MARKET TRACTION

How do you Prefer your Chop? Bullishly or Bearishly Prepared?

This Week's Trade Ideas:

Bullish Ideas: (View Webinar)

FCX > Freeport-McMoran Inc. > $12.70 Last. Buy the April 18th 12 Calls for $1.20 or less with a close or anticipated close above $13.05 in an up market with expectations for continued strength in the major indices.

Bullish Mentions: **(View Webinar)**

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

VLO, BHGE, HFC, PSX, FMS, DOX*, ADS, JNJ.

Bearish Ideas: (View Webinar)

MYL > Mylan NV. > $28.18 Last. Buy the April 18th 29.5 Puts for $2.05 or less with a close or anticipated close below $27.94 in a down market with expectations for continued weakness in the major indices.

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

KRE, FSLR.

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.

Outlook:

Last week's Outlook:

They just keep on chugging! The breakout hasn't been all that strong but new highs have been made. It appears that bulls are confident that more Mother's Milk will flow from the FED this week. We're not so sure. We will all know soon enough.

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Outlook was *right and wrong* last week. We weren't sure what would happen last week, and the market remains unsure this week. However, we thought we'd know soon enough… that hasn't happened as the tedium remains in theaters everywhere. A break of key levels would be nice right about now!

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:

It doesn't get any easier or more frustrating. "NOTHINGBURGER"

We had two names, **CSCO** as a bear idea and **ATVI** as a bullish mention. We wanted to get past the FED and then planned to rescan, which we did. The problem, and it has sustained itself mind you, is that the market continues to flop and chop. We've been on the verge of issuing new names believing that a cycle was on the verge of forming. FORTUNATELY, we waited a little, due to adverse (reversing) movement, and then it appeared that the market wanted to head in the OPPOSITE direction. We then prepared by rescanning for opportunities in that direction, only to see that move peter-out and so on.

Here's the deal, the SPYs were this morning within pennies of last Tuesday's closing price. As we write, **CSCO** and **ATVI** are within pennies of where they were last week after threatening, just as the market did, to break one way or another. CSCO is down 8c from last Tuesday's price! ATVI is 1c removed from last Tuesday's closing price!

The cycles have shortened, and we're smack dab in the middle of choppy markets. Good stuff for day traders and gamma flippers and of course brokers (Wall St.), but quite frustrating and forgettable for nearly all others. Hopefully this week will bring sustained movement back into focus.

Market Overview

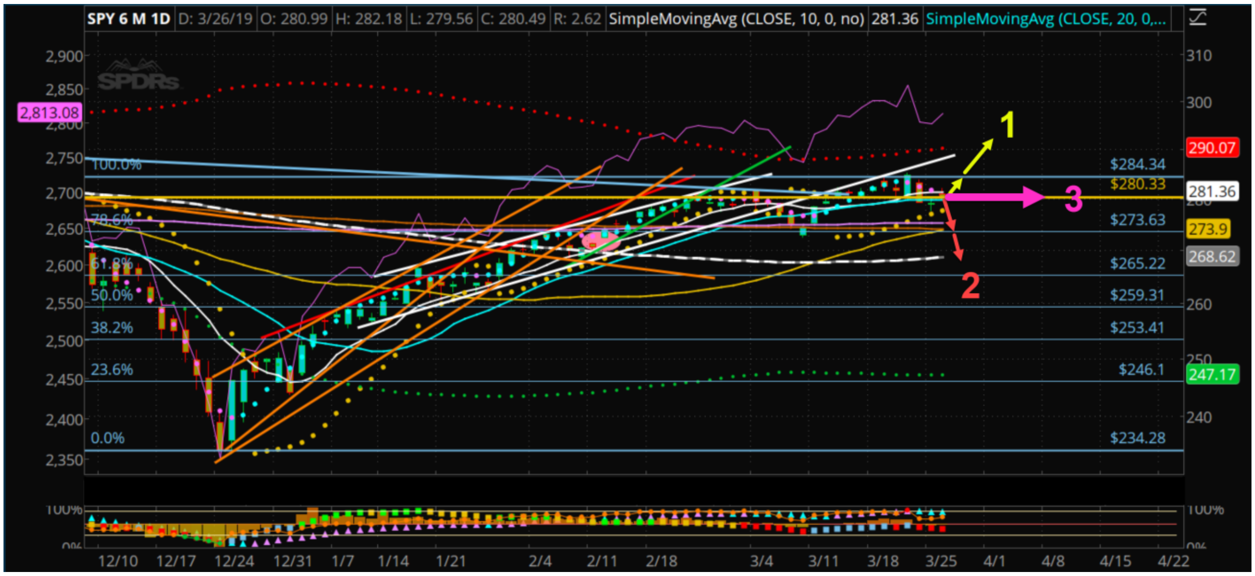
From last week:

If Powell is legit, he'll seek to temper the animal spirits he unleased with his late 2018 about face. Just as he needed to personally chill then, ***he needs to chill the animal algos or he could have a problem on his hands in the near future as stock prices continue to diverge from earnings and economics.***

In short, this week's outcome and those that follow are likely to result from whatever the FED sends our way. We'll chart a little, but we know from experience that it can all be blown up if the FED moves rates or utters comments that aren't in line with current expectations.

It's PURE FED now and the charts are likely to be overwhelmed by FED FALLOUT.

Post-FED discussion, Yield Curve Inversion Follies and international economic weakness are now front and center. The FED impacted the week from Tuesday through Friday. However, it wasn't exactly in the way that we envisioned. The Street got the super-dovish commentary they crave from the FED and yet Wednesday finished weakly despite Powell's complete crumble. Thursday was an abruptly bullish about face. Friday was a fade lower that continued into Monday until late in the day when they jammed stocks back up. Tuesday (today) delivered a big rally that has fizzled significantly as we write. In short, it's very clear that this market is very indecisive and thus short-term trendless right now.



In last week's webinar, we covered 2 paths. Those are labeled **1** and **2** respectively. We've now been forced to add **3.** Let's cover them all…

Note that we've moved our **YELLOW support/resistance line from $281.00 to $280.33**. It's a minor move but it also happens to be right where the SPYs are trading at the moment.

1. This was our bullish bath and remains so. It's a move that brings us first to the $284.34 level and then we close above there and push towards the ALL TIME HIGHS.

2. This was our bearish path and remains so. We test the 200/150/50 SMA levels near and just below $274.00 and if that level gives out then another 2 to 4% drop likely occurs.

3. This one we overlooked but we can do so no longer! The Gang may want to get a glimpse are key early earnings reports before making their next big move. If this transpires, we could remain stuck between $274 and $284 for at least a few weeks. That would be rather tedious, but it could happen.

In our shaded circle, we can note the following:

1. Thursday's Big Move Up stalled right near the prior high.

2. Friday's action more than reversed that and prevented a breakout.

3. Monday was more of Friday early on but then the SPYs suddenly reversed upwards.

4. Tuesday the Gang *gapped 'em up* and then sold them off strongly only to rescue them at the ***11th hour!*** (See below)

5. The SPYs are now between the 10 and 20 SMAs with an indecisive candle.

6. The cycles are shortening and are becoming more whimsical.

7. The breakout above our $281.00 level was weak and has failed to deliver thus far.

In SPYs summary, Monday's low COULD be a higher low, but in contrast, today's selloff could be a failed rally attempt in the making. It's getting close to pure guesswork at this point. We need to see at least the next iteration before we can latch onto something with conviction

Note the very "late save" below that took a rather poor-looking day and put a happy face on the close:

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With about 10 minutes left in the session the SPYs were much close to the lows of the day but the PPT managed to close things out above our $281.00 level by 4c!

FAANG and the NDX appear nearly identical at this point, which is to say, they pulled back from being overbought but floundered today:

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Boeing's plight has kept the DOW in check and it too is indecisive:

However, the transports too are keeping it *interesting*:

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Financials also made a lower low but sprung back today:

The Russel 2000's (IWM) price action profile has to at least be considered concerning:

We can note the lower high and lower low made over the past month. However, it's in the process of indecisively bouncing at this snapshot in time.

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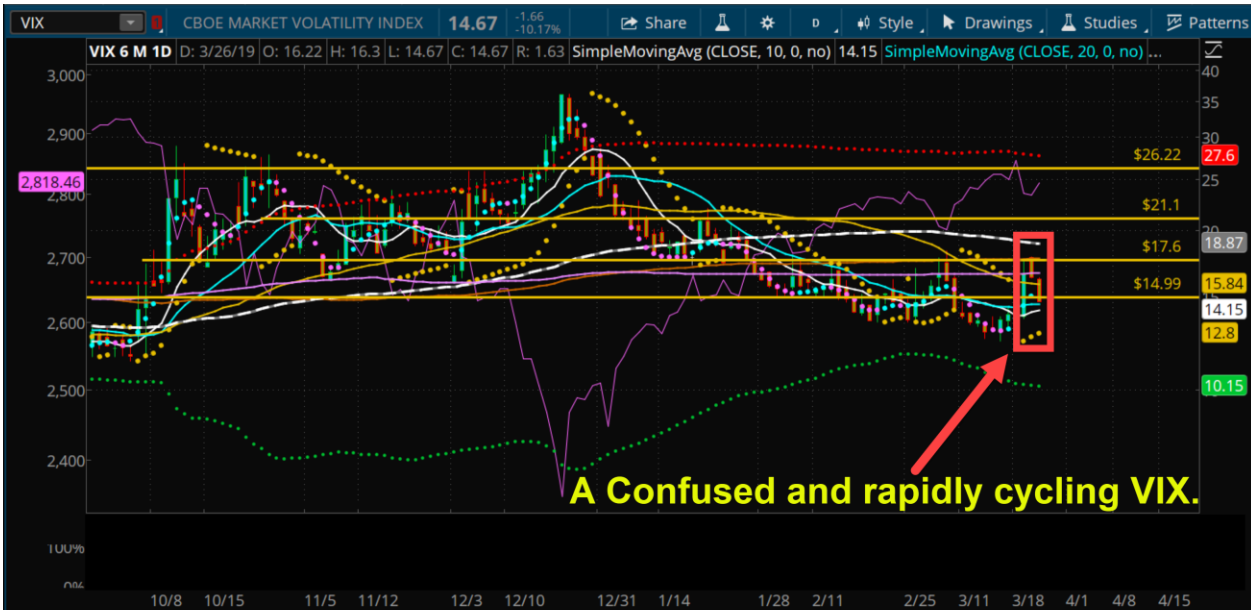
There's indecisiveness everywhere and that's the way it always seems to be when the markets are this choppy. We struggle for a strong take on the charts but it's not there because there's not much there!

How can you make yourself feel more comfortable when you remain unsure? The answer is often found by taking a quick look at the VIX:



Up, down, now in the middle. It's back to a slightly elevated level as well. The marketplace itself is confused. It's simple. We have to wait longer for the reveal. It's frustrating but it's much better than being chopped up!

Big-time calendar that's hard to speculate on at the moment. For instance, Patrick Harker spoke yesterday and seemed to conflict with the FED's statement from last week. That was quick! The market initially sold off on that news but seemed to forget it ever happened by yesterday's close and certainly had no recollection with today's opening!

This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, MARCH 25					
2 am	Charles Evans speaks				
6 am	Patrick Harker speaks				
8:30 am	Chicago Fed national activity index	Feb.	-0.29	--	-0.25
8:30 pm	Eric Rosengren speaks				
TUESDAY, MARCH 26					
6:30 am	Charles Evans Q&A				
8:30 am	Housing starts* (new date)	Feb.	1.162mln	1.201mln	1.273 mln
8:30 am	Building permits* (new date)	Feb.	1.296mln	--	1.317mln
9 am	Case-Shiller home price index	Jan.	4.3%	--	4.6%
9 am	Patrick Harker speaks				
10 am	Consumer confidence index	March	124.1	133.0	131.4
3 pm	Mary Daly speaks				
WEDNESDAY, MARCH 27					
8:30 am	Trade deficit* (new date)	Jan.		-$57.7b	-$59.8b
8:30 am	Current account deficit* (new date)	Q4		--	-2.4%/GDP
7 pm	Esther George speaks				
THURSDAY, MARCH 28					
7:15 am	Randal Quarles speaks				
8:30 am	Weekly jobless claims	3/23		222,000	221,000
8:30 am	GDP revision	Q4		2.2%	2.6%
9:30 am	Richard Clarida speaks				
10 am	Pending home sales	Feb.		--	4.6%
10 am	Michelle Bowman speaks				
1:15 pm	John Williams speaks				
6:20 pm	James Bullard speaks				
FRIDAY, MARCH 29					
8:30 am	Personal income	Feb.		0.3%	-0.1%
8:30 am	Consumer spending* (new date)	Jan.		0.3%	-0.5%
8:30 am	Core inflation* (new date)	Jan.		0.2%	0.2%
9:45 am	Chicago PMI	March		--	64.7
10 am	New home sales* (new date)	Feb.		624,000	607,000
10 am	Consumer sentiment index (final)	March		97.8	97.8
10:30am	Robert Kaplan speaks				
12:05pm	Randal Quarles speaks				

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Below the Radar

EARNINGS

Tech companies haven't been this negative about a quarter in six years

PUBLISHED TUE, MAR 26 2019 • 11:08 AM EDT | UPDATED 4 HOURS AGO

Jeff Cox
@JEFFCOXCNBCCOM

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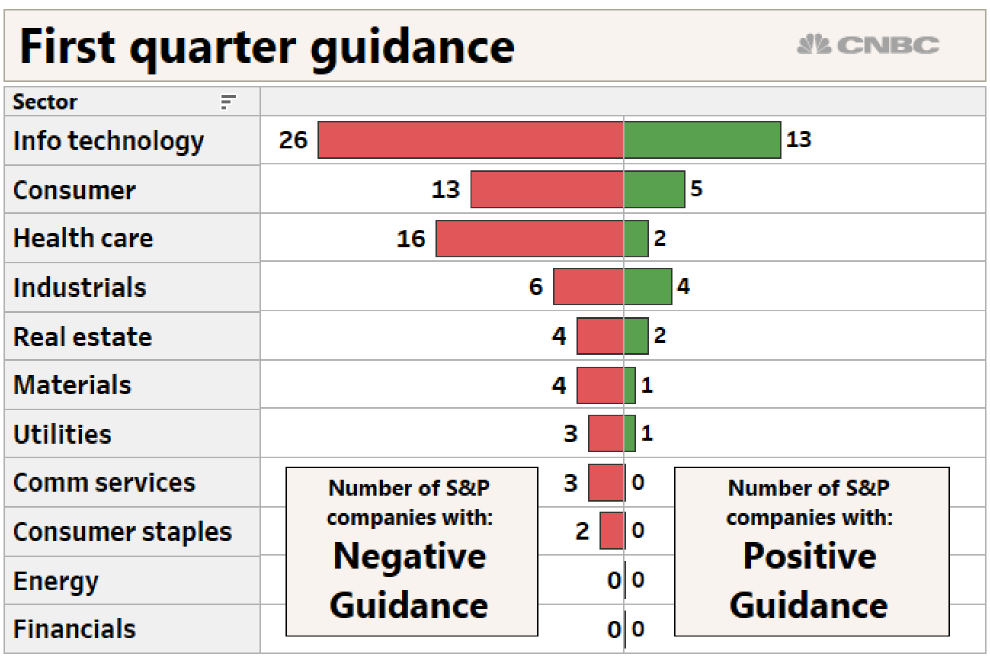
KEY POINTS

- Technology companies are lowering their revenue guidance for the first quarter at a rate not seen since the fourth quarter of 2012.
- The moves come against a generally dismal backdrop for corporate profits, with the S&P 500 expected to show a year-over-year drop of 3.7 percent.
- Despite the dour outlook, stocks have held up well, with the Nasdaq tech barometer up more than 16 percent.

Let's get started here!

https://www.cnbc.com/2019/03/26/tech-companies-havent-been-this-negative-about-a-quarter-in-six-years.html



SOURCE: FactSet, as of March 22, 2019

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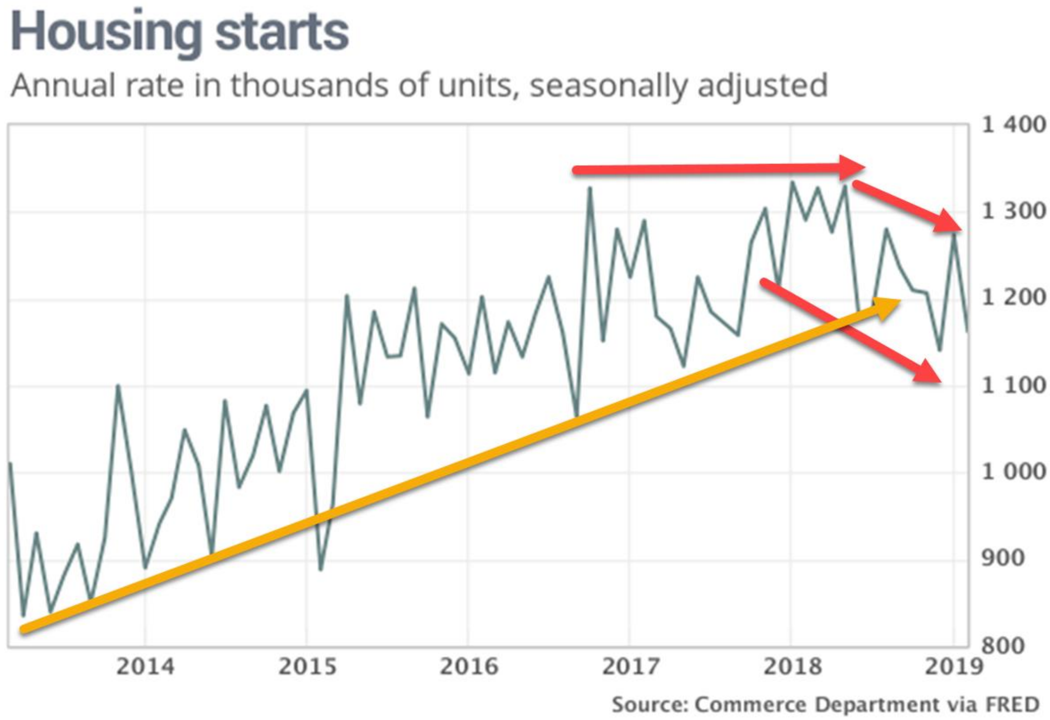
We're on the cusp of closing out the first quarter and stocks have really, really, really hung in there after being engineered back up by the FED and Bubblevision Theater Players. So, what gives? Negative guidance abounds but we're still not too far from last year's highs.

Clearly, Wall St. money mangers are looking past A LOT. We've chronicled Europe's slide and China's rollover. We've noted domestic weakness time and time again. We've jumped on the inverted yield curve bandwagon. The managers of OPM must know what we know so why aren't they bailing? To us, that's the big question. Why haven't they taken any money off the table? The answer is, what it always is: They're managing *Other People's Money* and they're all in it together! As long as only a few blink, there's safety in the herd. They know that they can't sit in cash or they'll suffer from redemptions and may lag in terms of performance should the market take off.

ADDITIONALLY, they may be waiting for GUIDANCE. They appear to be fine with a Q1 that won't be a record-setter. They've worked expectations down quite nicely and thus they can produce the usual "surprises" in a few weeks when earnings reports start to roll out. The problem will lie beyond Q1. Will they have the intestinal fortitude to *hang in there* if they don't hear rosy thoughts regarding Q2 and Q3 from the head honchos that spout off on the conference calls? That's what remains to be seen and it is one reason why we had to add ***Path 3*** in **Market Overview**.

We're often reminded that the consumer remains strong and since they are 2/3rds of the economy, all is well. Does that argument still hold water? Builders do not seem to be nearly as confident regarding the consumer when compared to the average Wall St. Cheerlea.....analyst:

https://www.marketwatch.com/story/housing-starts-drop-9-in-february-and-run-below-year-ago-levels-permits-fall-slightly-2019-03-26?mod=mw_theo_homepage



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Housing starts leveled off and now they seem to be adopting a downtrending complexion. Lower highs and lower lows.

Prices are still relatively high despite recent declines and builders face an array of obstacles, such as tighter regulations, the expensive cost of land and a shortage of labor made worse by a crackdown on immigration.

What they are saying?: *"Builders are still hampered by the three L's: land, labor and lumber, which means finding zoned land at reasonable prices remains hard, and then building on that land is expensive because of a lack of tradesmen and more costly materials," said Robert Frick, corporate economist for Navy Federal Credit Union.*

We can add that "high housing prices" are already in place in many big markets around the country. Affordability seems to be a thing of the past at present. Surely it will return but when?

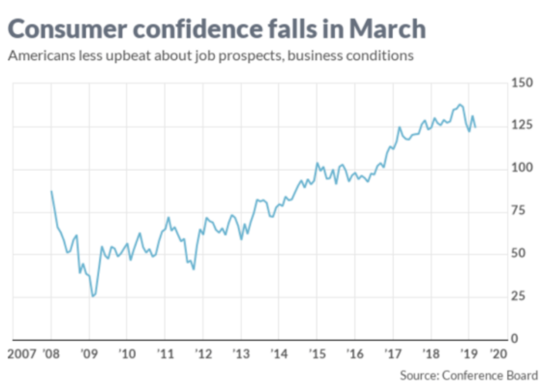
It's tough to say but "soon" doesn't seem to be the right answer:

https://www.marketwatch.com/story/consumer-confidence-falls-in-march-in-another-sign-of-economic-anxiety-2019-03-26?mod=mw_theo_homepage

The numbers: Consumer confidence fell sharply in March, extending a recent up-and-down pattern that reflects greater worries about the U.S. economy.

The consumer confidence index dropped to 124.1 from 131.4 in February, the Conference Board said Tuesday. That's the second lowest rate in a year.

Economists polled by MarketWatch had forecast a 133 reading.



What happened: Americans grew less confident in March in the state of business and their ability to find a job, according to a survey of how they felt right now.

The so-called present situation index sank 12 points 160.6, marking the biggest one-month decline since the middle of the last recession in 2008.

Sri Thiruvadanthai
@teasri

The pullback in current conditions of the Conference Board Consumer Confidence Survey is significant. The current conditions is an excellent coincident/leading indicator and the peak has presaged recessions by 2-14 months.

♡ 21 10:33 AM - Mar 26, 2019

See Sri Thiruvadanthai's other Tweets

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Employers seem to be picking up on things much the same way the consumer is:

And then there's the topic of the month but with a little value added:

http://theeconomiccollapseblog.com/archives/wall-street-red-flag-a-bond-market-indicator-that-has-predicted-every-recession-in-the-last-50-years-just-got-triggered

Wall Street Red Flag: A Bond Market Indicator That Has Predicted Every Recession In The Last 50 Years Just Got Triggered

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If the bond market is correct, the U.S. economy is definitely heading into a recession. Over the past 50 years, there have been six previous occasions when the yield on three-month Treasury bonds has risen above the yield on ten-year Treasury bonds, and in each of those instances a recession has followed. Now it has happened again, and this comes at a time when a whole host of other economic indicators are screaming that a recession is coming. Of course we have seen recession indicators triggered at other times in recent years, and the Federal Reserve was able to intervene and successfully extend this cycle on multiple occasions. But now that the global economy is clearly the weakest it has been since the last recession, have we finally reached a breaking point?

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We KNOW that Wall St. has done a great job at ignoring nearly all issues that have cropped up. However, this bull market is now 10 years in the making and it truly seems that Europe and China won't be there to drive commerce and thus profits. That may be the "what's different this time" that money managers shouldn't be easily dismissing but surely, they are…

FedEx Is Talking As If A Global Recession Has Already Begun – And The Numbers Back That Up

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"Slowing international macroeconomic conditions" is just a fancy way to say that the global economy is in big trouble. For months, I have been warning that economic conditions are deteriorating, and we just keep getting more confirmation that we are facing the worst global downturn since the last financial crisis. For the second time in three months, FedEx has slashed its revenue forecast for this year. In an attempt to explain why revenue is declining, FedEx's chief financial officer placed the blame squarely on the faltering global economy. The following comes from

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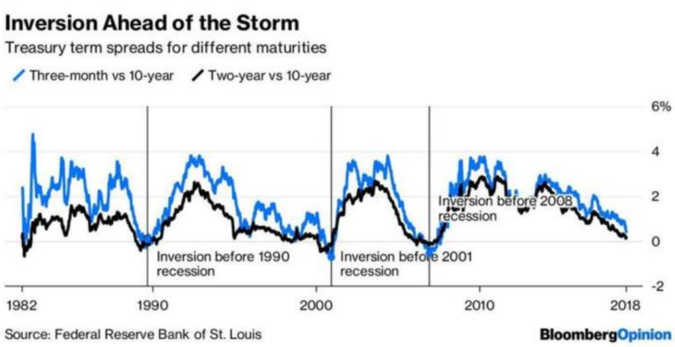
So, how are things adding up? “Not well” if we’re factoring in probabilities of a recession finally hitting!
https://www.zerohedge.com/news/2019-03-22/recession-odds-are-soaring

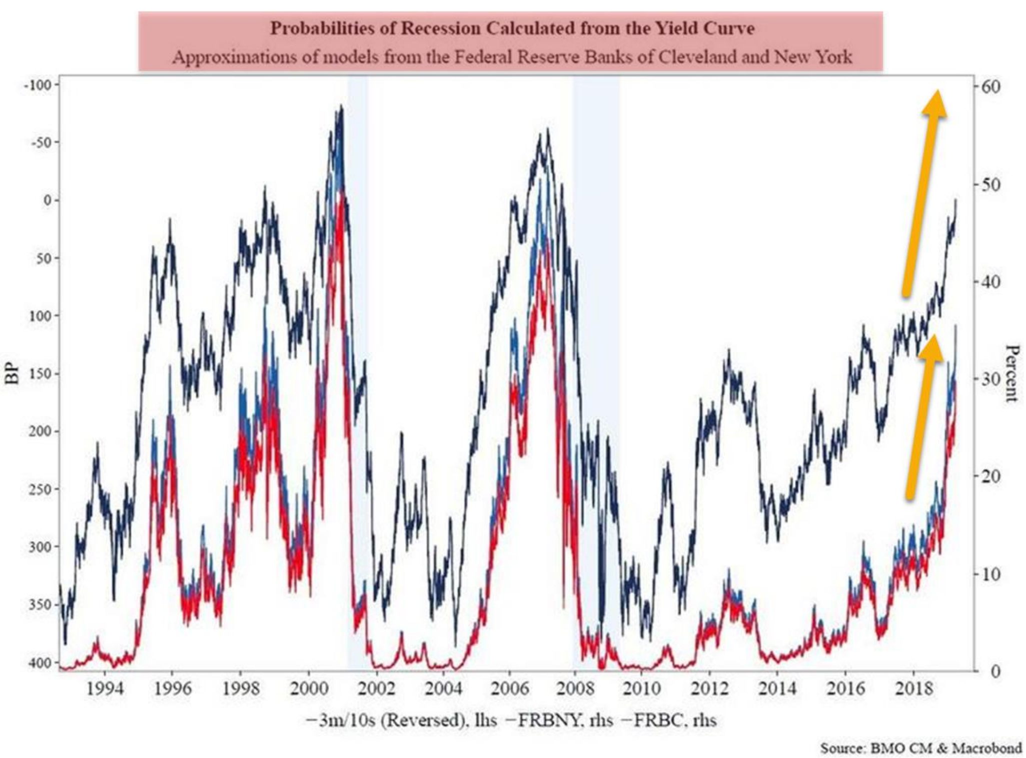
Recession Odds Are Soaring

by Tyler Durden
Fri, 03/22/2019 - 15:45

Why is the inversion of the 3 Month-10 Year curve - the first since 2007 - such a momentous occasion? Because not only is said inversion the most accurate recession leading indicator, having correctly "predicted" the last 6 recessions with no false positives, most recently inverting in 1989, in 2000 and in 2006, with recessions prompting starting in 1990, 2001 and 2008....



... it also feeds directly into every Wall Street recession model: the more inverted it is, the higher the odds of a recession.



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In summary:

1. The consumer is rolling over. This has been a leading indicator.
2. Housing is rolling over. (More signs the consumer is in *chill mode*)
3. FEDEX profits are rolling over.
4. Corporate Earnings have been revised dramatically lower vs. 6 months ago.
5. Many companies are guiding lower.
6. The inverted yield curve, the inverted yield curve, the inverted yield curve…
7. Recession odds are ramping up, up an away as a result and it’s a vicious spiral.

As for Wall St.’s money managers???

Remain nimble my friends!

Bank and Roll!

Options Academy - Anatomy of a Potential Roll

*We've been planning an **OA** installment on rolling and this week became "the week" in which we'll cover it due to circumstances. As most readers know, last week we lost a friend and former partner very unexpectedly. That development has put a domino effect into motion. As a result, we decided to tap our archives with respect to the subject of rolling at this time. Despite this trade from the past being a dated one, the core remains of value. We begin with an actual update that was part of the rolling coverage regarding a bullish trade in **AIG on May 30th 2017**:*

AIG was our lone idea that triggered last week. On Friday, we sent out this update:

AIG, our only stock that triggered this week, followed through a little more for us today despite the markets trading very near unchanged for most of the day. It's normally a good sign when a stock outperforms in a listless market. It touched just under $64.00 in earlier trading and that would suggest more strength could follow if it closes near that high or better yet through that high. Had the indices powered higher today, it would be very easy to simply wait on AIG.

Not knowing if this market breakout is real or fake makes things a little tricky here as it's probably not ideal to roll up at this juncture. For these reasons, conservative players could take respectable profits at these levels or "partial" their way out of some call inventory by selling a third or half of their contracts.

Those that want more from this trade idea shouldn't be dissuaded from holding on longer as the stock has acted well and if it closes the week well there's not much to complain about! The indices, post-holiday weekend, are a different story; potentially. How they act next week is the unknown since the follow through we'd like to see hasn't materialized. There may be a little resistance at $64.90 and near $66.00ish too but either of those levels would represent good spots to "bank and roll" should AIG continue to act well.

We highlighted the middle paragraph because it may have left some wondering why we didn't mention rolling up or possibly up and out, especially since we discuss how important it is quite regularly. A lot can be involved when it comes to deciding to roll. We're going to go somewhat in-depth with respect to this non-rolling example in AIG in hopes of shedding some light on our thought process. First, let's cover a few reasons why we elected not to roll before getting into what would prompt us to roll.

Why We Didn't Roll

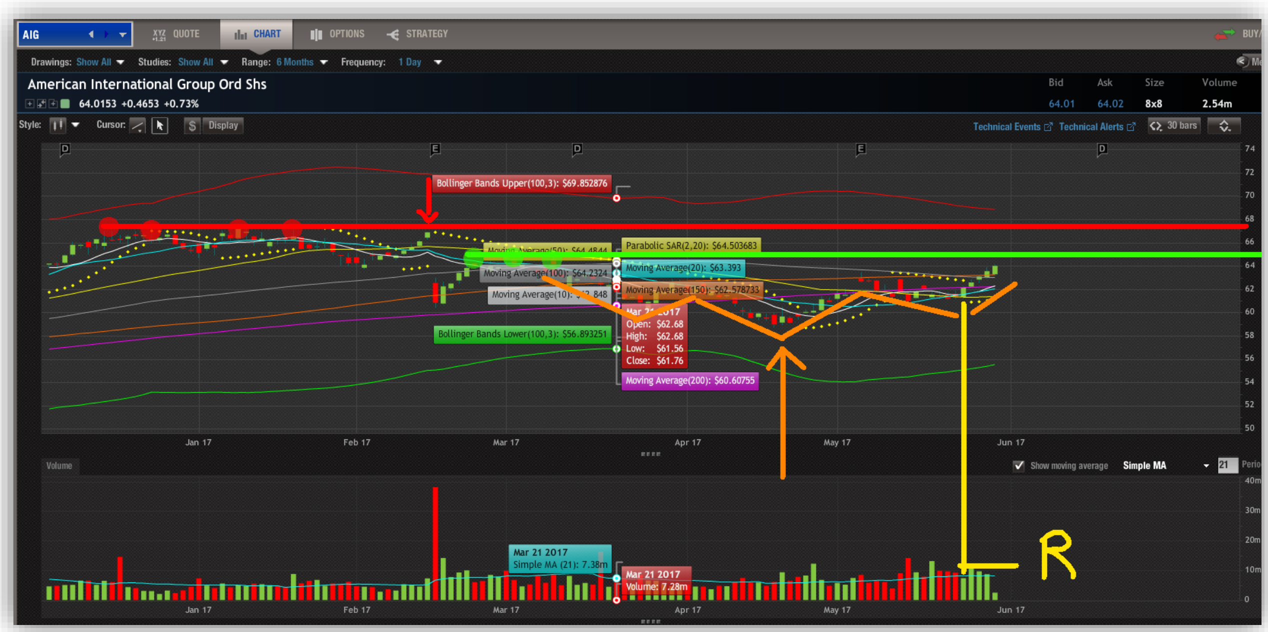
1. Although the stock acted well, actually performing better than the indices in percentage terms last week, it didn't ramp higher. In other words, we were up nicely for a 3-day trade, but it wasn't a windfall.

2. It backed off late on Friday afternoon, but it managed to close at its highest level in some time and it eked out a close ($63.55) above the May 4th high of $63.48. This was a positive technical sign for sure, but the fact remains that it backed off from the $63.90 level that it touched earlier on Friday. That made rolling more difficult because we weren't up as much in profits with respect to our entry as we hoped.

3. Any reasonable roll-up strike in the near term would have produced even more loss due to decay (theta). Not an intriguing prospect when we consider the **long holiday weekend**. This made it easier to be patient and avoid 3 to 4 days of theta by postponing our roll until this week.

4. The stock hadn't gotten just above or hovered at the key resistance level at $64.00ish that we identified. The late day back off removed that as a consideration since it took nearly 1/3rd of the stock's positive movement away from us since entering. Normally, in a supportive market, stocks tend to make more than 1 attempt to test key technical levels.

5. Things were working well from a technical perspective. Nice volume, much nicer than the SPYs, accompanied the rise in AIG. It may have an inverted Head & Shoulders pattern working for it bullishly. It respected $64.00 but still hadn't made it to the stronger resistance we expect to hit near $65.00 (horizontal green line). It's not close to the top target area of $66.00 (horizontal red line) which would theoretically provide stout resistance while also serving to close a gap. The orange arrow serves to highlight the point where AIG may have bottomed and started to convert from a downtrend to an uptrend. These positive factors helped us to remain a little more patient with respect to rolling while also making it clear that we hadn't moved up enough quite yet. We believed that there was likely more to come in AIG if the indices would allow it.



What Would Prompt Us to Roll

If AIG were to rise to $65.00, that would mean not only very nice profits, but it would also mean that we're now back to a price level that the stock tried to rally through 3 times before failing! We'd have to respect that level, since the stock has in the recent past, and as a result, we'd roll up in case $65.00 proves too challenging, at least for the time being. We'd be up well more than double at that point in profits, so we'd really be "banking and rolling" in the sense that we'd have significant profits (especially given the short duration of the trade to this point) to protect but we'd also realize that the market's recent rally was aging as was AIG's.

We'd have moved "quite far, quite fast" would be another way to view matters. A question arises: *Why not just take profits and exit?* A question serves as the reply: ***Well, with all things still working well, why cut and run?*** We shouldn't give up so easily on something that's working out nicely but not nice enough to roll up after having *banked the big money* without giving things a second thought. That's why we'd stay in but AFTER having rolled up and possibly out; we must still expect more. If AIG blasted all the way to $66.00, at that point we'd have the highly *coveted "no brainer"* roll on our hands. Our trade would be up over 200% at that point and everything we just noted about the $65.00 roll would still apply and in some cases even more so!

At the end of last week, we suggested that folks consider closing out a respectable winner or selling out some contracts not knowing what this week would bring (for certain) and because there just wasn't enough profit at that point to justify rolling into heavier theta in front of such a long holiday weekend.

Just as with charting, options strategy selection, and stock selection etc., rolling concepts can be rooted in solid logic but there's an *art component* to factor in as well. Many other factors could have played a role in our decisions last week with respect to all things AIG. Although we see patterns and behaviors repeat somewhat consistently in the markets, there's always a uniqueness to each day or week's particular trading considerations.

[For the record, AIG never managed to hold much above our $64.00 target for very long. It took until August for it to power up towards the $67.00 level and close the gap you can see in the chart above.]

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