Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

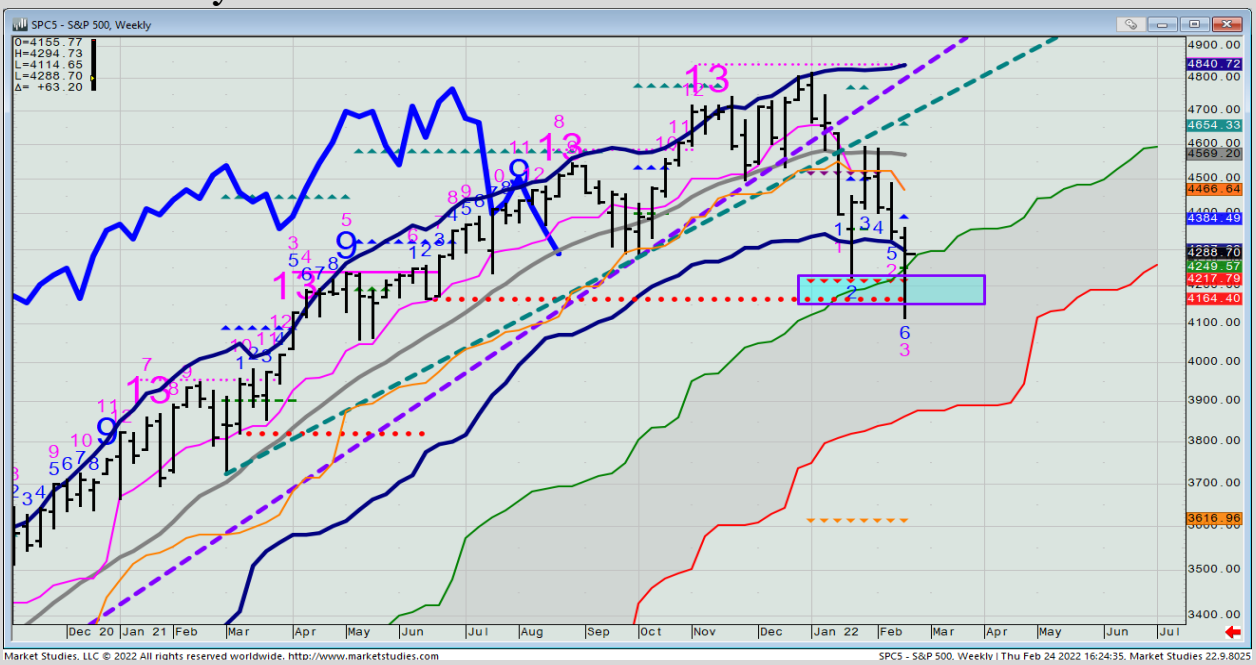
The Macro Picture

We always knew that Putin was no friend of the US – or the West at large – so his military action into Ukraine is, unfortunately, not a surprise. In fact, we all knew it was coming for weeks. Putin's total lack of being deterred in doing what he aimed to do – much of which is to solidify his name (in his own mind) in history books – was based both on his narcissism, but also in large part by the political weakness that exists in the US and Europe to make him scared in even the least bit. He is clearly not.

That being said, the old "sell the rumor, by the fact" mantra worked yesterday, with the market making its intraday lows early in the large gap down session, and then seeing the SPX go positive around 2:30pm ET (the Nasdaq had turned higher a few hours earlier).

So, was Thursday's SPX low THE low? I don't know; there's still too much geo-political influences happening to make that call with high confidence. But I can tell you that the SPX stopped its decline at a key level from the weekly cloud chart (i.e., where the Lagging Line hit its Base Line. Though the Lagging Line is displayed as the last price of the day (after the market has closed), in real-time, it mimics current price. That means, you can look at the below chart and realize that on the weekly low, the blue Lagging Line was against the orange Base Line beneath it.) We also see that the weekly TDST Line at 4164 is still holding as support into today's final session of the week.

SPX – Weekly

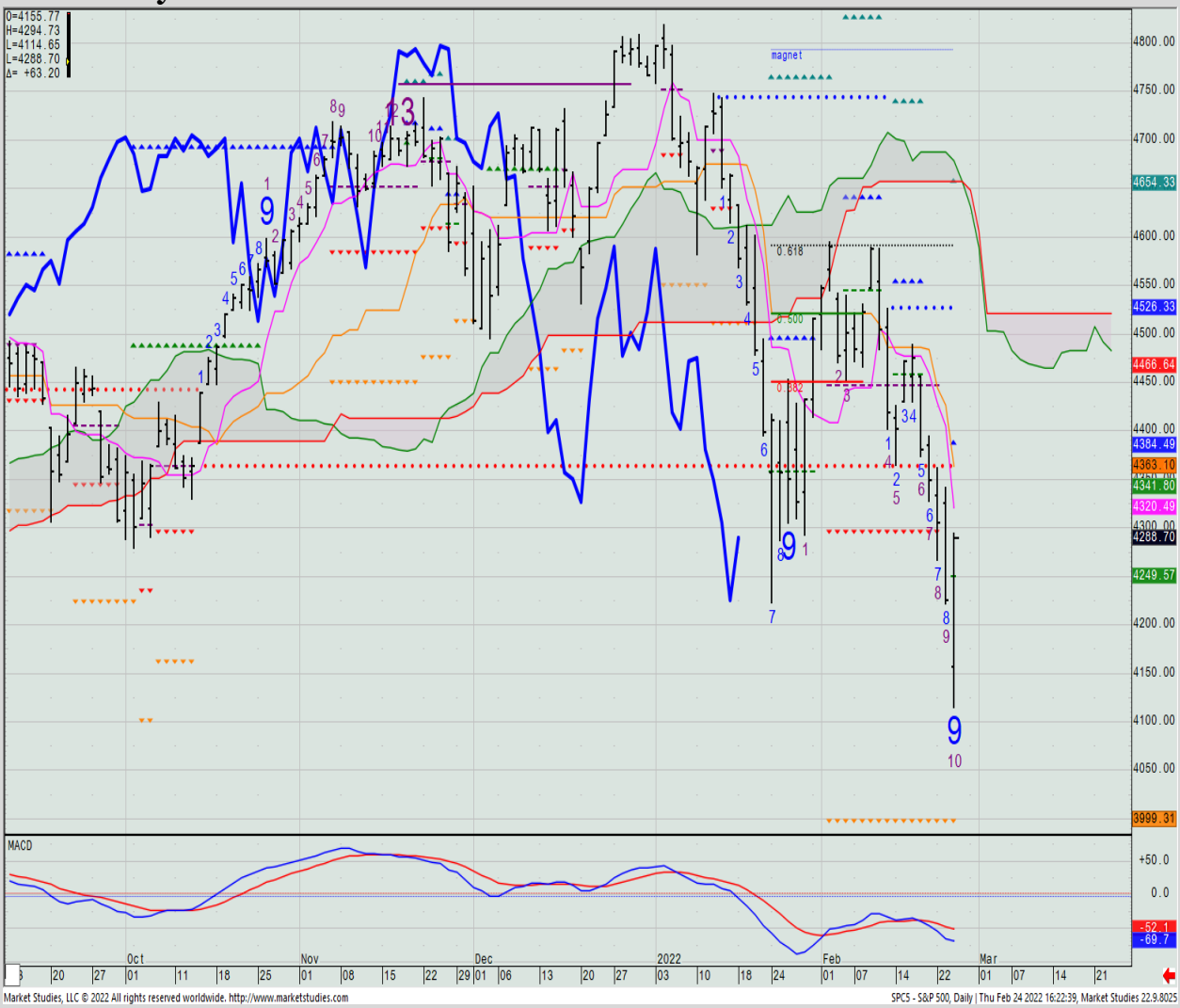


The daily chart shows two things that are potentially positive for a short-term bounce:

1) Thursday's move beneath January's low "perfects" the January "imperfect" Setup -9 count, whereby the -9 count was made, but *either* bars -8 or -9 had to have a lower low than both bar -6 and -7's lows. That didn't happen till today.
2) Unrelated to the perfecting of the January count, Thursday happen to mark its own setup -9 count.

Put those together and it gives you the reason – along with the weekly chart levels holding – that we likely have a near-term trading low in place. Now, we can at least look to buy into support levels determined by Thursday's intraday trading.

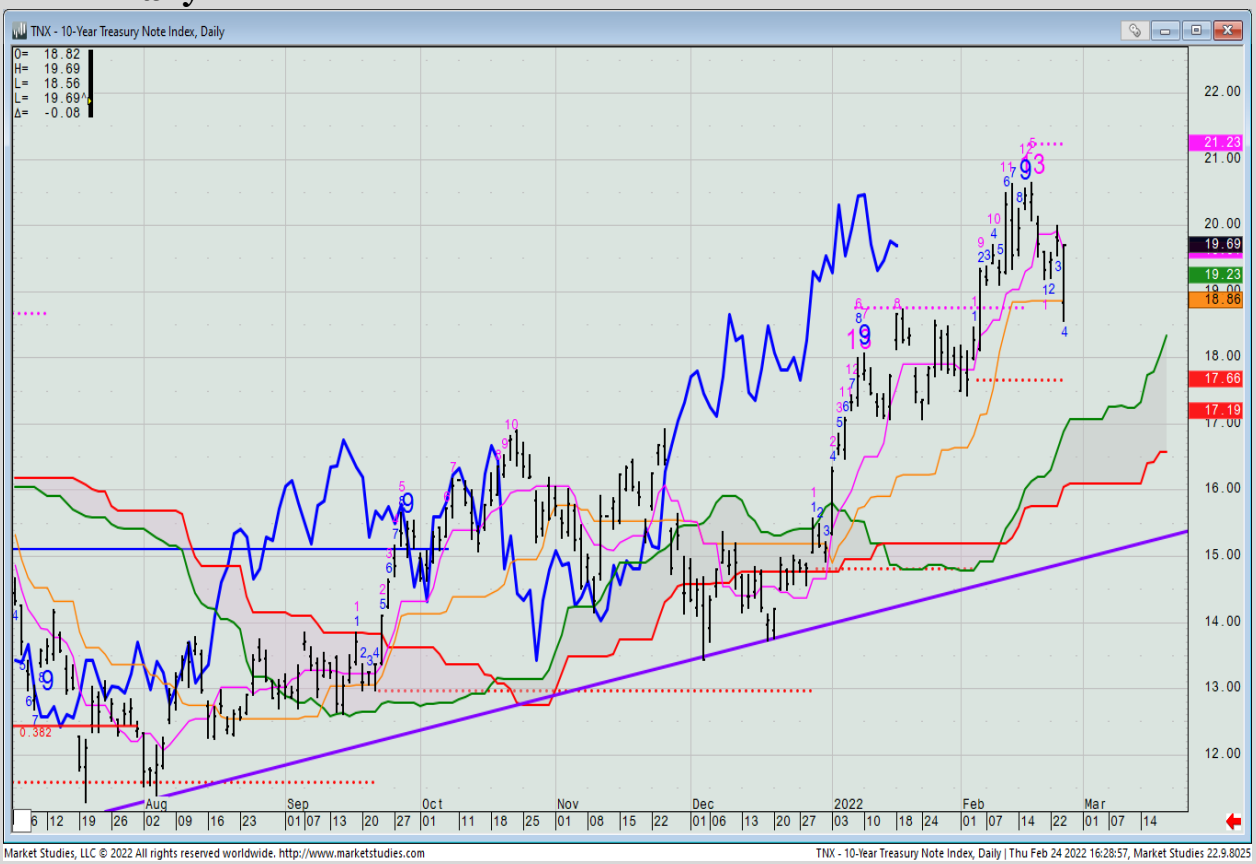
SPX - Daily



The other major macro news I want to communicate is that the IEF/LQD credit spread has continued to widen in our favor, but that the spread has now hit a major time and price target, so I want to take the balance off today. (More in the write-up on page 6).

UST 10-yr bonds have stayed under 2% the past several days and continue to consolidate the recent gains that topped on both daily and weekly exhaustion signals. I do think we'll see 2.16% on this general upmove, and later in this year a move that could reach 2.5%.

TNX – Daily



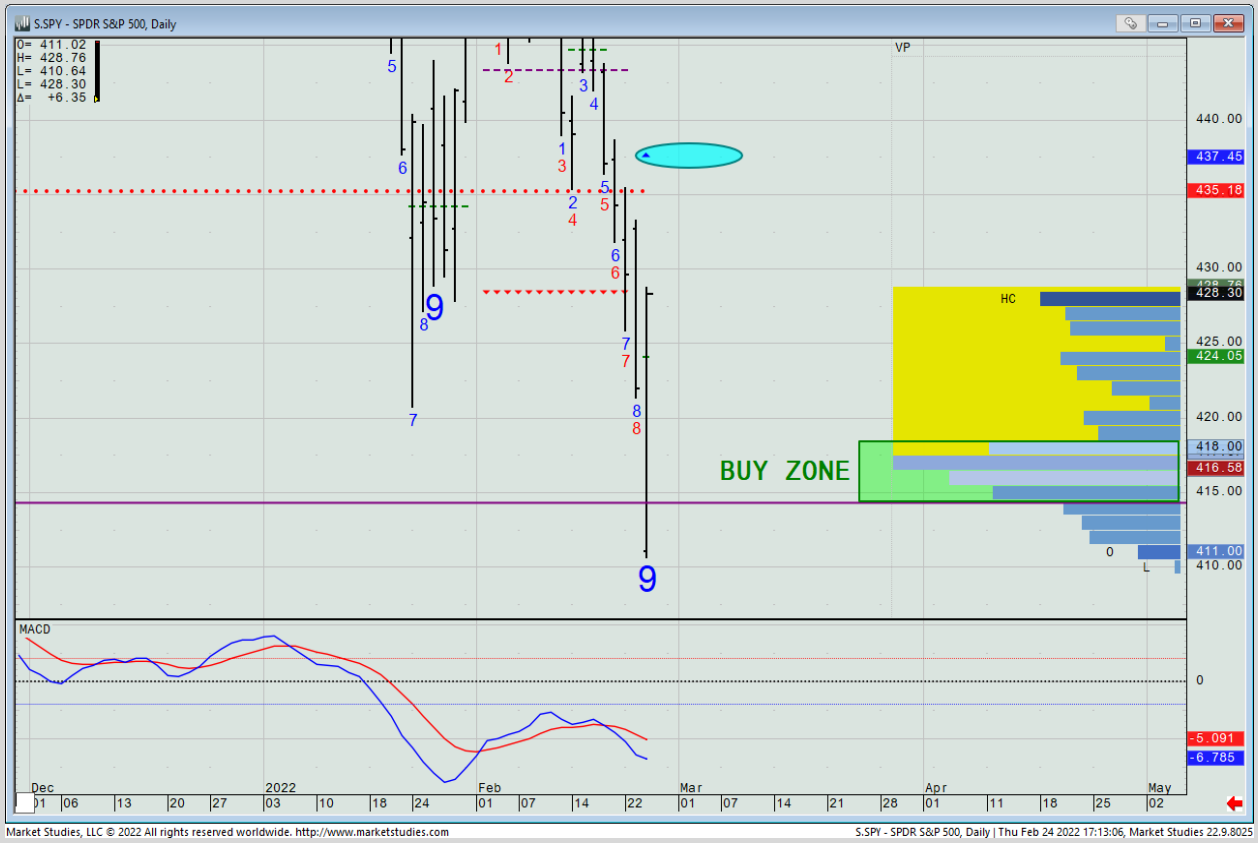
The **ICE BofA Corporate Index Option-Adjusted Credit Spread** has widened to as much as 1.24% as of Thursday's reading of Wednesday's data. I have been targeting a move to the 1.33%—1.46% zone in this specific spread.

Gold shot to the upside on the actual invasion, peaking yesterday on COMEX at $1912. Meanwhile, yesterday's NYSE 9:30am open in GLD was the <u>high</u> for the day, and just about above the $182.35 Risk target level shown since the +13 came in December.

GLD – Weekly

THIS WEEK'S NEW TRADE IDEA

When we have a day like yesterday that saw a 4.5% range in SPX futures, we've basically seen a month or two of up or down movement in a single day, it often presents a picture that lets you find where real money was put to work. When I look at Thursday's SPY trading, and put up a Volume at Price indicator to its side, we can easily see where the heaviest volume was done (i.e., what I've highlighted in the green-colored rectangle).



This $418.50 to $414.50 zone is not only the heaviest volumed area, but it's also the bottom of the "Value Area" (highlighted in yellow), which represents where the first standard deviation (i.e., approx. 70%) of all trading was done for the day.

So, we're putting on a pure short-term trading idea, looking to scale down bid into that 4-point SPY range to accumulate a one-unit long position. We will look for this to reach the $437 area (scale out on either side of it) on a rally over the next week. Our sell-stop is the SPY trading beneath Thursday's low for a full hour.

Lastly, given the market volatility, before you put this idea on come to terms with the idea that the SPX can gap lower (or higher) on any given day by 50 to 100 points. In this case, that means using a SPY stop under Thursday's low could be executed WELL BENEATH your stop price if we saw another wild down open. That potential risk is only something you alone can determine if it's right for you.

Other Open Recommendations and Positions

Long EEM vs. Short ACWX

Last week we showed that we expected this pair trade to continue working for another few weeks to finish out its Setup +9 count. (Last week we showed the inverse of this chart to finish out its -9 count. It's the same thing.) Anyway, we will stop ourselves out of this on any Friday close that is less than it was four weeks ago. For today, that means a level of 0.89058; for next Friday 0.89955.

Long EEM vs. Short ACWX – Weekly

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

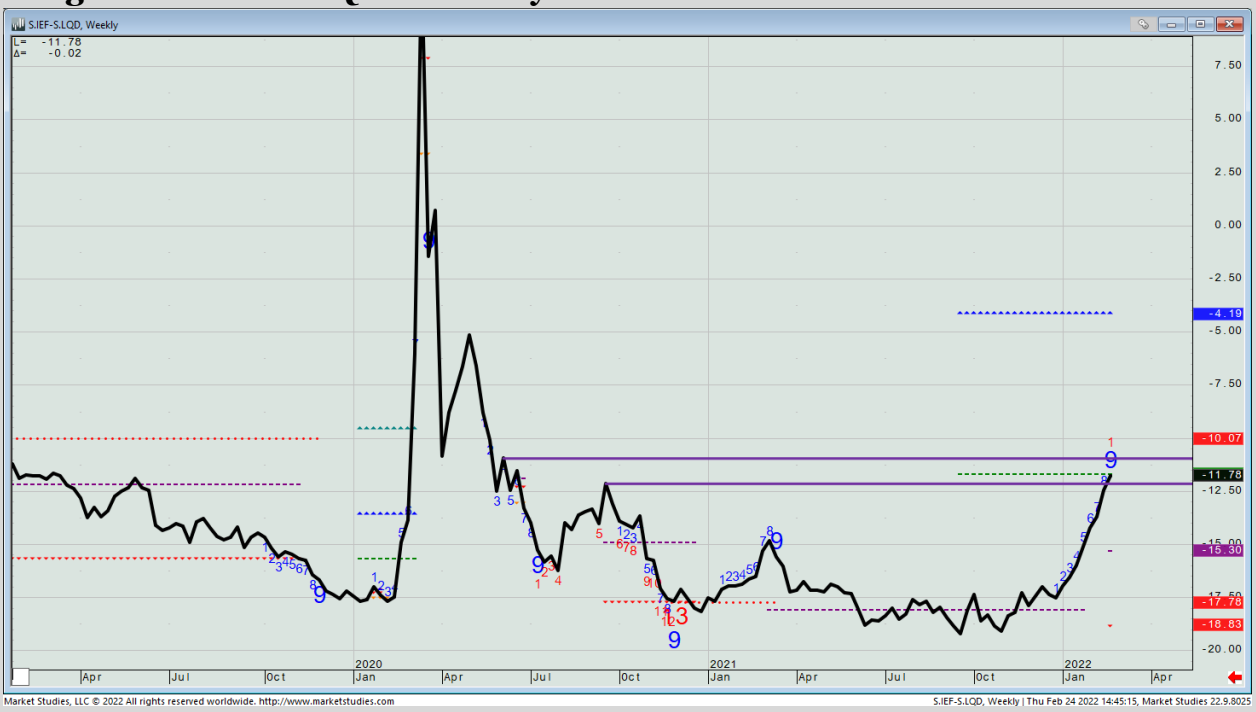
Two weeks ago, we put this pair trade on at about 0.5295, having used both monthly and weekly charts to help decipher a double-bottom and possible reigniting of Materials to do better than Tech – something it hasn't been able to do on a sustained basis in years. We're looking for this widen out over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

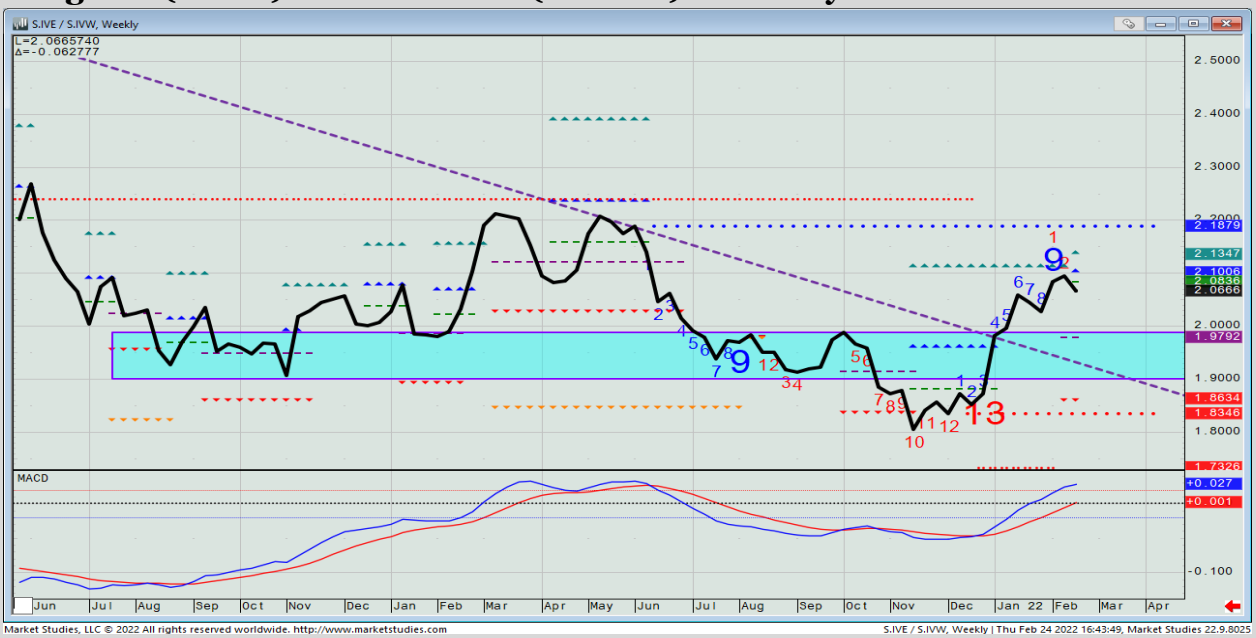
Four weeks ago, we bought Treasuries (IEF) and sold Corporate Bonds (LQD) against them, at an approximate differential of in price of the two ETFs of about -$15.34. We are looking for the credit spread to widen, which translates to the price of IEF becoming less negative to the price of LQD. Though my plan was to 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%), we took 1/3 off last Friday and I want to take the rest of today with the aforementioned weekly Setup +9 into prior resistance and the Propulsion Momentum level.

Long IEF vs. Short LQD – Weekly



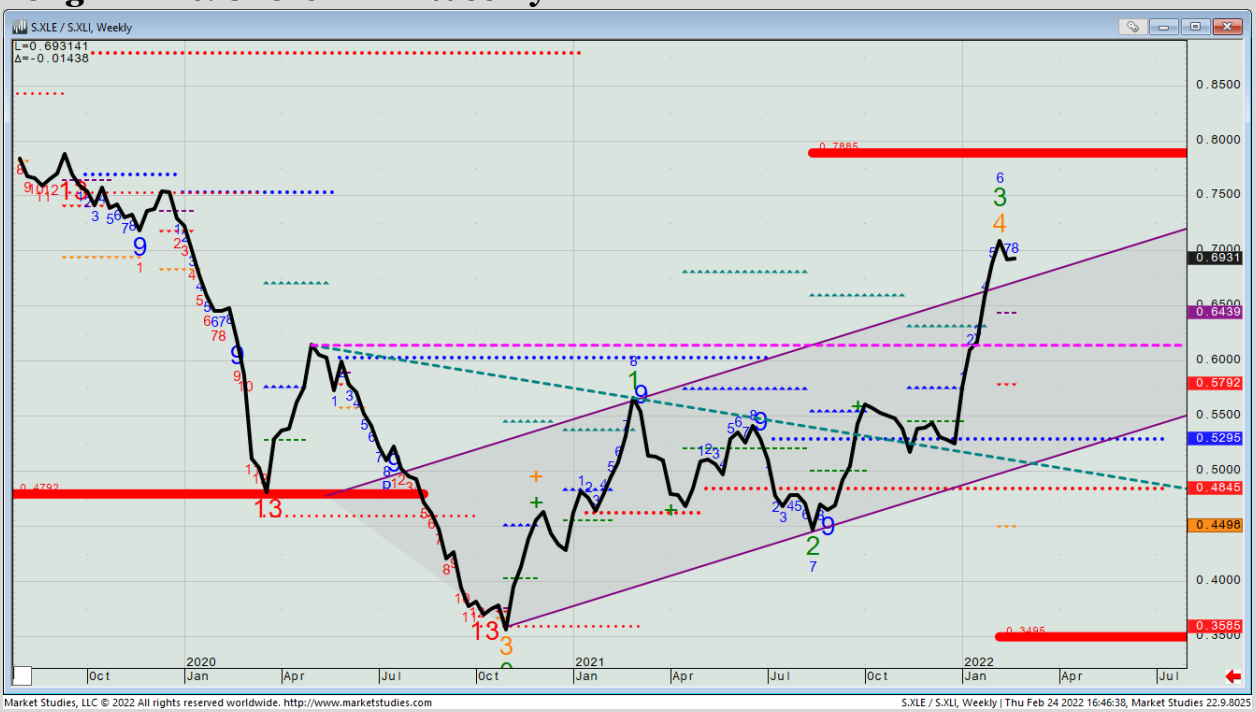
Long IVE (Value) vs. Short IVW (Growth)
We started to enter a position in this five weeks ago, putting on a ¼-unit of this pair (avg. price of 2.047) and were looking to add another 50% position within the highlighted box value (approx. 1.98 to 1.90), and the final 25% at 1.855 to 1.852. Let's just change this up completely and take off the position now if you still have it on.

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



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 a Friday close < 0.6458. We will likely exit this trade next Friday on 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 not be paying anything 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.

Disclaimer