MARKET TRACTION

We Now Have More Volatility…and More Questions as Q2 is Booked

<u>This Week's Trade Ideas:</u>

***Be careful folks! News keeps falling fast and frequently!

Bullish Ideas:

(View Webinar) LQD > IShares IBOXX INV CP ETF. > 114.27 Last. Buy the Aug. 17th 113 Calls for $1.60 or less with a close or anticipated close above $114.30 in an up market with expectations for continued strength in the major indices.

<u>Bullish Mentions</u>:

(View Webinar)

ENB Trigger = > $32.31, EOG Trigger = > $120.95, NFX Trigger = > $31.10, SKX Trigger = > $30.75, TSN Trigger = > $70.82, PPC Trigger => $20.52, CBOE Trigger = > $106.50.

Bearish Ideas:

(View Webinar) VIRT > Virtu Financial Inc > $28.70 Last. Buy the July 20th 30 Puts for $2.00 or less with a close or anticipated close below $28.35 in a down market with expectations for continued strength in the major indices.

<u>Bearish Mentions:</u>
Surprisingly, none at this time.

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

Week 22 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!*

It couldn't be any clearer than that and that's exactly what we've witnessed. Stay smart!

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Outlook:

From last week's Outlook:

*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…

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:

We're going to keep this recap simple. Last week we had several names on both the bull and bear sides as to be prepared for what would come next. Well, the Gang delivered a little of both, and did so on news, whereby the alternated directions, which made it very difficult to claim that genuine triggering had occurred. A full recap is planned for a webinar but for now we'll get it done this way…

KHC, OC, HAIN, CVS, USB, MNK and **CBOE** were our bullish names**. LVS, V, UTX, ABBV** and **CVX** were our bearish names. Most names that moved beyond our trigger levels did attempt to deliver the goods and those that didn't, were, as usual, to be ignored. Profits were possible at times, but the *back and forth* made the moves swift and short-lasting. Once again, a day trading mindset was likely required to really profit. Since we're without a major trend (stuck in consolidation), we just can't get sustained movement to coincide with our Tuesday publication timing. The bullish swing we expected to see was quickly upended when the SPX refused to move beyond the resistance level we discussed in our webinar. We updated following that development and noted that the market seemed more likely to follow the failure scenario we outlined. That did indeed transpire and near this Monday's lows, we updated again trying to convey that if profits were to be had on balance, taking them there might not be a bad idea because we're ready to reload for this week anyway.

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The reason our **Special Note** and other remarks continue to appear in the newsletter is due the fact that they remain appropriate! We left the strongly trending phase at the tail end of January and the trending action in safe-to-play stocks hasn't been sustaining itself nearly as much. We always must accept that the environment we're operating within dictates to us and not the other way around. All in all, we still like last week's names but realize that a day trader approach would have had to have been employed to make profits in this marketplace that remains news-driven, fickle, and range bound.

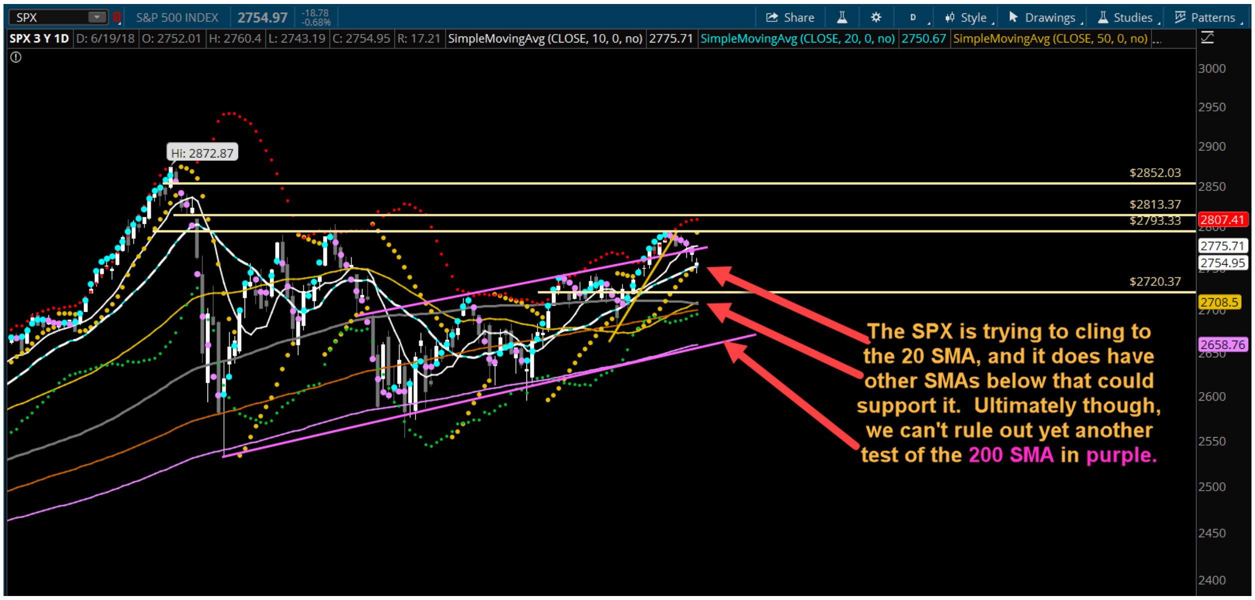
Market Overview

Much of last week's Market Overview mattered and may yet still matter:

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…

Clearly, trade related news did it again but let's keep going with more from last week:

It's time for a look at the S&P 500:



We'll let our caption do the talking. We think it's all right there. Short-term overbought last week but on our way to short-term oversold? We shall see.

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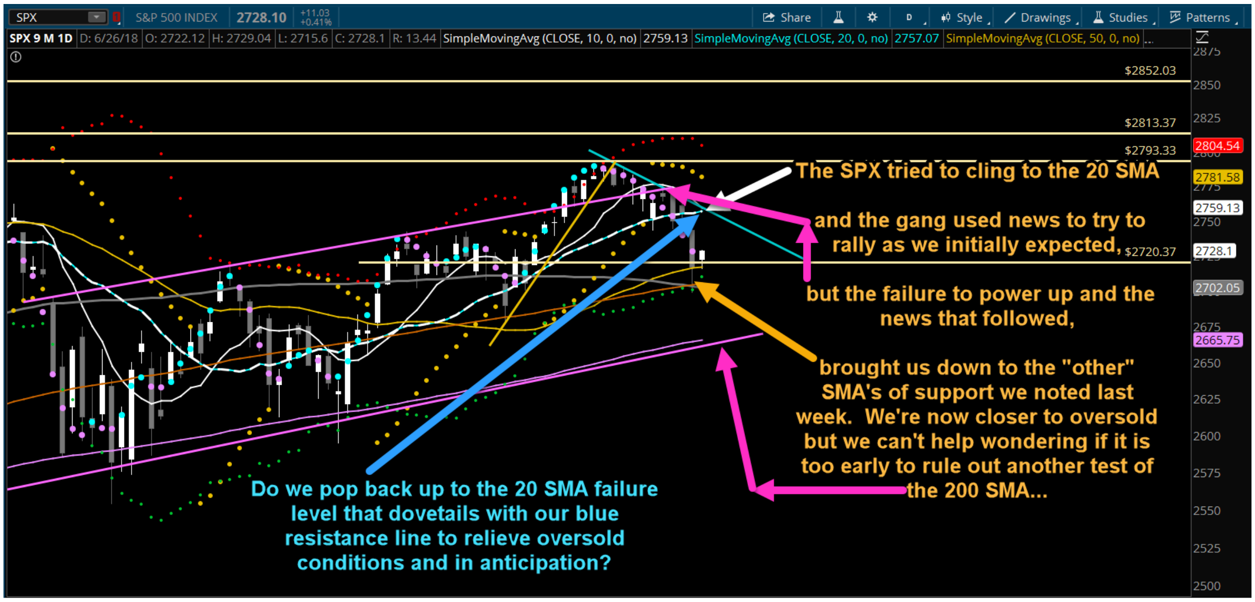
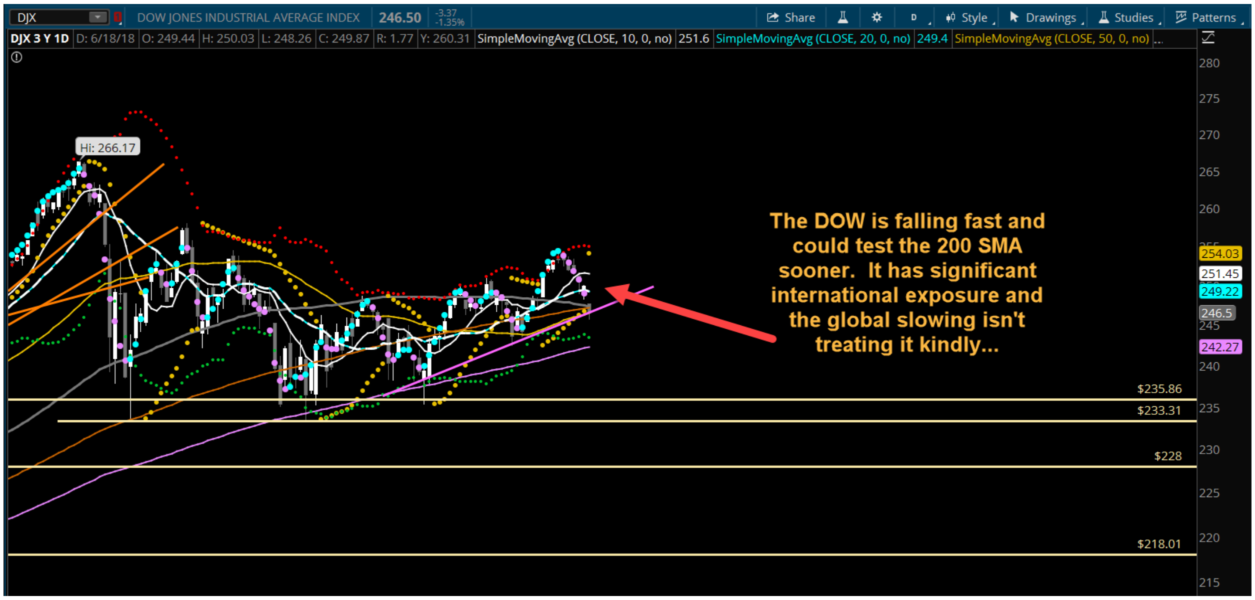
Now let's look at this week in the SPX:



Last week's Dow picture: *For example, the DOW is almost in free fall:*



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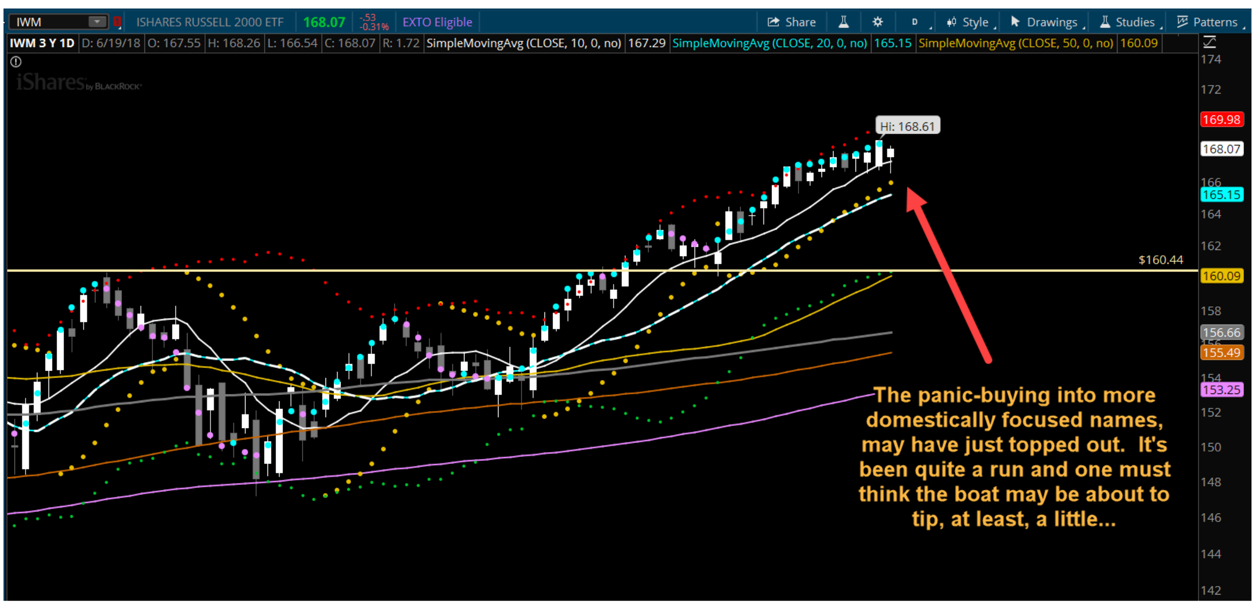
And now the DOW this week:

Last week's NASDAQ look: *Yet, the NASDAQ aka "Tech Land", is still in the stratosphere:*

And now this week's NDX:

And, moving on, a key line from last week that seems to have comported itself well:

So, we can see that the gang has positioned themselves in NDX stocks and driven them to ATH's, but they've done the same in the domestically weighted Russell 2000 (IWM) as well:



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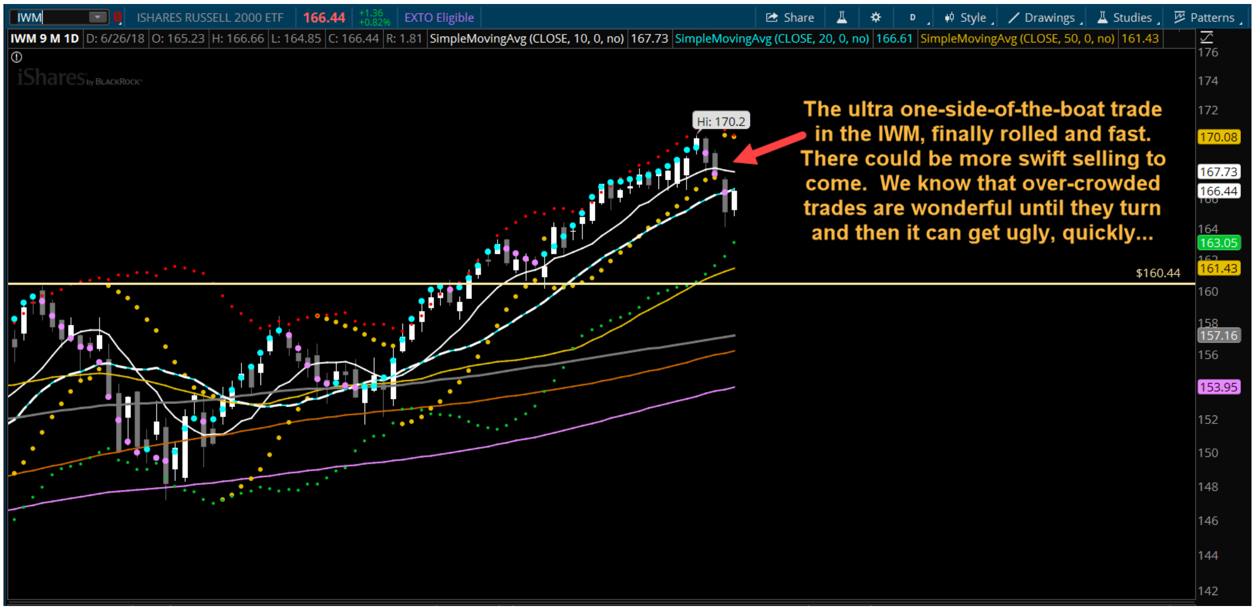
And now, the Russell 2000 (IWM) for this week:



Last week, few were worried:

This week, it's a little different:

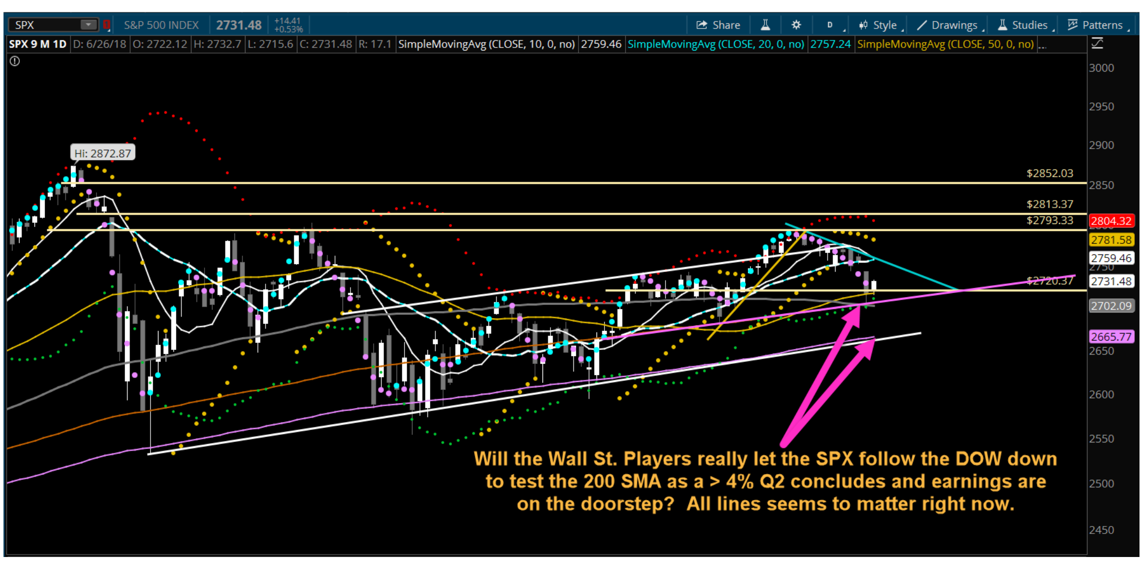
Finally, from last week:

So…who's right? *Those nonplussed by the selling or those that are early bulls in the VIX. The trade wars and tweets haven't ebbed yet but the VIX is acting as if they will…so far…*

We don't believe it is over yet. *However, we do believe that it is in all major parties' best interest to get it sorted out and quickly.* ***In the major market, the SPX, we can't yet know if we've merely been in a bullish but corrective channel. If so, more waves of selling are due to hit.***

We have to keep monitoring and going with the flow, it's that simple. Since the move downward has been in place for a while, we'd normally expect at least a bounce. ***<u>However, that will depend on what news hits the markets next in all likelihood.</u>***

Our final chart does all the *talking* we need it to:



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The calendar is a solid one this week. Plenty of high-profile releases and FED speeches. Thursday and Friday would seem to have the right stuff for money managers to operate should they want news to provide cover to engage in window dressing as we close out Q2.

On a potentially important side note, be careful buying and owning volatility into NEXT WEEK. There's a holiday right in the middle of the week and we could witness a lull in movement due to many stepping away to enjoy Independence Day. *Theta still gonna theta* regardless of holiday fun so keep that in mind!

This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, JUNE 25					
8:30 am	Chicago Fed national activity index	May	-0.15	--	0.42
10 am	New home sales	May	689,000	668,000	646,000
TUESDAY, JUNE 26					
9 am	Case-Shiller US home price index	April	6.4%	--	6.5%
10 am	Consumer confidence index	June		128.0	128.0
1 pm	Raphael Bostic speech				
1:45 pm	Rob Kaplan speech				
WEDNESDAY, JUNE 27					
8:30 am	Durable goods orders	May		-1.3%	-1.7%
8:30 am	Core capex orders	May		--	1.0%
8:30 am	Advance trade in goods	May		-$69.2 bln	-$68.2bln
10 am	Pending home sales	May		--	-1.3%
11 am	Randal Quarles speech				
12:30 pm	Eric Rosengren speech				
THURSDAY, JUNE 28					
8:30 am	Weekly jobless claims	6/16		220,000	218,000
8:30 am	GDP revision	Q1		2.2%	2.2%
10:45 am	James Bullard speech				
FRIDAY, JUNE 29					
8:30 am	Personal income	May		0.4%	0.3%
8:30 am	Consumer spending	May		0.4%	0.6%
8:30 am	Core inflation	May		0.2%	0.2%
9:45 am	Chicago PMI	June		--	62.7
10 am	Consumer sentiment (final)	June		99.0	99.3

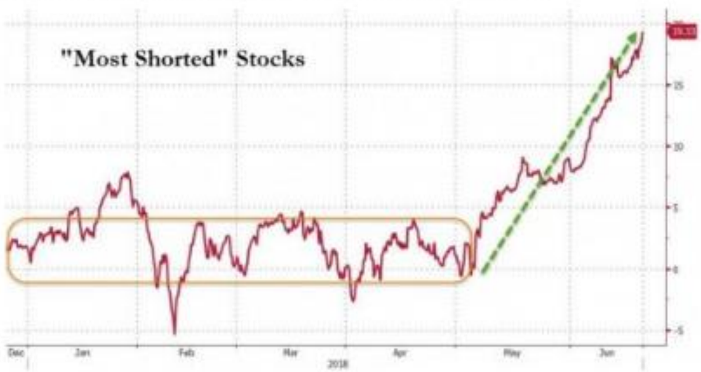
Below the Radar

Recently we've been noting that the *big picture* had been improving but that the SPX and DOW hadn't been acting nearly as well as the IWM and the NDX. We're now left to reconsider. Much of the NDX and IWM surge may not be as legitimate at it appears at first glance. This story hit last week just after we discussed maters in our webinar:

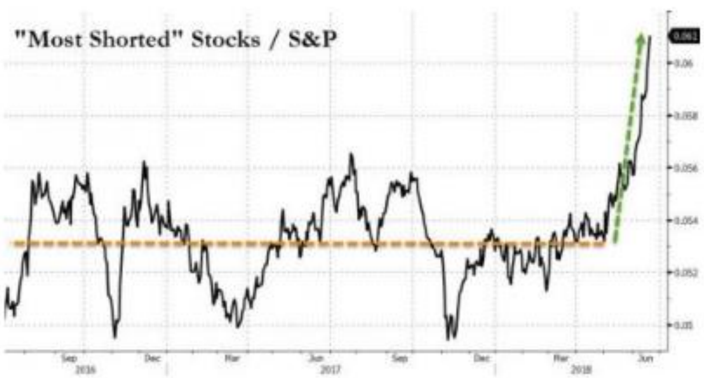
https://www.zerohedge.com/news/2018-06-20/greatest-short-squeeze-history

This is too important to just leave a link:

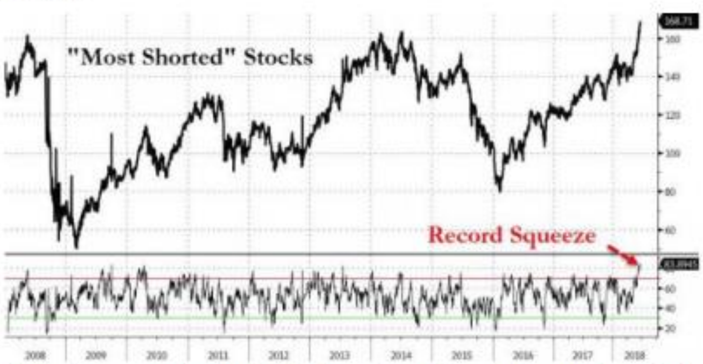
Why? Simple... It's a massive, unprecedented short-squeeze...



The "most shorted" stocks in America are up 20% in the last two months, almost incessantly.



While the chart above is ridiculous enough, it turns out that this is actually accelerating and is now the great short-squeeze in the history of the data...



The 'Relative Strength Index' of the "most shorted" stocks has never been higher and each time it has reached this level, stocks have fallen hard.

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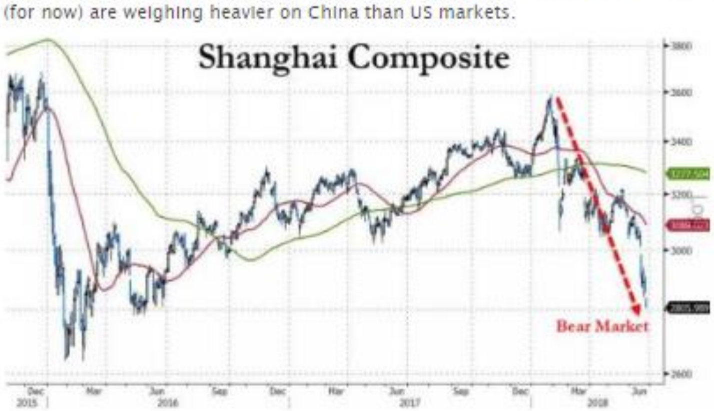
We always assume that at least a little squeezing is occurring but this recent round that drove the tech stocks into orbit coupled with the pile on into the Russell 2000, has truly been historic! And, not in a good way! Too many stocks moving up on panic-buying and not much more. Those trades are too crowded and they're vulnerable to panic-selling if prices continue to slide.

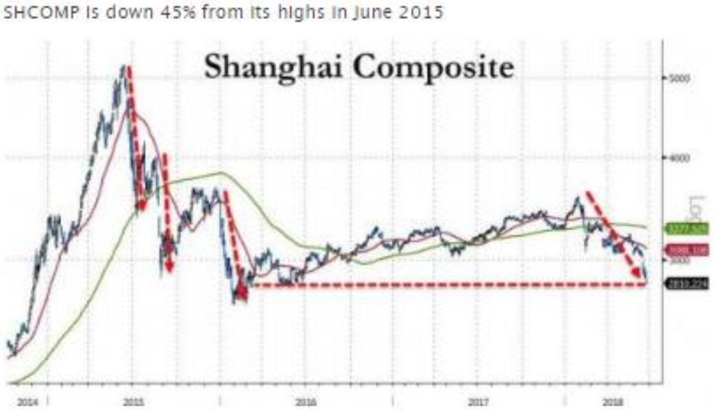
As we've been noting, the improvement in the *"big picture"* charts that we keep has been solid but now that we realize that much of it may be due to squeezing, our take must change to one that's less sanguine. We just can't expect the *Greater Fool* theory alone to power stocks higher and higher. Thus, we're more concerned than we have been. The IWM and NDX both rolled over and instead of the SPX and DOW moving up to meet them as we wondered about the past few weeks, they've both rolled over as have the IWM and NDX. Things are just not working well at this moment in time and not just in this narrow sense. Big parts of the market, that were recently working, ceasing to work and rolling over simply isn't good. However, with that transpiring, there's very little left to point to that's positive that the markets aren't already aware of, which is to say, haven't yet priced in. Put another way, the rollover in Tech Land may merely be the start of it coupling up with what the DOW and SPX have already been reflecting, which, many believe, is a recognition of a global slowdown. Thus, Tech giving way, removes the happy mask that had been on the indices, reveals more, and likely ratchets up the perception of risk. Abroad, things aren't humming. We've made note of that for the past several months. And, there's little abroad that's more important and impactful than China: https://www.zerohedge.com/news/2018-06-25/chinese-stocks-slump-bear-market-weaponized-yuan-continues-tumble

This too is an issue that demands we print a large graphic:

China's Shanghai Composite is down 22.8% from its late-January peak – officially entering its **4th bear market in 3 years** – as Trade Wars (for now) are weighing heavier on China than US markets.



SHCOMP is down 45% from its highs in June 2015



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When we consider that much of the ramp job higher in Tech that's occurred over the past few months may have been more of a function of shorts on the run than real buying, the chart below takes on a much weightier complexion:

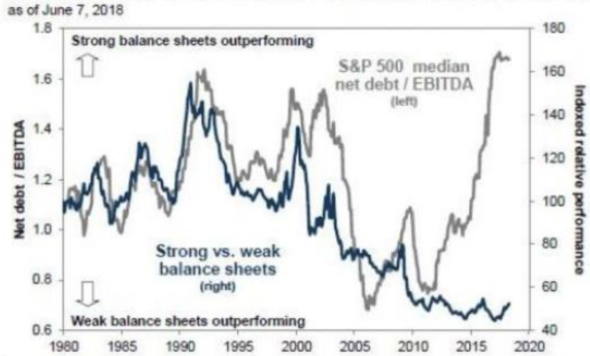
Chinese and US stocks were tracking closely when the year began and have decoupled in a big way. A recoupling would be very troubling. If things are slowing internationally, as they seem to be, could that create a drag on the performance of US companies? The DOW and the SPX seem to believe that is likely to be the case, at least a little. What would make things worse would be, if things are slowing, the FED doesn't get the memo and tightens into a slowdown. Well, about that… at least a few believe that's exactly what's afoot:

https://www.themacrotourist.com/posts/2018/06/25/hikeintorecession/

And, in another graphic we tracked down, we can see that the gang has plowed into, in a big way, some of the most vulnerable companies when viewed by balance sheet strength/weakness:
https://www.zerohedge.com/news/2018-06-12/schizophrenic-wall-street-back-and-what-keeps-it-night

In other words, the smartest traders in the world no longer worry about debt. Why? Because as the following chart from Goldman shows, **with net leverage rising to all time highs the market refuses to reward strong balance sheet companies and instead continues to pile ever more cash into "weak balance sheets"** for the simple reason that the Fed has pushed all investors into the worst possible sources of alpha (or beta) and if things turn south, the Fed will just bail everyone out again as usual.

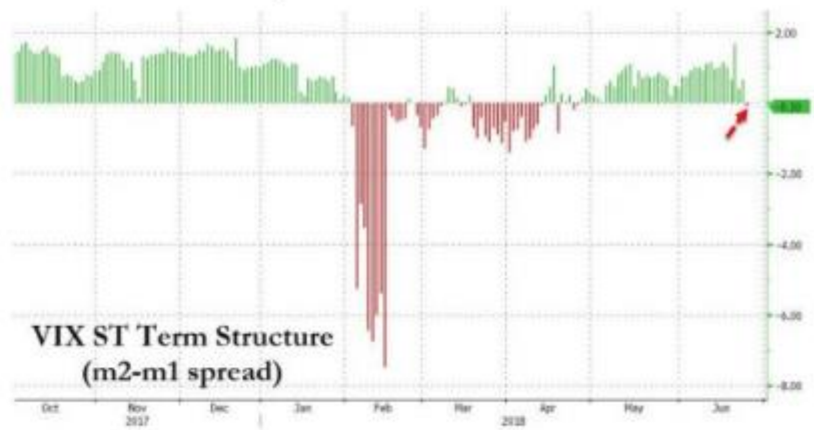
Exhibit 2: Balance sheet stock performance typically tracks corporate leverage
as of June 7, 2018



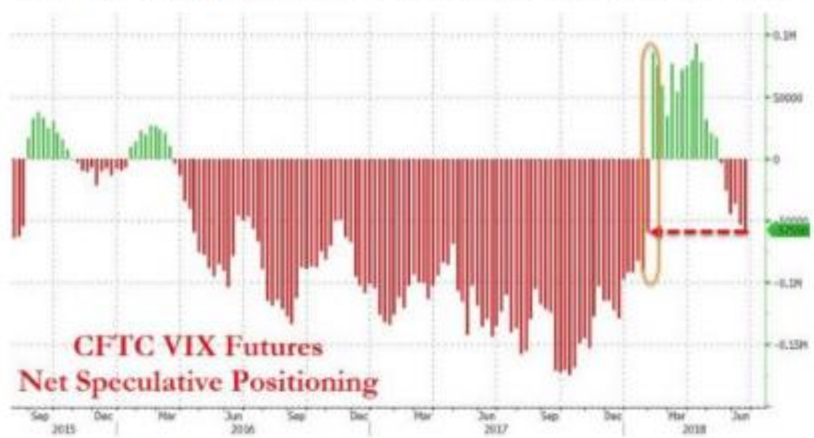
Source: Compustat, Goldman Sachs Global Investment Research

And, we'll leave you with this…if the "one-sidedness" of so many trades that we covered lately hasn't left you concerned enough, maybe what follows will. At a time when a historic squeeze may be ending thus revealing serious issues confronting the major indices, and as liquidity is being withdrawn and maybe too much so by the FED, and as the international scene continues to deteriorate, we may have more kindling for the fire in the form of yet another way-too-one-sided trade. You guessed it, the Gang is way, way, short the VIX! The most it has been in several months:

For the first time since April...



This surge is coming right after Large Specs have rebuilt the **largest net short vol position since the Feb XIV collapse.**



Is the next short-vol-squeeze coming?

Stay Smart & Stay on it!

Bank and Roll!

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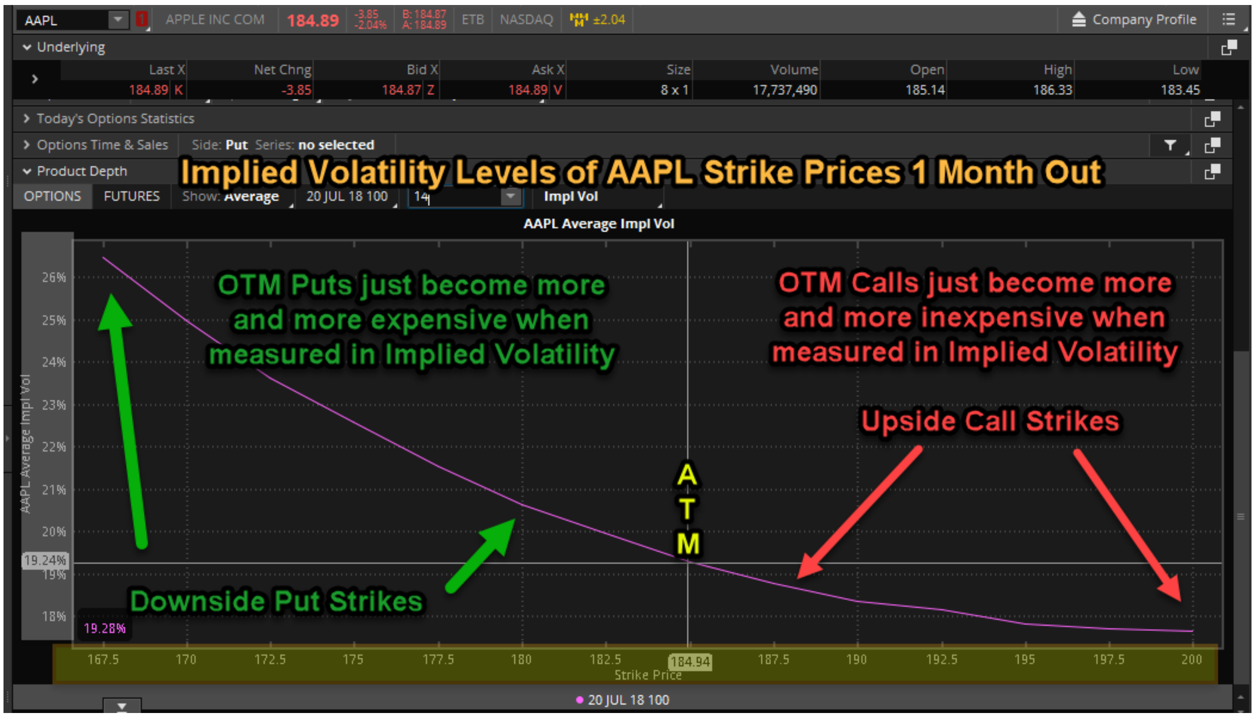
Options Academy

Last week in our webinar and **Market Overview** sections, we covered a resistance level that was just above us in the SPX. We believed that the bulls were due to come back and take control BUT that if they unable to do so, that would be a telling sign. In other words, sometimes, something NOT happening or something DIFFERENT than normal can be as valuable and informational as something that's clear and prominent. Picking up again on our skew discussion, that's the case when it comes to options as well.

The past few weeks in **OA**, we covered what a normal skew looks like and why it looks that way. Here's a visual reminder as to how the *Upside Calls* are normally priced vs. the *Downside Puts*:



As we noted a few weeks back, on balance, many more market players prefer to sell upside calls to generate income against their stock holdings while, on balance, many stock holders also like to buy protection (puts) as insurance against major losses that could come about as a result of a major correction. The natural behavioral patterns of market participants are what drive skew. Skew, is normally present and in most stock options, will often will resemble the Apple graphic above. Which brings us to: What if the skew doesn't appear that way? What if the curve is more flattened? In that case, the upside calls would be trading at a similar level of costliness as downside puts. Should we encounter that, our first instinct should be to treat it as a **RED FLAG**. Put another way, if something that is normally in place, isn't, we need to quickly realize that something could be **UP** in the stock. If market participants are suddenly willing to pay just as much for upside calls as downside puts, that is atypical behavior and that can be informational for us. Let's ponder it…

If market participants are willing to pay similar prices for upside calls as for downside puts, that's a significant switch for sure as it is the opposite of what we normally see most of the time. That means, in relative terms, that many more now believe in more upside potential in that stock than is typical. This can be a telling sign as it may suggest that significant positive news is pending, that a merger or takeover may be announced or that the company itself could make public a major development. Theoretically, operators in the markets shouldn't know any information any sooner than the rest of us. But, we can all agree that we're not operating in *Theoretical Land*. No, we're operating in real-money-based yet fantasy-spun world of Wall St. where they always know more than we do and know it well before we do, and their chances of being prosecuted for acting on inside information is practically nil! The trick for us is to assume that they know more and know it sooner and go with the flow! However, let's get back to the skew at hand…

Quite simply, when they're doing something that's much different than their normal behavior and putting big money up to do it, we can surmise that they at least THINK they know something important that's positive with respect to the company's prospects. If they're paying a great deal for options they'd normally sell, options that are far OTM, that normally have very low probabilities of finishing in the money, that's something WE must assuredly take heed of!

Folks that are unaware of normal skew may walk blithely by a much riskier situation then they perceive. Don't let that happen to you! If you operate in certain stocks regularly, keep tabs on how the skew normally appears so you'll know when something's not quite right. Money can be make when something's not quite right!

Please reference this section in the past few weeks for more background on this if needed.

If you have questions, ask away in this week's **Advantage Point Morning Cal**l webinar. 😉