Rick Bensignor's

IN THE KNOW*TRADER*

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

With UST 10-yr. yields crossing above the 4% level yesterday, stocks sold down to their lowest level of the sell-off that started in early-February. The downside has reached my 5% target decline that I called for a month ago, and now the SPX is at a major inflection point for the near-term. (More on the SPX later.)

Just as I said in this week's YouTube video I sent you on Tuesday, it is really important to have a handle on what's going on in the macro perspective in order to know how to trade the stock market. With stocks heading lower when rates and the dollar rally, you've got to be on top of those markets, too, in order to get a sense of the right time and places to make your stock/ETF selections. (It's why I've always included the detailed macro coverage I do each week in this report.)

With bond rates crossing above 4%, investors have a true alternative to taking risk of owning stocks. The daily TNX chart looks like yields are headed to 4.24% (highlighted in yellow), while the weekly chart shows multiple upside targets well above the 2022 peak rate of 4.33%. On the downside, I'll stick to what's worked in the past, meaning that if we see a Friday close beneath 3.77%, it will be time to buy bonds.
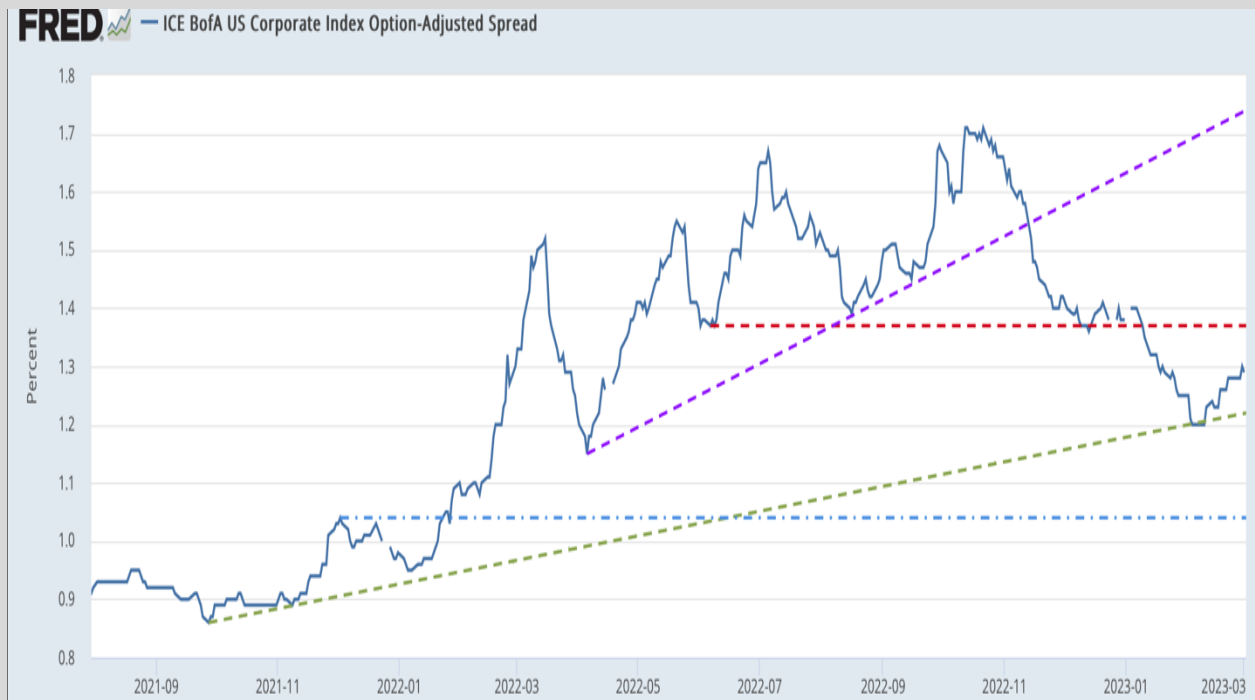
TNX – Daily
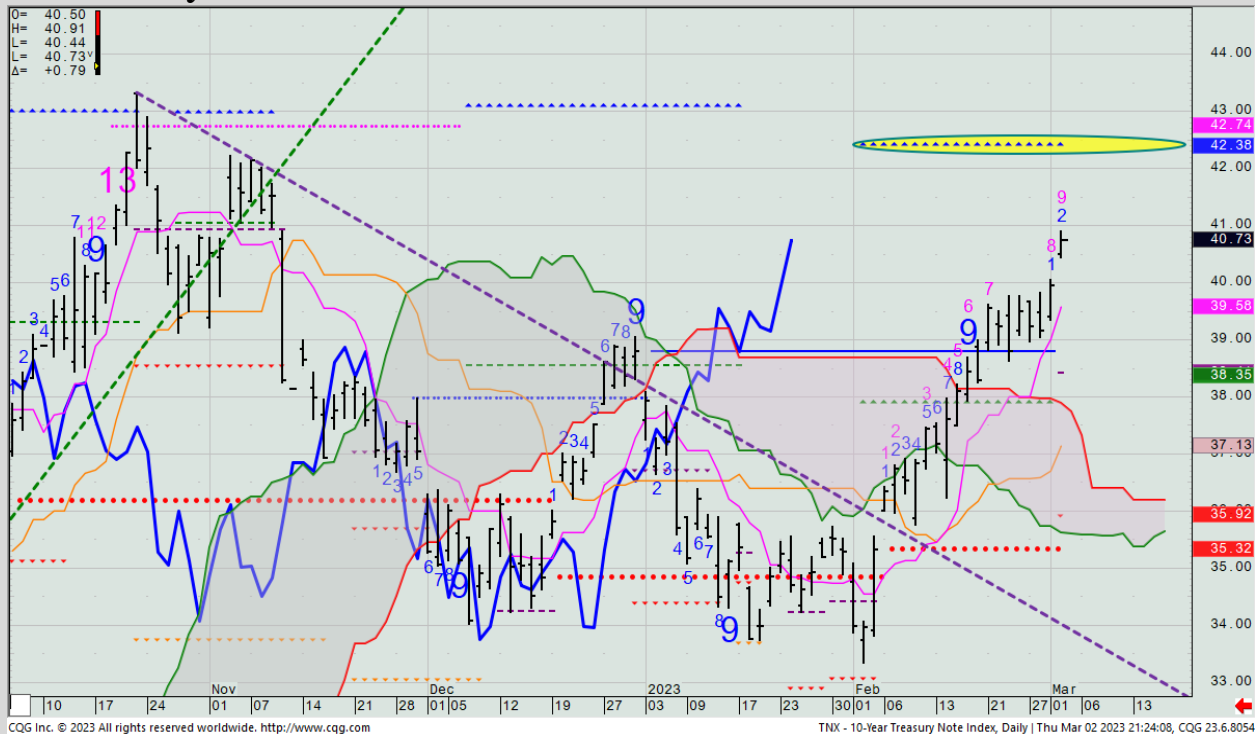
TNX – Weekly
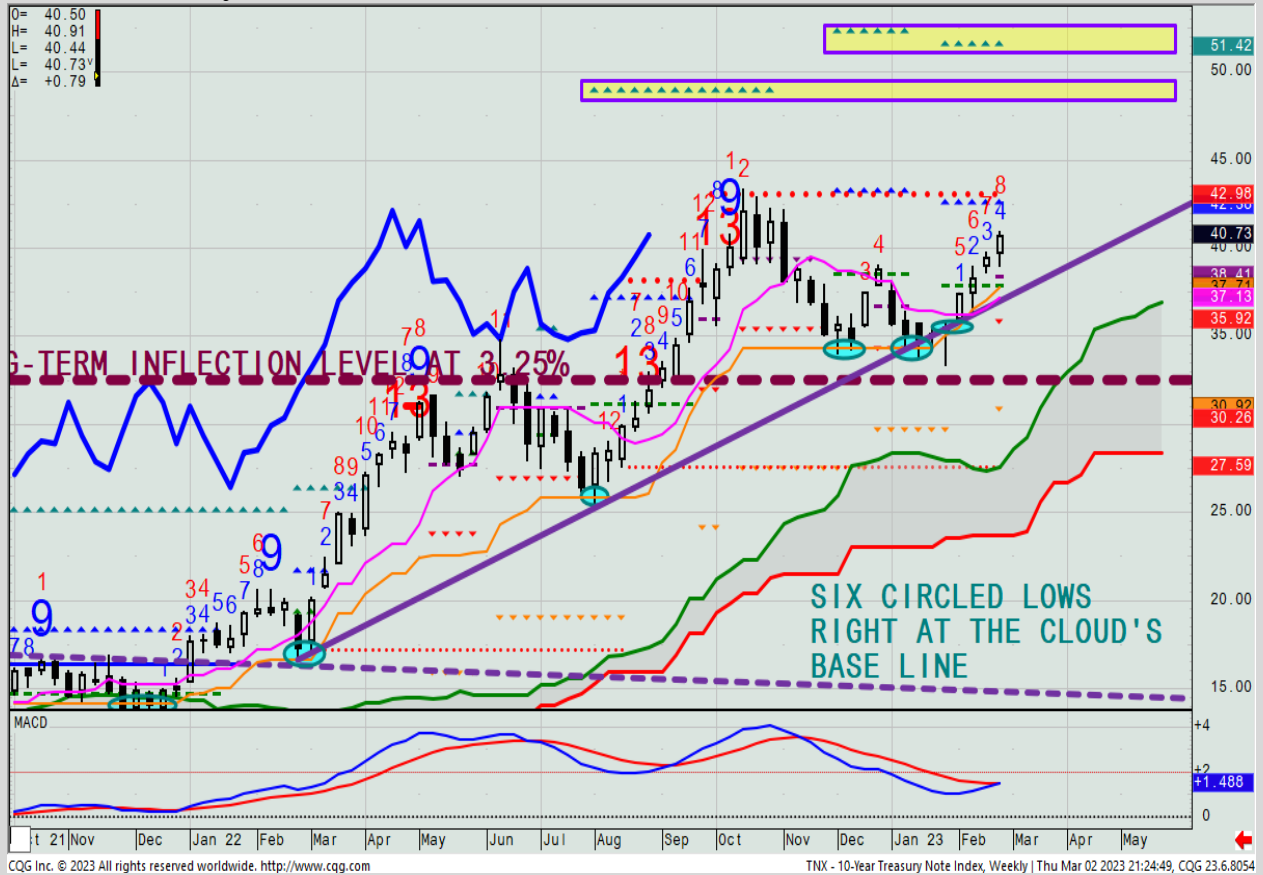
The ICE BofA credit spread bounced right by its major uptrend line from its secular low, and has now rallied to 1.28% (with a recent high of 1.30%). The more this widens, the more concern there is in the system.


My tactical bullish call on the US Dollar Index worked well, and I've already taken half off, and raised the sell-stop on the balance to consecutive daily closes beneath 103.56. At this point, I do not expect any further dollar rally to exceed the 107-108 level.

DXY – Weekly
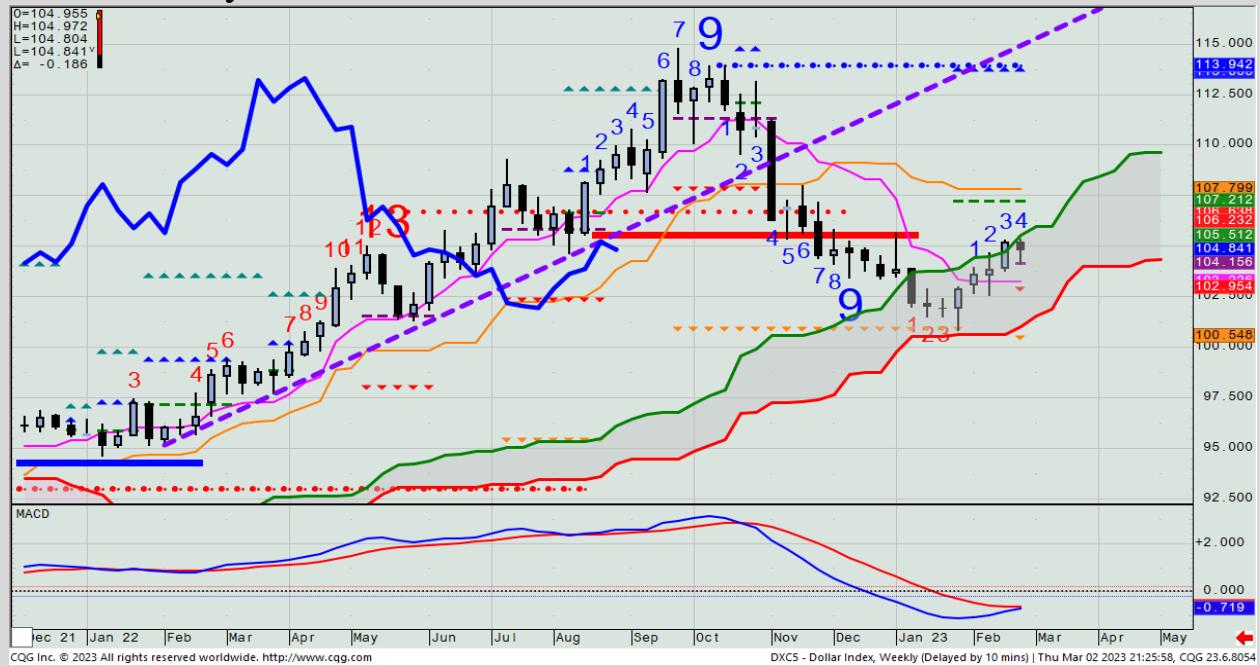
Gold remains under general pressure, but has gotten some bounce over the past week. I've been scale down bidding myself in it, and do believe that new all-time highs are in the cards. With gold investing, it's all about patience.

COMEX Gold – Active Daily Continuation
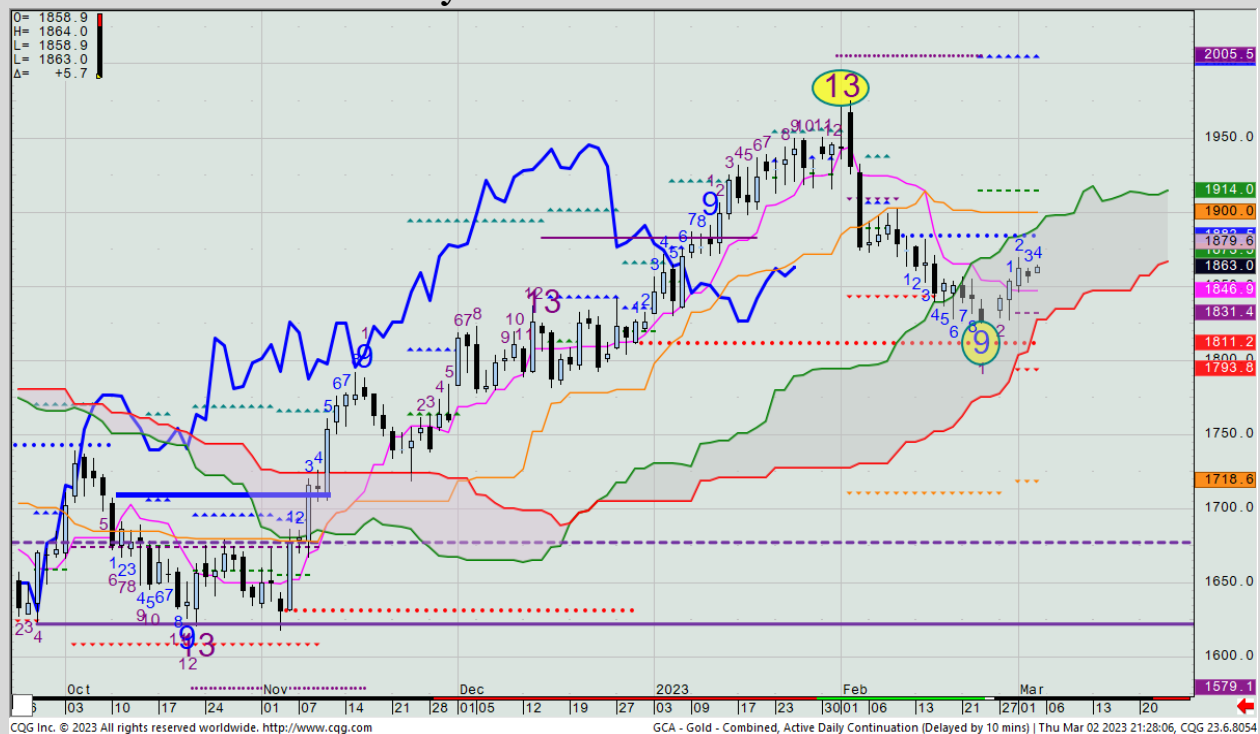
The SPX has traded down over 5% from its early-February closing high, making my bearish call from a month ago hit its target. The daily chart shows a slew of short-term support down to 3923, the bottom of the daily cloud. To me, the key number from the weekly chart is 3864, the weekly bearish Propulsion Momentum number. If that properly gives way, the door opens for a test of the 2022 low, if not a much bigger decline to as low as 2868. Yesterday might have marked a trading low with the price action we saw.

SPX - Weekly
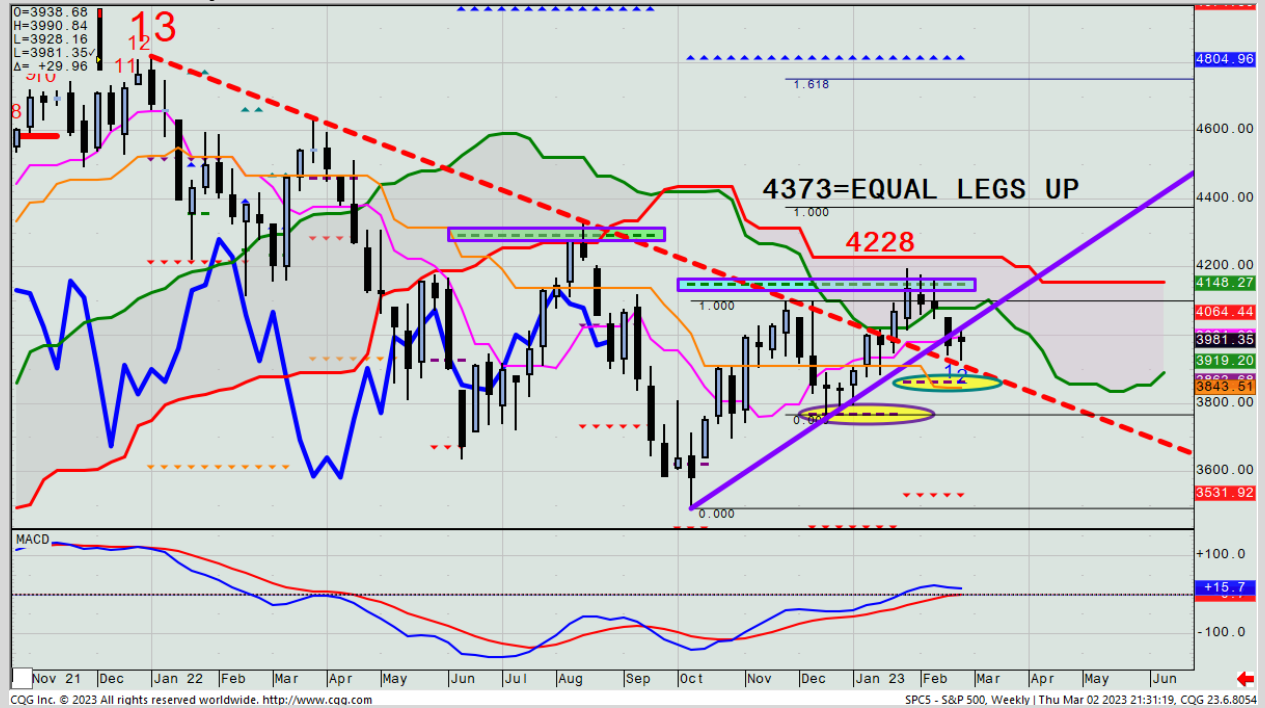
New ETF Trade Idea

With stocks having sold off decently in the past month, there aren't a lot of standard ETFs that are now posting upside Sequential exhaustion signals. But one that just did is the iShares MSCI Mexico Capped ETF, **EWW**. Looking at the below daily chart, we see yesterday's +13 signal – and one that may very well offset the -13 signal from late-July.

EWW – Daily
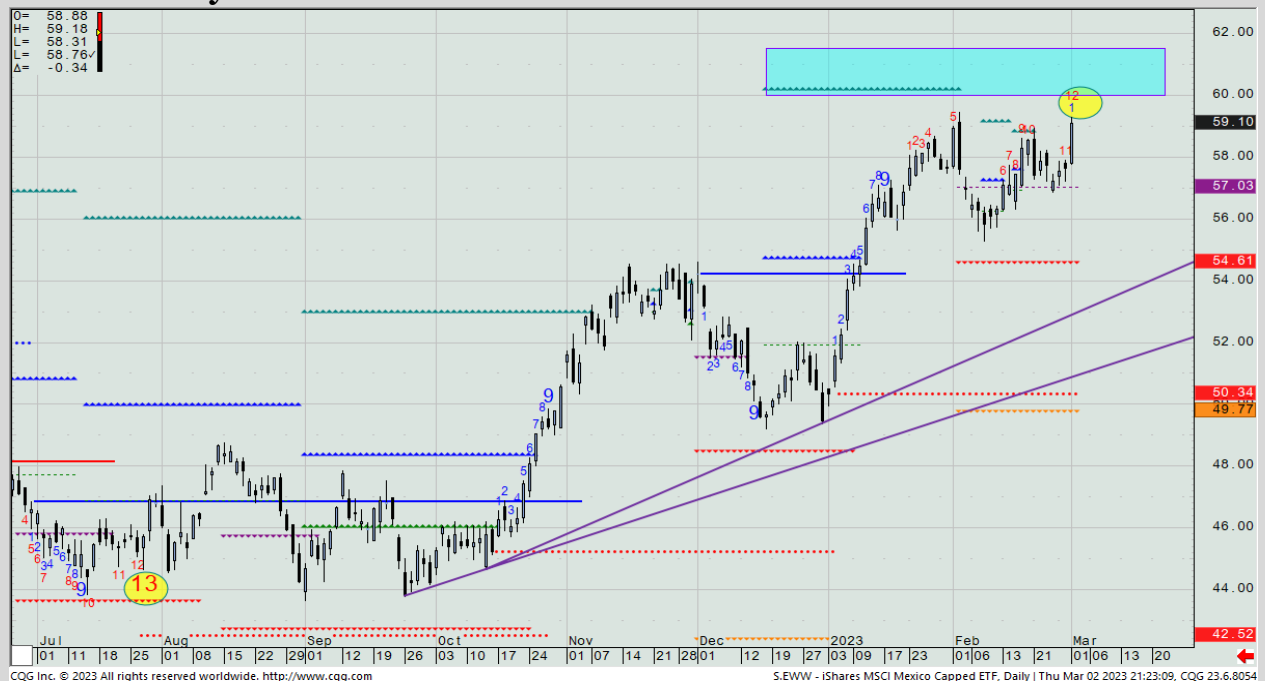
Let's short a 1/3 unit today, and another 1/3 up into the highlighted blue rectangle range of just north of $60 and then $61.40. I'll target a downmove to near the $54.61 level. We'll stop ourselves out on consecutive Friday closes above $61.45.

Other Open Recommendations and Positions

Long UNG

Last Friday we bought a one unit position in this natural gas ETF, with us getting in at an avg. price of $8.26. At the time, I suggested this to me more likely an investment than a trade, with our likely holding it for many months if not a year or more, looking for it to ultimately double in price. It's starting off well, with us ahead by some 9% or so in a week.
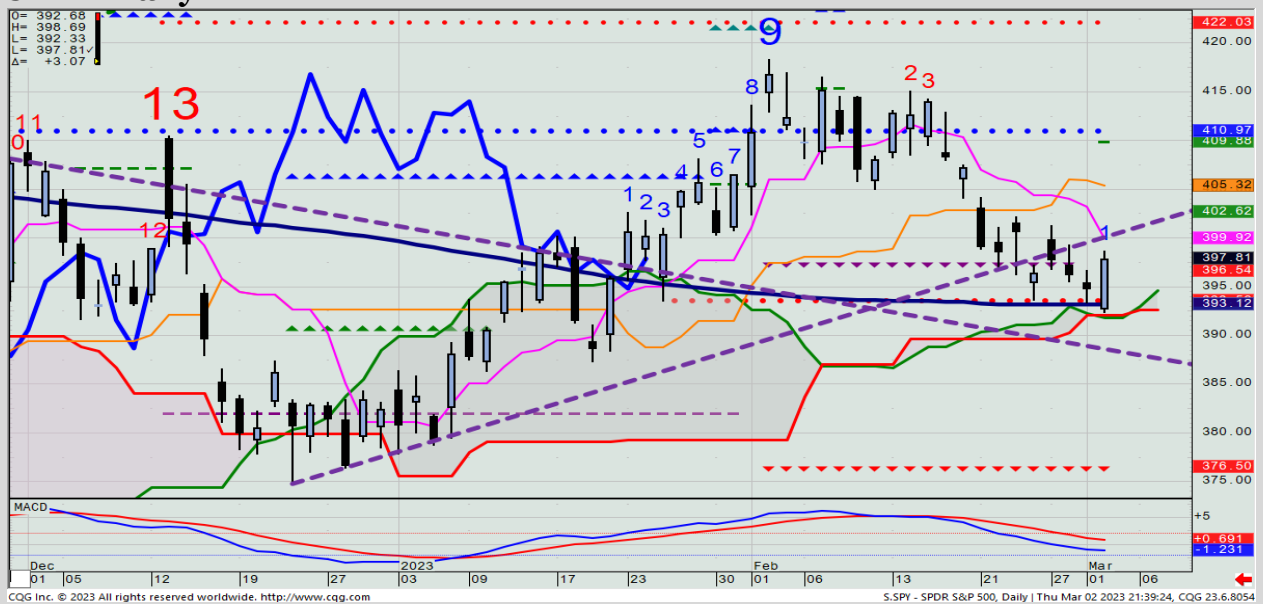
UNG – Weekly
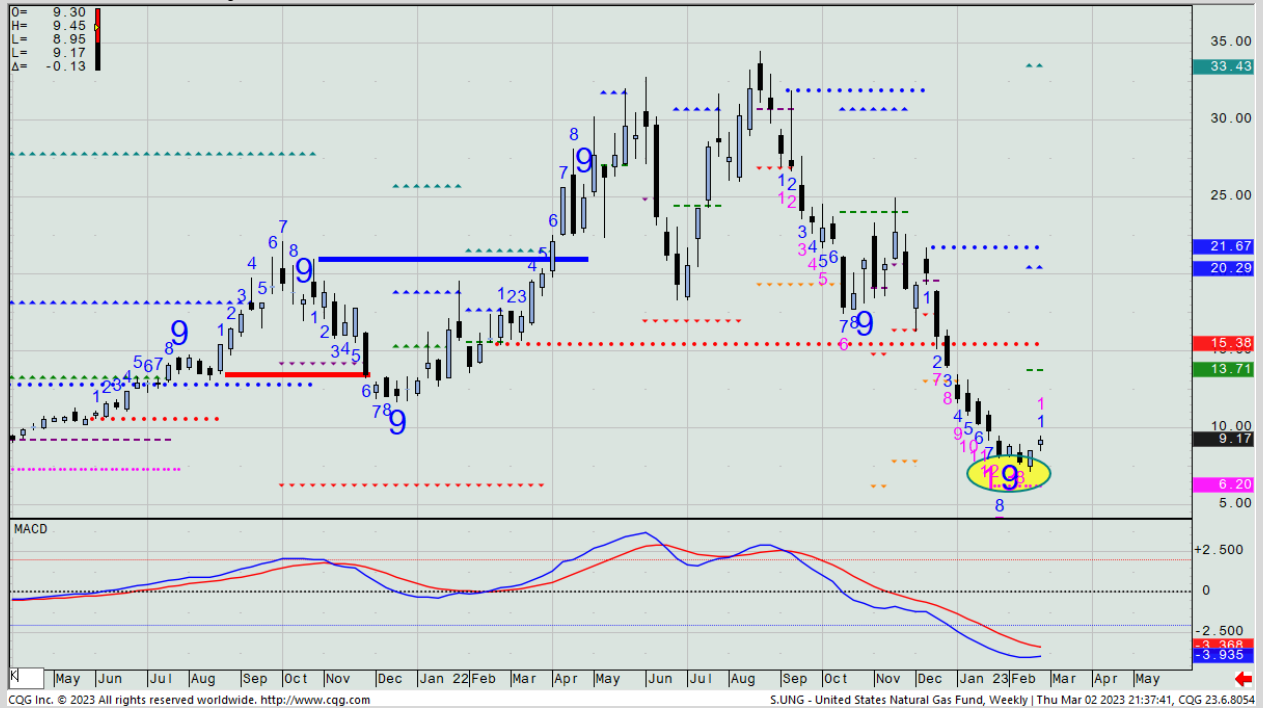
Short SPY

Two Fridays ago, we shorted the SPY at an average price at $405.78 (the midpoint of the day). I was looking for a test of $400 to as low as $385. We covered half last Friday at an avg. of $395.45. Lower your buy stop to $402.25.

SPY – Daily

Long INDA

Three weeks ago, we got long INDA, looking to put on bullish exposure near the low end of its trading range. Our sell-stop is on a new closing low under $38.77 – the lowest closing low of 2022.

INDA – Daily

Long XLC vs. Short XLE

Four weeks ago, 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. Our sell stop is on a Friday close beneath 0.5756.
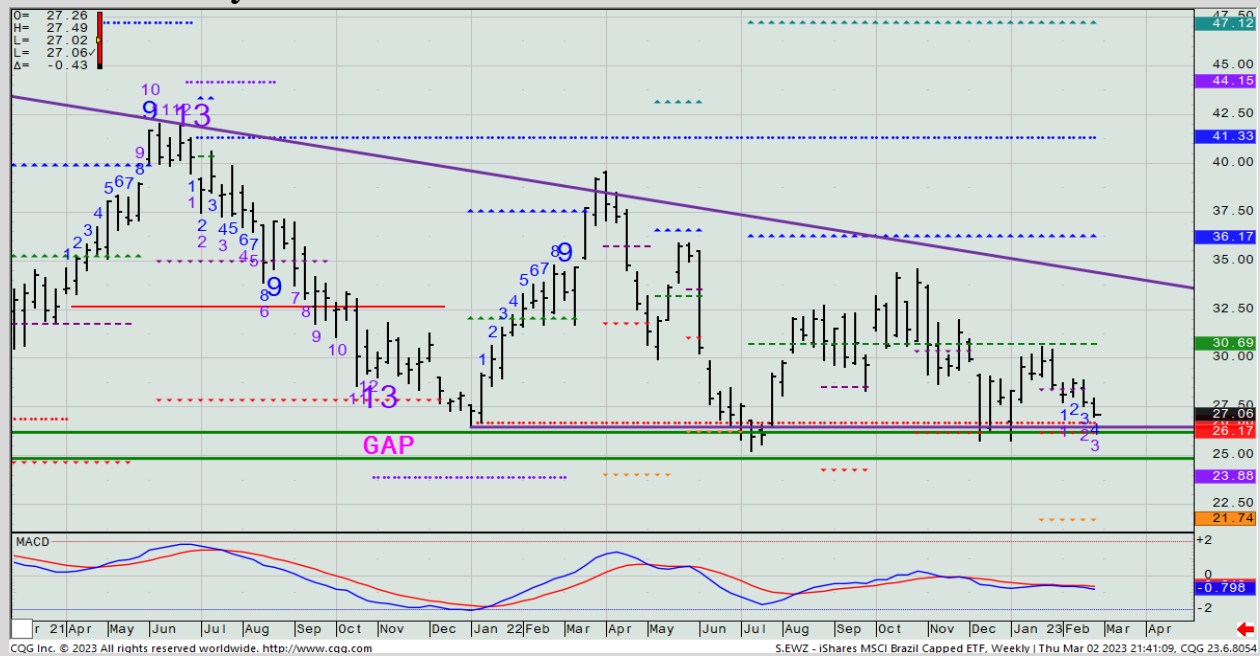
Long XLC vs. Short XLE – Weekly

Long EWZ

Five 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're keeping a tight sell-stop on this to exit on the second consecutive Friday close beneath $28.64. <mark>(Today is likely the first one.)</mark>

EWZ – Weekly

Long XAR

Seven 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. We previously took half off at an average price of $ $117.39. The upside target stays in the mid-$120s (say, $124 to $126.) I've already raised the sell-stop to consecutive daily closes beneath $115.75 or a simple sell-stop at your breakeven entry price.
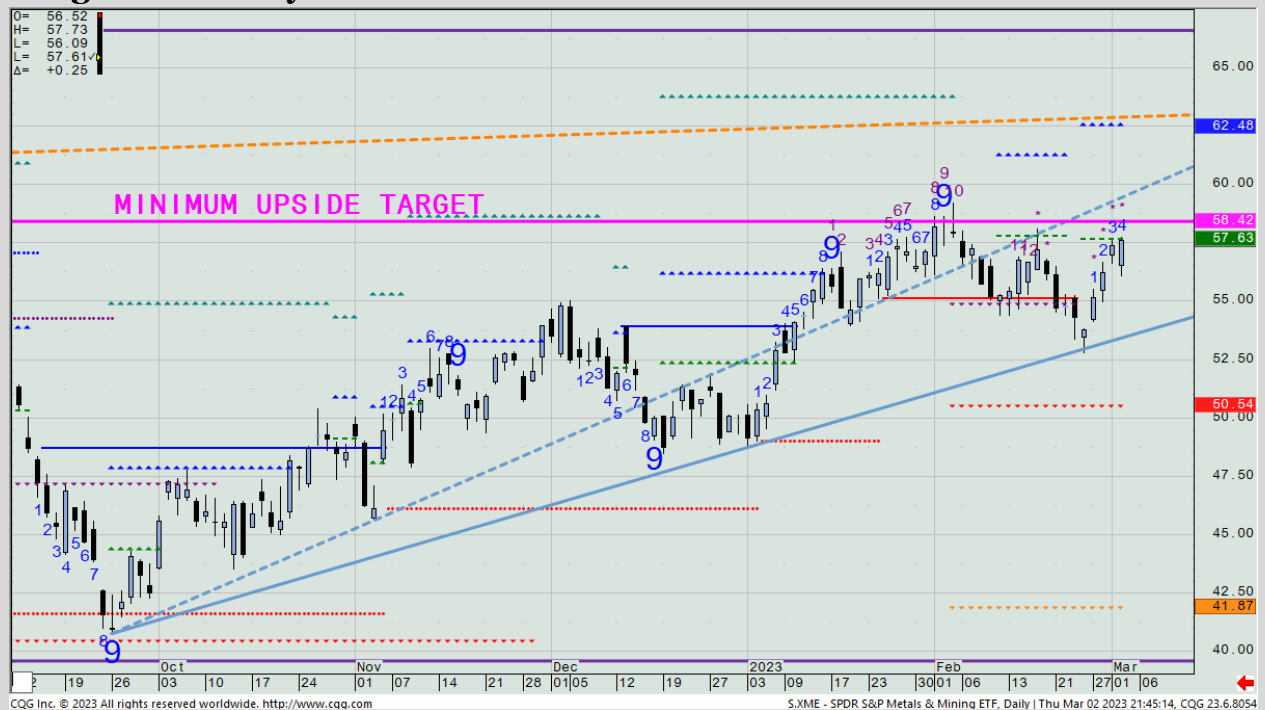
XAR – Weekly
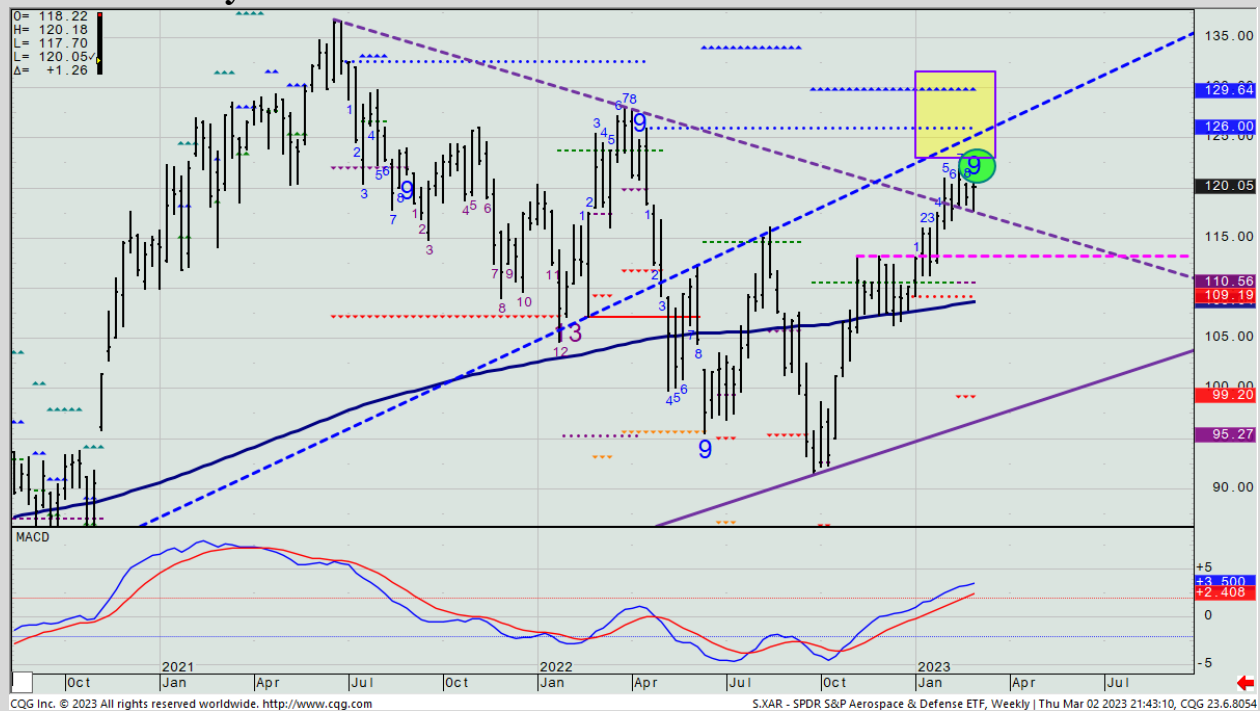
Long XME

Some 10 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 previously sold half, locking in a 14% profit on that portion. Our sell-stop to exit the balance is on consecutive daily closes beneath $54.26. (We saw one but not two, so we never got stopped.)

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

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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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