I'm Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

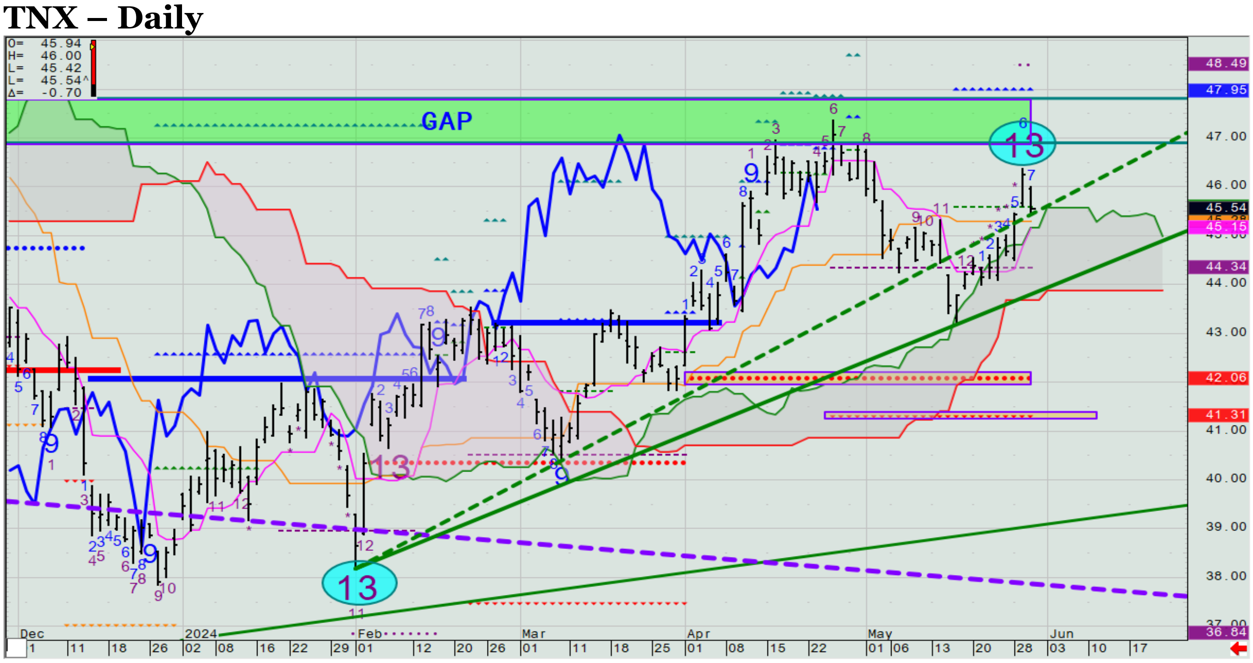
While I was away last week, the two key major US stock indexes – SPX and NDX – made new all-time highs, fueled largely in part by NVDA's strong quarter, with the stock making huge gains for the month and year – and helping pull a lot of mega cap tech names higher with it. At the same time, the SPX actually had a lousy day the session after that NVDA release – gapping up to a new ATH but selling off sharply. That range from last Thursday has been the boundaries of trading since, until yesterday finally took out the bottom end – something that some will look at as a negative.

However, to me, the next significant move for stocks will likely more be driven by what happens in the interest rate arena, and it is there that we need focus on because a big move in rates – at this point within what is already an extended stock rally since last October's cyclical low – will likely be the catalyst for how, why, and where stocks trade over the summer. And to that end, let's first look at what I'm seeing in the rate market:

US RATES

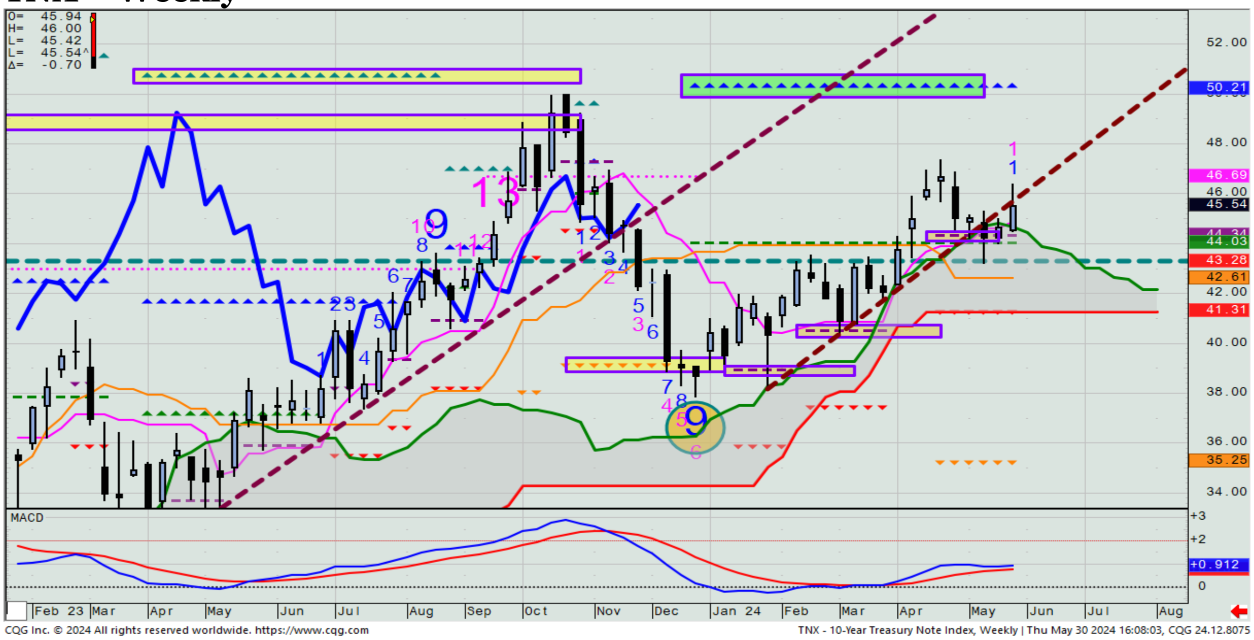
In my last report two weeks ago, I said, "We see a Setup -7 count, potentially seeing a near-term bottom come by Monday or Tuesday. (And that could easily come from beneath that 4.43% level.)". It came at 4.32%, and subsequently, rates rallied to as high as 4.64% on Wednesday – the same day we saw a daily Aggressive Sequential +13 made.

TNX – Daily



The weekly chart had a break of the bearish Propulsion Momentum level of 4.434%, but not a proper one to get a sell signal on the breach two weeks ago. But I have told Daily Tip Sheet clients that I was a willing buyer in the 4.55% to 4.65% zone (which we formally did yesterday with a specific TLT long idea). Today's PCE report – in all likelihood – will be the determining catalyst as to either starting another leg down in rates, or perhaps, to a test of the April rate high and perhaps even on to the 5% level. See the latter, and stocks will fall. But see the former, and I'd tend to think that whatever near term decline appears in equities will be a non-material one. As for yields, I'd target the TNX to move down to 4.13% on new lows under the May low.

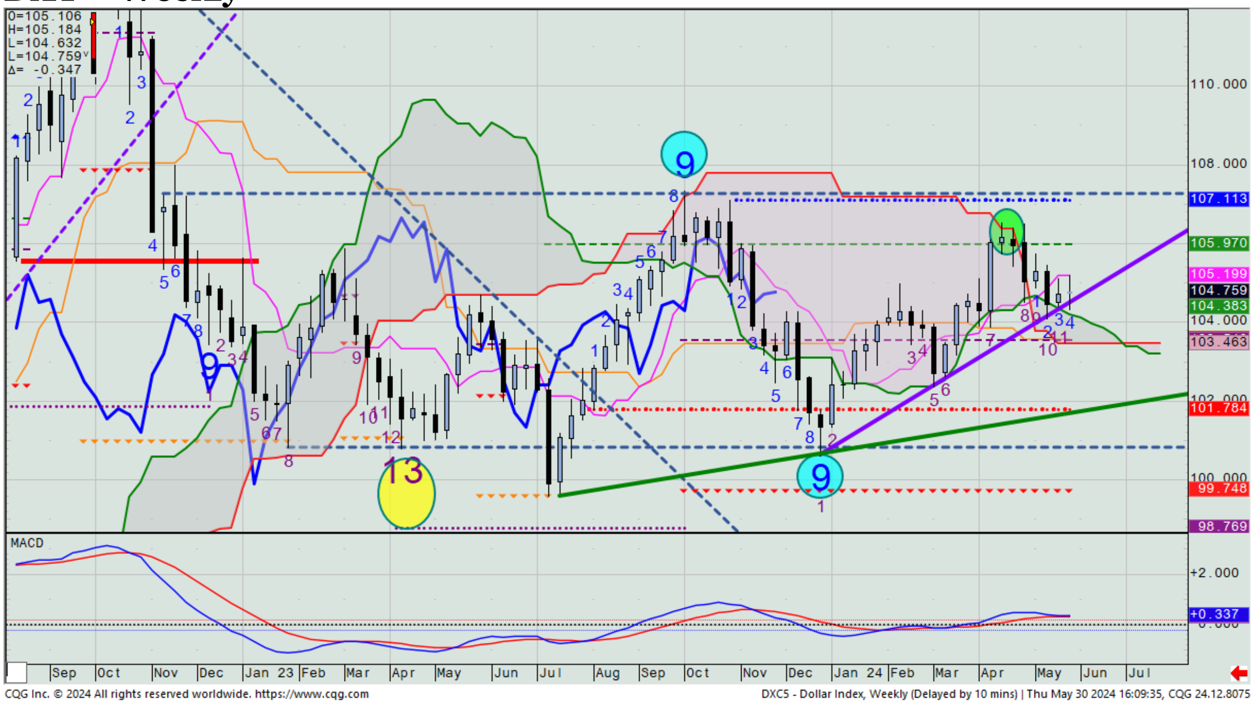
TNX – Weekly



Investment grade corporate credit spreads, my preferred credit spread index, remain with a cycle low on of 88 bps. (just 2 bps. above the all-time low of 0.86%) and where they are right now. 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, and then staying beneath 0.86%, I'd not be aggressively looking for this to narrow here and now, either.

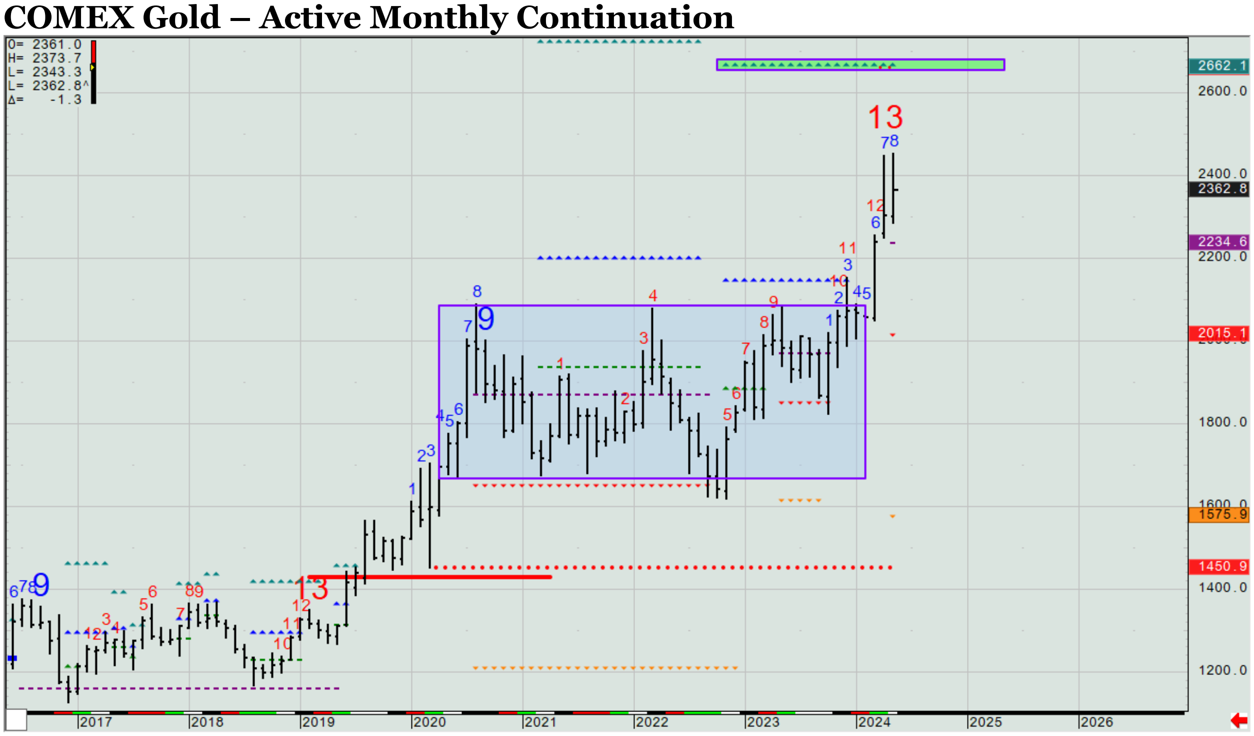
THE DOLLAR: The US Dollar Index's (DXY) topped six weeks ago at its weekly cloud top (see neon green circle), and now has since sold off. If rates don't get a boost from today's CPE number to soon make new 2024 highs, then I think they ultimately trade lower, dragging the dollar down with it.

DXY – Weekly



COMMODITIES: Gold bounced from support near $2334 and tested all-time highs, and now is holding against that same level. It continues to consolidate its significant gains. I still do like gold for the long-term, but even the below monthly chart made a +13 signal in April and is on a Setup +8 for May, suggesting that a June peak may be in order, especially if it nears $2662.

COMEX Gold – Active Monthly Continuation

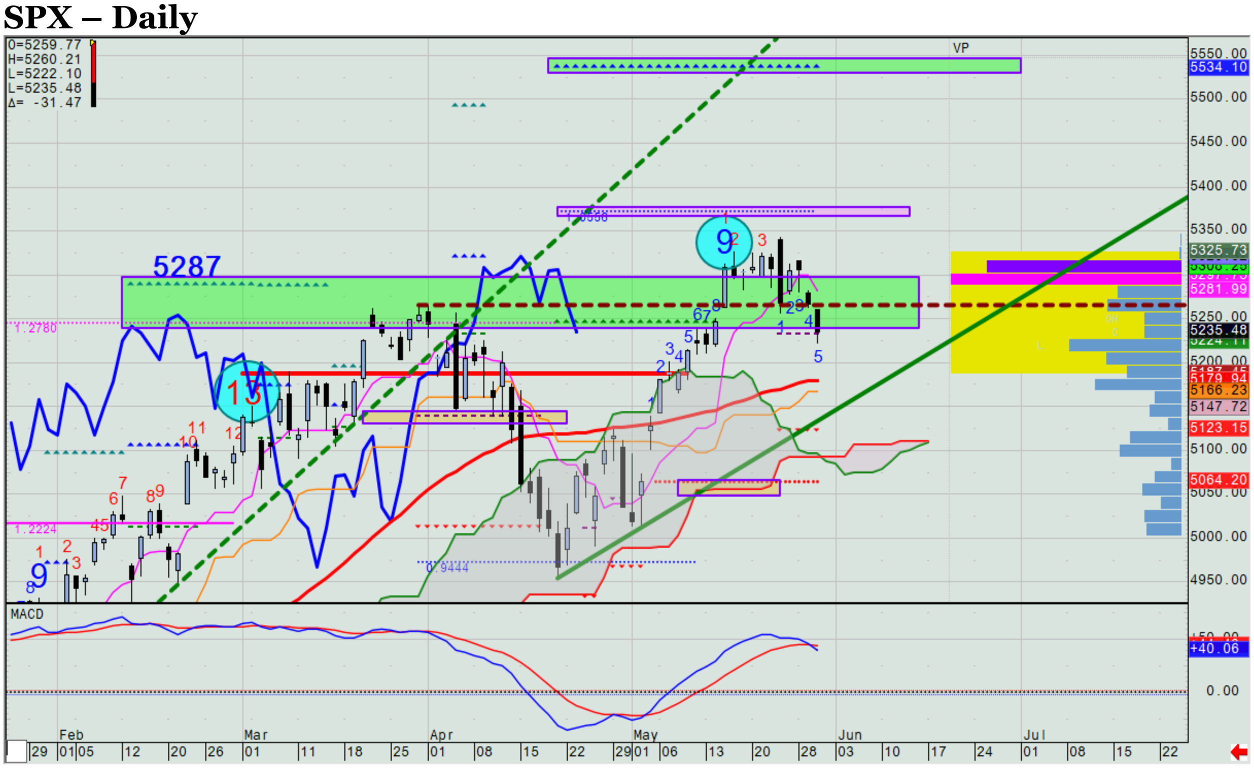


WTI Crude broke its uptrend line, but may find support at its 200-WMA, as it has done so a few times in the past. The US is producing some 13 million barrels/day – making it the largest producer in the world. It takes demand to constantly stay strong to keep price elevated.

WTI Crude Oil – Active Weekly Continuation

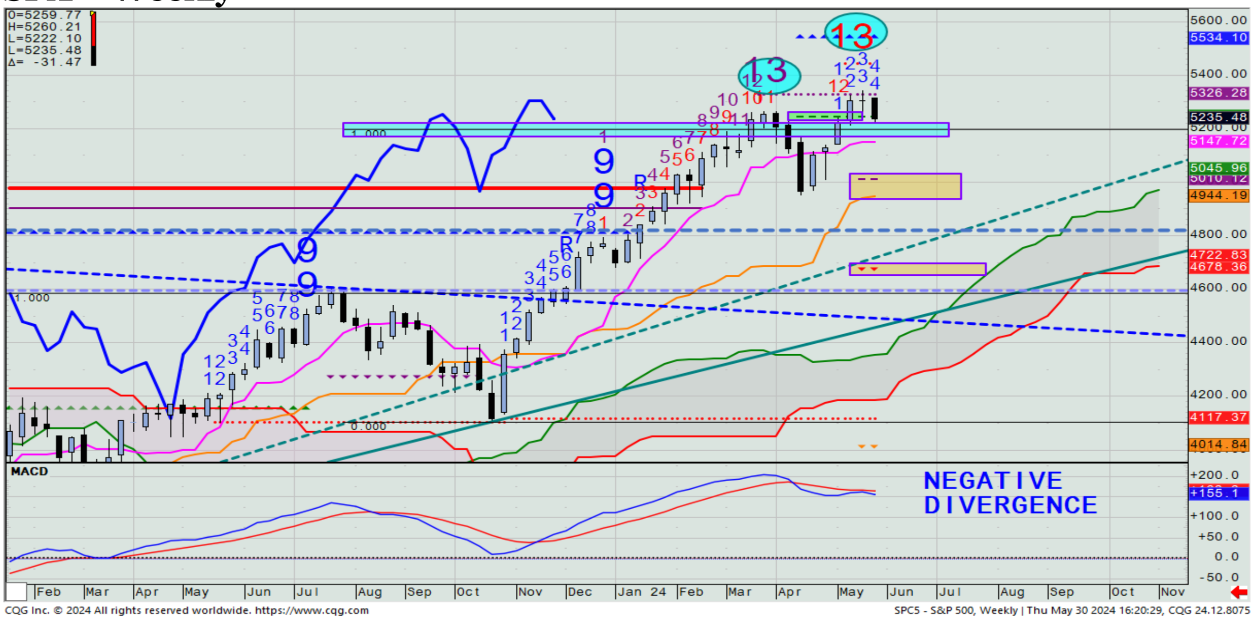
EQUITY INDEXES: The SPX got its first "uh-oh" day a week ago Thursday when NVDA's earnings Wednesday evening took the stock well-higher, but the large SPX gap higher made what is still the ATH, and a week later price broke that day's low – keeping the NVDA gap up day as the newest hurdle for the comparable SPX's high to surpass.

SPX – Daily



The weekly bearish Propulsion Momentum level has moved up to 5010. Absent a break of that number on a Friday close, the overall bigger bull scenario remains. However, the weekly chart has also recently posted a standard Sequential +13 count (the most watched of all the +13 signals), which means that there will be a slew of PMs who will be willing to find reasons to lighten exposure. If I'm right that rates will not make a whole new leg higher, then a potential decline in them will likely keep stocks from their own material decline. But with a possible negative divergence made along with the +13 that came in when the initial +13 hit its Risk level, I'd not be buying many stocks right now.

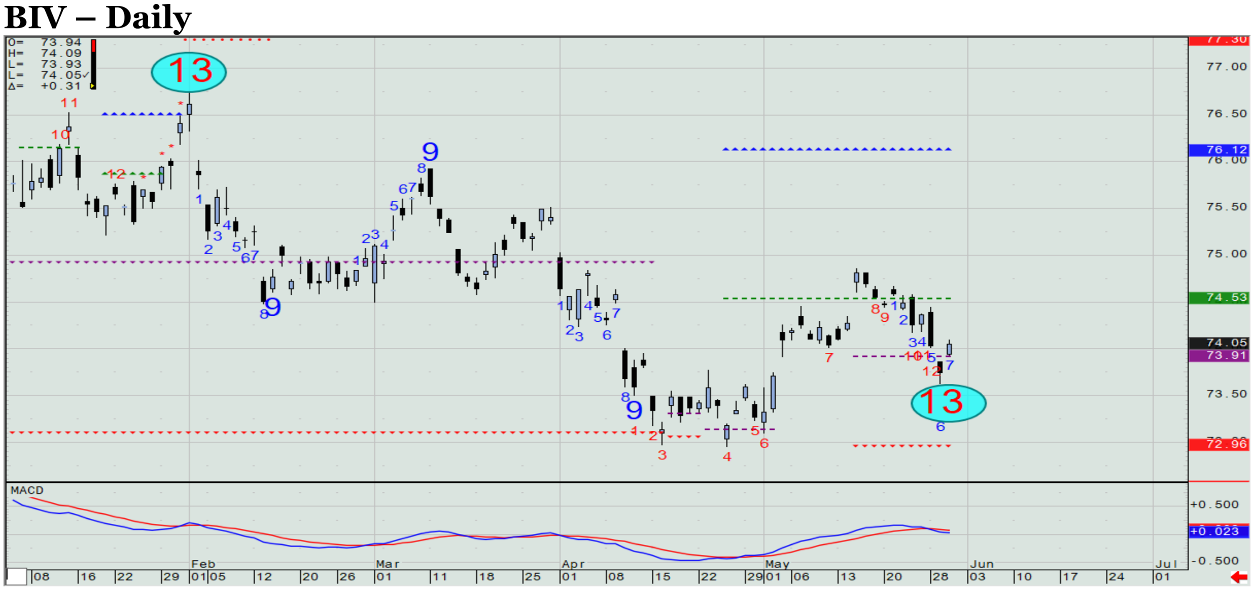
SPX – Weekly



New ETF Trade Idea

By now, you know that I think today is going to be an important day in helping determine which direction the market trades in the near-term. So, whether today or in the next few days, if the **Vanguard Intermediate Corporate Bond ETF (BIV)** closes above the close from four days prior, let's look to get long this bond fund. I'll target $76.12 +/- 10 cents. (I can't yet set the sell-stop until I see where we get in.)

BIV – Daily



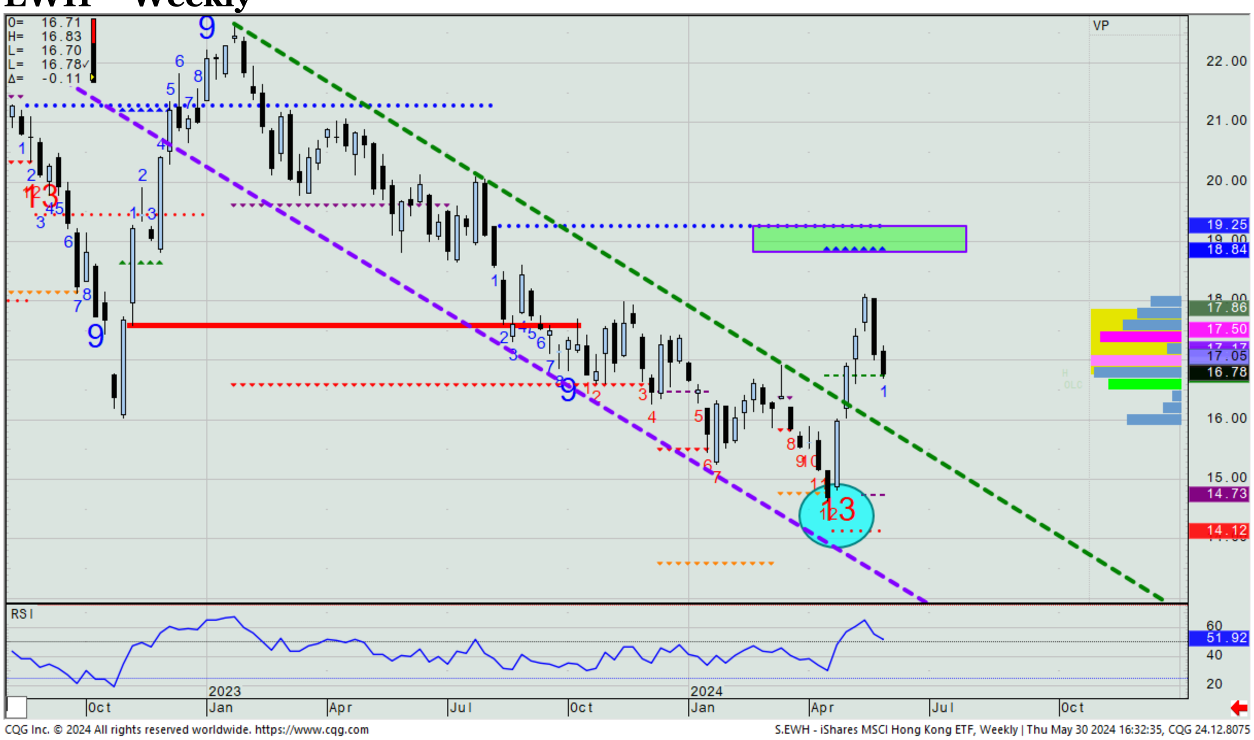
Other Open Recommendations and Positions

Long XBI
We were looking to get long between $86 and $85, but I am going to cancel this idea.

XBI – Daily

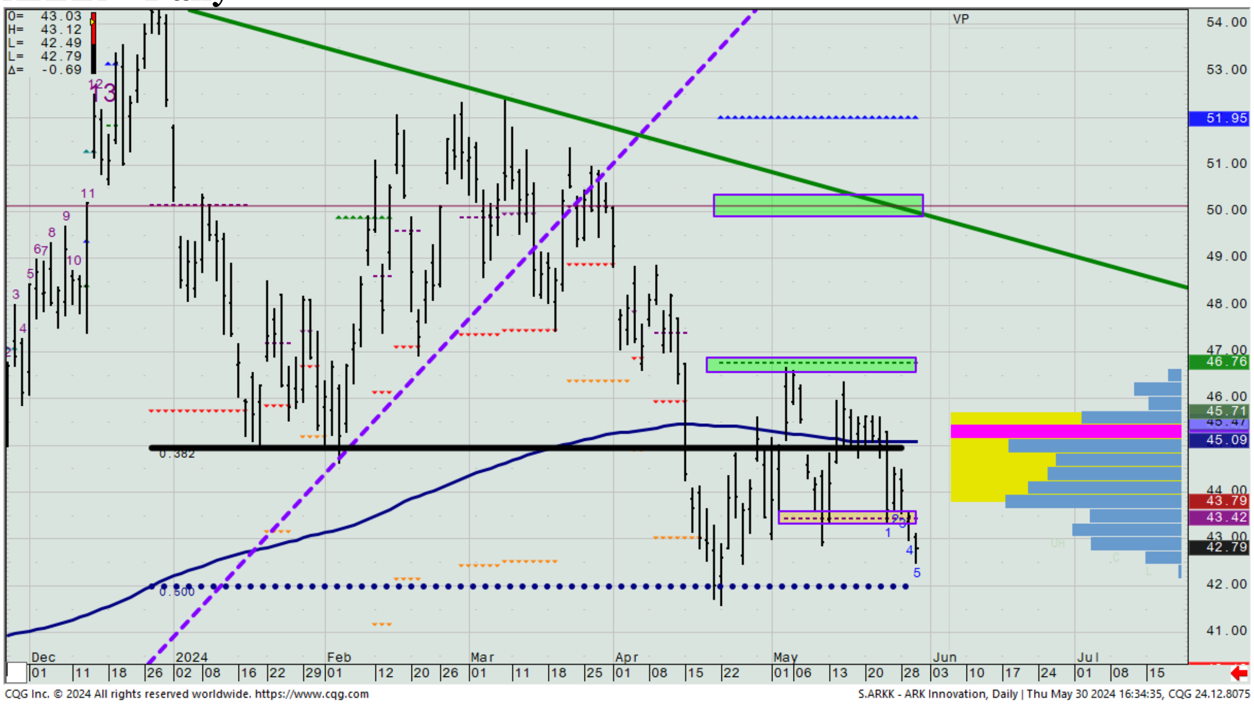
Long EWH
We're long ¾-unit (avg. entry price $16.89). Cancel buying the other ¾-unit we were going to buy on a bigger pullback. I'm targeting the $18.84 to $19.25 range to scale out of the trade. Exit today if we see a down close (You may very well be able to figure this out well before the close.)

EWH – Weekly



Long ARKK
A month ago, 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. The sell-stop was raised to a daily close under $43.42. That finally happened yesterday at $42.79. We lost 1.63%.

ARKK – 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.

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