Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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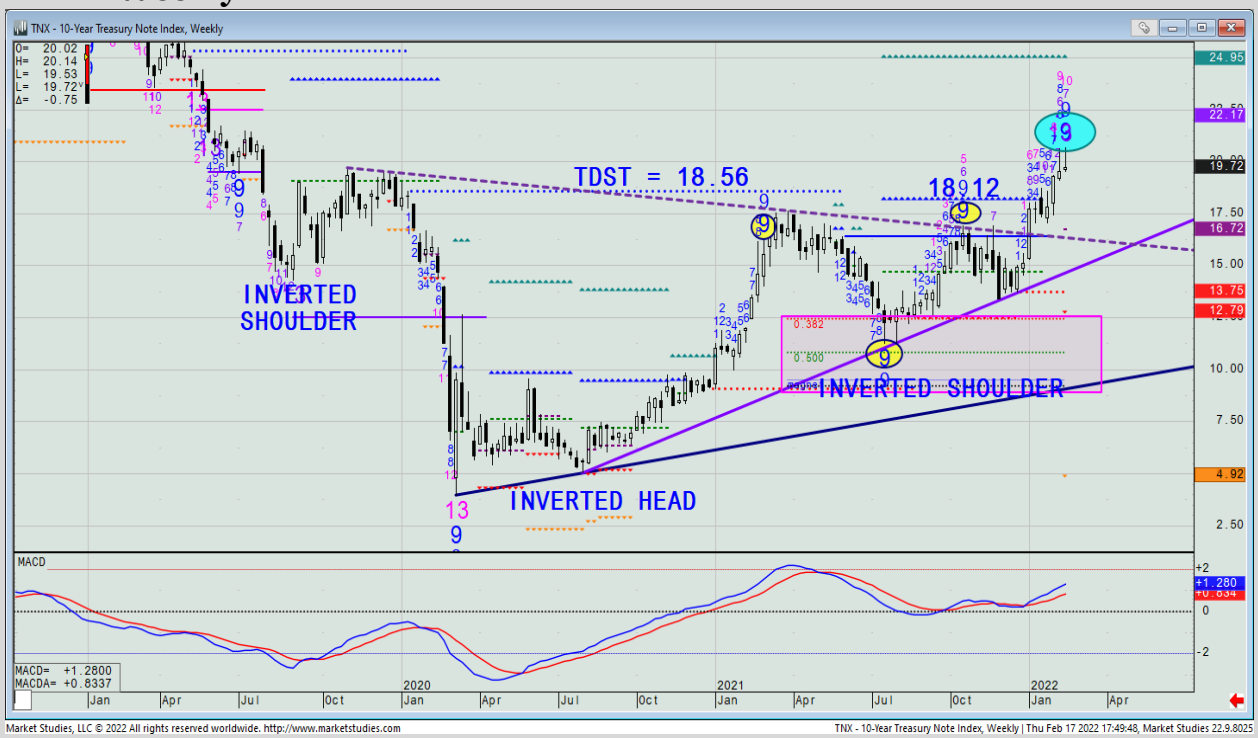
TACTICAL TRADER REPORT

The Macro Picture

Right now, the two major macro influences on the markets are the Russia/Ukraine situation and the Fed's upcoming rate hikes. Combined, they likely have more to do with the day-to-day price action than anything else, absent a company (or its peer) reporting earnings. I won't kid you: the possible invasion of the Ukraine (which as CNBC's Jim Cramer says would be over in 48 hours) is not welcome by anyone (other than Putin and his cronies), and will add another sense of instability in world politics – something that will not be a tailwind for a stock rally. But like we saw on Tuesday this week, any sense of Russia actually pulling back troops (as compared to saying but not doing) would quickly cause a price rebound in global equity markets. That makes us puppets on a string, but we're not the puppeteer.

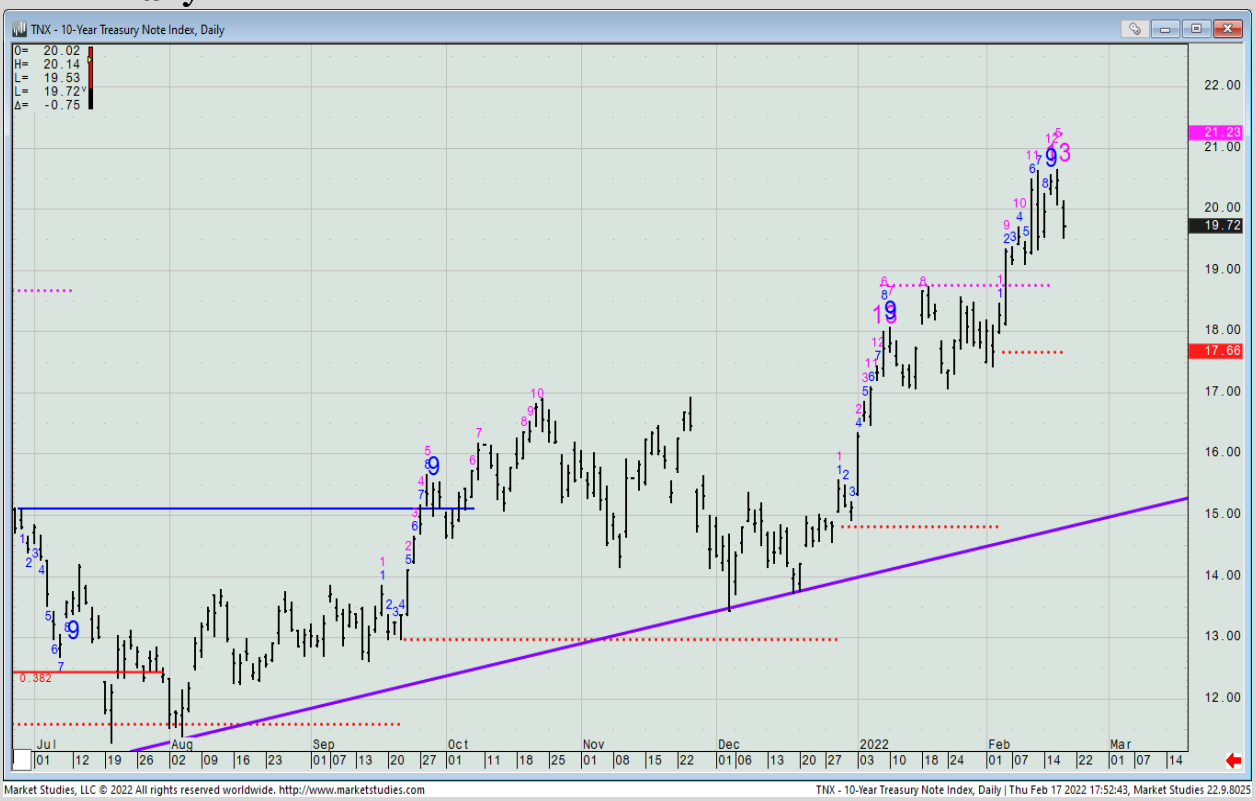
I've already shown you how the TNX's inverted head-and-shoulders pattern measures to 3.25% over time, while I see 2.16% and 2.5% as intermediate targets this year.

TNX – Weekly



But in the immediate picture, we see a weekly Setup +9/Aggressive Combo +13 and a daily chart with upside exhaustion readings that came in timely, considering the heightened possibility of the Russian invasion. (See top of page 2.)

TNX – Daily



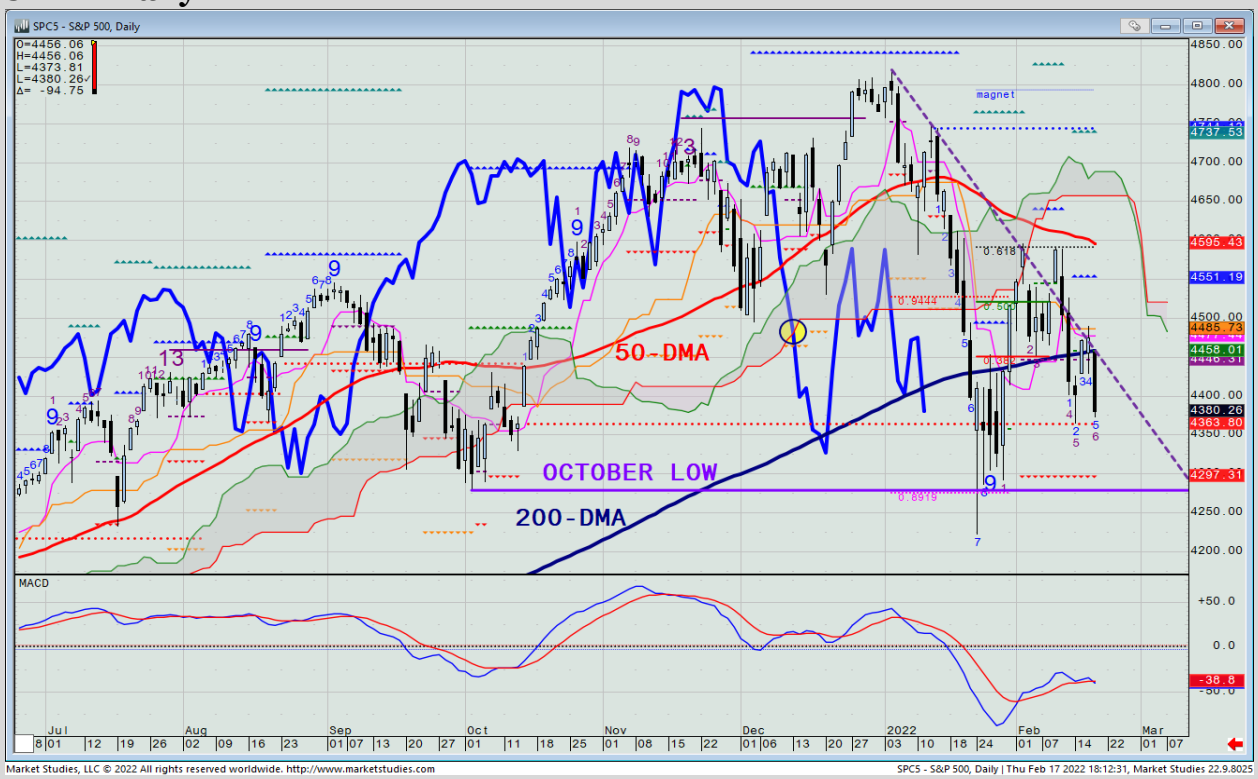
The other key interest rate market we are looking is in credit spreads, via the ICE **BofA Corporate Index Option-Adjusted Credit Spread**. On Wednesday, the reading widened out to 1.14% -- the highest level since November 2020. I have continuously stated that a breakout above 1.04% would likely be a headwind to stocks advancing, and in my mind dramatically decreases any chances that the equity indexes can make new all-time highs in the near future. I will continue to target the 1.33%—1.46% zone.

Gold has finally gotten a rally – mostly driven by the prospect of war – as well as a dollar that has halted its rally. There is now only one downtrend line left that can be drawn on the weekly chart (shown in light blue). Getting above there then targets $182+.

GLD - Weekly

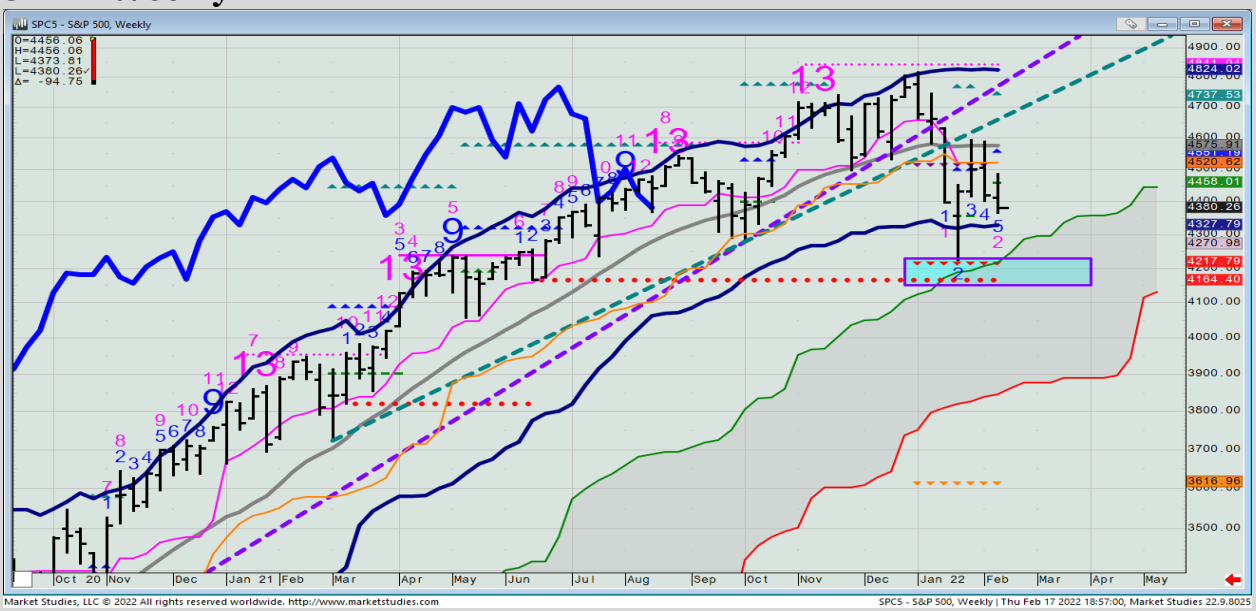
Stock investors have continued to lean on prices, locking in prior gains; trying to reduce losses; and in the case of a few gunslingers, playing the short side. To me, the level that I am focusing on for support is in the 4364 to 4297 zone. If that can hold, then I'd be apt to think that we can see a move back up to the weekly middle Bollinger Band. On the flip side, there's some sense of a possible head-and-shoulders top here, with a neckline at the October low of 4279.

SPX – Daily



A close today < 4398 keeps the downward weekly Setup count alive, and us still on the defensive, though I still respect the flat weekly Bollinger Band's potential support.

SPX – Weekly



THIS WEEK'S NEW TRADE IDEA

These days, it's much harder coming up with my weekly trade idea than you'd probably think. With the market sometimes moving several percent in a week, it's not simple to know if we are looking to be a buyer or a seller, unless I feel like I can lean on a bigger picture-type play.

I've been telling institutional clients all year that I thought that non-US equities would do better than ours, and so far, that has been the case. The two main global equity ETFs that I look at are the ACWI and the ACWX – the former being a world equity index, and the latter being a world equity index *that does not include US stocks*. When I look at the **ACWX** against Emerging Market stocks (via the **EEM** ETF), I see a pattern that we may be able to exploit for a few weeks. On the weekly chart of long ACWX vs. short EEM, price went right to the top of the range that's been in place since mid-2018 while also testing the Risk level (in red) from the late-September 2021 +13 reading. It's already faded to a Setup -6 count that is accompanied by a negative MACD reading, too.

Long ACWX vs. Short EEM – Weekly

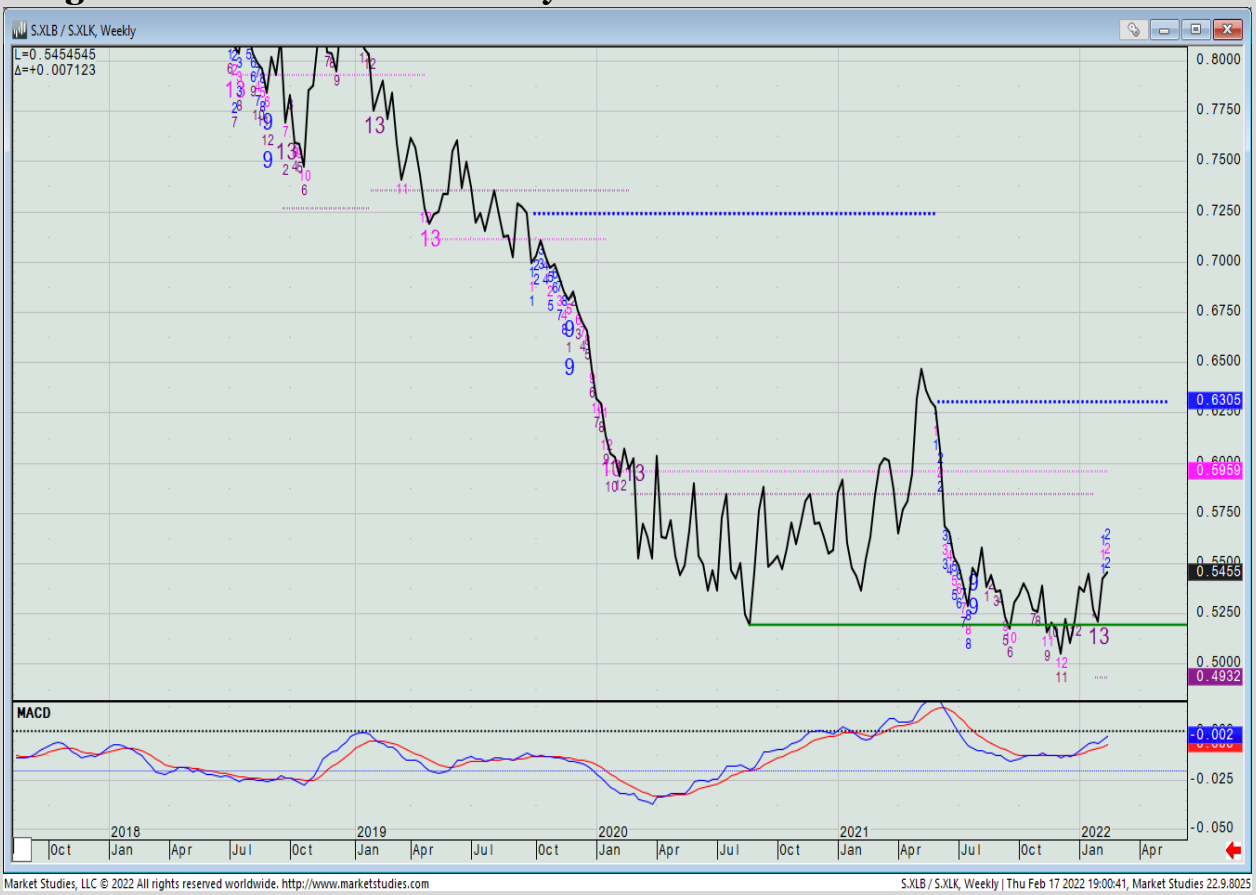
We will play for this to finish out its Setup -9 count in three more Fridays (not including today) and then look to cover with a profit. Our buy stop is a single Friday close above the close from four Fridays prior. Those would be 1.1098 today and 1.12285 next Friday. (I'll update these in coming weeks if need be.)

Other Open Recommendations and Positions

Long SPDR Materials (XLB) vs. Short SPDR Information Tech (XLK)

Last week we put this pair trade on at about 0.5295, having used both monthly and weekly charts to help decipher a double-bottom and possible reigniting of Materials to do better than Tech – something it hasn't been able to do on a sustained basis in years. We're looking for this widen out over several months, having posted a target near 0.70. We'll raise our sell-stop for now to consecutive closes beneath 0.520.

Long XLB vs. Short XLK – Weekly



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

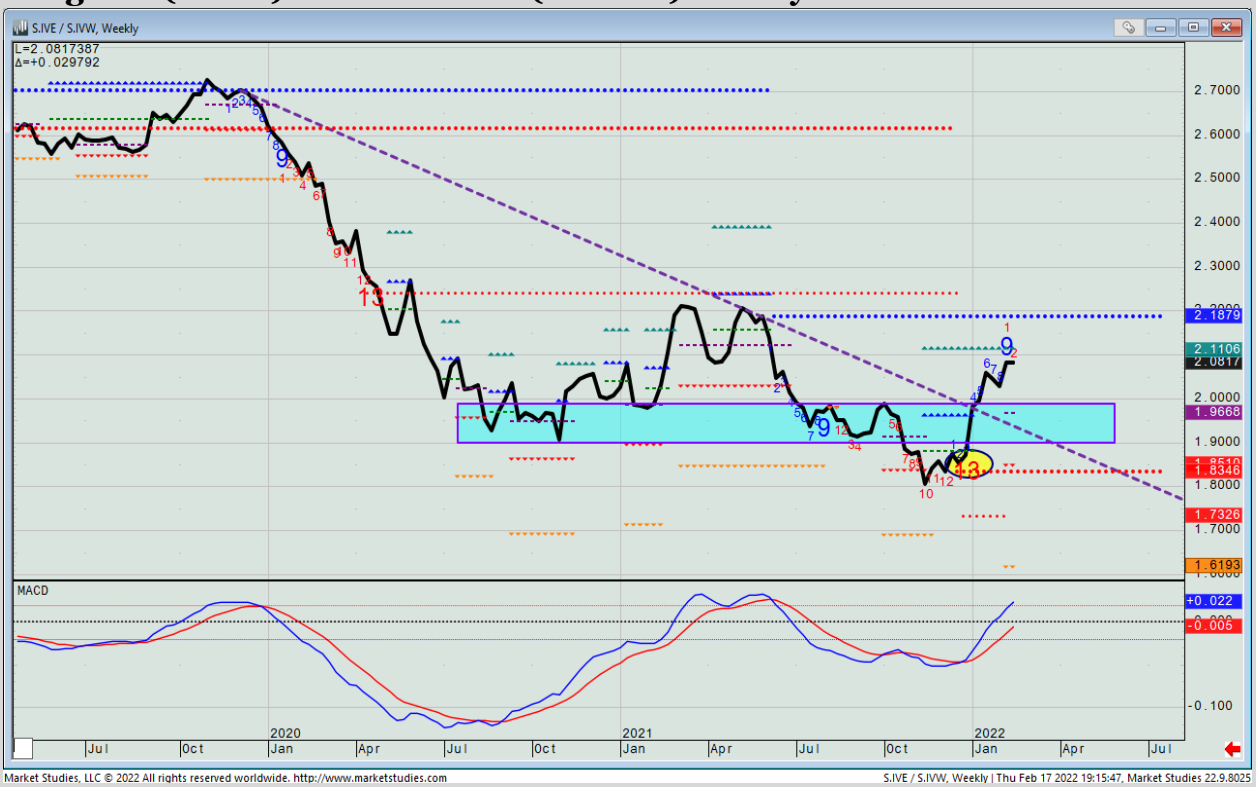
Three weeks ago, we bought Treasuries (IEF) and sold Corporate Bonds (LQD) against them, at an approximate differential of in price of the two ETFs of about -$15.34. We are looking for the credit spread to widen, which translates to the price of IEF becoming less negative to the price of LQD. We will use the ICE BofA spread's movement to determine when we will exit the bulk of this trade (looking for it to target 1.33% to 1.46%). But as we are approaching our first target area and at a TDST Line, we'll take 1/3 of the trade off today. We'll also raise our sell-stop to our breakeven entry price.

Long IEF vs. Short LQD – Daily

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

We started to enter a position in this four 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 was making a bet that the cyclical low was in place. If you still have this on, keep it to play for it to rally further. A sell-stop should be on a close (or consecutive daily closes) under the Feb. 9th close of 2.0256.

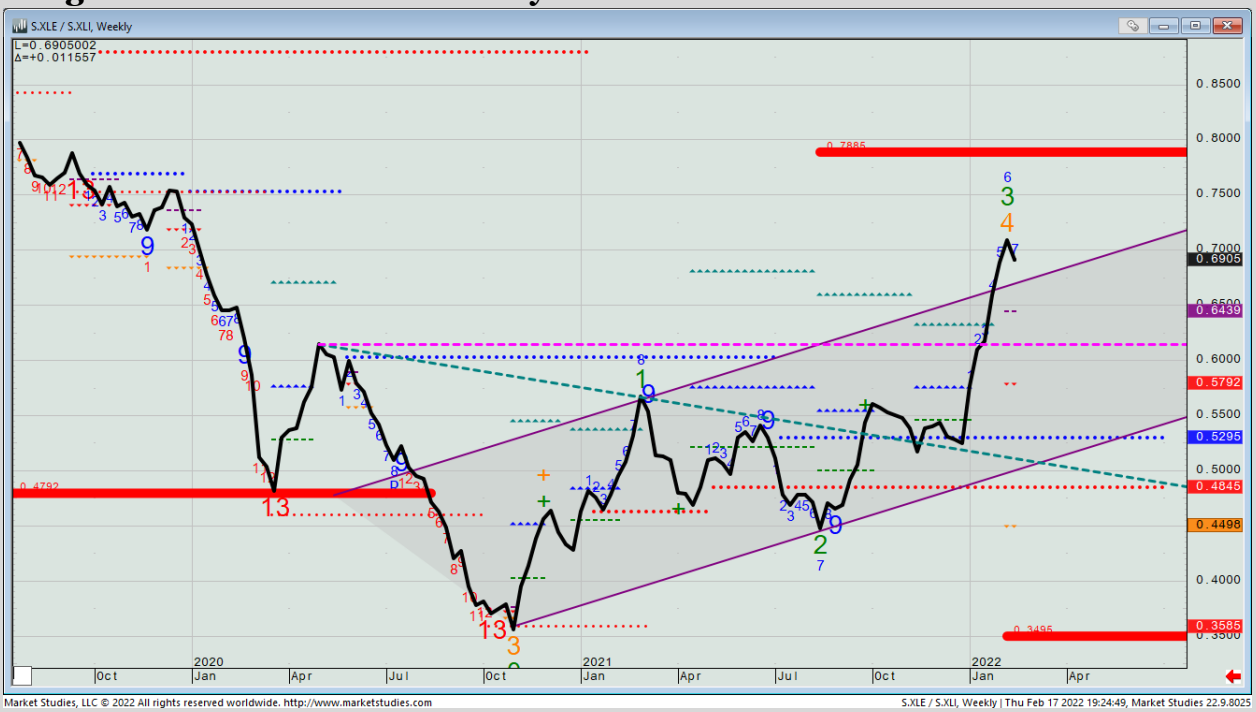
Long IVE (Value) vs. Short IVW (Growth) – Daily



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. On a continued rally, we will close this out in two more Friday's (after today) on the close of what could very well be a weekly Setup +9.

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 <u>not be paying anything</u> to trade my recommendations (other than the associated fees to placing a short position we sometimes 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.

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