Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

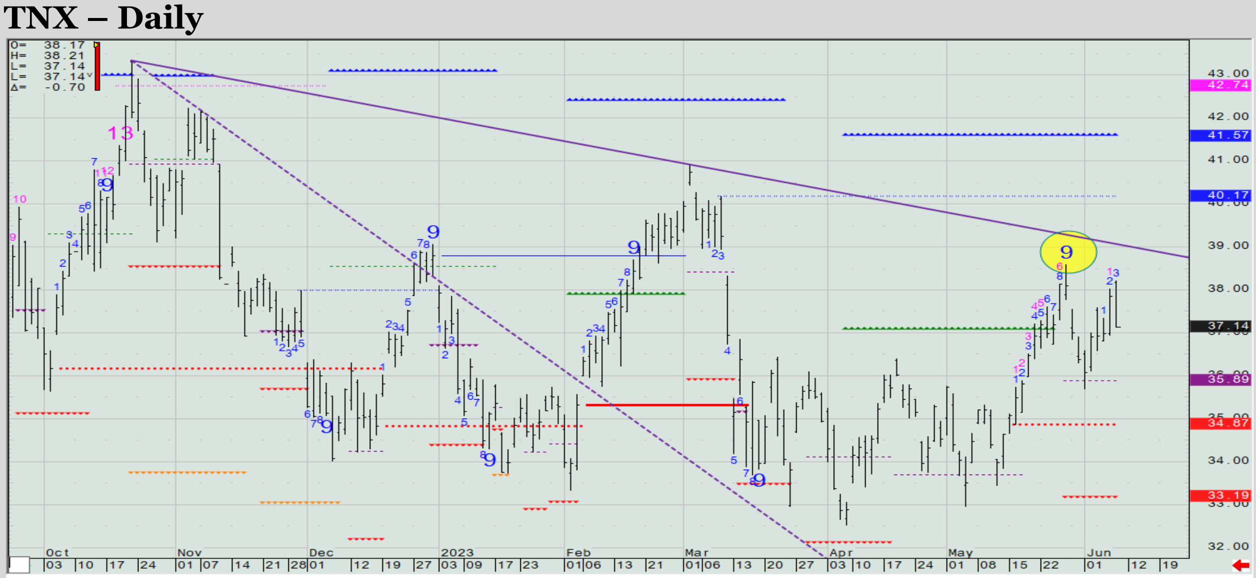
This continues to be a bifurcated market of the haves and the have-nots. The haves are about 7-8 mega-cap tech stocks, with most having some AI connection. The have-nots are the other 492 stocks in the SPX, which are close to flat on the year. So, if you're long any SPX proxy ETF, you're up 10% – purely fueled by those 7-8 stocks.

The point here is that this is a hugely concentrated rally – and not one that typically makes up a healthy bull market. This massively barbell-ed "market" rally can go on for longer than most think – BUT (and it's a big one) – if the rest of the market continues to go nowhere, it's only a matter of time before this rally turns into a potential bloodbath in the underlying index. In fact, in my 40+ year memory of being on Wall Street, I do not remember seeing such a narrow, sharply rising market move as we are now witnessing. Thus, don't be fooled by TV talking heads saying that we're in a bull market; we're not. But there are a couple handful of names that are certainly making us *think* that we're in one.

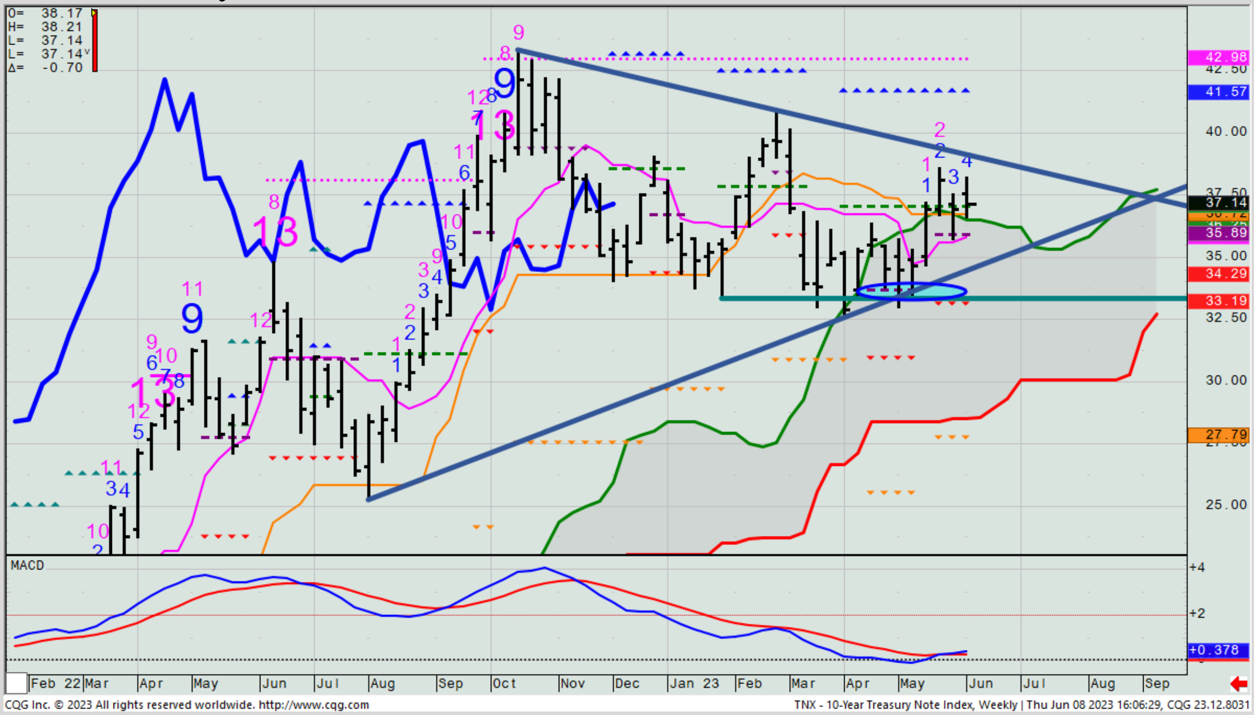
Next week we'll get what is the Fed's latest rate decision. The Street's been betting on a pause, though that view has gotten tamed a bit in the last week.

The recent UST 10-yr. rate rally stopped in late May right on the daily chart's Setup +9 count. First tactical support is at 3.56% followed by 3.49%. The bigger picture from the weekly chart still shows the TNX in its overall triangular pattern, with the downtrend line value at 3.90% next week, and the uptrend line at 3.47%.

TNX – Daily



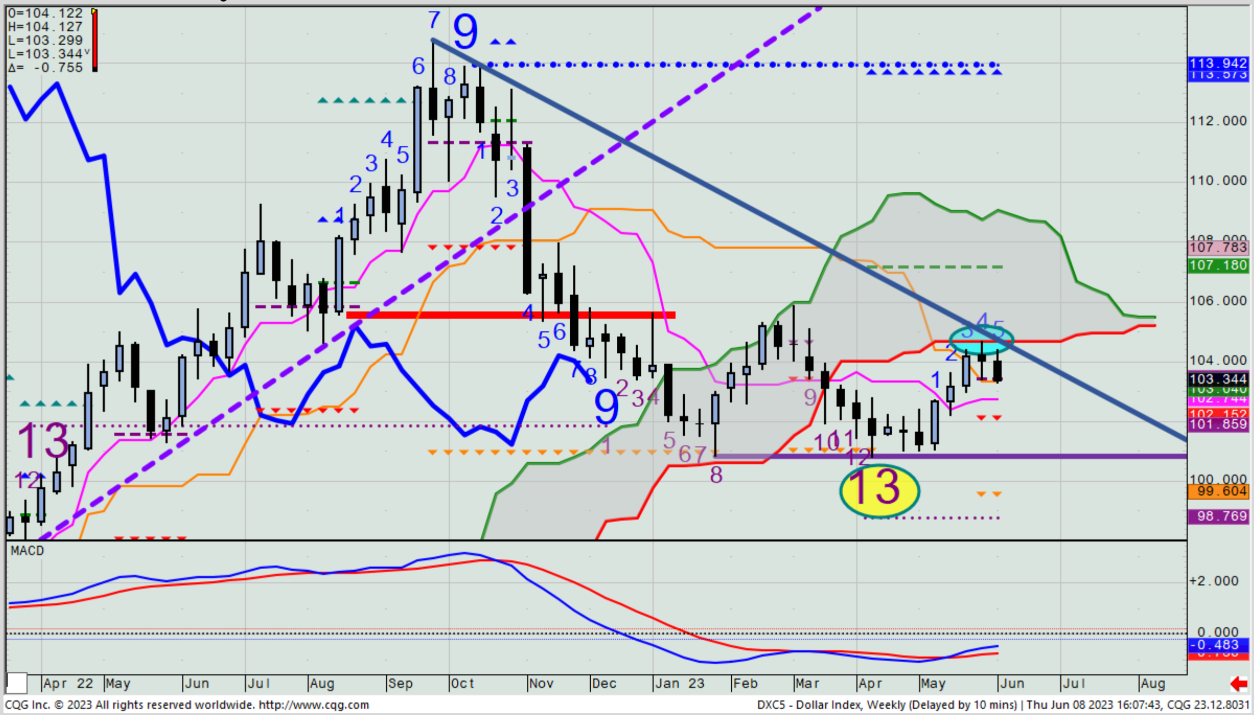
TNX – Weekly



The ICE BofA Corporate Index OAS (i.e., my preferred credit spread) is now at 1.39%, down 3 bps. since last week's issue. Because of current under-the-radar issues that are seemingly being overlooked with the SPX running higher, I'm still in the camp that this spread will take out last year's high of 1.71% before it will take out this year's low of 1.20%. However, to manage risk on the credit spread widener idea I have been in from earlier this year, two weeks ago I had my institutional clients take off 1/3 of the widening trade, with the balance getting stopped out under 1.32% (our average long price).

After having exactly reached my 104.70 upside target, the US Dollar Index (DXY) has consolidated under its weekly cloud bottom and downtrend line. So long as the upward Setup count stays alive, I'll still lean towards the greenback potentially breaking out upside. (See chart on top of page 3.)

DXY – Weekly

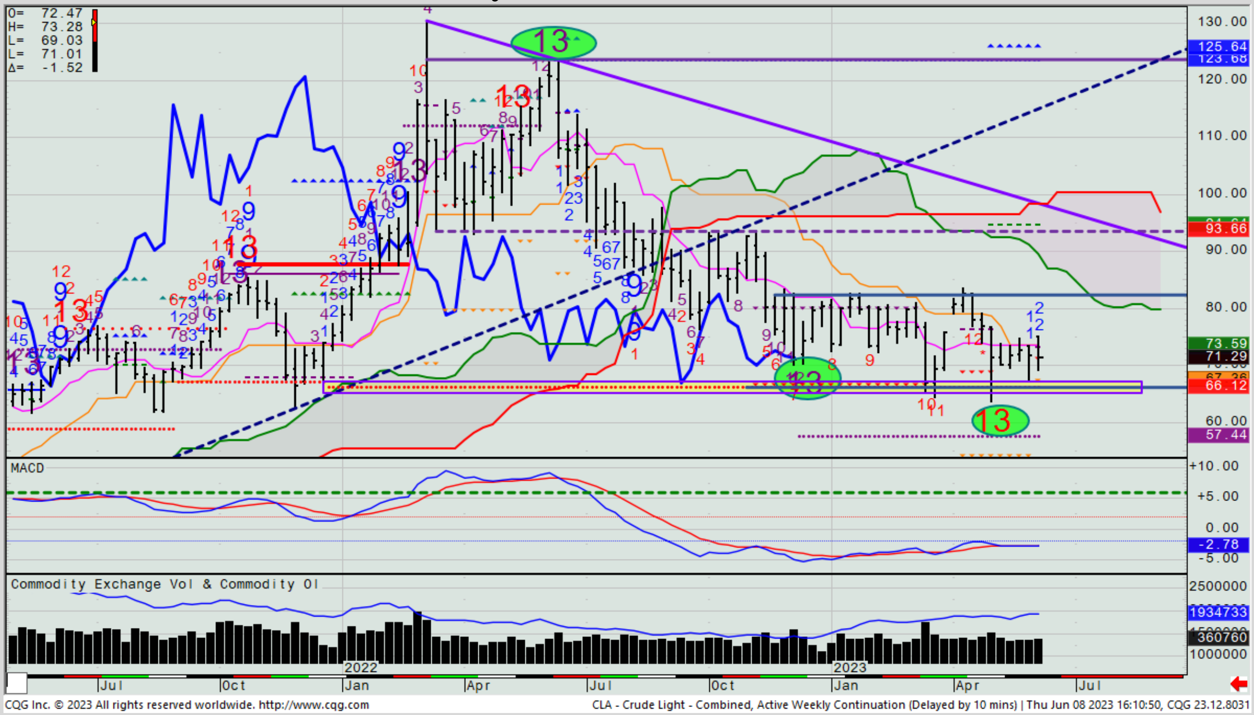


Gold declined right to its uptrend line, and I had institutional clients buy more there. Medium- to longer-term upside targets include $2140 and $2662. However, I'd lighten exposure if we the May low violated on a couple of closes.

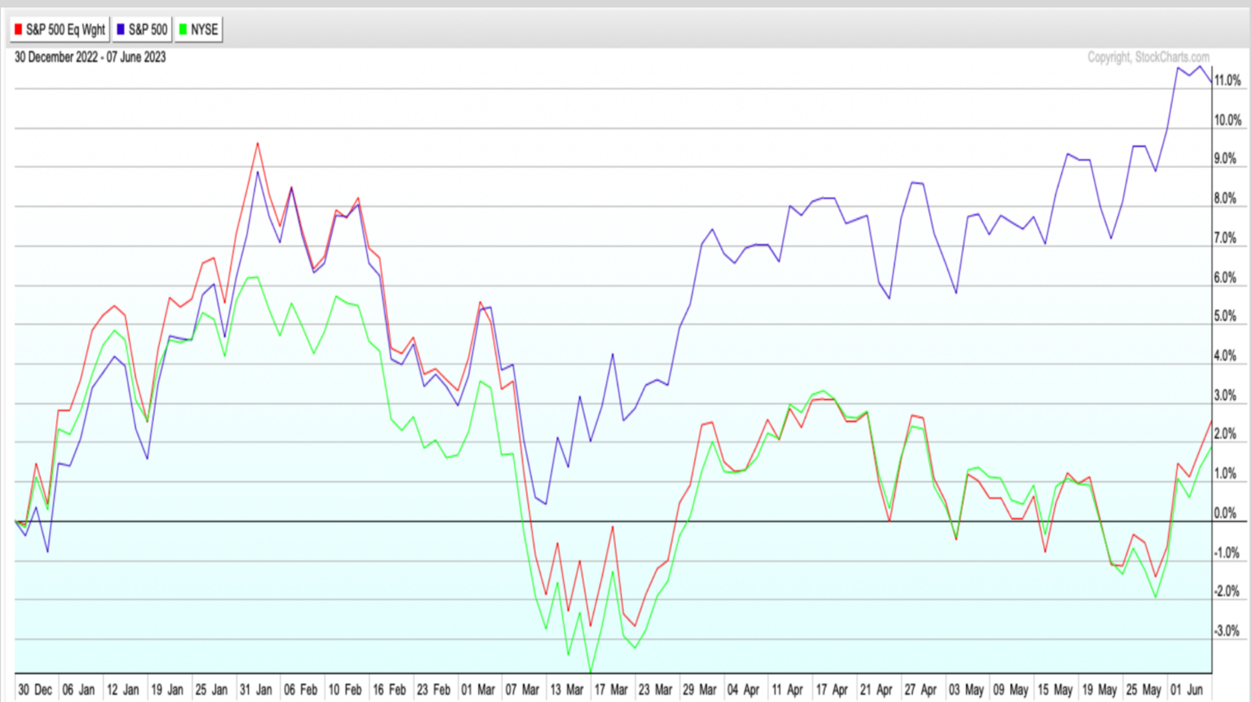
COMEX Gold – Active Weekly Continuation

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. If that gives way, I think that odds get upped that we truly are headed for a recession. (See chart on topo of page 4.)

WTI Crude Oil – Active Weekly Continuation



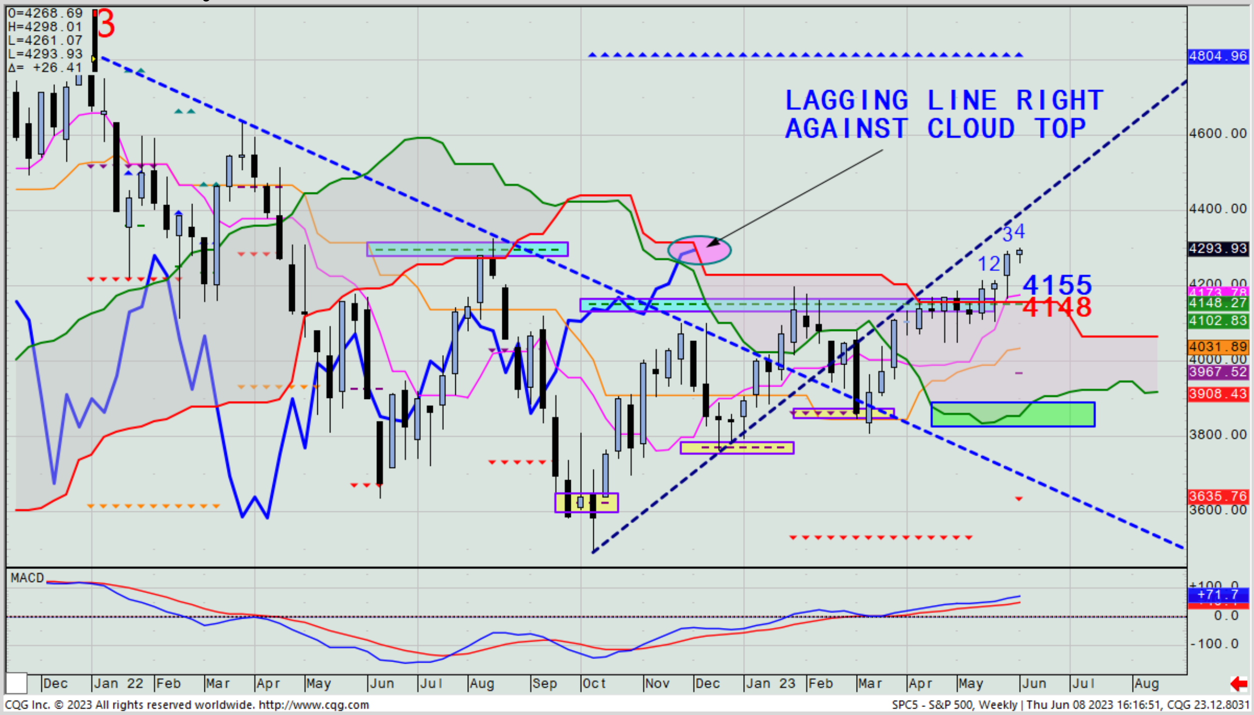
Let's first look at a YTD chart of the SPX, the equal-weighted SPX, and the NYSE Composite Index. The difference is startling.



The SPX – despite me not wanting to call it "the market" this year – has again posted new highs and is honing in on last August's important high of 4325. Notice on the chart at the top of page 5 that its weekly Lagging Line is right up against its own cloud high, making this a very important level to determine if the SPX likely heads higher or not.

First support is in the 4155 to ~4100 area. As long as price stays above there, you should be looking at buying stocks into support levels that also have good relative strength in their sector and to the broad market. However, don't be afraid to sell out of any names you own that are up against or recently failed against decent resistance.

SPX - Weekly



New ETF Trade Idea

Sometimes I come across a trade idea that is, well, almost by accident. The chart below, showing a pair trade of two China stock indexes against each other (long ASHR vs. short FXI) was something I had looked at in the past (and had actually months ago swapped one for another because of this chart). At this point, I'd say chances are decent that over the next three weeks, this spread continues lower to reach both a Setup -9 and Sequential -13 at the same time. And if the bottom of the shaded channel breaks, it could be a very quick trip down to test the 200-WMA.

Long ASHR vs. Short FXI – Weekly

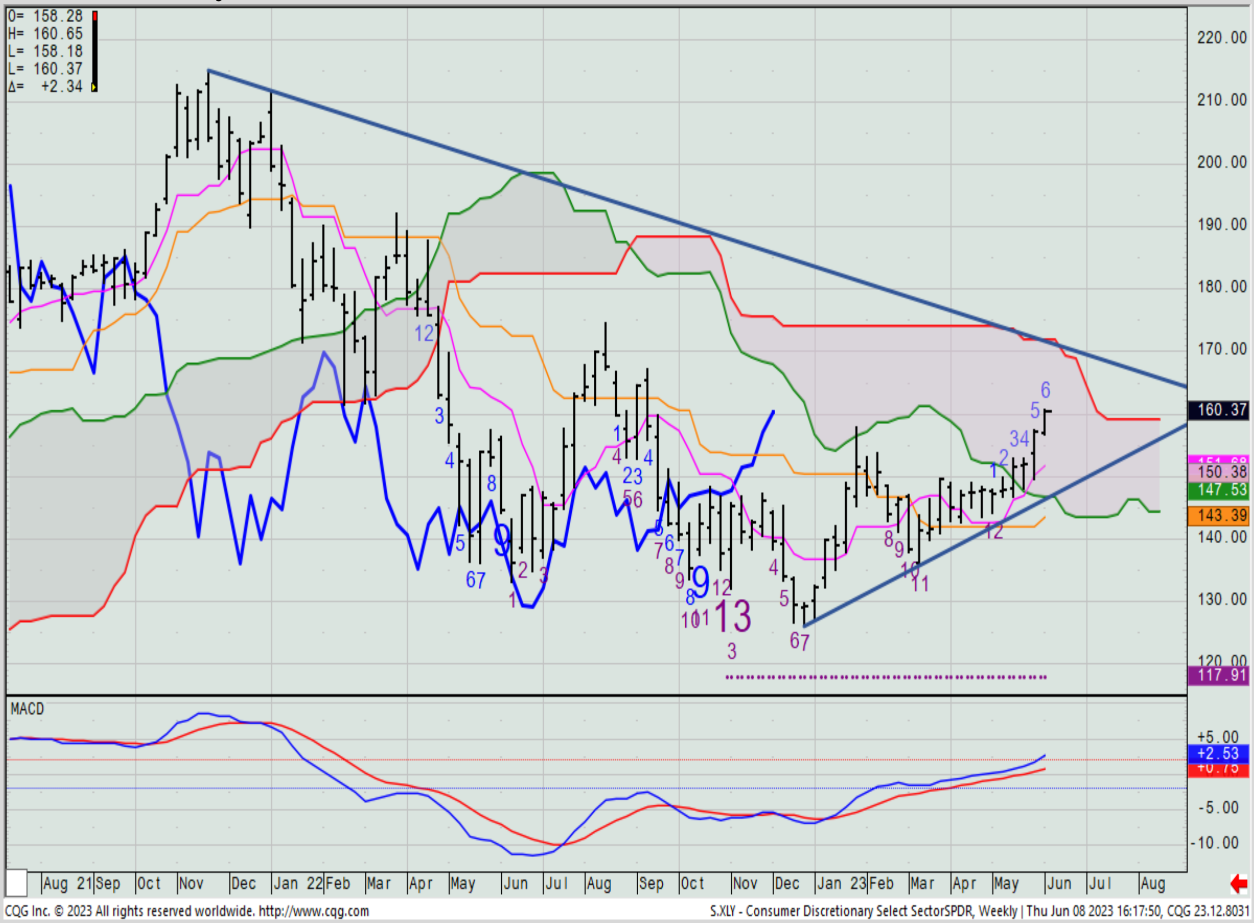
Now, because I'm still looking for this price ratio to head lower, you need to place this trade in the **opposite** direction to how the above chart is labeled. In other words, you want to play this by **buying FXI** and **shorting** and equal amount of dollar's worth of **ASHR** against it. That will have you set to make money if the above chart continues heading lower.

My intent is to hold this for no less than a few weeks, and possibly longer (though I'd probably cover 50% of the position on the Setup -9/Countdown -13 if we saw that in three more weeks. The buy-stop would be on a Friday ratio close above 1.016.

Other Open Recommendations and Positions

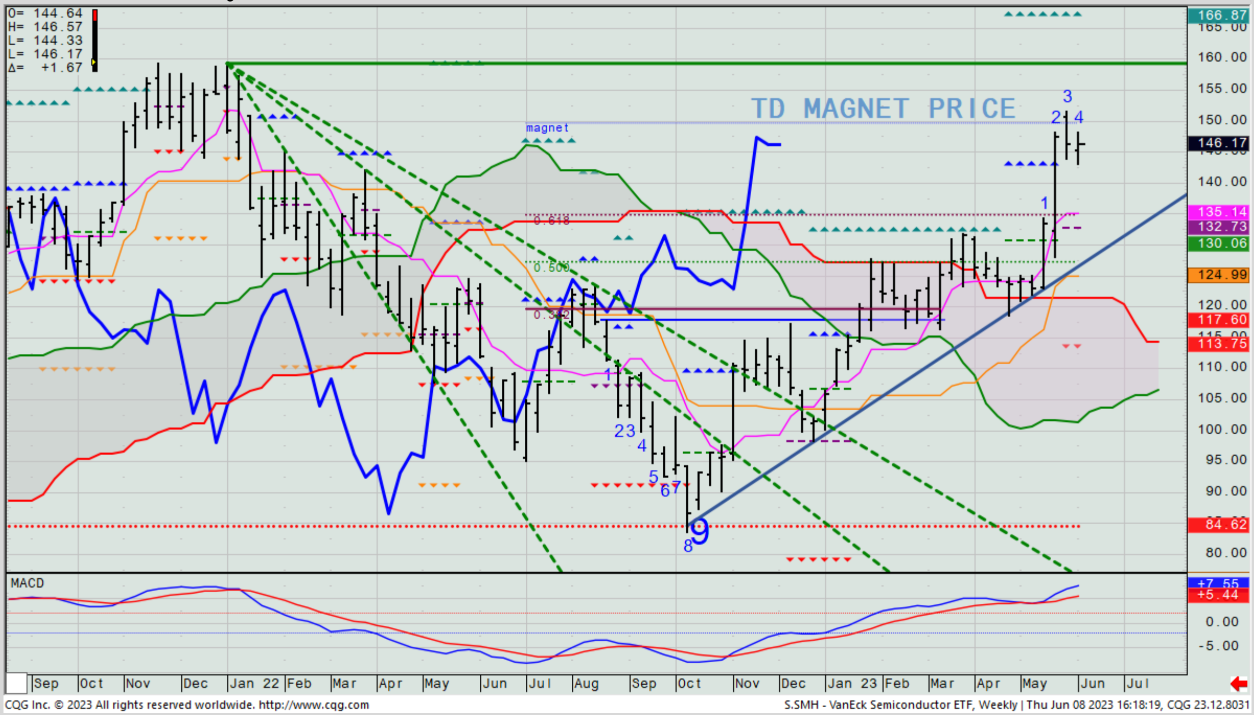
Long XLY
Last Friday we bought a half-unit of XLY (avg. fill at $156.36), and were looking to add the other half on a pullback. (For now, we'll just stick with this half only.) I'm thinking that this can finish out its Setup +9 count over the next 3 weeks. I'm going to raise our sell-stop to now be on any Friday close that is lower than the Friday close from four weeks prior. For today, that's beneath $$147.83, or next Friday beneath $151.55.

XLY – Weekly



Long SMH
Two weeks ago, I suggested buying a half-sized standard dollar unit of this semiconductor ETF during this week or next on a pullback to the $135.50--$134.50 area. Let's keep this idea on the books as an open one should the opportunity arise to buy it at our preferred entry zone. The associated sell-stop is under $122.84.

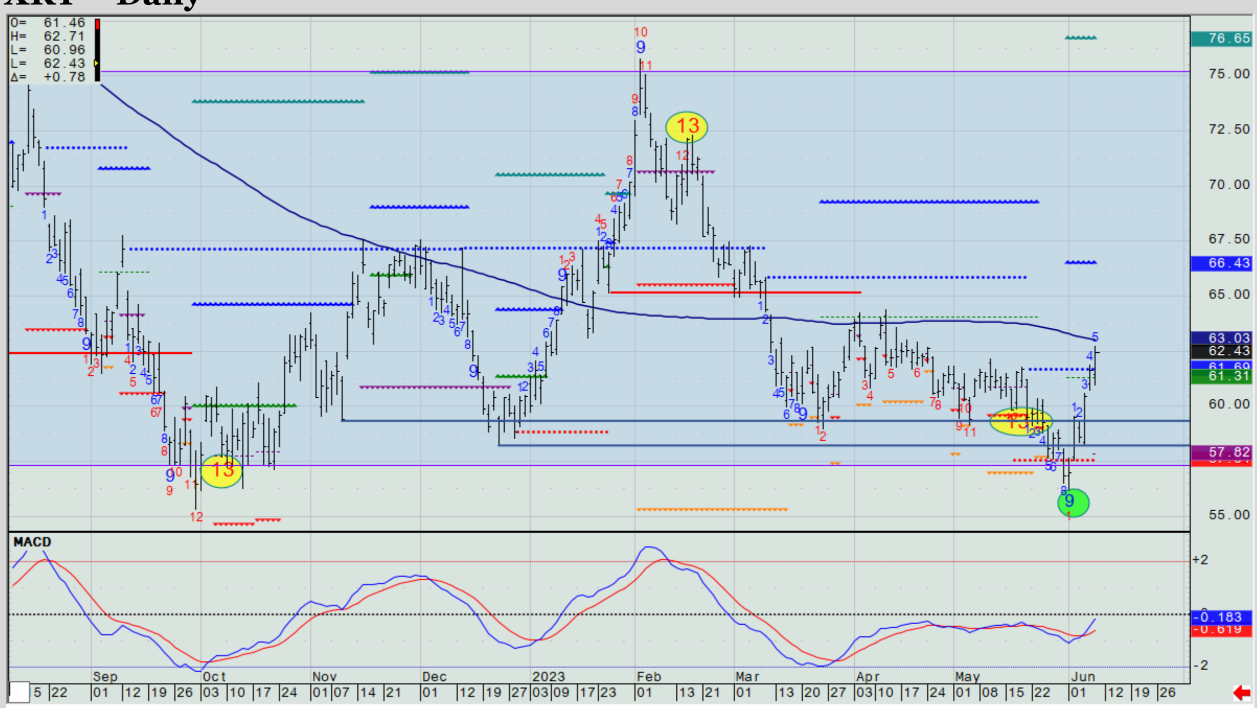
SMH – Weekly



Long XRT

Three Friday's ago, we went long a half position (average price $60.27) and then the other half earlier last week at $58, for an average one-unit long position at $59.14. To manage risk, we'll raise our sell-stop to our avg. long price. My target is now $65 to $66.5; use that zone to scale out into.

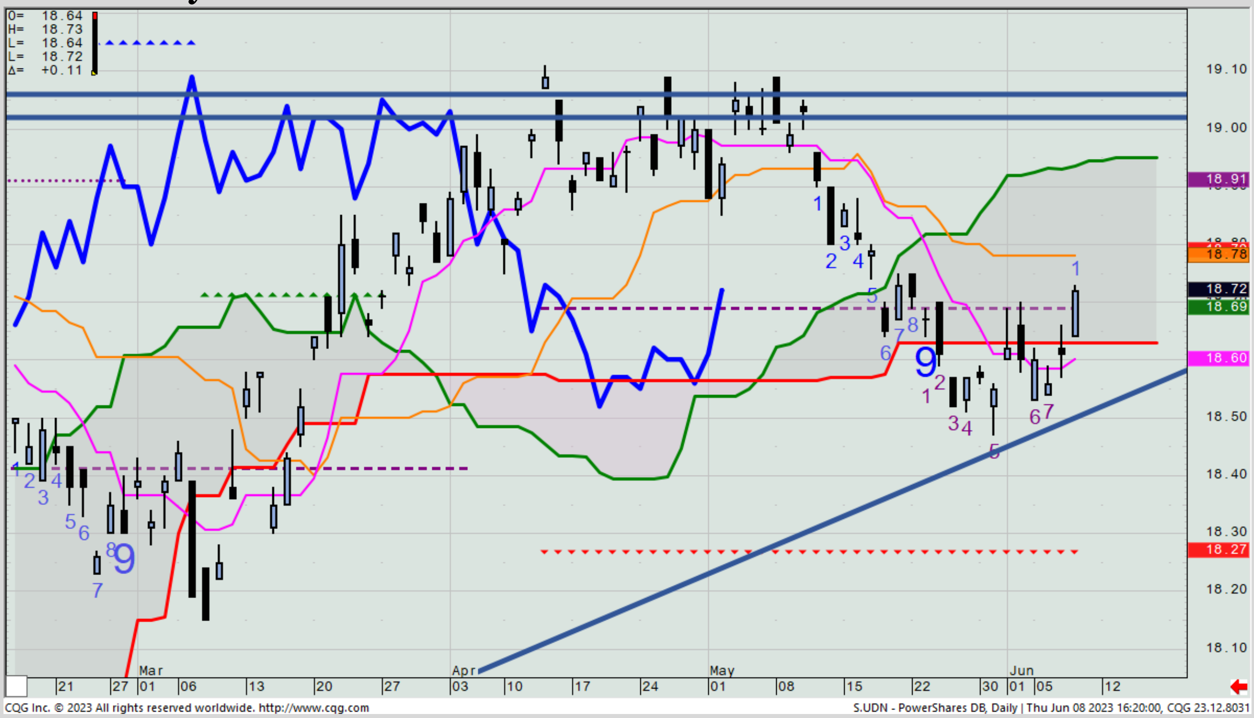
XRT – Daily



Short UDN

Four 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. We already covered half at an avg. exit of $18.60. Our remaining buy-stop is to exit on consecutive daily closes above $18.69. (Yesterday was the first one with a close of $18.72.)

UDN – Daily



Long GLD vs. Short SLV

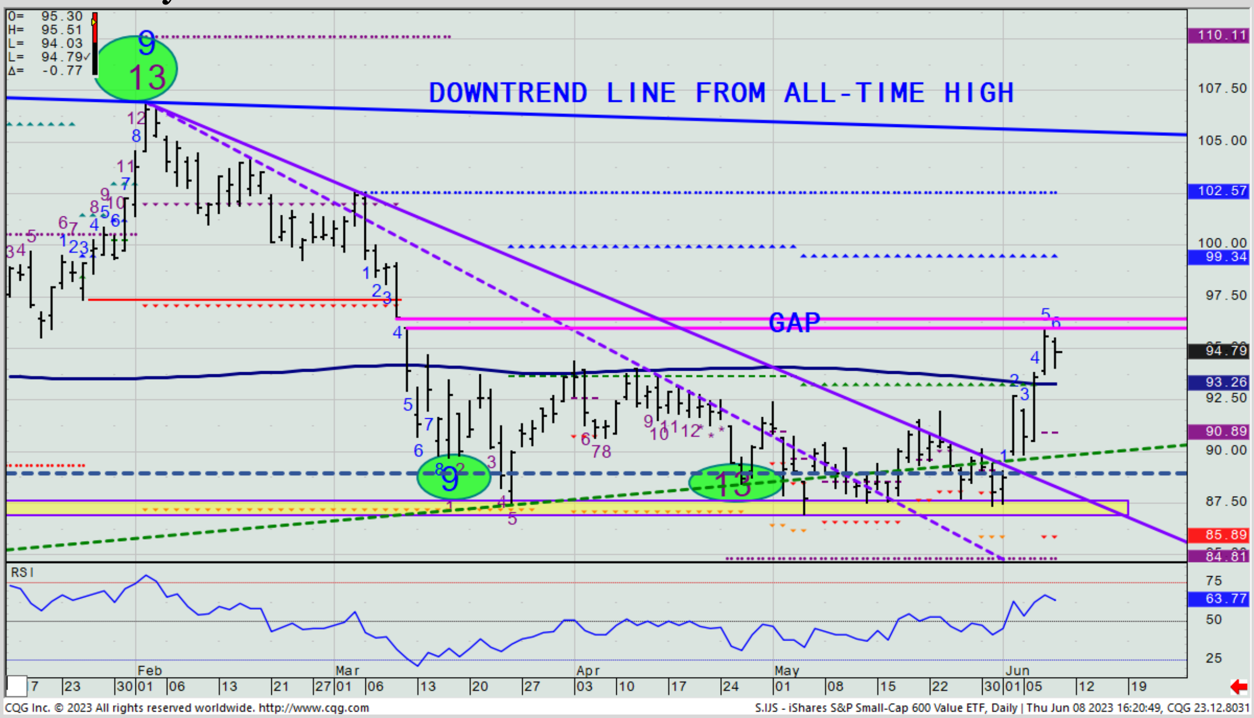
Five weeks ago, we entered a half-sized position of this pair trade (average entry at 7.98) – and the lowest daily close of the move – with me looking for gold to outperform silver going forward. Three weeks ago, I removed half the trade (avg. exit at 8.40). I had previously raised the sell-stop to consecutive daily closes < 8.40. That occurred last Friday, so we exited the other half at 8.347. For the trade, we made 4.9%.

Long GLD vs. Short SLV – Daily

Long IJS

Six weeks ago, we bought this small cap value ETF (avg. entry at $90.83). Should we see this continue to finish a daily Setup +9 count on Tuesday next week (by each day now closing above the close from four days ago). Raise your sell-stop to consecutive daily closes beneath $90.89.

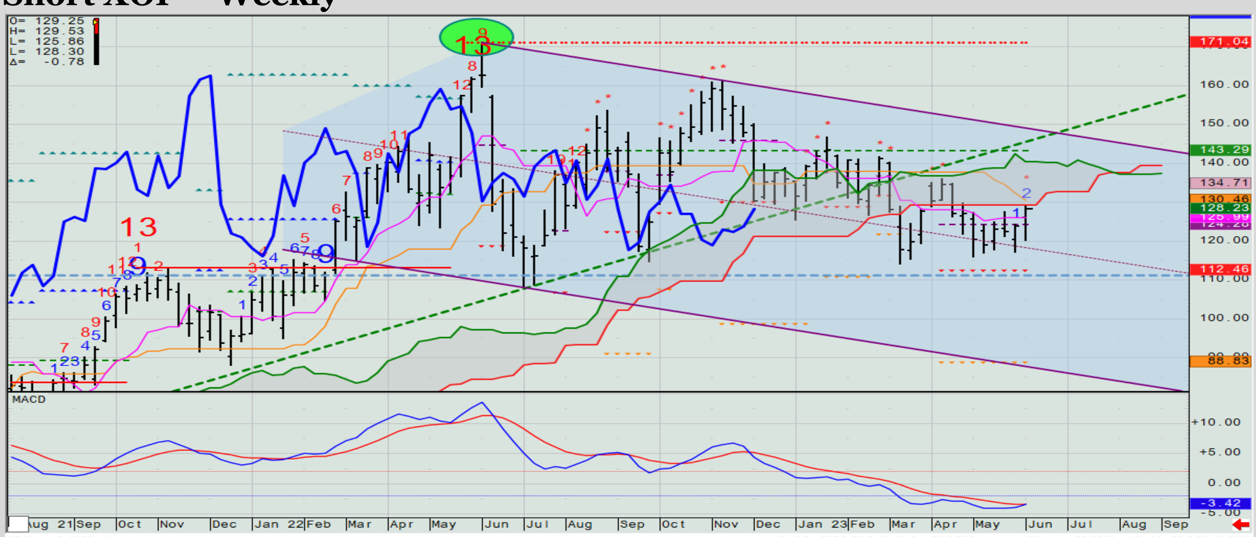
IJS – Daily



Short XOP

Twelve 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 a quarter off 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. We saw that breakeven price hit yesterday, so we paid $129.25 on the final piece. We're now out, and had an average short exit at $126.05 and made 2.47% on the trade.

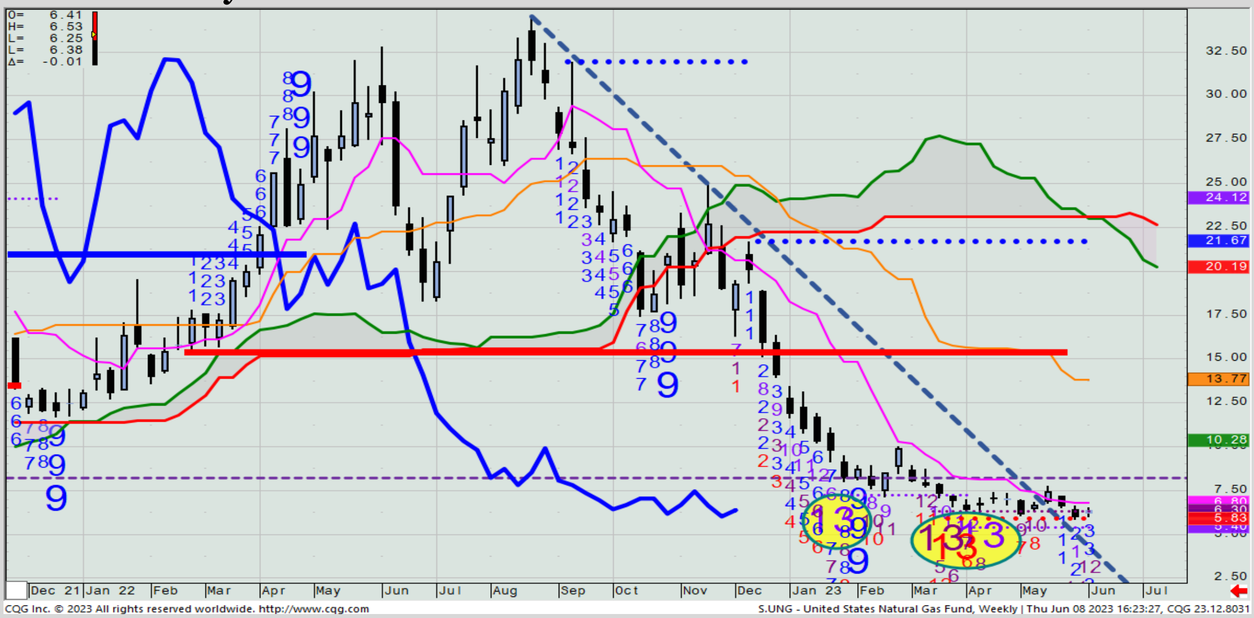
Short XOP – Weekly



Long UNG

Fifteen 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. To my displeasure, this continues to reject any rally attempt.

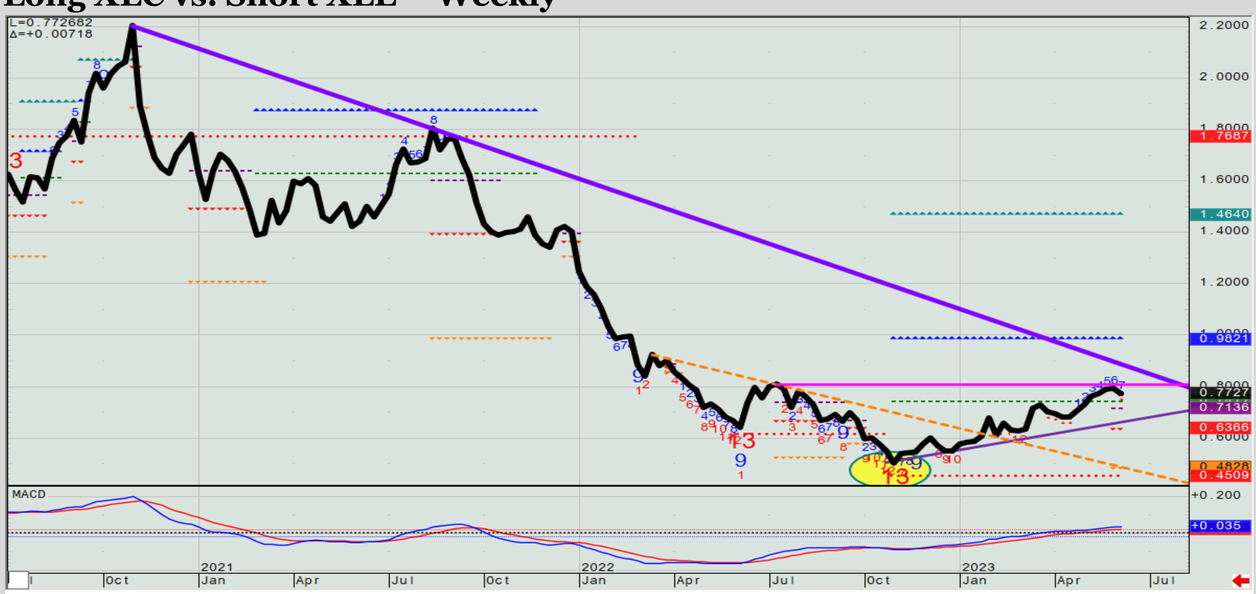
UNG – Weekly



Long XLC vs. Short XLE

Eighteen 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've already raised the sell-stop to consecutive Friday closes beneath 0.7281. However, given the chance that this could be making an inverted head-and-shoulders pattern, and that the right inverted shoulder may still need to be formed – meaning a sell-off coming – let's take off half today.

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