Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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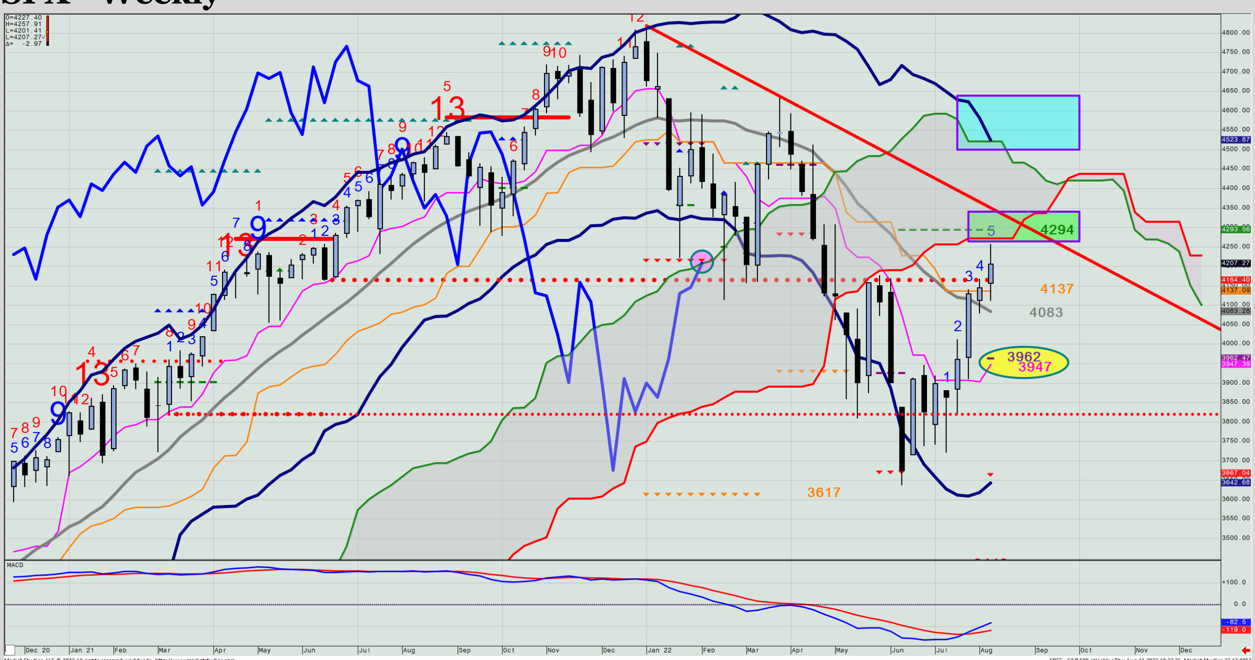
TACTICAL TRADER REPORT

<u>The Macro Picture</u>

Investors continue to push the market higher, as many have deemed that the inflation surge is over, especially after this week's CPI and PPI figures came in lower than the prior month's number. Maybe we've hit "peak inflation", but it doesn't mean that it's going to go straight down. We can see numbers in the 8%+ range for several months to come.

Meanwhile, investors have been rampant buyers of equities, with index prices reaching their best levels since early May. This was not at all unexpected by me – as recently as last week my stating that, "We'll likely see a push to SPX 4270 or higher before this rally concludes". I've highlighted the current key support and resistance areas on the chart.

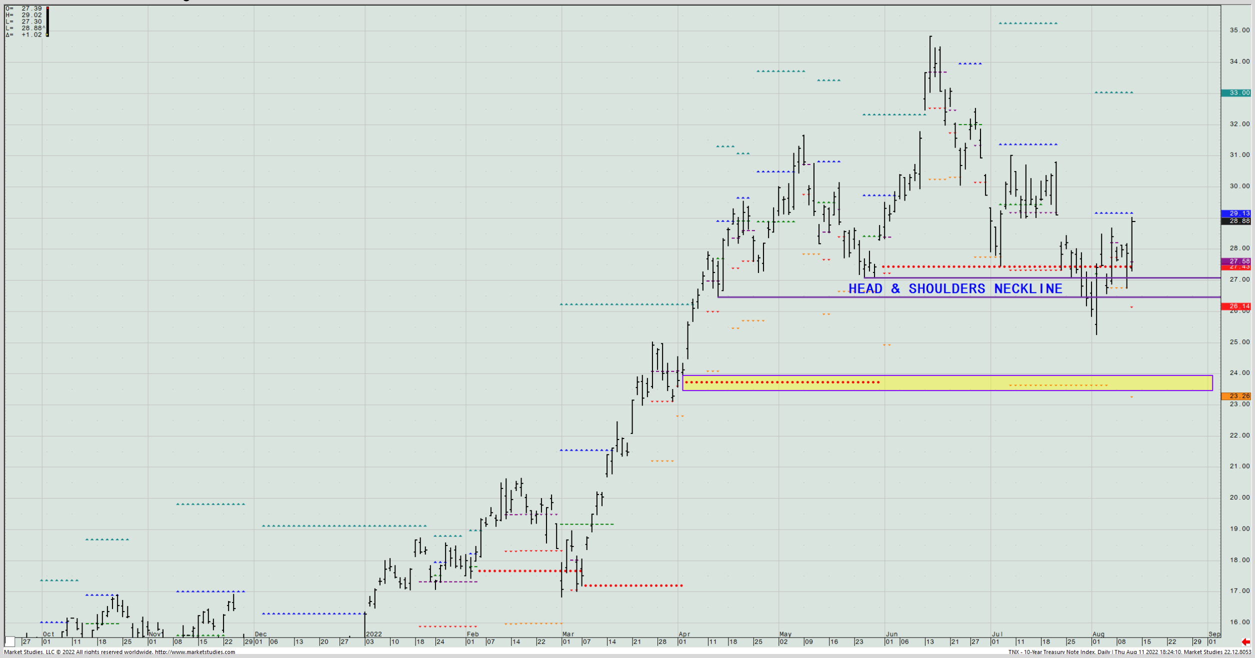
SPX - Weekly



In the past week, I have seen several plain vanilla technicians change their tunes from bearish to bullish, meaning that they not only missed getting long near the 2022 bottom, but are also now first pounding the table with their bullish calls. We love this, and very much wanted those proclamations to occur to help strengthen our reasoning to ultimately reduce our overall equity exposure in the SPX 4270 to 4500 zone. Bearish sentiment was through the roof near the lows, and I definitely need to see bullish sentiment be pervasive for me to fade what has become a sharp and substantial rally.

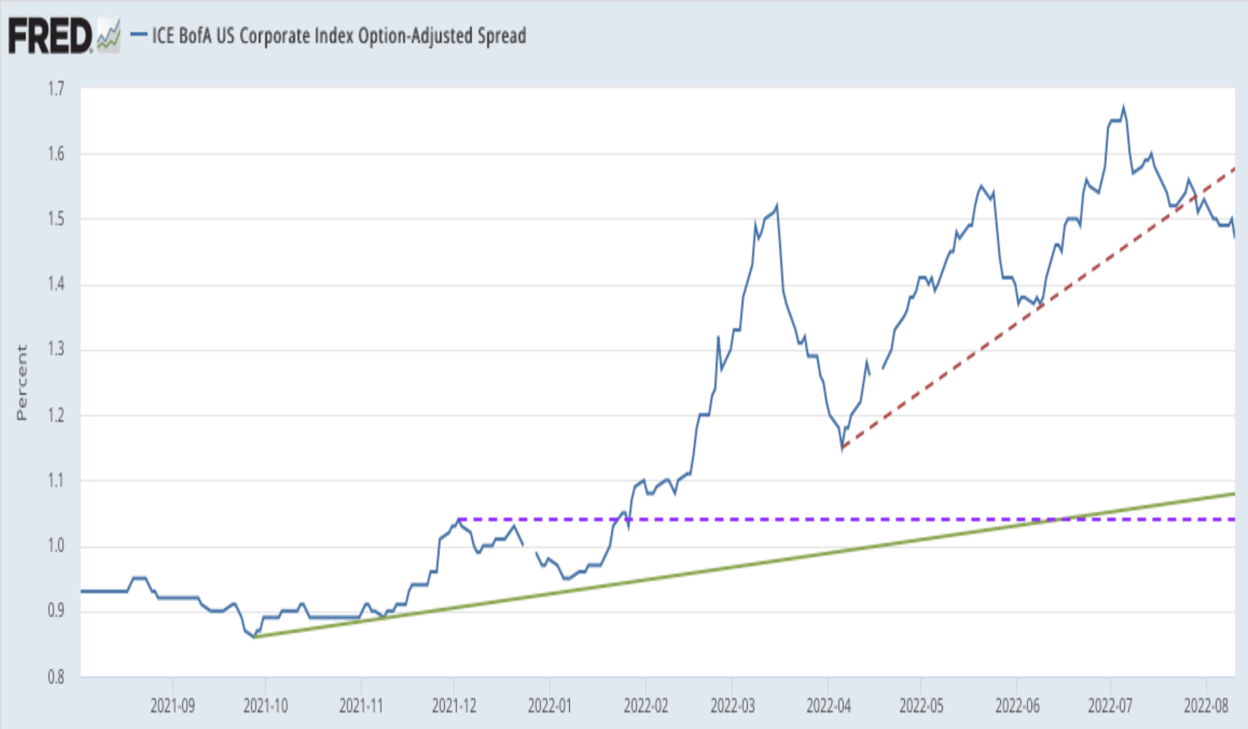
Turning to the fixed income market, last week I wrote that I suspect that rates can creep back up to the 2.9s%. That is my minimum upside target after the fake breakdown occurred last week under the head-and-shoulders neckline. Beyond there, I look at resistance in the 3.10/3.14% area. However, in the bigger picture, I'm still in the camp that the 2022 rate high at 3.46% likely stays the yearly high.

TNX – Daily



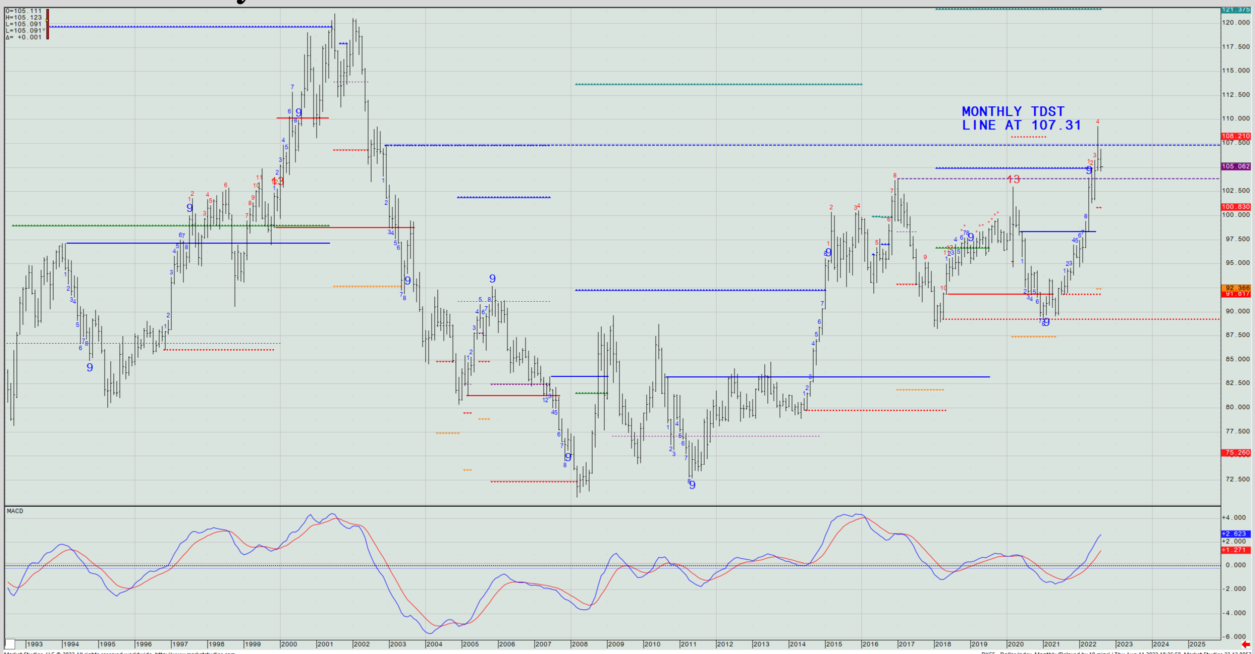
Credit spreads are still narrowing as the bullish equity market continues. Our preferred spread closed on Wednesday at 1.47%, down 3 bps. since last week and continue beneath the recent uptrend line. At this point, we'd need to either find a lower level to pick a bottom in the spread OR see them rally and stay above 2022 highs of 1.67% to get bullish on them again.

ICE BofA Corporate Index Option Adjusted Spread - Daily



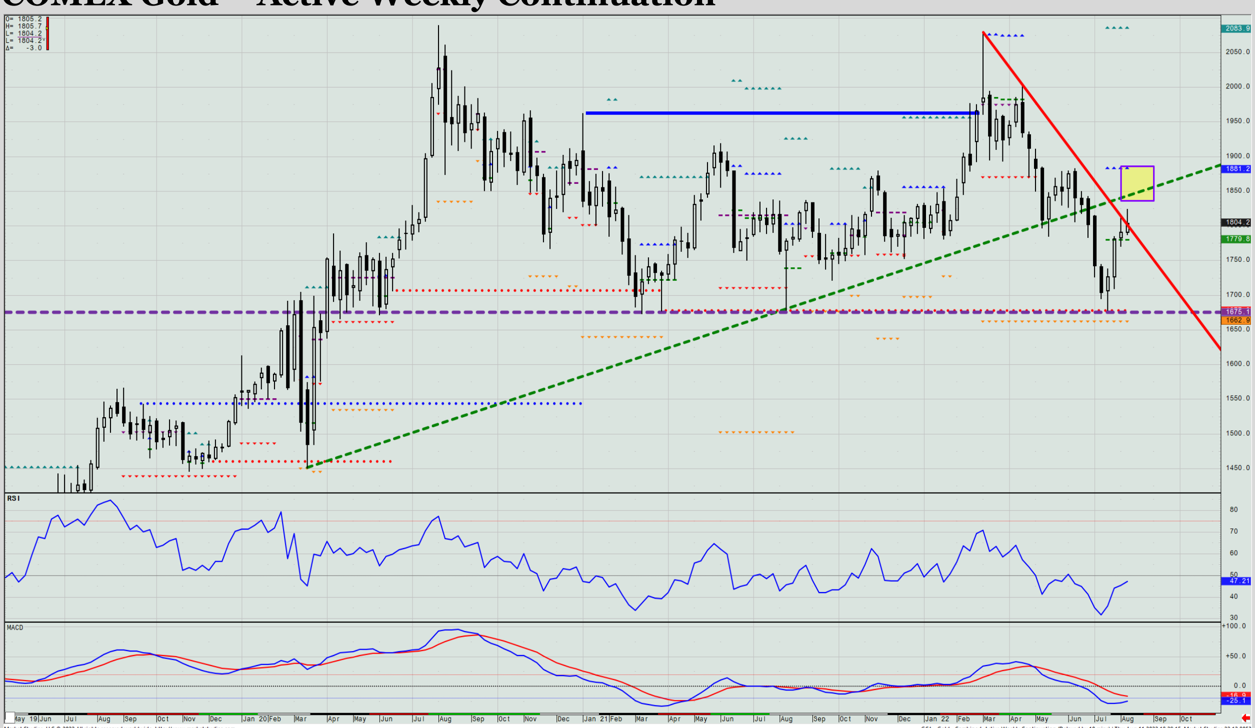
The US Dollar Index has pulled back after making its cyclical high in July. It remains beneath its monthly TDST 107.31 level (that was created all the way back from Fall 2002). I've made it clear that I am *not* a dollar bull, and am not chasing after what other technicians have called an upside breakout. A month-ending close on August 31 beneath 105.06 would open the door for another 5% decline.

DXY – Monthly



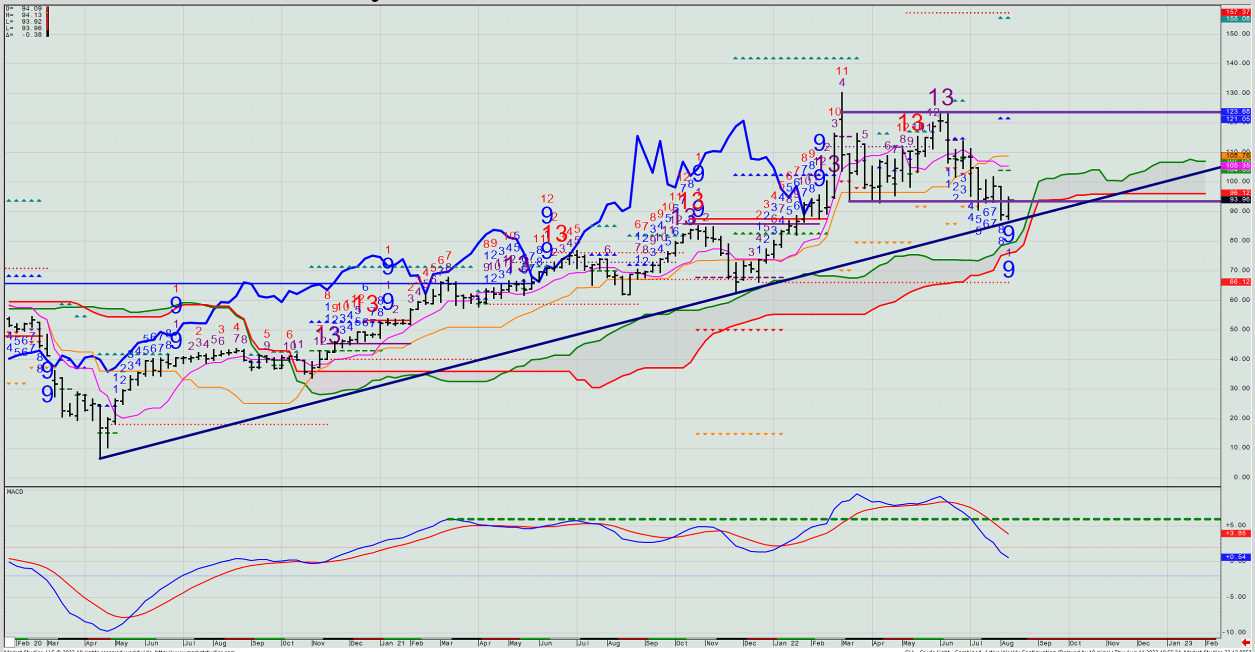
General dollar weakness in the past month has given a good bounce to the gold market, which in July again bottomed right near $1675 for the *sixth* time over the past two years. I'd look for some trading resistance from a return back to the broken major uptrend line up to its Propulsion Exhaustion level at $1881 (highlighted in the yellow box).

COMEX Gold – Active Weekly Continuation



Oil made a daily Sequential -13 count along with a weekly Setup -9 count this week. I am definitely not selling oil or its related stocks at this point.

WTI Crude Oil - Weekly

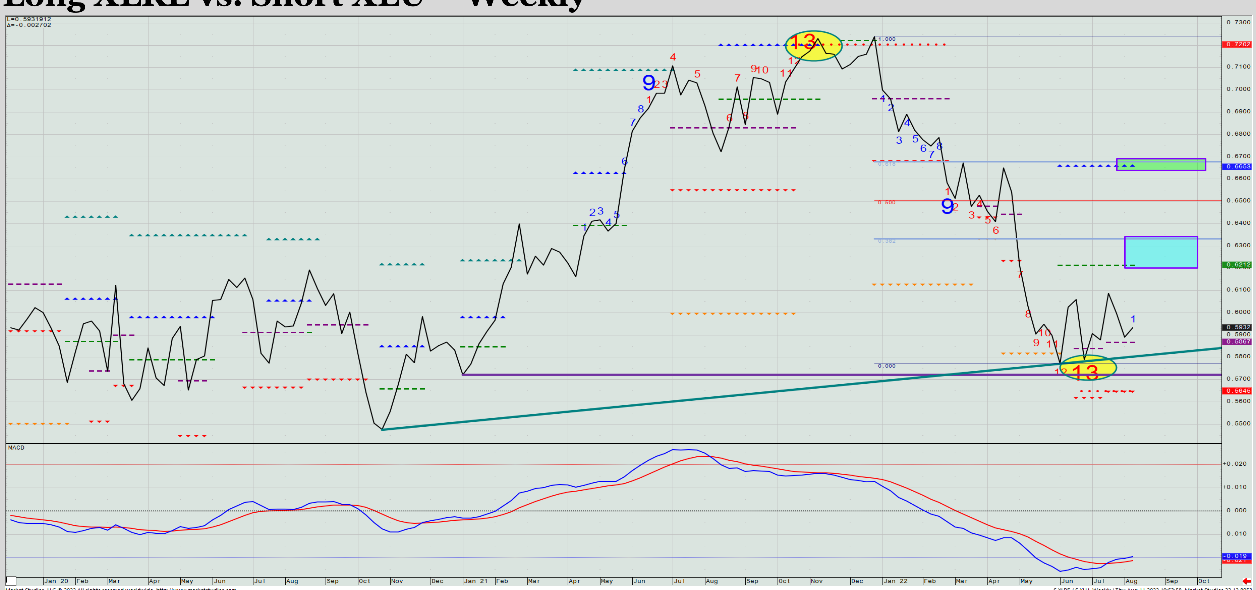


[New ETF Trade Idea]

With the false breakdown from the TNX's head-and-shoulders pattern, I suspect that, in general, we can see rates cross back over 3.0% to perhaps test 3.14%. Rates moving up are generally bad for utilities stocks, as higher rates start to compete against the yields one gets in holding those stocks. The weekly chart shows a -13 count from just about when stocks bottomed this year, and I also like that the ratio line is staying above the bearish Propulsion Momentum levels seen since (all but one Friday close.)

As such, we're going to buy one unit of **XLRE (REITS)** today, and short an equal dollar amount of **XLU (Utilities)** against it. We'll target to remove half into each of the above highlighted areas. Our exit will be on a new 2022 Friday low close < 0.5771.

Long XLRE vs. Short XLU – Weekly

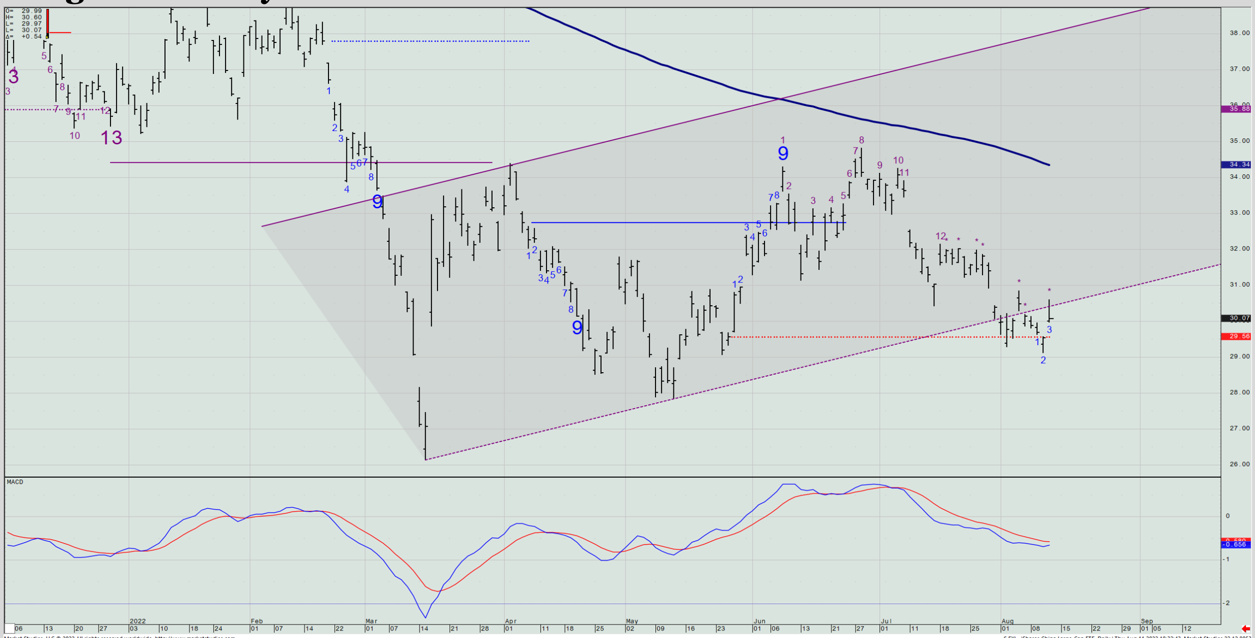


Other Open Recommendations and Positions

Long FXI

Last week we put on a "trader's trade" (i.e., a level right by support or resistance that one can take on a position with a tight stop and a good reward to risk ratio), and were filled at an average price of $30.03. We were targeting an upmove to near $34, while risking a close or two (your choice) < $29.56. Wednesday closed at $29.53, so we got one close beneath. If you're still long, if we now see a close beneath < $29.12 then exit.

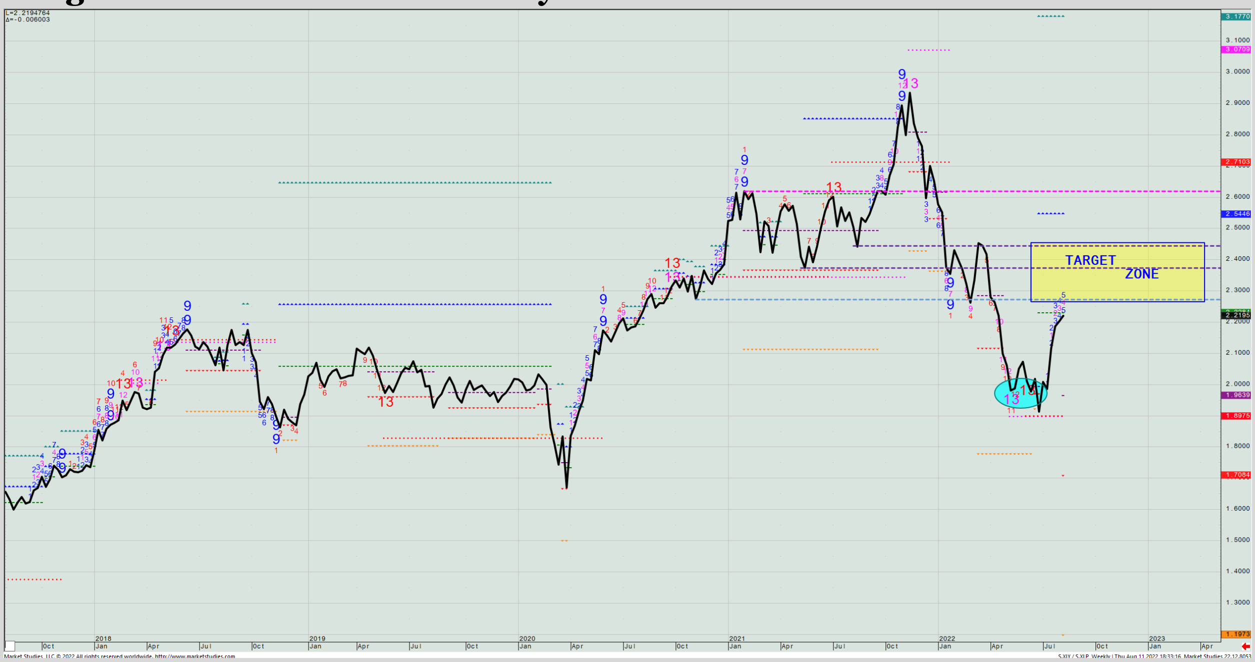
Long FXI – Daily



Long XLY vs. Short XLP

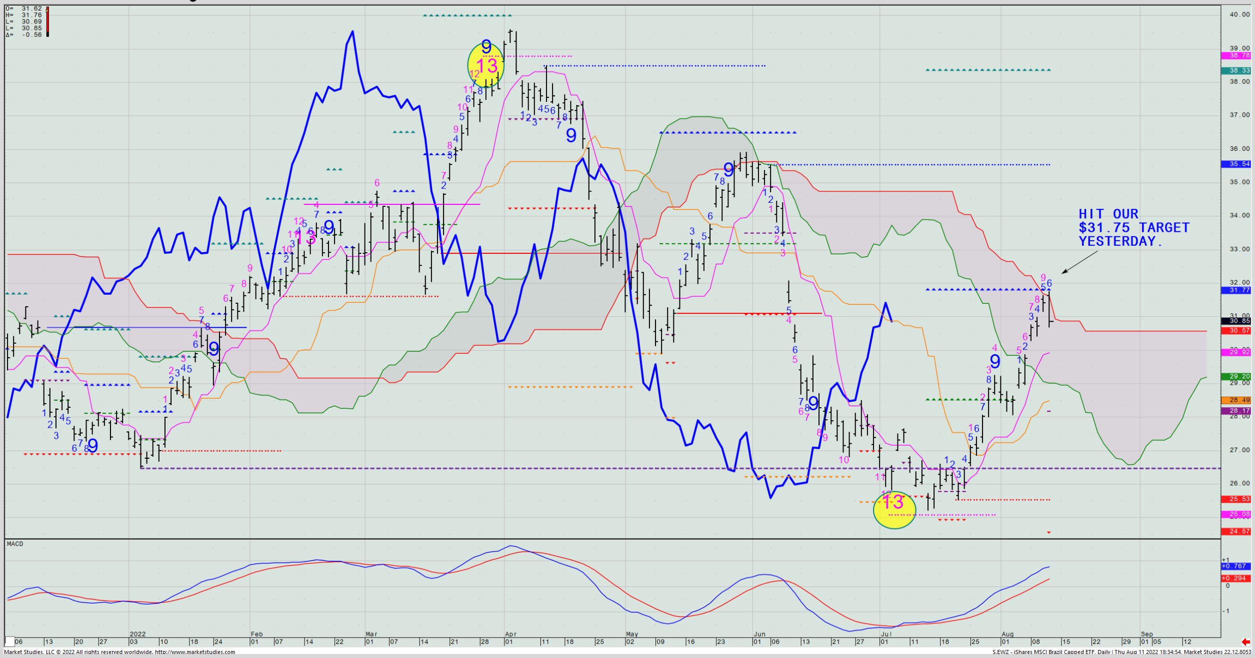
We put this trade on two Fridays ago (avg. ratio entry at 2.18). We'll look for a move up to the horizontal lines that were previously important as early as the first quarter this year. Our sell-stop was raised to a daily stop beneath 2.16.

Long XLY vs. Short XLP – Weekly



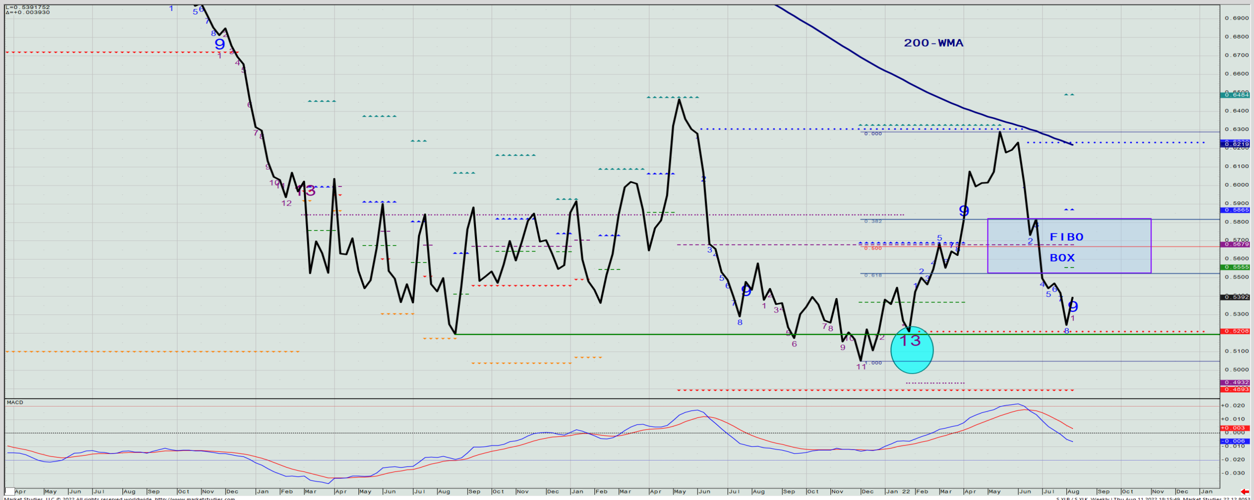
Long EWZ
In mid-July, we went long EWZ (avg. entry price of $27.45) with a noted tight stop as a daily close (or two, your choice) under $25.82. We got one, but not two, so if you are still in this, now use a daily close < $26.86 as your sell-stop. Otherwise, we just sold half out last Thursday at $28.49, and we said we'd sell the other half near $31.75. Yesterday's high was $31.76, so we got our out. If you held this trade, we made 9.7%.

EWZ – Daily



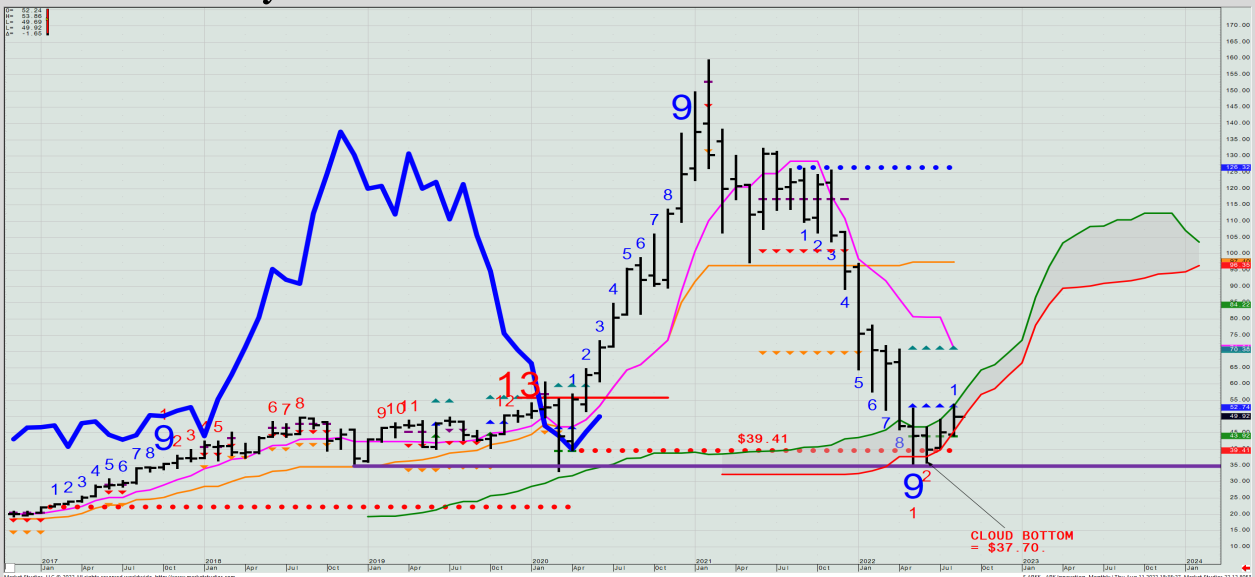
Long XLK vs. Short XLB
Eight weeks ago, we completely reversed the position we had previously been in, and are now looking for Technology to outperform Materials. We put this on (at an avg. of 0.5988); took 2/3 off at 0.58; and then put the full trade back on two weeks ago at the same price. We removed half the exposure five Fridays ago (avg. at 0.5515) right near the 62% retracement level, and still had the remaining 50% balance, with my having looked for this to reach a Setup -9 count, which was accomplished this week. We are exiting the trade today, having taken out the bulk of both the 2022 upmove and downmove.

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



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.

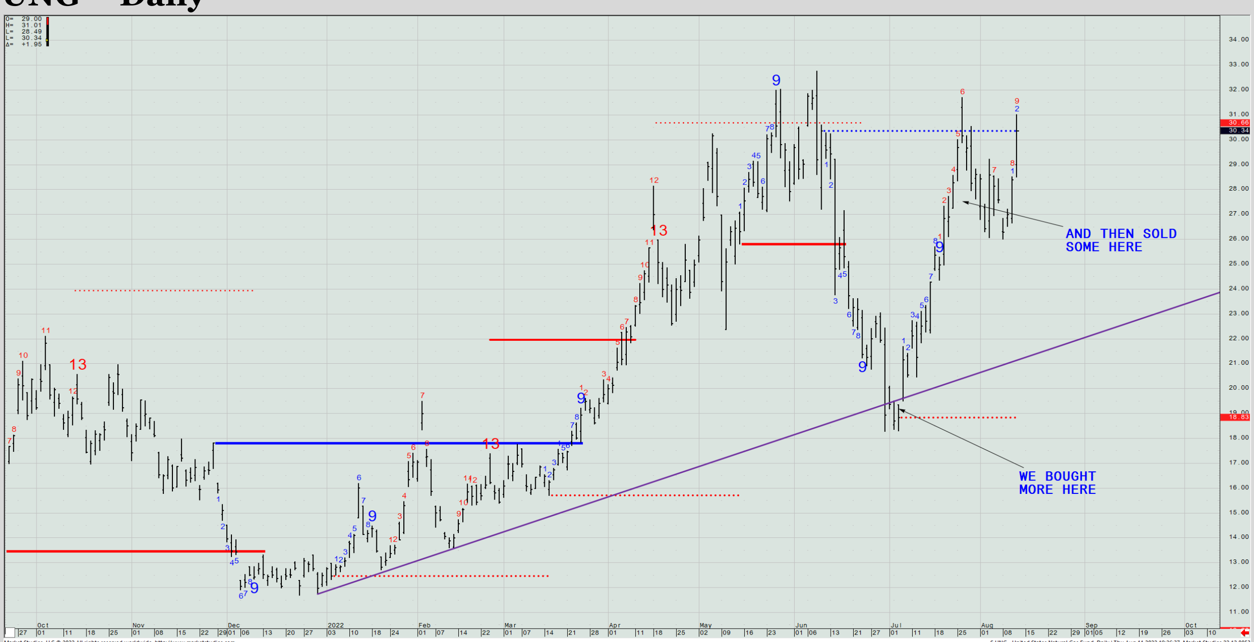
ARKK – Monthly



(This was a pure "buy and hold" idea from as good an entry zone as I will be able to come up with.

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. Three 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 – Daily



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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