Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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November 28, 2022

TACTICAL TRADER REPORT

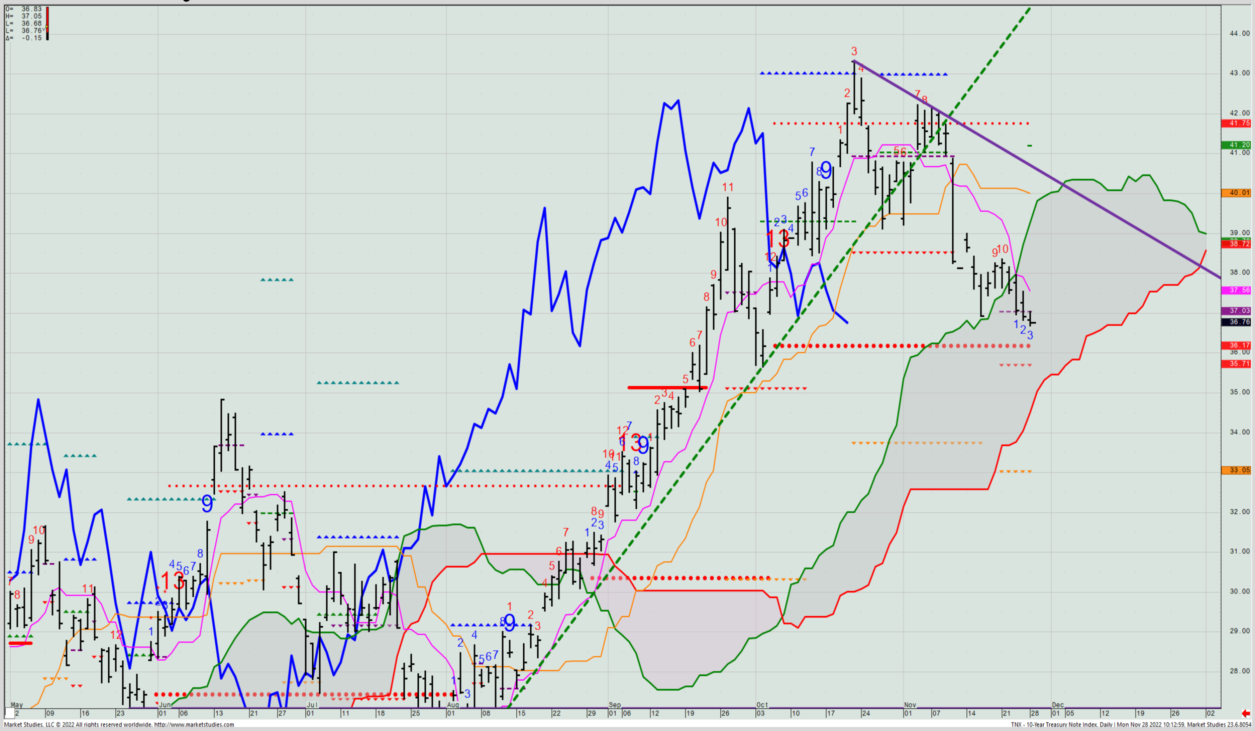
The Macro Picture

This and next week are very important in setting up how the balance of the year trades, as we get some key economic numbers this week and early next week that can and likely will affect what the Fed's rate decision will be on Wednesday the 14th. Despite last week sticking true to being an up Thanksgiving week, this week starts off with negative stock market action as unrest/protests in China over the government's zero Covid policy is becoming a further concern for investors.

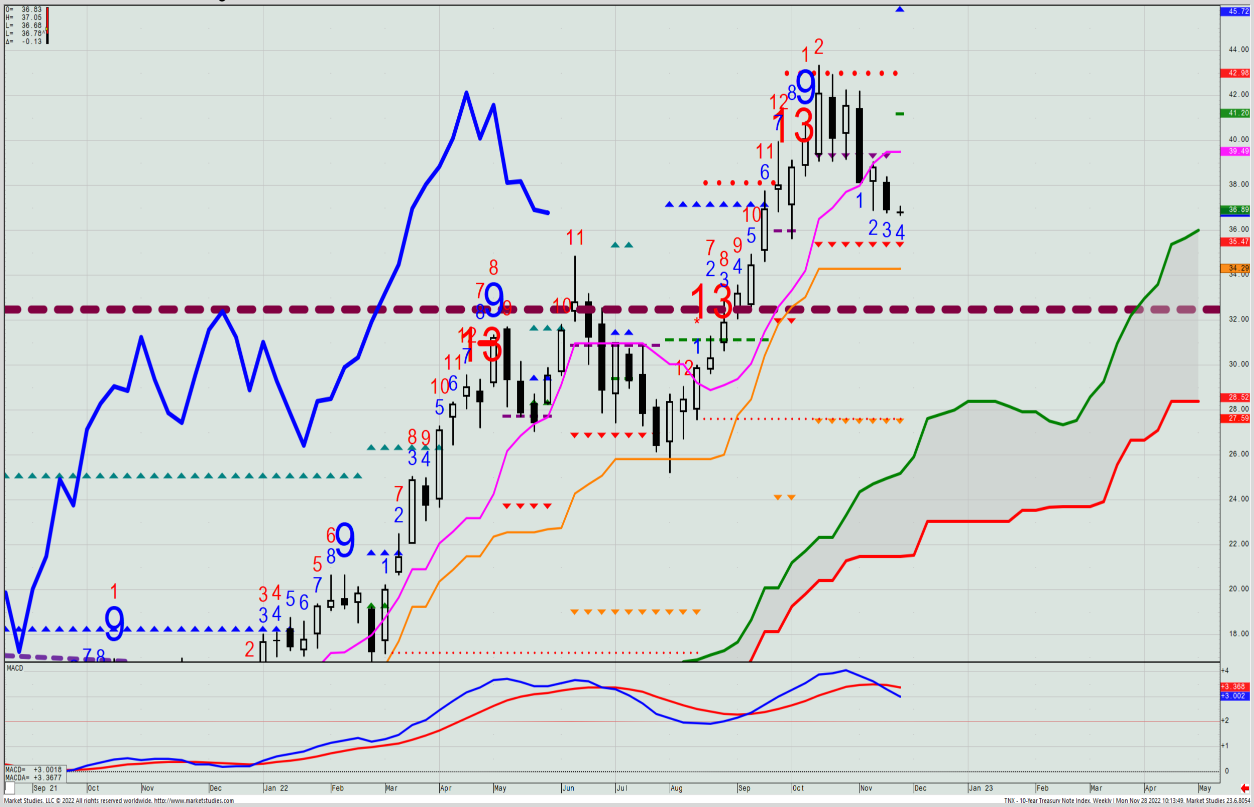
The big three markets that are now very correlated (or inversely so) – the dollar, rates, and stocks – have changed trend enough in the past five weeks or so that I believe that the "easy" money has been made in those countertrend moves. It doesn't mean that they can't continue, but the reward to risk ratios have dramatically decreased now relative to where they were a month ago.

TNX downside tactical target areas are at 3.62% and 3.57%. The weekly chart has targets at 3.55% and 3.43%. Upside ones start at the daily Conversion Line near 3.75%, and then a slew of them starting near 4%.

TNX – Daily

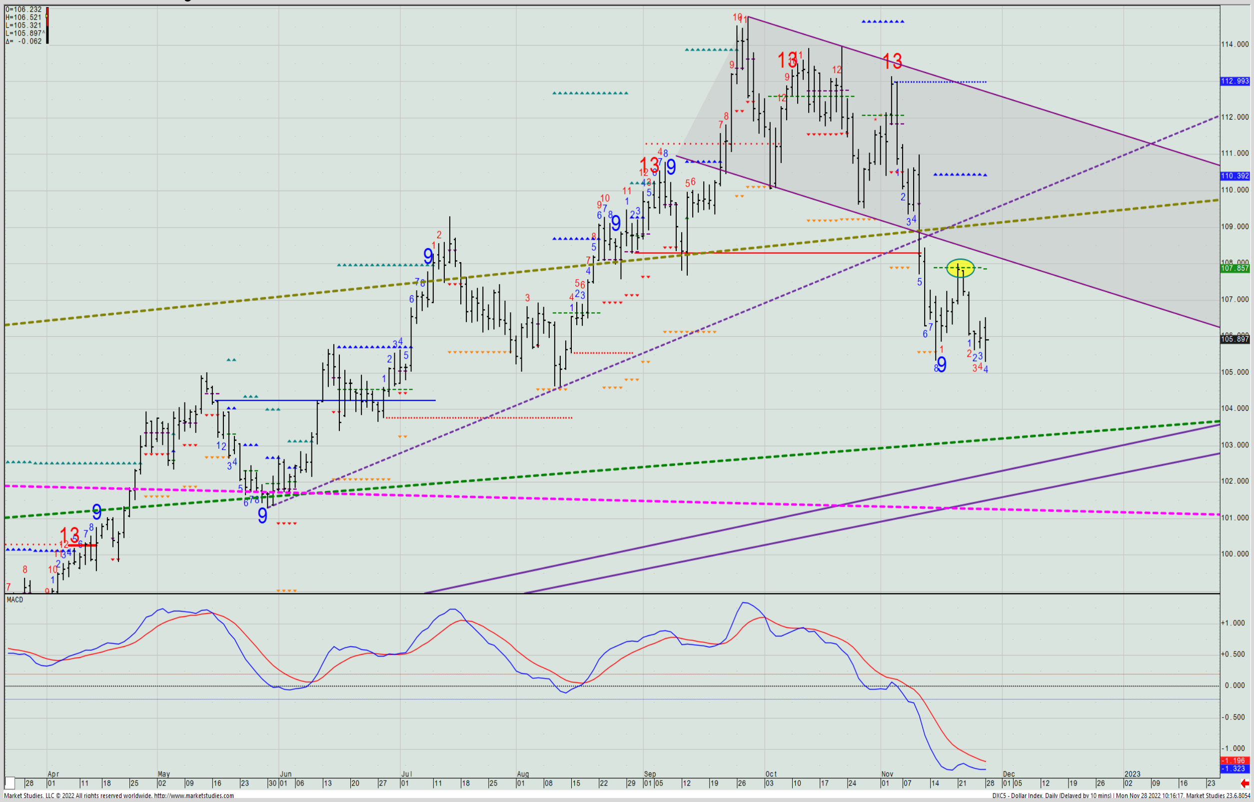


TNX – Weekly



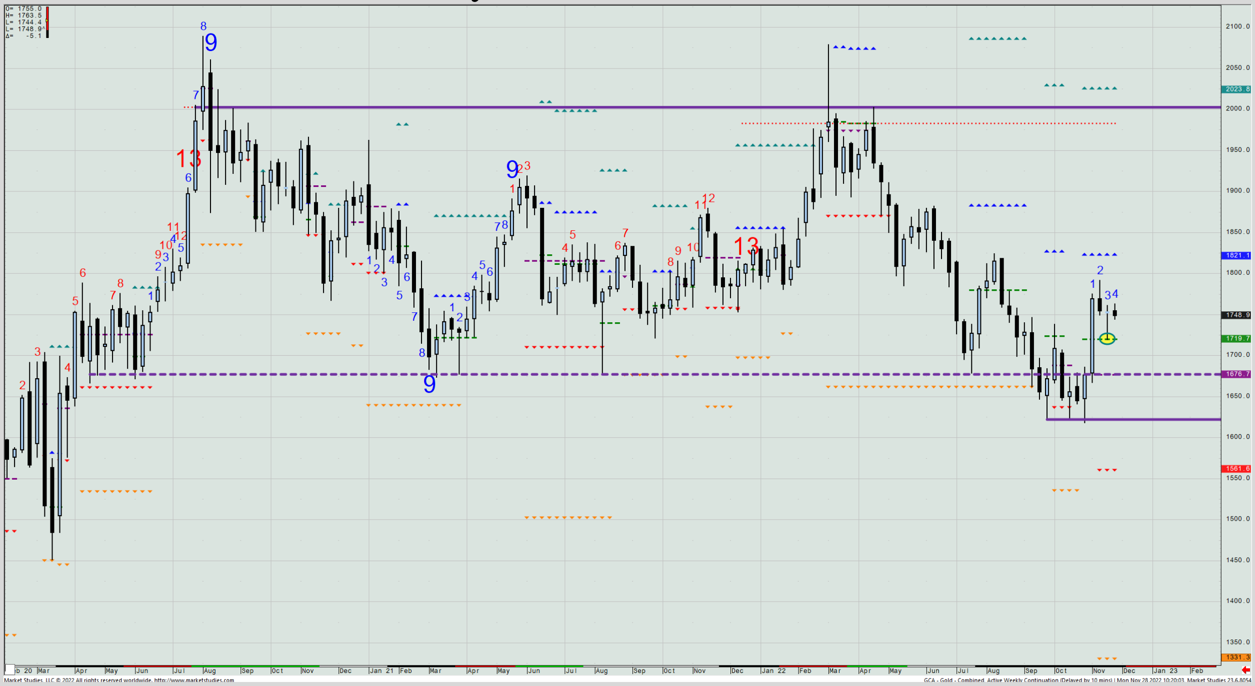
Last week, the dollar failed right against its bullish Propulsion Momentum level, and is now retesting the early Nov. lows. (Any failure against a bullish level in a near-term down market keeps the bias lower.)

DXY – Daily



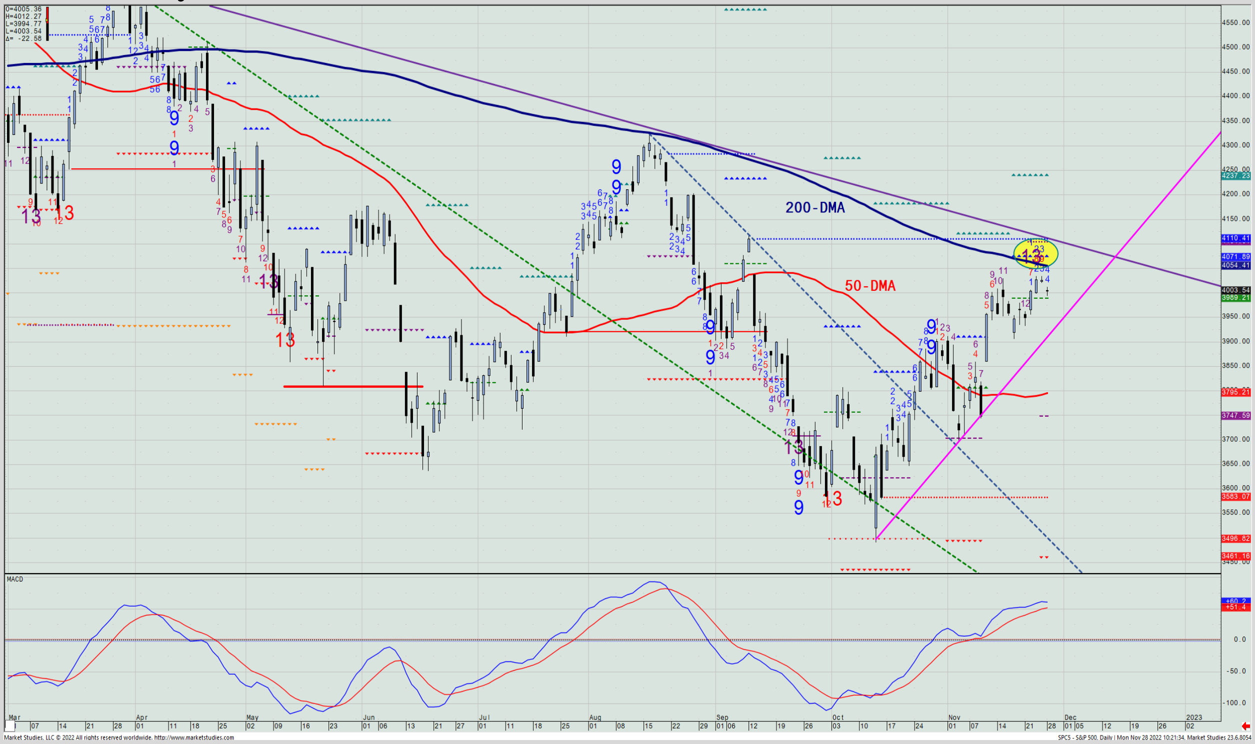
In our last issue, I recommended you consider getting long gold on weakness near $1720/$1705. Last week's low was $1719, so if you had a bid at $1720 you caught that bottom. If we see further dollar weakness, I think gold gets to $1821.

COMEX Gold – Active Weekly Continuation



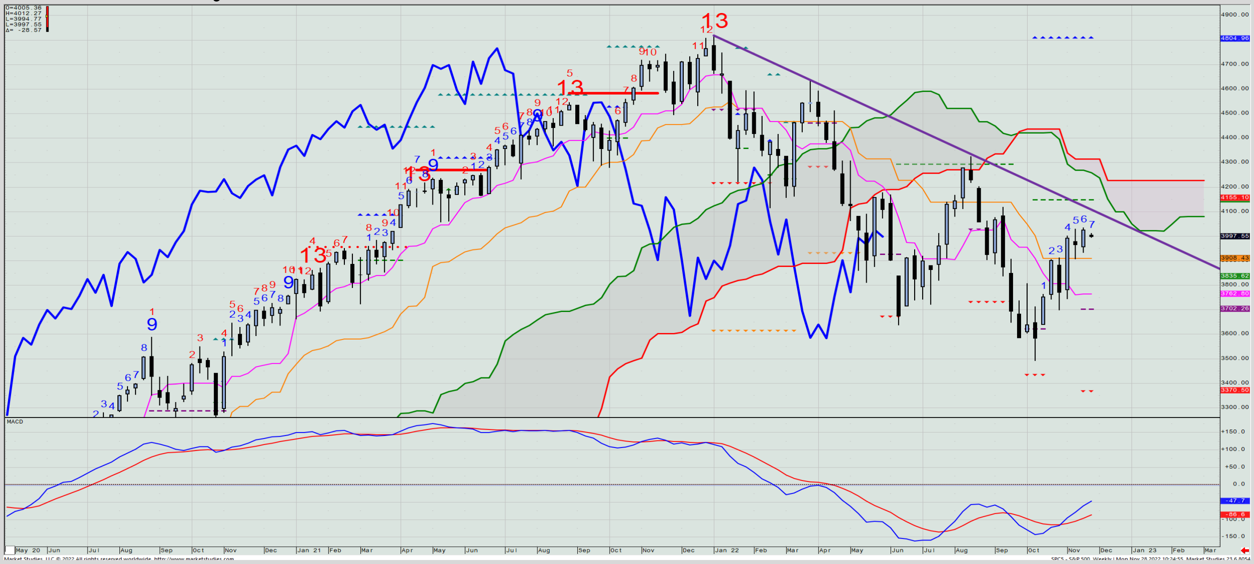
On Friday, the SPX marked its first of any type daily +13 count in all of 2022. So, there's no surprise that the market is off today. (China concerns are also a major factor.)

SPX – Daily



You can better understand why I've said that the easy money has been made on the rally, and that the odds of success of new longs is now much more in line with that of putting on new bearish bets.

SPX – Weekly

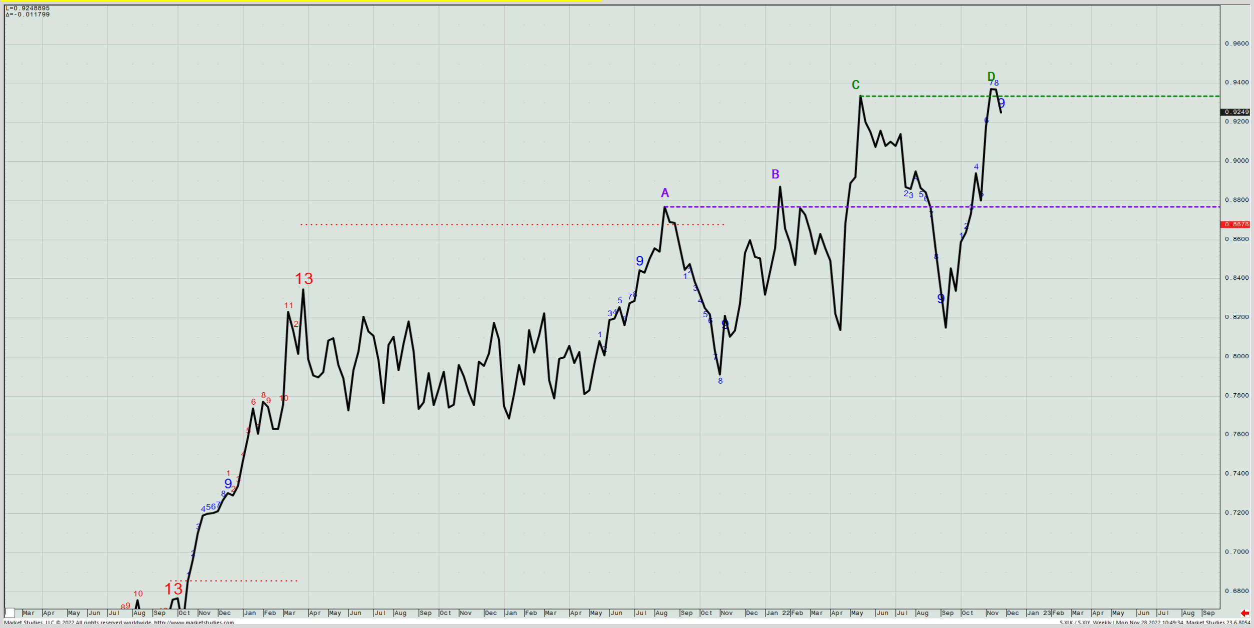


New ETF Trade Idea

When markets get into more difficult areas to choose an outright directional play, I often switch to pair trades, as we go long one name vs. shorting another – effectively taken market direction out of the equation and simply playing the relative performance of one ETF vs. another. In this case, look at the relation between the below chart, which is long Info Technology (XLK) vs. short Consumer Discretionary (XLY).

Notice that the high at D took out the high of C, but that it's now beneath that C level. We saw the same where B took out the high of A, but then quickly broke back beneath it. Thus, I think this chart heads lower, which equates to XLK doing worse than XLY. And as such, we are going to **buy XLY and short the same amount (in dollar terms) of XLK**. Given that this week is also a likely Setup +9 count, it adds to the idea that this chart (as labeled) will head lower.

Long XLK vs. Short XLY - Weekly (WE ARE PLA.YING THIS IN REVERSE, **BUYING XLY** AND **SHORTING XLK.**)

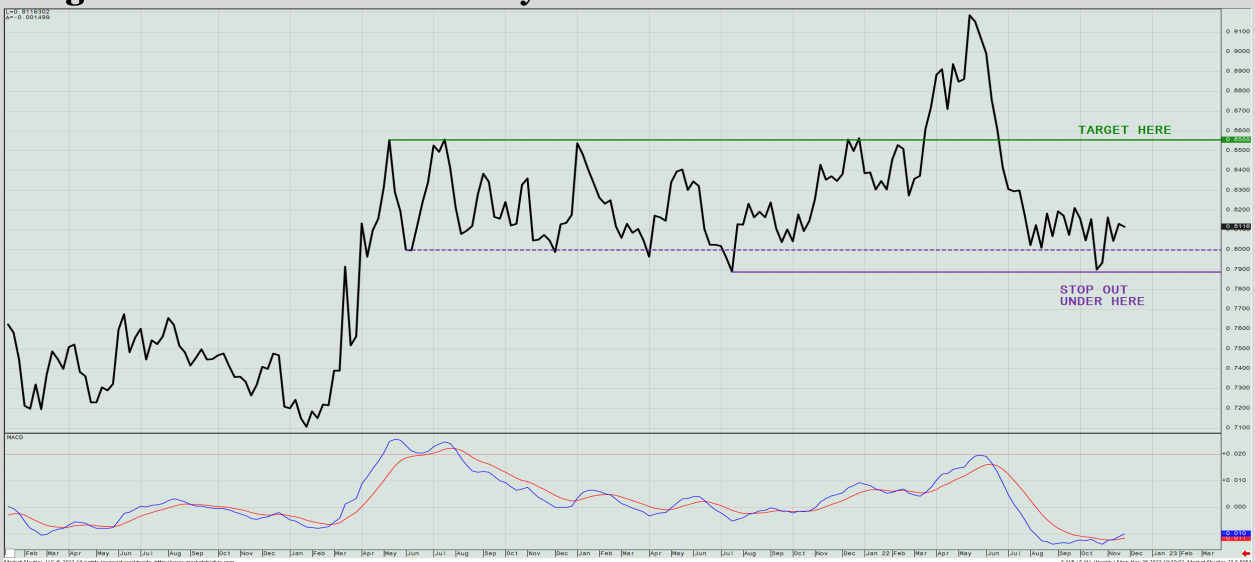


We'll play for what could be a decent move down towards 0.88 and risk two consecutive Friday closes above the current high of the move.

Other Open Recommendations and Positions

Long XLB vs. Short XLI
Two Friday's ago, I recommended this pair, with our getting in it at a ratio price of 0.8044. We'll risk a Friday close beneath the 2021 low of 0.78882 (which was already tested and held in 2022) vs. playing for a move up in 2023 to the area of the green line at 0.8555. That gives us this very nice range trade idea that we may very hold for many months.

Long XLB vs. Short XLI - Weekly

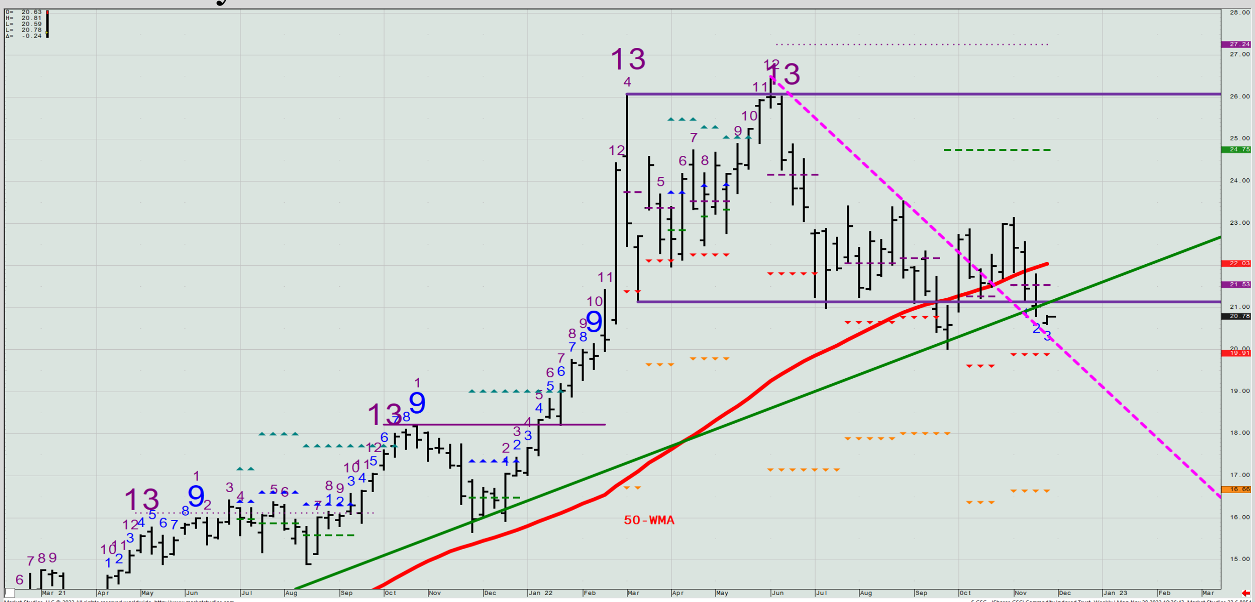


Long CLOU
I recently suggested using a possible pullback to $15.60 to $15.30 to get long this cloud computing-related ETF, and we got our avg. entry at $15.45 last week when it traded as low as $15.28. I'm looking for a move up to $17.64, the most recent TDST resistance line. We'll risk to a new closing 2022 low under $14.61.

CLOU - Daily

Long GSG
In late October, we went long at an avg. entry price of $21.90. The upside target remains ~ $24.75. I subsequently raised our sell-stop to any Friday close less than $21.53, which did occur two weeks ago with a Friday close of $21.44. Thus, we got stopped out and lost 2.1%.

GSG – Weekly



Long EEM
Five weeks ago, I suggested looking to get long EEM if we saw a move in it down to $33.35 +/- 25 cents. The subsequent low was $33.48, so we did get entry (or certainly, at least some) while it also marked its weekly Setup -9 count. We already sold half at $38.12. We'll exit the balance on any Friday close beneath $36.72.

EEM - 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 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