Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com February 10, 2023

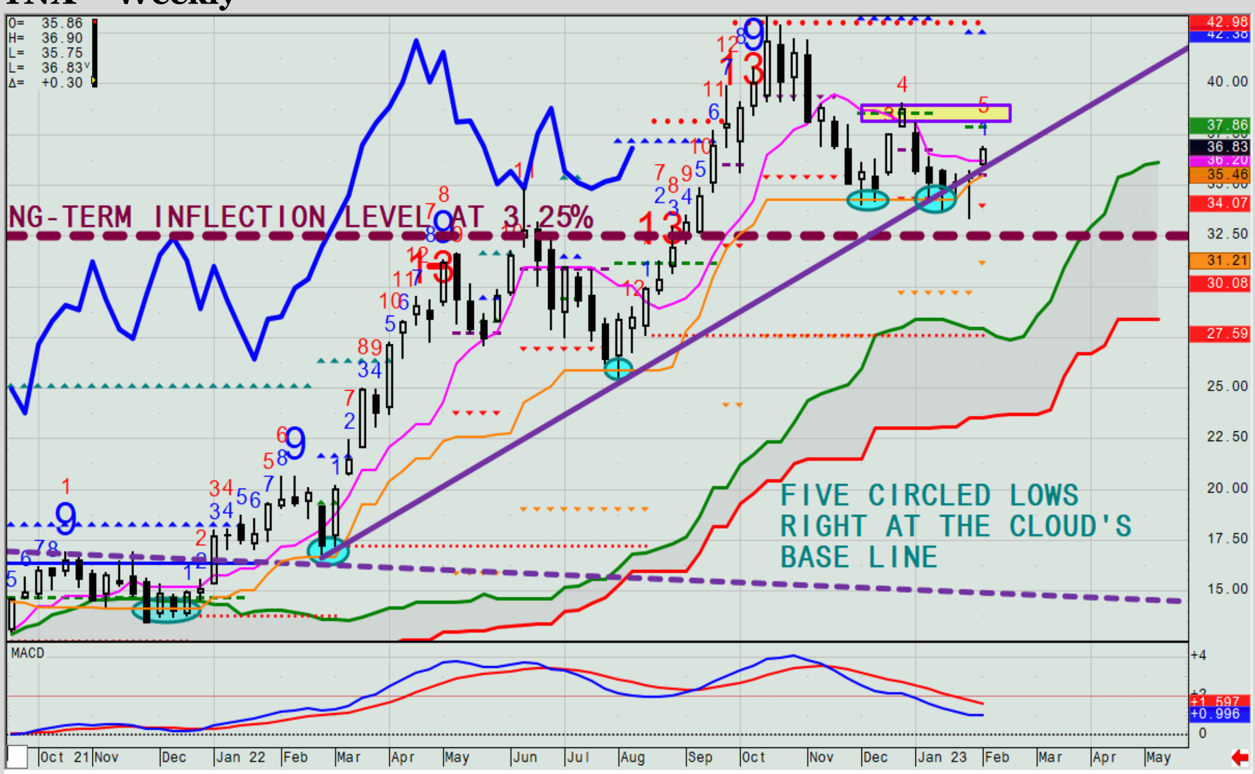
TACTICAL TRADER REPORT

The Macro Picture

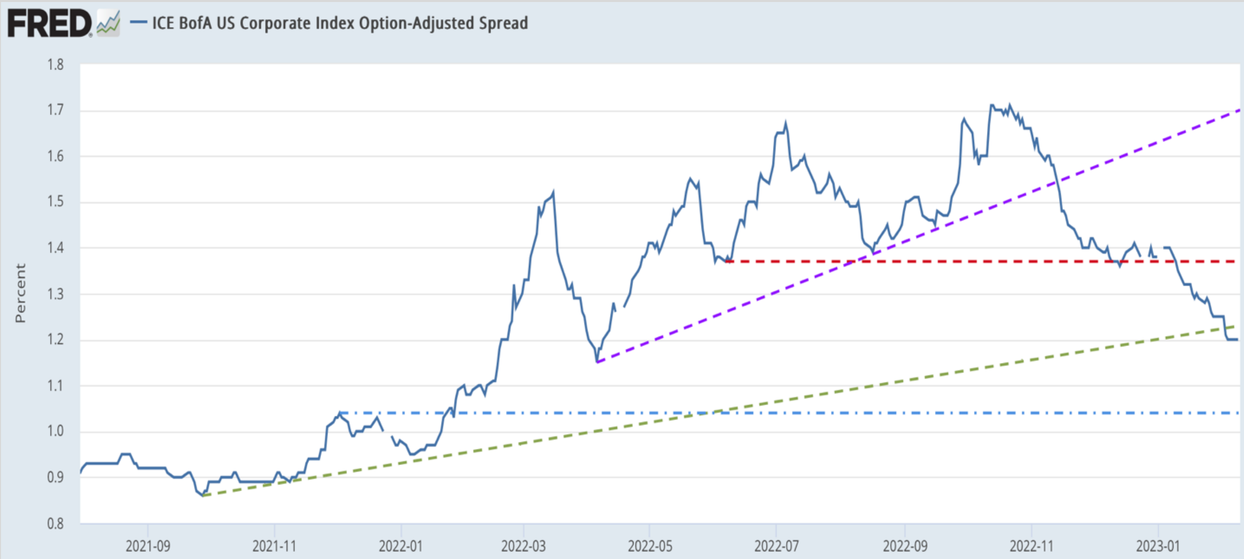
Just like he did last week at the FOMC press conference, earlier this week Fed Chair Powell again stayed away from stating overly hawkish comments, giving bulls what they believe was the go-ahead to bid stocks higher. Next Tuesday's CPI figure will be important to keep the bulls happy. An uptick in CPI would likely create profit-taking right away, and then we'll see if there are real buyers to counteract a downmove, or will that mark the trading top?

One of the several reasons that last Sunday night I told my institutional clients that I think we could see a 5% decline in the SPX from the mid-4100s is that interest rates are again moving higher, and last Friday's TNX close above its weekly Base Line – after being down a dozen bps. beneath that 3.50% level just a day before – convinced me that rates were heading upward. The Fed has also now given us a sense that Fed Fund rates may not stop at 5 to 5.25% as previously indicated, but that they may need to go beyond that. That's not particularly good news for equity holders, and part of why I think stocks are do for some correction of the 2023 rally.

TNX – Weekly

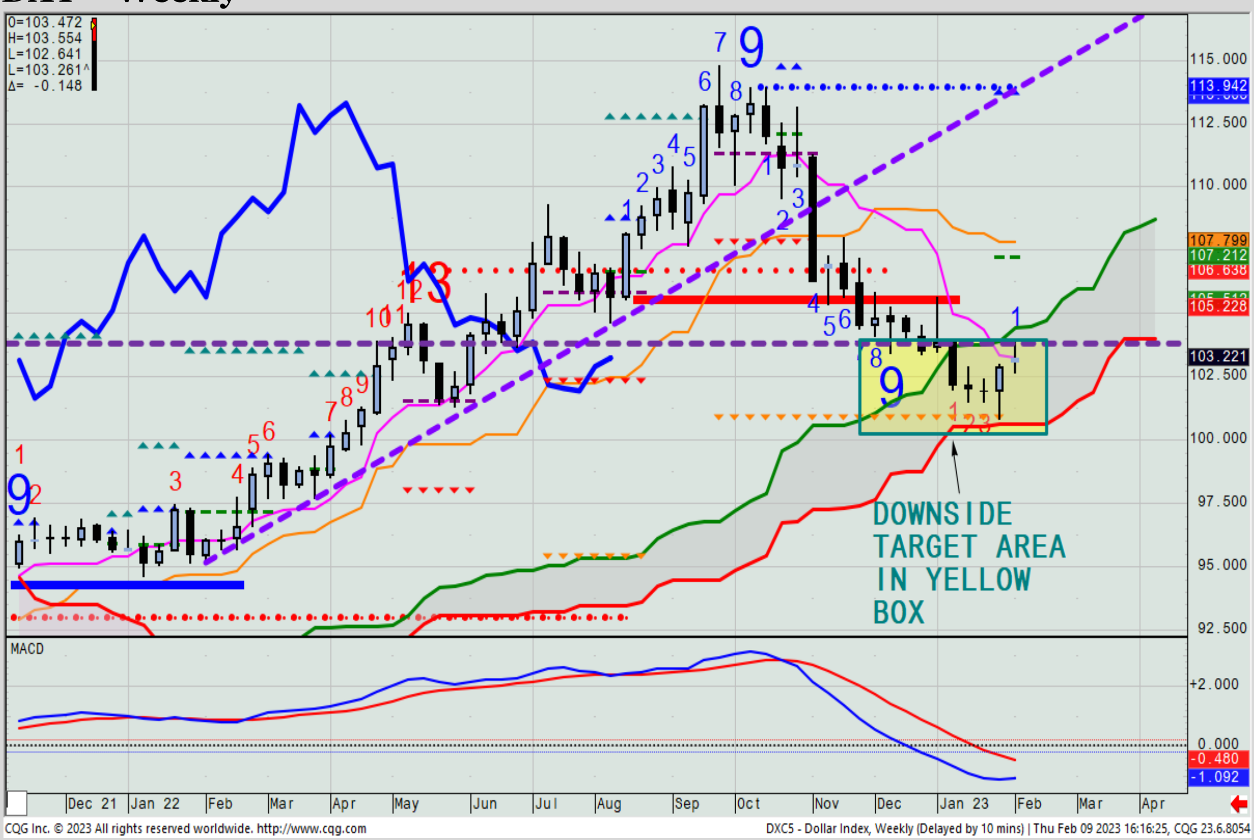


The ICE BofA credit spread (1.20%) has narrowed to new lows of this move, and now even tucked beneath the uptrend line from its secular low of 0.86 bps. in 2021. I will likely be putting on a widening spread somewhere between the 1.15% and 1.04% level (as I don't think that there's a high chance that the spread narrows to new secular lows.)



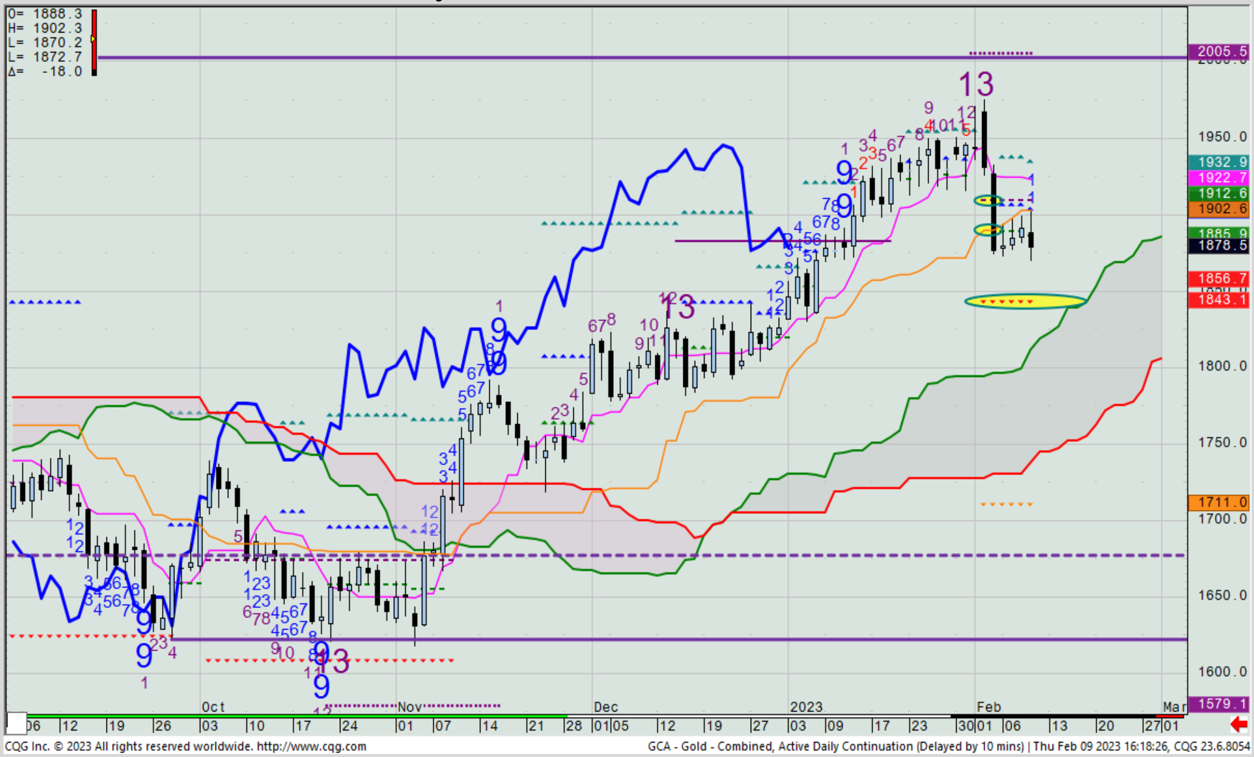
You know that I've been looking for a tactical trading bounce in the US Dollar Index from somewhere in the 102 to 100.50 level. This past week we've seen just that, with as much as a full 3-point move higher in the greenback.

DXY – Weekly



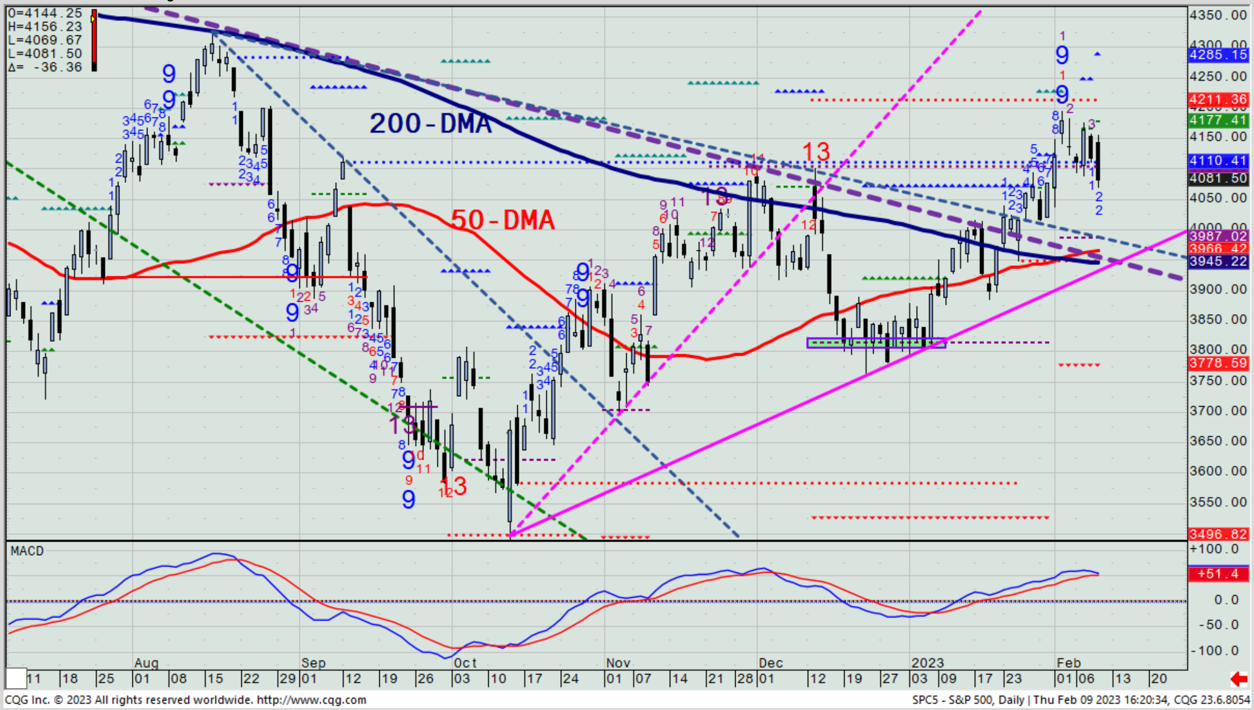
Dollar strength helped put some pressure into the gold market. Last week I showed you the three main support levels in it, and depending upon how bullish you might be, the more aggressive you'd be in bidding for it. I do think new all-time highs are in the cards.

COMEX Gold – Active Daily Continuation

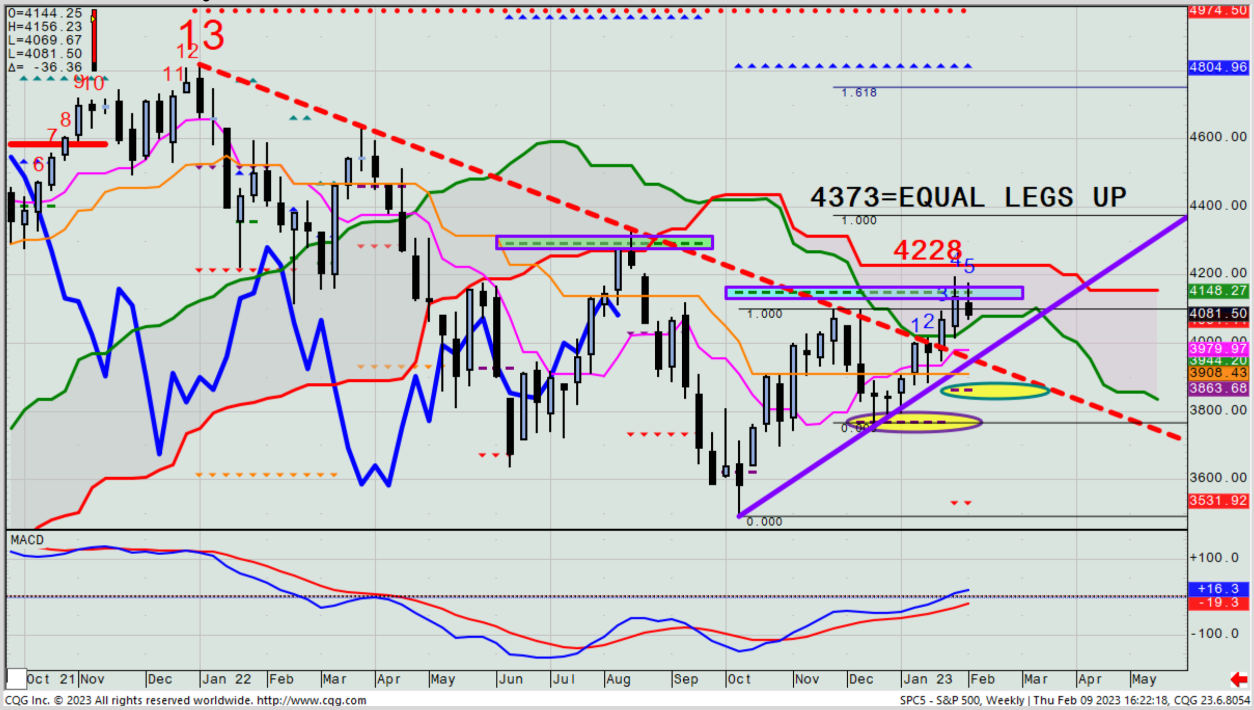


At the beginning of this report, I mentioned that I thought the SPX could see as much as a 5% pullback. I think I'll know within another week or two if that shorter-term call will play out or not. In the bigger picture, the 4228 level is still an important one (it's the top of the weekly cloud), as is the August high of 4325. Knowing how markets work, and their ability to create pain for the most amount of people that it can – and as often as it can – I'd even say that we could see a move in 2023 up to 4373. A move above that 4325 high would likely to take all bearish call off the table – the very ingredient needed to stage a bearish move from.

SPX - Daily



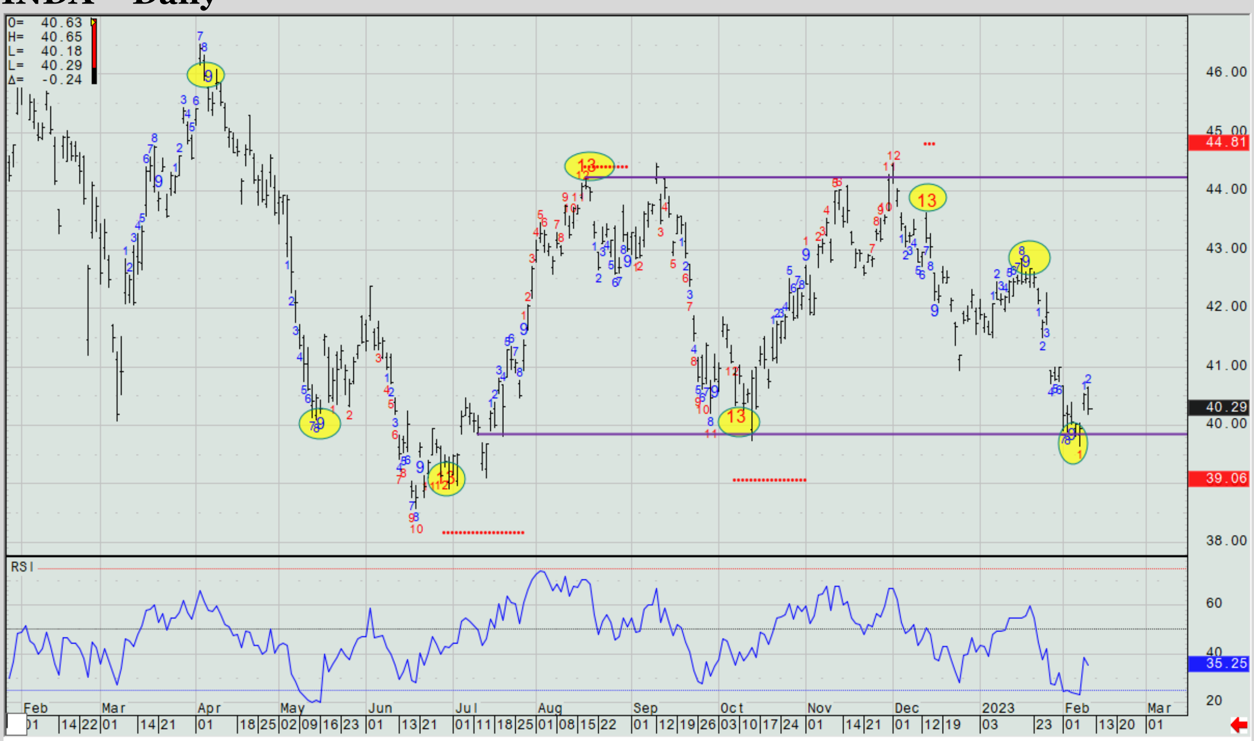
SPX - Weekly



New ETF Trade Idea

We know that Setup 9s and Sequential 13s can often be important inflection points on a chart. I came across one today that has lots of those signals on them, of which many were important turning points. Let's look at the daily chart of the iShares MSCI India ETF (INDA). I've highlighted many of these signals in the past year, including a Setup -9 count from last week that coincided with a support line from prior lows.

INDA – Daily



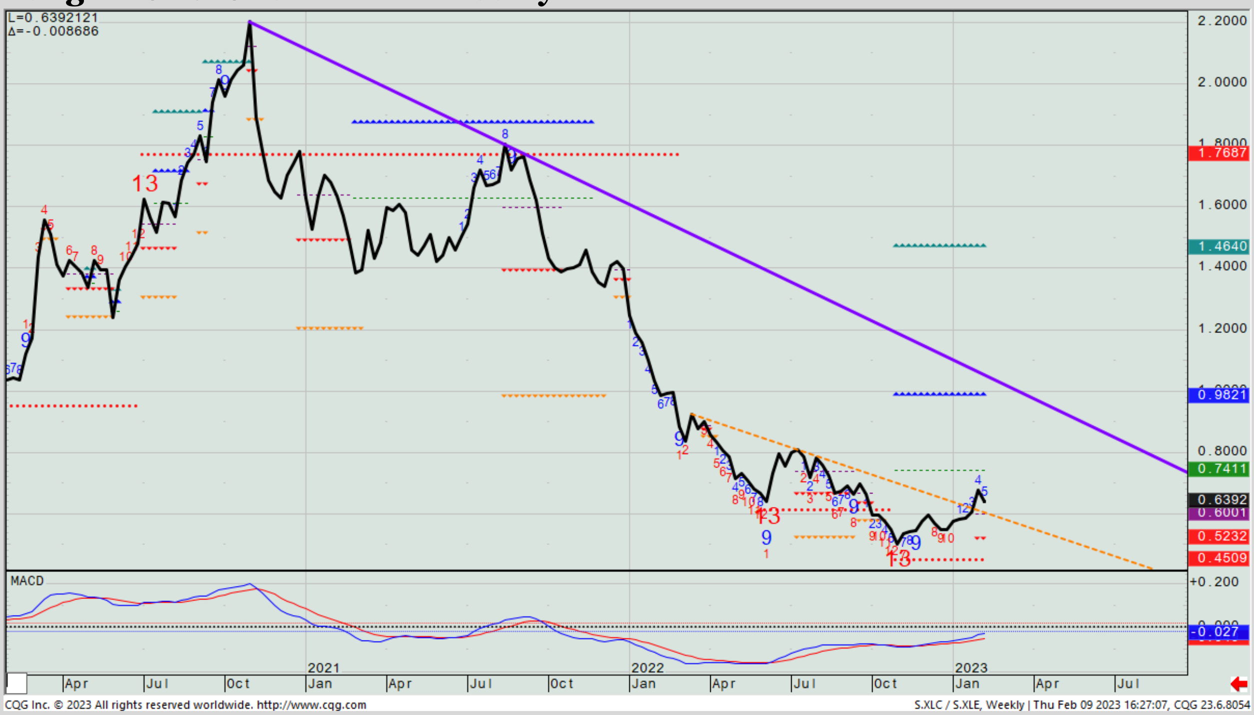
With the RSI having just bounced from oversold levels, let's play for this to hold support in this general level, and not materially meltdown. We'll aim for this to return to the top of the range over time, and stop ourselves out only on a new closing low under $38.77 – the lowest closing low of 2022.

Other Open Recommendations and Positions

Long XLC vs. Short XLE

Last week we went long XLC vs. shorting an equal dollar amount of XLE, based upon the upside breakout I saw on the relative chart, getting in at an avg. price of 0.6766. I'm looking for this to potentially move up to the 0.982 level. Certainly, this week's bad Alphabet news and price action is hurting XLC. Our sell stop is on a Friday close beneath 0.5756.

Long XLC vs. Short XLE – Weekly



Long XBI

Two Fridays ago, we got long this ETF at an avg. entry price of $89.20). Last week we raised our sell-stop to exit on consecutive daily closes beneath $87.55. That has happened over the past two days, so we exited yesterday at $86.09 for a loss of 3.5%.

Long EWZ

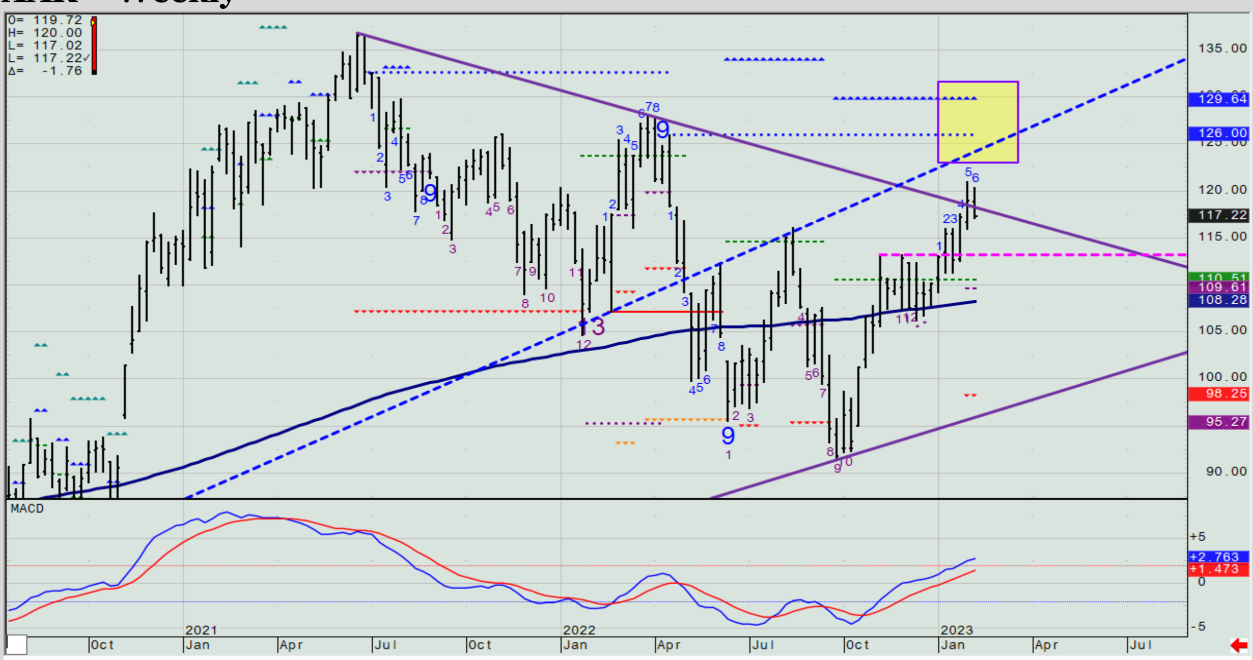
Three weeks ago, we went long this Brazil equity ETF (avg. fill price at $29.19), looking for a move that targets the downtrend line in the $34 to $35 area. We'll keep a tight sell-stop on this to exit on the second consecutive Friday close beneath $28.64. (Today may be the first of the two.)

EWZ – Weekly

Long XAR

Four weeks ago, we entered a new one-half unit long position at an avg. price of $114.62. We've already raised our sell-stop to breakeven entry. The upside target stays in the mid-$120s (say, $124 to $126), but let's take off 50% of what we have on now.

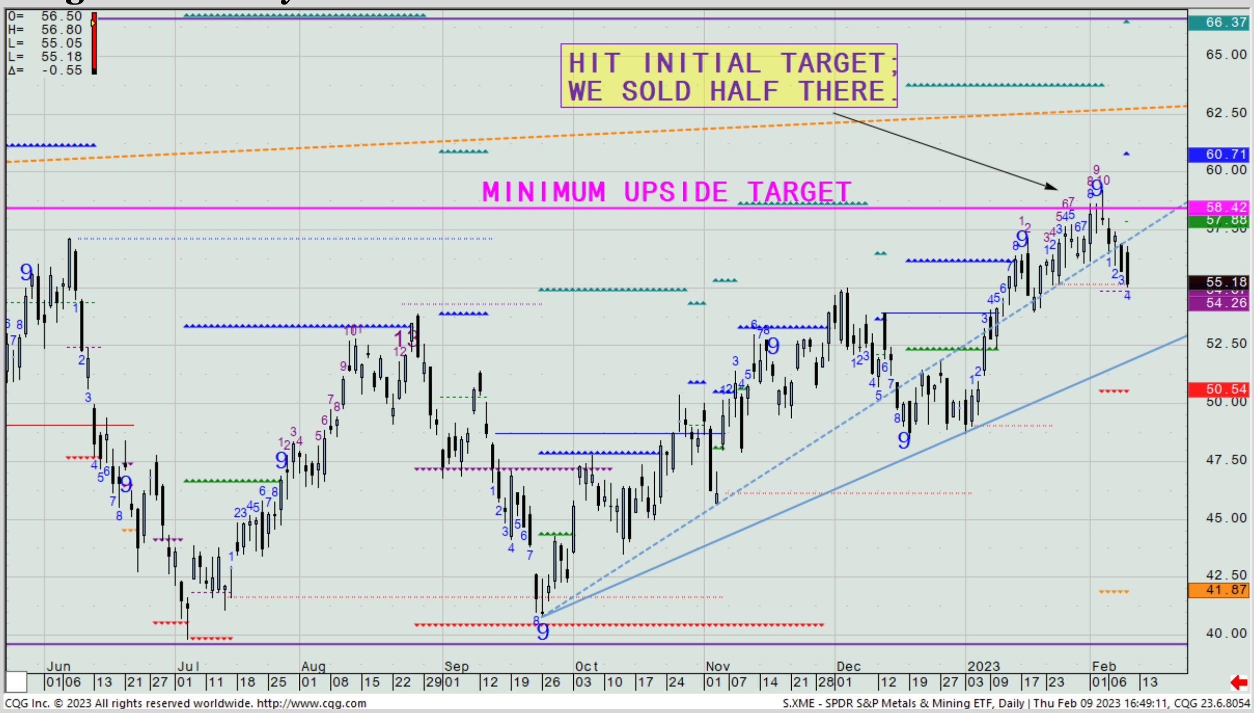
XAR – Weekly



Long XME`

Five 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 sold half last week, locking in a 14% profit on this portion. Our sell-stop to exit the balance is on 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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