MARKET TRACTION

Wake Us when $276.00 or $281.00 is Under Pressure

This Week's Trade Ideas:

Bullish Ideas: (View Webinar)

EEM > IShares Emerging Markets ETF > $42.97 Last. Buy the April 5th 42 Calls for $1.65 or less with a close or anticipated close above $43.05 in an up market with expectations for continued strength in the stock.

ACB > Aurora Cannibis Inc.* >** $8.10 Last. Buy the March 29th 7 Calls for $1.30 or less with a close or anticipated close above $8.25 in an up market with expectations for continued strength in the stock.
Very Speculative*:**

Bullish Mentions: **(View Webinar)**

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

QQQ, MOMO, BTI, HRL, AKAM.

Bearish Ideas: (View Webinar)

CLR > Continental Resources > $43.83 Last. Buy the March 29th 45 Puts for $2.65 or less with a close or anticipated close below $43.33 in a down market with expectations for continued weakness in the stock and ideally the **XLE**.

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

GILD.

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.

Outlook:

Once more, back to last week's Outlook:

Pullback then run to them again to retest? Through them on Try 2? Straight-up failure? ***Head fake above then failure?*** *It's a coinflip.* ***A pullback should occur, but news is the wildcard.***

Without news, we were able to see the pullback we thought should occur but the Gang held the SPYs above support every day since. At present, we sit right on support but we're not nearly as overbought. Anything could happen at this point.

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:

The past week is another easy one to recap. Tedium. Lots and lots of tedium. It was as boring as it gets with the exception of holiday periods.

TWTR, ZAYO, and **LM** were all official bears but as our weekend update noted, the market simply wouldn't crack. We leaned bearish for the first time in over a month and stocks have backed off but there's been no crack of support to this point. That makes it hard for bearish directional players to be successful.

RSG, MXIM, and **SHOO*** **(*Earnings due tomorrow -** Post-earnings trade if slips mildly and market weakens) were all bearish mentions and naturally they had to operate in the same exceedingly listless market that the bear ideas operated in.

There's not much to say. Nearly all these names at least drifted lower over the course of the past week. There just hasn't been a market break and thus none of these have really broken down in a big way. On a minor note, we had the following bullish mentions ready but with a prerequisite that SPYs breakout above $281.00, which didn't happen:

AAPL, DOCU, PVTL, TLRY. *SPYs yet to break close by resistance.

Naturally, all remain on hold as the SPYs failed to make a manic move through resistance, at least until this point in time.

In summary, our lean is one we're happy with as all we can do is be prepared and hope that the 10 SMA gives way and then the 20 and so on… We've yet to get the big break in either direction and thus we've got very boring directional trading staring us in the face. In fact, we just did an intraday check and the SPYs were $0.03 or 3c away from last Tuesday's close. It happens…

Market Overview

From last week's 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

What a lack of difference a week makes!

Yesterday's (Monday's) reversal was interesting but that's about it. As we write, we're nearly exactly where we were on last Tuesday's close, but the difference now is that we're less overbought. Also, support of a few kinds has held:

Again, from last week:

A juncture such as this one is the perfect time to consider our argument <u>because our confidence in what happens next continues to drop to 50/50.</u>

Normally, some sort of selloff would be expected after 2 months of levitation and a stall at a triple/quadruple top. <u>But these aren't normal times and we'd be surprised if the bulls turn tail that quickly after hitting the $281.00 for only fleeting seconds.</u>

We're still feeling it! The bulls have refused (so far) to let his market crack. They took another shot at resistance yesterday but were repelled. We noted that we didn't think that they'd be able to shred $281.00ish easily and they haven't been able to do so again, thus far. And again, we have to tip our caps to bulls as they're < 1% away from breaking out on a closing basis. YES, despite everything, that's where things stand.

As is to be expected, CNBC continues to tell us the glass is nearly all full but even on their air many guests have been allowed to argue that the market has gotten ahead of itself. We're in that camp as we've made known, but we also realize that a jam-job towards the all-time-highs on China trade news is a real possibility.

We're where we always try to be: Listening to what the charts have to *say.*

If the SPYs make a new closing high above $281.00 we have to become cautious bulls absent China news. If they break below $276.00, we have to be cautious bears due to what could be pending China news. We're bottled up! It's not fun, but that's where we are.

Positive China News = Screaming Pump and Dump Attempt Likely

Negative China News = Baked in China News Deflates Markets Quickly

Here's confirmation that our lack of conviction may have it right:

The VIX. Won't break down to normalized levels. Won't break up to announce that we're experiencing a dramatic selloff. Right now, we sit on support in the SPYs. Wake us when $276.00 or $281.00 is under pressure…

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This chart, however, will force one eye open as we sleep should we end up as bulls on a breakout:

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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.

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.					
MONDAY, MARCH 4					
10 am	Construction spending* (new date)	Dec.	-0.6%	-0.3%	0.8%
TUESDAY, MARCH 5					
7:30 am	Eric Rosengren speaks				
9:30 am	Neel Kashkari testifies				
9:45 am	Markit services PMI (final)	Feb.	56.0	--	56.2
10 am	New home sales* (new date)	Dec.	621,000	600,000	599,000
10 am	ISM nonmanufacturing index	Feb.	59.7%	57.5%	56.7%
2 pm	Federal budget* (new date)	Jan.		--	$49 bln
WEDNESDAY, MARCH 6					
8:15 am	ADP employment	Feb.		--	213,000
8:30 am	Trade balance* (new date)	Dec.		-$58.0 bln	-$49.3bln
10 am	Factory orders*	Jan.	DELAYED		
12 noon	Loretta Mester speaks				
12:10 am	John Williams speaks				
2 pm	Beige Book				
THURSDAY, MARCH 7					
8:30 am	Weekly jobless claims	3/2		225,000	225,000
8:30 am	Productivity* (full report)	Q4		1.5%	2.2% (Q3)
8:30 am	Unit labor costs* (full report)	Q4		1.6%	0.9% (Q3)
8:30 am	Trade balance*	Jan.	DELAYED		
12:15 am	Lael Brainard speaks				
3 pm	Consumer credit	Jan.		--	$17 bln
FRIDAY, MARCH 8					
8:30 am	Nonfarm payrolls	Feb.		174,000	304,000
8:30 am	Unemployment rate	Feb.		3.9%	4.0%
8:30 am	Average hourly earnings	Feb.		0.3%	0.1%
8:30 am	Housing starts* (new date)	Jan.		1.212mln	1.078mln
8:30 am	Building permits	Jan.		--	1.326mln
10 am	Wholesale inventories*	Jan.	DELAYED		
10:15 am	Jerome Powell speaks				

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Below the Radar

Last week we concluded **BTR** with a healthy dose of cynicism:

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?

Well, we're still quite cynical and we did see a few high-profile types publicly join our camp over the past week, but we do want to remind readers that personally, we trade the markets almost exclusively with charts. **BTR** serves to keep us apprised of the "other side" of the argument so to speak. Wall St.'s cheerleaders are everywhere. Throw a dart far enough in a random direction and you're likely to hit one. We provide **BTR** so that we minimize the chances that we'll suddenly be blindsided by serious issues that are percolating under the normally placid surface of the markets as presented by FinTV aka Bubblevision.

We mention that, again, because while the SPYs rest precariously on support at the moment, they're potentially one key news item way from launching a manic short-covering rally towards all-time-highs after leaving strong resistance in the dust…How do we keep going from here? We're already very vertical on the charts and way overdue for some corrective action, surely, we can't expect that moonshot to new highs anytime soon. After all, what could propel such an outcome? Well…Morgan Stanley argues that it's almost over (bad stuff) and besides that, the rest of the world is about to start helping us out here in the Good Old USA:

https://www.zerohedge.com/news/2019-03-03/morgan-stanley-q1-will-mark-trough-mini-cycle-and-central-banks-may-resume

And while Wilson was ahead of the curve in calling roa recession, it now appears that Morgan Stanley may also be calling the inflection point, when in its Sunday Start note, the bank's chief economist and global head of economics, Chetan Ahya, wrote that he is increasingly "inclined to believe that our house forecast of growth bottoming out in 1Q19, aided by a recovery in growth outside the US, is coming to fruition" as a result of easing on three key fronts:

- *Trade tensions easing,*
- *China's monetary easing starting to work,*
- *and the Fed's flexibility and patience, leading to easing in global financial conditions, all support our view that 1Q19 will mark the trough in this mini-cycle.*

Getting into it, the bearish side that is, we were able to grab these very recent and very interesting snapshots that support our fundamentals cynicism:

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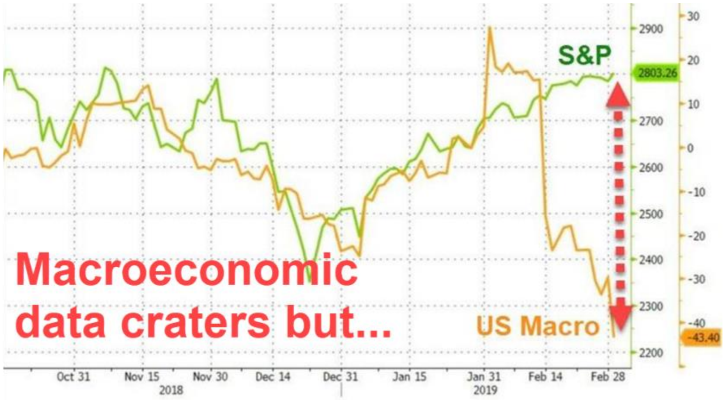

Earnings will still be good right?

But this is confined to the US, right?

Note the decoupling after there was synchronization, and now we have pure stock levitation:

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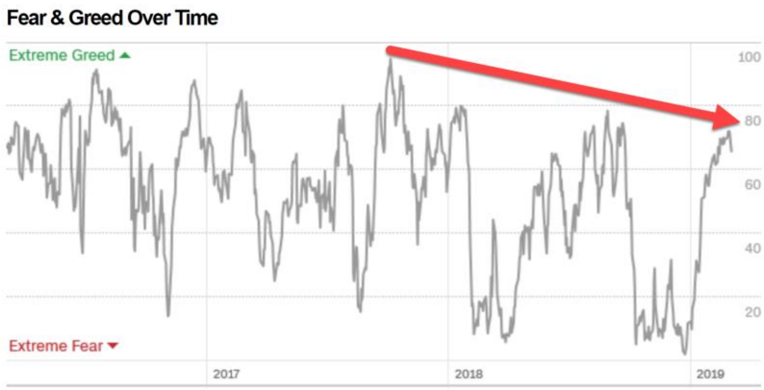
And now, one of the few things that seems to matter:

The PUMPs remain on full throttle! (If that even makes sense!) The monetary goosing seems to have no limits! How does it end? An alternative view:

Are we seeing a hiccup or the start of a real leg lower?:



We regularly speculate as to what ends it all with a half-serious reference to a looming Asian banking crisis. Satyajit Das informs us that maybe we're not too far off the mark. If you're not sufficiently concerned yet, read on!

The Bomb That Blew Up in 2008? We're Planting Another One

Read more at: https://www.bloombergquint.com/markets/collateralized-loan-obligations-are-riskier-than-most-realize

Where investors are leveraged, falling values will result in margin calls. Hedge funds invested in riskier tranches will face withdrawal of funding and redemptions. Some investors, such as mutual funds, may be forced to sell because of loss or rating triggers. Japanese banks, which have bought up to 75 percent of AAA CLO tranches and perhaps one-third of all CLOs, finance their holdings by borrow

Japanese banks, which have bought up to 75 percent of AAA CLO tranches and perhaps one-third of all CLOs, finance their holdings by borrowing dollars and euros in the inter-bank markets. Losses may create difficulties in rolling over funding, leading to a liquidity squeeze. As in 2008, that would accelerate declines in prices. As we saw last December, problems with CLOs may result in a contagion as depositors refuse to fund banks and investors demand their money back.

There are too many parallels to 2008 for comfort. Investors, many with uncertain expertise and weak holding power, have increased their exposure in the search for higher returns, which can be as high as 20 percent for the riskiest equity pieces. Bankers have aggressively underwritten leveraged loans and structured CLOs, earning around $2.8 billion last year. Built into this speculative episode, like its predecessors, is a euphoric flight from reality and a blindness to risks that continue to rise.

And, finally, the tweet of the week from our **BTR** friend Sven Henrich. We love pointing out the absurdities that get bandied about and he appears to as well:

Remain nimble my friends!

Bank and Roll!

Options Academy – Do the *Splits*?

In active options trading and discussions thereof, the questions of “What to do?” and “How to do it?” are consistently raised. Many new-to-options investors are intrigued with the idea of *premium collection* while others are mesmerized by the outstanding use of *leverage* that options can provide to investors. The thing is, it doesn’t have to come down to one or the other and the past week is one that reminds us why premium collection can be so intriguing.

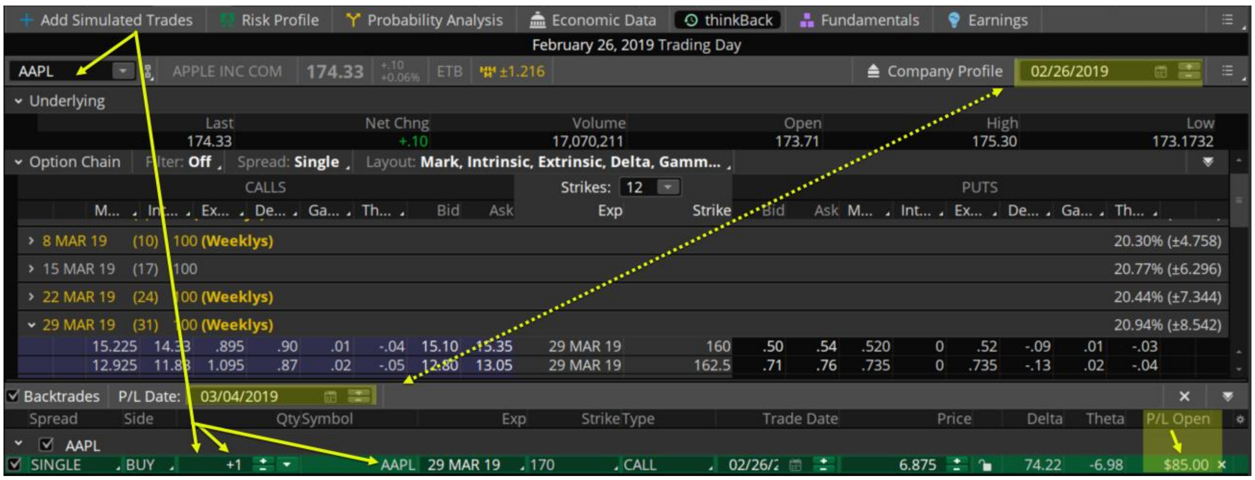
Here’s what last week left us wondering, (as least for this week!):

Why does it have to be either/or?

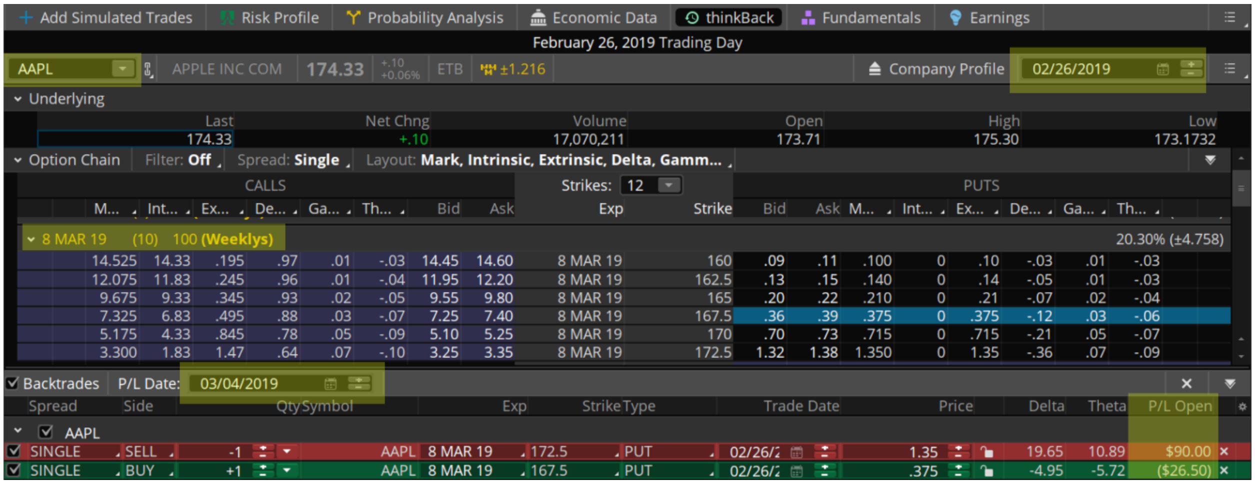
Why not do both?

This can work with a bullish or bearish orientation, but we’ll stick with the bull side since it is more intuitive.

Last Tuesday we listed Apple as a bullish mention just in case the Gang broke the market out above what we expected to be strong resistance near SPYs $281.00. As we write, AAPL is only up $0.80 since last Tuesday’s close. So, not much at all. Had we jumped in immediately with long calls that day we’d be going nowhere fast stock-wise but the markets like the call we selected a little and so there is a profit despite the lack of powerful movement:



Note that we *bought* a 1 month out-in-time call so as to get a little further back on the decay curve. However, if we were considering a *split-up* where the other strategy we were employing was a one of the premium collection variety, we’d move closer to the present on the decay curve. We could have, for example, sold March 8th 172.5 – 167.5 put spread for nearly a $1.00 credit on the same day purchased our long call above.



The combined P&L at present for both strategies would be as follows:

March 29th 170 Call > $85.00

March 8th Put Credit Spread > $63.50

Combined > $148.50

Had "things sat still" we all know that premium collection would almost certainly have beaten even the slow and minimized decay of owning an ITM option further out on the decay curve. But what if APPL's stock price had rocketed up? The credit spread would have delivered its full potential for us, but that potential is most-definitely finite. However, our long calls would have paid off in a big way!

Naturally, had the stock fallen, we'd have likely lost on both positions. That's to be expected! We're bulls after all! The degree of the decline would determine how much we lost on either and then both approaches combined.

In listless environments it may be worth asking:

What if we leave "either/or" mindset?

On a personal level, we're very biased in favor of simply owning the right long call or long put for our directional trades but we make no claims that our way is the *only way*!

Instead of picking only one approach, why not split the strategy application? Maybe we should consider "1/2 credit spread" and "1/2 Long ITM Calls", at least at times?

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