Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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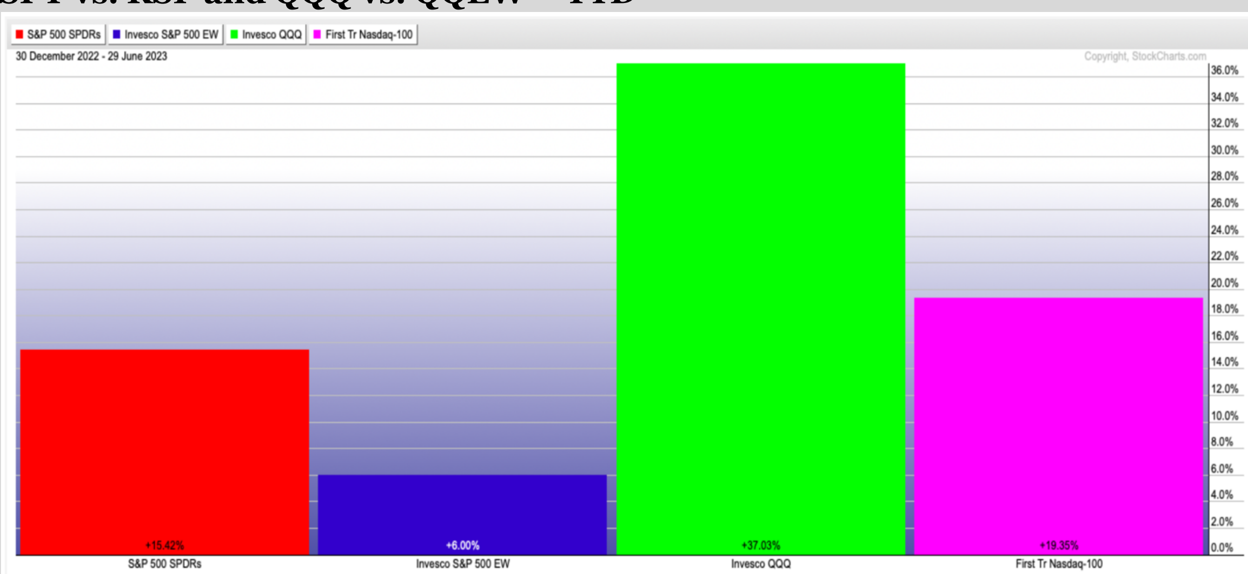
TACTICAL TRADER REPORT

The Macro Picture

As the first half of the year finishes out today, you can't be anything but impressed with the gains made in the SPX and NDX – regardless if the bulk of the returns came from a just a few stocks. From a pure index point of view, yup, it was darn good half. And certainly, more than most expected to see.

However, I'd wager some serious money that the personal portfolios of some of the Street's biggest bulls did not come close to getting similar returns to that of those indexes, for unless one were invested across the "Magnificent Seven", a broadly diversified individual stock portfolio significantly trailed in performance – by a lot!

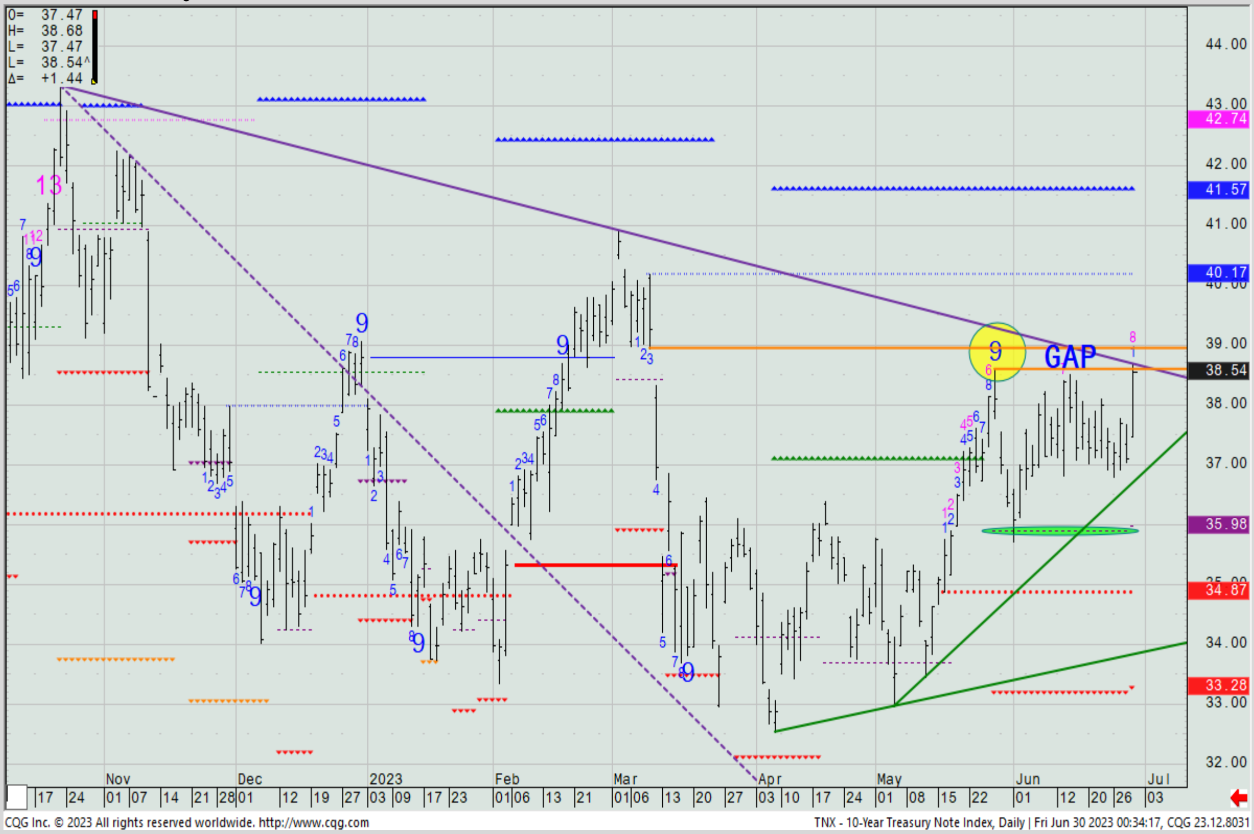
SPY vs. RSP and QQQ vs. QQEW – YTD



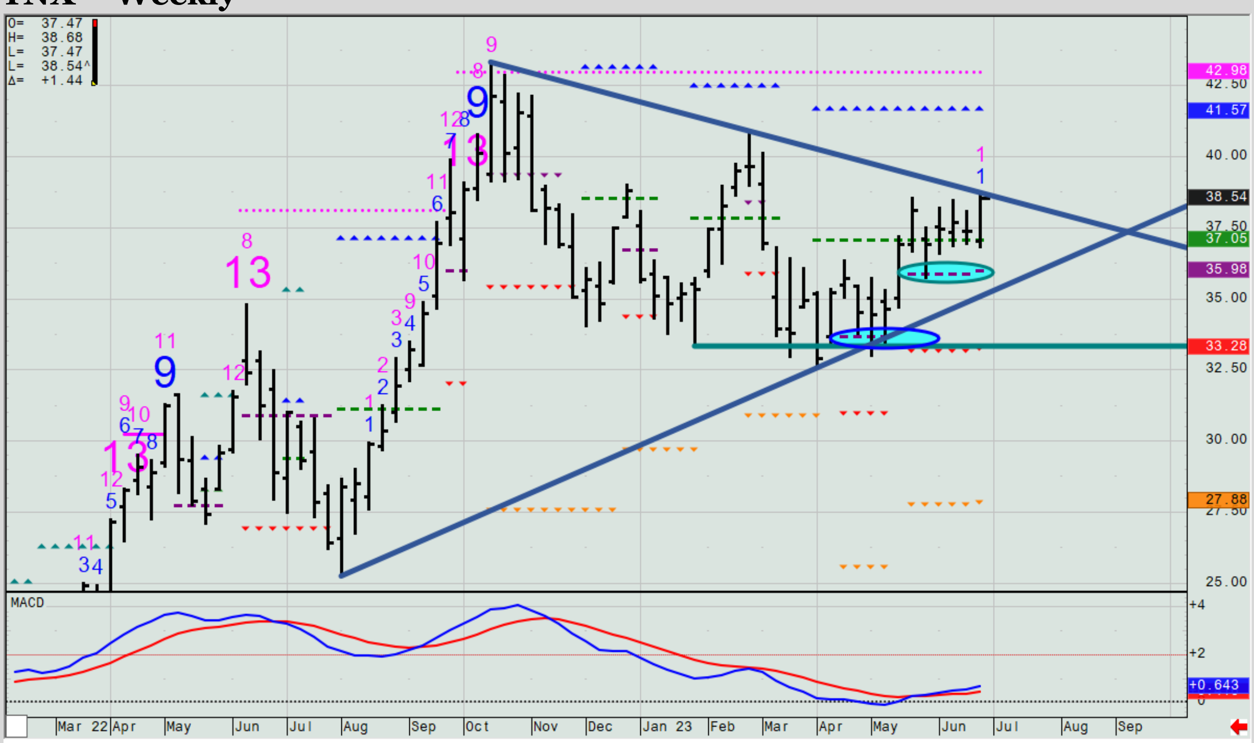
The bigger question for the second half of '23 is how many more rate hikes are coming (the Fed is implying at least 2 more 25 bp. raises); are bond yields headed higher or lower; is the dollar headed higher or lower; and is inflation headed higher or lower? Answer those three accurately, and you have a good chance of choosing which way the market heads. Bulls undoubtedly think that there are no more than two more small rate hikes coming; that bond yields don't go higher; that the dollar doesn't materially rally, and that inflation is heading lower. Bears don't need to have the exact opposite opinion, but they certainly aren't thinking that the economy and future earnings are going to be anything close to being strong enough to drive prices much higher. I'm personally not chasing after the high-flying AI-related names, but instead finding names that are now or just recently breaking out to the upside.

UST10-yr. rates reached their highest level since early-March. The gap is almost closed, and there is also potential resistance right against the downtrend line from the secular high. A breakout from here would suggest further follow through to first test 4.16% and then 4.3%. The key support is still at 3.59%, and trendline support is in the upper-3.6s.

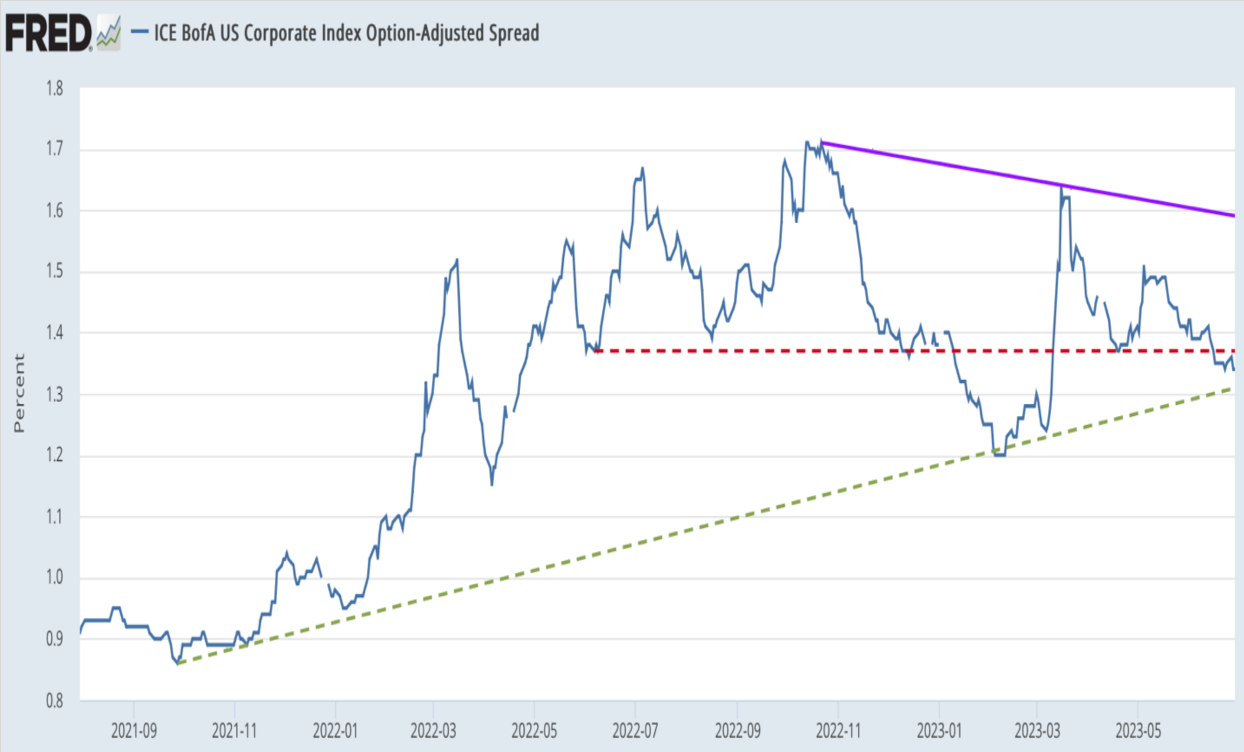
TNX – Daily



TNX – Weekly

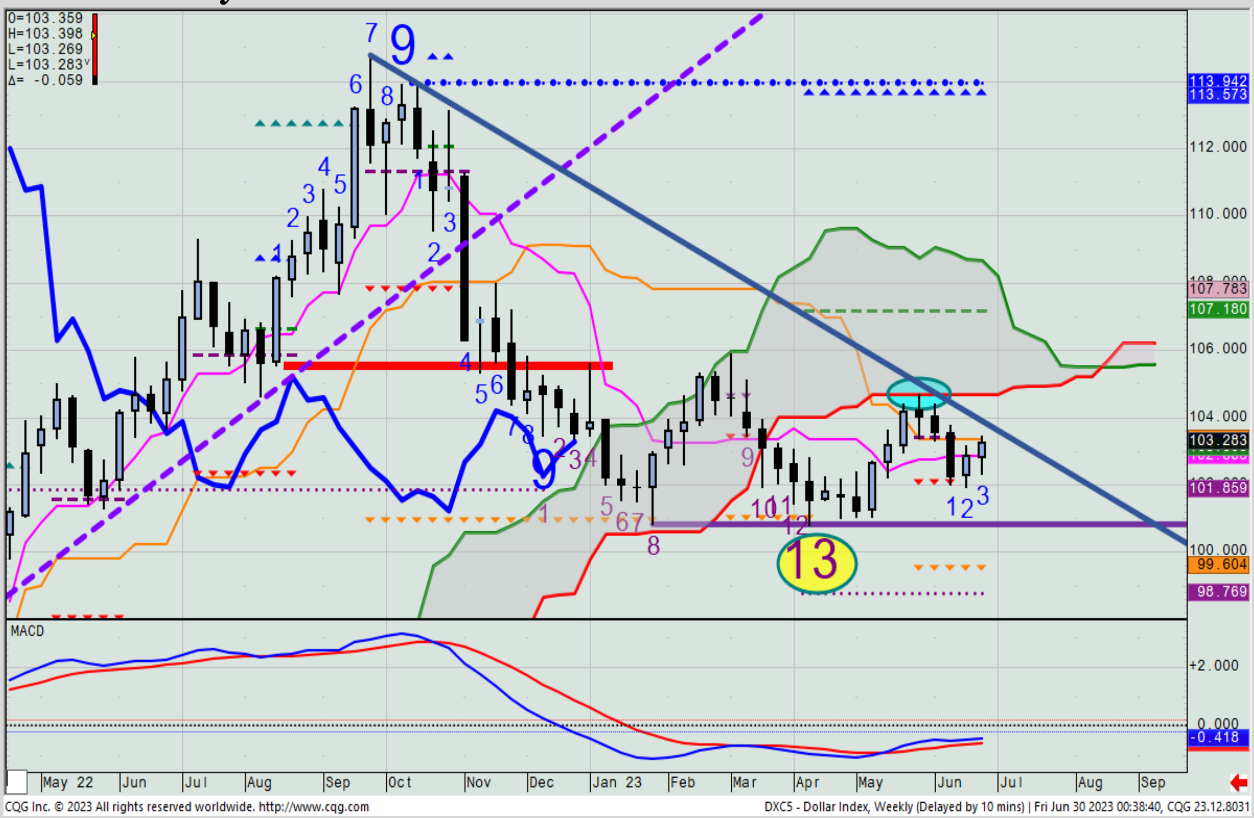


The ICE BofA Corporate Index OAS (i.e., my preferred credit spread to watch) has fallen to 1.34%. It's getting close to its major uptrend line from the secular low. Watch how it reacts around it, because if it can hold support there, it would be significant.



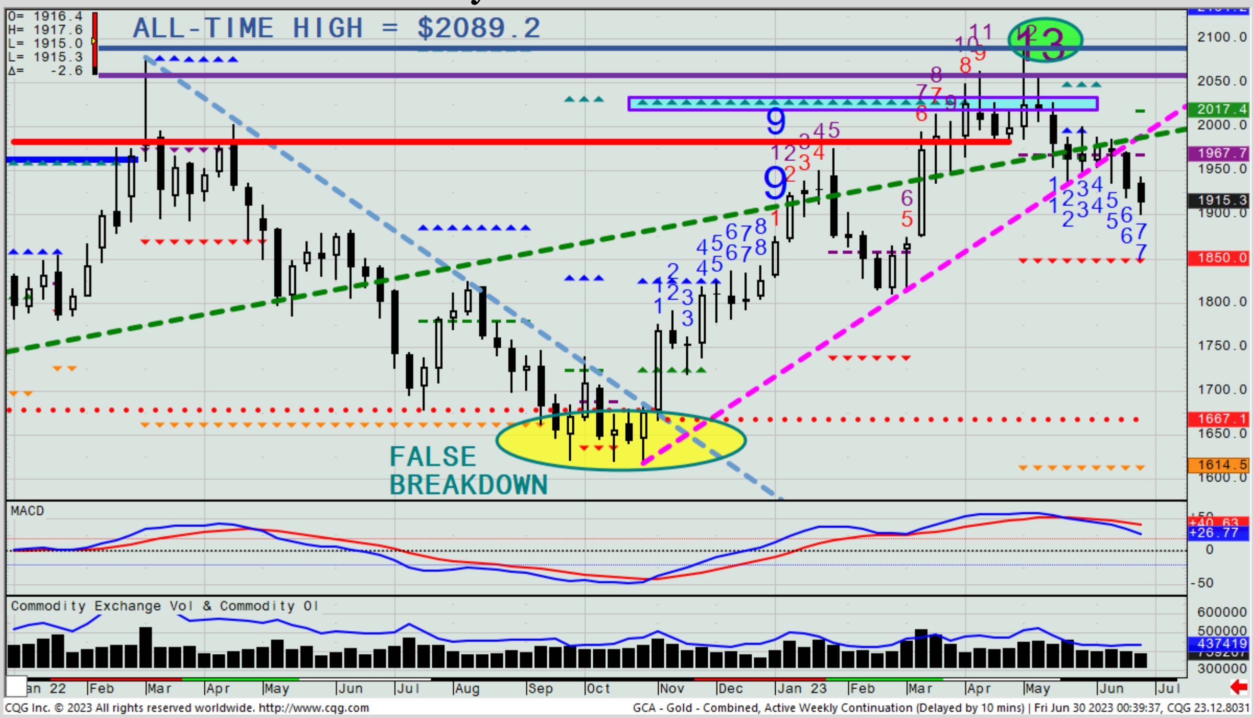
The US Dollar Index's bigger picture is, in my eyes, a neutral one. Tactically, I made the case last week to lean bullishly so long as we don't see multiple daily closes < 101.21. Perhaps it makes another run at the downtrend line.

DXY – Weekly



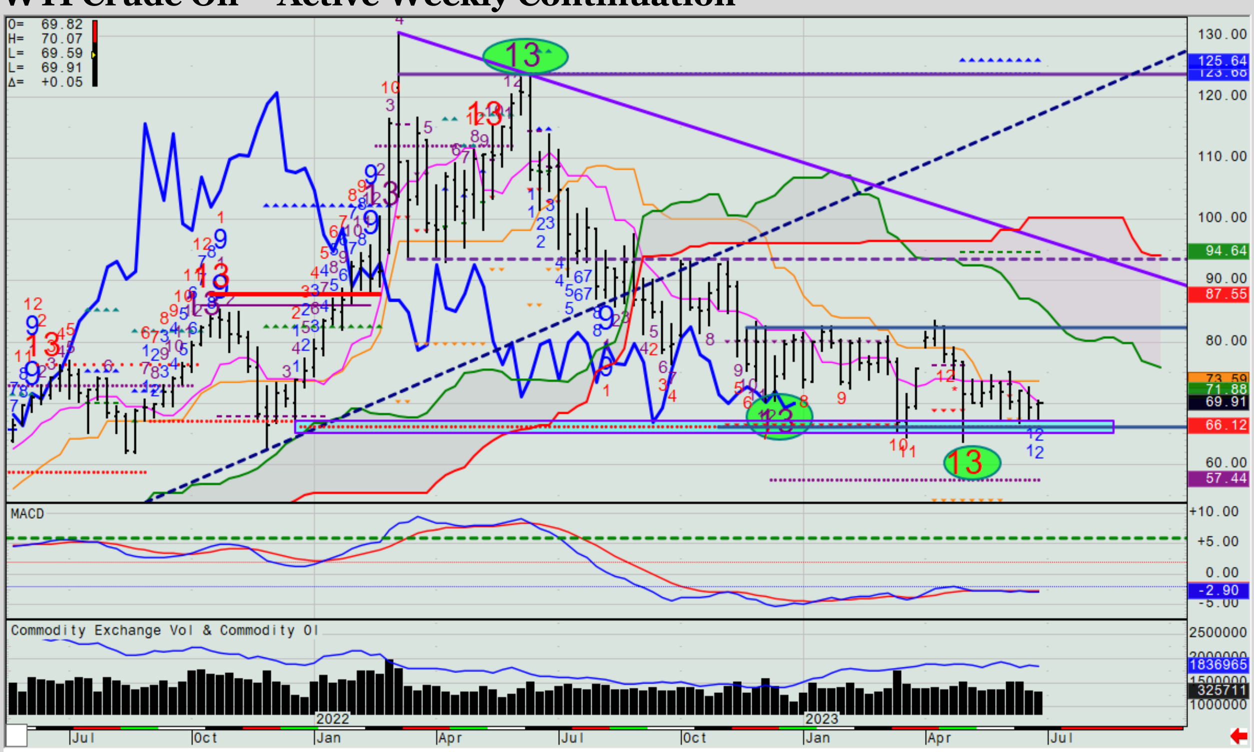
Gold has broken its uptrend line and is pushing bulls' resolve after having peaked right by prior all-time highs a few months ago. If it can't hold here at ~$1928 (i.e., the daily bearish Propulsion Exhaustion level), then it looks like it can fall another $75 – possibly even over the next 3-4 weeks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

COMEX Gold – Active Weekly Continuation



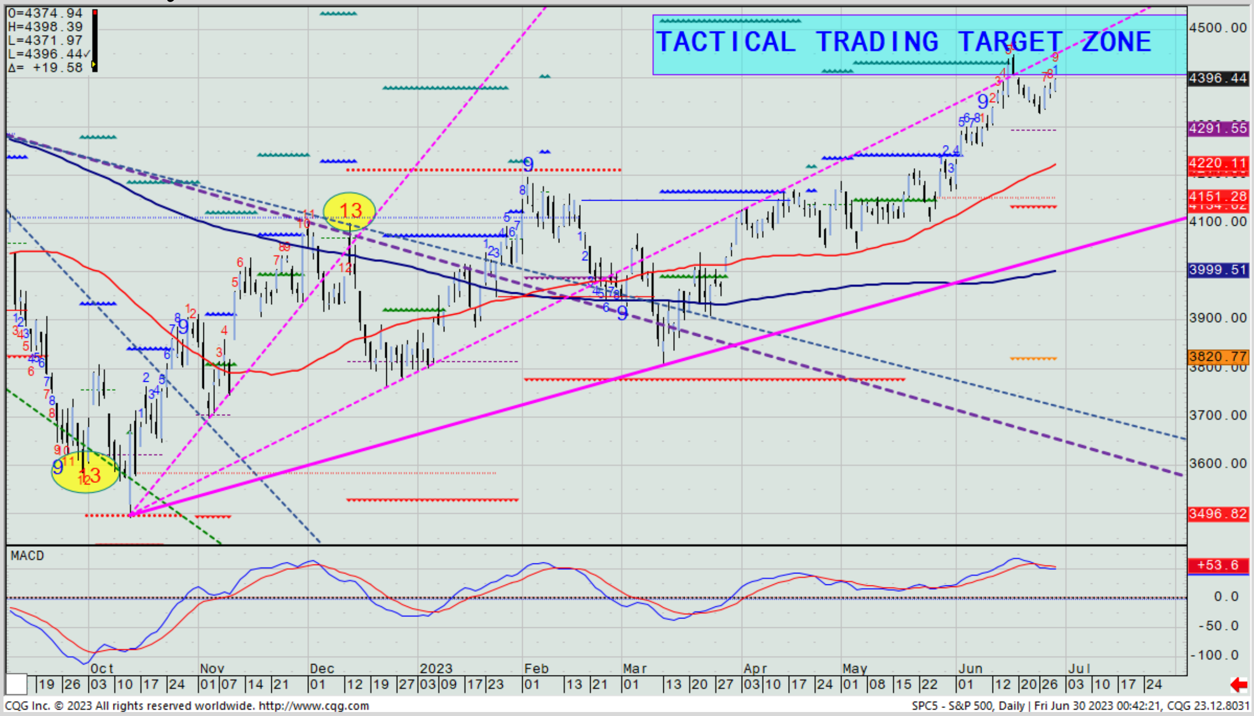
WTI crude oil is again failing at or near its weekly Conversion Line (in magenta) for the 8th week in a row. In the meantime, key support continues to hold in the $66/$67 area. If that gives way, then I think that that we can see a move to the lower-$50s. I suspect that we'll shortly see a strong directional move.

WTI Crude Oil – Active Weekly Continuation



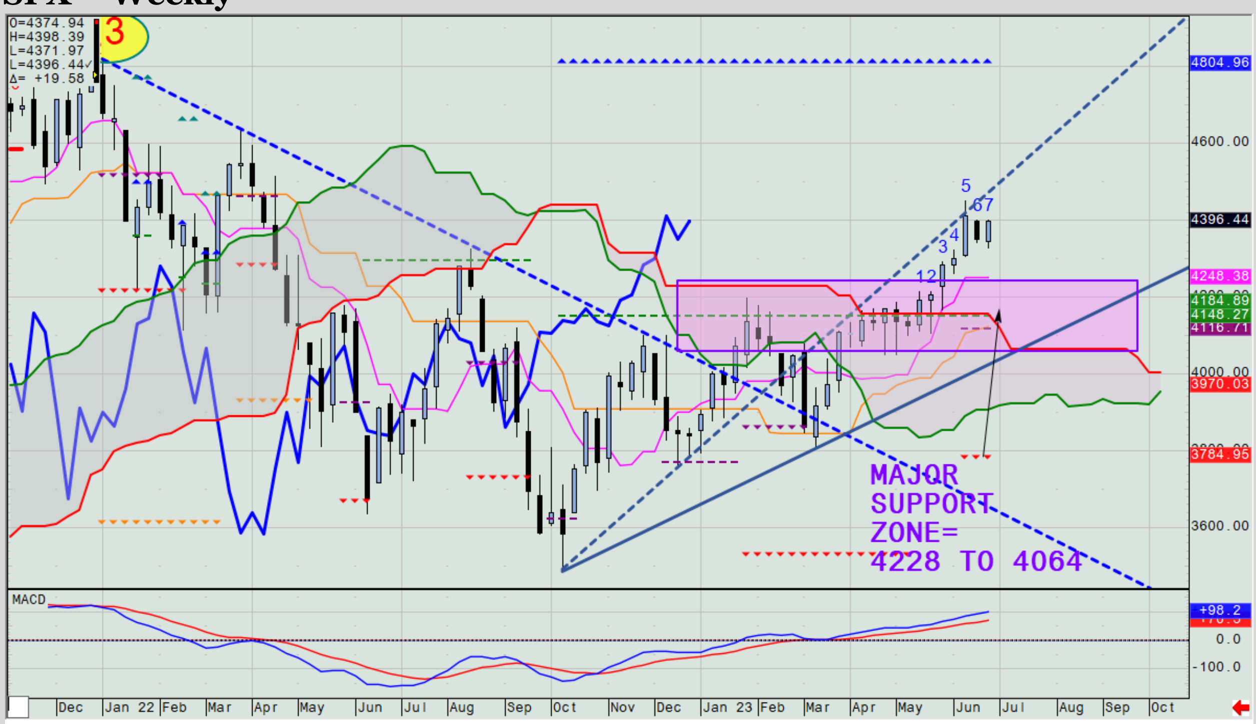
The SPX remains bounded on top by the previously highlighted three Propulsion Full Exhaustion target range of 4410 to 4513 zone. I continue to expect some consolidation and pullback from that zone, so I don't mind using it to lighten some longs into.

SPX - Daily



The first potential support level is the daily bearish Propulsion Momentum level at 4292, followed by the 50-DMA (currently near 4225). 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 arising.

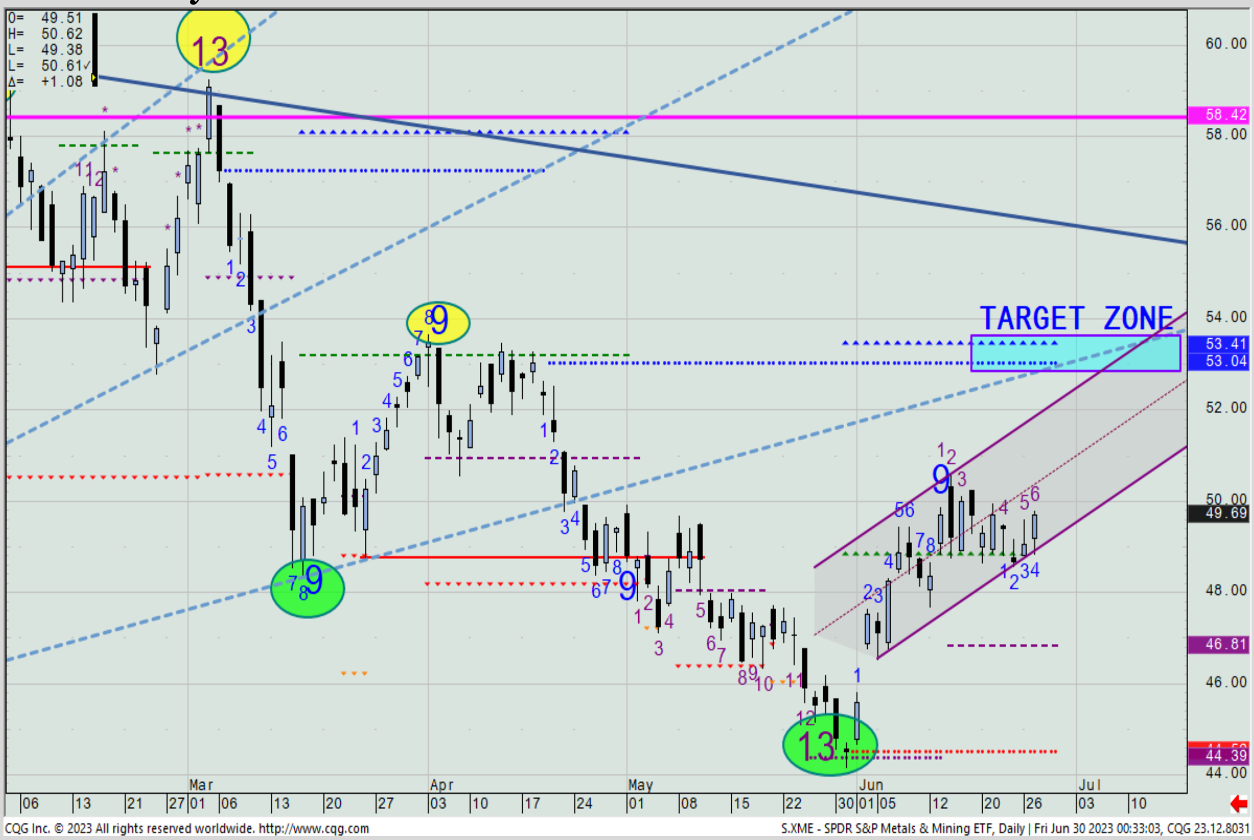
SPX – Weekly



New ETF Trade Idea

I found a trade that is lined up with about a 2x reward for the risk we'll take, and it could very well be one that we are out of in a week or two. Look at the S&P Metals and Mining ETF (XME). Yesterday's close was the best one in two months, and it appears to me like this looks headed to test the $53.04 to $53.41 highlighted blue rectangle target zone. So, let's get long today, with a sell-stop as a daily close under Tuesday's low of $48.95.

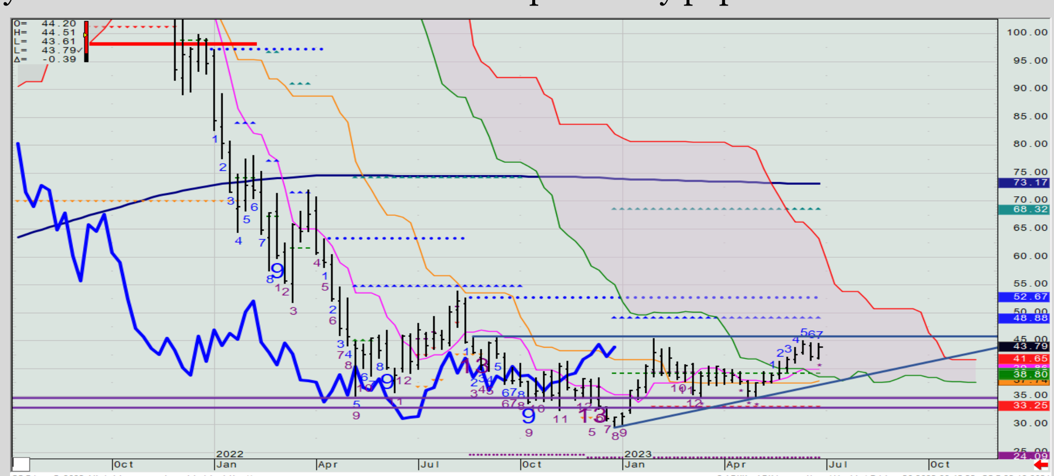
XME – Daily



Other Open Recommendations and Positions

Long ARKK

Last Friday my idea was to scale-down bid into the previously popular but wrecked ETF that last year fell by as much as 81% from its all-time high. My buying zone was in the $40 to $37.50 zone in six different entry points

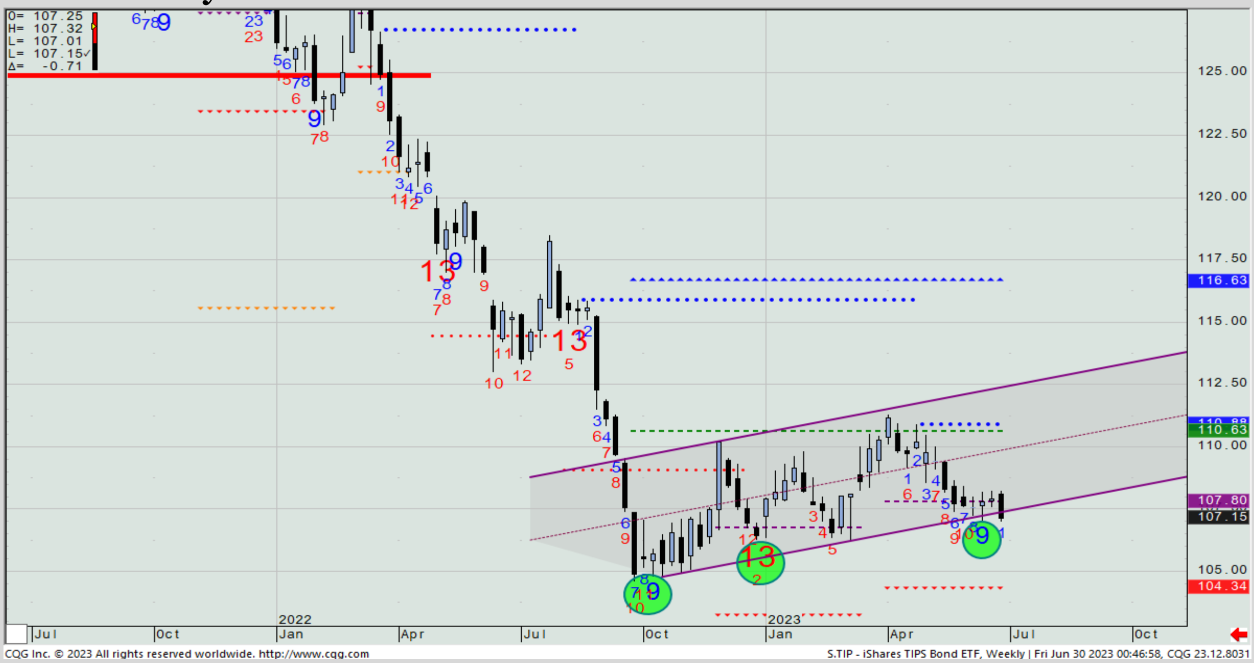


spanning that range looking for a move to eventually get to the $48.75 to $52.75 zone. The low since my last report was $41.50, and now it's at $43.79. I'll leave this idea open (I suggest you have resting bids in your brokerage account as Good till Cancelled ones), but we may have missed the opportunity I was looking for. I'll use a Friday close or two under the low of bar Setup +1 ($37.42) as the sell-stop.

Long TIP

Two weeks ago, we got long two units of TIP at an avg. entry price of $107.65. I'm targeting the top of the channel. The sell-stop is a daily close (or two; your choice) under $106.20.

TIP – Weekly



Long FXI vs. Short ASHR

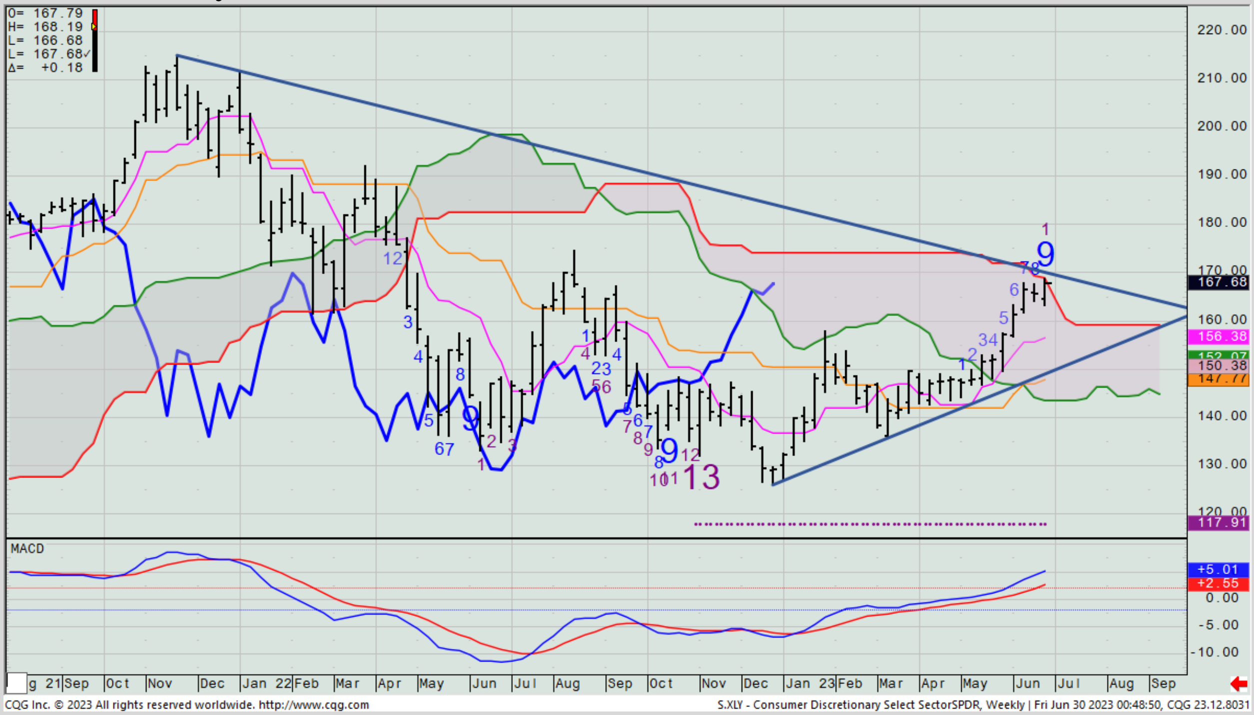
Three weeks ago, we put on a pair trade in these two China equity-related ETFs, filled at an avg. price of a 1.035 ratio. (This week I have flipped the chart to be in the direction we have this trade on.) I'd like to hold this for another couple of weeks to potentially see this reach a Sequential +13.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

Long FXI vs. Short ASHR – Weekly

Long XLY

Four 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 this week, while also lining up with the downtrend line. Let's sell half today. I've previously raised the sell stop on the balance to exit on consecutive daily closes < $164.34.

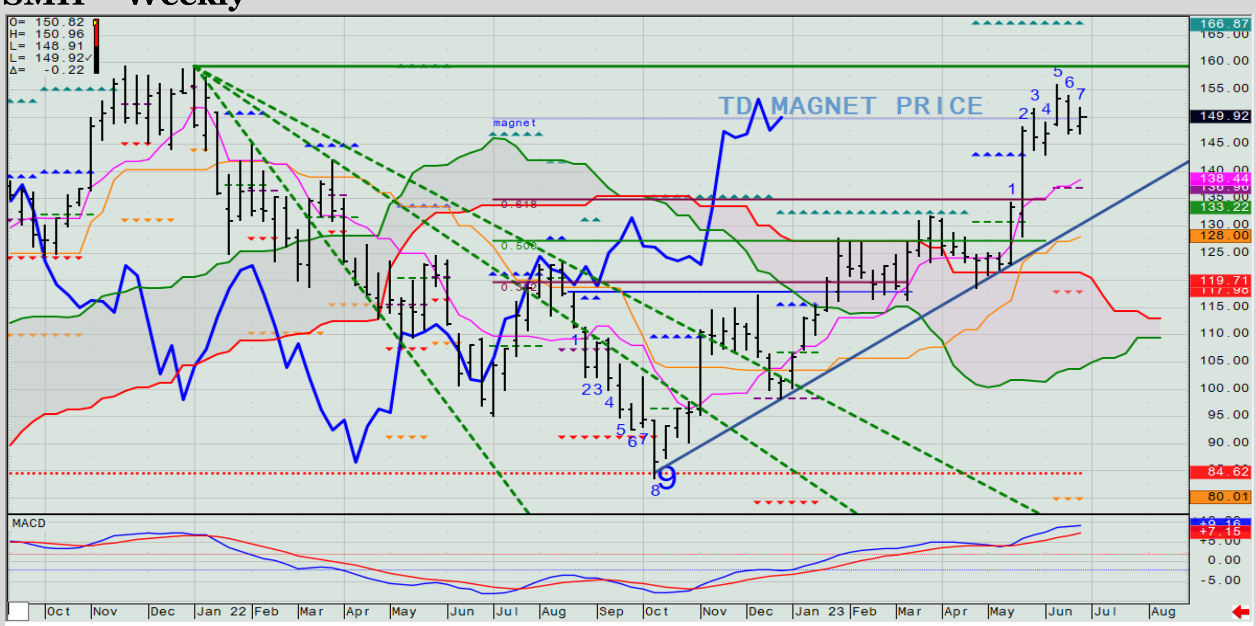
XLY – Weekly



Long SMH

Five 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 $128.10.

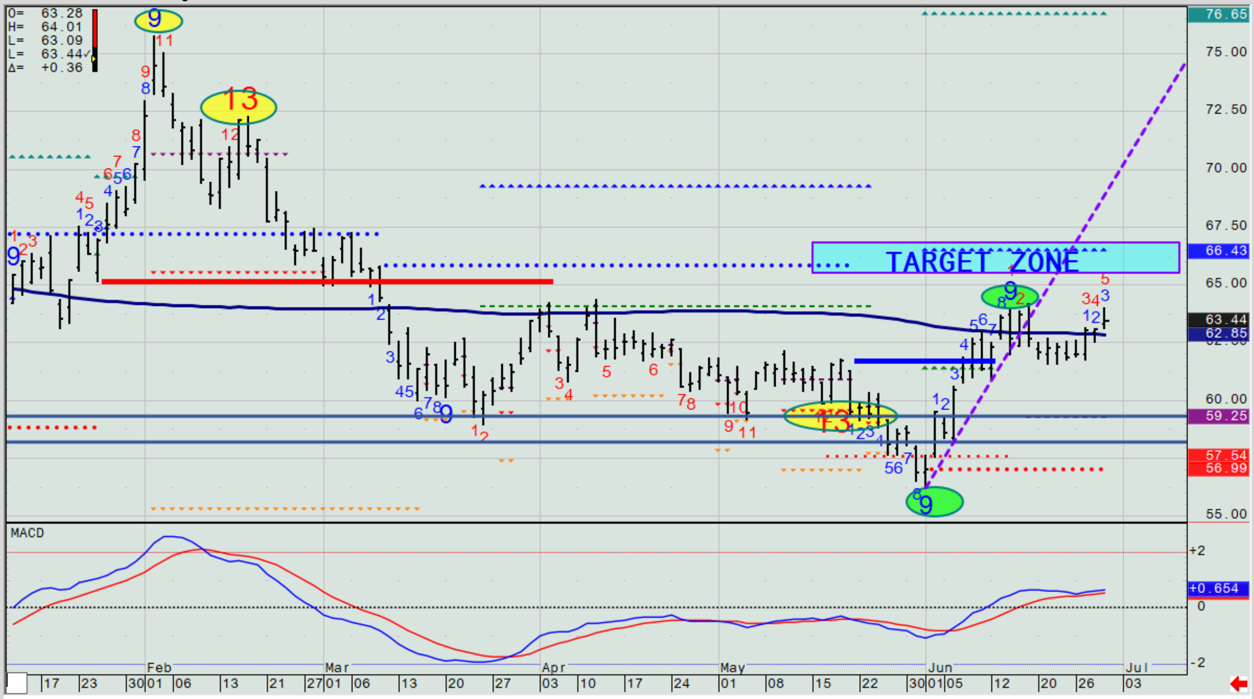
SMH – Weekly



Long XRT

Six Friday's ago, we went long a half position (average price $60.27) and then the other half two weeks ago (at $58), for an average one-unit long position at $59.14. We've already taken off 1/3 at an avg. price of $63.24. I'll again raise our sell-stop on the other 2/3 to a close under $61.77. I'll target $65.75 to $66.5 to exit another 1/3.

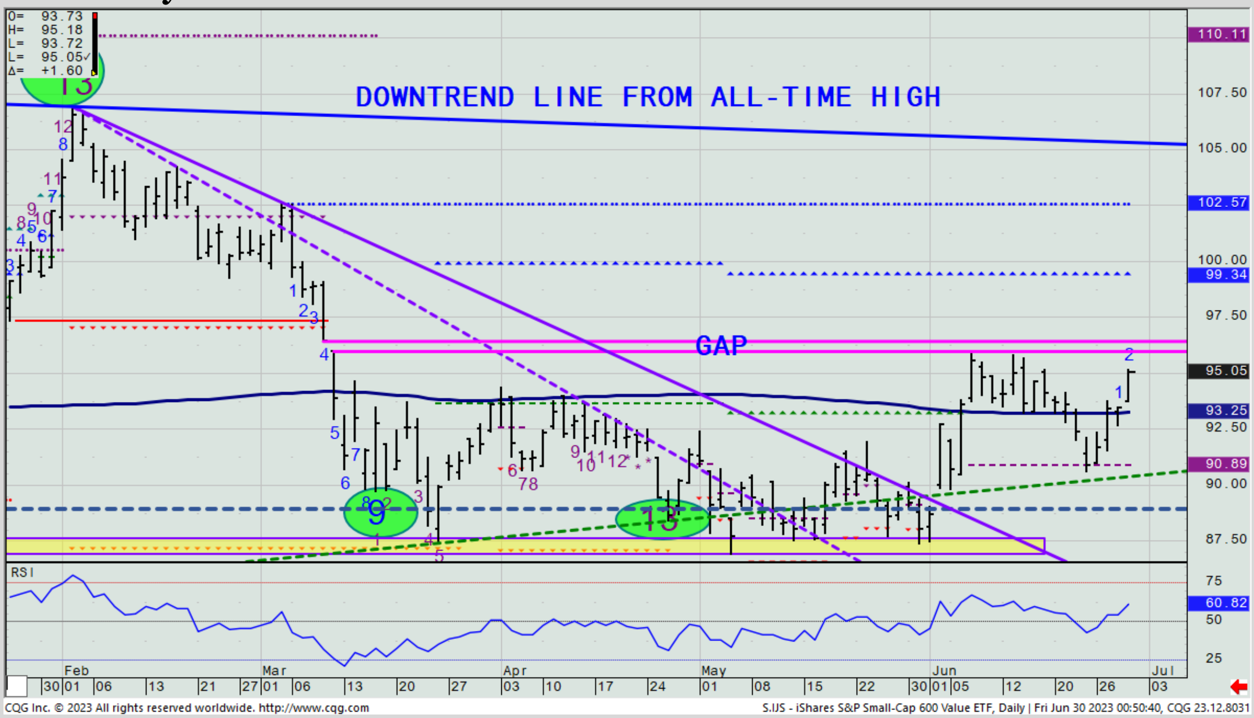
XRT – Daily



Long IJS

Nine weeks ago, we bought this small cap value ETF (avg. entry at $90.83). I removed 1/3 last Friday at an avg. price of 91.39. Our remaining sell-stop to exit is on consecutive daily closes beneath $90.89. I'll target $99.25--$99.50 to exit.

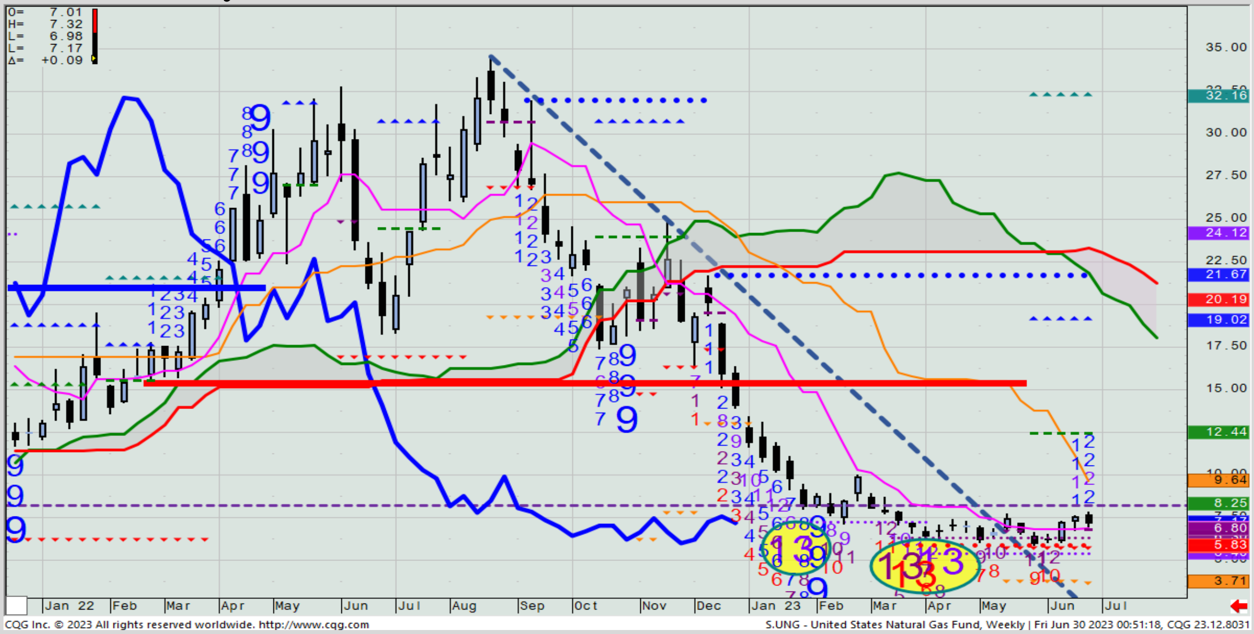
IJS – Daily



Long UNG

Eighteen 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. We finally saw consecutive weekly up closes above the weekly Conversion Line, which I suggested could be the start of some further strength and short-covering. Look for a move in coming weeks to challenge the falling Base Line (in orange).

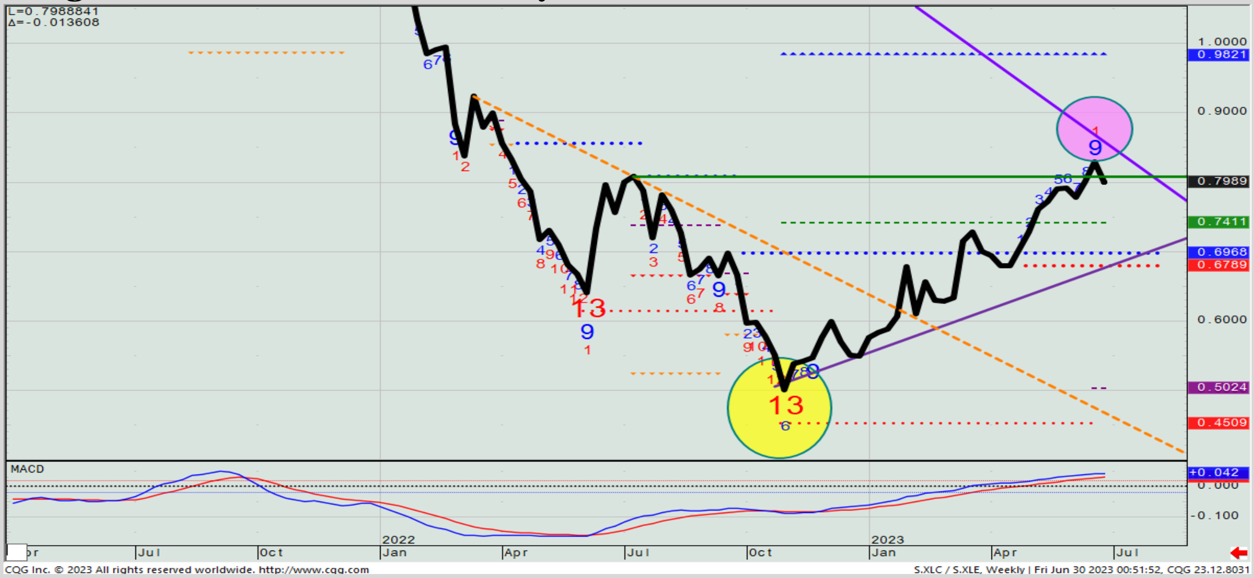
UNG – Weekly



Long XLC vs. Short XLE

Twenty 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 sold half the trade at an avg. price of 0.7757. I'm actually content on taking the balance off right here and now, and walking away with a large trading gain.

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