

# **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 retraced as expected with the stock market retracement, but now we face a test of the critical support line at 122 (\$99 in the TLT) so that will be the thing to watch next week.

**S&P 500:** The SP500 rallied exactly as expected from a deeply oversold condition at confluence support - a great example of that concept. We now face a rally with multiple negative divergences and two key overhead resistance levels to watch at 1,090 and 1,110.

**Gold:** I've mentioned that Gold over the last few months has been marching to its own rhythm, and that continues to be the case. Treat gold as an uncorrelated asset class - rogue if you wish - and watch the \$1,180 level for critical support. Failure to hold \$1,180 is an early sign that we could see a much deeper retracement.

**Crude Oil:** Oil remains in its long-term trading range, and is highly correlated with the stock market. Watch oil's overhead resistance at the \$78 level to correlate with the 1,090 and 1,110 level in stocks - what happens to one will likely happen to both (hold resistance or break through it).

**US Dollar Index:** Like gold, the dollar also faces an absolutely critical support line at the \$84 level as shown. Failure for the dollar to hold support at \$84 suggests that we will see a move back to \$82 if not \$81, which would be bullish for stocks.

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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



With stocks retracing higher, bonds retraced downward this week - and both were expected from a short-term basis.

The 10-year Note held at the 122 critical breakout confirmation level, and as long as that is the case, bonds are expected to continue their breakout.

However, a further strengthening in stocks would occur with a weakening in bonds under 122, so watch for that.

The monthly bond price chart remains bullish until proven otherwise.

## Weekly



We're focusing on the 122 level in the 10-Year Notes - that is the Line in the Sand. The last few weeks have produced two bearish upper shadow candles, and that's bearish, so we'll need to keep watching that.

While the monthly chart is bullish, the weekly chart is short-term bearish - at least with caution. The upper shadows occurred at the upper Bollinger Bands on a negative momentum divergence, so this could be an early signal of potential retracement back to the 120 level. If that is indeed the next likely move, then expect stocks to rally.

## Daily



We can see the negative momentum divergence clearer on the daily frame - notice the higher price high but lower momentum high. That's a non-confirmation of the recent high.

I mentioned last week to expect a swing back down to test the 20 day EMA at the 121.50 level, and that's exactly what we got this week. Now that we have that in place, look for the 121.50 level to provide critical support, and if notes fail to support here, then expect the next move down to 120.50 which would mean stocks would rally higher in a deeper retracement up.



For those of you who trade bond/notes using ETFs instead of just using them to analyze bonds along with stocks, the TLT needs to hold key support at \$99 per share or else we can expect this breakout to fail and lead to a sudden move back down to \$97 per share (50d EMA) which - again - means stocks will continue rallying.

IF the TLT supports and bounces upwards early next week off \$99 per share, then expect the next week to be down in stocks. Remember - we analyze bonds as slight leading indicators on stocks, and bonds are inverse stock price moves.

# US S&P 500 (\$SPX)

## Monthly



We bounced off confluence support at the 1,010 area as expected, and the question now becomes how high will the bear market retracement go? Markets do not fall straight down or rise straight up - they undergo short-term swings.

We are now in a retracement swing up - as we'll see on the lower frames - but from the monthly chart view, you need to know that if sellers push under 1,000, then you should be out of stocks (or in inverse ETFs, etc) and expecting a lower downside target of 900 to 850 to be the next likely support zone. Price halted this week at the falling 20 month EMA at 1,080, so watch that level as you look for multi-timeframe resistance levels.

## Weekly



The important thing to know about the weekly chart is that 1,010 is confluence Fibonacci, Gann (Squares), and Bollinger Band support. We got the expected bounce up last week, but that bounce took us to our upside targets and now the market faces multi-timeframe confluence resistance at the 1,080/1,090 area. The 20 week EMA rests at 1,104 and the 50 week EMA at 1,086 - so watch those as the week develops. Notice that volume this week was lower than almost all weeks in 2010 - given that the week was a retracement up and volume went down, that's a non-confirmation of the higher prices and confirms that we are in a bear market phase (price up, volume down = bear... price down, volume up = also bear).

The larger picture shows that on any break under 1,010, expect a minimum move to 950 (50% Fibonacci), but I suspect we'll go deeper to test the confluence support at the 875 level, which would be a swing trader's minimum downside target if under 1,000.

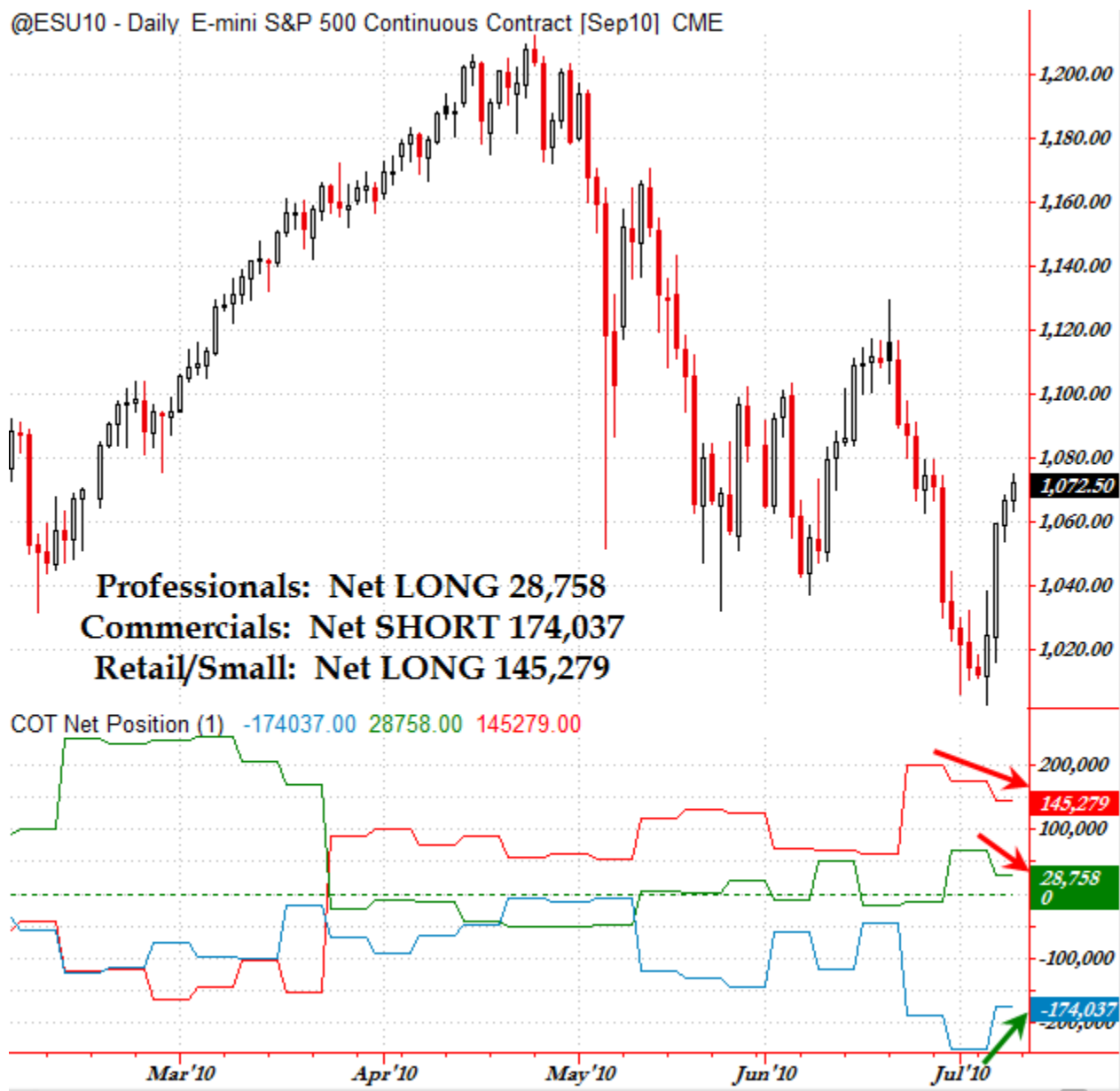
## Daily:



There is bullish evidence to note - or at least not ignore. The swing low to the 1,010 area produced a multi-swing positive momentum divergence, and we got a powerful snap-back rally as expected (as is normal) as a result. We need to watch how far this bear market retracement swing up - a corrective wave - will go. There are two possible targets if the market rallies higher early next week - the first being the 1,090 confluence resistance (38.2% Fibonacci and 50 day EMA) and if buyers push beyond that, we would look to target 1,110 - multi-timeframe resistance there.

Any move above 1,130 - June's high - casts a big shadow on the bearish case and downward trend structure, so unless we see a move soon that takes us above 1,130, then we will label this up move officially a counter-trend retracement up in the context of a down trend/bear market. Again, we go by objective chart analysis using classic technical (price) methods - the trend is down now until proven otherwise with a move above 1,130 (no, a move above 1,130 would not automatically change the trend to up - but it would muddy the chart waters).

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



No remarkable change in the CoT data. Look at the most recent move very closely. Retail (dumb money) spiked their ownership in mid-June, mere DAYS before the sell-off from 1,120 to 1,010 - that was a dumb move. At the bottom, they lightened up their positions as professionals - green line - flipped long at the bounce off 1,010 - smart short term play. Now, professionals lightened up their positions as did the retail - so that doesn't tell us very much. The blue line are the commercials or hedgers, so it's difficult to classify them in the mix, but you can think of them as money managers that buy or short futures contracts to hedge a long (buy) portfolio instead of selling shares; think of professionals as those who have large accounts who hold futures as speculative positions and may or may not (probably not) hedge a portfolio, and the red line as retail investors who might hold 1, 5, or 10 contracts at a time to speculate with a leveraged position on the market.

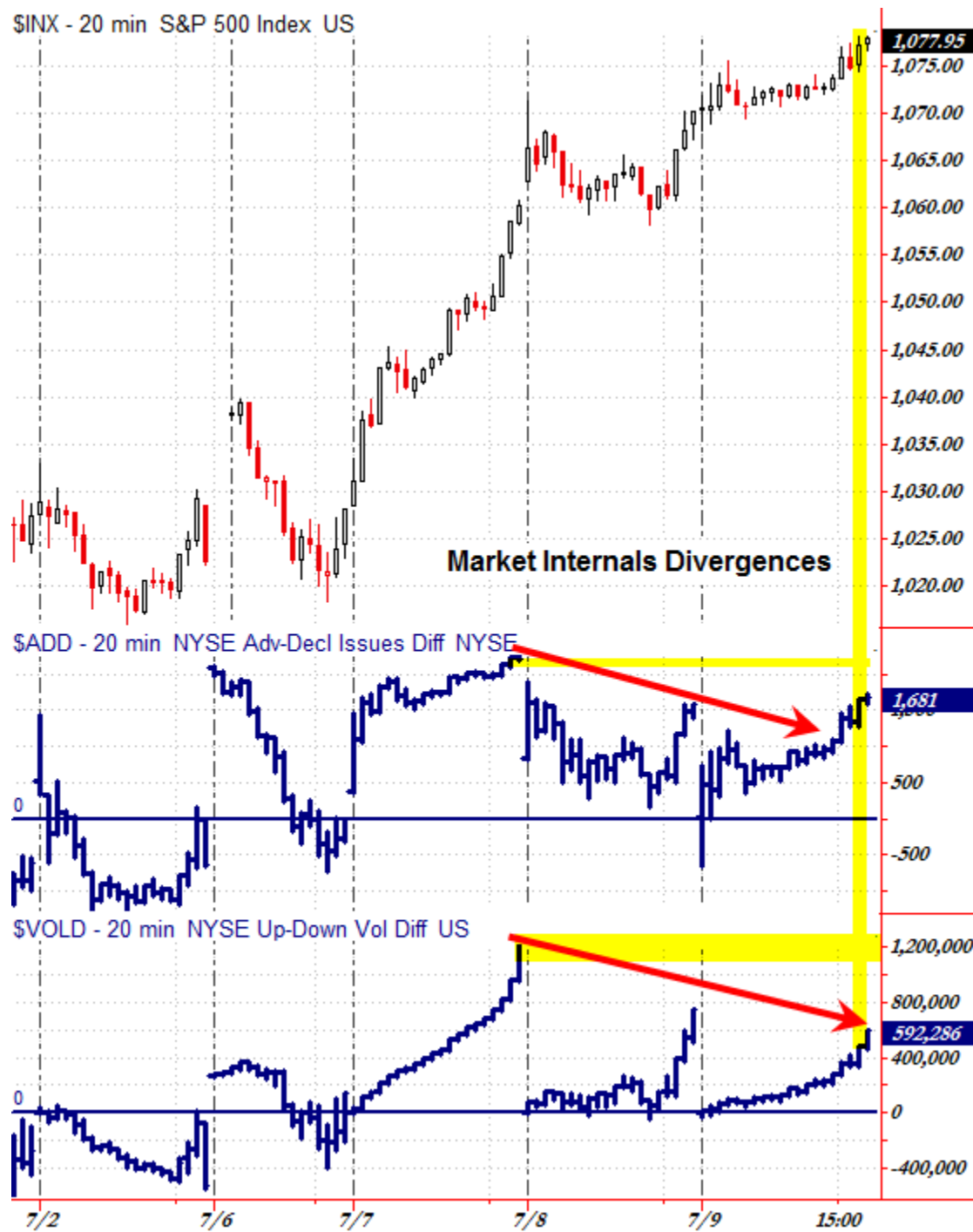
That being said, we have retail investors/trader net long 145,000 contracts and the combined professionals - commercials and professionals - net short 145,000 contracts. This suggests that the market will be going lower in the future.



Here is the updated Gann/Andrews 'advanced' chart. Keep a copy of this chart during the week - these numbers do not change and they often come into play.

Main idea? Price bounces between one number to the next, and you can use these "Gann Numbers" as methods to find confluence support with Fibonacci levels (for example, the BIG Fib Confluence at 1,010 played a major role with the Gann number 1,012 last week) or any other indicator that shows support/resistance.

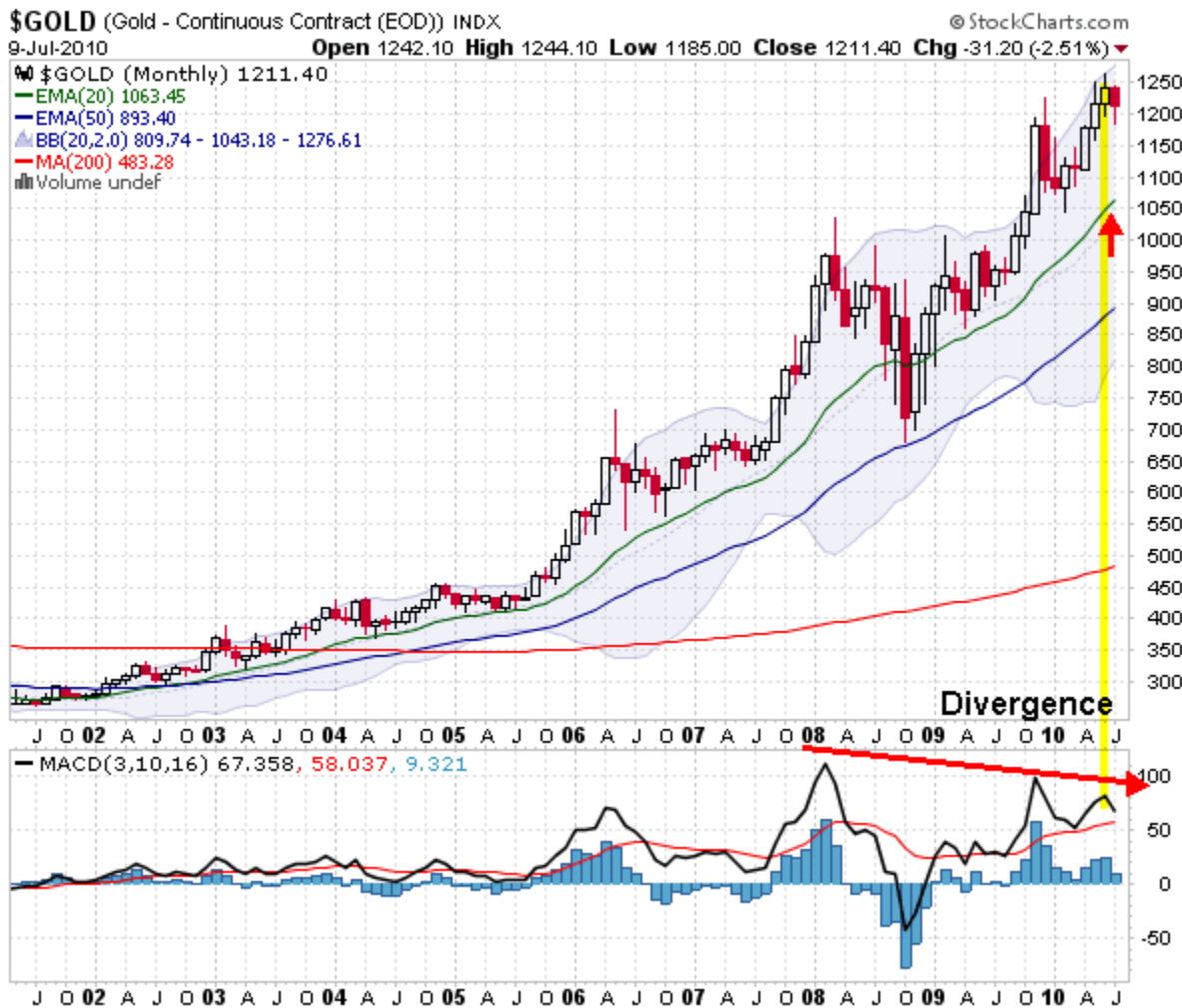
We targeted the Gann number 1,077 as a potential target for this week's upside retracement, and that's exactly where we are now. If we continue to push above 1,077, then the next Gann number rests at - you guessed it - 1,100 which has a major confluence there (see daily chart).



I can call this move up a "correction" because volume, momentum, and market internals (breadth, etc) are all declining on the rally - that is not supposed to happen in a bull market or upwards impulse. When price goes up and everything else goes down, it suggests that price will soon go down too. We look for upside resistance levels for places where the market might reverse, and I present those in the daily chart above. Keep in mind that markets can and do rally beyond 'what they're supposed to' when we see these types of divergences, but the longer they do so, the harder the crash.

# Gold

## Monthly



Structurally, there is no change in the monthly viewpoint, but it is possible that we're beginning a correction to work off the (almost) last five months in a row of rising prices. We're over 20% extended above the rising 20 month EMA at \$1,060, and look back at prior overextensions which have led to corrections towards the 20 EMA.

Another reason to be concerned - there are multiple timeframe negative momentum divergences, as seen here on the monthly chart with gold at a new high but the 3/10 Oscillator actually forming a third lower high - that's bearish and is a sign of caution.

We're starting to see cracks in the gold armor, so caution is warranted here.

## Weekly



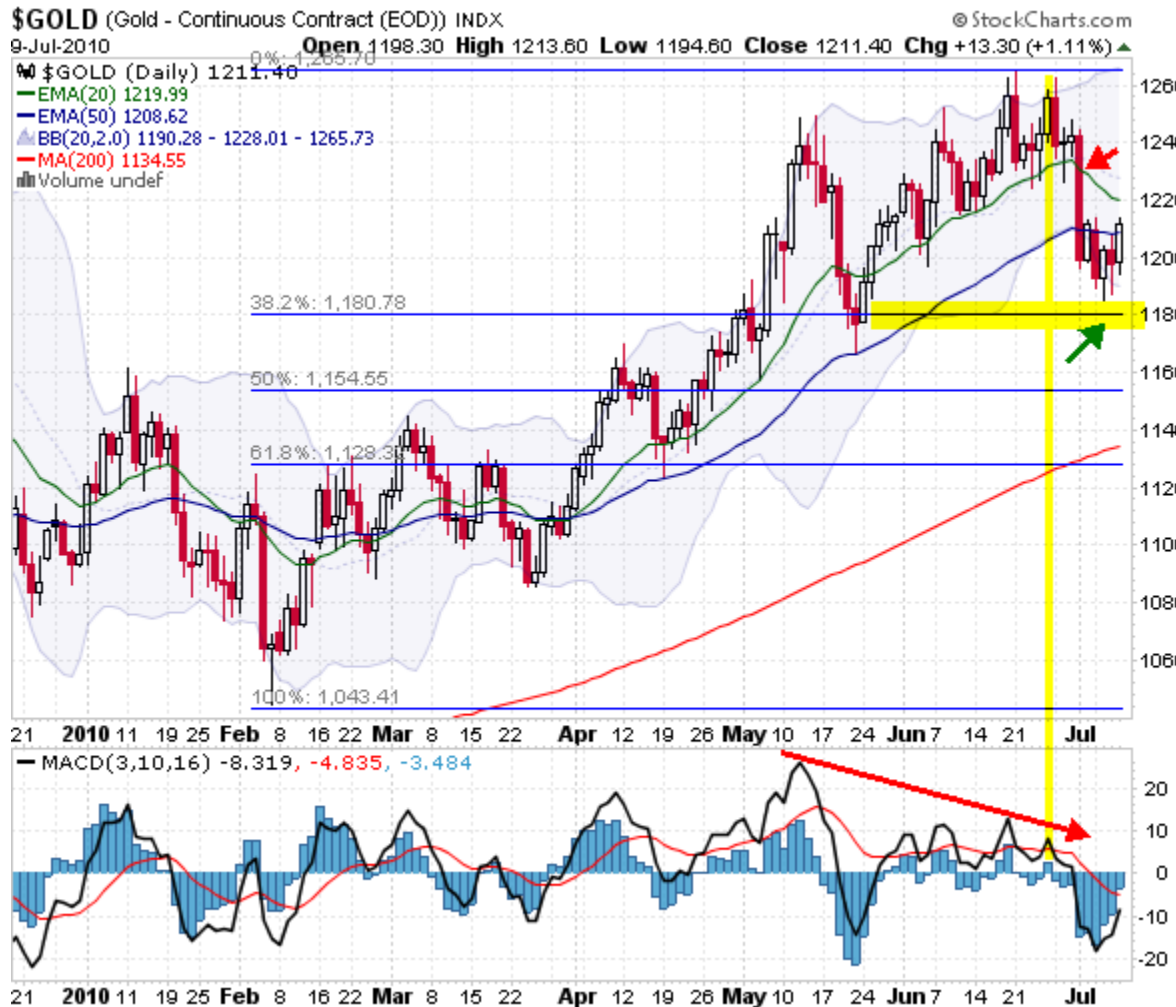
Gold has etched out a five-wave fractal move into the \$1,260 recent high, forming a lengthy triple-swing negative divergence in the 3/10 Oscillator with the recent high - all of that is bearish.

All of this bearish structure - that of multi-timeframe negative divergences - has developed since May and happened very quickly, like a sudden dark cloud forming in a clear sky. As a result, we need to be very cautious while price is overextended with negative divergences for any sign of a pullback.

That being said, gold retraced comfortably back to the rising 20 week EMA at the \$1,185 level, so as long as we stay above that, the price structure remains bullish while the momentum structure turns negative/cautious.

Any move under \$1,180 is a sell signal to target the \$1,100 level as the next support zone.

## Daily



The reason I label \$1,180 as the critical deciding price is that we have multi-timeframe support there - namely the 38.2% Fibonacci retracement, 20 week EMA on the weekly chart, and lower Bollinger on the daily chart.

We appear to be bouncing upward off this key support zone, but ANY move under \$1,180 is a confirmation signal to expect lower prices yet to come in a deeper downward retracement.

That's your trigger, but anything above \$1,200 is a bullish bet, but with dark clouds on the otherwise clear horizon (negative divergences).

With gold in such a state, caution - rather than rampant bullishness - is key.

# WTI Crude Oil (\$WTIC)

## Monthly



If you're anything like me, you're tired of oil remaining in this multi-month, choppy trading range it has been in.

Opinion and emotion aside, the fact remains that oil remains in a multi-month trading range between the critical support line at \$70 and resistance line at \$80.

Any move under \$70 sends us to test \$60 in the most likely move, but anything less than that keep us in this trading range we're in.

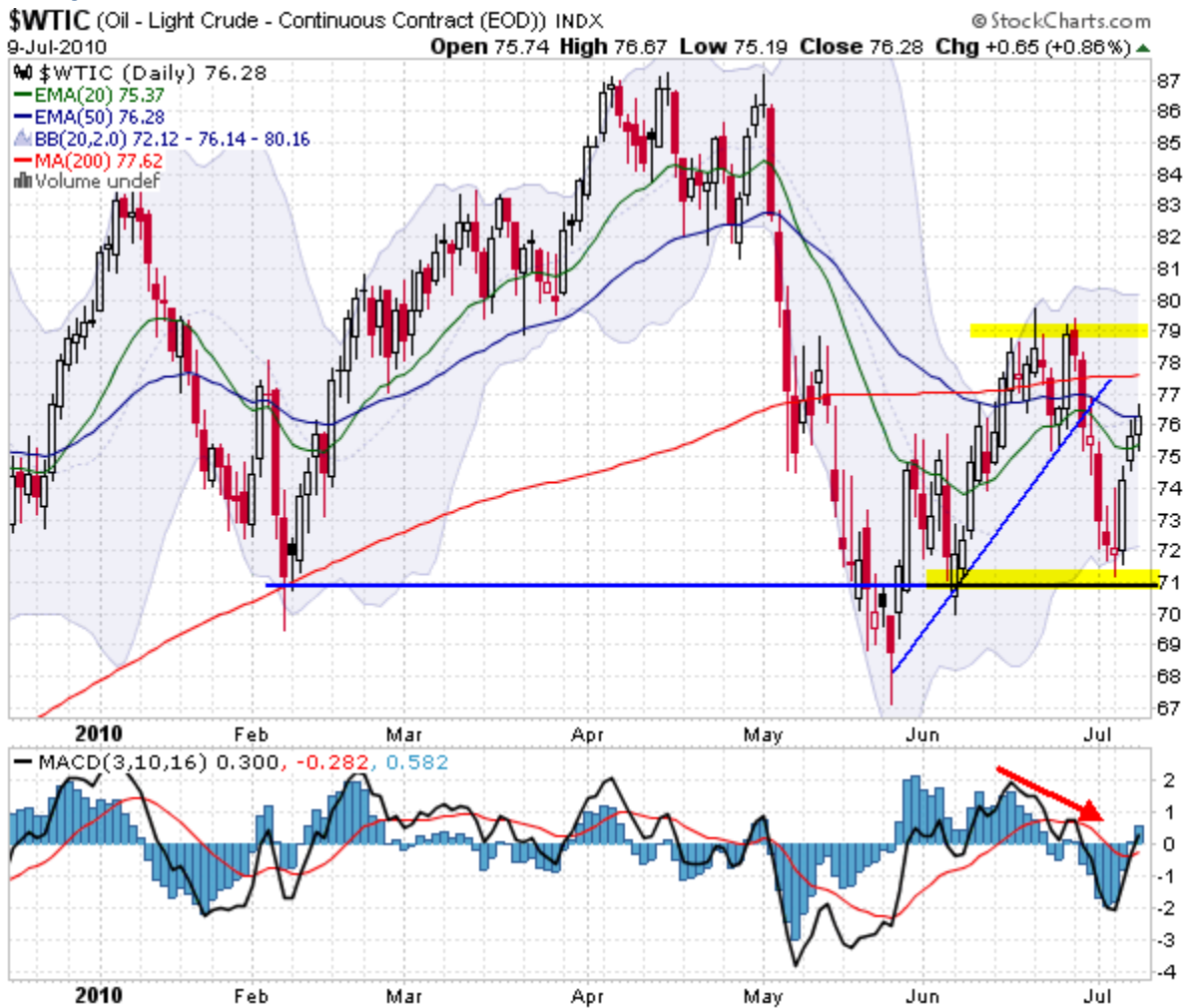
## Weekly



Though Oil's chart remains in a bearish picture - multi-month negative divergence and break of rising trendline - we have NOT got the official confirmation to short the larger-scale picture which would trigger ONLY with a break under \$70 (now \$68 per barrel).

Barring any move under \$68, we expect oil to remain within the confines of this trading range.

## Daily



Oil is highly correlated with stocks, so these two markets move very much in line with each other.

Oil has now traveled into EMA resistance at the \$76 level, so watch for any downward move to occur from here. If not, expect price to continue the rally up to test \$79 in the event that stocks break above 1,180.

# US Dollar Index (\$USD)

## Monthly



The Dollar index continues its retracement/pullback after failing to overcome the overhead resistance (price target) at the \$89 level.

The monthly chart shows potential EMA support at \$82.14 and \$81.24 respectively, but with the dollar, the best analysis comes from the weekly chart in my opinion.

## Weekly

\$USD (US Dollar Index (EOD)) INDX

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9-Jul-2010

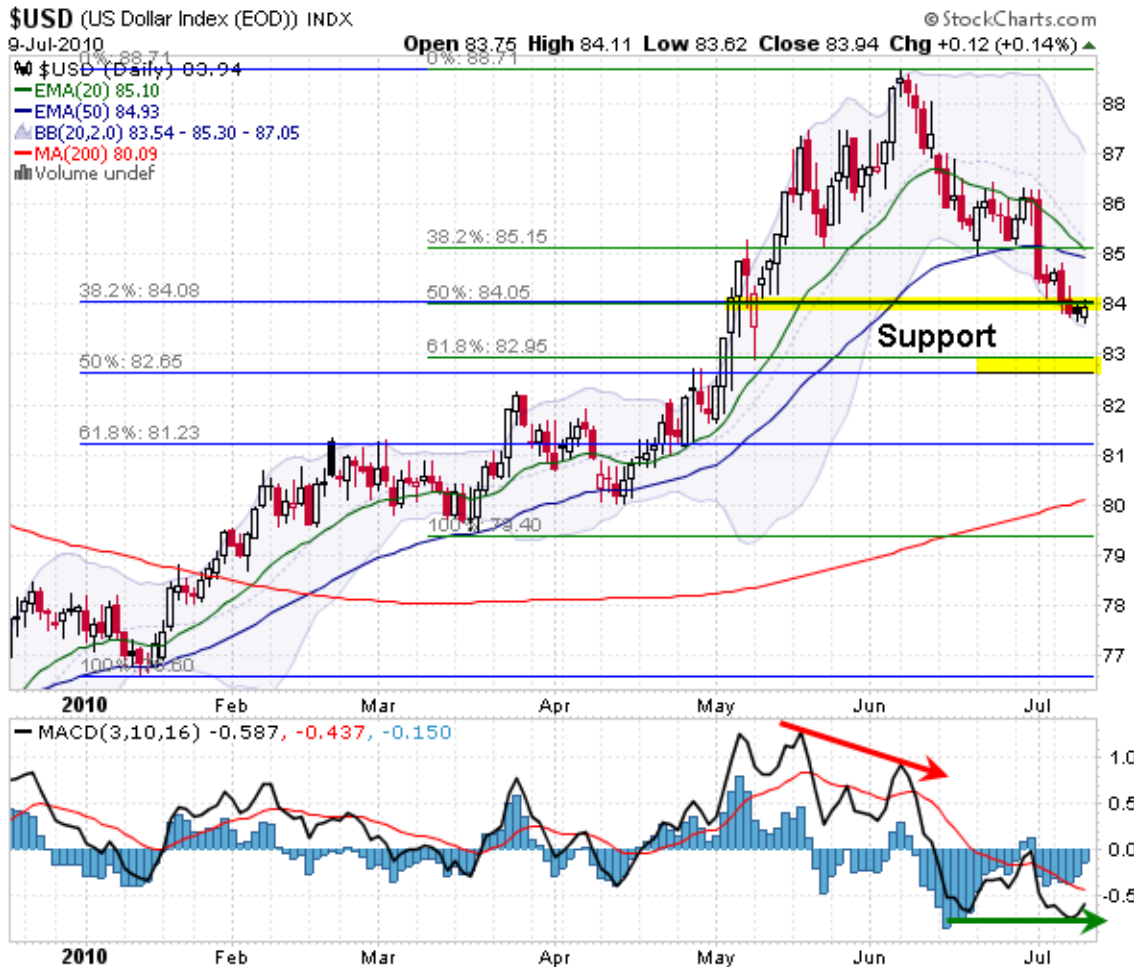
Open 84.67 High 84.82 Low 83.62 Close 83.94 Chg -0.51 (-0.60%)



Though the dollar has fallen sharply, so far it has been not only an orderly pullback, but an expected pullback. Once the dollar hit the \$89 level, I mentioned that this was a likely target and that if we didn't see a break above \$90, we could expect a sell-swing retracement to materialize - and it has.

We have now hit the rising 20 week EMA at the \$83.50 level which is a classic buying opportunity and expected support zone. Look for the dollar to make an upwards attempt to rally off this level, BUT if the dollar cannot hold this confluence support price, expect to see \$82 on the index (and thus a higher Euro).

## Daily



I've shown the clean negative divergence that undercut the recent high in the dollar to the \$89 level which was a 'take profits' signal. The downswing took us under both the 20 and 50 day EMA - a deeper retracement on this chart but a normal retracement on the weekly chart. From the Fibonacci grids drawn, we see an exact confluence at the \$84.00 level, which is where price is currently. I would expect to see a bounce higher here - and if not immediately, then from the price and Fibonacci confluence at the \$83 level. Any move under \$83 sends us back to \$81 - the weekly confluence support level - and would imply stocks would continue their rally higher. The key next week will be to see if the Dollar supports here or not - and what that would mean for the cross-markets.

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