Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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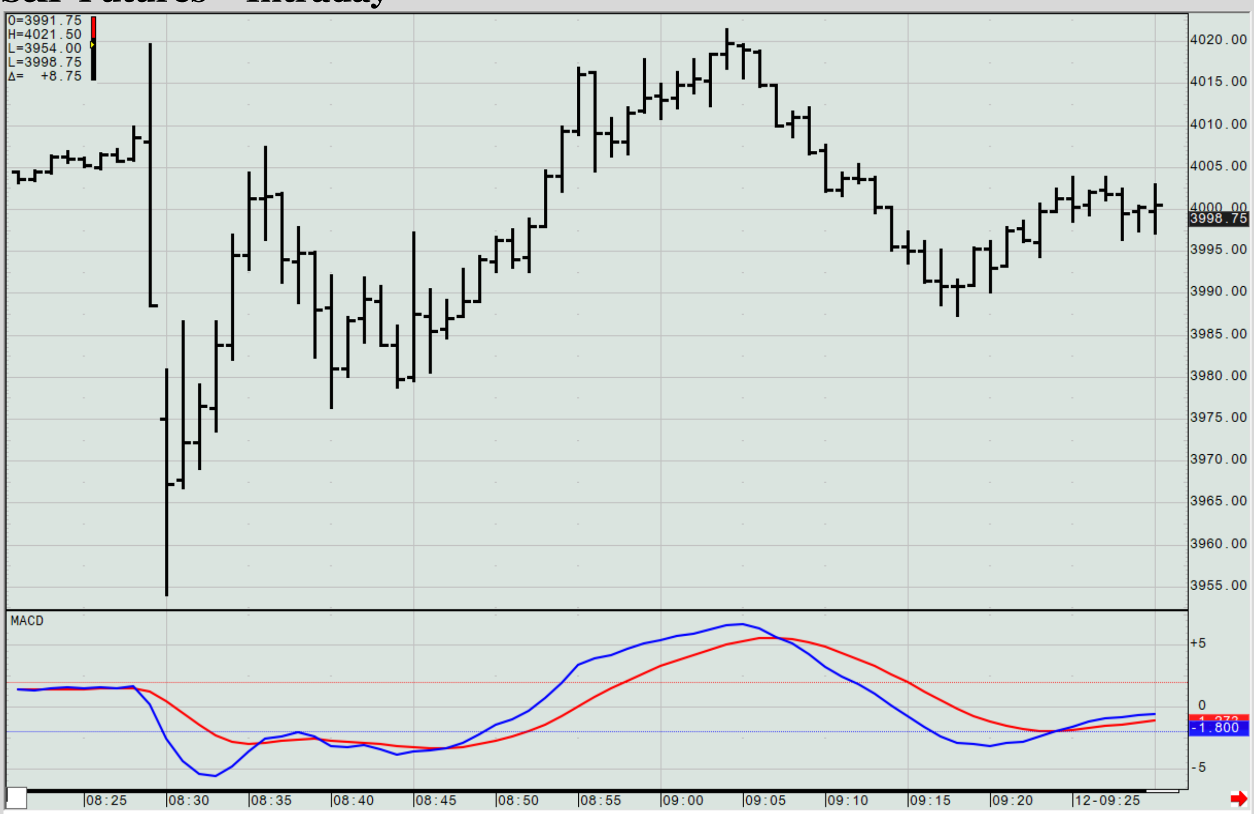
TACTICAL TRADER REPORT

The Macro Picture

Investors have been waiting for the CPI number that came out yesterday, and even though it came in line with expectations, the initial trading right after the 8:30am ET release was really something to watch. Here's a one minute chart of S&P futures from just before the number till the NYSE open. Look at the average one minute range before the number and then after.

S&P Futures – Intraday



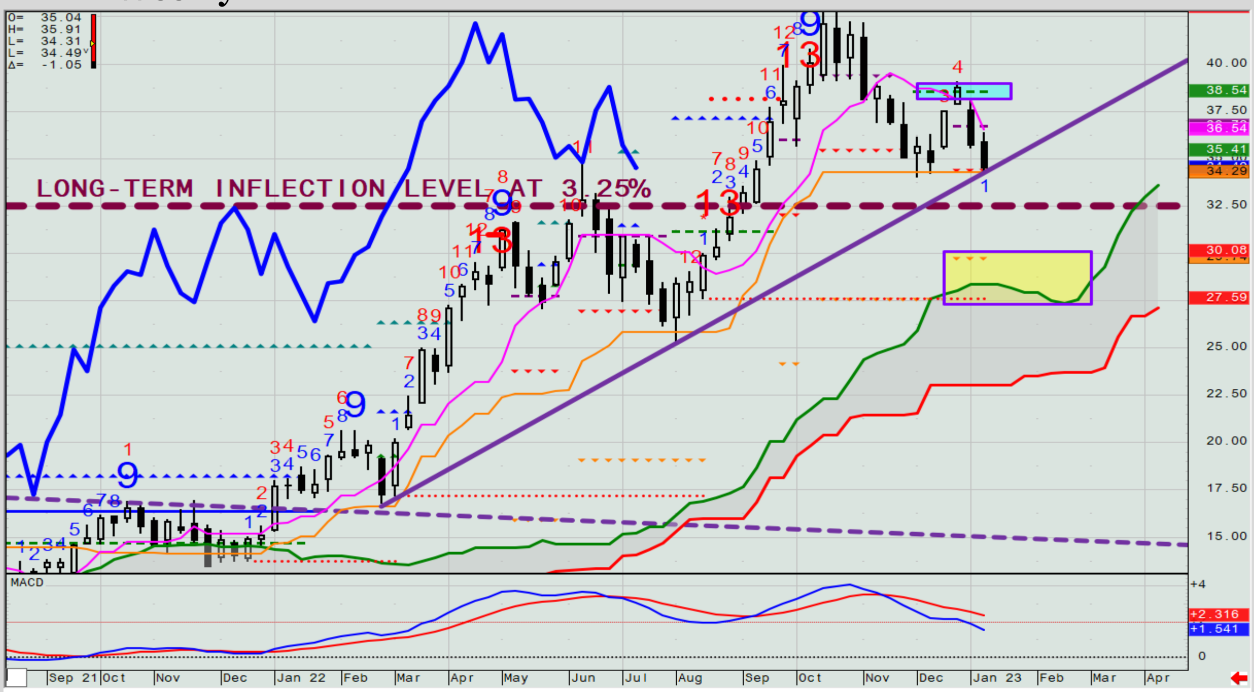
With this number out of the way, we now have to wait until Feb. 1 to get the next FOMC statement. It wouldn't surprise me if their tone remains the same, and they keep the "higher for longer" language in place. The Fed doesn't want higher asset prices right now, so they're not apt to give bulls any comments that will push risk assets even higher.

Meanwhile, equity prices *are* moving higher. Last week's report guided you in playing this upmove, as the 3814 level had only a single day's breach, and it's been straight up since last Friday. Prices are again approaching the major downtrend line from all-time highs, and breaking above that line could easily turn the computer-generated funds (like commodity trading advisors funds, which have significant collective money behind them) to turn bullish. Should bulls run this well higher, than the August high may come into play.

Coming into this year, I had written that the Street consensus trade was a weaker first half and stronger second half of the year, and that the degree of agreement on this was of major concern of mine. As such, I have been leaning bullishly to start this year, and will continue that way until I have evidence that buyers have really run out of steam. So, although I will still be looking to sell rallies, I will be patient about where and when I actually take a negative positioning stance.

Of significance to all of us should be that rates have been coming down. Last week I told you that I had personally bought bonds when the UST 10-yr. reached 3.85% in late-December, and that I thought bonds were heading higher. Since then, rates have fallen some 40 bps. or so, and I do believe that a Friday break under 3.40% should open the door for a move to something like 2.90% to 2.75%.

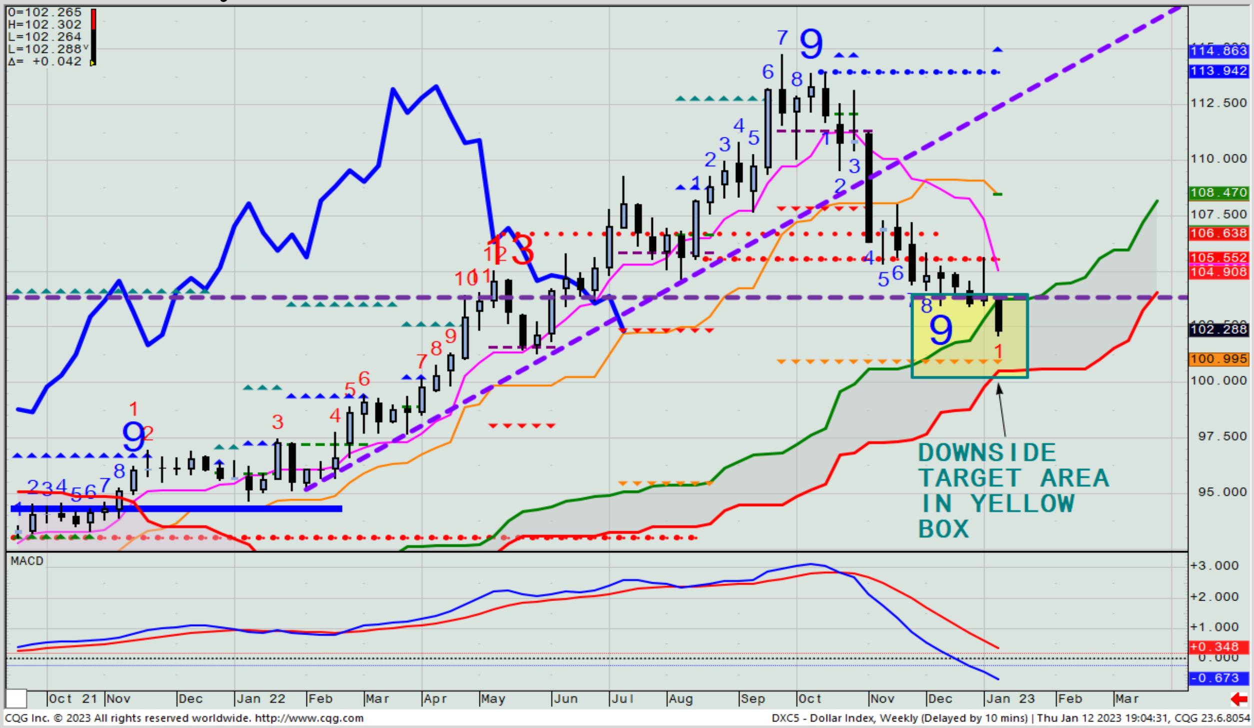
TNX – Weekly



Credit spreads narrowed significantly last fall, and they have recently hovered near 1.4% and the low end of a range. This week they have broken to a new low since last spring, down to 1.34%. Should they fall down to near 1.2%, I will again be looking to play the spread to widen. (We have a position on this now which I address later in this report.)

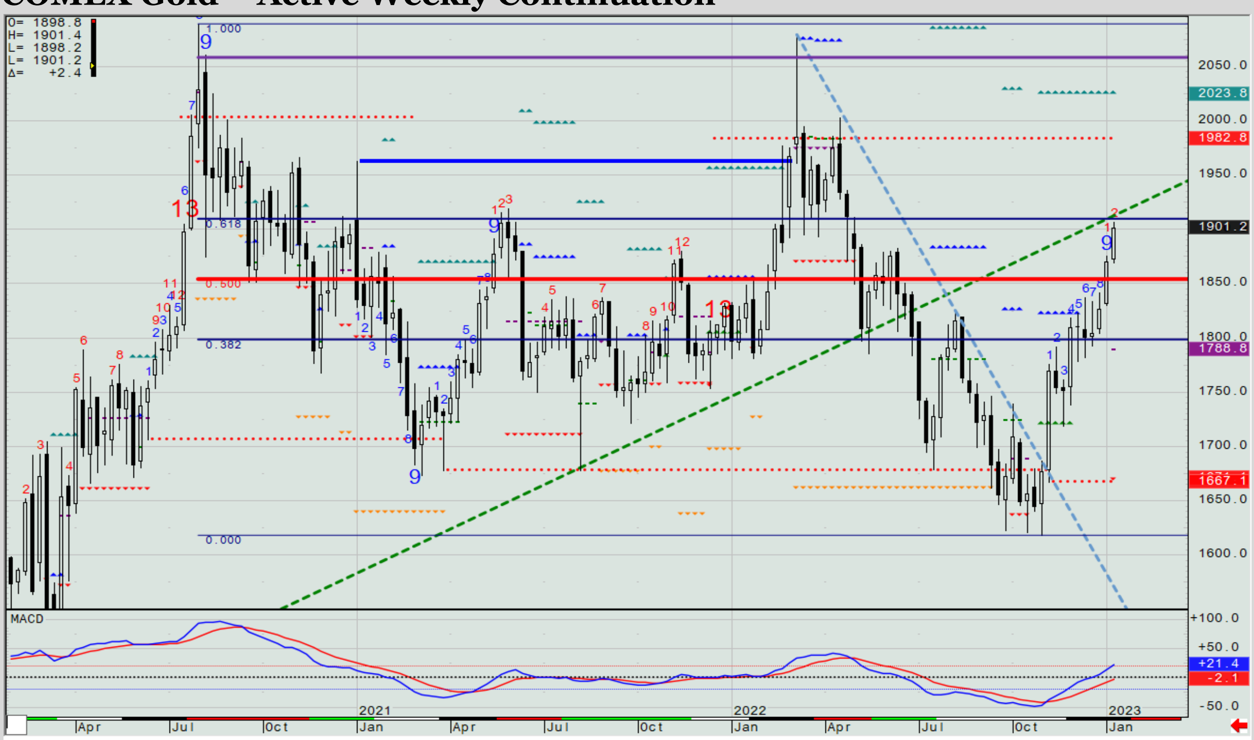
The dollar remains heavy, though I am apt to play a tactical long DXY position on a move to 102.5 to 101, most especially if it lines up with any daily chart timing model downside exhaustion signals.

DXY – Weekly



Gold keeps rallying, and has not pulled back at all. As previously mentioned, the false breakdown last fall beneath $1675 and then seeing the Setup bar +1's huge move up gave the very clear view that gold was not heading lower. I continue to look to both stay long positions you may have, and add on pullbacks. With high confidence, I do think a test of all-time highs is coming.

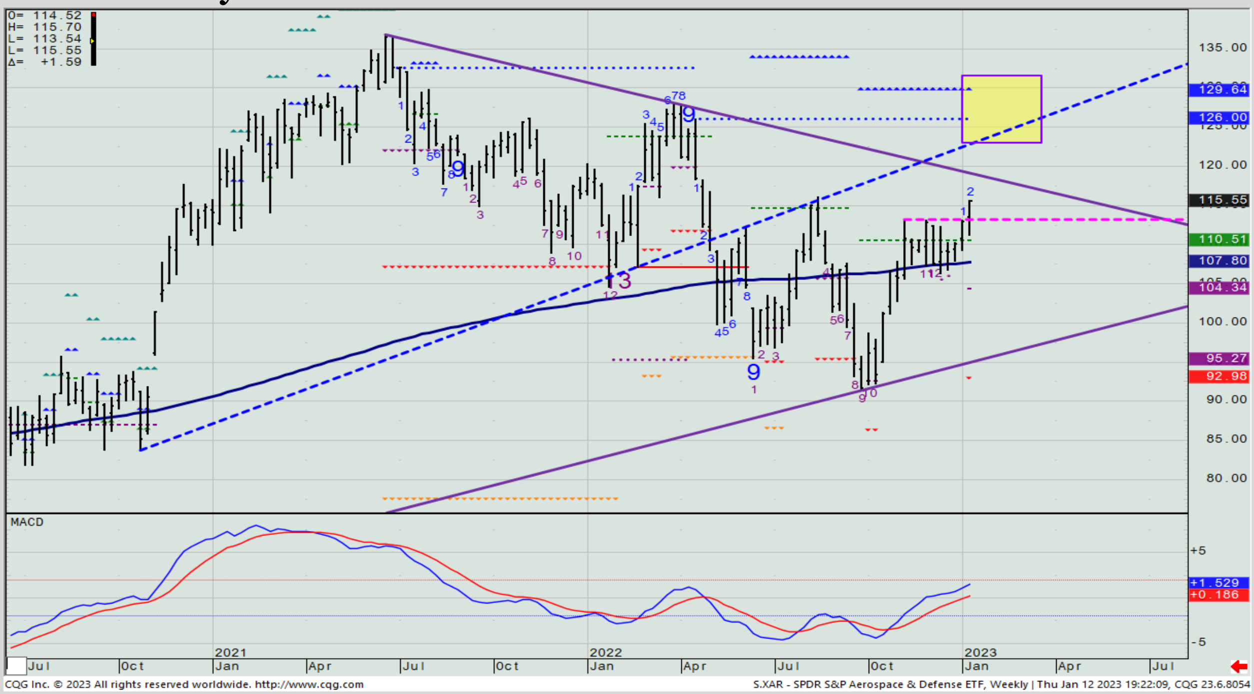
COMEX Gold – Active Weekly Continuation



New ETF Trade Idea

Looking at the **S&P Aerospace & Defense ETF (XAR)**, we see that this week has made another minor upside break of resistance, and appears headed to not only its downtrend line from the mid-2021 all-time high, but even potentially back to the late-winter '22 high in the upper-$120s. As such, let's look to get long a one-half unit position today, and another half at $109.60 on a pullback. We'll play for this to break above the downtrend line and reach the highlighted box in the $123 to $129.50 area. We'll risk to a Friday close < $110.51.

XAR – Weekly

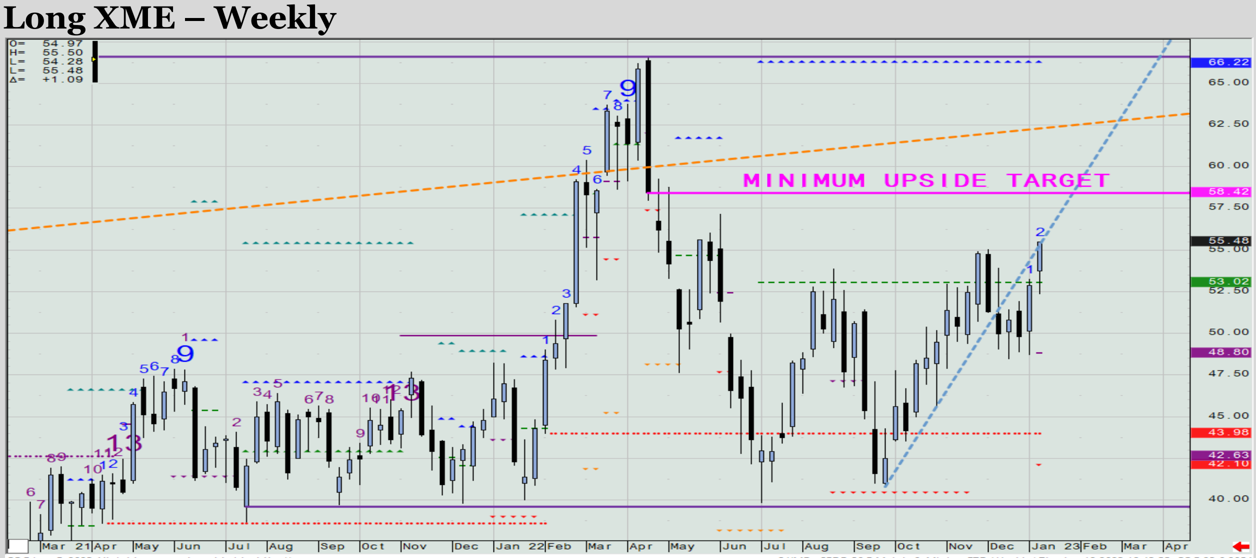


Other Open Recommendations and Positions

Long XME

Last Friday we bought a one-unit position (avg. fill at $51.23), looking for a move to at least test $58.42 – where we'll look to exit half the long. With this moving our way by almost 8% in just one week, I'll raise our sell-stop to breakeven.

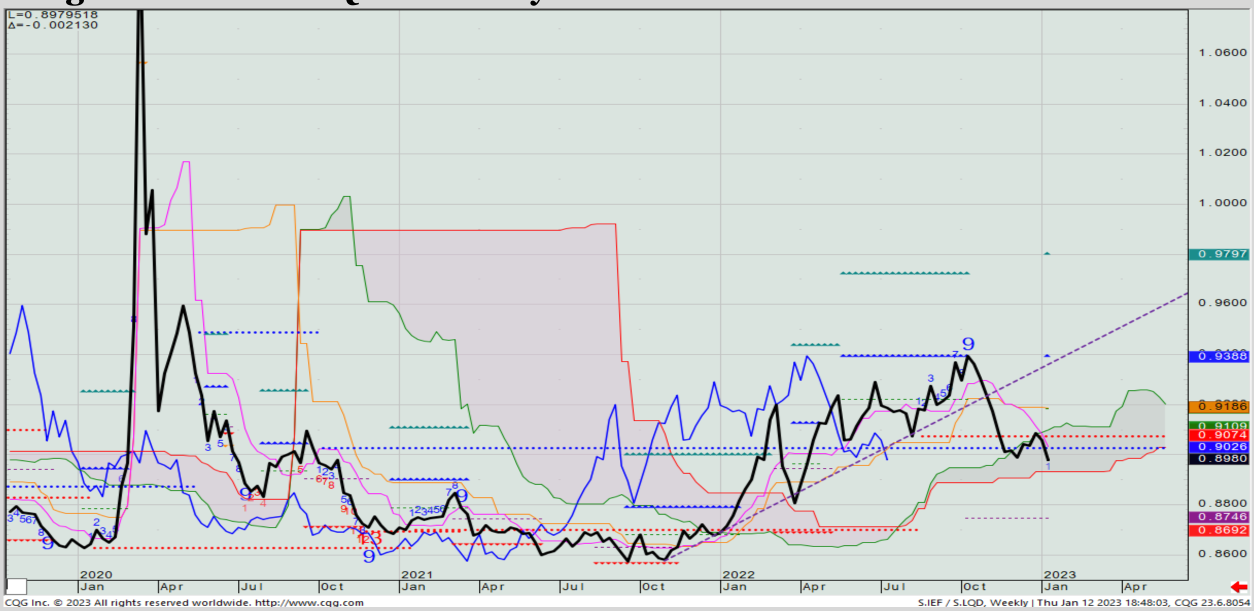
Long XME – Weekly



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. I'm revising that sell-stop to exit today, because to me it's now very likely going to stop us out lower, so I'm not going to wait (i.e., "keep losses small").

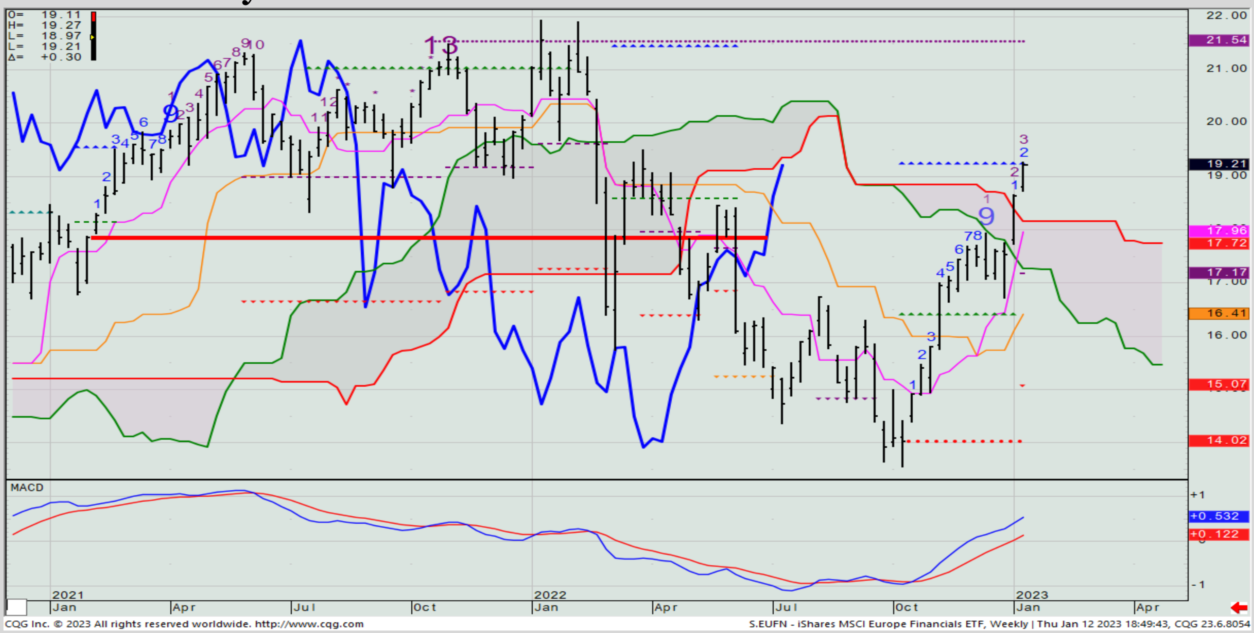
Long IEF vs. Short LQD – Weekly



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. Last week was the first, and today is almost assuredly the second. Now, seeing that price is against its Propulsion Exhaustion level, it's up to you if you'd like to see if next week pulls back from to be able to potentially get out with a reduced loss.

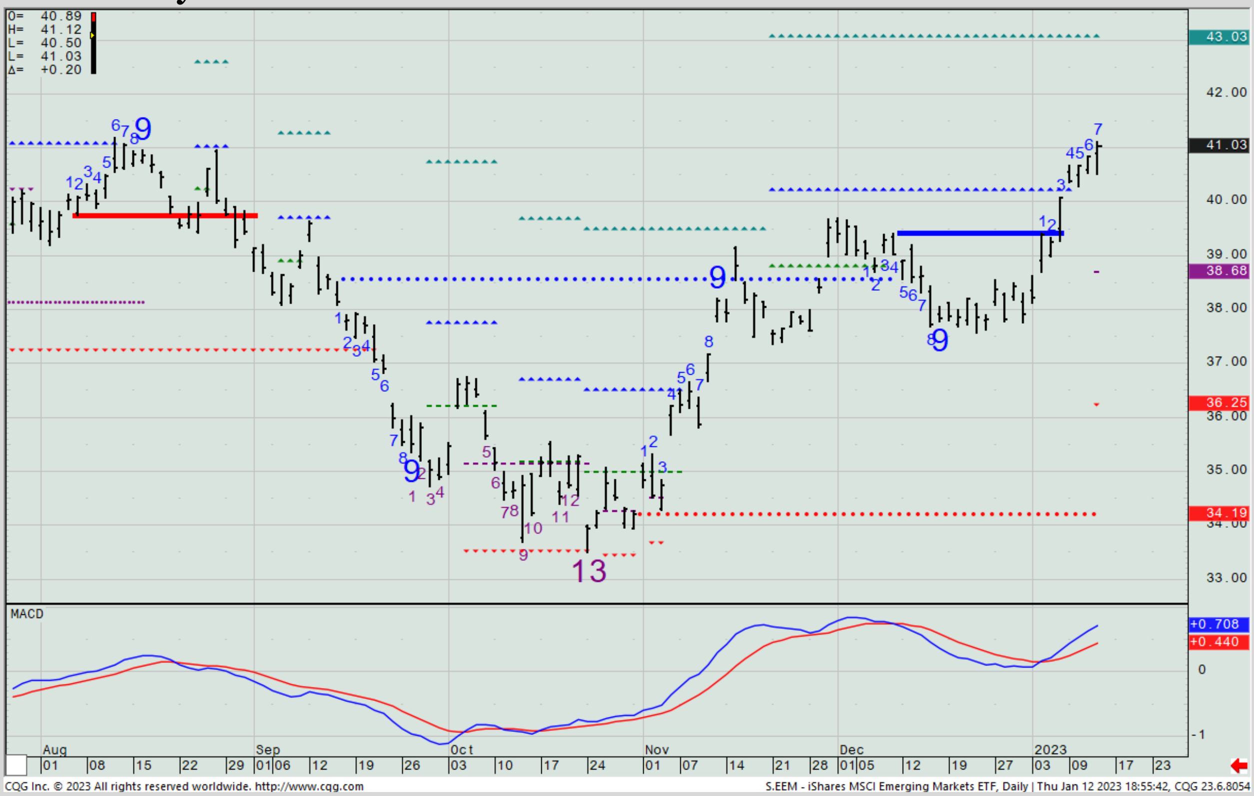
EUFN – Weekly



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 last Friday we sold the other half as we had targeted \$40.19 and it gapped above there. We'll take the opening of \$40.55 as our 2nd exit price, so we made a total of 17% on invested capital.

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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