MARKET TRACTION

$281.00 Under Pressure – SPYs Virtually Unchanged from Last Week

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This Week's Trade Ideas:

Bullish Ideas: (View Webinar)

Walmart > Walmart Inc. > $98.37 Last. Buy the April 12th 96.5 Calls for $3.10 or less with a close or anticipated close above $98.75 in an up market with expectations for continued strength in the stock and ideally with **XRT** breaking out.

Bullish Mentions: **(View Webinar)**

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

TTWO, SIRI*, MRO, DK, ACB* ($8.35 trigger level). *Speculative.

Bearish Ideas: (View Webinar)

None at this time. Will rescan on weakness. Very few names have weakened since Friday afternoon's manic buying spree was launched.

Bearish Mentions: **(View Webinar)**
Based upon closing prices and all assume a down market with expectations for continued weakness in the major indices.

None. Will rescan on weakness.

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.

Special Note:

Remaining nimble is a focus in the newsletter and in our **Morning Call** webinar and will be so.

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Outlook:

Last week's Outlook:

*At present, we sit right on support but **we're not nearly as overbought**. Anything could happen at this point.*

Resistance held the week before and they found support last week after weakness. We're back up big on HOT AIR. Will it matter though? With everything said and done, we're back to where we were last week:

Anything could happen at this point.

Bulls are currently in control and eyeing our resistance level dead ahead. It seems improbably but we've seen worse!

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.)

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Recap of Last Week:

On a side note, AAPL was one of our names to have at the ready should the goosing towards highs begin. The busted that out above our level and it's up big this week. Just a reminder, that it is sometimes good to keep an eye on recent names that are lurking near key levels.

Last week we were prepped for bullish and bearish action with at least a few names on each side.

EEM and **ACB** were official bulls and with the market deciding to selloff last week, both faltered as to be expected. They're hanging in there and have rebounded but have yet to surpass our breakout levels.

Bullish Mentions were: **QQQ, MOMO, BTI, HRL, AKAM.**

QQQ is up small from last week as is **MOMO** but that's on earnings as it couldn't breakout in the midst of last week's weakness. Both naturally suffered initially last week. **BTI, HRL,** and **AKAM** amount to a mixed bag just like the market has been over the past week. The SPYs are virtually unchanged since last Tuesday so it's not a shocker that we didn't get much from bulls as all we've seen is a recovery to where we were!

We had **CLR** as our bearish idea and **GILD** as a bearish mention. CLR dropped and continue dropping for several dollars, so that was good. It wouldn't fully crack and finally rallied back a little today with the market moving up. **GILD** dropped a few bucks, but it rallied right back up along with the market.

We mentioned **NKE** and **A** in an update as reversal candidates with big $ potential if the market got crushed. They did weaken but have recovered to pre-Plunge Protection Team Intervention levels.

All in all, a rather meandering week transpired. Only bears could be taken initially last week, and they did drop but that fall was arrested with markup maneuvers that were launched on Friday afternoon and perfected on Monday. One or two more days' worth of selling could have delivered the really nice payoffs we seek but the **PPT** would have none of it.

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Market Overview

Last week in our Morning Call webinar we mentioned the transports after having included some commentary on them here. Well, the transports selloff we noted became historic but now, it's over. Here's a headline on the matter:

<u>Plane Crash Sparks Stock Buying-Panic That Ends Transports Longest Losing Streak In 47 Years</u>

That's certainly a modern-style headline, regrettably. Meanwhile, we still have:

From prior weeks' Market Overview:

We remain at a <u>very interesting technical juncture</u> that combines:

1. <u>A confluence of many resistance factors</u>

2. <u>An overbought but not too overbought market</u>

3. <u>A market that won't back off</u> and has ground up slowly recently

4. A <u>great propensity to exceed key highs ($281.00) even if temporarily</u>

5. A Clearance Zone with seemingly little resistance above $281.00 to the All-Time-Highs

AND ONCE AGAIN, what a lack of difference a week makes!

We are less than ½ a point removed from last Tuesday's SPYs close! Whoopee!

The density of the BS is really, really something at present, but we have to go with the charts regardless!

How dire is it for bears? Well, resistance could stop the bulls yet again and send them packing from near our $281.00 level in the SPYs. However, bear hopes are dimming:

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The VIX is again on the ropes and appears to be about to concede that easy money and algos are its better…for now. And that's not all! The NDX nearly broke out today and is very, very close to attempting to do so:

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Bulls have also repaired the FAANG complex and have it poised nearly identically with the NDX:

With the dismal economic developments not mattering to this point, along with earnings being revised lower and lower along with GDP expectations, it seems to us that the large and committed bulls out there must know something or think they know something because this market is a whisker from at least an attempt to push towards the all-time highs.

Will news even matter again? We shall see…

Once more a heavy calendar awaits this week with Jerry Powell closing out the week on Friday. The FED seems fairly well-set, but one can never know for certain. Nervousness could linger until he speaks his piece.

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This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
THE GOVERNMENT SHUTDOWN WILL DELAY THE RELEASE OF SOME DATA THIS WEEK.					
SUNDAY, MARCH 10					
7 pm	Jerome Powell on '60 Minutes'				
MONDAY, MARCH 11					
8:30 am	Retail sales* (new date)	Jan.	0.2%	0.1%	-1.6%
8:30 am	Retail sales ex-autos* (new date)	Jan.	0.9%	0.4%	-2.1%
10 am	Business inventories* (new date)	Dec.	0.6%	--	0.0%
11 am	Survey of consumer expectations	Feb.			
TUESDAY, MARCH 12					
6 am	NFIB small-business index	Feb.	101.7	--	101.2
8:30 am	Consumer price index	Feb.	0.2%	0.2%	0.0%
8:30 am	Core CPI	Feb.	0.1%	0.2%	0.2%
2 pm	Federal budget	Feb.	DELAYED		
WEDNESDAY, MARCH 13					
8:30 am	Durable goods orders* (new date)	Jan.		-0.1%	1.2%
8:30 am	Core capital goods orders* (new date)	Jan.		--	-1.0%
8:30 am	Producer price index	Feb.		0.2%	-0.1%
10 am	Construction spending* (new date)	Jan.		0.5%	-0.6%
THURSDAY, MARCH 14					
8:30 am	Weekly jobless claims	3/9		225,000	223,000
8:30 am	Import prices	Feb.		--	0.5%
8:30 am	Retail sales*	Feb.	DELAYED		
10 am	New home sales* (new date)	Jan.		618,000	621,000
10 am	Business inventories	Jan.	DELAYED		
FRIDAY, MARCH 15					
8:30 am	Empire state manufacturing index	March		--	8.8
9:15 am	Industrial production	Feb.		0.4%	-0.6%
9:15 am	Capacity utilization	Feb.		78.5%	78.2%
10 am	Job openings	Jan.		--	7.4 mln
10 am	Consumer sentiment	March		95.0	95.5
***DELAYED BY GOVERNMENT SHUTDOWN**					

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Below the Radar

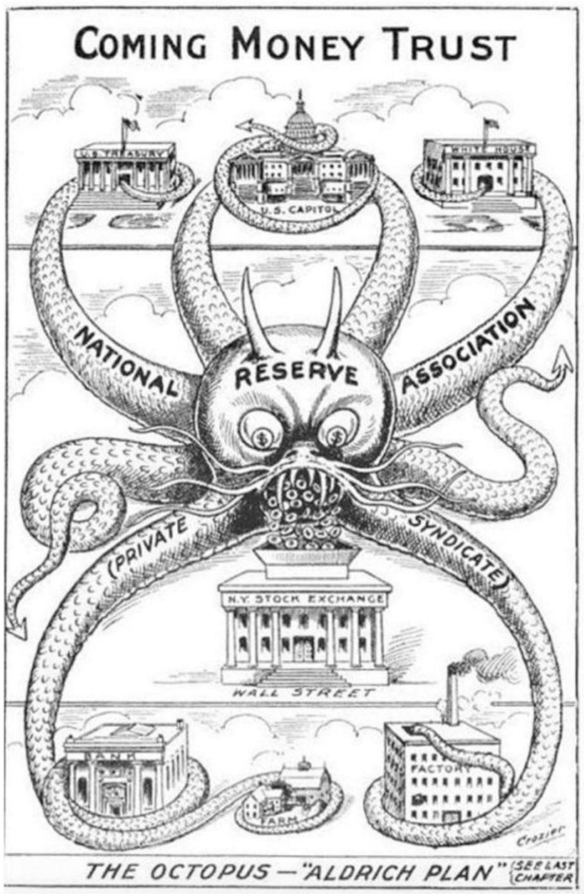
The past few week's we've ran with the following paragraph and concluding question:

Significant domestic slowing. Severe global slowing. Freight shipments becoming lighter. Inventories building in a big way. Loose money everywhere. Debt everywhere. The Reaper stalking housing, again. Stocks primarily being bought by the financial engineers and wounded bears.

And this snide question:

Stock prices back into orbit on their way to the moon?

It started late Friday and it's continued well into today (Tuesday). The rally is naturally to what we refer. How does 6 days of selling nearly become erased in just 2 days? Well, at least what's the cover story for it? We really can't find one! This is the closest we've come…



But really, "this" seemingly, *seemingly* mind you, this may have been all it took to zoom more after Friday's late short squeeze antics:

*<u>Federal Chair Jerome Powell</u> **<u>turned into a cheerleader</u>** for the economy in an interview with "60 Minutes" Sunday. "We've seen a bit of slowing, but still to heathy levels, in the U.S. economy this year," he said. "I would say there's no reason why this economy cannot continue to expand." A weak December retail sales report and a lackluster gain in jobs reported Friday have raised concerns that the slowdown may be more severe than the central bank now expects.*

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Putting aside that the FED's ultra-easy-$$$ moves have been cheerleading/engineering stocks higher for at least a quarter century as it never had before, Powell's comments really aren't news! That's standard *don't rattle the markets* FEDSPEAK but it may have been all it took to turn the algorithms up a bullish notch or several. And now, all things considered or maybe not, the SPYs are a whisker from our much-discussed $281.00 resistance level.

With that in mind, consider Q1:

https://www.reuters.com/article/us-usa-economy-atlantafed/atlanta-fed-trims-us-gdp-growth-view-to-02-percent-idUSKBN1QS245

NEW YORK (Reuters) - The U.S. economy is expanding at a 0.2 percent annualized rate in the first quarter, based on January data on domestic retail sales, the Atlanta Federal Reserve's GDPNow forecast model showed on Monday.

The Atlanta Fed's latest tracking estimate on economic growth was the weakest since April 2016 when it was running at 0.1 percent.

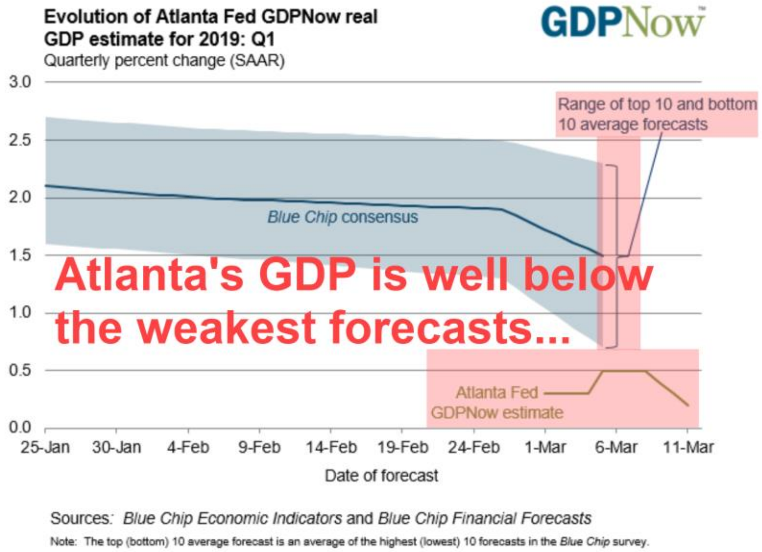
This was slower than the 0.5 percent pace for the first-quarter gross domestic product that the Atlanta Fed's GDP program calculated on Friday.

That's right, GDP which was expected to be weak was revised even lower to near ZERO! YET, equities care not. Where have we seen this before???

https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1

Latest forecast: 0.2 percent — March 11, 2019

*The GDPNow model estimate for real GDP growth (seasonally adjusted annual rate) in the first quarter of 2019 is **0.2 percent** on March 11, down from 0.5 percent on March 8.* ***After this morning's retail sales report from the U.S. Census Bureau, the nowcast of first-quarter real personal consumption expenditures growth declined from 1.5 percent to 1.0 percent.***



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This begs a few questions:

1. Market players know this but they're buying anyway?

2. If so, why won't a screeching halt matter?

3. The consumer is 2/3rds of the economy so isn't consumption growth slowing an issue?

4. Are consumers backing away from stocks too?

As far as "4" goes, Barron's would answer "YES":

https://www.barrons.com/articles/u-s-stock-etf-flows-are-drying-up-51552408335?mod=hp_LATEST

But the past 12 months suggest a slowdown is under way, at least for U.S. stock ETFs, said Nicholas Colas, co-founder of DataTrek Research, in a note published Tuesday.

ETF growth has tracked the market's climb. In the past five years, $604 billion has gone into U.S. stock ETFs, according to XTF.com. That represents more than 40% of the total flows into U.S. stock, non-U.S. stock, non-U.S. bond, U.S. bond, and commodity ETFs.

As the market churned early last year, flows went the other way—$32 billion came out of U.S. equity ETFs between February and March 2018. Much of that was offset by the $35 billion of inflows the ETFs had seen in January 2018.

Yet year-to-date U.S. stock ETF flows tell a different story, notes Colas. More than $17.5 billion has flowed out of U.S. stock ETFs in 2018, even as the S&P 500 has resumed its climb.

Blame it on aging—both an aging bull market and aging investors, says Colas. Investors in the three biggest ETFs by assets—the $260 billion SPDR S&P 500 (SPY), the $160 billioniShares Core S&P 500 (IVV), and the $110 billion Vanguard Total Stock Market (VTI), which were all launched in the mid- to late-1990s—might be moving their money into fixed-income ETFs as they age, Colas says.

Now, back to a writeup we found concerning Morgan Stanley, who was we mention below, isn't buying this rally as justifiable:

In a note released overnight, Morgan Stanley writes that in its 2019 year-ahead outlook ***it "envisioned a Fed that continues to hike gradually into 2019, but hits a wall by September when financial conditions ratchet tighter and growth sputters at 1.0% in 3Q."*** *Well, as recent events showed, that outlook has unfolded much more quickly than Morgan Stanley had anticipated as financial conditions tightened severely over the turn of the year, GDP growth is tracking just 0.5% in 1Q, and the Fed has moved to the sidelines and set a high bar for resuming its hiking path.*

Discounting the recent strong Q4 GDP print, MS then notes that economic activity weakened sharply in the final month of the year, with personal consumption clocking its largest monthly decline (-0.5%) since 2009, and "the utter lack of momentum coming into the year has helped to level set 1Q19 at 0.5%."

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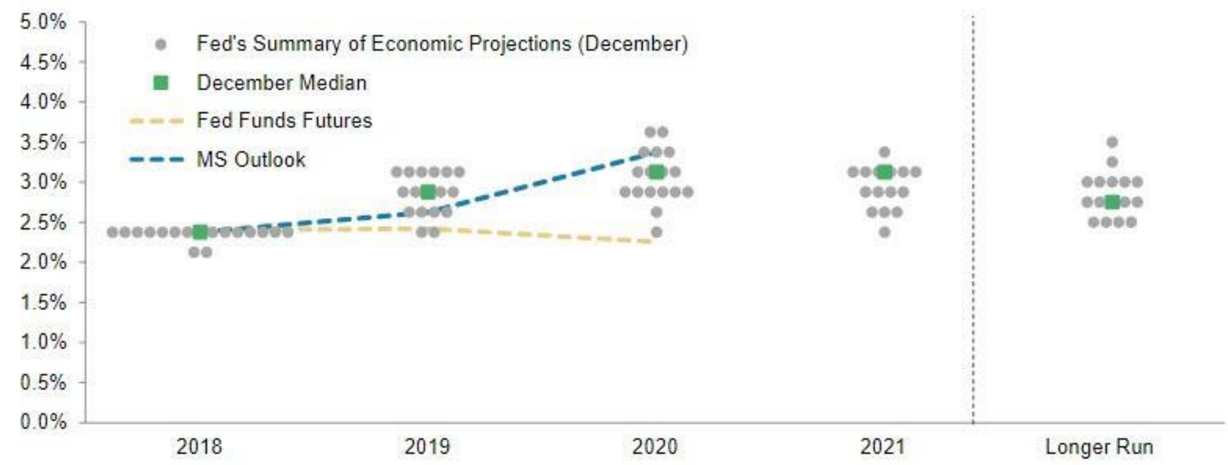
MS is also going out on a limb vs. the consensus with respect to rates:

Exhibit 3: Outlook for Fed policy: FOMC versus fed funds futures versus Morgan Stanley outlook



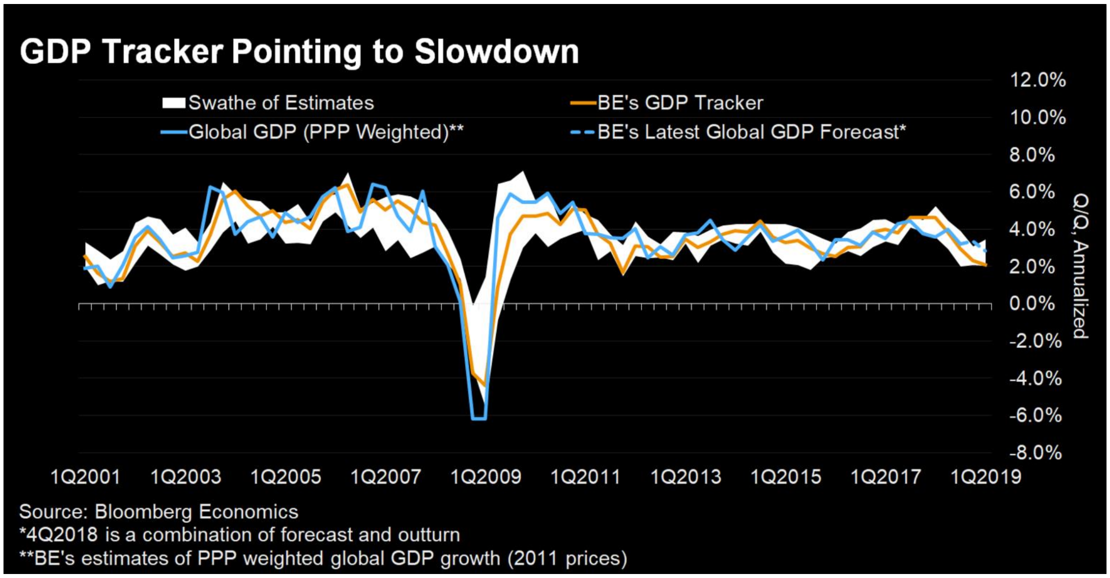
Source: FOMC December 2018 Summary of Economic Projections, Bloomberg, Morgan Stanley Research forecasts

That's the US view as per Morgan Stanley, which is the firm with the hottest forecasting hand over the past few years.

As for the world:

https://www.bloomberg.com/news/articles/2019-03-11/global-economy-hits-its-weakest-spell-since-financial-crisis

Its new GDP tracker puts world growth at 2.1 percent on a quarter-on-quarter annualized basis, down from about 4 percent in the middle of last year. While there's a chance that the economy may find a foothold and arrest the slowdown, "the risk is that downward momentum will be self-sustaining," say economists Dan Hanson and Tom Orlik.



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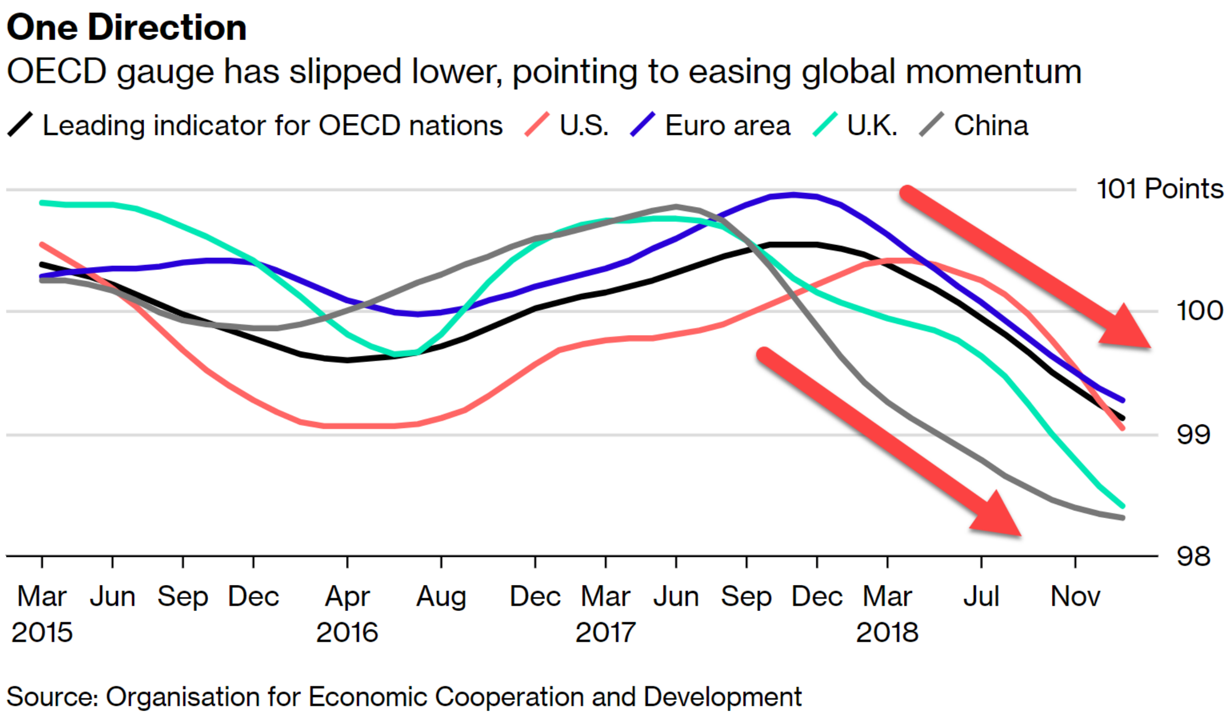

"The cyclical upswing that took hold of the global economy in mid-2017 was never going to last. Even so, the extent of the slowdown since late last year has surprised many economists, including us."

*Last week, the U.S. reported employers added **the <u>fewest jobs</u> in more than two years**. There may have been one-off factors to blame, but **the scale of the miss puts in focus the idea that the economy's losing steam.***

*In Germany, industrial output unexpectedly fell in January, though a large upward revision to December nullified some of the gloom. **A manufacturing index points to an extended slump, and production has posted year-on-year declines three months in a row**.*

Now, however, we must head back for more from a skeptical Morgan Stanley:

https://www.cnbc.com/2019/03/11/morgan-stanley-the-stock-market-correction-isnt-over.html

- ***The investment bank projected that full-year earnings per share forecasts for S&P 500 companies are likely to further fall between 4 percent and 5 percent.***
- *Forecasts for 2019 S&P 500 earnings per share growth are **already down 6 percent** from their peak in September, and **Morgan Stanley thinks investors aren't out of the woods yet.***
- ***"Earnings revision breadth has been some of the worst we have ever witnessed with both sales and margin guidance coming down across all sectors,"** Morgan Stanley's chief U.S. equity strategist, Michael Wilson, says.*

*In addition to those weak indicators, a build-up in inventories — due in part to companies adjusting to the Trump administration's 10 percent tariff on $200 billion in Chinese goods — **could further weigh on growth.***

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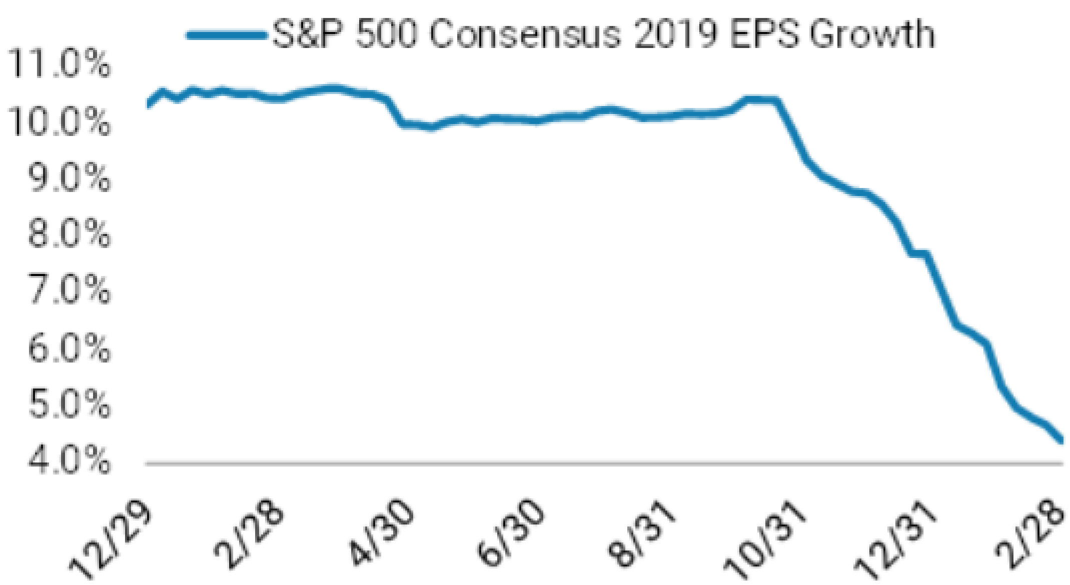
Recent data suggests that economic weakness outside the U.S. could ***pose <u>yet another threat to earnings for U.S. companies</u>.*** *Those international-facing companies, generating more than half of their sales overseas, are expected to see* ***an earnings decline of 11.2 percent in the first quarter of 2019****, according to FactSet. That is significantly lower than the earnings estimates for the S&P 500 and for domestic-oriented companies.*

Alas, the cratering of earnings growth in just the past 2 months:



Meanwhile, stocks have move nearly entirely in the other direction!

Have we finally hit "Peak Frenzy"?

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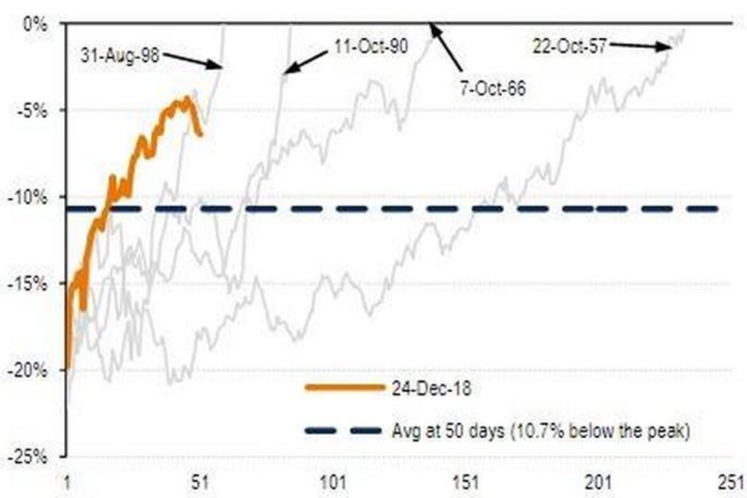
Following our fundamental look skepticism from Morgan Stanley, here's technical skepticism from BOA.

https://www.zerohedge.com/news/2019-03-12/just-one-giant-bear-market-rally-heres-what-history-says?fbclid=IwAR22xPRSJsiy_naIDM8jAiGdgC-2CUSQI-YqTd7f6PzV9Chwgv1QCLVBNLQ

How we were engineered to HERE:

- *On December 23, with the S&P points away from a bear market, Steve Mnuchin called the Plunge Protection Team, i.e. President's Working Group on capital markets, with* ***one clear message - stop the plunge.***
- *On December 25, Trump pulled an Obama, and told Americans to buy stocks: "We have companies, the greatest in the world, and they're doing really well," the president told reporters at the White House on Christmas Day. "They have record kinds of numbers. So I think it's a tremendous opportunity to buy.* ***Really a great opportunity to buy.****"* ***(Pension funds heard him loud and clear, unleashing the biggest stock buying spree in history the very next day).***
- *On January 4, just two weeks after Fed Chair Powell hiked rates by 25bps and said the Fed's balance sheet was on "autopilot", and tightening would continue, the former Carlyle lawyer****, sitting between Bernanke and Yellen capitulated, and for the first time said that the Fed would be patient, effectively ending the Fed's rate hike posture.***

Chart 12: SPX has recovered a substantial ~18% in the 50 days since its 24-Dec trough. Compared to recoveries from similarly-sized drawdowns, the current recovery is faster than average



Source: BofA Merrill Lynch Global Research. Data from 29-Dec-27 to 08-Mar-19. Lines depict the path of the SPX since the trough of historical SPX drawdowns (~20%).

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What transpired since then is nothing short of breathtaking**, with the S&P rebounding from the mid-2,300 to 2,800 (a level it has so far failed to breach decisively) in what Goldman last week dubbed **"one of the sharpest rallies in history."** Indeed, as shown below, **the rolling 67-day price return of the S&P is the 3rd fastest rally this century,** perhaps ever. In other words, there are bear market rallies and then there are **bear market rallies**, and what we have just experienced was, according to Goldman, **"the sharpest rally since the global financial crisis recovery, and sharp valuation re-rating alongside negative earnings revisions".

And finally, file this under "nothing to worry about." It's not as if S&P's ever let us down big:

Remain nimble my friends!

Bank and Roll!

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Options Academy

Although the "rally from nowhere on nothing" (save for Jerry Powell's 60 Minutes appearance) hasn't yet pierced key resistance levels in the SPYs, the VIX is already in heavy retreat mode:

The VIX could drop down to more normalized levels which could entice many that find this rally dubious-at-best, to act aggressively. However, just as it has quickly fallen off, it could reverse quickly back up if the SPYs fail to surmount resistance or we have another false breakout above the $281.00ish level. Morgan Stanley is in the "this is a dubious rally" camp and they've been nailing forecasts quite well over the past few years. They're questioning the index levels as they believe that earnings will deteriorate for possibly the first 3 quarters of this year! And don't forget "earnings are everything on Wall St." or so we're told! With this backdrop, we present this week's **OA**.

Referring to the VIX really opens a can of worms but we can't forget that it's for a good cause:

To prevent extreme frustration and potentially, disaster!

Trading the VIX, with options, sooner or later, becomes a subject that active options investors want to tackle. The idea of loading up on VIX calls if the VIX plunges to super low levels or if it starts to break higher is very attractive to many market players and that makes a lot of sense. If you're not buying this rally and think it is on borrowed time and that we could revisit the LOWS of late 2018, a LONG VIX trade could prove very intriguing. We all know that he VIX can really, really jam higher if the selling begins to unfold *cascade style.* It wouldn't be out of the question to witness the VIX rising from say the 10% level, to maybe the 40% level or more. That's a 300% move! That's a big payday for VIX bulls right? It towers over making money as a bear holding ETF puts even if say the SPYs drop 20% again. Well, rather unfortunately, capturing those VIX profits with options is MUCH easier said than done. In fact, it's beyond the scope of Options Academy to cover this fully in one fell swoop. HOWEVER, this question has been bubbling up more and more of late at our live events. This makes only makes sense as every market skeptic wants to profit significantly once the troubling issues that are currently being ignored by the markets as they possibly whistle past resistance towards all-time highs, are finally and fully recognized (maybe! 😉)!

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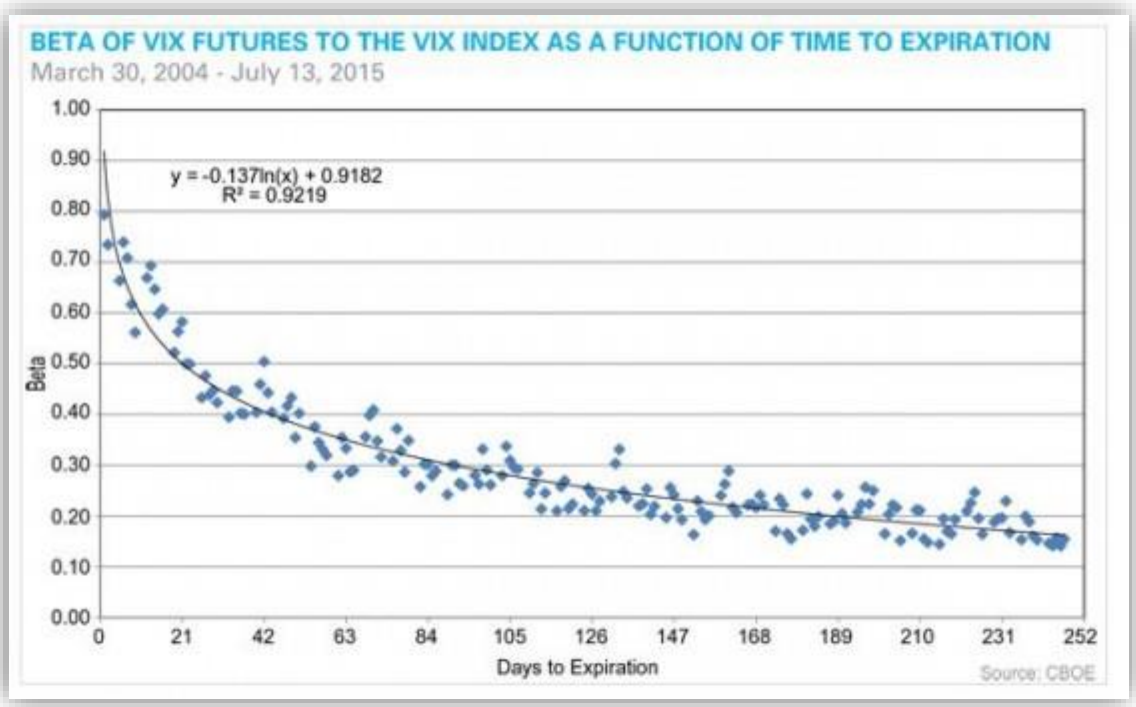
Sooooooo, if you ***know*** that it's only a matter of time before the current house of cards falls apart in a big way, why not buy June VIX calls and get ready to live large? It's just not that easy!

Here's the thing with trading the VIX, you really, really, really have to nail the timing!

Let's back up and look at a simple stock-based example. Let's assume that today we buy Apple 160 strike calls out in June for about $23.00 with AAPL trading near $180.00. Let's assume that a few weeks go by and AAPL is trading at $200.00. We know that our calls will have a minimum of $40.00 of intrinsic value at that point if we'd like to cash out. That's very clear to anyone that's educated as to how options work.

Now if we did something similar but in the VIX call options, we'd expect the same type of performance from our calls with respect to the move the VIX made, right? Well, NO! We can't expect to go out several months and buy June VIX calls and then build intrinsic value in a similar fashion. Unfortunately, that simply won't be the case because VIX options do not track the underlying VIX in the same way that unfolds in a stock.

Outer-month VIX options trade on a different VIX future that's not the near term VIX level that we're all accustomed to referencing. If the VIX shot up soon as we'd hoped that it would, the late March (near term) VIX call option values would likely spike much more relative to those in June. The graphic below probably best illustrates what's going on here:



As can clearly be seen, the very near term VIX futures perform closest to the VIX index we all know and love. As the options on the VIX are essentially linked to VIX futures, we would need to catch the spike in the VIX with options contracts as close to the present as possible to realize the really big payoff!

This is not an easy subject to cover comprehensively. Our goal here was to alert folks to the potential dangers of trading in products with less than a complete understanding of how they really work!

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If you want to really capture the VIX spike and the profits that would flow from it, you need to own the nearest-term options that track the VIX index most closely (have the highest beta).

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