Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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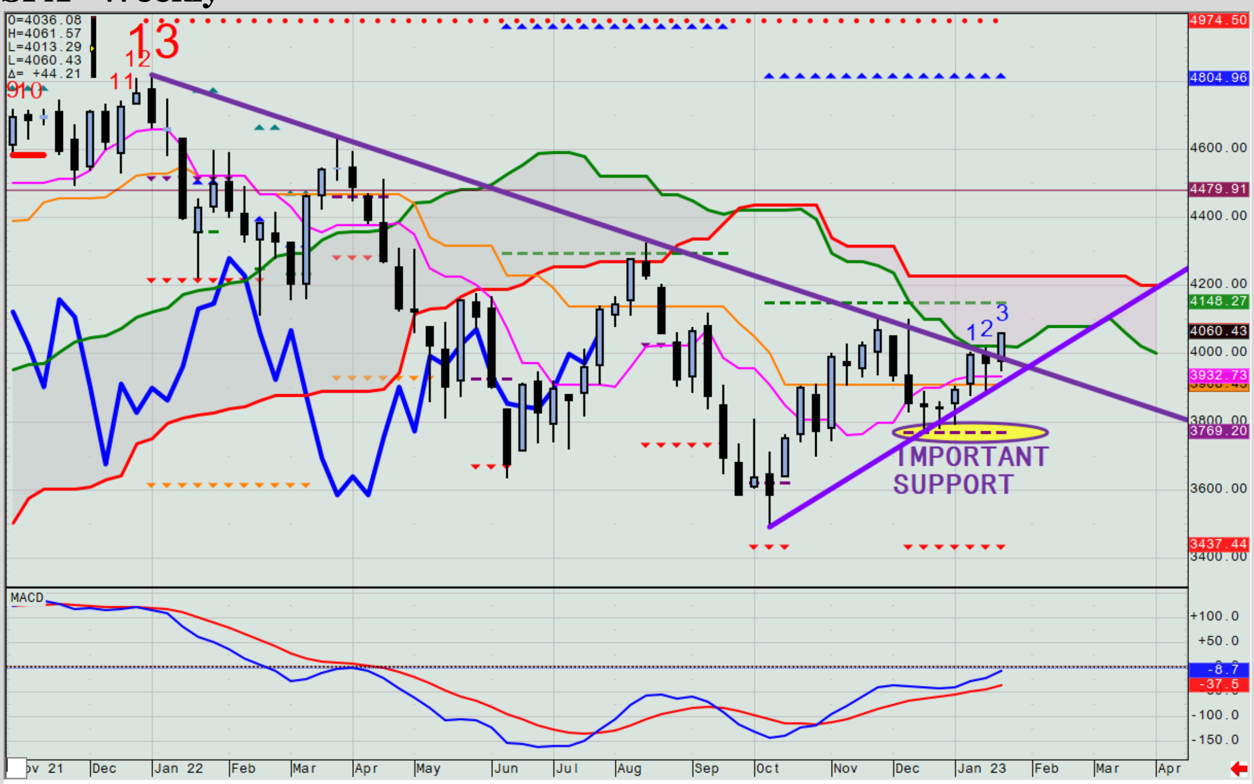
TACTICAL TRADER REPORT

The Macro Picture

Stocks continue their January rally, shaking off MSFT and TXN lower forward guidance to see the SPX close at the best level since early December. So far, this upmove has broken above the 200-DMA and its major downtrend line. Bulls are claiming new bull market; bears are hurting but saying that some of the biggest market rallies come in bear markets. To me, neither side is wrong, BUT neither side is right yet, either.

Let's look at the weekly SPX chart, for it is the best way to get the medium-term picture from this benchmark index. It's downtrend line this week is at 3988, but probably even more important than that is that the bottom of its weekly cloud is at 4022, which was ½-percent beneath this week's high.

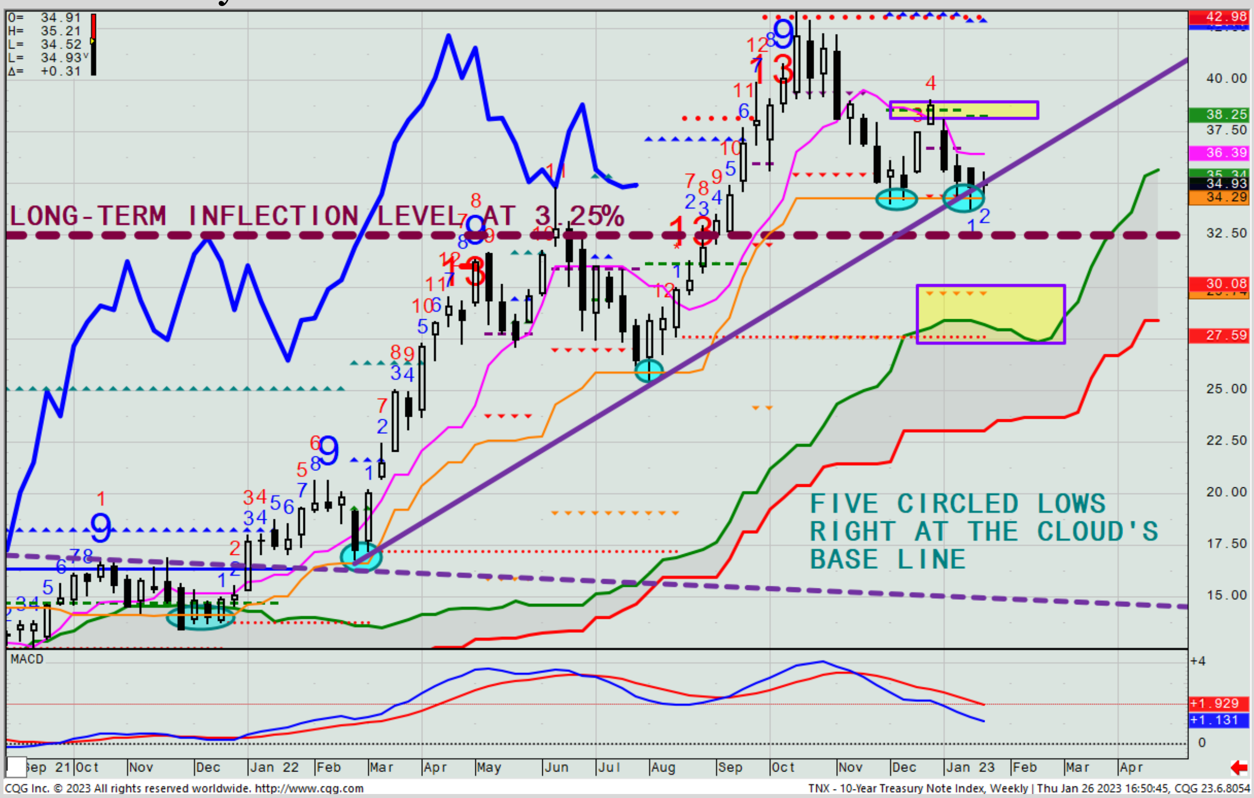
SPX - Weekly



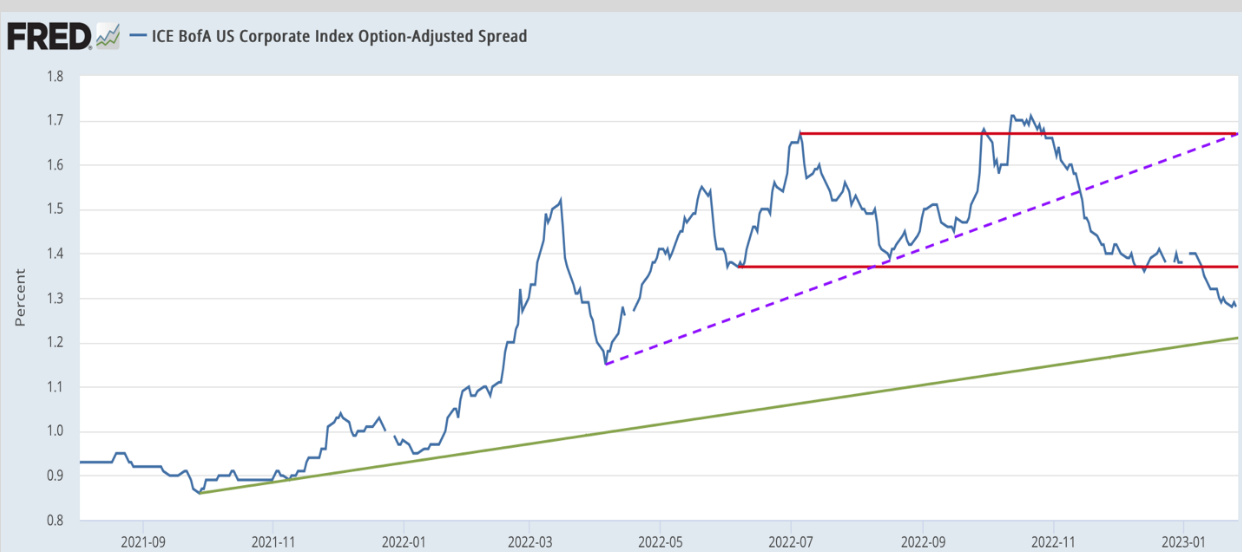
My bullish tactical call since Jan. 1 continues to work, and buyers have been quite evident this week, too, taking Wednesday from a big down day to a mostly flat one, and then seeing follow-through buying yesterday. The 11-day RSI reading is at 66%; the more standard 14-day is 63% -- neither showing overbought conditions yet. And the poll I rely most on is only showing S&P futures at 40% bulls, so it's not near overbought – let alone extreme overbought to consider fading the move because, "Everyone is bullish". It's not close. That means there's potentially more upmove to come. A new high above the November high will move the bearish Propulsion Momentum level higher than the current 3814 level that held as key support late last year. Potential resistance levels are 4137/4148 and then 4228, besides the more standard ones you might see from Fibonacci retracements and prior highs.

UST 10-yr. rates again held support at 3.43% by last Friday's close, and I still believe that any Friday close beneath 3.4% likely sends rates down to test 3%. It's all about that weekly Base Line, which has been tested 5x already.

TNX – Weekly

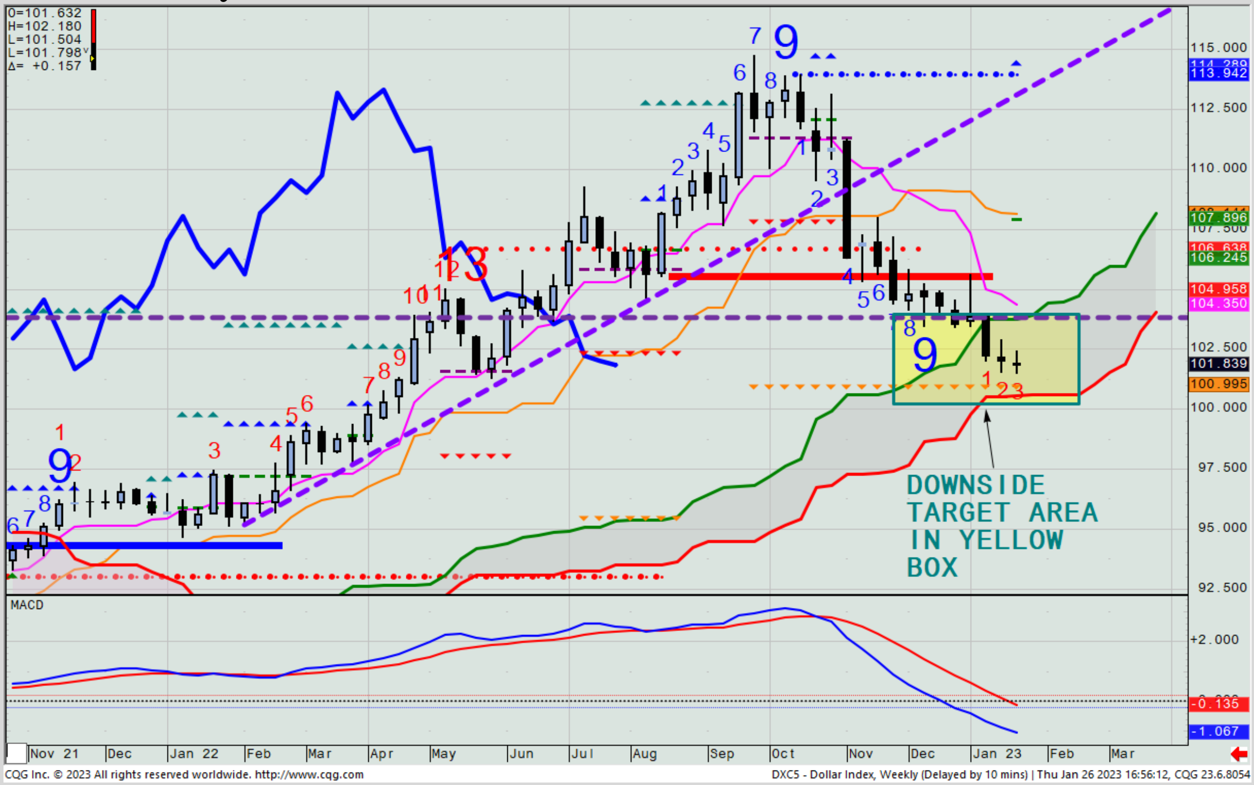


Credit spreads made a new low of the move this past week, and as of Wednesday's close of 1.28%, it's getting closer to the major uptrend line in the low 1.2% area.



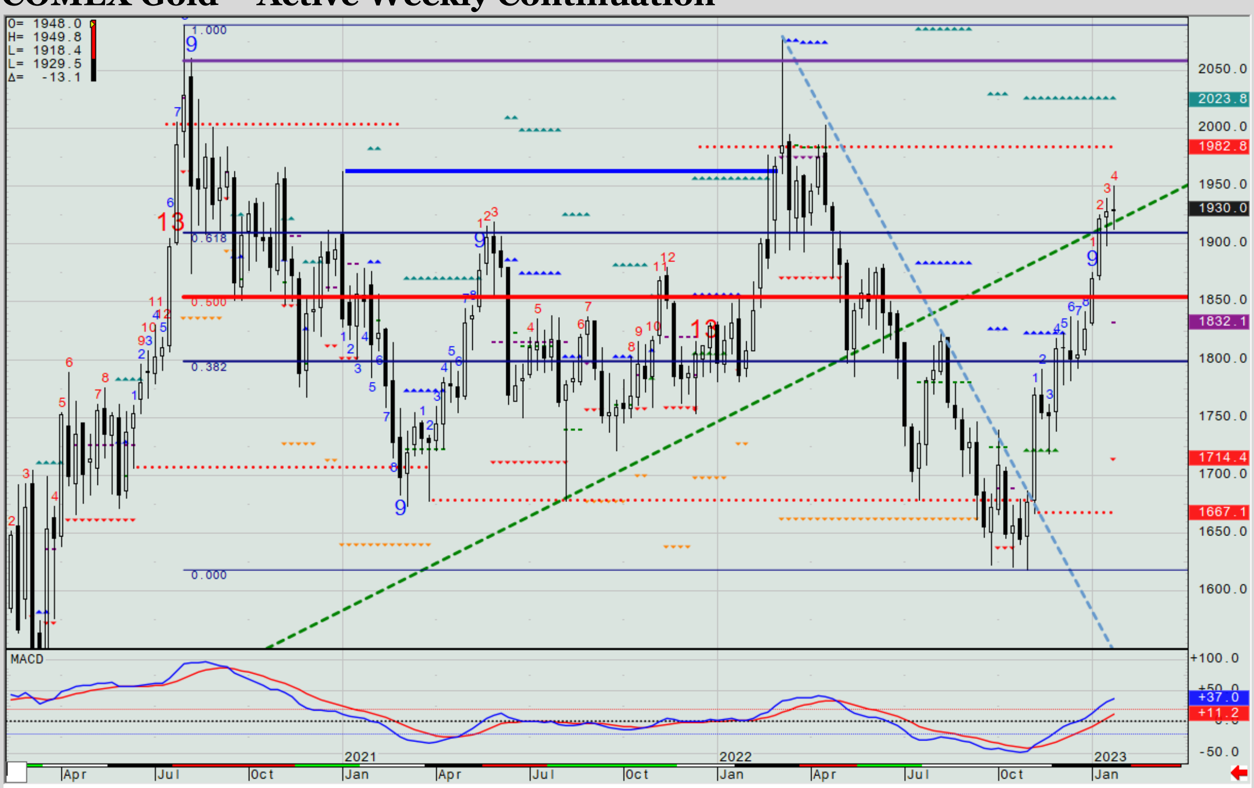
The dollar remains in a significant support area. I am still apt to play a tactical long DXY position (down to 100.50) than I am to be a new seller.

DXY – Weekly



Gold continues to hold up, with barely a pullback. That would likely change should the dollar put in a trading bottom. If that dollar rally does happen, it will likely bring an opportunity to get long gold/add exposure on a pullback.

COMEX Gold – Active Weekly Continuation

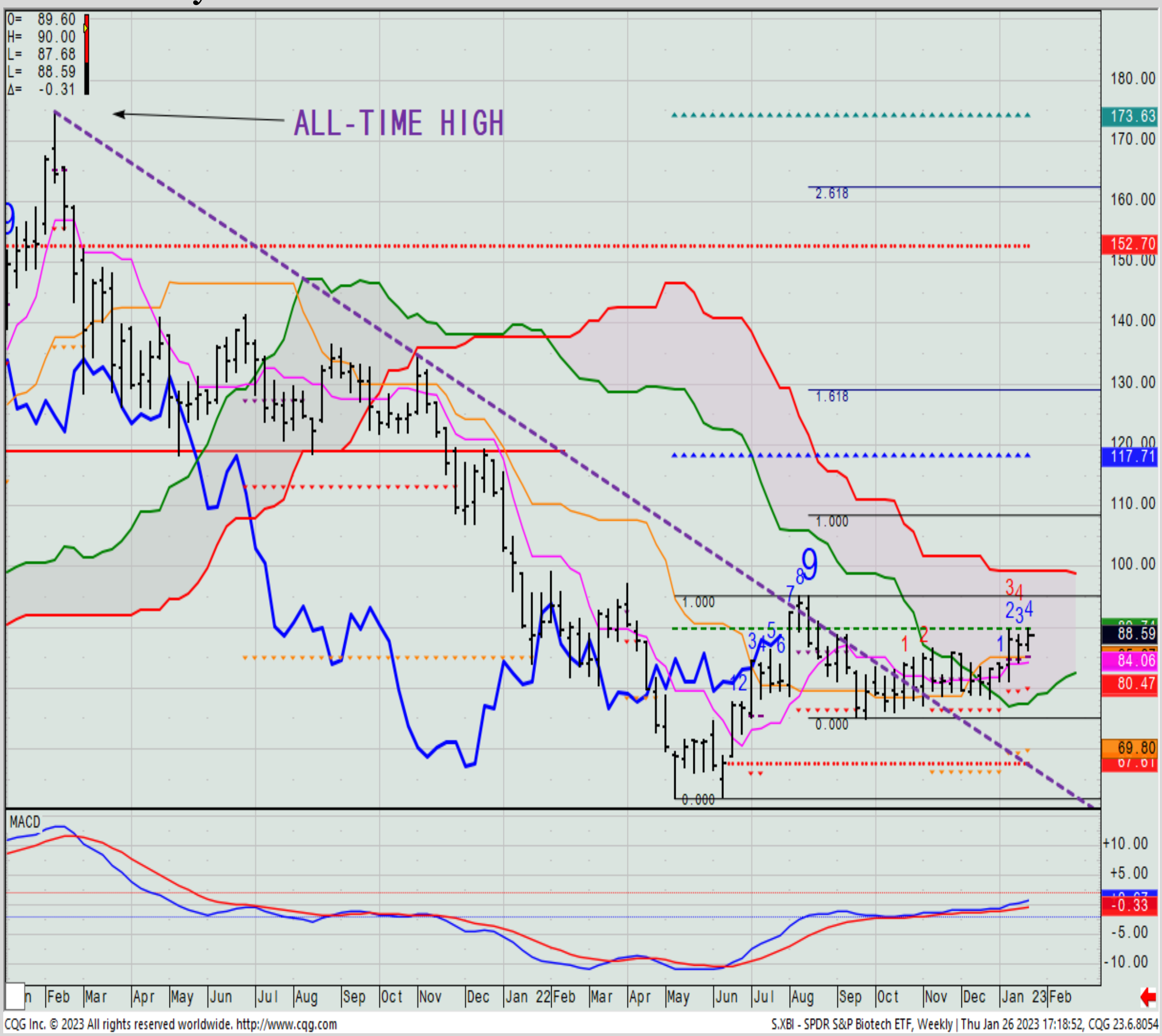


New ETF Trade Idea

Nasdaq listed Biotech stocks are on the verge of an upside breakout above its bullish Propulsion Momentum Level of $89.74. With last Friday being a down close, a close today above that level is a "qualified" breakout, with further confirmation coming this coming next week should it then also gap higher on Monday; trade above this week's high; and close above today's close.

I'm going to take a bit of a jump ahead of the official signal by recommending you buy a one-unit position in the **SPDR S&P Biotech ETF (XBI)** today, and most especially if going into the close it is trading above that $89.74 level. We'll look for a move to no lower than $99.20 and possibly even to an "equal legs" move up to $109.50. We'll stop ourselves out on a Friday close < $84.06.

XBI – Weekly

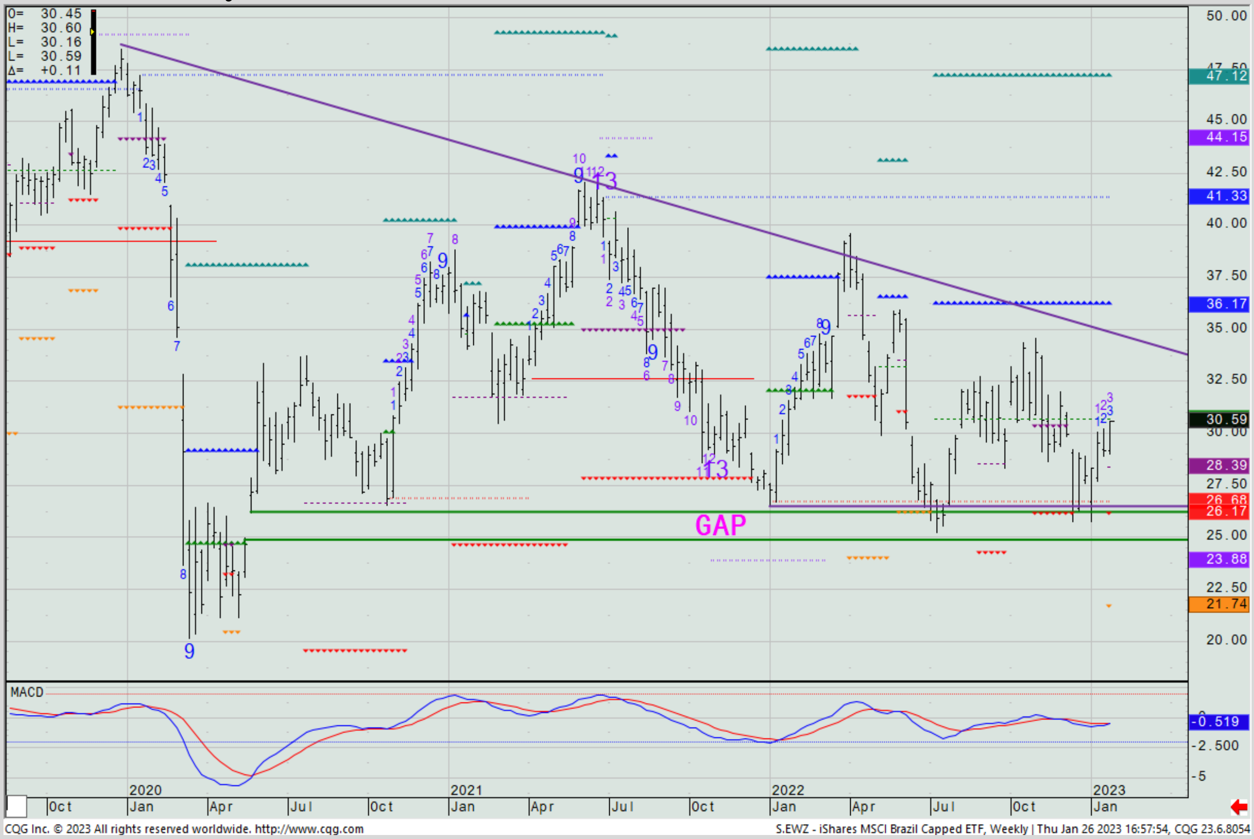


Other Open Recommendations and Positions

Long EWZ

Last Friday we went long this Brazil equity ETF (avg. fill price at $29.19), looking for a move that targets 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.

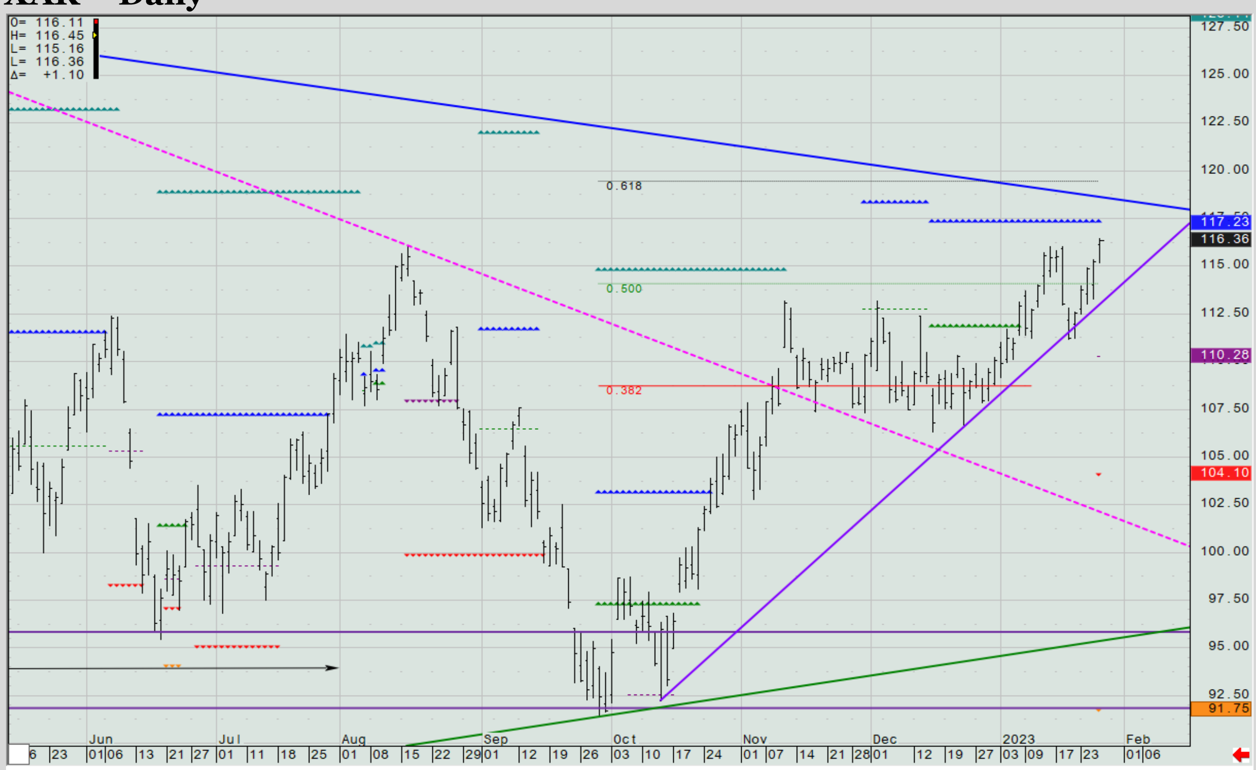
EWZ – Weekly



Long XAR

Two weeks ago, we entered a new one-half unit long position at an avg. price of $114.62. We'll stop this out on consecutive daily closes beneath $109.88. The upside target stays in the mid-$120s.

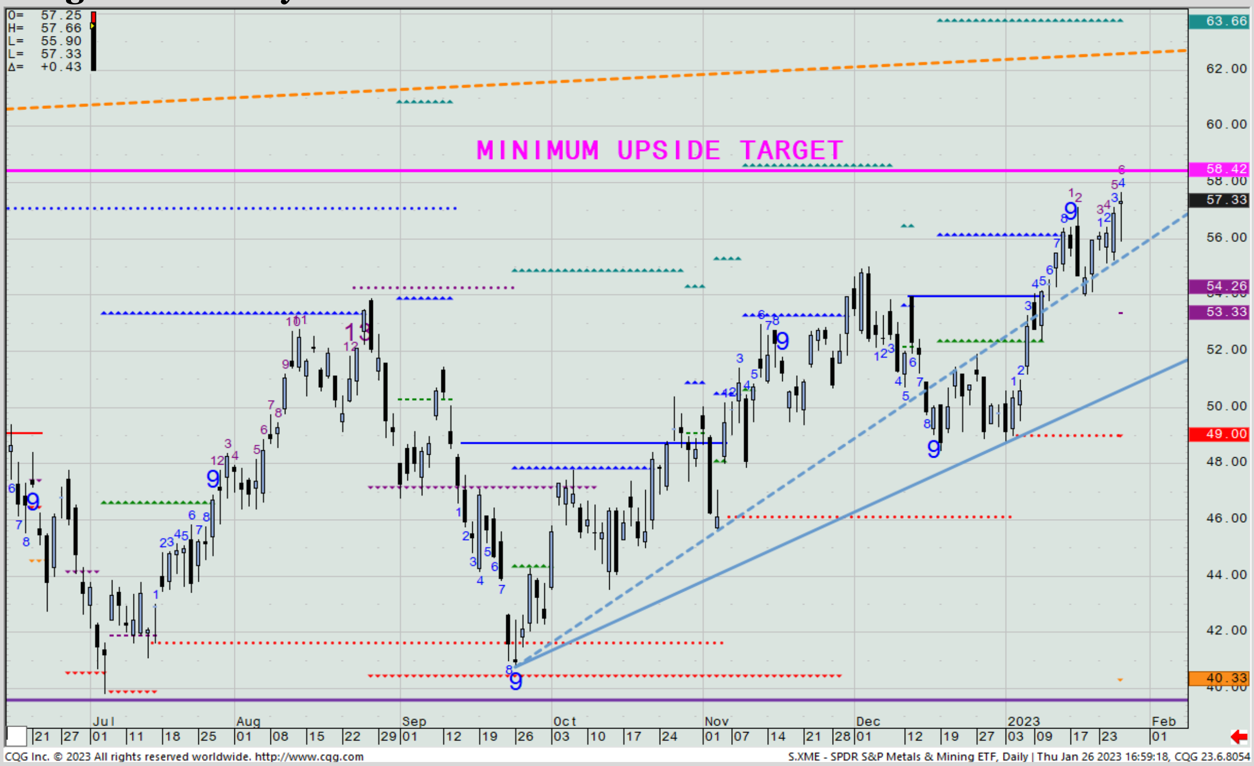
XAR – Daily



Long XME

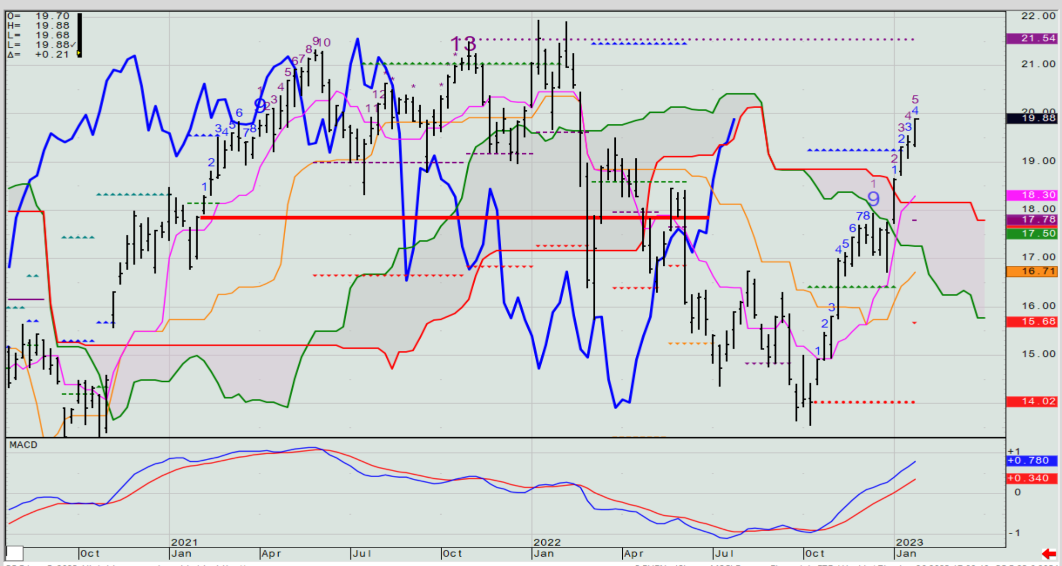
Three weeks ago, we bought a one-unit position (avg. fill at $51.23), looking for a move to at least test $58.30-$58.60 – where we'll look to exit half the long. I'll again raise our sell-stop to either consecutive daily closes beneath $53.33 or an outright stop at $51.23.

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. So, you're likely out of this today, one way or another.



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.

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