MARKET TRACTION

They Just Can't Get Enough! But what about the Rest of the Market?

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

Bullish Ideas:

(View Webinar) ROKU > Roku Inc. > $40.26 Last. Buy the Jun 22nd 39 Calls for $3.10 or less with a close or anticipated close above $40.50 in an up market with expectations for continued strength in the major indices.

AND/OR:

(View Webinar) MO > Altria Group Inc. > $56.33 Last. Buy the Jun 29th 55 Calls for $1.65 or less with a close or anticipated close above $56.70 in an up market with expectations for continued strength in the major indices.

<u>Bullish Mentions</u>:

(View Webinar) VRX, MYL, JNPR, CERN, LYB, FAST, HOG.

Bearish Ideas:

None at this time.

<u>Bearish Mentions:</u>
(View Webinar) LM < $36.43, SEDG < $50.40, MCD < $159.00, COST < $195.00.

We're noting this AGAIN!

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

Things haven't sorted out entirely. A great deal of movement continues to be compressed into very short time periods when viewed relatively. Adjustments and rolls need to be completed much more frequently than during normal phases of market price action.

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 18 of our Special Note:

Swing trading in an environment like this one can be very challenging. 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!

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Outlook:

Unfortunately, we've moved from last week's very interesting juncture to another one of a similar kind this week. We've witnessed a professionally managed short-squeeze over the past week of trading action and as we write, it MAY be ebbing. Has the squeeze ran its course? Or, is there more to follow? The technical picture remains somewhat unclear with several paths forward possible. We're going to need to be prepared for all of them. It hasn't been this opaque for us in quite a while.

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:

Last week by far and away was the worst one we've had in the newsletter EVER. Fortunately, we didn't log any big losers, so that's the bright side. HOWEVER, we didn't latch on to anything good at all. The "Italy Selling" was erased rather quickly last Wednesday morning as we conducted our webinar and with us having just witnessed a break below support, we were expecting there to be more downside potential than upside, hence, our much greater number of bearish names vs. bullish names. But, for a moment, let's return to the oft-discussed "very interesting juncture" the indices had arrived at for the past several weeks. Last week was clearly a difficult one for us and our take, at the moment in time. Last week's idea juncture arrived with poor timing for us as last Tuesday, the "Italy news" drove the markets down significantly into a support zone we'd identified. What would happen next would hinge on that support holding or failing. Since we'd fallen below nearby support to the next level down after consolidating for so long, we were more inclined to be bearish than bullish last week though, as noted above, we included ideas and mentions on both sides in preparation for a "bounce" scenario as well. Well…the bounce scenario trampolined big starting as *the ink dried* on last Tuesday's newsletter. The Wall St. Gang initiated the short-squeeze protocol and jammed the indices, especially the NASDAQ and its tech stocks, to the hilt! We realize that the markets are dynamic and these "games within games" go on all the time so naturally, we try to remain prepped with names on both sides. And that's just it! Our bullish ideas didn't respond at all and instead failed to move beyond the nearby resistance levels we'd identified. CRUS and FSLR both retreated significantly instead of trying to forge ahead and higher. Our other bullish name last week, EPC, also dogged it and didn't even try to rally. Our names on the bull side were officially 0 for 3 and, in fact, they looked awful. This was the worst case of non-participation we've experienced in the past 18 months! Of course, that left us very frustrated! At least, none of them triggered and reversed ugly! That's last week's *silver lining*, which further illustrates how poor last week was for us! We did try to scan repeatedly to isolate new and better names on the bull side, but with things becoming *overly-jacked* so quickly, we didn't find anything we were comfortable with that could be safe and profitable in case the short-squeeze petered out.

MARKET TRACTION

Given the manic buying that's dominated since last Wednesday, we didn't even consider our bearish idea in EBAY nor any of our bearish mentions. With a bear trap in place and the short-squeeze going full bore, we simply ignored them entirely. There's no point in trying to go bear in such a strong bull phase. EBAY never triggered, which was a big *silver lining* as well because the squeeze team got a hold of it and jammed it up like a rocket ship! As for the rest of our bearish mentions, MCD, STM, GRUB, XLY, SBUX>, PCG, CSX*, GEM, VIAB, MTCH, MCK, SAP, we simply let them go in the environment that unfolded. Some did drop a little, but several also ran up strongly in the squeeze that may not yet have ended.

Overall, last week was <u>BY FAR the worst</u> we've ever logged. We're very frustrated that not one bull name that was close to resistance attempted to break up with the indices and instead tailed off. All the bears were non-starters with such a jam-job occurring. New scans yielded too much risk. Finally, when things work out as poorly as they did for us last week, we're happy to have not gotten triggered and trapped and then eaten alive! Every now and then we're due for a "last week" and we sure got one! Hopefully, that's behind us for a while. We're moving onto greener pastures. At least, psychologically!

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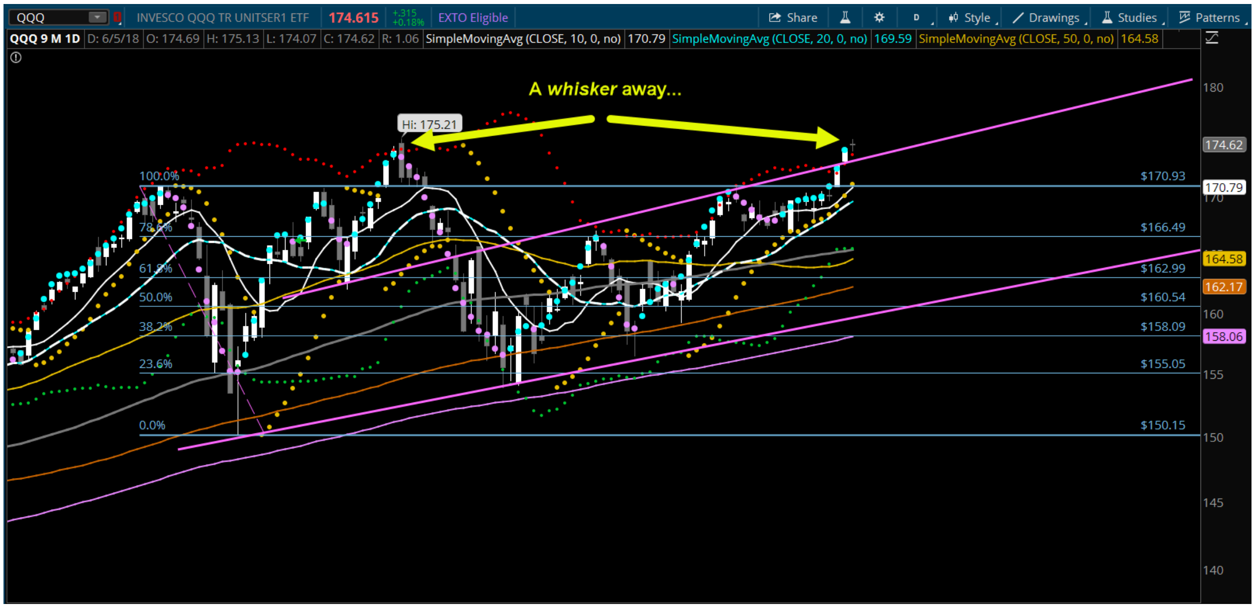
Market Overview

Last week we were concerned about the Italy et al. stuff but that dissipated quickly. Very quickly. We're not convinced that it has gone away for good, but, the markets don't care about it at present and that's very clear. International financial system fractures are nothing to take lightly but with as everything else, it is all in the timing. Currently, Italy is just another place to holiday as per Wall St.'s about face. We expect the *QuItaly* situation to develop slowly and become an issue down the road, but we can't worry about it now if the markets aren't worried about it now. If the Italians leave the EuroGang and go sovereign, a la the Brits/Brexit, that could start the waterfall-effect, but, that's still a way off at the very least.

Despite, or maybe because, the rest of the major markets around the globe and their respective economies are stalling out, the US markets forged higher and higher. Is capital flowing into the USA to ride equity waves in the world's top economy? It could be. The popular American names in TechLand seemed to have found even more admirers abroad of late. Which has brought us a whisker away from a new All-Time High in tech stocks:



US patriots may not like the 1984ish tactics that American tech-giants have been perfecting, but the Citizens of the World seem to not be able to get enough of them.

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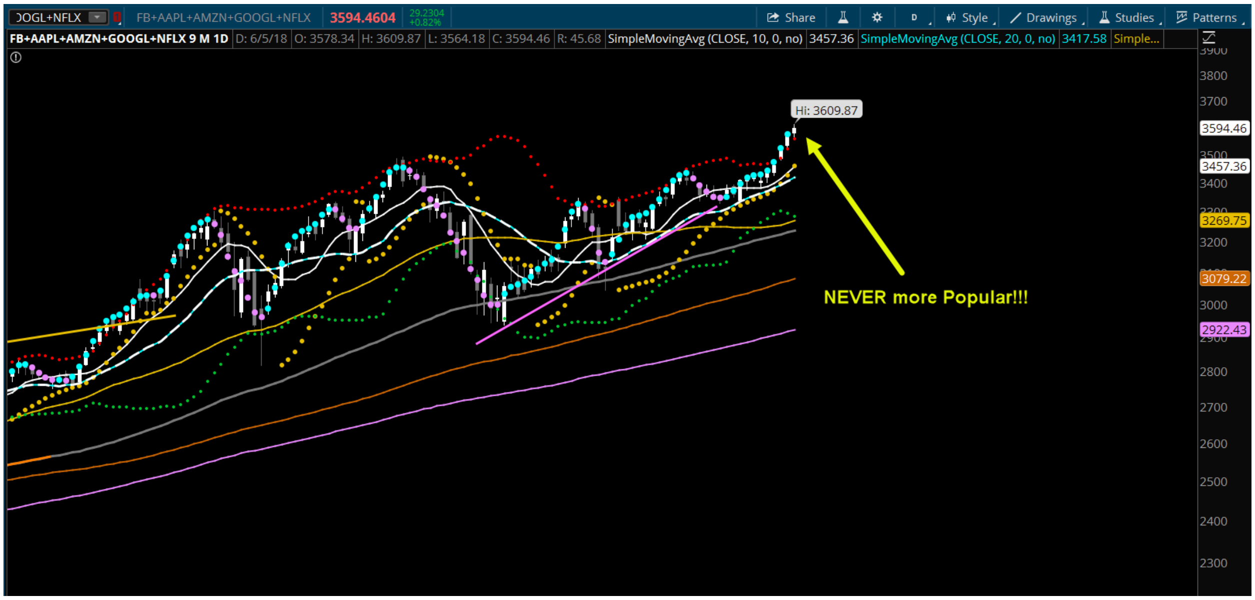
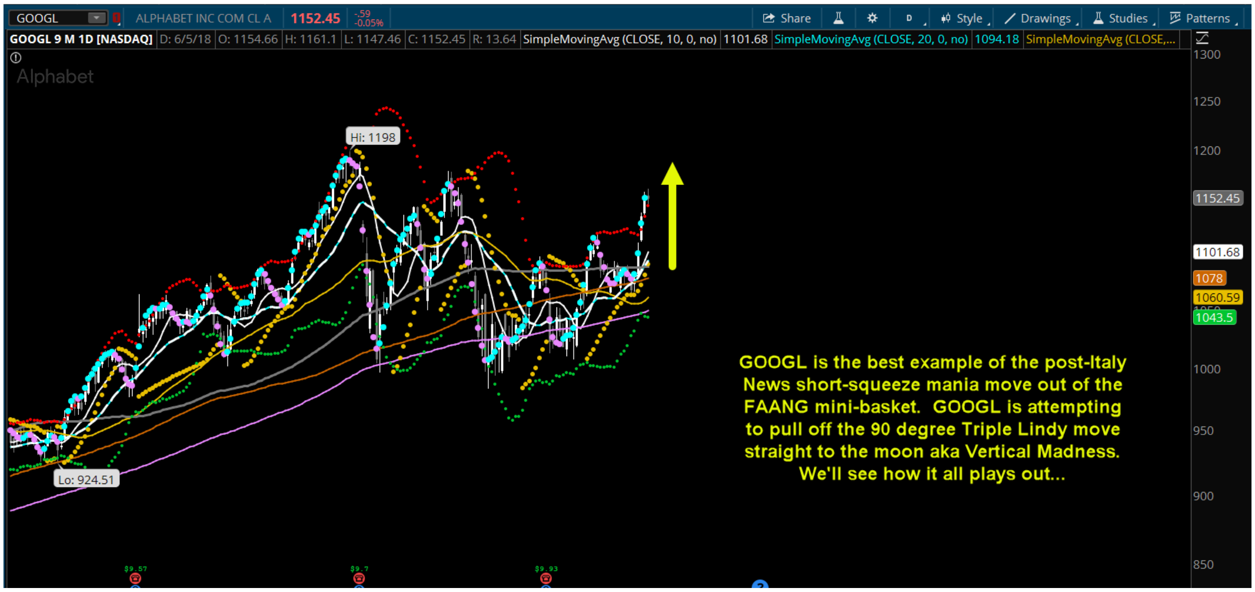
As a package deal, they were on fire last week:



Alphabet is the emblem:



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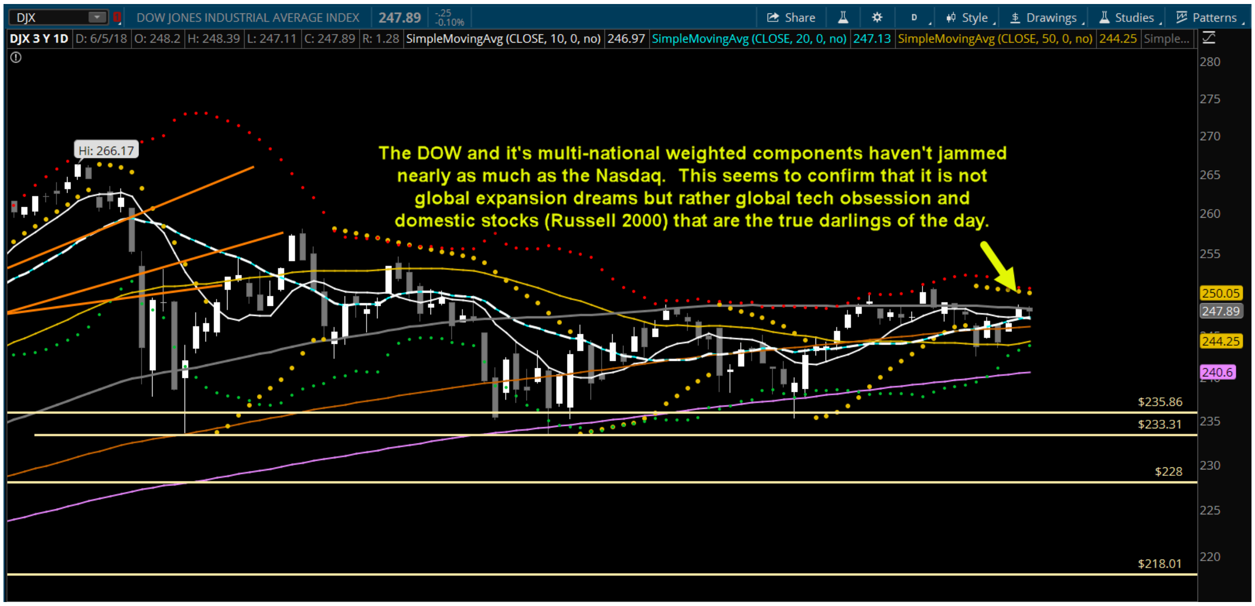
Moving away from tech obsession…:

The strong close out of trade in May saved the month technically and kept some of the "bigger picture" improvement we've mentioned trending positively. The Wall St. Gang is a nearby breakout away from triggering a start to an early summer rally beyond tech as can be seen above.



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The domestic front:

In summary, tech is way overbought, the S&P is close to breaking out to the upside, and the DOW is lagging. The Russell 2000 is already overloaded with *Johnny-Come-Latelys* but it and *TechLand* could be leading to another blow-off run up. It's too early to tell. If there's a little pullback from here and then we resume to move higher, we'll feel as though the bigger picture improvements we've seen are likely to have a more lasting effect.

It's a light week for economic releases. Productivity and Unit Labor costs on Wednesday may be items for the interest rate-focused crowd to seize upon but last week's blowout Q2 GDP estimate is clearly still bigger than all this week's numbers despite being in the rear-view mirror. It has provided the HIGH we still seem to be trading on and we'd expect that only Trump Tweet Storms and other news items could derail the markets in a big way any time soon. Pulling back mildly though, that is also a distinct possibility.

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This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, JUNE 4					
10 am	Factory orders	April	-0.8%	-0.5%	1.7%
TUESDAY, JUNE 5					
9:45 am	Markit services PMI	May	56.8	--	55.7
10 am	ISM nonmanufacturing index	May	58.6%	58.0%	56.8%
10 am	Job openings	April	6.7 mln	--	6.6 mln
WEDNESDAY, JUNE 6					
8:30 am	Trade deficit	April		-$48.8bln	-$49.0bln
8:30 am	Productivity	Q1r		0.6%	0.7%
8:30 am	Unit labor costs	Q1r		2.9%	2.7%
THURSDAY, JUNE 7					
8:30 am	Weekly jobless claims	6/2		225,000	221,000
10 am	Quarterly services	Q1			
12 noon	Household debt	Q1		--	4.0% yoy
3 pm	Consumer credit	April		--	$12 bln
FRIDAY, JUNE 8					
10 am	Wholesale inventories	April		--	0.3%

Below the Radar

Last week, even in **BTR**, we finished with a more bearish outlook than bullish. Tuesday, our deadline day, ended pure ugly after finally breaking support. We outlined levels that the S&P 500 could fall to if the selling continued. Luckily, we also included this line:

This is no time for lifestyle trading! *If you venture in, you'll need to remain on top of the rips and dips that could be about to unfold.*

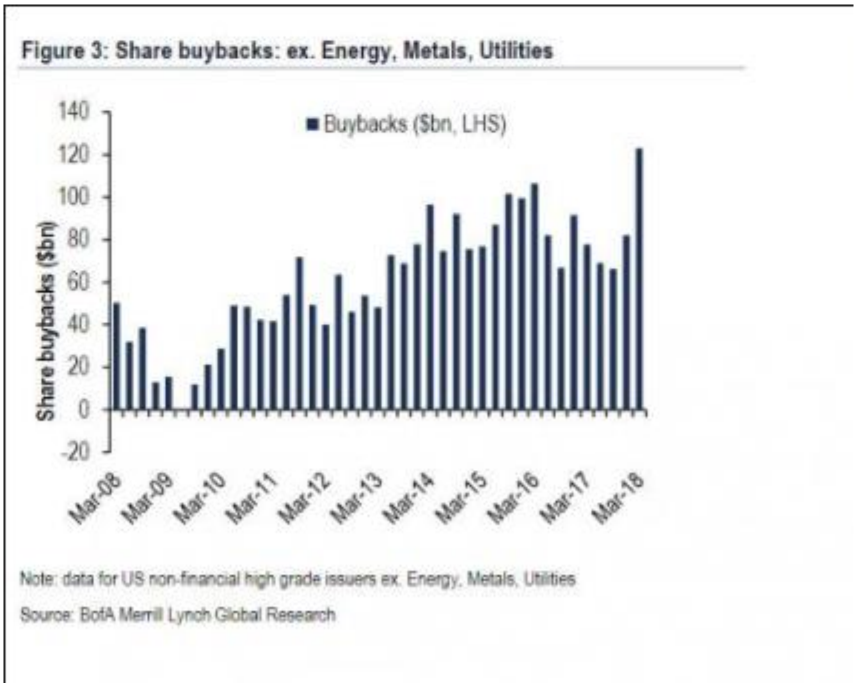
And as they used to say: "And that's the way it was"

The insane buying we've witnessed in the high-flyer stocks over the past week served notice that we could finally be out of the doldrums we've been trapped in for the past month. That would be nice! All we ask for in directional trading is winds of movement and stars to sail by! Not really, but that sounds better than momentum shifts and sustained trending action! Let's get to it…

If you'd like a quick read of a hot take from a top name, check out where Ray Dalio's hedge fund is on matters. This appeared today so get it while it is hot if you want to remain even-keeled as stocks melt-up. We'll leave it at that:

https://www.zerohedge.com/news/2018-06-05/bridgewater-we-are-bearish-almost-all-financial-assets

What helped swing the tide in Q1? Why did the market's early February selling cease? We can't be sure but this sure would seem to have something to do with it. Yep, the ever-reliable "buyback". This is the best financial hocus-pocus since the late 90's "free from accounting" stock option bonanza:



As can be seen above, buybacks are at an all-time high and the change is striking:

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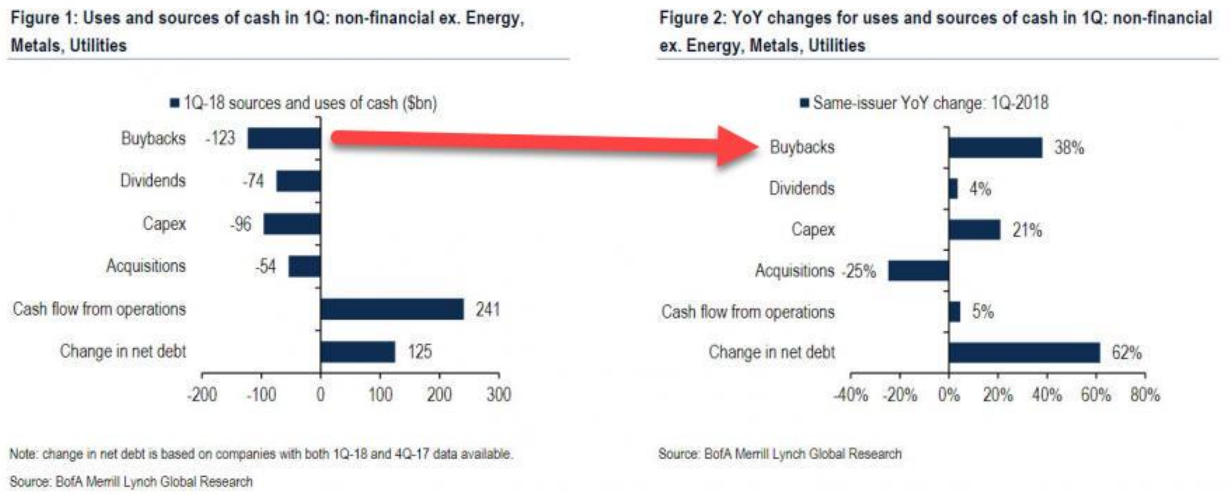
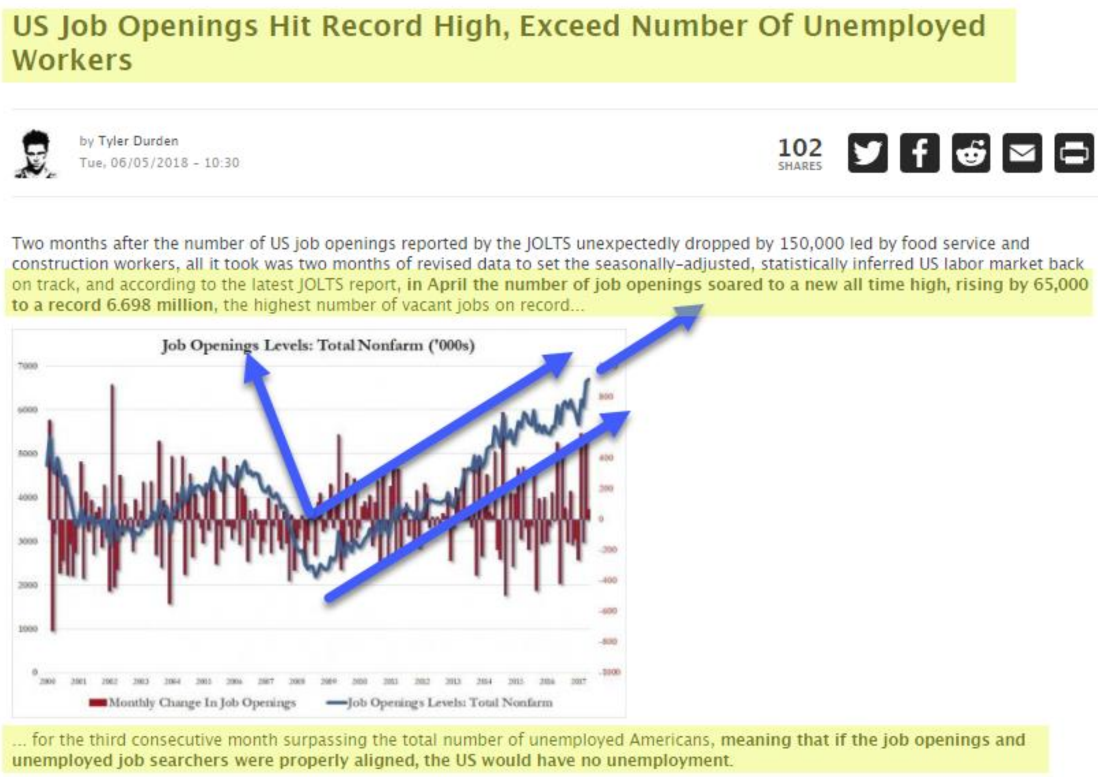


What's that? Your company's stock price is reverting back to a more normal level of valuation, historically speaking that is. What's a poor CFO to do? Try Insta-Higher! Announce and implement share buybacks to support your stock price and get the added BONUS of driving EPS numbers higher in the future since you'll be dividing by fewer shares outstanding! This is win, win, win as you'll need not worry about old-fashioned notions of expanding revenues or running a tighter ship! Just buy young man! And so, they do, and *Seal Team Street* applauds and eats and applauds again! What a racket!

Dalio and Bridgewater may be bearish, but they may be early. It seems as if American Business is bullish, very bullish. This too is very fresh:



US Job Openings Hit Record High, Exceed Number Of Unemployed Workers

by Tyler Durden
Tue, 06/05/2018 - 10:30

102 SHARES

Two months after the number of US job openings reported by the JOLTS unexpectedly dropped by 150,000 led by food service and construction workers, all it took was two months of revised data to set the seasonally-adjusted, statistically inferred US labor market back on track, and according to the latest JOLTS report, **in April the number of job openings soared to a new all time high, rising by 65,000 to a record 6.698 million**, the highest number of vacant jobs on record...

... for the third consecutive month surpassing the total number of unemployed Americans, **meaning that if the job openings and unemployed job searchers were properly aligned, the US would have no unemployment.**

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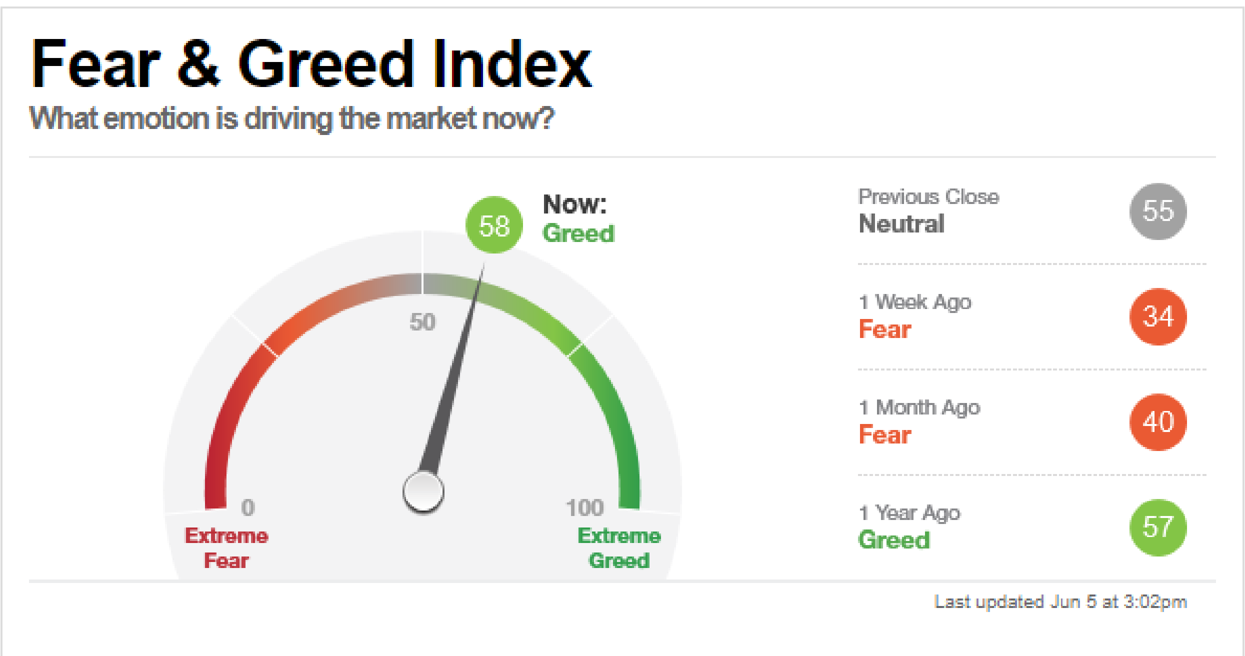
Yes, you read that right. If job seekers could connect with job providers, there'd be NO Unemployment. That's remarkable, even by tortured government statistical standards. As we've noted many times, we try to never rule anything out. This market is on the way to becoming the longest bull market in modern American history and it's largely been achieved by never-before-seen and barely-conceived-of hyper-engineering. Could it NOW, finally, be on the verge of *turning legit?* It can't be ruled out. That's one item that many bears seem to fail to factor in when contemplating the market's impending doom. Bull markets can start out on very shaky footing but the powers that be will often throw even *the kitchen sink* into the mix to levitate the markets higher and change the dynamic. Yes, it's largely all bull____ in the beginning, but, given enough time to *heal*, at least to some degree, all the demand that was drawn forward burns off and fresh demand dynamics can kick in. That *may* be happening here. The great swath of the American middle class has not been able to improve their lot for nearly 10 years due to many factors but having waited so long they could finally be on the verge of improvement. Naturally, higher rates and tighter conditions are the most obvious enemies of what seems to be afoot. When we mix in higher employment levels, that means greater demand for goods and labor which will pressure the cost of both, potentially. That will both add to GDP and potentially raise prices and thus rates will rise and *e pluribus unum*, you get the idea. Additionally, we can't rule out unforeseen economic shocks of some kind as well. $150 per barrel oil to use an exaggerated example.

But, getting back to it, if wonderful things are happening in labor, shouldn't we see that in the S&P 500 more than we have thus and not just in Tech and the Russell 2000? We'd argue YES but maybe the S&P is just lagging a little and is soon to leap higher? That can't be ruled out either. To add to that, we're not anywhere near overdone to the upside when the market-at-large is accounted for:



We've improved from Italy-selling and from a month ago, but we're not overbought.

MARKET TRACTION

Things are seemingly improving but…

We'll continue Bank and Roll when possible!

Options Academy

In following up on our mini-lesson from last week in which we discussed moneyness and other things, we now want to talk about probability in general terms. For this, we will try to relate an option's probability to things that we're familiar with from life experiences, like longshot bets!

First off, we should recap the concepts of intrinsic and extrinsic value. Intrinsic is the value that an option has that is attributed to the difference between the option's strike price and the current stock price. For an option to have an intrinsic value, it must be "**In the Money**". So, for a call option the strike price must be below the current stock price and for a put option the strike price must be above the current stock price. As we mentioned last week, we must ask if there an immediate value to this option if we wanted to sell it. Thus, if a call strike price is below the current stock price we could immediately sell the option at a minimum of the difference between the strike price and stock price. For a put it would be the opposite, the strike price would be above the stock price and we could immediately sell the put contract for the difference between the strike price and the stock price at a minimum. ITM options have "equity" in them, when we come across them. There is real value embedded within their market prices.

Extrinsic value only options are "**Out of the Money**" options. These options that do not have any immediate value based on their strike's proximity to the current stock price. Their value is entirely comprised of "time value." These strikes (for calls) are above the current stock price and the strike prices are below the current stock price for puts. This value will depend on the probability of the option expiring in the money given the time left to expiration and the proximity of the stock price to the strike price in focus. The better the chance that the strike price will be in the money, the higher the option's value will be. So, an ITM call strike that is close to the stock price will have a higher extrinsic value than one that is further away by say $10.00 above the stock price. A put strike that is close to the stock price will have a higher extrinsic value vs. one that is $10.00 below the stock price.

The "**At the Money**" options usually have little to no intrinsic and mostly extrinsic value because of their proximity to the current stock price. As the stock moves up and down the value of these options (their intrinsic and extrinsic) values fluctuate rapidly along with the probability of them being in the money at expiration. An option that has 1 year until expiration is not as reactive to the current price compared to one that is expiring tomorrow because so much time remains whereas the near-term options fate will soon be known and part of the historical record!

And now, finally, this brings us to where we left off in our discussion of long shots, coin flips and favorites to further explore probabilities. First is the favorite...everyone loves to bet on the favorite because it usually has a high probability of winning. Well, in options terms, we can compare that to the "In the Money" option(ITM). The ITM call has a high probability of finishing in the money since it is starting with a head start...it already has intrinsic value. The lower you go in option strike price for calls, the higher the theoretical probability of the call will receive as per the options pricing model's calculation. As you can imagine, the opposite of this is the long shot. These can be compared to the out of the money options that have pure extrinsic value. Just like the long shot, the "Out of the Money", OTM, option needs a little luck (significant movement with respect to the time to expiration) for the stock to move beyond the strike price and give it some real intrinsic value. Until that point, it is all extrinsic and as time goes by the chances of the strike price winning diminish. Our last option probability is the coin flip, which can be compared to the "At the Money" options (ATM). These may have some intrinsic and some extrinsic value. With short-term movement being noisy, these could be end up being valuable or entirely worthless and soon! If you compare those outcomes to a coin flip, with two sides, the ATM option at expiration, can only worth the intrinsic value, so if you are buying the ATM option you need it to move in your favor quickly otherwise it could end up being worthless if it just moves a little against you.

Let's take a quick example of the ATM call option with a strike price of $97.50 and stock price of $98.50 and the option is trading at $1.50. Intrinsic value is $1.00...the difference between the strike price and stock price. The extrinsic value is $0.50. If the stock were to move up to $99.50, and the option moved to $2.25 in value, then the intrinsic value would be $2.00 and the extrinsic value would only be $0.25. Now if the stock dropped in price to $96.50, the option price drops to $0.75 with $0.00 in intrinsic and $0.75 in extrinsic. Because it is so close to the current stock price, small fluctuations in the stock price can dramatically move the intrinsic and extrinsic values even though it is a 50-50% coin flip. Insurers charge the most where they have the worst visibility on risk. The ATM options are the most difficult to forecast because an argument can be made that they'll finish ITM or OTM and both arguments can be compelling. Betting against outcomes that are murky can be dangerous, thus, the higher prices in extrinsic value terms that ATM's command are logical when we place ourselves in the seat of those that sell them!

One of the biggest advantages of being option trader is to truly understand this relationship and how it to put it to work for you. There are times to use each one of these options (ITM, ATM, OTM) to improve your probability of success and bolster profits. An option trader can better take advantage of the momentum and their technical projections to truly maximize returns and minimize risk when making the proper selections!

If you have questions, especially ones that are related moneyness, ask away in this week's **Advantage Point Morning Cal**l webinar. 😊