

# 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 continue their breakout, which is the case as long as the 10-year remains above 122. Again, we had an early warning from bonds ahead of Friday's stock sell-off, reminding us the importance of watching bonds, even the TLT and IEF funds, even if we don't trade them.

**S&P 500:** So far, the SP is following the expected script - rallying into confluence resistance at the 1,100 level and falling down from that level. If that's the case, and we don't see a move above 1,100, we thus expect the market to retest 1,010 soon.

**Gold:** Though it may seem strange, given a likely sell-off in stocks ahead, we are seeing cracks in the foundation of gold's persistent uptrend, so if you trade GLD or gold, do be careful this week and watch \$1,180 as very important support - under that level, and you might want to be defensive. Above \$1,200 and all is well.

**Crude Oil:** Crude took on a bearish turn like stocks, and faces resistance at \$79 but support at \$71, so again we continue our range-bias for crude oil.

**US Dollar Index:** The dollar continued its sharp selloff, but now tests massive confluence support on multi-timeframes at the \$82 (or \$81.50) level, so that will be your reference line in the sand going forward as to whether to expect a bounce, or continued downward pressure if the index falls, especially under \$80.

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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



The expectation for higher bond/note prices continues, as seen in the monthly chart and continued/sustained breakout.

On the monthly frame, we do see continued upside potential for price to travel further up, provided that stocks continue selling off and investors seek the safety of Treasuries. This bullish structure continues on the lower frames.

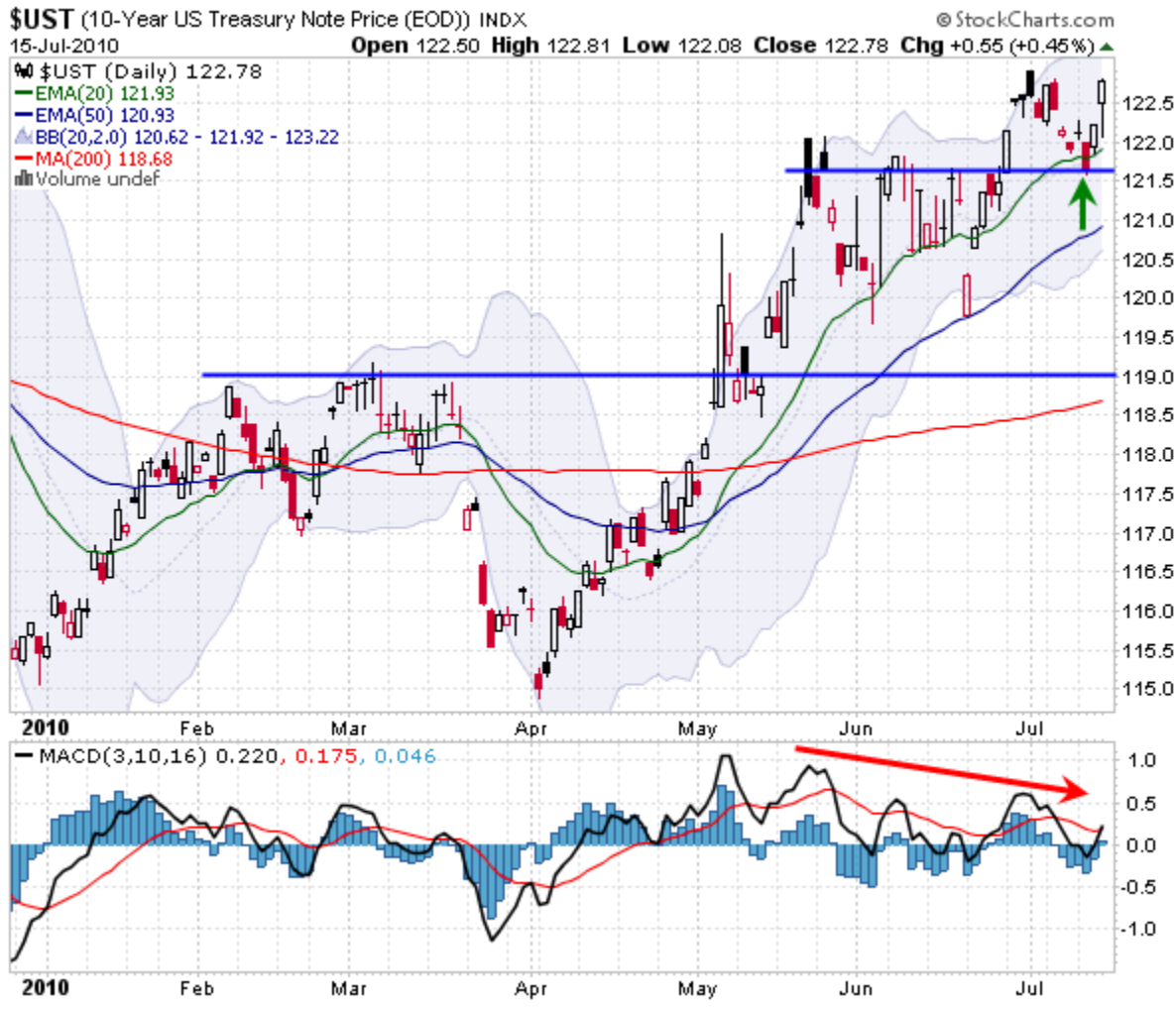
## Weekly



The play - and expectation - is clearly that higher bond/note prices are expected as long as price maintains above the 122 level - if so, then we can see price travel back to 125 or even higher if stocks break under the 1,000 level.

Bonds tend to lead stocks, so if this truly is a range breakout to the upside, then stocks could be in for trouble/lower prices over the long-haul - so it will be very important to continue watching bond/note prices as such, particularly if we start to see a continued move above 123.

## Daily



The 10-year note pulled back to test the rising 20 day EMA last week and actually bounced higher off the 121.50 level prior to Friday's market crash - this is the third such instance where bonds have broken out ahead of a stock market sharp sell-off (the other times being the May breakout and mid-June break).

The trend is up, EMAs are up, and there is open-air (no resistance) on the higher frames, so if we see a move above 123, the play would be to continue the long bond bias and short stock play - as investors sell stocks for protection and buy bonds for defense.

Any change in this structure defies the odds, and needs to be monitored (such as a move under 120). Anything else and we expect higher bond/note prices to come.

# US S&P 500 (\$SPX)

## Monthly



Price failed to overcome the 20 EMA on the monthly frame, but is currently between it and the 200 SMA, though the 200 SMA is not of great importance (it rests at 1,050). The main idea is that if price breaks under 1,000 in the weeks ahead, then we will have a final confirmation that a bear market has returned and there will be no further support on the monthly frame.

It's more of an academic debate, but technically, the monthly chart never actually turned back into an uptrend, so the entire move off the 2009 low is thus classified as a "Bear Market Rally" and if we see a move under 1,000, it will be called a "Continuation of the Bear Market" or confirmation of the bear. Semantics aside, a move under 1,000 signals no further hope for the bulls/buyers.

## Weekly



Price respected the levels on the weekly frame, so I would suggest watching this chart very closely as we get more information. For now, price was unable to overcome (break above) the 20/50 EMA confluence as seen above (1,100 and 1,085 respectively), so we will lock those levels in - particularly 1,100 - as weekly overhead massive resistance - and as long as we're under 1,100, we expect lower lows yet to come. A move above 1,100 temporarily changes the expectation, but only to expect a move to test the 1,130 level. As long as price remains under 1,100, we expect a retest of the critical 1,010/1,000 level, and any break under 1,000 should be shorted to target the 900 or 850 level which could be hit in the next few months.

Main idea: Watch 1,100 as overhead resistance and 1,000 as lower support - a break beyond either would warrant closer attention. Trend is down, so odds favor at least a retest of 1,000 as the expected short-term play.

## Daily:



I labeled the 1,120 as a "Barrier" for price, for it will be a game-changer (change the expectation) if price rises above it. Unless that happens, the pathway forward seems to be a continuation of the down-move that began in April that has turned the daily chart OFFICIALLY into a downtrend (lower lows, lower highs, and most bearish EMA structure possible). 1,100 seems to be the key level that price cannot overcome, and the short-term expectation from a chart perspective is simply to target a similar downside move as we saw in late June, which will send the index back to 1,010 or perhaps lower. A break under 1,000 would be extremely significant, and destroy all bullish hopes (as bulls can now say "Well, we're still above 1,000 and so all hope is not lost"). That's true, but a break under 1,000 removes all doubt to everyone who is objective (not blindly bullishly biased) and thus investors and traders will react, selling shares under 1,000. For now, target 1,000 as the next likely swing if you are a short term trader, and realize that the odds - as they exist now - are for lower prices yet to come UNLESS the index rises above 1,130 which is the only thing to call the bearish expectation into question.



There's no change in the CoT chart data this week though it looks like the TradeStation indicator did not update the data.

I'll show the official CoT data for the update:

E-MINI S&P 500 STOCK INDEX - CHICAGO MERCANTILE EXCHANGE  
 Commitments of Traders - Futures Only, July 13, 2010

Code-13874A

: Total :		Reportable Positions						: Nonreportable Positions		
: Open :		Non-Commercial		Commercial		Total		:		
: Interest :		Long	Short	Spreading	Long	Short	Long	Short	Long	Short
		<b>PROFESSIONALS</b>			<b>COMMERCIALS</b>			<b>RETAIL</b>		
All	: 2,812,693:	309,841	381,383	21,377	2,095,686	2,130,772	2,426,904	2,533,532	385,789	279,161
Old	: 2,812,693:	309,841	381,383	21,377	2,095,686	2,130,772	2,426,904	2,533,532	385,789	279,161
Other	: 0:	0	0	0	0	0	0	0	0	0
		Changes in Commitments from: July 6, 2010								
	: -62,453:	-26,924	73,376	-10,875	14,733	-124,218	-23,066	-61,717	-39,387	-736

To be safe, I'm showing the official data from the CoT Website:

**PROFESSIONALS: NET SHORT 71,542**

**COMMERCIALS: NET SHORT 35,086**

**RETAIL/SMALL: NET LONG 106,628**

<http://www.cftc.gov/marketreports/commitmentsoftraders/index.htm>

If we go by the signal from the official data, then we see that big changes have occurred, which is logical.

Professionals went from net 28,000 long last time to net 71,542 short - a big flip to the downside.

Commercials went from net short 174,000 to net short 35,086 - either removing their hedges or taking profits on them.

Retails went from 145,000 net long down to 106,628 net long.

Signal: Both professionals and commercials/hedgers are net short 106,628 @ES futures contracts (e-minis) while the "Retail" or "non-reportables" are net long 106,628 contracts.

**In simple terms - with the professionals shifting sharply short and the retails/non-reportables also selling, but still remaining net long - odds favor lower index prices ahead.**

Look closely - the Professionals (non-commercials) put on 73,376 NEW short positions in the @ES futures last week AHEAD of Friday's sell-off. Remember, these data were released on Tuesday July 13. It pays to follow the professionals.



Here is the updated Gann/Andrews Pitchfork chart, which shows a bounce up from the 1,010 level into the 1,110 Gann number (just shy of it) but more importantly, a bounce up into the underside of the lower Andrews Pitchfork trendline at 1,100 - that's significant.

The fact that price broke the rising trendlines indicates a trend shift (right now, the trend is technically flat/sideways unless we break under 1,010).

Lower Gann levels to watch include the critical 1,044 level, 1,012 (prior low) and then 981 and so on.

# Gold

## Monthly



Despite one of the most persistent and powerful uptrends, we are continuing to see cracks in the surface of the trend and warning signs for gold. Where? Multi-month negative momentum divergences when combined with gold stretched \$150 above its rising 20 month EMA (at \$1,060). From a mean-reversion standpoint, odds favor a pullback, but that's just speaking from statistics.

Main idea: Monthly chart shows powerful uptrend but is showing non-confirmations in the form of lengthy negative momentum divergences and a bearish caution/warning in the form of a grossly overextended market.

## Weekly



Dropping to the weekly chart, we see the tenuous structure gold is in. So far, we've remained above the blue trendline - very important - at the \$1,150 level and the 20 week EMA currently at \$1,185. These will be your major weekly (intermediate trend) levels to watch. Look for a bounce especially here off the 20 week EMA, but if buyers cannot support gold here, we will see a test of \$1,150 and even as low as the 50 week EMA at \$1,115. Expect a test of those on a break cleanly under \$1,180.

The key support - final support - will come at \$1,100, so any move under \$1,100 suggests that a trend reversal is in place, and not just a typical retracement swing in a powerful uptrend. Notice the negative momentum divergences - these warn of a potential downward move ahead.

But, price is king, and it is in an uptrend, so as long as price is above \$1,200/\$1,150, the uptrend remains the dominant structure... but any weakness is likely to lead to further weakness so don't get caught in a sharp down move in gold if one happens - the conditions are certainly ripe for one to develop.

## Daily



Gold actually shows the importance of watching multiple timeframes. If you looked ONLY at the daily chart, you would be looking to short aggressively here, or under \$1,180. However, you would be shorting into the rising 20 week EMA and trendline on the weekly chart. What's a trader to do? If buyers crack through the weekly support at the \$1,180 level, we will almost certainly/without doubt see a breakdown to test \$1,140/\$1,150.

Under \$1,150 and the chart structure deteriorates to expect a move back to \$1,100 or even \$1,050.

So, the daily chart says "Sell short" and the weekly chart says "But I could support at \$1,180" so if \$1,180 fails, you might do well to take profits there if long - odds would shift sharply to favor a test of \$1,150 or \$1,100, and a break of \$1,180 would be the precursor to expect that.

Anything else and the uptrend is intact, but that negative divergence and two impulsive sell-moves (May and early July) are troublesome for the bulls, and could indicate early distribution ahead of a trend reversal down.

# WTI Crude Oil (\$WTIC)

## Monthly



Surprise - no change in Crude Oil, which remains trapped in a long-term trading range between \$70 and \$85.

Thus, there's no point in trying to do complex analysis on the higher frame - if we break \$70, expect a breakdown move to \$60 or \$50 - which would correspond with a sharp sell-off in stocks.

Otherwise, expect this trading range to continue.

## Weekly



The weekly chart tells the same picture. Crude oil is trapped in a long-term trading range with bearish undertones, namely from the break of the rising trendline and lengthy negative momentum divergence.

However, the \$70 level has been critical support, and \$80 has been recent resistance, so look for those to be the dominant levels to watch and continue monitoring the day-to-day action on the daily chart.

## Daily



If we do go into a global slowdown or second recession, then you can certainly expect Crude Oil to fall back to \$60 or \$50 or even perhaps lower if the contraction is severe. Crude oil is a very economically sensitive commodity, which is why it is tied so closely to the price of stocks.

That being said, watch \$79 as massive confluence price resistance (drawn) so any move above \$80 targets a breakout move - which would likely correspond with a breakout up in stocks - to \$85.

However, the "path of least resistance" on the chart is to the downside, and price rode the underside of the rising trendline that it broke in July - that's bearish - and any break under the \$75 level sets the stage for a retest of \$71, and any break under \$70 (officially \$67) means we would expect a breakdown move to test \$60 per barrel.

Anything else and we remain in this tight trading range between \$71 and \$79 (short-term).

# US Dollar Index (\$USD)

## Monthly



The US Dollar Index has hit its expected downside monthly initial target of the 50m EMA at the \$82 level - this is normal. The index could continue falling to test the 20m EMA at \$81, so this would be the monthly parameters to watch:

Expected support at the \$81/\$82 level as seen above in the EMA semi-confluence at that level.

If we break under \$80, it would be a sign that 'something else' was going on, namely another downside reversal in the dollar, so keep a close watch on \$80 going forward in time.

The long-term trend should be classified as "flat/neutral" after a pervasive downtrend phase, though any move above \$90 reverses the trend to "up".

## Weekly

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

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16-Jul-2010

Open 83.99 High 84.56 Low 82.08 Close 82.56 Chg -1.39 (-1.65%) ▼



Though expected after hitting its upside resistance target at the \$89 level, the Dollar Index has pulled back much more quickly than anticipated, which might be an initial signal of potential reversal.

The levels to watch this week include \$82 and \$81.50, which are the same levels we are told to watch from the monthly chart - so memorize those levels as potential support points on the dollar index, and any move under \$80 would be a sign that we would expect further selling in the dollar index (strengthening in the Euro) which would work its way across the intermarket landscape.

For now, watch \$81.50/\$82 as a potential major support area for a bounce, but if we don't get the bounce, expect a harder sell-off in the Dollar (if we break \$80).

## Daily



From the short-term/daily chart, we see prior price support at the \$82 level (multi-timeframe support), so we could very well get a bounce here in the Dollar - that's perhaps the expected play from the chart. However, any move under \$82 sends us back to \$81, and there is daily support - from price and the 200 day SMA - at the \$80 index level. The analysis is the same: Expect a bounce here off \$81/\$82, but if the dollar falls under \$80, expect a much deeper "game-changing" down move to come. So, we are right above the "Line in the Sand" here for the Dollar Index.

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