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September 29, 2023

TACTICAL TRADER REPORT

The Macro Picture

Rates zoomed well-higher all month and even into yesterday's new high in yields this year, and along with the very clear hawkish Fed comments last week, investors have had very good reason to take profits from a year that had been pretty darn good for equity index investors. An impending possible US government shut down starting Monday can also hamper overall confidence and enthusiasm, but my Daily Tip Sheet subscribers know that we were buyers of the SPY earlier this week from a variety of technical reasons (more specific details on that below).

Those who follow the Elliott Wave theory have gotten particularly bearish the stock indexes, with those "Wavers" who believe that the late-2021 all-time high in the SPX started new wave counts lower, and the July high as being either the start of bearish Wave 3 or Wave C, are looking for a minimal downside target near SPX 3408. (That's beneath last year's low.) Before I dare make that dire a call, let's see how the market reacts to my long-held downside target of 4275 (that was hit earlier this week, and where I did do SPY buying for my own retirement account to replace the SPY sales I made earlier this year at the equivalent of SPX 4500.

So much of the negative price action in stocks is from yields and crude oil rallying, so let's take a look at how all of the major markets are looking, starting with:

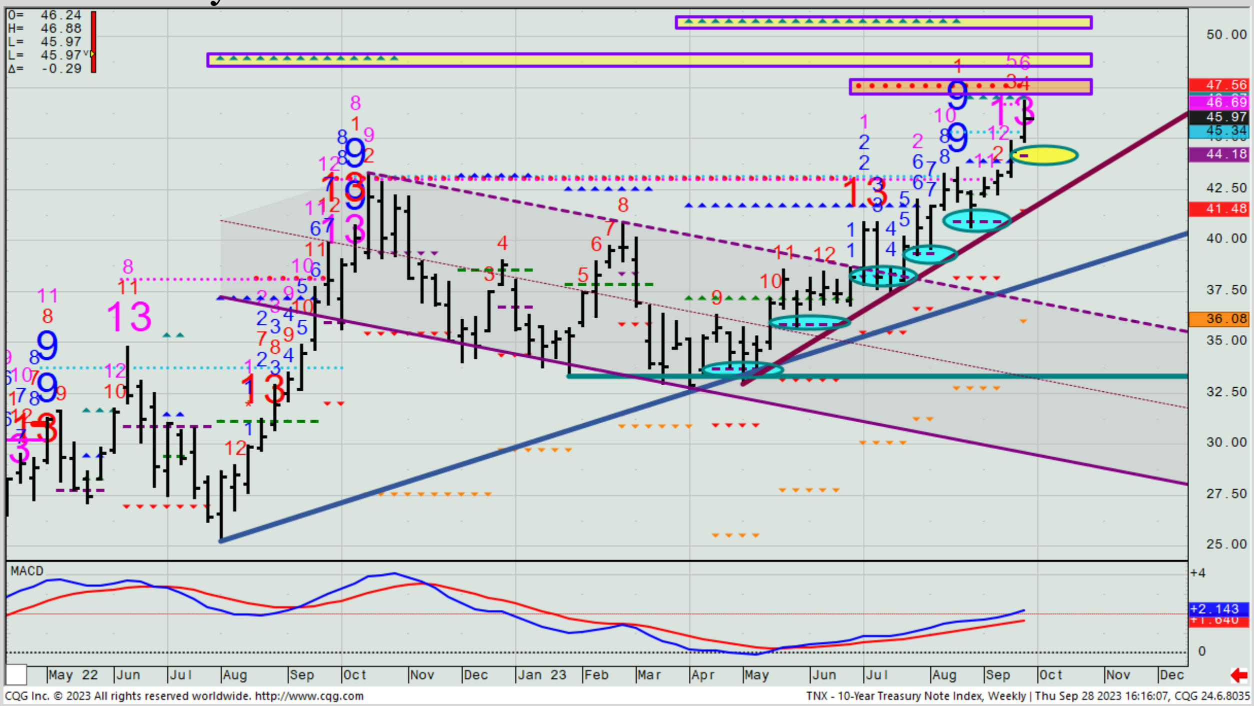
BONDS: UST 10-yr. rates reached 3.69% yesterday, which is the same level as where the most recent weekly chart's +13's Risk level is located.

TNX - Daily

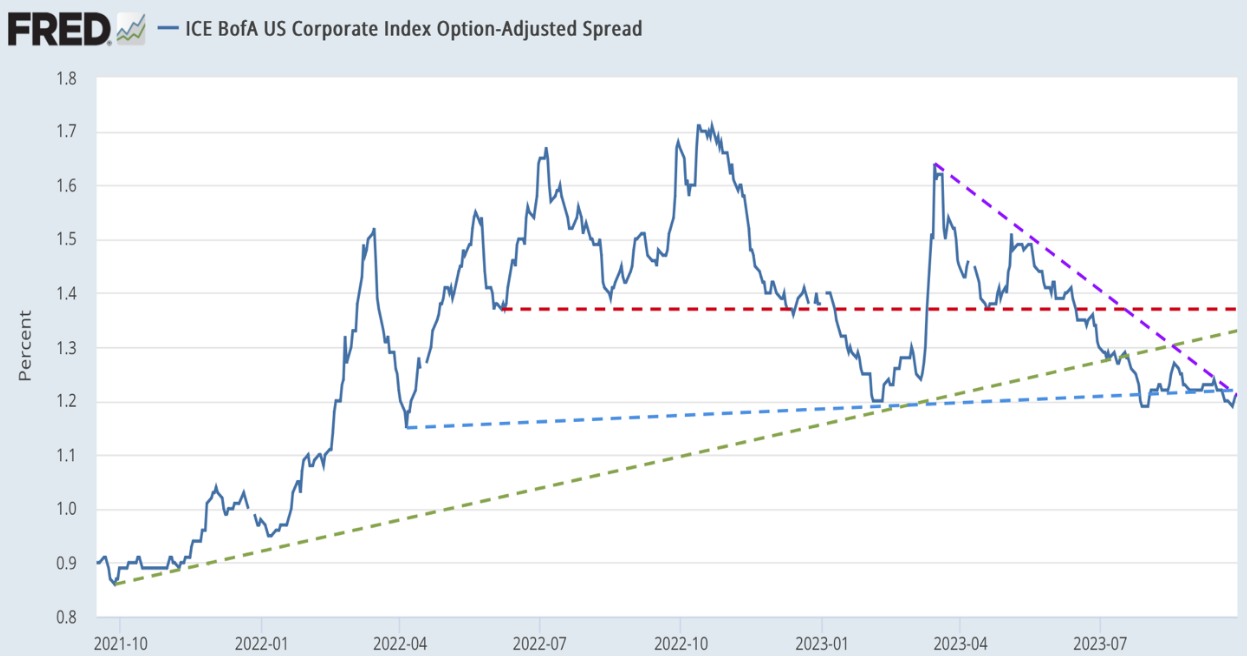
And based upon the prior daily Setup +9s and +13s came in and the subsequent near-term price action from them, I suspect that whatever "easy" money has been made being short bonds is going to be a lot harder going forward.

As I said last week, every weekly bearish Propulsion Momentum level since April 1 (i.e., five of them) was the low to each rate pullback we've seen. The newest one is now at 4.42%. Perhaps we see that tested before we reach the bigger upside Propulsion targets of 4.88% and 5.06%.

TNX - Weekly

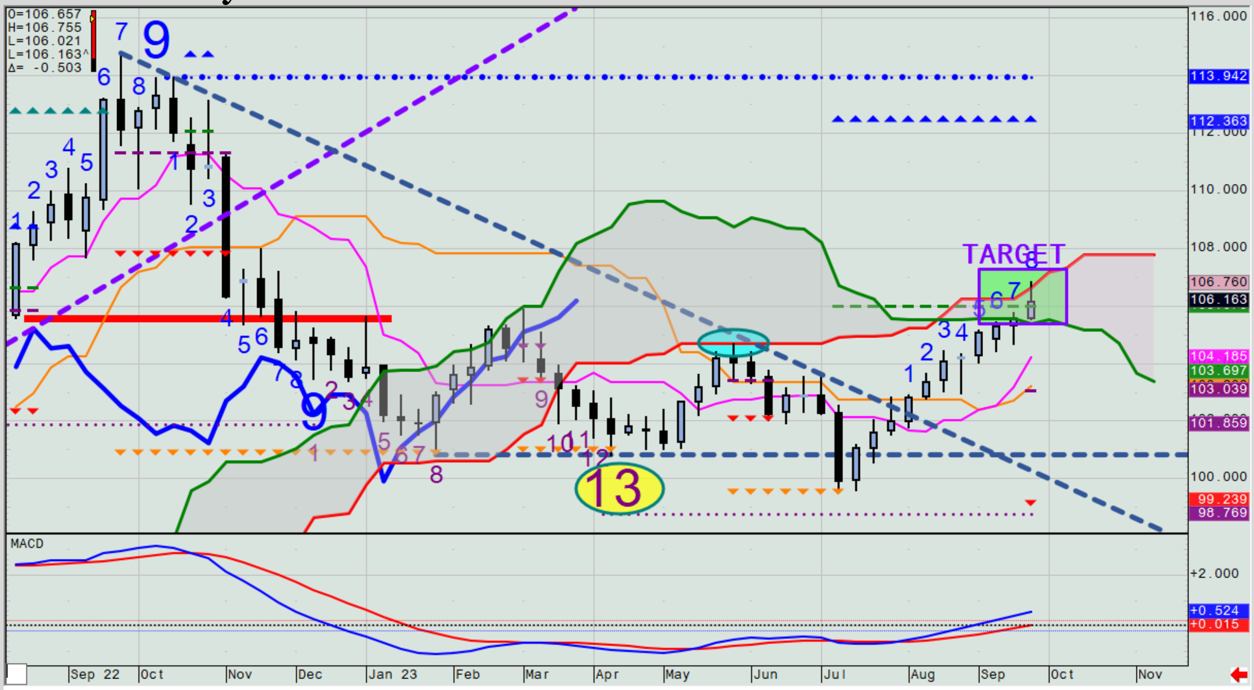


The ICE BofA Corporate Index OAS (i.e., my preferred credit spread to watch) fell in early August to new '23 lows to 1.19% and then bounced to 1.27%, with it now at 1.21%. I have my institutional clients long from right here, looking for the spread to widen. If this prints 1.18% or lower, then I simply 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. Over the course of this week, it finally hit my 105.97 target since that low, and it's on a weekly Setup +8 count. I'm looking for this to potentially put in a trading top over the next few weeks and likely no higher than the soon to be flat top to the weekly cloud at 107.78.

DXY – Weekly



COMMODITIES: Gold remains in a trading range, but for now it continues to be in a "neutral at best" scenario. In the bigger picture, longer-term bulls need to see $1882/$1850 hold on all pullbacks.

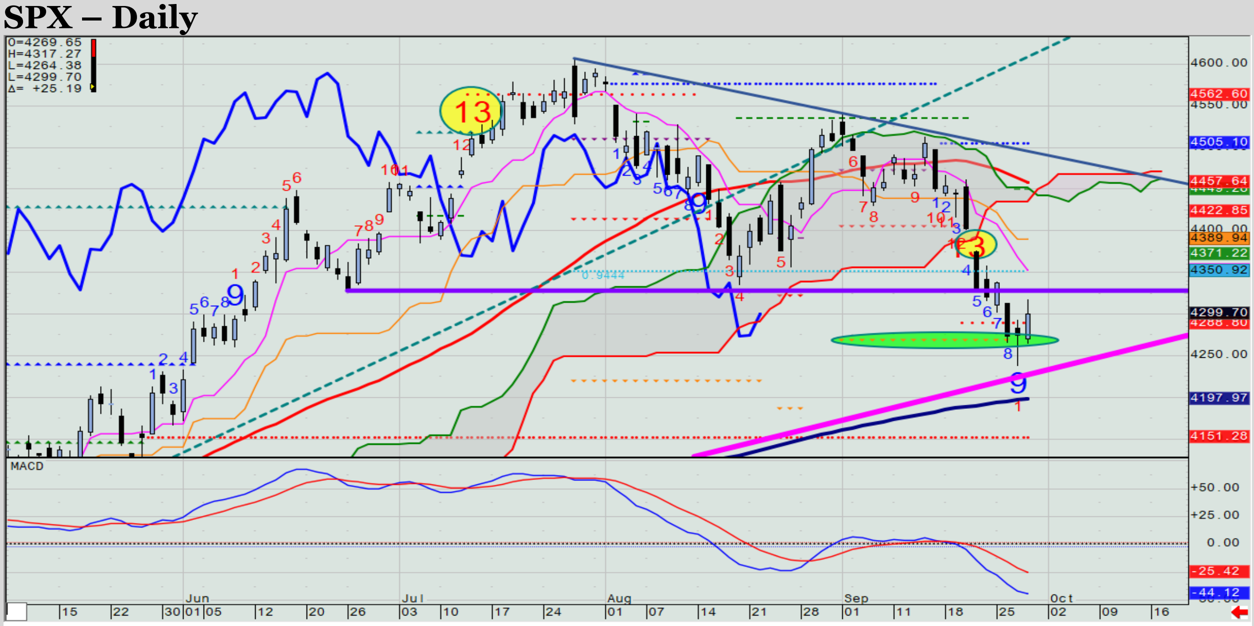
COMEX Gold – Active Daily Continuation

WTI oil' posted new highs for the move this week, yesterday reaching the top of the weekly cloud in the $94/$95 area. It's tough to tell if we're near a meaningful high, and to me, a lot of that will depend upon whether or not the economy holds up. Prices up here will definitely take its toll on those in the Northeast, where the largest concentration of the US population heats their homes with heating oil (not natural gas) with what is expected to be a nastier winter than typical ones.

WTI Crude Oil – Active Weekly Continuation

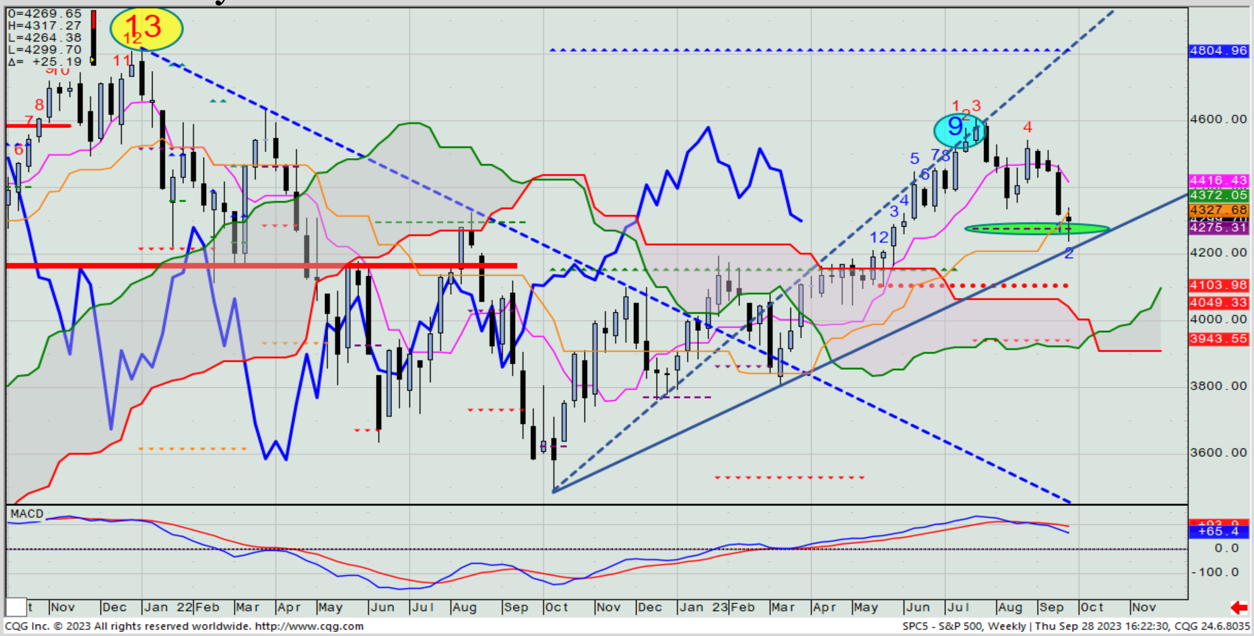
EQUITY INDEXES: Last week's daily Sequential -13 put me on alert for an impending SPX trading reversal, and then the Setup -9 count earlier this week lined up well for me to do the SPY buying I told you I would when price fell to SPX 4275 level, its weekly bearish Propulsion Momentum level. So yes, I have bought back the SPYs I bought last year at $371 and then sold out in early-summer at $450. Now, that doesn't make me super bullish, but did give me a good trade in my IRA account.

SPX – Daily



A pullback in rates will be well-received by equity players, and as I had laid out in the opening salvo, that could very well happen. My trading target is not likely to be any higher than either the weekly Conversion Line (currently 4416) or the unfilled gap made from last week that would be filled with a move to 4401. If the opportunity comes, I also plan on buying more in the 4100/3950 zone, as those are respective TDST line and Propulsion Full Exhaustion levels.

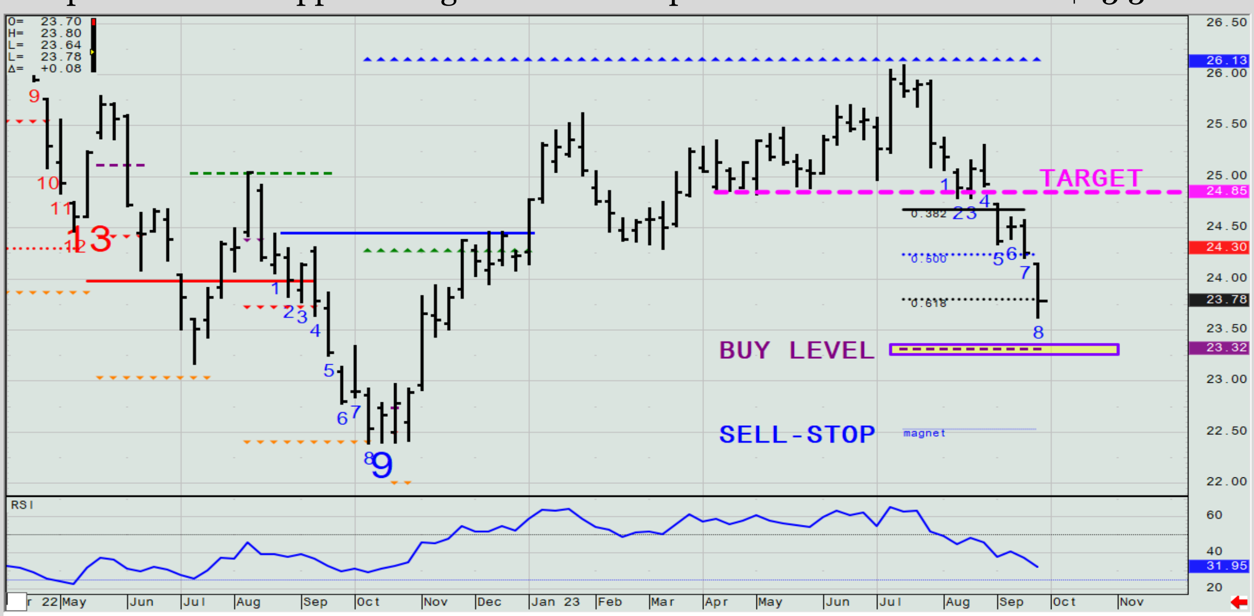
SPX – Weekly



As I mentioned earlier, the Elliott Wave followers have turned very bearish, with Wave 3 or Wave C downside targets at 3270 or 2471 (the former being equal legs down from the all-time high, and the latter being 1.618x the first leg down from all-time highs to the October '22 low). That is a very "all hell breaks loose" scenario calling for a crumbling economy. I'm not at all prepared to make that call at this time.

New ETF Trade Idea

VanEck Emerging Market Bonds (traded in local currency) ETF (**EMLC**) is on a weekly Setup -8 count and approaching its bearish Propulsion Momentum level at $23.32.



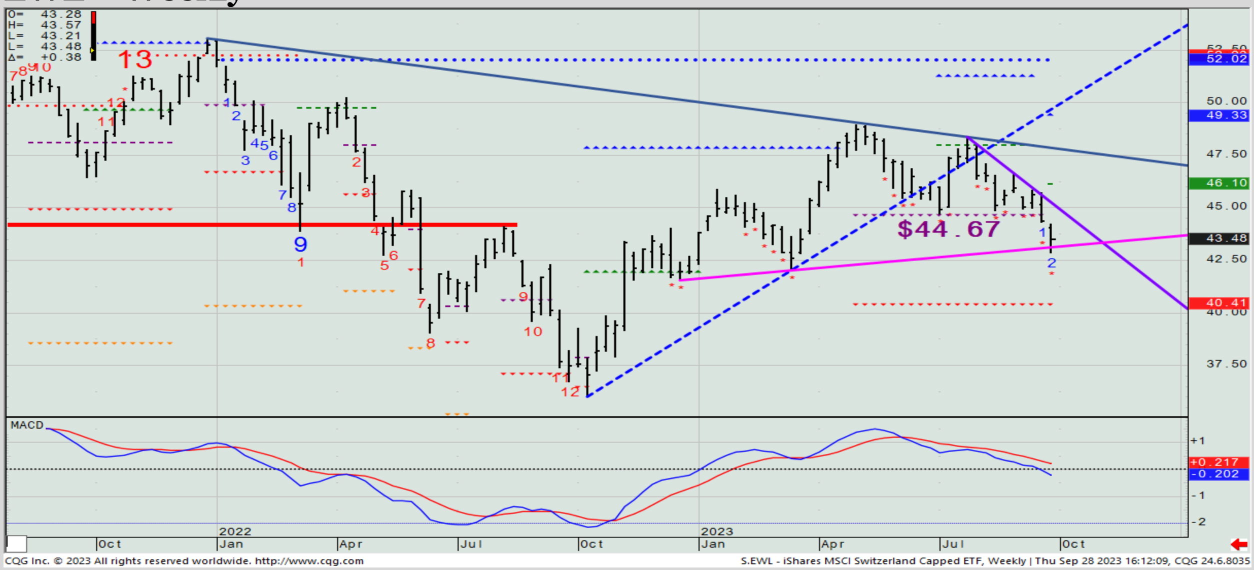
If next week you can buy this ETF at that price (+/- 7 cents), do so, as I'll then be looking for this to rally up to the $24.85 area (i.e., the horizontal magenta-colored dashed line). Our sell-stop will be on a Friday (or consecutive ones) beneath the "Magnet Price" of $22.53.

Other Open Recommendations and Positions

Short EWL

Last Friday I recommended shorting a half-unit position in this ETF if we saw a close beneath $44.67. It closed at $44.33, so we put on that partial position at that price last Friday. I suggested potentially adding to that today on confirmation of that breakdown, but given that this week's low is on an uptrend line, let's keep the partial position on. I'm going to adjust the buy-stop to exit the short if we see a Friday close above $45.93. We'll target a move to $40.41 +/- 20 cents.

EWL – Weekly

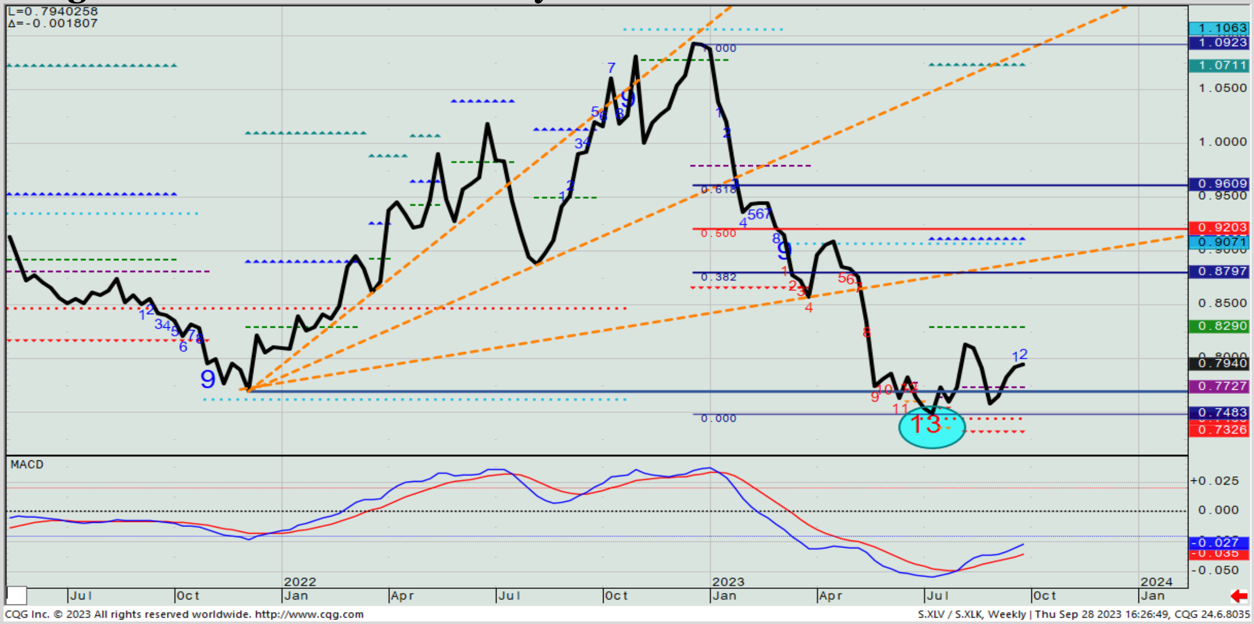


Long BITO

Two Fridays ago, 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.

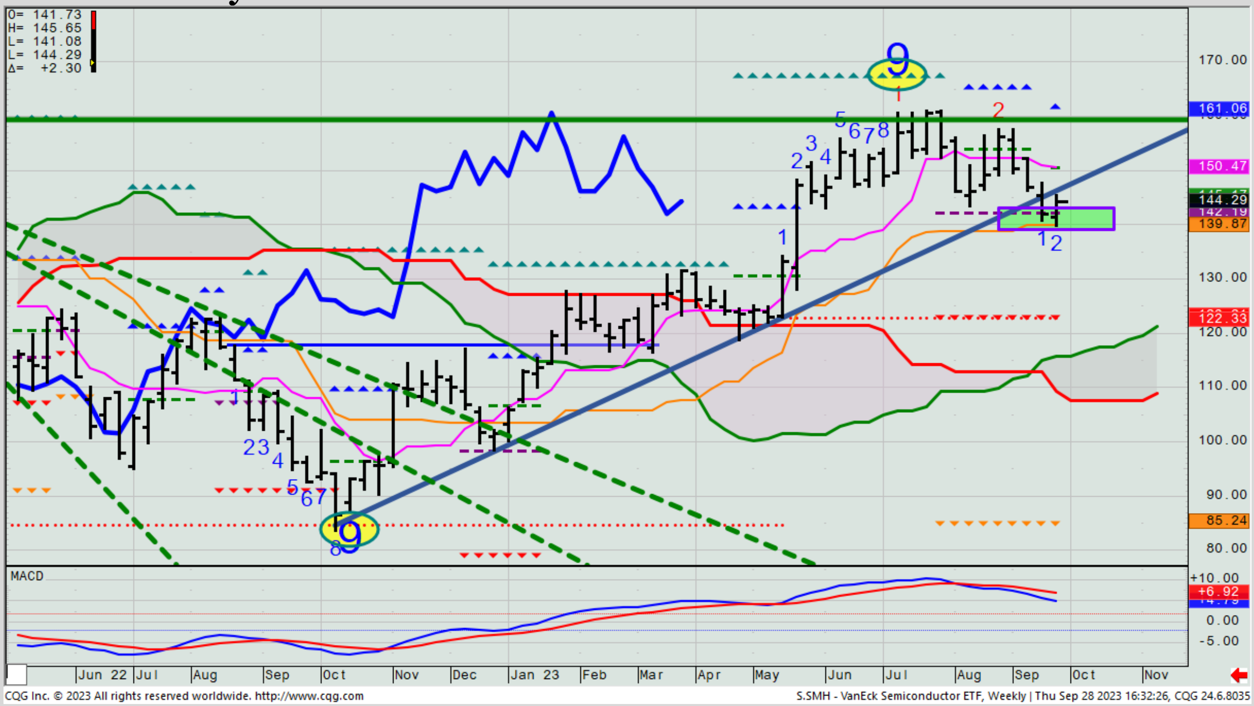
Long XLV vs. Short XLK
Six weeks ago, my idea was to put this pair trade on of going long Health Care vs. Info Technology. (Average entry price was a ratio of 0.7923.) I'll target a move in the ratio up to a 38% Fibonacci retracement to ~0.8797. Our sell stop will be on a Friday close beneath the current 2023 Friday low close of 0.7483.

Long XLV vs. Short XLK - Weekly



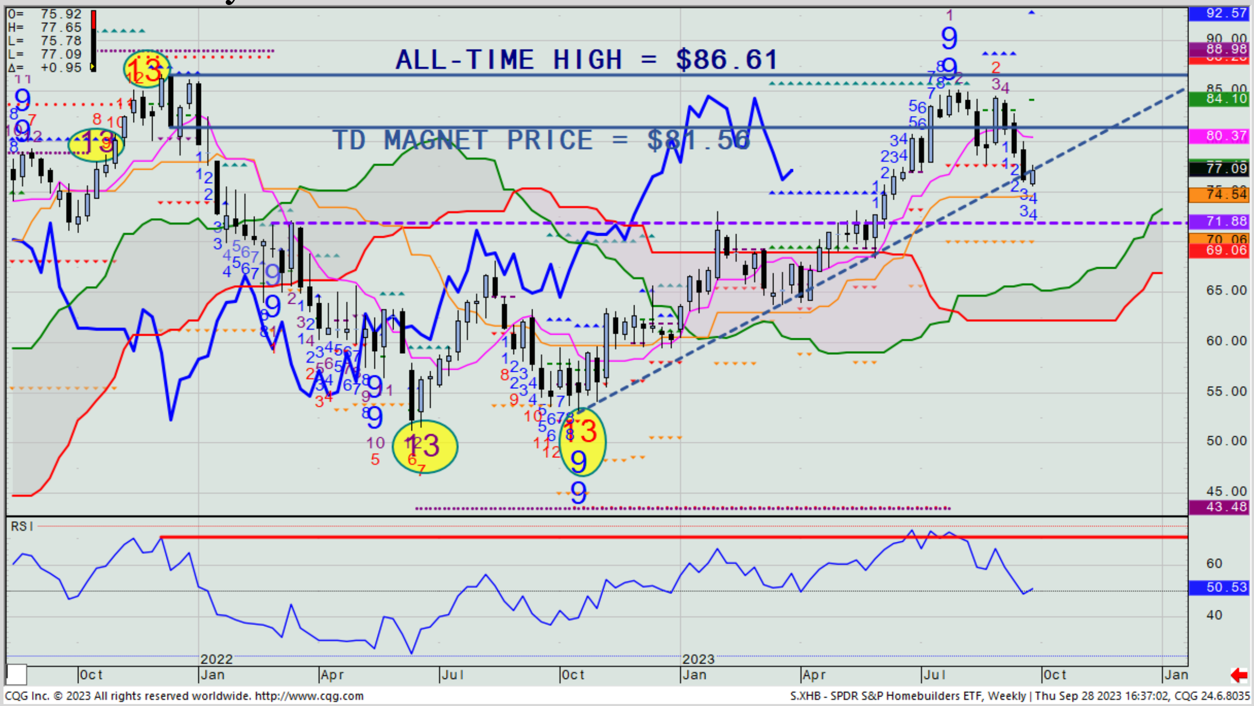
Short SMH
We have been short this semis ETF from an avg. price of $154. I targeted a move down to $142.50 to $139.50 (in the green rectangle), which we hit last Friday and covered half then (at an avg. price of $142.51). A daily Sequential -13 has also shown up, some I'm going to recommend covering the balance today, but then we'll also put this short position back on if we see a Friday close beneath $139.87.

SMH – Weekly



Short XHB
A dozen 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 the other half last Friday at $76.33. We made a total of 3.79% on the trade, but only 2/3 of that in equal unit position portfolio P&L terms.

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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