Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

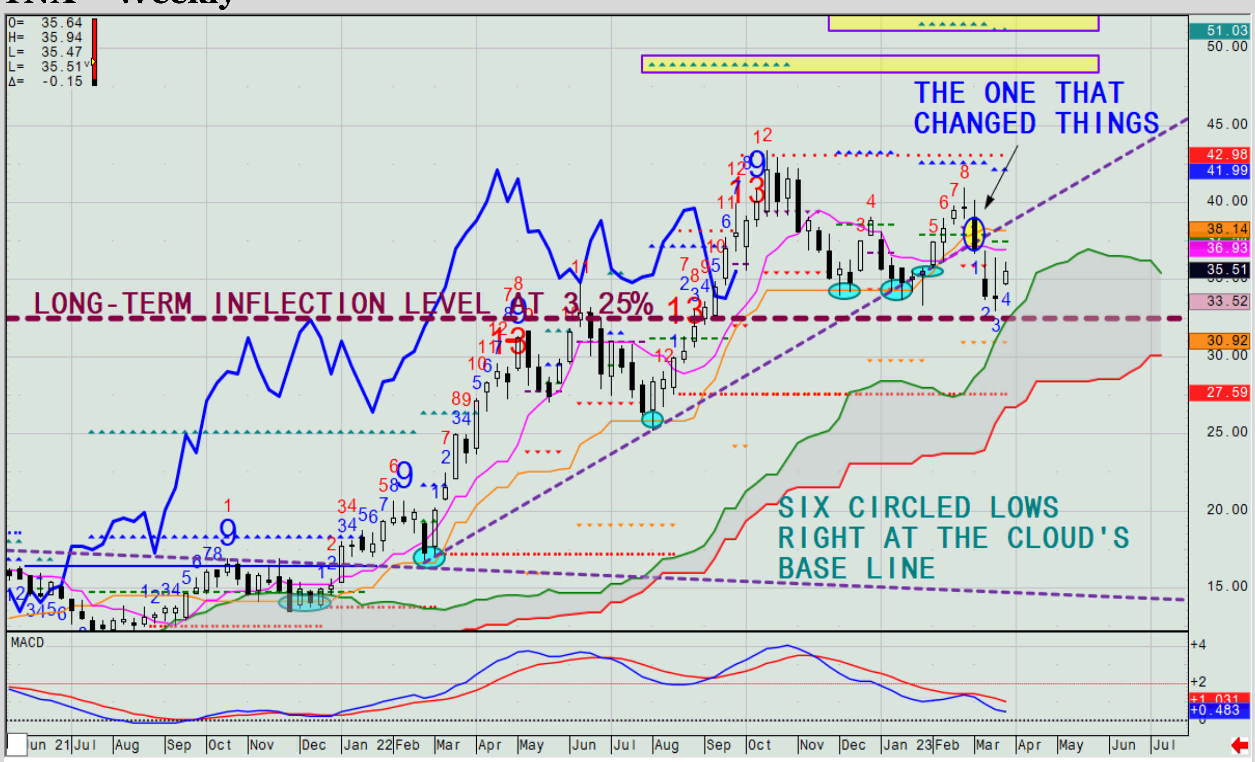
The Macro Picture

The banking crisis of just a few weeks ago is seemingly passing, or at least, investors think it is. Most of the beaten down regional banks are consolidating, and that is giving investors some sense of calmness over the issues that plagued SVB, SBNY, and FRC. I'm not yet convinced that we've seen all the fallout, as it seems almost too convenient that just a few of the hundreds of banks out there were affected. But as of now, the worst of it appears to be over (or at least, on hiatus).

Thus, it's no surprise that stocks are aiming higher from the bottom end of the trading range they've been in this year; interest rates have bounced off of the test of the '23 lows; the dollar is sliding but still above its '23 low (but as you'll see later in this report, it's breaking beneath its weekly cloud bottom); and gold – a recipient of inflows when there are increased overall banking system concerns – is within reach of all-time highs.

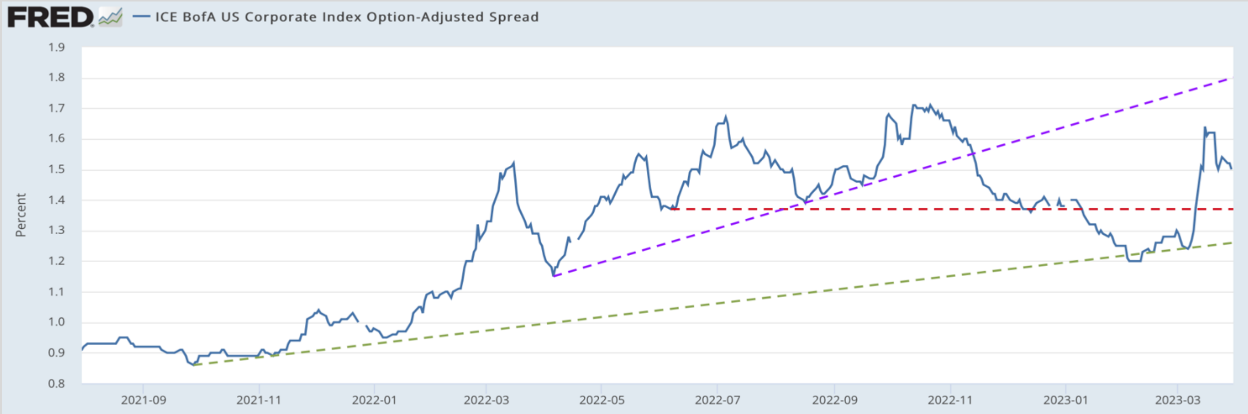
Let's start with the interest rate market via the UST 10-yr. TNX chart. The break of the weekly Base Line at 3.80% was our signal to be long bonds, after that same line having held 6 prior times as the low of the move.

TNX – Weekly



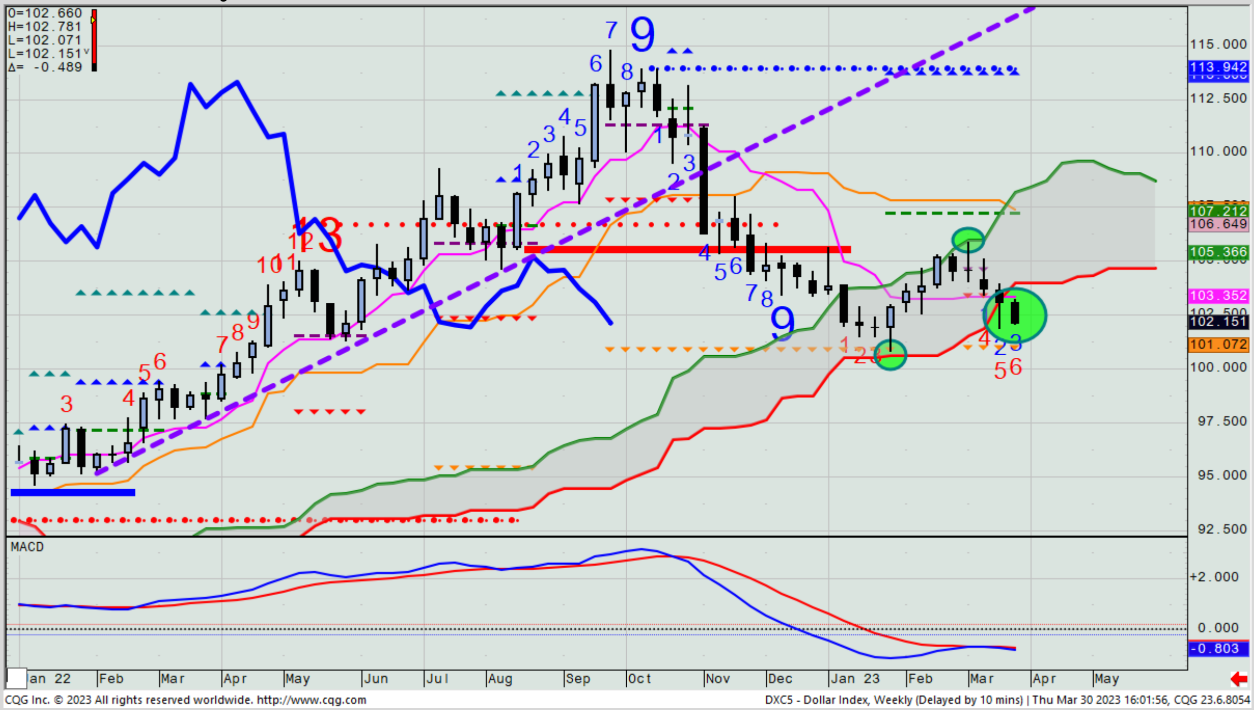
I've been looking for rates to take out the 3.35% low from earlier this year, but the longer it takes them to fall further, the less downside potential they might have, because the top of the weekly cloud chart keeps moving higher, and that always is going to be a potential key support level in what had been a bullish chart. I haven't given up on the idea that rates can still trade lower, but my conviction is not the same as it was a month ago when I first got the yield sell signal.

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 is at 1.50%, just as it was a week ago. To me, the most important view from all of this is that credit spreads likely bottomed in early February. I will play the range, but with a bias towards looking for this to widen more than fall apart.



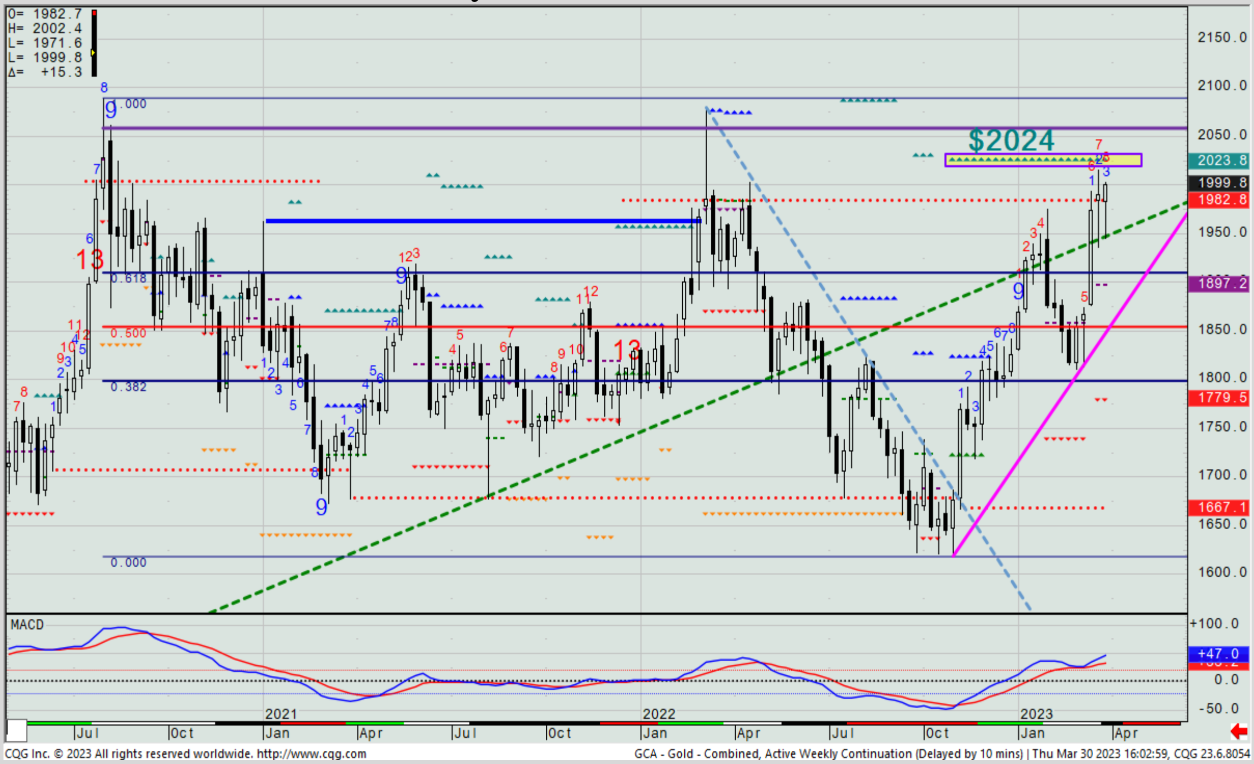
The US Dollar Index remains under pressure from lower rates on what has been a flight-to-safety this past month. Of significance in the way I look at things, is that price action has moved from the bottom of the weekly cloud; up to the top; and now out the bottom. That is generally a bearish signal, and I'd be looking for that potential downward movement to continue helping precious metals and US companies that have large international footprints.

DXY – Weekly



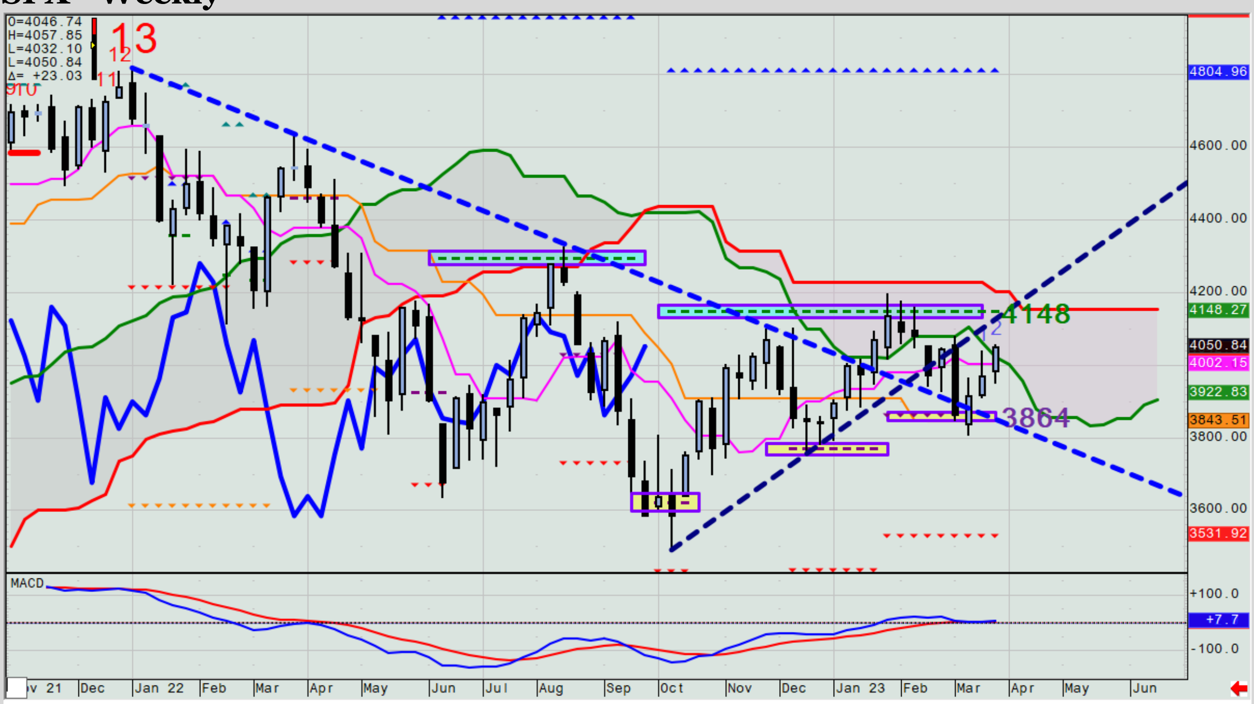
Gold continues to be the recipient of buying from both banking system concerns and dollar weakness. I do expect to see new all-time highs this year.

COMEX Gold – Active Weekly Continuation



Turning to the equity market, the SPX remains in a general trading range, bounded by 3864 and 4148. I have been tactically bullish since the non-breakdown beneath the former a few weeks back. Yesterday also marked a daily bullish Propulsion Momentum signal that measures to test around the 4150 area, so I expect we'll see it meander up there in coming weeks.

SPX - Weekly

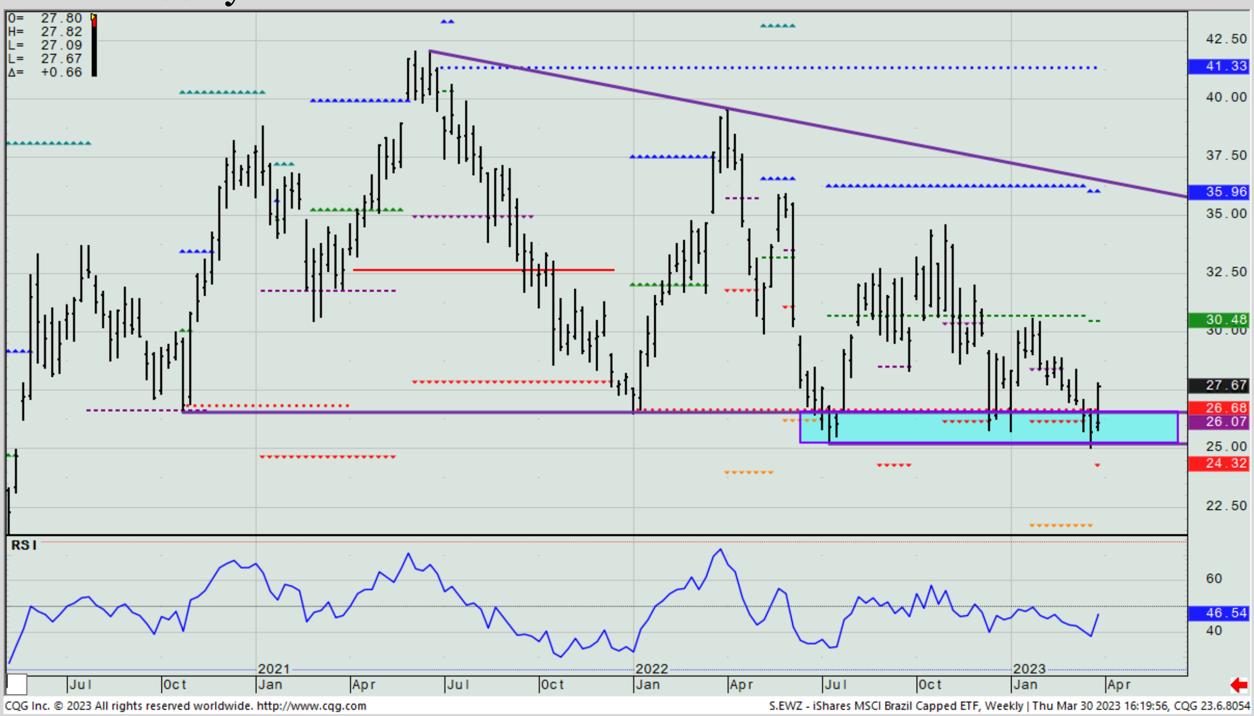


Ultimately, I still suspect that earnings revisions will need to fall appreciably, and as such, the market will likely need to challenge or exceed 2022 lows before it can then ultimately recoup and actually challenge all-time highs. I just don't see that large rally happening without some type of decent downmove first. But absent a new downside catalyst, we could continue in the overall trading range for some time to come.

New ETF Trade Idea

If I'm right that playing the range is the best way to play this year – and it seemingly has been correct so far – then we'd should be in good shape if we can find names to trade that are at or near their prior lows or highs. So, when I look at the **iShares MSCI Brazil Capped ETF (EWZ)**, I see a name right near its range bottom, and should have far more upside than what we'd need risk to the downside if it breaks down.

EWZ – Weekly



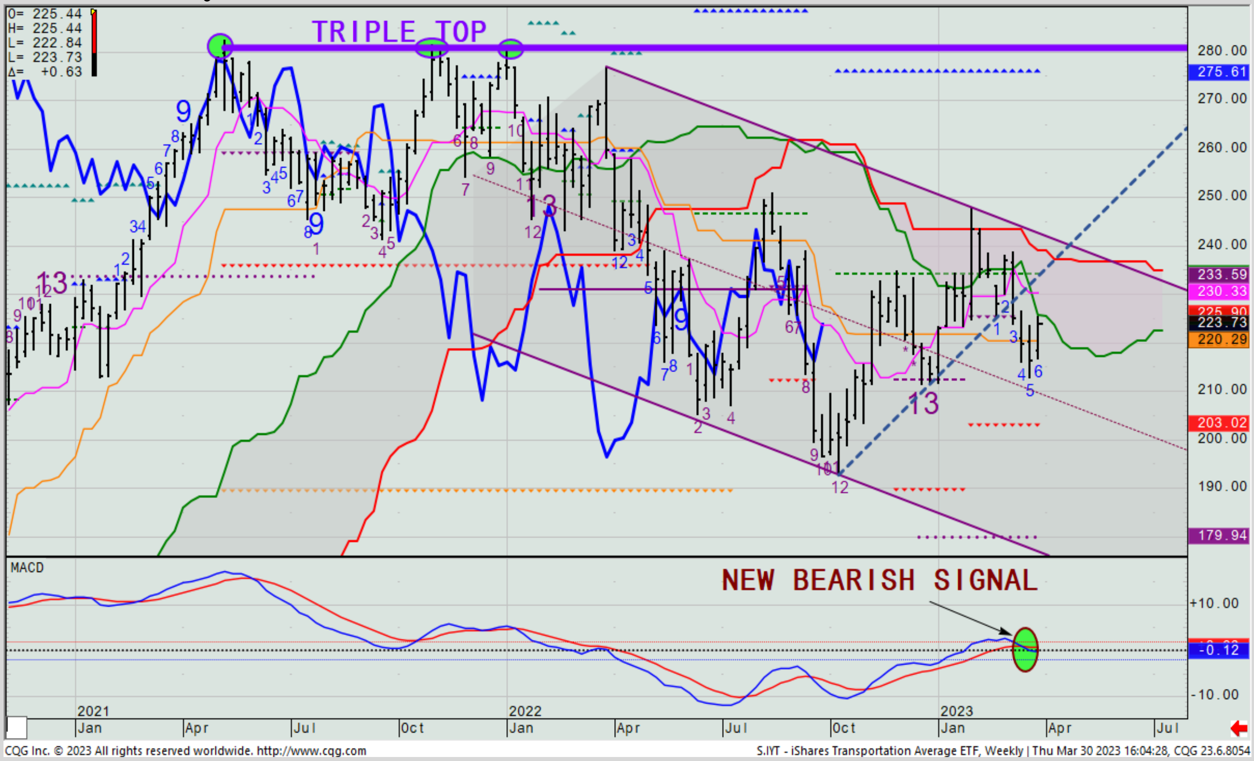
As such, let's get long one unit of this today, playing first for a move to near $30.48 (we'll exit half there), and let the rest go should we see a full test up to near the $36 target area. We'll stop ourselves out on a Friday close beneath the double-bottom at $25.00.

Other Open Recommendations and Positions

Short IYT

Last week I looked to play a continuation of the downward weekly Setup count, by shorting a 50% position last Friday (avg. entry price at $214.96) and then another 50% on a rally to the weekly Base Line (at $220.29 on Tuesday this week). Our buy stop was any Friday close that kills the down Setup count (by closing above the close from four weeks prior). That's highly unlikely to happen today, but a week from today that level falls to $225.03. Keep an eye on that in five days.

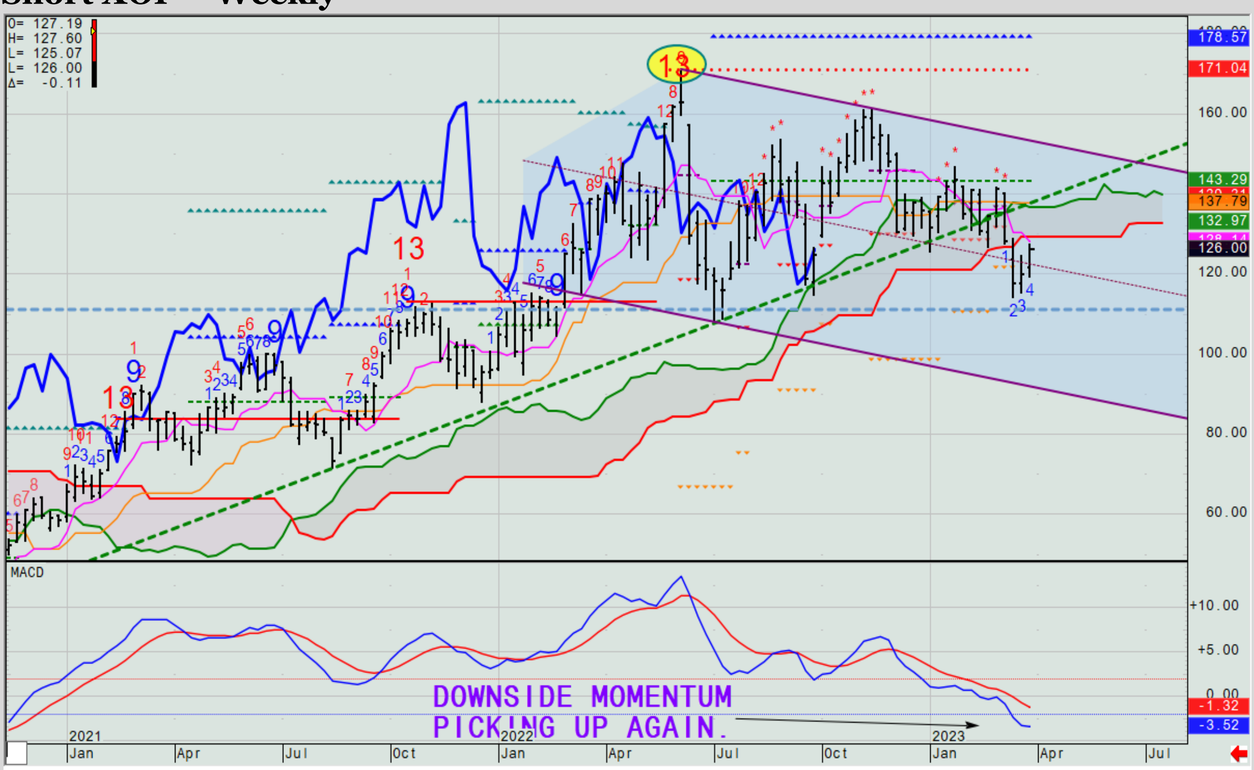
IYT – Weekly



Short XOP

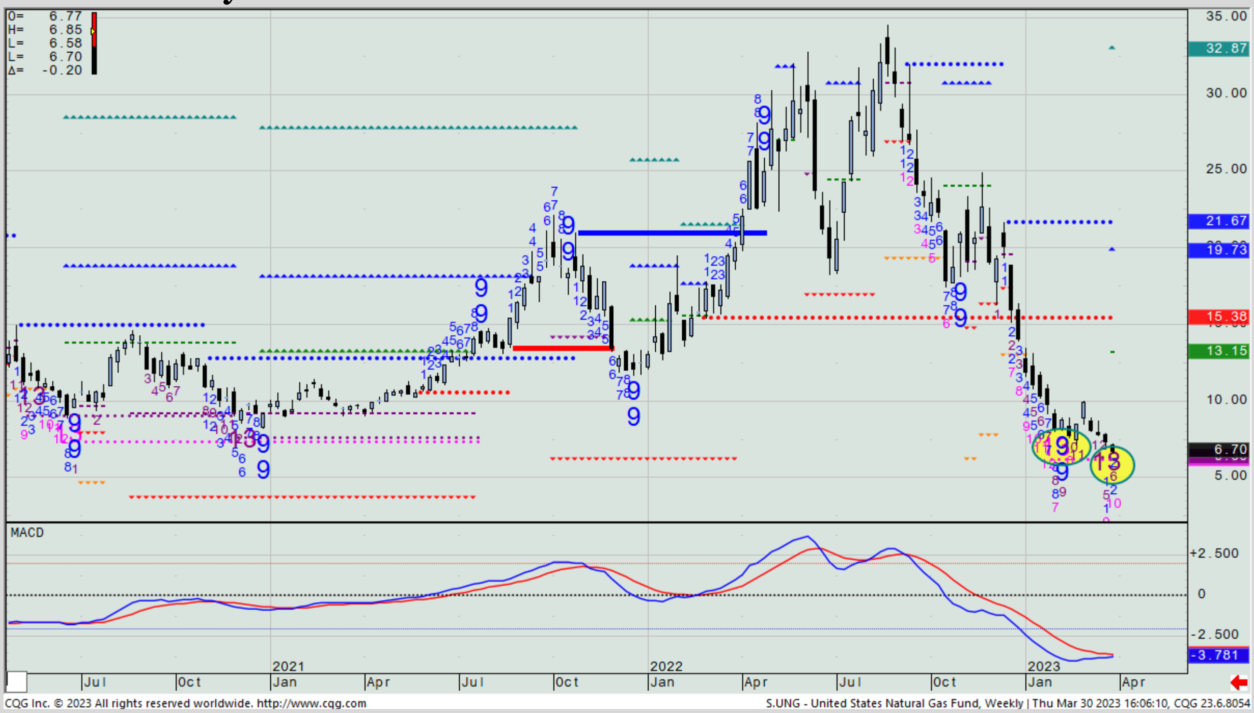
Two weeks ago, my recommendation was to short the XOP on a rally up to the $129 to $129.50 zone, looking for a break of the mid-2022 low to test down to near $100. We have yet to get into this trade. If we do, we'll stop ourselves out on a single (or two consecutive ones; your choice) Friday close >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

Short XOP – Weekly



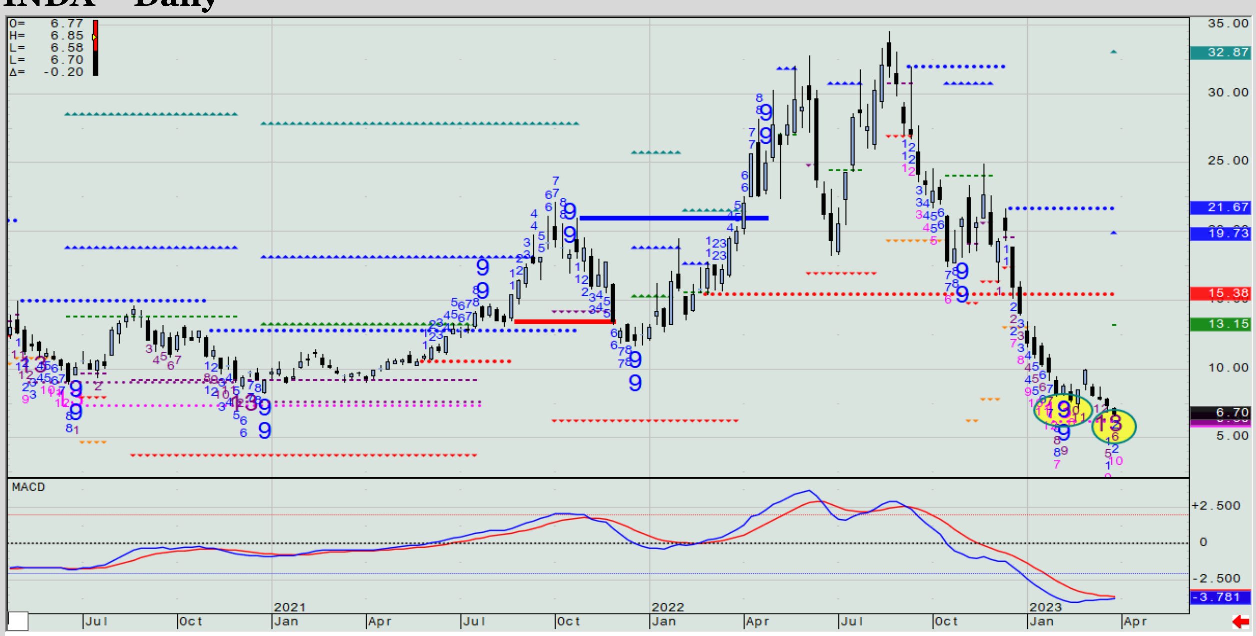
Long UNG
Five weeks ago, we bought a one unit position in this natural gas ETF, with us getting in at an avg. price of $8.26. At the time, I suggested this to me more likely an investment than a trade, with our likely holding it for many months if not a year or more, looking for it to ultimately double 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 two Fridays ago 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

Eight 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 near the 0.982 level. I'm again raising our sell-stop to exit on consecutive Friday closes beneath 0.6503.

Long XLC vs. Short XLE – Weekly

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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