Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

The dominant macro story this past week has been the continued rise in rates – now some 20 bps. higher than where they were last week when I wrote this report – and some 60 bps. above where they were when the Fed cut rates on Sept. 18th. (This year, the bulk of interest rate forecasters have just been horrific: In January, they priced in 7 rate cuts for 2024; there's been but one so far (with what will max out with at most three cuts). The September Fed cut marked the low of the move in what was the ultimate "buy the rumor; sell the fact" move this year. (Fortunately, I had by institutional clients buy bonds at 4.72% and 4.60%, and I recommended exiting them the morning of August 5th at 3.68%.)

Higher rates are certainly no friend for small caps equities – the other major blunder that the Street made coming into this year – with many strategists recommending being overweight in them relative to large cap names. However, they're trailing large cap by some 12.5% YTD.

With US Presidential elections less than two weeks from now, I expect normal Fall-time volatility to be even more elevated. With the race well too close to have the pundits call it, you need recall back to Election Night 2015, when Hillary Clinton was perceived the early leader, and Dow futures fell 1000 points before it swung back as Trump votes gained. By the close the following day, the market was actually up relative to Tuesday's close. I wouldn't be the least bit surprised to see a nutty move like that this election night, too.

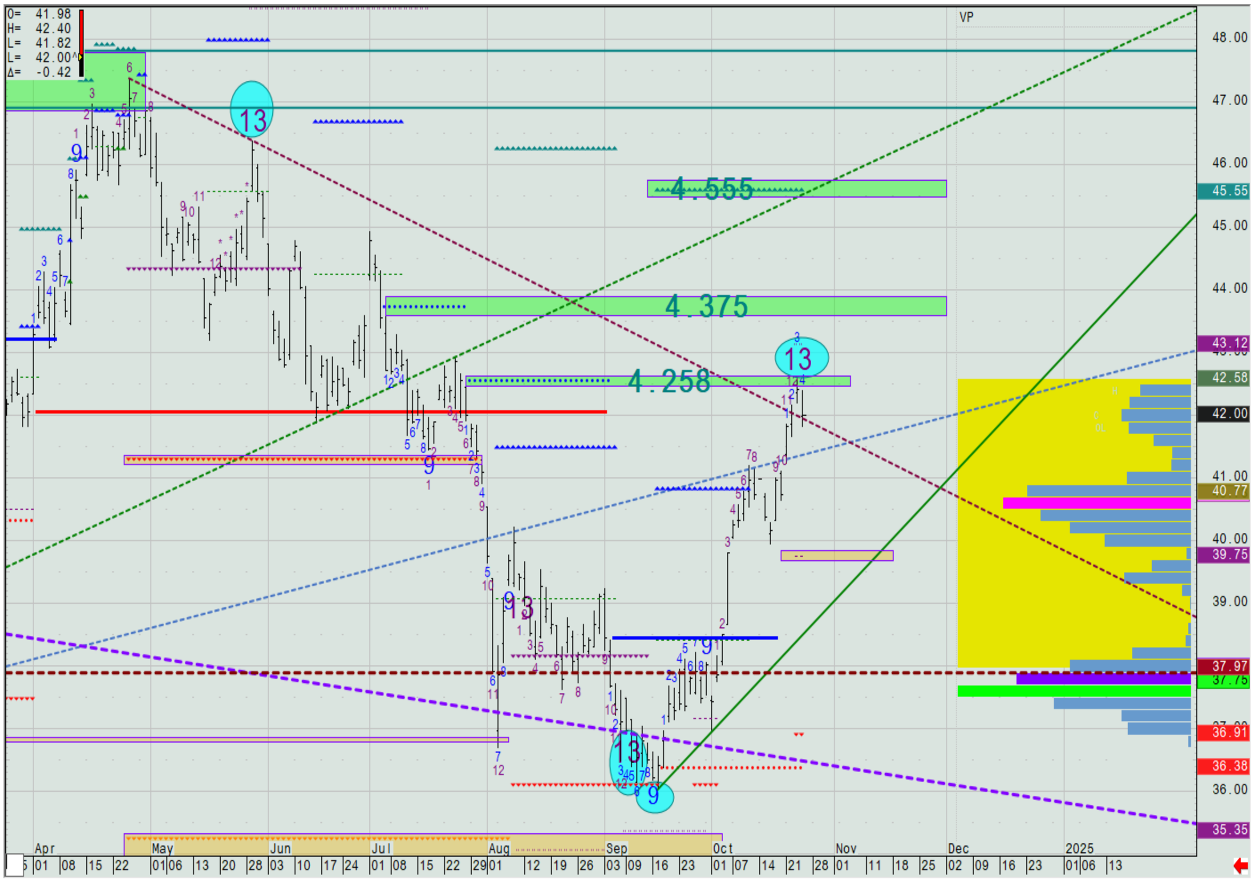
Let's take a look across the major asset classes for what their charts are showing:

US RATES

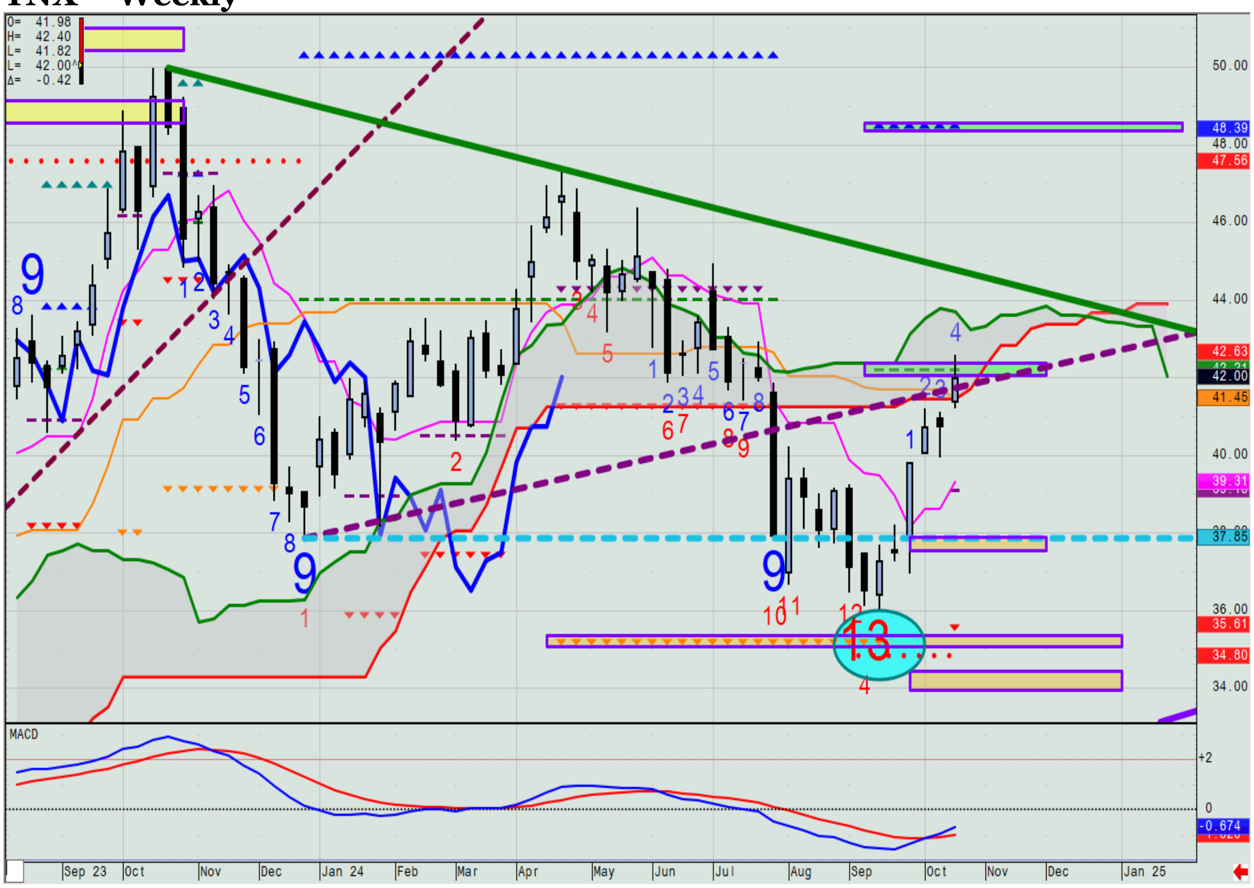
Last week I wrote that the 4.12% to 4.21% area, and perhaps up to near 4.3%, would cap the rate rally. This week's high reached 4.26%, and was accompanied by an Aggressive Sequential +13 signal. We saw a pullback to 4.20% on Thursday.

Fitting into that scenario, 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 the rough 4.12% to 4.30% zone is your place to buy bonds. For me, I'm really unclear as to just how much rates will continue to fall. For now, I'd mark a tactical downside target near 3.90%. Beyond that, I'm just not sure; there's a lot of push and pull in the bond market beyond the Fed. (See daily and weekly charts on page 2.)

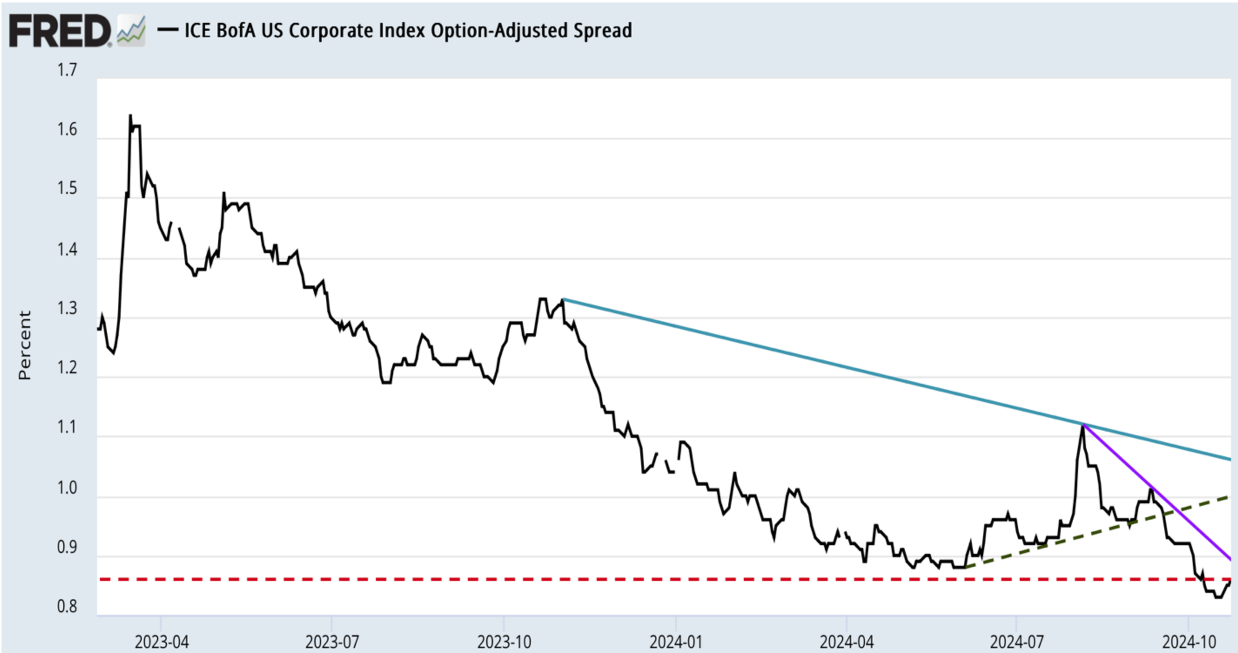
TNX – Daily


4.555
4.375
4.258
VP
TNX - 10-Year Treasury Note Index, Daily | Thu Oct 24 2024 16:44:06, CQG 24.12.8085

TNX – Weekly

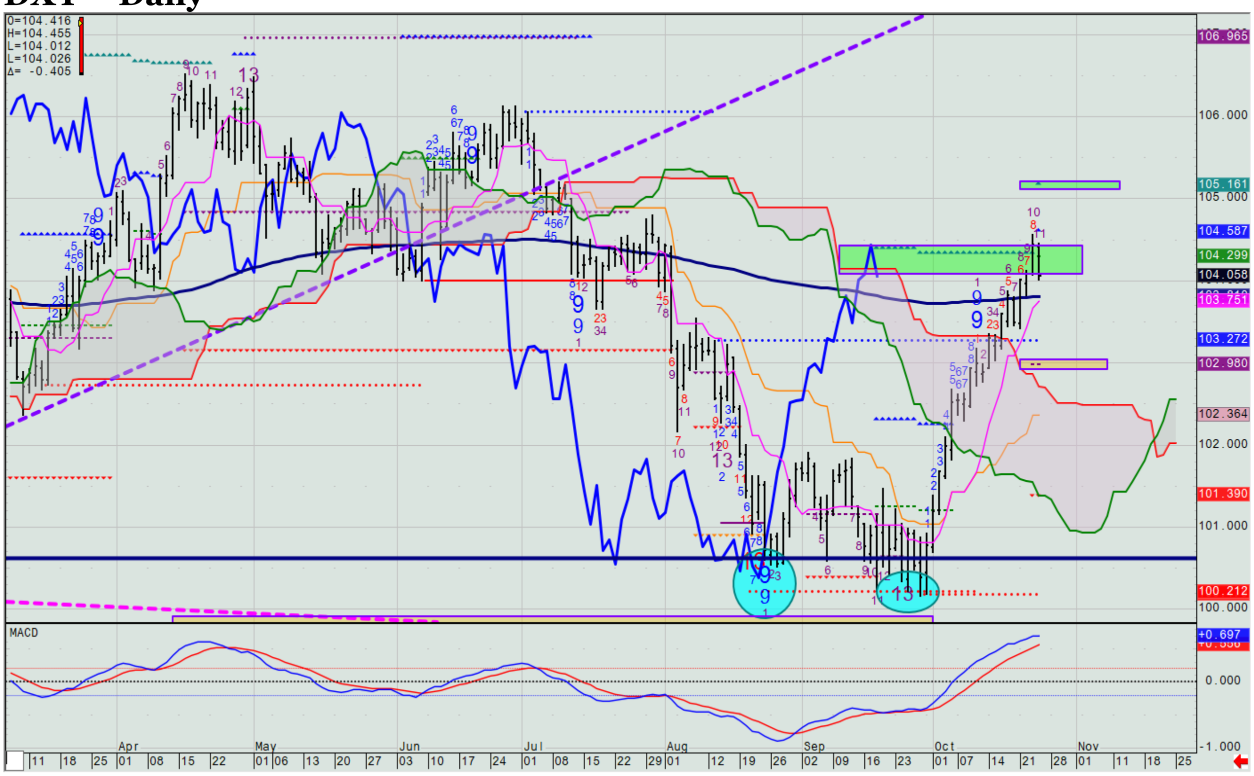

MACD
TNX - 10-Year Treasury Note Index, Weekly | Thu Oct 24 2024 16:44:59, CQG 24.12.8085

Investment grade corporate credit spreads – my preferred credit spread index – have fell to a new all-time low of 83 bps. They're now back to 86 bps. The head-and-shoulders topping pattern from 2022 to 2023 measures down to somewhere in the 70 bp. area. Generally, narrowing credit spreads are bullish for stocks (as it shows lessened fears in the system). First resistance now is near 90 bps.



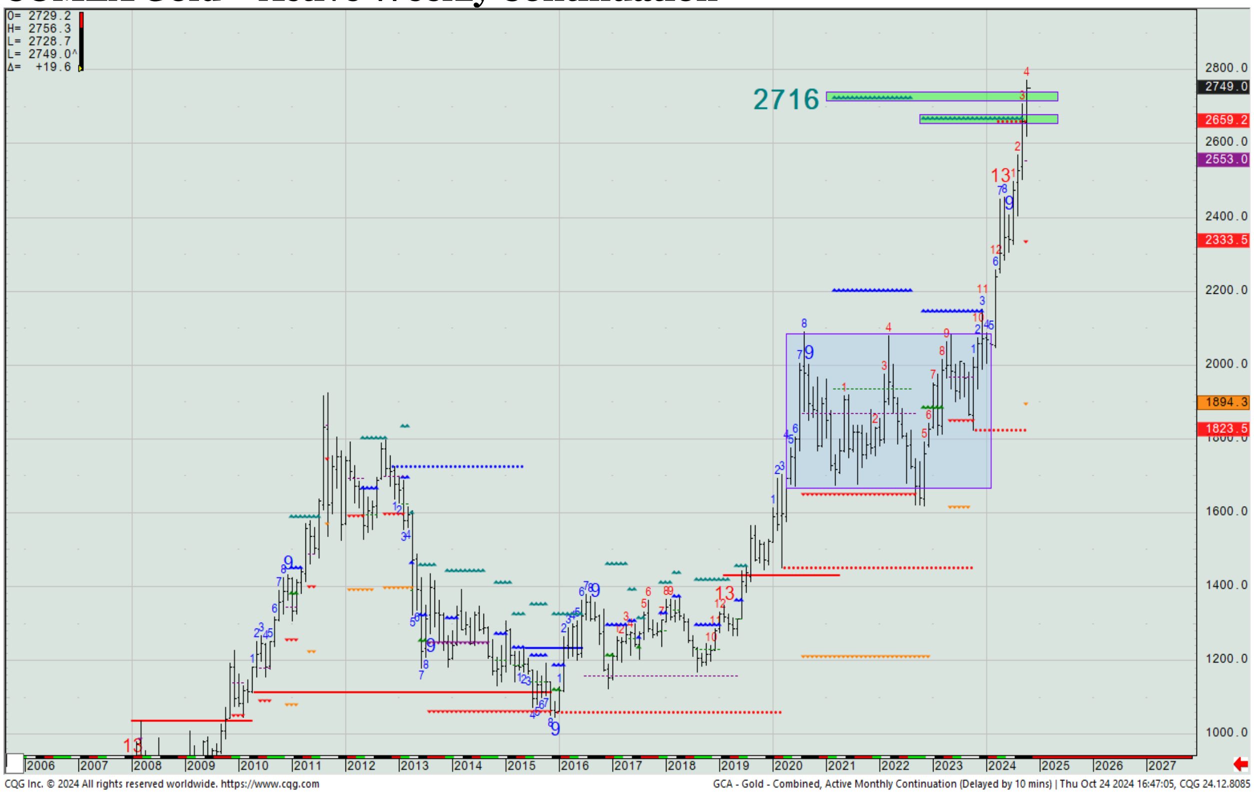
THE DOLLAR: I'll stick with what I've said all year: I expect the dollar to basically follow rates in this environment. The daily Propulsion Full Exhaustion level got slightly exceeded, and both aggressive and standard counts are closer to +13 readings than not, so I don't expect a lot of an upmove still to come without a pullback first.

DXY – Daily



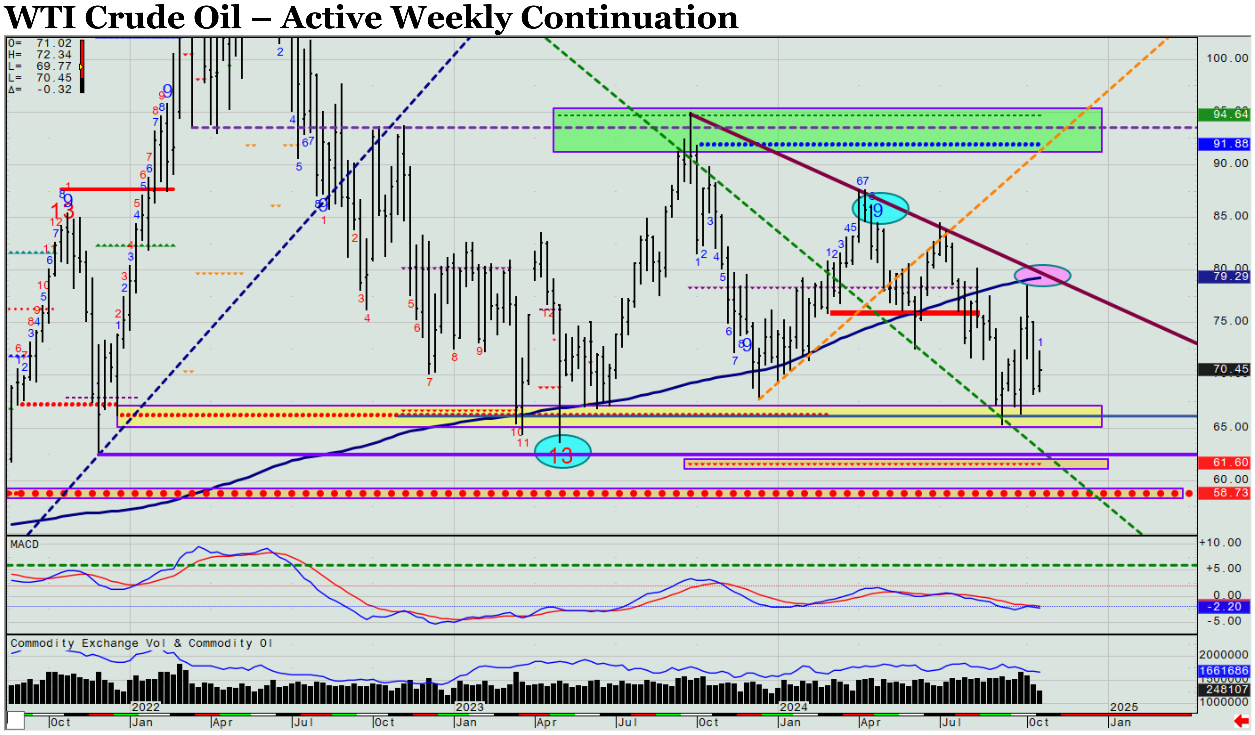
COMMODITIES: Despite gold shooting again to new all-time highs, I have cut some of my long-held bullion holdings near $2700. Yes; sure: I hope it goes higher, as I'm still holding gold. But I had several measured targets up to $2716 on long and very long-term charts, so, right now, I have trimmed and will watch.

COMEX Gold – Active Weekly Continuation



WTI Oil is still has traders waiting to see Israel's retaliation to the Iran missile attack. Price reached near its 200-WMA (pink ellipse), which in the past had been near several lows, and for now represents a potential high area – along with its downtrend line.

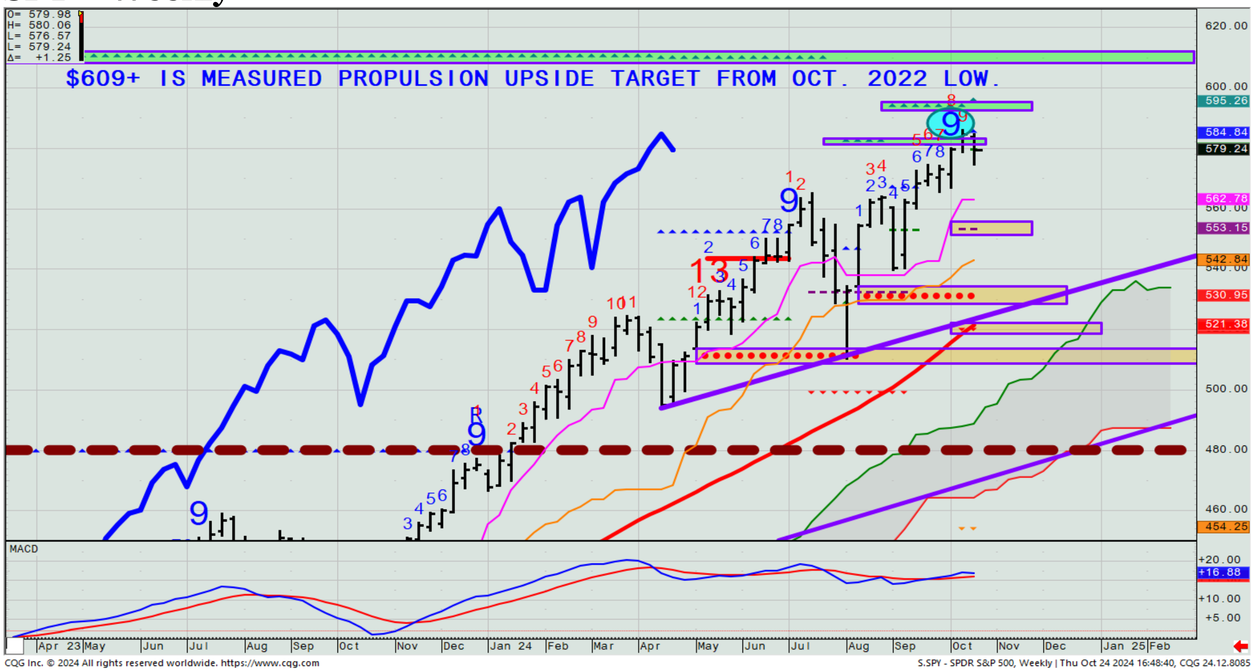
WTI Crude Oil – Active Weekly Continuation



EQUITY INDEXES:

With my key SPY upside target in the $609 handle, price is just 5-6% from there – and not so dissimilar percentage-wise to where first weekly Propulsion potential support is found. It's why whatever I'm now buying is in the "trade" category. Moreover, I am far more partial to now initiate pair trades than I am to place outright directional trades.

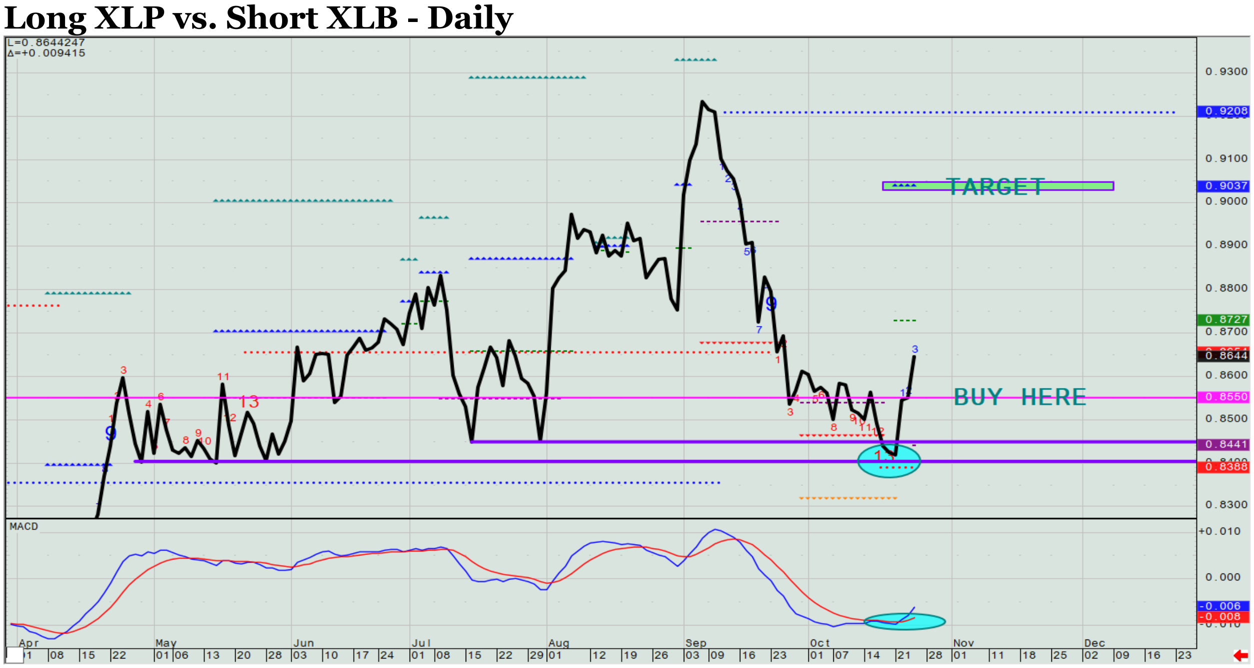
SPY – Weekly



New ETF Trade Idea

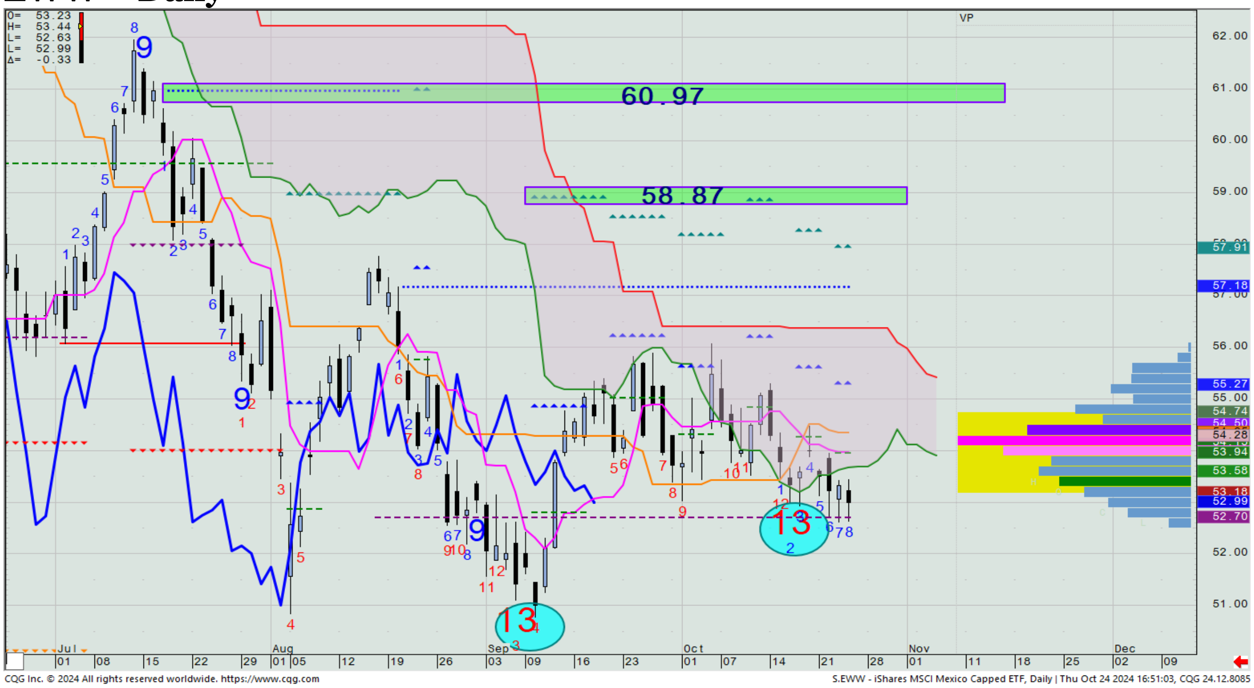
Let's look at a pair trade of **long Consumer Staples (XLP) vs. short Materials (XLB)**. It just bounced from prior support levels and happened to have marked a Sequential -13 on that low, too. Let's get long one unit of XLP and short an equal dollar amount of XLB on a pullback to 0.855 ratio. We'll play for an upmove to a 0.90 ratio, and unwind the pair if it breaks under 0.8350 on a close.

Long XLP vs. Short XLB - Daily



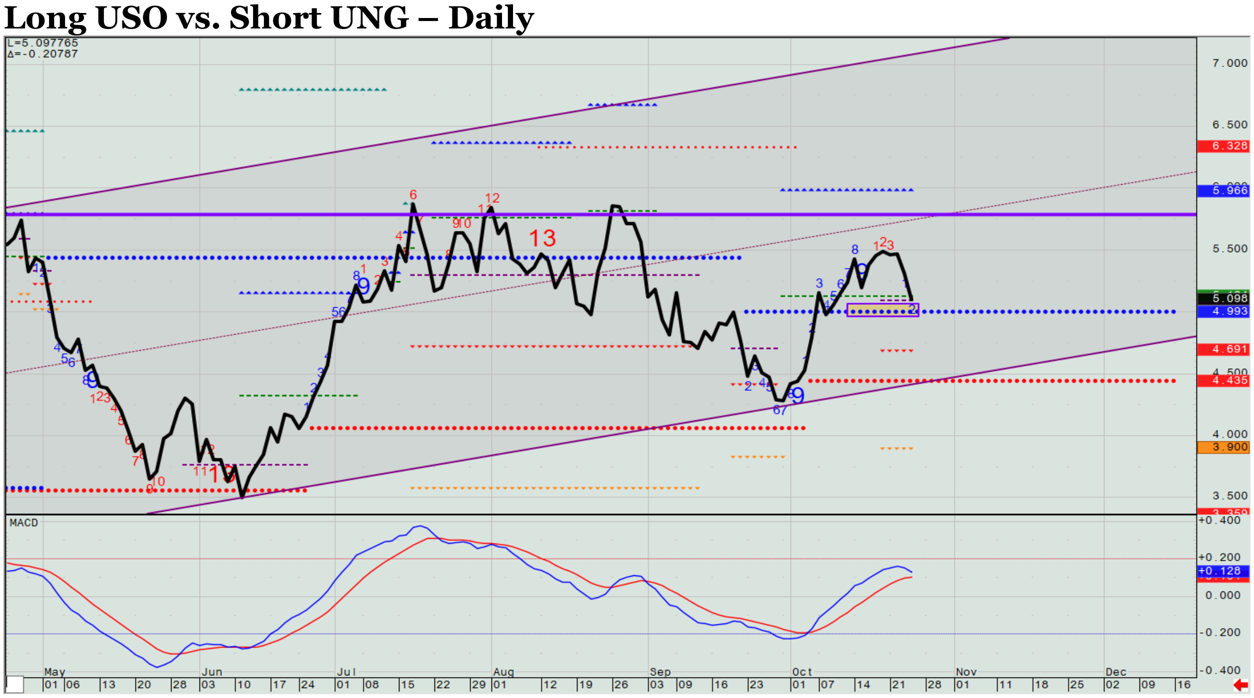
Long EWW
Last Thursday we got long one unit at avg. $53.31. We'll exit half near each of the labeled targets of $58.87 and $60.97. Risk a close under $51.01, the lowest close of the year.

EWW – Daily



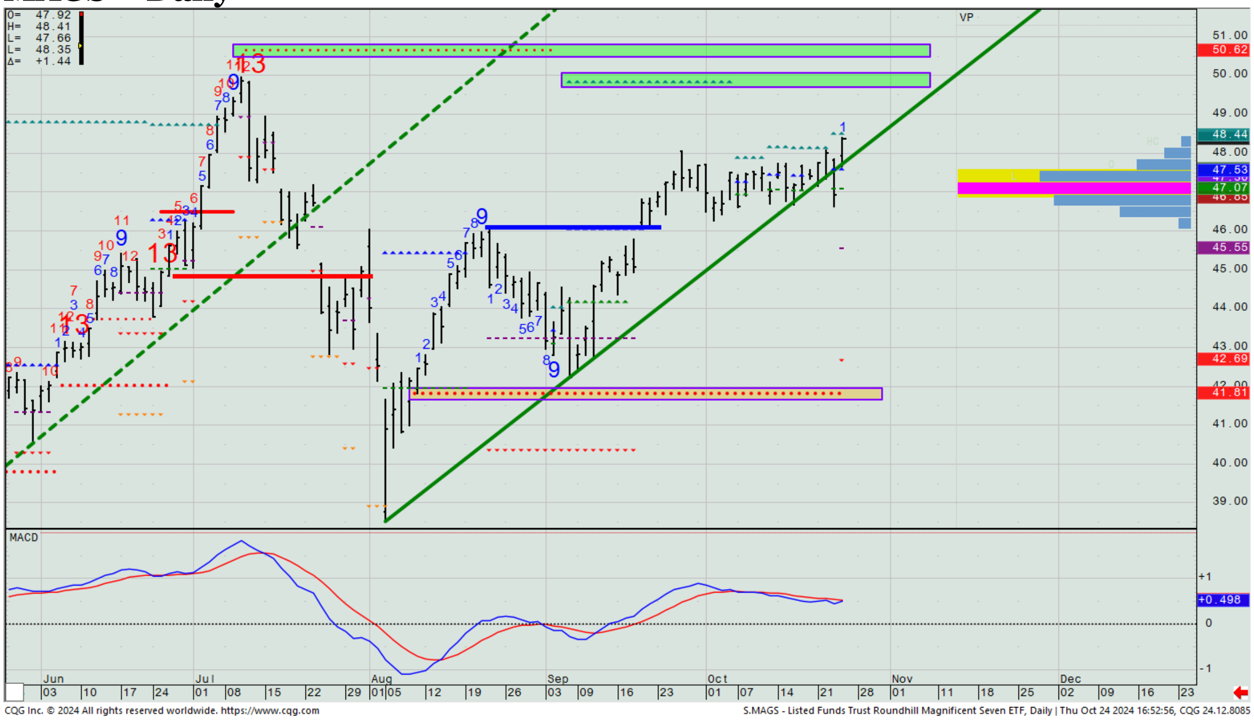
Long USO vs. Short UNG
Two weeks ago, we went long 1/3-unit (we got in at an avg. 5.194 ratio). The sell-stop to exit is on consecutive 60 min. closes under 4.99 ratio. My profit target to exit is on a rally to a 5.96/5.97 ratio.

Long USO vs. Short UNG – Daily



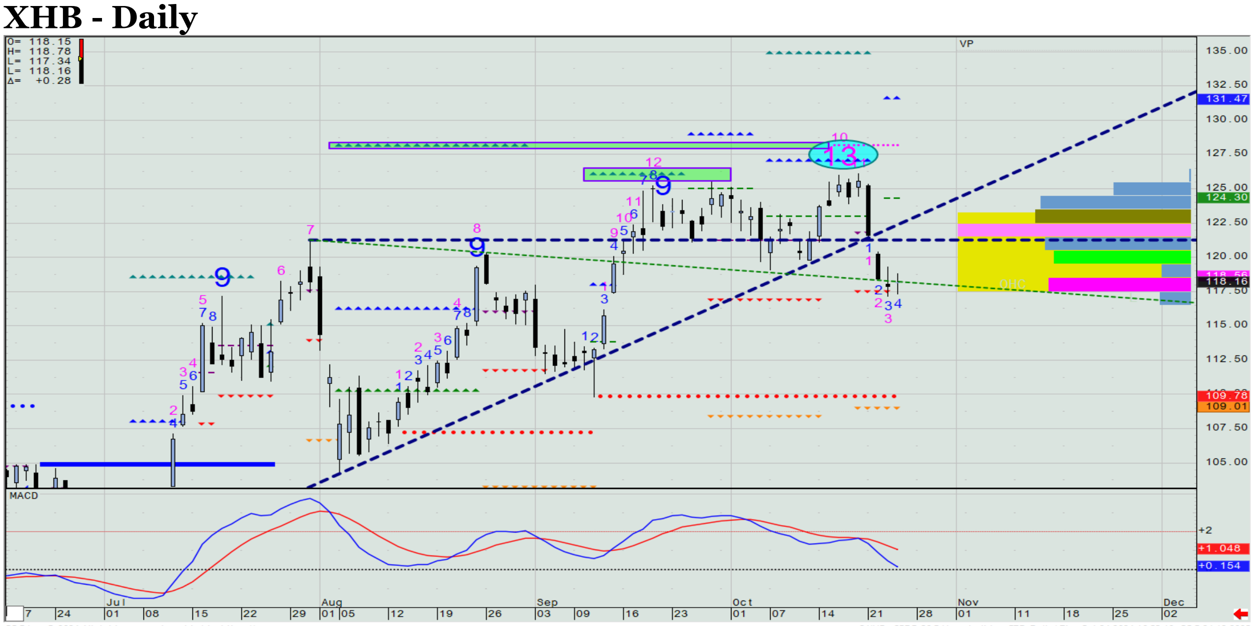
Long MAGS
Five weeks ago, we got long one unit (avg. $46.47). Scale out 1/3 each at near $49.79; $50.62; and near $52.43. With this right by its uptrend line, I'm raising the sell-stop to exit on consecutive hourly closes beneath $46.10.

MAGS – Daily



Long XHB
We're long at an avg. of $118.72. We've already sold half at $121.87. We'll exit the balance at $128 +/- 25 cents. Last week I wrote, "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." Well, the range from 3:55 pm to 4:00 was $121.20 to $121.40. I'm not sure if you held or not, so I'll say that if you did get out, you sold ~$121.30 and made 2.41%. If you held, you got stopped on Tuesday's close of $118.43, and made a total of 1.20%.

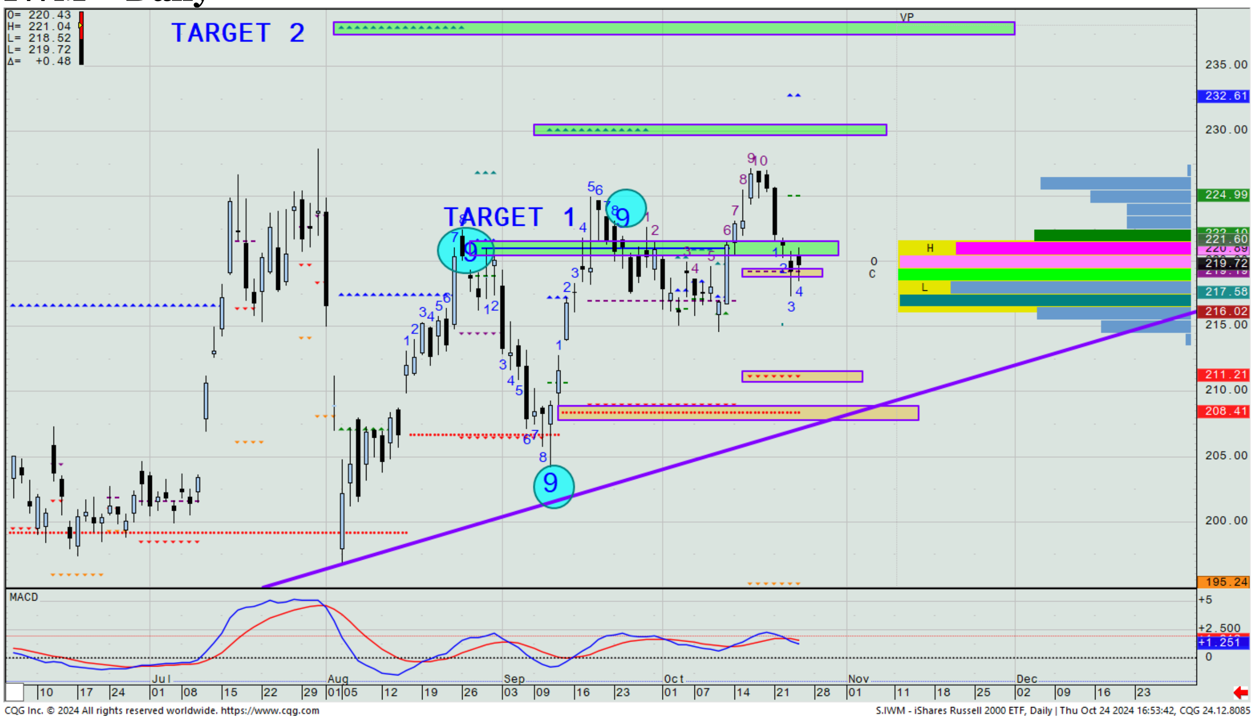
XHB - Daily



Long IWM

Since early September, we've been long this at $209. I had two targets to exit 50% at: near $221 (already achieved) and $237+. 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