# MARKET TRACTION

## A Volatile Road to Nowhere – Independence Day Sizzle & Fizzle

We will be holding our weekly webinar on Thursday due to the holiday and will introduce this week's names at that time. Given the mercurial nature the markets have already exhibited this week, we believe it's prudent to wait for Thursdays post-holiday news to engage the markets.

This Week's Trade Ideas:

***Be careful folks! Markets are likely to remain thin and even more capricious. See **Outlook**.

**(View Webinar)**

**Bullish Ideas:**

Due out for Thursday's webinar.

Bullish Mentions:

Due out for Thursday's webinar.

**Bearish Ideas:**

Due out for Thursday's webinar.

Bearish Mentions:
Due out for Thursday's webinar.

We're noting this AGAIN!

***… if you decide to become or remain involved, you must remain nimble!!!***

The recent tweets and trade war developments have made this abundantly clear!

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.

**Week 23 of our Special Note:**

Have to run this one more time!: Swing trading in an environment like this one can be very challenging and clearly, news, that we can't foresee and time, is driving stock movement! We've tried to make remaining nimble a focus here in the newsletter and in our **Morning Call** webinar. In fact, we left this here the past few weeks:

***The markets have become increasingly driven by news and tweets that we can't know of in advance.*** *Not losing a great deal of money is a very important part of the process of making money over time in the markets!* **TRADE** issues continue to dominate market action. It couldn't be any clearer than that and that's exactly what we've witnessed. Stay smart!

# MARKET TRACTION

Outlook:

As with the trading week, the newsletter will be somewhat holiday-esque, as there's just not much to report on with many apparently having already dashed off to the beaches. They tried to pull off another rally, but it was sold into heavily. Does that portend fireworks on Thursday and not just Wednesday?

From last week's Outlook:

**IT KEEPS PLAYING OUT THAT WAY!:**

*We need to see if this a basic and overdue pullback or **something more**. Once again, we'll be called on as traders to be **ready to react and react quickly at times**. Banking and rolling even more aggressively when significant profits have materialized is something we do when the market experiences a pick up in volatility. Why? **Because we never know what news will hit the tape next**. **When in doubt, we take the money and run and hope for more but knowing we can't give it all back.***

*Last week's Outlook could just again be this week's outlook. We're not fond of repeating ourselves but we always try to be in sync with market conditions and market conditions continue to insist that we harp on being nimble. Sustained movement in safer-to-trade stocks just hasn't been there for a while. Good, but very quick moves have been there. We wish it were different and not news driven but that won't change anytime soon. Q2 is about to close out and earnings will soon follow, and Trump is likely to keep acting and tweeting. That's where we're at! We have to deal with it. **Maybe "singles" are all we can hit right now…***

If anything, last week and this week so far, have only confirmed the sentiments above. As we write, we're very little removed from where we were LAST TUESDAY! That's right, despite reacting and moving up and down on news and tweets, we're very nearly unchanged. We've traveled quite a bit but gone nowhere! ***Singles*** are the most we could have hit in this incessantly back-and-forth market. The holiday-shortened week in terms of trading time, will bring a half day, and then full day off. There could easily be a holiday hangover that persists until after the weekend as well. Certainly, news could affect matters when trading resumes but absent news, we'd expect to the bulls to be content with treading water to moving higher as they've been escaping by a hair of late. The **SPX** has come very close to suffering further technical damage, but they've successfully mounted campaigns to keep it above the 100 and 150 day SMAs which coincide with a support line of our own. When many choose to walk away from the markets around holiday times, literally and figuratively, trade can become thin and that makes dramatic movement easier to be had **IF** a party desires that to be the case. If everyone's happy to take a break in the USA, then we'll likely only get really big movement from news abroad. However, we can't discount our own Economic Calendar in the back half of the week. Enough "big stuff" is due out that can be seized upon to juice low-volume markets.

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.)

# MARKET TRACTION

**Recap of Last Week:**

Again, this week, we're keeping it simple. With the **SPX** gyrating back and forth, it was very difficult to seize upon a solid swing trade-oriented triggering. Put another way, the market's momentum never persisted. It was very choppy over the past week with gaps both up and down. We went back and forth and arrived near to where we started. We'll start with the bulls to be thorough and move on from there.

Bullish idea **LQD**, made a nice attempt to move up, and did get past the close trigger point but, with the market producing much noise but little progress, it's just barely above where we spotted it.

Bullish mentions were interesting as a package. **ENB** nearly jammed up $4.00 from where we spotted it. We'll take it! **EOG** also move up decently. **NFX** couldn't do much however. It's lagged related names. **SKX** is about where we found it which would normally be frustrating but in a market that's been heavy at times, that's not too bad. **TSN** never tried to trigger and became weak again, as was the case with PPC and **CBOE.** Again, no market support and thus we can't complain since they didn't pass their triggers.

As for our bearish idea, **VIRT**, it plummeted but too quickly. It fell over $3.00 from where we spotted it, that's pretty solid for a $29.00 stock, but it was in plunge mode in a big way by the time we discussed it in our webinar.

We did push out an update on June 27th after things turned south so that subscribers had a few names at the ready should we get a market plunge as the **SPX** was flirting with key support more than a few times. Those symbols were: **X, BBT, PHM, MYL, STL, WYNN, KBH, MPLX, VOYA.** Here's the outcome:

**X** is down a little. **BBT** also dropped a little. **PHM** managed to move up small but fellow housing stock moved up on earnings before selling off again and is up somewhat. We will reemphasize that we normally avoid earnings plays. **MYL** fell off nicely. **STL**, like **BBT**, was in trouble, but has been saved for now. **VOYA** and **MPLX** are down since then too. Finally, last Tuesday **WYNN** closed near $167.00 but fell to as low as $152.00ish as recently as today, so, it was the big plunger of them all.

Many of these names were down even more than they are now but the saving of the **SPX** to keep it above key support also helped to save many names from further falloff.

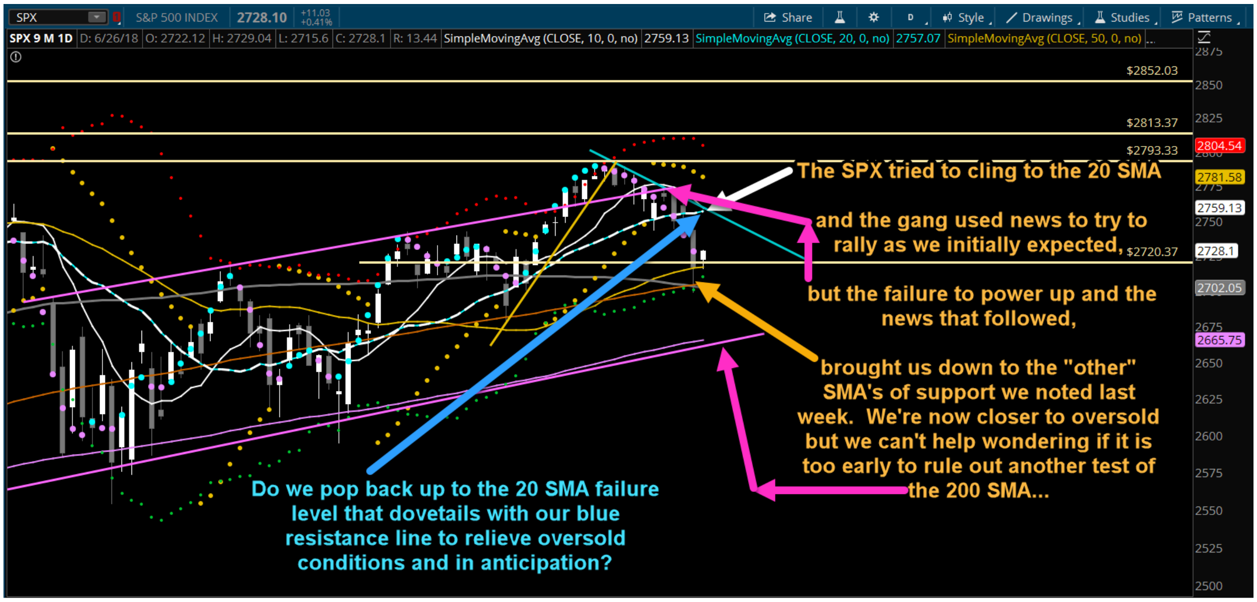
All in all, our bulls didn't fare too badly aside from the ones that never attempted to move higher. The bear side was overall pretty solid, but it did hurt the **VIRT** got torched so quickly. In a market that doesn't deliver much for too long, we have to evaluate matters accordingly.

Money was there to be made, if we handled things properly, and within the market's context, but it would have required more of a *singles hitter's* approach in most cases. A few moves were very nice, but if we remain trapped in technical limbo much longer, we'll come down with cabin fever!

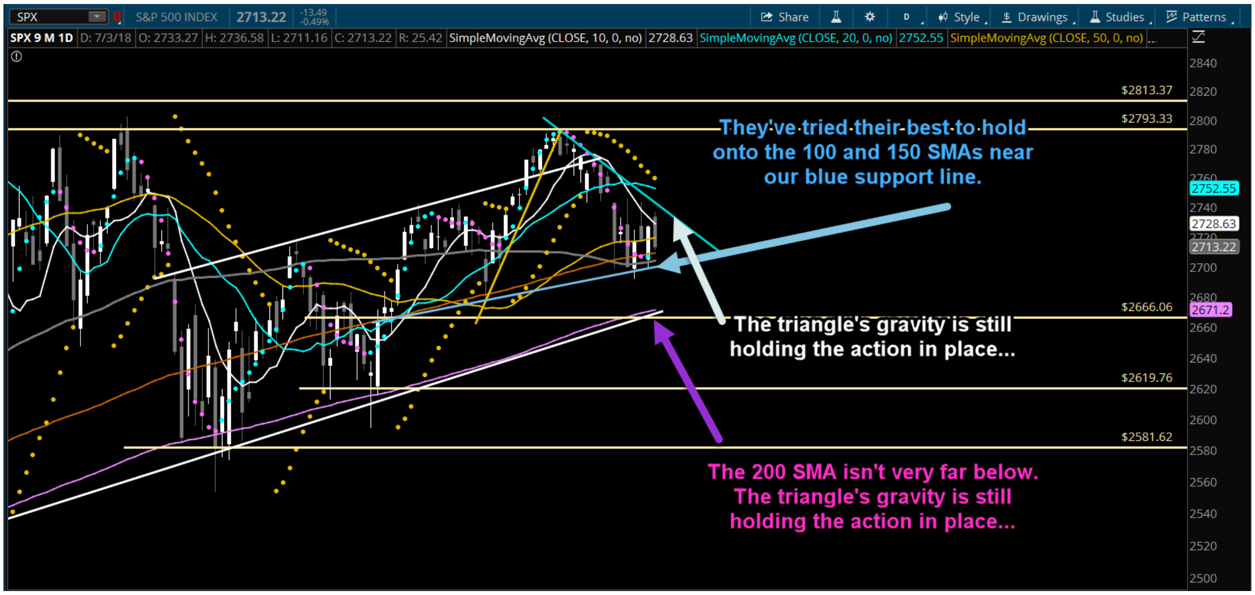
# MARKET TRACTION

**Market Overview**

Last week we wondered if a test of the 200 SMA as around the bend for the **SPX**:




And here's where they've brought us in front of the holiday:



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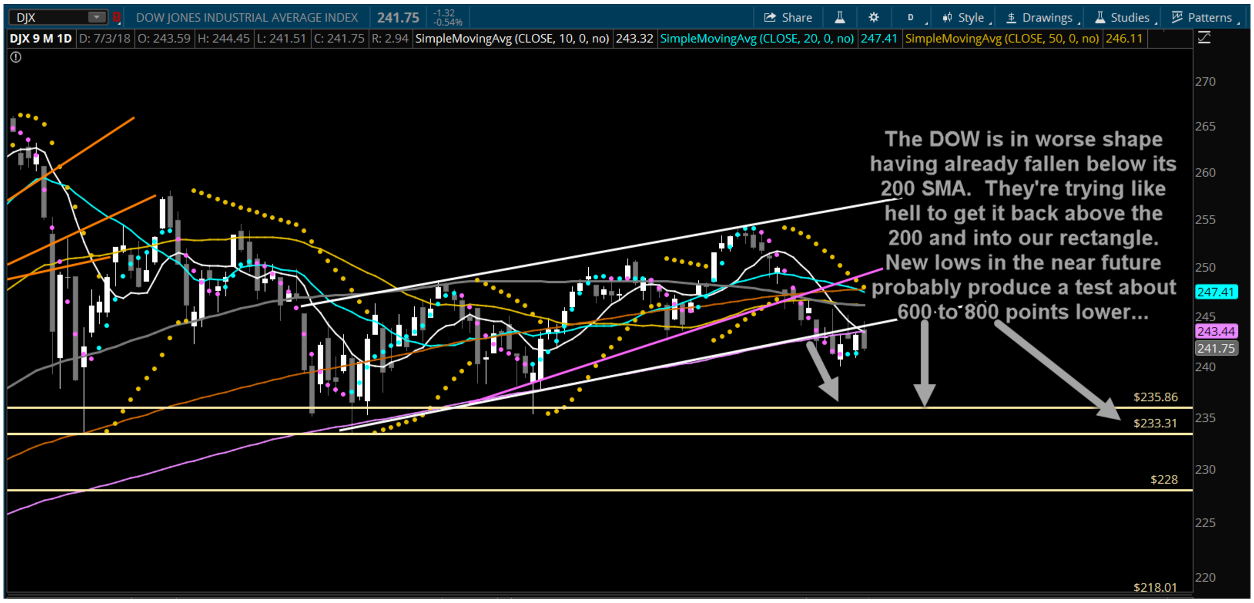
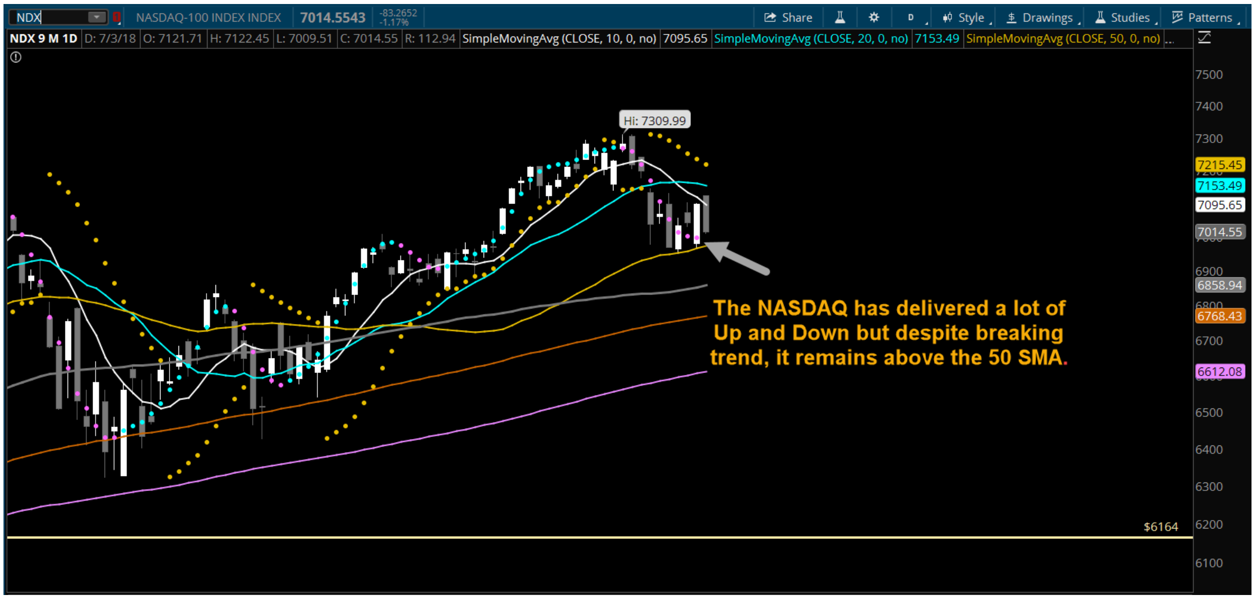
Moving on to the DOW:

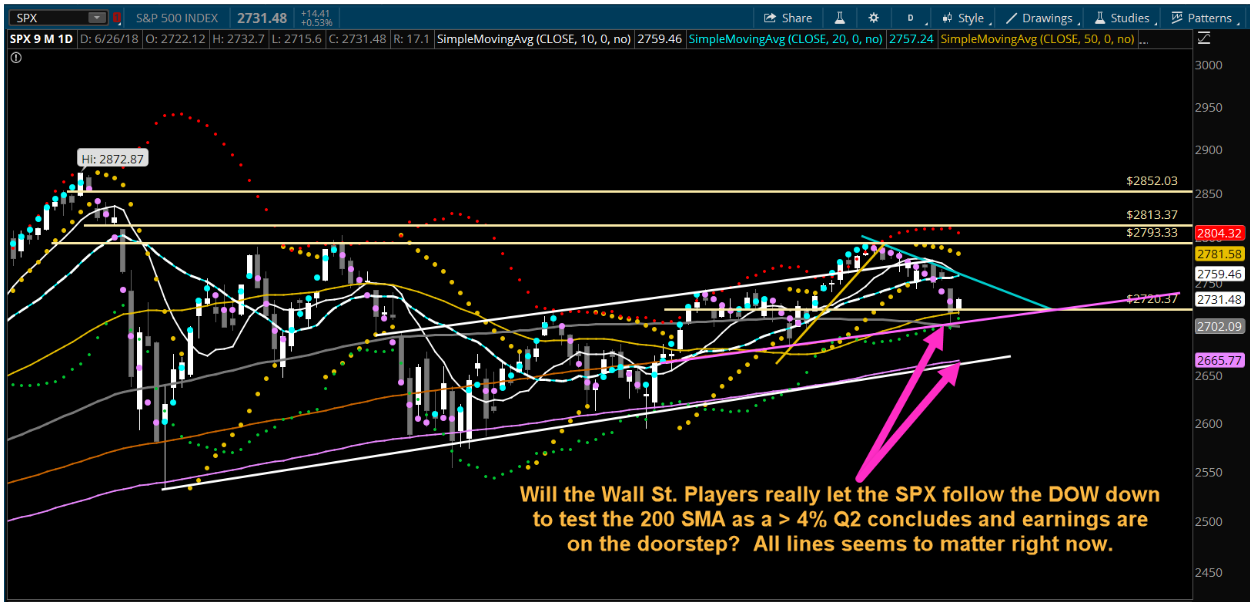



NDX:

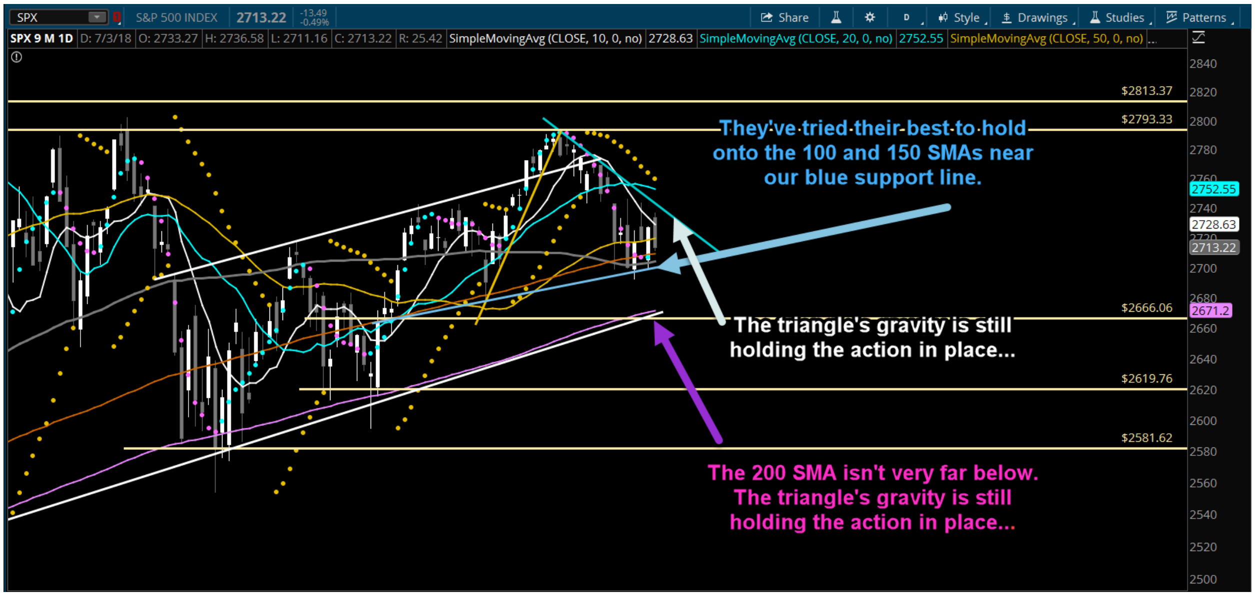


# MARKET TRACTION

Here's our final chart from last week's **Market Overview:**




We asked that question last week because it would have surprised us had that happened. Naturally, they pulled off the hold as we saw above but reprinted here:




If there's to be a test of the 200 SMA, yet again, will they let it happen soon to they can bounce big off of it when the earnings deluge begins? That's just one scenario we're considering now that they kept a better face on Q2 by supporting stocks last week. It's certainly not boring chart-wise and tweet-wise!

With the week shortened, Thursday and Friday's releases take on even greater importance because closed markets do not move! The FED minutes on Thursday will likely be the focus of much discussion but the other items due out could also impact. If it remains all about trade however, that may continue to trump nearly all else.

# This Week's Economic Calendar

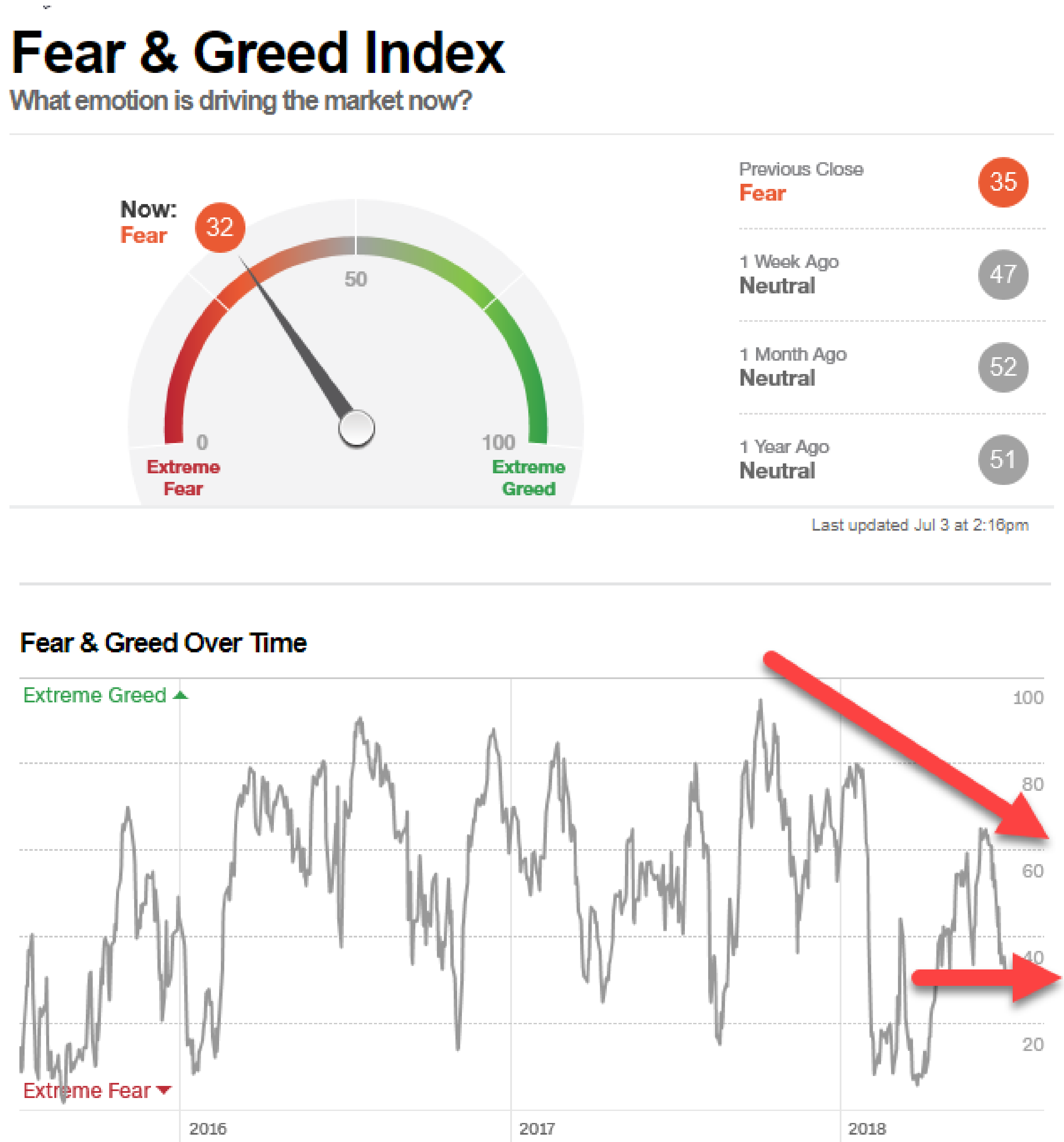
| TIME (ET) | REPORT | PERIOD | ACTUAL | MEDIAN FORECAST | PREVIOUS |
|---|---|---|---|---|---|
| **MONDAY, JULY 2** | | | | | |
| **9:45 am** | Markit manufacturing PMI (final) | June | 55.4 | -- | 54.6 |
| **10 am** | ISM manufacturing index | June | 60.2% | 58.3% | 58.7% |
| **10 am** | Construction spending | May | 0.4% | 0.0% | 0.9% |
| **TUESDAY, JULY 3** | | | | | |
| **Varies** | Motor vehicle sales | June | | 17.0mln | 16.9 mln |
| **10 am** | Factory orders | May | | 0.0% | -0.8% |
| **WEDNESDAY, JULY 4** | | | | | |
| | None scheduled Independence Day | | | | |
| **THURSDAY, JULY 5** | | | | | |
| **8:15 am** | ADP employment | June | | -- | 178,000 |
| **8:30 am** | Weekly jobless claims | 6/30 | | 225,000 | 227,000 |
| **9:45 am** | Markit services PMI (final) | June | | -- | 56.5 |
| **10 am** | ISM nonmanufacturing index | June | | 58.3% | 58.6% |
| **2 pm** | FOMC minutes | | | | |
| **FRIDAY, JULY 6** | | | | | |
| **8:30 am** | Nonfarm payrolls | June | | 200,000 | 223,000 |
| **8:30 am** | Unemployment rate | June | | 3.8% | 3.8% |
| **8:30 am** | Average hourly earnings | June | | 0.3% | 0.3% |
| **8:30 am** | Foreign trade in goods, services | May | | -$43.6 bln | -$46.2bln |

# MARKET TRACTION

**Below the Radar**

Once again with trade issues dominating, there's not much that's new that's longer-term oriented. More writers and contributors seemed to have been pulled into the market's vortex of choppy movement and commenting on it. We'll do our best to round things out with our own concerns.

We thought we'd start with a quick check on CNN's F&G index. Recently, we'd emerged from oversold, and were seemingly on our way to further overboughtness. That's reversed and there's quite a bit of potential to fall further.



The attempts to buy the market have become less "greedy" over the past 9 months. That can also be interpreted to believe that bulls simply no longer have the appetite to buy that they once did. Fewer bulls would mean less demand and less demand would mean sellers have a better chance to prevail. Time will tell the next tale, but it is becoming really, really, interesting. So interesting that we've read more bullish takes we've come across than we usually do, and they've provided good material for contemplation…

In our reading and watching, we've noticed something very interesting. Many long-term bulls are concerned that Q2 will print very strongly but that it will be by far and away the high point of growth for the year. They believe that the second half of the year will register much closer to 2% than 3% on balance. They also believed that the corporate tax cut that kicked in, overly juiced stock values. Naturally, as bulls, they still see little reason to exit the equity markets, but they do admit that gains are likely to be muted. Other observers are worried that the FED will continue to raise rates too quickly and allow themselves to be fooled by Q2's powerhouse GDP print. They believe that the FED will keep going up, up and up, as the second half of the year plays out much as the long-term bulls suspect. That is, they think the second half is shaping up to be nothing special and meanwhile the FED shows no signs of slowing the rise in rates. These are the type of concerns that are normally advanced by bears and readily dismissed by bulls. The fact that notable bulls continue to push these concerns into the mainstream, wouldn't seem to help the situation. The combination of rising rates into slowing hasn't worked very well throughout history! If major trade issues are added to the mix, it only gets worse.

https://www.marketwatch.com/story/fed-minutes-preview-suggestions-the-fed-slow-down-interest-rates-probably-didnt-get-much-love-in-june-2018-07-03

We've just described the domestic quandary basics but what of the international scene? It's likely worse according to Morgan Stanley:

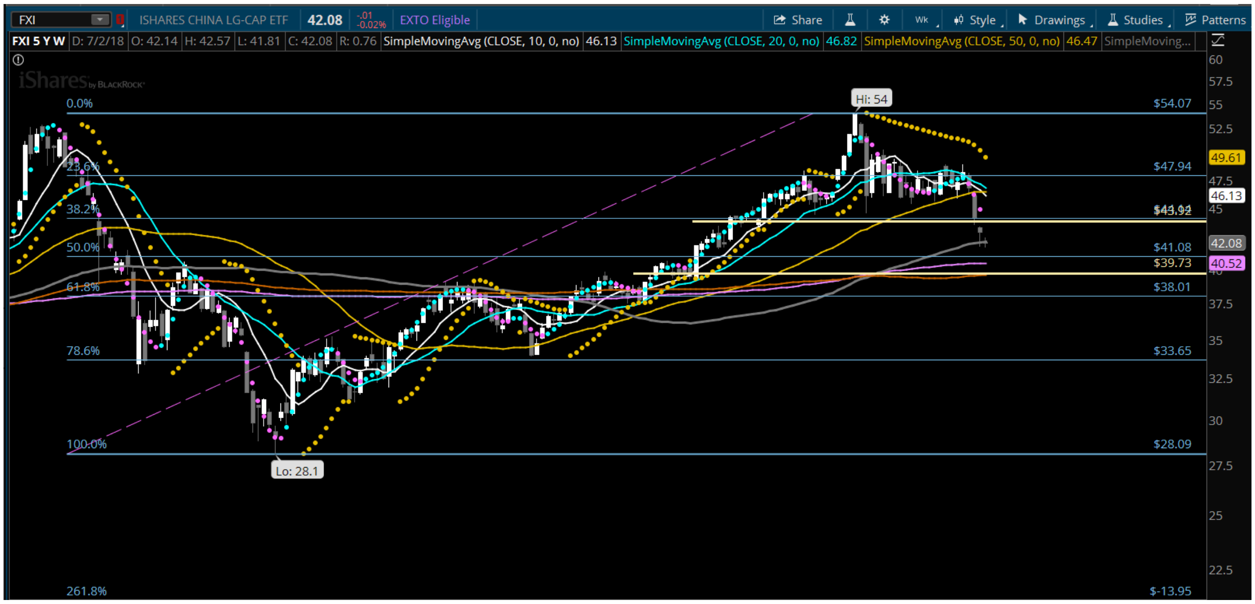
https://www.zerohedge.com/news/2018-07-01/morgan-stanley-vicious-cycle-has-emerged-and-will-only-end-when-stocks-dive

They expect the trade issues to escalate from there and thus believe short-term pain will be brought to the equities markets. Given the run we've witnessed over the past few years in foreign markets, there's a lot of potential retracement:

# MARKET TRACTION

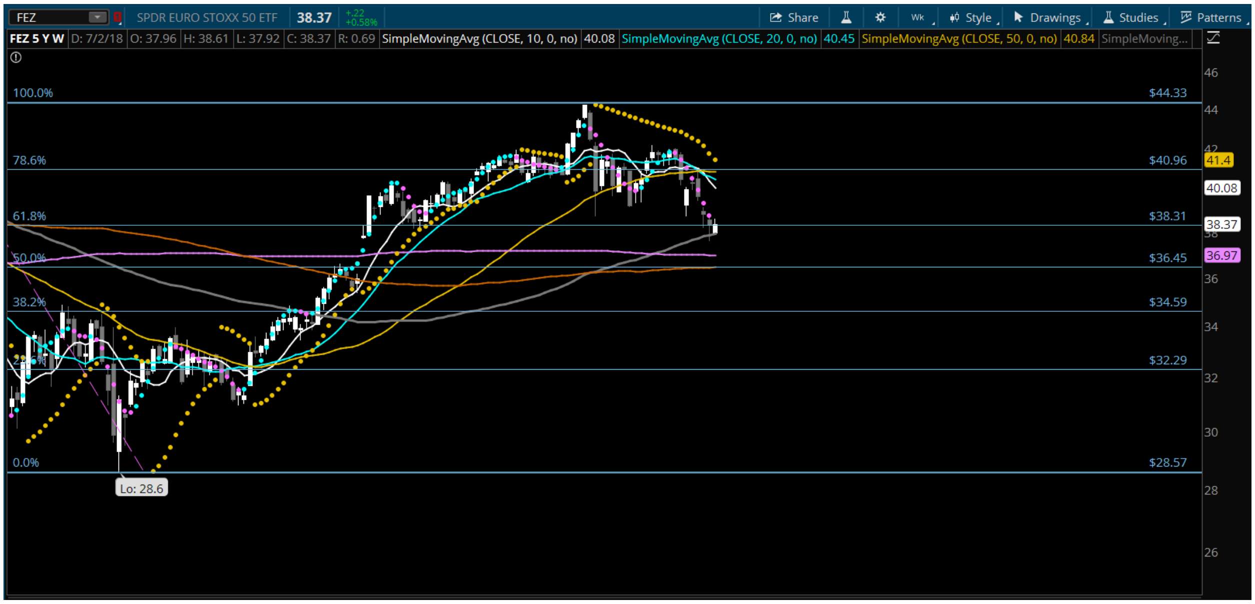
Emerging Markets:


China:

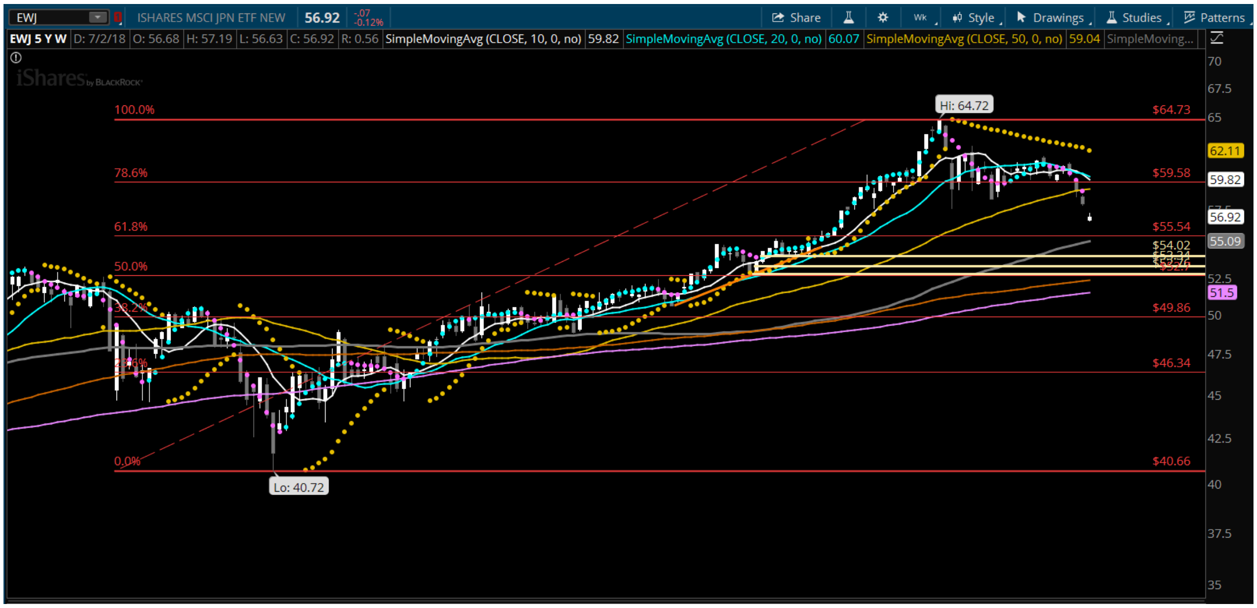


# MARKET TRACTION

Europe:




Japan:

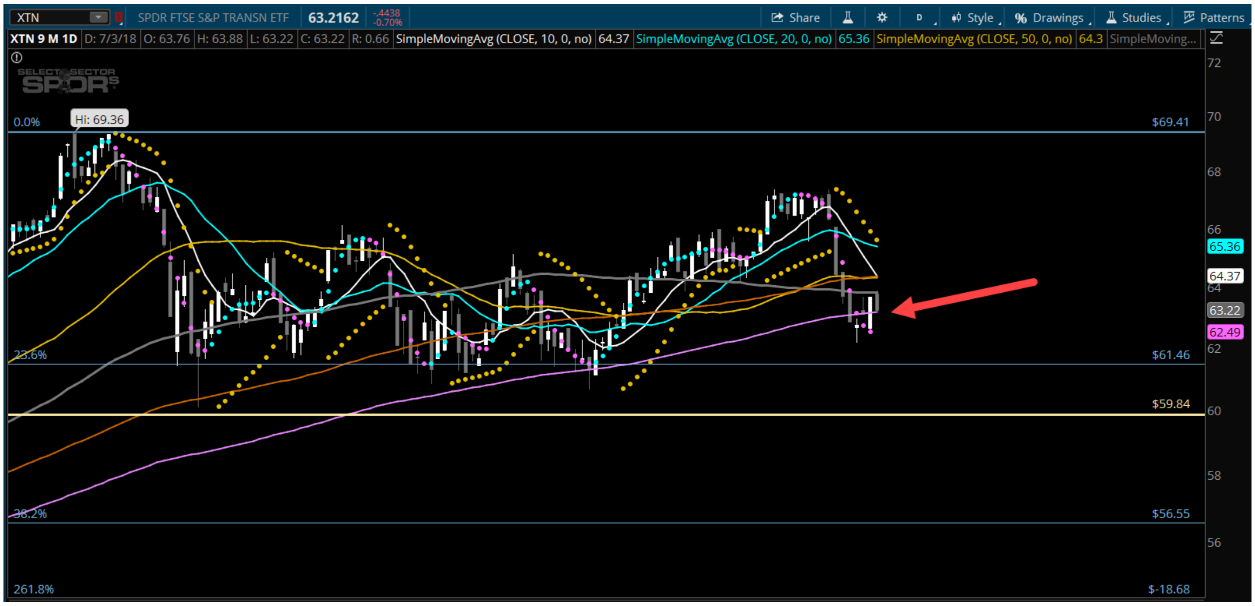



We can't conclude any other way but to offer that much of the rest of the world, key equity markets, simply do not look very good on the charts at the moment. If Morgan Stanley is right and even repairing trade takes time, that will leave a dark cloud hovering over equities with much more potential to fall on the charts. Now's let turn to the USA…

Domestically, a few key areas still appear concerning on the charts as do the **DOW** and **SPX**:

# MARKET TRACTION

The transports are barely clinging to their 200 SMA:




And the financials remain well below their 200 SMA, under pressure, and holding key support by a whisker:


Finally, rising energy prices are helping that sector naturally, but they're hurting other areas due to higher fuel costs. Simply put, key areas of the markets aren't performing well and if they are they're hurting others. Not good. Simply, not good!

Our take is that despite Q2 possibly being a very strong one, many issues remain if growth is to continue beyond 2018. The rough patch we've witnessed would still seem to have more to say. This is no time to let the summer lull us to sleep!

**Options Academy**

This week's action is very likely to be affected by the Independence Day holiday in many ways beyond the obvious day and a half of closures. And, since holiday action is part of the trading year, it's worth noting what can and often does happen around holidays in the stock and options markets so that we keep them in mind going forward. Holidays can dramatically impact volatility levels and the decay process can go from challenging to merciless for longs.

- The Holiday Run-Up - Not always but quite often, the Gang will goose stock prices higher in front of holidays. There are many thoughts as to why this happens but it's easy to see why Wall St. would want stocks on the incline rather than the decline as Americans meet up with friends and family.
    - They did this the past 2 days!
- The Pre-Holiday Slow Period - We know that most people like a party. Heading into a holiday, the markets typically experience a loss of interest as minds drift towards celebrating or observing holidays. After the opening of trade, which is normally a positive mark-up, quite often, not much will happen. This can happen several days before the actual holiday. The loss of interest will normally result in fewer shares and contracts being transacted. Therefore, commentators will often refer these phases as "slow markets" or "thin markets" or "thin trade".
    - Volume is definitely down the past few days!
- The Post-Holiday Slow Period – Reluctant to let the good times pass too quickly, traders instead will often milk the holiday mood beyond the holiday and not just for a day. This period can run for a week at times, as is the case with the End of Year holidays and the New Year's vibes. With July 4th smack dab in the middle of the week, we may just witness a quick mark-up, the holiday itself, and then not much until next week! With Trump's tweets, trade wars looming, and the rest of the world still trading, we may not, but, we just may. Investors may have even went "Holiday Mode" over the weekend and may want to stretch it beyond this week and the upcoming weekend! We shall see if the world rudely intrudes on this Summer's lazy daydreaming.
    - Too soon to tell, obviously!

Naturally, veteran traders are well-aware of all the above and they PLAN accordingly. That means, way before the holiday haze is upon the markets, traders are already lowering option prices (measured in implied volatility). Getting caught with too many long options can be painful as they're often MARKED DOWN in price. Market makers, not wanting to be stuck with too many options themselves, will, when possible, drop option prices so that they correspond to what they were expected to be worth at a future date. That's a lot so let's unpack it a little with a real-world example…

If I'm a long-time trader, I know how holiday periods work and I know the tendencies of traders. I know that traders want to capitalize on THETA in front of holidays and thus I know they'll be salivating to sell options to me, expecting to buy them back much cheaper after the holiday phase has passed. What's a poor pro trader to do? PRE-DISCOUNT of course! If I know that the masses want to dump options on me in front of the 4th of July and live their theta dreams for maybe an entire week, I have no choice but to dramatically drop the prices I'll pay for options, all things being equal. This year's Independence Day lead-in has been a little different due to the markets falling and barely hanging on to key technical levels.

# MARKET TRACTION

However, let's have a look at the past few days in the **VIX**:


We can see that the demand for options, has dried up in a big way just in front of Independence Day. The **VIX** has lost about 3 points from the high it registered yesterday, but, put another way, options are now 15% cheaper, at the moment, than just over 24 hours ago!

We may expand on this next week but for now we'll go with these takeaways:

1. If you want to sell, beat the rush! Sell *BEFORE* prices have imploded.
2. If you want to buy, you can pick up options very cheaply just in front of a holiday close if, if, you have the boldness to do so. However, if the holiday mood drags on, you may regret it.

There may be another way or two however to approach matters. We'll likely cover those next time.

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

**Enjoy Independence Day!** **Let freedom ring!**