Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

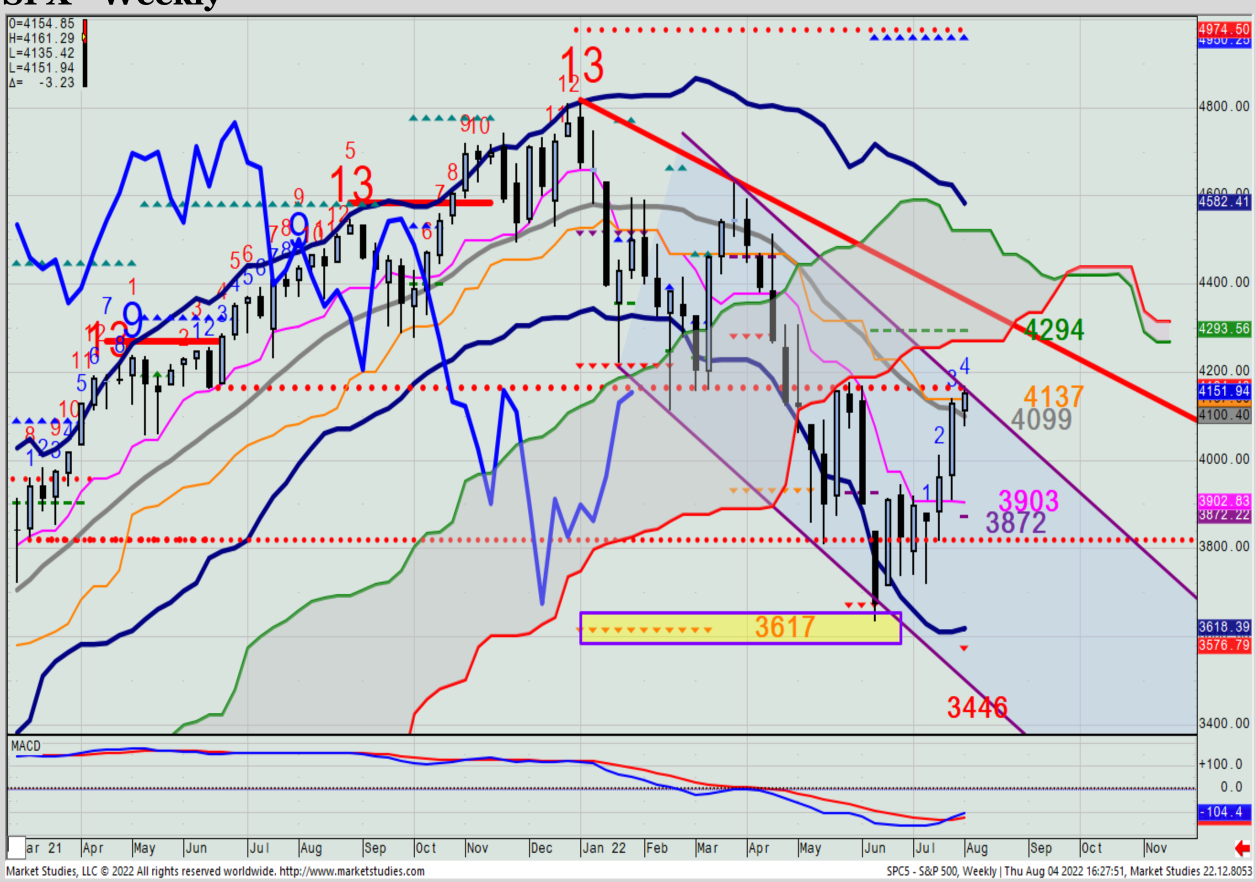
The Macro Picture

Last week I wrote and highlighted my view "…that the higher the equity market goes, the more likely the Fed will feel at ease in continually raising rates". I wholeheartedly believe this, and Fed governor statements earlier this week also concurred with what I had said, regarding that "they are *not* done raising rates".

Yet, markets have still headed higher, despite that what was supposedly the cause of last week's price – that the Fed was done tightening – is not true at all. Which means that some other cause is keeping the market from pulling back. And to me, it has to be about just how bearishly-positioned the investing public must have been.

The rally three weeks ago up through its weekly Conversion Line (3907) was the initial move that started the real short squeeze, followed by last week's rally that went from as low as that same Conversion Line up to its weekly Base Line.

SPX - Weekly



I suspect that despite reaching the 4160 “swing area” on the chart – suggesting the SPX is back up against a level that previously was support –we’ll likely see a push to 4270 or higher before this rally concludes. And it is from the 4270 to approx. 4500 area that I will be selling a substantial amount of my long-term held equity investments. Honestly, it would be my largest ever percentage liquidation of retirement-related stock holdings, but I do think another decent leg down does happen this year. (However, I’m not confident that that decline would necessarily take out the 2022 low of 3637.) But it would be enough that reducing and the ultimately replacing the exposure lower will be worth doing so.

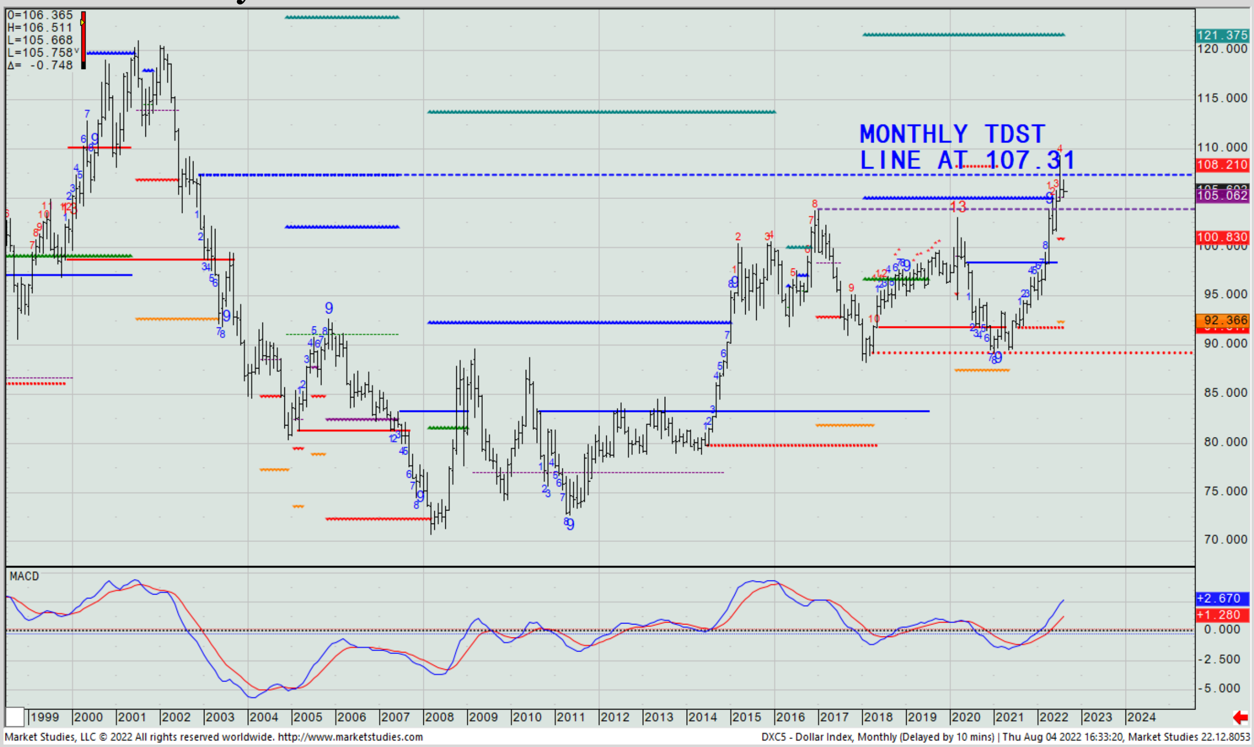
My previously defined expected trading range in the UST 10yr. yield chart was proven correct with rates falling intra-week to as low as 2.51% but now rebounding to near 2.7%, meaning that my call of 3.10/3.14% on the top and 2.70%/2.58% on the bottom has still held. But the TNX head-and-shoulders breakdown earlier this week washed out weak-handed bond bears, only to see price right back to a non-breakdown. I suspect that means that rates can creep back up to the 2.9s%. In the bigger picture, I’m still in the camp that the 2022 rate high at 3.46% likely stays the yearly high.

TNX – Daily

Credit spreads will likely narrow on the bullish equity market action. Our preferred spread closed on Wednesday at 1.50%, down 5 bps. since last week and now beneath the uptrend line. Last week I suggested that the spread would indeed break beneath the uptrend line, as some return to the Risk-On environment has eased credit market conditions. We have no position on in this now.

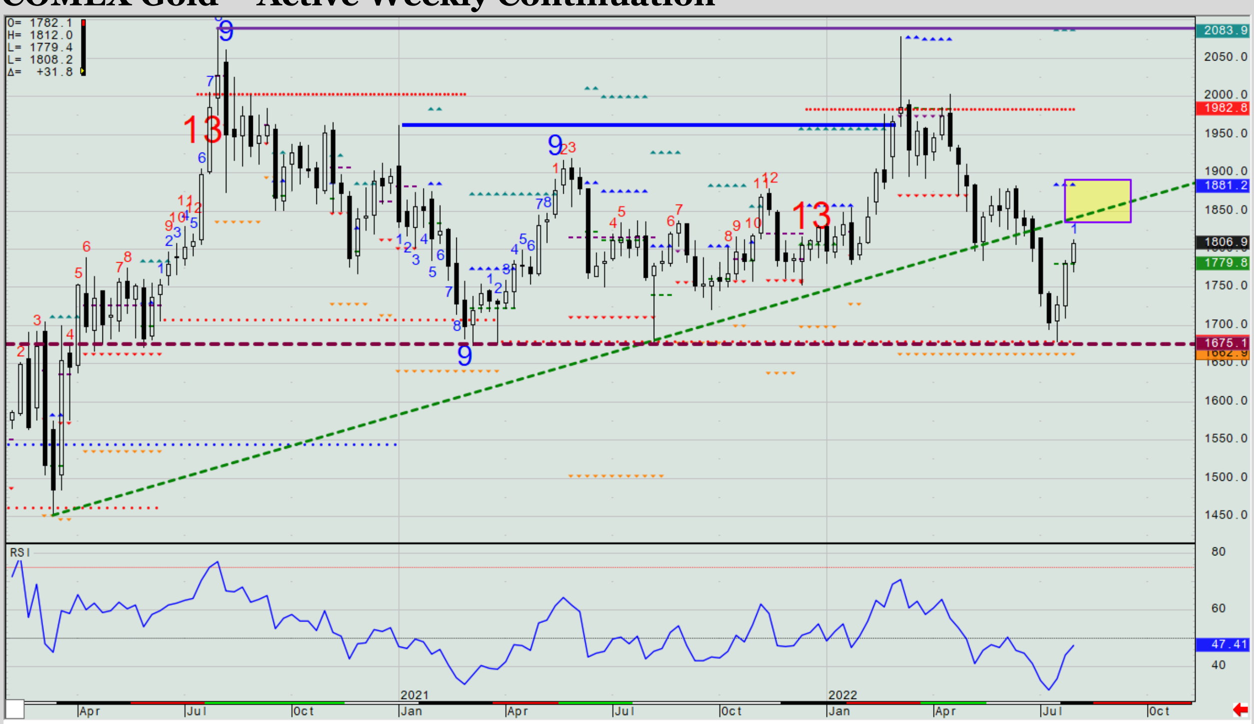
The US Dollar Index made its cyclical high in July, and remains beneath its monthly TDST 107.31 level that stemmed all the way back from Fall 2002. I've made it clear that I am *not* a dollar bull, and am not chasing after what other technicians have called an upside breakout.

DXY – Monthly



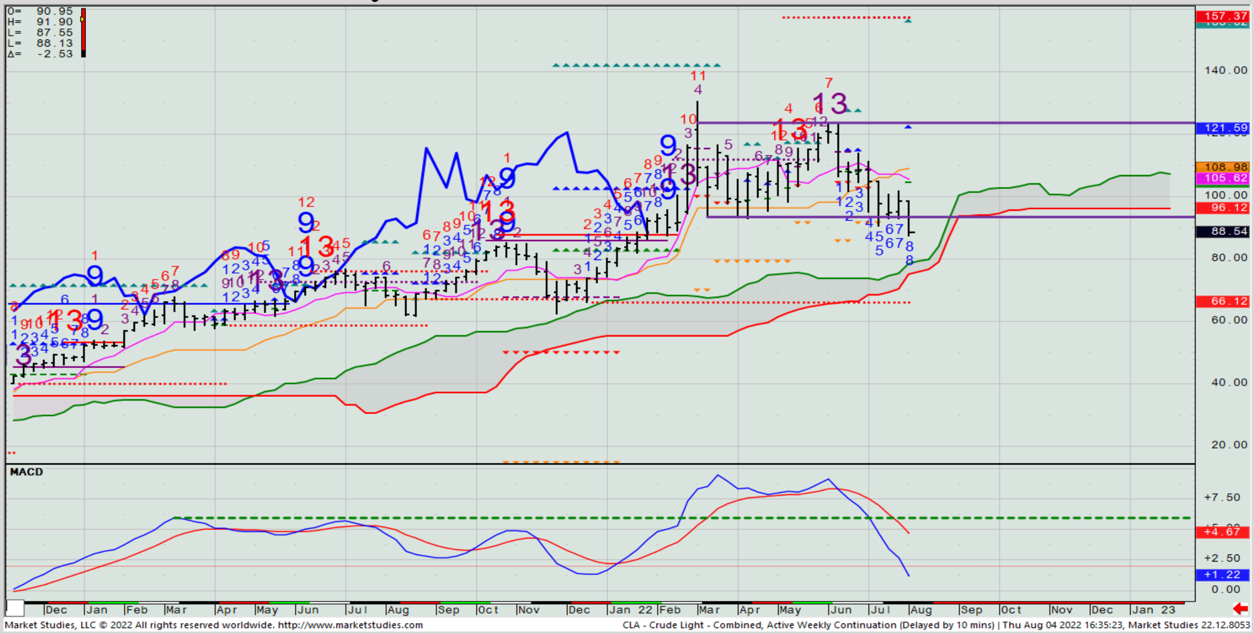
Dollar weakness has given a $100 plus bounce to the gold market, which just last month again bottomed right near $1675 for the sixth time over the past two years. I'd actually look for some trading resistance if it rallies back up to the major uptrend line it had broken beneath in July, up to its Propulsion Exhaustion level at $1881.

COMEX Gold – Active Weekly Continuation



Oil continues in its downward Setup count, now on a weekly -8 count. I think the washout this week gets us closer to a bottom, but I'm not buying yet.

WTI Crude Oil - Weekly



New ETF Trade Idea

I like when I come across "a trader's trade" – an idea that has a reason to get into it that also has a good reward to risk ratio. Let's take a look at the **iShares China Large Cap ETF (FXI)**. Earlier this week, the ETF traded beneath its uptrend line, but it's now back above it. Weak-handed longs sold out, but we see that all it did was trade down to its daily TDST Line and bounce back. Let's buy one unit today; target near $34; and risk a close or two (your choice) under $29.56.

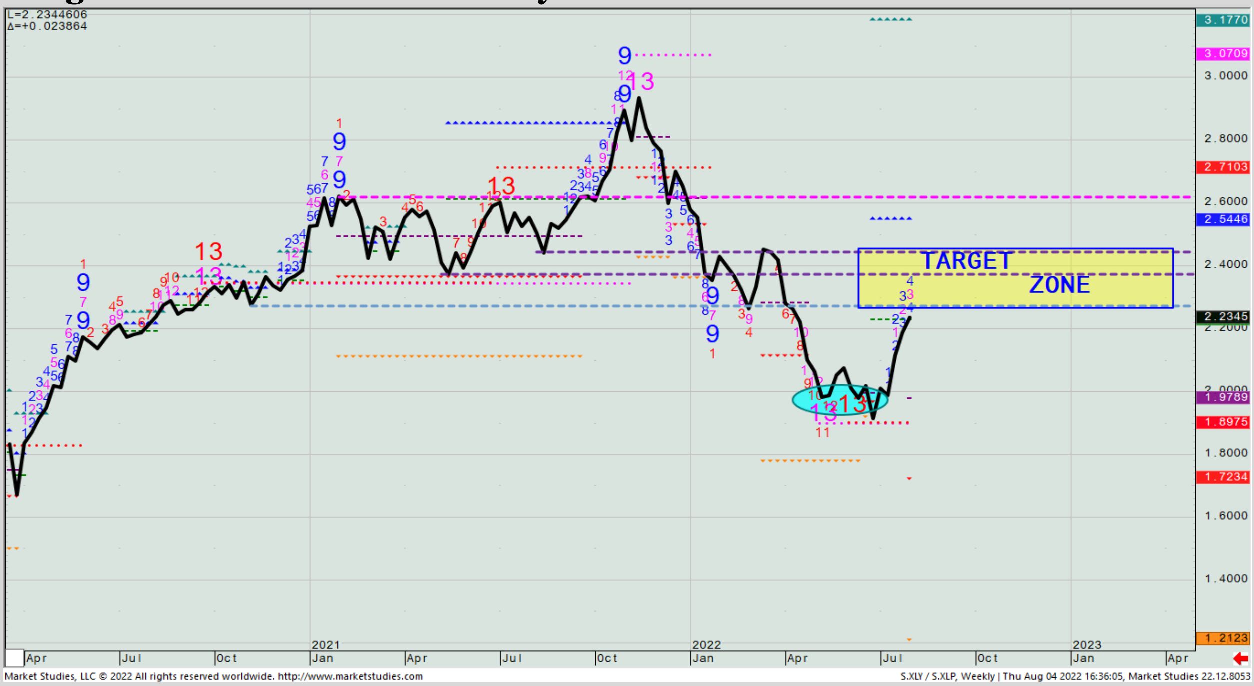
FXI – Daily

Other Open Recommendations and Positions

Long XLY vs. Short XLP

We put this trade on last Friday (avg. ratio entry at 2.18), not because I'm so bullish the market, but more so as a direct result of earnings reports from some of the biggest names that make up both of these economic sector ETFs. 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 now raised to a daily stop beneath 2.16.

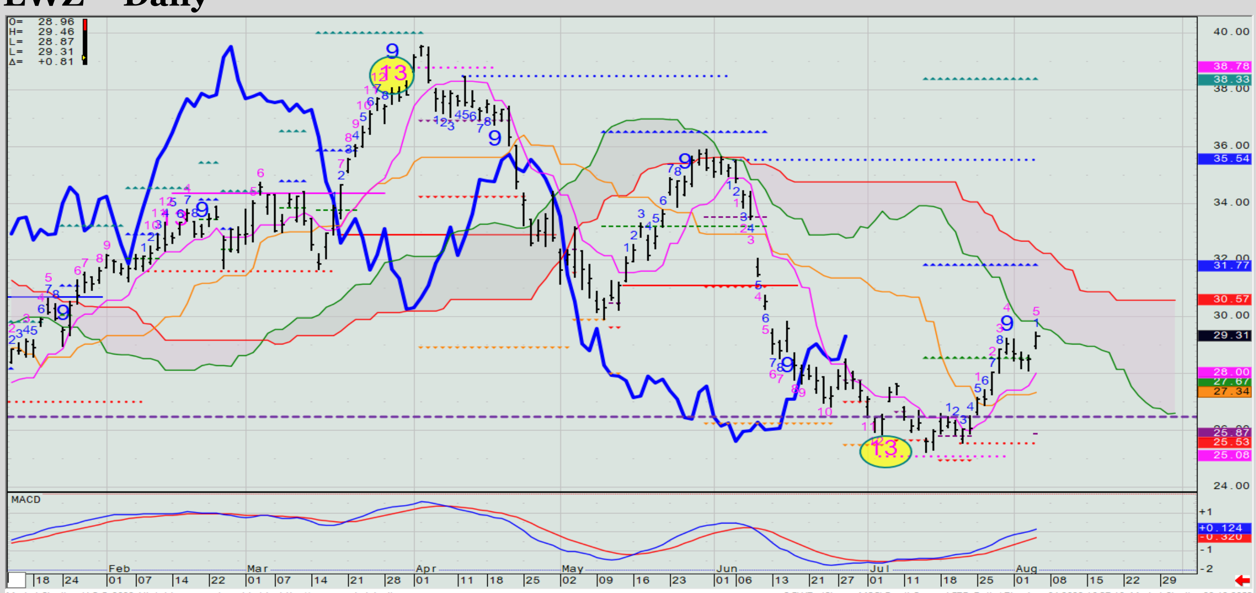
Long XLY vs. Short XLP – Weekly



Long EWZ

A month 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 a daily close < $26.86 as your sell-stop. Otherwise, we just sold half out last Thursday at $28.49, and we'll sell the other half near $31.75.

EWZ – Daily



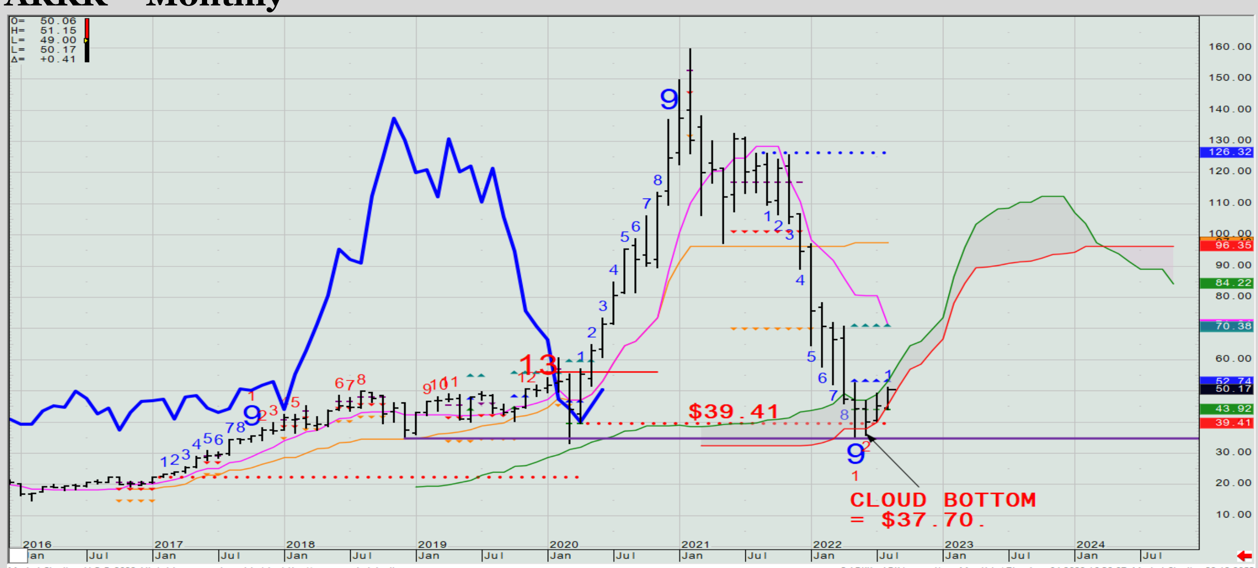
Long XLK vs. Short XLB
Seven weeks ago, we completely reversed the position we had previously been in, and are now looking for Technology to outperform Materials. We put this on (at an avg. of 0.5988); took 2/3 off at 0.58; and then put the full trade back on two weeks ago at the same price. We removed half the exposure four 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…and it is!)

We will close this out a week from today, on what should be the weekly Setup -9 count.

Long ARK Innovation Fund (ARKK)
We have bought a full position into Cathy Woods' ARKK fund, my previously having suggested your using the $49 to $37 level to gingerly scale down bid into, with the intent of holding onto this as an investment.

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. Two Fridays ago, 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 not be paying anything to trade my recommendations (other than the associated fees to placing a short position I 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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