MARKET TRACTION

Another Week of Preaching Prudence and Agility

This Week's Trade Ideas:

Bullish Ideas: (View Webinar)

None at this time.

Bullish Mentions: **(View Webinar)**

Based upon closing prices and all assume an up market with expectations for continued strength in the major indices.
None at this time.

Bearish Ideas: (View Webinar)

SBUX > Starbucks Corp. > $66.65 Last. Buy the Jan. 4th 68 Puts for $2.40 or less with a close or anticipated close below $66.45 in a down market with expectations for continued weakness in the major indices.

Bearish Mentions: **(View Webinar)**
Based upon closing prices and all assume a down market with expectations for continued weakness in the major indices.
SQ, FITB, BSX, UTX, UAL, ROST, EMR, BLL, HAS, XLNX, MTCH, ITW, DOV, CERN.

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.

Outlook:

Outlook keeps working so here's last week's Outlook again!

The lows have held so far and a rally from them could launch an EOY rally, that's where things stand now. Last week's less likely outcome has gained probability points as we see things now. The OPM (other people's money crowd) seems to be on the edge of igniting some kind of rally attempt. If they do not follow through, look out!

We did the lows hold and an EOY rally attempt get launched from them as the Gang had stocks on the very edge of a massive rally last Tuesday. Interestingly, we may have now reached the "look out" phase and all within one week! Tuesday's action was unquestionably awful. We MAY have triple-topped below trend and it seems that investors are rushing into bonds and out of stocks. Will we soon see downside gap closure and a retest, again???

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:

We will eliminate our one bear name from last week since it had no chance and didn't get close, that was **CHKP.** With our "W" scenario unfolding almost immediately last week, there was no chance for this bear, none at all. It never got close to our trigger level. So, onto the bulls…

KR was the official bull idea. It tried little but far too little. We noticed it not working and put out an update letting everyone know last Friday that a close below $29.70 would be enough for us to move on from it. It did in fact close below there so that was a good out. Small losses are better than large losses!

Several bullish mentions did much more for us, which was nice! Fortunately, on Tuesday morning, knowing that the boys would goose the futures into the stratosphere on the Trump/Xi news we'd been speculating on for months, we put out an update suggesting that closing things out or at least rolling on the bull side would be something to consider given the magnitude of the moves within a short time.

UN moved up but not much but has hung in there.

MDT gave us about 6 of the $7 of upside run we were looking for before succumbing on Terrible Tuesday.

MNST gave us the $3 we were looking for as it broached $60.00 and closed our target gap.

PFE provided the $2 of upside pop we sought.

PDCO was held hostage by an earnings delay and thus was never considered.

AMAT, we got about $2.40 of the $3.60 of upside action we wanted. Terrible Tuesday got to it too.

CREE yielded $3 of bullish movement.

KR was a mini-downer but nearly everything else worked quite well aside from **PDCO** which was to be ignored.

MARKET TRACTION

Market Overview

We'll start out again, with some of last week interspersed with this week:

We thought the Gang was on the cusp of launching "Mission Rally-Ho":

"We're close to the start of an attempt":

MARKET TRACTION

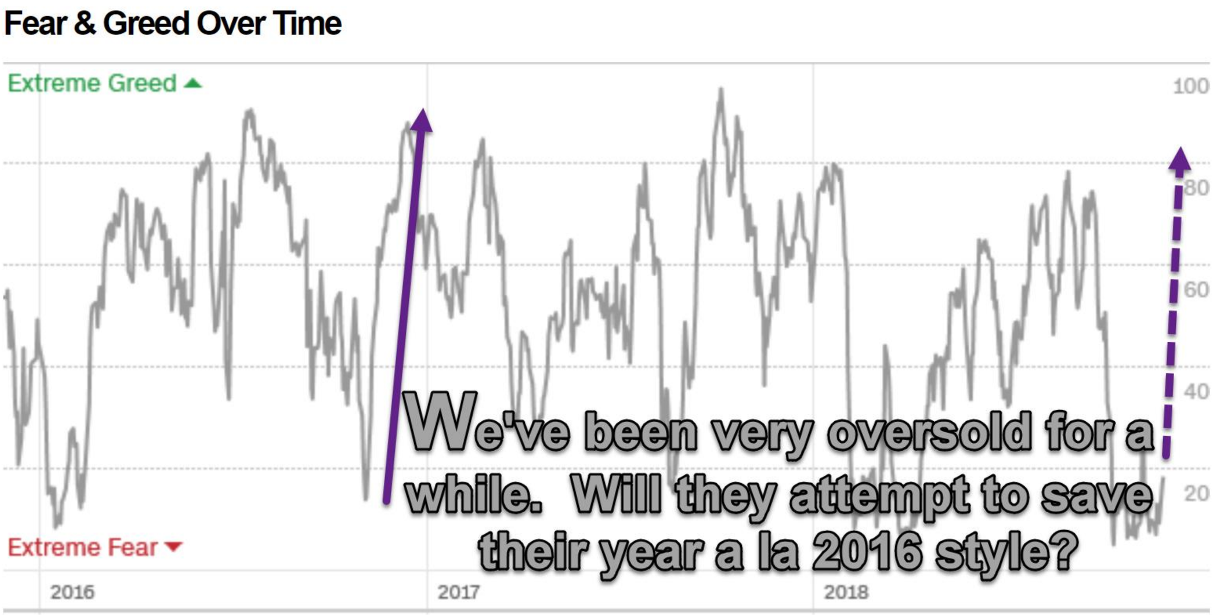
And they were, as here is this week's update:

We thought FAANG was on the verge of launching too:

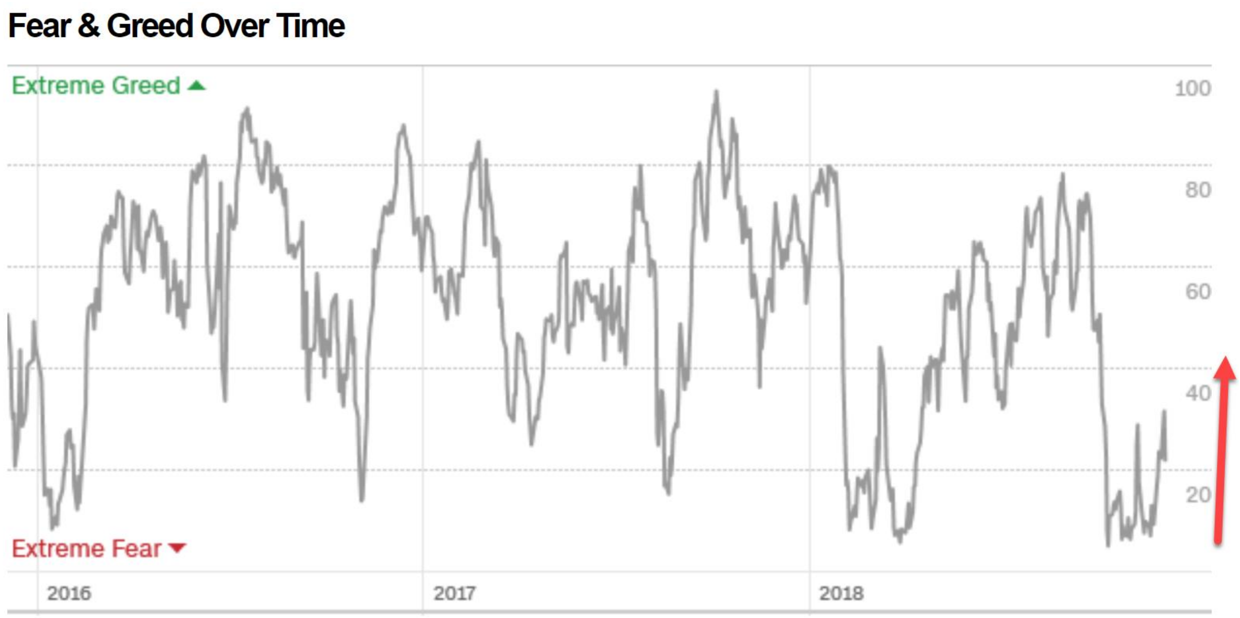
MARKET TRACTION

Now, this week:

Our expectation was for at least an attempt to be made at pulling off a “2016”:



That, they started:



So, we're off the lows and we still have nearly 4 weeks left but today's selloff is big stuff:

There's a lot to consider right now and NEWS can fly fast and furious without any warning. The upcoming stretch of trading may require EXTREME AGILITY! There's a lot on the line, and there's not a lot of time, but there are bushels of catalysts. We knew the market became very overbought in the short-term, hence our Monday morning update, but it's fallen apart faster than we thought to a larger degree than we anticipated. Wednesday's closure may not have helped matters either.

We plan to remain, as we have now for 2 months, prudent to a fault and that's even more true when trading the bull side. The fact remains that we're below trend and have failed to regain the trend. We may have triple-topped just below trend. The low $281.00ish level in the SPYs has been a key for us for a while and we continue to see it “matter”. If and until the SPYs comfortably reclaim the ground above that level, we’ll not rest easy. A retest of the lows could be back on especially because a closing of the gap below is so close to that support level. Let’s hope for a higher high than those lows for now but that’s all it is: hope. We have a sense that news will drive what happens next but until we see better action, we must assume the bears have control for now.

MARKET TRACTION

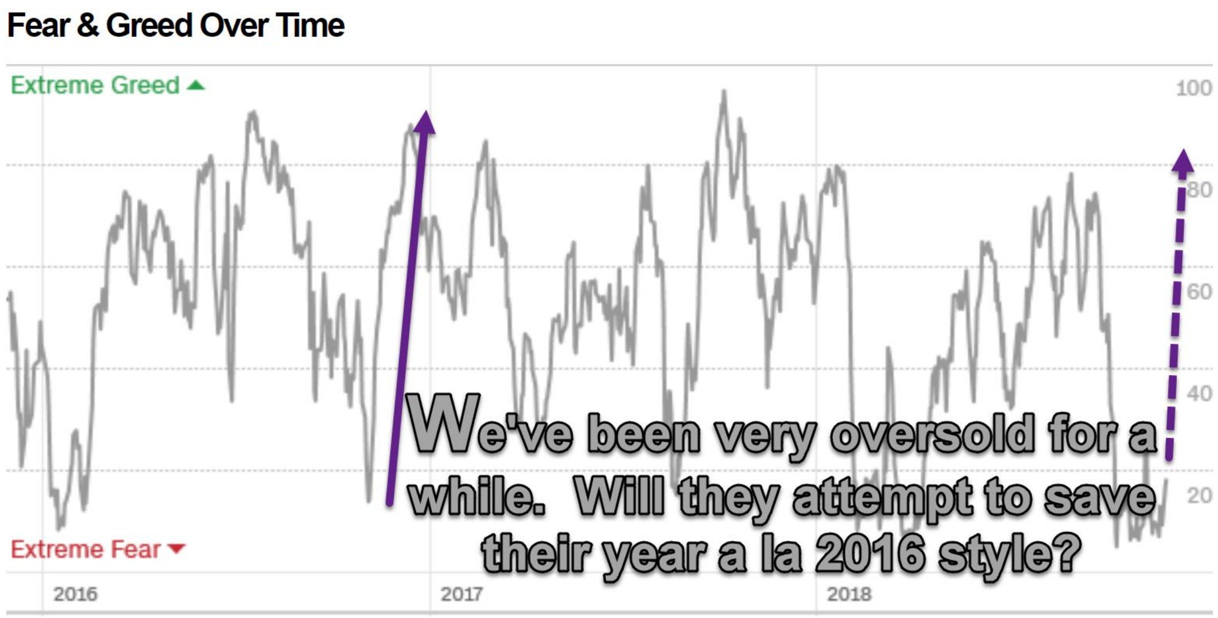
This week, despite the skipping of Wednesday's trading, will bring us the Calendar of the Year! Data, speeches and reports everywhere! *Geopol* everywhere too! Keep your helmet on as there will likely be news *THEY* can use!

This Week's Economic Calendar

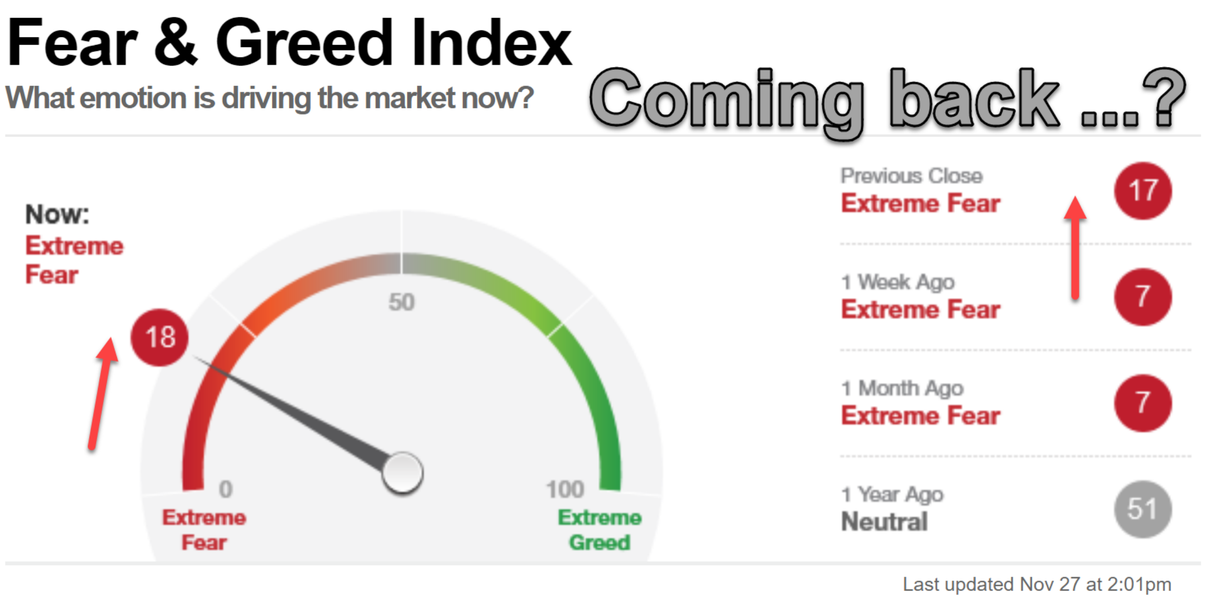
TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, DEC. 3					
8 am	Randal Quarles speaks				
9:45 am	Markit manufacturing PMI	Nov.	55.3	--	55.4
10 am	ISM manufacturing index	Nov.	59.3%	58.0%	57.7%
10 am	Construction spending	Oct.	-0.1%	0.3%	-0.1%
10:30 am	Lael Brainard speaks				
Varies	Motor vehicle sales	Nov.	17.5 mln	17.3 mln	17.5 mln
TUESDAY, DEC. 4					
10 am	John Williams speaks				
WEDNESDAY, DEC. 5					
	Government offices will close for the funeral of former President George H.W. Bush. Most scheduled indicators have been postponed to Thursday, and Fed Chairman Powell's testimony has been postponed indefinitely. The Beige Book will come out on Wednesday as scheduled.				
10:15 am	Jerome Powell testimony cancelled				
2 pm	Beige Book			--	--
8:15 pm	Randal Quarles speaks				
THURSDAY, DEC. 6					
8:15 am	ADP employment (new date)	Nov.		---	227,000
8:30 am	Weekly jobless claims	12/1		224,000	234,000
8:30 am	Trade deficit	Oct.		-$55.1bln	-$54.0bln
8:30 am	Productivity (new date)	Q3		2.2%	2.2%
8:30 am	Unit labor costs (new date)	Q3		1.0%	1.2%
9:45 am	Markit services PMI (new date)	Nov.		--	55.4
10 am	ISM nonmanufacturing index (new date)	Nov.		59.1%	60.3%
10 am	Factory orders	Oct.		-2.0%	0.7%
10 am	Quarterly services survey (new date)	Q3		--	--
12:15 pm	Raphael Bostic speaks				
FRIDAY, DEC. 7					
8:30 am	Nonfarm payrolls	Nov.		190,000	250,000
8:30 am	Unemployment rate	Nov.		3.7%	3.7%
8:30 am	Average hourly earnings	Nov.		0.3%	0.2%
10 am	Wholesale inventories	Oct.		--	0.4%
10 am	Consumer sentiment index	Nov.		97.3	97.5
12:15 pm	Lael Brainard speaks				
1 pm	James Bullard speaks				
3 pm	Consumer credit	Oct.		--	$11bln

Below the Radar

Last week's **BTR** finished this way, *exactly* this way:



They've done it before and very recently! 2016 had a wonderful finish to it! Once more time for old time's sake? Why not! We're ripe for it:



They've possibly put a "W" or double bottom pattern from which to launch from as of now.

We shall see…:

MARKET TRACTION

Bank and Roll with the Flow!

To belabor the point, last week and this week are exactly what we have in mind when we implore readers to be nimble and **Bank and Roll!**

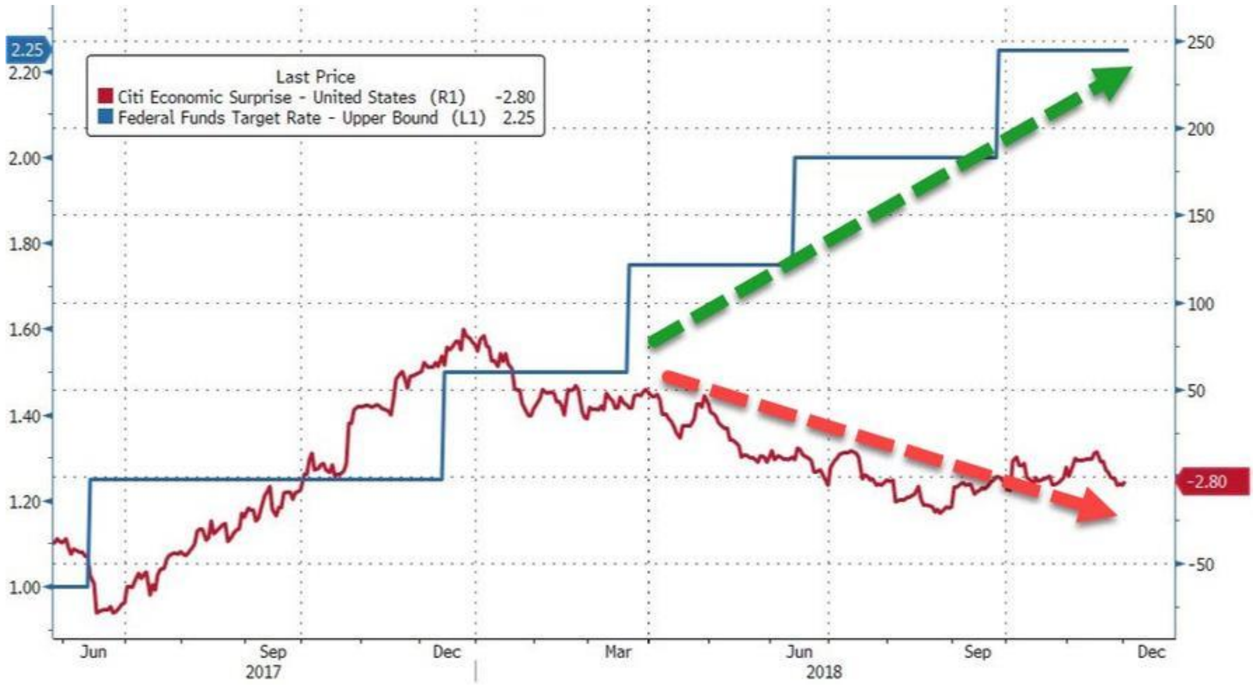
As for this week in **BTR**, umm, once again, so much is now *Above the Radar*, that we're left with little that remains undiscovered and must instead delve into what's happening now. So, first up, what may have caused today's super-selloff aside from the news? Well, it could very well be supply and demand! Shifts in both in different assets of course! Here's a good read with more depth but in short, we see more players shifting into bonds and out of equities. Yields fall while stock prices come under pressure. The problem is, this "rotation" is something too many are doing in too big a way at the same time!:

https://www.zerohedge.com/news/2018-12-04/here-what-triggered-todays-sudden-stock-liquidation?fbclid=IwAR2sWnqMNCLE5u6sKKcyISp-OaySA1BiKv6wLY4J-47OdBnixapNwLa8DCo

But let's get back to "NIMBLE". We went *nimble* early in the year and have had to remain that way. Gone, for now, are the days of letting it ride, ride, ride. We've had a lot of ups and downs this year of lesser and larger degrees. Being nimble literally in our minds, has paid off. So, here's the thing, Morgan Stanley thinks the bull market is over at this point yet… but B of A does not! But they do believe we'll have some rough patches in the short run, a pop after that to new highs, and then a full-fledged bear market, all of which will occur in 2019! As we see it, they're advocating that market players remain nimble! We're glad to see them finally catch up to us! 😉 In all seriousness, this is worth the read: https://www.zerohedge.com/news/2018-12-04/make-volatility-your-new-best-friend-2019-not-one-last-hurrah-bofa

This piece on yield curves is worth the read too and even more so given that developments in the bond markets today seemed to have deeply rattled equity investors: https://www.zerohedge.com/news/2018-12-04/gundlach-yield-curve-inversion-shows-total-market-disbelief-feds-hiking-plans

MARKET TRACTION



As can be seen, the **FED** seems to be ignoring the fact (intentionally?) that higher rates have already cooled things to an extent. Trump would again seem to have a legitimate gripe when viewed this way. The markets seemed to be more worried about a real slowdown induced by rising rates than they are excited by China trade deals and Powell talking like a dove one time and one time only (to date). As we've noted a few times this week, mix in *Geopol* and things get worse…

When we personally survey matters, we have the sense that the tide has turned in a significant way, at least for now, in autos, housing, and retail in general. We can envision this holiday shopping season being a good one but things cooling significantly after that due to higher and possibly even higher rates. With the tax cut propellant burning off, higher rates could really become a problem which makes it more curious as to the FED's seemingly *tin ear* remaining just that. Since we've been discussing this for a while, fortunately (due to the timing) we found a quick hit on the FED having over-tightened: https://www.zerohedge.com/news/2018-12-04/reversion-inversion

Many may feel as we have/do regarding the FED and over-tightening and that may at least partially explain today's rout. This piece goes even further and could represent a critical shift in psychology and what flows from that would only put greater pressure on equity markets: https://www.zerohedge.com/news/2018-12-04/mcelligott-our-clients-are-shifting-end-cycle-outright-recession-trades

Finally, here's a blurry but always reliable reminder as to why being prudent in times like these may be the best default position one could take:

MARKET TRACTION

Even reversion to the mean (not worse) would be an awful outcome.

Be nimble my friends!

Bank and Roll!

Options Academy

"There is also "upside call/downside put" skew that's normally in place and it compares how each trades against the other. Again, when that changes dramatically from the norm, that information can portend significant future movement that's just around the bend.

…It can also be a good idea to keep an eye on the various skews while considering a trade or when already in a trade. Skews swinging around dramatically can be important news that appears in front of actual news as the smart and fast money typically strikes in the options markets."

Those comments were part of our wrap up on skew last week and we're going to pick up on those now since, at critical times, they can be very important in tipping us off to conditions being much different than normal.

So, let's get into it…

Normally, the upside call (OTM calls, think "30 Delta") trades at an implied volatility discount to the downside put (OTM puts, think "-30 Delta"). Why? Because the marketplace is, on balance and by a significant margin, filled with more natural call sellers ("buy writers") and put buyers (those seeking insurance for stock holdings) than vice versa. Many investors like to sell calls to generate income on shares they own and maybe as many investors who like to keep a hedge on by owning puts against their long stock holdings. It's really that simple. So…:

Greater Supply of Calls = Lower Prices
Greater Demand for Puts = Higher Prices

Thus, the upside calls normally trade at a discount while the downside put trades at a premium when compared to those calls. This is true in individual stocks and is certainly true in index ETF products like the SPYs as well. Additionally, what "normal" means in this context is "nearly all the time." We should expect, nearly all the time, to see upside calls trading cheaper than downside puts. THUS, if they are not, then we must treat that as big deal! Why? Because it could be presaging a BIG DEAL! That big deal could be a takeover, a merger, explosive positive news of many kinds, etc.

Think about it…with so many natural call sellers operating out there in the marketplace, it would take a significant amount of demand just to raise the upside calls up to a level of equilibrium. If they are then brought from there to trade at a strong premium, we know that demand for calls must be extreme. And, if it is, then we also know that significant amounts of capital are being dumped into something that's considered speculative and low probability material *most of the time*! That sudden surge, that 180-degree change from normal, is not "dumb money" arriving on the scene typically. In fact, it's normally a sign of fast/big money arriving on the scene believing that it knows something important and timely.

In a nutshell, it's for these reasons why we should take note and investigate situations like these as they could be an interesting place for our purely speculative capital to find itself deployed.

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