Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

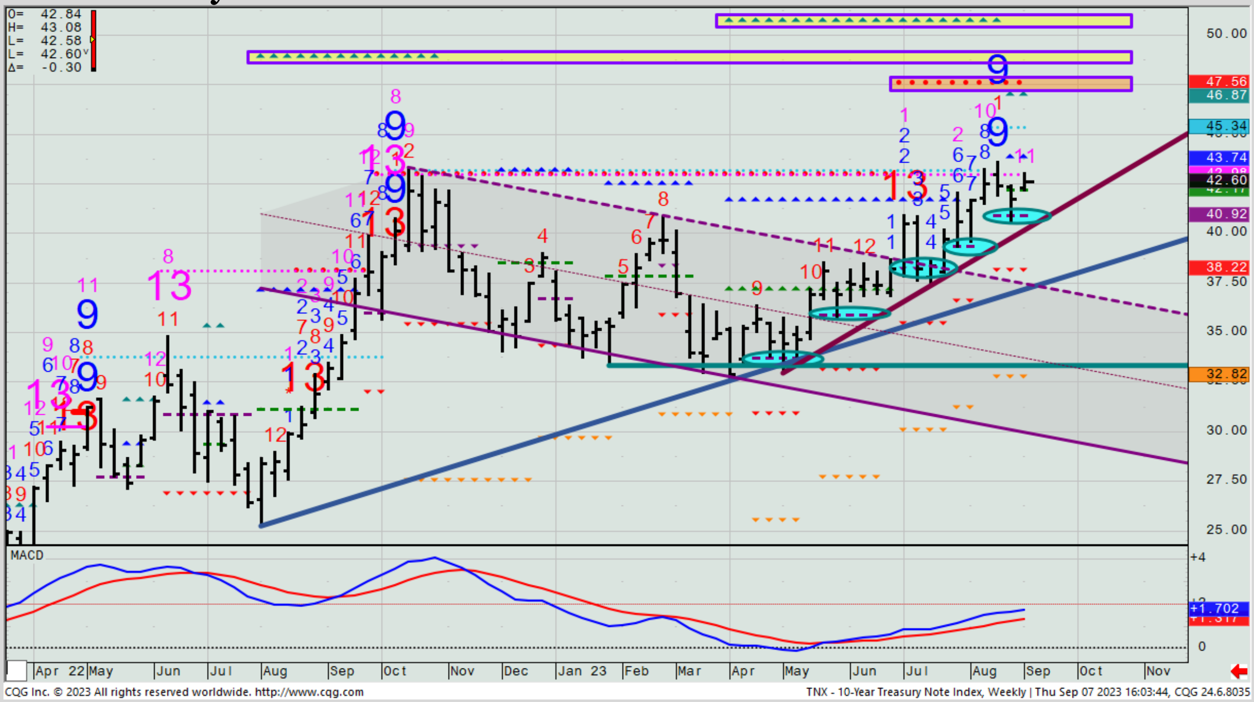
The Macro Picture

Investors faced a lower stock market this past week, as UST 10-yr. rates came storming back from an important hold of support at 4.09%, and with a steadily higher dollar, profit-taking was rightfully at hand to lock in large gains already seen this year. Borrowing a baseball term, let's go "around the horn" to see what the key markets that most affect the stock market are now showing as summer trading has passed into what could be a very interesting three months of fall-time activity – a season that includes the historically worst month of the year (September) as well as the most volatile one (October).

Let's see what these other key markets are showing:

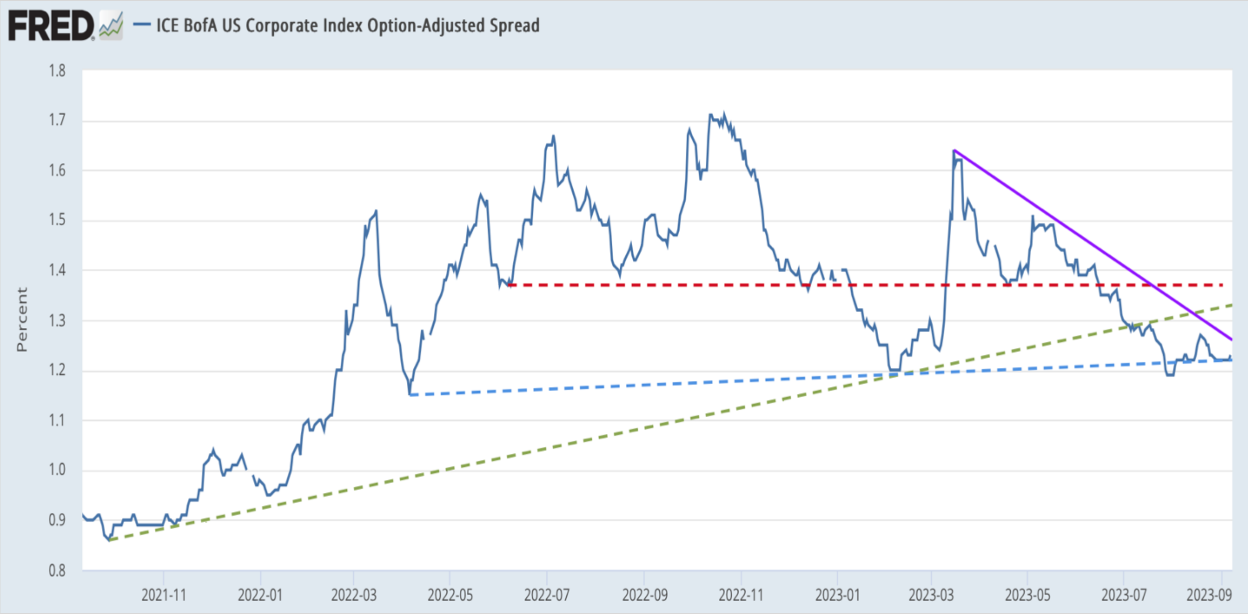
BONDS: Last week's commentary about how important the 4.09% support level could not have been more accurate, as we now see an incredible 5th time since the spring that the bearish Propulsion Momentum level marked the low of a decline. As long as we don't see Friday closes beneath that level, any move to new highs should likely also lead to another leg higher to 4.88% to 5.06%. (That doesn't mean that yields go up in a straight line, but the longer we see new highs that then hold 4.3% on pullbacks, the more likely the upward rate scenario plays out.)

TNX - Weekly



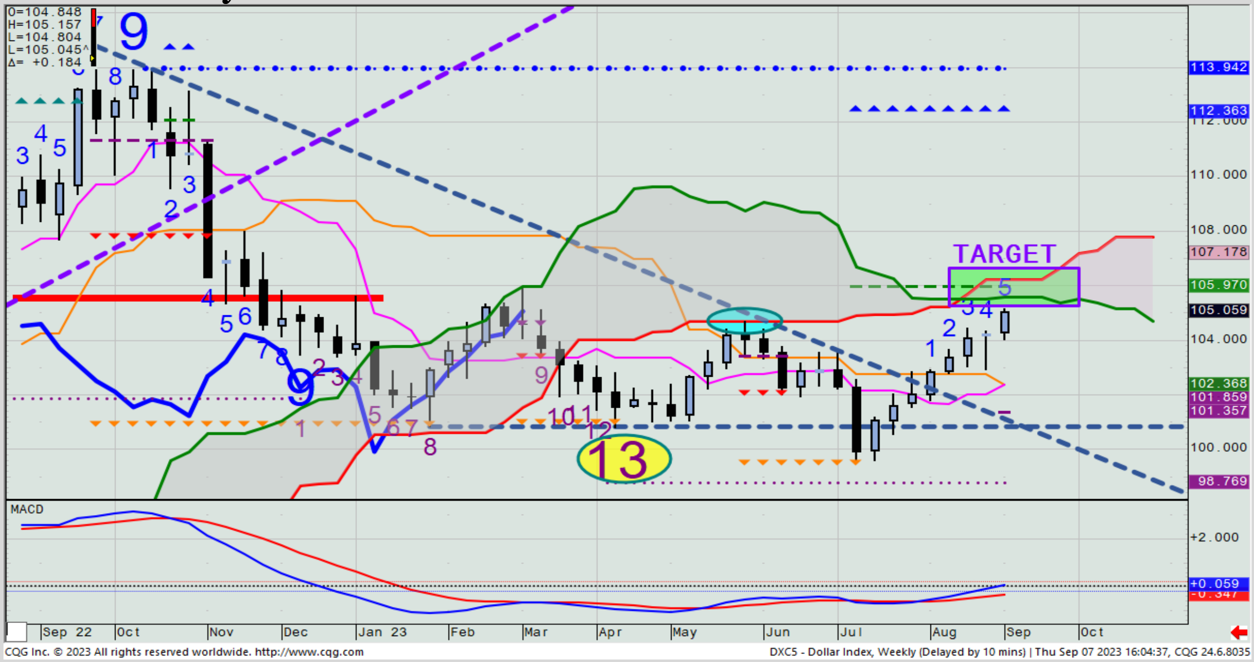
A downside breach of that level that also sees a break of the uptrend line would then change the "rates higher for longer" picture.

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 now at 1.23%. 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 just made six-month highs, and as I've been saying since the July low, the Street's strategists got this very wrong when they turned even more bearish on that July low, just as price reached the bearish Propulsion's Full Exhaustion level (at the horizontal orange triangles) – a target that was made when the DXXY peaked at its cloud bottom in late-May.

DXY – Weekly



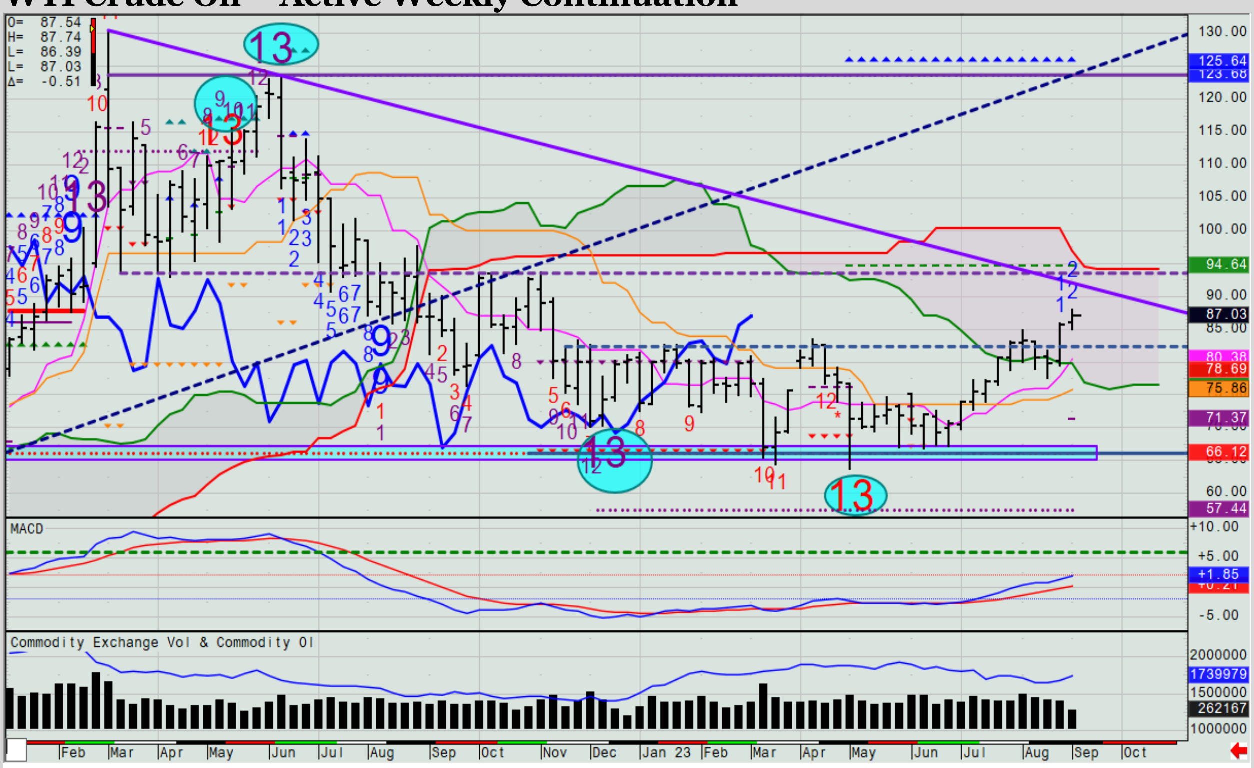
I still look for this to reach near the 106 level. The US rate picture will largely shape the greenback's move over the balance of the year.

COMMODITIES: Gold remains in what I have told my institutional clients as "neutral at best". 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

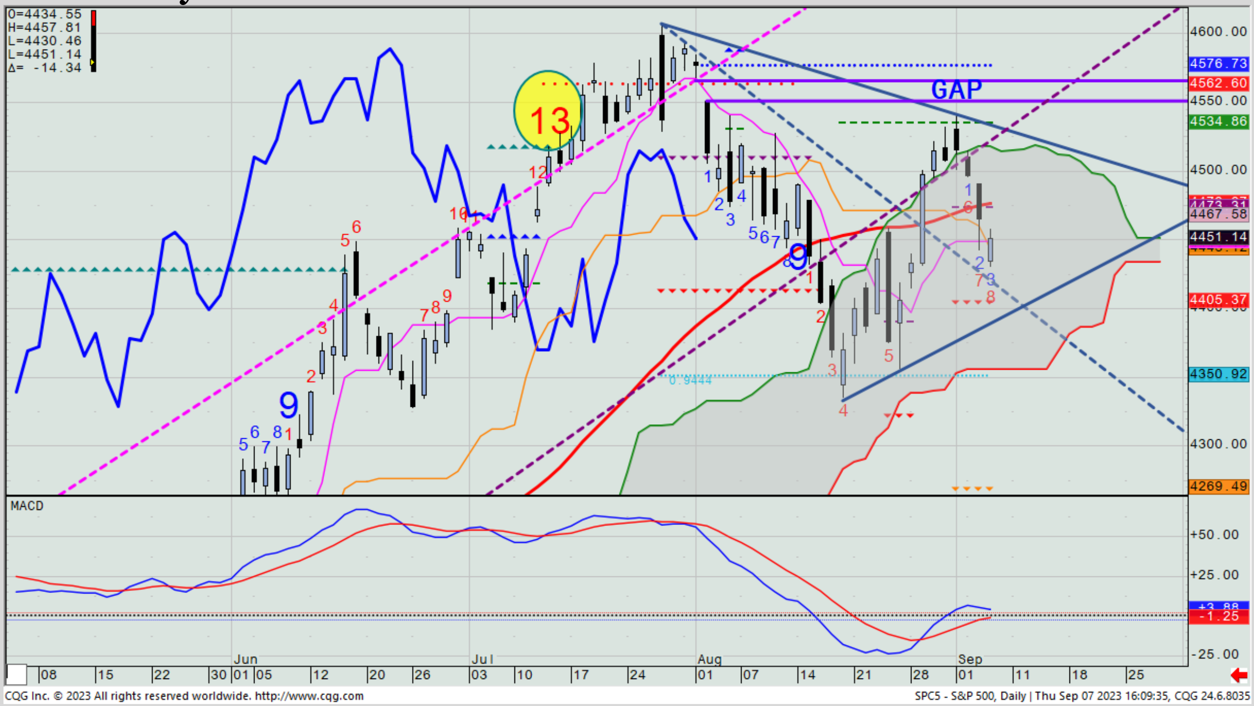
WTI oil's bounce right on the weekly cloud bottom started this strong leg higher just two weeks ago. Though far more a supply story than a demand one, the bigger picture suggests a move to first test the downtrend line and then $94/$95 area.

WTI Crude Oil – Active Weekly Continuation



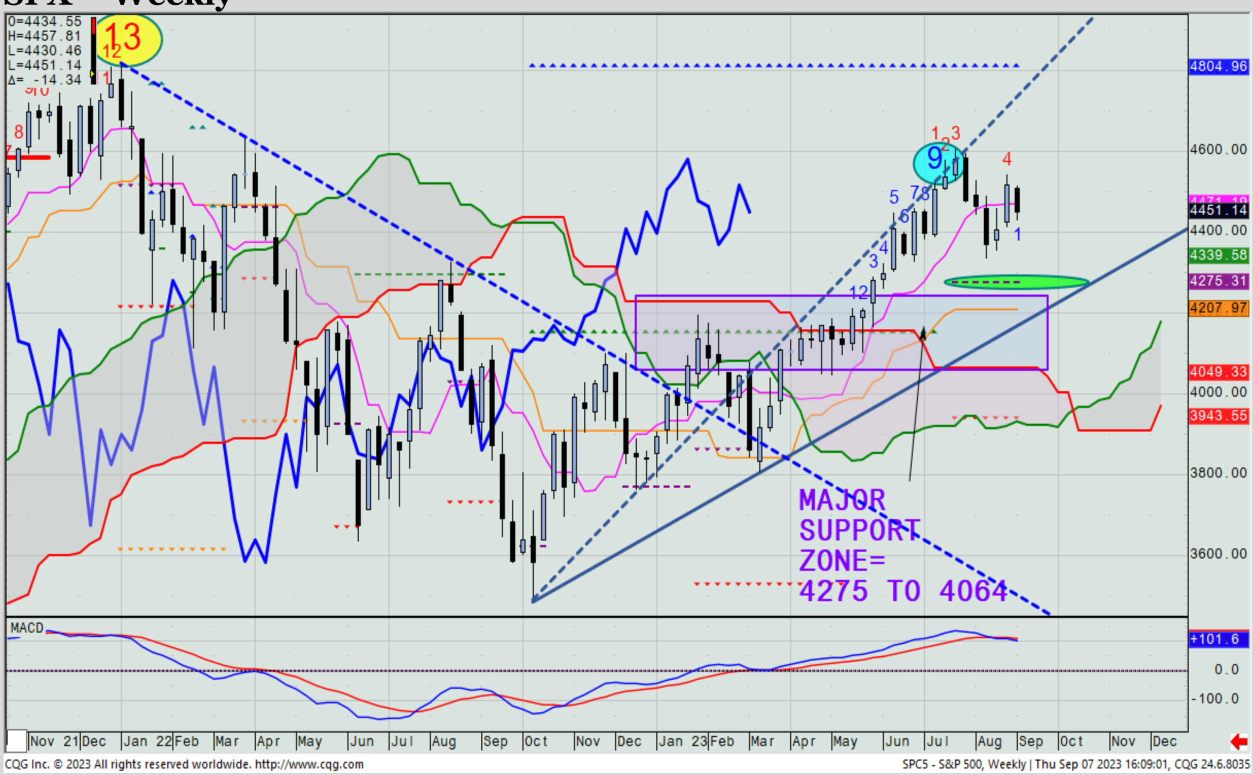
EQUITY INDEXES: The SPX halting its rally last week precisely at the daily bullish Propulsion Momentum level (4535) was the clue to be to get bearish this past week (and all of the Daily Tip Sheet plays since then have been bearish ones). Though Wednesday's low was the daily Conversion Line, I still think the market is toppy – and I will play it as such – until we see that 4535 level upside breached.

SPX – Daily



The weekly chart still has an active bullish Propulsion Full Exhaustion target of 4805 – virtually the same as the all-time high of 4819. I'd keep that in consideration unless the 4276 level gets broken beneath.

SPX – Weekly

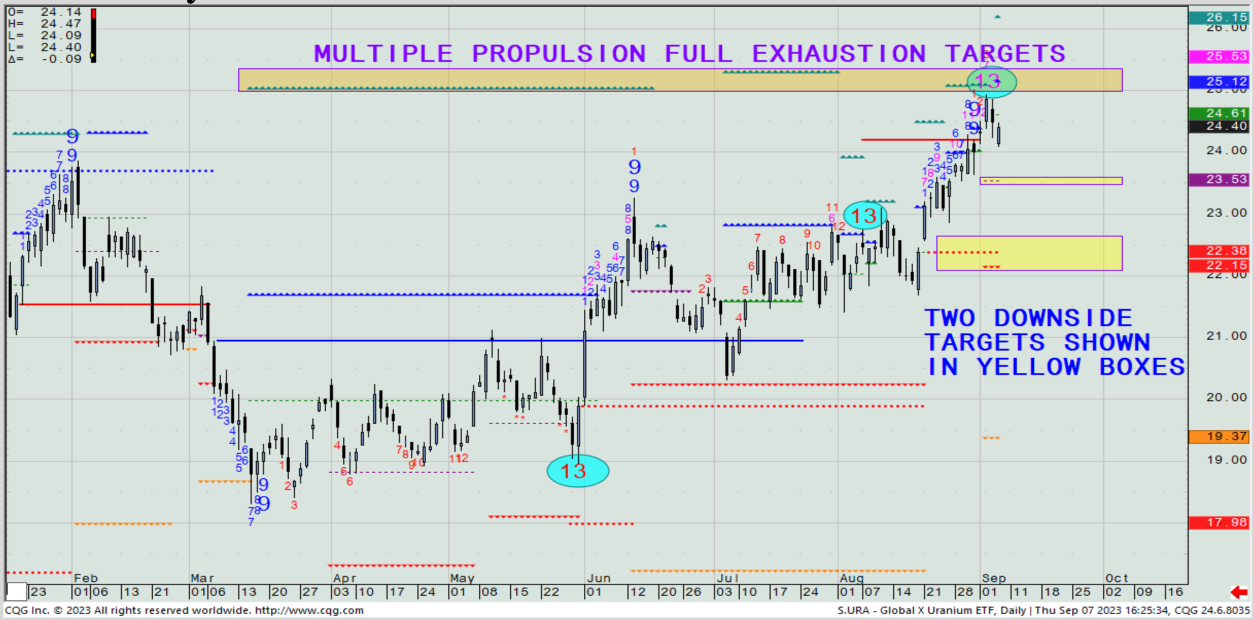


New ETF Trade Idea

Uranium prices have moved up by some 30% since springtime, but have gotten close to near three different Propulsion Full Exhaustion targets (highlighted in the light orange wide rectangle) in the **Global X Uranium ETF (URA)**. On Tuesday this week, a daily TD Combo +13 reading was posted, identifying a signal that this rally is likely long in the tooth.

As such, let's look to sell a 50% position today, and another 50% on a rally to $25.00 to $25.25 (i.e., the span of those three target levels). I'll look for a pullback to target the two yellow-highlighted boxed areas, and we'll stop this trade out on the second consecutive Friday that closes above $25.53.

URA – Daily



Other Open Recommendations and Positions

Long TLT

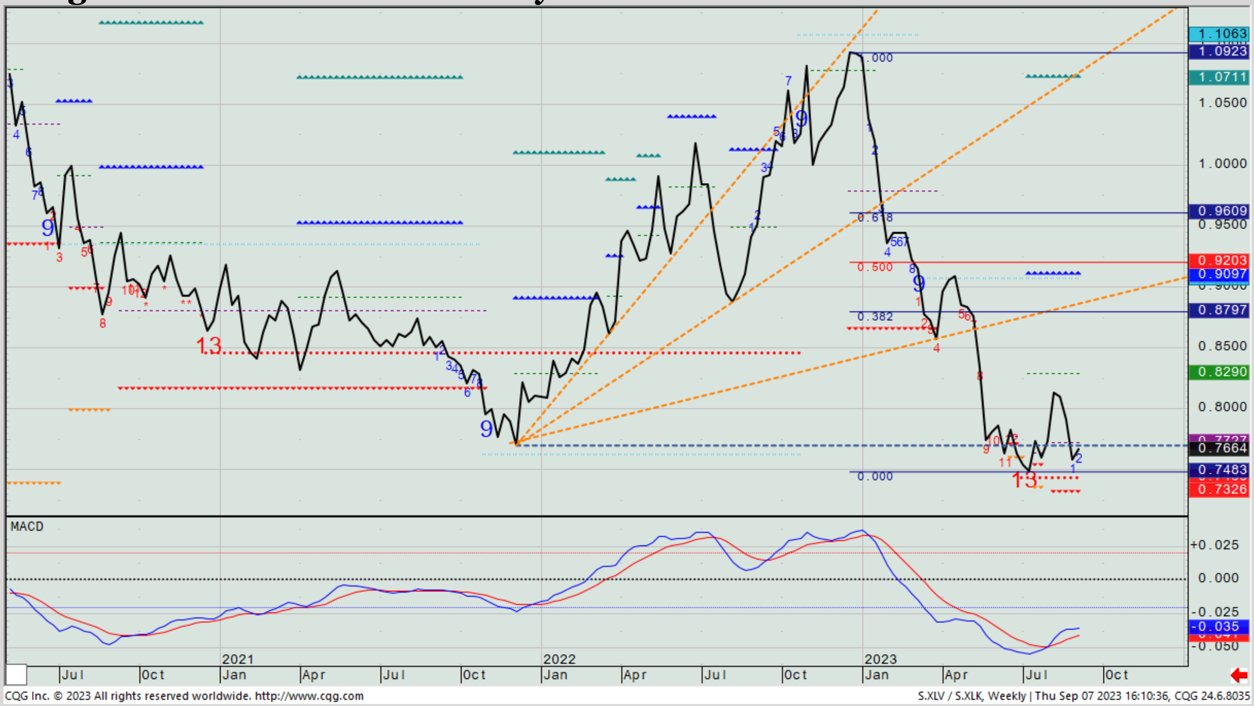
Last week's idea was to get long three units of TLT at $95.60; $94.90, and $94.25, with a target of $99.35 +/- 20 cents. Our sell-stop to exit will be on the second consecutive Friday close beneath $94.55. (Today could be the first one.)

Long TLT - Weekly

Long XLV vs. Short XLK

Two weeks ago, my 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.) 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.

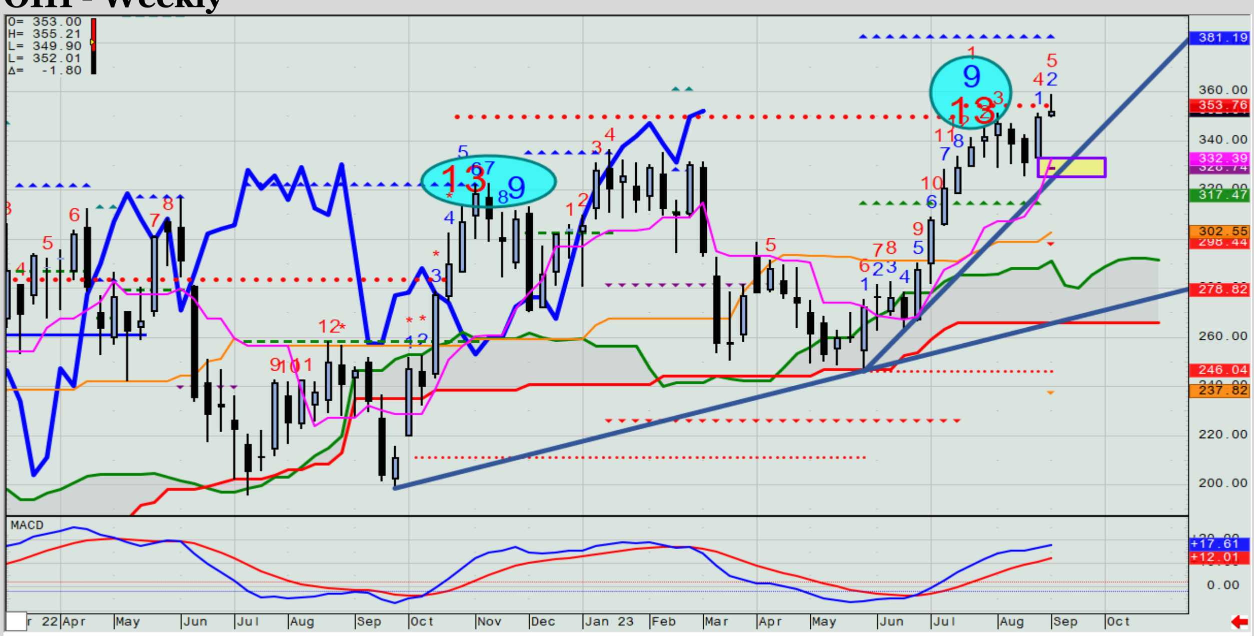
Long XLV vs. Short XLK - Weekly



Short OIH

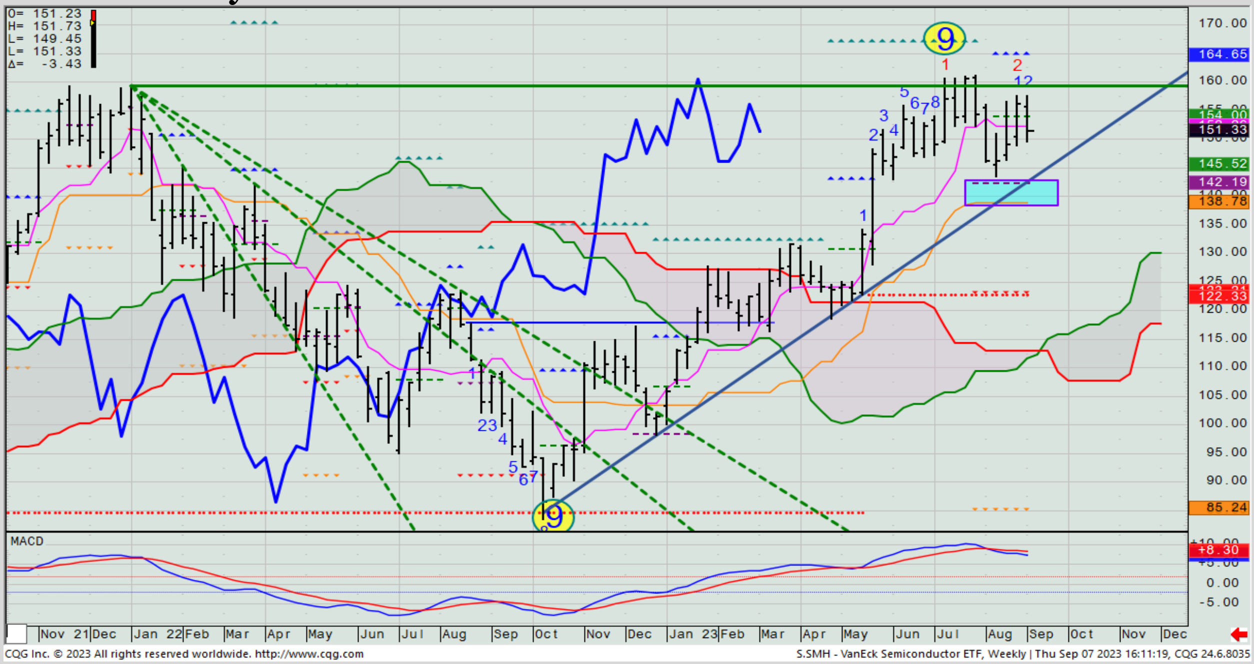
Three weeks ago, the idea was to short OIH, scaling up selling from the $343.50 to $348 zone, looking to cover half near $329 and the other half near $306.50. We got a 1/3-position entry at $343.50, and last week I changed the trade to max out at as a 50% position on a continued rally to $348, which we saw (so we have an avg. short position on at $345. Our tight buy-stop is on consecutive Friday closes above $349.19.

OIH - Weekly



Short SMH
Four 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



Short XHB
Nine 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