Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com August 19, 2022

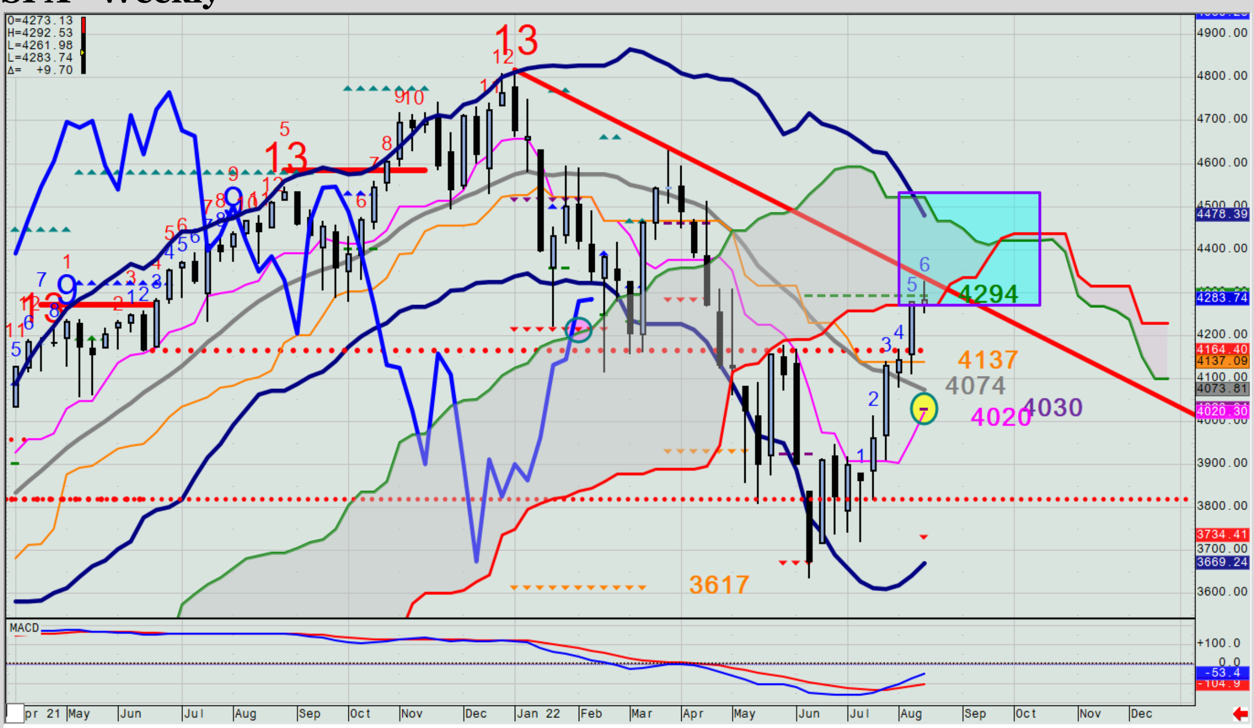
TACTICAL TRADER REPORT

The Macro Picture

Many market participants have clearly changed their views on the direction of stocks in the second half of the year, as the bullish camp has offset half of the year's prior losses on their belief that inflation will now get under control, and that the economy's overall health will not be materially impeded by the Fed raising rates. I disagree with this assessment, and believe that we are now close(r) to the top of the equity rally, and that the risk of first buying stocks now is higher than the likely reward.

For months, I have spoken of the range in which I am reducing my personal equity holdings, and it equates to the SPX 4270 to 4500 zone. I am using a combination of selling covered calls, selling SPX futures, and outright selling of stock to lighten my portfolio as both the key indexes and stocks reach my targeted resistance zones.

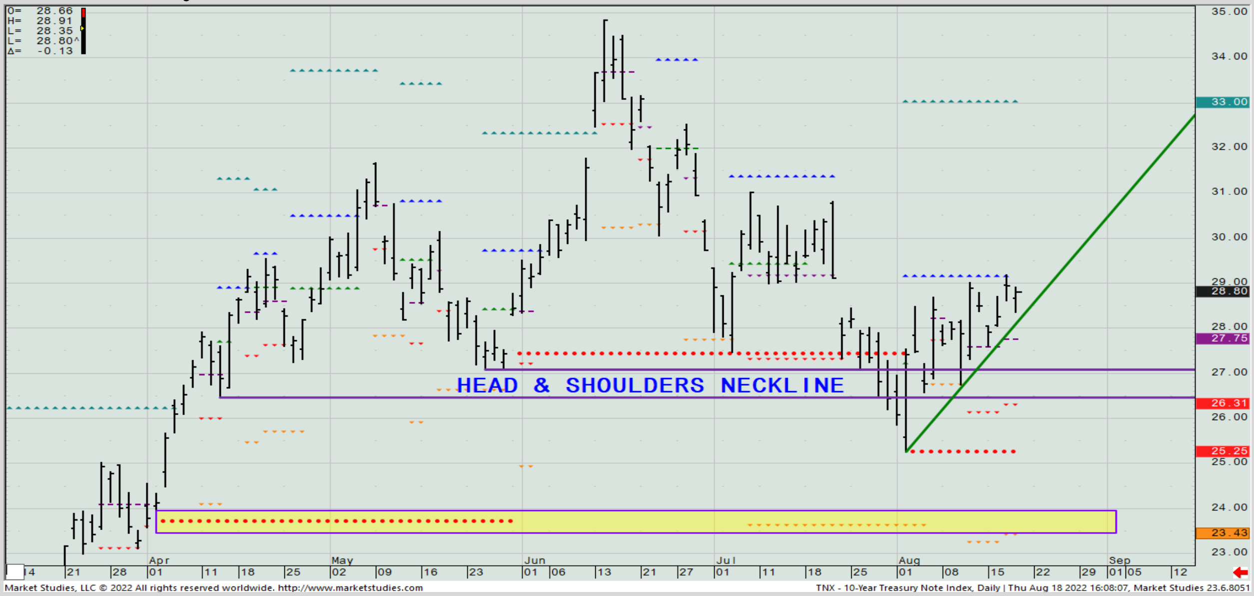
SPX - Weekly



There is no one level, or day, that one can consistently "pick the high", so if you are in my non-bullish camp – and think that you could easily get a 10% decline to replace the exposure at lower levels – then you'd want to use this 200+ labeled zone to do so, and you'd want to scale your selling rather than simply selling out of an entire portfolio (that took many purchases to create) in one fell swoop.

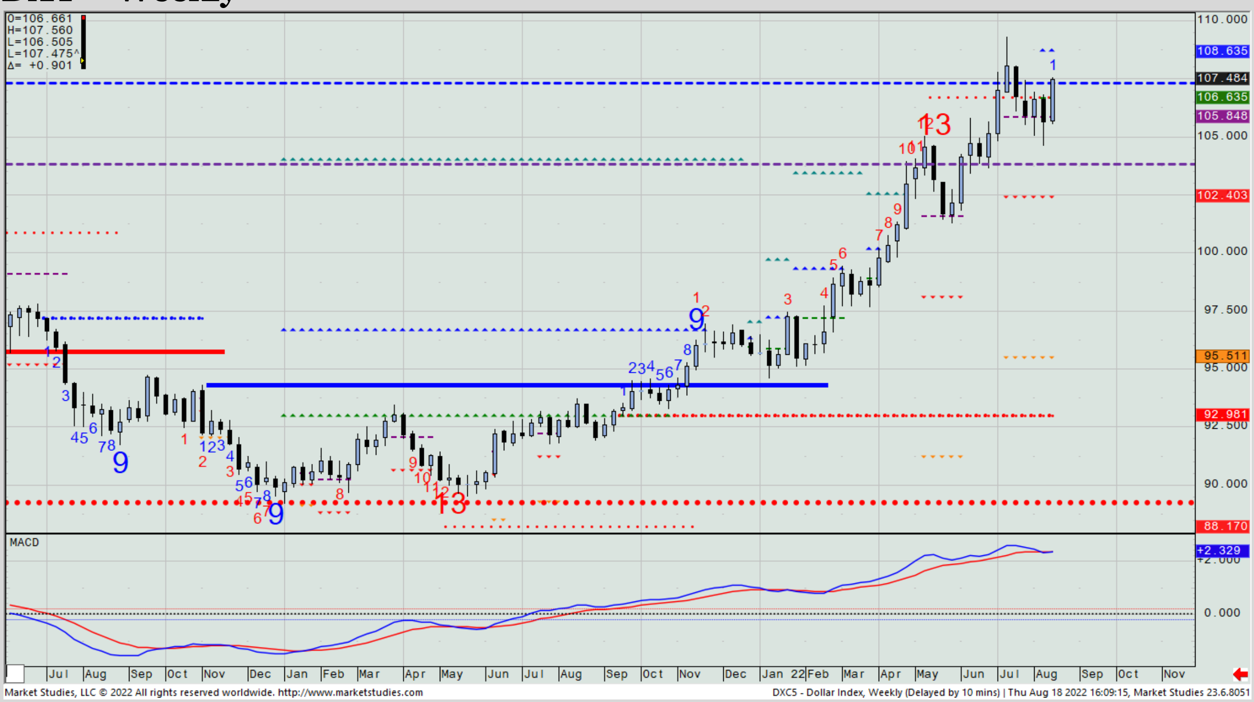
UST 10yr. yields have stalled right against my initial upside target (2.91%) from the 2.58% weekly cloud Base Line support level I had previously called as the key support level. Beyond there, I look at resistance in the 3.10/3.14% area. However, in the bigger picture, I'm still in the camp that the 2022 rate high at 3.46% likely stays the yearly high.

TNX – Daily



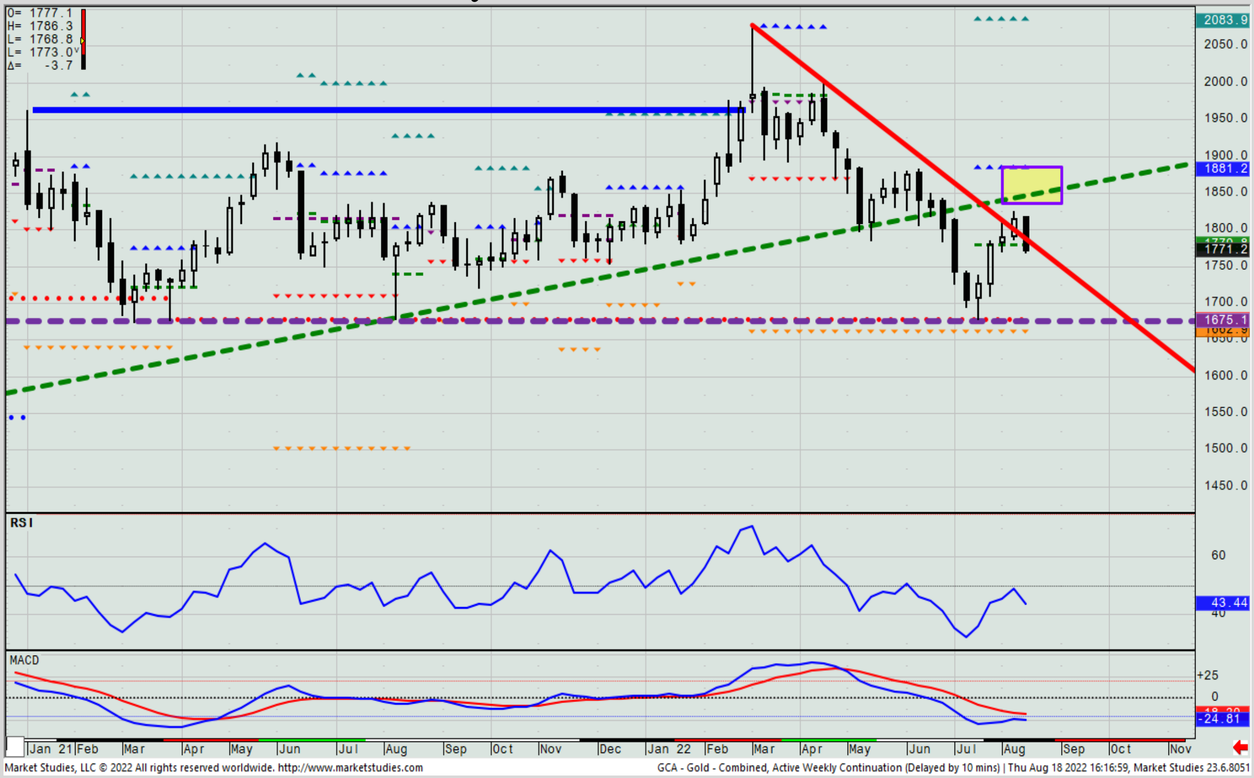
The US Dollar Index has pulled back after making its cyclical high in July. It remains beneath its monthly TDST 107.31 level (that was created all the way back from Fall 2002). I've made it clear in the past that I am *not* a dollar bull. However, the past four weeks have built a base right on the 105.06 level, the weekly bearish Propulsion Momentum price. The fact that the bearish breakdown level was continuously tested and not properly broken, the more that this potentially becomes a tactical buy. Keep that thought in context that an August 31 close beneath 105.06 would open the door for another 5% decline.

DXY – Weekly



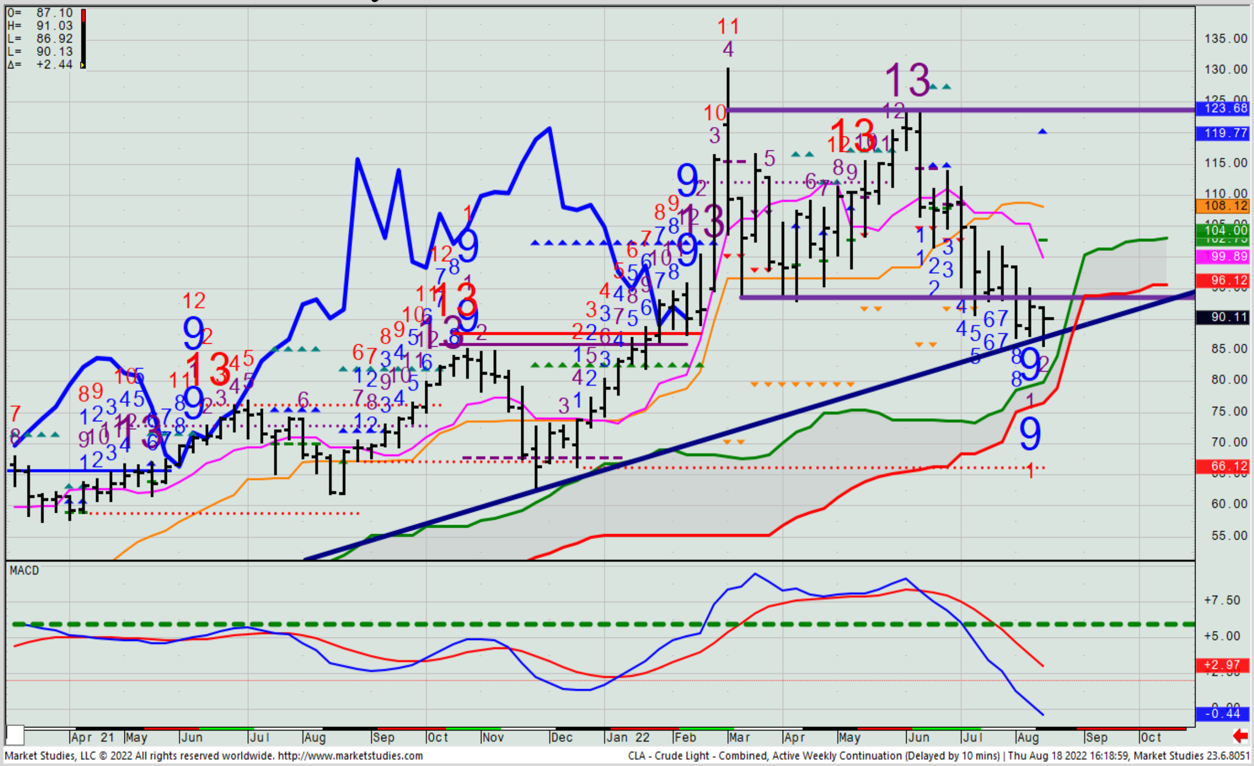
Gold has stalled as the dollar has not continued lower. I've been looking for some trading resistance from a return back to the broken major uptrend line (dashed green) up to its Propulsion Exhaustion level at $1881 (highlighted in the yellow box).

COMEX Gold – Active Weekly Continuation



Oil made a daily Sequential -13 count along with a weekly Setup -9 count last week, and in the last TTR issue I said, "I am definitely not selling oil or its related stocks at this point". If anything, I am looking for reasons to buy them.

WTI Crude Oil - Weekly



New ETF Trade Idea

Over the summer, commodity prices have pulled back from secular highs, especially with oil having fallen from $130 to $90, and grain prices having fallen double-digit percentages, too. But with prices recently stabilizing and starting to move up from the bottom of the range, we're going to look to get long one unit of the **Goldman Sachs Commodity Index ETF (GSG)**.

GSG – Weekly

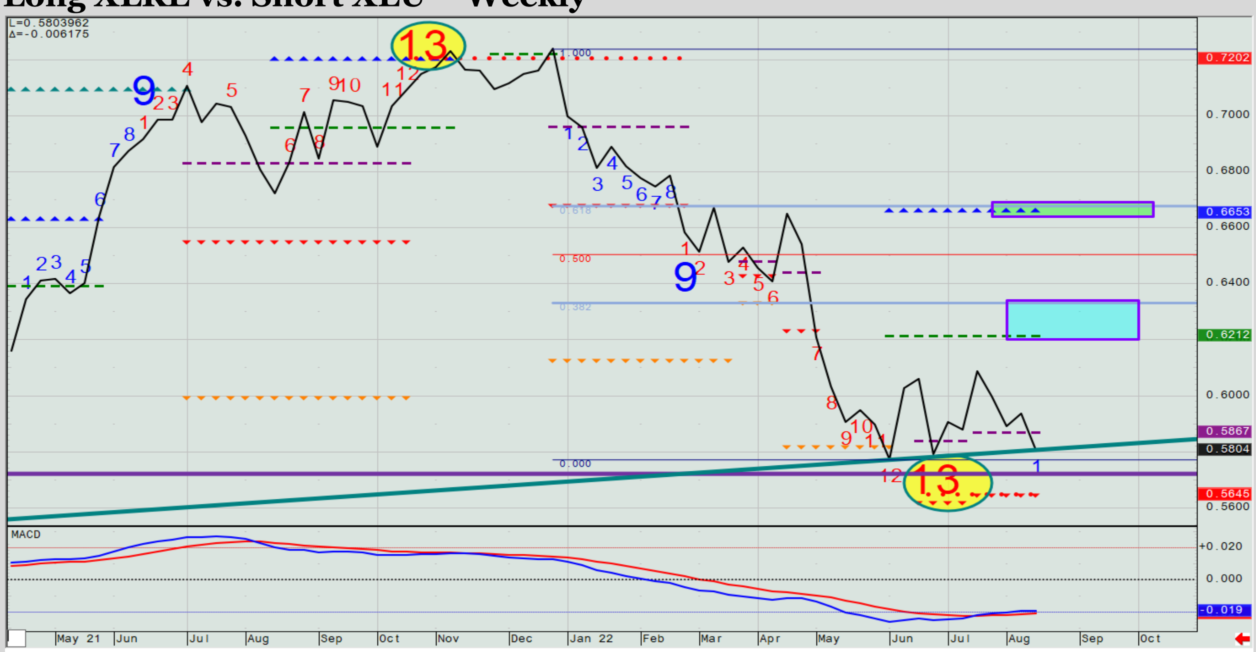
We'll aim for this to get back to the $24--$25 area, and stop ourselves out if we see a new low weekly close within the trading range, meaning exit on a Friday close < $21.47.

Other Open Recommendations and Positions

Long XLRE vs. Short XLU

Last week's trade was to buy REITs vs. Utilities, using a new 2022 Friday low close < 0.5771 as our protective stop on this ratio trade. Our upside targets will look to remove half into each of the above highlighted areas.

Long XLRE vs. Short XLU – Weekly



Long FXI

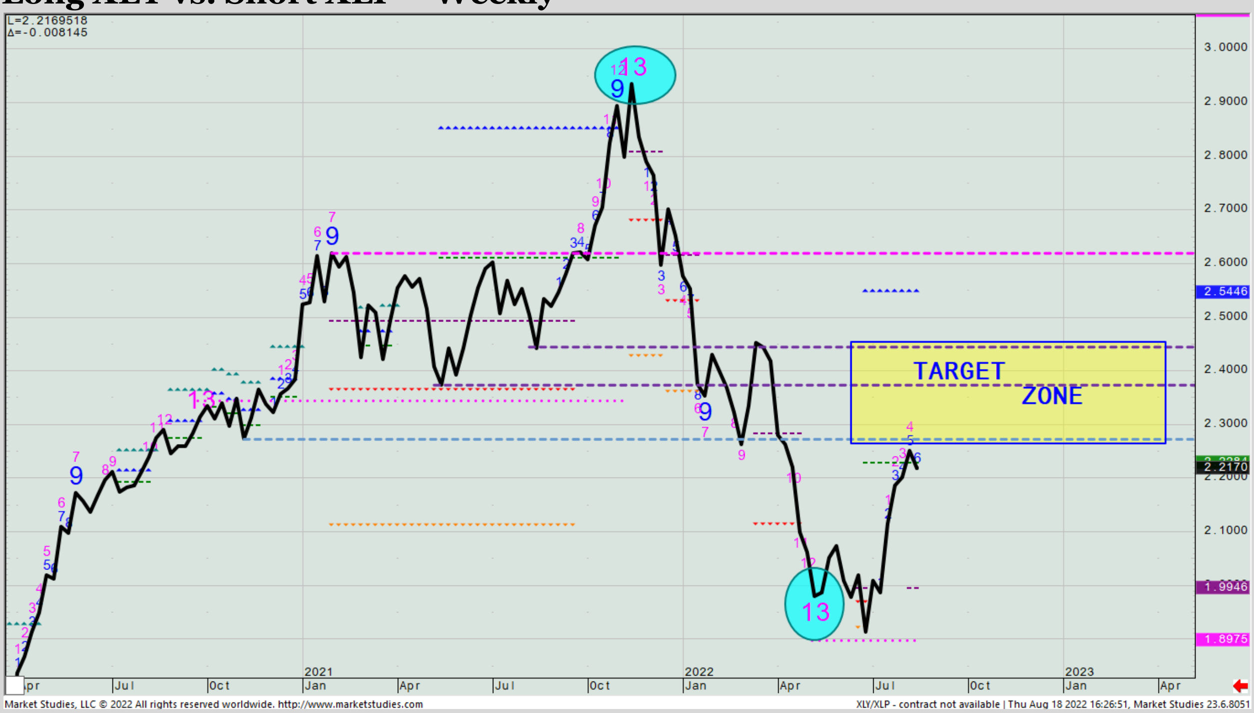
Two weeks ago, we put on a "trader's trade" (i.e., a level right by support or resistance that one can take on a position with a tight stop and a good reward to risk ratio), and were filled at an average price of $30.03. We were targeting an upmove to near $34, while risking a close or two (your choice) < $29.56. Last 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. (It's close so monitor this.)

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.

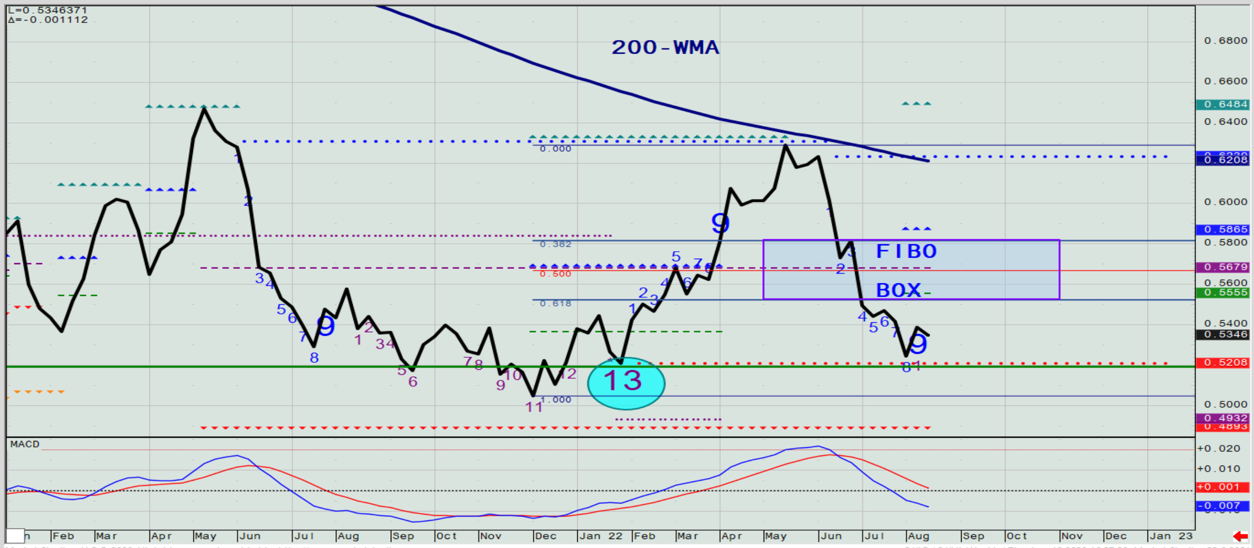
Long XLY vs. Short XLP – Weekly



Long XLK vs. Short XLB

Nine 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 o at the same price. We removed half the exposure six 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 last week. We finally exited the trade last Friday at an avg. price of 0.5383, having taken out the bulk of both the 2022 upmove and downmove. We made 9% on this nine-week portion of this pair trade. That's very solid if you understand that this trade came with far lower risk than a pure directional trade.

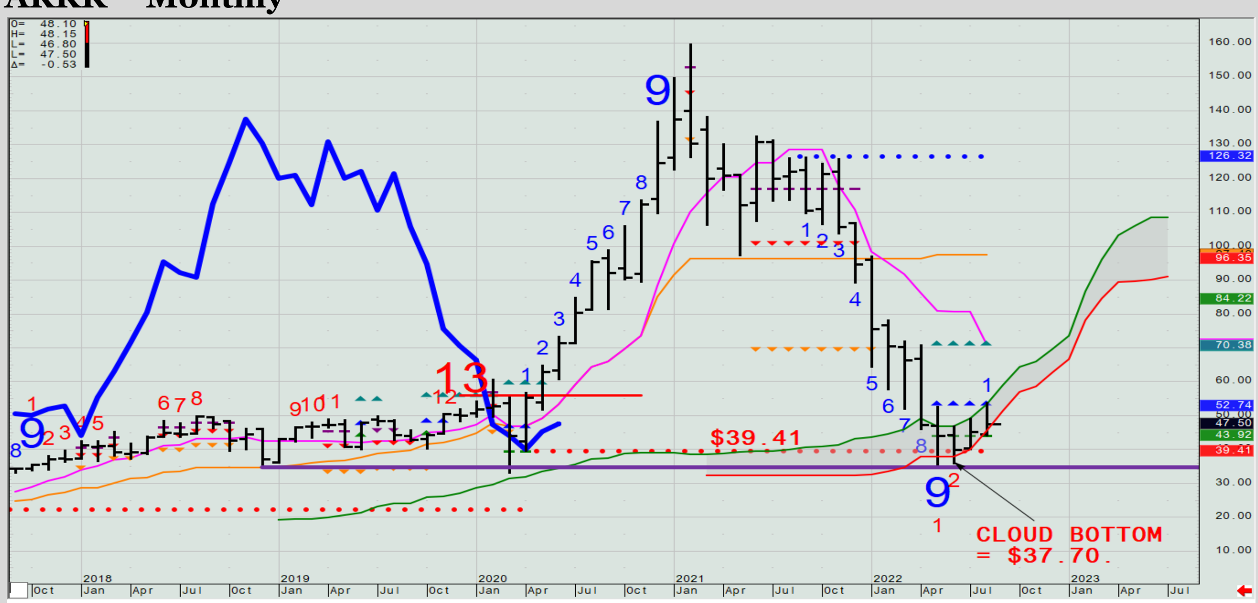
Long XLB vs. Short XLK – Weekly (We have this on the other way, so we want the chart to head lower…and it has.)



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.

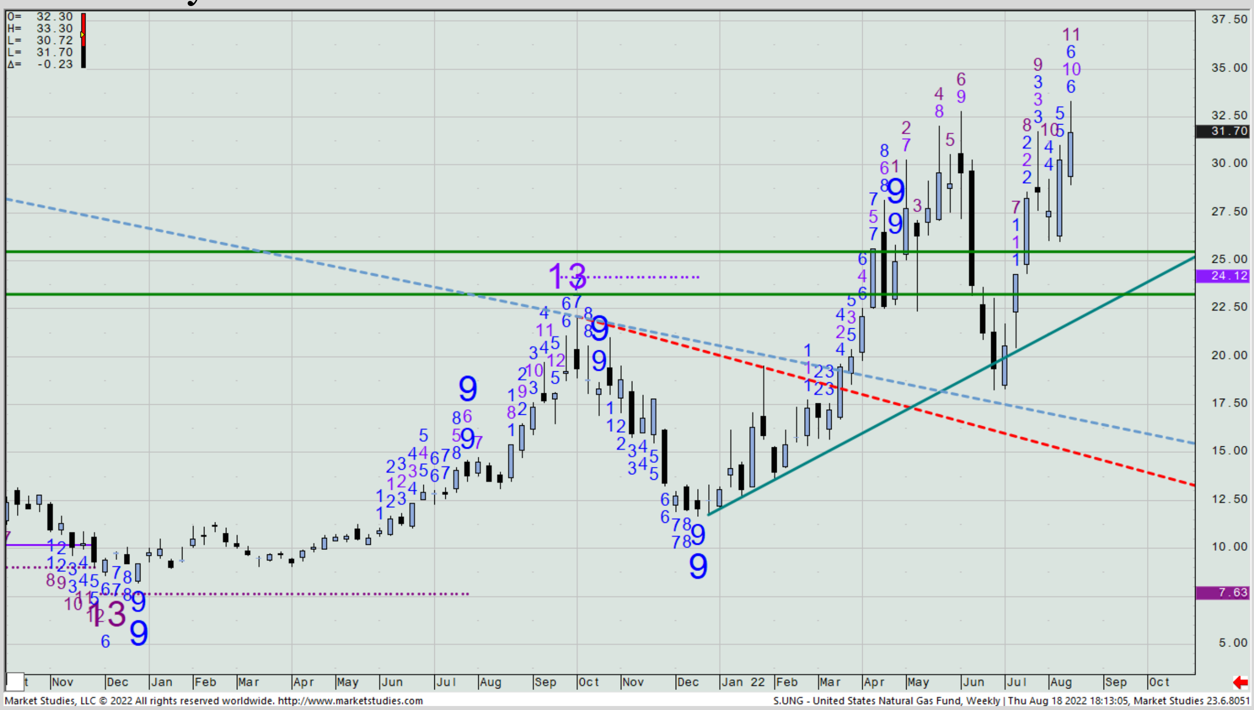
ARKK – Monthly



(This was a pure "buy and hold" idea from as good an entry zone as I will be able to come up with. We'd all certainly like to see this break out upside of the monthly cloud's range – something it's been stuck in for the past four months.

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. Six 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. Four 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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