MARKET TRACTION

IN THIS ISSUE:

A Whisker away from many Windfalls! – We Love when the Cycles Cooperate!

This Week's Trade Ideas:

Bullish Ideas:

PayPal Holdings Inc. > PYPL > $79.30 Last. Buy the Mar. 23rd 79 Calls for $2.40 or less with a close or anticipated close above $79.95 in an up market with expectations for continued strength in the major indices.

Bullish Mentions:

AMAT, BIDU, BABA, LQD, AABA, MOMO* (earnings imminent), ICE, BLL, AGG, TD, JBL* (earning next week), ERI, CC.

Bearish Ideas:

International Paper > IP > $57.68 Last. Buy the Mar. 29th 58 Puts for $1.80 or less with a close or anticipated close below $57.19 for aggressive types, and $2.00 or less with a close or anticipated close below $56.89 for more conservative types. We want to see a down market with expectations for continued weakness in the major indices. ***The stock is right near the 150 and 200 SMAs. ***The company is attempting to acquire another.

Wisdomtree India ERNGS > EPI > $26.64 Last. Buy the Mar. 29th 27 Puts for $0.90 or less with a close or anticipated close below $26.40 in a down market with expectations for continued weakness in the major indices.

Bearish Mentions:
DFS, INDA.

Market Overview:

Our gut remains that THIS isn't over yet, but the answer is elusive at present and thus we'll stay open-minded.

For a change, we like our gut! That's from a week back but we still do not feel as if it is OVER! It could be, but we need to remain open to possibilities of which there are many!

We have to keep this part of this section much more compact than we'd like. It will be best to watch the webinar for an assessment of the Technicals…

Below the Radar:

We're getting started in **BTR** with the graphic above. This is just too emblematic of the past 2 decades of *economic progress* for us not to! The trend (really the lack of one!) in hourly earnings has been one of our pet issues for a long, long time. The basic question we always ask is: How can things be getting better if they're not getting better? Which, clearly, they haven't! Now consider this: The Gang is worried about rising wages! Ostensibly, at least, the fear over rising wages is one of the drivers of the recent selling we've seen. This is one of the greatest cases of "you can't win for losing" that we can recall!

Options Academy:

We may as well tackle Gamma this week as we've been working on related Greeks and similar concepts of late. Gamma is quite important in the early stages of the swing-trading style that we employ in our Newsletter. We're going to explore gamma within that context as it may help new to options and new to members alike.

DHI was one of our bearish ideas from last week so we'll use it for reference:

THIS WEEK'S TRADE IDEA(S)

A Whisker away from many Windfalls! – We Love when the Cycles Cooperate!

The Trade(s):

We're noting it One More Time!

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

That continues to apply! When volatility picks up, as it has, a great deal of movement is compressed into a very short period of time when view relatively. Adjustments and rolls need to be completed much more frequently than during other phases of market price action.

We strongly suggest viewing this week's webinar for full details with respect to these idea(s), last week's and options education.

Week 5 of our Special Note:

The past several week's special note read:

It may be over, but we're not yet convinced of that despite CNBC's best efforts. Hopefully it is, but we're willing to give it a little more time before we leave the edge of our seat.

Realize that you may be operating in a stormy environment should you decide that to enter the markets.

We're happy that we maintained this outlook as it has borne out. We'll continue to reprint this note as long as the markets remain this volatile! So, once again, we offer:

….movement…is back in business it would seem. Act accordingly!

Bullish Ideas:

PayPal Holdings Inc. > PYPL > $79.30 Last. Buy the Mar. 23rd 79 Calls for $2.40 or less with a close or anticipated close above $79.95 in an up market with expectations for continued strength in the major indices.

<u>Bullish Mentions</u>:

AMAT, BIDU, BABA, LQD, AABA, MOMO* (earnings imminent), ICE, BLL, AGG, TD, JBL* (earnings next week), ERI, CC.

Bearish Ideas:

International Paper > IP > $57.68 Last. Buy the Mar. 29th 58 Puts for $1.80 or less with a close or anticipated close below $57.19 for aggressive types, and $2.00 or less with a close or anticipated close below $56.89 for more conservative types. We want to see a down market with expectations for continued weakness in the major indices. ***The stock is right near the 150 and 200 SMAs. ***The company is attempting to acquire another.

Wisdomtree India ERNGS > EPI > $26.64 Last. Buy the Mar. 29th 27 Puts for $0.90 or less with a close or anticipated close below $26.40 in a down market with expectations for continued weakness in the major indices.

<u>Bearish Mentions:</u>
DFS, INDA.

Outlook:

Last week's Outlook:

After the spike, we've become short-term overbought, especially in tech. Global equities markets aren't bouncing as we have here in the USA. Tech has left the other indices behind and volumes were light on the way back up. That's indicative of short-squeezing. This buy cycle may have ran its course for a moment or two. We've got to stay on top of things as movement might finally be back in style.

Fortunately for us, that Outlook seemed to capture reality quite well. Many key charts now appear to have a lower high in place. We were on our way to a retest of lows, but it seemed as if our "market stabilizing" friends were called into action on Friday and they levitated the indices back up. Most stocks were short-term oversold and sort of still are even after Friday's close. We could be in for more rally attempts and then we'll have to go from there…

Technicals:

Will be discussed in-depth in the webinar.

Fundamentals:

These trade idea(s) and mentions are technically-driven.

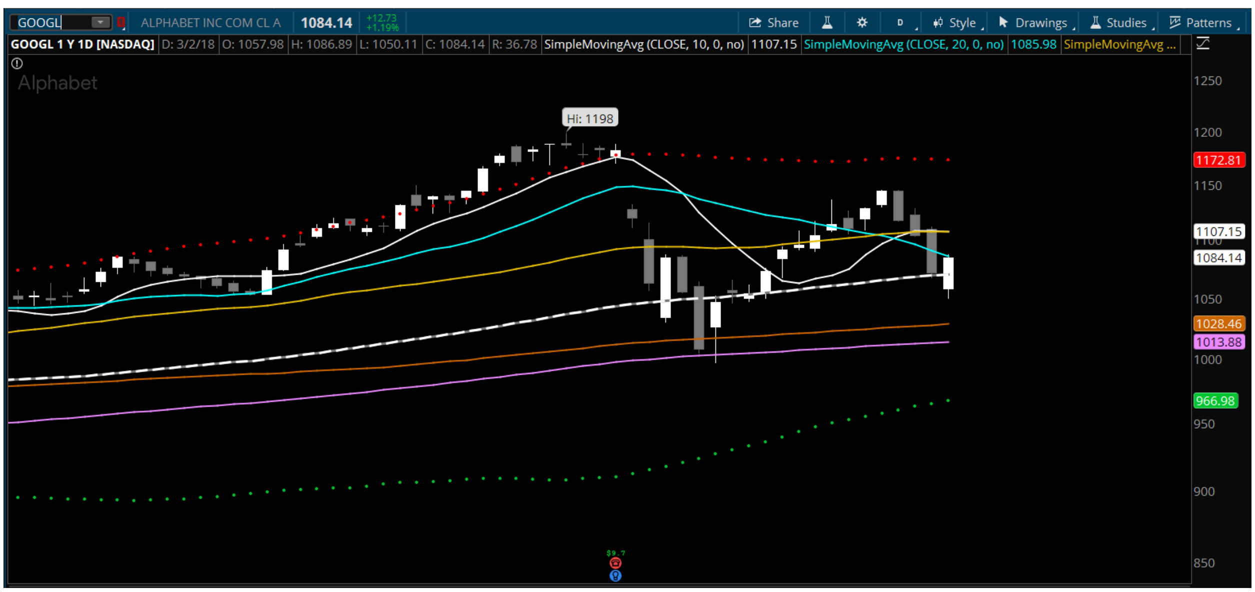
(Editor's note: This trade idea may be updated periodically, in keeping with market conditions. It is intended solely for educational purposes.)

Recap of Last Week:

Wow! Last week was really-good stuff for **Market Traction**. That came after a week that frustrated us by moving but going nowhere until the 11th hour ☹! Anyway, the cycles work that we perform aligned perfectly with the publication date of the ideas and mentions in the newsletter. That's something we didn't have the fortune of capitalizing on very frequently in 2017, so, we'll take it! As long-time readers know, we typically publish a few ideas and a few mentions because that's what the service is designed to do. Last week we decided to go for the gusto because we came across many highly-qualified candidates for trade ideas and mentions at JUST the right time! Normally conservative, we elected to become bold. We're happy that the trading gods seemed to favor our timely foray into the land of the boldness. We needed Friday to end as a complete washout and it would have really been picture perfect given our 26 bearish names but with us issuing rolling reminders as if they were candy, we can't complain too loudly.

All told, when we count the 3 "bullish" but actually bearish ideas that weren't **CREE**, (they were metals related which is typically thought to be "inverse" or a hedge of the markets), our 3 bearish ideas, and the 20 bearish mentions, we generated a whopping 26 bearish names of which most fell significantly. That number dwarfs a typical week's output so we're counting our blessings! We're hoping that readers latched onto many and rolled down aggressively! That's why we updated so frequently last week! To encourage folks to stay on top if it! Official bearish ideas, **AZN**, **DHI**, and **MAS** all fell off. Most mentions did as well. We can't cover them all but:

GM was one that dropped to our support level virtually to the penny and bounced a little. Others:



Plummeted quite nicely but had very strong comebacks/were rescued, on Friday. We note **GOOGL** here because we normally steer clear of monster stocks such as this one but felt the time was right for at least a mention.

We'll cycle through most of the names in this week's webinar. Our only bullish mention, **CREE**, hung in there well hung in there pretty-well early in the week but did succumb to some selling by the end. That's one that never should have been traded anyway as the markets were heavy and it never broke out.

Former bearish ideas and mentions mostly fell off. **DG** and **HSBC** for example. Former bullish names **MU** and **SWKS** kept trying but they too were arrested by the selling and those trades should have at least been aggressively rolled if not closed by the time the cycles shifted last week.

All in all, we're quite happy with what the first 2 months of 2018 have delivered for us and hope to stay strong throughout the balance of the year.

Market Overview

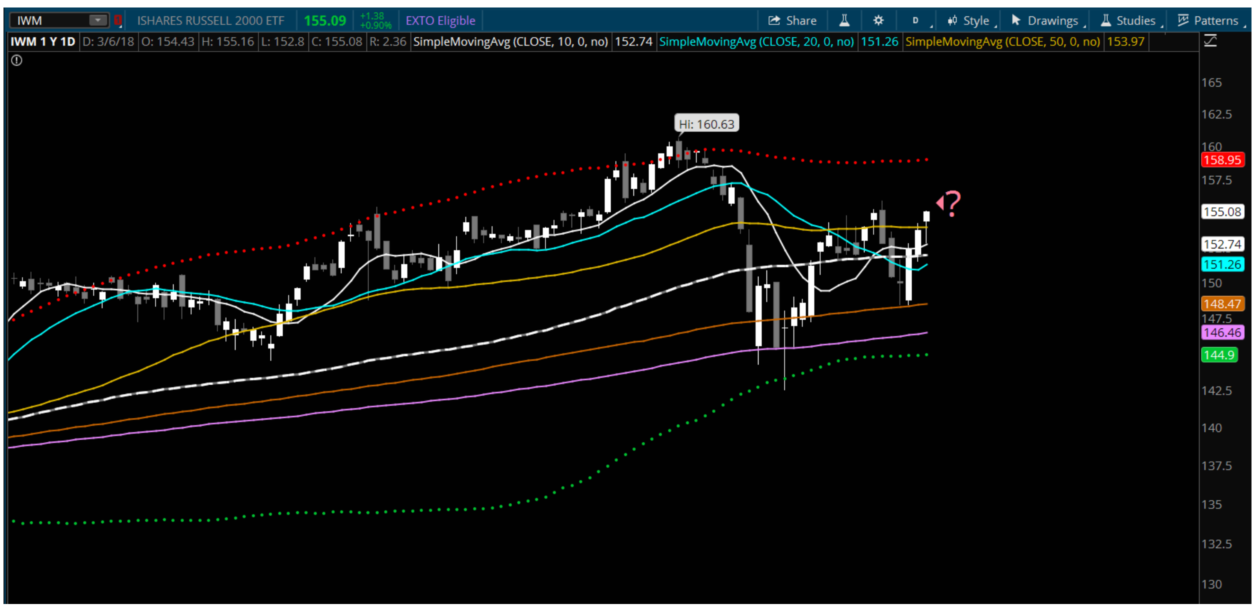
This week is last week again!:

Oh boy! We really need the Market Traction Point Morning Call time to do justice to the current market overview. Please attend or watch our recording! There are many, many possible scenarios that are playing out in our minds at the moment. We'll do our best to cover at least a few. Let's first review our initial and key comments from last week's market overview:

We could see a little more retracement from the recent top as we became short-term overbought but could see more push higher after a brief pause as well. That's yet to be determined and thus we're watching closely. <u>Our gut remains that THIS isn't over yet</u>, but the answer is elusive at present and thus we'll stay open-minded.

For a change, we like our gut! That's from a week back but we still do not feel as if it is OVER! It could be, but we need to remain open to possibilities of which there are many!

We have to keep this part of this section much more compact than we'd like. It will be best to watch the webinar for an assessment of the Technicals, however:



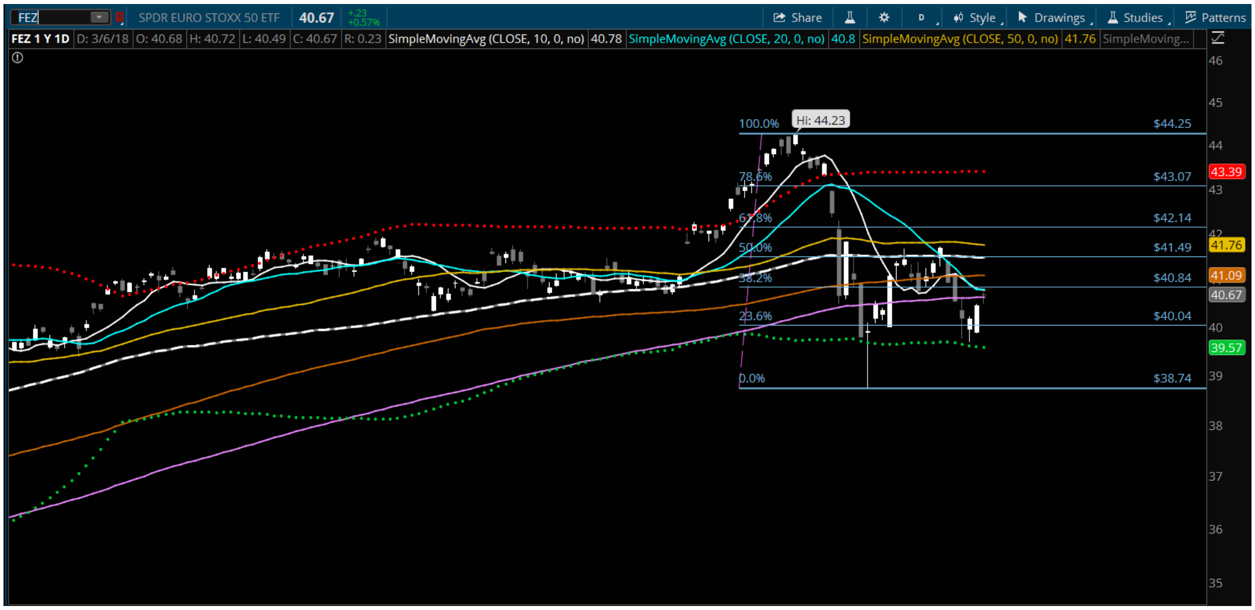
We're switching it up to the **IWM** ETF that covers the Russell 2000 for two reasons:

1. A view on how an even larger part of the stock market is doing.
2. Our **SPYs** chart is busy, busy, busy with too many forms of TA!

The **IWM** chart above is fairly-clear and our notation on it says it all. The **BIG SAVE** on Friday may have prevented an out and out retest of the February lows…at least…for the immediate future. We've got to stay on top of things and go with the flow! It's that simple yet that challenging!

We're not sure at all about the ever-since Friday's rally. It may have been shorts covering for the weekend as part of the buying mix followed by yahoos jumping back in or maybe it is more protection from the central planners. Nothing would shock us but we certainly wouldn't overstay our welcome on the bullish side of things as the rally could fall apart quickly in what has been a "sell into strength" environment over the past month. Moving on…

For the record, Euroland has been more significantly damaged and was saved by the band, the Bollinger Band!:



China was saved by the 150 SMA:

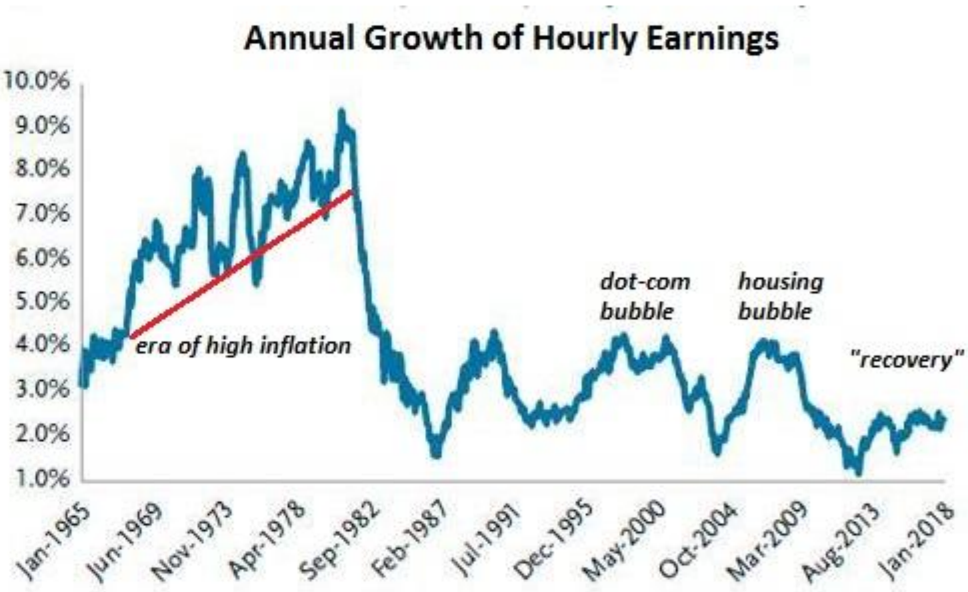
Much like the US, they're short term oversold but the charts still suggest vulnerability. Watch and wait is what we'll do!

This week's calendar is light early but does pick up as the week plods on. "Numbers" haven't mattered much for some time in the traditional way we've come to expect, but there seems to be a shift happening in which they matter again. At the very least, they're justification fuel for whatever the momentum players seek to induce. Probably best to stay on top of Wednesday and Friday's numbers they seem to contain items that may be acute at the moment.

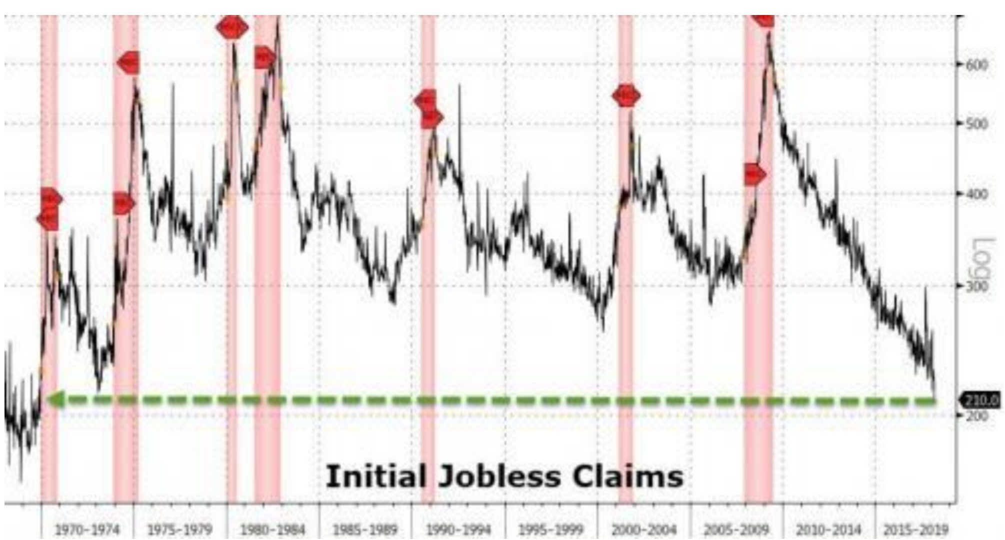
This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	FORECAST	PREVIOUS
MONDAY, MARCH 5					
9:45 am	Markit services PMI	Feb.		--	55.9
10 am	ISM nonmanufacturing index	Feb.		58.9%	59.9
TUESDAY, MARCH 6					
10 am	Factory orders	Jan.		-1.4%	1.7%
WEDNESDAY, FEB. 28					
8:15 am	ADP employment	Feb.		--	234,000
8:30 am	Trade deficit	Jan.		-$55.1 bln	-$53.1bln
8:30 am	Productivity	Q4		-0.1%	-0.1%
8:30 am	Unit labor costs	Q4		2.1%	2.0%
2 pm	Beige book				
3 pm	Consumer credit	Jan.		--	$18 bln
THURSDAY, MARCH 1					
8:30 am	Weekly jobless claims	March 3		220,000	210,000
FRIDAY, MARCH 2					
8:30 am	Nonfarm payrolls	Feb.		210,000	200,000
8:30 am	Unemployment rate	Feb.		4.0%	4.1%
8:30 am	Average hourly earnings	Feb.		0.2%	0.3%
10 am	Wholesale inventories	Jan.		--	0.4%

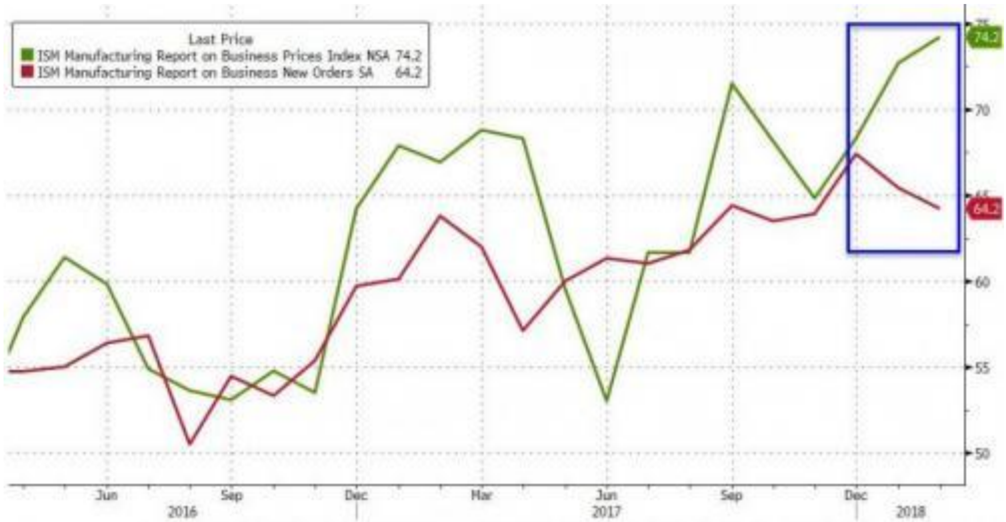
Below the Radar



We're getting started in **BTR** with the graphic above. This is just too emblematic of the past 2 decades of *economic progress* for us not to! The trend (really the lack of one!) in hourly earnings has been one of our pet issues for a long, long time. The basic question we always ask is: How can things be getting better if they're not getting better? Which, clearly, they haven't! Now consider this: The Gang is worried about rising wages! Ostensibly, at least, the fear over rising wages is one of the drivers of the recent selling we've seen. This is one of the greatest cases of "you can't win for losing" that we can recall! This issue has been troublesome too us for too long. Please, someone, anyone, wake us with Jane and John Q. are earning more and that's not a bad thing! The good old days!



Hopefully, the graphic above is somewhat trustworthy and tight labor markets will finally produce higher wages for American workers that have lived through a 40-year stagnation in terms of income. We're back to 1969 levels in that regard and what followed in the 70's was stagflation. Fortunately, that doesn't….WAIT!:

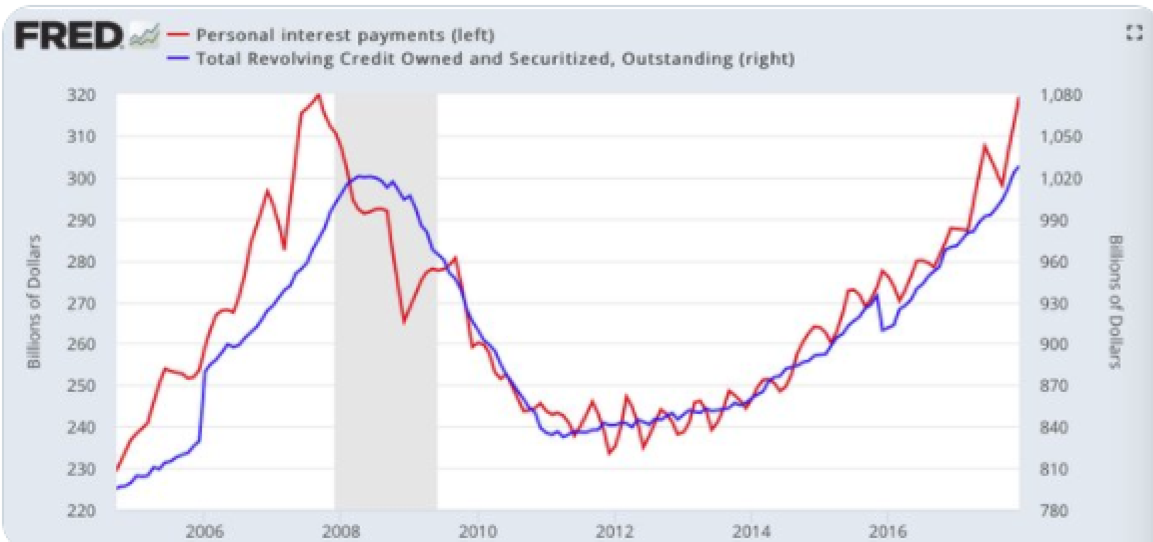


Following weak EU and Asian (and Canada) PMIs, US also disappointed with ***Markit Manufacturing dropping to 55.3 in February flashing signs of stagflation*** *(prices rising at 4 yr highs as output growth slows). While ISM showed the same stagflationary signs, the headline soared to its* ***highest since May 2004****.* Let's hope that's just a temporary blip! We really don't need stagnant wages, stagnant commerce and higher prices! Why? For the obvious reasons but also because folks are leveraged to the hilt again despite what Powell seems to think. Below, leaves us as befuddled as Henrich:

Sven Henrich
@NorthmanTrader

"Don't see build up of leverage among households." - Fed's Powell

Oh-kay.



11:13 AM · Feb 27, 2018

198 Retweets **365** Likes

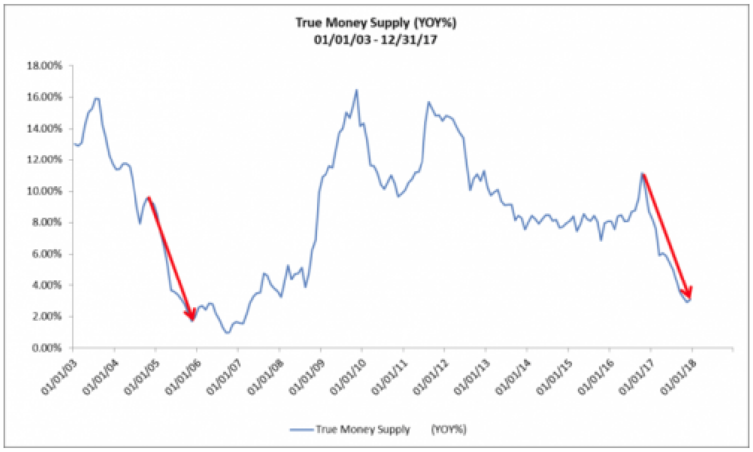
It's "all good" for now with rates still remarkably low, but rates, as nearly everyone seems to be obsessing over, seem to want to head higher, even in Powell's perspective, and that's not going to be fun for overly debt-dependent of which there are many! FAR too many!

And now, for something completely the same! It couldn't be more directly titled:

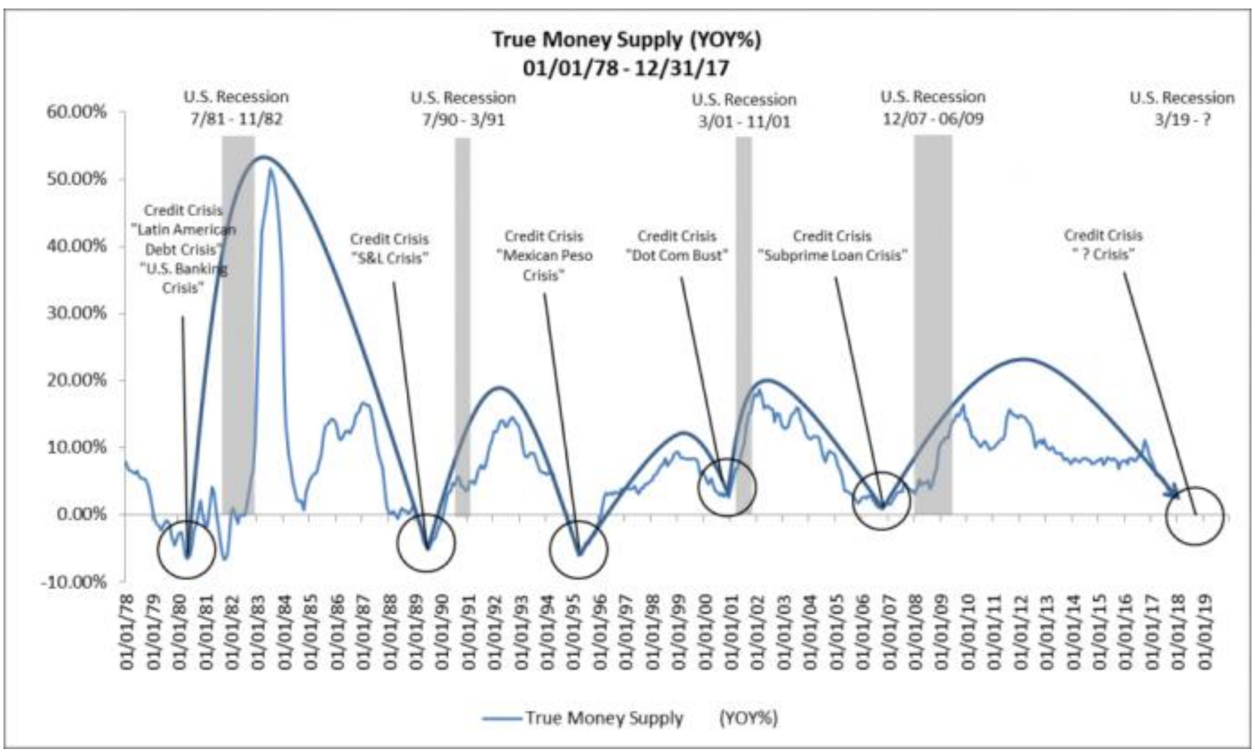
https://www.zerohedge.com/news/2018-03-01/great-big-warning-sign

Here's the crux of it:

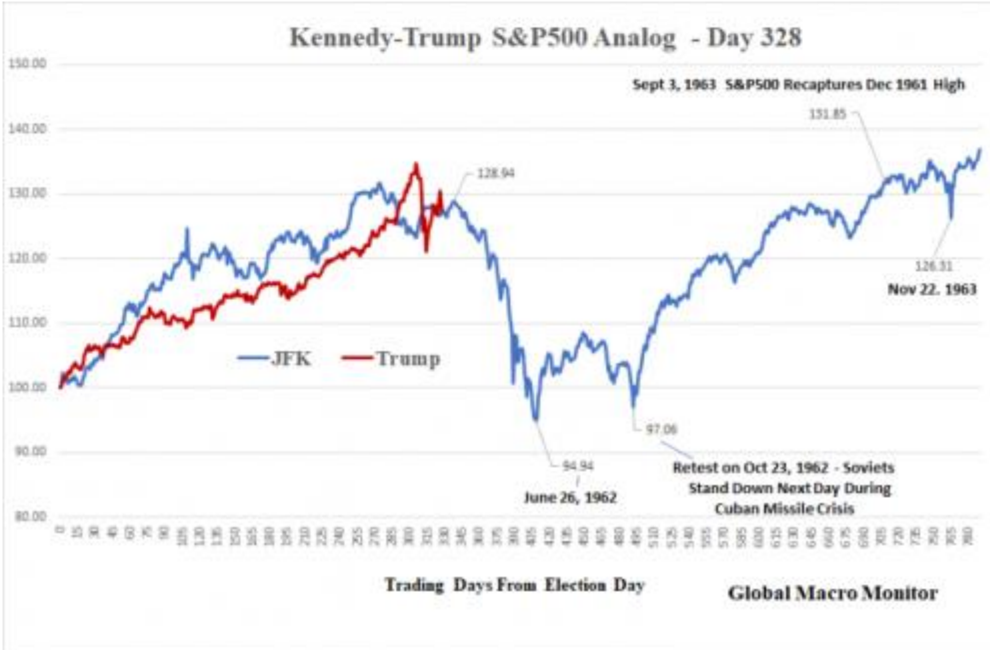
Jeffrey Peshut at RealForecasts.com has composed several very illuminating graphs based on the Rothbard–Salerno True Money Supply (TMS). In one graph Peshut shows the collapse of the growth rate of TMS beginning at the end of 2016, which was caused by the Fed beginning to raise the fed funds target rate at the end of the preceding year. ***What is of great interest is that the recent deceleration of monetary growth (the second red arrow) almost exactly matches in extent and rapidity the monetary deceleration (the first red arrow) that immediately preceded the financial crisis of 2007–2008.***



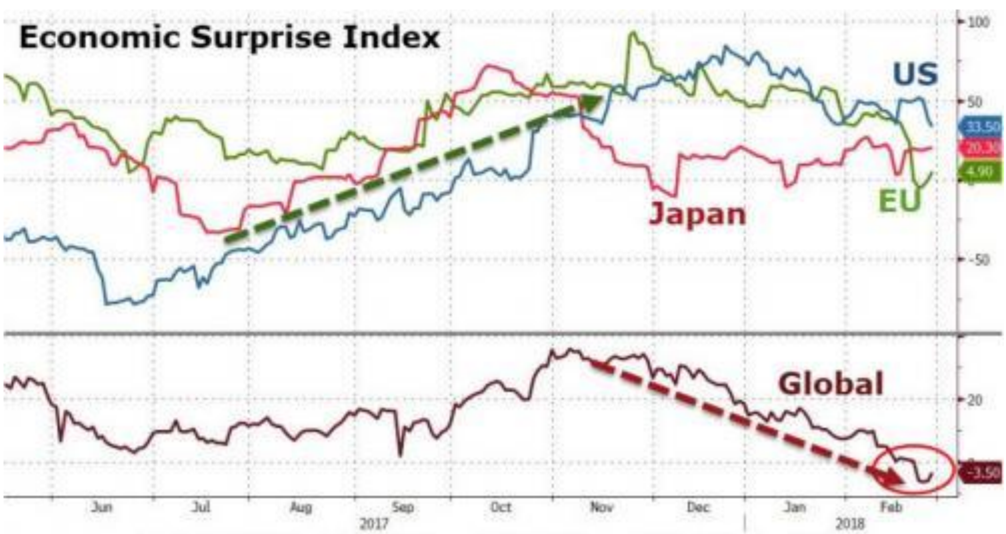
Yep. That's not a good omen. And this may be worse! That's not good tracking!:

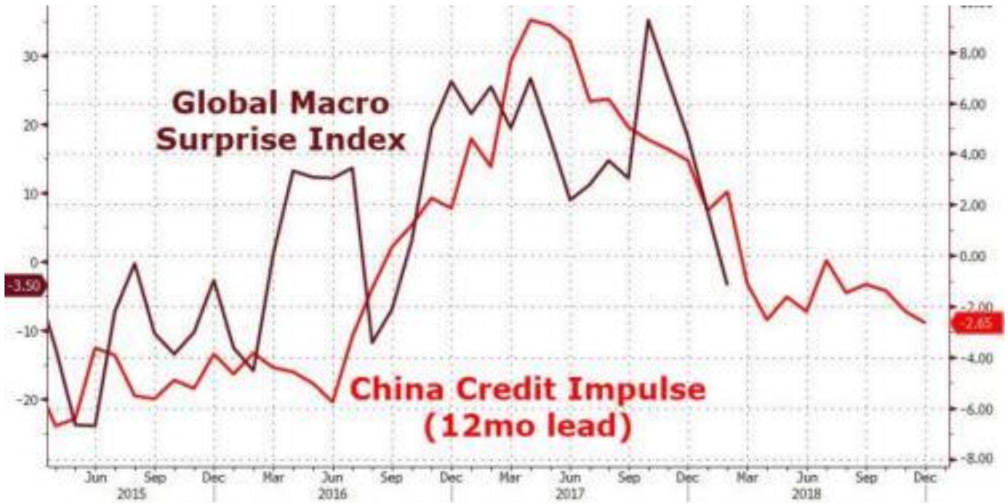


Speaking of omens and tracking…We'll let this one speak for itself:



As we begin to wrap up, we've been covering Europe and China with charts in **Market Overview** recently because those charts have looked troubling and thus something may be amiss in the Global Economy:





Maybe there is trouble and maybe not but those graphs aren't trending bullishly at this point in time!

And now onto other matters…

Again, and rather surprisingly, this is the second week in a row that we didn't see nearly as much sub-surface material out there as we normally do. But…we came across something unconventional and potentially, very important!: https://www.zerohedge.com/news/2018-02-28/economists-latest-leading-recessionary-indicator-sex

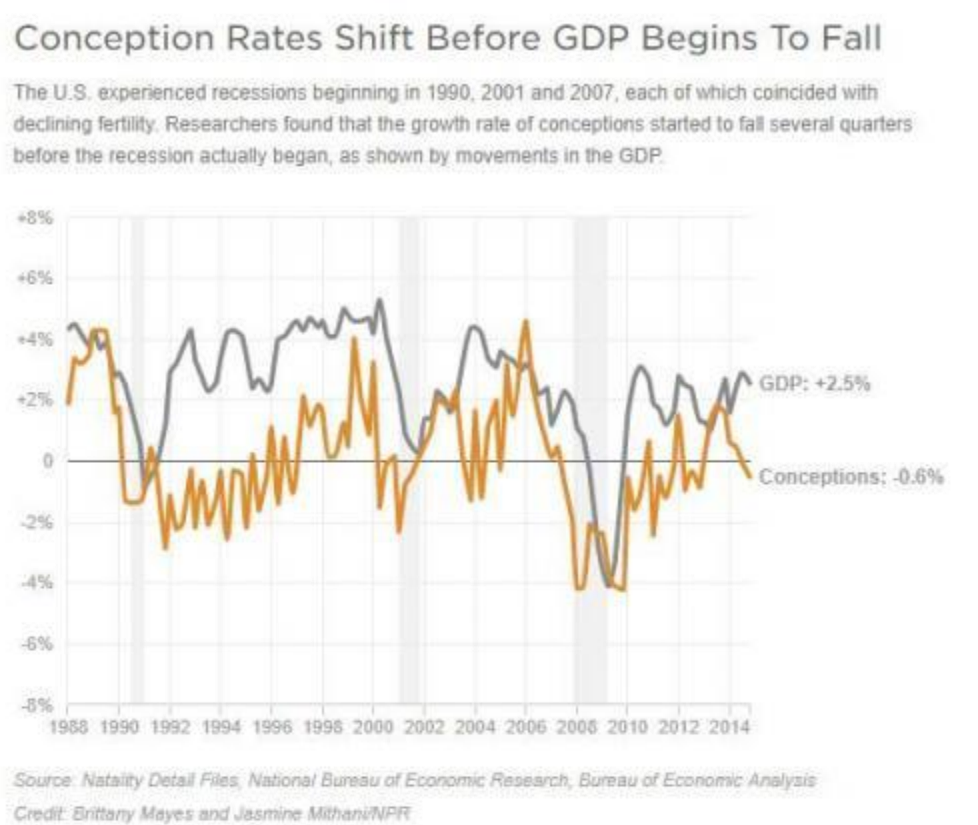
Before you skip past it and treat it as fluff, consider this:

Now, according to new research there is a new indicator that can warn of a coming recession: ***sex,*** *or rather the 9 month consequences thereof: the rise and fall of pregnancies.*
According to a paper paper published on Monday by the National Bureau of Economic Research, ahead of the past three US recessions, ***the number of conceptions began to fall at least six months before the economy started to contract.*** *As the FT notes, while previous research has shown how birth rates track economic cycles, the scientific study is the first to show that fertility declines are a leading indicator for recessions.*

"One way to think about this is that the decision to have a child often reflects one's level of optimism about the future," *says Kasey Buckles, another Notre-Dame professor and co-author of the study. Research published through the NBER is often conducted by academics at their own universities.*

Still skeptical? Here's the historical data:

Here's another view:



In closing, stay on top of things even more than usual if possible until volatility simmers down.

Keep on Banking and Rolling!

Options Academy

We may as well tackle Gamma this week as we've been working on related Greeks and similar concepts of late. Gamma is quite important in the early stages of the swing-trading style that we employ in our **Market Traction** Newsletter. We're going to explore gamma within that context as it may help new to options and new to **Market Traction** members alike.

DHI was one of our bearish ideas from last week so we'll use it for reference:

DR Horton Inc. > DHI > $43.35 *Last. Buy the Mar. 16th 44.5 Puts for $1.85 or less with a close or anticipated close below $43.30 in a down market with expectations for continued weakness in the major indices.*

As **DHI** closed on our publication date at $43.35, the Mar. 16th 44.5 put had a delta of .64 and a gamma of .14 and a cost of $1.80. Our trigger point was ever so slightly slower but we're going stick with these numbers for clarity and easy verification. Jumping ahead, **DHI** closed at $42.05 on Friday. That's just under a 3% drop in price from our trigger level. Hopefully, for those that liked the idea, there's even more. But back to the main focus…

At Friday's close, those puts were valued at approximately $2.60 with the stock down $1.25 from our trigger level but now they have an. **84** delta and .**10** gamma still! Which means, that if **DHI** should fall another dollar, our delta will grow to **.94** and thus we'll be making **.94 pennies on the dollar or >** for every dollar that **DHI** falls beyond that point! That's something we can live with!

We look at it this way: If we get into trades like this for relatively low dollar cost per contract, we can, after only a $1.00 move in our favor, have a low cost/low risk option that's paying off like an .80 to .85 delta deep ITM option aka the stock replacement style option. On the flip side…

If we haven't pulled the trigger at a good juncture for entry and we get roughed up quickly, we'll lose a lot less on a quick stop out and we have a lot less capital at risk should we get steamrolled on bad news or the like. Additionally, we've found that we can often buy 1.5X the number of contracts in our slightly ITM delta/high gamma range versus going into the .85 delta range for the same amount of capital. That can come in handy when you want to become more aggressive but without spending much bigger bucks for instant stock-like performance.

This approach is unique to our style. With cases like this, there's often no one right way. It's more of a *to each her/his own* situation but this is the style we like when anticipating quick movement. Everyone needs to find what is best for them that is theoretically sound.

The riskiest times in swing trading are like those of air travel. The takeoff and the landing our typically considered the riskiest times as are the timing of the entry and exit when trading. Less risky yet still a very nice payoff very quickly? We like the look and feel of that!