Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

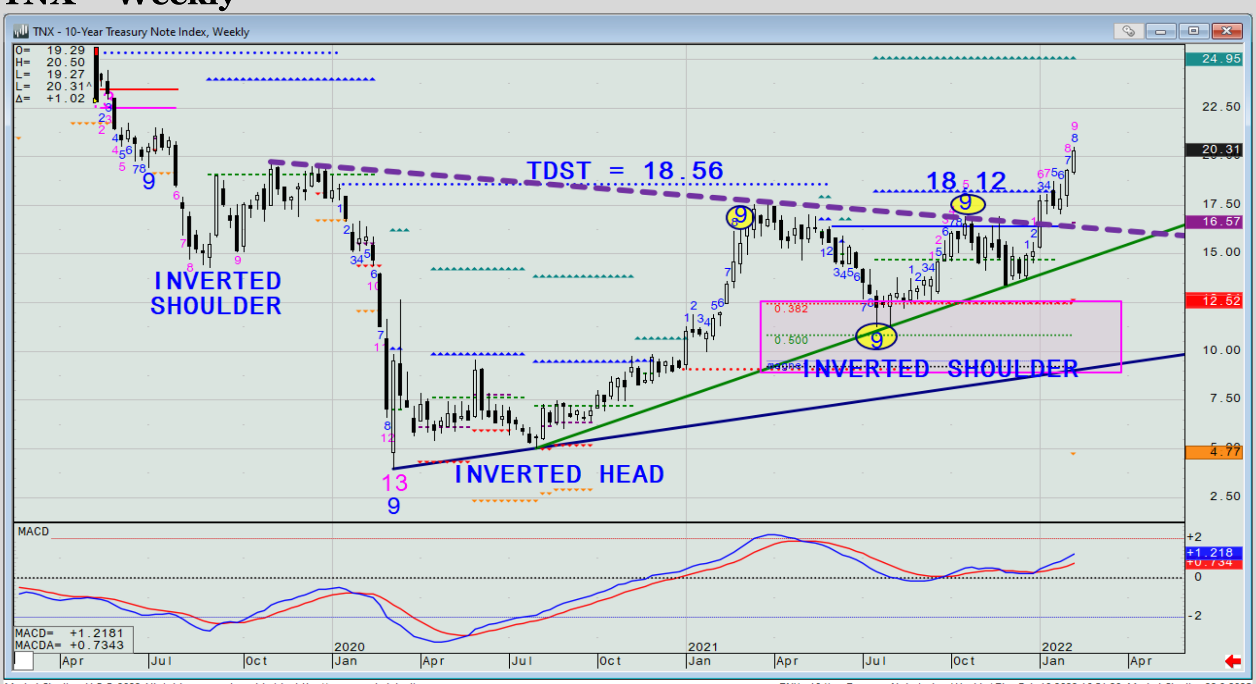
The Macro Picture

Thursday's CPI's staggering figure was *not* welcomed by investors, as a 40-yr. high inflation tick was not what bulls wanted to see. Then Fed Governor James Bullard's mid-afternoon comments (supporting a total of a 1% rate hike over the next three months) turned things, well, ugly, and quote boards turned even brighter red for the balance of the day.

The move higher in interest rates is taking its toll on the equity market's bullish run, and yesterday's move above 2% in the UST-10yr. did not help. Just one week ago, I wrote that these benchmark rates were at 1.82%, and that the real upside breakout would occur on a move above 1.86%. Well, that finally occurred, and the downside pressure being felt by bondholders is palpable. If you've followed me for months, you know that as early as last summer I was telling readers (and weekly podcast listeners) that there was simply *no reason* for the average investor to be buying bonds – and that the risk of buying a bond to make 1.5% in interest was not going to pay off – let alone the high likelihood that you'd lose principal (if you sold before maturity).

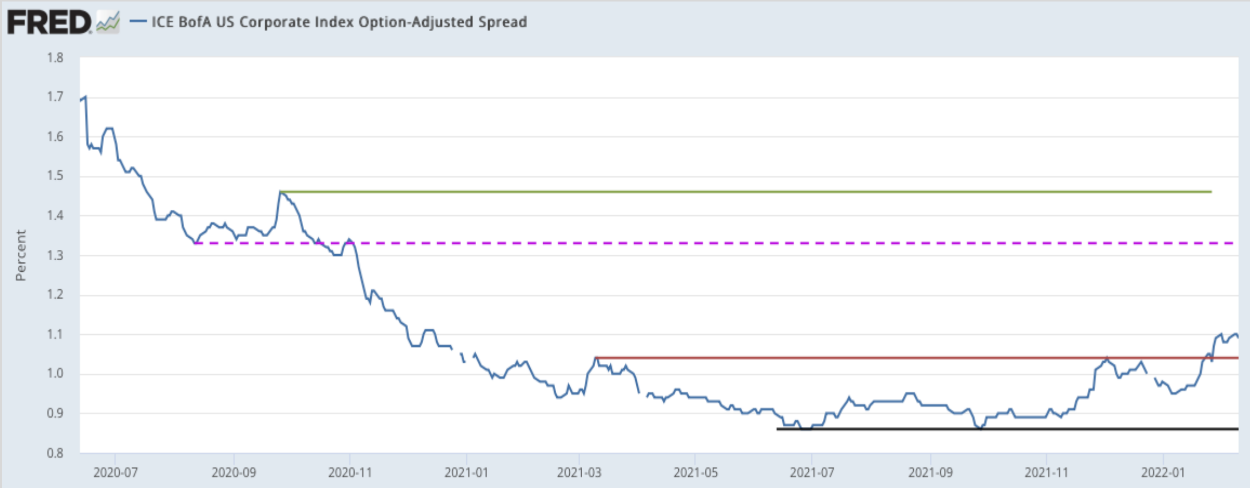
The TNX's inverted head-and-shoulders pattern measures to 3.25% over time. But for now, I think something more along the lines of 2.25% to 2.5% is likely coming this year.

TNX – Weekly



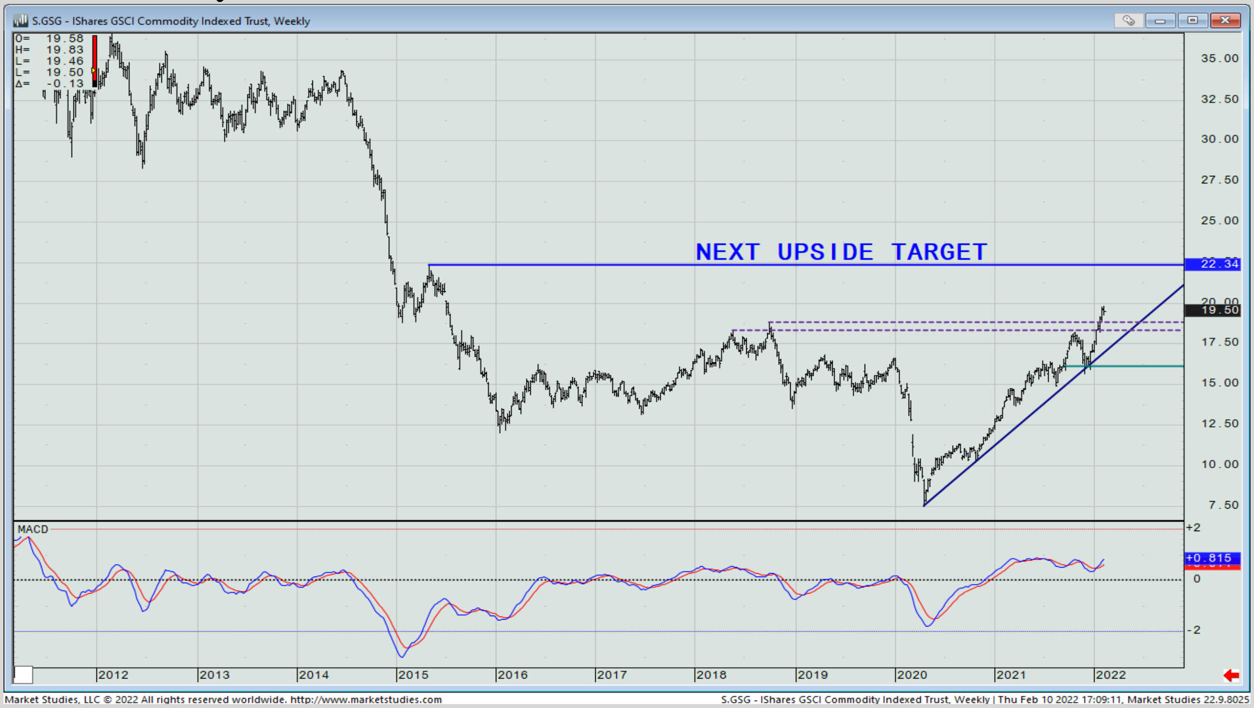
I'd not likely sell bonds this coming week, though, simply because by next Tuesday we could see both a daily TNX Sequential +13 and Setup +9. Nonetheless, I'll stick with what I've been saying for months: you don't want or need to be buying bonds.

Many months ago, I alerted you to watching the **ICE BofA Corporate Index Option-Adjusted Credit Spread**, and have continuously stated that a breakout above 1.04% would likely be a *negative* for the equity market – not in it likely suggesting a huge decline – but simply more that it would greatly reduce the odds that the bull market continued upward and onward, and that new highs are unlikely in the near-term. Yesterday's reading (which reflects Wednesday's price) showed the spread at 1.09%, with a recent high of 1.10%. I do think it could get up to the 1.33% to 1.46% area (which is still a pittance compared to the 4% high it reached in March 2020).



Commodities continue to rally; they likely started a secular bull run when they bottomed in March 2020. They're being fueled by bull runs in energy, grains, meats, and well, just about everything in the complex except precious metals. If history repeats itself – whereby higher rates actually lead to a *weakening* dollar – then we should see continuous bids (and perhaps even in the precious metals).

GSG – Weekly

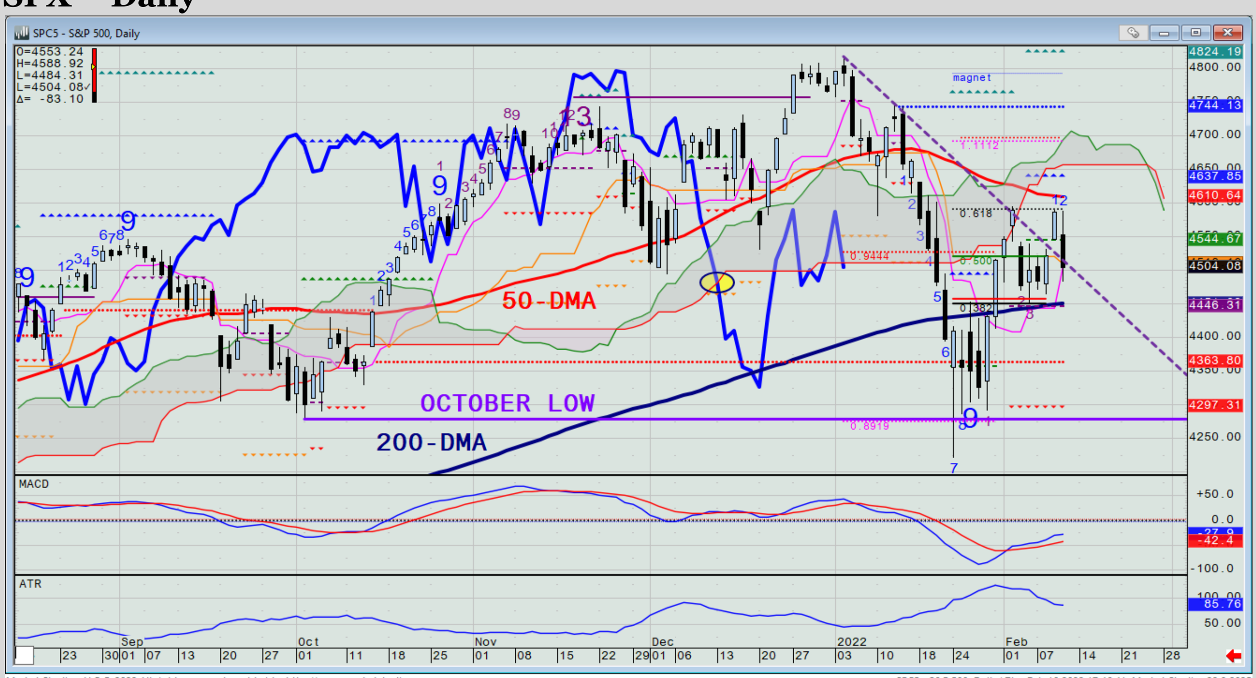


Gold still has solid long-term fundamentals, but as a trading vehicle, it's been a total sleeper for months. The SPDR Gold Trust (GLD) has predominantly been trading from $160 to $175, and still has been having trouble holding onto any rally.

GLD - Weekly

Looking at the SPX, the first thing that's noticeable to me is that the 10-day Average True Range has fallen from a recent late-January high of 123 points/day to 86/day, meaning we've seen about a 30% decrease in intraday volatility. That's a good thing for most, as the swings were devastating unless you caught them right. Secondly, the SPX is basically at the confluence of the daily Conversion and Base Lines, and the cloud's Lagging Line is just by its cloud bottom after recently double topping against the 62% Fibo level. That makes me think that we are not gonna sit by present price, and that we either see a leg higher to play with the current cloud bottom (4657) or we'll head somewhere towards the January lows.

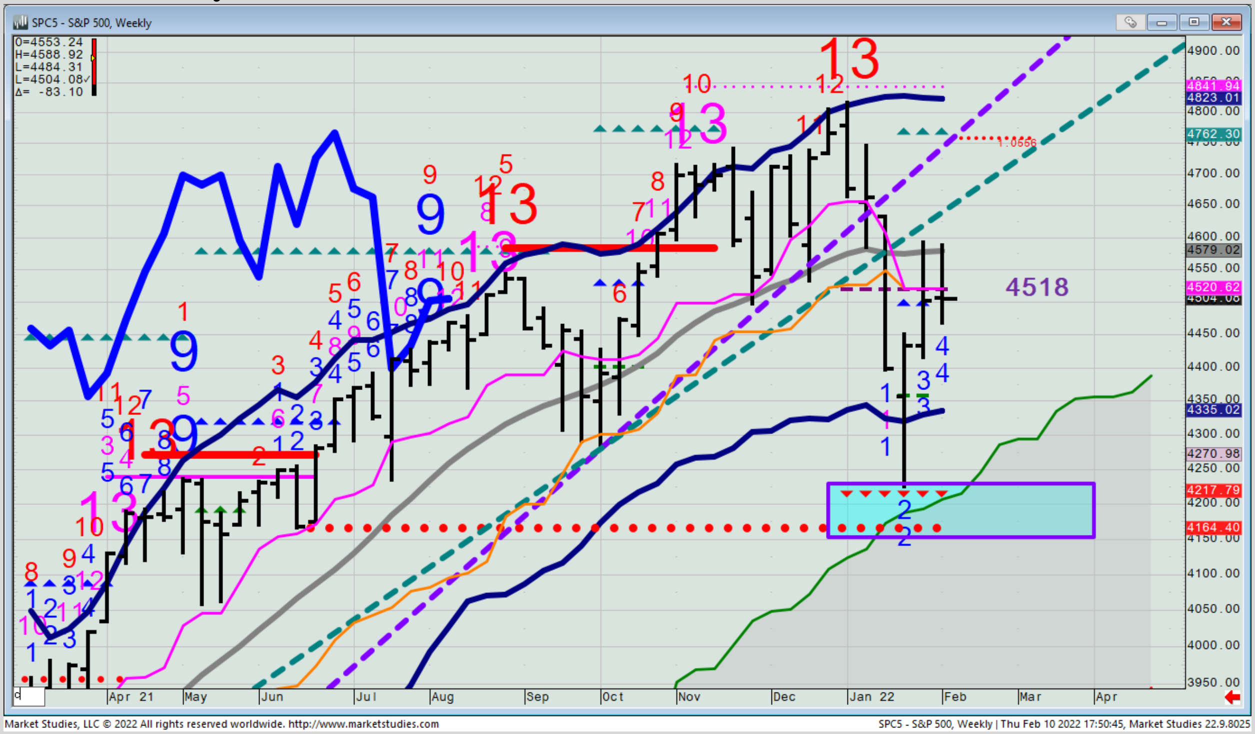
SPX – Daily



The weekly chart shows me two weeks in a row topping at the middle Bollinger Band, that still has a downward Setup count (-4) alive. A close today beneath last week's close just beneath 4501 would not only give us a down week, but it would qualify a potential new bearish Propulsion Momentum level (4518) sell signal that to me could test the lower Bollinger Band in short order. To confirm that signal, we'd need to see Monday's open gap lower than today's close; have a lower weekly low (sometime next week) than this week's low; AND close lower next Friday than this Friday.

Should all that occur, then the Setup count has a much better chance of continuing by next Friday's close – then needing to close < 4398 to make it a Setup -5 count.

SPX – Weekly



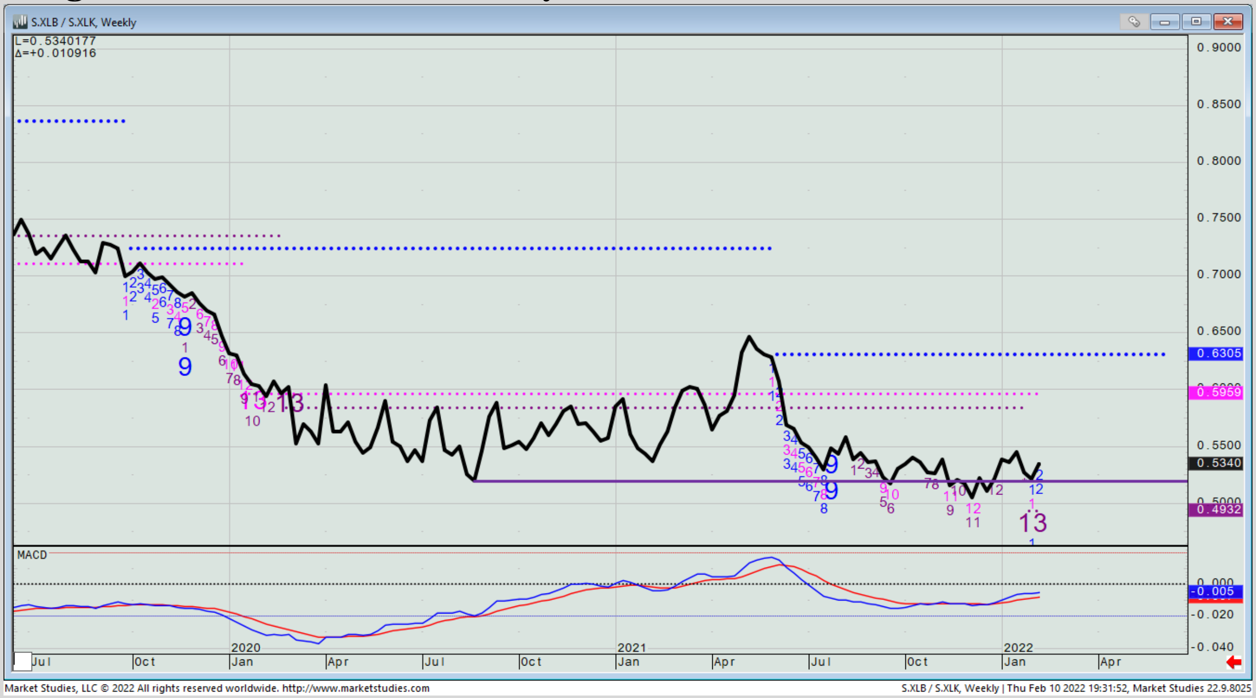
If you get the feeling that every day or two, you're moving from being bullish to bearish, and back again, and then that the next day the world is ending, welcome to being part of 'the crowd". Stick with the game plan that has worked for you over time – in up and down markets. It's the best way to take the emotions out of decision-making and to produce above average results. Lastly, don't beat yourself up. Do you think that professional money managers have any real clue how this is gonna play out the next few months? They don't. (Even the Fed doesn't know what's happening next.)

THIS WEEK'S NEW TRADE IDEA

Given the difficulty in trying to pick winners in a market moving around 2% each day (from high to low), I think the best way to play this market is to do so through pair trades. This greatly reduces risk, and one only need to get the direction relative performance of the individual names to each other correct – not the market's direction.

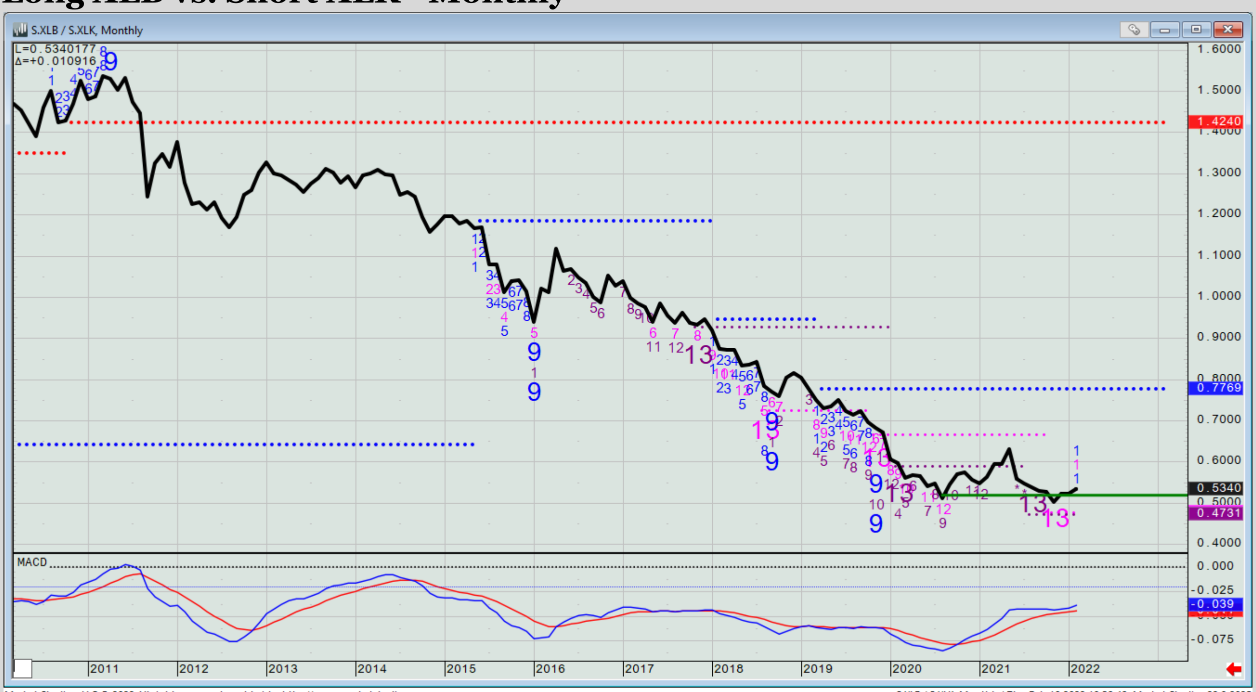
Right now, for the first time in years, Materials (XLB) is holding its own against Technology (XLK). Here's its weekly relative chart, which shows XLB basing for almost two years vs. XLK. It also just marked its first daily -13 in almost two years. (See top of pg. 5.)

Long XLB vs. Short XLK – Weekly



The monthly chart is even more interesting to me, for we see a Combo -13 that comes along with a potential double-bottom (the green horizontal line).

Long XLB vs. Short XLK - Monthly

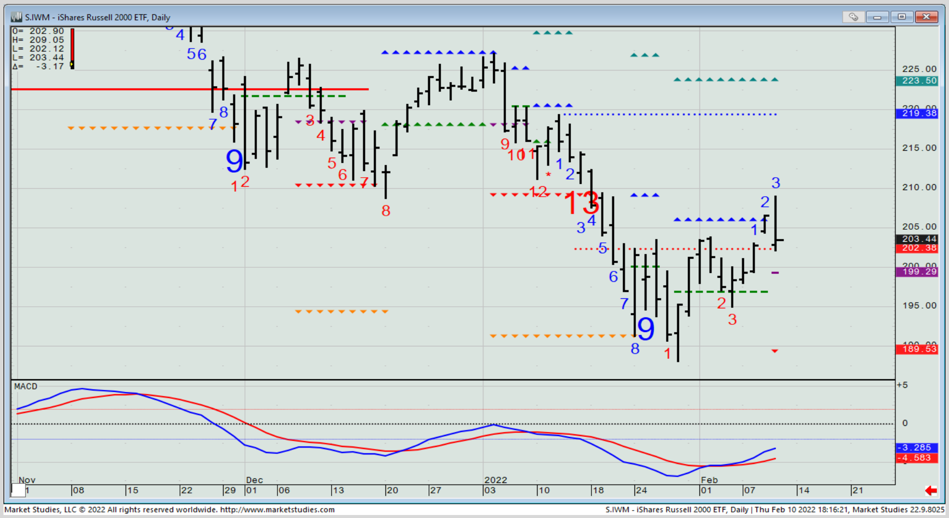


With interest rates moving quickly higher, we may very well see Tech stall against Materials, meaning that this chart could move higher this year. As such, let's get long XLB and short XLK as a pair trade – using equal dollar amounts of each. (So, approximately two XLB's long for one XLK short.)

We'll look for this to widen in 2022, with a target near 0.70 for starters. We'll initially use a 0.473 stop out on *monthly* closes, but we can refine that over time.

Long Russell 2000 Index (IWM)

Last week's idea was to get long IWM on Friday only if we saw a close > $201.24, thinking that would keep the Setup count alive and likely heading higher. We did not see that necessary level breached, so we did not officially take the trade.



Should you desire, you could attempt this trade again today, looking to buy under $200 (if it gets there) and stopping out any day – including today – that this closes beneath the close of four days prior. For today, that level would be $199.36.

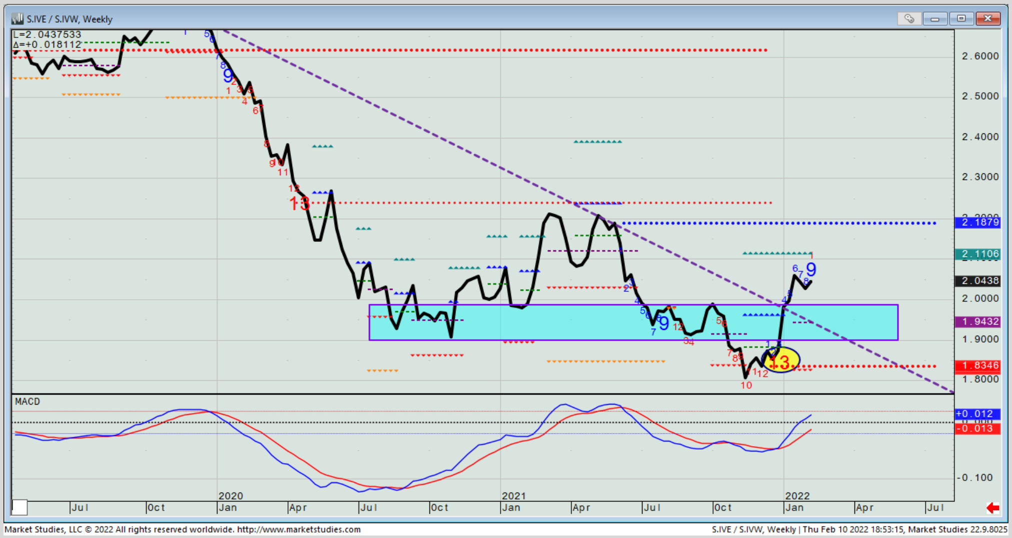
Long iShares 7-10 Year Treasury Bond ETF (IEF) vs. short the iShares Investment Grade Bond ETF (LQD)

Two weeks ago, we bought Treasuries (IEF) and sold Corporate Bonds (LQD) against them, at an approximate differential of in price of the two ETFs of about -$15.34. We are looking for the credit spread to widen, which translates to the price of IEF becoming less negative to the price of LQD. We will use the ICE BofA spread's movement to determine when we will exit this trade, looking for it to target 1.33% to 1.46%. We will also stop ourselves out on a couple of days in a row that the ICE BofA spread closes beneath 95 bps. – it's recent pullback low before the breakout. If you want an even tighter stop than that, you can use consecutive days beneath 1.04% -- the breakout level.

Long IEF vs. Short LQD – Weekly

Long IVE (Value) vs. Short IVW (Growth)
We started to enter a position in this three weeks ago, putting on a ¼-unit of this pair (avg. price of 2.047) and were looking to add another 50% position within the highlighted box value (approx. 1.98 to 1.90), and the final 25% at 1.855 to 1.852. That's making a bet that the cyclical low is in place.

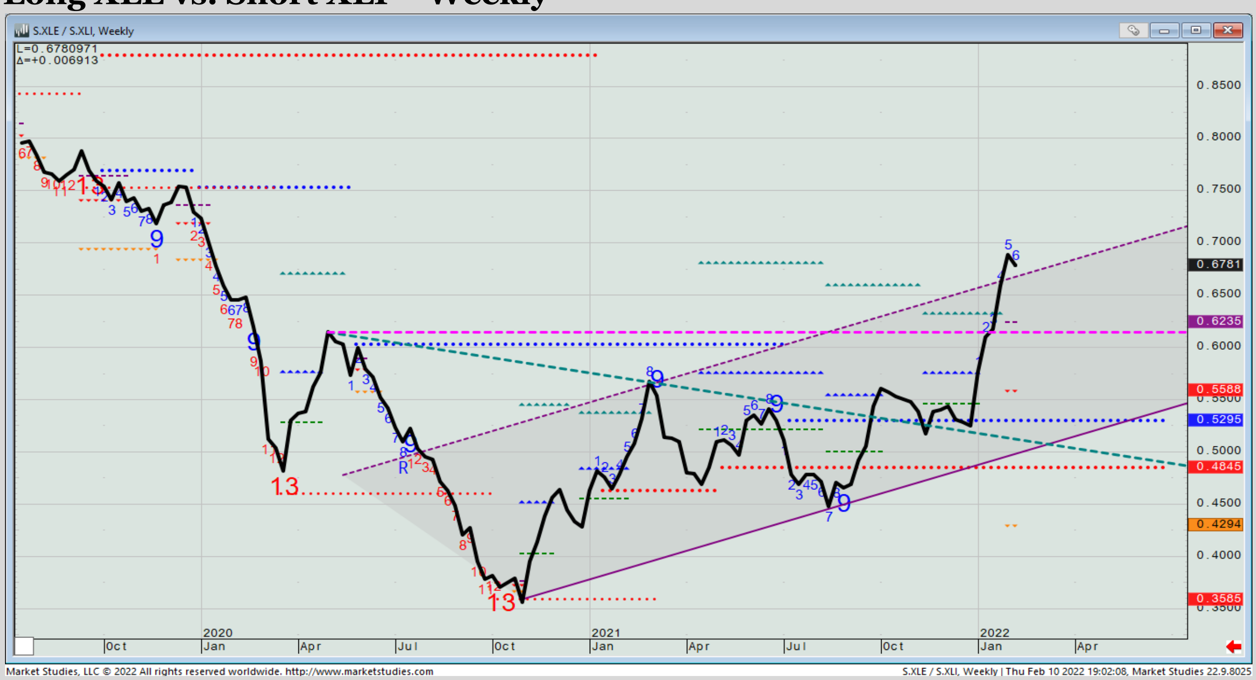
Long IVE (Value) vs. Short IVW (Growth) – Weekly



Last week I said that I'm changing our game plan on this to simply move our sell-stop up on this small position to where we got in (i.e., 2.047), which in hindsight makes no sense because last week price was *beneath* 2.047. I apologize for the mistake. If you still have it on, we will hold onto it as the breakdown beneath the cyan-colored rectangle looks to have been a false one and I suspect we'll see a test of the TDST line near 2.188 in coming months.

Long SPDR Energy (XLE) vs. Short SPDR Industrials (XLI)
Two months ago, we entered this pair trade by going long one unit of XLE and short one unit of XLI (avg. entry price of 0.5433). We've already taken half off at our first target of 0.65 +/- 0.0030, and our sell-stop to unwind the remaining half will come on consecutive Friday closes < 0.6458.

Long XLE vs. Short XLI – Weekly



Suggestions and Explanation of Terms

With every major firm brokerage firm having gone to $0 domestic stock/ ETF commissions, you should not be paying anything 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.

Disclaimer