Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com August 17, 2023

TACTICAL TRADER REPORT

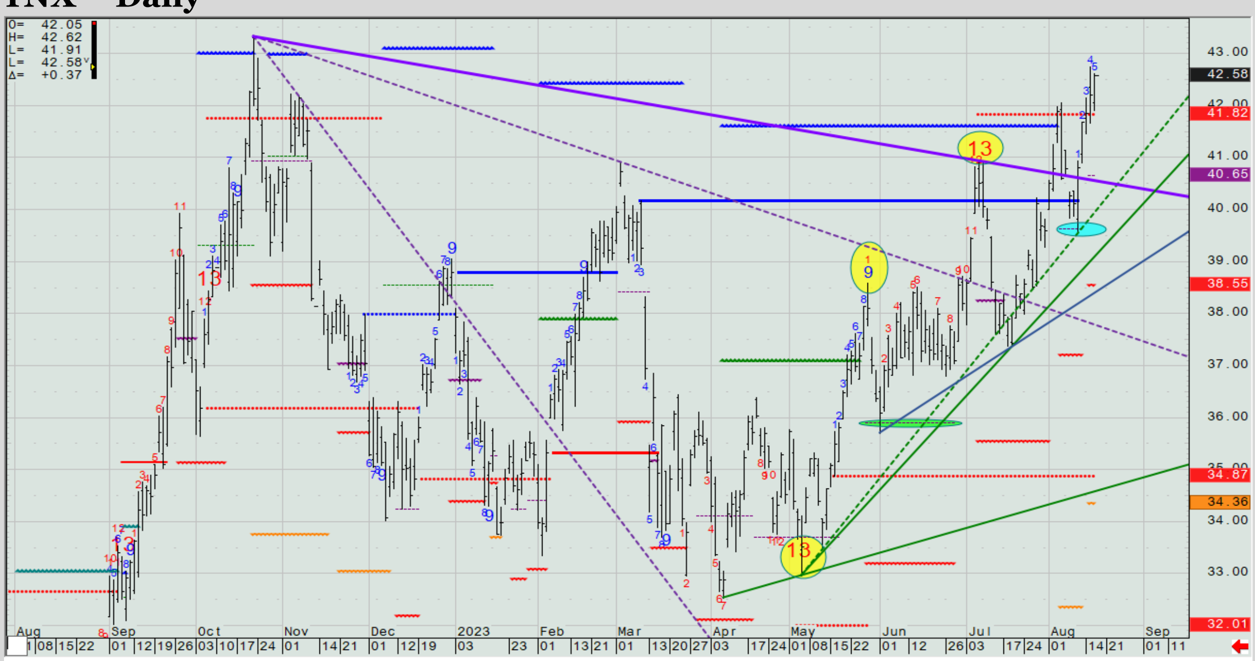
The Macro Picture

The past week has been a profit-taking one for stocks, fueled mostly by an over-extended rally along with stretched valuations; the highest interest rate level this year; and a Chinese economy slowing ever further. Timing-wise, the SPX stalled after finally marking a weekly Setup +9 count, and the NDX a weekly TD Combo +13 signal. Goldman Sachs' call that the Fed will lower rates in mid-'24 came two days before the Fed again told us yesterday that inflation is still a major concern and that rates may still need to be further raised beyond what the market is expecting. (They're also the same firm that last year said that crude oil was going to $200/barrel when it was trading north of $120.) They know nothing more than you do; they just have a platform to make it seem like they're important and are smarter. Neither is true.

Let's look at the key markets that will/are influence(-ing) the next directional stock market move:

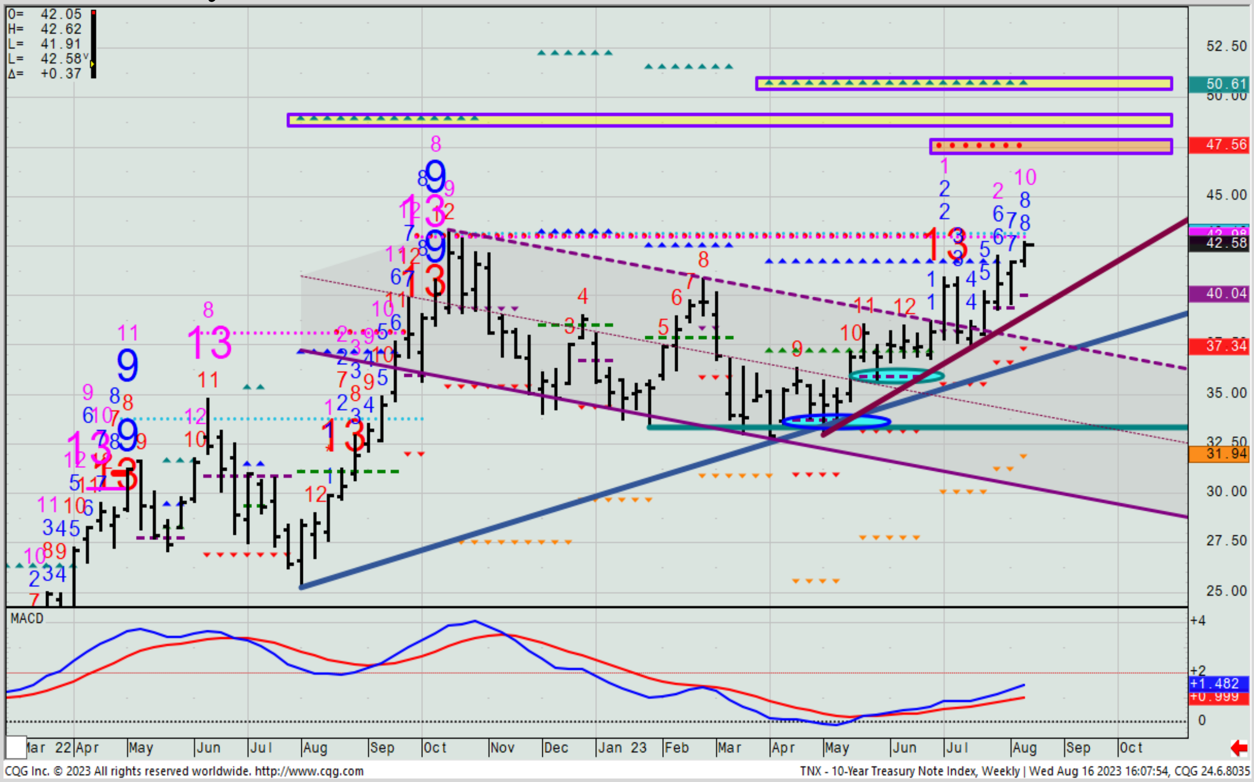
BONDS: Yields continued to rally and are now at 4.26%, just 7 bps. from the current secular high made last year of 4.33%. Last week's pullback and hold at the daily and weekly bearish Propulsion Momentum levels at 3.96% was telling and so long as rates stay above there, they look headed for 4.88% and 5.08% bigger upside targets. In no way do I think that stocks hold up under that scenario.

TNX – Daily

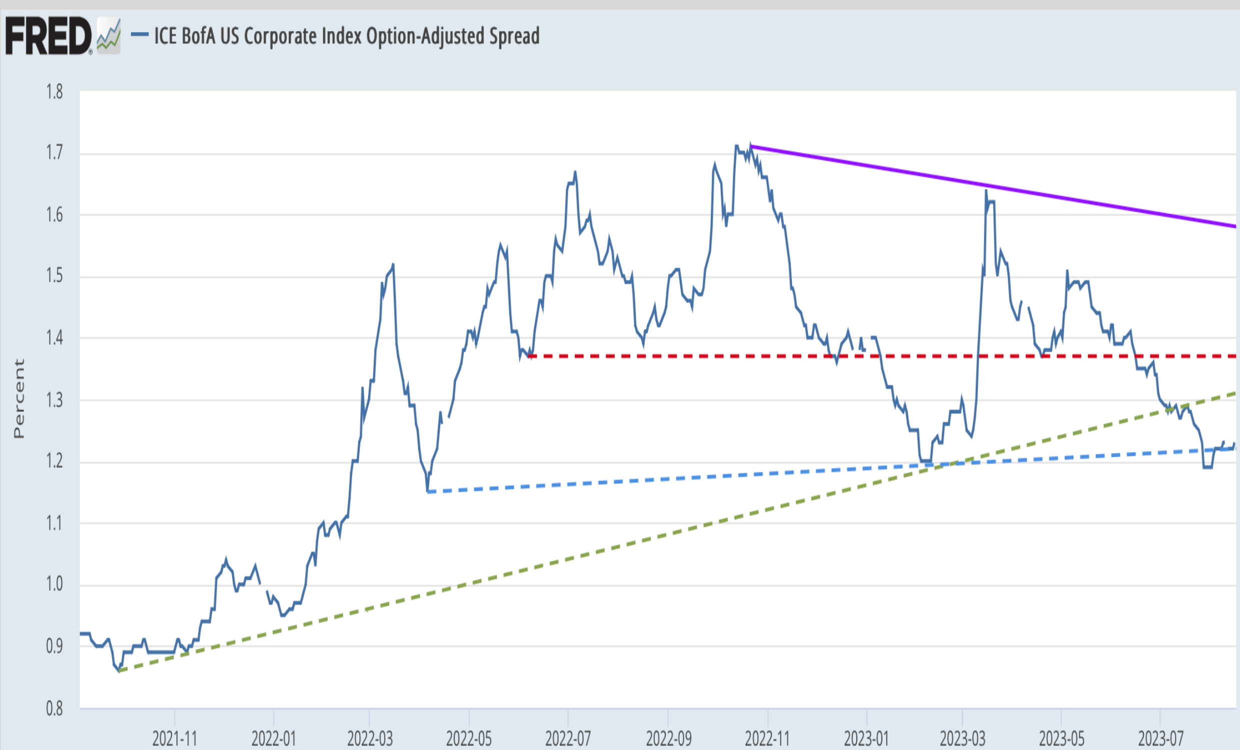


The daily chart above shows breaches of the bullish Propulsion Exhaustion level at 4.16%, leaving only the Propulsion Full Exhaustion level at 5.06% as a bigger upside target. The below weekly chart shows three upside targets, the lowest at 4.76%.

TNX - Weekly

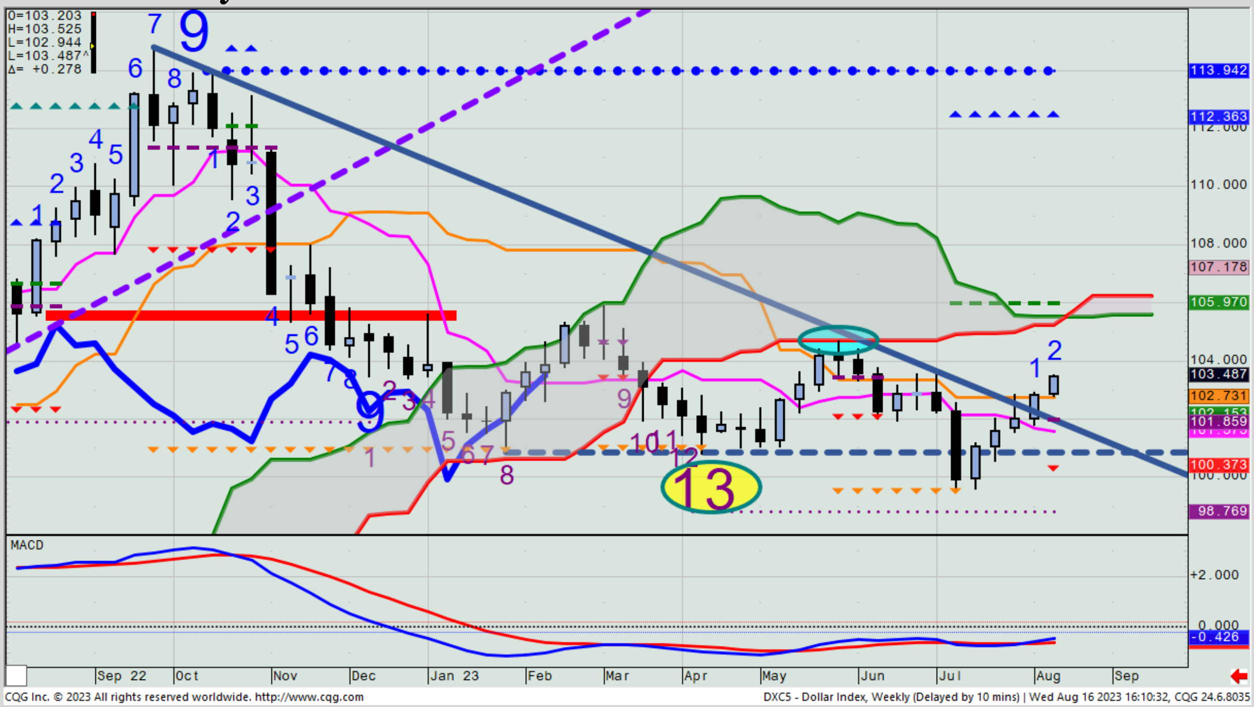


The ICE BofA Corporate Index OAS (i.e., my preferred credit spread to watch) fell in early August to new '23 lows to 1.19% and is again at 1.23% (as it was when I wrote last week's TTR). I think if the TNX takes out last year's highs and stays above them, this spread should widen out again.



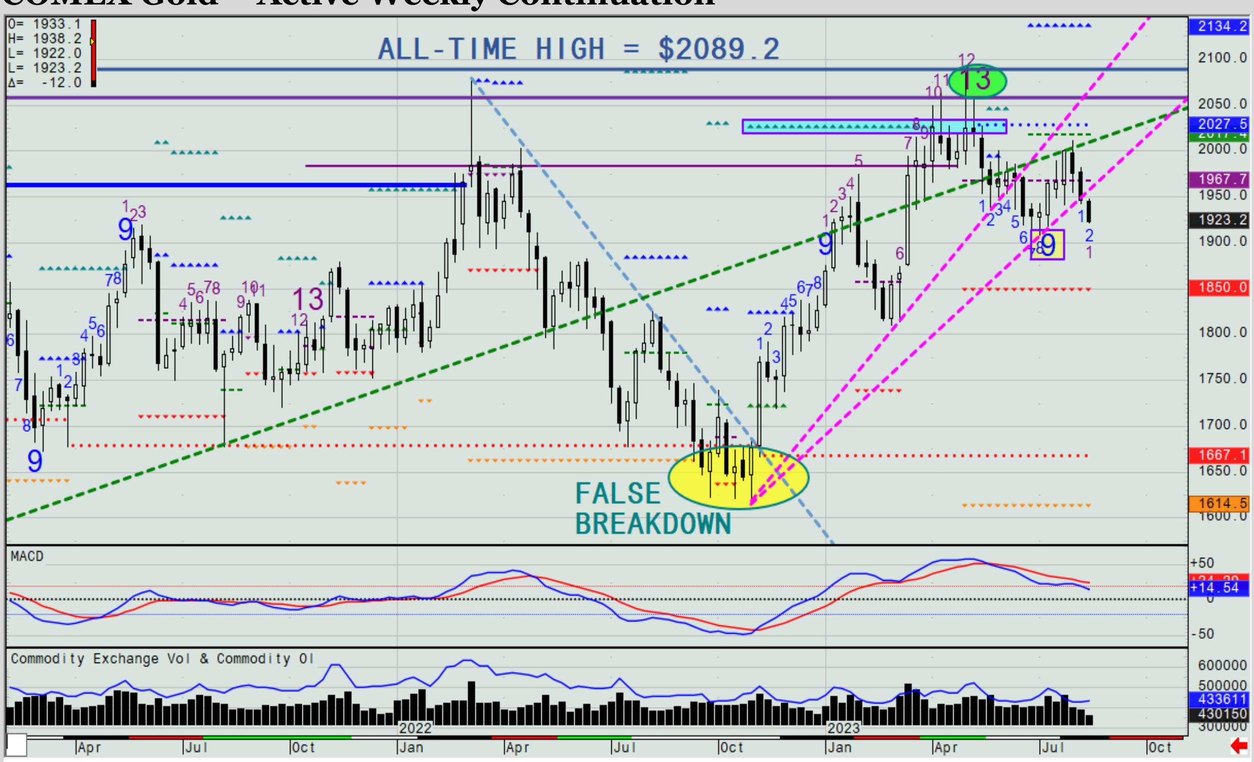
CURRENCIES: The US Dollar Index continues to hold above the low from five weeks ago – the same time that many Street strategists turned bearish because of those new 2023 lows. I think the Street has this call quite wrong, and the more we see multiple Friday closes north of the Base Line of 102.73, the more this likely heads to near 106.

DXY – Weekly



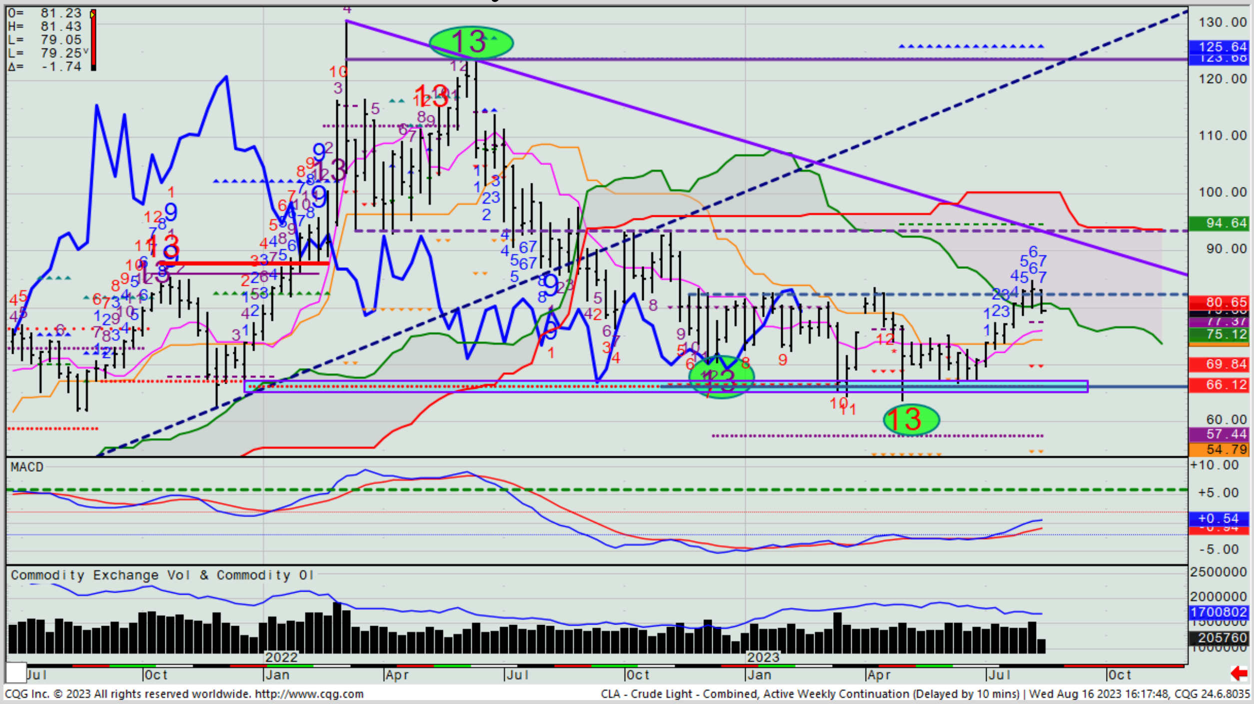
COMMODITIES: Gold has fallen for the third week in a row, and it has broken the uptrend line from last year's major low. If it can't hold, then gold likely tests or even exceeds the recent low. In the bigger picture, bulls need to see $1850 hold on all pullbacks. Near-term resistance remains from $2017 to $2029.

COMEX Gold – Active Weekly Continuation



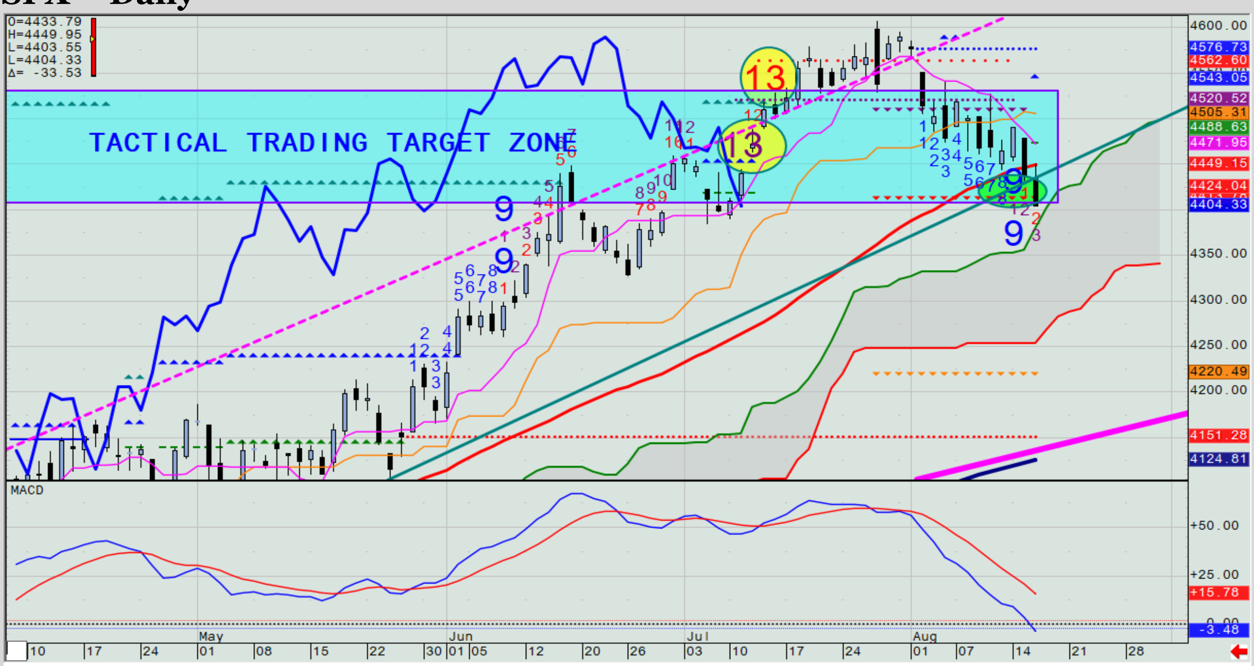
I called for WTI oil resistance at $84.37, and so far, the high of the move made last week was at $84.89. With it back under $80, I think it trades a similar direction to stocks. Notice that the rally basically peaked right above several other peaks since last October.

WTI Crude Oil – Active Weekly Continuation



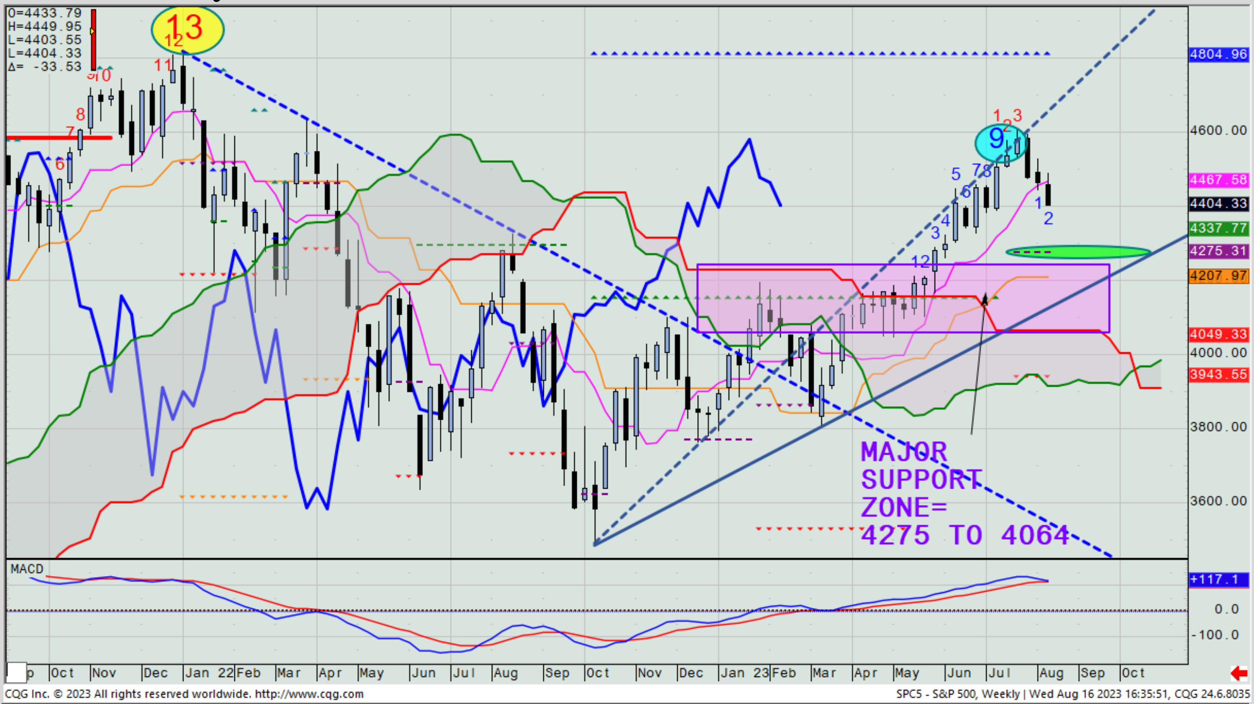
EQUITY INDEXES: The SPX has broken beneath some short-term support levels, including its 50-DMA, daily Propulsion Exhaustion level, and TDST line. The high this week was right where the daily Conversion and Base Lines intersected, and with price beneath both of them, I'd still be looking to short into rallies using closes > SPX 4490 as a tactical buy stop. Today or tomorrow can easily touch the top of the daily cloud, so I'd not be aggressively selling just yet, but would be more patient to sell a bounce from there.

SPX – Daily



Price has now broken the weekly Conversion Line, potentially opening the door for a decline to the bearish Propulsion Momentum level (4275) to the bigger pink-shaded major support zone of 4228 to 4064.

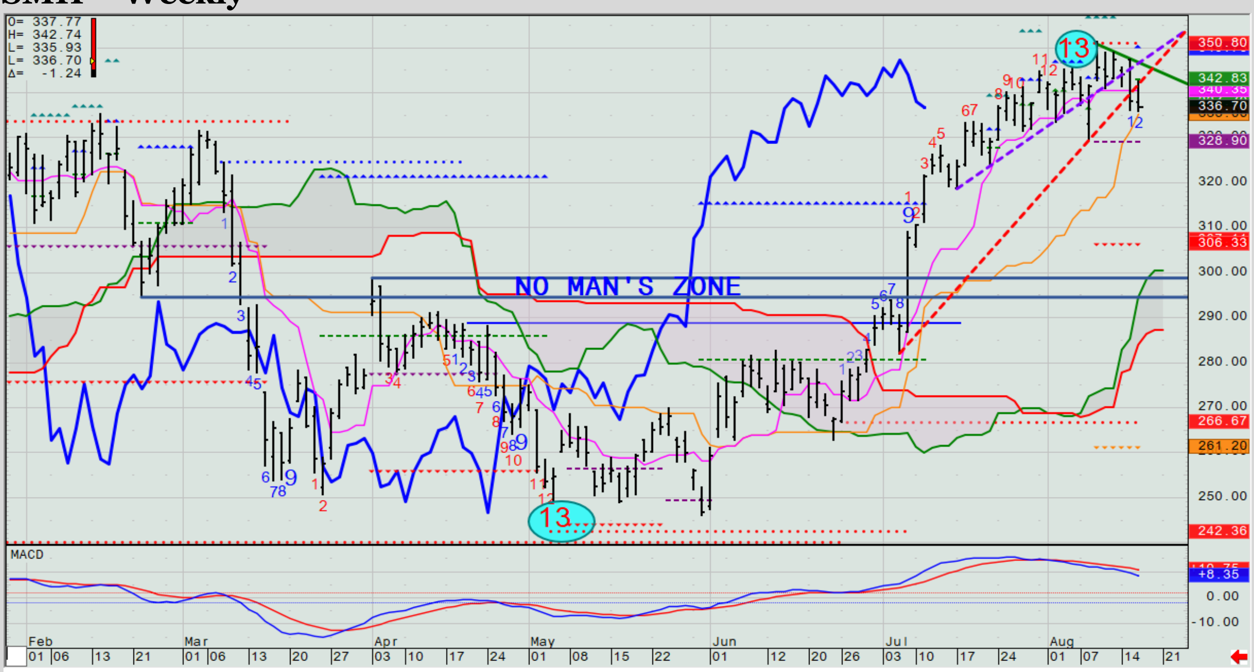
SPX – Weekly



New ETF Trade Idea

I wouldn't mind selling a bounce in the VanEck Oil Services ETF (**OIH**) if a bounce came this or next week up to the area defined by the three trendlines that are all near the high of the move. As such, let's scale up short sell into the $343.50 to $348 zone, looking to cover half near $329 and the other half near $306.50. Our tight buy-stop is on a Friday close (or preferably consecutive ones) above $349.19.

SMH – Weekly

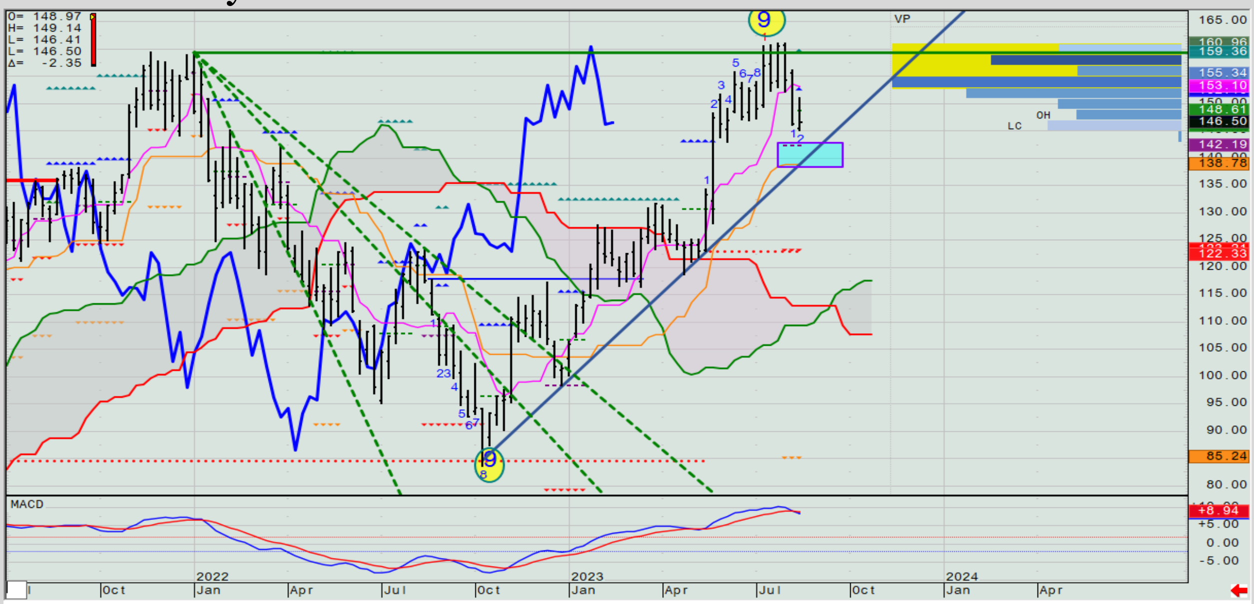


With the volume profile chart showing the low value area at $153.92 (i.e., the low zone of where the first standard deviation of trading took place in the last month), and the second highest volume level at $154.50, let's look to short one unit from $153.50 to $154.50. We'll target a move down to $142.50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

Other Open Recommendations and Positions

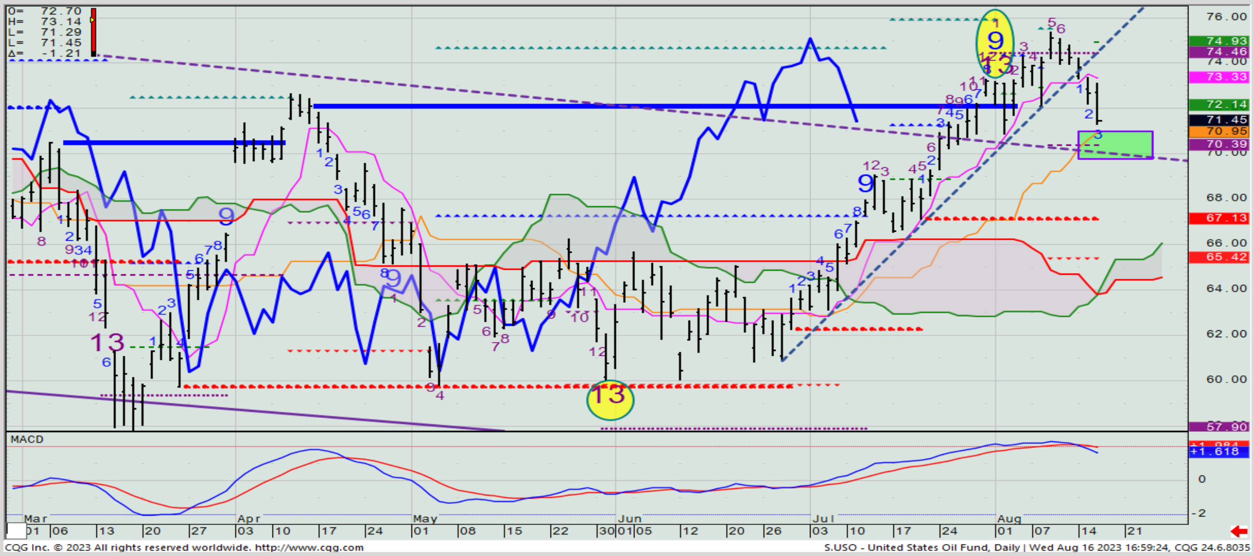
Short SMH
Last week's idea was to short this semis ETF from $153.50 to $154.50. Since then, the high has been $151.09, so we don't yet have entry. I'm targeting a move down to $142.50 to $139 (in the blue rectangle). The buy-stop is on a Friday close above $159.82.

SMH – Weekly



Long USO
I'm looking to get long 10 cents either side of $70.39, where we'll look to buy one unit. I'll now only target a rally back up to its daily Conversion Line. For now, we'll stop this out on a daily close (or two – your choice) under $67.81.

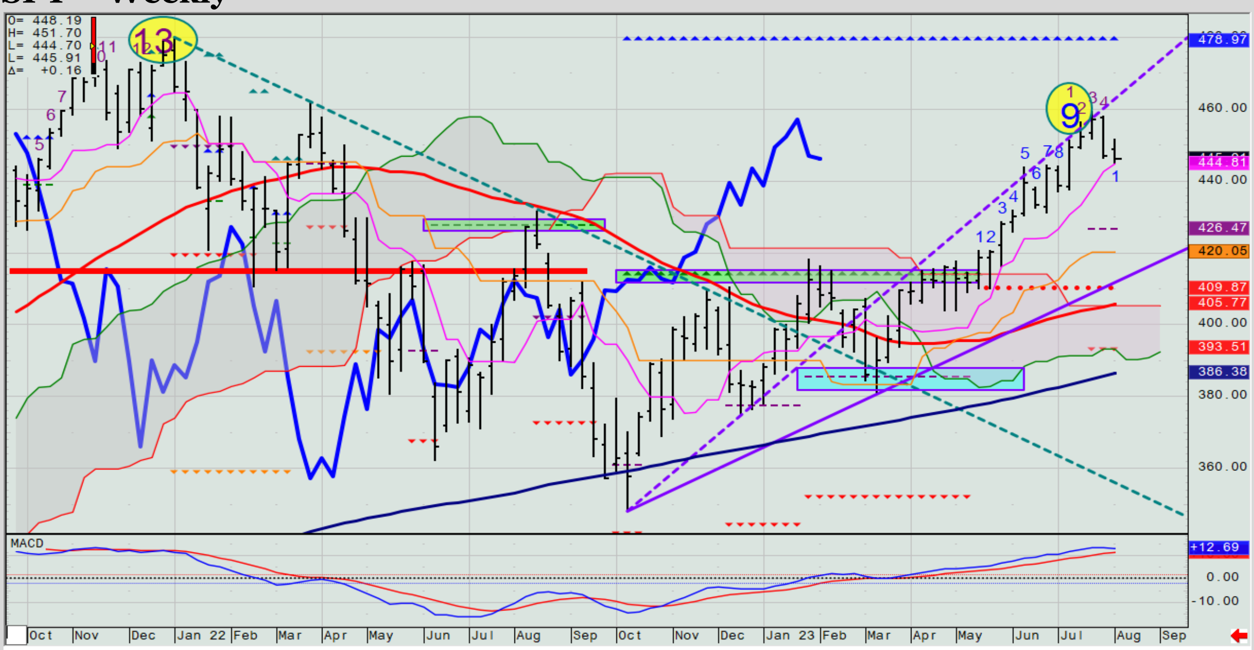
USO – Daily



Short SPY

Three 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 hit that line last Thursday and Friday at $444.80, so we covered at that target and made 2.55%.

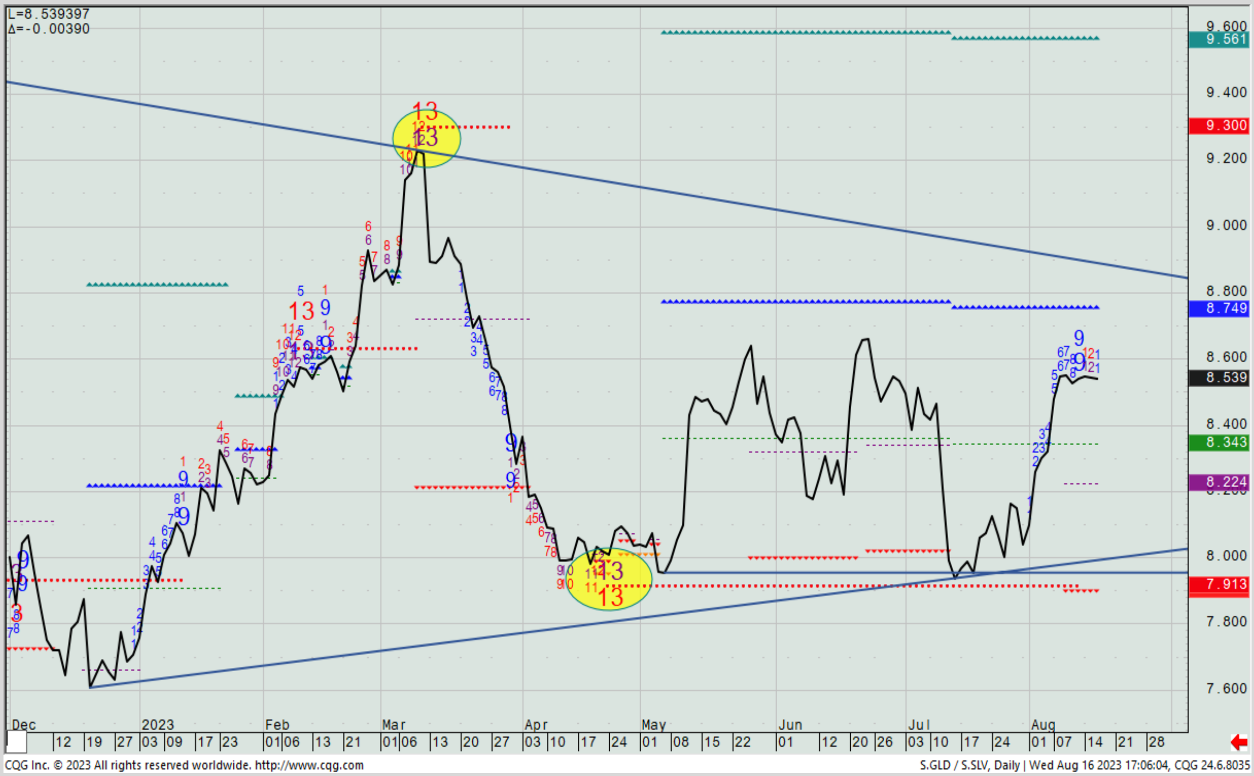
SPY – Weekly



Long GLD vs. Short SLV

Four 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. Again, move the sell-stop up to consecutive daily closes beneath 8.4312.

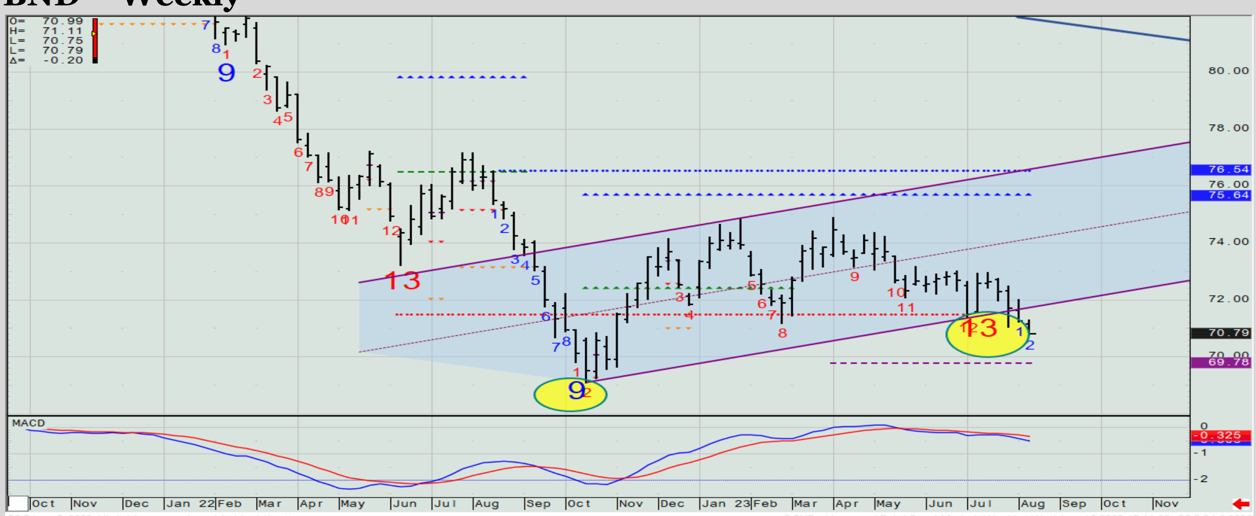
Long GLD vs. Short SLV – Daily



Long BND

Five 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 happened last Friday with a close of $71.24. We exited with a loss of 1.65%.

BND – Weekly



Short XHB

Six 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). I'm adjusting downside targets to cover ½ of what we have on at $80.60, and the other half at the Base Line (currently $74.46). I will no longer look to put the final third on. And we'll stop out whatever we have on a Friday close above $84.45.

XHB – Weekly

Long FXI vs. Short ASHR

Nine 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. We'll exit the rest today (by buying back your ASHR and at the same time selling out of your long FXI.)

Long FXI vs. Short ASHR – Weekly

Long IJS

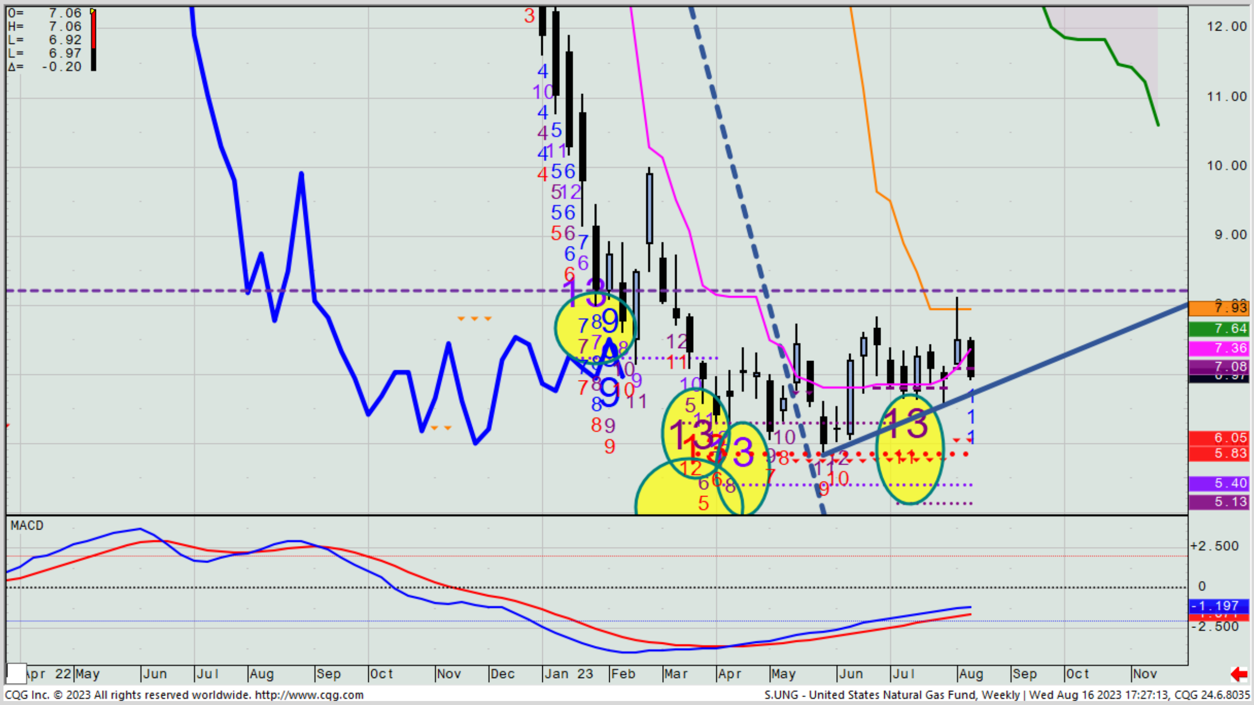
Sixteen weeks ago, we bought this small cap value ETF (avg. entry at $90.83). We removed 1/3 at an avg. price of 91.39, and another third at an avg. of $97.41. I raised our sell-stop on the balance is to exit on a consecutive 60-minute bars that close under 97.86. That happened on the morning of Aug. 8th, when we got stopped out at 11:30am at $97.07, so our three sales average to $95.29, giving us a profit of 4.91%.

IJS – Daily

Long UNG

Twenty-five 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 came into play. We were looking for a move to challenge the falling Base Line where I suggested you exit half of any longs purchased this year. (We got that move on Wednesday last week. You should be out of half your natgas exposure, and now that it has subsequently sold off to beneath the weekly Conversion Line, you should exit the balance (and probably not think of getting long again until it can minimally re-hurdle the Conversion and Base Lines.

UNG – Weekly



Suggestions and Explanation of Terms

With every major firm brokerage firm having gone to $0 domestic stock/ ETF commissions, you should <u>not be paying anything</u> 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

The information in this report is the exclusive property of BENSIGNOR LLC; is proprietary and may only be used for your internal use for the purpose intended and in the normal course of your business. This email is for the designated addressee only. (If you have received this in error please contact Rick Bensignor at: rick@intheknowtrader.com.)

The user assumes the entire risk of any use made of this information and waves any and all recourse related to the information's performance and returns, and the information contained herein is construed "For Educational Purposes Only" and should not be relied upon for investment decision, and it is generic by nature and is not personalized to the specific financial situation of any individual. BENSIGNOR LLC, its staff, or any other party makes any expressed or implied warranties or representations with respect to this information, or of the software and pricing or other data used in its compilation and production. (Amongst other analytical tools, BENSIGNOR LLC may make use of CQG, Inc., ThinkorSwim, StockCharts.com, and Bloomberg, LP software, among others.) BENSIGNOR LLC hereby expressly disclaims all of the originality, accuracy, completeness and fitness for use of this information. In no event shall BENSIGNOR LLC and any party involved or related in the production and distribution of this information have any liabilities for any direct, indirect, special, punitive, consequential or any other damages, realized or potential, even if notified of such a possibility. Principles of BENSIGNOR LLC may hold long or short positions of securities discussed herein, or of any other securities at any time. The foregoing also applies to any trial subscription.