Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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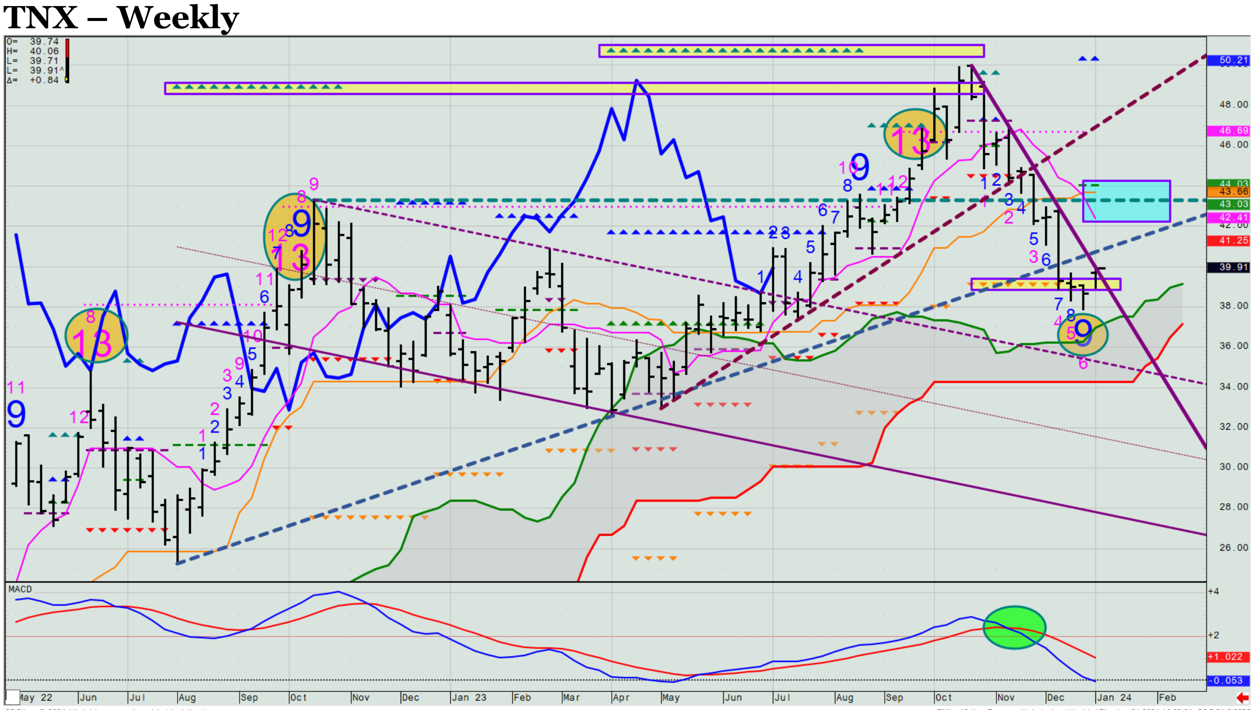
TACTICAL TRADER REPORT

The Macro Picture

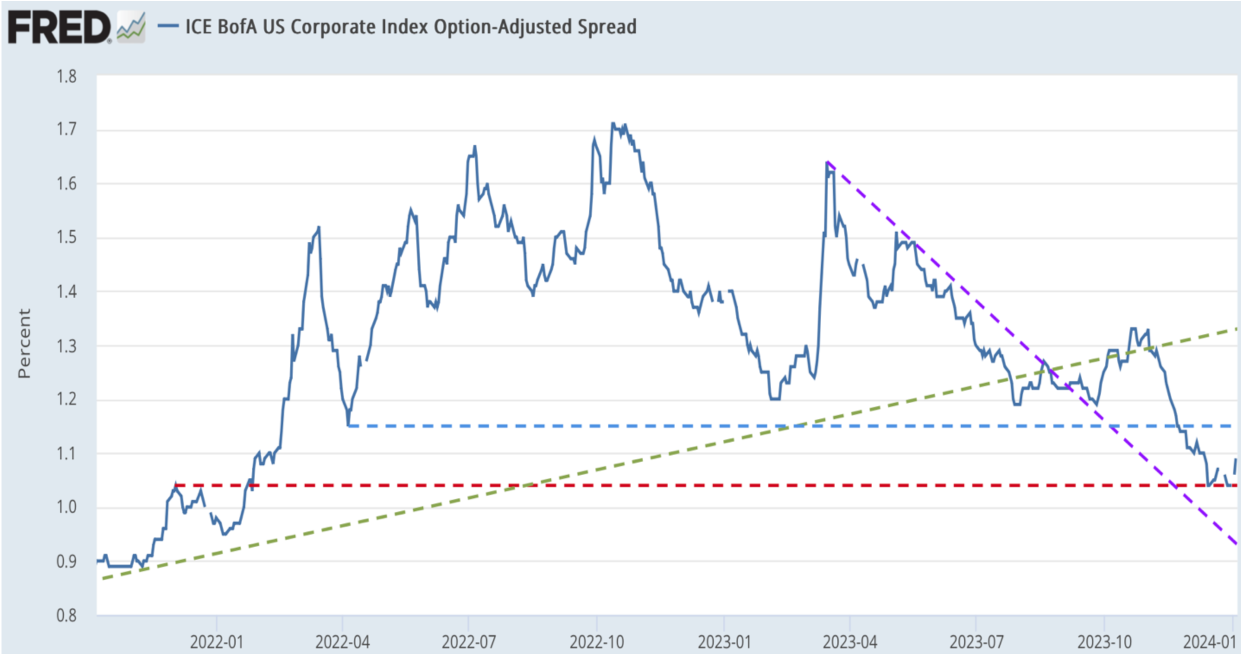
Stocks ended 2023 near all-time highs, but this year has been one that right away has seen profit-taking in Magnificent 7 and other bigger large cap names, with portfolio managers using those proceeds to bid for beaten down sectors from last year. Of course, it's too early to tell whether that rotation from winners to losers will persist, but that very thing happened last January relative to how 2022 went.

I told my institutional clients in this week's initial 2024 report that stocks, bonds, and the dollar were all lined up for potential counter-trend moves, as all three had coincident multiple DeMark timing or price (or both) targets to end 2023. And so far, the rallies in stocks and bonds are fading, and the prevalent decline in the dollar is showing signs of reversing higher. Specifically, for the UST 10-yr. yield chart, there is important resistance at 4.24% to 4.4%. (We remain short a TLT trade in this report.)

TNX – Weekly

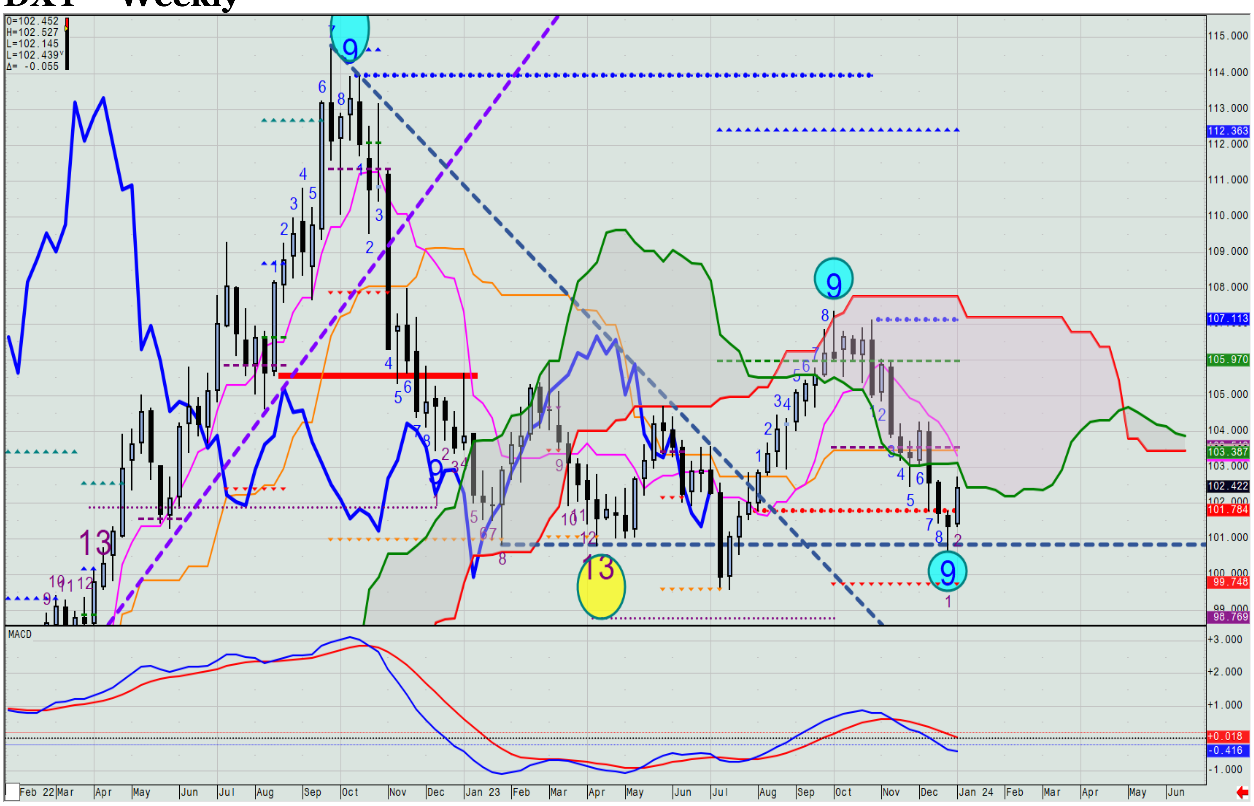


Investment grade corporate credit spreads, my preferred credit spread index, fell as low as 1.04% -- the same as where the breakout started in early-2022 (shown as the horizontal dashed dark red line). This has been the top end of my downside target since the spread broke the 1.20% level. (The spread widened up to 1.09% as of 01/03.) See chart on page 2.



CURRENCIES: Just as the SPX and TNX made weekly Setup 9 counts to end last year, the DXY did, too, setting up the idea I have that all three markets were likely to made coordinated reverse moves. I look for the dollar to pretty much mimic the TNX chart in the near-term. First resistance should be at the falling weekly Conversion Line.

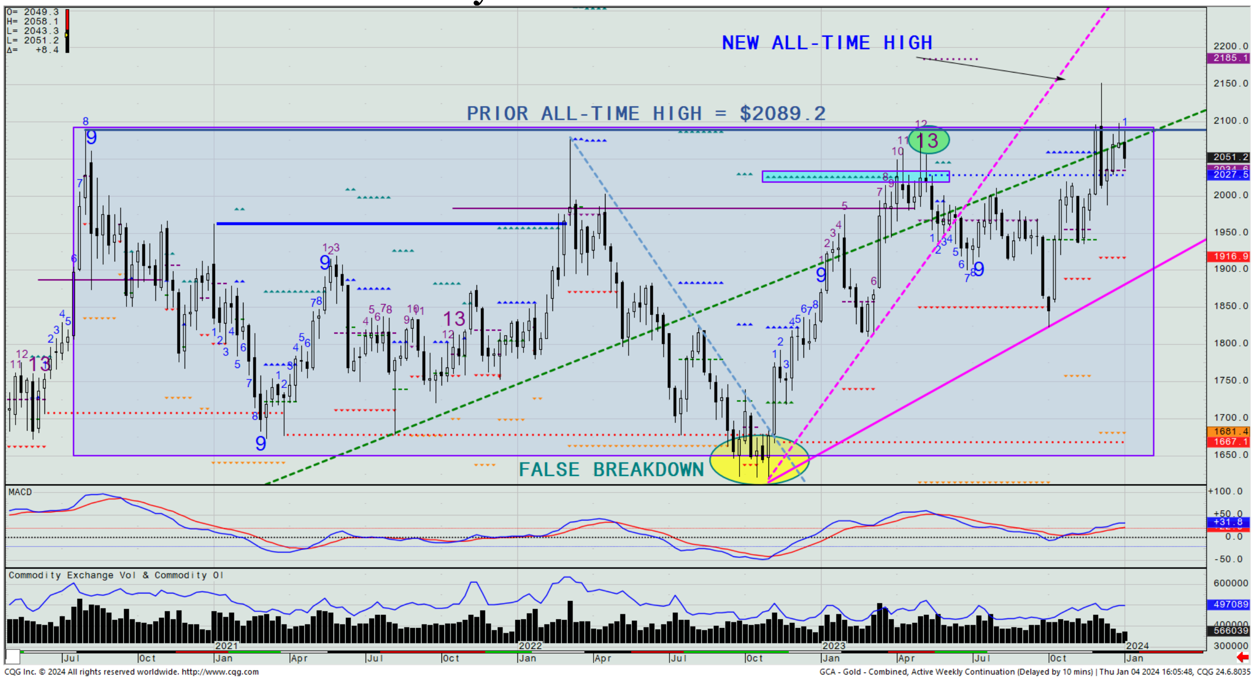
DXY – Weekly



COMMODITIES: I remain bullish gold and expect that if rates continue to fall in 2024, gold will make sustained new all-time highs – something that the futures markets did not do on the recent move to $2150 (i.e., it was a quick event with no sustainability). A real upside breakout that then consistently stays above $2000 should target a move to

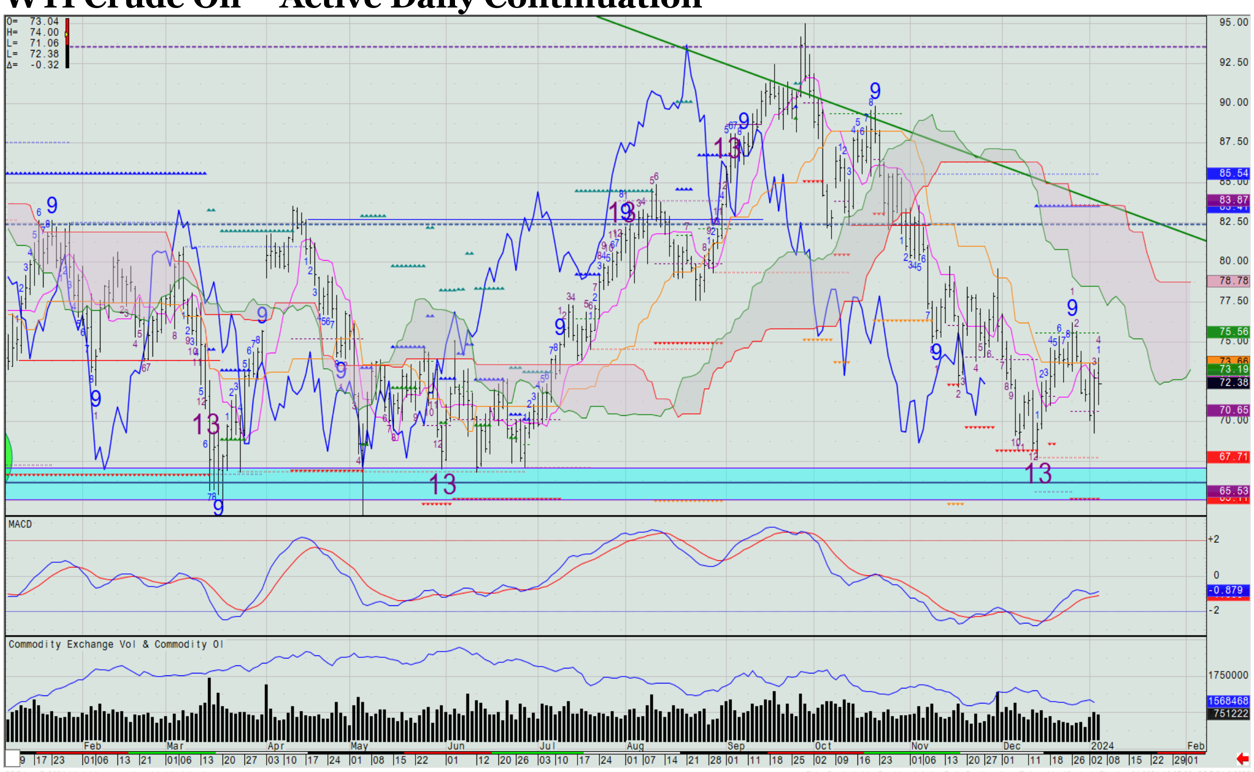
$2400. At this point, bulls will want to see something near $1900 hold on any pullback, as the upside breakout to new all-time highs in early-December had zero follow-through.

COMEX Gold – Active Weekly Continuation



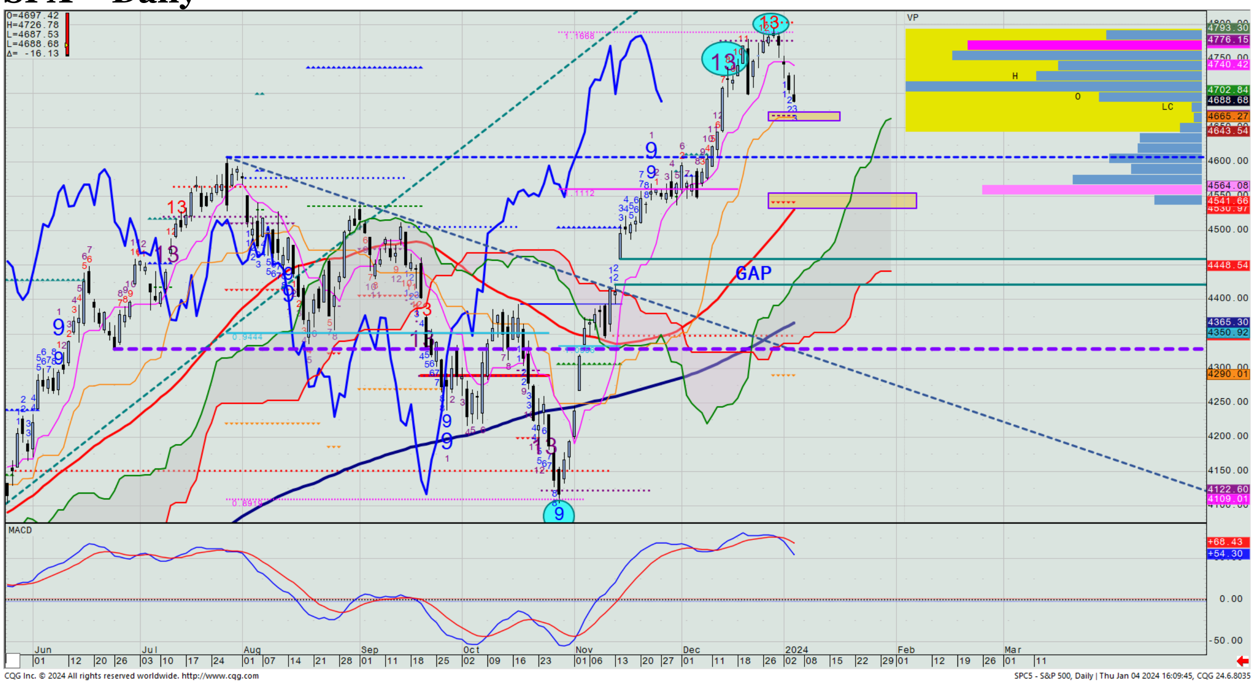
WTI Oil marked a daily -13 on its low and then a Setup +9 on its subsequent trading high. US/Iran tensions are dramatically increasing, so that certainly can give a near-term bid. However, I'm unclear about what to expect for the bigger 2024 oil picture. Ample supplies vs. Mideast tensions may mostly offset each other until something changes that narrative.

WTI Crude Oil – Active Daily Continuation

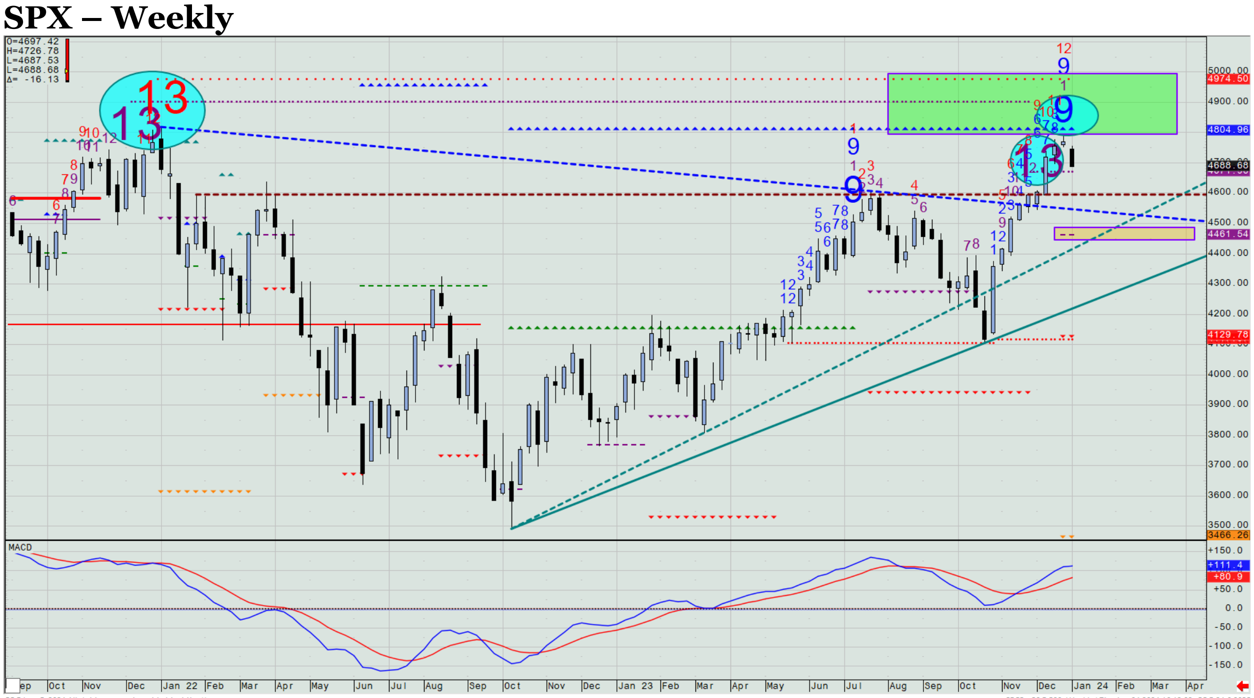


EQUITY INDEXES: With the weekly SPX Setup +9 to end '23, and the daily chart's +13s having come in recently, too, along with having hit upside measured targets, the market was quite ripe for an early-'24 decline. How long or deep is hard to determine, but I think that anyone who had to buy in late-'23 did so (much of it came from PMs who were trying to save their own hides from having been underinvested), and now that much of that buying is out of the way – along with just how much was done in anticipation of the Fed cutting rates this year – the market will settle in to a more trading range environ until data suggests another bigger leg up or down need occur.

SPX – Daily



SPX – Weekly

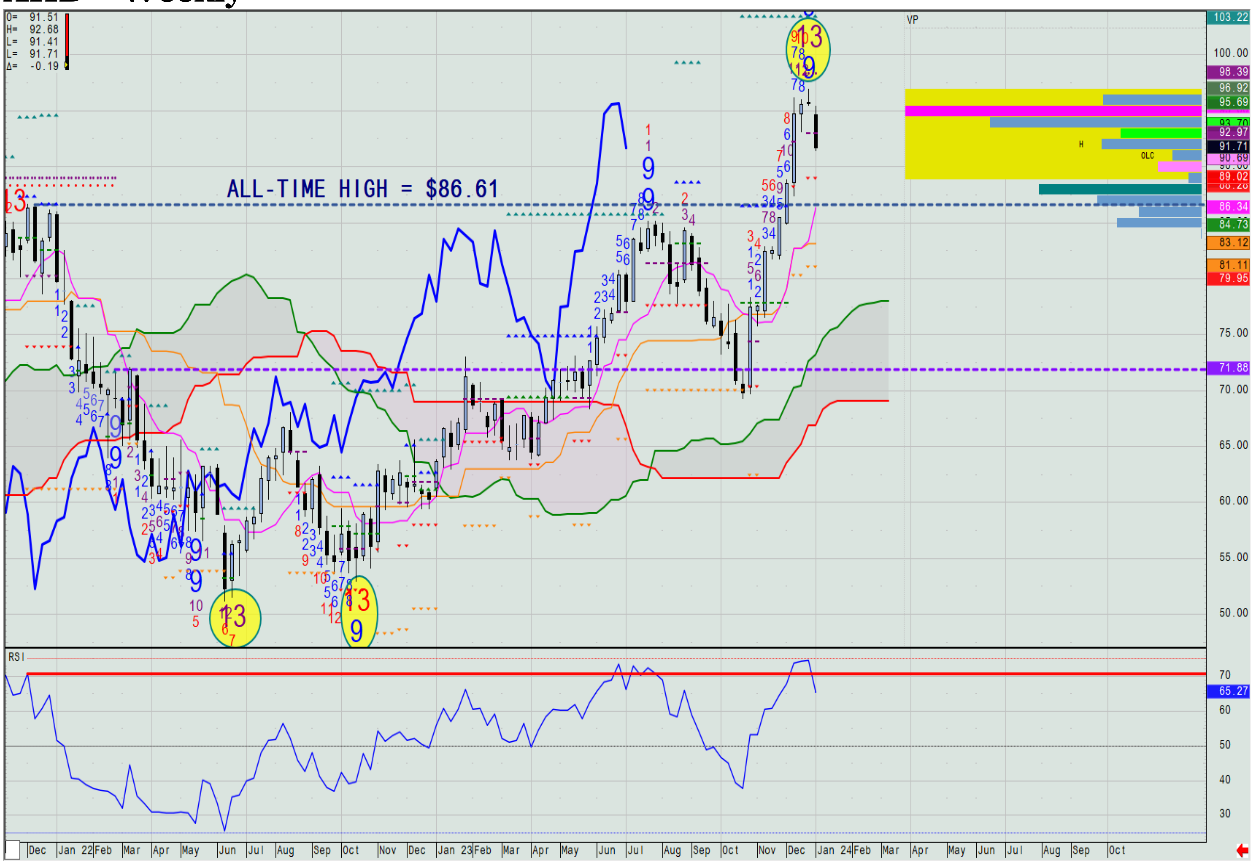


Watch how things pan out when and if daily and even weekly bearish Propulsion Momentum levels come into play. The one thing I can tell you is that it has been several years since there was so much consensus on any one macro idea, and the fact that the bulk of the Street came into '24 being bullish bond prices is something to remain keyed in on. (The last time there was extreme consensus to a macro market like that was going into 2017, when the Street was super bullish the US Dollar. It made its high for the year on the first trading day of the year!)

New ETF Trade Idea

Though the **SPDR Homebuilders ETF (XHB)** hasn't yet reached its Propulsion Full Exhaustion level of $103.22, the move down started this week from the recent +13/+9 high (and the offset to the one from Fall '22) would make me think that there is still more downside to this pullback.

XHB – Weekly



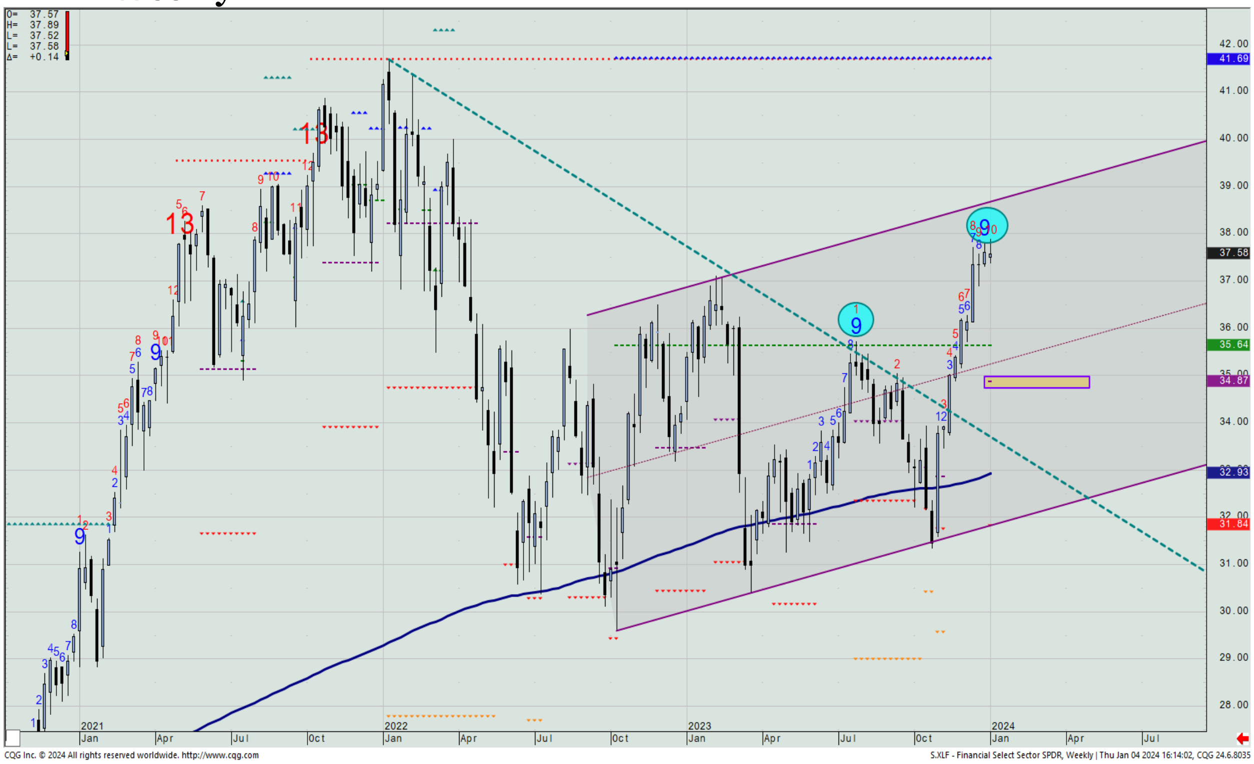
The above weekly chart is displaying the daily 30-day Value Area and bold magenta Point of Control (its value is at $95.36). That POC should now be defended by sellers, and as such, let's look to short <u>two</u> units of **XHB** between $93.25 and $95.25. (I'd scale up sale in that range.) We'll look for a further decline to $89.25 to $89.00 to cover the first unit, and then the second unit at anything in the $87 to $86.50 zone (which was where the prior all-time high was. Our buy stop is on <u>consecutive higher daily closes</u> above $95.36.

Other Open Recommendations and Positions

Long XLF

My last trade idea for '23 was to buy the XLF on a pullback anytime over the subsequent month or so in the $34.90 to $34.50 range. It remains well-above that area for now, but I will keep this as an open trade until and if I cancel it.

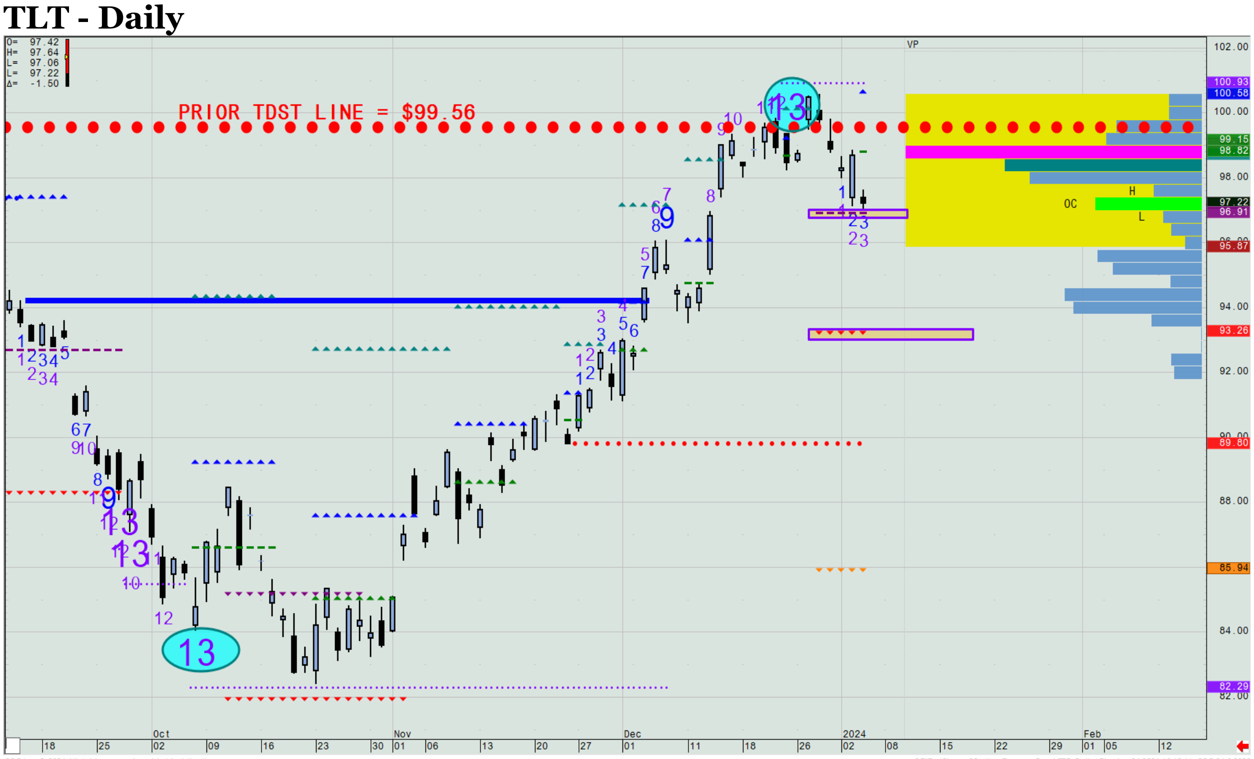
XLF – Weekly



Short TLT

We remain short from mid-December at an avg. price of $99.30. I had changed downside targets to cover half at $96.30 to $96.10, and half at $92.75 to $92. 25, but as you can see from the chart below, the targets had to be raised as Propulsion levels moved up. They are now at $$97.01 to $96.81, and $93.51 to $93.01. (Yesterday got as low as $97.06.) The buy stop is now changed to a close above $99.56 that also gets higher open the following day.

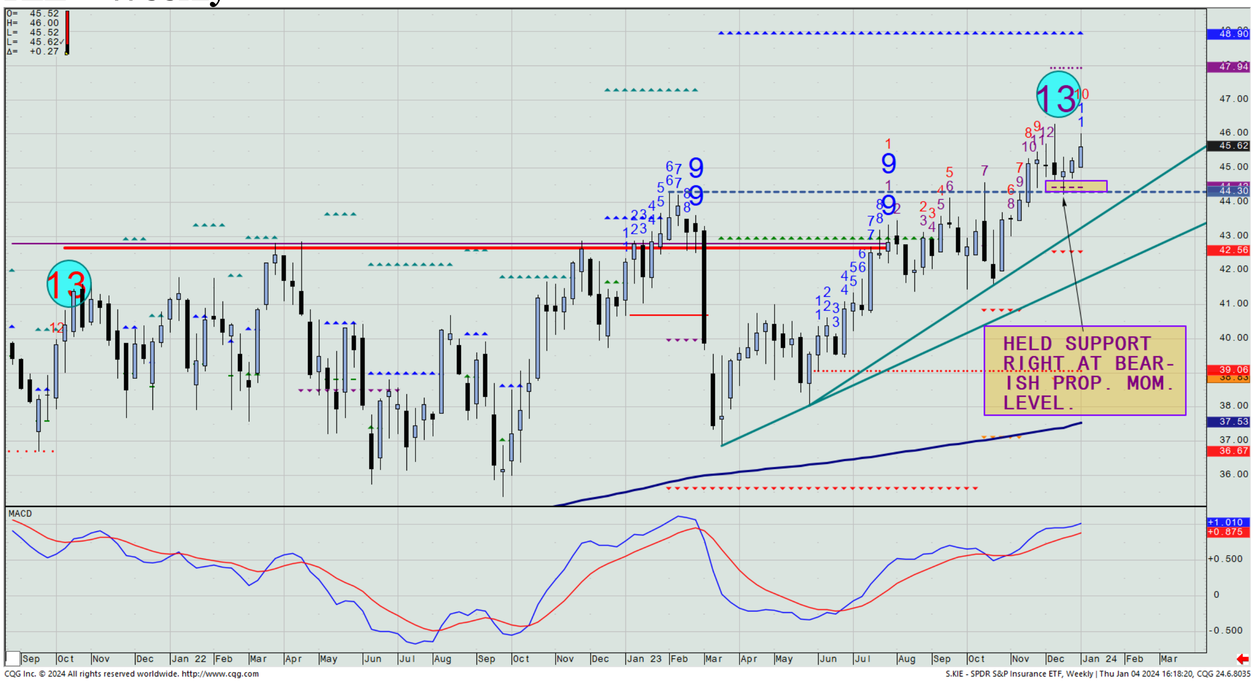
TLT - Daily



Long KIE

We are long a 75% of one-unit sized position at an avg. price of $44.80. My target is near $48.90 for later in 2024, but we'll need take off 1/3 of this position on any day (even including today) if price reaches $46.05 to $46.25. Stop out all longs on consecutive Friday closes < $44.42.

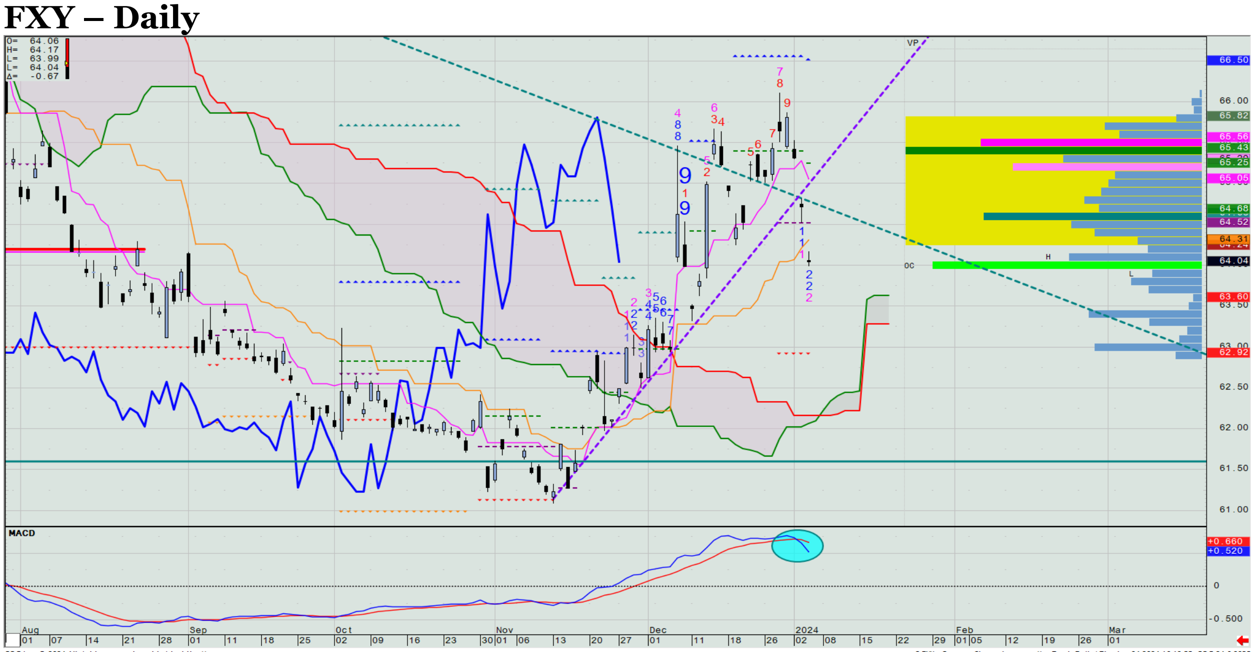
KIE – Weekly



Long FXY

In November, we got long this Japanese Yen ETF at an avg. entry of $62.61. We previously sold half at $64.50. The other we'll sell at near $66.89. The remaining 50% sell-stop to exit the balance is on a close beneath $64.41. That sell-stop was elected yesterday, so we exited the other half on the close at $64.04. We made 2.65% on the trade.

FXY – Daily



Lastly, I made it clear late last year that I was purposely winding down many of our long ideas, which at the time may have looked like the wrong thing to do – given the straight up trajectory of the market. But there is rhyme and reason as to why I make the calls that I do, and it is in that spirit that I hope you continue to see the value of proper and well-timed counter-trend trading (and why it is that the most successful hedge funds in the world continue to do the same). The bottom line is that one cannot outperform the indexes if they don't buy low and sell high. - Rick

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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.

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