Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

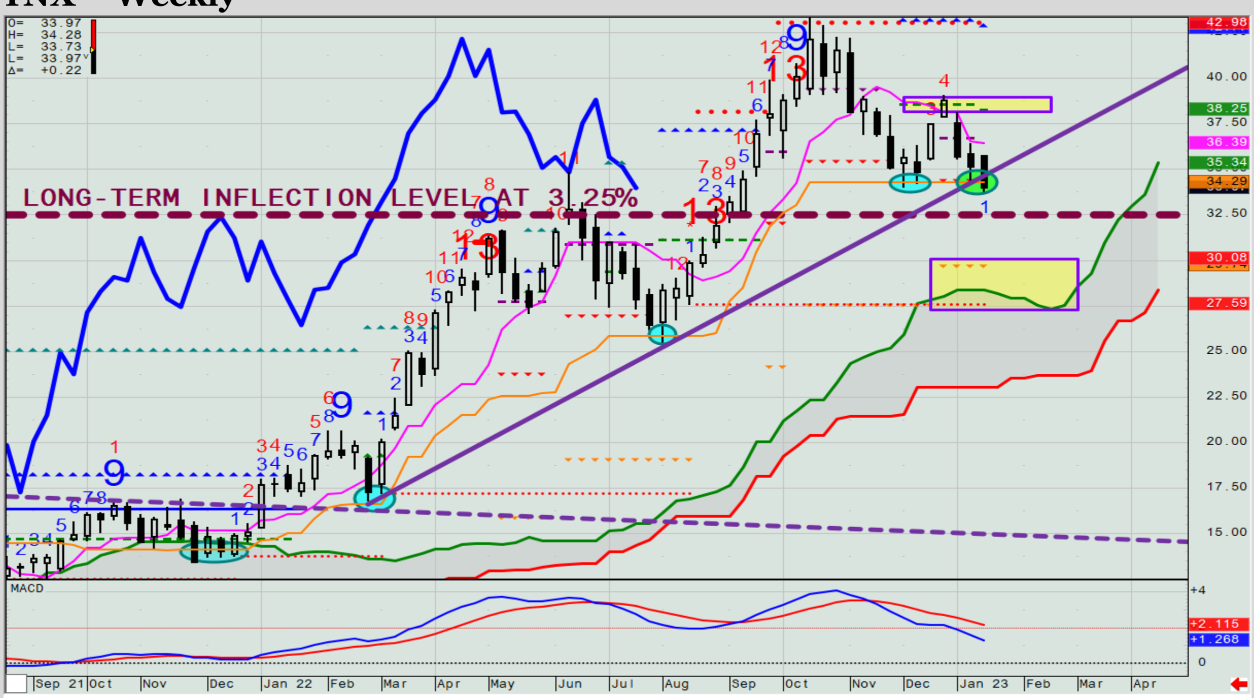
The Macro Picture

Just as it has every other time the SPX rallied to its major downtrend line, the market faltered there and bulls didn't have the strength to push it up and through. It appears as if the market's inability to breakout higher is just another tactical rally within the ongoing overall bear market.

With the upcoming FOMC meeting and rate change coming on Feb. 1, we're shortly to go into the "quiet period" for Fed officials to publicly speak, so many of them will find a way to get their thoughts out now. Watch the spread between the 2yr. note yield and the 10yr. rate, as it's more important than the outright level that yields trade at. A further widening of the spread would not be good for Financials, which is how I'm playing that sector (and if you are a subscriber to my 7:11 Report, you know that I do not have XLF in the portfolio since Dec. 1).

Benchmark UST 10yr. rates are on the edge of a cliff, and as I've previously told you, I believe that any Friday break under 3.40% should open the door for a move to something like 2.90% to 2.75%. They'll be stops along the way to get there, but the weekly cloud model's Base Line (currently 3.43%) has been the bottom for yields 4 times already on pullbacks over the past 13 months. (See blue ellipses on below chart.)

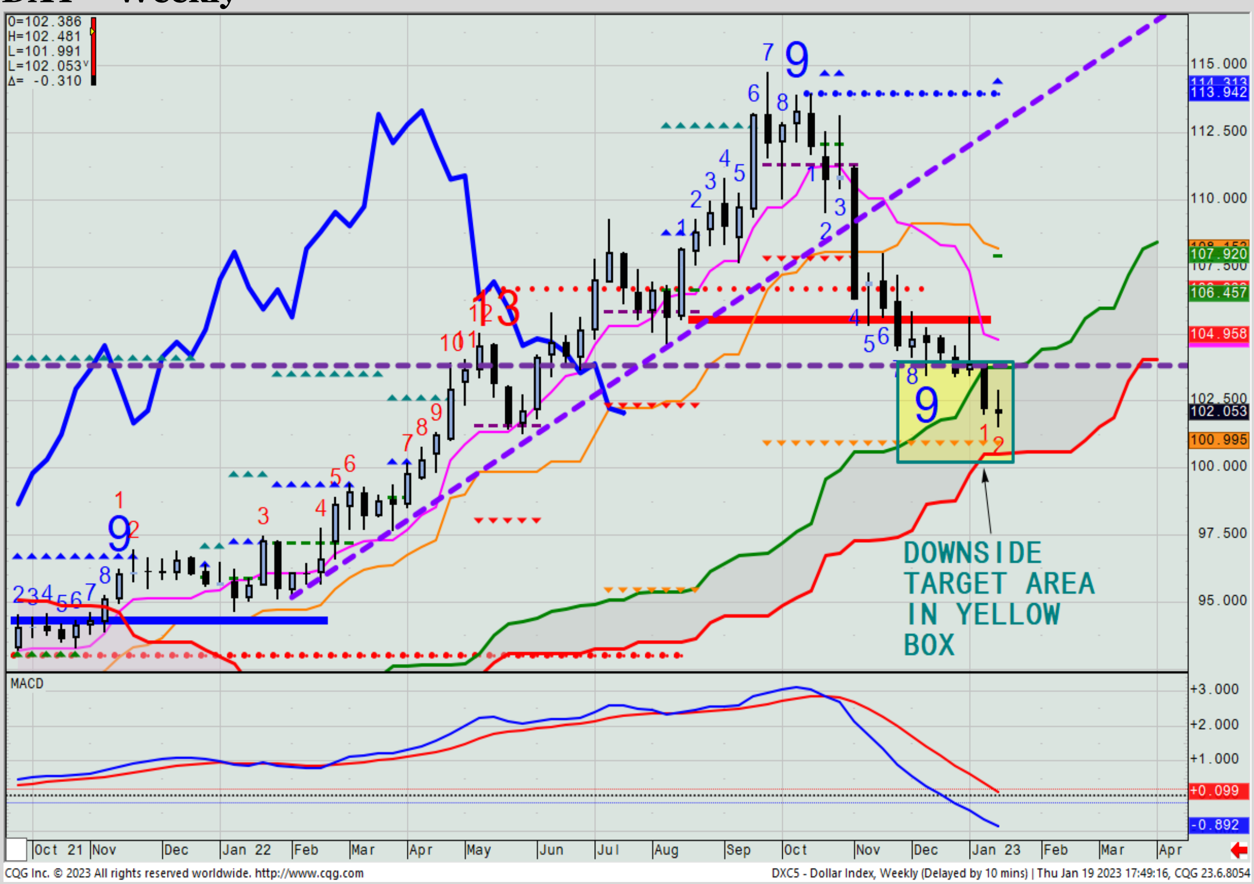
TNX – Weekly



Credit spreads continue to fall, and as of Wednesday's close of 1.29%, it's getting closer to the major uptrend line in the low 1.2% area.

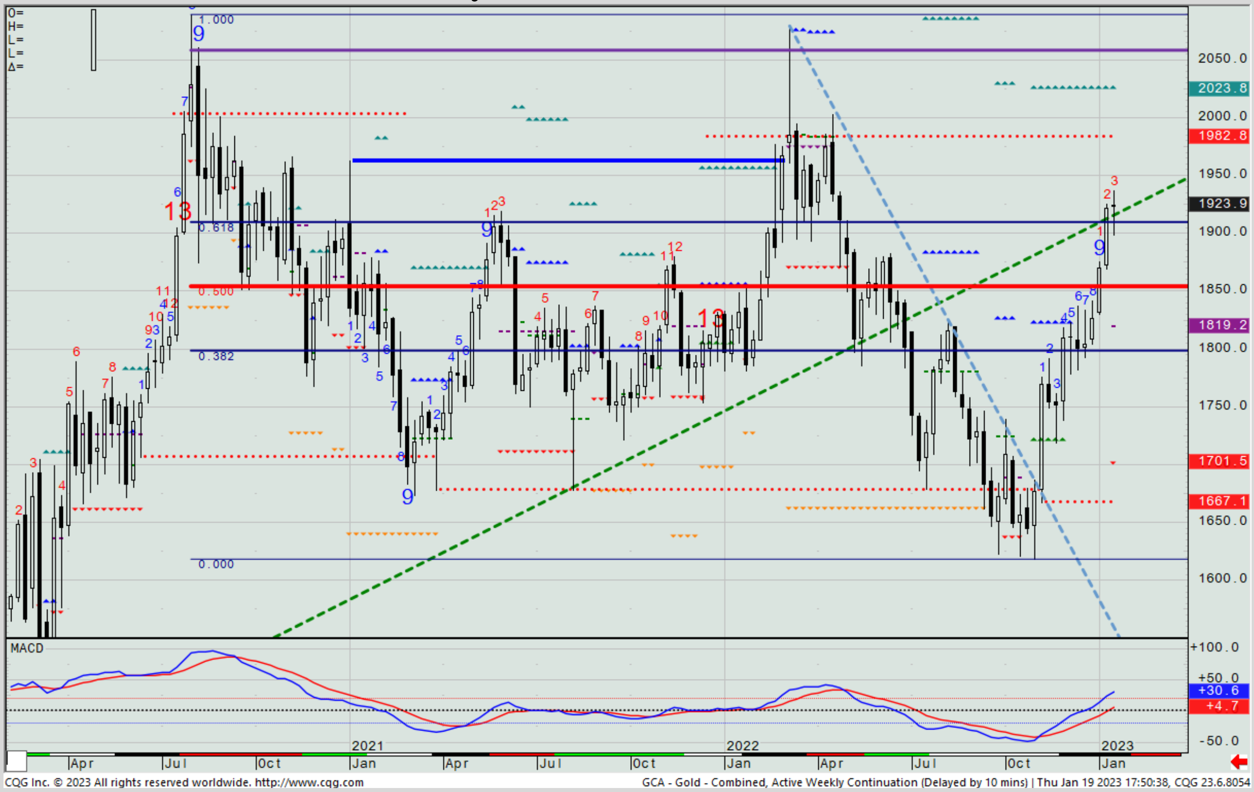
The dollar has stayed under pressure, especially with rates falling. I am still apt to play a tactical long DXY position on a move to 102.5 to 101.

DXY – Weekly



My comments on gold are literally word for word what I wrote last week: *"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."* In other words, nothing has changed there.

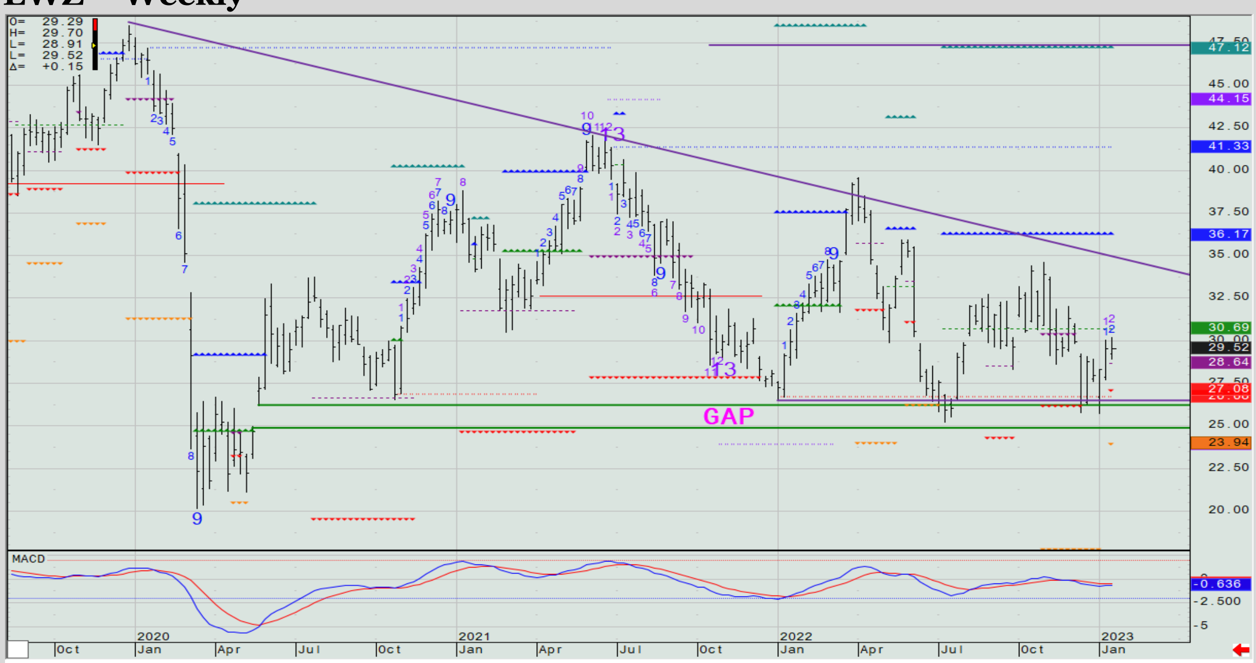
COMEX Gold – Active Weekly Continuation



[New ETF Trade Idea]()

Brazil has had some recent major political upheaval, but their stocks continue to hold up above key support. Looking at the **iShares MSCI Brazil Capped ETF (EWZ)**, we see another recent low coming from the shown support zone (that's the 5th time it held in the past 2.5 years). We'll play for a rally and target the downtrend line in the \$34 to \$35 area. We'll keep a tight sell-stop on this to exit on the second consecutive Friday close beneath \$28.64.

EWZ – Weekly



Long XAR

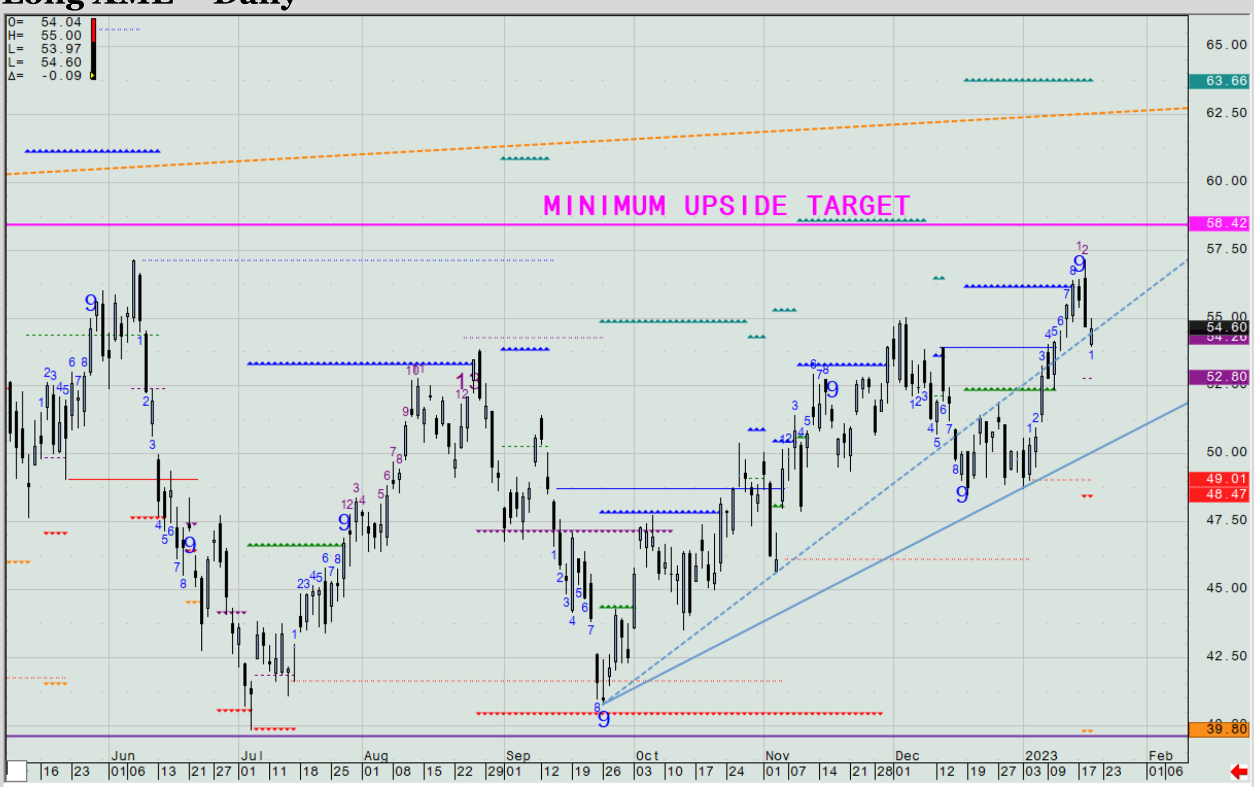
Last week we entered a new one-half unit long position at an avg. price of $114.62. I was looking to add more at $109.60, but have second thoughts about that. So, we'll remain long just the ½-sized position, but will adjust the sell-stop on it to exit on consecutive daily closes beneath $109.88. The upside target stays in the mid-$120s.

XAR – Daily

Long XME

Two weeks ago, 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. Our sell-stop is at breakeven.

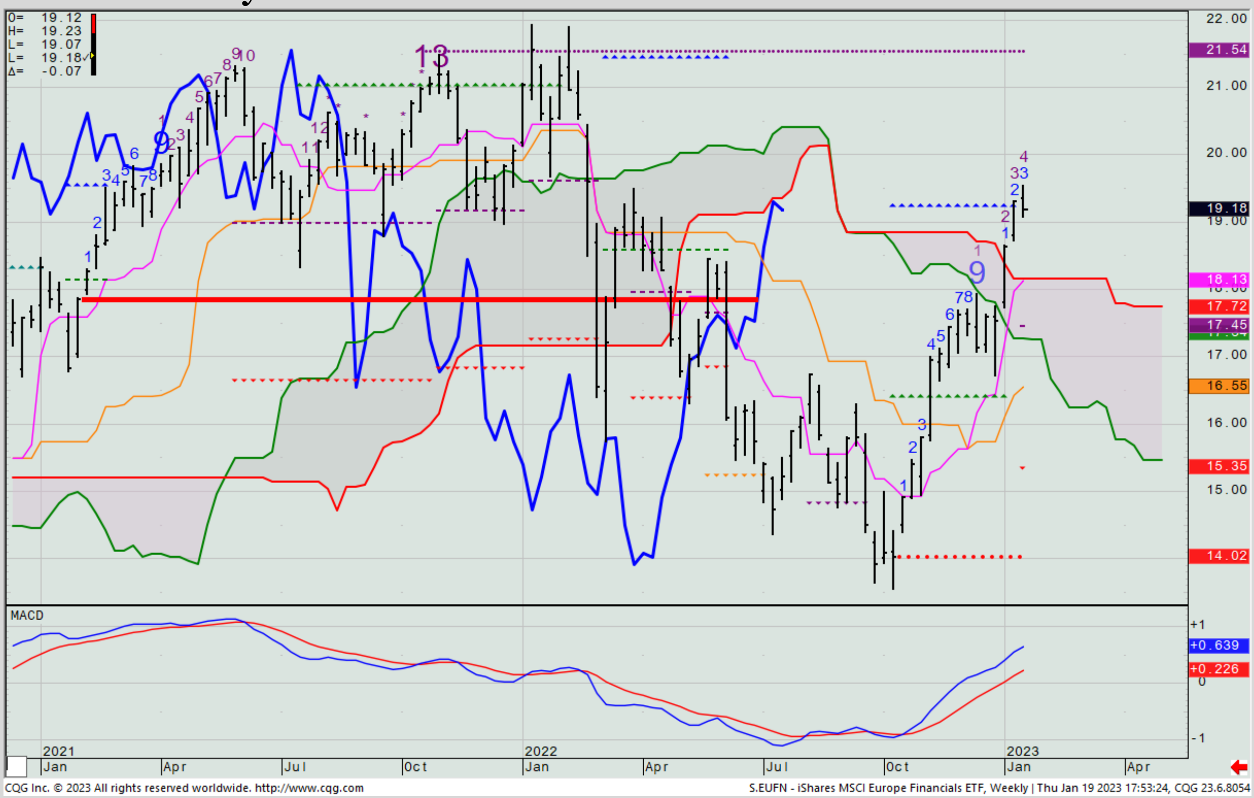
Long XME – Daily



Short EUFN

In mid-Dec. we shorted a half-unit of EUFN (avg. fill at $17.13) and then another half at $17.50, for an average short at $17.21. I had a downside target of $16 to $15.74, and our buy stop was consecutive Friday closes > $18.15. We did get stopped out last Friday (loss of 10.9%) unless you heeded my suggestion to possibly hold off stopping out because of the move to the Propulsion Exhaustion level. I'll continue to monitor this for those who stayed in. Any Friday close above last Friday's close of $19.31 is definitely your exit as would be a pullback to near the top of the weekly cloud at $18.15.

EUFN – 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.

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