Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com

January 21, 2022

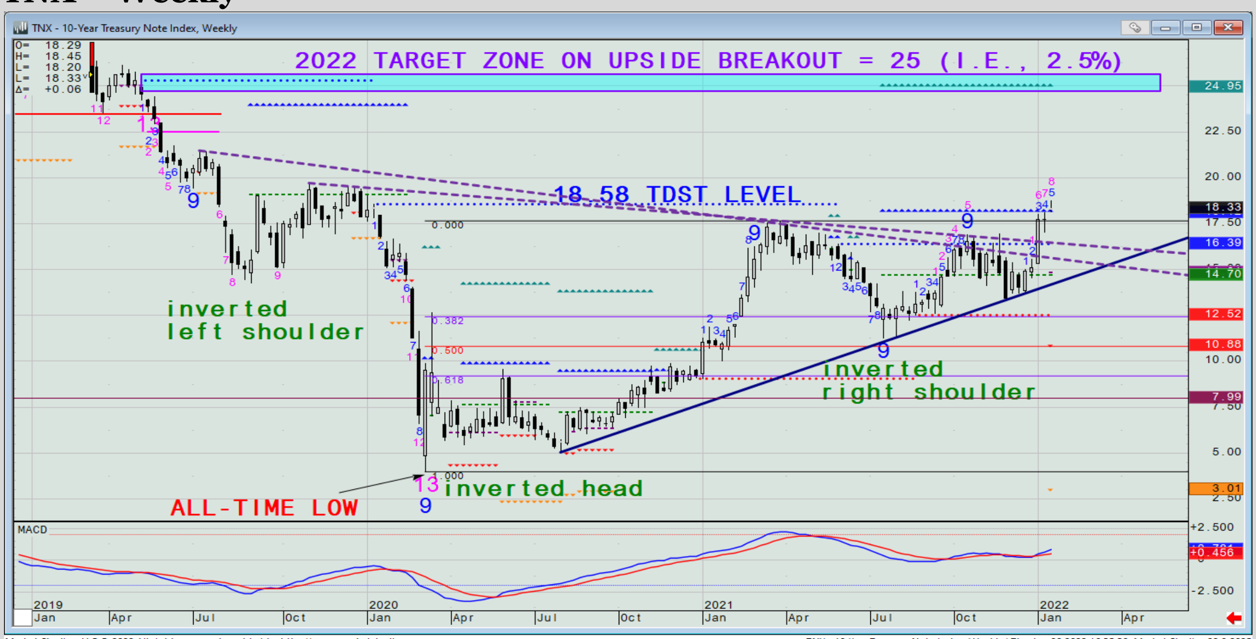
TACTICAL TRADER REPORT

The Macro Picture

Not a heck of a lot of the known bigger macro issues have changed in the past week: we're still seeing rates move higher; stocks under real profit-taking pressure; and Omicron still negatively impacting world travel, commerce, and our health.

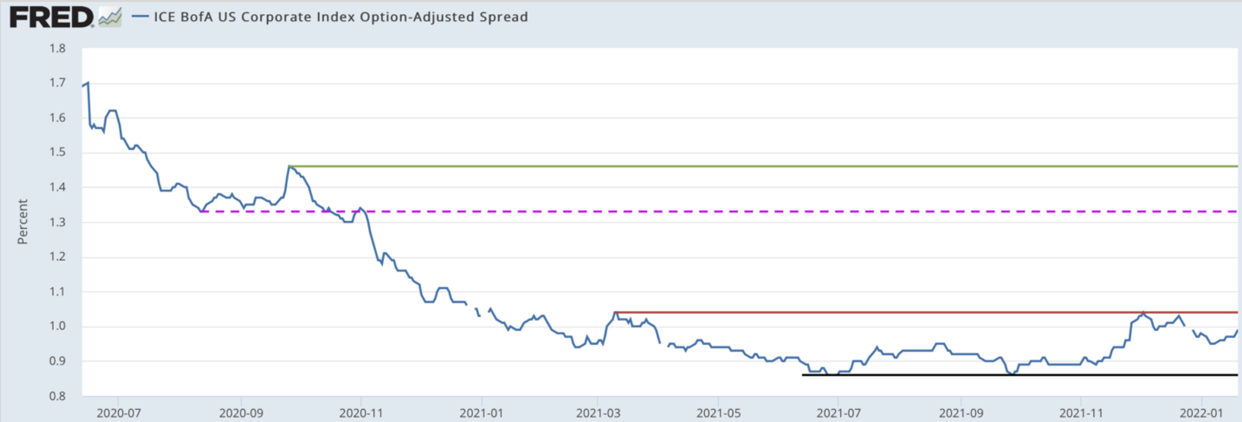
Let's take a look "around the horn" to see what markets look like in their latest incarnation, starting with the continued rally in UST 10-yr. rates.

TNX – Weekly



The inverted head-and-shoulders pattern has broken above its neckline, suggesting that rates have made a longer-term bottom (something I have espoused for a very long time). From a classical technical analysis perspective, the breakout measures to about a 3.25% target (though there really isn't a timeframe associated to that move). But in the more medium-term view, I do have Propulsion targets at 2.25 to 2.5 percent, and I think that is very achievable this year.

While we're talking fixed income, we need also pay very close attention to the **ICE BofA Corporate Index Option-Adjusted Credit Spread**. It has ticked up to 98 bps. (as of Wednesday, the latest data point we have available till ~9-10am ET each day). I'm still in the camp that a move that breaks above 1.04% (and preferably stays above there) will likely take the spread up to test 1.33% to 1.46%, and that would be a negative for stocks.

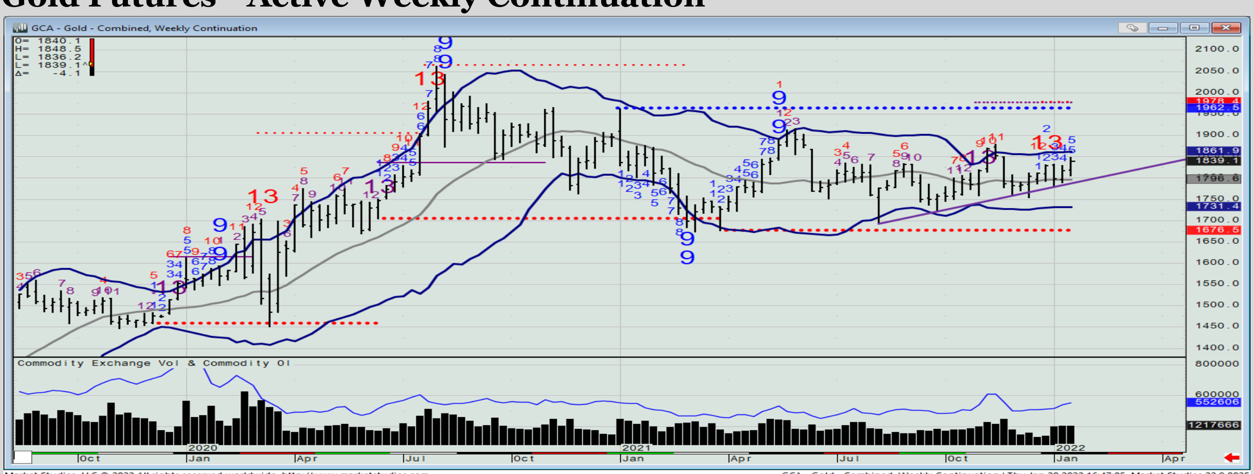


The US Dollar halted its advance at the weekly Propulsion Exhaustion level (the small blue triangles); a Setup +9; and where the cloud model's Lagging Line (in bold blue) hit the top of its cloud as well as in its Fibonacci Retracement Box. I expect this pullback can get at least as low as 94.50, and then there are various other points of support down to 93.00. I'd likely be a buyer from 93.70 to 93 if the opportunity comes.

DXY – Weekly

Gold is holding onto some recent short-term gains, but it remains in a medium-term trendless state (though near-term pressure on equities may further help it rally).

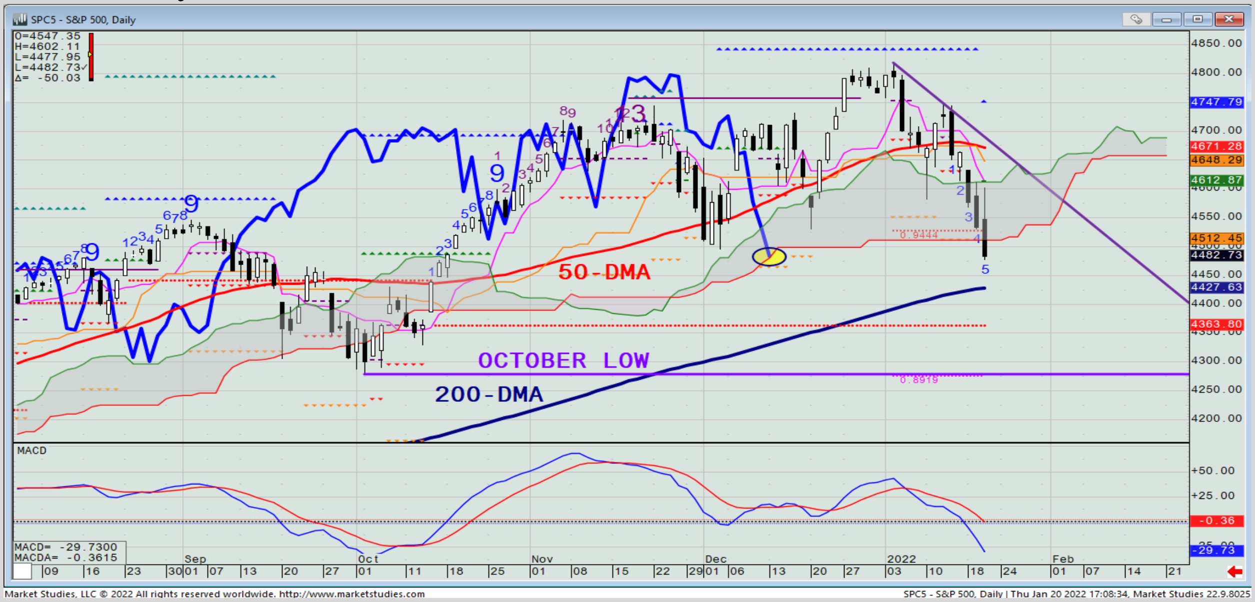
Gold Futures –Active Weekly Continuation



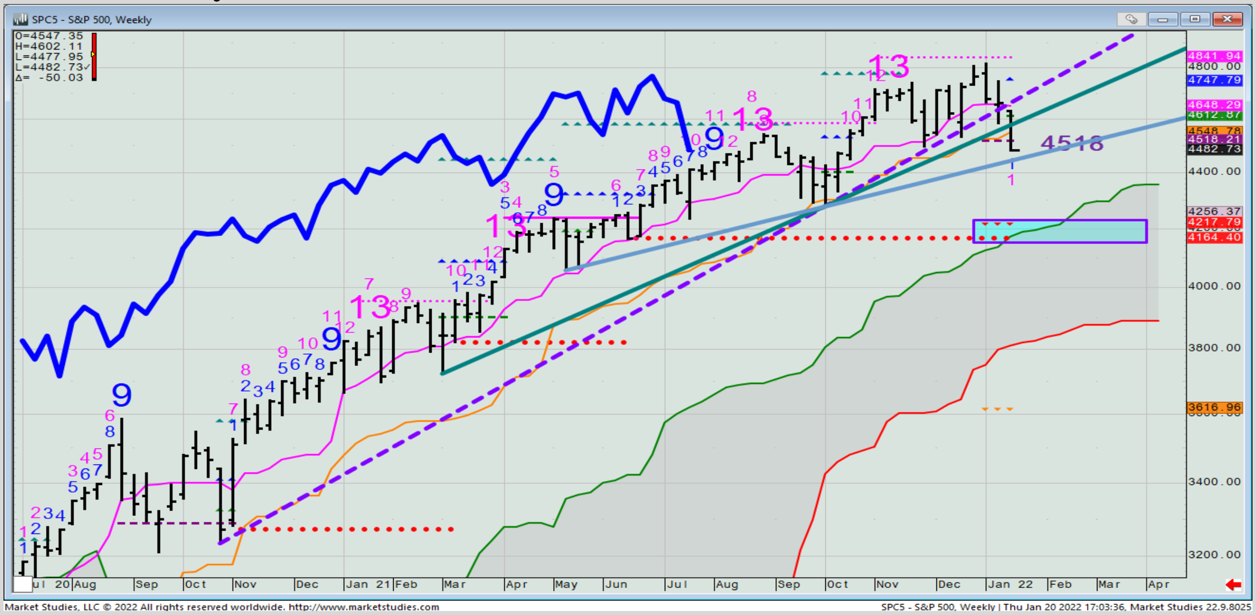
For stocks, I think we're about to see some real intense volatility pick up in the next week or so, with the SPX having done a very problematic reversal downward on Thursday after a very solid initial rally. Price cratered the second part of the day to see the SPX fall beneath my key 4518 support level to close at 4483. I have long said that a breach of the bearish weekly Propulsion Momentum level would be a further negative for stocks (and most especially if the aforementioned credit spread widened beyond 1.04% (which it has not done yet).

If we don't see a turnaround from the 200-DMA (now at 4428), then the market has the potential to take on a deeper decline down to the 4218 to 4164 zone before finding a more likely bottom. There will probably be many technicians who suggest buying the 200-DMA – and that might be right for a quick trade – but breaking the weekly cloud model's Base Line and bearish Prop. level (for the first time since the market turned bullish after the March 2020 low), should be enough of a game-changer to keep a lid on current all-time highs for some time. At the very least, it will have us thinking about playing buying dips AND selling rallies instead of our almost always doing the former.

SPX – Daily



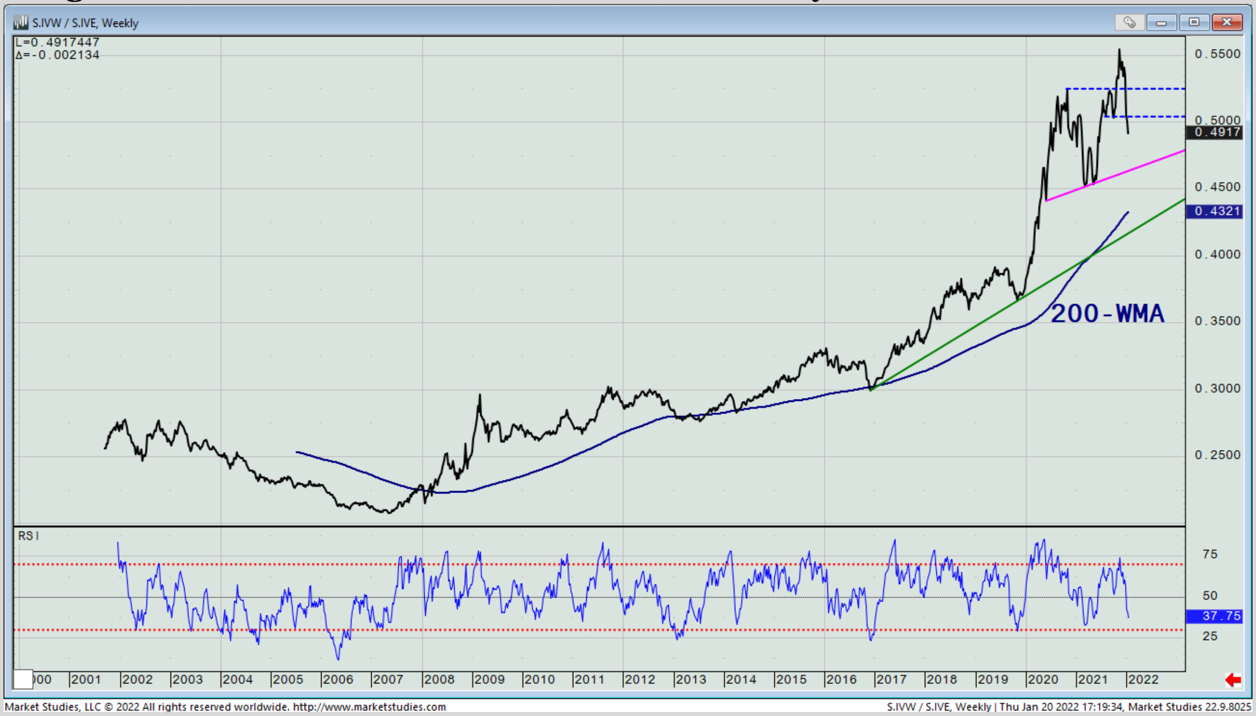
SPX – Weekly



THIS WEEK'S NEW TRADE IDEA

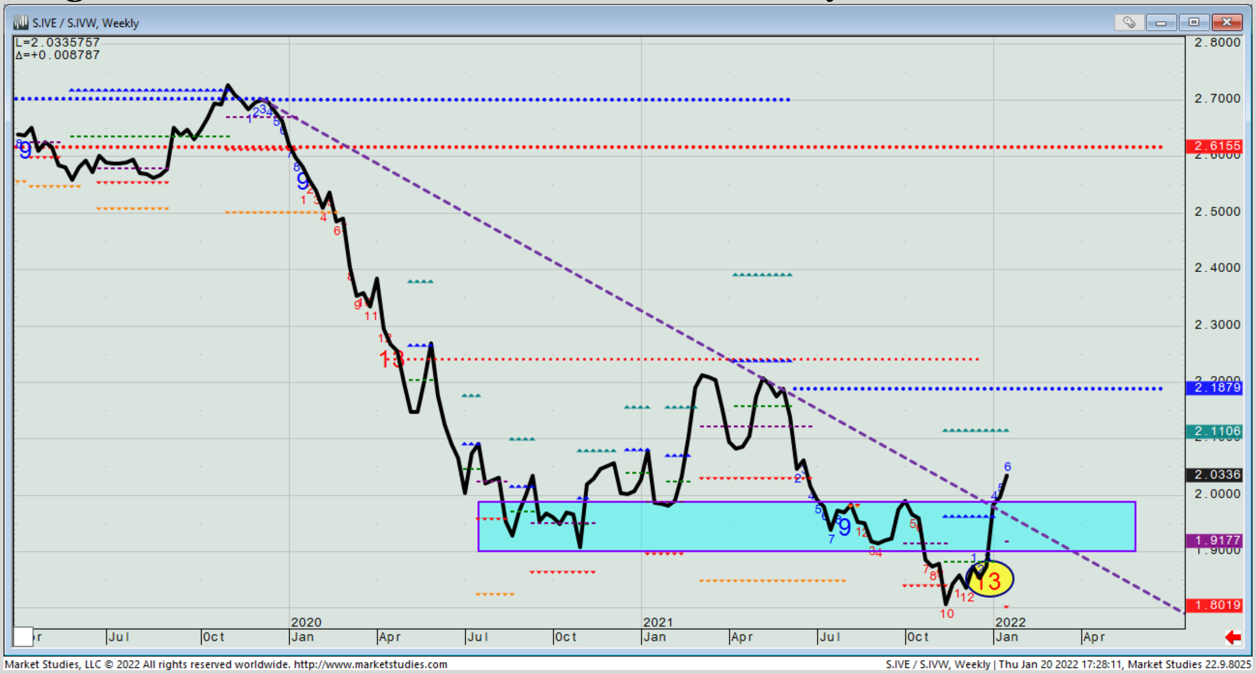
The whole "growth vs. value" game is constantly played out in the market, but it is very clear that growth has been the real winner for a long time (using the **iShares S&P 500 Growth ETF (IVW) vs. Value ETF (IVE)**.

Long IVW (Growth vs. Short IVE (Value) – Weekly



Let's flip the chart and also zoom in, to show **Long Value vs. Short Growth**. Notice that the current price is not only *above the lows from Summer and Fall* 2020, but now also *above the Summer and early-Fall highs* of 2021 – on top of the breakout above the downtrend line from the late 2019 high area.

Long IVE (Value) vs. Short IVW (Growth) – Weekly



With my expecting a bunch of volatility in the near-term, I don't want to first put on a full position now, but I do want to buy into the idea that this long Value vs. short Growth could make its way higher before it makes new all-time lows.

As such, let's look to buy only a 25% position today; buy another 50% position within the highlighted box value (approx. 1.98 to 1.90), and the final 25% at 1.855 to 1.852. This way we can accumulate a position and take advantage of some of the expected volatility in the bulls vs. bears scenario (which would carry through to this pairing).

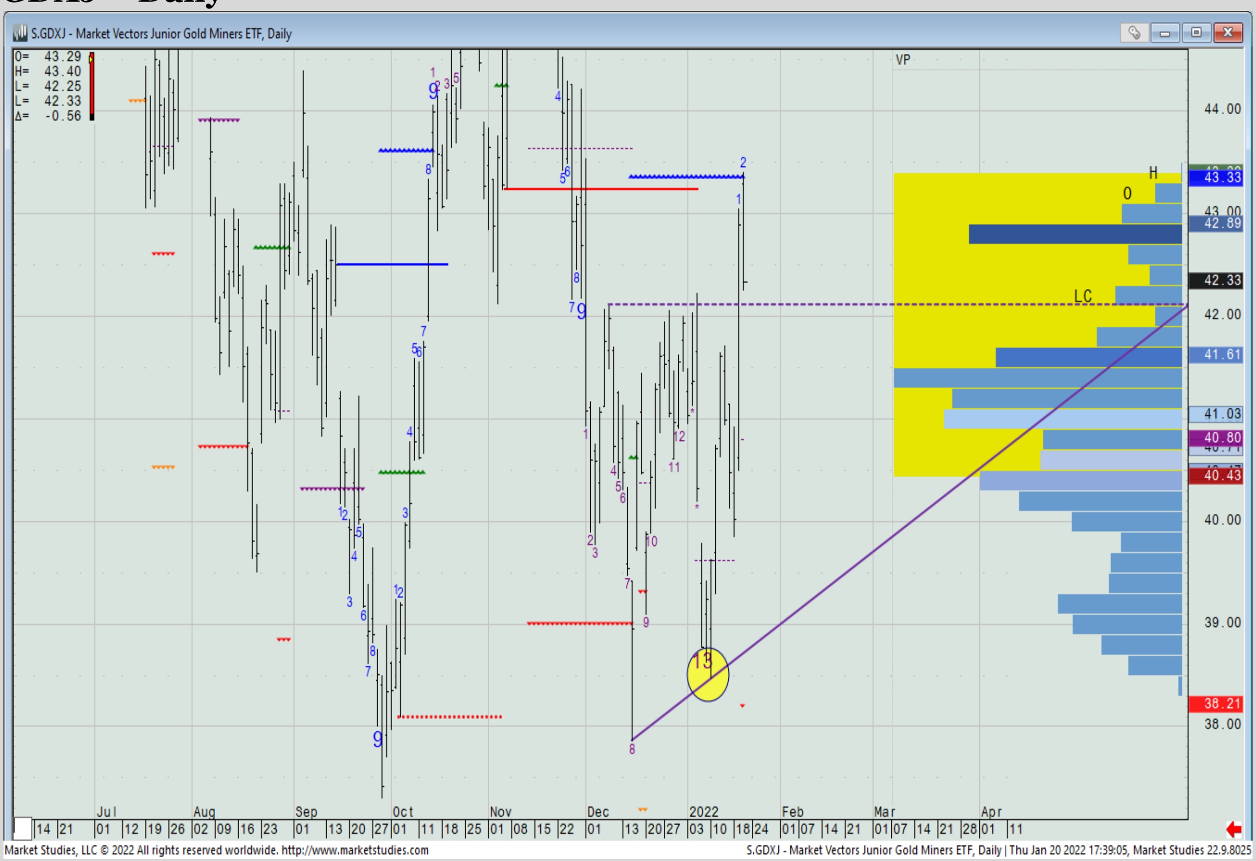
We'll aim for an initial target (to take off half of what we have on) at the 2.18 to 2.19 area. We'll risk to new lows, though I will give a more precise level in coming weeks.

Other Open Recommendations and Positions

Long Market Vectors Junior Gold Miners ETF (GDXJ)

Last week I recommended getting long one unit from $39.73 +/- 18 cents area to target the Propulsion Exhaustion Level at $43.33. Since that report, the lowest low came on Tuesday at $39.85, so many of you would have gotten into at least some of this recommendation. For those that did, you got paid quickly, as we hit our target a day later. A full position made 8.6% in two trading days.

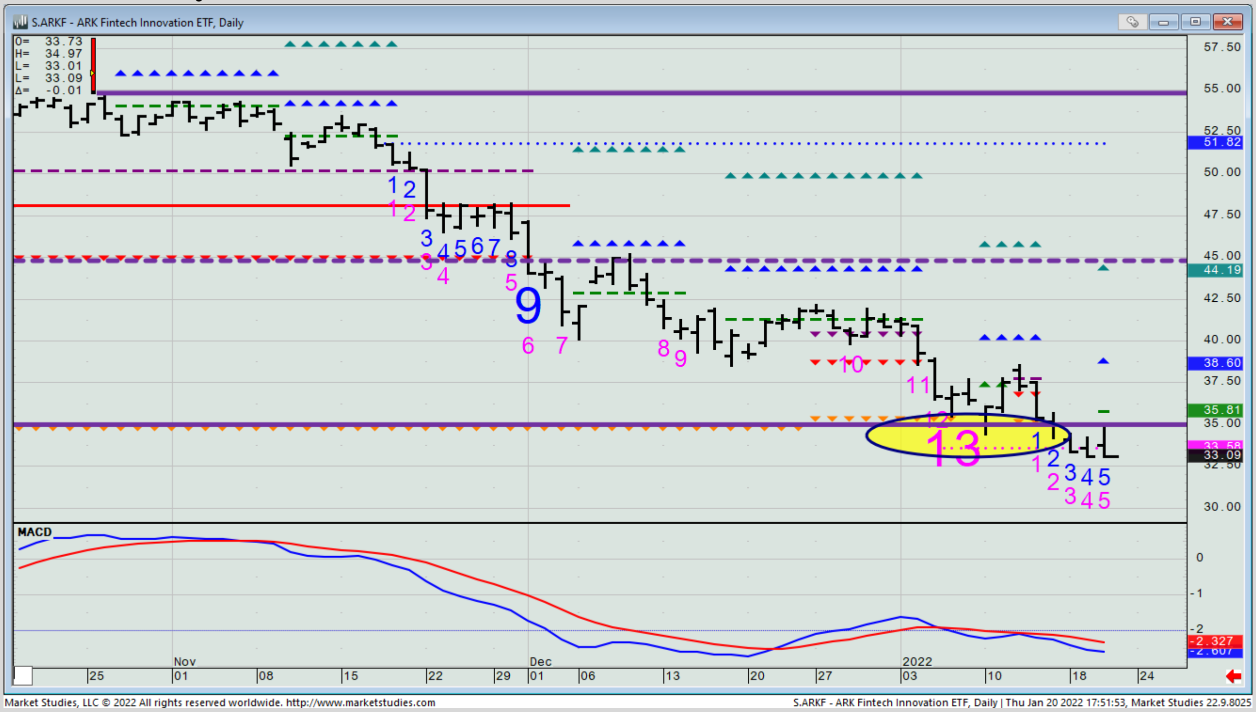
GDXJ – Daily



Long ARK Fintech Fund (ARKF)

We were long one-half unit (avg. entry at $36.97), and another half at an average of $35.) Unfortunately, we got stopped out Tuesday on the second consecutive daily close beneath the Combo Risk level of $33.5, and lost 8.72%.

ARKF - Daily



Long ALPS Clean Energy Trust ETF (ACES)

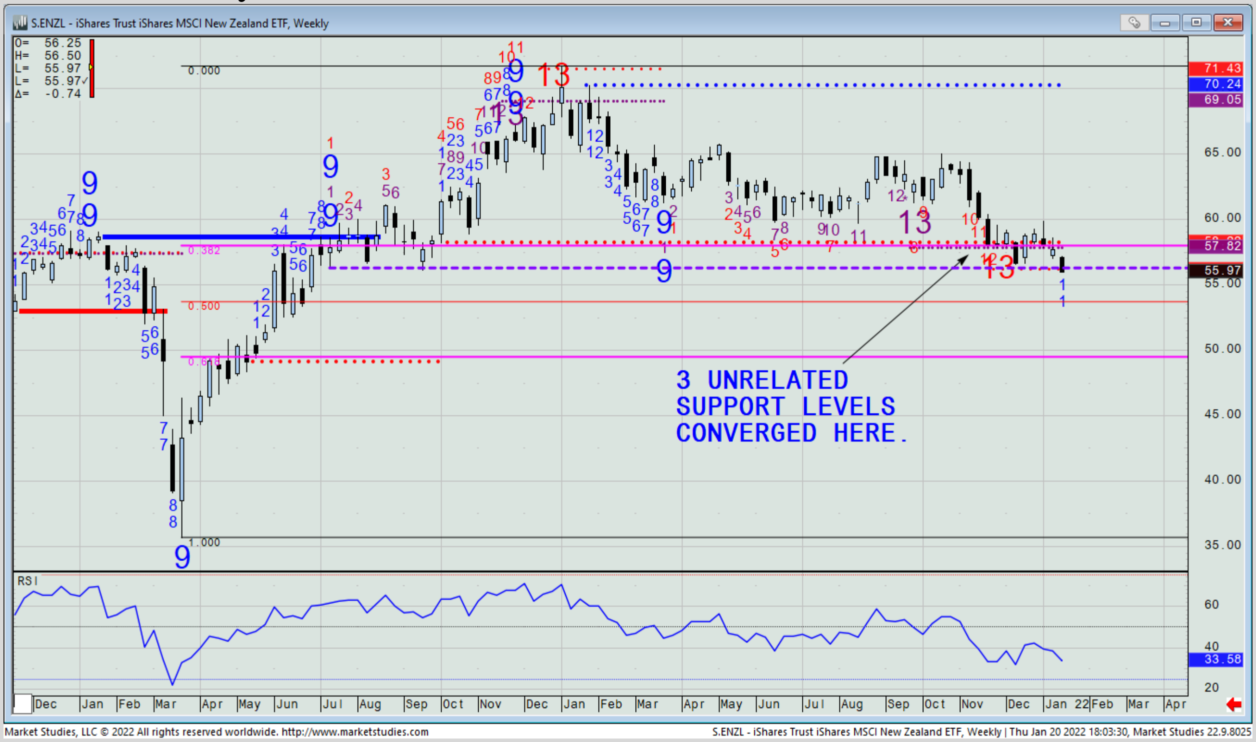
We're long this at an avg. entry price of $64.28, with an $80+ target for some time in the first quarter this year. We'll risk a few closes beneath the older bearish Propulsion Exhaustion level from last summer, at $57.43. We got knocked out earlier this week at about $55.69, and took a bad hit of $15.42%

ACES – Daily

Long iShares MSCI New Zealand fund (ENZL)

We were long one-half unit (avg. price of $58.58), and added another half-unit at $58.74 on the weekly price flip upward on XMAS Thursday. We'll sell half of whatever we have on at $65 +/- 20 cents, and half at $70. We'll stop out on a Friday close < $56.29, the lowest low of the triple-bottom of Summer 2020 (i.e., the purple-colored dashed line). That looks like it could happen today.

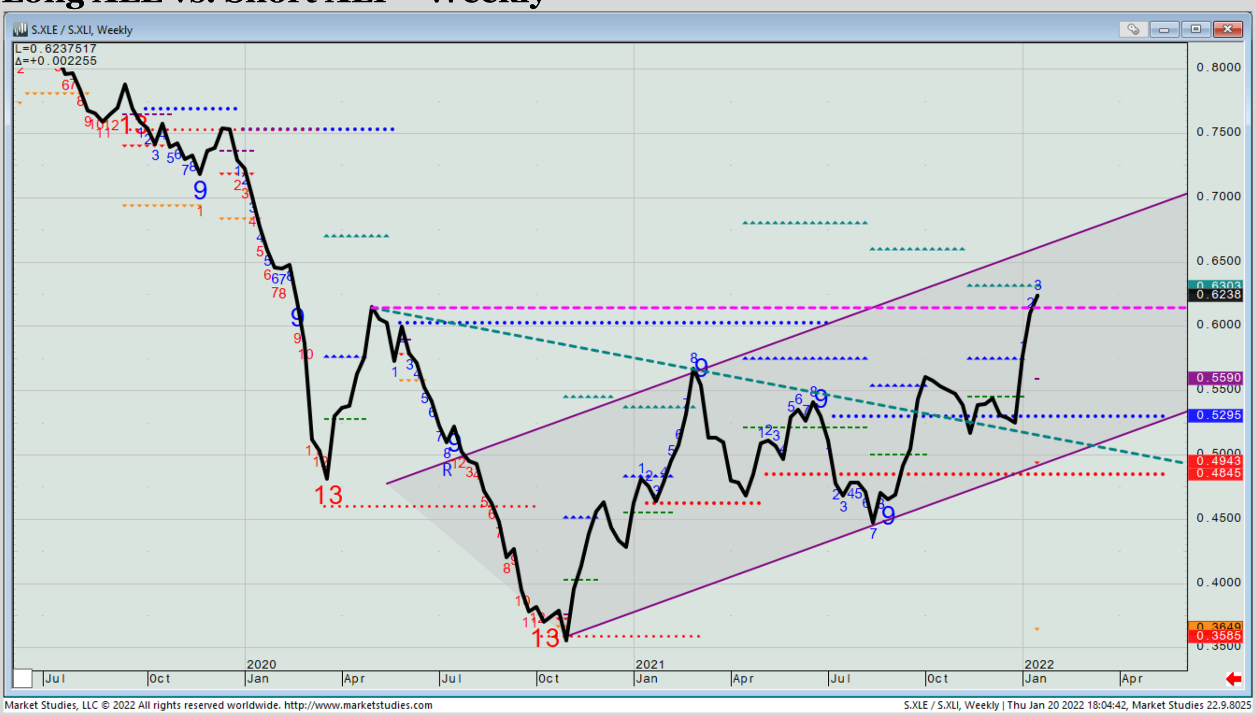
ENZL – Weekly



Long SPDR Energy (XLE) vs. Short SPDR Industrials (XLI)

Six weeks ago, we got our entry into this pair trade by going long one unit of XLE and short one unit of XLI. I'm targeting either a weekly Setup +9 or a move to the top of the channel – whichever comes first. We will look to take half off at 0.65 +/- 0.0030. We'll again raise our sell-stop to unwind half on consecutive *daily* closes beneath 0.6019.

Long XLE vs. Short XLI – Weekly



Long SPDR Consumer Staples (XLP) vs. Short SPDR Consumer Disc. (XLY)

We're long this spread (shown inversely in the chart below) at an average spread ratio of ~2.87 (i.e., we want this chart to go lower). We've already covered 2/3 of our position for a profit at an avg. ratio of 2.65, and remain with one-third of the position. We hit our remaining target (avg. fill 2.525) to now be flat. We made a total of 10.05%.

We're Long XLP vs. Short XLY (we've played for this ratio to go lower) This chart shows Long XLY vs. Short XLP - Weekly

Long SPDR Gold Trust (GLD) vs. Short SPDR Silver Trust (SLV)

We put this pair on over Friday 11/19 and Monday 11/22 at an average price of 7.5389. We were looking to exit the first half the trade in the 8.26 to 8.45 zone. (Getting up there, by the way, would create a long-term inverse head-and-shoulders pattern.) We'd already taken off 1/3 at 8.026 and we took another third off last Friday at avg. price of 8.012. We then got stopped out of the remaining 1/3-position on Wednesday at 7.692 for a total avg. gain of 4.92%.

Long GLD/Short SLV – Daily

Suggestions and Explanation of Terms

With every major firm brokerage firm having gone to $0 domestic stock/ ETF commissions, you should <u>not be paying anything</u> to trade my recommendations (other than the associated fees to placing a short position we occasionally recommend).

Cloud Charts (a.k.a. "Ichimoku")
"Cloud" charting is a far-eastern technical model that was developed over 50 years ago, but is still not commonly used in the US (nor is there much reference material available on it, either). The calculations involved in the construction of each of the 5 lines that make up this model are simple math (see below). The proper understanding and use of cloud charts are still somewhat a mystery to many in the western world. We, however, have a deep understanding of this model, and use it as a core component to our market analysis.

The names and calculations of the 5 lines are as follows:
- Conversion Line: the arithmetic midpoint of the most recent 9 price bars (inclusive of the current bar).
- Base Line: the arithmetic midpoint of the most recent 26 price bars (inclusive of the current bar).
- Leading Span 1: the midpoint of the previously calculated Conversion and Base Lines, plotted forward 26 bars (including the current bar).
- Leading Span 2: the arithmetic midpoint of the most recent 52 price bars (including the current bar) plotted forward 26 bars (including the current bar).
- Lagging Span: the current price plotted backwards 26 bars (including the current bar).
- The "Cloud" is the area on the chart bounded by the two Leading Spans.

In any given timeframe, it is our interpretation of the relationship of a security's price to these five lines -- and the relative positions of these lines to each other -- that helps us decipher behavioral and/or structural shifts to the current bull or bear market environment at hand.

DeMark Studies (a.k.a. TD models)
DeMark Studies consist of models created by Tom DeMark, a noted market-timing indicator developer and consultant to many major Wall Street institutions. Two of these models that look for the timing of trend exhaustion include TD Sequential and TD Combo. A third, TD Propulsion, looks for a specific price exhaustion level after a trend momentum level has been properly identified and thrust through.

Some key phrases we use in our writings include:
- TD Setup: Nine consecutive price bars that the closing price is above the close from four bars prior (a.k.a. "Setup +9"). When completed and "perfected" (i.e. the 8th or 9th bar's high is higher than both bar 6's and 7's highs), a near-term **top** may be in place. Conversely, is a run of nine consecutive price bars that the closing price is beneath the close from four bars prior (a.k.a. "Setup -9"). When completed and "perfected" (i.e. the 8th or 9th bar's low is lower than both bar 6's and 7's lows, a near-term price **bottom** may be in place.
- TD Sequential: After a completed Setup +9 count, if the security continues to move higher by a certain amount, a full trend has developed. This model looks to identify the exhaustion point of that trend, from a timing perspective. Here's how: Subsequent to the Setup +9, the model then looks for 13 price bars (that needn't be consecutive) that the closing price is greater than the high from two price bars back. When this happens, odds have increased that first buying within the current uptrend is much riskier than normal; some choose to actually lighten long exposure, too. Some aggressive traders even choose to initiate short exposure. Conversely, after a Setup -9 count, the model then looks for 13 price bars (that needn't be consecutive) that the closing price is less than the low from two bars back. When this happens, odds have increased that first selling within the current downtrend is much riskier than normal; some choose to actually lighten short exposure, too. Some aggressive traders even choose to initiate long exposure. **Thus, some aggressive-style accounts often use this model to take profits or even enter new counter-trend positions.**
- TD Combo: This is a sister timing model to the above –mentioned Sequential model. It also reaches its trend exhaustion reading at a +13 or -13 reading. It counts to the 13th bar using a different calculation than Sequential. But it's potential implications for an impending trend reversal are the same.
- TD Propulsion: This model looks to define the initiation of a momentum move (whether higher or lower). Once the identified Propulsion Momentum level is properly surpassed, it then pinpoints measured exhaustion levels for that same breakout or breakdown move (i.e. Propulsion Exhaustion and Full Propulsion Exhaustion).
- TD Trend Factors: This model looks to define important support or resistance levels from previous highs or lows of moves, measured in increments of 5.56%. (This particular number is a derivative of the Fibonacci sequence of numbers.)

- "Qualified and Confirmed" Breakouts (**Updated**):

  To qualify and confirm an upside breakout of some level we reference, the following need occur, in order:
  1. A down close the price bar immediately before closing above the reference level
  2. The actual close above the reference level
  3. A gap higher open; a higher daily high; and a higher daily close the next trading day.

To qualify and confirm a downside breach of some level we reference, the following need occur, in order:

1. An up close the price bar immediately before closing beneath the reference level
2. The close beneath the reference level
3. A gap lower open; a lower daily low; and a lower daily close the next trading day.

Thus, the qualified and confirmed process takes 3 consecutive price bars to create the signal.