Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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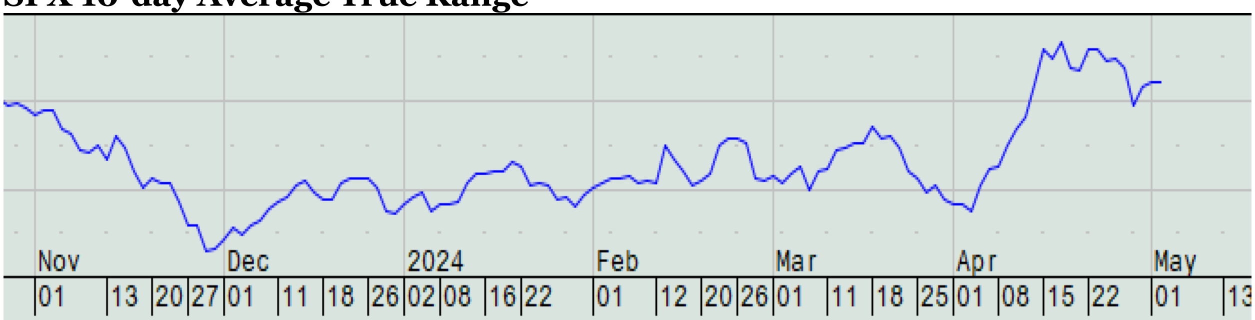
TACTICAL TRADER REPORT

The Macro Picture

Most days, stocks are getting knocked around quite a bit more than they have all year. The increased volatility is making the cost of using options more expensive, but what it has also done is now allowed the more consistent use of selling options – something that has not been viable since the low was put in last October. In fact, volatility has moved up so much that if I look at the 10-day average daily true range of the SPX at its low in November, it was 29 points per day. That same 10-day average is now 64 points per day – more than double. You need to take that into consideration when putting on and taking off positions, because it is a material shift as, let's say, compared to where it was just a month ago.

SPX 10-day Average True Range



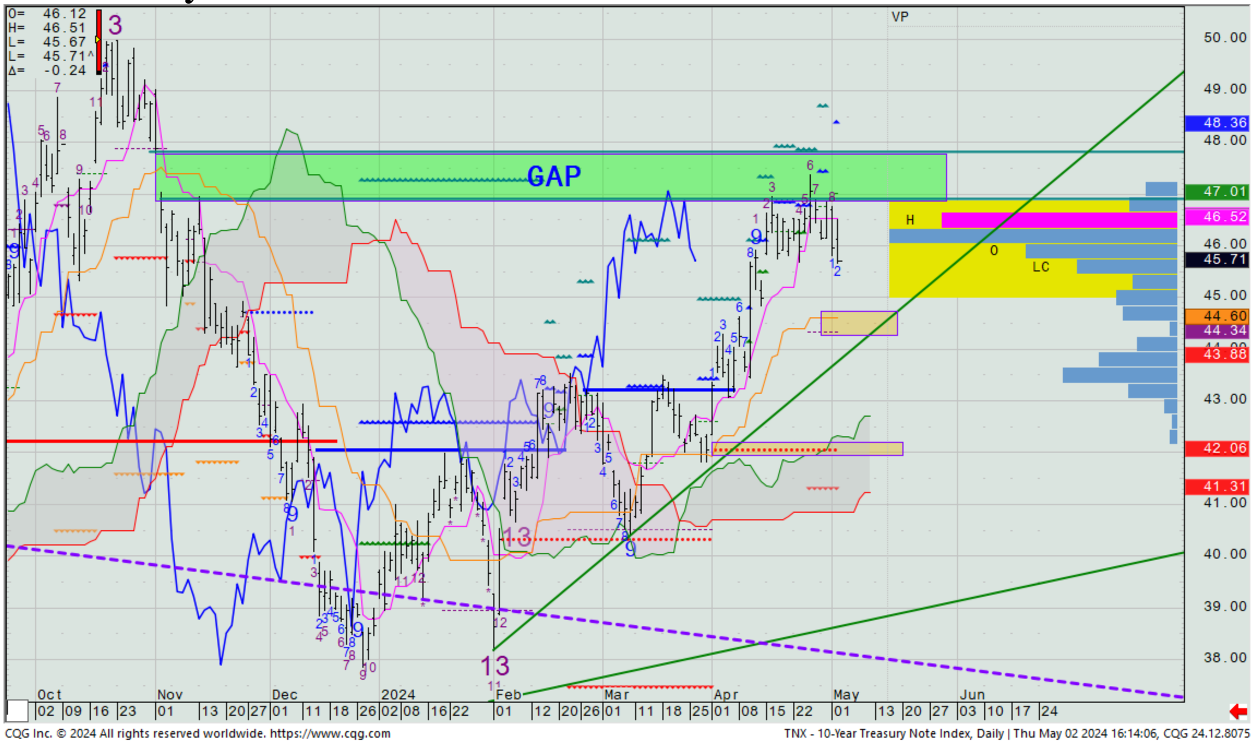
Higher rates have taken their toll on equities, as investors finally woke up to Chair Powell's consistent "Higher for longer" message (that he has been saying for over 6 months) that they had been refusing to believe. Fed Funds futures traders had priced in as many as seven rate cuts for this year back in January. Now, it's pretty much one to maybe two. So, of course stocks should be off highs: the very reason they rallied last fall no longer has the same fuel to keep the fire roaring like it had.

Let's look at updated charts of the tradable securities that most impact equities over time:

US RATES

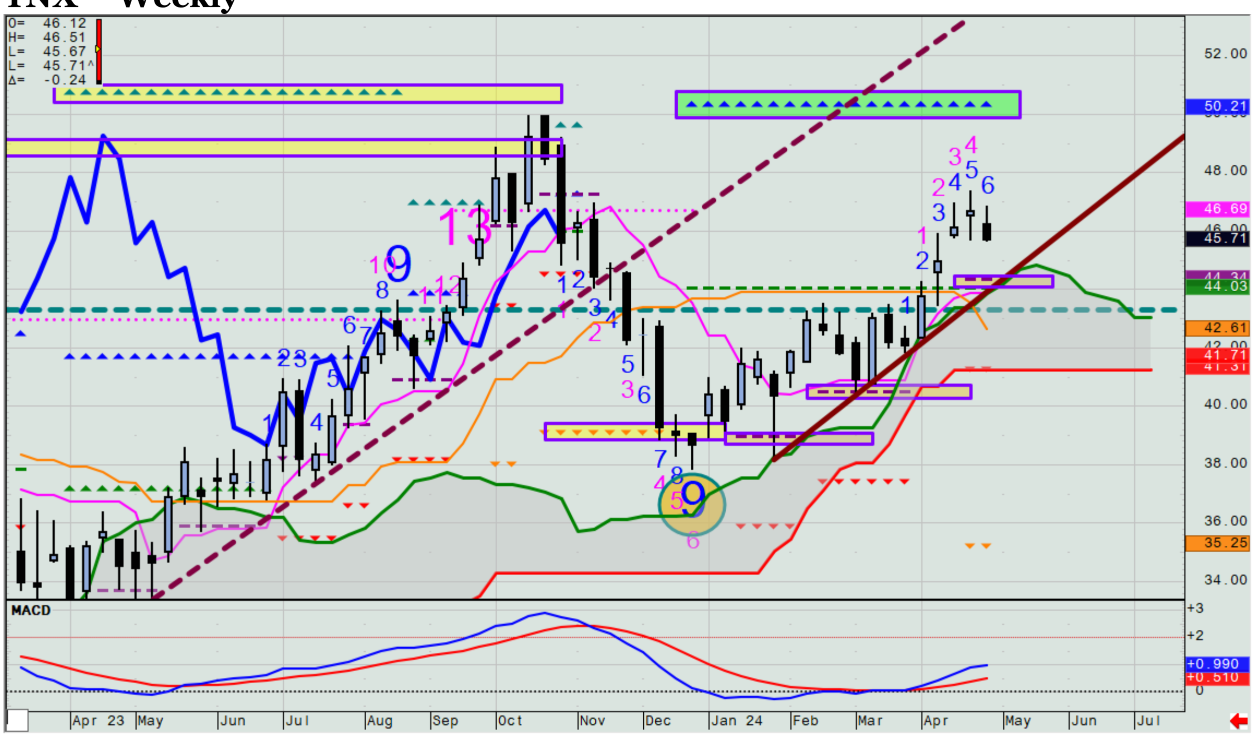
Last week, UST 10-yr. rates made new highs of the move up to 4.74%, which means that the daily Full Propulsion Exhaustion level of 4.722% has been achieved as measured from the lowest low in late-December. (It happens to be within what was the gap range from 4.70% to 4.78%. This is the only major resistance level left before a test of the 5% high.) I told my institutional clients last week that I think rates will trade back under 4.50% on this corrective move lower.

TNX – Daily



The weekly chart shows two times this year that the TNX sold off to a weekly chart's bearish Prop. Momentum levels – and both times proved to be the low of the move. That's usually occurs in a solid bullish run like we're still seeing. The newest one of those signal levels is at 4.434%. So long as yields stays above there, this remains a bigger bullish chart and targets a move to near 5.02% -- right by the highs made in Q4 '23. Get under there, and then you're talking the chance to get to 4.33% to 4.13%. A move like that would likely completely blow away bond traders, who have already had a very tough year.

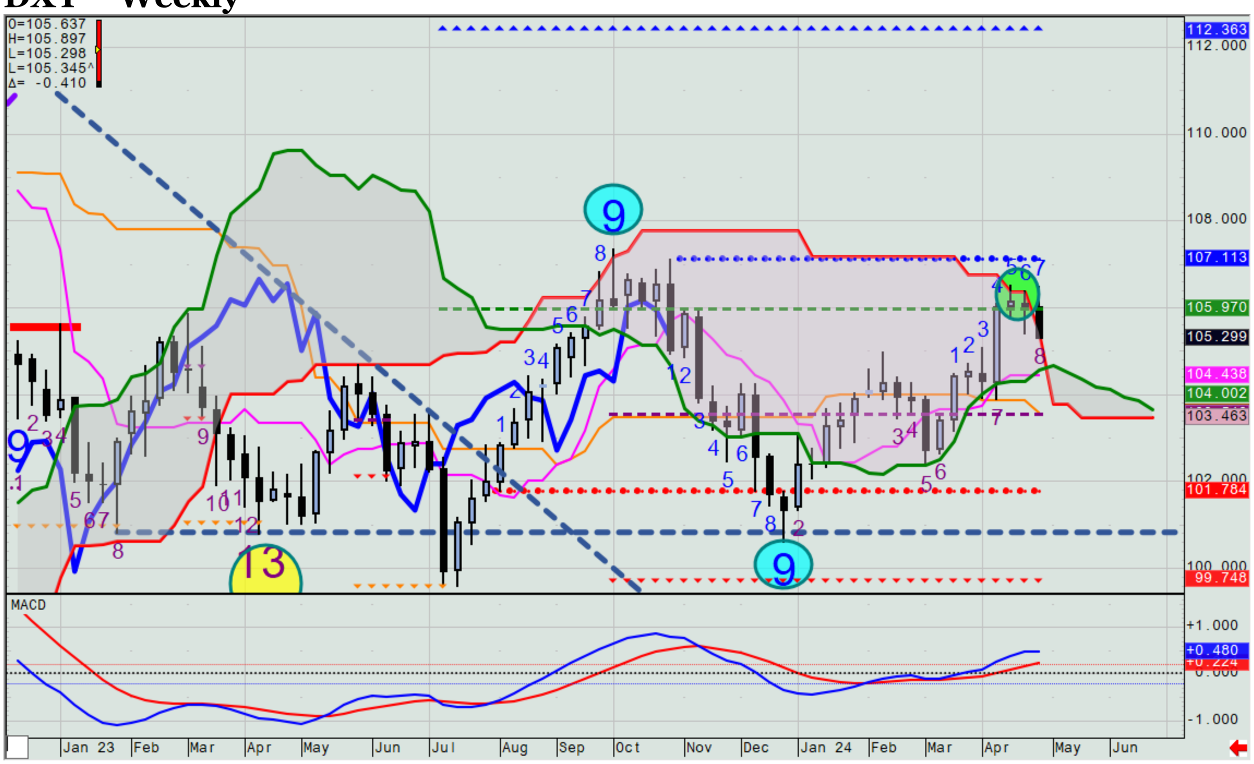
TNX – Weekly



Investment grade corporate credit spreads, my preferred credit spread index, made a recent new cycle low at 89 bps. (just 3 bps. above the all-time low of 0.86%) and is now at 91 bps. (down 1 bp. since last week's report). The larger head-and-shoulders top still has a measured move to something near 0.70%, but the upmove from testing near all-time lows must be noted. I can't make a case that the spreads are yet showing stress in the system, but without making new all-time lows, I'd not be aggressively looking for this to narrow here and now, either.

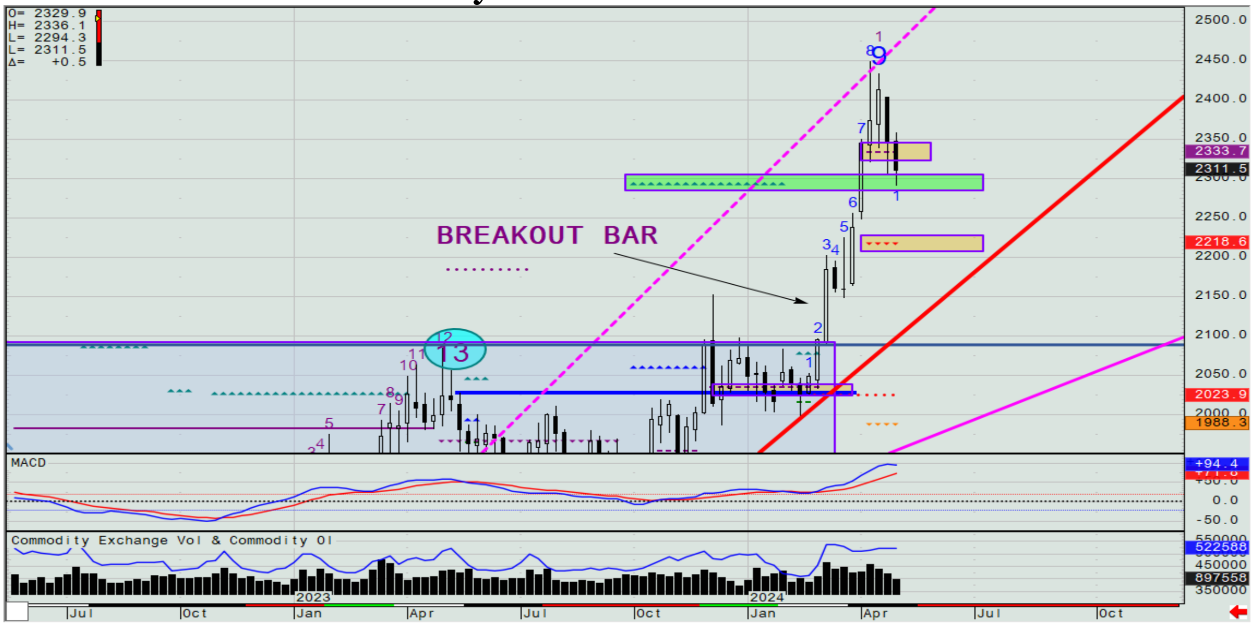
THE DOLLAR: The US Dollar Index's (DXY) topped two weeks in a row at its weekly cloud top (see neon green circle), and now has sold off this week, with price now sitting on the cloud top (but nothing says it can't go to its bottom, too). Last week I suggested a pause in the rally; we've got that now as rates have pulled back from the recent high. I continue to believe that the dollar will generally run as do rates.

DXY – Weekly



COMMODITIES: Gold reached the rough-measured target move to ~ $2450, and as I said two weeks ago, that along with the weekly Setup +9 count had me call for a likely "pause and refresh" downmove, which obviously happened. The weekly bearish Propulsion Momentum level at $2334 has been exceeded with this week's price action, but weekly breaches/breakouts are based on Friday closes. Let's see how it closes today.

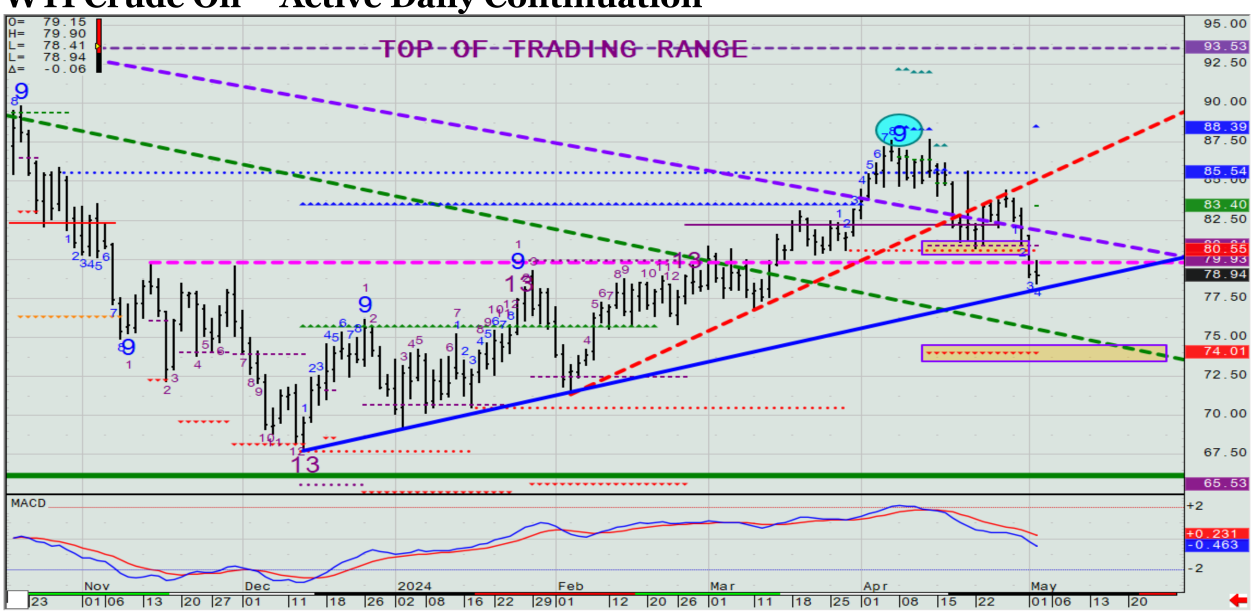
COMEX Gold – Active Weekly Continuation



CQG Inc. © 2024 All rights reserved worldwide. https://www.cqg.com GCA - Gold - Combined, Active Weekly Continuation (Delayed by 10 mins) | Thu May 02 2024 16:18:44, CQG 24.12.8075

WTI Crude oil is back beneath the pink dashed horizontal line that had a slew of previous highs at it. It should be support, but Thursday was the second day in a row that it closed beneath that level. Reduced Mideast tensions between Israel and Iran are taking some of the fear premium out of the market. With yesterday a minimal but nonetheless higher close, a down close today would be a qualified bearish breach of both the bearish Propulsion Momentum level and TDST lines that were in the $80.50/.85 area. If Monday gaps lower and trades beneath today's low, then I'd think there's more downside coming. Before you make a new play in this, watch to see how it does in testing the major uptrend line (in bold blue).

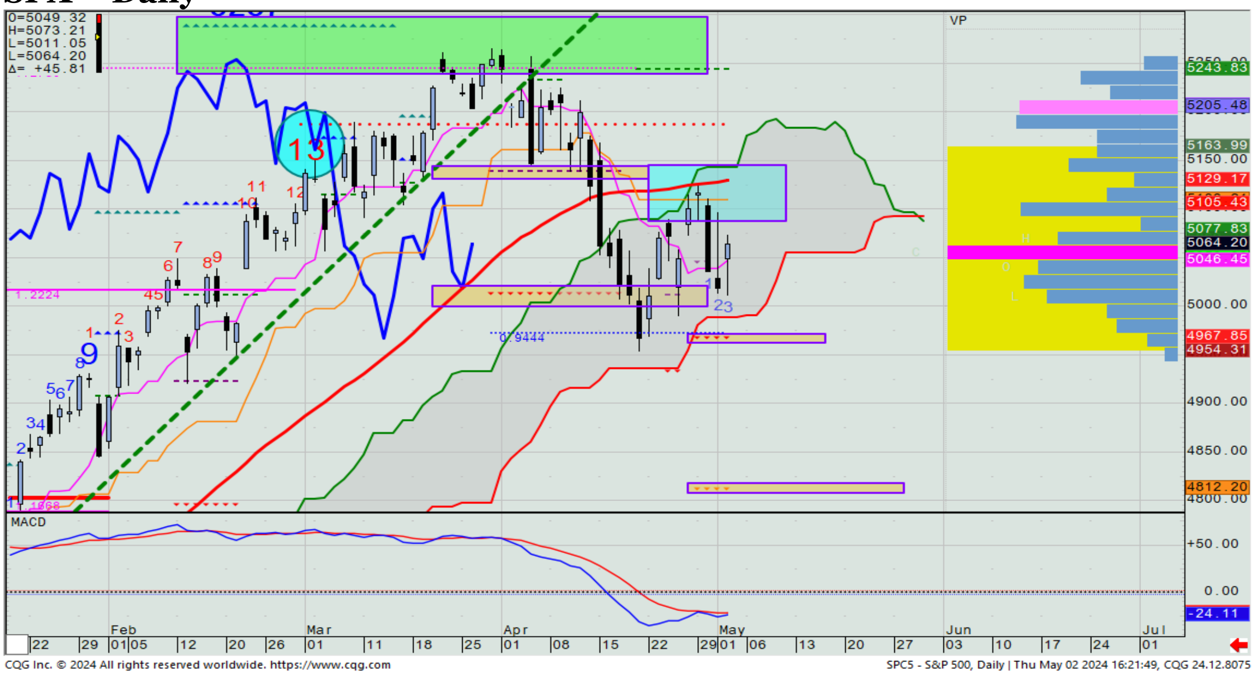
WTI Crude Oil – Active Daily Continuation



CQG Inc. © 2024 All rights reserved worldwide. https://www.cqg.com CLA - Crude Light - Combined, Active Daily Continuation (Delayed by 10 mins) | Thu May 02 2024 16:20:04, CQG 24.12.8075

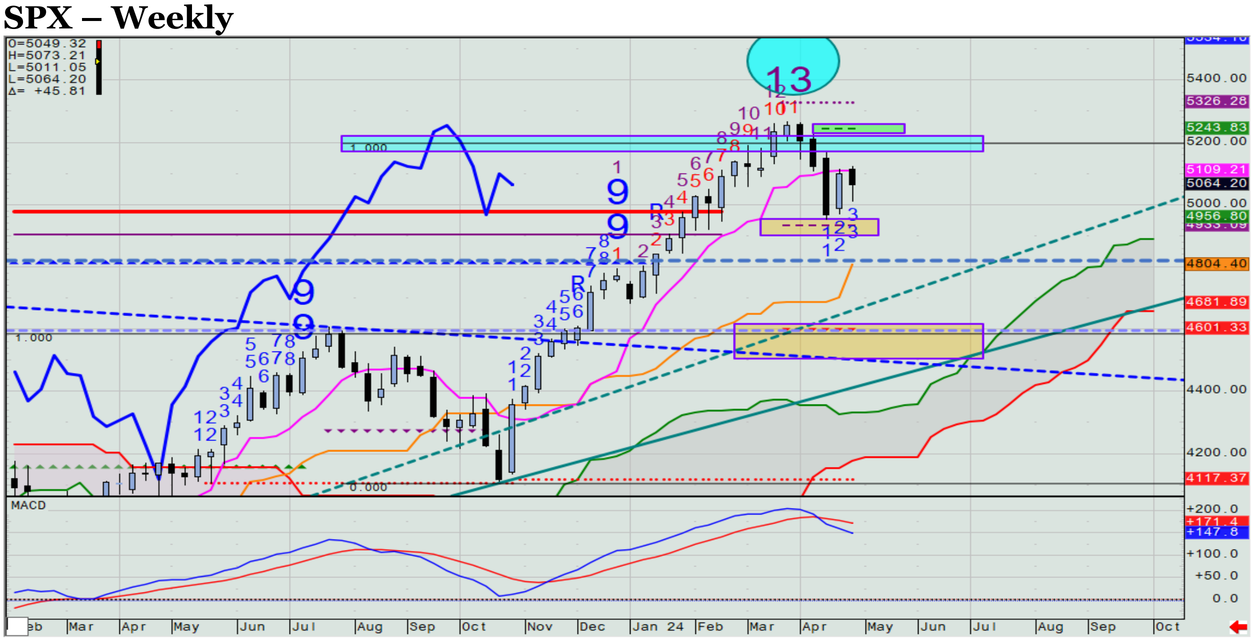
EQUITY INDEXES: The SPX bottomed right at its first Trend Factor down from all-time highs; bounced right to the resistance zone I had highlighted last week; and then has been in a very back-and-forth type daily pattern to make mincemeat out of most who have tried to outsmart the intraday moves. However, we do see a fresh qualified and confirmed bearish Propulsion Momentum signal from Wednesday this week, with an initial downside target of 4968 and a secondary target of 4812. However, should price exceed Monday's high of $5123.49, then this signal is no longer valid. Also, notice how many large black daily candles appeared over the past month. Those come from real institutional selling, which certainly helps give a reason to be far less bullish.

SPX – Daily



The weekly bearish Propulsion Momentum level remains at 4933. Absent a break of that number on a Friday close, the overall bigger bull scenario remains. With the current high having been marked with an Aggressive Sequential +13, the risk vs. reward to being fully invested is no longer what it had been.

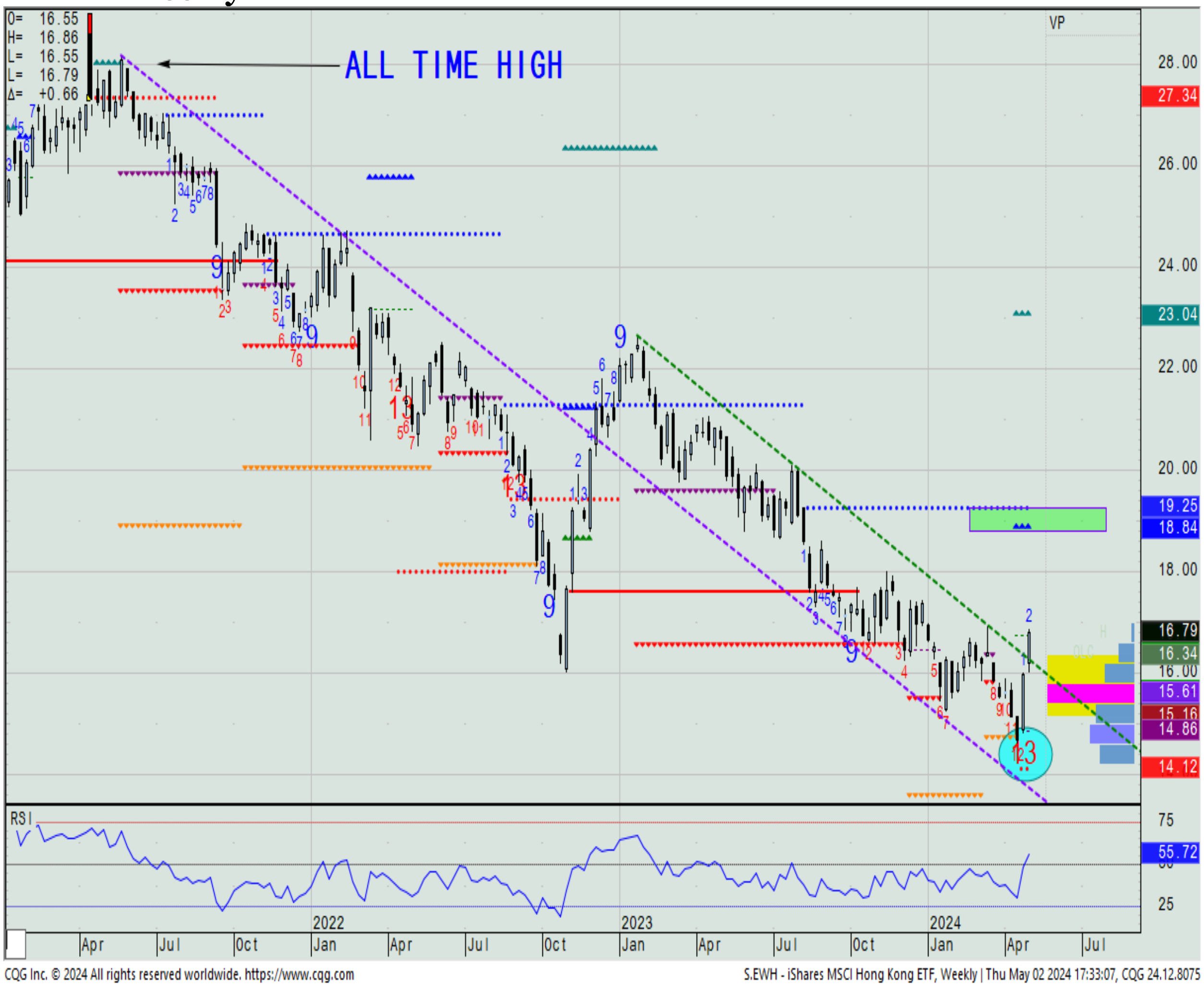
SPX – Weekly



New ETF Trade Idea

They say that history doesn't exactly repeat itself, but that it often has a very similar rhyme. With that in mind, let's look at the **iShares MSCI Hong Kong ETF (EWH)** weekly chart.

EWH – Weekly



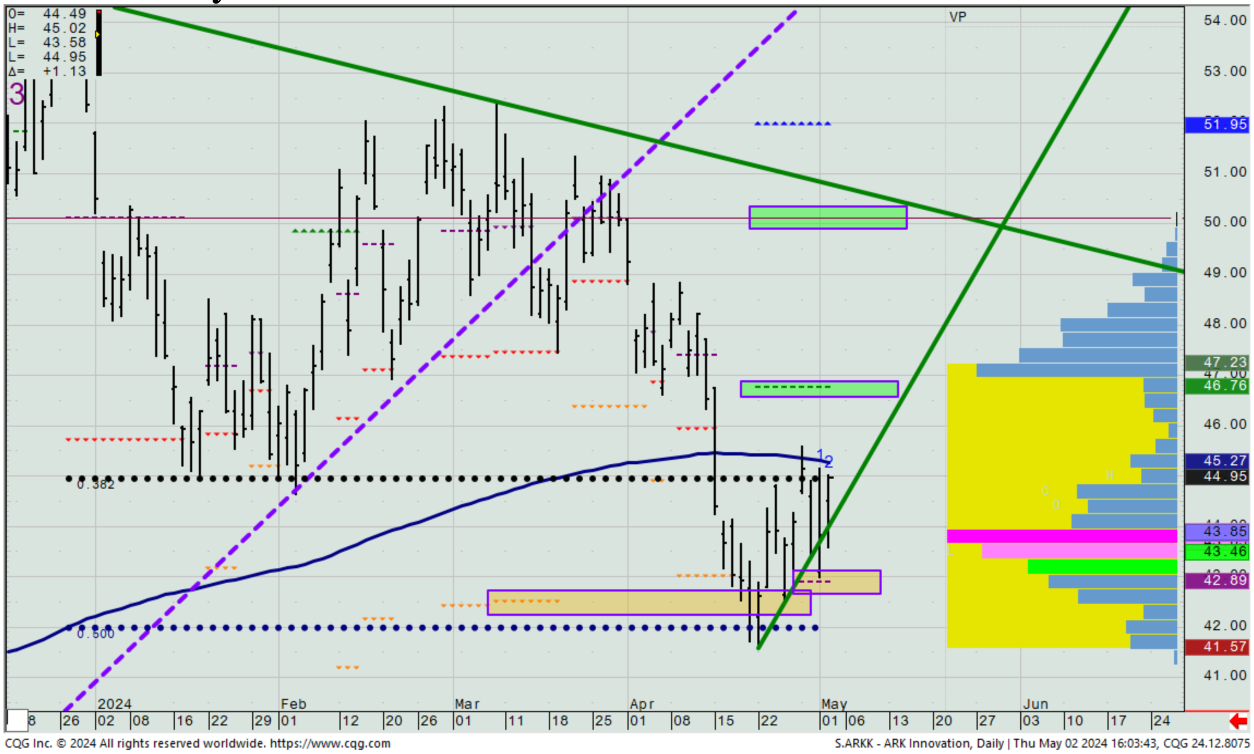
When the purple-colored downtrend line was broken above in Fall '22, the ETF rallied to for another couple of months before turning back down. This week just broke above a 15-month downtrend line (that came right after a weekly Sequential -13 count last week). I'd look for this to follow-through to the upside over the next two months to potentially reach the $18.84 to $1925 target area (highlighted in the neon green rectangle). Let's look to buy a ¾-unit today, and another ¾-unit on a subsequent pullback to anything near the broken green downtrend line (next week at $16.17).

The sell-stop is a tough one on this, because the past two weeks have rallied so much. I'll use something like a Friday close or two under < $15.42.

Other Open Recommendations and Positions

Long ARKK
Last Friday we got long this ETF at an avg. price of $43.50. I had posted two upside targets of $48.76 (+/- 10 cents.) and $50.11 (+/- 10 cents); take off 50% at each. Raise the sell-stop to a close under $42.89. (See chart on top of page 7.)

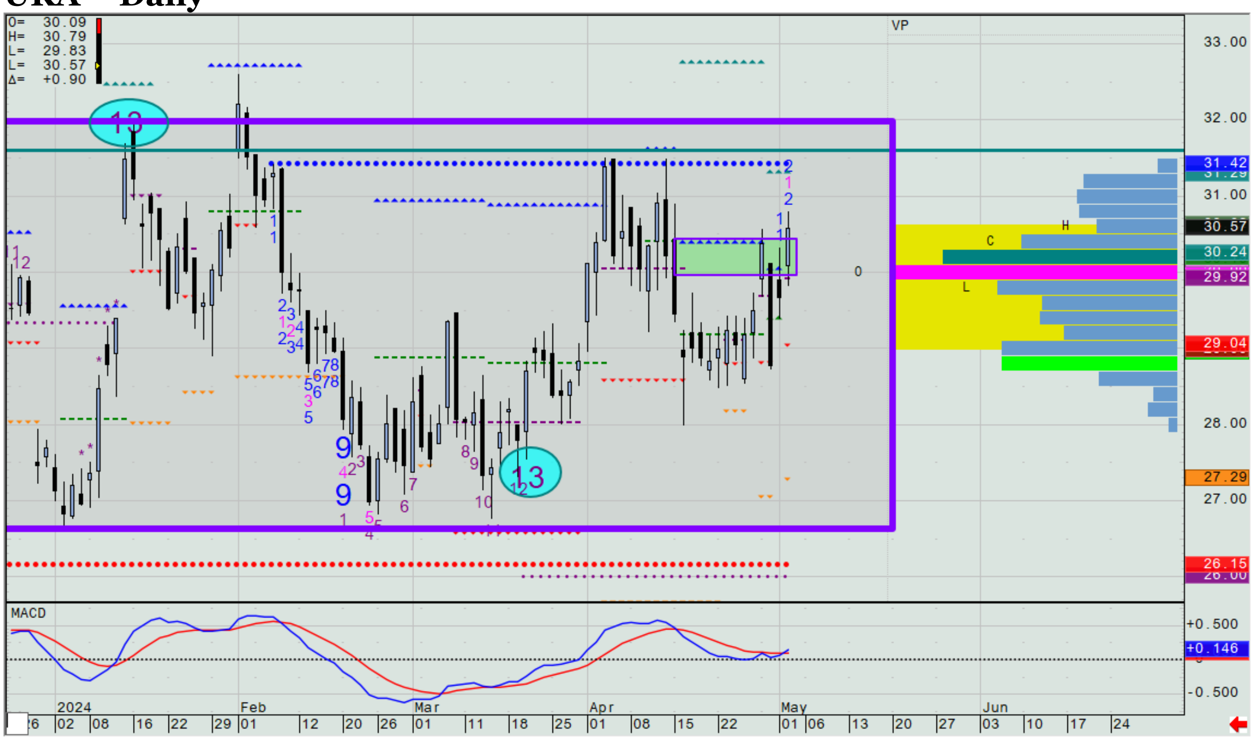
ARKK – Daily



Short URA

We got short at an avg. of $30.19. We'll look to cover 2/3 near $27.80 and 1/3 from $26.20 to $25.70. Given the big down candle two weeks ago, and then a move back above the Propulsion Exhaustion level ($30.37), I'm going to change our exit to cover on any Friday close above $30.62 (which very well may happen today).

URA – 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