Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

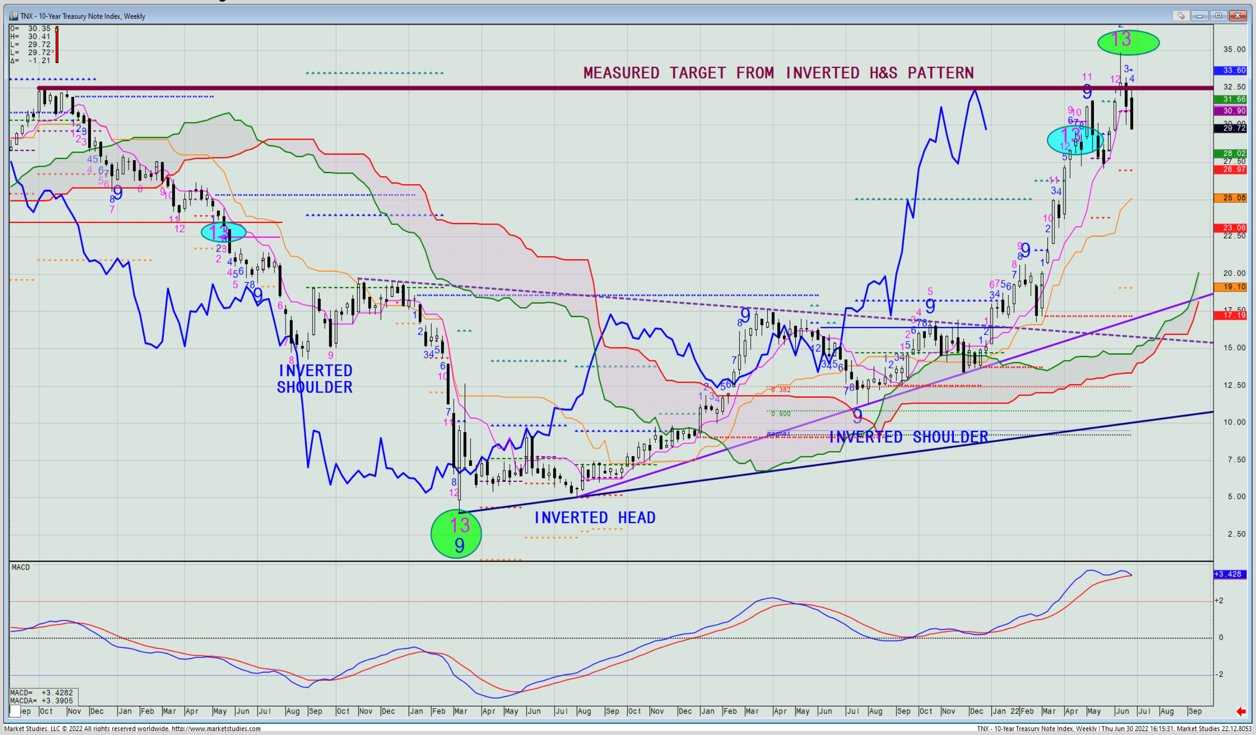
The Macro Picture

Stocks just experienced their worst quarter in many decades, as the combination of tightening Fed, higher interest rates, high inflation, fear of recession, and the spill out from the Russia/Ukraine war were all too much for investors to deal with – especially after a year that couldn't even once see a 5% decline. The setting was ripe for a bearish move, but the voracity of it is what caught most investors off guard.

Sentiment is bad across the board, which is only useful to fade when you have solid reasons to be playing the opposite direction. Right now, the SPX is still over 100 points above the 2022 low, but the recent rally from that low has significantly faded – as every prior one has done this year.

Rates are key to the whole picture, and this week they did something they have not been able to do for several months, which is to close beneath its weekly Conversion Line (in magenta, @3.09%). The last time it did was in March, but rates held right at their Base Line (in orange). Now, the door at least gets opened for a move do test the May lows near 2.70%. This is in line with my belief that rates had topped on their second weekly Combo +13 signal seen two a few weeks ago (and highlighted in the neon green ellipse).

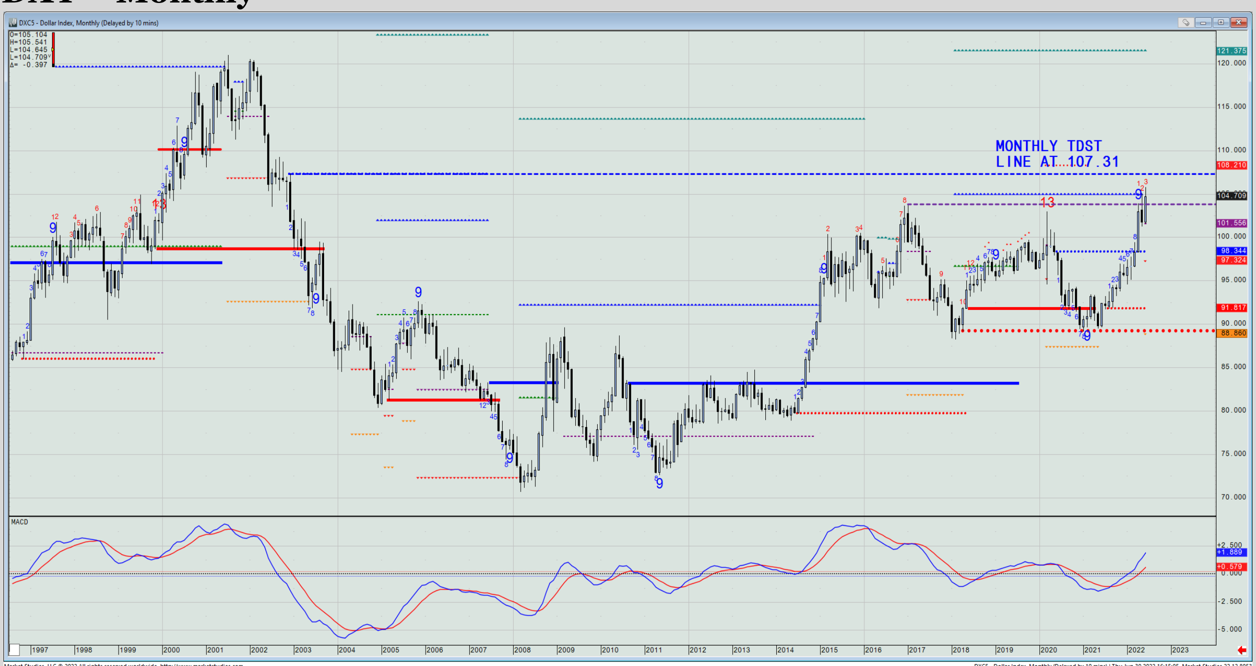
TNX – Weekly



Credit spreads continue to widen to new 2022 highs, as the ICE BofA Corporate Index OAS closed Wednesday at 1.58%. These look like they will break out higher, and it has a measured upmove to at least 1.80%.

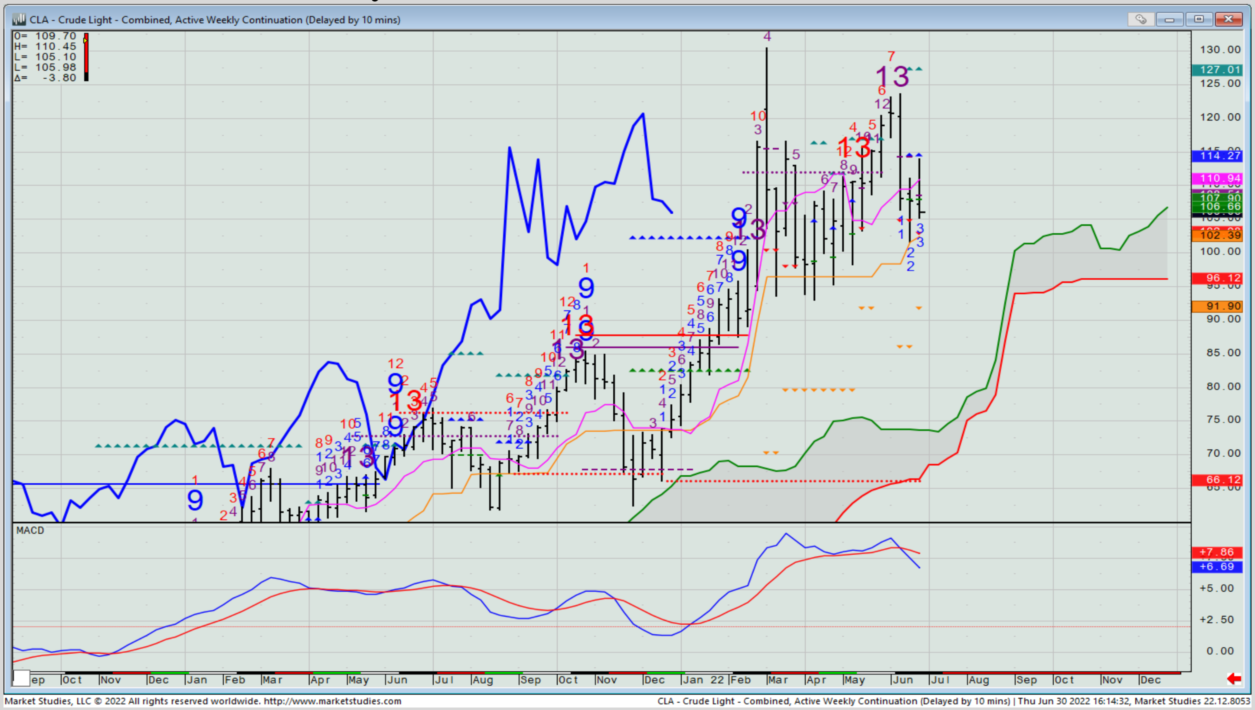
The US Dollar Index closed on its best weekly close of the year, and at its highest Friday close in the past 20 years. However, the Chinese are now awash in greenbacks, as they've sold out of a tremendous amount of US debt they've owned for years. My sources tell me that the Chinese government is ***not*** 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 – Monthly



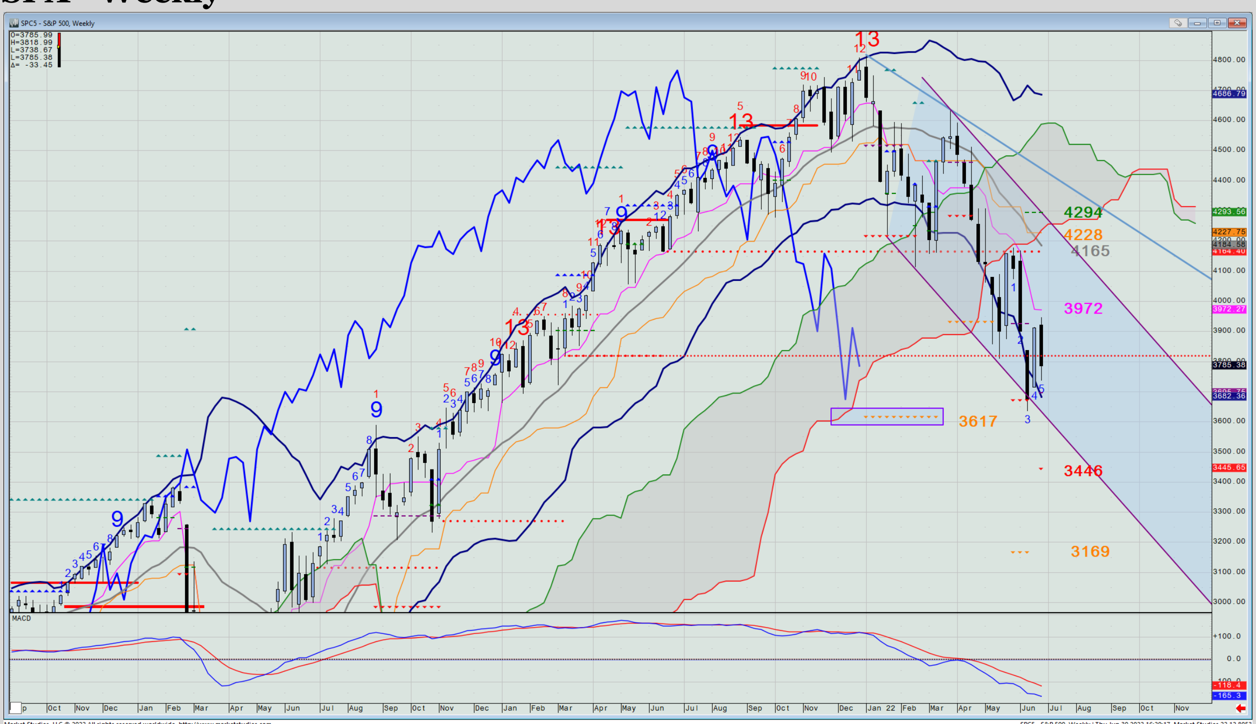
Oil rallied sharply in the first part of the week, but then backed off along with other risk assets. To me, the key is for it to hold its weekly Base Line (like it's done several other times on this rally). If it breaks it ($102.39), then the whole question if Energy can still outperform becomes far more doubtful without it having another leg down first.

WTI Crude Oil - Weekly



The SPX continued to give back a decent chunk of its rally from the June lows. When all is said and done, I'm still gonna trust the 3617 level as the key one, and if it gives way on a weekly close, we likely still have another multi-hundred point move coming to the downside before the pain is over.

SPX - Weekly

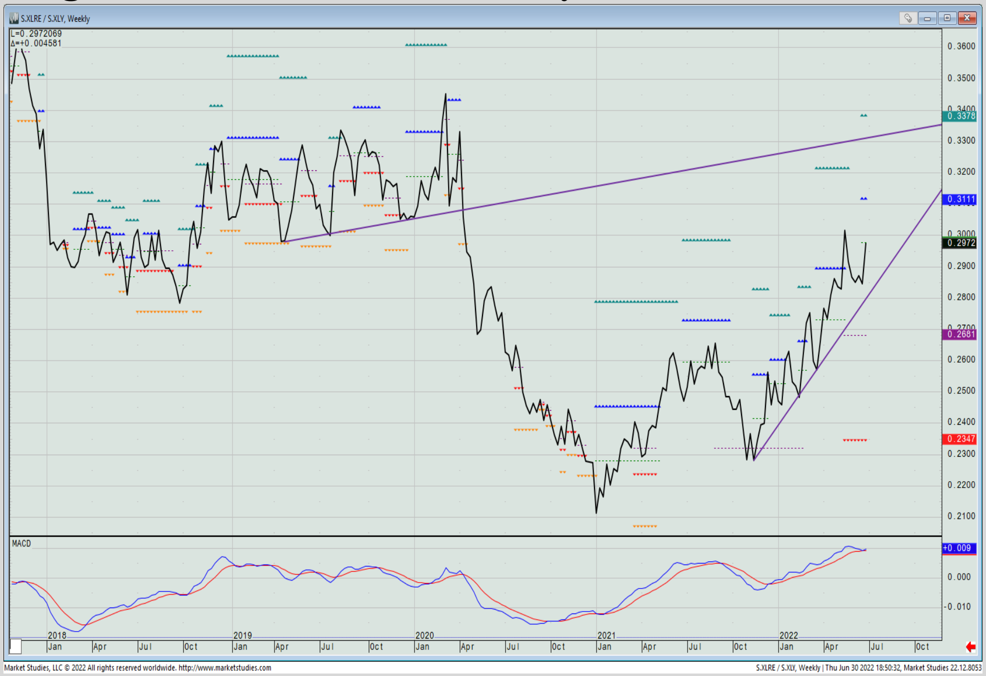


Look for first resistance against the declining magenta-colored Conversion Line, the same indicator that the market halted its rally against a in May. Only hurdling that level and then staying above it will give bulls something to lean on that will actually have merit. Otherwise, there's truly little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

New ETF Trade Idea

We've had some good pair trades this year, and they often serve a good purpose of taking the guesswork of which way the overall market is going to go in favor of simply looking at the relative performance of one name vs. another. I've just added the **S&P REITS ETF (XLRE)** to my monthly 7:11 Report's portfolio, and for this report, figured I could find a pair trade to match that against a sector I don't have in the portfolio. In looking at one we don't have in – the **S&P Consumer Discretionary ETF (XLY)** – I can make the case that the XLRE should still do better than the XLY.

Long XLRE vs. Short XLY – Weekly



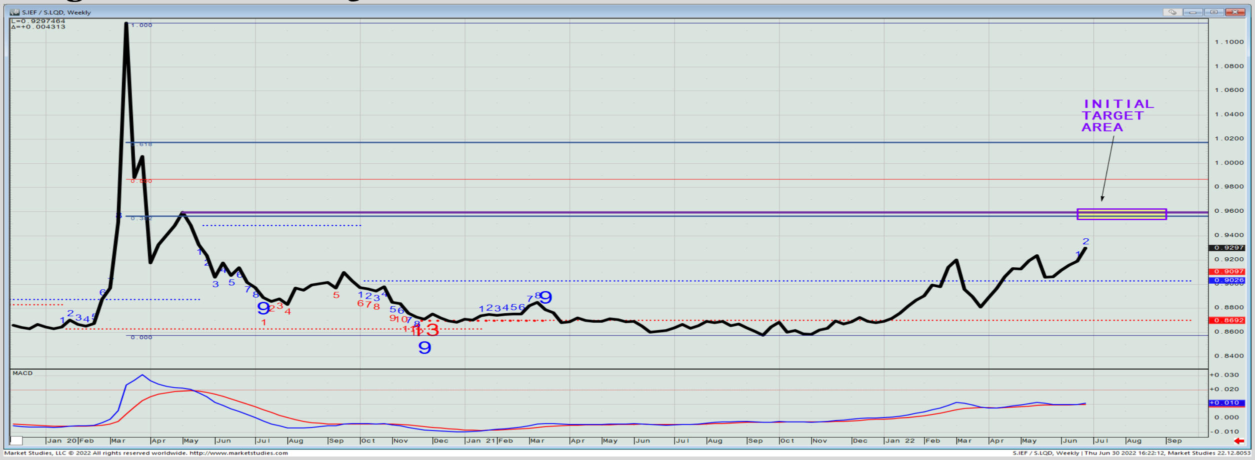
Therefore, we are going to **buy the XLRE today and short the same number of dollars' worth of XLY.** We'll play for this ratio to further widen out to targets near 0.32/0.33. Our sell stop will be on a Friday close beneath 0.2829 – the early May low.

Other Open Recommendations and Positions

Long IEF vs. Short LQD

Last Friday we got into this pair trade at an avg. ratio of 0.9198, which is a way to play widening credit spreads (by being long Treasuries vs. short corporate bonds). As I said earlier, I'm looking for credit spreads to continue widening, with the game plan to potentially hold this position until it reaches a Setup +9 count in another seven weeks, and or hits are highlighted target area. Our sell-stop remains if it breaks beneath .9026 on one or two consecutive Friday closings.

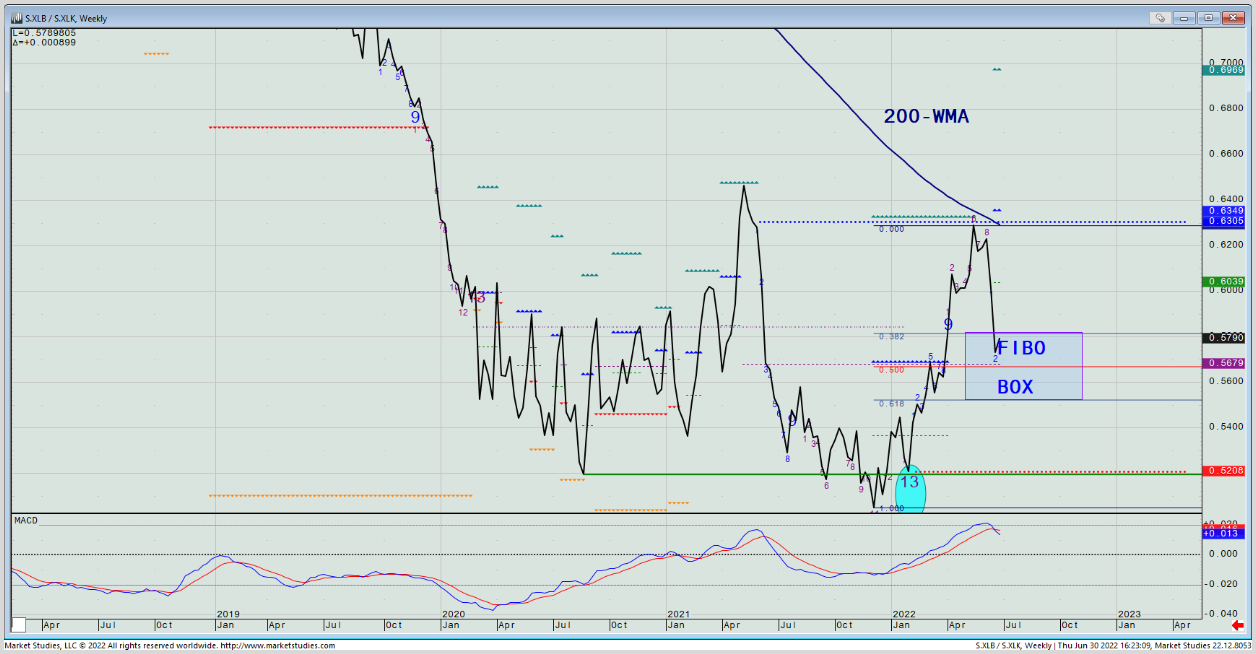
Long IEF vs. Short LQD



Long XLK vs. Short XLB

Two weeks ago, 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.

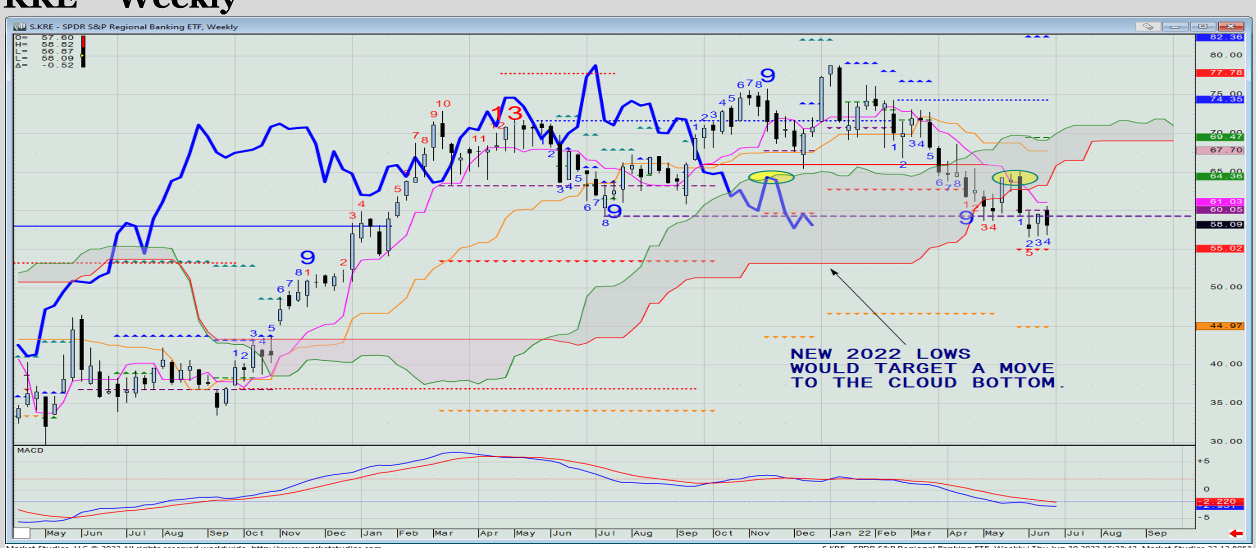
Long XLB vs. Short XLK – Weekly (we have this on the other way, so we want the chart to head lower)



Short S&P Regional Bank Index (KRE)

Three 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.

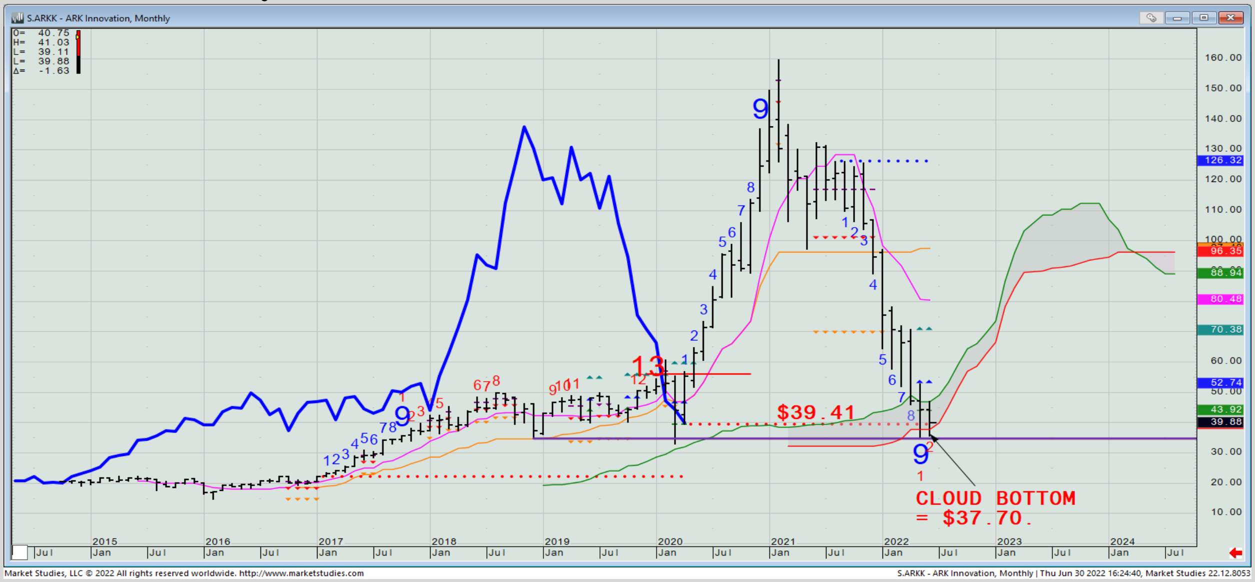
KRE – Weekly



Long 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

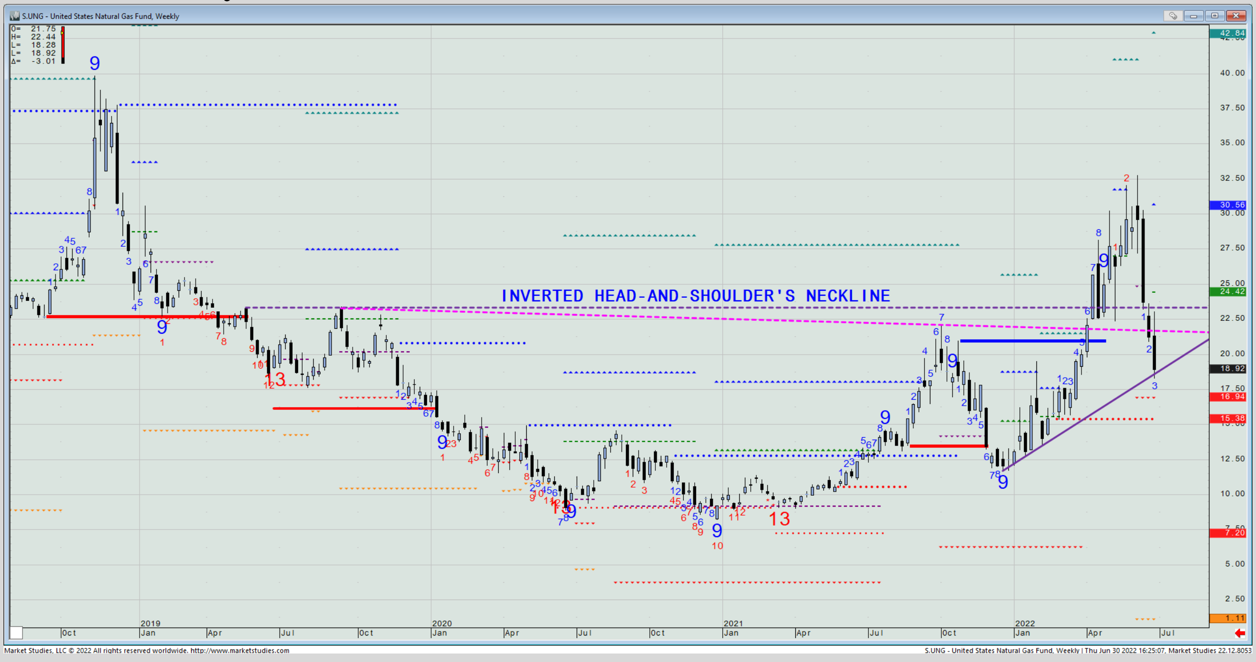


(This is a pure "buy and hold" idea from as good a long-term entry zone as I will be able to come up with. (Once we get back above $47, I'm not going to be looking at this each week.) It's a rare, long-term type hold and we'll see by year's end where it lies. You need to be willing to sit with this idea 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're holding the last third, and will now actually now buy another 1/3 position against the uptrend line. That will give us a 2/3 position.

UNG – Weekly



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 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