Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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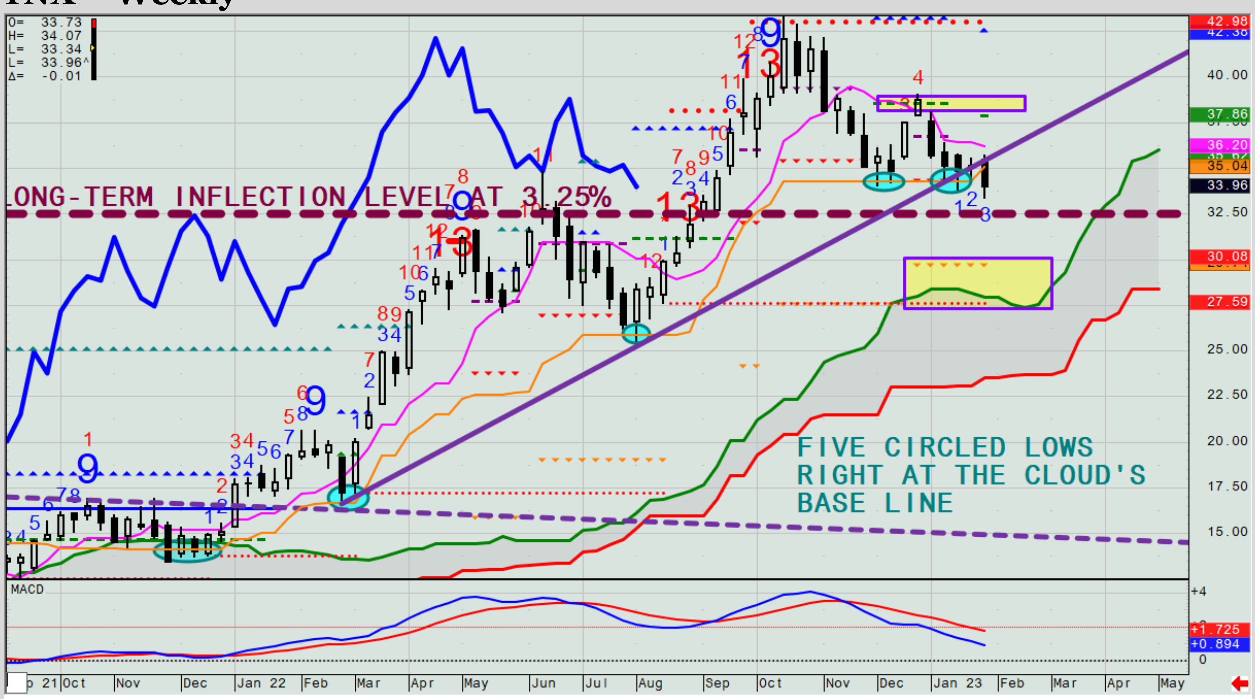
TACTICAL TRADER REPORT

The Macro Picture

It's not that the Fed Chairman Powell's words were so bullish on Wednesday; it's that they clearly weren't bearish. There was no sense of the hawkishness he espoused in his August Jackson Hole speech, when he purposely let investors know that they had misunderstood what he had previously said, and that the idea of the Fed pivoting away from raising rates was just plain wrong.

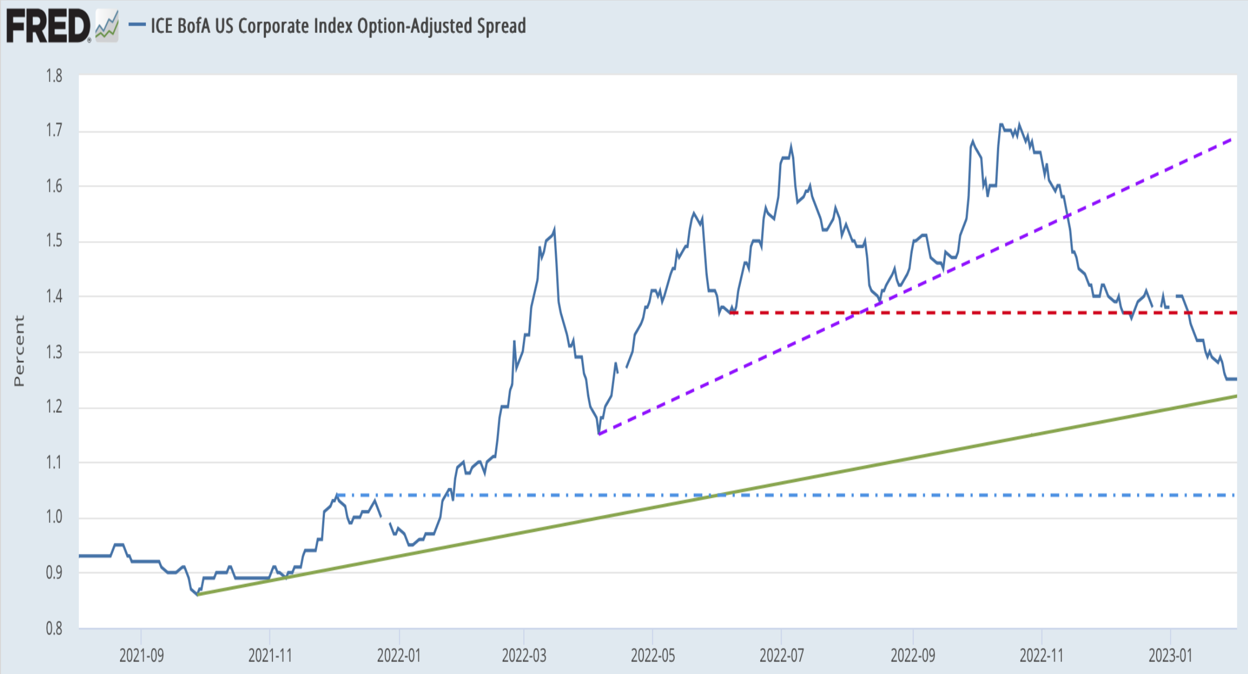
In Wednesday's press conference, he answered a question from the press that he did not expect to see any easing of rates over the balance of 2023. Even that didn't dissuade buyers from running back into equities, as there is a decided shift in investor psychology that the Fed's need to keep their inflation-fighting mantra at the forefront is no longer necessary. Certainly, the bond market is suggesting that, with UST 10-yr. rates having fallen on Thursday to their lowest level since they peaked in October.

TNX – Weekly



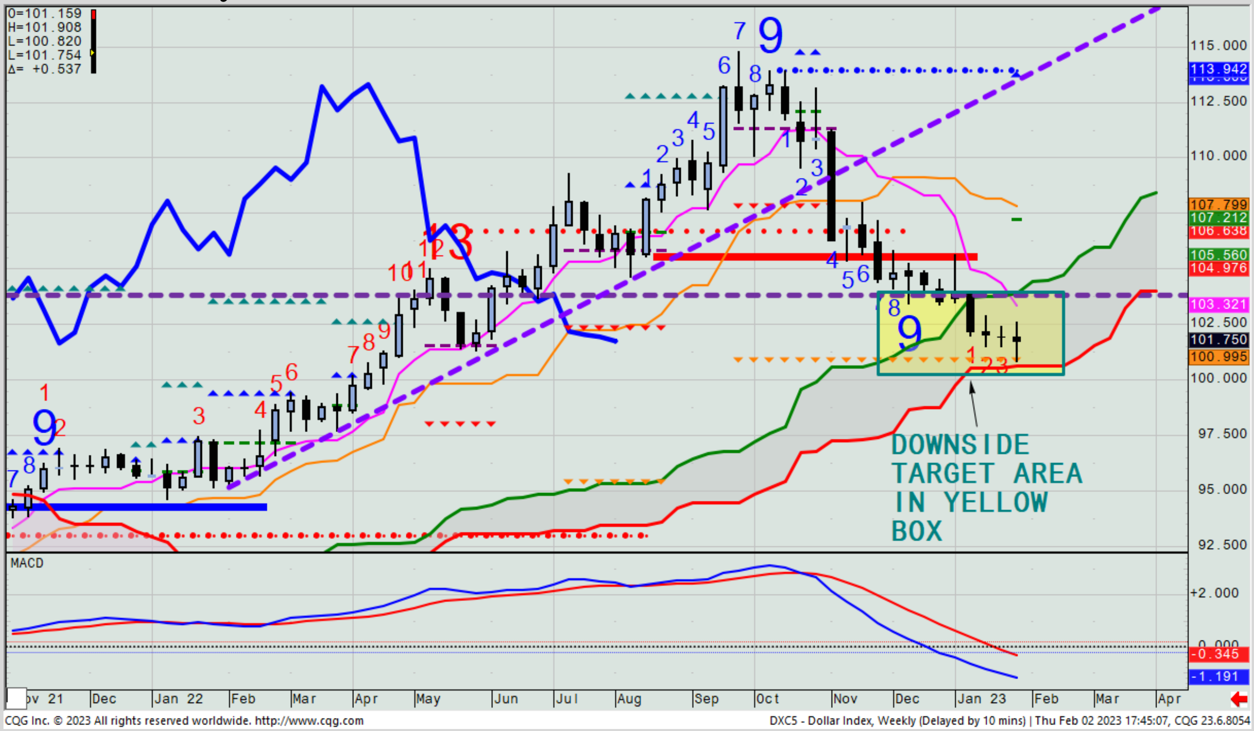
I believe that these benchmark yields are now likely heading to 3%, as this week (barring a large upmove in rates today) will finally close beneath its weekly Base Line (the orange line) – a level that has previously held as support five times. (See the blue ellipses on the above chart.)

The ICE BofA credit spread (1.25%) has continued to narrow, too, as corporate bond buyers are demanding less yield to take the risk of buying investment grade bonds than theoretical risk-free Treasury bonds. I consider the breakout level of the major upmove to be from 1.04%, (the horizontal blue line) and we may very well be heading back to near there. But I do not think that there is a high likelihood that the spread narrows to new secular lows beneath 86 bps.



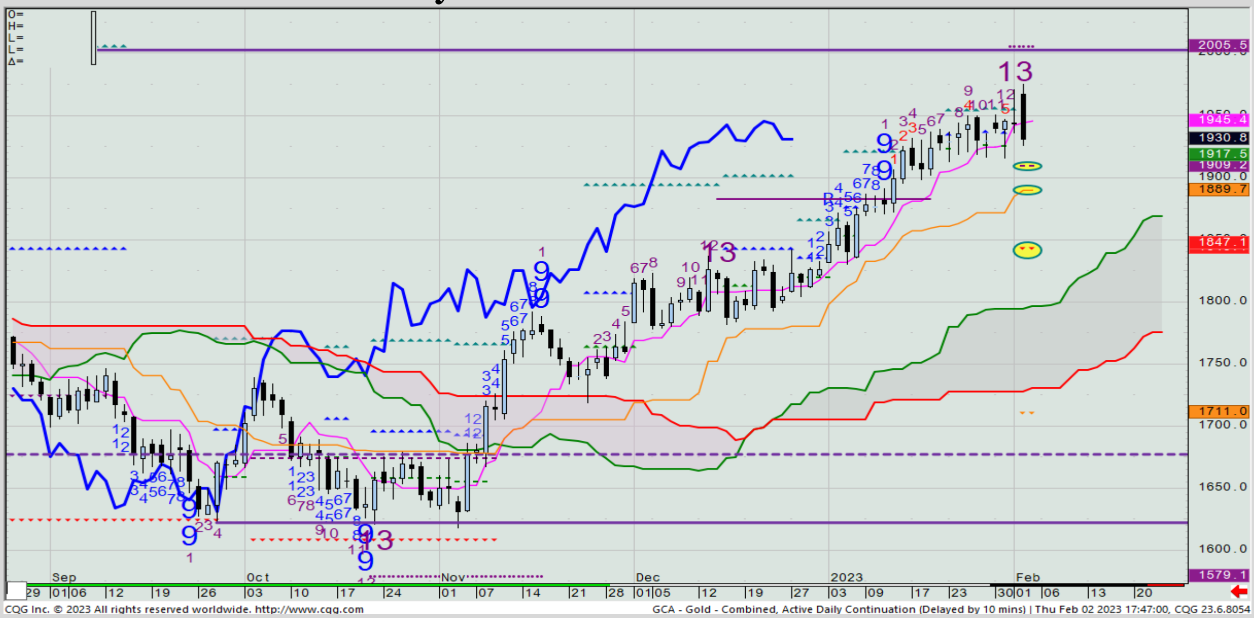
There's not much that has yet changed in the chart of the US Dollar Index, as it remains in a major support area. The prospect of lower rates would, in theory, not be bullish for the greenback. Nonetheless, I still think that the DXY could see a tactical bounce from this area down to 100.50.

DXY – Weekly



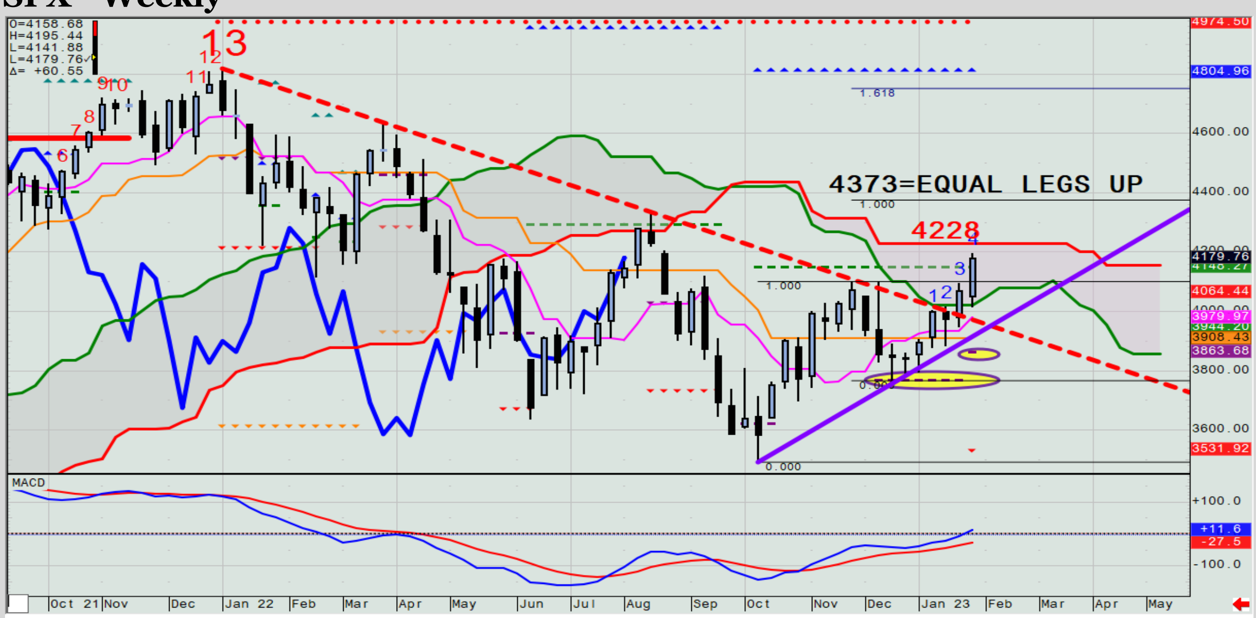
Gold may finally be heading for some type of a pullback. I'm including a daily chart today with three different potential support levels labeled. The more bullish you might be, the more aggressive you'd be in bidding for it. I do think it's overdone for now, but I also think new all-time highs are in the cards.

COMEX Gold – Active Daily Continuation



Now let's focus on the SPX, and the potential scenario I see playing out. The massive bullish shift we've seen this year may very well not only need to see price trade above the weekly cloud high at 4228, but even to above the August high of 4325 (in order to wash out every last short there is). In fact, we'd want to see that occur – along with high bullish readings in the sentiment polls – to then lean into this rally (which already seems a bit giddy, and will even be way more so if we get up there.) In fact, I am targeting 4373 as where I really start fighting this trend, as this level is where the move up from the December low will be comparable in points moved up from the October low to the late-November high. As price is now above that November high, the weekly bearish Propulsion level has also just moved up from 3769 to 3864.

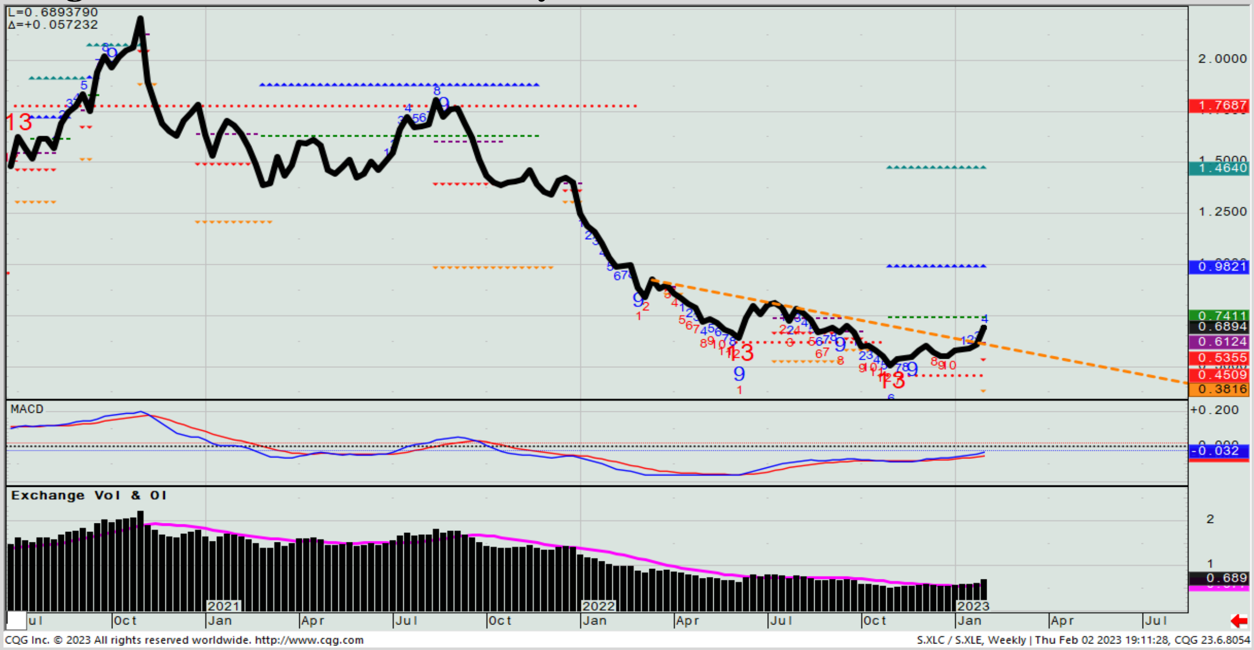
SPX - Weekly



New ETF Trade Idea

I'm a fan of looking at doing pair trades when I think that we've got a good chance to capture a move in one. Let's look at the relative performance of the **iShares S&P 500 Communication Services ETF (XLC) vs. that of the iShares S&P 500 Energy ETF (XLE)**. We're talking about a play of long the sector that was last year's worst vs. a short of last year's best.

Long XLC vs. Short XLE – Weekly



To me, the pair looks like it's exhausted the downside, meaning it's time to buy the beaten down XLC vs. shorting an equal dollar amount of XLE. I'm going to look to hold this for a potential move up to the bullish Propulsion Exhaustion level at 0.982 over the next several months (if not over 2023). We'll stop ourselves out on a Friday close beneath 0.5756, giving us about a 3:1 reward to risk if our upside target is achieved.

Other Open Recommendations and Positions

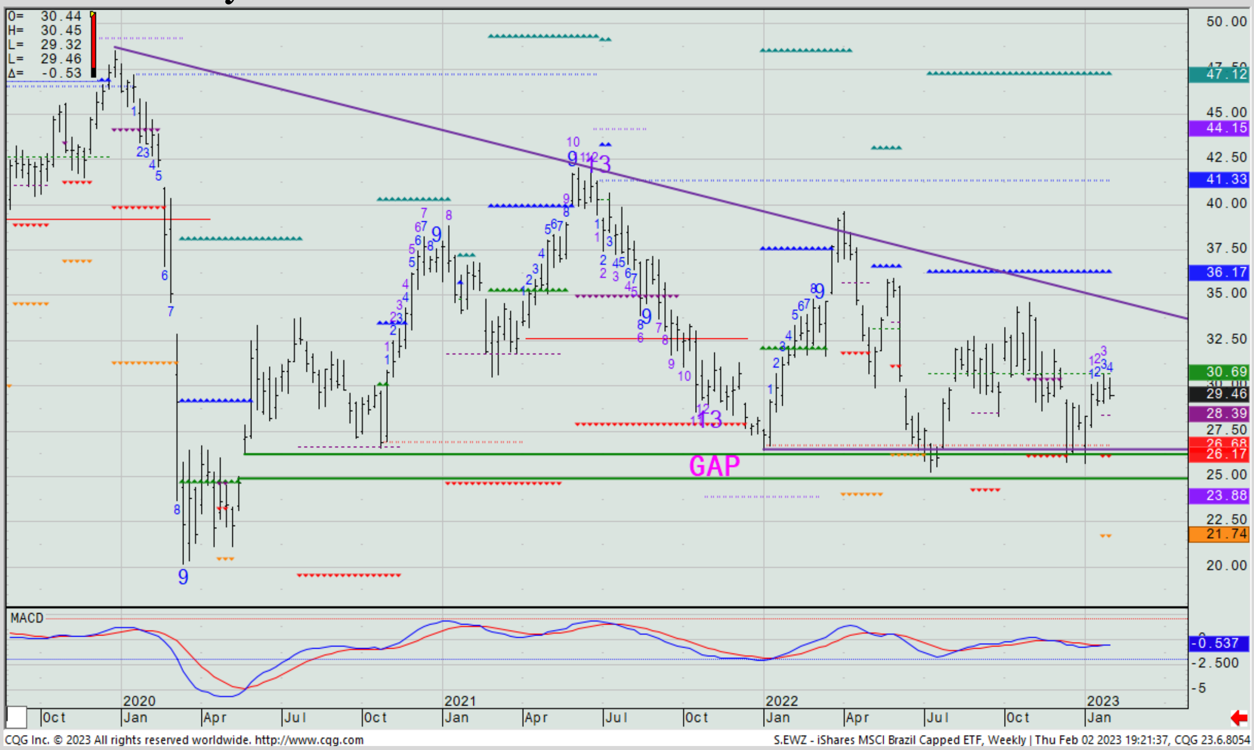
Long XBI

Last Friday we got long this ETF at an avg. entry price of $89.20, looking for a move to no lower than $99.20 and possibly even to an "equal legs" move up to $109.50. We'll raise our sell-stop to exit on consecutive daily closes beneath $87.55.

XBI – Weekly

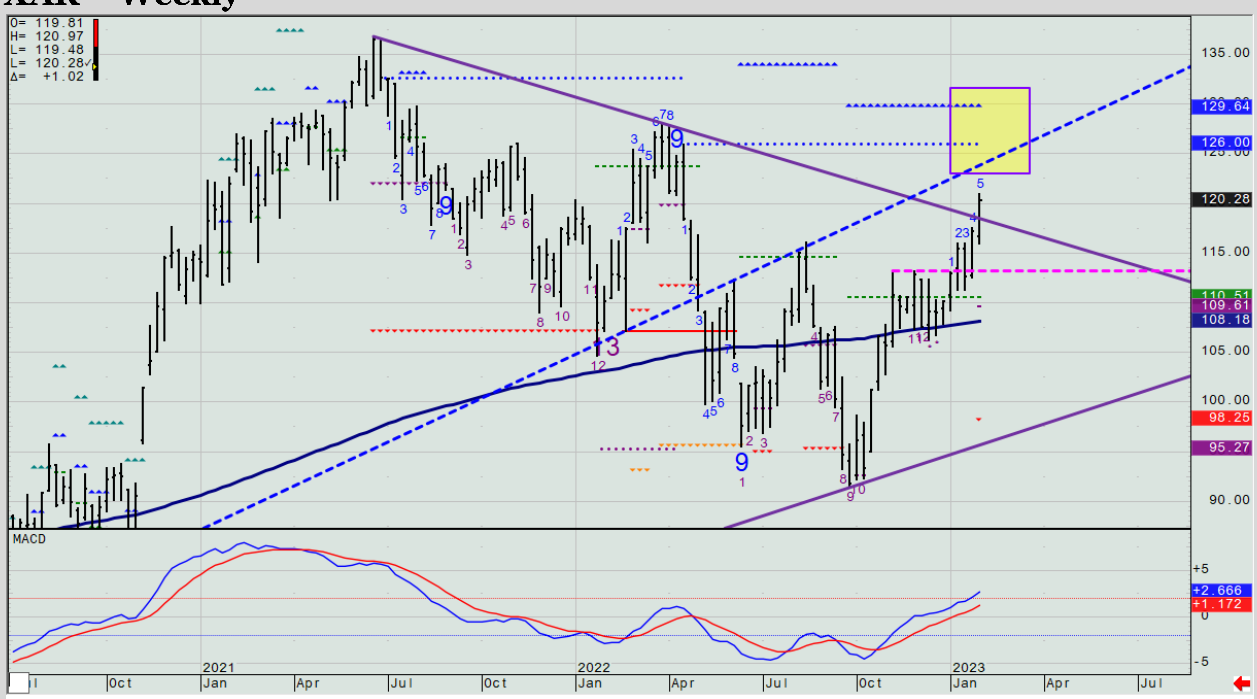
Long EWZ
Two weeks ago, we went long this Brazil equity ETF (avg. fill price at $29.19), looking for a move that targets the downtrend line in the $34 to $35 area. We'll keep a tight sell-stop on this to exit on the second consecutive Friday close beneath $28.64.

EWZ – Weekly



Long XAR
Three weeks ago, we entered a new one-half unit long position at an avg. price of $114.62. We'll now raise our sell-stop to breakeven entry. The upside target stays in the mid-$120s (say, $124 to $126).

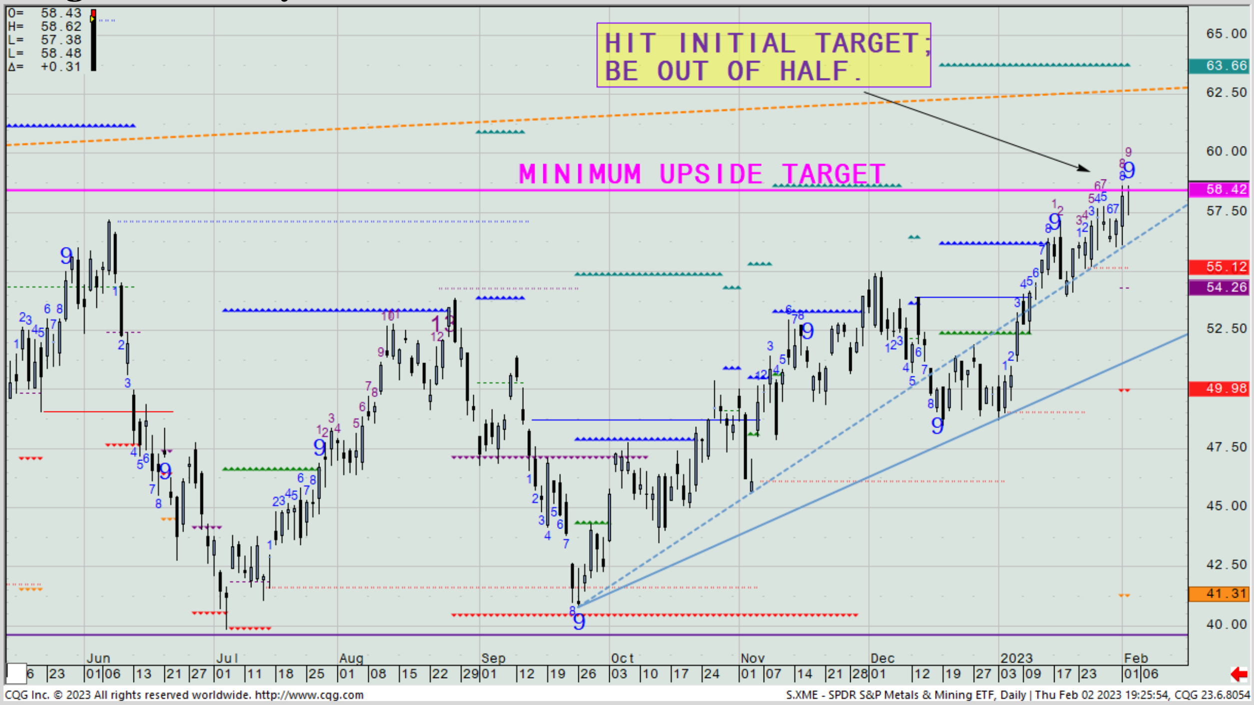
XAR – Weekly



Long XME`

Four 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. We hit that target price yesterday, so be out of half now, locking in a 14% profit on this portion. I'll again raise our sell-stop: this time to consecutive daily closes beneath $54.26.

Long XME – 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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