Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

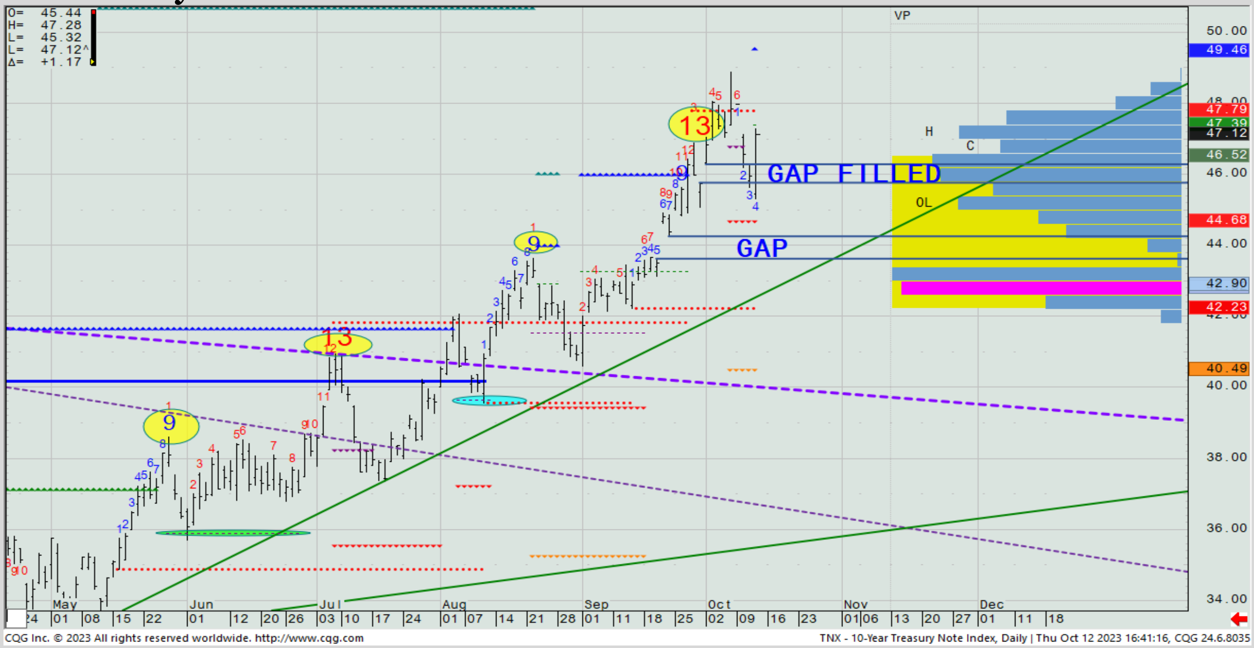
In the face of an ever-worsening global political climate, stocks rallied this past week after weeks of the bears trying to break key support failed to do so, and along with a pullback in rates from what had just been new secular high prints, equity buyers had good reason to step in and grab many beaten down names at bargain prices.

I've been harping to you for weeks on end that the overall interest rate rally would minimally force a test of SPX 4275, the bearish Propulsion Momentum level, and that it was that level above all that was most important to hold on Friday closes. And it is precisely that level that did hold as support on each of the past two Fridays – even though during the trading weeks we saw prices beneath there – that to me is the major reason for the subsequent rally we are now seeing.

Months ago, I anticipated the peak in rates to be at 4.88% to 5.06%, and with last week's peak at 4.89% that was accompanied by a daily Sequential +13 count in the TNX, it is no surprise that yields have backed off. Let's take a look at bonds, and the other key markets that materially impact our stock market:

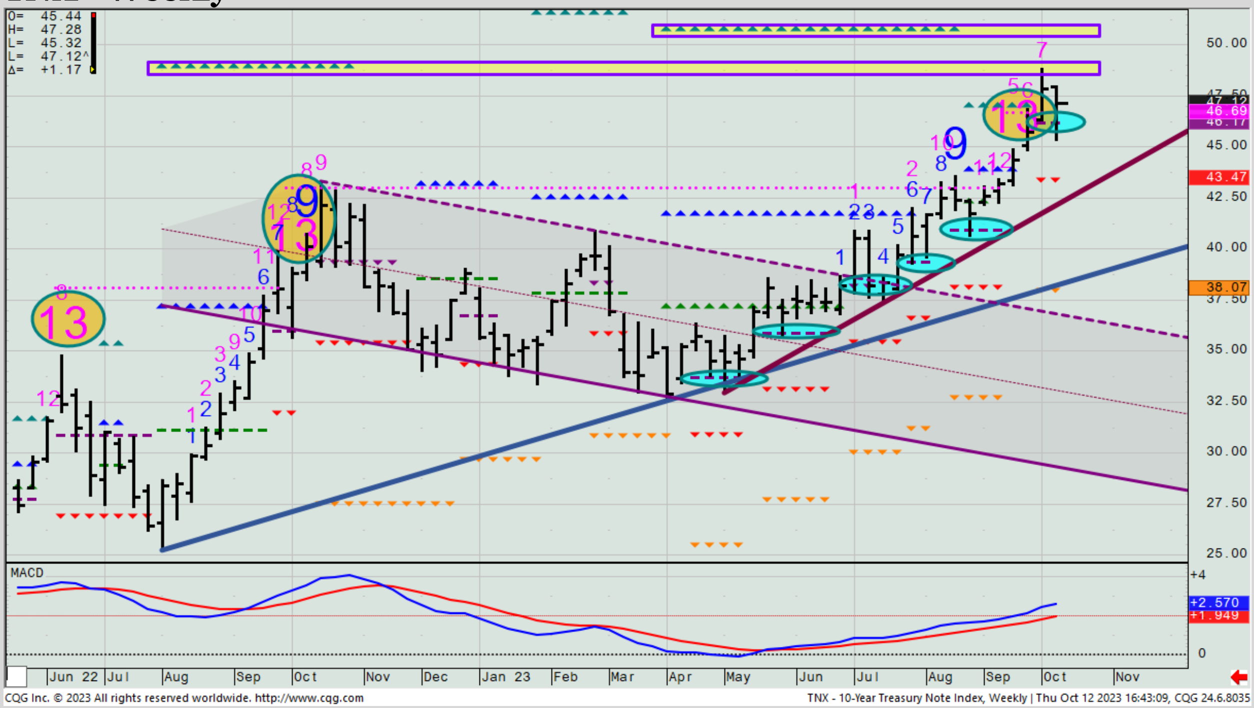
BONDS: UST 10-yr. rates reached as high as 4.89% last week before pulling back to as low as 4.53% yesterday morning. In doing so, the downmove filled one of two gaps that were on the daily chart.

TNX - Daily

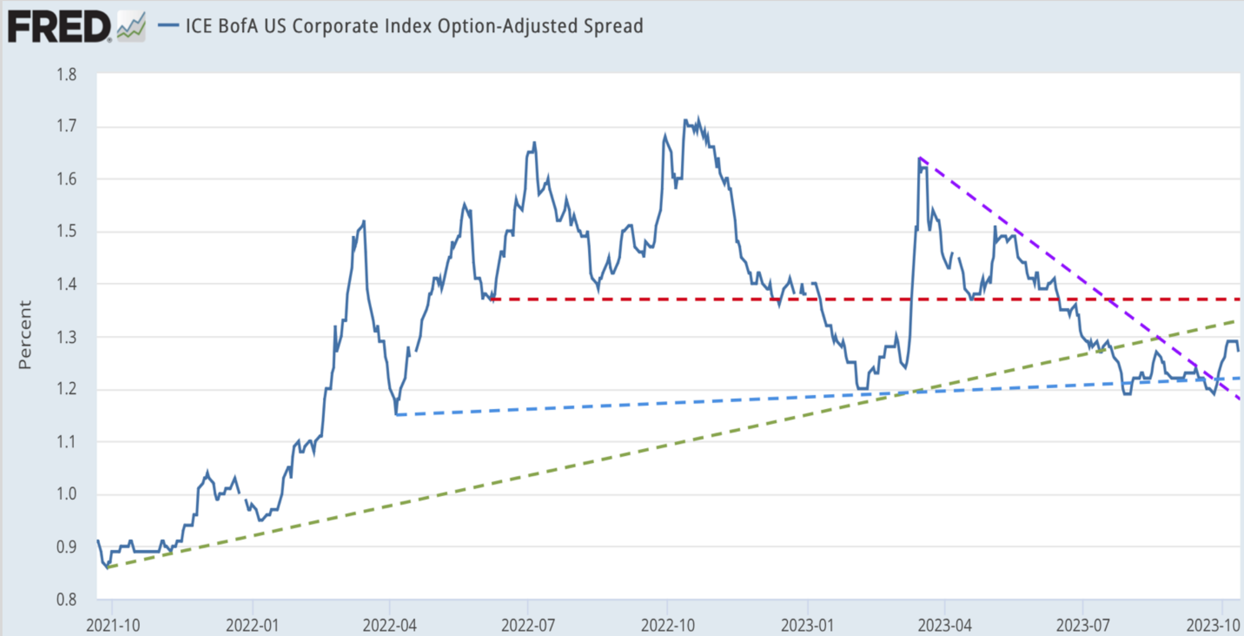


The newest *weekly* bearish Propulsion Momentum level is now at 4.617%. A close today beneath there is the first step toward marking a more defined top in rates. More confirmation would come on a gap lower in yields on Monday from today's close, and then a lower low sometime next week beneath this week's low (and ideally also a Friday close next week lower than today's close). If that comes to be, you have a much better reason to play for a year-end stock rally, as that would be the first time that a weekly bearish Propulsion Momentum level would have been breached, as the prior 5x were not. (See the blue ellipses on the below chart.

TNX - Weekly

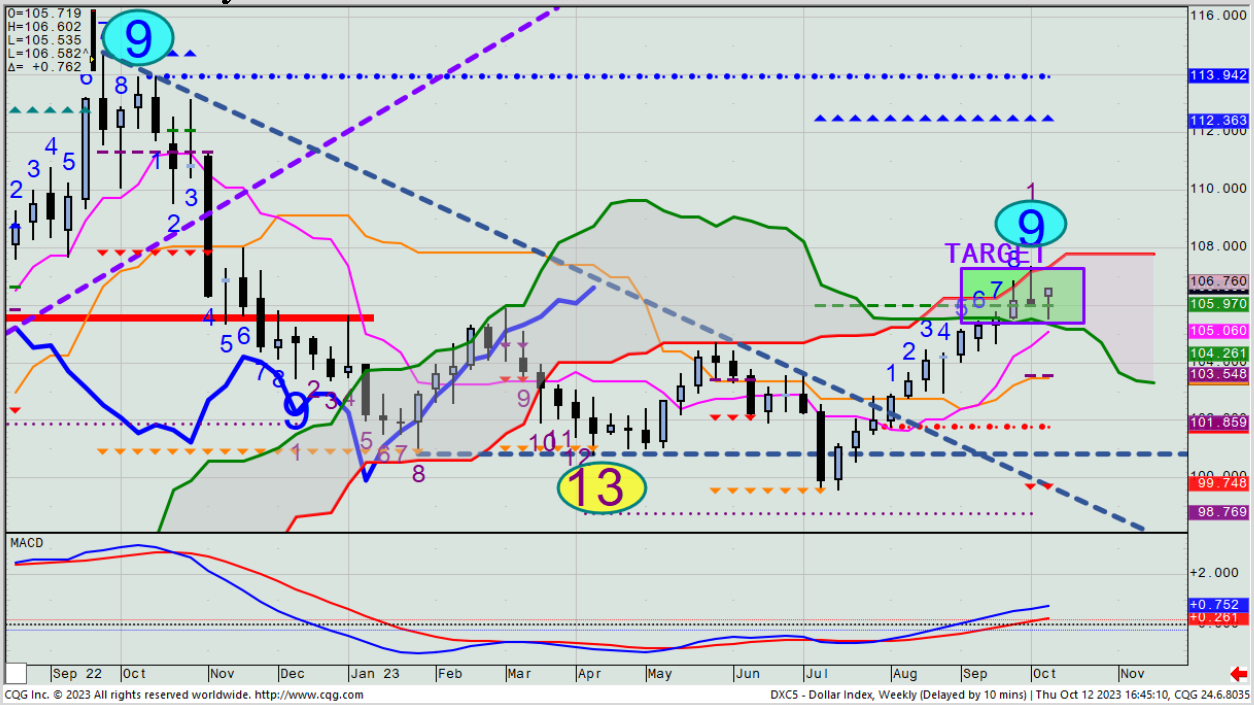


The ICE BofA Corporate Index OAS (i.e., my preferred credit spread to watch) fell in early August to new '23 lows to 1.19% and has now rallied to 1.27%. I have my institutional clients long the spread from 1.21%, and depending upon how today closes in this spread and other related markets, I will adjust what I do with it.



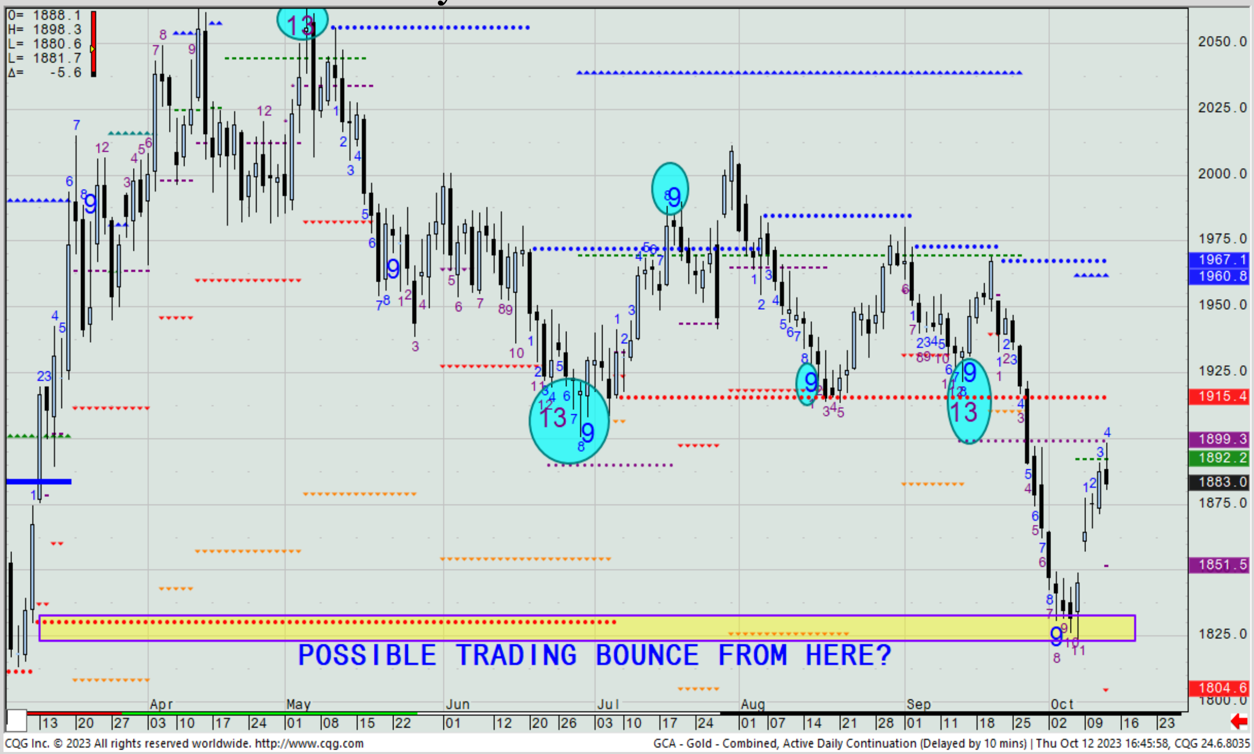
CURRENCIES: After recently hitting the 105.97 target I made one week after the July low was made, the last two weeks I said that I am looking for this to potentially put in a trading top. (Lower rates would also be a drag on the dollar.)

DXY – Weekly



COMMODITIES: Though gold's bigger picture is still in a multi-year wide trading range, last week I tactically went long gold at $1830, and then sold it out a couple days ago for a quick trading scalp. A sustained dollar decline would be good for it, but I'm not yet in the camp that the dollar gets much below 103.55, so for the time being, there isn't much to now do in gold.

COMEX Gold – Active Daily Continuation

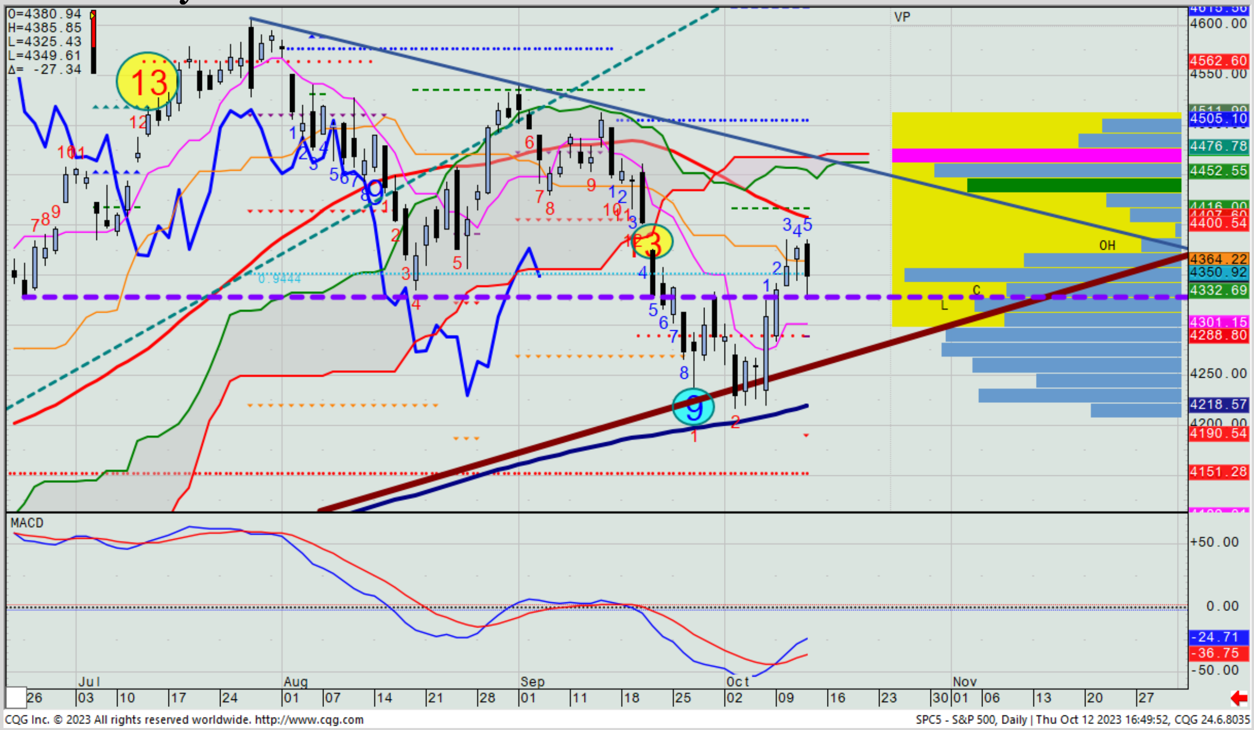


WTI oil's decline from $95 was swift and sharp, falling to a low of $81.50 last week before getting a small bounce from the new Hamas/Israel war. I'd be a buyer from $78.50 to $76.50, risking a few percent from that range.

WTI Crude Oil – Active Weekly Continuation

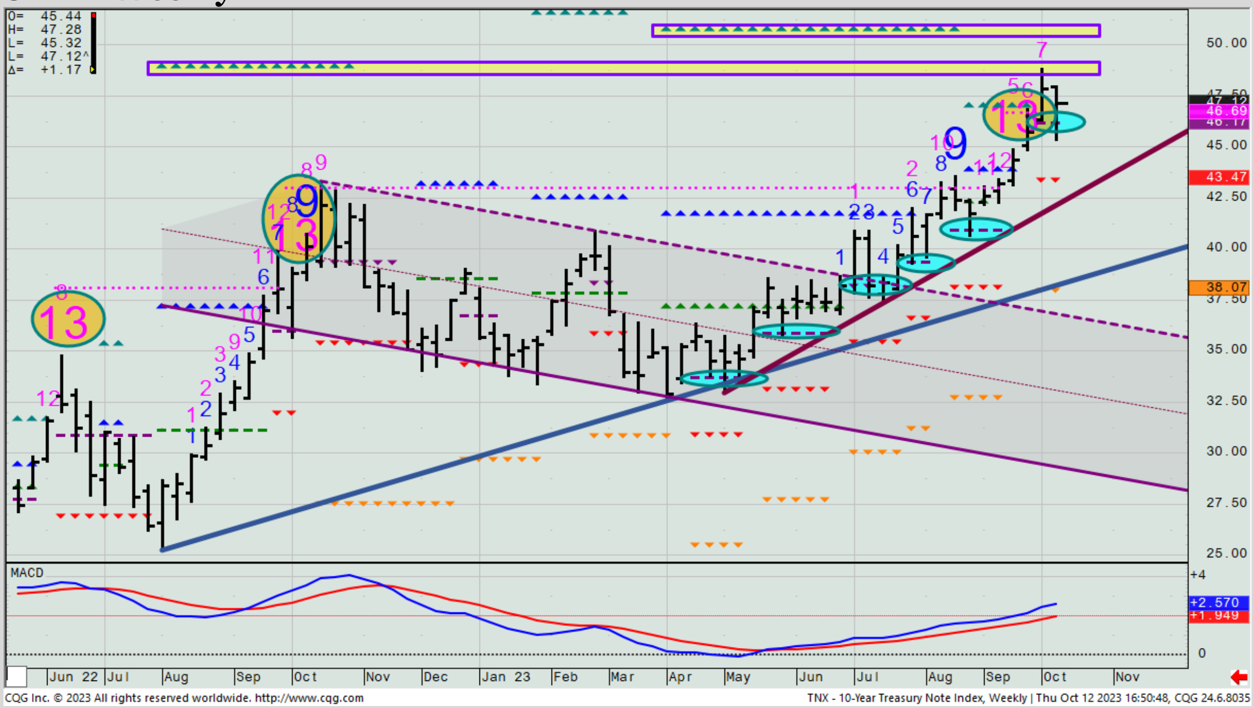
EQUITY INDEXES: The SPX ultimately held exactly where it needed to (4275), and then got a solid trading bounce this week. Momentum players are now bullish again, and looking to buy every dip so long as the recent lows hold.

SPX – Daily



The weekly chart saw the bearish Propulsion Momentum level of 4275 hold on Friday closes for the third time since last October's major low was made. That keeps the medium-term bullish, but I cannot tell you that I am thinking that we end this year on the 2023 highs unless rates materially breach the 4.30% level they broke out from over the summer. That being said, the bullish Propulsion Exhaustion level at 4804 is still an active upside target in the bigger picture, and it likely remains so unless the 4104 level is broken beneath. Shorter-term, this week's high was made yesterday against the weekly Conversion Line on a day that investors saw a YoY inflation rate of 3.7% -- the same as last month and above the consensus estimate of 3.6%. That should be the high for the week.

SPX – Weekly



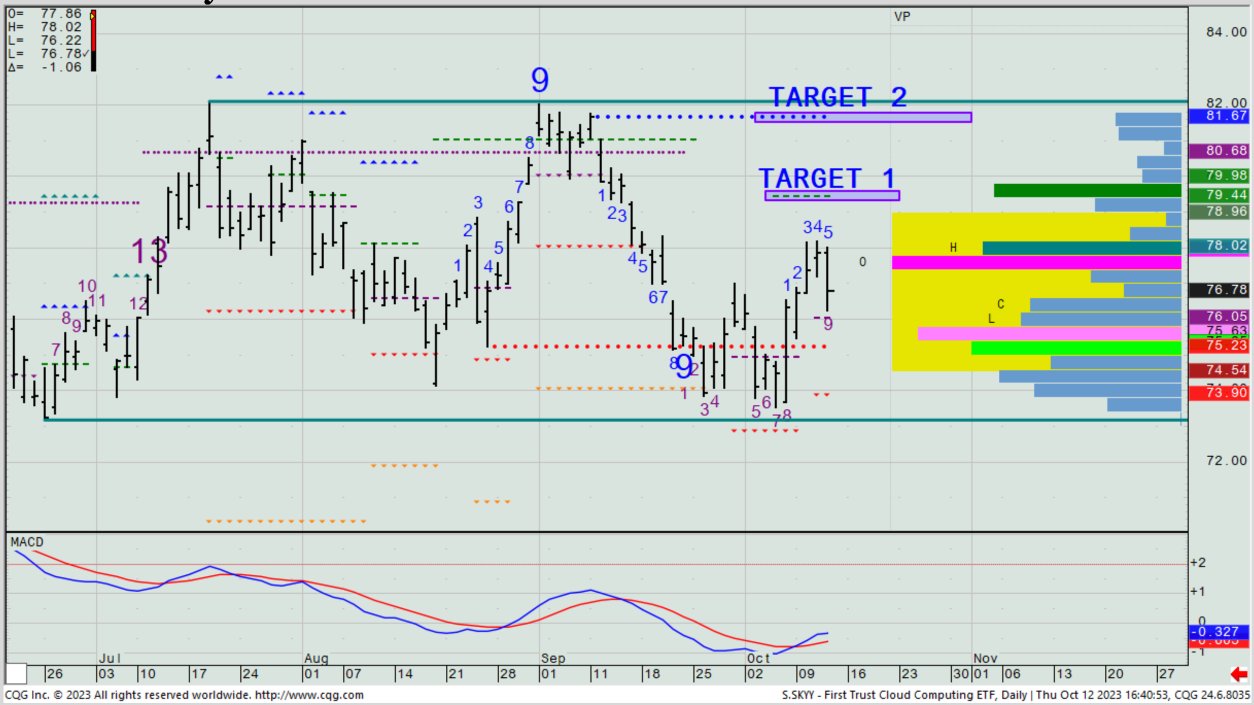
As I've previously mentioned, those who follow Elliott Wave patterns have turned very bearish, with Wave 3 or Wave C downside targets at 3270 or 2471 (the former being equal legs down from the all-time high, and the latter being 1.618x the first leg down from all-time highs to the October '22 low). Those are mega-bearish "disaster economy"-type targets. And as of now, those calls are losing money, and like so many times in the past, were negative calls made right near the lows of a move.

New ETF Trade Idea

Cloud computing is still very much at hand in the tech world, despite the bulk of headlines now revolving around AI. The biggest player in the space remains Amazon Web Services, followed by Microsoft Azure.

By chance I came across the chart of the **First Trust Cloud Computing ETF (SKYY)** which recently bottomed near the low end of its 3.5-month trading range. Yesterday's low ($76.22) was just above the bearish Propulsion Momentum level ($76.05). As such, we can put on a tactical long position from the $76.68 to $76.05 zone, and look for an upmove to reach the bullish Propulsion Momentum level at $79.44 to the TDST line at $81.67 to take profits. As this is a small range, let's look to put this trade on with two units long, while using the above ranges to both scale into the longs and scale out into the targets. However, the sell-stop will be a tight one: consecutive daily closes under $76.05.

SKYY – Daily

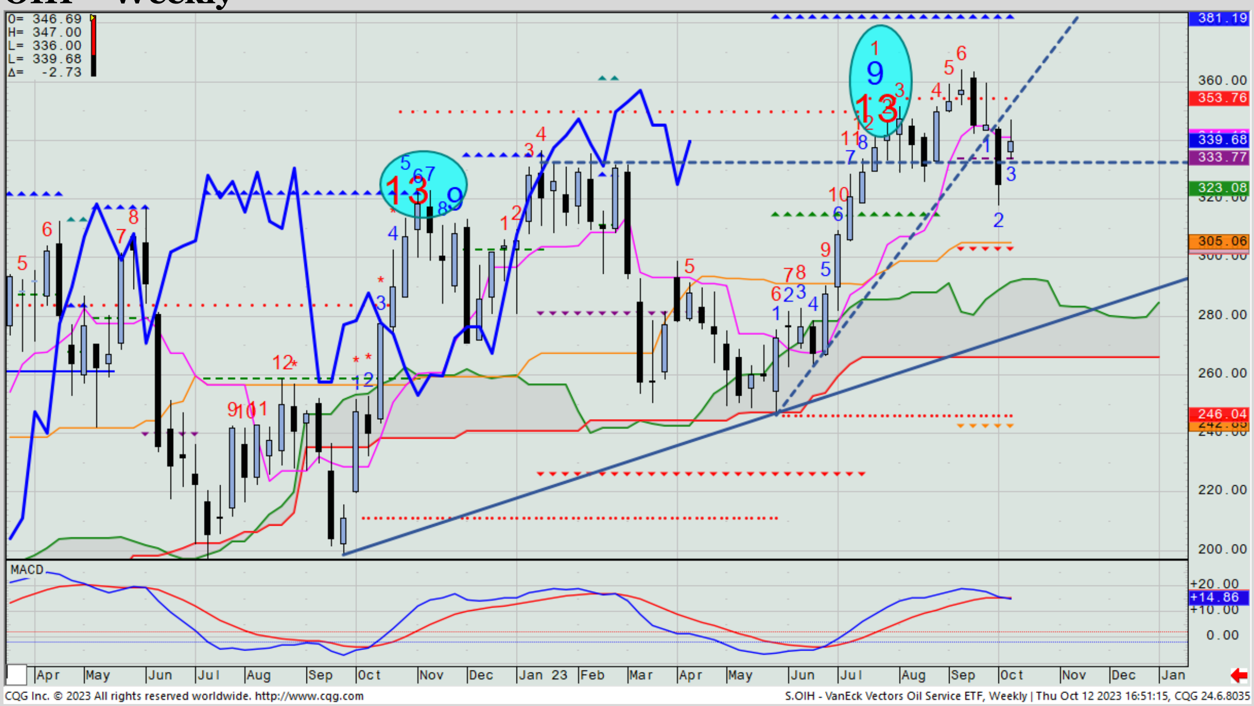


Other Open Recommendations and Positions

Short OIH

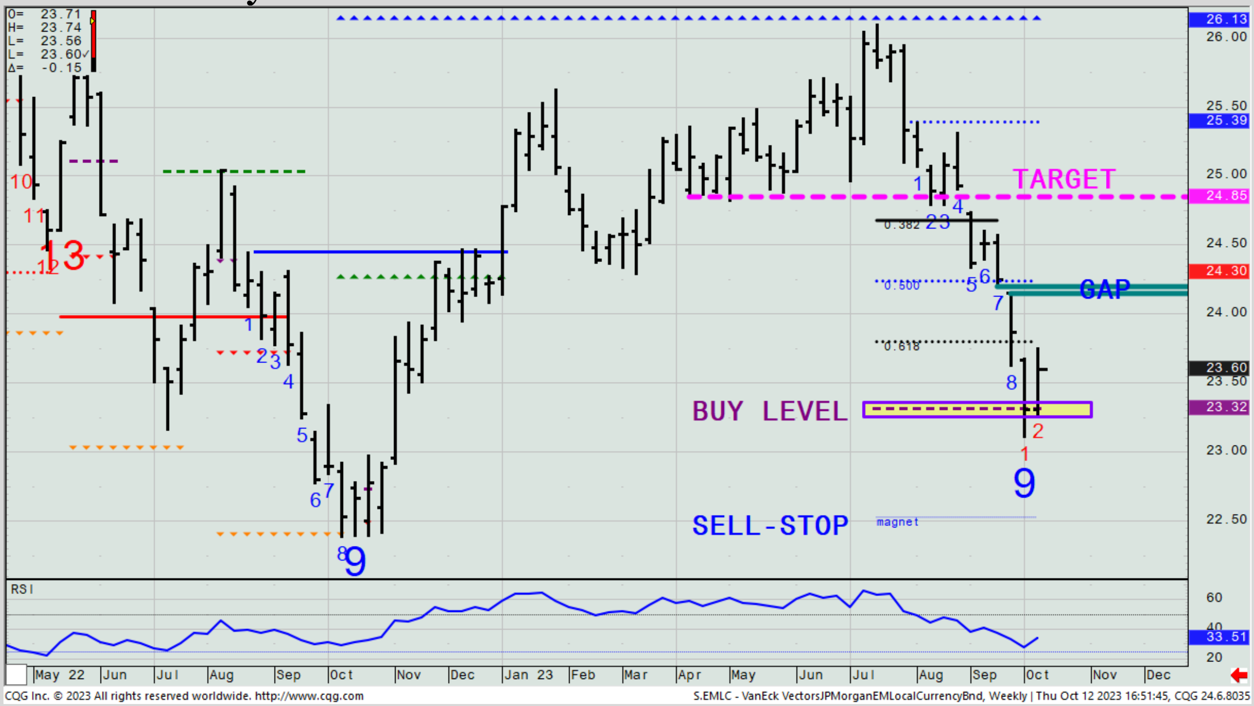
We wanted to short a rally back up to the $333 to $348 range, scaling in every $3 or so to get up to a one-unit short). With this week's high at $347, we are in that bearish trade with an avg. short at ~$341. I'm targeting a move down to $306/$303, where we'll cover 2/3 of the short. Our buy-stop is a Friday close or two above $354.

OIH – Weekly



Long EMLC
We recently got long low at $23.13. I have two upside targets: sell half at the unfilled gap of $24.15/.20 and half at is the $24.85 prior breakdown area, with a sell-stop on a Friday (or consecutive ones) beneath the “Magnet Price” of $22.53.

EMLC – Weekly



Short EWL
Three weeks ago, we went short a half-unit at $44.33. Our buy-stop to exit the short is if we see a Friday close above $45.75. We’ll target a move to $40.41 +/- 20 cents. For now, the downtrend line is holding.

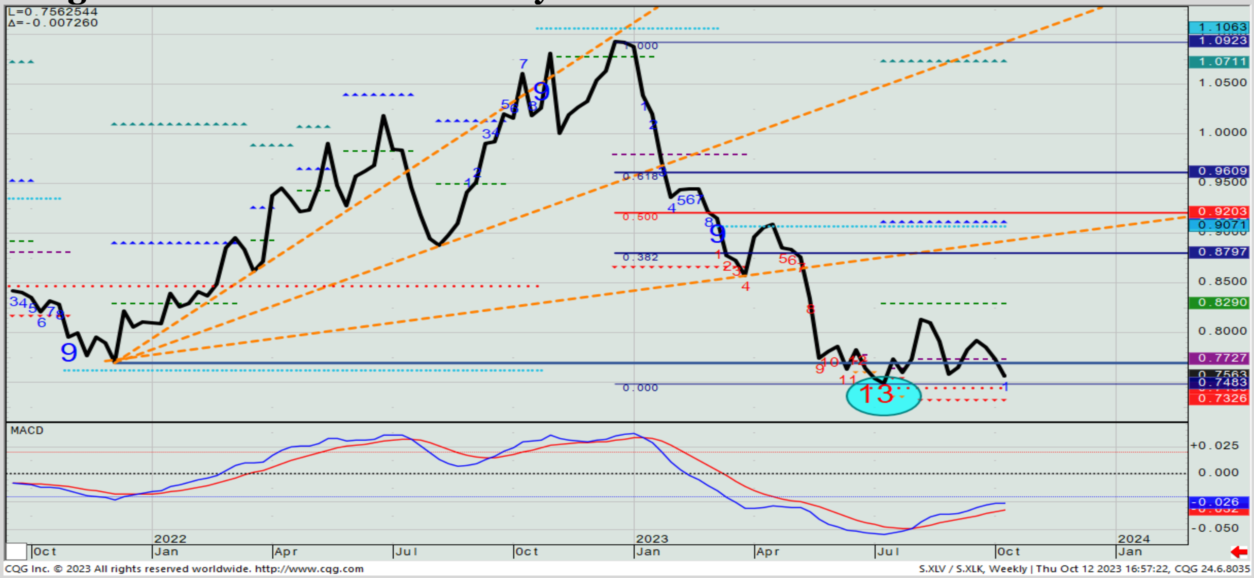
EWL – Weekly

Long BITO
Four Fridays ago, we went long one unit (at avg. price of $13.55) of this Bitcoin-related ETF (that invests in Bitcoin futures) with a target of $18.38 to $18.58. I'd previously raised the sell-stop to exit on any Friday close beneath the prior Friday's close, so that likely would happen today. But what I recommend you do is only exit this today if we see a close beneath bar Setup +1's close of $13.57. Otherwise, our new sell-stop is on any Friday close that kills this current Setup count higher (i.e., a Friday close beneath the Friday close from four weeks prior).

BITO - Weekly

Long XLV vs. Short XLK
Eight 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. (This could happen today.)

Long XLV vs. Short XLK - 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