Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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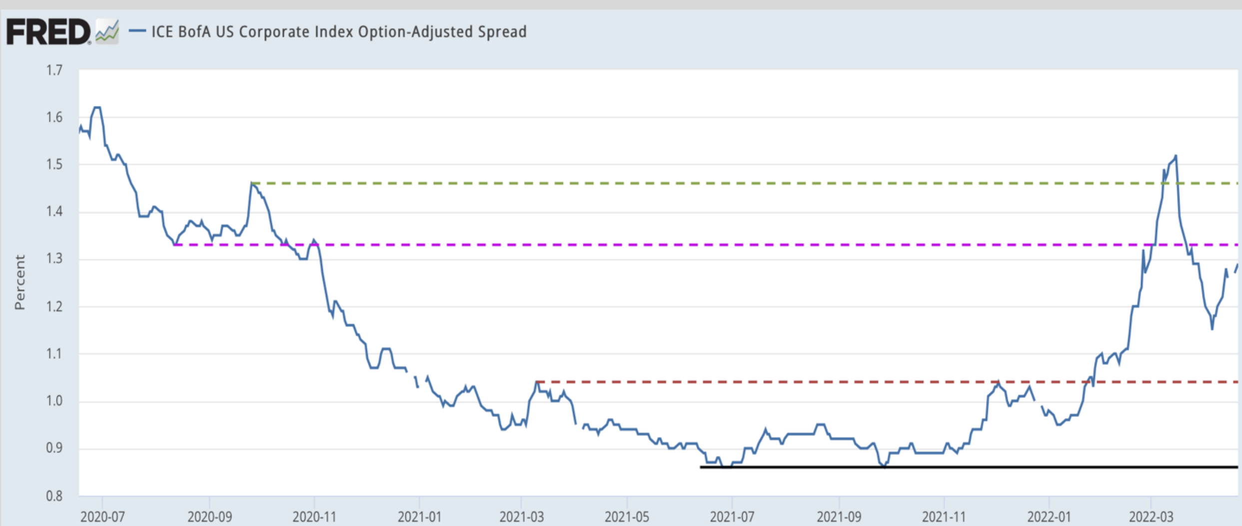
TACTICAL TRADER REPORT

The Macro Picture

Yesterday, the market came in higher on earnings, and then a few words from Fed Chair Powell – of which nothing said was a surprise to investors – apparently rocked investor's faith in a likely growing economy to lead to a SPX loss of 1.5% and a Nasdaq loss of over 2%. If you're having trouble making sense of all this, I assure you that you are not alone. Professional money managers are scratching their heads just as much as you are. Trust me, I know. I speak to them all day long and they are pulling their hair out after the up/down market we've seen this week.

We follow the **ICE BofA Corporate Index Option Adjusted Spread** – to me, one of the best credit spreads to watch to get a good sense of what historically is known as "real smart money" (i.e., fixed income market players) and what they expect from the credit markets, which almost always spills over to equity price movements. (Narrowing spreads are usually good for stocks; widening ones not so much.) After our seeing this spread widen out to as high as 1.52%, it then recently bottomed at 1.15% and is now up at 1.29% (as of Wednesday). I believe that the 1.15% low is THE low of the corrective downmove, with another leg higher coming that could potentially exceed the March peak, especially if the SPX makes new 2022 lows.

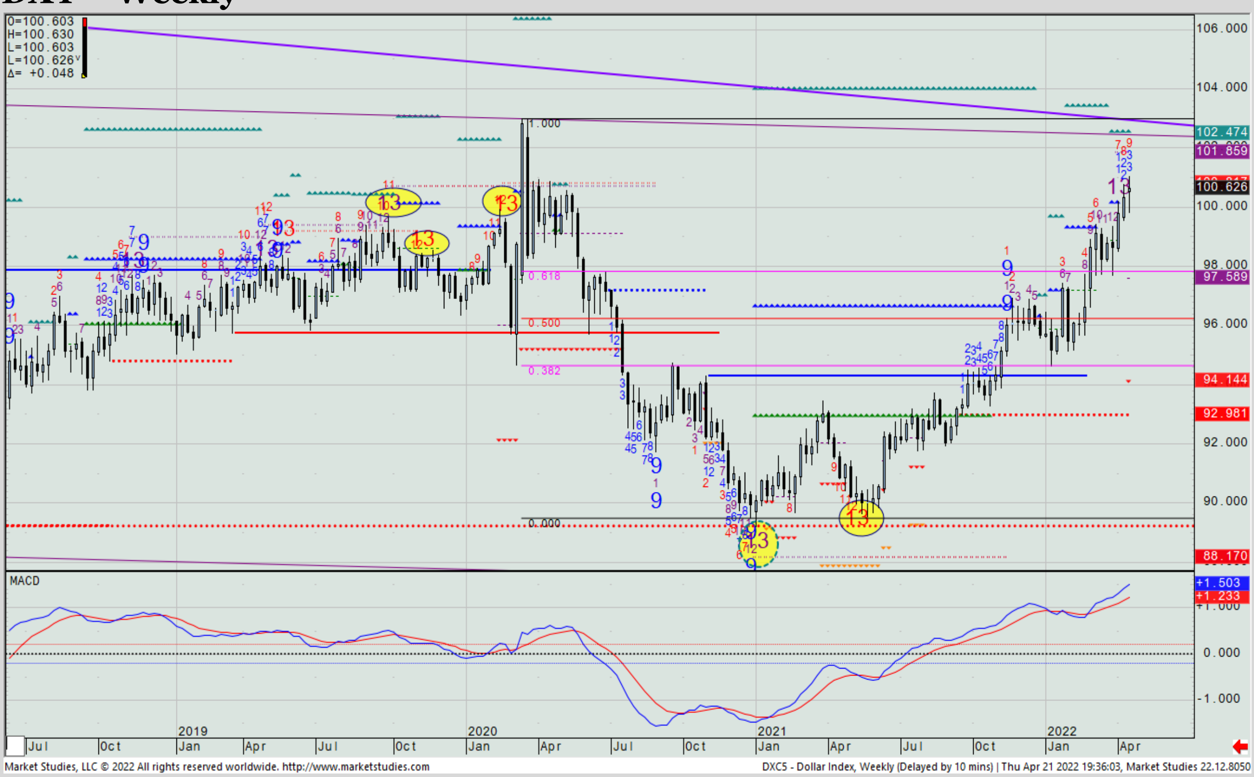


UST 10-yr. yields again made new multi-year highs, reaching 2.954%. They have a measured move up to near 3.25%, but the TNX chart also last week marked a weekly Combo +13 signal – the same indicator that showed up on the all-time low in Summer 2020.

TNX – Weekly

The Dollar Index still is near 100 and not more than 2% or so from major resistance seen at highs in 2020. We're also seeing some DeMark upside exhaustion signals, so I'm more apt to be leaning negatively on it than first going long up here

DXY – Weekly

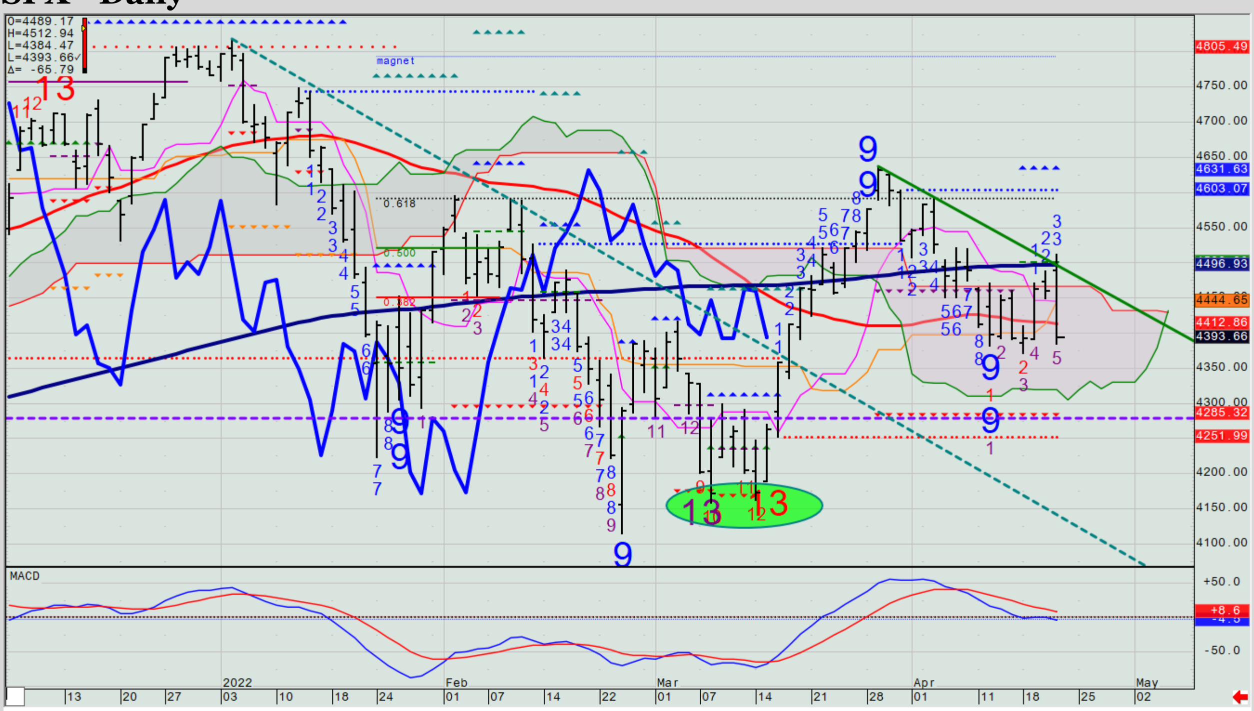


Gold again hurdled above $2000, but also again couldn't hold those gains. I still like the bigger picture, but this really does challenge one's patience. Gold does, however, remain the shining star vs. silver, which is just beneath 50% of its all-time high, whereas gold is only about 5% beneath its comparable one.

COMEX Gold – Active Weekly Continuation

We did see a bounce from the daily Setup -9 count, just as we saw a decline from the late-March Setup +9 count. However, yesterday stalled right against the downtrend line from that same recent high, and then it plummeted right back down to where last Thursday and this Monday closed.

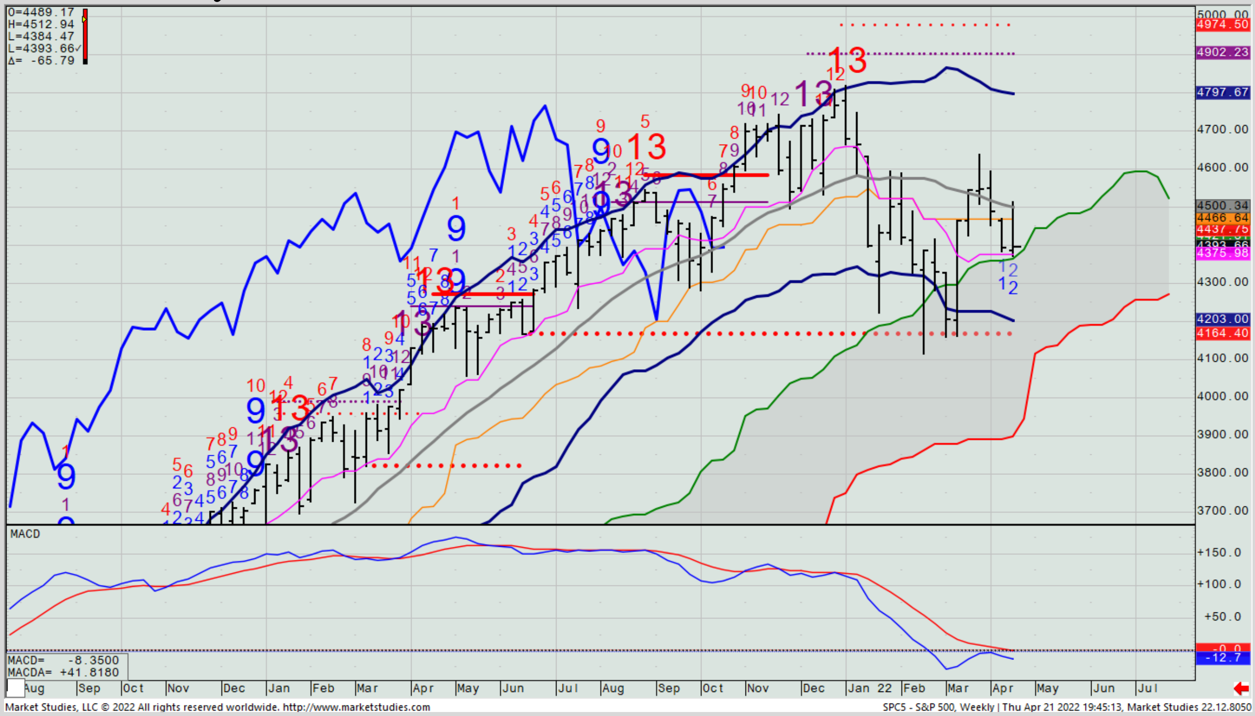
SPX - Daily



Like I said last week, right now we are *not* in an investor's market, but a trading one. Technical levels are as important as ever. Those black box models you hear about ("the algos") get programmed to know these levels, too. So, they play against them time and time again until they don't work.

There's still important support to close out the week from the weekly Conversion Line (4376) to the weekly cloud top (4364). Perhaps, we'll have a better idea of which way the market wants to go next week depending upon where it closes today.

SPX – Weekly



New ETF Trade Idea

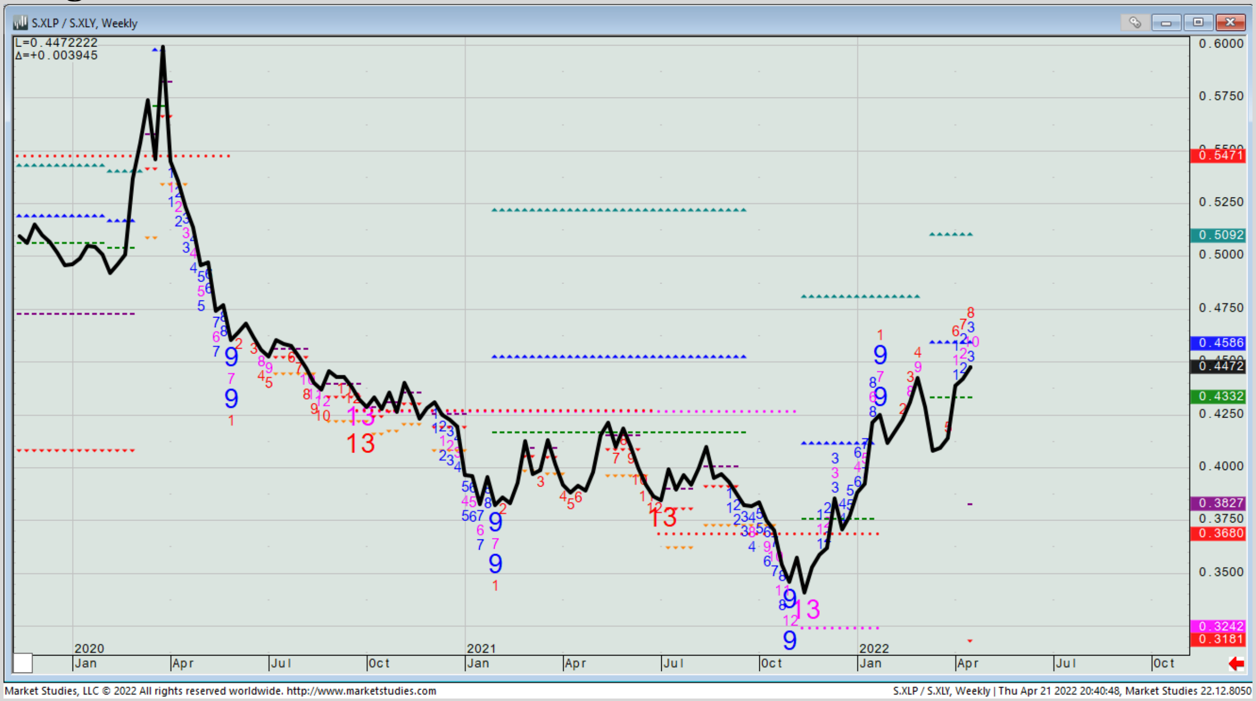
I think that trying to pick the outright direction of an individual name right now is quite hard. The volatility remains higher than it was in 2021, and investors are punishing or hailing a company after earnings, potentially seeing 10 to 30 percent moves overnight if they hate or love the report and/or guidance story.

As such, and as I've done before, this makes for a good time to consider using a pair trade to eliminate market risk and purely play the direction of one ETF vs. another. To that end, look at the below weekly chart of being long Consumer Staples (XLP) vs. being short Consumer Discretionary (XLY). To me, the peak in the first quarter finished a minor 5-wave upmove from the major low, making it either a Wave 1 of a whole major move up, or an "A" of an A-B-C corrective wave. That makes the recent low in late-March a likely Wave 2 or "B", giving this likelihood that Wave 3 or C continues higher. The counts would suggest that move could go as little as 3 and as many as 6 more weeks.

Thus, we will look to buy XLP and short XLY against it by today's close. If this moves higher like I'm expecting, we'll scale out of it into mid-May and June. The sell-stop will be made based upon the SPX's chart, and should we see an SPX Friday close above 4545, we'll know that this defensive-oriented pair trade was not the right way to play it.

Note: the very nature of buying a defensive sector like Staples and shorting a more cyclical, growthy sector like Discretionary is, in itself, a more defensive type move and would be considered by most to be a bearish market call. I'm mostly looking at it as 1/3 that and 2/3 simply the way the chart looks headed.

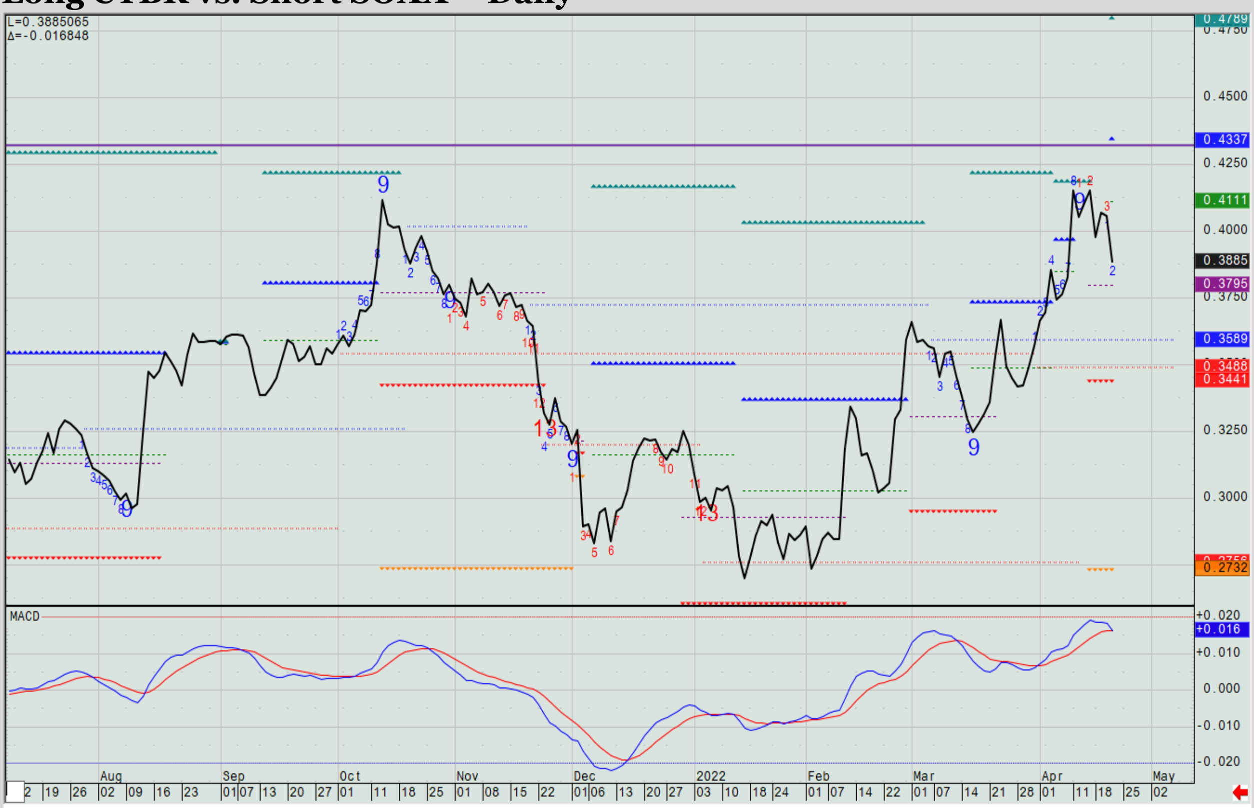
Long XLP vs. Short XLY



Other Open Recommendations and Positions

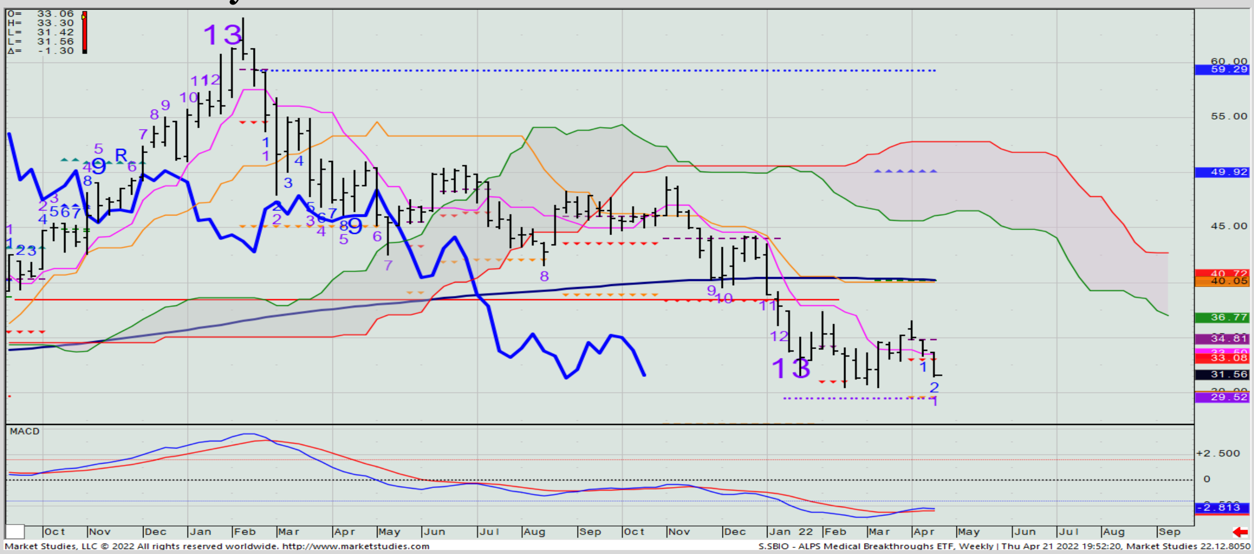
Last week, I made an error by suggesting what was an individual stock (CYBR) for what I thought was the ticker for the ETF I wanted to go long (CIBR) vs. a SOXX short. Given the error and how it traded this week, I rather just get out now and take the small loss.

Long CYBR vs. Short SOXX – Daily



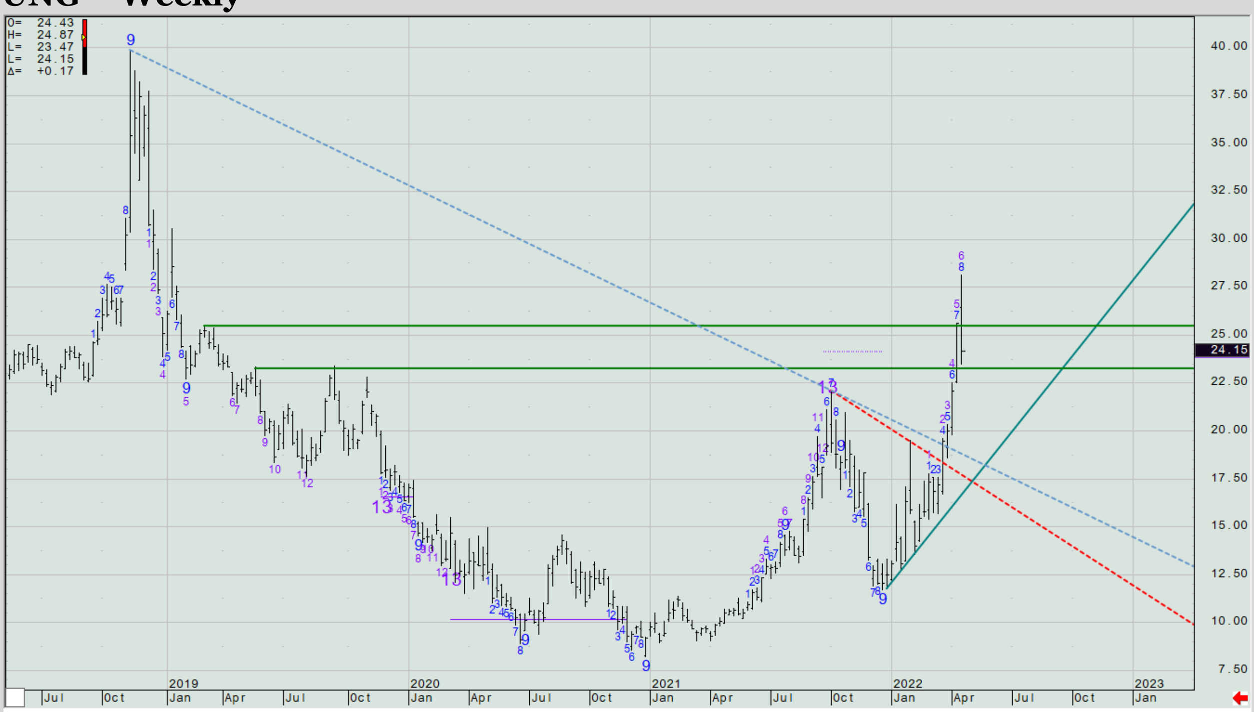
Long ALPS Medical Breakthrough ETF (SBIO)
Two Fridays ago, we bought one unit (avg. entry price of $35.21). We're looking to hold this to see if it can post a weekly Setup +9 count over the next month. Our sell-stop is a week-ending close beneath $33.08, so we likely get stopped out today.

SBIO – Weekly



Long United States Natural Gas Fund ETF (UNG)
Four weeks ago, we got long one unit of UNG (avg. entry at $19.36), looking to potentially hold it for several months, on my belief that not only had natural gas broken out in the near-term, but that it's getting closer to having a bigger, major upside move. We saw a breakout and immediate dive in the past week, but we have a very good entry point and can withstand the near-term pressure. I think the fundamentals are still very strong for this, and we will continue to hold on for a play that goes beyond our typical short-term holding period.

UNG – Weekly



Long iShares China Large Cap ETF (FXI)

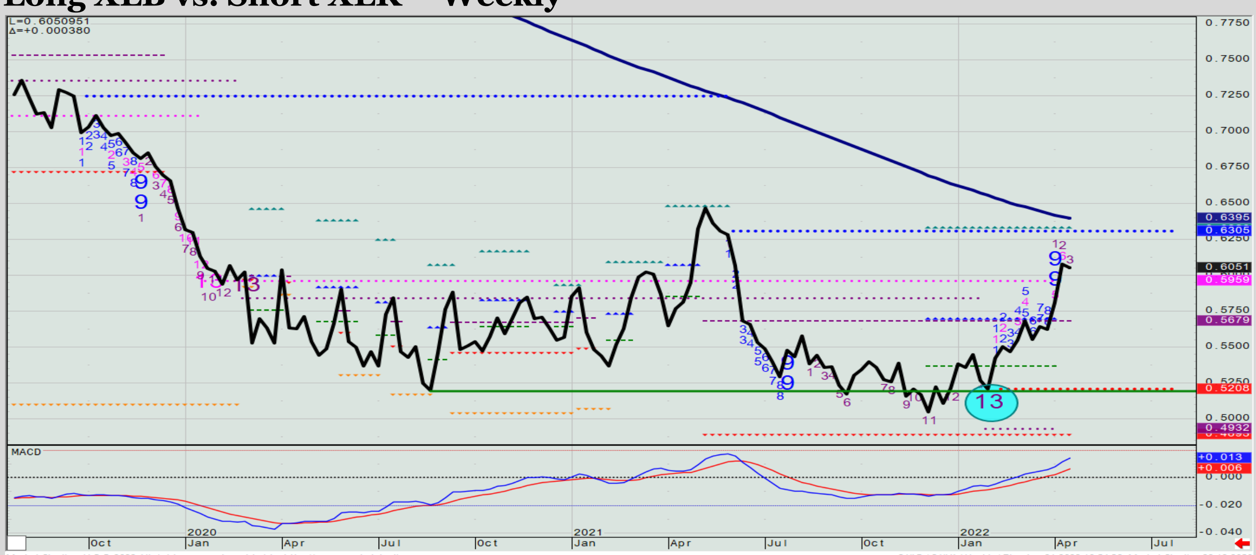
We've been looking to buy this on a pullback into the $29.75 to $25.50 range, and we're finally getting the chance. (I'd reverse pyramid scale down bid, bidding for larger sizes on the higher end of my prescribed buying range.) My target is likely in the mid- to upper-$30s. The stop out needs to be somewhere under the low of the move ($26.13): pick your poison.

FXI - Daily

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

Seven weeks ago, we at 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. Since then, we took 1/3 off (at an avg. of 0.5786), and we'll take another 1/3 any week now that we hit the 200-WMA. Our sell-stop was recently raised to a Friday close beneath 0.5917.

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.

Disclaimer