Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

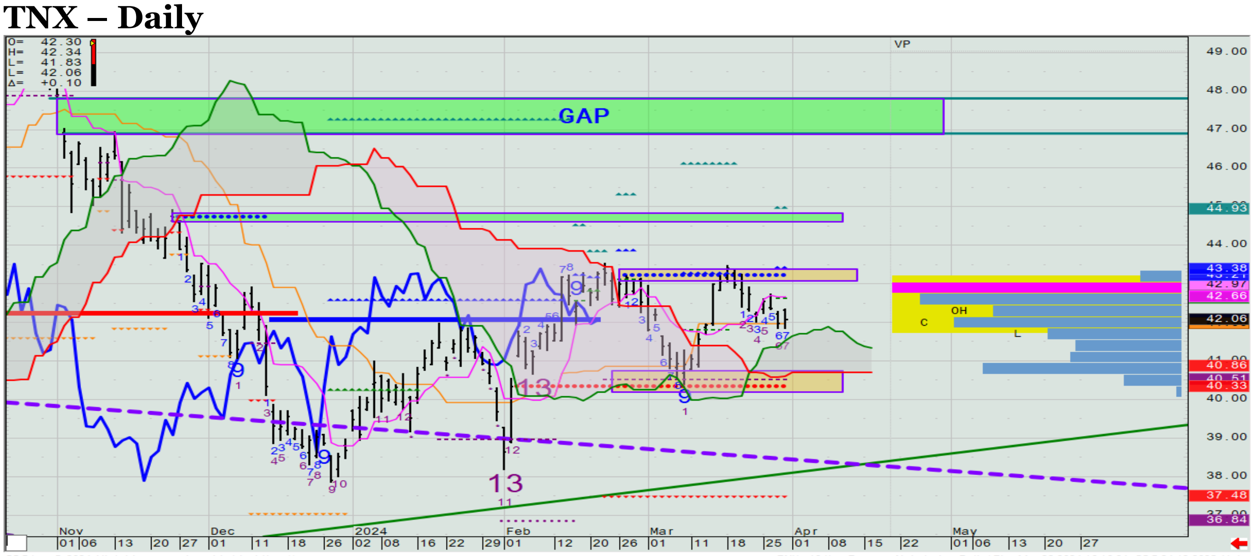
The quarter finished yesterday, with the SPX up some 10% in a very impressive rally that has taken place absent of any rate cuts – the very expected 2024 events that had had investors flood into the market since last Fall's market bottom. From what investors had previously bet in January would be 7 cuts this year, now shows a greater likelihood that there will be a maximum of only 3 or 4 of them. And yet, investors have pushed the market higher to time and time again make new all-time highs this year. (I think I heard that it was 31x so far in '24). That shows an incredible demand to own stocks, and a massive psychological twist away from what were dramatic fears of a coming major recession. Not only that, but investors have also markedly shifted toward being able to live with a higher than expected rate environment. UST 10-yr. yields are at 4.2% from what was a 2023 close of 3.87%. That is completely opposite what portfolio managers were expecting, as the biggest consensus macro trade entering 2024 was that rates would collapse this year. Not only have they not collapsed, but they're well higher. So much for "consensus thinking".

As we head into Q2, here's what I'm seeing in the macro environment:

US RATES

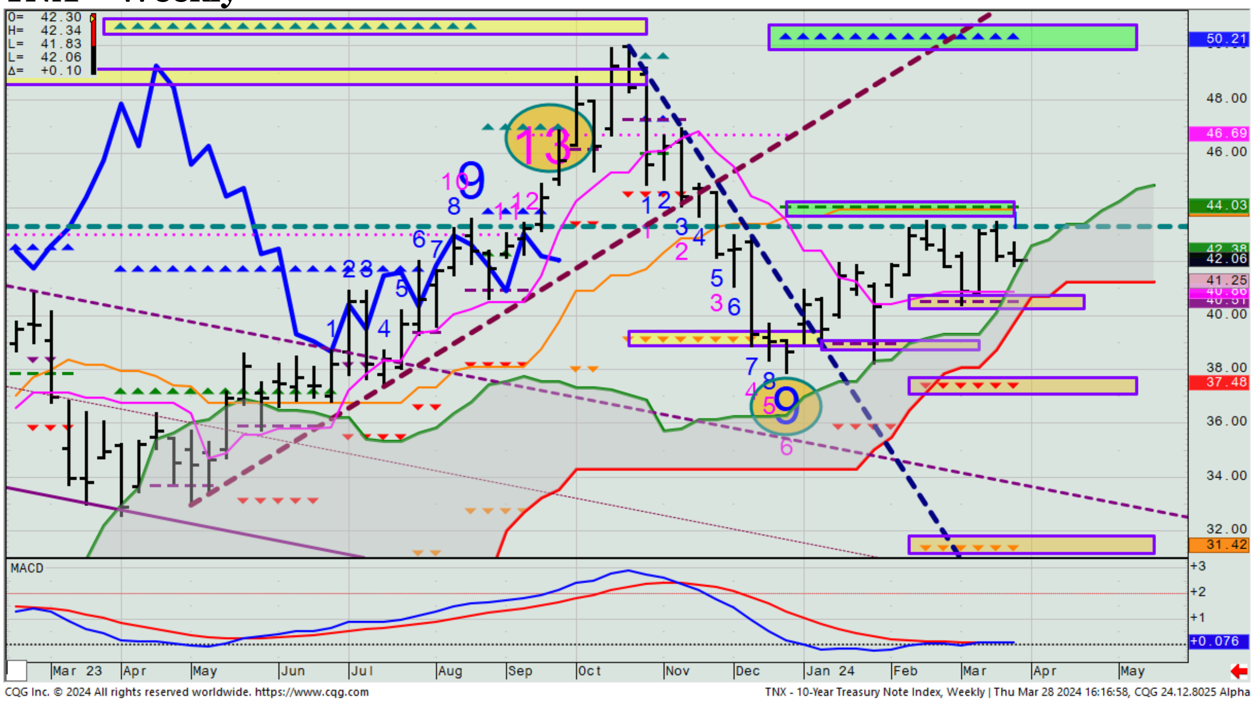
UST 10-yr. yields have 3x halted their advance this year right by 4.35%. Though I still believe that the bigger picture for the TNX is unclear, seeing new 2024 highs probably leads to a test of 4.47%, and possibly even to the unfilled gap at 4.69% to 4.78%. Underneath, tactical support still shows up in the just north of 4%.

TNX – Daily

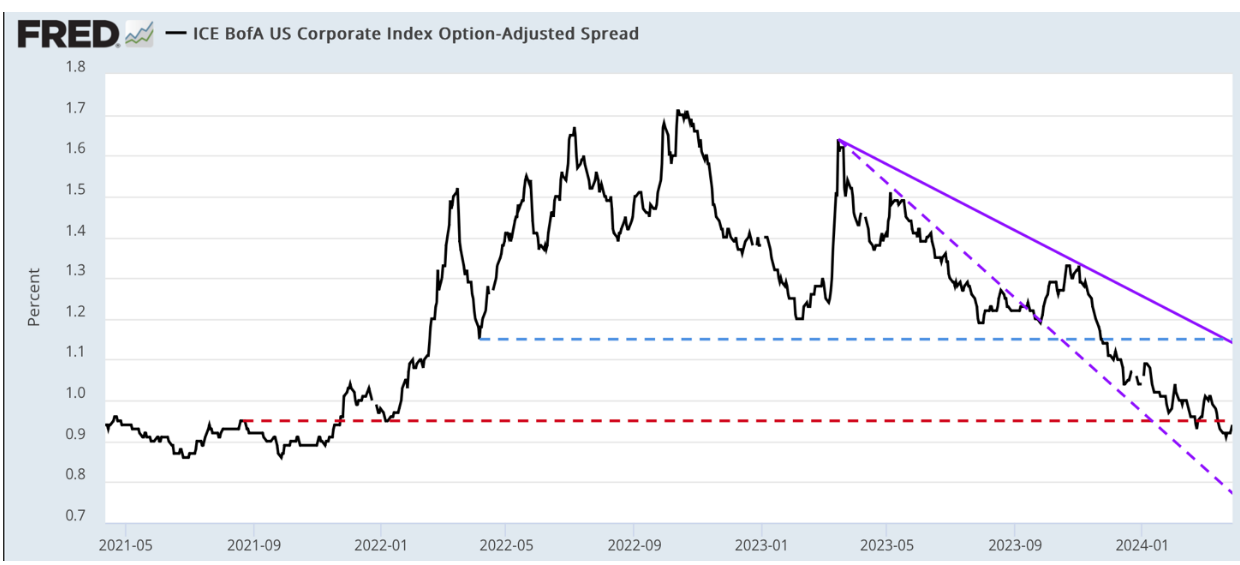


However, if I try to make heads or tails out of the weekly chart, I'd be more leaning towards thinking that the 4.35% level is the top of Wave B to an A-B-C correction of the move that topped last year at 5%. If that is correct, then one would expect Wave C to go well-lower than the 2023 low of 3.78%. The problem to that view, however, is that the economy is quite strong and inflation numbers haven't given the Fed enough proof that they can start lowering. (Today will get a very important PCE inflation data point that might materially influence the Fed's coming moves.) But if this number is hotter than expected (i.e., higher), then we just may not see any rate cuts for months, if at all, this year.

TNX – Weekly

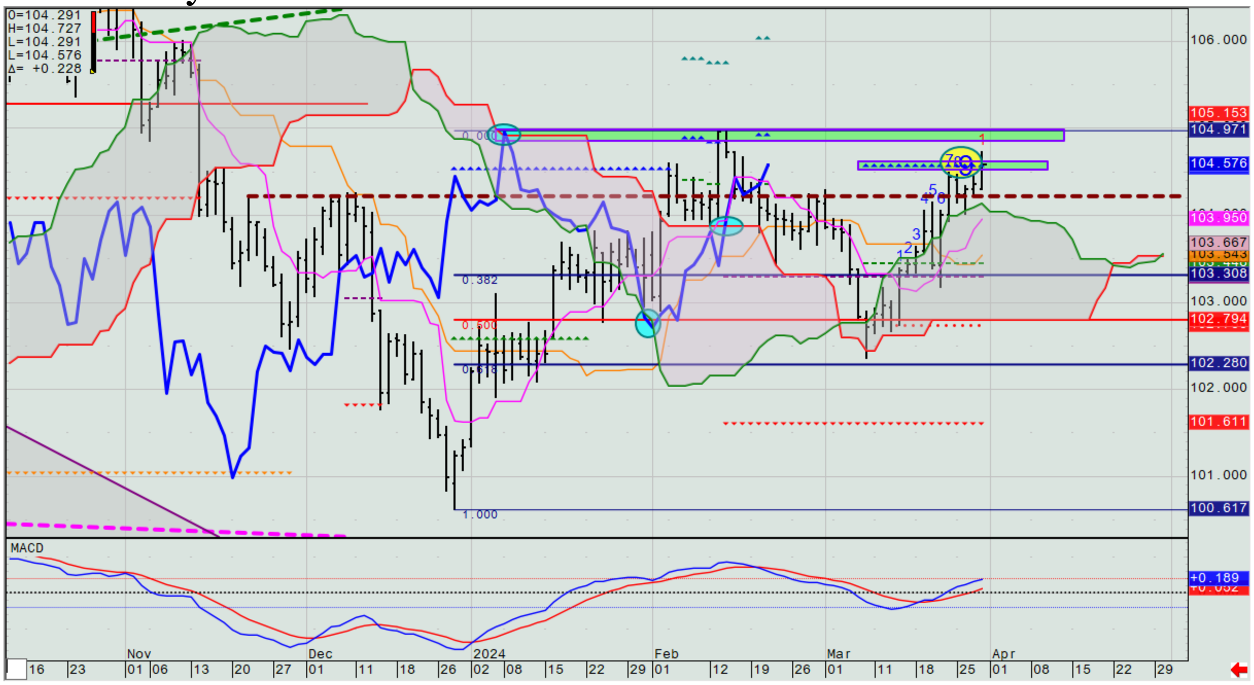


Investment grade corporate credit spreads, my preferred credit spread index, made a new cycle low last week at 91 bps. – just 5 bps. above the all-time low of 0.86%. Though the most up-to-date figure is at 94 bps., the door remains open for the larger head-and-shoulders top to play out for a measured move to something near 0.70%. Most importantly, credit spreads continue to show no stress in the system, and that continues to be a positive backdrop for stocks.



THE DOLLAR: The US Dollar Index (DXY) did get a daily cloud model upside breakout (whereby the Lagging Line broke above the top of its respective cloud high at 103.87). Though there is a stall against the Setup +9 and Propulsion Exhaustion level, I'm thinking that odds have moved up a bit more that we will *not* see a material breakdown in UST 10-yr. rates, and those odds probably go higher if we see new 2024 greenback highs.

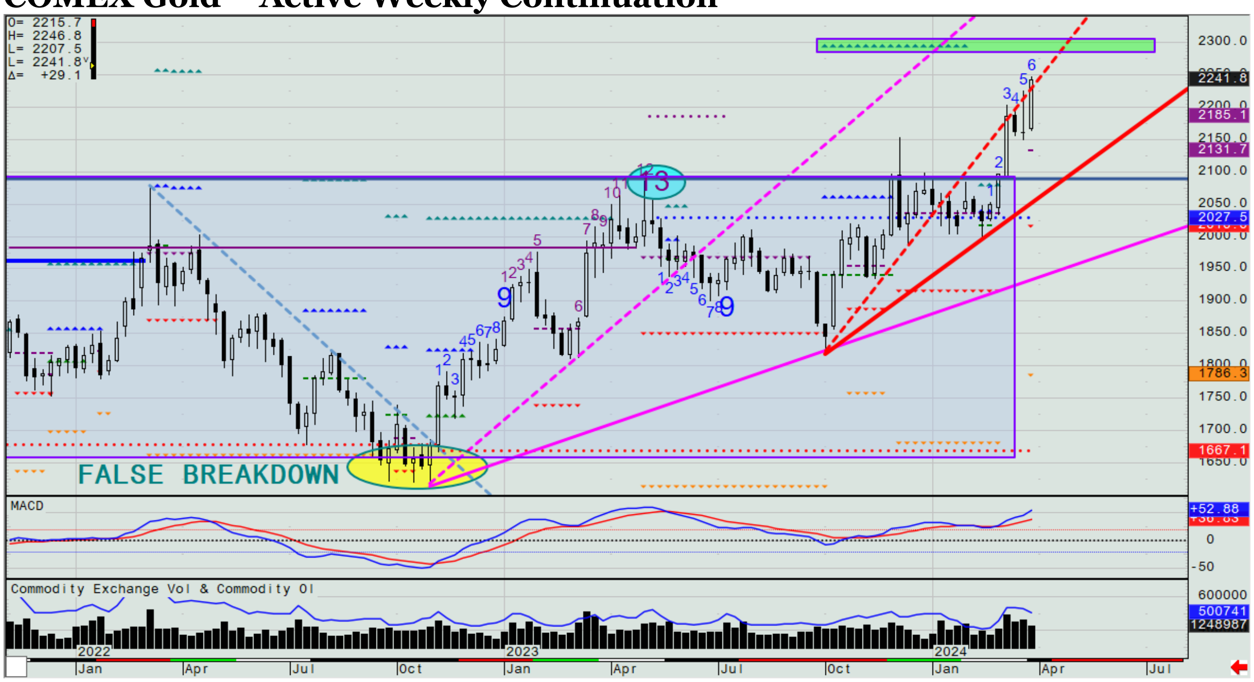
DXY – Daily



DXC5 - Dollar Index, Daily (Delayed by 10 mins) | Thu Mar 28 2024 16:18:05, CQG 24.12.8025 Alpha

COMMODITIES: Gold's confirmed breakout has a near-term upside target at $2291, and a bigger measured move to somewhere north of $2400. The newest weekly bearish Propulsion Momentum level moved up to $2123. Stay above there and the bull case persists.

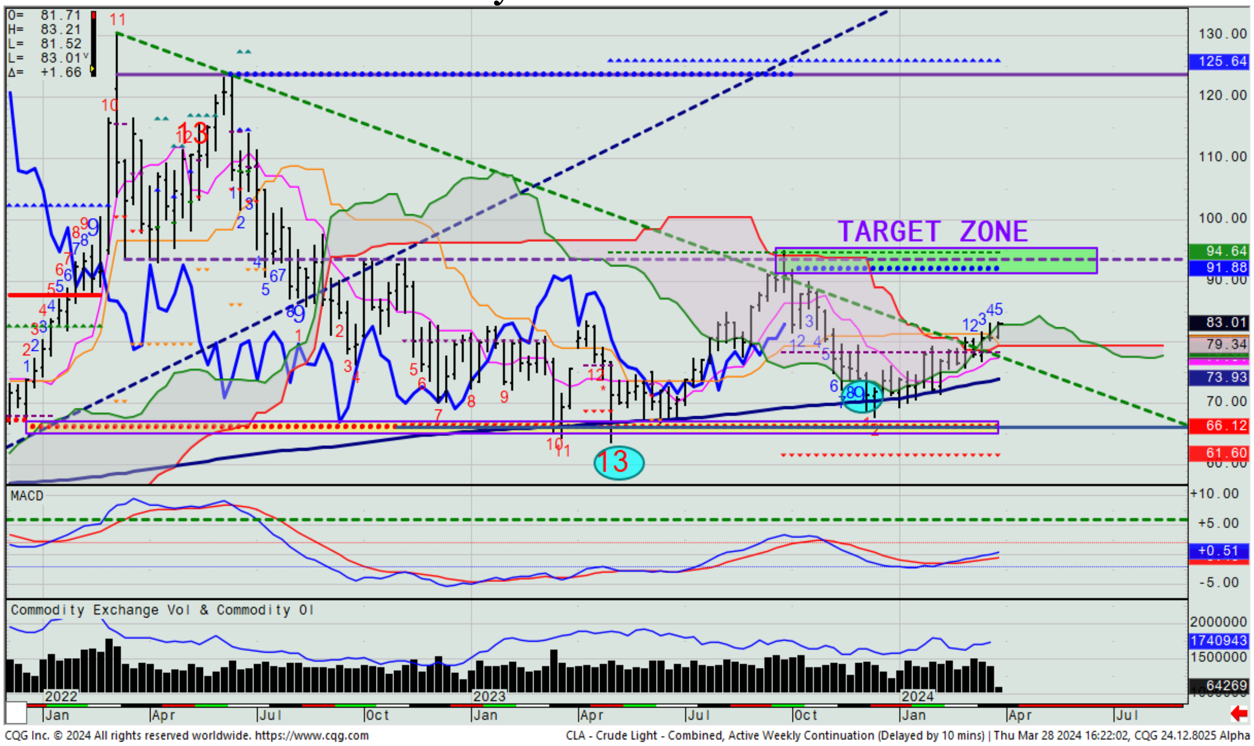
COMEX Gold – Active Weekly Continuation



GCA - Gold - Combined, Active Weekly Continuation (Delayed by 10 mins) | Thu Mar 28 2024 16:19:52, CQG 24.12.8025 Alpha

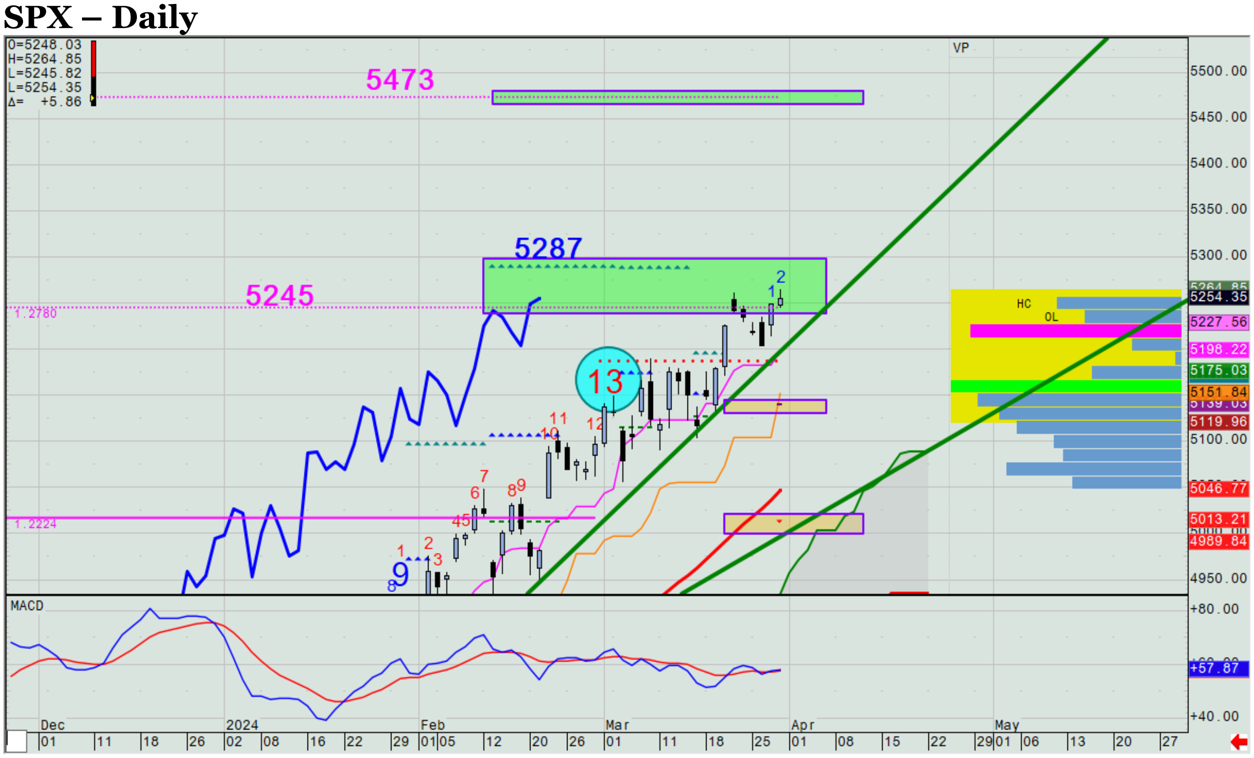
WTI Crude has a nice rounded bottom in place since late '23, and is setting up for a potentially bigger bullish cup and handle pattern if it can break above the labeled Target Zone (and stay above it).

WTI Crude Oil – Active Weekly Continuation



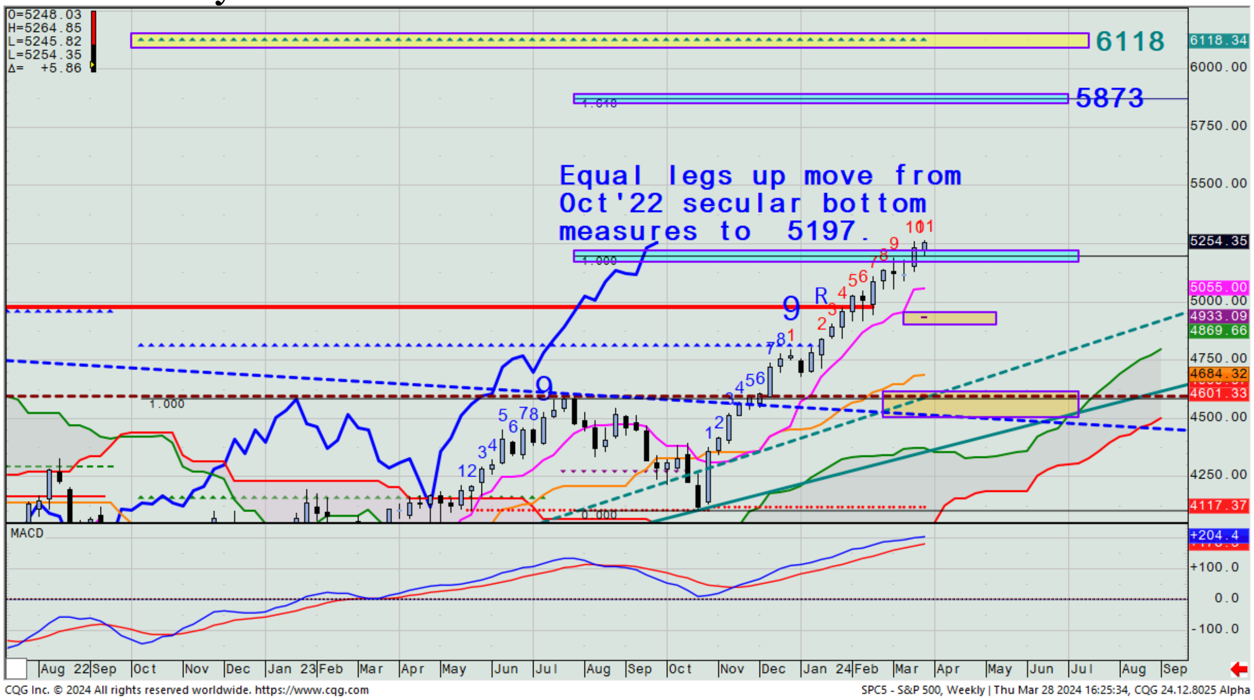
EQUITY INDEXES: The SPX remains near that 5th DeMark Trend Factor up from the October low (at 5245), with an active Propulsion Full Exhaustion target at 5287. You can see that the uptrend line from the mid-January low continues to act as good support.

SPX – Daily



The bigger picture remains positive, with the weekly bearish Propulsion Momentum level remaining at 4929. Absent a break of that number, the overall bull scenario remains with other upside targets highlighted in blue or yellow rectangles below.

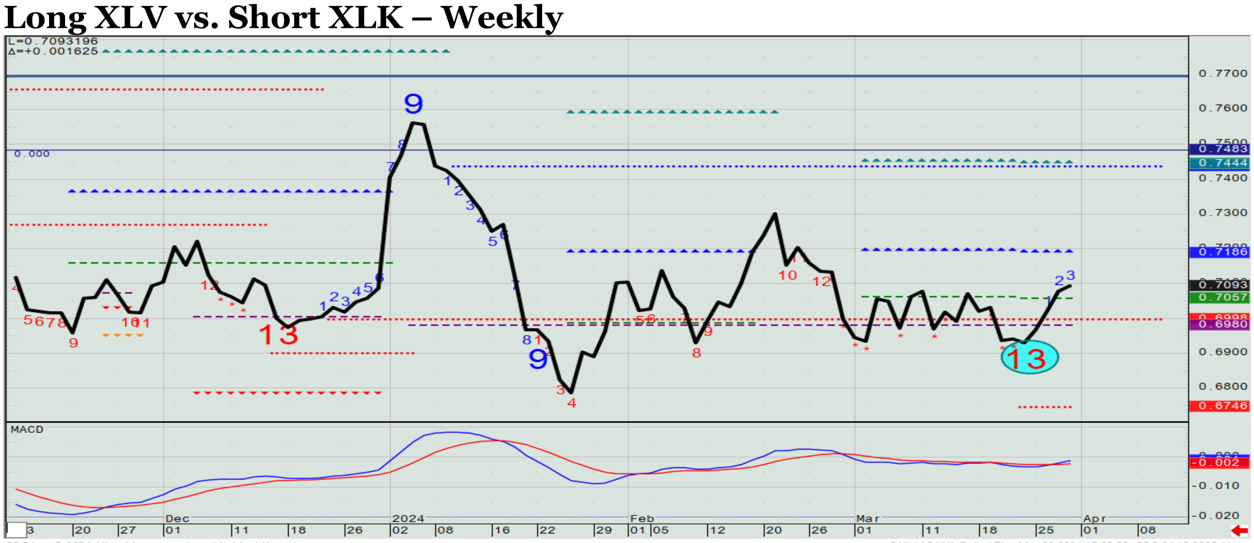
SPX – Weekly



[New ETF Trade Idea]

As the rally "broadens out", tech and tech-related names (including those mega cap ones that are not actually categorized in the tech sector) are no longer the only game in town, as buying is showing up in many cyclical areas, too. One such pair trade idea I've been watching **is long Health Care (XLV) vs. short Info. Technology (XLK)**; it's been creeping higher since its -13 signal last month.

Long XLV vs. Short XLK – Weekly



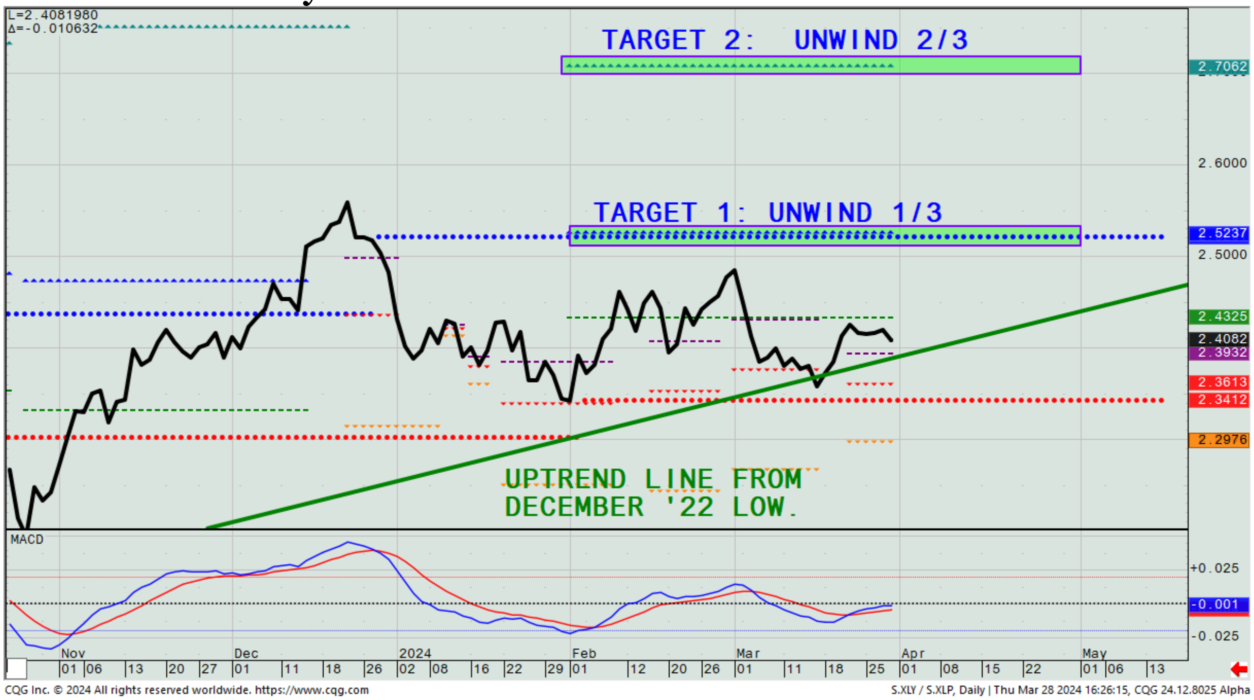
We'll look for this to continue to widen over the potential remaining six weeks of a Setup +9 count, and as such, **let's get long one unit of XLV and sell and equal dollar amount of shares of XLK**. Our sell stop for now will be a Friday close under a ratio of 0.6965, which is where the TDST support line would be if this does finish its +9 count.

Other Open Recommendations and Positions

Long XLY vs. Short XLP

This was last week's idea, and we got long last Friday at an avg. price of 2.408 (which is where it, per chance, closed yesterday. The two upside targets are labeled on the chart with ratio price levels on right scale. Our sell-stop is to exit on consecutive closes beneath 2.393.

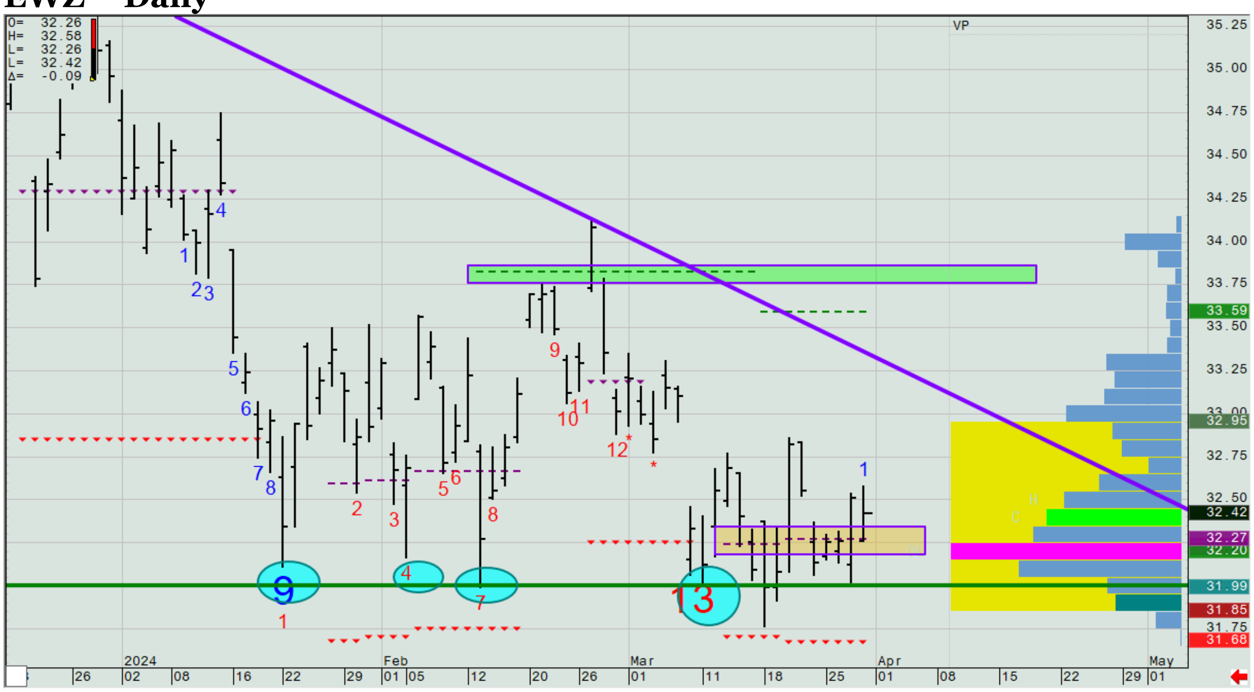
XLY vs. XLP - Daily



Long EWZ

Two weeks ago, we got long one unit at an avg. price of $32.18. Our trading target is a test of $33.59 to $33.82, risking a close under $31.70.

EWZ – Daily



Long SLV
We are long a 50% position from $21.50 from three weeks ago. We'll play for the three green highlighted Propulsion targets; taking 25% off at the lowest and highest ones, and half off near $24.47. Raise the sell-stop to exit on an hourly close beneath $21.96. Also, you can add another half unit long on Monday so long as today's PCE number doesn't make SLV gap well lower on Monday. (That would bring us up to one full unit.)

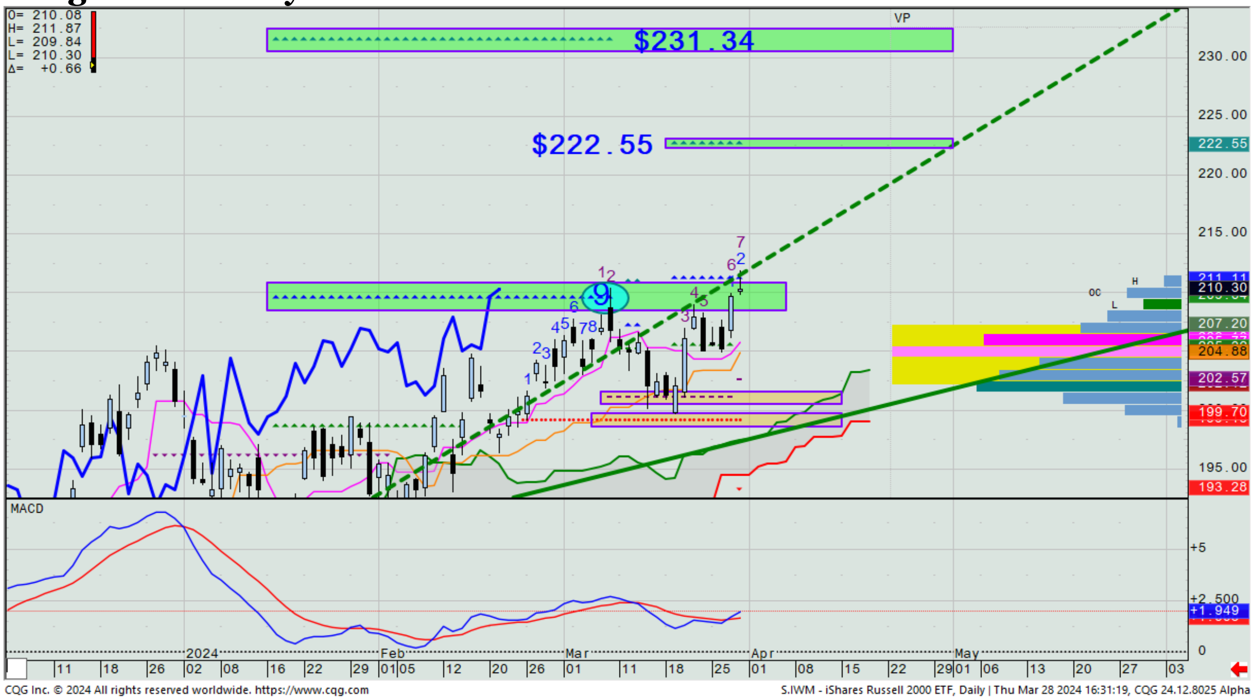
SLV – Daily

Long OIH
Six weeks ago, we got filled on ~2/3 of our total buy idea at an avg. price of $296.59. We previously exited half of our position between $316 and $319, and the other half at $337/$338 yesterday. We are now out and made 10.42% on our invested capital. (In equal-dollar P&L terms, we only made 2/3 of that, or 6.95%.)

OIH - Daily

Long IWM
In February, I suggested getting long one unit (our avg. entry price was $198.00). We sold half at an avg. price of $208.10. I've added another upside target to remove 25% upon reaching each; one near $222/$223 and one near $231/$232. Again, raise your sell-stop to consecutive daily closes beneath $205.71.

Long IWM – Daily



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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