MARKET TRACTION

IN THIS ISSUE:

Of Speeches, Reports and Tweets…Who knows what's in store?

This Week's Trade Ideas:

If you venture in, be careful out there! FOMC Speaker Week Ramps up!

Bullish Ideas:

(View Webinar) DR Horton Inc. > DHI > $45.43 Last. Buy the May 11th 44.5 Calls for $2.17 or less with a close or anticipated close above $45.60 in an up market with expectations for continued strength in the major indices and XHB. This week's series of FED speakers could produce volatility especially for sectors with greater interest rate sensitivity (e.g.>>>home builders!)

AND/OR:

(View Webinar) Lennar Corp. > LEN > $57.52 Last. Buy the May 18th 57.5 Calls for $2.35 or less with a close or anticipated close above $58.05 in an up market with expectations for continued strength in the major indices and XHB. This week's series of FED speakers could produce volatility especially for sectors with greater interest rate sensitivity (e.g.>>>home builders!)

Bullish Mentions:

(View Webinar for All*) **DIS**, VWO, NUGT*, MRVL, NVS, LEN, BUD, VRTX, WELL*, DLTR, ALLY, W.**

Bearish Ideas:

None at this time.

Bearish Mentions:

(View Webinar) **OZRK, XLF, KBE.**

Market Overview:

Last week we reviewed how strongly the 200 SMAs had been defended and how the major indices would need to be moved northward and NOW! It seems as if we latched onto things fairly well in retrospect. We also noted that the major indices were trying to work their way out of the danger zone, along with the FAANG complex, and that both looked a little better but if they faltered at all they could be back in the soup. Well…clearly the effort to elevate the major indices was no small undertaking and the Wall St. gang spent the better part of the week essentially succeeding in doing so.

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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.

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This week, after experiencing an influx of new interest, we're digging into our archives to better explain what drives us to select the slightly-in-the-money options we typically default to in our trades. These types of options normally fall in the 65 to 75 delta range and deliver for us what we prefer: lower risk and respectable reward. Read on!

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We're noting this AGAIN!

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

Volatility remains elevated! 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 **Morning Call** webinar for full details with respect to these idea(s), last week's and options education.

Week 11 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". – We're not ruling it out we're simply acknowledging that we're not quite there yet.

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:

Our "gut" is back again this week and it believes that the Street is that much closer to weathering the volatility storm that was unleashed 2 ½ months ago. The news cycle is set up to be favorable and the bounce off the 200 SMA is only accelerating. It would take news out of the blue or something very different than we've seen over the course of this bull market for the indices to be stopped in their tracks and reverse Southward. Naturally, that could happen, but we believe it will take a new driver to emerge to justify that type of action.

REPRINT FROM PRIOR WEEKS: *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 **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.)

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Recap of Last Week:

First off, bullish names from a few weeks back continued to work well last week. Notably, **KO** and **SBUX** powered even higher towards projected levels. Again, this isn't *back-patting* material but a reminder as to how ideas can work not just over days but weeks and that we can mine them further should the major indices continue to provide wind in their sails. This was also the case for other recent bulls in the form of **BSX, XOM, HES, DUK, VOD, APA and CNQ.** The message? Keep an eye on recent ideas as they may have more to deliver when the markets support that direction.

Last week bullish ideas and mentions outnumbered the bears **17 to 1**. That's a good thing given how the week turned out and based on what we're seeing as we write this recap! Most of our bullish names have moved up nicely or haven't moved down very much. We'll take that! Our bullish idea in **VWO** has yet to trigger as world stocks haven't ran up like their US counterparts. It just couldn't close above our trigger level despite good vibes from the US indices. On the other hand, **LNG** has moved up rather well and it did in fact trigger twice! It's not a homerun by any stretch but it at least participated in the upside fun. Many of our bullish mentions however were standout performers. **OIH, TWX, NEM, HUN, DG, HON, BBY, SLB, and HAL** have all put in nice work for us within just a week's time. Others not mentioned, didn't hurt us much if at all, but they didn't jam as much as we'd hoped.

Lone bearish mention, **RCL**, was oversold when we covered it in our webinar. We noted it was a go-to only if the markets became heavy and started to fall off towards the 200 SMA. The markets never weakened to any great extent, **RCL** was thus allowed to recover from oversold levels and never even drew our interest from that point onward.

As long-time readers know, we don't often cover so many symbols each week but when we do "load up" as we have many times recently, we're always happy when the dominant side gets the market's support and most of our names move strongly with the markets. So…no complaints here about last week!

Market Overview

Last week we reviewed how strongly the 200 SMAs had been defended and how the major indices would need to be moved northward and NOW! It seems as if we latched onto things fairly well in retrospect. We also noted that the major indices were trying to work their way out of the danger zone, along with the FAANG complex, and that both looked a little better but if they faltered at all they could be back in the soup. Well…clearly the effort to elevate the major indices was no small undertaking and the Wall St. gang spent the better part of the week essentially succeeding in doing so. We felt they had to do so and we even referenced our "gut" in our Outlook section from last week:

*More of the same! Our **"gut"** has us feeling more bullish but we'll treat it as it comes. Tweets and all!*

Our gut may have been right for a change! But…it all sort of makes sense if you think about it. The Wall St. gang had to at least try to hold the 200 SMA for the obvious reasons but they also knew that if they did, even for just another week or so, they could bridge their way into what are likely to be good earnings reports. And, well…that's just what they've done. NFLX and GS have them celebrating today and there are plenty of more catalysts on the way. NEWS will be made if the earnings are good and the markets do not rise significantly on said news. If that's the case, batten down the hatches mates!

Let's take a quick look at FAANG first:

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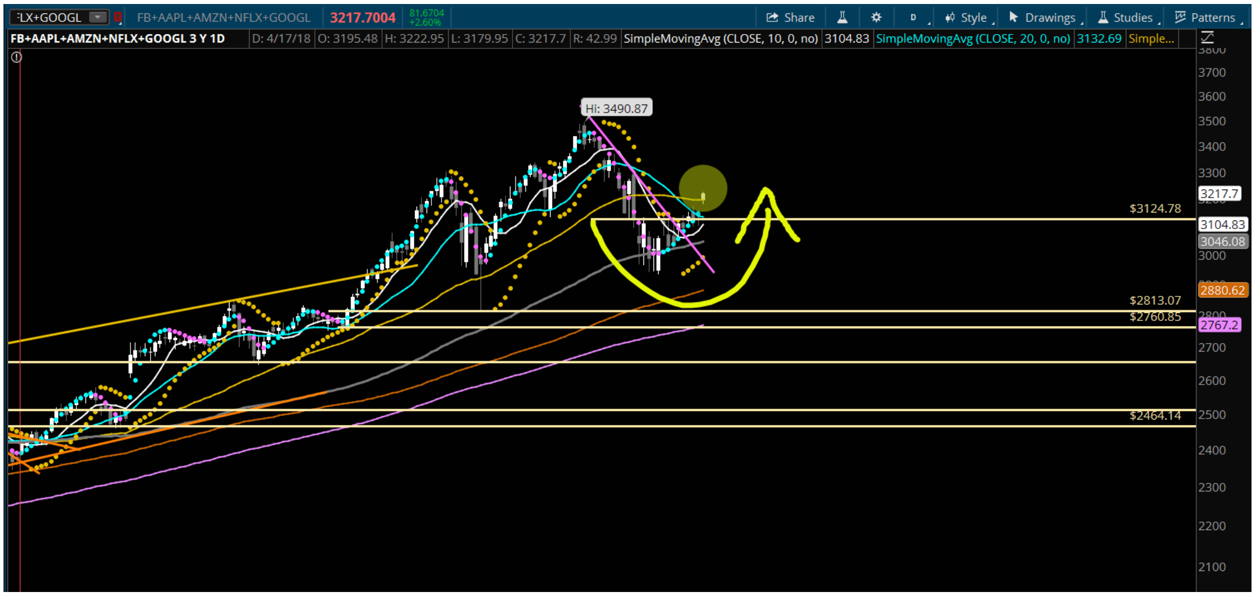
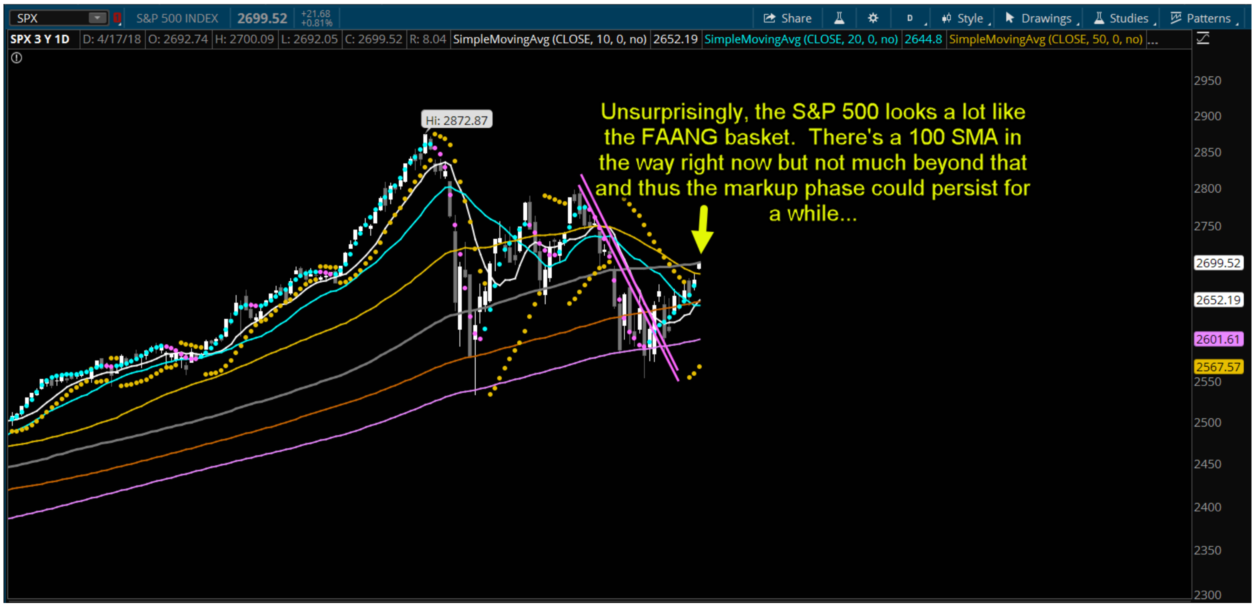


We can see that they went through last week's resistance line like butter and they're gapping FAANG back up in a big way. Shorts that overstayed their welcome are already on the ropes and those ropes are burning! We'll see if further short-squeezing is ignited soon enough. As for the markets:



Our thoughts at present are that it would take a hostile-to-the-markets tweet storm or less than favorable international news to derail the short-squeeze that's currently in place. Without something cropping up along those lines, we'd expect that the Gang is able to move prices back up further. To what extent remains to be seen. Still though, we won't take our eyes off the ball and will stay with these markets whatever comes our way…

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This week is a rich one in terms of economic reports. We've got several "index" reports on the way, the Empire State and Philly region for starters but homebuilders will be there too, sprinkled in among the many releases slated for the week. The many and various speeches by FED-types may ultimately provide more impact however. That remains to be seen but what we do know is that there's quite a bit of potential for the markets to seize upon news this week if they care to do so. Add in the fact that earnings reports will begin to hit the tape in earnest and we've got a recipe in place to sustain recent volatility. This is no time to slouch off!

This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, APRIL 16					
8:30 am	Retail sales	March	0.6%	0.4%	-0.1%
8:30 am	Retail sales ex-autos	March	0.2%	0.2%	0.2%
8:30 am	Empire State index	April	15.8	--	22.5
10 am	Home builders' index	April	69	--	70
10 am	Business inventories	Feb.	0.6%	--	0.6%
TUESDAY, APRIL 17					
8:30 am	Housing starts	March	1.319 mln	1.255 mln	1.295 mln
8:30 am	Building permits	March	1.354 mln	--	1.321 mln
9 am	IMF World Economic Outlook				
9:15 am	Industrial production	March		0.4%	0.9%
9:15 am	Capacity utilization	March		78.0%	77.7%
9:15 am	John Williams speech				
10 am	Randal Quarles testimony				
1:10 pm	Charles Evans speech				
WEDNESDAY, APRIL 18					
2 pm	Beige book				
3:15 pm	William Dudley speech				
4:15 pm	Randal Quarles speech				
THURSDAY, APRIL 19					
8 am	Lael Brainard speech				
8:30 am	Weekly jobless claims	4/14		230,000	233,000
8:30 am	Philly Fed index	April		--	22.3
10 am	Leading economic indicators	March		--	0.6%
10 am	Randal Quarles testimony				
6:45 pm	Loretta Mester speech				

Below the Radar

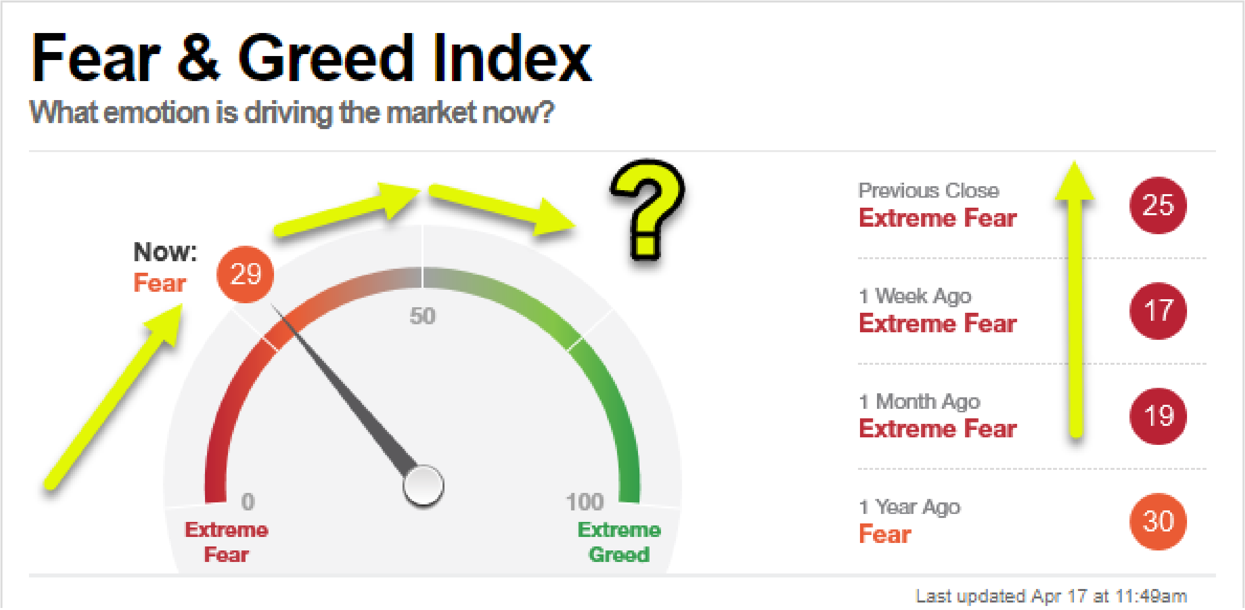
The past week was a very light one in terms of Under the Radar content as far as the Internet goes. We'll do a little of what we do here in BTR and hope more turns up in the near future. However…

Now for something completely different!:

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.

Our "gut" even made it into **BTR** last week and at least it wasn't wrong…so far…

Marketwatch, on balance, typically goes overboard at market extremes which can be a nice contrarian signal! We'll see how long it lasts. Before we really get rolling, let's check in the latest sentiment readings from CNN:



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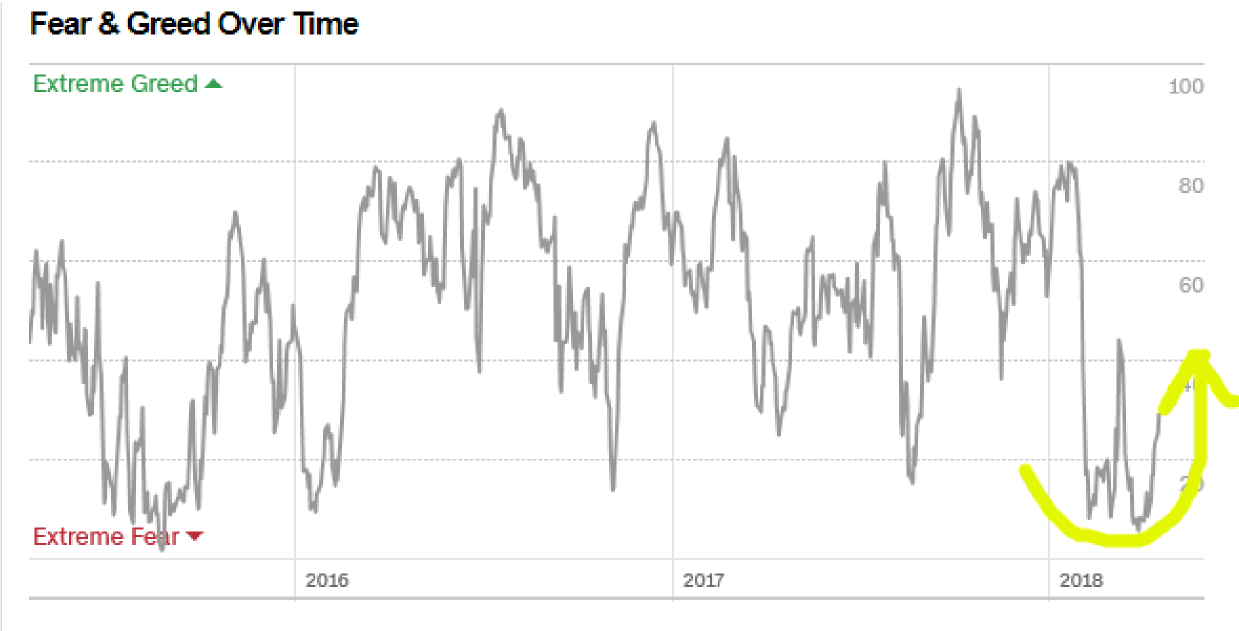

We can clearly see, that after last week and the early returns from this week, conditions continue to improve in the markets. This sustained push towards higher levels of positivity could provide just the right backdrop for the earnings season celebration the bulls so desperately need. We shall see soon enough. Our take is that it would truly be NEWS if the current rally faltered during earnings season, but you never know…

Before we move on from these contrarian takes, we'd be remiss if we didn't include a little from this piece covering the thoughts of high-profile contrarian Mark Mobius:

https://www.fnlondon.com/articles/mark-mobius-predicts-30-market-correction-20180416?mod=mktw

He may be in a camp like ours. He seems to acknowledge that the Gang could move things up and that economic news may even be supportive of that but still has lasting concerns. Interestingly, he reveals something beyond the obvious in this contrarian *nutshell*:

*"I can see a 30% drop," said Mobius, who launched one of the world's first emerging market funds. "**When consumer confidence is at an all time high, as it is in the U.S., that is not a good sign.***

"The market looks to me to be waiting for a trigger that will cause it to tumble. You can't predict what that event might be — perhaps a natural disaster or war with North Korea."

*Mobius, who predicted the start of the bull market in 2009, **has concerns that any fall would be amplified by the increasing use of exchange traded funds, which account for nearly one-half of all***

trading in U.S. stocks. His fear is ETFs would trigger further drops once markets fall.

Swinging back from Mobius and following up at the same time, we present:

Exhibit 11: American Association of Individual Investors % Bulls Reached a Very High Level in January

Source: AAII, Bloomberg and Morgan Stanley Research

The clobbering of the euphoria we cited several months back! We hit on things being too one-sided but now they've finally been pummeled down to being overly bearish!

To wit, here's another sign of the mania from just a few months ago and how it's been bludgeoned since:

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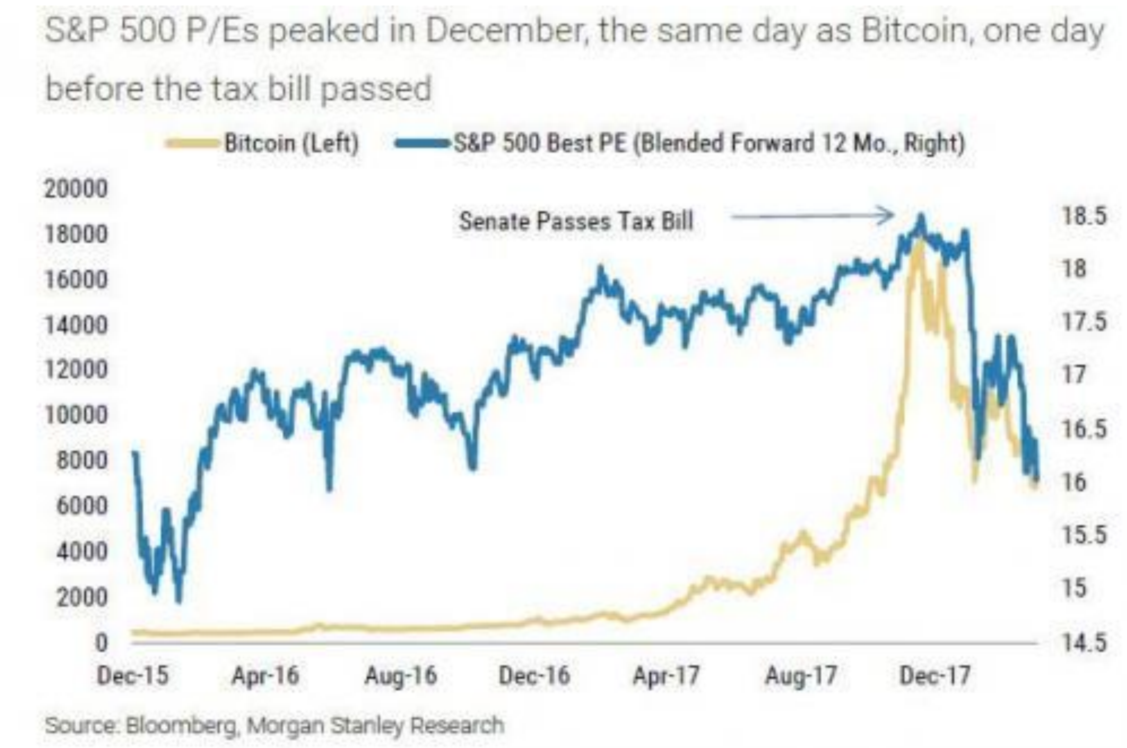

As we came across late last and early this year, the exuberance was just too dang exuberant:

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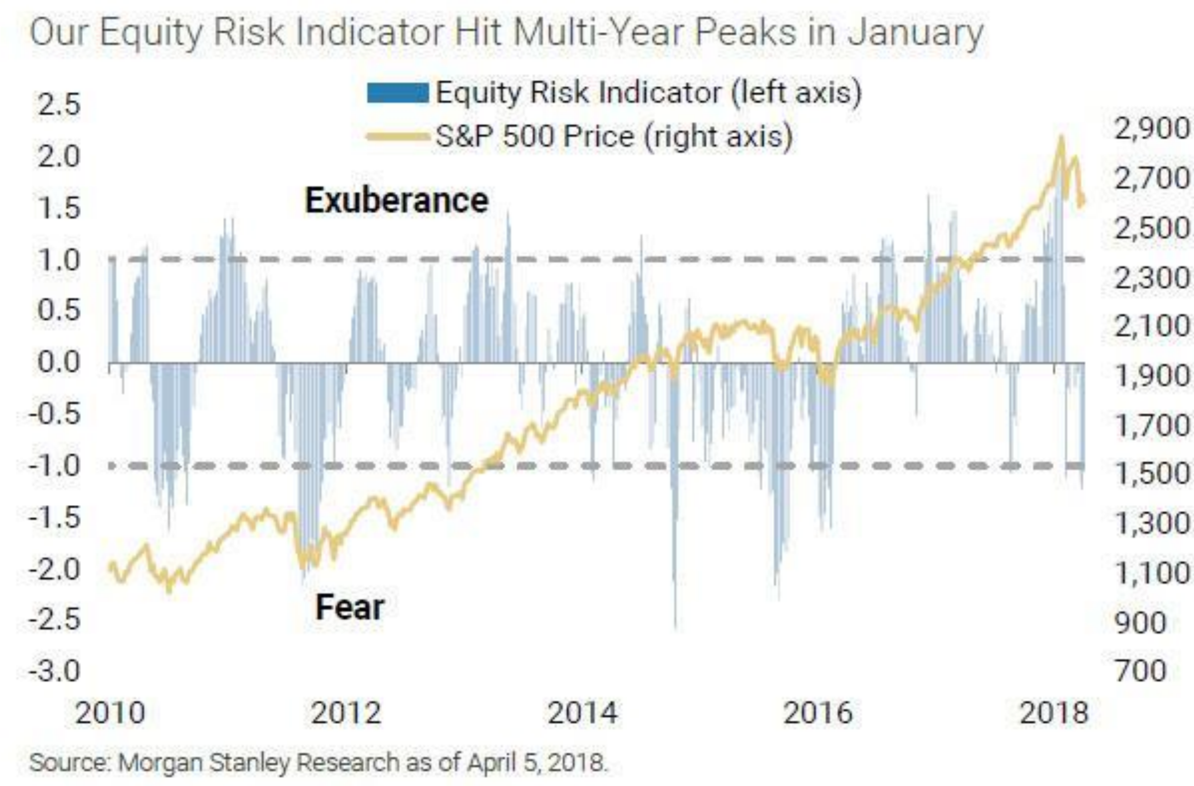

And as we also noted at the time, the hedgies were not only very one-sided but they super-levered up which is what likely made the rate of descent in February the breath-taking spectacle that it was.

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As we can see in all these graphics courtesy of Morgan Stanley, the froth as been removed from the markets for now… The may be on the verge of re-frothing and valuations may yet still be too high but given where what we just saw sits and the current technicals, a stronger rally attempt wouldn't be out of the question! And to that, we'll add a little more contrarian inspired bullish lighter fluid!:

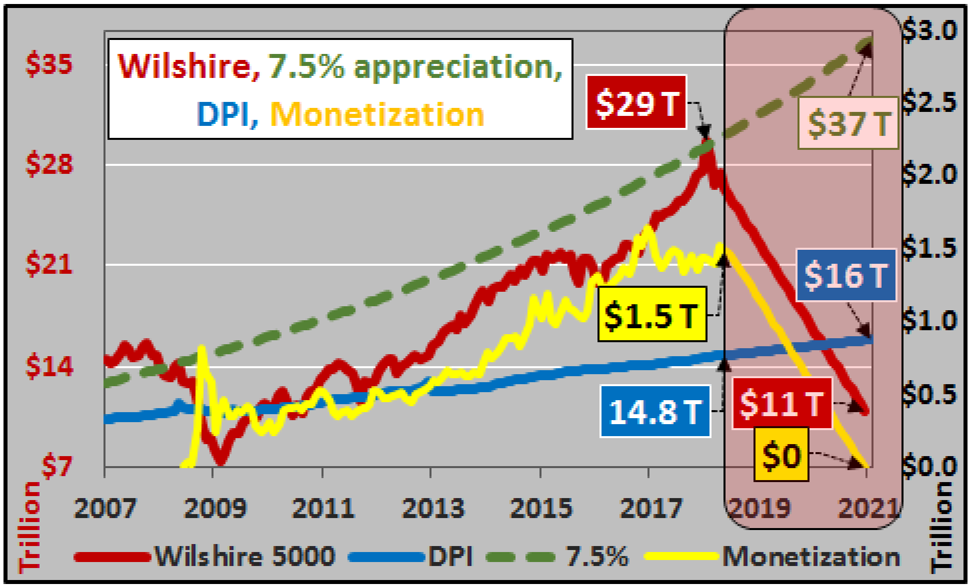
If you're interpreting the graphic above to suggest that far too many may have far too big of bets on the long side of the VIX while waiting with bated-breath for the next market plunge, then you're absolutely on the same page as your humble observer friends writing this newsletter! We can't know for sure but many, many items are suggesting that the recipe is in place for the Schemers of the Street to move stocks back up in a big way which would thereby cause a little of pain and thus more panic-buying. We shall see shortly…

Finally, we came across an interesting and counter-balancing piece from the ever-reliable Chris Hamilton, to end on, in which he asks:

"Does The "Normalization" of the Fed's Balance Sheet Signal the Next Asset Collapse Has Begun?"

https://econimica.blogspot.com/

And...if the Federal Reserve is true to its word and even halves its balance sheet while banks maintain the excess reserves at the Fed, then all the digitally conjured $1.5 trillion is set to be "un-conjured". Again, assuming the monetized monies were at least somewhat levered, the unwind of that leverage will continue to produce a chaotic and volatile slide in markets. As the chart below suggests, if US equities (and broader assets) follow the unwind of the monetization, then equities are likely on their way back down to and through their natural support line, disposable personal income. Conversely, I've included the 7.5% long term anticipated market appreciation for reference (green dashed line). Quite a spread between those differing views on future asset valuations.



Of course, the "data dependent" Fed could change its mind, or perhaps banks will continue to pull those excess reserves and put them to work (with growing leverage) rather than take the risk-free money from the Fed...either way this is something worth watching.

If you believe that the 9-year plus bull market received a major assist from the FED and are curious as to what happens when the reverse happens, the graphics-heavy essay is well worth the read. Naturally, this take is a more long-term than near term oriented.

Tread Lightly! & Bank and Roll!

Options Academy

This week, after experiencing an influx of new interest, we're digging into our archives to better explain what drives us to select the slightly-in-the-money options we typically default to in our trades. These types of options normally fall in the 65 to 75 delta range and deliver for us what we prefer: lower risk and respectable reward. Read on!

Many folks that are new to options investing seem to be seeking a blueprint or a series of guidelines that they can use to apply the proper strategy while using the right options to employ said strategy. This is only natural as they're operating in new territory that's much more nuanced than shares of stock, futures trading or mutual funds, and it certainly takes time spent *in the trenches* too before most people begin to feel comfortable. Quality options education programs normally steer new-to-options investors into using stock replacement options (SROs) and with good reason. This type of options selection is probably the most likely to keep an investor comfortable. That is, by using deep in-the-money options with high deltas and low theta, an investor will not be very far from stock-type performance, which is what they're already accustomed to experiencing. Thus, a level of comfort can be found more quickly while using options as an investment vehicle. This stock-to-ITM-options conversion process normally goes smoothly. It's the NEXT step that seems to throw the proverbial *monkey wrench* into the mix…

A little over 10 weeks ago, just after many of the major indices topped out and began to correct, we began to further emphasize our preference for utilizing the <u>slightly</u> in-the-money options. As implied volatility levels have remained quite subdued in the past prior to the recent weakness, this hasn't been a difficult decision to make. However, questions have arisen from students as to our preference for "*slightlys"*. They've been wondering why we'd choose to leave the positive qualities of stock replacement options behind since, well, they've recently become very comfortable with those types of options. The questioning is only natural and once they've heard the reasons as to why the switch, they're then ready to take the next step themselves. Let's get into the details courtesy of good old *compare and contrast*.

What do stock replacement options (SROs) bring to the table for us?

Recall, that we get stock-like performance via high delta, low theta (low extrinsic value), in addition to much lower cost vs. stock ownership and we have an embedded "protective put" or "protective call" depending on if we buy a call or put respectively. That's quite a bit of very good stuff which is what makes options such as fantastic investment vehicle. Why would and why did we leave these benefits recently? Well, we didn't leave them entirely! Let's cover the *slightlys*…

Slightlys have lower deltas and higher thetas (greater than deep ITMs extrinsic value). This results in less initial payout on delta and greater theta each day. Again, many may be wondering: WHY???

Here's the thing, often times, *slightlys* can cost ¼ to ½ or less than SROs which means that we only have about a quarter to half of the capital at risk! This is the main reason why they are intriguing to us especially now. Additionally, their deltas may not be all that much less than those of SROs and if our expectations pan out the high gamma that they offer will have us enjoying SRO type performance in very little time BUT for a fraction of the initial capital outlay (dollar risk)! That's pretty good stuff too! And, if our forecast doesn't work out or a news event undermines us, we won't lose nearly as much since we have only a fraction of capital at risk vs. SRO players and even more starkly vs. stock players. Remember, the entry and exit parts of the trade cycle are often the most-risky times!

To summarize, our recent emphasis to further favor *slightlys* invites a little more in the way of Greek risks but it dramatically lowers our proceeds at risk in a market that we haven't felt as comfortable, say ***2017 comfortable***, with in for a while. Thus, we were able to continue to participate in a market has us concerned instead of sitting on the sidelines altogether.

Another way to understand the benefits is to consider this: Stock and futures operators managed to move the DOW around by over 1000 pts in 1 full session and 1 opening! If we'd been holding deep ITM (SRO) options during the recent extreme volatility phases, we'd have potentially paper-lost a much more significant portion of our ITM value than anything we've been exposed to at any time with our *slightlys*. With *slightlys* this temporary paper (intraday) loss would have been a far lesser loss yet we would still have been in the game in a significant way if our forecasts had played out, as they largely have.

If attendees are interested in seeing these differences between SROs and *slightlys* in real-time, we'll cover them in this week's **Morning Cal**l webinar.

If you have questions, ask away in this week's **Morning Cal**l webinar.