Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com

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TACTICAL TRADER REPORT

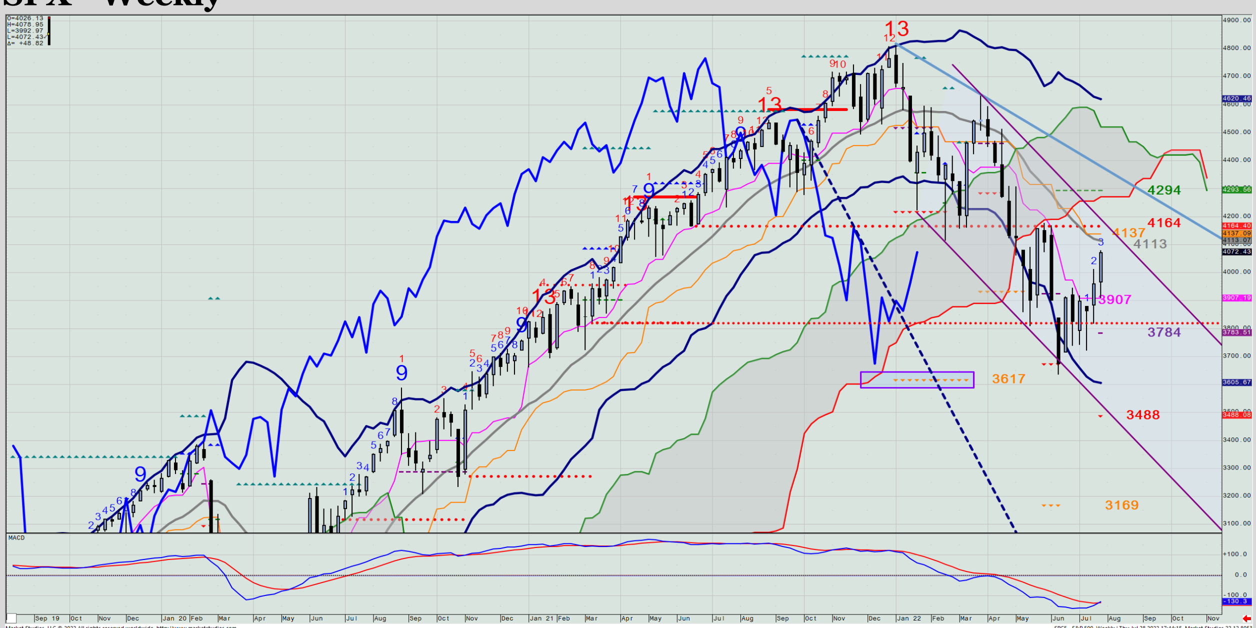
The Macro Picture

Fed Chairman Powell's press conference after Wednesday's expected and received 75 bp. rate hike was interesting, as the longer it proceeded, the more he turned toward "soft landing"; "we're not in a recession"; and "I don't think we're heading for recession". And the market loved that, screaming over 2% on Fed Day and another 1.2 % yesterday.

But before we get overly bullish, let's also remember that this same Chair continually told us that "inflation would be transitory" before finally retracting that statement several months later. So, like other past Fed Chairs, one can't necessarily believe that what they're telling us is what they truly believe, or even think will happen. There's politics in every bit of this, too, and it's very possible that Powell has dug a deeper whole for himself and his FOMC colleagues, because investors took his words to be "that the Fed is done tightening". In my view, that is *highly* unlikely, as I suspect that the higher the equity market goes, the more likely the Fed will feel ease in continually raising rates.

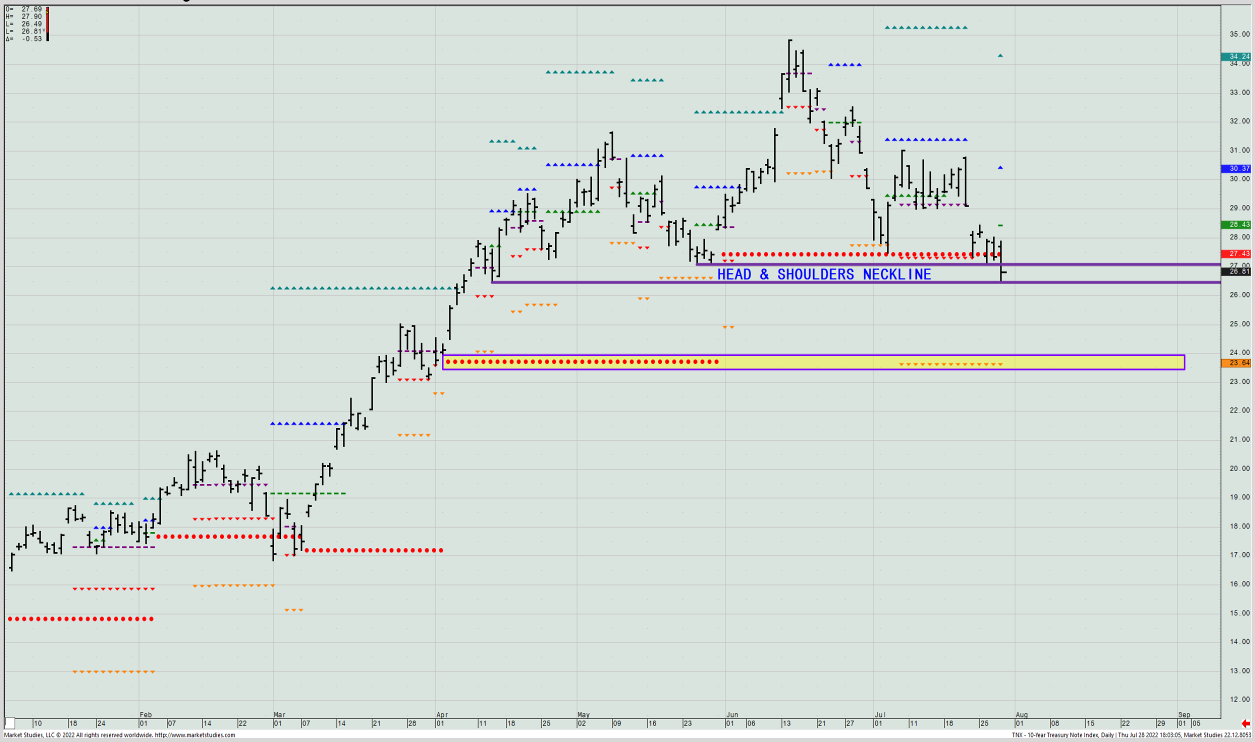
I've been bullish the equity market for a few weeks already, having seen the SPX make roughly four equal weekly lows subsequent to the week that made the 2022 low. Then, last week's upmove through the weekly Conversion Line was the first hint that shorts were going to get squeezed. Add to that last night's Amazon and Apple results and you've just thrown on more fuel to the bull fire that Powell ignited on Wednesday. As I write this late Thursday afternoon, S&P futures are already trading at 4100.

SPX - Weekly

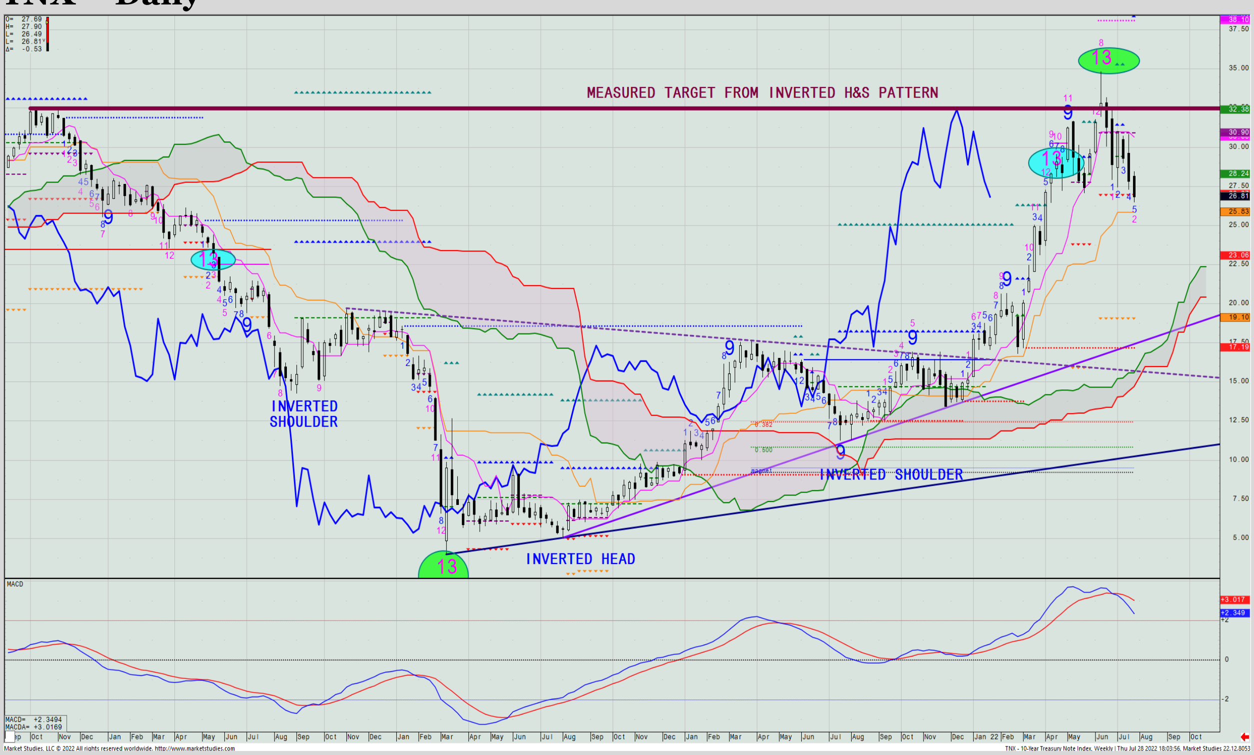


With investors playing as if the Fed is done raising rates (again, I'm not in that camp at all) rates traded on Thursday down to their lowest level since early-April. I've previously defined a suspected trading range bounded on top by ~3.10/3.14% and by 2.70%/2.58% on the bottom. But there's also a fully formed head and shoulders pattern that is dangerously close to breaking its neckline (see chart below), which would then have me thinking that we could see a move to 2.364%, if not lower. Weeks ago, I said that yields likely topped on that second weekly Combo +13 signal, and now yields are at a defining moment as we head into a new month on Monday.

TNX – Daily



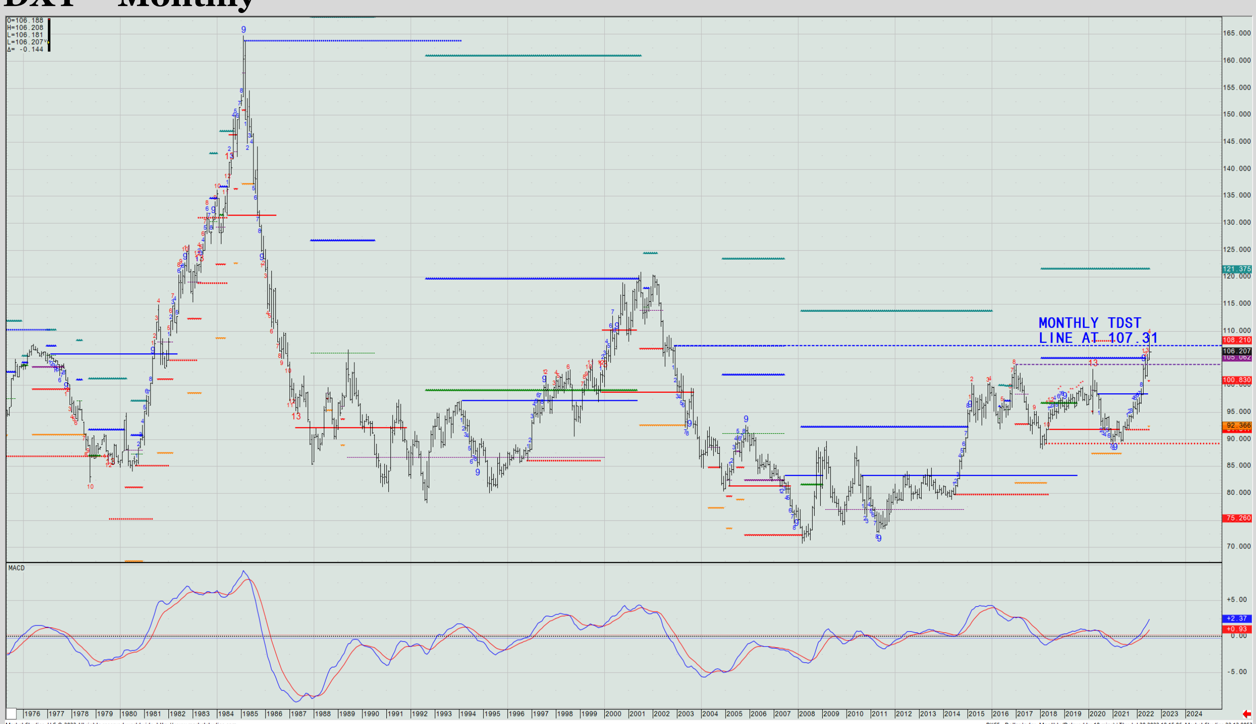
TNX – Daily



Credit spreads will likely narrow on the bullish market action. Our preferred spread closed on Wednesday at 1.55%, up three bps. since last week and still above the uptrend line. But with the one day lag to get its actual price, I wouldn't at all be surprised to see it having moved well lower yesterday and shortly break this uptrend line. We are currently flat this spread market, having exited our widener trade last Friday with a small loss.

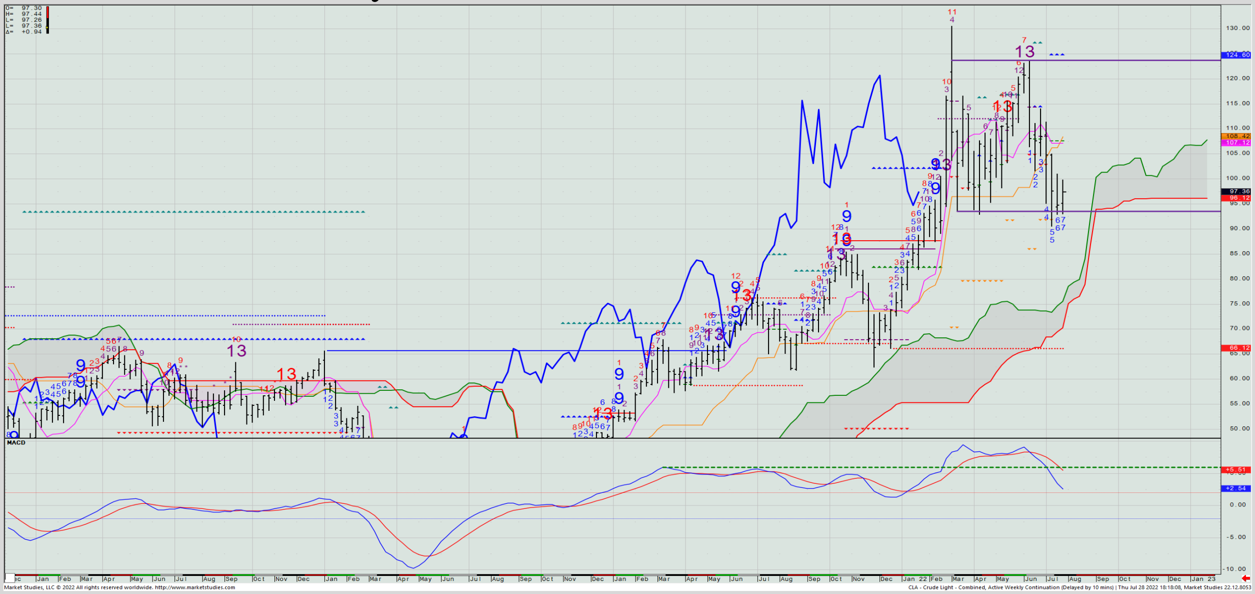
The US Dollar Index made its cyclical high a few weeks ago, but is beneath its monthly TDST 107.31 level going into today's last trading day of the month. I've made it no secret that I am not a dollar bull, and am not chasing after what other technicians have called an upside breakout. Should the dollar weaken, it would be good for US multi-national stocks, gold, oil, and some other dollar-priced commodities.

DXY – Monthly



Oil continues in a short-term negative stance, now on a weekly Setup -7 count. But it remains in a large trading range (see the horizontal purple lines).

WTI Crude Oil - Weekly



[New ETF Trade Idea]

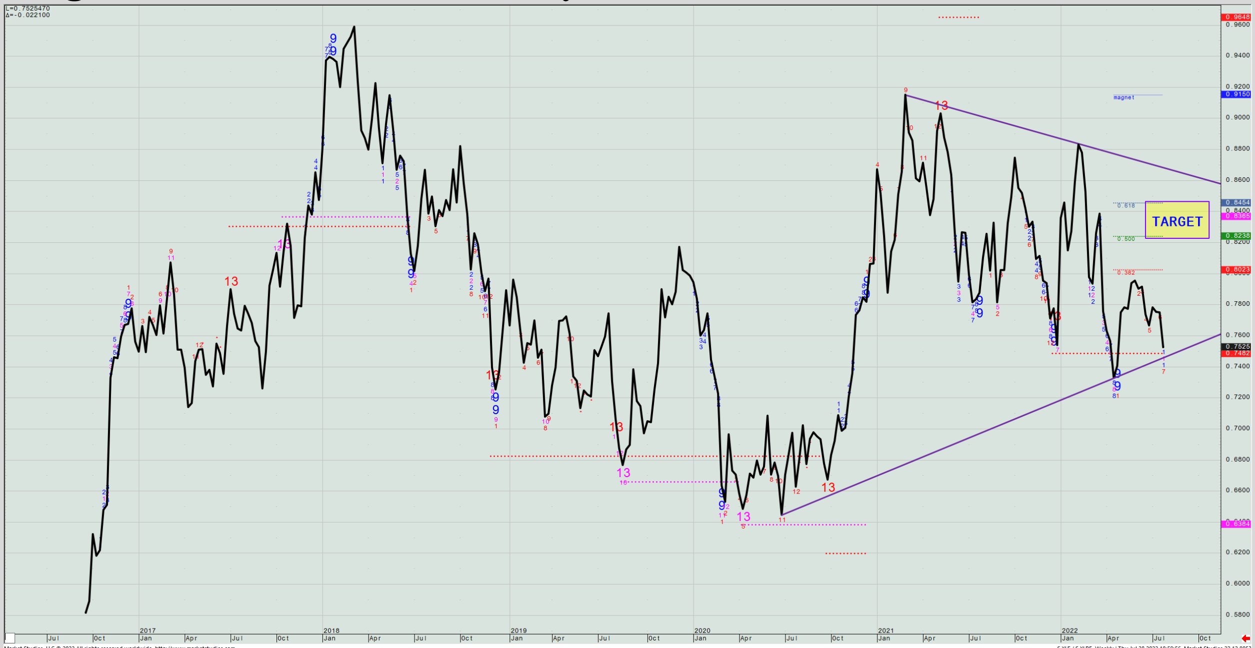
This thematic idea is based upon the recent earnings results we've seen in both some Consumer Staples and Discretionary names, specifically that the former group will likely trail the near-term performance of the latter (which as recently as yesterday is going to get a good lift after Amazon's earnings were solid across the board, and makes up 24% of the entire XLY ETF). As such, let's buy one unit of XLY and short one of XLP against it, playing for a not yet finished upmove in the overall stock market, and the likely bottom in both Amazon and the XLY/XLP pair trade. We'll look for a move up to the horizontal lines that were previously important as early as the first quarter this year. Our sell-stop is a week or two beneath 1.9792.

Long XLY vs. Short XLP – Weekly

Other Open Recommendations and Positions

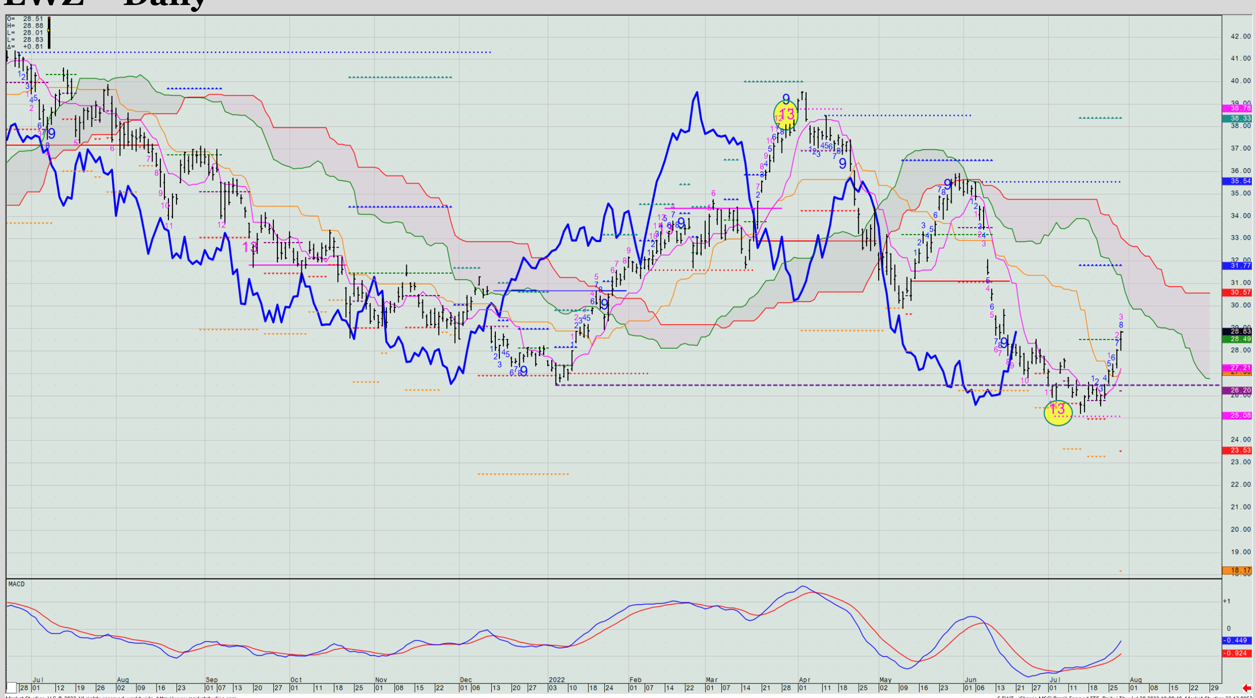
Long XLF vs. Short XLRE
Last week, we bought a pair trade with the idea that Financials can outperform REITs. We put this on at an avg. price of 0.7740, and we had our sell-stop as a Friday close beneath 0.7655. We will exit today with a small loss.

Long XLF vs. Short XLRE – Weekly



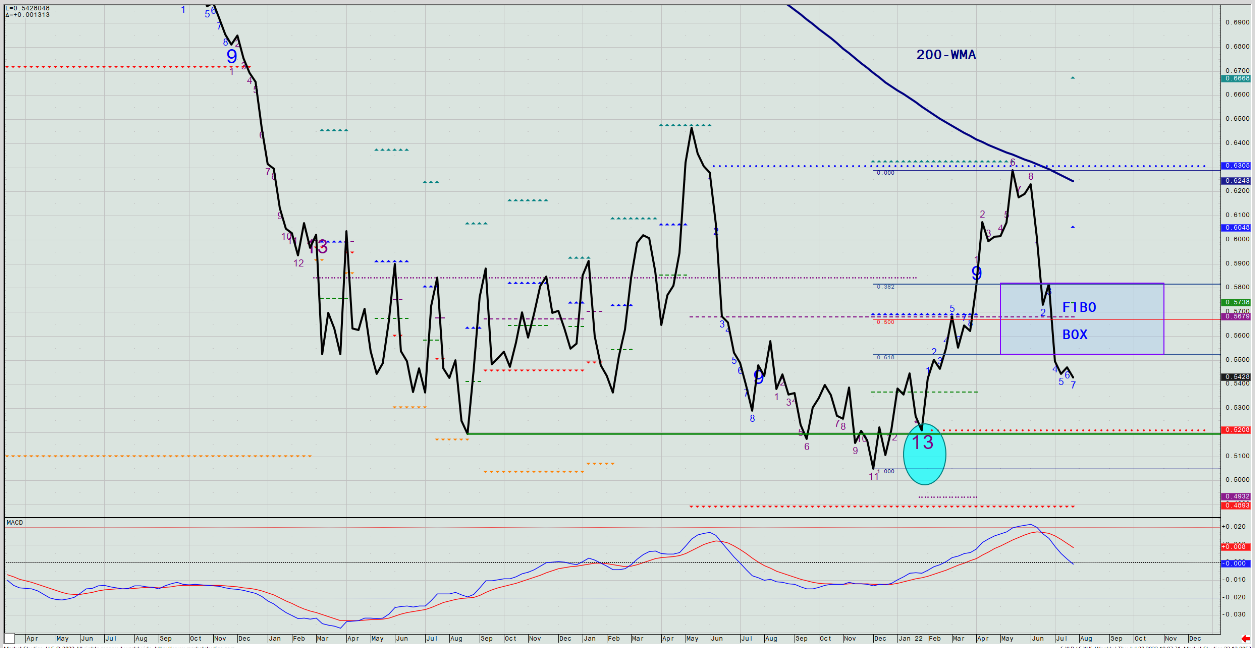
Long EWZ
A few weeks ago, we went long EWZ (avg. entry price of $27.45) with a noted tight stop as a daily close (or two, your choice) under $25.82. We got one, but not two, so if you are still in this, now use consecutive daily closes < $26.20 as your sell-stop. Otherwise, we just sold out of half yesterday at $28.49, and the other half we'll sell near $31.75.

EWZ – Daily



Long XLK vs. Short XLB
Six 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 three 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 and potentially exiting in two more weeks on a Setup -9.

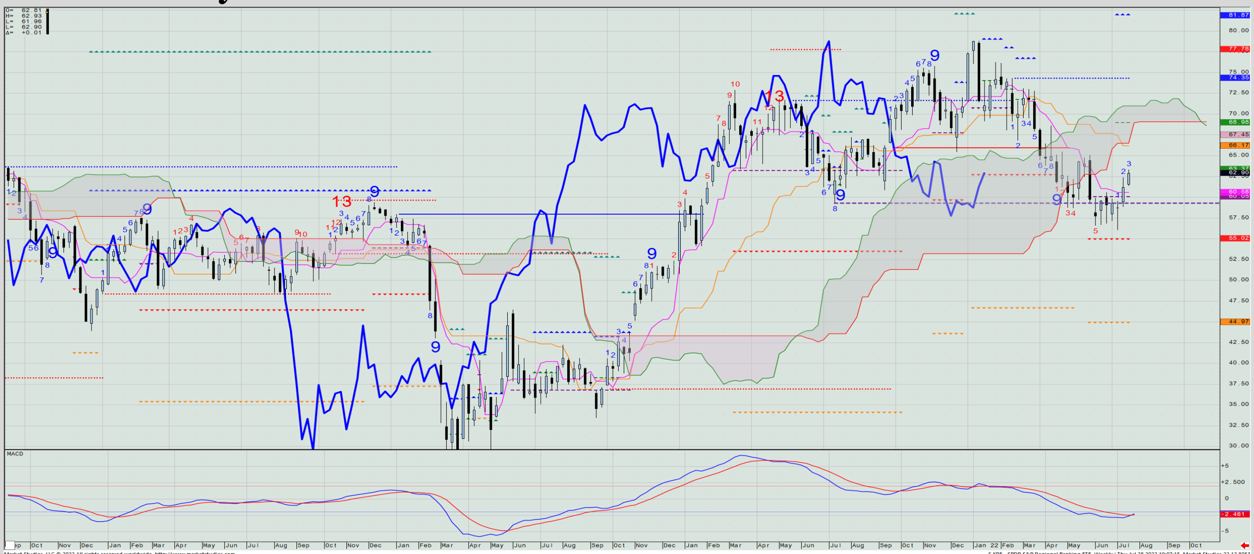
Long XLB vs. Short XLK – Weekly (we have this on the other way, so we want the chart to head lower)



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)
Seven weeks ago, we shorted this at an avg. price of $60.13 and had our buy-stop as a Friday close > $60.05, which occurred last Friday, so we were stopped out at $61.05. We lost 1.8% (in line with keeping losses small!)

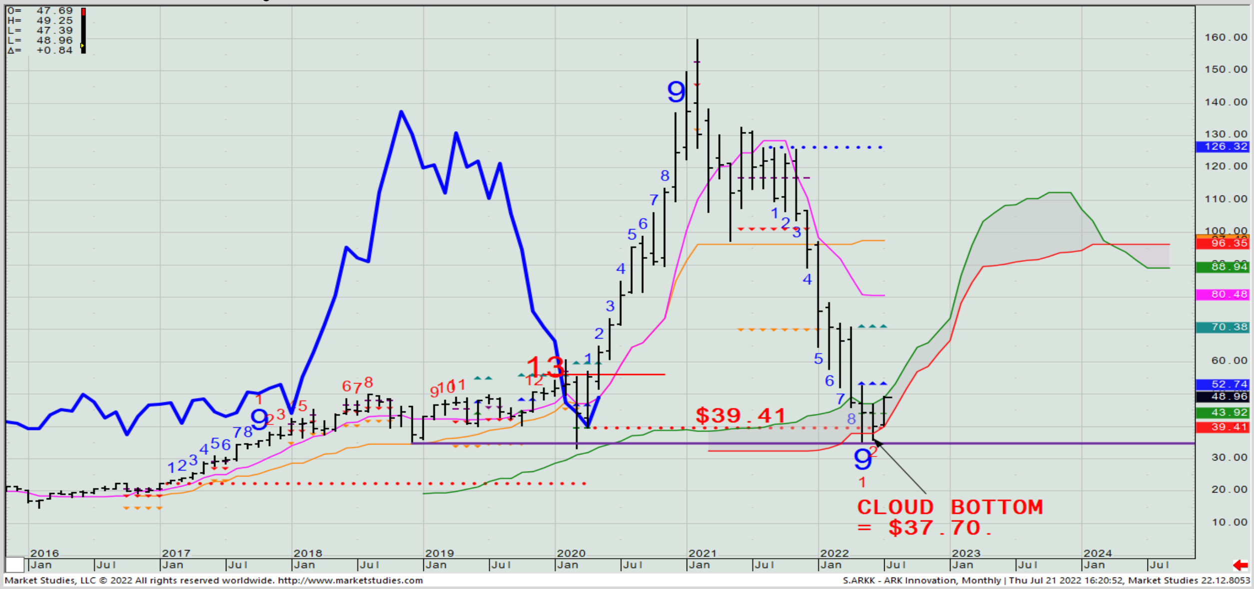
KRE – Weekly



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 was also a monthly Setup -9 count.)

ARKK – Monthly

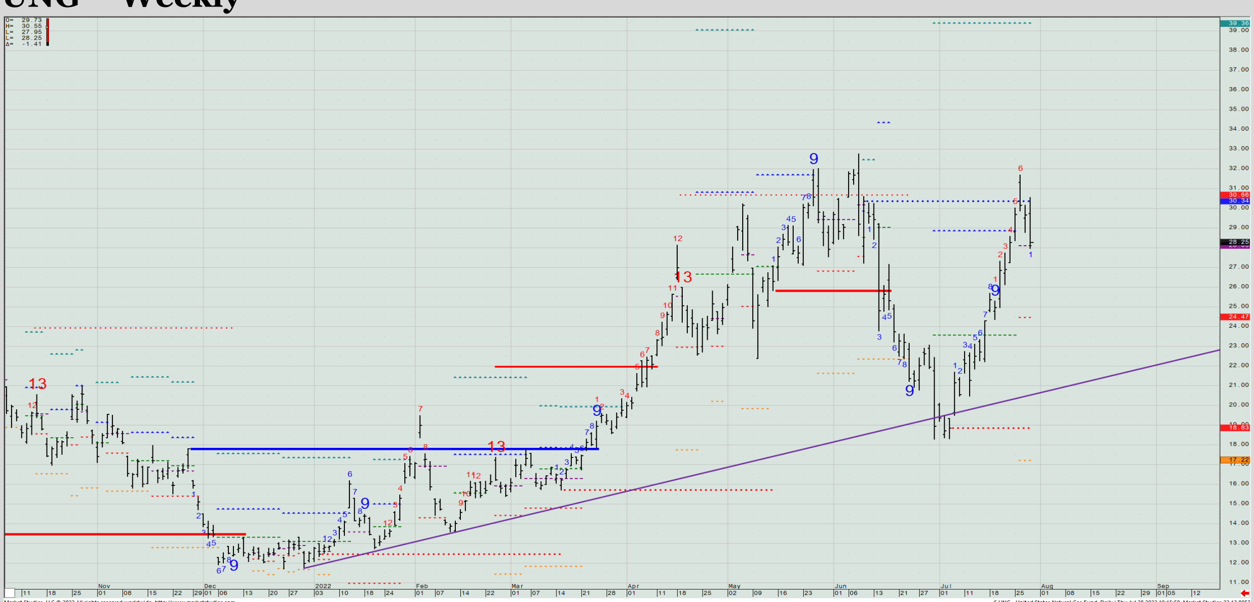


(This is a pure "buy and hold" idea from as good an entry zone as I will be able to come up with. (Once we get back > $47, I'm not going to be looking at this each week.)

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. Three Fridays ago, we added another 1/3 position against the uptrend line (avg. entry at $20.15), pushing us back up to a 2/3 position. Last Friday, we sold out of half of our position at an avg. exit of $27.91. To date, we are up 38%+ (not including the final 1/3 position we still have on at an avg. long price of $19.65)

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.

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