Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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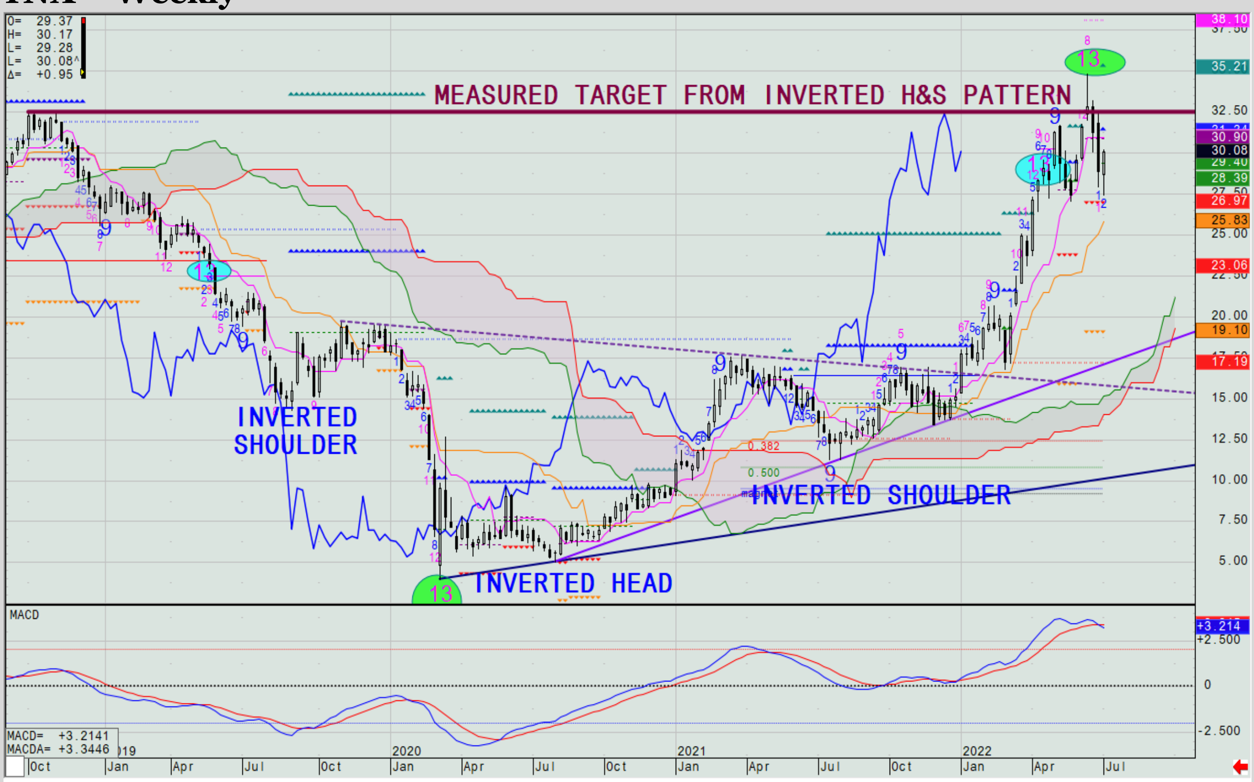
TACTICAL TRADER REPORT

The Macro Picture

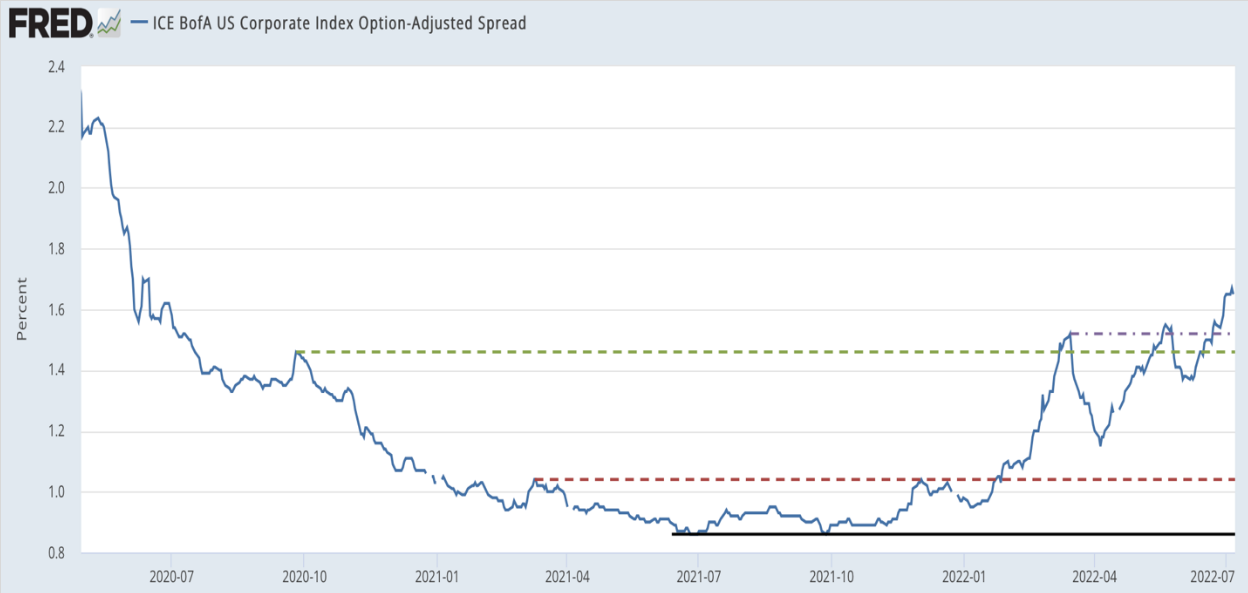
The Fed has indicated that they can continue to reduce general economic demand by continuing to raise rates, but what they can't do is increase supply of goods. Which still leads to the fact that we could see a recession that comes along with inflation (a la the 1970's stagflation environment). For now, the oil story could help consumers a bit if it can continue to decline, but even Thursday's large rally in it keeps its near-term picture in question, making today's close (relative to its weekly Base Line) important – especially if oil gets a decent sell-off today. (That would likely keep a lid on prices and mean more pain for the Energy stock names.)

Rates are consolidating after making a spike high a few weeks ago. The TNX is now in-between its weekly Conversion and Base Lines, and I'd look for yield chart support at 2.7% to 2.6%, and resistance near 3.09% to 3.14%.

TNX – Weekly

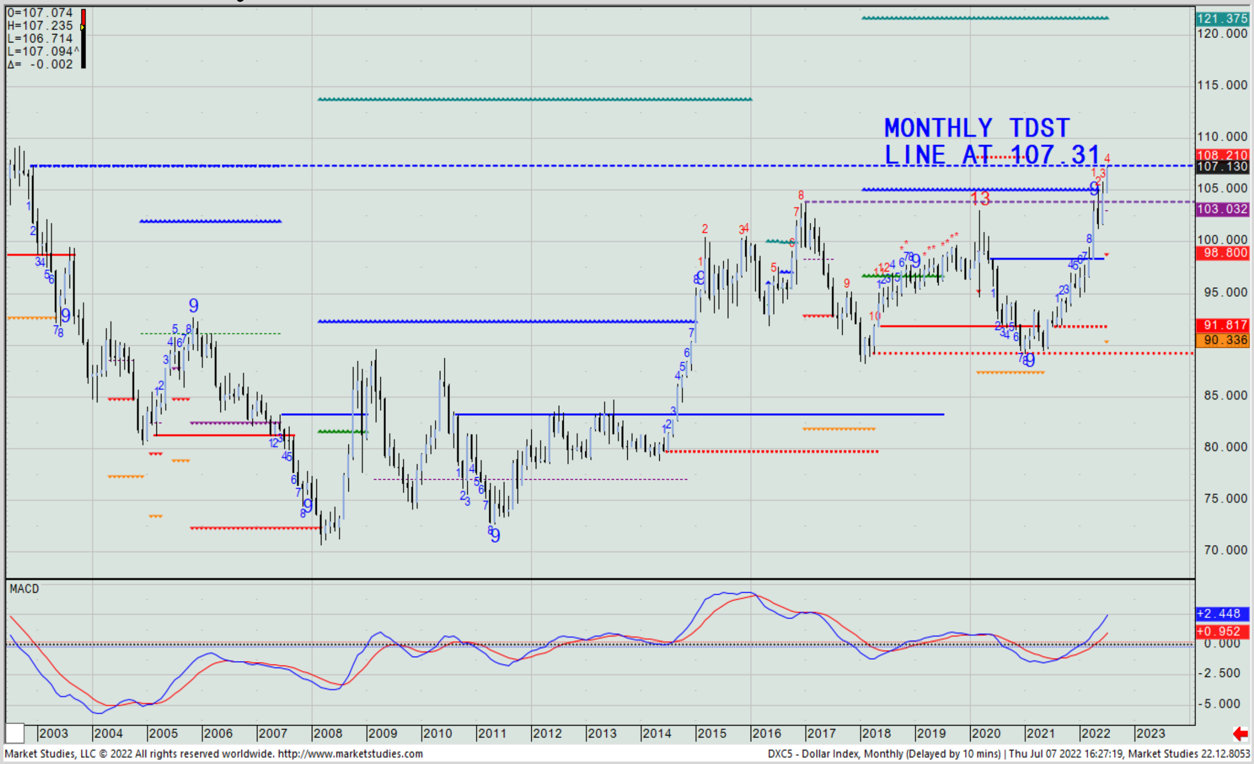


Credit spreads continued to widen to new 2022 high of 1.67% in the ICE BofA Corporate Index OAS. It has a measured upmove to at least 1.80%. (See top of pg. 2.)



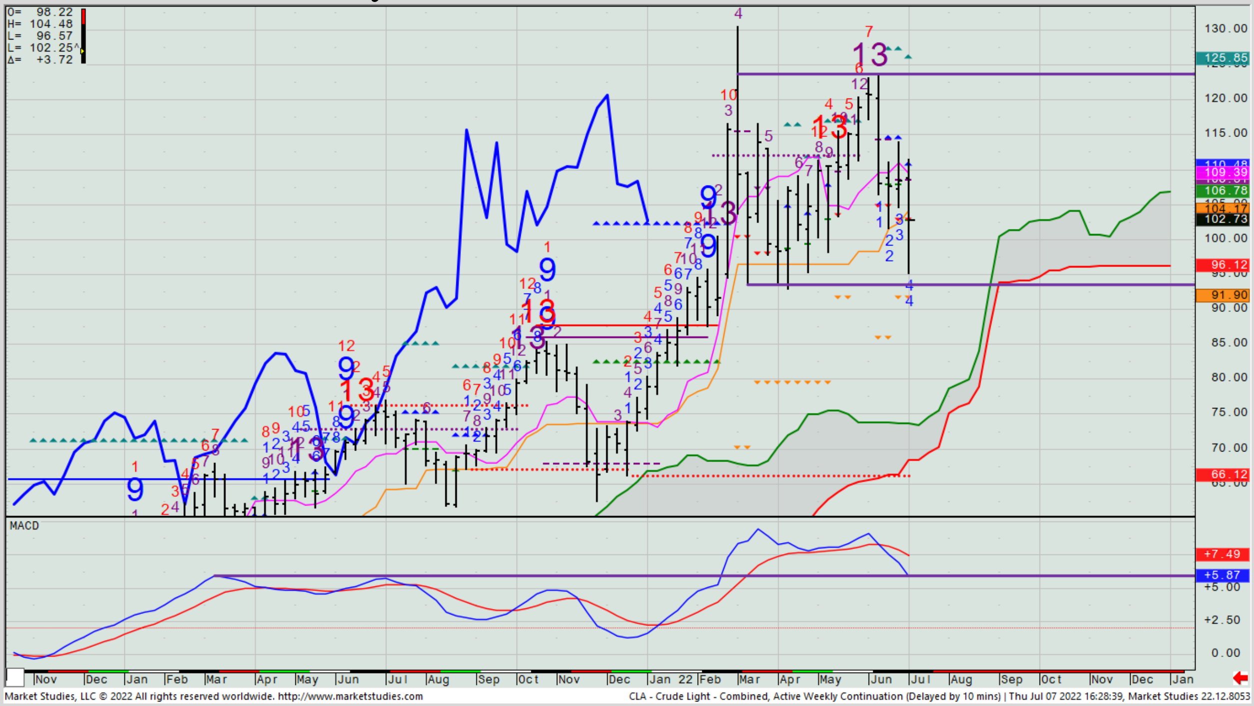
The US Dollar Index continues rallying and reaching its best level in 20 years. However, the Chinese are now awash in greenbacks, as they've sold out of a tremendous amount of US debt they've owned for years. Though I am keenly aware of how a stronger greenback keeps a lid on our equity market – let alone multi-national company's earnings and, of course, precious metals, my sources tell me that the Chinese government is ***not*** apt to hold dollars, and that also keeps me from jumping on the bullish dollar train that the bulk of investors are on. There's also a monthly TDST resistance line at DXY 107.31.

DXY – Monthly



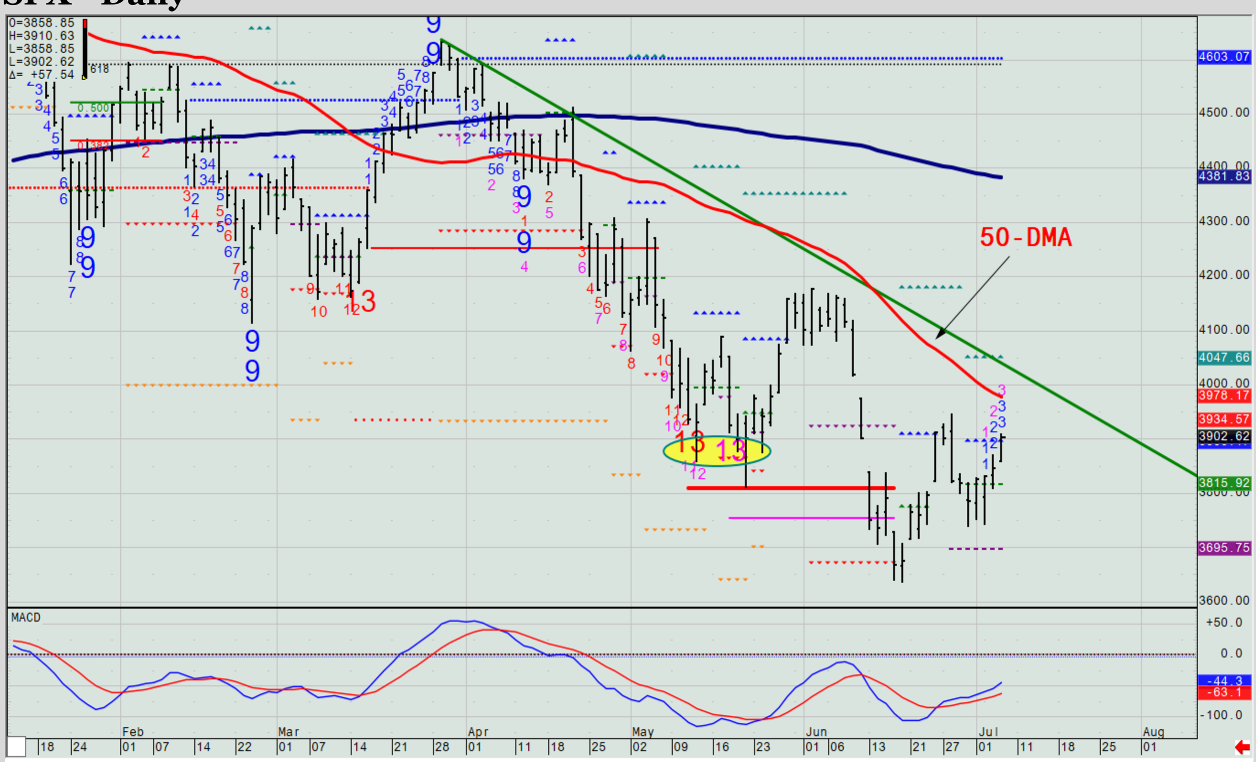
Oil dropped sharply beneath its weekly Base Line ($104.17) intraweek. A close beneath there today (most especially if well-below there) opens the door for a more dramatic decline. That would be a help to the consumer, and would also reduce inflationary pressures. Street analysts are all over the place with their oil estimates: one firm was out earlier this week with a $55 target, while another was saying $300. (Frankly, it's a joke.)

WTI Crude Oil - Weekly

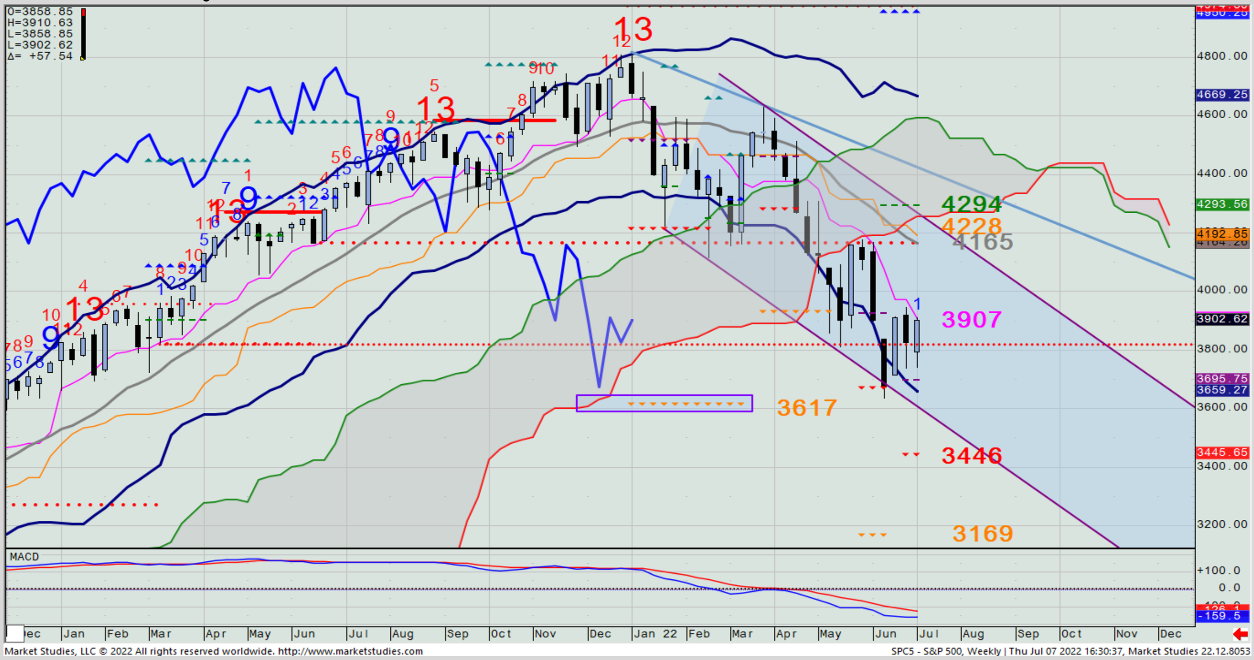


I have been steadfast in my belief that the SPX needs to hold above 3617 on Friday closes. This year's low is 3637, and with this week's move down that held above the bearish Propulsion Momentum level of 3696, bulls still have a fighting chance – especially given that the weekly chart's Lagging Line has yet to break beneath its cloud bottom. (Only the Dow joins the SPX as having held its weekly cloud bullish structure. All other major global equity indexes have broken.)

SPX - Daily



SPX - Weekly

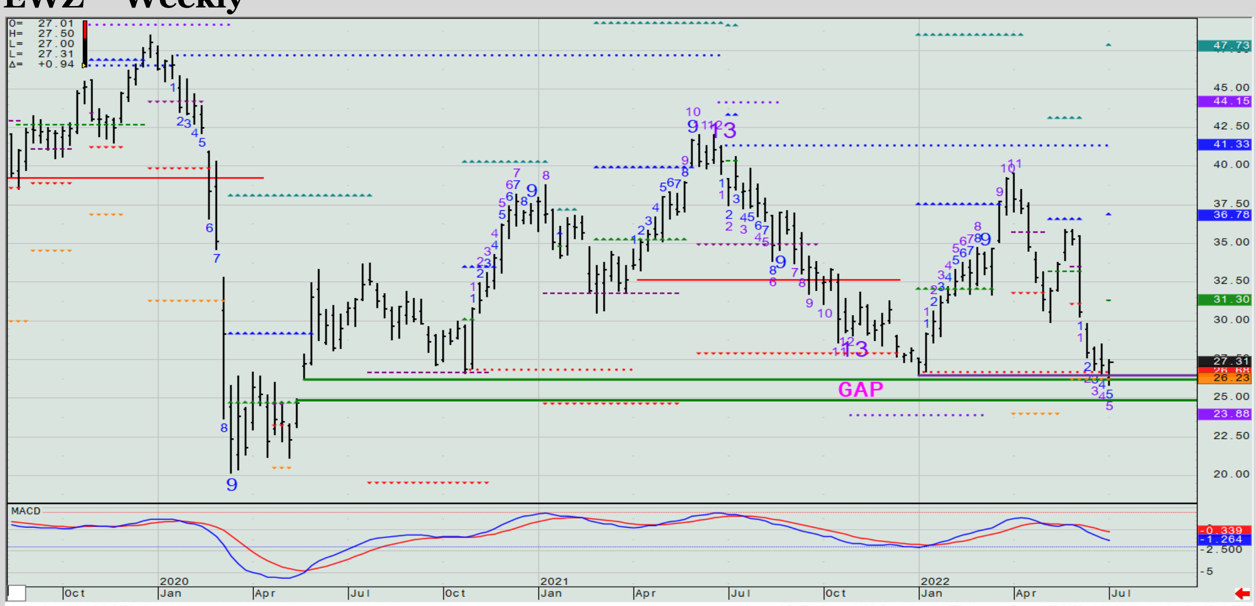


Look for initial resistance against the declining magenta-colored Conversion Line at 3907 (which will keep that same level next week). Only hurdling that level and then staying above it will give bulls something to lean on that will actually have merit. Without next Friday closing on a new 2022 weekly low, the Setup count will also get cancelled, as it has on every other decline this year.

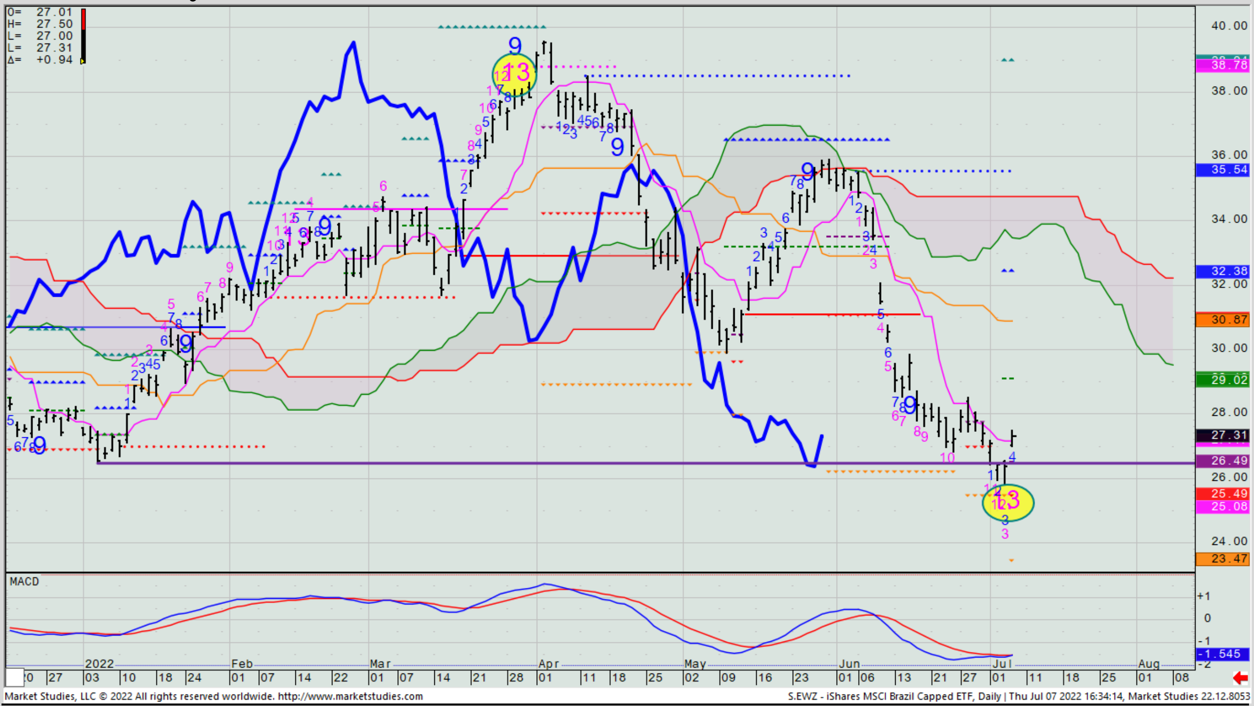
New ETF Trade Idea

Emerging markets stocks were not spared this year, with the MSCI Emerging Markets Index down about 20% this year, mostly in line with what the SPX has lost. Brazil, one of the bigger countries in the EM index weighting, is holding support right on its TDST Line while the daily chart has a new -13 signal. That’s often enough for me to put on a tight-stopped counter-trend long idea.

EWZ – Weekly



EWZ – Daily

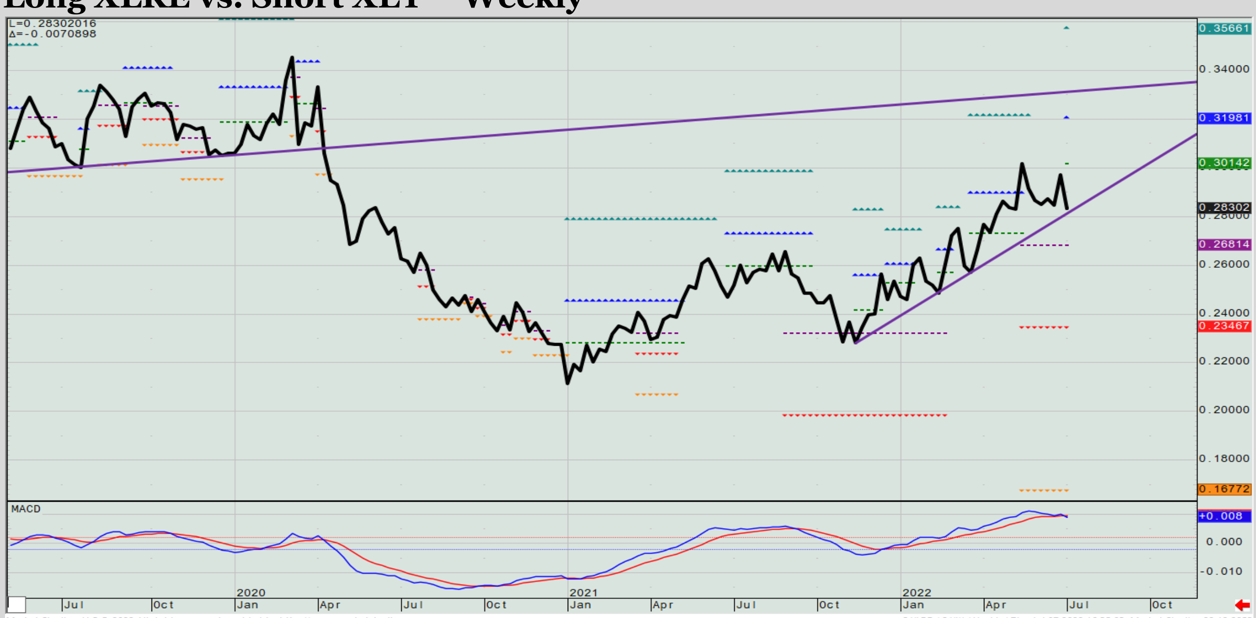


As such, let's look to buy one unit of EWZ today, looking for a move up to the daily Base Line (currently at $30.87, but will start falling by mid-week next week. Our sell-stop will be on a close (or two, your choice) under $25.82.

Other Open Recommendations and Positions

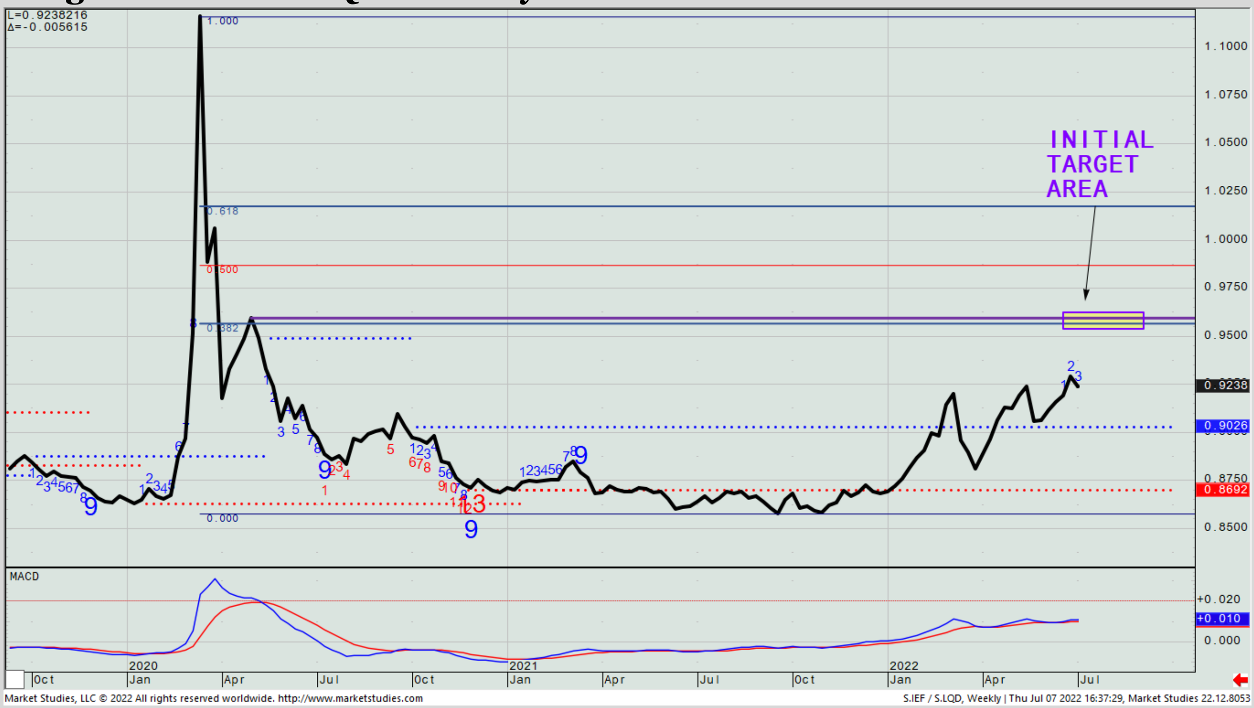
Long XLRE vs. Short XLY
Last Friday we put this pair trade on at an avg. ratio price of 0.2977. We'll play for this ratio to further widen out to targets near 0.32/0.33. Our sell stop will be on a Friday close beneath 0.2829 – the early May low. (It closed on Thursday at 0.2830, so watch today's close for a possible stop-out.)

Long XLRE vs. Short XLY – Weekly



Long IEF vs. Short LQD
Two weeks ago, 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 - Weekly



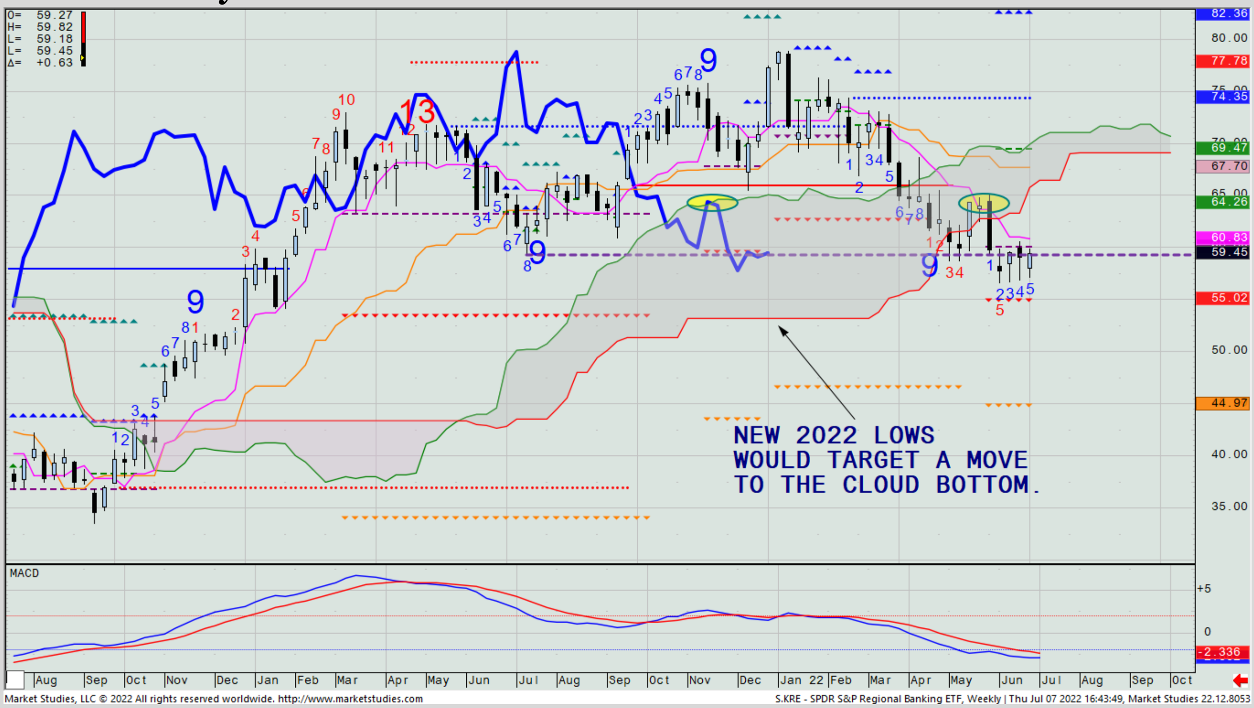
Long XLK vs. Short XLB
Three weeks ago, we completely reversed the position we had previously been in, and are now looking for Technology to outperform Materials. We put this on (at an avg. of 0.5988); took 2/3 off at 0.58; and then put the full trade back on last week. But today, we'll take half off (by buying XLK and selling XLB) and let the rest run for a possible retest of the lows.

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)

Four 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. Our buy-stop is a Friday close above $60.05.

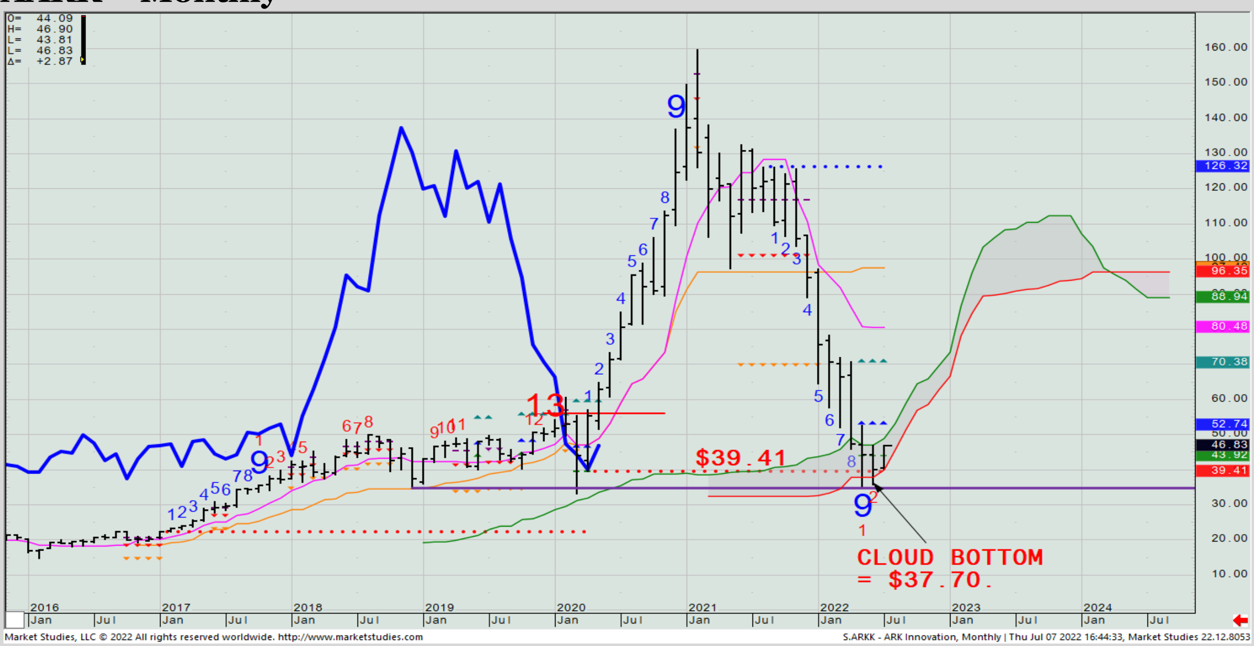
KRE – Weekly



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

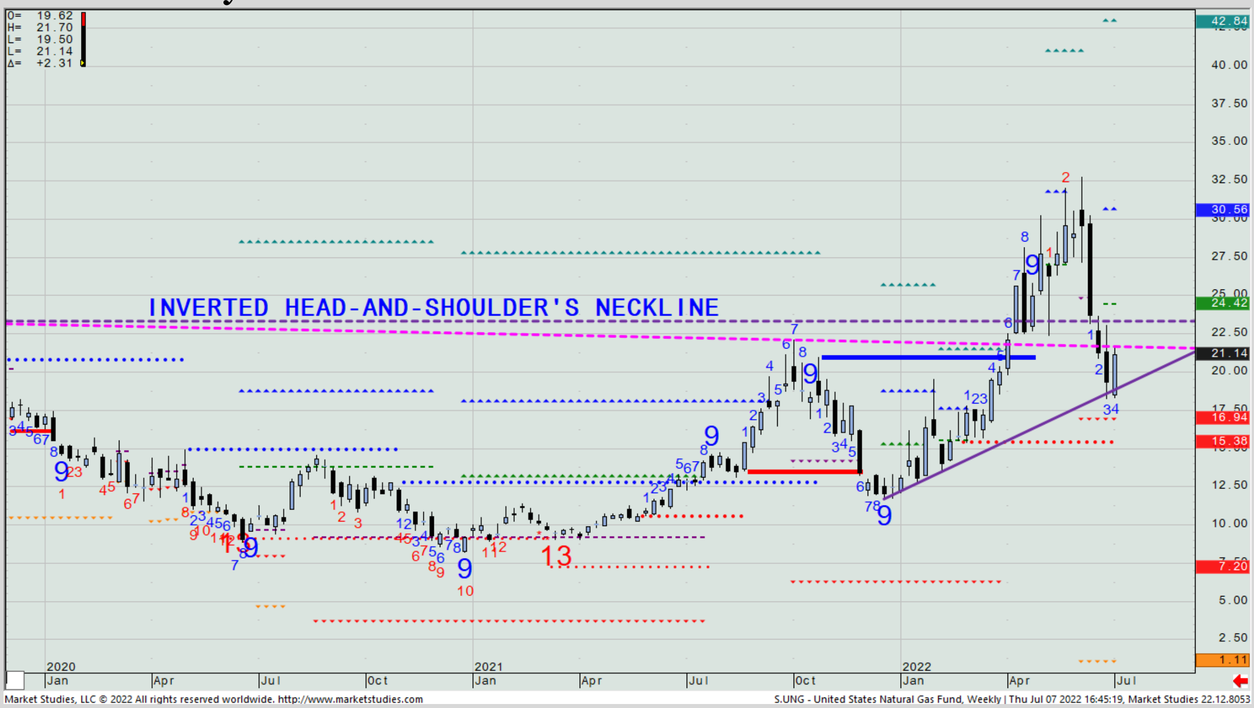


(This is a pure "buy and hold" idea from as good a long-term entry zone as I will be able to come up with. (Once we get back above $47, I'm not going to be looking at this each week.) It's a rare, long-term type hold and we'll see by year's end where it lies. You need to be willing to sit with this idea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