Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

Our self-described "data dependent" Fed got two key stats this week (CPI and PPI) that did not particularly show a slowing inflation picture that the Fed wants to see, but both Wednesday and Thursday did see market gains (the latter – substantial ones), as there is a growing belief that the Fed is getting closer to finishing their task of raising rates to slow a very heated economy down. Right now, investors are largely betting on no rate increase next week, and of a 38% chance of a hike on November 1.

Recently, the SPX has been in a meaningless tight trading range, but the good news is that we haven't seen any material decline that broke any key support level. (To me, that's at 4276.) So, the bottom line to me is whether or not UST 10-yr. rates make another leg higher or not. If not, the general bullish equity picture remains in place. But if yields do start another leg up, then I don't see how stocks hold up, and the many strategists who are looking for new all-time highs to occur this year will not be correct. In fact, they'd likely end up costing their clients the opportunity to have sold into strength, with what would end up having the ability to replace those sales at well-lower prices.

Let's see what other key markets are currently showing to help round out the macro picture:

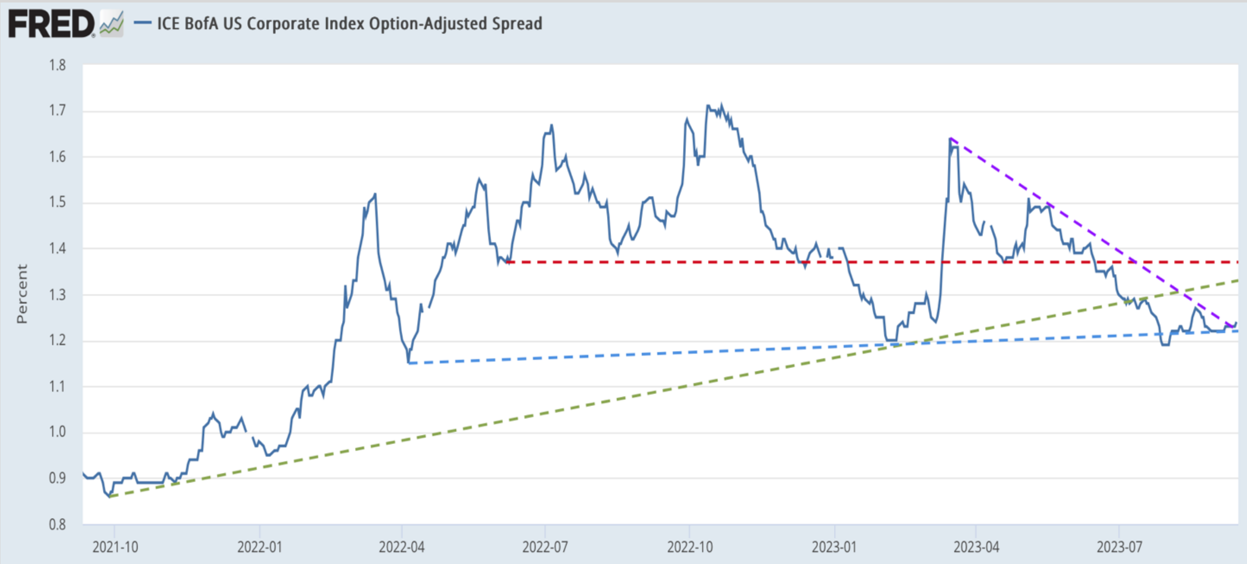
BONDS: The UST 10-yr. 4.09% level remains important, as we recently saw a bearish Propulsion Momentum level hold as support for the 5th time this year.

TNX - Weekly

As long as we don't see Friday closes beneath that level, any move to new highs that holds above the 4.3% level should likely also lead to tests of 4.88% to 5.06% (with some stops along the way, perhaps at 4.53% and 4.76%).

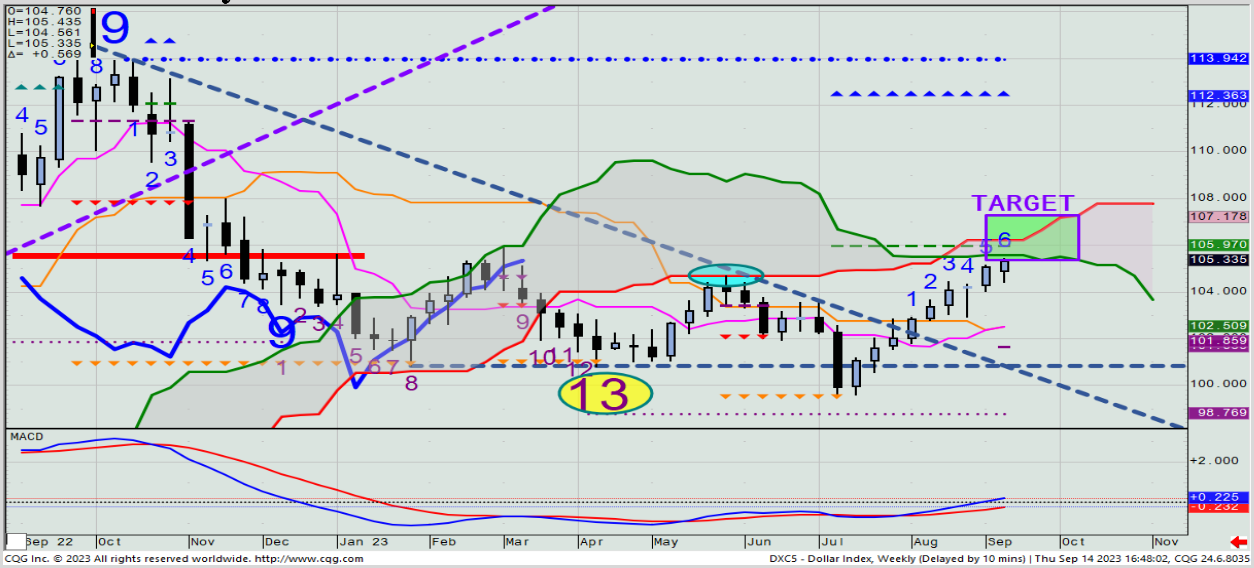
As I wrote above, should that big rate rally come, I think the SPX will head not only beneath 4276, but more likely to the 4100/3950 zone.

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 1.24%. 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. It's currently rangebound, but it is also now just popping above the purple dashed downtrend line from this year's high. If this continues higher, it's a warning sign about equities ability to hold up.



<u>CURRENCIES:</u> I have been bullish the dollar since it reached its bearish Propulsion Full Exhaustion level on this year's early-July low. It is now on a weekly Setup +6 count (towards a potential terminal +9 count three weeks from now), while also getting closer to my target of the cloud's low to high, which also includes the key 105.97 bullish Propulsion Momentum level. (Notice the high end of the target has now moved higher as over the next month, the top of the cloud moves higher, too.)

DXY – Weekly



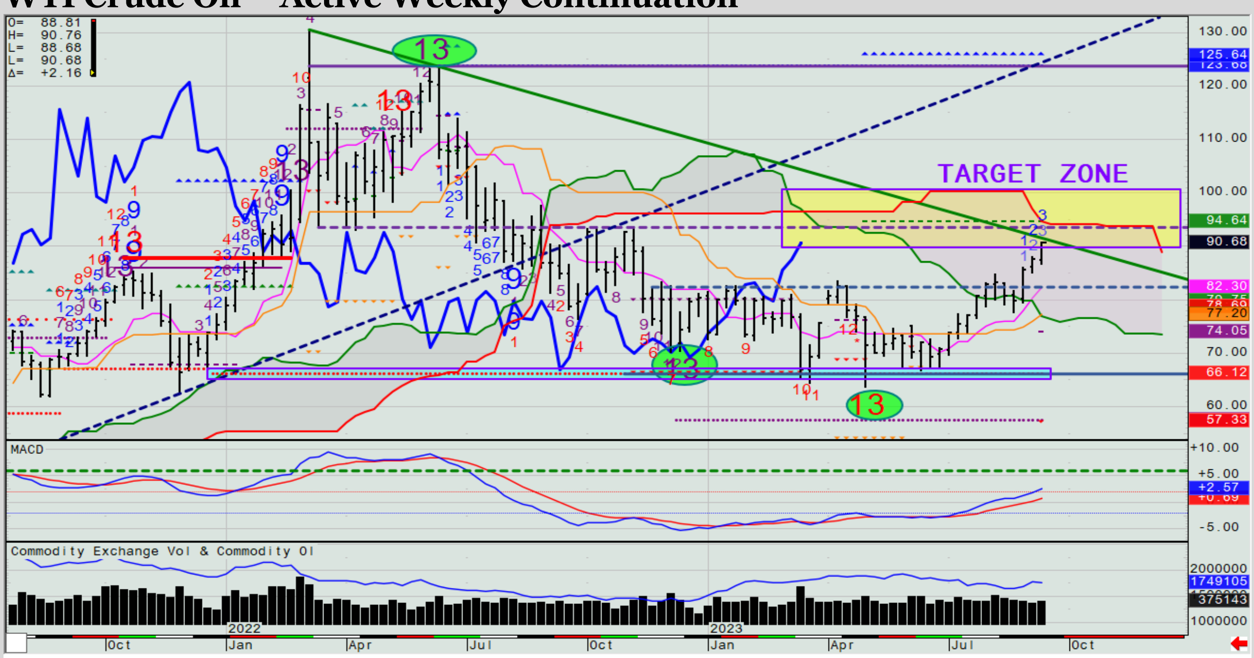
I still look for this to reach near the 106 level. The US rate picture will largely shape the greenback's move over the balance of the year.

COMMODITIES: Gold remains in a general "neutral at best" view (though yesterday marked an Aggressive Sequential -13 signal). In the bigger picture, longer-term bulls need to see $1882/$1850 hold on all pullbacks. Near-term resistance remains from $2017 to $2029.

COMEX Gold – Active Weekly Continuation

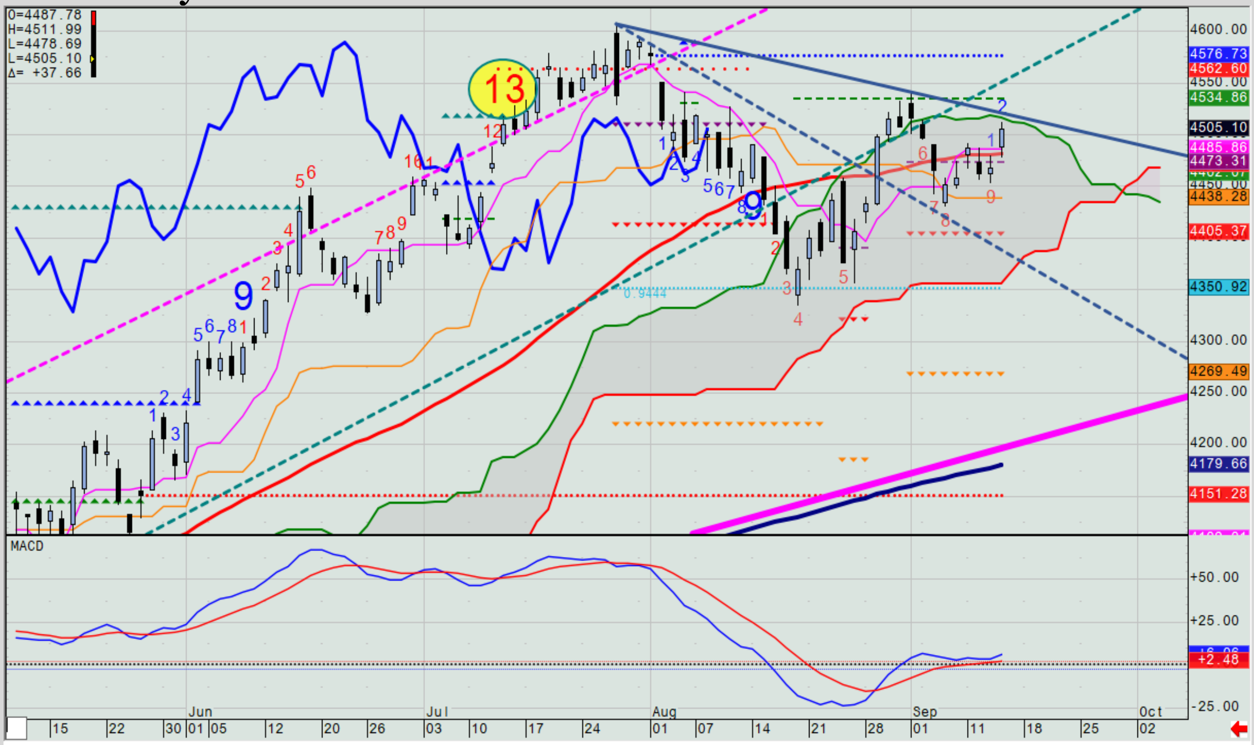
WTI oil's rally has continued, and it's about to reach a test the downtrend line and then $94/$95 area. (My only concern is that coming into yesterday, 88% polled are bullish oil. That's the highest it's been since June '22.) It doesn't mean it can't go higher – it likely does. It just means that it's getting "frothy" from a risk/reward perspective.

WTI Crude Oil – Active Weekly Continuation



EQUITY INDEXES: The SPX has been rangebound the past two weeks, and so long as it doesn't get a proper upside breakout above the 4535 bullish Propulsion Momentum level, I'm not thinking that we're going to miss an upsurge – nor do credit spreads potentially breaking out upside suggest that right now, either.

SPX – Daily



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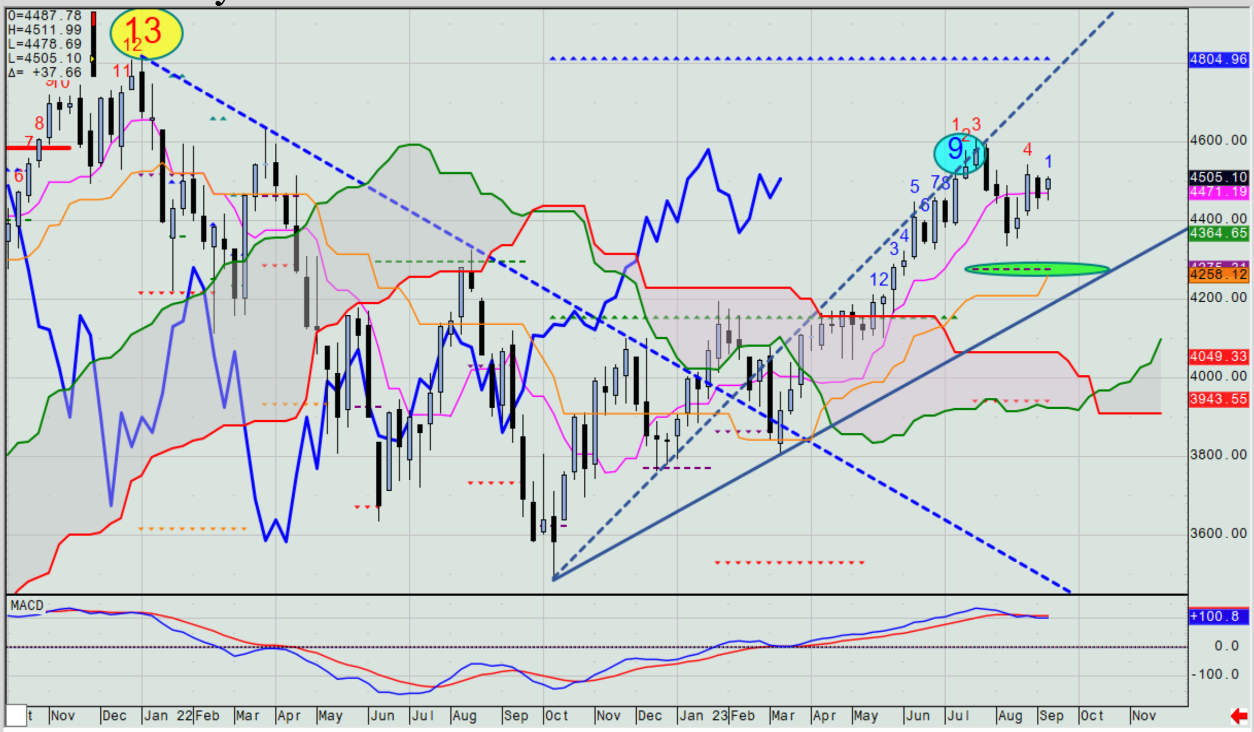
SPC5 - S&P 500, Daily | Thu Sep 14 2023 16:56:38, CQG 24.6.8035

However, the weekly chart still has an active bullish Propulsion Full Exhaustion target up at 4805 – virtually the same as the all-time high of 4819 – so the general rally is still intact, and I'd keep that top of mind until and if the 4276 level gets downside breached.

SPX – Weekly



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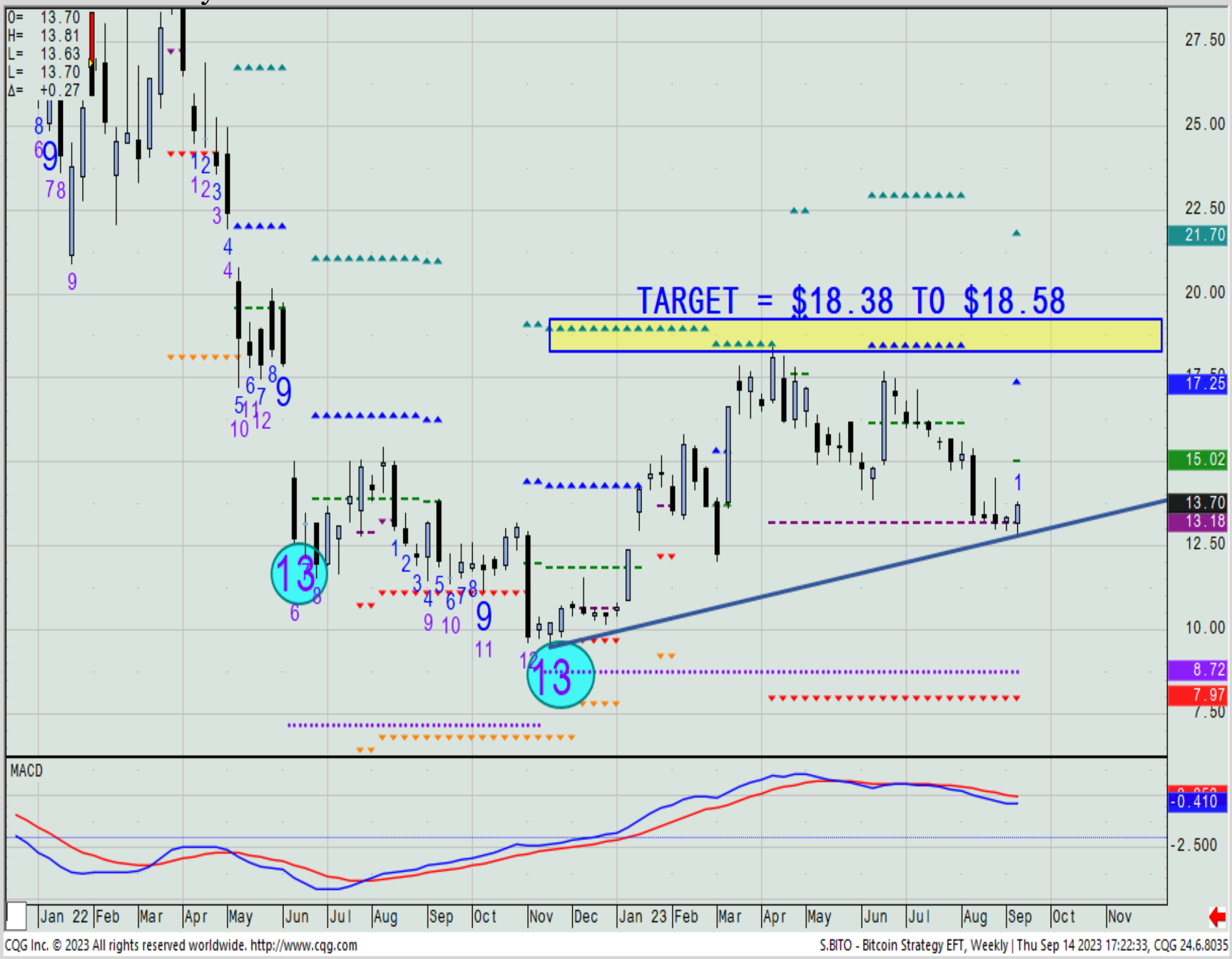
SPC5 - S&P 500, Weekly | Thu Sep 14 2023 16:57:45, CQG 24.6.8035

Though three of the last four Fridays closed beneath the weekly Conversion Line, today could easily close above it. And the more times it can do that, the more it would show that bulls still control the bigger picture. (Notice that the weekly Base Line has now also moved up to be within 20 points of that important 4276 level, so we really can hone in on where the really important support level is.)

New ETF Trade Idea

It's not often I am recommending a trade related to Bitcoin, but I've now got one that has a good reward to risk ratio. It's in the **Bitcoin Strategy ETF (BITO)**, and the play is to get long one unit today with a target of $18.38 to $18.58. Our sell-stop is a Friday close (or two) under $13.18 or if you are willing to risk more, under the March low of $13.06. Either way it should be no less than a 2:1 payoff relative to the risk.

BITO – Weekly

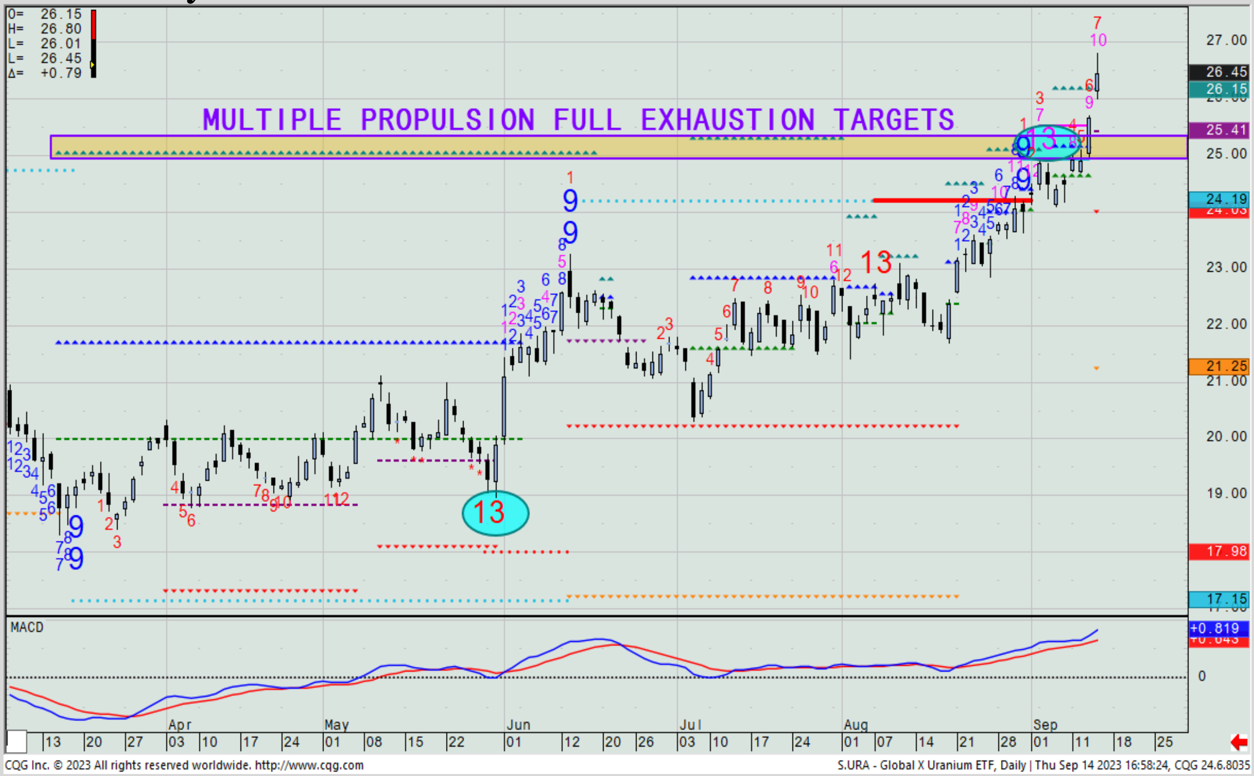


Other Open Recommendations and Positions

Short URA

Last week's play was to short a 50% position (avg. fill at $24.40) and another 50% between $25 to $25.25 (filled at $25.12). We will be stopped out today, as it should be the second consecutive Friday that closes above $25.53. (See chart on top of pg. 6.)

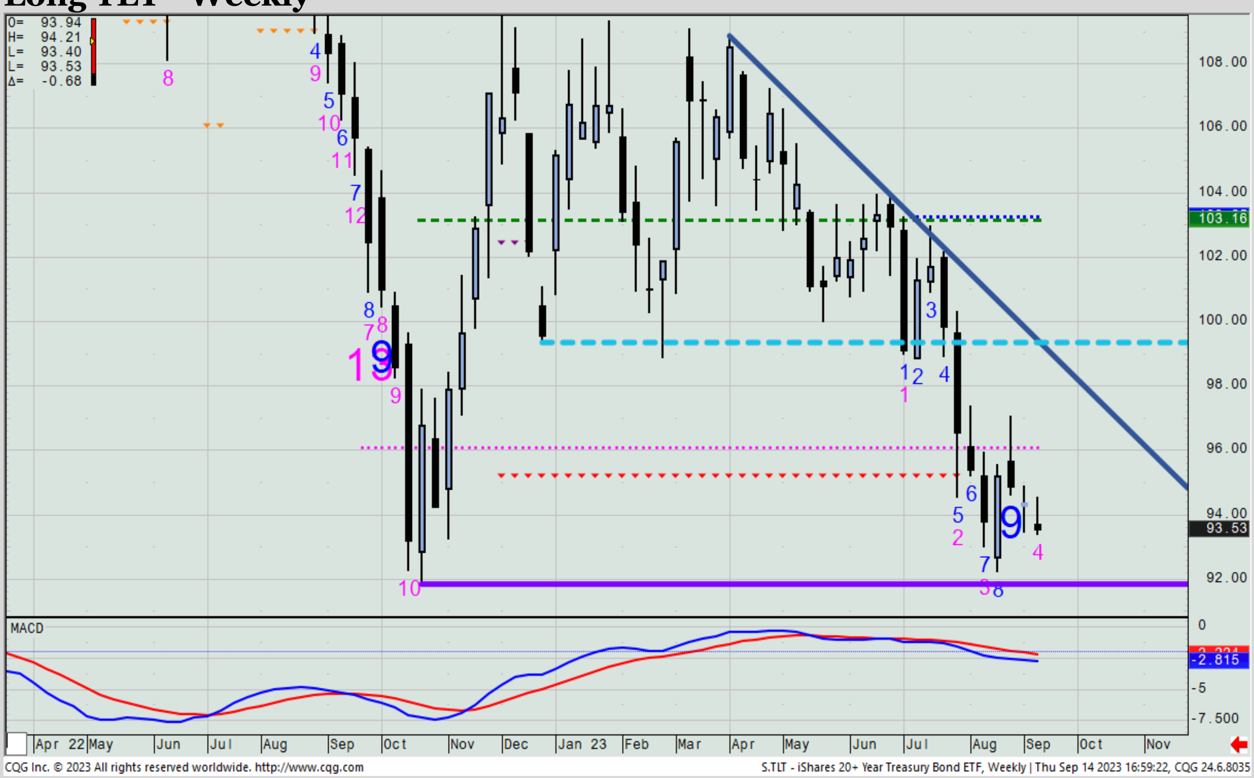
URA – Daily



Long TLT

Two weeks ago, my 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. Last week was the first, and today could easily be the second, so be prepared to exit today.

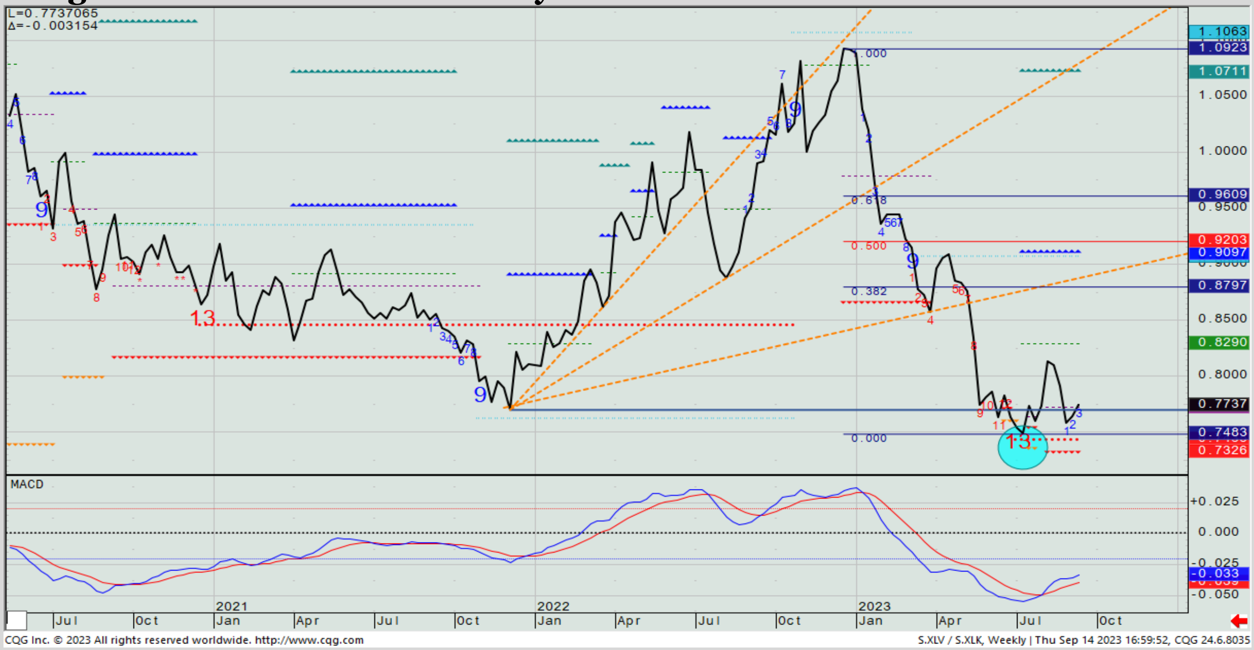
Long TLT - Weekly



Long XLV vs. Short XLK

Three weeks ago, my idea was to put this pair trade on of going long Health Care vs. Info Technology. (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.

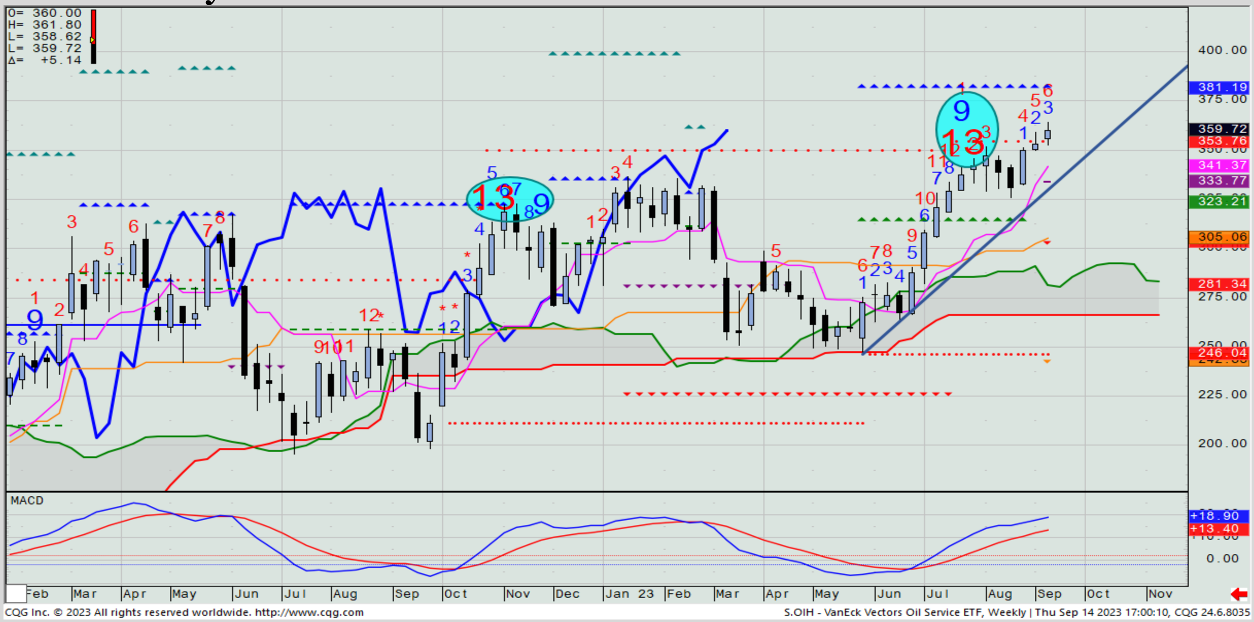
Long XLV vs. Short XLK - Weekly



Short OIH

Four 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 two weeks ago 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 was on consecutive Friday closes above $349.19, which occurred last Friday on its close of $353.07. We lost 2.29% on invested capital, but as it was only a 50% position, we only lost 1.15% in equal-position P&L terms.

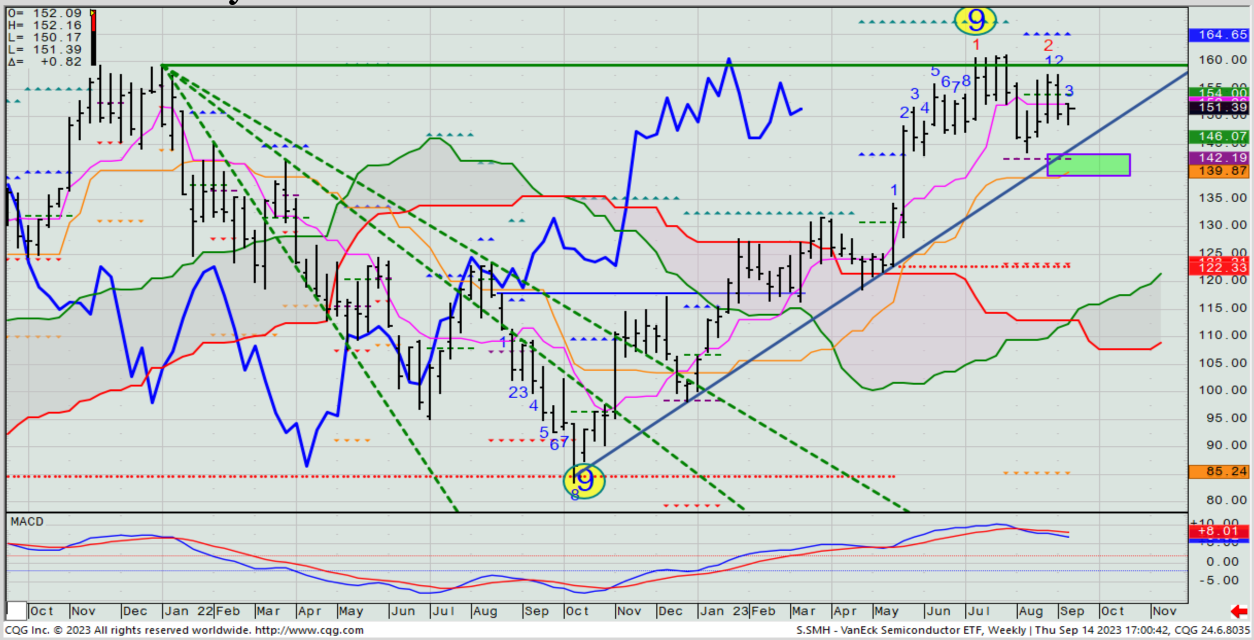
OIH - Weekly



Short SMH

Five 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 $139.50 (in the green rectangle). The buy-stop is on a Friday close above $159.82.

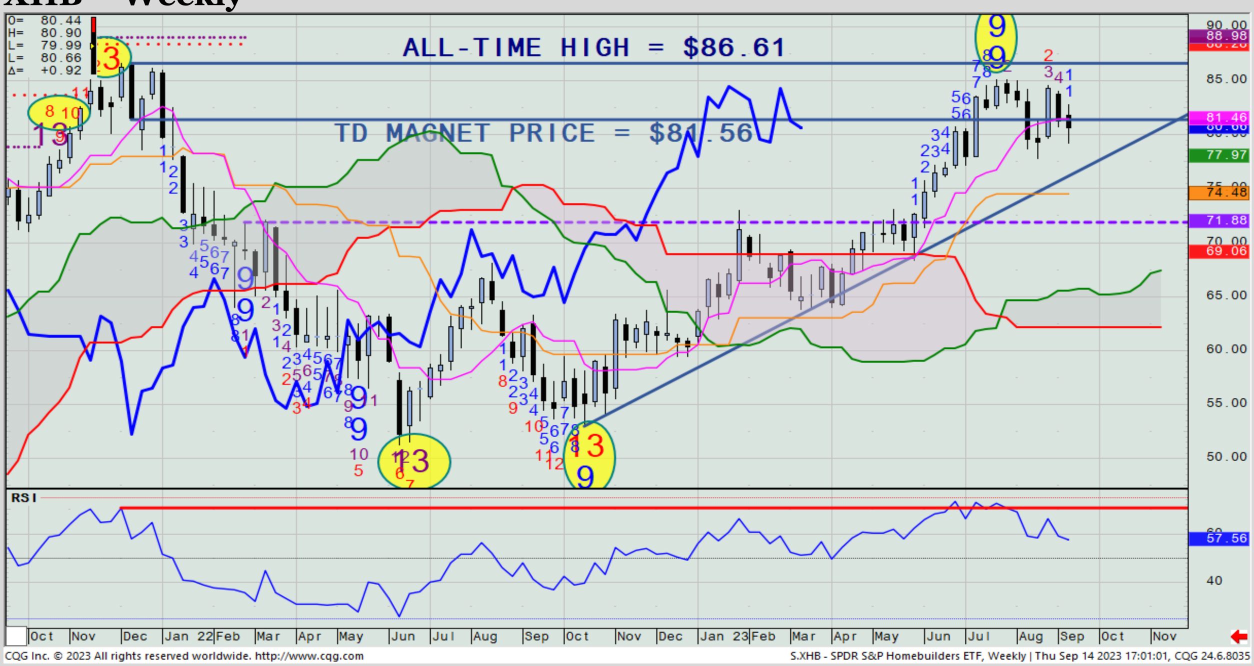
SMH – Weekly



Short XHB

Ten 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. (Lennar reports this coming Monday. It might give the sector some direction after about 10 sideways weeks.)

XHB – 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.

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