Rick Bensignor's

# IN THE KNOW TRADER

*Positioning Individual Investors Alongside Professionals*

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December 9, 2022

## TACTICAL TRADER REPORT

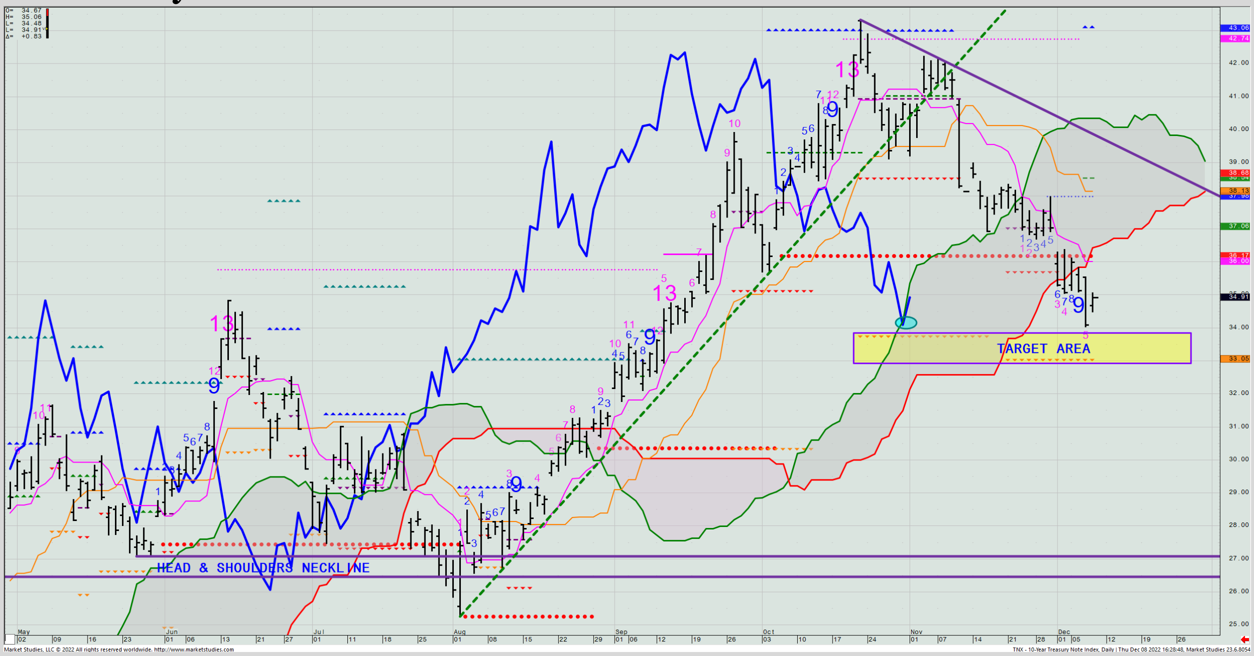
**The Macro Picture**

In last week's report, I said that it just doesn't make sense to me that investors think that the Fed is going to pivot to a far more dovish stance just a few months after Chair Powell said that they are committed to materially bringing down inflation. There's just not enough data to suggest that their job is done. My thoughts got proven correct quickly in that as of Wednesday's close, the entire rally seen since Powell's comments were made at the Brookings Institute last week.

At this point, everything is going to come down to next Tuesday's CPI number and Wednesday's rate change and post-announcement press conference, as this will make or break a Santa Claus rally. I am still stunned that there are well-known strategists being interviewed on business television who still think that the SPX will rally to 4500 by year's end.

We've finally seen a bit of a disconnect between rates and equity market directions this past week, with both falling at the same time. They have mostly been trading in *opposite* directions for months. You can see in the below chart that 10-yr. rates are getting close to some very important support, including the Lagging Line hitting its cloud on Wednesday.

**TNX - Daily**

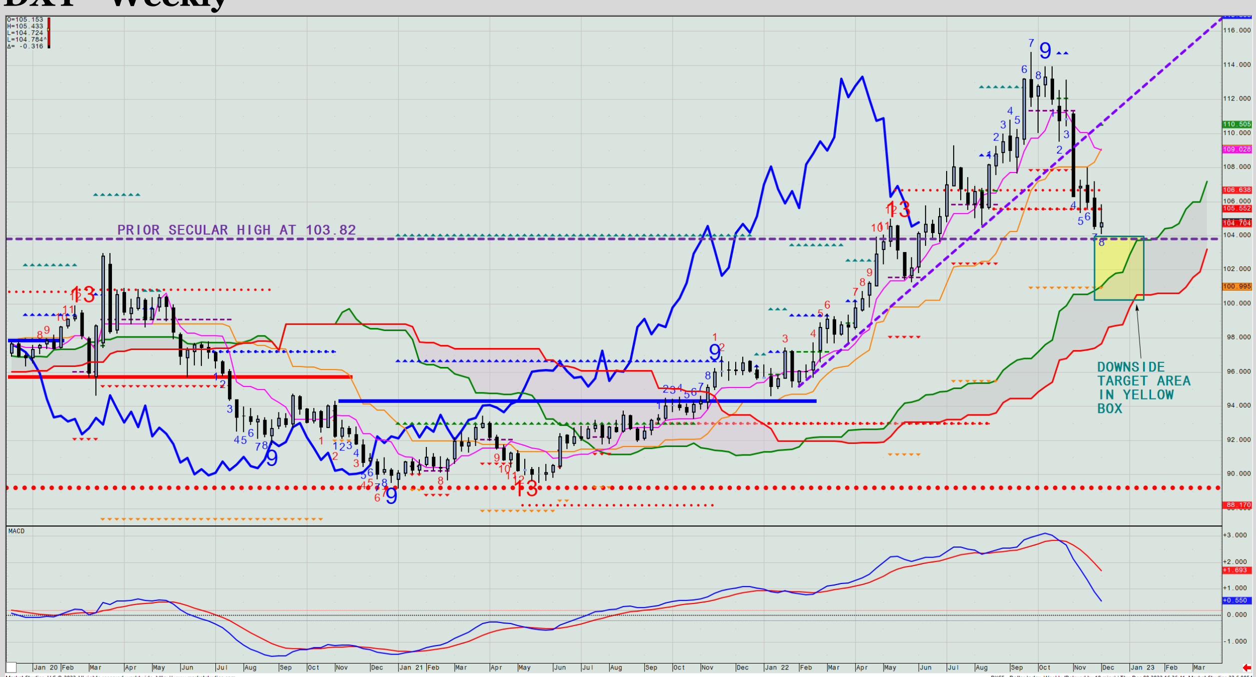


Meanwhile, the US Dollar made a new low on Monday in its multi-month decline from the 2022 peak. A weaker dollar has been a catalyst for stocks to rally, but there's a bit of a disconnect here, too, as equities have declined this past week along with that new dollar low.

**DXY – Daily**

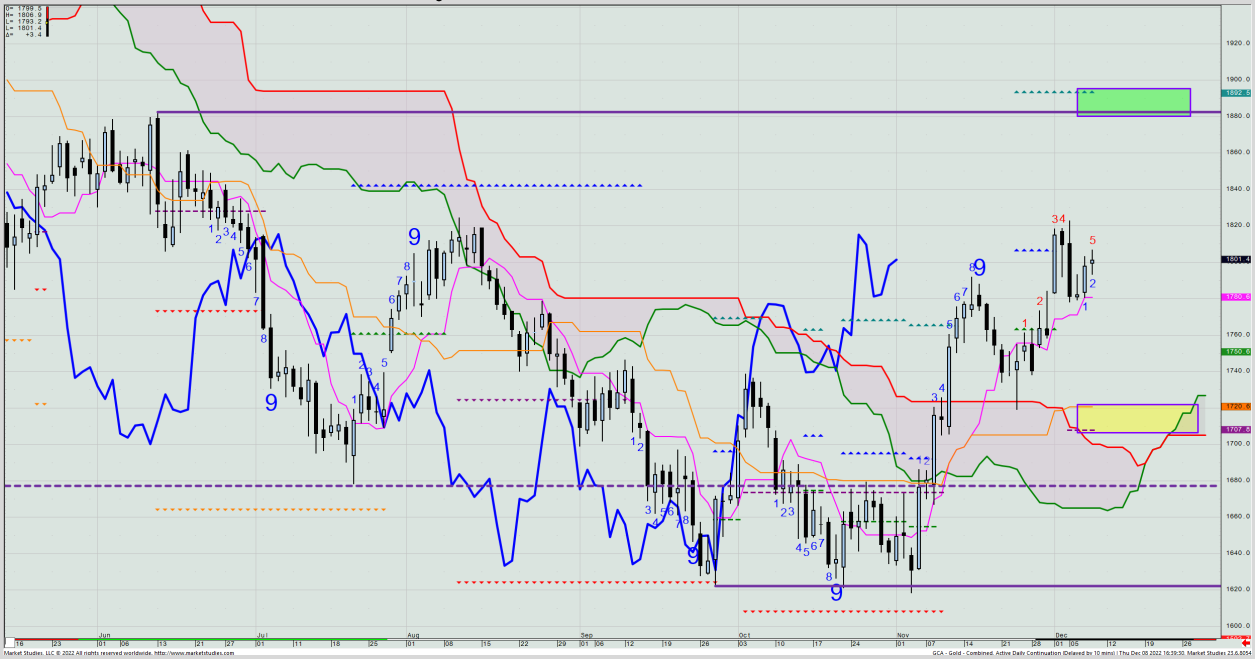
In the bigger picture, I can still make the case that the greenback is headed for lower levels to targets in the 103 to 100 area. And if it gets to near 100, it will be a good near-term catalyst for stocks. It needs to prove itself above 106.65 to give me some sense of it bottoming.

**DXY - Weekly**



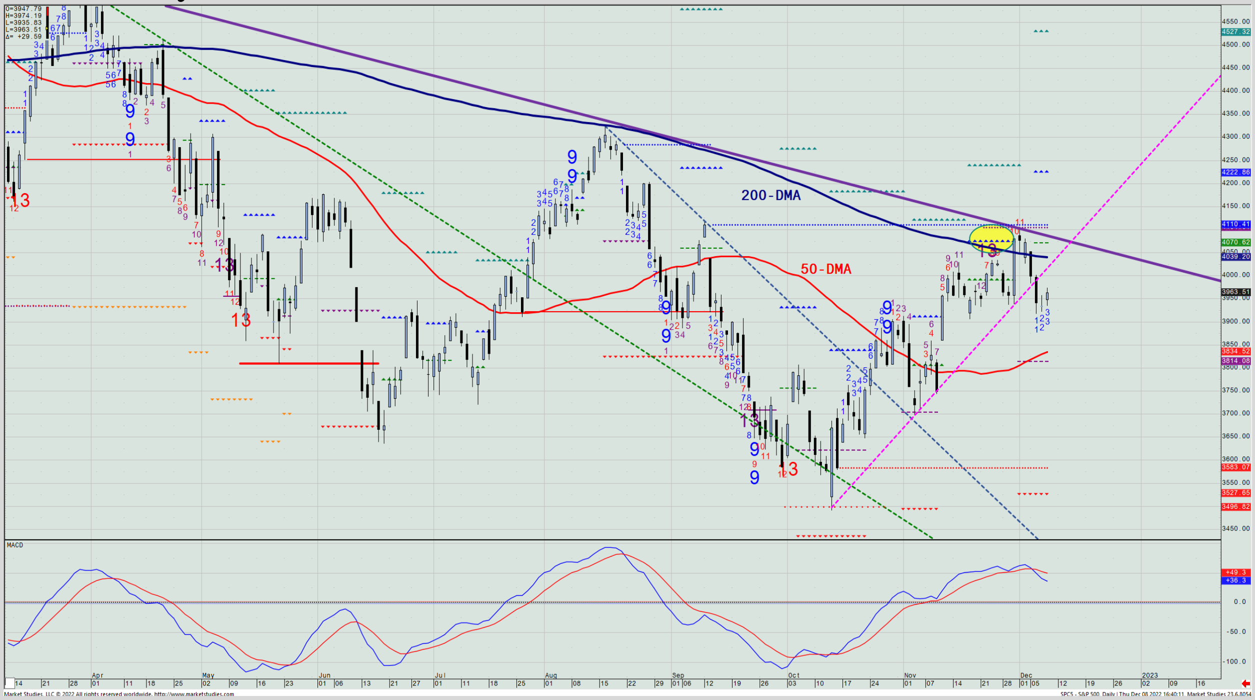
My bullish view on gold was correct, not just in getting in where to buy but also the target of $1821. We now see support from the daily Conversion Line, and then more important should be found from the zone created by the Base Line ($1721) to the bearish Propulsion Momentum level of $1708.  Multiple closes above $1821 would next target $1892.

**COMEX Gold – Active Daily Continuation**

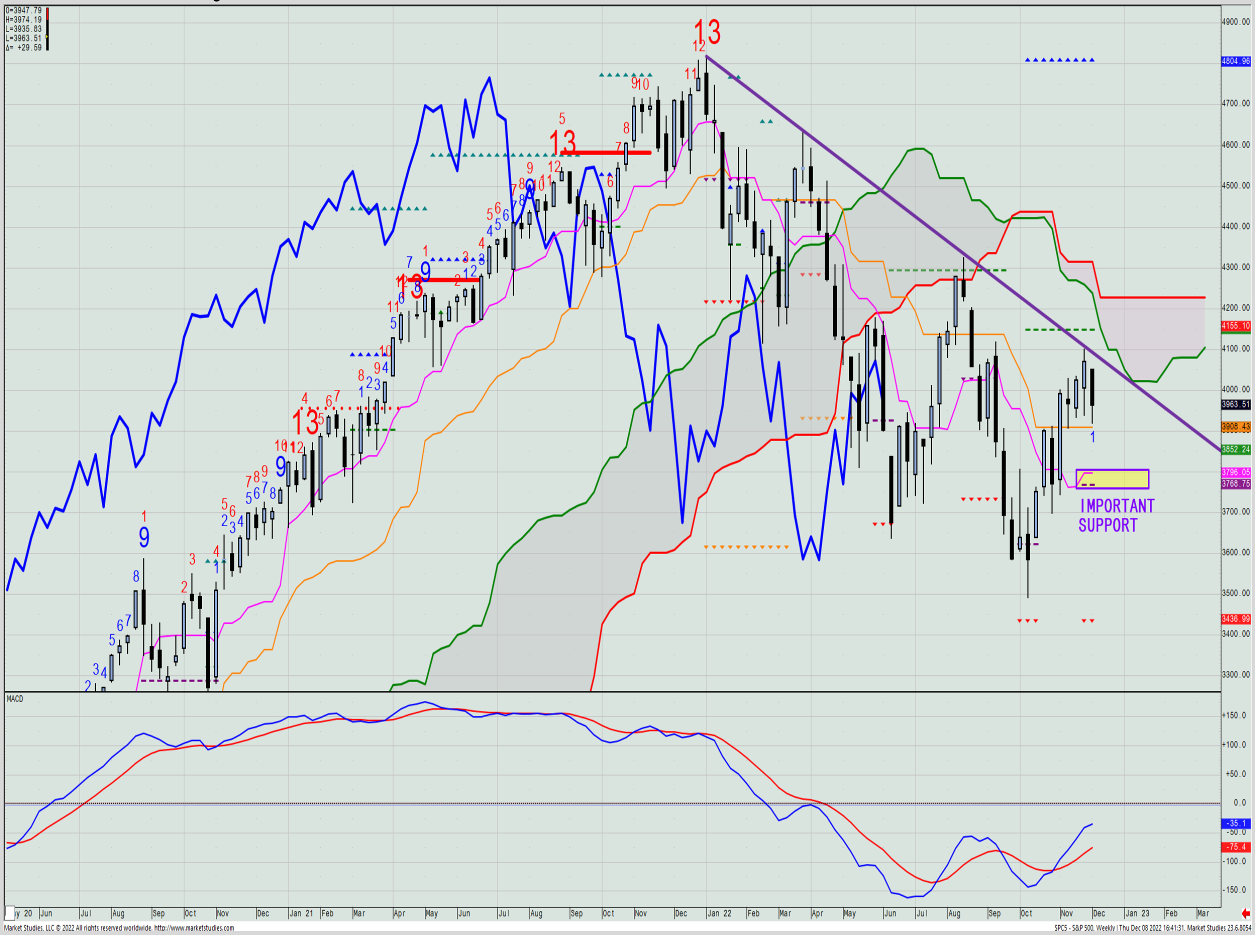


The all-important SPX has stalled right against its major downtrend line from all-time highs, and along with an active Aggressive Sequential +13 signal from late-November and but a single day's up close above its 200-DMA.  The uptrend line from the October lows has been broken, and I think that a move to test the bearish Propulsion Momentum level at 3814 could shortly happen, especially if next week doesn't give the bulls what they are looking for.

**SPX – Daily**



## SPX – Weekly




## New ETF Trade Idea

With China looking like they could re-open after finally relaxing their zero Covid policy, we see that shares have been explosive since Nov. 1. Yet, the good news really is just officially being announced now. Could this be a "buy the rumor; sell the fact"-type deal?

Well, when we look at the chart of the most popularly traded Chinese equity-related **iShares China Large Cap ETF (FXI),** we see that today could easily be a second Setup +9 off the 2022 bottom, a potential +12 towards an Aggressive Sequential +13 count (that could theoretically appear on Monday), the downtrend line from this year's high; the 200-WMA, a TDST line, and the Propulsion Full Exhaustion level from that November low. (That's six (6) unrelated technical timing and resistance levels all potentially coming together in a narrow window over the next few days.)

As such, we're going to look to short the FXI into this rally – half today and half on Monday. That puts on in a position to capture any type of non-bullish CPI/Fed induced rally that could lead to a global sell-off into year's end.

We'll need to risk about 7% on this trade (to above the most recent Propulsion Full Exhaustion level at $31.43) to stop out, and we'd look for a move down to $25.72 as an initial downside target to take profits (which is just under 12% away from yesterday's close, giving this idea about a 5:3 reward to risk ratio). See chart on top of page 5.

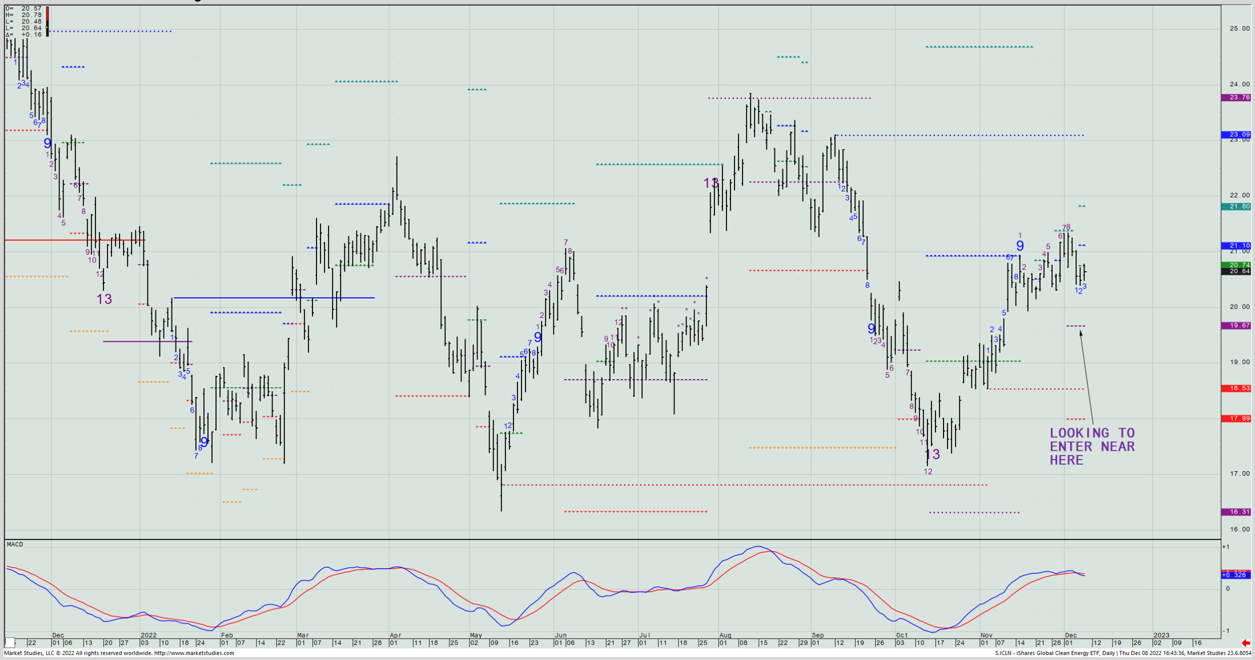
## FXI - Daily


## [Other Open Recommendations and Positions]

### Long ICLN

Last week I recommended getting long on a pullback to $19.65 +/- 25 cents. We're still awaiting entry.

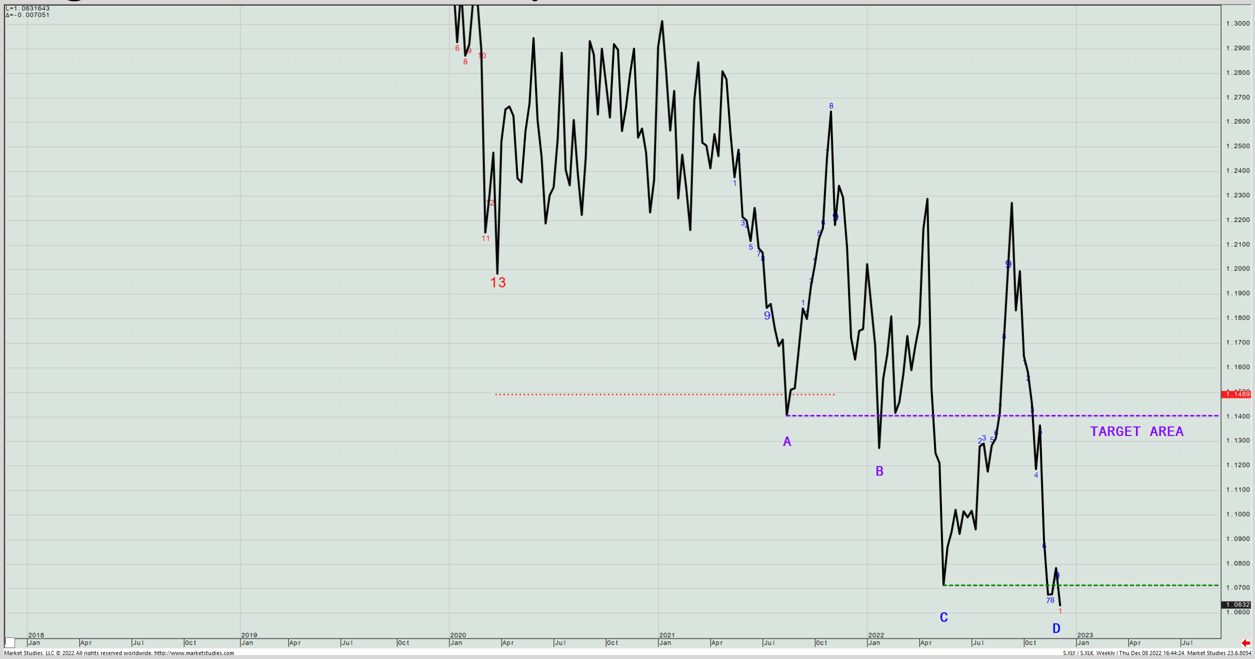
### ICLN – Daily




We'll look to get long a total of one unit in that zone, with an initial target of $23.09 to $23.76, where I'd suggest we take off 2/3 of the trade. We can stop ourselves out on half on a daily close under $18.53, and the other half under $17.97, giving us a decent 2:1 reward to risk play.

**Long XLY vs. Short XLK (I've reversed the chart from Monday to show the direction we have this trade on.)** We put this on at about 1.084, and we'll look for either a Setup +9 into next year as a time-base target, or somewhere near the dashed purple line near 1.14. If this doesn't turn around next week, we'll exit with a minor loss.

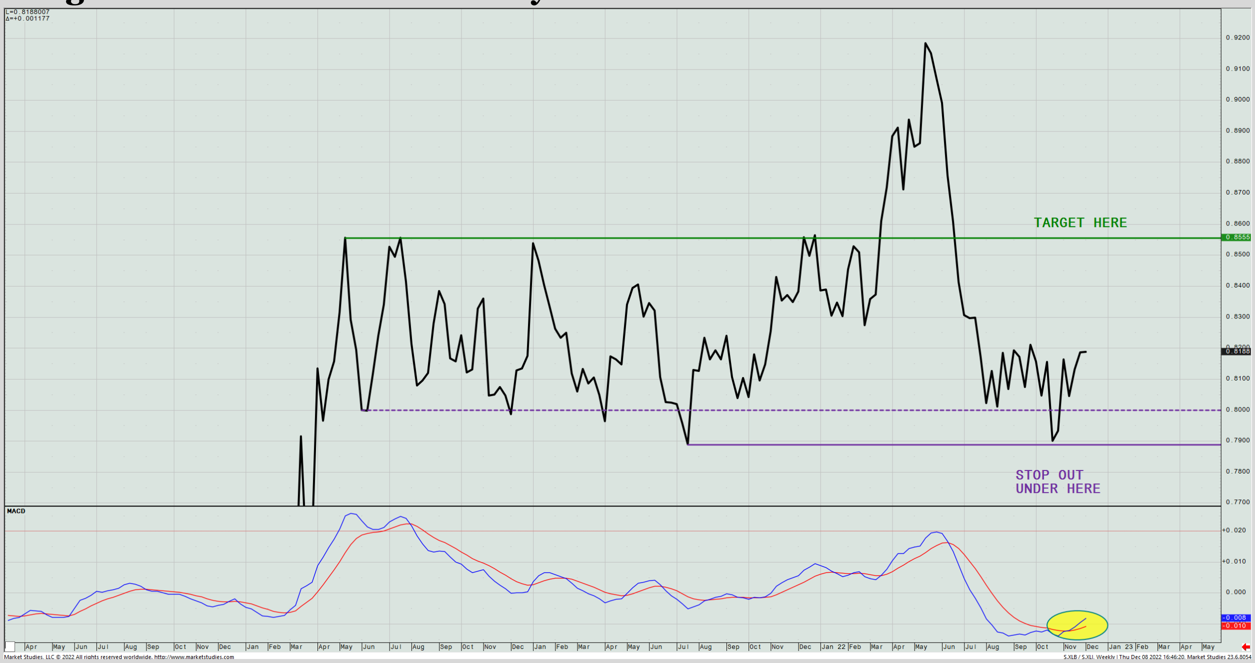
### Long XLY vs. Short XLK - Weekly




### Long XLB vs. Short XLI

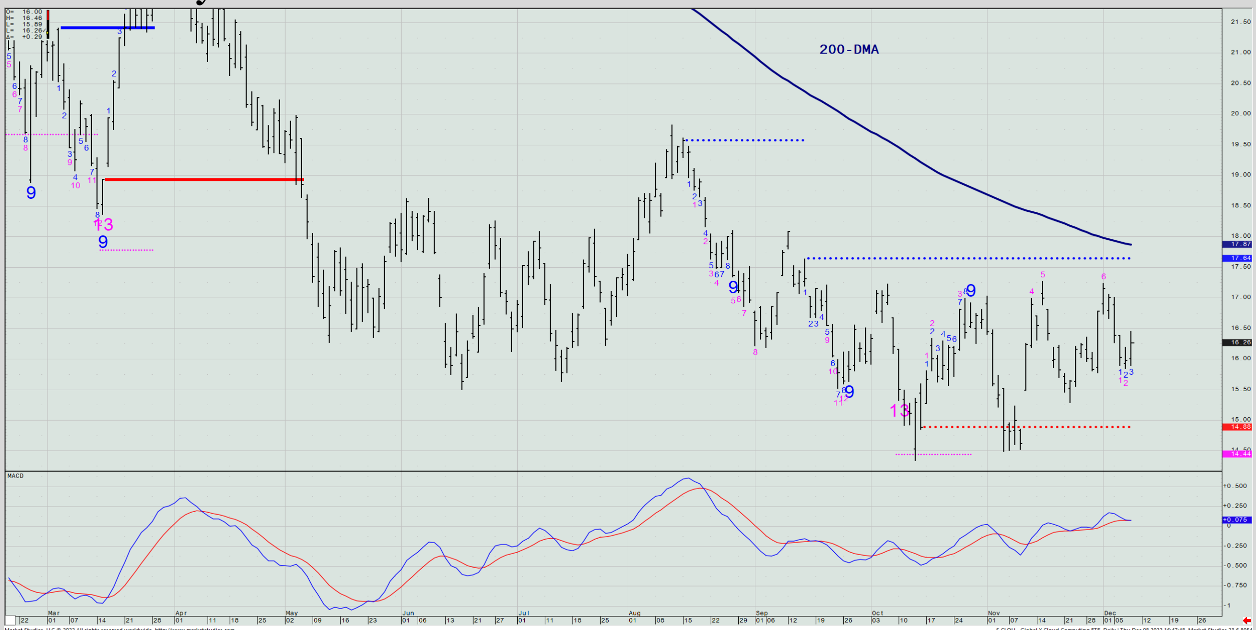
Three Friday's ago, I recommended this pair, with our getting in it at a ratio price of 0.8044. We'll risk a Friday close beneath the 2021 low of 0.78882 (which was already tested and held in 2022) vs. playing for a move up in 2023 to the area of the green line at 0.8555. That gives us this very nice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

### Long XLB vs. Short XLI – Weekly



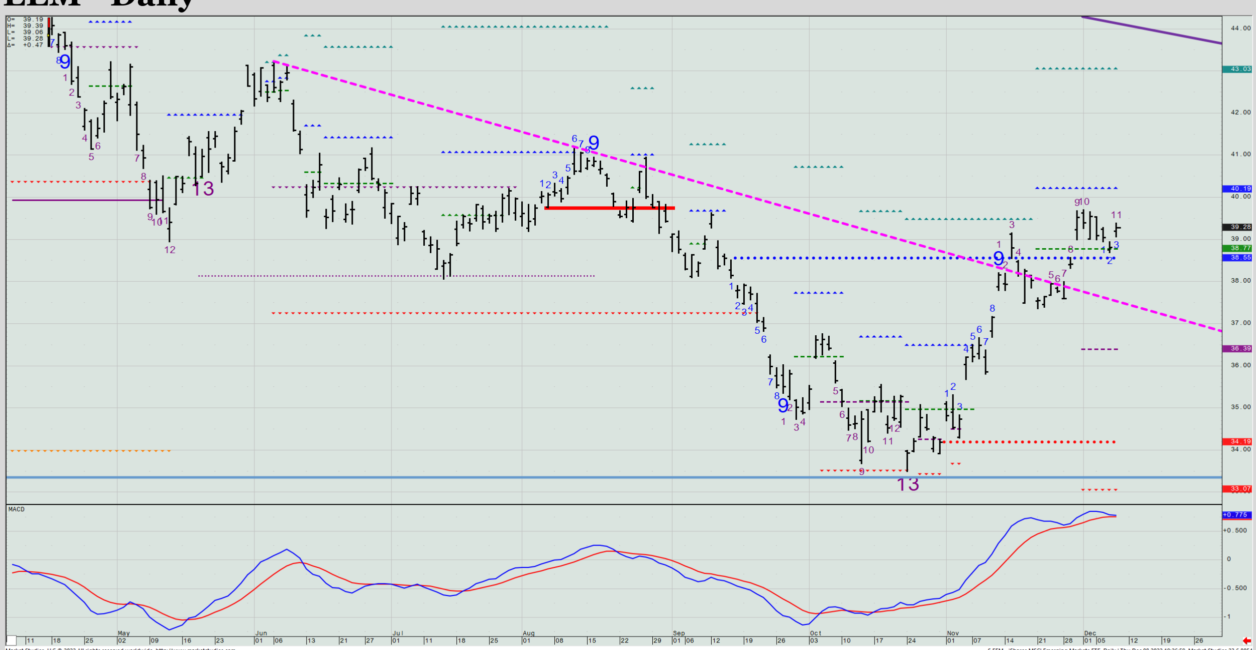
**Long CLOU**
I recently suggested using a possible pullback to $15.60 to $15.30 to get long this cloud computing-related ETF, and we got our avg. entry at $15.45 when it traded as low as $15.28. I'm looking for a move up to $17.64, the most recent TDST resistance line. As we're traders, we'll raise our sell-stop to a close beneath $15.60.

**CLOU - Daily**




**Long EEM**
Six 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, and we'll now sell half of what we have left near $40.19. We'll raise our sell-stop to exit whatever balance we have on any Friday close beneath $37.27.

**EEM - Daily**

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# 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



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