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

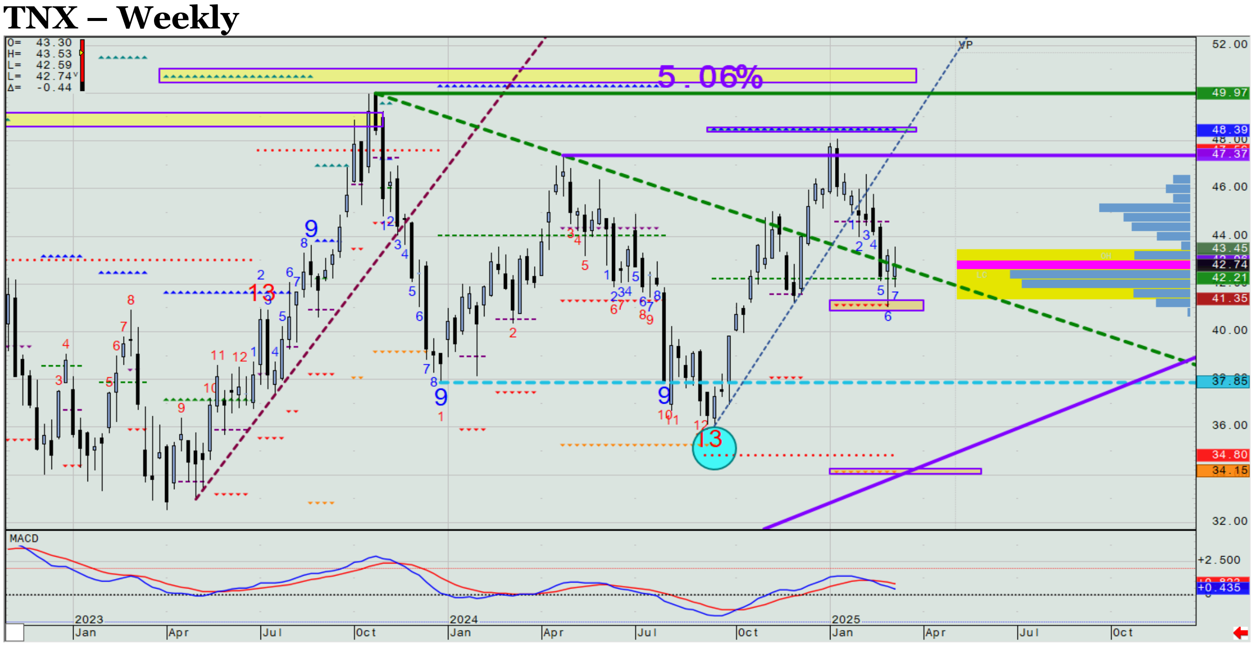
Tariff wars and a potential government shutdown weighed far more heavily on stocks than did the better-than-expected CPI and PPI numbers. Investors hate lack of clarity, and right now, there's virtually none at all. As I wrote to Daily Tip Sheet subscribers early this week, Trump – whether you love him or hate him – brings unsureness into the political and economic equation. And that's not what most investors – or for that matter, CEOs – want to be dealing with. And as such, the strong equity unwinding continues (so much so that the SPY is just about down to my two Trend Factor decline from the all-time high (SPY $547+) that I called for along with the one that called for a $609 top. (Yes; I will be buying SPY there – but no; it will not be the all of my available cash.) Things can still get a whole lot worse, and I want funds available to put to work if they do.

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

US RATES

Last week the TNX bottomed precisely at its weekly bearish Propulsion Exhaustion level at 4.11%, and rates have since bounced then to as high as 4.35% yesterday. The daily chart's bullish Propulsion Momentum level is at 4.41%. We'll see if that's resistance or if it finished out a Setup -9 count in two more weeks.

TNX – Weekly

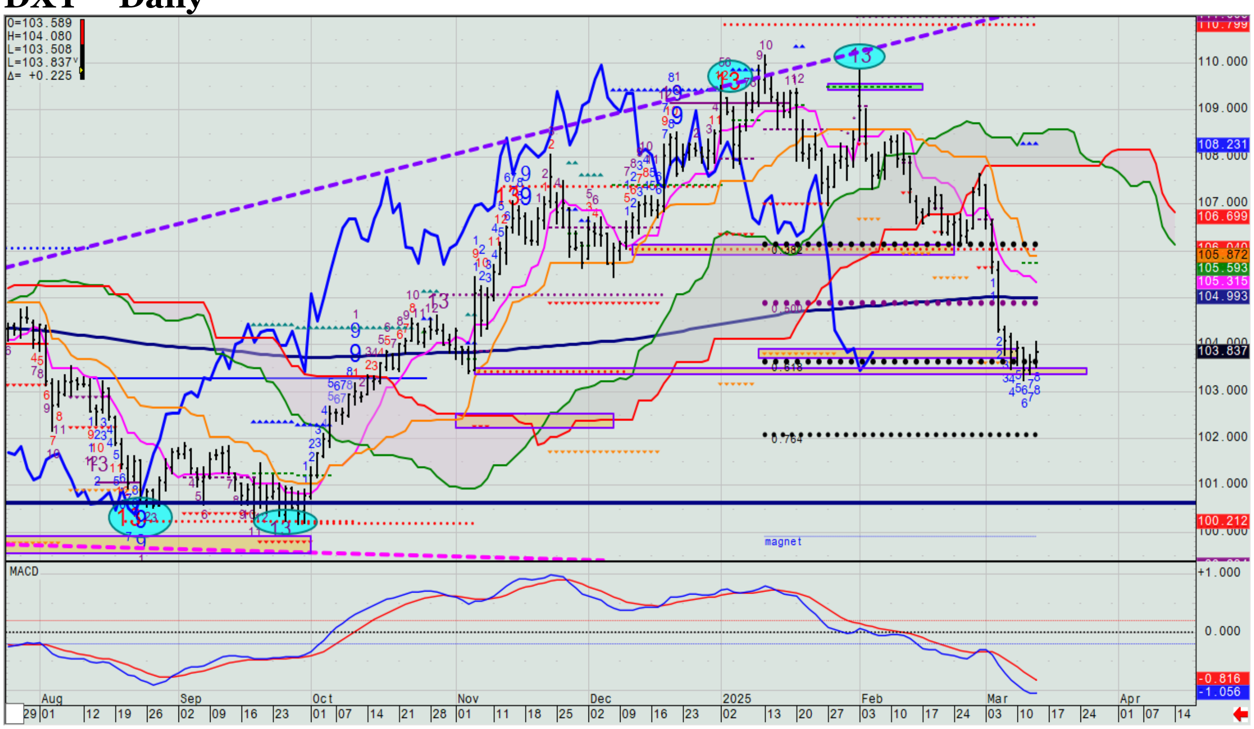


Investment grade corporate credit spreads (0.96%): Up 9 bps. more this past week, the spread is right against its downtrend line. I have warned for months that if this spread got back above 86 bps., it would be hugely problematic for equities. (This data is one day delayed, so it's reflecting Wednesday's figure. It may very well have broken the trendline yesterday.)

ICE BofA Corporate Index OAS – Daily

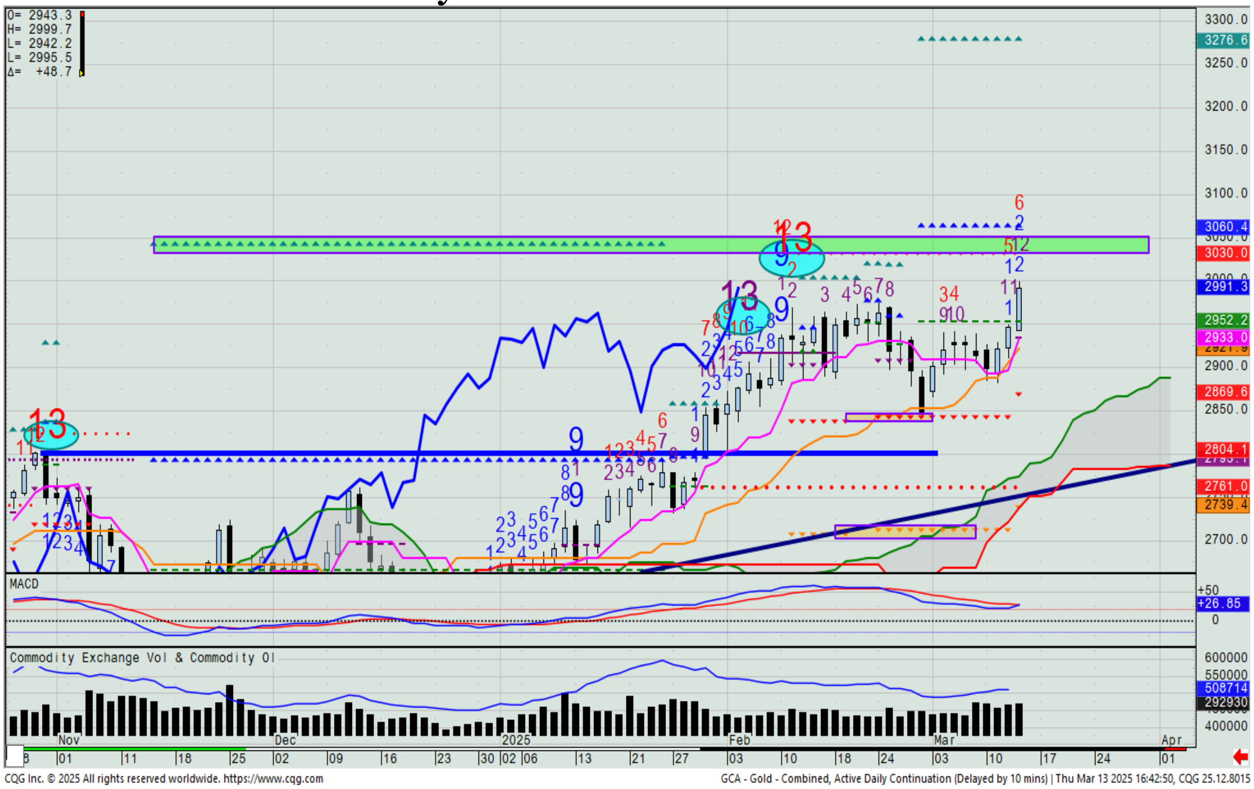
THE DOLLAR: For now, the low is still near the 62% retracement level (103.63) and Propulsion Full Exhaustion targets, so I think it still may bounce from this area. If not, it likely tests 102 and then the prior lows from last fall.

DXY – Daily



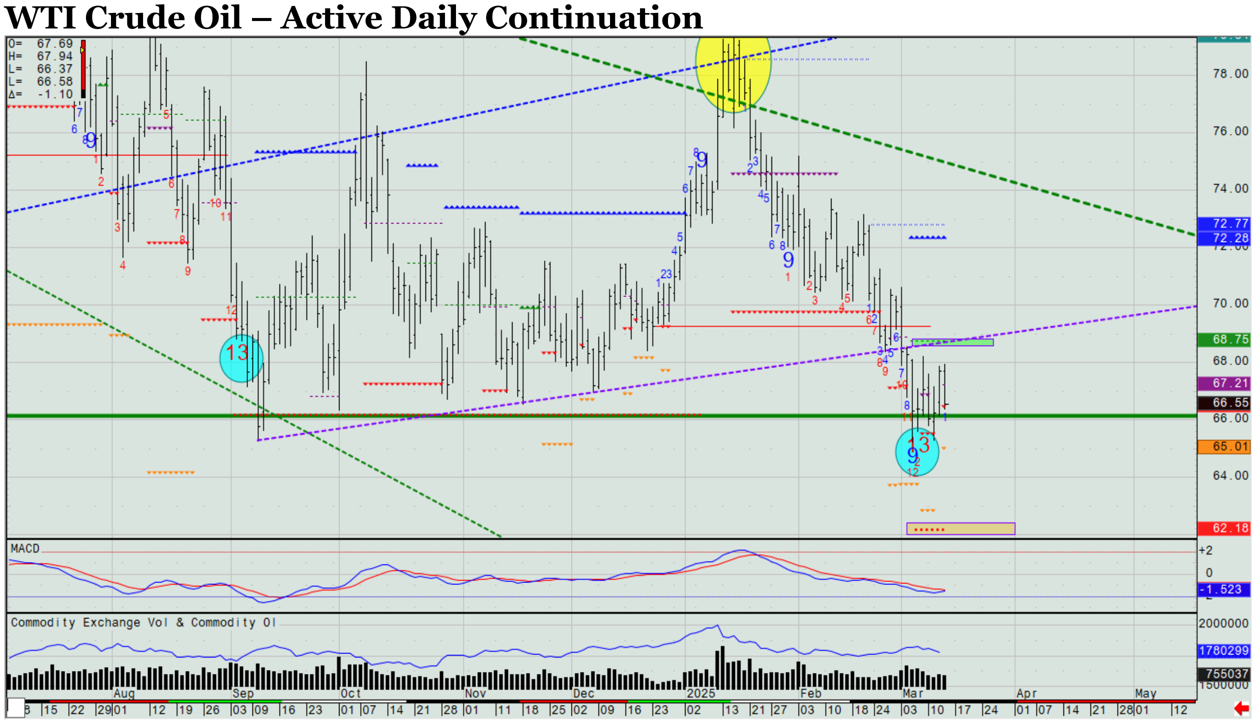
COMMODITIES: **Gold** still has a defensive bid to it (in terms of a hedge on falling equity prices), and bounced on its daily Base Line two weeks ago and then zoomed higher. Chart resistance is in the $3040 to $3060 area; above there, not till $3277.

COMEX Gold – Active Daily Continuation



WTI Oil broke badly but now also has active daily chart -13 and -9 signals, making it very hard for me to be a seller down here. But looking at it from a bigger picture, virtually every buyer in the past two years is under water. That's a tough environment to try being long, too, for anything but a quick trade.

WTI Crude Oil – Active Daily Continuation



EQUITY INDEXES:

I'll reprint last week's commentary first:

> "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."

So, it's very likely that today could reach that $547 level, and at the very least, I can treat myself to a glass of champagne for 9 months ago calling where the top would become and what the minimal downside target pullback would be, too.

But you also need to look at where other downside targets could be, which include any of the orange rectangles. In the yellow rectangle, I'm a big buyer. But do realize that the weekly cloud is going to be overhead and beneath what is current all-time highs.

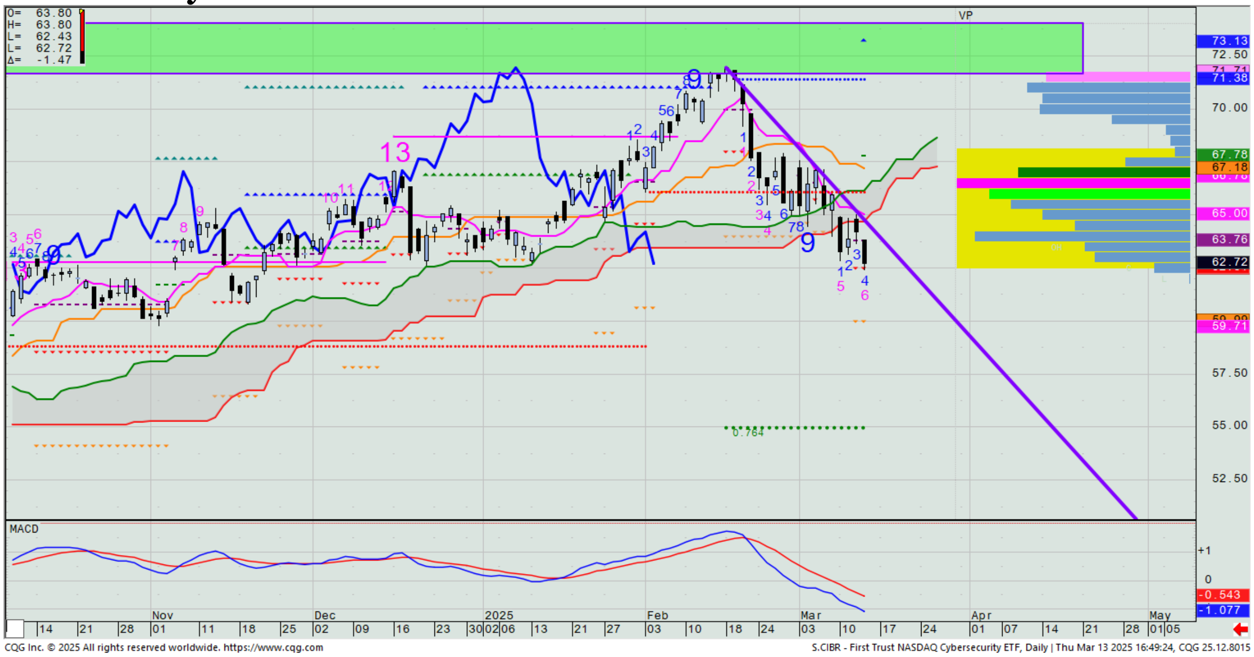
SPY – Weekly

Right now, with the low where it was made yesterday, the weekly chart shows resistance from $575 to $582.

New Recommendation

Virtually nothing is being spared in this equity market decline – not even beloved cyber security names. Yesterday, the First Trust Cybersecurity ETF (CIBR) saw its Lagging Line close beneath its own cloud bottom for the first time since last August. That flips this time frame's prior bullishness to bearish. As such, we'll look to short 1/2 -unit today and another half-unit on a rally to $66 to $67. I'll target a decline to ~$55. Use a buy stop on the second consecutive close above $67.78. For those who can't short, consider buying a put spread at the short entry zones using the April 17th expiration. (See chart on top of pg. 5.)

CIBR - Daily

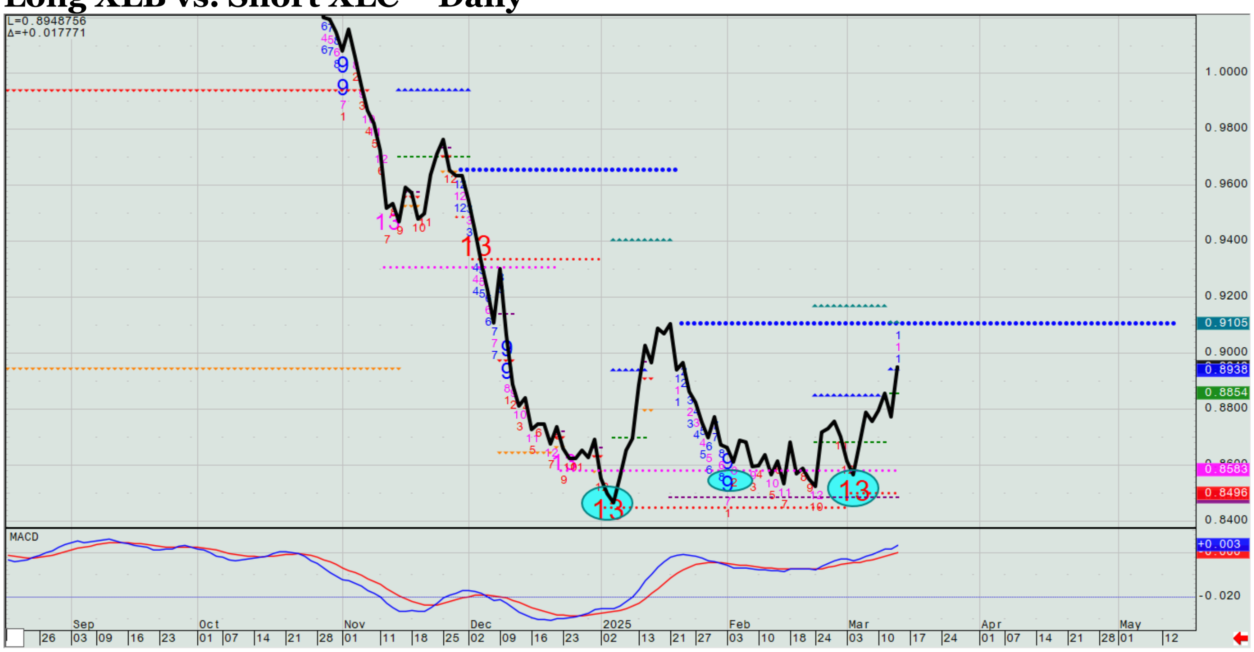


Other Open Recommendations and Positions

Long XLB vs. Short XLC

We put this on last Friday at an avg. ratio of 0.884. I'm targeting a move to ~ 0.94. I'll raise our sell stop to consecutive 120-min bar closes < 0.877.

Long XLB vs. Short XLC – 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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