



Weekly Inter-market Technical Report

Summary Comments

Ten-Year Notes: Notes officially broke the resistance at \$118.00, preceding this week's breakout play. Watch \$118.00 as support and \$121 as resistance - long again above \$121 (stock market sell-off continues) or take profits/watch support/short bias if under \$118 (stock market recovers)

S&P 500: The key level to watch going forward now is 1,100. Bullish for retracement to 1,150 if above; bearish to test 1,050 if beneath... and if beneath 1,050, it will be a game changer (if the game has not already changed under 1,150). This week shows extra analysis on stocks.

Gold: Gold hit our \$1,200 initial target, completing the Mirror Image pattern. Watch for a break above \$1,230 as a second buy signal to target \$1,300 if stocks sell-off and fear returns, or take profits here and watch for a retracement down if we get good economic news next week and stocks start to rally. The key to know is that gold has temporarily DECOUPLED from stocks and oil in this time of economic panic/uncertainty so be aware of that.

Crude Oil: Like stocks, we had a crash in crude oil last week as well that preceded the stock market crash once we broke under our key 'line in the sand' level of \$82/\$80. Crude oil will test \$70 if stocks continue their sell-off next week, or will bounce - likely - in tandem with stocks. The positive relationship continues.

US Dollar Index: With the Euro selling off sharply, investors fled to the safety of the US Dollar Index, breaking it out above its key resistance at \$82.25. Upside targets are \$87 then \$90 if the crisis gets worse, else if stocks rally next week, we'll see a decline back to test the \$82.50 breakout level.

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.

Corey's Comments

This week reminded us that charts do matter. That markets cannot rise forever while showing negative momentum, breadth, and volume divergences. That markets that continue to rally with declining internals, breadth and momentum increase the risk of a resolution through a crash.

This week also reminded us of the importance of why we do inter-market analysis, and why you should keep up with it - at least key levels - even though it's extra work. Even if you trade stocks, you should know key levels to watch in gold, oil, the dollar, and bonds.

Why?

Because bonds, oil, and the dollar index sent you clear signals of breakouts of absolutely key levels - I've been highlighting for weeks - TWO days prior to Thursday's market sell-off. Intermarket analysis gives you a much broader picture than the market on which you focus - whatever that market is.

My goal in these reports is to combine the charts of the major markets into a broader theme using "IF/THEN" statements while focusing your attention on key levels. Use these levels as reference points to adjust your trading and investment positions accordingly if a level is broken.

I try to make the levels clear on the charts so you can see them quickly, though the text reinforces the points I'm making through the charts. I use an unbiased method (neither bullish nor bearish) that focuses on price (chart) purism as best I can, and use a variety of technical methods to draw your attention only to the most important convergences/key levels. These levels are meant for you to incorporate into the fundamental, news, or other technical analysis methods you do already.

This week sent a clear reminder why chart analysis is important. I have been constantly showing the negative divergences that under cut the rally, but most importantly, calling your attention to the change-over in professionals and retail/small speculators in the Commitments of Traders reports - which I feel may be the most valuable chart you look at in the whole report. It has had a recent uncanny ability to spot key market turns one to two months in advance. Professionals began selling net @ES positions and then got net short the market in early April. The retail public/small speculators (non-reportables) simultaneously began taking off net short positions (held since just before the market bottom in March 2009) and got net long the market once we broke above 1,150, thinking everything was all clear. It wasn't. This was the biggest signal that the market was trading on borrowed time - when combined with the almost year-long negative divergences in market internals, volume, and momentum - told us that things were most certainly NOT alright with the stock market.

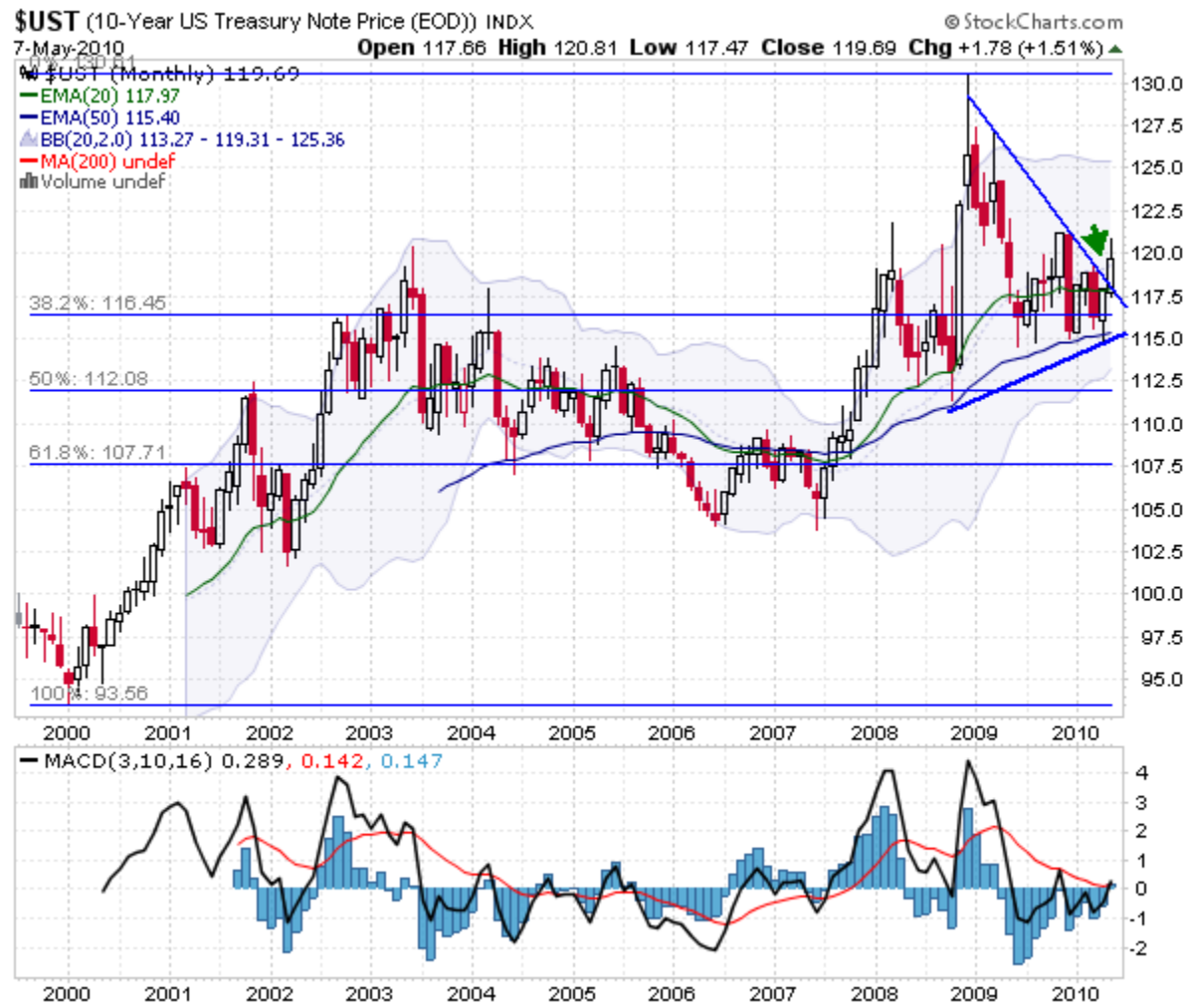
We can never know the exact day of a crash, but we can know that conditions are forming so that the odds favor a crash over a continuation of a grossly extended market. Risk was high for a crash to occur eventually, if not an orderly sell-off... but usually markets resolve with crashes as opposed to orderly, nice down moves. It's often better to exit positions when you start to see all these non-confirmations and miss getting the final percentage move as the market continues to overextend. We got the crash this week. Those who follow charts objectively - and not emotions - were warned.

What now? As the dust settles, we have new key levels to watch across the inter-market landscape.

Be safe - and read on.

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

Monthly



One of the most surprising developments this week - among many - was the sharp surge in bond/note prices. So many investors/analysts were convinced that prices were about to fall precipitously, but the exact opposite happened. It's a reminder why chart analysis is important to your investment decisions, particularly with the method I show of watching key reference price levels as 'lines in the sand.' In this example, the reference level was the descending trendline at the \$117.50 area and the rising support trendline at the \$115.00 area. A break of either would lead us to play for a range expansion move.

This week, on Tuesday (two days BEFORE the crash), note prices began rising, breaking above the key 'line in the sand' level at \$118. Then, as the market crashed on Tuesday, prices surged in breakout mode - those of you who use notes as a reference would have seen this early and perhaps seen the signal. I always highlight that a rise in note/bond prices would correspond with a fall in stocks (and vice versa), so that was a potential warning sign.

Let's drop to lower frames for clues going forward.

Weekly



The weekly chart tells the story of the breakout. If stocks continue to sell-off hard, then bond/note prices will continue to rise in breakout mode.

For now, the key level is \$121.00, which was the prior high from December 2009. This level was the first target to play for on a break and we achieved it this week - it would be logical to expect a pullback to test \$118.00 if panic is assuaged this week... or to play again in breakout mode if above \$121.00 to target the \$126 area.

Daily



Price broke the rising trendline on Tuesday, gapped up on Wednesday, and the market crashed on Thursday. Signals are not always this clear in advance, but this underscores the importance of inter-market analysis and how the markets relate. A breakout above a trendline in bond prices forecast a potential range expansion to the upside move in bonds, which was fulfilled when the stock market crashed on Thursday afternoon - investors were already selling stocks and moving into bonds prior to the crash as seen in the chart.

For now, the resistance target level at \$121 held, so I would not expect an immediate move back to that level unless the stock market crashed AGAIN next week - crashes are rare - you usually don't get week to week crashes.

If the stock market rallies next week, then bonds may fall back to test the \$118.00 level. Use these as references - \$118 for support (bearish under) and \$121 as resistance (bullish if above, which would correspond with second sharp sell-off in stocks).

US S&P 500 (\$SPX)

Monthly



1,225 was the key reference level to watch that divided this rally between bull and bear. We would have a strong bullish bias if above 1,230 then 1,250... but that didn't happen. At the key reference level, bears emerged and buyers took profits, sending the indexes lower and tipping the odds to the bearish side.

For now, monthly reference levels to watch on the downside include 1,150 (50m EMA - we broke it), 1,089 (20m EMA - we're just above it), then 1,050 (200m SMA). For now, we can't rush out and scream bear bear bear because we're

above 1,100... but if we break under 1,100 in the next few weeks/months, and then break under 1,050, it will be a confirmation (late but official) signal that we are back in a new bear market after an 80% bull market 'retracement' rally.

If we can push back above 1,150, then the bull case remains and this will be yet another vicious/hideous bear trap (or just a classic retracement in the context of a new bull market), but if we can't and break under 1,050, we could be looking for a retest of 850 then 666.

Special Long-Term Elliott Wave Possibilities



For most Elliotticians, they have counts that take the index back to the 650 level or lower. The count above seems to me to make the most logical sense in the big picture. It places the 2009 rally as a Primary Wave 4 in the context of a larger Cycle Wave C of a long-term count (with "III" in 2000 being SuperCycle Wave III). This week's sell-off may have officially 'kicked off' primary wave 5 which has a downside target to test the area of 700 (or perhaps make a new low) in the future. We would increase the odds of this count and confirm it as the most likely count if we break under 1,050 in the months ahead. We would disconfirm the count officially (reject it) if buyers drive price to the 1,300 level, as Wave 4 cannot enter the price territory of Wave 1 (with its low at the 1,250 area in March 2008).

In my opinion, the lengthy negative momentum, breadth, and volume divergences support the view that the 2009 rally was a 'corrective' wave (likely wave 4) of a larger bear count impulse. Impulse waves do not overlap and are often met with new extremes in volume, breadth, momentum, etc rather than divergences.

Corrective waves overlap and are wrought with non-confirmations.



This is the alternate - more “bullish” Elliott Count, which says that we have already officially completed Cycle Wave C with a 5-wave count that ended in March 2009, and that we are now in a new SuperCycle Wave 5 that will rocket the indexes to new highs.

I keep this count open as a possibility so as to be unbiased, but I deem it a very low probability, given the lengthy negative divergences as mentioned.

I do have to say that the sharp rally does resemble the first move off the 2003 low that took the index from 750 to 1,100 in non-stop fashion. What happened next was a 6-month correction that ended in November 2004 that rocketed the indexes to a new marginal high... before the crash of 2008.

It still IS possible - given the data now - that we could see a continued rally up to new highs... but with this week’s sell-off, that possibility dimmed.

As a general Elliott disclaimer:

Long-term Elliott Wave counts don’t change often, so use these as references. Remember, Elliott is only ONE way to forecast future prices - I recommend taking the market swing by swing and NOT getting caught up in what MIGHT happen 2 years from now - you do yourself a disservice if you get biased and miss the information unfolding right now if it is counter to your bias. Look for how everything fits together - not how everything fits your bias. Be open to new information. Nothing can tell you certainty - everything can tell you probabilities though.

For those who don’t use Elliott Wave, you don’t have to do so to be successful. This section is for those who have an interest or find Wave analysis helpful. I like Elliott because it gives me references to watch and opens my perspective to the bigger potential picture, which I tend to miss if my trading gets too short-term.



The final alternate count I wanted to share is this one, which is a minority viewpoint, but still a potentially valid count. It would be the most devastating outcome in terms of large-scale Elliott Wave, as it calls for a continuation of the corrective rally all the way up, similar to that of 2005-2007 - to make a marginal new high and then for another vicious 50 - 60% bear market into 2012 and beyond, bottoming beneath the March 2009 lows in the 600 level. This count places us in an expanding triangle Cycle Wave 4, with us being in a Primary Wave D of the "ABCDE" Triangle as drawn.

Why would it be the most devastating count? Because if the market 'shakes off' this week's sell-off and then breaks to a new high in the next month or so beyond 1,250, it will signal to investors that 'all is well' and the retail public will slowly re-enter the market and invest money - that has been on the sideline because they have been scared from the 2008 bear market - at the 1,300, 1,400 and then 1,500 level. However, as the retail public gets "all invested" (similar to how they were as the market peaked in 2000 then 2007), then they will lose AGAIN as they hold through another bear market that breaks to a new low. At that time, the public will be thoroughly disgusted with the stock market and some may never re-invest again. Imagine the psychology of being burned not twice (2000 then 2008) but THREE times. If this scenario plays out, it will affect the stock market for over a generation as legions of investors invest in bonds and never mutual funds again.

If we 'shake off' this week's sell off and then rally to a new high beyond 1,250, then we reject Scenario 1 (that we're in Wave 4) and will turn our attention to Scenario 2 (new bull market) or the above Scenario 3 (vicious multi-year triangle).

If however we break under 1,050, we will reject both Scenario 2 and Scenario 3 and then move to accept Scenario 1 with lower targets of 850 minimum (if Wave 5 'truncates' / cut short) or 666 for a full Wave 5 (if not lower than that).

Weekly



As I've been highlighting each week prior, the 1,225 target was the supreme level between bulls and bears. For now, the level has held as key resistance that preceded this week's vicious sell-off. Technical levels do matter as they are reference points for market participants - at least the major ones are. 1,225 was major. The market so far peaked at 1,220. What now? Watch 1,100 which is the key level, as it is the rising 50 EMA. Surprisingly, we have already hit our downside targets we've been mentioning on the weekly frame, which were the 20 then 50 EMA (1,150 then 1,088 respectively).

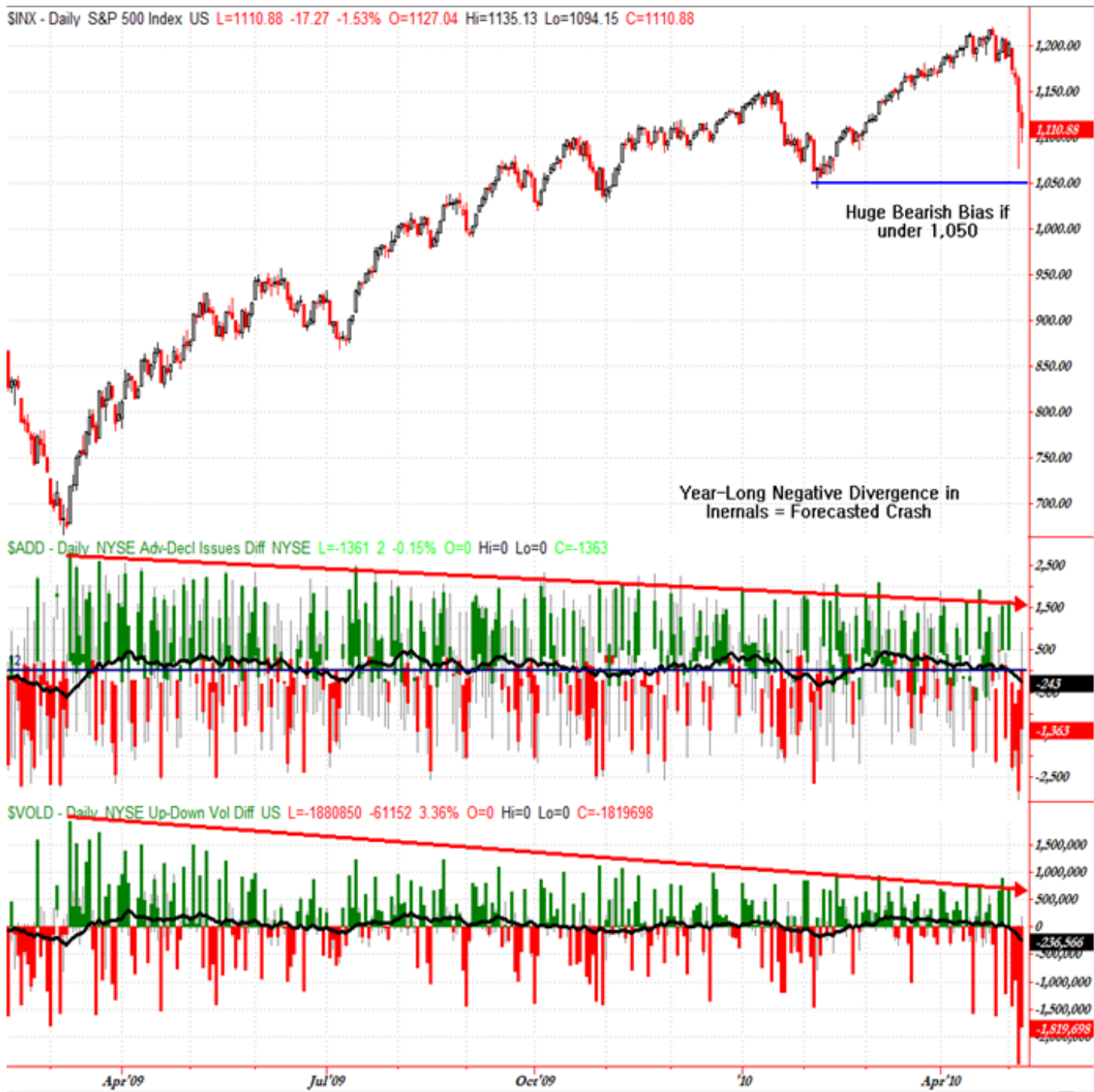
Notice the lengthy negative volume and momentum divergence - the longer these stretched on negative, the greater the odds were for a crash. We got the crash this week - the crash was normal - not abnormal (from a technical analysis perspective). It did not 'come out of no-where' and was not a surprise for chartists. I think the severity was a surprise, but not the fact that we were due for some sort of harsh sell-off as a result of these lengthy bearish non-confirmations.

Daily:



Short-term we could certainly see a bounce-back rally off the key 1,100 level which is the source of multiple confluences, including the 200 day SMA (EXTREMELY important for bulls to hold above this level), 'round number,' 50 week EMA (1,088), and Gann number 1,109. If however buyers cannot sustain support and a rally at 1,100, then we will look for the next short-term target to be 1,050. IF however we see price under 1,050, then it would be confirmation that a new bear swing was forming that could take us back to 850 or even the lows of 666 over the next year. ... but let's not get too far ahead of ourselves.

The short-term level to watch is 1,100 with resistance being at the 1,160 level. It could be a violent up-swing so don't stay short if we start to rally back above 1,130, but look for price to test 1,150 on any upswing... but if we don't get an upswing next week and then break under 1,100... it would be an early confirmation that we've had a reversal and not a retracement. Reversal = downtrend. Retracement = still an uptrend. 1,100 will be key in determining the difference.



Market Internals Matter... even when they seem not to. This rally has taken place on declining extremes (peaks) in daily Breadth and VOLD readings which served as a lengthy bearish non-confirmation all the way up, as I've been pointing out. We can never know exact peaks based on market internals, but it does tell us that "all is not as bullish as it seems," and the longer the divergence stretches on, the harder/sharper the decline when the divergence is resolved. It's like stretching a rubber band away from a reference point. The harder you pull, the more work you have to exert to keep stretching the rubber band, but the moment you let go, the rubber band snaps back. The further you pulled the rubber band, the harder it will snap back. We snapped back hard this week and could see lower prices ahead, especially from the negative extremes - not seen in many years - in market internals. Similar to the new highs in internals that began the bull rally in March, new extreme lows can begin a new bear market. These are called "Wyckoff Signs of Strength or Weakness" (when internals make a new extreme at the start of a potential turn in the market).



The updated Gann Squares chart had a Gann number at 1,211 which held, with the exception of a final spike above the number (you often get little spikes above a number just prior to the market peaking - look back at prior resistance and sell-offs at past Gann Numbers). For now, Gann numbers to watch as support levels include 1,109 (where we are now at 1,110) so we could see a bounce off that confluence level - remember 1,100 is KEY. Other numbers include 1,076 and 1,045 as key lower levels and 1,142 then 1,176 as upper potential resistance levels.

These aren't magic, but just reference levels based on market mathematics.

In terms of Andrews Pitchfork (blue), if we break under the 1,050 level, we break the lower trendline... which hints that we will be ending this up trend officially and starting a new downtrend... that's why 1,100 and 1,050 are absolute keys.

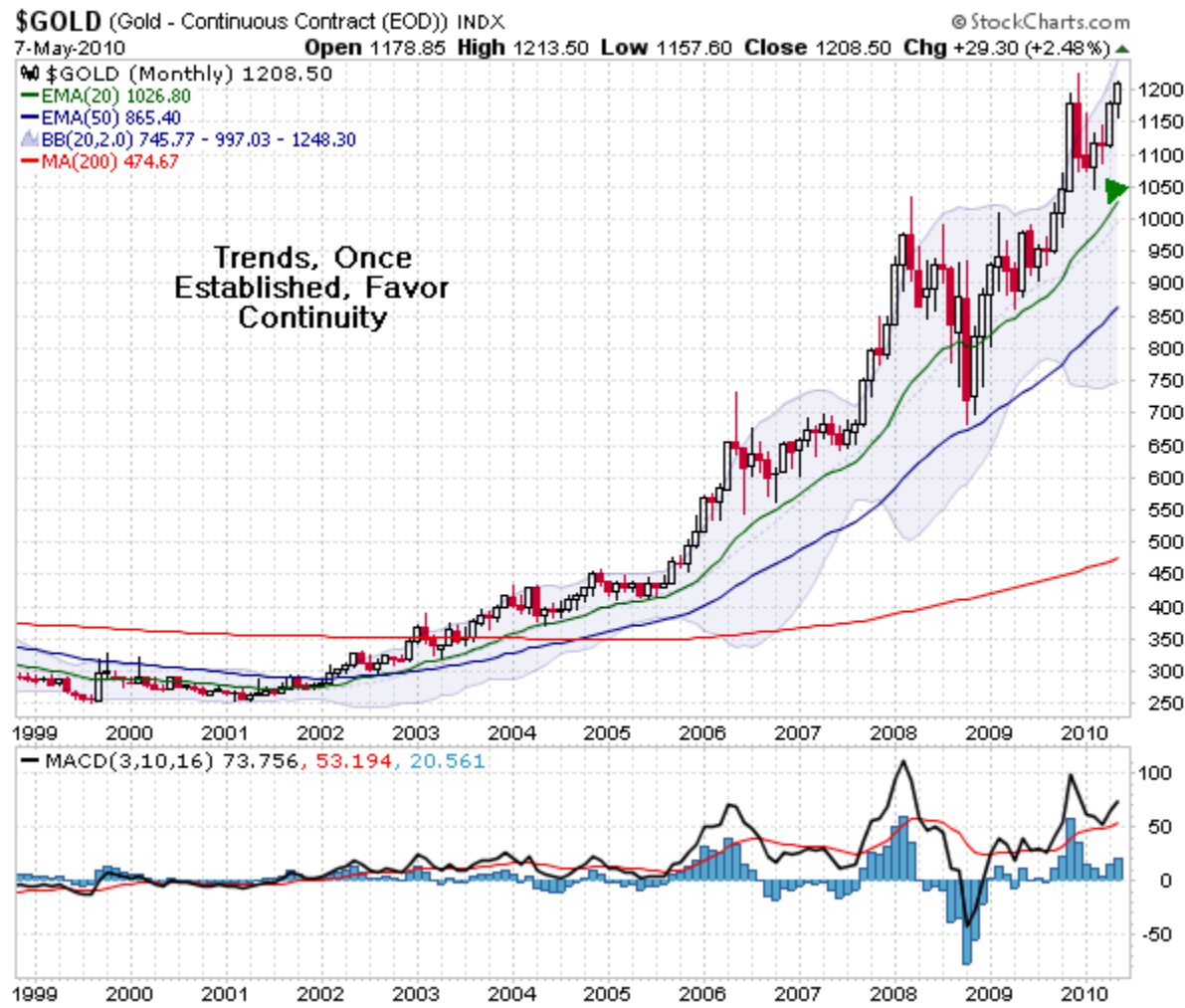


We can't say we weren't warned, as I've been showing each week in the report. CoT data doesn't forecast crashes of course, but it does give you insights into WHO is 'owning' the market. Professionals got net long 2 months before the March 2009 low and then got net short 1 month prior to the market peak and just over a month before this week's literal market crash. I've been showing that the professionals have been selling since March and got net Short at the start of April which - if history was a guide (looks like it was) - forecast a near market top. The information/data was correct - and we could be looking at a major peak for some time to come as a result.

Continue watching CoT Data closely - I have gained a LOT of faith in this indicator over the last year as I'm sure you have as well.

Gold

Monthly



The key thing to watch about monthly gold prices is that we remain in an extremely powerful uptrend and expect it to continue. Gold proves to be a good investment in times of uncertainty and can decouple from the stock market and crude oil in times of panic (like the end of 2008). That's why the correlation is not 100%.

As of now, know that gold has officially de-coupled from stocks and oil in this time of economic uncertainty/panic. Adjust portfolios if needed in terms of diversification.

On the same token, if stocks recovery sharply next week on news of "all if ok" in Europe, we could see gold fall sharply after reaching its target of \$1,200 (official target is still retest of high at \$1,228).

This is exactly why I show analysis of gold separately from oil in the reports, instead of just analyzing the CRB Index - gold can go its own way in terms of economic panic.

Weekly



I've been showing the Mirror Image Reversal pattern ("Rounded Reversal") for the last few weeks and that's exactly what we see has happened - the mirror image pattern was fulfilled. It was confirmed officially with a break above \$1,160 to target \$1,200 or beyond and we saw this week bring that target quickly into focus, rallying almost as sharply as gold fell to the downside in December.

For now, continue trading long if gold can break to a new high (and stay there for more than a few ticks) above \$1,230, otherwise, watch out for the doji candle that appeared on the daily chart at the key target area of \$1,200.

Daily



We've reached an important 'decision node' in gold, as buyers drove the price up to \$1,220. A break above \$1,230 (above the December 2009 high) gives us a renewed buy signal to play for \$1,300 (the Head and Shoulders Target) so be prepared for that move. We would likely see a surge higher if stocks sold off, or European news got worse.

Otherwise, prepare to take profits if you were long in the Mirror Image pattern if we start to see a move back under \$1,200 early next week if we get good news that things are getting better in Europe and stocks start to bounce/recover.

WTI Crude Oil (\$WTIC)

Monthly



Crude Oil still remains tied (linked) to stocks. In fact, the sell-off in crude this week preceded the stock market crash by three days (similar to the signal sent by bond prices).

For now, we see the key levels to watch as a reference on the monthly chart:

20m EMA: \$75.96 (\$76.00) - we broke it last week (like stocks)

50m EMA: \$72.65 (\$72.50) - that's under us as a support level which also corresponds with the rising trendline

"Round Number:" \$70.00. This will serve as the dividing line between expecting a bounce off support (if stocks recovery) or another confirmation short-sell signal (if under... to target \$65 then \$60).

Weekly



Going back to the discussion in Elliott Wave and stocks... the rally from the July 2009 low has taken a corrective wave formation (I label it on the large scale as corrective Wave B) due to the negative (lengthy) momentum divergence and multiple overlaps in waves. Compare the little waves from July 2009 forward to the impulse/non-overlapping waves from July 2008 to December 2008. This is also how Elliott Wave can be helpful - in distinguishing between impulsive (non-overlapping) and corrective (overlapping) waves.

As such, this would suggest that we might be seeing lower prices ahead in crude oil - perhaps back to \$60 or \$50 - in the event that we do see a second global slowdown and stocks enter the 5th wave down as mentioned above to test the 666 low. Either way, the lengthy negative momentum divergence hints that we could see lower prices ahead, which would be confirmed with an official breakdown if we see prices under \$70 per barrel.

Daily



For argument's sake, the last four days' sell-off in crude oil also hints that we may have begun a new impulse wave to the downside (impulse wave C) which would correspond with impulse wave 5 in stocks.

Elliott Wave aside, the sell-off was severe, and took prices down \$12 in 5 days. I did warn of the potential of a sell-off due to the resistance at \$87 and doji candle - and we got it. The break under the \$83/\$82 level was the last line in the sand for the buyers/bulls (as mentioned), and we see the result of the 'positive feedback loop' that kicked in once crude oil fell under \$81 then \$80 per barrel (longs were liquidating/stopping out while bears/shorts were 'shorting,' both pushing prices down).

If we do get a second global economic slowdown due to Europe's worries, then crude oil - and stocks - will continue falling.

For now, watch the \$70.00 level as the 'line in the sand' just like we would watch 1,050 in stocks. Under these levels, and odds switch overwhelmingly to favor/confirm a new bear market and lower prices ahead.

US Dollar Index (\$USD)

Monthly



After the last three months saw the US Dollar Index trapped between the respective 20 and 50 month EMAs, we got an official breakout this week. Such is the case when a market breaks a key resistance (or support) level, as I point out in the weekly reports. Reference levels are important - we don't always know which way price will react when testing a critical level, but we can expect a breakout/positive feedback loop to form most of the time as a certain level is broken.

For now, the target is the \$88/\$90 level from the prior highs from 2009.

The Dollar - like gold - serves as an international house of safety when the expectation is for a global economic slowdown (unless the US is falling faster than the rest of the world, which usually is not the case).

Weekly



Like gold, investors will flee FROM stocks and into safety, and sometimes the US Dollar can offer the safety investors need. Think if investors feel threatened in stocks, they will raise cash. Also, if global investors feel threatened by other currencies - this time the fear is of a collapse in the Euro - then those investors will sell the Euro and buy the dollar (FOREX markets are really just pair trades between currencies). The sharply declining Euro corresponded with a sharply rising US Dollar index as a result (relative strength).

This dynamic will continue if European news gets worse, and will reverse if news gets better. Chart-wise, upper targets for the Dollar Index itself include the \$87 level (April 2009 high) and \$89.50 (March 2009 high).

Remember, the US Dollar Index STILL trades inverse the stock market, though the inverse relationship with gold broke down this week.

In times of CRISIS, inter-market relationships either clarify (meaning everything goes down together) or break apart (like that of gold... gold is now temporarily inverse stocks and oil and positive with the dollar and bonds... gold has now become a staple of safety, and that will continue as long as stocks sell-off or the fears of global recession continues... or a collapse of the Euro as a currency... foreign governments may decide to sell their Euro investments in exchange for gold as a safety 'currency').

Daily



Like bonds, the Dollar surged TWO DAYS in advance of Thursday's stock market crash, again reminding us that - even if we don't trade UUP or FOREX, we need to know what levels to watch for potential breakouts on other markets that clue us in to danger/opportunity on our market (stocks, perhaps). I mentioned last week that if the Dollar Index breaks above the \$82.20 resistance level, then we would see a breakout which would correspond with falling stocks/commodities. That's exactly what happened... and the Dollar broke out ahead of the market crash. That's again why chart reading is important - you can see the 'footprints' of 'Big Money' (professionals) ahead of many major events. Charts send warnings - not certainties of course, but warnings in the form of probabilities and "IF/THEN" statements.

For now, the play is the same - watch the spinning top/doji candle at the upper Bollinger Band as a potential "take profits" target. We'll see a decline in the dollar (and rally in stocks and oil... and a decline in bonds and gold) if we get good news (rescue plan or something like that) from Europe - or if the market stabilizes. However, if things get worse, and stocks break under 1,100, we'll likely see a second breakout in the Dollar (and bonds) to take us up to the \$87 target.

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