Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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January 7, 2022

TACTICAL TRADER REPORT

The Macro Picture

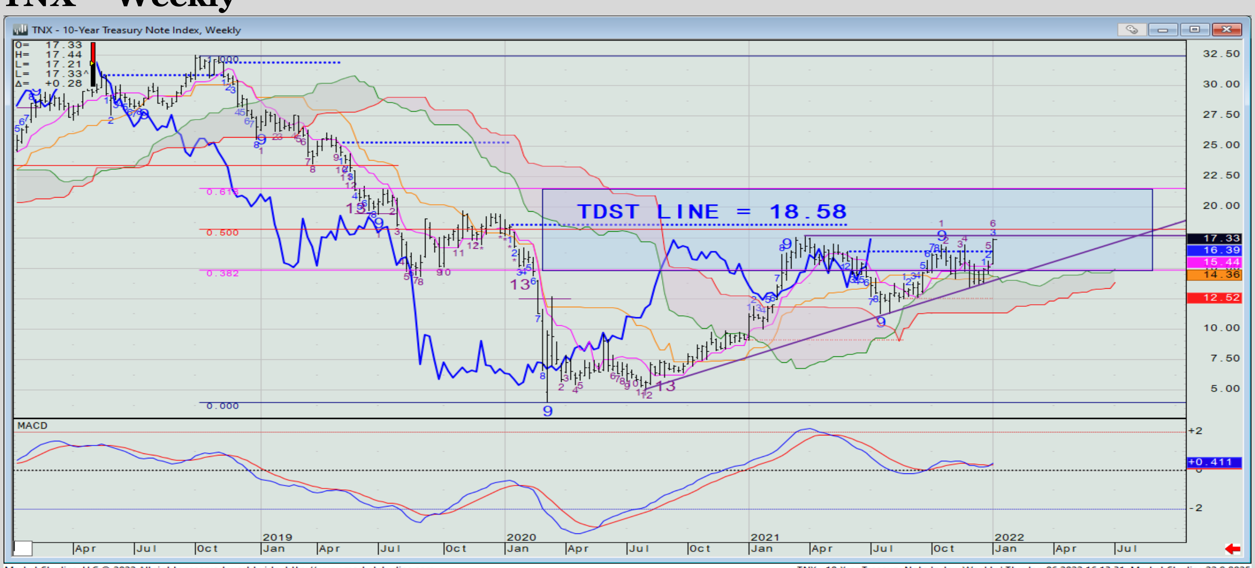
Right out of the gate, 2022 has brought a large surge in bond yields, while tech stocks have gotten whacked. And sure – they are quite related. Technology companies in growth mode tend to borrow a good chunk of money, and higher financing costs translate into a direct hit to their bottom lines.

So, with the Fed telling us on Wednesday that their bond purchase tapering may be done even more quickly than the market had expected, it's no surprise to see these moves occurring. But it's not all about the Fed's announcement, for Monday's price action saw yields sharply move higher and growth names hit. That was new asset allocations being put into play to start the year – something the bulk of funds do in January to re-distribute money into and out of their preferred and less-preferred assets and equity sectors.

This year – along with investors getting their heads wrapped around changing Fed policy – they'll also have to consider market ramifications around increased political discourse between the US and both China and Russia; Omicron and whatever new variants may come; and inflationary pressures that still persist. Collectively, they're a decent group of macro headwinds to deal with. That being said, I am calling for a 7-13% SPX gain this year.

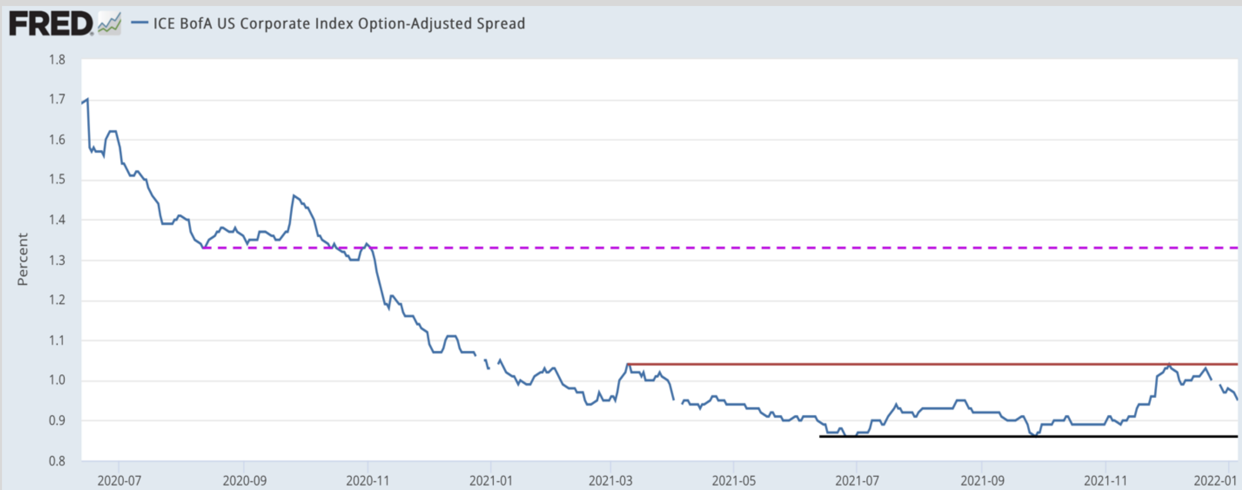
Let's start with bonds, because the move up in yields can have far-reaching influence over several other asset classes' upcoming performance.

TNX – Weekly



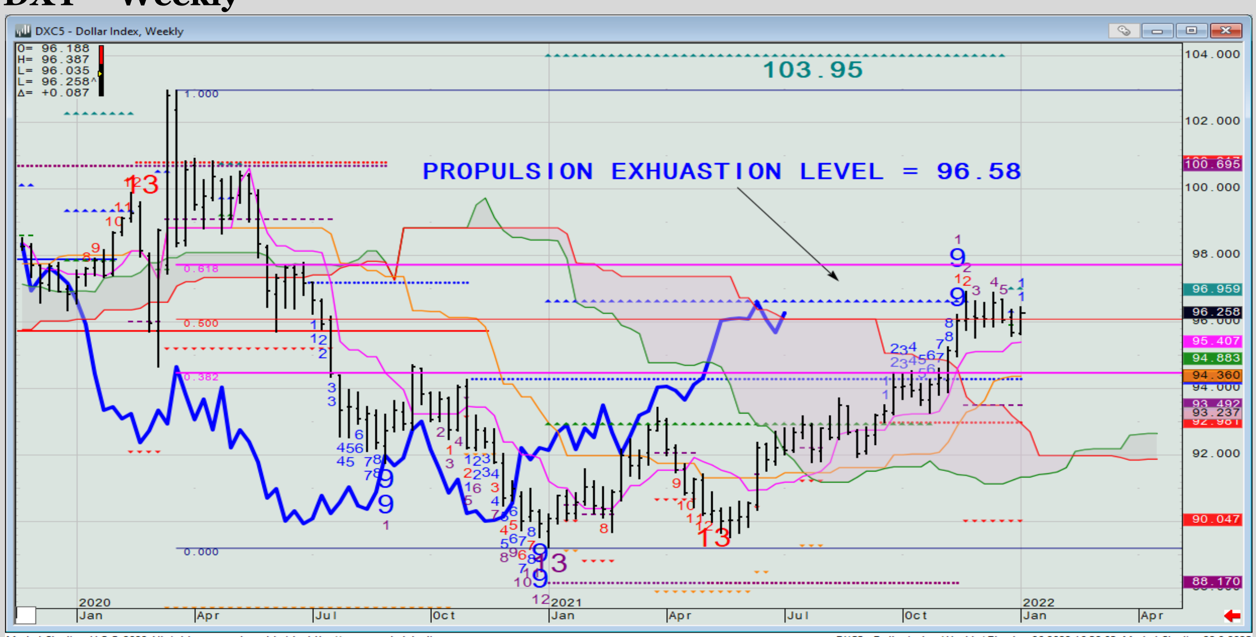
This week we've already seen one weekly TDST Line hurdled (at 16.39), with the next one at 18.58, and to me, where the key breakout would need to occur in order for yields to next target about 2.25%. Since the low was made on the weekly Setup -9 last summer, prices then topped on an opposite Setup +9; a pullback to the uptrend line; and now a potential upside breakout move. One source of sentiment I look at shows that the TNX sentiment chart peaked in November near 77% bulls, and just pulled back to a low of 50, before closing on Thursday at 51. That means there is plenty of potential here on the upside before it again becomes a crowded trade to be bullish yields.

Meanwhile, not including yesterday's figure (because it won't be available until Friday AM), the ICE BoA Corporate Index Option-Adjusted Spread (i.e., my preferred credit spread to watch) is at 95 bps., having recently failed to breakout above the 1.04% level. This is still a very important figure to follow, because it still implies that the credit markets are not pricing in any substantial concern – and as such – it still implies that equities are ok to hold.



For many weeks I have suggested that traders could fade moves in the US Dollar Index (DXY) above 96.50, and that has worked just fine. I'm less friendly to leaning that way any longer, and most especially if yields continue higher, for that should help strengthen the demand for the greenback. I'd be more inclined to get long the dollar on pullbacks

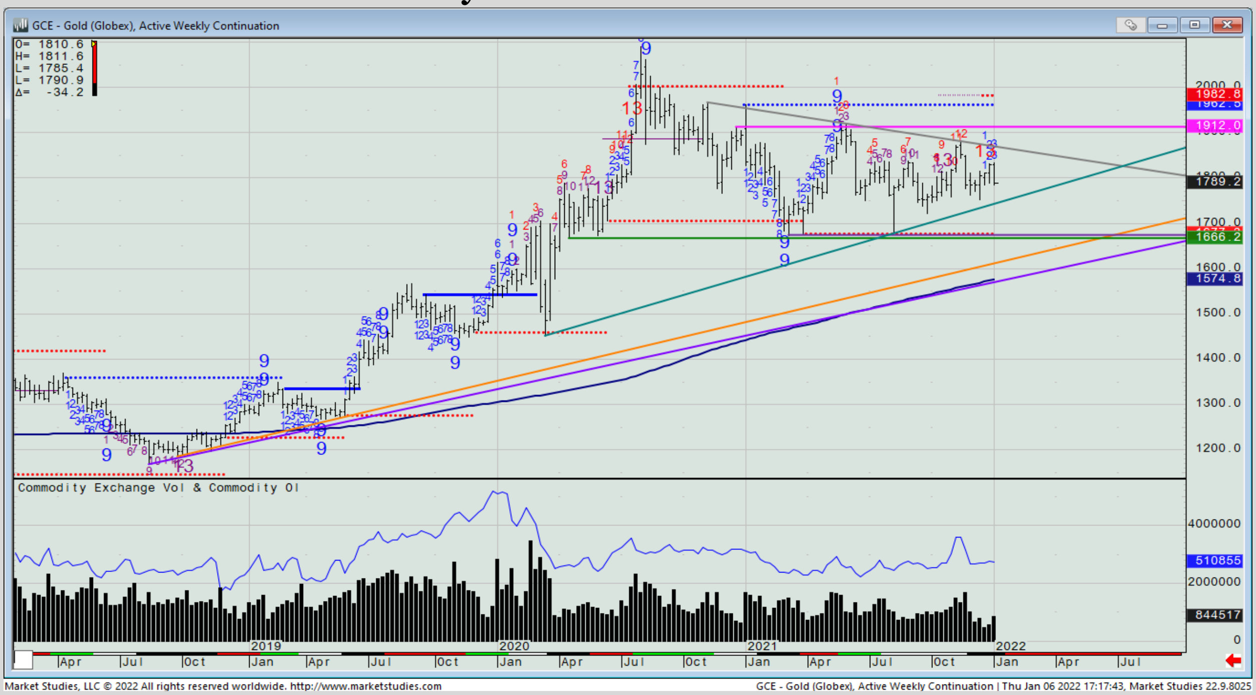
DXY – Weekly



to the 94.50 to 93.25 zone, which now shows what should be solid chart support.

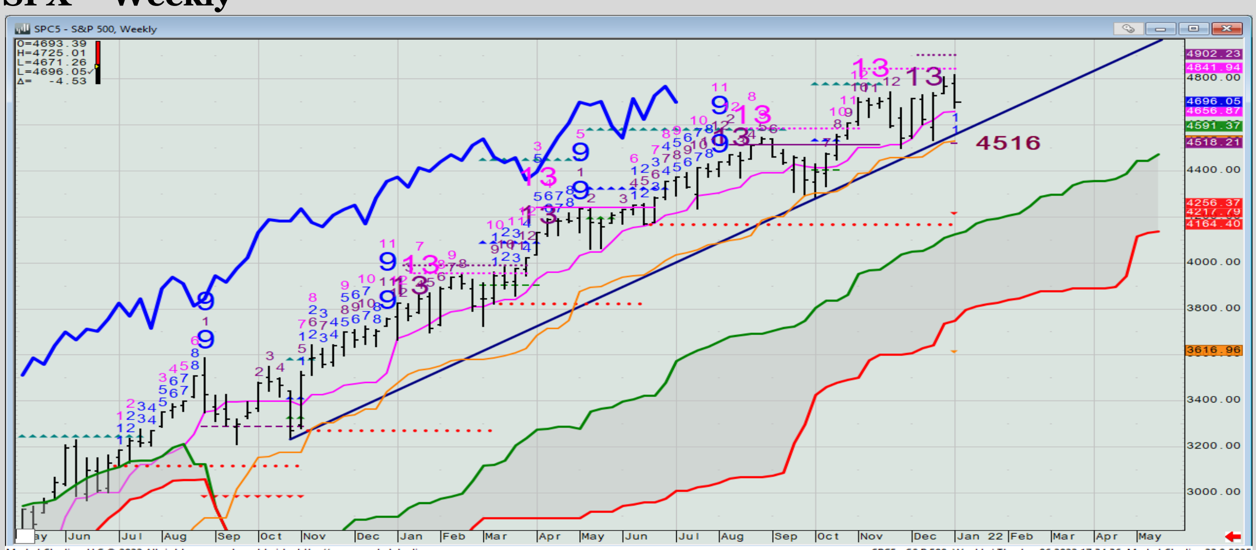
Gold is going to have another tough year if the dollar does further rally. Its long-term fundamentals remain bullish, but the metal is not getting much love, and speculators continue to hold the bulk of futures market long exposure. (That's not particularly bullish.) The weekly chart shows multiple recent Sequential +13s during the sideways consolidation. The charts say that it need hold $1676/$1666 on the downside, and upside key levels are also highlighted in the right-hand scale below. I'm strongly considering taking some of my own long gold exposure off, as price is where it was some 18 months ago.

Gold Futures –Active Weekly Continuation



For the SPX, my new "line in the sand" level moved up to 4516. A Friday close beneath there would have me concerned that a bigger decline was in the works, most especially if the aforementioned credit spread widened and stayed above 1.04%. It would target the top of the weekly cloud to the 4164 TDST Line level. Without that break of 4164, though, the medium-term picture would remain bullish.

SPX – Weekly

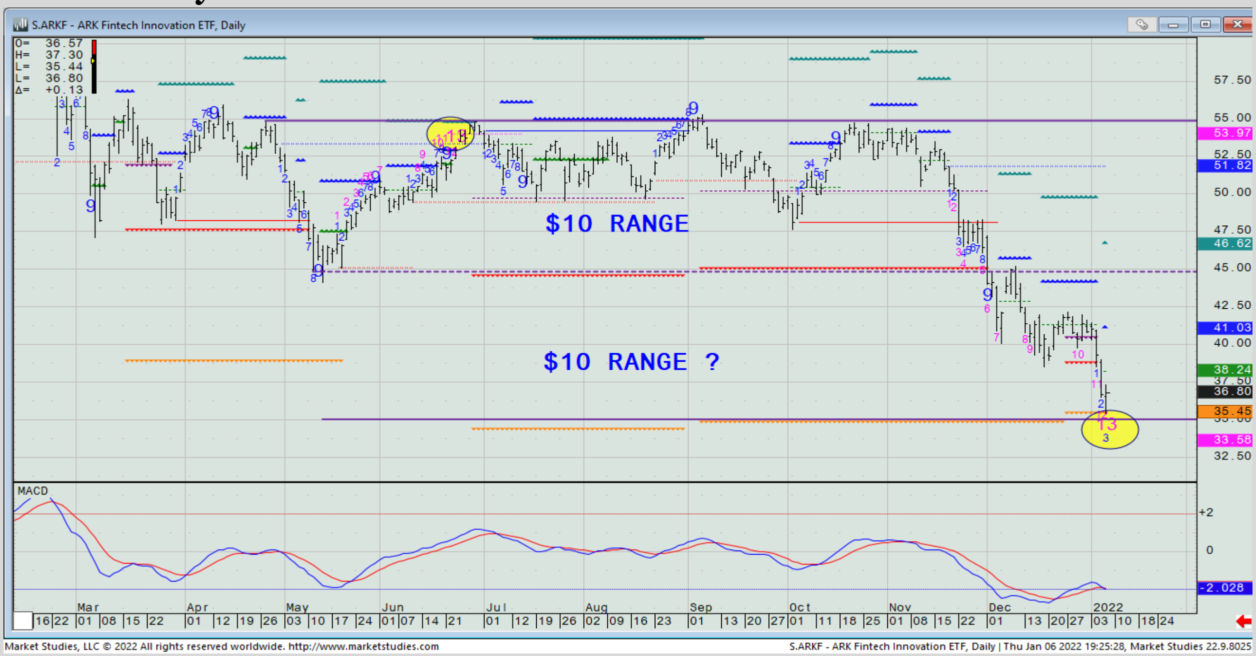


THIS WEEK'S NEW TRADE IDEA

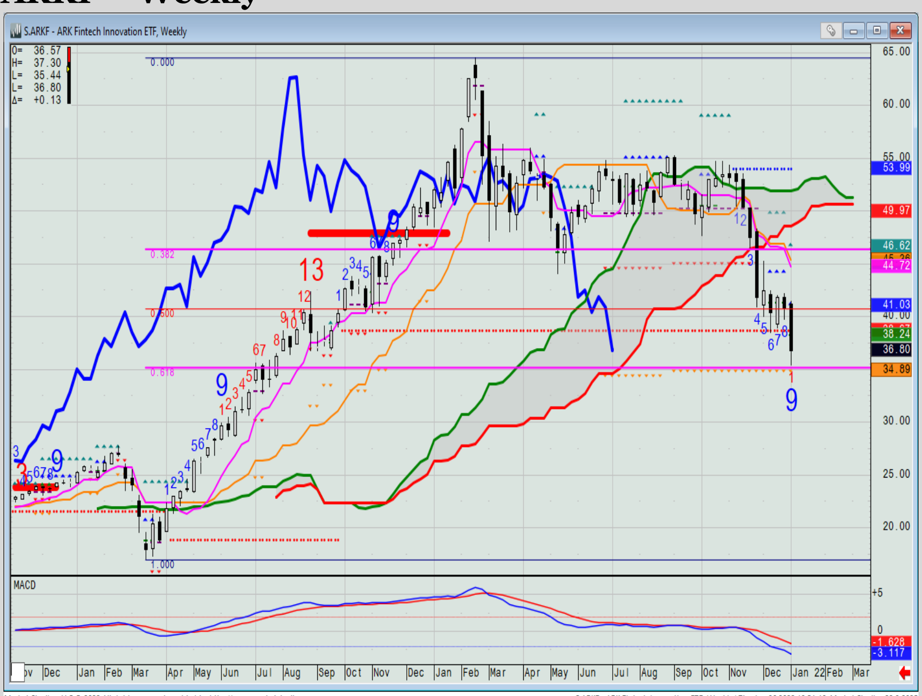
Cathy Woods has been one of the Street's most-respected PMs for several years, with 2020 having been an outstanding year for her ARK funds. However, last year her flagship ARK Innovations Fund lost 24%, trailing the SPX by over 50%. Ouch!

When I look at the **ARK Fintech Fund (ARKF),** we see that a prior $10 range has just sold down another $10 – making for a reason to see if there are other reasons to find a potential bottom. Well, a daily Combo -13 appeared yesterday that is just above two different Propulsion Full Exhaustion levels. Moreover, the weekly chart shows a weekly Setup -9 count this week that also all but touched the 62% Fibonacci Retracement level. It's component names have a collective average 29% upside to analyst's target prices.

ARKF - Daily



ARKF – Weekly



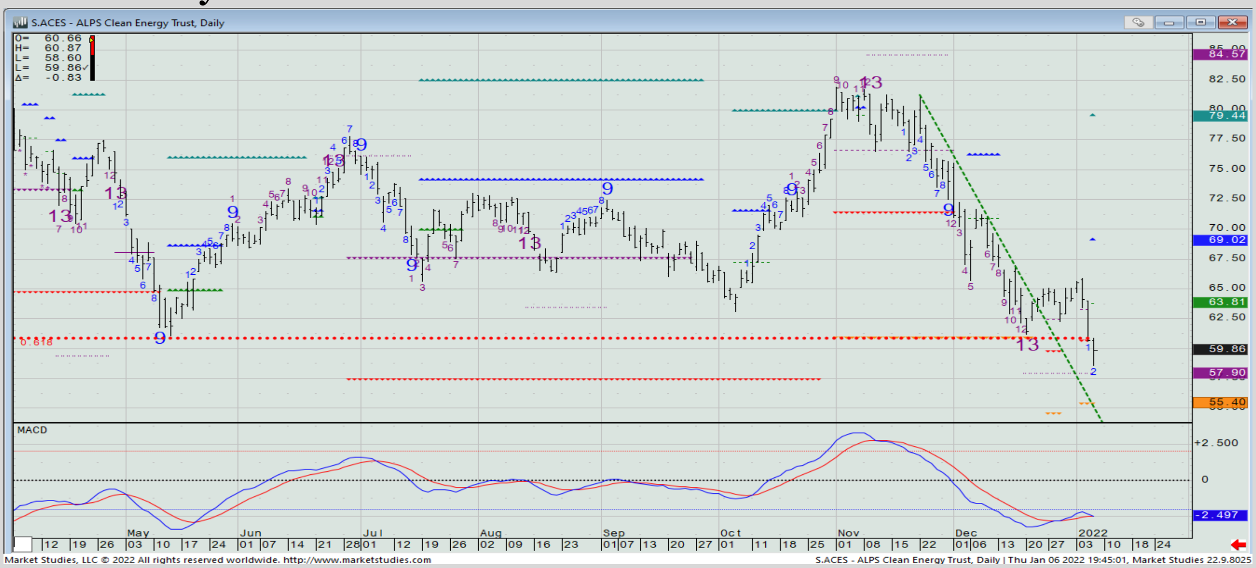
We'll go a little bottom-fishing on this, now buying one-half now and another half-unit near $34, looking for a trading bounce to come from this general area. For now, I'm going to set about a $41 target to exit 50% of what we have on. The sell-stop I am going to have to play with a bit, as this is still falling. But for now, let's say that it's likely somewhere a bit lower than $34.43.

Other Open Recommendations and Positions

Long ALPS Clean Energy Trust ETF (ACES)

In our final 2021 TTR, I suggested buying this on Thursday 5/23 (our avg. entry price was ~ $64.28) with an $80+ target sometime in the first quarter this year. We'll risk a few closes beneath the older bearish Propulsion Exhaustion level from last summer, at $57.43. (This equates to over an 11% risk to make about 2.5x that amount. If you're not comfortable with that much risk on a single trade, cut your position size in half. You'll still be risking 11% and end up with the same reward to risk ratio of 2.5x, but it will be on half as much money, so it's really the equivalent to only risking 5.5% in full-unit terms.

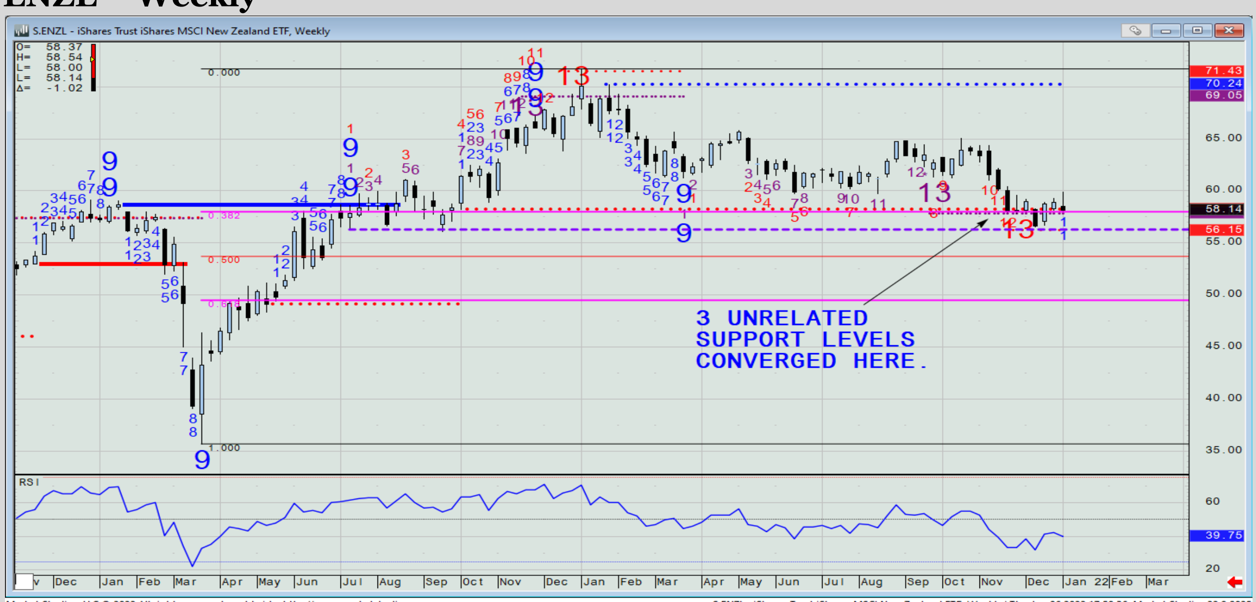
ACES – Daily



Long iShares MSCI New Zealand fund (ENZL)

We were long one-half unit (avg. price of $58.58), and added another half-unit at $58.74 on the weekly price flip upward on XMAS Thursday. We'll sell half of whatever we have on at $65 +/- 20 cents, and half at $70. We'll stop out on a Friday close < $56.29, the lowest low of the triple-bottom of Summer 2020 (i.e., the purple-colored dashed line).

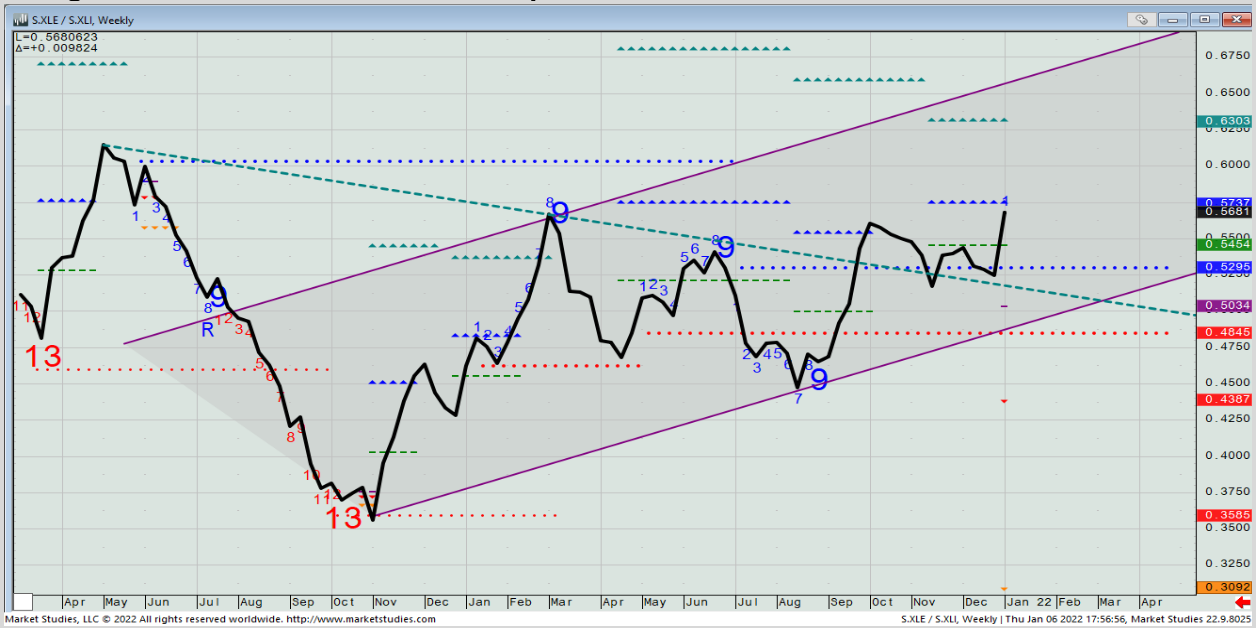
ENZL – Weekly



Long SPDR Energy (XLE) vs. Short SPDR Industrials (XLI)

Four weeks ago, we got our entry into this pair trade, going long one unit of XLE and short one unit of XLI. I'm targeting either a weekly Setup +9 or a move to the top of the channel – whichever comes first. We'll stop out on a daily close or two under 0.5068, an important level on the daily chart.

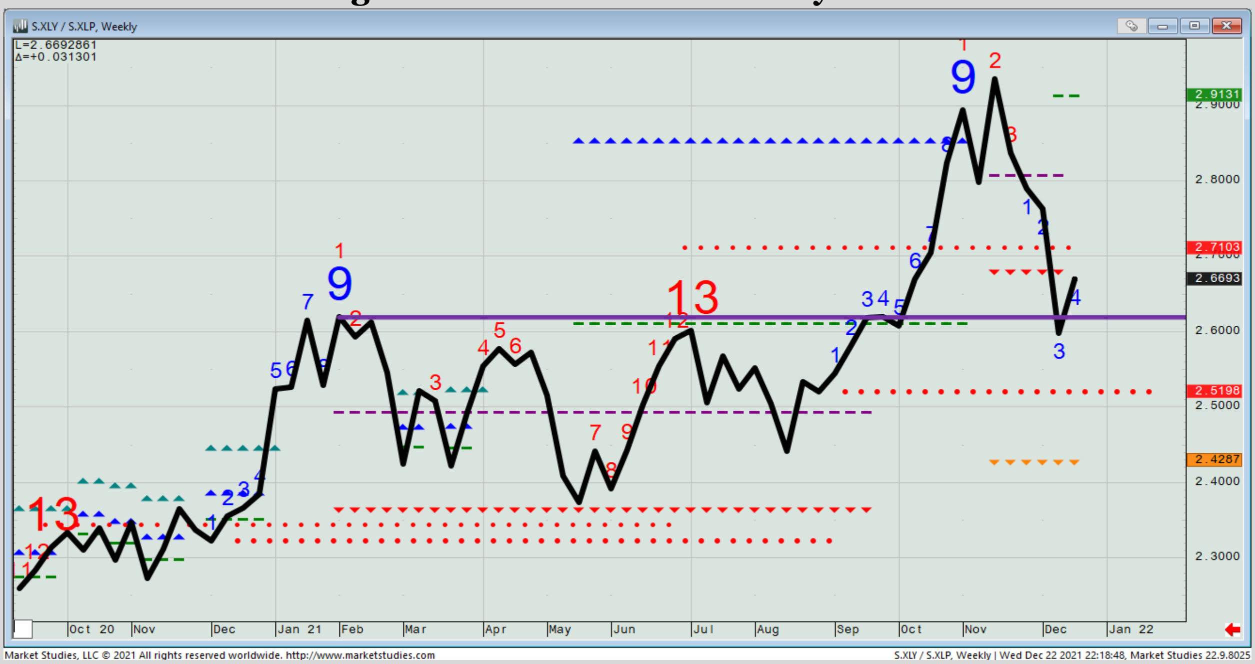
Long XLE vs. Short XLI – Weekly



Long SPDR Consumer Staples (XLP) vs. Short SPDR Consumer Disc. (XLY)

We're long this spread (shown inversely in the chart below) at an average spread ratio of ~2.87 (i.e., we want this chart to go lower). I am looking for a pullback that could go as far down as the breakout level from the first week in October (i.e., the horizontal dark purple line) vs. risking a new high for the move. We've already covered 2/3 of our position for a profit at an avg. ratio of 2.65, and remain with one-third of the position. We also lowered our stop-out to cover the 1/3-position balance up at entry level.

We're Long XLP vs. Short XLY (we're playing for this chart to go lower)
This chart shows Long XLY vs. Short XLP - Weekly



Long SPDR Gold Trust (GLD) vs. Short SPDR Silver Trust (SLV)
We put this pair on over Friday 11/19 and Monday 11/22 at an average price of 7.5389. We were looking to exit the first half the trade in the 8.26 to 8.45 zone. (Getting up there, by the way, would create a long-term inverse head-and-shoulders pattern.) We've already taken off 1/3 (at 8.026) and we'll take another third off into our original target area. We'll let the last third go should the pattern breakout upside. We've already raised our sell-stop to exit 1/3 on consecutive daily closes < 7.924 and 1/3 at your entry point near 7.54.

Long GLD/Short SLV – Daily

Suggestions and Explanation of Terms

With every major firm brokerage firm having gone to $0 domestic stock/ ETF commissions, you should <u>not be paying anything</u> to trade my recommendations (other than the associated fees to placing a short position we occasionally 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