Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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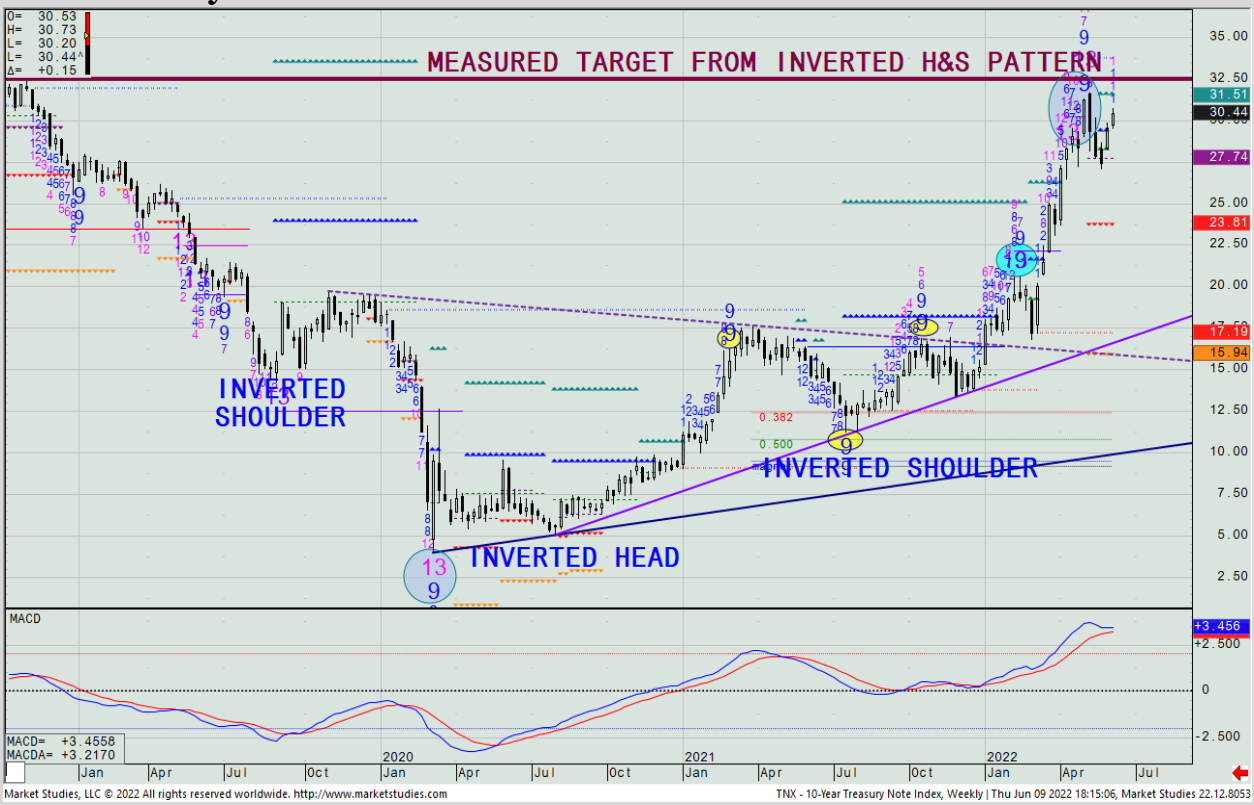
TACTICAL TRADER REPORT

The Macro Picture

Higher interest rates are putting a damper on the recent equity bulls party, as the UST 10yr. yields chart (TNX) has now closed above the equivalent 3.0% level a few times this week (though still never above the 3.04% level which was the top end of the zone we used to buy bonds a few weeks back).

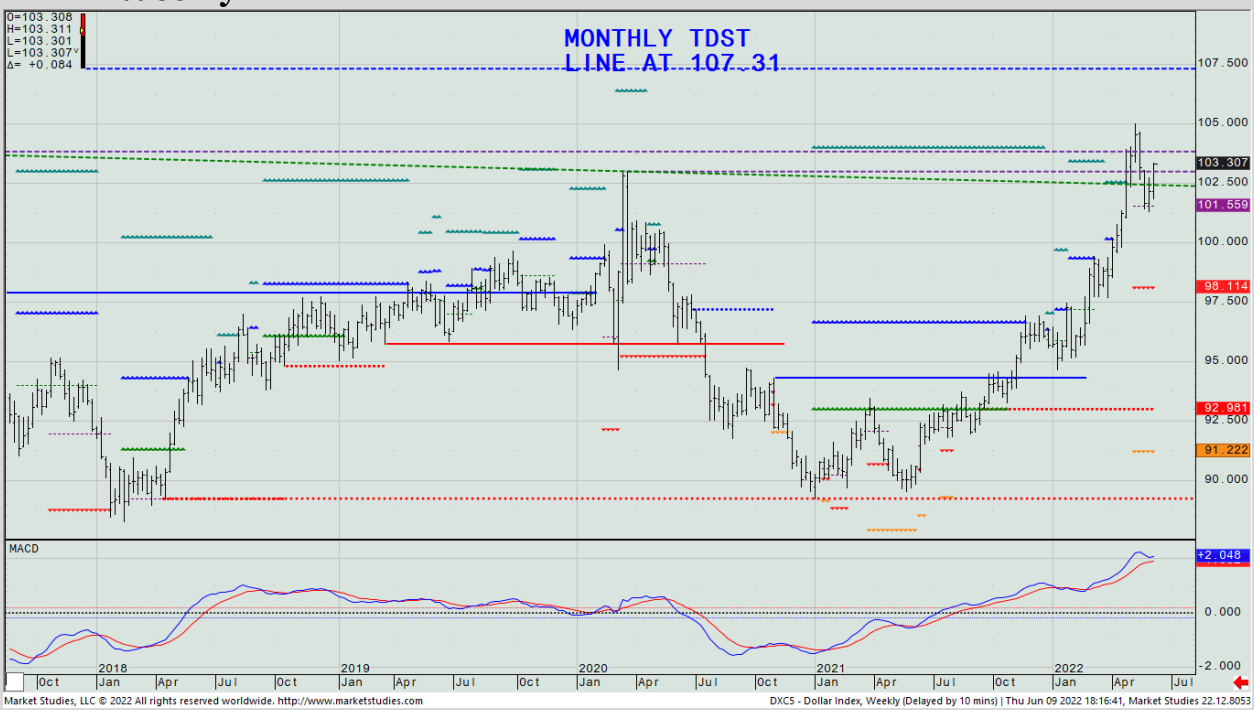
We already know that rates are within the context of upside exhaustion signals in both the weekly and monthly time frames, and today could add a daily Setup +9 count to the mix – making it a very aggressive trade on anyone's part to first now be putting a bearish bond position on. (It might work, but the risk/reward parameters are completely out of whack to do so.)

TNX - Weekly



The dollar's strength has been no friend to the stock market either, and it would need to really find a top nearby to help improve the chances that equities could see further gains. At this phase of the cycle, it's hard to make a strong case for equities to rally without the help of a declining dollar.

DXY – Weekly

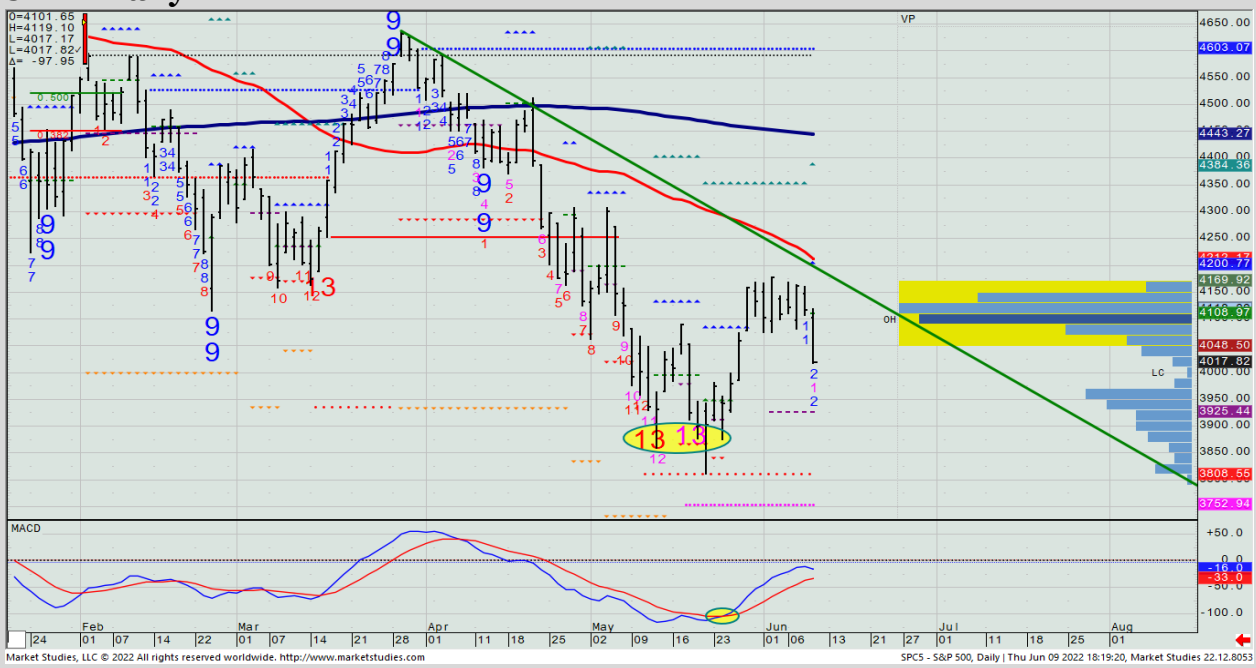


That strong dollar is no help to gold bugs either, and the metal has been a disappointment to bulls for its inability to have mounted a rally above the $2000 level. Yes, you've been better off in gold this year than in the SPX. But no, it hasn't felt rewarding being there.

COMEX Gold – Active Weekly Continuation

Looking at the equity market, the SPX has toyed with the 4100 level for the better part of the past two weeks. Though we saw a nice bounce from the daily Combo -13 level, the 4100/4175 level has acted as solid resistance, and its where every Tom, Dick, and Harry (and Jane!) technician has been selling, because it was the approximate prior breakdown area.

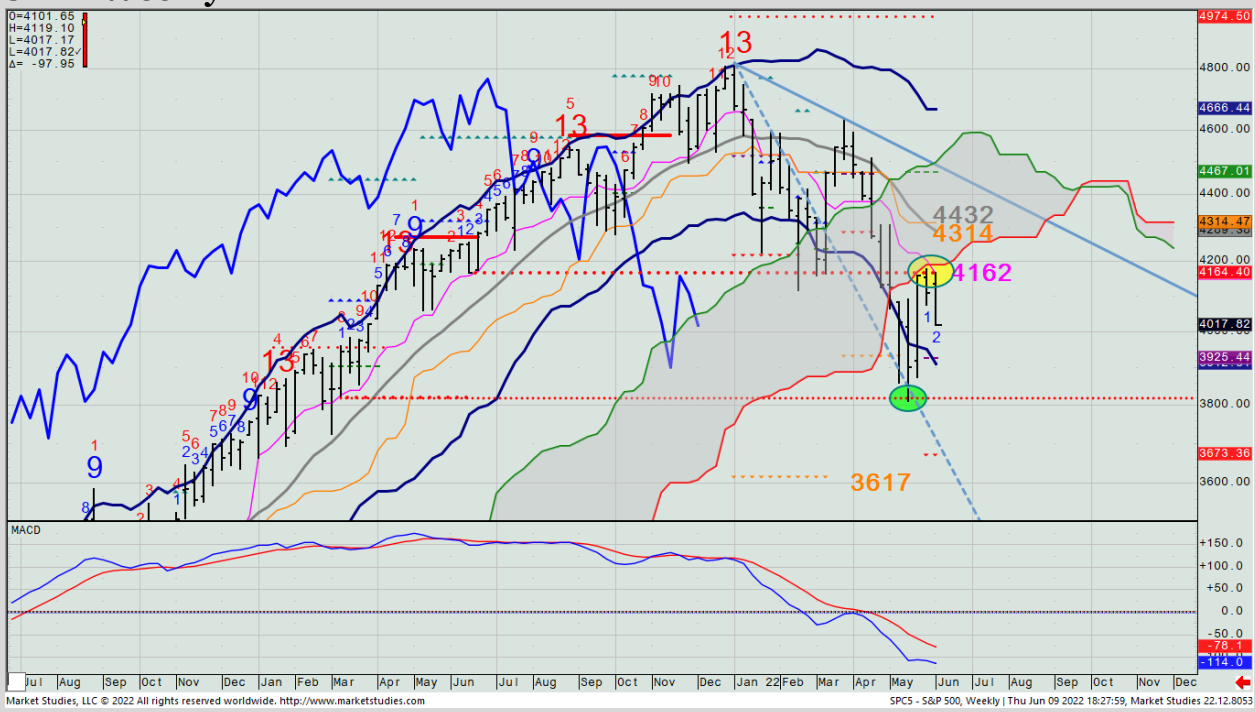
SPX - Daily



Looking at the above volume profile, we see that price eroded yesterday down to where very little volume traded since early May. For those who know this indicator, the low volume zone is potential support and from there down to 3925 is the last support level there is on the daily chart that exists above 2022 lows.

The biggest issue I see right now is that the bulls have yet to prove their case. Bulls have a long way to go to achieve their win, while bears don't need much more than seeing that the rally paused exactly where expected. Moreover, the last three weeks of virtually equal SPX highs came against the bottom of the weekly cloud, along with this week also having the weekly Conversion Line cap the rally. The picture is reloading on its bearish posture, and Friday closes < 3925 ups the odds that new 2022 lows are coming to then next target 3617, my 2022 projected low.

SPX - Weekly

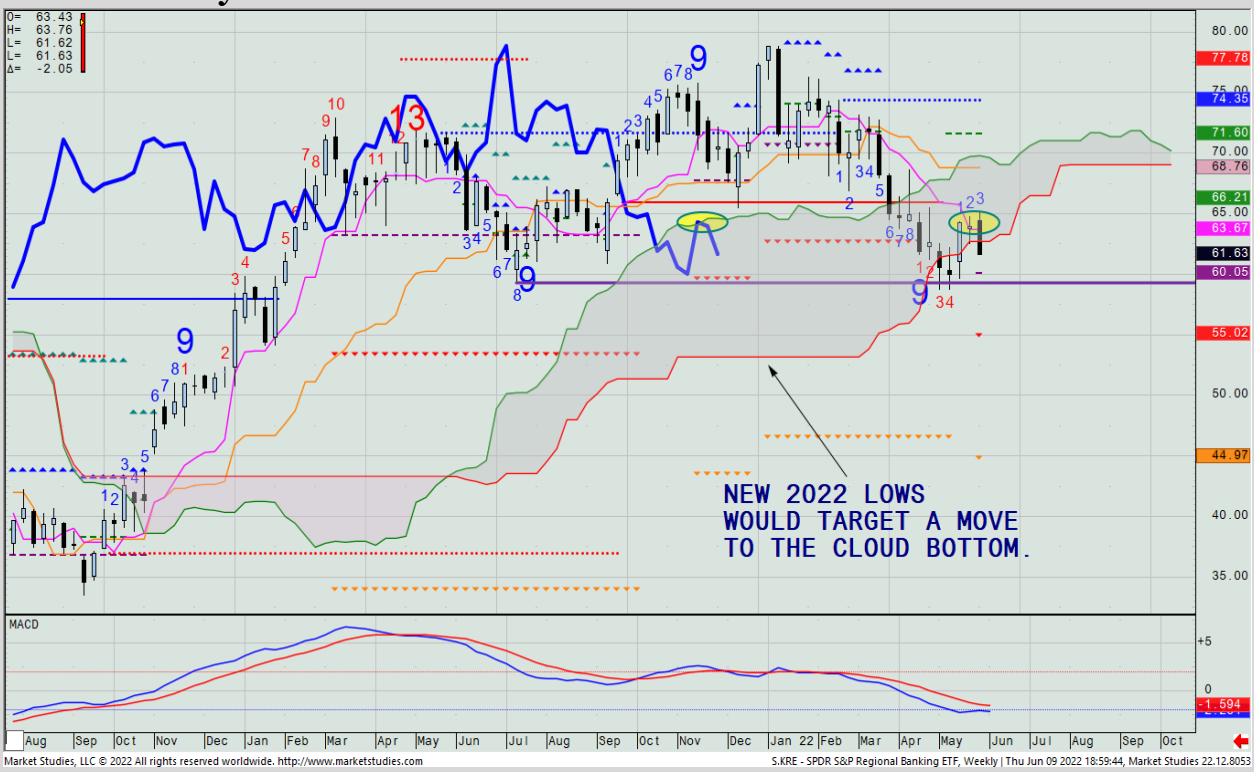


New ETF Trade Idea

Interest rate sensitive stocks (and related ETFs) are having a difficult time with the higher interest rates we've see this year – against the conventional thinking that higher rates are good for lending institutions. Well, 2022 is re-writing the books on that.

When I look at the S&P Regional Bank Index (KRE), we see that in the past two weeks that the rally halted against its Conversion Line and through yesterday, also appears to have a three-bar "evening star" candle pattern – one that is generally considered to be one of the more bearish of known patterns.

KRE – Weekly



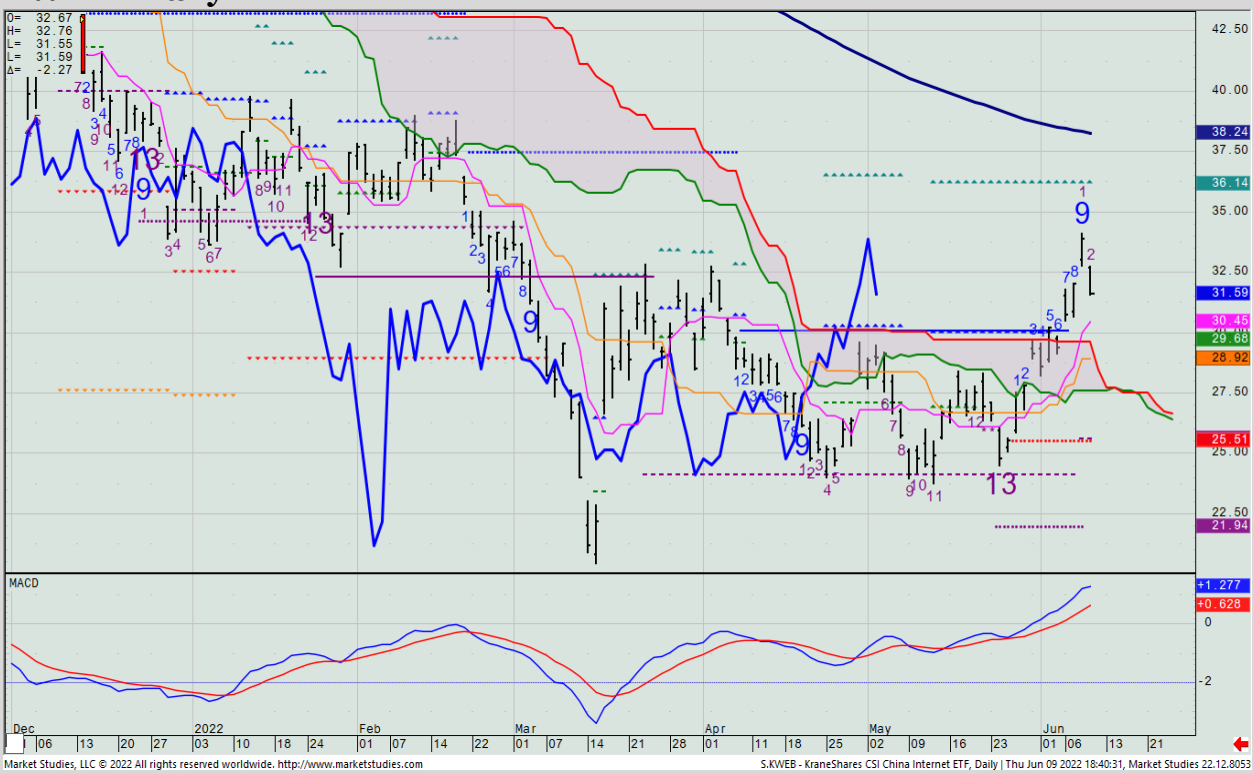
With the weekly cloud's Lagging Line having failed right against the top of its cloud at the same time this three bar pattern was formed and price rejecting its Conversion Line, we have enough here to bet against price advancement – even with the possibility that new 2022 lows leads to another round of selling to push price down to where the Lagging Line would meet its cloud bottom (at $53.19).

Thus, let's look to short one unit of KRE, using the prior TDST Line at $65.91 as our buy stop level, and looking for further pain in this sector to post new 2022 lows, and then some.

Other Open Recommendations and Positions

Long KraneShares China Internet ETF (KWEB)
Last Friday we bought this at an avg. entry price of $29.39. Since then, we did see the upside breakout as price leapt above its cloud, but the rally halted on Wednesday against a Setup +9 count. We need raise our sell-stop to where we got in. Target $36.14 to $37.49.

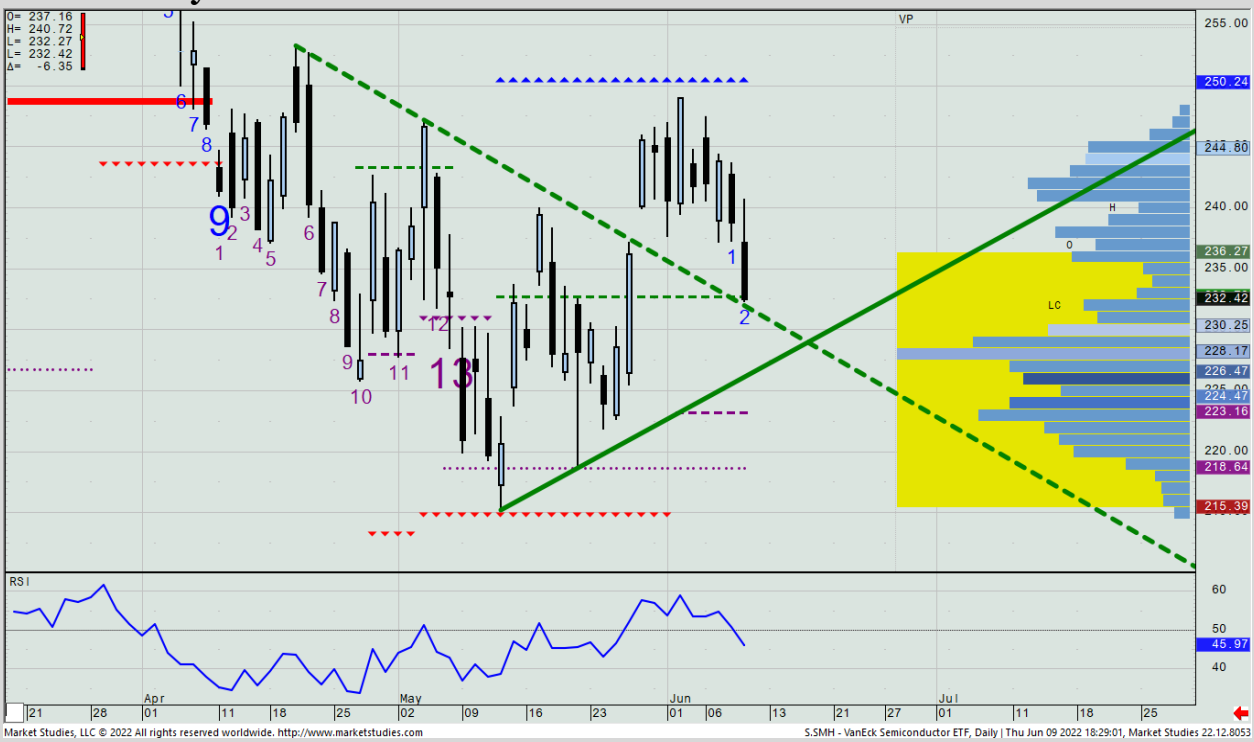
KWEB - Daily



Long Van Eck Semiconductor ETF (SMH)

Two weeks ago, we were hoping for a pullback to get long in the $229/$225 zone (with a target near $250), but price immediately gapped up and we never got entry. (And price got to $249+ and then turned down.) The only place I would consider buying this now is in the $228/$223 zone, but you'd have to risk to a close or two beneath $218.64. That's about a 3% risk from the $225 avg. price; not so bad in this market.

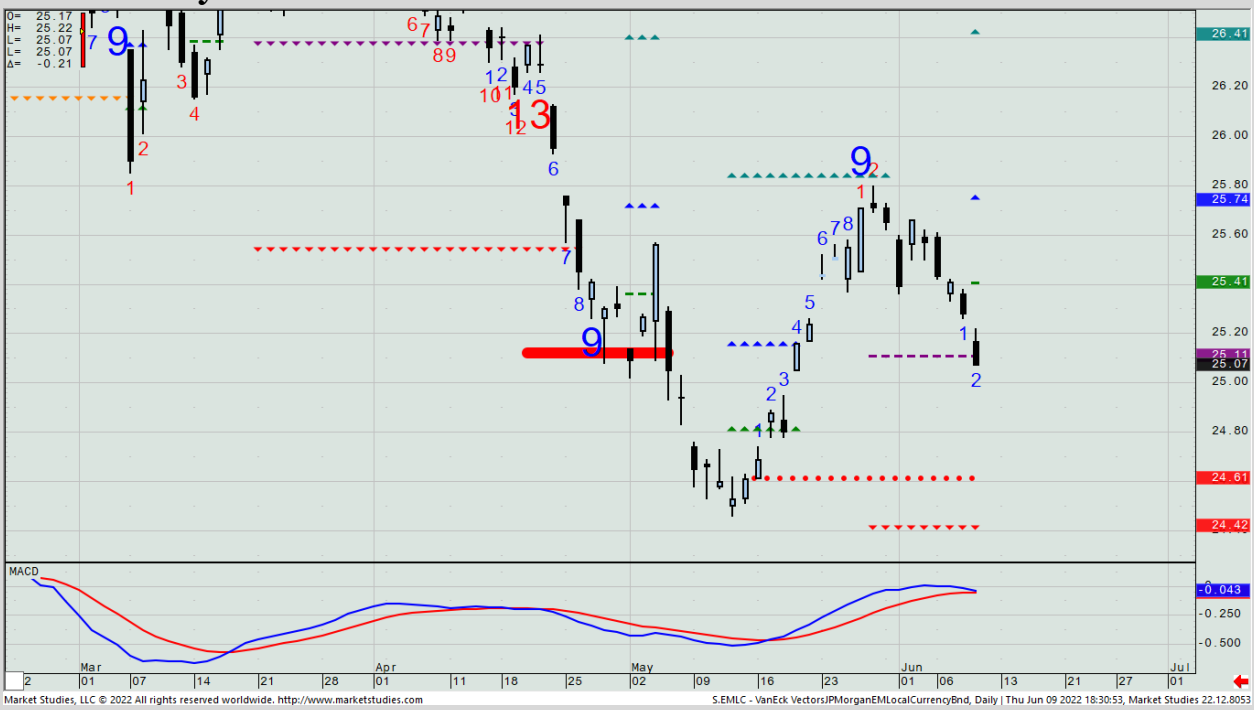
SMH – Daily



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

Three Fridays ago, we got long this at $25.22, looking for an initial move up to $26.33. Price stalled a day after the Setup +9 count with a high of $25.80, and it's come right back down to its bearish Propulsion Momentum level of $25.11. Exit the trade on a close (or two consecutive ones) beneath that $25.11 price. (We got the first one yesterday.)

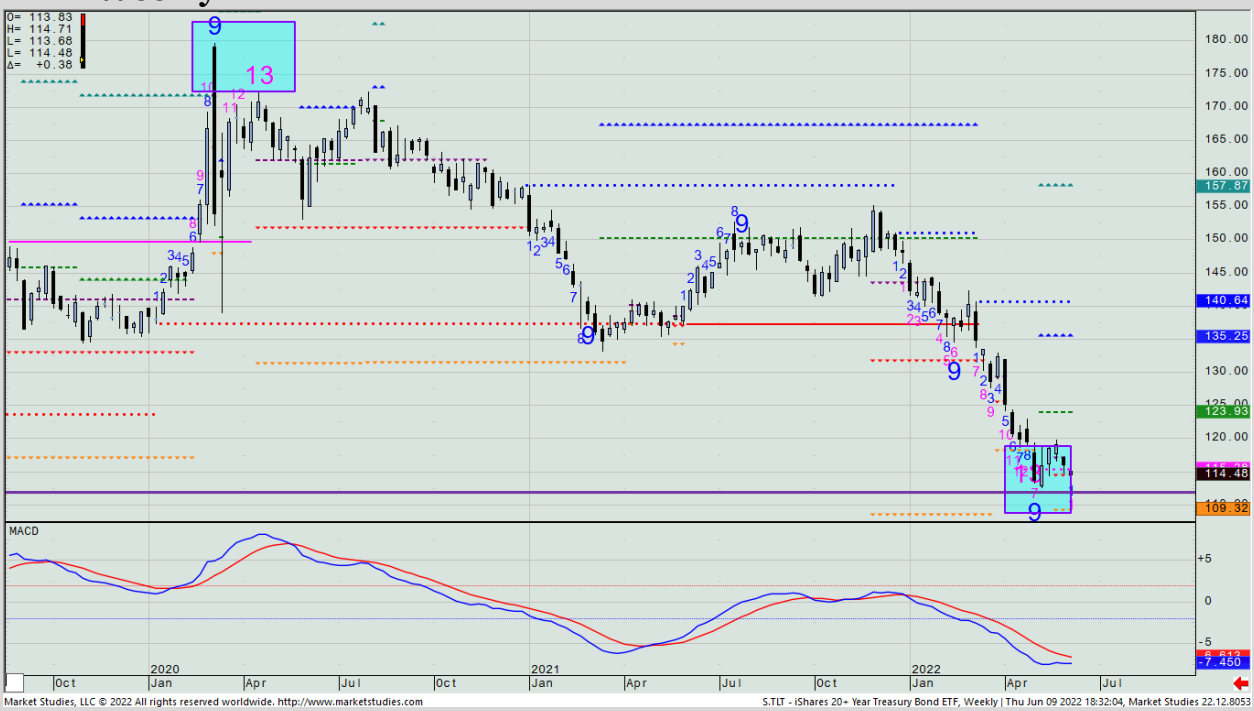
EMLC - Daily



Long iShares 20+ Year Bond ETF (TLT)

We got long four weeks ago at an average price of $115.50. I was looking for a bounce to exit at $123.93 +/- 25 cents, and we had raised our sell-stop to breakeven, which was hit last week for a wash trade.

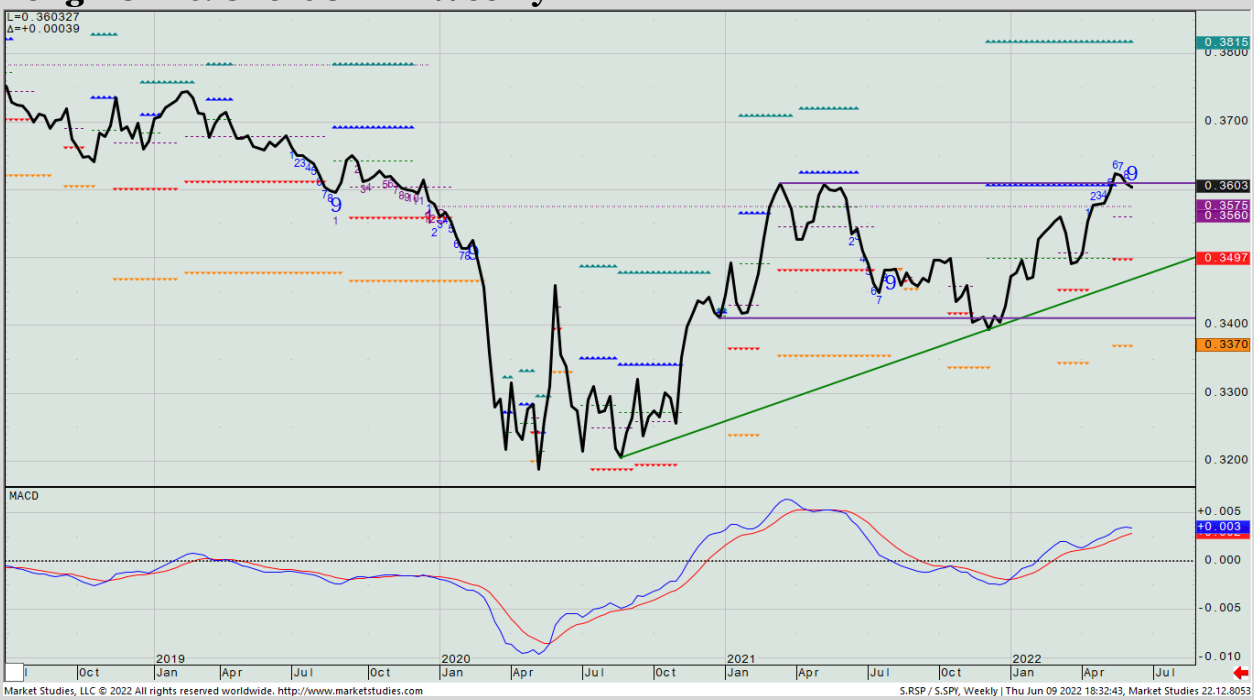
TLT - Weekly



Long RSP vs. Short SPY

Five Fridays ago, we bought 1/3 of our newest pair trade idea (avg. entry at 0.3582), and added another 1/3 three Fridays ago at 0.3624. We are going to remove one of those two small positions today.

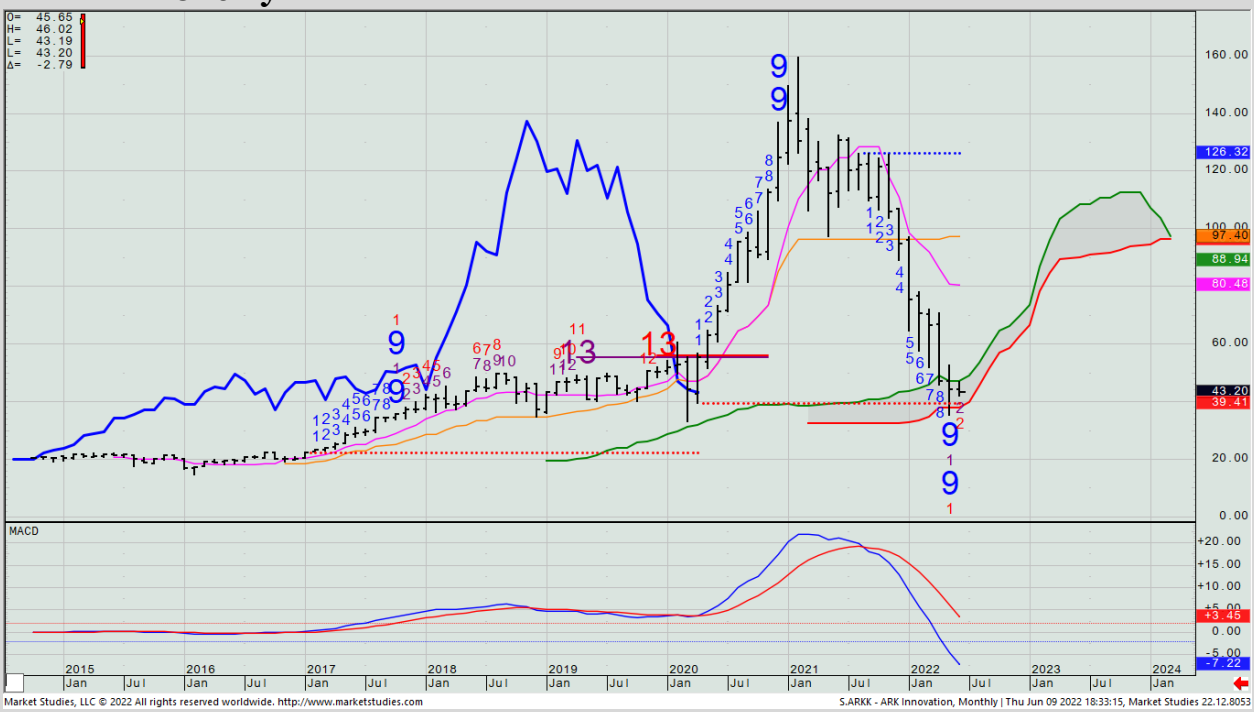
Long RSP vs. Short SPY – Weekly



Long ARK Innovation Fund (ARKK)

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.)

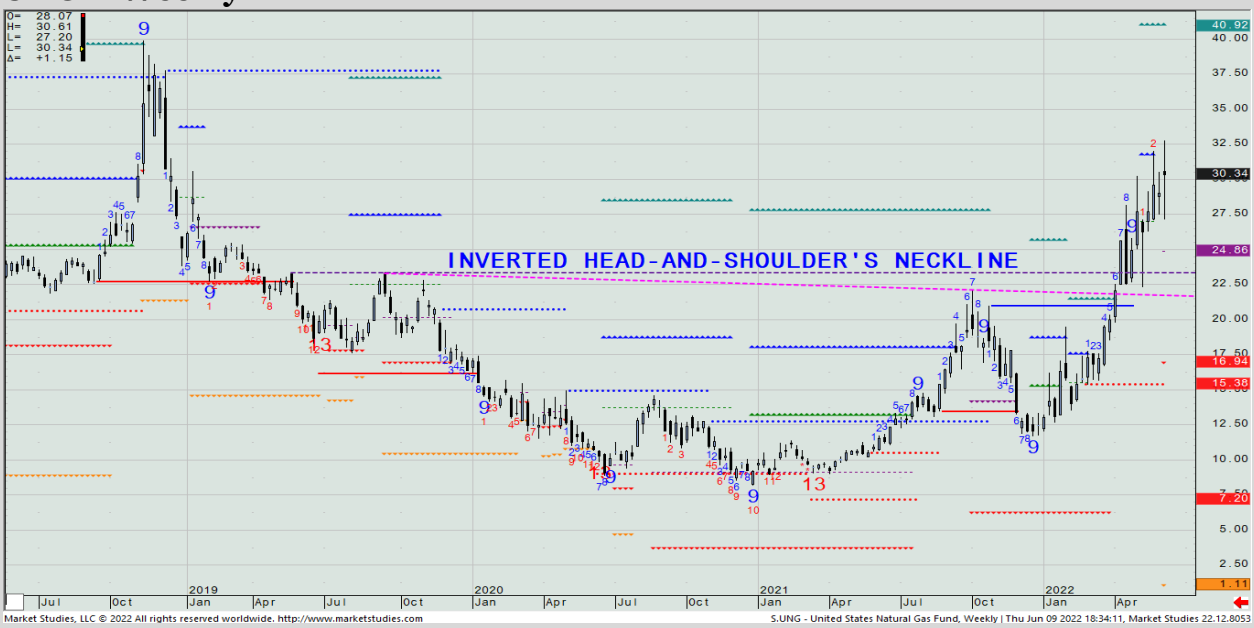
AARK – Monthly



(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. (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. You need to be willing to sit with this idea in the face of some likely near-term pain.

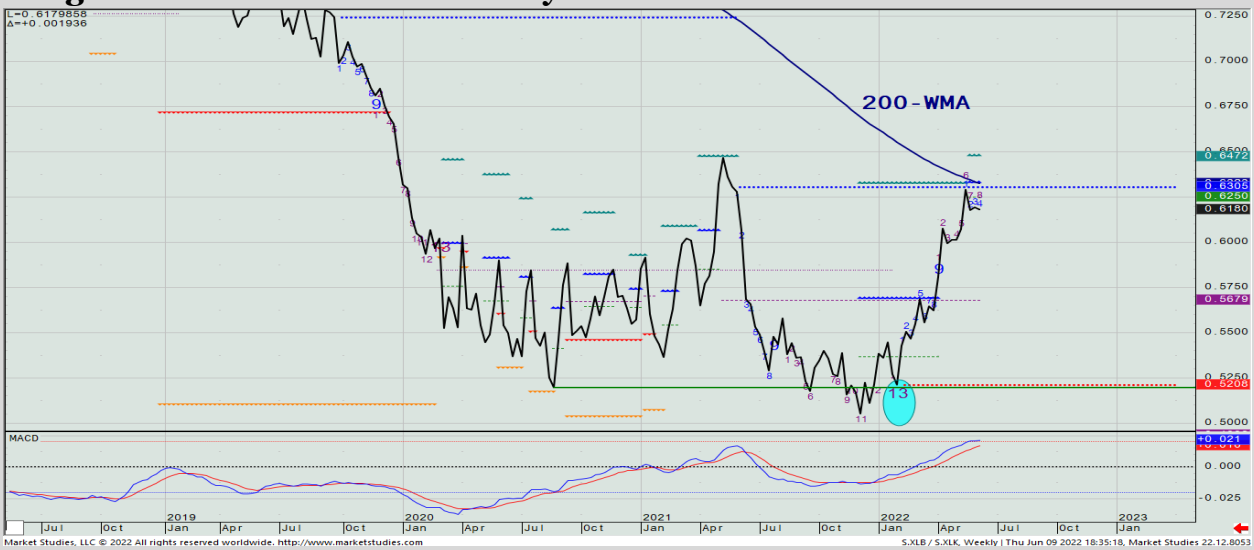
Long United States Natural Gas Fund ETF (UNG)
A few months ago, we got long one unit of UNG (avg. entry at $19.36), and we took the first third of that trade off @ $24.63 and another 1/3 off on May 27 at $28.97. We'll hold the final 1/3 position.

UNG – Weekly



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 @0.5786), 1/3 at 0.6167. We'll stop out the balance on a daily close < 0.6127.

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