Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com

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TACTICAL TRADER REPORT

The Macro Picture

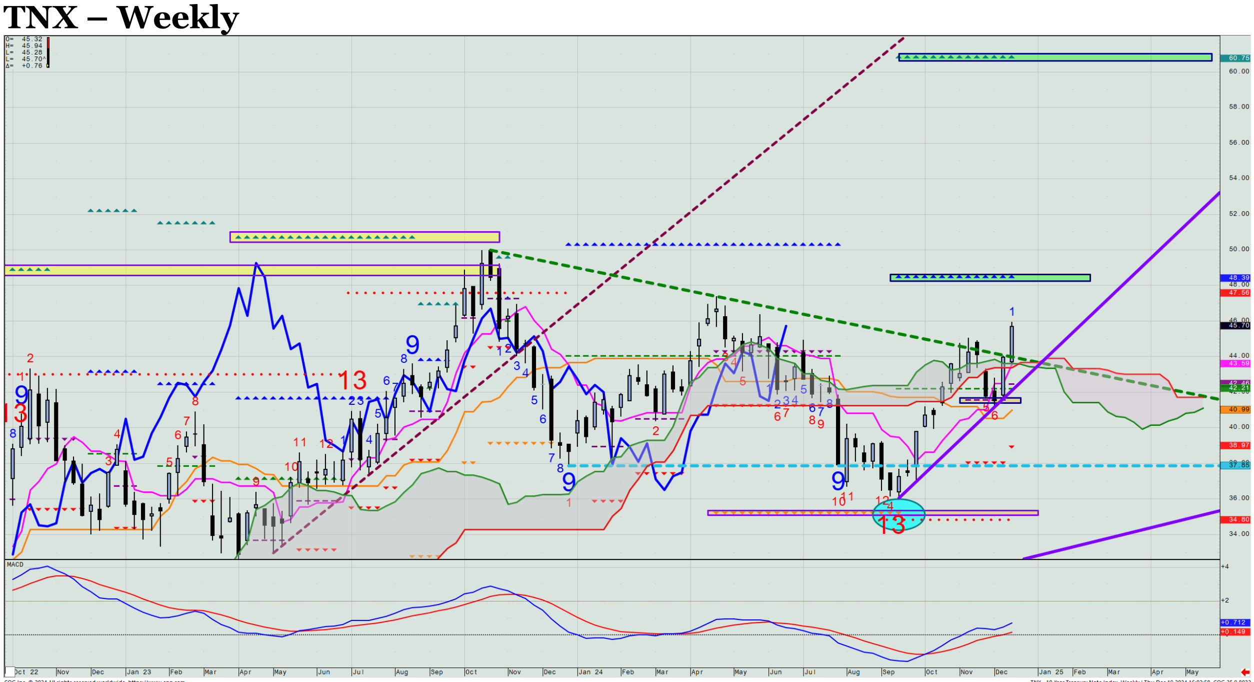
Last week I wrote, "If he leads investors to believe that 2025 may not see further easing, it could be the catalyst that takes away the Santa Claus rally most are still playing for". And I believe that's exactly what happened on Wednesday, and I think the chance of a Santa Claus is gone. Plain and simple: With rates and the dollar heading higher – and the SPY having precisely hit my $609 target mentioned all year – I think the next few weeks are a pure "sell on rally" -type event for stocks.

Let's look at the important markets and how they may impact the macro environ:

US RATES

The TNX has broken its downtrend line from the 5% high, and after the recent bottom right at the weekly bearish Propulsion Momentum level (4.156%), it seems pretty likely – in my eyes – that rates are headed higher. Next stop is probably a test of 4.84%, but over time, I think 5.32%; 6.08% and then 6.77% are coming before you'd probably see any sustained move under 4%.

TNX – Weekly

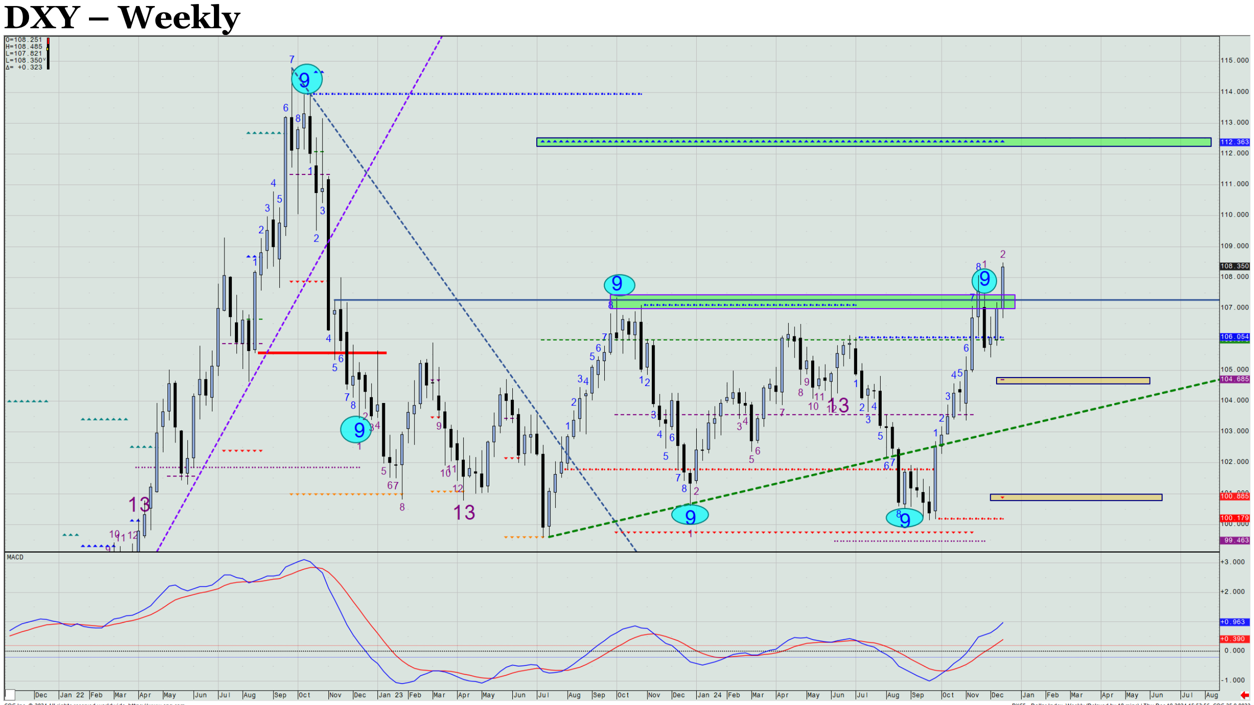


Investment grade corporate credit spreads are at 79 bps., with recent new all-time lows of 76 bps., and still on track to reach its broken head-and-shoulders topping pattern from 2022 to 2023 to somewhere to the 70 bp. area. However, getting back above 86 bps. – and staying above – would be problematic for those who recently put on further narrowing trades (and very possibly for stockholders.

This spread is something you want to watch with some frequency, because in many ways, it is one of the best measures of willingness to take risk and what fears abound. Without this making new lows, I'd continue to believe that stocks remain under near-term pressure.

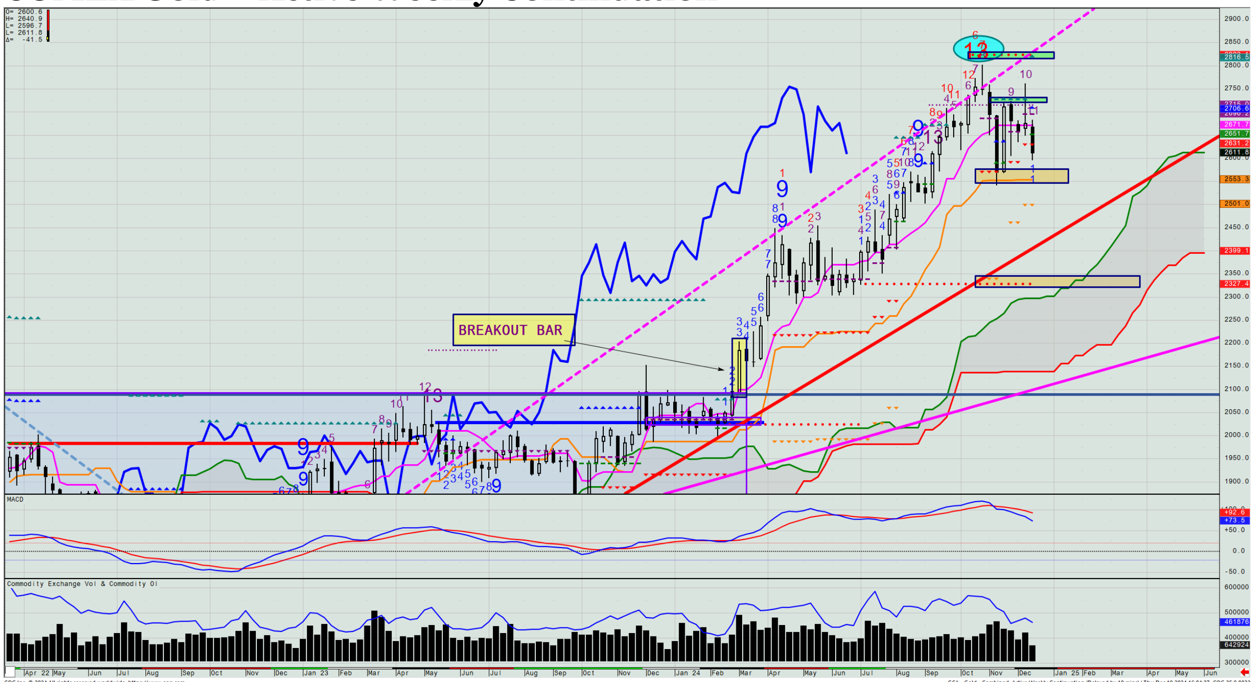
THE DOLLAR: The dollar busted to new highs, and I think it's got increased chances of reaching the next major target at 112+ in 2025. Do remember, however, that this dollar rally into year-end is exactly what it did when Trump won the 2015 election. But back then, the post-Election Day rally halted the first week of 2016 and then sold off the bulk of the balance of the year.

DXY – Weekly



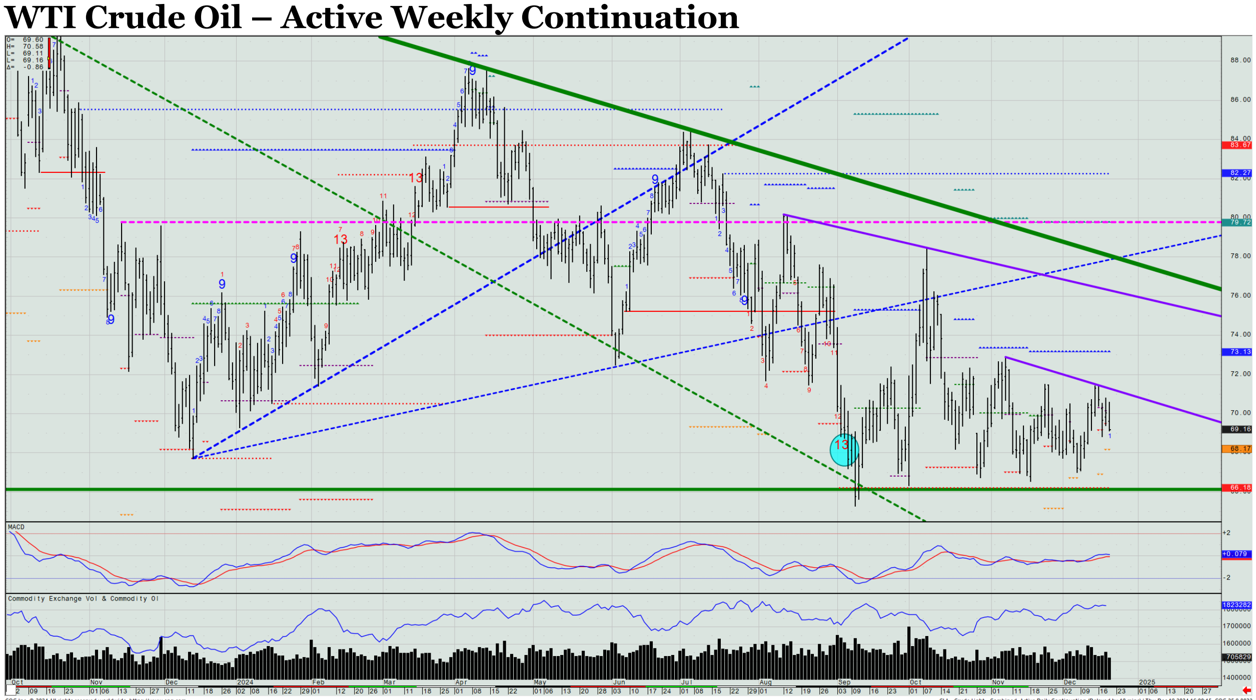
COMMODITIES: Since peaking at $2801 in October, gold fell to its weekly bearish Propulsion Exhaustion level, and has subsequently again stalled against its bullish Propulsion Momentum level. It will face significant pressure so long as the dollar is thrusting higher. For now, it's within an approx. range of $2570 to $2725. If that support level breaks on a few Friday closes, gold could set back to $2350/$2325, which is where I'd happily replace the significant amount I sold at ~$2700 earlier this year.

COMEX Gold – Active Weekly Continuation



WTI Oil remains rangebound but it's still making lower highs. Many talk of $50 oil because of oversupply vs. demand. I can make that case more easily than one for $90. But for now, the upper-$60s still holds on as support. Most oil-related equities have given back bulk of gains seen the past few months (that I never quite understood came in the first place).

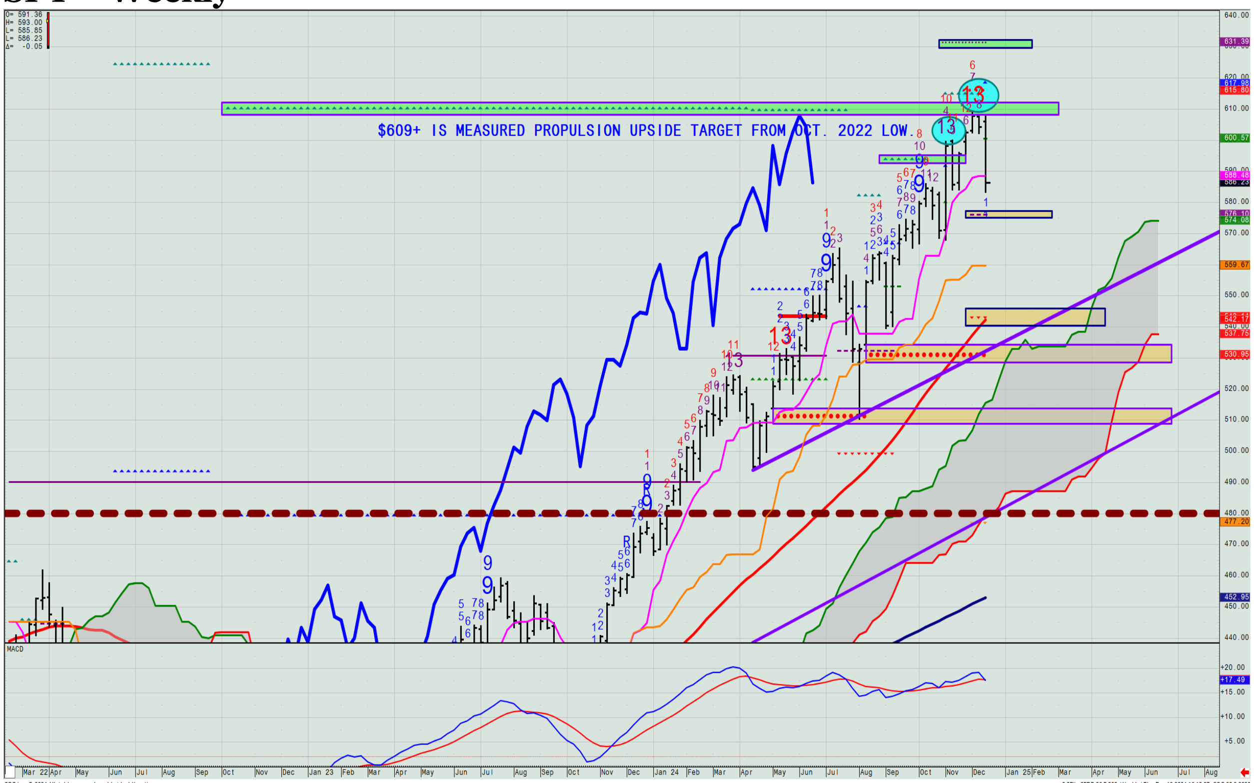
WTI Crude Oil – Active Weekly Continuation



EQUITY INDEXES:

The Fed has seemingly locked the SPY high of $609 for now. And if the impending decline I think is coming looks anything like the one we saw in July at the QQQ peak, it will be a nasty few weeks ending this year and into starting 2025. Any important downside target is shown in orange rectangles on the below chart, but if I were to take my best guess as to where the SPY gets to, it would be somewhere in the 11% decline area from the peak (which translates into something in the SPY $540s zone). I'm a seller of rallies through year-end, but I don't expect you'll see much of them – let alone lasting ones. (Yesterday was a perfect example, with the SPY closing some 70 points beneath its intraday high. That early rally was a gift. I don't think you'll see lots of them.)

SPY – Weekly



New ETF Trade Idea

Let's revisit the trade of **long software (IGV) vs. short semiconductors (SMH)**. With Micron missing earnings a few days ago – and this ratio having pulled back to the daily bearish Propulsion Momentum level and bouncing yesterday from it – it sets up a solid 3:1 or even 4:1 potential reward-to-risk trade idea over the next few weeks in favor of IGV.

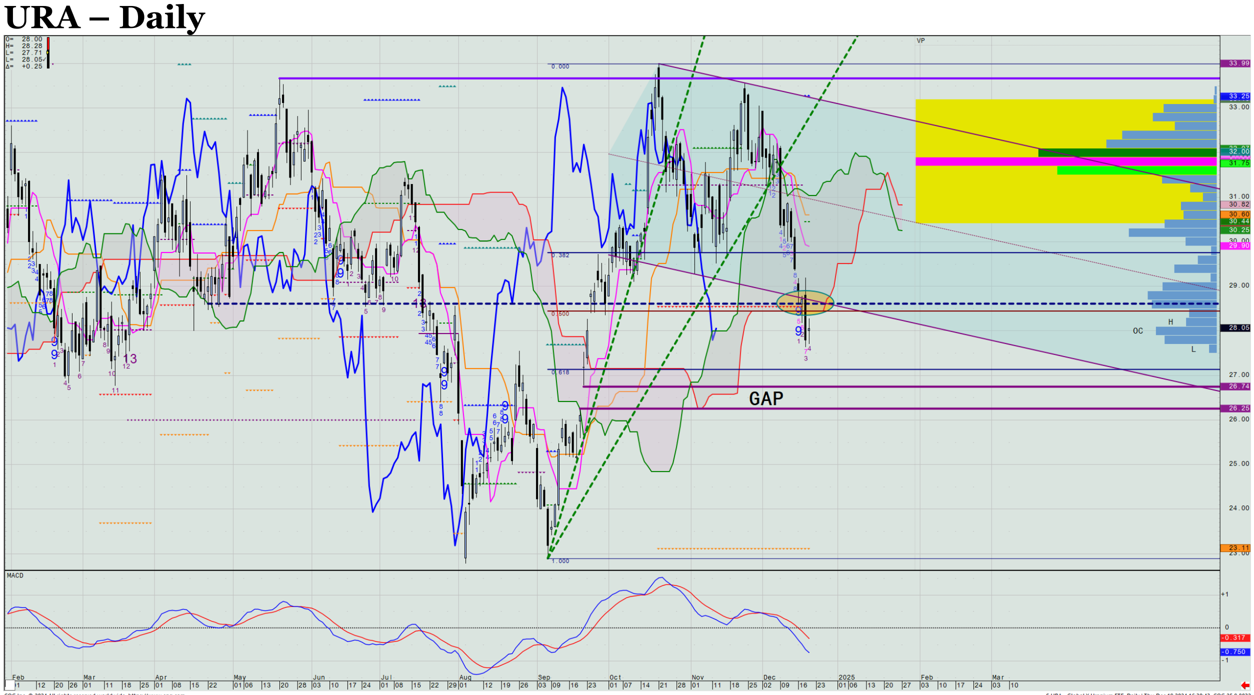
As such, let's look to today go long one unit of IGV and short an equal dollar amount of SMH. I'm going to put three different targets to unwind 33% at each: near a 0.4455 ratio; near a 0.4627 ratio; and then near a 0.50 ratio. We'll risk a daily close beneath the solid blue line at 0.4152. (If the ratio is trading underneath that stop level and it appears like it's a day that it's going to keep falling, then don't wait for the close, and just even a two-hour bar's close underneath that level can be your exit.) Most importantly, in this higher vol environment, don't be stubborn. (See chart on top of page 5.)

Long IGV vs. Short SMH – Daily

Other Open Recommendations and Positions

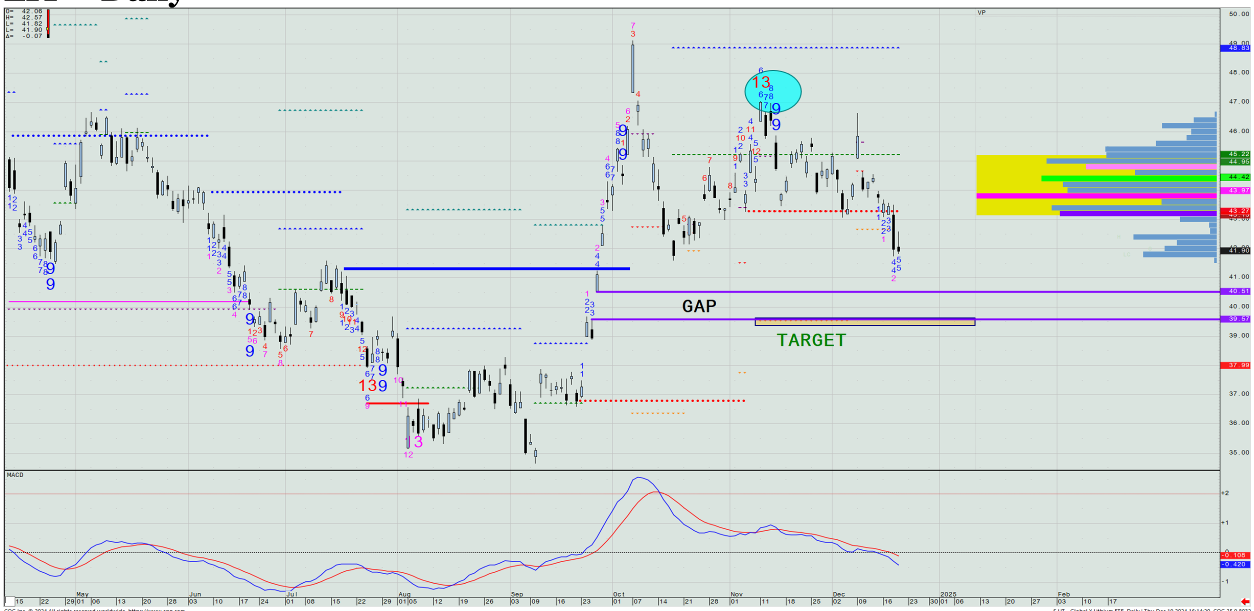
Long URA
Last week's idea was to get long one unit somewhere between the channel bottom and $28.44. (We got filled on Tuesday at an avg. $28.59.) I said we'd then play for it to rebound in the first quarter back up to the top end of the range (north of $33), and to use a tight sell-stop: exit half on a daily close beneath $27.61; and the other half on a second close beneath that level. (That's the Fibo 62% retracement level.) Given my current thoughts about no lasting rallies for the next few weeks, I'd suggest exiting on a rally to near breakeven, or at the stated sell-stop. I suspect that gap starting at $26.74 is going to be reached before this gets back above $30.50, so minimize the chance that this turns into a large unnecessary loss.

URA – Daily



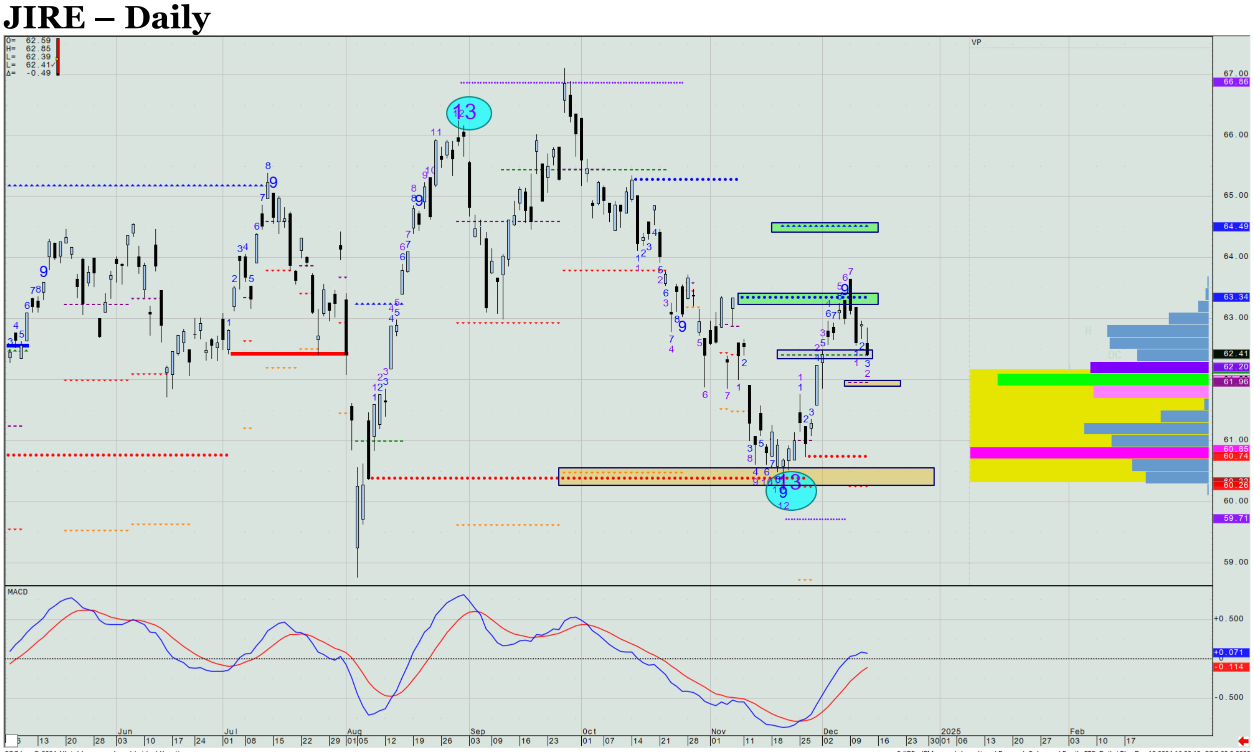
Short LIT
Two weeks ago, my recommendation was to look to sell a rally from $43.85 to $44.15 (we are filled at avg. $44.00). I'm targeting anything near the bearish Propulsion Full Exhaustion level of $39.53. Raise your buy-stop to breakeven entry.

LIT – Daily



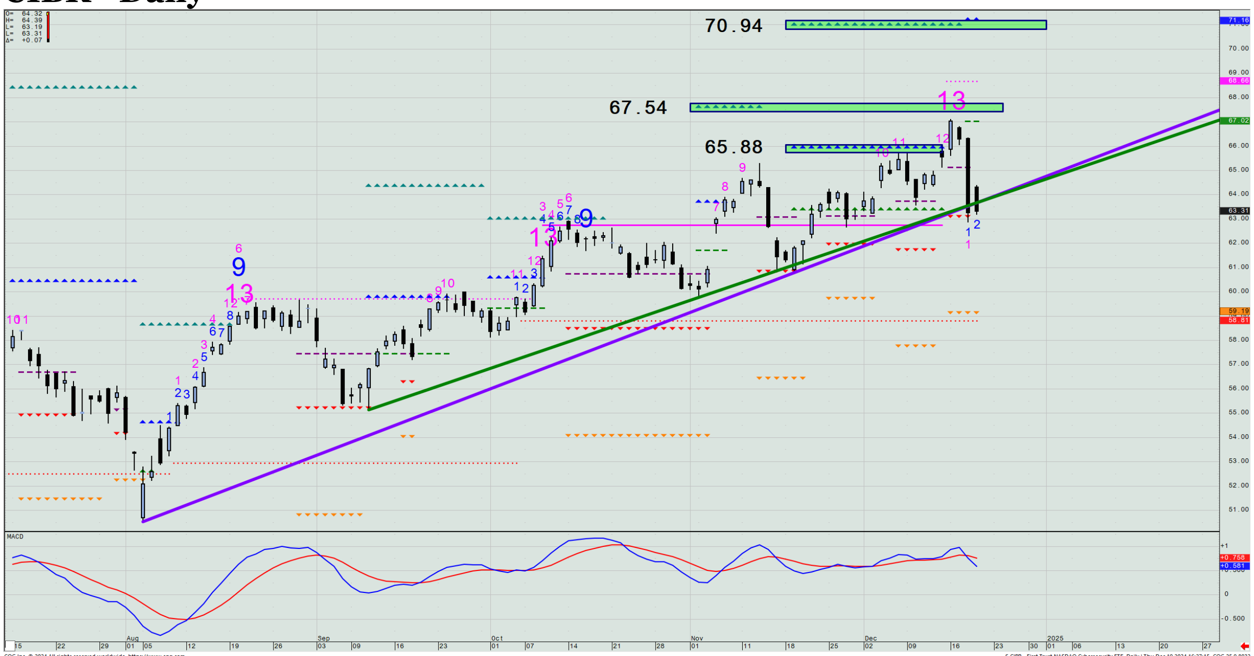
Long JIRE
We bought 1.5 units four Friday's ago at avg. $60.83. I suggested taking 25% off at $62.41 (achieved); 50% at $63.34 (achieved); and 25% at $64.49. Last week, I raised the remaining sell-stop to consecutive daily closes < $61.96, but no worse than breakeven. We saw that breakeven level hit on Wednesday's large decline, so we got stopped on the final third with no loss. All in all, we made 2.24% on invested capital, but as this was a 1.5x sized trade, we made 3.36% in equal one-unit P&L terms.

JIRE – Daily



Long CIBR
Six weeks ago, we bought a 3/4-unit at an avg. of $63.54, suggesting taking off 1/3 at each of the neon green highlighted targets. Thus, we removed 33% at $65.88. I had raised the sell-stop to a close < $63.74 or a simple sell-stop at breakeven entry. We got filled at the latter on Wednesday's decline. We made 3.68% but on just 1/3 of the 75% one-unit position, which turns into 91 bps. in equal one-unit P&L terms.

CIBR - 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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