Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

rick@intheknowtrader.com January 25, 2025

TACTICAL TRADER REPORT

The Macro Picture

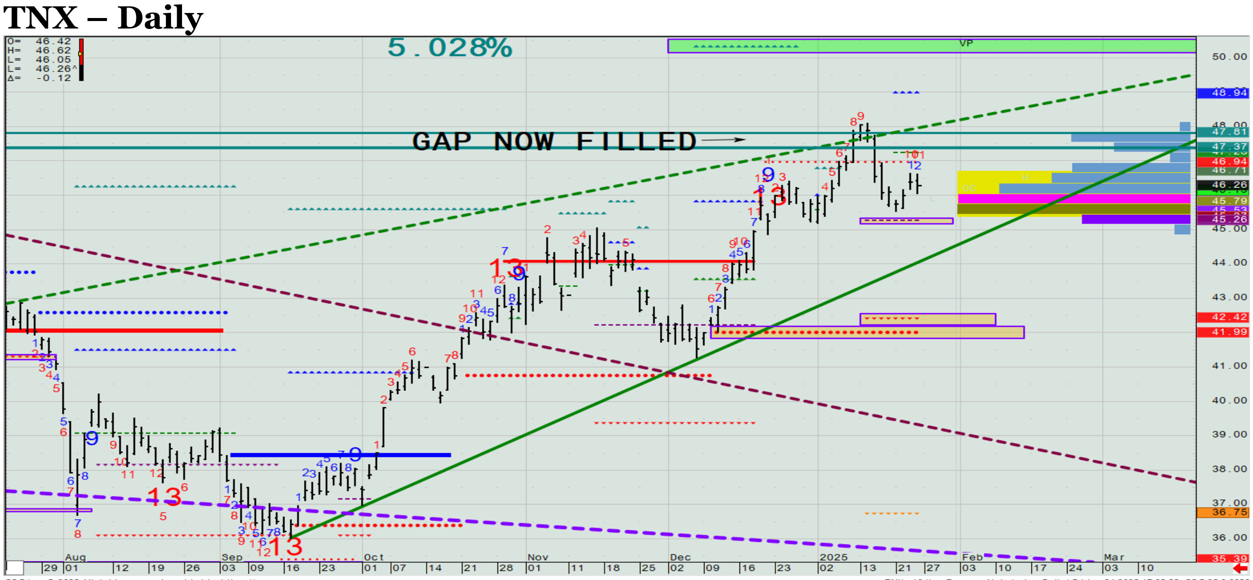
The "Trump Bump" has pushed stocks back to December highs, and the sense out of the World Economic Forum in Davos, Switzerland could not likely have more people bullish equities than they claim they are right now. Meanwhile, the dollar and rates had a pullback from the recent highs, as both were quite overbought near-term. The question going forward is, "Were those two tops more significant medium-term peaks, or were they just temporary pullbacks in what are bigger macro moves higher?". Trump would prefer them be important tops, as he's not a fan of neither a strong dollar nor high domestic rates. I, however, lean more towards thinking it will play out more like the latter, and think that if one looks through a wide-angled lens, both rates and the dollar are likely higher 6 months to a year from now.

That being said, let's look at the important markets that most impact the macro environ:

US RATES

The pullback in the TNX from the 4.81% high recently pulled back to 4.55% before bouncing to close out this past week at 4.63%. What's important to look at is how markets react to bullish and bearish Propulsion Momentum levels. The daily TNX's bearish Prop. Mom. level is at 4.526%. Thus – as of now – rates have yet to give up even one bit of their overall, higher trending picture.

TNX – Daily



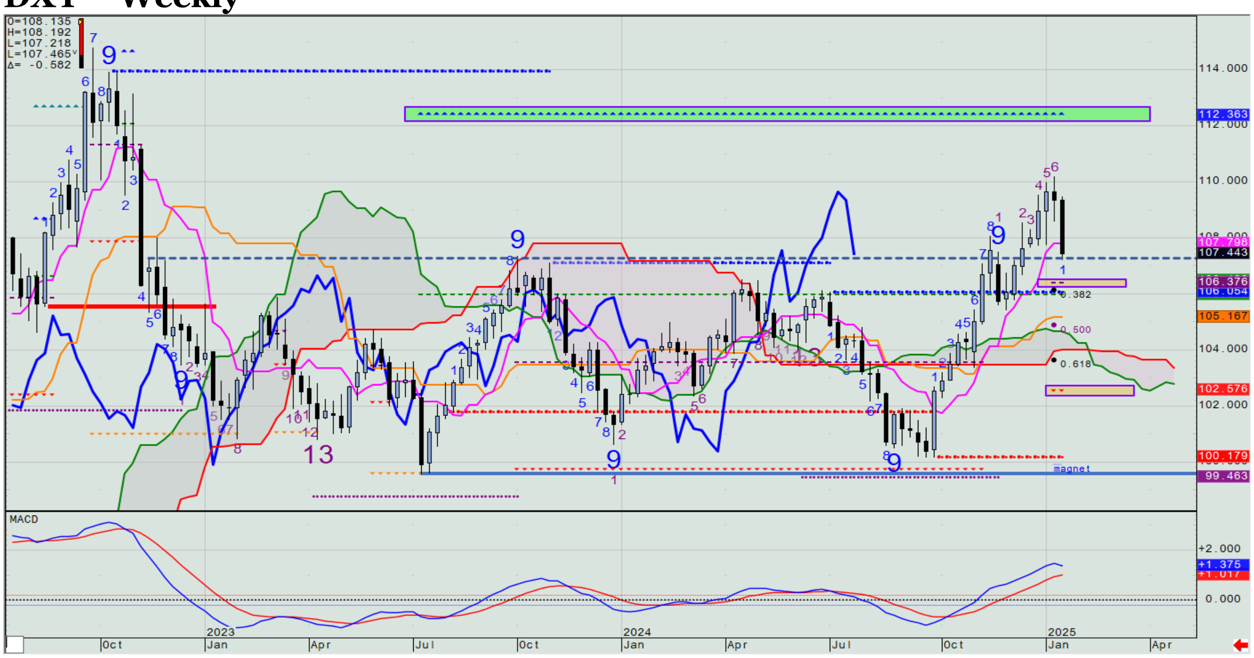
I remain in the camp that over time, rates are generally headed higher. Nearby upside targets are at 4.84% and 5.03%/5.06%, but later this year, I think 5.32% is possible.

Investment grade corporate credit spreads fell 3 bps. since my last report, now down to 80 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. My only concern would be getting and staying above that 86 bps. level, which would not only suggest new worries in the credit system, but also make equity holders more concerned that something is potentially changing the game for the worse.

ICE BofA Corporate Index OAS - Daily

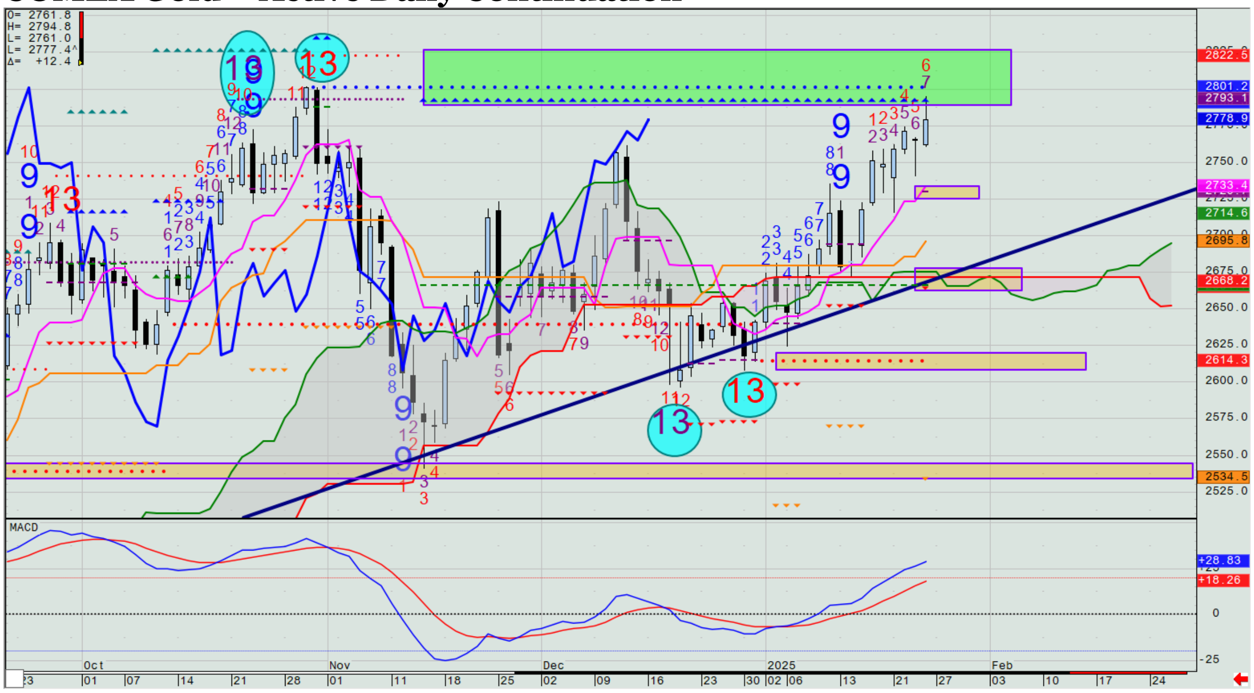
THE DOLLAR: I remain in the camp that the dollar index has increased chances of reaching the next major target at 112+ later in 2025. Sure; it's correcting its overbought action while still having an active Sequential +13 count. However, I'd likely be buying anywhere in the 106.50/106 zone on what I think will be a limited pullback.

DXY – Weekly



COMMODITIES: The daily -13s in December offset last October's +13s at the highs, Still very possibly in a trading range, there is resistance from $2790 to $2822. Watch if any pullback to near $2730 holds as support, or not. If the latter, then the uptrend line will likely come into play again.

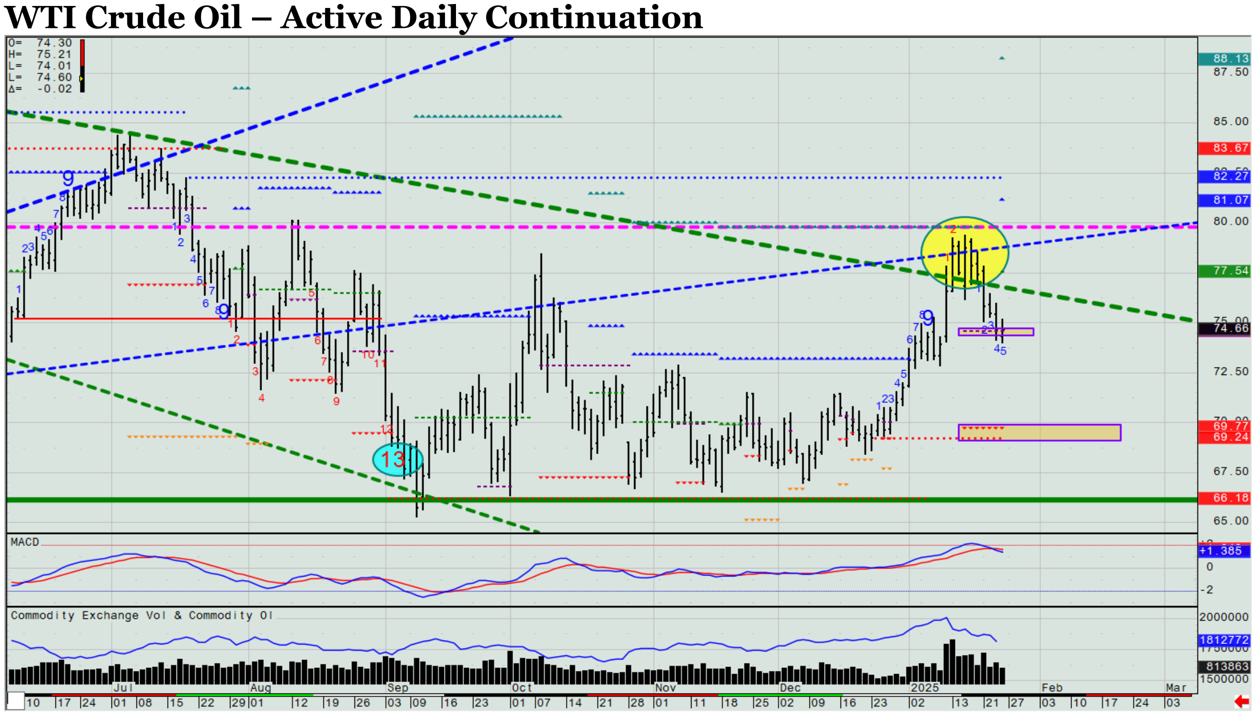
COMEX Gold – Active Daily Continuation



GCA - Gold - Combined, Active Daily Continuation (Delayed by 10 mins) | Fri Jan 24 2025 17:12:55, CQG 25.9.8032

WTI Oil has fallen since the active February futures contract moved to March, and those short had to either pay up and take a loss, or roll to the March contract. Notice that the high squeezed those watching the major downtrend line (in green), but the backfill to a prior trendline (in blue) and the dashed swing level (in pink) marked the high. Now, price is down to the important bearish Propulsion Momentum level. Time for bulls to show what they've got.

WTI Crude Oil – Active Daily Continuation

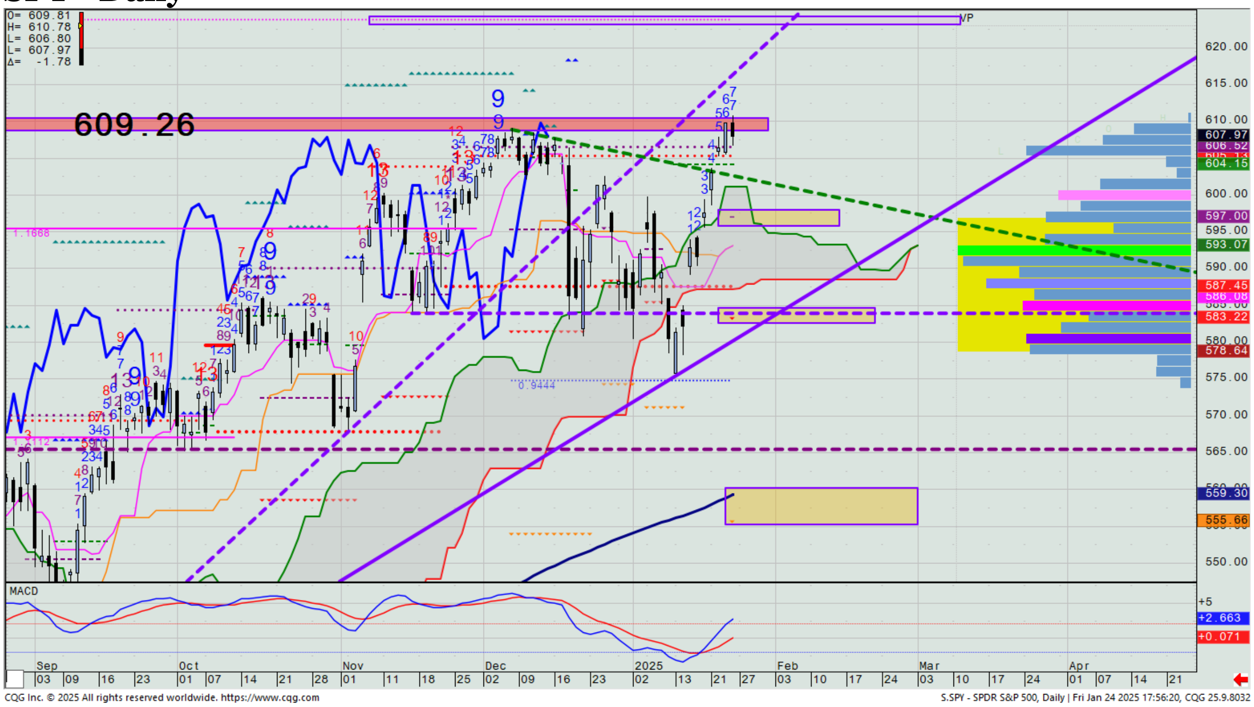


CLA - Crude Light - Combined, Active Daily Continuation (Delayed by 10 mins) | Fri Jan 24 2025 17:18:15, CQG 25.9.8032

EQUITY INDEXES:

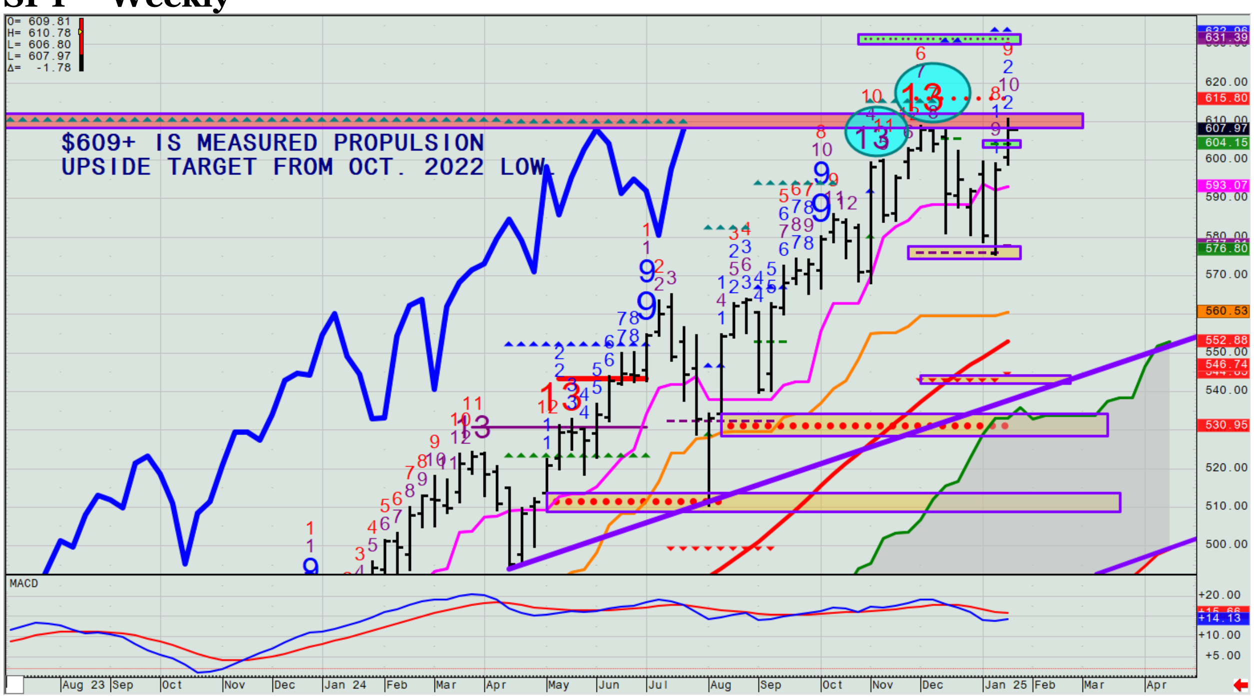
The S&P 500 marked new all-time highs yesterday, but what most don't realize is that both the SPX and SPY actually finally hit their precise measured upside weekly Propulsion Full Exhaustion price targets from their respective October '22 lows. (Previously, at the December high, the SPX hit 6099.97 and the SPY reached $609.07. Actual targets were 6118.34 and SPY $609.83.) Now both are met on the test of those prior highs. It still opens the door for a possible double-top; it's just too early to say that it is one.

SPY - Daily



The big question is whether this turns into a double-top, or not?

SPY – Weekly

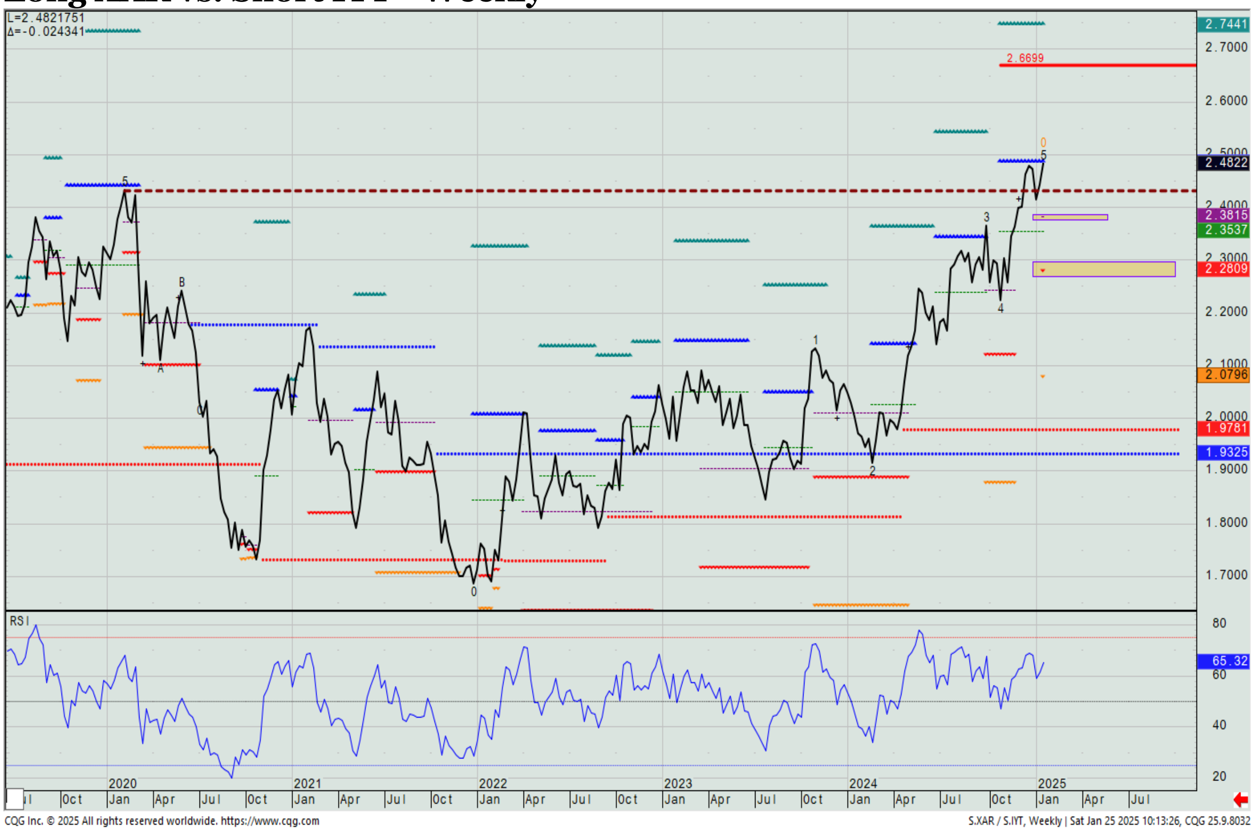


New ETF Trade Idea

This was one of those reports that it took me a good while to come up with a trade idea. Hardest of all, was deciding if I wanted to be a buyer or a seller – given the S&P's location right at all-time highs – but also against the prior ATH. Finally, I found something that mostly takes that tough question out of the picture. It's a pair trade of two sectors within the Industrials sector: **Long Aero and Defense (XAR) vs. short Dow Transports (IYT)**.

Here's the weekly chart going back several years. You can see that this pair just made a new all-time high, pulled back a bit, but then Friday closed on a new higher ATH.

Long XAR vs. Short IYT– Weekly



Though it's against a minor Propulsion Exhaustion level, it could easily continue to a further breakout to reach higher targets. What we'll do is **buy one-half unit now (taking a 50% long position in XAR, and shorting an equal dollar amount of IYT against it), and buy the other 50% on a pullback to near the 2.382 ratio level.**

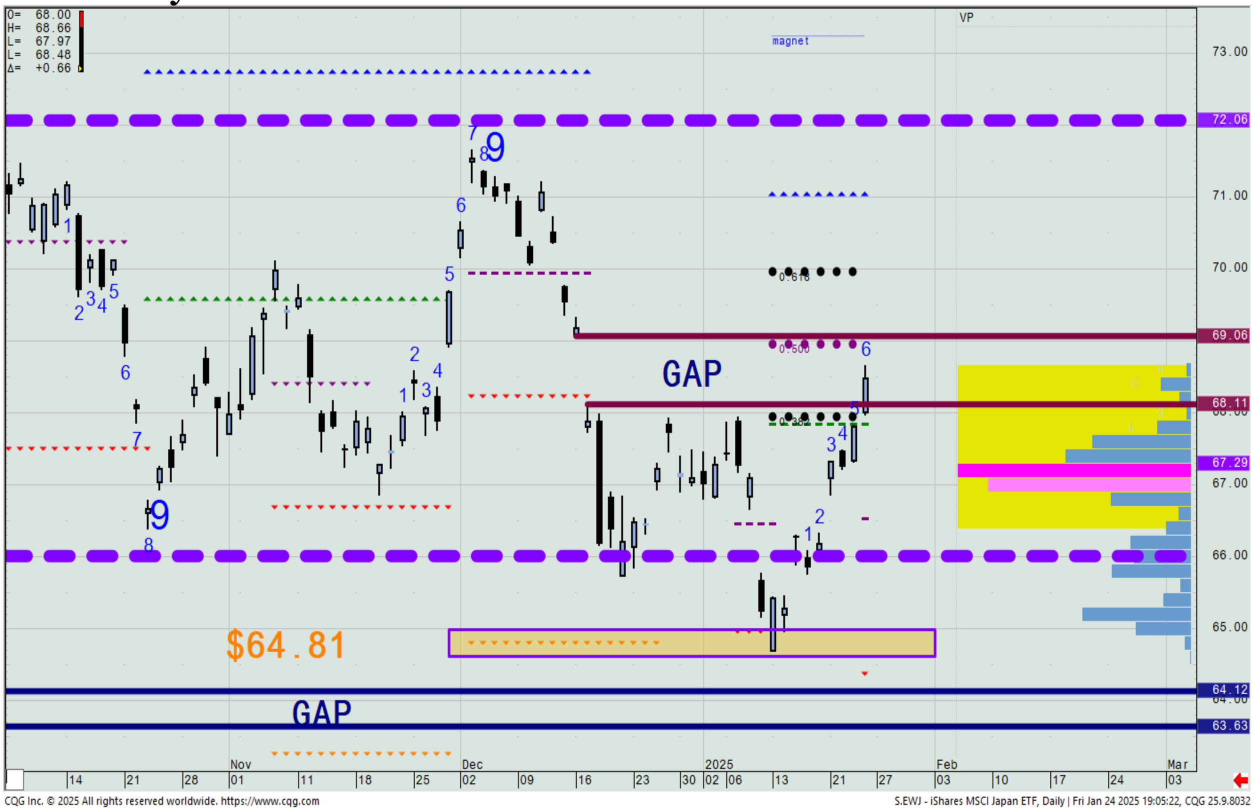
We'll unwind half of whatever we have on near a 2.67 ratio, and half near a 2.744 ratio. Our protective stop is to exit if the ratio falls on a weekly close beneath a 2.28 ratio.

Other Open Recommendations and Positions

Long EWJ

Last week's idea was to get long two units from where it was then down to ~$65.50. We got into some last Friday (average $66.14), but the ETF just rallied straight up since then. (Let's assume we put at least 1/3 on of the 2 units, so I'll say we have a 2/3-unit position on for P&L purposes.) The target is near $69 (the 50% retracement level). Raise your sell-stop to breakeven entry (and we're not looking to add more).

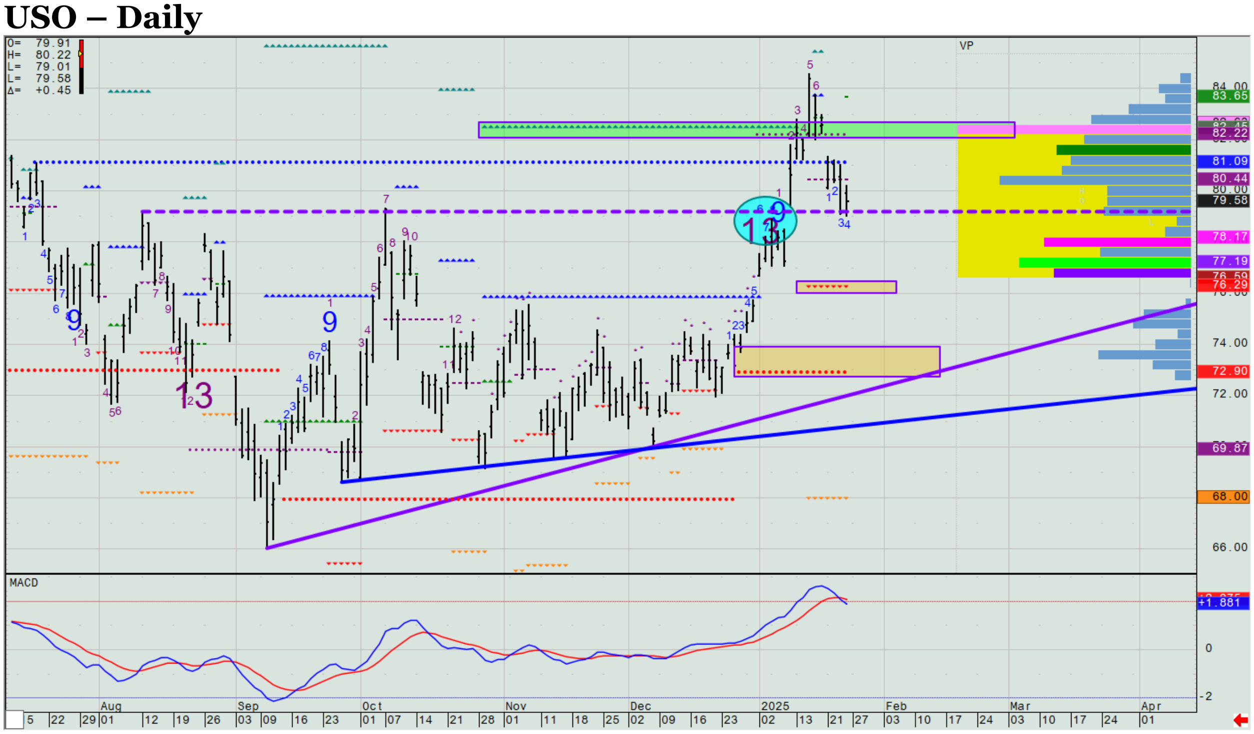
EWJ- Daily



Long USO

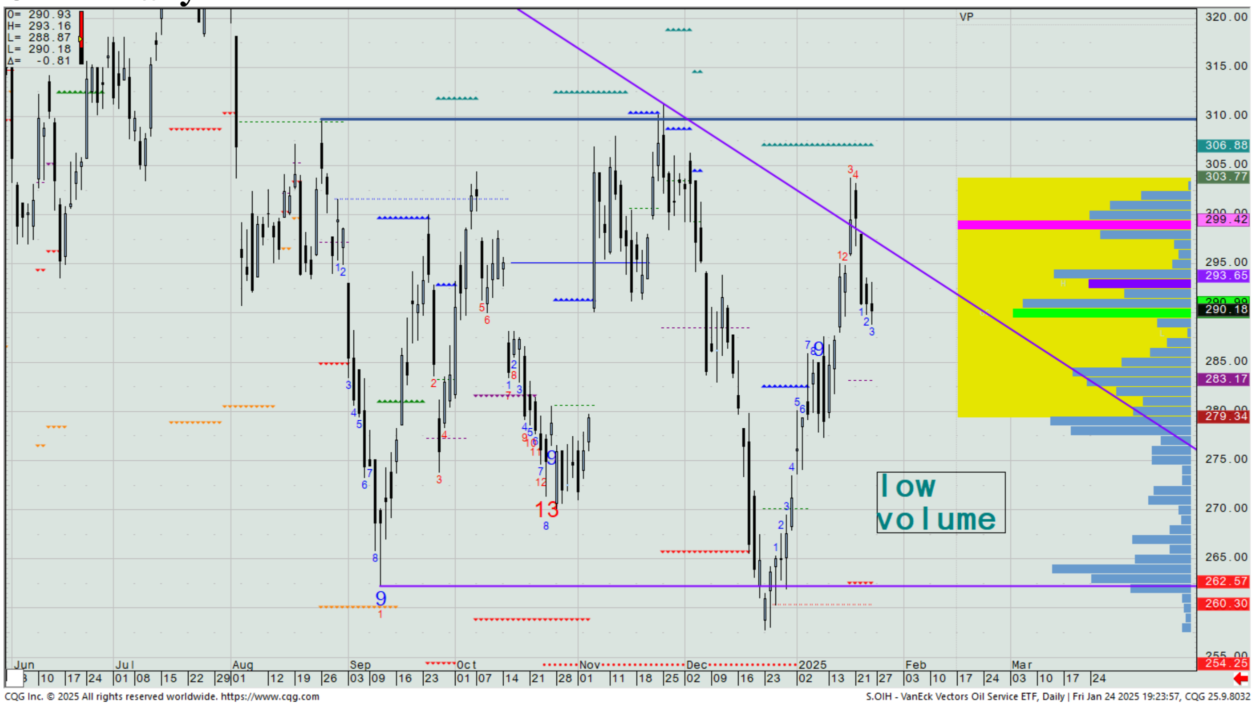
This hit my upside target before we could get in. So, last week I subsequently reset buy levels to now get long at $76.50 to $76, targeting $85 to $85.40, with a sell-stop on a close less than $71.72.

USO – Daily



Long OIH
Three weeks ago, my recommendation was to get long this near $271, looking for this to reach the unfilled gap up near $294/$295. That target has been reached, and with our already looking to play the long side of USO on a pullback, we'll cancel this trade idea.

OIH – 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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