Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

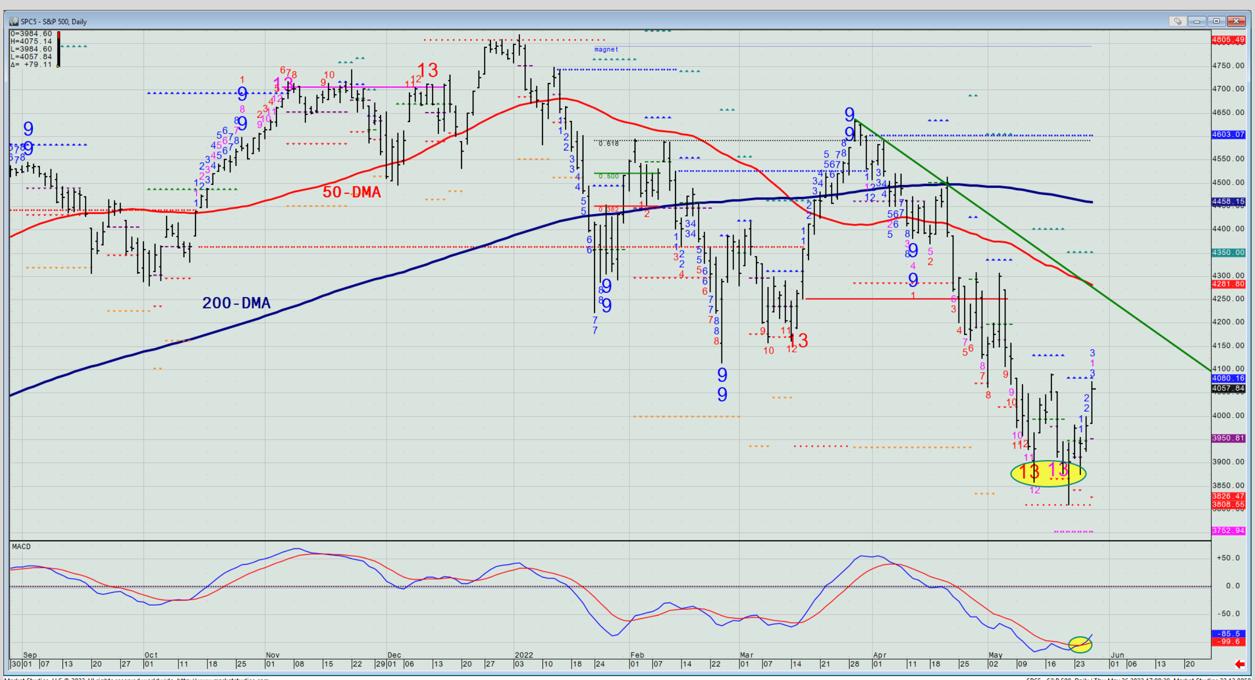
The Macro Picture

After some very erratic trading in the past two weeks, the SPX is reaching near its best levels since early May. It seems as if investors are liking the Fed's willingness to crack down on handling the inflation issue (that they drove us into in the first place by terribly mismanaging monetary policy).

The question all are asking is whether last Friday's low is THE low or just one of others still to come this year. In my view, there are some short-term indicators that suggested a low was likely at hand (I'll show you those later in this report), but the bigger picture is still not a rosy one. If we're fortunate, though, it still means that we could see a decent rally that will give us a chance to lighten up overall exposure at higher levels – and that's a good thing.

We'll start with the S&P 500, because that index, along with the Nasdaq 100, are really the two key ones that investors need most pay attention to. (I've said many a time that the Dow Jones Industrials is not an institutionally followed or benchmarked index, and that it's not the one that you should base making major portfolio decisions from.)

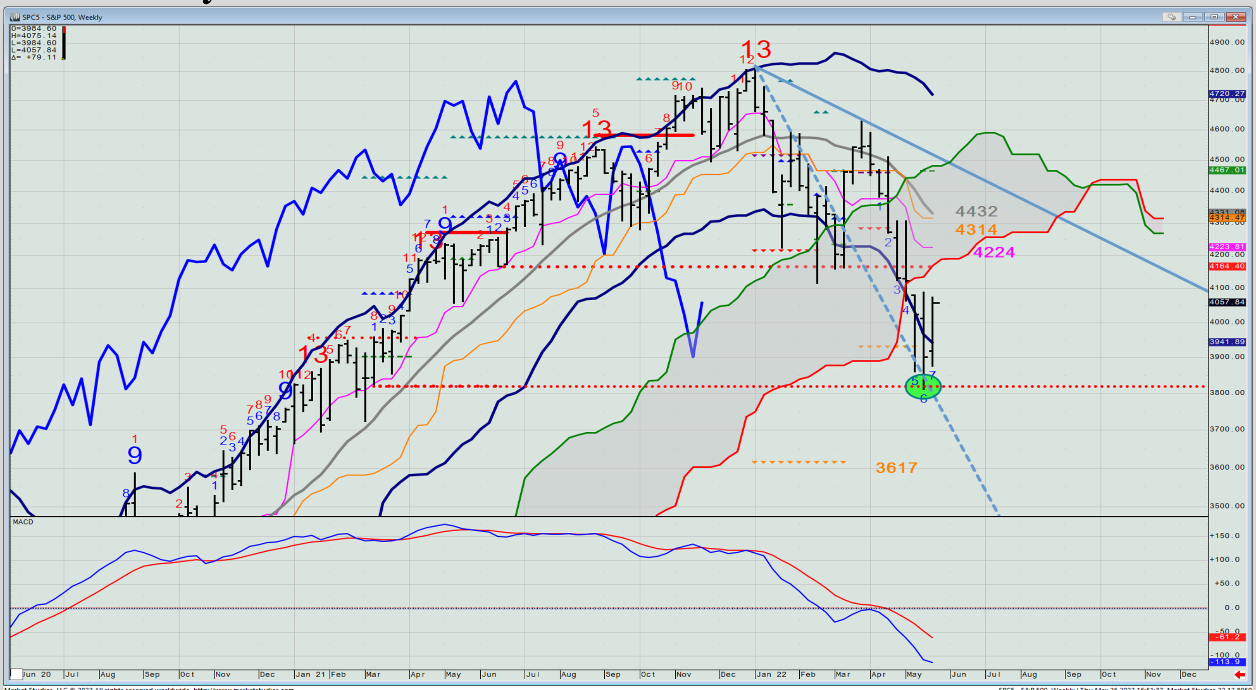
The daily TD Combo -13 signal that appeared on Wednesday of last week was the first one of 2022. It happened to come side-by-side with the daily Sequential -13 from two



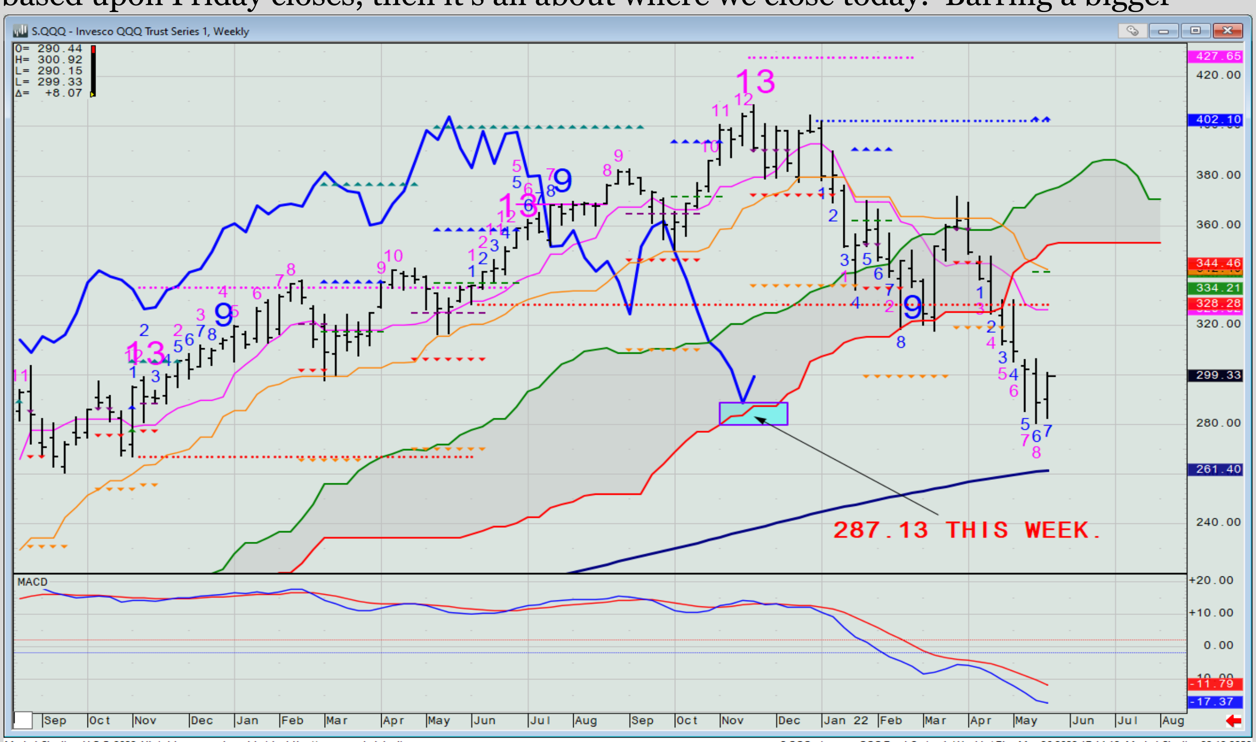
weeks ago, and with Wednesday's close above the daily cloud model's Conversion Line and Propulsion Momentum level, it at least presented the case for a potential near-term move higher – especially with bullish sentiment being as poor as it is.

If an SPX pullback holds support into 4025 to 3935, then yes, we can get a further upmove to ~4350/4400 – a zone higher than most think the market can rally to. (Many are saying that the best this can reach is near 4100 – about the same area that it broke down from last month.)

SPX - Weekly



Last week we showed you how important it was for the QQQ to hold above $287.13 – where its weekly cloud model's Lagging Line would break beneath its cloud bottom. Earlier this week we saw QQQ get to as low as $282.25, but as weekly line charts are based upon Friday closes, then it's all about where we close today. Barring a bigger

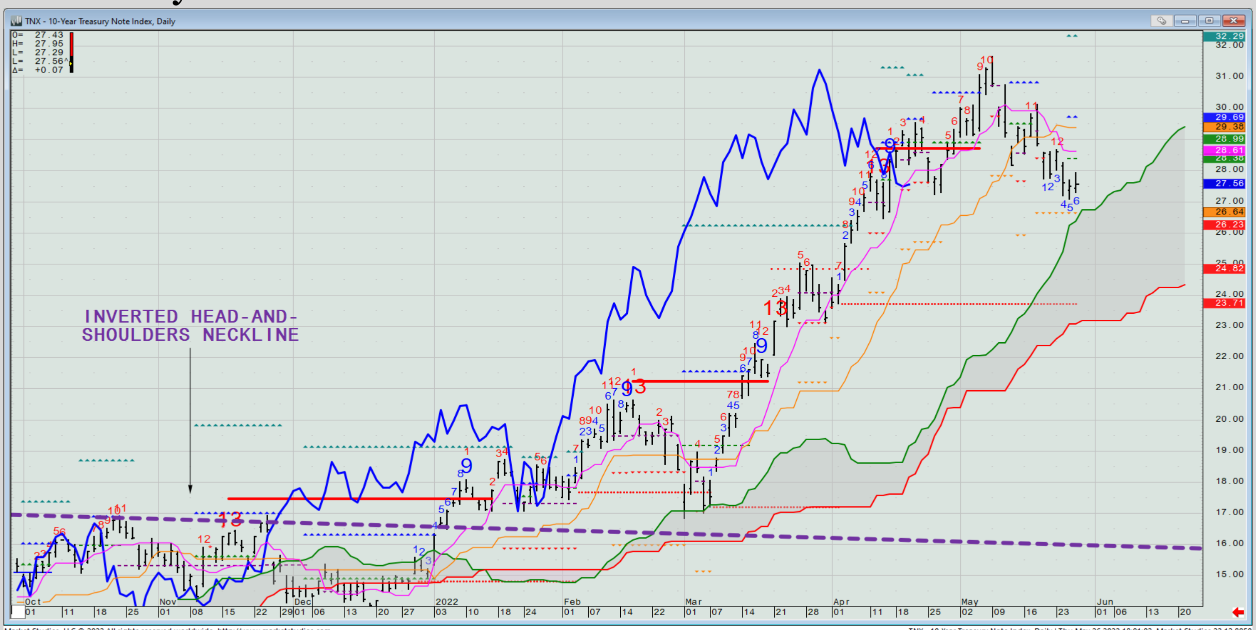


percentage loss today than we saw from yesterday's rally, this key level again held (after being tested three weeks in a row) and gives bulls a leg to stand on. (And it's an important one.)

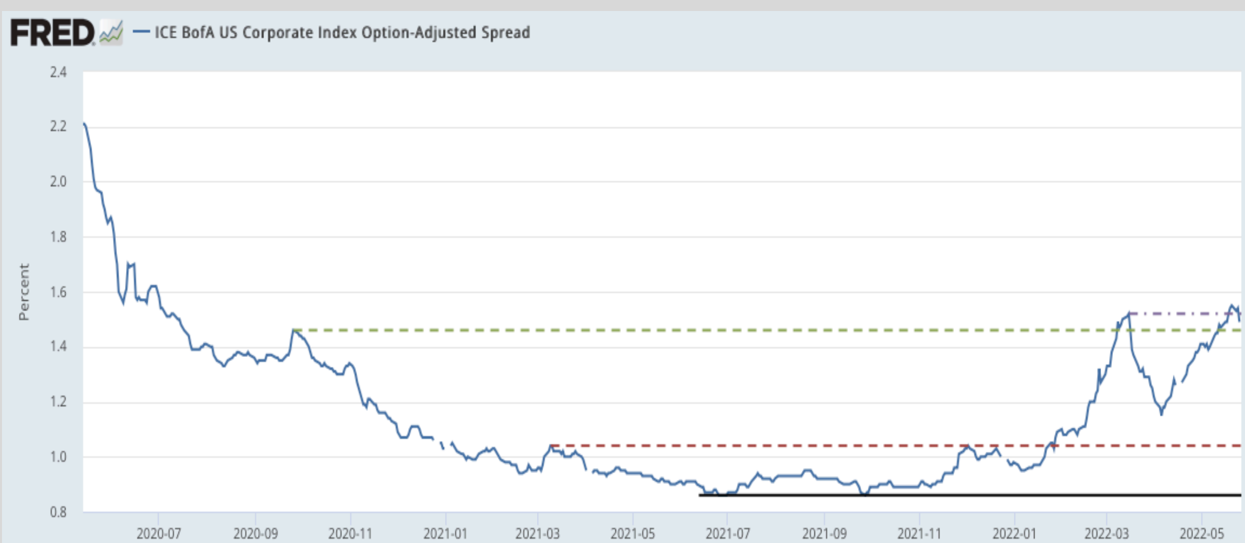
So, to me, both the SPX and QQQ have either counter-trend buy signals and/or have held important support levels that we can at least start to lean bullishly again for trades. Those bullish views get taken off the table if the aforementioned levels give way.

Meanwhile, our call to get bullish bonds when we did was perfect timing. We got in at ~ 2.97% and they've rallied to 2.75% yesterday. Next stop looks like ~ 2.67%. If that occurs on Wednesday of next week while still keeping its Setup count to reach a -9 reading, we'll book that trade and say, "Thank you very much".

TNX - Daily

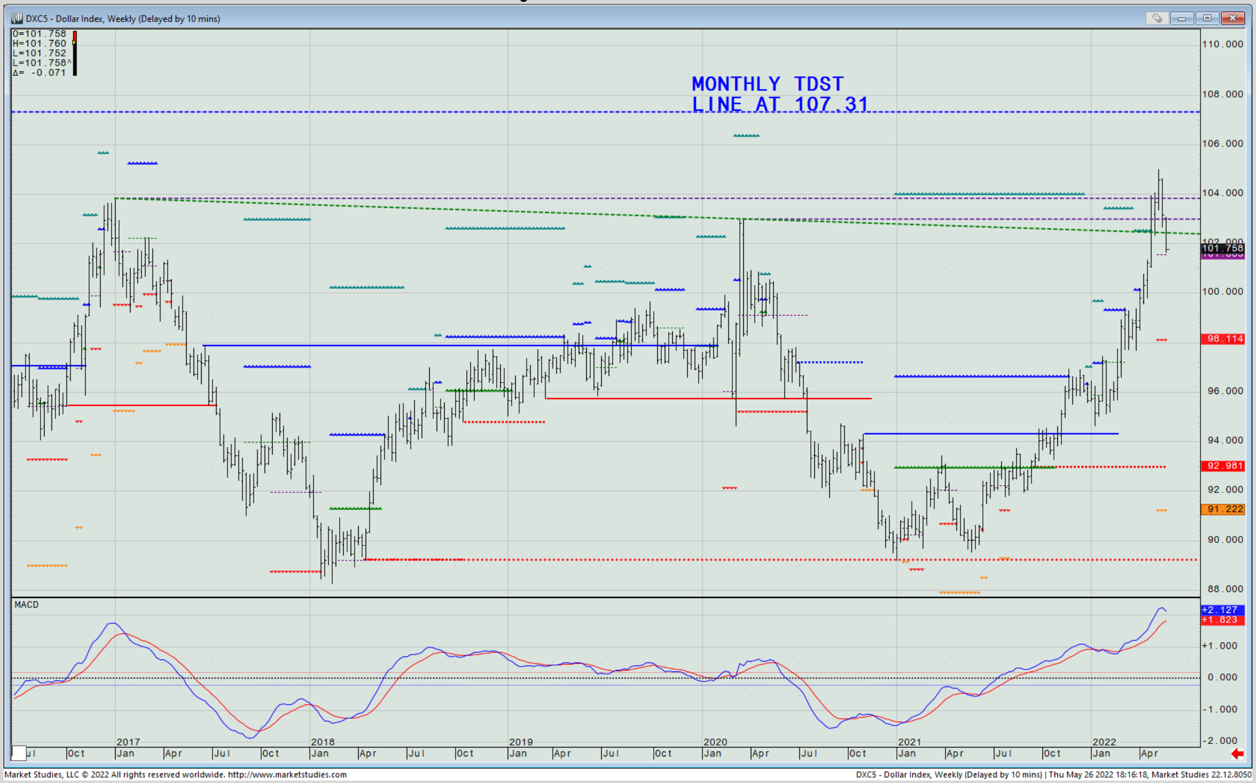


Credit spreads widened to as much as 1.54% in my preferred ICE BofA Corporate Index Adjusted Spread and have pulled back to 1.49% as of Wednesday. Last week I told you that I had instructed my institutional clients to take off the bulk of the widening spread trade we had on last week. For now, I'm flat this and will keep an eye on when to get back in.



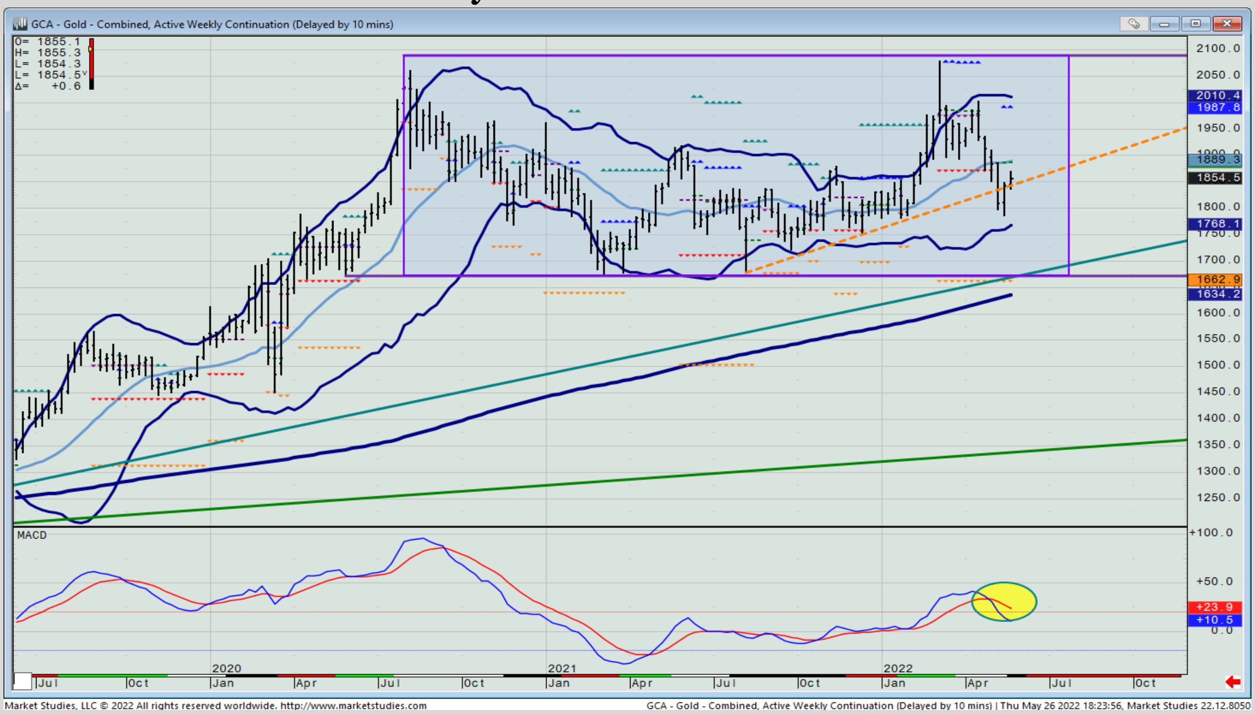
The US Dollar continues to stall against old highs near 104. I have not been a dollar fan for most of the second quarter, and will watch if the 101.56 bearish Propulsion Momentum level holds as support on this pullback.

US Dollar Index (DXY) – Weekly



Gold bugs have not been happy people recently, as the metal hasn't acted as a good hedge against inflation or as a good hedge against unstable global politics hurting asset prices. Though it's up a bit this year vs. a down equity market, one would have thought that it could have performed far better.

COMEX Gold – Active Weekly Continuation Futures



New ETF Trade Idea

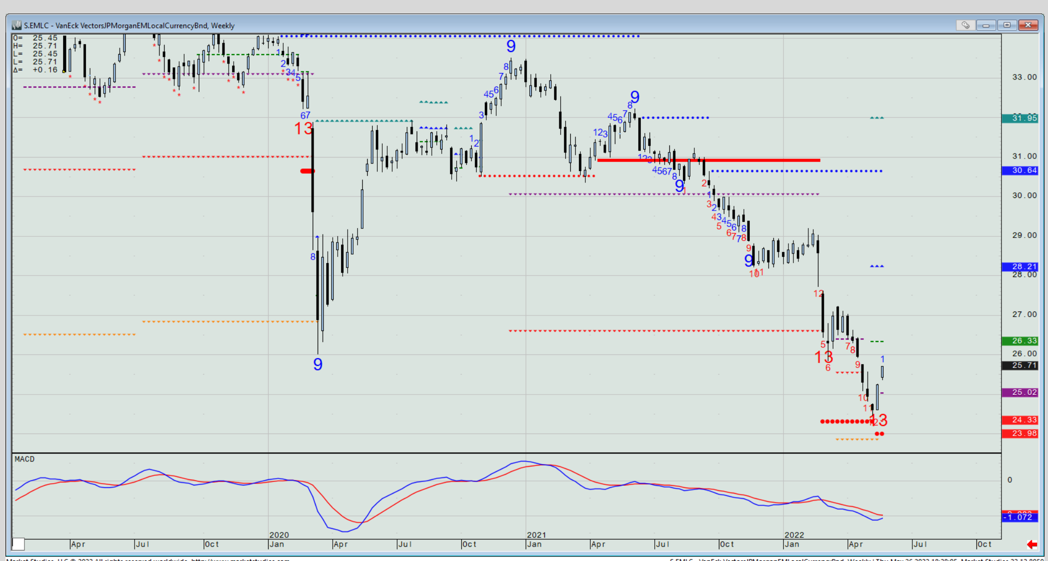
As we look at how semiconductors have traded over the past month, we see a nice bell-shaped curve of trading volume across the 30-day range. Yesterday's close was right by the high end of the "Value Area" (i.e., the first standard deviation of all trading done over this time frame, shown with the horizontal, yellow-colored lines). Unless price shoots straight up from here, there's a decent likelihood that we'll again see price trade near its "Low Value Area" (~$225.50). As such, we'll look to buy anytime over the coming week in the $229 to $225 zone (you should scale down bid into this area) with a target near $250. We'll stop out on consecutive daily closes beneath $218.64.

SMH – Daily

Other Open Recommendations and Positions

Long Van Eyck JP Morgan EM Local Currency Bond ETF (EMLC)

Last Friday we established a new long position in this international bond ETF to take advantage of what I expected to be both falling rates and a falling dollar. Our average entry price was $25.22. We'll aim to take some profits near $26.33 and then

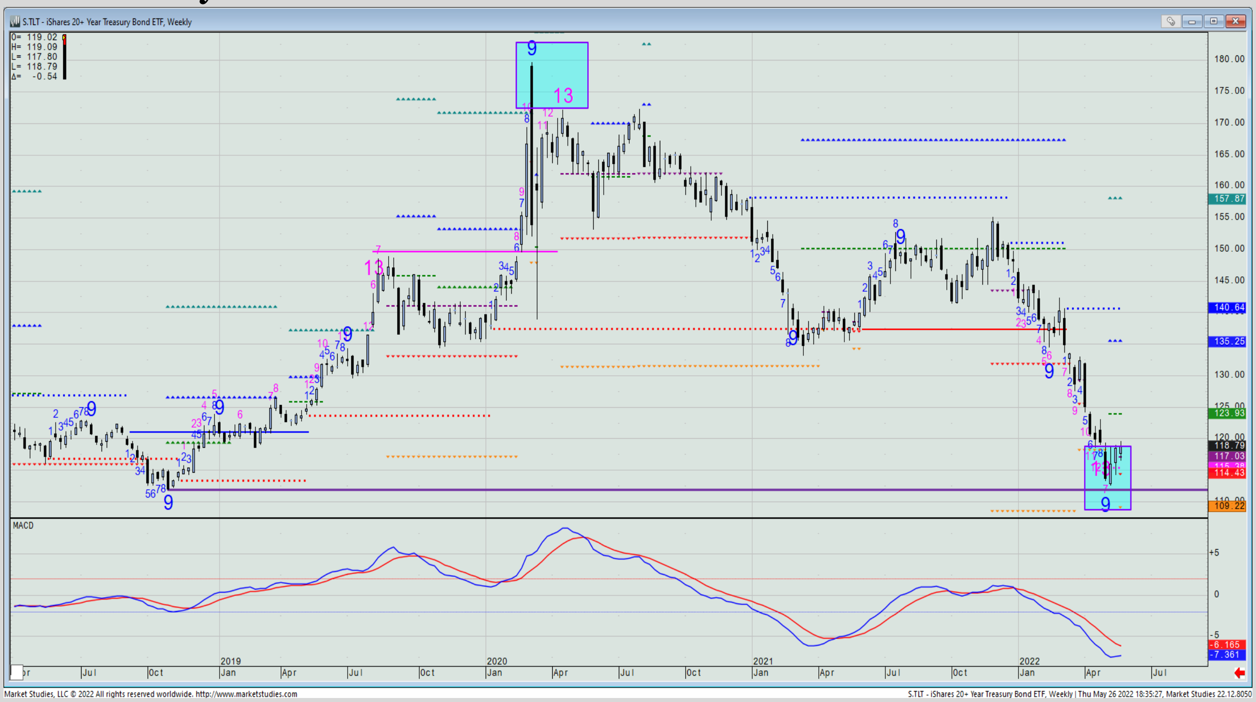


possibly even $28.21. We maintain our sell-stop as consecutive weekly lower closes beneath $23.87.

Long iShares 20+ Year Bond ETF (TLT)

We got long two weeks ago 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 to breakeven.

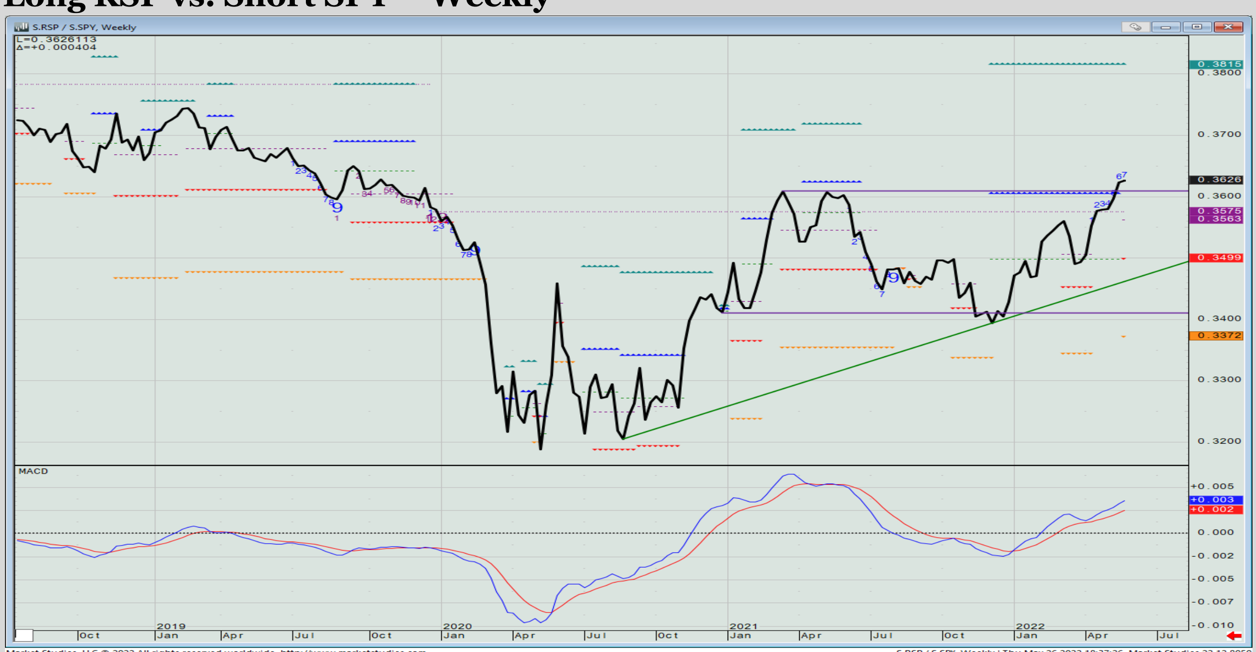
TLT - Weekly



Long RSP vs. Short SPY

Three Fridays ago, we bought 1/3 of our newest pair trade idea (avg. entry at 0.3582), and added another 1/3 last Friday at 0.3624. We will no longer look to add the final third to this idea. And we raise our sell-stop to any Friday close beneath $0.3583. Our target is up near 0.3815, but we'd likely sell one of those two small positions two Fridays past today if it reaches a weekly Setup +9 count.

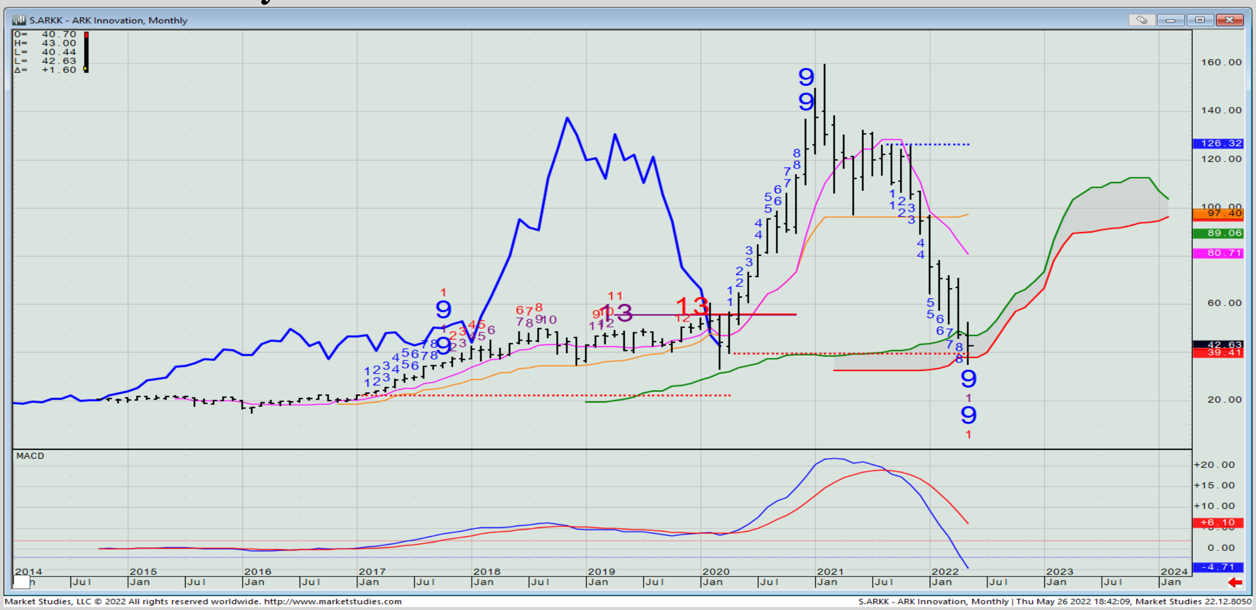
Long RSP vs. Short SPY – Weekly



Long ARK Innovation Fund (ARKK)

In the past month, 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. (This is based on the monthly cloud model's support zone while May also being a monthly Setup -9 count.)

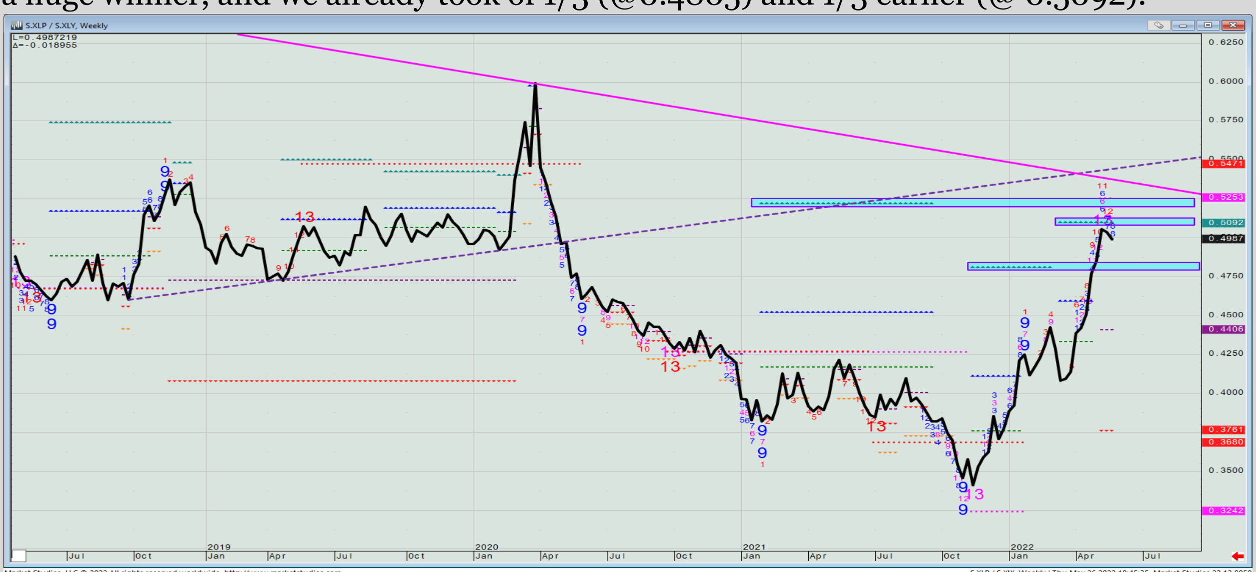
AARK – Monthly



(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. (Once we get back above $47, 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)

Five weeks ago, we put this pair trade on at an avg. price of 0.4503. It's quickly become a huge winner, and we already took of 1/3 (@0.4805) and 1/3 earlier (@ 0.5092).

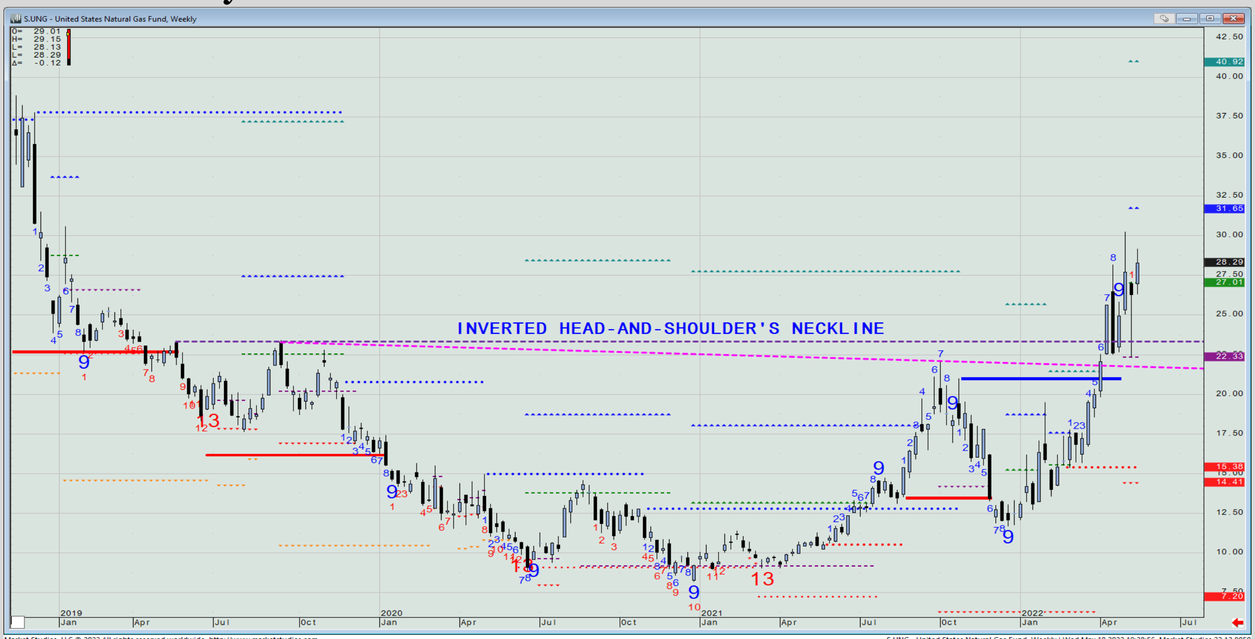


The last 1/3 we said we'd remove on a Friday close beneath 0.5092, which occurred last Friday with a close at 0.5035. Thus, we are now flat this trade with an average exit of 0.4977 and a total profit of 10.53%. (That's a big win on a pair trade, as it has far reduced risk relative to trading outright.)

Long United States Natural Gas Fund ETF (UNG)

Nine weeks ago, we got long one unit of UNG (avg. entry at $19.36), and we took the first third of that trade off four Friday's ago (avg. exit price on that was $24.63). The near-term fundamentals remain strong and the inverted head-and-shoulders pattern measures to north of $35. However, with the spike up this week to the Propulsion Exhaustion level at $31.65, let's take another 1/3 off today.

UNG – Weekly



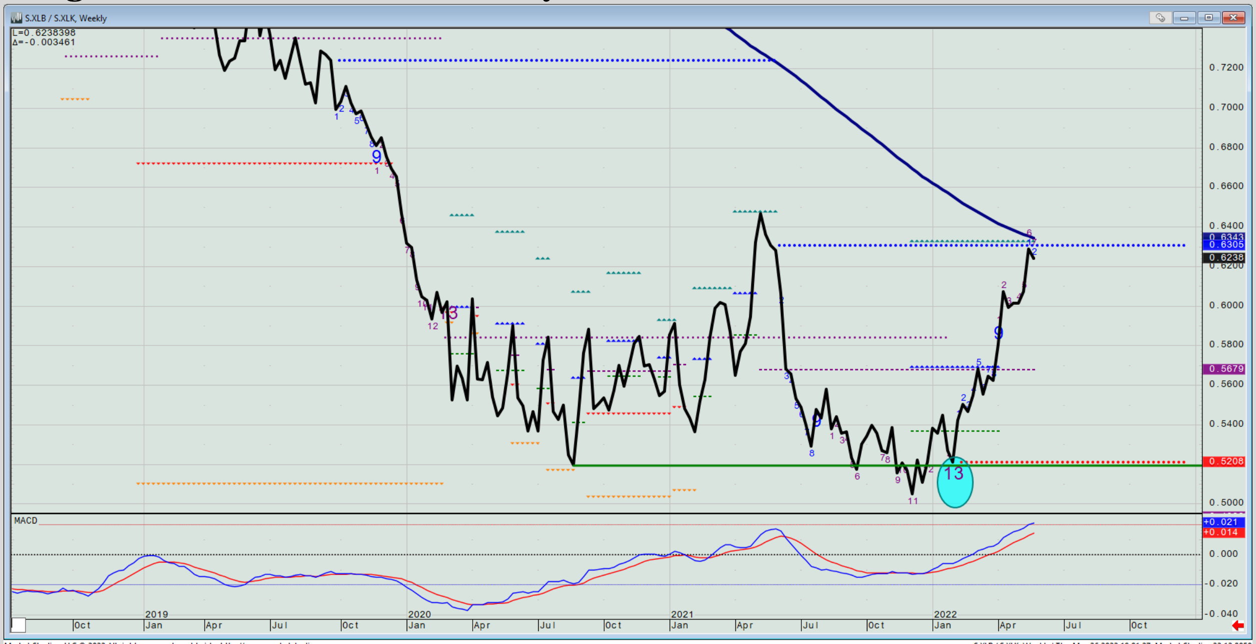
Long iShares China Large Cap ETF (FXI)

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 and raised the remaining 50% position sell-stop to a close beneath the close from four days prior. That happened on Monday of this week at $30.35. We are flat now and made either side of a scant 2%.

FXI - Daily

Long SPDR Materials (XLB) vs. Short SPDR Information Tech (XLK)
Ten 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 were looking to 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. We'll alter that to take 1/3 off today. Our sell-stop for the remaining 1/3 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.

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