Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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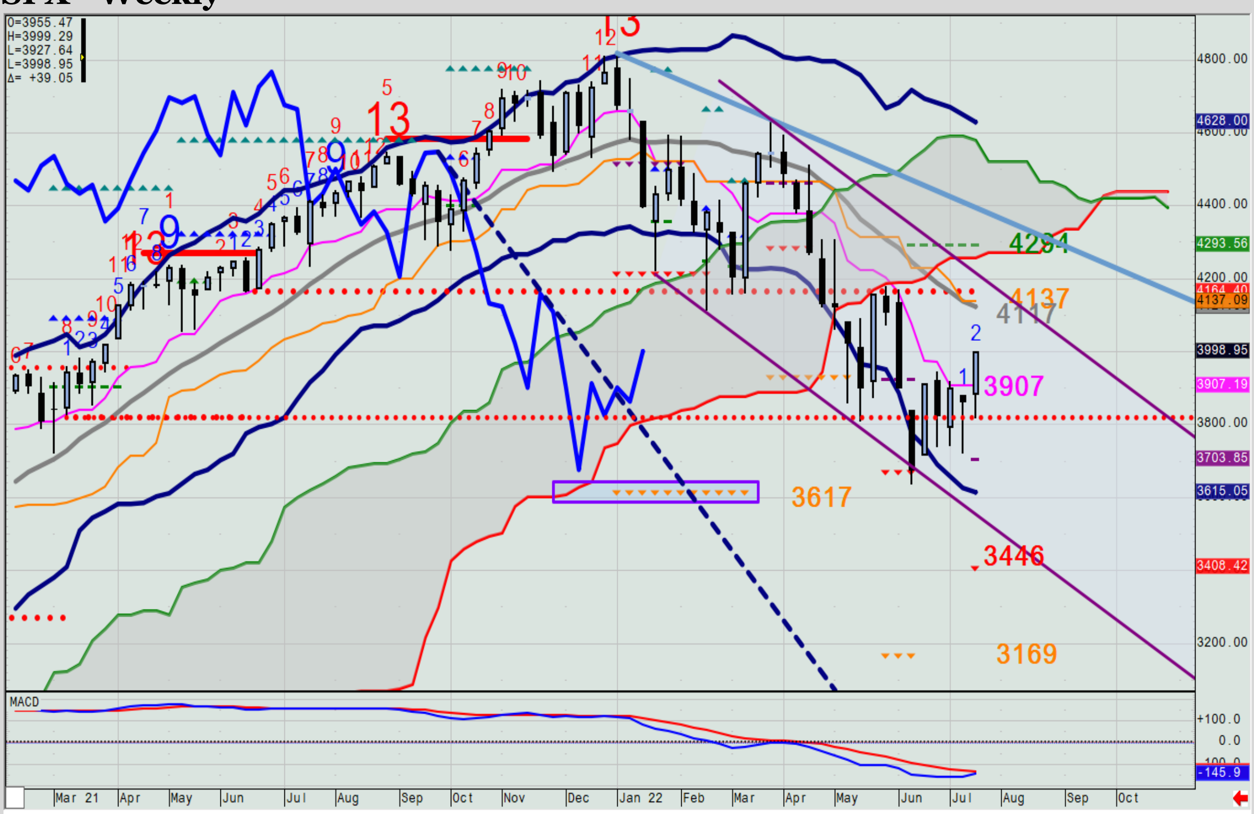
TACTICAL TRADER REPORT

The Macro Picture

This past week got the real kickoff to the new earning season, and we're seeing barbell-shaped reactions: stocks are routinely moving double-digits the day after a report, depending upon if the Street likes or doesn't like the numbers; there's little in-between. (And by the way, that is the predominant reason that this report is ETF based, for a miss doesn't bring the associated ETF down as hard as if we were long a single corporate security name that missed.)

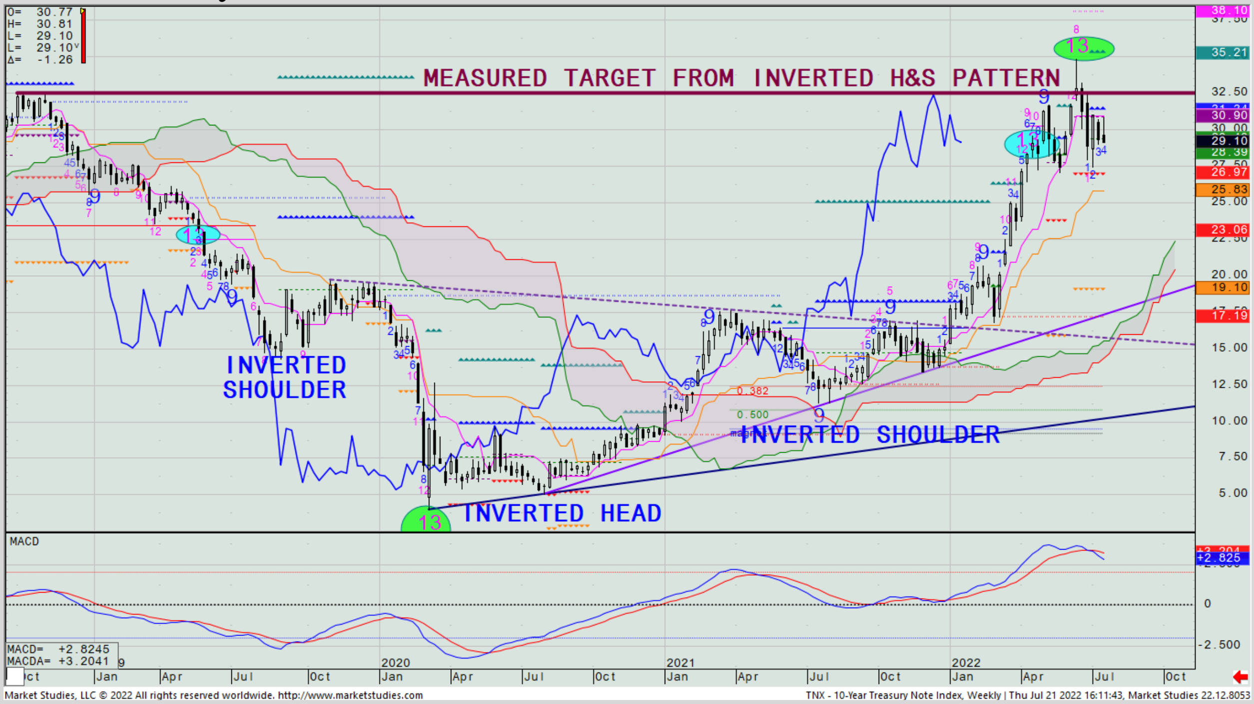
Last week market bulls got the Friday close they needed to see, keeping the SPX's weekly Lagging Line from breaching its cloud bottom – and actually making it look as if the Lagging Line could head towards the top of its cloud. That would wash out a significant amount of those positioned short. (If we can time that future peak correctly, it would likely give us a chance to then position short for what could be one more leg down that then takes out the current 2022 lows.) But until then, I think the market has some room to run upside.

SPX - Weekly



Rates remain in the near-term trading range, I previously defined, bounded on top by ~3.10/3.14% and by 2.70%/2.58% on the bottom. I have said that yields likely topped on that second Combo +13 signal that I highlighted several weeks ago, and a continued general flight to safety could keep a lid on rates from appreciably moving higher.

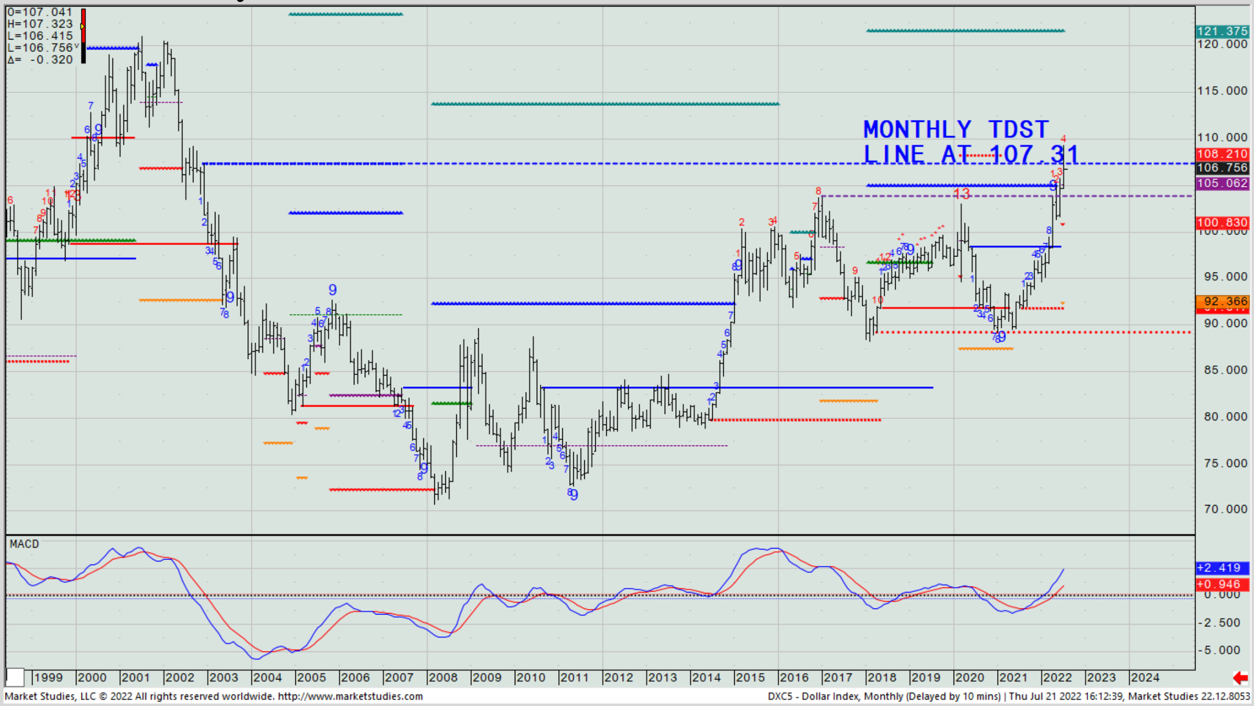
TNX – Weekly



Credit spreads recently 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. In the short-term, I do want to see the general area of its uptrend line (near 1.50%) hold as support. It closed Wednesday at 1.52%.

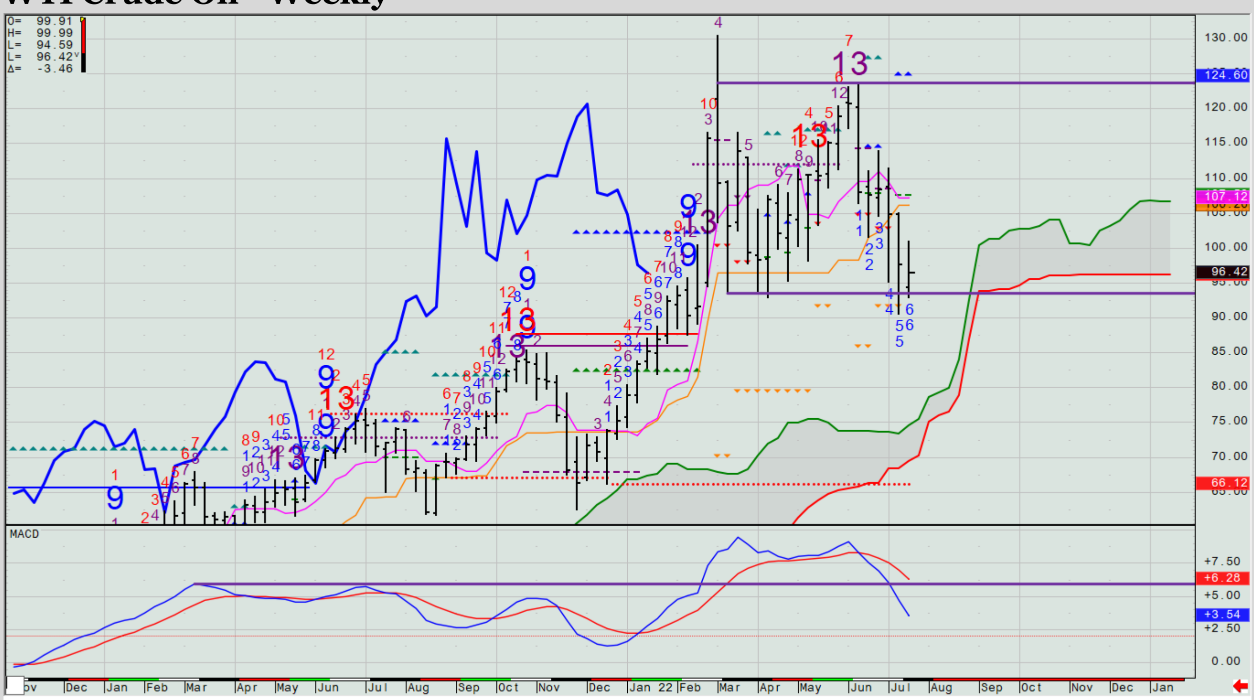
The US Dollar Index made another new secular high (109.29) earlier this month, but has a monthly TDST resistance line at 107.31, and it's currently back under there. I have some fundamental issues getting long the dollar on what others see as a breakout, so I am not jumping on board other's bullish stance.

DXY – Monthly



Oil continues in a short-term negative stance, on a weekly Setup -6 count. But it's still very much so in a large trading range (see the horizontal purple lines).

WTI Crude Oil - Weekly



New ETF Trade Idea

I often look at the SPDR macroeconomic ETF pair trades to see if I can discern an exploitable move to partake in. This week, I see that the relationship between Financials

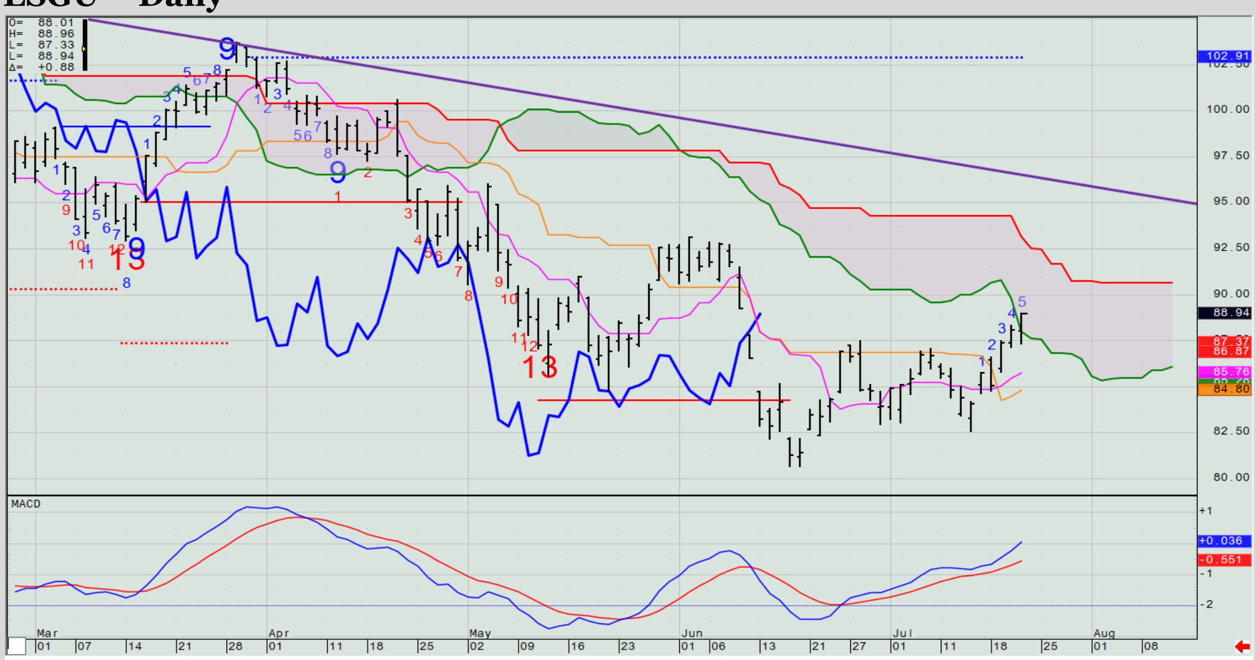
(XLF) appears to be improving against Real Estate (XLRE), such that I'd expect it to do a 50 (0.8238) to 62 (0.8454) percent upside retracement (i.e., the highlighted target) in coming months. We'd stop this out if we see a Friday close beneath the recent low of 0.7655.

Long XLF vs. Short XLRE – Weekly

Other Open Recommendations and Positions

Short ESGU
Last Friday, I recommended shorting this ETF only IF the SPX did not close up 1% or more on the day. It did, so we did NOT take the short trade idea. I am cancelling the trade idea.

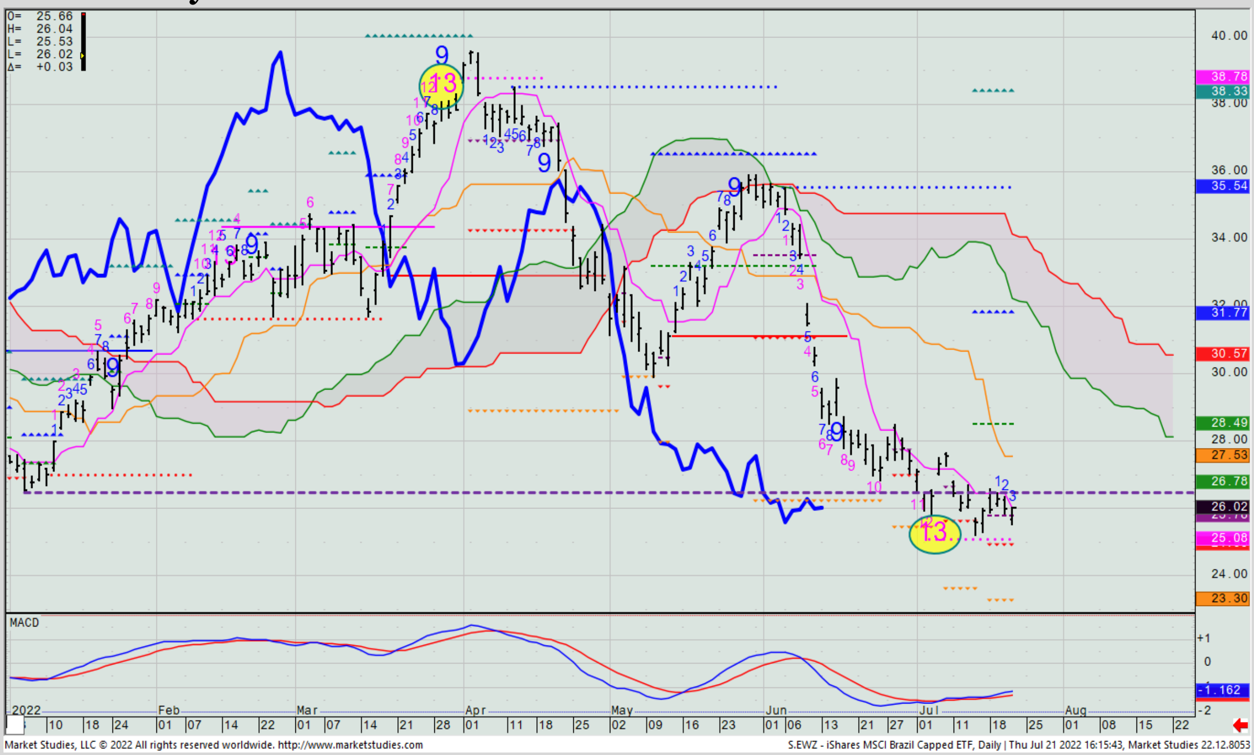
ESGU – Daily



Long EWZ

A couple weeks ago, we went long EWZ (avg. entry price of $27.45) with a noted tight stop as a daily close (or two, your choice) under $25.82. We got one, but not two, so if you are still in this, now use consecutive daily closes < $25.77 as your exit. Otherwise, we'll look for a move to $28.49 to take half off, and the other half near $31.75.

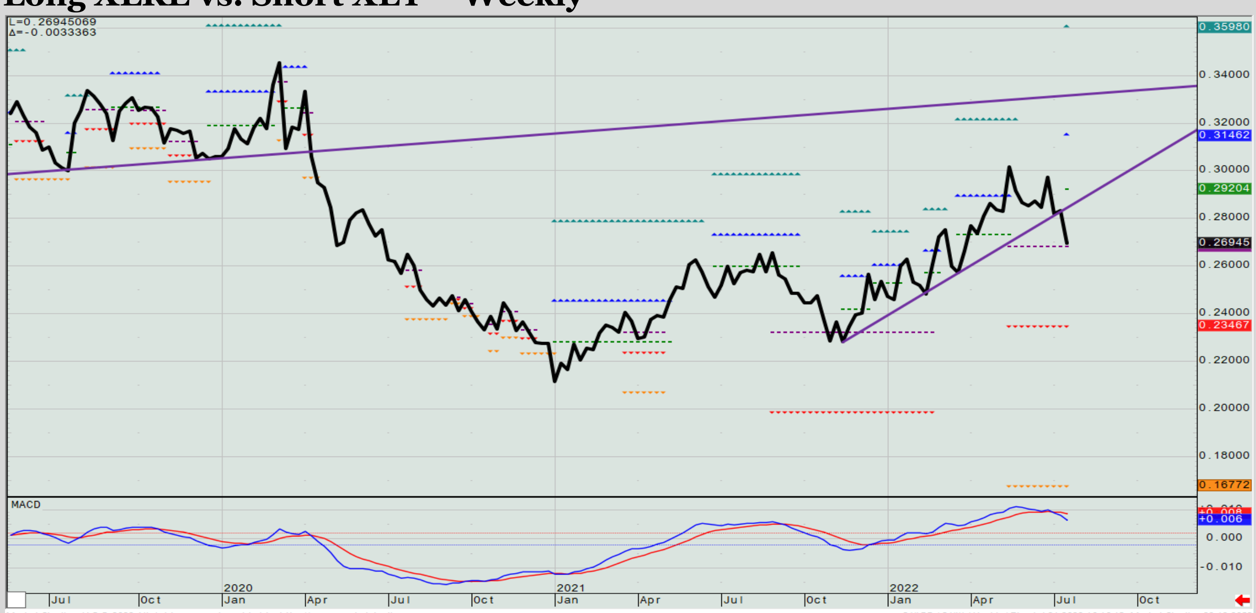
EWZ – Daily



Long XLRE vs. Short XLY

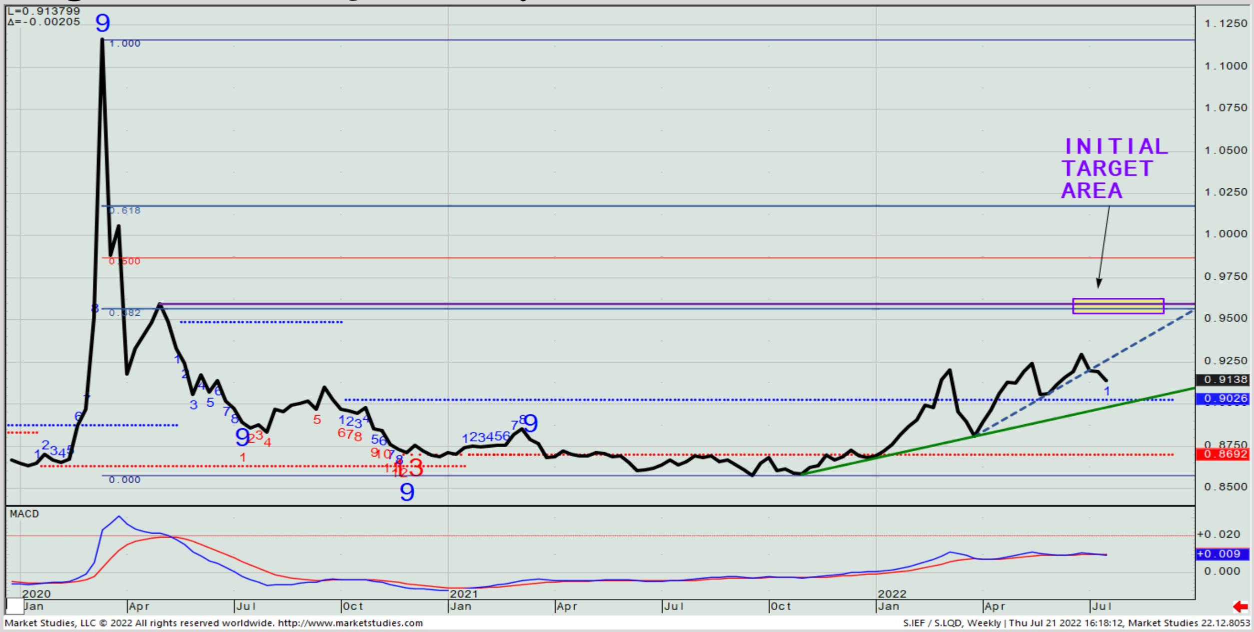
Three Fridays ago, we put this pair trade on at an avg. ratio price of 0.2977. We were playing for this ratio to further widen out to targets near 0.32/0.33. Our sell stop was on a Friday close beneath 0.2829 – the early May low. It closed two Fridays ago at 0.2818, so we got stopped, but we put this right back last Friday (@0.2831) using a Friday sell-stop < 0.2799. That clearly happened this week. We'll be out of this today.

Long XLRE vs. Short XLY – Weekly



Long IEF vs. Short LQD
Four 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). With this week flipping to a downward Setup count and the ratio now back beneath the prior two highs, let's remove the pair trade today (i.e., "keep losses small").

Long IEF vs. Short LQD - Weekly



Long XLK vs. Short XLB
Five 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 two Fridays ago (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.

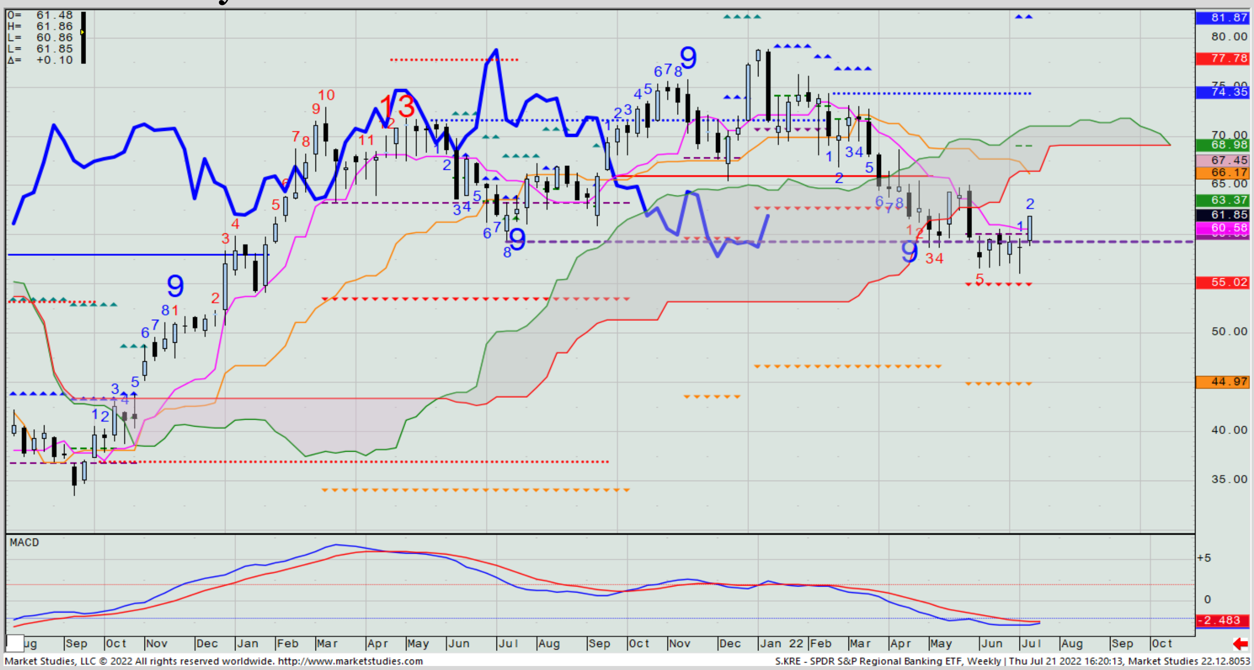
Long XLB vs. Short XLK – Weekly (we have this on the other way, so we want the chart to head lower)

We will stop the other half out should this ratio rally to flip the count higher on a Friday close (meaning we'd exit late on a Friday if the ratio is above the weekly closing ratio price from four weeks prior.)

Short S&P Regional Bank Index (KRE)

Six 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. Our buy-stop is a Friday close above $60.05, which very likely happens tomorrow, so we'll need exit.

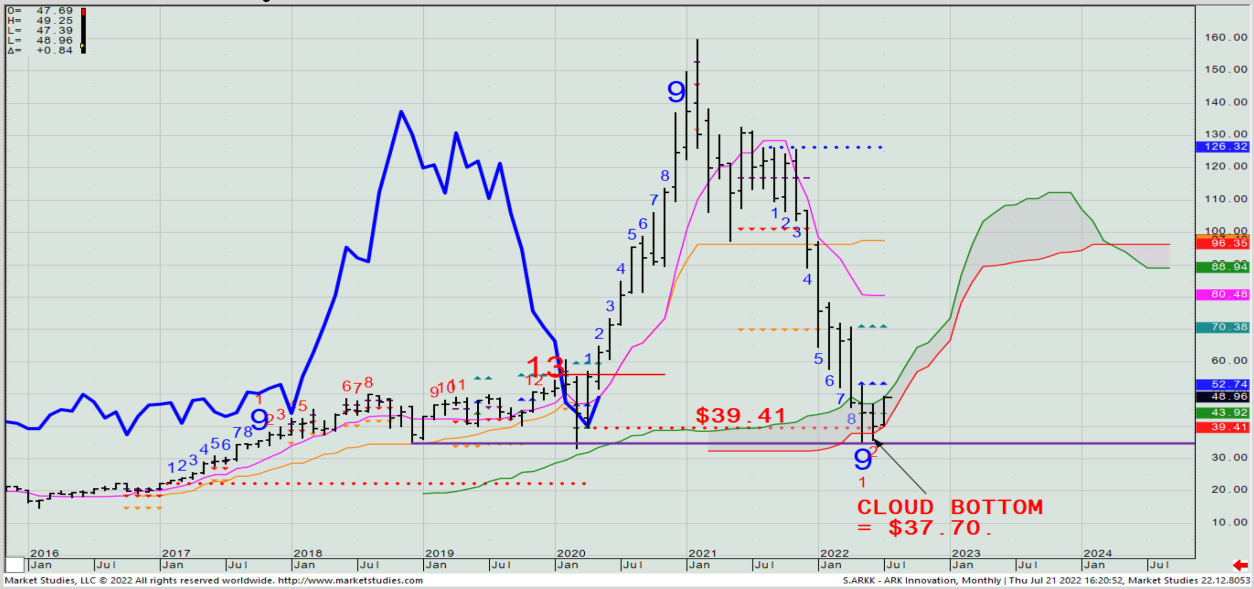
KRE – Weekly



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.)

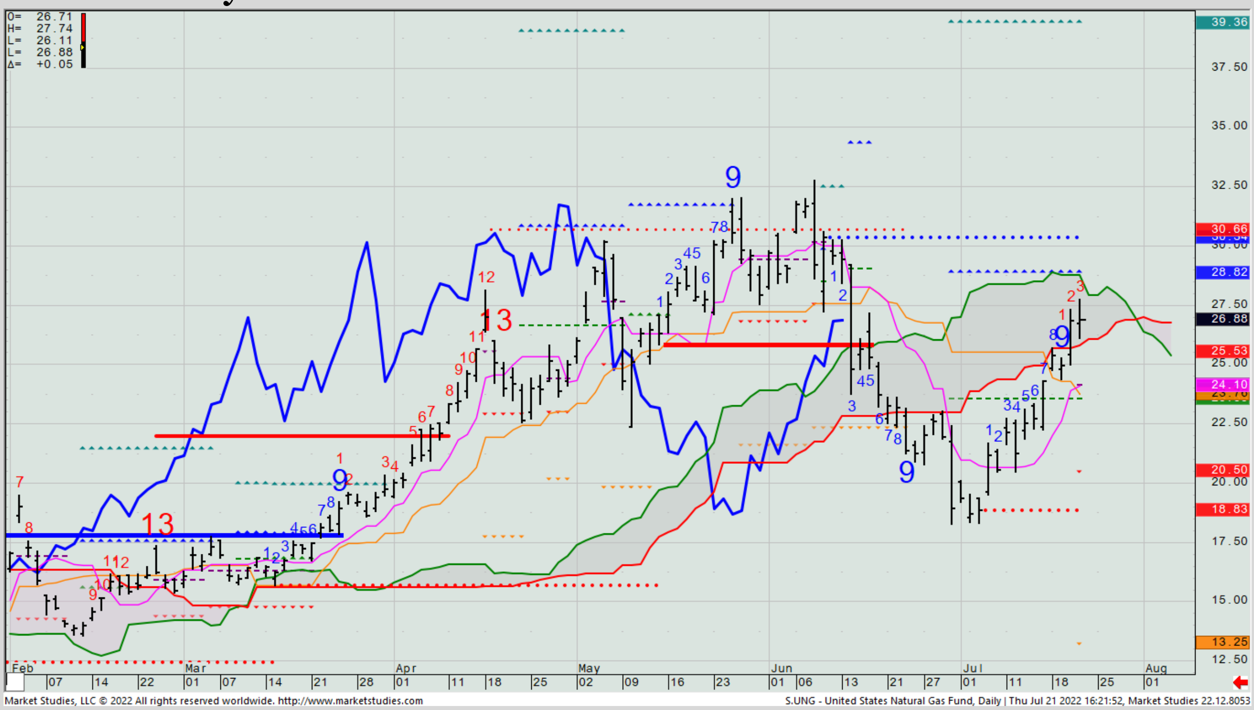
ARKK – Monthly



(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. With it trading back up to $27+, let’s take half of what we have on off today to lock in partial solid profits, and we’ll still keep the balance.

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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