Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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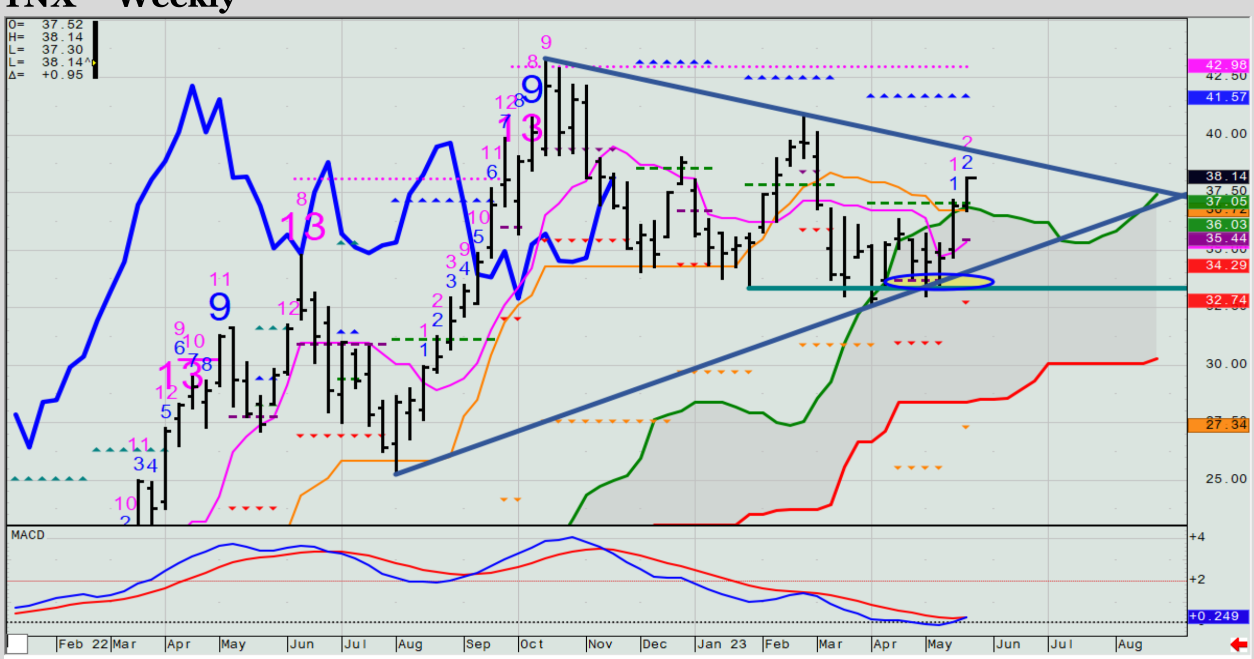
TACTICAL TRADER REPORT

The Macro Picture

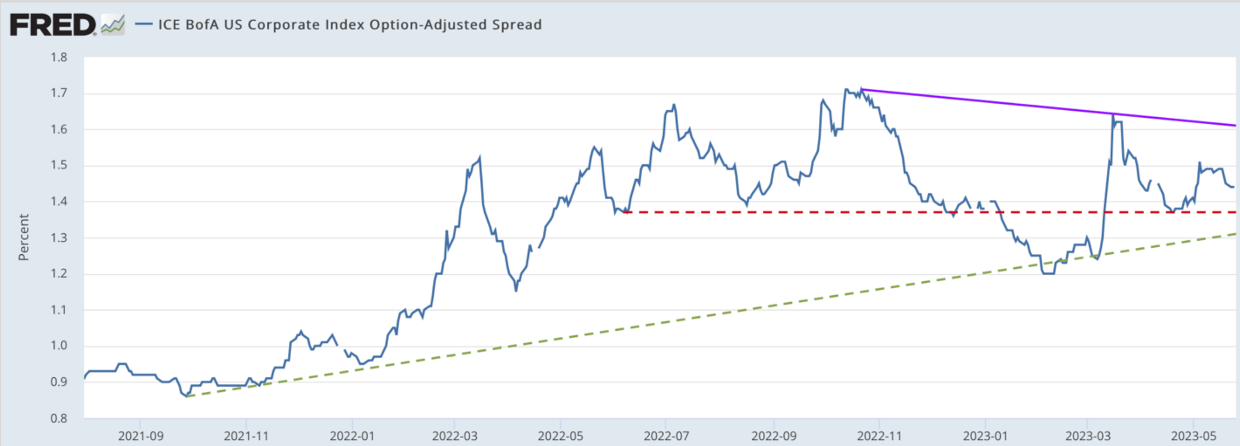
After reaching the best levels of the year just last week, stocks have sold off as the debt-ceiling talks have not materially progressed, and the looming deadline of June 1 – as posed by Treasury Secretary Yellen as the date that the government runs out of money without a debt-ceiling extension – is now less than one week away. The rating agencies are already at the point of lowering the US's credit rating, and a default on paying the government's debt – even if it ends up being for a day or two – is still a default and one that comes with significant concerns for all countries across the globe. After all, their government debt is all measured against that of the supposed risk-free debt of the US. If the US is no longer considered risk-free, then all other sovereign debt is negatively affected. That's becomes a global problem and cost.

Our US benchmark yields continue to creep higher, as the 10-yr. yield has rallied over the past week to as high as 3.81%. So many investors have fought against the Fed telling us that rates will stay "higher for longer", and being long bonds have cost buyers over the bulk of the past three months. The next obvious resistance area would come from near the downtrend line at near 3.9%, but a move above there suggests a rally to 4.15+ percent. A pullback to the mid-3.5s percent area is probably a good place to be a seller of bonds.

TNX – Weekly

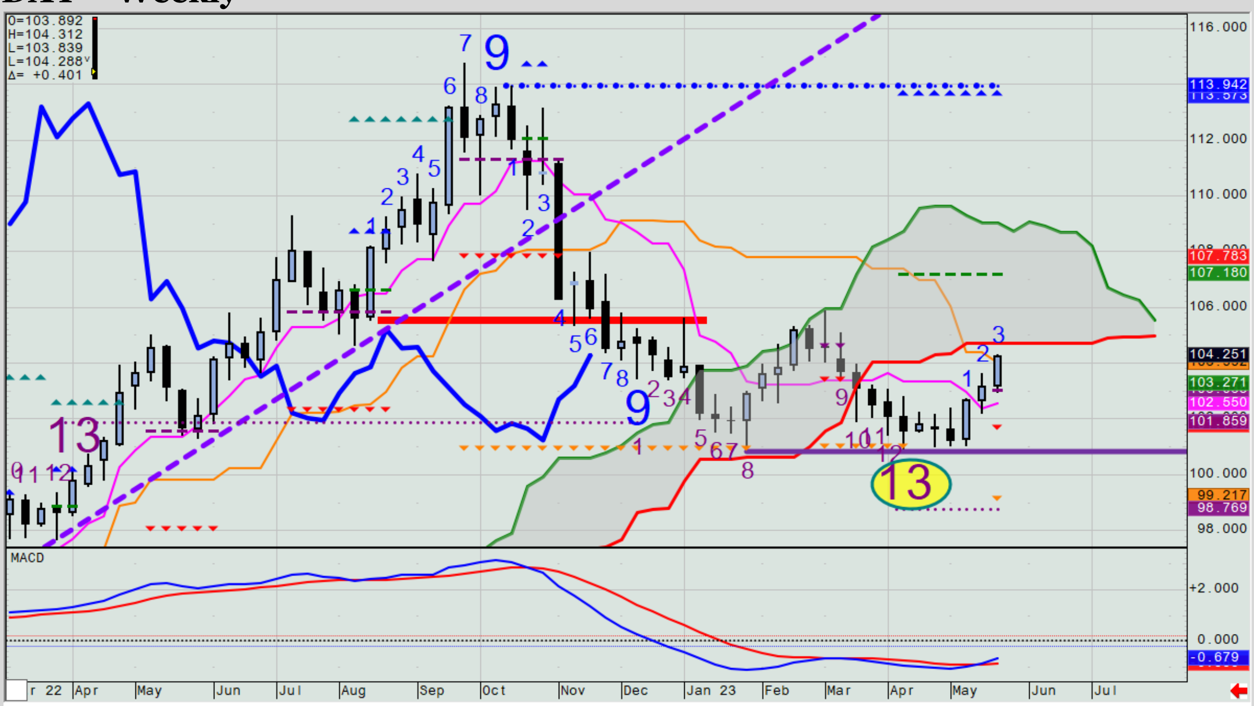


The ICE BofA Corporate Index OAS (i.e., my preferred credit spread fell 5 bps. in the past week. On Monday of this week, I had my institutional clients take off 1/3 of the widener trade we had on from 1.32%. However, I'm still in the camp that this spread will take out last year's high of 1.71%, but I had no issue of taking some profit from the recent stall in advancing.



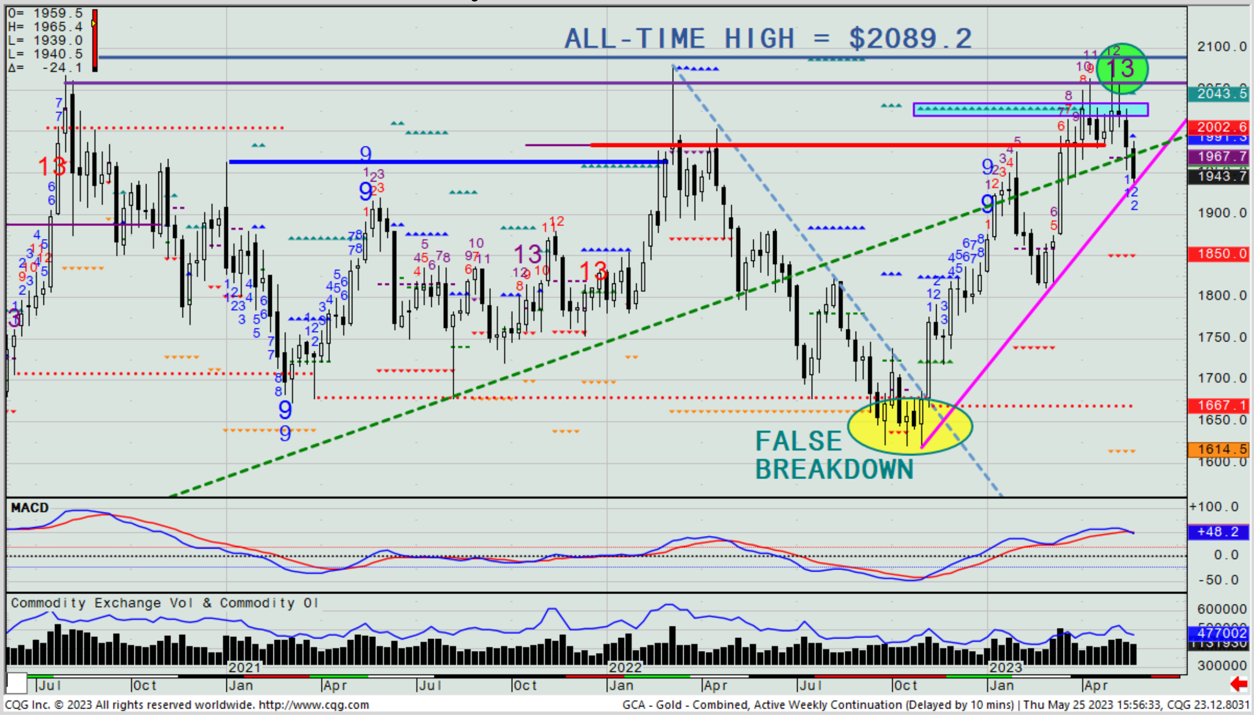
The US Dollar Index has continued to rally, and it getting closer to the bottom of its weekly cloud bottom.   Given that a US default on paying bond coupons would be a negative for the greenback, I will be trimming some of our bullish bet on the dollar. (See more below in our open trade part of this report.)

DXY – Weekly



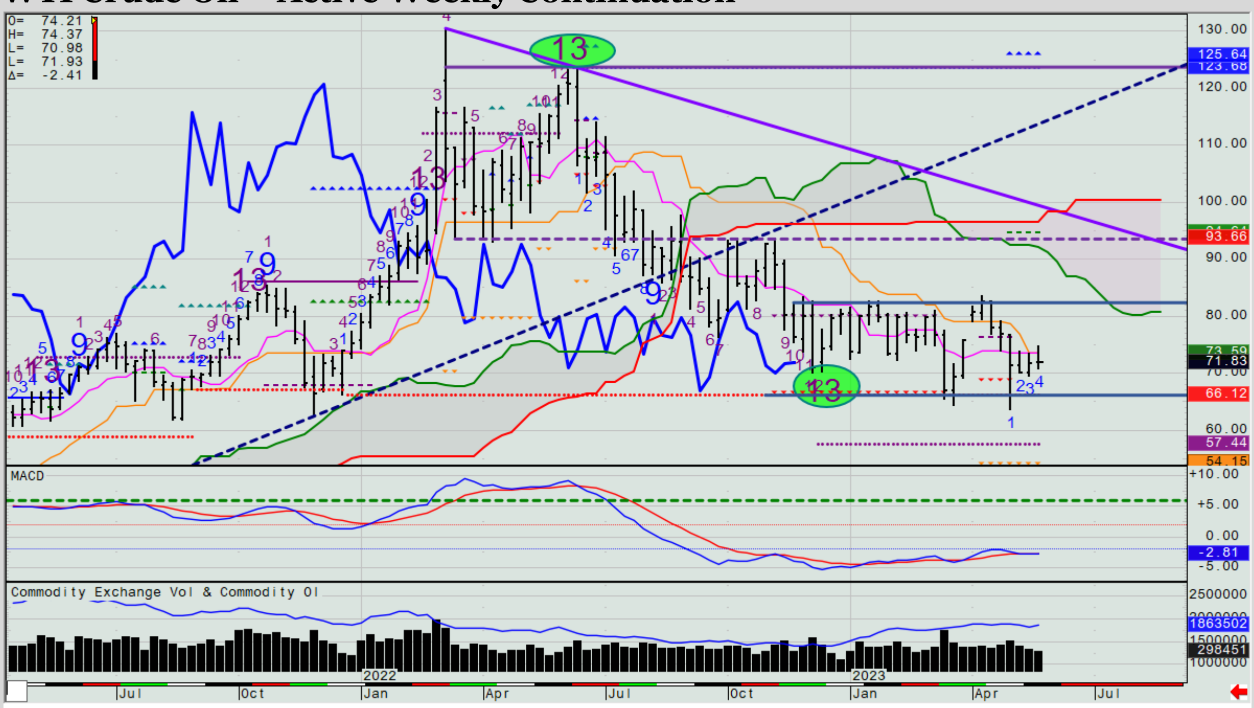
Gold 's inability to really progress past the $2024 Propulsion Full Exhaustion level has led to a continued decline, especially with the dollar having rallied the past few weeks. Bulls want to see the $1968 bearish Propulsion Momentum level hold as support on Friday closes, followed by the uptrend line at $1935 this week and at $1945 next week. Medium- to longer-term upside targets include $2140 and $2662. Look back a few years and gold hit its top of range level and fell from it while also marked by a +13 upside exhaustion signal.

COMEX Gold – Active Weekly Continuation



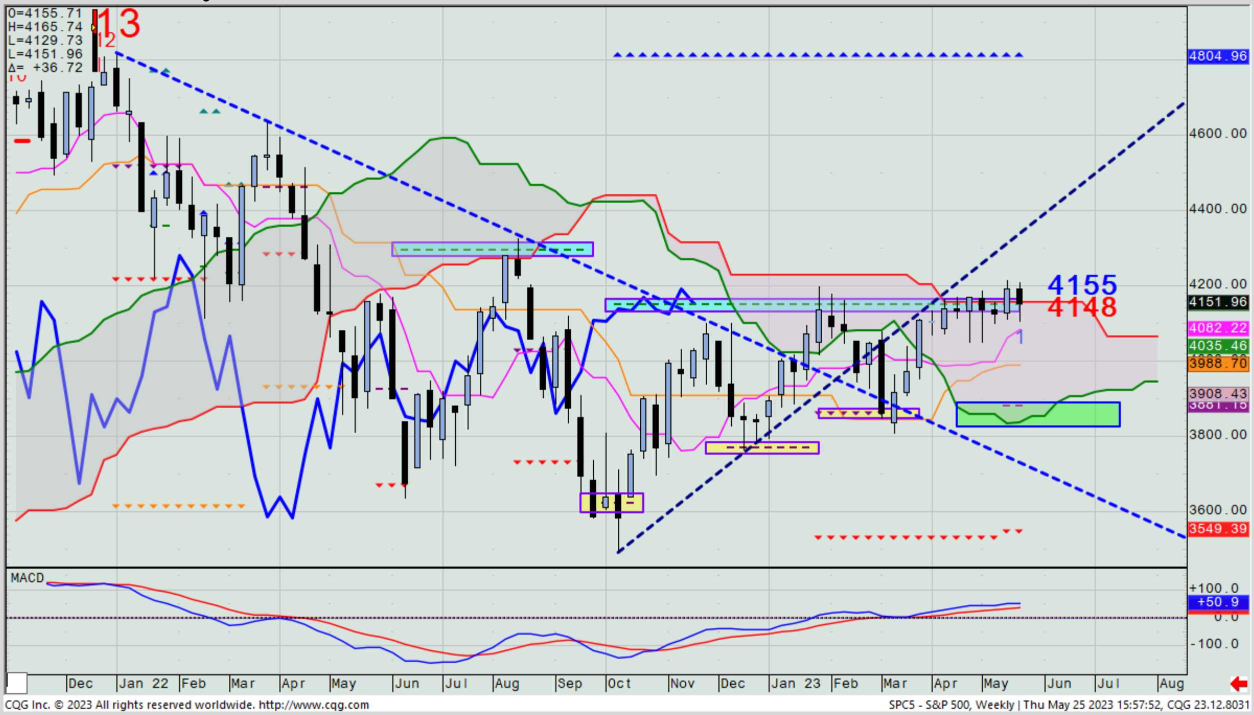
WTI crude oil remains in a trading range, but I am more apt to be long than not because of the weekly -13 signals. It does need to hold the key support level in the $66/$67 area.

WTI Crude Oil – Active Weekly Continuation



The SPX's recent rally again gave it a second weekly close above the 4155 top of the weekly cloud level to mark a new high for the year. The rally reached to 4213 – missing it closing a gap up to 4219. From a purely technical view, the move does <u>neutralize</u> what had been a year-long bearish structure (but it does not put the SPX in cloud model bullish mode). However, the macro news right now is more important than the charts, so it will be the driver of what comes next.

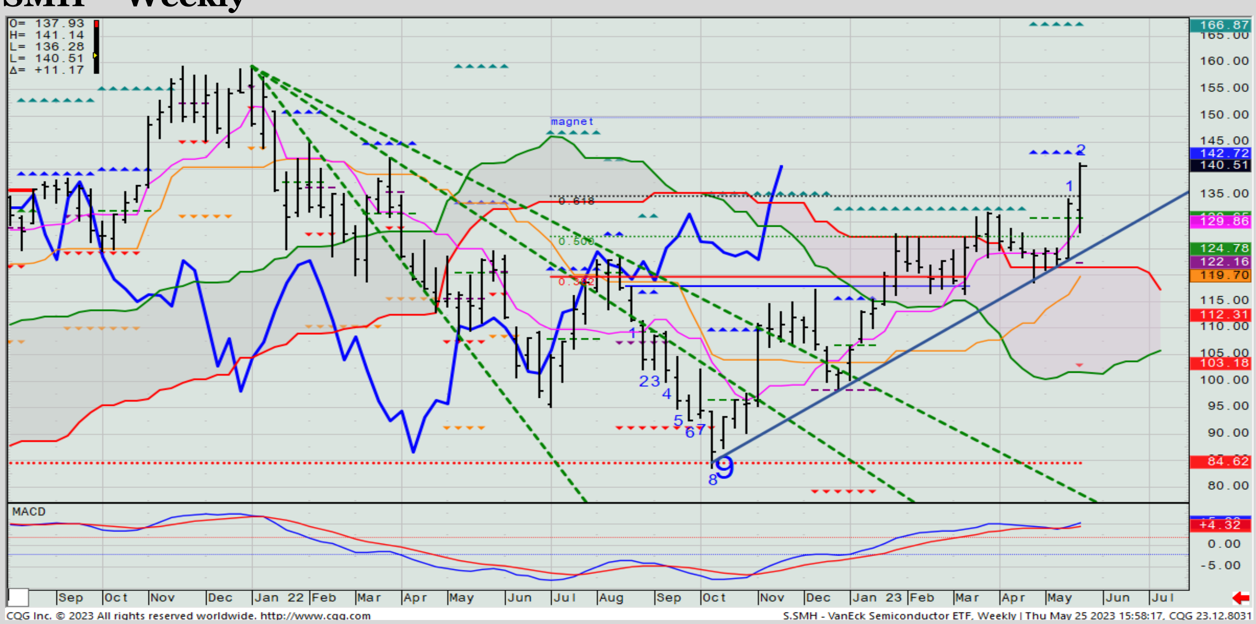
SPX - Weekly



New ETF Trade Idea

At the heart of the AI move is the technology behind it, and down to the core, it's the semiconductor chip that powers everything. The most popular semiconductor ETF, **SMH**, has been on a run higher since October, and now breaking out above all weekly cloud related resistance levels. I don't want to be a buyer here, especially after NVDA's blowout earnings report on Wednesday, but I would consider buying it anytime in the next week or two that it pulls back to the $135.50 to $134.50 zone. A run at all-time highs is in the cards, so by buying on a pullback we can try to make about $25 while only needing to risk half of that to a breach beneath Setup +1 bar's low of $122.84. As that would be risking some 10% if wrong, let's only buy a half-long position near $135 to cut the risk down to 5% on an equal-measured one unit portfolio P&L perspective.

SMH – Weekly

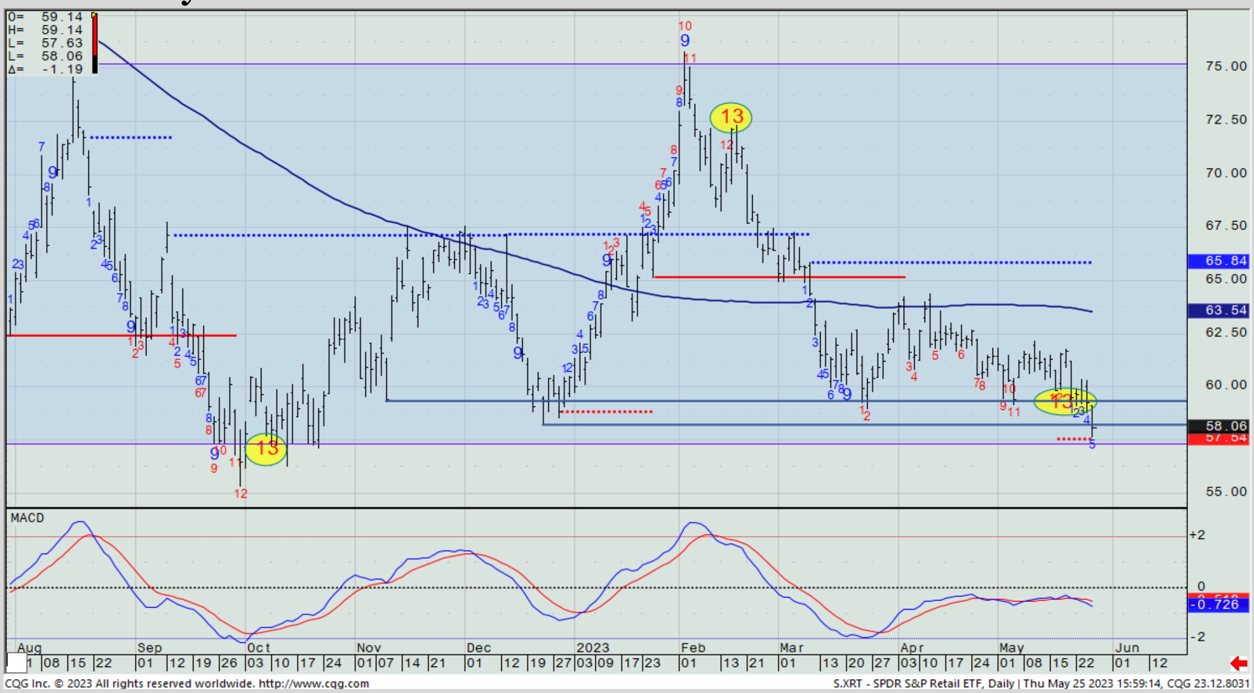


Other Open Recommendations and Positions

Long XRT

Last Friday we went long a half position (average price $60.27) and then the other half earlier this week at $58, for an average one-unit long position at $59.14. To manage risk, we'll need stop this out on closes beneath $56.28. If this can hold in here and recover, the upside can be in the $65.50 area.

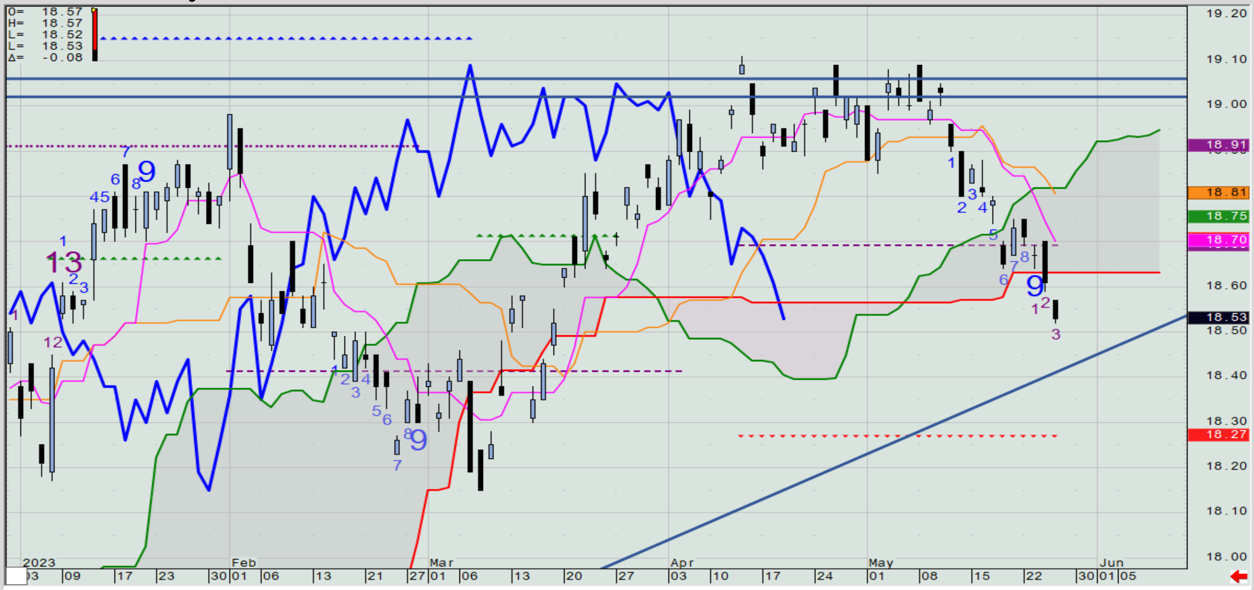
XRT – Daily



Short UDN

Two weeks ago, we shorted two units (average entry at $18.95) of this inverse Dollar Index ETF – my way of playing that the dollar would rally. Last week I recommended that you cover half between $18.63 to $18.57, which was seen earlier this week, so we're now down to being short one unit. Lower your buy-stop to consecutive daily closes > $18.69.

UDN – Daily



Long GLD vs. Short SLV

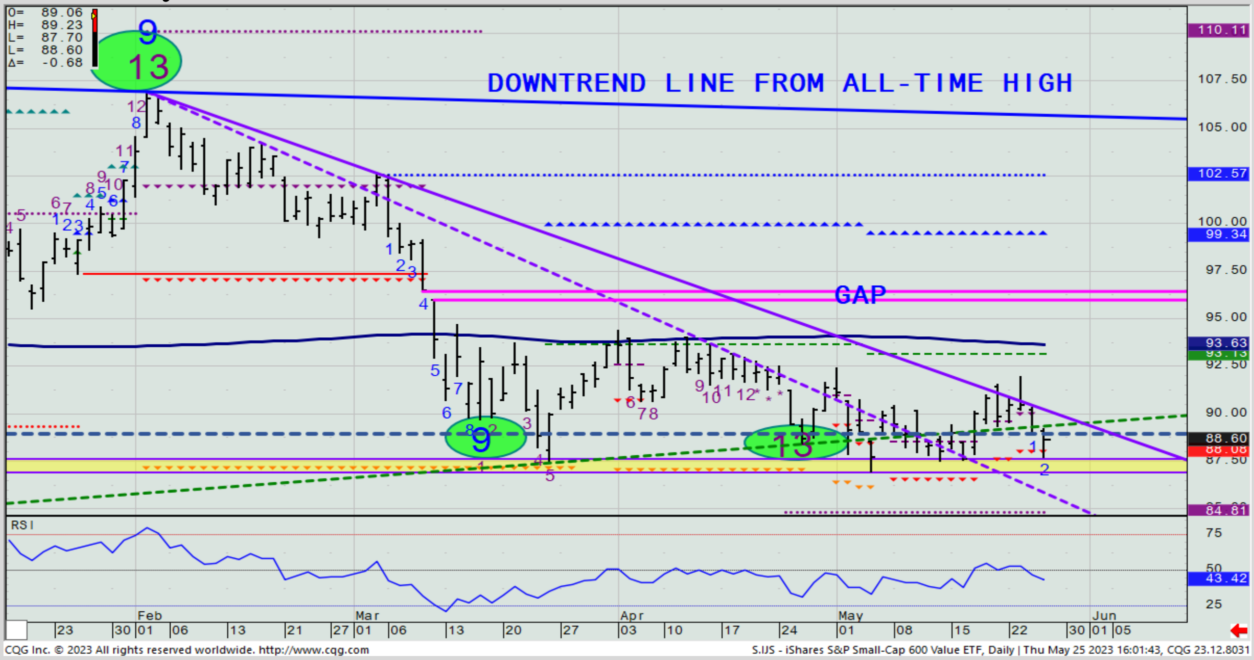
Three weeks ago, we entered a half-sized position of this pair trade (average entry at 7.98) – and the lowest daily close of the move – with me looking for gold to outperform silver going forward. Last Friday we removed half the trade (avg. exit at 8.40). I am targeting a move to the top end of the range near 9.0 to 9.5 to take the balance off. Again, raise your sell-stop, now to consecutive daily closes < 8.40.

Long GLD vs. Short SLV – Daily

Long IJS

Four 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 a close under of $87.59.

IJS – Daily



Long EWZ

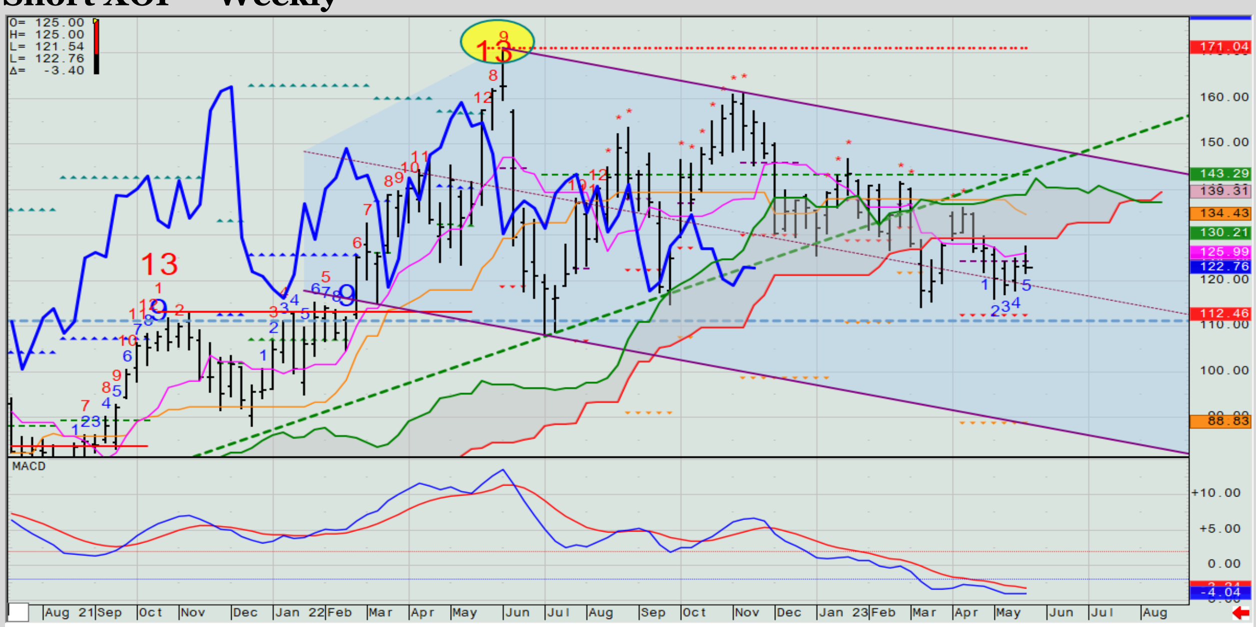
Eight weeks ago, we went long (avg. entry at $27.18), looking for the highlighted strong support zone to continue holding. I've previously raised our sell-stop to no lower than the breakeven entry level. Two weeks ago, I recommended selling half anytime that we saw a move up to the $30 to $30.50 area. We got that last week with a high of $30.43, so we've already sold half, and I'm going to recommend taking the other half off now.

EWZ - Weekly

Short XOP

Ten 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 last Friday we took off another half (at an avg. price of $123.60, leaving the final quarter to cover in the $112.50 to $109.50 zone or a buy-stop at your breakeven entry price.

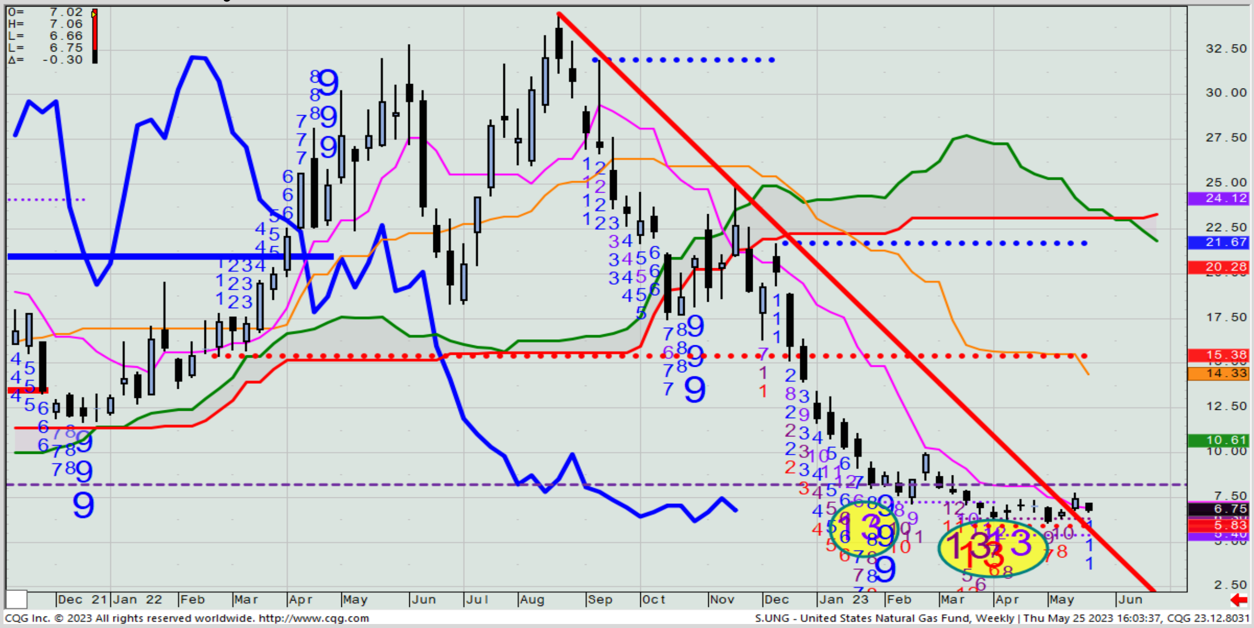
Short XOP – Weekly



Long UNG

Thirteen 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. Three more weekly -13 signals have come in since. Certainly, we'd like to see some weekly closes north of the Conversion Line, and we got the first one last week, and now we want to see further Friday closes above last Friday's.

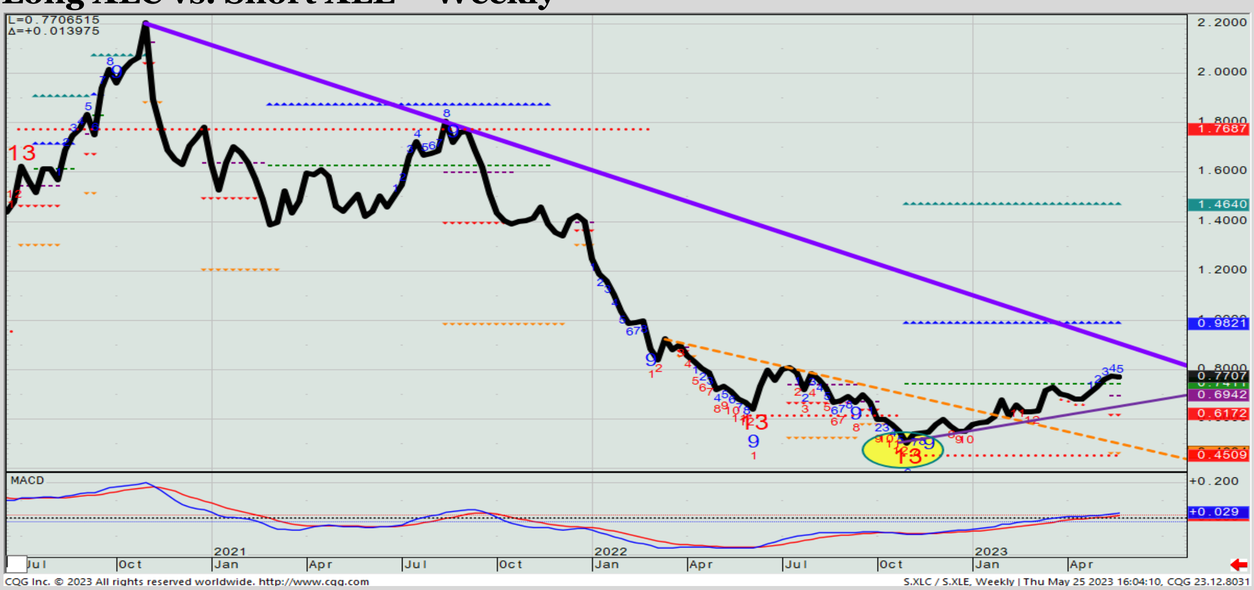
UNG – Weekly



Long XLC vs. Short XLE

Sixteen 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 moved up to the best level since we entered. I'm looking for this to potentially move up to near the 0.982 level. I've already raised the sell-stop to consecutive Friday closes beneath 0.7082.

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.

Disclaimer