Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com

March 17, 2023

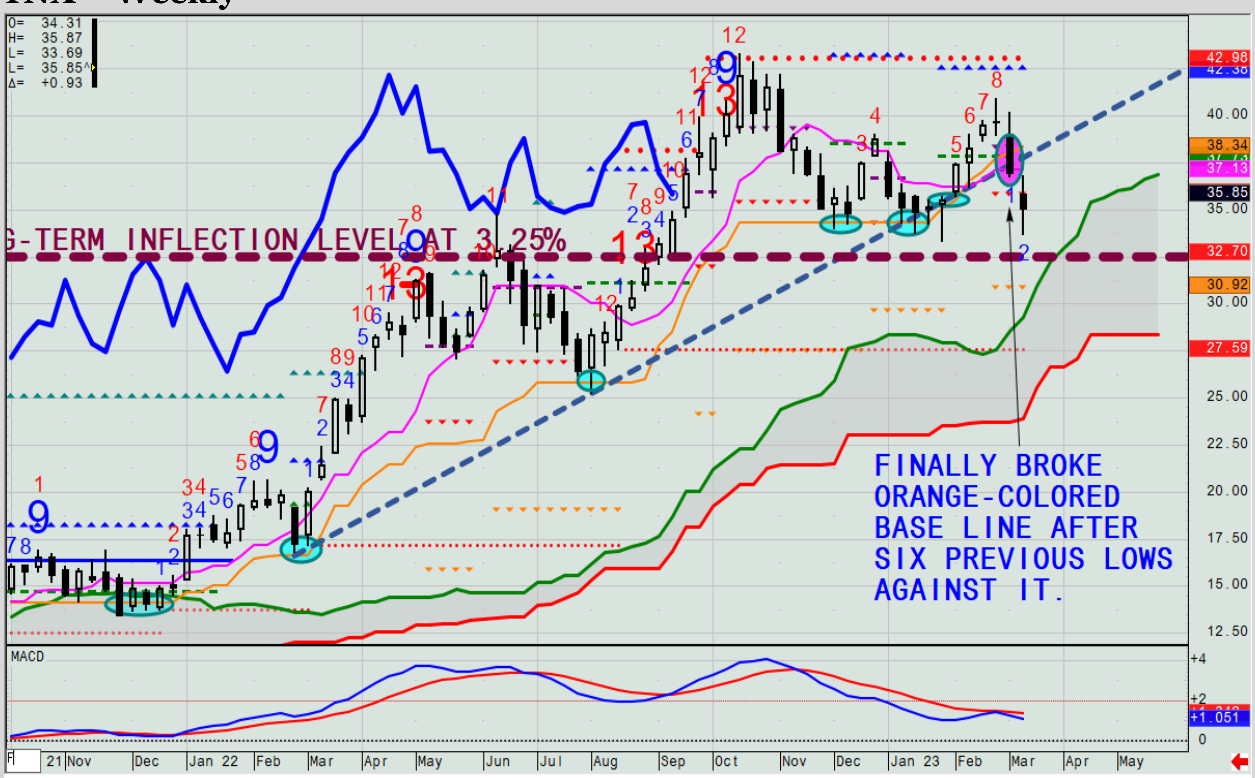
TACTICAL TRADER REPORT

The Macro Picture

It's been a heck of a week since last week's report, with the Silicon Valley Bank news hitting the markets last Friday, and the spread to Signature Bank and then to Europe's Credit Suisse this week has caused quite the "kerfuffle" to investors, most especially in the Financials. Yesterday, the ECB raised rates by 50 bps., and our own Fed is scheduled to announce its latest rate decision this coming Wednesday. There is a major question now of whether they raise 25 bps., do nothing, or some even saying that they might even ease rates to curtail the banking issues that have sent shocks through many banking stocks.

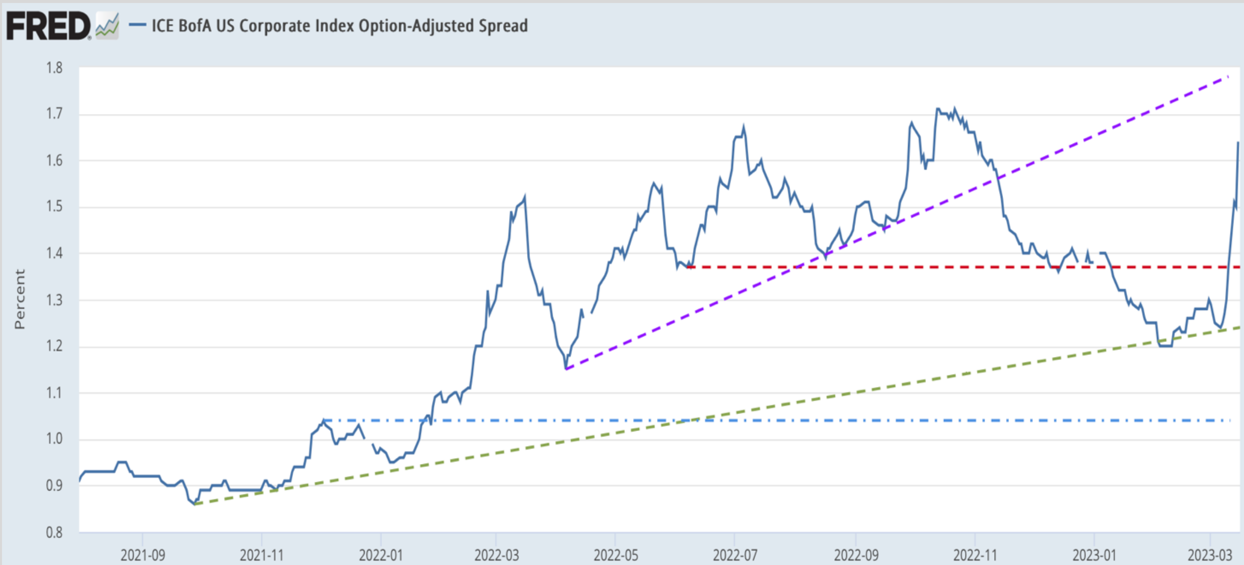
Last week I gave you both an upside TNX target, as well as the equally important level that if broken sends them quickly lower, and that was the 3.80% level on a Friday close. The latter occurred as rates collapsed last Friday to close out the week at 3.695%, giving us a good clue that they will now remain under pressure after finally breaking the weekly cloud model's Base Line (circled), that had previously held as support six prior times in the past couple of years.

TNX – Weekly



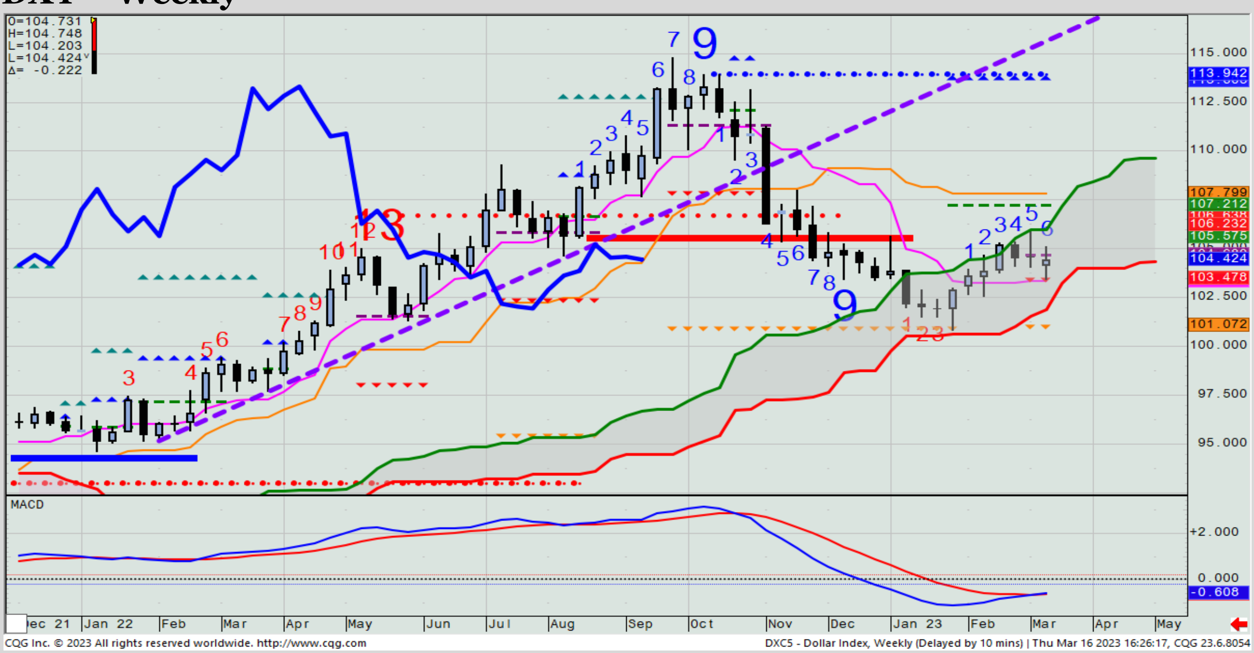
That break in yields would suggest that they will not likely rally back above that 3.80% breakdown level, and I would use rallies in rates to buy bonds, looking for another leg lower in yields to get closer to 3%.

Our preferred credit spread has recently bounced from a test of its major uptrend line at 1.2% to what soared to 1.64% on Wednesday. Last year's high was 1.71%, and as a reference point, the March 2020 Covid high was 4.01%.



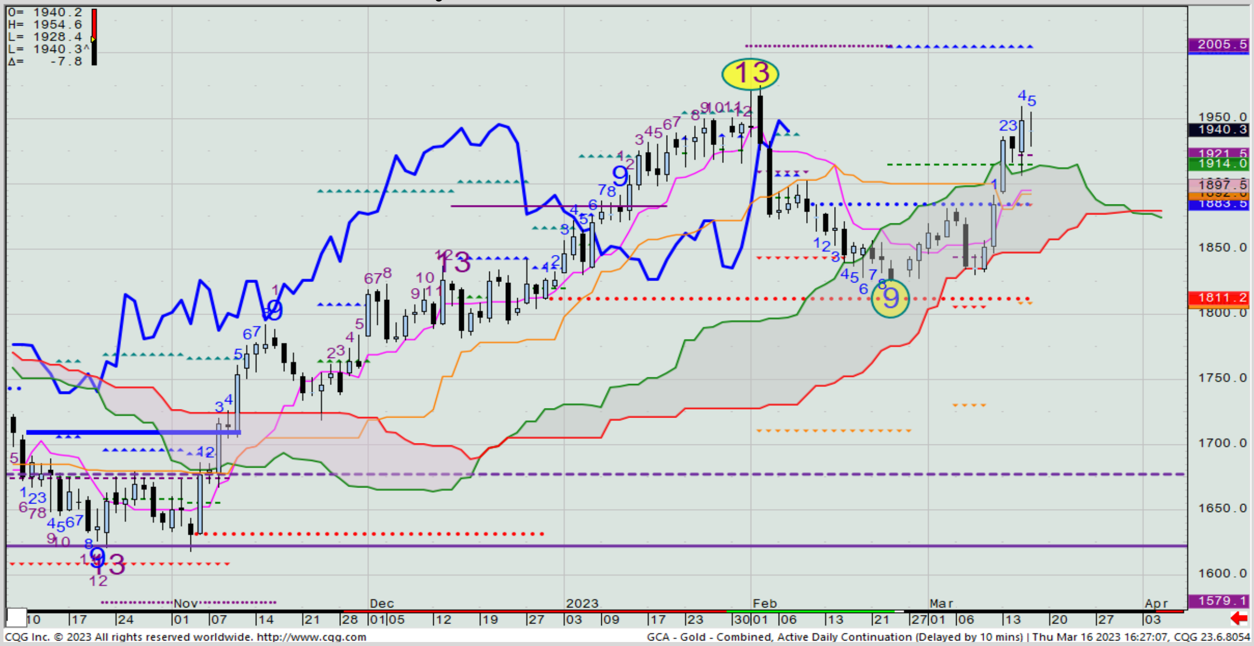
No change from my US Dollar Index thoughts now three weeks running: We've already taken half of our long from 102 to 100.5 off, and raised the sell-stop on the balance to consecutive daily closes beneath 103.56. (Over the past week we got two straight closes at 103.60, so we survived!)

DXY – Weekly



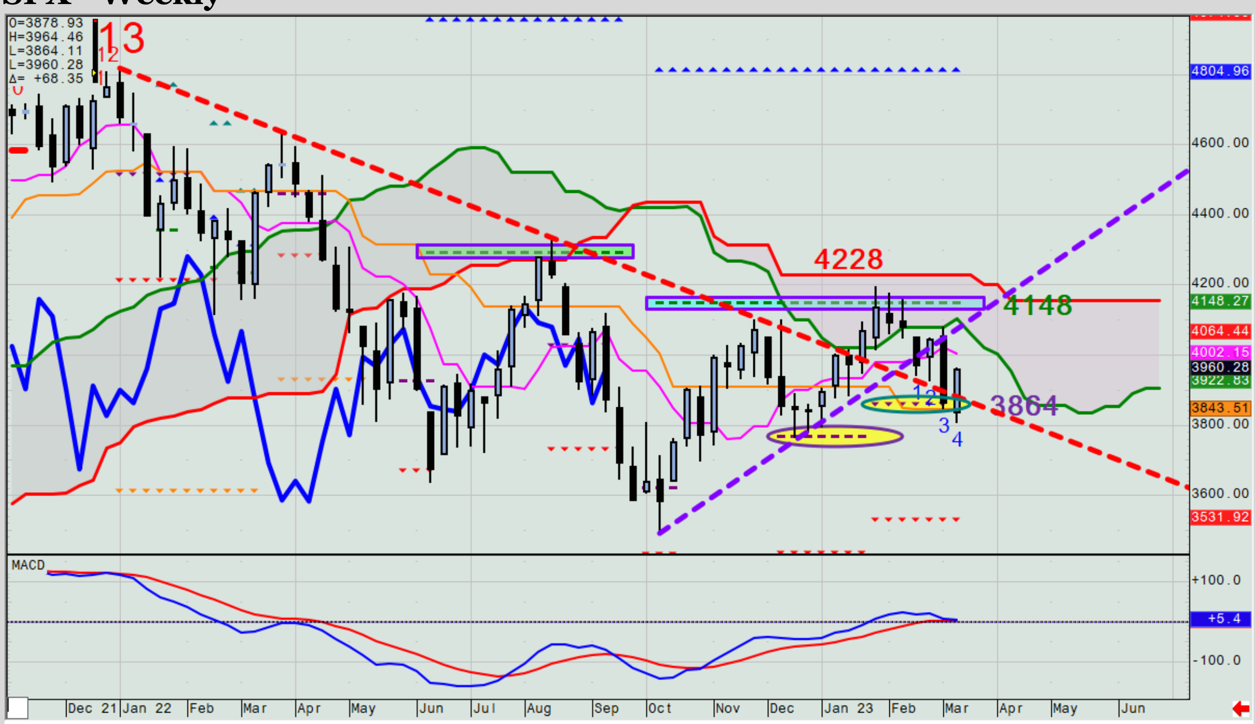
Gold was a definite bullish recipient of both the quick drop in rates, but also the banking system concerns. (Bitcoin sharply rallied, too.) I remain bullish and do think that holding the yellow metal will prove fruitful over time. (You should have up to 5% of your portfolio in it, anyway, as a long-term hedge against inflation and systematic issues that can plague stocks at any time.)

COMEX Gold – Active Daily Continuation



Turning towards the equity market, the early part of the week saw substantial selling as fears justifiably mounted over increasing odds of a recession with the SVB mess trickling down to other banks and the general malaise that investors have been facing with a tightening Fed. But what has really stood out to me is the SPX's resiliency against the weekly bearish Propulsion Momentum level at 3864. Last Friday closed a mere two points beneath there, and despite all of the selling we saw this week, the lowest close was at 3856. Now, we see the SPX sitting at 3960, and the idea I presented to you last week – that we are likely in a trading range bounded by 3864 and 4148 – is still very much in play (unless today closes less than last Friday's close of 3862). That seems unlikely, and as such, there is no new bearish signal marked and now aggressive sellers from early this week are scampering to cover losing bearish bets or lousy sales of prior longs.

SPX - Weekly



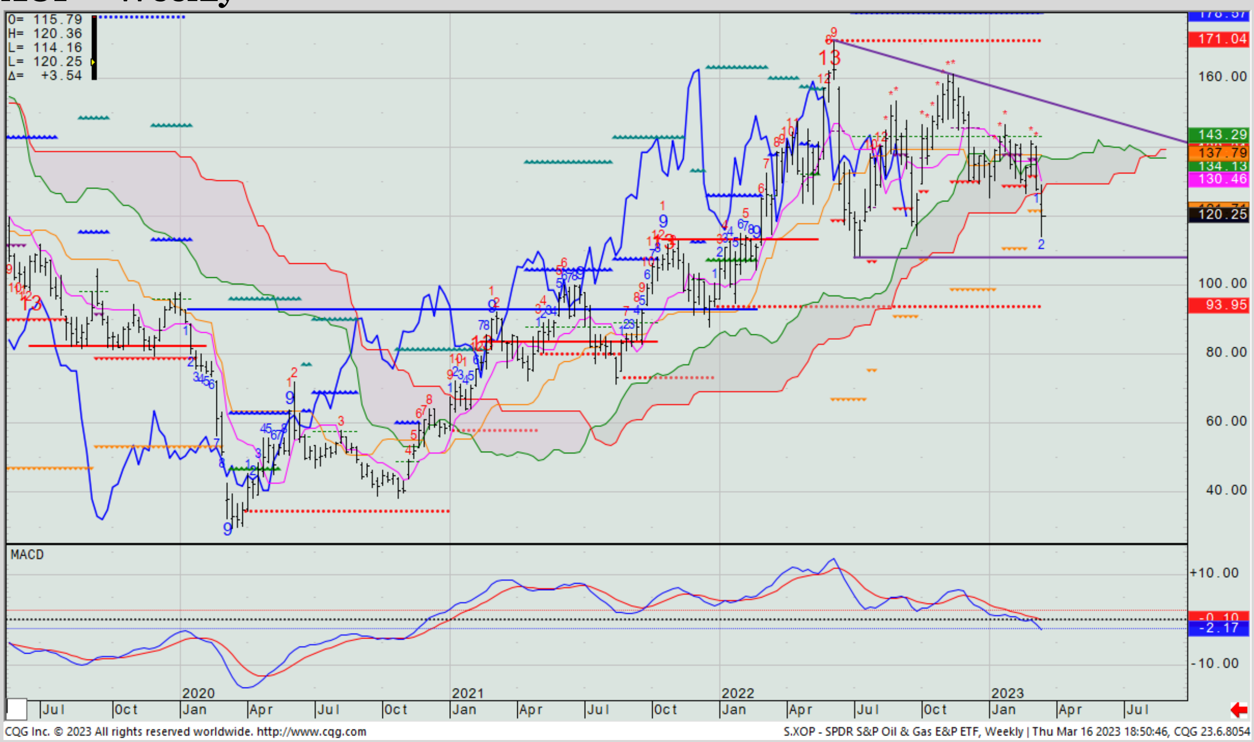
Ultimately, I'll stick with my overall view that earnings revisions will need to still fall appreciably, and as such, the market is will likely need to trade lower. However, it may just not be now, so I'd keep playing the range until something changes.

New ETF Trade Idea

Oil has traded down to new lows of the decline, but might get some support from the mid-$60s as the government has said that they plan on replenishing the strategic oil reserve in this area. That increased demand should help give oil a temporary bounce. However, there should be enough overhead resistance now – especially in oil-related stocks – to keep a lid on any major rally.

So, when I look at the **SPDR Oil & Gas Index ETF (XOP)**, I see decent chances that a rally back up to its weekly cloud bottom ($129.30) should start that tougher zone to hurdle (i.e., the cloud itself).

XOP – Weekly

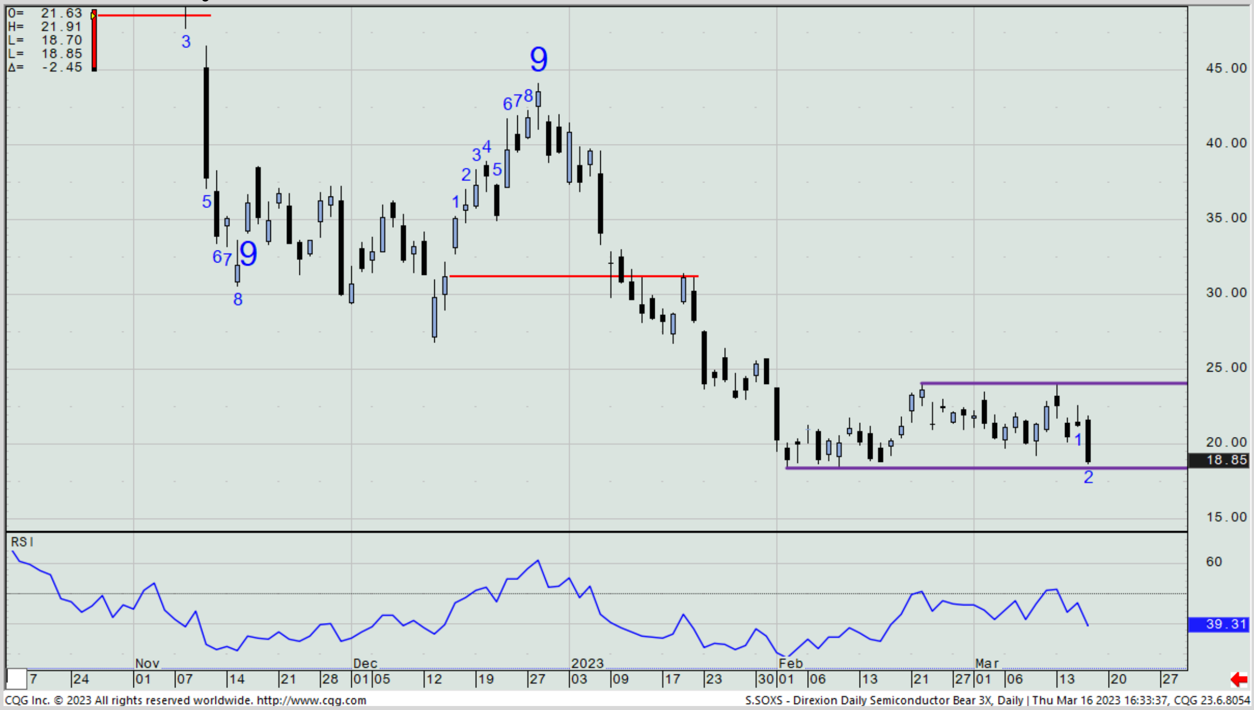


As such, let's look to short a one-half unit of XOP on a rally back to $129 to $129.50, looking for a break of the mid-2022 low to test down to near $100. We'll stop ourselves out on a single (or two consecutive ones; your choice) Friday close > $143.29 (the bullish Propulsion Momentum level).

Other Open Recommendations and Positions

Long SOXS
Last week I got you into a half position in this levered short semiconductor ETF – a very rare recommendation for me to give, but I saw the reason to think that it could rally as semiconductor stocks could come off in price. (Our average entry price from last Friday was at $21.85.) Semis have hung in this week, and then yesterday the group got an upgrade from a sell-side firm, saying the cycle low is in. We had said we'd exit on a Friday close beneath $20.02, which could easily happen today, so look to exit and we'll just take our quick loss and move on.

SOXS – Daily



Short EWW

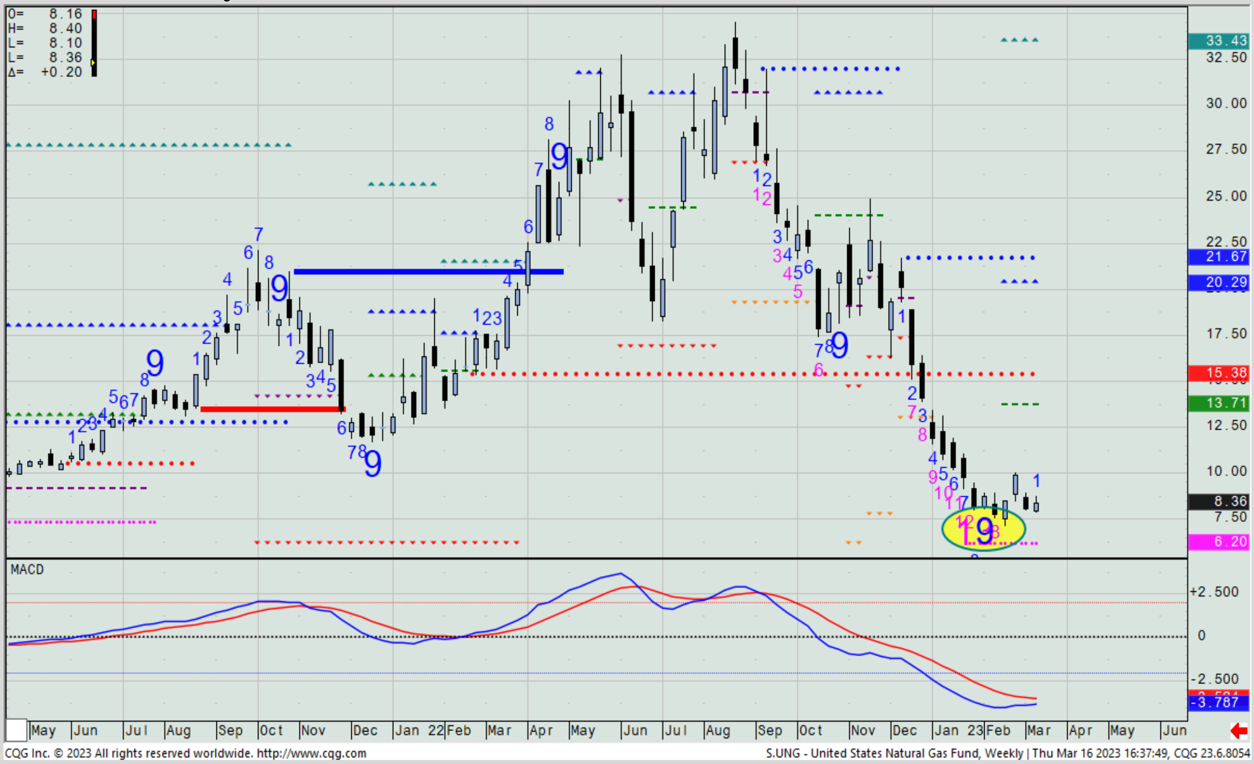
Two Fridays ago, we got into 2/3 of my recommended short position (average fill price of $59.72). I targeted a downmove to near the $54.61 level, which we saw yesterday with a low of $54.21. Quick in and out for a profit of 10.2% on the invested capital, and we're now flat and finished with the trade.

EWW - Daily

Long UNG

Three 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…

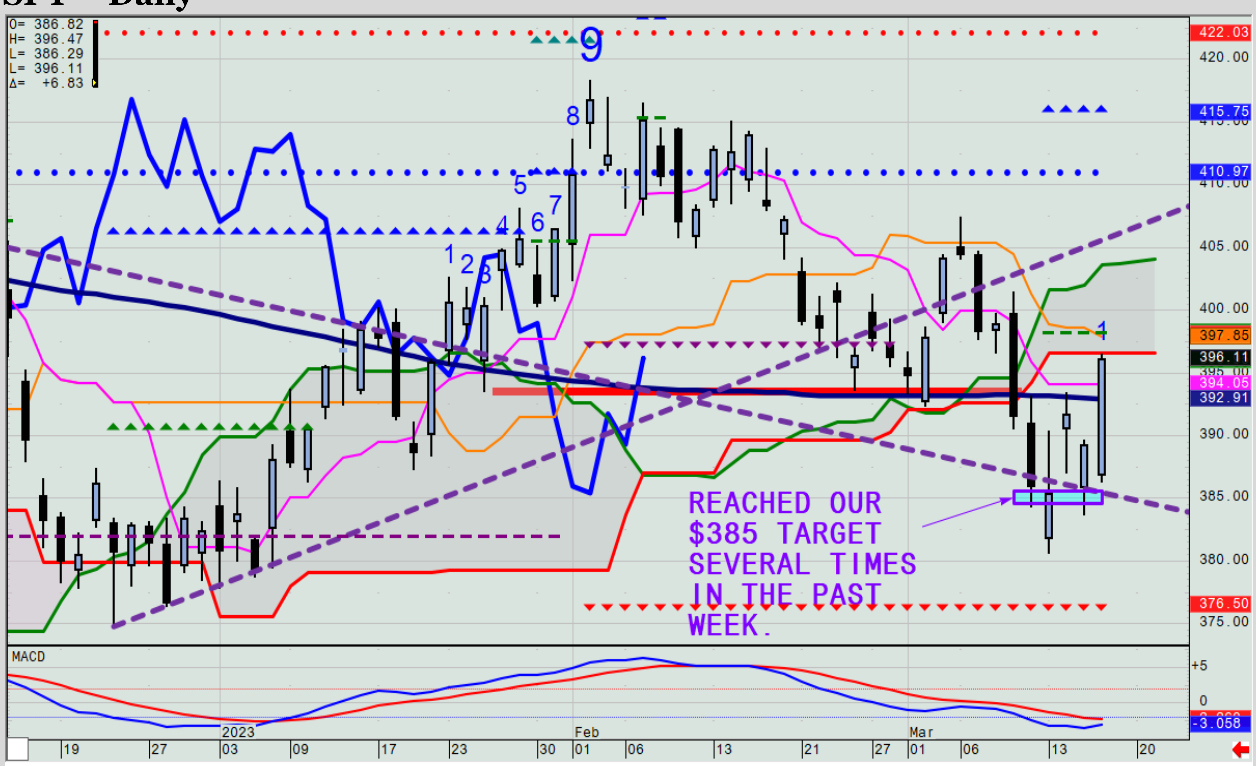
UNG – Weekly



Short SPY

Four 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. We got the $385 level early this week to cover the other half. (The low was $380.65). So, our average cover was at $390.23, and we made 3.99% on our short SPY trade.

SPY – Daily



Long INDA

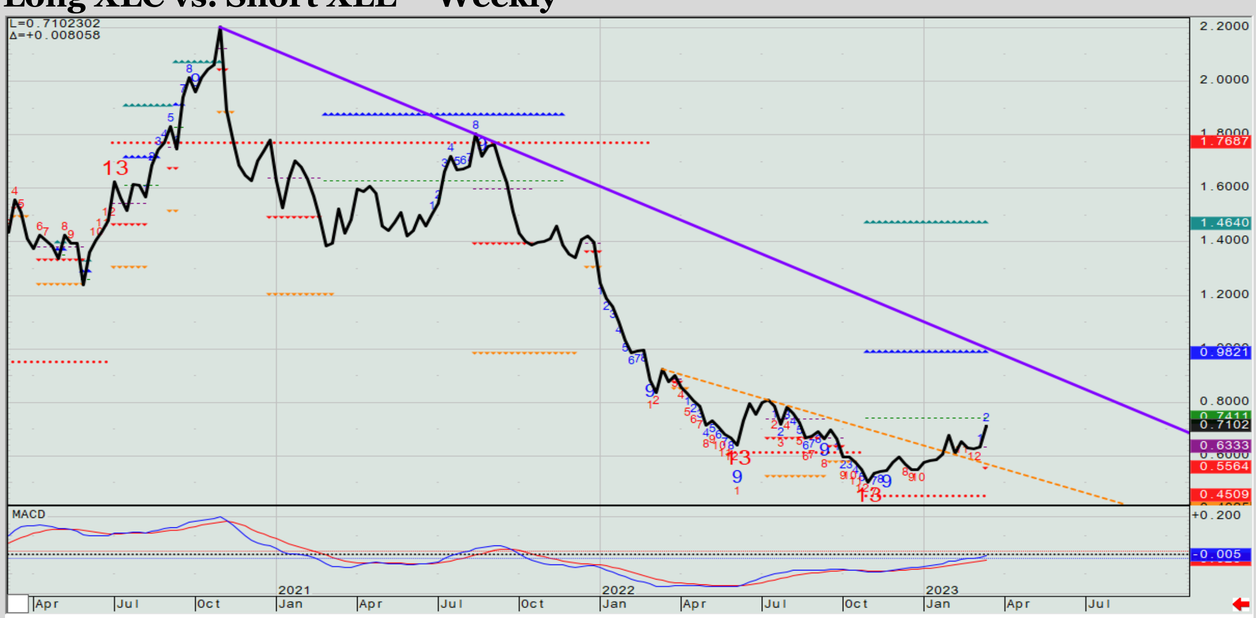
Five weeks ago, we got long INDA, looking to put on bullish exposure near the low end of its trading range (avg. fill $40.32). Our sell-stop was on a new closing low under $38.77 – the lowest closing low of 2022. That happened on Wednesday this week with a close of $38.04, so we got stopped out and lost 6%. However, with a -13 showing up on Wednesday, I want to get right back into this and I recommend getting long right now.

INDA – Daily

Long XLC vs. Short XLE

Six 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. This has now rallied to the best levels since we got in. I'm looking for this to potentially move up to the 0.982 level. I am now raising our sell-stop to be consecutive Friday closes beneath 0.6320.

Long XLC vs. Short XLE – Weekly

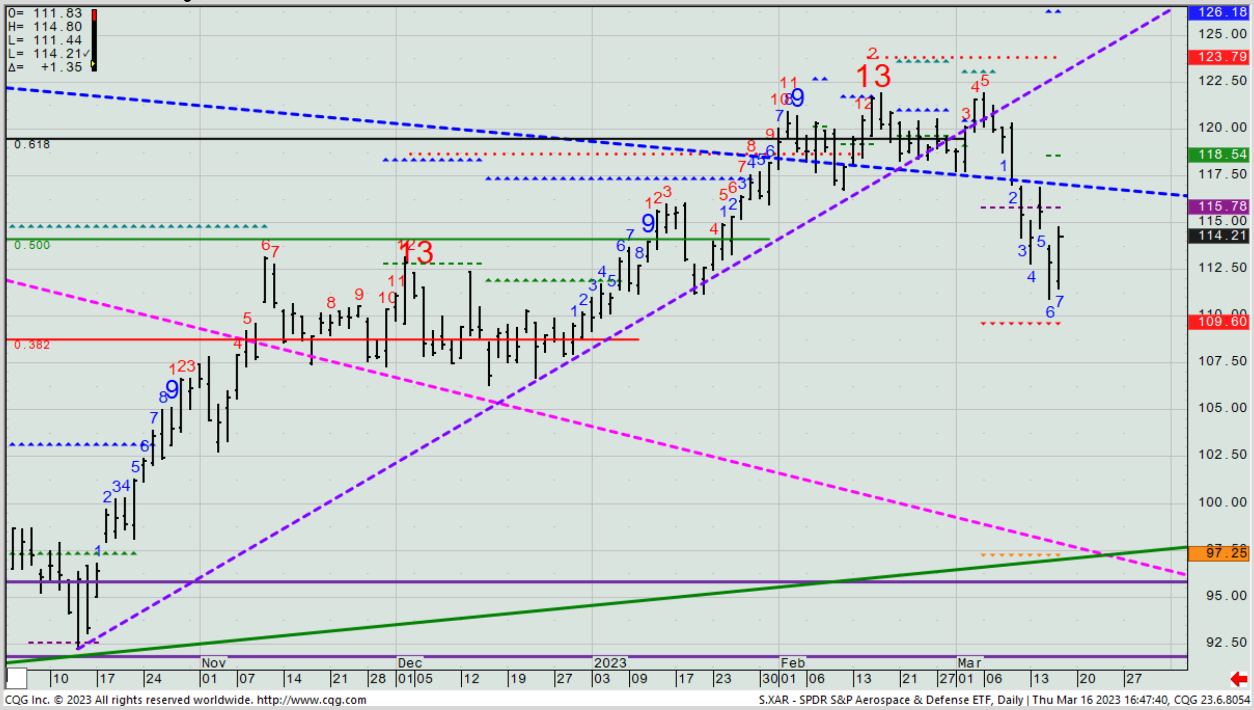


Long EWZ
Seven weeks ago, we went long this Brazil equity ETF (avg. fill price at $29.19), looking for a move that targets the downtrend line in the $34 to $35 area. We'd kept a tight sell-stop on this to exit on the second consecutive Friday close beneath $28.64. I realize that we actually already got stopped out of this on Friday March 3rd. It's my error that I have kept writing about this when we were already out.

EWZ – Weekly

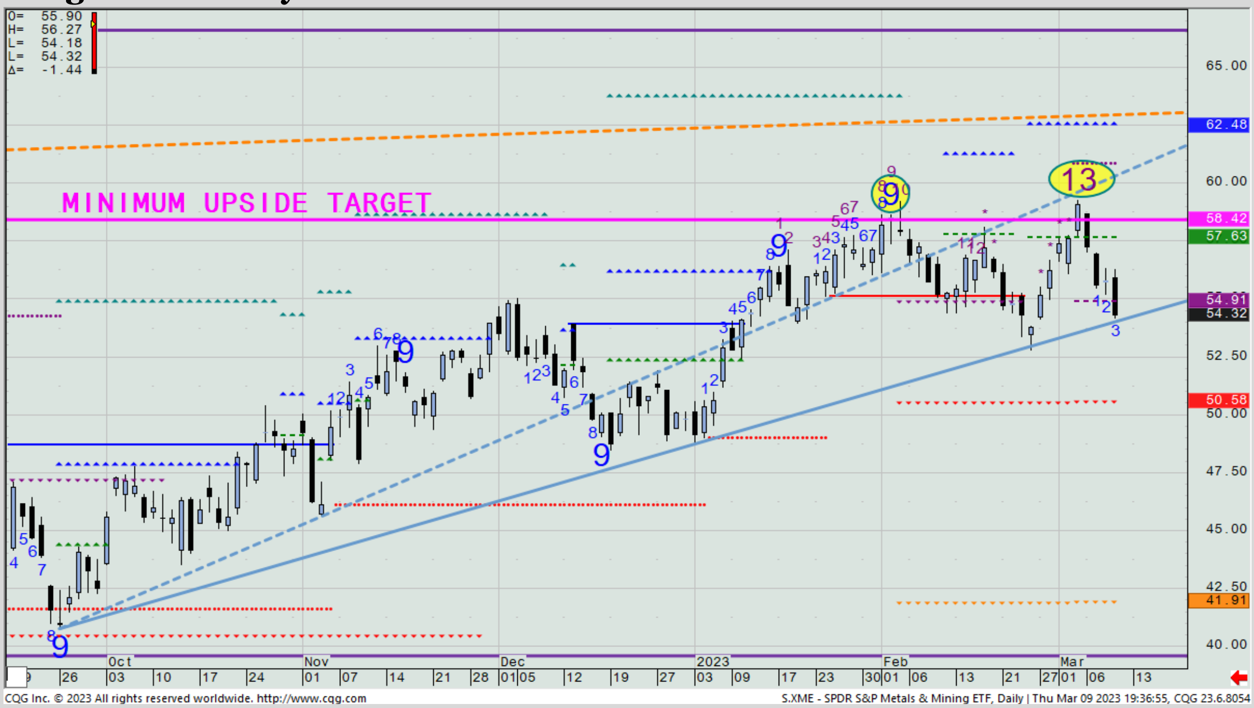
Long XAR
Eight weeks ago, we entered a new one-half unit long position at an avg. price of $114.62. We previously took half off at an average price of $ $117.39. The upside target stays in the mid-$120s (say, $124 to $126.) I'd already raised the sell-stop to consecutive daily closes beneath $115.75 or a simple sell-stop at your breakeven entry price. We got the latter five days ago, so we're now flat and made 2.4%.

XAR – Daily



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 was to exit the balance on consecutive daily closes beneath $54.26. We got knocked out on Monday at $52.08. Our avg. exit was at 55.26, and we made 7.9%.

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.

Disclaimer