Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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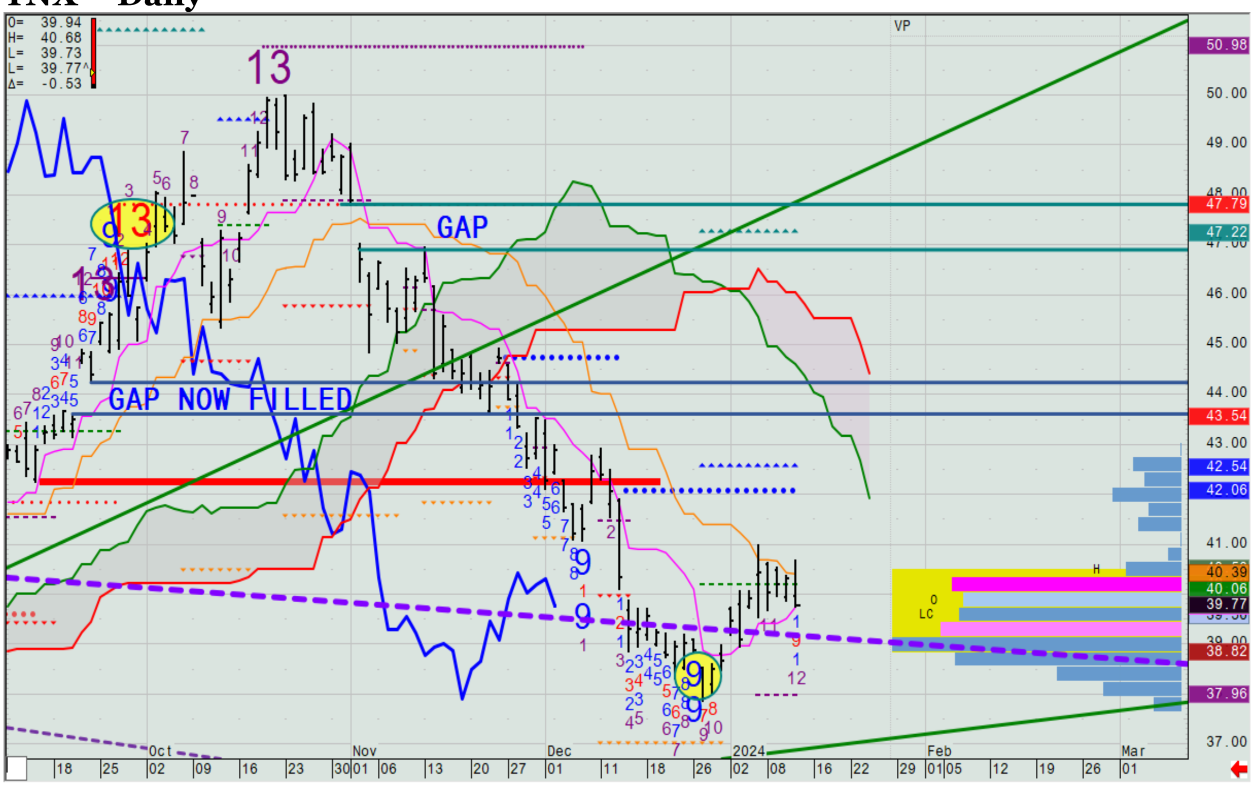
TACTICAL TRADER REPORT

The Macro Picture

The "just one macro trade" -idea I wrote about last week is still playing out, as stock indexes, UST 10-yr. yields, and the US Dollar Index all made coordinated weekly Setup + or – 9 counts to end 2023, and since then, we've seen stocks stall their rally, while rates and the dollar edged higher. One trade: three ways to play it.

Let's start with rates: UST 10-yr. yields bottomed in December at 3.79% and are now at 3.97%, after a wild day yesterday that saw a high of 4.07%. That reversal killed the what would have been a daily Setup +8 count. Now, we'd minimally need see a move down to 3.901% to mark an Aggressive Sequential -13 signal to offset the one made at the high. Do note that the trailing 30-day Point of Control is at 4.034%, and you're going to need see closes above there to shake out bond bulls.

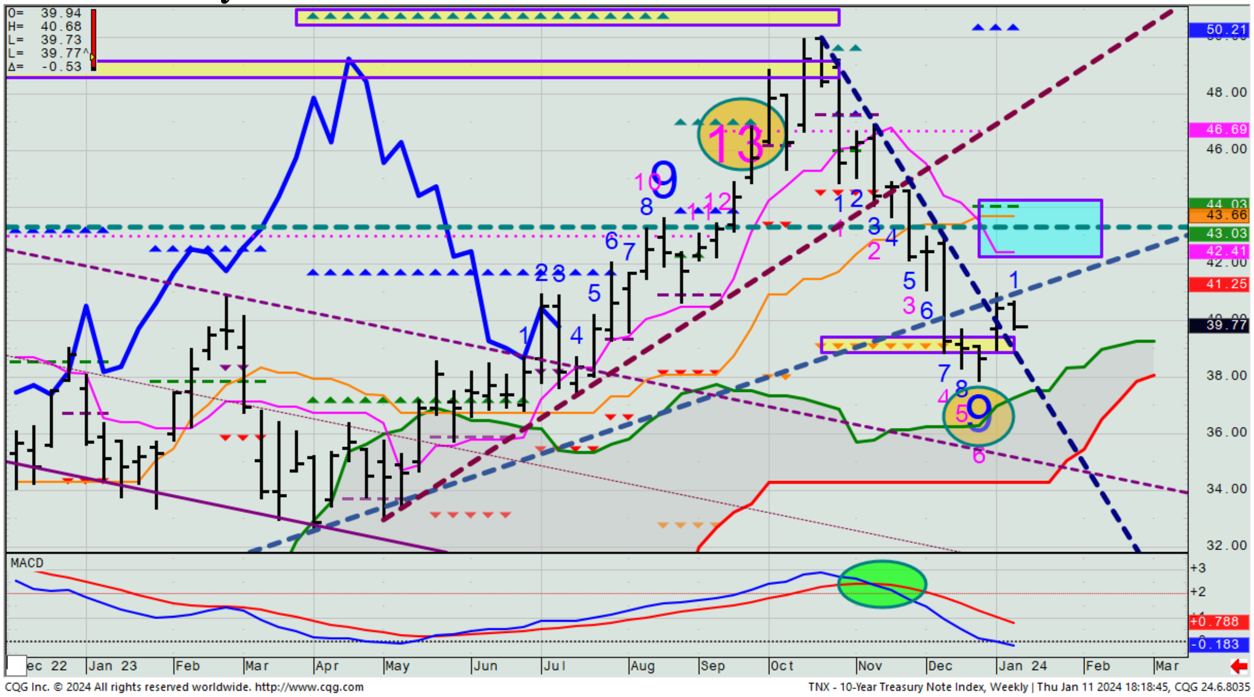
TNX – Daily



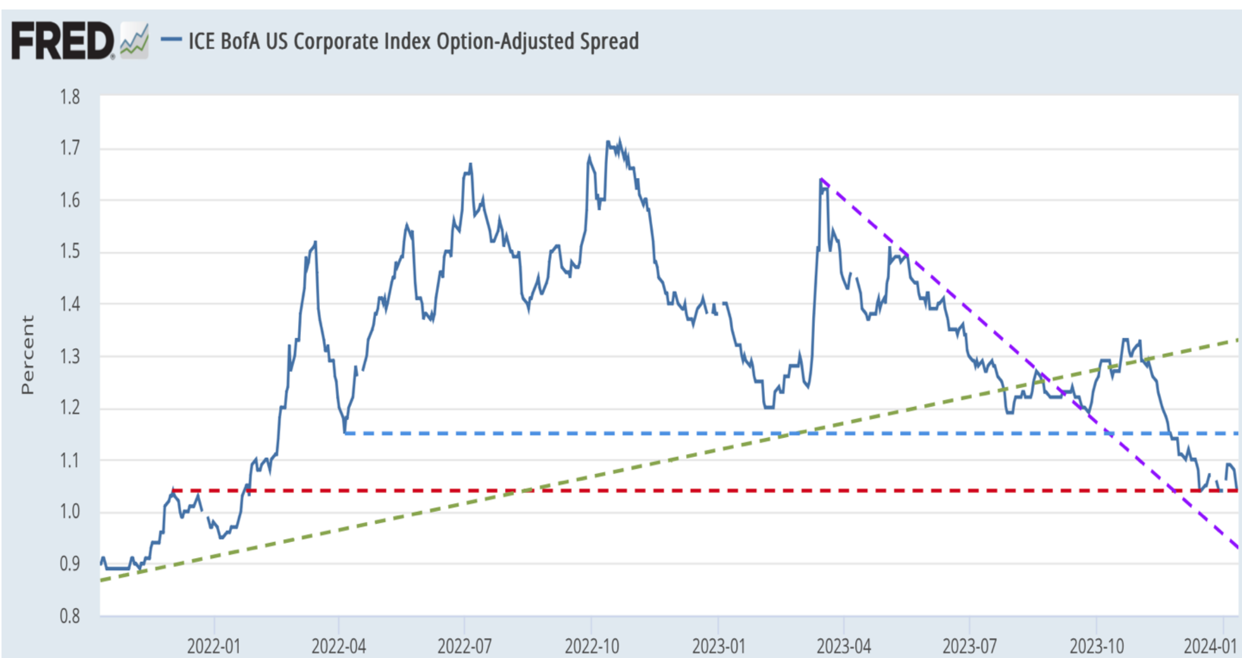
TNX - 10-Year Treasury Note Index, Daily | Thu Jan 11 2024 18:15:28, CQG 24.6.8035

Next week, the weekly Conversion Line will fall to 4.14%, and that should be first level resistance if rates flips back higher. For starters, let's see what happens after today's PPI number and major bank earnings reports.

TNX – Weekly

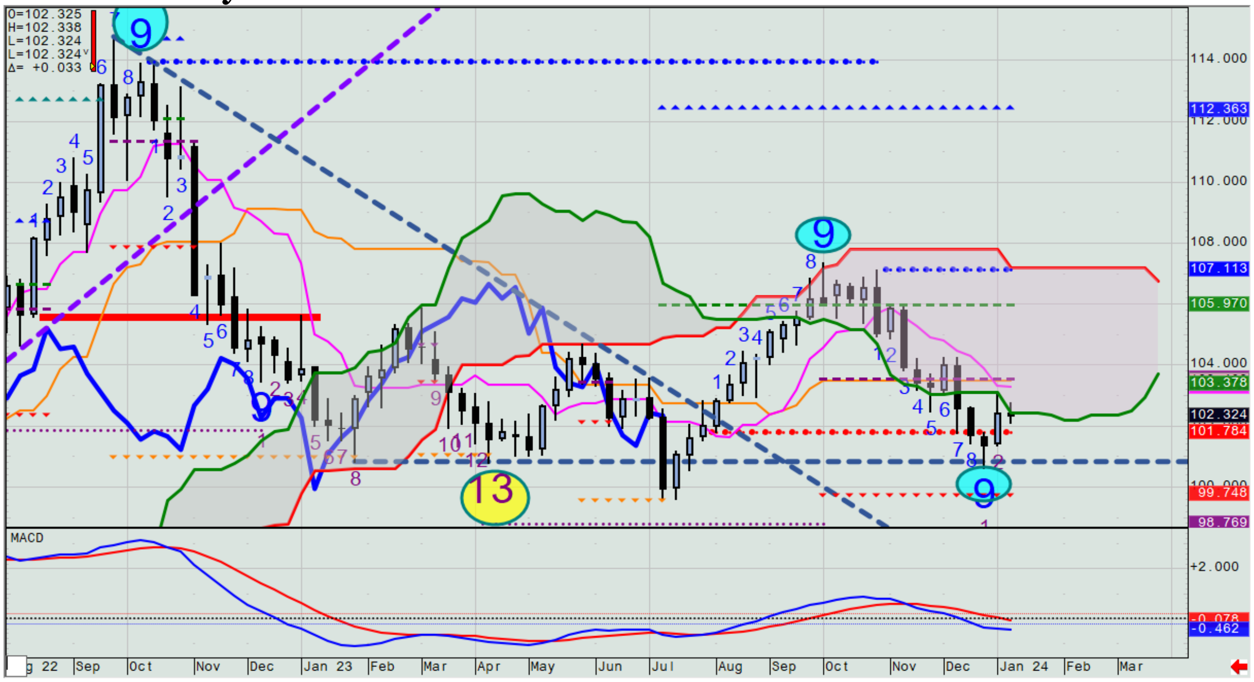


Investment grade corporate credit spreads, my preferred credit spread index, recently fell to as low as 1.04% (and did so again on Wednesday – the third time there) -- the same as where the breakout started in early-2022 (shown as the horizontal dashed dark red line). That level has been the top end of my downside target since the spread broke the 1.20% level. However, the backfill to the broken dark purple line will fall to the low-0.90s bp. area next week, so I can't yet determine if the 1.04% level is going to hold as support. It could very well come down to if today has a big move in 10-yr. rates.



THE DOLLAR: The US Dollar Index (DXY) marked a weekly Setup -9 count at the end of 2023, and has bounced since then. First resistance should be at the falling weekly Conversion Line, which for next week will be about 103.25, while the weekly cloud bottom remains at 102.44, which is just about where it is now.

DXY – Weekly



DXC5 - Dollar Index, Weekly (Delayed by 10 mins) | Thu Jan 11 2024 18:23:16, CQG 24.6.8035

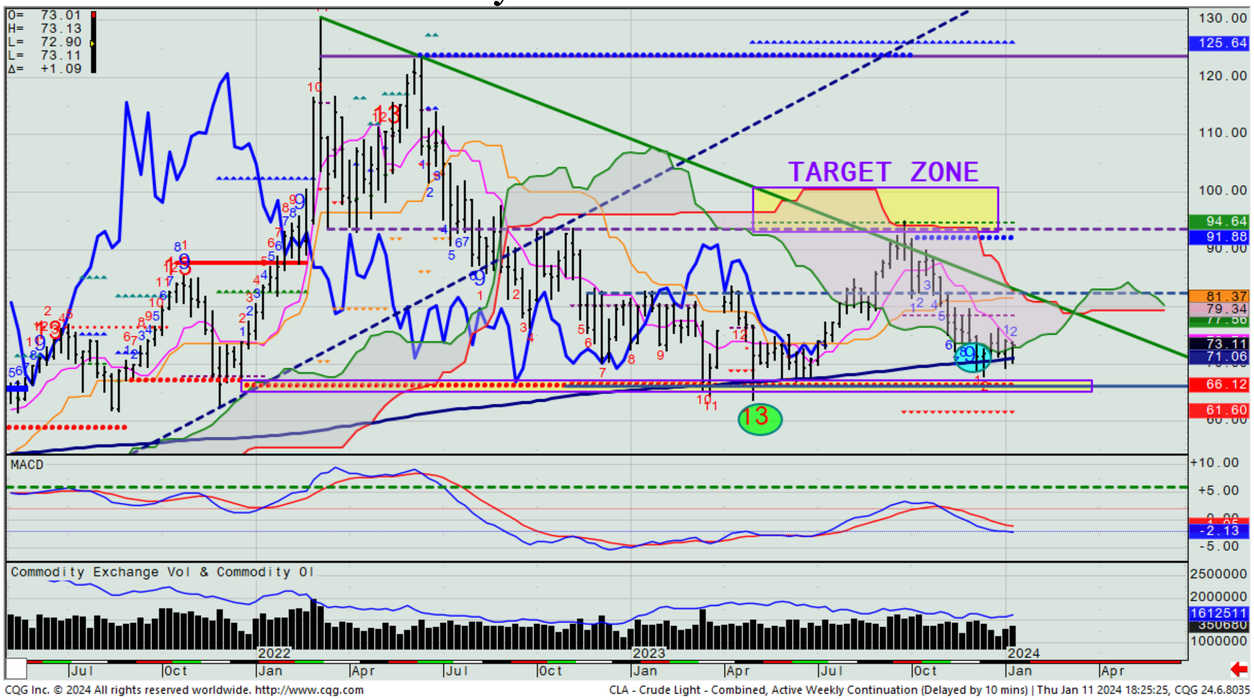
COMMODITIES: I generally remain bullish gold, but I'm going to want to see any further pullback hold above the low-$1900s area. Now that the SEC has approved 11 new Bitcoin ETFs, gold may easily get competition from the new easy access to these investment products (though the SEC has in no way endorsed Bitcoin ETFs as a viable investment. (it's just one they couldn't legally stop from happening). A real upside breakout in gold that then consistently stays above $2000 should target a move to $2400.

COMEX Gold – Active Weekly Continuation

GCA - Gold - Combined, Active Weekly Continuation (Delayed by 10 mins) | Thu Jan 11 2024 18:24:21, CQG 24.6.8035

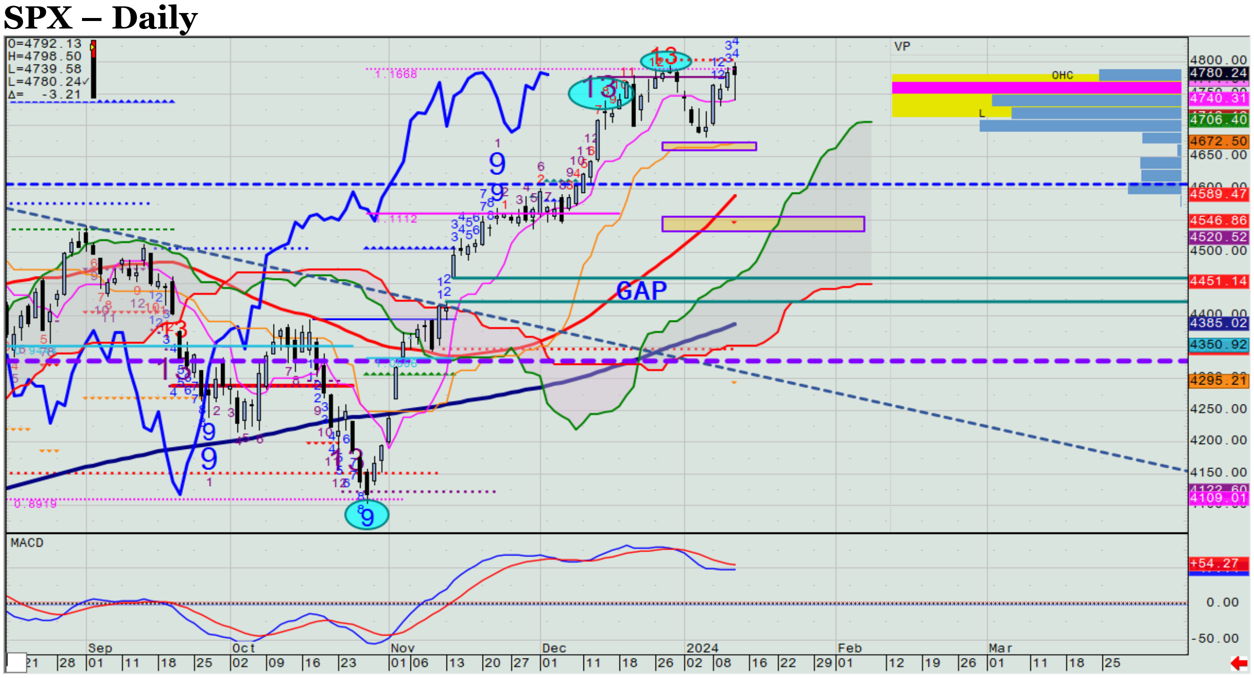
WTI Oil is stuck right in a very small zone between its 200-WMA and its falling weekly Conversion Line. Even when that battle gets answered any week now, it's still within a bigger declining triangle pattern (the major downtrend line on top, and the horizontal lows in the $60s the past two years on the bottom). Right now, I'm without a bigger call on this commodity.

WTI Crude Oil – Active Weekly Continuation



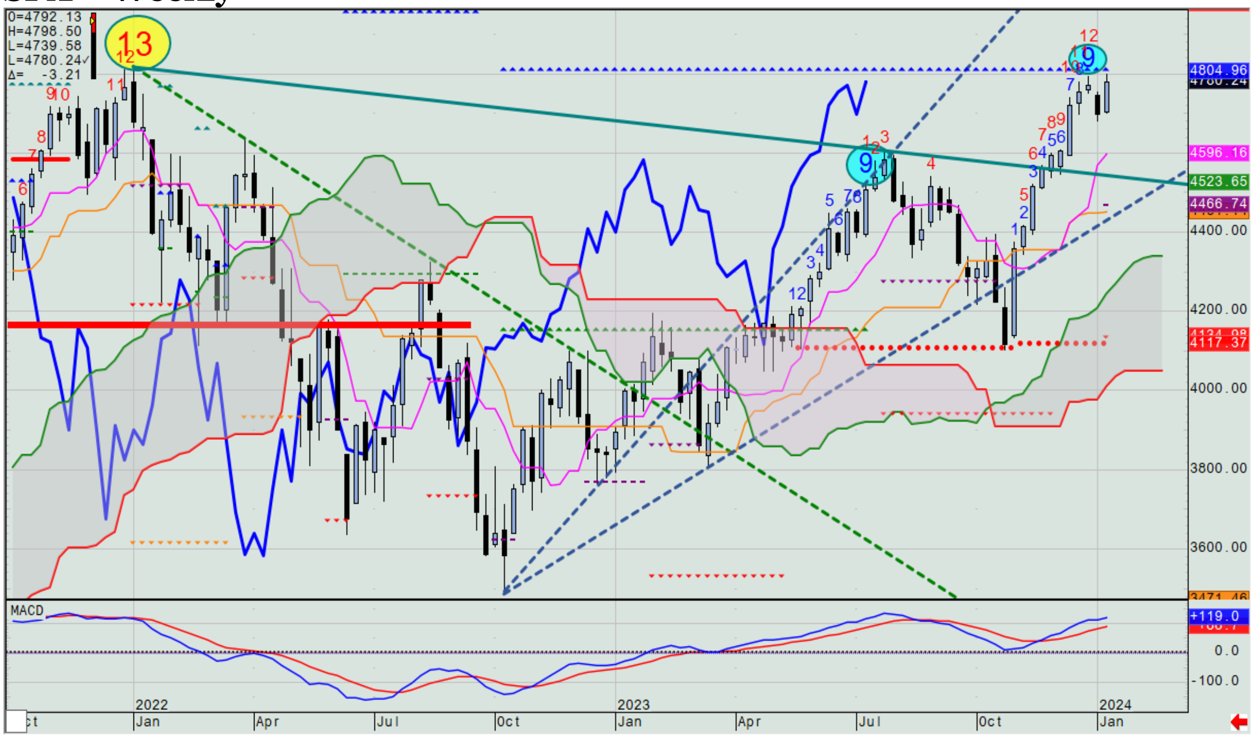
EQUITY INDEXES: Daily and weekly DeMark Sequential counts gave us a minor pause to the massive rally that started in October. Yesterday's CPI report – coming in "hot" as inflation came in higher than expected – put a temporary squash on this week's rally that couldn't keep bulls at bay. The SPX only closed down 3 points after being down 45 at one point.

SPX – Daily



The below weekly chart shows that next Tuesday need only open above 4754.33 to mark the week as a standard Sequential +13 reading – the first one since the one marked at all-time highs. That's would be one heck of a cross-current signal to know exists just as the press is reporting new all-time highs in the SPX.

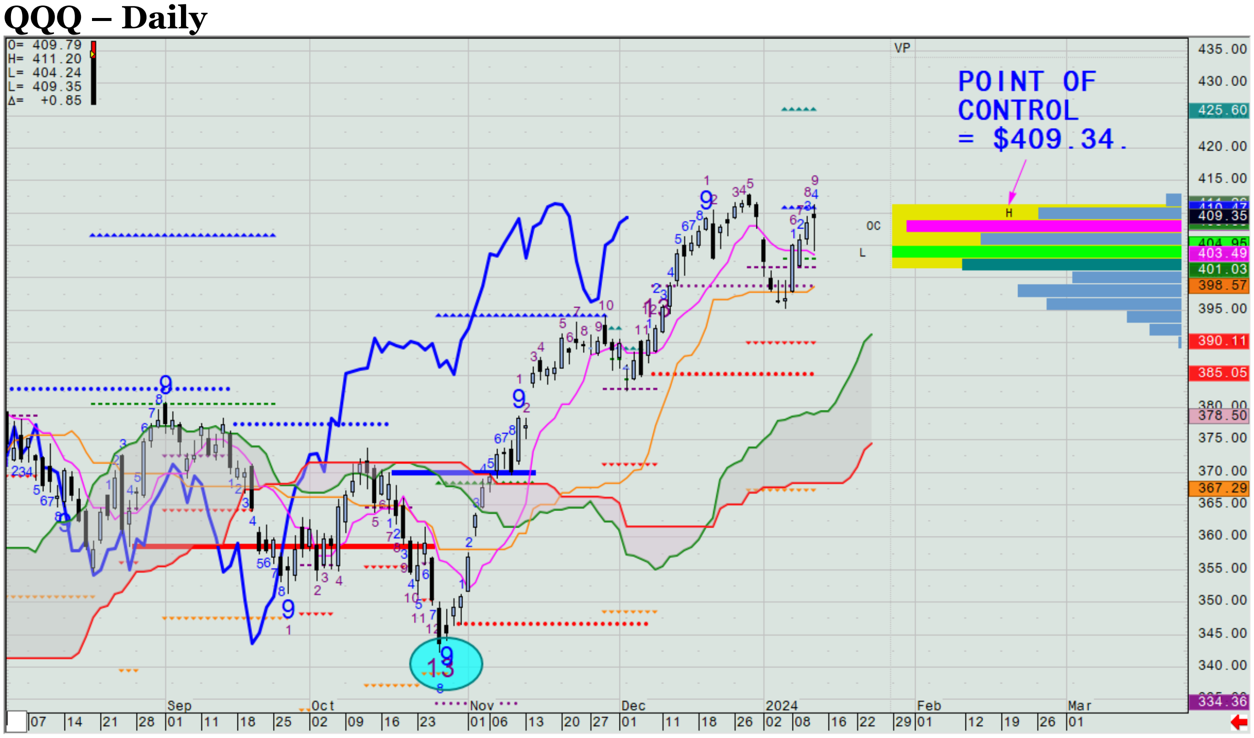
SPX – Weekly



 SPC5 - S&P 500, Weekly | Thu Jan 11 2024 18:36:03, CQG 24.6.8035

The QQQ ended up higher on the day by 21 bps., but still are finding resistance right at its Point of Control (at $409.34) that Daily Tip Sheet subscribers have been tuned into. The more we'd potentially see price get and stay above there, the more the QQQ bear case is lessened. A new highs target would be $425.60.

QQQ – Daily

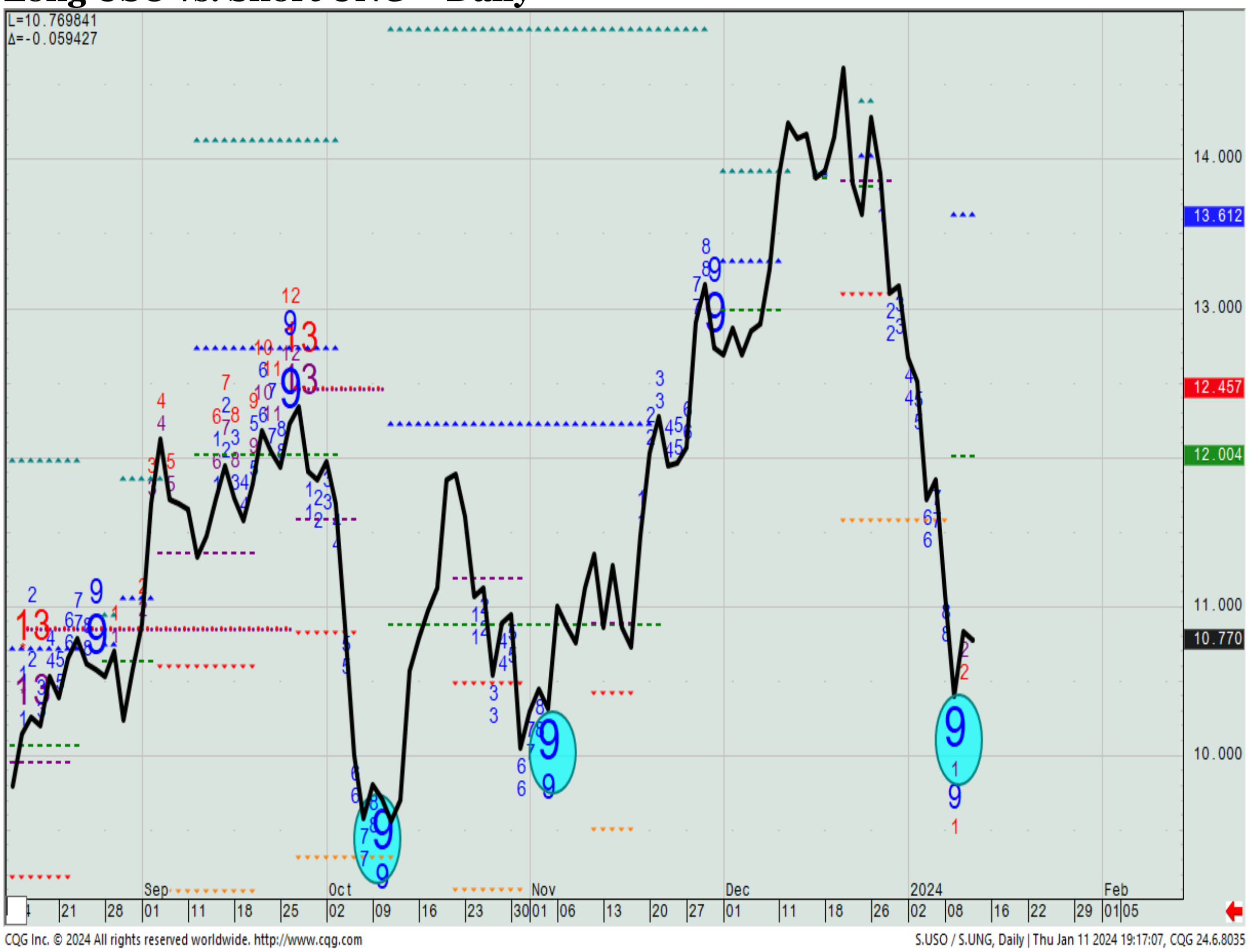


 S.QQQ - Invesco QQQ Trust Series 1, Daily | Thu Jan 11 2024 18:43:23, CQG 24.6.8035

New ETF Trade Idea

Earlier this week, I got Daily Tip Sheet clients long the crude oil ETF (USO) into Monday's weakness, and what so far has proven to be the low of the week. As I write this Thursday night, oil is up about 2% after the US bombed Houthi targets inside Yemen. It sets up a play – along with a chart that agrees – that the price of oil can do better than the price of natural gas.

Long USO vs. Short UNG – Daily



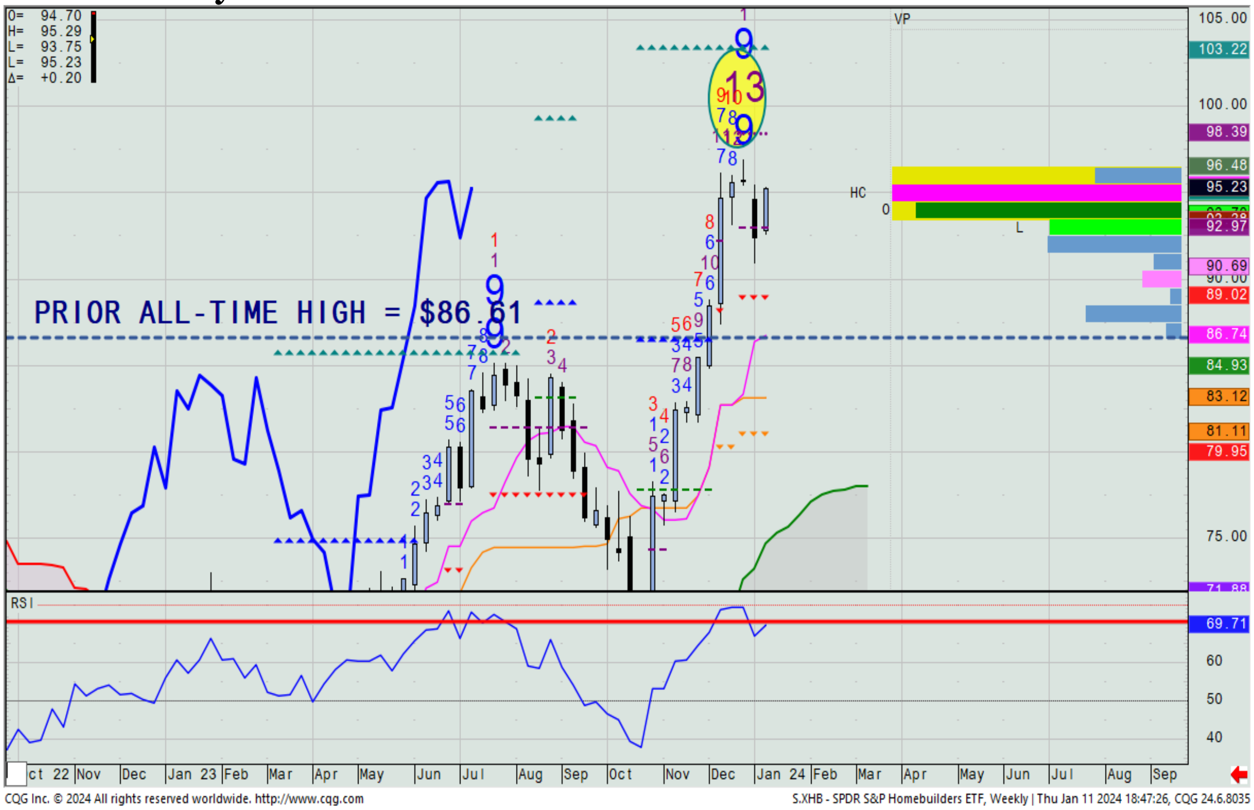
Because this is going to gap higher on tomorrow's open, let's only get into a 50% position of this pair trade today, buying one unit of USO and selling an equal dollar amount of UNG short. You can see that as of yesterday, this USO/UNG ratio closed at 10.77 (meaning USO was trading at 10.77 times the price of UNG). I'll target a move to 12.0 +/- 0.25. Our sell-stop is a close beneath the late-October low of 10.04.

Other Open Recommendations and Positions

Short XHB

Last week I suggested shorting 2 units of this ETF from $93.25 to $95.25, and we are filled at that average midpoint of $94.25 with this week's high at $95.29. I'm looking 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 consecutive higher daily closes above $95.36.

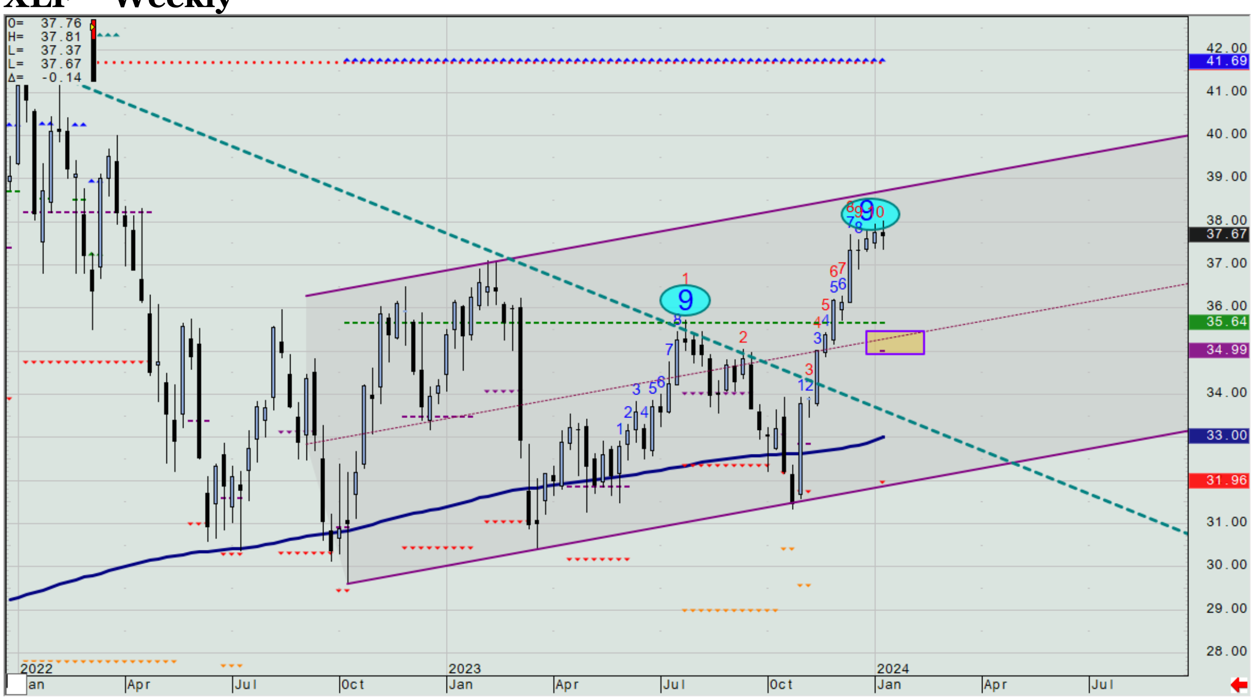
XHB - Weekly



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. I'll officially cancel this now, as price is so far away from where I'd be interested in getting in, and this was just a "flyer" idea should the market have come off sharply over XMAS week. Nonetheless, I'll be watching this should things turn materially lower.

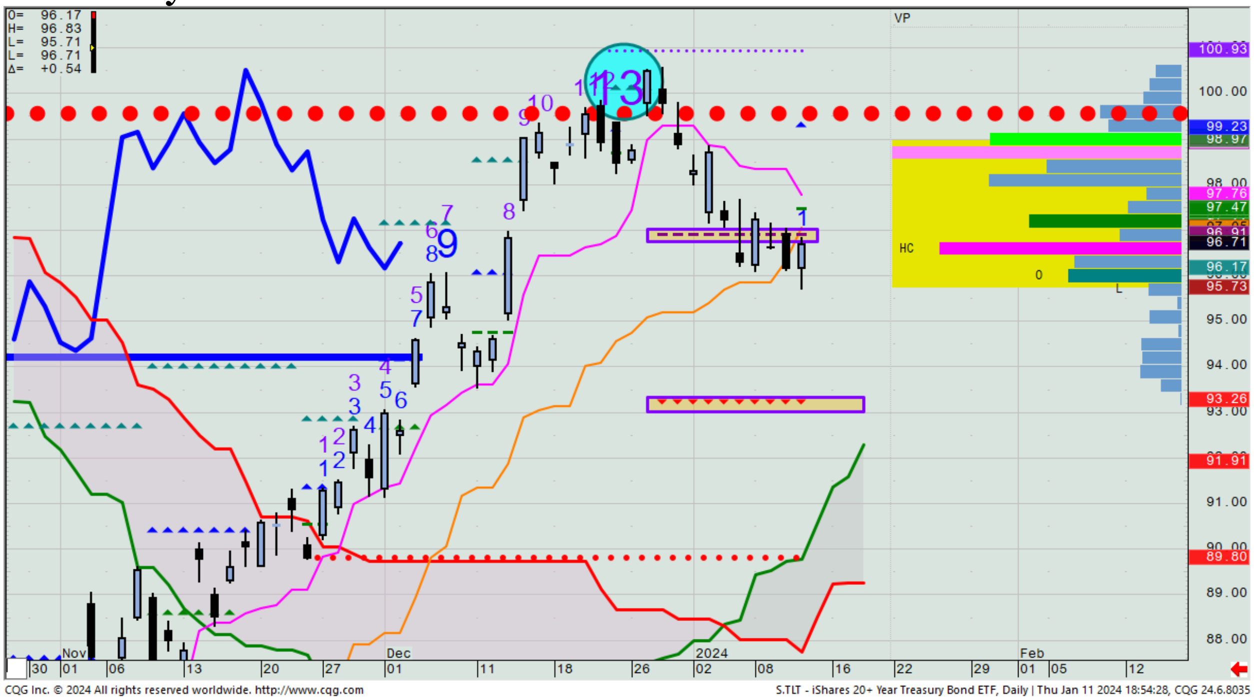
XLF – Weekly



Short TLT

We remain short from mid-December at an avg. price of $99.30. Last week I raised buy back targets to exit half from $$97.01 to $96.81, and half from $93.51 to $93.01. So, we are now out of half (avg. price $96.91) and remain short 50%. The associated buy stop is now changed to exit on a close above $99.04.

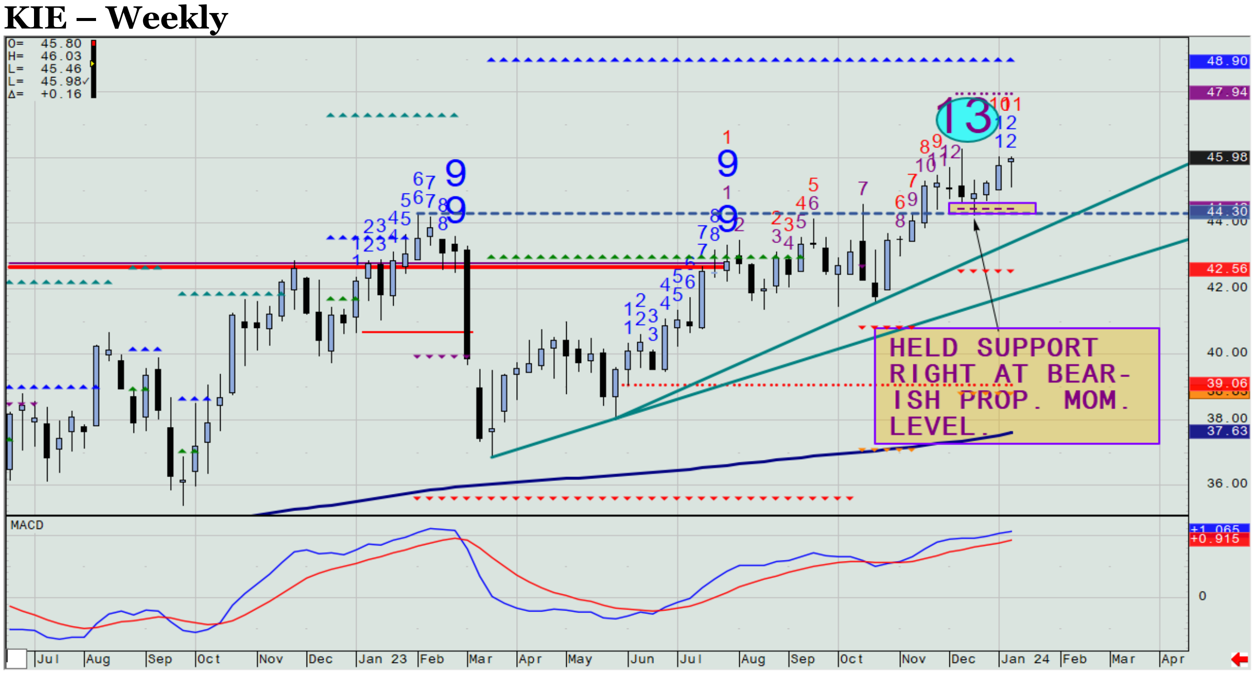
TLT - Daily



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 let's take 1/2 off today (or any day) that closes beneath $44.73. Stop out all longs on consecutive Friday closes < $44.42.

KIE – 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.

Disclaimer