

# **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 continued their breakout and remain in trend continuation mode - though again it would be wise to monitor the price reaction at the prior high of 127.

**S&P 500:** The S&P 500 broke major support last week and could be set to continue the down move to target 1,060 or 1,010 or even lower. However, there are key short-term levels to watch to see if we get at least a small bounce after this week's 4% decline.

**Gold:** Gold showed strength this week as stocks declined and fears of a deteriorating economy grew - gold is a protection or 'risk-off' play and likely will strengthen if stocks decline, and will decline - as the higher timeframe pictures hint - on signs of a recovery in stocks/economy. For now, watch the key levels and price support at \$1,200.

**Crude Oil:** I present an Elliott Wave count to monitor, as well as key support at the rising trendline pattern at \$76. If we stay in the pattern and bounce off support, look for a rally to \$80 or greater, or on a breakdown through support, target the \$70 level again.

**US Dollar Index:** The big development this week was in the US Dollar Index that rose very sharply off key confluence support as expected at \$80 - and now the index faces key resistance at \$83 which will determine if this was a short-term snap-back... or the start of an upside trend reversal.

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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.

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# Corey's Comments

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There's something worth noting this week that's making its way around the financial community right now and it's the "Hindenburg Omen" signal that triggered Friday, August 13th (Friday the 13th, no less). File it under "Hmmm - that's interesting" if anything. Read the Wikipedia online entry for full details:

[http://en.wikipedia.org/wiki/Hindenburg\\_Omen](http://en.wikipedia.org/wiki/Hindenburg_Omen)

There are other recent blog posts - including a full article (paid only) in the Wall Street Journal, so this idea will probably make its way around the financial world soon and you must determine whether or not to believe it or act accordingly. Quick overview - the Hindenburg Omen - a 5-criteria breadth/NYSE factor - has a historical tendency to 'predict' near stock market crashes of at least 5% or greater. Quotes:

"Looking back at historical data, the probability of a move greater than 5% to the downside after a confirmed Hindenburg Omen was 77%, and usually takes place within the next forty-days. The probability of a panic sellout was 41% and the probability of a major stock market crash was 24%. However, the occurrence of a confirmed Hindenburg Omen does not necessarily mean that the stock market will go down, although every NYSE Crash since 1985 has been preceded by a Hindenburg Omen."

What struck me as interesting was that we need to have confirmation - in other words, at least ONE more one-day Hindenburg Omen within the next 36 days. The last time this sequence happened was in 2007 when three successive Hindenburg Omen signals occurred on June 13, 21, and 22. Of course, the market peaked later in October, and I would not say the market actually "crashed" until September/October 2008, but it's probably good at least to know that this buzz is going around the financial community - for what it's worth.

The caution is that the data are somewhat random - it would make more sense if we were looking say at big negative breadth divergences ahead of a market crash which would make logical sense, so the criticism is that the Hindenburg Omen may be 'curve-fitting' data, or random events that occurred prior to previous crashes that did nothing to 'predict' these crashes - so my advice is to be aware of this and that people are talking about it, but not rush out and panic.

Beyond the Hindenburg Omen, many Elliott Wave purists are saying we are now in a third wave down, so they are also calling for an imminent down move in the market.

Also, when comparing volume trends with price, I'm seeing a similar situation to that of 2008 - specifically when price swings higher, volume steadily trails lower until the market turns down and falls lower, at which time volume steadily increases. This is your classic "Dow Theory" volume confirmation that signals - or suggests - we are in a Downtrend - from a volume perspective - on the higher timeframe charts. Remember, as violent as 2008 was, the indexes really just 'drifted' lower until the actual full-blown multi-day crash in late September/early October. Until then, it was a "Well, yes, economic conditions are bad, but it's contained to the Housing market and won't spill over into the broader economy, and the Fed is aware of the situation and is cutting rates to spur the economy." We are seeing similar talk now - only the Fed can cut interest rates no lower... though they are buying Treasuries now.

Do be cautious - I don't think it's worth your time to go around expecting a market crash every single day - that will drive you crazy - but it's probably a good idea at least to be aware that the possibility for a future market decline (or crash) is higher than normal and this most likely isn't the time to be fully invested long in stocks without a contingency plan or hedge. On the same token, do not underestimate the willingness of the Federal Reserve to do whatever they can to prevent a potential crash - meaning though the technical and fundamental analysis may suggest 'crash,' the Fed may do something strange to boost the market if that were possible - thus averting an impending disaster... but that's another story that no one can anticipate with 100% accuracy - we can only prepare and position - not predict.

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

## Monthly



We still remain in the long-term/large-scale price breakout from the triangle formation (see weekly chart), and this price expansion phase is behaving exactly as forecast by the range compression pattern.

The breakout in bond prices is generally bearish for stocks, but do keep in mind the Federal Reserve has announced a policy of buying 2 and 10 year (and other) Treasury Bonds to keep yields low and provide Quantitative Easing. That's not a 100% guarantee that bond prices will continue to rise, but it is a bullish fundamental analysis/news consideration that goes along/confirms the technical analysis of a range breakout expansion move - which you can see better on the weekly frame.

## Weekly



I've been showing this same descending triangle pattern for a while, and 10-year Notes continue to break out as anticipated by the pattern. The 126 level could provide resistance, but any move above 127 continues the upside breakout bias and suggests even lower yields yet to come.

Generally, bonds are inversely correlated with stocks - what's good for one is bad for the other - and yields (which are automatically inverse bond prices) are positively correlated with stock prices. Also, according to Martin Pring and general Intermarket Analysis Theory, bonds tend to have a lead/advance over stocks at major turning points, so continued strength in bonds could signal a sharp downturn ahead for stocks - if the theory holds true still this time.

Remember, investors are buying bonds at (sometimes) record low yields to lock-up their money, which implies that they see bad times ahead for the economy that they're willing to park their money essentially for no return. It implies that they see the stock market further deteriorating and they will be better served with 1%, 2% or less on their annual return than a potential stock decline of 5%, 10%, or greater.

## Daily



Continuing the conversation, 10-year Note prices have skyrocketed since bottoming in April (that's when the Stock Market peaked... actually later in April) and now rest just shy of 126. Notice how the 20 day EMA has held as key support all the way up, and price has formed a 'wave-like' motion on the way up. That implies a possible quick snap-back to 124 before moving higher, though if the stock market does fall sharply soon, we will see an equal surge higher in bond/note prices.

## US S&P 500 (\$SPX)

## Monthly



From a longer term standpoint, price remains trapped between the dominant 50% and 38.2% Fibonacci retracement as drawn - at 1,121 and 1,014 respectively. Price also failed to overcome the resistance of the 50m EMA at 1,137 this week so that will be a confluence resistance level to watch. For reference - and to be objective - there is 'open air' above 1,140/1,150 so one would expect a sudden up-burst if buyers can push to that level but if not, odds do favor lower prices are likely, and ANY breakdown under 1,000 should be shorted aggressively.

## Weekly



The parameters for the weekly chart are similar to that of the monthly, but include respective moving averages - which do not seem to be having much of an effect - at 1,100 and 1,088. I would suggest watching Fibonacci prices rather than the weekly EMAs, meaning further downside action targets the support at 1,010. ANY break under 1,000 should be shorted to target the 900 level as drawn. Again - for argument's sake - there is 'open air' above 1,130 and with the sentiment so negative, there are a lot of bears' stop-loss (to buy) orders so anticipate playing long for those "Popped Stops" - breakout rally - above 1,130 should that happen anytime soon.

## Daily:



On the daily chart, price broke not just a major rising trendline connecting the recent swing lows from July, but also the overlapping convergence of the 20 and 50 day EMAs - and broke back under the all-important 200 day SMA at 1,115. That's a very bearish turn of events that forecasts the likelihood for lower prices ahead - with an initial target being 1,060 and eventual likely target being the July low at 1,010. Remember, any move under 1,000 shatters final support and should lead to a move back to the 900 level or lower, just as an 'unexpected' move back above resistance and above 1,130 should lead to a retest of 1,170 or as high as 1,220 in a very unexpected upside break that would pull out the stops of the short-sellers.

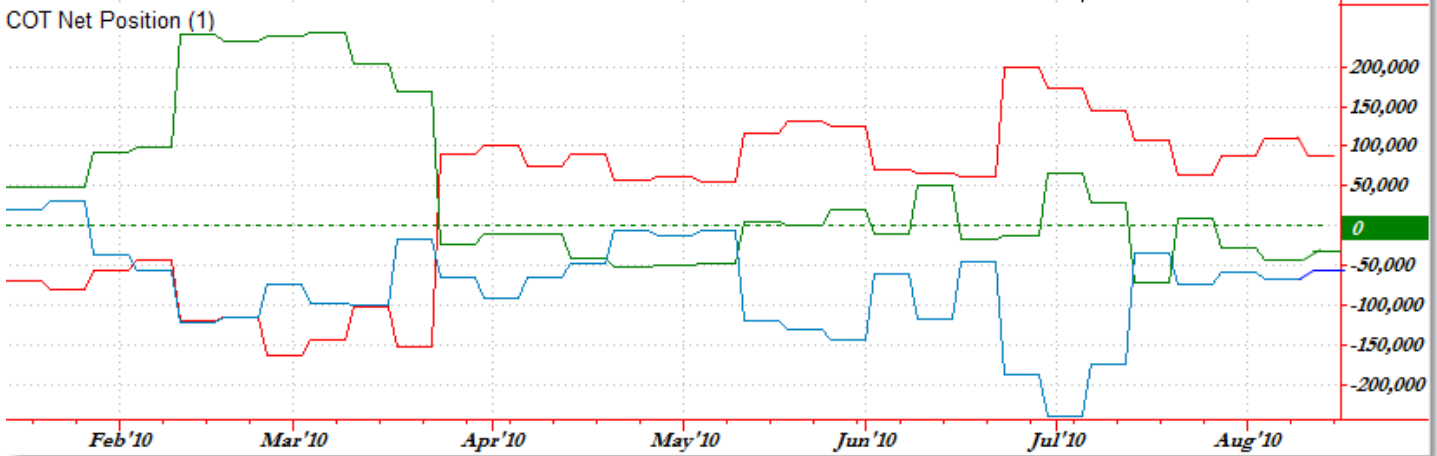
Technically, the daily chart remains in a sideways trend action between 1,130 and 1,050, but in terms of a series of price action, the index remains in a downtrend that began officially with the lower low and break of support at 1,040 in late June. Volume trailed off steadily in a bearish development as the market rallied through July and into August.

SINX - Daily S&P 500 Index US L=1080.17 -3.44 -0.32% O=1082.22 Hi=1086.25 Lo=1079.00 C=1080.17



The market is currently testing a 'hidden' Gann Squares support price at 1,077, so look for that to hold as a possible price from which a short-term bounce develops. Otherwise, a price breakdown under 1,077 sends the target to the next Gann level at 1,044 or even 1,012. We are currently under all Andrews Pitchfork rising trendlines that originated from the March low, which further argues that the trend has changed if not sideways (big head and shoulders pattern) to down. The breaking of established Andrews Pitchfork Boundaries often signal official/early trend reversals - in this case from up to down.

@ESU10 - Daily E-mini S&P 500 Continuous Contract [Sep10] CME



E-MINI S&P 500 STOCK INDEX - CHICAGO MERCANTILE EXCHANGE										
Commitments of Traders - Futures Only, August 10, 2010										
: Total :		Reportable Positions							: Nonreportable	
: Open :		Non-Commercial			Commercial		Total		: Positions	
: Interest :	Long	Short	Spreading	Long	Short	Long	Short	Long	Short	
-----										
:		Changes in Commitments from: August 3, 2010							:	
:	6,750	19,850	-137	1,608	30,182	18,970	51,640	20,441	-44,890	-13,691

No major change in the CoT Data this week - retail traders (Red) remain net LONG 78,154 contracts while the combined professionals (green) and Commercials (Blue) remain net SHORT 78,154 contracts. There was a slight tick DOWN as retail traders got "Less Long" and the professionals and commercials both got "Less Short." That's still bearish for the overall market, as the "Retail Money" is long and the "Smart Money" remains short - and has been short since mid-July.

# Gold

## Monthly



Gold's monthly chart offers no major clues, other than the bearish negative long-term momentum divergence and price apparently pulling back from an overbought swing to new highs at the upper Bollinger Band.

Beyond that bearish bit of evidence, everything else is bullish - from the moving average structure to the price trend structure so we must declare the larger frame trend as decidedly up.

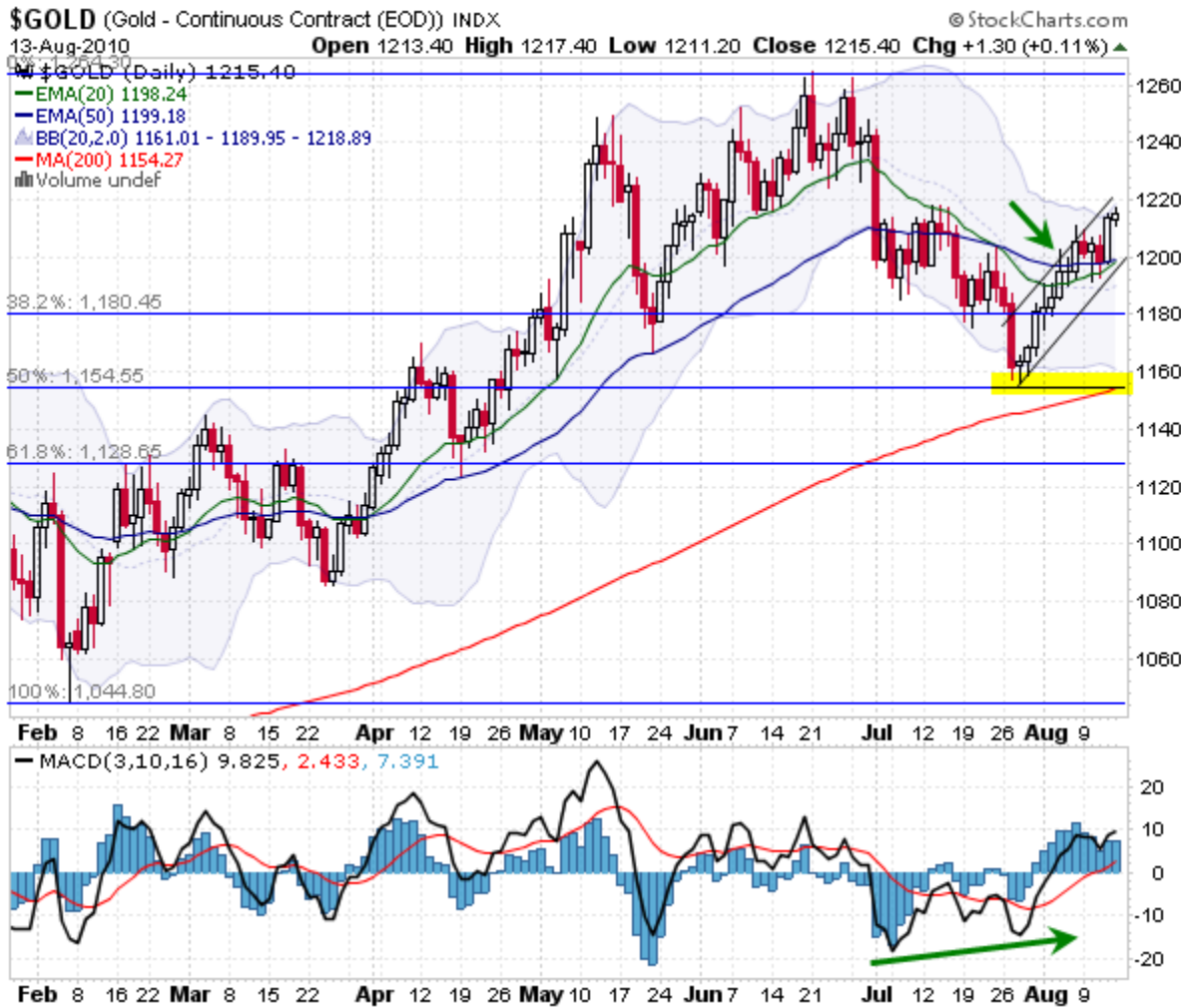
## Weekly



For traders in gold, watch the blue rising trendline very closely - it is the dominant technical signal at the moment, along with the rising 20d EMA - both of which are converging at the \$1,200 level. As long as price remains above \$1,200, it's a bullish signal but do keep in mind that gold is showing long-term negative divergences and overbought conditions, so it's worth it to be at least cautious and not blindly bullish unless we are back above \$1,250. Remember - so many people are bullish gold that any unexpected down-move is likely to spook a lot of weak holders out of their positions so I would suggest - if you are a short-term trader - not getting caught in any possible down-draft under the \$1,150 or specifically \$1,130 (50 week EMA) level. Look to the daily chart for additional information.

Do pay attention to the lengthy negative momentum divergence - it's not a "trend reversal" signal by itself - we'd need the breakdown of the trendline to generate an actual signal - but it is a caution/yellow-light signal for the moment. One can also count a complete 5-wave fractal move off the October low that completes at \$1,250 so there are some technical warning/caution signs on the horizon.

## Daily



There's a very interesting turning point coming up in Gold - specifically from the bearish structures (negative divergences/overbought) on the higher frames and the slightly bullish turn of events on the daily chart. It's possible that what we're seeing now is a bear flag into the \$1,220 level - which is prior resistance from the July swing highs at the same level - so I would be cautious here unless we see an immediate breakthrough beyond \$1,220 soon. In which case, look for a price continuation to the upside. Otherwise, the 20/50 EMAs could hold support at \$1,200 but if not, and if we start to see sudden selling pressure coming in under \$1,200 and then a break under confluence support at \$1,160 (which is a downside target for short-term traders), then be very cautious for a potential move back to the \$1,100 level.

Dominant levels to watch include resistance at \$1,220, confluence support (including weekly trendline and 20 EMA) at \$1,200, and then confluence support at \$1,150.

# WTI Crude Oil (\$WTIC)

## Monthly



I continue to post the same dominant Elliott Wave count for Crude Oil which appears to be the most logical, and it's possible that oil has started the beginning - or specifically the 3rd wave - of a "C" Wave down that could ultimately target the \$40 level again IF - and only if - the global economy continues to deteriorate and signs of a 'double dip' recession develop. Otherwise, oil remains trapped in the somewhat frustrating (to trade) trading range between \$70 and \$80 as seen on the weekly frame.

Remember - oil typically moves in the same direction as stocks, so if a sharp downside move occurs soon in stocks, it will almost certainly play out in the same direction in crude oil.

## Weekly



Here is a tighter view of the potential Elliott Wave count. I've been showing the long-term negative structural divergence during this whole rally which has the 'feel' of a corrective wave - in terms of overlapping swings and negative divergences. That's very much unlike the "impulse" that took the market down almost non-stop from \$145 to \$40 in latter 2008.

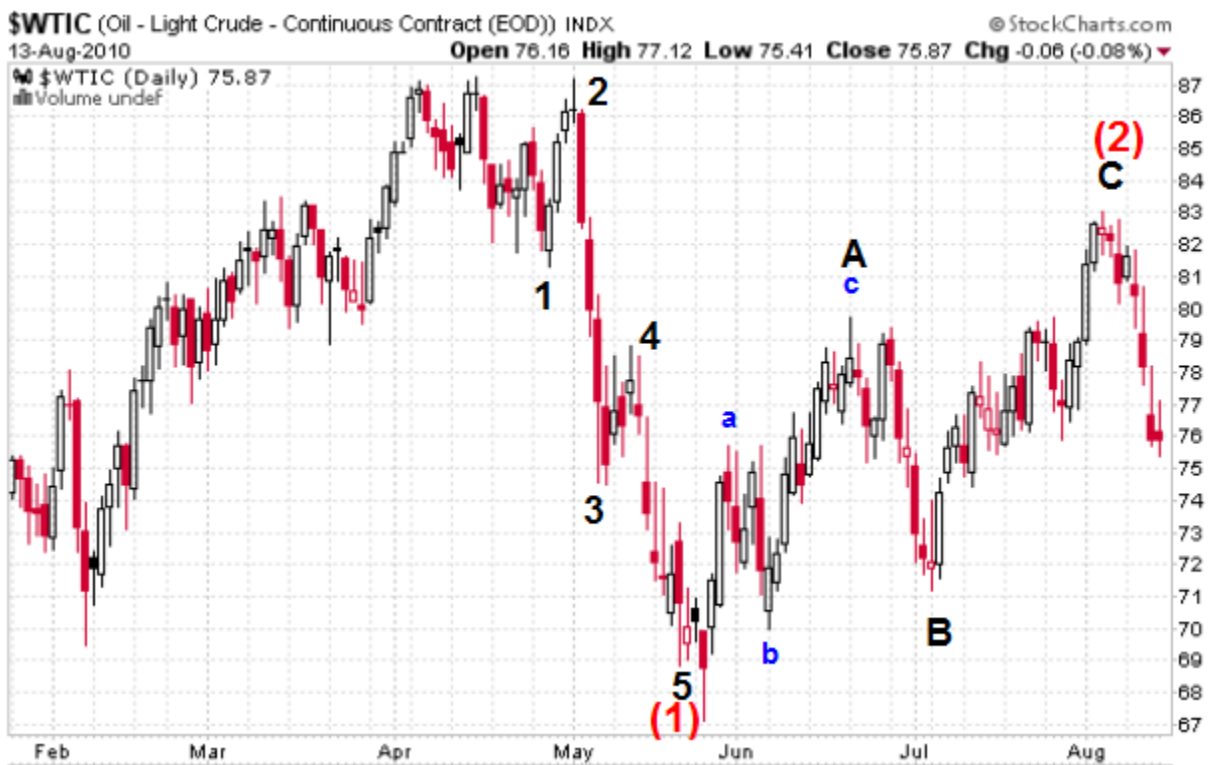
That being said, the technical structure still remains rangebound/trapped as we'll see on the daily chart, so any breakdown under \$70 should be shorted, just as an unexpected/lower probability break above \$90 should be bought (which would correspond with an upside breakout above 1,130 or 1,170 in stocks).

## Daily



I think the dominant structure for short-term traders is this rising 'flag-like' structure with dominant trendlines currently at \$76 (where we are priced currently) and \$84. If we continue 'riding' these trendlines, then look for the next immediate move to be a bounce back higher through EMA resistance (they're not really holding as support or resistance, as we are mired in a sideways range) to the \$84 or \$85 level.

Barring that, look for any downside break under \$75 to target the \$71 swing low from early July, or even back to the \$68 level from late May. Any move under \$67 should be shorted aggressively - which would correspond with weakening economic/fundamental news on the economy and a downside break under 1,040 or 1,010 in stocks.



I'm showing a tighter picture and more detailed view of the potential First and Second waves of the larger "C" Wave (see monthly chart) as detailed in this potential count.

In comparison, the S&P 500 has a similar Wave 1 and Wave 2 move.

If this count is indeed correct, then the market has ended - or is in the process of ending (with one more push up to the \$84 level) the 5th wave.

While I'm not an Elliott purist and suggest using as many methods possible - including fundamental analysis if possible - to arrive at a conclusion, the suggestion from this count is for a steep down-move ahead in crude oil... and this count would be invalidated with a breakout above \$87 (as Wave 2 cannot retrace beyond the start of Wave 1).

# US Dollar Index (\$USD)

## Monthly



The big news this week I believe was in the US Dollar Index - which certainly did bounce off the EMA support I've been showing above on the monthly frame and the lower timeframe levels as we'll see.

For now, this is a very bullish development on all timeframes and if this bounce can continue, suggests a potential reversal up in the dollar which would reverberate across the inter-market landscape.

Levels to watch on the monthly chart include the 20 and 50 EMAs - currently positioned at \$81.20 and \$82.08.

## Weekly



The BIG development came as price surged this week 35 (that is a big move for the Dollar Index) off the confluence support level - 200 day SMA, prior price low, and 61.8% 'final' Fibonacci retracement - at \$80 (specifically \$80.12).

That's happened, and for now, we need to watch what happens at the \$83 level which would determine if this is just a sudden upside correction (which will end) or the start of a whole new leg up that could retest or exceed the \$89 level.

Watch \$83.42 (38.2% level) and \$82.93 or to be safe - \$83.00 as potential overhead resistance that - if broken - clears the way for a continuation higher.

## Daily



In keeping with the "is this resistance or the beginning of a trend reversal" theme, watch the \$83 level also in the Daily chart, as it is the 50d EMA (\$83.04). Also, the upper Bollinger Band rests at \$83.50. It is very possible that we are seeing the start of a new trend reversal to the upside - similar to what we saw at the end of 2009 but on a smaller basis. We do have a flat-line/positive momentum divergence that has failed to confirm the push down to lows - key support - at \$80 - and we see the extremely powerful surge/snap-back that formed from that level. Again, a breakout above \$83 suggests that a trend reversal posture is favored over a 'just another retracement' move, so watching early what happens here will likely be the determinant of what to expect - an upside break above \$83 is quite bearish for stocks and oil.

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