Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

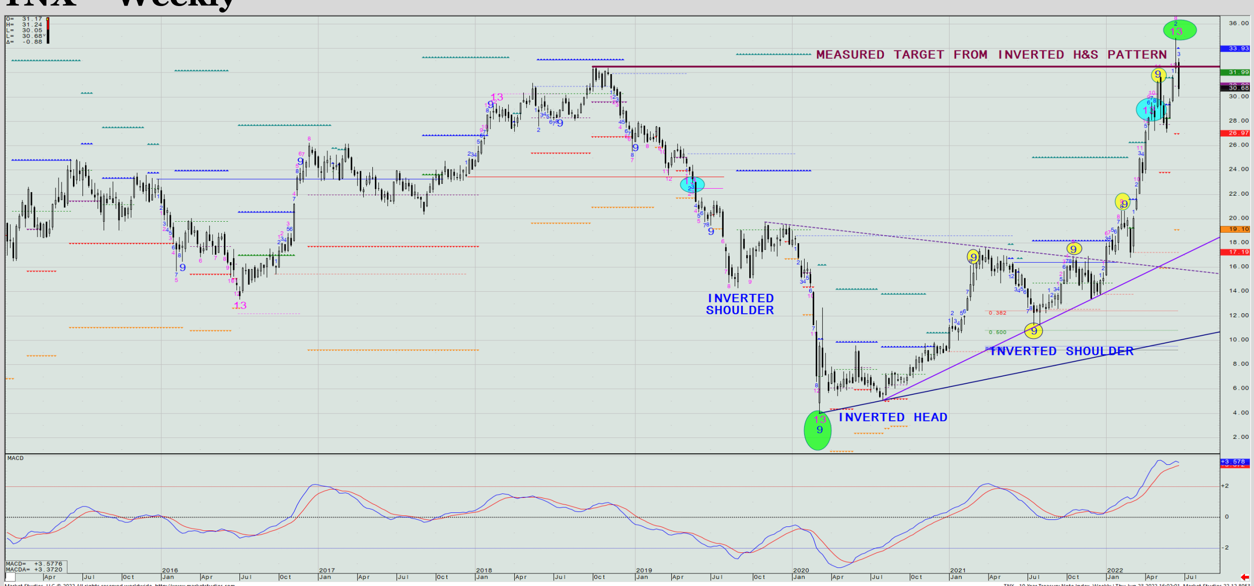
The Macro Picture

Stocks continue to be volatile after last week's FOMC 75 bps. rate hike, and more Wall St. firms are upping the odds that the economy is heading for a recession, with some firms calling for it to happen this year and others not till next year. But most are in the camp of 40% to 50% chance of that happening, using whatever metrics they have to say that a recession will occur. One of the most basic thoughts is that a recession is evident when the economy has consecutive negative GDP reports. We already saw the first quarter show negative GDP, and in late-July we'll get the Q2 reading. Most are assuming that the number will also show negative growth, and the bears will be quick to say, "See, we have a recession". There are, however, far better ways to judge if the economy is in recession, and I'd rely more on the more sophisticated methodologies than the very basic one.

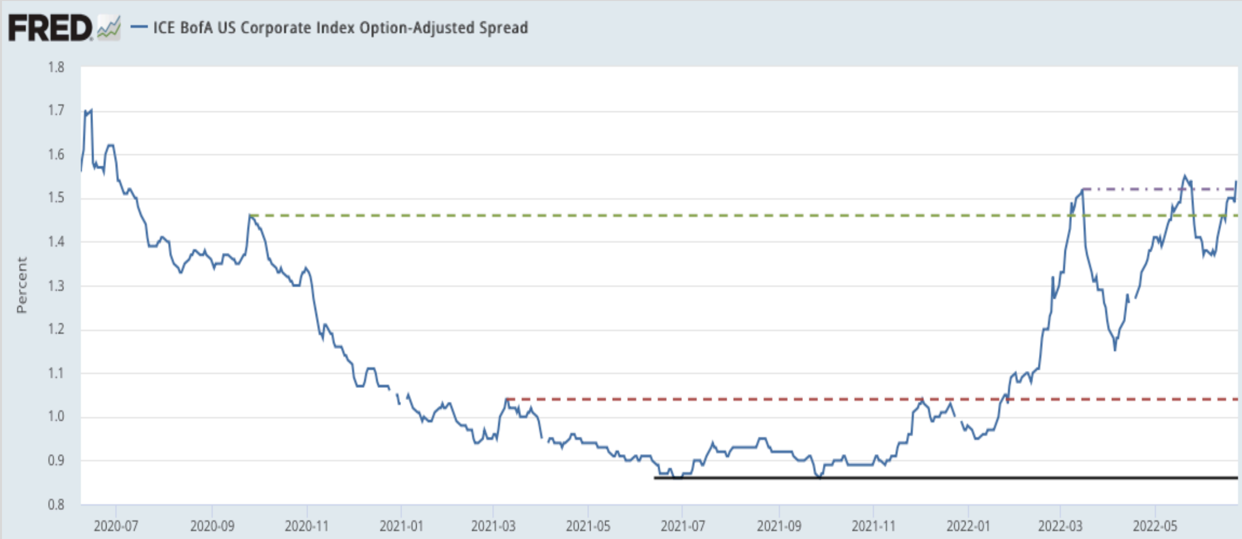
Investors have already mostly priced in the recession, with major stock indexes off 20-35% from their highs. Historically, that's in the range of the average market decline during a recession, so if the market made new lows, I'd expect that move to be the final down leg. If the July GDP figure actually shows growth, I'd not be surprised to see the market rally strongly to badly squeeze shorts.

In the meantime, I'm in the camp that rates likely made their highs, not only from the resistance I showed you last week in this report from the quarterly cloud top at 3.36%, but also from the second weekly Combo +13 signal that we saw on the high of the move.

TNX – Weekly

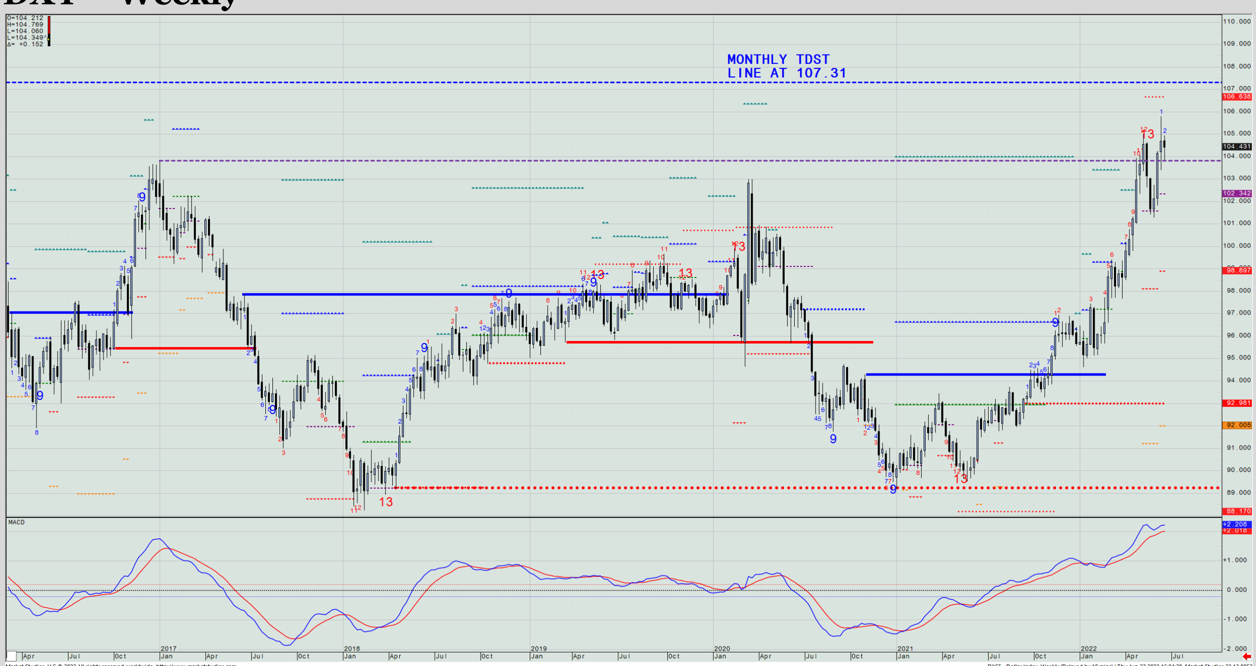


Credit spreads have recently widened, and the ICE BofA Corporate Index OAS closed Wednesday at 1.54%, just a tick off of the May 20th high of the year. These look like they will break out higher, and it has a measured upmove to 1.80%.



I'm still just not a big fan of the US Dollar, despite the run it's had this year. The Chinese are now awash in them as they've sold out of a tremendous amount of US debt they've owned for years. My sources tell me that the Chinese government is ***not*** apt to hold these as dollars, and that also keeps me from jumping on the bullish dollar train that the bulk of investors are on, along with some exhaustion signals at hand, too.

DXY – Weekly



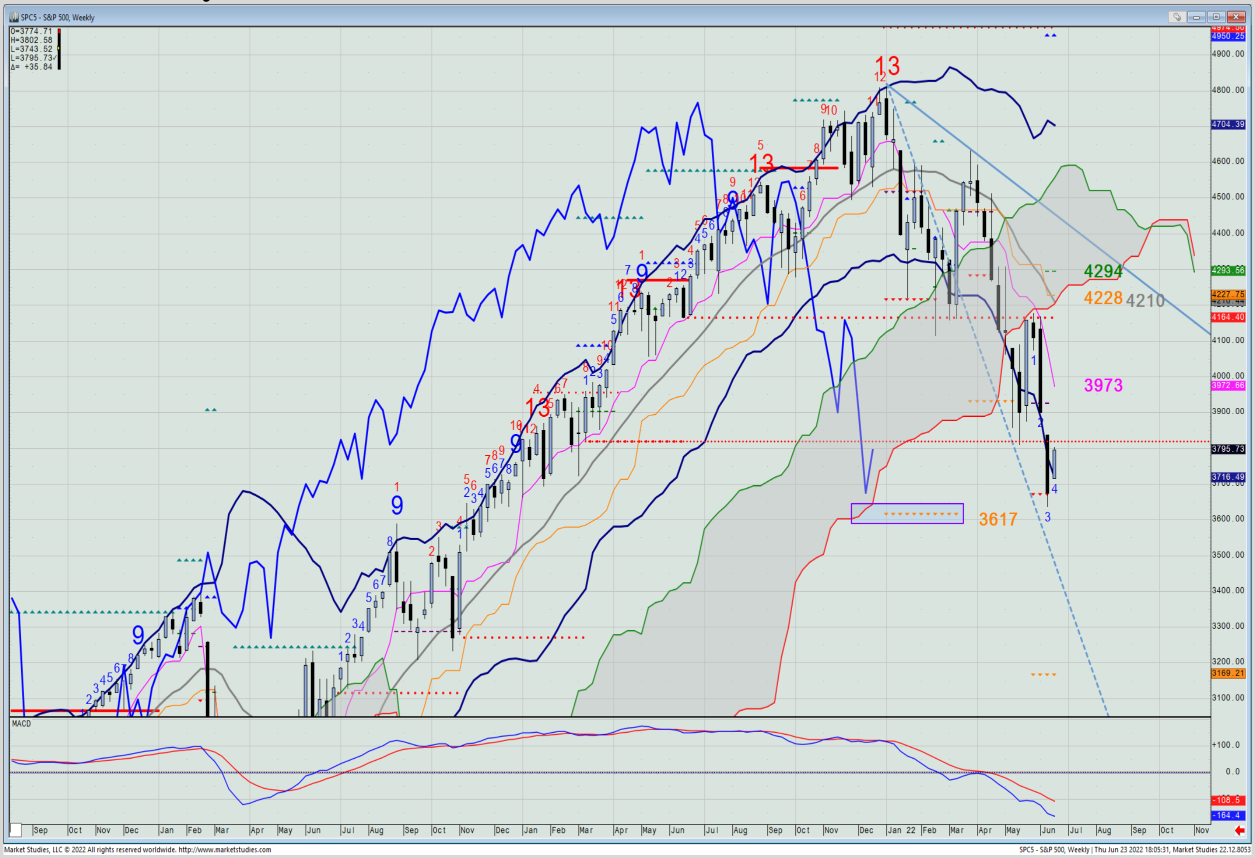
Now we turn to "The Market"; the one that counts: the SPX. Last week I recommended covering some of your short trades, as the SPX was nearing the 3617 downside target I put out a few months ago. Ultimately, the low of the move was 3637 before it rallied as much as 4.4% points into yesterday's close of 3796. So far, it was a good place to cover.

The bigger questions that are not just in my mind but essentially all investor's minds are:

1. Does this bounce have legs? To me, the answer is that it may move more than people think it can, but I see extremely small likelihood that a rally hurdles the 4200/4300 area.
2. Are the lows in place going to remain the 2022 lows? On this one, I'd say probably not, but I'm willing to respect the Lagging Line's bounce from its cloud bottom enough so to hope to see far more shorts squeezed out before I'd want to aggressively short again.

What I can say with pretty good confidence is that the more you see Friday closes beneath 3617, the more you're going to see another decent leg to the downside – and it will probably be a nasty one (enough so to shake out the perma-bulls).

SPX - Weekly

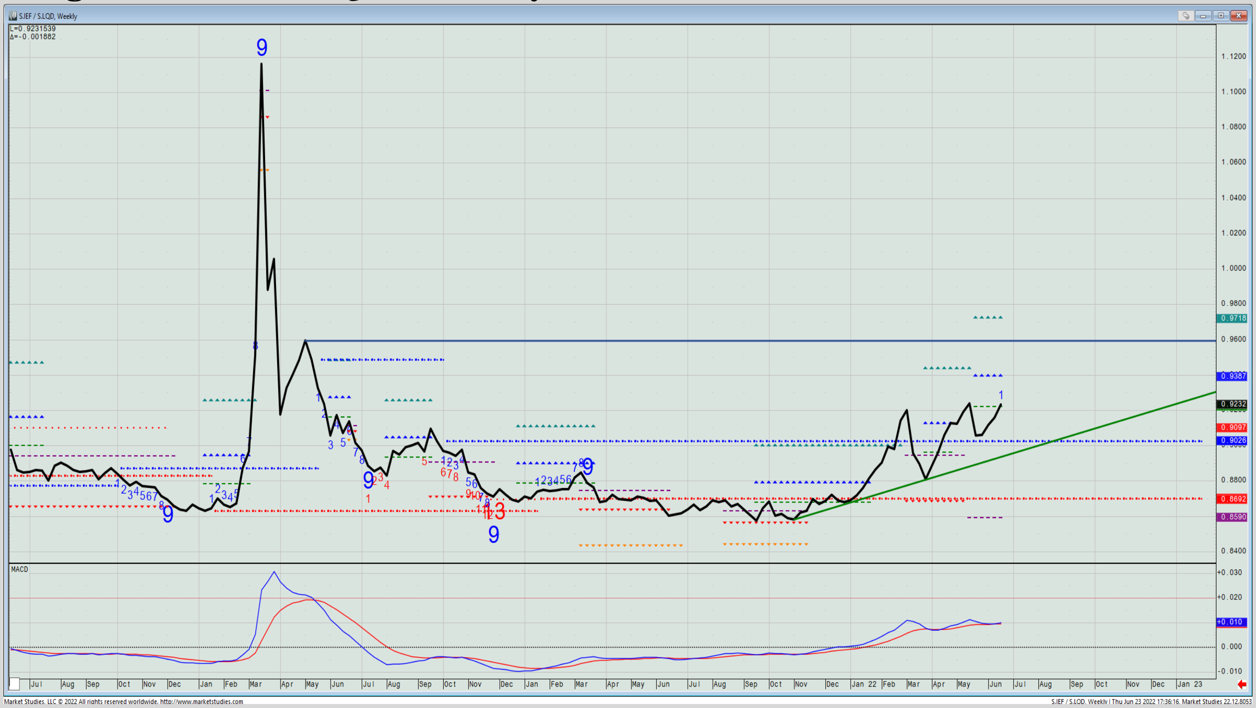


Look for resistance against the declining magenta-colored Conversion Line, the same indicator that the market halted its rally against a few weeks ago. Only hurdling that level and then staying above it will give bulls something to lean on that will actually have merit. Otherwise, there's truly little reason to think that the market is going to make a major recovery.

New ETF Trade Idea

As I said earlier, credit spreads are widening, and I think they have more room to run. As such, we'll revisit a pair trade we previously made money in, which was being **long the iShares 7-10yr. Treasury Bond ETF (IEF))** and **shorting the iShares Investment Grade Corporate Bond ETF (LQD)** against it. That idea will take advantage of spreads widening further, as it's a play that Treasuries do better than BBB corporate bonds.

Long IEF vs. Short LQD – Weekly



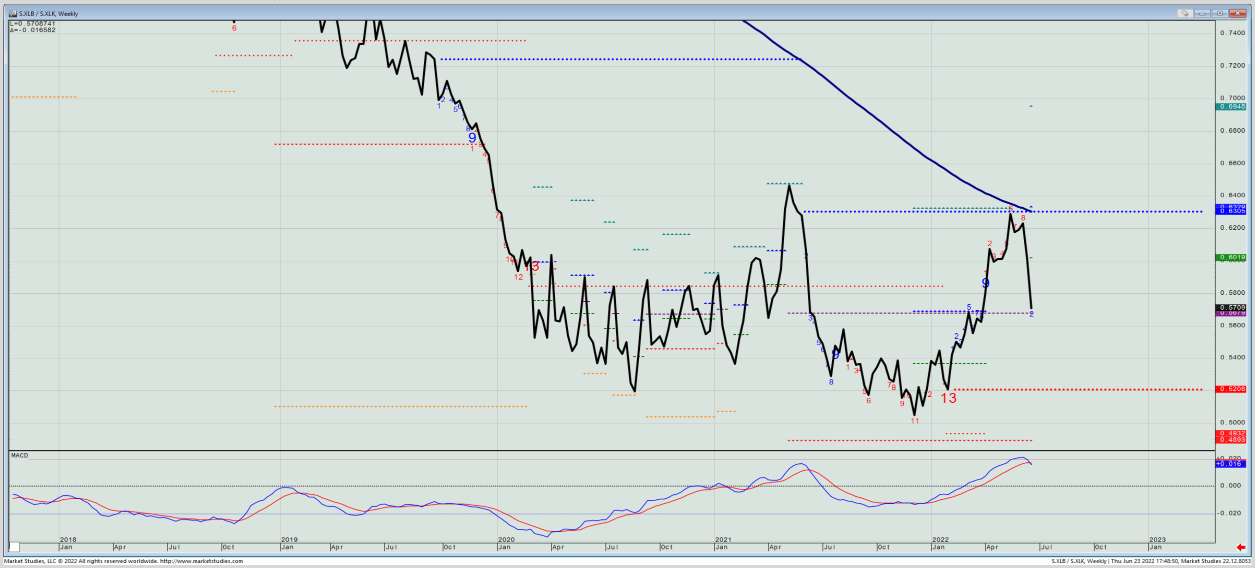
My aim is to try to hold this for another 8 weeks to hopefully see it finish out a weekly Setup +9 count. We'll stop ourselves out only if it breaks beneath .9026 on one or two consecutive Friday closings.

Other Open Recommendations and Positions

Long XLK vs. Short XLB

Last week we completely reversed the position we had previously been in, and are now looking for Technology to outperform Materials. We had a good start to this trade, as we put this on last Friday (at an avg. of 0.5988) before it moved our way this week. Last week, I had suggested you cover 2/3 near 0.58, which in hindsight, I now wish I hadn't. I'm going to recommend getting back into the full position, as I think this trade has substantially more to run to the downside.

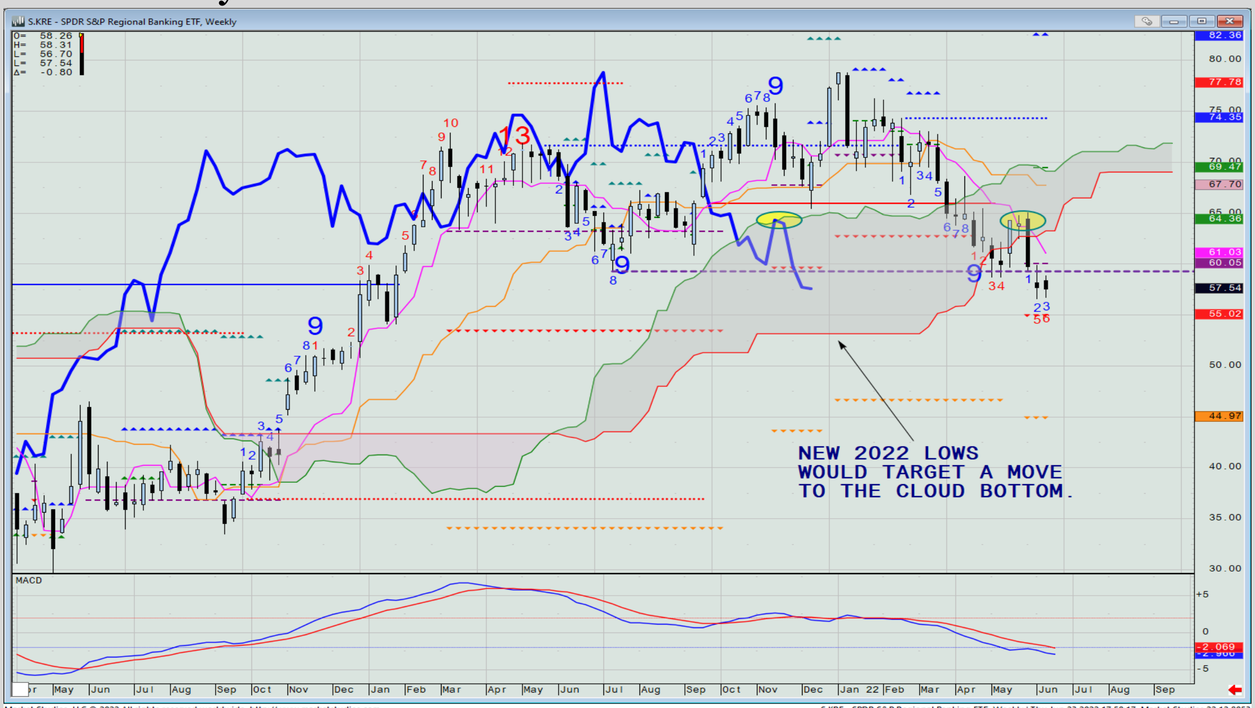
Long XLB vs. Short XLK – Weekly (we have this on the other way, so we want the chart to head lower)



Short S&P Regional Bank Index (KRE)

Two Friday's ago, 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 also lowered our buy-stop to a Friday close above $60.05.

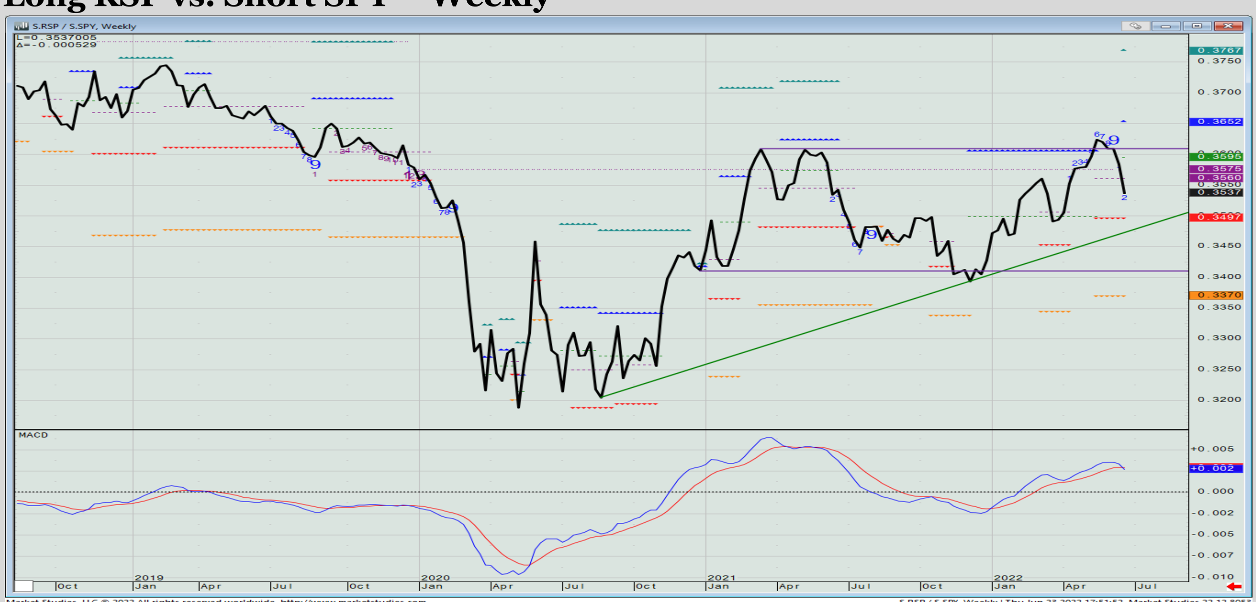
KRE – Weekly



Long RSP vs. Short SPY

Seven 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 two Fridays ago at 0.3610 and we exited the other portion last Friday at an avg. of 0.3579. We made a negligible half-percent on the money and are now flat.

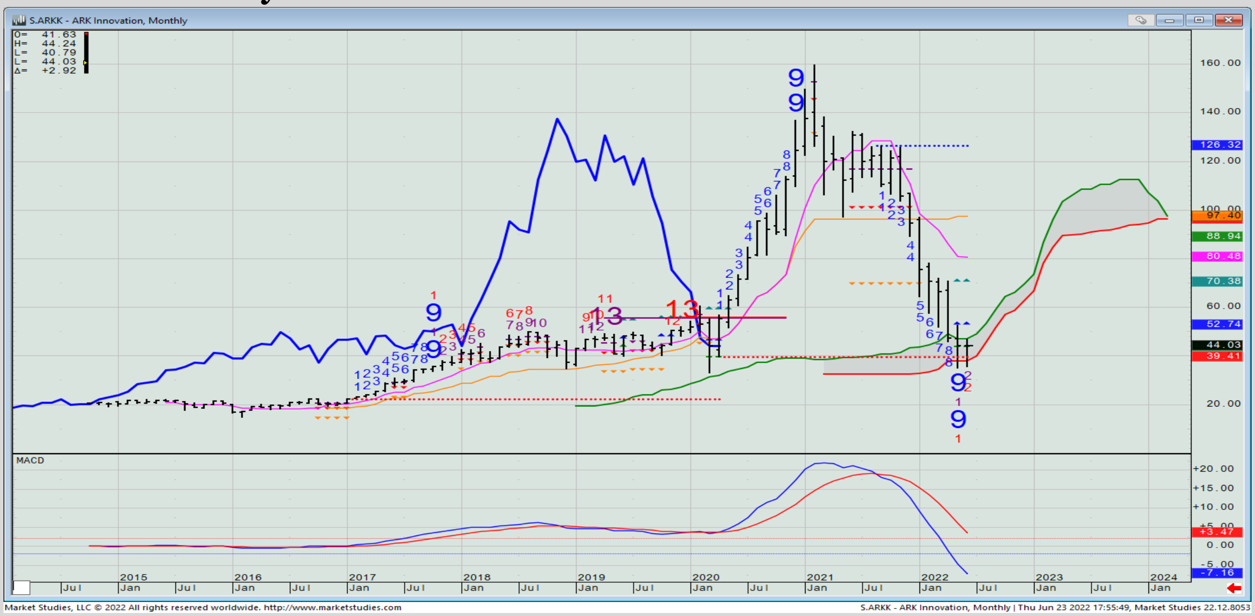
Long RSP vs. Short SPY – Weekly



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

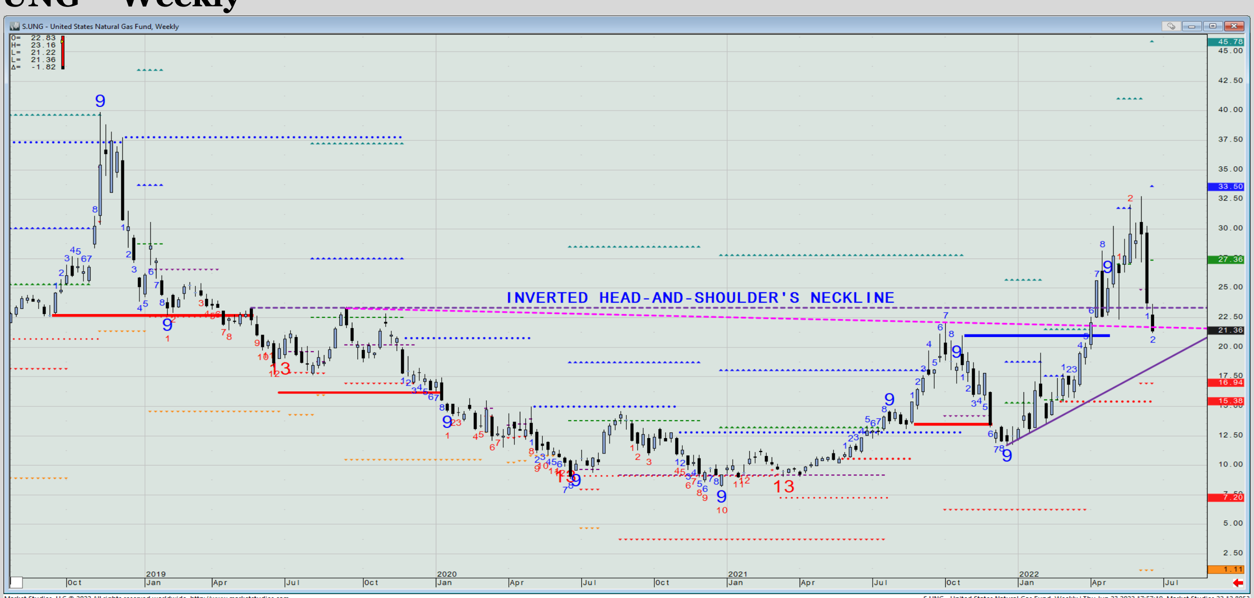


(This is a pure "buy and hold" idea from as good a long-term entry zone as I will be able to come up with. (Once we get back above $47, I'm not going to be looking at this each week.) It's a rare, long-term type hold and we'll see by year's end where it lies. You need to be willing to sit with this idea 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 – despite that it got clobbered this week. I think we're getting closer to the bottom where we might add back some long exposure again.

UNG – 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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