Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

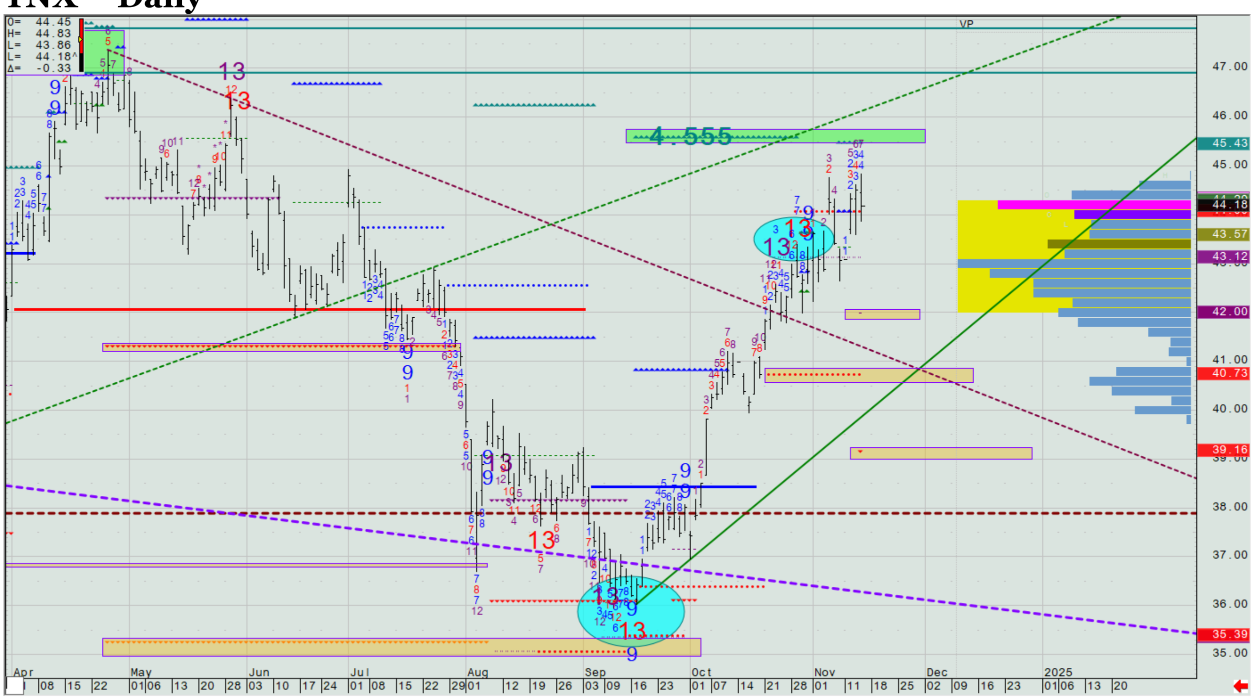
The Trump-related rally again pushed stocks higher, but we're seeing some profit-taking as it's still been a stellar year for equity holders, and rates staying at near their highs of the post-Fed cut move from mid-September is concerning for small-cap investors. The dollar index hit 107, with precious metals getting hit hard on that. And then yesterday afternoon, Powell spoke and said that the Fed is in no rush to lower rates – and stocks dropped quickly.

Let's take a look at all these important markets – one-by-one:

US RATES

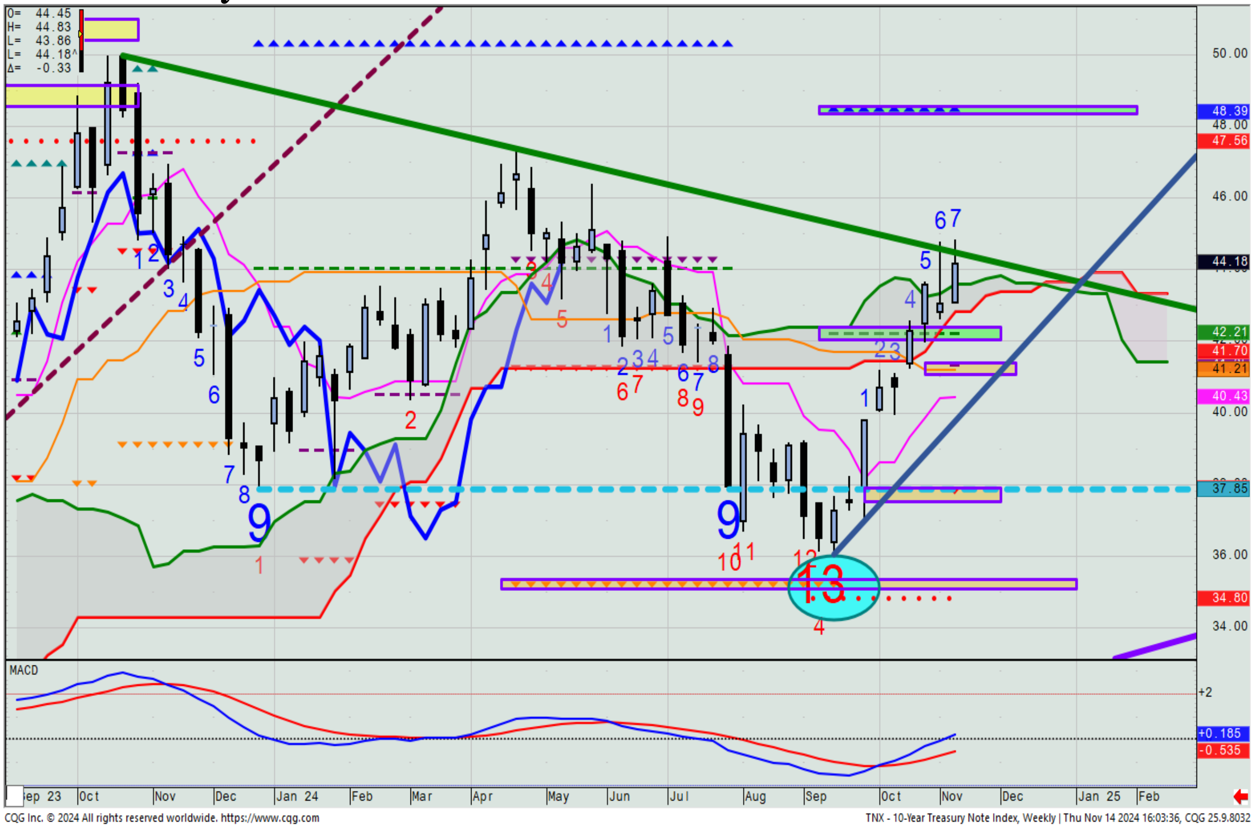
The TNX reached as high as 4.48% since elections, and what appears to be the key level is the 4.55% Propulsion Full Exhaustion rate from this year's lowest level from just two months ago.

TNX – Daily



Rates pushed above the weekly cloud top but have so far stalled right against the downtrend line from the 5% secular high. On the below chart, first yield support shows up at about 4.13%, and in my opinion, that level is about the best bond bulls can hope for. A solid upside breakout targets 4.84%, and then beyond 5%. (See chart top pg. 2.)

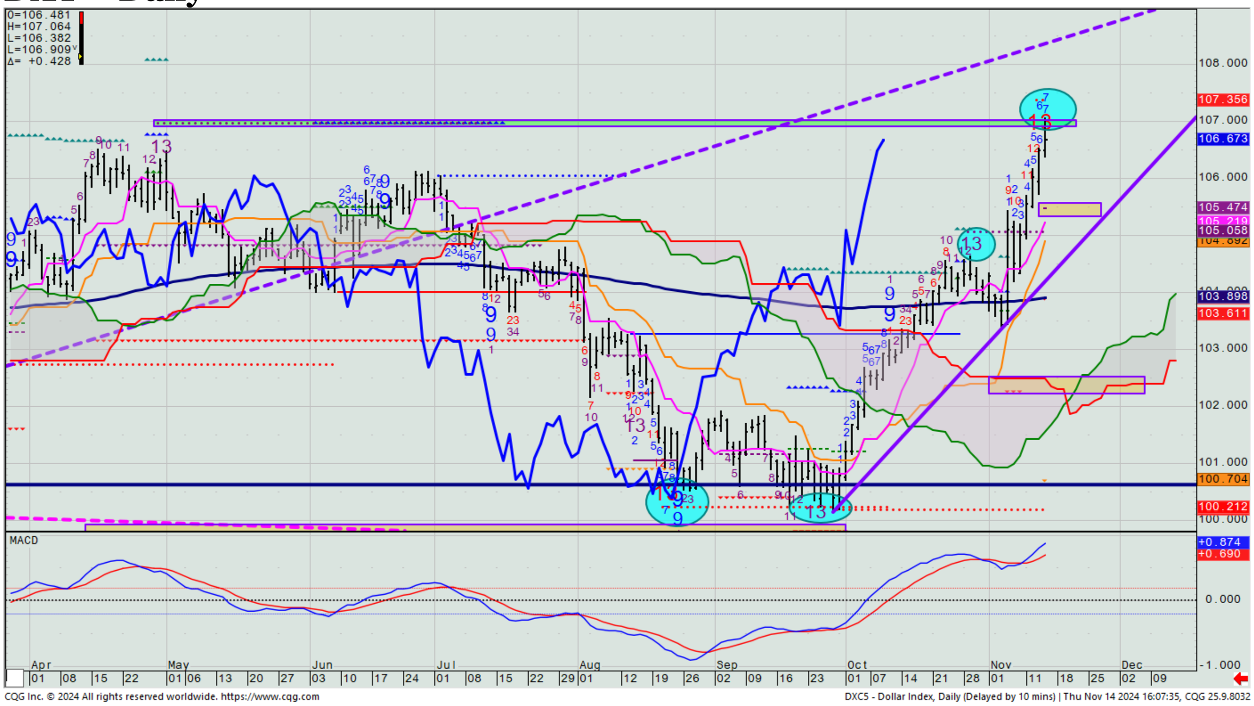
TNX – Weekly



Investment grade corporate credit spreads are now at 77 bps., with a new all-time low of 76 bps., and still on track to reach its broken head-and-shoulders topping pattern from 2022 to 2023 to somewhere to the 70 bp. area. Generally, narrowing credit spreads are bullish for stocks (as it shows lessened fears in the system, and apparently, those fears are now the smallest ever). This is part of the reason that so many pundits are still mega-bullish stocks.

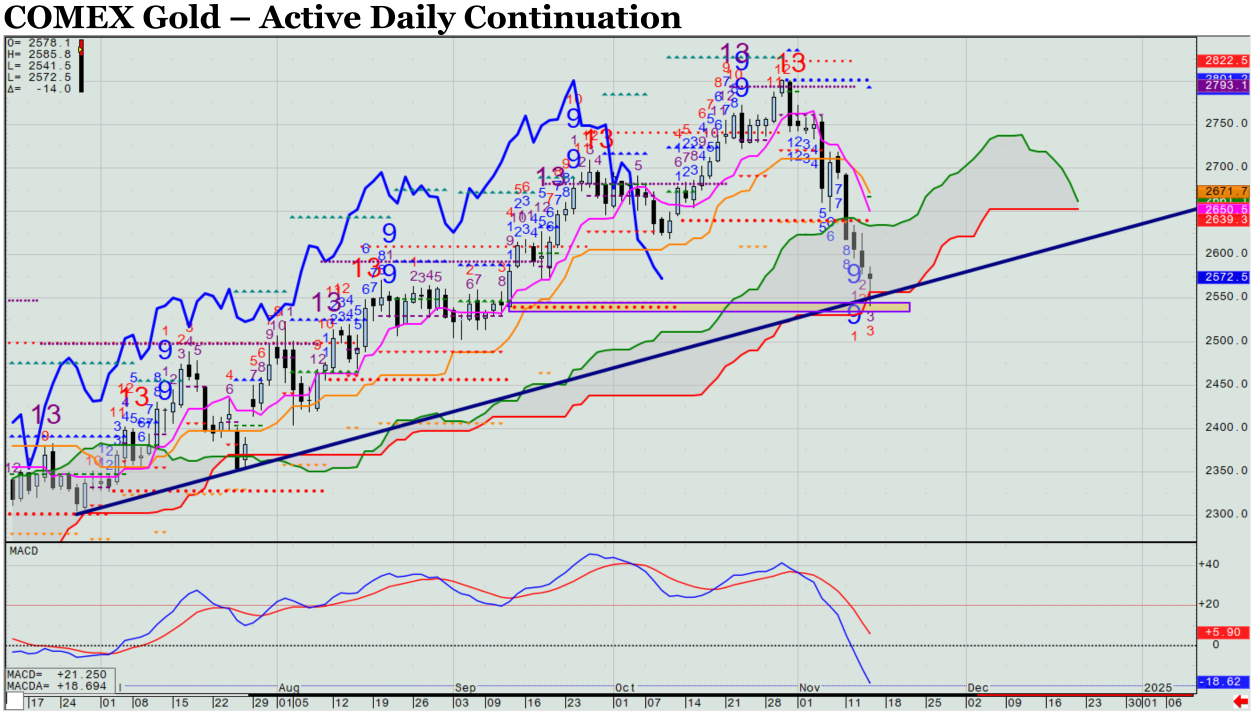
THE DOLLAR: The Trump victory was taken as hugely bullish for the greenback, and the post-election rally has now pushed this to hit 107 this week, while also marking a Sequential +13 on Wednesday. I think this rally will shortly end for a pullback down to the bearish Propulsion Momentum level (currently 105.47).

DXY – Daily



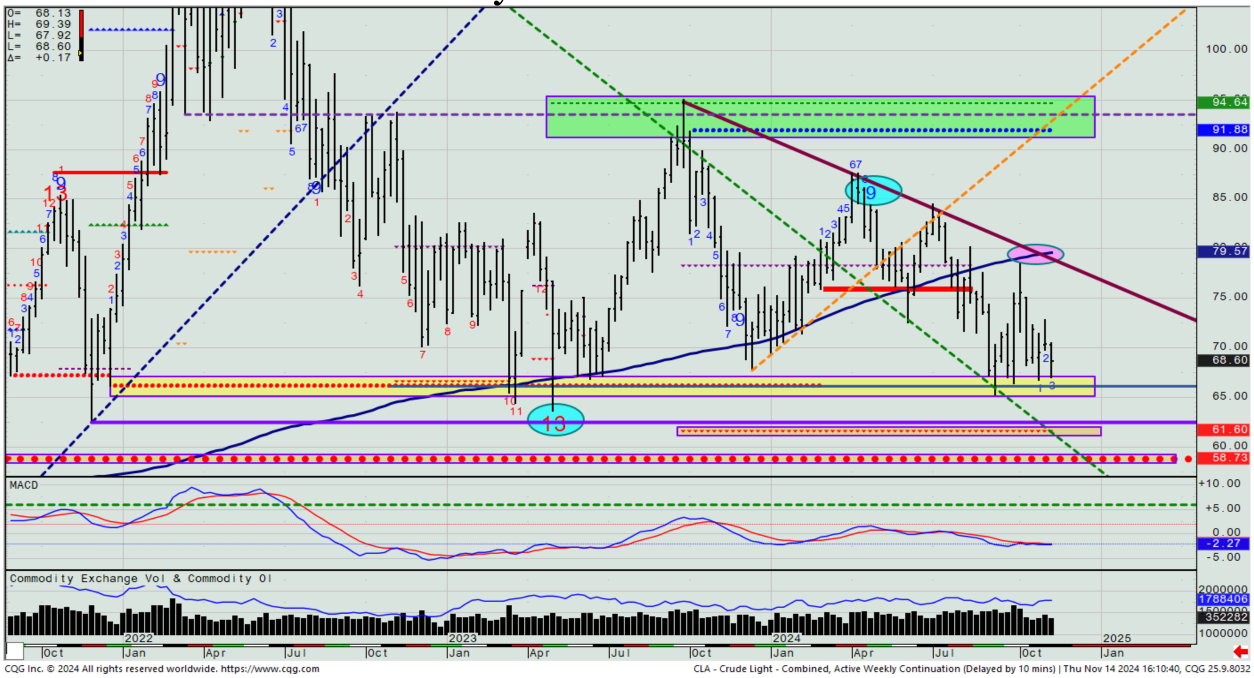
COMMODITIES: I've been bearish gold since about $2700, and it's been the right call, with gold topping at $2800 and then sharply declining to as low as $2542 yesterday. (The Daily Tip Sheet short gold trade covered its last 1/3 yesterday morning right by the low of the decline.) Yesterday hit the uptrend line from the late-June low; the cloud bottom; and the TDST support line. The weekly bearish Propulsion Exhaustion level is $2572, so it hit that, too.

COMEX Gold – Active Daily Continuation



WTI Oil remains rangebound but with lower highs. I have no call on it, other than supply seems more than able to meet demand, and if it was going to rally and hold the rally from Mideast tensions, it probably would have done so already.

WTI Crude Oil – Active Weekly Continuation

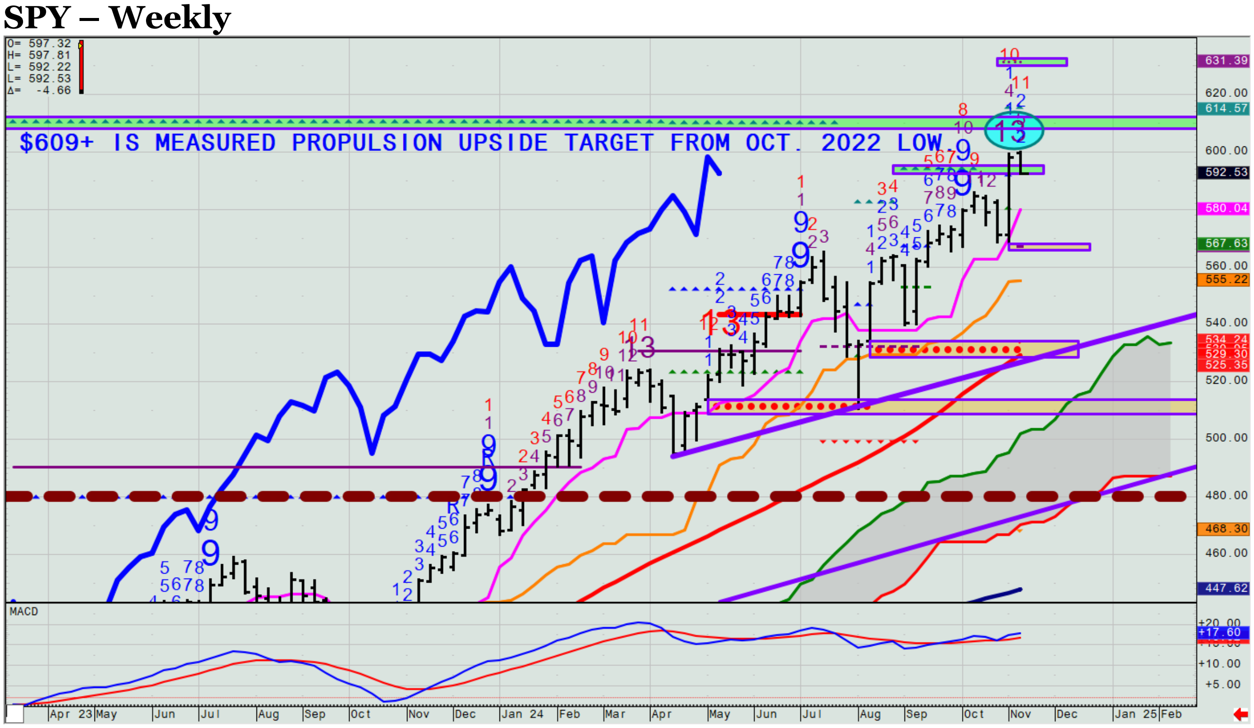


EQUITY INDEXES:

I've expanded my major upside SPY target of $609 to include the Risk level from last week's Aggressive Sequential +13 reading – pushing the range to include $631.

Trump's victory is either the biggest head fake to get new money coming in at the 9th inning of this rally – or it's going to extend the party beyond where I truly suspected it would cap itself before taking a 10% + hit. Time will tell. But as I've said for a while now, new longs need to be looked at as trades and not likely investments holdings.

SPY – Weekly



New ETF Trade Idea

Software names (via the iShares IGV ETF) vs. semiconductors (via SMH ETF) broke out of an inverted head-and-shoulders bottom since – relatedly or not – Election Day. Let's look to put a one-unit position on of this long IGV vs. short SMH pair trade on a pullback to the 0.400 to 0.390 ratio. We'll add another ½-unit more near the 0.3775 ratio, and unwind with a loss if on a Friday close beneath the 0.3645 level. Take profits at targets 0.4385/0.4550 and then near 0.480; half at each area.

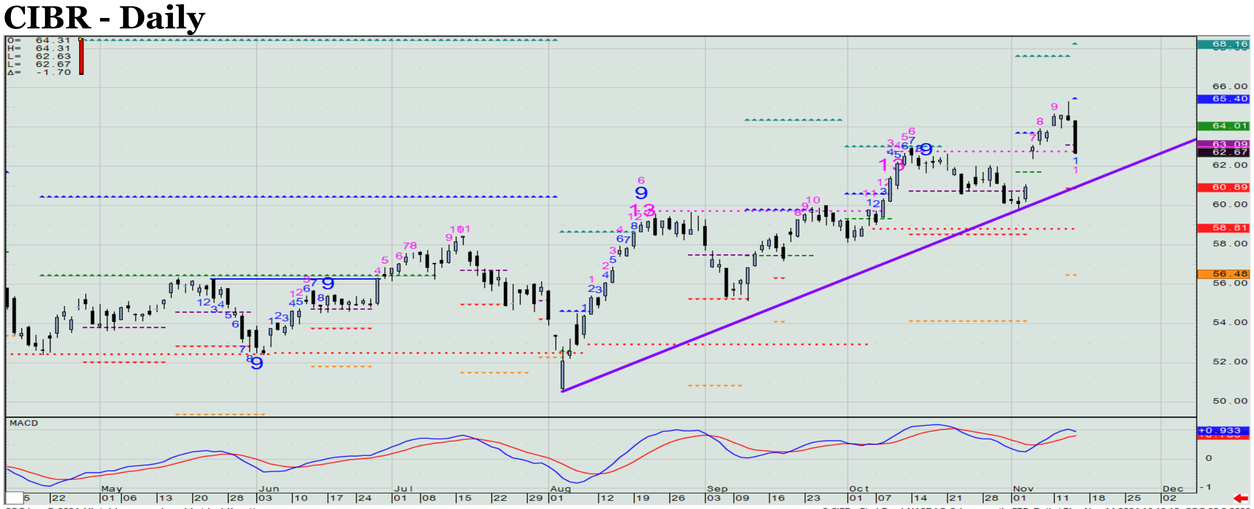
Long IGV vs. Short SMH - Daily

Other Open Recommendations and Positions

Long CIBR

Last Friday we bought 3/4-unit at an avg. of $63.54. (Let's **not** add another 3/4-unit from $62 to $61.50 as originally planned, simply because the SPY is nearing the key target.) I'm targeting a minor upmove to remove 1/3 of what we have on near $67.54, and the balance at the well-higher target from $71.74 to $73.82. I'm raising the sell-stop to a close < $59.76.

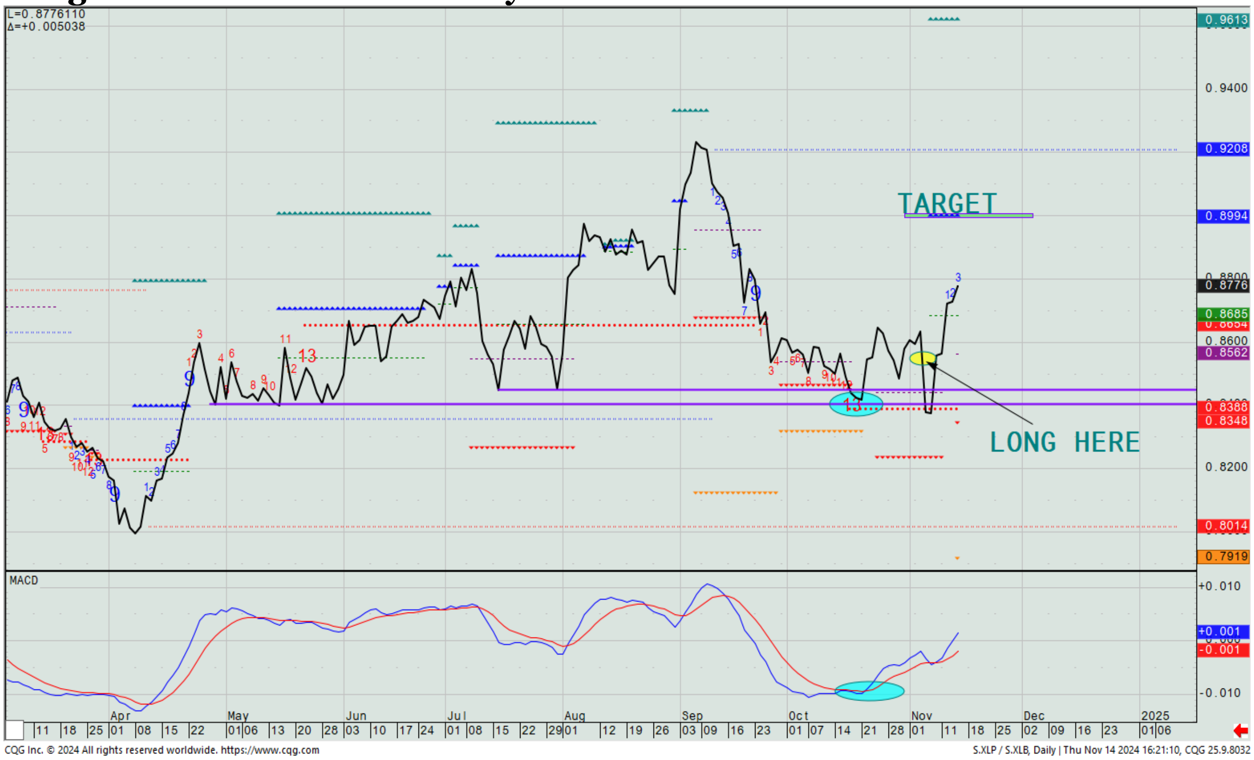
CIBR - Daily



Long XLP vs. Short XLB

Three weeks ago, we got long this pair at the 0.855 level. My target is the 0.895 area. Raise the sell-stop to a daily close < 0.850.

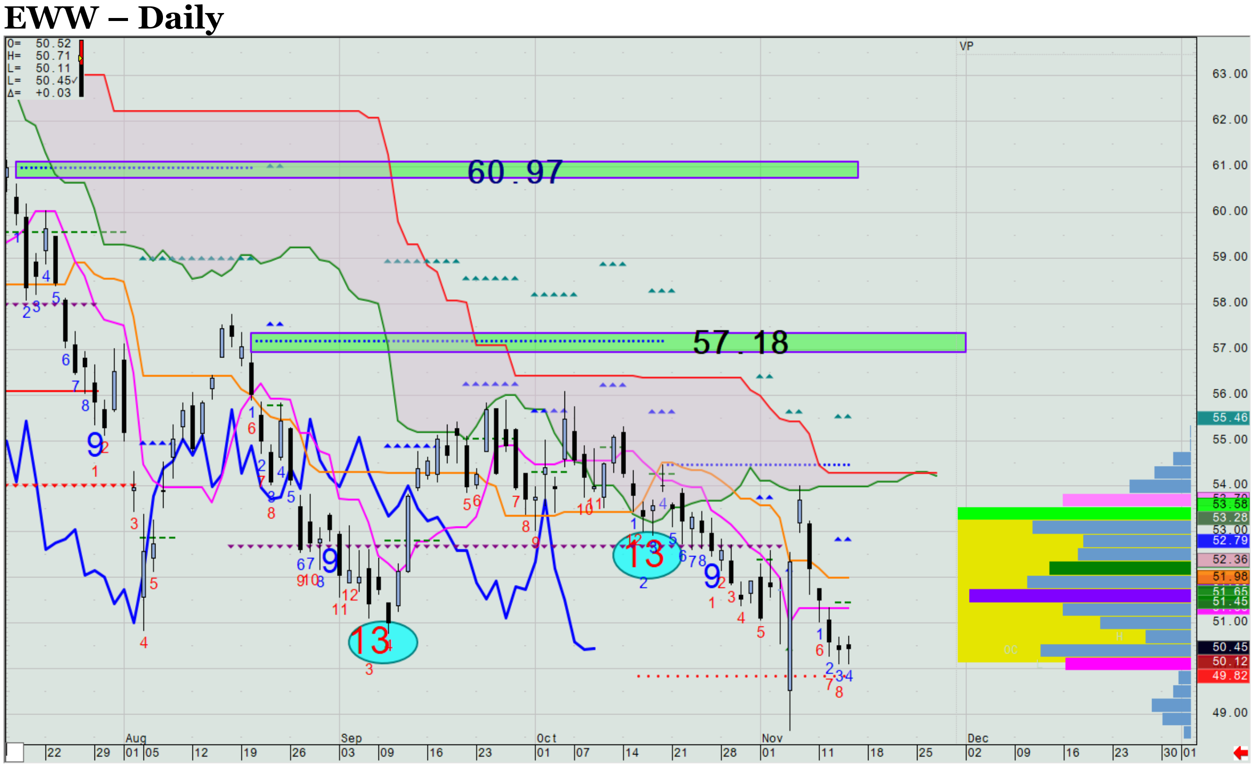
Long XLP vs. Short XLB – Daily



Long EWW

Three weeks ago, we got long one unit at. $53.31, and were using a sell-stop as a close under $51.01, the lowest close of the year. That finally happened on Tuesday's close of $50.58. We lost 5.12%.

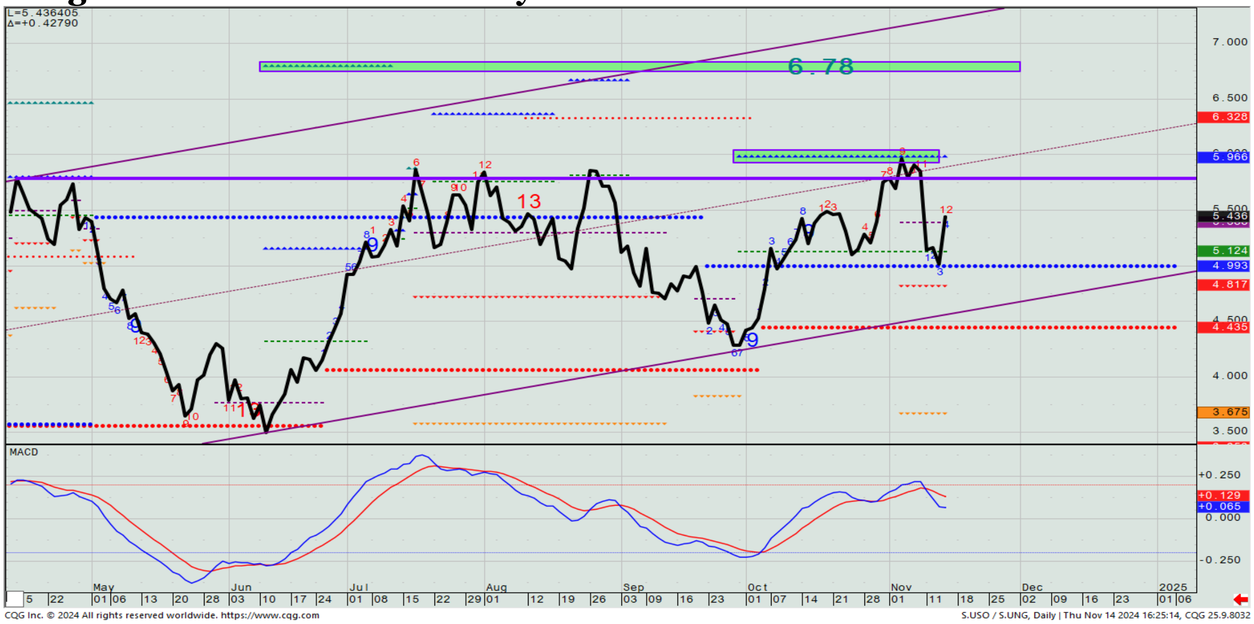
EWW – Daily



Long USO vs. Short UNG

Five weeks ago, we went long 1/3-unit (we got in at an avg. 5.194 ratio). We removed half last week at my first target of 5.96/5.97 ratio, and then got stopped out earlier this week at breakeven entry on the other half. All in all, we made 7.42% on capital, but only 1/3 of that (i.e., 2.47%) on an equal-unit P&L basis.

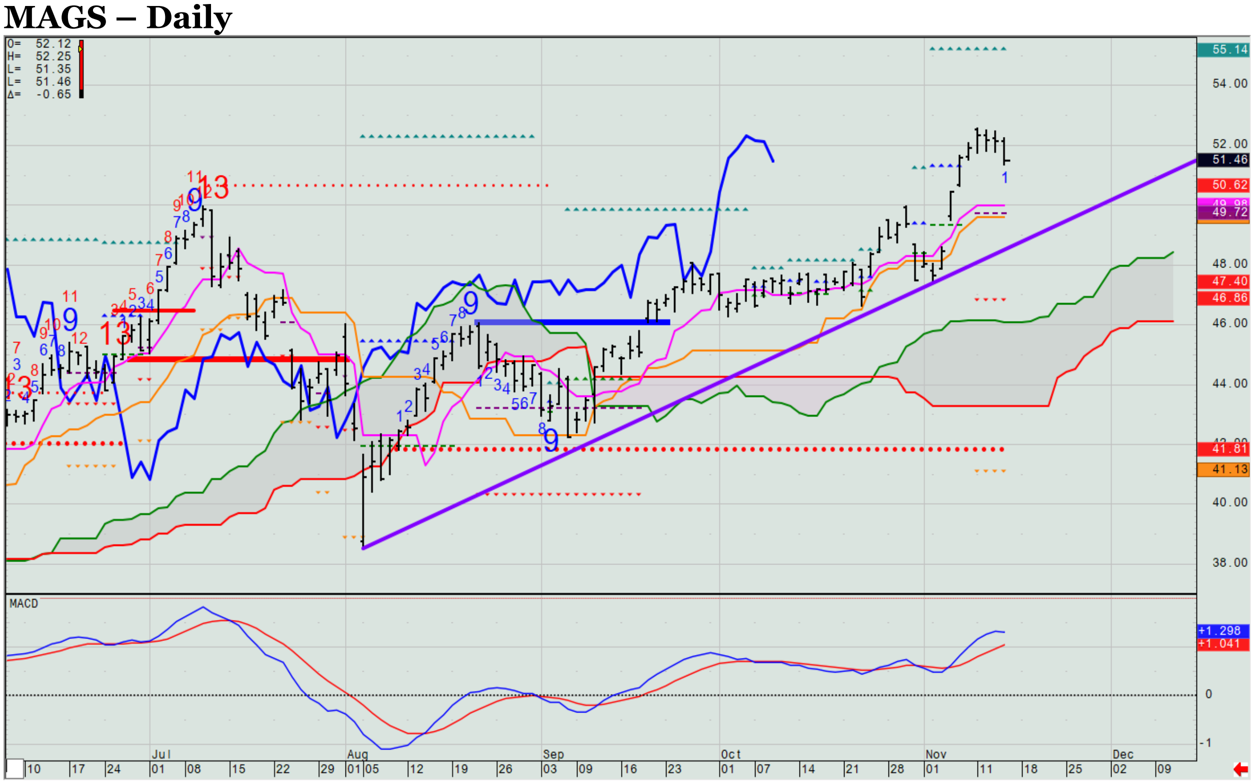
Long USO vs. Short UNG – Daily



Long MAGS

Eight weeks ago, we got long one unit (avg. $46.47). We've already sold the first 2/3 at the $49.79. and $50.62 targets, respectively. I'll leave the final 33% to be an open-ended target for now, but raise your sell-stop to a daily close under $49.36.

MAGS – 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