Rick Bensignor's

IN THE KNOWTRADER

Positioning Individual Investors Alongside Professionals

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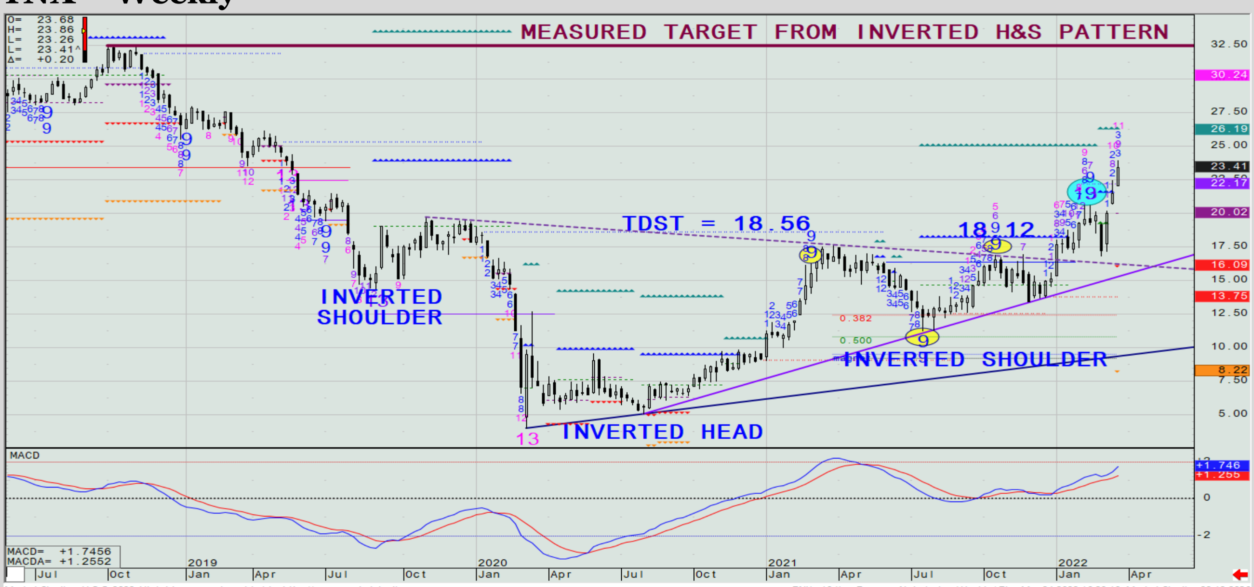
TACTICAL TRADER REPORT

The Macro Picture

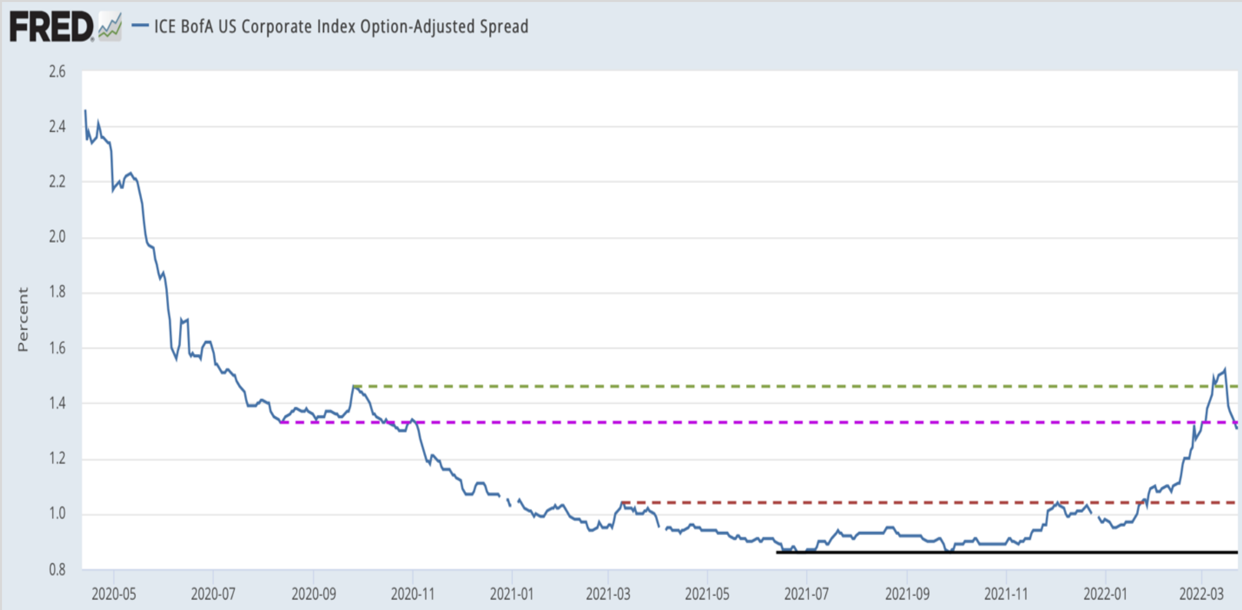
Investors are paying less attention to the daily war headlines, and more to the fact that the market shot up last week – many fearing that they missed the bottom and that stocks are again "safe" to go after. I am far less in the camp that new highs are coming shortly, and would use this rally to lighten up/exit the clunkers in your portfolio. (Yes; we all have names that we wish we had never purchased, and given the rather unclear picture of the war and its still unknown future; a hawkish Fed; and rampant inflation and its potential negative drag on consumer buying power and corporate earning/profits), I am using this rally to clean house.)

Fed Chairman Powell's comments earlier this week on potentially raising rates more quickly than previously targeted kept bonds under ongoing pressure. Rates shot up to as high as 2.39%, and are already knocking on the door of that 2.5% secondary upside target I made in my 2022 yearly forecast. (The yield chart's bottoming pattern measures up to 3.25% over time.) I had long said to you that buying bonds in 2021 was going to cost you money and not a good game plan.

TNX – Weekly

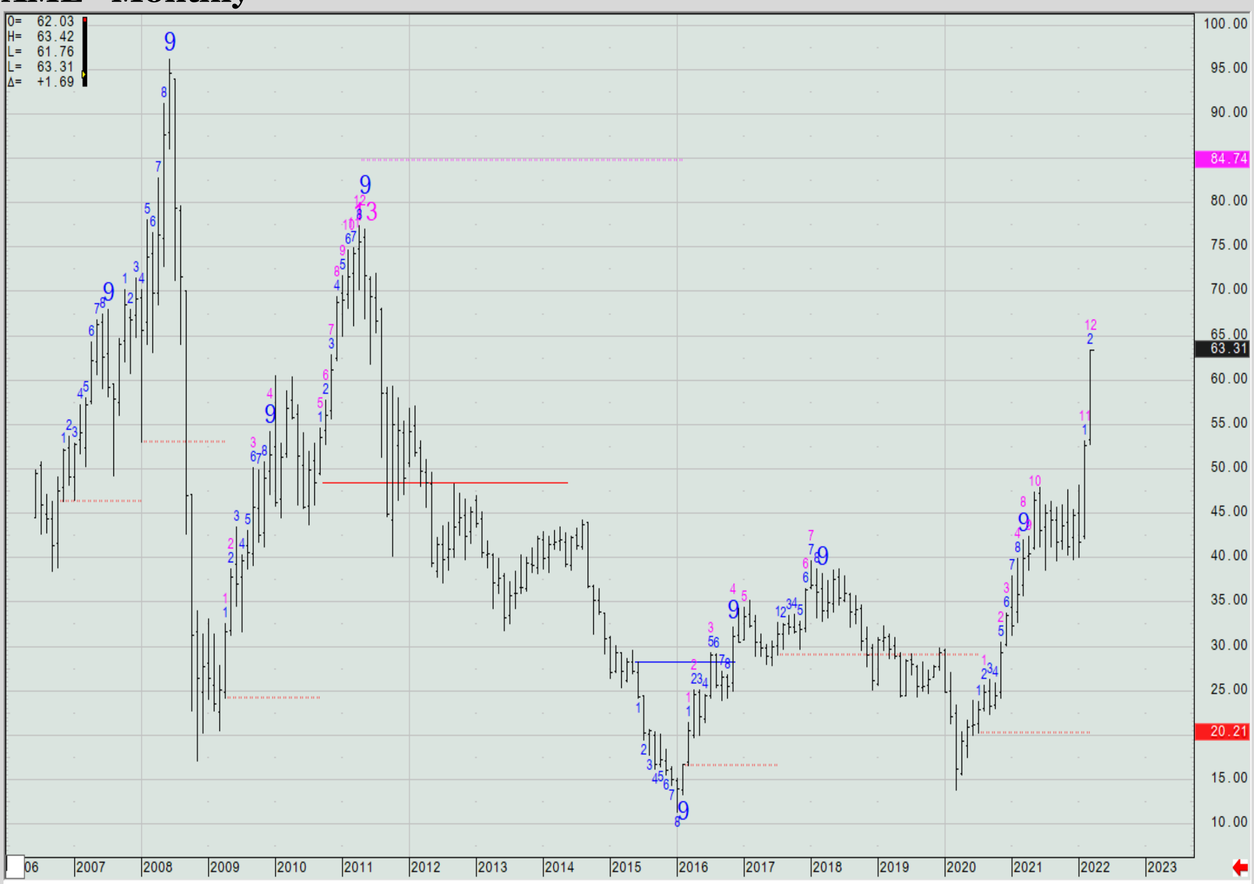


Credit spreads again made new highs early last week and have fallen quickly. The **ICE BofA Corporate Index Option Adjusted Spread** we watch closed Wednesday at 1.31%. I don't think the general widening we've seen is indicative of new highs coming anytime soon for US equity indexes. If this narrowed to anything near 1.04% (the prior breakout level), we'd look for them to widen out again. (See chart top of next page.)



Metals continue to move higher, with the S&P Metals and Mining ETF (XME) reaching its highest level since August 2011.

XME - Monthly

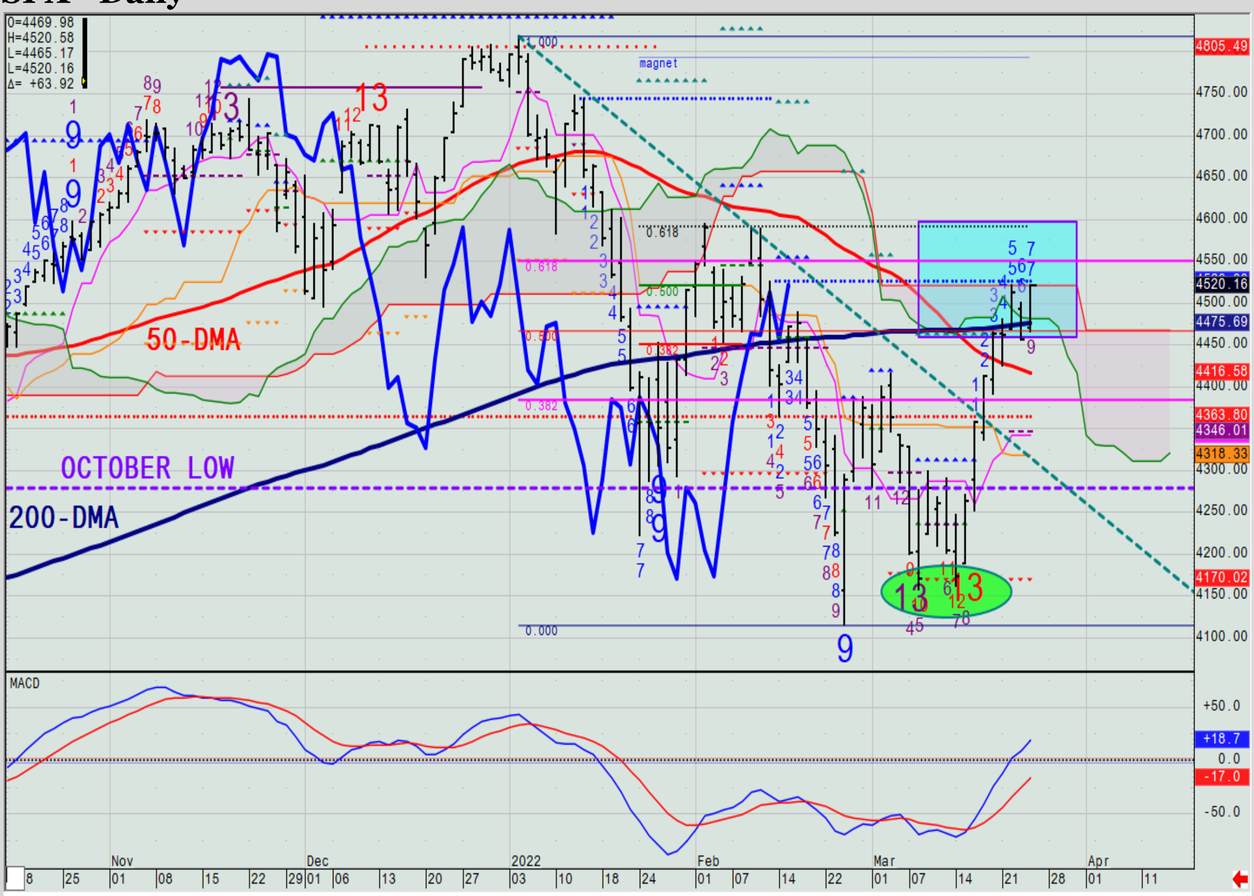


Gold has halted its recent decline from testing its all-time high, and is recouping towards doing it again. Next time it gets to those highs, it may pause there, but I think it ultimately rallies to targets north of $200.

GLD - Weekly

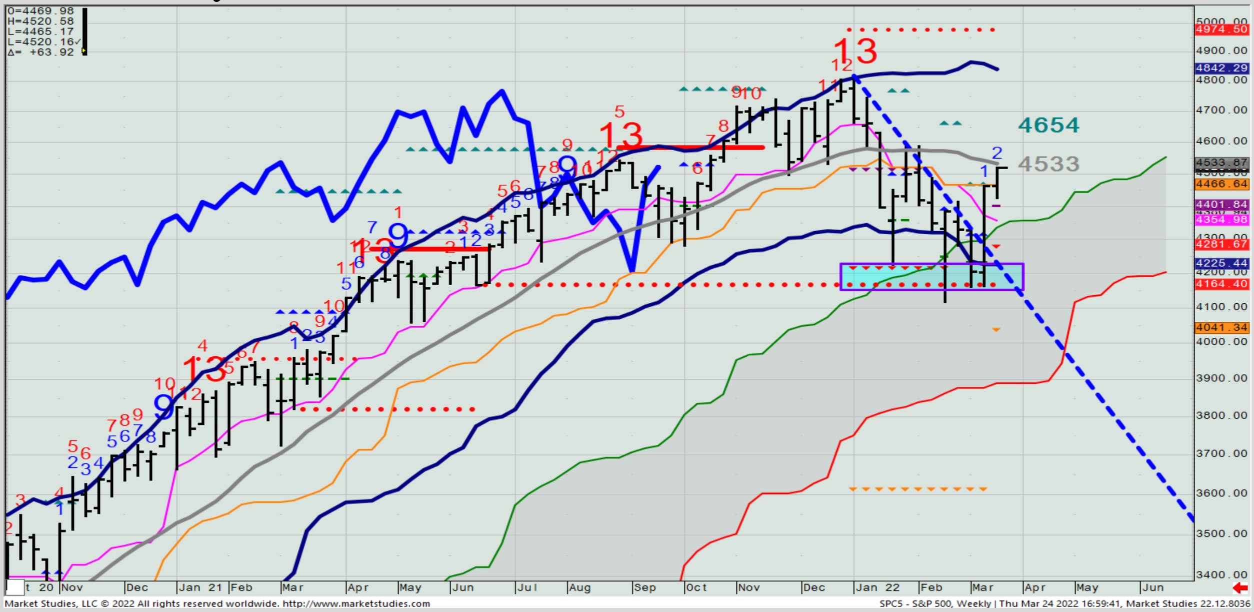
Stocks continue their gains from last Tuesday's lows, and the SPX is now on a daily Setup +7 count, meaning that this coming Monday could get the completed Setup +9 count. I <u>will</u> be selling more stock names and SPYs I own then, as it should also be in the general resistance area, too.

SPX - Daily



The weekly middle Bollinger Band is at 4533 this week, and this week's current high is 4522. It's just another one of the indicators to lean against if you're also in the camp that new highs are not coming shortly.

SPX – Weekly



THIS WEEK'S NEW TRADE IDEA

Natural gas prices have skyrocketed in Europe, and even our domestic natural gas – priced at the Henry Hub in Louisiana – has moved higher (though we don't yet export any significant amounts to Europe, but that could change very shortly – even as early as today). When we look at the chart of the **United States Natural Gas Fund ETF (UNG)**, we see that this week is breaking out above the downtrend line from last October's peak price, and could easily reach up to prior highs (the horizontal, green-colored lines) if not well higher. (The all-time high in this came in 2008 at over $2000/share, i.e., there's plenty of room for this to go higher.) The fundamentals support well-higher prices, too.

As such, we are going to buy one unit of UNG today, and look to potentially hold this name for months. Given the lowest low in the last month is $15.38, we'd have to risk almost $4 on the trade, and in percentage terms, that's quite large. So, we'd also have to aim for a large upside target to make this worthwhile, and we are.

UNG – Weekly

Other Open Recommendations and Positions

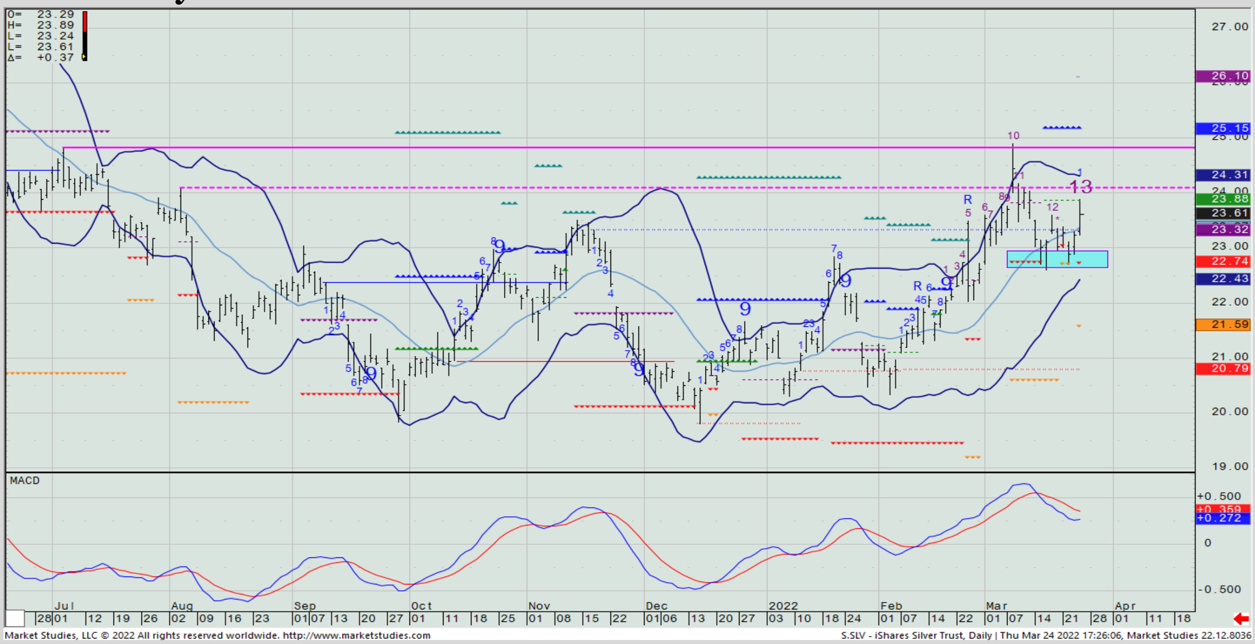
Long iShares China Large Cap ETF (FXI)
We're still looking to buy this on a pullback into the $29.75 to $25.50 range (the highlighted, cyan-colored rectangle). My target is likely in the mid- to upper-$30s. The stop out needs to be somewhere under the low of the move ($26.13), but there is no one specific level that I can recommend it to be at. If the current low was the bottom, then it won't come into play. If it does, then we probably don't want it anyway.

FXI - Daily

Long iShares Silver Trust ETF (SLV)

Two weeks ago we got long SLV 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 has already been raised to your entry price. (If you used your entry price as your sell-stop, then you're out with no loss. If you did it on a close-only basis, you're still in. If you're in the latter camp, then I'd use a subsequent negative price flip (i.e., a close less than the close from four days prior) as your sell-stop.

SLV – Daily



Long Innovator IBD 50 Fund ETF (FFTY)

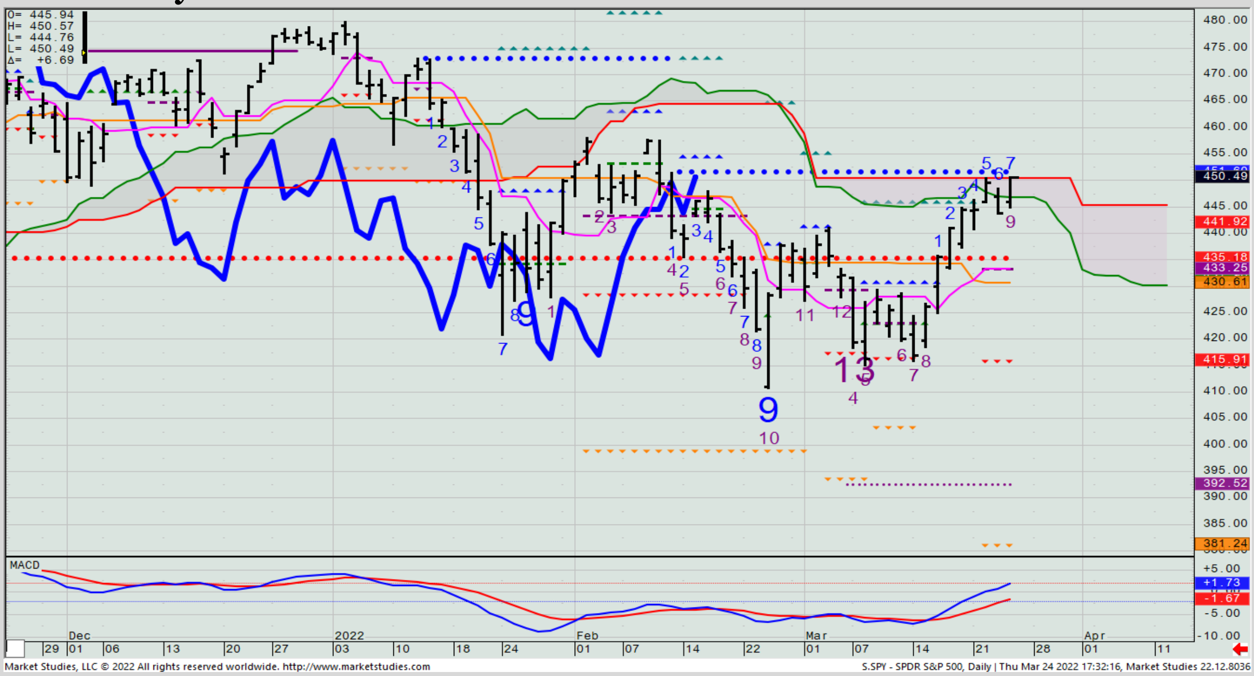
Three Friday's ago, we entered a 50% long position into this ETF (avg. entry at $37.88) We said we'd stop ourselves out under $35.97 (your choice if a simple stop or on a closing basis.) If you used the stop on a closing basis, you're still long and positioned to reach our target to exit next week, scaling up sell orders in that target zone.

FFTY – Daily

Long S&P 500 SPDR ETF (SPY)

We're long a half-position at $417.37. I recommended 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. We got all 6 of those orders filled in the last week (with an average exit price of $448.50), so we made 7.46% on invested capital (but only 3.73% in equal-dollar Profit & Loss terms).

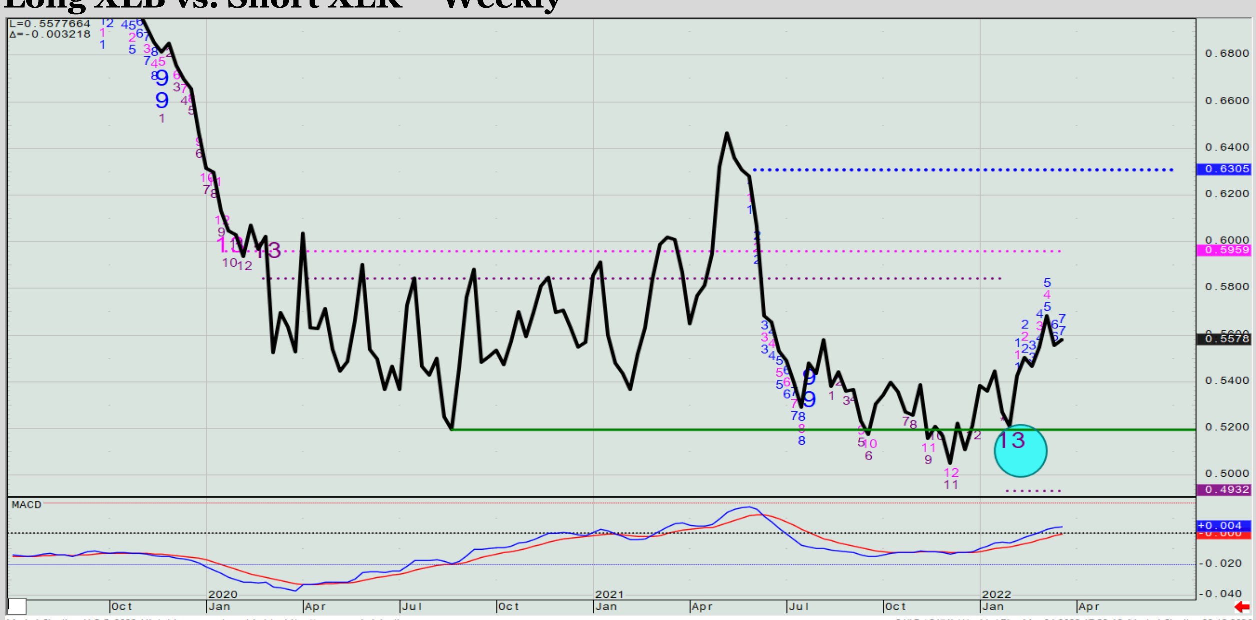
SPY – Daily



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

Five 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



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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