Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

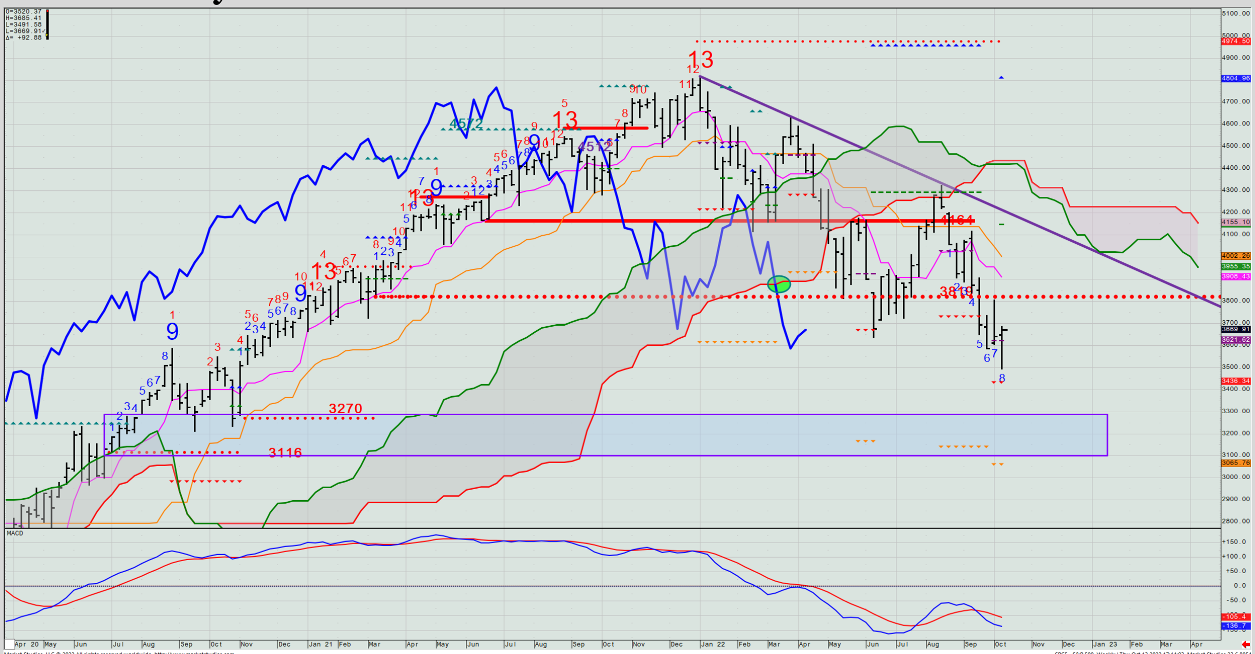
<u>The Macro Picture</u>

The worse than expected CPI number sent shivers into traders when it came out yesterday morning, but that decline was seen as an opportunity to many, as right from the NYSE open, buyers voraciously stepped in to gobble up the strong lower open to lead to one of the bigger reversal days we've seen in a good while. An almost 100 pt. SPX loss at one point turned into an almost 100 pt. gain, and in the end, the SPX closed 93 pts. (2.6%) higher as we likely have seen the bottom of this wave down, especially with the SPX making a new low; touching its 3497 Risk level, and then closing above the close from the four prior days. DeMark would define Thursday as a "key reversal" day, and clearly it is more significant than the Street's typical definition of that term (which is a new low and then an up close in the same price bar).

SPX - Daily

I have been looking for a low to occur in mid-October on a potential weekly Setup -9 count. We'll see if that -9 count even comes next week, because a close a week from today above 3693.23 actually again kills the downward count, just as every similar count has been cancelled this year on one of its rallies.

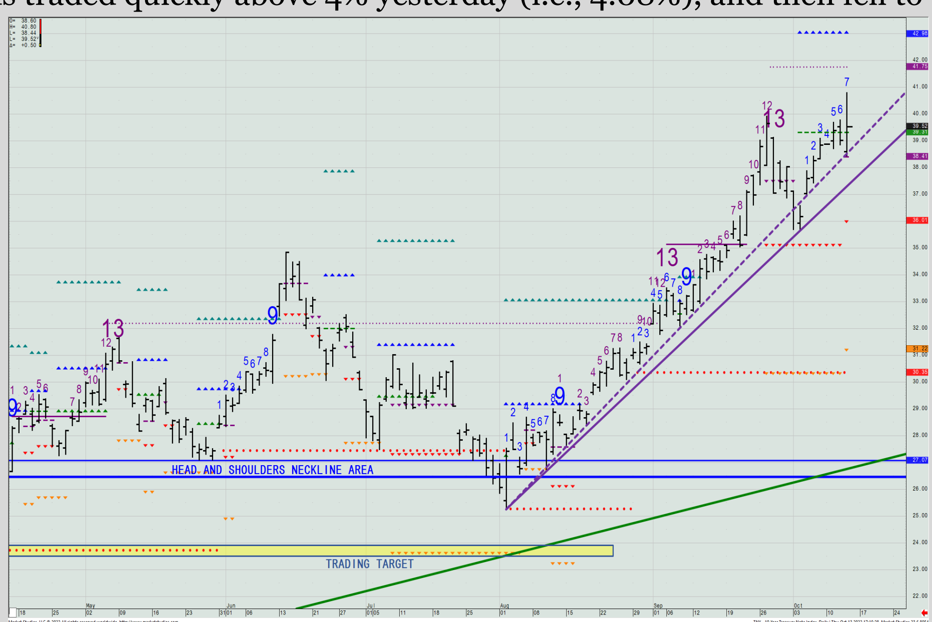
SPX – Weekly



Yesterday was certainly one of those days that was great proof of why you need to have resting bids in where you want to be a buyer, rather than trying to do it in real time. Though I didn't get filled on my personal SPY bids near the equivalent of SPX 3465 to 3435, the point is that they were already there, with me ready and willing to be a buyer when my price objective was reached.

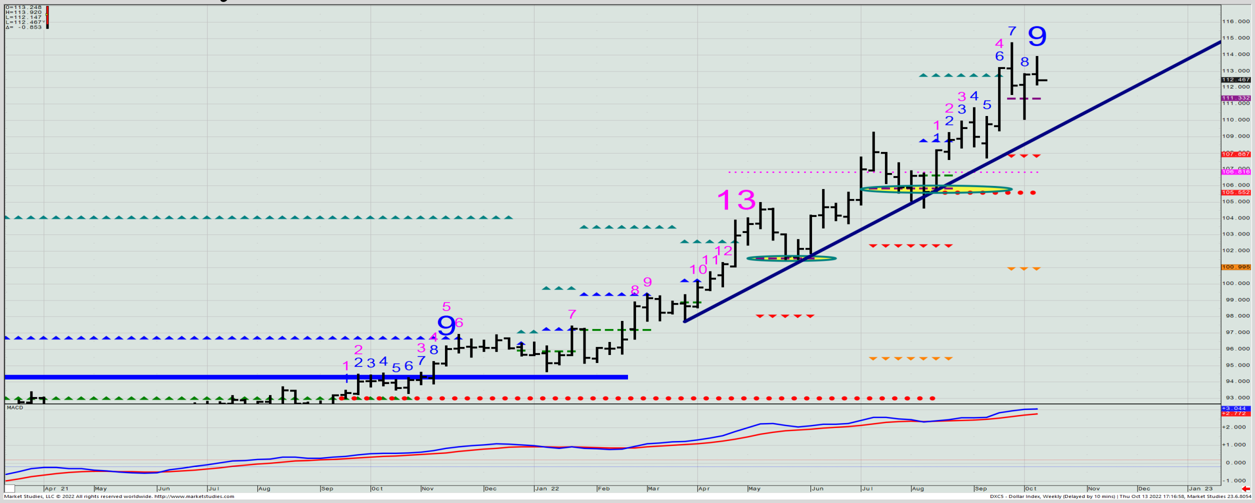
At this point, I'll see how bank earnings come in today and how things trade Sunday night to determine if I'll do any chasing or not. For now, I look at the 3820 to 3850 level as first meaningful resistance that has three unrelated data points in it from both daily and weekly charts. We could easily hold yesterday's lows into Election Day.

Treasury 10-yr. yields traded quickly above 4% yesterday (i.e., 4.08%), and then fell to as low as 3.84% before seeing the TNX close at 39.52 (i.e., 3.952%). That intraday low was right to its daily bearish Propulsion Momentum level. With Thursday being an up close, a move beneath yesterday's low today would likely be short-term bearish for rates.



The US Dollar is also at an important point depending upon today's close. If it's above 112.80, its less bearish than if it closes beneath 111.33. Either way, it's a weekly Setup +9 and a possible pause in the rally point.

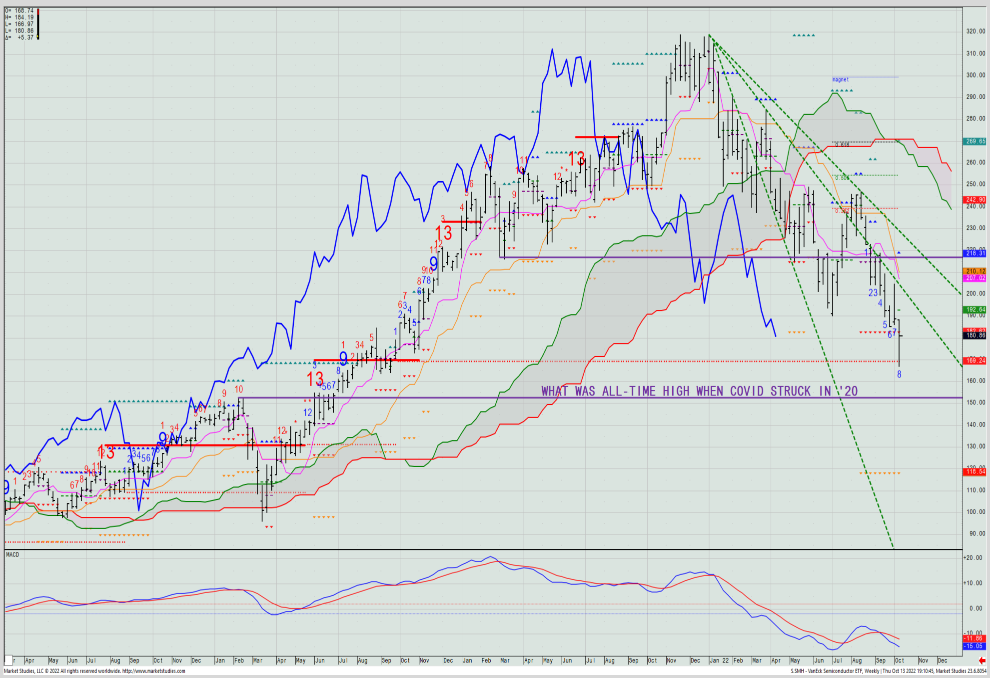
DXY – Weekly



New ETF Trade Idea

If yesterday represented some type of trading low – and its price action would suggest that it did – then let's look to put back on some new long trading exposure. When looking at one of the sectors hardest hit, we see that semiconductors have been one of those front and center leaders of the beaten down packs.

Looking more closely at the **VanEck Semiconductor ETF (SMH)**, I see that yesterday sold down to its weekly TDST support line at $169.24 before getting a decent bounce.



Looking even more closely at where its volume traded on Thursday, I see an area that bulls should want to defend if given the chance, down near $174. As such, let's look to buy a one-half unit long on a pullback to that area anytime in the next week, looking for a move to minimally target $192+. Depending upon how this trades next week, it can certainly mark a weekly Setup -9 count, just as the SPX might (with it also being the first such one of the whole decline). I may very well look to buy more near

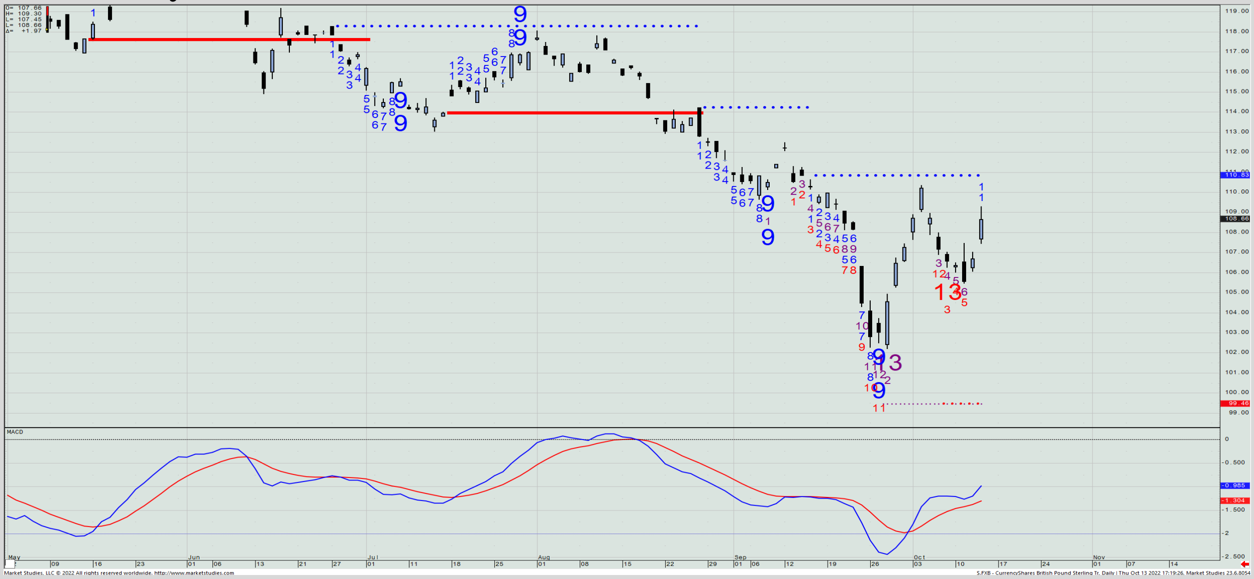
$150, and then start thinking there about keeping it in my portfolio as a longer-term hold. But let's see how we do in the next week before talking about that.

Other Open Recommendations and Positions

Long FXB

Last week's idea was to either buy this British Pound currency ETF in the $1.0550-$1.0450 zone or sell in the $1.0750 to $110.80 zone, whichever came first. We got to the former, but just barely, as the low was at $1.0546 on Tuesday. So, if you did get a partial entry into this trade, I'll recommend an exit at $1.1083 +/- 25 cents. Also, raise your sell stop to breakeven.

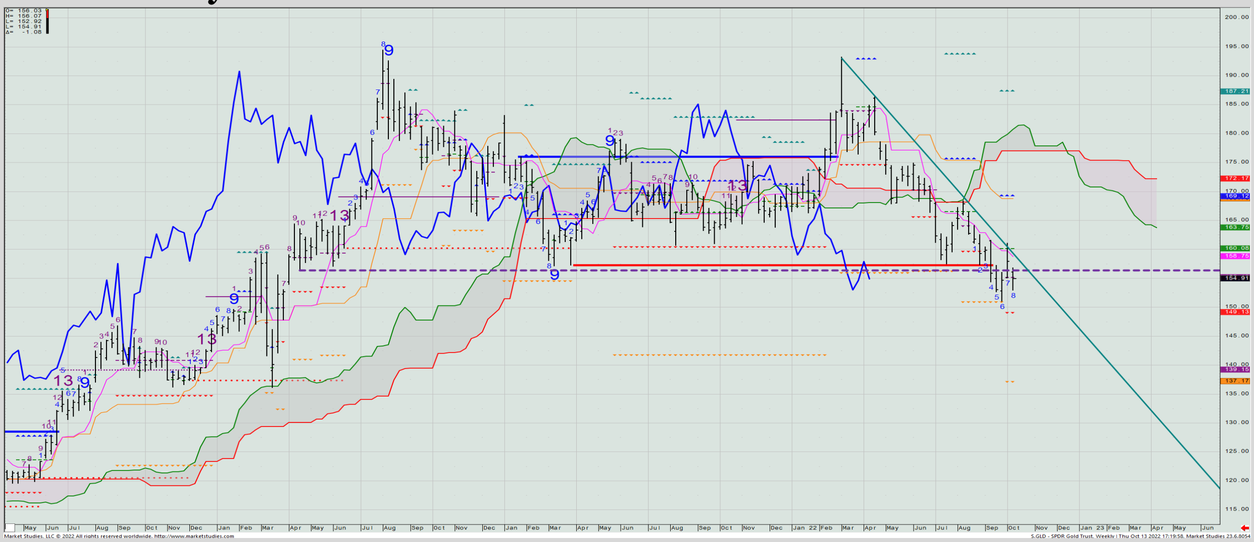
FXB - Daily



Short GLD

Two weeks ago, we shorted the GLD ETF at an avg. price of $159.50. We said we'd cover half of that if last Friday closed > $159.82. It did not, but given the potential shift going on across all markets from yesterday's action, let's cover half today and move our other half to a buy-stop as two daily closes > $160.08.

GLD - Weekly



Short SPY

We have an avg. short position at $406, and we removed half of the trade at an avg. buy price of $366.96) on the daily -13/-9 signals. We remain short the other half, but given yesterday's massive reversal, we will cover the balance today.

SPY - Daily

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 financing cost 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.

Disclaimer