Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

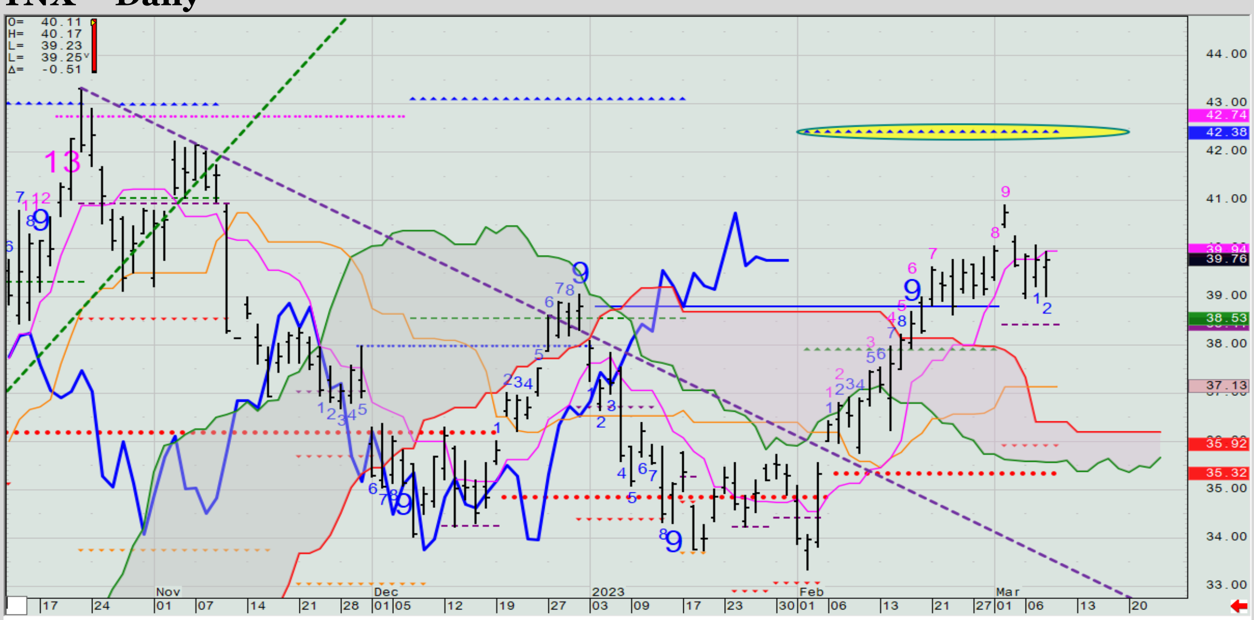
The Macro Picture

In Fed Chair Powell's testimony this week, bulls got a jolt they were hoping to avoid. Rates are headed higher (Fed funds may get to 6% or higher); the two-year Treasury yield is its highest in 40 years; and the UST 2-yr. is now about 1% above the UST 10-yr yield. This is a clear statement by fixed income traders – historically known as smarter traders than equity ones – that a recession is indeed coming.

For those of you who are also 7:11 Report subscribers, you know that we incorporate into our sector choices what I believe to be the very best quant model there is on the Street. The builder of that quant model told me this week that he thinks it is just a matter of time before the stock market caves to a massive reduction in earnings revision estimates. That view helps keep me being an ongoing seller of rallies at resistance levels. And after all, the SPX's recent high at its weekly bullish Propulsion Momentum level – just as it made a high in August against that indicator's level then – still means that the bigger picture is down, regardless of the fact that stocks are higher since the October low.

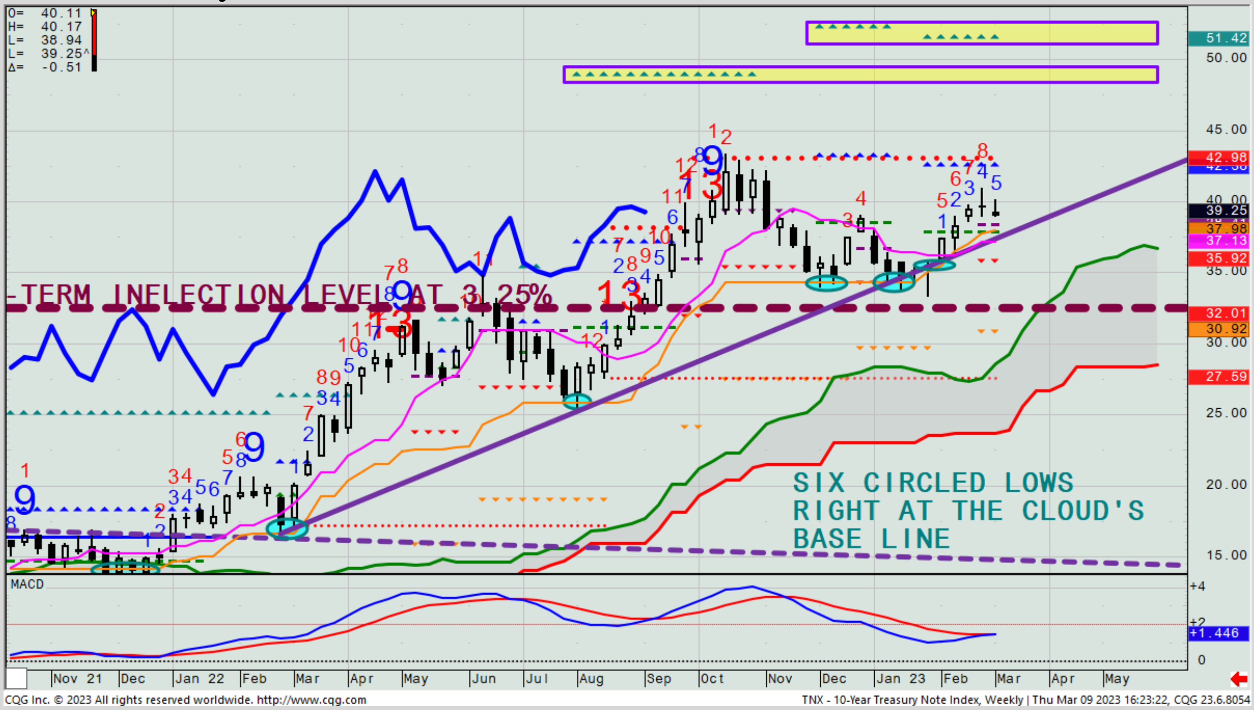
Rates are a major influence in the macro picture, and today they may move substantially as we get the monthly unemployment report. Right now, the 10-yr. is just beneath 4%, but with the recent daily bullish Propulsion Momentum signal in place, the upward momentum measures to a move up to 4.24%.

TNX – Daily



The downside is just as important to pay attention to, and I will still claim that a Friday close beneath the weekly Base line (that does not then immediate rally back above) will mean that bond yields are heading lower. That level is at 3.80%.

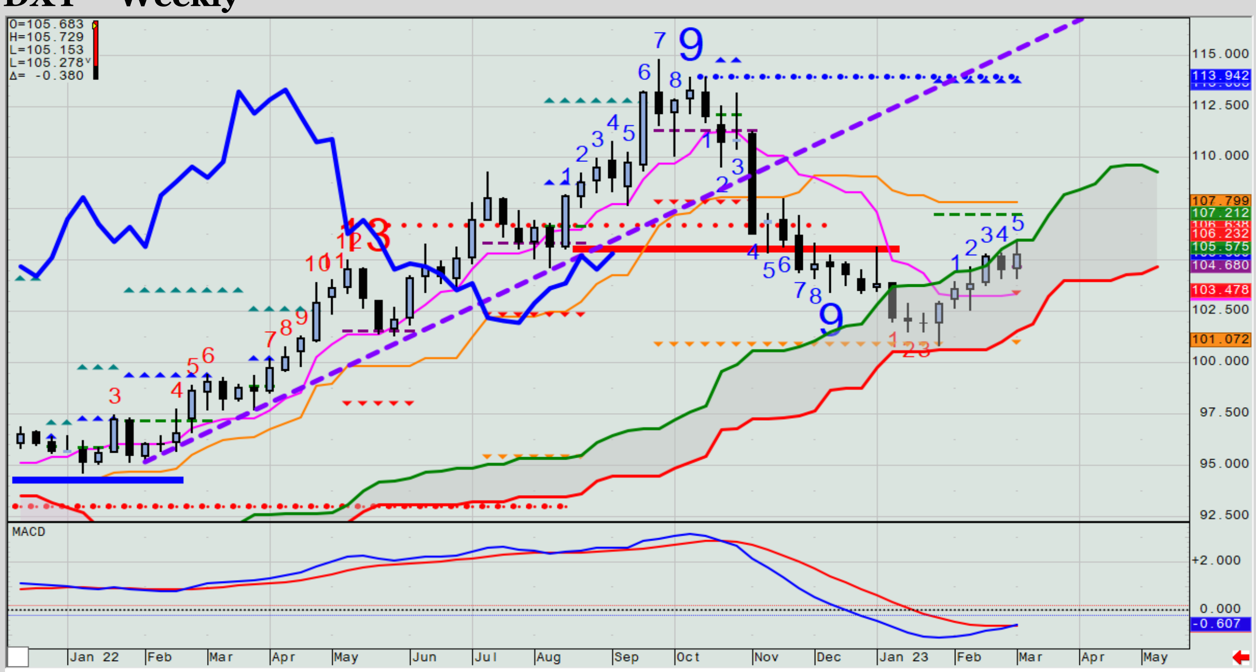
TNX – Weekly



The ICE BofA credit spread is caught between support from its major uptrend line, and resistance in the 1.4% area. Continue to watch this as a guide to help trade equities. (The higher the spread goes, the lower stocks will go.)

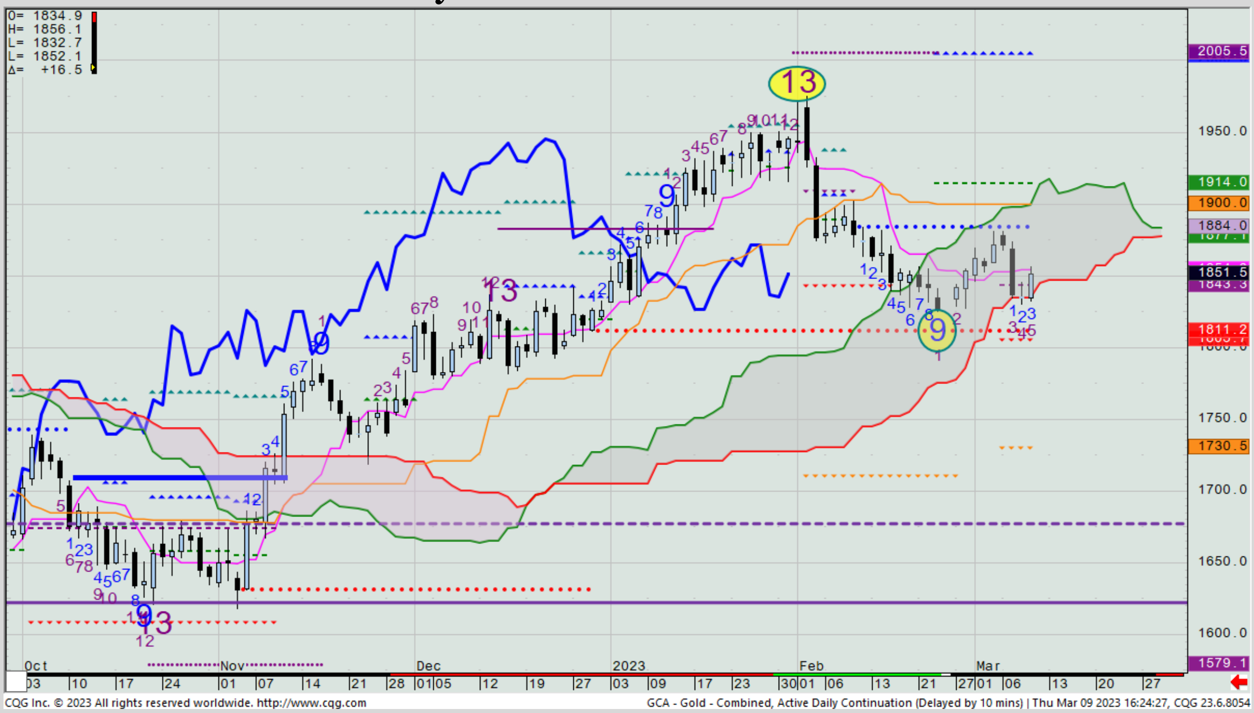
No change from my US Dollar Index thoughts from last week: We've already taken half of our long from 102 to 100.5 off, and raised the sell-stop on the balance to consecutive daily closes beneath 103.56. Higher rates are good for the greenback, but I do not expect any further dollar rally to exceed the 107-108 level.

DXY – Weekly



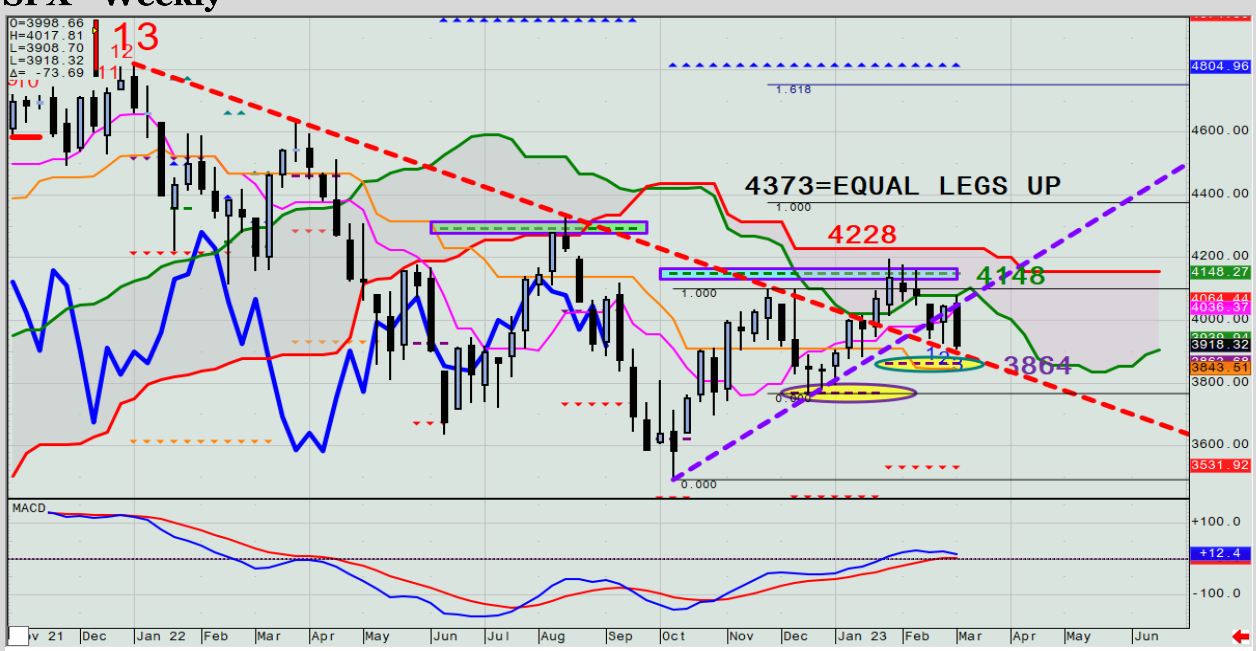
Gold gave back all of last week's gain, but then started moving up again the past two days (right from the bottom of its daily cloud). With gold investing, it's all about patience, and that's what you'll need to have to hold the metal, but I do think that odds favor a rally to new all-time highs within the next few years.

COMEX Gold – Active Daily Continuation



The equity market is in the midst of a very heavy slew of meaningful data this week and next that the Fed will use to determine its next rate hike amount on March 22nd. To me, the SPX remains in a near-term choppy, sideways market, bounded by 4148 on the upside and 3864 on the downside. Until it gets above or beneath those levels on Friday closes, respectively, I don't think you're going to get too far unless you're trading very short-term. But as I said earlier in this report, I will continue being a consistent seller on rallies at my chosen resistance levels whenever those opportunities arise.

SPX - Weekly



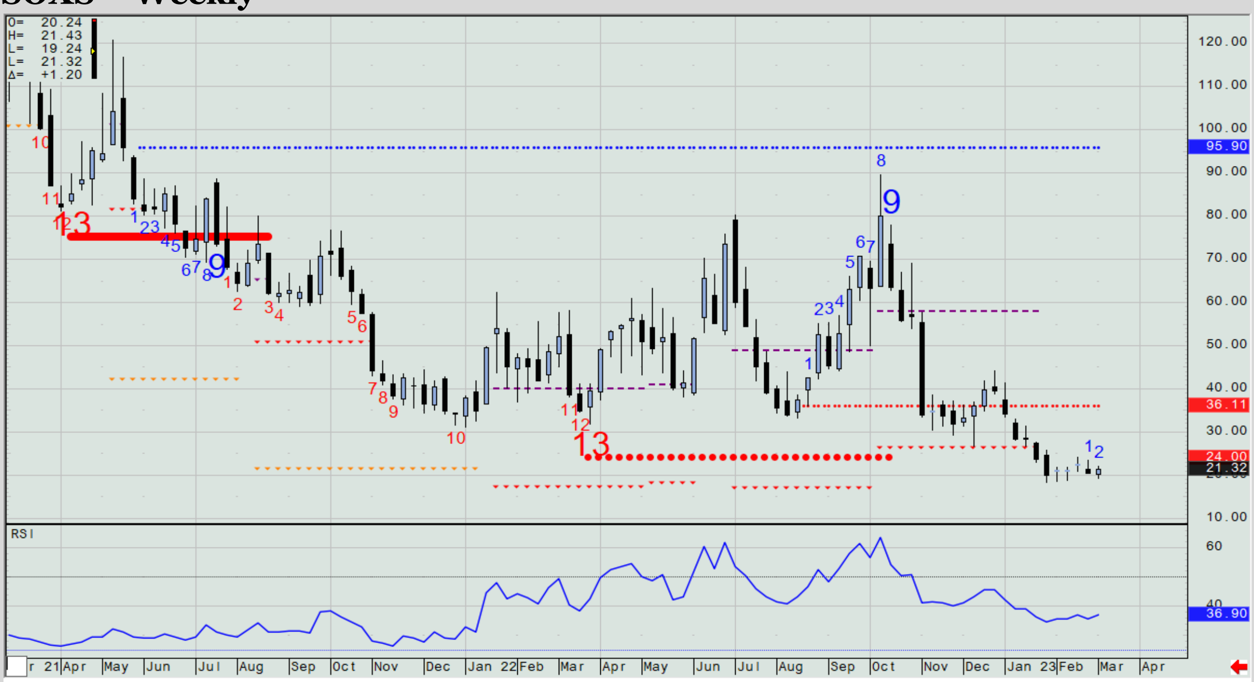
New ETF Trade Idea

The Phila. Semiconductor Index (**SOXX**) topped out right near not only a 50% retracement level from the all-time high to the Oct. '22 low, but also at important prior lows and highs (i.e., the highlighted horizontal "Resistance Zone"). Though the SOXX remains in its cloud, the overall weakness this week (and 5 of the last 6 in the SPX) gives us a trading opportunity in an associated leveraged inverse ETF, the Direxion Daily Semiconductor Bear 3X (**SOXS**).

SOXX – Weekly

Now, you know that it is a rare day that I recommend levered ETFs, let alone a 3x one. But given the current price proximity to the lowest weekly close it's ever made – and the chance that the market made its corrective high in early February – we'll look to get long a one-half unit position in this ETF, risking to a new Friday closing low beneath $20.02. (You can decide if you stop out on a single Friday close under there, or two consecutive ones.) The upside possibility is far greater than what we will risk on the downside.

SOXS – Weekly

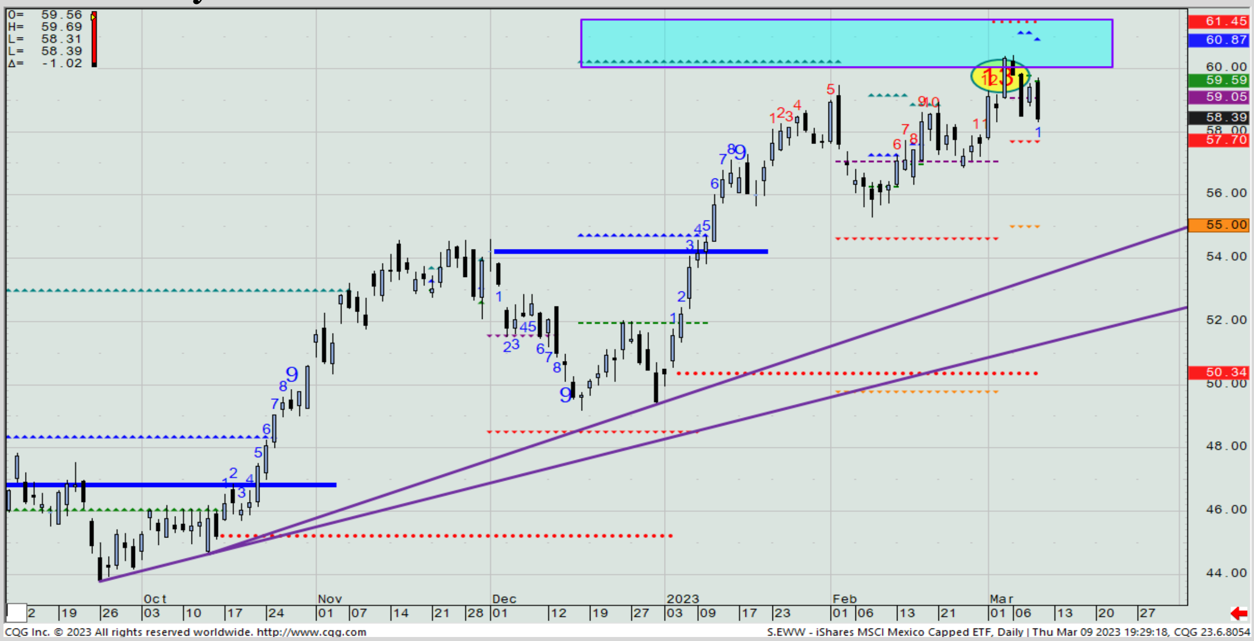


Other Open Recommendations and Positions

Short EWW

Last Friday we actually got into 2/3 of my recommended short position (let's use an average fill price of $59.72 on it), and we'd still sell the last third near $61.40. I'm targeting a downmove to near the $54.61 level, and we'll stop ourselves out on consecutive Friday closes above $61.45.

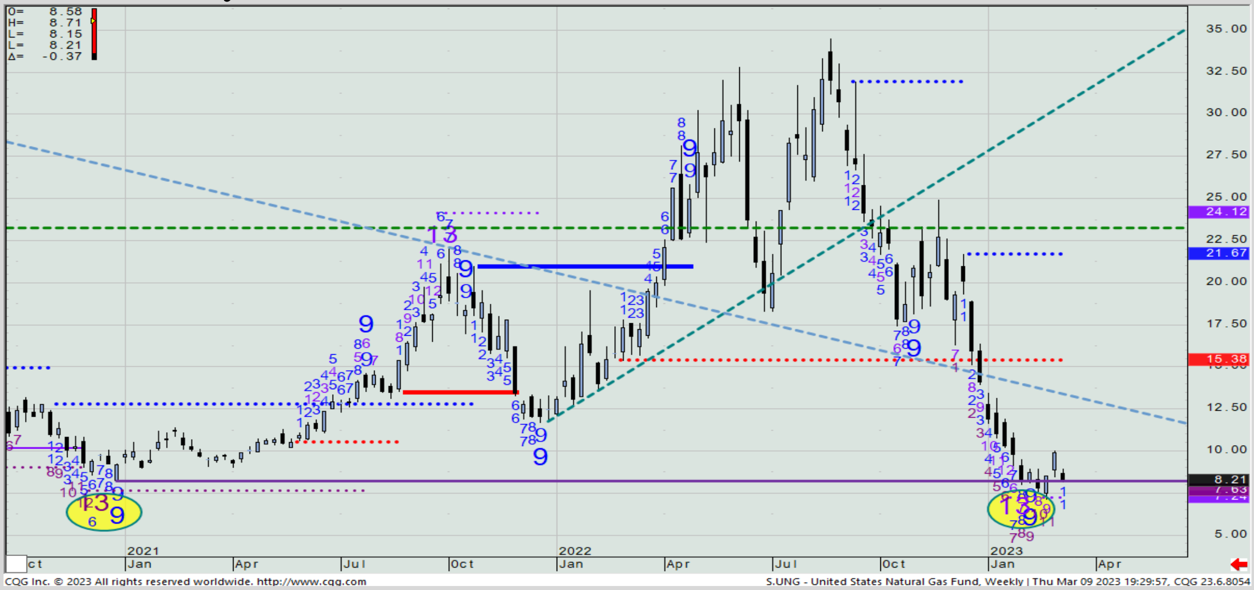
EWW - Daily



Long UNG

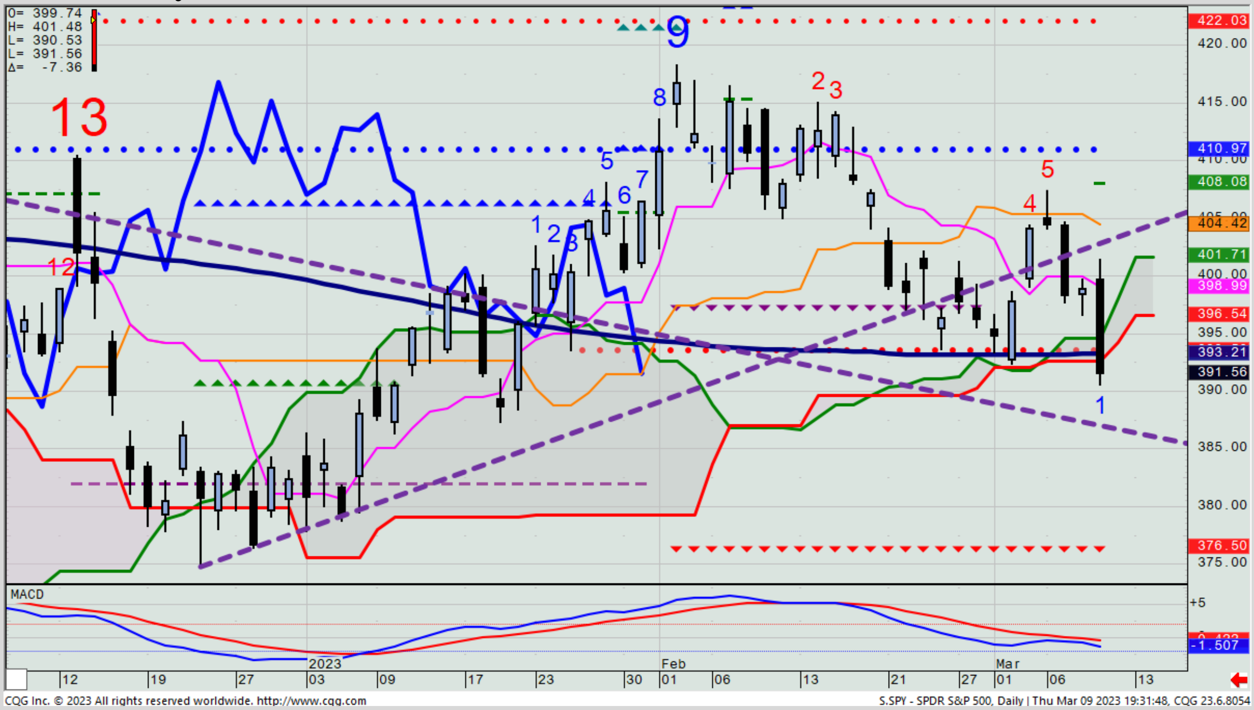
Two weeks ago, we bought a one unit position in this natural gas ETF, with us getting in at an avg. price of $8.26. At the time, I suggested this to me more likely an investment than a trade, with our likely holding it for many months if not a year or more, looking for it to ultimately double in price. This rallied sharply and then promptly sold off – not uncommon in a commodity-related ETF. Patience, patience…

UNG – Weekly



Short SPY
Three 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. Our buy stop is at $402.25.

SPY – Daily



Long INDA
Four 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

Five 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

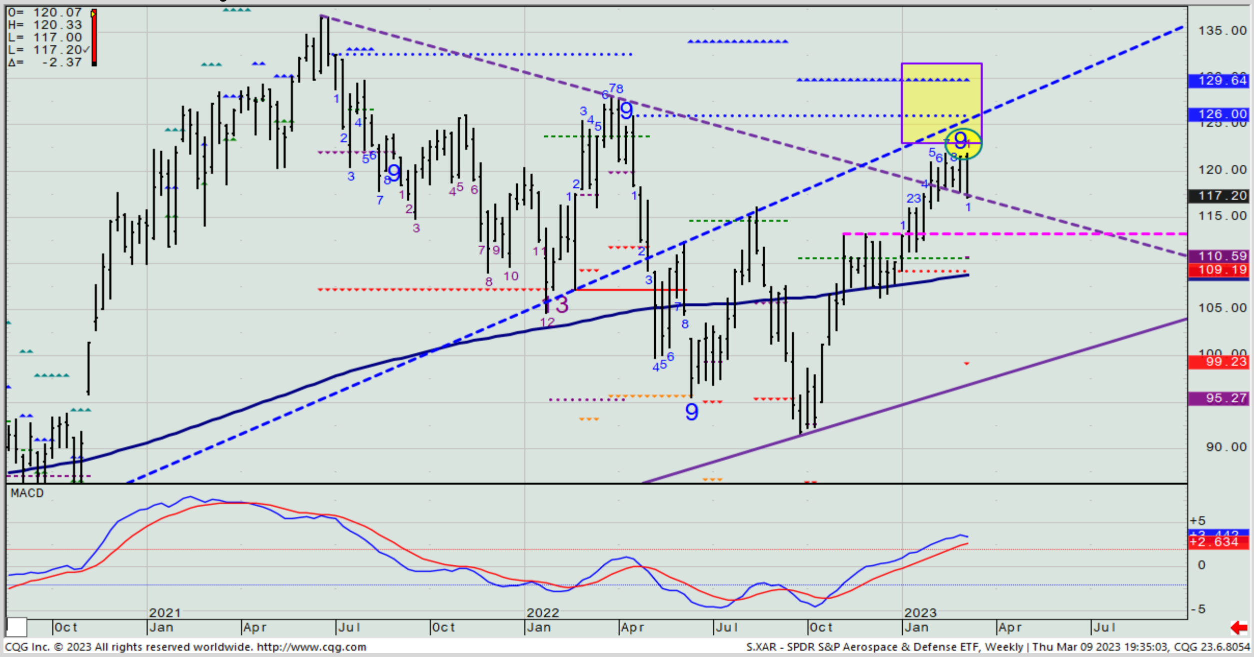
Six weeks ago, we went long this Brazil equity ETF (avg. fill price at $29.19), looking for a move that targets the downtrend line in the $34 to $35 area. We're keeping a tight sell-stop on this to exit on the second consecutive Friday close beneath $28.64. (Last Friday was the first of the two, so pay attention to where this is near today's close for a possible closing of the position.)

EWZ – Weekly

Long XAR

Eight 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.

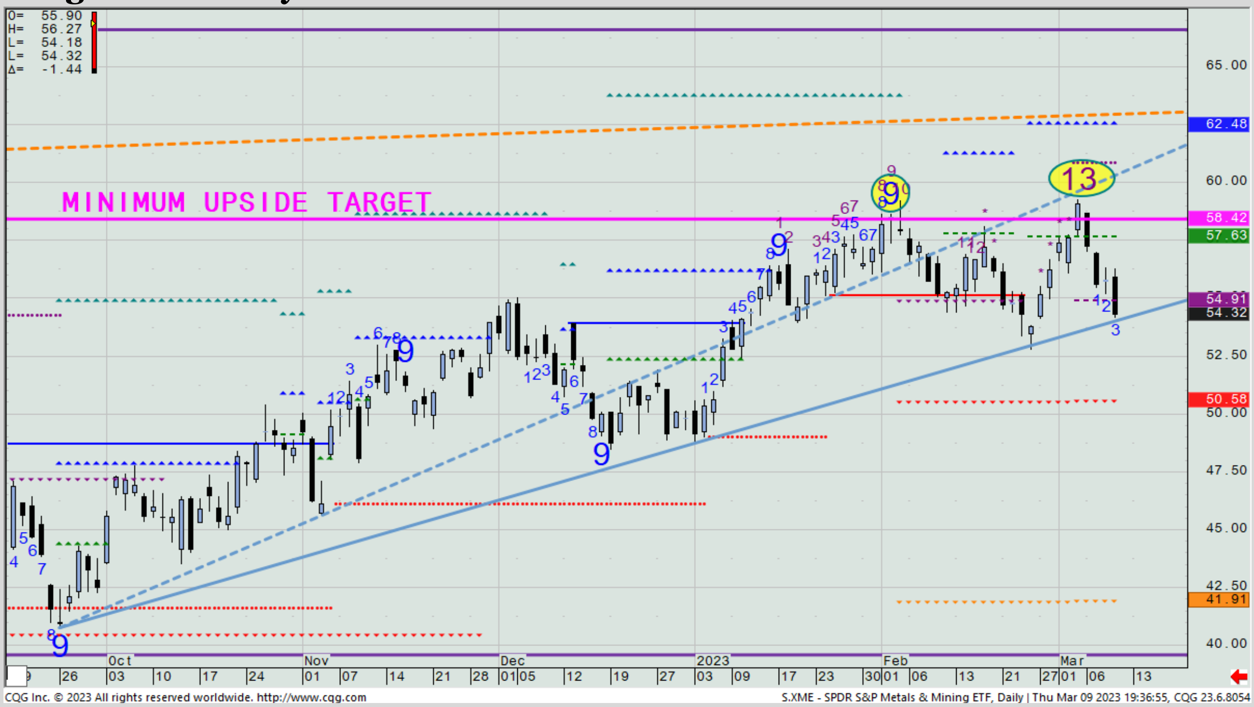
XAR – Weekly



Long XME

Just around the beginning of the year, 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.

Long XME – Daily



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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