Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

The CPI number on Wednesday – taken very bullishly by traders – pushed the SPY back to the $600 neighborhood and striking distance of the all-time high of $609.07. The TNX – which had climbed to 4.80% -- fell sharply and is now near 4.60%. The Dollar Index – that had climbed to just over 110, is now beneath 109. Oil – just recently at $70 – crossed $80 this week. Gold is up $100 in a short time. It has been a week of swift price change in what had been ongoing trends, and the question we all need to ask ourselves is, "Did the CPI number really change the direction of what trends we've recently seen?".

Before we look across the asset classes that we do each week, let me address something about how investors see what they want to see. To wit, Wednesday's CPI report came in at 3.2% -- lower than the expected 3.3%. But the actual number was 3.248%. The government takes that to be rounded down to 3.2%. But any 6th grade student knows that 3.248% rounds to 3.25%, and 3.25% rounds to 3.3%. Thus, did Wednesday's massive upmove come from a governmental downward rounding to 3.2% on something that could easily have been read in someone else's eyes as 3.3%? Did the rally really have merit? I don't have that answer, but it's really something that smart minds are kicking around on Street trading desks.

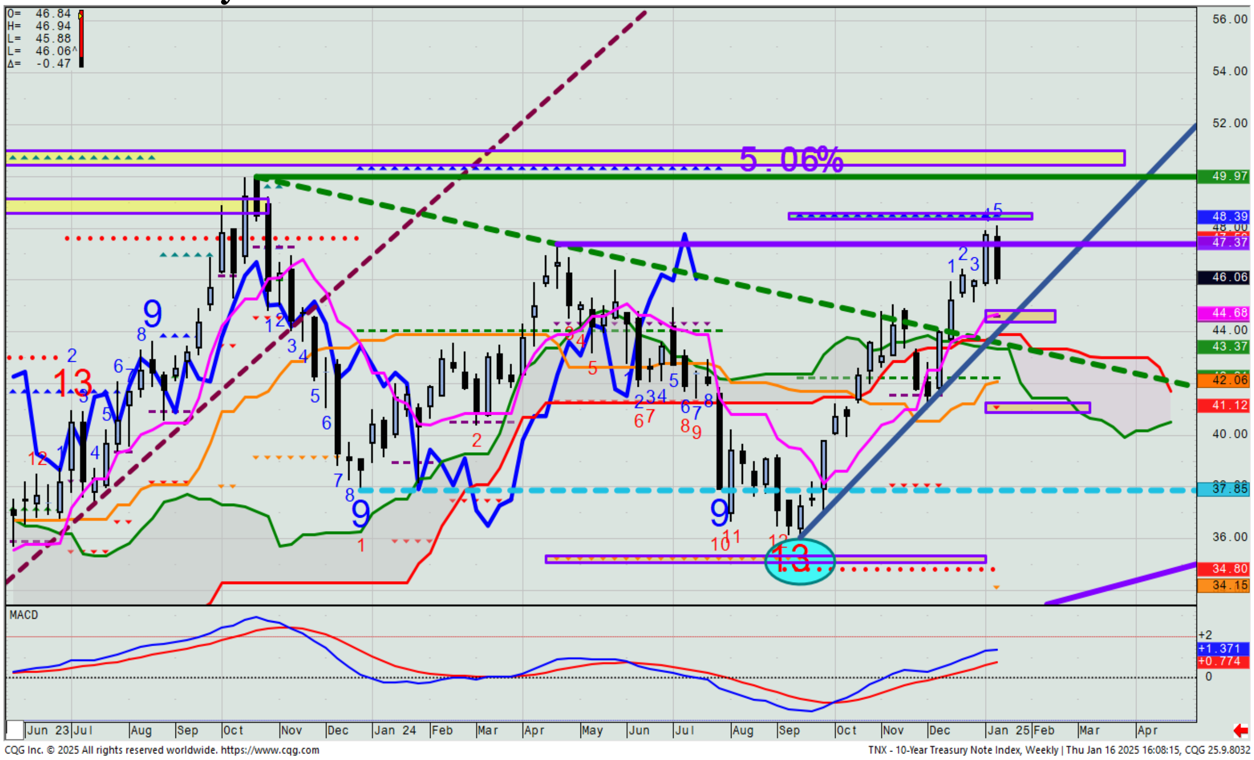
Now, let's look at the important markets that impact the macro environ:

US RATES

I remain in the camp that rates are generally headed higher over time. Nearby upside targets are at 4.84% and 5.03%/5.06%, but later this year, I think 5.32% is very possibly in store. The high, so far, reached 4.81% before collapsing to 4.60% the past two days (after that CPI number came out). I'd look at the two bearish Propulsion levels on the daily chart (not shown, but at 4.53% and 4.24%), as well as the ones on the weekly chart (4.46% and 4.11%) as the places to reduce bond exposure. (See chart on page 2.)

For this report's layout purposes, I'll also comment here on credit spreads (but see chart on the bottom of page 2). Investment grade corporate credit spreads remain at 83 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. Twice in January we've see spreads get as high as 84 bps., but below what should be resistance from previous all-time lows at 86 bps. (Report continues on next page.)

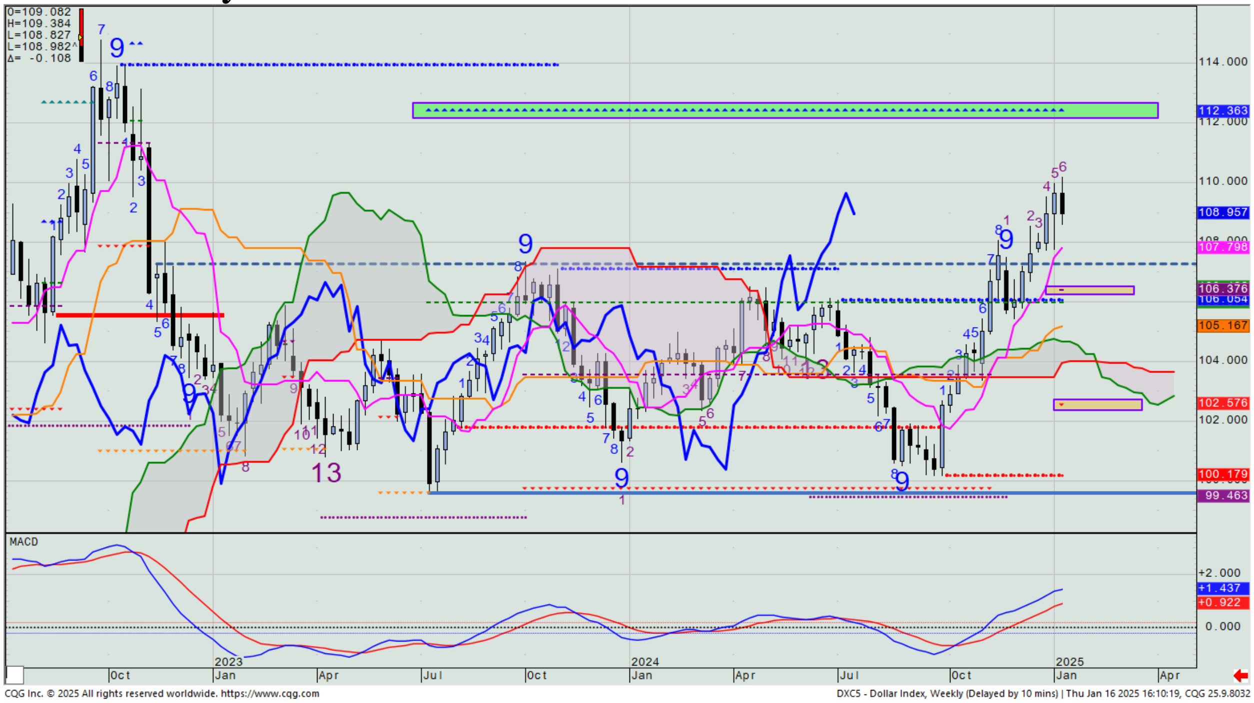
TNX – Weekly



ICE BofA Corporate Index OAS

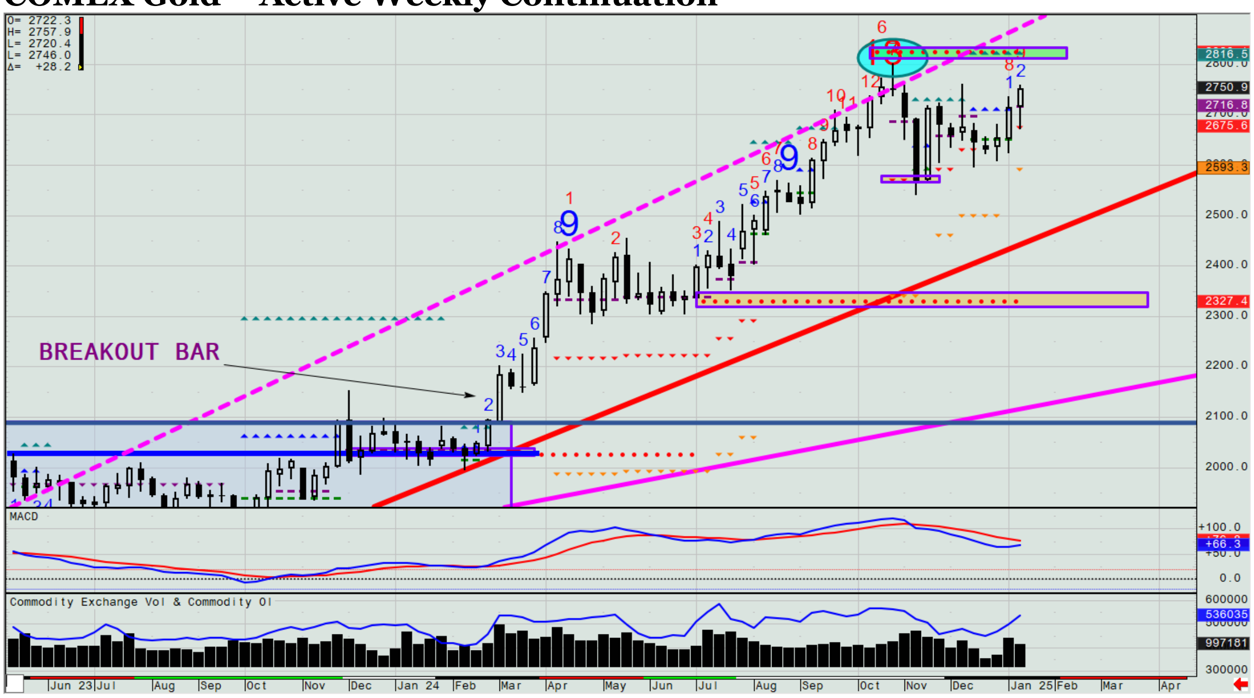
THE DOLLAR: The dollar is near cyclical highs, and I think it's got increased chances of reaching the next major target at 112+ in 2025. Sure; it's overbought and has an active daily Sequential +13 count. I'd likely be buying anywhere near 106.50 on a pullback.

DXY – Weekly



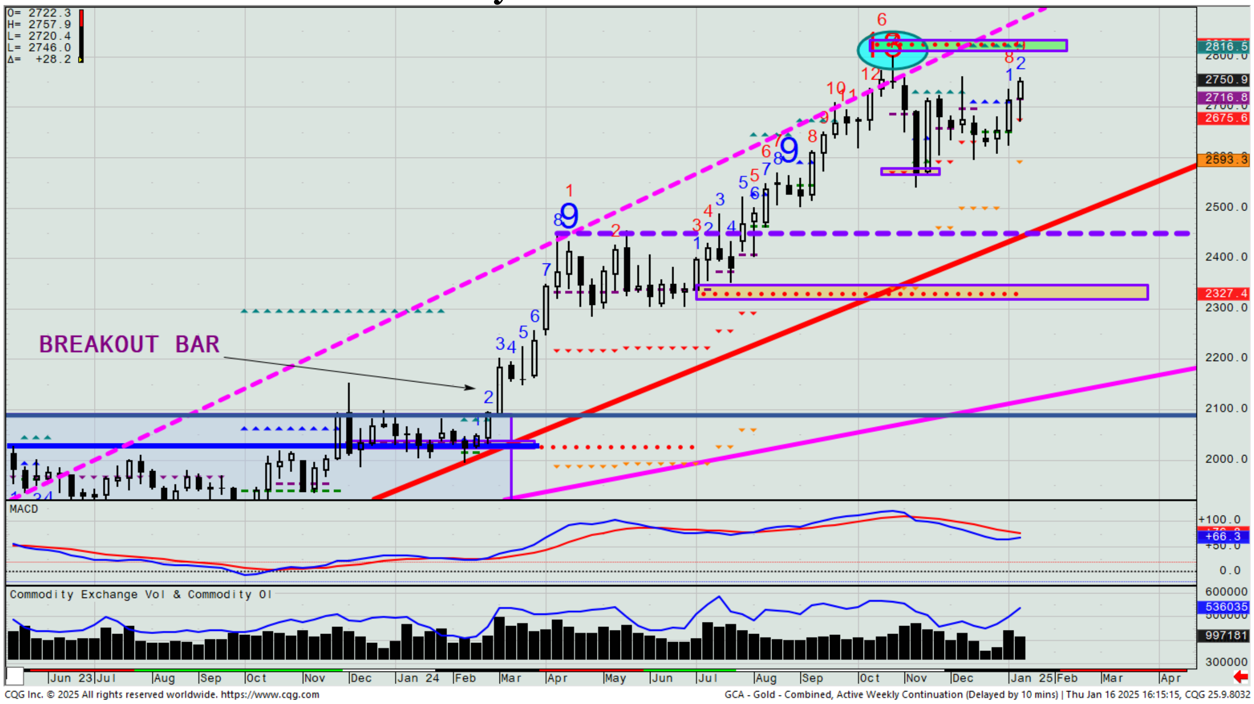
COMMODITIES: The daily -13s offset the +13s at the highs, and with the dollar pulling back a bit, gold has lifted back into the $2700s. It still has resistance from $2802 to $2822, and most likely, also still in a bigger trading range.

COMEX Gold – Active Weekly Continuation



WTI Oil rallied sharply, and not unexpectedly, as last week I told you that some 30,000 contracts of new long and short open positions have recently been added – but that the new shorts were on the wrong side and very possibly set up to be squeezed out on a further rally. Notice that open interest came off a bit, which means that some of those longs are now exiting to the forced out shorts. In coming weeks, we'll keenly watch the open interest figures to determine how much rally might still be in the cards.

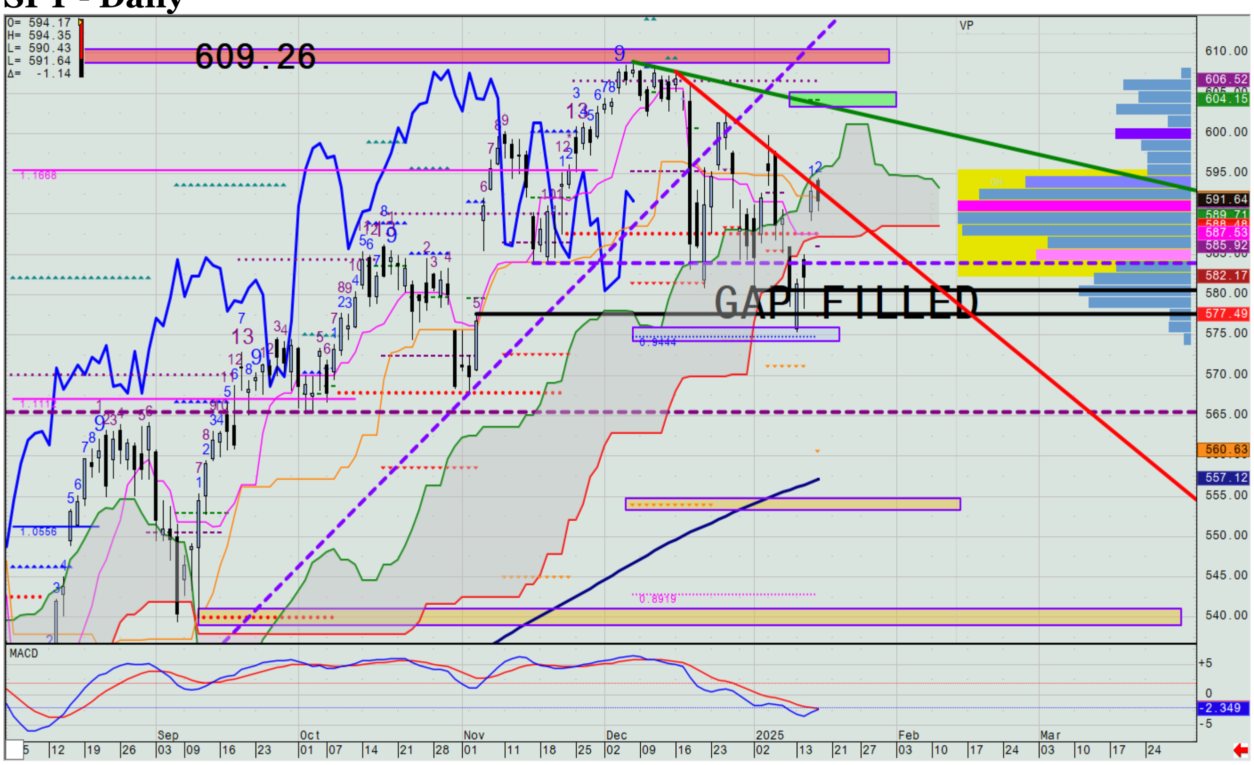
WTI Crude Oil – Active Weekly Continuation



EQUITY INDEXES:

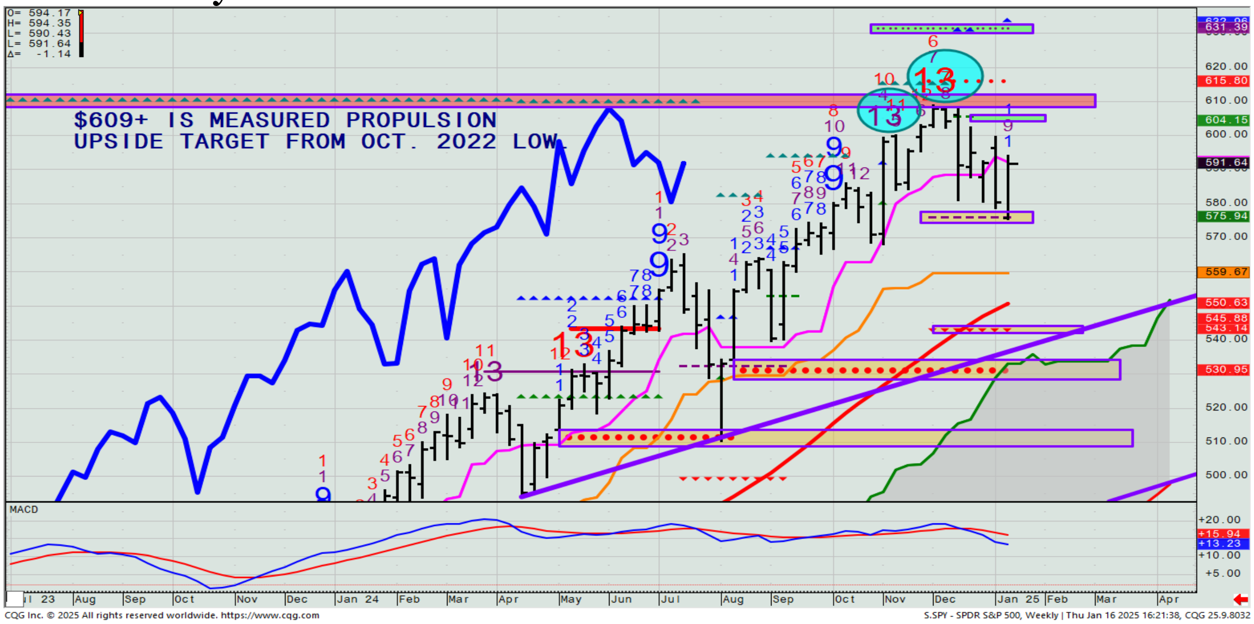
The SPY bottom near $580 (actual low right by the weekly bearish Propulsion Exhaustion level at $576+) turned what first looked like a real head-and-shoulders neckline breach (and thus, a better chance for further downside) into a false breakdown and rally midweek back up to nearer the upper end of the trading range. For now, price remains beneath the downtrend line from the $609 high, and the daily Propulsion Momentum level (an important one) at $604.15.

SPY - Daily



On a near-term basis, a bull can easily take the bullish view that the decline is over. But a bear can also – for at least the time being – keep their stance, too. Now, the longer-term trend clearly favors bulls; there's no doubt about that. But, is here and now the time and place to be putting significant money to work? I can't yet say it is, and that lower prices cannot be counted out yet for later in this quarter – when I can still make the case that price falls to the weekly cloud top area.

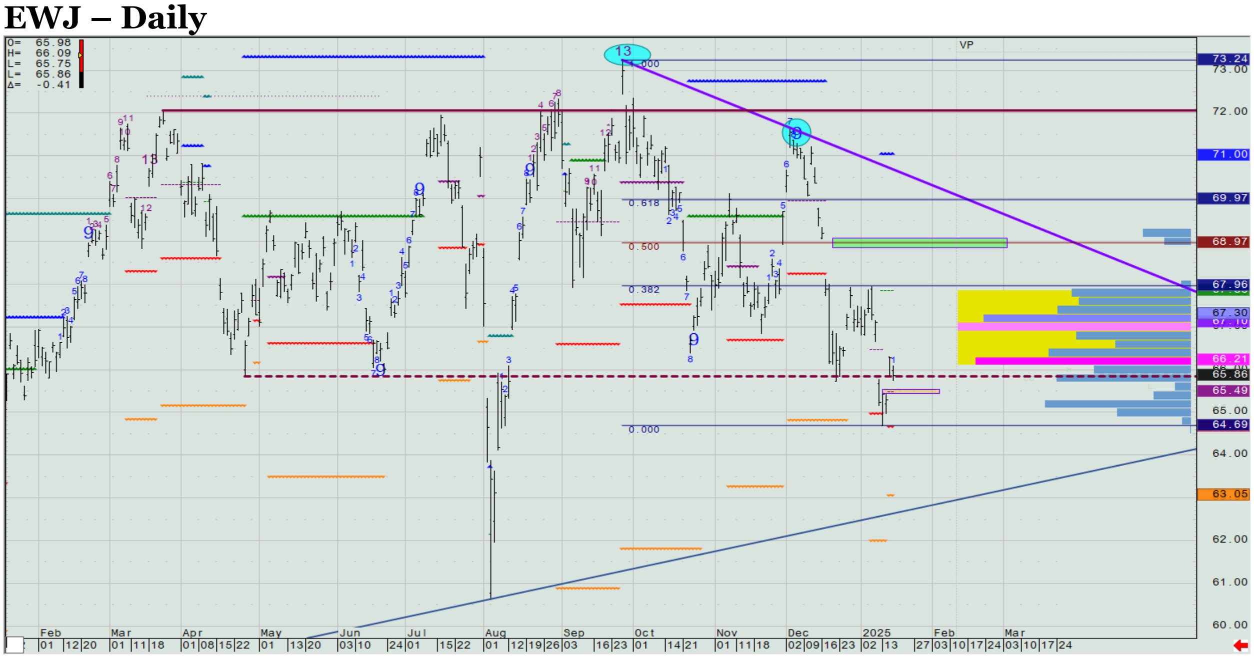
SPY – Weekly



New ETF Trade Idea

Here's an idea that is low risk, relative to the potential return. Let's look at the daily chart of the **iShares MSCI Japan ETF (EWJ)**. Last week's low either shows that the breakdown beneath $65.85 is the start of a bigger decline, or, it was just a false breakdown that should hold $65.50-ish. So, we'll look to get long two units from here down to $65.50. We'll target a move to the 50% retracement level near $69. And we'll risk consecutive daily closes beneath $64.67.

EWJ – Daily

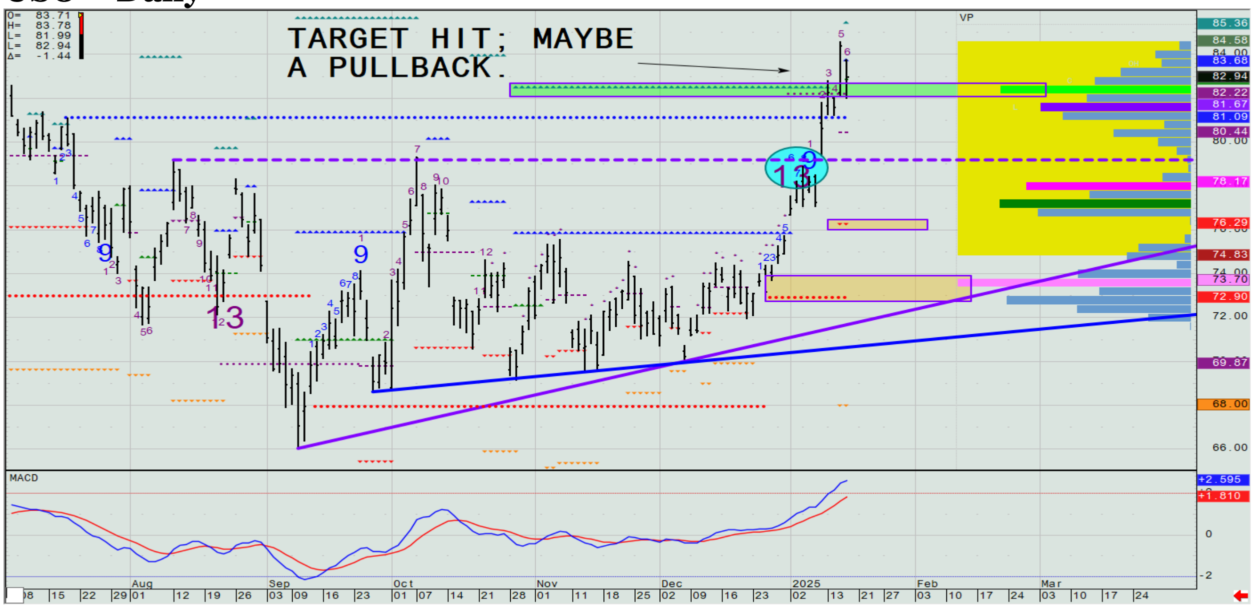


Other Open Recommendations and Positions

Long USO

I've clearly turned more bullish oil and its related equities the past two weeks, as both this and the belong long OIH ideas were intended to capture my expected further rally in oil and its related equities. However, both have rallied sharply and not let us get in at my preferred entry levels (which are almost always as "safe" a place as I can recommend in a printed once-per-week report). In fact, USO just hit my $82 to $82.40 target, so the bullish idea, as written, is now cancelled. However, what I will do is reset buy levels to now get long at $76.50 to $76, targeting $85 to $85.40, with a sell-stop on a close less than $71.72.

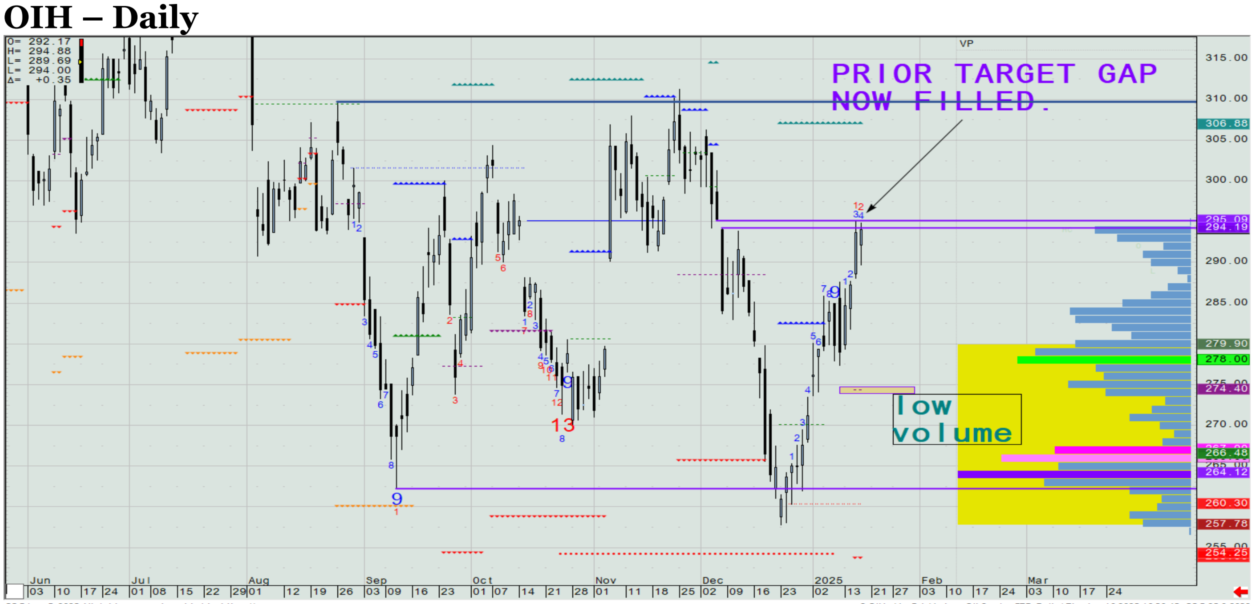
USO – Daily



Long OIH

Two weeks ago, my recommendation was to get long this near $271, looking for this to reach the unfilled gap up near $294/$295. That all but got hit now. I'll again raise our bid zone to $275 to $272, but then target $305/$307. Our sell stop remains on a close under $260.

OIH – 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.

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