Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

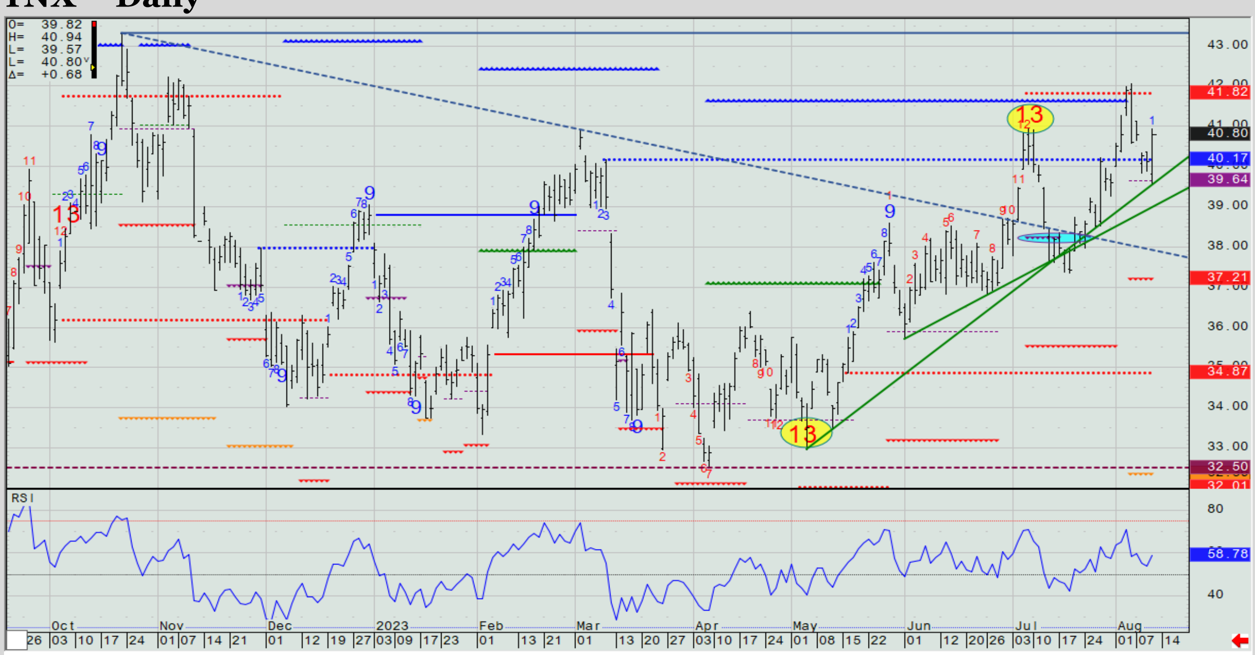
The Macro Picture

Stocks have see-sawed over the past week, with the SPX still near 4500, as buyers and sellers do battle in what has been a war of attrition that goes nowhere. At the core of the battle is really one that has a lot to do with rates, and to what extend – if any – they continue higher. Bulls are betting that they will not take out last year's high (of 4.33% in the UST 10-yr.), while bears are thinking that the "higher for longer" scenario is still very present, and that the Fed is not done raising rates. Yesterday's CPI number was in line, and initially gave bulls a reason to strongly bid up stocks on the belief that the 0.2% number would be enough for the Fed to halt the rate hikes. But sellers dominated the day, with the SPX peaking by 10am up almost 60 points and then declining to be flat around 1:30pm and ultimately closing at 4469, up just three bps. on the day, and some 58 points off its intraday high.

Let's look at the key markets that will influence the next coming directional stock move:

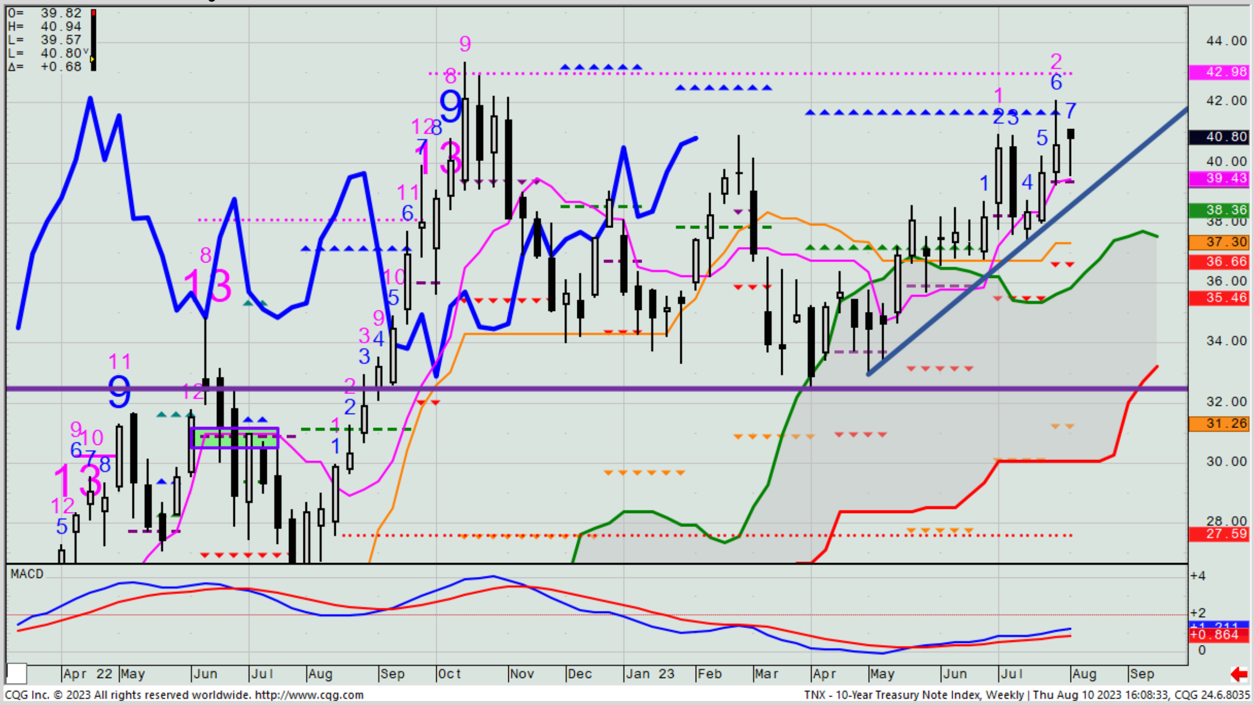
BONDS: Yields backed up after hitting the Sequential +13's Risk level at the 4.20% high of the move, and then backed off to 3.96%, which happens to be the bearish Propulsion Momentum level (so it's important, especially if it gets properly broken). With them currently at 4.08%, there's not much right here to go off of from a pure trading perspective.

TNX – Daily

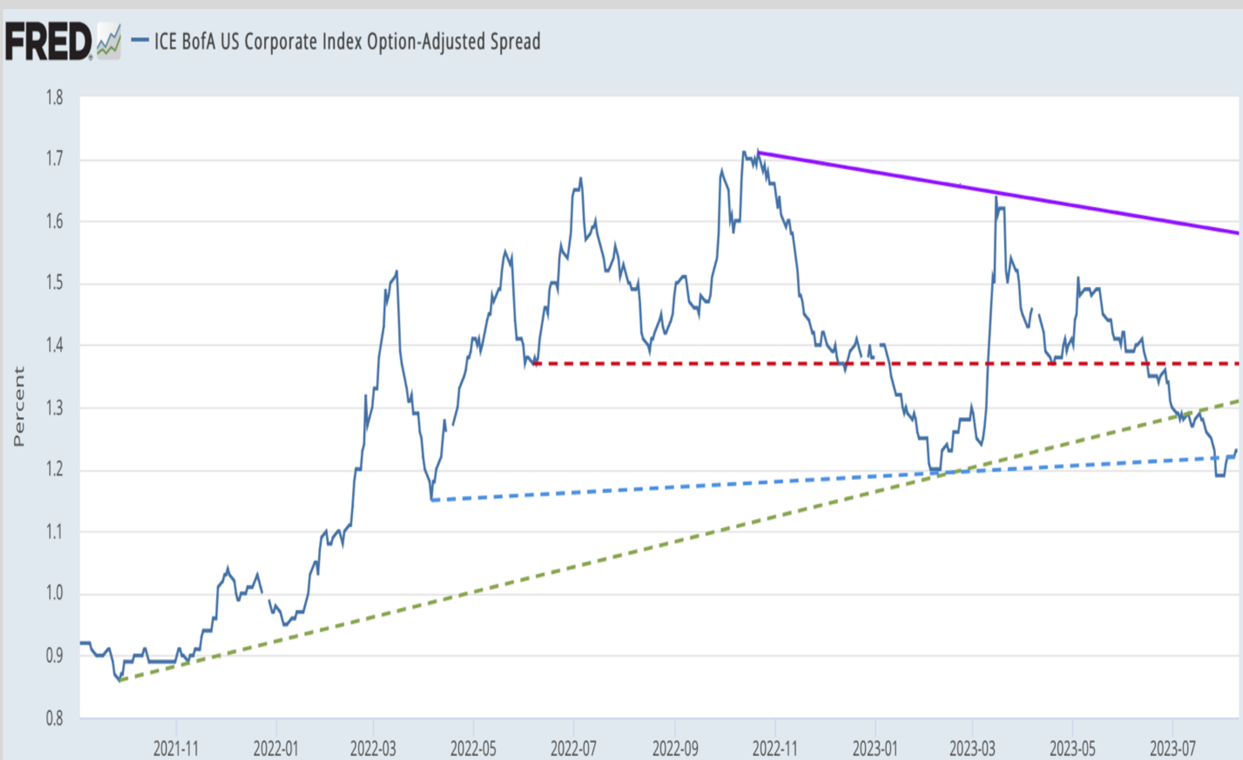


However, the weekly chart now shows a Setup +7 count this week, and I suspect it marks a Setup +9 count later this month, along with a likely test around those 2022 highs. The highlighted grey-colored downward flag pattern was most likely a continuation pattern that suggest higher levels in what was nothing more than a pause in the major bull market we've seen in yields. New highs above 4.33% would first target 4.88% and then 5.08%. In that scenario, I don't see how stocks keep their gains.

TNX - Weekly

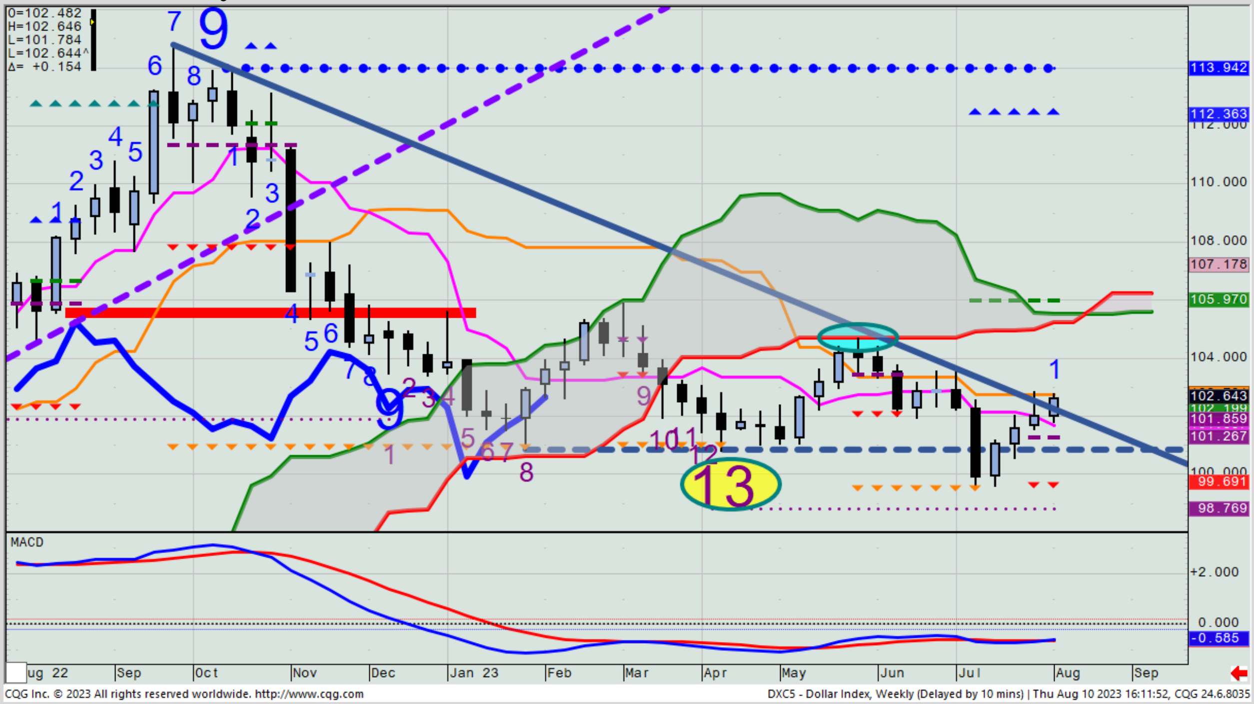


The ICE BofA Corporate Index OAS (i.e., my preferred credit spread to watch) fell in early August to new '23 lows to 1.19% and is now at 1.23%. Any new trouble in stocks – or a rally to last year's highs in the TNX – likely make this spread widen out again.



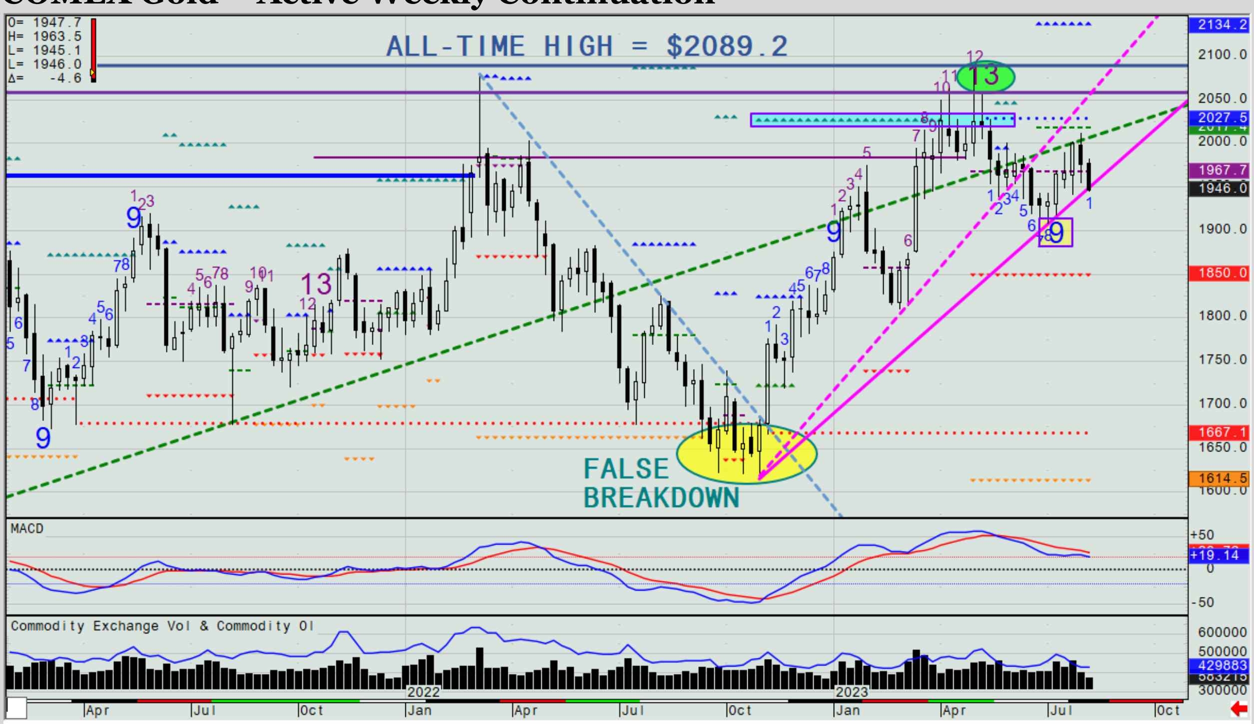
CURRENCIES: The US Dollar Index continues to hold above the low from four weeks ago – the same time that many Street strategists turned bearish because of those new 2023 lows. The Street may have that call quite wrong, and most especially if we see Friday closes north of the Base Line of 102.73 (because then it would likely have clear sailing back up to its cloud bottom and bullish Propulsion Momentum level of 105.97.

DXY – Weekly



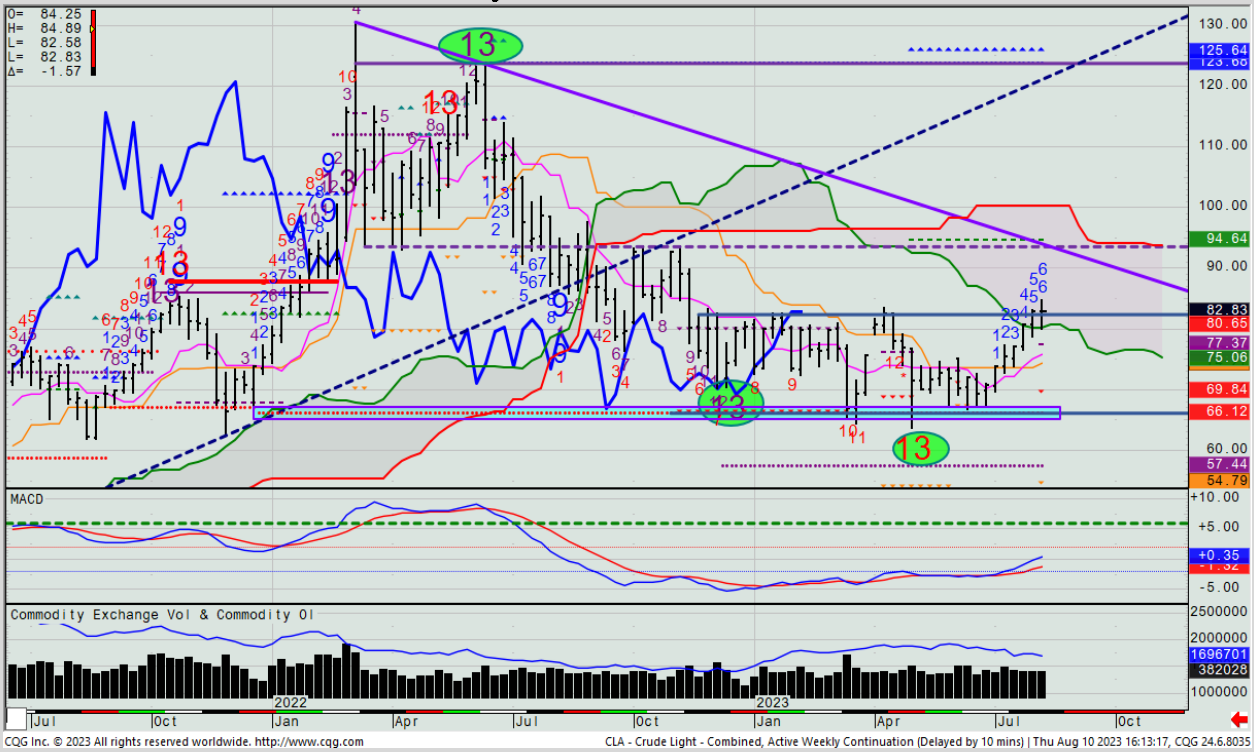
COMMODITIES: With gold falling for a second week in a row, it finds itself right on the uptrend line from last year's major low. If it can't hold, then gold likely tests or even exceeds the recent low. Resistance remains from $2017 to $2029. In the bigger picture, bulls need to see $1850 hold on all pullbacks.

COMEX Gold – Active Weekly Continuation



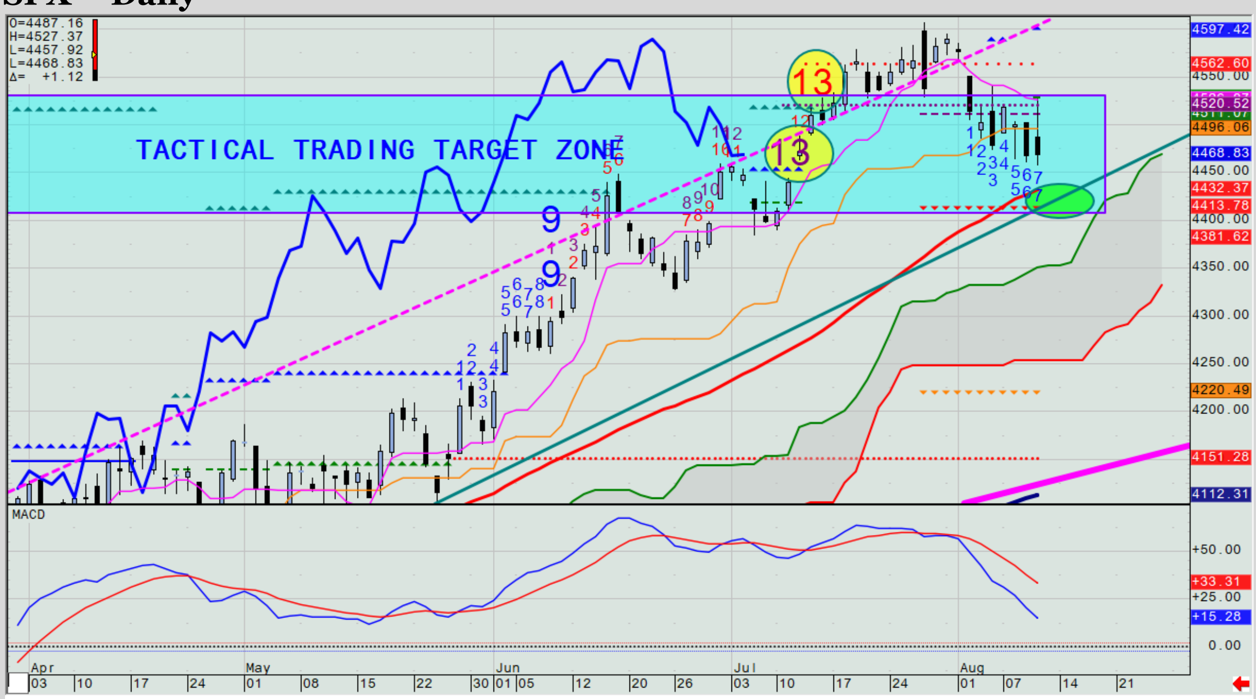
I called for WTI oil resistance at $84.37, and so far, the high of the move made earlier this week was at $84.89 with it now trading near $83. I'd be a willing buyer on a pullback to $77.50.

WTI Crude Oil – Active Weekly Continuation



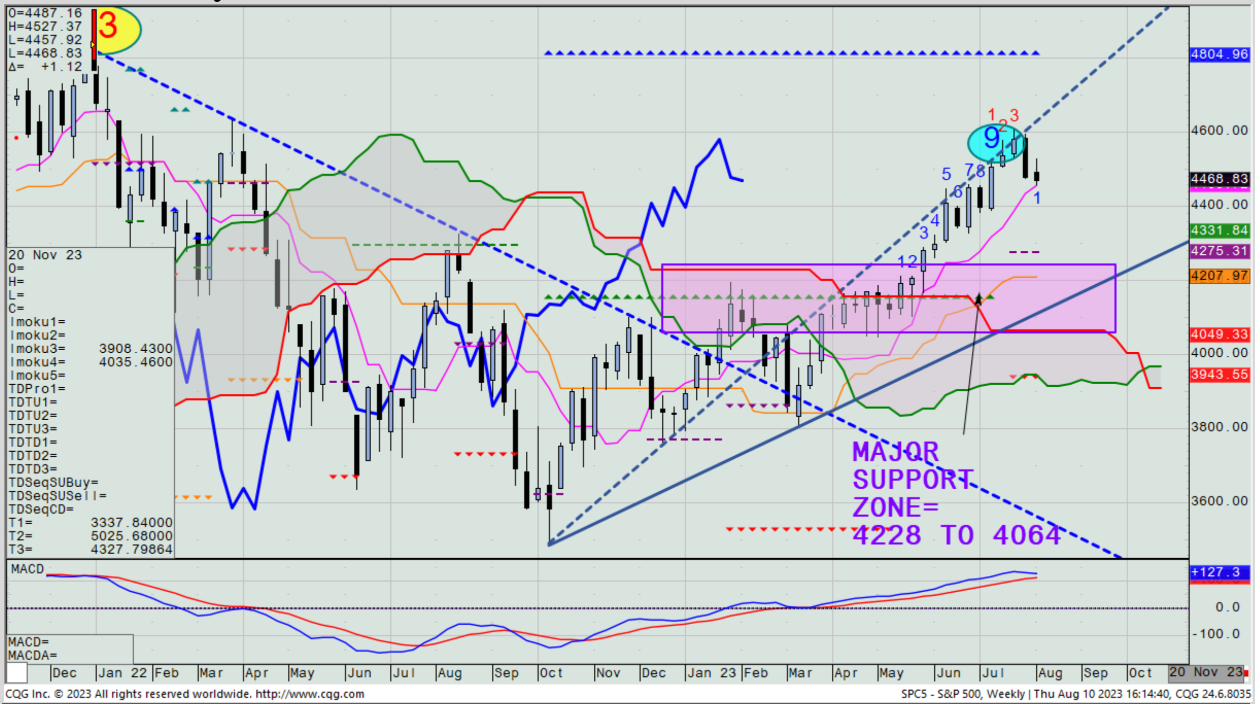
EQUITY INDEXES: The SPX continues to hover around 4500 off of a high of 4607. It hasn't been able to get back above its daily Conversion Line, and with yesterday closing beneath its Base Line for a second day in a row, I do look for a Setup -9 count to be made on Monday, with a move down to the green-colored ellipse likely to see just how much bulls want to defend that support area.

SPX – Daily



The weekly chart's Conversion Line is at 4456, marking its first support level from my preferred models. Combine that with the upcoming likely Setup -9 on Monday and we can certainly see a trading bounce from there.

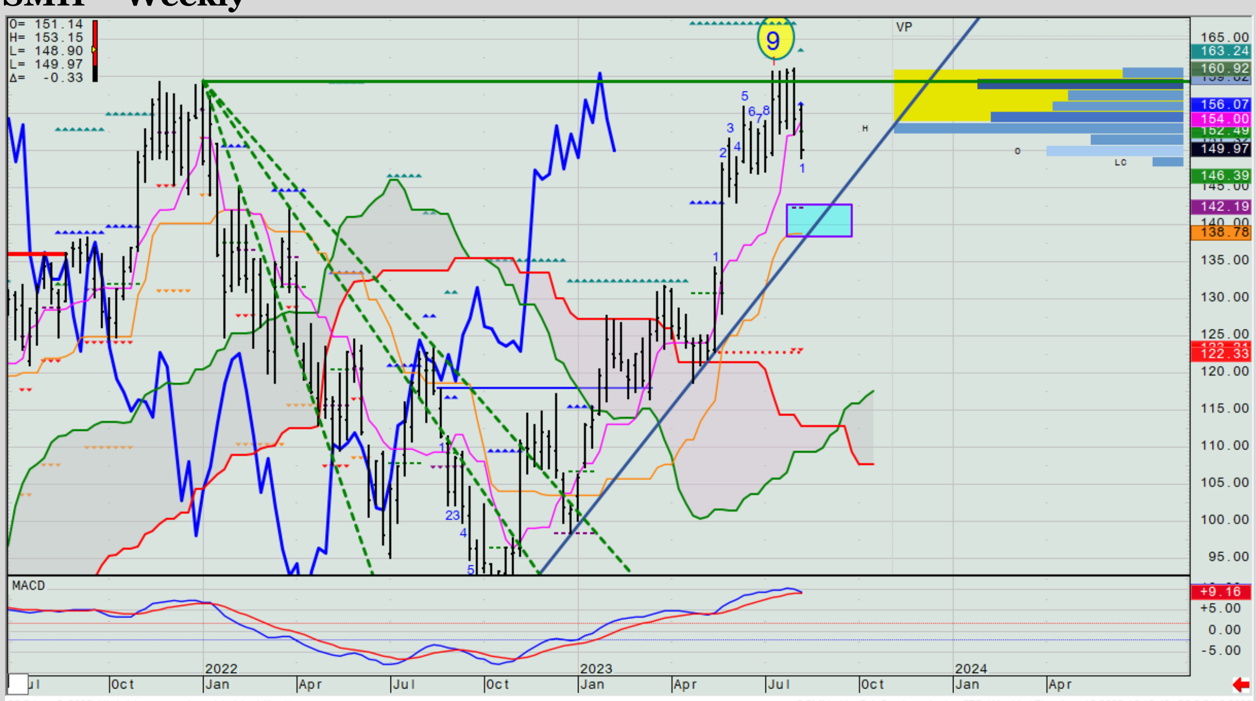
SPX – Weekly



New ETF Trade Idea

Despite the NDX having a far superior year than the SPX, on the recent consolidation, they are generally getting hit harder than SPX names. Semiconductors have been in clear institutional selling mode over the past month, with four nearly equal weekly highs until this week's lower high, which has now broken beneath its weekly Conversion Line.

SMH – Weekly

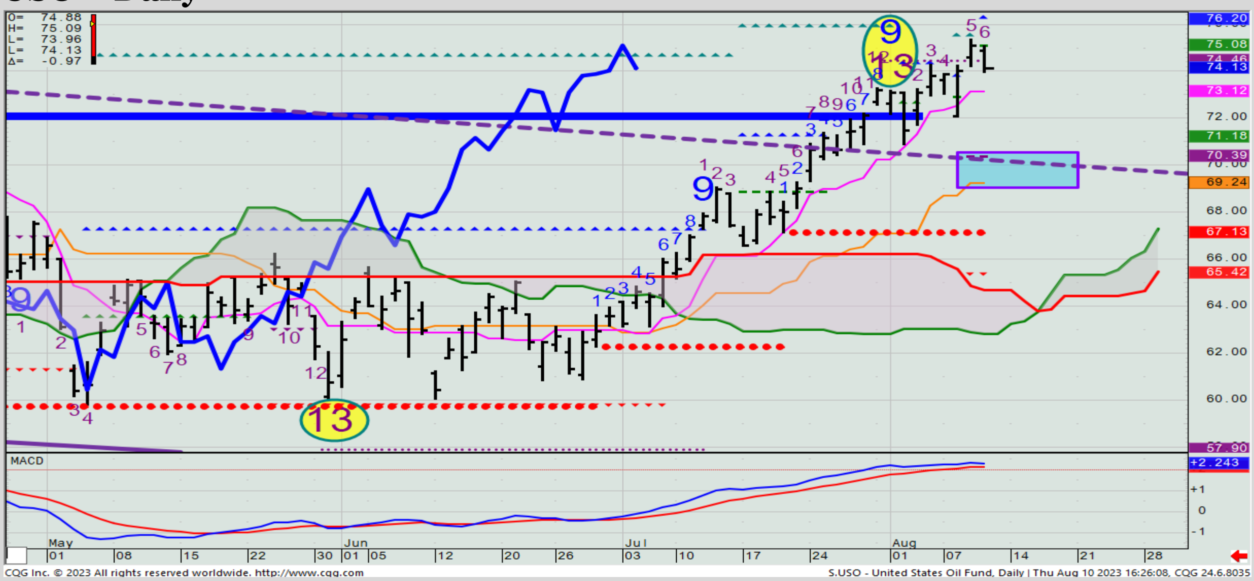


With the volume profile chart showing the low value area at $153.92 (i.e., the low zone of where the first standard deviation of trading took place in the last month), and the second highest volume level at $154.50, let's look to short one unit from $153.50 to $154.50. We'll target a move down to $142.50 to $139 (in the blue rectangle). The buy-stop is on a Friday close above $159.82.

Other Open Recommendations and Positions

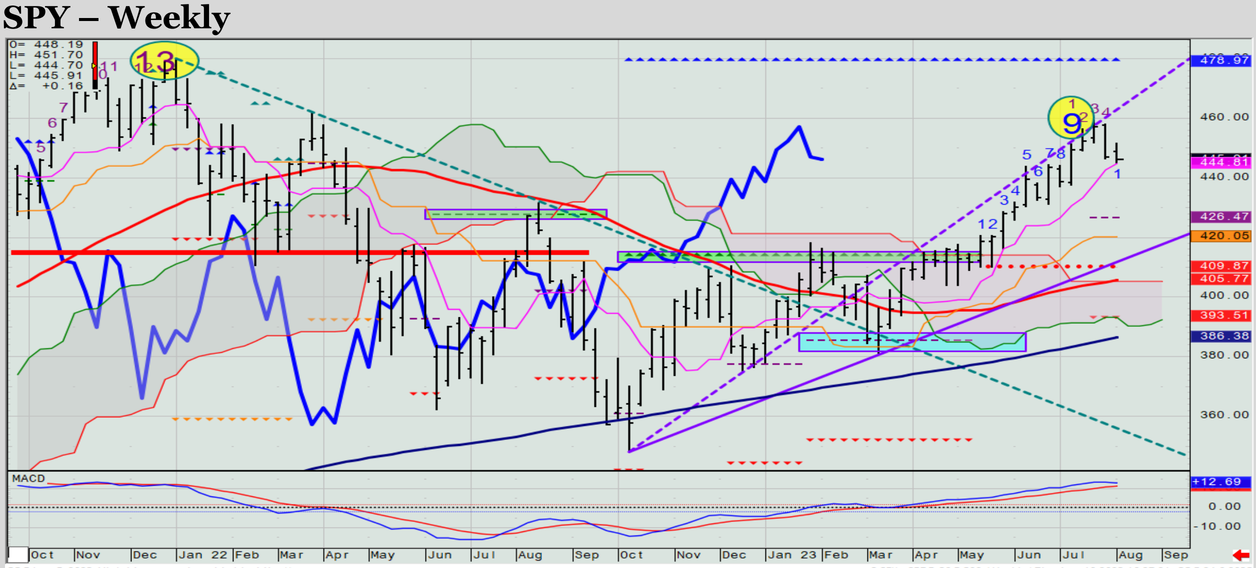
Long USO
I'm looking to get long oil on a pullback to the $77.50 level in WTI, and in its associated USO ETF to the $70.39, where we'll look to buy one unit. I'll target $76.66 to $77.01. For now, we'll stop this out on a Friday close under $66.53.

USO – Daily



Short SPY
Two Fridays ago, we shorted one unit of SPY at an avg. price of $456.42, with me looking for a move down to the weekly Conversion Line. We saw a low of $444.70 this week, so if you didn't already, let's cover this today.

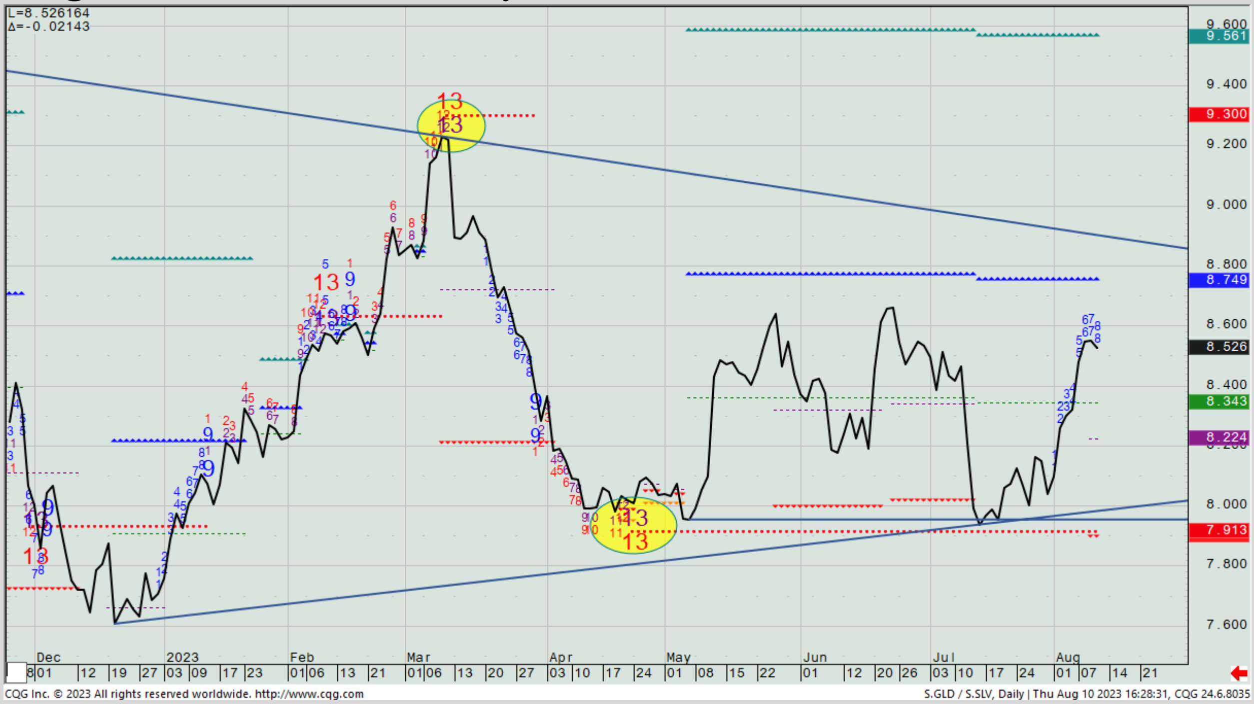
SPY – Weekly



Long GLD vs. Short SLV

Three Fridays ago, we put this spread on (at an avg. ratio of 8.051) – my thinking that gold could again start to outperform silver. We already took half off at 8.25, and are looking to exit the other half at the top end of the range (i.e., the upper horizontal purple line) near 8.64. Move the sell-stop up to consecutive daily closes beneath 8.224.

Long GLD vs. Short SLV – Daily



Long BND

Four weeks ago, 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, which could happen today.

BND – Weekly

Short XHB

Five 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 marks a Setup +9 count.

We have the first third filled at $81.56, and another 1/3 at an avg. of $84.53 (from #3). 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.

XHB – Weekly

Long FXI vs. Short ASHR

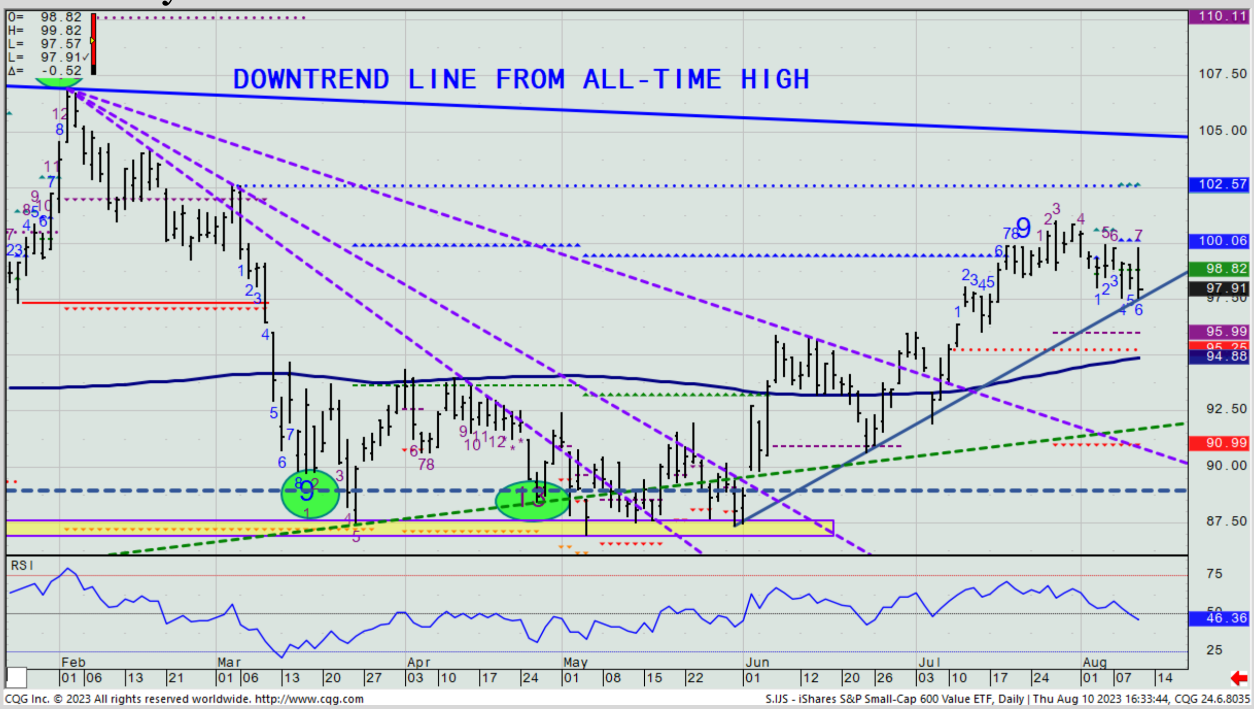
Eight weeks ago, we put on a pair trade in these two China equity-related ETFs, filled at an avg. price of a 1.035 ratio. Given the recent Sequential +13 (it already marked a recent Setup +9, too), we've already exited half at an avg. sale of 1.0277. The sell-stop on the other half is on a Friday close < 1.0067. (This looks like it can potentially break out or down anytime now.)

Long FXI vs. Short ASHR – Weekly

Long IJS

Fifteen 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 at an avg. of $97.41. I raised our sell-stop on the balance is to exit on a consecutive 60-minute bars that close under 97.86. (We got one yesterday, but not two in a row.) I'm targeting $102.57 +/- 15 cents to exit the final third.

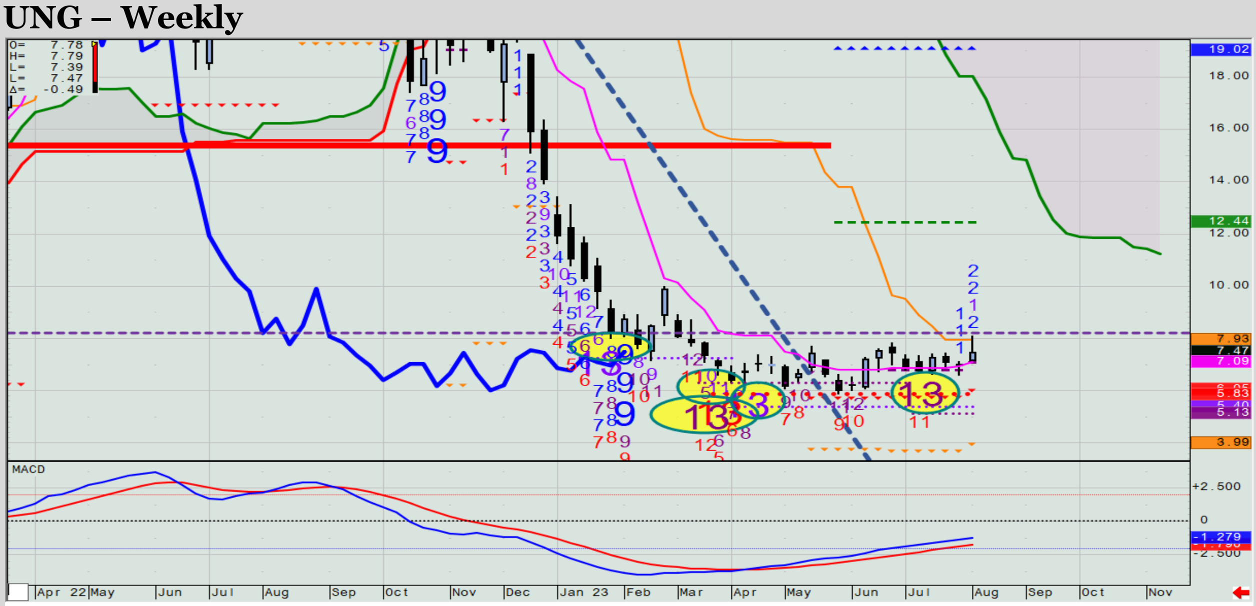
IJS – Daily



Long UNG

Twenty-four 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. Look for a move in coming weeks to challenge the falling Base Line (in orange, currently at $7.93), where I'd exit half of any longs purchased this year. (We got that move on Wednesday which had a high of $8.11. You should be out of half your natgas exposure.

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