Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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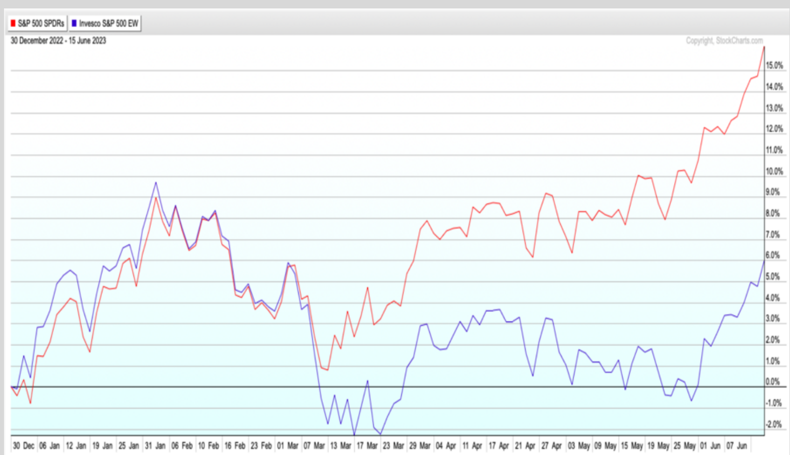
TACTICAL TRADER REPORT

The Macro Picture

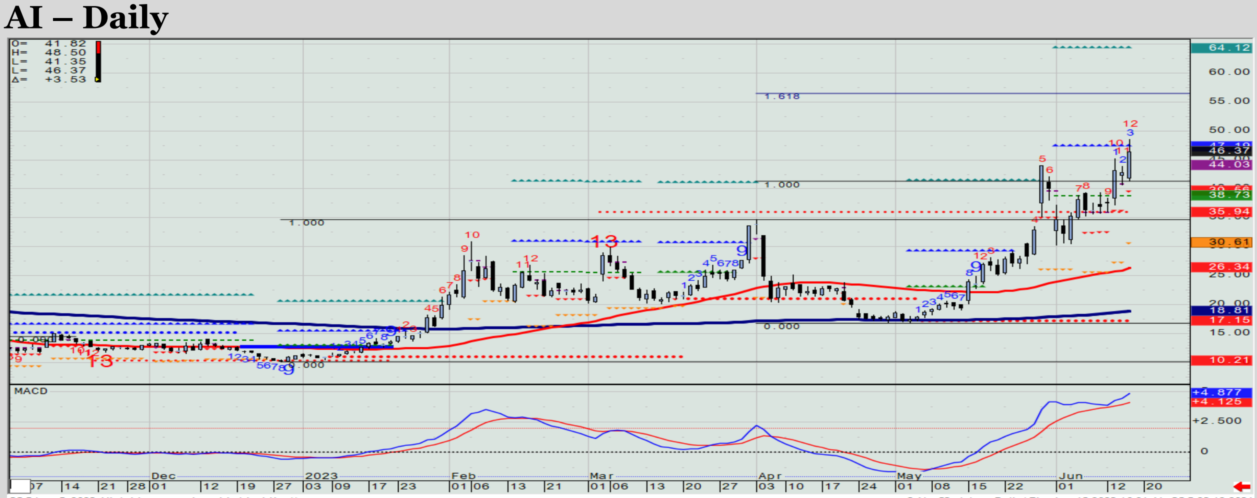
The SPX keeps moving higher, with nary a pullback. (Even Wednesday's post Fed rate hike pause and subsequent Chair Powell press conference sent stocks lower, only to see the close end up with a net +3 points.) Though the spread of the SPY's return continues to be about 10% above the equal-weighted SPX's return (using the RSP ETF), we're at least seeing the ~490 non-mega cap tech stocks *starting* to get a bit of traction. So, do I think the "SPX" is in a bull market? Yes. But do I think the broad stock market is in a bull market? No; it's not even close to one yet.

SPY and RSP – YTD



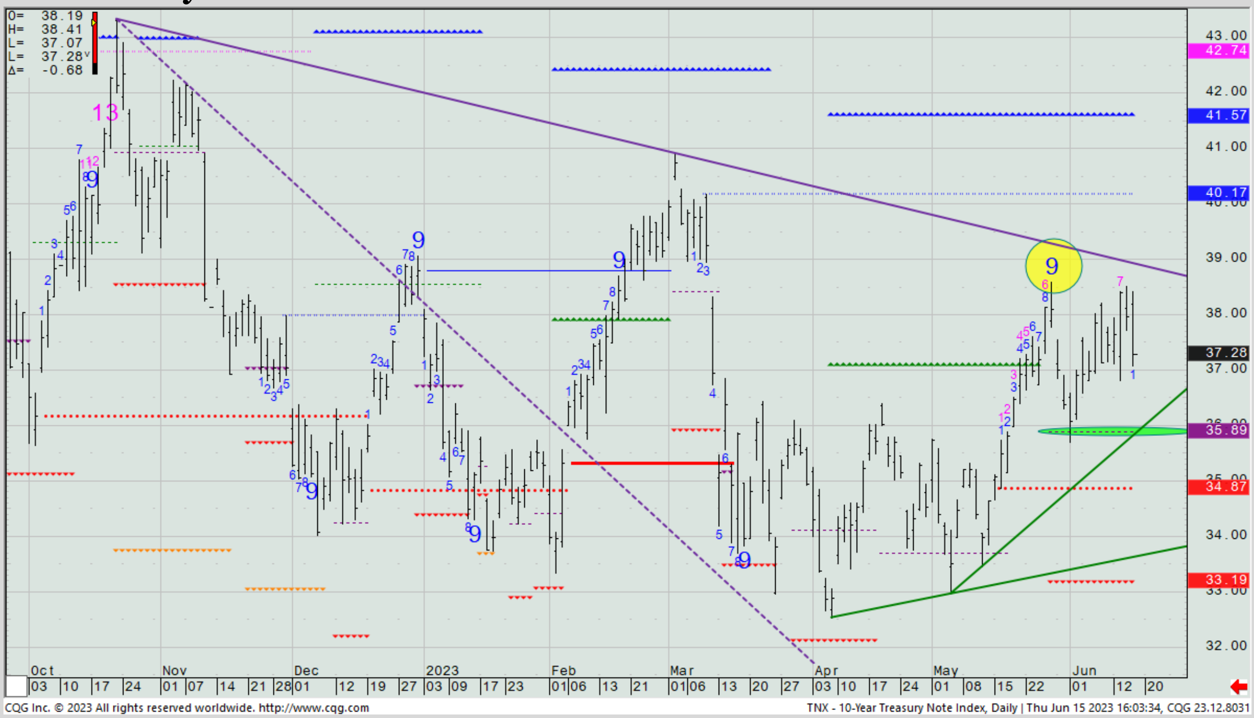
Investors continue to chase after the tech names, and that's keeping the almost daily new highs to the SPX and QQQ charts. The desire for AI-related names is turning cult-like, as there's a mad dash to own what some think is just the beginning of the bull move to be seen in coming years. Take a look at C3ai (**AI**), whose stock is trading at 2.5x the price it was on May 1, and 4.5x the price it was on Jan.1. (Stop the madness! 🤪)

AI – Daily

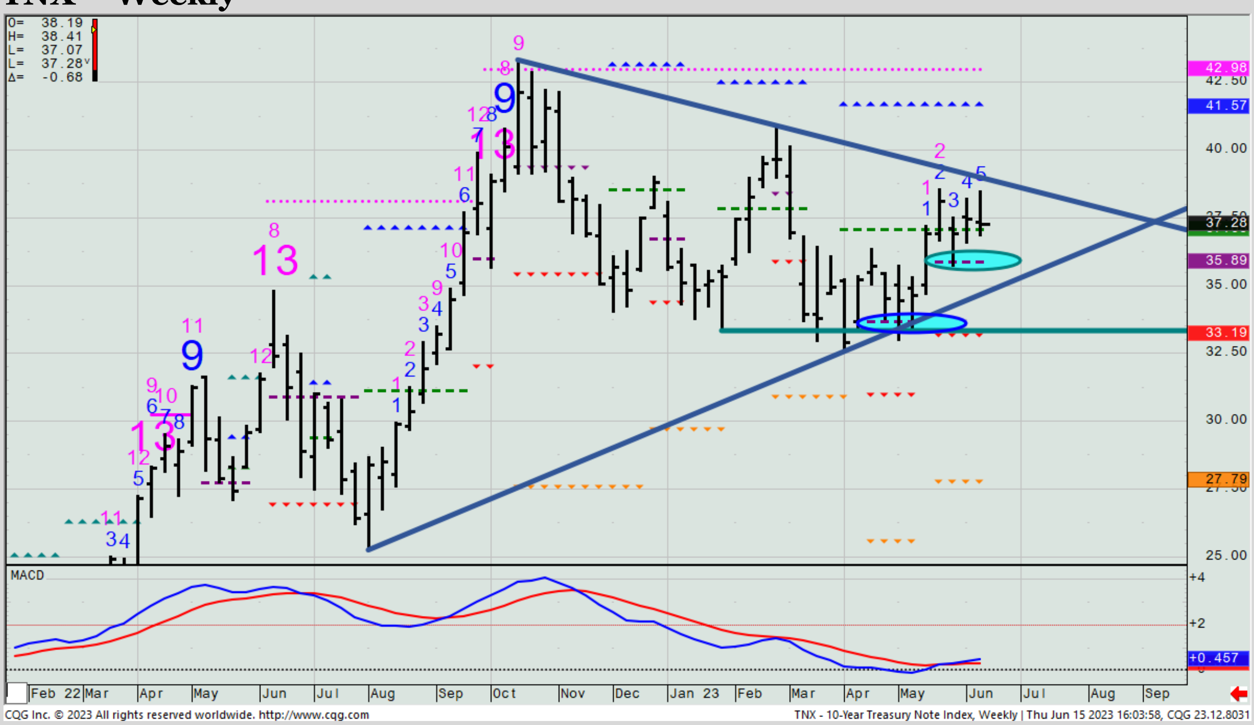


UST10-yr. rates shot up on Wednesday after the Fed told us that there's likely two more rate hikes coming, but then reversed yesterday to keep action underneath the downtrend line from the peak yield level made last year. Both the daily and weekly charts below show you how important the 3.59% continues to be as rate support.

TNX – Daily



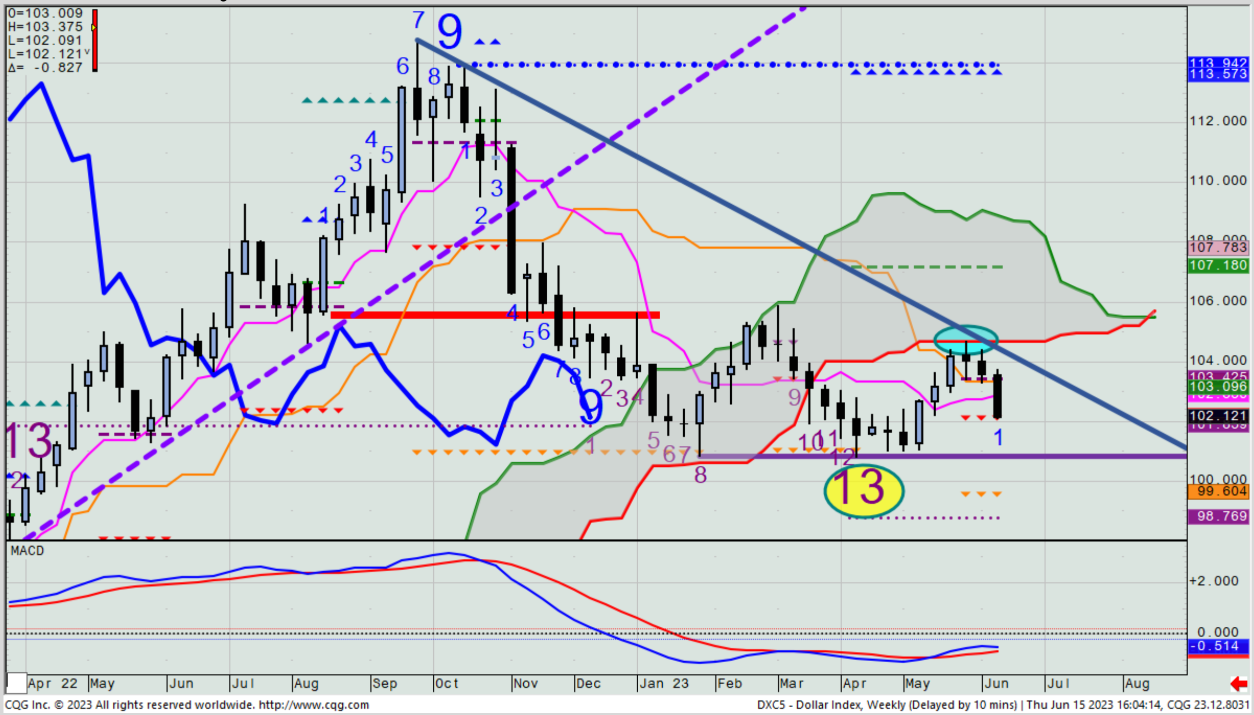
TNX – Weekly



The ICE BofA Corporate Index OAS (i.e., my preferred credit spread) is now at 1.38%, down 1 bp. 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, three 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).

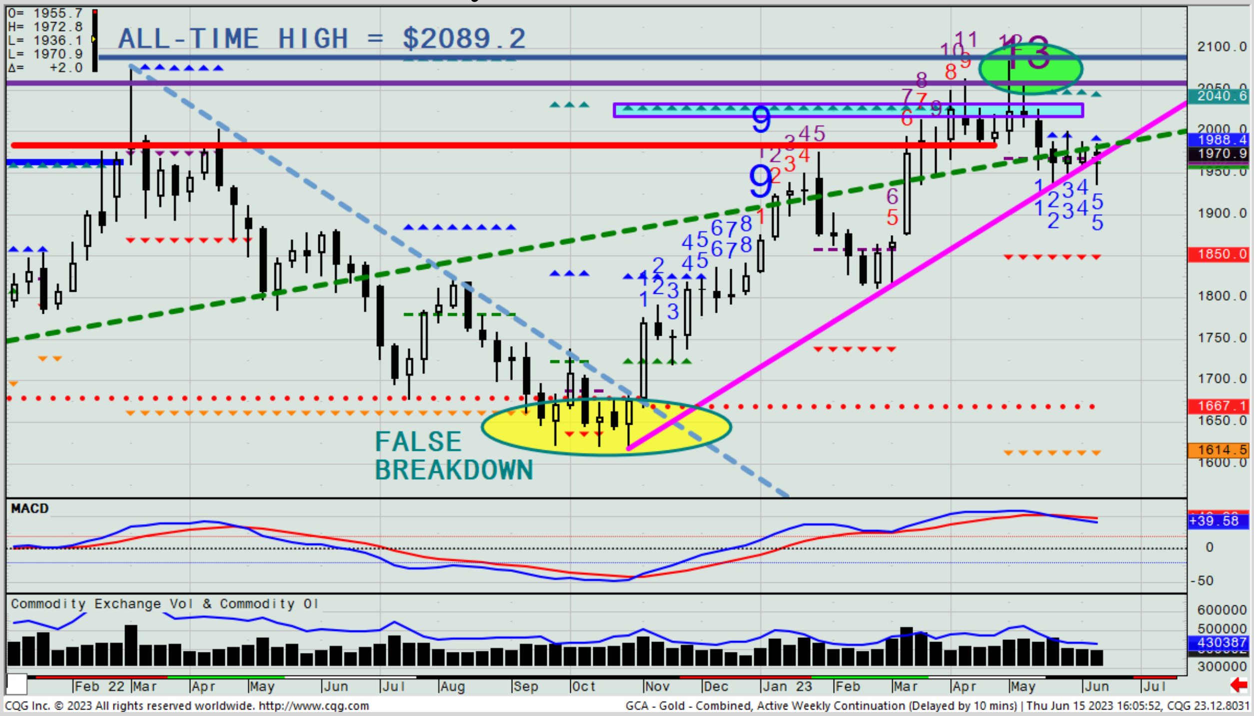
After having exactly reached my published 104.70 upside target, the US Dollar Index (DXY) has consolidated under its weekly cloud bottom and downtrend line. A close today under 103.19 kills what had been an upward weekly Setup count, turning me neutral on the greenback's near-term direction.

DXY – Weekly



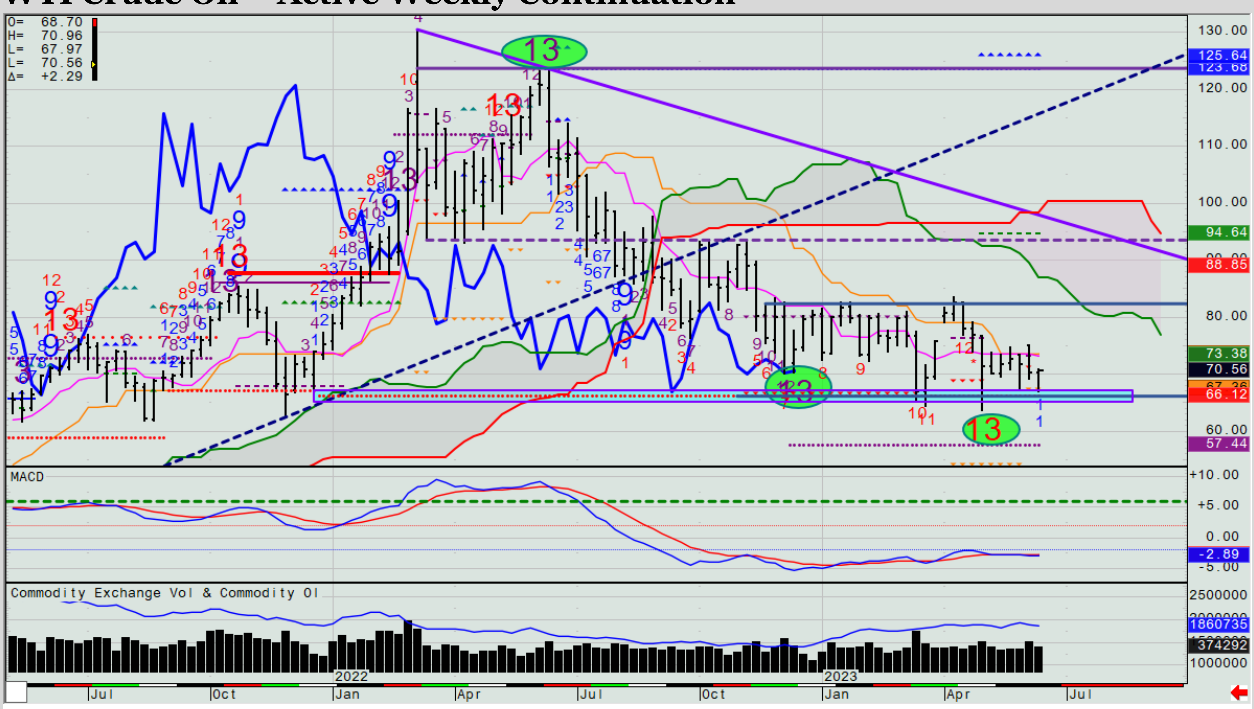
Gold is still barely hanging onto its uptrend line, having seen a solid decline on Wednesday and early Thursday that reversed intra-day to actually post a small up day. That spike down yesterday could be a near-term low. Medium- to longer-term upside targets include $2140 and $2662. However, I'd lighten exposure you may have on if we see the May low violated on a couple of closes.

COMEX Gold – Active Weekly Continuation



WTI crude oil again held the key support level in the $66/$67 area. I lean more bullish than not, given that support and the two weekly -13 signals on the chart. If that $66 level gives way, then I think that odds get upped that we truly are headed for a recession.

WTI Crude Oil – Active Weekly Continuation



The SPX chart continues its ramp up, now only about 400 points from all-time highs. The breakout above the 4155 area – which had continuously been resistance in the past – has quickly brought buyers back to a market that many had avoided. The weekly cloud chart was instrumental in my making that call. Look at what's happened in the past 5 weeks since that weekly breach occurred.

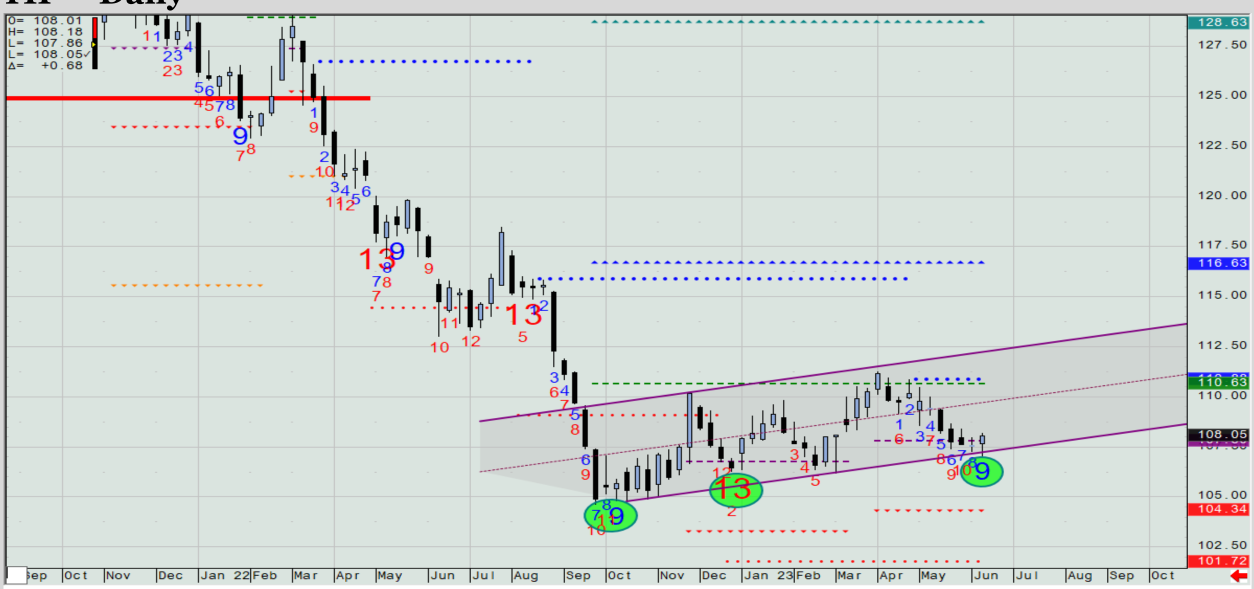
SPX - Weekly

First support has moved up to the 4250 to 4150 zone. 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. At the same time, don't be afraid to sell out of any names you own that are up against or recently failed against decent resistance.

New ETF Trade Idea

Bonds have been rangebound for a while, and Wednesday's post-Fed upmove in rates got erased yesterday, perhaps setting up a downmove in them – despite the Fed saying that more rate hikes are likely coming. And the **Treasury Inflation Protection bond ETF (TIP)** chart gives traders a reason to buy that ETF with a pretty tight stop.

TIP – Daily



So, for this week's trade idea, let's get long <u>two</u> units of TIP today, with my targeting the top of the channel as where (as of now) I'll suggest we sell half. (For today, the top of the channel is at $112.29, and it moves up 6 cents/day.) The sell-stop is a daily close (or two; your choice) under $106.20.

Other Open Recommendations and Positions

Long FXI vs. Short ASHR

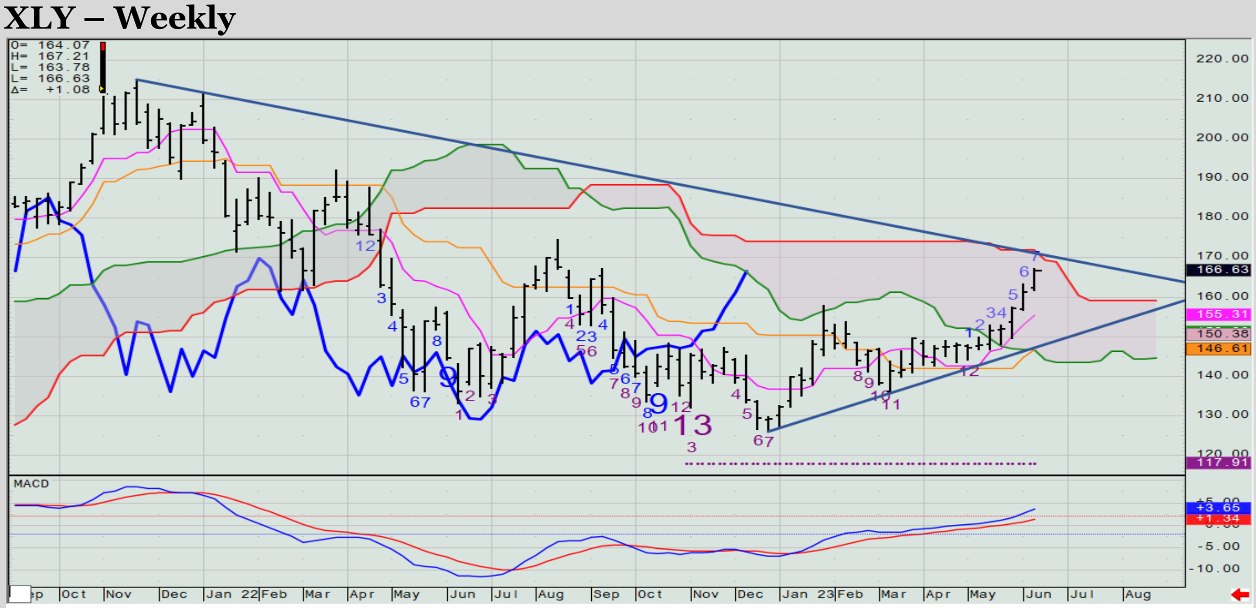
Last week's trade idea was to put on a pair trade in these two China equity-related ETFs, filled at an avg. price of a 1.035 ratio. (This week I have flipped the chart to be in the direction we have this trade on.) I'd like to hold this for another couple of weeks to potentially see this reach a Sequential +13 at the same time it makes a Setup +9, when we'll exit half. The sell2-stop would be on a Friday ratio close < 0.984.

Long FXI vs. Short ASHR – Weekly

Long XLY

Two Fridays ago, we bought a half-unit of XLY (avg. fill at $156.36.) My thought was that this can finish out a Setup +9 count over the next 2 weeks. I'll again raise our sell-stop – this time to our breakeven entry price.

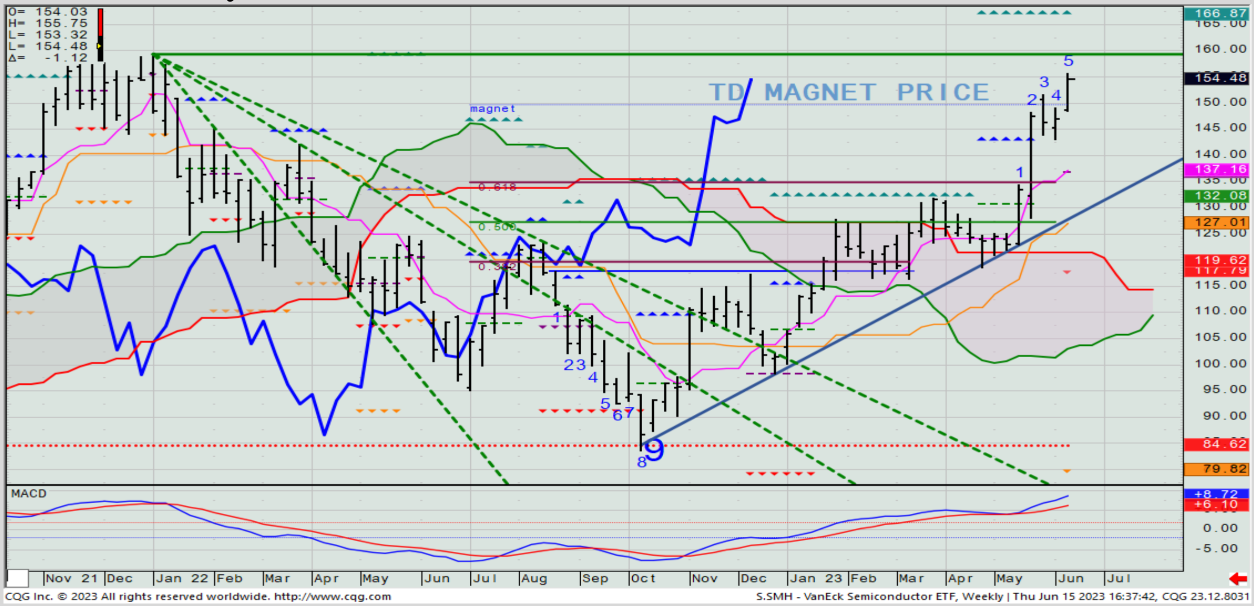
XLY – Weekly



Long SMH

Three 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. I'll now adjust this to an entry level of $138 to $137 should the opportunity arise to buy it at our preferred entry zone. The associated sell-stop is now also moved up to a Friday close beneath $127.01.

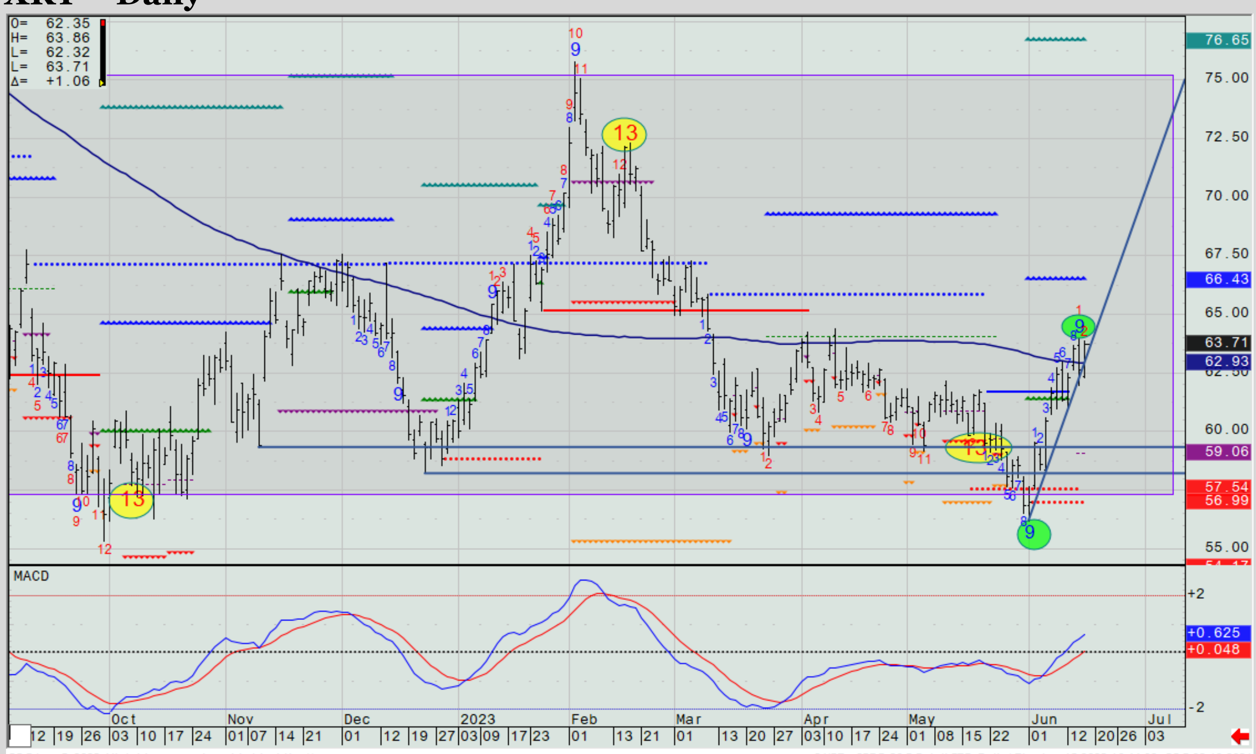
SMH – Weekly



Long XRT

Four 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. Let's now take 1/3 off today, and keep our sell-stop on the other 2/3 to our breakeven price of $59.14. I'll target $65 to $66.5 to exit another 1/3.

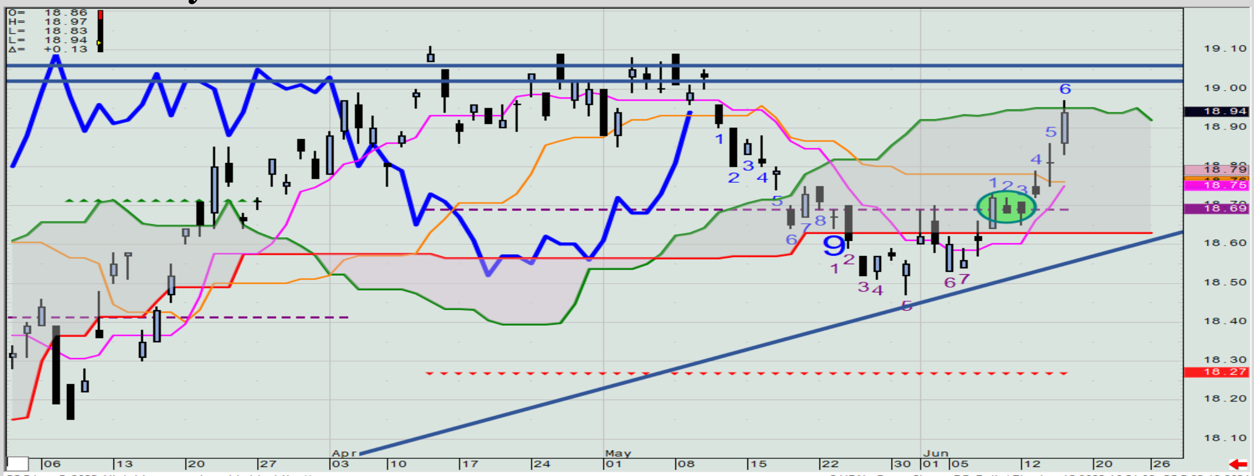
XRT – Daily



Short UDN

Five 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 was to exit on consecutive daily closes above $18.69. That occurred either late last week or Wednesday this week, depending upon when you exited with the ETF trading right at that level on several closes in the past week. The worst you would have done was pay $18.81 on the second half, and if so, you made 1.29% on each of the two units, for a total of 2.59% profit, if not another 2% more if you had gotten out a few days earlier.

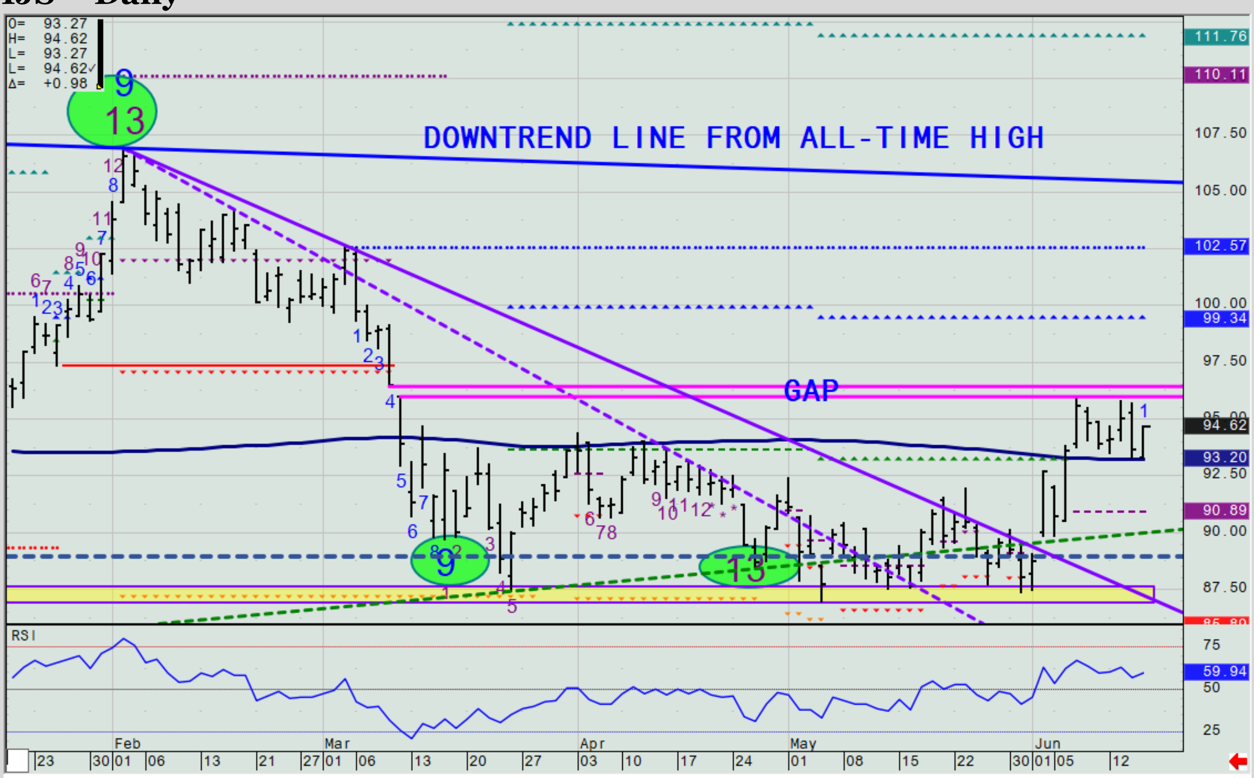
UDN – Daily



Long IJS

Seven weeks ago, we bought this small cap value ETF (avg. entry at $90.83). I was hoping to sell out of some of this earlier this week on a potential Setup +9 count, but that never occurred. I'll target $99.25--$99.50. I've already raised our sell-stop to consecutive daily closes beneath $90.89.

IJS – Daily



Long UNG

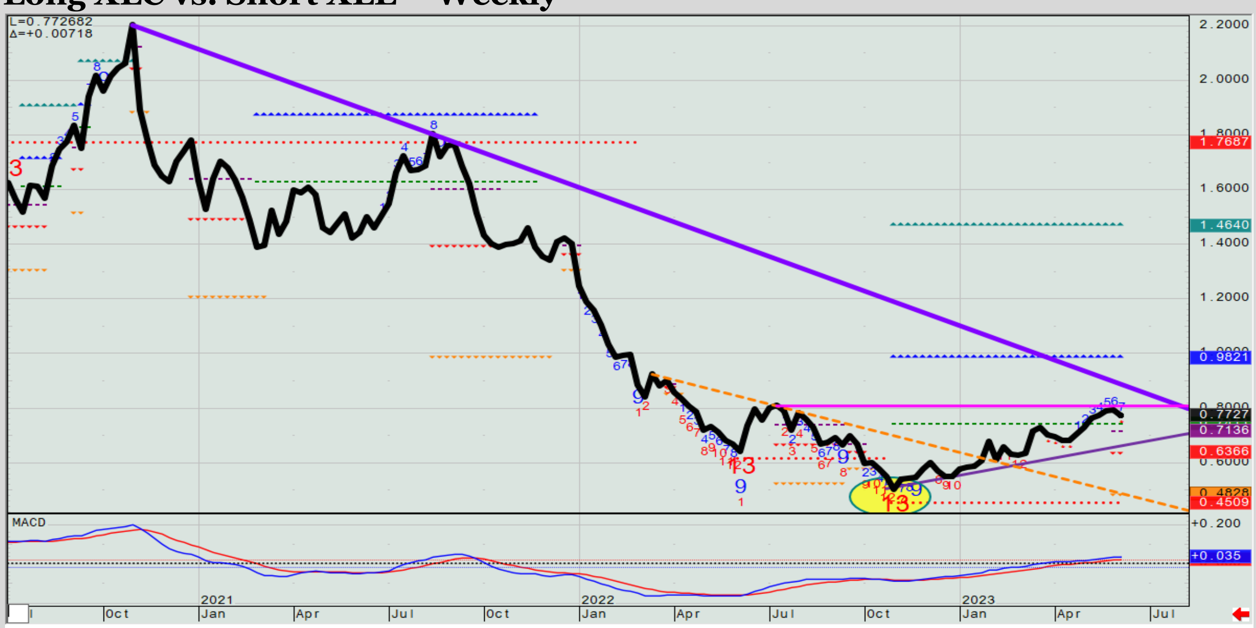
Sixteen weeks ago, we bought a one unit position in this natural gas ETF, with us getting in at an avg. price of $8.26. At the time, I suggested this to me more likely an investment than a trade, with our likely holding it for many months if not a year or more, looking for it to ultimately double in price. Three more weekly -13 signals have come in since. Yesterday finally saw a decent upmove, and maybe – just maybe – the start of a short squeeze higher.

UNG – Weekly

Long XLC vs. Short XLE

Nineteen 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. Last Friday we removed half the trade at an avg. price of 0.7757. I'm looking for this to potentially move up to near the 0.982 level to exit the balance, and the remaining sell-stop is to exit on consecutive Friday closes beneath 0.7281.

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