MARKET TRACTION

This Week's Trade Ideas:

***We're sticking with only Mentions this week, for now, due to the nature of the week. The pending news issue rarely looms larger than a week such as this one. If things sort out, we may find names and make them official ideas. For now, consider our mentions in light of the news that's certain to be made over the next few days and trade accordingly.

Bullish Ideas:

None at this time due to * above.**

Bullish Mentions:

(View Webinar) MGM, WMB, SJM, SCI, NFX.

Bearish Ideas:

None at this time due to * above.**

Bearish Mentions:
(View Webinar) (V, MA, AMTD, ETFC – financially related/*Counter trend/reversal trades) , OLN, ECL, VIRT, NOV.**

We're noting this AGAIN!

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

With the week set to potentially be a big one in terms of news developments and naturally the market movement that could follow, we need to stay on top of things even more so! Adjustments, and rolls need to be completed much more frequently than during normal phases of market price action as pending news events can alter conditions and possibly on little notice.

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

Week 20 of our Special Note:

Swing trading in an environment like this one can be very challenging and now the news cycle could add to the mix. We've tried to make that very clear here in the newsletter and in our **Morning Call** webinar. 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!

Outlook:

The world's eyes have turned towards Singapore and the US/NK Summit Spectacle. Trump and Kim finally together in the same place and the same time. Sounds fairly-combustible to us but the combustion could propel the markets in either direction! But, wait, there's more… The FED and the ECB are set to do their *thing* this week and their *thing* can move markets in a big way as well. So, we've got Singapore on Tuesday, the FED on Wednesday and the ECB on Thursday. It's all but a certainty that rates will rise in the US on the FED's announcement Wednesday afternoon. Following that fun, the ECB is expected to discuss their wind down of bond purchasing which could become a flashpoint given the fragile nature of European finance. See Italy news to get as taste of what we speak. All this means that gaining bankable visibility may be very challenging for swing traders this week.

Technicals:

Will be discussed in-depth in the 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:

After the prior week to last week, we declared it to be the worst one we've experienced while writing this newsletter. We're happy to report that it remains so! Last week, while not as positive as we'd hoped for, delivered much more than the prior week but admittedly, the bar was set low! We were happy after the prior week to have come out unscathed as very little cooperated with us. The past week, well, at least several bullish mentions decided to play nice and the markets made it easy to ignore our bearish mentions unless one really had a bone to pick with one or two of the bearish names but that would be making it personal! Something we avoid!

The **SPX's** June 5th close was $2,748.80. At the writing of this newsletter, the **SPX** had made it up to $2790.21 as a high. That was in keeping with our lean from last week so at least that worked out well. But before we get into the bull side, let's knock out the bears because they're easy.

The market's bullish action nullified us ever bothering to look at the bear side. All bear names were there in case the market reversed, and we'd need to have something at the ready. **LM** stayed above our trigger line of $36.43, but it wasn't alone. **SEDG, MCD** and **COST** all stayed above the trigger levels we'd identified in case the market failed to hold support. Now, onto the bulls…

Our bullish ideas and mentions all performed relatively well. **ROKU** closed on June 5th at $40.26 and reached a high today of $42.15 (+1.89). **MO** continues to grind higher going from $56.02 to $58.46 (+2.44). **MYL** started off a little tough with a big reversal bar on Tuesday June 5th, but the past week saw it regain that high going from $39.98 to $42.3 (+2.32). **JNPR** has followed the market going from $27.31

to $28.16 (+0.85). **CERN** had a quick pop on Wednesday that would have been a quick score, but it is seemingly trying to get back to the highs going from $60.39 to $61.45 (+1.06). **LYB**, the highest priced stock that triggered, ran from $115.44 to $118.85 (+3.41). **FAST** did not trigger as it opened down on June 6th and traded below the 100-day SMA (a bearish signal). We noted that it was to be avoided for that reason during our webinar. **HOG** revved up from $41.07 to $43.24 (+2.17). The way the action unfolded, left us wanting to leave matters a little more open than usual. Triggering came later for the official ideas, but many mentions began to act well sooner.

Of the bullish stocks, there was an average gain of about $2.00. But, that would assume that a trader could have traded each of these close to perfection and we know that is not possible. On the flip side, nearly all bullish names attempted to move up in a market that sought to move up and that's what we were looking for last week. Much of the market's big move happened before, and as, we were conducting our weekly webinar so to get some nice movement from that point onward was pleasing. However, with this week's news *roadblocks* looming, the market didn't run up as much as we'd hoped and that limited the run we could get in most of our bullish names.

Market Overview

Market Overview is normally very chart-centric as charts have served us best, and by a very wide margin, versus all other approaches we've utilized for short-term trading. Much like **Below the Radar** (below) content this week, even the charts may be forced to take a back seat to the news cycle. This week is a news-lover's dream but a nightmare for traders that prefer to rely on the charts to win out during normalized (confidently predictable) market phases. The next few days are shaping up to be anything but a normalized phase. We must at least contemplate that the news, that this week will produce, will drive some market action. But, will this week move the markets in a big way or will see-saw market action balance out? We'll soon see, but the potential is certainly there if big volatility is about to come our way, and even as true-believer die-hard technicians, we must concede that news can trump charts, at least, in the short-term. Therefore, this week could be an extremely tricky one to navigate. Often, well-publicized events such as the Trump/Kim meeting can produce anti-climactic outcomes. With two volatile personalities involved, that wouldn't seem likely here, but one can never know for certain. The FED and the ECB doing their respective *things* this week could also come to pass without producing a volatility surge as well. We simply can't know but must be on guard regardless. Many times, we've seen the indices remain in a holding a pattern until the FOMC makes their interest rate adjustment announcement on Wednesday afternoon only to then experience a strong immediate reaction to that news in the markets as the trading day draws to a close. That's unlikely to be the pattern here due to the US/NOKO meeting on Tuesday. We're forced to guess that following that summit, some form of news will be made that will allow Wall St. movers to move futures markets and drag stock prices along with them, naturally of course. Could we then see that reaction be short-lived and witness a "squaring up" in front of the FED taking the stage? That also would seem to be a distinct possibility. Long-time readers know that we try to avoid guessing and prefer to react as the charts inform us to react. However, when the news-cycle seems all but certain to dominate the discussion and produce market-moving fallout, we may find ourselves having to reassess developments on the fly. If there's ever been a week that we could foresee having to utilize sub-daily charting, this would be it! The moves that occur may be sharp and swift so if you're holding positions, those minute and hour-based charts may be some of your best friends over the course of the next week and a little beyond. So…with the news backdrop and

expectations being what they are, we're going to go light on the charts as trading in front of what could be a news maelstrom could be very dangerous and we don't want to allow the charts to lull us in to a false sense of security. Put another way, what we're about to cover could very easily be blown up by explosive news out of Singapore or a central bank. We can envision over a dozen possible outcomes knowing what we know about this week. We could go back, forth, up, down and around with respect to charting takes on what we currently see prior to this news hitting or not hitting, and all our forecasting may not be worth a hill of beans if the news impacts as many believe it could. All things considered, we're keeping it very short and very simple as a result.

The SPX along with our key lines from last week are above. The SPX held our support line and with Monday's action, made it up to our first level of resistance. The move from the most recent key low has seen the bulls dominate for nearly 2 full weeks. However, if you look closely, you can see that after pushing out of our rising rectangular consolidation, the SPX did back off and seemed to convert that former resistance into support. Last Thursday and Friday's lows may be enough to embolden more bulls to retest the waters. We must note that there are now a few reasons to believe that support lies near those aforementioned lows. And, with our next resistance levels up from here not residing too far away… it really isn't out of the question for the SPX to soon be knocking on the door of the All-Time high! Naturally, naturally we say, this presumes that Trump and Kim let the good times roll! And so… does the FED, and the ECB and your brother-in-law…well, you get idea. We're more inclined to believe the bullish scenario because, as we've mentioned here in the newsletter and in our webinars, the bigger picture technicals continue to gradually improve nearly each time we look at them.

Techland, which had been racing too far ahead, has cooled just a wee bit but the Dow Jones Industrials are also perking up/catching up a little much like the S&P 500. That scenario is essentially what we were postulating could happen last week. So, aside from being a little short-term overbought on some measures, the ***MO'***, really seems to be back with bulls. Had it not been for this week's cornucopia of big news, we'd be more inclined to be patient with bullish names and hopefully allow them to continue to waft higher.

MARKET TRACTION

As a final reminder for now, because we do realize we're beating this drum too loudly and too frequently, anything we formulate now can be reduced to smithereens in no time by news that we cannot know until after markets have already popped or dropped in a big way. Certainly, news can drive markets at any time, but if it should this week, we can't say we had no chance to see the steamroller before…

Adding to this week's intrigue is the calendar of releases. Consumer and producer prices can impact markets when inflation/interest rates are heightened concerns, so they could induce some movement early to mid-week. The back half of the week after the FED's announcement on Wednesday, also holds some potential to produce stock movement with retail sales, capacity utilization, NY Empire index of economic activity and consumer sentiment. All told, this week, at least *on paper*, has the chance to be a memorable one for the markets.

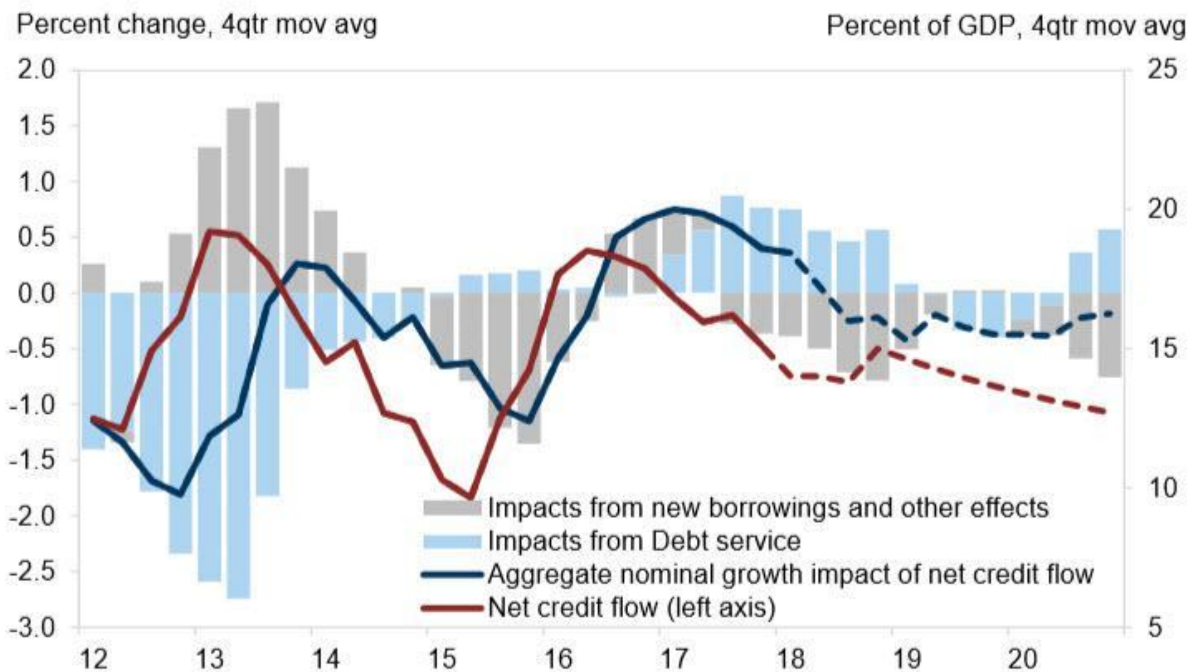
This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	FORECAST	PREVIOUS
MONDAY, JUNE 11					
11 am	Survey of consumer expectations				
TUESDAY, JUNE 12					
6 am	NFIB small-business index	May			104.8
8:30 am	Consumer price index	May			0.2%
8:30 am	Core CPI	May			0.1%
2 pm	Federal budget	May			
WEDNESDAY, JUNE 13					
8:30 am	Producer price index	May			0.1%
2 pm	FOMC announcement				
2:30 pm	Jerome Powell press conference				
THURSDAY, JUNE 14					
8:30 am	Weekly jobless claims	6/2			N/A
8:30 am	Retail sales	May			0.3%
8:30 am	Retail sales ex-autos	May			0.3%
8:30 am	Import price index	May			0.3%
10 am	Business inventories	April			0.0%
FRIDAY, JUNE 15					
8:30 am	Empire state index	June			20.1
9:15 am	Industrial production	May			0.7%
9:15 am	Capacity utilization	May			78.0%

Below the Radar

This may be the worst week in history for **Below the Radar**'s ego! The **Above the Radar** news that's pending this week seems poised to dominate the headlines and influence the markets in the short term and likely beyond. It's not often that a US/NOKO summit follows on the heels of a contentious G7 meeting just prior to an FOMC hiking of US interest rates followed by the ECB making public their plans for winding down their support for the European financial system! But...that's exactly what we have this week! With so much space and time being dedicated to covering all the above, the Interweb was relatively light over the past week with respect to standard **BTR** fare. However, there are few items worth nothing…

We'll begin our rambling with a little blurb we found regarding China's future economic activity.



Source: Goldman Sachs Global Investment Research

What we see above is Goldman's expectations for credit flows within China. The quick take on it is that the pace of credit seeking is definitely decelerating and that's expected to be a drag on China's future economic activity/output which will, by extension, serve as drag on World GDP and given China's stature, that could be an issue for many other economies around the world. So…there's that. But there's also current concerns with respect to Europe. US stock market players seem to have quickly forgotten about Italy's issues, Spain's issues, and well, Europe entirely! However, Europe could circle back in the news cycle and matter again, maybe…

On Thursday, ECB President Draghi is expected to discuss Euroland's financial system issues (Italy, Spain et al.) and also will likely comment on Europe's economy at large and the phasing out of Europe's version of Quantitative Easing, which is expected to tail off by year's end. The ECB withdrawing support for

European bond markets in the wake of Italy and Spain's potential insolvency dramas, may not be received well! So…there's that too!

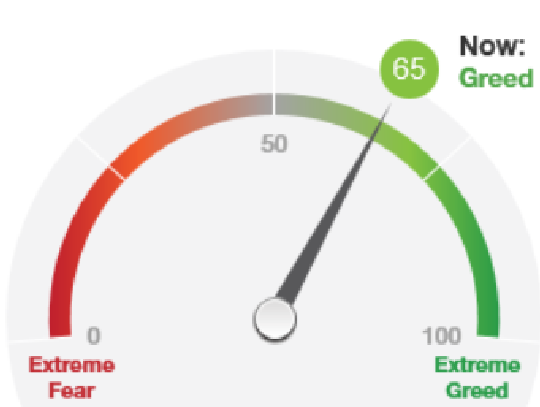
BTR, was conceived of to serve as a section that would inform readers as to potentially problematic issues that are developing but not receiving much if any attention from Big Media, aka Wall. St's official cheerleaders. Naturally, as the Street of Schemes is almost always bullish almost all the time, we normally seek out bearish warning signs that most tend to ignore until forced to contend with them, at which point, they have a problem on their hand. We prefer to be informed far in advance as to not be caught off guard. However, we also have an obligation to flip the switch at times and make compelling bullish observations especially when the market has been stuck in a rut and it seems that possibly too many have become overly concerned about stock prices. NOW may be such a time as the latter case but ONLY because so much news is pending, must we remain as tempered as we are presently.

To bring this abbreviated **BTR** to a conclusion, we're going to offer our own common sense take on things as we currently see them.

1. There's seemingly a strong pick up in economic activity underfoot. The Atlanta FED is talking 5.00%-ish! 5.00%-ish for Q2 GDP!
2. The FED seems to be raising rates at a steady pace and seems to have avoided, thus far, the spooking of the markets by raising them too fast.
3. Even after the increase we've seen and those believed to be planned, rates are still on the low side of where they've been historically.
4. Corporate profits, yes despite our misgivings with respect to the accounting and financial engineering shenanigans, are at least nominally, at an all-time high.
5. There are more job openings than job seekers (Yes, we're overlooking the government's BS-laden stat calculating on this too). More pay and paychecks should produce more growth.
6. The Big Picture Technicals seem to be confirming this each time we review them.
7. Lastly, we're not overly-toasty yet and thus there could be more room to run:

Fear & Greed Index

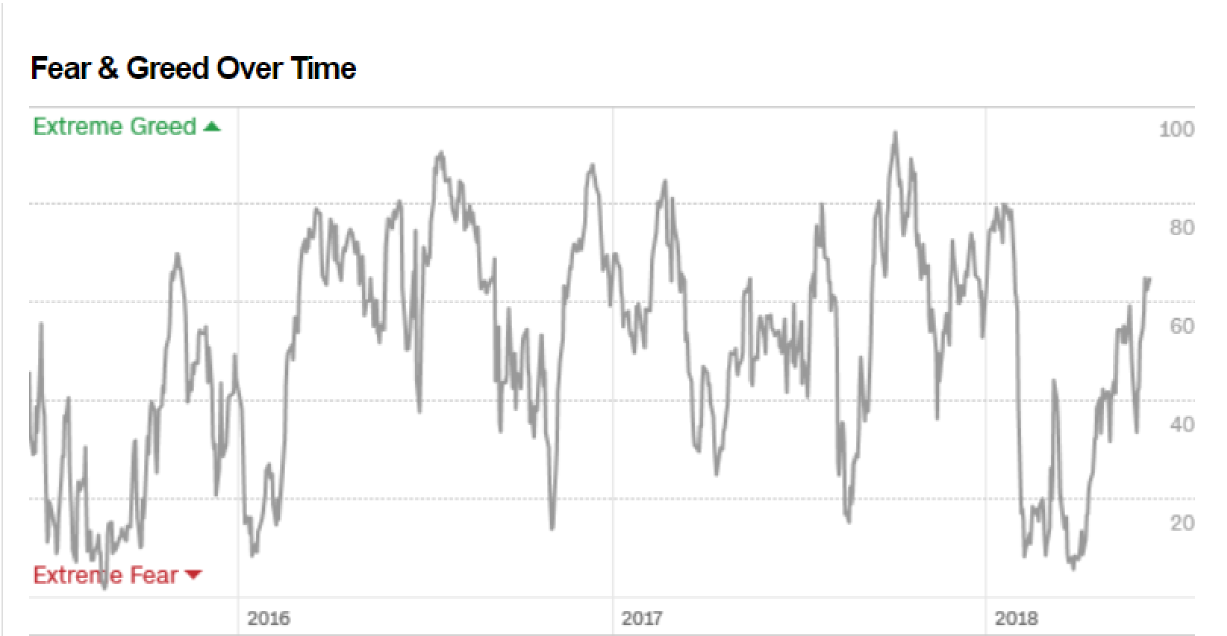
What emotion is driving the market now?



Previous Close	Greed	63
1 Week Ago	Neutral	55
1 Month Ago	Neutral	55
1 Year Ago	Neutral	53

Last updated Jun 11 at 6:30pm

The trend of sentiment keeps getting more and more bullish. Yet:



Clearly, we can get a lot more "greedy" than we are now.

With all that in place, it's difficult to argue that a market implosion is imminent. We likely need to see something along the lines on an bond market problem, a financials system problem, an energy spike or a geopolitical development to derail what seems to be, at least, another run to challenge the highs.

Stay on it!

Bank and Roll!

Options Academy

In keeping with our recent riffing on "moneyness", we decided that it couldn't hurt to pick up on it one more time to highlight a little more of an option trader's lexicon and tools within his/her toolbox. To wit, we're going to touch on something that pro traders discuss often, that's not normally a focus of the individual traders. And, that would be "the upside call and the downside put". Let's proceed…

The U*pside Call* and the *Downside Put* are important in the minds of pro traders because they can inform them as to what direction and risks market participants may be focused on. How these have to do with moneyness is as follows:

The Upside Call, depending on with whom you're speaking, refers to an out-of-the-money call that is upside from where the stock price is currently trading and carries a certain delta. For some, it's the 30 delta call but for others it can be a little more or a little less in terms of delta.

The Downside Put, again, depending on with whom you're speaking, refers to an out-of-the-money put that is downside from where the stock price is currently trading and carries a certain delta. For some, it's the 30 delta put but for others it can be a little more or a little less in terms of delta.

Upside calls and downside puts can be referred to in group form as well, as in, "the upside calls", which would describe calls within a certain OTM delta range. The same is true and holds for downside puts.

Why this is important has to do with the concept of skew, which, is something valuable to become informed by. Skew, in options parlance, refers to how expensive or cheap some options are with respect to others. That is, all options are not treated the same with respect to their pricing. But, in getting back to the Upside Call/Downside Put issue, the larger point is that these options are OTM (100% extrinsic/time value) but they're not too far OTM that they're worth very little. There's still a decent amount of time-value meat on the bones of most 30 delta options with any reasonable amount of time remaining to expiration. For this reason, this delta-range, on the call side, can be a favorite of call writers (sellers) that like to consistently sell premium against their stock holdings to generate an income-based return with regularity. For now, let's establish that these are favorites of premium collectors that regularly bang on their bids to increase their returns. In a nutshell, these are the happy hunting grounds for covered-call players, of which, there are VERY many. As this is the case, the market-makers, knowing the proclivities of the masses, will often discount these calls relative to other options on the board because they know they're most likely going to have these calls sold to them and they don't want to buy OTM ("longshot") options that are 100% time-value because that's stacking some serious odds against the market maker's chances of profiting! So, quite simply and literally, these types of calls trade cheap. When we analyze the implied volatility levels that 30 delta calls trade at relative to ITM calls, we'll typically find that they have significantly lower IV levels vs. their ITM counterparts. The markets anticipate the intentions of market participants and thus they discount the prices accordingly. Let's not forget the very basics: More supply = lower prices! And that's really it. 30 delta calls are often in great supply due to the natural tendencies of so many who desire to sell them. Now, let's move over to the flip side, in this case, puts…

As usual, it's a different story with puts than calls. The 30 delta put is normally held in higher regard than the 30 delta call because most investors are long/own shares of stock and when they become concerned with respect to stock market risks, their first instinct is to reach for insurance that's not too far away (in terms of strike price) and not too expensive (in terms of dollars). Of course, that's essentially what a 30 delta put looks like when evaluated against other options. Thus, a 30 delta put is naturally and regularly bought by a large number of investors to protect their stock holdings for a period of time. Market makers are aware of this behavioral tendency and thus they naturally raise the price of the OTM puts because they know they're much more likely to be called upon to sell those puts to *Nervous-Nelly* market players. Moreover, this will result in those types of puts trading on a much higher implied volatility level than other puts respectively and certainly a much higher IV level relative to the upside call. Hence, we have Upside Call / Downside Put implied volatility skew.

So, to summarize to this point and weave more skew into the mix, the IV level the Upside Call trades at vs. the IV level the downside put trades at, should show a skew in pricing that reveals "cheap calls" and "expensive puts" on a relative basis. That's the normal skew we'd expect to see during normal times.

With this in mind, the next time you're looking to sell calls to profit from premium collection and you notice that you can't sell them for as much as you hoped to, realize that you're in line with many other call writers and the marketplace isn't going to let sellers of calls clean their clocks without defending themselves! Nor are they going to allow insurance-seeking put buyers to swoop in and transfer big-time downside risk to them without a fight either! You will be paying a premium (in relative pricing terms) if you're in the queue with all the other opportunistic and timely insurance buyers!

Perhaps next time, we'll expand on skew in some ways and discuss what we should be thinking if there's no skew at all!