Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

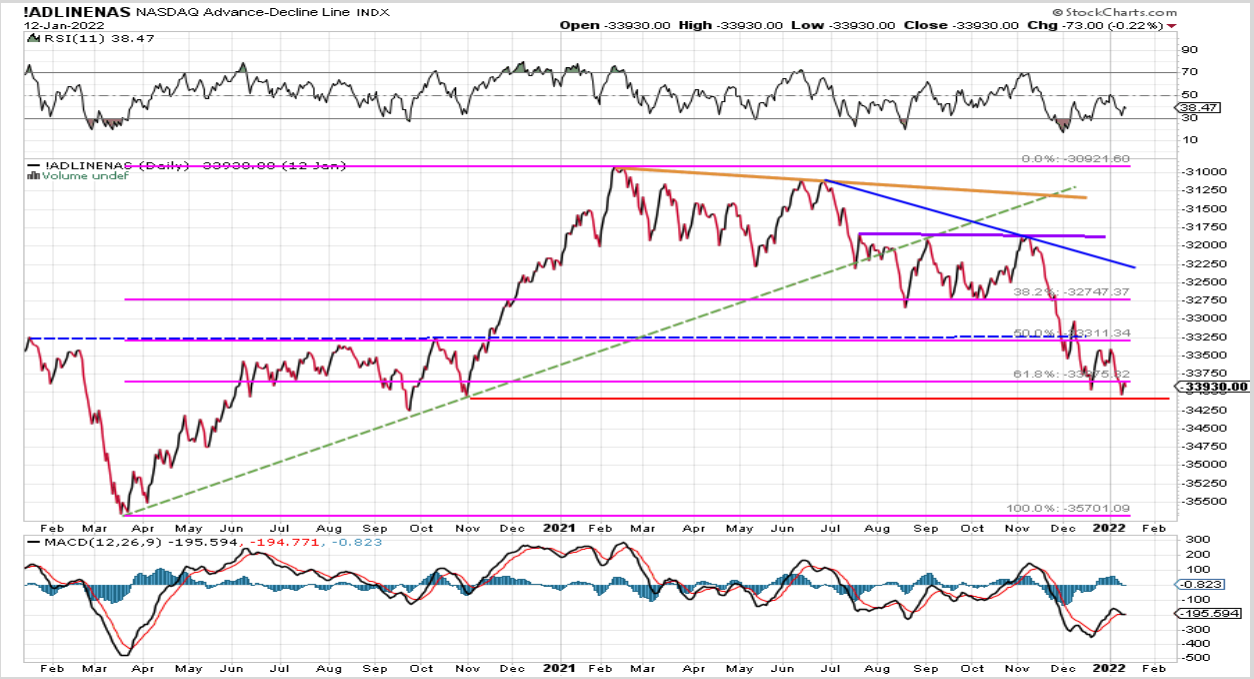
The Macro Picture

The prospects of higher rates continues to dominate investor fear, along with lingering Covid variants and a not terribly happy view of the current White House administration's handling of the virus and the economy (and that dissatisfaction is even coming from some traditional Democrats, according to what I read).

The Nasdaq is some 5% off of all-time highs; the SPX about 3%. It's really not bad. But if feels much worse, because unless you have the bulk of your portfolio predominantly in the mega-cap, FANG-y type names in those indexes, you're seeing many stocks you own off 30-60% from their highs. It's not been pretty.

Now's a perfect time to think about the differences between owning SPY or QQQ vs. picking individual names to own. This past year has made it perfectly clear that being "long the market" is not the same as being long an assortment of stocks. Having SPYs in your portfolio most likely did you far better than the returns you got from random individual holdings. Nasdaq breadth peaked 11 months ago, and the average Naz name is down substantially since then.

Nasdaq Advance/Decline Line – Daily

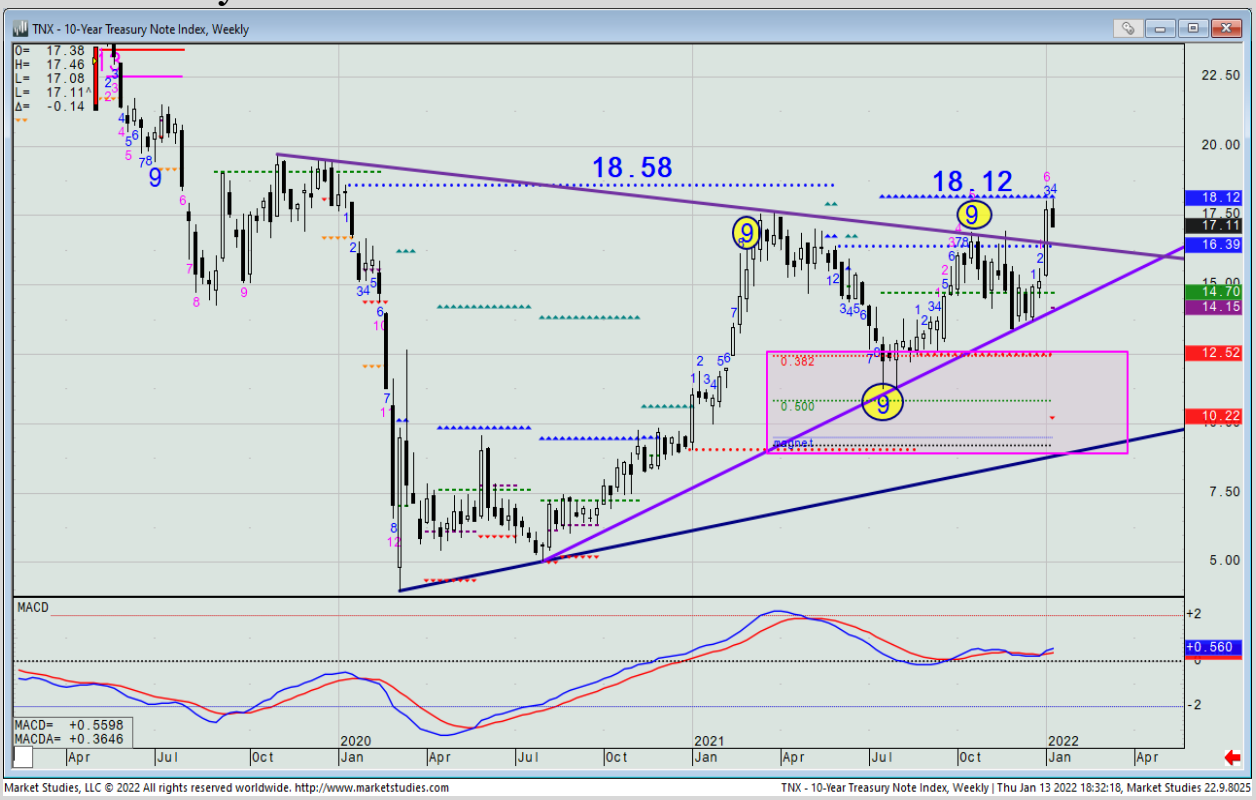


The above chart is just a hair beneath its 62% Fibo level, but without an immediate turnaround higher, investors would have little sense that the carnage is done.

On the flip side, though, is that the **ICE BoA Corporate Index Option-Adjusted Spread** (my preferred credit spread to watch) still remains beneath 1.04% (it's at 96 bps. as of Wednesday's close), indicating that there is just no stress in the system. (And virtually any major market decline will be preceded by a move up in credit spreads.) So, I still consider the SPX in "safe mode" (though that may not be the case if I could see the breadth line for the S&P Equal Weighted Index).

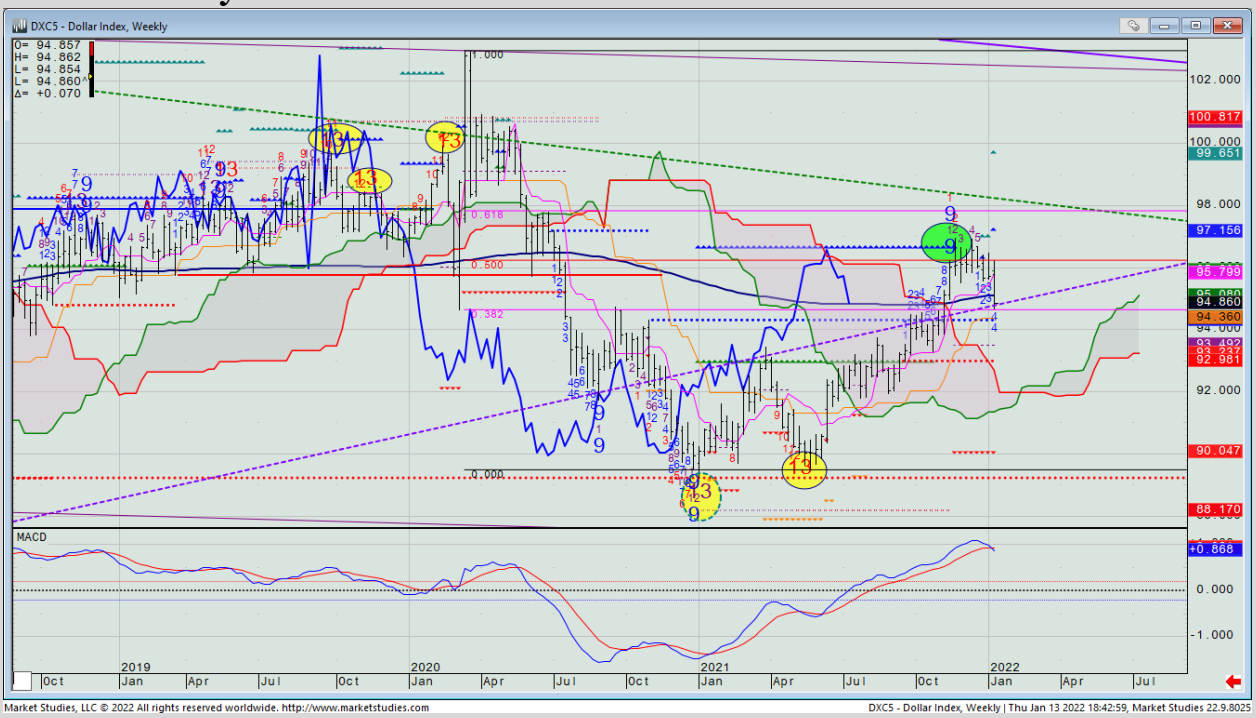
UST 10-yr. rates ran early this week up to 1.81%, but have fallen steadily since to yesterday's close of 1.70%. I continue to label the 1.86% (to maybe even 1.91%) as the key level(s) it needs to hurdle to get a real breakout and a scoot up to 2.25% to 2.5%. If this did breakout upside, the inverted head-and-shoulders pattern measures over time up to 3.5%.

TNX – Weekly



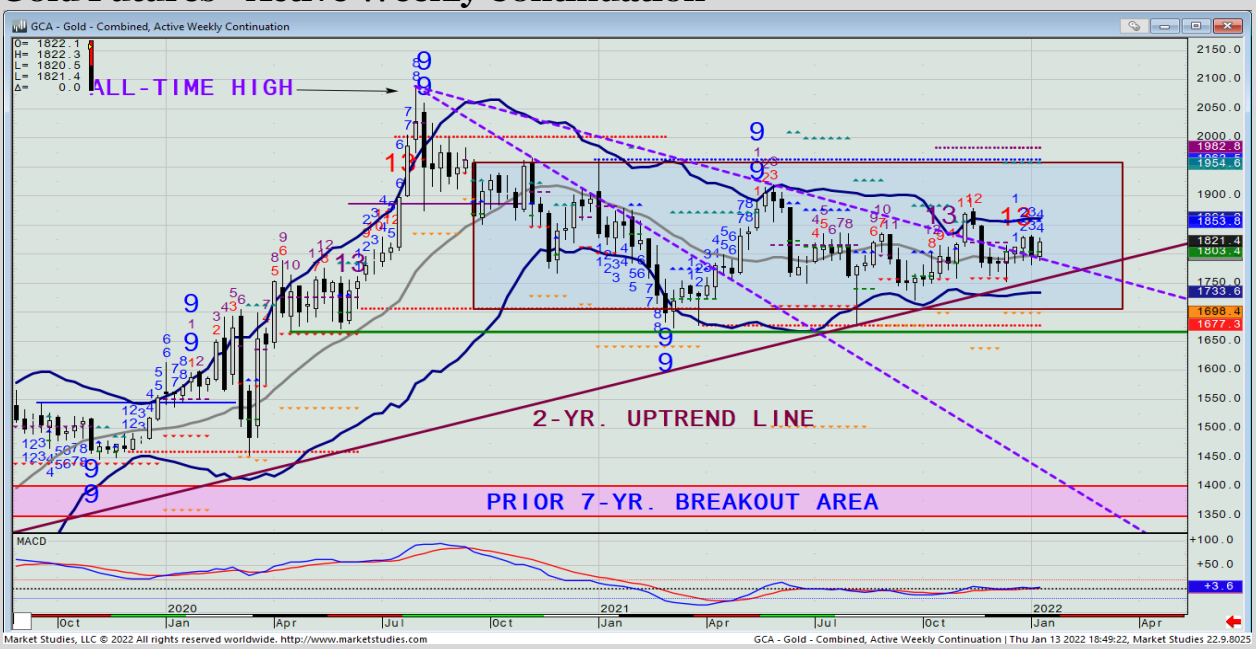
The US Dollar pulled back this week after continually stalling north of 96.50 over the past two months. Notice that it halted its advance both at the weekly Propulsion Exhaustion level (the small blue triangles); a Setup +9; and where the cloud model's Lagging Line (in bold blue) hit the top of its cloud. I expect this pullback can get at least as low as 94.50, and then there are various other points of support down to 93.00. I'd likely be a buyer down near the lower end of the zone, but we'll have time to decide that when and if it gets near there.

DXY – Weekly



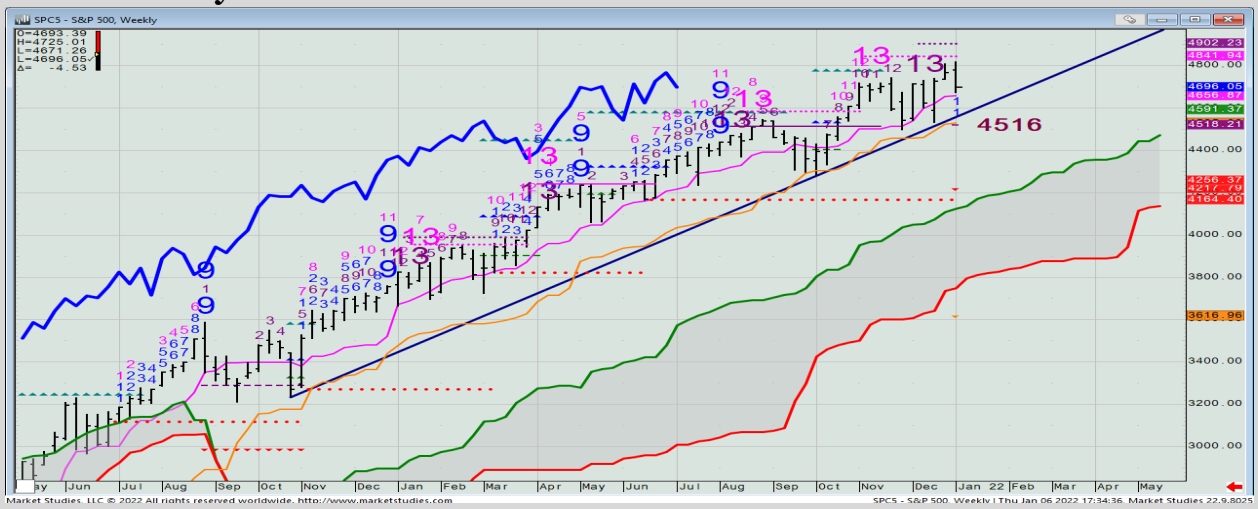
Gold is getting a small bounce from dollar weakness, and theoretically, from bad inflation numbers earlier this week. (It didn't care much about inflationary pressures last year!) Besides what I simply hold because I want some small exposure to gold, I really don't see what there is to do here.

Gold Futures –Active Weekly Continuation



For the SPX, the key level remains at 4516. A Friday close beneath there would have me concerned that a bigger decline was in the works, most especially if the aforementioned credit spread widened and stayed above 1.04%. It would then target the top of the weekly cloud to the 4164 TDST Line level. I will be trimming some of my personal investment equity exposure on a Friday breach of that 4516 level.

SPX – Weekly



THIS WEEK'S NEW TRADE IDEA

I mentioned earlier in the report that picking a clear direction for gold seems to be a difficult task right now, as it really hasn't moved a heck of a lot in months. But gold miners have moved quite a bit, and "junior" gold miners even more so.

When I look at the chart of the Market Vectors Junior Gold Miners ETF, GDXJ, I see a recent Aggressive Sequential -13 bottom that came within the context of both December's and September's low areas. It's run up quickly, but has again topped against prior recent highs.

GDXJ – Daily

I've also added to the chart the Volume at Price indicator on the right side, whereby we can see where the relative volume done at each price in the past month. What interests me is the bottom of the yellow-zoned range (known as the "Value Area", which represents where the largest ~70% of volume has been traded (i.e., the first standard deviation). Let's look to buy one unit at the bottom of that Value Area ($39.73+/- 18 cents) to target the Propulsion Exhaustion Level at $43.33. We'll stop out on a close or two (your choice) under the highest volumed level beneath the Value Area (i.e., $38.77).

Other Open Recommendations and Positions

Long ARK Fintech Fund (ARKF)

Last Friday we bought a one-half unit (avg. entry at $36.97), and we're looking to add another half-position at $35 (I inadvertently wrote $34, so you can add at 20 cents either side of $35.) We'll target ~$41 to exit at least half of what we have on long. Our sell-stop will be to exit half on consecutive Friday closes beneath $34.43 or the entire position on consecutive closes beneath $33.58.

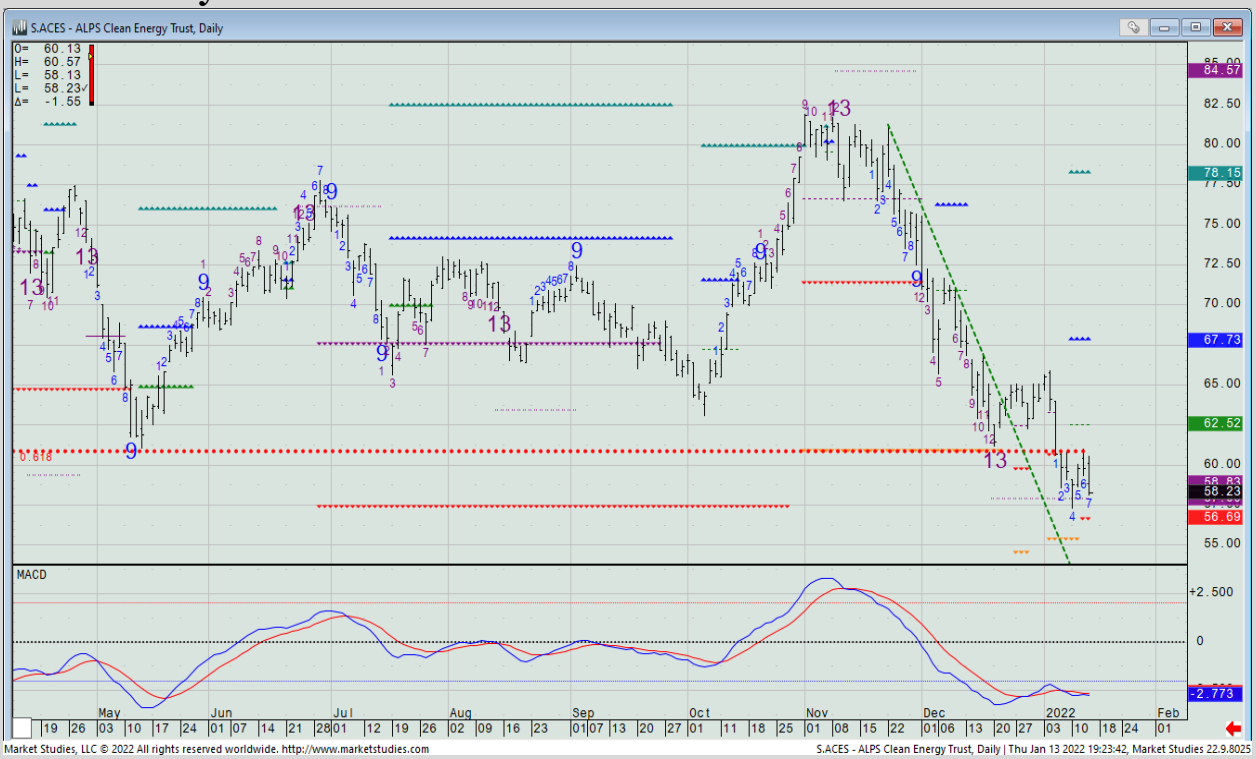
ARKF - Daily

Long ALPS Clean Energy Trust ETF (ACES)

We're long this at an avg. entry price of $64.28, with an $80+ target for some time in the first quarter this year. We'll risk a few closes beneath the older bearish Propulsion Exhaustion level from last summer, at $57.43. (This equates to over an 11% risk to make about 2.5x that amount. If you're not comfortable with that much risk on a single trade, cut your position size in half. You'll still be risking 11% and end up with the same reward to risk ratio of 2.5x, but it will be on half as much money, so it's really the

equivalent to only risking 5.5% in full-unit terms.

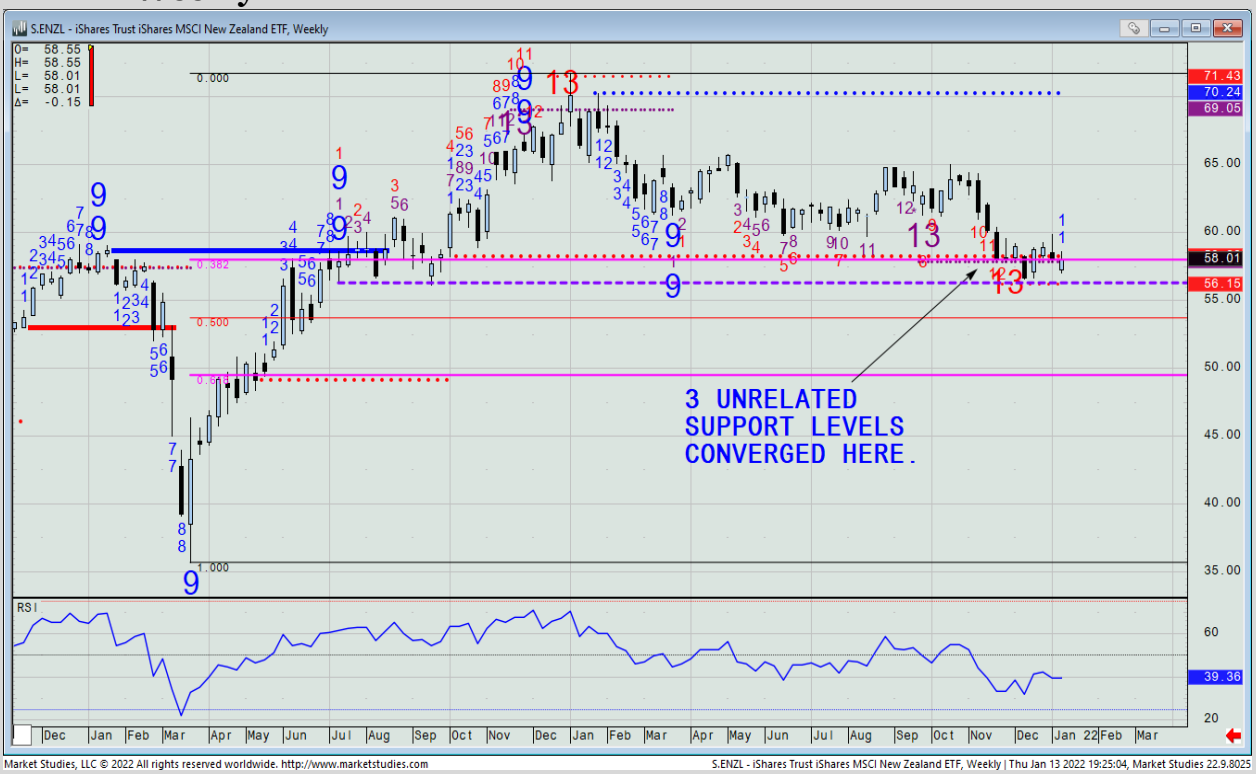
ACES – Daily



Long iShares MSCI New Zealand fund (ENZL)

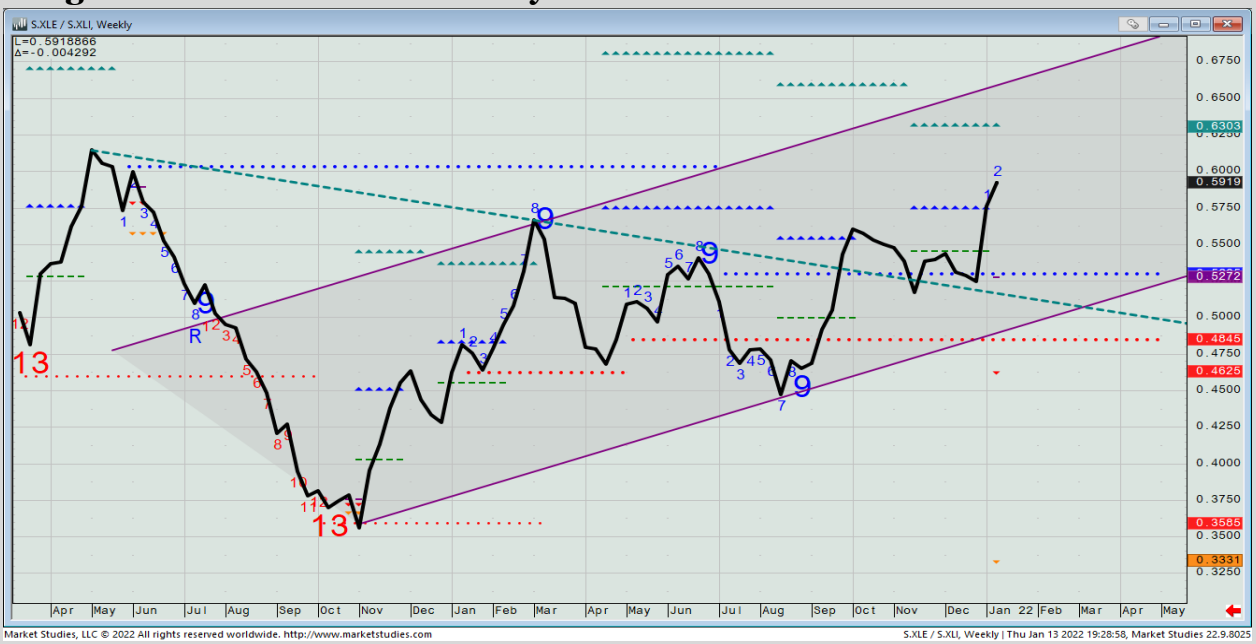
We were long one-half unit (avg. price of $58.58), and added another half-unit at $58.74 on the weekly price flip upward on XMAS Thursday. We'll sell half of whatever we have on at $65 +/- 20 cents, and half at $70. We'll stop out on a Friday close < $56.29, the lowest low of the triple-bottom of Summer 2020 (i.e., the purple-colored dashed line).

ENZL – Weekly



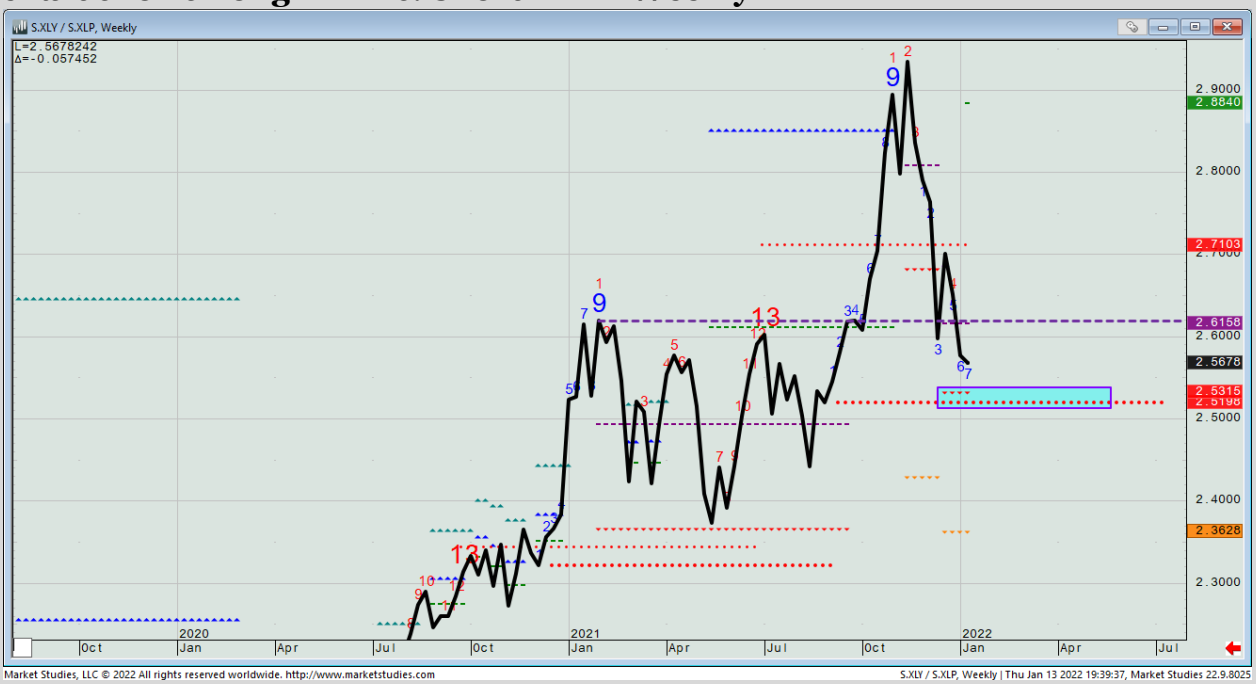
Long SPDR Energy (XLE) vs. Short SPDR Industrials (XLI)
Five weeks ago, we got our entry into this pair trade by going long one unit of XLE and short one unit of XLI. I'm targeting either a weekly Setup +9 or a move to the top of the channel – whichever comes first. We'll now raise our sell-stop to unwind half on consecutive daily closes beneath 0.5724.

Long XLE vs. Short XLI – Weekly



Long SPDR Consumer Staples (XLP) vs. Short SPDR Consumer Disc. (XLY)
We're long this spread (shown inversely in the chart below) at an average spread ratio of ~2.87 (i.e., we want this chart to go lower). We've already covered 2/3 of our position for a profit at an avg. ratio of 2.65, and remain with one-third of the position. We'll cover the remaining 1/3 over the next two weeks should this trade down to the 2.53 to 2.52 level.

We're Long XLP vs. Short XLY (we're playing for this ratio to go lower) This chart shows Long XLY vs. Short XLP - Weekly



Long SPDR Gold Trust (GLD) vs. Short SPDR Silver Trust (SLV)
We put this pair on over Friday 11/19 and Monday 11/22 at an average price of 7.5389. We were looking to exit the first half the trade in the 8.26 to 8.45 zone. (Getting up there, by the way, would create a long-term inverse head-and-shoulders pattern.) We've already taken off 1/3 (at 8.026) and we'll take another third off into our original target area. Now that the newest +13 saw a negative price flip earlier this week, we'll sell another 1/3 today. For the remaining 1/3-position, we'll make our sell-stop as consecutive daily closes <7.924 OR a single daily close beneath 7.8585.

Long GLD/Short SLV – Daily

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 occasionally 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