Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com January 19, 2024

TACTICAL TRADER REPORT

The Macro Picture

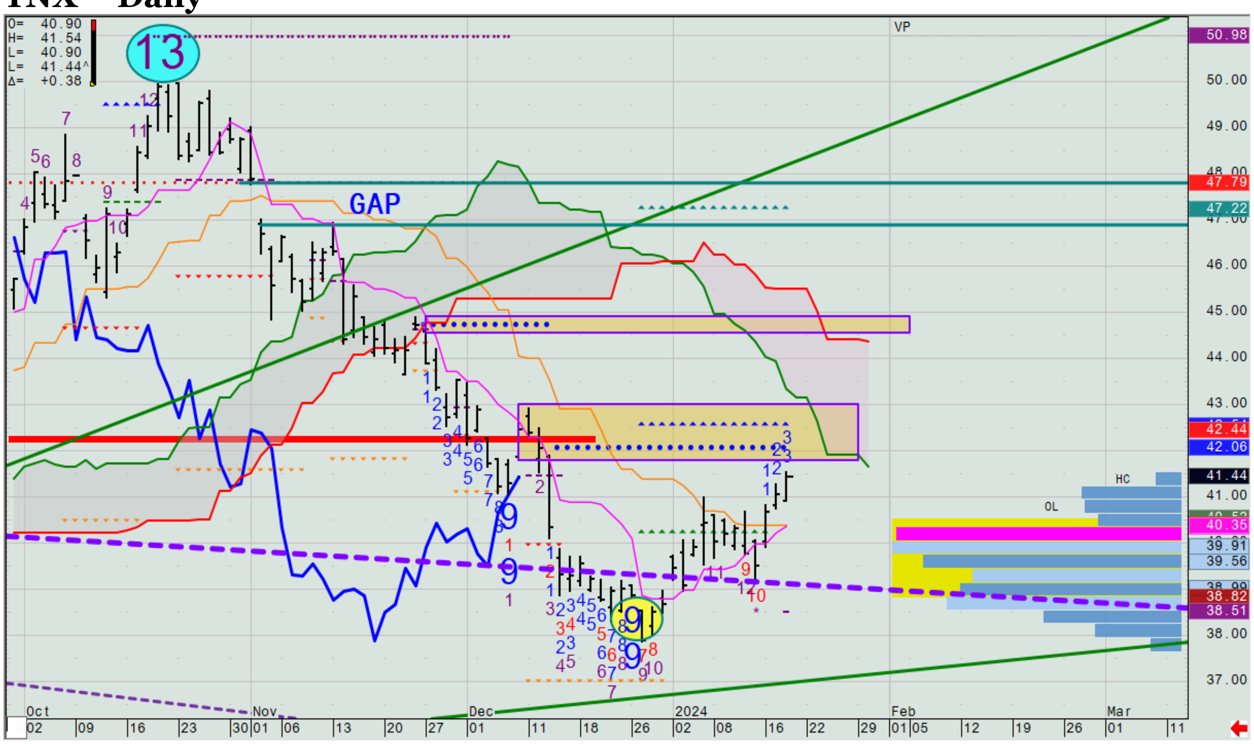
The general "one macro trade; three ways of playing it" persists, as bond yields and the dollar tend to move together, and stocks somewhat opposite. This year, you haven't made or lost much in whichever your preferred market is, but for the most part, the idea that there is really only "one market: three ways to play it" is what we've got, until, at some point, those relationships change. (Was yesterday's rally the first day of a change to this, as stocks rallied sharply and new high yield levels, were reached, too?)

I'd say that rates and/or the dollar are more important and push and pull the other two more than the stock market being the driver of what moves rates or the greenback up or down, so let's look at them before diving into what I see in the SPX or NDX.

US RATES

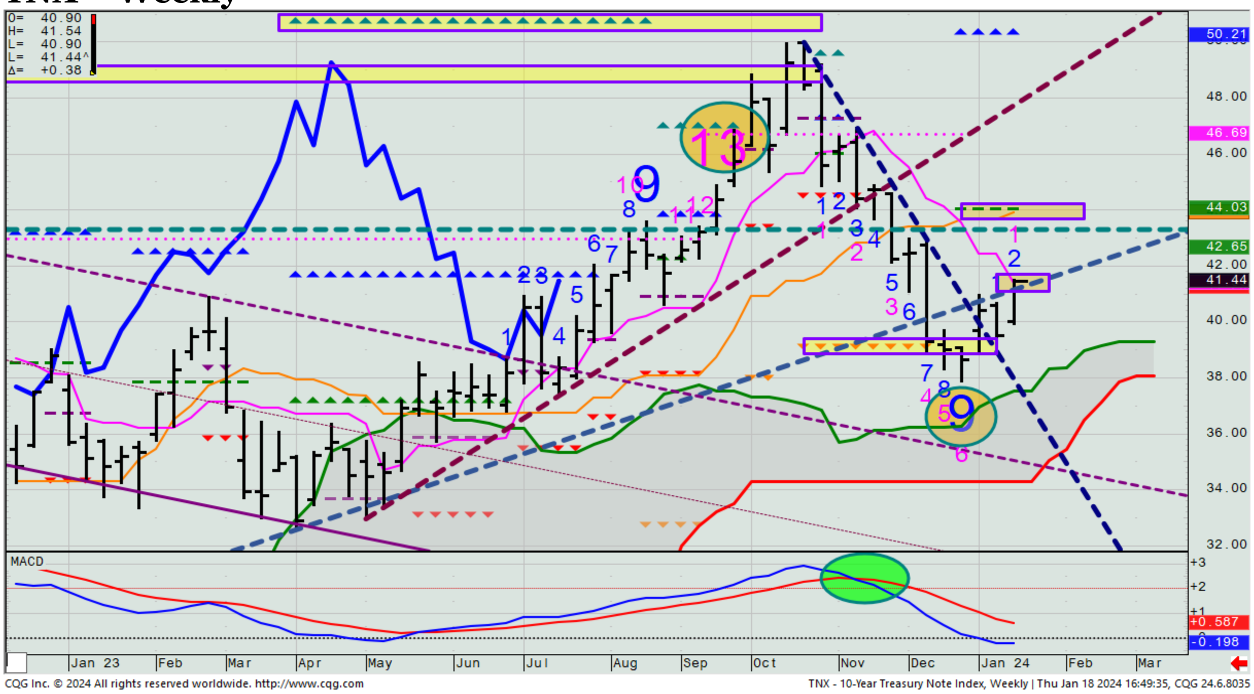
Last week I mentioned that we'd minimally need see a TNX move down to 3.901% to mark a daily Aggressive Sequential -13 signal to offset the one made at the high. Last week, we got to within 1 bp. from there, and then the rally ensued. The chart below has two orange rectangles highlighted that are potential short-term yield resistance levels.

TNX – Daily

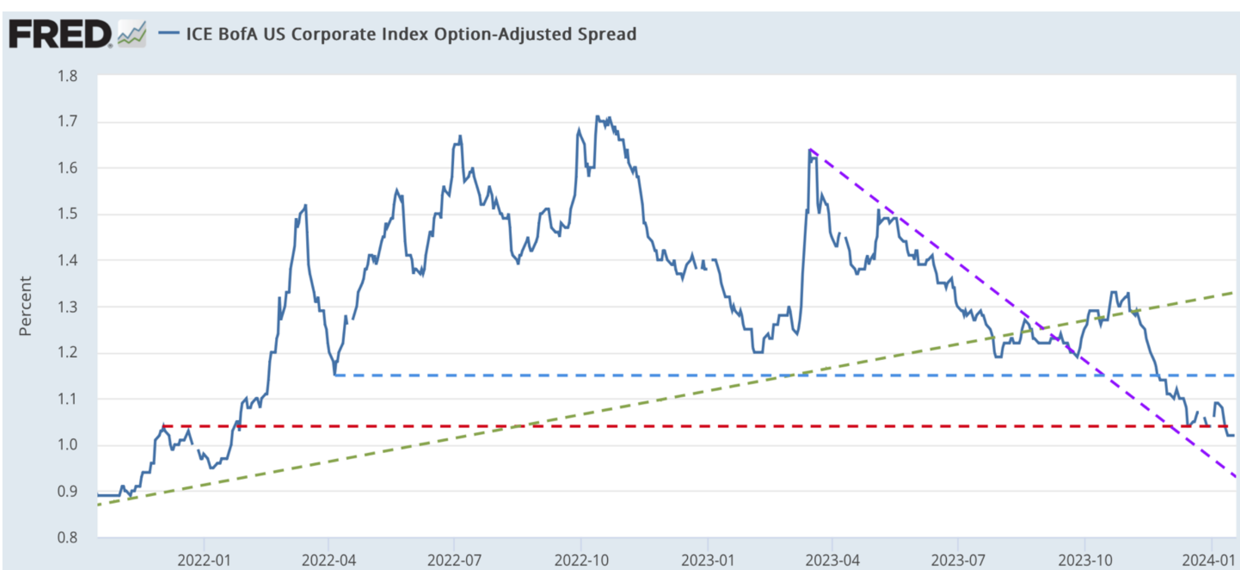


This week, the weekly Conversion Line dropped to 4.14%, and that's also what is now one bp. beneath this week's high. A further upside breakout next week would suggest a greater likelihood of continuing higher to the bullish Propulsion Momentum level at 4.40%, which you can see is also right by the weekly Conversion Line. If rates rally up to there, I think it will likely become the most important level that bond bulls will have to see hold as support (in price terms) if rates are really actually heading well-lower this year, the way the consensus stated they would to start the year. (I did warn then and there that the Street's almost universal call for lower rates in 2024 was suspect, given the degree of acceptance that call had.)

TNX – Weekly

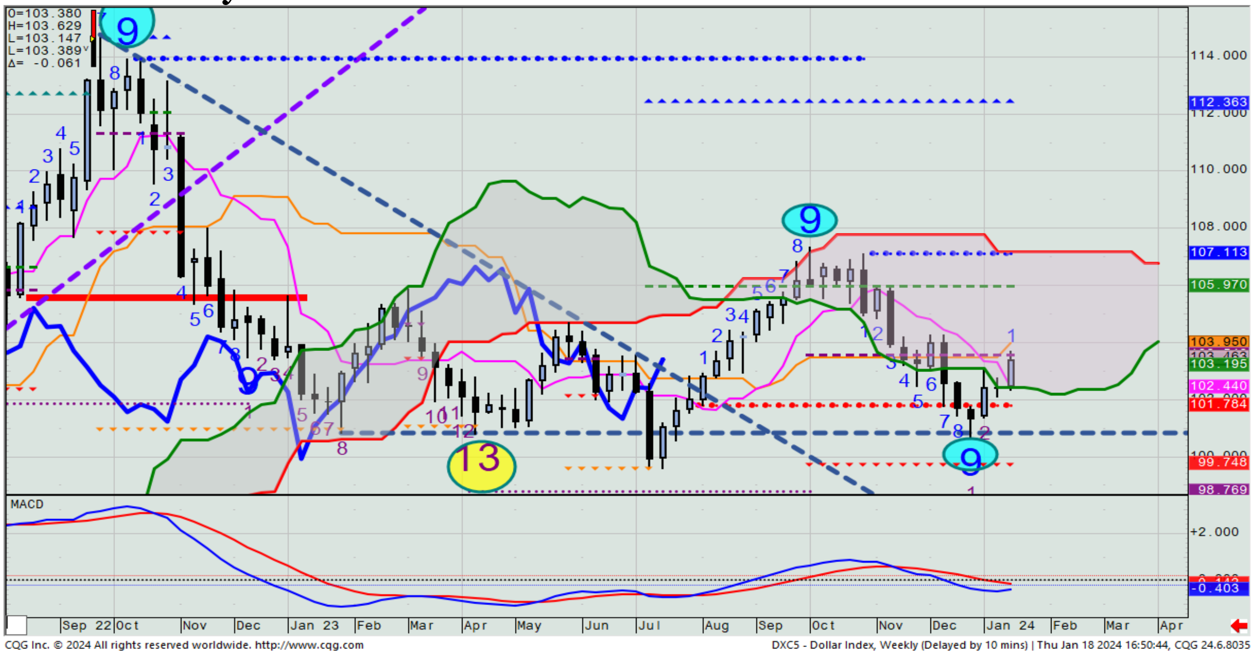


Investment grade corporate credit spreads, my preferred credit spread index, have slid to as low as 1.02% on Wednesday, and still may slide lower to backfill against the broken dark purple line (which currently is in the low-0.90s bp. area). As a reminder, the all-time low for this spread is 0.86%, and the larger head-and-shoulders top measures to something near 0.70%. Most importantly, as of now, credit spreads are showing no stress in the system, and that is usually a positive backdrop for stocks.



THE DOLLAR: The US Dollar Index (DXY) marked a weekly Setup -9 count at the end of 2023, and has bounced since then, with this week another surge higher. This week's low is both the weekly Conversion Line and weekly cloud bottom, so it has hurdled what was its first important resistance level. Doing so keeps stocks from being able to make any real advance.

DXY – Weekly



COMMODITIES: Gold's decline this week is in line with the aforementioned upmove in the dollar. Though I generally remain a long-term fan of gold, it has now broken the recent uptrend line, and I'd consider pulling back on long positions you may have. A real upside breakout in gold that then consistently stays above $2000 should target a move to $2400+. But until that breakout occurs, the new highs in futures made back in early-December was a very ephemeral and non-confirmed rally, most likely knocking out a large spec short, but nothing that dragged in others to chase higher.

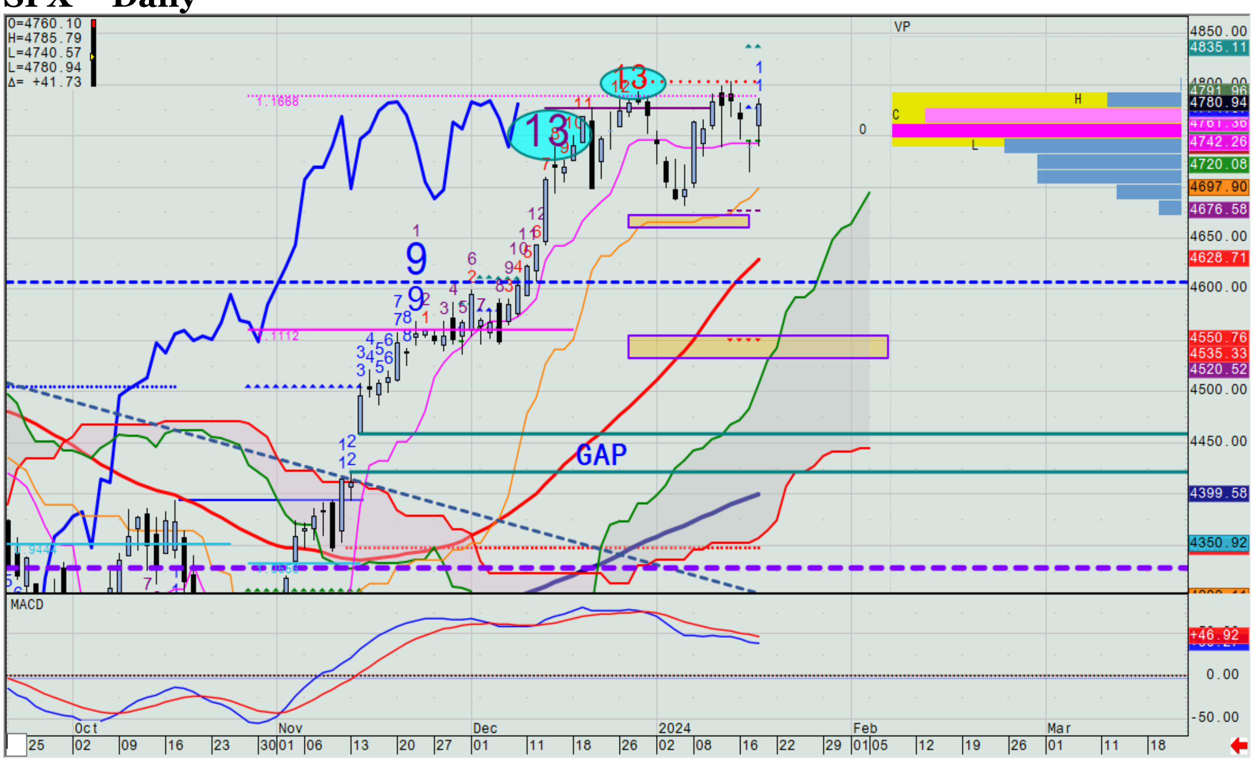
COMEX Gold – Active Weekly Continuation

In my eyes, WTI Oil should be higher, based upon the US being involved in Mideast war conflict. (We're long the sister USO ETF in the Daily Tip Sheet, but with no meaningful gain.) I tend to think that without what's going on in the Red Sea, oil was just biding time before it cracked $10-$20. In the meantime, it continues to trade within the context of a large declining triangular pattern.

WTI Crude Oil – Active Weekly Continuation

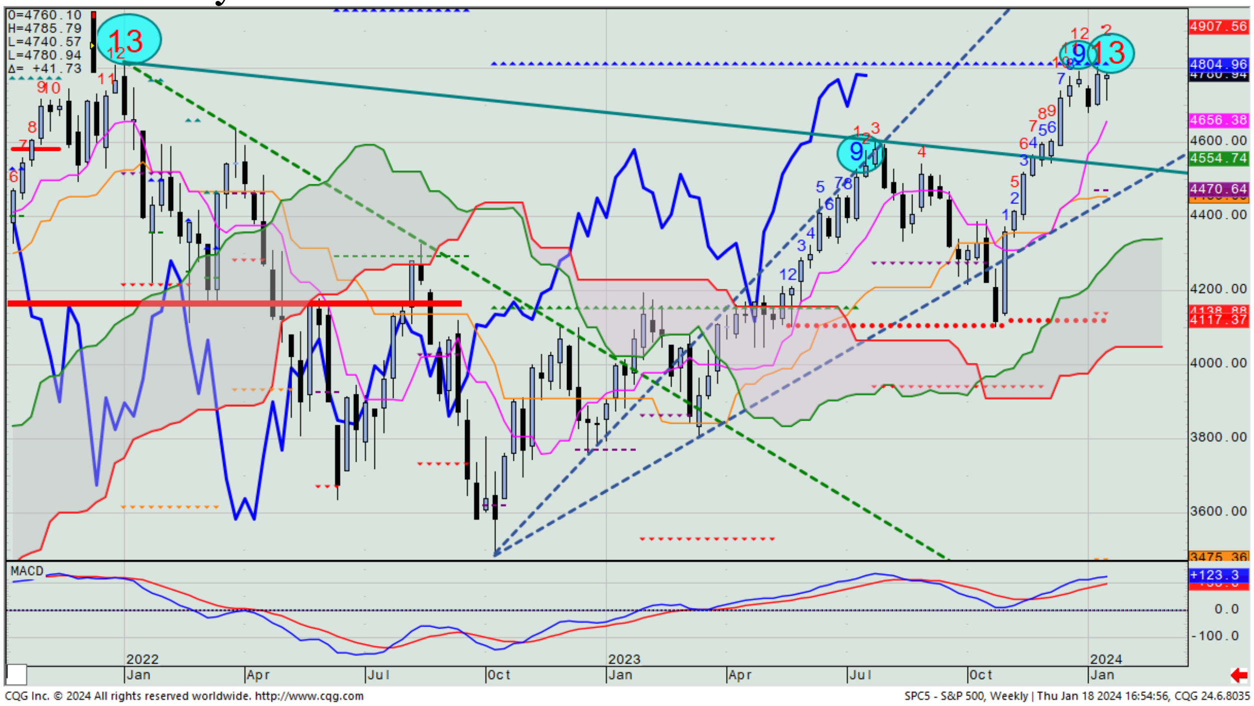
EQUITY INDEXES: Dollar and yields moving up – along with SPX/SPY daily and weekly DeMark Sequential timing counts suggesting that now is a bad time to be a buyer of stocks – has so far kept the post-October rally at bay in this new year.

SPX – Daily



The above daily and below weekly charts have not yet shown any material pullback from these signals. However, it's still early (from the weekly chart perspective) to suggest that the new +13 signal is not going to work. Moreover, the true meaning of a DeMark 13 signal is that, "this is a bad time to initiate trades in the direction of the trend", and doesn't necessarily mean that a major opposite direction trend is about to occur.

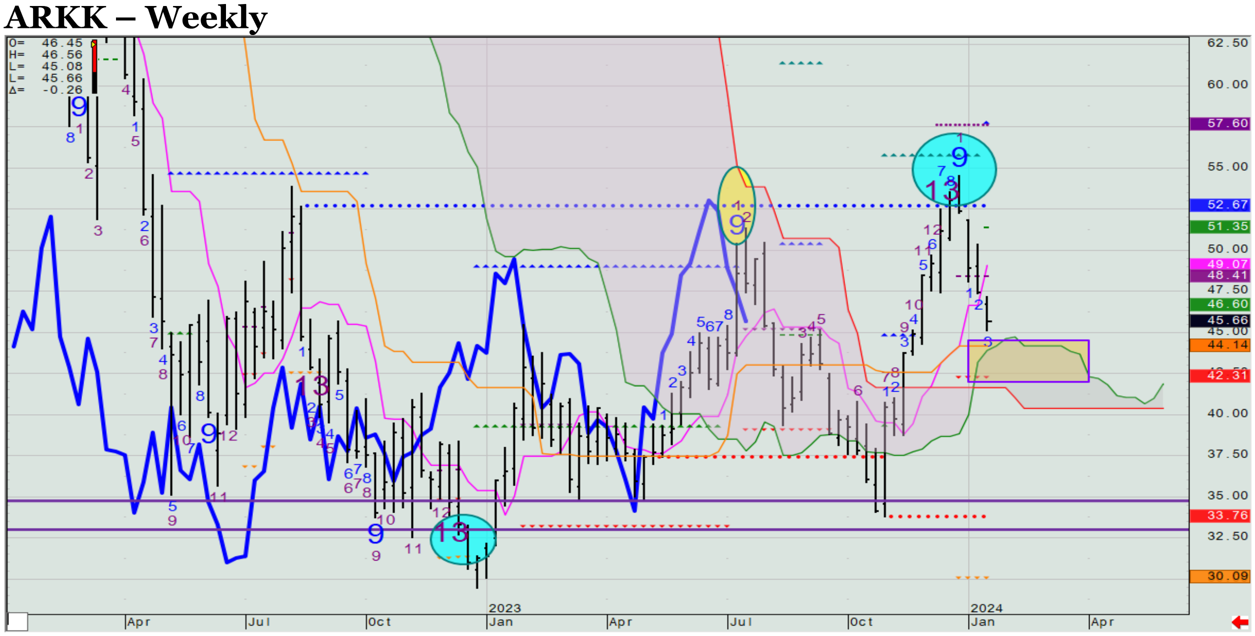
SPX – Weekly



New ETF Trade Idea

Cathy Wood's ARKK fund's weekly chart looks a lot like the Russell 2000 small cap chart. It's a large sideways range that recently slightly took out the prior highs, only to see if fall right back into the range, and still falling. Nonetheless, if it's not going to fall all the way back down to the prior lows, it's approaching a zone I'd be a willing buyer.

ARKK – Weekly



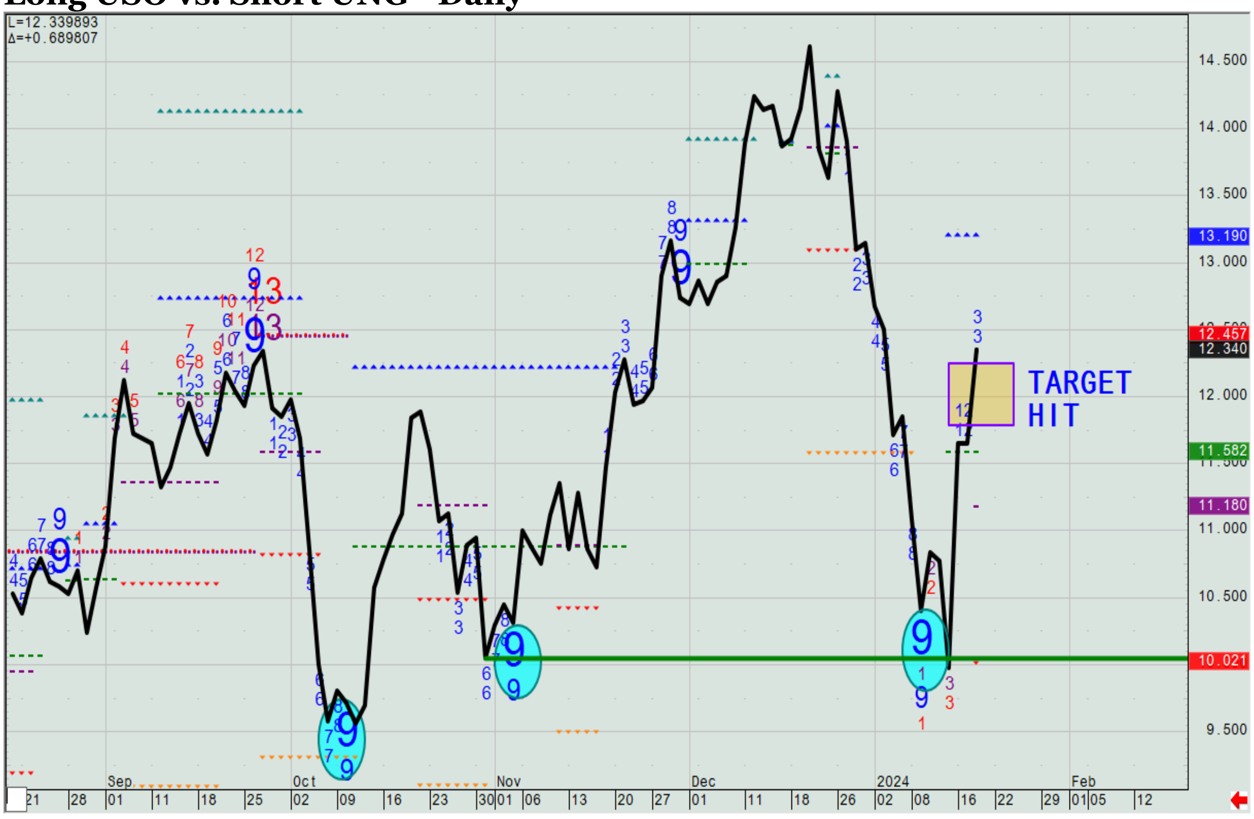
Let's look to get long on a further pullback to the $43.25 to $41.75 range, scaling down your bids to accumulate one unit. My upside target will be the Risk level from the +13 reading made at the high, or $57.60 +/- 30 cents. Our sell-stop will be in two phases: sell 50% on a Friday close beneath $40.38 and stop the other 50% on a Friday close beneath $38.71.

Other Open Recommendations and Positions

Long USO vs. Short UNG

Last Friday we got in (and potentially out of this pair trade, depending upon if you would have exited a trade that you was able to enter at a more and more favorable price as the day went on. Personally, I wouldn't have, but I will write this up as both you exited and took a small loss, or, you stayed with it and now have a solid gain). as UNG (natural gas) well outpaced USO (crude oil) to knock us out of this tight-stopped pair trade. Our average entry was a ratio of ~10.24, and with the close being beneath our closing sell-stop of 10.04, the closing price of 9.97 could have been our exit ratio price. In that case, we lost 2.64% on invested money, but with this only having been a 50% position, we lost 1.32% in equal dollar portfolio terms. If you kept it, then you would have exited yesterday as it hit the target of 12.0 +/- .25 for a 20% gain in a week.

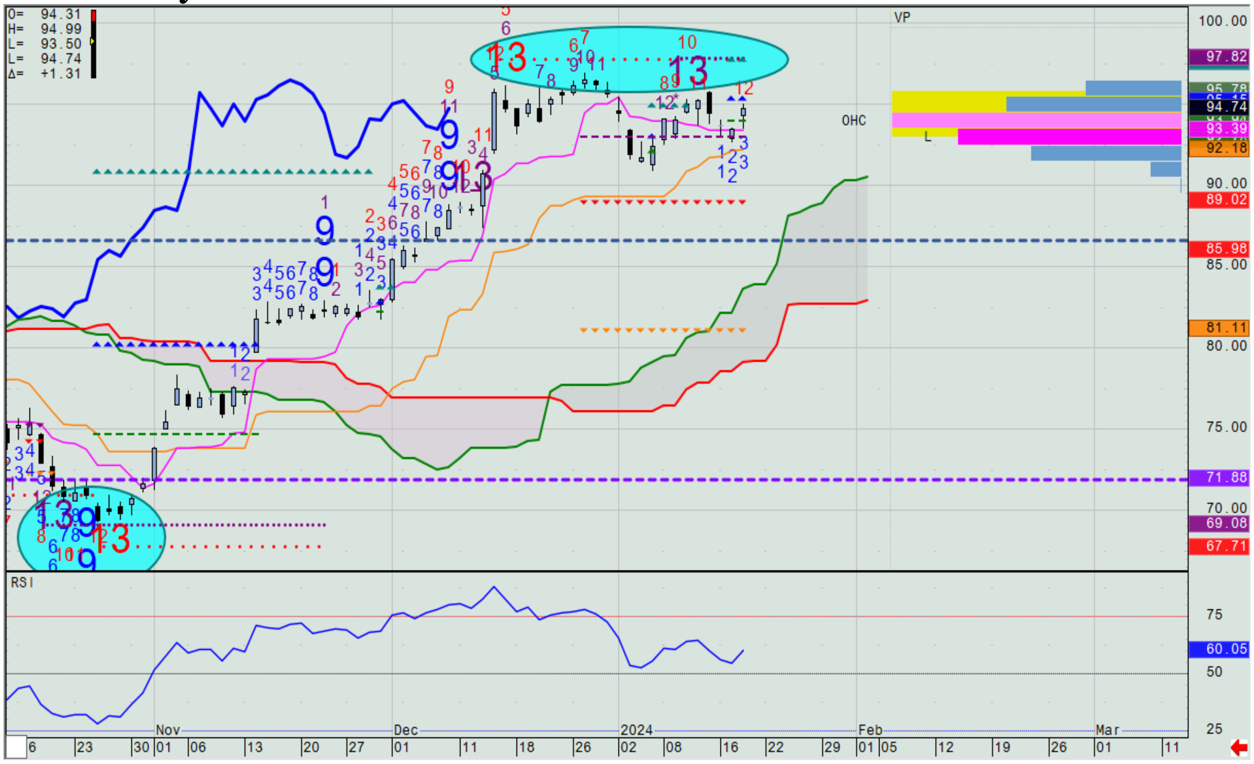
Long USO vs. Short UNG - Daily



Short XHB

Two weeks ago, 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 - Daily

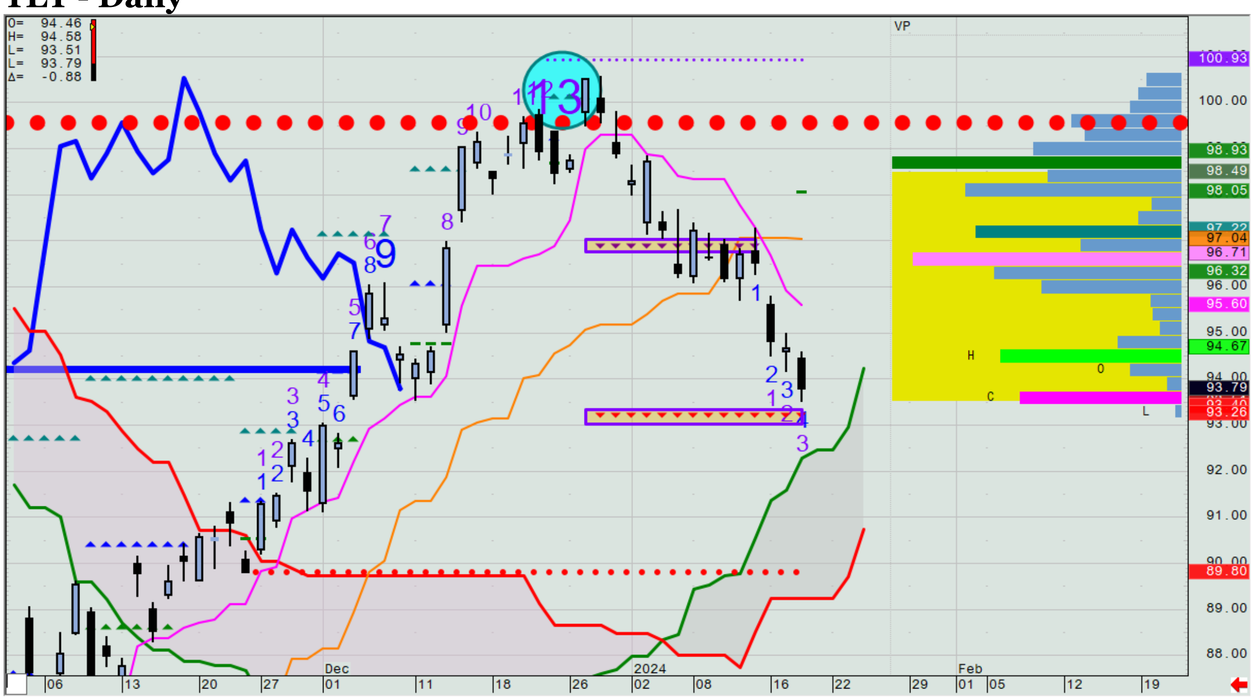


S.XHB - SPDR S&P Homebuilders ETF, Daily | Thu Jan 18 2024 17:12:27, CQG 24.6.8035

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. Yesterday's low was $93.51, so let's just cover the balance of the short today.

TLT - Daily



S.TLT - iShares 20+ Year Treasury Bond ETF, Daily | Thu Jan 18 2024 17:12:50, CQG 24.6.8035

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 I'm now raising the sell-stop to breakeven.

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.

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