Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

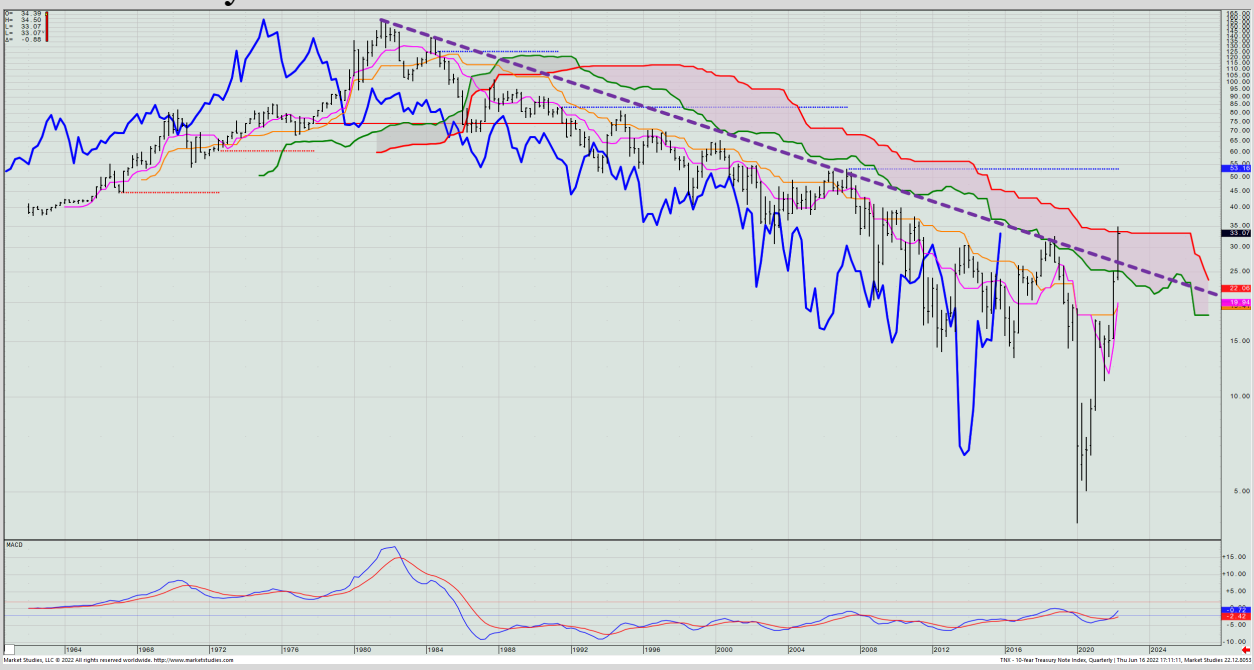
The Macro Picture

The Fed raised rates by 75 bps. – something the market mostly forced them to do after last week's lousy CPI report came out – and the rebound party lasted for barely 90 minutes as yesterday's price action eclipsed the post- Fed announcement rally, and then some. New lows were made for 2022 on a 3.25% decline day for the SPX, and it is now just 50 points from the 3617 target I laid out a couple of months ago.

A screaming dollar along with surging interest rates have been the main culprits behind equity weakness, and although those may take a breather at levels they've hit this month, I think the odds still remain that in the bigger picture, equities have further downside to go (and likely more than the aforementioned 50 points to target). The downside earning revisions cycle is not yet priced into the market, and Wednesday's Fed move does not impact that equity markets are still overpriced.

By using a monthly log scale chart of the UST 10-yr., we see a definitive upside breakout in rates this quarter and the best view of why the 40-yr. bull market in bonds is clearly over. (We made this call some 18-months ago, but now even the charts agree.)

TNX - Monthly

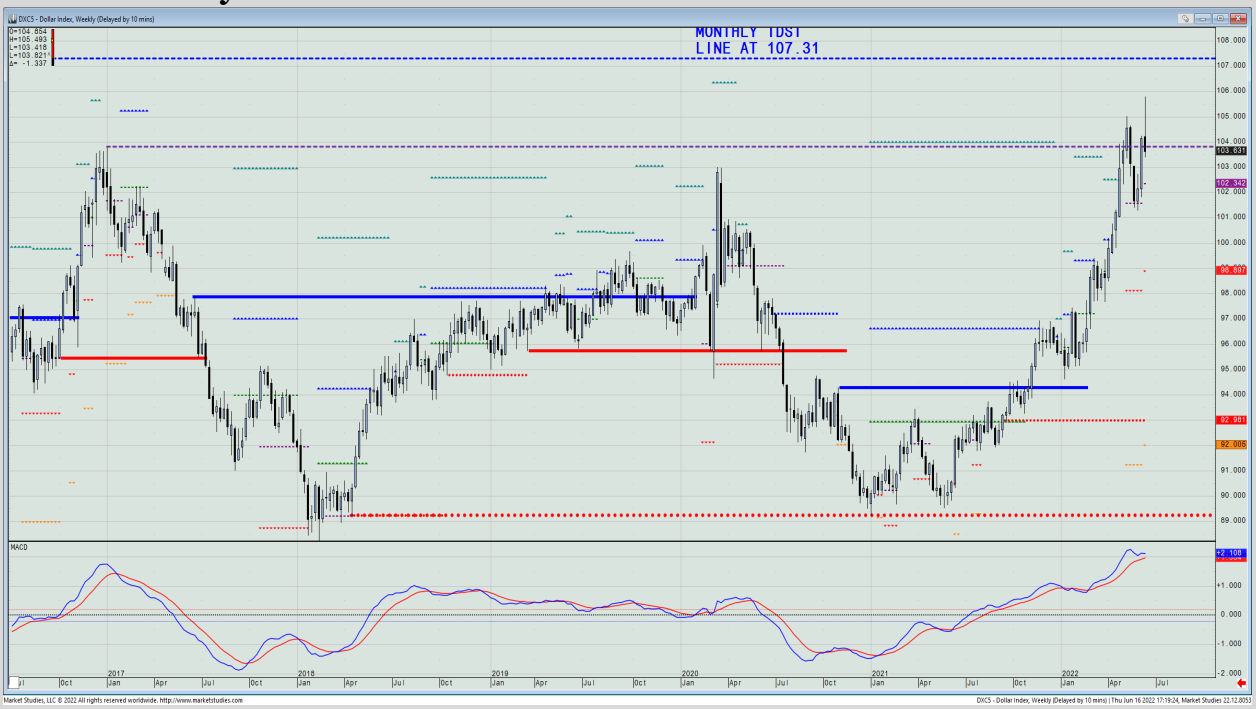


You can see that price is now against the top of the quarterly cloud, which does represent some resistance. But the "line in the sand" has indeed been breached, and

one really need ask themselves about the value of owning long-term bonds going forward, because the likelihood of capital appreciation on them is greatly reduced.

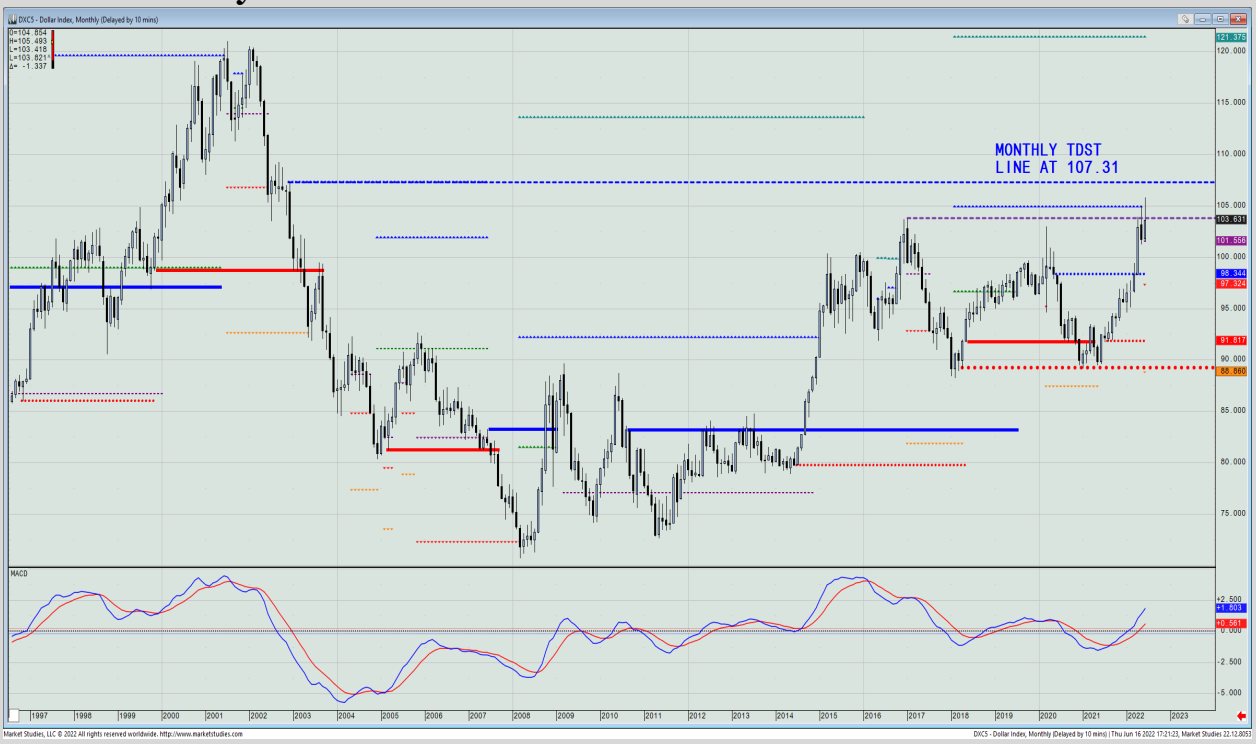
The dollar's strength continues to put a lid on the ability for equities to advance. Many will say that the DXY has made an upside breakout against the early-2017 high (the horizontal, purple-dashed line), but the spike up to near 106 and pullback to 103+ this week still makes that questionable to me.

DXY – Weekly



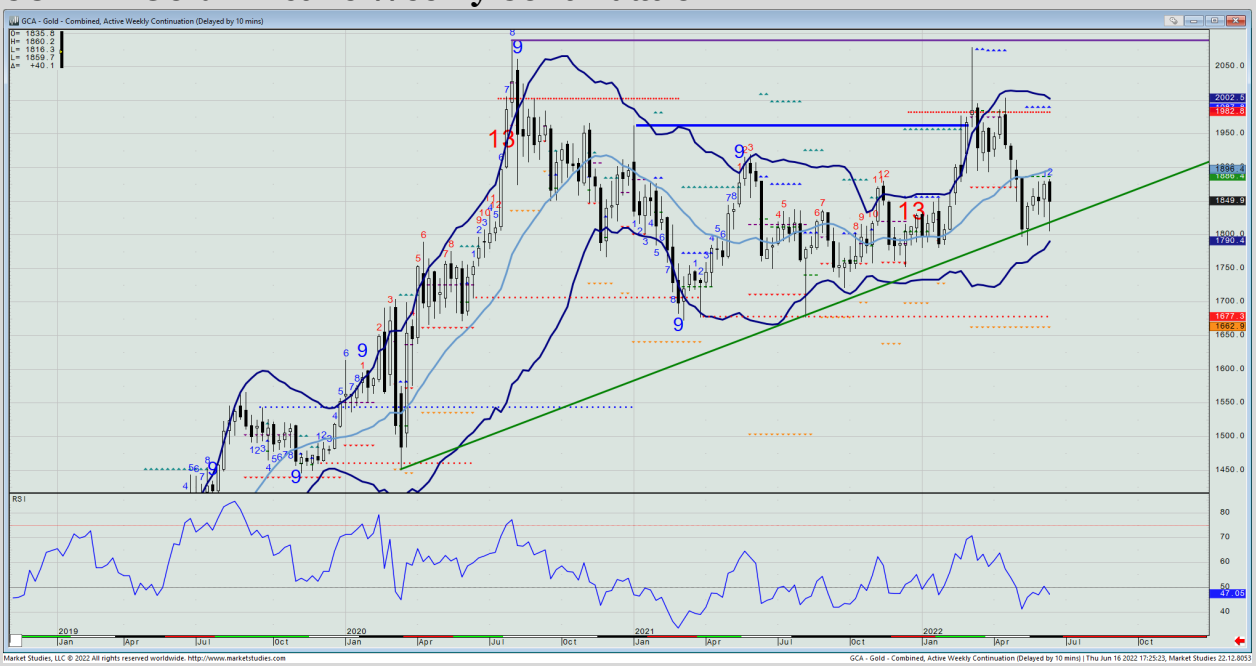
Here's the monthly chart, so you can put the 18-month strength in perspective to the long-term picture.

DXY – Monthly



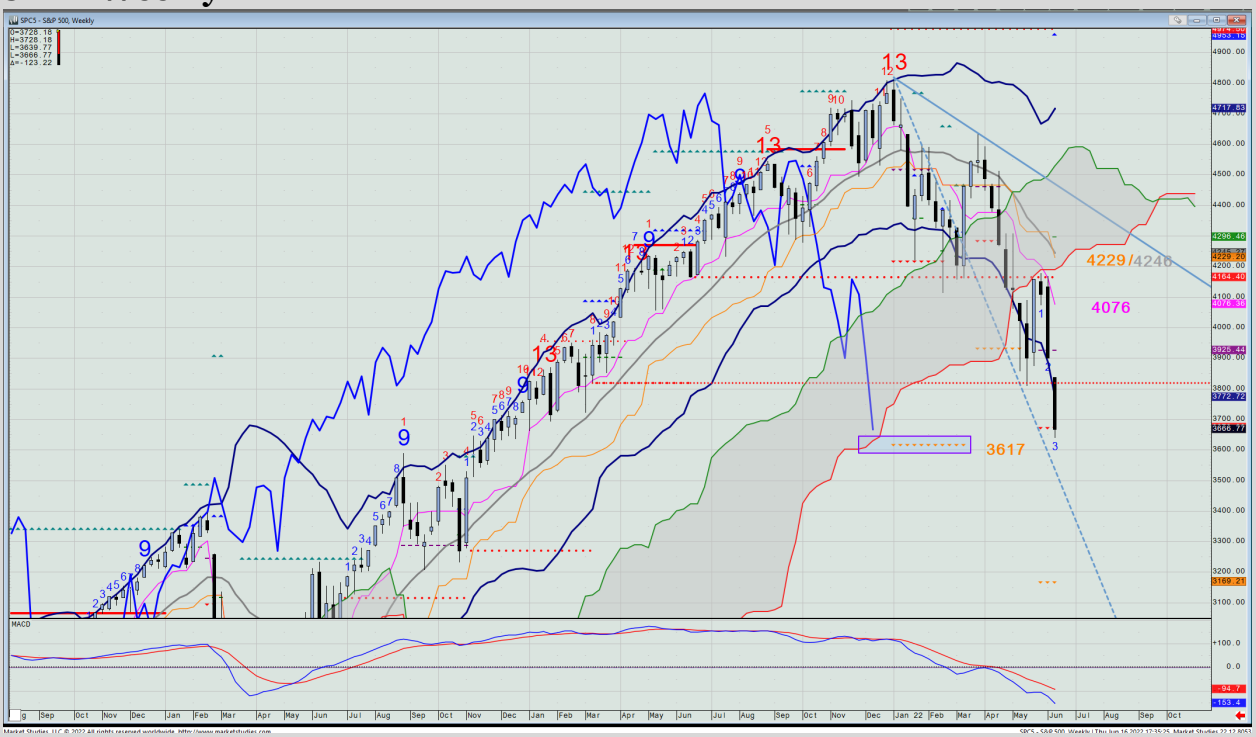
Gold came into this year near $1800/oz., and though it's up ~3% on the year, it has been a solid hedge against adverse price movement in stocks, bonds, and crypto. (It would have been a far better money-maker if it wasn't for the dollar's strength.)

COMEX Gold – Active Weekly Continuation



After failing to rally above the prior breakdown area near 4150, the SPX has fallen to new lows. The two nearby downside targets are 3673 and 3617 – both from weekly charts. The former was mildly penetrated on yesterday's close; the latter some 50 points lower. If you have trading shorts on, these aren't bad levels to take partial profits against. (Don't forget that today is the quarterly "quadruple witch" day, when massive amounts of options and futures contracts expire. You can expect some big price swings today because of it.)

SPX - Weekly



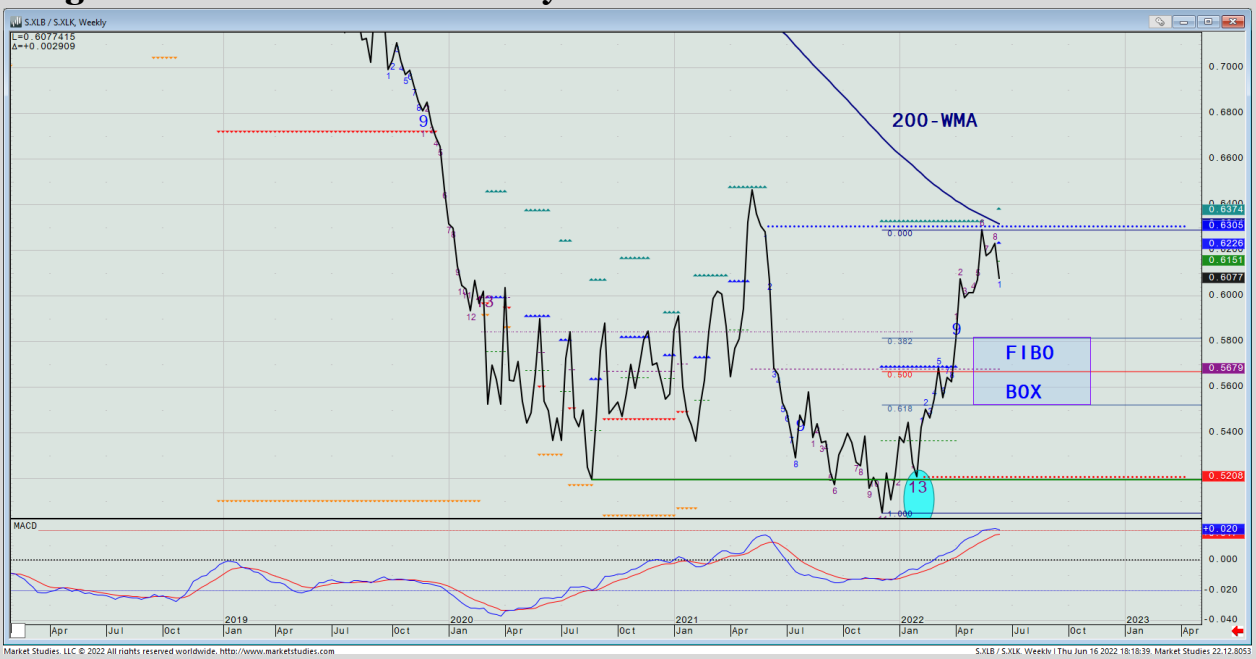
Count-wise, the SPX weekly chart is not close to downside exhaustion signals, as it's only on a Setup -3 count. If the 3617 level gets breached in any considerable way, the bigger downside target becomes 3170 – some 12% lower. We'll see if bulls try to make their stand shortly, because it can get a lot uglier if not.

New ETF Trade Idea

I've been writing the Tactical Trader Report for several years already, and every once in a while, I do something different than what we've done before. This week is one of those times, because our new weekly ETF idea is actually going to reverse a trade we made great money with to now play it in the exact opposite direction.

Almost three months ago, we went long Materials (XLB) while shorting Technology (XLK) against it. Over the past week, we exited the last portion of that trade for over a 13% gain in a macro sector pair trade – a huge winner by any standard. Now, I actually think that badly beaten down Tech can outperform the cyclical Materials area, so we're going to put this trade back on, but inversely: **We'll buy XLK and short XLB against it** (meaning that I expect the below chart to head lower).

Long XLB vs. Short XLK – Weekly

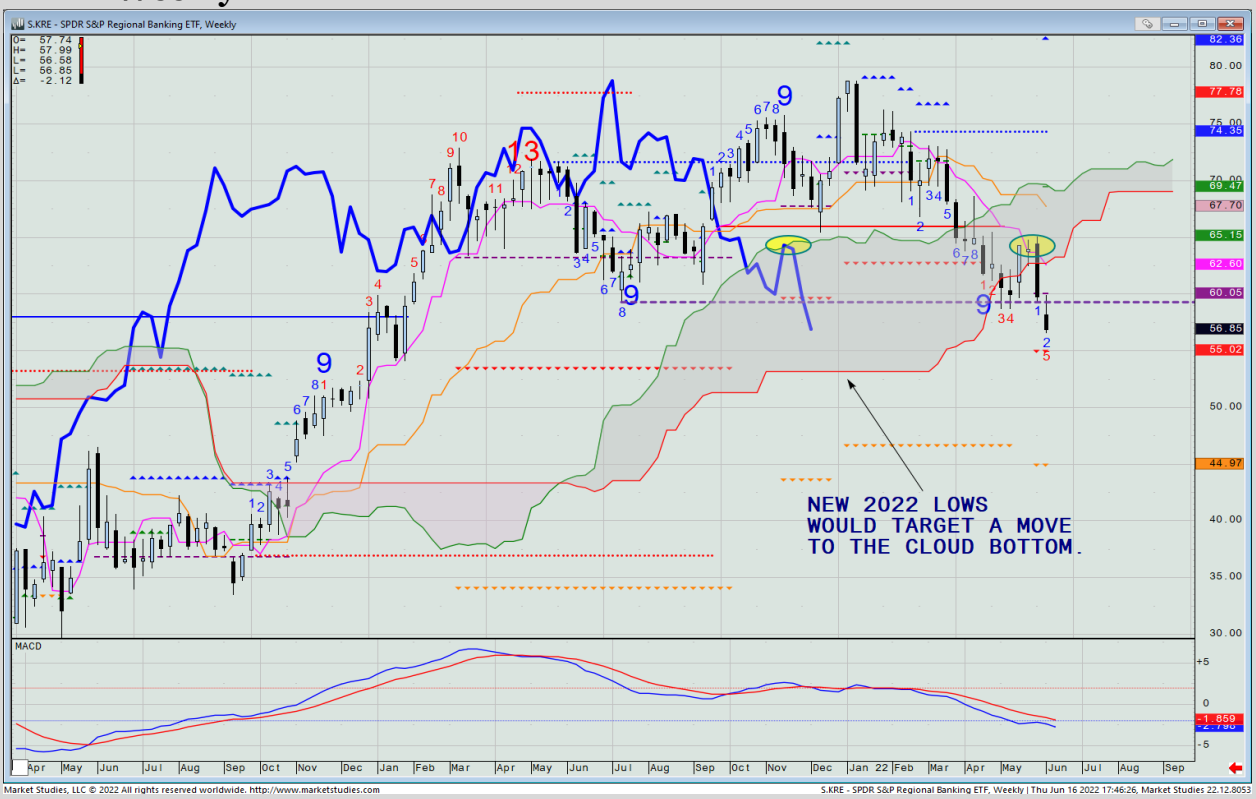


We'll play for this to pull back to the Fibo Box, starting near 0.58, where we'll look to cover 2/3 of this pair trade. Our buy stop is one or two Friday closes (your choice) above 0.6305.

Other Open Recommendations and Positions

Short S&P Regional Bank Index (KRE)
Last Friday we shorted this at an avg. price of $60.13 (the mid-price of the day's range). I'm looking for this to challenge the weekly cloud's Lagging Line against its own cloud bottom at $53.19. We'll tactically manage this by covering 1/3 at $55.02 +/- 10 cents; 1/3 at $53.19 +/- 10 cents, and we'll let the last 1/3 go in case there's a total market wipeout to target $45 +/- 20 cents. We can now also lower our buy-stop to a Friday close above $60.05.

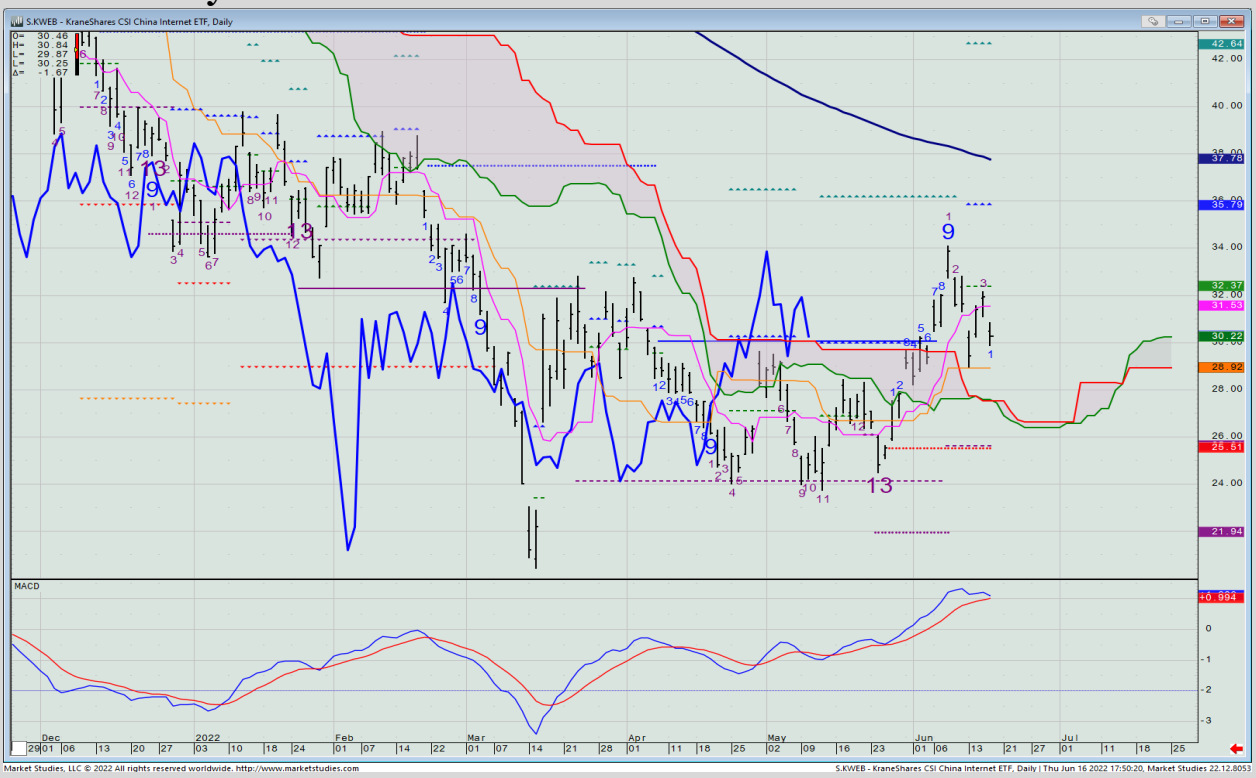
KRE – Weekly



Long KraneShares China Internet ETF (KWEB)

A couple of weeks ago, 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 against a Setup +9 count. To be safe, we raised our sell-stop to where we got in, and on Monday of this week price traded down to our entry price, so we exited with a wash trade.

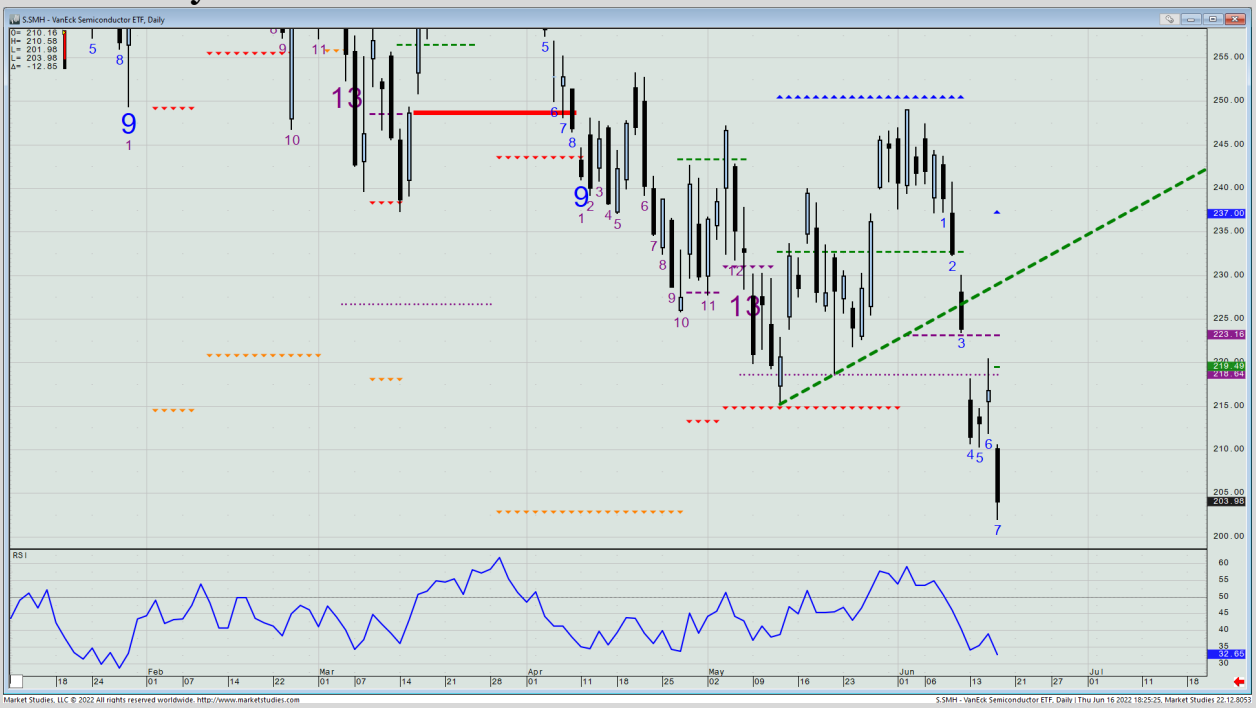
KWEB - Daily



Long Van Eck Semiconductor ETF (SMH)

We ended up having the chance to buy this last week in the $228/$223 zone, risking a close or two beneath $218.64. That in and out happened quickly, and those who took this trade lost an avg. of 5.7%.

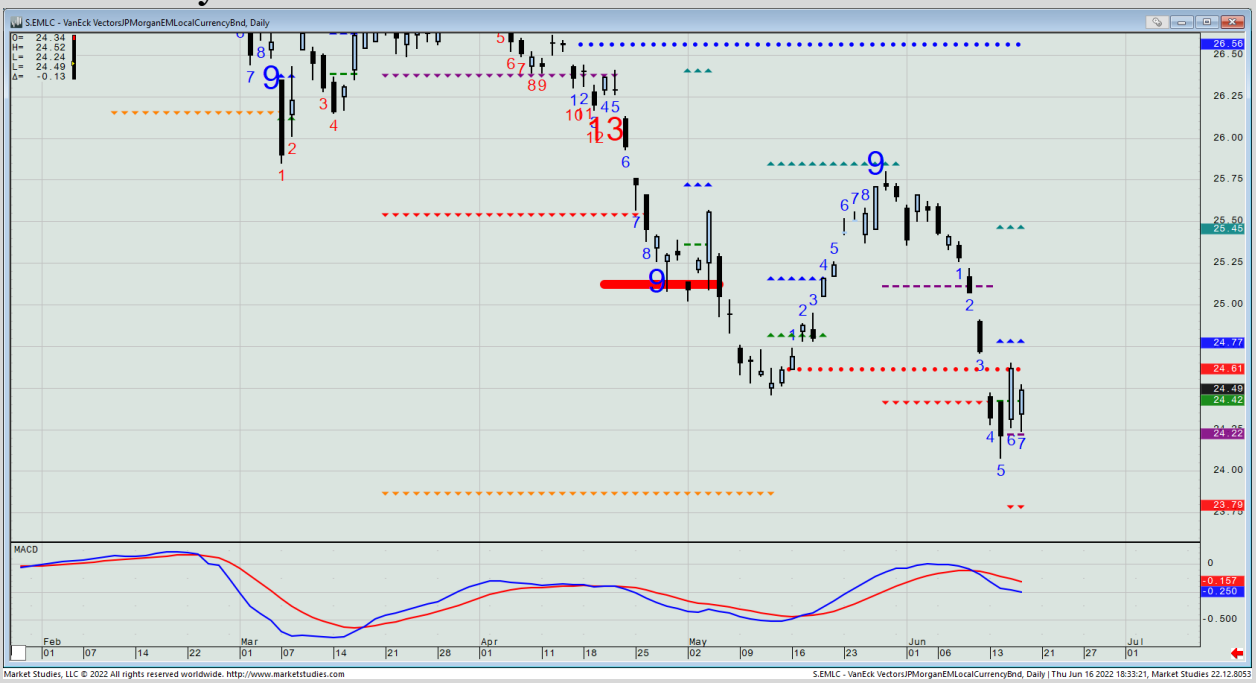
SMH – Daily



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

Four 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. If you used one, you were out at $25.07; if two, at $24.72. The loss was very minor either way.

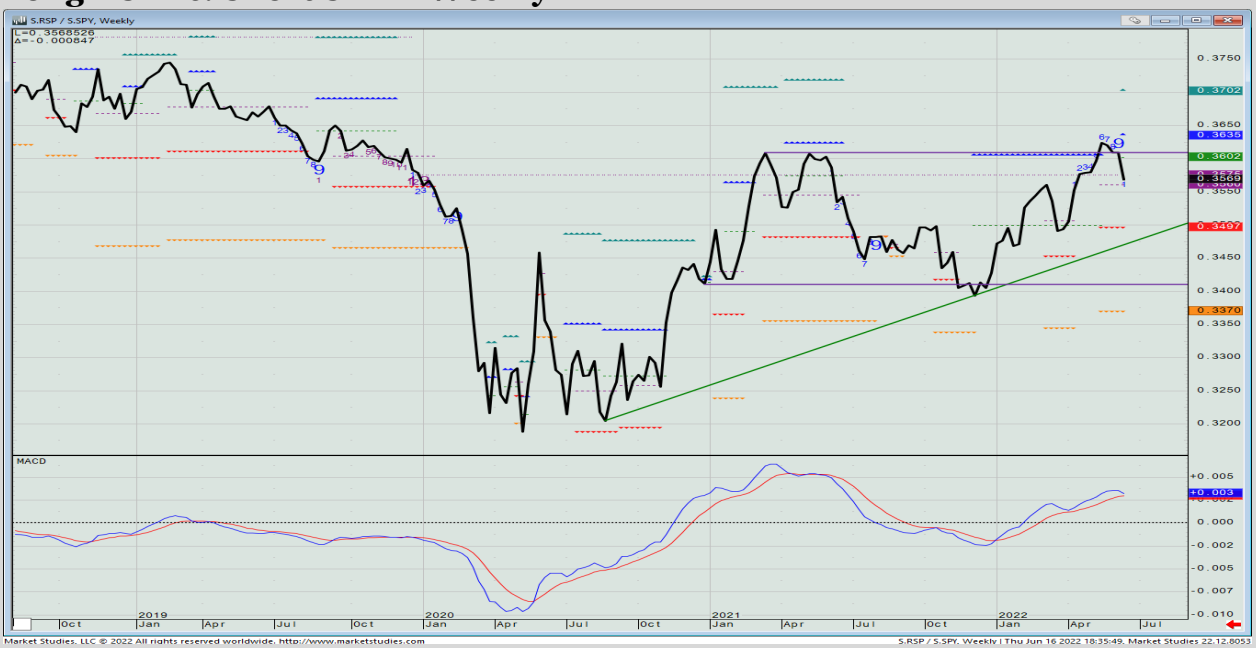
EMLC - Daily



Long RSP vs. Short SPY

Six Fridays ago, we bought 1/3 of this pair trade idea (avg. entry at 0.3582), and added another 1/3 four Fridays ago at 0.3624. We took off half last Friday 0.3610 and we'll take the balance off today (given the weekly +9 and also a daily +13 in place).

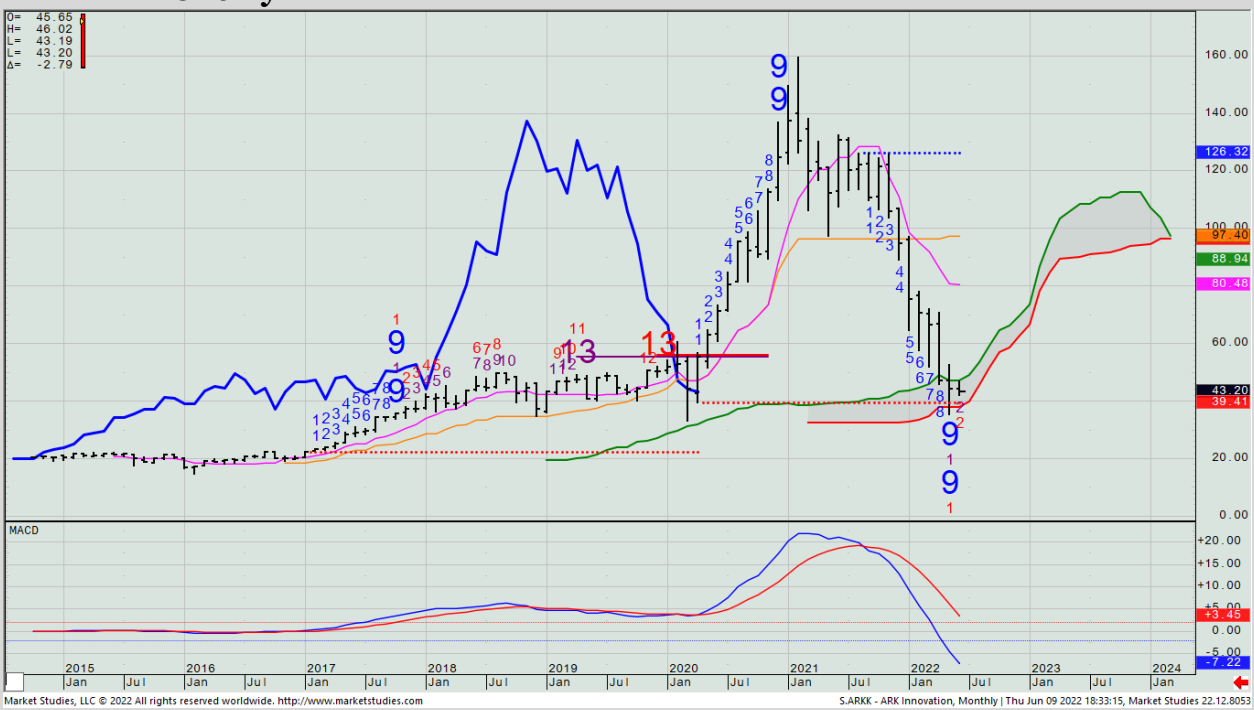
Long RSP vs. Short SPY – Weekly



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.)

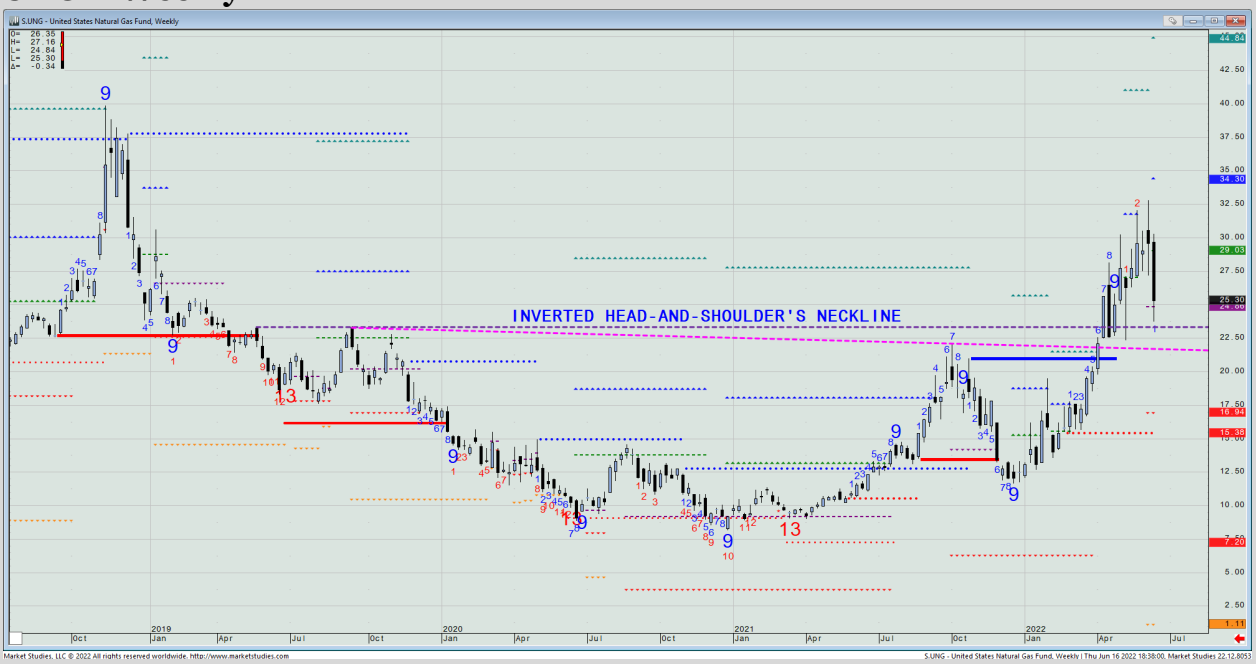
AARK – Monthly



(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.

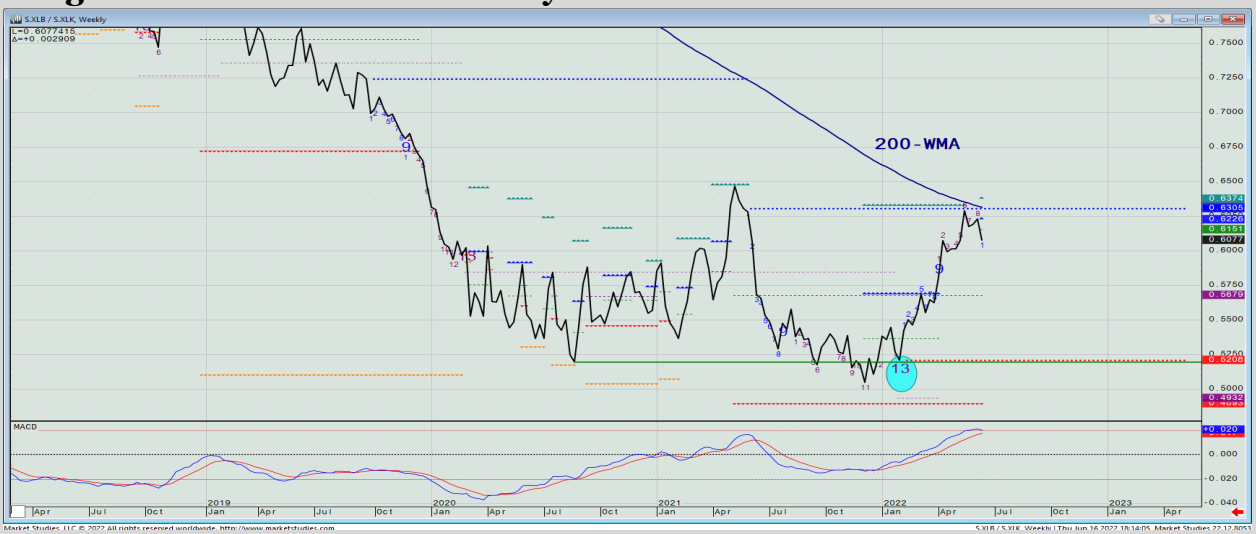
Long United States Natural Gas Fund ETF (UNG)
A few months ago, we got long one unit of UNG (avg. entry at $19.36), and we took the first third of that trade off @ $24.63 and another 1/3 off on May 27 at $28.97. We'll still hold the final 1/3 position.

UNG – Weekly



Long SPDR Materials (XLB) vs. Short SPDR Information Tech (XLK)
Eleven 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 @ 0.6167; and the final piece on Wednesday this week as our stop was hit and we got filled @ 0.6048. We made 13.32% on this pair trade – a big victory in what is considered a hedged trade.

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