MARKET TRACTION

Pullback to Support in the Books, Now Another Shot at the 200 SMA?

This Week's Trade Ideas:

Bullish Ideas: (View Webinar)

MU > Micron Technology > $40.40 Last. Buy the March 15th 39 Calls for $3.25 or less with a close or anticipated close above $40.80* in an up market with expectations for continued strength in the stock. *Aggressive entry price.

Bullish Mentions: **(View Webinar)**

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

MSFT, WFC, INTC (Diagonal?), ROKU* (Earnings 2/21), SLB, TSM, SCHW, V, JNJ, TXN, GIS, IBM, FDX, IP (Diagonal?)

Bearish Ideas: (View Webinar)

None at this time. The current short squeeze has left few stocks with bearish complexions.

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

None at this time. The current short squeeze has left few stocks with bearish complexions.

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:

One more time! Back to last week's Outlook:

This week, we're short-term overbought and have paused beneath the 150 and 200 SMA.

Do we test the 100 SMA on the downside or the 150 SMA on the upside?

The Gang tested the 100 SMA on the downside thus taking a little overboughtness out of the market. Now they seem hellbent to manufacture a test of the 150/200 SMAs which are essentially in the same place and just a wee bit higher than current prices.

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 was listless and our stocks traded with the market as is normally the case.

CAG was our official bullish idea. It's moved up nearly $1.80 from where we spotted it, so that's pretty good for a low-priced stock.

WMT* has moved up small but has earnings looming.

TIF hasn't moved much at all. Disappointing but it may not be over yet.

ROST, much like WMT, has moved up a little

UA* shot up but it took the earnings release to do it.

We mentioned **DE** and **A** as possible bearish names to look at in our webinar mainly because they had big drop potential if the market rolled over. Naturally, they needed the market to selloff. They weakened when the market weakened but as the SPYs found support on the 100 SMA on a closing basis, they too found support and refused to break down. We note it all the time, but it really pays to have the market's *wind* at your back when swing trading. No break in the SPYs, no break in those stocks.

Market Overview

Last week we wondered:

What fuel is left to rally on?

Could DC shockingly provide more rally fuel in the nick of time? We doubt it but at the same time it would come as a shocker and shockers stoke markets.

Without a significant news driver(s), we have to believe that we're somewhere closer to the end of this rally than the start.

This week we've witnessed levitation on what we'd describe as weak news. Monday's rally fizzled after murky "improving trade talks" were floated by the media and today's morning goosing is being attributed to DC news that will keep the government open and avoid a shutdown. Never mind that the market rallied huge when the government was closed! That's the way Wall Street's roulette wheel operators roll! Take the news and spin it so it suits their needs.

https://www.marketwatch.com/story/why-another-government-shutdown-may-have-little-effect-on-stocks-2019-02-12?

So, this isn't what we had in mind as *shocker-type* news because it was well-known that getting a deal in place to keep the government open was in the works. Instinctively, we'd love to fade this news-based buying and sell into it, but experience and the charts advise that we must be patient. Many times, bogus news has launched what turned out to be a powerful and ultimately, a legitimate rally.

This week's spin 'em higher maneuvers have made the charting picture a little clearer. We're using the SPX because our SPYs chart has gotten very crowded again. (As usual)

Here are 3 paths forward as we see them:

1. We have the **RED** double top followed by a drop scenario that seems unlikely given the "everything is wonderful" glow world equity markets are basking in…

2. The YELLOW arrow would bring about the push to the low $2800's level in the SPX which is right near and equivalent to the SPYs $281.00 target level we've had our eyes on for some time.

3. Would bring us the ORANGE arrow "push through" that level to the breakdown point near $2900.

It probably comes down to this…can the Gang push through and close above the 150/200 SMA levels? If so, that might bring some money into the markets and boost technical confidence that the ship has been righted. We're not so "onboard" with that thinking ourselves but we do believe that many would begin to party again. If they can get a close above those levels, we have to believe they make it to the SPYs target near $281.00. If that gets taken out, we have to believe that the irrational exuberance would then try to target $2900 in the SPX.

However, a failure to close above the 150/200 or a failure to hold it soon after closing above those, would likely launch revisiting of the 100 SMA.

This current rebound from last week's lows on very little is feeling very much like almost all short-squeeze. Many likely see these levels as dubious given the global slowdown and the apparent cresting of S&P 500 profits and that can only help the Gang in their goosing efforts and make seemingly "too high" to be conceivable (by most) targets possible. We have no choice but to let the battle at the 150/200 SMA be our guide for now.

The DOW in the form of the DIA has actually been able to surmount the key SMAs, but otherwise, the charts of it and the SPX are very similar:

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The NDX is very similar but slightly different than the SPX:

Interestingly, the VIX hasn't fully capitulated. It too may be waiting to see if the 200 SMA can be surmounted before packing up for the time being:

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Big, big, big calendar this week full of key data and hot air from many luminaries. It should make for interesting times and who knows, it may inspire new taxes from NY or NJ. It doesn't take much!

This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
THE GOVERNMENT SHUTDOWN WILL DELAY RELEASE OF SOME DATA THIS WEEK					
MONDAY, FEB. 11					
11 am	Survey of consumer expectations				
11:15 am	Michelle Bowman speaks				
TUESDAY, FEB. 12					
6 am	NFIB small business index	Jan.	101.2	--	104.4
10 am	Job openings	Dec.	7.3 mln	--	7.2 mln
11 am	Household credit	Q4		--	4.3%
12:45 pm	Jerome Powell speaks				
6:30 pm	Loretta Mester speaks				
7:30 am	Esther George speaks				
WEDNESDAY, FEB. 13					
8:30 am	Consumer price index	Jan.		0.1%	-0.1%
8:30 am	Core CPI	Jan.		0.2%	0.2%
8:50 am	Raphael Bostic speaks				
8:50 am	Loretta Mester speaks				
12 noon	Patrick Harker speaks				
2 pm	Federal budget (new date)*	Dec.		--	-$23 bln
THURSDAY, FEB. 14					
8:30 am	Weekly jobless claims	2./9		225.000	234,000
8:30 am	Retail sales (new date)*	Dec.		0.0%	0.2%
8:30 am	Retail sales ex-autos (new date)*	Dec.		-0.1%	0.2%
8:30 am	Producer price index	Jan.		0.1%	-0.2%
10 am	Business inventories (new date)*	Nov.		--	0.6%
11 am	Patrick Harker speaks				
FRIDAY, FEB. 15					
8:30 am	Retail sales*	Jan.	DELAYED	--	N/A
8:30 am	Retail sales ex-autos*	Jan	DELAYED	--	N/A
8:30 am	Import price index	Jan.		--	-1.0%
8:30 am	Empire state index	Feb.		--	3.9
9:15 am	Industrial production	Jan.		0.0%	0.3%
9:15 am	Capacity utilization	Jan.		78.7%	78.7%
9:30 am	Raphael Bostic speaks				
10 am	Business inventories*	Dec.	DELAYED	--	N/A
10 am	Consumer sentiment index	Feb.		93.5	91.2

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Below the Radar

It's winter time and bears of all kinds are hibernating. The lack of any sustained selling in over a month has market bears in DEEP hibernation. We've noted for many weeks in **BTR** that the fare out there has been lite. This past week turned up very, very little. Bears seem to be underground with that groundhog! Maybe the lack of bear material is a sign in and of itself???

A few things…

Bears being nowhere to be found makes sense in light of these F&G index readings.

And, we noted that there could be more room for F&G to lurch higher, and now that room seems be mostly used up, unless our "resistance" line doesn't contain it:

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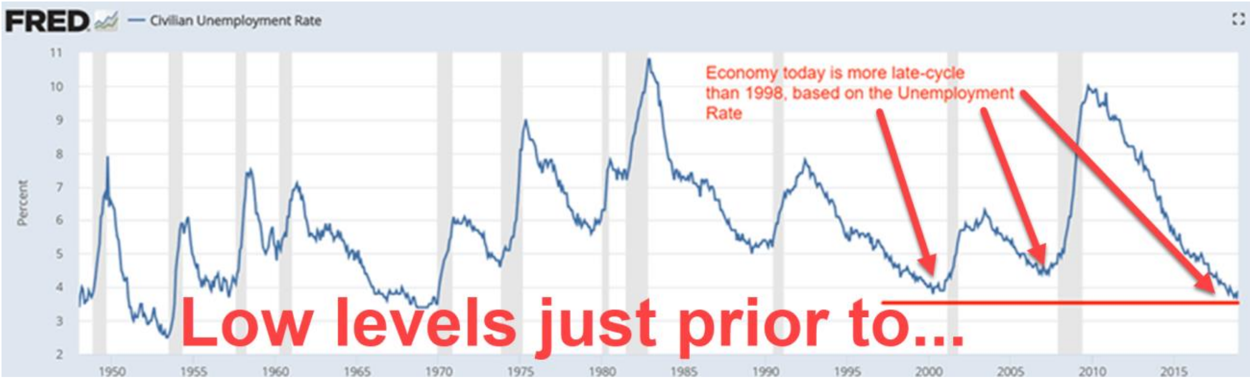
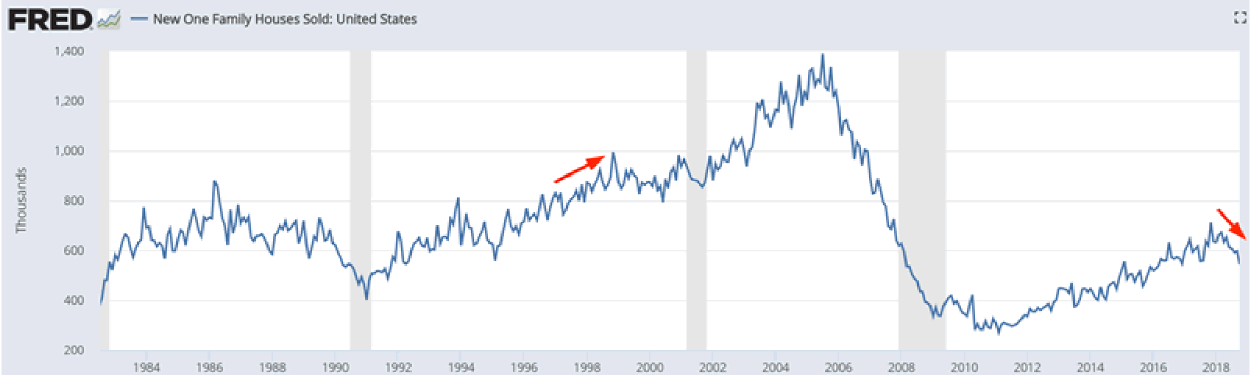
Having not been able to turn up much well-written material, we were forced to go *smorgasbord* and so we've got a mix of many graphics with our own highlights added to keep us fully risk-aware.



Yes, recessionary periods are the grey periods! We remain LOW!

Key areas like housing are trending downward:



The earnings "beat" game remains solid thanks to earnings estimates having been dropped:

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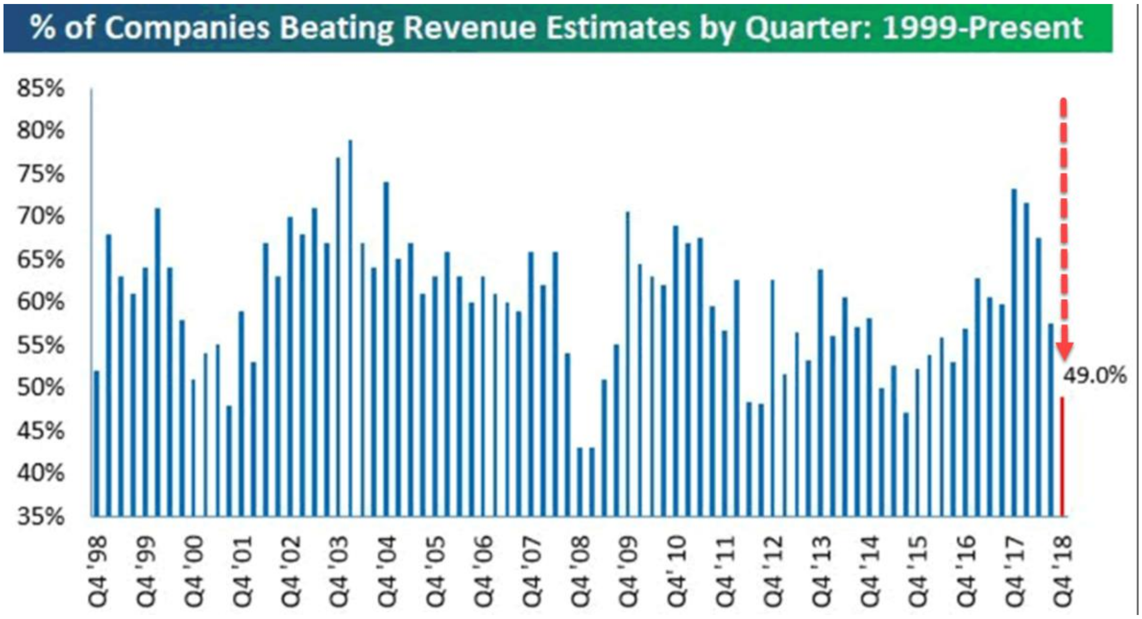
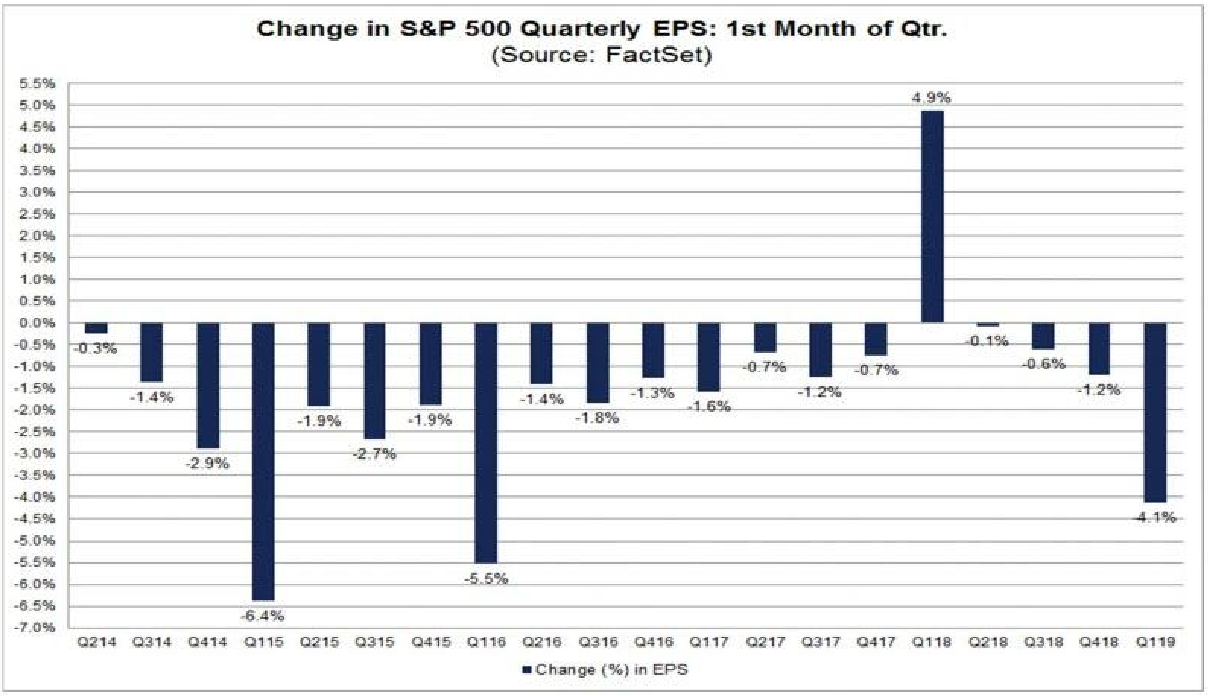
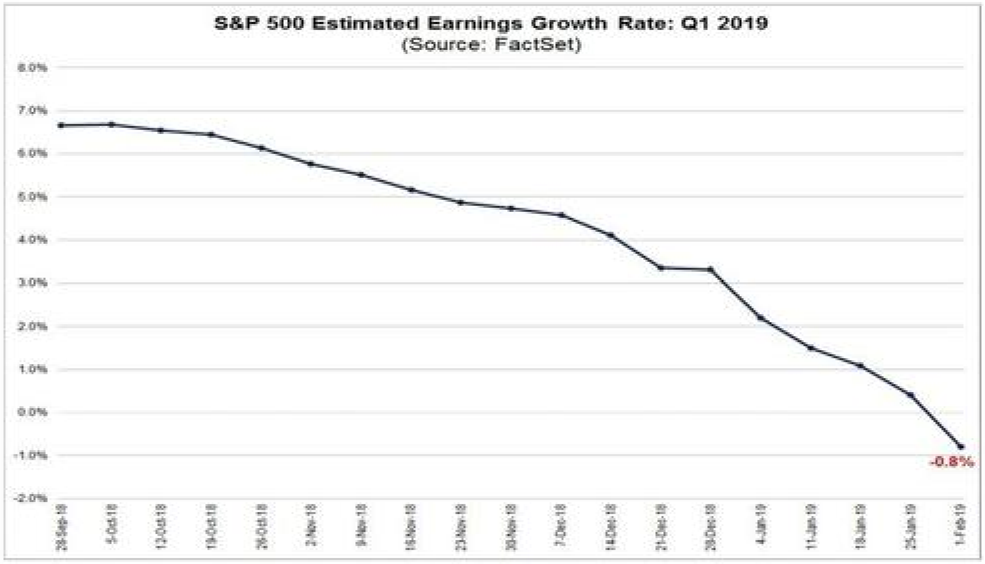
But they can't hide the fact that revenues are down and down rather big:



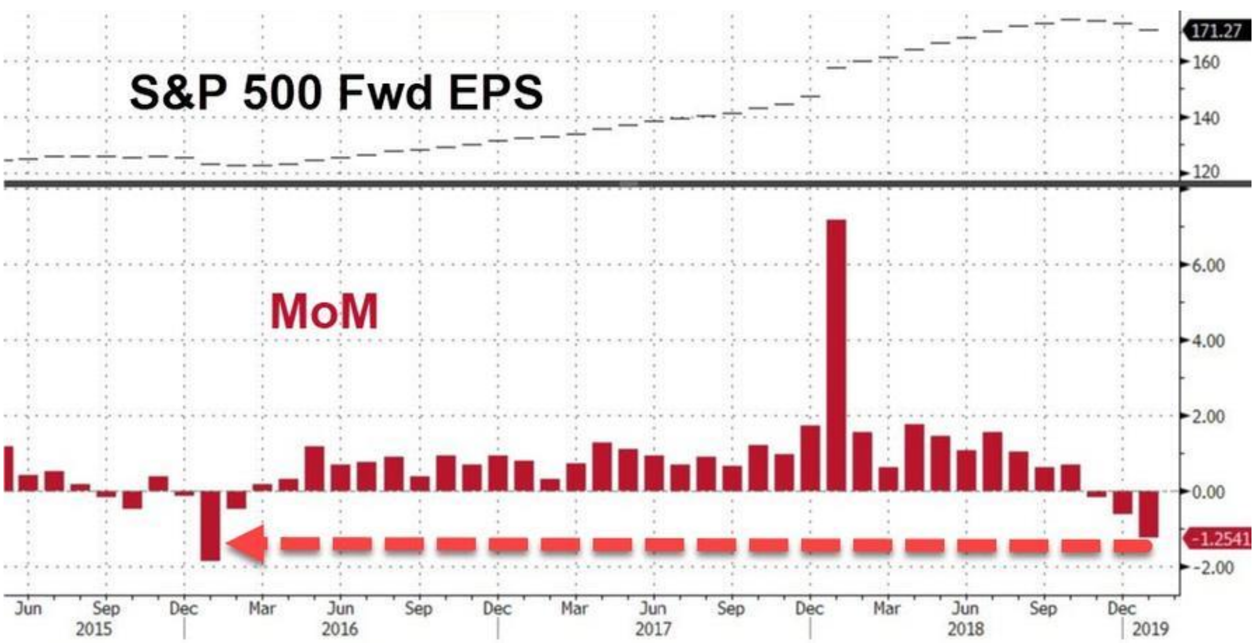
We took a look at several Februarys past to see how things played out if the market was below its 200 Day SMA. It wasn't pretty! It wasn't a scientific study, but we have a better appreciation as to why the Gang seems hellbent on getting the S&P 500 above that 200 SMA! The market, from our observations, performs much better in February into the Spring when it's above the 200 SMA to begin the month. Keep in mind that the reality of Q1 earnings looks more like this:



So, YES, we saw an earnings contraction not earnings growth quarter. Stock prices don't seem to care at the moment, but they may and that's what BTR is all about; We don't want to be surprised if things begin to crater. The Gang and the media continue to play the game, as they always do, with nary a serious concern and explanations for how it will all end well. YET, let's not forget where their expectations were only last quarter and how things actually played out with respect to Q1 earnings growth:



2019 EPS expectation continue to be curbed as stock prices continue to rise:



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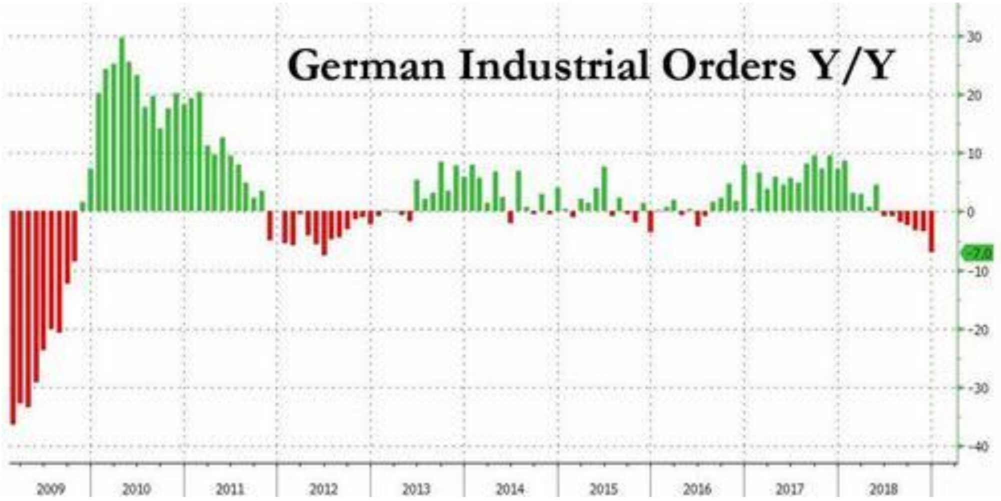
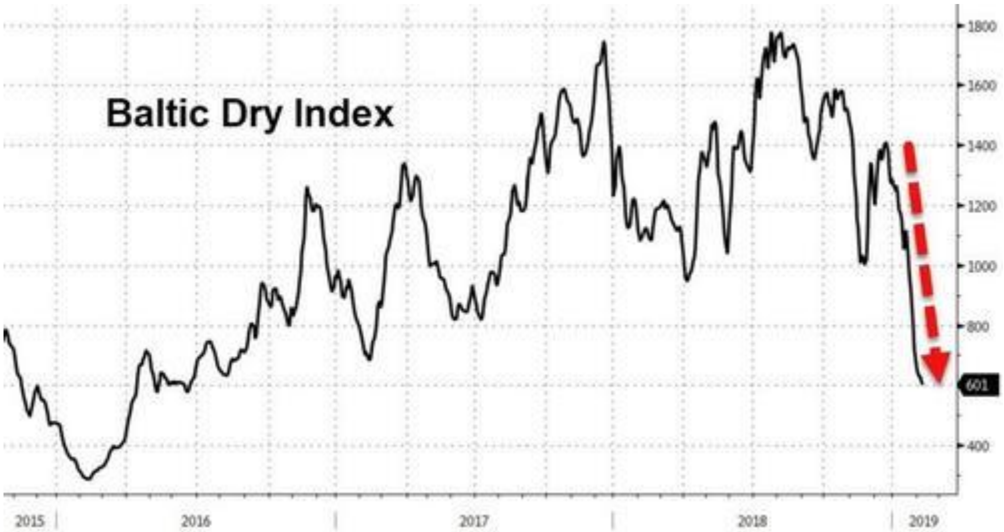
A check on other parts of the world economy continues to reveal weakness. The EU, UK and Australia have all lowered their GDP forecasts for 2019. Here's a sample:



Shipping demand is really, really sliding:



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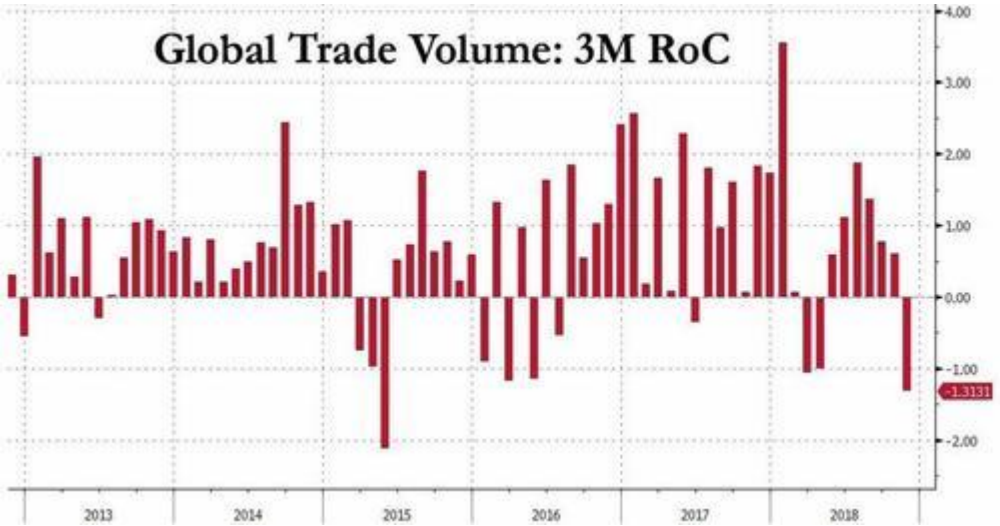
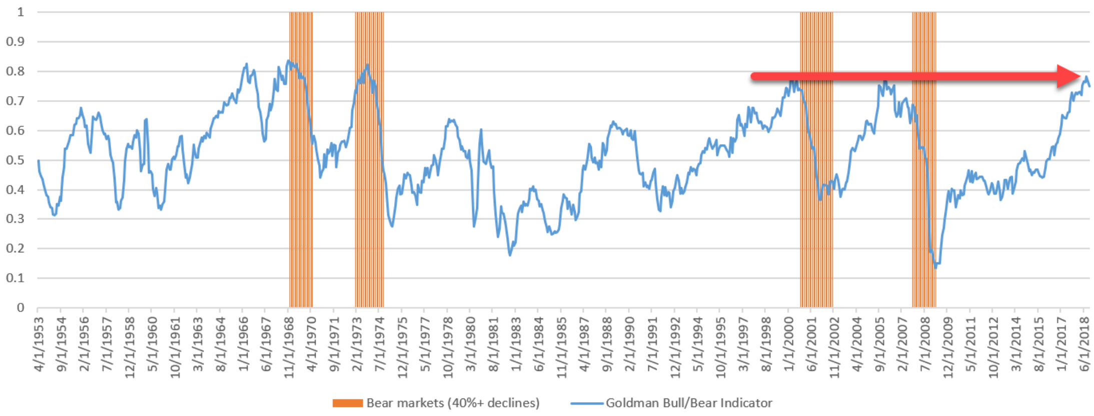
Global trade volume continues to slide:



It's not a pretty picture right now except on the technical side where bulls seem hellbent on moving stocks higher. Which is fine for trading. However, let us not forget, as investors, where we are in the grand scheme. We featured Buffet's and Shiller's recently, now we'll check in on things as per Goldman's remaining risk/reward model.



Remain nimble my friends!

Bank and Roll!

Options Academy

We haven't discussed implied volatilities in some time and so we decided to revisit them this week. A very good and common question that we receive regularly when working with clients sounds a bit like this: *"How can I tell if I'm getting a good buy on the option I'm considering?"* It really is a great question actually because it gets to the heart of how options are priced. In our 1-on-1 consulting sessions we spend a great deal of time helping clients understand the outputs from the options pricing model, its various inputs and how various factors can influence option prices as they're quite dynamic. Before long clients realize that the Volatility Input, aka simply "volatility", is the most critical input needed to arrive at an option's value as all other inputs are readily available. The thing is, as is typical of academic discussions, the pricing model and the volatility input can be rendered all but moot! Why? Well...the MARKETPLACE has the final say as to what an option is worth. Supply and Demand determine option prices as they do so many other prices in a market-based economy. As the markets have the final say, wouldn't it make sense to take a good look as to how the marketplace has treated the options prices on a certain stock over the past year? It would certainly seem so! More important than what we believe something is worth, is what the markets have somewhat consistently determined it to be worth. We can access this type of data on many trading platforms and websites.

To help illustrate things more clearly, we doctored up the graphic above. This example shows 1 Year of Apple's stock price chart but in the subgraph below it we can see both the historical volatility levels (**in purple,** statistical volatility) over the past year along with those of implied volatility (the **blue** line). We're going to focus only on the **blue** line for now (IV). Remember too that this is a summary number. This summary of the IV level over time may be thought of as the general level of option prices in the marketplace (an indexed number.) Implied Volatility is actually the marketplace determining an option's dollar value and then that dollar value, which is normally the output of the options pricing model, is used to "reverse engineer", using the pricing formula, to deduce what volatility input would be needed to arrive at that dollar value for the option. In other words, we're backwards calculating what volatility level the marketplace is implying it is using to arrive at the dollar value of the option. Hopefully that clears that up! 😉

So how do we use this information to inform our decision-making? Unfortunately, it's all relative! BUT, that's another discussion for another time. In practical terms, observe where we've labeled the red and green horizontal lines 100% and 0%. Those are percentiles. We're pointing out the high of the implied volatility range over the past year (100^{th}), along with the low (1^{st}) with the large **H** and **L** notations. This provides us with a solid framework from which we can assess the current level as highlighted on the right where the volatility data stops in the **yellow oval**. We can see that the current level is closer to the for low of the past year rather than the high of the year. While there is no guarantee that IV cannot go lower, we can take some comfort in the fact that current IV levels are lower than they were and naturally that means that options prices in AAPL are on the cheaper side of things relative to the past year. However, observing the IV history informs us that IV levels in Apple can fall much further before the next earnings cycle and they typically do!

These are just a few ways that researching implied volatility levels over time can aid us in our decision-making. We'll plan to cover other ways in the future when the market timing and subject matter guide us to that material.

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