## TACTICAL TRADER REPORT

The Macro Picture

Russia still pounds away at civilian areas of the Ukraine, as Putin continues to write himself into history books as one of the evilest men of the last 100 years. The rise in interest rates, however, along with the Fed's quarter-point hike on Wednesday is what has been the biggest market mover this week.

Investors are looking for demand to remain strong and inflation ease in the next quarter, and that created some of the equities bidding that came in early this week (along with a perfectly timed SPX Sequential -13 on Tuesday's open). Chinese stocks also got a massive boost as the government there declared its financial stability and a planned increased cooperation with the US – just a day after JP Morgan called Chinese stocks as "un-investable". They're up over 30% since. (That's definitely worthy of a chuckle.)

UST 10-yr. rates rallied as much as 50 bps. in the past two weeks – a rather abrupt turnaround given the geopolitical picture and what had been a flight-to-quality. Yields got as high as 2.25% on Wednesday, and are now at 2.19% – three bps. above the first of the two 2022 upside targets I'd forecasted (along with 2.5%). There is still a weekly +13 signal in the TNX, so I'd be less apt to jump on the bearish bond bandwagon here and now, but would join the herd on a pullback in rates (perhaps around 2.05%).

TNX – Weekly
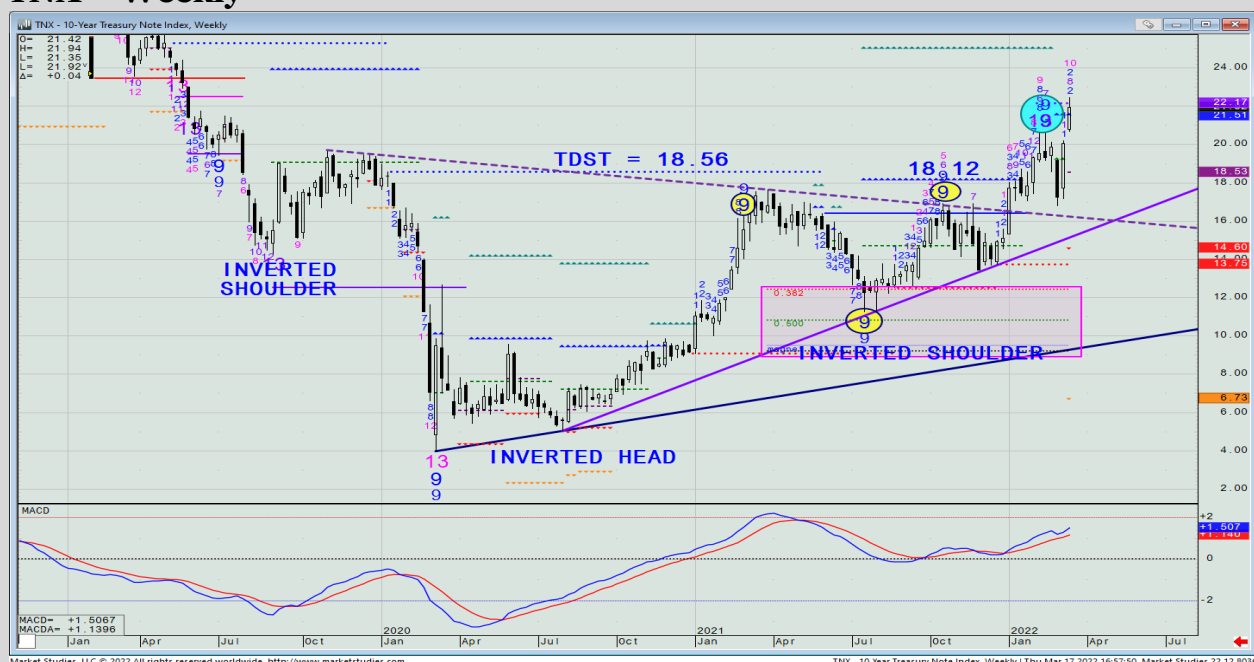
Credit spreads again made new highs of the move on Tuesday at 1.52%. The **ICE BofA Corporate Index Option Adjusted Spread** we watch closed Wednesday at 1.46%. We may very well have a trading top in place, but, again, I don't think the widening we've seen is indicative of new highs coming for US equity indexes.

As we wrote last week, gold stalled right beneath what had been its 2020 all-time high. If this is all it goes, I'd be surprised. On Wednesday (right after the Fed announcement) I bought some for the hedge fund I trade for. We'll see if this pullback can hold above that Propulsion Full Exhaustion level at $1918.50 (orange horizontal line).
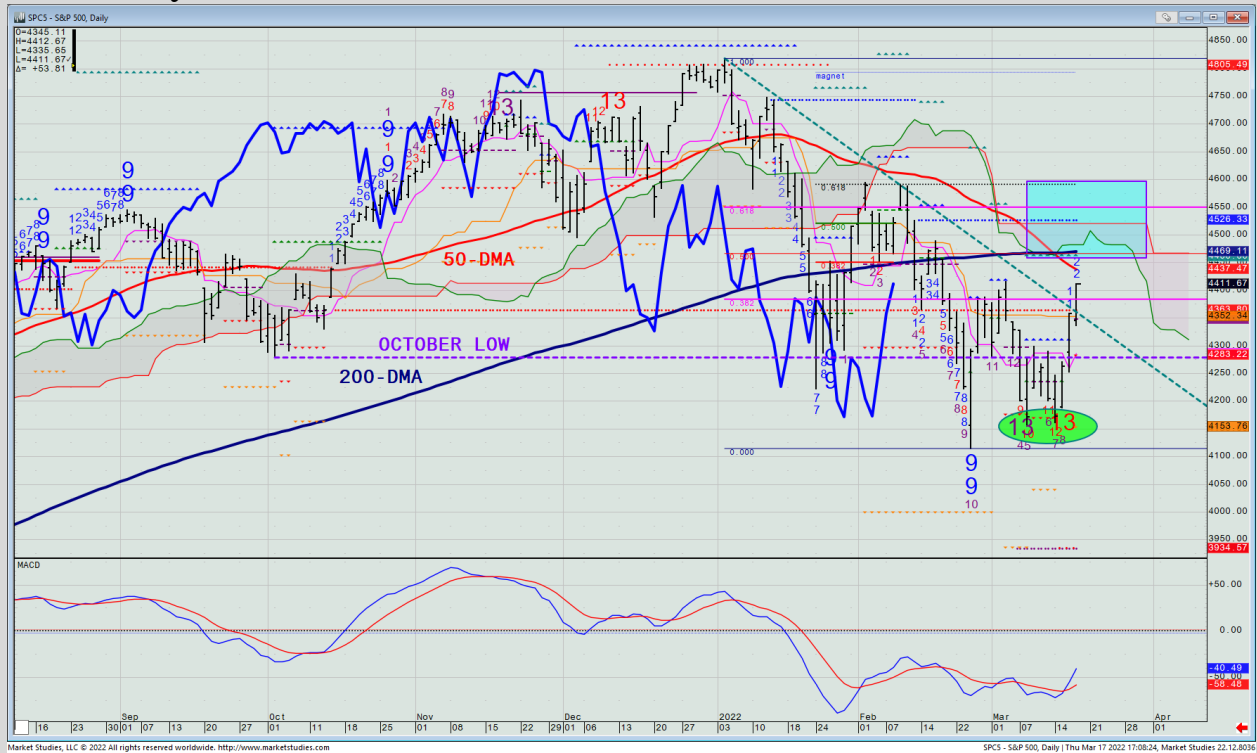
COMEX Gold - Daily
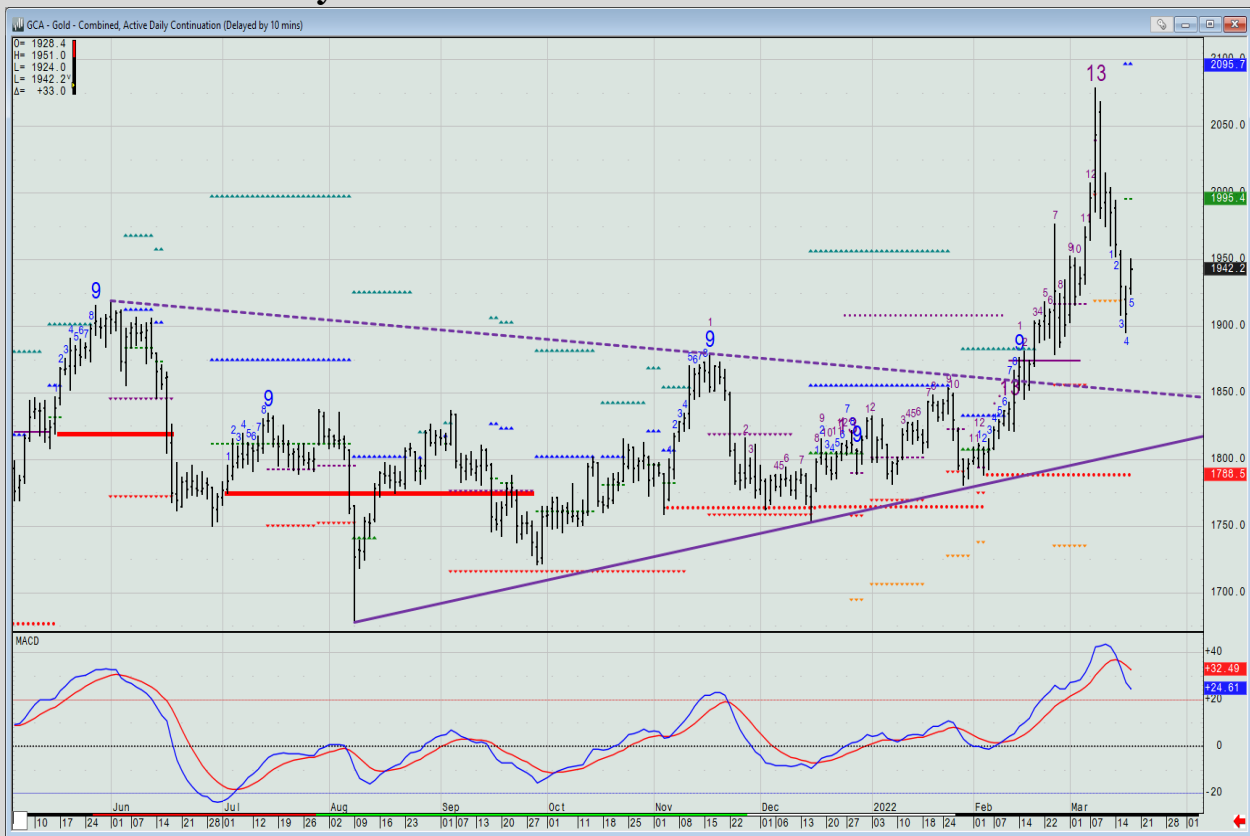
The SPX's first standard Sequential -13 of the 2022 decline (an Aggressive one appeared a week ago) was made on Tuesday's open, such that there are now side-by-side downside exhaustion timing signals. Clearly, smart money on the Street was aware of them, leading to our seeing a large three-day rally of over 5%.

SPX - Daily

I will be cutting overall long exposure into the highlighted resistance zone on this rally, but we may not see a peak to this upmove until it reaches a full daily Setup +9.

SPX – Weekly
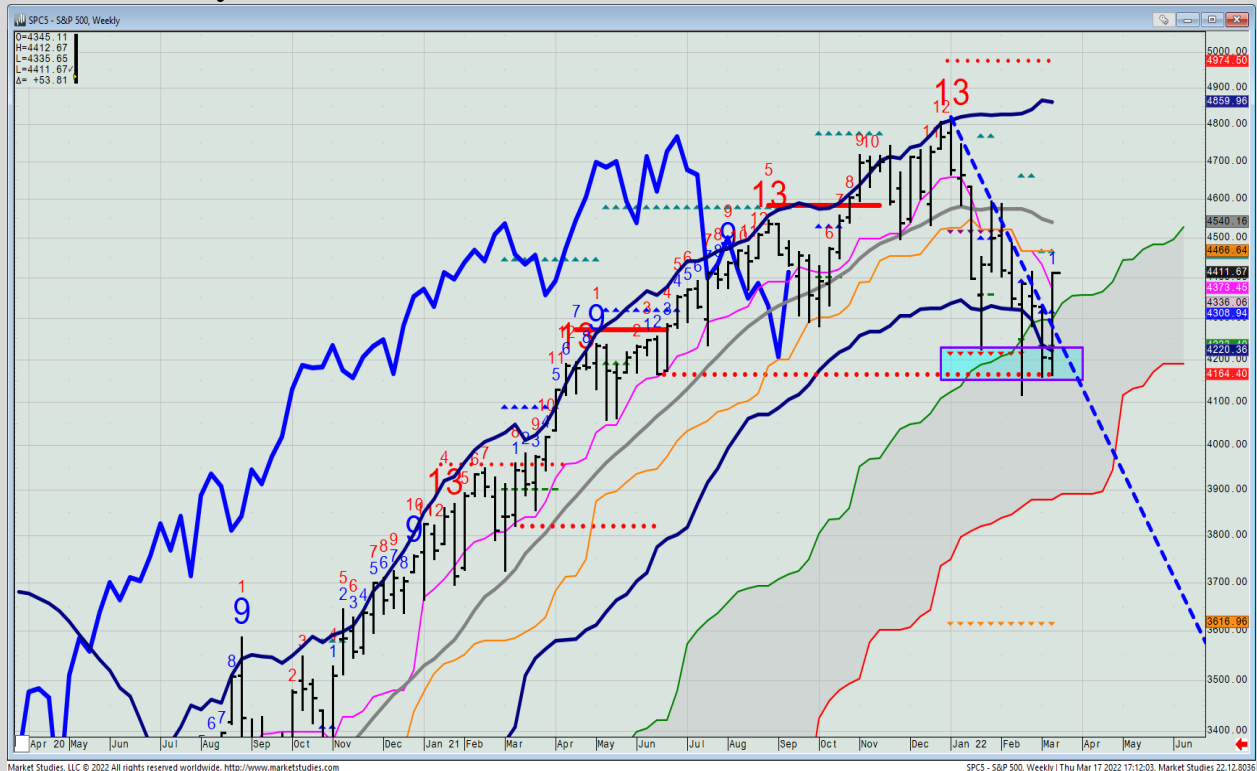
On the first page of this report, we talked about how one major Street bank labeled Chinese stocks as "un-investable" just a day before they collectively bounced 30%. Is it fair to say a low may very well be in? Sure. Is it fair to think that volatility will be rampant in them such that we may get a chance to buy them without chasing them now? I'm going to say "yes".

When we look at the most popularly traded Chinese equity ETF, the iShares China Large Cap ETF (**FXI**), we see that it has predominantly traded in a range since 2015 (i.e., the rectangular blue box). It just made a new multi-year low earlier this week before surging on Wednesday.

FXI – Weekly
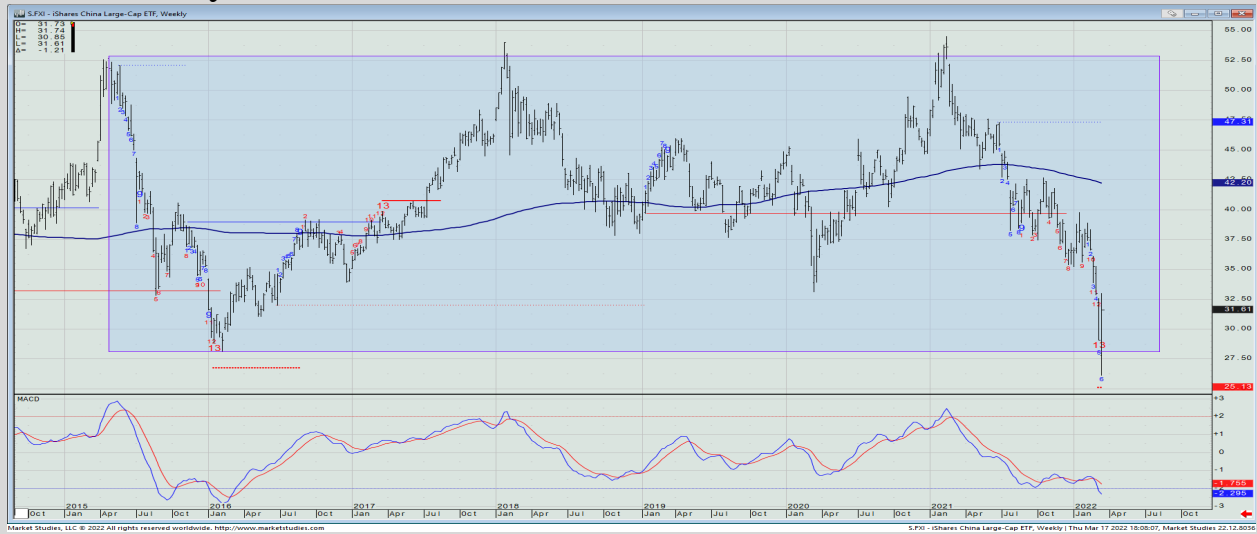
When we zoom in on a daily chart on how this bottom was made, I'm focusing on the bottom of the value area (i.e., the low end of the first standard deviation of the past nine days of trading volumes by prices to the lowest volume (in this case, none) which I've highlighted in the teal colored box.

If the bottom is a good one, then this boxed area is where we hope to get a chance to get in, also given that the fundamental analysts' target to FXI's component names have an average upside target some 44% above current price. Thus, we will look to buy one unit of FXI on a pullback to $29.75 to $27.50, scaling your way into that position using multiple lower bid levels. My target is likely in the mid- to upper-$30s. The stop out needs to be somewhere under the low of the move ($26.13), but there is no one specific level that I can recommend. If this was the bottom, then it won't come into play. If it does, then we probably don't want it anyway.

Alternatively, if you are well-versed in using options, you could wait for the pullback into the buy zone to buy an FXI ATM/OTM vertical call spread (with about a 45-day expiration). At least that limits your loss to the total net premium paid.

Other Open Recommendations and Positions

Long iShares Silver Trust ETF (SLV)
Last week's play was to get long SLV on a pullback to $23 to $22.70. With Wednesday's low at $22.60, we got in at an average price of $22.85. We'll target a move to first take partial profits against $25.15 (+/- 10 cents), and let the other half run. Our sell-stop will now get raised to your entry price.

SLV – Daily
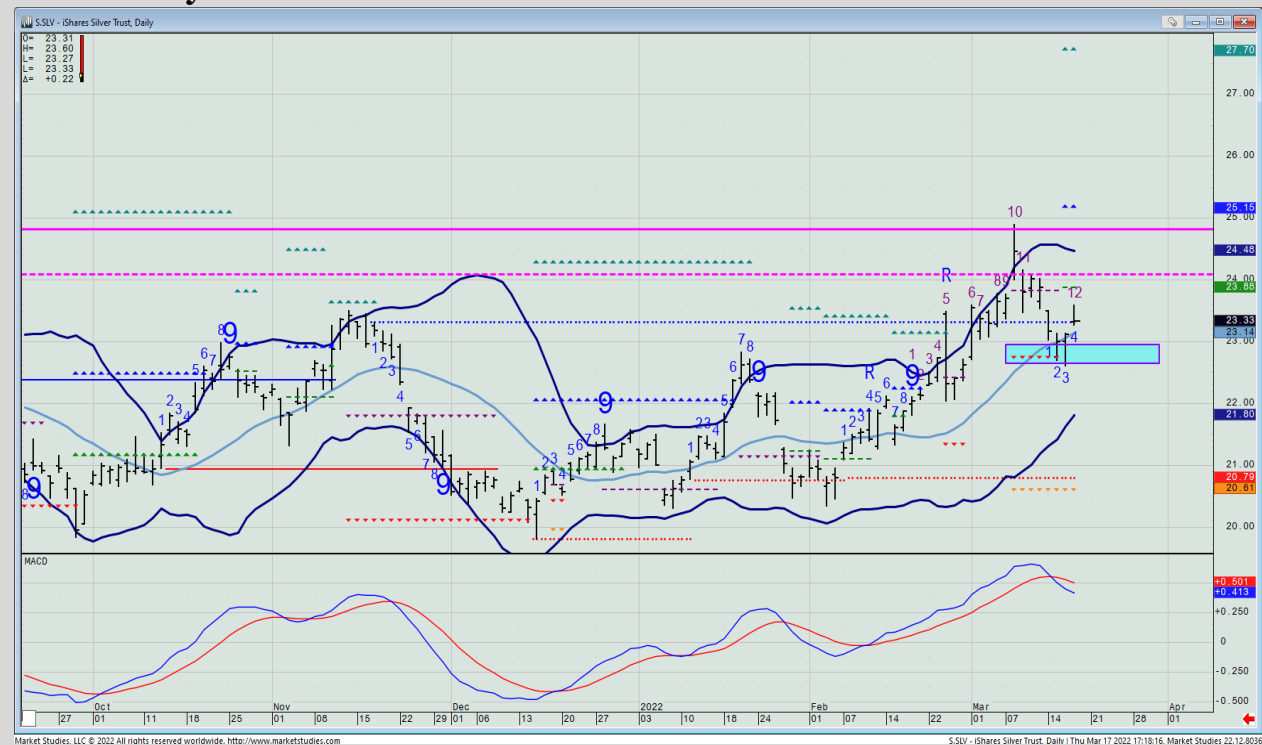
Long Innovator IBD 50 Fund ETF (FFTY)
Two Friday's ago, we entered a 50% long position into this ETF (avg. entry at $37.88) on what was side-by-side downside exhaustion signals with the Setup -9 and Aggressive Sequential -13 counts. Since then, we see it's added another -13 count, so the upside breakout beyond the downtrend line which just occurred could lead to a quick burst higher to aim for our Target Zone where we'd happily exit. We said we'd stop ourselves out under $35.97 (your choice if a simple stop or on a closing basis.) If you used the stop on a closing basis, you're still long and well-positioned now for that rally. (See chart on next page.)

FFTY – Daily
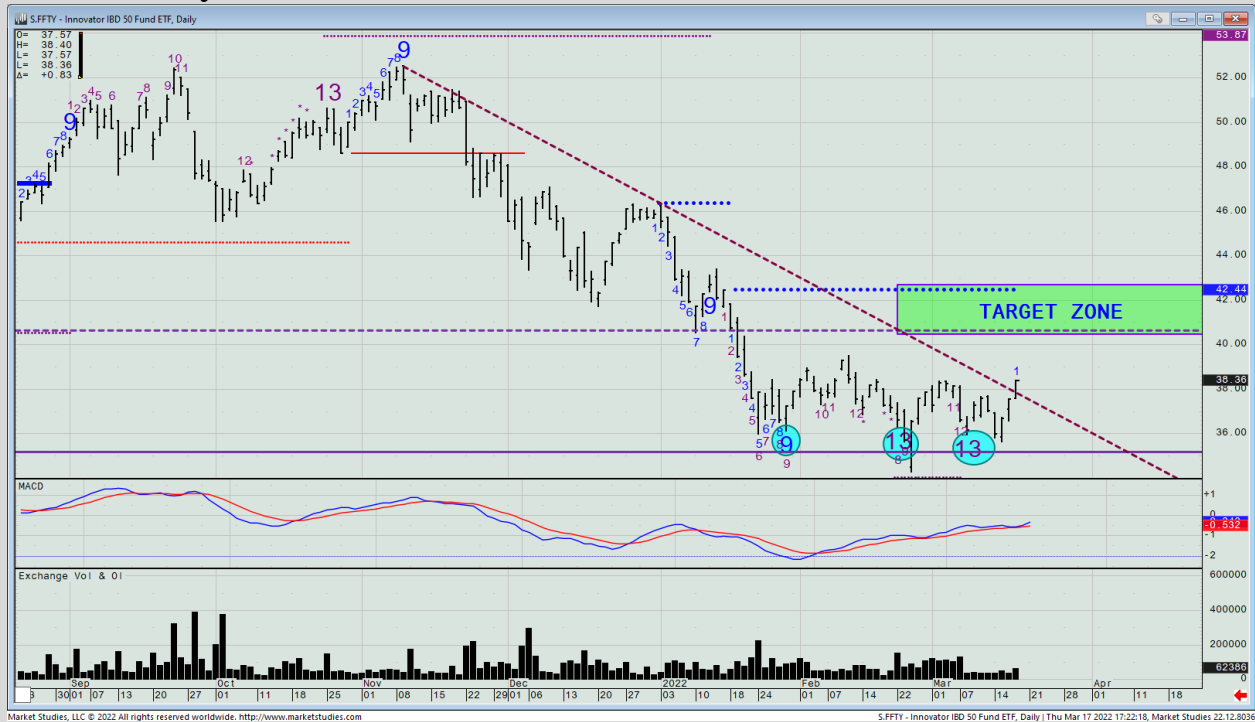
Long S&P 500 SPDR ETF (SPY)

We were looking at the $417.37 to get long a half-position against, and we got the opportunity last week and it worked out well, given the robust bounce this week. I recommend scaling out of this position (using however many SPYs you bought and dividing it into 6 different sell orders, if possible) to exit from $446.50 to $451.50 in one dollar increments. Stop yourself out at no worse than where you got in.

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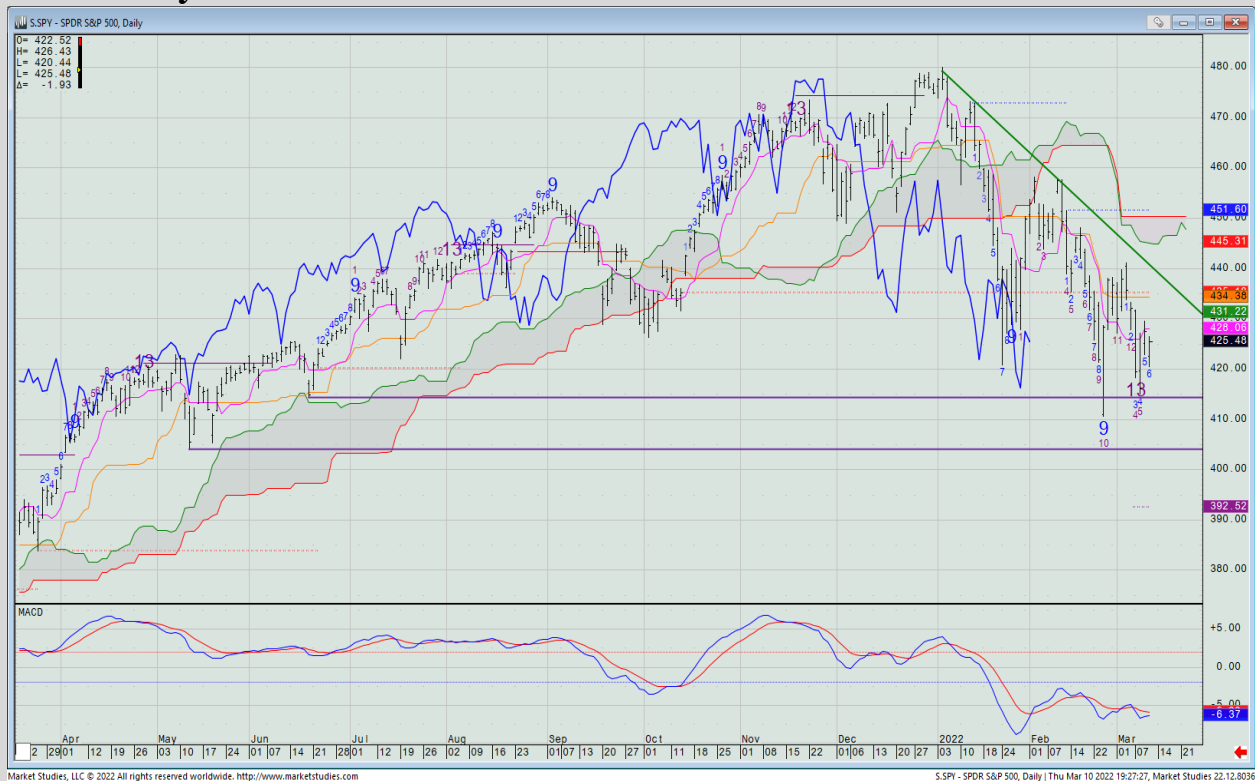
Long SPDR Materials (XLB) vs. Short SPDR Information Tech (XLK)

Four 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. Your sell-stop should be no worse than at breakeven to your entry price.

Long XLB vs. Short XLK – Weekly
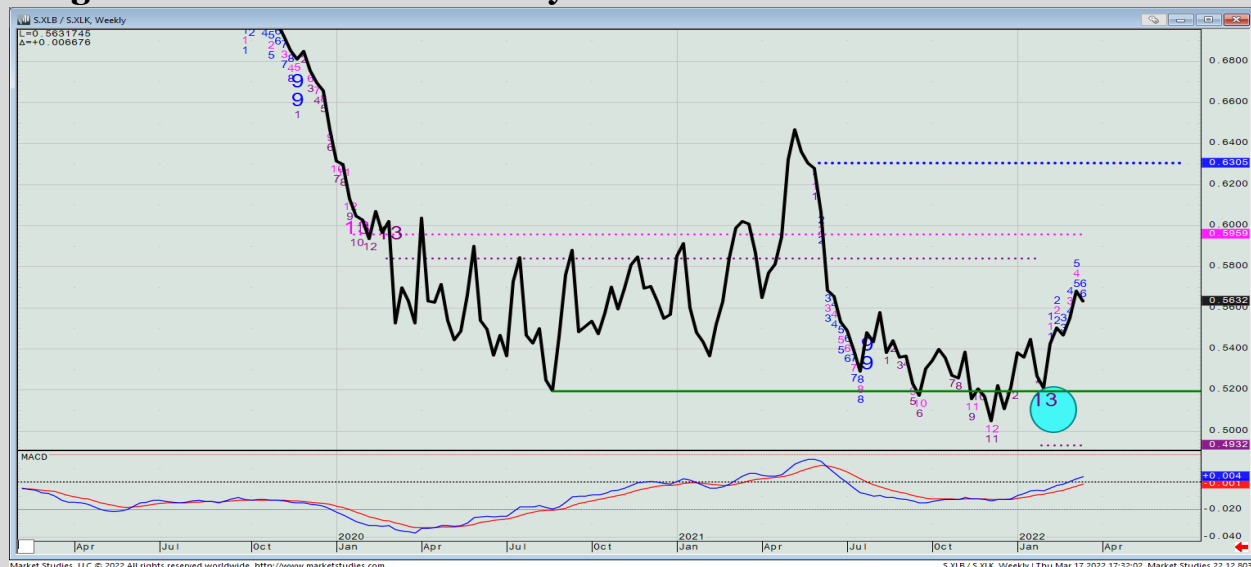
Long SPDR Energy (XLE) vs. Short SPDR Industrials (XLI)

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 removed another 25% two Fridays ago at ~ 0.7435. Last Friday we removed the final 25%, at an average price of 0.7785, to give us a weighted average sale price of 0.7055. Thus, we made 29.85% on a macro SPDR ETF pair trade. (That, frankly, is very impressive, if I say so myself.)

Long XLE vs. Short XLI – Weekly
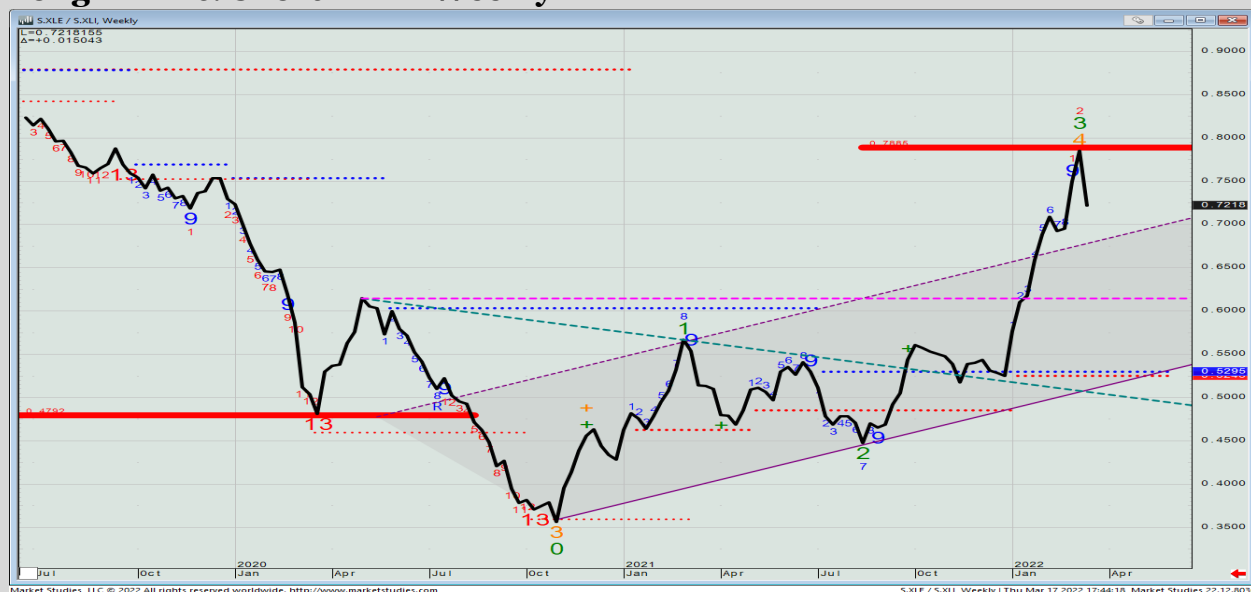
Suggestions and Explanation of Terms

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.

Disclaimer