Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

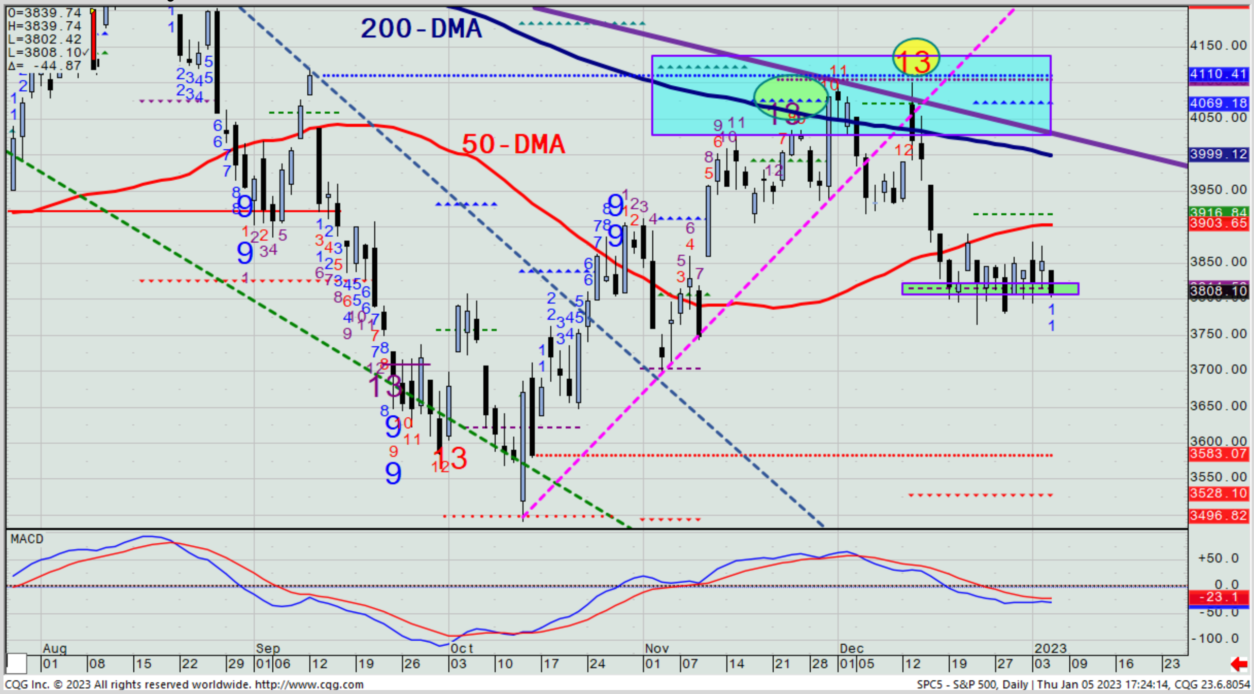
The Macro Picture

The SPX closed out 2022 with almost a 20% decline; the Nasdaq over 30%. It was a nasty year for stock investors, but not nearly as rough a one for those who used rallies to lighten exposure. I told you that I had continuously done that on rallies throughout 2022, and hopefully you had done the same.

For this year, I'm inclined to think that I will continue doing the same "sell rallies" routine, as we are finally starting to see analysts take down forward earnings expectations. I can make a case that we might see those SPX forward numbers fall to the $180 to $190 zone before it hits bottom.

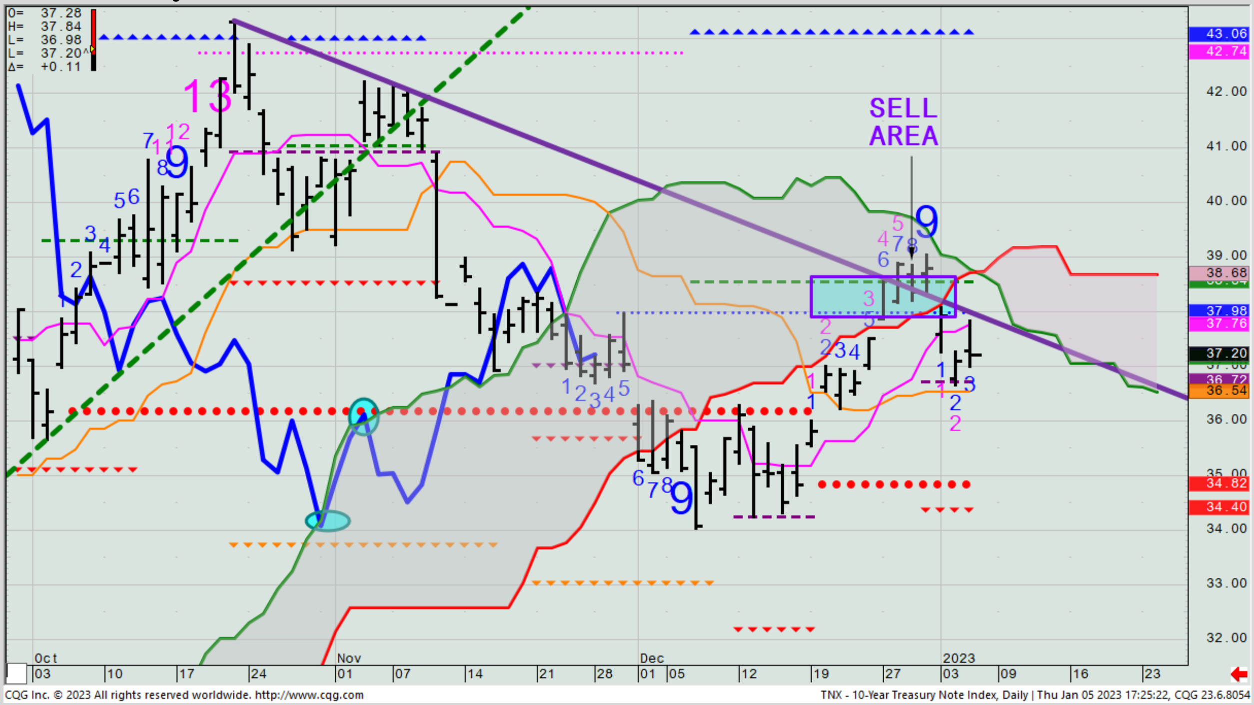
In my most recent report two weeks ago, I suggested that the SPX has support at 3814, and that level has been traded multiple times since, but we had not yet seen a close beneath there until yesterday. If today closes back up through it, then it hasn't really been breached. Another down close today is potentially problematic, and if we see multiple weekly closes beneath 3769 it would likely lead to a test (and even a probable downside breach) of what was the 2022 low just south of 3500. First resistance remains at the 3917 level.

SPX - Daily



The bond market saw UST 10-yr. yields move up to important resistance from 3.77% to 3.86%. I had suggested you buy bonds into that range. (Personally, I bought IEF when yields were at 3.85%.) I think that if the recent high near 3.90% is not materially exceeded, there's a good chance this could be a solid winning trade as I think that bonds will be bid for if stocks crack. I suspect that a breach beneath 3.40% could then send rates well lower than most expect.

TNX - Daily

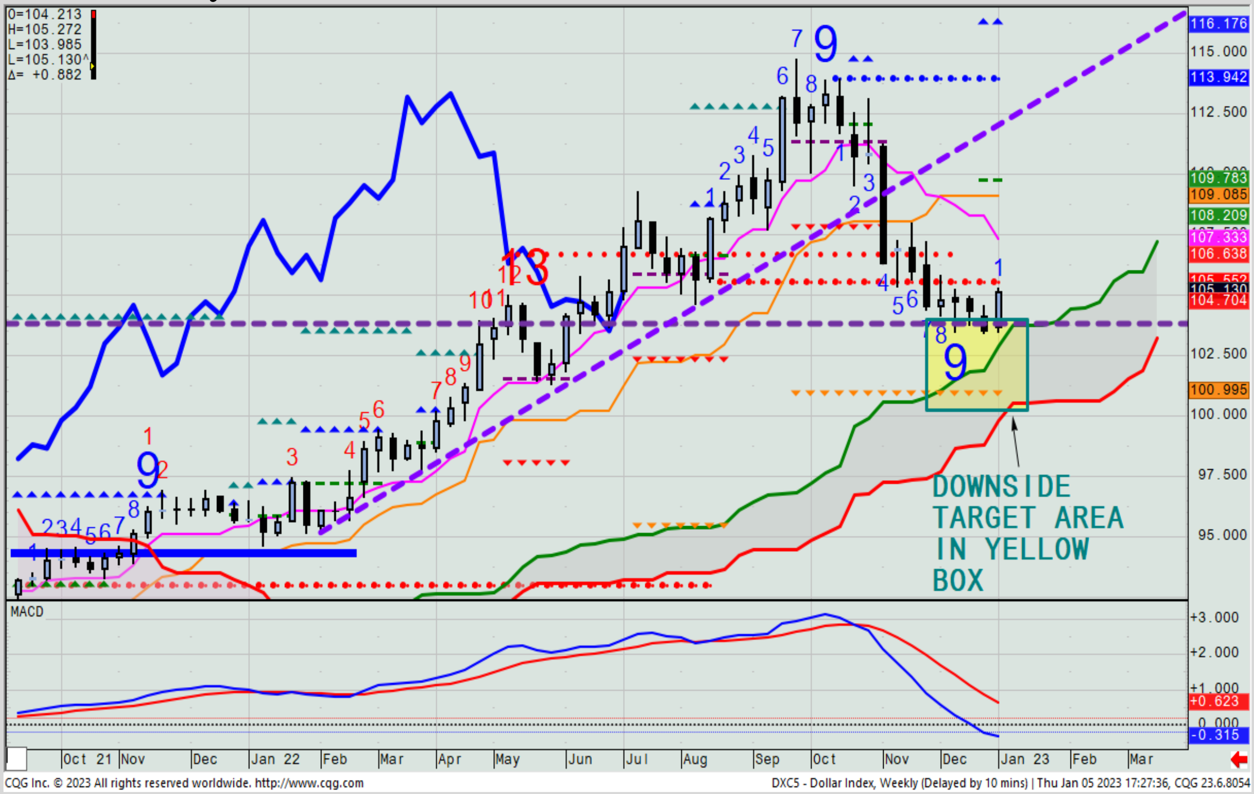


Credit spreads are still potentially bottoming and perhaps starting to widen. From a reward to risk point of view, the spread is a buy as the upside potential is far greater than what you'd need risk if they keep going down.

ICE BofA Corporate Index OAS

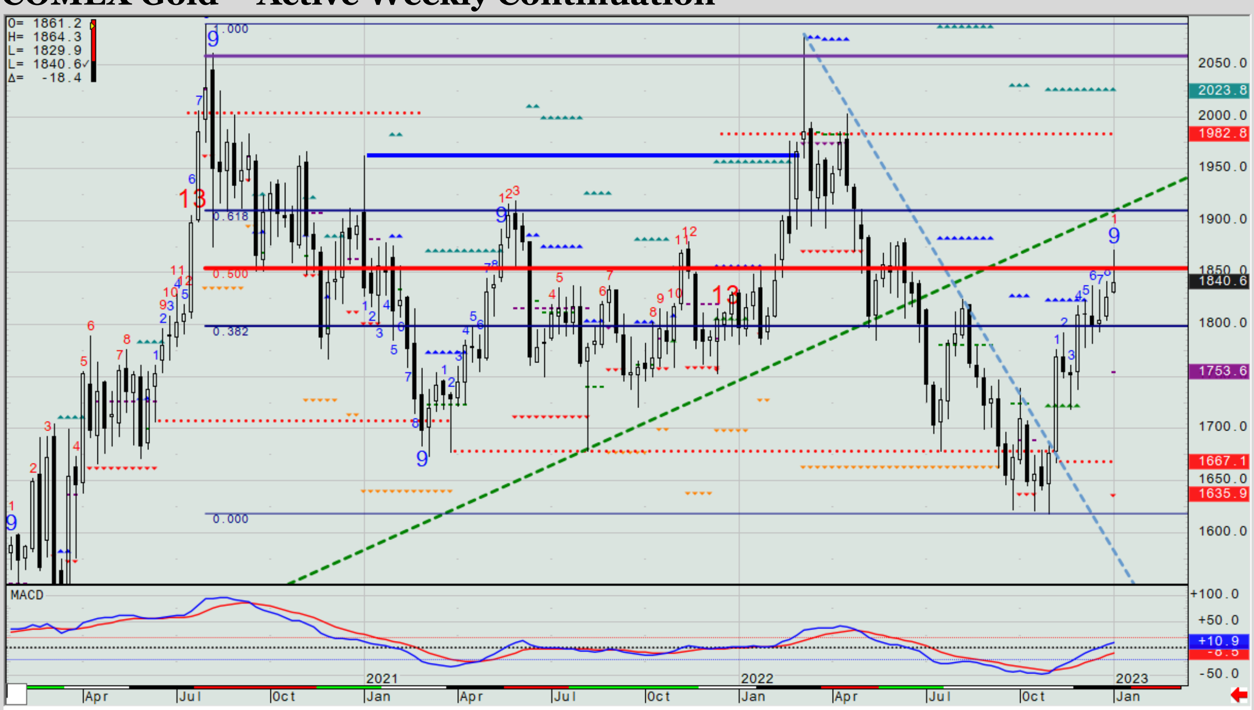
In December I suggested that I could no longer initiate any US Dollar bearish plays, especially give the recent daily Aggressive Sequential -13 signal and the greenback reaching the higher end of what was my 103 to 101 downside price target. It is now right by 105, with it needing to hurdle and stay above its weekly Conversion Line (107.33) to have a more lasting bottom.

DXY - Weekly



Gold has rallied – even with the recent dollar strength – and I do think that it can have a solid year, as its false breakdown under $1675 is likely the catalyst for a major rally. I'm a willing buyer on a pullback, and I do think we'll get one as this week's high hit the 50% retracement back up to the all-time high and its' on a Setup +9 count.

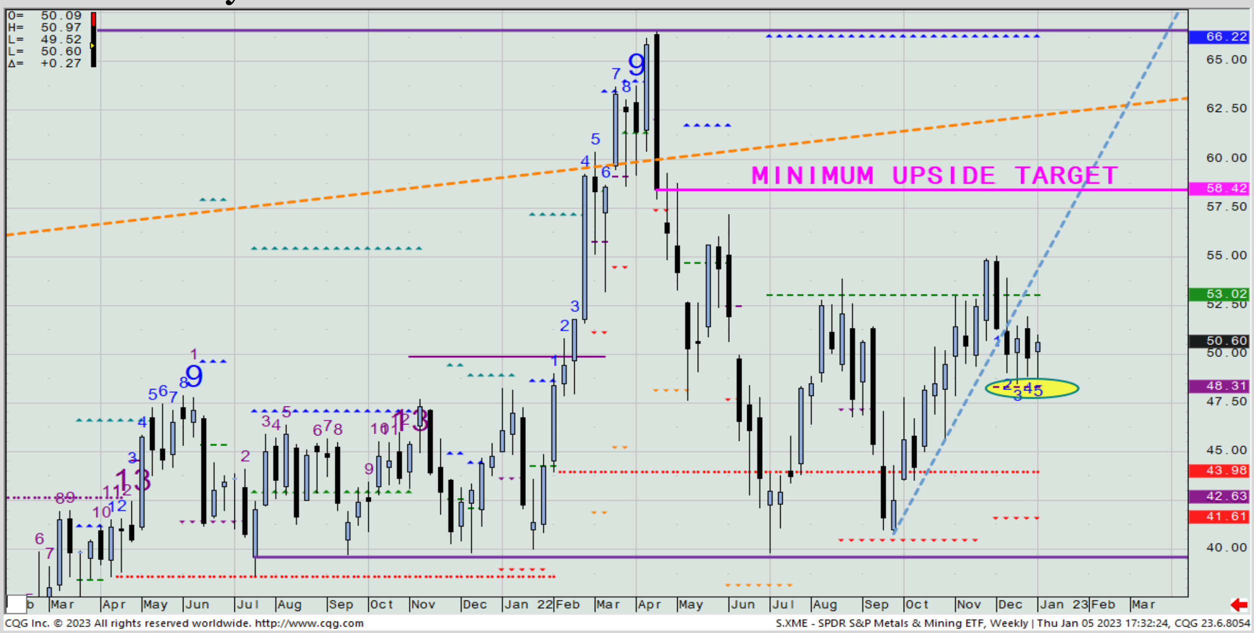
COMEX Gold – Active Weekly Continuation



New ETF Trade Idea

As mentioned above, I am friendly towards metals this year, and one particular related ETF sets itself up for a very cool 4:1 reward:risk ratio. Let's look at the SPDR S&P Metals & Mining ETF (XME). For three weeks in a row, price has held just above the weekly bearish Propulsion Momentum level of $48.31 (circled in yellow). As I generally like to buy failed sell signals in uptrends, let's buy a one-unit position today, looking for a move to at least test $58.42 – the closing price from the week that made the 2022 high. We need only risk a Friday close or two (your choice) beneath $48.31 that also gaps lower the following Monday.

XME – Weekly

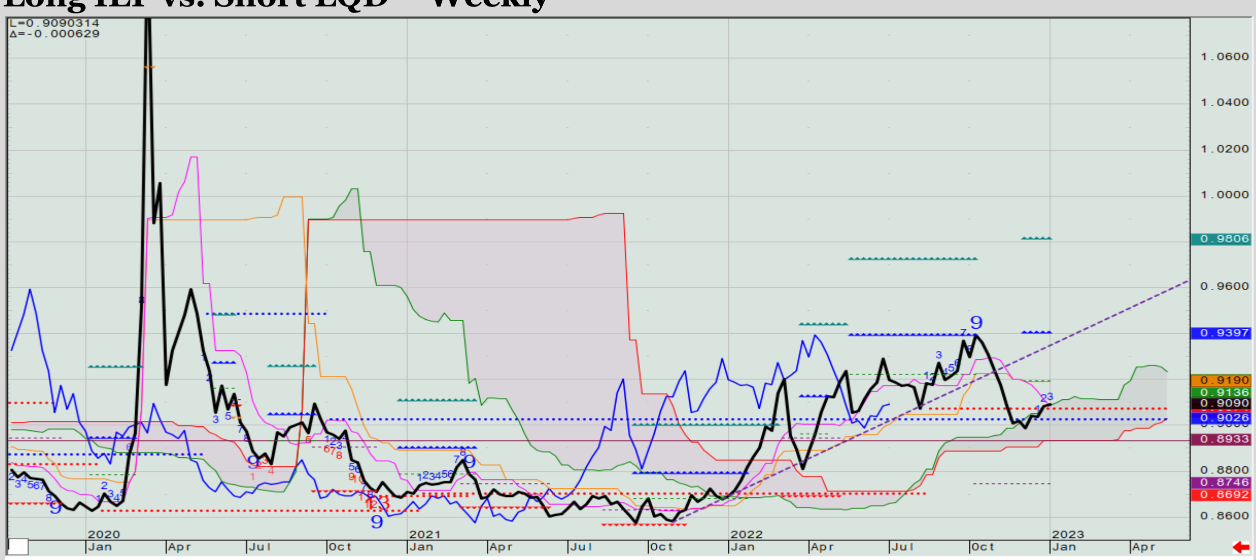


Other Open Recommendations and Positions

Long IEF vs. Short LQD

We got into this position on Friday, Dec. at about 0.9085 (essentially where it's trading now). We'll look for a test near 0.94, while stopping out on consecutive Friday closes beneath the bottom of the current weekly cloud value at 0.8933.

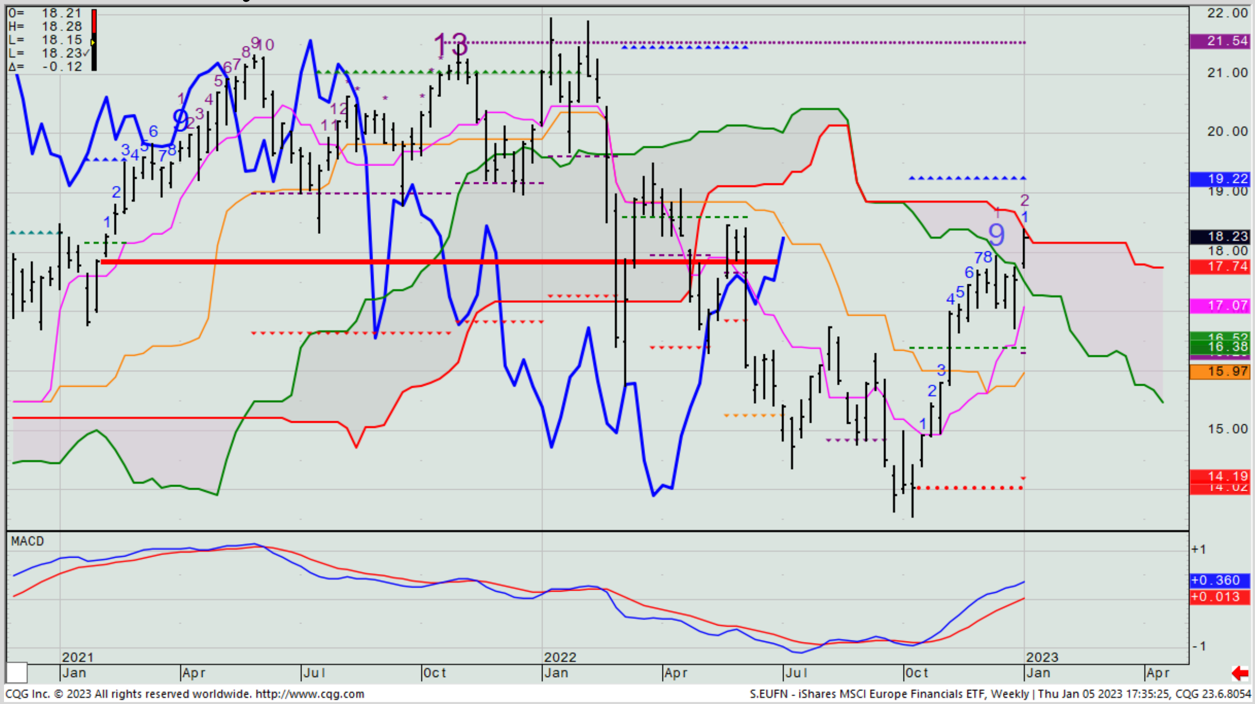
Long IEF vs. Short LQD – Weekly



Short EUFN

In mid-Dec. we shorted a half-unit of EUFN (avg. fill at $17.13) and then another half on Wednesday at $17.50, for an average short at $17.21. I have a downside target of $16 to $15.74, and our buy stop is consecutive Friday closes > $18.15. (Today may be the first.)

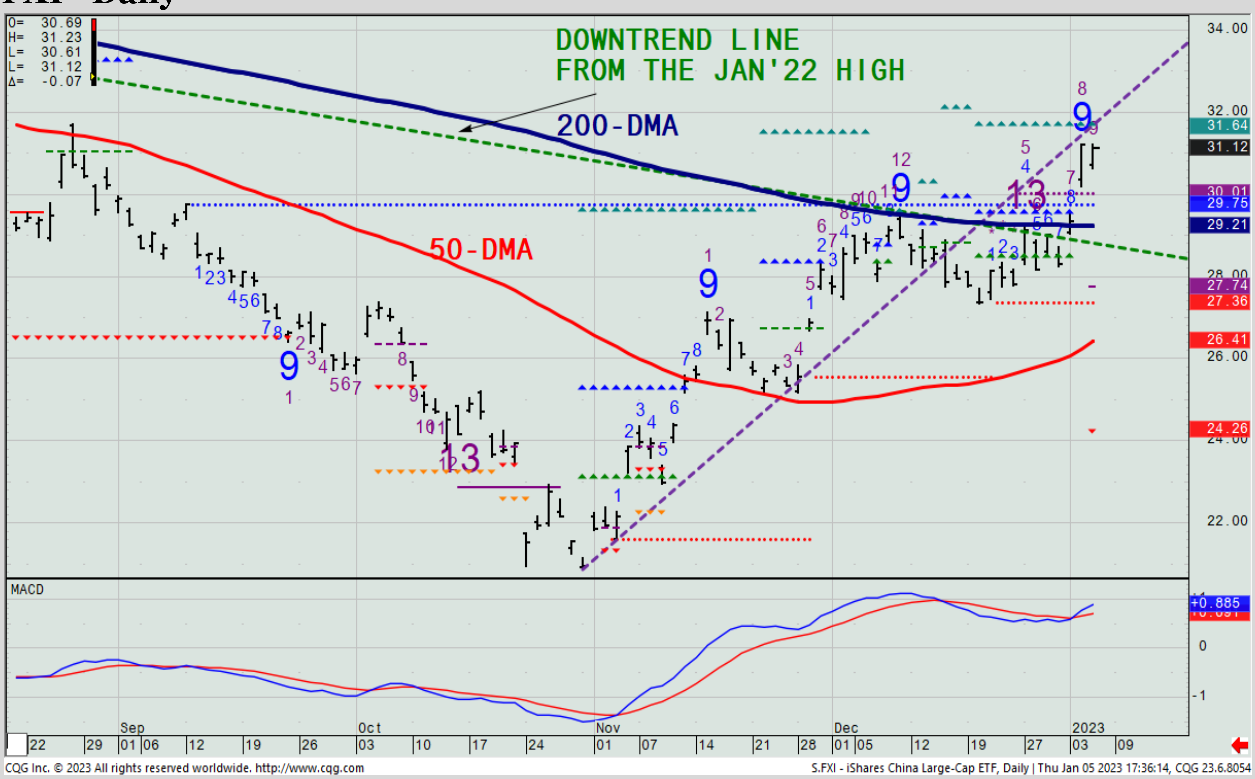
EUFN – Weekly



Short FXI

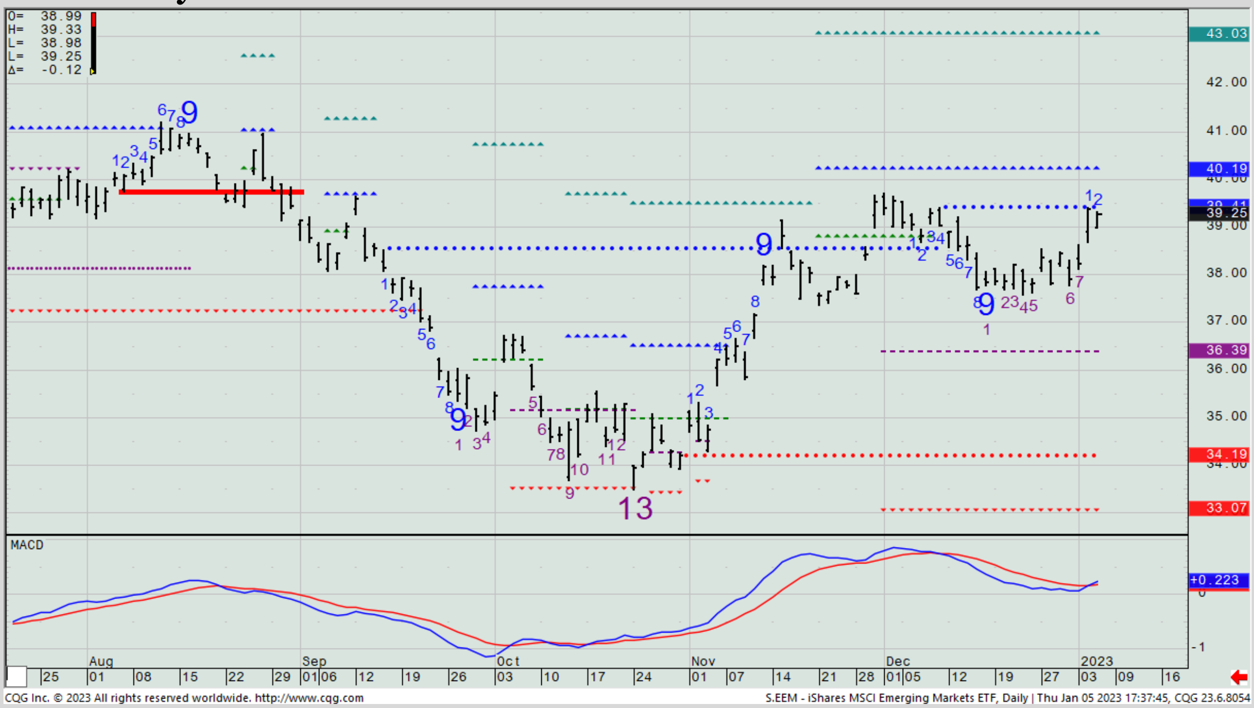
In early Dec., I recommended shorting the FXI in two pieces to give us an avg. short at $28.56. I then lowered our buy-stop to a close or two above $28.82. Thus, we exited on either Dec. 27 or 29 for a loss of approx. 2%.

FXI - Daily



Long EEM
In late-October, 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 sell half of what we have left near $40.19. Raise your sell stop to a daily close < $37.80.

EEM - 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 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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