Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

NVDA. Does anything else really matter?

Forget higher rates and a higher dollar – the two biggest drags on equities last year. Or flip it around, lower rates and a weakening dollar were major drives for the 2023 stock market rally – especially since October. But that completely changed this year: higher rates (up over 40 bps. YTD); higher dollar (up some 2.6% YTD); and higher stocks (SPX up 6+% YTD). I certainly didn't see that coming. But I'm clearly joined by almost everyone else on the Street on this one (and you know me: I rarely like to be where the rest of the Street is). So, what gives?

As best as I can put the puzzle pieces together, investors are quickly becoming comfortable with the idea that rates are going to stay higher for longer – much longer than they came into the year thinking they'd last above 4%. (I'm talking the UST 10-yr., here.) That is translating into the reality that the Fed is *not* going to lower rates a half-dozen or more times this year (as they had bet early in January). It means that the economy continues to hum along *despite* higher rates than many have seen in their short lifetimes (Old folk like me recall 10% mortgage rates, making the current 7% level seem a bargain.) It means that the Fed will continue to be diligent about fighting inflation, which may very well start ticking upward again. And it means that stocks may very well not only "hang in there", but continue higher. (Or maybe better said, that the mega cap stocks will continue higher because those few firms can deal with higher rates far better than small cap names can.)

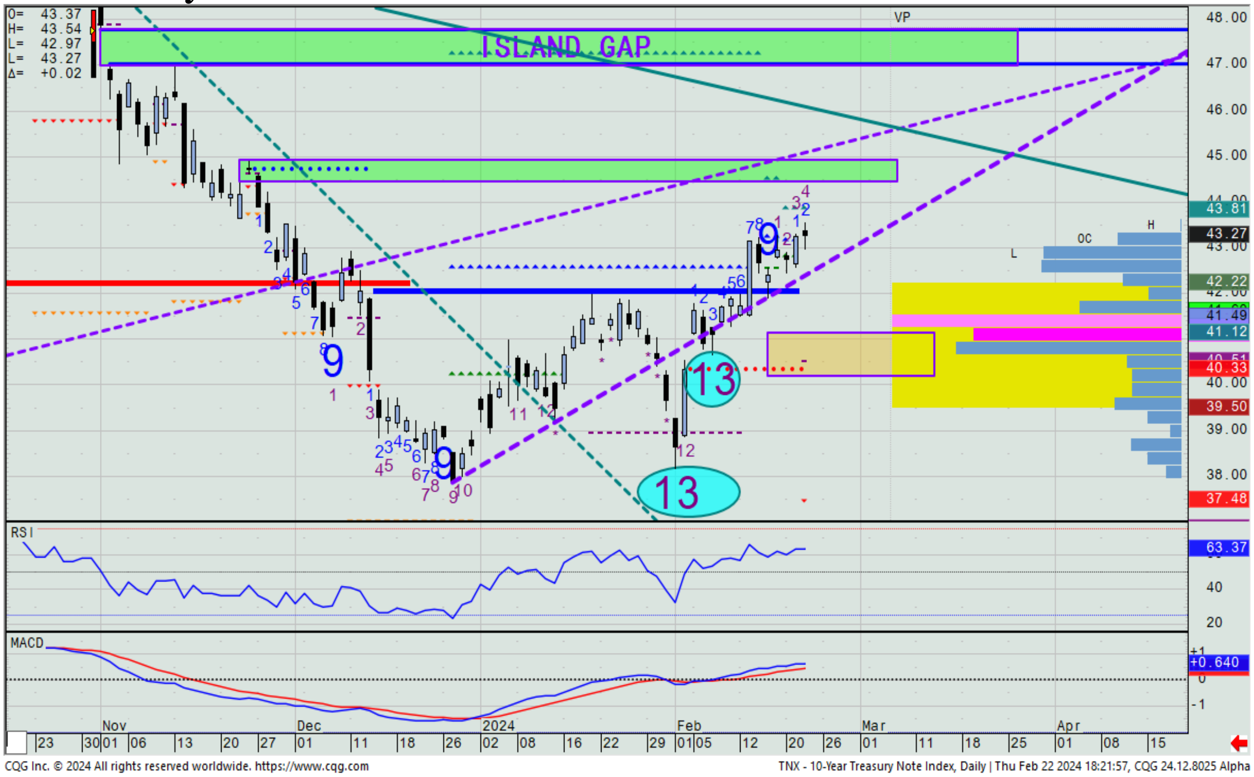
Let's review what the key charts from the macro environment are saying:

US RATES

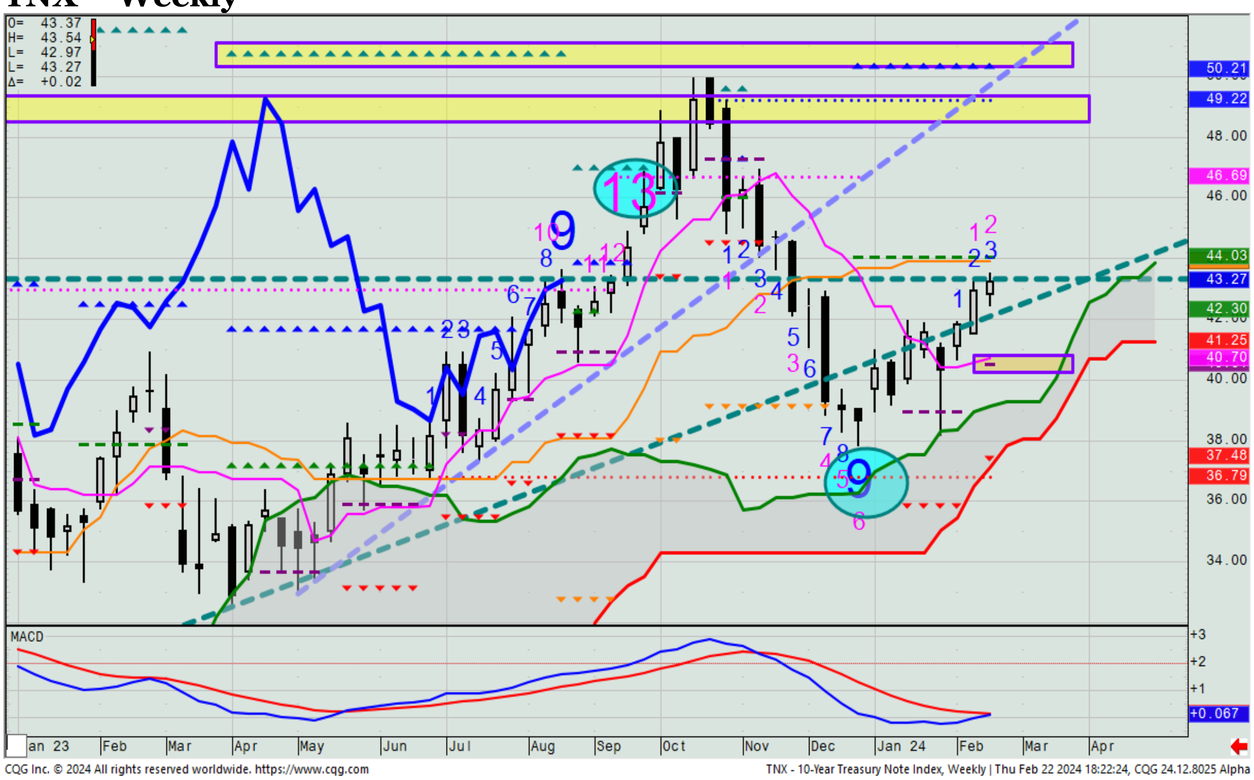
With the UST 10-yr. yield over 4.3% from what was a 3.87% 2023 close, this year's bond buyers have been crushed, mostly because they arrogantly confident that rates would fall sharply this year – and their stubbornness to now finally start to sell out of those ever-growing losing trades. (And we do know that they have done some selling, because the Daily Sentiment Index reading that showed 83% polled were bullish 10-yr. bond futures in late-December are now only at just over 40% bulls.)

A further rate rally targets 4.43% to 4.47%, and then the large unfilled gap from 4.69% to 4.78% (which unrelatedly includes the 4.77% Propulsion Full Exhaustion target from the January low). Support is from 4.07% to 4.02%. (See both daily and weekly charts on page 2.)

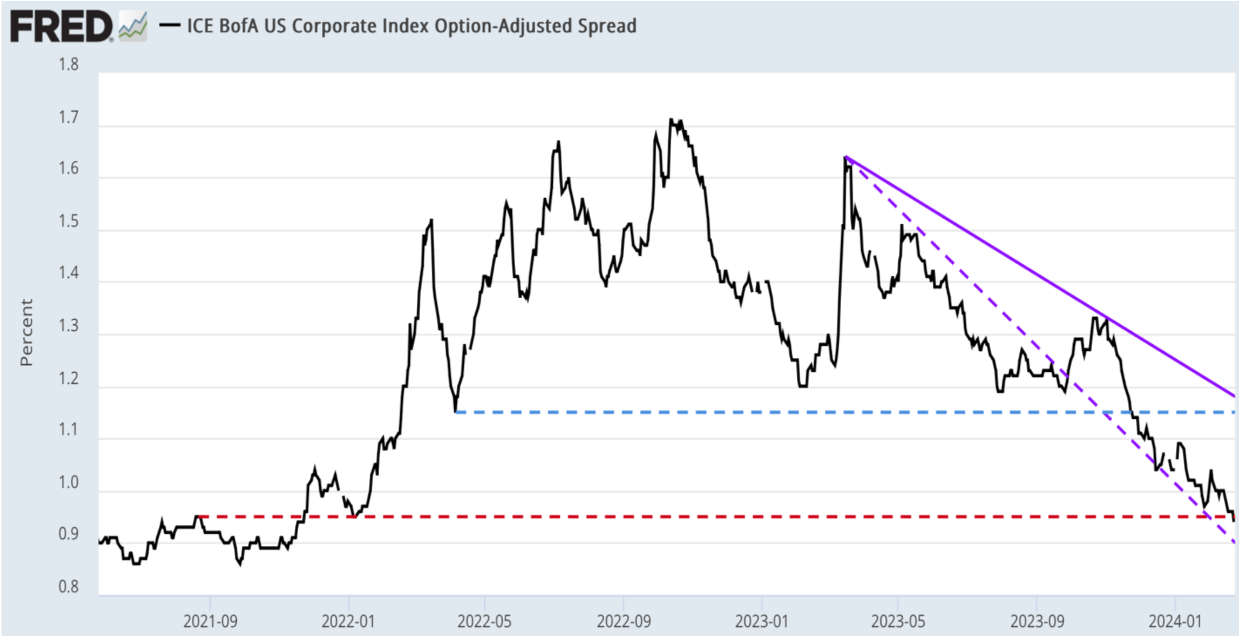
TNX – Daily



TNX – Weekly

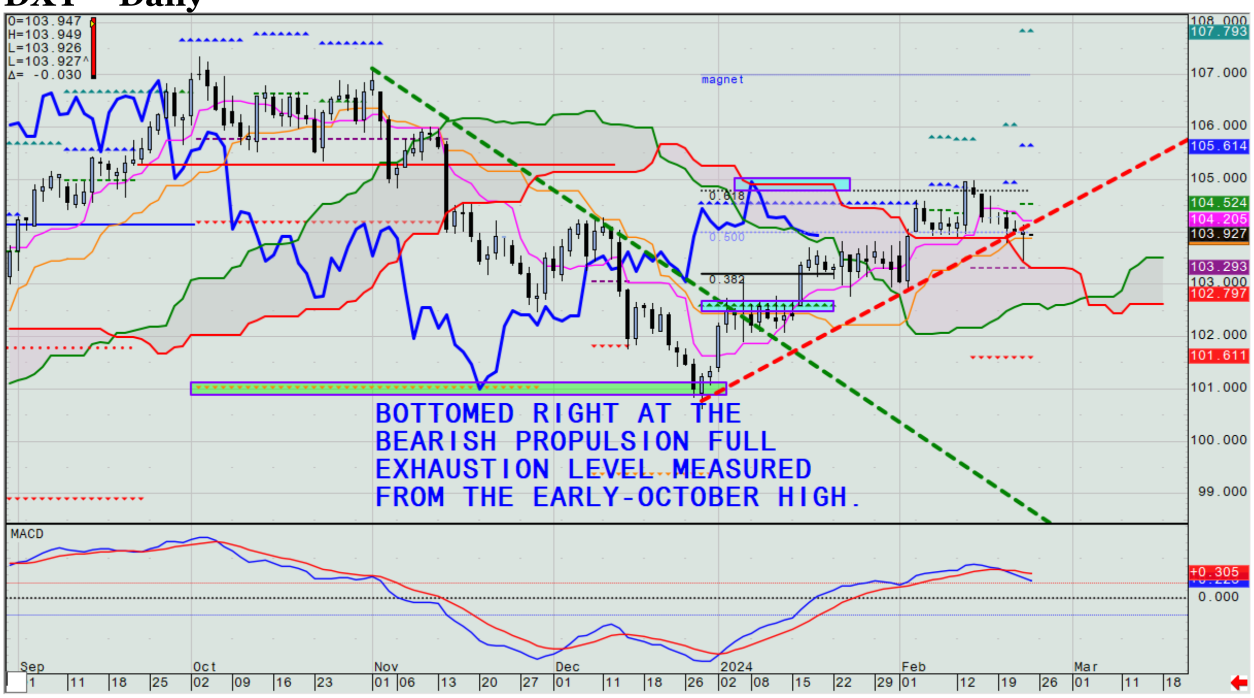


Investment grade corporate credit spreads, my preferred credit spread index, have now fallen to new cycle lows of 94 bps., which is just 7 bps. above the all-time low of 0.86%. The larger head-and-shoulders top measures to something near 0.70%. Most importantly, credit spreads continue to show no stress in the system, and that is usually a positive backdrop for stocks.



THE DOLLAR: The US Dollar Index (DXY) remains decently higher in the first two months of the year. Price stalled right at where the cloud's Lagging Line hit its cloud top (104.91). Exceed that now, and you likely have another push higher. Support should now be found in the 103.30 to 102.90 area.

DXY – Daily



COMMODITIES: This is now the third week in a row with the exact same write-up: 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).

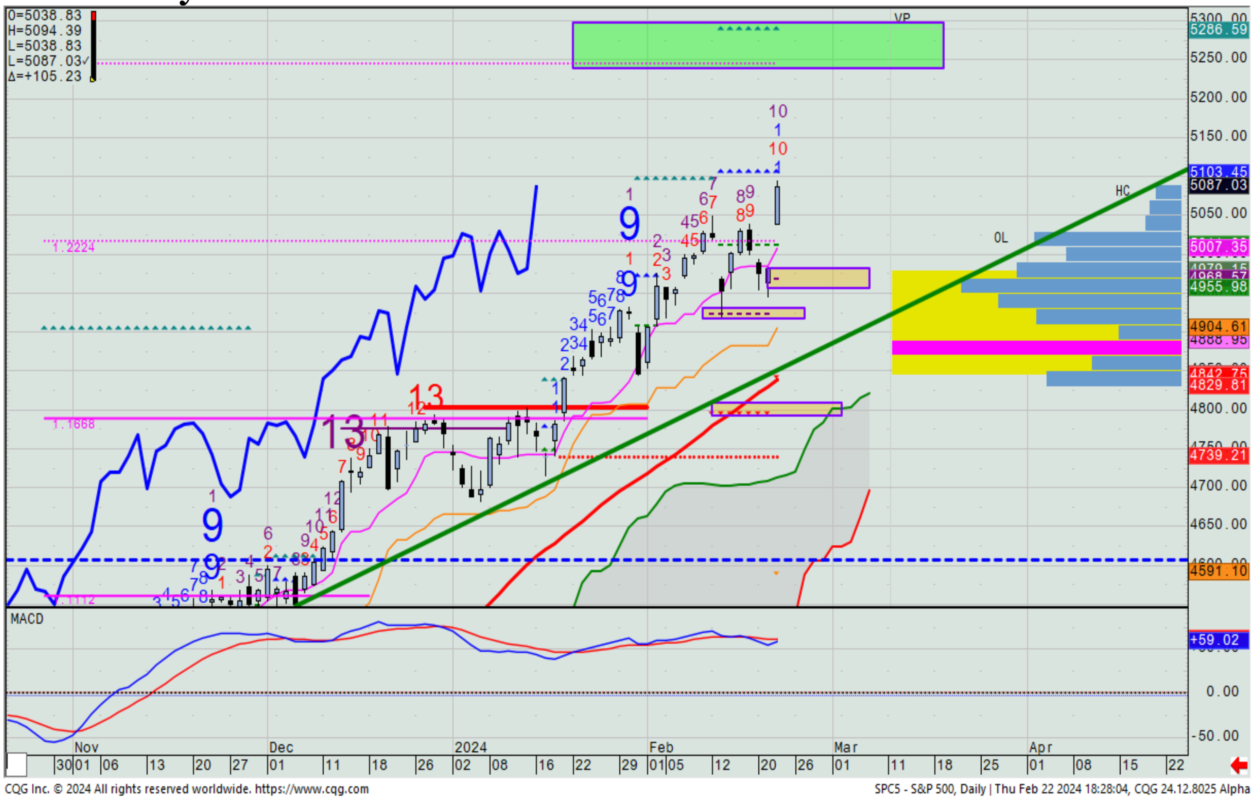
COMEX Gold – Active Weekly Continuation

WTI Crude Oil's support from the low-$70s continues to see buying, and in coming days it may very well test what had previously been the downtrend line (in green) from the $133 high near the start of the Russia/Ukraine war. Other trading targets are within the neon green rectangle I've drawn.

WTI Crude Oil – Active Daily Continuation

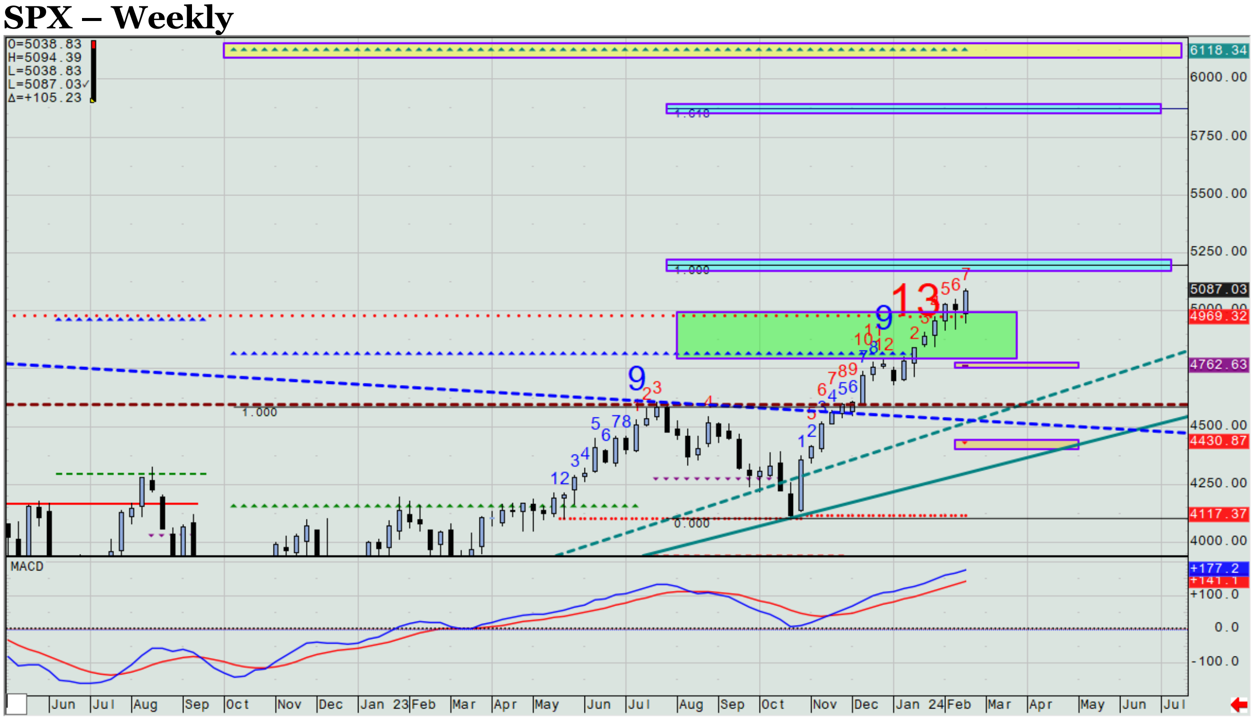
EQUITY INDEXES: After seeing the bearish Propulsion Momentum level be the low of a quick pullback two weeks ago, last week I wrote, "There's very little now to not think that we'll soon see the SPX 5100 level tested." Price is now just some 30 points away after yesterday's huge NVDA-based rally.

SPX – Daily



The weekly chart saw a down close last Friday relative to the prior week's close. That qualifies this week's move above the 4th TD Trend Factor level up from last October's low, next targeting a bigger upmove to 5524.

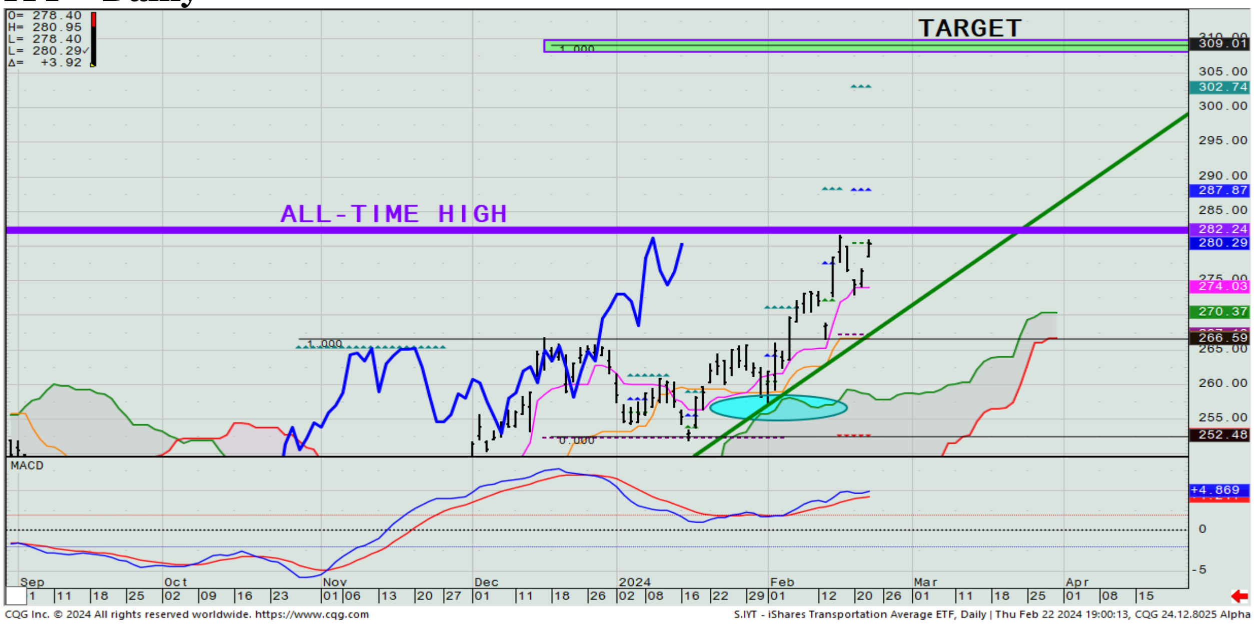
SPX – Weekly



New ETF Trade Idea

Last Thursday we hit our 2nd profit target for the **Dow Jones Transportation ETF (IYT)** and saw it pullback from there until yesterday's large move up brought it right back to just shy of all-time highs. With the Industrials flying, I think Transports will soon zoom, and as such, let's look to get long one unit of IYT again, playing for a $309-ish target while risking to consecutive daily closes beneath the current bearish Propulsion Momentum level of $267.13. It's a pure 2x dollar reward to target for the dollar risk we're taking.

IYT – Dailly

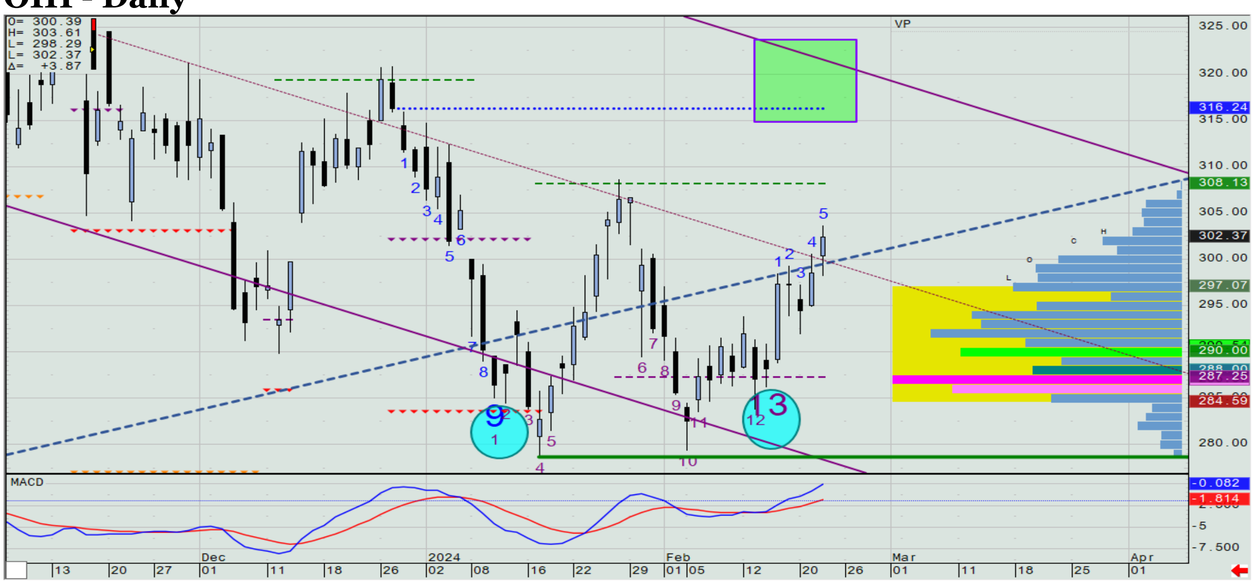


Other Open Recommendations and Positions

Long OIH

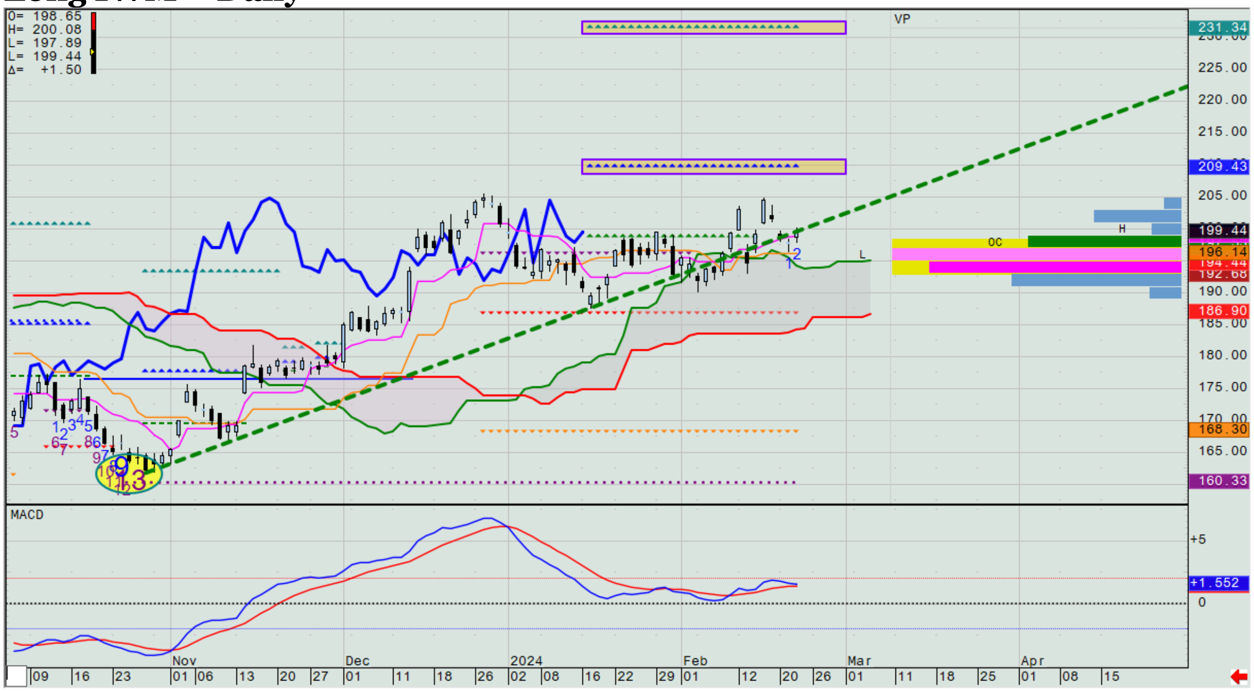
Last Friday we got filled on ~2/3 of our total buy idea at an avg. price of $296.59. (Your avg. price certainly may vary.) We're looking to exit half between $316 and $319, and the other half at $337/$338. I'll raise our sell-stop to a daily close and following day's open that are both beneath $292.00.

OIH - Daily



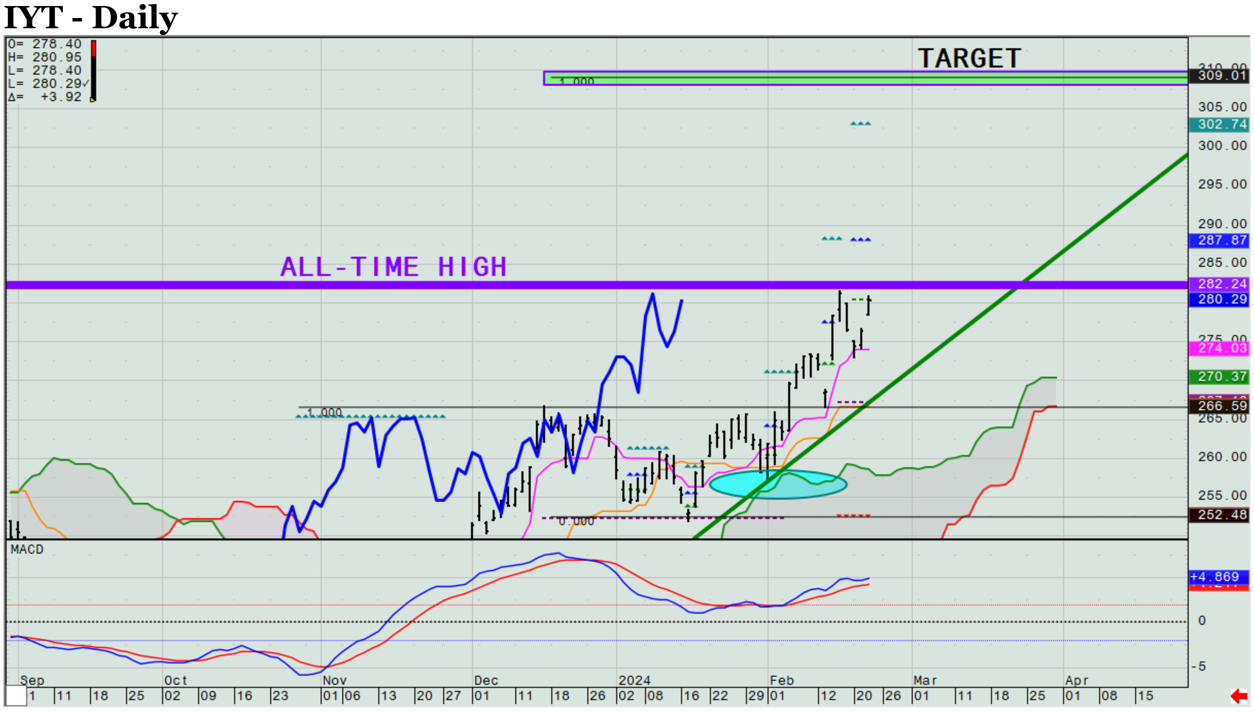
Long IWM
Two weeks ago, I suggested getting long one unit (our avg. entry price was $198.00). Upside targets are near $209 and $231 to take off 50% at each one. Our raised sell-stop is on consecutive daily closes < $195.98.

Long IWM – Daily



Long IYT
Three weeks ago, we went long one unit at an avg. price of $262.16. This has reached both targets of taking 50% off at $275/$276 and the other 50% off at $280/$282. We made 6.09%.

IYT - Daily



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