Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

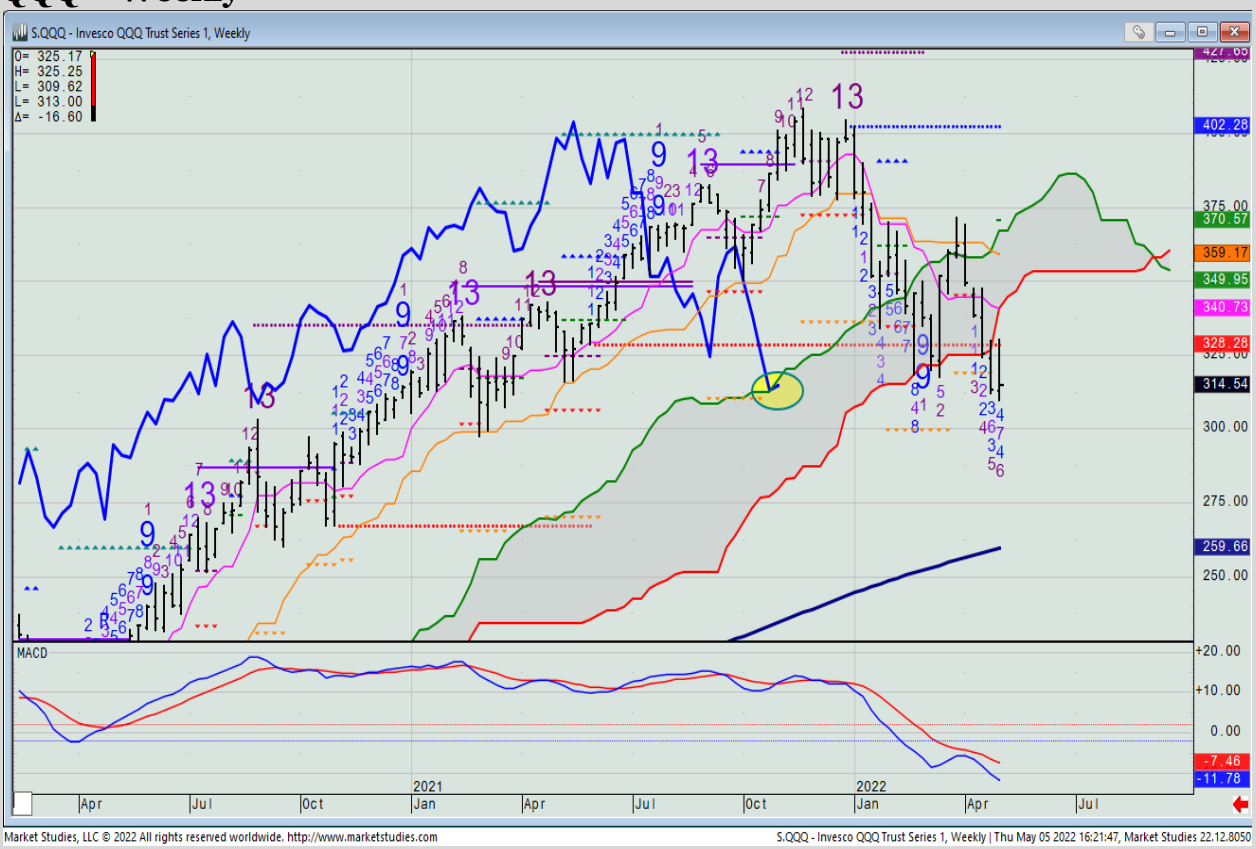
The Macro Picture

This is a week for the record books, and anyone who is trading is likely experiencing whiplash like never before. (Can we sue Mr. Market for causing this pain?) Thursday's giveback (and beyond) of Wednesday's post-Fed meeting "best day in a few years" rally was astonishing for anyone who bought the Powell press conference-driven rally who was thinking, "Finally, we have a bottom".

Uh… No. Well, let's get right to what I'm seeing in the Nasdaq 100 and SPX 500, because I'm confident about what I've already declared as being the key to what comes next. And it all comes down to the weekly cloud charts for both of them.

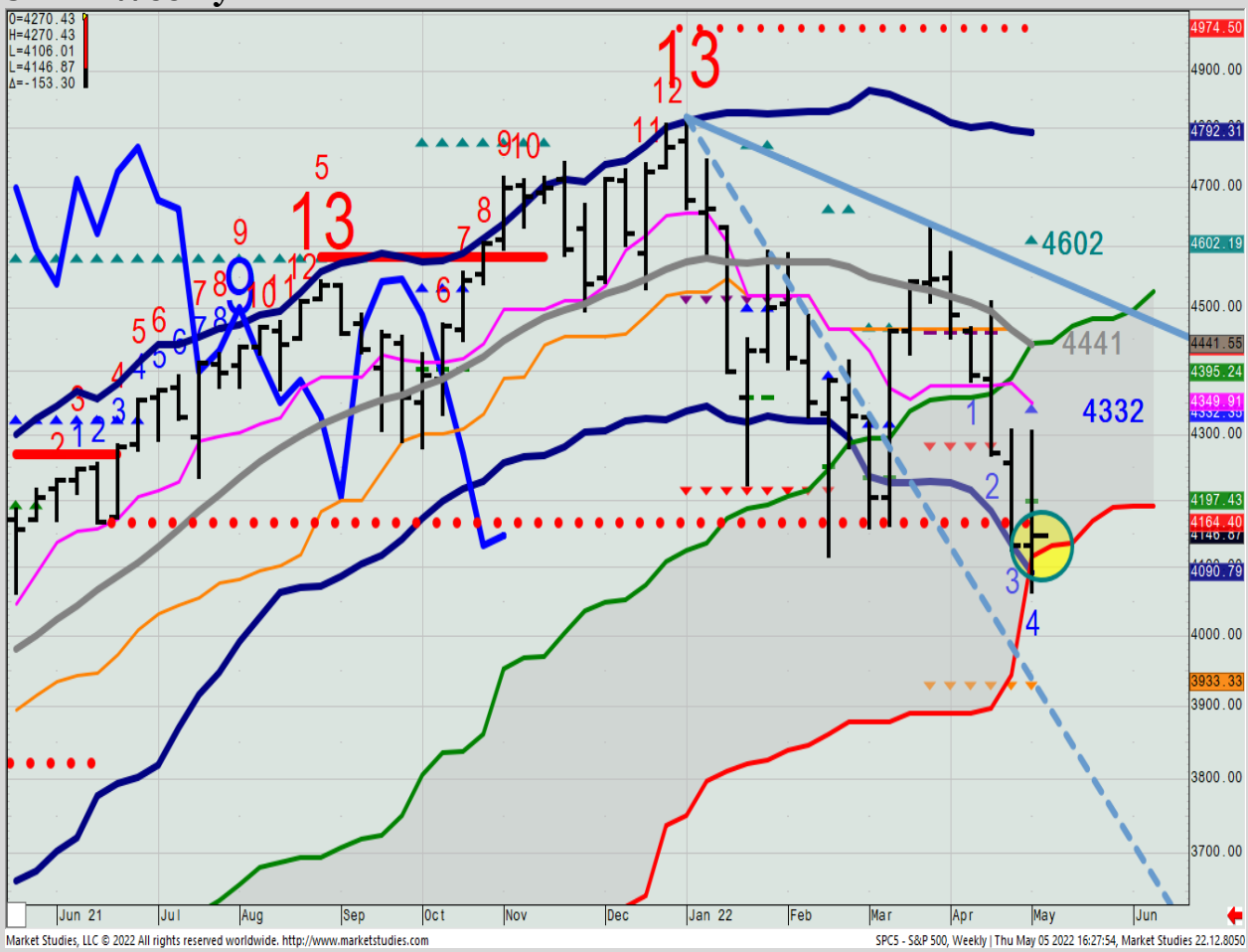
The NDX's tracking ETF, the QQQ, is the weakest of the four major US equity indexes. Its price has already broken beneath its cloud bottom, enough so that its Lagging Line has already sold down to the top of its cloud – another potential and important support level.

QQQ – Weekly



The S&P 500 last week also sold down this week to an important cloud model support level – it's cloud bottom at 4115.

SPX – Weekly



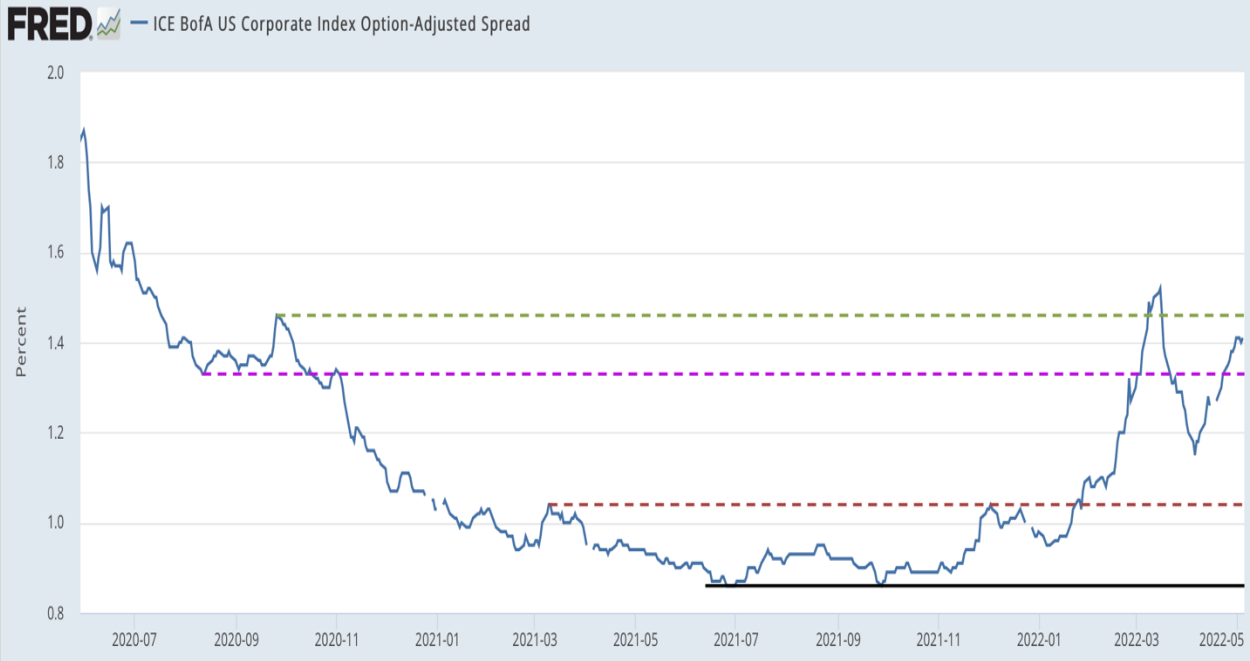
So, dear readers, the best that I can surmise the next decent move in this market is going to come from these two key weekly levels either holding this week's lows and bringing a rally with it in the coming few weeks OR closing beneath their respective bottom and top cloud support levels tomorrow and then leading to further declines which I estimate to be 12% for the SPX and 9% for the Qs.

So, these key support levels are where I'm going to focus for the next few Fridays:

DATE	SPX	QQQ
May 6	4115	310.23
May 13	4131	310.23
May 20	4136	310.23

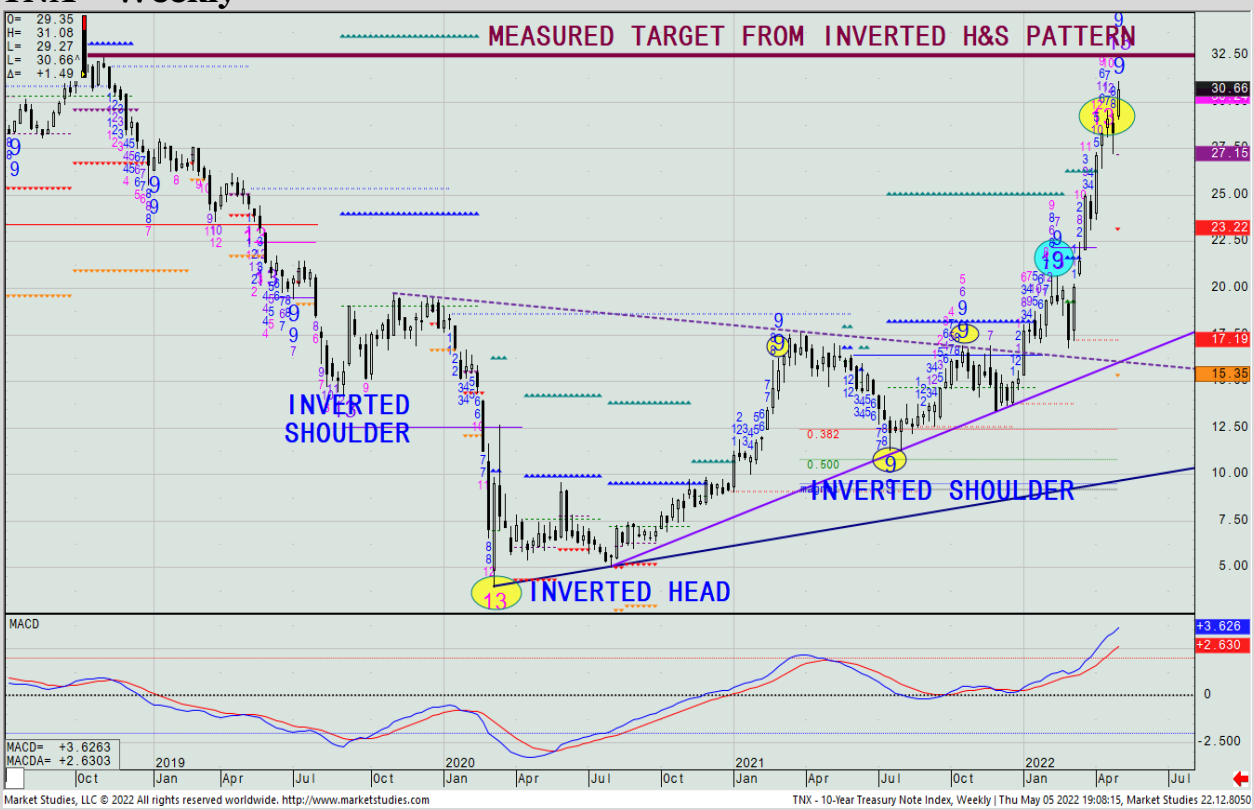
Any Friday close beneath the above respective levels and we likely get more bearish action.

Credit spreads continue to widen, as I've suggested they would since that early-April low was made. I've been playing this to see new 2022 highs, and they will likely come shortly. New highs also would complete a cyclical bottom with a cup and handle pattern.



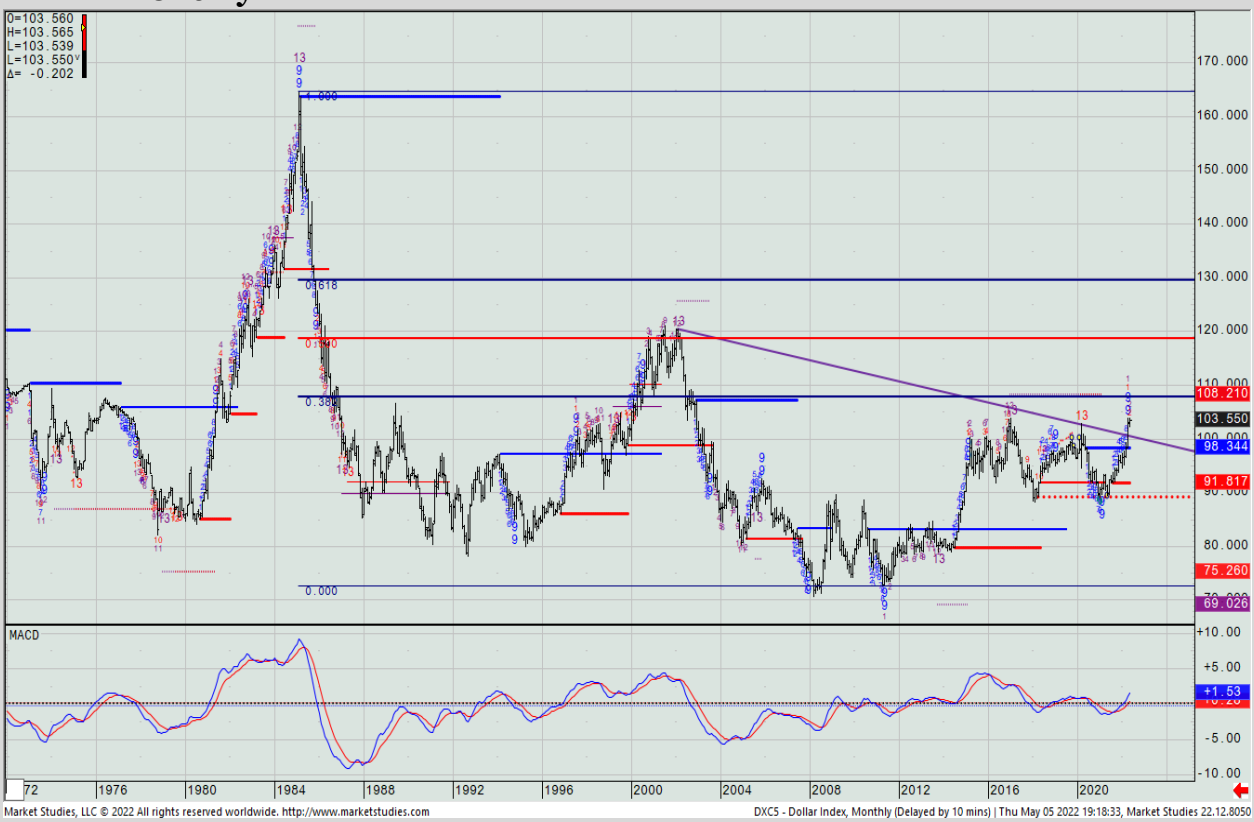
I certainly was wrong last week saying that it was *not* time to be selling bonds. Yields continue to rally – despite that weekly Combo +13 signal from a couple of weeks ago – and are likely heading to test the 3.25% measured target from the inverted head-and-shoulders pattern as well as that being the last high made before the dive down to what was new all-time lows in early-2020. Nonetheless, this week is a Setup +9 count, and I'd still not want to be putting on new bond shorts here.

TNX – Weekly



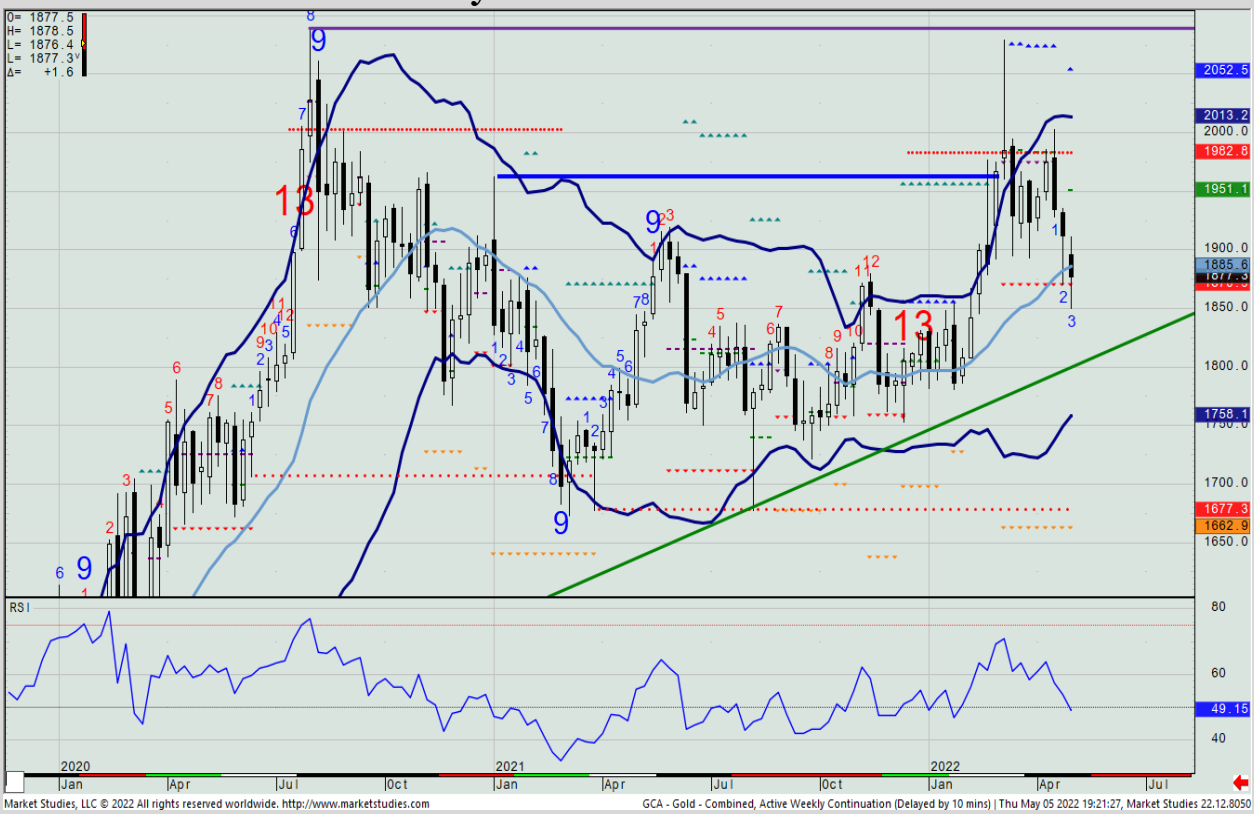
The Dollar Index is trading as erratically as is the SPX, with the new high of the move up at 103.94 on Thursday – literally a single pip above last Thursday's high-of-move. I am not buying the dollar up here, despite lots of bullishness in it across the Street.

DXY – Monthly



I believe that gold had its flush out move early this week, and if the dollar gets any pullback of a few percent, gold cold finally rally to above $2000/oz. and actually hold those gains – something it has not ever been able to do. This week's low will be an important stop-out level in the future.

COMEX Gold – Active Weekly Continuation

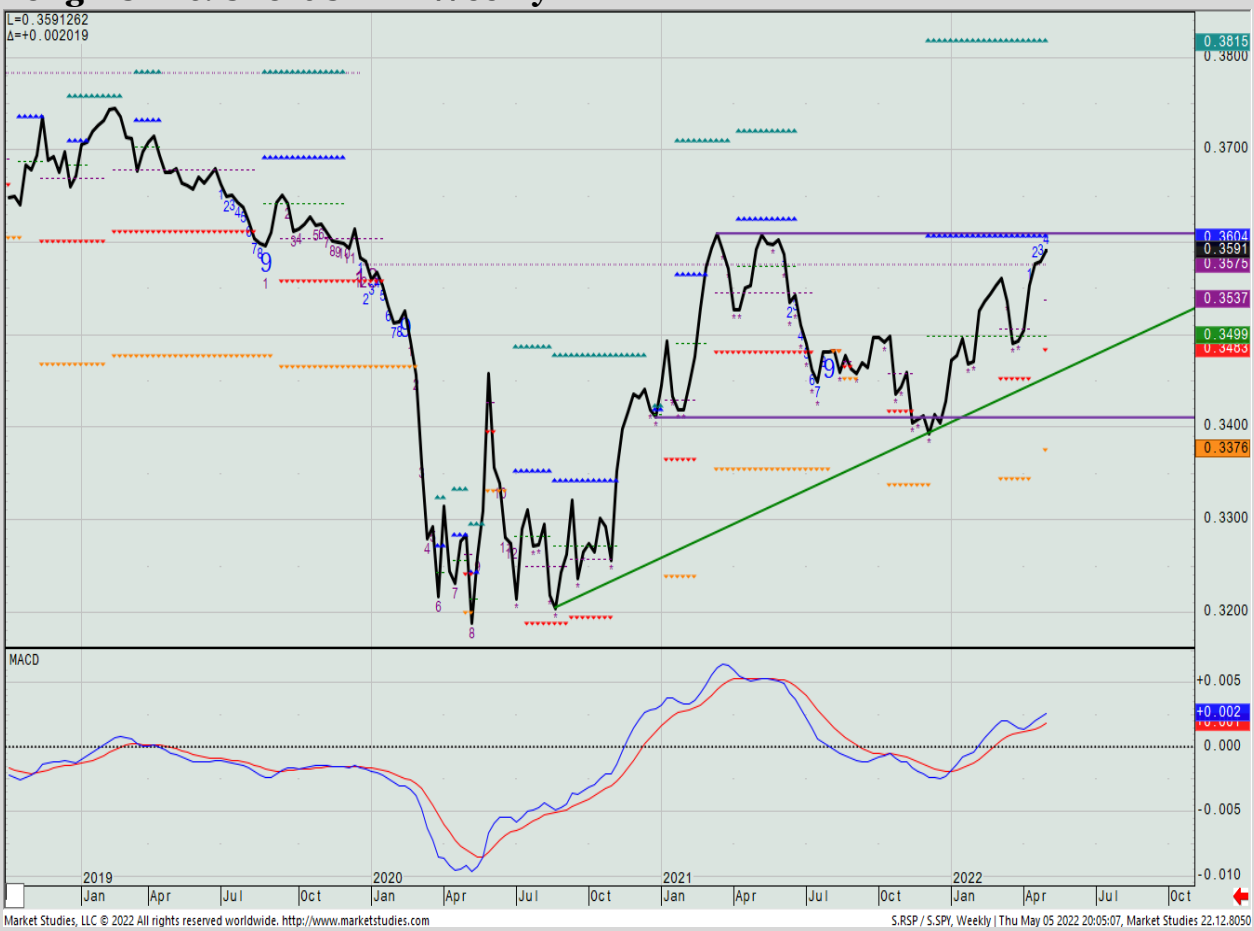


New ETF Trade Idea

I'm going to keep with the idea of playing pair trades when we see volatility like we've been seeing the past couple of weeks, for it allows us to greatly reduce the risk of being in a pure directional outright move. We surely don't like the chance to lose 4-6% in a single day, and pair trades generally reduce the chances for that to happen, especially when we play them in major indexes.

Looking at being long the equal-weighted S&P 500 (**RSP**) vs. short the cap-weighted S&P 500 (**SPY**), I see that there's a somewhat modified looking cup and handle-type bottoming pattern that is nearing its upside breakout point just north of 0.36.

Long RSP vs. Short SPY – Weekly



Given that we've seen some other markets with a similar pattern that have recently broken out to the upside, we're going to play that this one will, too. As such, we will buy this pair in three steps: 1) buy 1/3 position today; 2) buy 1/3 position on a Friday close above 0.3604; and 3) buy 1/3 position on a pullback to 0.3537. (Remember that pair trades are always done in equal-dollar amounts.)

We will play for this upside breakout and target to sell half just north of 0.37 and half just north of 0.38 (where we see upside Propulsion Full Exhaustion levels).

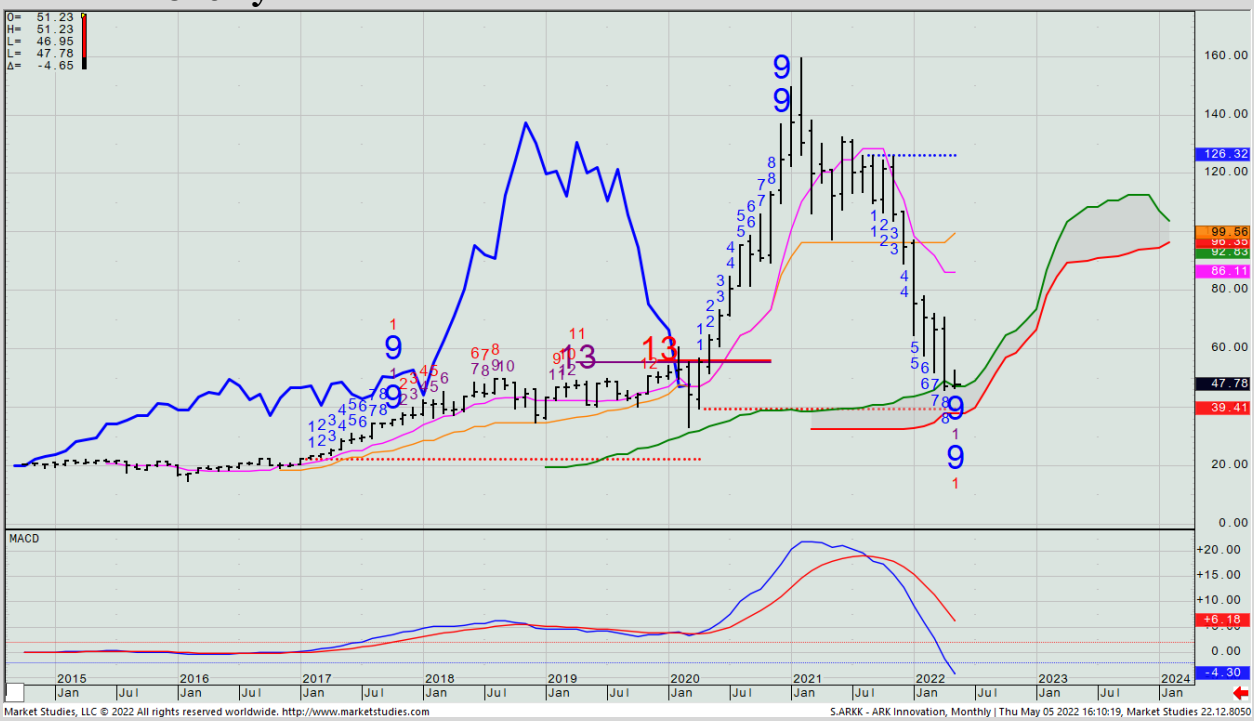
For those who don't or can't take on a short position, you could, in theory, go long RSP and long the S&P 500 short ETF (**SH**) in equal dollar amounts. It just means that you are laying out a lot more money to have this position on than by doing a dollar neutral amount as it would be in the RSP/SPY trade.

Other Open Recommendations and Positions

Long ARK Innovation Fund (ARKK)

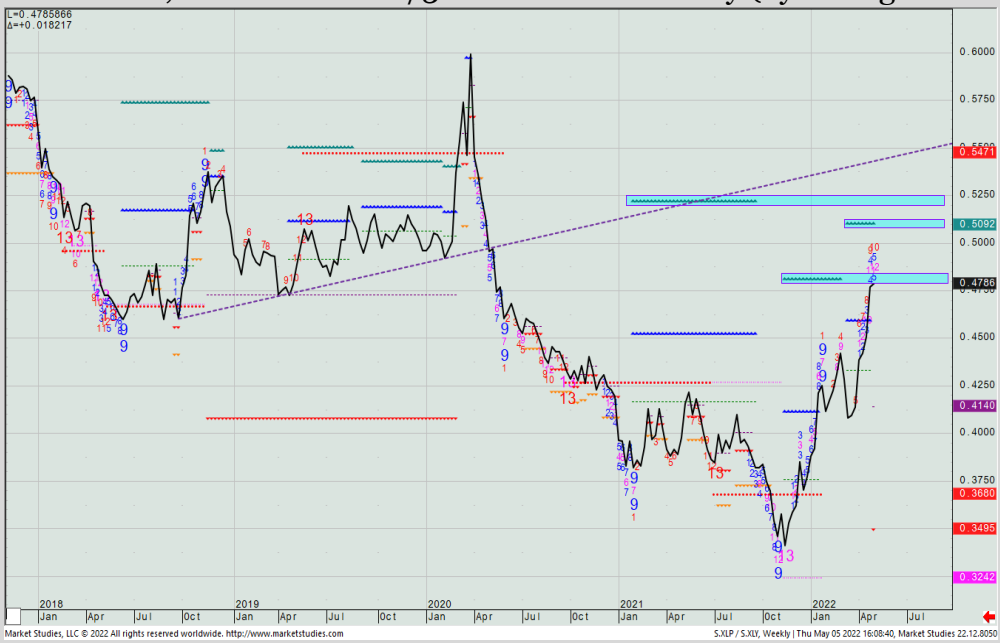
Last week we started our initial move into Cathy Woods' ARKK fund, my suggesting you using the $49 to $37 level to gingerly scale down bid into, with the intent of holding onto this as an investment over the next few years. This is based on the monthly cloud model's support zone while May also being a monthly Setup -9 count.

ARKK - Monthly



Long Consumer Staples (XLP) vs. Short Consumer Discretionary (XLY)

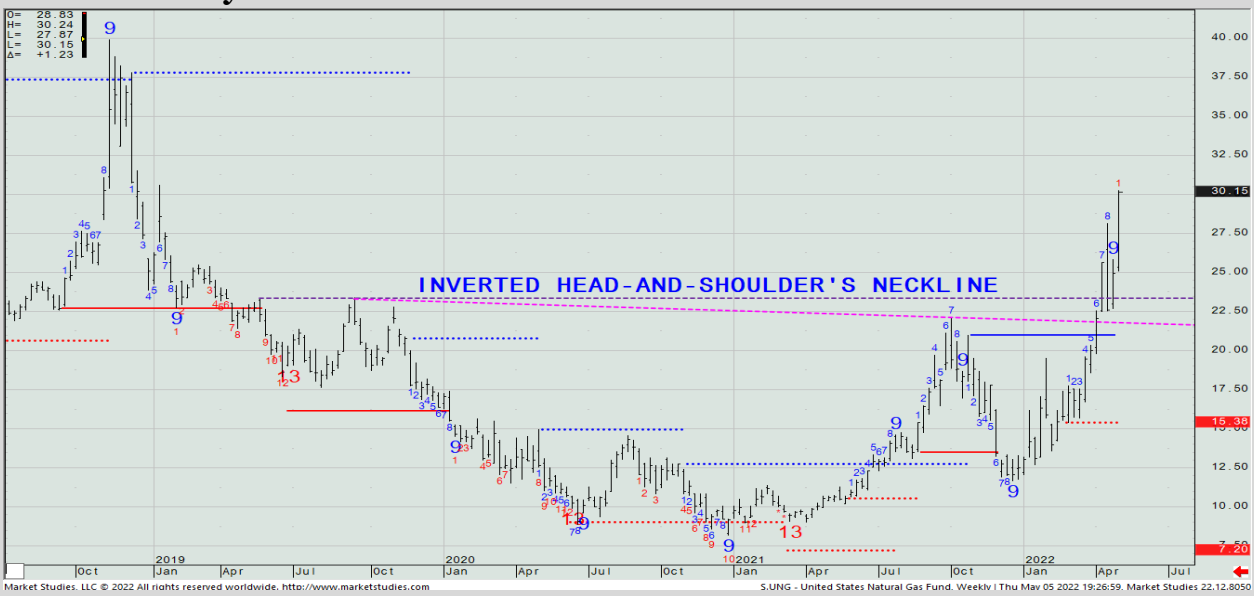
Two weeks ago, we put this pair trade on at an avg. price of 0.4503. It's already gained 6+ percent, which is a big move in such a short amount of time for a pair trade within the SPDR macroeconomic sectors. I see three upside targets (I've highlighted them in cyan rectangles) on the chart, so we will take 1/3 of the trade off today (by selling XLP and buying XLY) to lock in profits right by that first target. You should also raise your sell-stop to breakeven entry, and in no circumstance should you let yourself turn this into a losing trade.



Long United States Natural Gas Fund ETF (UNG)

Six weeks ago, we got long one unit of UNG (avg. entry at $19.36), and we took the first third of that trade off last Friday (avg. price $24.63). The chart looks for a I think the fundamentals are very strong and the inverted head-and-shoulders pattern measures to north of $35.

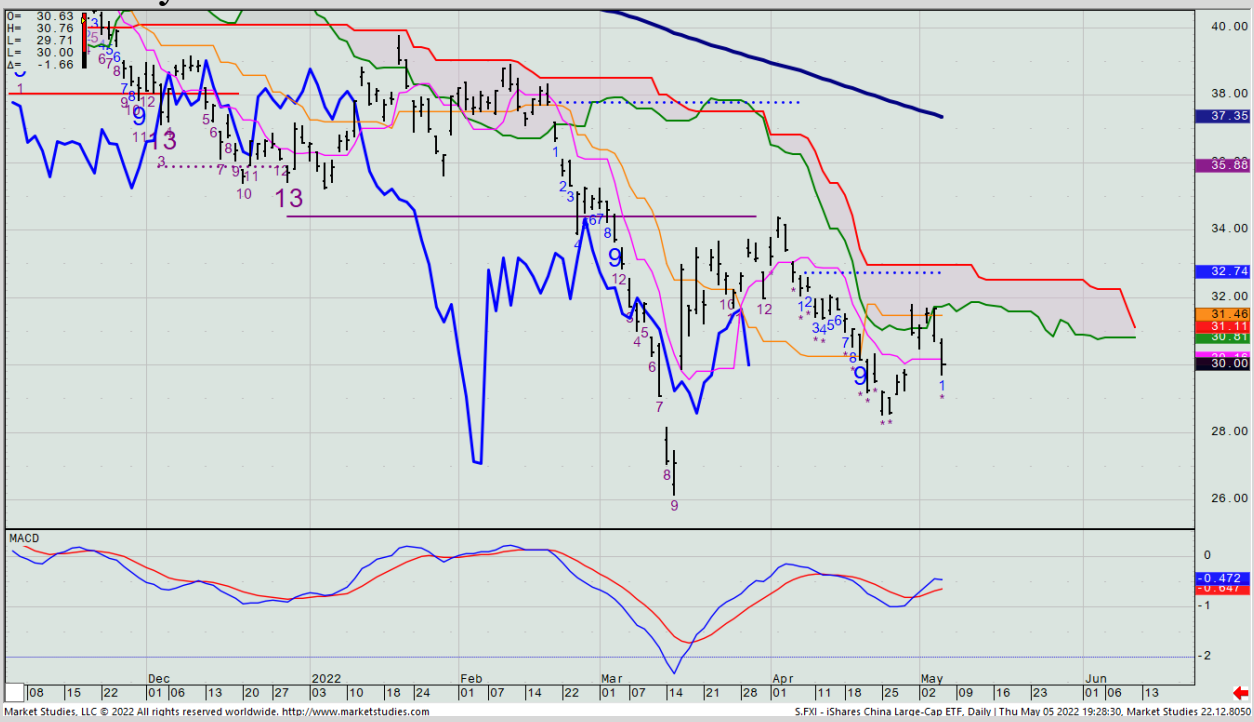
UNG – Weekly



Long iShares China Large Cap ETF (FXI)

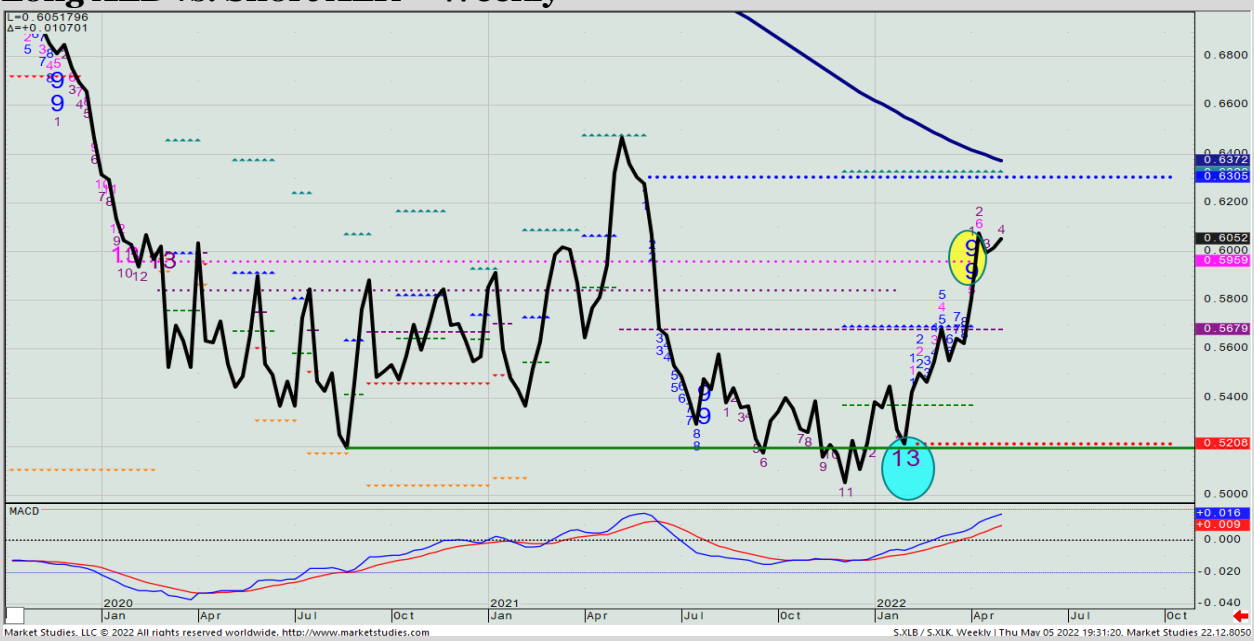
We've been looking to buy this on a pullback into the $29.75 to $25.50 range, and we finally got that earlier this week. (I said I'd reverse pyramid scale down bid, bidding for larger sizes on the higher end of my prescribed buying range.) Given the totally erratic nature of how everything is trading, let's take half off today of whatever position you have on. The rest you stop out somewhere under the low of the move ($26.13): pick your poison.

FXI - Daily



Long SPDR Materials (XLB) vs. Short SPDR Information Tech (XLK)
Eight weeks ago, we bought this pair trade 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, and with last week's close at 0.5992, we're still long the remaining 2/3 of the trade at 0.5295.

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