Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

Last week I wrote that I did not think a Christmas rally was at hand – given the reaction to the Fed's statement on the 18th – and the continuous rally in rates (which is also dragging the dollar higher). Officially – if there is such a thing for the artificially named "Santa Claus rally" – is the final 5 trading days of a year through the first two days' close. That translates to Dec. 24th to Jan. 3rd. Therefore, if the SPY is higher than the 12/23 close ($594.69) a week from today, then, well, yes, you've had this event take place. If not, you haven't.

The question you should really be asking yourself is, "Does it really matter?". To me, it doesn't, because we know how important the SPY $609+ area is. We'd have to blow through that to make me think that number is no longer relevant.

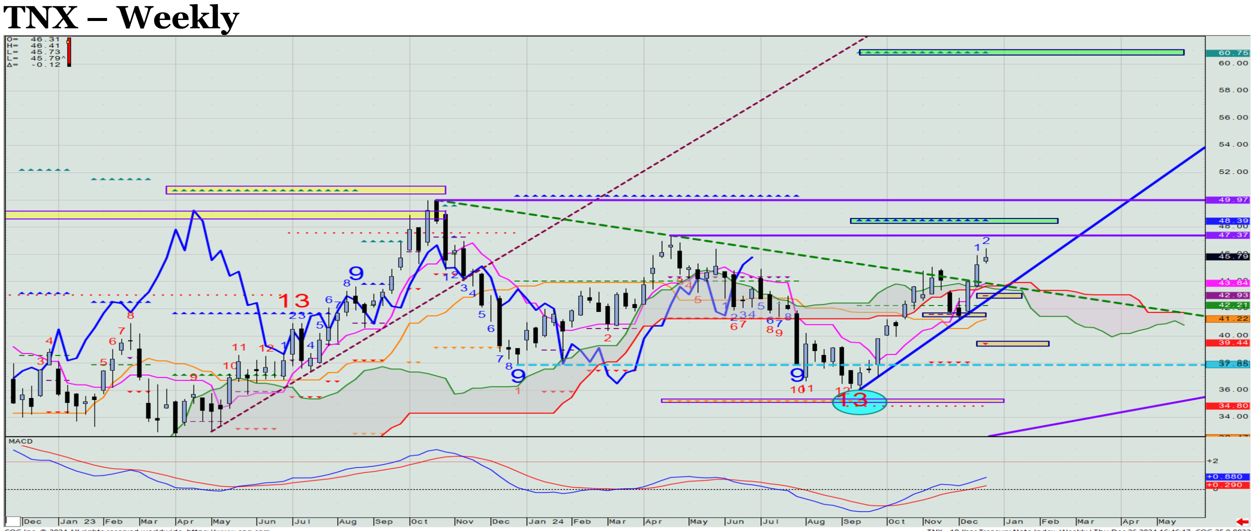
As this year winds down, choose carefully how you deploy capital. I'm still far more leaning towards managing the risk of what I have on than I am about putting new money to work.

Let's look at the important markets that impact the macro environ:

US RATES

No change from last week's thoughts: 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

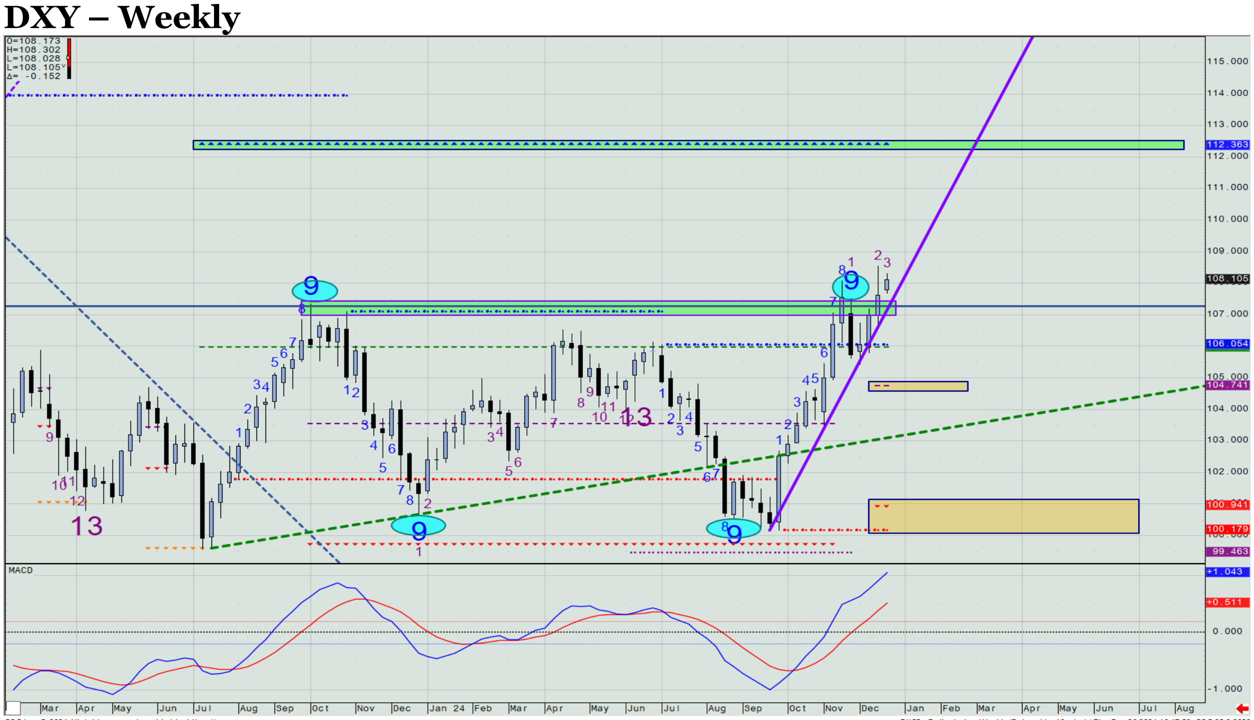


Investment grade corporate credit spreads are at 82 bps (data through Monday because of the holiday), with recent new all-time lows of 76 bps., and still on track to reach its broken head-and-shoulders topping pattern from 2022 to 2023 to somewhere to the 70 bp. area. However, getting back above 86 bps. – 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.

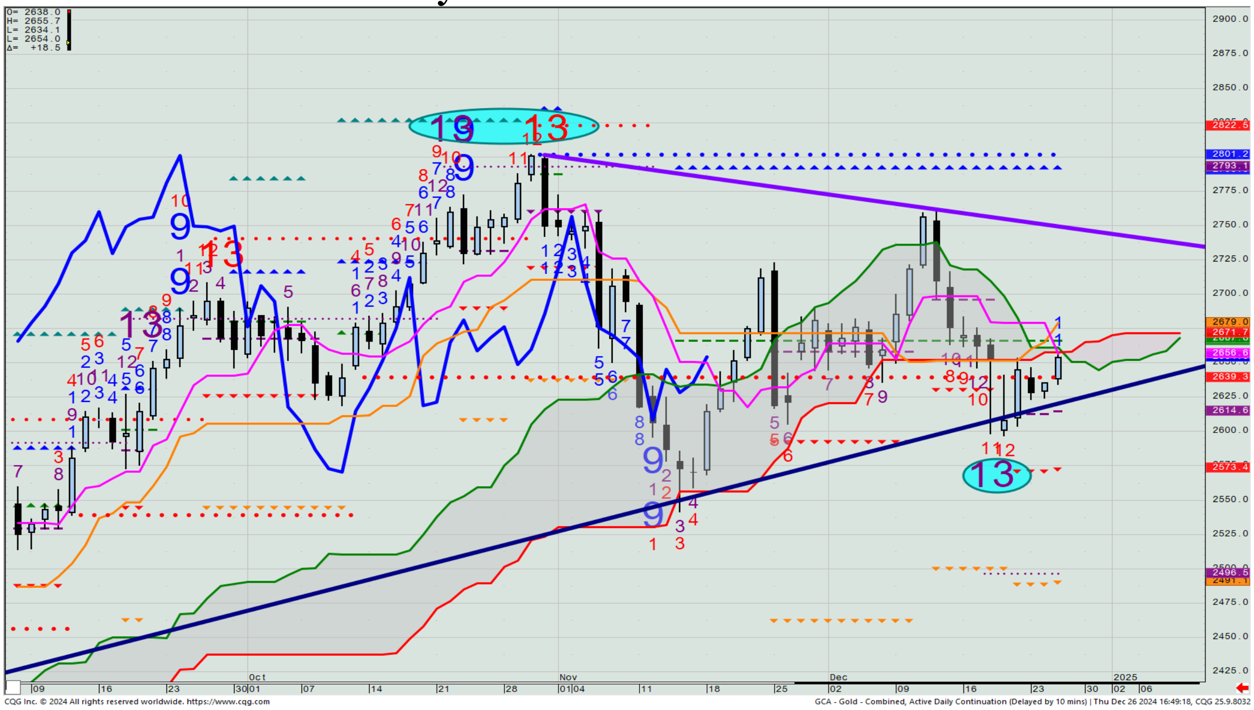
THE DOLLAR: The dollar busted to new highs, and I think it's got increased chances of reaching the next major target at 112+ in 2025. Do remember, however, that this dollar rally into year-end is exactly what it did when Trump won the 2015 election. But back then, the post-Election Day rally halted the first week of 2016 and then sold off the bulk of the balance of the year. We'll see if that rally and then early-year turnaround happens again, or whether Trump 2.0 creates more lasting greenback strength.

DXY – Weekly



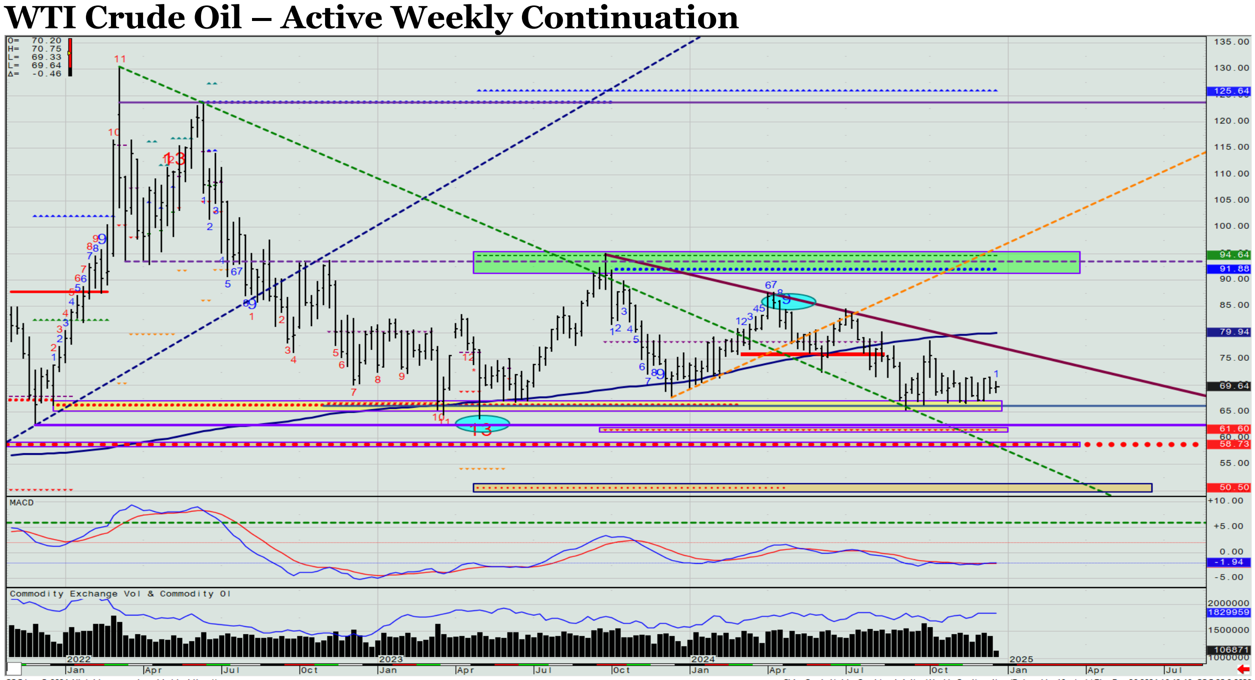
COMMODITIES: Gold will face significant pressure so long as the dollar is thrusting higher. For now, it's within an approx. range of $2570 to $2725. If that support level breaks on a few Friday closes, gold could set back to $2350/$2325, which is where I'd happily replace the significant amount I sold at ~$2700 earlier this year. On a shorter-term basis, the daily chart is showing several cloud elements coming together right near $2660.

COMEX Gold – Active Daily 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).

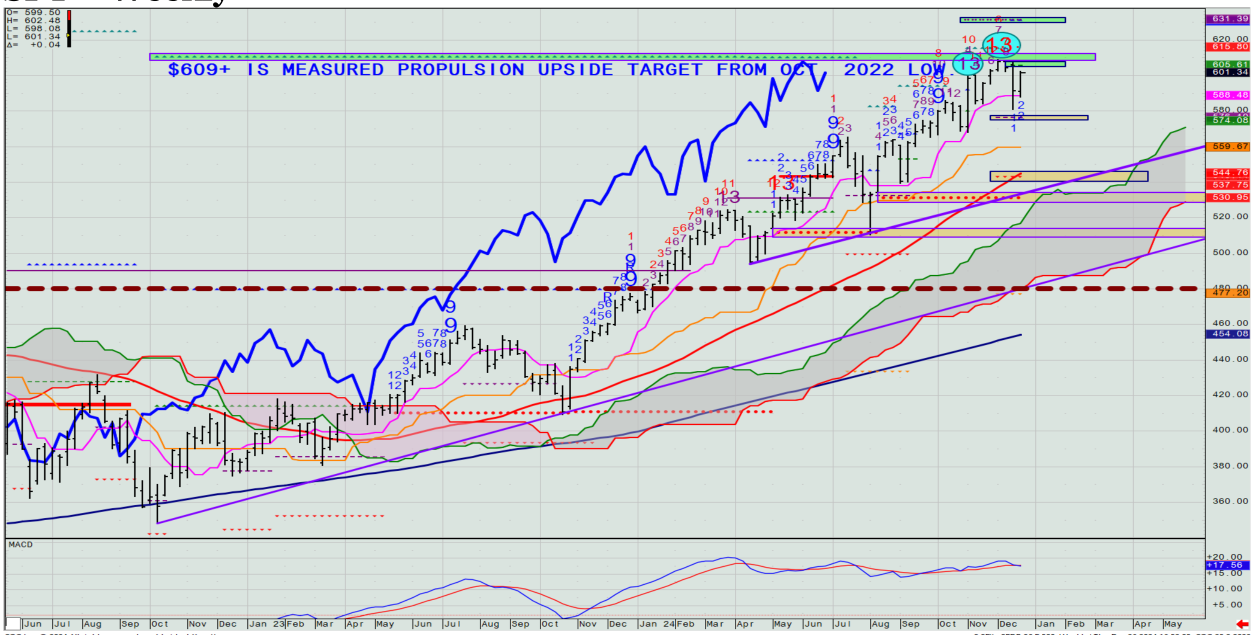
WTI Crude Oil – Active Weekly Continuation



EQUITY INDEXES:

The pullback from SPY $609 – my longstanding target – has thus far bottomed right at its daily Propulsion Exhaustion level. We've seen a good bounce since then, as many bulls are trying to push things higher to end the year with the aforementioned "Santa Claus rally". At least for now, so long as the new downward Setup count (a -2 this week) keeps at hand (by continually closing each Friday beneath the closing price from four Friday's prior), I'm certainly going to keep my call for a likely correction lower of as much as 11% from the high.

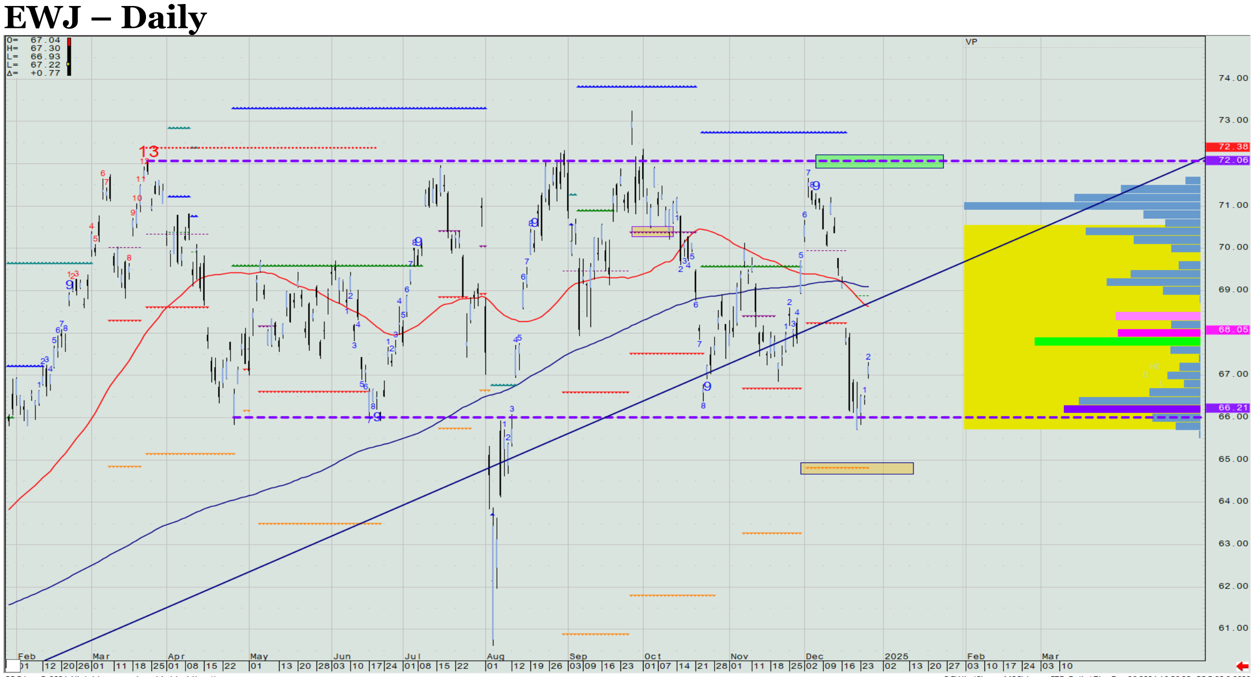
SPY – Weekly



New ETF Trade Idea

The popularly traded **iShares MSCI Japan ETF (EWJ)** has been range-trading for months, other than the one plunk beneath it related to the major interest rate shift in Japan in early-August. But it again has bounced on what was the low end of the range.

EWJ – Daily



As such, we'll look to get long one unit on a pullback to $66.60 to $66.30. We'll play for a move to the upper end near $72 into first quarter next year. We'll stop out half on the first close beneath $64.81, and the other half on the second consecutive close beneath that same level.

Other Open Recommendations and Positions

Long IGV vs. Short SMH

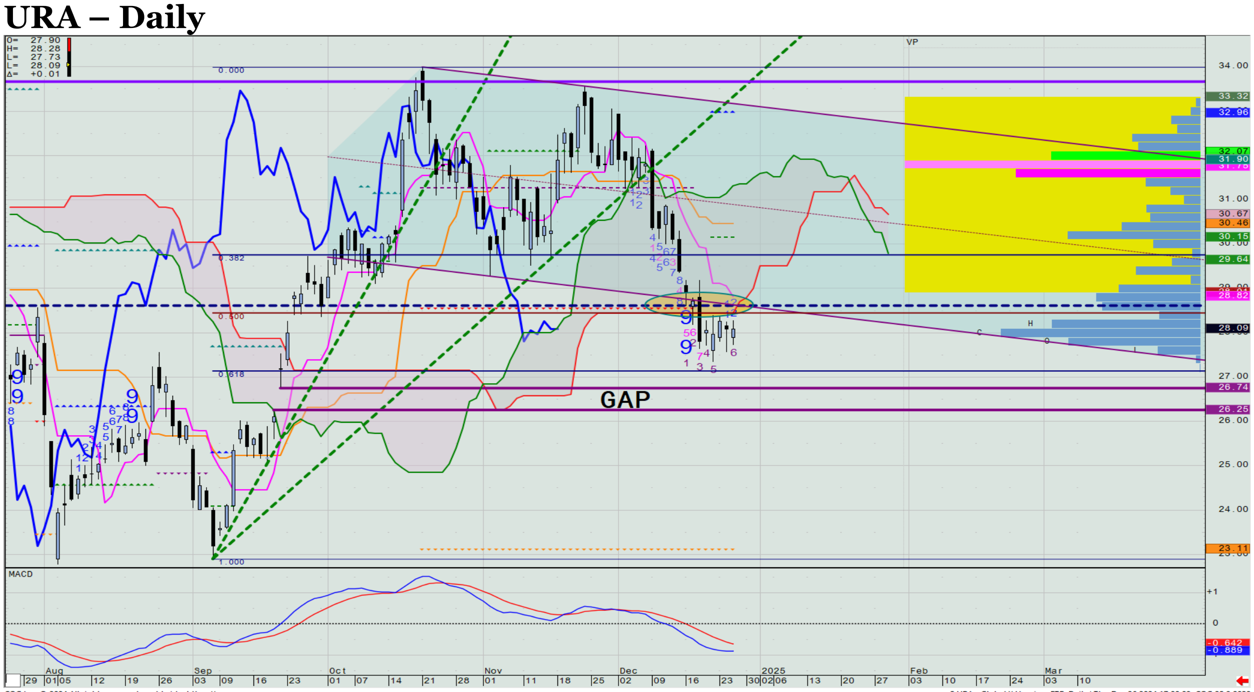
Last week's idea was to again put this trade on after our recent exit from it near the highs of the move. Our avg. entry price was 0.4248. We were risking a daily close beneath the solid blue line at 0.4152, which happened on Tuesday's close of 0.4130. Thus, we're out and lost 2.78%.

Long IGV vs. Short SMH – Daily

Long URA

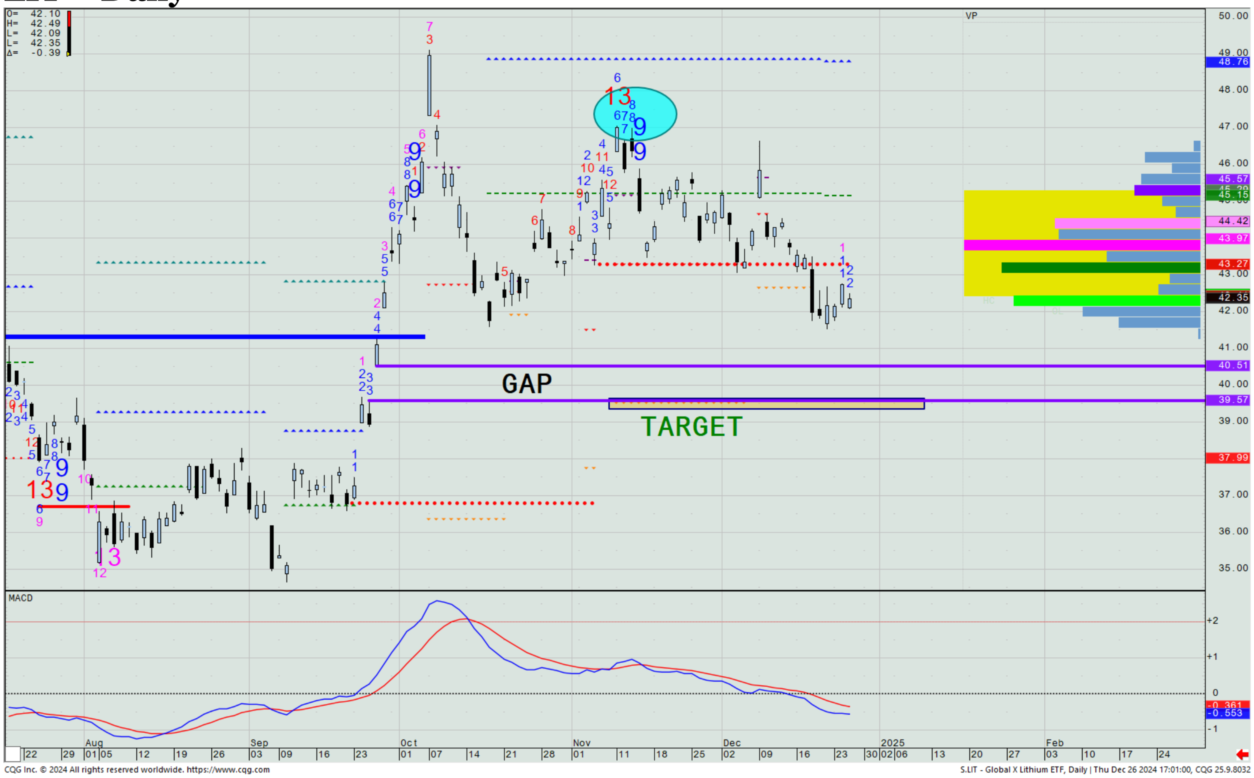
Two weeks ago, my trade idea was to get long one unit somewhere between the channel bottom and $28.44. (We got filled on Tuesday at an avg. $28.59.) Given my current thoughts about no lasting rallies for the next few weeks, I'd suggest exiting today and just keeping things to a small loss.

URA – Daily



Short LIT
Three 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



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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