Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com

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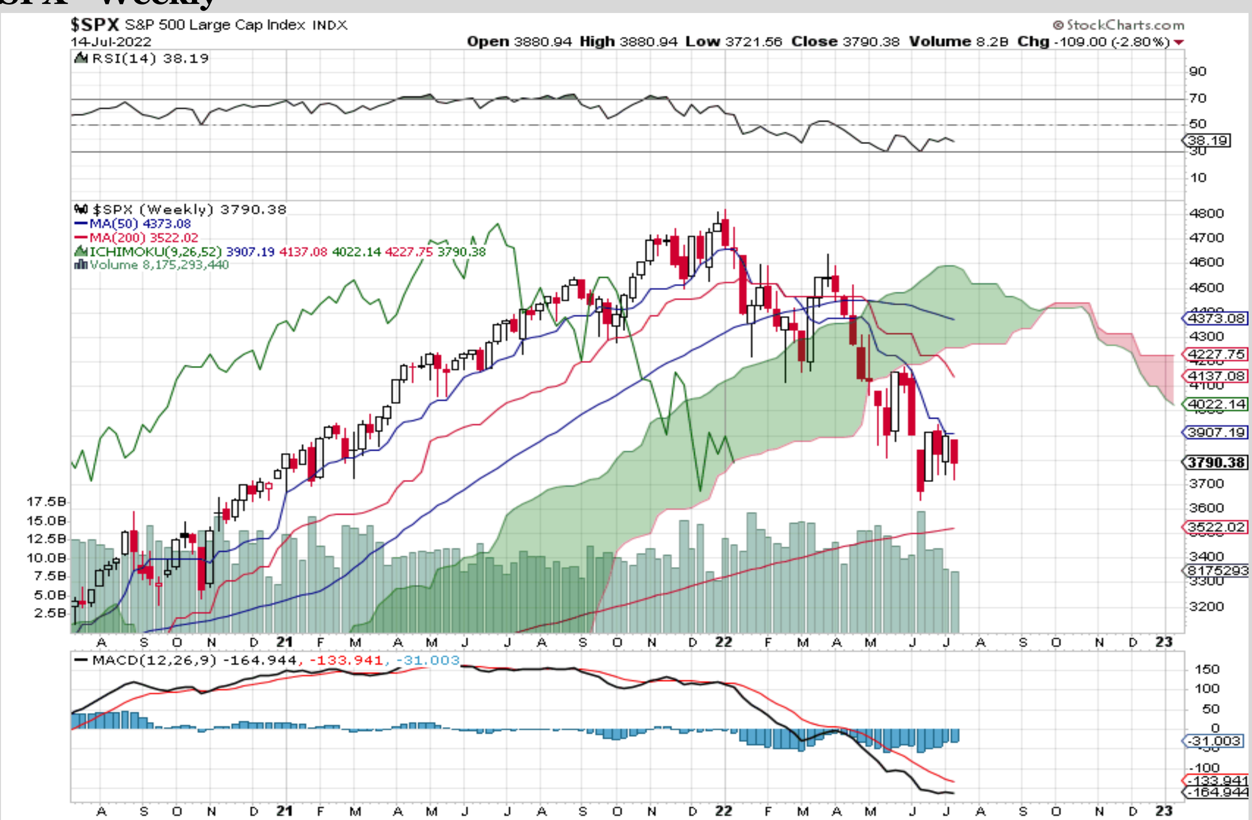
TACTICAL TRADER REPORT

The Macro Picture

Inflation figures came in above expected (and already ridiculously high), and early major bank earnings missed expectations, so stocks are again under pressure and last week's rally right to all four major US equity indexes' weekly cloud model's Conversion Lines was the high of the bounce. Stocks are trading very much like they're in a classic down-trending bear market.

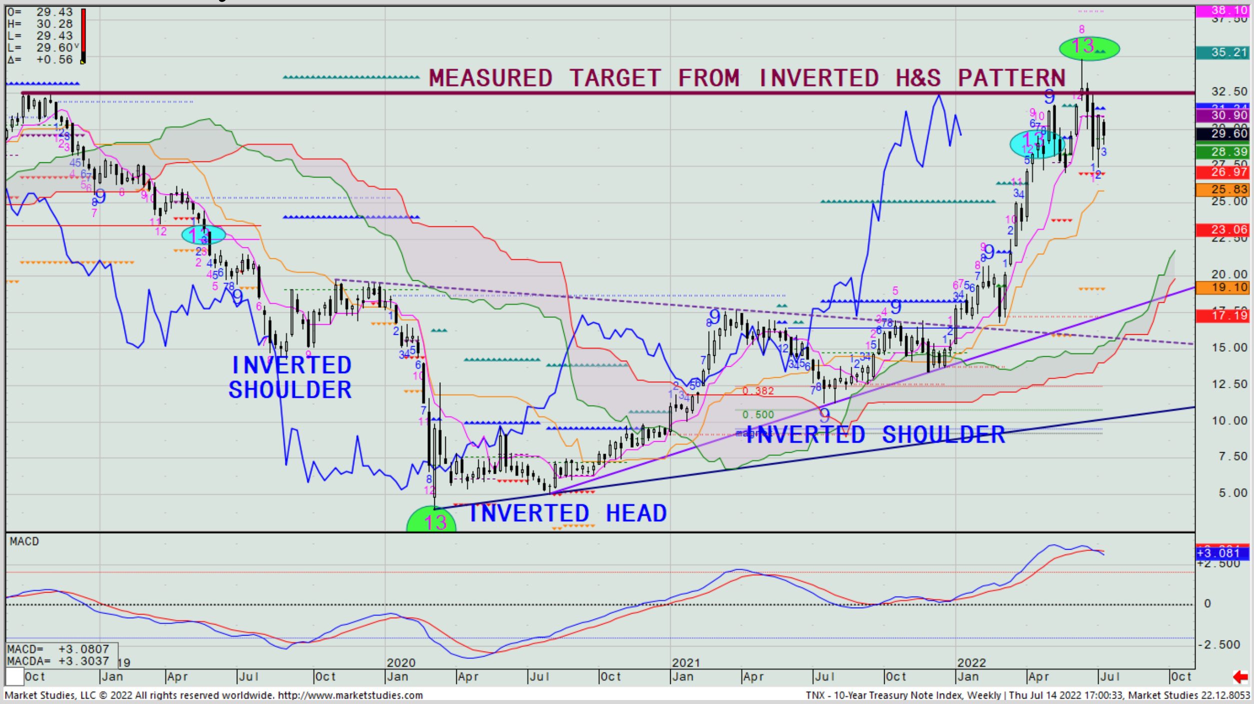
So, let's start off by looking at where the SPX stands, because heading into today, it is right at where the weekly Lagging Line would break its cloud. Depending upon where today closes, this potential break would be a material change in the SPX's bull structure, and could shift the SPX into joining the other major global indexes in having bearish structure – further enforcing the idea that you want to be selling rallies. Breaking 3697 on Friday closes (the more of them the stronger the signal) ups the odds that 3617 will be tested. Any real breach of that level opens the door for further declines. But a strong close today says that bulls are giving it one last fight to survive.

SPX - Weekly

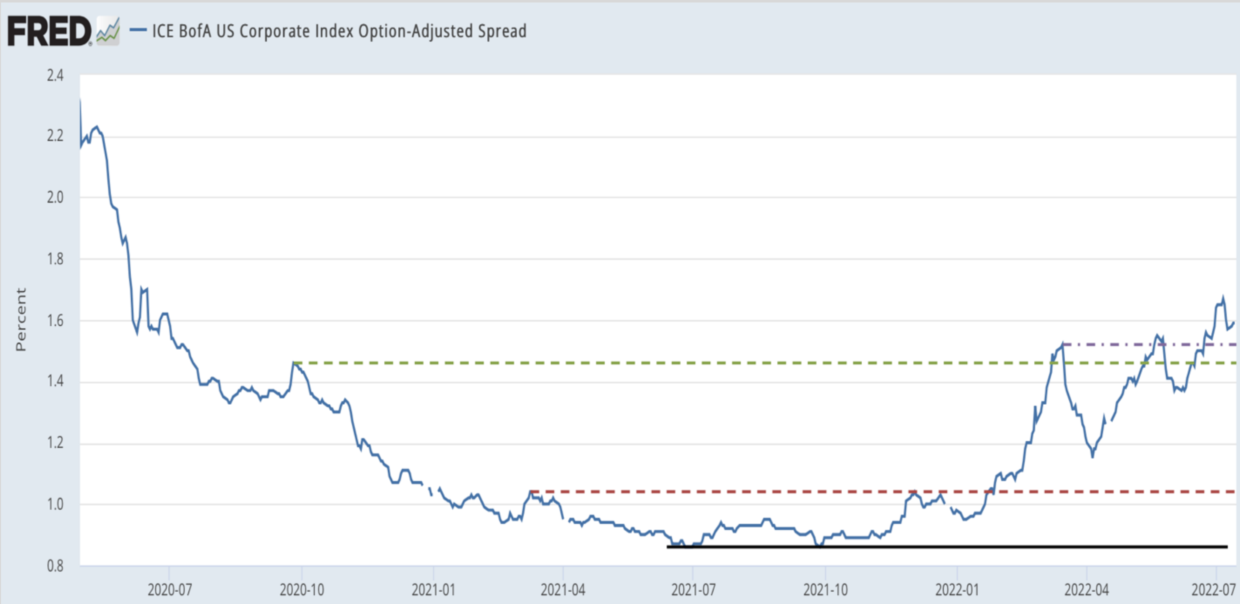


Rates continue to trade in a near-term range, bounded on top by ~3.10% and 2.70%/2.58% on the bottom. I have said that yields likely topped on that second Combo +13 signal I highlighted several weeks ago, and a continued flight to safety could keep a lid on rates now moving appreciably higher.

TNX – Weekly

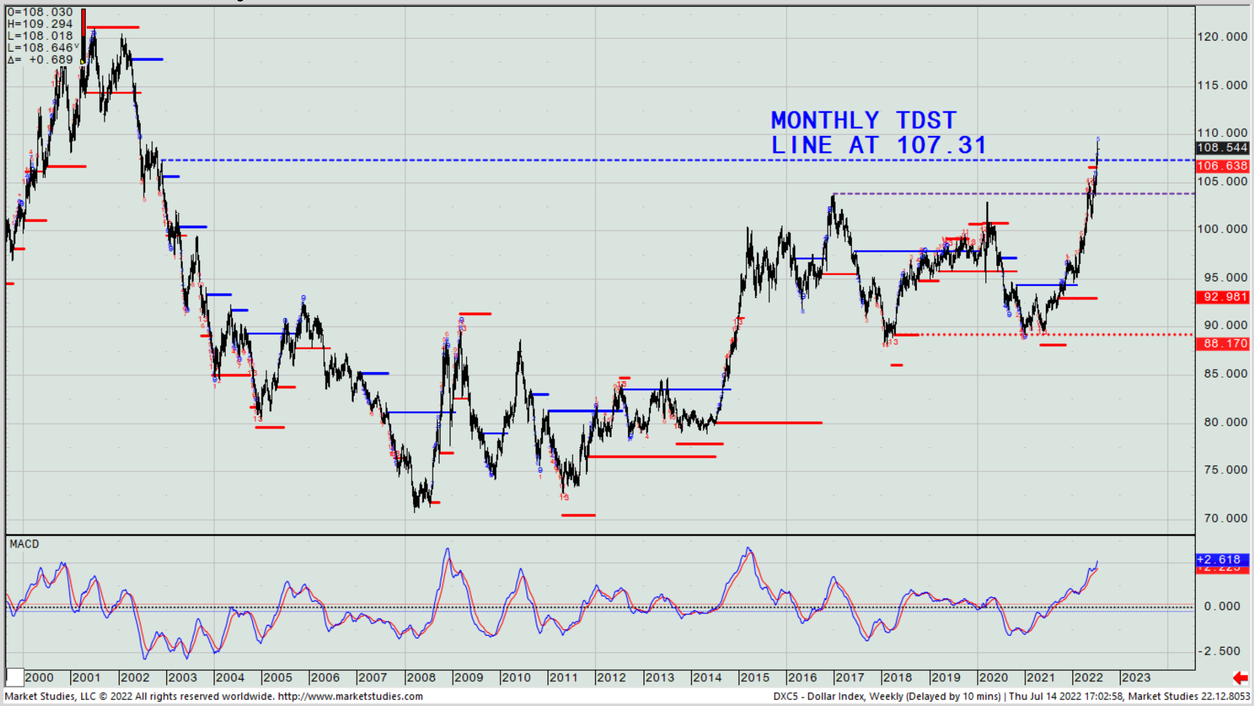


Credit spreads hit new 2022 highs last week at 1.67% (using the ICE BofA Corporate Index OAS). It has a measured upmove to at least 1.80%, and I expect the spread to get there, if not higher.



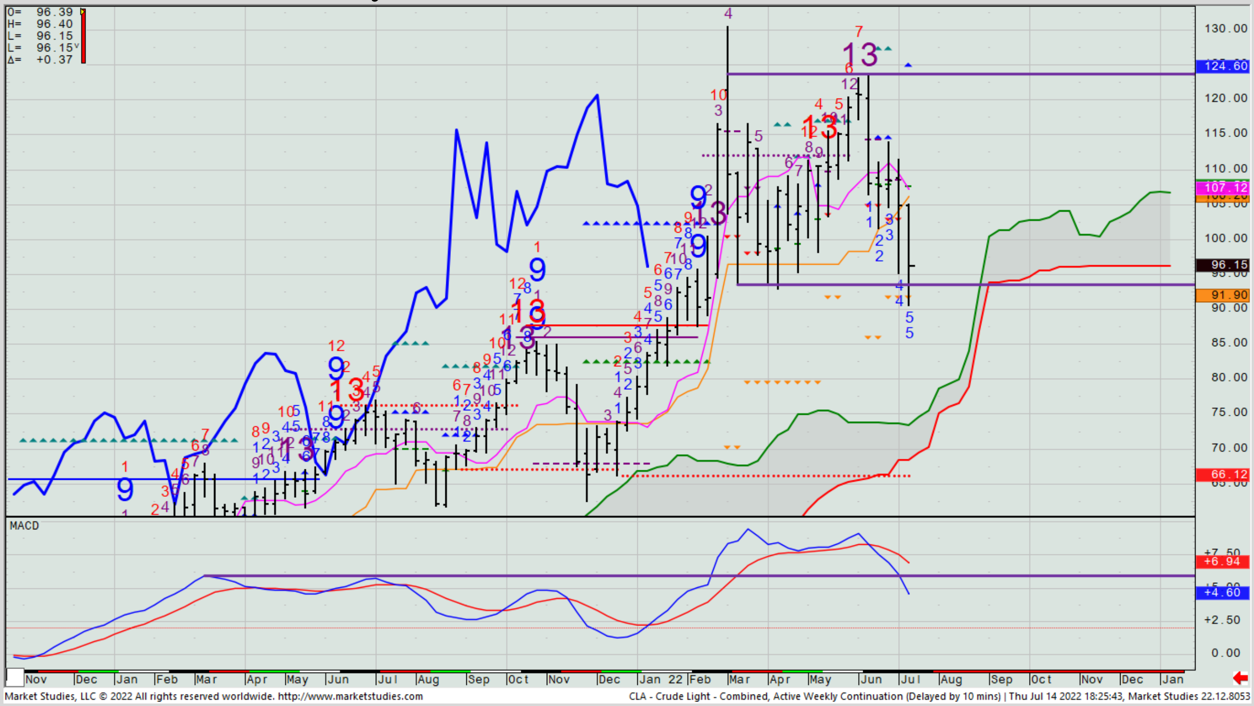
The US Dollar Index made another new secular high, pushing as high as 109.29. As I 've written for weeks, I have an issue with dollar fundamentals, so I'm not likely to buy it. However, I certainly know and take into consideration what the higher dollar means not just for stocks, but for various commodities. (See top of page 3.)

DXY – Monthly



Oil has finally broken below its weekly Base Line, and after three weeks in a row of it being capped by its Conversion Line. There's horizontal support in the low-$90s, but plenty of room to fall to its cloud if ~$91.50 gives way.

WTI Crude Oil - Weekly

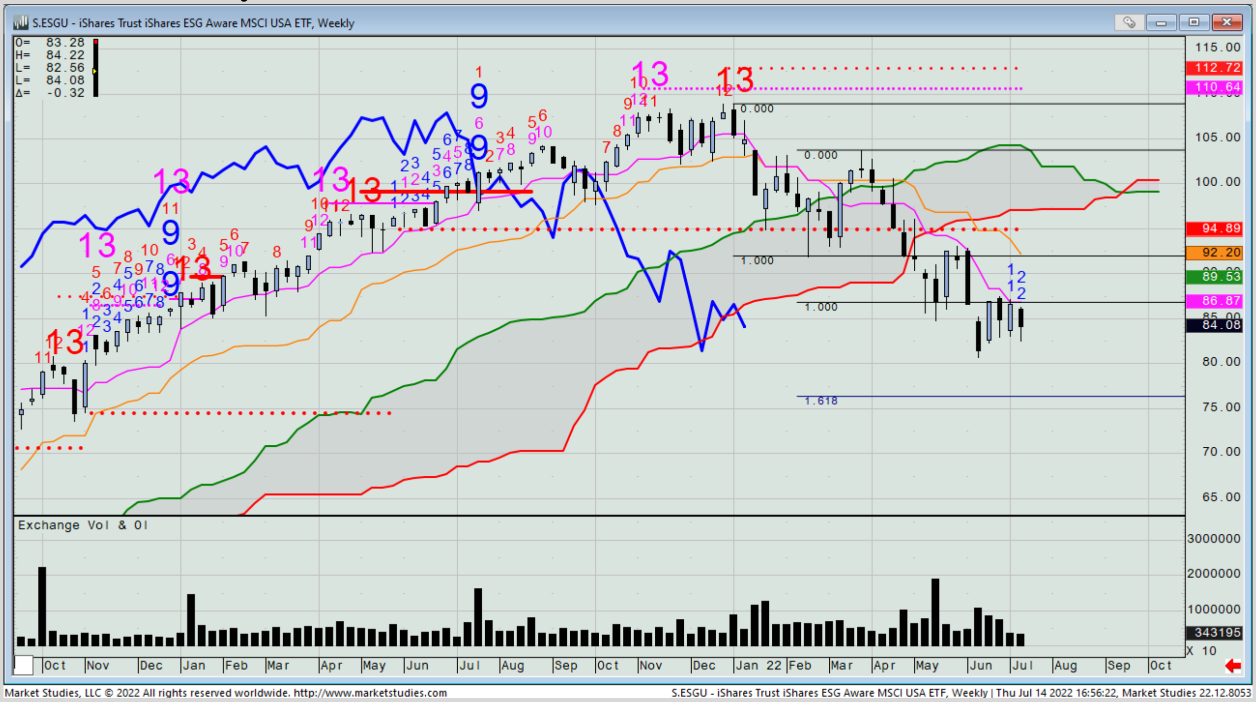


New ETF Trade Idea

Socially conscious funds (known as "ESG" funds) have been sold as the wave of the future. Like so many other things sold to the public by Wall Street, the story often sounds better than their reality.

When I look at the iShares ESG Aware ETF (ESGU) weekly chart, its Lagging Line is just breaking beneath its associated cloud bottom, suggesting a possible new swoon coming in its component names. (This chart is somewhat similar to the SPX's.) As one of the largest ESG funds, we can hopefully find a borrow easily, such that so long as today doesn't see the SPX score a 1% gain or better, we will short this ETF today looking for a further decline to target the mid-$70s. I'll use the general idea that the Conversion Line still acts as resistance, stopping ourselves out on a Friday close (or two, your choice) above the recent intra-week high of $87.51.

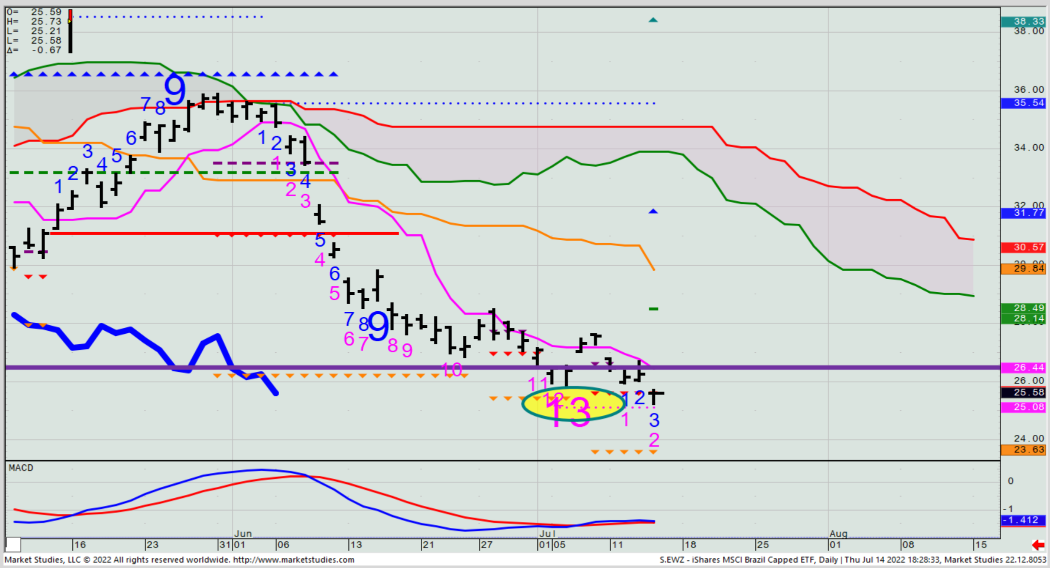
ESGU – Weekly



Other Open Recommendations and Positions

Long EWZ

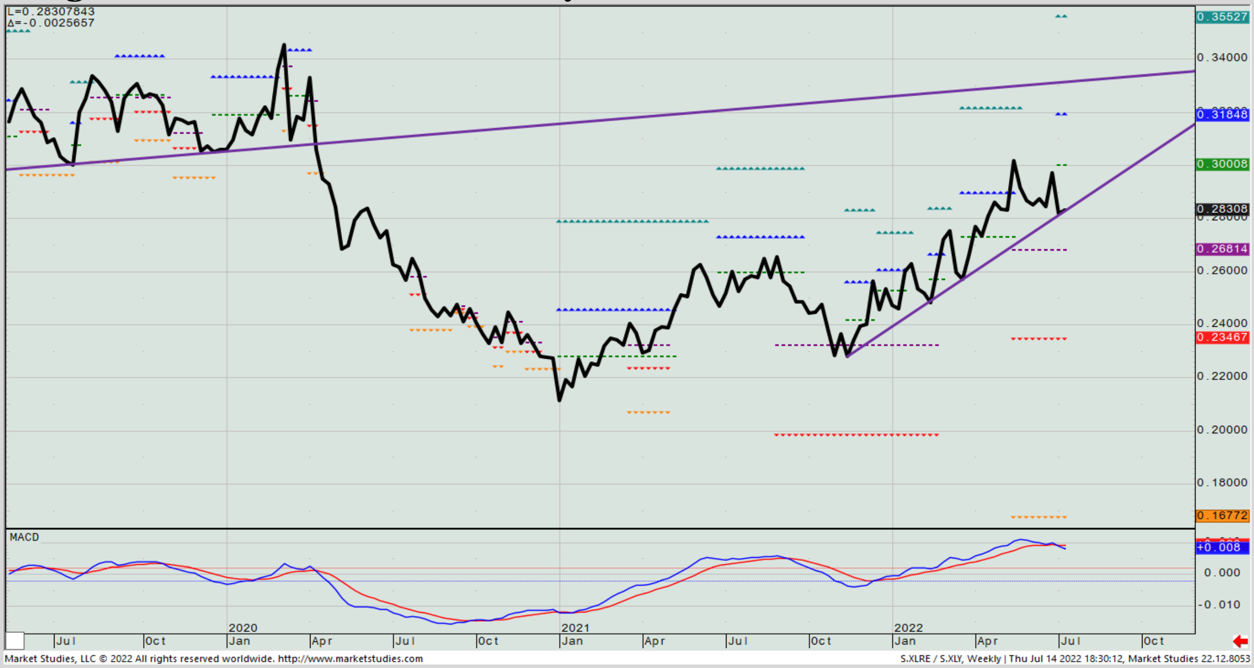
Last Friday we got long one unit of EWZ (avg. entry price of $27.45) with a noted tight stop as a daily close (or two, your choice) under $25.82. Yesterday, it closed at $25.64. Our sell-stop was on a close (or two, your choice) under $25.82, so without a rally today back above $25.82, we're definitely out.



Long XLRE vs. Short XLY

Two Fridays ago, we put this pair trade on at an avg. ratio price of 0.2977. We were playing for this ratio to further widen out to targets near 0.32/0.33. Our sell stop was on a Friday close beneath 0.2829 – the early May low. It closed last Friday at 0.2818, so we got stopped, but I'd put this right back on again and now use a Friday sell-stop < 0.2799.

Long XLRE vs. Short XLY – Weekly



Long IEF vs. Short LQD

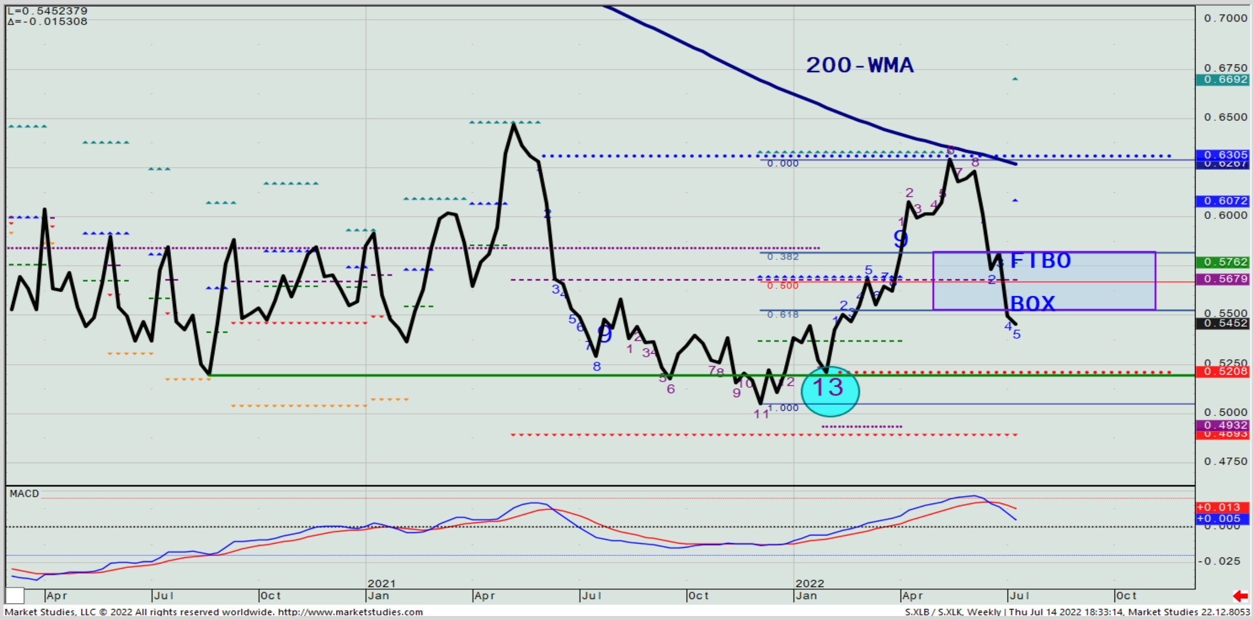
Three weeks ago, we got into this pair trade at an avg. ratio of 0.9198, which is a way to play widening credit spreads (by being long Treasuries vs. short corporate bonds). As I said earlier, I'm looking for credit spreads to continue widening, with the game plan to potentially hold this position until 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

Four 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 two weeks ago at the same price. We removed half the exposure last Friday (avg. at 0.5515) right near the 62% retracement level, and still have the remaining 50% balance, with my still looking for this to fall further.

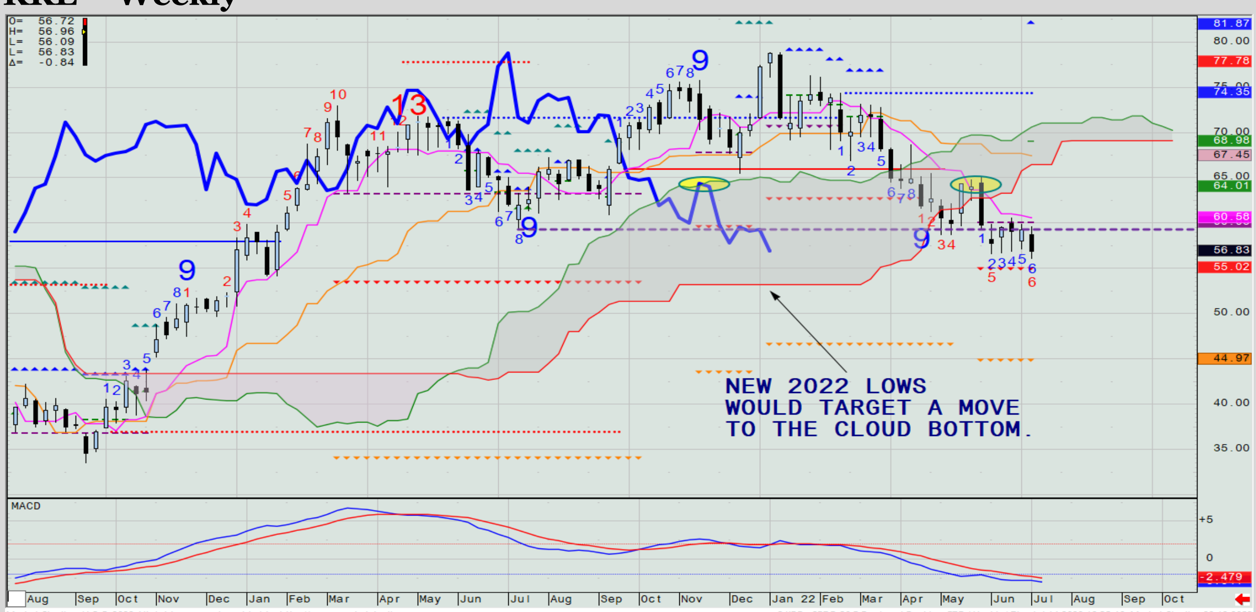
Long XLB vs. Short XLK – Weekly (we have this on the other way, so we want the chart to head lower)



Short S&P Regional Bank Index (KRE)

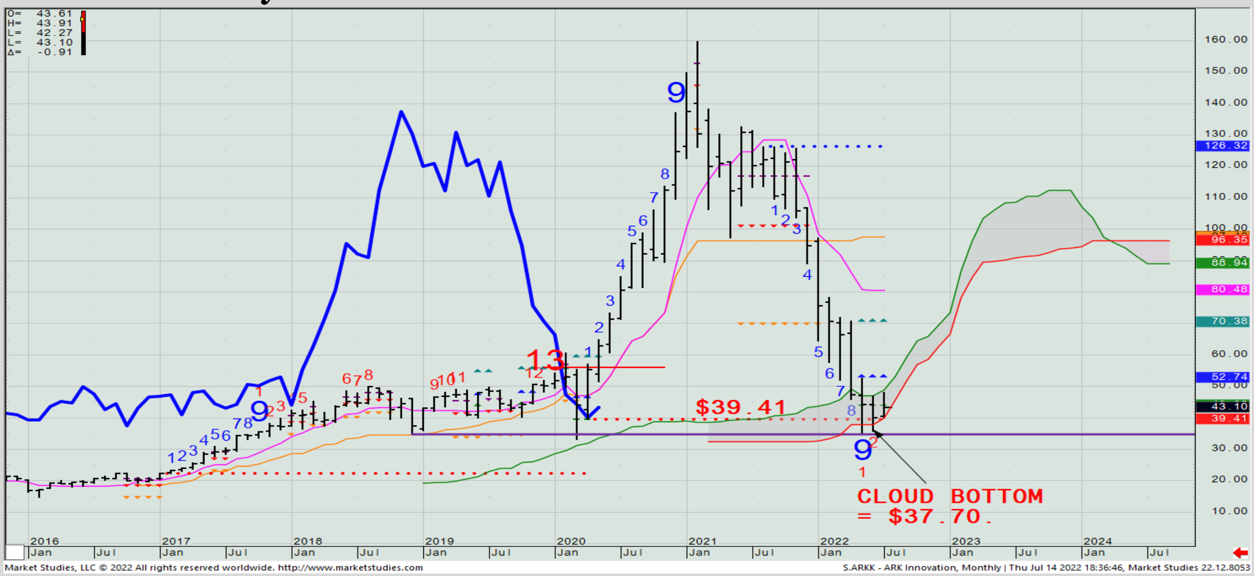
Five weeks ago, we shorted this at an avg. price of $60.13 (the mid-price of the day's range). I'm looking for this to challenge the weekly cloud's Lagging Line against its own cloud bottom at $53.19. We'll tactically manage this by covering 1/3 at $55.02 +/- 10 cents; 1/3 at $53.19 +/- 10 cents, and 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. Two Fridays ago, we added another 1/3 position against the uptrend line (avg. entry at $20.15), giving us a 2/3 position.

UNG – Weekly

July 22nd is a HUGE day for the global natural gas picture, as that is the day that the Russians are supposed to put the Nord pipeline feeding Europe back online (after it was closed for maintenance). If it doesn't – and that's a distinct possibility – not only will natgas likely trade higher, but that could help lead Europe into massive economic hurt, with that likely spilling over very negatively into equity markets.

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.