MARKET TRACTION

Caught in a Technical Trap – Does Powell Have the Key?

This Week's Trade Ideas:

At 2 PM Eastern Time the FOMC announcement will be made followed by Chairman Powell's press conference.

Bullish Ideas: (View Webinar) – FED ANNOUNCMENT IMMINENT!

AA > Alcoa Corp. > $28.75 Last. Buy the March 1st 28 Calls for $2.40 or less with a close or anticipated close above $29.57 in an up market with expectations for continued strength in the stock.

Bullish Mentions: **(View Webinar)**

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

HD.

Bearish Ideas: (View Webinar)

None at this time.

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

KMX, TWTR*. *Earnings due out next week.

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.

MARKET TRACTION

Outlook:

Again. *Outlook* from last week's Outlook was on it, as it has been week after week for months:

The SPYs made it almost exactly to the $267.00 level before retreating today seemingly on the China slow-growth and housing slow-growth news. We were overbought and now, as we noted last week, we'll see what happens. We'll see if the 50 SMA holds and if not, then we'll see if the $260.00 support level will do the trick.

Both the 50 SMA and the $260.00 support were tested and held. The SPYs fell to a low of $260.66 and the did breach the 50 intraday, but the Gang managed to lift their spirits and buy and in turn lifted the SPYs back into the safe zone above both key levels.

This week we remain trapped between key levels which makes calling the next move difficult. We're sensing that the bulls have rested after not retreating so much and thus we'd expect them to try to push if at all possible.

The FED reaction, however, is likely to dominate whatever outcome Wall St.'s Players Theater has in mind pre-FED.

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 only had bears to go with last week due to the juncture we were contending with last Tuesday. **JWN** was our official bear idea and it fell a modest amount. That's not too bad considering that the SPYs are virtually unchanged from last Tuesday.

Our other bearish mentions, **PFE, EIX,** and **SNY,** delivered a split decision. **PFE** dropped to our target level and then some. **EIX** and **SNY** didn't do much during the market's week of tedium. **SNY** did pop up a little today finally.

Much like the market itself, last week was tedious for our names. We leaned bearish and do believe tha the market was on the ropes at times, however, it wouldn't crack support and thus our names largely held. That's the way it goes sometimes…

We did publish a long list of names that turned up on a bullish scan late in the week. They were there to be at-the-ready in case the bulls blasted the market past our $267.00 level, which, didn't happen. At least we were ready…

MARKET TRACTION

Market Overview

While we may be at risk of triggering unpleasant memories from "Chinatown", we must offer this take for the week:

It's easy. No, it's hard.

It's hard. No, it's easy.

Let's get a chart in here quickly so this starts making sense! After all, we're a whopping one point away from where we were last Tuesday as we wrote the prior edition! What's so hard about that?

We trimmed nearly all our lines from our SPYs chart to try to distill it all down with clarity. Hence, we're left with 1, 2 and 3.

1. Represents a multitude of resistance factors that lies above $270.00 which is the next level up should we somehow blast off above the $267.00 gap fill we had been waiting on. That happens to be level 2 by the way. But, back to 1. At 1, we have the longer-term moving averages along with the formerly support side mini rising wedge that we've fallen out of at this point.

2. Is flat line resistance and gap fill territory. It's the level we must see the SPYs move above before they can buy themselves a shot at more upside.

3. Is a ganglion of support. We have a few our tailored support lines along with the 50 SMA with the 20 SMA lurking just below there.

In summary, we're bottled up between $260.00 and $270.00 and little of consequence is likely to happen until one of those levels is breached.

We could go back and forth and not make progress. Here's an example of what we're getting at.

Con: We've broken below the rising wedge!

Pro: Yeah but we're still holding the 50 SMA!

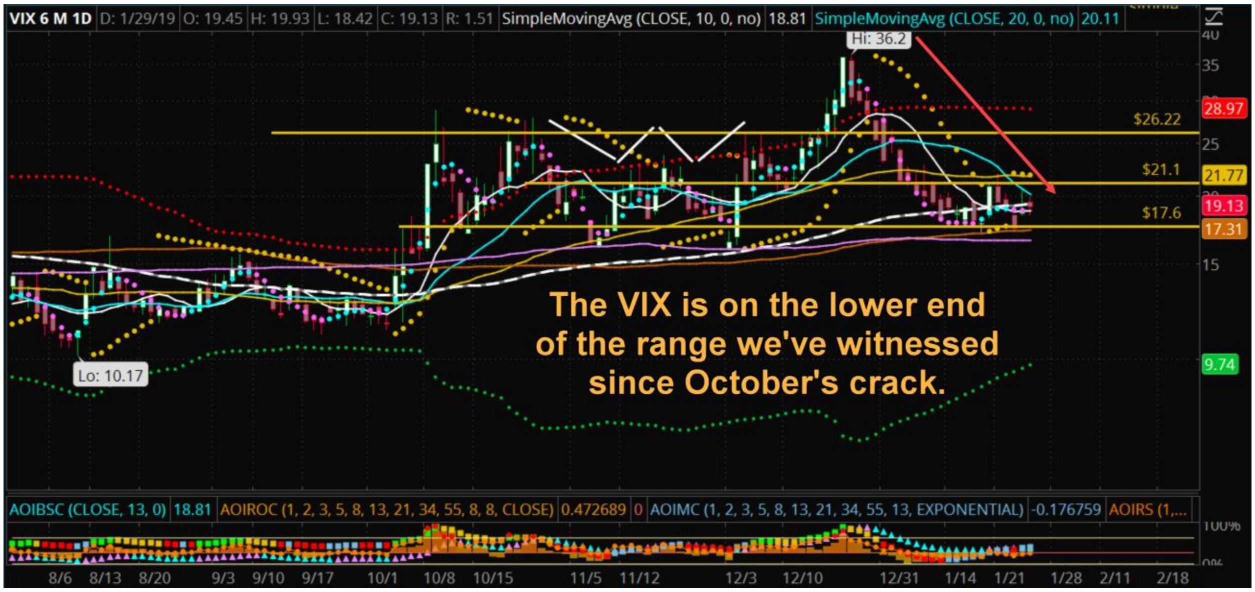
Con: Yes, but the 50 SMA is down-sloping!

Pro: Yeah but the 20 SMA is rising rapidly!

Pro: We haven't given back any gains hardly!

Con: Yes, but we haven't advanced in over a week!

Since it's a tossup…What it comes down to for us this week is that the SPYs haven't given much of the gains of the past month back and they're still holding above support AFTER RESTING for a week. That would normally be a sign that they'll run with the slightest bullish reason imaginable supporting their efforts. We're willing to believe that they'll try to take a crack at $270.00 if possible, as LONG as they HOLD the 50 SMA on a closing basis and Powell doesn't dash Wall St.'s accommodative dreams! We've given the bulls the benefit of the doubt for about a month save for last week when we went NEUTRAL and just couldn't discern what the tea leaves had to say. Fortunately, that turned out to be the right answer. We're in a similar position this week but the bulls have gotten rest and that normally means another attempt at rallying, FED permitting!



The VIX hasn't given up entirely but it's on the ropes of slinking back down to a more normalized level. Will Powell let it wither or will he reinvigorate it? Trading in front of Powell and the post-FED reaction is a pure guessing-game.

The markets have jammed back in a big way from deeply oversold conditions at the tail end of 2018. It's hard to believe that it's all over. We can see one more bull attempt as we noted above, but our confidence level as to what happens next remains 50/50. New we cannot know will likely tell the tale of the tape.

We'll see…

MARKET TRACTION

We're back to a super-heavy, action-packed calendar this week. Wednesday would appear to be a huge day with GDP, Home Sales, oh and the FOMC announcement followed by the head of US Fiat Currency Production, Chairman Powell, holding a post-announcement press conference. The fun doesn't' end there as Thursday and Friday loom large with many releases scheduled.

Powell's comments, or lack thereof, will likely take the importance prize but one can never know for sure.

This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
THE GOVERNMENT SHUTDOWN COULD DELAY THE RELEASE OF SOME DATA THIS WEEK					
MONDAY, JAN. 28					
8:30 am	Chicago Fed national activity index	Dec.	0.27	--	0.21
TUESDAY, JAN. 29					
8:30 am	Advance trade in goods*	Dec.	DELAYED	--	N/A
9 am	Case-Shiller house prices	Nov.	5.2%	--	5.3%
10 am	Consumer confidence index	Jan.	120.2	124.0	126.6
10 am	Homeownership rate*	Q4	DELAYED	--	64.4%
WEDNESDAY, JAN. 30					
8:15 am	ADP employment	Jan.		--	271,000
8:30 am	Gross domestic product*	Q4	DELAYED	2.7%	3.4%
10 am	Pending home sales	Dec.		--	-0.7%
2 pm	FOMC announcement			2.25-2.5%	2.25-2.5%
2:30 pm	Jerome Powell press conference				
THURSDAY, JAN. 31					
8:30 am	Weekly jobless claims	1/26		216,000	199,000
8:30 am	Employment cost index	Q4		0.8%	0.8%
8:30 am	Personal income*	Dec.	DELAYED	0.5%	0.2%
8:30 am	Consumer spending*	Dec.	DELAYED	0.3%	0.4%
8:30 am	Core inflation*	Dec.	DELAYED	0.2%	0.1%
9:45 am	Chicago PMI	Jan.		--	65.4
FRIDAY, FEB. 1					
8:30 am	Nonfarm payrolls	Jan.		172,000	312,000
8:30 am	Unemployment rate	Jan.		3.9%	3.9%
8:30 am	Average hourly earnings	Jan.		0.2%	0.4%
9:45 am	Markit manufacturing PMI	Jan.		--	54.9
10 am	ISM manufacturing index	Jan.		54.2%	54.1%
10 am	Construction spending*	Dec.		--	N/A
10 am	Consumer sentiment index	Jan.		90.8	90.7
Varies	Motor vehicle sales	Jan.		17.2 mln	17.5 mln
***COULD BE DELAYED BY GOVERNMENT SHUTDOWN**					

MARKET TRACTION

Earnings are also likely to be a big deal this week with Apple, Facecrook err, Facebook, Microsoft and Amazon reporting.

In fact, as per our *friends* at Goldman Sachs:

This week is the biggest week of earnings for S&P 500 companies with ***37% of the market cap of S&P 500*** *companies reporting earnings with a particularly large focus on Energy (56% of mkt cap, XLE), Communications (53%, XLC), Industrials (52%, XLI) and Technology (52%, XLK).* ***Earnings day moves have been a bigger source of volatility than normal this quarter as the average S&P 500 stock has moved 4.6% on its earnings day vs its historical average of 3.1%.***

If Powell doesn't move the needle one would think that those earnings will.

Below the Radar

It may be just as well since the FED will likely have the last say as to what happens next, but this week was very light on new **BTR**-style info. Still, we'll press on and share what little we found…

Amid the *Happy Days Are Here Again* chatter that's been spurred on by a stupendous January that's seen 87% of stocks around the globe rise, we're forced to perform our duty and so earnings numbers are being brought down!

Exhibit 8: Steep Decline in Y/Y Change in Earnings Revisions Points to EPS Growth Downside-Although Magnitude Appears Overstated Due To Tax-Reform Boost Last Jan.

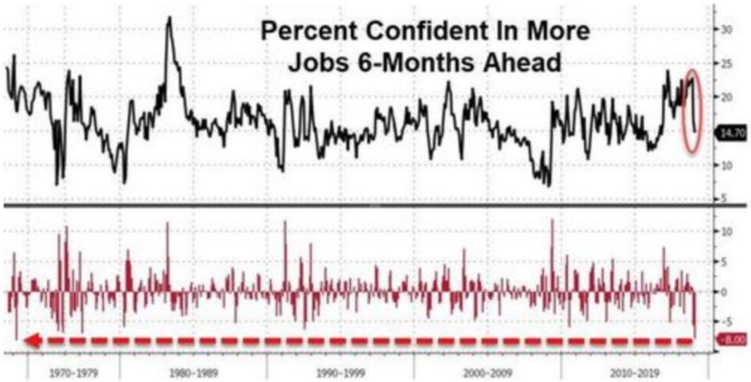
Source: FactSet, Morgan Stanley Research as of January 23, 2019,

One would think that would matter since we're told that the market is all about earnings, ultimately, if so, why the *stick*y rally if earnings are heading south?

MARKET TRACTION

How about the folks, how are they feeling these days? It would appear the answer is *not nearly as good as they were only a few months ago*!

Americans' current perceptions about the labor market remain high, but they're less confident the good times will last as the new year approaches as **the share expecting more jobs in the next six months fell to 14.7 percent from 22.7 percent, the steepest two-month drop since 1968...**



The "mood" of the country is souring...

But there's more!

https://www.marketwatch.com/story/bond-king-gundlach-says-wall-street-should-heed-this-reading-as-most-recessionary-signal-at-present-2019-01-29

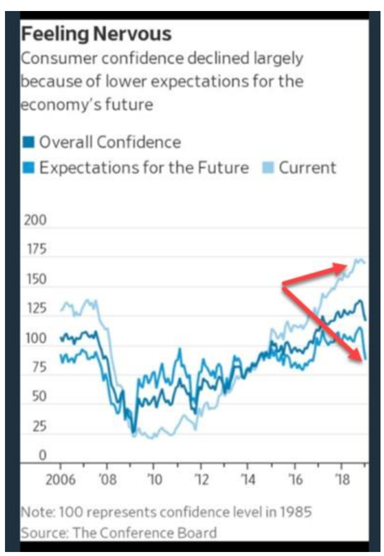
Jeffrey Gundlach
@TruthGundlach

The most recessionary signal at present is consumer future expectations relative to current conditions. It's one of the worst readings ever.

♡ 824   2:35 PM - Jan 29, 2019

354 people are talking about this

https://www.wsj.com/articles/u-s-consumer-confidence-declines-in-january-11548775311



MARKET TRACTION

As we nearly always do, we'll remind readers that the consumer is supposed to account for 70% of GDP.

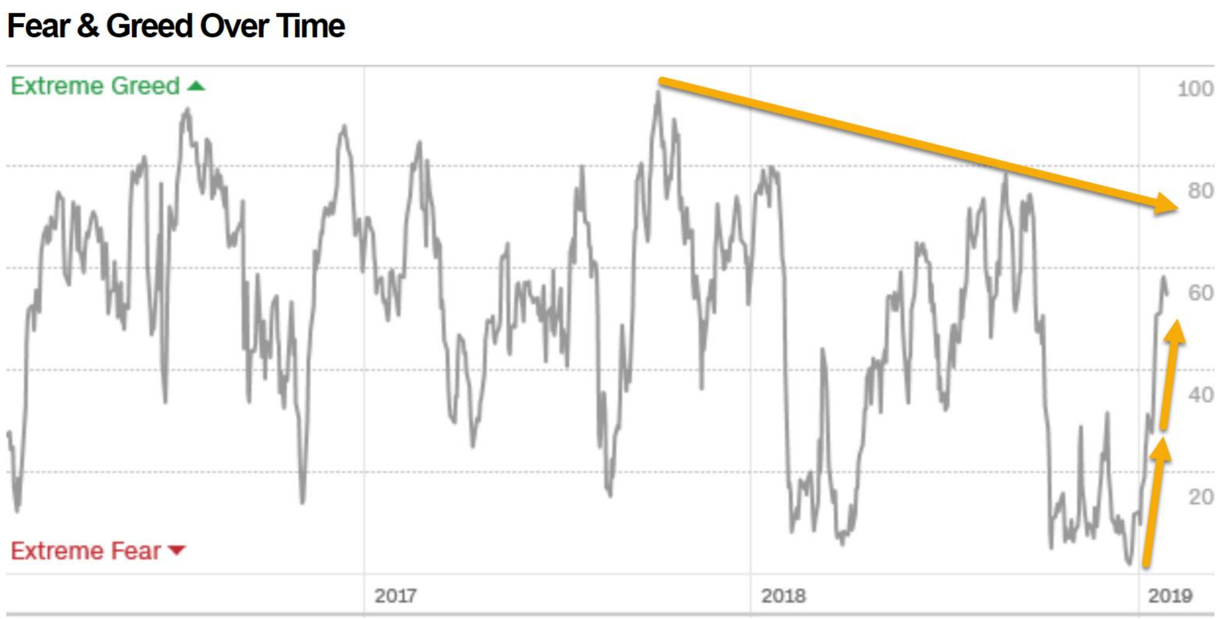
It's been brief but let's sum up:

Earnings are heading south.

The consumer is losing confidence in a big way.

Yet, despite this…

CNN's Fear and Greed index has recovered very nicely. Are investors not seeing the looming issues or are they looking beyond them? Fear and Greed may have a little more room to push up but it wouldn't be shocking to see it back up after the past month's run:



One has to wonder if investors are expecting another rescue from the FED. One must also wonder what happens if the FED doesn't ride to the rescue for the first time in a decade.

Remain nimble my friends!

Bank and Roll!

MARKET TRACTION

Options Academy

In this week's installment of **OA**, we're revisiting the Calendar spread because, well, earnings season is upon us and we know that some folks just can't help but to get involved! Applying the Calendar in the conventional way with earnings announcements looming may not be advisable. However, flipping it around just may…

Recall if you will that the Calendar spread is worth the most when the stock price is at the strike in focus. This means that the maximum value of the Calendar spread is seen when it is At-the-Money (ATM). If we "go long", that is, purchase the Calendar, we buy the longer-dated expiration and sell the nearer term. That allows us to take advantage of the faster rate of decay of the near-term option we've sold vs. the relatively slower rate of decay of the longer-dated option we purchased. SO… think about it, if we initiate a long ATM Calendar spread as described, where we "own time", we really want the stock price to remain still. If the stock price moves away from the ATM strike where we've initiated the spread, in either direction, the spread's value declines which hurts our position since we own it!

Now let's think about this in reverse. What would we want to happen if we SOLD instead of bought the Calendar spread? We'd want movement away from the ATM strike in focus since that would result in a decline in the spread's value and since we've sold it, we want its value to drop. This selling of the Calendar is really the opposite of how the Calendar spread is traditionally taught.

Most educators try to steer students away from playing with fire on the decay curve. The decay curve describes how shorter-dated options will lose their time value at faster rates than longer-dated options. So, naturally, instructors try to help newer options investors avoid becoming victimized by owning the shorter-dated options which is why the Calendar is covered from an overwhelmingly long-only perspective. This is the "way to go" when just getting started in options but when you take full command of options theory and application you realize that you can use those "tools" in other creative ways and that's exactly what we're covering here. Let's get into a little hypothetical nitty-gritty...

As we alluded to, many folks are intrigued with the concept of "playing earnings". This desire to speculate on post-earnings release stock price movement is only natural as most investors witness dramatic moves quarter after quarter, aided by media-build-up, and wish to benefit from it. The thing is, earnings movement can be very unpredictable along with being volatile, so naturally, this leads to higher options prices quite often. In fact, it can lead to extremely high options prices which means that the risks have really been ratcheted up if one were to buy a Straddle for example. The Straddle, buying the put and call at the same strike at the same expiration, might seem like a great idea since the owner could potentially profit if the stock moves significantly in either direction. Typically, though, the problem is that there's a lot of competition to own the Straddle and thus the price of it can be driven up a great deal thereby making it very risky if the earnings release produces a "dud", that is, a lack of volatility. Not only is it risky but it can also become cost prohibitive to the extent that it becomes unaffordable for many would-be speculators. It's for this reason that the "Poor Man's Straddle" can be attractive. The Poor Man's Straddle acts a great deal like a Straddle in its performance but it's much less costly. As it's less costly, it doesn't produce the practically unlimited profits that a long Straddle can but that's why it's referred to as the "poor man's" in the first place; less costly, less potential. However, it still let's one participate in earnings-style trading without breaking the bank. The thing is, you already know what it is... It's the reverse of the Long Calendar, it's the Short Calendar. If we sell an ATM Calendar and the post earnings stock price movement is dramatic, this will cause the Calendar that we're short to lose value thus earning us profits in a somewhat similar fashion to the long Straddle. Now, there are many nuances that are associated with this type of trade and many considerations, but it's something worth exploring and considering.

We encourage you to model this type of scenario on your trading platform. Compare how this could work vs. a long straddle and note the similarities and differences. This is an unconventional arrow worth keeping in your quiver and dusting off when you anticipate significant movement but you're just not sure in what direction!

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