Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com May 19, 2022

TACTICAL TRADER REPORT

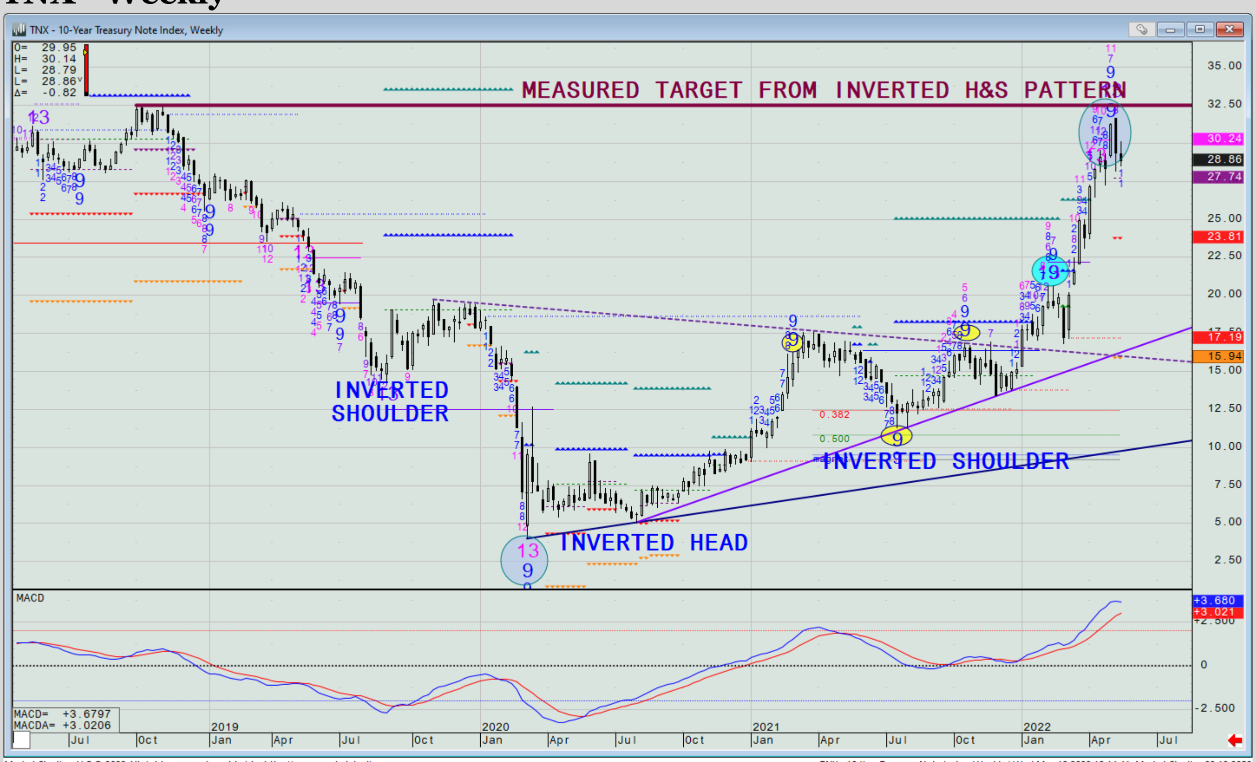
The Macro Picture

It was a bloodbath on Wednesday; no way other way to look at it. SPX down 4%. Nasdaq down 5%. Dow down 3.5%. You just don't see that happen often. But in putting it into context of, let's say, the '87 crash, yesterday was nothing. Nada. For those of you who were around for that fun, the Dow fell 23%. Not from its peak. In a single day. That would have been equivalent to the Dow falling 7500 points yesterday.

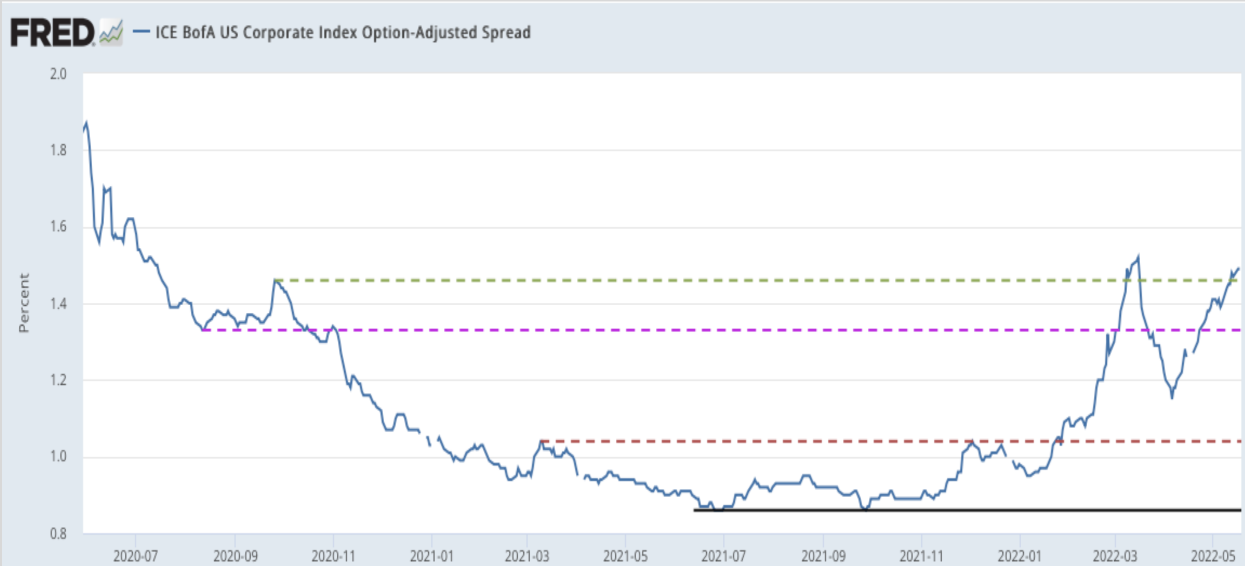
So, here's my quick take on what I'm seeing in bonds, credit spreads, and stocks.

As I said in our last TTR, UST 10-yr. yields looked like they could be peaking, with both a weekly Combo +13 count and a Setup +9 showing close to each other. Personally, this week I sold 2/3 of the long TBX trade I put on when the US 10-yr. was at 1.15%. I think rates are heading to 2.77% or maybe even 2.38%.

TNX - Weekly

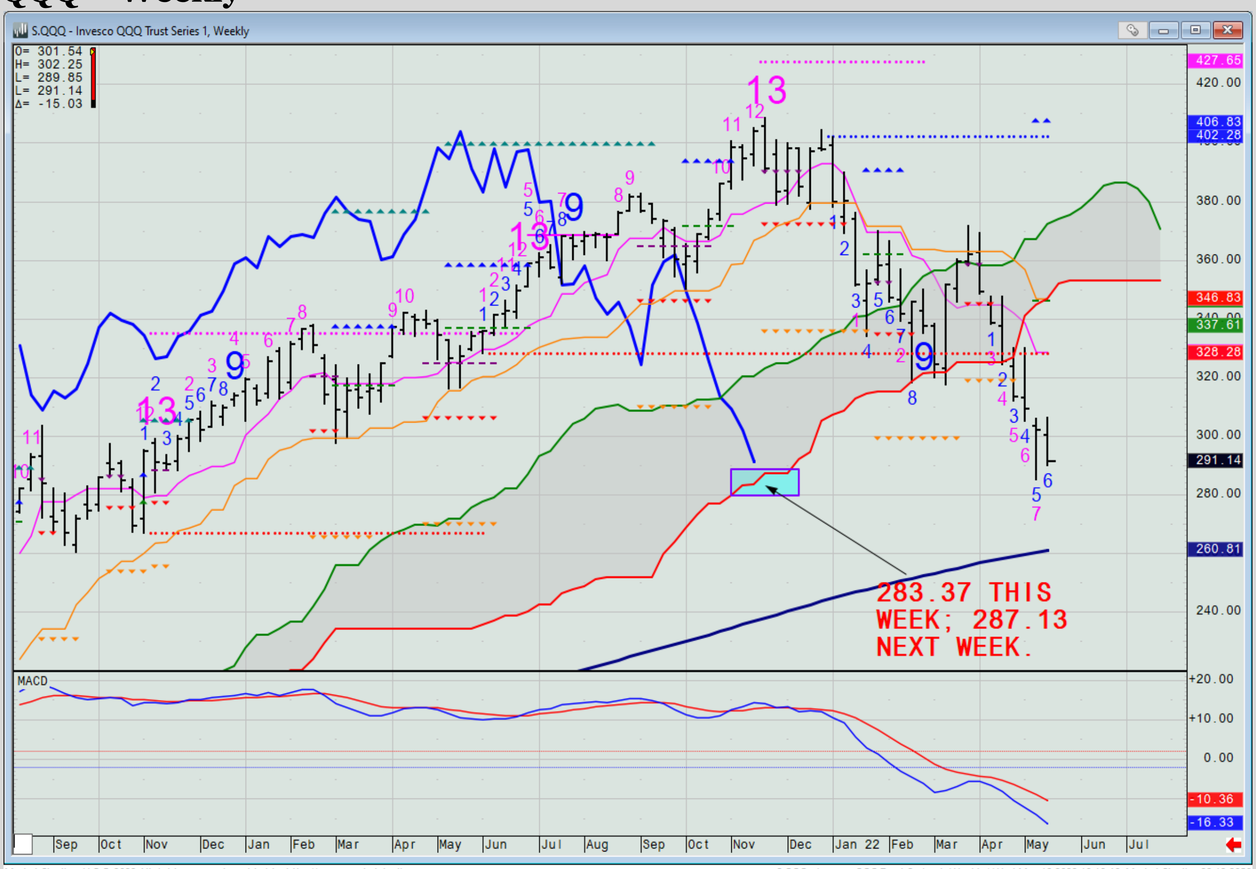


Credit spreads have still widened, and my preferred ICE BofA Corporate Index Adjusted Spread reached 1.49% on Tuesday, its best level since the peak at 1.52% in mid-March. Despite my belief that this was going to make new 2022 highs, I instructed my institutional clients to take off the bulk of the spread this week, as I think we're going to see a move into Treasuries, which would likely lead to a narrowing of the spread.



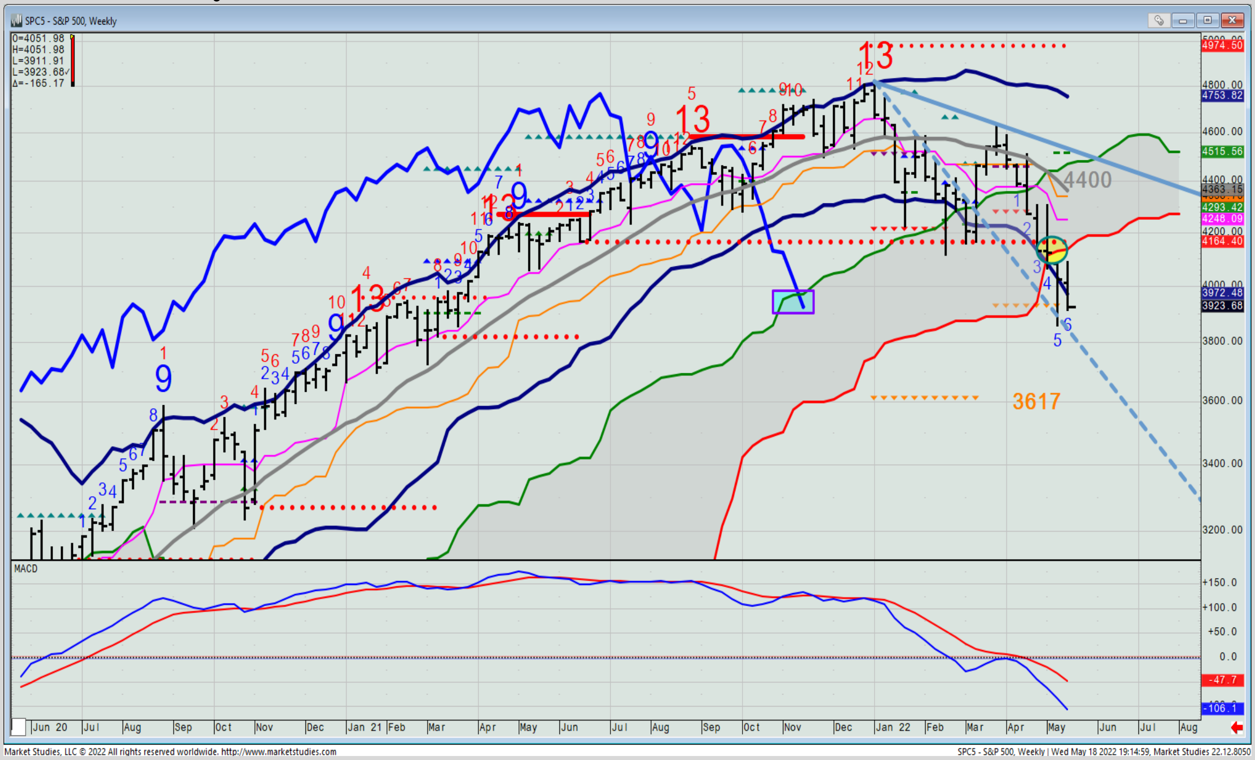
Continue to watch the weekly chart's Lagging Line against its cloud bottom in coming weeks. Bulls want to see that area hold or that then targets a move down to the 200-WMA. (The key levels are labeled on the chart.)

QQQ – Weekly



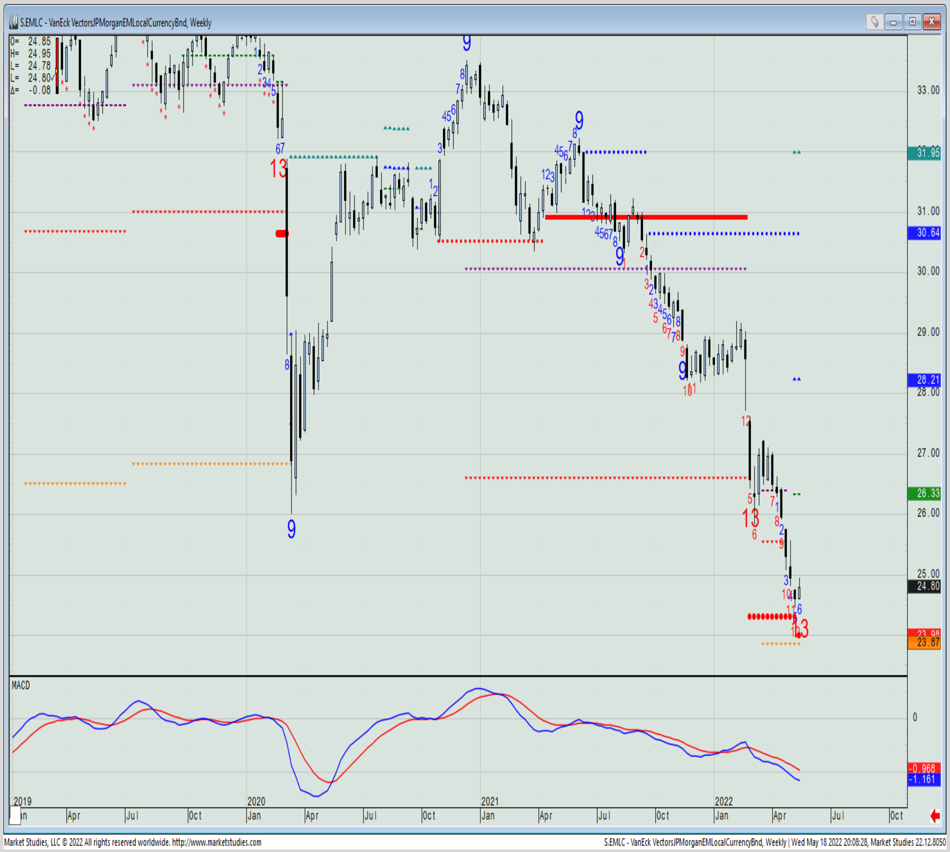
The S&P 500 cracked move beneath its cloud low last week opened the door for the move to test the Lagging Line against its cloud top. Now it looks even worse, and we may very well see a move to the Propulsion Full Exhaustion level measured from the all-time high, which is basically where the Lagging Line would meet its cloud bottom.

SPX – Weekly



[New ETF Trade Idea]

Fitting within the context of my thoughts that bonds may now rally (as well as that the dollar may come off) let's look to get long today one-unit of the Van Eyck JP Morgan Emerging Market Local Currency Bond ETF (**EMLC**).



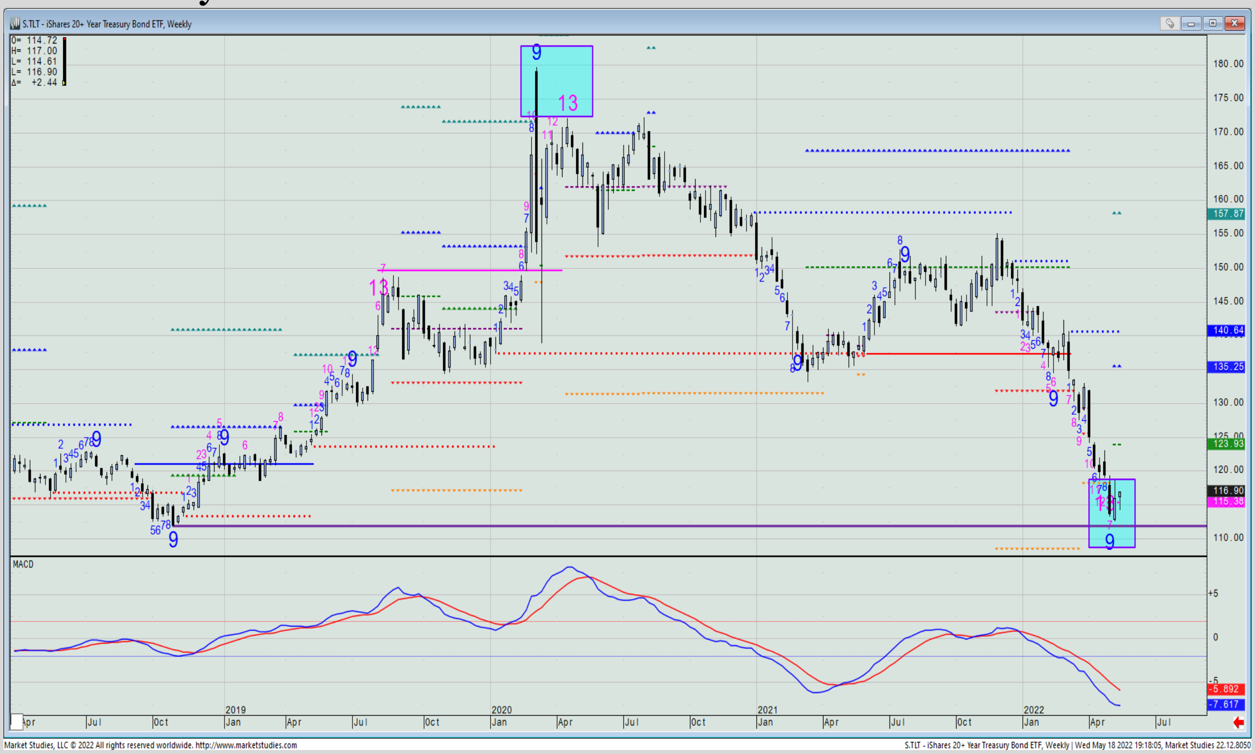
The weekly chart shows a new -13 reading right by the Risk (i.e., stop-out) level of an earlier 2022 -13 reading. That allows us to make a tight-stopped counter-trend trade that fits with my thesis. We'll aim to take profits near $26.33 and then possibly even $28.21. Our sell-stop is on consecutive weekly lower closes beneath $23.87.

Other Open Recommendations and Positions

Long iShares 20+ Year Bond ETF (TLT)

Last Friday I recommended getting long the TLT in the $116--$115 zone, which we saw trade this week, so we are long at an average price of $115.50. I'm looking for a bounce to exit at $123.93 +/- 25 cents. We'll raise our stop from $110-ish as soon as we see this bounce our way.

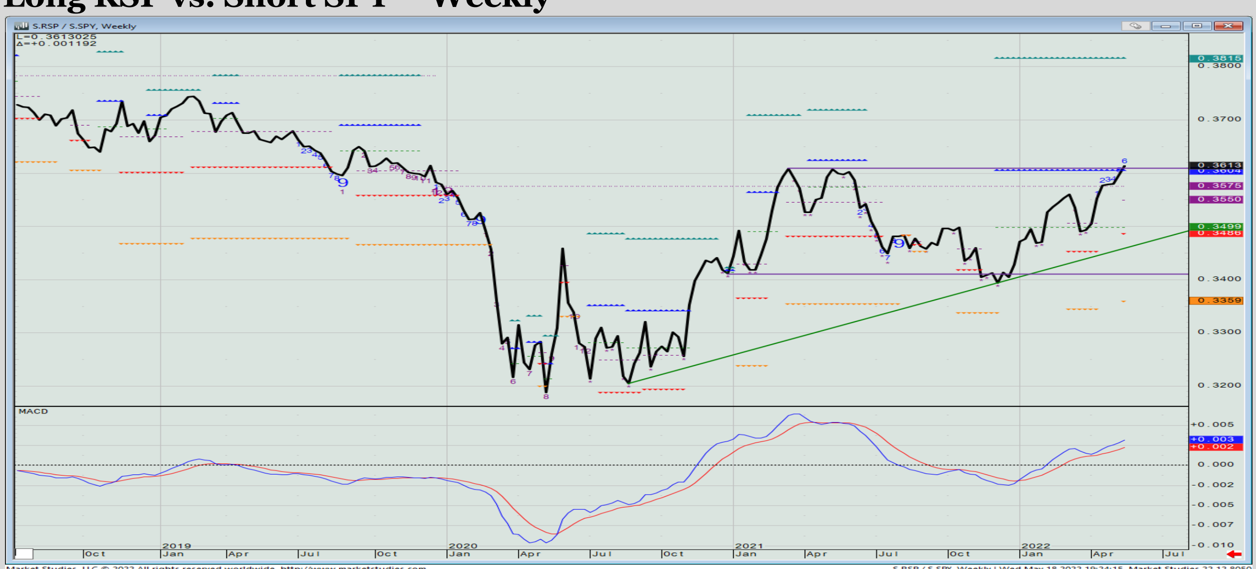
TLT - Weekly



Long RSP vs. Short SPY

Two Fridays ago, we bought 1/3 of our newest pair trade idea (avg. entry at 0.3582). We'll add another 1/3 on any Friday close above 0.3604 (it's closed at 0.3613 on Wednesday), and 1/3 on a pullback to 0.3547. (Remember that pair trades are always done in equal-dollars.)

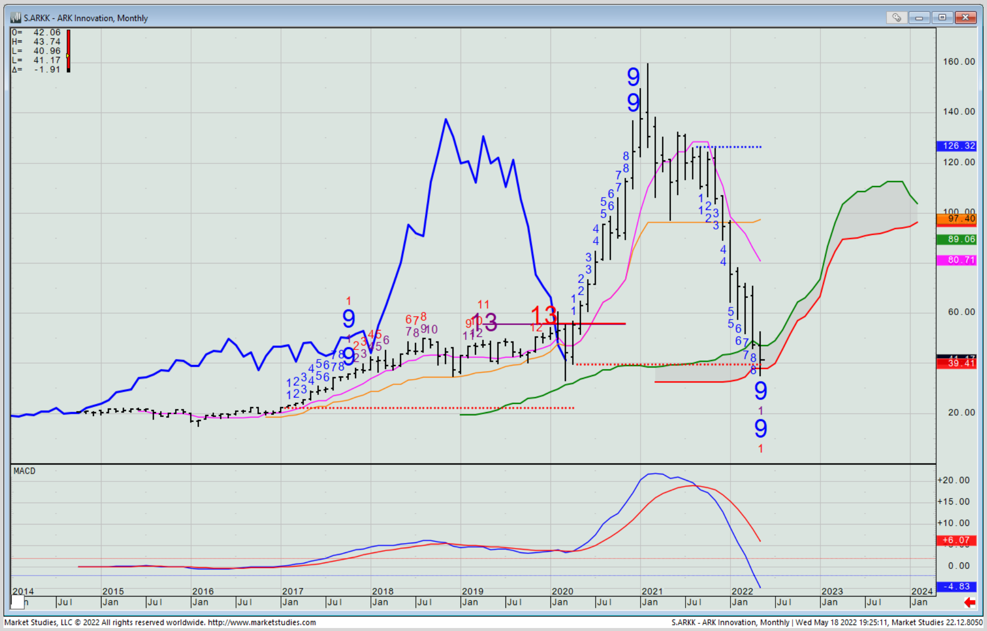
Long RSP vs. Short SPY – Weekly



We're playing for this to breakout upside, meaning that the average SPX stock will do better than the SPX mega-cap "heavyweights" (which have far more sway in the price of the index each day). Our target is up near 0.3815.

Long ARK Innovation Fund (ARKK)

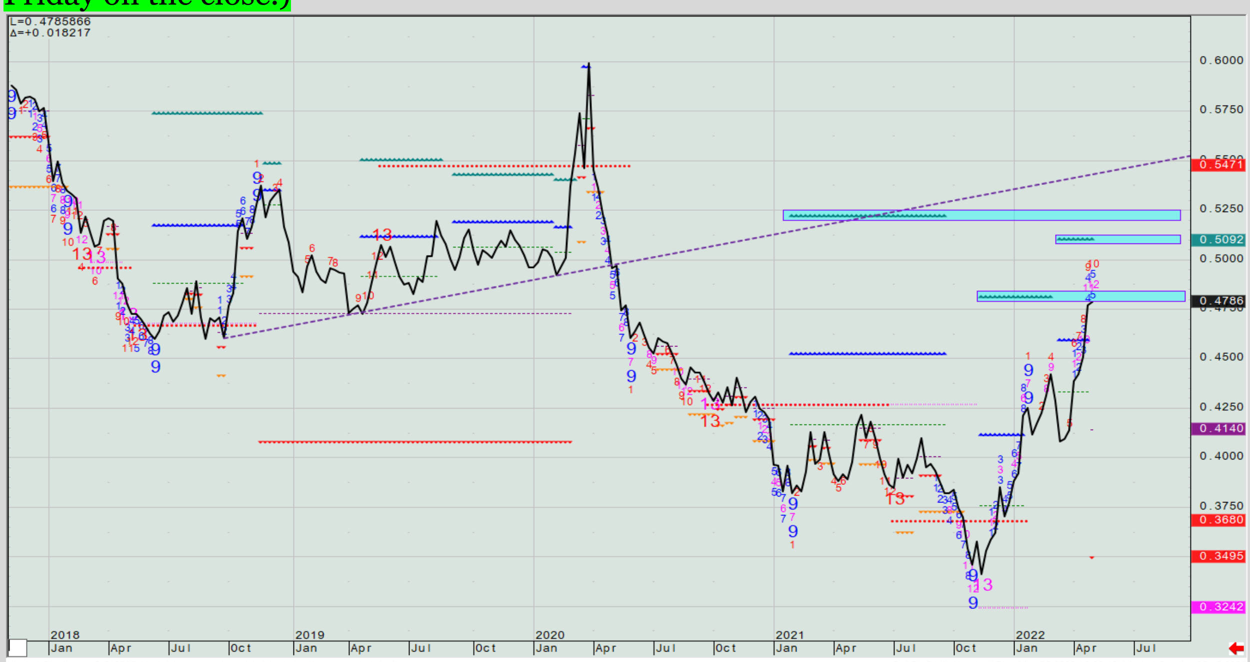
In the past few weeks, we have bought a full position into Cathy Woods' ARKK fund, my suggesting your using the $49 to $37 level to gingerly scale down bid into, with the intent of holding onto this as an investment over the next few years. This is based on the monthly cloud model's support zone while May also being a monthly Setup -9 count.



(This is a pure "buy and hold" idea from as good a long-term entry zone as I will be able to come up with. Put it away for now, and I'm not going to be looking at this each week. It's a rare, long-term type hold and we'll see by year's end where it lies.

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

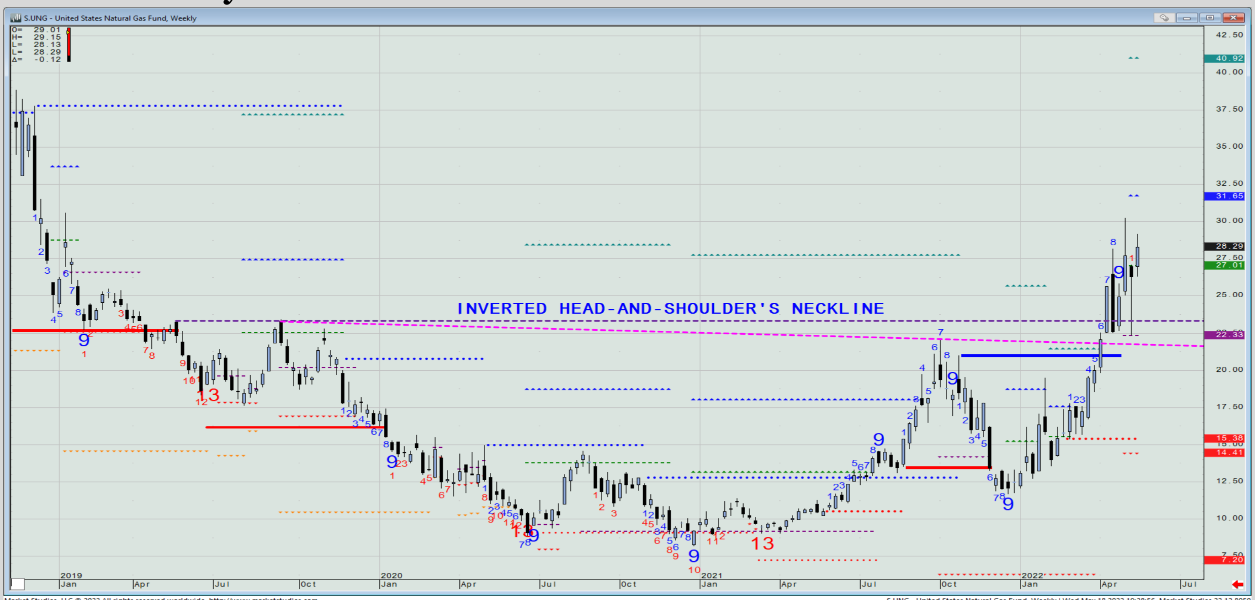
Four weeks ago, we put this pair trade on at an avg. price of 0.4503. It's quickly become a huge winner, and we took of 1/3 two Fridays ago (.4805); 1/3 earlier last week (.5092), and then the last 1/3 we'll remove at 0.5231. I'll also suggest raising the sell-stop on the balance to a Friday close beneath 0.5092. (That means we could get stopped out this Friday on the close.)



Long United States Natural Gas Fund ETF (UNG)

Eight weeks ago, we got long one unit of UNG (avg. entry at $19.36), and we took the first third of that trade off three Friday's ago (avg. price $24.63). The near-term fundamentals remain strong and the inverted head-and-shoulders pattern measures to north of $35. Notice that last week's low was exactly at the bearish Propulsion Momentum level. It held. That's bullish.

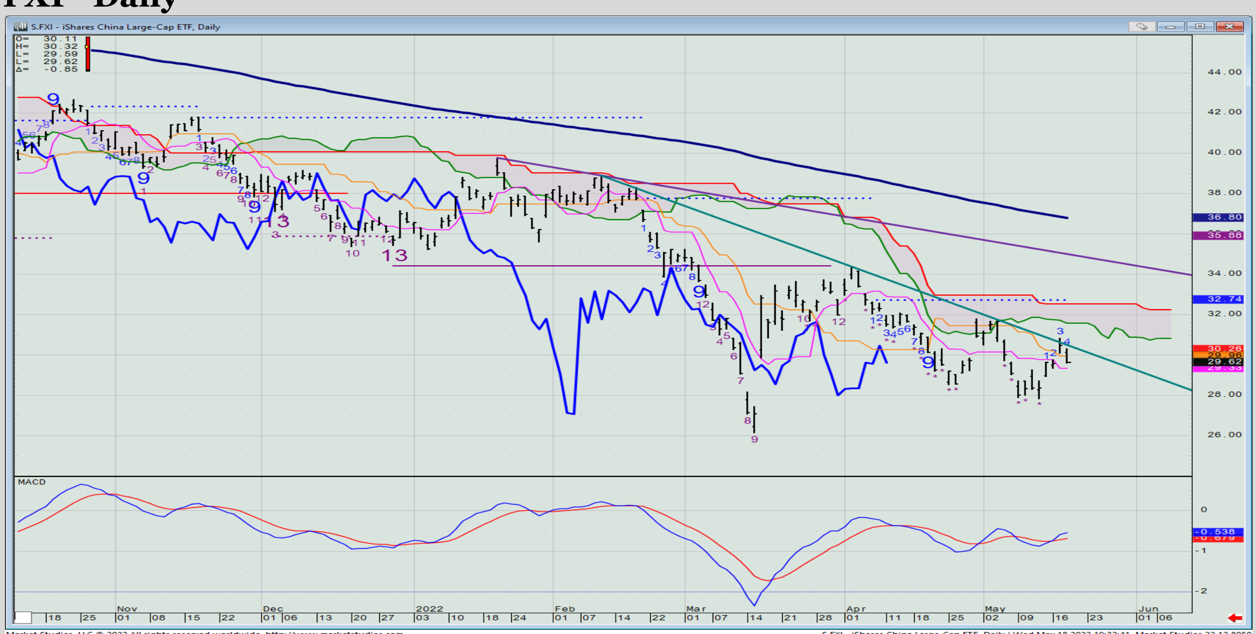
UNG – Weekly



Long iShares China Large Cap ETF (FXI)

In mid-April, we bought this on a pullback into the $29.75 to $27.50 range. (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, we took half off (avg. partial exit price $29.33). This chart cannot get a -13 reading without at least trading as low as $27.12. I am raising the remaining 50% position sell-stop to a close beneath the close from four days prior. (For today, that means an exit if we're beneath $29.61 going into the close; Friday if beneath $29.57.)

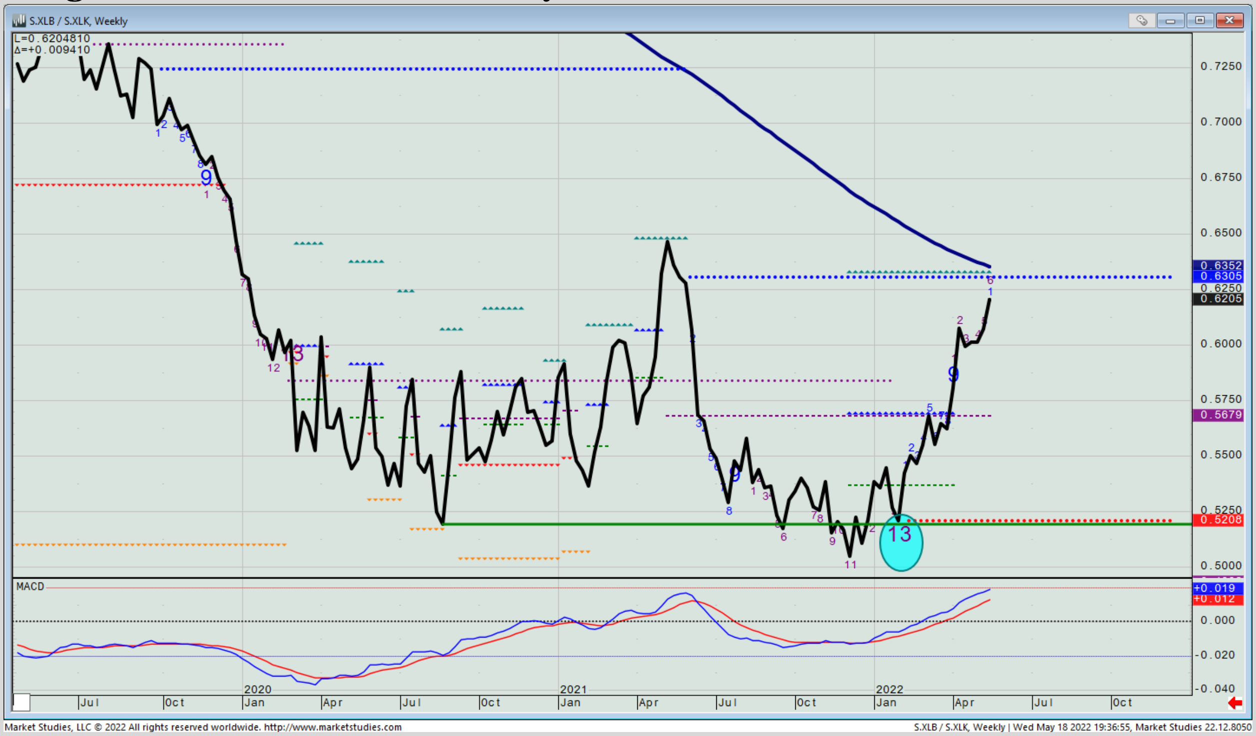
FXI - Daily



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

Nine 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 TDST line/200-WMA/Propulsion Full Exhaustion area between 0.63 and 0.64. (It closed yesterday at 0.6205.) Our sell-stop for whatever position remains is on 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