Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

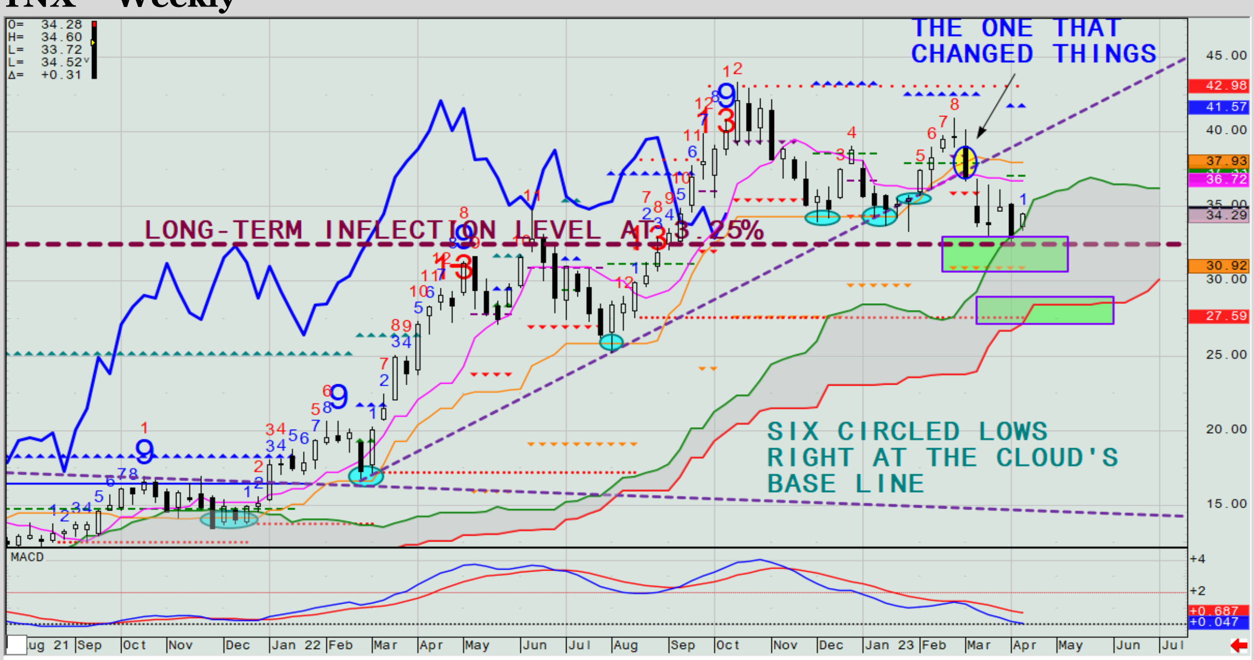
The Macro Picture

With the CPI figure earlier this week showing the lowest inflation rate from the recent 40+ -year highs, investors are starting to lean towards the Fed pausing their rate hikes after the upcoming May meeting, where the Street is betting on one more 25 bp. rise before the pausing begins at the June meeting. Certainly, a pause in hiking is only a *potential* starting point to an eventual decline in rates, but don't necessarily look at it as the start of a permanent change. We just don't know. Just like a rally can pause and consolidate before either continuing higher or turning lower (or even continue sideways for longer than most expect), a rate hike pause in June is nothing more than just that: a pause.

When we look at the holistic picture of main influences on the stock market, along with the new earning season starting today, we also have inflation and recession pressures to consider, and then – of course – the macro issues that affect stock movement, including the bond and currency markets (let alone the political landscape here and abroad).

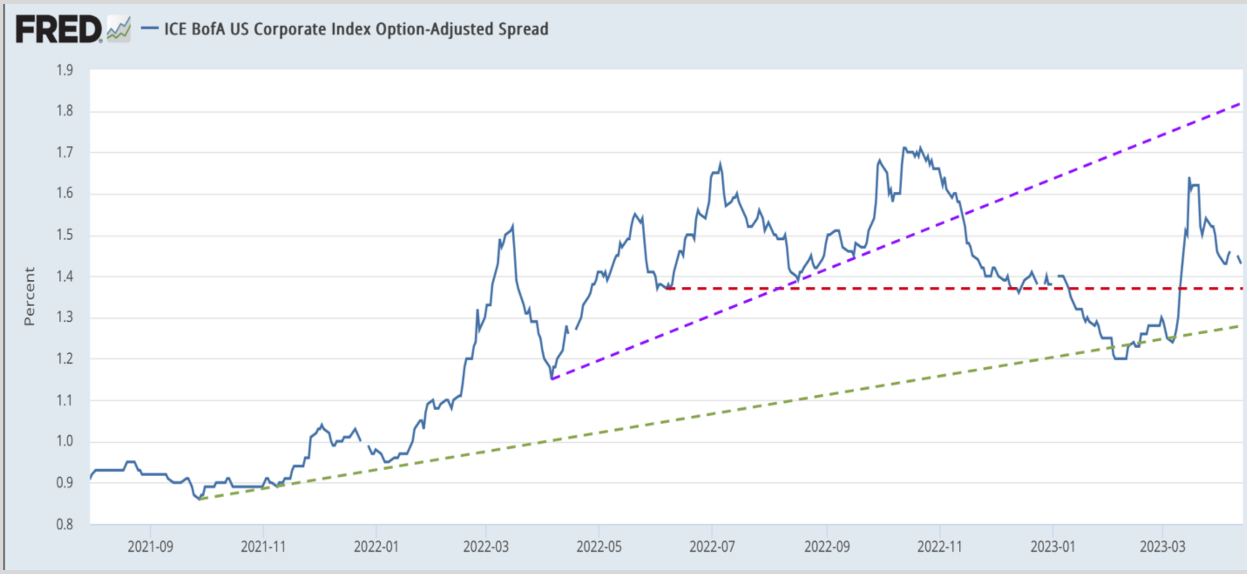
As I mentioned last week, UST 10-yr. bond yields made a new low for 2023, but also found themselves into a significant support zone from the weekly cloud top (3.36% this week) down to the bearish Propulsion Full Exhaustion level (3.09%). I've highlighted the two main support zones in green rectangles.

TNX – Weekly



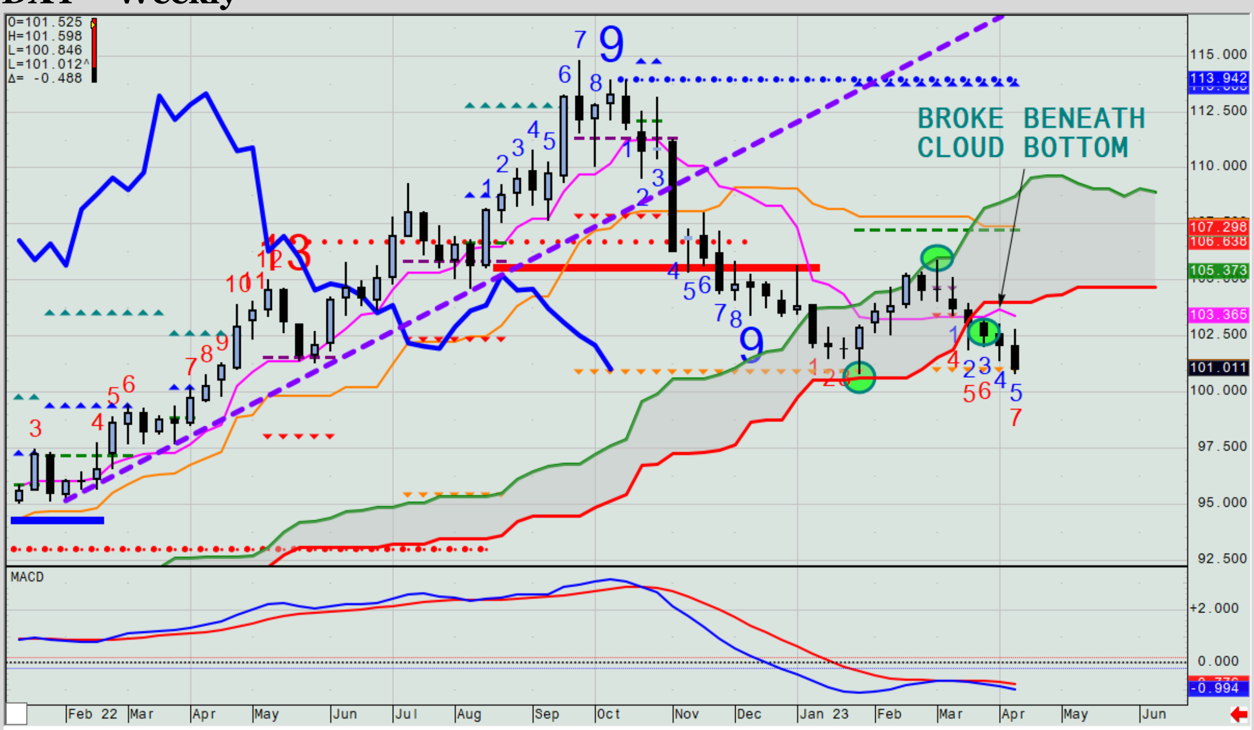
Buying bonds now is likely going to be tougher to make money with them as compared to when we first got the signal to do so on the breaking of the cloud's Base Line five weeks ago. In fact, a TNX close today above 33.95 would have to make me fully neutral on the yield chart (if anything, slightly bullish rates).

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%. I'm inclined to think that it again bounces from this area in the mid-1.4% area down to 1.37%, and widens out over time to make a new 2023 high later this quarter.



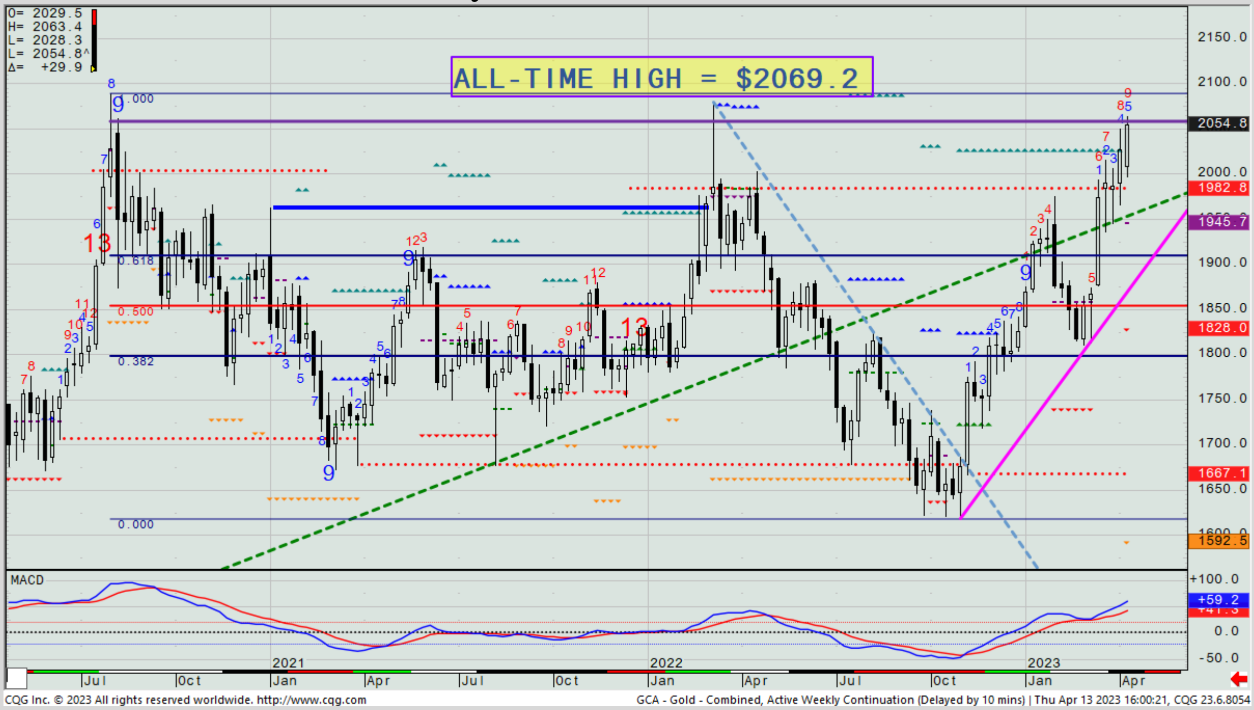
The US Dollar Index broke its weekly cloud bottom three weeks ago, and then tested near the area of the 2023 lows (100.82) by getting down to as low as 100.85 this week. My bearish bias remains in place. Although I certainly don't know if it will occur, but in 4 more weeks we could see a full Setup -9 count, and that could accompany a Sequential -12 of -13 reading, too. So, I'll keep of my view that the dollar weakens.

DXY – Weekly



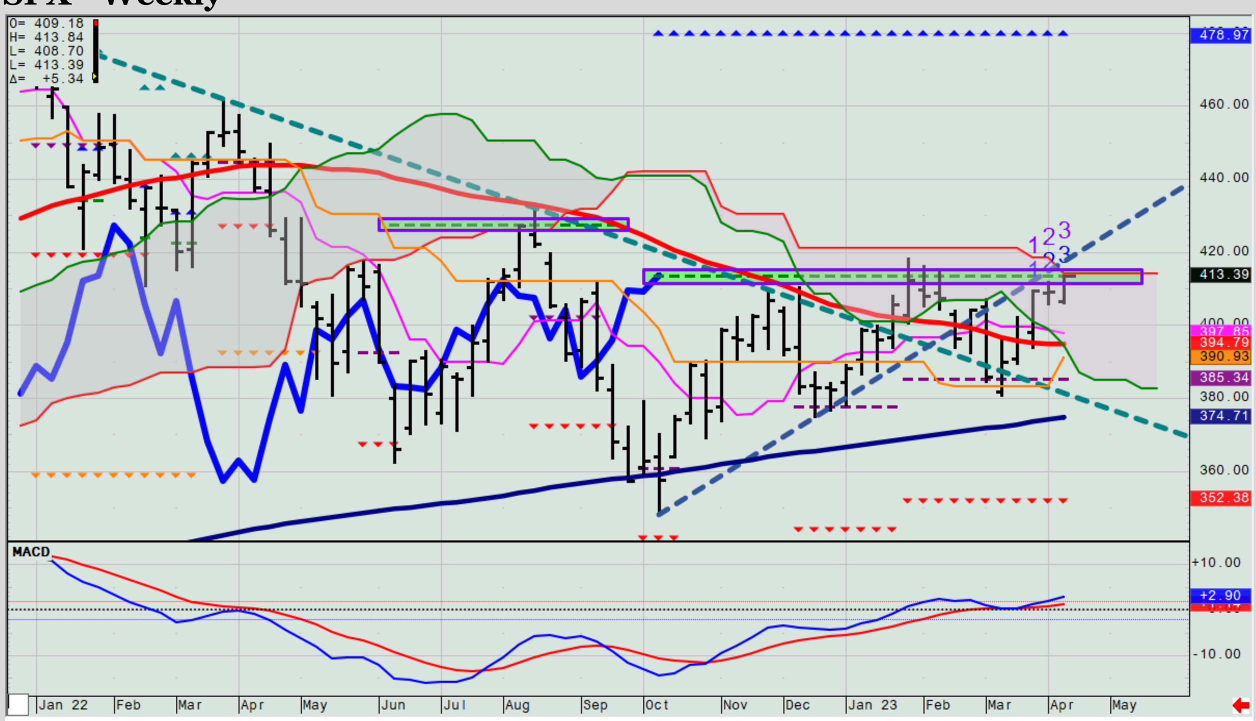
Gold pushed again to new highs, and as of yesterday, was within $30 of its all-time high made in 2020 (from the effects of Covid closing the world down). I do expect to see new all-time highs this year, and longer-term upside targets include $2140 and $2662.

COMEX Gold – Active Weekly Continuation



The SPX remains in its trading range, bounded by 3864 and 4148…Boring! A close today above 4155 (the top of the weekly cloud) would be bullish, most especially if next week sees a higher open on Monday/a higher high than this week's high/a higher close on Friday than today's close. On the flip side, a large down move today (a la 50+ points) would likely be mildly bearish, and potentially send us back towards 3900. There's just not much else to that I see that is exploitable at this point.

SPX - Weekly



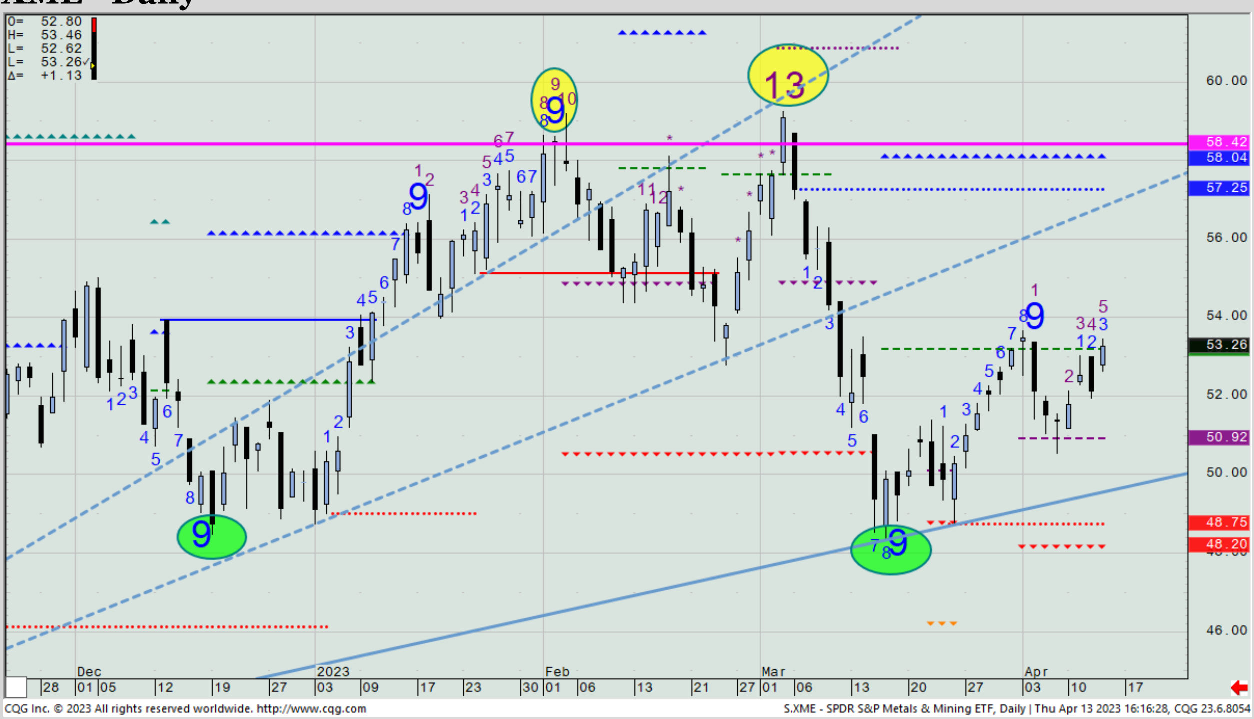
Given the choice of being a bigger picture bull or bear, I lean more towards the likelihood that the index trades down to potentially test last year's lows (~600 pts. lower) than I do to think that it tests last year's highs (~700 pts higher). Of course, 2023 may do neither. So far, that's been the smarter bet than being in either the mega bulls' or bears' camps.

New ETF Trade Idea

You know that I have been bullish gold since last year's false breakdown in the metal from the move beneath $1675/oz. Within a few weeks of then, I already put you on warning that the breach of that important support level should have cracked the price of gold far more deeply and quickly than it did, and that it might very well set up a major rally. That is exactly what happened.

In the metals space – but not the precious metals space – we've seen a rally from a double-bottom made as recently as last month. To me, this chart looks ready to shoot higher, especially with last week's lows right into the bearish Propulsion Momentum level. (In bullish markets, failures to break that level is usually a decent bull signal.) With that in mind, let's get long a full one-unit position of **S&P Metals and Mining ETF (XME)** right now. I think this should shortly head to the upper-$50s, with an initial target of $57.04 to $58.22, where we'll take half of our long off. Our sell-stop will be consecutive daily closes beneath that important $50.92 level.

XME - Daily

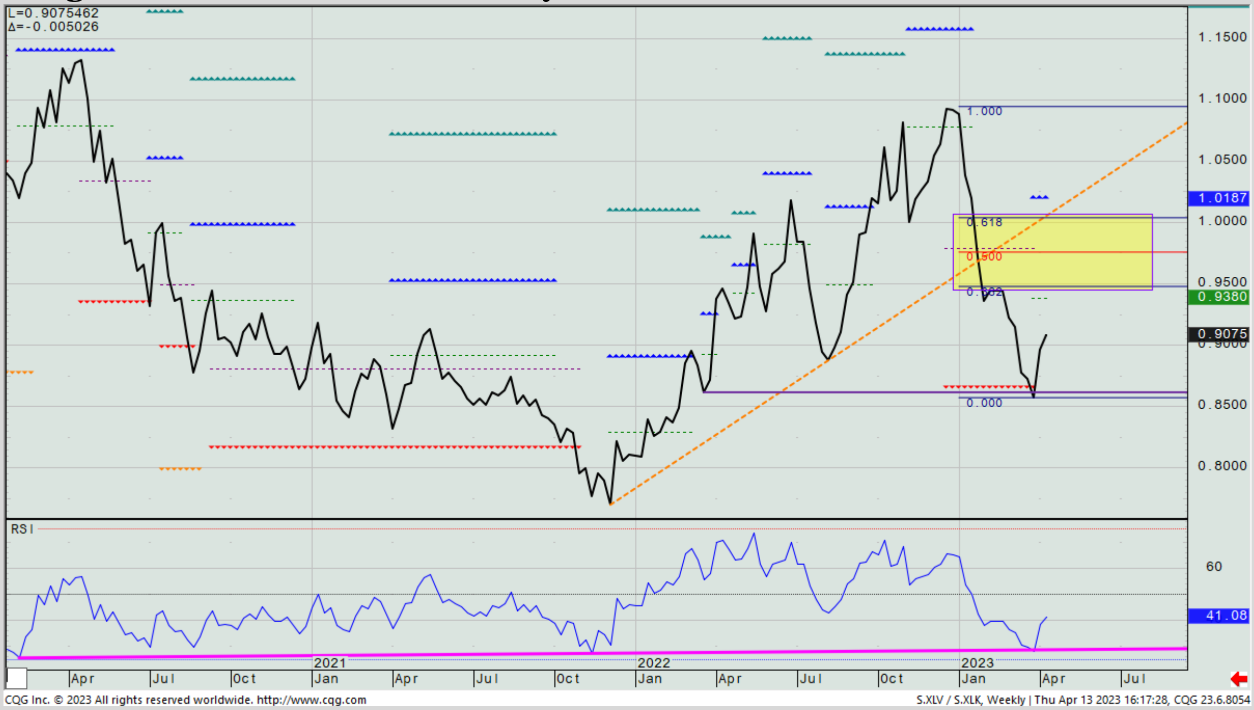


Other Open Recommendations and Positions

Long XLV vs. Short XLK

On Monday we put on this new pair trade, looking for Health Care to outperform Info Technology going forward. We entered this at a ratio of 0.8956. We'll play for a rally up to the highlighted Fibo Box in yellow. We'll stop ourselves out on consecutive weekly closes beneath a ratio of 0.8573 (the recent low close).

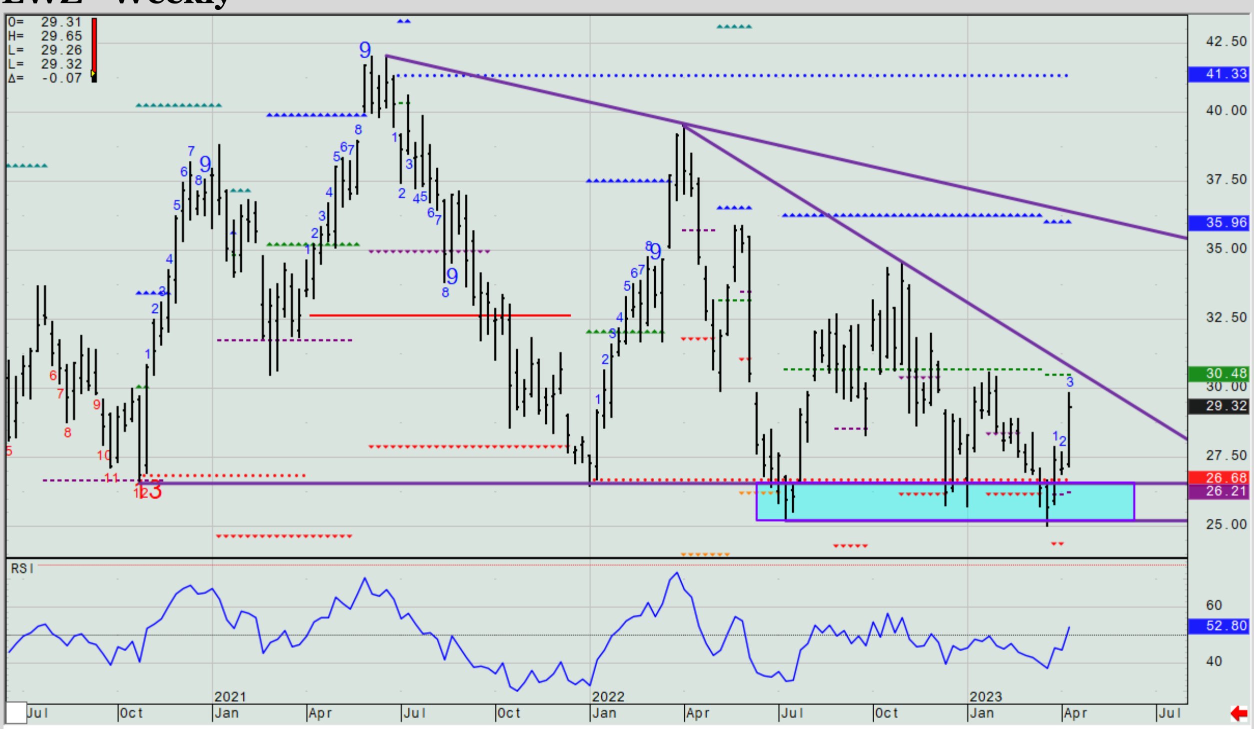
Long XLV vs. Short XLK – Weekly



Long EWZ

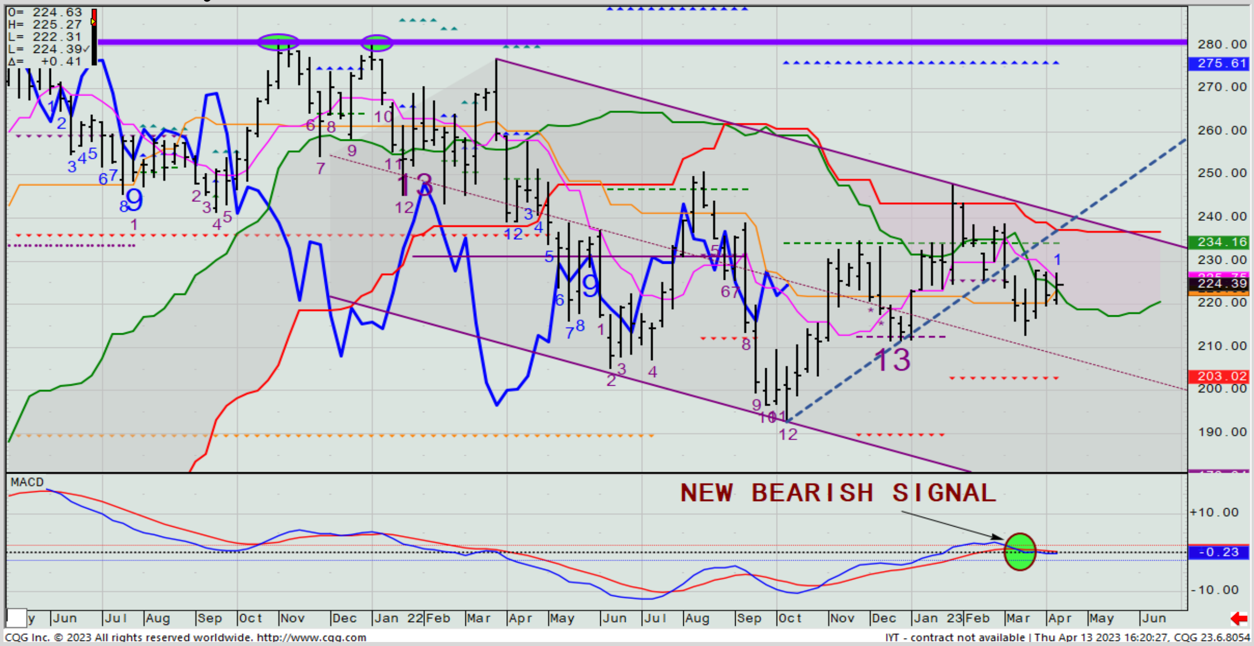
Two weeks ago, we went long (avg. entry at $27.18), looking for the highlighted strong support zone to continue holding. My stated target is well higher (i.e., near $36), but I can adjust that as needed as it is over a 30% higher target. Now that we have a paper profit in the neighborhood of some 8%, I'm going to recommend you raise your sell-stop to no lower than the breakeven entry level.

EWZ - Weekly



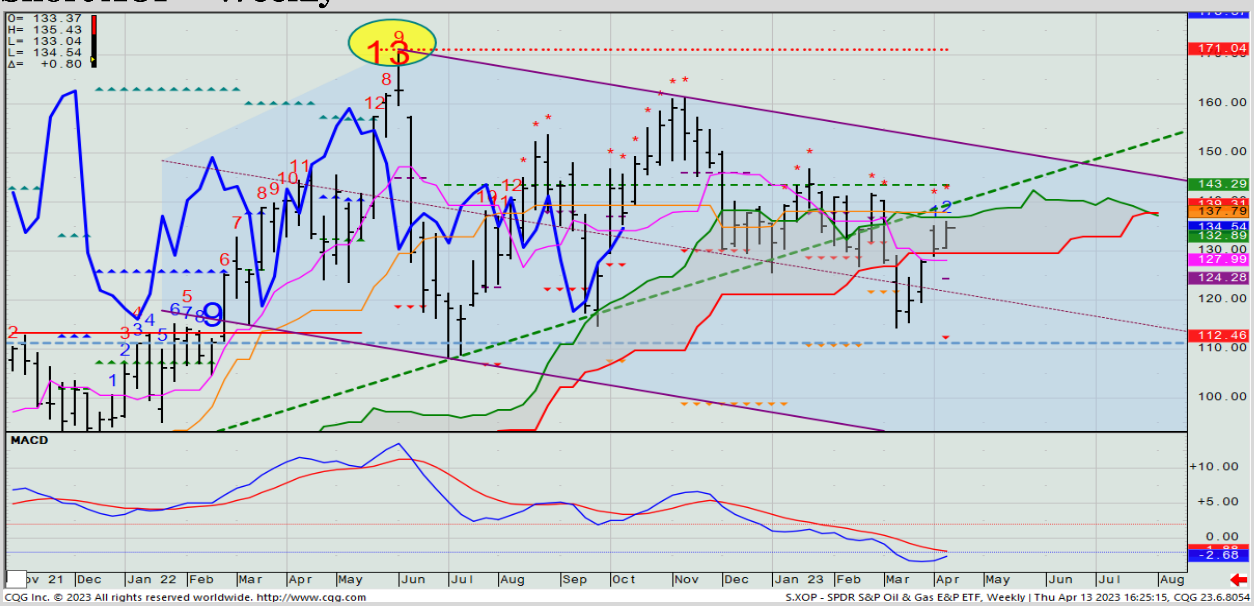
Short IYT
Three weeks ago, I looked to play a continuation of the downward weekly Setup count, by shorting a 50% position at $214.96 and then another 50% at $220.29. Our buy stop is to exit on any Friday close that kills the down Setup count (by closing above the close from four weeks prior). That will almost assuredly happen today on a close above $219.63, so be prepared to exit today.

IYT – Weekly



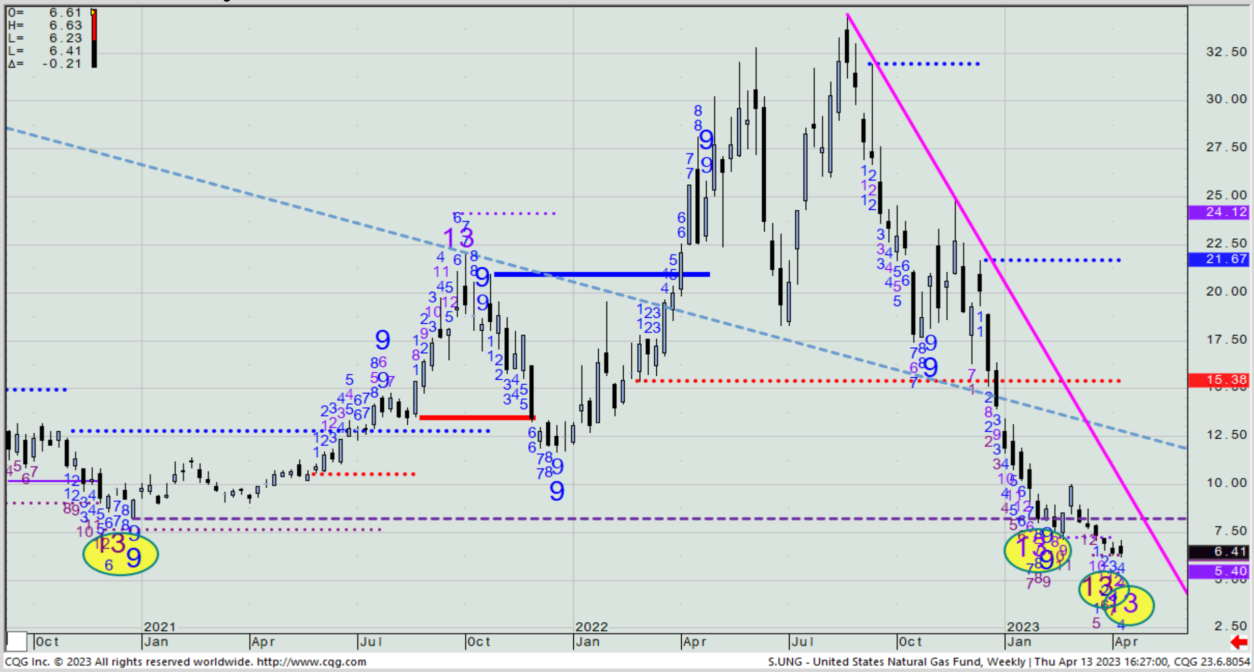
Short XOP
Four weeks ago, my recommendation was to short the XOP on a rally up to the $129 to $129.50 zone, looking for a break of the mid-2022 low to test down to near $100. We got entry last week on a rally from the bullish OPEC news. Our buy-stop out was on a single (or two consecutive ones; your choice) Friday close(s) > $143.29 (the bullish Propulsion Momentum level). I am going to alter that buy-stop by exiting on any Friday close above the top of the weekly cloud at $136.71 (which may happen today).

Short XOP – Weekly



Long UNG
Seven 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. Two more weekly -13 signals have come in since.

UNG – Weekly



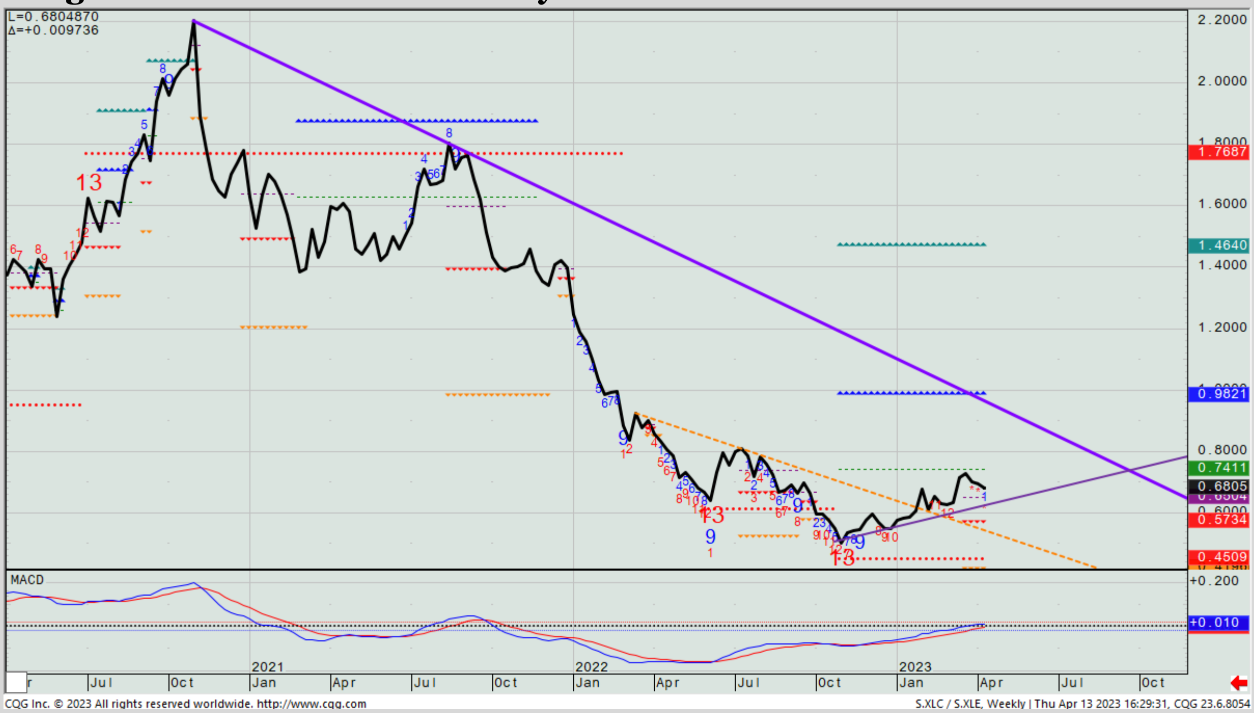
Long INDA
We recently got stopped out of a long position in this name, but four Fridays ago I suggested putting it right back on given the new -13 signal that came just after tucking beneath the low from June '22. Our avg. entry price was at $38.45. Let's exit half of this today, given the daily Setup +9 count from yesterday. We'll stop out the balance on a close (or consecutive daily ones; your choice) under a new raised level of $39.23.

INDA – Daily

Long XLC vs. Short XLE

Ten 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. Our sell-stop to exit is 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 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.

Disclaimer

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