Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

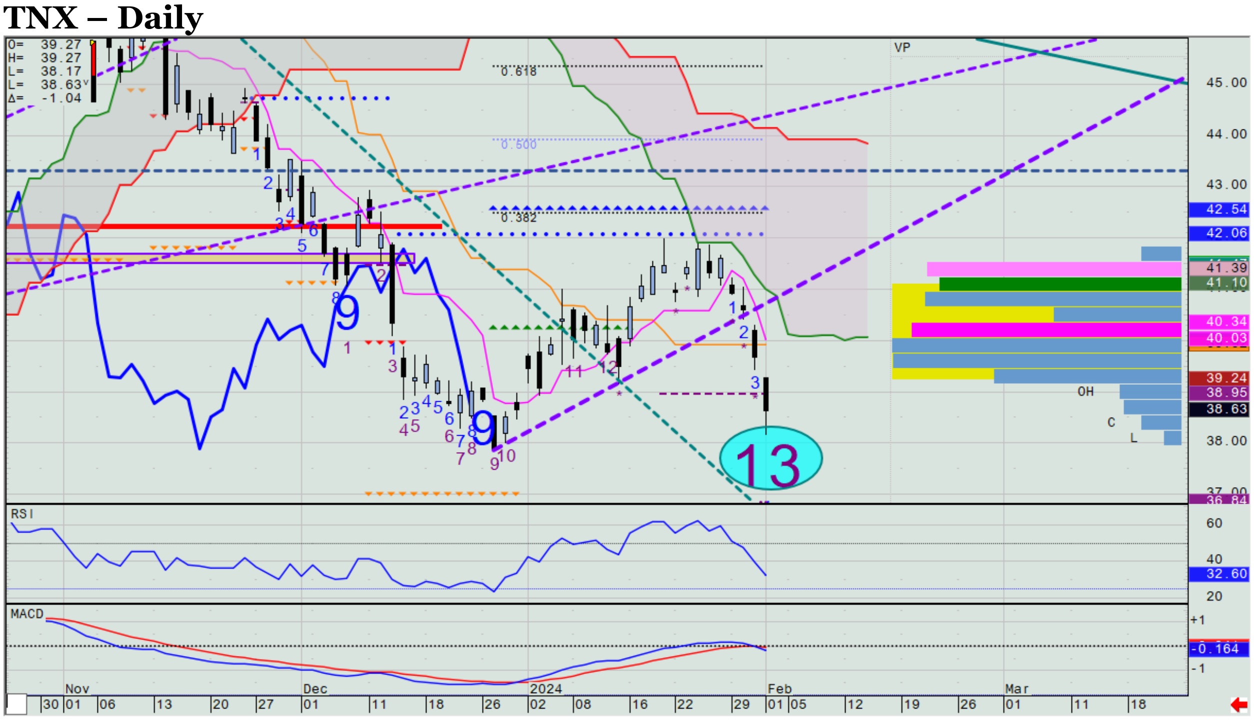
Last week I told you that I sold out of a chuck of my retirement account SPY longs at $488, and a week later, we've seen new highs, a wicked pullback on Wednesday, and then a solid rally yesterday to put the SPY at…. $489. (Yup, it's how you get gray hair early in life. ;)

So, even though the SPX is virtually the same price, what has made a big change over the week are bond yields, with the TNX now at 3.86% vs. what was 4.13% on last Thursday's close. That drop – from a recent high at 4.2% – is a positive catalyst, in general, for stock ownership (as lower yields not only are less competition for investor's dollars, but also better for borrowing costs for growth and small cap names). Let's look at the key macro charts for how they may influence the stock market going forward:

US RATES

The fall from last week has now reached an Aggressive Sequential -13 count that came along with a spike bottom yesterday. Look for rates to consolidate down here in the near-term.

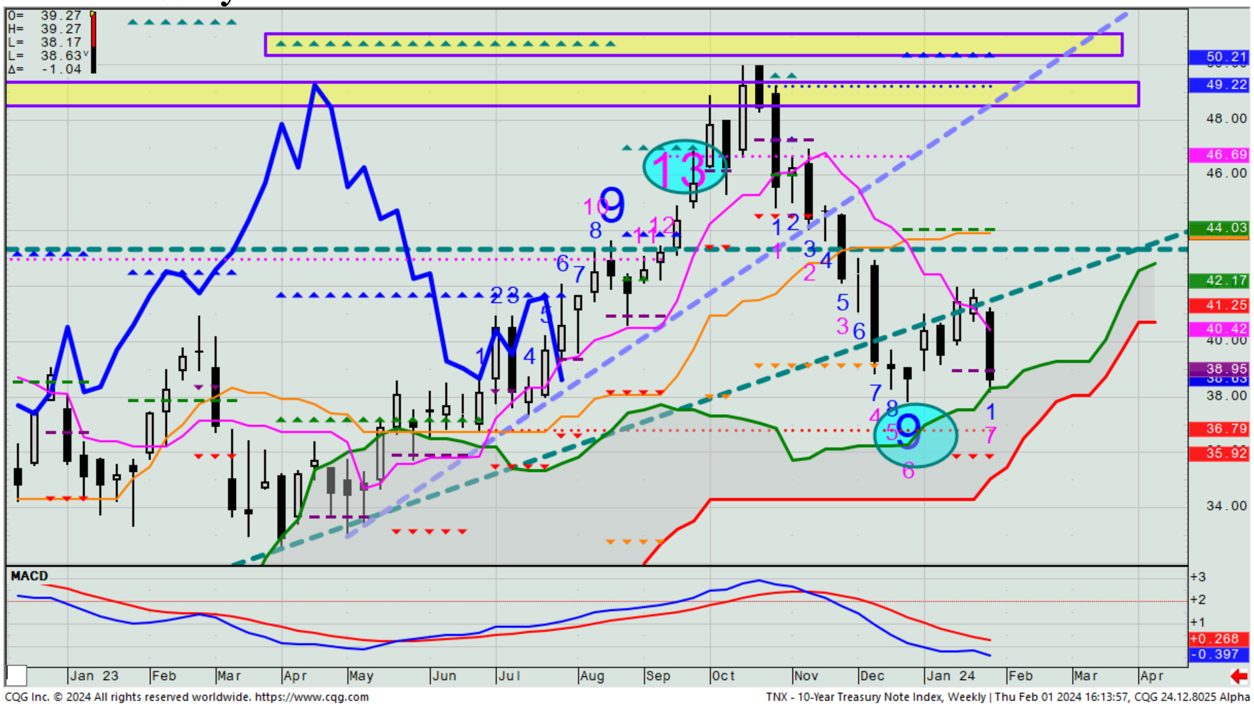
TNX – Daily



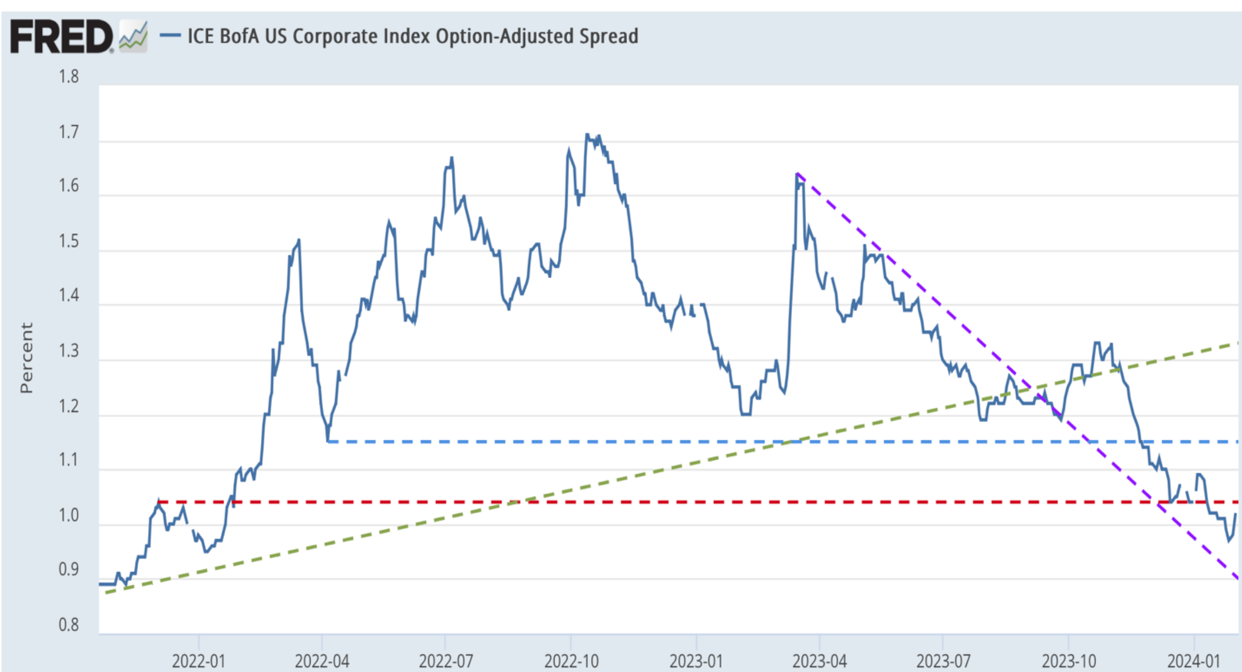
TNX - 10-Year Treasury Note Index, Daily | Thu Feb 01 2024 16:09:48, CQG 24.12.8025 Alpha

Today's close is actually important, because yields have reached the top of its weekly cloud (i.e., possible support, especially with the daily -13), but a close < 38.95 gets you a qualified breach of the weekly bearish Propulsion Momentum level (which if confirmed next week, would suggest downside momentum could pull yields down to 3.59%.

TNX – Weekly

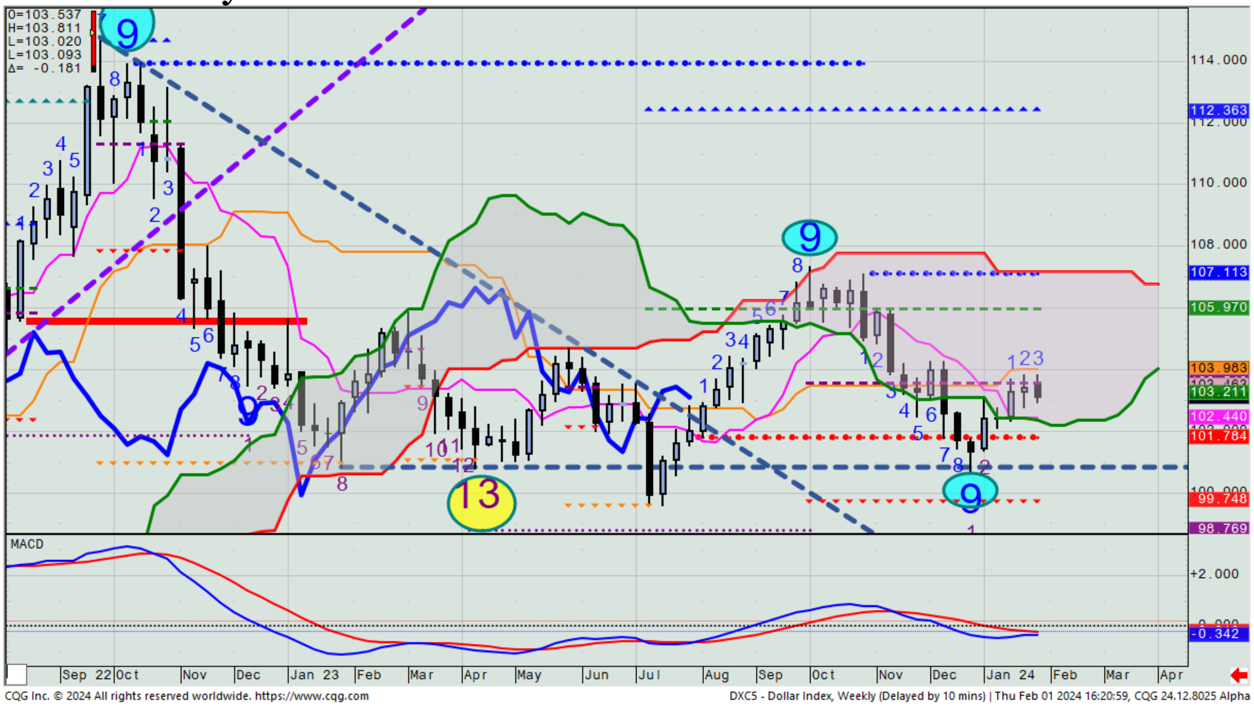


Investment grade corporate credit spreads, my preferred credit spread index, have slid to new lows to 0.97% earlier this week, and still look headed to backfill against the broken dark purple line (currently at ~89 bps.). As a reminder, the all-time low for this spread is 0.86%, and the larger head-and-shoulders 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) now has three consecutive weekly highs within about 20 pips. I'm partial in thinking that it will have a hard time progressing with the fall in rates. I'd lean more bearish than bullish at this point.

DXY – Weekly

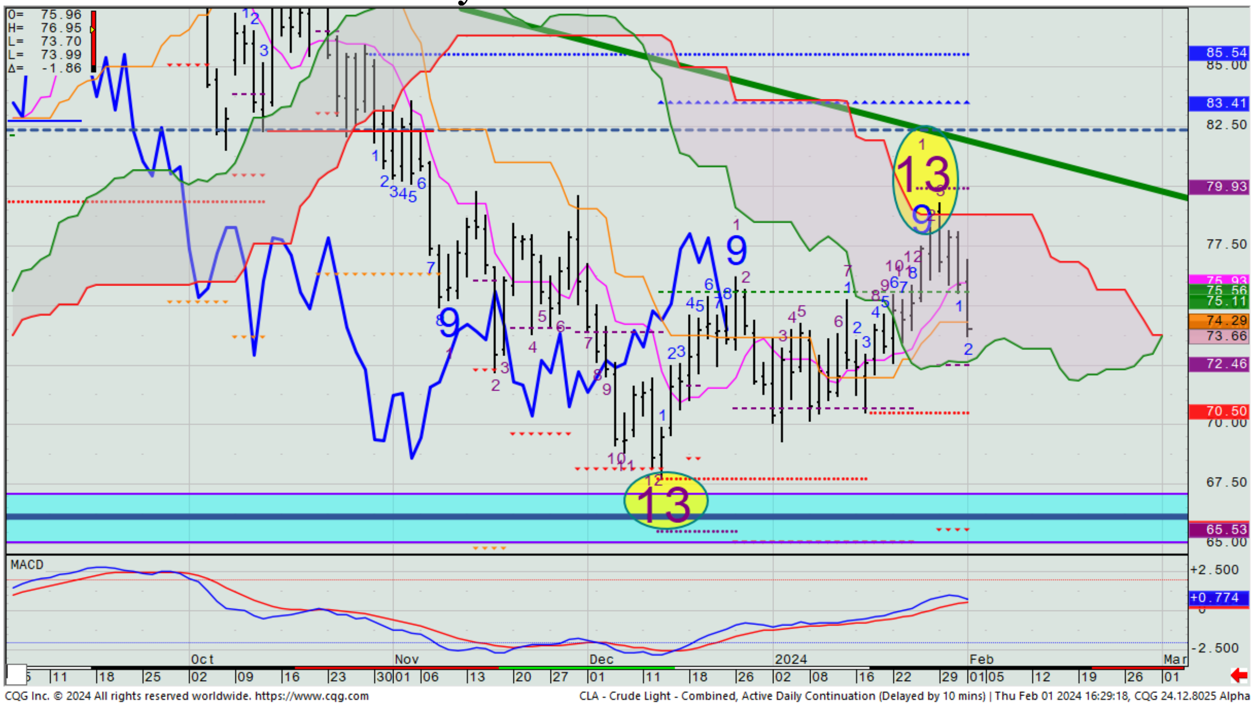


COMMODITIES: Gold moved up this week and is close to the top end of its trading range. It's been languishing since the futures contract made a new all-time high last fall, but the more weekly closes we can see above $2089 (what had been prior all-time highs), the better the chance that it can get the real breakout so many gold bugs are hoping and praying for.

COMEX Gold – Active Weekly Continuation

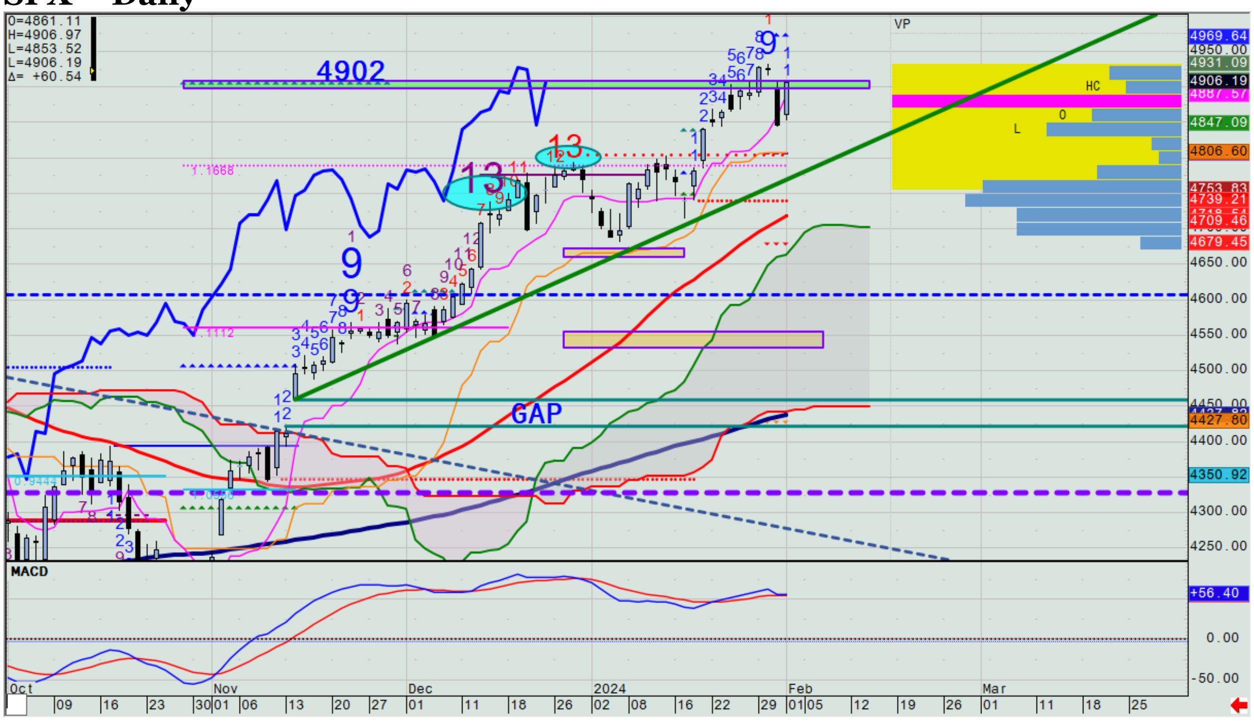
WTI Crude Oil's high close was last Friday, the same day we exited our long position in a Daily Tip Sheet long recommendation we had on from two weeks earlier. There's potential support near $72.50; beneath that near $70.50.

WTI Crude Oil – Active Daily Continuation



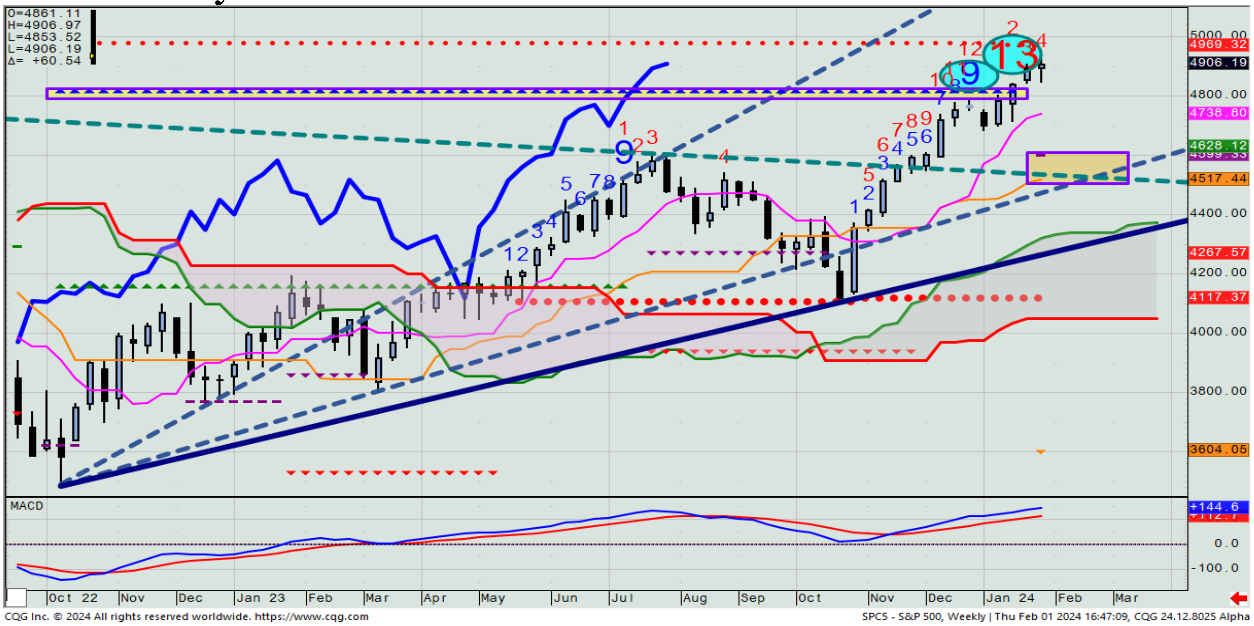
EQUITY INDEXES: Price continues to trade around the 4902 Propulsion Full Exhaustion target measured from the late-October low, while the trailing 30-day Point of Control has moved up to 4888. You'd probably need several consecutive closes beneath that level to change what now only looks like a one day large sell-off on Wednesday. (Futures are up 20+ pts. after the 4:00 close on AMZN and META crushing earnings expectations.)

SPX – Daily



Bulls are certainly not making it easy on the shorts, and although I'm not at all short, I am "underinvested", and need think about when and where I might put the SPYs back on that I recently sold.

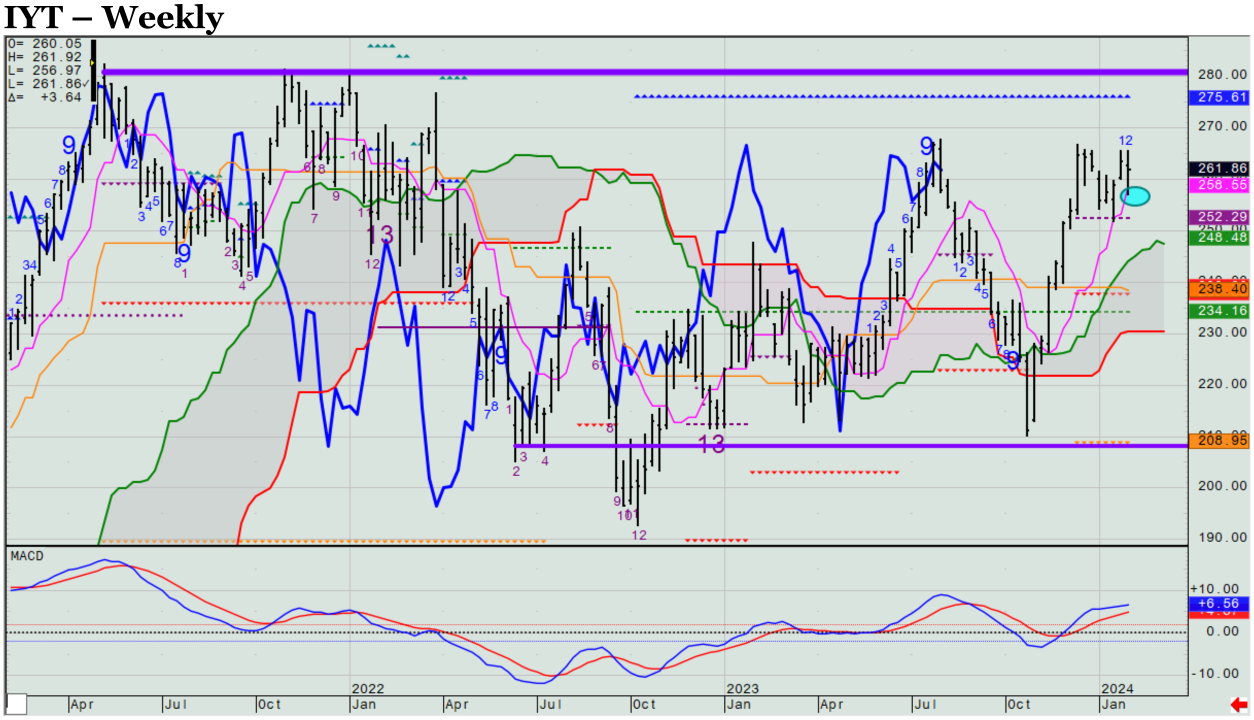
SPX – Weekly



[New ETF Trade Idea]

Dow Transports have been all over the map the last few years. However, this week's low came into its weekly Conversion Line, and with the SPX and NDX likely making new all-time highs to end the week today, let's take this opportunity to buy one unit of the **Dow Transportation ETF (IYT)** today. (Maybe we'll see a true Dow Theory buy signal in coming weeks?) Take 50% off at \$275/\$276 and 50% off at \$280/282. The sell-stop is on a Friday close beneath \$252.29.

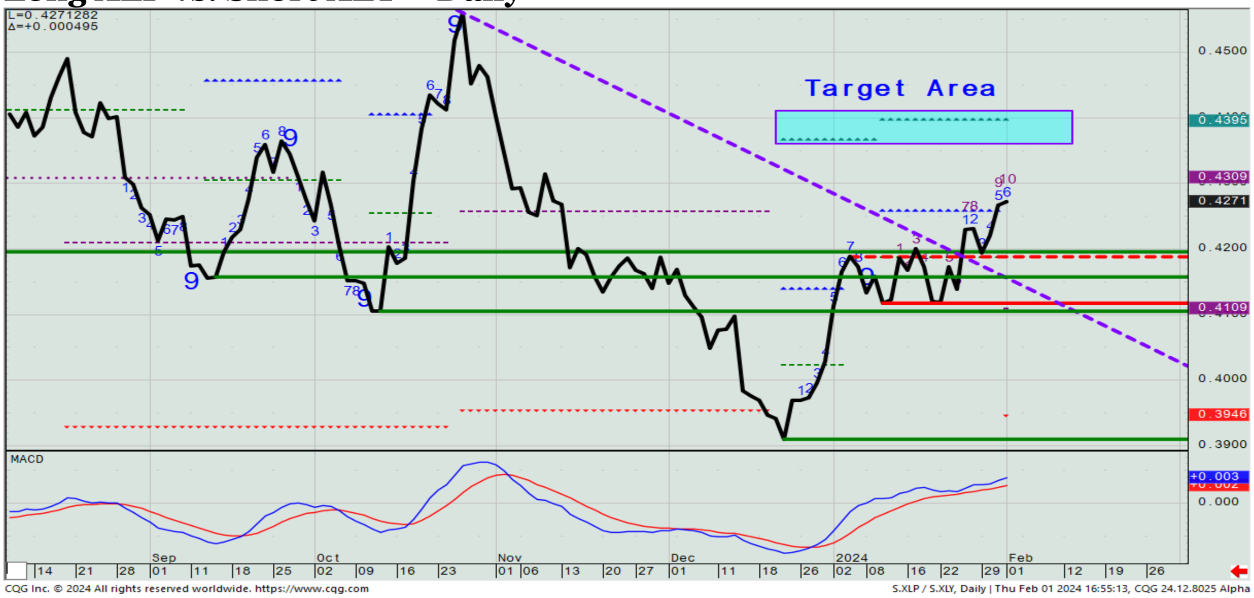
IYT – Weekly



Long XLP vs. Short XLY

I was fine holding this idea from last Friday (avg. entry at 0.4224 ratio) as originally planned, but with AMZN surging yesterday after the close, the trade is no longer viable. Exit today.

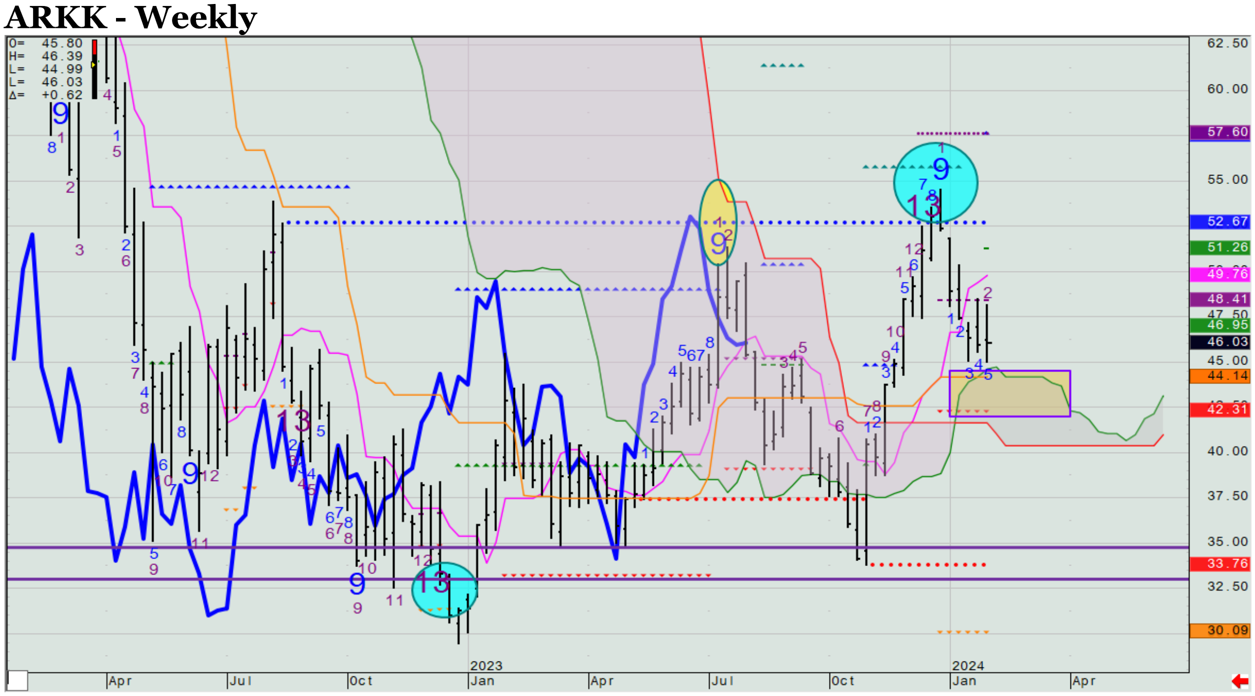
Long XLP vs. Short XLY – Daily



Long ARKK

We're still looking to get long a 50% position on a pullback to $43.25 to $41.75, 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.

ARKK - Weekly



Long KIE

We are long a 75% of one-unit sized position at an avg. price of $44.80. We sold 2/3 of this last Friday at an avg. price of $47.54. The remaining we'll exit near $48.90, or on a Friday close beneath $46.37.

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.

Disclaimer