Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com

August 25, 2023

TACTICAL TRADER REPORT

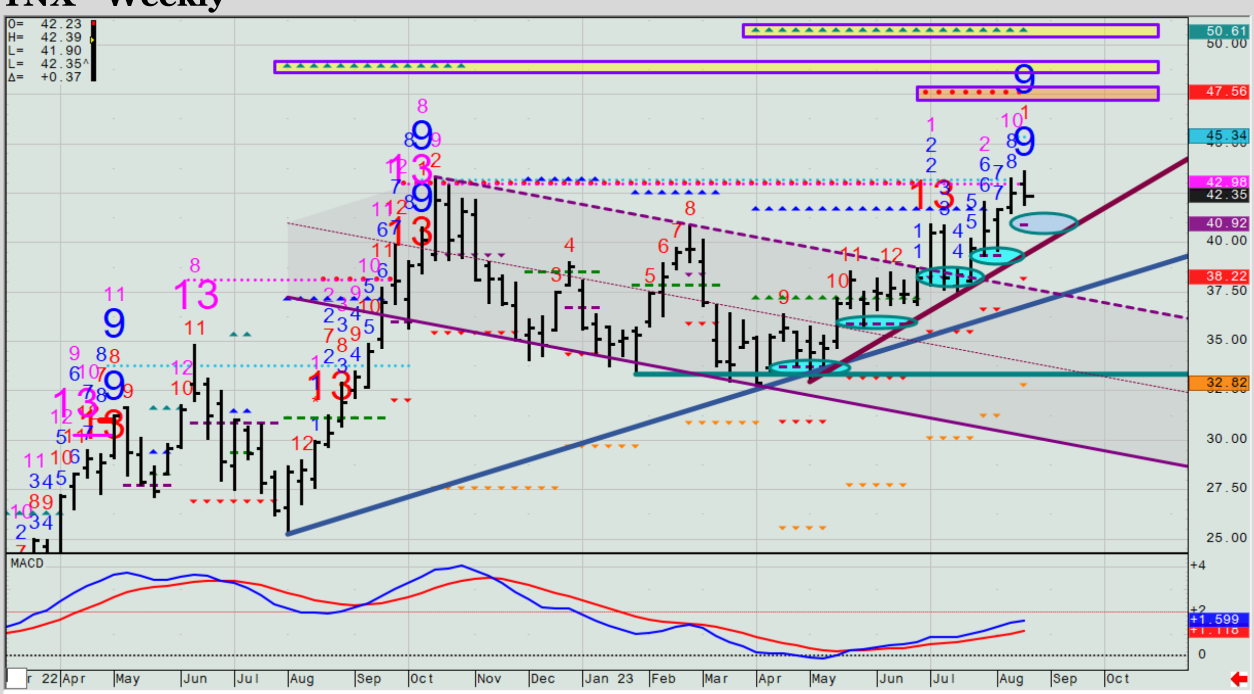
The Macro Picture

The past week was plain and simply dominated by a mostly lower market that was fueled by higher rates. A bounce came from a decline of 5.56% from this year's highs, which corresponds to the first DeMark Trend Factor down and my call from a few weeks ago that we'd likely see a decline of no less than 5%. Nvidia's earnings report shot the stock up some 10% Wednesday late-afternoon, but yesterday's early big gap up was the high of the day, and the stock closed up only 10 bps. – just 1% of its overnight high, as the SPX ran into trouble at a cluster of short-term resistance levels.

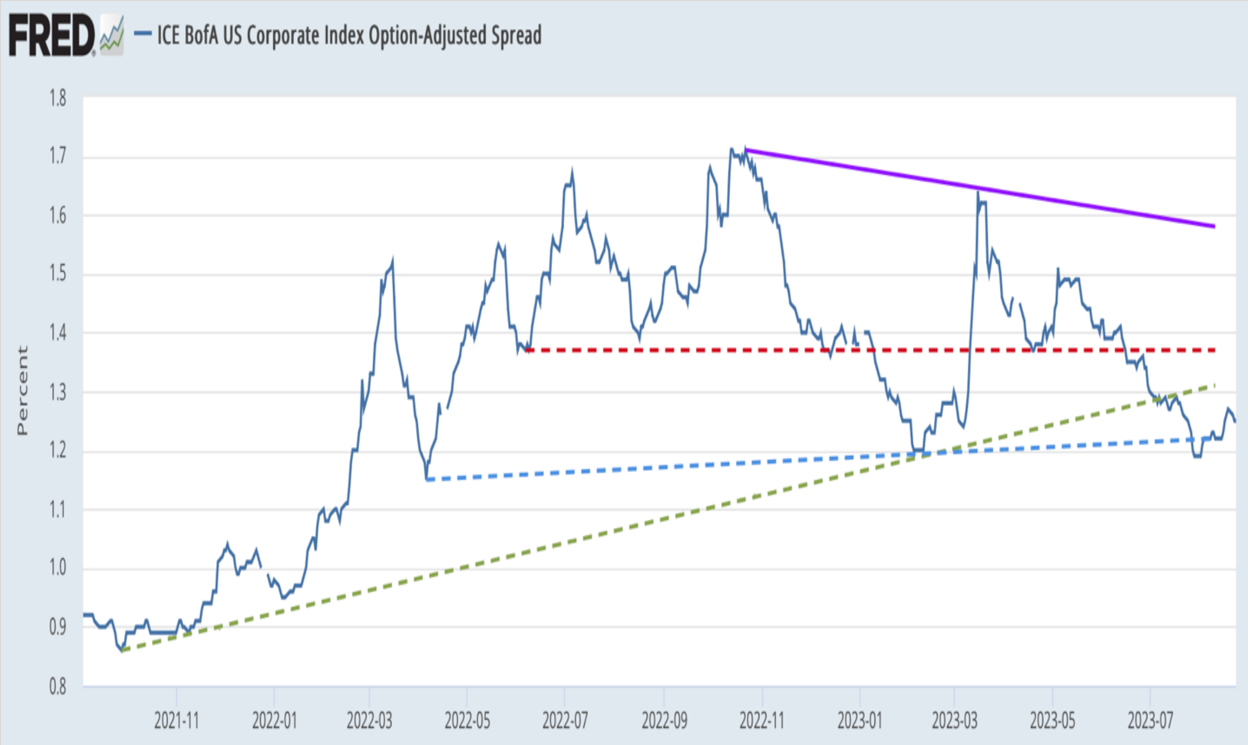
Let's go "'round the horn" to see what other key markets are showing:

BONDS: Yields took out last year's high of 4.33% on Tuesday when they reached 4.36%, before selling off hard on Wednesday and right back into the overall range. Very importantly, the weekly TNX chart shows a new Setup +9 count, so a pullback is not unexpected. Based upon the prior four bearish Propulsion Momentum levels (highlighted) ultimately acting as support, the newest one at 4.09% will be where I'll now be focusing on for support. If that gives way, then the uptrend line from this year's low probably does, too, and that will make fixed income hedge fund managers potentially shift what has generally been bullish rate positioning.

TNX - Weekly

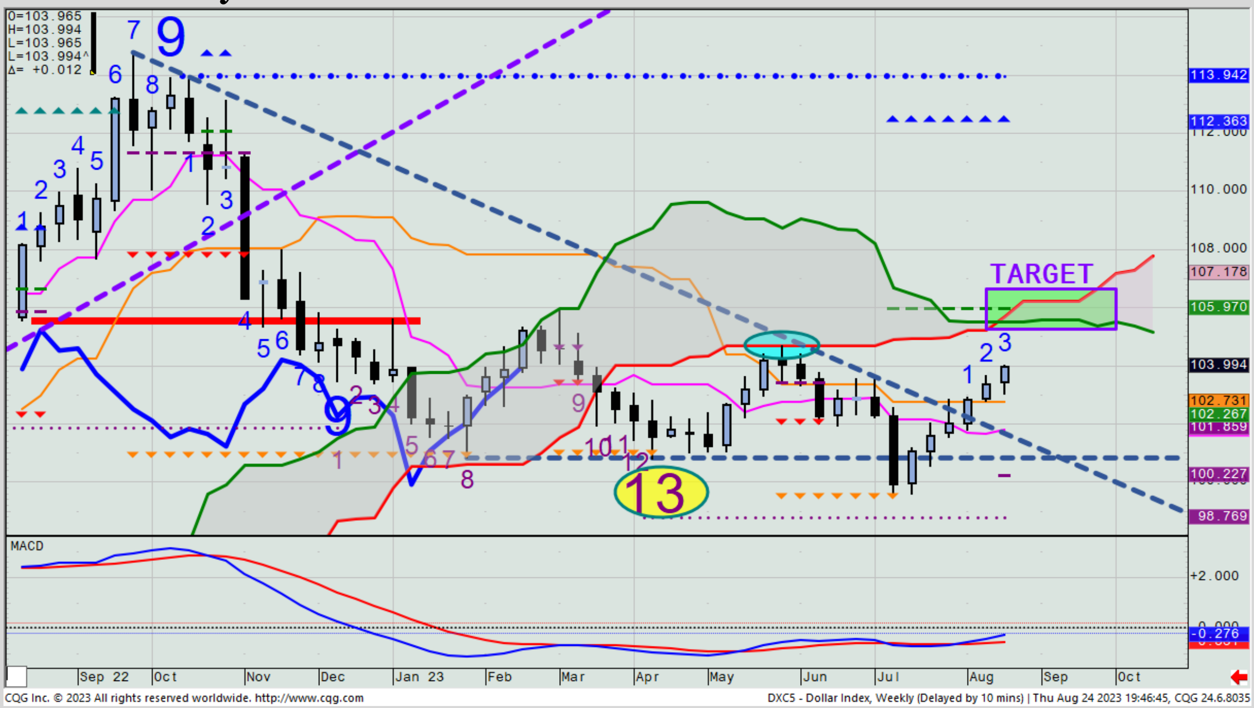


The ICE BofA Corporate Index OAS (i.e., my preferred credit spread to watch) fell in early August to new '23 lows to 1.19% and then bounced to 1.27%, with it at 1.25%. I think if the TNX takes out last year's highs and stays above them (the latter hasn't yet been satisfied), this spread should widen out again.



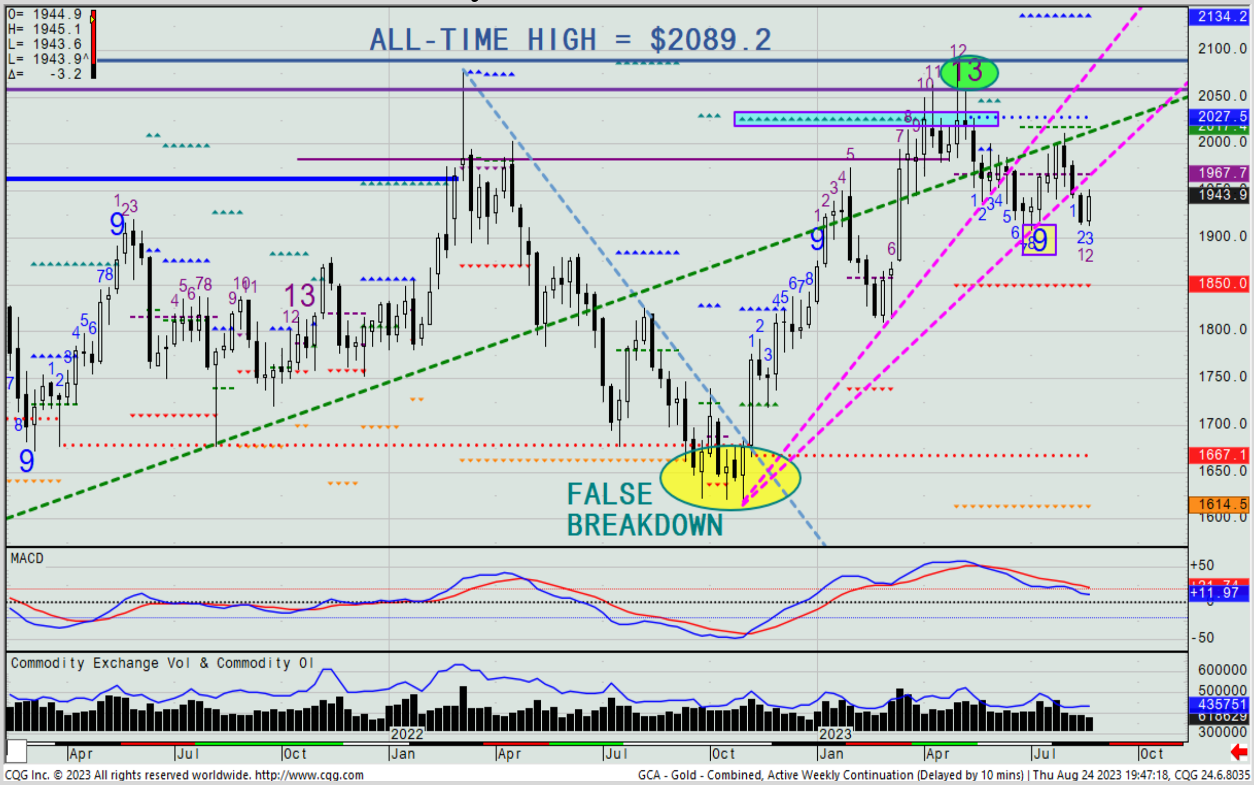
CURRENCIES: The US Dollar Index continues to hold above the low from six weeks ago – the same time that many Street strategists turned bearish because of those new 2023 lows. I think the Street has this call quite wrong, and after dealing with some short-term resistance near 104, I think this likely heads the highlighted target area. (A lot will come down to which direction rates head.)

DXY – Weekly



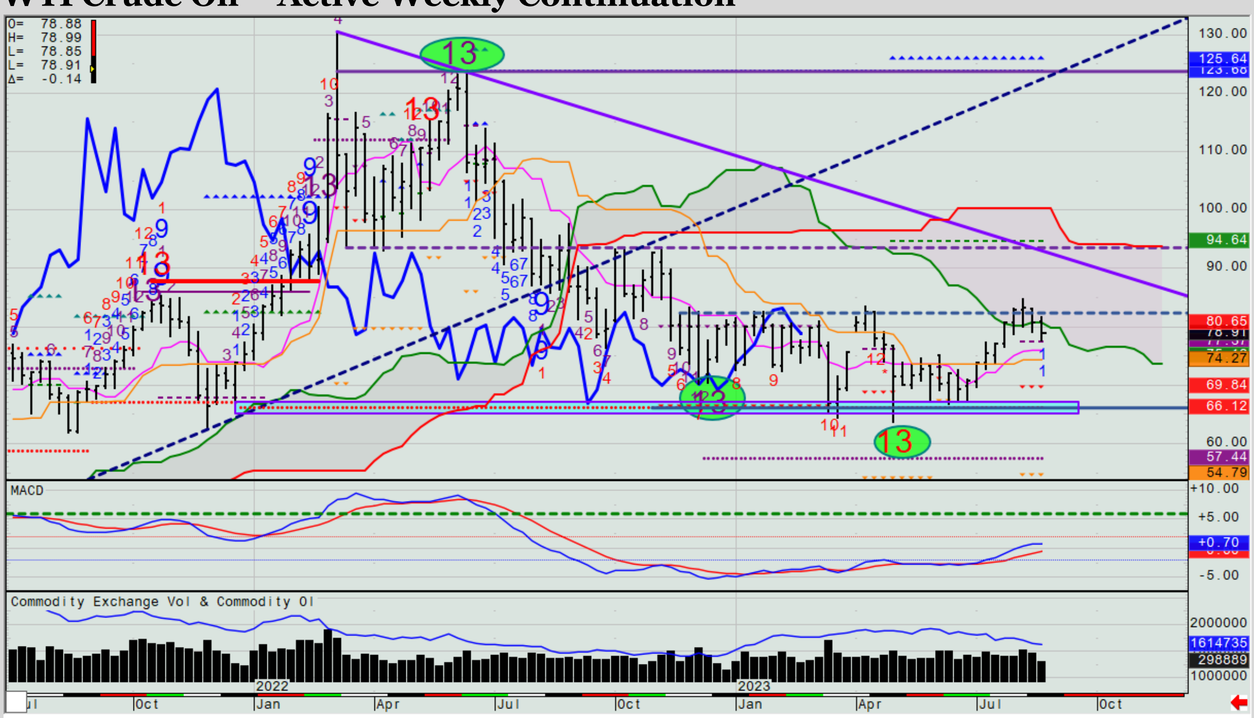
COMMODITIES: Gold remains under pressure from dollar strength and what has been a very decent equity upmove this year. In the bigger picture, bulls need to see $1850 hold on all pullbacks. Near-term resistance remains from $2017 to $2029.

COMEX Gold – Active Weekly Continuation



After reaching my upside target in the $84 range, oil has pulled back and remains in the $84.50 to $77.5 zone. The latter is where the weekly bearish Propulsion Momentum level is located, so I'll continue to watch that for potential support, down to about $74.25.

WTI Crude Oil – Active Weekly Continuation

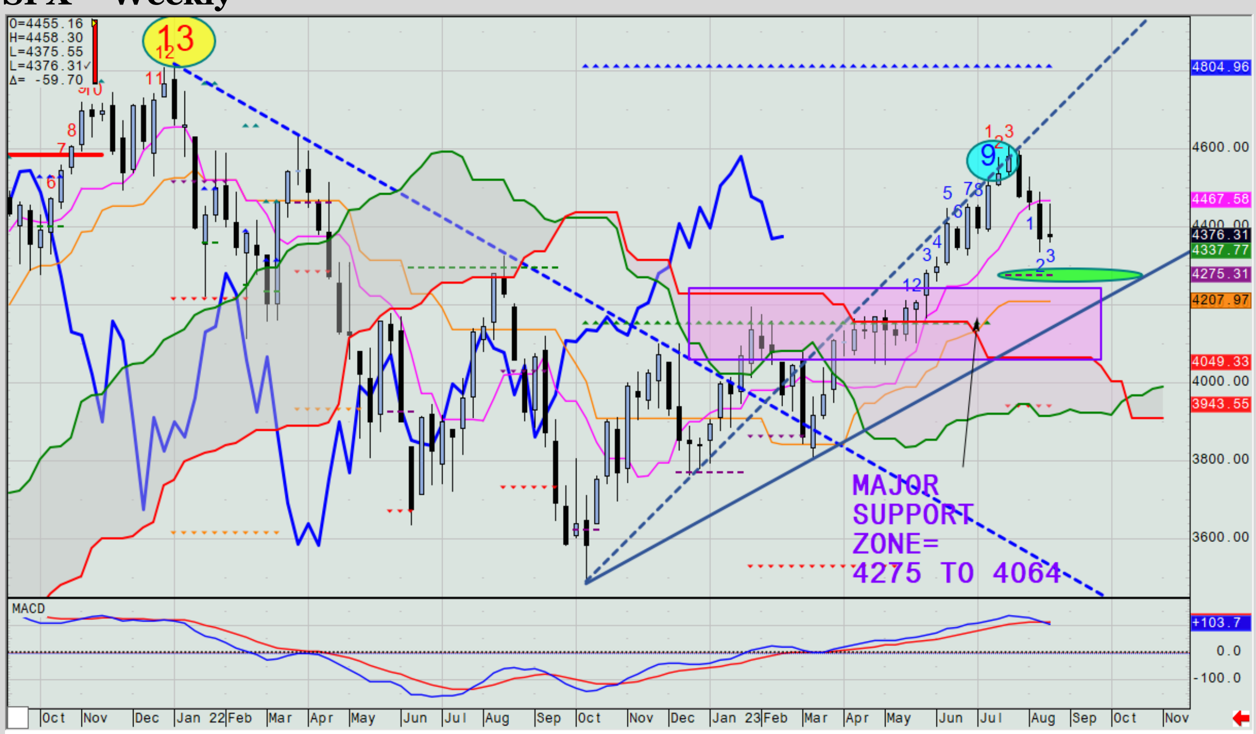


EQUITY INDEXES: Last week I suggested being patient to wait to sell into a rally, especially given the move down to cloud support and the first Trend Factor down from the high (at 4351). We got that with the rally this week into yesterday's peak at the 50-DMA and into the short-term resistance green-colored box I've drawn on the below daily chart.

SPX – Daily

With price having previously broken and now failing at its weekly Conversion Line, the door is still open for a decline to the bearish Propulsion Momentum level (4275) to the bigger pink-shaded major support zone of 4228 to 4064. It's too early to make something of it yet, but notice that the weekly MACD line has crossed bearishly.

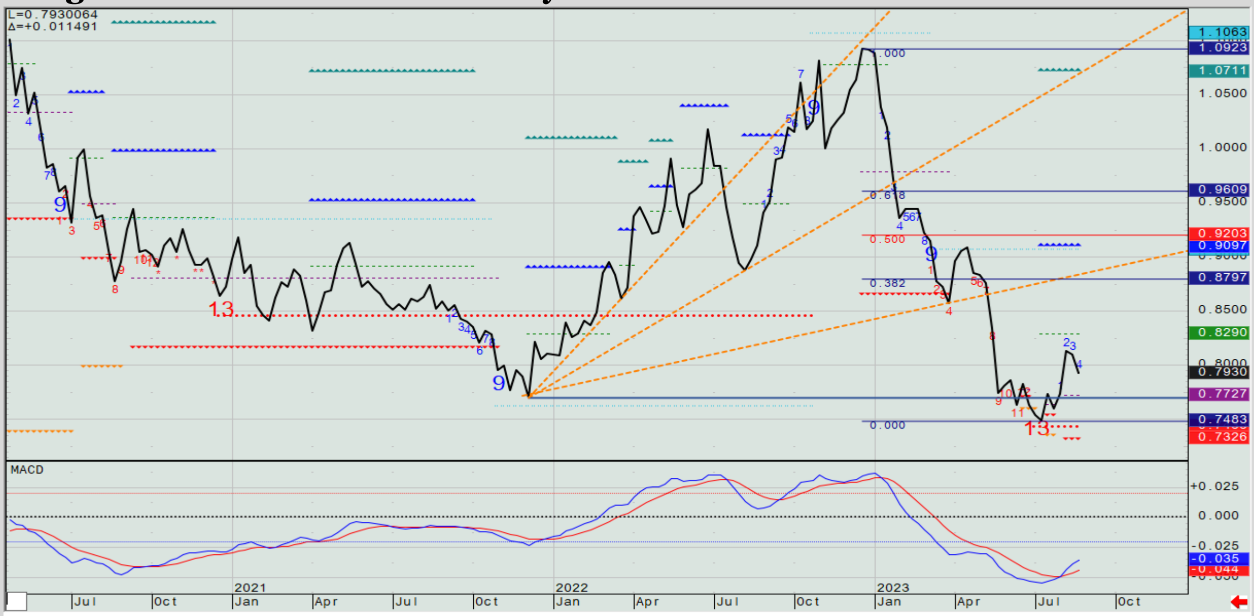
SPX – Weekly



New ETF Trade Idea

Tech has been one of the best sectors this year; Health Care one of the worst. It may be time for them to reduce the spread of that Tech outperformance. As such, let's look to buy one unit of XLV and sell and equal dollar amount of shares of XLK against it in a pair trade. I'll target a move in the ratio up to a 38% Fibonacci retracement to ~0.8797. Our sell stop will be on a Friday close beneath the current 2023 Friday low close of 0.7483.

Long XLV vs. Short XLK – Weekly

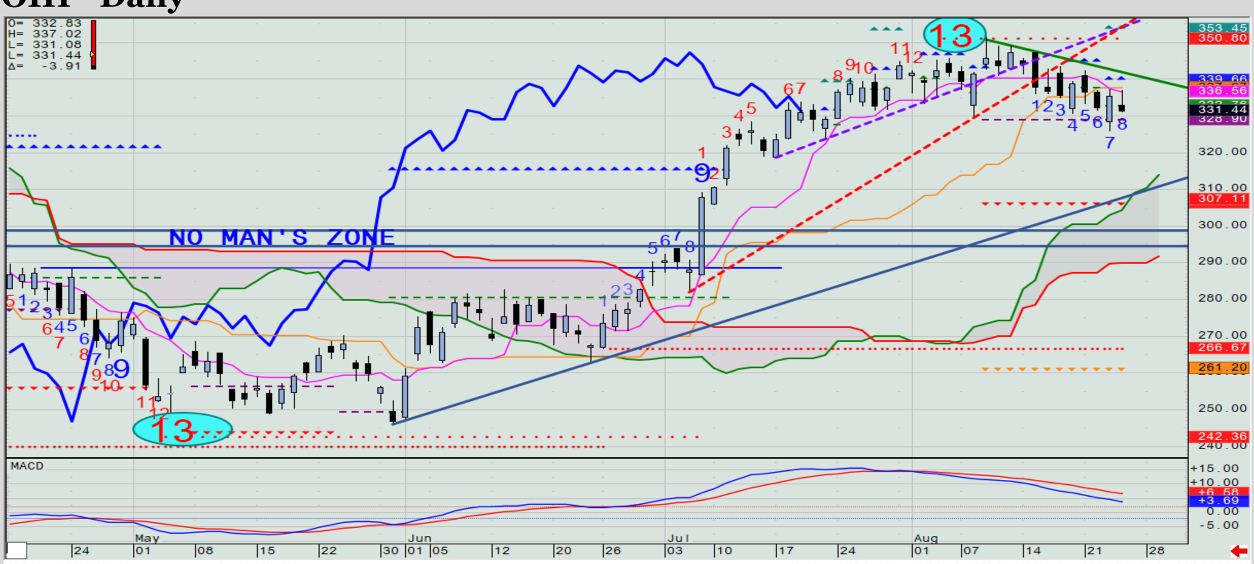


Other Open Recommendations and Positions

Short OIH

Last week's idea was to short OIH, scaling up selling from 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. We missed entry on this with the high being $1 beneath the lower end of the selling zone. I'll leave this idea open for another week to see if we can still get in.

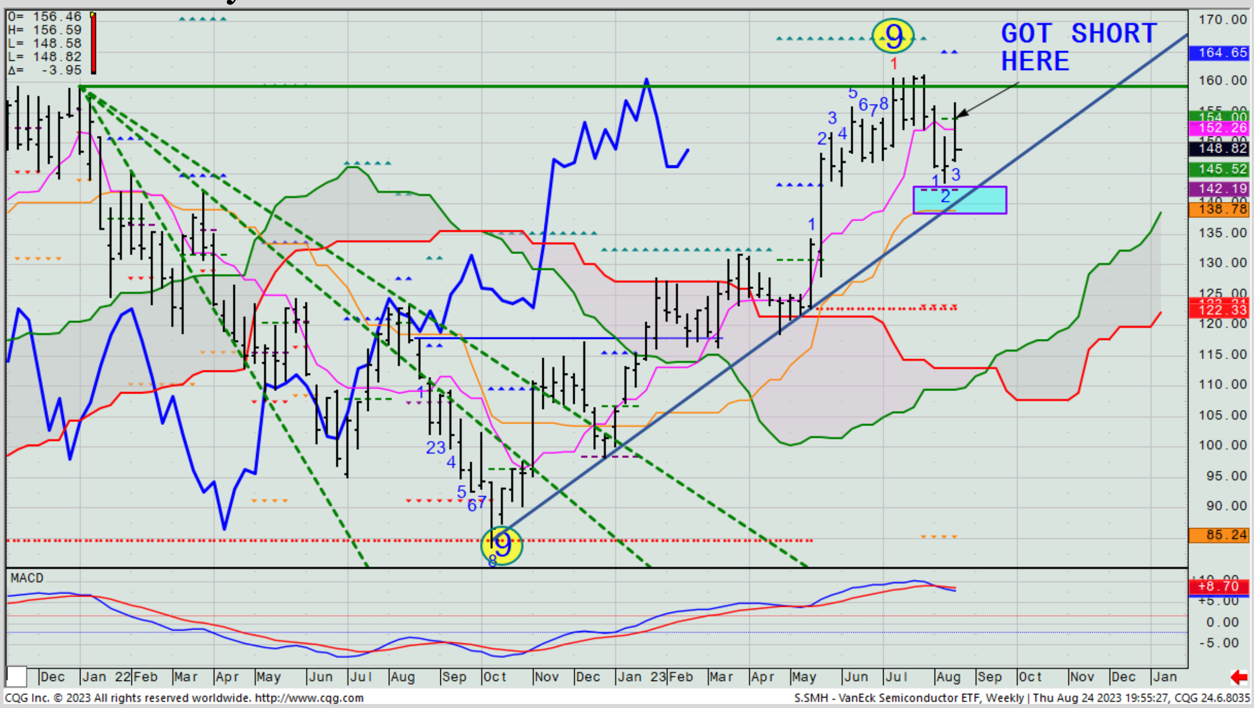
OIH - Daily



Short SMH

Two weeks ago, the idea was to short this semis ETF from $153.50 to $154.50. We got that entry this week, so we're short at an avg. of $154. 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.

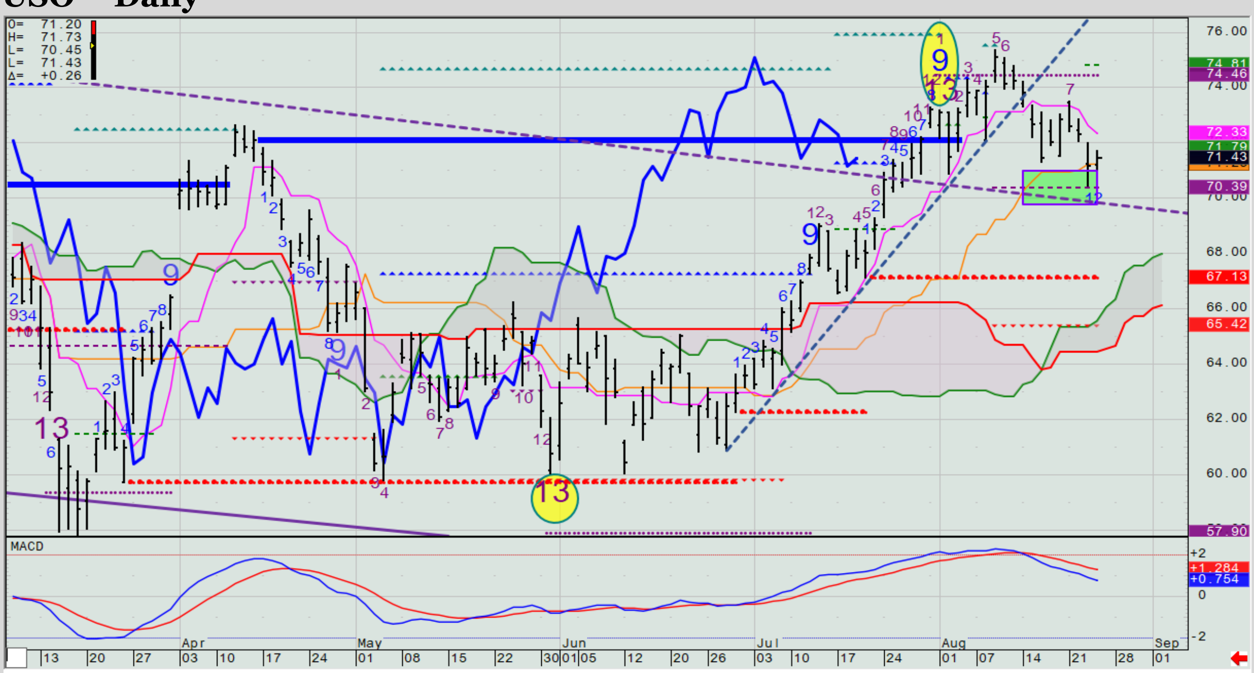
SMH – Weekly



Long USO

I was looking to get long 10 cents either side of $70.39, and with the low of the move so far at $70.43, we are long at least half of a unit. With the daily Conversion Line quickly falling, I am going to change things up to simply exit today for what should be a small profit. Raise your sell-stop to breakeven.

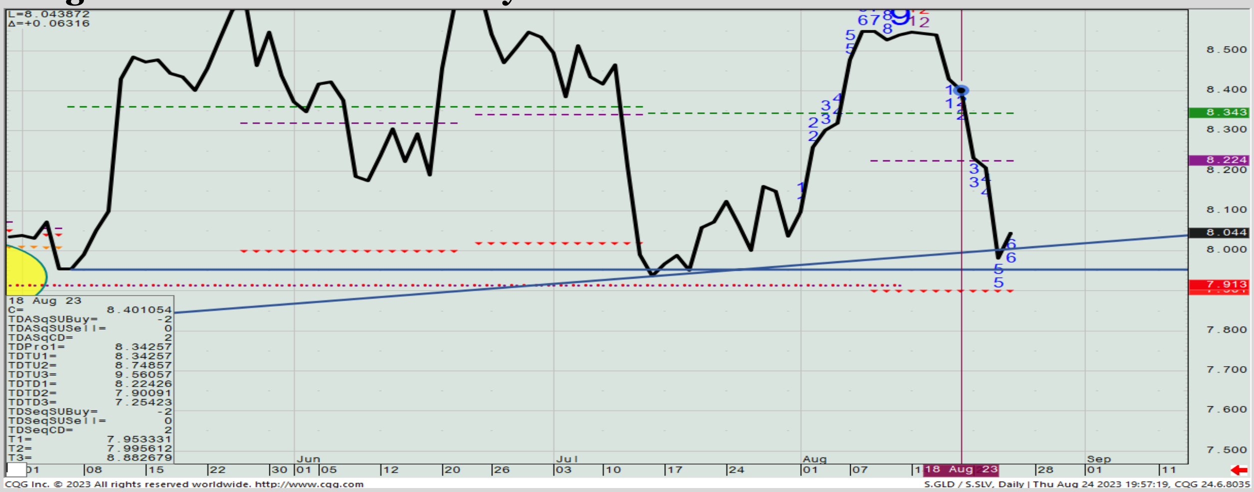
USO – Daily



Long GLD vs. Short SLV

Five 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. Last week I moved up the sell-stop to consecutive daily closes beneath 8.4312, which happened on Thursday and Friday last week, so we got stopped at 8.4011, for an average exit of 8.325 and a total profit of 3.4%.

Long GLD vs. Short SLV – Daily



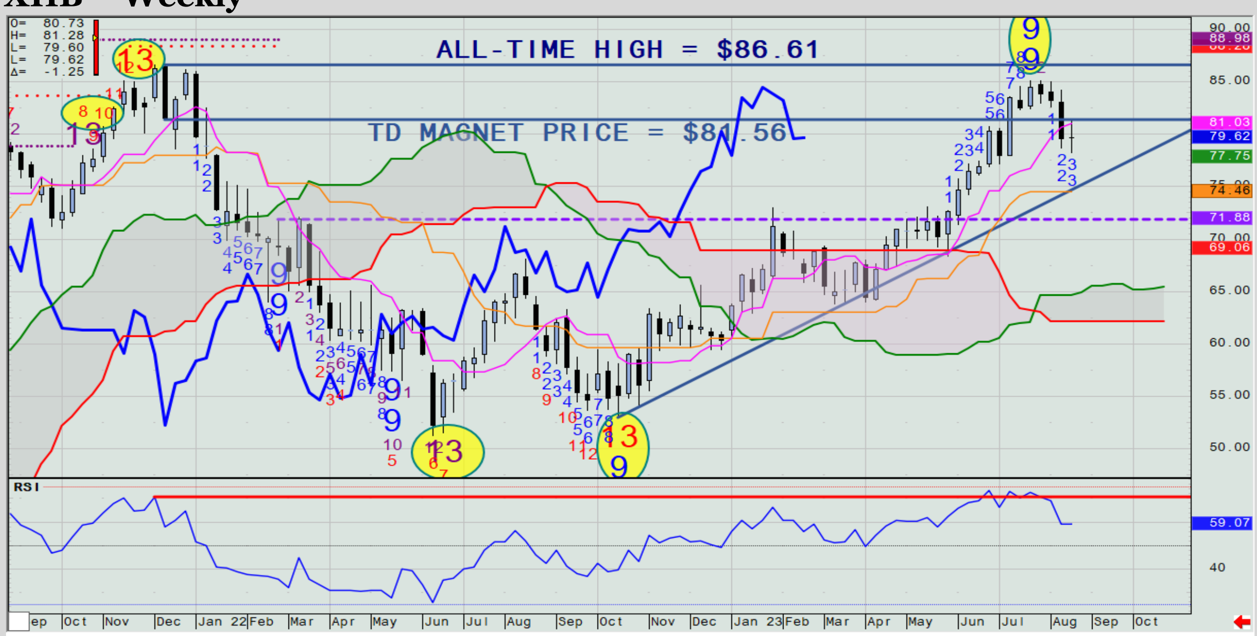
Short XHB

Seven 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 filled the first third at $81.56, and another 1/3 at an avg. of $84.53 (from #3). I targeted to cover ½ of our position at $80.60, (we got that earlier this week) and the other half at the Base Line (currently $74.46). I am no longer looking to put the final third on. And we'll stop out the other half on a Friday close above $84.45.

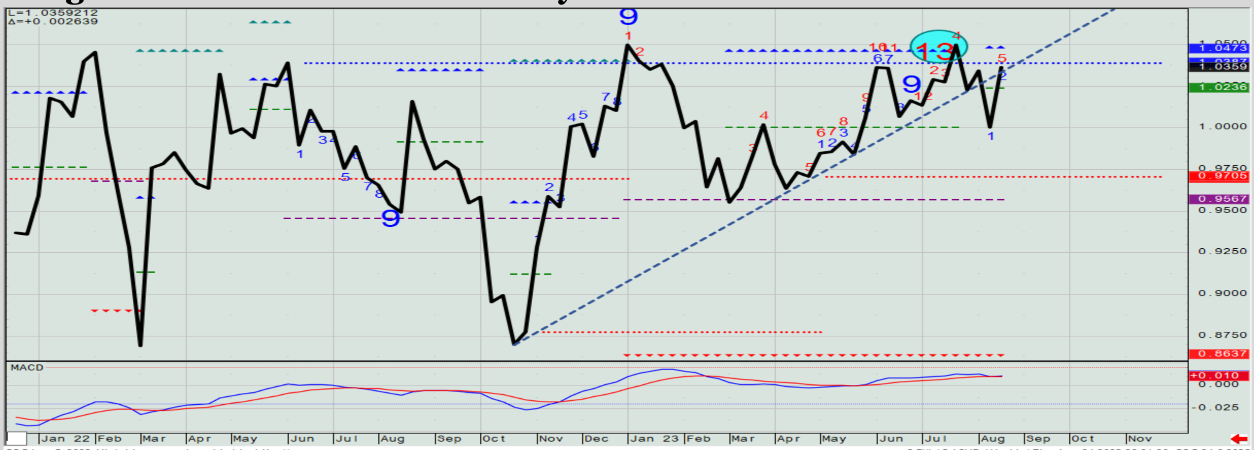
XHB – Weekly



Long FXI vs. Short ASHR

Ten 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 exited the second half last Friday at an avg. ratio of 1.00, for a total loss of 2.04%.

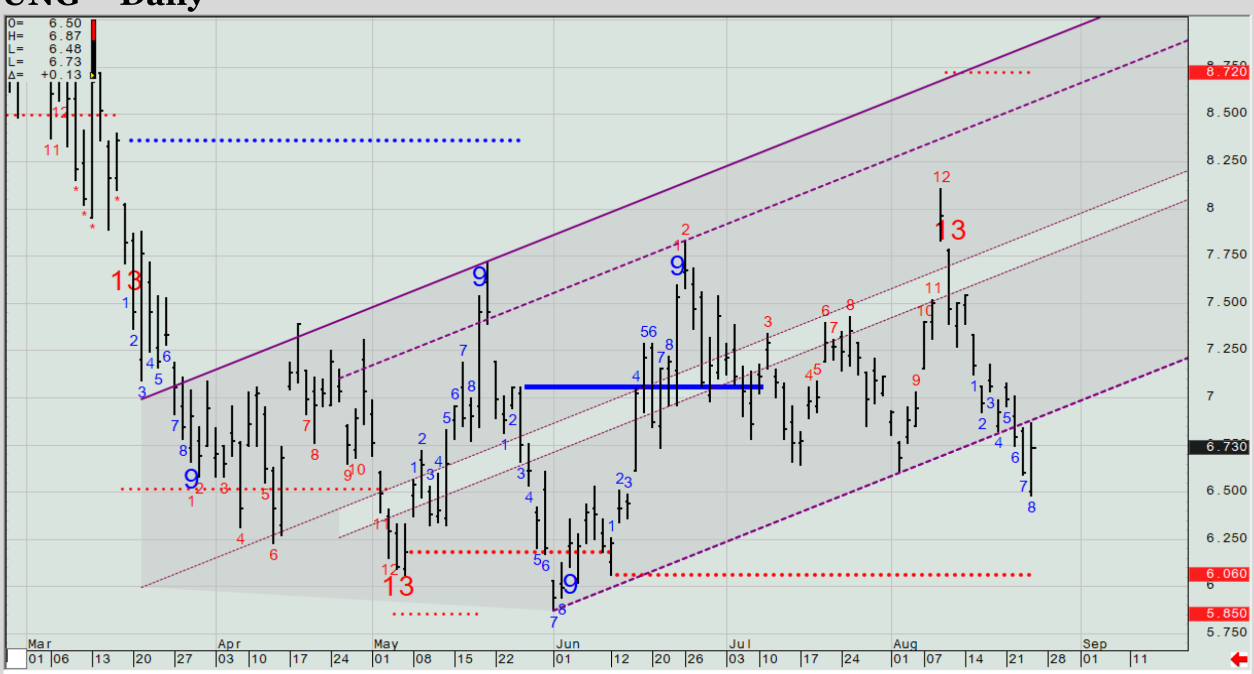
Long FXI vs. Short ASHR – Weekly



Long UNG

Twenty-six 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 two Wednesdays ago). And last week I said you should exit the balance (and probably not think of getting long again until it can minimally re-hurdle the Conversion and Base Lines. Our avg. exit was about $7.45 and we lost 9.8%.

UNG – Daily



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