MARKET TRACTION

A Summer Soiree Fueled by Earnings Expectations – Parties On???

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

(View Webinar*)

Bullish Ideas:

(View Webinar) GIS > General Mills Inc. > $44.69 Last. Buy the Aug. 17th 42.5 Calls for $2.81 or less with a close or anticipated close above $44.72 in an up market with expectations for continued strength in the major indices.

<u>Bullish Mentions</u>:

All assume an up market with expectations for continued strength in the major indices.

DG Trigger > $100.21, DLTR Trigger > $85.92, FMC Trigger > $91.05, ALB Trigger > $96.84, BBY Trigger > $75.76.

Bearish Ideas:

(View Webinar) TJX > TJX Companies > $95.03 Last. Buy the Aug. 17th 95 Puts for $2.90 or less with a close or anticipated close below $94.37 in a down market with expectations for continued weakness in the major indices. **Counter-Trend Reversal***

<u>Bearish Mentions:</u>
TWTR Trigger < $42.75 but **earnings due 7/27. Counter-Trend Reversal***

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: Swing trading in an environment like this can be very challenging and clearly, news, that we can't foresee and time, continues to be a main driver of stock movement! We've tried to make remaining nimble a focus here in the newsletter and in our **Morning Call** webinar and will continue to do so.

Outlook:

Last week we concluded Outlook with this:

*When many choose to walk away from the markets around holiday times, literally and figuratively**, trade can become thin and that makes dramatic movement easier to be had IF a party desires that to be the case.** If everyone's happy to take a break in the USA, then we'll likely only get really big movement from news abroad. However, **we can't discount our own Economic Calendar in the back half of the week. Enough "big stuff" is due out that can be seized upon to juice low-volume markets.***

They used last week's environment like champs to goose markets higher. They've probably jammed up too much, too quickly while reaching a key upside level we've had sketched out for some time. We're very close to punching through on the upside. We shall see…

Technicals:

Will be discussed in-depth in the **Advantage Point 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:

Holiday fun extended into thin markets and stocks became more and more bullish and have remained so. The bulls came back from the break on Thursday and began buying with both hands and have yet to stop. That made becoming bullish and avoiding being bearish easy. Thus, our recap will be easy.

Our lone bullish idea, **JNJ**, powered up on "Day 1" and has continued to try to move higher. We mentioned **PFE** and **MRK**, as bullish names, later in the week and they've both tried to power up along with the market itself in the form of the **SPX**. With the indices jamming for several days in a row, we've likely reached a short-term overbought level. But, things haven't stopped pushing up quite yet.

We're not sure where anyone may have gotten into **JNJ** but despite being held back by the 100 SMA (we provided an update on that), it hasn't backed off, so we'll take it and be happy! 😊 Why? Because the markets finally moved! Even though it has been thin trade that we can't completely trust, making a several-day run is better than no run at all! So **JNJ**, isn't a get-rich-quick play, but at least it delivered the goods and isn't too far from reaching our idealized first resistance level.

The holiday fueled move higher also brought many of the bullish names from last week along for the ride. **LQD, ENB, EOG, NFX,** and **SKX** all tried to move up at least a little more. We only mention those to once again demonstrate 2 things:

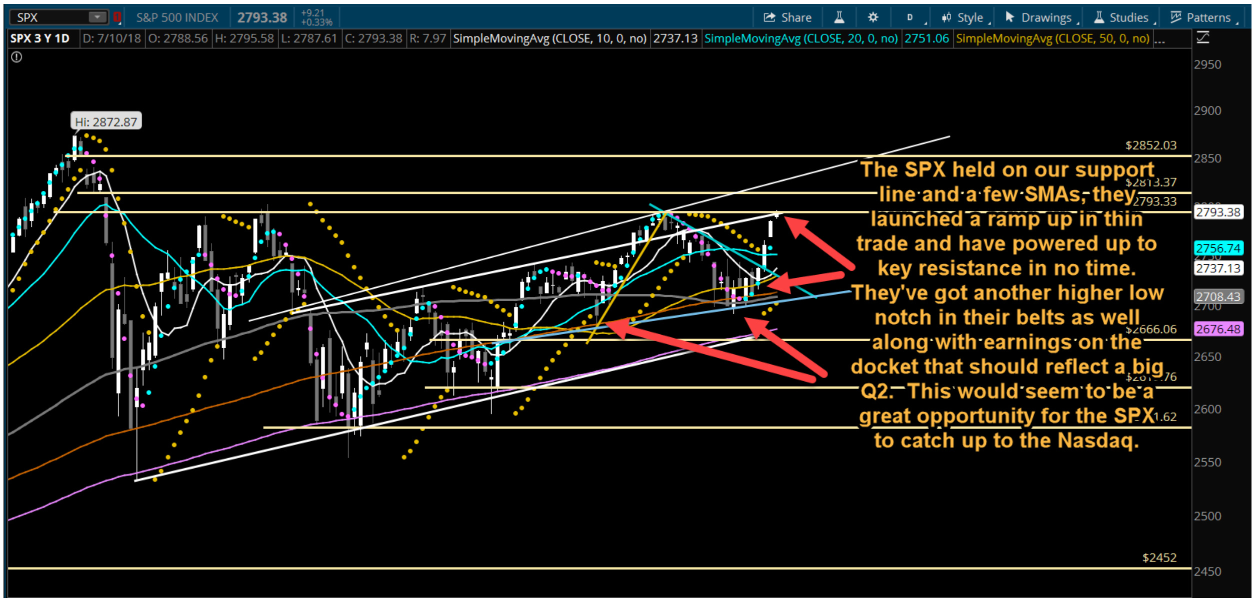
1. Sometimes moves begin a little after they're mentioned or continue after we've moved on from covering them in "their original week".
2. A little sustained market wind is normally all we need to get decent performance.

Our main regret from last week was that we didn't have more bulls at the ready. We never completely trust holiday-influenced markets and thus went with a safer stock with a very good technical profile at the time. The way that stocks have ran, we wish we'd found more that were both "runnerish" and safe as we perceived **JNJ** to be at the time.

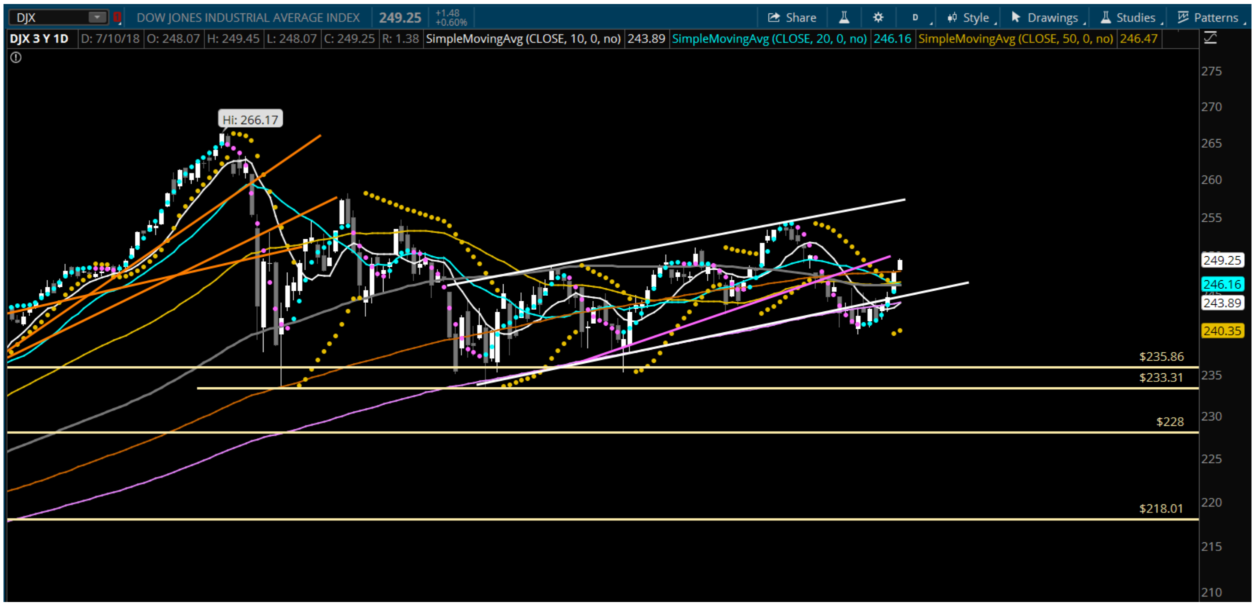
MARKET TRACTION

Market Overview

In retrospect, they held nearly everything up that they had to last week and kept the wolves and bears at bay. The low-volume conditions were mixed with expected but positive news and the goosing began and continues. Many areas that were *on the ropes*, are off them and by quite a bit! Earnings will be released this week but next week brings more reports to the forefront. As we've noted for several weeks in anticipation, Q2 is supposed to produce "big stuff", so, it will be news if it does NOT! That's the backdrop for this week and next and we'll now update our charts:



Even the DOW, which is really been heavy, joined the party:



The DOW hasn't made as much of a move north, but, worry not! The NDX has picked up the slack:

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The major indices are already a little overbought because they emerged from back and forth/go nowhere doldrums in a big way. Yet, they're not overbought yet and could still have more gas in the tank.

Here's a snippet from last week's **Market Overview**:

If there's to be a test of the 200 SMA, yet again, will they let it happen soon, ***so they can bounce big off of it when the earnings deluge begins? That's just one scenario we're considering now that they kept a better face on Q2 by supporting stocks last week.*** *It's certainly not boring chart-wise and tweet-wise!*

They didn't let the SPX fall quite that far to the 200 SMA but they did trampoline it up with an eye towards earnings to power up even further. A little back off here wouldn't be unlikely. They could then take that brief pause and use it to take another run up with more energy waiting to be tapped.

Before we close out the charts, we'll have a quick look at rescue efforts beyond the domestic shores:

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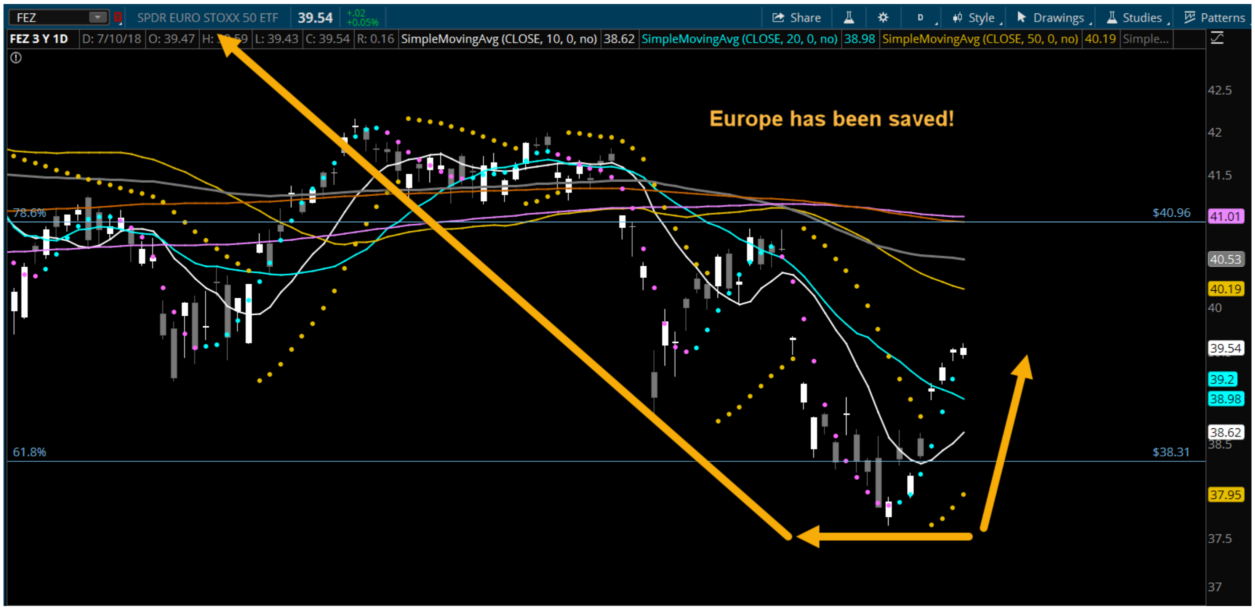
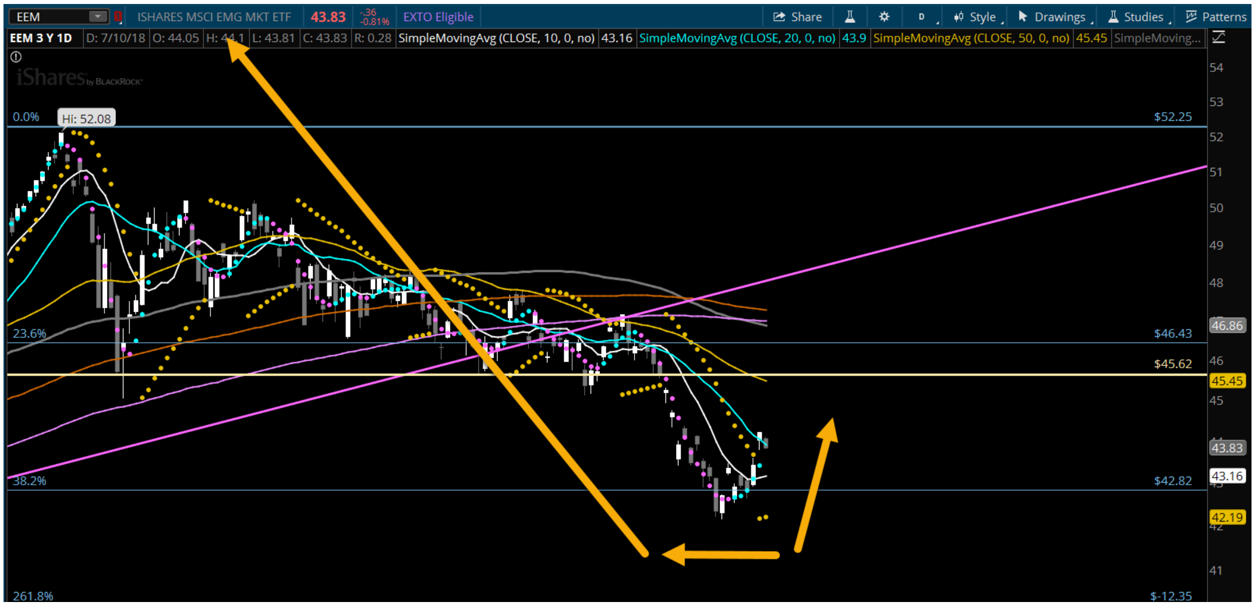


And, the emerging markets aren't far behind:



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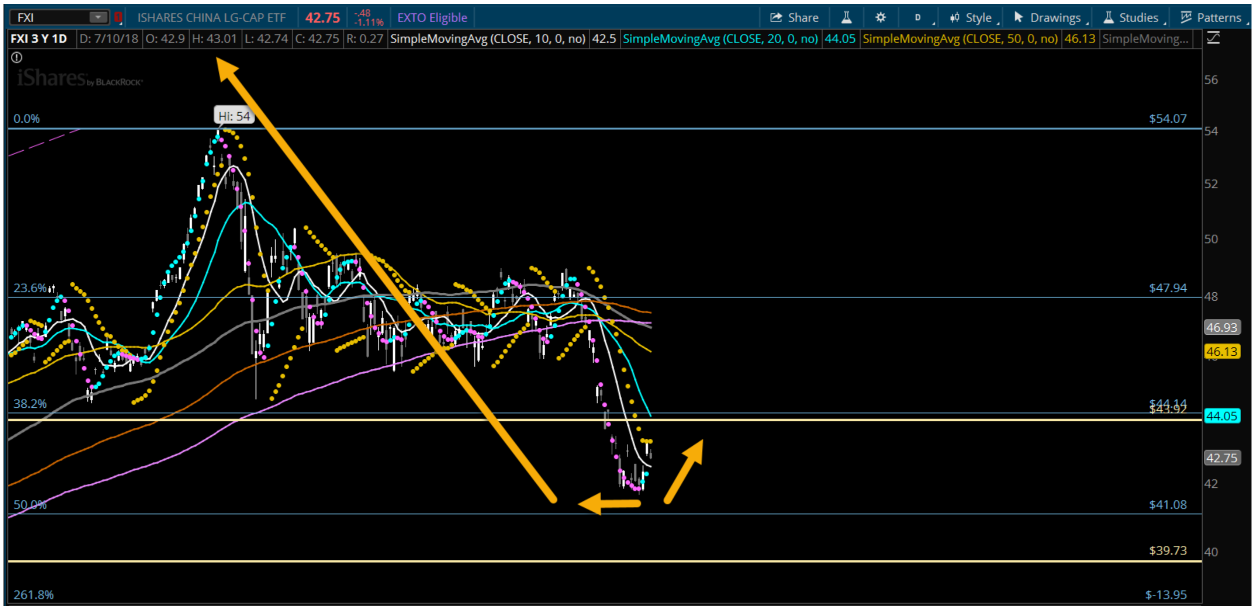
However, they, and China, just don't have the same MOJO as Europe and America:



The nature of this holiday-inspired rally is dubious. The volume totals were low and thin markets we're exactly the right stuff to jam prices up rapidly with little resistance. Normally, we'd be suspect and waiting to fade this type of *hollow* rally but with earnings due out following a ballyhooed Q2, we're willing to give this move up more of the benefit of the doubt.

As we close out until our webinar, Trump is traveling abroad to many places on key issues and thus something big could flash at any time, and probably even more so than usual! When we add in a full calendar and a few early earnings reports, there's plenty of kindling for markets should they choose to use it.

This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, JULY 9					
11 am	Survey of consumer expectations				
3 pm	Consumer credit	May	$25 bln	--	$10 bln
TUESDAY, JULY 10					
6 am	NFIB small-business index	June	107.2	--	107.8
10 am	Job openings	May	6.6 mln	--	6.8 mln
WEDNESDAY, JULY 11					
8:30 am	Producer price index	June		0.2%	0.5%
10 am	Wholesale inventories	May		--	0.1%
4:30 pm	John Williams speaks				
THURSDAY, JULY 12					
8:30 am	Weekly jobless claims	7/7		228,000	231,000
8:30 am	Consumer price index	June		0.2%	0.2%
8:30am	Core CPI	June		02.%	0.2%
10:30 am	Patrick Harker speaks				
2 pm	Federal budget	June		--	-$90 bln
FRIDAY, JULY 13					
8:30 am	Import price index	June		--	0.6%
10 am	Consumer sentiment index	July		98.7	98.2
11 am	Monetary Report to Congress				
12:30 pm	Raphael Bostic speaks				

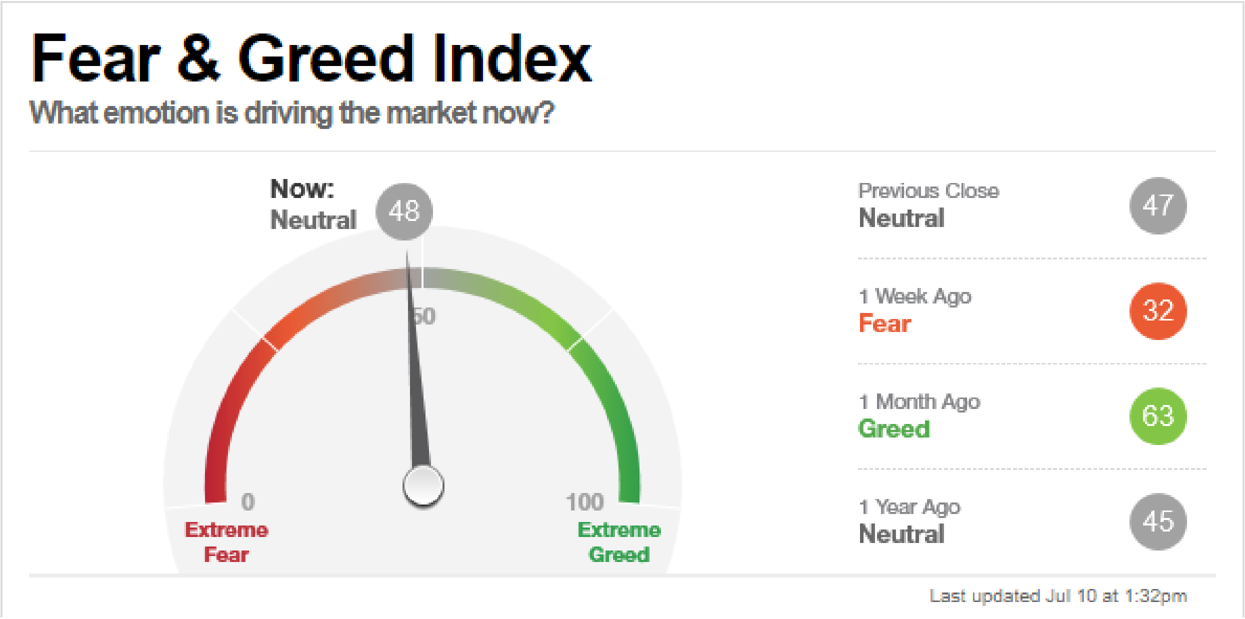
MARKET TRACTION

Below the Radar

The holiday hangover left us with little to work with again but work we will as we finally have some solid material courtesy of Barclays! (see below) But first, let's reprint from Market Overview above just to keep the right frame of mind in place before dive into our main material:

In retrospect, they held nearly everything up that they had to last week and kept the wolves and bears at bay. The low-volume conditions were initially mixed but with positive news, the goosing began and continues at the time of this writing. Many areas that were on the ropes, are off them and by quite a bit! Earnings will be released this week but next week brings more reports to the forefront and more potential to jam, jam, jam.

We'll start off by noting that it doesn't get much more neutral than this! One week of ramping was all it took to jack us from fairly-fearful to neutral. This is just another indication that we could easily do more of anything!



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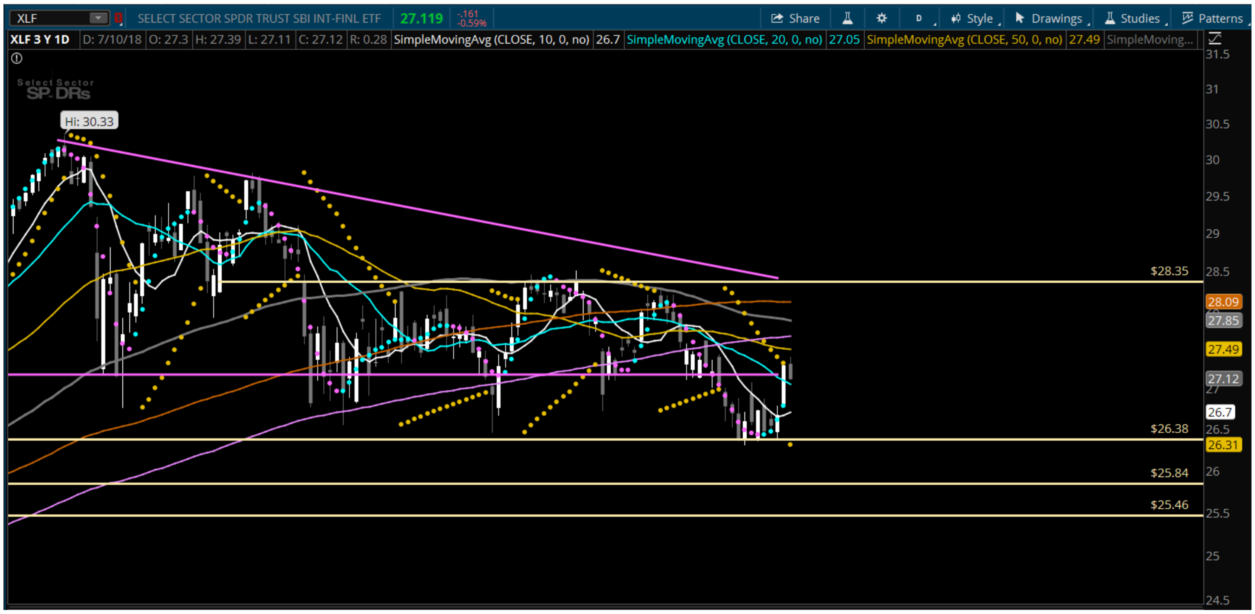
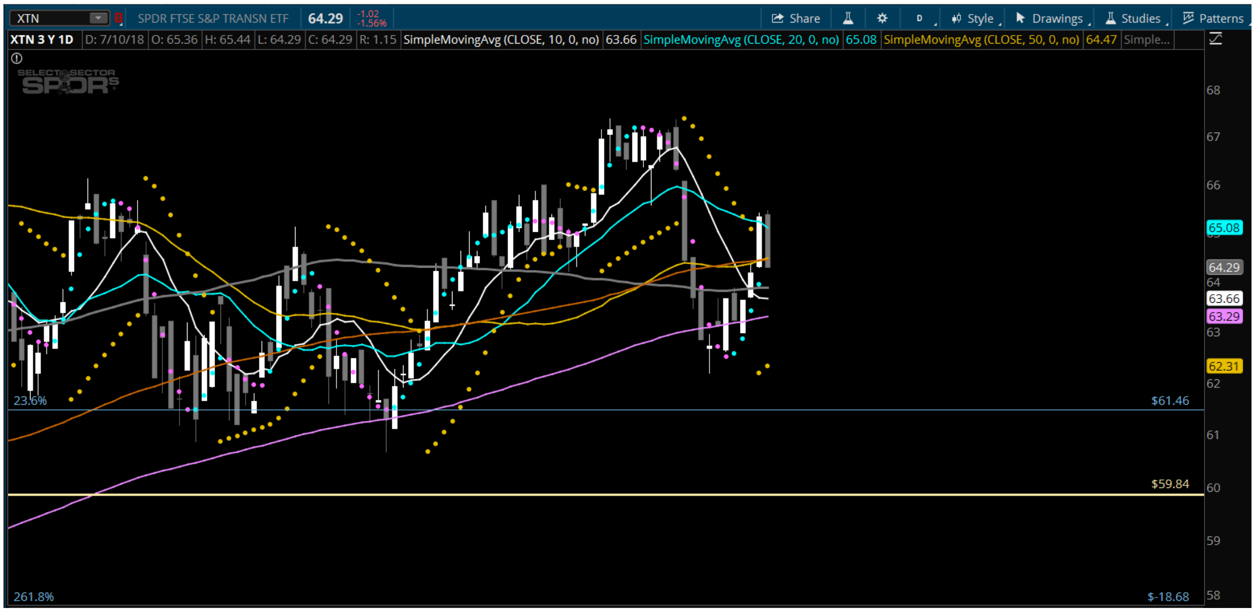
It's worth noting that a few sectors we've kept a close eye on, are at least a little better than they were of late:



The financials aren't lighting it on fire but they're at least off the support level they were glued to over the past few weeks. The same is true of the transports:



MARKET TRACTION

Energy too, looks better, but, again, the nature of it all leaves us uneasy:

Having watched the Wall St. Gang operate for a quarter century, we've learned to keep on guard as nothing is beyond their powers of imagination, levitation and degradation. They seem to be set up all-too-well for a slam dunking of bears at this time. They've kept things afloat as they've need to, and now the cycle should really favor them. We can't help but think that the LONG-RANGE plan is to NOW paper over down-the-road problems very powerfully behind the earnings that are about to hit the tape. They could conceivably push equity prices up very strongly over the next month plus and use "great earnings" as blanket coverage to do it all. Earnings are, by nature, reward looking, but, that won't stop them from pointing to them to justify prices that are supposed to discount the future not the past! However, a real blow-off rally would possibly leave stocks vulnerable in front of mid-term elections and beyond. Many are quietly noting that they believe Q2 will easily mark the high point of growth for this year and thus, what follows will pale in comparison. That wouldn't be good for stock prices, at least in theory. We've been formulating this potential outcome in our minds for the past several weeks and now the early stages may be playing out. Interestingly, big institutions may be feeling much like we've been…

The following from Barclays, is exactly the type of Below the Radar information that we need to include this week as there's a dearth of information of this kind at present and has been for some time. Point blank, the big money is sliding more bear:

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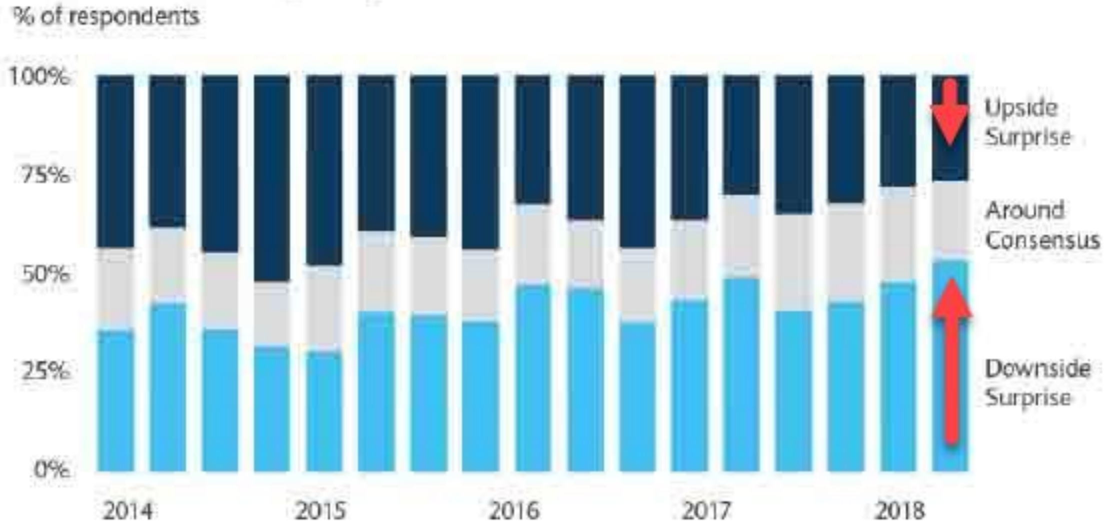
FIGURE 1

If there is a surprise in global growth in the next 12 months, it will be an...

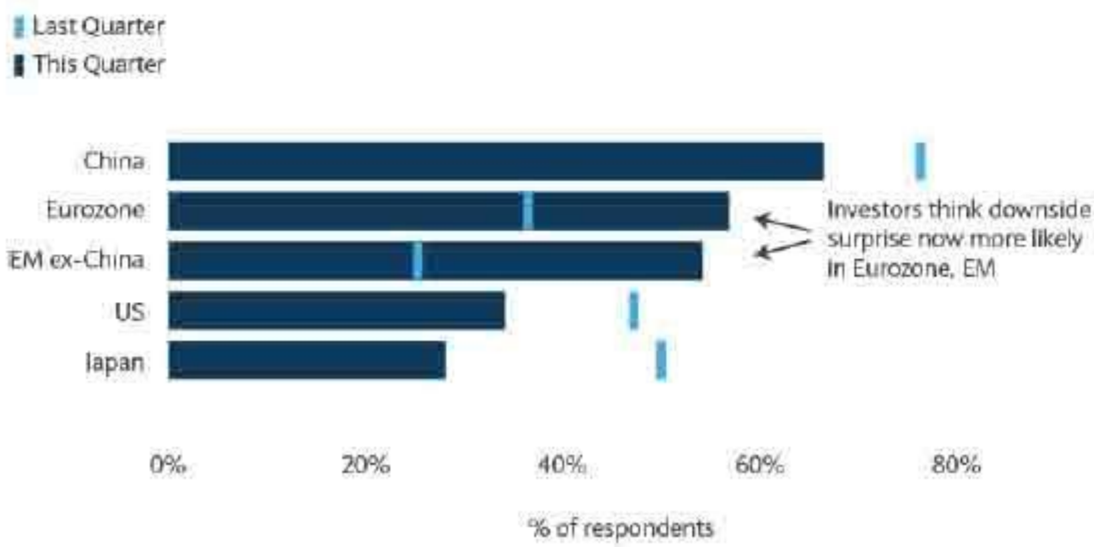


Source: Barclays Global Macro Survey

They seem to be concerned about 2 biggies mostly, as have we:

FIGURE 2

Where do you think growth is most likely to surprise to the downside?



Source: Barclays Global Macro Survey

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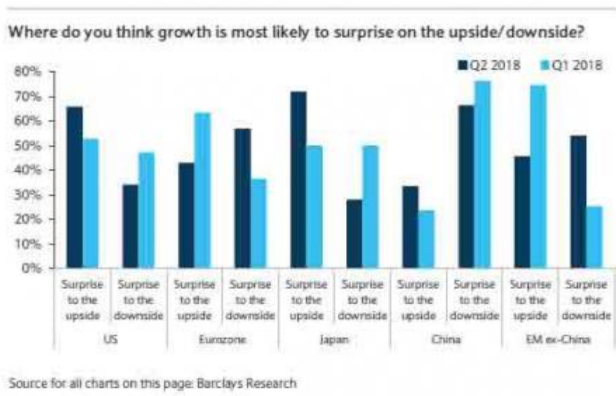
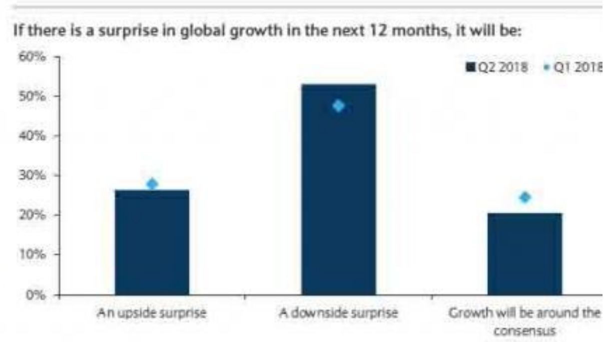
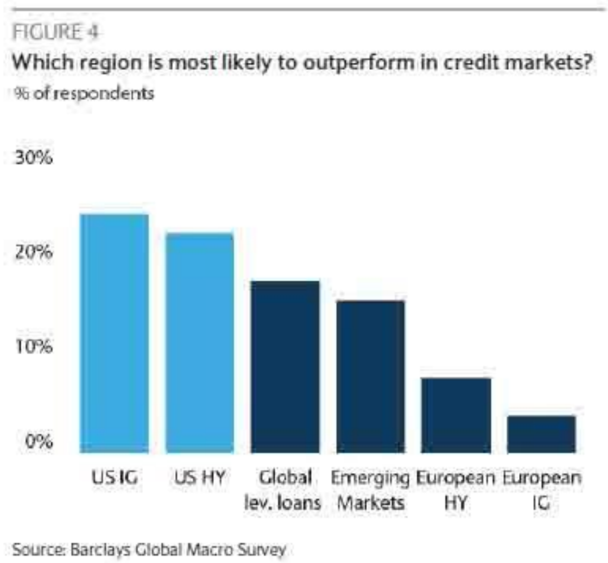




By far, they love the US, for nearly all forms of investing:



To this point, what we can see above dovetails with what we've seen in the equity markets and have taken note of for the past several months. They've piled into small caps (IWM – Domestic Stocks) and US Tech while moving away from the multinationals (the DOW). Fortunately, we've covered all that so it is not a surprise but that makes for very crowded trades and it also proves that the institutional take at the margin, is what drives markets. That's concerning because if they're concerned after Q2, we should be, based on what we now know!

Here's what Barclays found with respect to the "biggest risk" as perceived by money managers:

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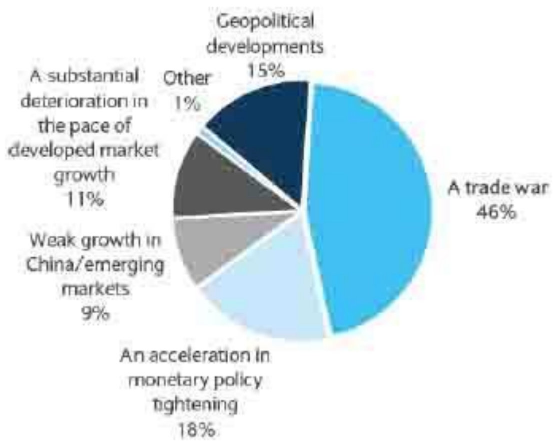
FIGURE 7

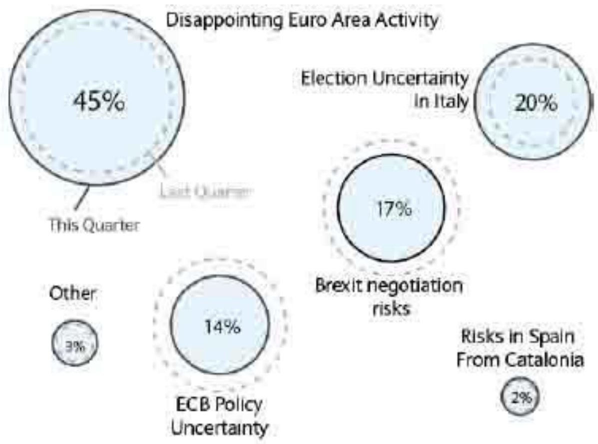
What is the biggest risk to markets over the next 12 months?



Source: Barclays Global Macro Survey

FIGURE 8

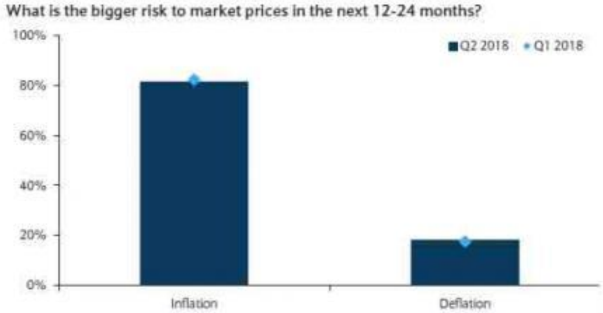
In the next six months, what is the biggest risk from Europe?



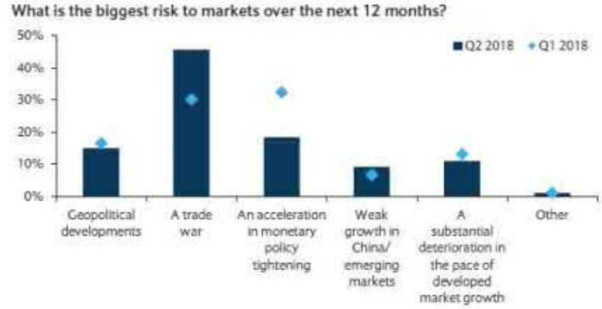
Source: Barclays Global Macro Survey

Please note in this final graphic, that it is inflation and trade wars that have left them most concerned. Which explains why it hasn't been easy to find lasting runs in stocks with trade developments hitting markets every 48 hours or so and why a shortage of workers and possibly rising wages may finally bring about the long feared higher inflation outcome that everyone's supposedly been worried about for so long:

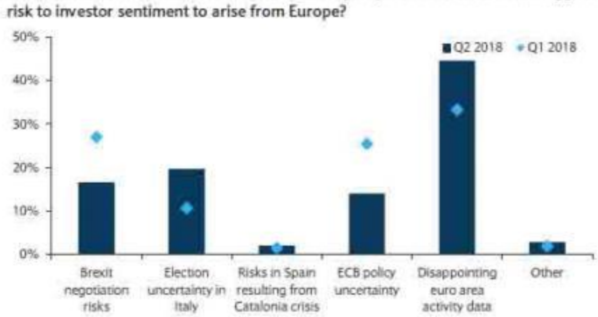
What is the bigger risk to market prices in the next 12-24 months?



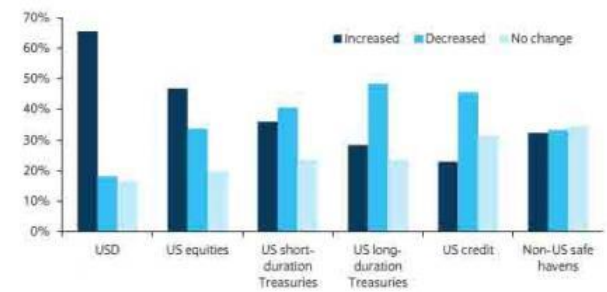
What is the biggest risk to markets over the next 12 months?



Over the next six months which of the following do you consider to be the biggest risk to investor sentiment to arise from Europe?



How do you think the overall policy mix in the US will affect asset returns over the next six months?



Source for all charts on this page: Barclays Research

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Here's more on the jobs *sitch* for greater appreciation:

https://www.zerohedge.com/news/2018-07-10/more-job-openings-unemployed-workers-people-quitting-hits-all-time-high

It's quite remarkable (granted, this is government data!):

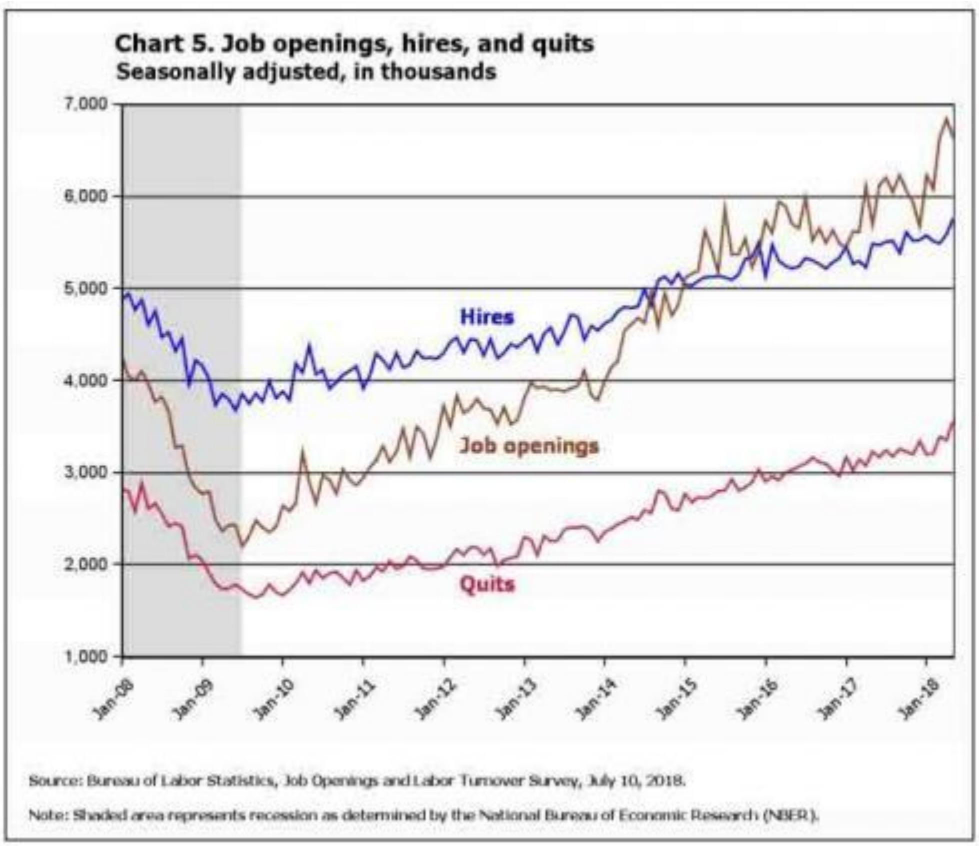


Chart 5. Job openings, hires, and quits
Seasonally adjusted, in thousands

Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, July 10, 2018.

Note: Shaded area represents recession as determined by the National Bureau of Economic Research (NBER).

That leaves us where we've been. This summer may bring more fireworks as prices power up as long as trade or other Trump-tweet-related issues do not weigh things down. However, the fall could usher in a post-blow-off scenario that would seemingly surprise many given how strong the earnings and jobs situations look at present, at least on the surface. Those "good" views may actually quicken the pace to the problem zone in the form of higher wages, higher inflation and higher yields. The very issues that the big money is already concerned about.

Bank and Roll!

Options Academy

See a reprint of last week's **OA** (below) for context if necessary.

Last week in **OA**, we "check marked" 2 out of 3 holiday-influenced market hallmarks. They were the "Holiday Run-Up" and the Pre-Holiday Slow Period. We were waiting to see if we could complete the trifecta by check-marking the Post-Holiday Slow Period. Here's a quick reminder:

- *The Post-Holiday Slow Period – Reluctant to let the good times pass too quickly, traders instead will often milk the holiday mood beyond the holiday and not just for a day. This period can run for a week at times, as is the case with the End of Year holidays and the New Year's vibes. With July 4th smack dab in the middle of the week, we may just witness a quick mark-up, the holiday itself, and then not much until next week! With Trump's tweets, trade wars looming, and the rest of the world still trading, we may not, but, we just may.* ***Investors may have even went "Holiday Mode" over the weekend and may want to stretch it beyond this week and the upcoming weekend!*** *We shall see if the world rudely intrudes on this Summer's lazy daydreaming.*
    - *Too soon to tell, obviously!*

Clearly, we can't check mark that one! They did keep partying after July 4th, but in a very bullish way! That's the way it played out this time and we believe that it was easy to party to the upside in very thin markets with news supporting the move. Also, let's not forget our expectations with respect to "positivity" in the news cycle due to the earnings deluge that will soon be upon us with likely strong performance due to Q2 supposedly being a very strong one.

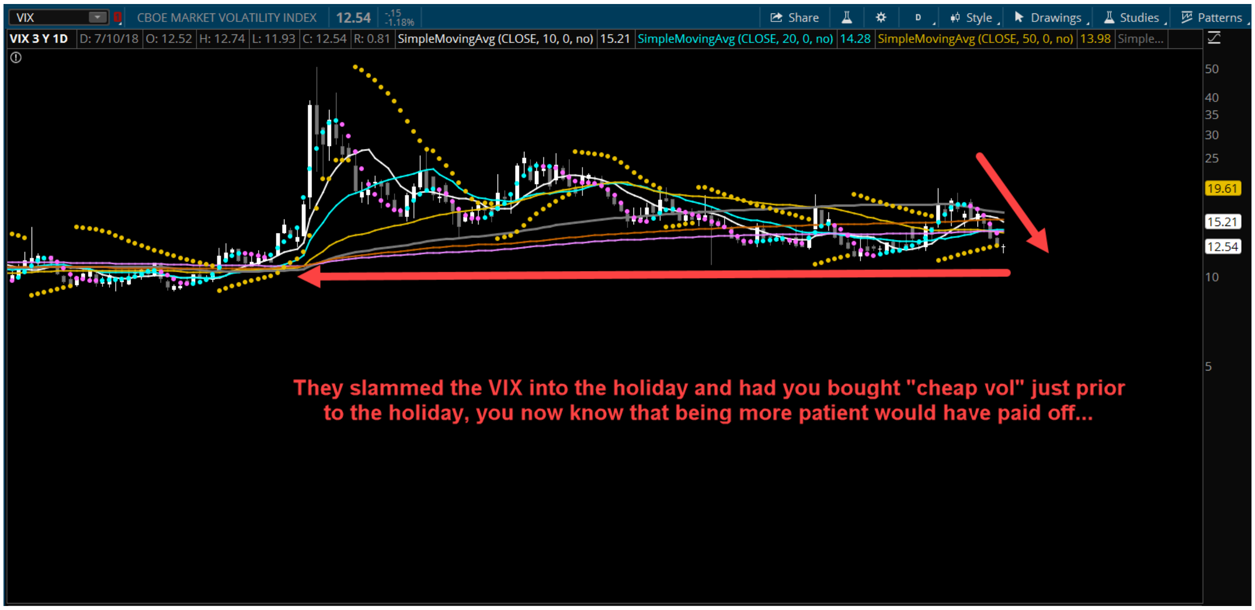
We concluded last week with this, and want to follow up on matters:

We may expand on this next week but for now we'll go with these takeaways:

1. ***If you want to sell, beat the rush! Sell BEFORE prices have imploded.***
2. *If you want to buy, you can pick up options very cheaply just in front of a holiday close if, if, you have the boldness to do so.* ***However, if the holiday mood drags on, you may regret it.***

And let's not forget this!:

Holidays can dramatically impact volatility levels and the decay process can go from challenging to merciless for longs.



With respect to #1, it couldn't be clearer. Selling just in front of a holiday definitely did not get you the best prices BUT with respect to #2, option prices became even cheaper after holiday as the party did drag on. So, sellers of *VOL* may already be up money at this point and buyers are likely down money since last week. *VOL* has gotten even cheaper. So cheap in fact, that it is approaching 6-month lows, which is quite cheap!

One way to a get involved with a little more prudence would be to buy a calendar spread. Think about this…

Let's assume that the earnings release for a company is due out in the last week of July. If we wanted to buy *VOL* but in a hedged manner, we could buy early August options and sell say July 20th expiration options at the same strike. That would get us long *VOL*, but not nakedly! This way, if *VOL* gets cheaper, yes, we may lose on the one we own, but we'd likely make some on the one we're shorted. That's at least a little to a lot of a hedge depending on exactly how things play out. The non-earnings expiration we sold would likely continue to cheapen while our long would likely gain value because traders bid up "earnings options" as the earnings date becomes closer and closer. Our plan would be to "discard" the calendar spread at the right time after the holiday *VOL* malaise has passed and earnings reports are hitting fast and furious. That's when we'd want our long option only to ride to just before the earnings release.

Sometimes it is better to become involved prudently with an eye towards being more aggressive at a later stage when the future as forecasted!

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

MARKET TRACTION

OA Reprint:

This week's action is very likely to be affected by the Independence Day holiday in many ways beyond the obvious day and a half of closures. And, since holiday action is part of the trading year, it's worth noting what can and often does happen around holidays in the stock and options markets so that we keep them in mind going forward. Holidays can dramatically impact volatility levels and the decay process can go from challenging to merciless for longs.

- The Holiday Run-Up - Not always but quite often, the Gang will goose stock prices higher in front of holidays. There are many thoughts as to why this happens but it's easy to see why Wall St. would want stocks on the incline rather than the decline as Americans meet up with friends and family.
    - They did this the past 2 days!
- The Pre-Holiday Slow Period - We know that most people like a party. Heading into a holiday, the markets typically experience a lost of interest as minds drift towards celebrating or observing holidays. After the opening of trade, which is normally a positive mark-up, quite often, not much will happen. This can happen several days before the actual holiday. The loss of interest will normally result in fewer shares and contracts being transacted. Therefore, commentators will often refer these phases as "slow markets" or "thin markets" or "thin trade".
    - Volume is definitely down the past few days!
- The Post-Holiday Slow Period – Reluctant to let the good times pass too quickly, traders instead will often milk the holiday mood beyond the holiday and not just for a day. This period can run for a week at times, as is the case with the End of Year holidays and the New Year's vibes. With July 4th smack dab in the middle of the week, we may just witness a quick mark-up, the holiday itself, and then not much until next week! With Trump's tweets, trade wars looming, and the rest of the world still trading, we may not, but, we just may. Investors may have even went "Holiday Mode" over the weekend and may want to stretch it beyond this week and the upcoming weekend! We shall see if the world rudely intrudes on this Summer's lazy daydreaming.
    - Too soon to tell, obviously!

Naturally, veteran traders are well-aware of all the above and they PLAN accordingly. That means, way before the holiday haze is upon the markets, traders are already lowering option prices (measured in implied volatility). Getting caught with too many long options can be painful as they're often MARKED DOWN in price. Market makers, not wanting to be stuck with too many options themselves, will, when possible, drop option prices so that they correspond to what they were expected to be worth at a future date. That's a lot so let's unpack it a little with a real-world example…

If I'm a long-time trader, I know how holiday periods work and I know the tendencies of traders. I know that traders want to capitalize on THETA in front of holidays and thus I know they'll be salivating to sell options to me, expecting to buy them back much cheaper after the holiday phase has passed. What's a poor pro trader to do? PRE-DISCOUNT of course! If I know that the masses want to dump options on me in front of the 4th of July and live their theta dreams for maybe an entire week, I have no choice but to dramatically drop the prices I'll pay for options, all things being equal. This year's Independence Day lead-in has been a little different due to the markets falling and barely hanging on to key technical levels. However, let's have a look at the past few days in the **VIX**:

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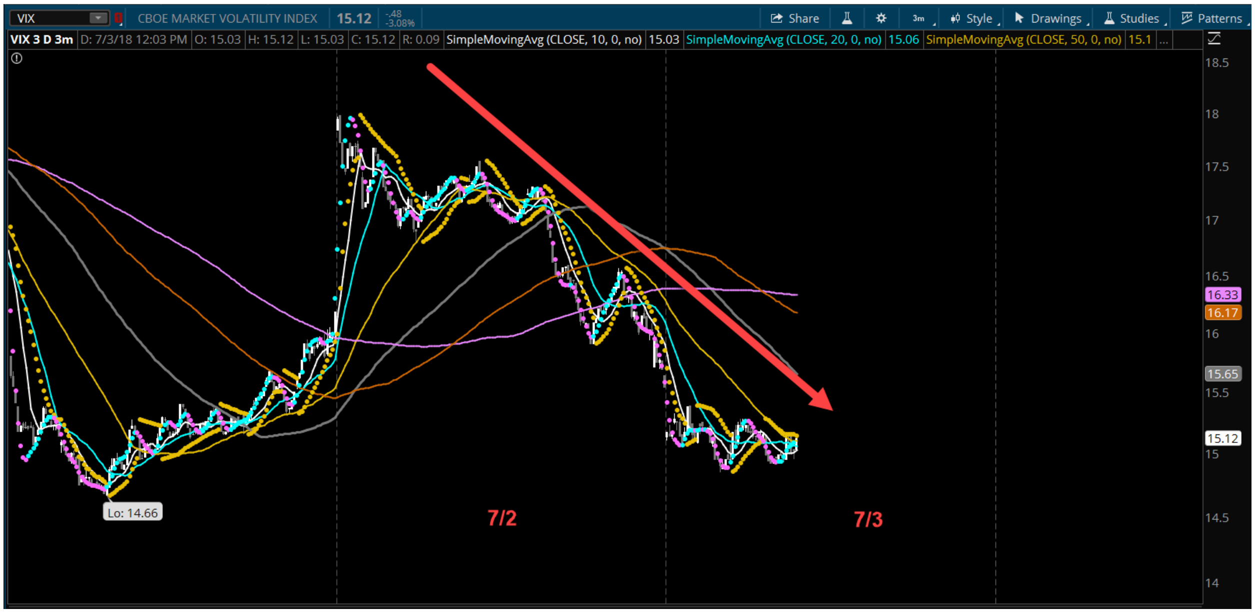

We can see that the demand for options, has dried up in a big way just in front of Independence Day. The **VIX** has lost about 3 points from the high it registered yesterday, but, put another way, options are now 15% cheaper, at the moment, than just over 24 hours ago!

We may expand on this next week but for now we'll go with these takeaways:

3. If you want to sell, beat the rush! Sell *BEFORE* prices have imploded.
4. If you want to buy, you can pick up options very cheaply just in front of a holiday close if, if, you have the boldness to do so. However, if the holiday mood drags on, you may regret it.

There may be another way or two however to approach matters. We'll likely cover those next time.

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