Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

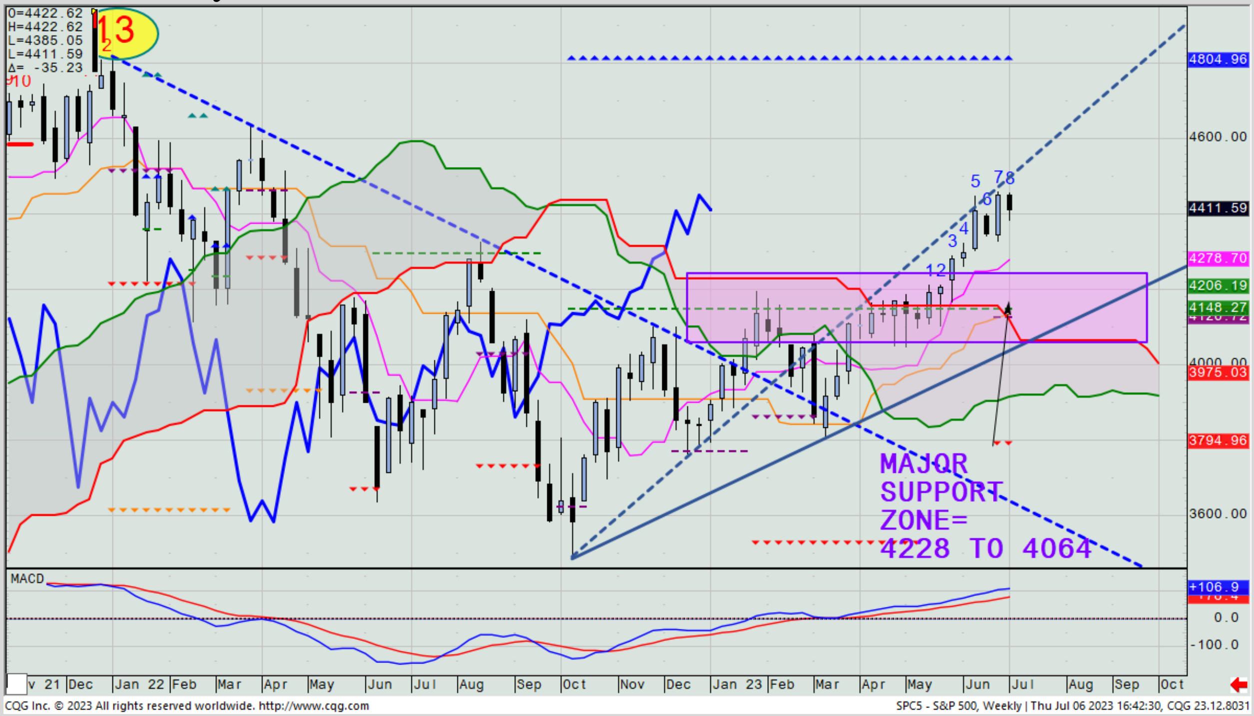
It's been a busy week of important data, with more coming out this morning with the monthly employment numbers being released at 8:30am ET. Yesterday's ADP report showed way more job growth than expected, which sent stocks sharply lower and yields sharply higher. Unless today's jobs numbers is cooler than expected, than we are at a point where I can see the overall stock market rally cooling down, too.

Both the SPX and its associated SPY ETF reached daily Aggressive Sequential +12 readings this week, suggesting that now is not the time or place to be putting on any new material risk – if anything, consider taking partial profits on some winners. A pullback could easily decline to either of the green-colored ellipse potential support levels.

SPX – Daily

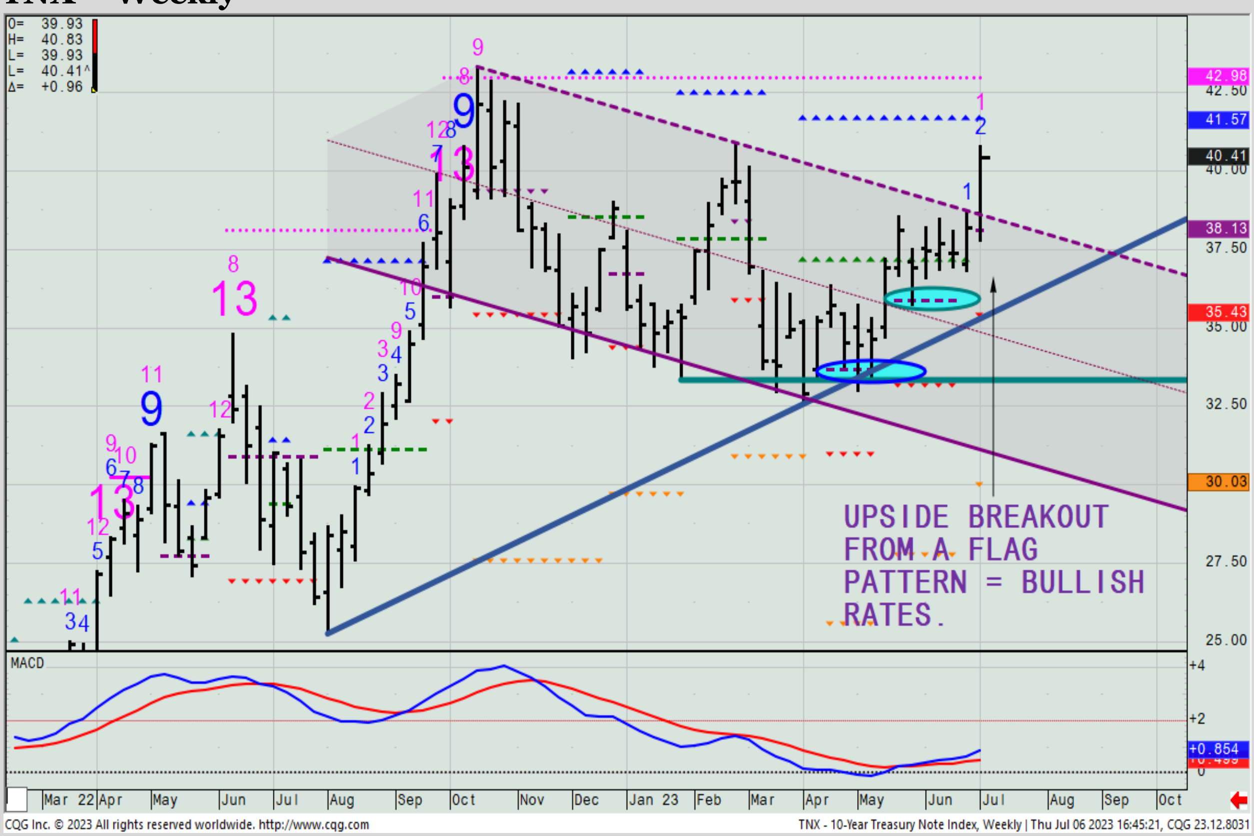
The bigger picture has certainly turned the corner from bear to bull, but I'd still prefer to use a pullback this summer to the main buying zone (4228 to 4064) then continually chase after high-flyers up here. (Next week could also easily mark a weekly Setup +9 count, the first one since the cyclical low last October.)

SPX – Weekly



Rates are likely going to play a major role in the upcoming stock move, and now that they have plowed through the downtrend line from last year's highs, the whole channel may be nothing more than a continuation flag pattern that would suggest a whole new leg higher.

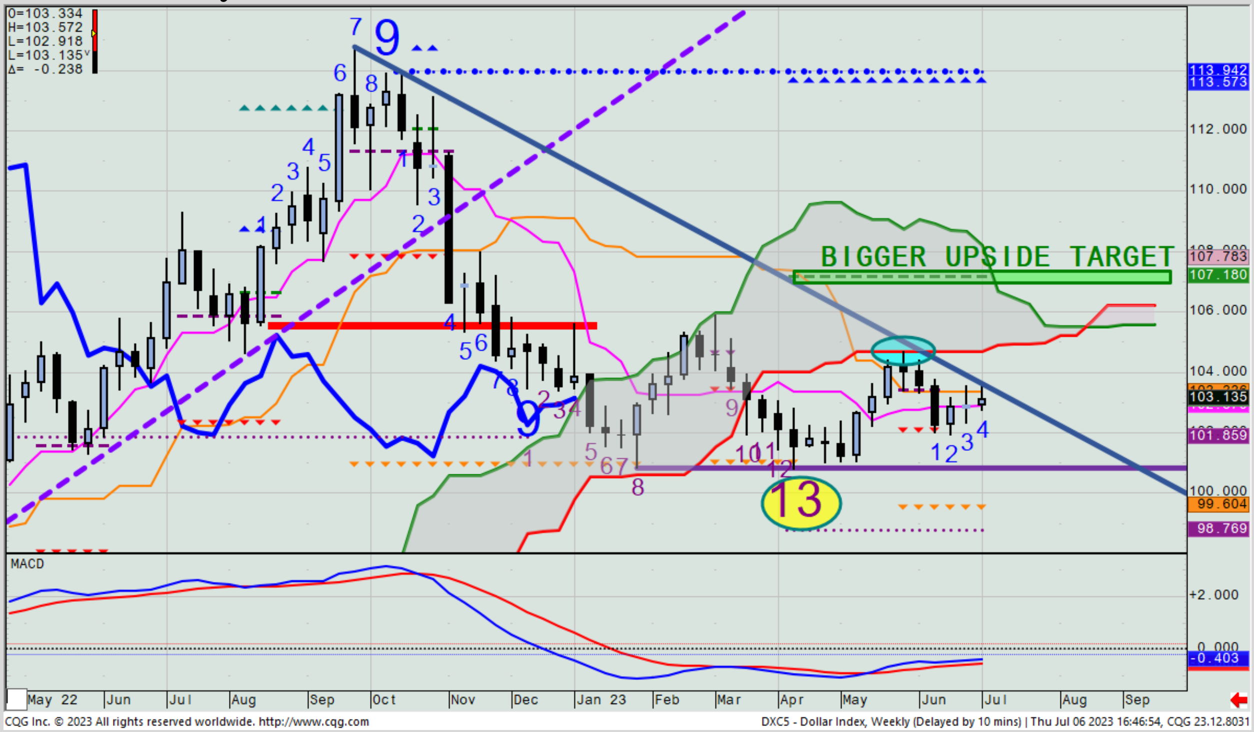
TNX – Weekly



The ICE BofA Corporate Index OAS (i.e., my preferred credit spread to watch) has fallen to 1.29%. It's now even tucking beneath its major uptrend line from the secular low, but the data is delayed one day (and for some reason the Fed hasn't updated this data since Tuesday). So, given yesterday's stock market decline, I'd expect this spread to move higher. (You could even consider putting on a widening spread if you keep the stop tight. You do that by buying IEF and shorting an equal dollar amount of LQD or AGG against it.)

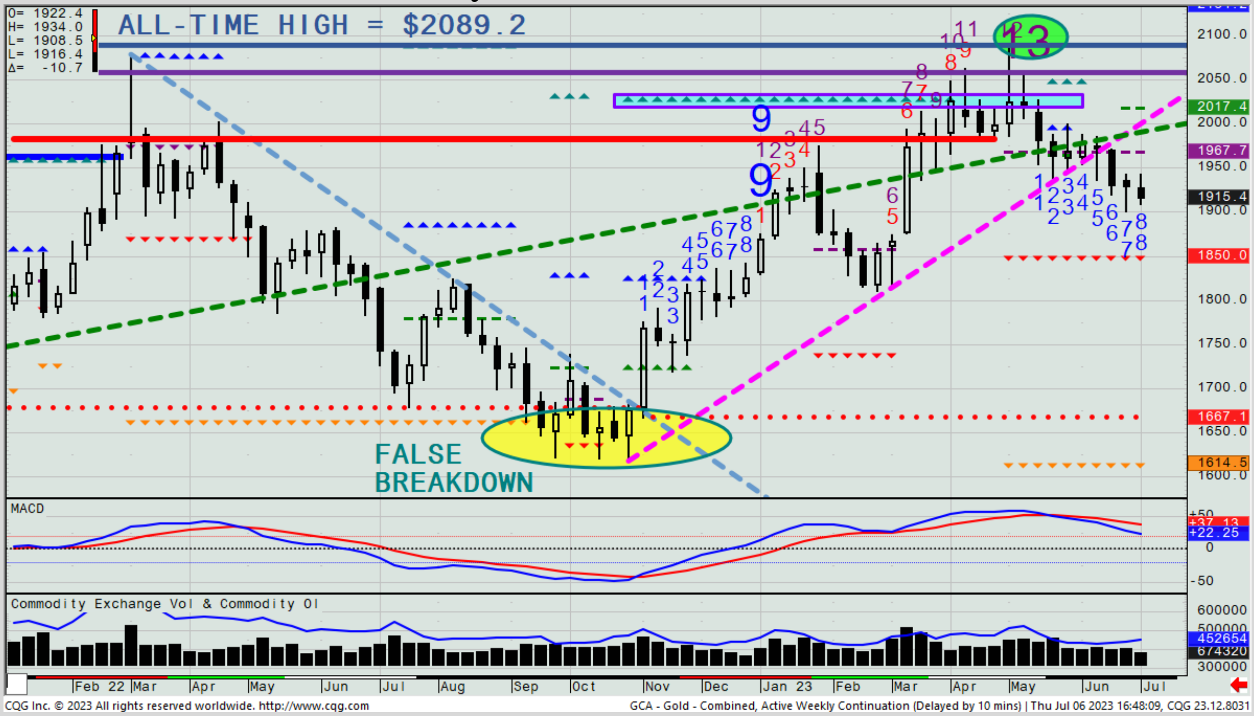
The US Dollar Index's bigger picture is, in my eyes, a neutral one. Tactically, I made the case two weeks ago to lean bullishly so long as we don't see multiple daily closes < 101.21, and that it would perhaps make another run at the downtrend line. It has precisely done that with the subsequent high being that resistance line. With rates moving higher, a Friday close or two above that line should make another run at the cloud bottom, and possibly even up to the ~107 level.

DXY – Weekly



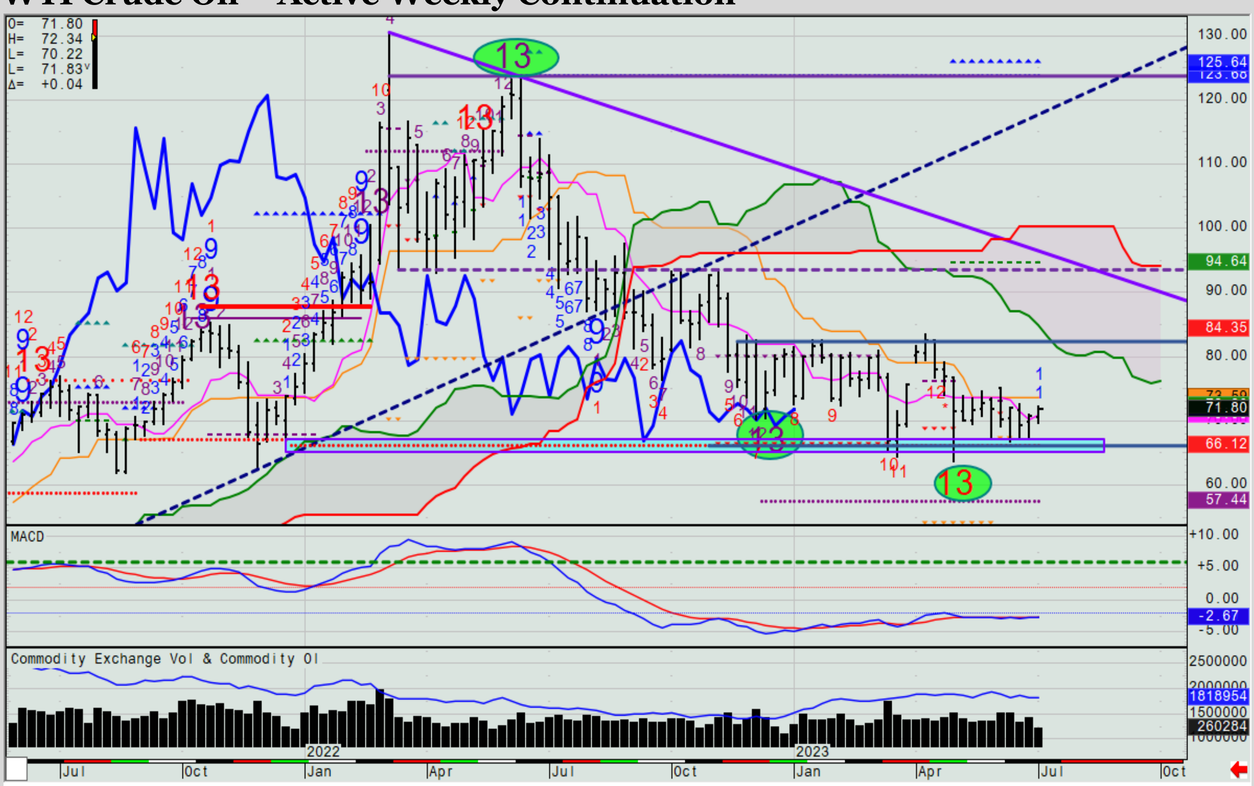
Gold has broken its uptrend line and is pushing bulls' resolve after having peaked right by prior all-time highs a few months ago. Next week will likely mark a Setup -9 count, with downside targets first at $1890 and then potentially as low as $1850.

COMEX Gold – Active Weekly Continuation



WTI crude oil continues to have key support in the $66/$67 area. If that gives way, then I think that that we can see a move to the lower-$50s. However, yesterday's oil inventory report puts the storage level as the lowest one since 1983. It's tough to see why oil would spill to the low-$50s in that tight supply environ.

WTI Crude Oil – Active Weekly Continuation



New ETF Trade Idea

With UST 10-yr. rates pushing up over 4%, I think about the industries that could be most affected, and it takes little time for me to think that housing demand fits right into this scenario. Homebuilders have been on a moonshot this year, collectively up almost 30%. I suspect something has to give, and we can use any further strength over the coming weeks to scale into a short position in the **SPDR Homebuilders ETF (XHB)** as it approaches its TD Magnet Price (i.e., the closing price from the price bar that made the highest high) up to the actual secular high price itself. (Both labeled on the below chart.)

XHB – Weekly

Thus, let's use any further rally we see to lean into the move to short the XHB in three stages:

1. Sell 1/3 within 25 cents either side of the $81.56 Magnet Price;
2. Sell 1/3 within 25 cents either side of the $86.61 all-time high;
3. Sell 1/3 on the Friday close of the week that potentially marks a Setup +9 count in four more Fridays (including today).

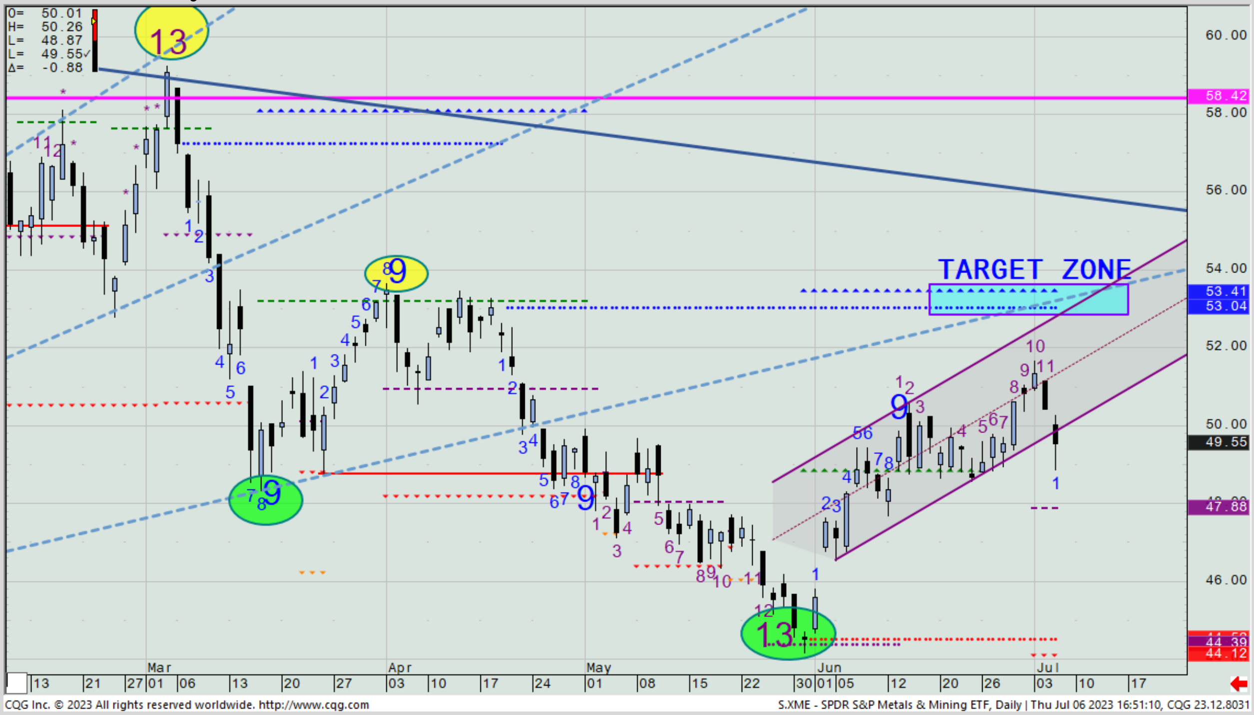
We'll play for a decline to re-test the area of the breakout just shy of $72. We'll determine the buy-stop once we are filled.

Other Open Recommendations and Positions

Long XME

Last week we got long this metals and mining ETF at an average price of $50.70, looking for a test to the $53.04 to $53.41 highlighted blue rectangle target zone. Yesterday broke the uptrend line, and our sell-stop remains a daily close under last Tuesday's low of $48.95. (That level was right by yesterday's low, but we are only concerned with a close beneath $48.95.) See chart on page 6.

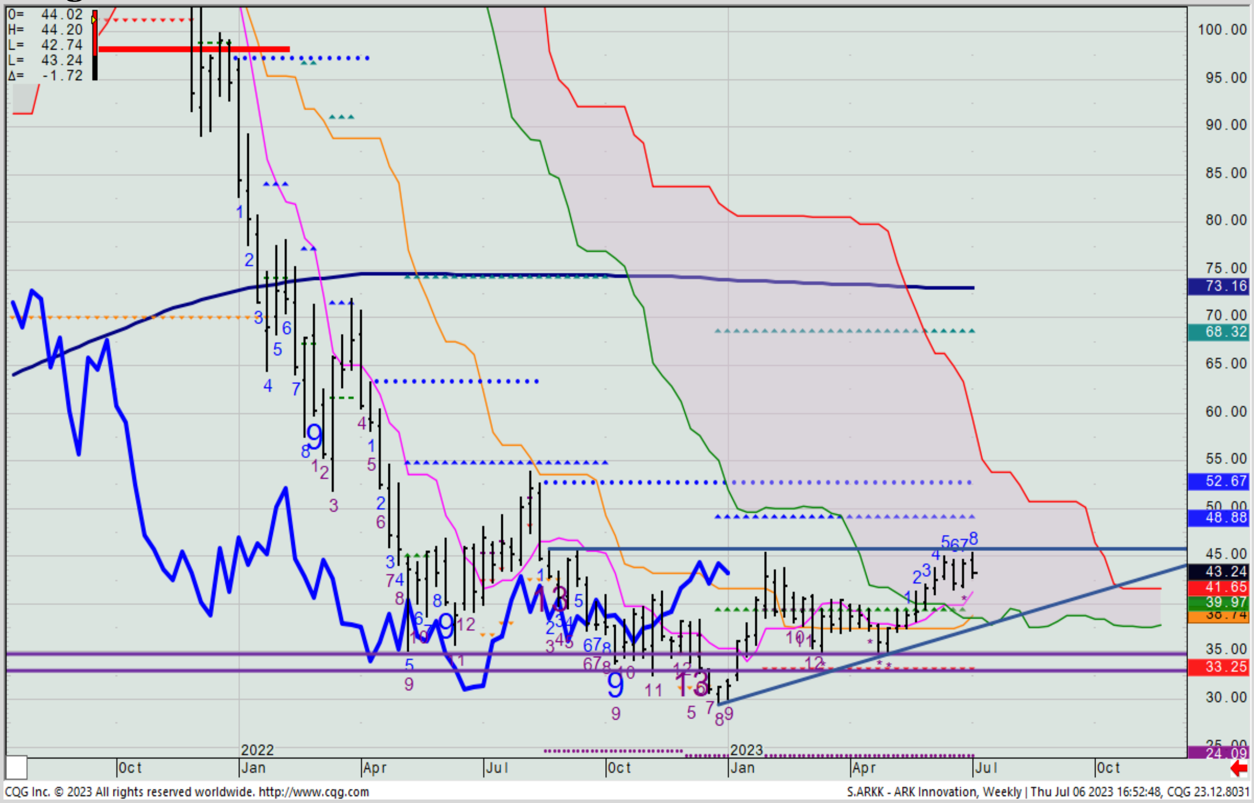
XME – Daily



Long ARKK

Two Fridays ago 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 remains 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. Use resting bids in your brokerage account (as Good till Cancelled ones). I'll use a Friday close or two under the low of bar Setup +1 ($37.42) as the sell-stop.

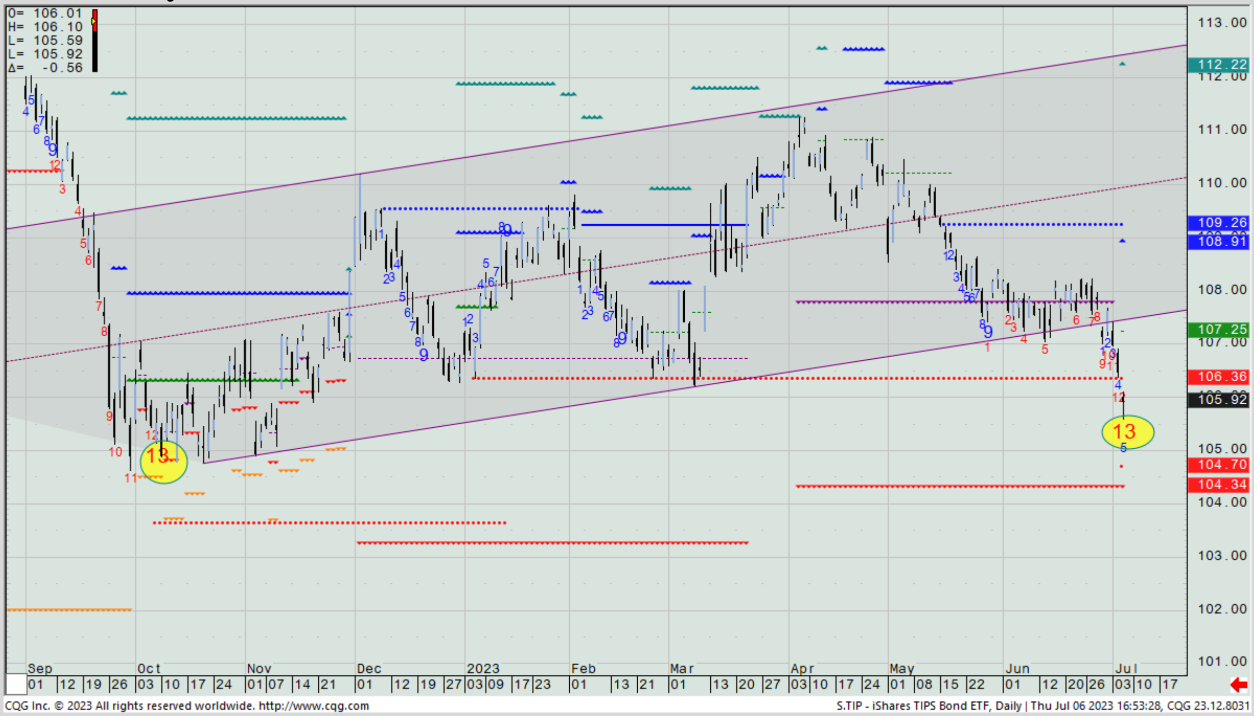
Long ARKK



Long TIP

Three 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. The first came yesterday, and the second is likely coming today. It is ironic that yesterday marked a daily -13. I'll always officially stop-out at my posted levels. (It's your choice if you want to remain long given this new signal.)

TIP – Daily



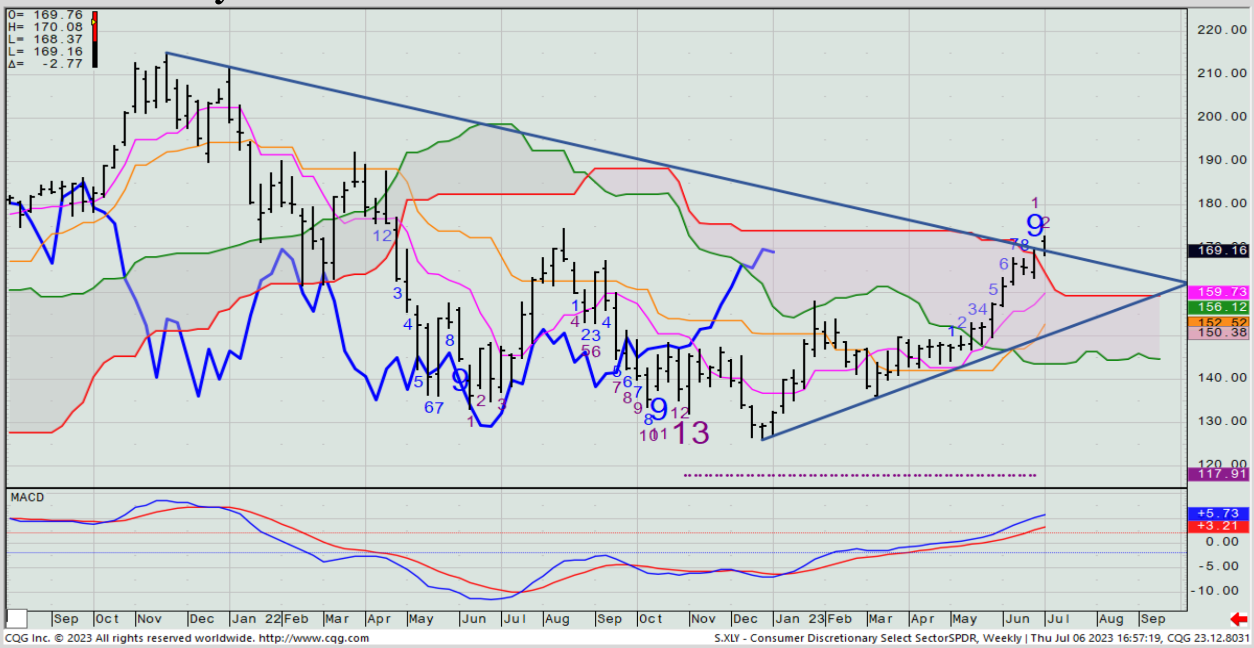
Long FXI vs. Short ASHR

Four 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. I'd like to hold this for another couple of weeks to potentially see this reach a Sequential +13 (it already marked a Setup +9) when we'd exit half. The sell-stop is a Friday ratio close < 0.984, so watch closely for this today.

Long FXI vs. Short ASHR – Weekly

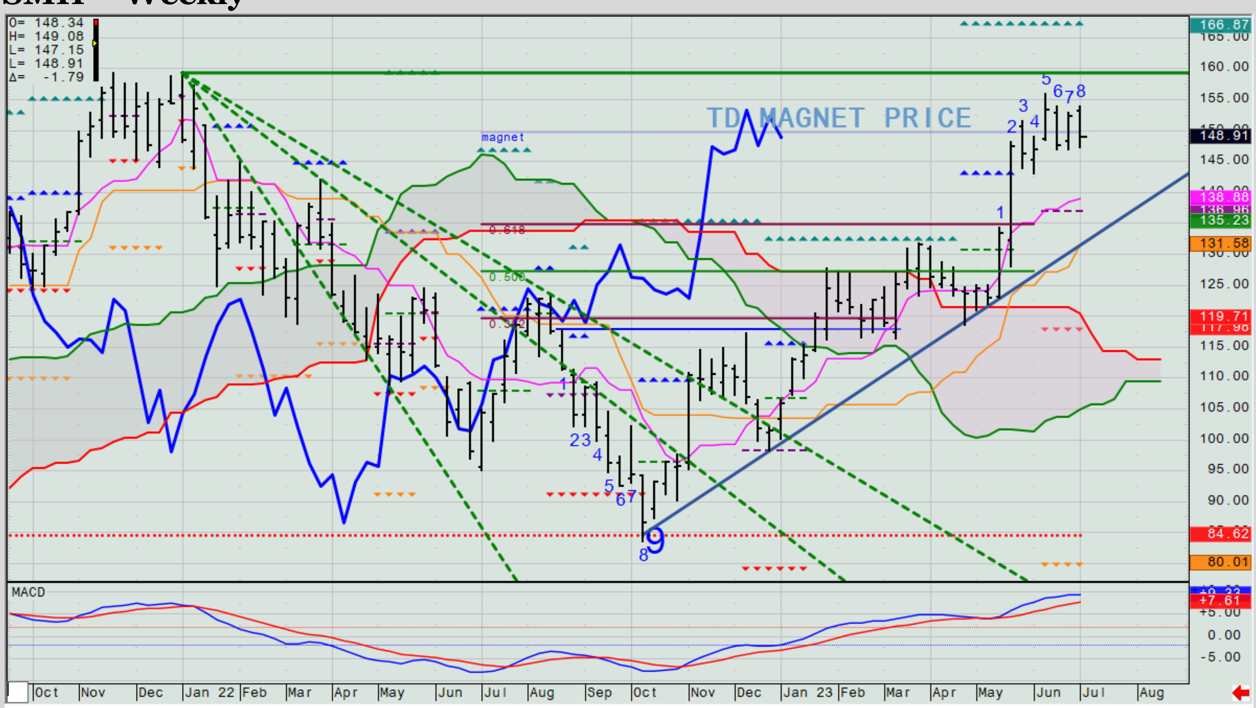
Long XLY
Five Fridays ago, we bought a half-unit of XLY (avg. fill at $156.36.) We took half off last Friday at an avg. of $169.50. Given a new daily +13 just made and the weekly Setup +9 there, too, let's sell the balance today.

XLY – Weekly



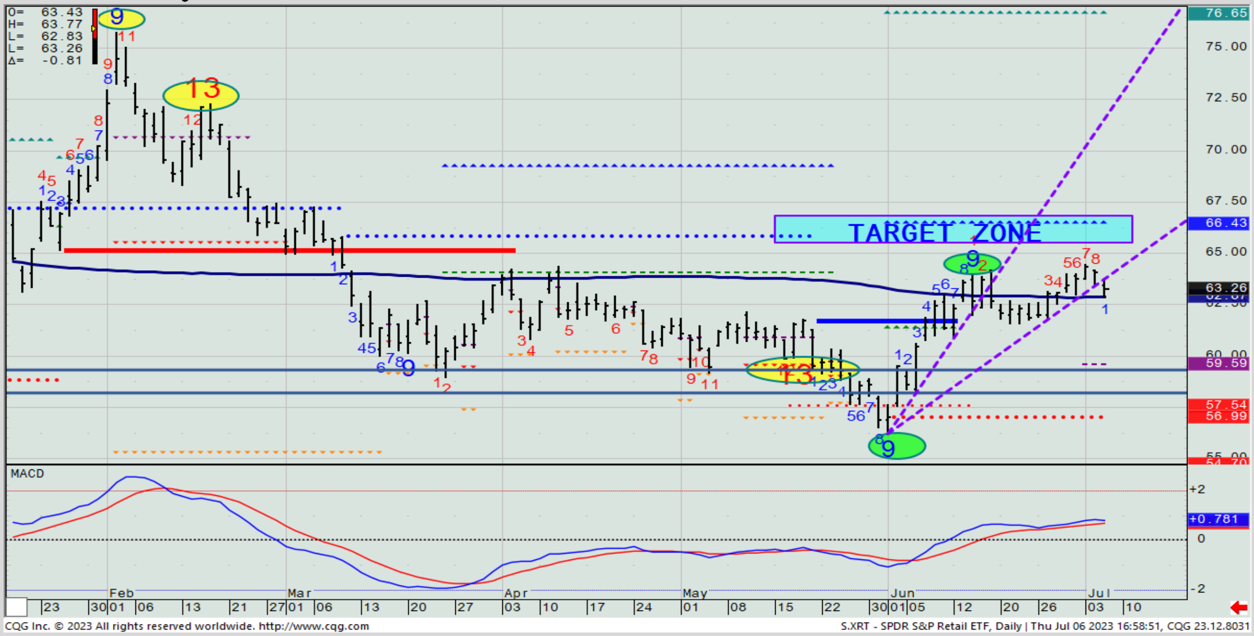
Long SMH (still awaiting entry)
Six weeks ago, I suggested buying a half-sized standard dollar unit of this semiconductor ETF during this week or next on a pullback to the $135.50--$134.50 area. I've since adjusted this to an entry level of $138 to $137 should the opportunity arise to buy it there. The associated sell-stop to exit is now on the second consecutive Friday close beneath $131.58.

SMH – Weekly



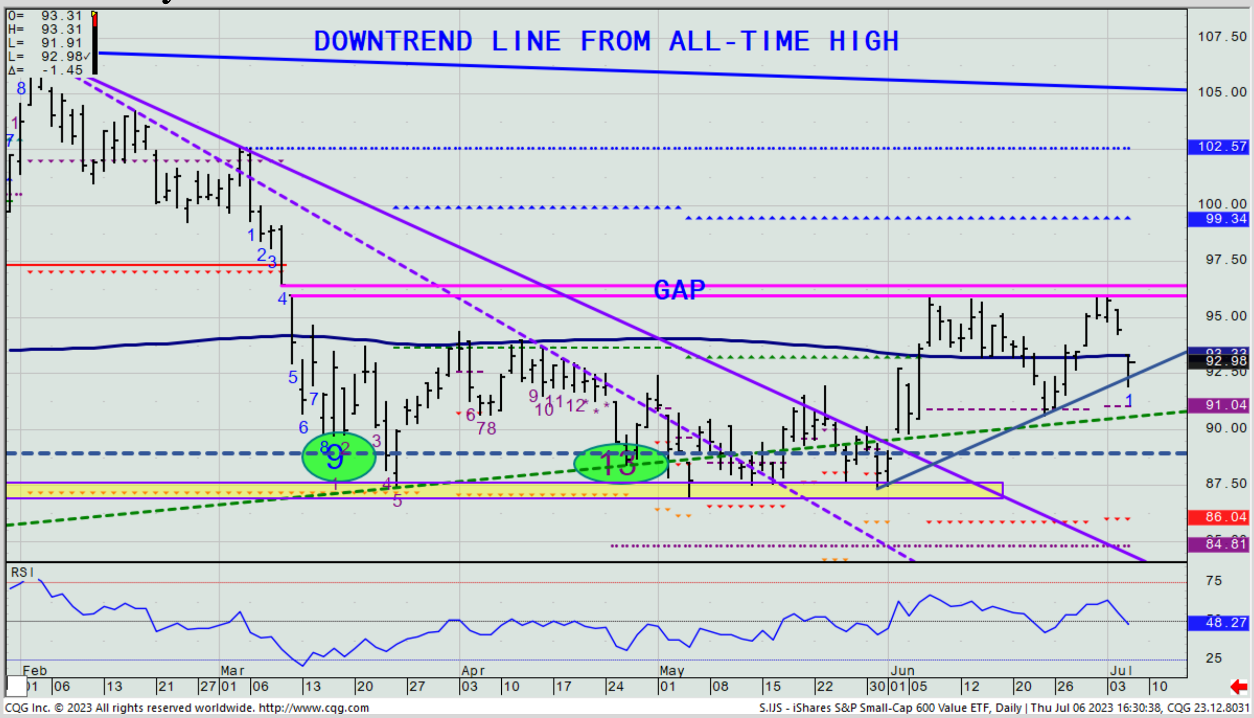
Long XRT
Seven Friday's ago, we went long a half position (average price $60.27) and then the other half two weeks ago (at $58), for an average one-unit long position at $59.14. We've already taken off 1/3 at an avg. price of $63.24, and let's take another 1/3 off today. I'll again raise our sell-stop on the remaining 1/3 to a close under yesterday's low of $62.83.

XRT – Daily



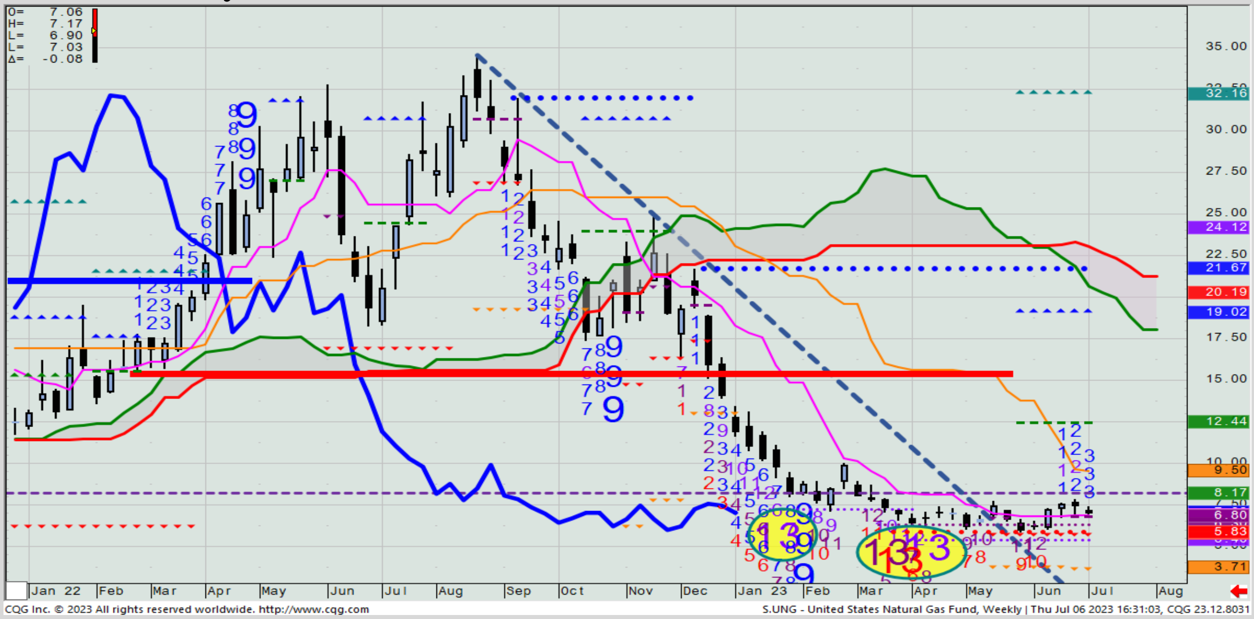
Long IJS
Ten weeks ago, we bought this small cap value ETF (avg. entry at $90.83). We've removed 1/3 at an avg. price of 91.39. Our remaining sell-stop to exit is on consecutive daily closes beneath $90.89. I'll target $99.25--$99.50 to exit whatever longs we'd still have left at the time.

IJS – Daily



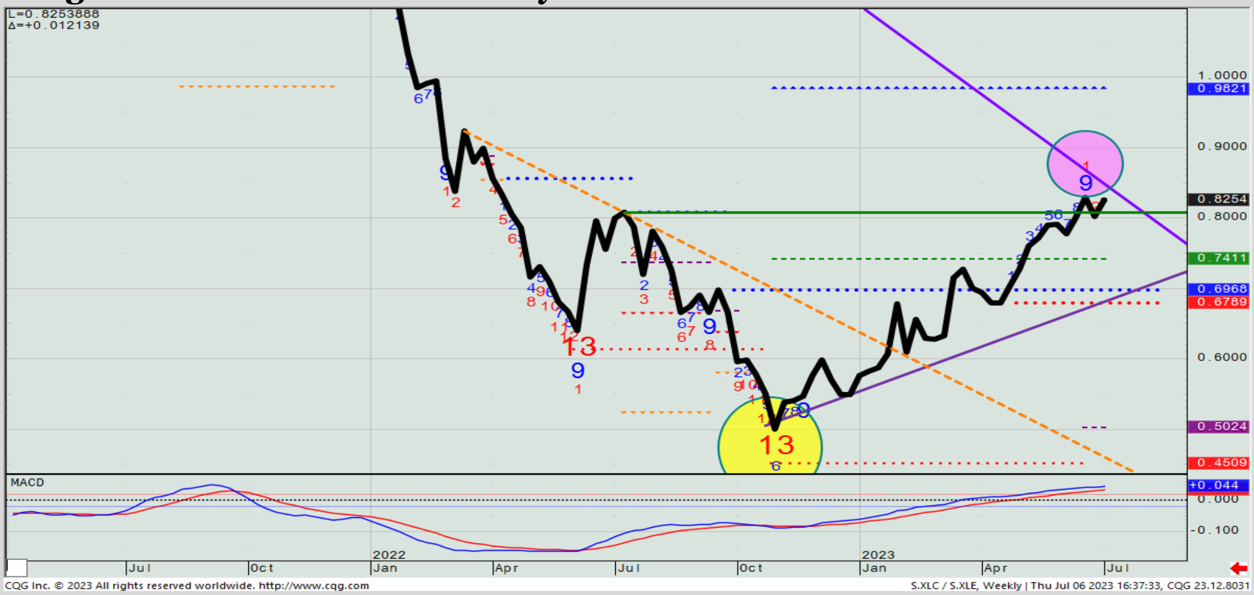
Long UNG
Nineteen weeks ago, we bought a one unit position in this natural gas ETF, with us getting in at an avg. price of $8.26. At the time, I suggested this to me more likely an investment than a trade. Three more weekly -13 signals have come in since. We finally saw consecutive weekly up closes above 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), where I'd exit one-third of any longs purchased this year.

UNG – Weekly



Long XLC vs. Short XLE
Five months 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. Last Friday we exited the rest at an avg. of 0.8022, for a total avg. exit of 0.7890, making us a healthy 16.61% gain on a hedged trade. (We'll take that anytime.)

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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