Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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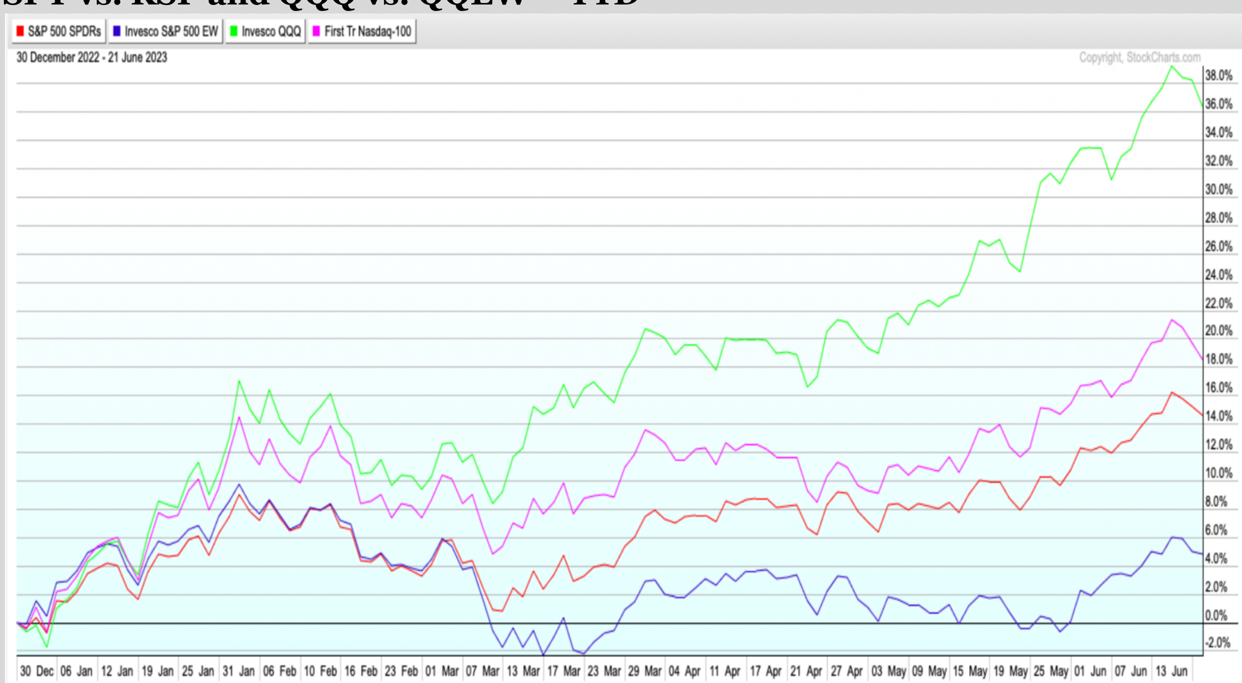
TACTICAL TRADER REPORT

The Macro Picture

We're finally seeing some semblance of a stall in the upside rally, and it's been overdue, but it did come from after my seeing the S&P futures Daily Sentiment Index reach 91% bulls one day last week, while the Nasdaq 100 futures reached 93%. As I told my institutional clients in my weekend note five days ago, readings like that likely means that we are close to the end of the current leg higher. (The highest S&P reading I can recall in the last 20 years was 96% bulls in early 2018. Stocks fells sharply from there over the following two weeks.)

We're still seeing the huge disparity between the "Magnificent Seven" and the rest of the market. In the below chart, I've placed YTD returns for the SPY, the equal-weighted SPY (RSP), the QQQ, and the equal-weighted QQQ (QQEW). We still see about a 10% and 18% outperformance, respectively, for these two key large cap indexes vs. their respective equal-weight indexes. This remains a market of the haves and the have nots.

SPY vs. RSP and QQQ vs. QQEW – YTD



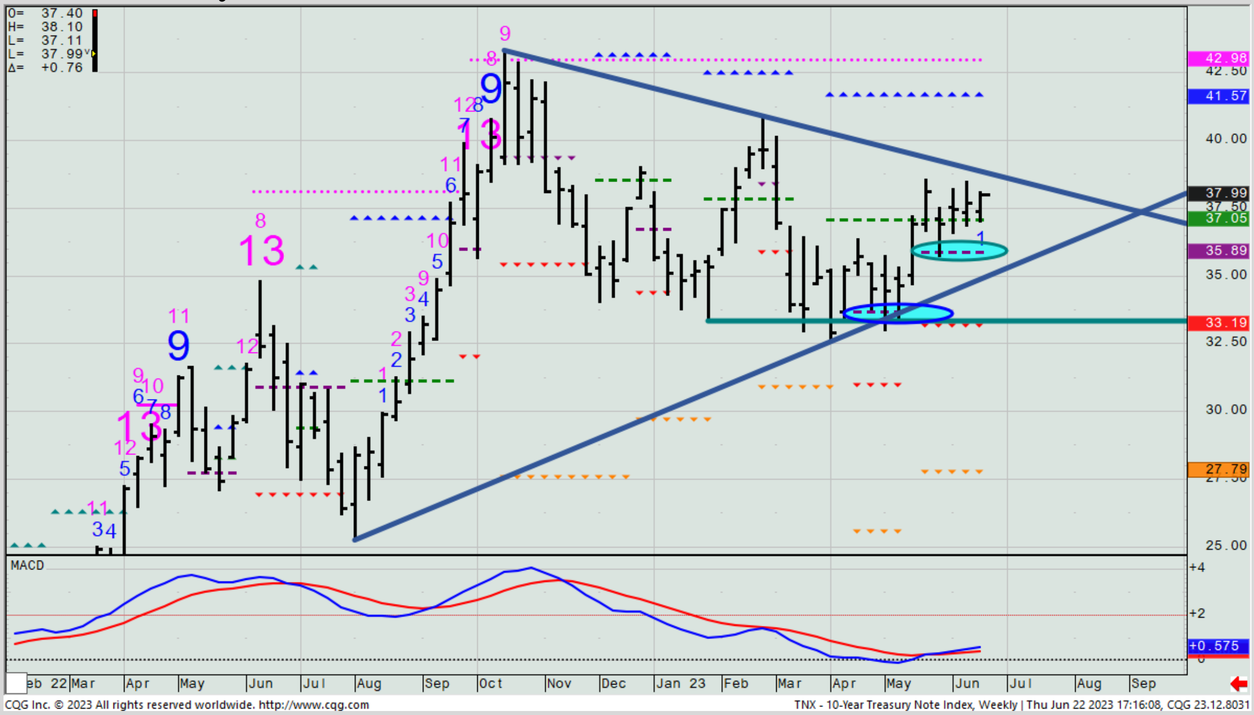
Yes, breadth is improving, and yes, S&P 500 breadth just marked new all-time highs. And don't get me wrong – that's a good thing to pan out over time for the bigger bull picture. But even the new high in breadth is not really yet helping the "smaller "names in the S&P 500 gain performance traction against the mega cap ones.

S&P 500 Cumulative Advance-Decline Line – Weekly

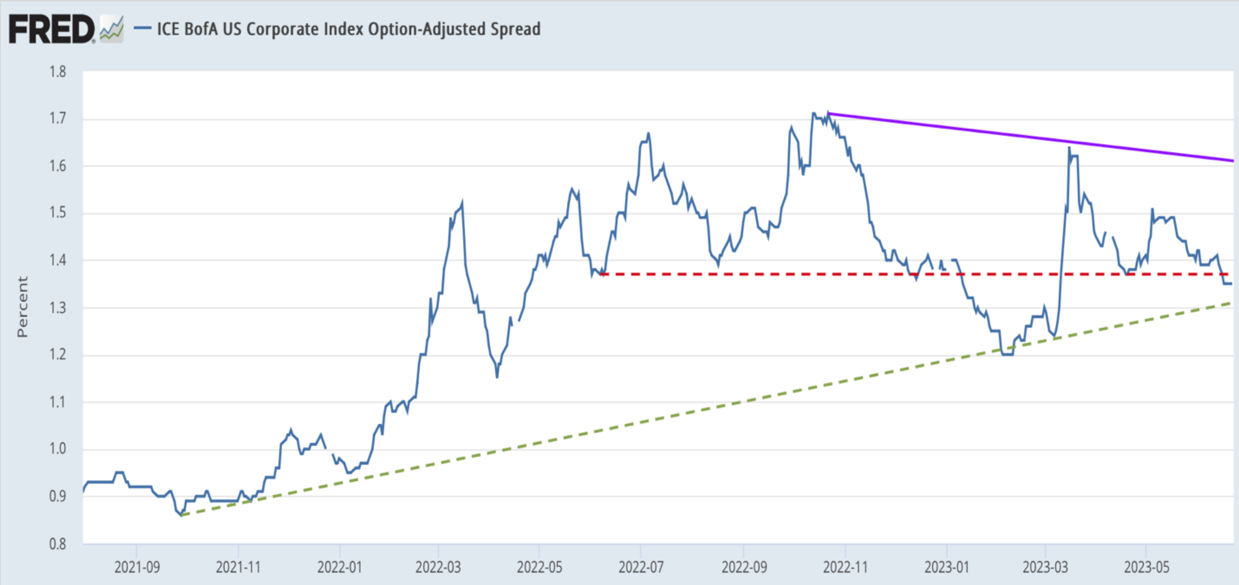
Keep an eye on the breadth chart going forward. Bulls want to see the uptrend line hold as support.

UST10-yr. rates continue to hover in the 3.7 to 3.85% area. Given the bounces we've seen from the weekly bearish Propulsion Momentum level at 3.59%, the edge lies in yields moving higher until that level is violated. A breakout above the major downtrend line near 3.9% would suggest further follow through to 4.16% to 4.3%

TNX – Weekly

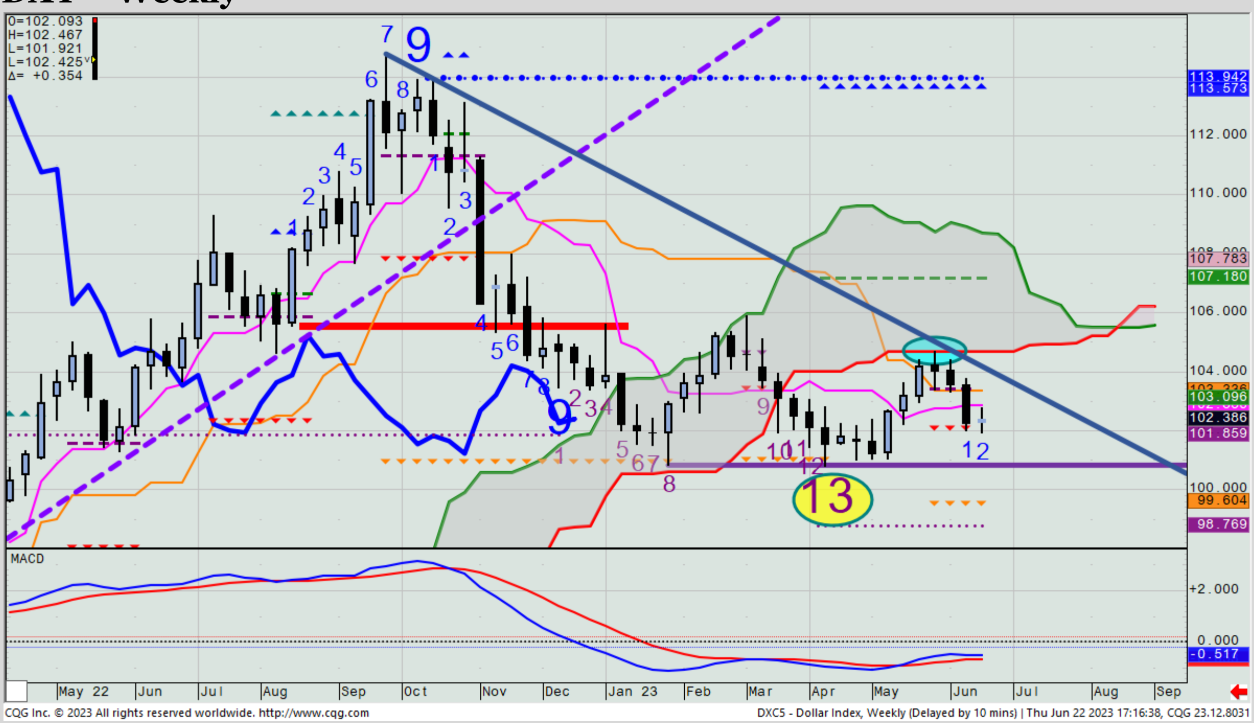


The ICE BofA Corporate Index OAS (i.e., my preferred credit spread to watch) has fallen to 1.38%. Though I've been in the camp that this spread will take out last year's high of 1.71% before it will take out this year's low of 1.20%, I've had to manage risk on the credit spread widener idea I have been in from earlier this year. As such, four weeks ago I had my institutional clients take off 1/3 of the widening trade, with the balance to get stopped out under 1.32% (our average long price).



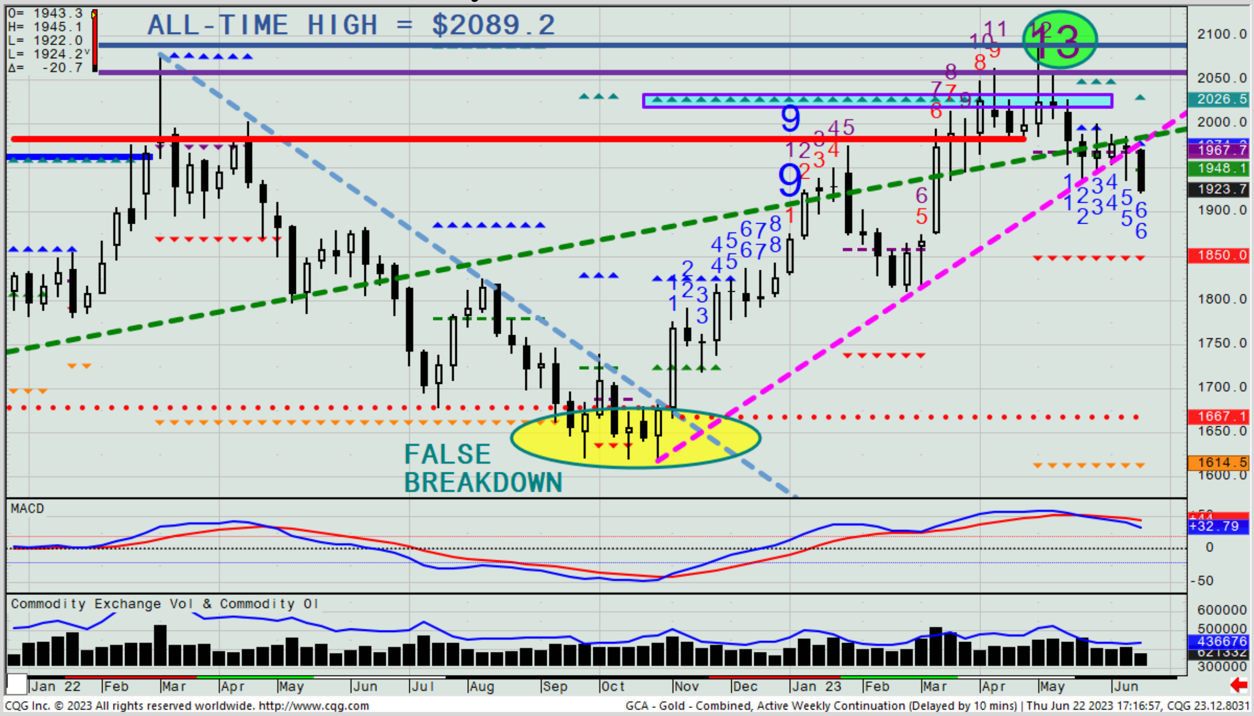
The US Dollar Index has been a key advisor to the US equity market for the bulk of the past year-and-a-half, with dollar strength leading to equity weakness, and vice versa. Some are questioning if that inverse relationship is still at hand. I turned overall neutral the greenback last Friday, and for now will stay that way. Tactically, though, I could make the case to lean bullishly so long as we don't see multiple daily closes < 101.21.

DXY – Weekly



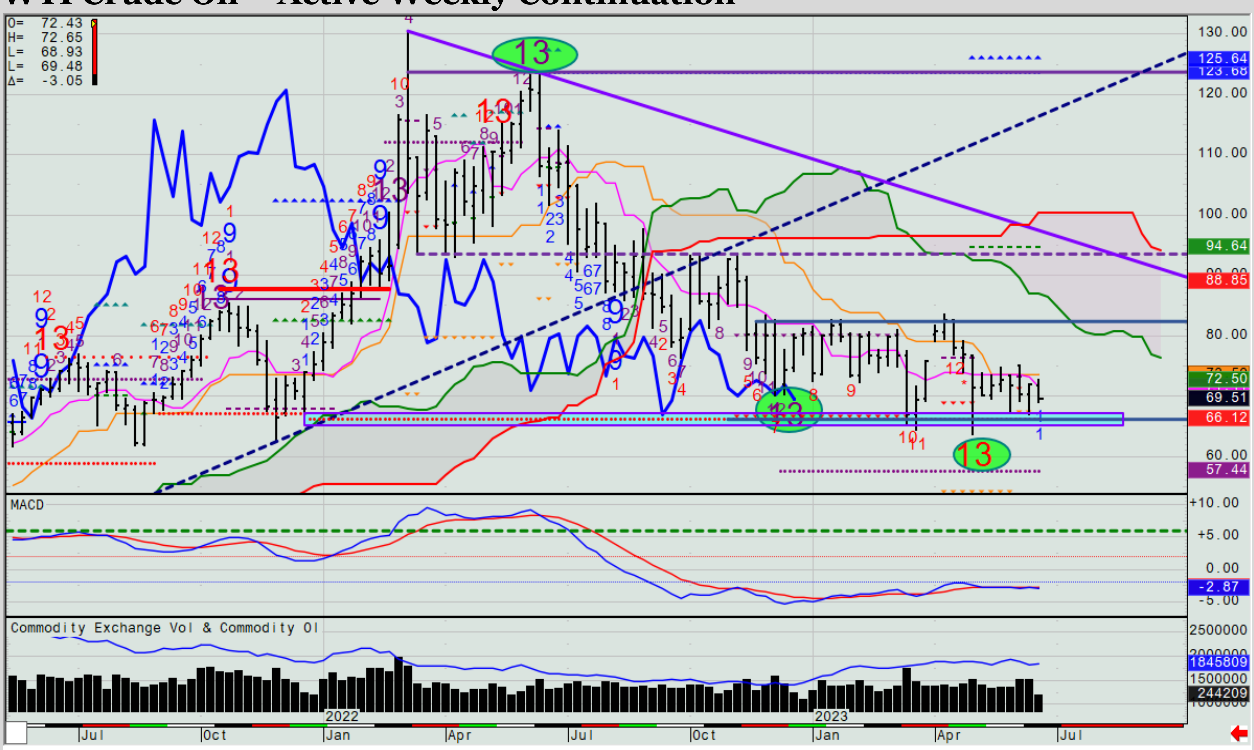
Gold has broken its uptrend line and is pushing bulls' resolve after having peaked right by prior all-time highs a few months ago. If it can't hold here at ~$1928 (i.e., the daily bearish Propulsion Exhaustion level), then it looks like it can fall another $75 – possibly even over the next 3-4 weeks to finish a Setup -9 count.

COMEX Gold – Active Weekly Continuation



WTI crude oil has failed against its weekly Conversion Line (in magenta) for 7 weeks in a row, and although it has key support in the $66/$67 area. If that gives way, then I think that odds get upped that we truly are headed for a recession as it would become clear that the demand for oil had materially decreased. Surely, I can keep a bullish spin because of the two Sequential -13 signals that are still active. But until oil can get and stay above $73.59 for weeks on end, this has little bullishness about it.

WTI Crude Oil – Active Weekly Continuation

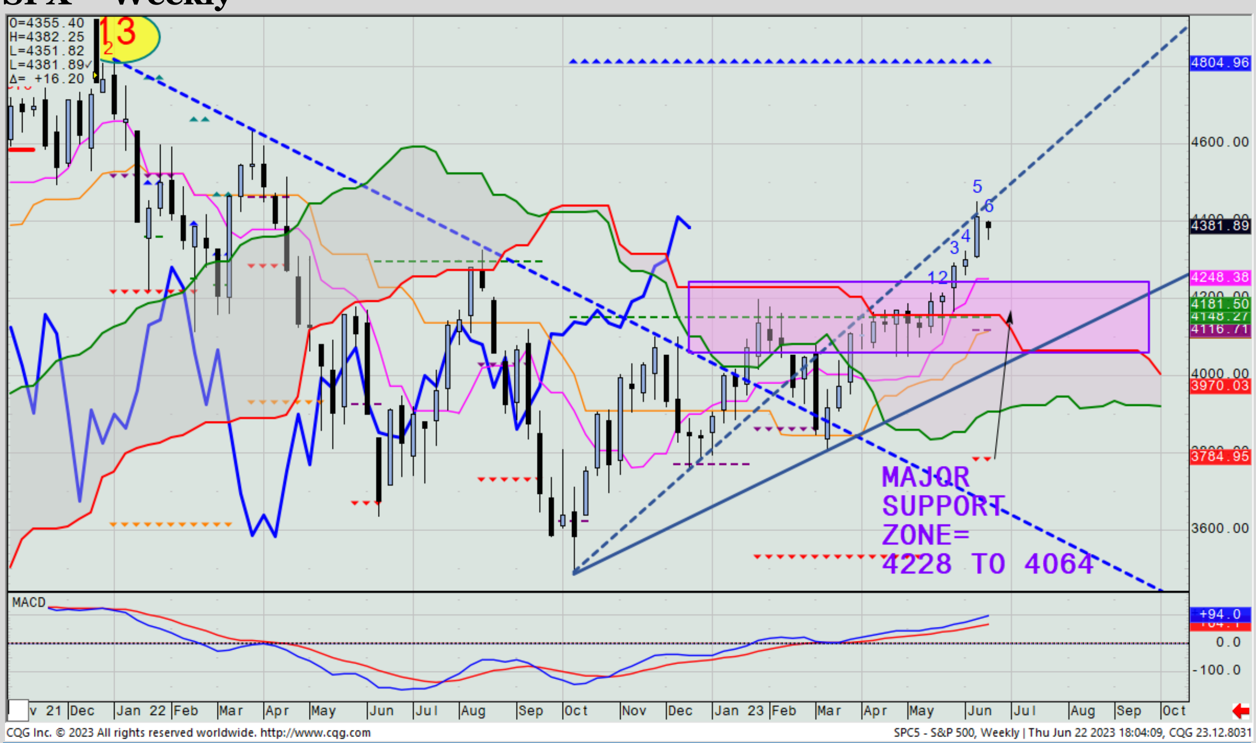


The SPX hit the low end of a tactical trading target zone that was partially formed as far back as last December. (I've highlighted the multiple Propulsion Exhaustion targets clumped into the 4410 to 4513 zone.) I expect some consolidation and pullback from here, so I don't mind using this range to lighten longs.

SPX - Daily

The first potential support level is the daily bearish Propulsion Momentum level at 4292, followed by the 50-DMA (currently near 4200). The bigger picture support lies from 4228 to 4064 over the next several months. Barring a major meltdown, that rough 4% zone should be the best place to be buying over the summer, given the opportunity.

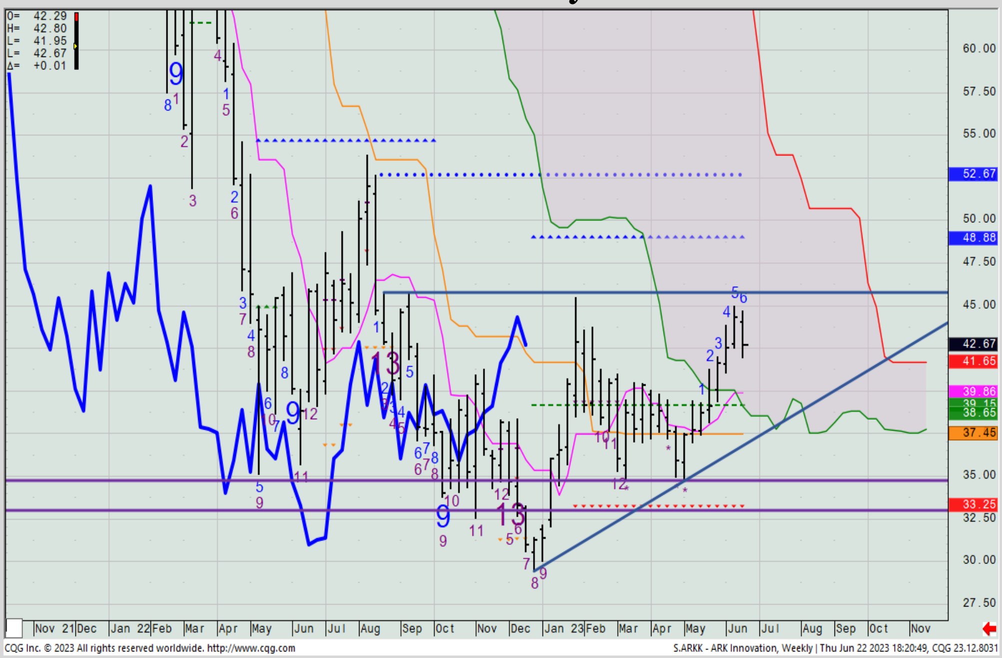
SPX – Weekly



New ETF Trade Idea

When we look at the potential bottoming process made for Cathy Woods' ARKK fund, we see that in the general picture, it found support near major prior lows (shown by the two dark purple horizontal lines near $34.75 and $33.00. Since then, it has attempted to rally, but for the third time since late last summer it has failed to sustain a move above $45.

ARKK – Weekly



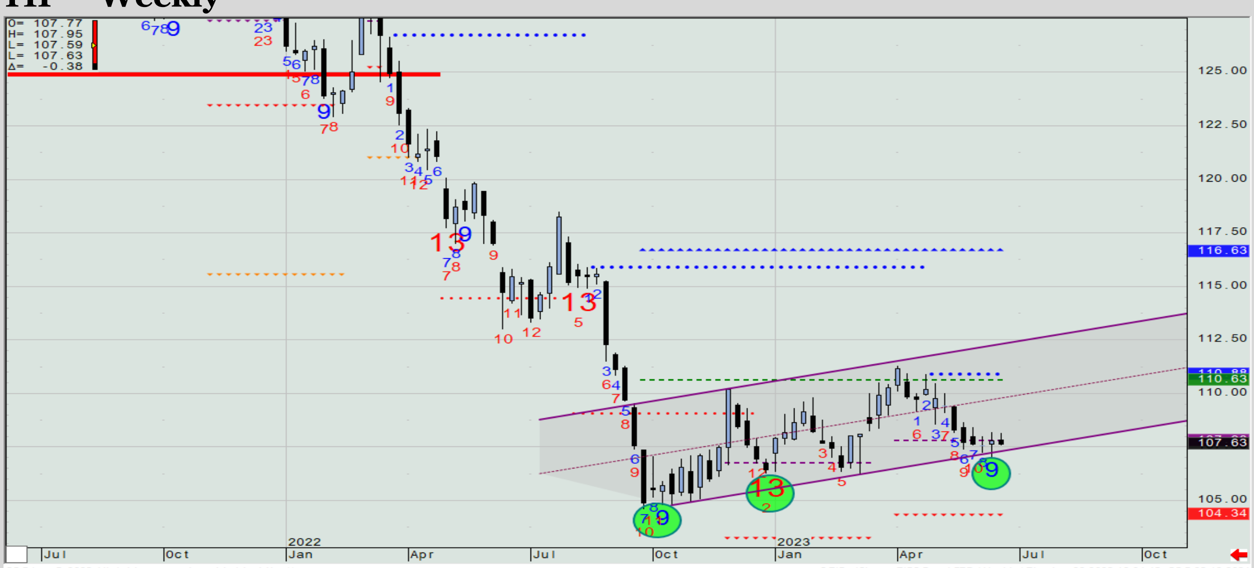
Let's look to scale down bid for this on a pullback do the $40 to $37.50 area, perhaps buying 1/6 of the total position at $40 and each 50 cents down to $37.50. In all, you'll still only be buying "one unit" worth – but in pieces. I'll target a move to the $48.75 to $52.75 zone to scale out into. I'll use a Friday close or two under the low of bar Setup +1 ($37.42) as the sell-stop.

Other Open Recommendations and Positions

Long TIP

Last week we got long two units of TIP at an avg. entry price of $107.65. I'm targeting the top of the channel (next week it's at $112.36). The sell-stop is a daily close (or two; your choice) under $106.20.

TIP – Weekly



Long FXI vs. Short ASHR

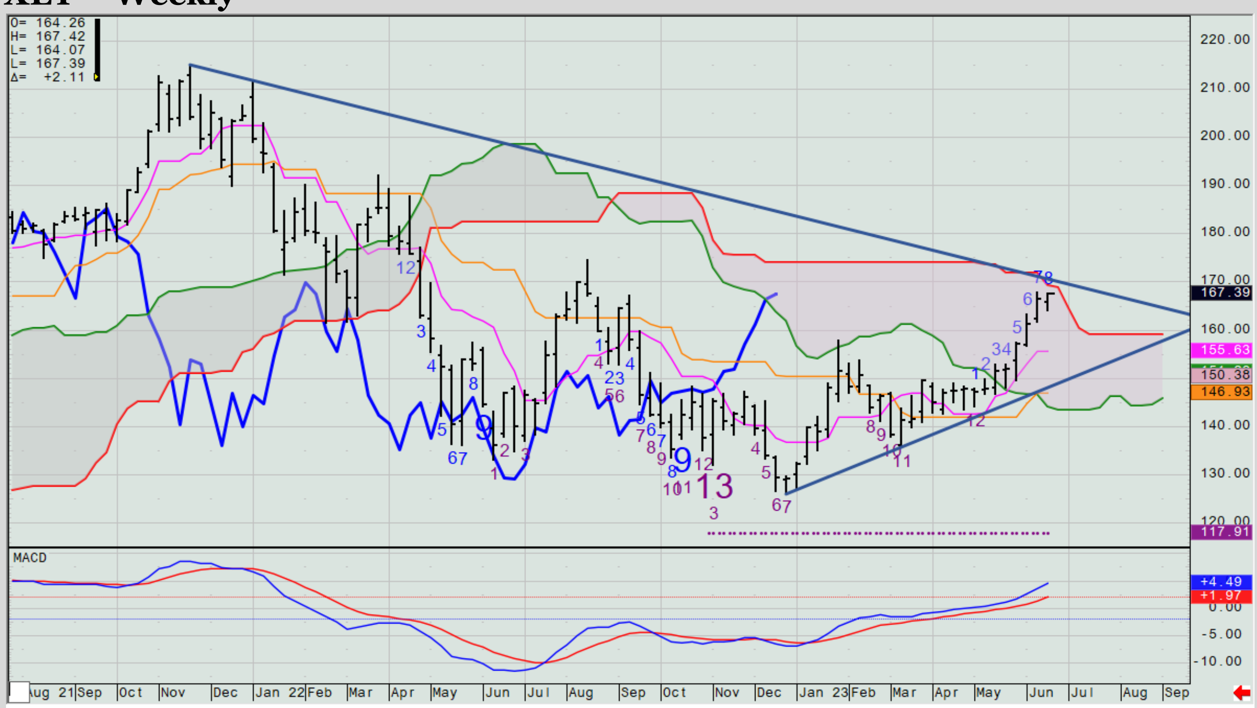
Two weeks ago, we put on a pair trade in these two China equity-related ETFs, filled at an avg. price of a 1.035 ratio. (This week I have flipped the chart to be in the direction we have this trade on.) I'd like to hold this for another couple of weeks to potentially see this reach a Sequential +13 at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

Long FXI vs. Short ASHR – Weekly

Long XLY

Three 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 into next week, and it's also lining up with the downtrend line. So, let's sell half this coming week into the $169.50 to $171 area. Also, let's raise the sell stop on whatever we have on to consecutive daily closes < $164.34.

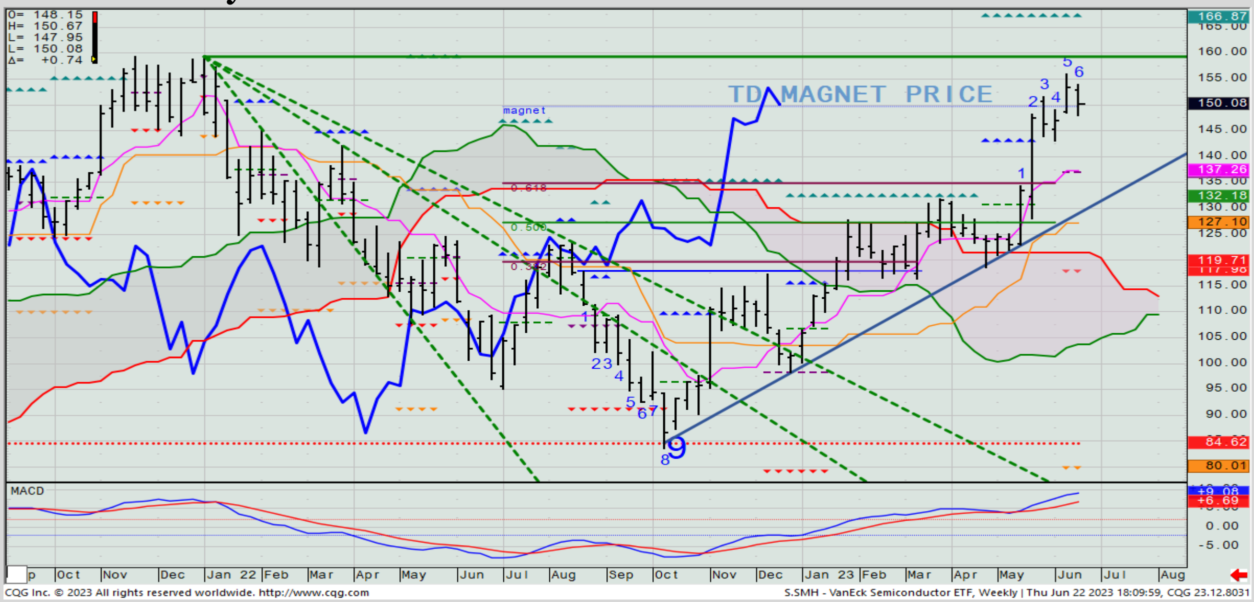
XLY – Weekly



Long SMH

Four 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've since adjusted 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 has moved up to a Friday close beneath $127.10.

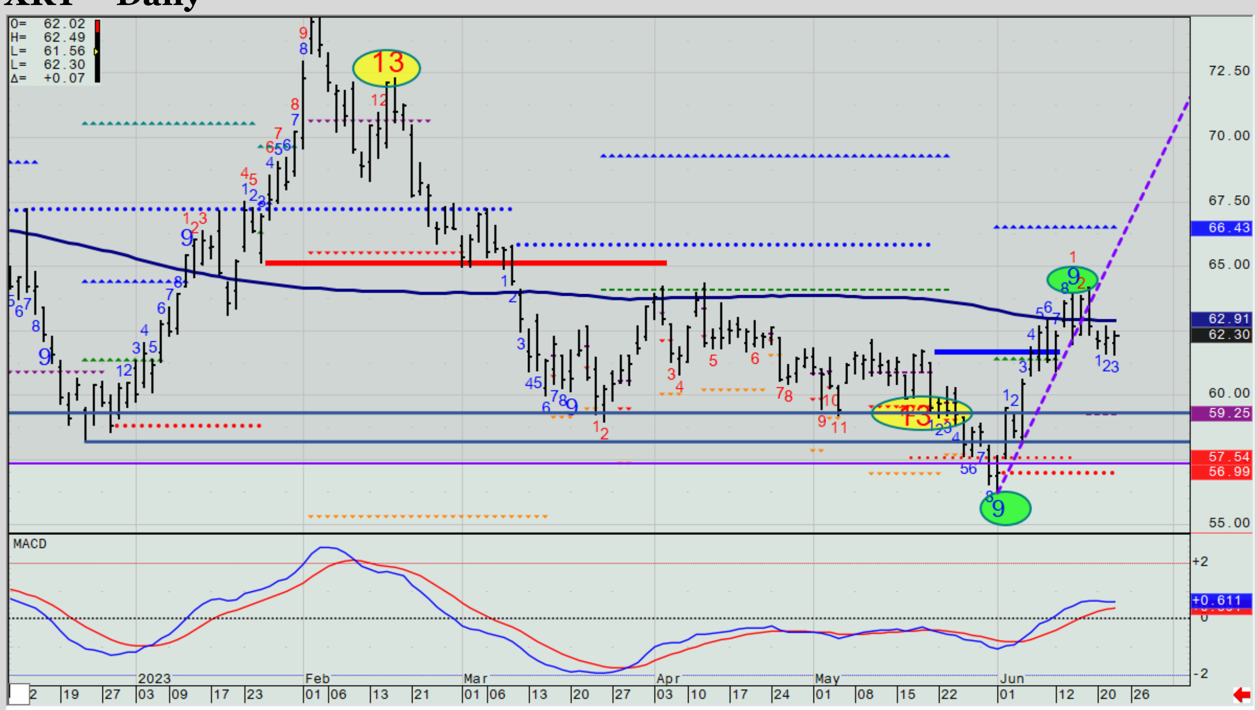
SMH – Weekly



Long XRT

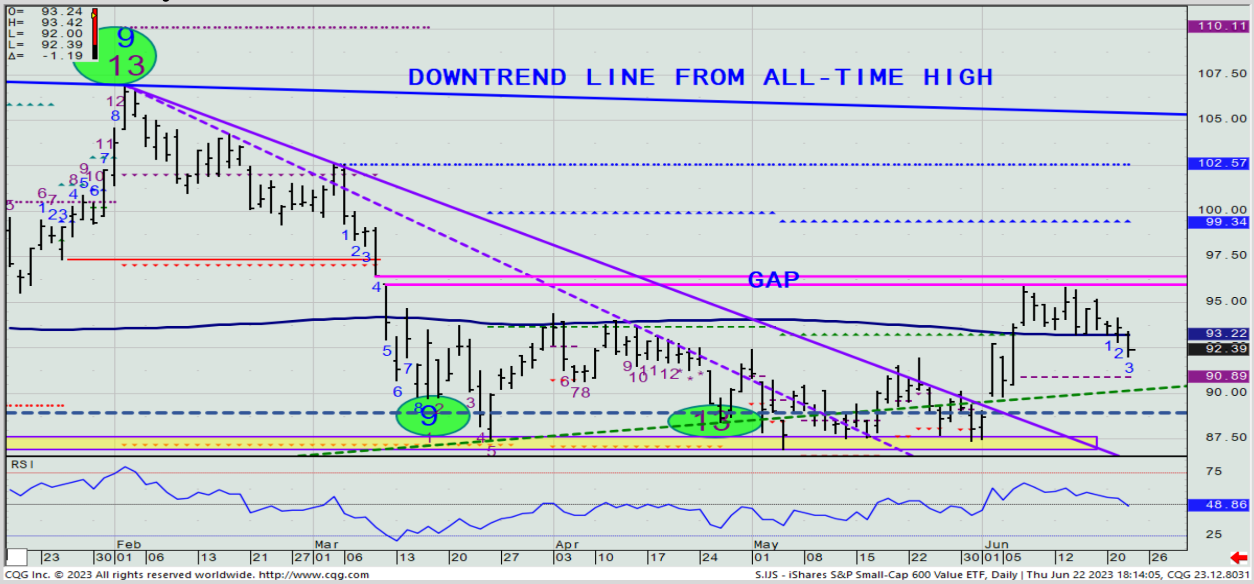
Five Friday's ago, we went long a half position (average price $60.27) and then the other half earlier last week at $58, for an average one-unit long position at $59.14. We took off 1/3 last Friday at an avg. price of $63.24. We'll keep our sell-stop on the other 2/3 to our breakeven price of $59.14. I'll target $65 to $66.5 to exit another 1/3.

XRT – Daily



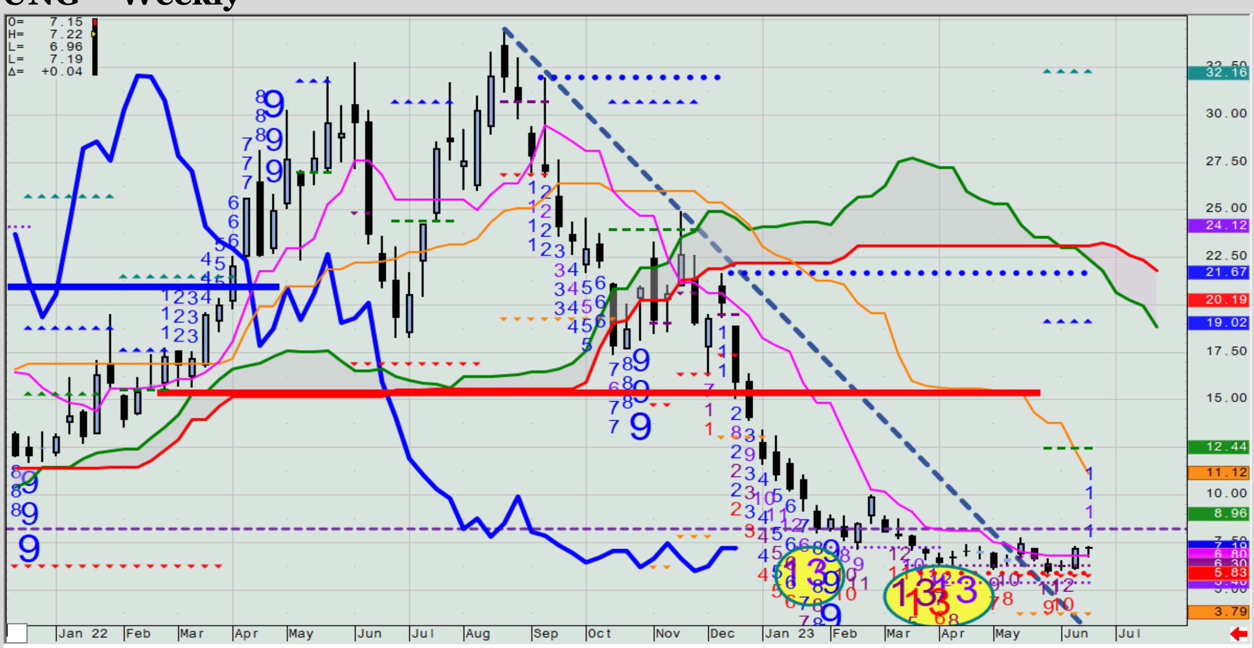
Long IJS
Eight weeks ago, we bought this small cap value ETF (avg. entry at $90.83). I was hoping to sell out of some of this earlier this week on a potential Setup +9 count, but that never occurred. I'll target $99.25--$99.50, but let's take 1/3 off today to lock some faded profits. I've already raised our sell-stop to consecutive daily closes beneath $90.89.

IJS – Daily



Long UNG
Seventeen 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. If today can close above $7.21, we'd have the first time in the whole decline to get consecutive weekly up closes above the weekly Conversion Line. It could be the start of some more strength.

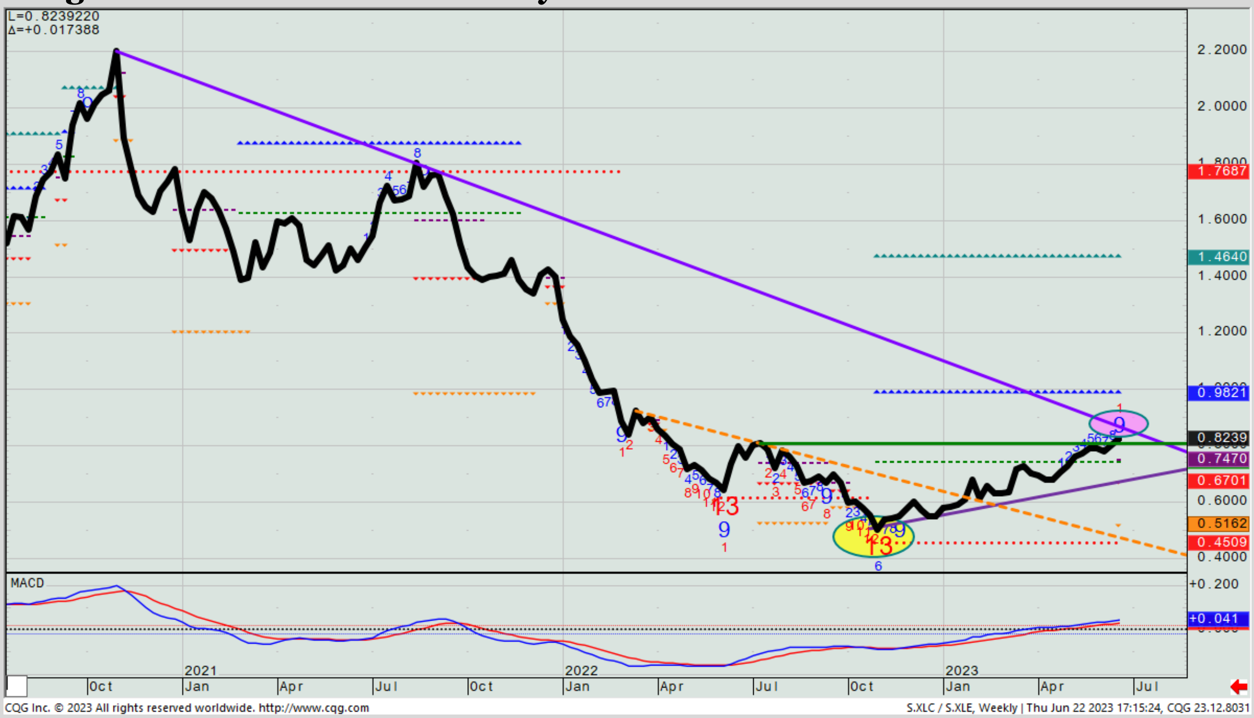
UNG – Weekly



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. We've previously 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 I'll again raise to exit on consecutive Friday closes beneath 0.7435.

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.

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