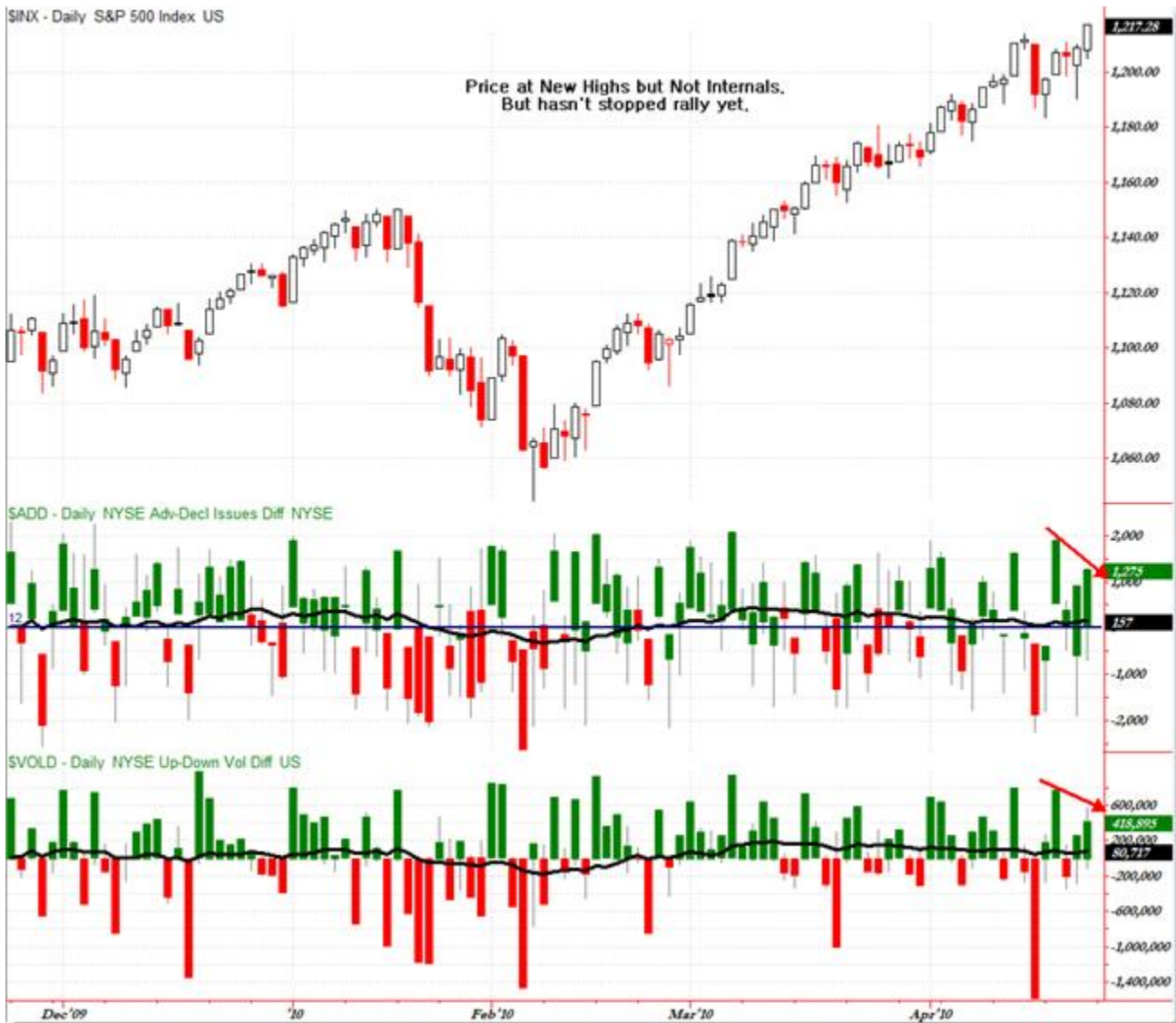
Now that we're here, either sellers will step in or buyers will take profits, sending the indexes lower, or we'll bust through the level, reaffirming the uptrend and breaking above - really - the last line of resistance for the bears. There is nothing (major/obvious) above 1,225 except for 'round number' resistance (1,300, 1,400, etc) so 1,225 becomes the official line of demarcation between Bull and Bear Market. The widespread expectation is that price will retrace or fall from a test of the 1,225 level, but if we don't fall here, then the charts will flash an official 'all clear' bull market, having removed the last major or obvious line of resistance. "Retracements" often don't go beyond the 61.8% Fibonacci Line.

Daily:

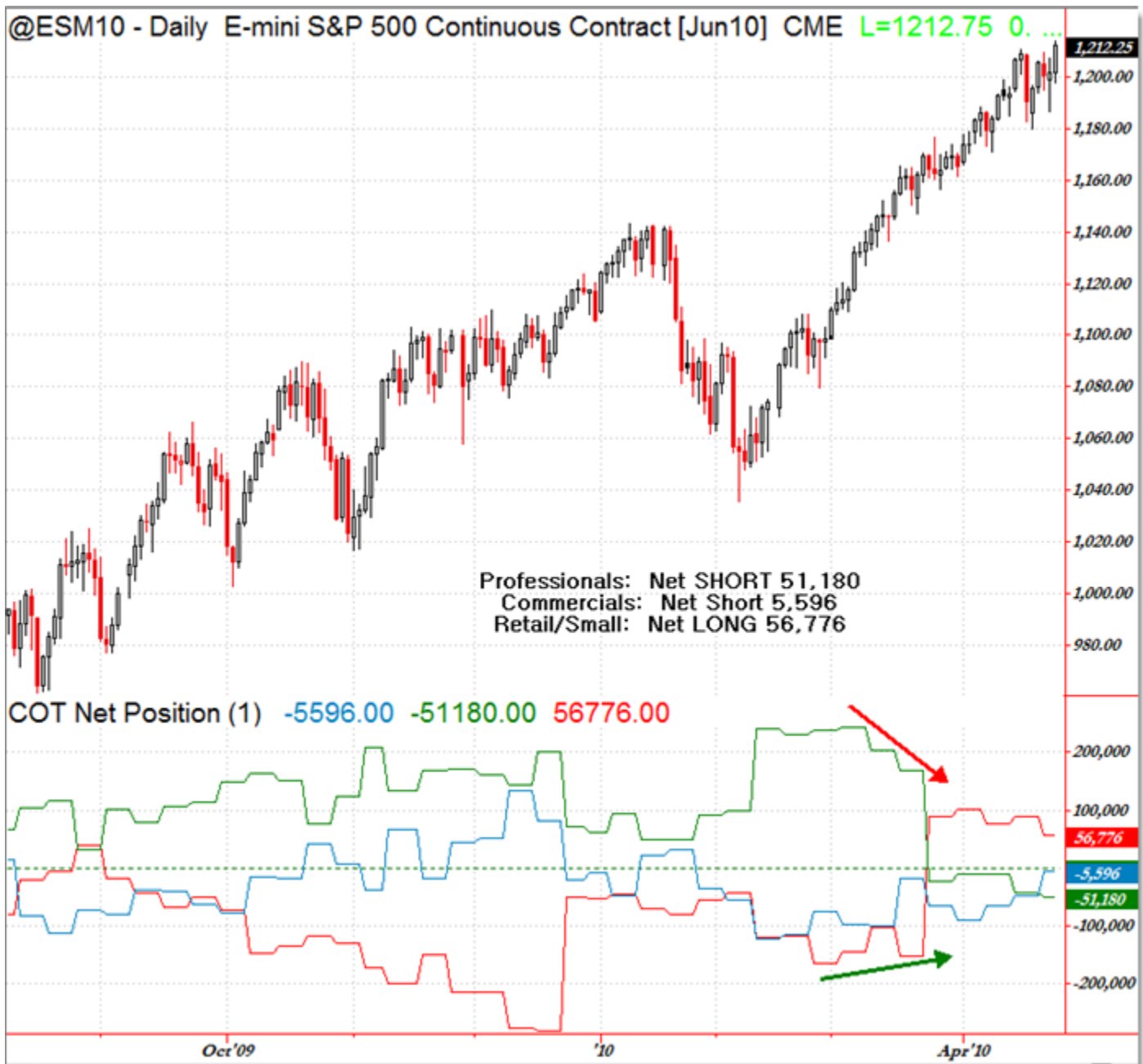


The dominant pattern for short-term traders has been the rising trendlines that have contained the rally from the February 2010 low - which may best be seen on a 60min chart. The other salient feature has been the rising 20 day EMA, as we bounced sharply - to the intraday low - twice recently off this level. The expectation is for a continuation to test the 1,225 level which is the next key resistance that seems to be acting like a magnet. If you're not long already, you shouldn't put on a long position (buy) afresh to play for the final 10 points of the rally. If you're looking to buy, wait for a pullback or wait for a firm break above 1,225 or 1,230. You may even want to see price clear 1,250 but that depends on your risk tolerance.

Short-sellers should look to place stops above 1,230, but if price rallies beyond 1,230, we'll almost certainly see more "Popped Stops" which fuel prices higher as bears are forced to buy to cover.



The most recent "Breadth and Internals" grid shows more negative divergences on the highs, but that doesn't seem to be catching up with price. What we have now is a Positive Feedback Loop where bulls are buying and bears are shorting but immediately forced to buy to cover, driving prices higher. The bulls through buying - from whatever source - are able to overcome the selling from the profit takers and short-sellers, and again, when price continues to rise, it forces more short-sellers to cover. Nothing - not even divergences - seem to be able to stop this feedback loop.



No change in the CoT data model, except that the Commercials/Hedgers decreased their net short position, now resting at net short 6,000 @ES contracts.

The professionals remain net short 51,000 contracts while the public - often wrong - is now net long 56,776.

There was about a two month lead time before the March 2009 low before price 'caught up' with this signal (shown in prior reports) so that may again be the case.

This is bearish because it shows that professionals are net short the market after 'selling' in March (falling green line). The Small Speculator - retail public - 'dumb money' - is net long, but at a smaller clip than last week - net long 56,000 @ES contracts.

Professionals usually time the market correctly; small speculators usually don't.

SINX - Daily S&P 500 Index US



We did find short-term resistance at the Gann Squares Target of 1,211, but it was only temporary as price returned to the midpoint of the Andrews Pitchfork 'auto' trendline, bouncing up to rise above the Gann 1,211 line Friday.

The next Gann Squares target is 1,246 for reference, and lower support level is 1,176.

As you can see, when price breaks one Gann level, it usually head to the next one for a test/inflection.

Gold

Monthly



Gold's monthly chart offers little guidance except to show the power of the multi-year uptrend and the context in which we exist now - in an intermediate rally phase within the context of the primary uptrend.

For investors, the chart seems to offer an 'all-clear,' so we turn to lower timeframes for opportunity and risk management.

The obvious level to watch for support is \$1,000 which is the rising 20 month EMA.

Weekly



Last week saw us bounce off to support right back into resistance, so we are almost exactly where we were at the start two weeks ago - resistance. The analysis remains the same, then.

Bullish above \$1,100 with an upper target of \$1,225 (at least) if buyers can clear \$1,160. Don't be short above \$1,160 as we could see a 'popped stops' positive feedback loop that sends price to \$1,225 to test the prior high, especially if the stock market continues its rally and breaks its resistance overhead.

Otherwise, you see the trendlines above reflect support at \$1,100 (with 20 week EMA) and \$1,000. The bias is bullish until proven otherwise, but watch closely the \$1,160 level.

Daily



The daily chart shows the future - if we're above \$1,160 (breakout), then we will likely see a return to \$1,225 again. We have a lot of resistance - daily and weekly moving averages as well as the arc pattern as drawn above - at the \$1,140 level, so we're in the middle of resistance and support, so we'd be long above \$1,160 and cautious until, and if we're under \$1,120 then we'll see \$1,080 most likely.



A Gann Squares Grid and Andrews Pitchfork Tool (similar to S&P 500) for Gold Futures.

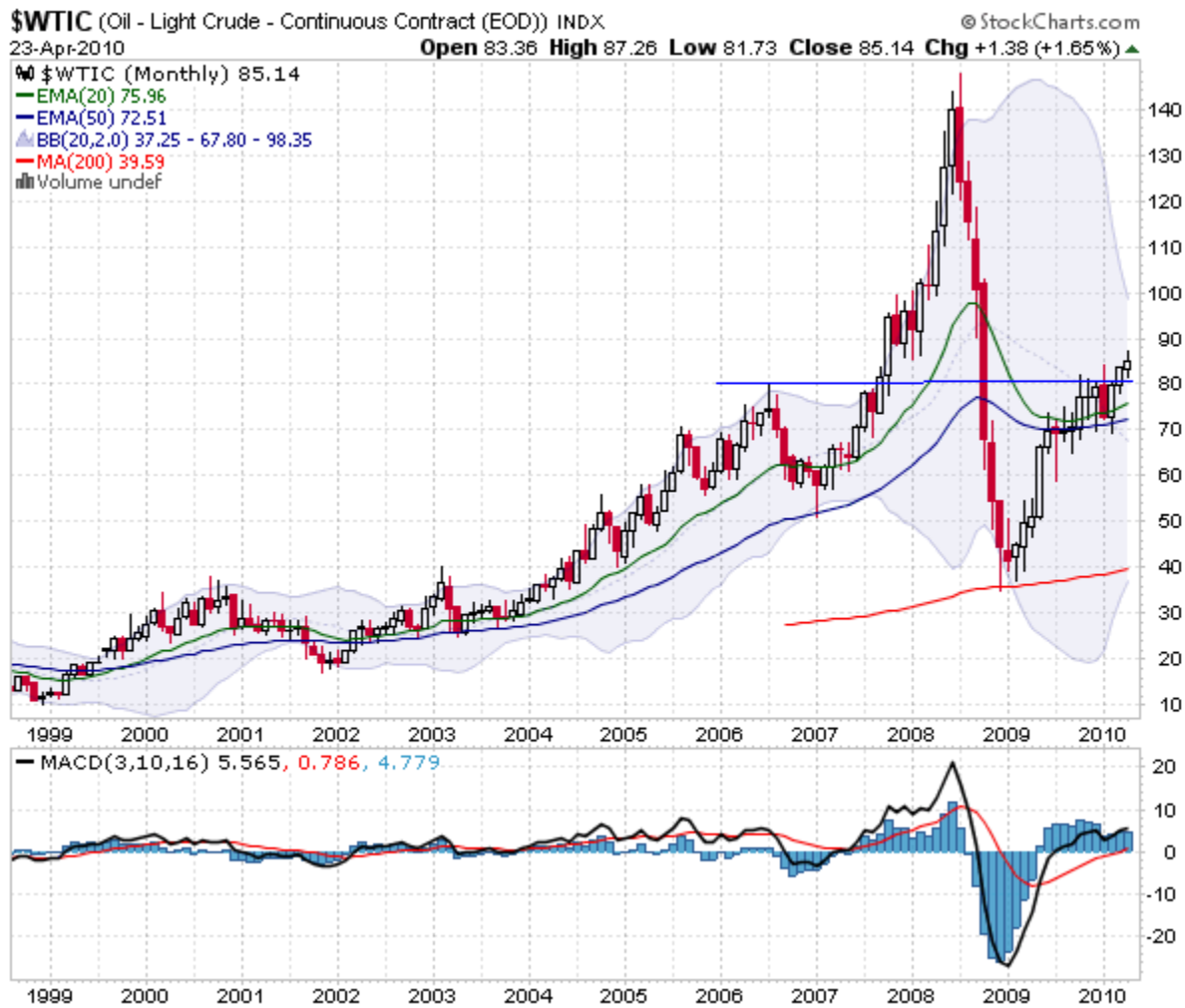
Notice how price rode the lower trendline up and bounced off it bullishly this week.

In terms of Gann, the overhead levels are 1,180 and \$1,215 and lower support at \$1,113.

These aren't magic - just reference levels for guidance.

WTI Crude Oil (\$WTIC)

Monthly



We had a sell-off then bounce off support this week, similar to Gold, and we're still trapped between support and resistance in a further consolidation.

The way to the upside is clear, at least from the monthly chart, with support below us and no further EMA resistance above us. The weekly chart shows the Fibonacci levels to watch, otherwise we're clear on the monthly chart in terms of the continued trend for now.

Weekly



Like stocks, the dominant way to structure the crude oil market is via the rising parallel trend channel as seen above, with current support boundaries at the \$80/\$83 level and resistance just under \$90.

The 50% Fibonacci Retracement - as drawn - rests at the \$92.00 level which is a logical target to expect the market to hit, unless we see a sharp downturn in stocks (and surge in the US Dollar). If not, then we're almost certain to test the \$90/\$92 level.

The negative momentum (oscillator) divergence - like stocks - has not 'mattered' and has not stopped the trend channel rally. Remain bullish unless we're under \$70 - which would be a game changer to the downside. Until then, the bias is that we remain within the trend channels above.

Daily



The daily chart helps us see the dominant trendlines clearer, placing the boundaries at the \$88 level to the upside and \$74 level to the downside, though the immediate level of support - as I labeled in last week's report - is the \$82.00 level (50 EMA and lower Bollinger).

We bounced sharply off that level on Thursday and began a rally to the upside on Friday. It could be that a short term trendline exists from the February 2010 low to the \$82.00 level - so watch that for support.

Bullish bias to test \$88 ... unless we move back under \$82 then \$80.



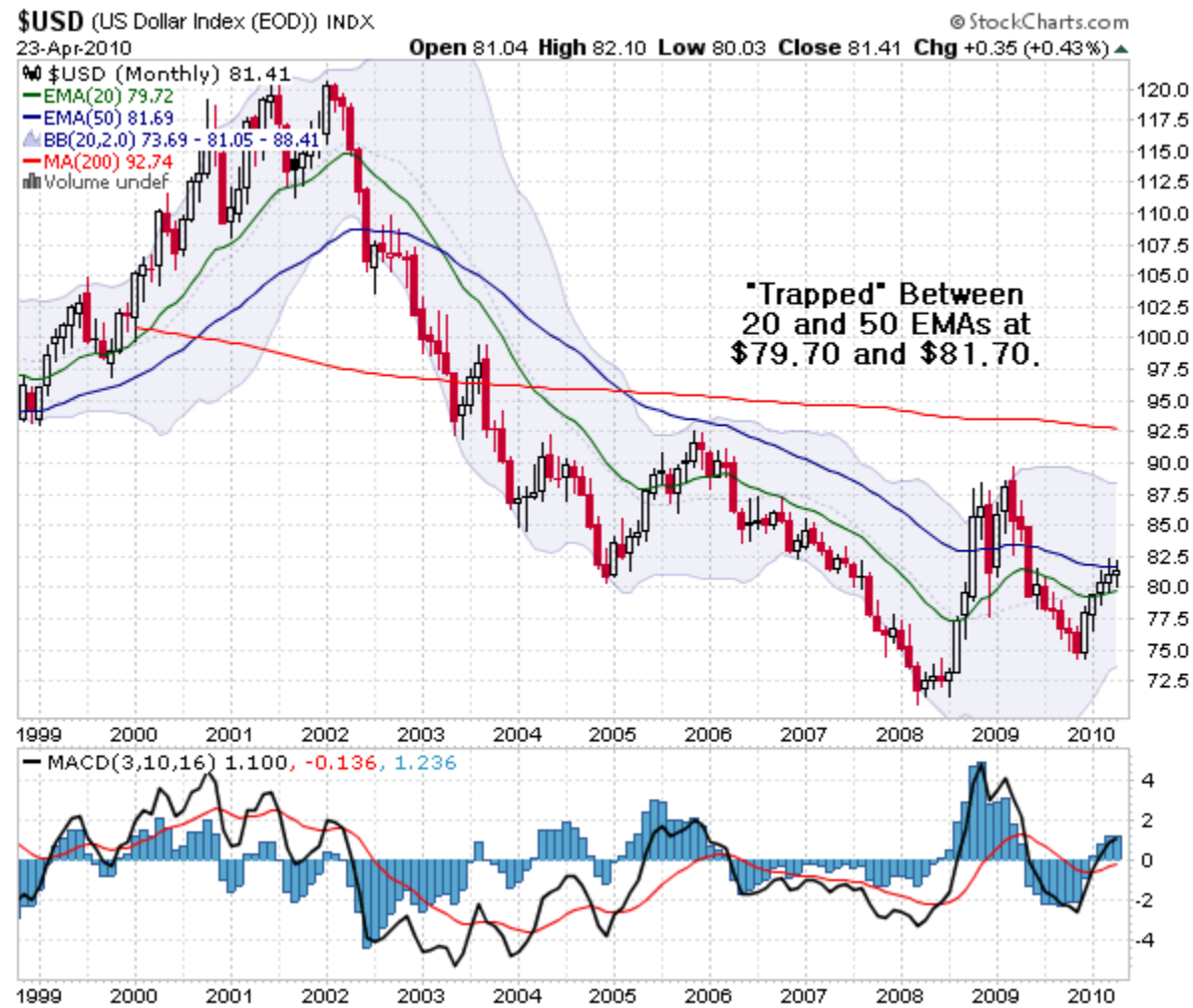
The Gann Squares Grid for Crude Oil Futures (in TradeStation) along with an Andrews Pitchfork Line.

Notice also how the pitchfork has contained the recent rally from the February low.

Notable Gann lines rest at \$80.50, \$89.70, and \$71.70.

US Dollar Index (\$USD)

Monthly



The main takeaway on the monthly dollar index is that we're 'trapped' between the 20 and 50 month EMA at \$79.70 and \$81.70 respectively - and have formed two spinning top candles - indecision - between them.

Until proven otherwise, we still remain in a downtrend (which would be officially changed ONLY with a close above \$90) and are now structurally in a counter-trend rally higher - and have \$82.50 as key multi-timeframe resistance.

Weekly



We see that price has been 'trapped' between the 38.2% and 50% Fibonacci retracements as drawn. In addition, we have the 20 and 50 EMAs crossing 'bullishly' at the \$79/\$80 level which is expected - and is - holding as support. The 200 SMA rests at \$80 which has also served as support.

For now, the Dollar Index remains trapped between \$82.00 and \$80, so a break above \$82.00 would be a bullish omen, sending price up to \$84.00 which would coincide with a fall in stocks, gold and oil.

Should the dollar index break under \$80 (\$79 for confirmation), it would be a very bearish omen and would coincide with a continued rise and breakouts in stocks, gold, and oil.

Daily



We've broken under the dominant trend channel lines as shown above and formed a harsh reversal candle Friday, dipping back under the trendline but bouncing off the rising 20 day EMA at \$81.00. This could have the markings of a distribution top or some sort of head and shoulders pattern forming, so watch that and be prepared to short (or protect profits) should the index fall under \$80 (bullish for stocks, gold, and oil). In the event that the index breaks bullishly firmly above \$82.00, then be prepared for a breakout move to \$84.00, which would imply stocks, gold, and oil failed to overcome the resistance levels they face currently.

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