Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com July 21, 2023

TACTICAL TRADER REPORT

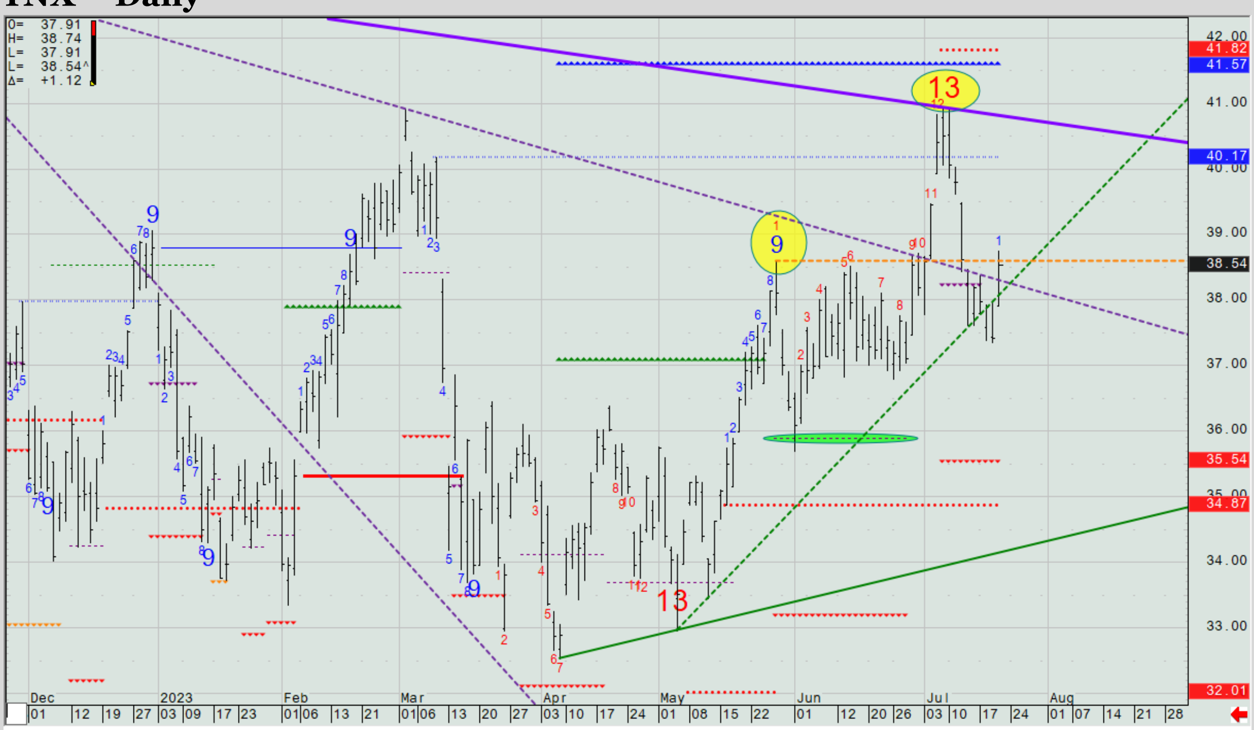
The Macro Picture

A lot has happened in the past week, with stocks continually pushing higher to their best levels of the year; UST 10-yr. rates falling from what appeared to be an upside breakout; the dollar pushing to new 2023 lows; and gold getting a decent bounce.

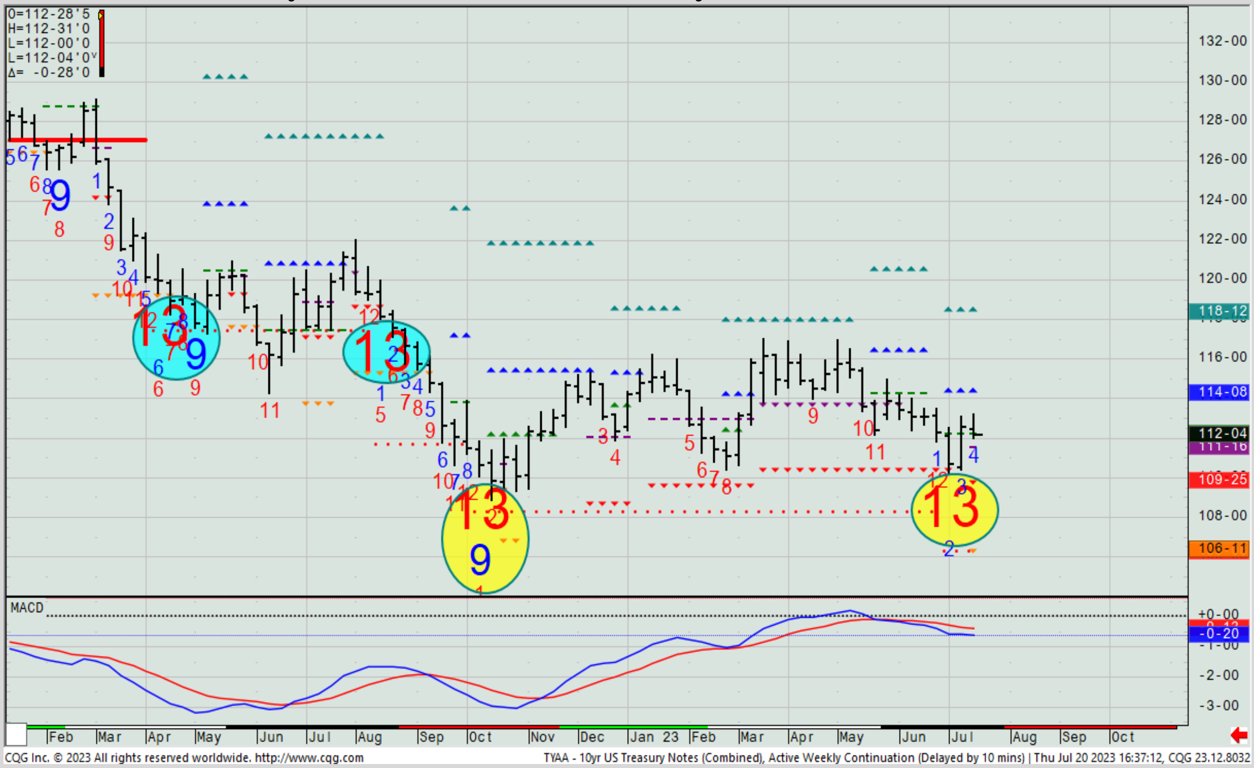
Much of the stock upmove has come on the perception that inflation is coming down, and that the Fed is nearing the end of its tightening cycle, with most thinking that there are no more than two quarter-point raises left (the first of which is expected next Wednesday). It is my continued belief that the Fed will not reverse policy and lower rates in this calendar year. I would be extremely surprised if they were to do that.

Looking at the 10-yr yield chart, we see that the recent turns were accompanied by Sequential +13 signals in both daily and weekly timeframes. That would normally make me think that a big counter-trend move is coming (i.e., yields falling), but we've seen this picture before (i.e., spring and summer of last year). It's no wonder that trying to figure out the real next big move in rates has been so difficult – for everyone. (In fact, the Daily Sentiment Index for 10-yr futures shows 50% bullish. You can't get more undecided than that!)

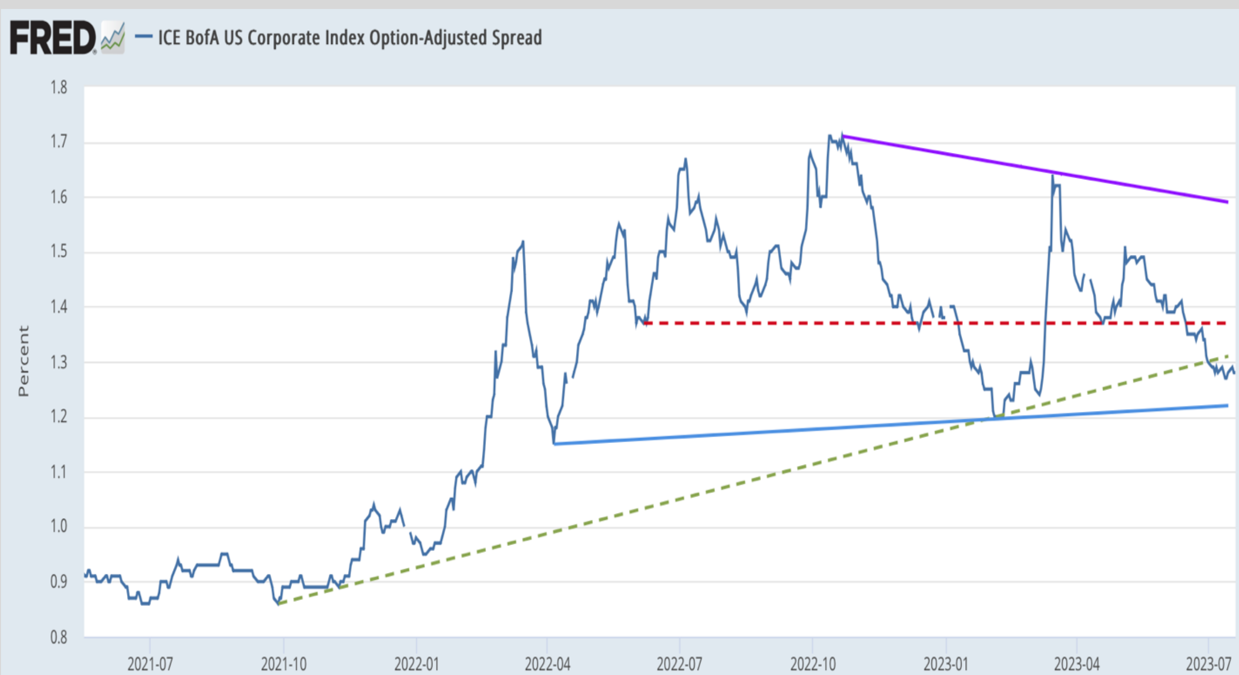
TNX – Daily



Ten Year Treasury Futures – Active Weekly Continuation

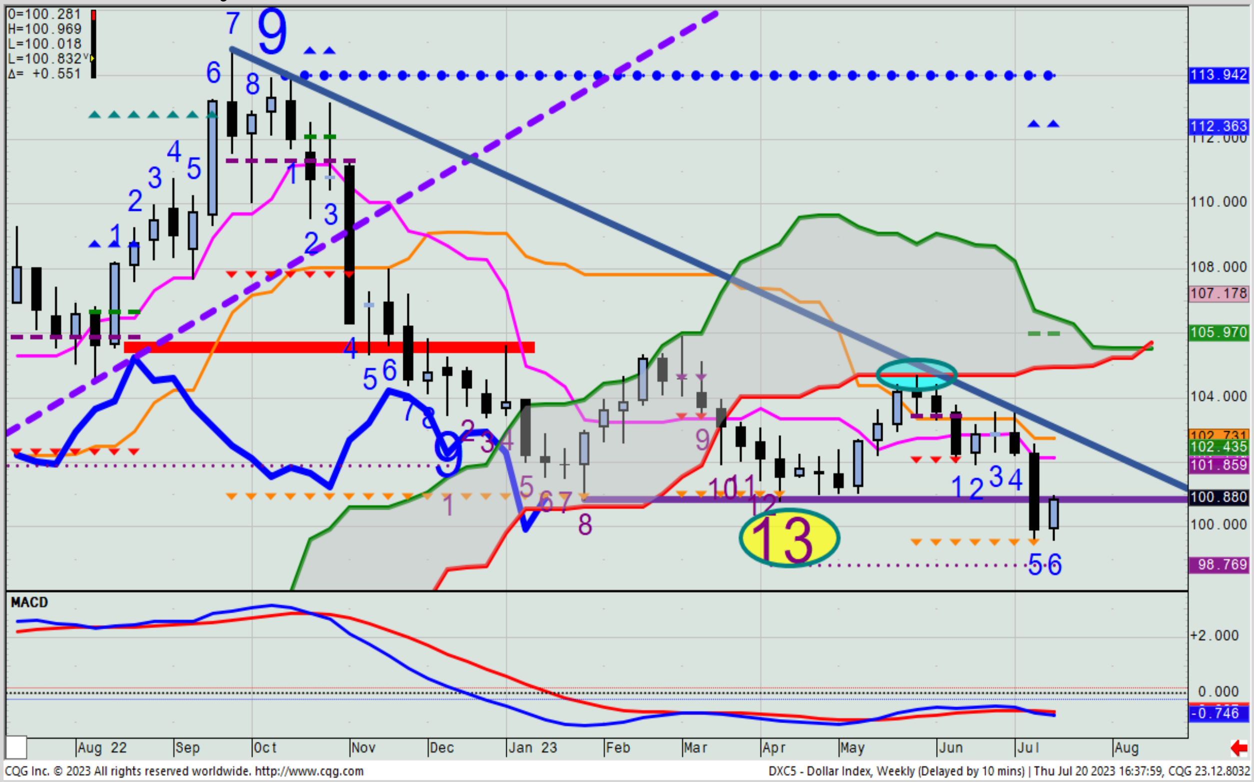


The ICE BofA Corporate Index OAS (i.e., my preferred credit spread to watch) fell to as low as 1.27% last week; it's at 1.28% now; and it remains tucked beneath its major uptrend line from the secular low, but still above the uptrend line from Spring '22. It's darn tough to get a handle on the next major move in this, too.



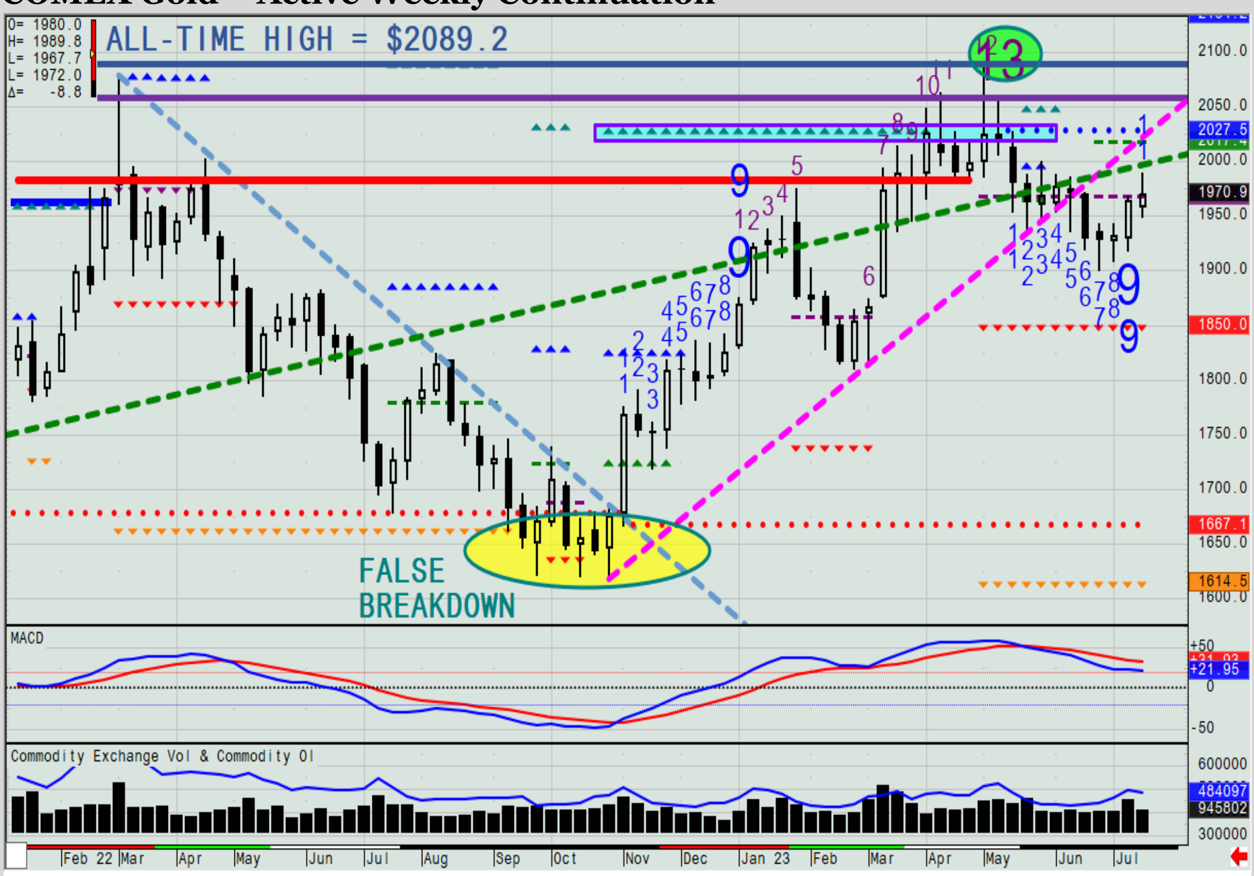
The US Dollar Index has broken structural support, with both price and the cloud's Lagging Line now beneath both of their respective cloud bottoms. Though the weekly bearish Propulsion Full Exhaustion level is at 99.60 and the -13's Risk level at 98.77, this structural shift away from what has been a long-winded bull market is still potentially significant. (See chart on top of page 3.)

DXY – Weekly



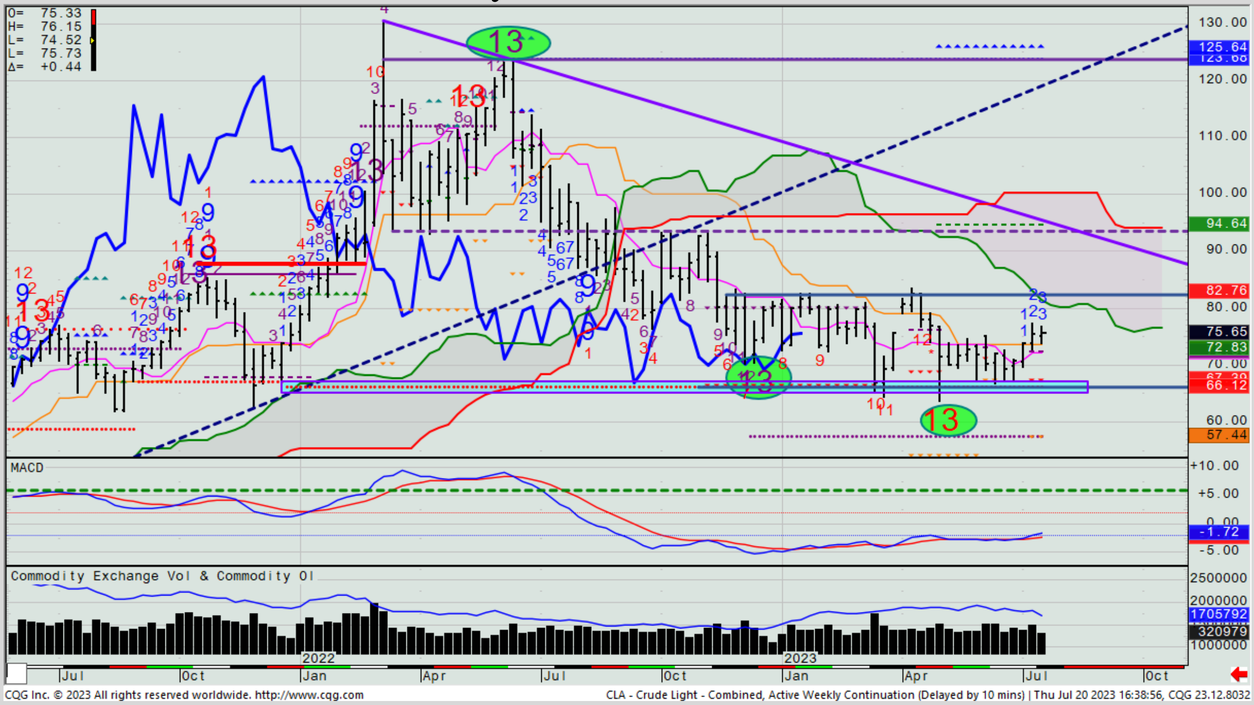
Last Friday I mentioned here that it's not a bad time to consider adding to long-term gold holdings – given the new weekly Setup -9 count. I see trading resistance levels at $2017 to $2029. Bulls need to see $1850 hold on all pullbacks.

COMEX Gold – Active Weekly Continuation



WTI crude oil always held its key support in the $66/$67 area. I still look for it to move to near $80 to test the cloud bottom, but the bigger picture is not yet clear.

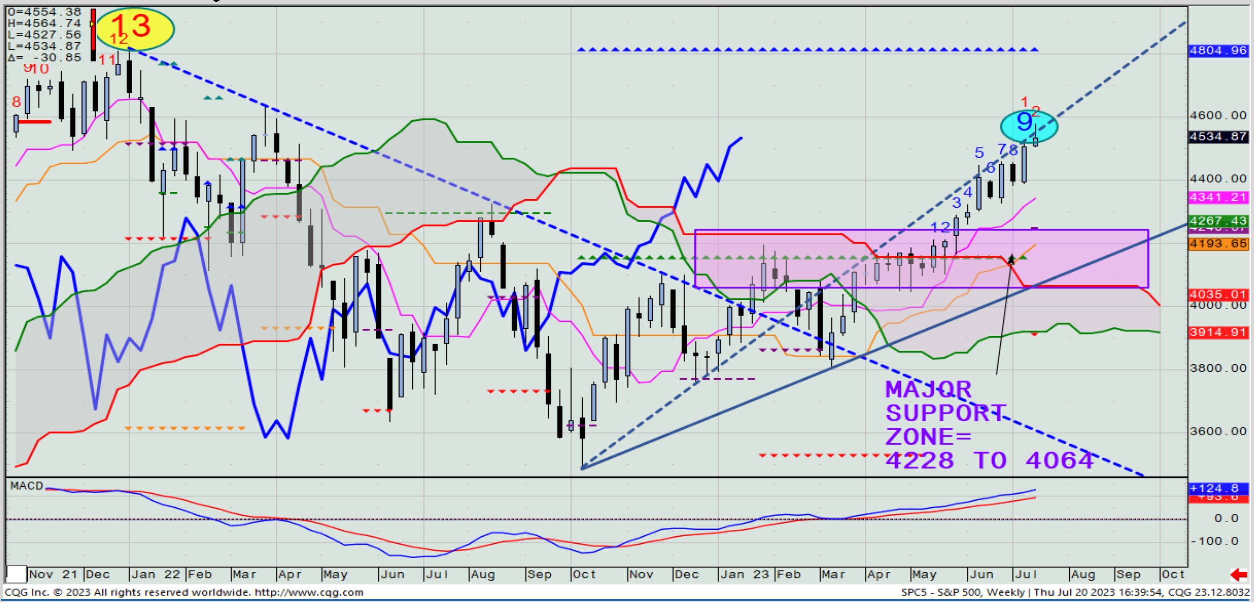
WTI Crude Oil – Active Weekly Continuation



The SPX reached both daily Aggressive and standard Sequential +13 readings, that was also accompanied by a high DSI reading of 88% bulls, while also reaching the top end of the projected trading target zone and having reached a Fibonacci 76,4% retracement level. It made me come into this week a trading bear, but the continued upmove knocked me out with a small loss. The DSI was still at 87% bulls coming into yesterday's action – keeping it hard for me to want to add new longs (except for in names now first breaking out from bases). I still think there's risk in the high-flyers, and I'm not interested in buying them here, but would have no problem on a decent pullback – given how much they've rallied in percentage terms in 2023.

SPX – Daily

SPX – Weekly



Finally, last week I told you that I had personally sold out of the SPYs that I bought last year at $371. (My avg. out was $450.25.) I have not thought about buying them back yet, but am open to doing so if there is no pullback. (I'd truly be surprised if there isn't some given the 400+ almost non-stop rally seen since the SPX broke above its weekly cloud top at 4155.

New ETF Trade Idea

We don't know if yesterday's market sell-off was a long overdue one-day decline, or perhaps, something a bit more substantial coming. If there is more than just the one-day decline, than you'd generally expect that an industrially-used metal like silver will do worse than that of gold – the theoretical hedge against an economic slowdown.

So, when I look at the price of GLD vs. SLV, it fits into the idea that now may be a good time to buy the yellow metal vs. the whiter one, as there is trendline support down here on the charts.

Long GLD vs. Short SLV – Daily

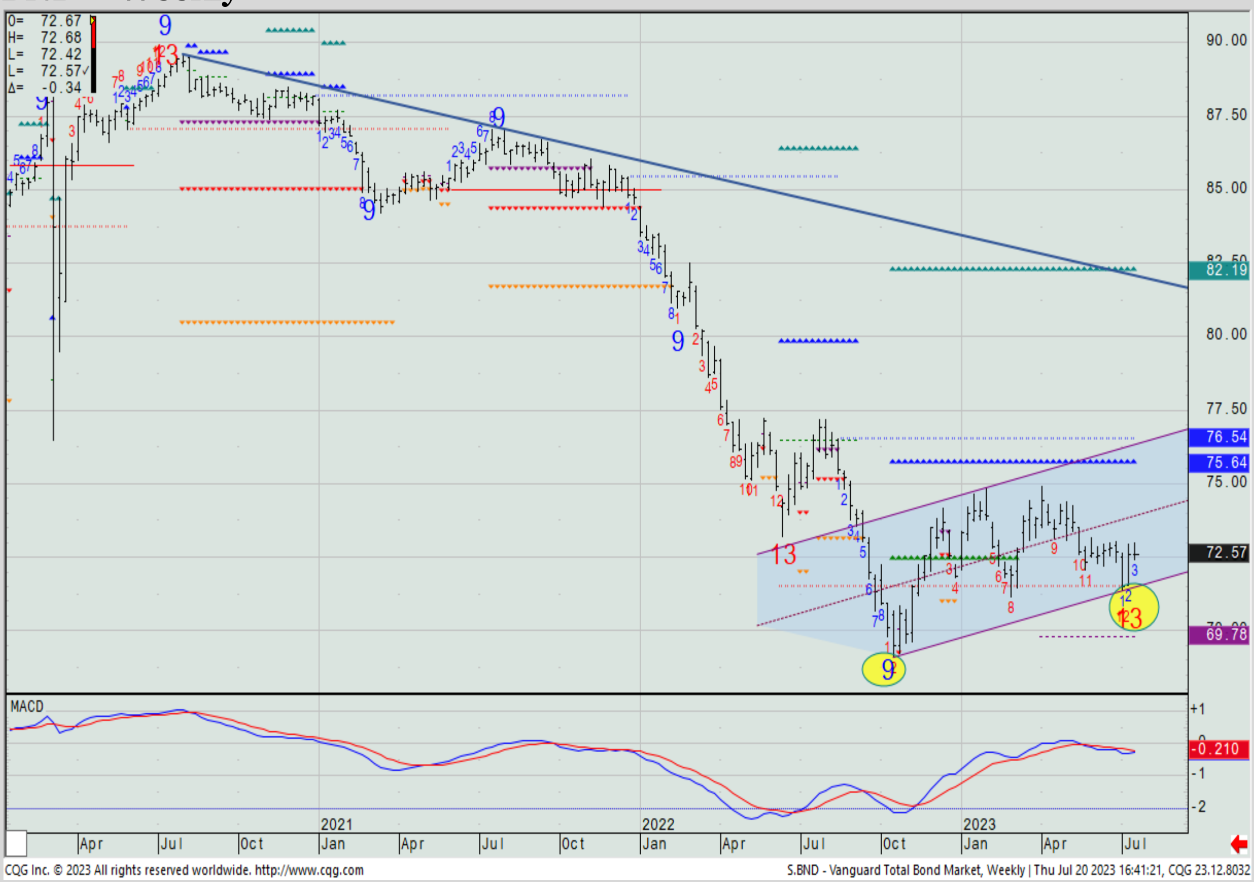
As such, let's look to buy one unit of GLD today and sell short an equal dollar amount of SLV against it – essentially looking for this chart to start heading upward again. We'll target taking half off near a ratio of 8.25, and the other half at the top end of the range (i.e., the upper horizontal purple line) near 8.64. Our sell stop is to exit on consecutive Friday closes beneath 7.91.

Other Open Recommendations and Positions

Long BND

Last week I decided that we should play the potential rally in the bond market, by going long a half-size position in this ETF (our avg. fill last Friday was at $72.70) and to buy the other half between $72.22 and $72.12. I'll target $75.60 to $76.60 to remove half of whatever exposure we have on at the time. Our sell stop on all BND exposure is to exit on a Friday close beneath $71.35.

BND – Weekly



Short XHB

Two weeks ago, my idea was to scale-up short XHB in three parts:

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 three more Fridays (including today).

We have the first third entered at $81.56, and look to fill out the full position over the next few more. We'll play for a decline to re-test the area of the breakout just shy of $72.

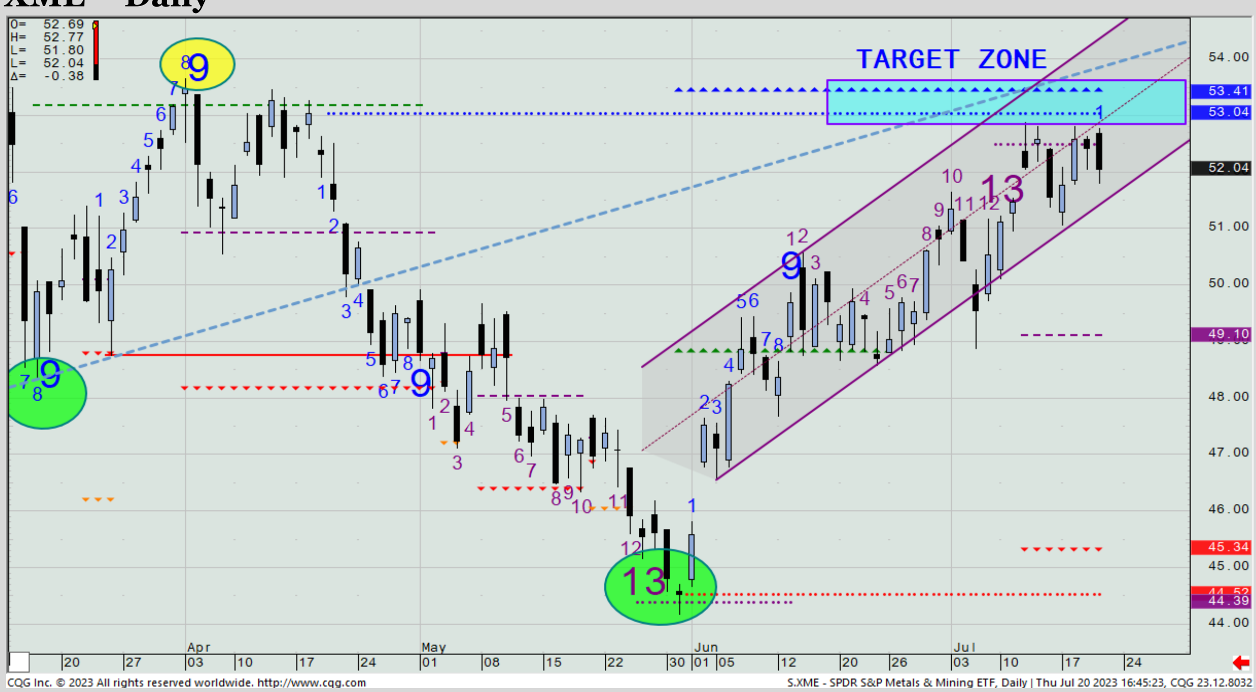
We'll determine the buy-stop once we are fully filled, or it moves down before we get all three short pieces executed. (See chart on top of page 7.)

XHB – Weekly

Long XME

Three weeks ago, 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. Last week I raised our sell stop to a close beneath $52.25, which this closed beneath yesterday. Thus, we exited on Thursday's close for a gain of 3.06%.

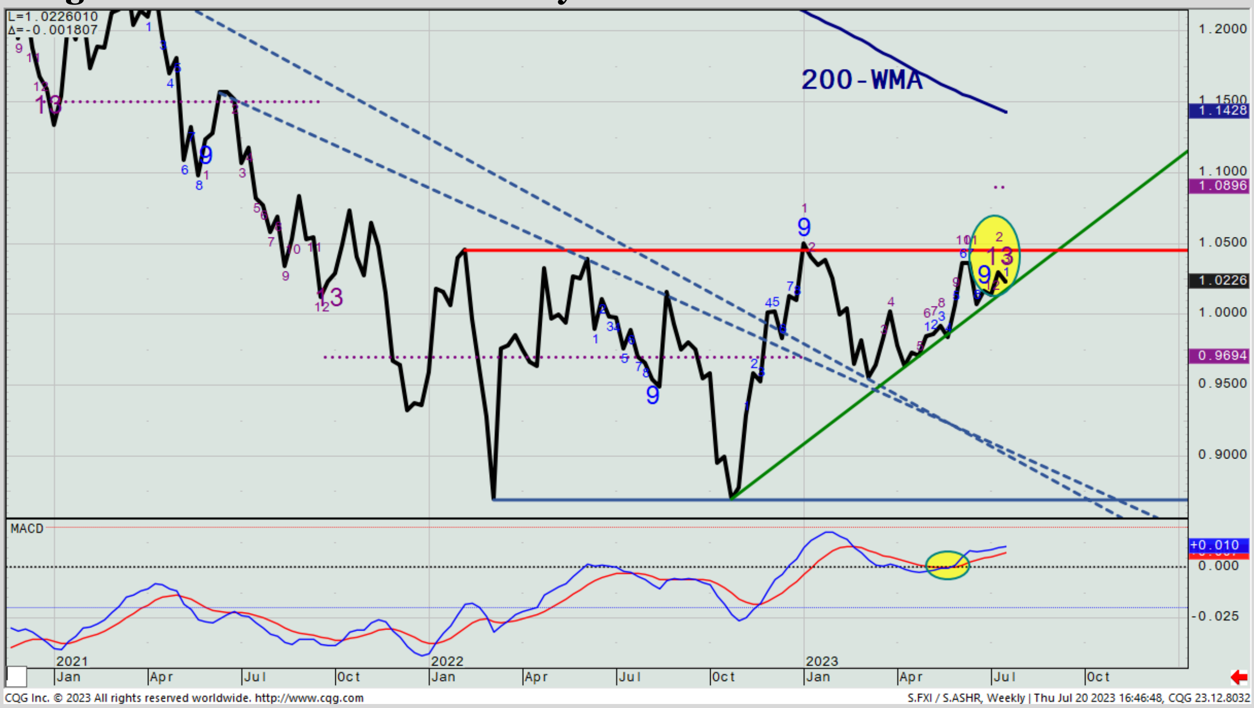
XME – Daily



Long FXI vs. Short ASHR

Six 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. Given the Sequential +13 (it already marked a recent Setup +9), we exited half last Friday at an avg. sale of 1.0277. The sell-stop on the other half to be a Friday close < 1.0067.

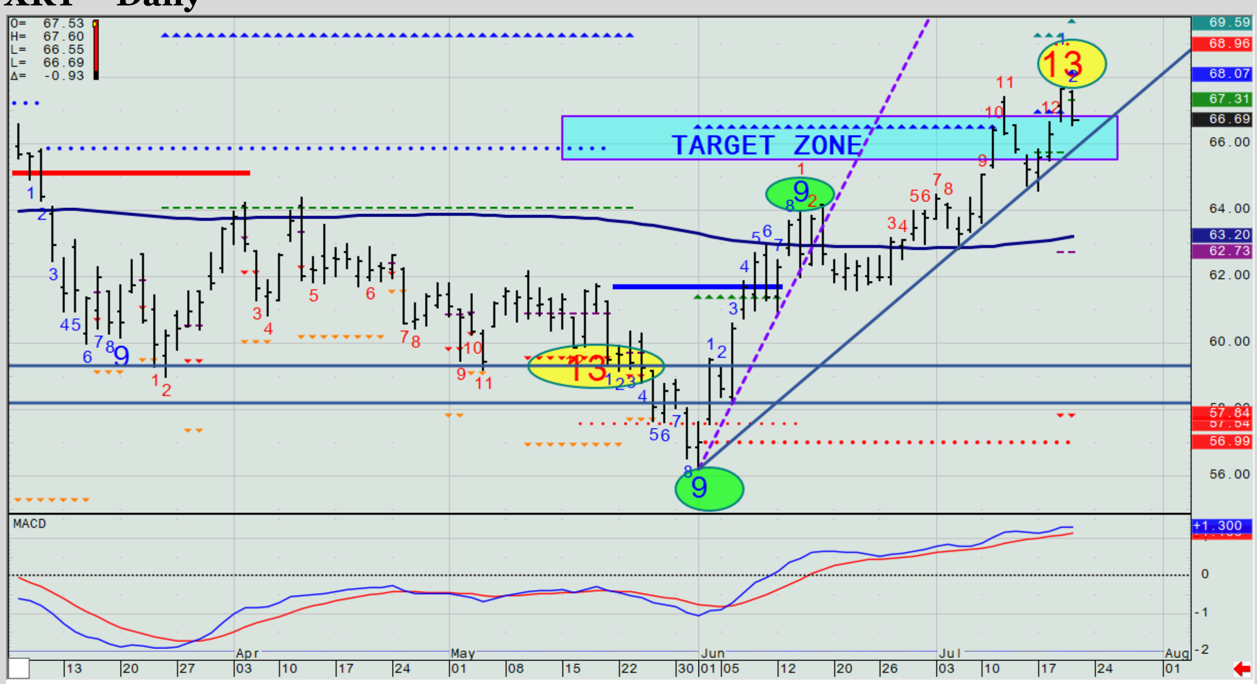
Long FXI vs. Short ASHR – Weekly



Long XRT

Nine Friday's ago, we went long a half position (average price $60.27) and then the other half four weeks ago (at $58), for an average one-unit long position at $59.14. We've already took the first 1/3 off at an avg. price of $63.24, and the second third at an avg. price of $63.86. Now that a +13 reading has appeared, let's exit the balance today.

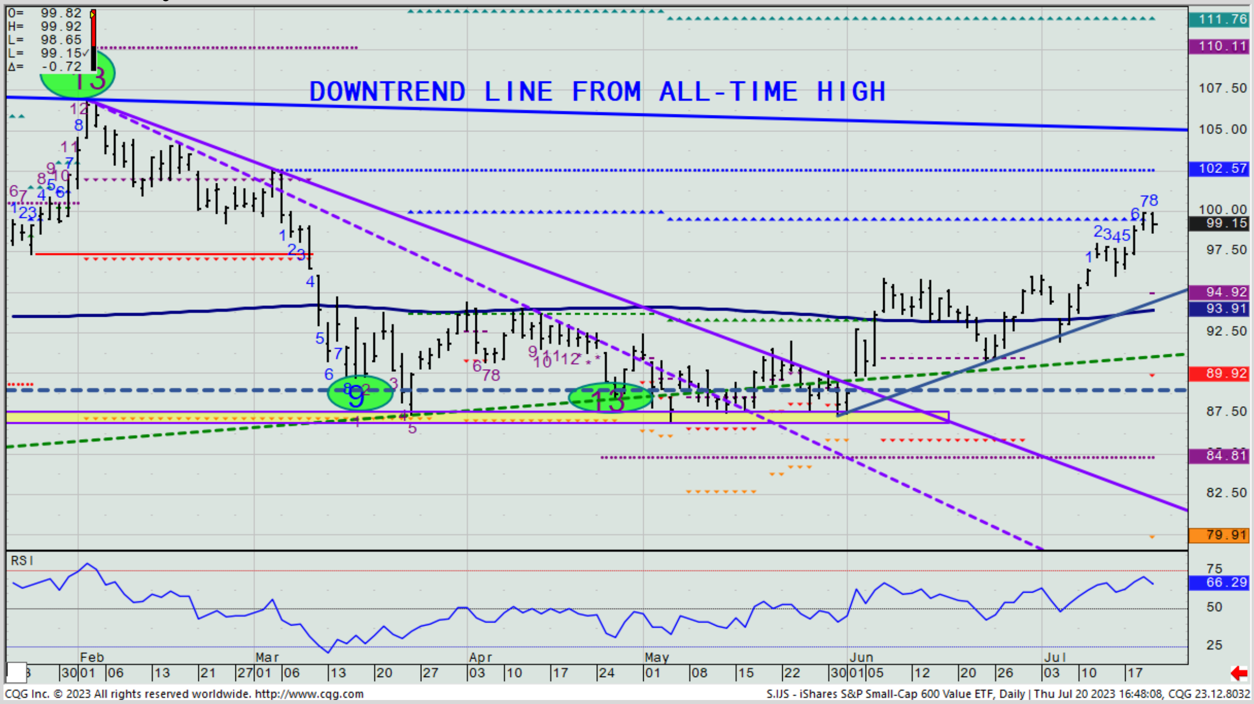
XRT – Daily



Long IJS

Twelve weeks ago, we bought this small cap value ETF (avg. entry at $90.83). We removed 1/3 at an avg. price of 91.39, and another third last Friday at an avg. of $97.41. I'm raising sell-stop on the balance is to exit on a consecutive 60-minute bars that close under 97.86. I'll now target $102.57 +/- 15 cents to exit the final third.

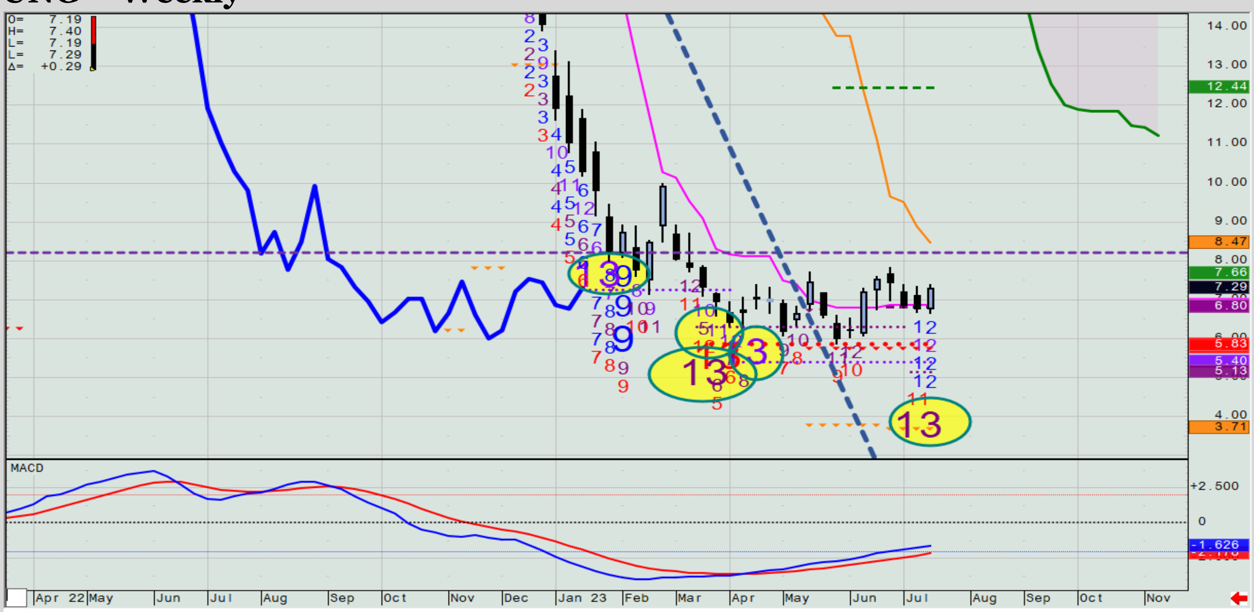
IJS – Daily



Long UNG

Twenty-one 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. Since then, a fourth weekly -13 signal has come into play, including one from last Friday. Look for a move in coming weeks to challenge the falling Base Line (in orange), where I'd exit half of any longs purchased this year.

UNG – 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