MARKET TRACTION

A Summertime Haze Hovers Over Market's Slow-Starting Party

This Week's Trade Ideas:

(View Webinar*)

Bullish Ideas:

(View Webinar) TOL > Toll Brothers > $38.04 Last. Buy the Aug. 10th 37 Calls for $1.85 or less with a close or anticipated close above $38.23 in an up market with expectations for continued strength in the major indices.

Bullish Mentions:

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

DG (still looks ready to cycle higher) **Trigger this week > $100.65.**

DLTR (still looks ready to cycle higher) **Trigger this week > $87.44.**

ALB (still looks ready to cycle higher) **Trigger this week > $97.29.**

BBY (still looks ready to cycle higher) **Trigger this week > $76.83.**

LITE Trigger > $60.20.

Bearish Ideas:

(View Webinar) TD > Toronto Dominion > $57.71 Last. Buy the Aug. 17th 57.50 Puts for $0.90 or less with a close or anticipated close below $57.50 in a down market with expectations for continued weakness in the major indices. ***ATM** purchase to keep risk very low.

Bearish Mentions:
INTC Trigger < $51.00, MTW Trigger < $25.00.

We strongly suggest viewing this week's **Advantage Point Morning Call** webinar for full details with respect to these idea(s), last week's and options education.

Special Note:

Swing trading in an environment like this can be very challenging and clearly, news, that we can't foresee and time, continues to be a main driver of stock movement! We've tried to make remaining nimble a focus here in the newsletter and in our **Morning Call** webinar and will continue to do so.

Outlook:

Once again, last week's Outlook contained a nugget worth noting:

They used last week's environment like champs to goose markets higher. ***They've probably jammed up too much, too quickly while reaching a key upside level we've had sketched out for some time. We're very close to punching through on the upside. We shall see…***

Right after we published last week, the market took a breather before trying to punch through to the upside. It's gotten caught up in resistance levels we've had in place for quite a while.

Technicals:

Will be discussed in-depth in the **Advantage Point 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 a "nothing burger" to use a popular description. As can be seen below in **Market Overview**, the SPX is very little changed from where it was when we last published. Thus, stocks haven't moved much aside from a few notables and NASDAQ darlings. That made for another boring week much like we anticipated a few weeks back but were hoping wouldn't materialized. It seems like the post-holiday summer doldrums dragged on and now with earnings really about to hit, we may finally get more sustained movement.

Our bearish names **TJX** (idea), and **TWTR (**mention) had no chance to even try to work out in markets that have mostly wafted higher since the little weak period that was registered last Wednesday. We sniffed out that mini-pullback potential, but the bull move after it hasn't been very strong thus far.

As for the bulls, they delivered mostly tedium and were thus much in tune with a tedious market. **GIS**, which did close above our trigger level, is down a little from there as we write. It couldn't lift above its down-sloping 100 SMA that we were concerned about in our webinar. It's relied on the nearby support to prevent itself from falling too much as we'd hoped it would if need be, but it's a downer at this point and if it doesn't move with the market should the market move higher, we'd bail on it at first sign of failing support.

Other bullish names such as **DB, DLTR, ALB** and **BBY** have been *very, very, very, very sloowwwwwwww* to develop upside thrust. We "get" that it's the summertime and news has kept some stocks hemmed in and the **SPX** is trapped between narrow nearby levels of support and resistance. We get it. But we'd have thought that at least one of these would have tried to break free. Late in the afternoon here on

Tuesday, a few of them may be prepping themselves to run but there's not a lot of development to report at this point. Finally, **FMC** never even tried to move up and became weak which was a disappointment.

To summarize, the bears were never considered due to their own action and that of the markets. The bulls were a disappointment, but nothing really went of the rails either. We're stuck in a holding-pattern in the **SPX** and that reflected in our bullish names this week. Our names will likely only respond if the **SPX** breaks convincingly towards the all-time-high. These ideas may still be worth watching after another week of "resting".

From the prior week, **JNJ** dropped in front of earnings and then popped on them. **PFE** and **MRK** have at least tried to continue to move higher.

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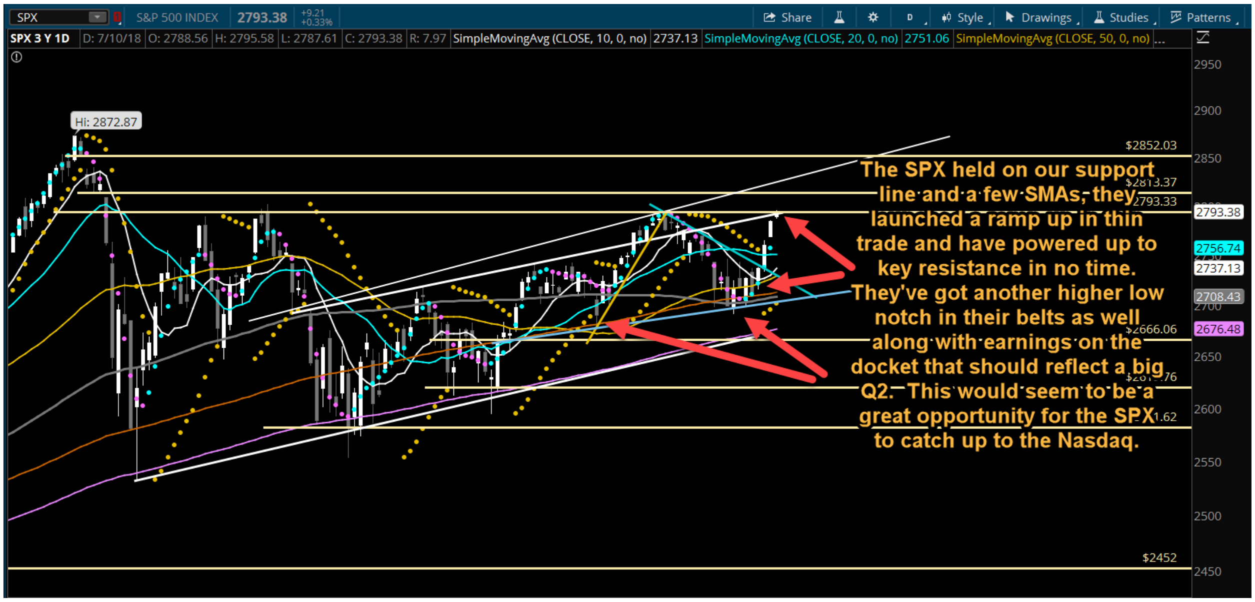
Market Overview

In reviewing last week, we can note that the "little overbought" state we spotted last week turned out to matter just a little. Weakness set in on Wednesday, but the bulls came back from that point on to close out the week well. However, there's no doubt that our resistance levels are mattering:

We include our SPX chart from last week below for reference but we're thinking that Trump being abroad, Powell's testimony before congress and the congressional hearing on social media/tech giant market darlings could have put a crimp on stock prices for the moment. They'll move on from it quickly we'd suspect but it has made the past several trading days and the start of the week somewhat subdued. Here's where we stood last week:



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And now, the DOW:

Here's the situation in the NASDAQ:

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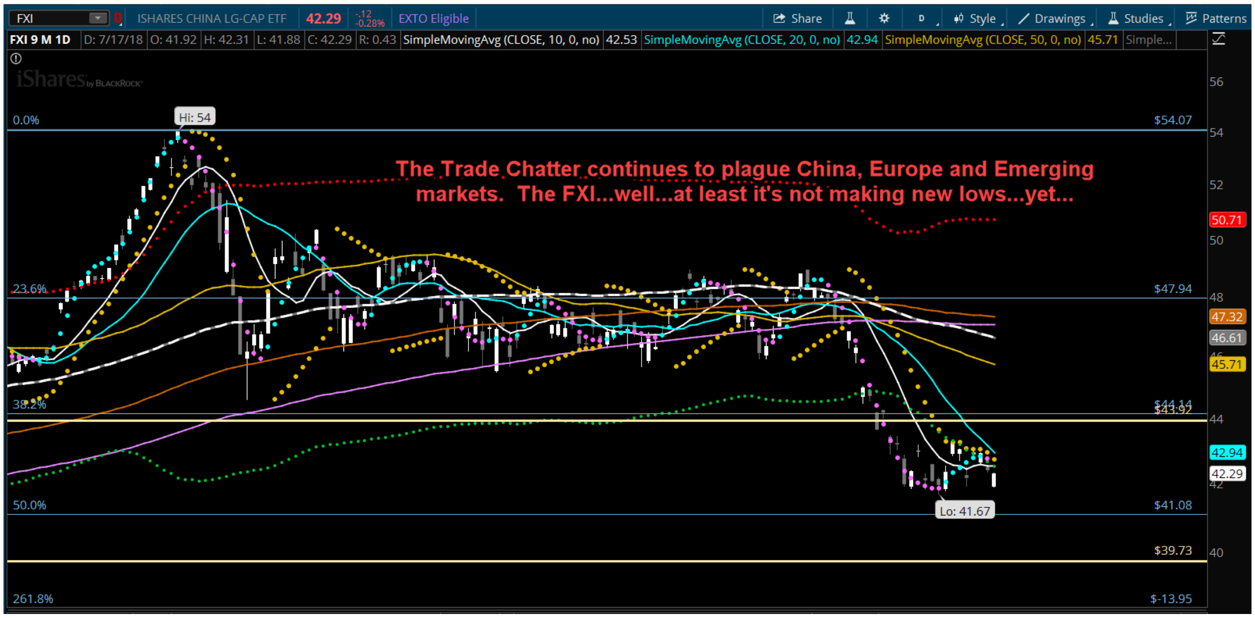
About those earnings releases:

The international scene remains a little better but still challenging, here's a glace at the China ETF FXI which has barely been able to get off the mat:



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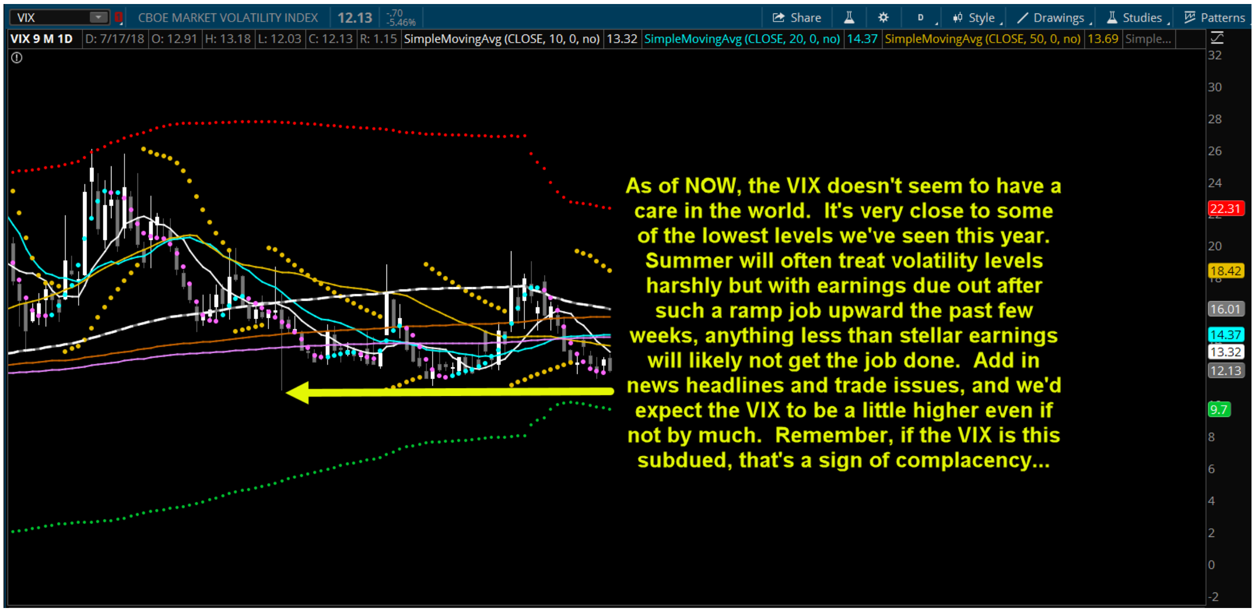
With so much swirling, the VIX remains unconcerned:



Maybe, just maybe, the VIX has it right to be unconcerned about downside risk. We've made the case for about a month that with Q2 supposedly being so strong and thus likely to deliver on the earnings front, the Street would likely try to rig a rally and run with that positive news background. For now, we're sticking with that as our take until the charts deteriorate more than they have thus far. We may just be seeing a pause before earnings are used to move this market higher. We're not keen on going with our "gut" but the charts just haven't broken down enough yet to go big bear. The bulls have the benefit of the doubt as far as we're concerned, at least for the moment. We must give it to them until they no longer deserve it because we try to go with the flow and the flow is still upward at this point in time, but we are doing so with an uneasy feeling. This July rise is something we anticipated but at this time we have a sense that it could fall apart with so much swirling out there and the fact that all other rallies of this kind in 2018 have done just that. Adding to this, we've mentioned the fact that a few big stocks are masking the fact that sub-surface, all hasn't been well in the market in 2018. Fortunately, BofA recently published this graphic that demonstrates just that:

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Chart 5: Excluding FAANG stocks, index returns would have been negative

FAANG stocks' contribution to the S&P 500 1H18 total return

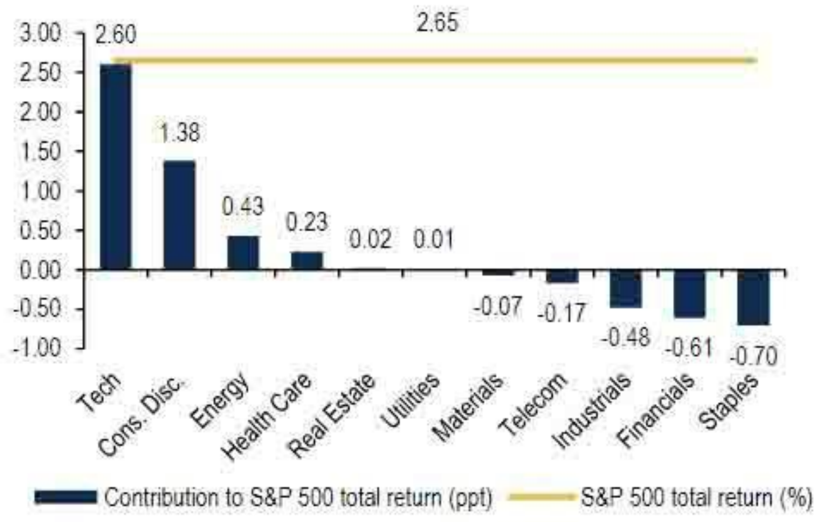
Note: FAANG = FB, AAPL, AMZN, NFLX, GOOG/GOOGL

Source: S&P, BofA Merrill Lynch US Equity & US Quant Strategy

That fact highlighted above is just another reason why we're uneasy bulls at this snapshot in time. So, if you want to know why they do not let tech correct in a big way, it's because they CAN'T let tech correct in a big way because that's what's saving the market at large:

Chart 4: Tech contributed 98% of the S&P 500 total return in the 1H

Contribution of sectors to the S&P 500's 1H18 total return



Source: S&P, BofA Merrill Lynch US Equity & US Quant Strategy

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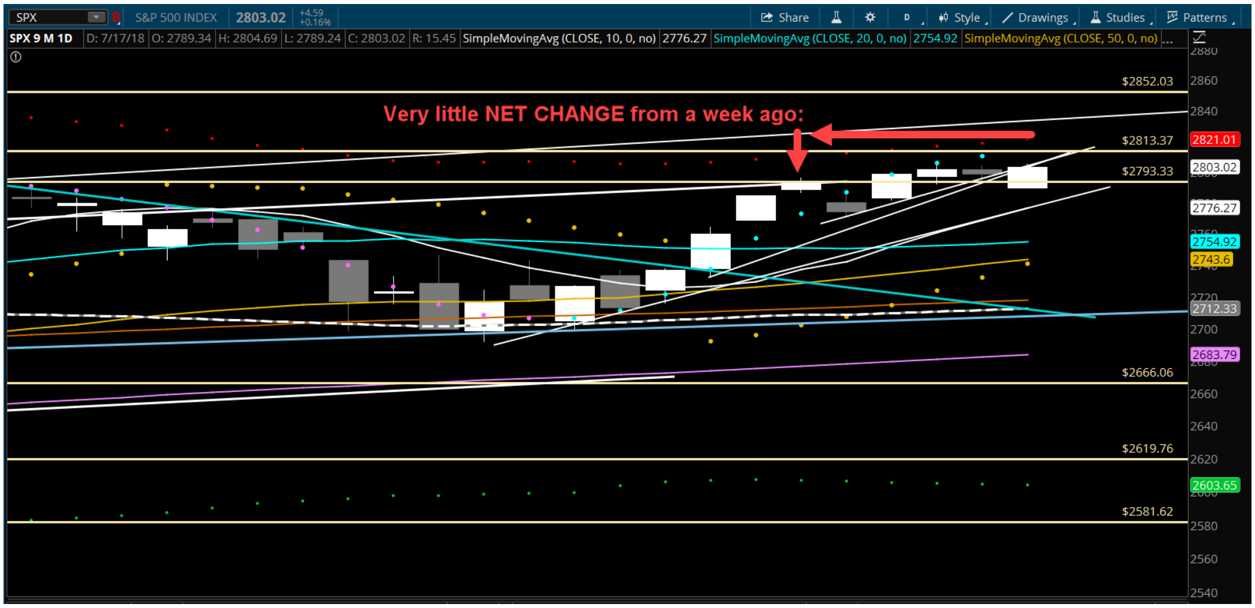
Moving on…

Each day of the week brings some fairly-powerful stuff with it as far as the calendar goes. Naturally, Jerome Powell talking with our "leaders" in DC will make headlines and likely move markets but the rest of the week has enough nuggets to move the needle as well. Hopefully, we'll get more interesting movement this week than what we witnessed over the past week, which, wasn't much:



This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, JULY 16					
8:30 am	Retail sales	June	0.5%	0.5%	1.3%
8:30 am	Retail sales ex-autos	June	0.4%	0.3%	1.4%
8:30 am	Empire state index	July	22.6	--	25.0
10 am	Business inventories	May	0.4%	--	0.3%
TUESDAY, JULY 17					
9:15 am	Industrial production	June	0.6%	0.6%	-0.5%
9:15 am	Capacity utilization	June	78.0%	78.3%	77.9%
10 am	Jerome Powell testimony				
10 am	Home builders' index	July	68	--	68
WEDNESDAY, JULY 18					
8:30 am	Housing starts	June		1.303 mln	1.350mln
8:30 am	Building permits	June		--	1.301mln
10 am	Jerome Powell testimony				
2 pm	Beige book				
THURSDAY, JULY 19					
8:30 am	Weekly jobless claims	7/14		224,000	214,000
8:30 am	Philly Fed	July		21.5	19.9
9 am	Randal Quarles speaks				
10 am	Leading economic indicators	June		--	0.2%
FRIDAY, JULY 20					
8:20 am	James Bullard speaks				

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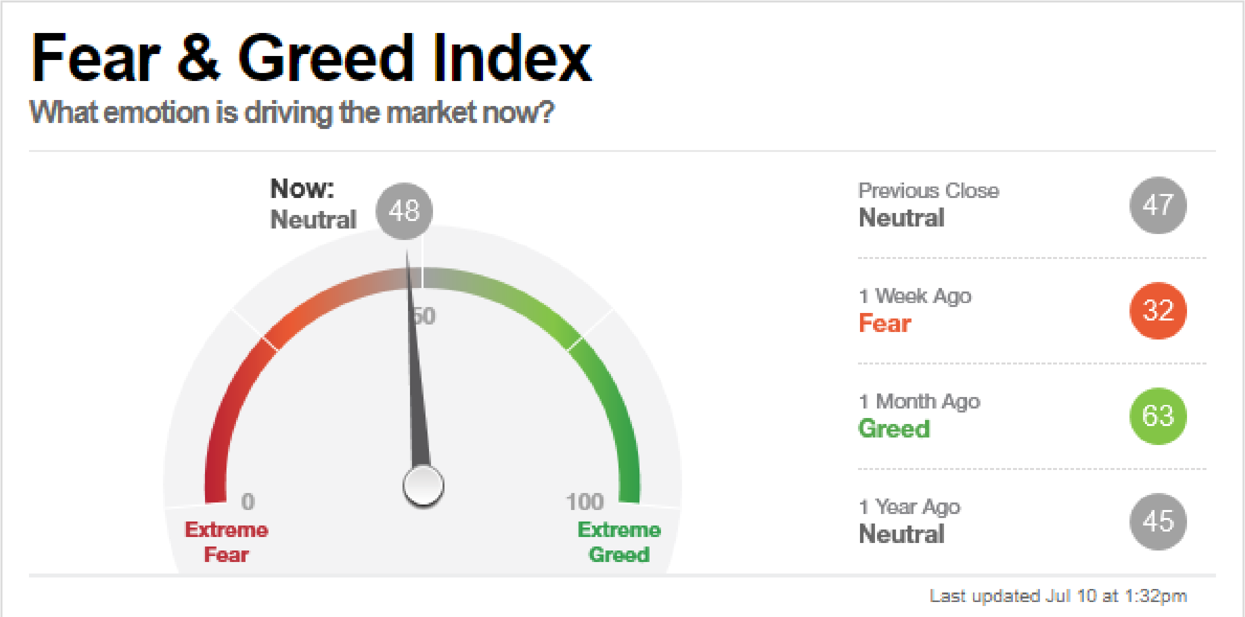
Below the Radar

To amplify how little has changed in the markets over the past week, let's look at last week's ***FG Index*** vs. this week's:



And now, this week's:

We're launching this week's **BTR** with a brief trip to Asia to get a glimpse at how things are running amok in the land of market planning and manipulation. In short, it's getting scary! It seems that state-approved or more state-approved stock buying is needed in Japan and China respectively to keep the party going.

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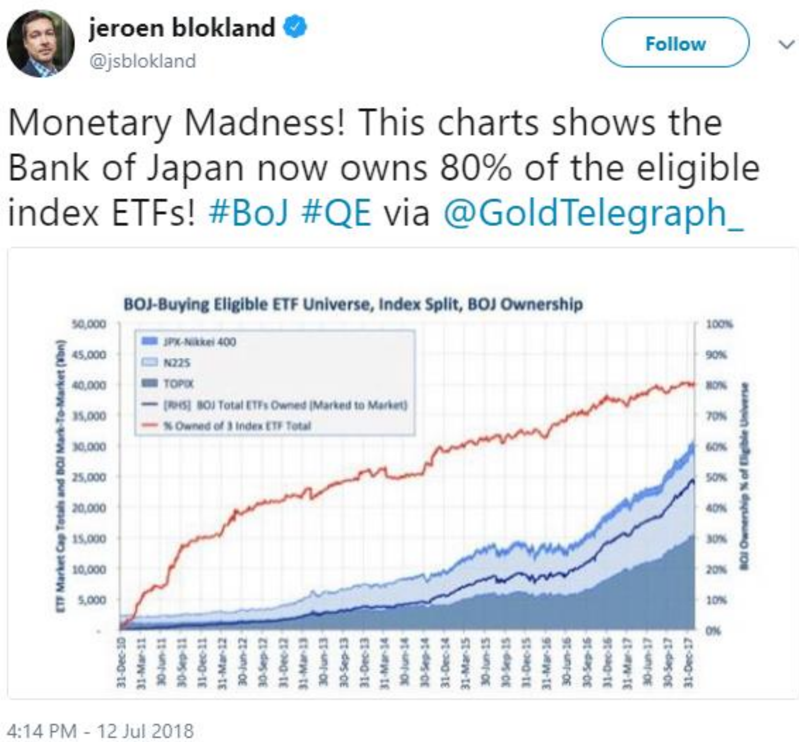
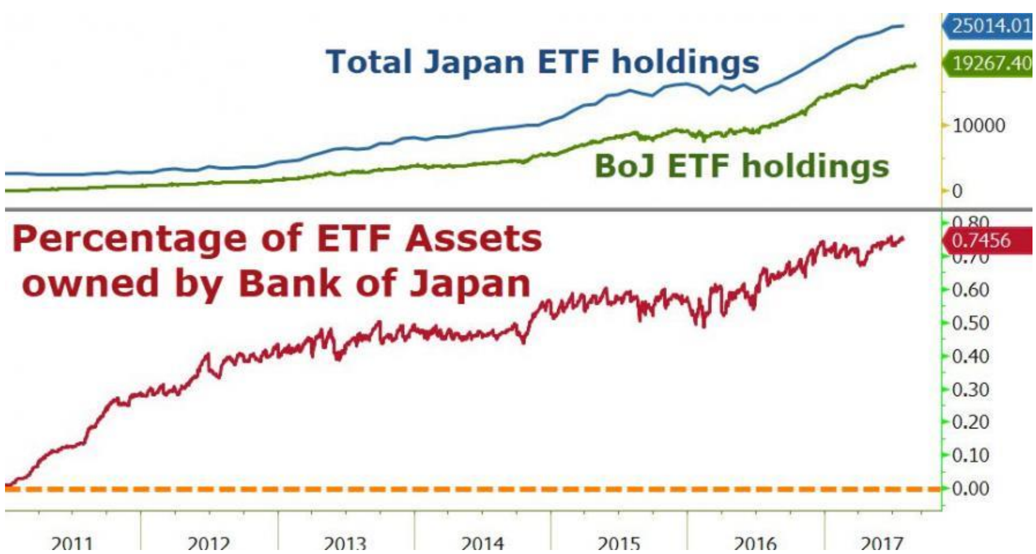
https://asia.nikkei.com/Business/Markets/Pension-whale-blows-past-Japanese-equity-investment-target?utm_campaign=RN%20Subscriber%20newsletter&utm_medium=JP%20update%20newsletter&utm_source=NAR%20Newsletter&utm_content=article%20link

https://www.zerohedge.com/news/2018-07-13/chinas-trillion-dollar-sovereign-wealth-fund-wants-permission-btfd-chinese-stocks

We can add to the above, to this below:





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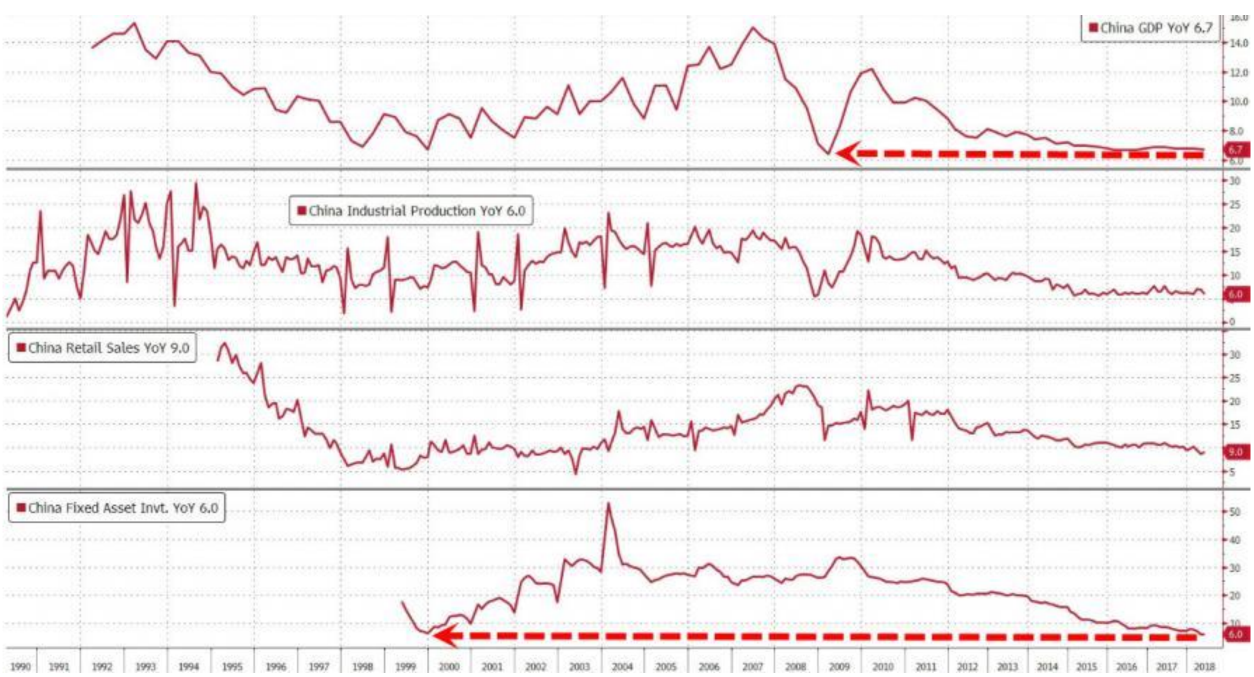
Little wonder why so many do not "feel" the way they have in the past with respect to the bull market in stocks over the past decade. There's rarely if ever been so much state involvement in the propping up of equity markets around the globe and it's on the verge of increasing as the markets hit hard times! Whoa, where would markets be if government and central banks weren't supporting them? How much more buying will it take before they've effectively nationalized a few companies? Anyway, things continue to deteriorate in China and that's why the ZH link above is worth clicking on. Here's a glance at the Shanghai Stock Exchange Composite Index:

It's corrected by over 20% and as we know, some would call that a bear market. Clearly, the selloff has been steep and quick especially when compared to the rise. The data is problematic too:



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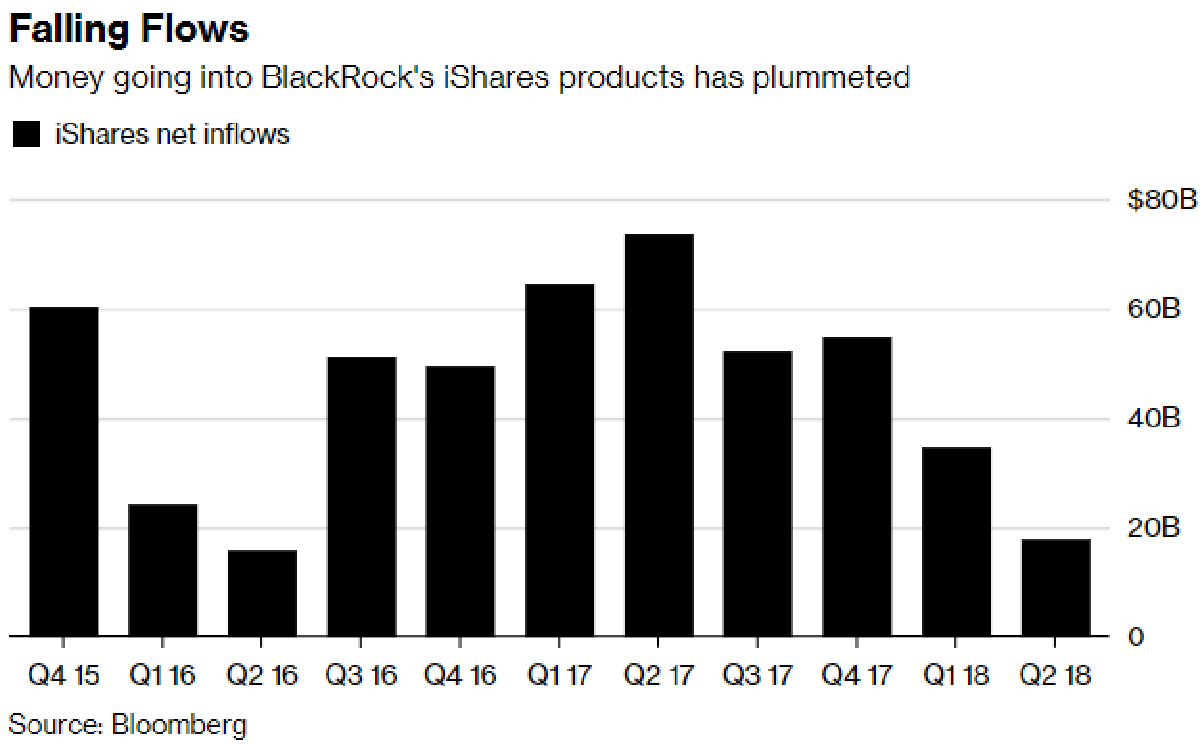
Clearly things are further slowing and have been but remember, this is BEFORE the tariff's etc. have kicked in. So, we can see that trade issues are already hitting China but judging by our markets, especially the NASDAQ, not so much here in the USA. That could be about to change according to Blackrock CEO Larry Fink:

https://www.bloomberg.com/news/articles/2018-07-16/blackrock-ceo-larry-fink-sees-u-s-slowdown-amid-tariff-battle

BlackRock Inc. Chief Executive Officer Larry Fink said that intensifying global trade tensions may spur a broad market downturn and a slowdown in the U.S. economy.

Stocks could drop 10 percent to 15 percent and U.S. gross domestic product would start slowing in 2019 if the Trump administration sees through its threat to levy tariffs on an additional $200 billion of Chinese imports, Fink said, adding that would elevate the current tensions to a full-blown trade war.

It would seem that investors in BlackRock's products share his concerns:



This isn't likely a "BlackRock Only" development. There's a good chance that all the uncertainty that's mounting everywhere we look is dissuading investors from committing more capital to stock investing. Fewer bids may make it difficult to sustain current levels as Fink makes clear.

As we bring **BTR** to a close, we can't forget that the main goal over the past decade has been to inflate asset prices, especially stocks and that this approach was adopted globally. As is normally the case, the gang pulled out all stops and did a bang up job of inflating and supporting prices when they wobbled but as is also usually the case, they may have overdone it, at least in terms of housing prices:

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https://www.peakprosperity.com/blog/114196/trouble-ahead-housing-market It seems that juggernaut locations are softening.

Apparently, a few real estate market watchers believe that housing has entered dreaded Stage 2. According to John Rubino, this is Stage 2:

Stage Two: Peak -- *Increasingly jittery owners attempt to sell out before the party ends. Supply jumps as prices stagnate.*

To support the Stage 2 argument, the following is provided:

Signs Galore Of Topping Markets

At the end of a speculative bubble, it's the assets that are most overvalued that correct first and correct hardest.

So, we would expect that as the highest-priced real estate markets fare from here, the general real estate market will follow.

When we take a closer look at what's currently going on with the red-hot real estate markets noted in the chart above, we indeed see evidence supportive of Rubino's claim that the decade-long Stage One mania may now be ending.

Here's a spate of recent headlines about these cities:

- ***Toronto****: Prices clearly peaked in early 2017. Prices are now* ***down 3% vs last year****.*
- ***Syndey****: Compared to last year,* ***prices are now down 5% and supply has ballooned 22%****.*
- ***Stockholm & Vancouver****: Over a recent 6-month period, prices in the luxury property market* ***fell 9% and 7.6%****, respectively.*
- ***New York City****: In Q1 2018,* ***prices were down 8% YoY and sales were down 25%****. NYC's luxury properties fared even worse.*
- ***San Francisco****: After hitting a record price high in January, the city has seen* ***a rare spring decline*** *in prices, while rents across the SF Bay Area are* ***starting to "cool off"***

Will it be housing first and stocks second like last time around? Let's resolve to be prepared regardless of what comes our way.

Bank and Roll!

Options Academy

"**IT**", happened again this weekend thus triggering this week's **OA**. Coincidentally, after a day spent conducting a live options trading event, we were asked during dinner at out hotel about our reason for traveling to that destination. We conveyed that we were hosting said event and the response was one we've heard **FAR** too many times in the past: "Oh options, I tried them a few times, but I lost money even though the stock went my way. They're a sucker's bet." Out of habit, we let it slide but decided, that especially for new folks, it would be worth visiting this subject to uncover **WHY** these casual players lose almost every time. In that spirit, we'll cover the **3 Big Mistakes** that they ALL make.

Let's first detail that this is a very common occurrence. We've heard that familiar refrain hundreds and hundreds of times over our careers and we know what pitfalls nearly everyone that's uttered those lines have fallen into with regularity. The difference-maker is ***know-how***. They simply don't possess any since they've only dabbled on their own.

<u>Pitfall 1: The *Play Cheap/Win Big* Nature of it All</u>

Mr. Ununiformed Options Dabbler falls into this trap at an extremely high rate. They dream big but typically don't have deep pockets. so they can't really play big the RIGHT way. So, naturally…they play big the WRONG way! What's the wrong way? It's buying OTM (Out of the Money) options because they can afford to buy many of them because they are DOLLAR CHEAP. They love the idea that they're potentially swinging a big stick without appreciating the fact that they've signed onto a longshot bet that's highly unlikely to work out unless a big move develops quickly. To summarize, they're trying to play at the high stakes table, but they don't belong there.

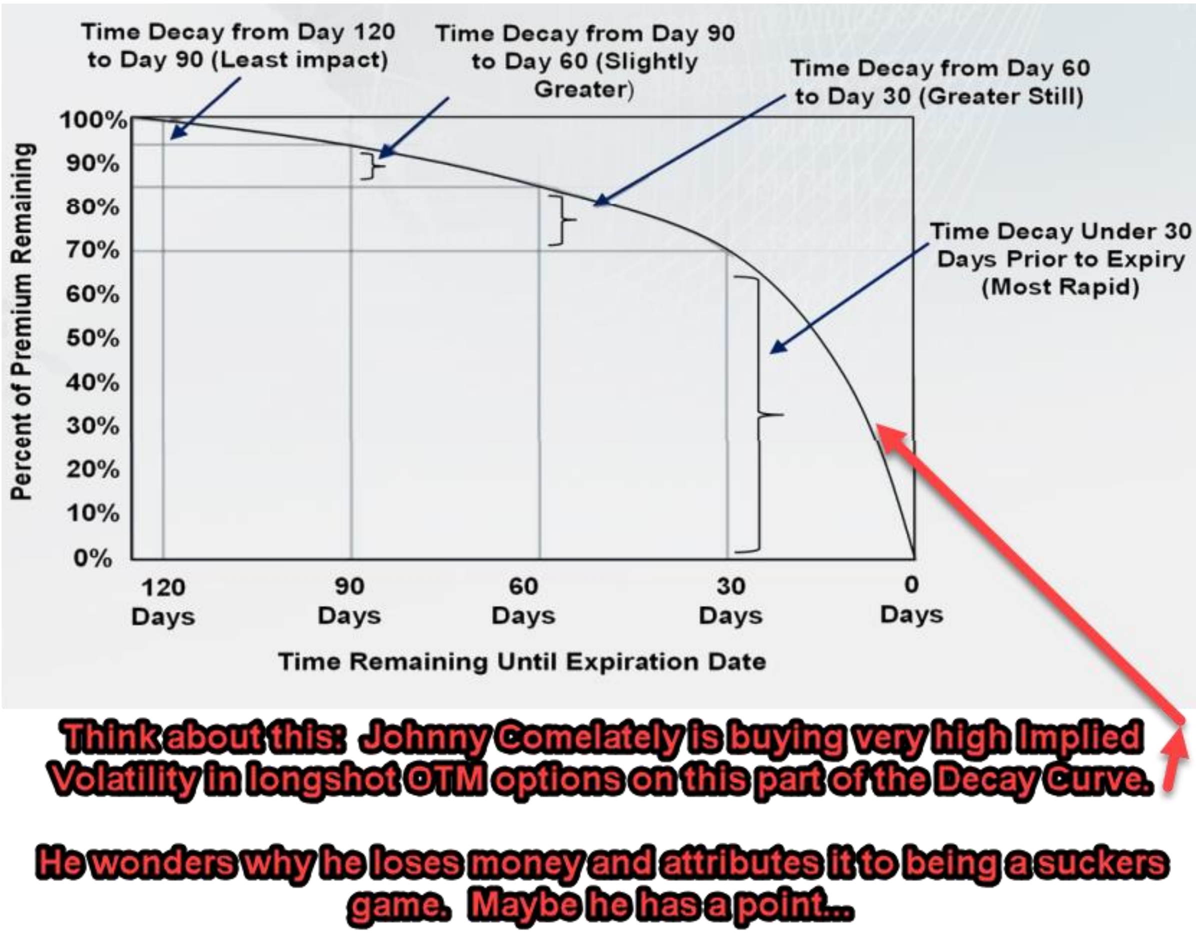
<u>Pitfall 2: They're Happy to be a *Johnny Comelately*</u>

This pitfall can and often is related to Pitfall 1. EARNINGS releases draw them into the game at just the wrong time. As experienced options traders are fully aware, options prices in what we refer to as the "earnings expiration" are normally much higher than most other times. This is lost on *Johnny Comelately* as he has no clue about implied volatility let alone its range over the past quarter or year. He has no basis to determine if the options are pricey or cheap. He just knows that because they're nearer-term, they're cheaper than all similar ones with more days to expiration and they'll fit the bill for him because the earnings are going to be great or awful and deliver him a windfall! To recap, he pays dearly to be an earning speculator having shown up late to the high implied volatility party.

<u>Pitfall 3: They Do Not Know that the *DECAY CURVE* Exists</u>

As options with little but just enough time to play the earnings release are often their focus, they are oblivious to the fact that they're making another grave mistake. They buy a duration that's already challenged with respect to the curve because they don't need more time for their big earnings score! The options they buy are doomed curve-wise without earnings producing a very large move in the stock's price. And, let's not forget that earnings reactions can cut both ways. To summarize, they're not observing the "location, location, location" mantra that the decay curve makes very clear.

Here’s the graphical wrap up that leaves no doubt as to why they’re big losers most of the time:



It’s far better to embrace rather than fight with the curve especially when options prices are jacked! Let’s never lose sight of this!

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