Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

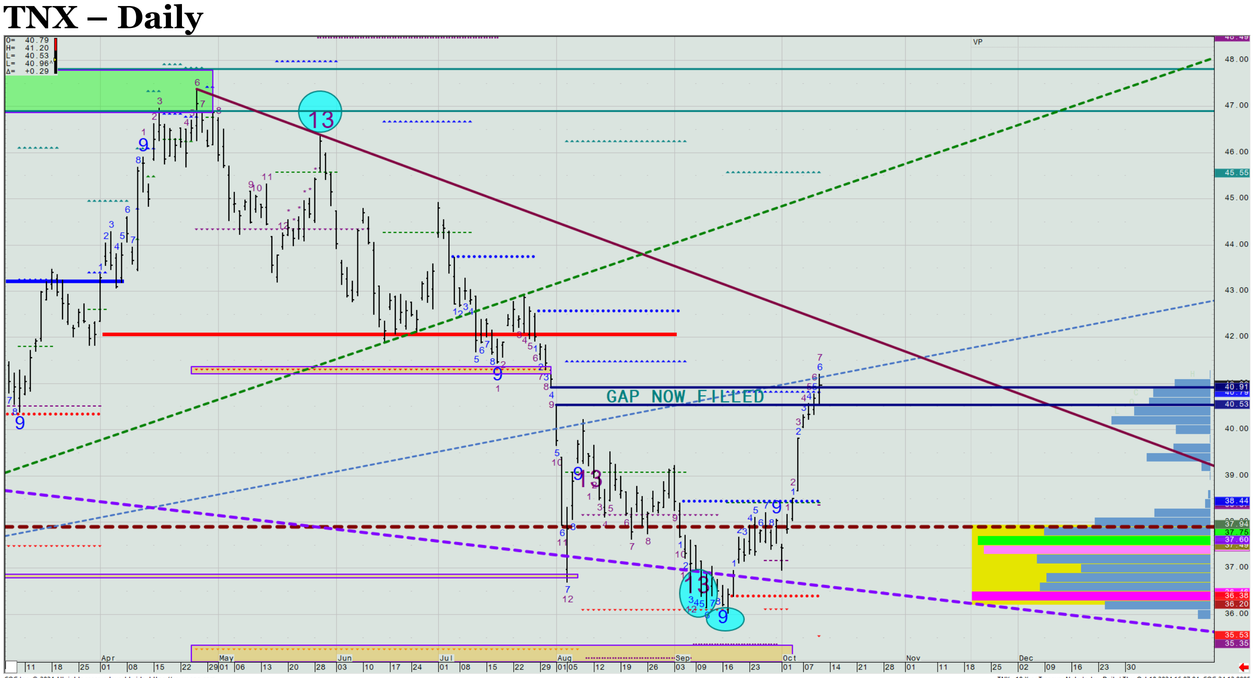
It's been a week that saw rates move well-higher the UST 10-yr. crossed back above 4%), while stocks have again ramped to new SPY and DIA record levels. Inflation cooled, but not as much as expected, and the FOMC Minutes told us that there was still significant disagreement amongst governors there as to if September should have been a 25 or 50 bp. rate cut. We clearly saw the latter, but now future cut expectations have been pulled back quite a bit. The bottom line for equity investors, though, is that what had been a long-winded fear of a recession is pretty much gone from the equation altogether.

Let's take a look across the major asset classes for what their charts are showing:

US RATES

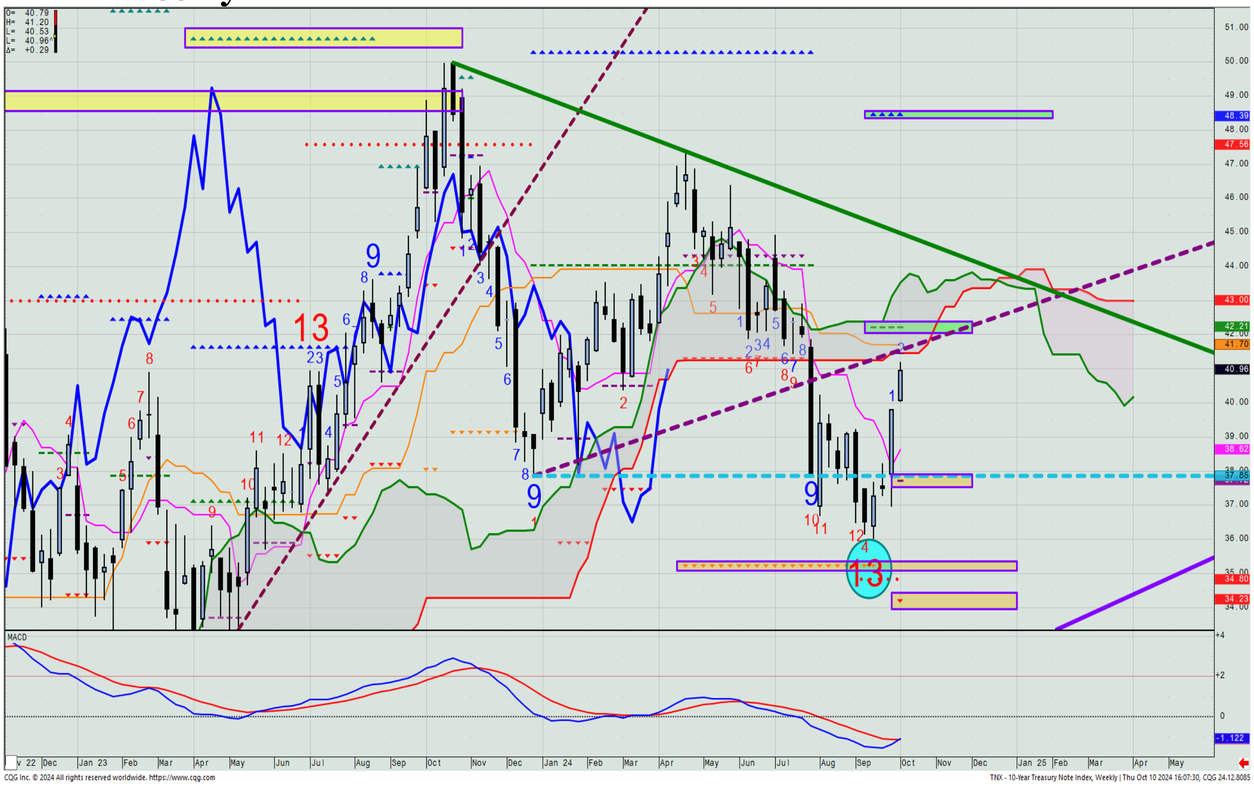
Late last week, 10-yr. benchmark rates surged past the bullish Propulsion Momentum level at 3.84%, and set the stage for a test of what had been an unfilled gap from 4.05% to 4.09%. (Yesterday's high got to 4.12%, so that gap is filled.)

TNX – Daily



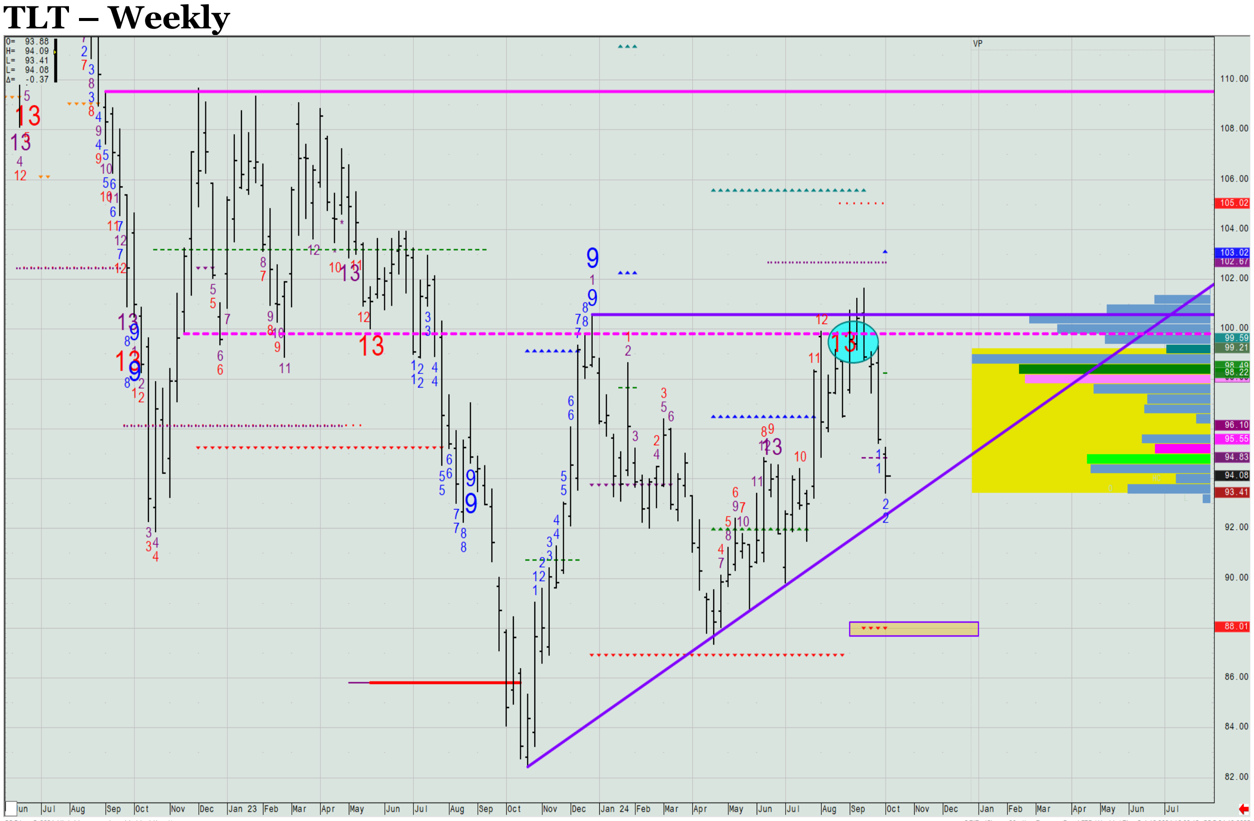
The weekly chart shows some important resistance in the 4.17% to 4.22% zone. If you are a confirmed bond market bull – and think rates are again headed lower – than that's not a bad area to consider putting on long bond exposure (i.e., the yield chart will peak out there).

TNX – Weekly

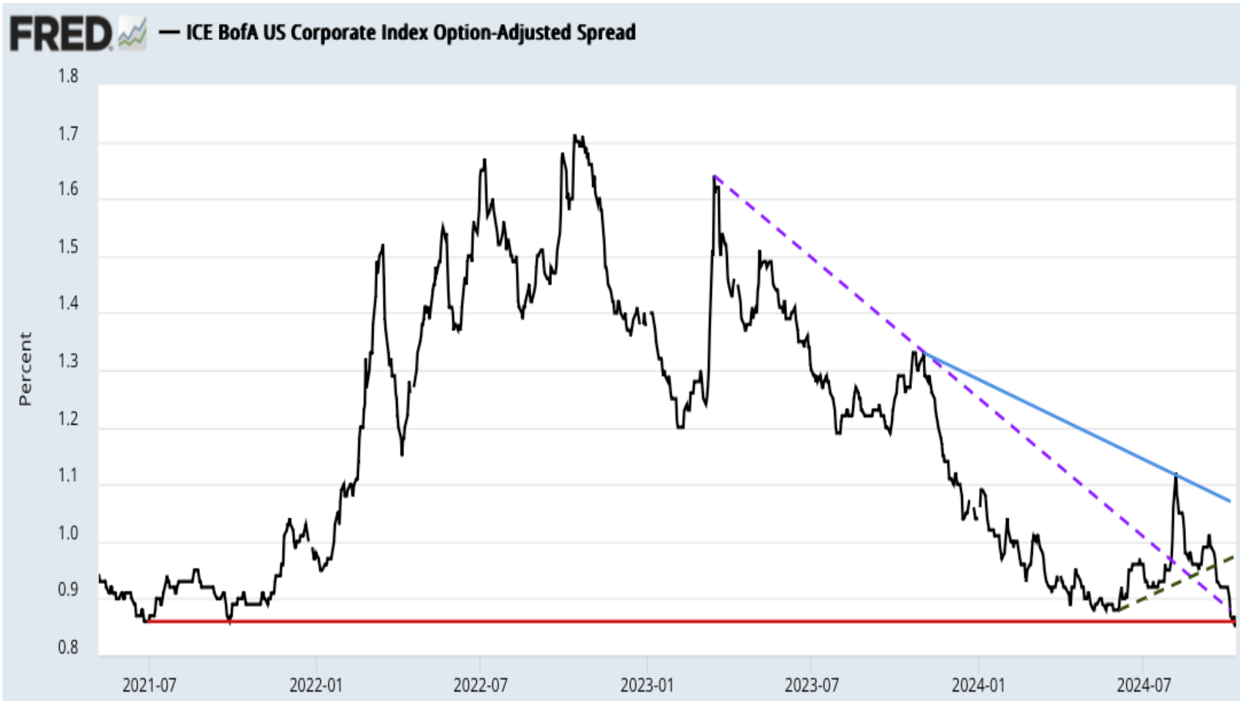


For those of you who like to trade the more active **TLT** (20yr.) ETF, you can see in the below chart that if the uptrend line breaks with any oomph, price could easily get back down to the highlighted orange rectangle Propulsion target and the low end of the whole range.

TLT – Weekly

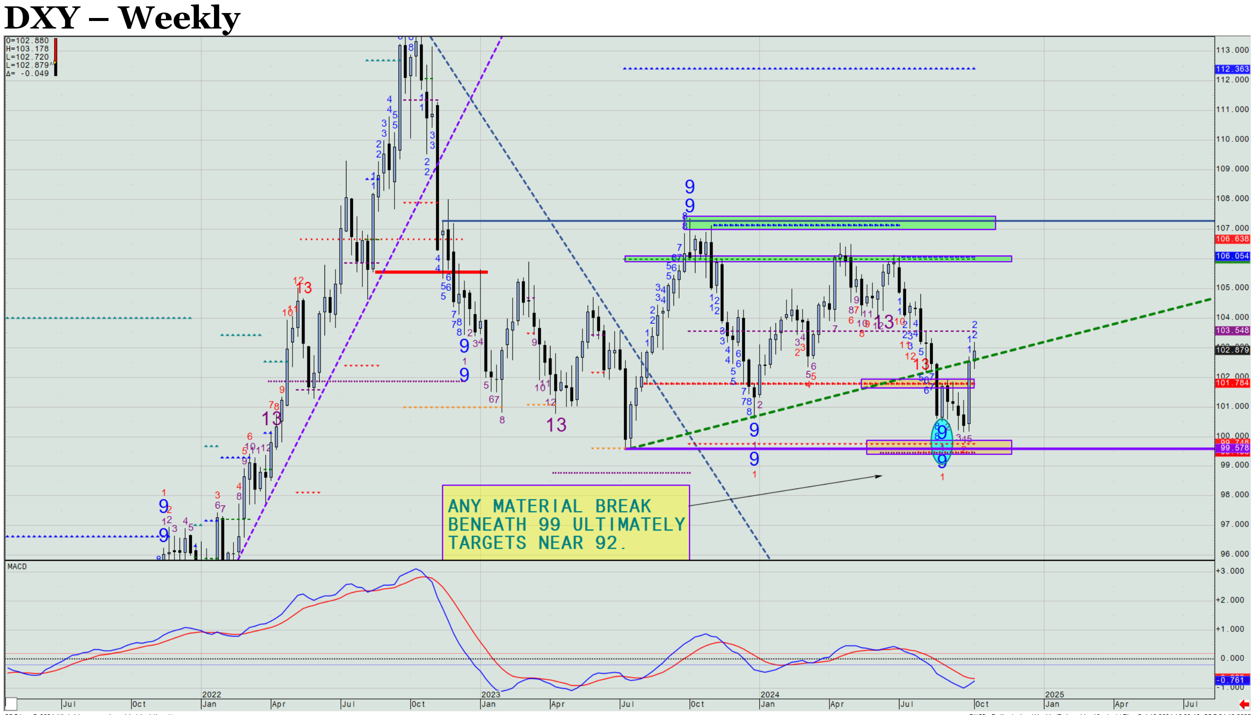


Investment grade corporate credit spreads – my preferred credit spread index – have fallen to a new all-time low of 85 bps. The head-and-shoulders topping pattern from 2022 to 2023 measures down to somewhere in the 70 bp. area. Despite yesterday's stock market decline, narrowing credit spreads are typically bullish for stocks.



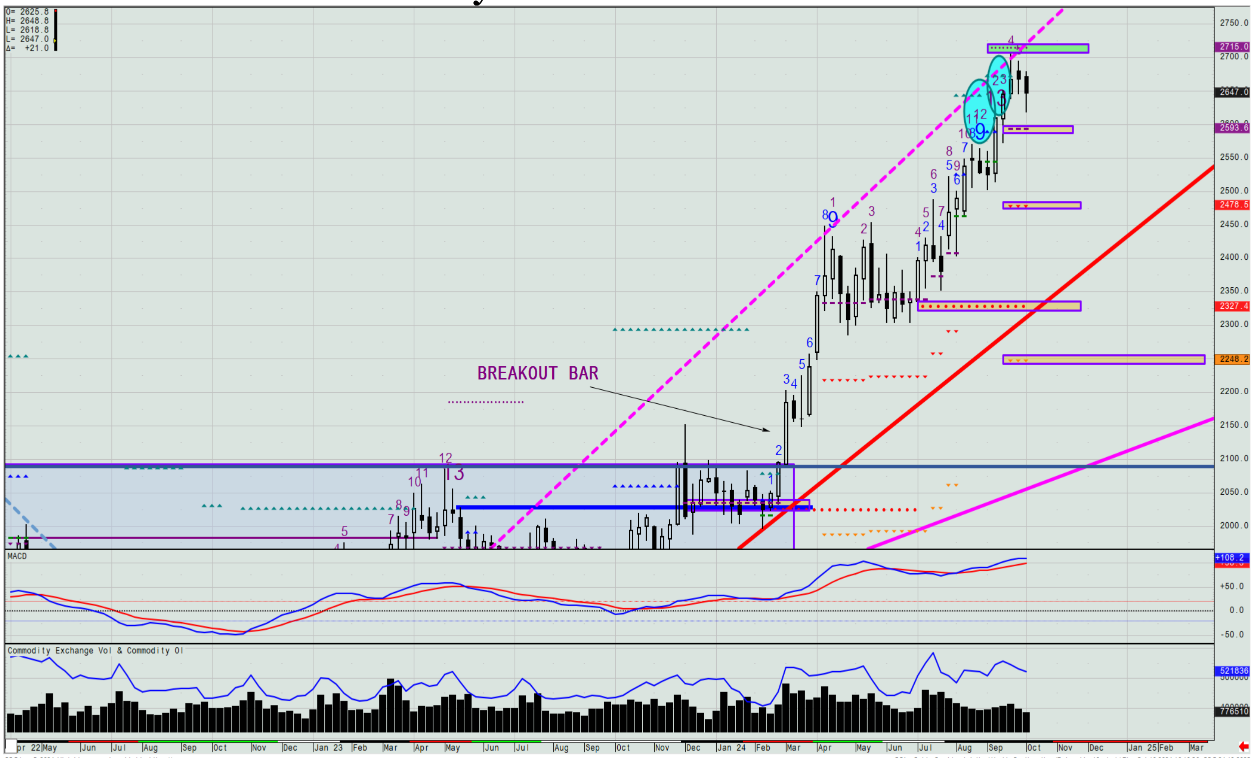
THE DOLLAR: Last week, the dollar bounced on the Mideast-related flight to safety, and it continued higher this week as rates jumped up. Key support remains down to the -13's risk level (from 2023) at 98.77. Any material breach of the 99 level ultimately targets 92. For now, it remains in a large multi-year range. First resistance near the backfill to the broke uptrend line has already been hurdled. I'll stick with what I've said all year: I expect the dollar to basically follow rates in this environment.

DXY – Weekly



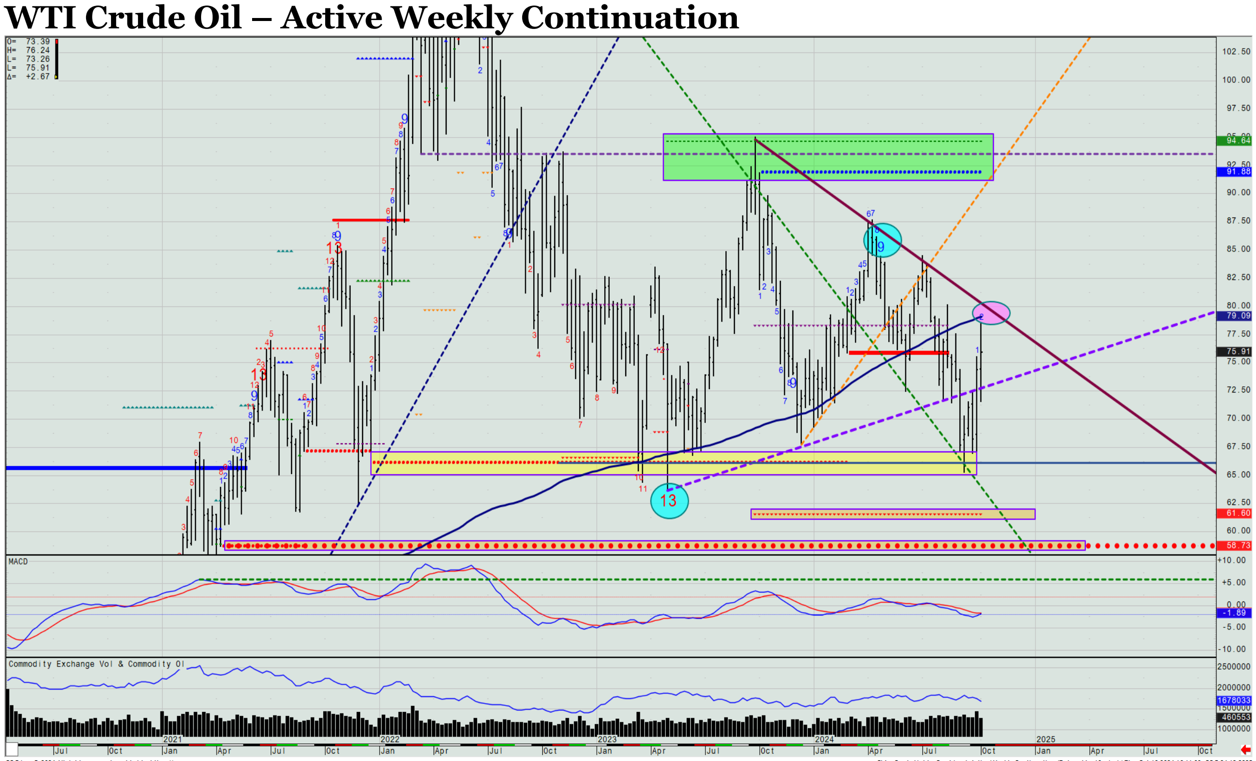
COMMODITIES: Gold has continued its pullback from recent all-time highs. First weekly chart support is $2594, then $2479, and major at $2379. Dollar strength is not helping the metal right now.

COMEX Gold – Active Weekly Continuation



WTI Oil remains elevated on high Mideast tensions, with oil traders nervously waiting to see how Israel retaliates against Iran's missile attack from last week. Price has reached up near its 200-DMA (pink ellipse), which in the past had been near several lows, and now may represent a potential high area – along with its downtrend line.

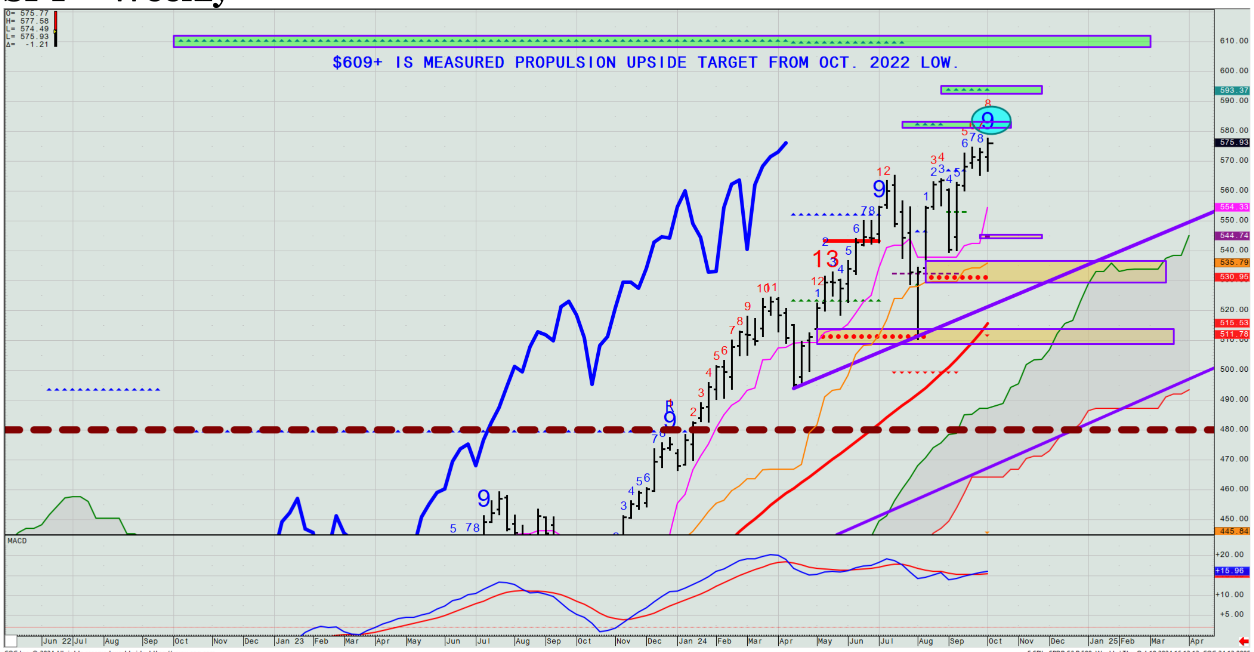
WTI Crude Oil – Active Weekly Continuation



EQUITY INDEXES:

The SPY continues to rock higher, with its next upside targets of $581 and $593+, and then ultimately, to the two key targets in the $609 handle, where I will personally be reducing some of my long-held long SPY positions. Meaningful support should be near $545 and then important support near $531.

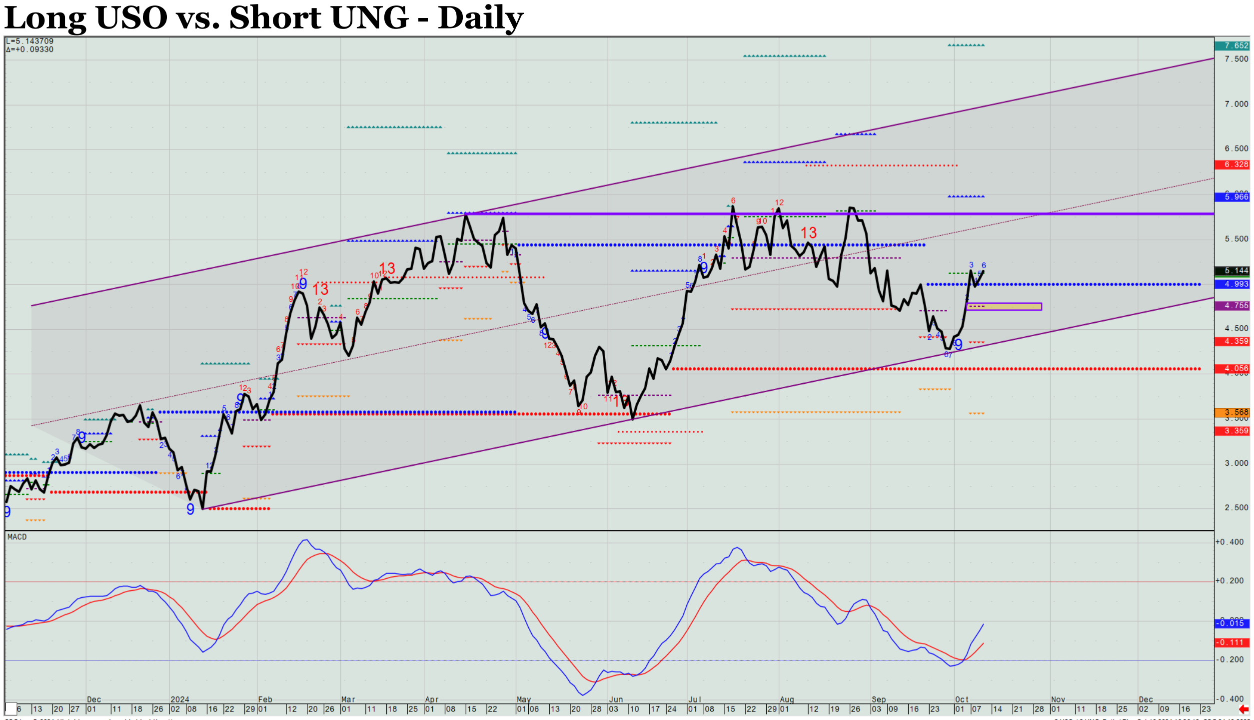
SPY – Weekly



New ETF Trade Idea

Oil vs. natural gas. Both have been bad investments. But when we look at the two respective ETFs against each other, there is a bullish bias to oil vs. natgas. Both can be hugely volatile (Mideast tensions vs. hurricane season certainly comes to mind), so keep that in mind if you put this idea on. (More on this on page 6.)

Long USO vs. Short UNG - Daily

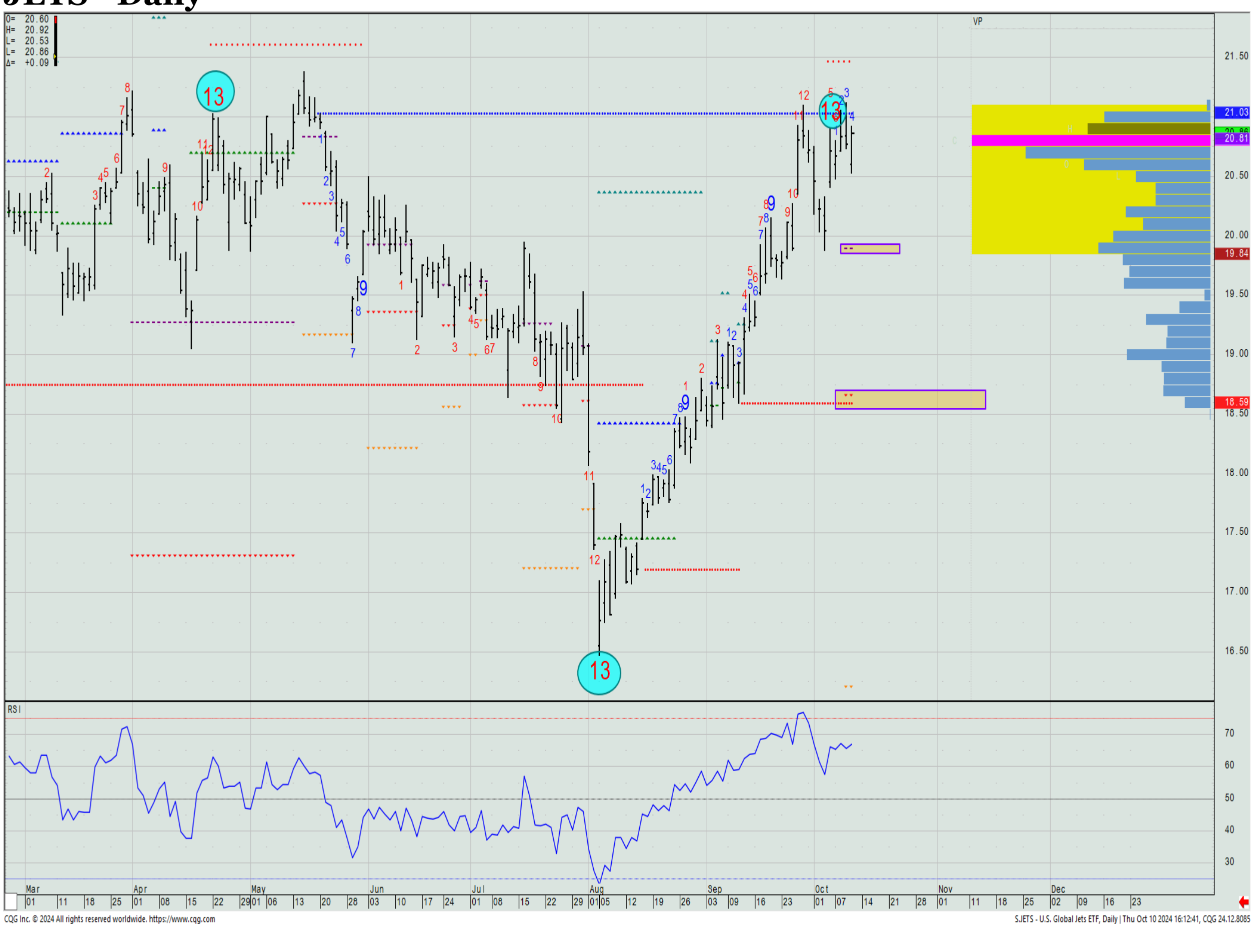


Firstly, I'd only do a 50% size trade (i.e., a half-unit in each direction). I'd put on 1/3 of whatever $ amount you're going to do for this trade today, just to get some exposure to it, and 2/3 on a pullback to near the 4.76/4.75 ratio level. I'll unwind ½ of what we have on at a 5.90/6.00 ratio, and the rest TBD. The exit if this doesn't work is to get out of half under the recent Sept. low (4.281), and half beneath the TDST support line at 4.056. NOTE: On a percentage basis, this is gonna be a large gain or loss type trade.

Other Open Recommendations and Positions

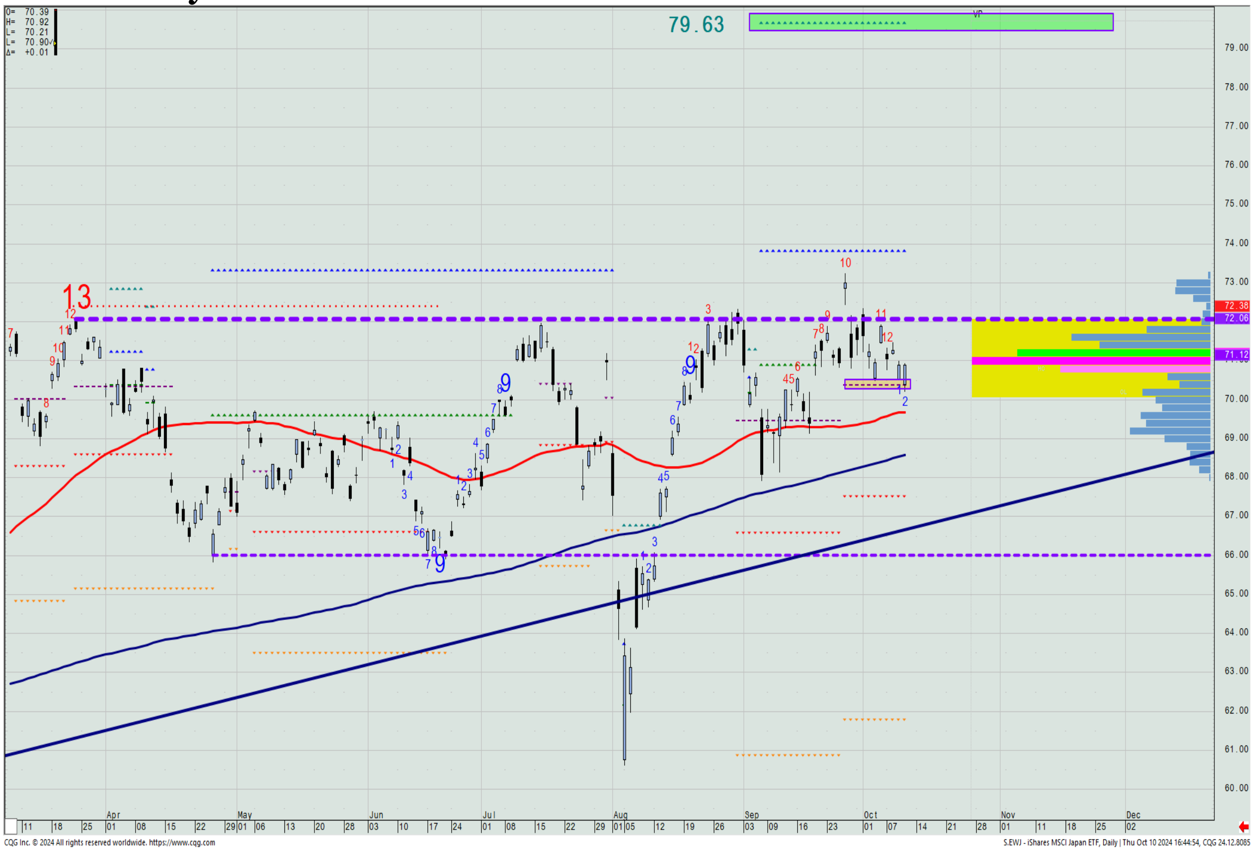
Short JETS
Last week I suggested shorting a rally to the $20.40 to $20.55 zone, and we got in at an avg. of $20.50 (because of an opening gap higher). This did mark its +13 count, with the prior two being very nice turning signals. We'll now look to cover 1/2 at $19.90 to $19.80, and 1/2 at near $18.75. The buy stop to exit is on two daily closes > $21.07.

JETS - Daily



Long EWJ
Two Fridays ago we got long one unit at avg. $71.48. I'll keep a tight stop on it as consecutive daily closes beneath $70.95. That happened Wednesday and yesterday to take us out at $70.90. We lost 0.81%. (Frankly, the bearish Propulsion Momentum level was right by the low the past two days. If you want, buy this back and stop out on a close under yesterday's low of $70.90.)

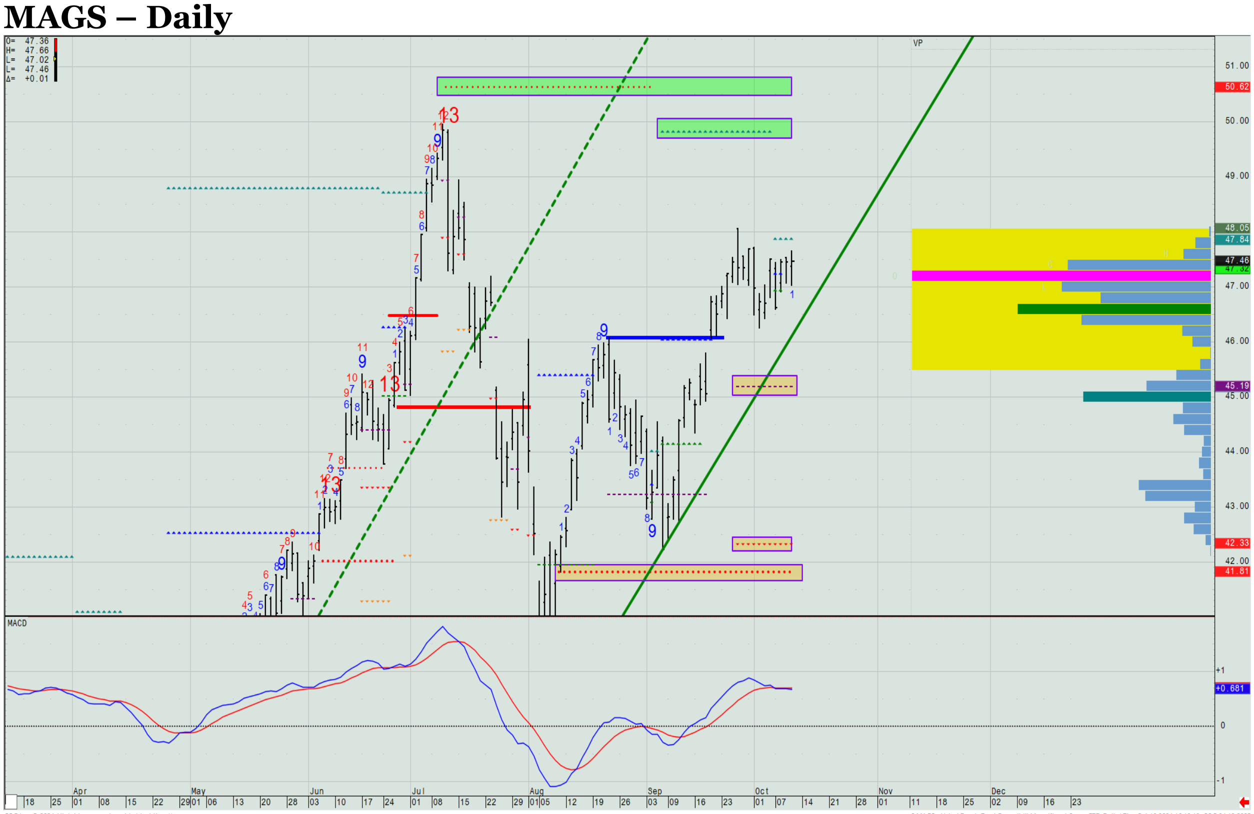
EWJ – Daily



Long MAGS

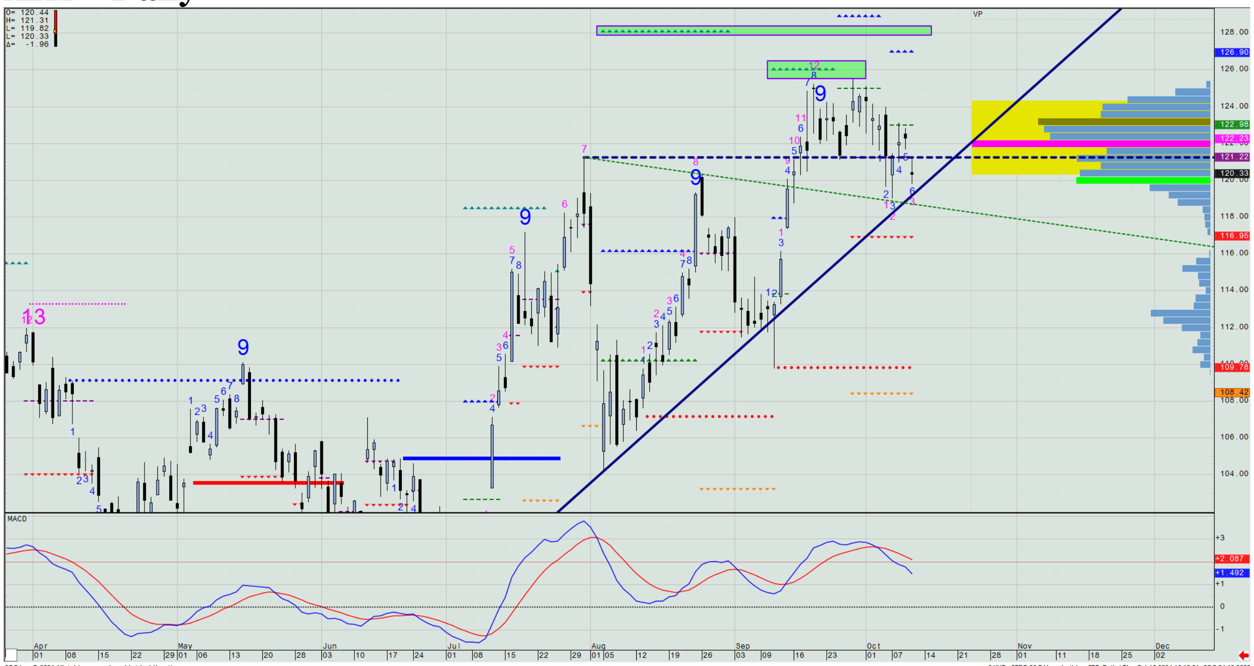
Three weeks ago, we got long one unit (avg. $46.47). Scale out 1/3 at near $49.79; $50.62; and near $52.43. The sell-stop is on a close or two (your choice) under $44.34.

MAGS – Daily



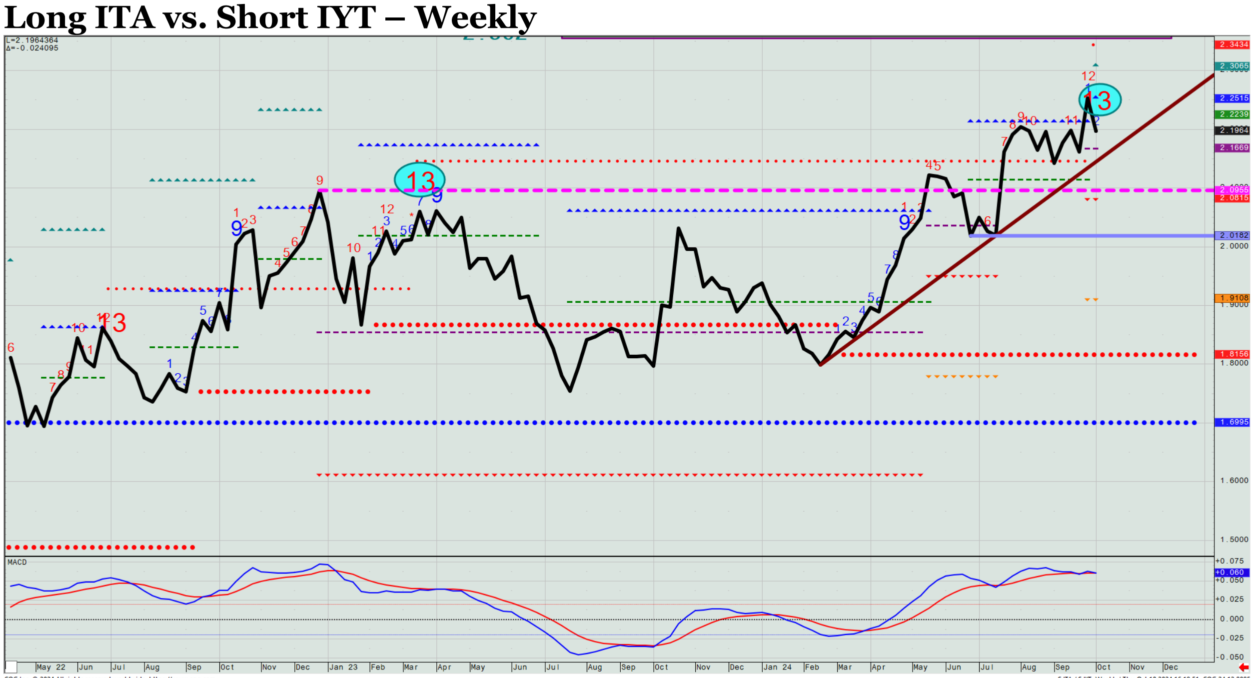
Long XHB
Four weeks ago, we bought one unit at an avg. price of $118.72. We've already sold half at avg. $121.87.   We'll exit the balance at $128 +/- 25 cents. Unless the stock is above $121.33 going into today's close, we'll get out on the close. If it is above there, exit on any subsequent close beneath Thursday's low of $119.96.

XHB - Daily



Long ITA vs. Short IYT
Five weeks ago, we bought this Aero & Defense ETF and shorted the Dow Transportation ETF against it at an avg. ratio of 2.157. My upside target is to scale out from 2.36 to 2.45. Last week I recommended scaling out of 1/3 of the position this week, so the average of all four daily closes is 2.214 – leaving us 2/3 of the original trade. Now that both daily and weekly charts have active +13 readings, let's just exit the balance today.

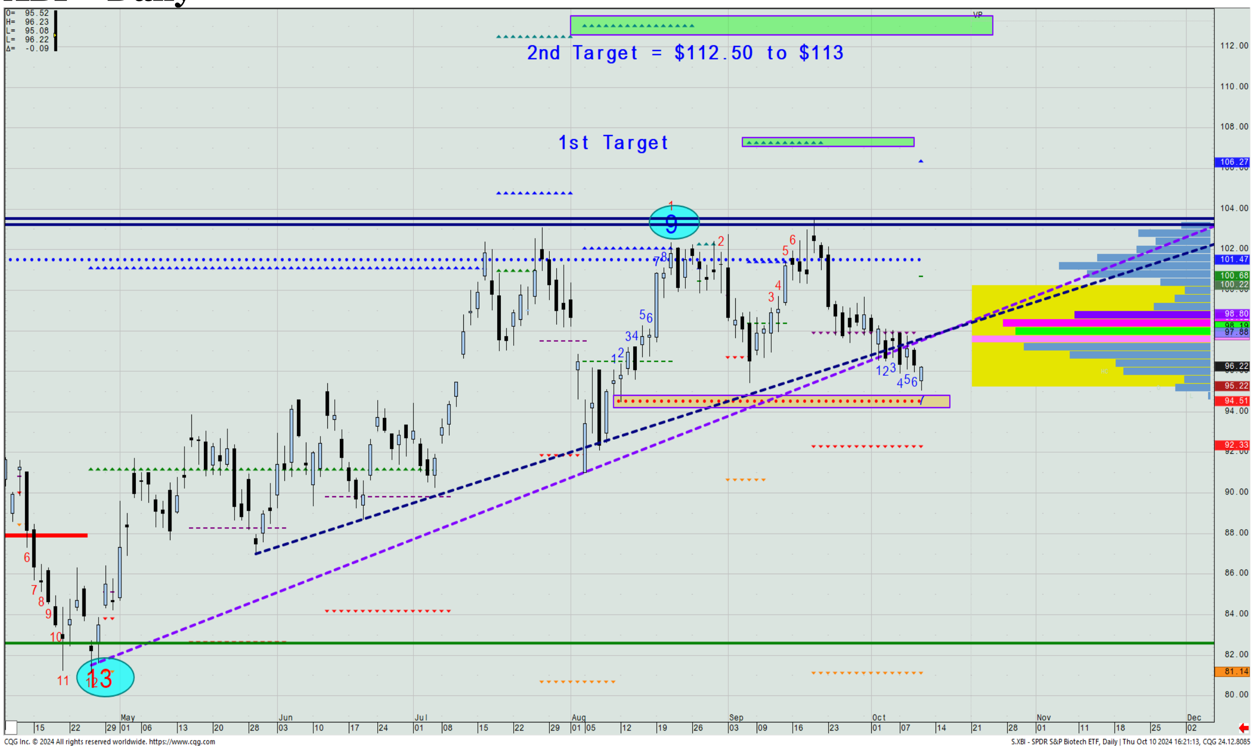
Long ITA vs. Short IYT – Weekly



Long XBI

Five weeks ago, we got long one unit (avg. entry price was $100.86). This hasn't yet gotten the upside breakout I was hoping for. We exited on Monday at $96.33, as it was the second consecutive close < $97.92. We lost 2.91%.

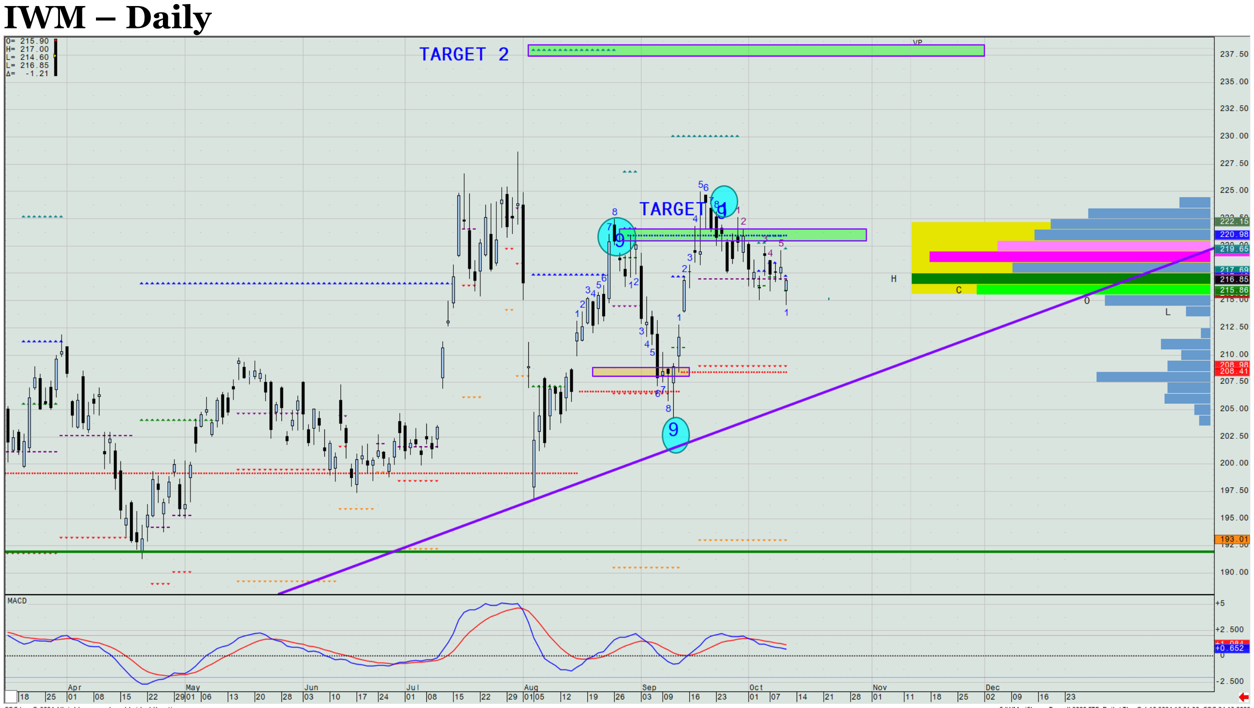
XBI – Daily



Long IWM

We've been long this since $209. I had two targets: near $221 (already achieved) and $237+, and the sell-stop is on consecutive closes under $214.41 or a single one under $208.41.

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.

Disclaimer