Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

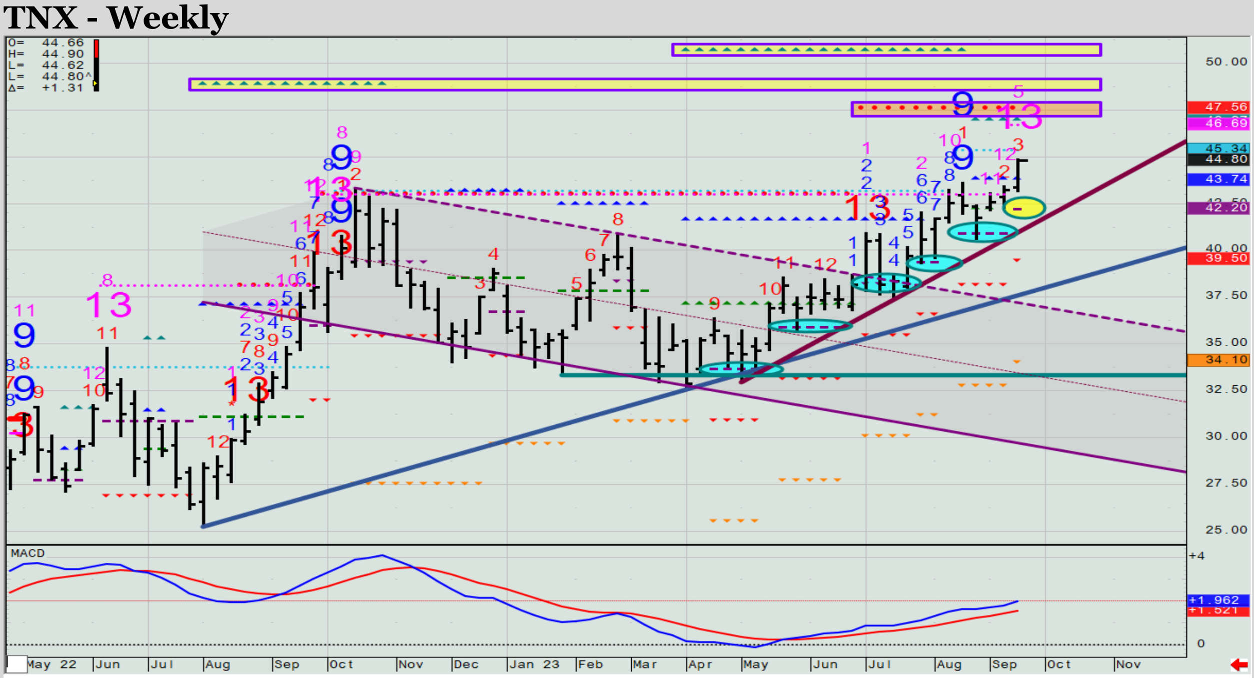
The Macro Picture

The Fed gave investors a cold splash of water on the face by not only clearly staying in the "higher for longer" camp, but by also taking two rate *cuts* out of next year's forecast. Along with yields now rocking higher to new secular highs (to near 4.5%), and $90 oil pushing home heating and gas prices higher, stocks have finally taken the hit I have long espoused was the more likely outcome to occur with a test of SPX 4276 likely coming (and where I will be replacing most of the SPYs I sold out of earlier this year at $450). Now, that doesn't make me a major league bull there, but as those SPY sales came in my IRA account, replacing them at more than 5% lower is a good thing for that long-term perspective account). I will also be buying a more substantial amount of them down near the 4100/3950 zone, if the opportunity comes.

Let's take a look at what other key markets are showing:

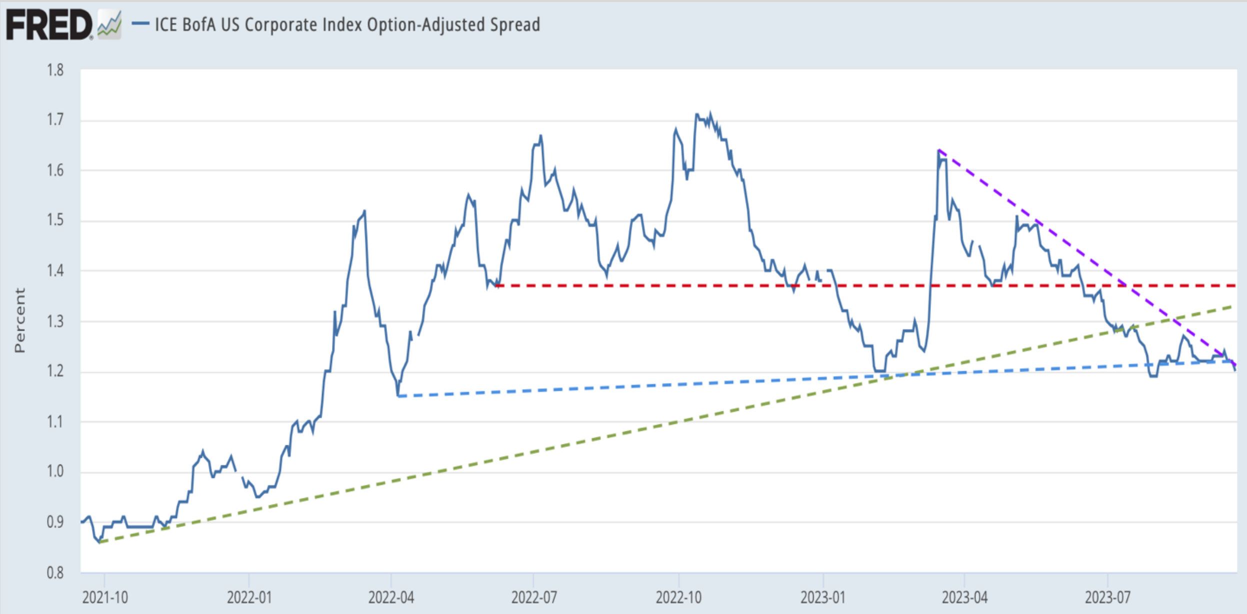
BONDS: Every weekly bearish Propulsion Momentum level since April 1 (i.e., five of them) was the low to each rate pullback we've seen. I highlighted the newest one (in yellow) at 4.22% (but that will get dragged higher as/if yields go even higher than where they just climbed to. Though this week is a Combo +13 – and the prior two of them were good at calling trading peaks – the bigger upmove measures to 4.88% and 5.06%. Intermediate tops may come at 4.53% and 4.76%.

TNX - Weekly



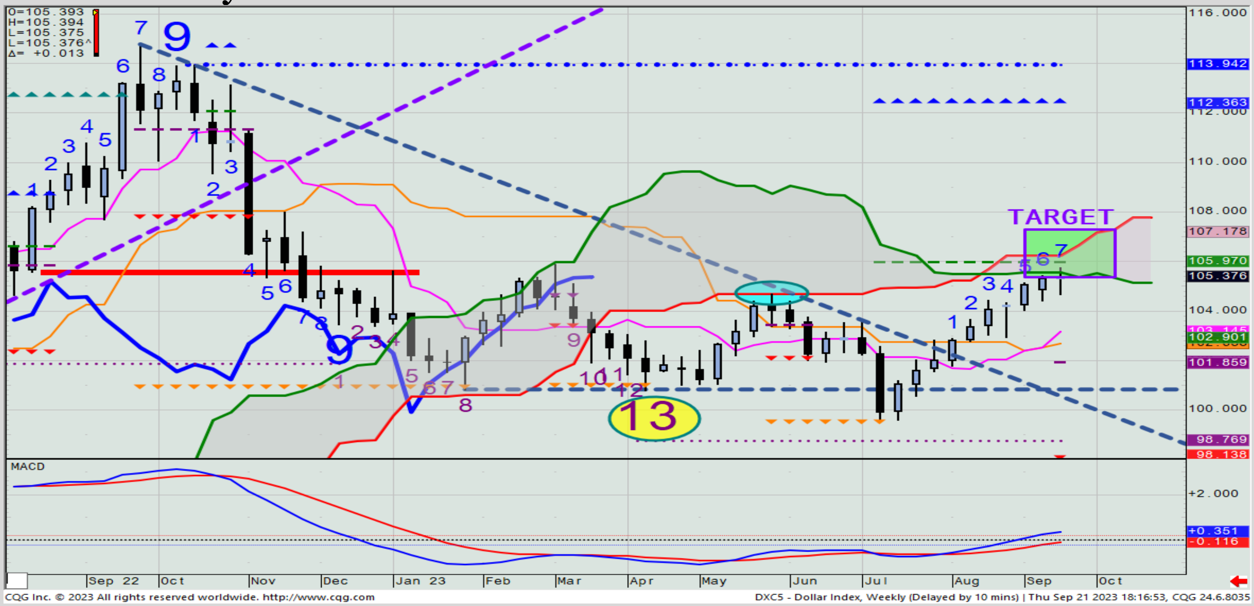
As I wrote above, should those higher targets surrounding 5% be met, I think the SPX will head not only to 4276, but more likely to the aforementioned more important 4100/3950 zone.

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 1.20%. (The current price very much surprises me given where rates have just spiked to and stocks selling off.) 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. If this prints 1.18% or lower, then I simply have got this wrong.



CURRENCIES: 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 +7 count (towards a potential terminal +9 count two 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.)

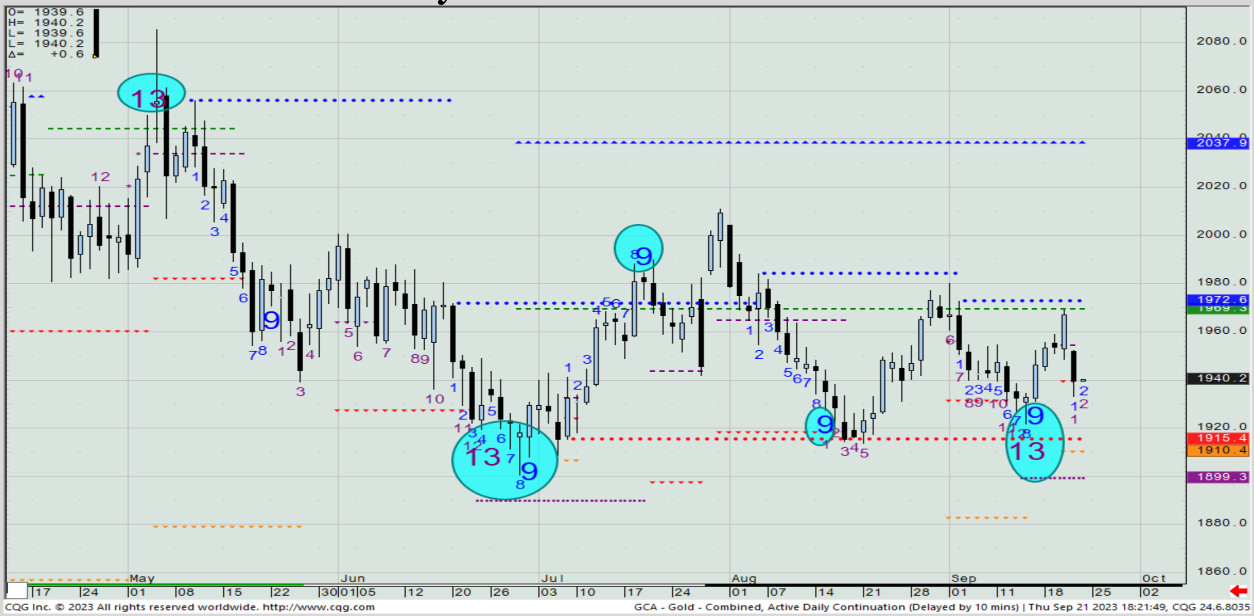
DXY – Weekly



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, though yesterday's surge higher in yields did not produce a new high above the current peak price from about a week ago. It's both interesting and noteworthy.

COMMODITIES: Gold remains in a trading range. In the bigger picture, longer-term bulls need to see $1882/$1850 hold on all pullbacks. Initial near-term resistance is at $1972/$1984 and then $2038/$2056.

COMEX Gold – Active Daily Continuation

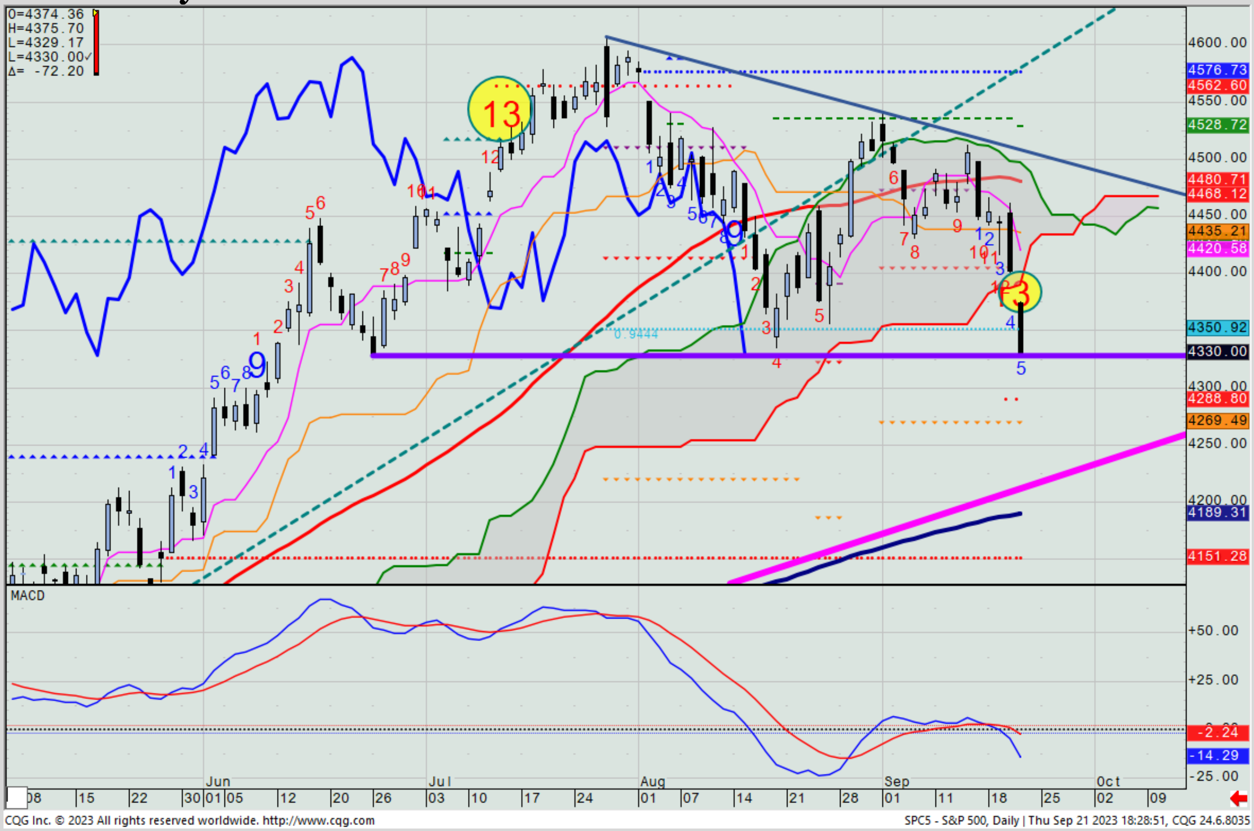


WTI oil's rally has continued, and it's testing the downtrend line from last year's spike high from north of $130. The top of the cloud is in the $94/$95 area, so that's a secondary target. On pullbacks, I'd consider getting long in the mid- to low-$80s.

WTI Crude Oil – Active Weekly Continuation

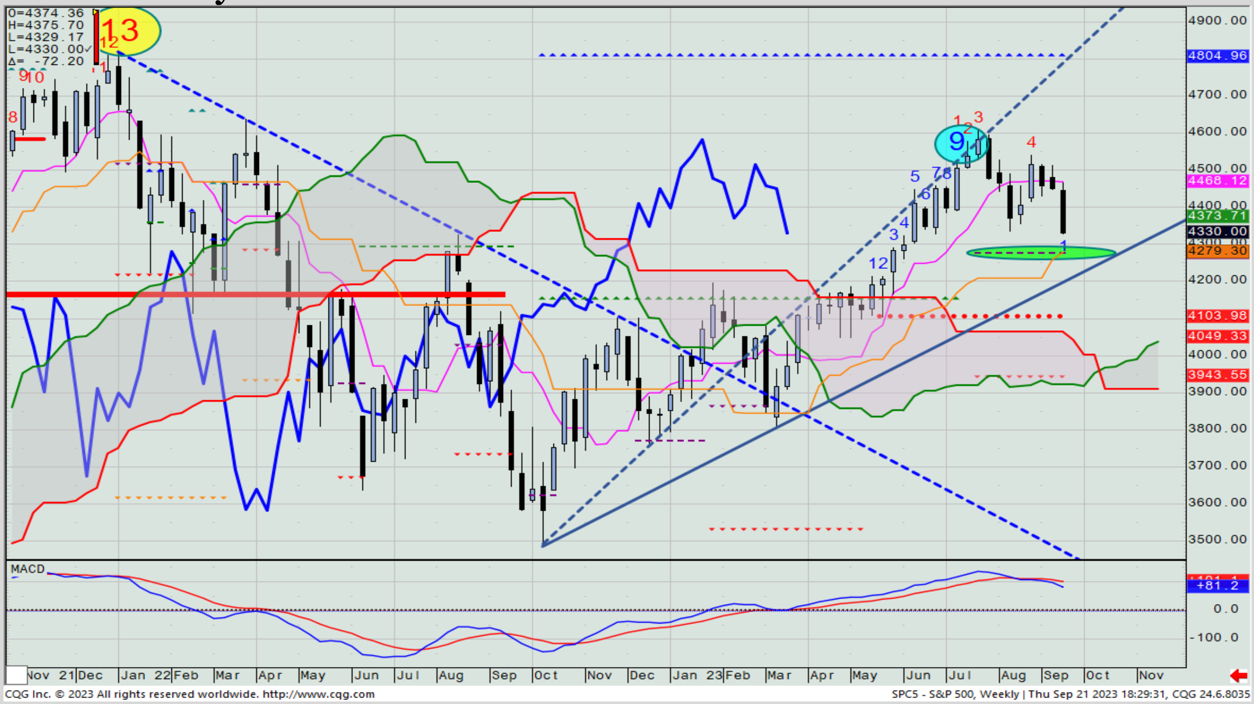
EQUITY INDEXES: The daily chart posted a Sequential -13 count on Fed day earlier this week, with its associated Risk level at 4289 (and a number darn close to the weekly bearish Propulsion Momentum level at 4276).

SPX – Daily



As I wrote earlier in this report, I will be doing some buying near 4276 to replace higher level sales I made earlier this year. And I plan on buying more in the 4100/3950 zone, as those are respective TDST line and Propulsion Full Exhaustion levels.

SPX – Weekly



Four of the last five weeks (including today baring a very large upmove) the Friday closes have been beneath the weekly Conversion Line (i.e., bears are controlling the near-term action). There's also a head-and-shoulders pattern that is apparent, though it hasn't made a neckline break yet. I think odds are really good that we see a test of that 4276 area shortly.

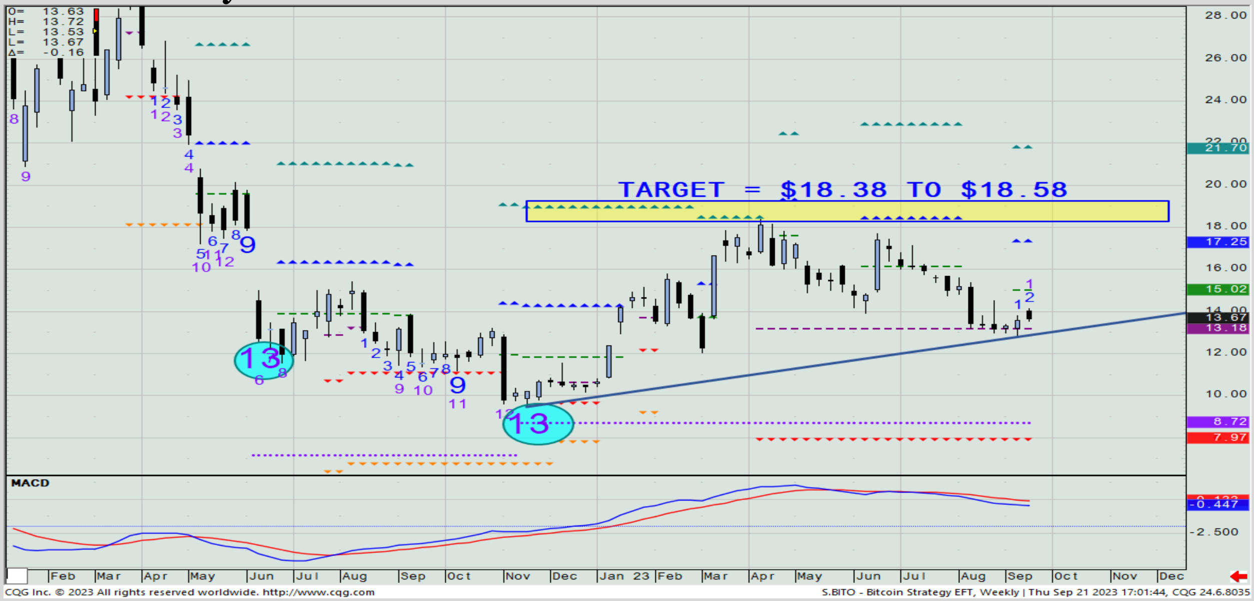
New ETF Trade Idea

I came across the **iShares MSCI Switzerland ETF (EWL)** in a scan of names that made daily +13's one day this week. When I look at the weekly chart, I also see that yesterday closed just two cents above its bearish weekly Propulsion Momentum level of $44.67. Thus, if today is trading beneath that level going into the close, sell a half-unit. We'll add to that position next week IF price action confirms the breakdown. To manage risk, we'll stop ourselves out on a Friday close above $46.65.

Other Open Recommendations and Positions

Long BITO
Last Friday we went long one unit of this Bitcoin-related ETF (that invests in Bitcoin futures) 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.

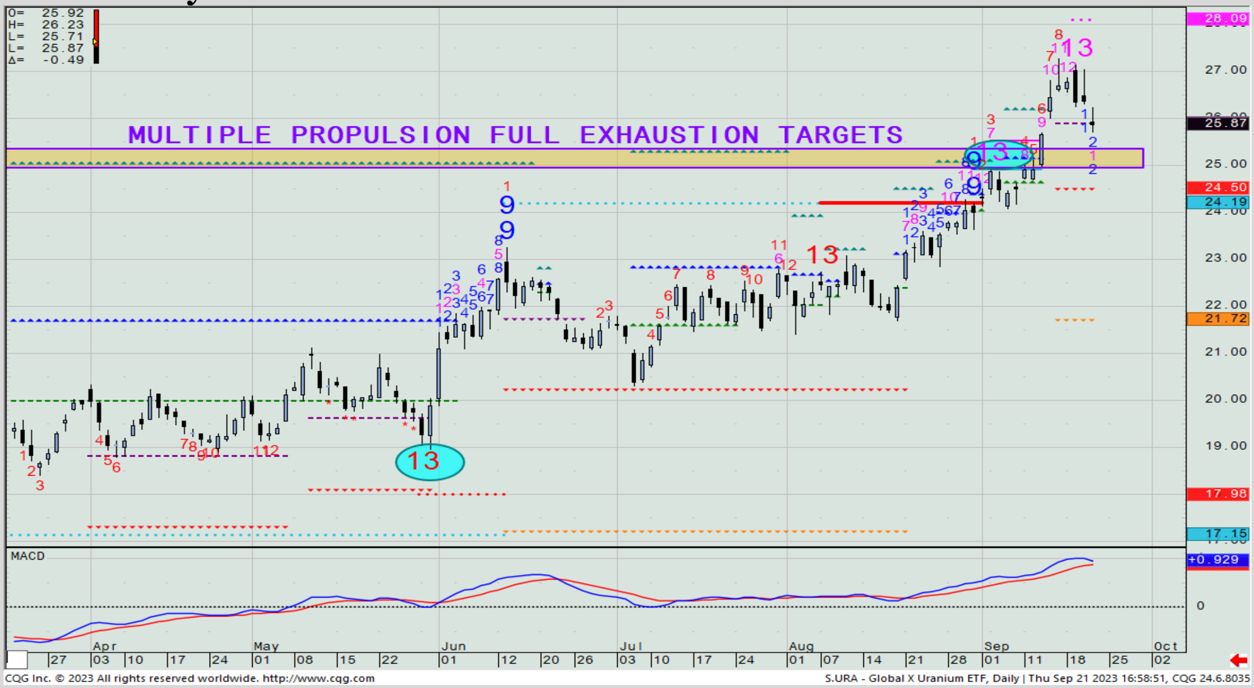
BITO - Weekly



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 were stopped out last Friday at $26.70, for a loss of 7.27%.

URA – Daily



Long TLT

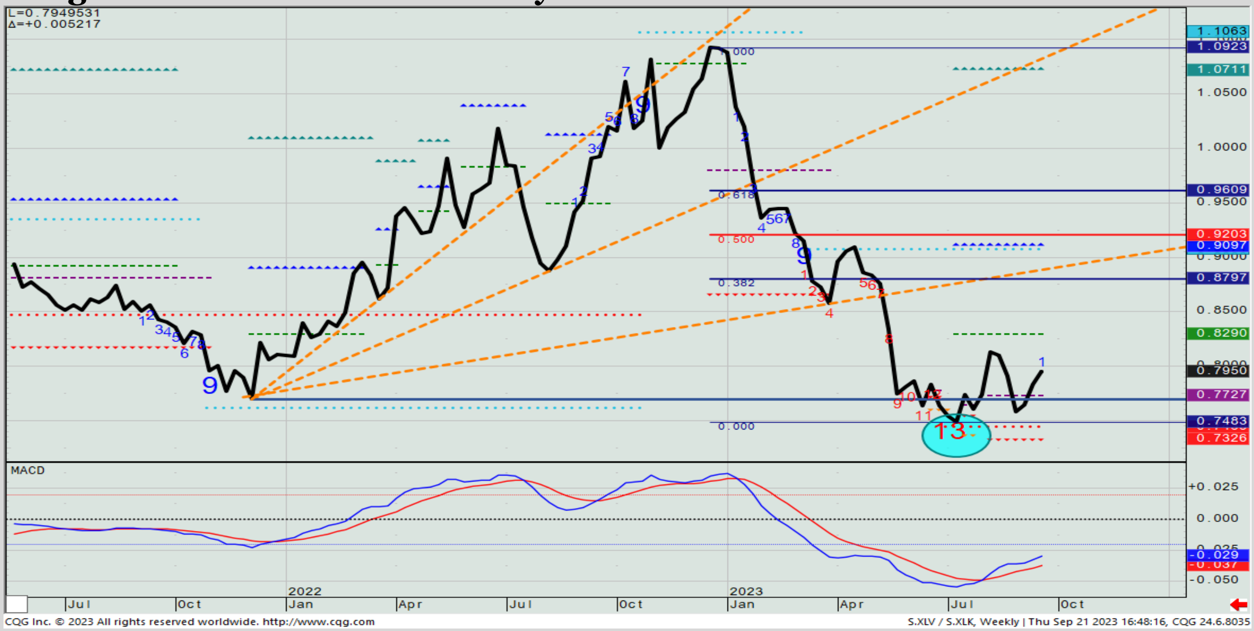
Three weeks ago, my idea was to get long three units of TLT at $95.60; $94.90, and $94.25, with a target of $99.35 +/- 20 cents. Our sell-stop to exit will be on the second consecutive Friday close beneath $94.55, which occurred last Friday. We exited at $92.96 for a loss of 2.06% on invested capital, but with what was a 3x position, turns to an equal-dollar portfolio loss of 6.18%.

Long TLT - Weekly

Long XLV vs. Short XLK

Five 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.

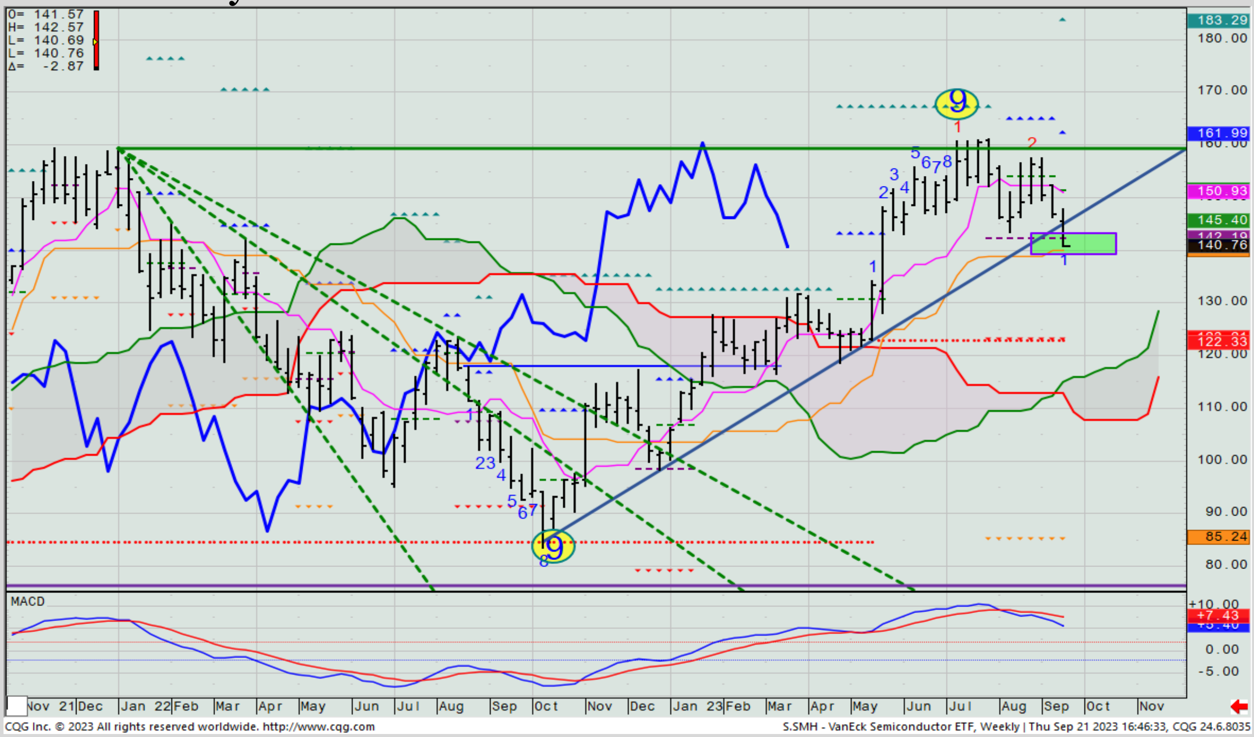
Long XLV vs. Short XLK - Weekly



Short SMH

We are short this semis ETF from at an avg. price of $154. I targeted a move down to $142.50 to $139.50 (in the green rectangle), so it's right there now. You certainly should cover no less than half of the position. Those of you more aggressive can play for a further decline to the low-$130s.

SMH – Weekly



Short XHB
Eleven weeks ago, we 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 $74.54). With today likely being both a Setup -9 and Aggressive Sequential -13 counts – and we are only $1.5 from the original target – let's cover the balance today.

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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