Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

There's been a change in the last week to the "one macro trade: three ways of playing it" mantra that has been a good one for the bulk of the past year. But this past week, we've seen a few times that stocks, yields and the dollar all went meaningfully higher (as they did last Thursday and Friday). I don't imagine that scenario can persist, but what we're not seeing in the last week or so is the consistent 2023 scenario of yields and the dollar moving opposite to the direction of equities. It's certainly something to notice and pay attention to.

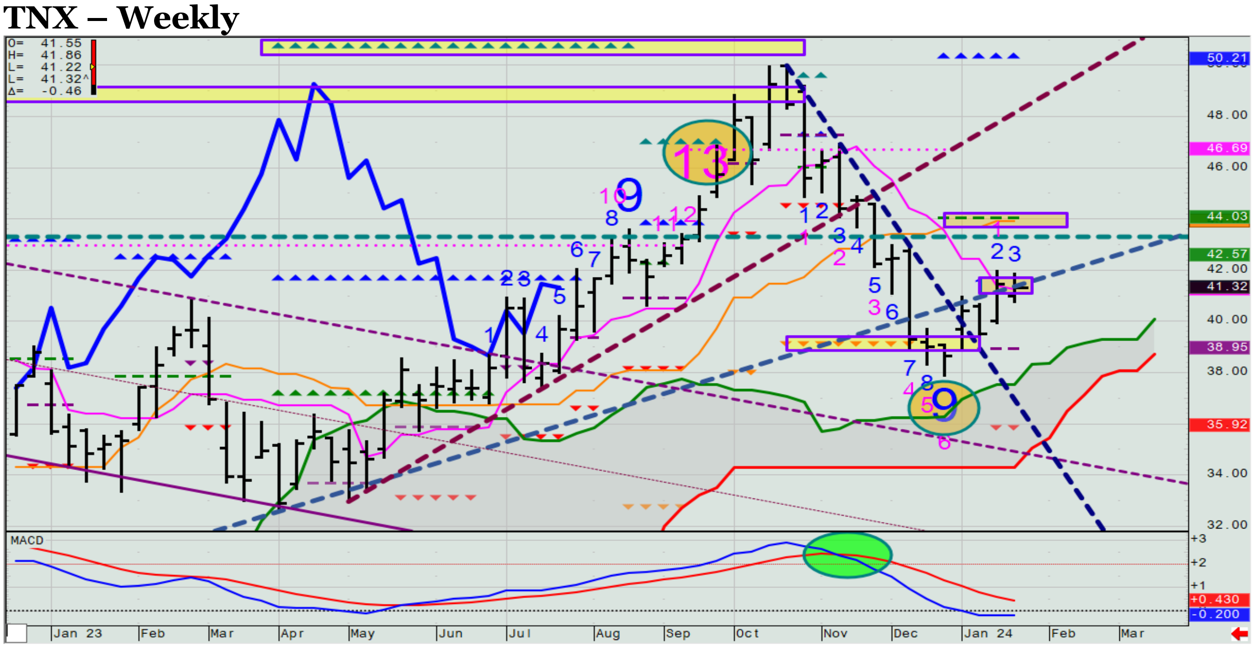
Secondly, the surge higher in stocks late last week has continued through most of this week, with the SPX and NDX making new all-time highs. However, I'll show you a bit later in the report why I sold a good chunk of my retirement account SPYs on Wednesday right near the highs of the day. (My goal in it is to always stay net long stocks/equity index ETFs, but trade them when I have a meaningful level to lean against to lighten long exposure with the aim of replacing those sales at a better price.)

Let's look at these 3 key markets, one-by-one, to see what they are saying:

US RATES

UST 10-yr rates rallied to as high as 4.2% last week, then closing last Friday right by its declining weekly Conversion Line near 4.14%.

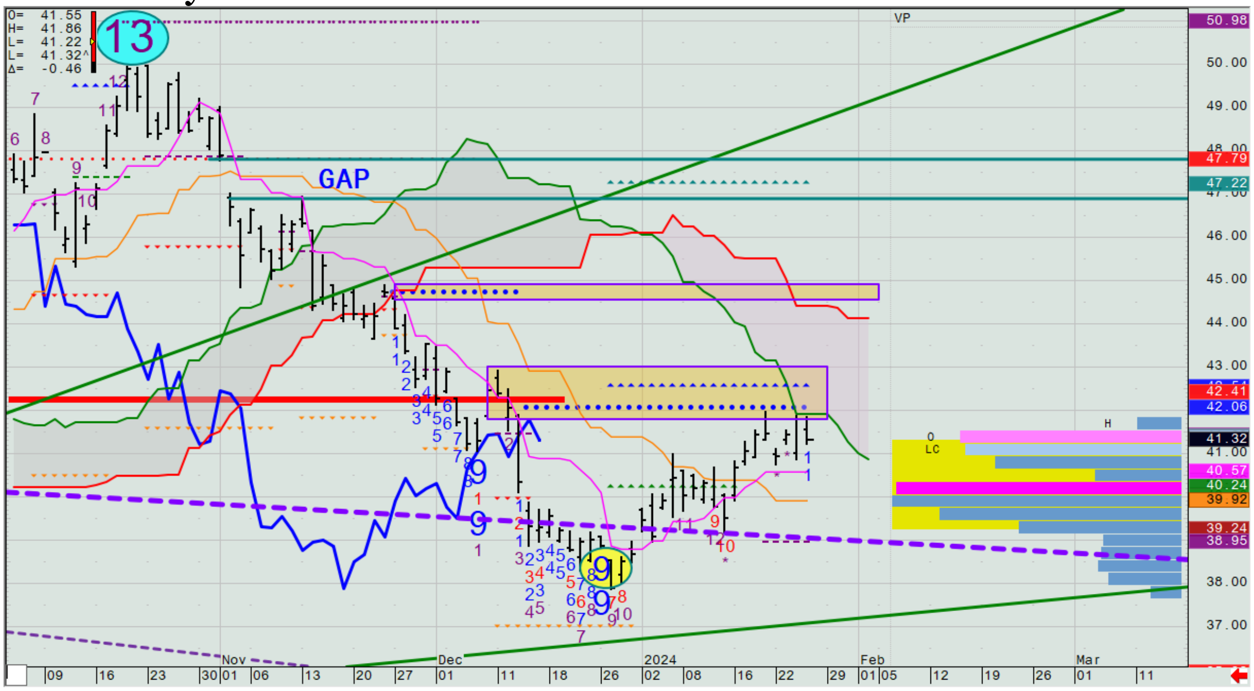
TNX – Weekly



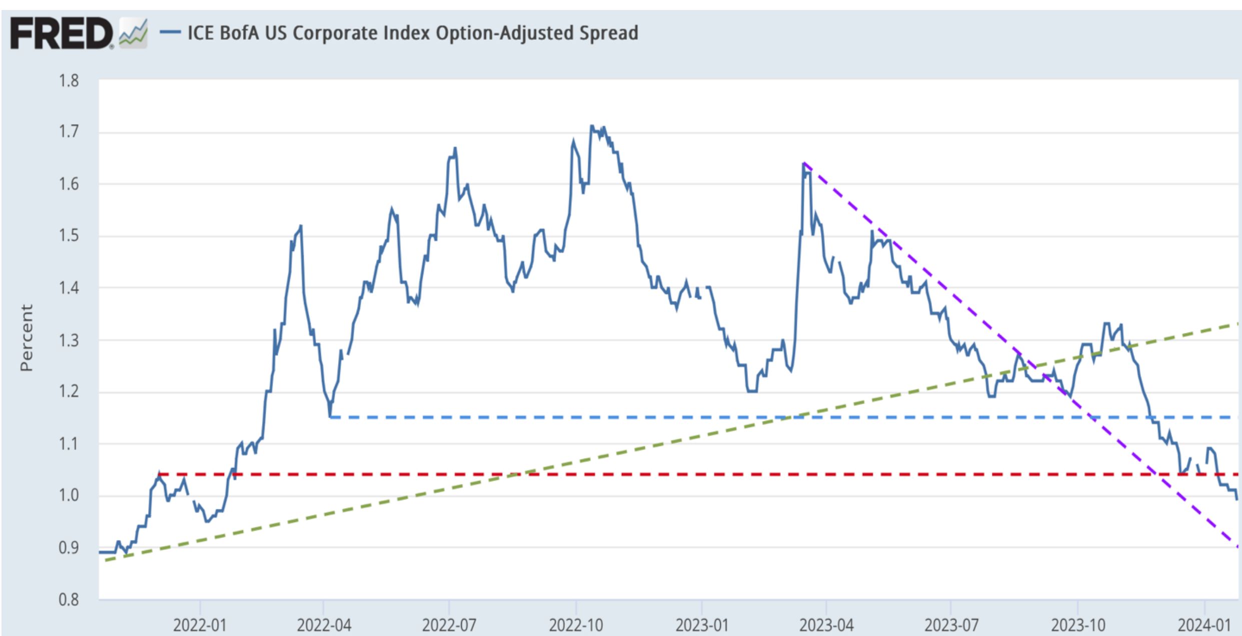
TNX - 10-Year Treasury Note Index, Weekly | Thu Jan 25 2024 17:41:54, CQG 24.6.8035

I was thinking that somewhere in that same 4.14% to 4.20% neighborhood would be the top the tactical rally from the 3.79% low we saw in late-December. That's yet to be confirmed, but for now, last week's high yield level is still holding, and yesterday and Wednesday the TNX daily chart halted right up against its cloud bottom. Unless today's economic numbers changes this picture, I'd be leaning long bonds now (i.e., thinking rates fall).

TNX – Daily

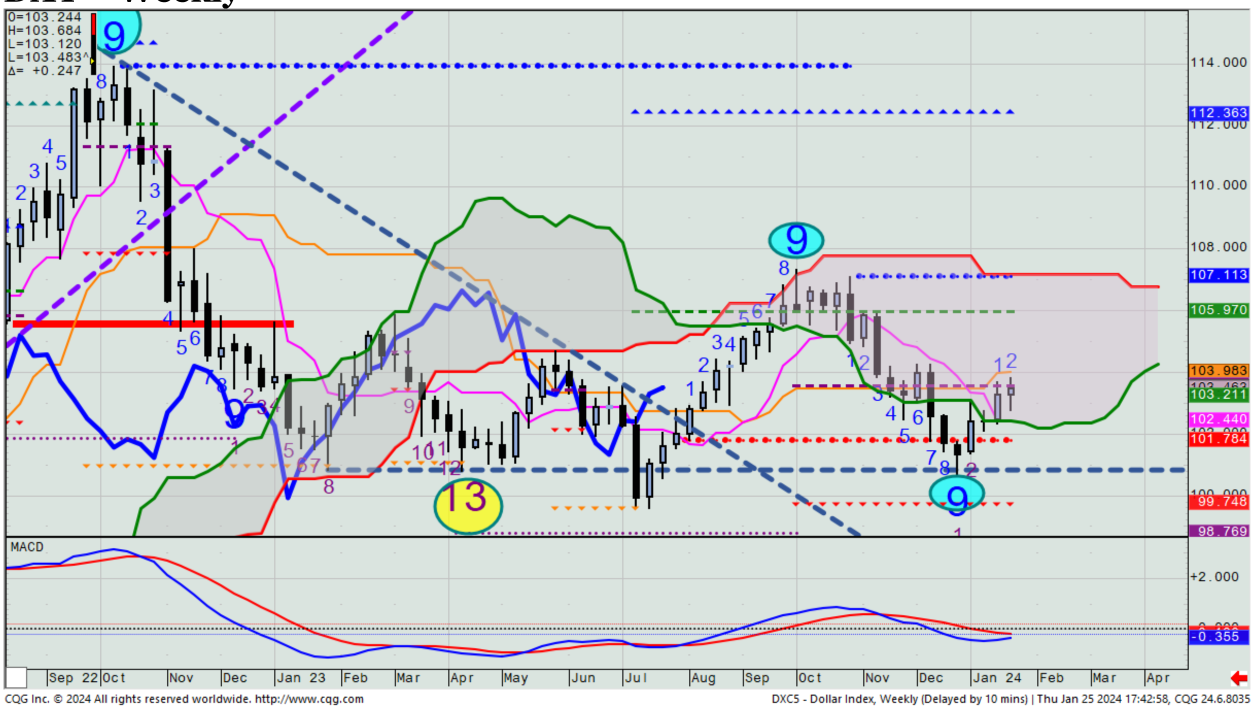


Investment grade corporate credit spreads, my preferred credit spread index, have slid to new lows to 0.99% on Wednesday, and look headed to backfill against the broken dark purple line (currently at ~0.90s bps.). As a reminder, the all-time low for this spread is 0.86%, and the larger head-and-shoulders top measures to something near 0.70%. Most importantly, credit spreads continue to show no stress in the system, and that is usually a positive backdrop for stocks.



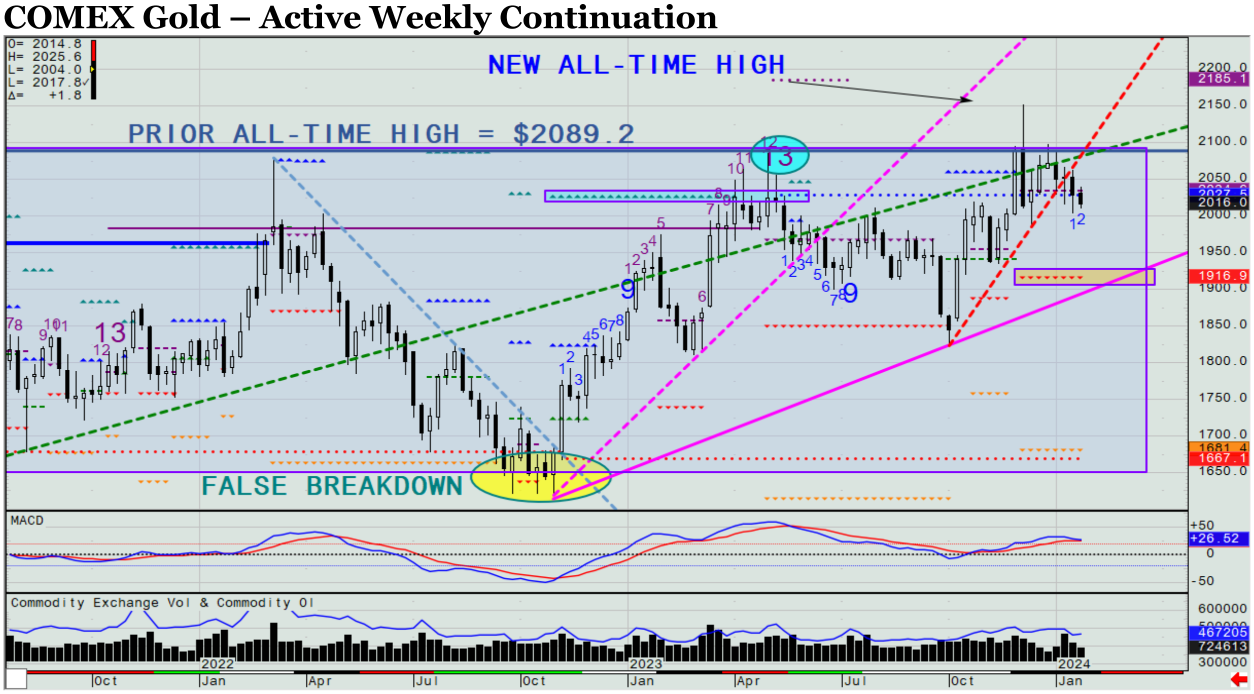
THE DOLLAR: The US Dollar Index (DXY) marked a weekly Setup -9 count at the end of 2023, and the bounce continues this week with what is now a higher high than last week's high. I'd say the next above testing area is ~ 104.5. A dollar rally is generally not a good thing for equity longs.

DXY – Weekly



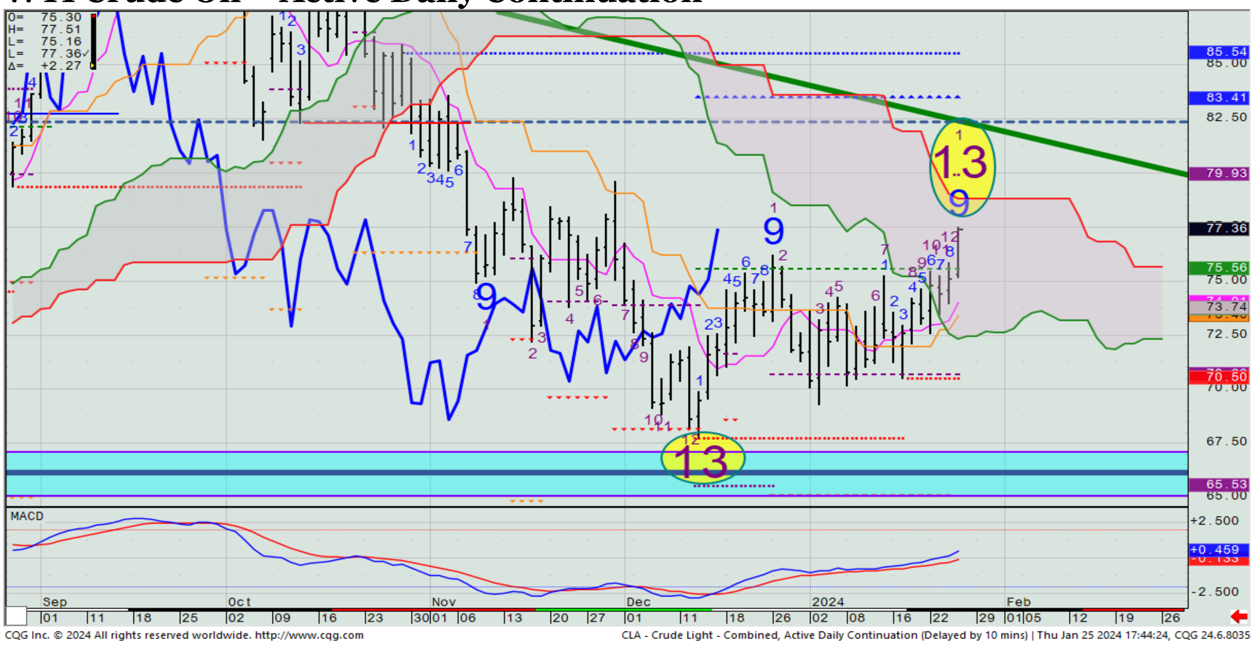
COMMODITIES: Gold will continue to have trouble with a rallying dollar, and it continues to be "tired" anywhere that's $50 to $100 on either side of $2000. A real upside breakout in gold that can consistently stay above $2000 should target a move to $2400+. But until that breakout occurs, the new highs 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



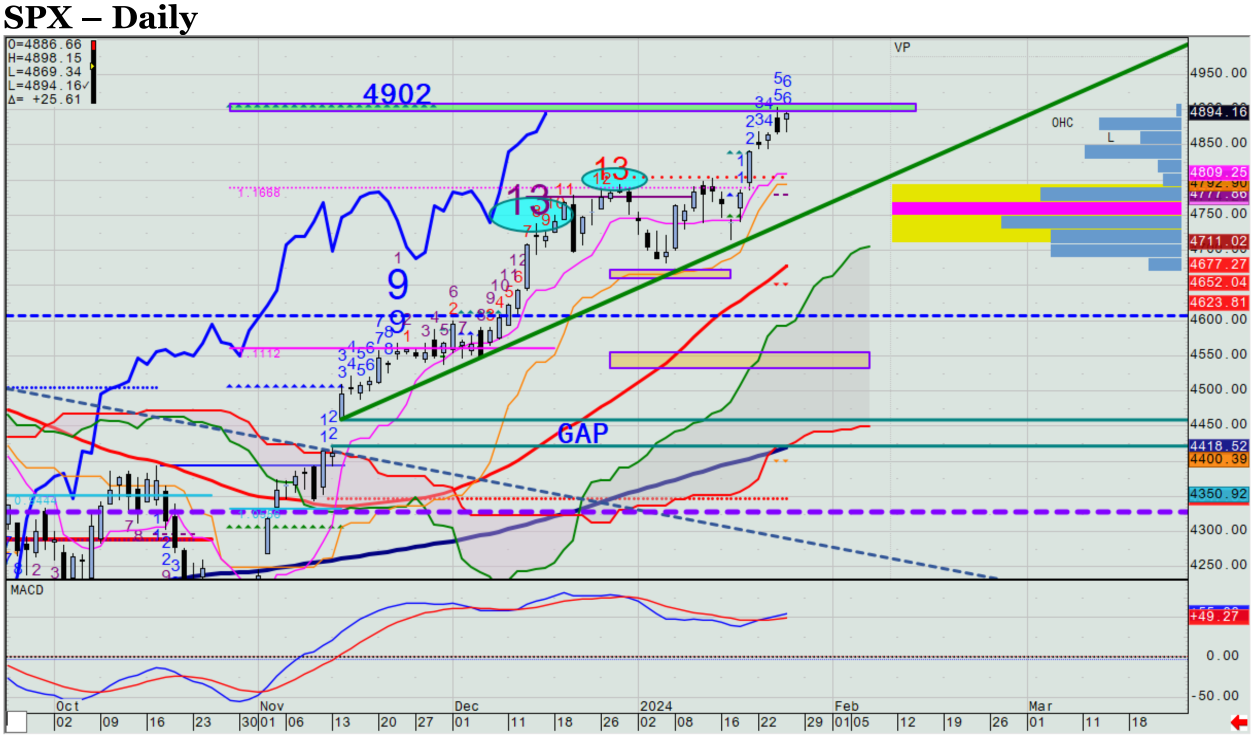
WTI Crude Oil has finally crept higher with the escalated Mideast tensions and the US involved in the military campaign against the Houthis. (We've been long the USO ETF in our sister Daily Tip Sheet, and now have some solid gains.) I tend to think that <u>without</u> what's going on in the Red Sea, oil was likely heading for a $10-$20 further move lower. In the meantime, it continues to trade within the context of a large declining triangular pattern. (It did mark a daily Aggressive Sequential +13 and Setup +9 on Thursday.)

WTI Crude Oil – Active Daily Continuation



<u>EQUITY INDEXES:</u> Last Friday's rally above the Sequential +13's Risk level at 4802 became the catalyst for a quick move to reaching a tad over 4900 on Wednesday of this week, but 4902 is the Propulsion Full Exhaustion target measured from the late-October low.

SPX – Daily



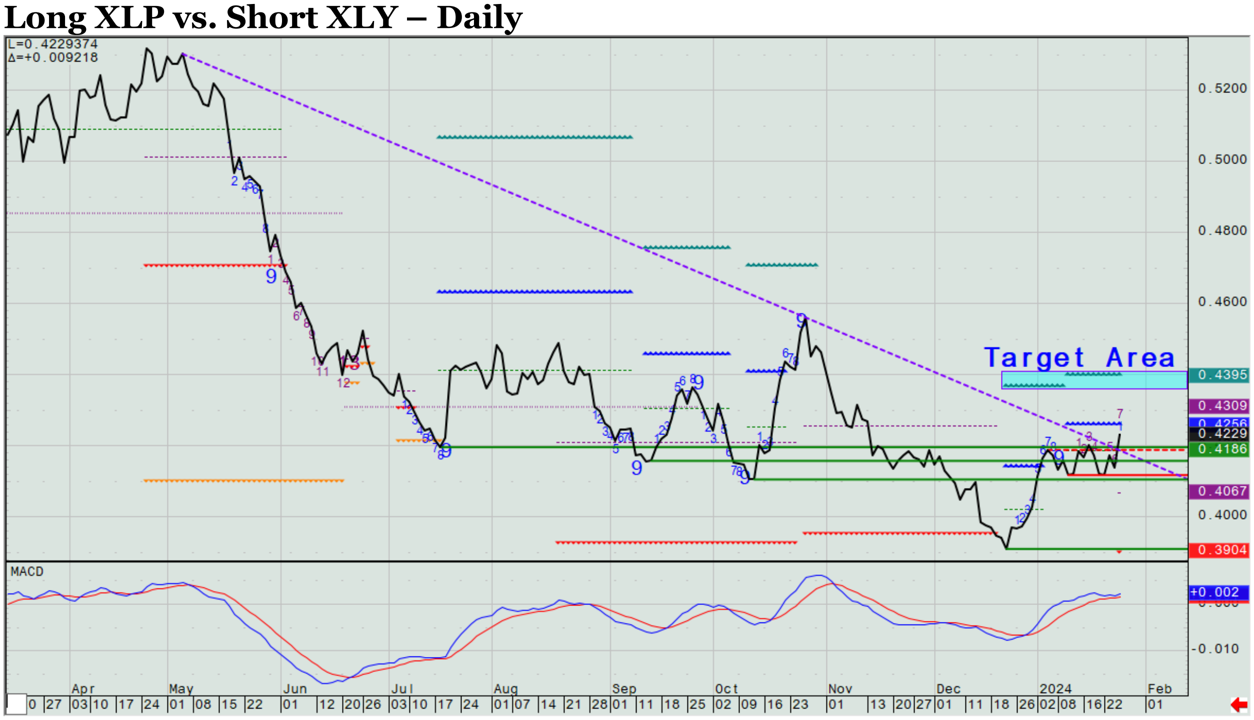
I sold 33% of my IRA's SPYs at that equivalent level, as the SPY is now up some 19+% from that Fall low without barely a hiccup. Given the macro political environment; lack of clarity when the Fed plans to lower yields; and a dollar that's been moving up this year, I figured that SPX 4900 was a decent place to take some off the table (again, with the goal of putting them back on at a lower price).

SPX – Weekly

[New ETF Trade Idea]

Not only has **Consumer Staples (XLP) just broken out of the downtrend line vs. Consumer Discretionary (XLY),** but thanks to Tesla (TSLA) getting whacked upon missing their earnings report on Wednesday, the long XLP/short XLY ratio chart also just broke out of a near-term sideways pattern that now has price above all prior lows going back to July of last year (i.e., all four horizontal green colored lines).

Long XLP vs. Short XLY – Daily

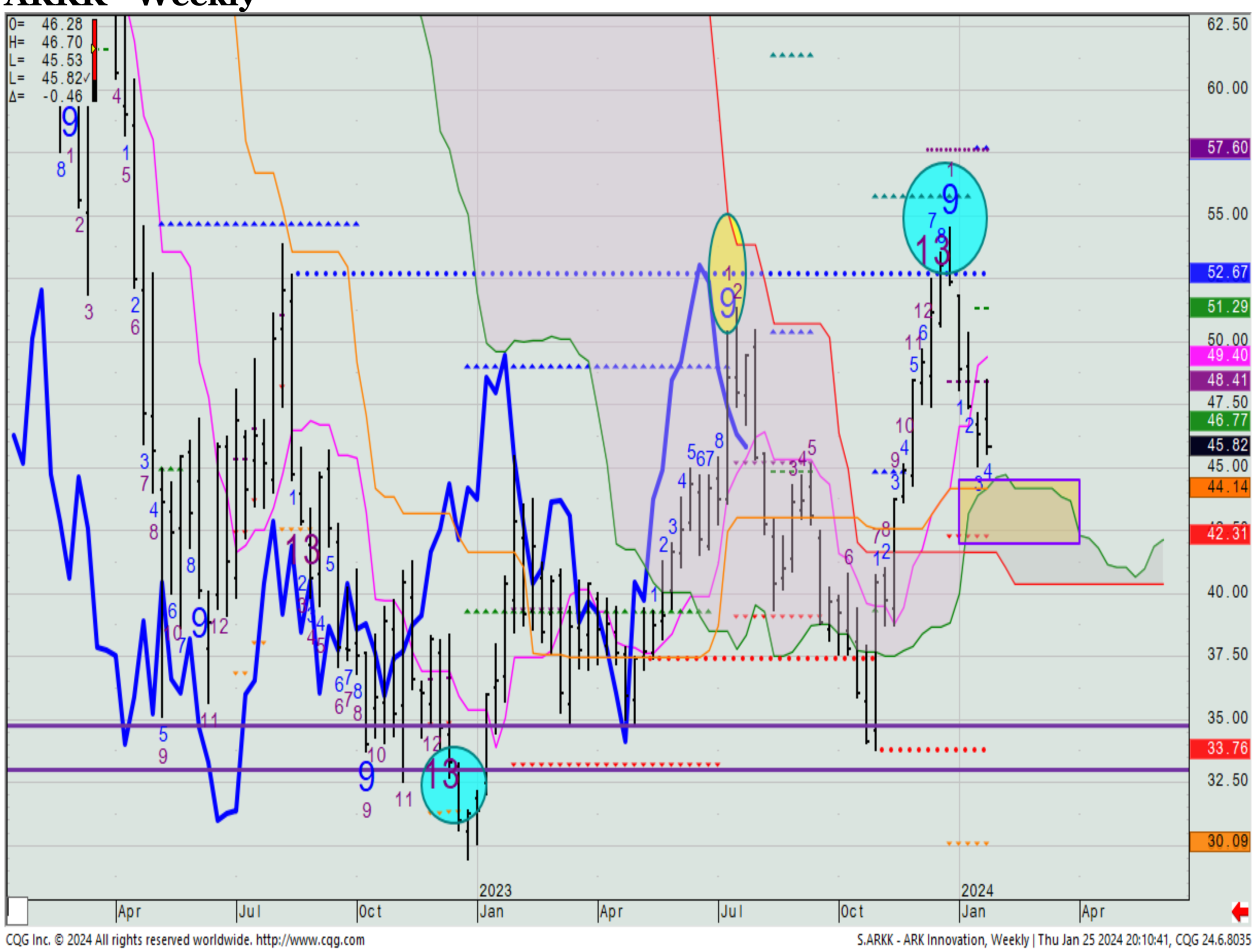


Let's look to get long one unit today, and hold this for 6-8 days (to take off the first half) should it continue higher to create in an Aggressive Sequential +13 as well as a new Setup +9 count at the respective ends of those time frames. The other half we'd take off at the more price-determined ratio highlighted target zone of 0.436 to 0.4395.

Other Open Recommendations and Positions

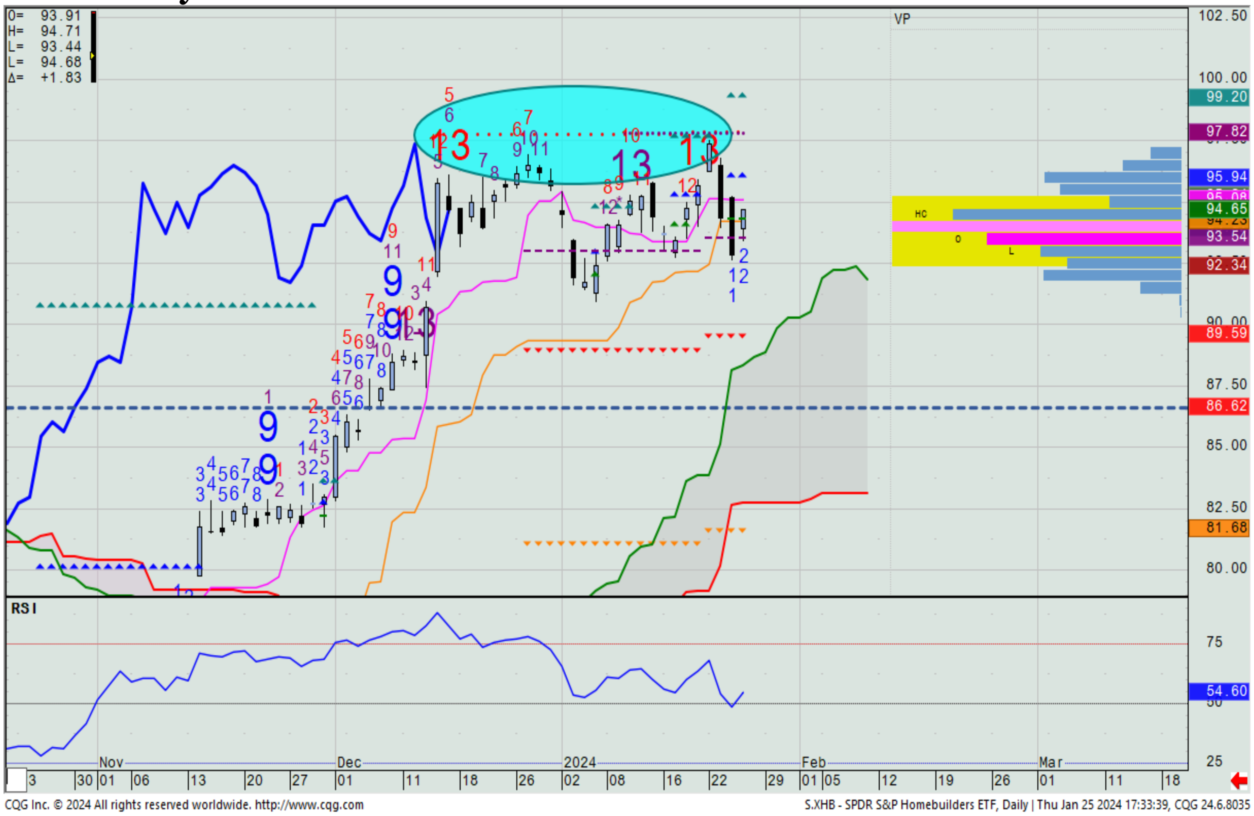
Long ARKK
Last week's idea was to get long this on a pullback to $43.25 to $41.75, scaling down your bids to accumulate one unit. (I'm going to change this to accumulate a one-half position in total.) My upside target will be the Risk level from the +13 reading made at the high, or $57.60 +/- 30 cents. 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.

ARKK - Weekly



Short XHB
Three weeks ago, I suggested shorting 2 units of this ETF from $93.25 to $95.25, and we were filled at that average midpoint of $94.25. I was 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 was on consecutive higher daily closes above $95.36, and unfortunately that happened on Friday and Monday, so we were stopped at 97.34, for a loss of 3.17%.

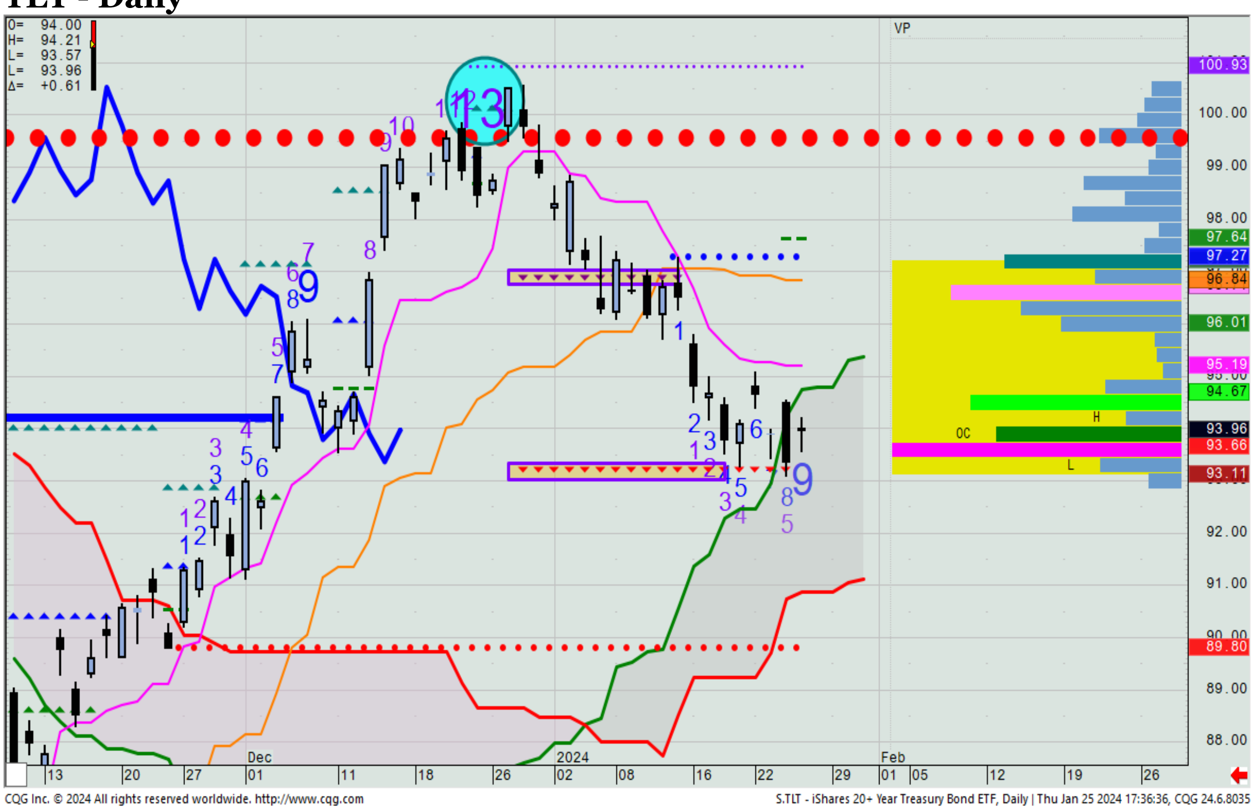
XHB - Daily



Short TLT

We remain short from mid-December at an avg. price of $99.30. We previously covered half at $96.91, and the other half last Friday at an avg. price of $93.71. In all, we made 4.02%.

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 2/3 of the position off today on the weekly +13 signal. The last 1/3 we'll stop on a Friday close beneath $45.73.

KIE – 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.

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