MARKET TRACTION

IN THIS ISSUE:

The Volatility Coaster Winds On - Remain Seated but Nimble! Earnings just ahead!

This Week's Trade Ideas:

If you venture in, be careful out there! FOMC Minutes Imminent!

Bullish Ideas:

(View Webinar) Vanguard FTSE EMR MKT ETF > VWO > $46.98 Last. Buy the April 27th 46 Calls for $1.70 or less with a close or anticipated close above $47.20 in an up market with expectations for continued strength in the major indices.

(View Webinar) Cheniere Energy Inc. > LNG > $55.63 Last. Buy the April 27th 55 Calls for $2.20 or less with a close or anticipated close above $56.02 in an up market with expectations for continued strength in the major indices.

Bullish Mentions:

(View Webinar for All*) VZ, VWO, OIH, TWX, CSX, COG, NEM, TXN, HUN, MCD, DG, HON, BBY, SLB, HAL.

Bearish Ideas:

None at this time.

Bearish Mentions:
(View Webinar) RCL.

Market Overview:
The SPYs are in trouble and the Powers that Be know it. They're doing they're not so level best to hold the S&P 500 above the 200 SMA, which for many, is the critical demarcation line that informs us as to whether "trend" is being held or not. Many times, we've seen the SPYs fall below supposedly key levels only to recover very nicely in the very near future.

Below the Radar:
There's so much going on ABOVE the Radar these days that's made covering just that a challenge. Getting to the **Below the Radar** material isn't so easy given that so much "print real estate" is being devoted to cover all the goings-on in the world at this juncture. That's pushing our favorite stuff even further away from the center towards the margins and beyond. However, we must look past Russia, rigging, bots, privacy issues, testimony, raids, indictments, tariffs,

trade wars, interest rates, valuations, short squeezes, corrections, and even beyond Tweets! And so, we will…

Options Academy:

We have to judge how liquid options are in stocks not by one series but in total to get a better sense of what's a good stock in which to trade from a liquidity perspective.

As for the "10%" check, let's run through an example of that right now with the same graphic as our source…

This Week's Trade Ideas:

The Volatility Coaster Winds On - Remain Seated but Nimble! Earnings just ahead!

Bullish Ideas:

(View Webinar) Vanguard FTSE EMR MKT ETF > VWO > $46.98 Last. Buy the April 27th 46 Calls for $1.70 or less with a close or anticipated close above $47.20 in an up market with expectations for continued strength in the major indices.

(View Webinar) Cheniere Energy Inc. > LNG > $55.63 Last. Buy the April 27th 55 Calls for $2.20 or less with a close or anticipated close above $56.02 in an up market with expectations for continued strength in the major indices.

Bullish Mentions:

(View Webinar for All*) VZ, VWO, OIH, TWX, CSX, COG, NEM, TXN, HUN, MCD, DG, HON, BBY, SLB, HAL.

Bearish Ideas:

None at this time.

Bearish Mentions:
(View Webinar) RCL.

We're noting this AGAIN!

… if you decide to become or remain involved, you must remain nimble!!!

MARKET TRACTION

Volatility has picked up in a big way and refuses to subside. A great deal of movement continues to be compressed into very short time periods when viewed relatively. Adjustments and rolls need to be completed much more frequently than during normal phases of market price action.

We strongly suggest viewing this week's **Market Traction Morning Call** webinar for full details with respect to these idea(s), last week's and options education.

Week 10 of our Special Note:

Things may yet sort out for the Markets and we'll be back to All-Time Highs across the board an on our way to even more ATHs, but significant technical work remains to be done before we can issue the "All Clear".

Realize that you may be operating in a fast-moving environment should you decide that to enter the markets.

Again, this week, we're happy that we maintained this outlook as it continues to play out. We'll continue to reprint this note as long as the markets remain this volatile!

Swing trading in an environment like this one can be very challenging. We've tried to make that very clear here in **MT** and in our **Morning Call** webinar. The markets have become increasingly driven by news and tweets that we can't know of in advance. Not losing a great deal of money is a very important part of the process of making money over time in the markets!

Outlook:

More of the same! Our "gut" has us feeling more bullish but we'll treat it as it comes. Tweets and all! We continue to strongly suggest that those that venture into these markets have the time and availability necessary to keep an eagle eye on them. There's simply too much movement happening too quickly to treat these times as normal for the purposes of swing trading.

Technicals:

Will be discussed in-depth in the **Market Traction Morning Call** webinar.

Fundamentals:

These trade idea(s) and mentions are technically-driven.

(Editor's note: This trade idea may be updated periodically, in keeping with market conditions. It is intended solely for educational purposes.)

Recap of Last Week:

In last week's AP issue and the Morning Call webinar that followed, we tried to make it clear that, given the speed of the rips and dips, we couldn't do much in the way of providing updates. That held true as things remained very volatile and susceptible to the news cycle and tweet storms… Yet, all in all, last week was again quite a good one for our ideas and mentions which were nearly entirely bullish. In a market that's allowing some stocks to be gutted, our names fared relatively well. (At least as we wrap things up here on Tuesday April 10th at this very moment in time! ☺)

Bullish ideas **KO** and **SBUX** moved up about 2%, at least at one point. We'll take that given how quickly things have deteriorated on the opens and into the closes over the past week! Additionally, all bullish mentions made relatively nice moves upward. Each of **BSX, XOM, MO, JNJ, HES, DUK, VOD** moved higher and gave traders an opportunity to profit. **XOM, HES, VOD** and **JNJ** all produced very nice movement in a relatively short period of time. Some of them may have more in the tank and given the chance, could power much further. Even other recent bullish ideas such as **APA** and **CNQ**, could continue to power up if nothing gets in the way news-wise. Let's hope for a clearing of the Tweet Storm Systems and a quiet news cycle! ☺

Even **WTW**, our only bearish mention from last week, did fall a little bit and is still down, again, at this time. We'll take it!

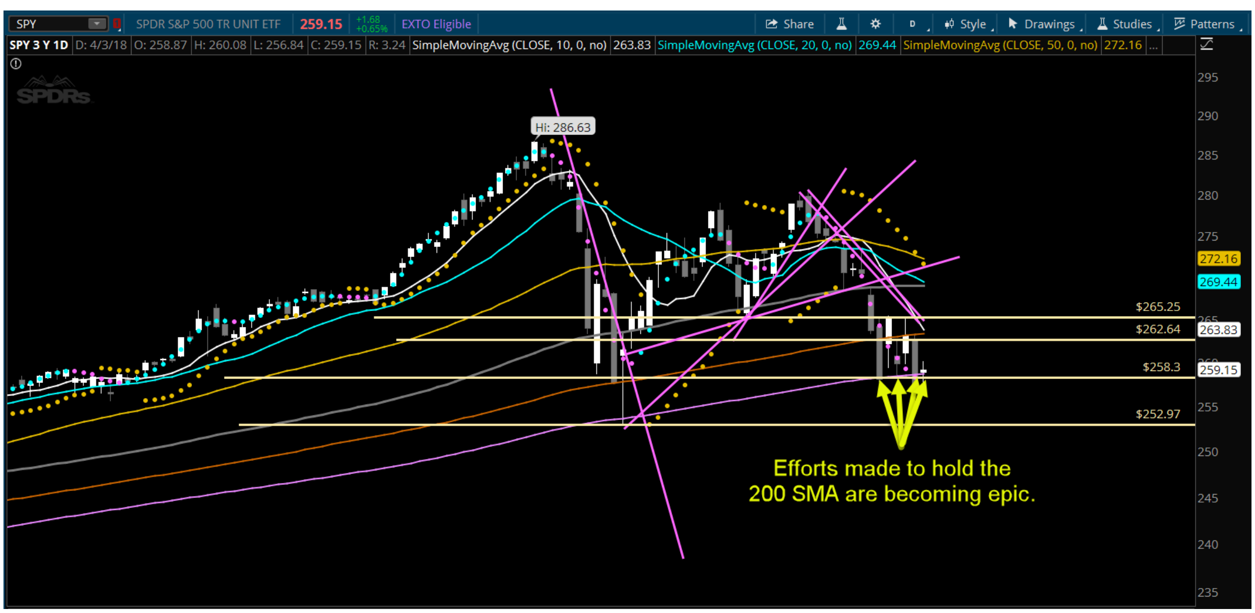
We're leaving our closing from last week's recap right here:

The past week essentially illustrated why we're remaining prudent and advising caution when trading. The moves are swift and fleeting but they can be spectacular. If you insist on playing in these currents, play it smartly!

In other words, take the money and run!

Market Overview

We're starting with last week's **Market Overview** snippets before moving to this week:

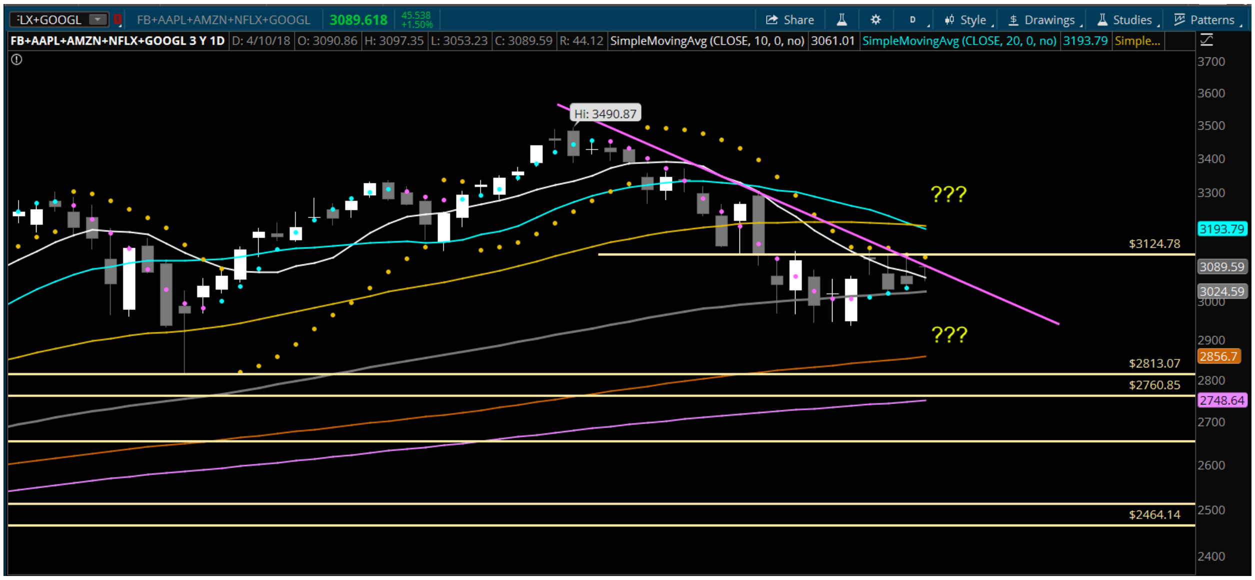


The SPYs are in trouble and the Powers that Be know it. They're doing they're not so level best to hold the S&P 500 above the 200 SMA, which for many, is the critical demarcation line that informs us as to

MARKET TRACTION

whether "trend" is being held or not. Many times, we've seen the SPYs fall below supposedly key levels only to recover very nicely in the very near future. Will this time be different? As we see it, the technical damage is mounting and to preserve this bull market they'll need to move things North quickly and keep them away from this danger zone. Still though, FAANG isn't what it once was at the moment, and that is also troubling:

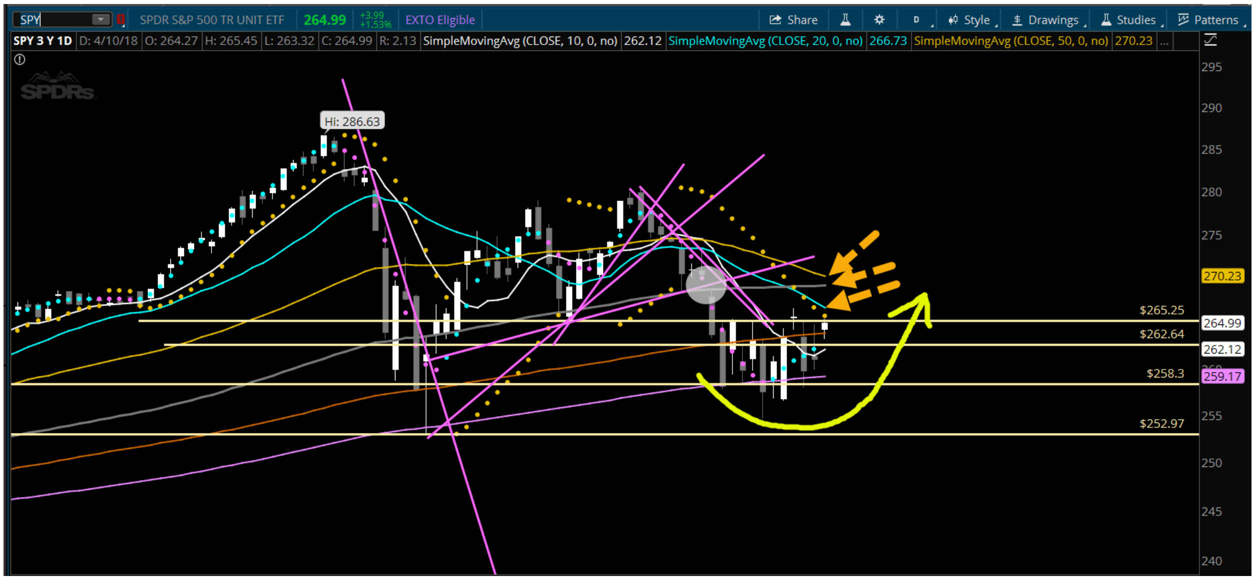
We left off with FAANG last week so let's tackle FAANG now as FAANG is where it's at:



Although Facebook's leader will be testifying in DC today, for now, FAANG, looks a little better. The gang has managed to hold it and the fate of the bull market above the recent lows. A little more upside and they could ignite a short-covering rally. On the other hand, it's easy to see (above), that FAANG is near a couple of key resistance levels and a failure to push through likely renews the selling. Thus, we have big "???'s" right now! The markets are trying, and they've held this:

MARKET TRACTION

The graphic above is from last week and we noted that all efforts were being made to keep the music playing so the bull keeps dancing. Things have held that key level…so far…



The chart above of the SPYs provides us with an idea as to just how much is going on at the moment. The SPYs are near their way to vaulting pass the highest high of the recent scary consolidation we've found ourselves in. At the same time, there's much in the way of resistance lurking just above in the form of SMAs initially. However, there's (white circle) a gap that could be targeted for filling a *little ways* higher into the blue yonder above. And…as we all know by now, the 200 SMA (in purple) lies just a little below in wait of another retest if need be. It shouldn't be boring! There's a lot at work and we'll need to remain on the edge of our seats with a death grip on our mouses!

There's not much due to hit report-wise this week. The federal budget and FOMC minutes are due out tomorrow and those are mostly likely to be the releases that Wall St. makes hay out of… Exactly what kind and how much hay is anyone's guess! Early earnings trickle out this week, but they won't really ramp up for another 2 weeks or so. Fear not however… We look to the calendar and earnings for market-movement fuel, but we don't need much to move markets right now! Can bulls string their way to the earnings season while holding the major indices above their respective 200-day SMAs? We can't know for sure but for sure they'll try. That we know!

Below the Radar

There's so much going on ABOVE the Radar these days that's made covering just that a challenge. Getting to the **Below the Radar** material isn't so easy given that so much "print real estate" is being devoted to cover all the goings-on in the world at this juncture. That's pushing our favorite stuff even further away from the center towards the margins and beyond. However, we must look past Russia, rigging, bots, privacy issues, testimony, raids, indictments, tariffs, trade wars, interest rates, valuations, short squeezes, corrections, and even beyond Tweets! And so, we will…

MARKET TRACTION

https://www.marketwatch.com/story/why-stocks-could-fall-nearly-40-over-the-coming-18-months-2018-04-06?link=MW_popular

It's usually a good sign when old "MW" gets Super-Beared up, which, is exactly what they've done of late. Regardless of the headline, the content has a few passages that closely reflected some of our current thoughts on the situation at hand in the markets. For that reason, we're sharing the following sections regarding 3 economic/corrective scenarios:

*The **first scenario**, an abrupt crash, may sound worse than it would end up being, he wrote in a research report. He noted that after 1987's Black Monday—still the single-largest one-day percentage drop for the Dow Jones Industrial Average **DJIA, +1.81%**ever—stocks still closed higher for the year, and ended up nearly 10% from the low of that crash.*

*The **second scenario** he considered was based around the cyclically-adjusted price-to-earnings (CAPE) ratio, which compares stock prices with corporate earnings over the past 10 years. Currently, the S&P 500 has a CAPE of 31.88, a rate that is eclipsed only by the dot-com era, and nearly double the mean reading of 16.8, going back to the 1880s. Reverting back to that mean—or returning to the historical average—would take the S&P 500 down to 1,646, or a stomach-churning drop of 36.8% (42.7% from the record).*

*The **third scenario**—where stocks are discounted for the prospect of a recession in the coming two years "feels the most logical right now, if only because the US Treasury yield curve continues to flatten," he wrote. The yield curve refers to the line plotting yields across all Treasury maturities, shortest to longest. Because debtholders tend to demand a higher yield, or premium, for lending for a longer period that curve usually slopes upward. However, a flattening curve, or narrowing premium, has been viewed as ominous, suggesting that investors maintain a less-than-sanguine outlook.*

Bank of America is also concerned about the markets, especially the stock prices in *Tech Land* and the kind of fallout that could occur as a result. BofA cites 10, yes, a full 10, reasons that have them losing their enthusiasm for Tech, mostly: https://www.zerohedge.com/news/2018-04-09/bubble-about-burst-bofas-10-reasons-sell-tech-stocks

1. ***Excess returns & fancy valuations**: US tech is best performing sector in QE era**,** up annualized 20%; **ex tech the S&P500 would be 2000 not 2600 today***

2. ***Bubbly prices:** US internet commerce stocks (DJECOM) soared 624% in 7 years at their peak**, 3rd largest bubble of past 40 years***

MARKET TRACTION

3. ***Fat market caps:*** *US tech market cap ($6.4tn) exceeds that of Eurozone ($5.0tn); FAAMG+BAT market cap of $4.9tn exceeds Emerging Markets ($4.6tn).*

4. ***Earnings hubris:*** *tech & eCom companies currently account for almost 1/4 of US EPS (Chart 6);* ***this level that is rarely exceeded, and often associated with bubble peaks****; note* ***there are currently just 5 "sells" out of 250 FAAMG recommendations***

5. ***Politics:*** *privacy becoming policy issue as* ***equivalent to entire global population searches Google every 2 days;*** *last year 1579 "data breaches" exposed 179 million records of personal names plus financial or medical data;* ***pending US & EU regulation threaten 4% of tech revenue.***

6. ***Wage disruption:*** *IMF says 50% of the decline in labor's share of income is attributable to technology (25% due to globalization); number of global industrial robots by 2020 will be 3.1 million (was 1 million in 2010)*

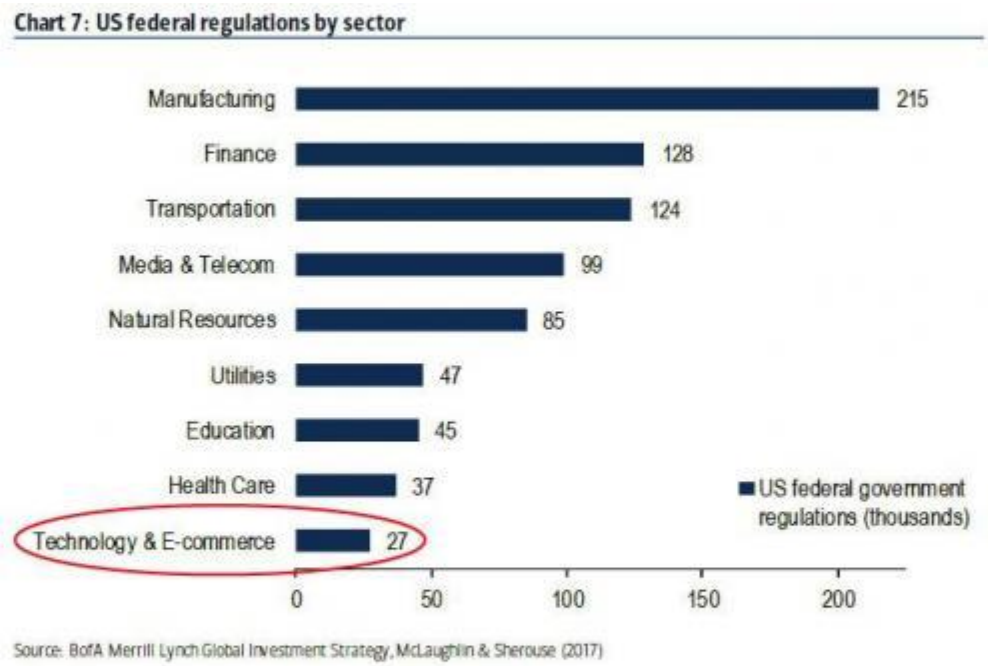
7. ***Tech is cash-rich, tax-light:*** *sector has $740bn of cash overseas (larger than all other sectors put together ($510bn); effective rate of tax on US tech companies is 16.9%, lower than the 19.3% paid across the S&P500*

8. ***Tech most lightly regulated sector:*** *just 27K regulations (Chart 7) for tech; by comparison manufacturing regulated by 215K rules, financial sector by 128K.*

*9. **Tech & trade:** US tech has highest foreign sales exposure (58%) of all US sectors*

*10. **Occupy Silicon Valley:** tobacco (1992), financial (2010), biotech (2015) industries illustrate how **waves of regulation can lead to investment underperformance.***

This:



Is quite telling too. And thus, likely to change in a big way due to recent news developments. Those changes wouldn't seem to help valuations, hence, #8 on the list. Now, we'll transition away from a bubble bursting to *Why Worry* material…

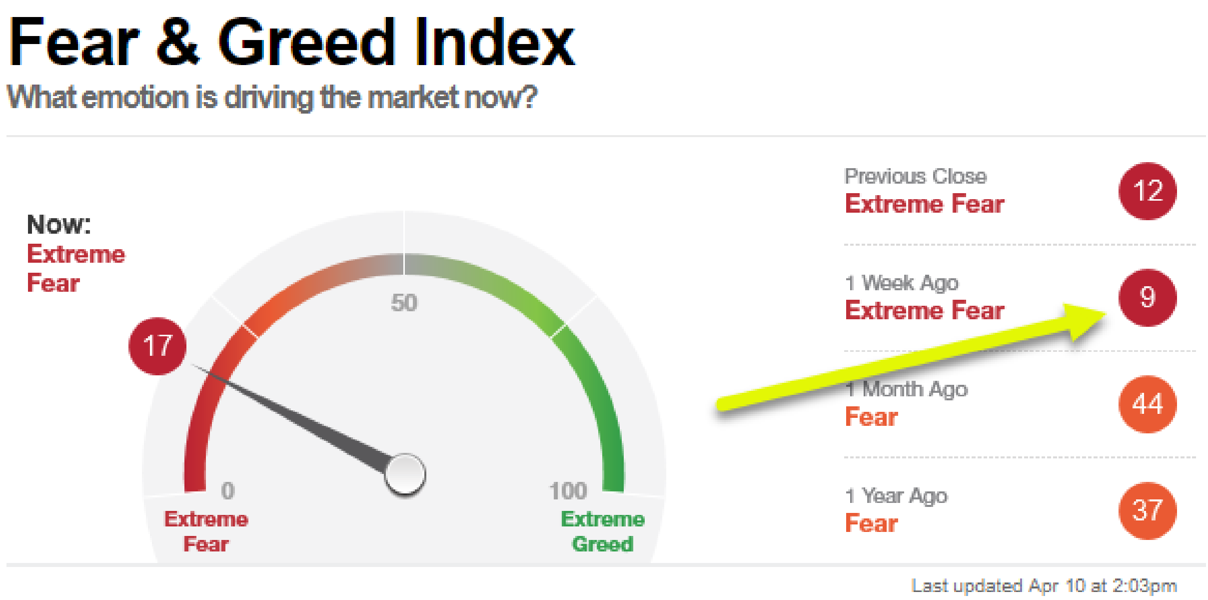
The piece isn't very long and warrants the reading time in our opinion. Beyond economic and valuation issues covered above, lies technical issues. Technical, as in Dow Theory issues, they cropped up, after threatening to do so for quite a while, yesterday: https://www.marketwatch.com/story/why-the-stock-market-isnt-freaking-out-about-a-bearish-dow-theory-sell-signal-2018-04-10 Read all about it at that link and further as to why it may be ignored this time around but some folks still respect the theory and adhere to it. To wit:

A trigger of the theory can also spark a cascade of selling by other buyers, including computer-driven, algorithmic traders, that either track the Dow Theory (or DT) levels or those who are technical traders.

We’re not in the camp that begins dumping stocks immediately when a well-known school of analysis suggests we should. We approach things comprehensively and with our own approach weighing more so than others. However, we’re not going to ignore that this COULD (not will) have an effect on some money managers. And, we all know that selling at the margins is what could trigger more selling which begets selling. In other words, Dow Theory sell signals aren’t likely helping matters! AND, we’ll keep watching things closely on our own accounts.

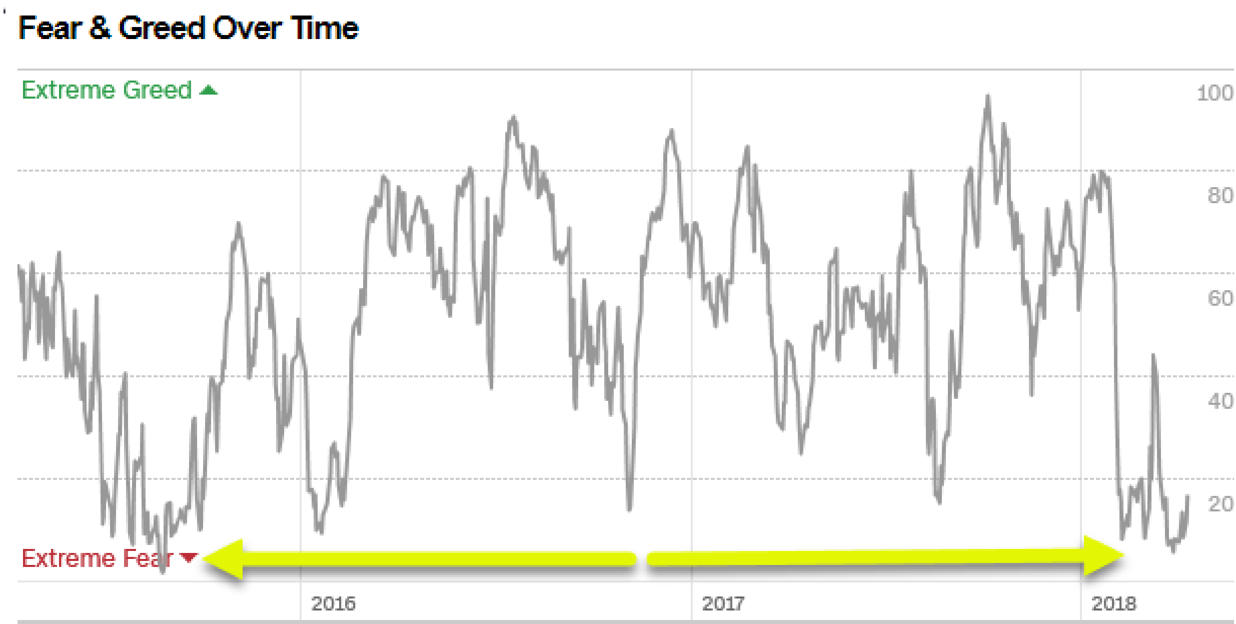
MARKET TRACTION

Checking in as we occasionally do with CNN's Fear/Greed Index, we find that Extreme Fear is present but it's better than a week ago and heading in the right direction if you're a bull:



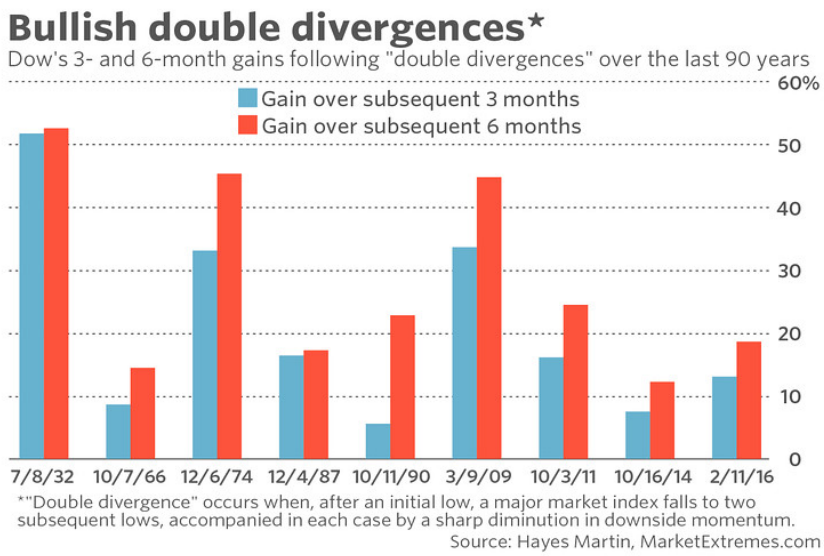
We're still extreme (see below) but if we emerge from here, we could see a period of relief. With earnings on the way that relief could lead to tonic springs for bulls, well, this Spring:

MARKET TRACTION



And…with FEAR absolutely dominating to such an extent, we're set up for the opposite of course! Extreme ONE SIDEDNESS is thought to be a contrarian indicator and often is, but it is typically a little early. That hasn't stopped at least one expert from calling it over. Over, as in, it's high time for another melt up: https://www.marketwatch.com/story/these-two-trading-patterns-could-trigger-the-long-awaited-stock-market-melt-up-2018-04-10

Martin believes a bottom of some significance is forming because of a rare combination of market divergences and extreme investor pessimism. Each factor by itself would be reason enough to expect a powerful rally, but the combination of both, according to Martin, means "the setup is now in place for a significant rally over the coming months."



'The market decline is thoroughly washed out,

with all the sellers having sold.'

Hayes Martin

Tread Lightly! & Bank and Roll!

Options Academy

AAPL | APPLE INC COM | 170.05 | 0 0.00% | B: 172.55 A: 172.70 | ETB | NASDAQ | ±2.1

Underlying

Last X	Net Chng	Bid X	Ask X	Size
170.05 Q	0	172.55 K	172.70 P	4 x 4

Trade Grid

Option Chain | Filter: **Off** | Spread: **Single** | Layout: **Volume, Open Interest**

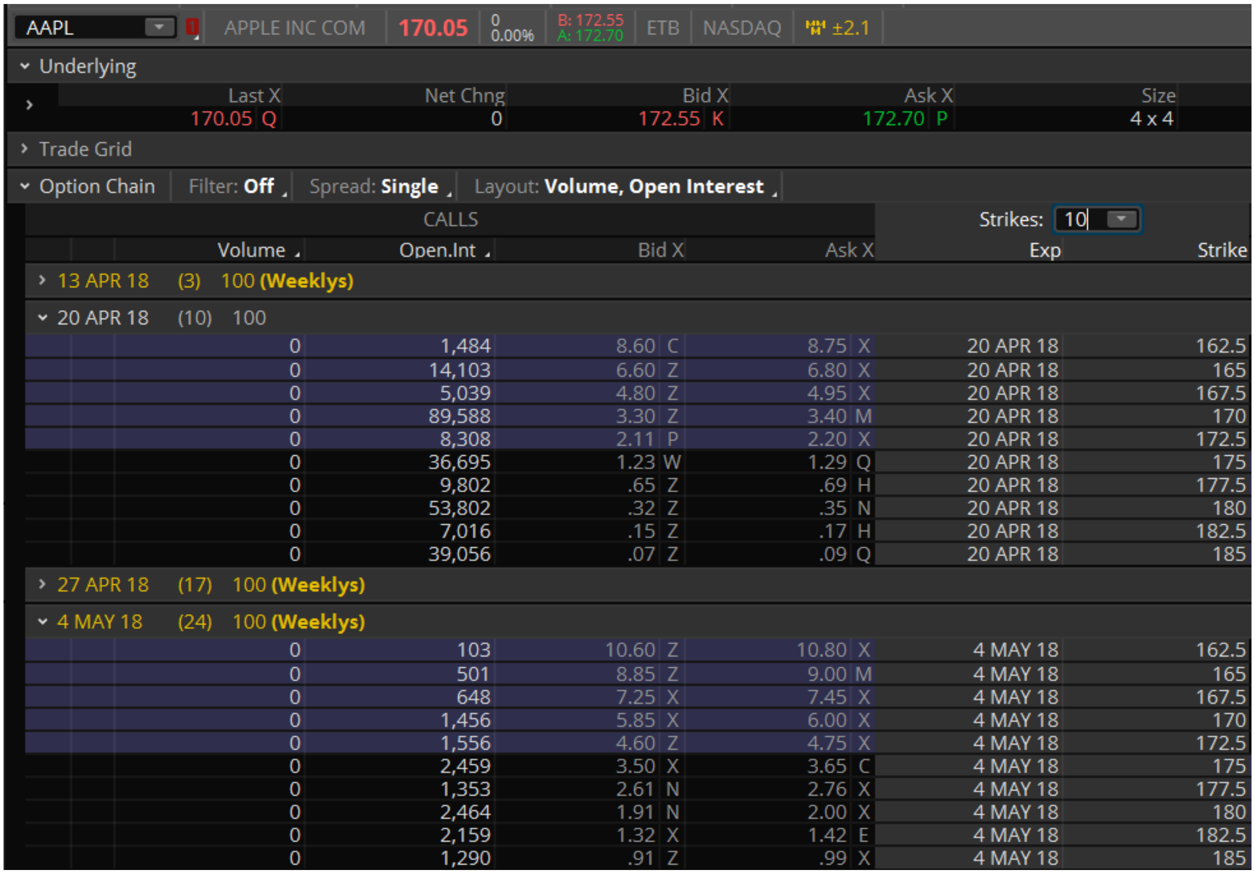
CALLS | Strikes: 10

Volume	Open.Int	Bid X	Ask X	Exp	Strike
13 APR 18 (3) 100 **(Weeklys)**					
20 APR 18 (10) 100					
0	1,484	8.60 C	8.75 X	20 APR 18	162.5
0	14,103	6.60 Z	6.80 X	20 APR 18	165
0	5,039	4.80 Z	4.95 X	20 APR 18	167.5
0	89,588	3.30 Z	3.40 M	20 APR 18	170
0	8,308	2.11 P	2.20 X	20 APR 18	172.5
0	36,695	1.23 W	1.29 Q	20 APR 18	175
0	9,802	.65 Z	.69 H	20 APR 18	177.5
0	53,802	.32 Z	.35 N	20 APR 18	180
0	7,016	.15 Z	.17 H	20 APR 18	182.5
0	39,056	.07 Z	.09 Q	20 APR 18	185
27 APR 18 (17) 100 **(Weeklys)**					
4 MAY 18 (24) 100 **(Weeklys)**					
0	103	10.60 Z	10.80 X	4 MAY 18	162.5
0	501	8.85 Z	9.00 M	4 MAY 18	165
0	648	7.25 X	7.45 X	4 MAY 18	167.5
0	1,456	5.85 X	6.00 X	4 MAY 18	170
0	1,556	4.60 Z	4.75 X	4 MAY 18	172.5
0	2,459	3.50 X	3.65 C	4 MAY 18	175
0	1,353	2.61 N	2.76 X	4 MAY 18	177.5
0	2,464	1.91 N	2.00 X	4 MAY 18	180
0	2,159	1.32 X	1.42 E	4 MAY 18	182.5
0	1,290	.91 Z	.99 X	4 MAY 18	185

MARKET TRACTION

This will be our final week covering liquidity here in **OA**. Above, we can see that generally, there's much greater Open Interest in the Apr. 20th expiration options than has thus far built up in the May 4th expiration. This is only natural as April 20th is a monthly expiration that's been trading for some time while the May 4th expiration is a weekly one that's only been available to trade for a much shorter period of time and thus has far less Open Interest. The question is: Should we allow the relatively low levels in Open Interest in the May 4th contracts to steer us away from trading them if we'd like to otherwise? OUR answer is an emphatic "NO". Yes, the "OI" levels and likely the trading volume will be much lower in May 4th options in relative terms but volume and OI are likely to pick up there as we lurch closer to those options becoming the "front week" options. However, the more important item to consider is the *width* of the Bid-Ask spread, in general. If we select the May 4th 162.5 calls, we can see that they have the lowest Open Interest total on the board thus making them an ideal series to consider this: The bid of $10.60 vs. the $10.80 ask is actually very good! That's only 20c wide. We'll gladly accept that every time on an option that's price is over $10.00. That relative narrowness of that bid-ask spread highlights our overarching point quite well. It's about OVERALL Liquidity. Apple's options book, OVERALL, is a very liquid one. The options, by and large, have very good markets in which to trade. EVEN series with LOW Open Interest totals, still have very good spreads on which to trade. The reason for this is that there is a lot of interest from professionals and laymen alike in Apple options. A consistently good deal of interest in a stock's options will normally produce consistently good options markets in which to trade. SO, despite the May 4th 162.5 calls having an open interest total of only 103 contracts, they actually offer a good market on which to trade. By comparison, the April 165 calls, of which there is an open interest of 14103, have a 20c wide bid-ask spread as well! 14,000 greater open interest and yet the market in them is the same width! And that's the point! We have to judge how liquid options are in stocks not by one series but in total to get a better sense of what's a good stock in which to trade from a liquidity perspective.

As for the "10%" check, let's run through an example of that right now with the same graphic as our source:



Last X	Net Chng	Bid X	Ask X	Size
170.05 Q	0	172.55 K	172.70 P	4 x 4

Volume	Open.Int	Bid X	Ask X	Exp	Strike
13 APR 18 (3) 100 (Weeklys)					
20 APR 18 (10) 100					
0	1,484	8.60 C	8.75 X	20 APR 18	162.5
0	14,103	6.60 Z	6.80 X	20 APR 18	165
0	5,039	4.80 Z	4.95 X	20 APR 18	167.5
0	89,588	3.30 Z	3.40 M	20 APR 18	170
0	8,308	2.11 P	2.20 X	20 APR 18	172.5
0	36,695	1.23 W	1.29 Q	20 APR 18	175
0	9,802	.65 Z	.69 H	20 APR 18	177.5
0	53,802	.32 Z	.35 N	20 APR 18	180
0	7,016	.15 Z	.17 H	20 APR 18	182.5
0	39,056	.07 Z	.09 Q	20 APR 18	185
27 APR 18 (17) 100 (Weeklys)					
4 MAY 18 (24) 100 (Weeklys)					
0	103	10.60 Z	10.80 X	4 MAY 18	162.5
0	501	8.85 Z	9.00 M	4 MAY 18	165
0	648	7.25 X	7.45 X	4 MAY 18	167.5
0	1,456	5.85 X	6.00 X	4 MAY 18	170
0	1,556	4.60 Z	4.75 X	4 MAY 18	172.5
0	2,459	3.50 X	3.65 C	4 MAY 18	175
0	1,353	2.61 N	2.76 X	4 MAY 18	177.5
0	2,464	1.91 N	2.00 X	4 MAY 18	180
0	2,159	1.32 X	1.42 E	4 MAY 18	182.5
0	1,290	.91 Z	.99 X	4 MAY 18	185

We'll use the May 4th 165 calls for starters as they're offered at round number $9.00. 10% of $9.00 is 90c. If we: Ask $9.00 – 90c we arrive at $8.10. Now we must ask: Is the Bid of $8.85 greater than $8.10? We know that it certainly is, so we know that that series passes the "10% Wide Test" used to evaluate options markets for reasonable liquidity. The Bid price is > the (Ask Price X .9) is another way to think about it/calculate it. Obviously, the higher the option price in dollars the more leeway is allowed, and the converse is true for lower dollar options. Do note that the high dollar options can thus have a gaping hole between the Bid and Ask and still pass the 10% Test, so be careful of that! In summary, every option above passes the 10% Test. That proves what we know already: Apple is a very good options book in which to trade.

In conclusion, there's no one perfect way to judge options liquidity as it is all relative. Getting an overall sense of how good a book is can be key and can inform us as to whether or not we should return to that stock repeatedly to trade when opportunity is present. It does take a little time to learn what stocks have highly liquid options books to deal in. It also takes time to learn the "personality" of stocks and those personalities can change somewhat over time. In both or really all cases though, it is worthwhile to do so to reduce losses due to poor liquidity and boost profits by being in stocks with superior liquidity that consistently produce movement.

If you have questions, ask away in this week's **Market Traction Morning Call** webinar.