Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

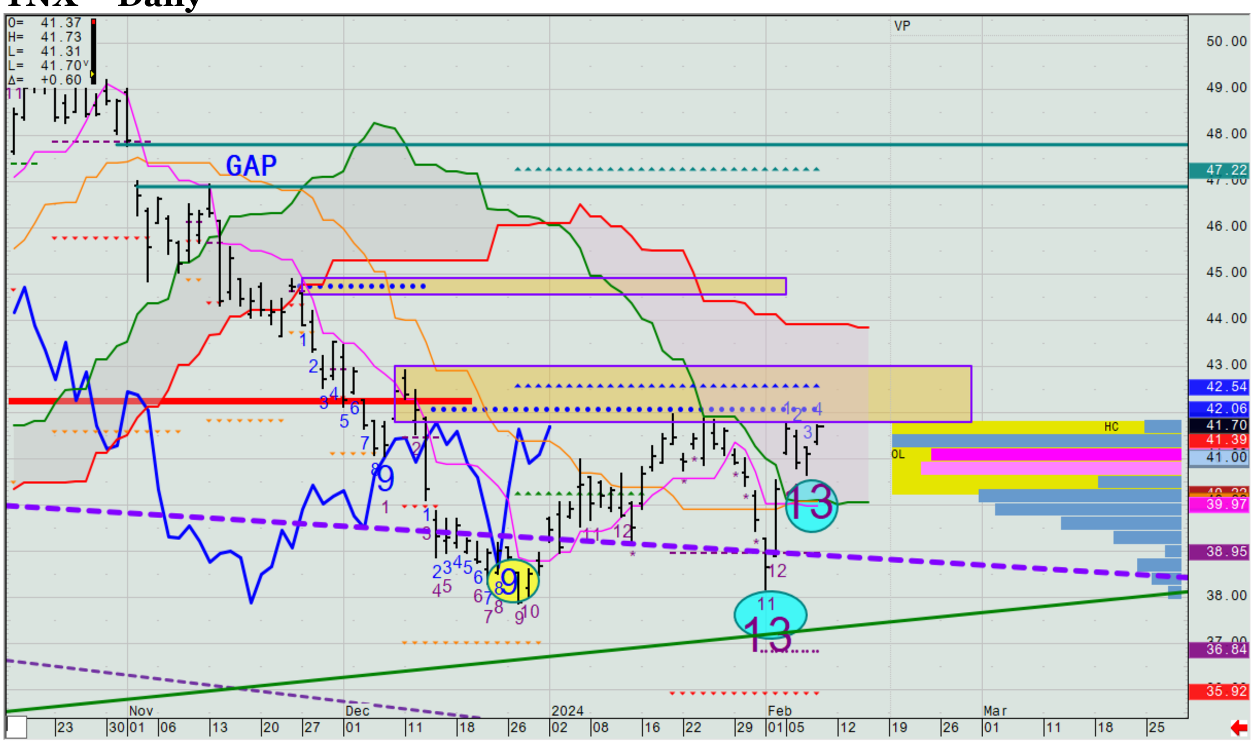
It's been a week of "much of the same", which these days means new highs for stocks, and a bond market that doesn't quite know which way it really wants to move, and a US dollar that keeps its 2024 gains but isn't quite going with or against yields, which is a change from how it traded last year. The bigger picture seems to indicate that equity investors are very pleased that the Fed has presumably ended their hiking phase, and despite the high likelihood that the number of rate cuts many expected to happen this year won't be the 5 or 6 previously bet on, that even three will be just fine for the economy and stock market.

Let's review what the key charts from the macro environment are saying:

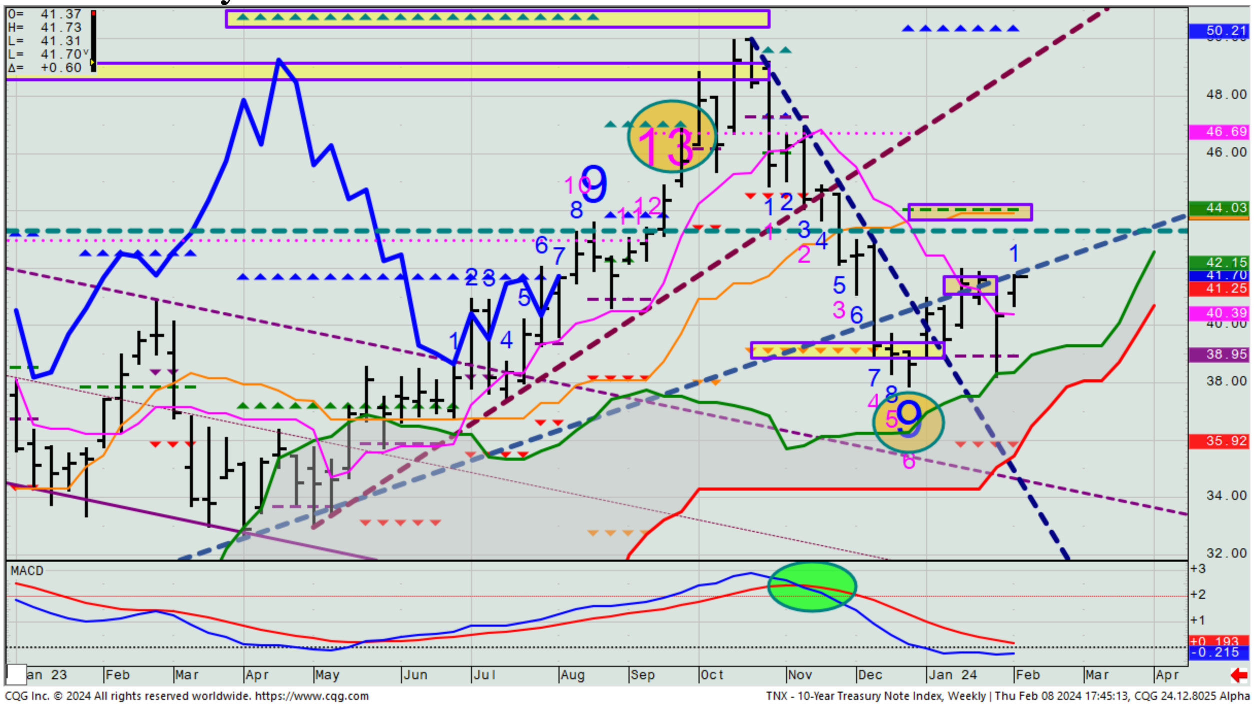
US RATES

UST 10-yr. rates bounced quickly from the Aggressive Sequential -13 I showed you last week, and reached near the top end of the 2024 range. Fixed income traders are as confused as I've seen in a while, and in my eyes, rates probably need to get and stay above 4.25% to change the back and forth trading you see now.

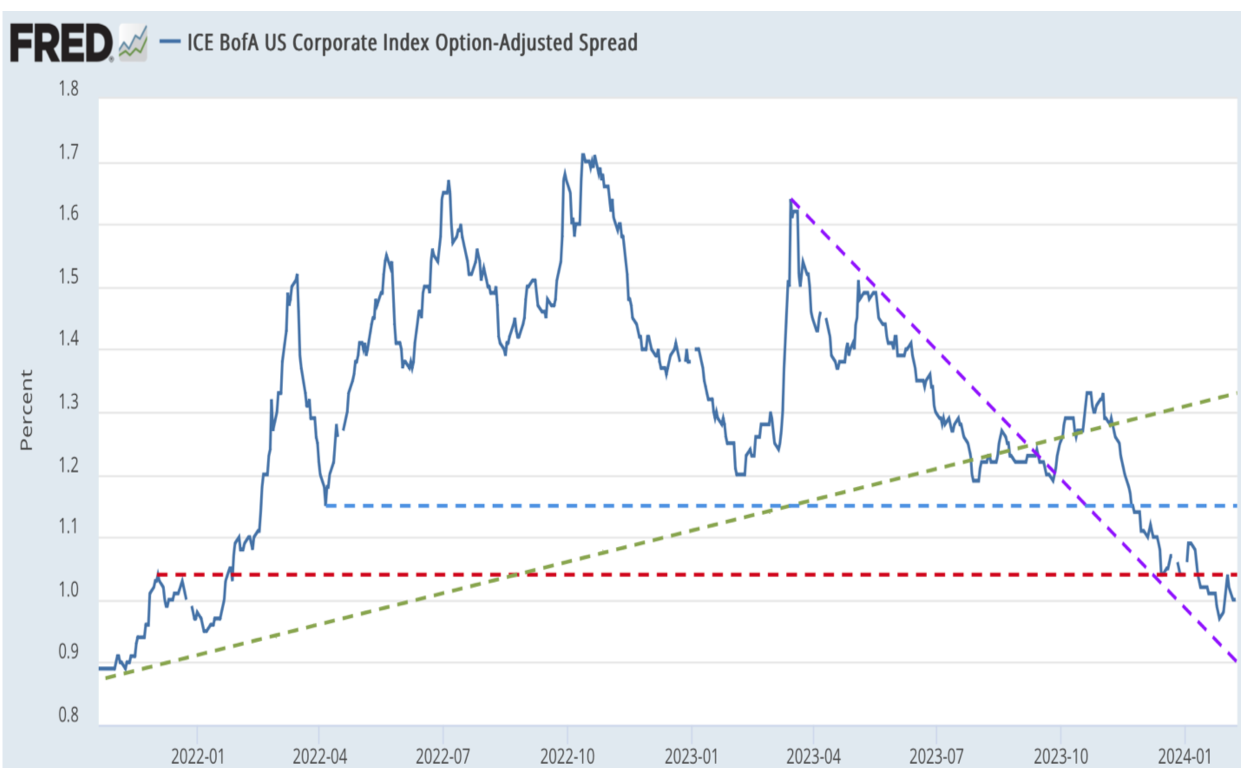
TNX – Daily



TNX – Weekly

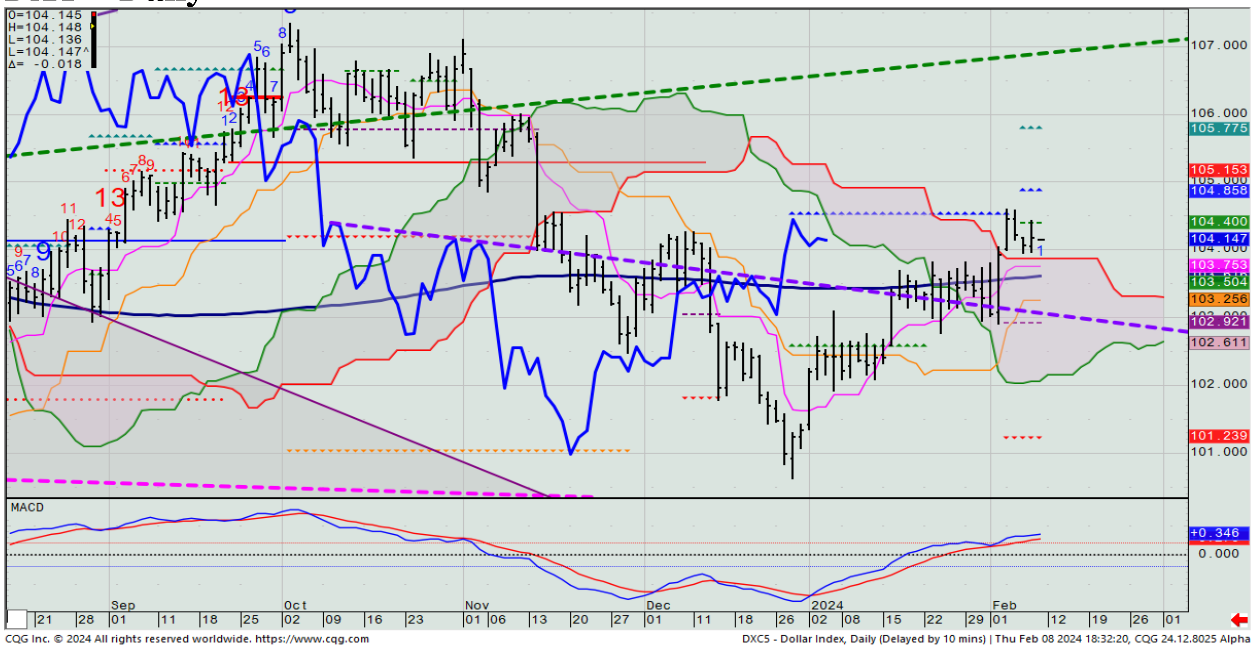


Investment grade corporate credit spreads, my preferred credit spread index, recently sliding to new lows of the move to 0.97%, and then up to as much as 1.04% earlier this week before falling to 1.0% on Wednesday. I'm still looking for this to backfill against the broken dark purple line (currently in the high 80s bp level). 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.



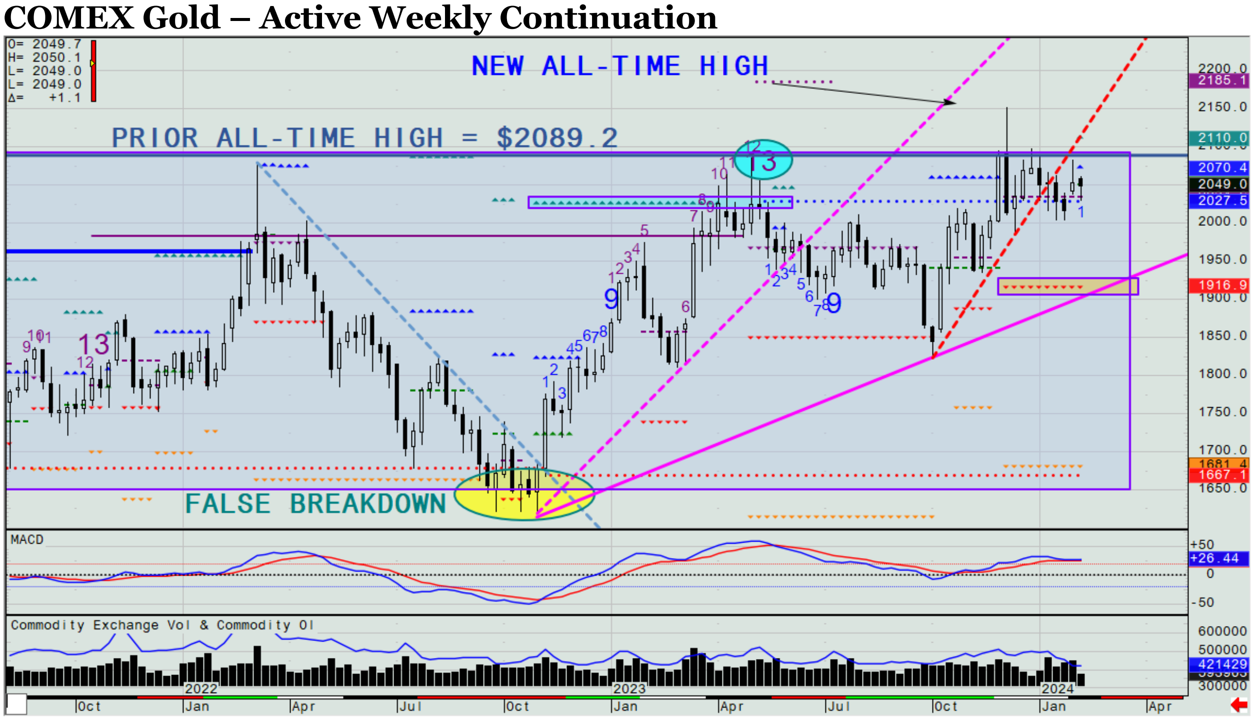
THE DOLLAR: The US Dollar Index (DXY) has held its rally, aided somewhat by the turnaround higher in rates. Last week, I wrote that I'd lean short, but that wasn't right. I'm now seeing more of an inverted head-and-shoulders pattern (mostly hidden, but more easily seen by using the cloud's Lagging Line to draw on and see it).

DXY – Daily



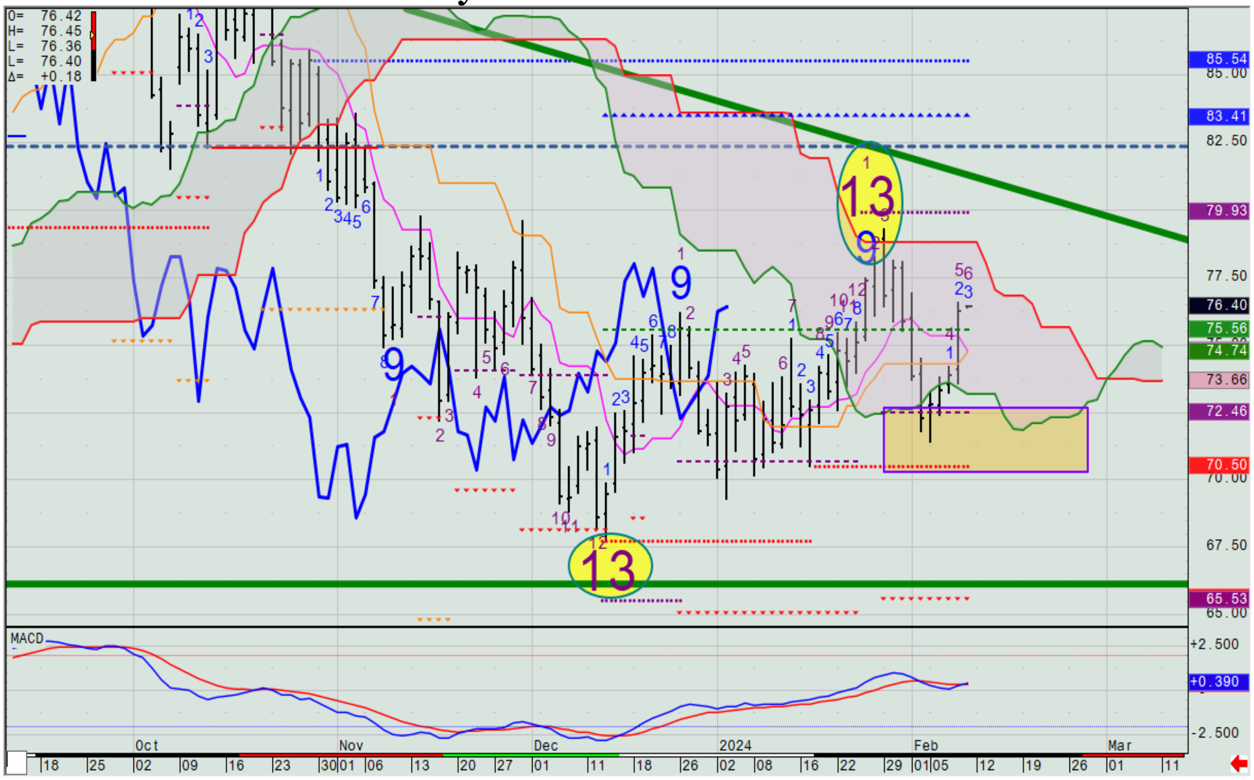
COMMODITIES: Gold is generally beholden to dollar movement, and greenback strength is typically not a bullion holder's friend. The metal has been languishing since the futures contract made a new all-time high last fall, but the more weekly closes we can see above $2089 (what had been prior all-time highs), the better the chance that it can get the real breakout so many gold bugs are hoping and praying for. In the meantime, it's been pretty dead money (and, of course, holding gold bullion offers no dividend, either).

COMEX Gold – Active Weekly Continuation



WTI Crude Oil's support from the low-$70s just produced a bounce this past week, but it remains within a large rectangular pattern (bounded in green lines).

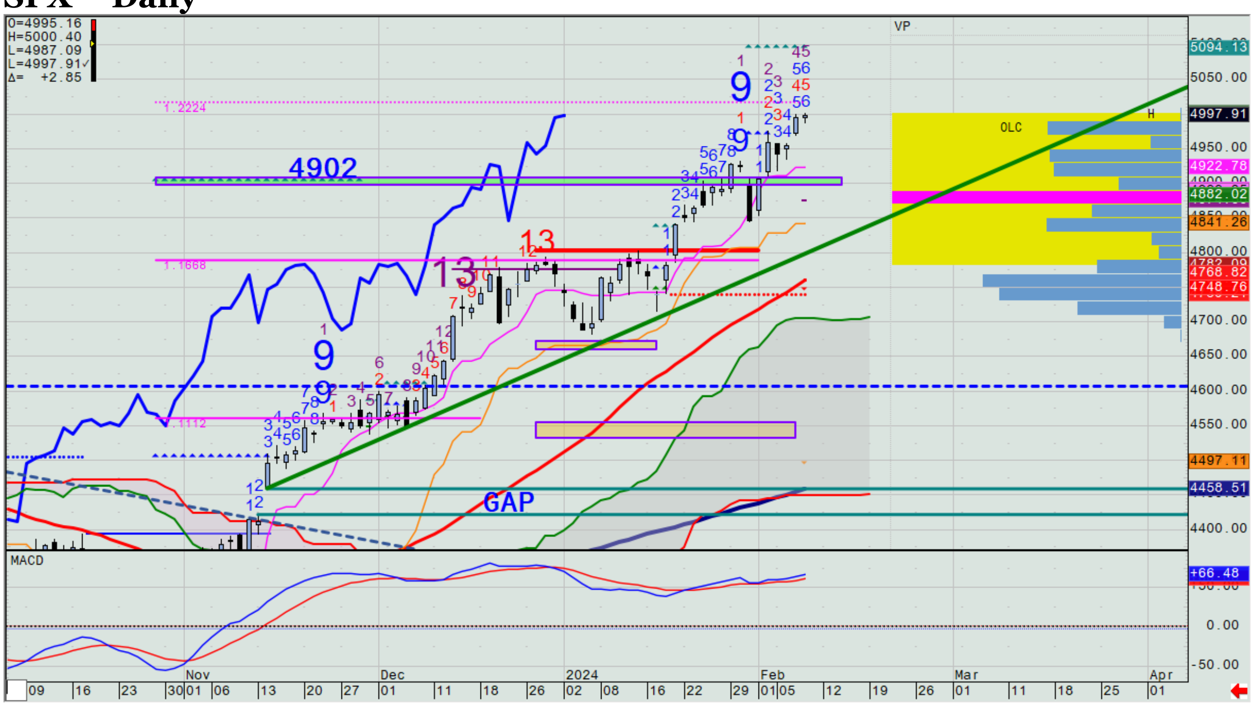
WTI Crude Oil – Active Daily Continuation



CLA - Crude Light - Combined, Active Daily Continuation (Delayed by 10 mins) | Thu Feb 08 2024 18:33:24, CQG 24.12.8025 Alpha

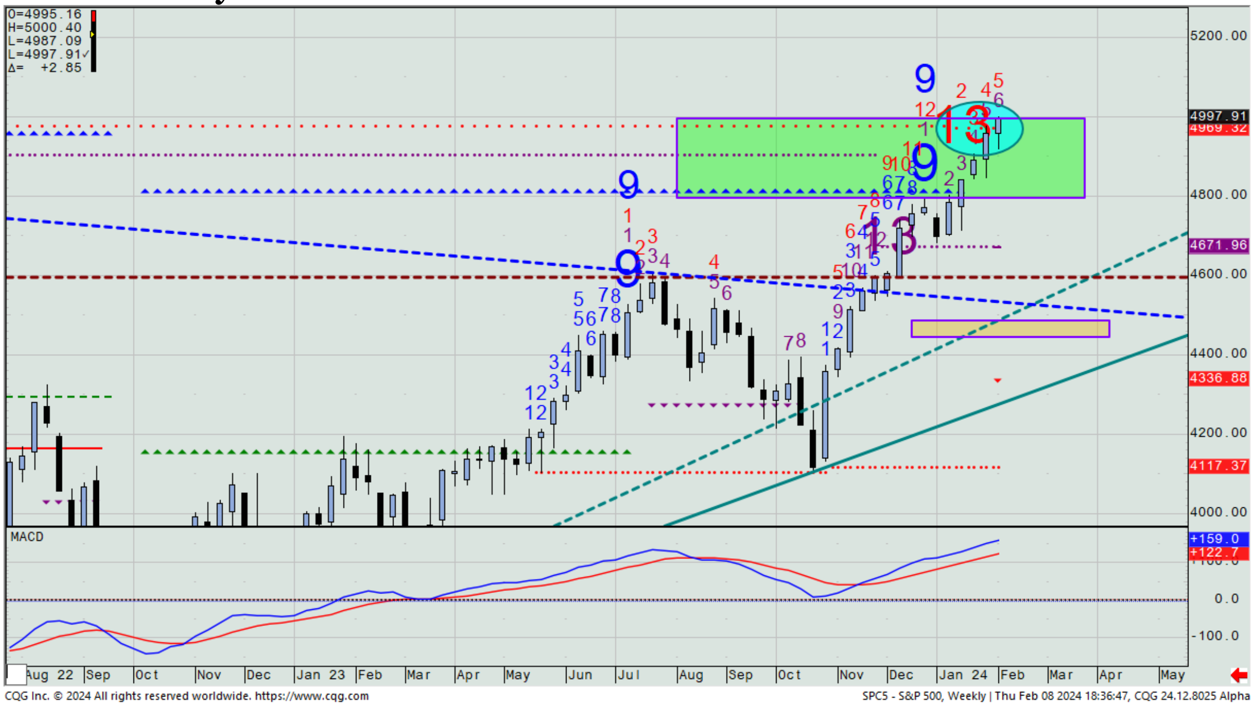
EQUITY INDEXES: Earnings reports from the bulk of the Mag 7 names gave another push higher to the major stock indexes, with the SPX now hovering at 5000. Support levels on it and the QQQ continue to hold on any of the ephemeral declines. Until and if these support zones give way, and especially if accompanied by rates rallying enough to change the bullish equity picture, then the path of least resistance continues higher.

SPX – Daily



SPC5 - S&P 500, Daily | Thu Feb 08 2024 18:34:51, CQG 24.12.8025 Alpha

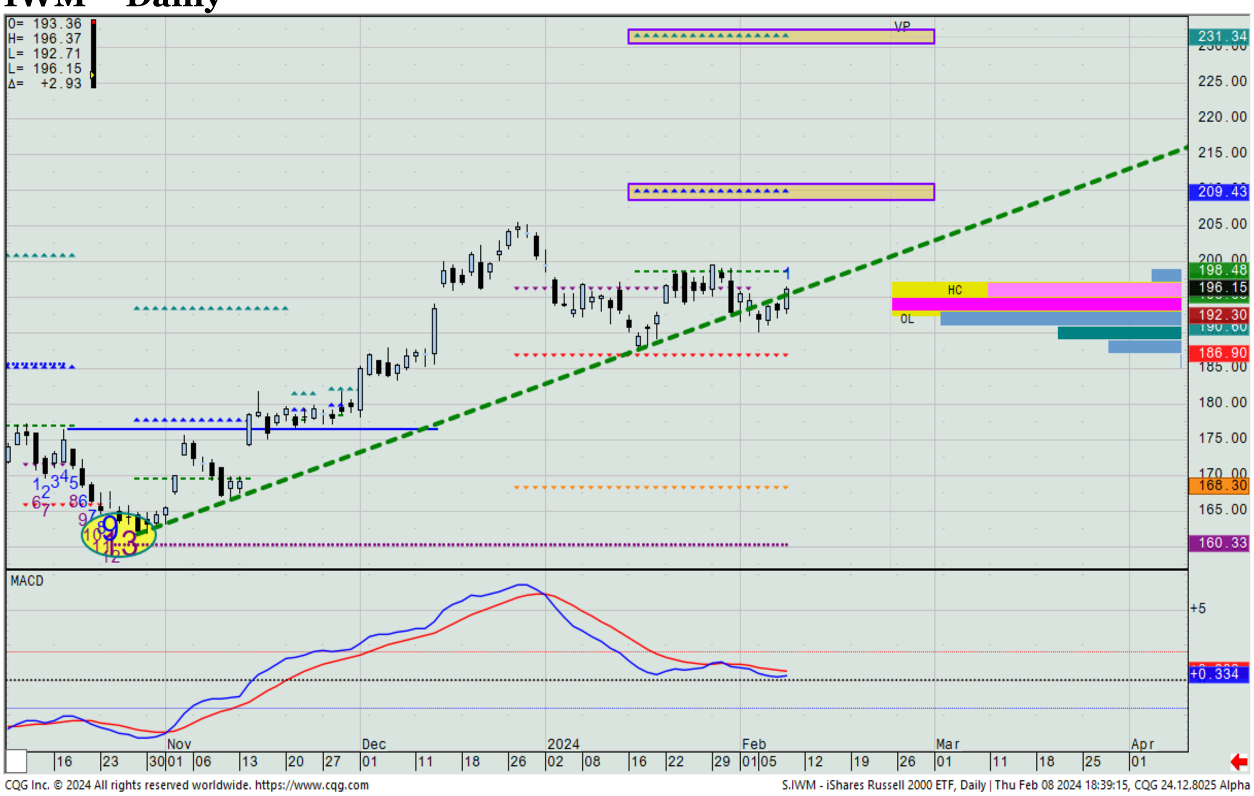
SPX – Weekly



New ETF Trade Idea

If we want to play for a bigger picture rally, than we can look into the small cap arena to find potential ideas for potential outsized gains relative to downside risk. With that in mind, let's consider buying the well-known Russell 2000 ETF (IWM) that just crossed back above its uptrend line from the October low that had just a single day's downmove breach the line.

IWM – Dailly



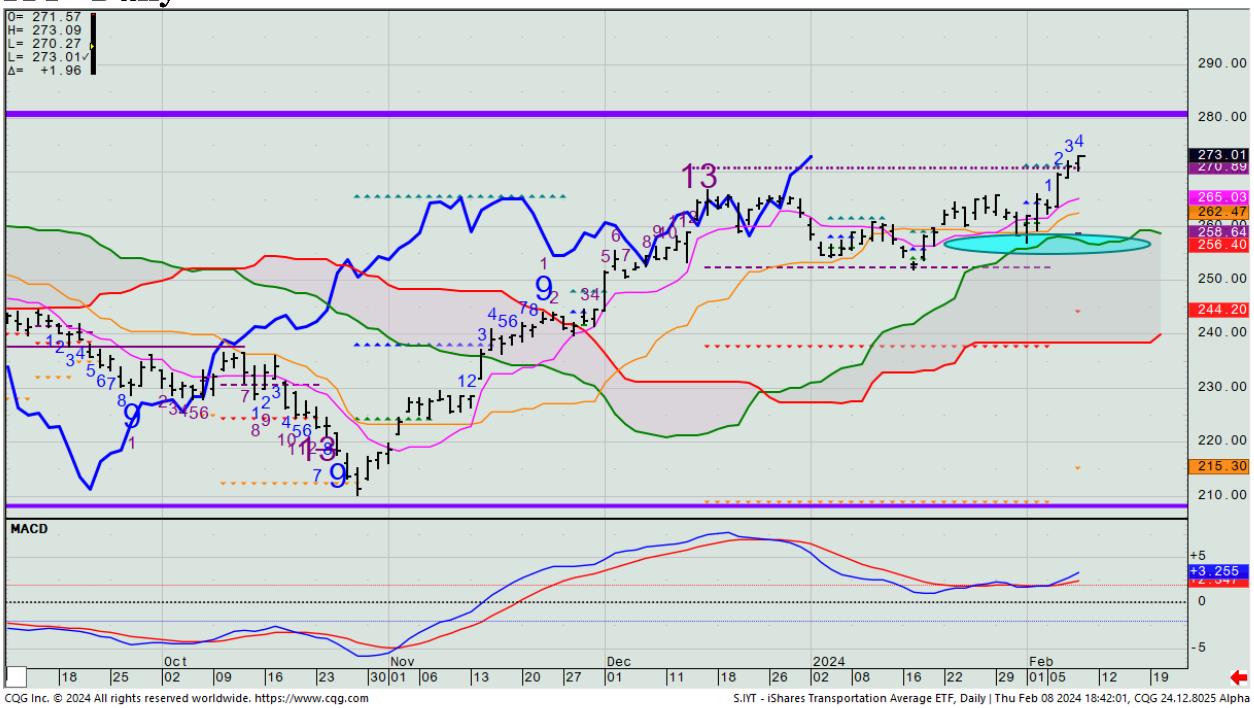
Let's get long one unit today, and play for bigger upside targets as shown in the orange rectangles on the chart. We'll stop out on consecutive daily closes beneath $191.02. (I am going to also give you the option to not put this on if you think rates are going to hurdle 4.25%, because, as I wrote earlier in this report, higher interest rates will not be friendly to equities, and especially not to small caps.)

Other Open Recommendations and Positions

Long IYT

Last Friday we went long one unit at an avg. price of $262.16. Take 50% off at $275/$276 and 50% off at $280/$282. Raise your sell-stop to your breakeven entry.

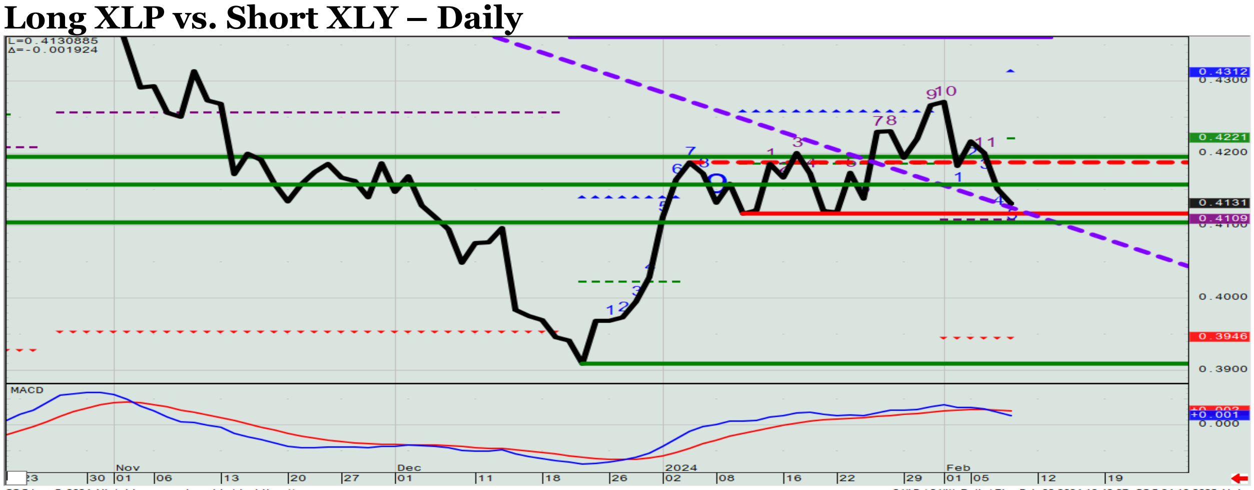
IYT - Daily



Long XLP vs. Short XLY

I was fine holding this idea from last Friday (avg. entry at 0.4224 ratio) but I recommended we exit last Friday because of AMZN's huge earnings beat. We exited within 1-5 bps. of where we got in, for a meaningless loss.

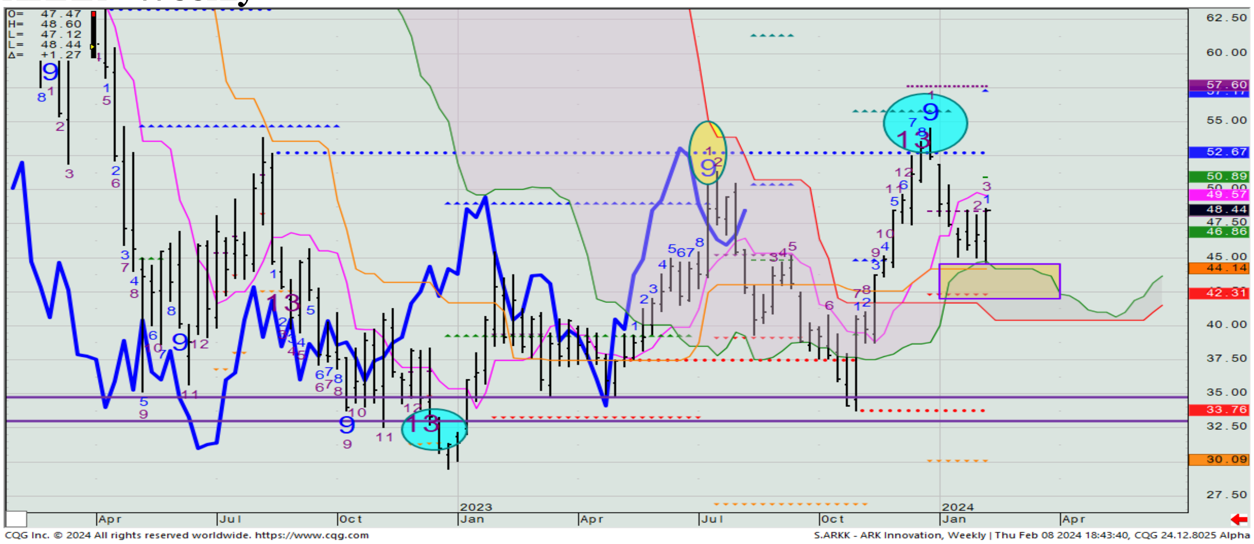
Long XLP vs. Short XLY – Daily



Long ARKK

We were 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. However, with this week's low at $44.62 and price now at $48+, I suspect the low of the move was just made and we missed entry. I'm now going to cancel this trade idea.

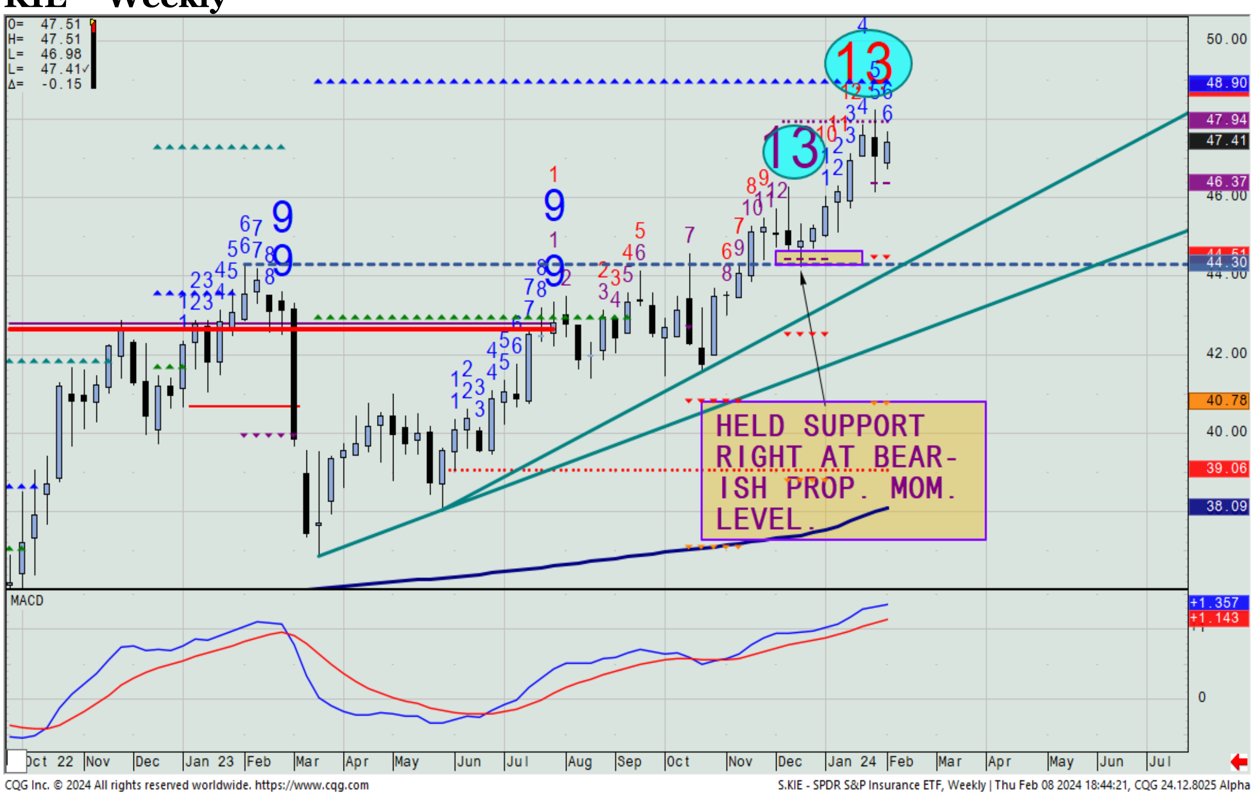
ARKK - Weekly



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