Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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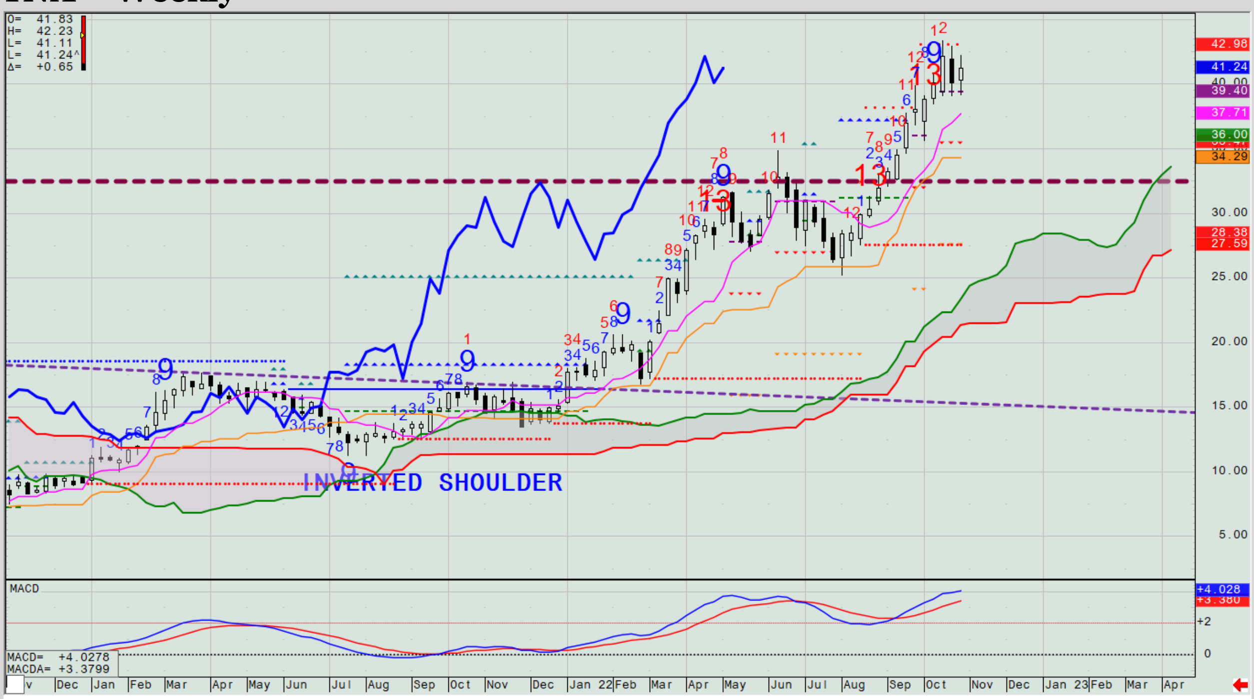
TACTICAL TRADER REPORT

The Macro Picture

Fed Chairman Powell made it inexorably clear that rates will need to be increased more than previously expected, and although future hikes are likely to no longer be as large as 75 bps., Fed Funds futures are priced at 5+% for all of 2023.

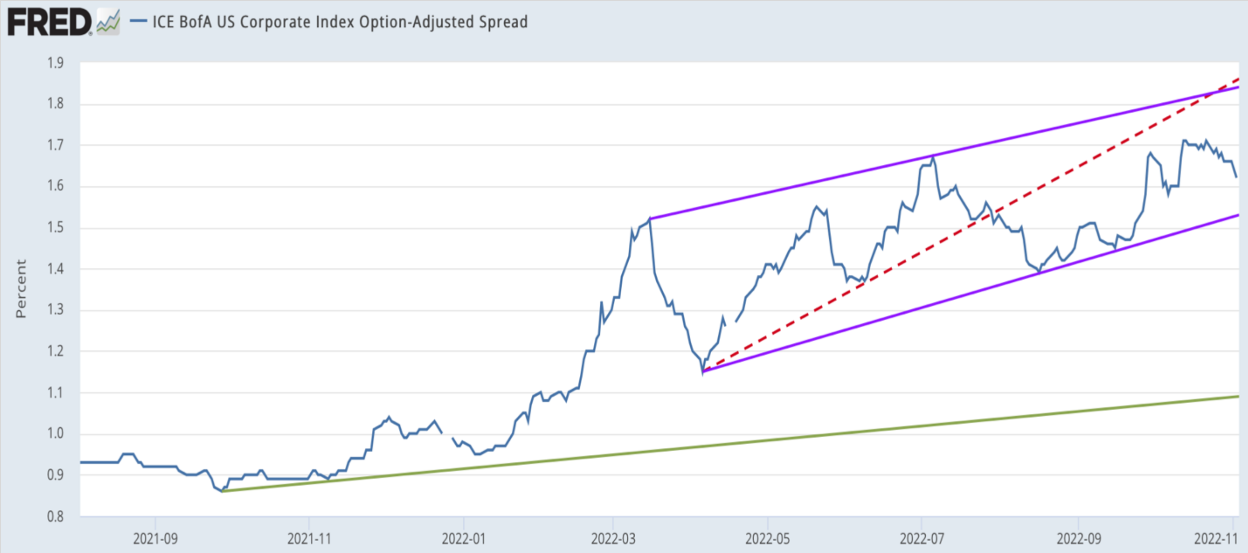
Given the spread between the UST 2-yr. and UST 10-yr. being somewhere around the 55 bp. neighborhood (and rarely less than 40 bps. these days), it's also now hard to think that the TNX can materially decline (given the short end's upside target). Thus, any TNX pullback we see will not likely meaningfully breach the 3.5% to 3.25% area. (It may not even come close to there.) The first step would be seeing a proper weekly close under 3.94%, the bearish Propulsion Momentum level that just got rejected a week ago.

TNX – Weekly



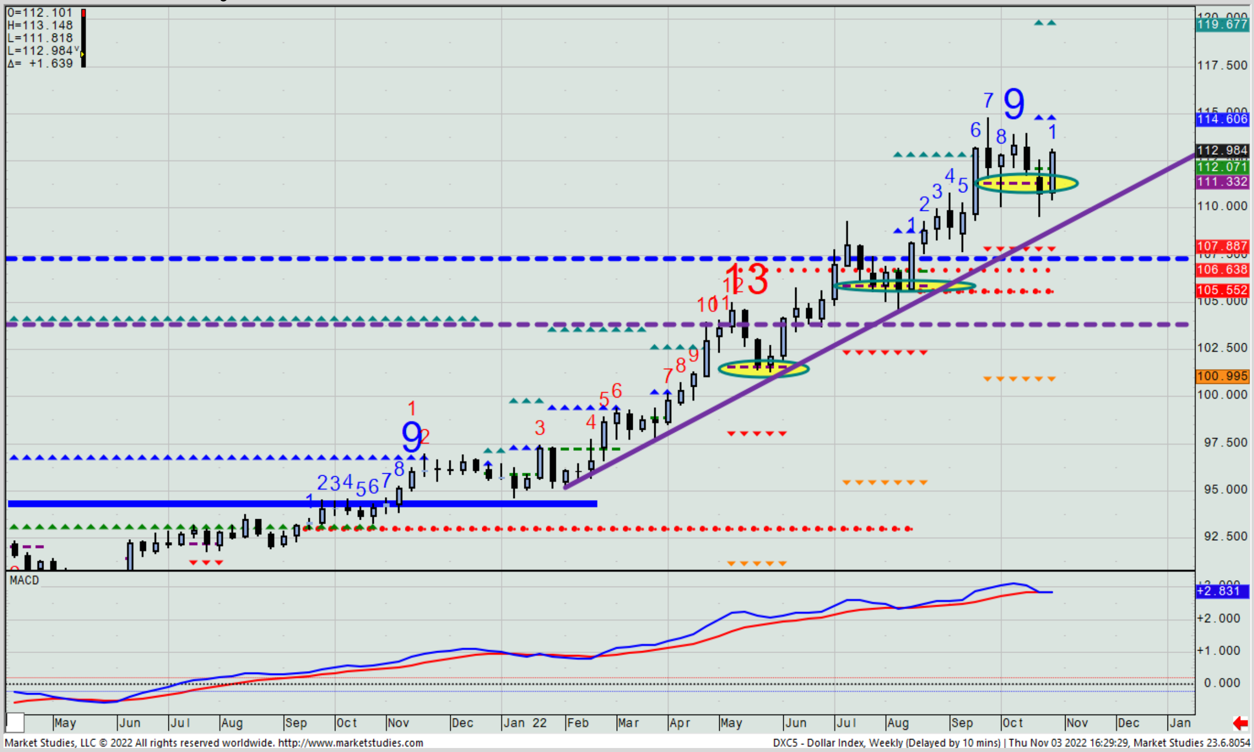
While looking at rates, the credit market spread we always watch (that measures the difference between a basket of investment grade bond yields vs. a comparable maturity US Treasury yield) has narrowed over the past 1-2 weeks from a high of 1.71$ to Wednesday's 1.62% reading. Though I would have thought that they would have edged higher after Powell's statements, they remain in a longer-term uptrend. Continue watching this because a material narrowing would potentially alter the far less than rosy stock market outlook I'm about to lay on you.

ICE BofA Corporate Index OAS - Daily



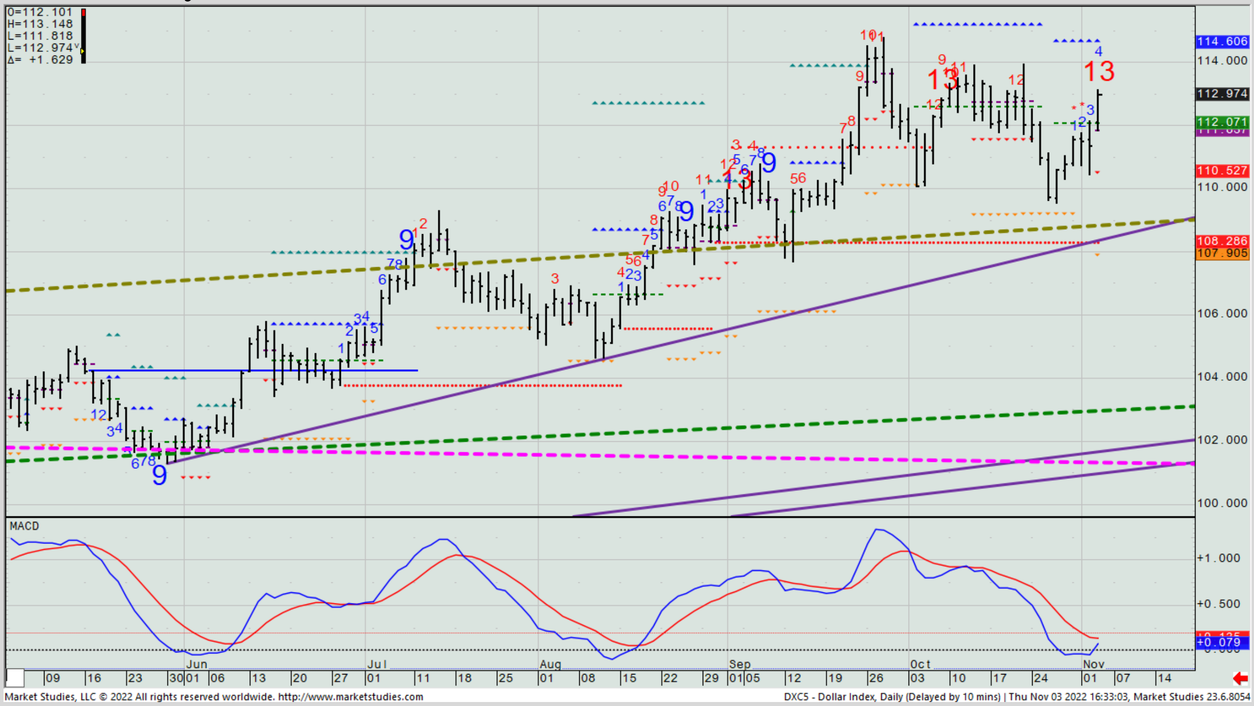
The US Dollar Index surged after Wednesday's Fed move and closed on Thursday at 112.93. That puts it back above the 112.63 weekly Propulsion Full Exhaustion level that I had previously used as an exit area for bullish dollar-related trades. If it closes above 112.63 today – and with last week being a down close vs. two weeks ago – we'd have a qualified upside breakout that would suggest that follow-through to the upside next week would target 114.61 and then 119.68.

DXY – Weekly



Do note, however, that the daily DXY chart actually made a new daily Sequential +13 yesterday, suggesting it could be close to a trading top. That's gonna keep my figuring out the next dollar move that much more difficult. (Just saying it like it is.)

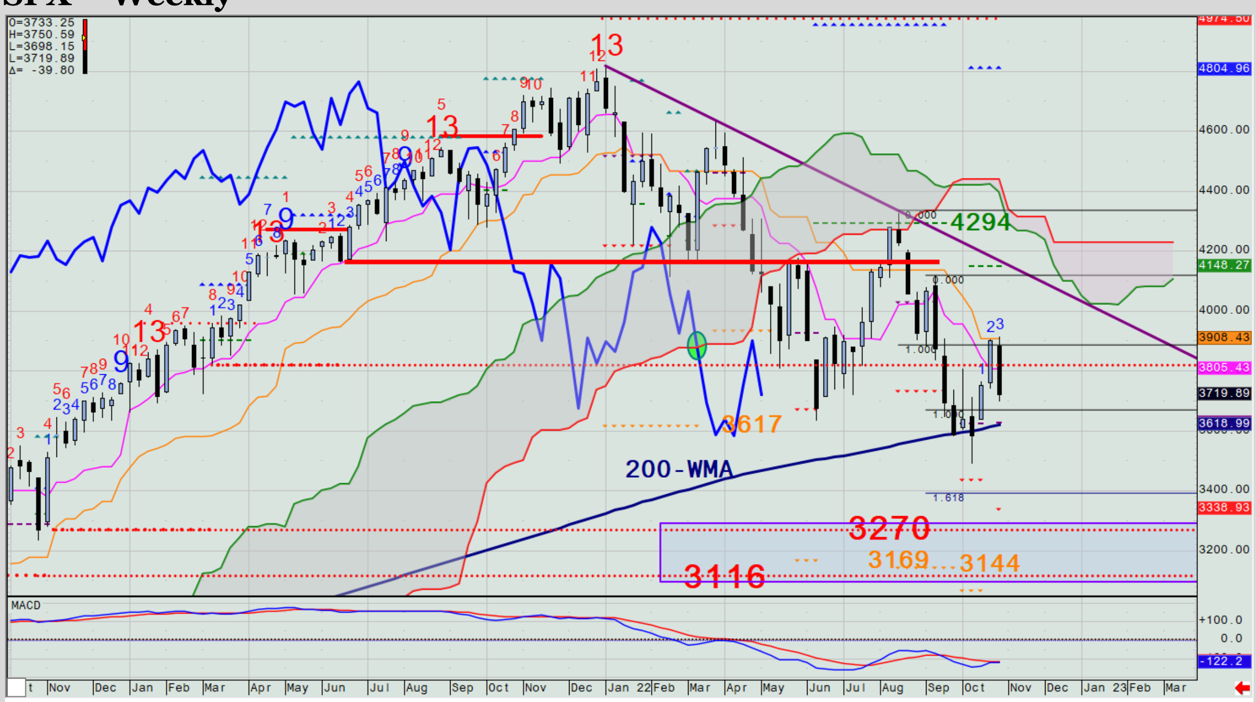
DXY – Daily



Now, let's turn to what we all mostly care about: the equity market. Through Election Day, I had been looking for the SPX to go no lower than 3680 on a pullback. (That level actually moved up to 3703 a few days ago, based on where the daily bearish Propulsion Momentum level would hold as support.) It did test and hold yesterday, with a 3720 closing price.

However, I also think that the 3908 weekly Base Line level – which held as the high this week – will not likely be exceeded through year's end, as I suspect that this week's high is the end of the bullish move off the current 2022 low.

SPX – Weekly



Last week I told you that I had two main resistance levels (at SPX 3908 and then 4148 – the latter if reached will be where I largely reduce holdings.) I actually sold some stocks earlier this week in my own account because of the move up to 3908, as I've been trimming on rallies all year.

My biggest concern now is the continued unwavering path that the Fed is taking to fix up the mess they put us into years ago with what had been their over-reaching easy money policy. Wednesday's tough talk did nothing to change that view, and as I wrote about several months ago, I could see the market still sliding into year-end – perhaps for the first time ever opening on its yearly high and closing on its yearly low.

New ETF Trade Idea

Though the below chart of the SPDR S&P 500 Aerospace and Defense chart filled a major gap from after the Covid bottom in 2020, it is quickly approaching a highlighted resistance area that has three unrelated levels show up in the yellow box: The 38% Fibo retracement back up to the all-time high from 2021 ($108.73); the downtrend line from this year's high (in magenta at $109.56 this week and $108.72 next week); and the bullish Propulsion Momentum level ($110.51 in green) that was the same indicator the August rally failed against.

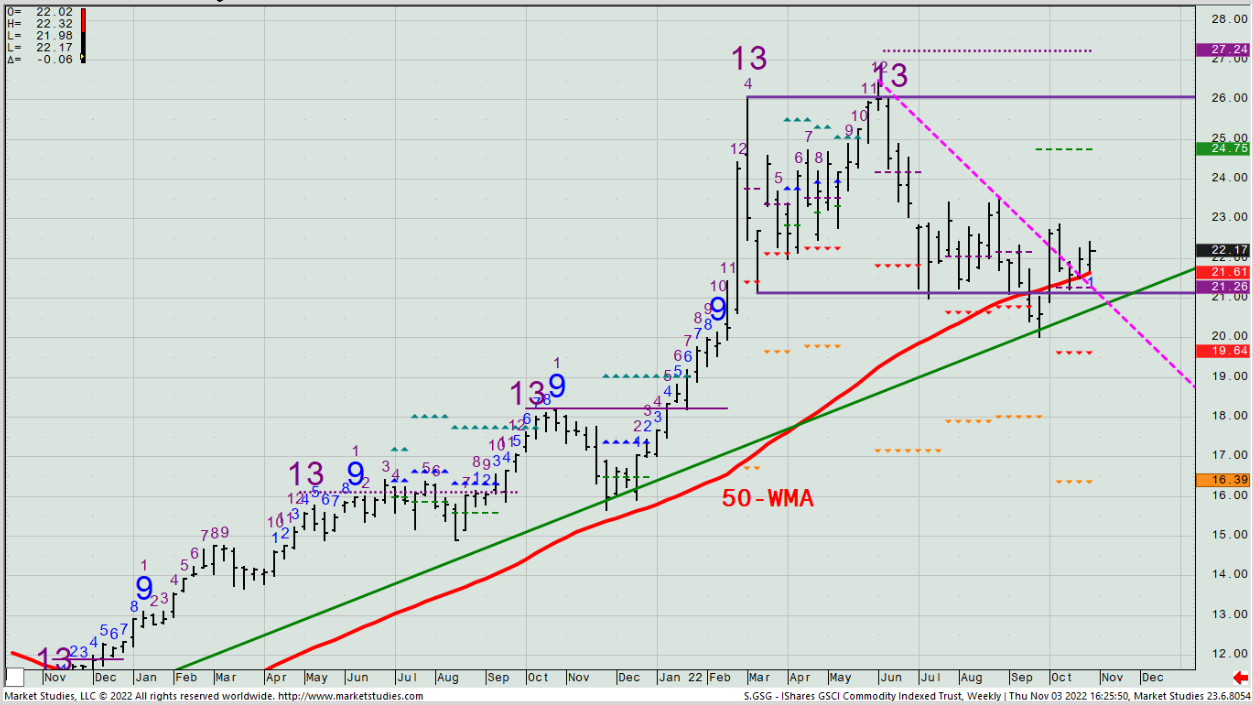
So, let's look to short one unit in that zone ~ $1.80 zone, looking for a pullback to keep the downtrend going. We'll look to cover half right near $96.50, and potentially let the rest go. We'll stop ourselves out on a Friday close above the August high of $116.07.

Other Open Recommendations and Positions

Long GSG

Last week we got into the first unit of a potential two-unit long trade in this broad-based commodity index. (Avg. entry price of $21.90.) However, if the dollar does rally as I wrote above and then surges next week, we will not be adding to this trade. Moreover, I will tighten the sell-stop next week to even lessen the amount we were originally willing to risk. The upside target remains ~ $24.75. For now, we stick with the trade.

GSG – Weekly



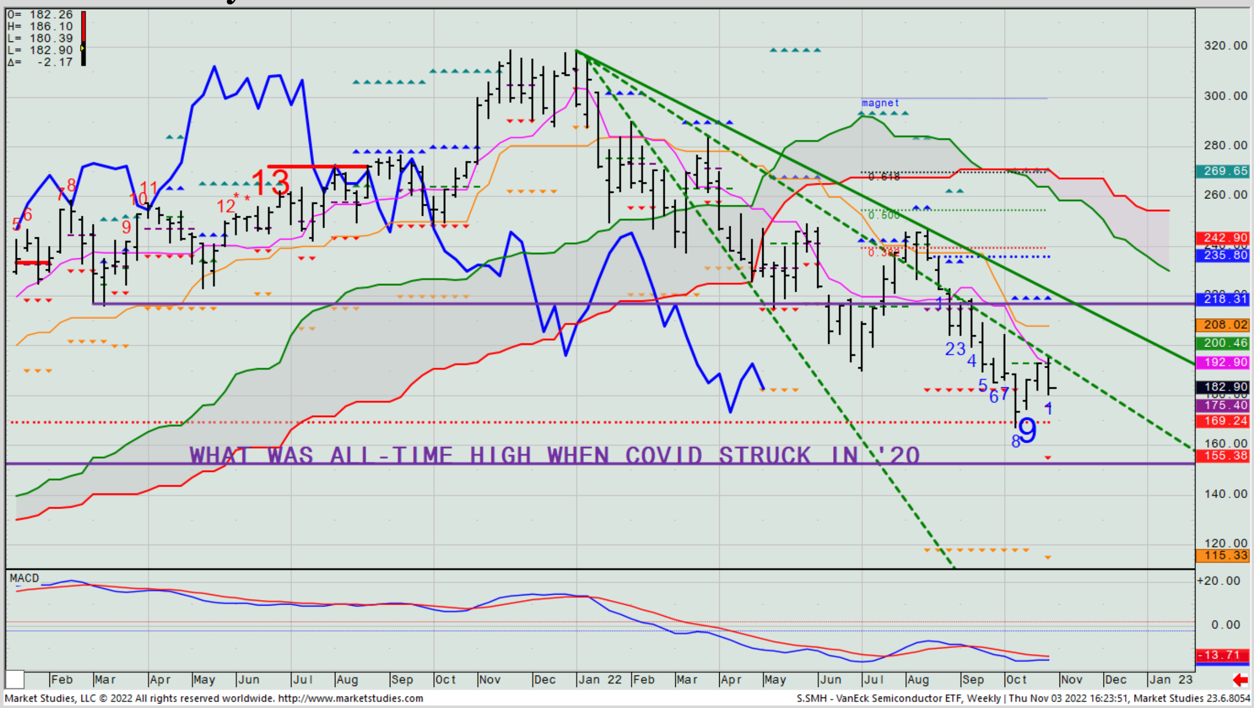
Long EEM

Two weeks ago, I suggested looking to get long EEM sometime last week if we saw a move in it down to $33.35 +/- 25 cents. Last week's low was $33.48, so we did get entry (or certainly, at least some) while it also marked its weekly Setup -9 count. I'm looking for a move up to near $38, and we'll adjust that over time depending upon how long it might take to get there. We'll stop this long out on a single Friday close < $33.35.

EEM - Weekly

Long SMH
We bought this three weeks ago at $174. I was looking for a move that minimally targeted $192 (high got to $192.36) which we saw and where we already took half off. Stop the other half at breakeven.

SMH – Weekly



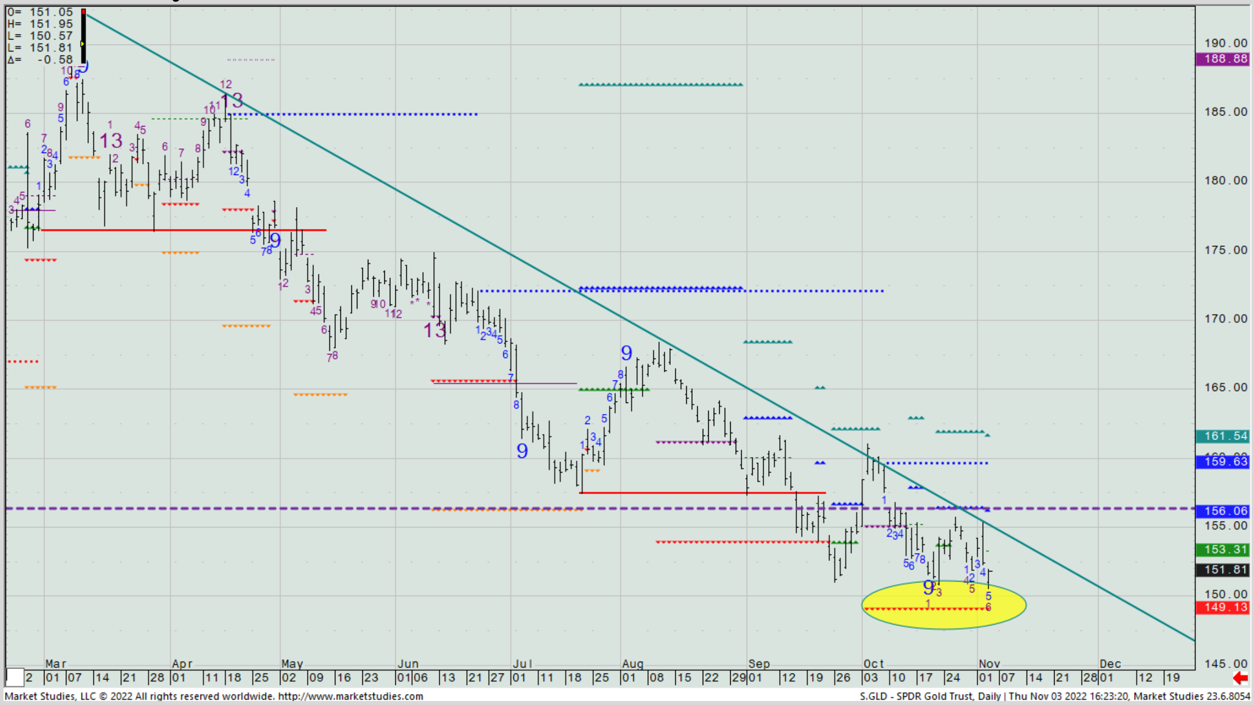
Long FXB
Some of you may have on a long position on from $1.0550 – the top end of our buy zone. We'll already exited half at $1.1083 +/- 25 cents (filled at $111.14 on the gap up opening). Let's exit the rest today.

FXB - Daily

Short GLD

In September, we shorted the GLD ETF at an avg. price of $159.50. We covered half at an average price of $153.82. I said we'd cover the balance of GLD on any consecutive days that the DXY closes above 111.33, which happened on last Friday and this Monday. Thus, we are out and covered the balance on Monday's close of $151.91, for a total gain that averaged 4.16%.

GLD - 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.

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