# Rick Bensignor's

# IN THE KNOW TRADER

*Positioning Individual Investors Alongside Professionals*

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March 24, 2023

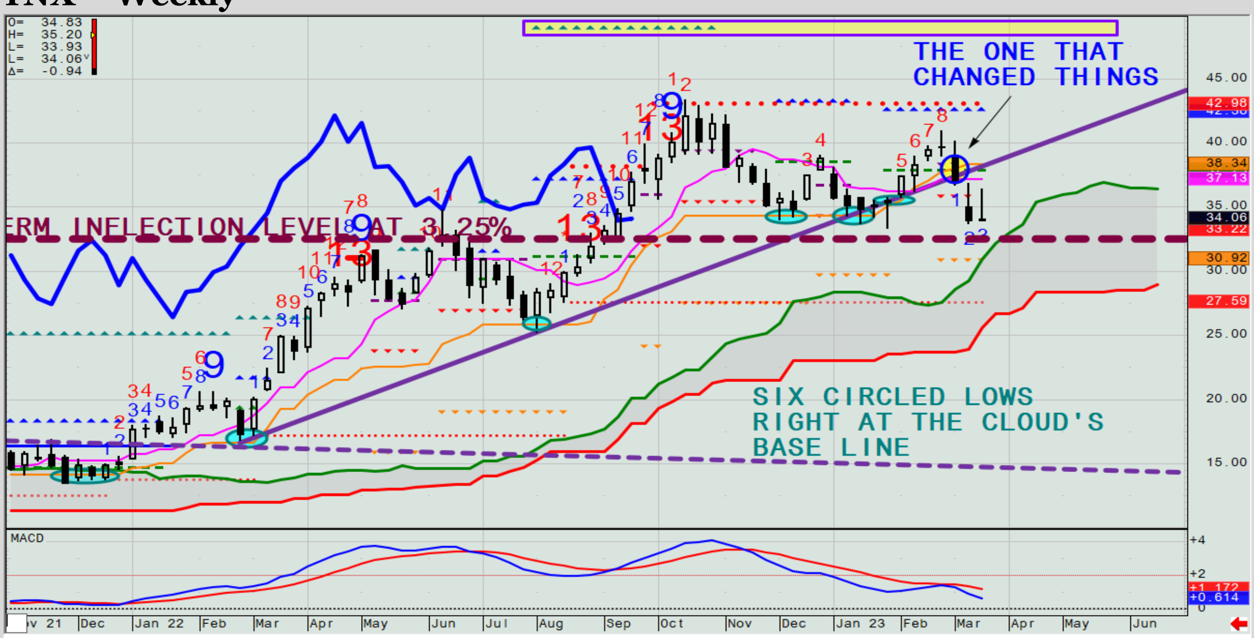
## TACTICAL TRADER REPORT

### The Macro Picture

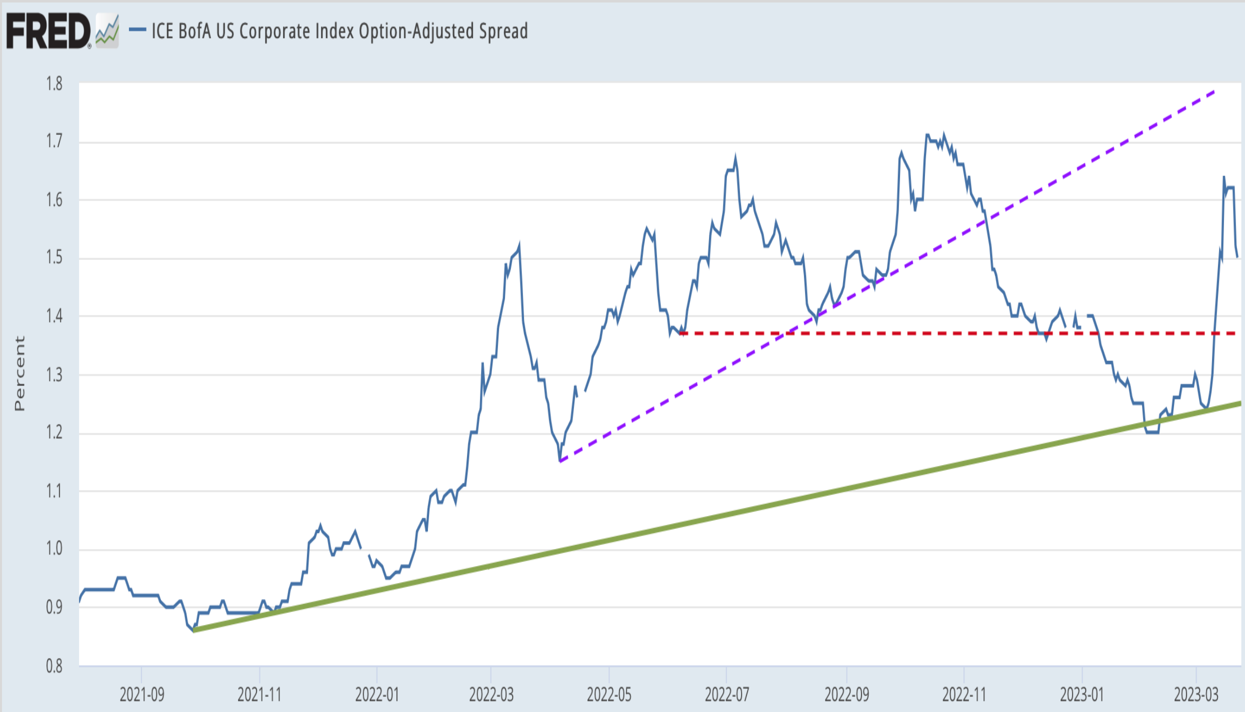
Investors ultimately didn't like what they heard in Fed Chair Powell's press conference yesterday, with him essentially saying that tighter credit conditions going forward will, by cause and effect, slow spending.  And even though there was the first sense that the Fed is closer to finishing their rate hiking cycle, the perceived curtailing of businesses and individuals being able to get credit will do the job for the Fed they needed done, anyway.  Stocks plummeted in the final hour on Wednesday – and significant early gains on Thursday dissipated to actually see the SPX close up only 12 points – sixty points off its intraday high, while the QQQ – gapping higher and trading as high as $314+ in the first half of the day – closed at $309.75 and actually just beneath its opening print (to mark a "doji" candle day).

Let's look at the key markets most influencing the stock market:  Interest rates; credit spreads; and the dollar.  Starting with the UST 10-yr. via its proxy TNX instrument, the break beneath the weekly cloud model's Base Line at 38.80 (i.e., 3.80%) two Fridays ago was our trigger to turn bullish bonds. (That signal came after six previous lows over the past 15 months all bottoming at its Base Line at the time.)  Yields fell quickly to reach within 5 bps. of the early-'22 low of 3.33%, and are even as of Thursday's close, right by 3.40%.  I'm expecting yields to break to 3.25% or lower, and not exceed the low-3.8% area on any near-term rally.

**TNX – Weekly**

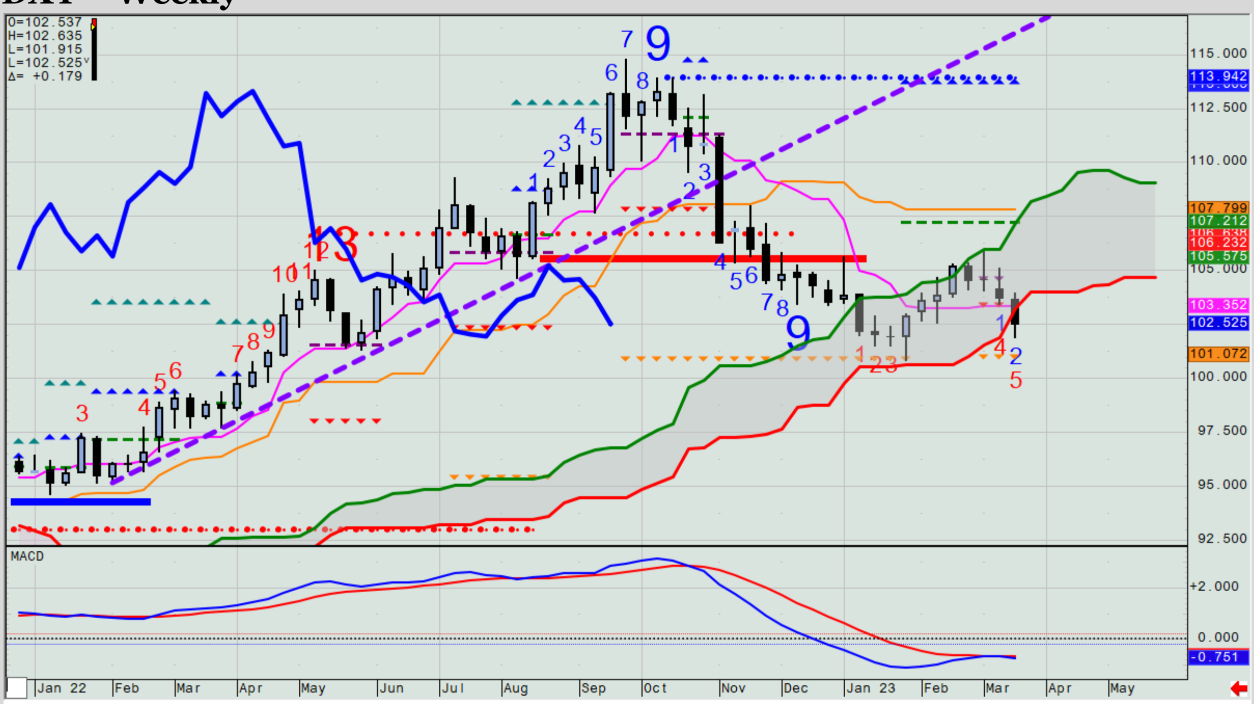


Our preferred credit spread to watch bounced from a test of its major uptrend line at 1.2% to a recent high of 1.64%. Last year's high was 1.71%, and as a reference point, the March 2020 Covid high was 4.01%. This spread narrowed this week to 1.50% as of Wednesday's figure. To me, the most important view from all of this is that credit spreads likely bottomed in early February. I'd continue to be looking for this to widen.



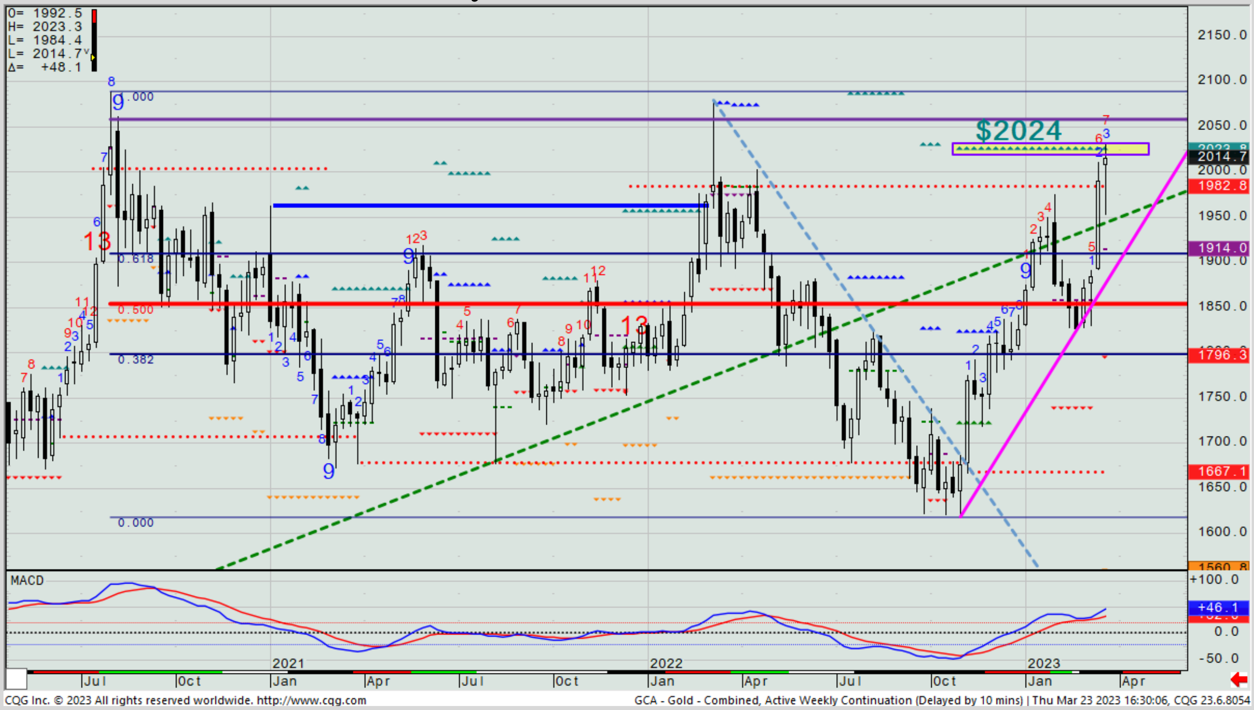

The US Dollar Index has now come under more pressure as rates are falling from both a flight to safety and investors' increasing concerns that a recession will, in fact, take place later this year (or in '24). Price has gone from the weekly cloud bottom to cloud top, and is now potentially coming out the bottom with a close today under 103.22. Generally, that's not a bullish sign.

**DXY – Weekly**



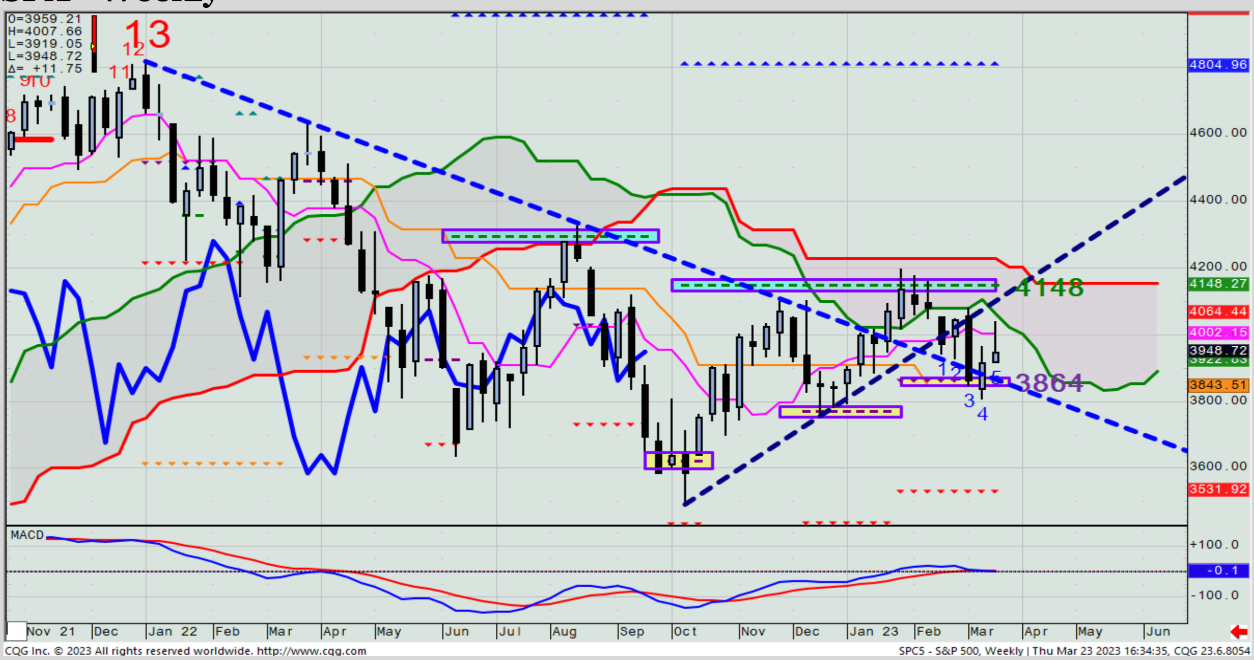
Gold continues to be the recipient of buying from both banking system concerns and dollar weakness. Yesterday was a large move higher to challenge the highs of the move we've seen since the false breakdown under $1675 last summer. I remain bullish and do think that holding the yellow metal will prove fruitful over time, but do note that yesterday got within $1 of the $2024 weekly bullish Propulsion Full Exhaustion level. With bullish consensus in gold futures now over 90% bulls, it's not the time to be a new buyer here and now.

**COMEX Gold – Active Weekly Continuation**




Since the SPX's non-breakdown beneath the weekly bearish Propulsion Momentum level of 3864, I've been willing to play the bigger overall range (i.e., 3864 to 4148) leaning almost exclusively on bullish trade ideas.

**SPX - Weekly**



Technology has been the main recent sector winner, enjoying both lower interest rates (i.e., it makes many of these growth firms' borrowing costs lower), as well as being a place to "hide" during the recent banking crisis.

The highlighted five DeMark Propulsion levels (blue and yellow rectangles) have been golden since last August's high, and for now, I think the market remains within the aforementioned range. If I'm right about this, then the more confirmed bulls or bears – most of them with their opinions for many months already with neither side able to claim victory – will continue to get no satisfaction (nor will their clients), as they are playing for a bigger move that so far has not gotten the catalyst to take place.

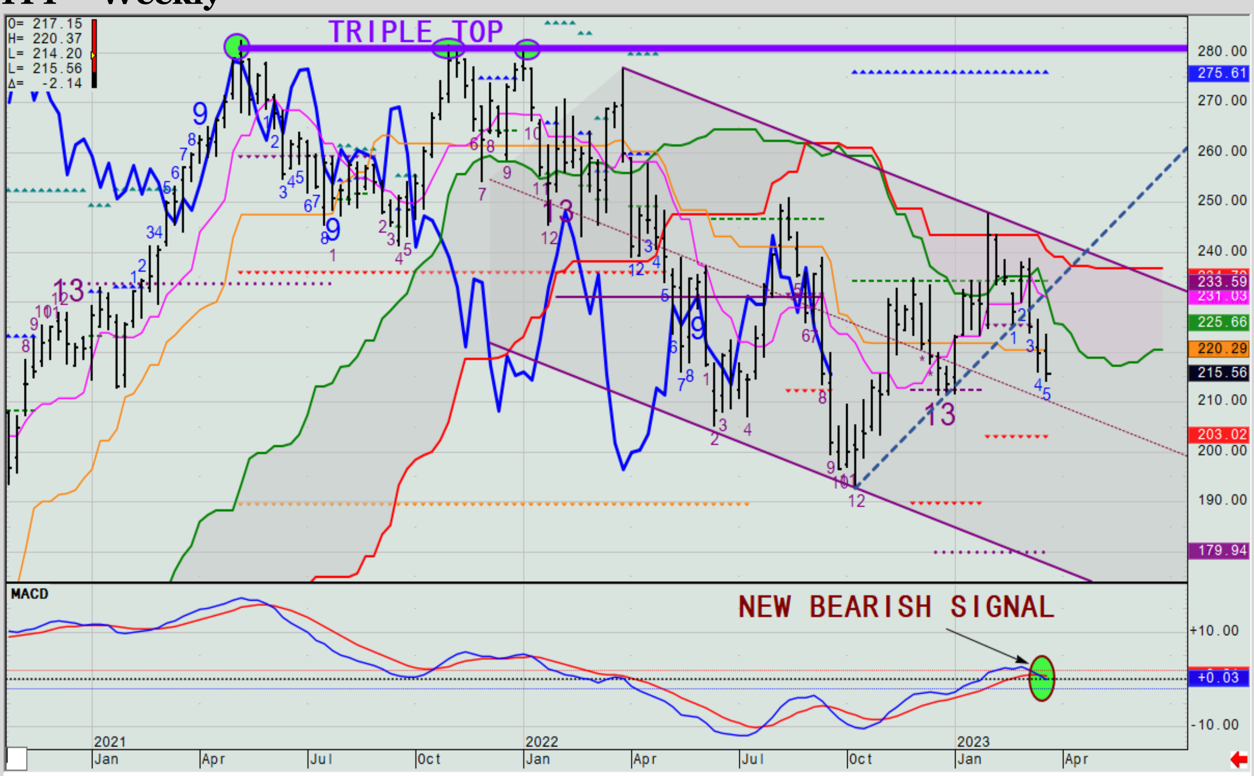
Ultimately, I'll stick with my overall view that earnings revisions will need to fall appreciably, and as such, the market will likely need to challenge or exceed 2022 lows before it can then ultimately recoup and actually challenge all-time highs. I just don't see that large rally happening without some type of decent downmove first.

## New ETF Trade Idea

It seems that every time I get on a flight these days (and I'm heading on another one today), the plane is virtually sold out. Oil prices are well off of last year's highs, helping cut fuel costs for airlines. Now, the **Dow Jones Transportation Index ETF (IYT)** has far more transport stocks than just airline ones, but you'd think that in general, these names would be doing decently. But when we look at the chart, we see they are not looking wonderful – or even close.

After making a triple top at all-time highs in late-2021/early-2022, the IYT dove some 30% into last year's low before rallying into the Feb. high near $245 that failed at the weekly cloud top and never got a proper buy signal above its bullish Propulsion Momentum level at $234.16. With it now beneath its Base Line (in orange), I'm looking for this to potentially finish out a weekly Setup -9 count over the next four weeks.

**IYT – Weekly**



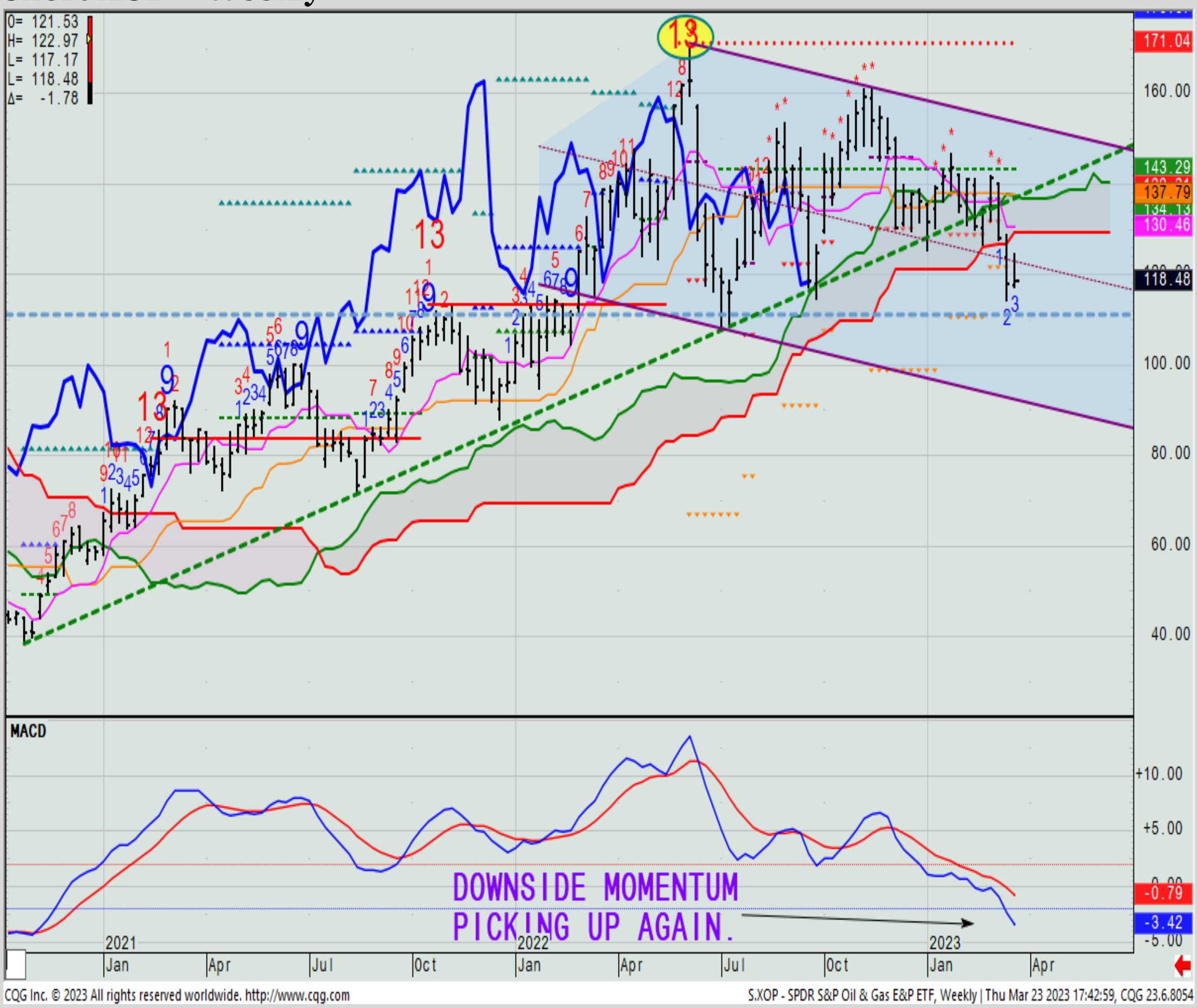
As such, let's look to short this in two half positions: 1) today, sell a half-unit, and 2) on a rally back to $220+ (where we see the current weekly Base Line) where we'll sell another 50% position. We'll look for a move that minimally targets $203 (we'll cover half of what we have on if price gets down near there), and the other half on a weekly Setup -9 count (if we get one in a month). Our buy stop will be any Friday close that is above the closing price from four Fridays prior (i.e., a Friday close that kills the current downward Setup count).

## Other Open Recommendations and Positions

### Short XOP

Last week's recommendation was to short the XOP on a rally up to the $129 to $129.50 zone, looking for a break of the mid-2022 low to test down to near $100. We have yet to get into this trade. If we do, we'll stop ourselves out on a single (or two consecutive ones; your choice) Friday close > $143.29 (the bullish Propulsion Momentum level).

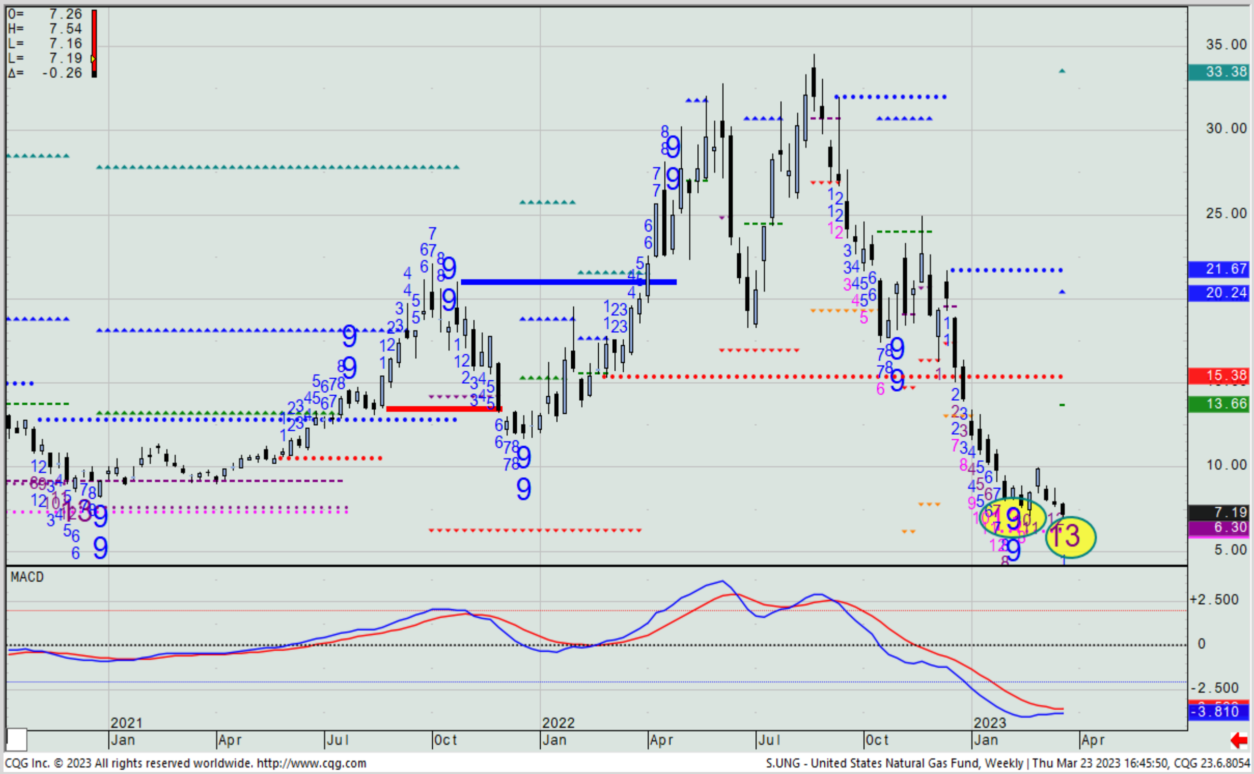
**Short XOP – Weekly**




### Long UNG

Four 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**




## Long INDA

We recently got stopped out of a long position in this name, but last Friday I suggested putting it back on given the new -13 signal that came just after tucking beneath the low from June '22. Our avg. entry price was at $38.45. We'll stop out on a close (or consecutive daily ones; your choice) under $38.02.

**INDA – Daily**


**Long XLC vs. Short XLE**
Seven 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 again rallied to the best levels since we got in. I'm looking for this to potentially move up to near the 0.982 level. I'm again raising our sell-stop to exit on consecutive Friday closes beneath 0.64.94.

**Long XLC vs. Short XLE – Weekly**

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## 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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