Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

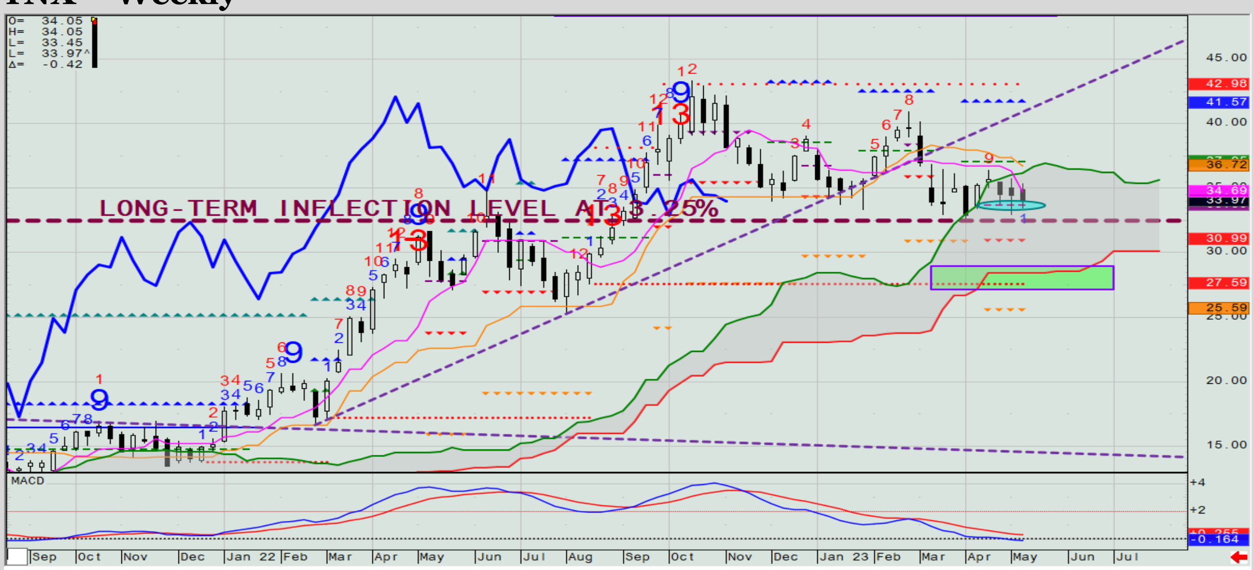
The Macro Picture

Investors waited for the potentially game-changing CPI figure on Wednesday to get a muted response to a better-than-expected number, and yesterday's better-than-expected PPI number didn't help to stop the market from turning lower, as PacWest's dive and Disney's disappointing numbers kept a lid on any further advance. Add to that an even bigger worry about the debt ceiling possibly not getting raised by month's end – and the upped odds that the US could default on its debt – and you continue to keep the bulls on hold from being able to push the market higher.

We don't know if Speaker McCarthy is truly willing see the US miss bond coupon payments and not pay its employees, but the game of chicken he is playing with the Democrats is not being met well in the US credit default swaps market, where the cost of insuring against a default has surged to levels not seen since the Great Financial Crisis of 2008. Should we miss bond payments, the cost to the US's reputation – and the literal cost to taxpayers as US borrowing costs would go way higher (as would virtually all government debt costs across the globe) is astounding. Let's hope that cooler heads and bipartisanship can win out in the coming two weeks.

Despite all this, investors are still keeping UST 10-yr rates on the low end of the big trading range, with the TNX implying a yield of 3.39% on Thursday's close. They are essentially betting that the FED is going to lower rates this year, despite the fact that NY Fed Governor earlier this week said they are not planning on doing that.

TNX – Weekly

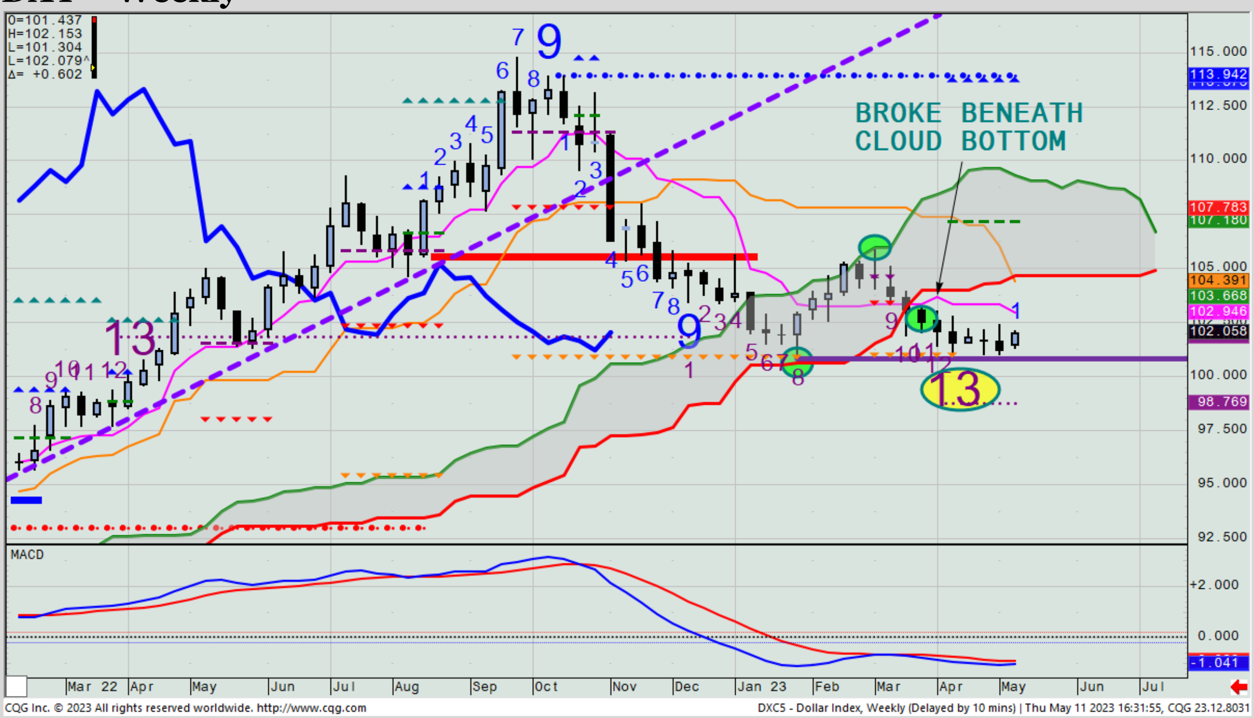


If these rates to break down beneath 32.5%, potential downside targets are at 3.10/3.09 percent, and then 2.84 to 2.76 percent. On the upside, only if they get a proper breakout above 3.71% can we then expect a test of 4.15% or higher.

I have been steadfast that I believed credit spreads would widen from the recent pullback and that the ICE BofA Corporate Index OAS (1.49% as of yesterday) we watch will widen out later this year to reach beyond the 2022 high of 1.71%.

The US Dollar Index broke its weekly cloud bottom seven weeks ago, and then also posted a minor new 2023 low. I've been bearish since then, but a close today >101.55 flips the Setup count to a +1, and would clearly state that one no longer should initiate any short positions in the greenback. Aggressive traders could even get bullish if that stated close occurs, risking a Friday close beneath 100.83.

DXY – Weekly

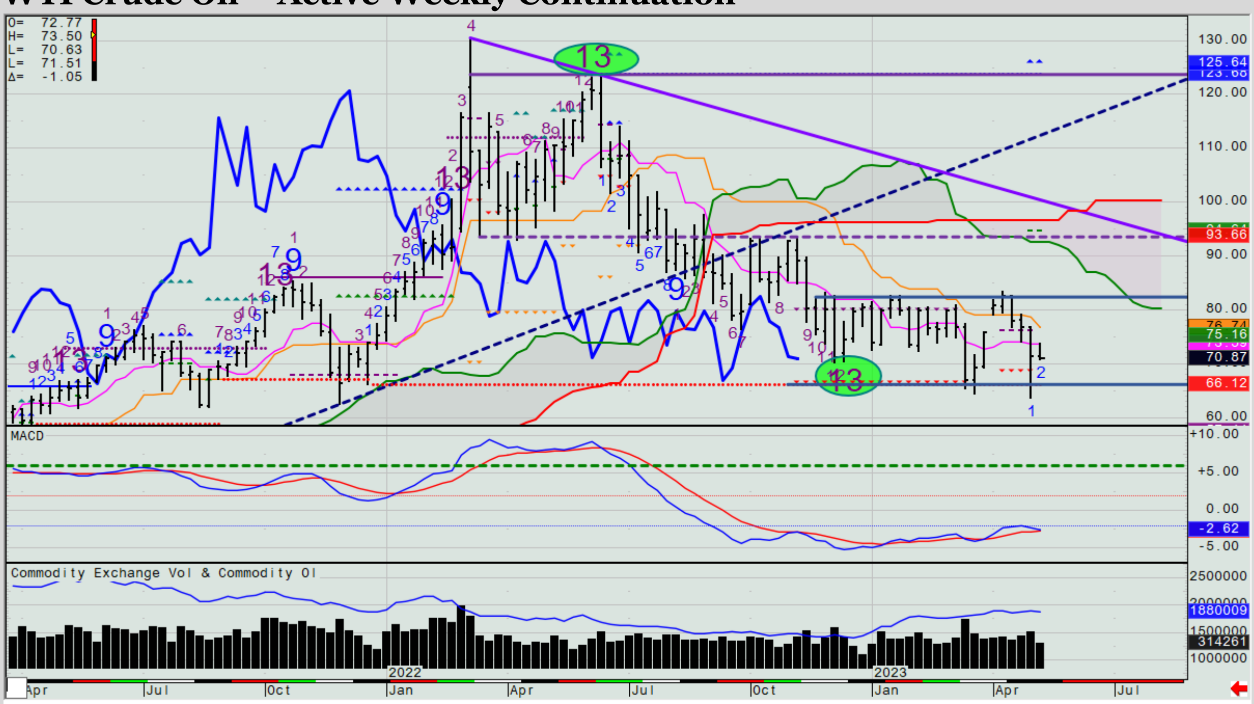


Gold still is stuck by the $2024 level that has halted its rallies (based upon Friday closes) multiple times, despite a recent rally up to within $4 of all-time highs. Medium- to longer-term upside targets include $2140 and $2662. Bulls want to see the $1968 bearish Propulsion Momentum level hold as support on Friday closes going forward.

COMEX Gold – Active Weekly Continuation

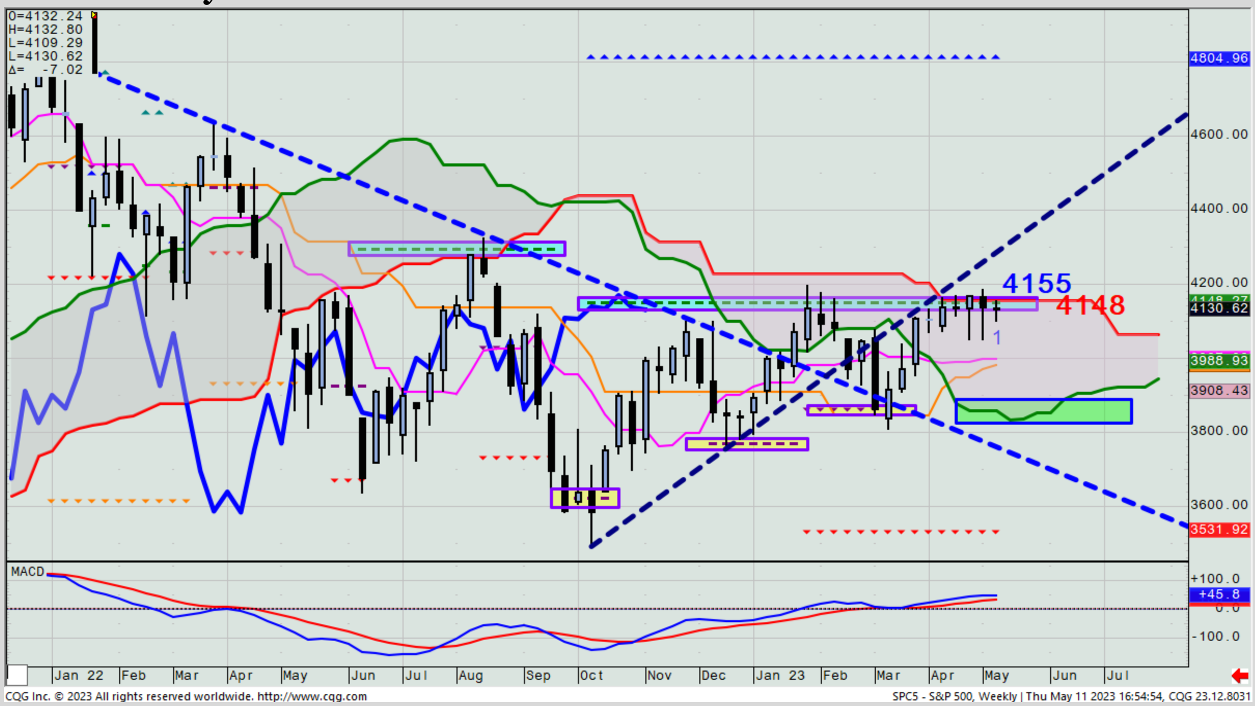
WTI Crude Oil remains in a trading range (shown on the below chart) that it's been in all of '23. The heaviness in price still implies upped chances for an economic slowdown and reduced demand for oil.

WTI Crude Oil – Active Weekly Continuation

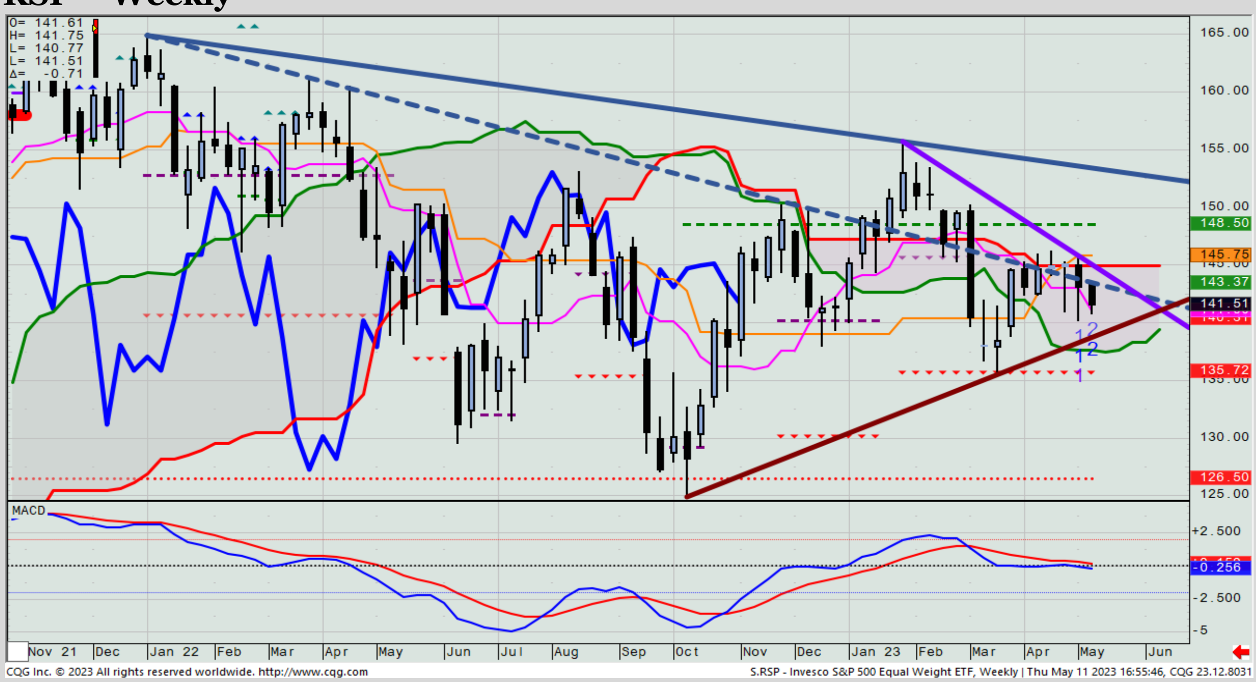


The SPX, SPY, and S&P futures all continue to stall in the mid-4100 SPX equivalent level. Big tech is doing best, with several of the FANG-y type names moving to new '23 highs. But breadth remains poor, so it is really the biggest half-dozen names or so that is making the SPX look far better than the broader market is. In fact, I'll show you both the SPY and RSP (S&P 500 equal-weight ETF) charts below so you can see just how pronounced is the difference.

SPX - Weekly



RSP – Weekly

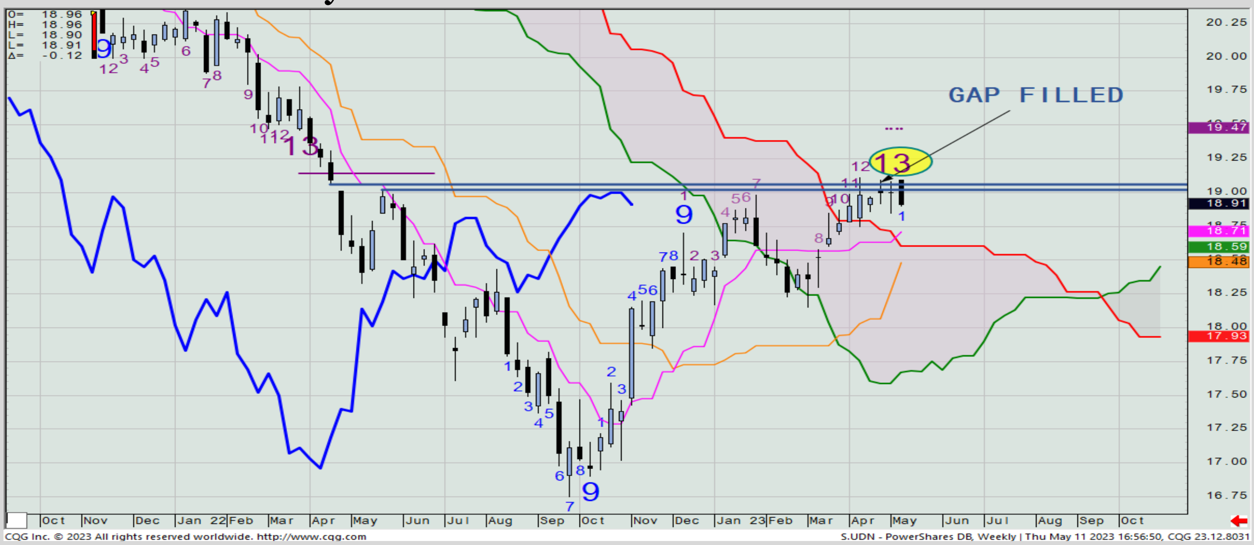


The biggest immediate issue for the market is not inflation, Fed rate hikes (or not), the ongoing Ukraine/Russia war, regional bank woes, or even the tightening credit crunch: it's the debt ceiling set to expire May 31. The longer we don't see a resolution to this issue, the more investors will be wary to commit new capital to the equity market. And honestly, it makes total sense. I'm not looking to buy any stocks right now – I am more focused on managing what positions I already have on.

New ETF Trade Idea

I like when I see an opportunity to put on a trade with a 2:1 reward vs. what I need to risk if wrong. As mentioned in the above comments, the US Dollar may very well get a bounce from this area, given the many weeks with lows right at support by the DXY 100.50 area. As such, I look to **short two units** of the US Dollar Bearish ETF (**UDN**) here and look for it to fall to test the weekly cloud top and Base Lines in coming weeks. (You could look to buy the US Dollar Index Bullish ETF (UUP), too, but I actually prefer to do it this way simply from how the charts line up). Your buy stop is a close or two above this week's high of 19.09.

Short UDN – Weekly

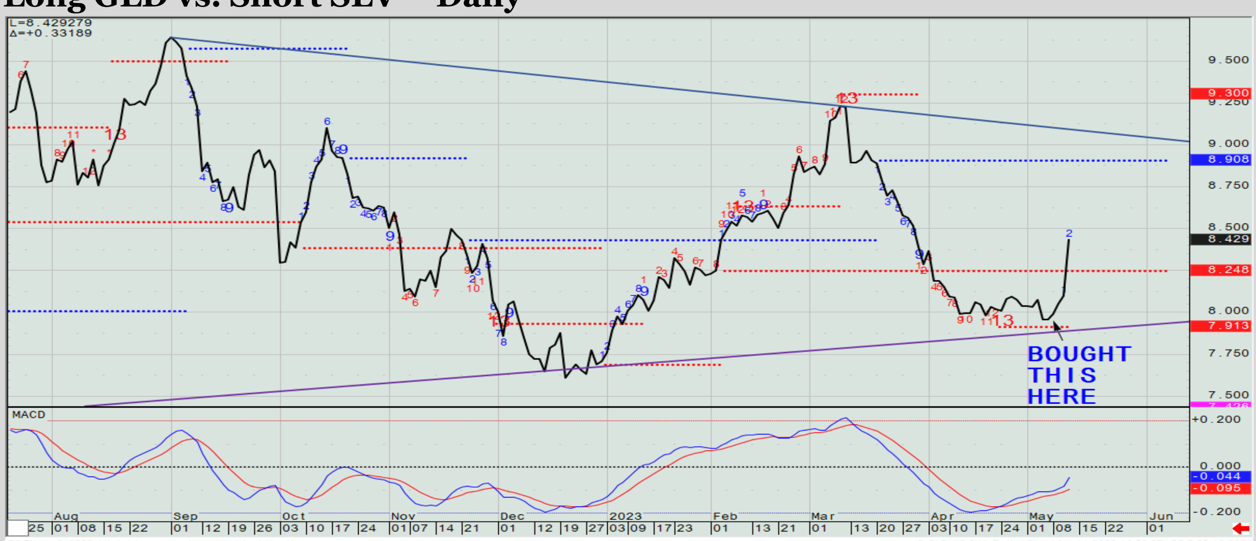


Other Open Recommendations and Positions

Long GLD vs. Short SLV

Last week we entered the first half of this pair trade (average entry at 7.98) – and the lowest daily close of the move – with me looking for gold to outperform silver going forward. Our plan was to put the other half on today, but with this spread having rallied like it has this week, I do not want to add now near an 8.4 ratio. (So, we will just keep to the half-unit position.) I am targeting a move to the top end of the range near 9.0 to 9.5, where we will exit half of the trade. Raise your sell-stop to breakeven.

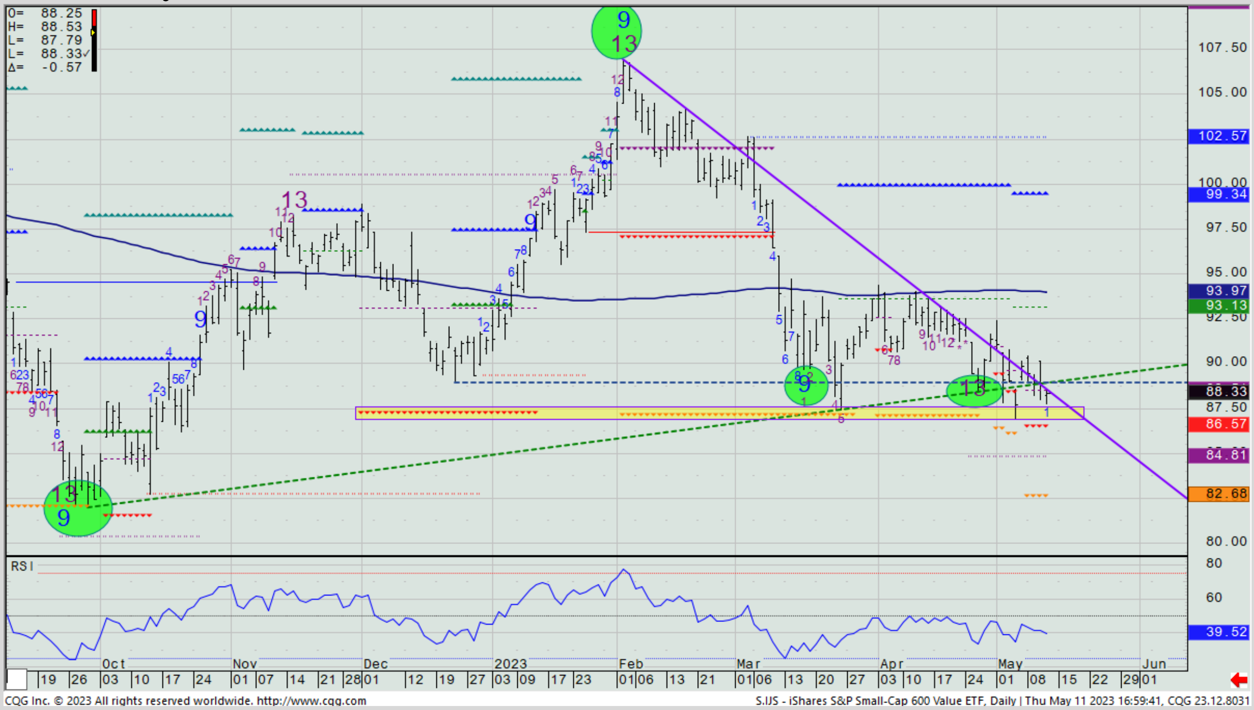
Long GLD vs. Short SLV – Daily



Long IJS

Two weeks ago, we bought this small cap value ETF (avg. entry at $90.83) from its chart's likelihood for a bounce and breakout above its downtrend line, but then the new banking issues came to light and this turned around to fade to new lows. Our sell-stop is on a closing break of its bearish Propulsion Exhaustion level at $87.11.

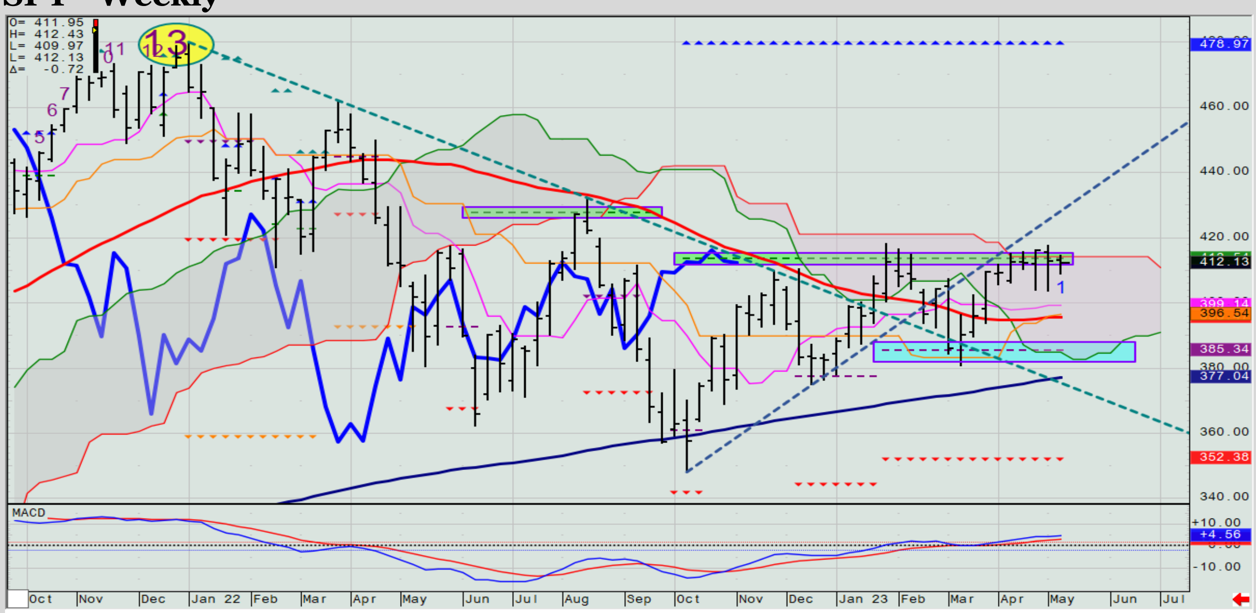
IJS – Daily



Short SPY

Three weeks ago, our play was to short the SPY (avg. entry price of $411.43), looking for a move to test its uptrend line and being diligent about stopping ourselves out on a Friday close (or two – your choice) above SPY $414.05 AND an SPX close above 4155. We certainly got one close above those levels two Fridays ago, so you may or may not have exited. I clearly want to be in this idea, basis my above market comments. So, if you did stop yourself out, I suggested last week you put it back on.

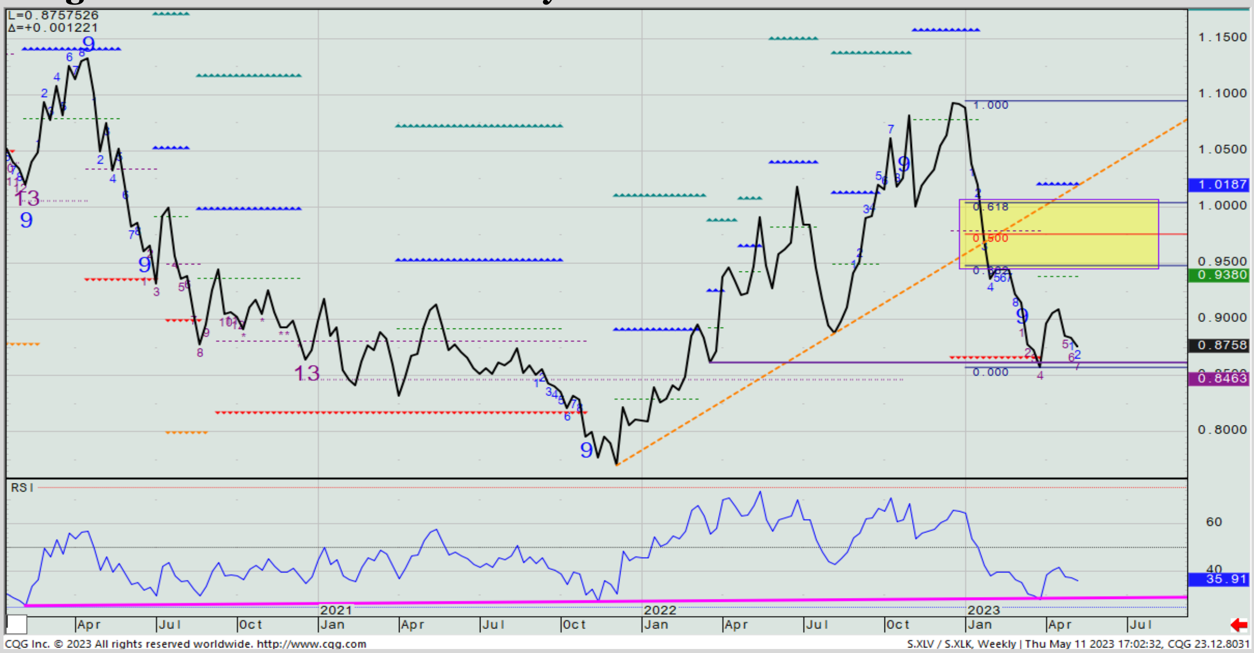
SPY - Weekly



Long XLV vs. Short XLK

Five Mondays ago, 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. I was playing for a rally up to the highlighted Fibo Box in yellow, but with the surge in tech we're now seeing, I now prefer to simply exit this trade for a ~2% loss.

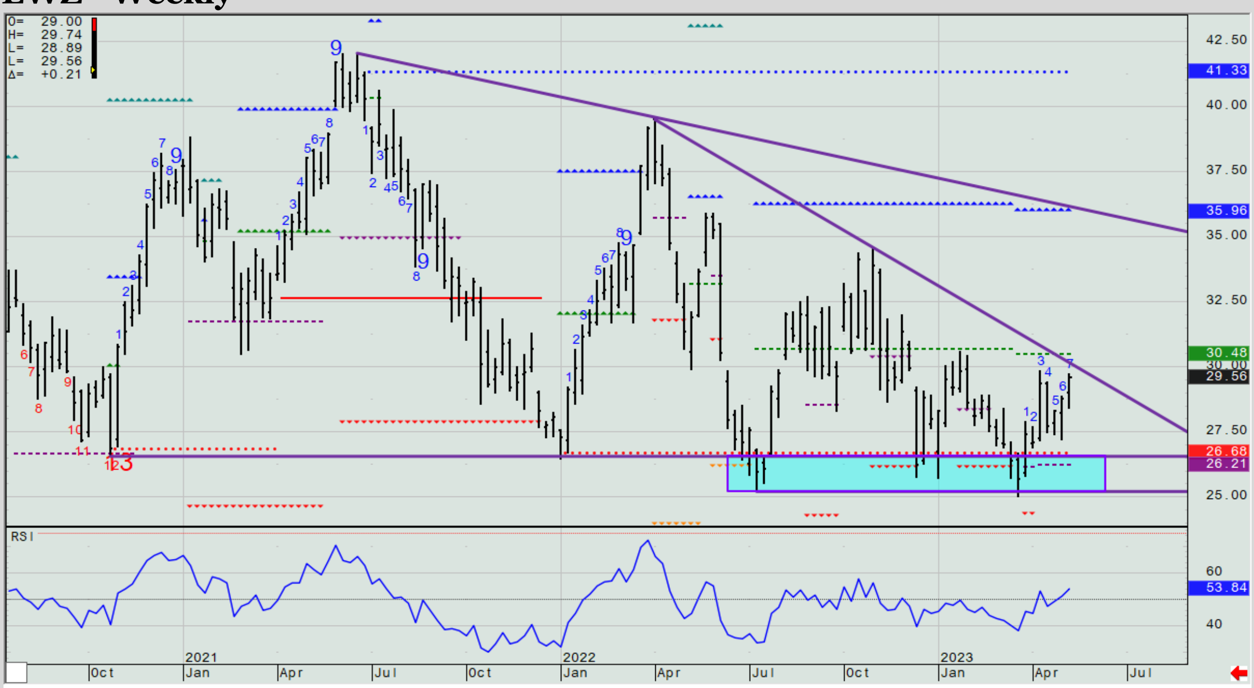
Long XLV vs. Short XLK – Weekly



Long EWZ

Six weeks ago, we went long (avg. entry at $27.18), looking for the highlighted strong support zone to continue holding. I've previously raised our sell-stop to no lower than the breakeven entry level. I am also going to suggest that we sell half our position anytime now that we see a move up to the $30 to $30.50 area.

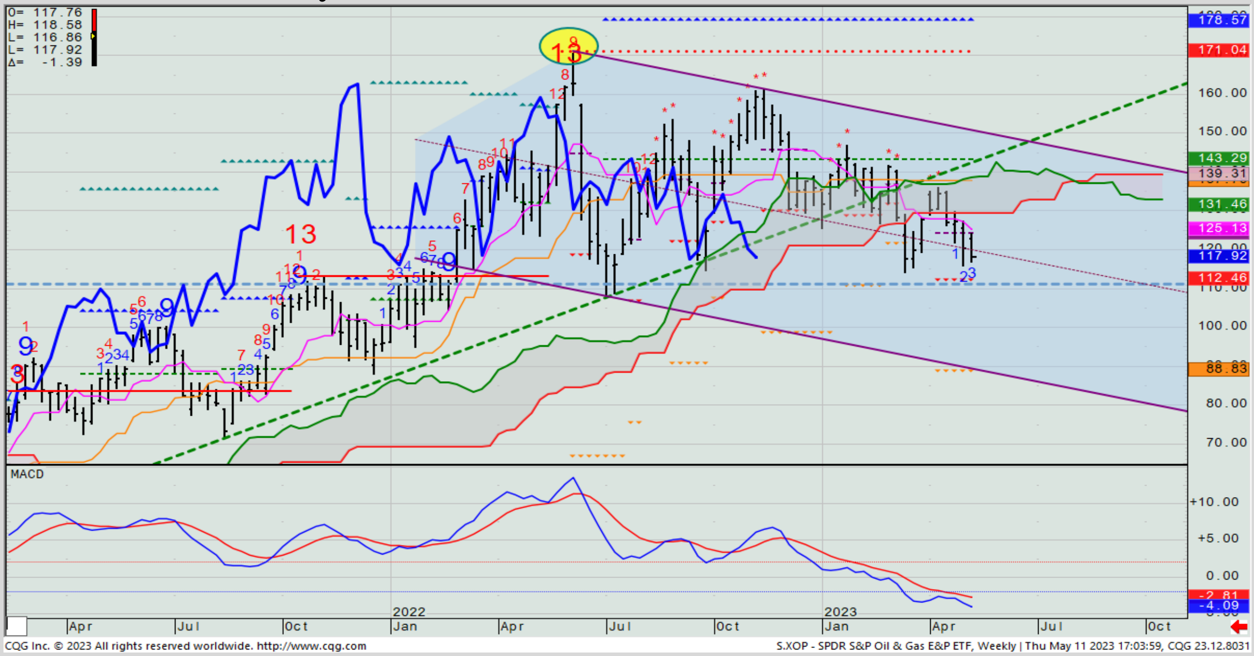
EWZ - Weekly



Short XOP

Eight 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 from the bullish OPEC news.) We previously took half the short off at an average price of $125.68, and now again update my suggestion that we now look to cover half of what we still have on in the $112.50 to $109.50 zone, and we'll let the balance go for a potential move to under $100.

Short XOP – Weekly



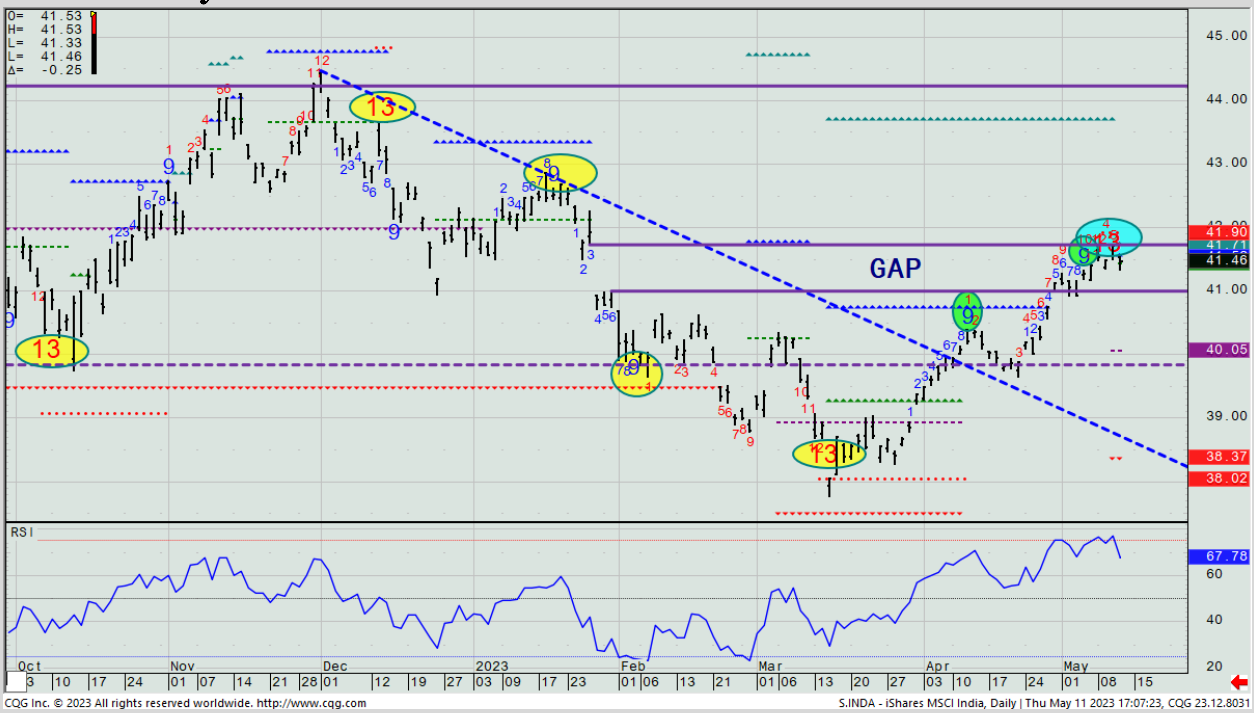
Long UNG

Eleven 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. Certainly, we'd like to see some weekly closes north of the Conversion Line which continues to halt any attempt of a rally.

UNG – Weekly

Long INDA
In March we got stopped out of a long position in this name, but 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. We've already exited half of this trade at an avg. price of $40.22. With this all but filling the gap and getting a daily Sequential +13 signal, let's get out of this right now.

INDA – Daily



Long XLC vs. Short XLE
Fourteen 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 moved up to the best level since we entered. I'm looking for this to potentially move up to near the 0.982 level. Raise your sell-stop to a close or two beneath 0.6679.

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