MARKET TRACTION

The Selling Tsunami – Are We Closer to the End or Beginning?

This Week's Trade Ideas:

Bullish Ideas: (View Webinar)

NEM> Newmont Mining Corp. > $34.58 Last. Buy the Jan. 25th 33.5 Calls for **$2.35** or less with a close or anticipated close above $34.70 in an up market with expectations for continued strength in the stock. *This is a mining stock and they're viewed as hedges/defensive during times like these and they're notoriously volatile at times too. This idea has only about $2.00 - $2.50 of immediate upside potential. There's not much to get bullish about that's out there at the moment…yet.

Bullish Mentions: **(View Webinar)**

Based upon closing prices and all assume an up market with expectations for continued strength in the major indices.

AEM* (Metals Space), **CTRP** (Counter-Trend in riskiest marketplace in 10 years!).

Bearish Ideas: (View Webinar)

None at this time. Virtually EVERYTHING IS DEEPLY, DEEPLY OVERSOLD.

Bearish Mentions: **(View Webinar)**
Based upon closing prices and all assume a down market with expectations for continued weakness in the major indices.

HCA due to gap-filling potential.

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.

Special Note:

Remaining nimble is a focus in the newsletter and in our **Morning Call** webinar and will be so.

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Outlook:

Last week's Outlook is pertinent again for about the 7th week in a row:

Now? The break below the $260.00 level in the SPYs, that we've been watching out for, finally happened yesterday. We'd expect that there's more selling and even lower lows on the way before a rally of any significance can transpire. *BUT, BUT, BUT we have the FED news looming, we have government shutdown stuff looming, DC and NYC political intrigued about to impact, and we have China uncertainty too.* ***No one likes to hear it but we're preaching prudence again because we can't know the news ahead of time*** *as we are not "Inner Circle" members…. yet!* 😉

The past few week's newsletter headlines have been fitting. Two weeks ago, we asked if we were on the eve of a "**Volatility Maelstrom**". Last week the headline suggested that without a save via the news cycle, we could be facing a "**Tax Loss Selling Tsunami**" with a break below $260.00 in the SPYs. That seems to be just about what we've seen so far and we're mentioning that because we've received a few inquiries regarding our take on matters.

To recap, in late September we became concerned about the "rising wedge" pattern that we had an eye on for so long prior to that. Once we saw a "double top" forming just above the rising's wedge's support that brought with it 3 days of selling into good news, we were convinced there could be big technical issues about to develop. We went "prudent" at that point, which means, trade gingerly while clinging to a risk-averse default position. Once the SPYs broke below trend (support), we've had to treat the market with great respect as the bears have been in control. We've mentioned many times that they had to be given their due even though the bull market isn't technically over just yet.

We want to make clear that due to the publication cycle, we seek trade ideas that are fresh as this is a swing-trading-focused newsletter. We're seeking rides from days to weeks and we greatly prefer to be in near the start to maximize potential reward and limit risk. The past two Tuesday's we've found stocks in extremely oversold conditions but showing a little improvement. As so, we were able to locate many more bullish than bearish ideas at the time, but the CONTEXT must always be paramount. Essentially, we found stocks that were potentially about to cycle up somewhat in what we'd assume would be a relief rally and our ratio of bulls to bears shouldn't be interpreted as "we're very bullish here". NO, we're only prepping in case a relief rally unfolds. Our dominant technical take has been a bearish one for nearly 3 months straight in terms of the "big picture" but inside that we've tried to prep for the rally phases that develop even within heavy-selling phases.

As for present conditions, December is shaping up as possibly the very worst month since the start of this bull market nearly 10 years ago. We can see extremely oversold (short term) conditions nearly everywhere we look. We don't know how, but one has to believe that authorities et al. will try to step in to prevent even more crashing sometime soon as the US markets seem hellbent on tracking world equity markets which have plunged even more than we have here.

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Technicals:

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

Fundamentals:

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

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

Recap of Last Week:

Last week is easy and was easy. Maybe not to watch but to handle appropriately. Nearly everyone knew that the FED would make news and likely dictate the immediate future of the market and they did. They stuck to what was expected which seemed to shock people! We thought that there was a good chance they'd break from the *rate hike and promise for more rate hikes script*, but they did not. Given how poorly the US and World equity markets have been faring of late, the FED's intransigence with respect to their plans shook nervous bulls in a big way and left the FED appearing out of touch and in a word, obtuse.

This entire bull market has been made possible by a never-ending stream of *Mother's Milk* from the FED and as our "David Tepper Update" made clear, the milk has run dry. They're now letting the market and the economy fend for themselves. Many are interpreting this as raising too much too quickly now after blowing their many chances to raise slowly for years and thus the belief is that they'll trigger a recession in 2019 when it could have been avoided. There's also a "power structure taking down Trump" aspect to this that's gaining traction where it would have been dismissed only a year ago. That's how bad the FED's reputation has suffered of late given their sudden zest for higher and higher interest rates.

We put this link out in an update because we believed it was big news:

https://www.cnbc.com/2018/12/20/david-tepper-says-the-fed-put-is-dead-and-so-cash-is-not-so-bad-as-an-investment-now.html

That news may still be impacting to this moment on Christmas Eve, that's how we see it. So, getting back to it, no bullish ideas could possibly have been considered last week due to the market's reversal post-FED meeting. The "Tepper Tantrum" has only accelerated since and has yet to find a short-term bottom from which to bounce from for any length of time.

DWDP, AAPL, FB, NVDA, MCHP, DE were the bullish names last week for the record. They were never on the table courtesy of Jerome Powell and co.

Our lone bear was **BK.** It's fallen modestly since last Tuesday and did reach a target. It could fall much further with some luck. We'd have liked to have add more but as one of our updates noted last week, the DOW reversed by almost 900 points on FED day. Yes, it was swift and strong.

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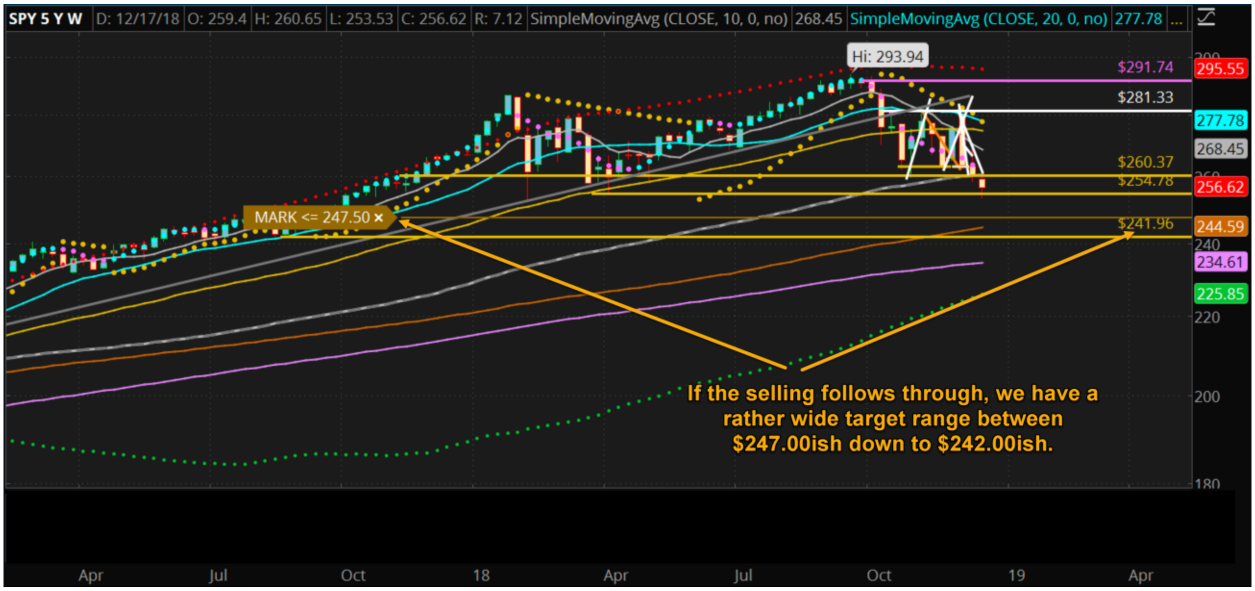
Market Overview

Again, for the umpteenth week in a row, we're heading back to last week to begin this week's **Market Overview** but with highlights added**:**



<u>A "bigger picture" view provides us with a better sense as to the degree of vulnerability.</u>

*Looking at the current action more closely on the daily chart, **<u>we're now post-breakdown.</u>** We're between two levels we expected to matter and now we are in wait on a ton of news. Do we see a rally that fails near $260.00 confirming the breakdown or is it already too painful for too many for that scenario to even launch?*

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Last week's Market Outlook wasn't alone in acknowledging that the bears had to be given the benefit of the doubt as here's our last line from BTR:

Until then and as noted above, we must give bears their due.

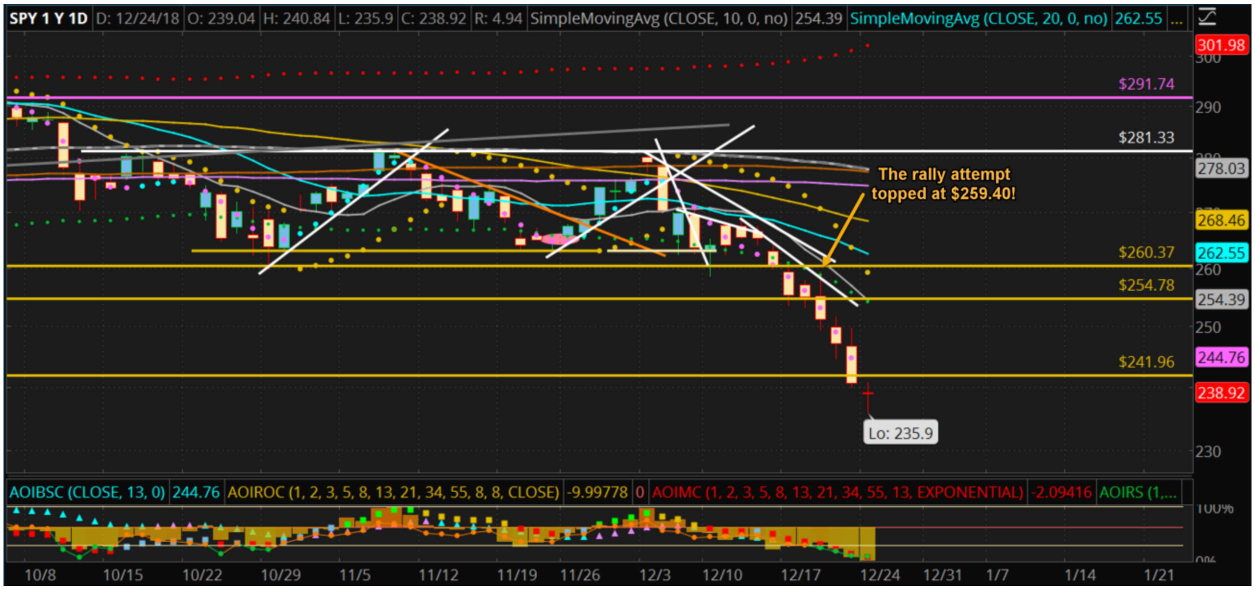
…As long as the SPYs are below $260.00 on a closing basis in the near term, ***we must treat matters as if the bull market is still in the process of failing.*** *However, we know how volatile it can become in both directions during breakdown periods. There can be no doubt that the markets remain on edge and are challenging at best for bulls yet, and this isn't trying to have it both ways, many, many stocks are dramatically oversold. A FED pause on rate hikes may create the mother of all short-squeezes and just in the nick of time****. Absent that, it's hard to see how we move much more to the upside beyond a brief relief rally.***

It will take something that's very dramatic to reverse all this in a meaningful way despite these extremely-oversold in the short-run readings:

But, that's exactly what news that this week will bring could do. ***Without it, the selling continues as we see it.***

There are some big headliner-type reports due out this week, but ***we've got to assume that it's the Jerome Powell Show that will or won't do the trick:***

We're now going to move forward to this week. We'll start with the fact that they DID try a rally that FAILED just below $260.00! That's something we had to allow for and it happened! This is NOT a tooting our own horn insertion here! We're noting this because of confusion on the part of a few readers. We had to allow for a rally attempt and it turned out that one was made! It failed right below our $260.00 level. From above: "***Do we see a rally that fails near $260.00 confirming the breakdown*** *or is it already too painful for too many for that scenario to even launch?"*:



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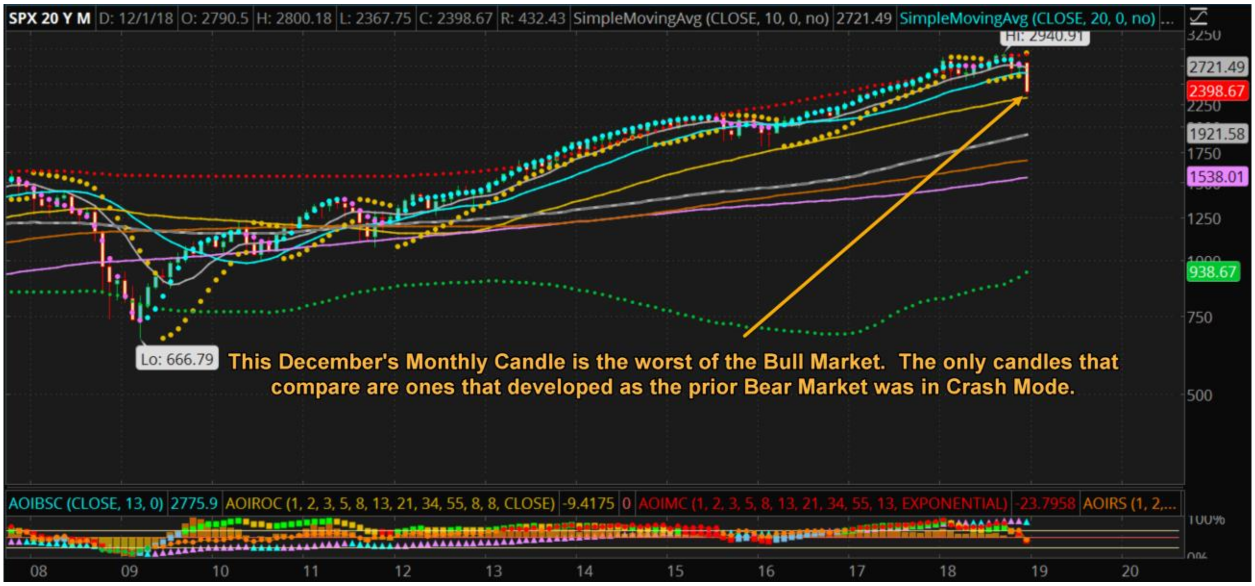

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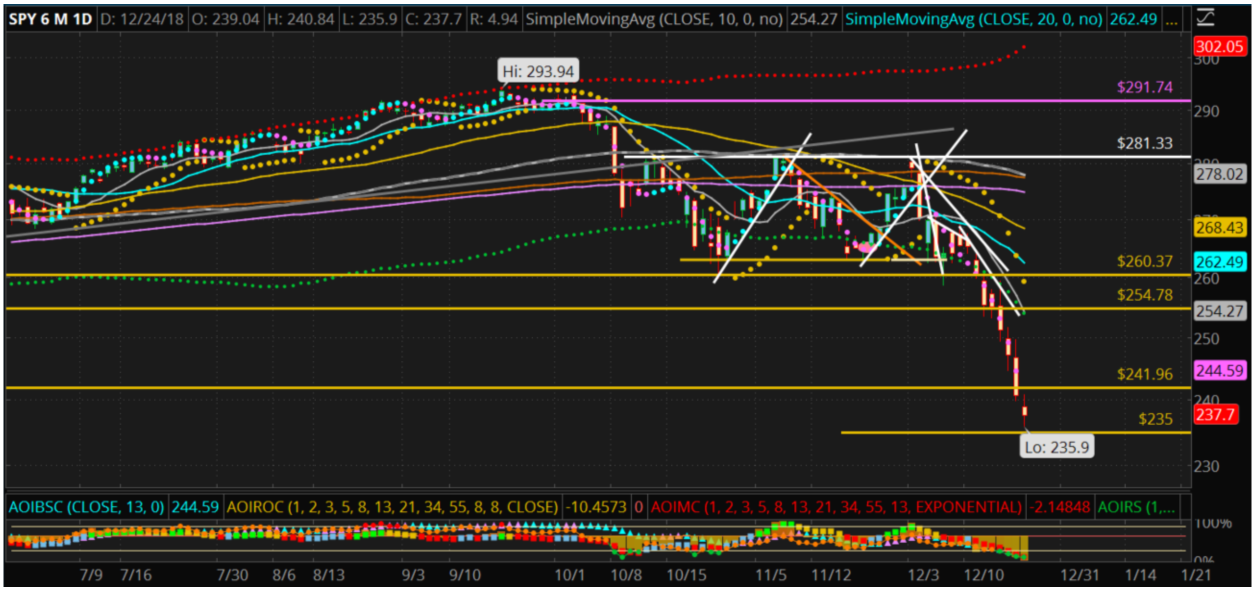
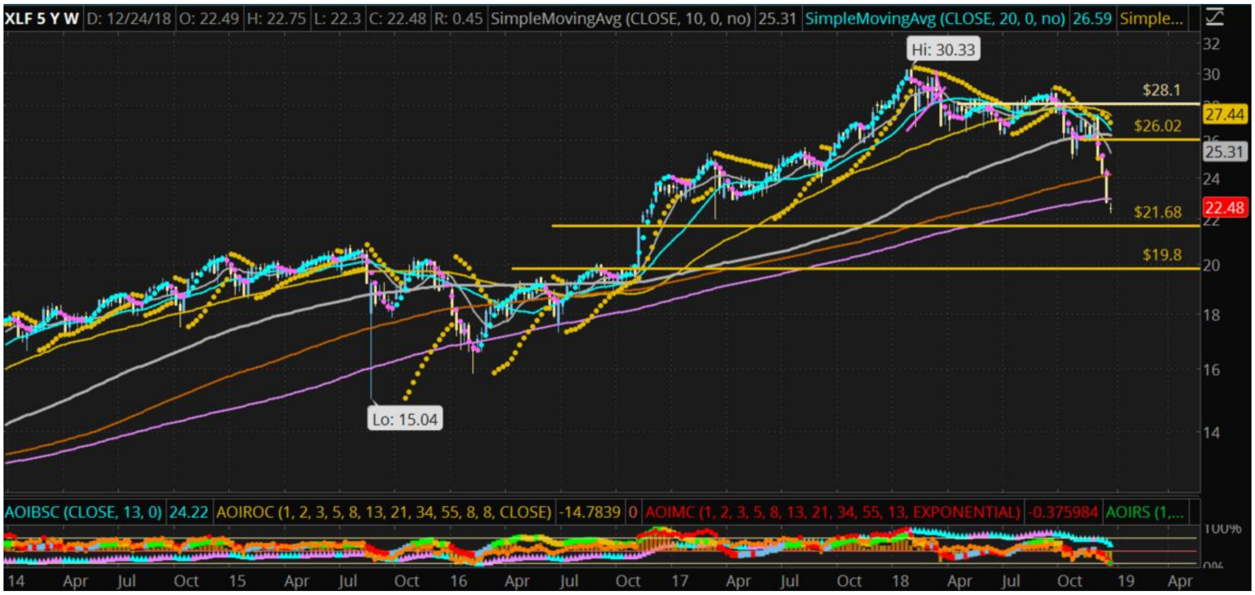
We sent out a brief update when the SPYs fell to the lower end of our target zones of $240.00 - $245.00 and $242.00 - $247.00. Our next level down became $235.00ish:



A check on the most critical sectors reveals only more carnage and NO, ZERO, improvement or abatement of selling. Financials and Energy remain extremely troubling:



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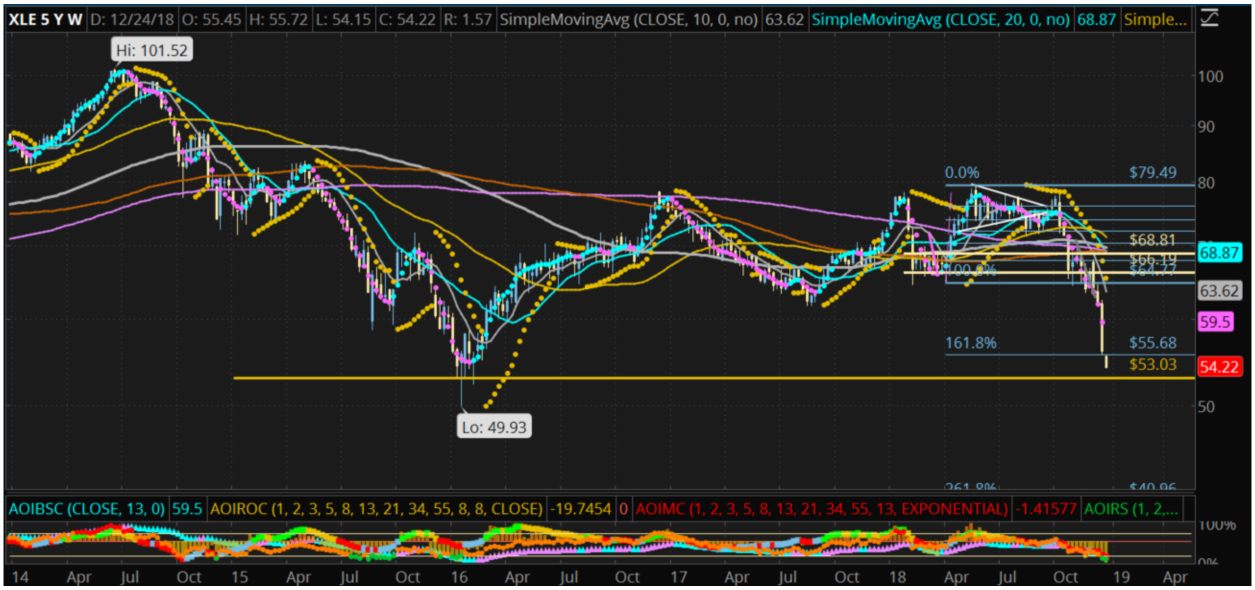
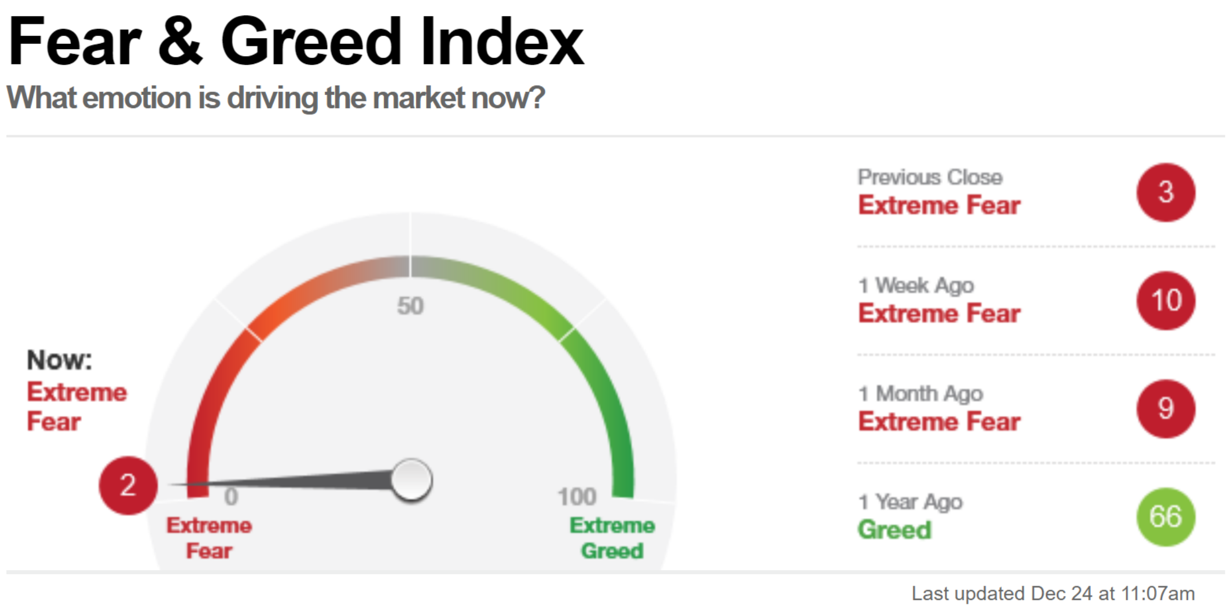
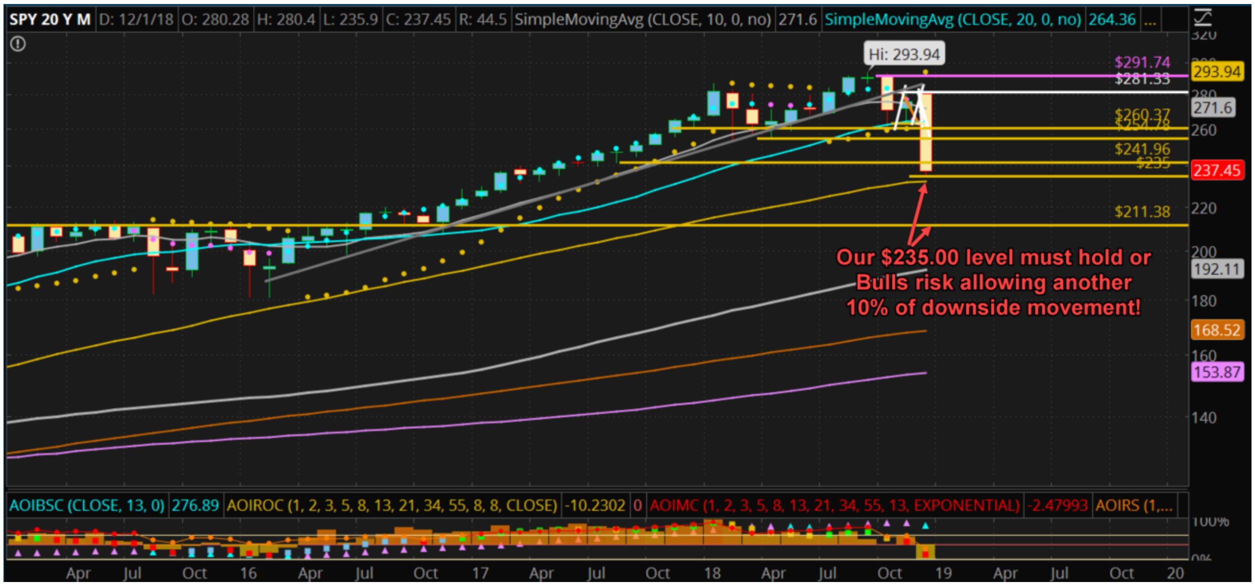


There can be no doubt that we find ourselves in a very challenging market environment. It literally doesn't get too much worse than this as all 7 measures within the index are in **EXTREME FEAR** territory:



It’s crazy now but it’s also clear. Bulls must find a way to rally here and now or much more downside is likely:



We don’t yet see what could bring about a rally, but we know that they’ll try to float something! Does it work when they do, work at all? No idea! When things unravel to this extent the ugliness permeates and can infect many areas which causes even more negative spillover. KNOWING that these market phases can become as this one has, is EXACTLY why nearly 3 months ago we began harping on being prudent and being risk-averse which is not fun but allows us to sidestep the disaster that so many others court. We’ll see in the coming days and weeks if $235.00 holds. It’s that simple now because correlations are all going to “1” and mostly everything is being trashed by sellers.

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This week's and next weeks' calendars are included due to the holidays. We'll have another issue next week, but we thought it made sense to include both for easy reference due to travel and disruption of the markets by holiday time and the government's shutdown issue. We're not sure how much they'll matter as the FED and the Plunge Protection Team likely matter infinitely more at the moment.

This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
A GOVERNMENT SHUTDOWN COULD DELAY THE RELEASE OF SEVERAL INDICATORS THIS WEEK.					
MONDAY, DEC. 24					
8:30 am	Chicago Fed national activity index	Nov.	0.22	--	0.00
TUESDAY, DEC. 25					
	None scheduled Christmas Day				
WEDNESDAY, DEC. 26					
9 am	Case-Shiller home prices	Oct.		--	5.5%
THURSDAY, DEC. 27					
8:30 am	Weekly jobless claims	12/22		217,000	214,000
10 am	Consumer confidence index	Dec.		133.5	135.7
10 am	New home sales*	Nov.		556,000	544,000
FRIDAY, DEC. 28					
8:30 am	Advance trade in goods*	Nov.		-$76.1 bln	-$77.0bln
9:45 am	Chicago PMI	Dec.		--	66.4
10 am	Pending home sales	Nov.		--	-2.6%

Next Week's Economic Calendar

GOVERNMENT SHUTDOWN COULD DELAY THE RELEASE OF SOME INDICATORS THIS WEEK.					
MONDAY, DEC. 31					
	None scheduled				
TUESDAY, JAN. 1					
	None scheduled New Year's Day				
WEDNESDAY, JAN. 2					
9:45 am	Markit manufacturing PMI	Dec.			53.9
THURSDAY, JAN. 3					
8:30 am	Weekly jobless claims	12/29		N/A	N/A
10 am	ISM manufacturing index	Dec.			59.3%
10 am	Construction spending	Nov.			-0.1%
Varies	Motor vehicle sales	Dec.			17.4 mln
FRIDAY, JAN. 4					
8:30 am	Nonfarm payrolls	Dec.			155,000
8:30 am	Unemployment rate	Dec.			3.7%
8:30 am	Average hourly earnings	Dec.			0.2%
9:45 am	Markit services PMI	Dec.			53.4

Below the Radar

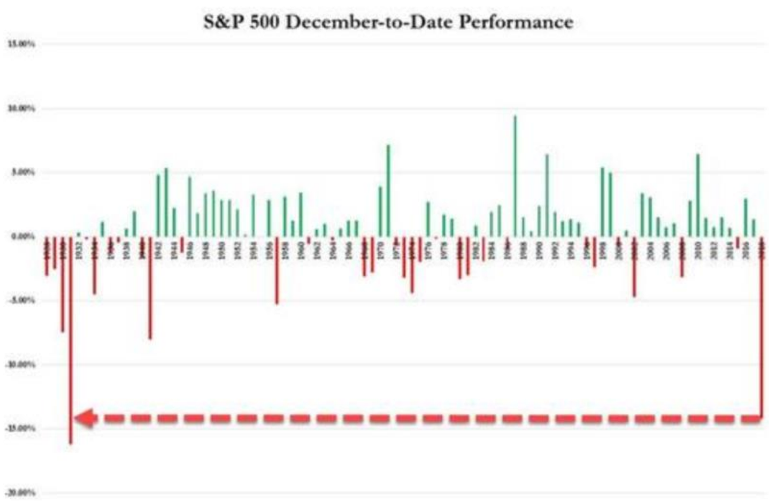
There's very little out there in the way of **BTR** material. This is probably the thinnest we've seen it this year. The holiday season combined with many forms of fatigue has probably caused many commentators to go on hiatus. There's just nothing new that's emerged for folks to seize on and work with right now. No new wrinkles. The FED staying in *full steam ahead* mode assured us of our fate for the year and the foreseeable future…

From last week's **BTR**:

As it has been for more years than we can remember, it's once again up to the FED to save Wall Street's pork bellies and in doing so their year and maybe many more years for all we know! ***<u>The FED, from our vantage point, would appear very out of touch if they raise rates tomorrow with all that's unfolding around the world. If they continue raising rates this week most will see them as being near-blind to the worldwide deterioration of markets and economic conditions.</u>*** *Assuming they pause, is that enough to ignite and sustain an EOY / Santa / Save our Year End Bonuses / Oversold / Short Squeeze / Relief Rally? One would think!* ***<u>Stay tuned and be careful out there as the news of the week is likely to make or break!</u>***

Our highlighted area in that paragraph from last week tells the tale. Equity market players saw and see a domestic and especially a world economy that's struggling mightily, which is very hard to argue with, and the FED appears to be ignoring those facts. That's put the FED at odds with stock bulls for the first time in 9 years and the fallout has been very, very substantial as a result:

<u>This is the worst December for the S&P 500 since The Great Depression (and there are still a few more days left)...</u>



If you haven't been worrying about a bear market, you may have played it smartly from a stress perspective because some are arguing we're already there:

https://www.zerohedge.com/news/2018-12-24/longest-bull-market-history-over-sp-enters-bear-market

This graphic from that piece shows just how awful the post-Powell Tin Ear Tantrum has been and how annihilated many tech stocks are as we see them now:

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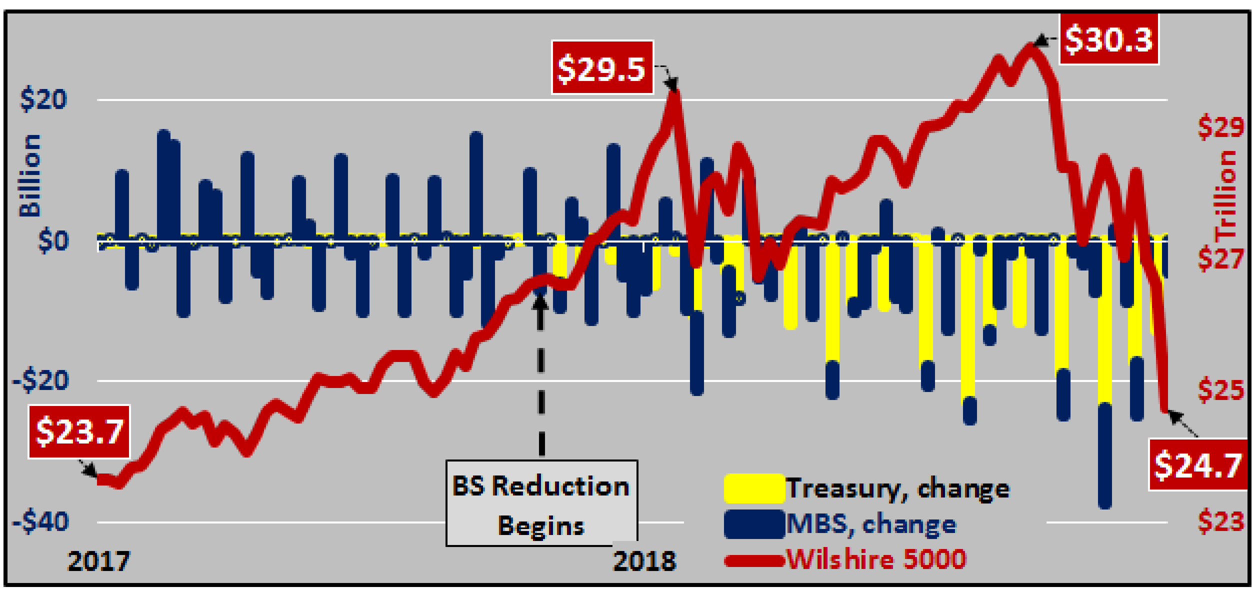
Finally, since The Fed hiked rates and Powell didn't back down on auto-pilot, the S&P is down 8%, the dollar is down over 1%, and gold and the long bond are up around 1%...

And,@IvanOnTech provides a little context for just how bad this bloodbath is...

> *"This is not ICOs, this is NASDAQ % drop from ATHs. Scam? GOPRO -95% FIT -92% LC -91% SNAP -83% P -80% ZNGA -77% HIVE -73% TRUE -66% TWTR -63% SONO -60% DBX -57% Z -57% PS -50% FTCH -49% PSTG -48% SPOT -48% BOX -46% DOCU -45% SVMK -45% FB -42%"*

Higher rates (there expected effects) are clearly a big part of the story but they're not the lone culprit. Here's a piece that demonstrates clearly that just after the FED began to reduce its balance sheet holdings (the "normalization process") equity markets peaked and have mostly suffered since: https://econimica.blogspot.com/2018/12/seeds-of-market-collapse-in-federal.html

The more the FED lightens up on their holdings, the heavier equities become:



The Gang was able to ignore matters for a while because the economic news was very positive, but it only helped to mask the fact that this bull market, which had always been about the FED as it ran up, remains so now as it is falling down. It's long been speculated that when the FED withdrew the punchbowl again, as they have over the past year, a stock market that's been addicted to FED support would falter. That's exactly what's happened. Exactly. The big question is: "Now what happens?" Not many can answer that so they're uncertain and when investors are uncertain, they sell.

At times like this it is hard to imagine stocks rallying but realistically, we know they will rally at some point. When that happens shell-shocked bulls may hesitate, it would only be natural. If you'd like to read a piece that could help assist you in finding courage to take a bullish trade in a stock any time soon, see this one wherein JPM argues that we're seeing big-time institutional capitulation and maybe, just maybe, stocks will bounce a little: https://www.zerohedge.com/news/2018-12-23/jpm-everyone-capitulating

Normally, with a week to go in the year, we'd have already included a few *What to Expect in 2019* pieces by now. This year has been anything but normal though and so we've haven't had the time or space thus far, nor have many been written. Here's one from Deutsche Bank to get things rolling. We expect more for next week. https://www.zerohedge.com/news/2018-12-22/deutsche-bank-lists-top-30-risks-market-2019-and-one-surprise

30 risks to markets in 2019

1. Algo-driven, risk parity-driven fire sale in equities and credit continues
2. Slowing growth in China and Europe slowing down the US economy
3. Slowing growth in China and Europe triggering significant US dollar appreciation
4. Tailing US Treasury auctions and/or declining bid-to-cover ratios
5. Increased US T-bill issuance continues to push 3-month Libor-OIS wider
6. Increased US Treasury issuance pulls dollars out of IG credit and equities
7. Higher hedging costs continue to lower European and Japanese appetite for US credit
8. ECB QE ending means less global demand for fixed income
9. BoJ QE slowing means less global demand for fixed income
10. US 2s-10s yield curve inversion has negative impact on confidence in credit and equity markets
11. US corporate tax cuts continue to boost buybacks but not capex
12. Impact of potential US government shutdown on markets
13. No deal Brexit in March could be negative for markets
14. No deal Brexit in March could be negative for UK economy and hence also European economy
15. US-China trade war escalates further
16. US-Europe trade war escalates further
17. Fed decides to ignore accelerating wage growth. This could threaten profit margins
18. Fed decides to ignore accelerating wage growth. This could unanchor inflation expectations
19. Escalation of yellow vest protests in France
20. European Parliament elections
21. Continued inflation of housing bubble in Germany
22. Italian fiscal situation
23. House price crash in Australia and Canada
24. Chinese economy less and less responsive to stimulus
25. China: Current account deficit arrives faster than consensus expects
26. Japanese growth can get hit by China slowdown
27. EM: Potential political changes in India, Argentina, South Africa, and Indonesia
28. Continued increase in global inequality
29. Fed and ECB re-start QE and risky assets don't rally
30. Monetary and fiscal policy are out of ammunition and the world experiences a Minsky moment

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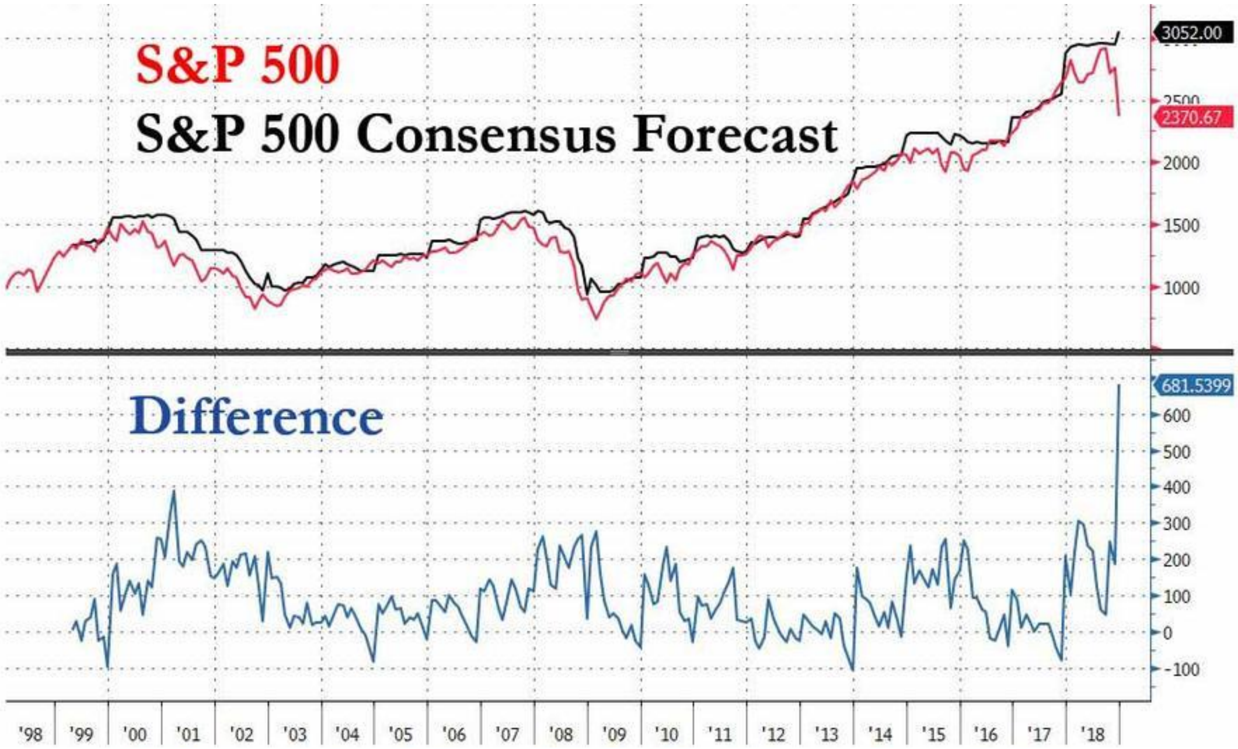
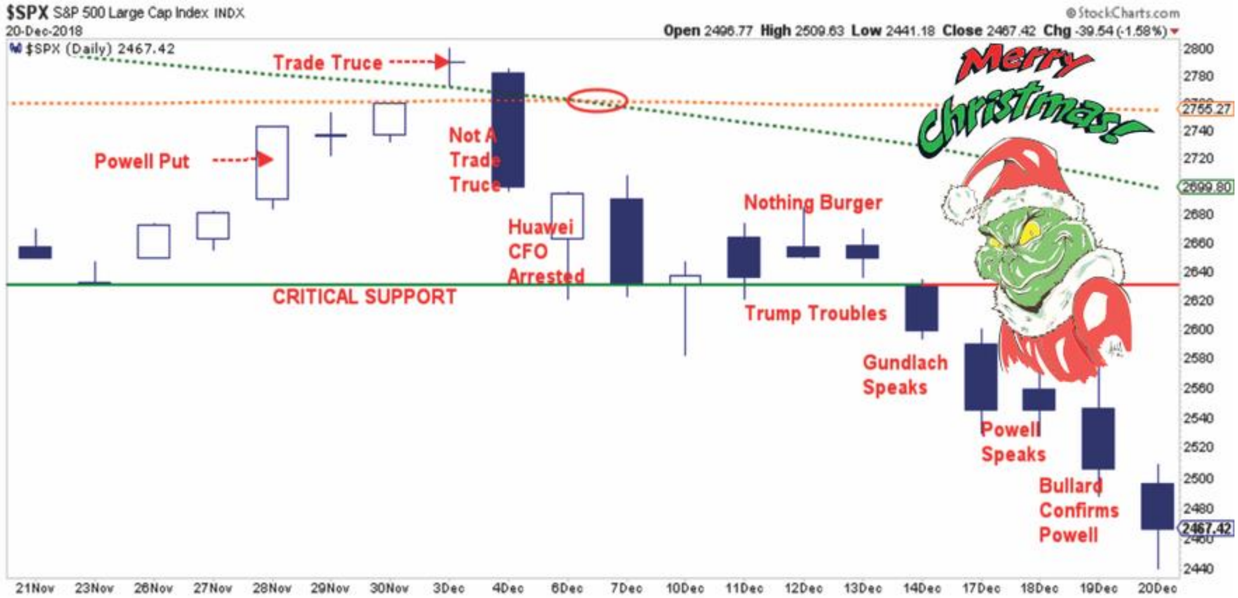
If you'd like a glimpse at how wrong Wall St.'s Perma-Bulls may have gotten it and what that portends for next year (hint: It's not good.), and WHY YOU HAVE TO LOOK **BELOW THE RADAR** all the time, have a look at this: https://www.zerohedge.com/news/2018-12-24/wall-street-has-not-been-wrong-2008



Here's a different kind of stock chart chronicling what we've just witnessed that's part of our final mention for the week below:



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We'll close out the week with this entry from the ever-reliable Lance Roberts. We can see that markets are very oversold at present and in that we agree with Lance. He's got a little something for us that explains how rare it's been for a December to be this bad and what that may portend in the early part of the new year:

https://realinvestmentadvice.com/weekend-reading-last-chance-for-santa-claus/

Remain nimble my friends!

Bank and Roll!

Options Academy

Understanding Beta for your Portfolio – Creating a Diversified Portfolio with Beta

As we've noted in prior installments, Beta weighting is critical to protecting your portfolio. Betas for stocks are available on most brokerage platforms or they can be found via the Internet. Some of the Betas may vary by a few points, but as long as they are close enough, it really doesn't matter all that much in the grand scheme of things as this is more "guesstimation" than precision process. In other words, we don't expect our hedging efforts to protect us down to the penny but hope that they'll be good enough to get the job done.

The goal of Beta weighting is to adjust your portfolio to offset the risk your mix of stocks poses vs. the overall market (S&P 500). The Beta for a stock as we've noted the past few weeks, is the correlated risk to the market and takes into consideration the volatility of the individual stock vs. the market as well. So, a stock that really moves around a lot and moves in the same direction as the market should have a high positive Beta to provide a for instance… The calculations are boiled down to a single variable which is useful. Positive one means the stock is correlated with the stock market. Negative one means it moves the in the opposite direction of the market. Now that we've refreshed on that, let's go a little further…

By going through the process to Beta weight your portfolio, you should gain a better understanding with respect to how your portfolio should perform vs. a stock market benchmark. Once again, if you are holding many individual stocks that are highly correlated with the overall market, you can then hedge your portfolio fairly-easily. Utilizing Index ETF options on just one of them, say the SPYs or the Qs, may be enough to get the job done for you. On the other hand, if you have a vast portfolio that is very diversified, it can become more complicated to know how much to hedge your portfolio or what parts of your portfolio you can even truly expect to protect. Bear market hedging is even more challenging because volatility levels are elevated and thus the price of options insurance is abnormally high. Having to purchase various quantities of options in various ETF products to thoroughly address a large portfolio's risks can be truly daunting at a time like this one. Those are just a few things to take into consideration, let's boil the process down a little more…

The goal of Beta weighting is to have a single number of "Deltas" to properly hedge our portfolio. The term delta is used because we take into consideration options positions as well as equity positions when accounting for our entire portfolio. To be clear, the Delta for stock is equal to 1. So, 1 share of stock equals 1 Delta ... 100 shares of stock equals 1 Delta.

Once we've ascertained the Beta of each stock we hold, we can then adjust each stock's cumulative Deltas by the Beta and place that within the context of the expected move that we want to hedge against. A quick and easy initial example would be a down 10% market drop, which, as we've just seen, can happen quickly. As an aside, many of us remain concerned even now that another 10% could drop out of this market and thus hedging may still be an option. Anyway, we need to account for a market move down 10% and thus we must adjust stock position properly to account each's Beta and Delta. Let's say the market drops 10%, a stock that has a 1 Beta would be expected to be down 10% too. A 10% market move would move a stock with a 0.50 Beta down only 5%, thus only a negative 5% move would be expected on that stock. A 10% market move would move a 1.5 Beta stock would produce a 15% move for that stock in theory.

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We now know how much Beta will move each of our stocks given our expected market move and thus we can now weigh the portfolio by the Delta or "weight" of the shares.

For each position, we would take our Beta weighting and multiply by the Delta for each in light of the given percentage move expected to occur. Once we multiple these out, we can then sum them up to get an idea of our portfolio Delta or effective portfolio positioning down 10%. For each position, we multiply out the expected moved by the Beta of each stock's Beta weighted Delta to find THE profit and loss that would result given the market movement that's forecasted. Once we know in dollar terms how much we can expect to lose after the market has fallen 10%, we can then look to hedge all (or some) of the portfolio having factored in whether each stock moves with the market, or against it, and to what degree. This allows us, in theory, to engage in more realistic hedging approaches to insure our portfolio because we've moved far beyond assuming that every stock, we hold will fall the same 10% the market is expected to fall.

This sounds like a pretty-complicated subject when written in long-form like this but when we get into examples next week, it will help to clarify and deepen our understanding. A few different examples with variations will likely help too.

Please review the past few weeks on Beta Weighting in prior Options Academy installments.

If you have questions, please ask away in our next **Morning Cal**l webinar. 😋