Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com August 16, 2024

TACTICAL TRADER REPORT

The Macro Picture

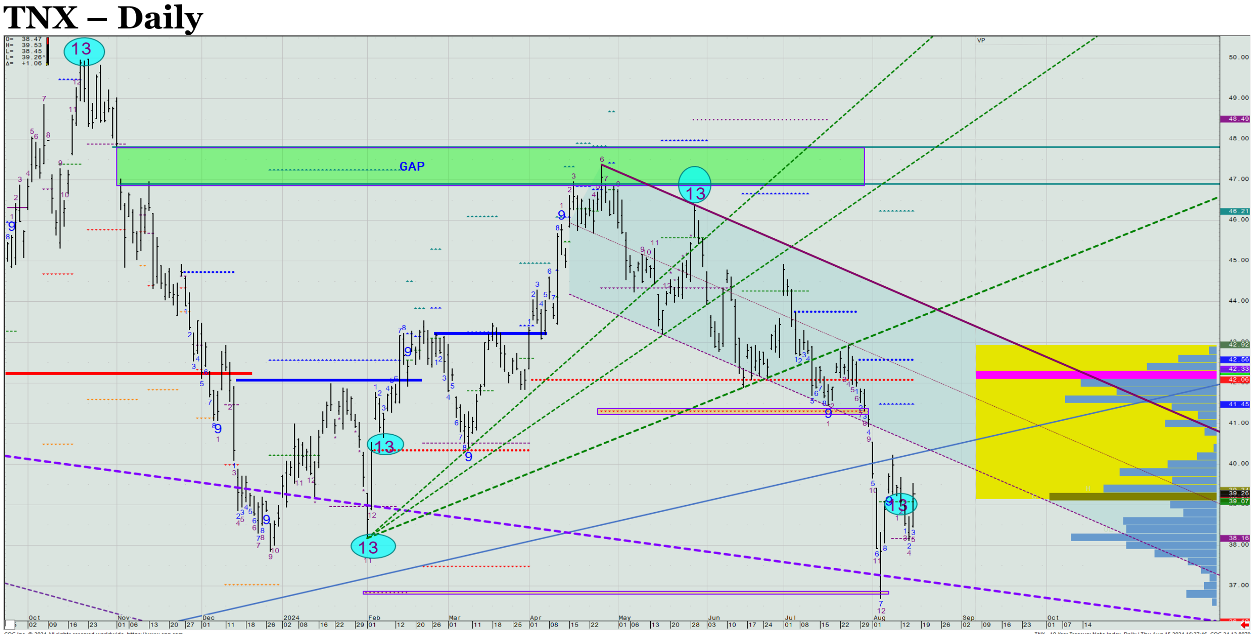
Investors have surely gotten past the fears of two Mondays ago, bringing stocks to levels even higher than where they were three Fridays ago, while UST 10-yr. rates have stayed above their spike low of Aug. 5th. No technical damage was done to the major indexes on that one-day massive decline, as SPYs and QQQs bottomed at very logical support levels. (It's why in the Daily Tip Sheet I had come back with a profitable Long MAGS/Short RSP trade shortly after.) But with the VIX having subsequently declined from a spike high at 66 down to the mid-teens, is all just back to normal? Would this have been a Gilda Radner Saturday Night Live skit where she'd ultimately realize that her long-winded argument over something was completely misguided, and then state the famed words, "Never mind"?

Let's start by looking at the other major asset classes' charts:

US RATES

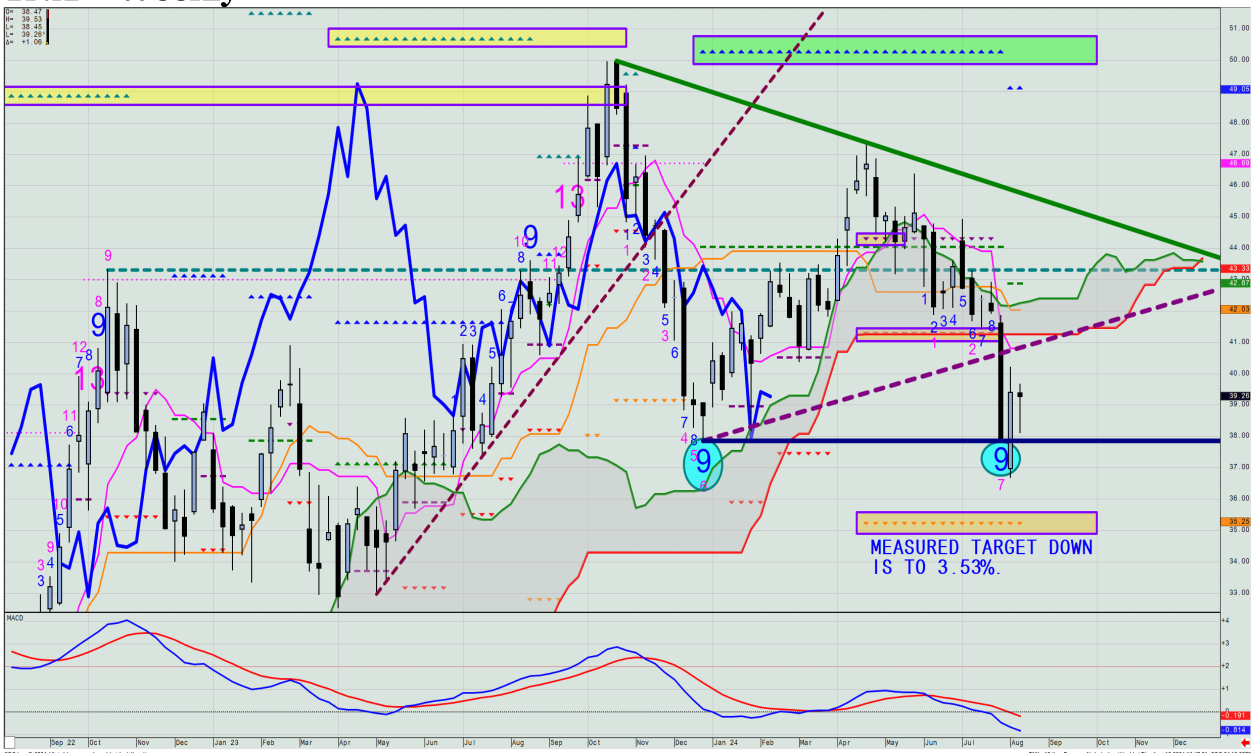
Rates bottomed one basis point above my 3.68% trading low target, rallied to as high as 4.02%, and then pulled back down to the low-3.8% area. Personally, I have taken off part of the bond position I have held for months (as well as an old TLT one that I actually took a loss on. I need some losers for tax reasons considering I've raised a fair amount of capital this year by exiting long held stock positions.). By the way, look at where the Aggressive Sequential 13 signals are on this chart.

TNX – Daily



The measured target down from the ATHs remains at 3.53%. I'm not saying we don't get there at some point, but I also see reasons for yields to bounce, too. At this point, the TNX 4.13% to 4.26% range should be tough to get back above.

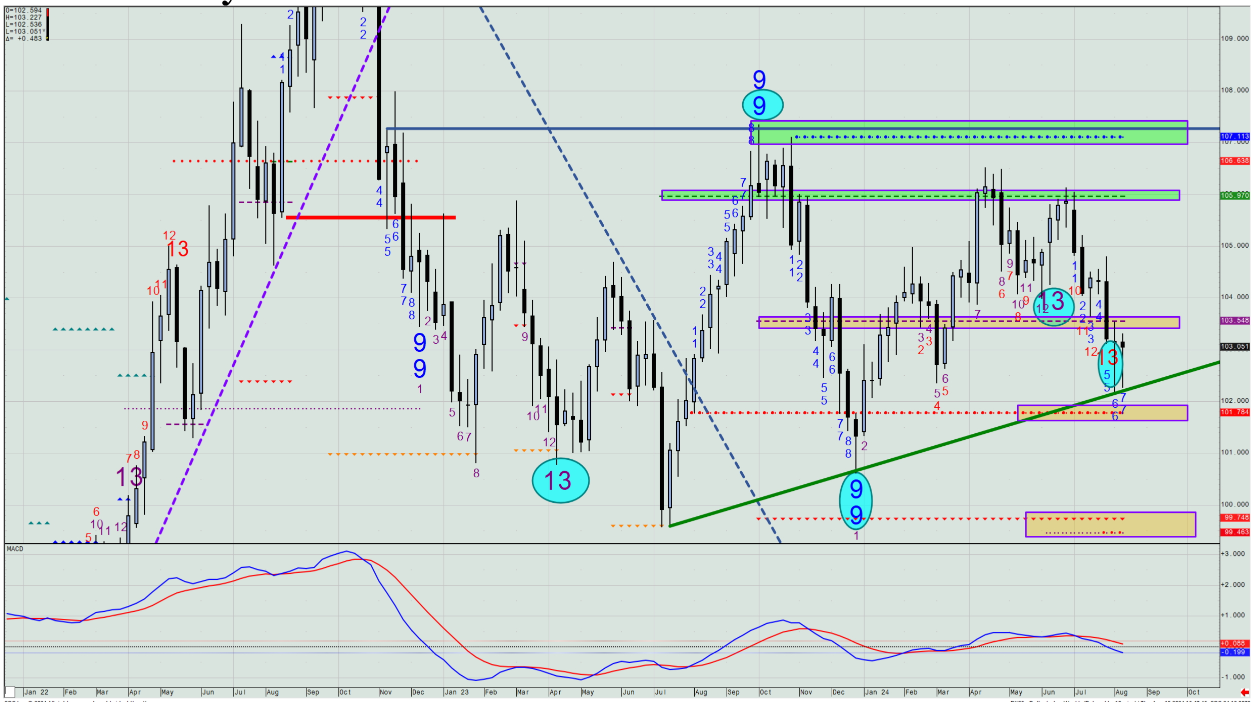
TNX – Weekly



Investment grade corporate credit spreads, my preferred credit spread index, rallied as high as 1.12%, and are now at 1.02% -- down 5 bps. since last week's report. First significant resistance is from 1.15% to 1.20% (i.e., the prior breakdown area). Support should be found backfilling to the broken downtrend line (currently in the mid 0.9% area).

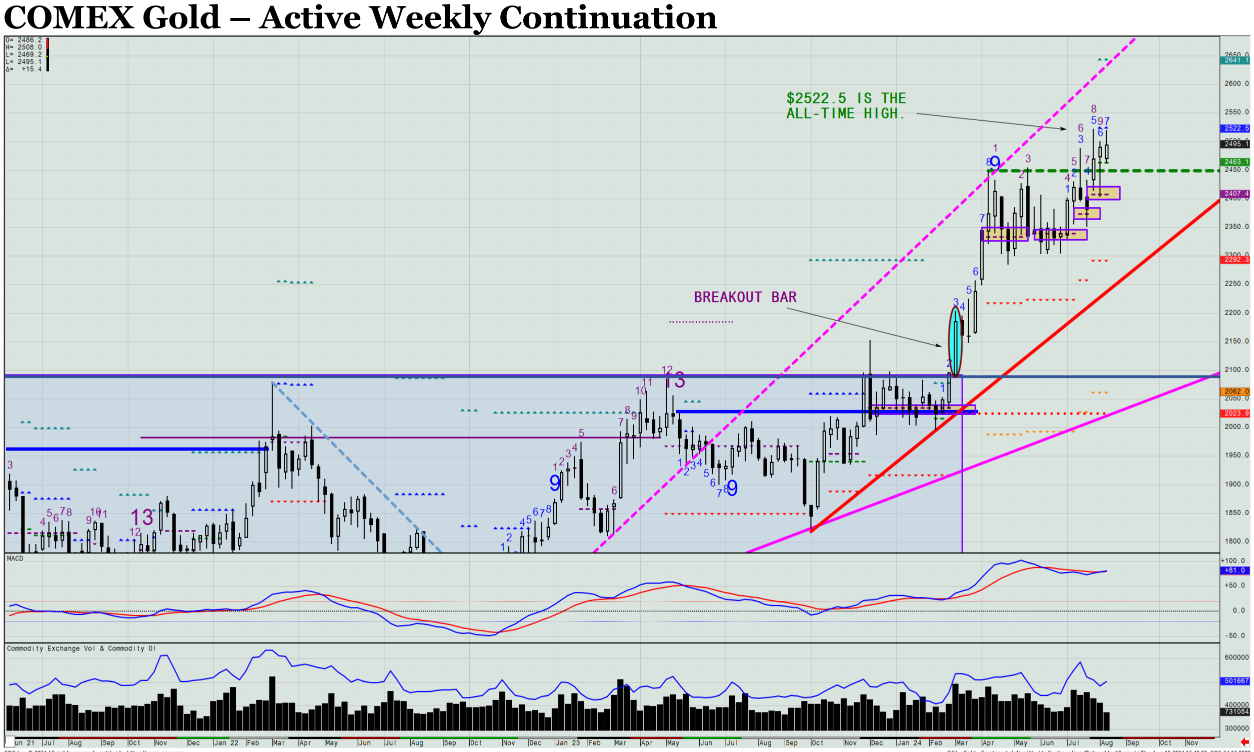
THE DOLLAR: The dollar bounced on trendline support two Mondays ago, and did so again this week. In general, I believe the dollar will continue to generally move with rates. For now, the greenback remains in a large trading range.

DXY – Weekly



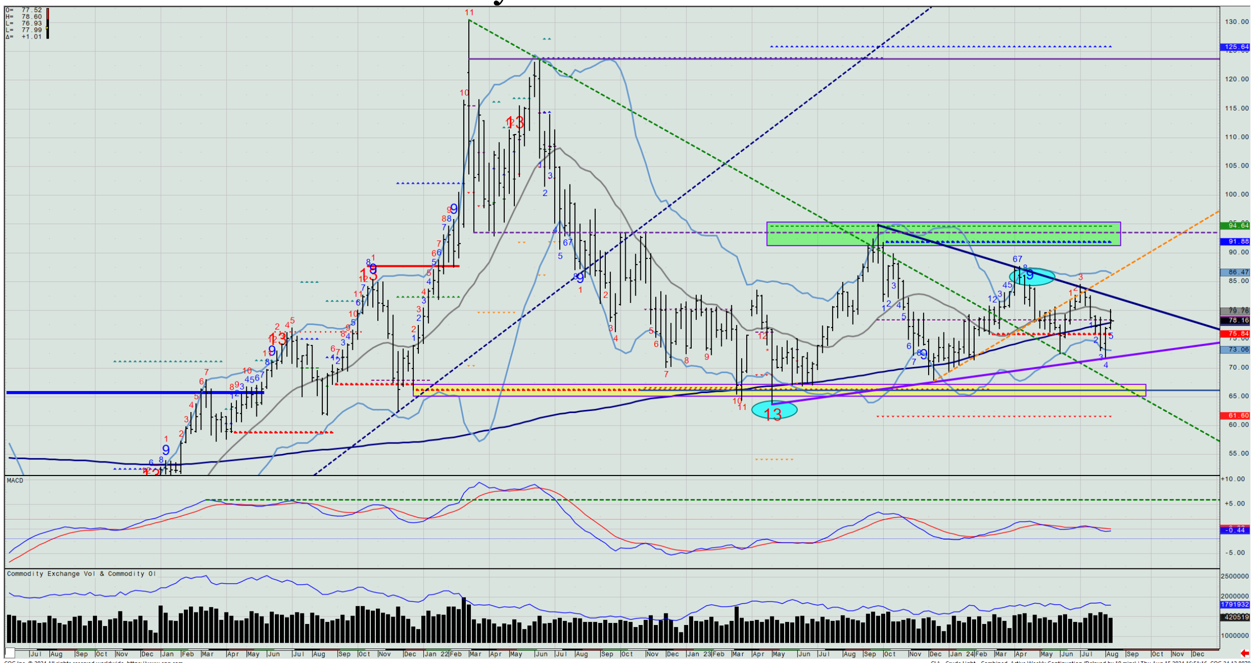
COMMODITIES: **Gold** got hit mid-week after failing to make a new ATH. But what stands out the most on the chart is the continuous support seen over the past 4.5 months that comes right near the bearish Propulsion Momentum levels. Failed sell signals are bullish. (That doesn't mean this can't crack to under $2300 without a lot of trouble.) Count-wise, this still has another 2-3 weeks to go to potentially get coincident Setup +9 and Aggressive Sequential +13 signals.

COMEX Gold – Active Weekly Continuation



WTI Oil has a fear bid/afraid to be short component to it, given the extremely elevated Mideast tensions. Absent that, I think it would be trading many dollars lower, as there is both a demand concern and seemingly ample supply, too. I have no major call for oil.

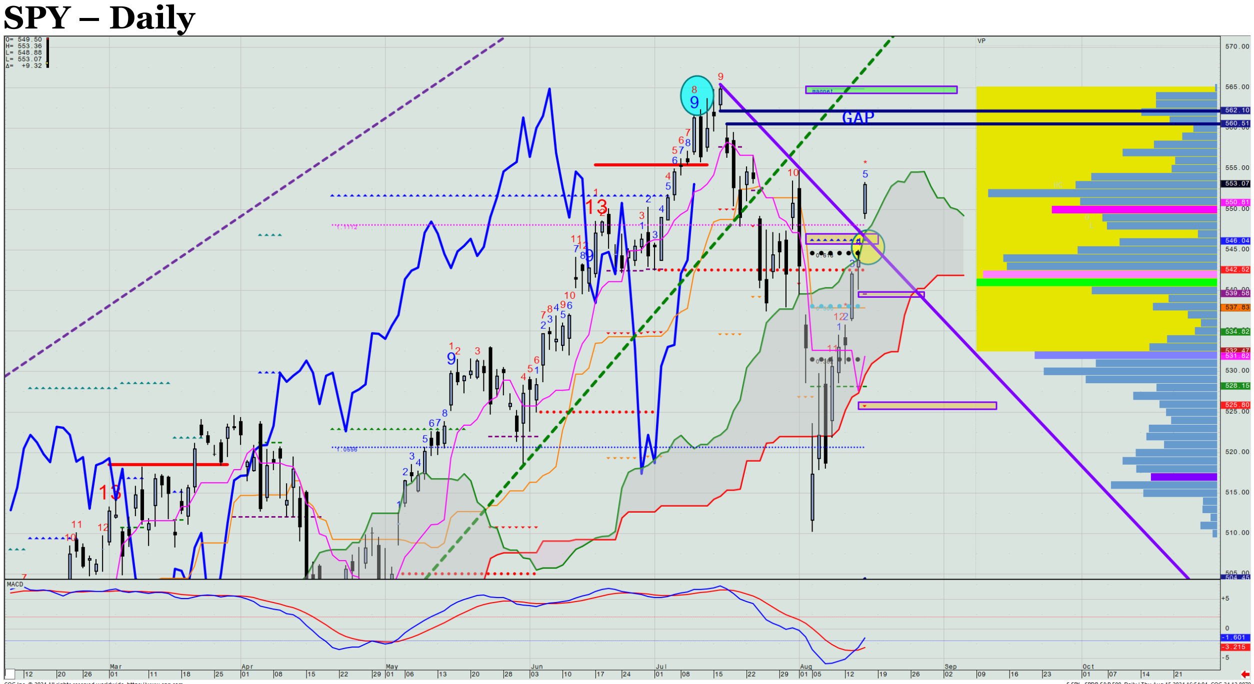
WTI Crude Oil – Active Weekly Continuation



EQUITY INDEXES:

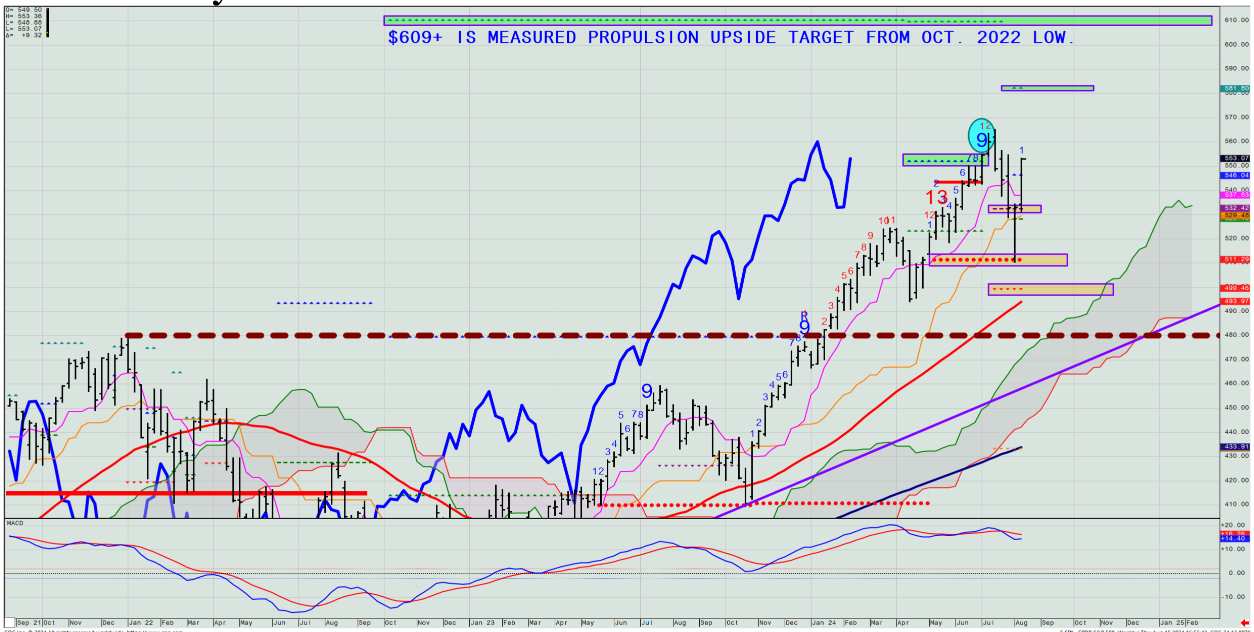
Two weeks ago, the SPY bottomed on the fateful Monday right at its weekly TDST line, and it's been a moonshot higher since. Price exploded through every possible resistance level to now leave only the unfilled gap made from the day after the ATH was made. (The move redefines "resilience".) Yesterday's surge even gapped right through the daily Propulsion Exhaustion level and downtrend line from the ATH, as well as closed 2 points above its trailing 30-day Point of Control. I'd now look for some support near the mid- to low- $530s on a pullback.

SPY – Daily



The weekly SPY bearish Propulsion Momentum level is still at $532+. Price action now suggests a measured move up to $581.80, with the still upside target from the 2022 secular low measuring to $609+.

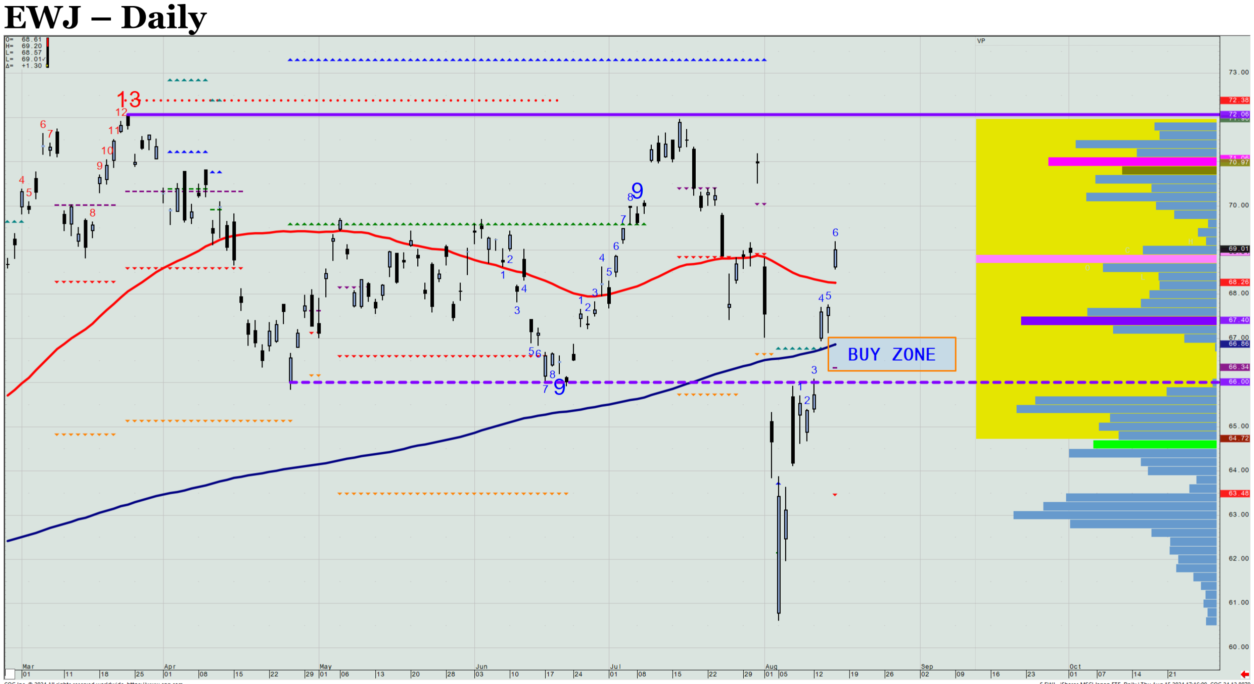
SPY – Weekly



New ETF Trade Idea

Two weeks ago, Japan sent the world into a spin with raising rates and the unwind of the yen carry trade. World markets fell apart… for an hour. Obviously, things have come storming back, including Japanese stocks. The iShares MSCI Japan ETF (EWJ) is the most popularly traded ETF for Japanese equity exposure. It does have yen currency risk, but that is something I'm willing to have right now. As such, let's look to buy two units from $67 to $66.50, risking a Friday close < $63.48, and playing for an almost equal overshoot of the top of the range, as we just saw beneath $66. That puts my upside target somewhere near $77.

EWJ – Daily

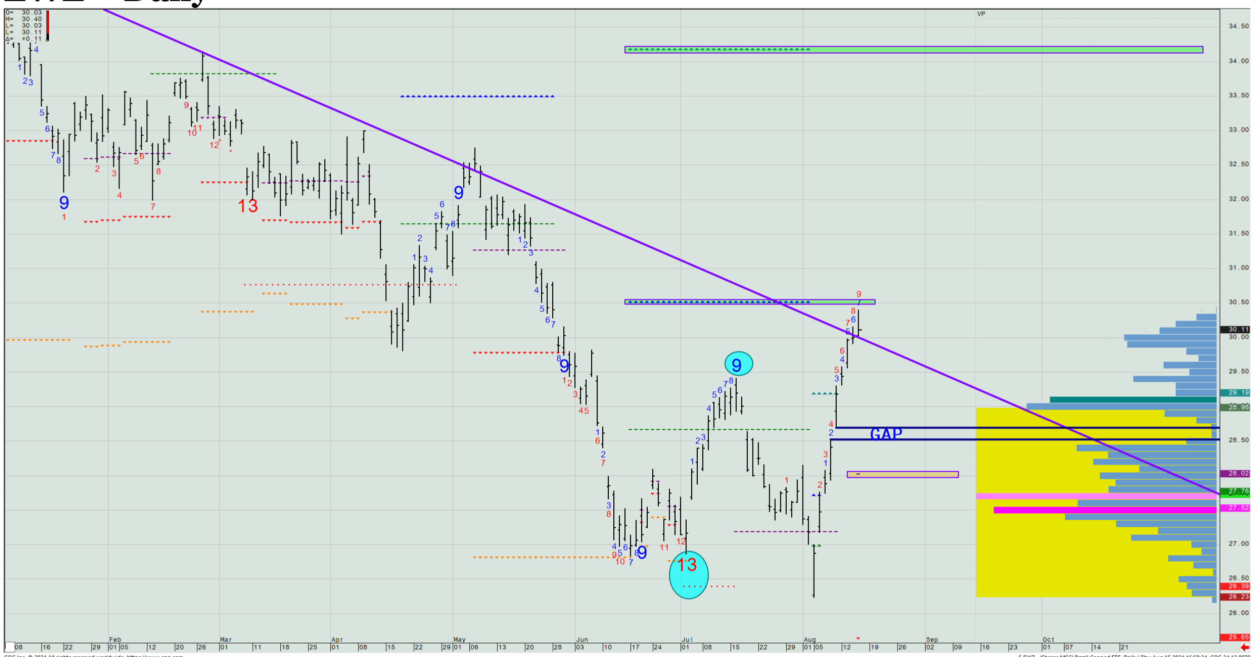


Other Open Recommendations and Positions

Long EWZ

Last week's idea was to get long this Brazil equity index ETF from $27.80 to $27.52 for a test of the major downtrend line. We unfortunately just missed entry on this, and the ETF ripped higher this past week and is already on the doorstep of my stated target. Let's change things and look to buy this on a pullback to $29 to $28.50, risking two consecutive closes beneath $27.92, with a bigger upside target of $34.00.

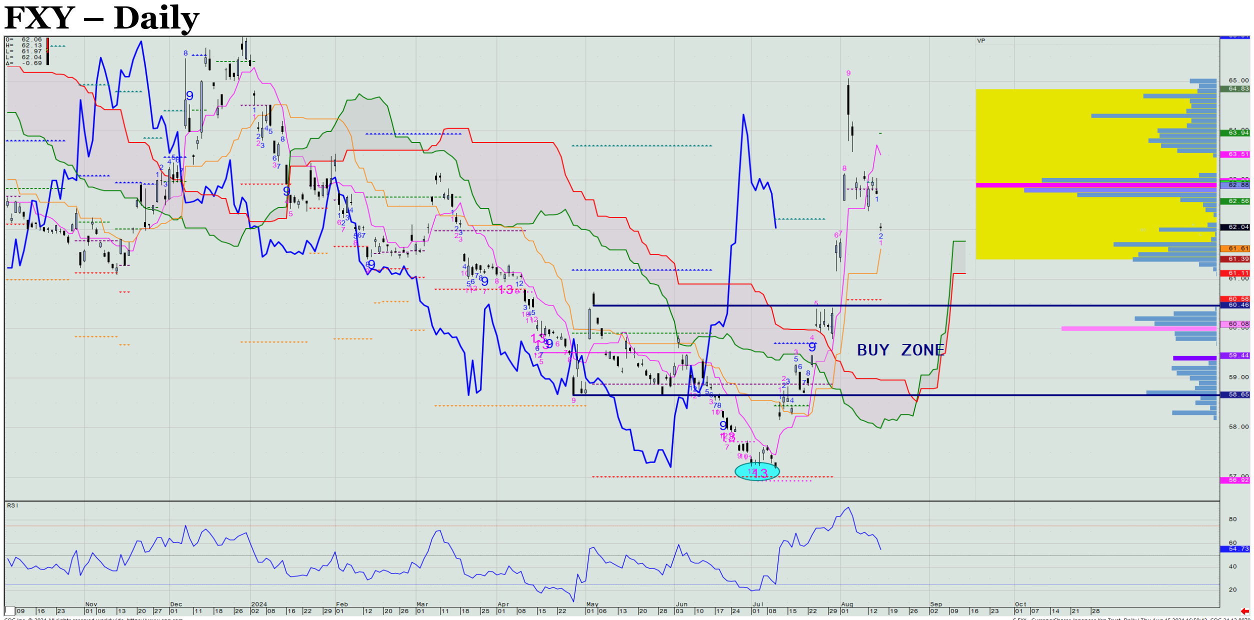
EWZ – Daily



Long FXY

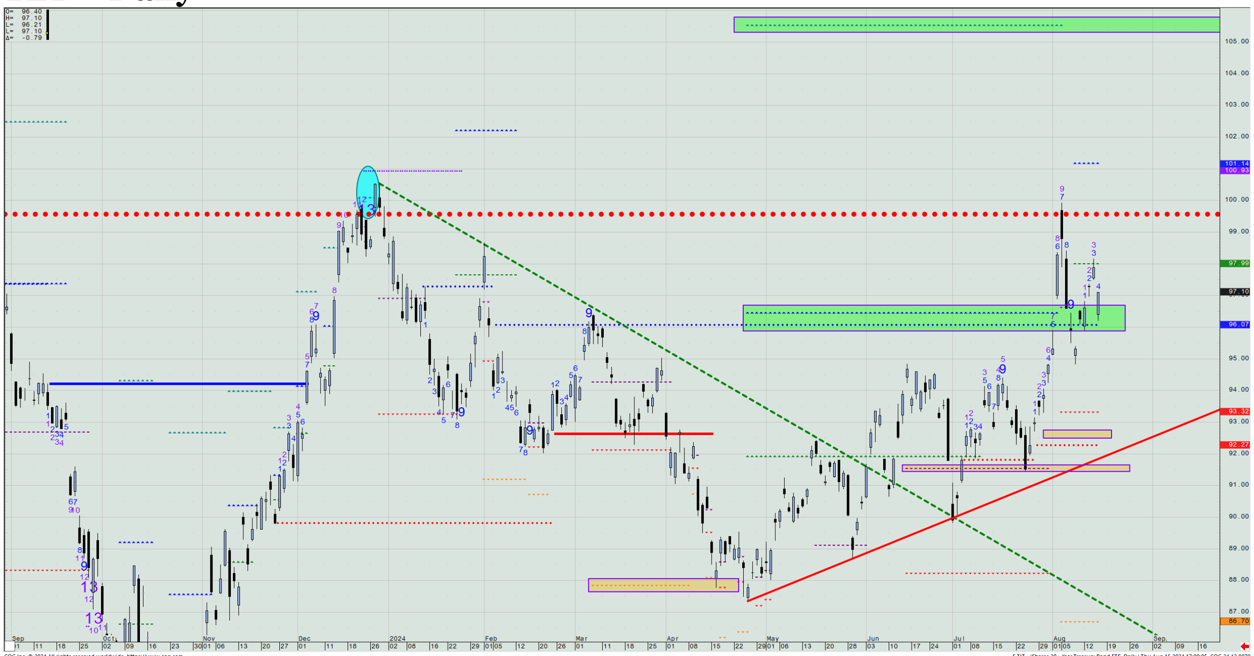
I still want to be a buyer of the yen on a pullback to the range now defined by the horizontal blue dashed lines ($60.46 to $58.65). My hope is that a daily Setup bar -8 and -9 get into that zone, and I'd be using those two days to accumulate two units on the long side. We'd then stop out on the second consecutive daily close beneath $58.65. The upside target will be determined after entry.

FXY – Daily



Long TLT
In June, we bought this (avg. price was $94.54) with a bigger upside target in mind of $105 to $106. We subsequently got stopped out on half at $90.68. This past week we hit exit targets to sell out 25% at $96.30/$96.60 and 25% at $98. All in all, our average exit was at $93.95, giving us a loss of 62 bps.

TLT – 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

[including the Optional Rules for Emergency Measures of Protection], and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

The user assumes the entire risk of any use made of this information and waves any and all recourse related to the information's performance and returns, and the information contained herein is construed "For Educational Purposes Only" and should not be relied upon for investment decision, and it is generic by nature and is not personalized to the specific financial situation of any individual. BENSIGNOR LLC, its staff, or any other party makes any expressed or implied warranties or representations with respect to this information, or of the software and pricing or other data used in its compilation and production. (Amongst other analytical tools, BENSIGNOR LLC may make use of CQG, Inc., ThinkorSwim, StockCharts.com, and Bloomberg, LP software, among others.) BENSIGNOR LLC hereby expressly disclaims all of the originality, accuracy, completeness and fitness for use of this information. In no event shall BENSIGNOR LLC and any party involved or related in the production and distribution of this information have any liabilities for any direct, indirect, special, punitive, consequential or any other damages, realized or potential, even if notified of such a possibility. Principles of BENSIGNOR LLC may hold long or short positions of securities discussed herein, or of any other securities at any time. The foregoing also applies to any trial subscription.