Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

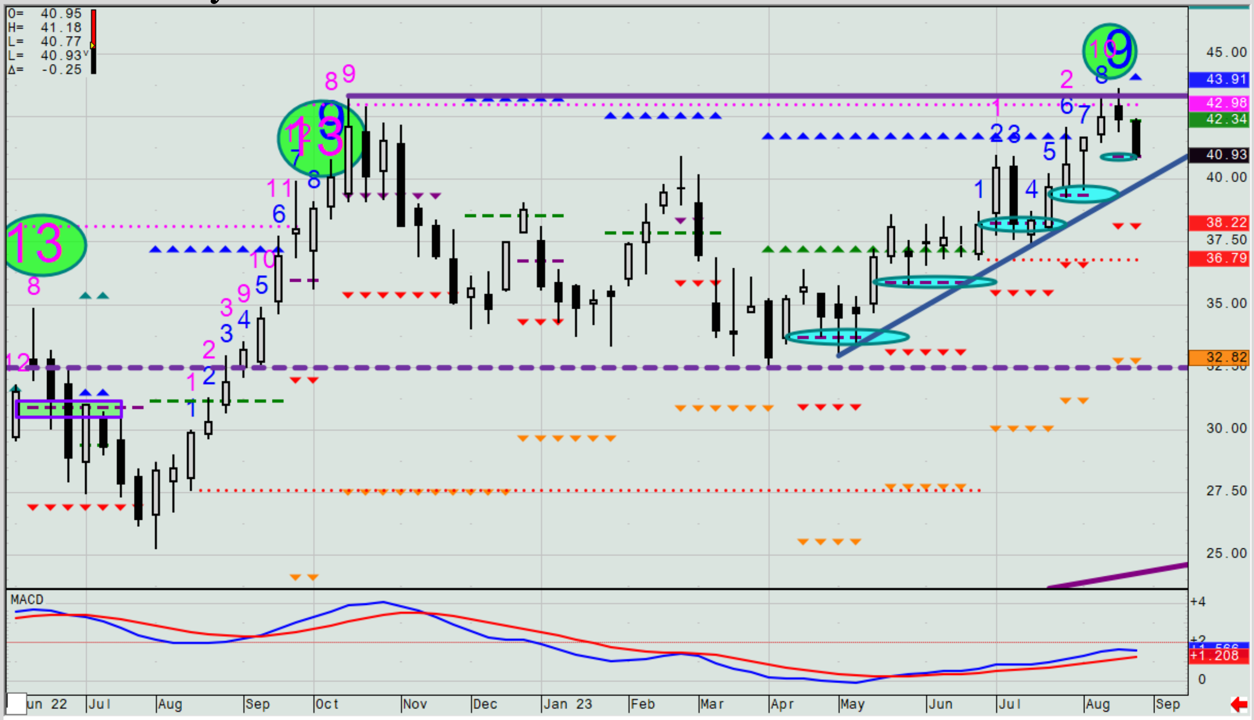
The Macro Picture

Stocks kept up their second-half of August comeback to close out the month only down 1.77% after having been down some 6% mid-month, with part of that rally coming from UST 10-yr. rates double-topping vs. last year's 4.33% high, and then closing out the month at 4.093%. Today's employment report number can still easily change the equity party if it suggests to the Fed that they still need continue raising rates through the balance of the year.

Let's see what other key markets are showing:

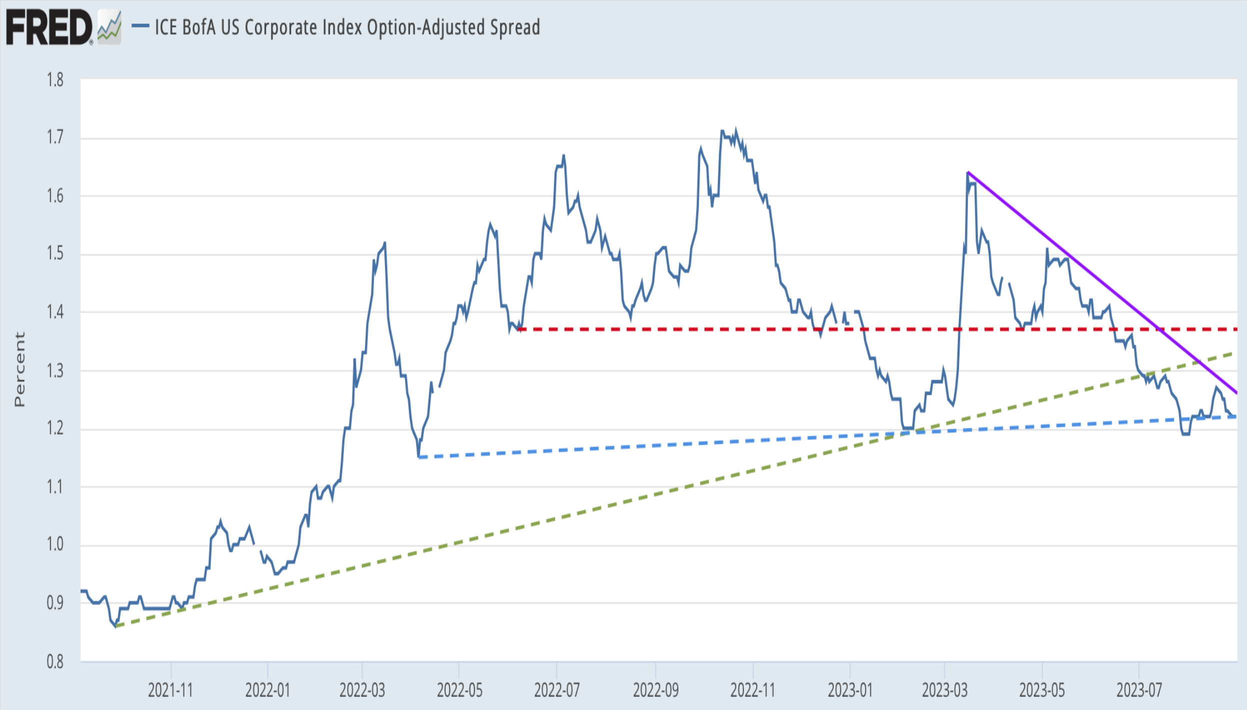
BONDS: Both daily and weekly TNX chart show Setup +9 counts on their respective highs, so the pullback was not unexpected. Yields now lie one basis point above the weekly bearish Propulsion Momentum level – the fifth such one since the Spring lows. If that proves to give way, then the uptrend line from this year's low probably does, too, and that will make fixed income hedge fund managers likely shift away/reduce the "higher rates" scenario they have been positioned for. If rates can hold in this 4.09%-ish area and not get a negative Propulsion signal, then upon seeing subsequent new 2023 yield highs, rates should dash higher by at least 50 bps.

TNX - Weekly



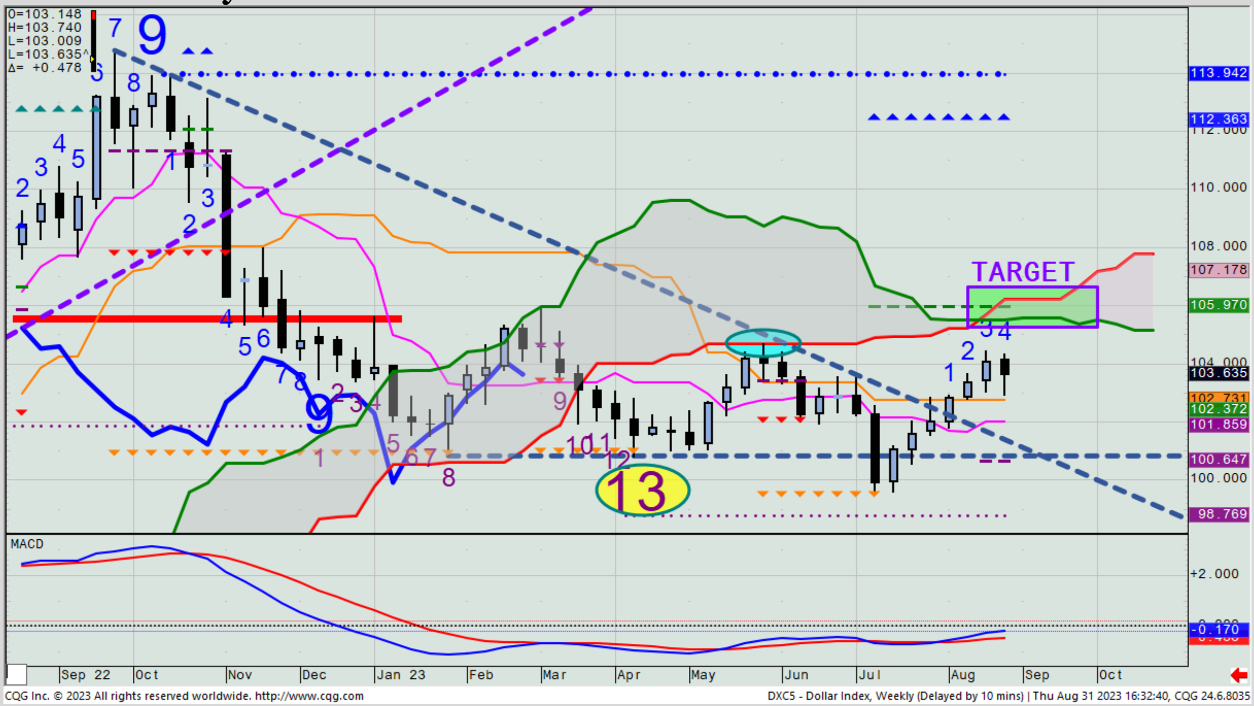
TNX - 10-Year Treasury Note Index, Weekly | Thu Aug 31 2023 16:31:10, CQG 24.6.8035

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. For now, it’s rangebound.



CURRENCIES: The US Dollar Index continues to hold well-above the low from seven 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 just north of 104. I think this likely heads the highlighted target area. (A lot will come down to whether rates head higher or not. If they do, look for the dollar to rally along with them.)

DXY – Weekly

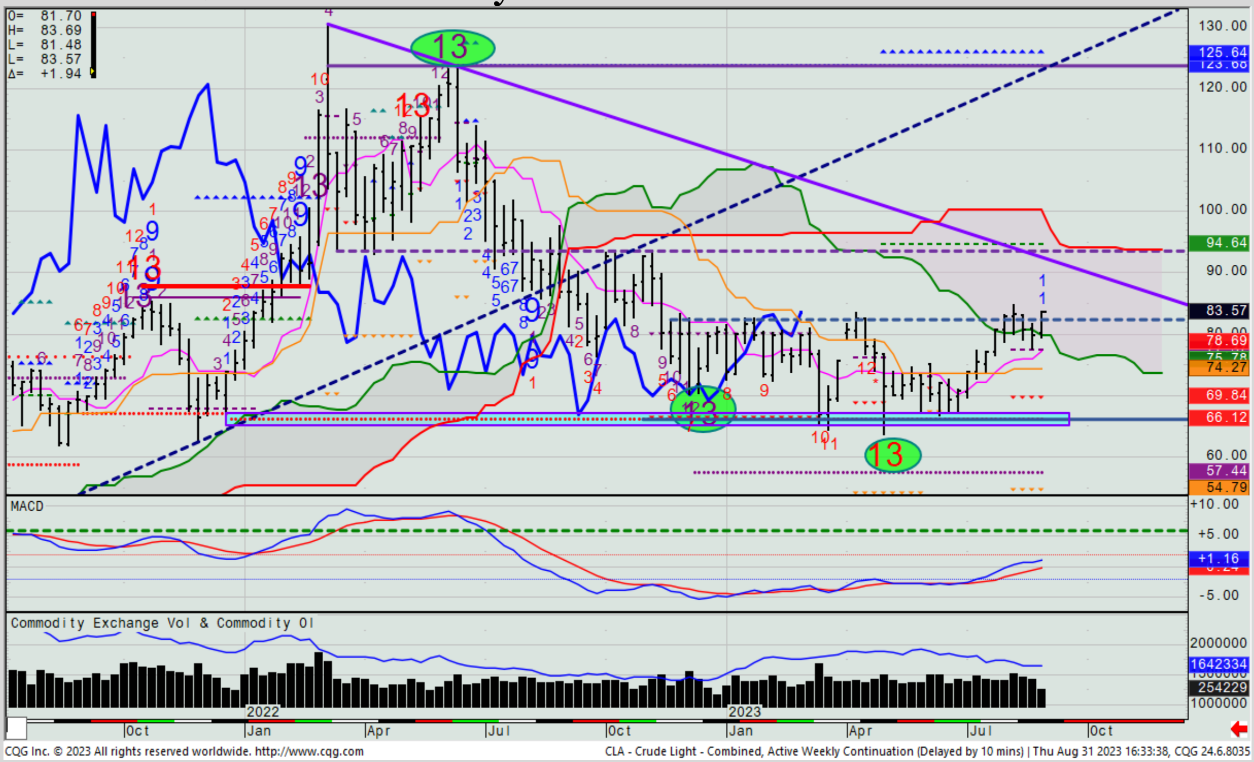


COMMODITIES: Gold remains under pressure from dollar strength and what has been a very decent equity upmove this year. In the bigger picture, bulls need to see $1850 hold on all pullbacks. Near-term resistance remains from $2017 to $2029.

COMEX Gold – Active Weekly Continuation

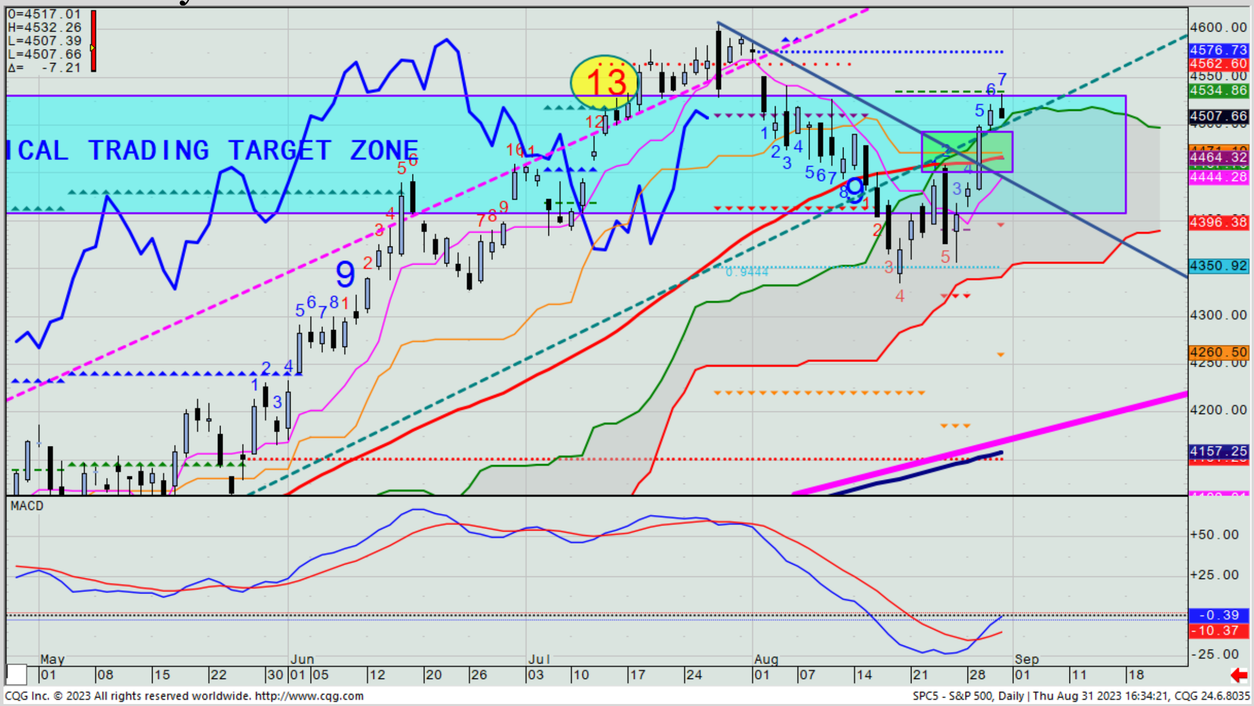
After reaching my upside target in the $84 range, oil pulled back and remains in the $84.50 to $77.5 zone. The latter is where the weekly bearish Propulsion Momentum level is located, and virtually where the low was made last week. Friday closes above the recent high would suggest a move to test the downtrend line and then $94/$95 area.

WTI Crude Oil – Active Weekly Continuation



EQUITY INDEXES: The market has rallied sharply the past two weeks, going even further than I had expected it to, and in doing so, it scaled above all of the short-term resistance levels in the 4400 area. It did, however, stop precisely yesterday at the bullish Propulsion Momentum level to back off to a down close.

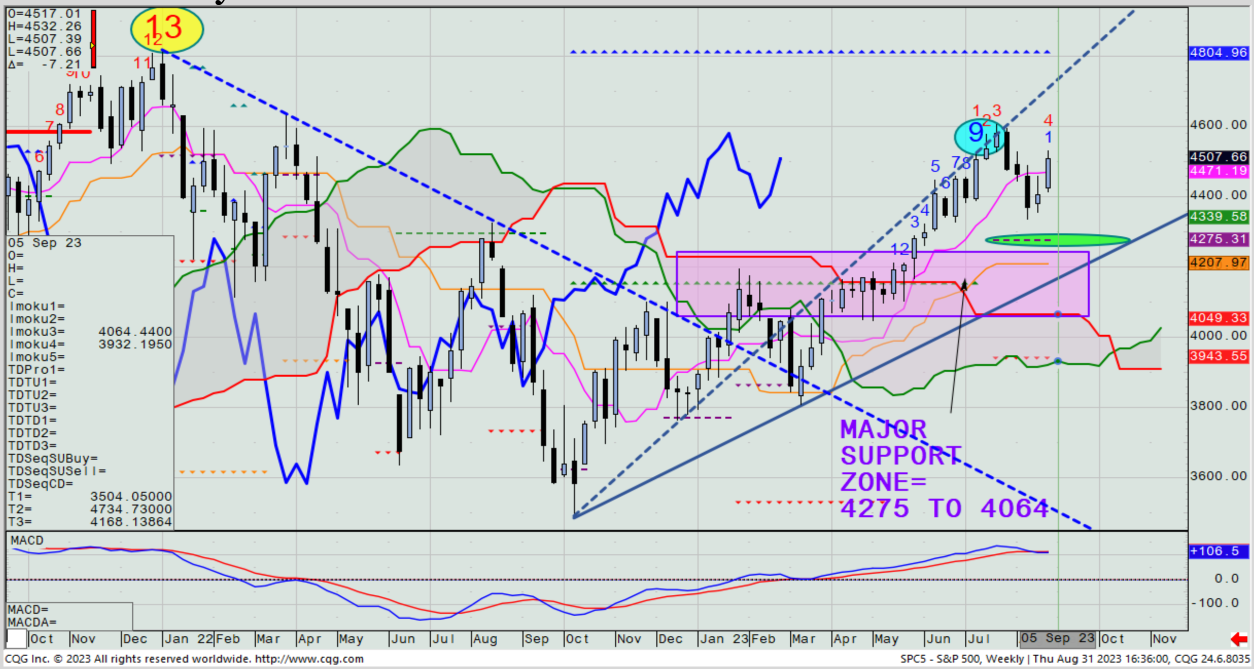
SPX – Daily



With the early August gap just above current levels, and today very likely being a new daily Setup +9 count that is just beneath the TDST resistance line at 4577, the market isn't out of the woods just yet (but it has certainly made its way closer to the edge of it).

The weekly chart, however, does appear to have smoother sailing ahead, with a still active Propulsion Full Exhaustion target of 4805 – virtually the same as the all-time high of 4819.

SPX – Weekly

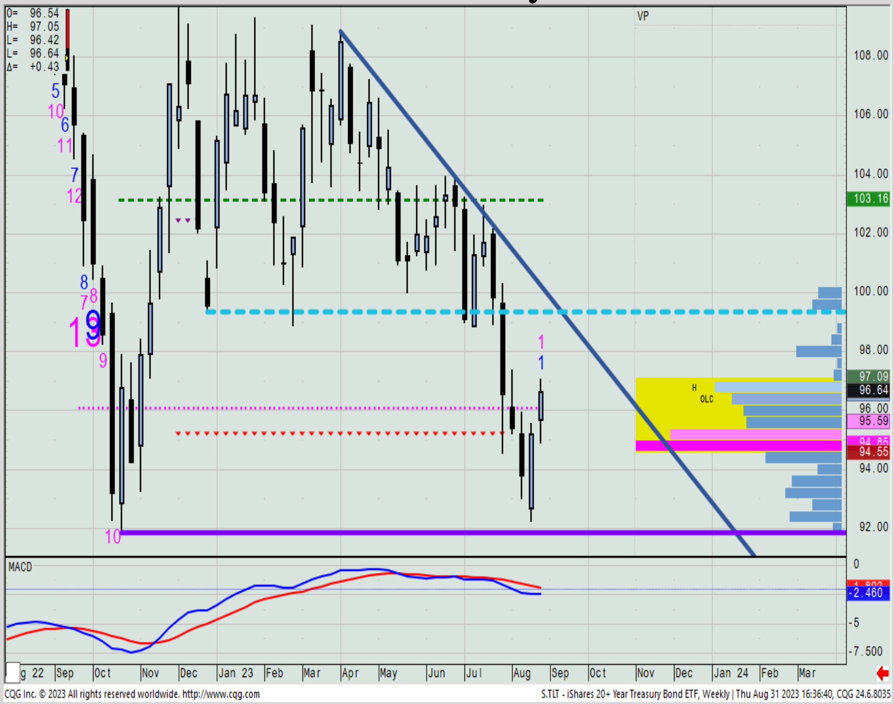


New ETF Trade Idea

Though the UST 10-yr. price recently made a new low for the year, the UST 20-yr. did not (using the TLT as the latter's proxy). Doing a deep dive into price activity since last week's TLT low price, we see that the Point of Control (i.e., heaviest volumed level) was at $94.85, and the second highest volumed level (known as the POC2, and displayed in the lighter-colored pink line) was at $95.59.

TLT – Weekly

As such, let's look to buy a **3-unit** position on a pullback (scaling down with three different buy orders of ~$95.60; ~$94.90; and ~$94.25, or any combination you wish in that range) as bond bulls should strongly defend that zone. We'll play for an upmove to target the horizontal dashed teal-colored prior breakdown level of $99.35 +/- 20 cents. Our sell-stop to exit will be on the second consecutive Friday close beneath $94.55.

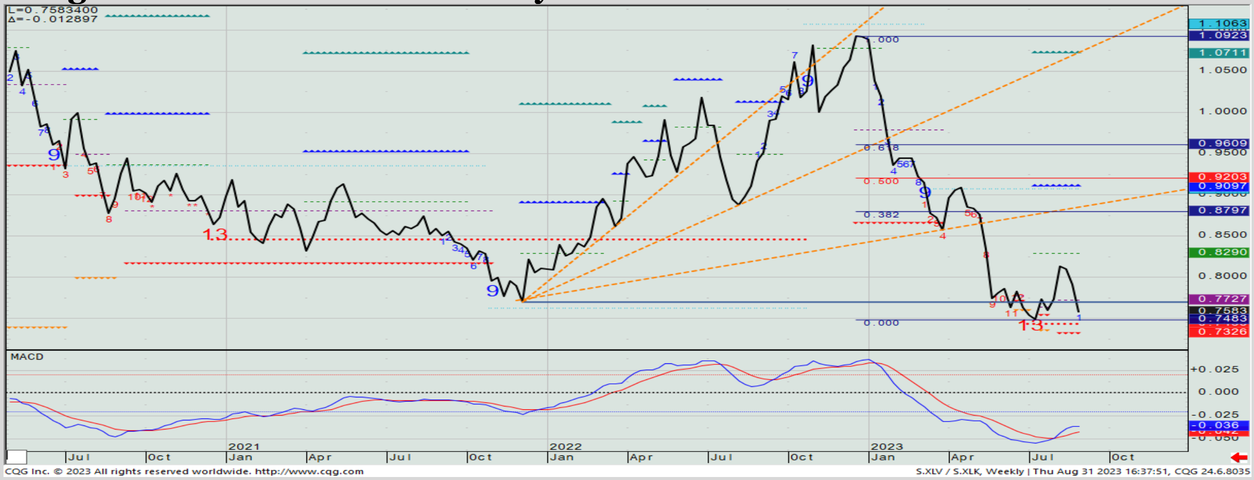


Other Open Recommendations and Positions

Long XLV vs. Short XLK

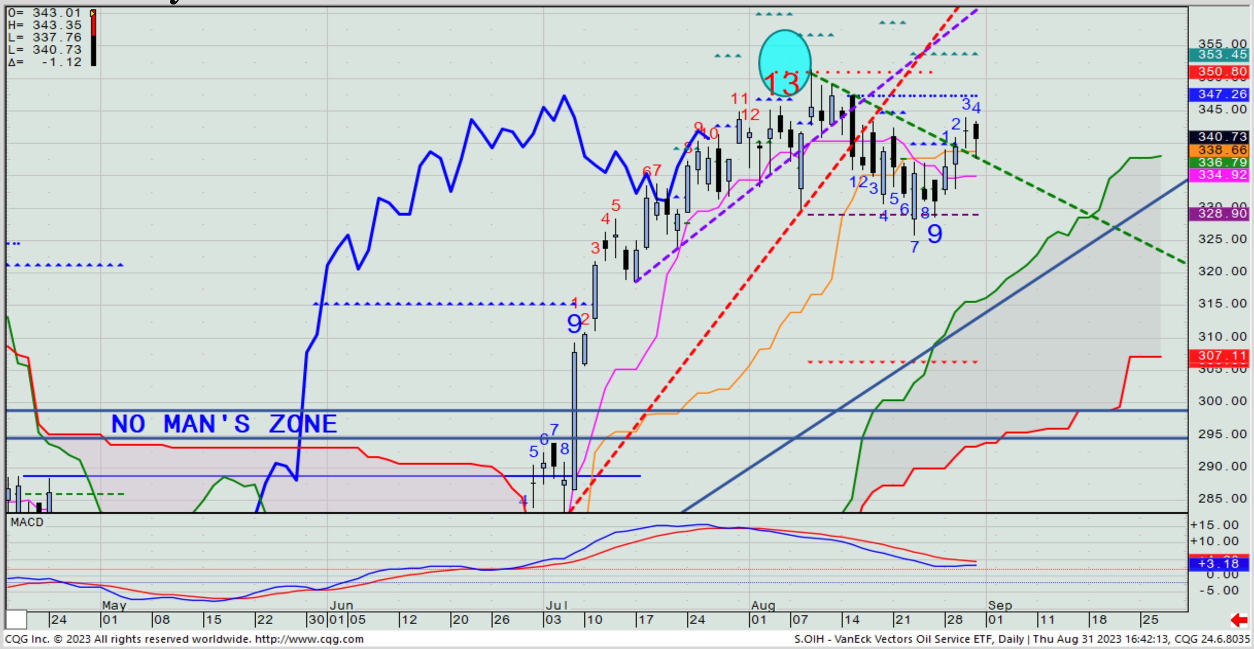
Last week's idea was to put this pair trade on of going long Health Care vs. Info Technology. (Last Friday's average entry price was a ratio of 0.7923.) This ratio traded lower this past week to close yesterday at 0.7583. I'll target a move in the ratio up to a 38% Fibonacci retracement to ~0.8797. Our sell stop will be on a Friday close beneath the current 2023 Friday low close of 0.7483.

Long XLV vs. Short XLK - Weekly



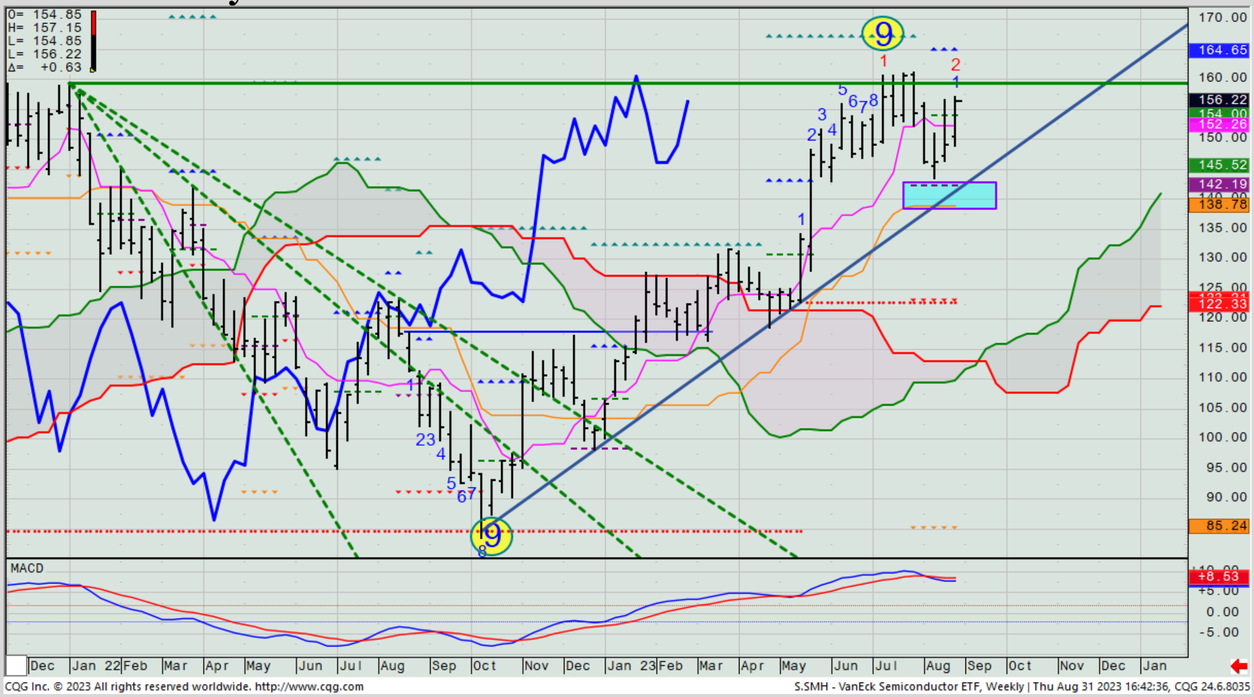
Short OIH
Two weeks ago, the idea was to short OIH, scaling up selling from the $343.50 to $348 zone, looking to cover half near $329 and the other half near $306.50. We got partial entry at the lower end on Wednesday this week, so let's say we're in a 1/3-position. I'll change this idea to max out to no more than a half-unit on a further rally. Our tight buy-stop is on a Friday close (or preferably consecutive ones) above $349.19.

OIH - Daily



Short SMH
Three 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.

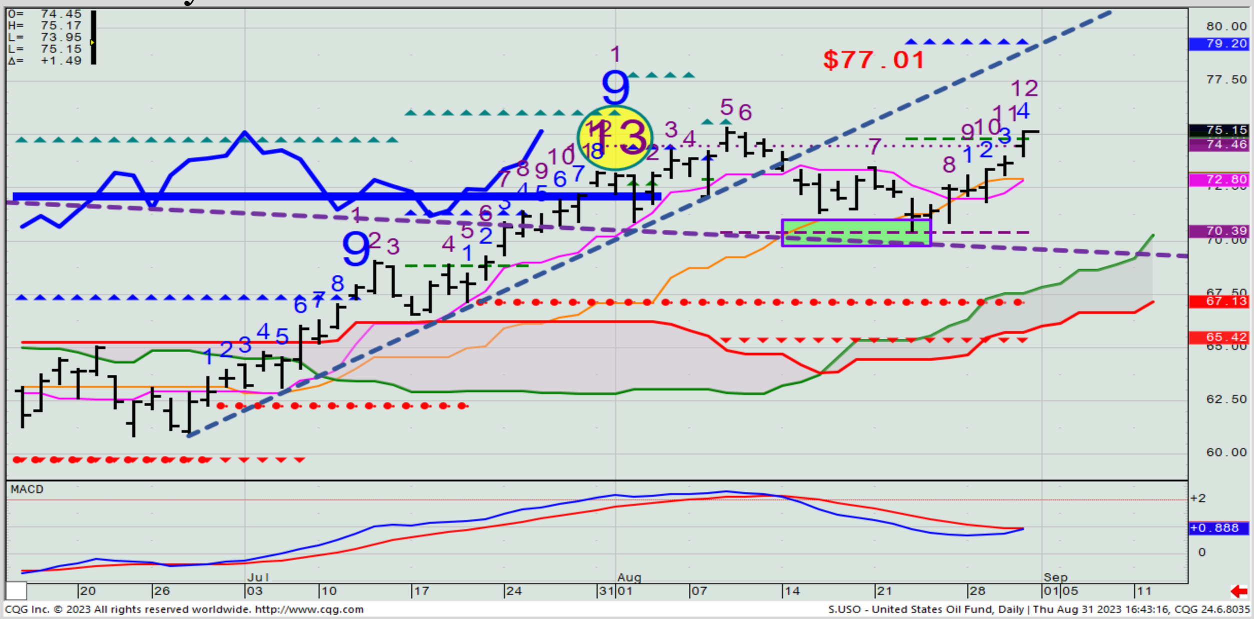
SMH – Weekly



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. We exited this last Friday at an avg. price of $73.37 for a closed profit of 4.17% on the half-position (or 2.085% in equal one-unit position terms).

USO – Daily



Short XHB

Eight weeks ago, scale-up sold short XHB -- the first third at $81.56, and another third at an avg. of $84.53. We previously covered ½ of our position at $80.60, and targeted the other half at the Base Line (currently $74.46. We'll stop out the other half on a Friday close above $84.45. (Yest. closed at $83.07.)

XHB – 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