Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com April 29, 2022

TACTICAL TRADER REPORT

The Macro Picture

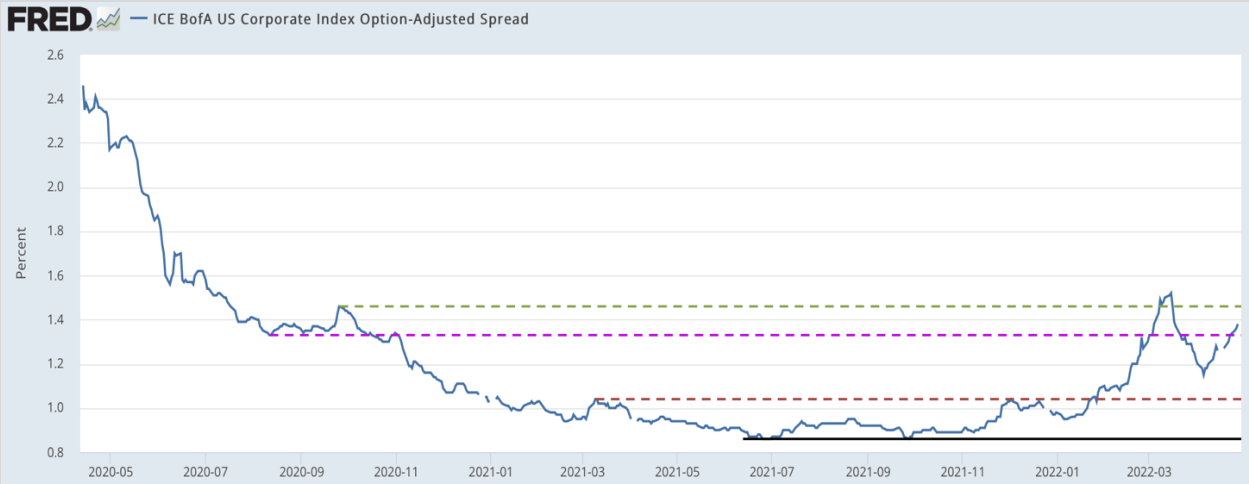
As earnings season continues, we are seeing very barbell type results. The upside surprises are getting large gains, while the misses are getting squashed. Just look at Meta (FB) and Netflix (NFLX), respectively. If you've been involved in either of those two names, you've seen (and felt) exactly what I mean.

Thursday's early gains were fueled by Meta's beat. The stock has been trashed, and it gained substantially yesterday as shorts got squeezed (bigtime), and those waiting for that report to even consider getting back into it are now forced to pay well higher prices.

Have the macro headwinds changed? Not in any significant way. But as we said last week, we are in a trader's market, and that comes down to leaning on support levels to buy and resistance levels to sell. Trying to have bought most names (for the bulk of 2022) as "investments" has meant losses to date. Until I have enough data to make me think otherwise, we still will be playing ranges (and not particularly investing).

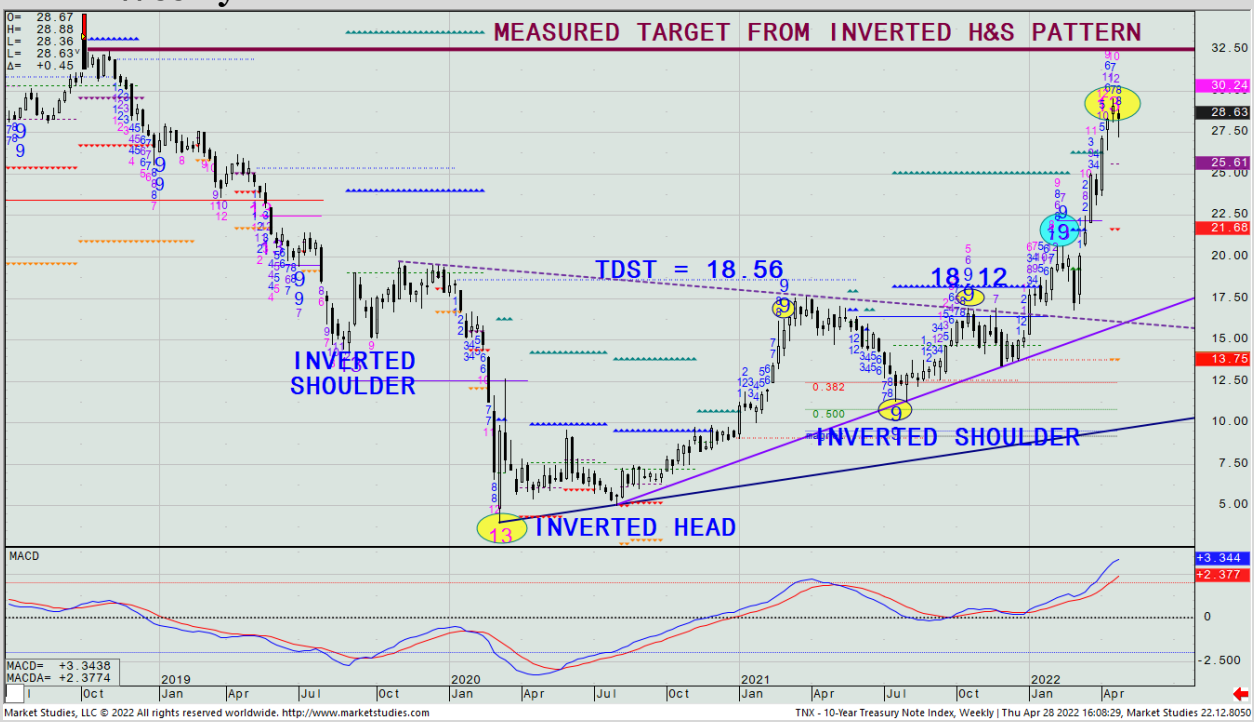
I'm not a big fan of the AAII poll that is frequently referenced on the Street. It comes out every Wednesday, and this week's numbers showed only 16% bulls – the third week in a row under 20% (and the lowest three-week bull reading in 30+ years). Bears are at 59% -- their worst reading since 2008. That's why I didn't take much beyond the Meta results to get investors running back in yesterday.

Let's look across the macro arena for what we see. We'll start with credit spreads, which continue to widen out. The **ICE BofA Corporate Index Option Adjusted Spread** recently retraced a good chunk of their breakout move from January, but the April low at 1.15% is likely the low of that move, and I'd really not be surprised to see this make new 2022 highs in coming months. (It's at 1.38% as of Wednesday.)



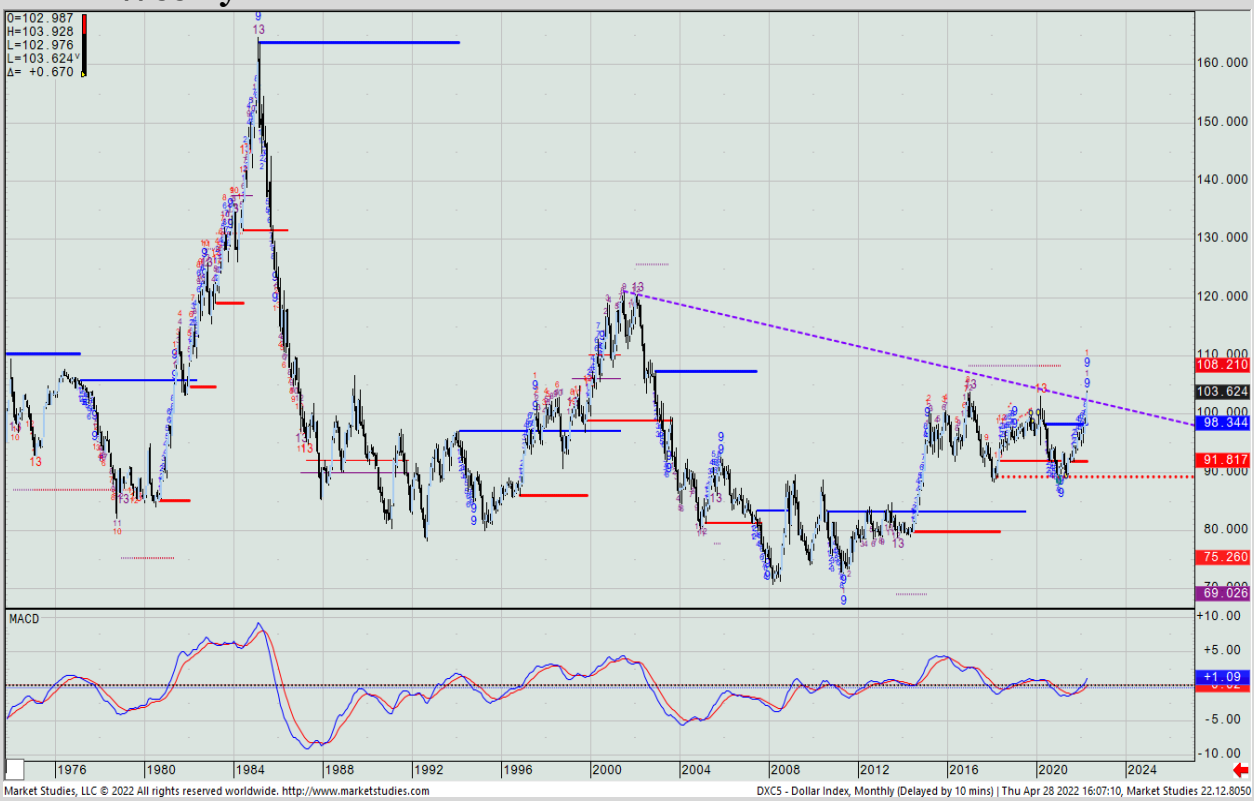
UST 10-yr. yields have stayed beneath last week's multi-year highs of 2.954%. They have a measured move up to near 3.25%, but the TNX chart also shows its first weekly Combo +13 signal – the same indicator that showed up on the all-time low in Summer 2020. This is *not* a time to be selling your bonds.

TNX – Weekly



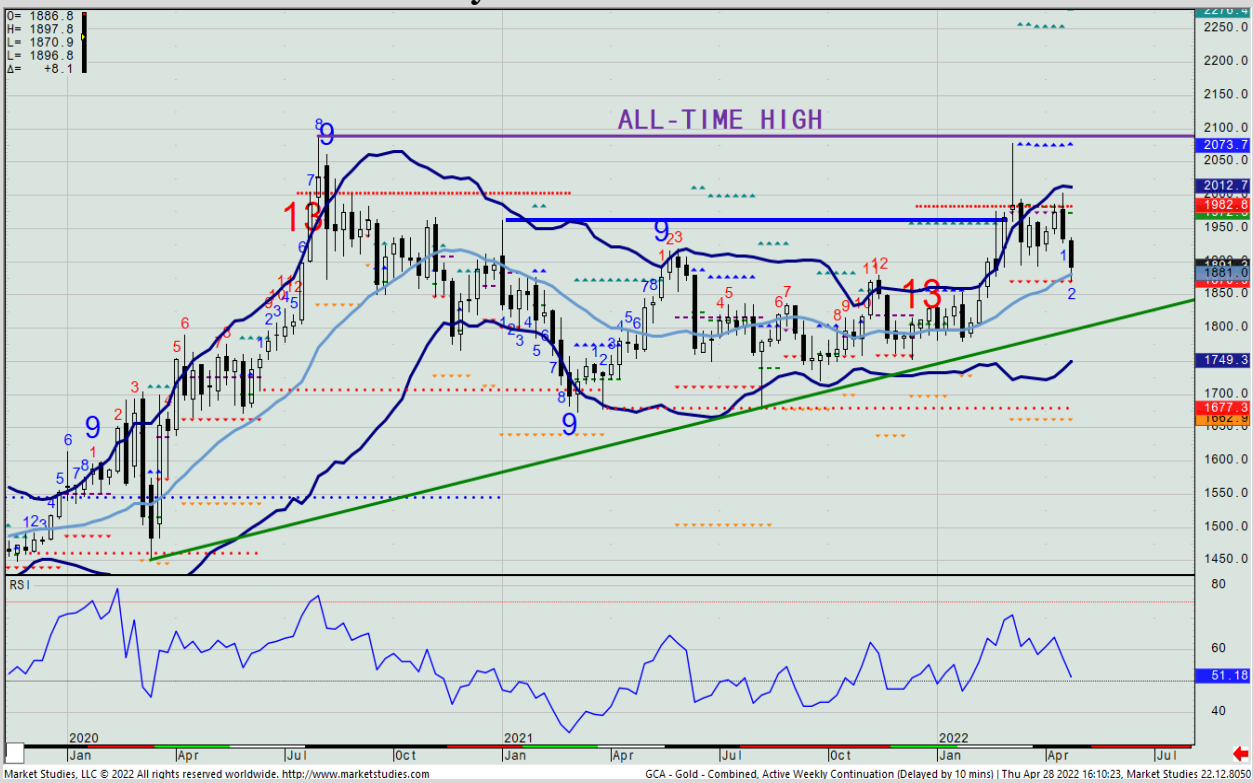
The Dollar Index is still surging. Thursday it reached 103.93 -- its best level since Spring **2002**. I am still seeing some upside exhaustion signals, but will not outright short it until I have more reason to do so. What I'm *not* doing is buying it right now.

DXY – Weekly



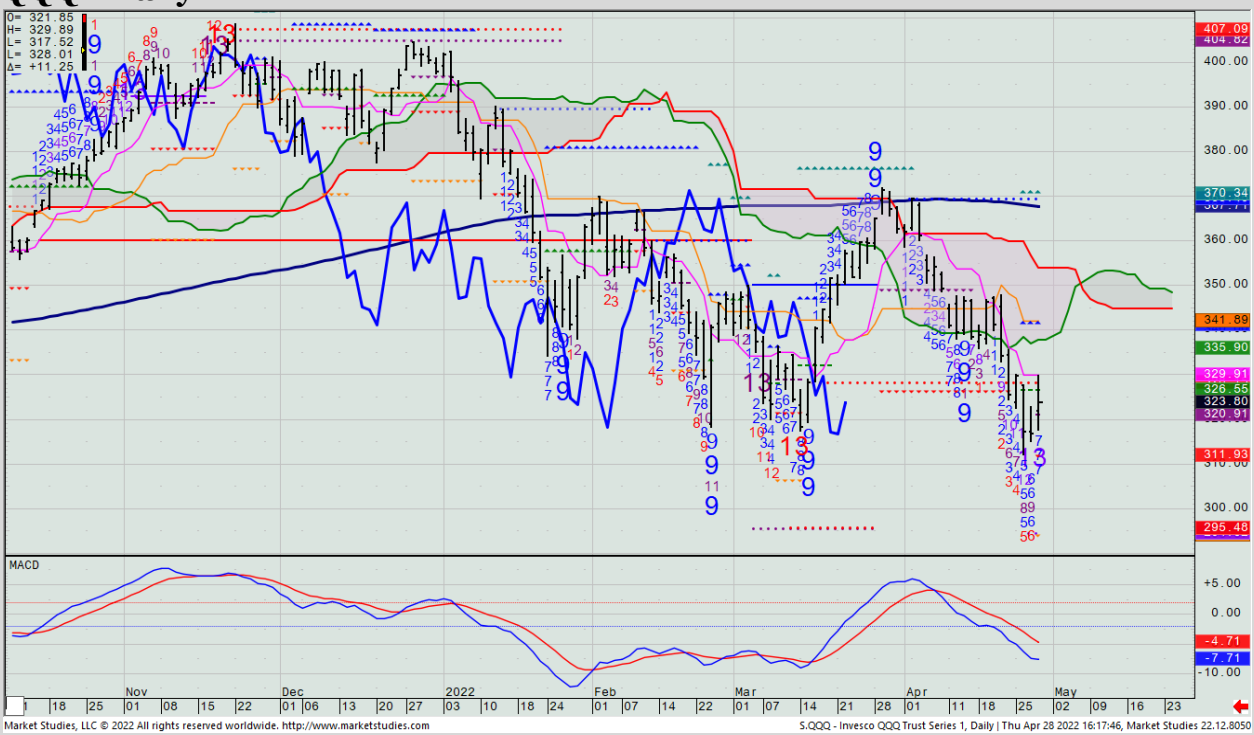
Gold is losing ground daily (mostly from the strong dollar). It's pulled down to its middle weekly Bollinger Band and Propulsion Exhaustion level. That is about as low as I want to see it go.

COMEX Gold – Active Weekly Continuation



Let's turn to the equity markets. The Qs made a new 2022 low on Wednesday, only to surge 3% on Thursday. You'll see that it had marked its first daily Aggressive Combo -13 of the year on Wednesday. (We'd already seen the Aggressive and Standard Sequential ones Feb. and March at/near the lows.)

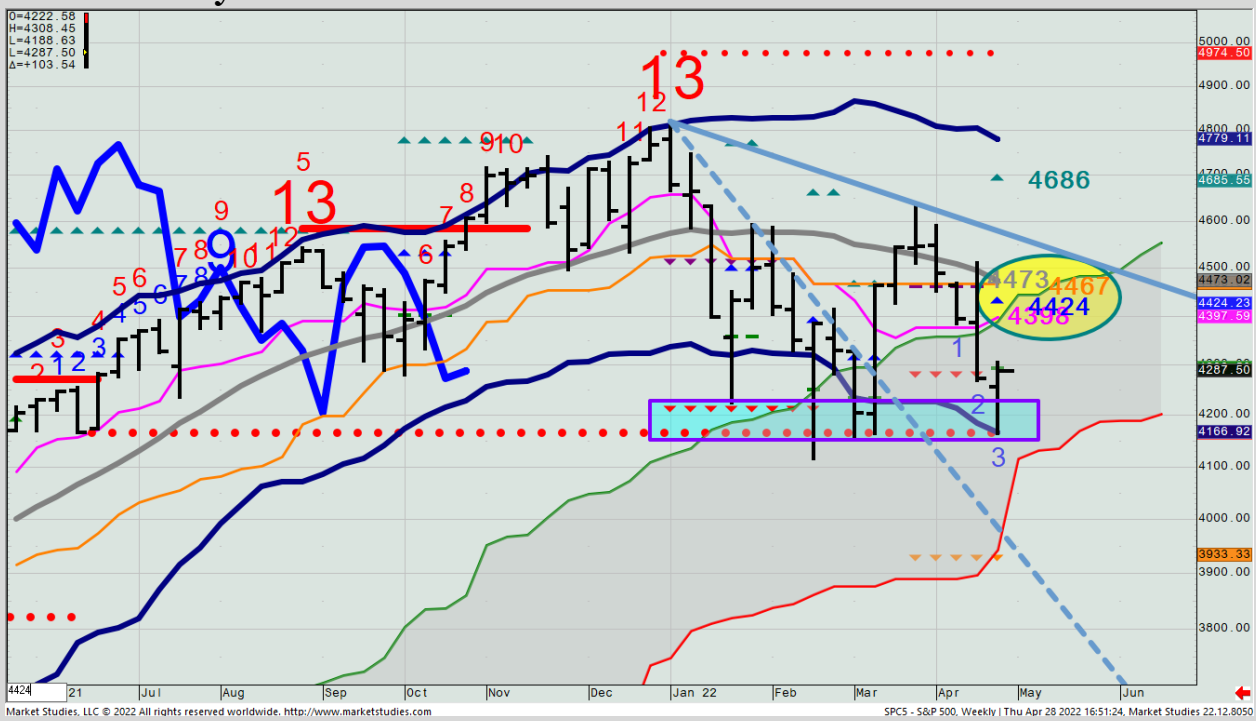
QQQ - Daily



The SPX gained 2.5% on Wednesday, and similar to the QQQ, it posted a bullish candle "morning star" 3-day pattern. From a support level like it came from, that should be bullish for the near-term. But Wednesday's post-close earnings were also mixed (AAPL beat; AMZN whiffed), so I can't even guesstimate yet how today is going to trade.

So, let's then focus on the weekly chart, because that gives a better bigger picture view than does the daily chart. This week again fell to its TDST level (4164) and bottom Bollinger Band. Clear support from there to cloud bottom (just beneath). But look at the zone I've circled in yellow. In there is the cloud top, Conversion Line, Propulsion Exhaustion level, Base Line, and middle Bollinger Band. That's clear resistance. And if you haven't figured out what I'm about to say, it should be somewhat obvious: Trying to figure out which way to position in between these two key zones is an exercise in futility, as is fairly evident by the daily gyrating price action that is like a see-saw on steroids.

SPX – Weekly

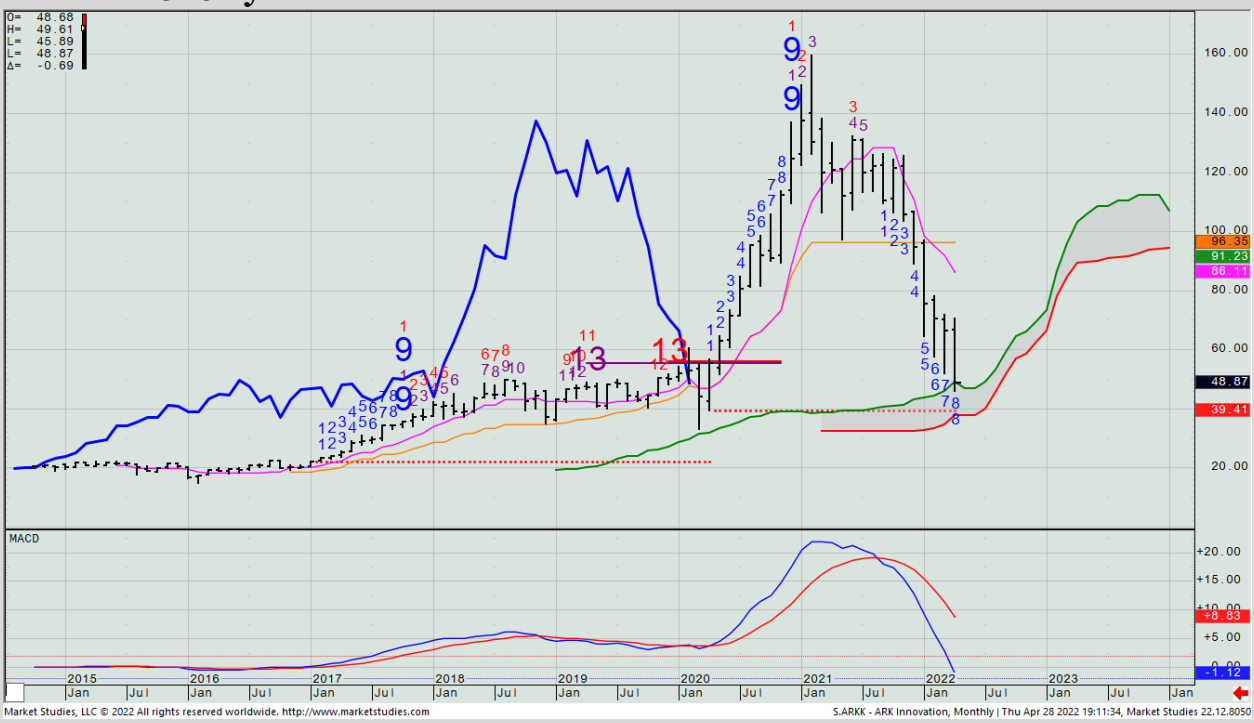


New ETF Trade Idea

I'm going to put out a trade idea that will end up being a longer-term hold idea (in essence, an investment more than a trade). It's in an area of the market that has been badly beaten up in the last 15 months, and it's still falling out of bed. (Doesn't sound too enticing, does it?) Well, our entry level is not here yet, but it's the type thing where you put in some bids into a level that I think can hold when reached, and provides what could very well be an ideal entry price because the names that make up this ETF are generally good names.

Let's look at Cathy Woods' ARK Innovation Fund (ARKK), which is getting absolutely shellacked. Daily and weekly charts are abysmal, BUT the monthly chart shows an area beneath present price that I would actually buy this fund. The chart (top of page 5) shows that its monthly cloud goes from $49 to $37, and within that cloud, there happens to be a TDST Line at $39.41. You'll notice that April is also a Setup -8 count, with a virtual guarantee that May will mark its first ever monthly Setup -9.

ARKK- Monthly

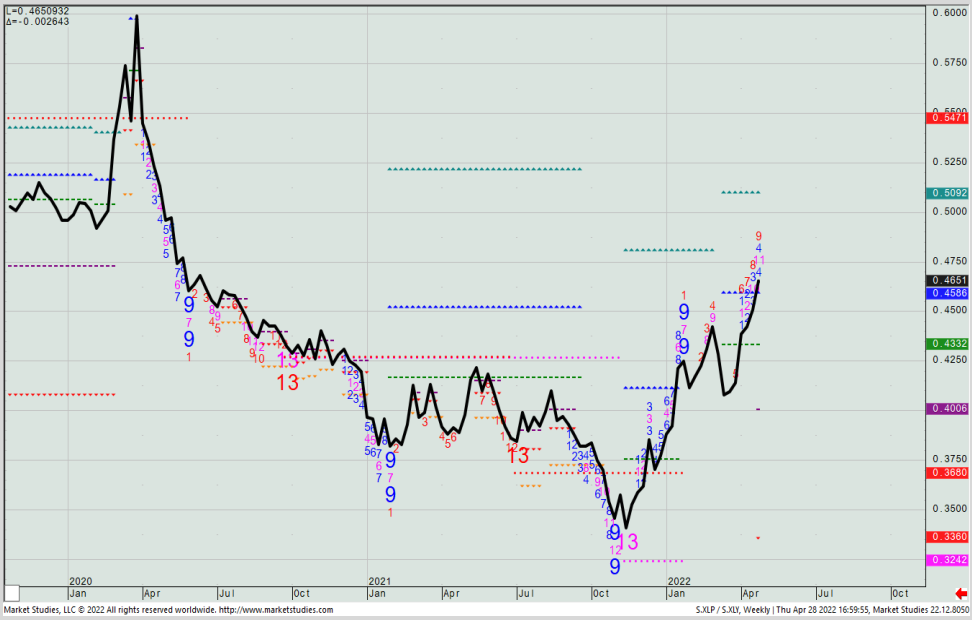


Starting next week, I'd literally scale down bid across this $12 range with the goal of holding it 3+ years. Once we get into it, I'm not even going to track it each week, because it will just make us get out too soon.

So, if you're game on an idea like this with a long-term holding perspective, this is an idea that should pay off well over time. I'm going to do it in my own account, too. This will be one you'll have to just accept the short-term pain for the long-term gain. Like always, it's up to you if you want to get in on this particular idea.

Other Open Recommendations and Positions

Long Consumer Staples (XLP) vs. Short Consumer Discretionary (XLY)
Last Friday we bought this pair trade, looking for staples to outperform discretionary names. We got in at an average ratio price of 0.4503, and it's already at 0.4651, so this week alone picked up 3.3% on a pair trade. That works.

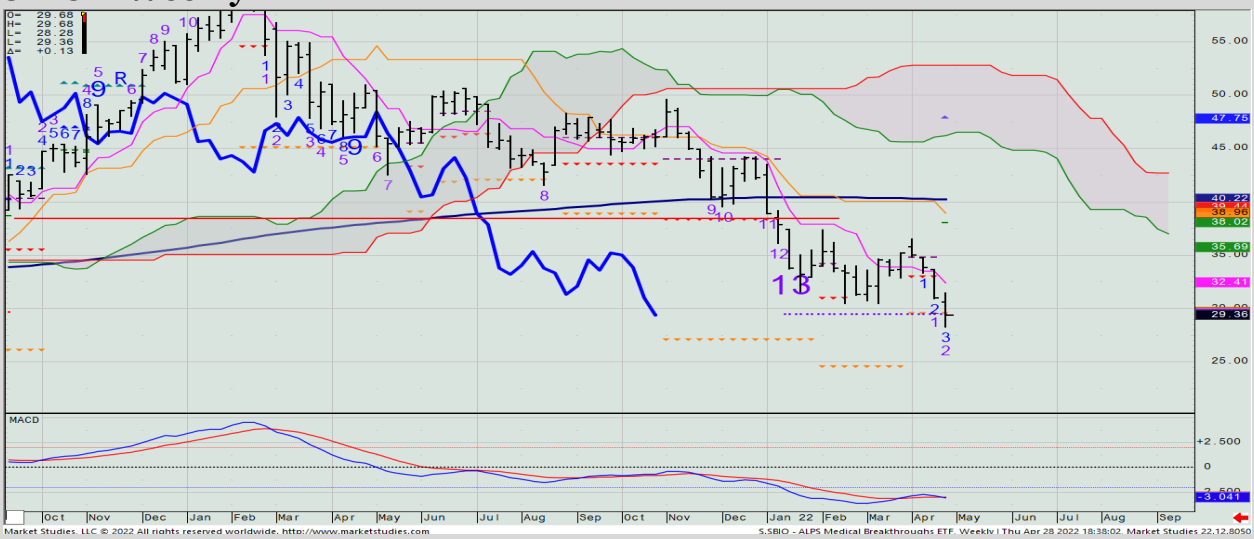


If this continues higher, the earliest I might suggest reducing exposure is on the weekly +13 in two more weeks from now, but we'll see. We'll stop out only on a Friday close beneath 0.4311.

Long ALPS Medical Breakthrough ETF (SBIO)

Three Fridays ago, we bought one unit (avg. entry price of $35.21). Our sell-stop was a week-ending close beneath $33.08, so we got stopped out last Friday. We lost 12% on this trade.

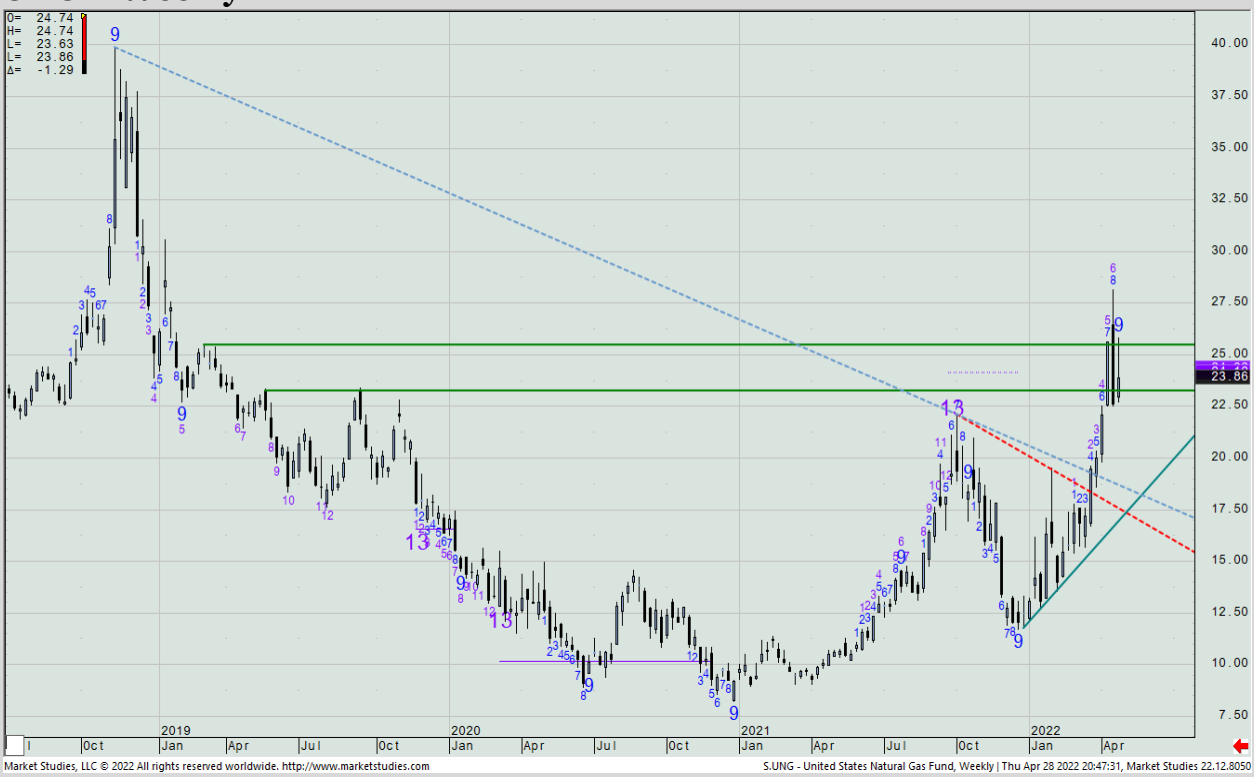
SBIO – Weekly



Long United States Natural Gas Fund ETF (UNG)

Five 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 pullback, but we have a very good entry point and can withstand the near-term pressure. Nonetheless, with the weekly Setup +9, let's take off 1/3 today. I think the fundamentals are still very strong for this, and we will continue to hold on to the balance for a play that goes beyond our typical short-term holding period.

UNG – Weekly

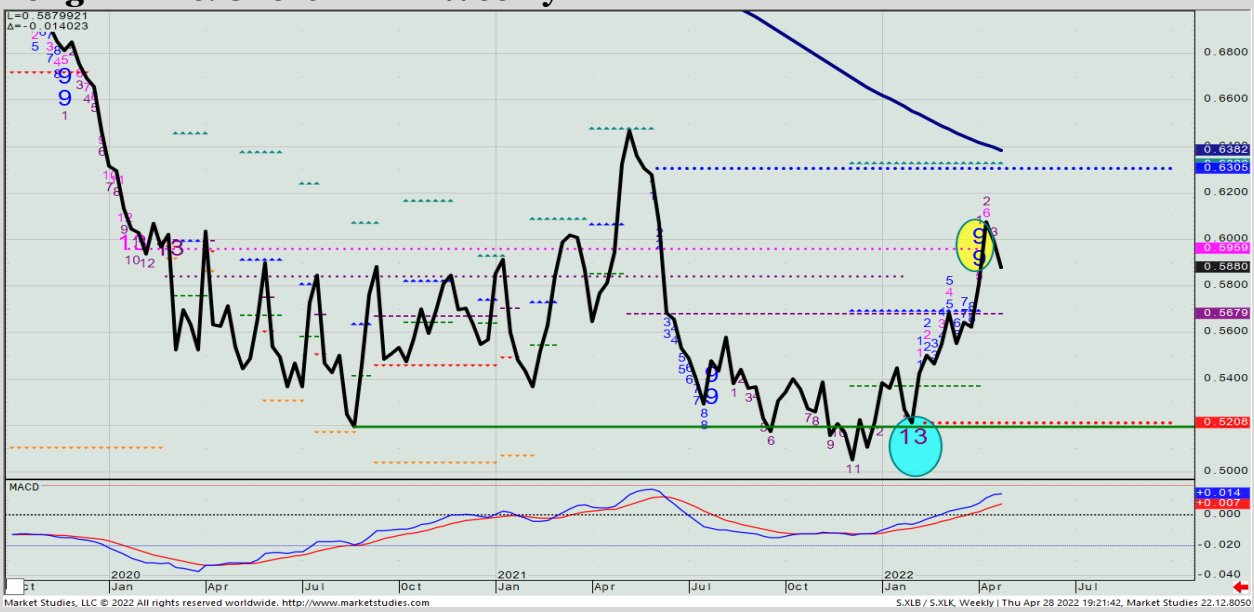


Long iShares China Large Cap ETF (FXI)
We've been looking to buy this on a pullback into the $29.75 to $25.50 range, and we finally got that earlier this week. (I said I'd reverse pyramid scale down bid, bidding for larger sizes on the higher end of my prescribed buying range.) So, I don't have a precise avg. long price, but as of yesterday we were at least making some money. 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, so that may happen today.

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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