Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

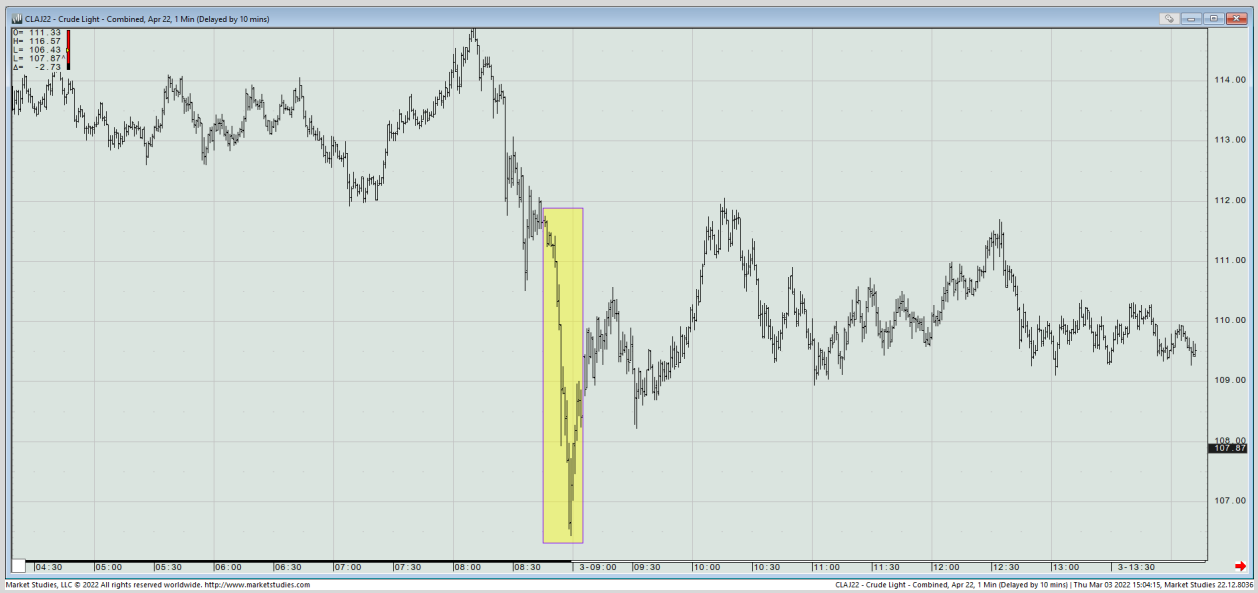
rick@intheknowtrader.com March 4, 2022

TACTICAL TRADER REPORT

The Macro Picture

Clearly, these are no ordinary trading times. They're not unprecedented, but it's not often in your lifetime that you see a full-scale invasion of a neighboring country. More impressive, however, is the Western world's joint reaction to Putin. It may not deter him enough to stop him, but it certainly is gonna hurt Russia and Russians more than he likely assumed – and it's the latter that we hope will ultimately cause Russian citizens to fight up against this very evil man.

As I've been saying for the past couple of weeks, if you're trading, you also need to be watching news headlines throughout the day. In yesterday's session, watch what happened to oil – and how quickly it turned – after reports that Iran would be allowed to sell its oil into the global marketplace. Here's WTI oil on a 1-minute chart from yesterday, where price fell over $5/barrel in less than 10 mins. as that news hit.



If you're trading in this environment, you need to be on top of things.

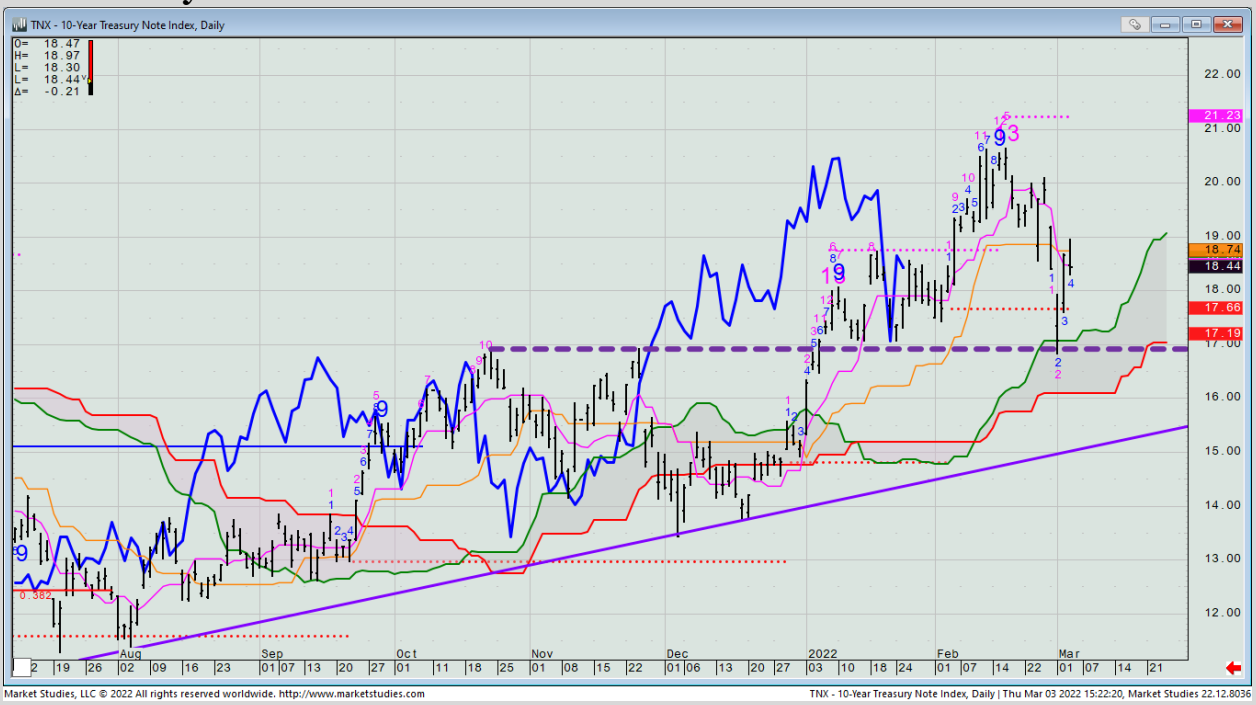
The other main story is our acting Fed Chair Powell (waiting for Senate confirmation) literally telling us that he supports a 25 bps. increase in rates in the upcoming FOMC meeting. Can you imagine former Fed Chair Alan Greenspan telling us in advance what monetary policy moves the Fed would be making? He was the king of double-talk and *never* let on what the Fed was really thinking.

Investors generally like the ¼-pt. hike compared to so many having looked for a ½-pt. hike at this meeting. Powell is undoubtedly because of the Ukraine crisis and the

rampant inflation we are seeing. (Have you looked at the grains recently? They've doubled in price at the producer level, meaning we will all be paying significantly higher prices for basic foodstuffs for the foreseeable future. OUCH!)

Rates have moved sharply in recent days, getting dumped early in the week and then coming back sharply the past couple of days. Price bottomed this week right at the prior inflection point (horizontal dashed deep purple line) plus its daily cloud top.

TNX – Daily

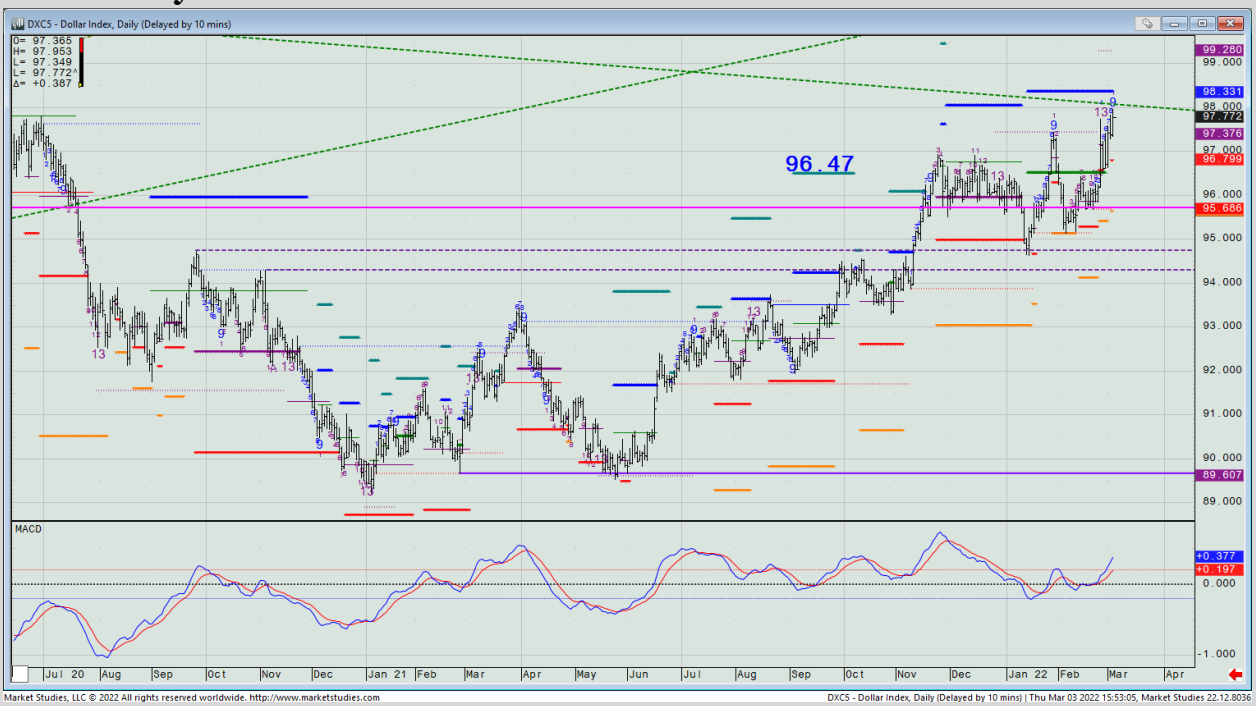


Today is actually an important day for the short-term picture, because Thursday rejected the cloud's Base Line (in orange), and the downward Setup count will keep intact if the TNX closes today <18.39.

Credit spreads continue to hold onto recent gains. The **ICE BofA Corporate Index Option Adjusted Spread** we watch closed Wednesday at 1.33%, its highest level of the rally. It is right on the cusp of the 1.33% to 1.46% resistance zone we labeled.

Precious metals continue to get bid on the Ukraine news that has finally given investors the sense that gold is a hedge against uncertainty. They have managed to maintain their bid even in the face of a rising US Dollar (which had its highest close on Thursday since July 1, 2020). The DXY may be nearing the end of its run, with my previously having targeted 98 +/- about 30 pips. Yesterday happen to also mark a +13 and Setup +9.

DXY - Daily



Gold was up almost $20 yesterday from Wednesday's COMEX close. A close tomorrow in the GLD ETF > $182.35 ups the odds that next week can start another leg higher if it gaps higher on Monday, exceeds this week's high at some point during the week, and then closes higher next Friday above today's price.

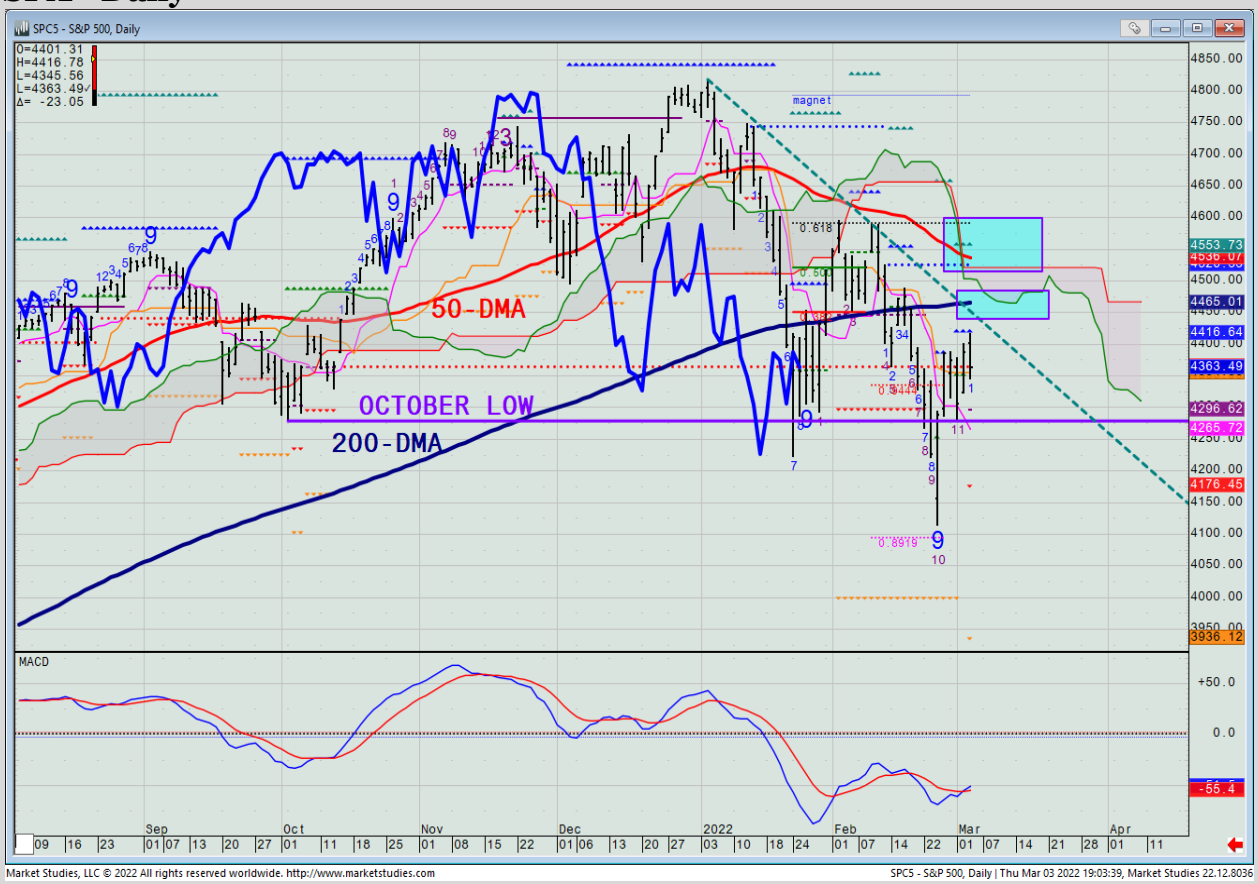
GLD – Weekly

Last week I said that the SPX had probably made a good trading low, having marked a Setup -9 that by chance also perfected a prior Setup -9, all while holding above three key weekly chart levels on last Friday's close. Now, of course, is how high will it run. The perma-bulls say last week's low was THE low. If those lows get breached, they'll just find some other level to make the same statement. To me, perma-bulls provide virtually zero value because the market generally goes higher over time, and we all know that. So being bullish the stock market is like saying that on sunny days the sky is blue. Yea: we get it. Thanks for nothing.

Let's look at the SPX daily chart. That spike bottom looks impressive, but:

1. We're on an Aggressive Sequential -11 count (and that's currently the fastest count that can get to a -13 reading), but it ain't there yet.
2. There is significant overhead resistance in the two cyan-colored rectangles, with those boxes each having multiple indicator resistance levels.
3. The world is dealing with an egotistical narcissist who doesn't care how many lives he need destroy in order for him to think that he's Russia's G.O.A.T. You can't yet assume that everything is just honky dory again in the stock investing world to say that new highs are coming shortly. I certainly won't until I get far more impressed with market action, and yesterday's decline on a day that oil reversed $10 from its high is not impressive in and of itself.

SPX - Daily



So, where's that leave us? Pretty much the same place we were last week and last month: buy dips AND sell rallies, and keep the bulk of your trading time-frame to short-term and tactical style. We haven't a clue as to how bad the economic fallout from the war and the surging inflation is going to affect the markets in the midst of a Fed that has clearly stated that they are at the beginning of a tightening cycle.

THIS WEEK'S NEW TRADE IDEA

As I write this, S&P futures just rallied from -50 pts. to -20 pts in the past 15 minutes. Thus, I have no idea where we're going to open today, but here's a trading idea that has a potential double-bottom that's accompanied by DeMark exhaustion signals and also held an important support line on last week's low. It's certainly counter-trend to everything we've been reading about "innovation" stocks.

The Innovator IBD 50 Fund ETF (**FFTY**) has a side-by-side Setup -9 and Aggressive Sequential -13 on its daily chart that shows support at $35.18 going back to Summer '20.

FFTY – Daily

If this can stay above that $35.18 level, it has a good chance to bounce in coming weeks back up to the highlighted Target Zone in the $40.64 to $42.44 area. Thus, we'll buy ½-unit over the course of the day today (spread out your bids; this is not a heavy-volumed ETF and I suspect today's volatility will be high going into the weekend). We'll aim for that target on what could end up being a "W" formation shortly. We'll stop ourselves out under $35.97 (your choice if a simple stop or on a closing basis.)

Other Open Recommendations and Positions

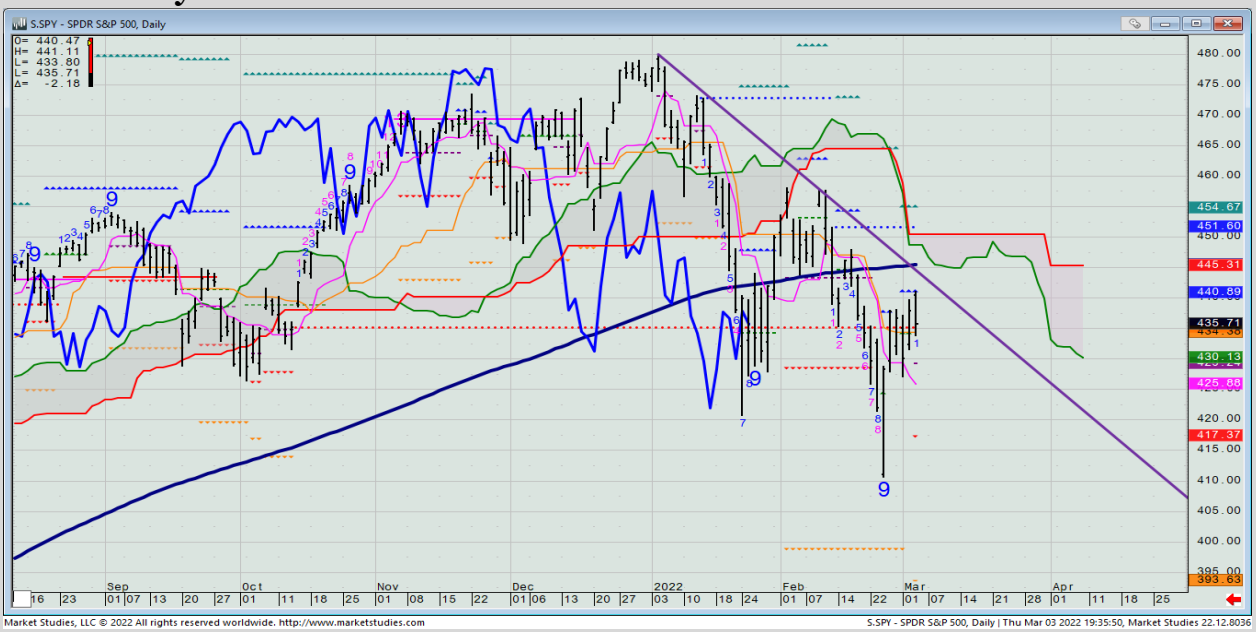
Long S&P 500 SPDR ETF (SPY)

Last week I suggested that we look to buy a pullback into the SPY $418.50 to $414.50 zone, and that thinking was correct – even though Monday's large lower open never ended getting there. Let me tell you just how close we got, though.

Sunday night, S&P futures were down about 130 points on their low, putting them down to right near 4250, which should the SPY then have been trading, would put it right near $425. So, even though we never got to buy where we wanted to, the idea to have bought a big spike low that would see an immediate rebound was the right thought process.

That being said, looking at the newest daily Propulsion Exhaustion level at $417.37. I'll suggest we cut our bid size in half and get long near there, but this time stopping ourselves out under last week's low of $410.64.

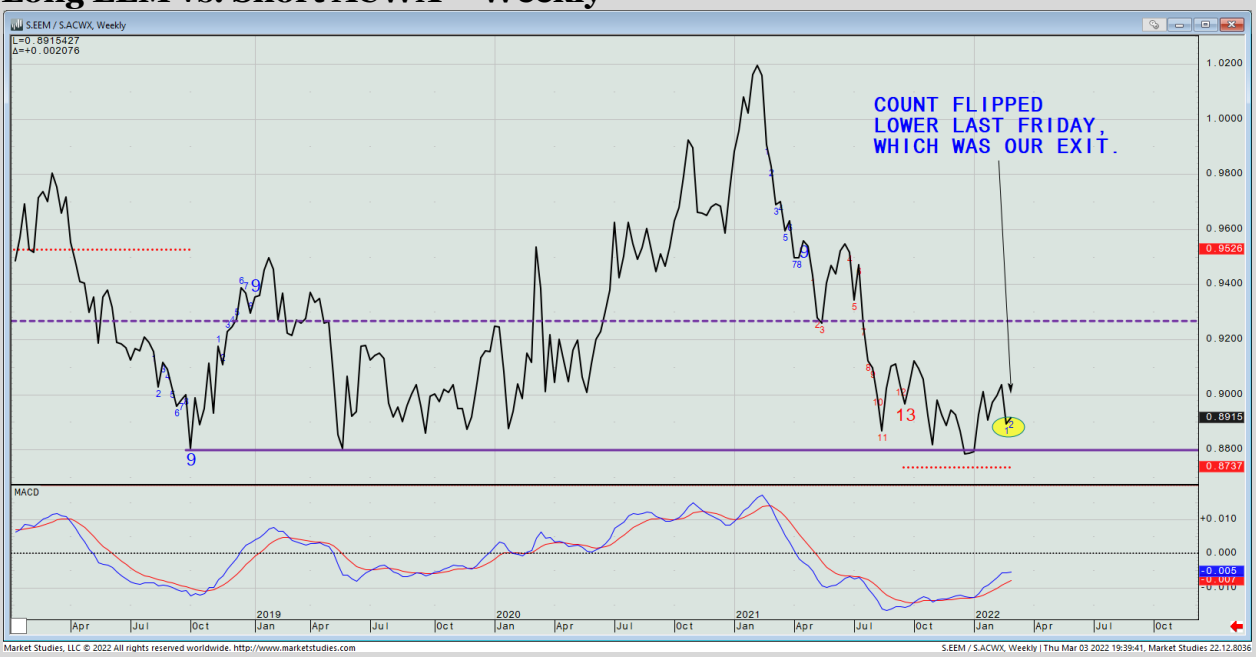
SPY – Daily



Long EEM vs. Short ACWX

Two weeks ago, we showed that we expected this pair trade to continue working for another few weeks to finish out its Setup +9 count. We said we would stop ourselves out on any Friday close that is less than it was four weeks ago. That happened last Friday on the close, so we exited at 0.8894 from a .9036 entry, so we lost just 1.57%.

Long EEM vs. Short ACWX – Weekly



Long SPDR Materials (XLB) vs. Short SPDR Information Tech (XLK)
Three 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 to be consecutive weekly closes beneath 0.520.

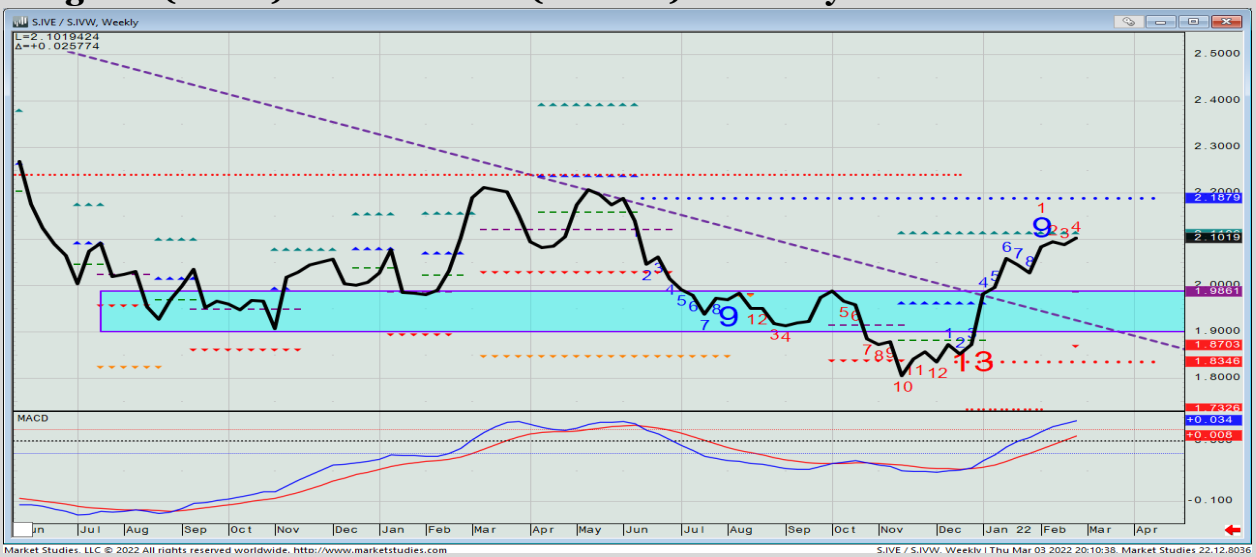
Long XLB vs. Short XLK – Weekly

Long iShares 7-10 Year Treasury Bond ETF (IEF) vs. short the iShares Investment Grade Bond ETF (LQD)
Five 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 were looking for the credit spread to widen, which would translate to the price of IEF becoming less negative to the price of LQD. We took profits on 1/3 of this position two Fridays ago, and exited the rest last Friday. We made 3.22% on this, which seems but a small victory, but if you were a bond manager this is a HUGE gain from a pair trade that you were in less than a month.

Long IEF vs. Short LQD – Daily

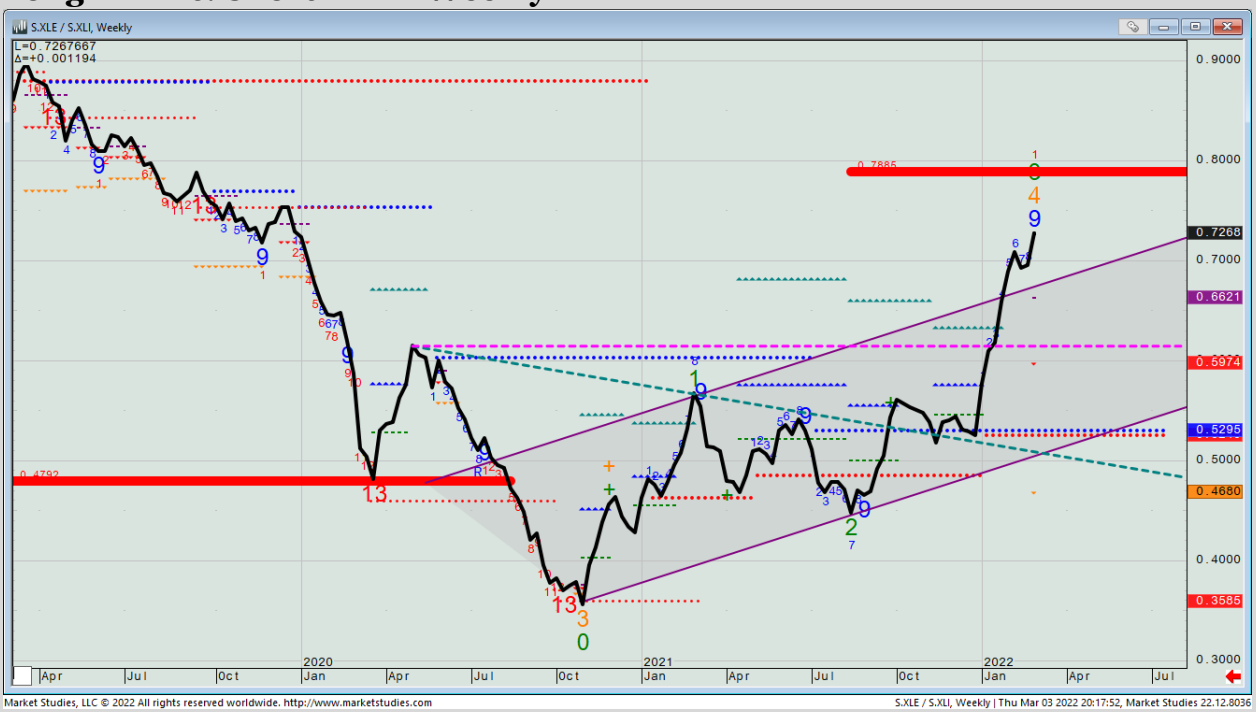
Long IVE (Value) vs. Short IVW (Growth)
We started to enter a position in this six weeks ago, putting on a ¼-unit of this pair (avg. price of 2.047) and were looking to add another 50% position within the highlighted box value (approx. 1.98 to 1.90), and the final 25% at 1.855 to 1.852. Last Friday we took this off, being that we had such a small position on. We made 2% on invested capital, but only 25% of that in equal-dollar P&L terms.

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



Long SPDR Energy (XLE) vs. Short SPDR Industrials (XLI)
In late-December, 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 will exit another 50% of what we still have on today. The remainder we will exit on a rally to anything near the target of 0.7885 (red horizontal line) OR on a <u>DAILY</u> close beneath 0.6919.

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.

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