Rick Bensignor's

IN THE KNOW TRADER

Positioning Individual Investors Alongside Professionals

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TACTICAL TRADER REPORT

The Macro Picture

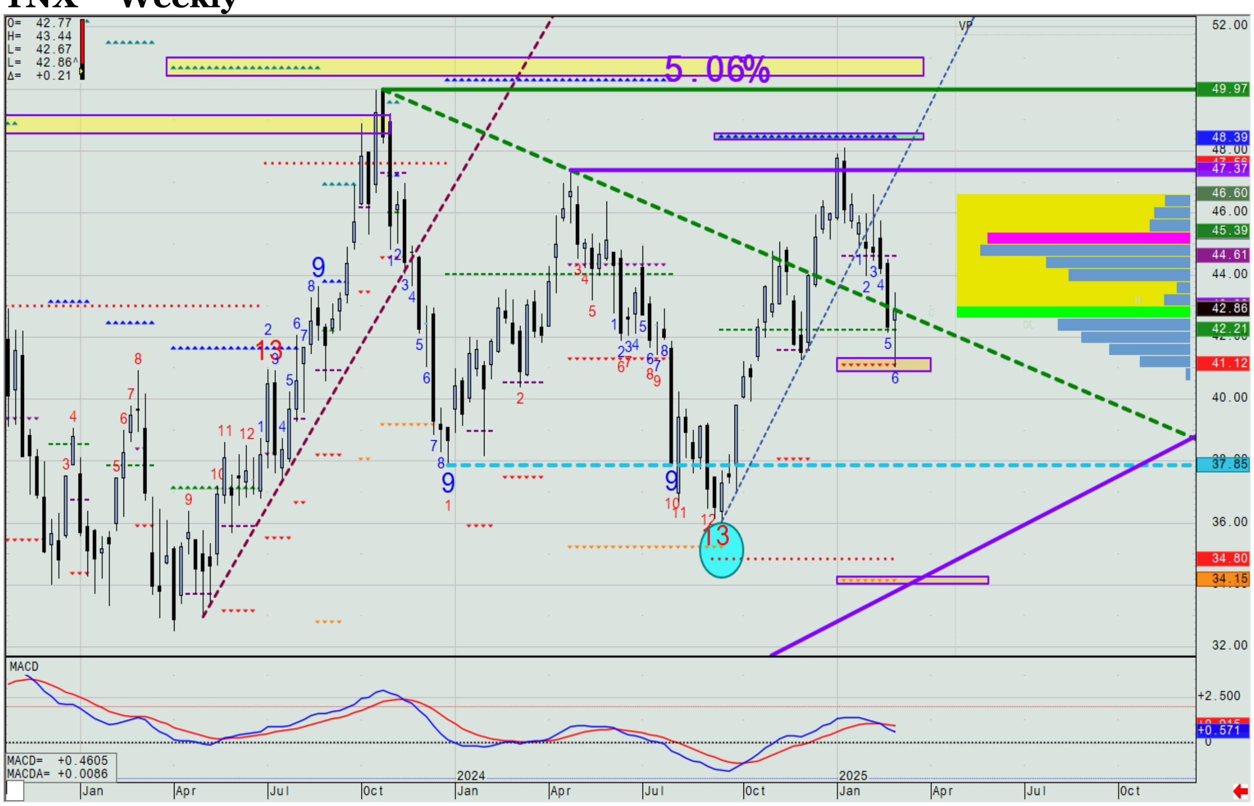
Finally, some cracks in the armor were seen this past week, with the SPY and QQQ falling to their respective 200-DMAs earlier in the week, and the latter even closing beneath it yesterday. During that time, the TNX fell precisely to its weekly Propulsion Exhaustion level (4.11%) before sharply bouncing as much as 33 bps. from there at yesterday's high. The DXY cracked to new multi-month lows, too, as the upped volatility stemming around Trump's tariff policies is throwing investors for a new loop.

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

US RATES

Two weeks ago, the TNX closed beneath its weekly bearish Propulsion Momentum level at 4.46%, and rates then quickly collapsed to bottom at 4.11% this week before bouncing sharply the past couple of days. At this point, I think somewhere in the mid-4.4%s area will be the key resistance. A stagflation environment is more on the table.

TNX – Weekly

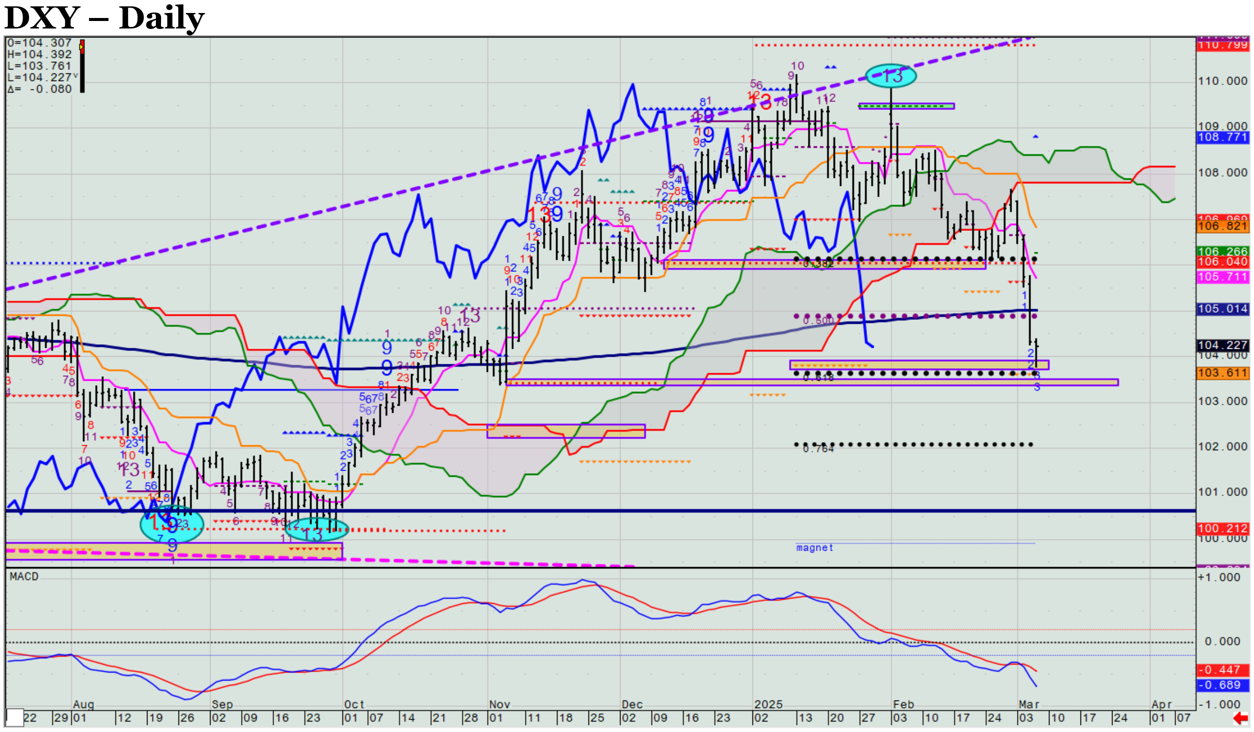


Investment grade corporate credit spreads (0.87%): Up 3 bps. this past week, the spread is back above prior all-time lows at the 86 bp. level, (it reached 89 bps. on Tuesday) which I previously suggested would not only suggest new worries in the credit system, but also make equity holders far more concerned that things are changing for the worse. Let's watch if this tests the downtrend line near 95 bps.

ICE BofA Corporate Index OAS – Daily

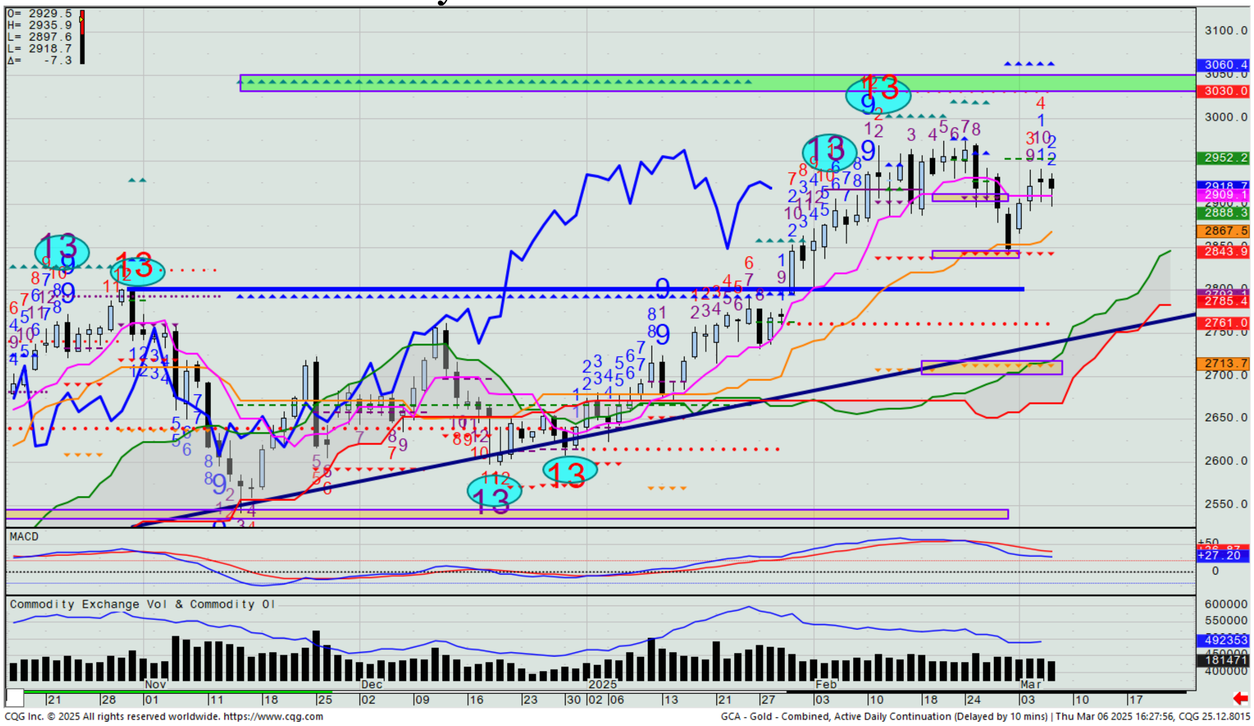
THE DOLLAR: The bounce from prior support from weekly and daily charts at 106.50 to 106 failed to get even near the daily chart's bullish Propulsion Momentum level at 108.63 before materially breaking that support zone. But yesterday's low is near the 62% retracement level (103.63) and Propulsion Full Exhaustion targets, so I think it may bounce from this area. I know Trump likes a weaker dollar – and he's certainly making that happen (whether he knew that would happen or not).

DXY – Daily



COMMODITIES: Gold still has some defensive bid to it (in terms of a hedge on falling equity prices), and bounced on its daily Base Line last Friday. In the bigger picture, I think the $3000 to $3100 area is pretty important resistance.

COMEX Gold – Active Daily Continuation



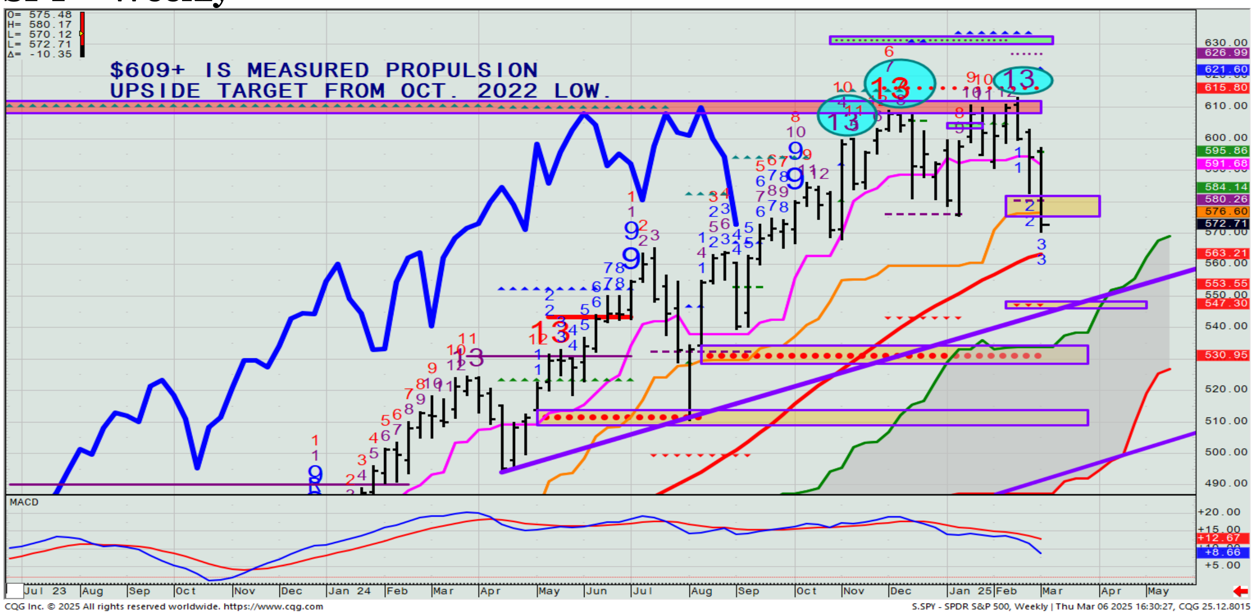
WTI Oil finally broke the $68/$69 key support zone. If it gets going on the downside – both from decreased demand in a potentially slowing economy as well as ample supply – I think it gets to the mid-$50s. That's really bad for energy stock names. But right here and now, it just posted a -13 and -9. Makes it very hard for me to be a seller here.

WTI Crude Oil – Active Daily Continuation

EQUITY INDEXES:

Finally, the market downside dynamics have started to kick in, and if today closes beneath the weekly bearish Propulsion Momentum level at ~$580, the more I think that we'll still see lower prices. I'm thinking that $547 is a good target area, and as I'm more cash rich than I've ever been, that's where I'll be putting a good chunk of it to work.

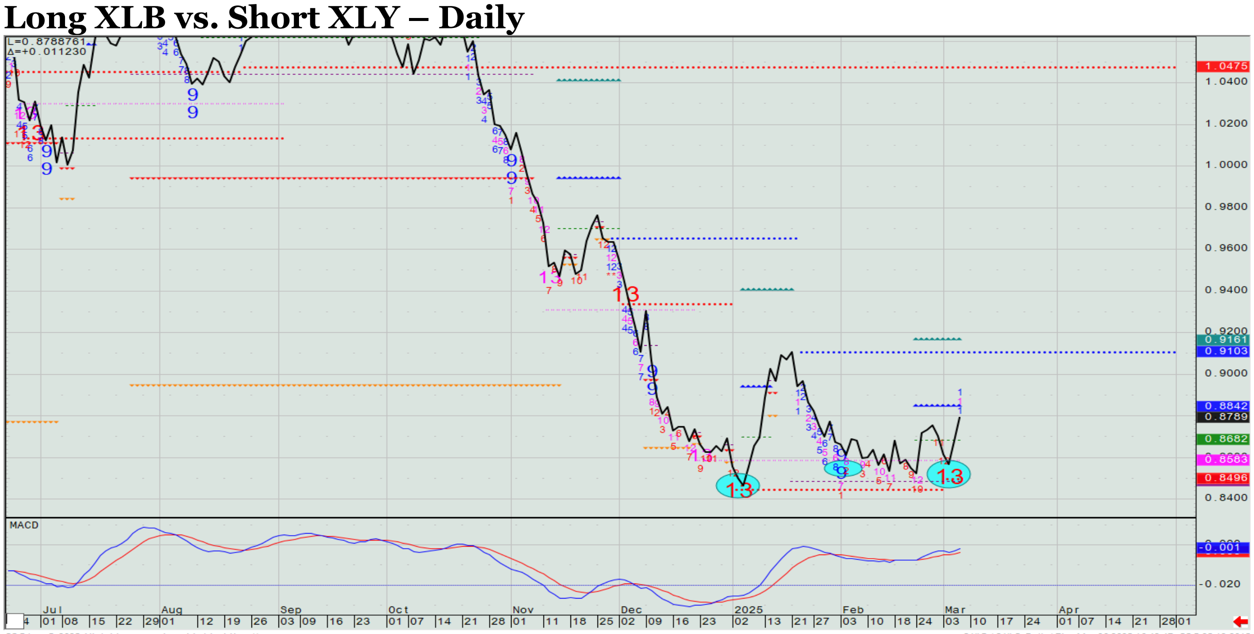
SPY – Weekly



New Recommendation

For this week's idea, my mind right away went to an ETF pair trade, as trying to guess which way to play this market for a swing trade from current price is no easy feat. But after looking at a bunch of macro sector ETF pairs, I see that long Materials (XLB) vs. short Communication Services (XLY) has both a double-bottom and -13s on the lows. As such let's look to **buy 1.5 units of XLB and short an equal dollar amount of XLC against it**, targeting a move to about a 0.94 target. We'll risk to a closing low lower than the February low ratio of 0.85.

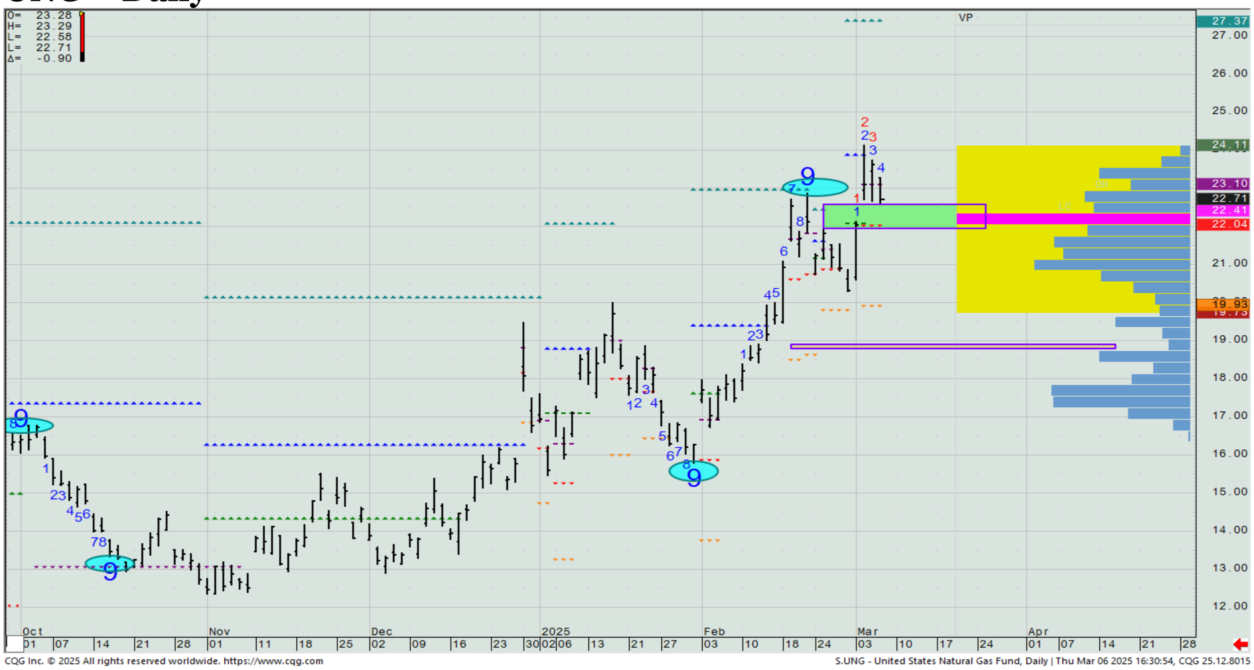
Long XLB vs. Short XLY – Daily



Other Open Recommendations and Positions

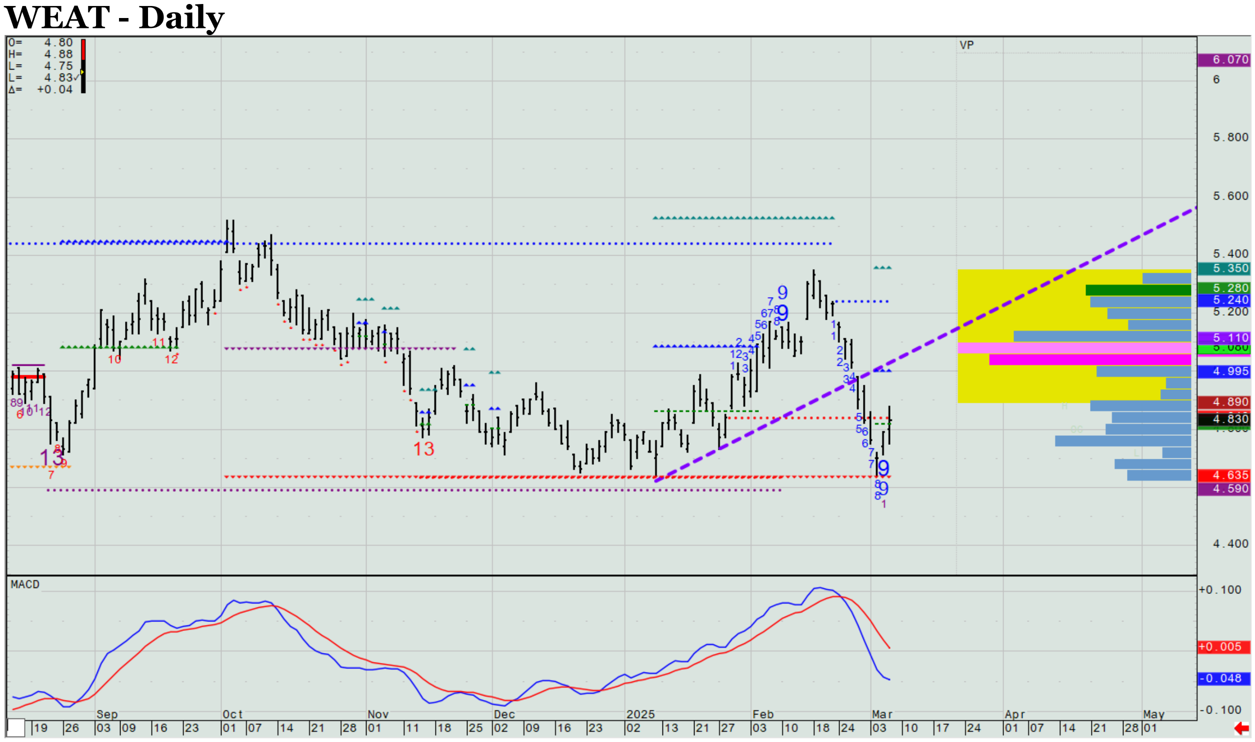
Short UNG
Because of the opening price gap on Tuesday this week, we put this short position on at an avg. price of $22.,47, but got stopped out on Wednesday at $23.61. We lost 4.83%.

UNG – Daily



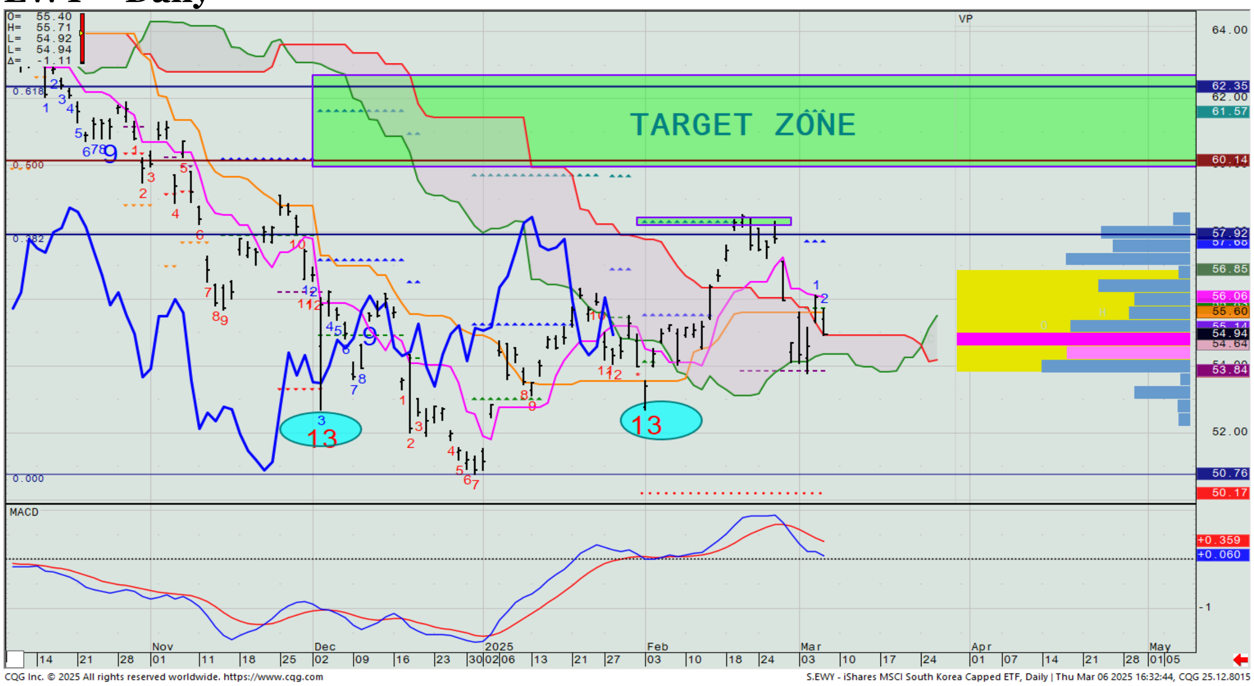
Long WEAT
We were looking to get long a half-unit from $5.00 to $4.94. We got that entry yesterday. I'll make the target $5.51/$5.53. We were using a sell-stop as a close under $4.82, which we saw on Monday with a close of $4.76. We lost 4.23%

WEAT - Daily



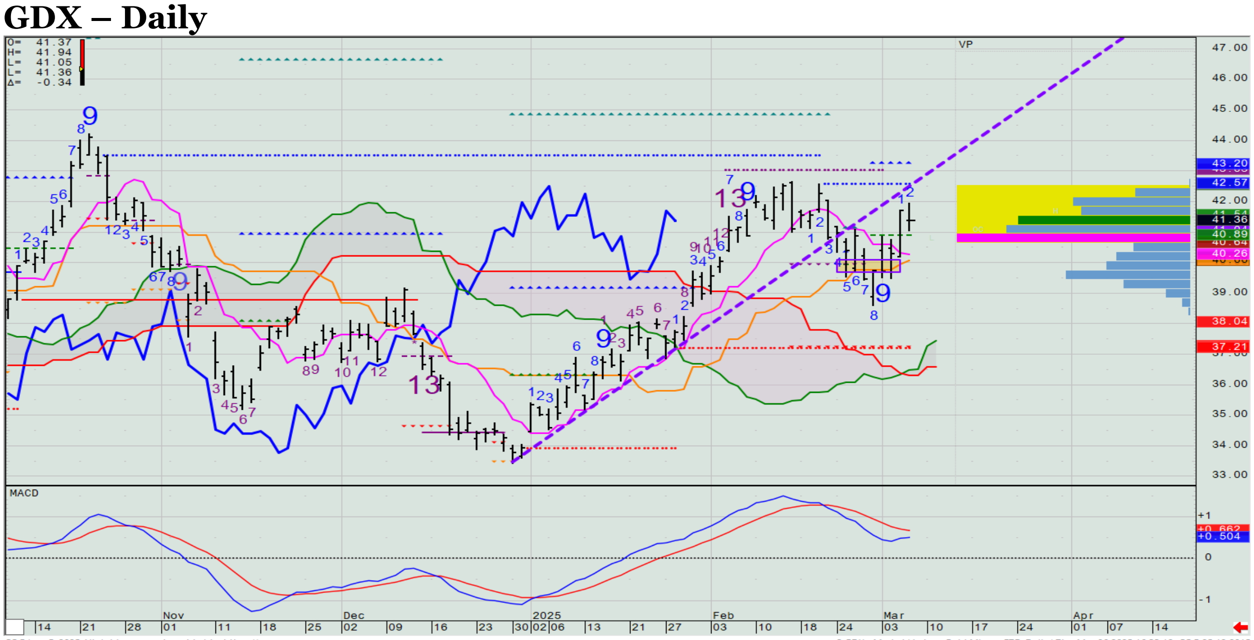
Long EWY
Four weeks ago, we went long one unit (avg. price of $54.56), with my looking for us to take profits in the $60 to $62.5 area. We already took off 1/3 at an avg. price of $57.96. We got stopped out on the balance (the plan was no worse than breakeven at $54.56), but it gapped beneath there last Friday, so we exited on the open at $54.40. In all, we made 2.07%.

EWY – Daily



Long GDX
In January, we bought 1.5 units of this (filled at avg. price of $39.24). I've adjusted targets to sell the first half from $43 to $43.50, and the other half higher near $51. However, we've now been stopped out at breakeven.

GDX – 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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