MARKET TRACTION

IN THIS ISSUE:

Post Triangle Blues? A mere pullback or a Bull Trap?

This Week's Trade Ideas:

Bullish Ideas:
(View Webinar) Ternium SA ADR > TX > $40.44 Last. Buy the Jun 15th 40 Calls for $1.85 or less with a close or anticipated close above $40.70 in an up market with expectations for continued strength in the major indices.

Bullish Mentions:
(View Webinar) HAL, KEY, NYT, VOYA, ALB.

Bearish Ideas:
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Below the Radar:
As we've noted of late, a good many of those concerns are now upon us. At the top of the list, we have rising interest rate issues and all they portend. While rates are always discussed, they, along with the US Dollar's recent action, are being discussed anywhere and everywhere as are the ramifications that follow. Our concerns of the past have become the headlines of today.

Options Academy:

We thought it might be a good idea to follow-up with a discussion of simplified compounding and crushing dividend dreams of stockholders, in light of last week's premium collection discussion. So…let's have at it! This won't take long as we're merely setting the stage for next week's Grand Finale!

Make sure to attend the ***Morning Call*** each Wednesday morning at 11:00am Eastern Time. This webinar is included in your subscription so there is no extra charge.

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We're noting this AGAIN!

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

Volatility remains elevated! A great deal of movement continues to be compressed into very short time periods when viewed relatively. Adjustments and rolls need to be completed much more frequently than during normal phases of market price action.

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

Week 15 of our Special Note:

Things may yet sort out for the Markets and we'll be back to All-Time Highs across the board an on our way to even more ATHs, but significant technical work remains to be done before we can issue the "All Clear". – We're not ruling it out we're simply acknowledging that we're not quite there yet.

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

We'll continue to reprint this note as long as the markets remain this volatile! We've posted this with the **"All-Time Highs"** portion looking very unlikely at times and now it is looking at least like a possibility. That's how much we've had to contend with over the past several months!

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Swing trading in an environment like this one can be very challenging. We've tried to make that very clear here in the newsletter and in our **Morning Call** webinar. The markets have become increasingly driven by news and tweets that we can't know of in advance. Not losing a great deal of money is a very important part of the process of making money over time in the markets!

Outlook:

From last week's **Outlook**:

"They goosed markets from breakdown levels all the way up to BREAKOUT levels. "Can they push through?" is the big question at the moment. **<u>We're thinking they can, but we also know that things could change quickly</u> and dramatically!"**

Once again, last week's Outlook had some relevant commentary within it. They did push through resistance and kept going. However, this Tuesday's opening action (selloff), confirms that things can change quickly and dramatically. Knowing that, we put out a few rolling/closing reminders on Monday so that folks weren't lulled into a false sense of security. Right now, we're pulling back from short-term overbought levels.

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:

Last week, we opened with this:

"The market's moves of late have not lasted long enough and produced closing prices that have allowed our ideas to trigger. Granted, in this largely breaking-news-driven-market we're trying to be safe and not sorry as this wild consolidation drags on, and we've achieved that at least, but we would have liked to have snagged at least at single or two the past couple weeks, but they didn't even let us come to bat last week."

The consolidation we'd been stuck in for some time finally gave way and allowed for some extended movement. Better yet, the movement went in the direction we preferred to lean as per last week's newsletter and webinar.

All 3 bullish ideas triggered: **ORCL, FXI,** and **RSX**. They continued to move nicely into Monday's opening and action. We put out updates in hopes of preventing folks from having a false sense of security. The major indices had been up as many as 8 days in a row and in a big (very vertical) way. Hence, our rolling/closing reminders.

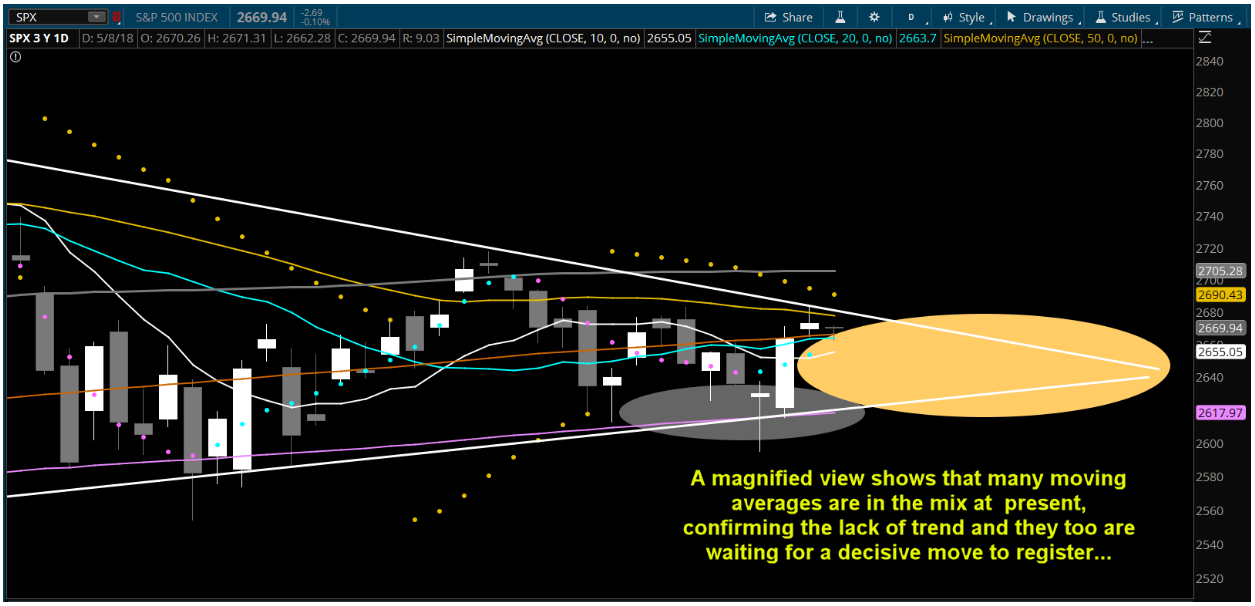
Fortunately, all our bullish mentions: **OIH, XLE, CVX, LUV, UAA, APA, LLY, BIDU, ZION, ROST, TRGP, AXP, BYD, PUMP*,** also made at least an attempt to move up and most did so rather nicely. Of the 17 names, all did at least a little of what we were hoping for if the markets remained buoyant. Naturally, we're very happy with that result especially after a couple of weeks that were very boring and uneventful. This past week proves yet again that when there's movement in the indices, we have a good chance to make profits. When there isn't…

BIDU, BYD, LLY, UAA, AXP and **ZION** all produced very nice upside movement and thus were the standouts this week.

Our bearish idea, **JNJ**, and our bearish mentions, **WYNN** and **DLR**, were never up for consideration as the markets acted bullishly much as we expected. Those names were there to have something at the ready and there wasn't even a whiff of bearishness in the equity markets last week and thus those names were to be ignored, as we mentioned in one of our updates.

Market Overview

From last week:



Last week, after watching yet another "save" on/near the 200 SMA and our own support line, we noted that a move out of the triangular consolidation should happen and in the near future. We were thinking it would resolve bullishly at that point in time and the momentum continued to the upside and thus it did:

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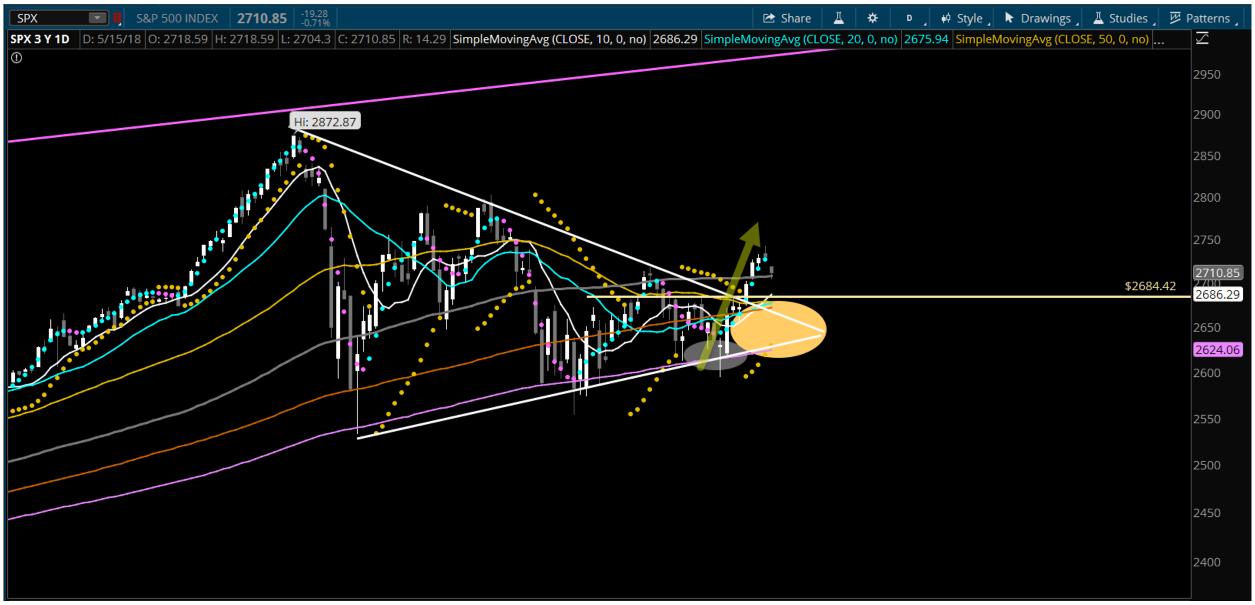

So…now, the Gang has pushed things above the resistance line of the triangle. We've also made a higher high. Normally, that would bode well for bulls expecting more "recovery". However, are thoughts, as they were last week, are that this still could be a false breakout. Additionally, we can't rule out a drop back to the resistance lines to convert them to support. Thus, we're still on guard for now.

The FAANG basket was a big part of the mini-melt up that we just witnessed. It may have moved up too far too fast:

FAANG has fallen below support of one kind (green arrow). Could it continue lower to the purple support line highlighted by our yellow arrow? We think so. Thus, for the next few days, we could have a little more selling and that would only be natural given the overbought state we found ourselves in yesterday.

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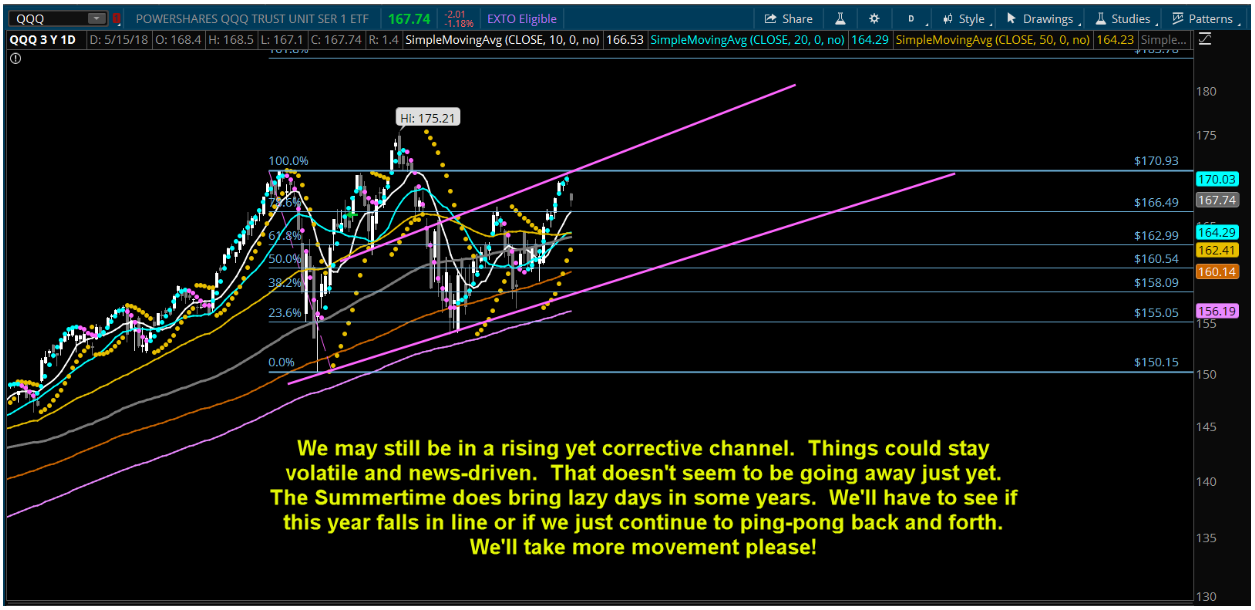
Looking at TECH, more broadly, the Q's look similar but different when compared to FAANG. Despite this amazing short squeeze, it MAY NOT BE OVER! We can envision another drop within this corrective channel. With a higher high, the bulls have left their mark but now they need to hold the line, literally! The news cycle seems relentless these days and we don't expect it to suddenly peter out.



Big calendar and plenty o' speeches from FED *luminaries.* Just more reasons to believe that we can remain in motion, potentially volatile motion this week!

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This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, MAY 14					
2:35 am	Loretta Mester speech				
9:40 am	James Bullard speech				
TUESDAY, MAY 15					
8 am	Robert Kaplan discussion				
8:30 am	Retail sales	April	0.3%	0.3%	0.8%
8:30 am	Retail sales ex-autos	April	0.3%	0.5%	0.4%
8:30 am	Empire state index	May	20.1	--	15.8
10 am	Richard Clarida, Michelle Bowman hearing				
10 am	Home builders' index	May	70	--	68
10 am	Business inventories	March	0.0%	--	0.6%
1:10 pm	John Williams speech				
WEDNESDAY, MAY 16					
8:30 am	Housing starts	April		1.290mln	1.319mln
8:30 am	Building permits	April		--	1.379mln
8:30 am	Raphael Bostic speech				
9:15 am	Industrial production	April		0.6%	0.5%
9:15 am	Capacity utilization	April		78.4%	78.0%
THURSDAY, MAY 17					
8.30 am	Weekly jobless claims	5/12		215,000	211,000
8:30 am	Philly Fed index	May		--	23.2
10 am	Leading economic indicators	April		--	0.3%
10:45 am	Neel Kashkari discussion				
FRIDAY, MAY 18					
9:15 am	Lael Brainard speech				
10 am	Advance services	Q1		--	--

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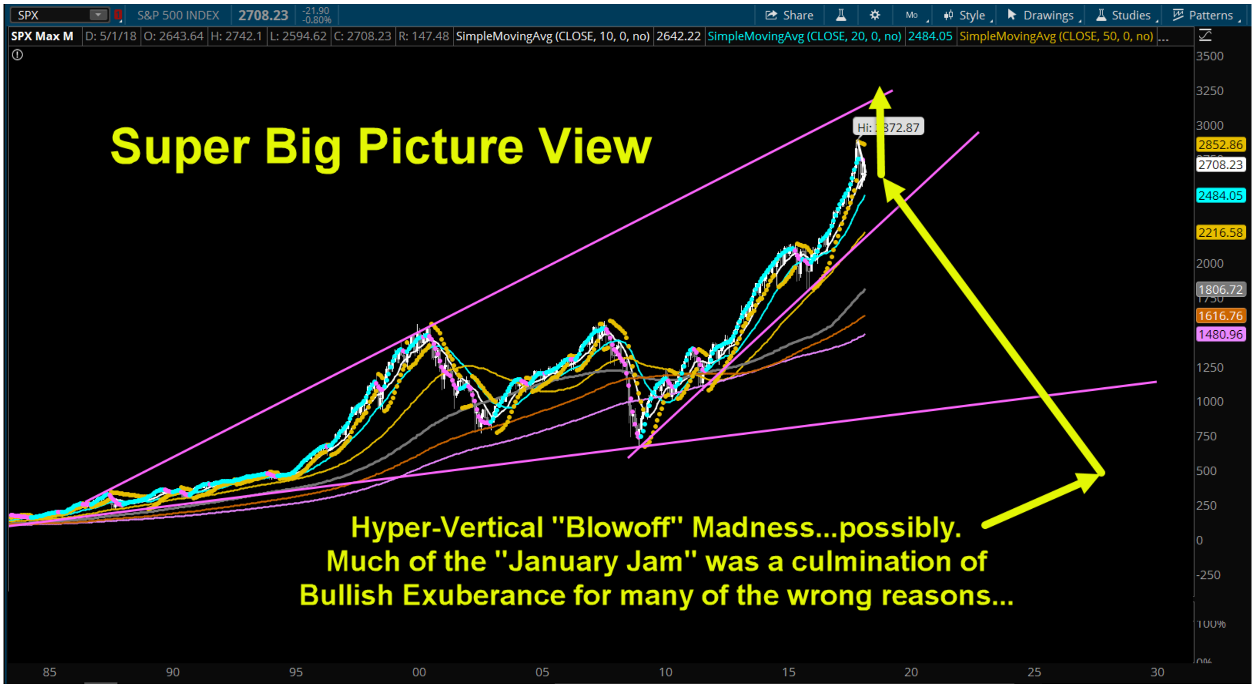
Below the Radar

Another week, another round of light fare being served up in **Below the Radar**.

We must face reality and reality is that **BTR** simply doesn't have the material to cull from that it once did. During the days of 2016 and into 2017, (and a few years prior) issues were building and they were being ignored. Much of it could be described as *long-range forecasting*. As we've noted of late, a good many of those concerns are now upon us. At the top of the list, we have rising interest rate issues and all they portend. While rates are always discussed, they, along with the US Dollar's recent action, are being discussed anywhere and everywhere as are the ramifications that follow. Our concerns of the past have become the headlines of today. Let's get on to the slim pickings of **Below the Radar** material that the past week produced.

First off, we (personally) can't rule out that this recent advance by the indices is anything more than a short squeeze/false-breakout, something many refer to as a *Bull Trap*. It could be the opposite, but it could truly be a Bull Trap as well and we can't lose sight of that especially in what could be history-making year 10 of a very old bull market when viewed empirically. Our rationale is a simple technical one:



Everyone that's been following the machinations since 2009 knows that the following are true:

The FED is most responsible for the asset inflation we've witnessed in nearly everything but especially in the equities markets.

Companies also "play the game" better than ever via:

Share Buybacks.

Accounting Shenanigans the likes of which GOD has never seen.

Until recently, Main Street barely had a pulse vs. that of Wall St. which never felt better!

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This is the most disconnected the US equity markets have ever been from Main St. realities.

DEBT of all kinds is back to or has surpassed record levels.

We've learned little from the near-extinction of the global financial/economic systems in 2008-2009.

WE, will never rule out any possibility and thus, given the nature of the chart above, we mustn't assume it can't happen again, nor that we can't continue to become even more vertically-extreme. Which is why we always end this section with something like this:

Avoid Complacency.

Bank and Roll!

If you'd like to read about how we arrived here and what led to the rise of populism in the West, this time around, we suggest you check out this piece from Ann Pettifor who asks the same question we are:

Why have we not learnt lessons from the past?:

https://rethinkingeconomicsnorge.com/2018/05/12/can-we-blame-the-bankers/

Getting back to the nitty-gritty of NOW, the FED has done the heavy-lifting for the past near-decade, but companies are stepping up in a big way now that the FED is backing away ever so slightly:

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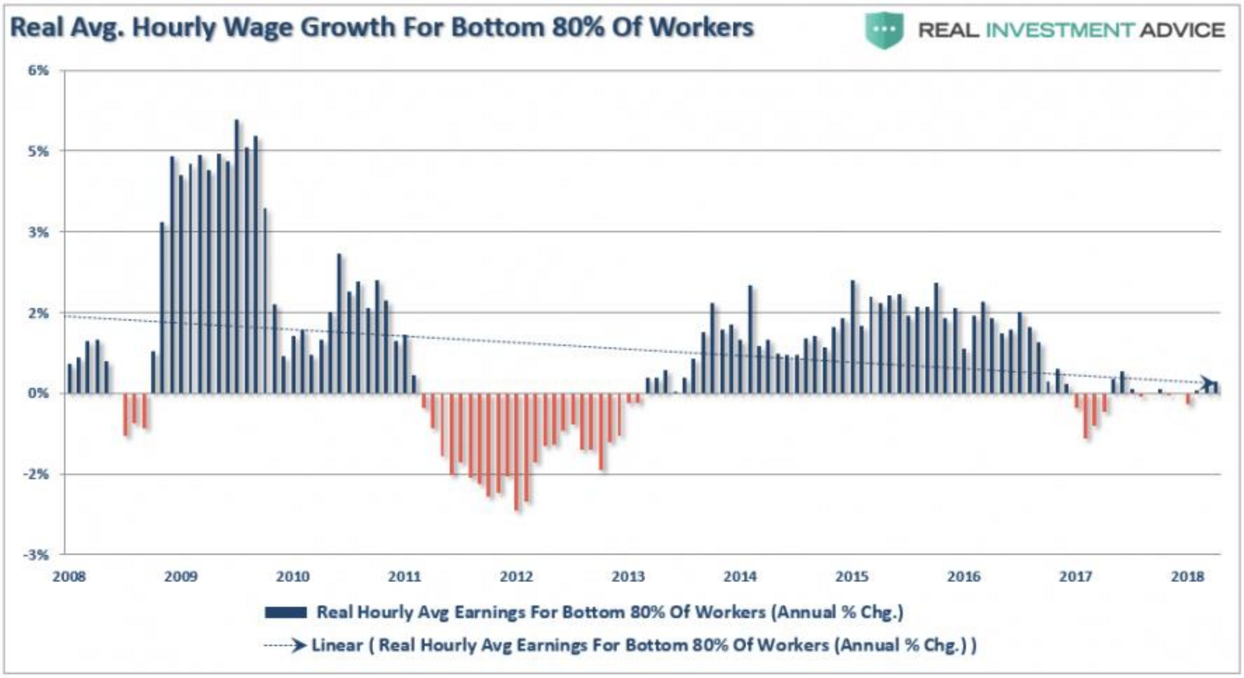
We're set to witness record stock buybacks this year (much like we did in 2007) with stock prices near all-time highs. But, what better way is there to maintain or boost your EPS than by reducing the size of the divisor? That keeps the "earnings beat" game going and the music playing, and it also features a tremendous bonus in the fact that it boosts management's job performance and most importantly, compensation of all kinds! The trick is to exit prior to the implosion! The top income earners in management in the US Corporatocracy have crushed it over the course of the Bull Market but what of the financial fate of the little people?:



Yeah. That's all that needs to be seen or said.

Getting back to the here and now, we've hit on the "coordinated global recovery" potentially stalling and our digging efforts turned up this from BofA. Money managers aren't as sanguine on the Global Story as they recently were, and they're also concerned about a recession occurring in 2019:

Wall Street has now given up on the so-called "coordinated global recovery", and as BofA's Michael Hartnett reveals in his latest Fund Managers Survey polling 223 respondents with $643BN in AUM, expectations for faster global growth have collapsed, with only net 1% of investors indicating in May they think the global economy will strengthen over the next 12 months. This is down 4% from April and the lowest level since February 2016 when the S&P hit an intraday low of 1810 and when global economy was just emerging from its China-deval/Quantitative Tightening led turmoil. The fact that this is happening now when both the economy and the markets have been firing on all cylinders is especially troubling.

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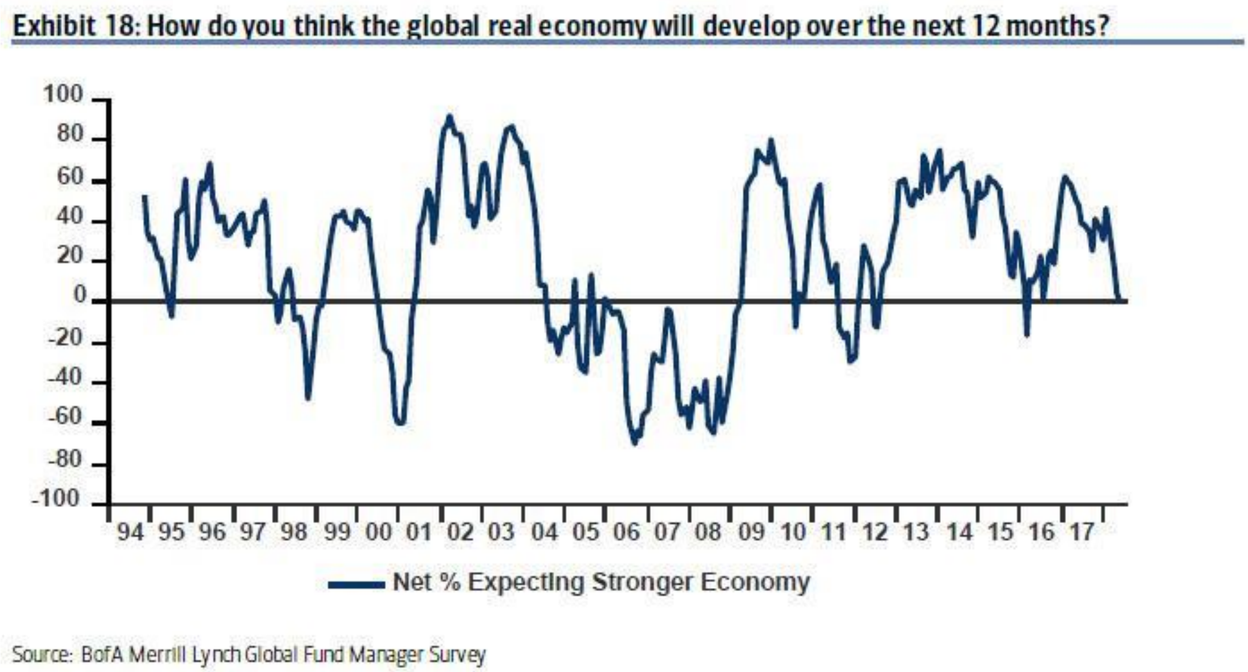
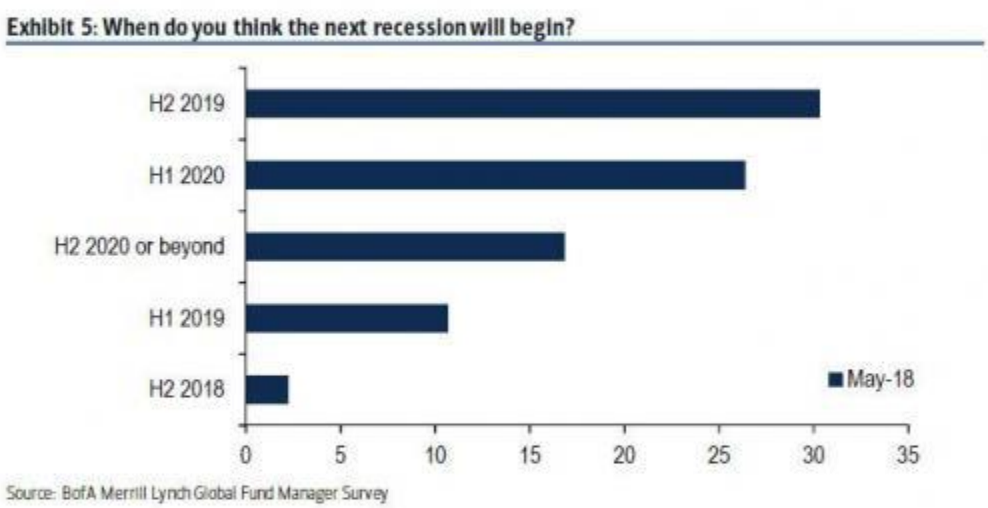


Looking ahead, while only 18% expect a recession in the next 12 month, (and 2% expect it in 2018), a fully 84% are now confident the next recession will hit in the next two years, either in 2019 (41%) of 2020 (43%).



That’s concerning but here’s the ***scarier*** part:

Even more bad news: 76% say equities have yet to peak -the majority say not until 2019 or beyond; only 19% think January marked the top - suggesting fundamentally-driven selloffs will be met with BTFDing dragging the market even more from fair declining value...

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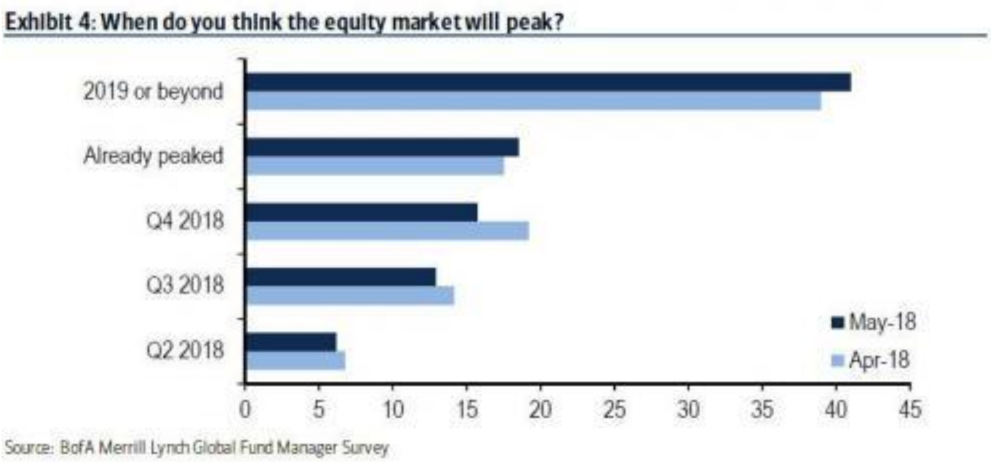
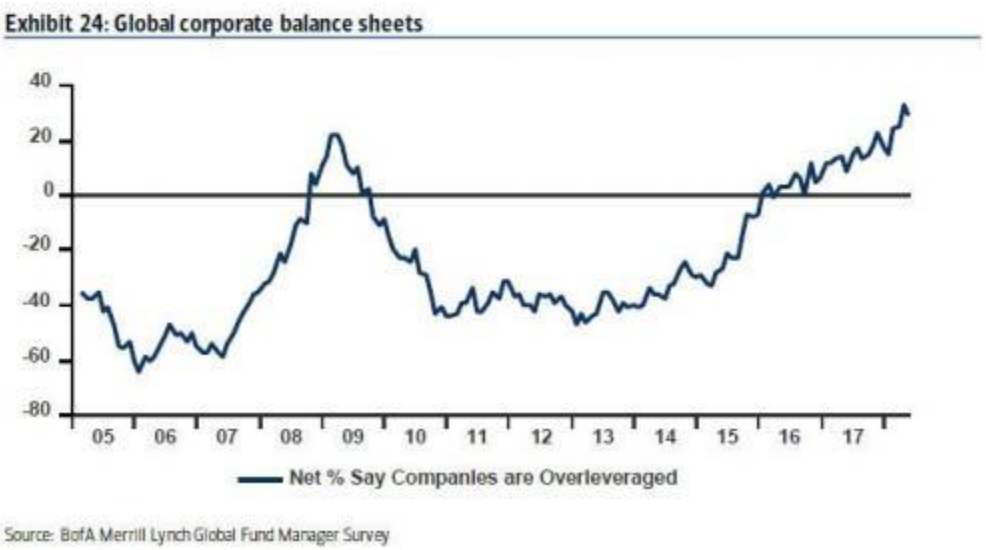


... while a third of respondents say companies are now too levered, the highest since Dec'09.



Meanwhile, as confidence in the economy is crumbling, the buyside is hoping that growth stocks will preserve their beating ways, and as we showed earlier, the top "crowded trade" is long FAANG+BAT (short Treasuries is #2).

*What can shake the consensus view? According to BofA, **a weak Q2 GDP in the US or a "bad" rise in rates (watch US bank stocks); coupled with credit contagion from EM (watch Brazil FX).***

Here's additional *deep dives* on emerging markets if those risks concern you:
https://www.zerohedge.com/news/2018-05-15/trader-warns-emerging-markets-arent-heavy-theyre-setting-implode

https://www.zerohedge.com/news/2018-05-15/emerging-market-fx-suffers-death-cross-lira-rand-collapse

The overly-popular ***Long FAANG trade*** has to be a concern at this point. It looks much better than it recently had, but just as it helped the market recover, it can drag the market down like a stone. What's worse is that the boat is loaded up on one side as we've discussed again and again:

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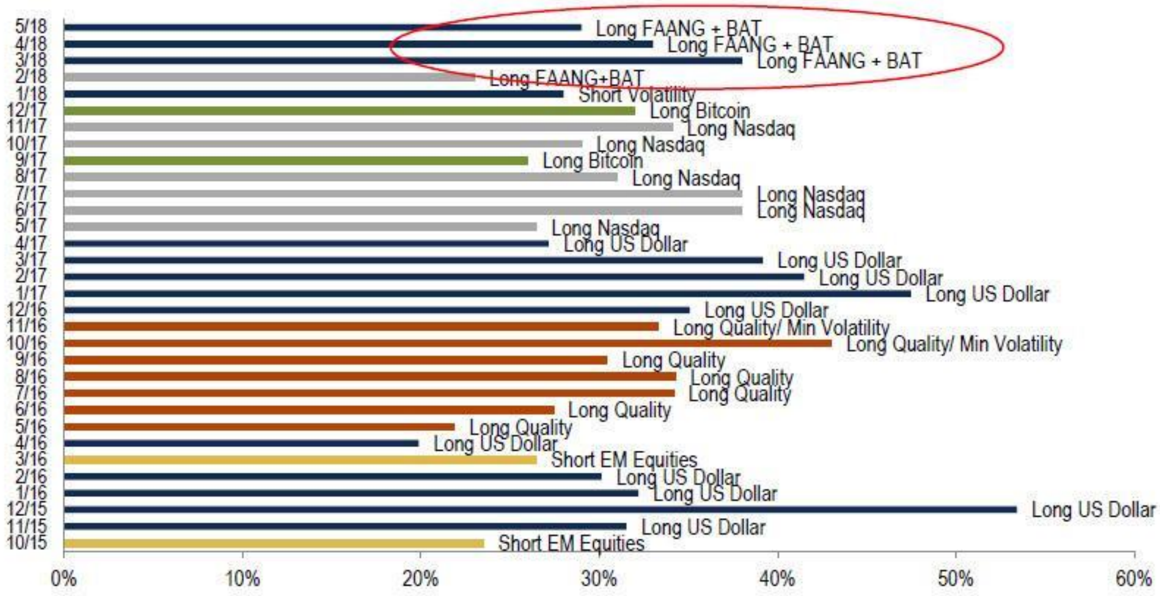
Exhibit 10: Evolution of Global FMS "most crowded trade"



Source: BofA Merrill Lynch Global Fund Manager Survey

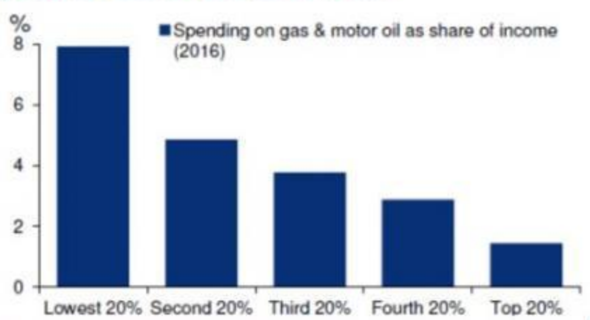
While FAANG's a fascination, $4 gas seems to be less contemplated, until now…

We can now begin to wonder about what $4 per gallon gas means for our financial futures and stock prices:

https://www.zerohedge.com/news/2018-05-15/wsj-sounds-alarm-theres-no-getting-over-gas-4-gallon

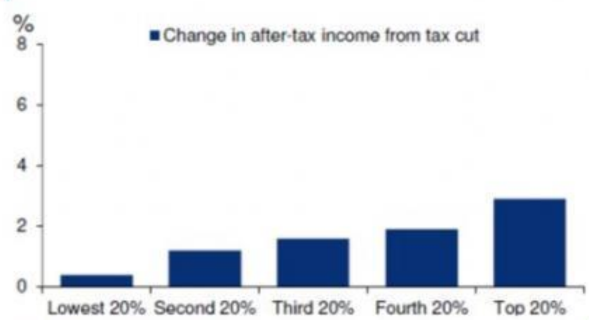
As usual, it will affect regular folks the most:

Figure 3: Spending on gas accounts for larger share of income for lower income households



Source: Consumer Expenditure Survey, Haver Analytics, Deutsche Bank

Figure 4: Tax cut gains skewed to upper incomes



Source: Tax Policy Center, Deutsche Bank

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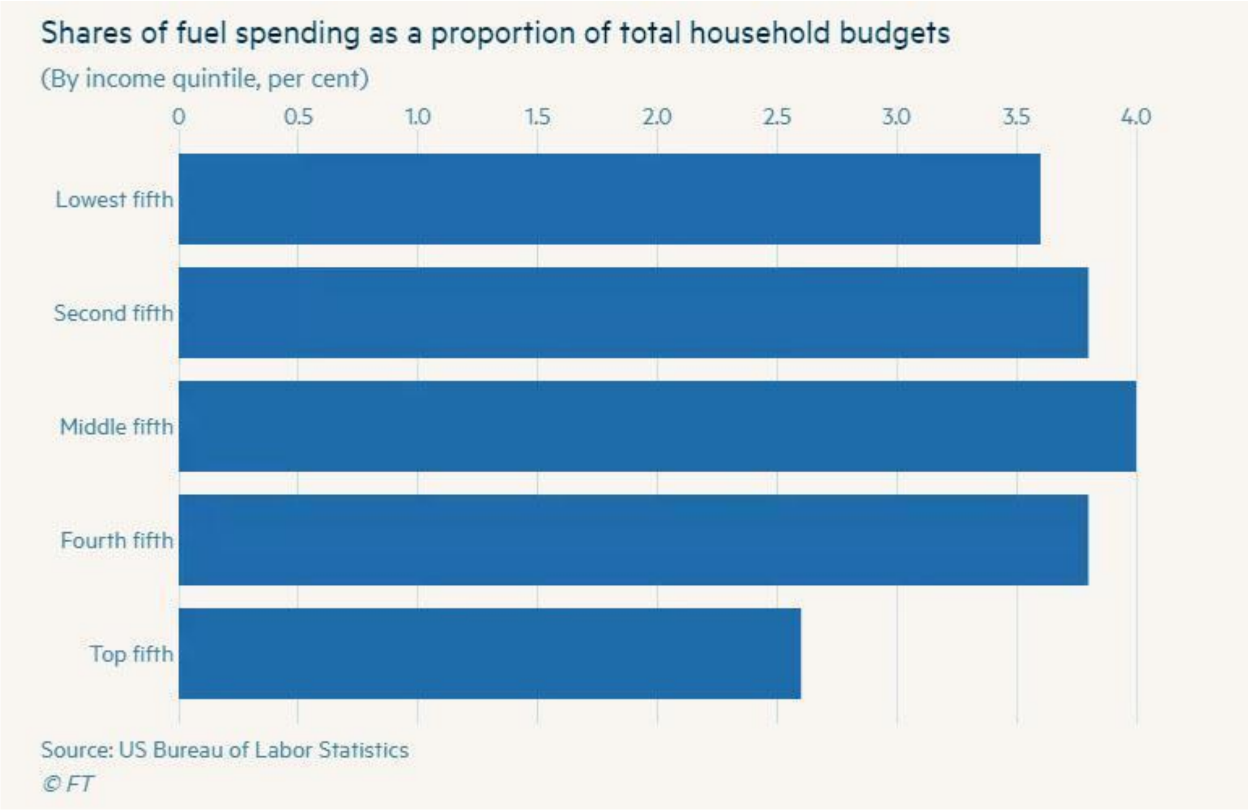
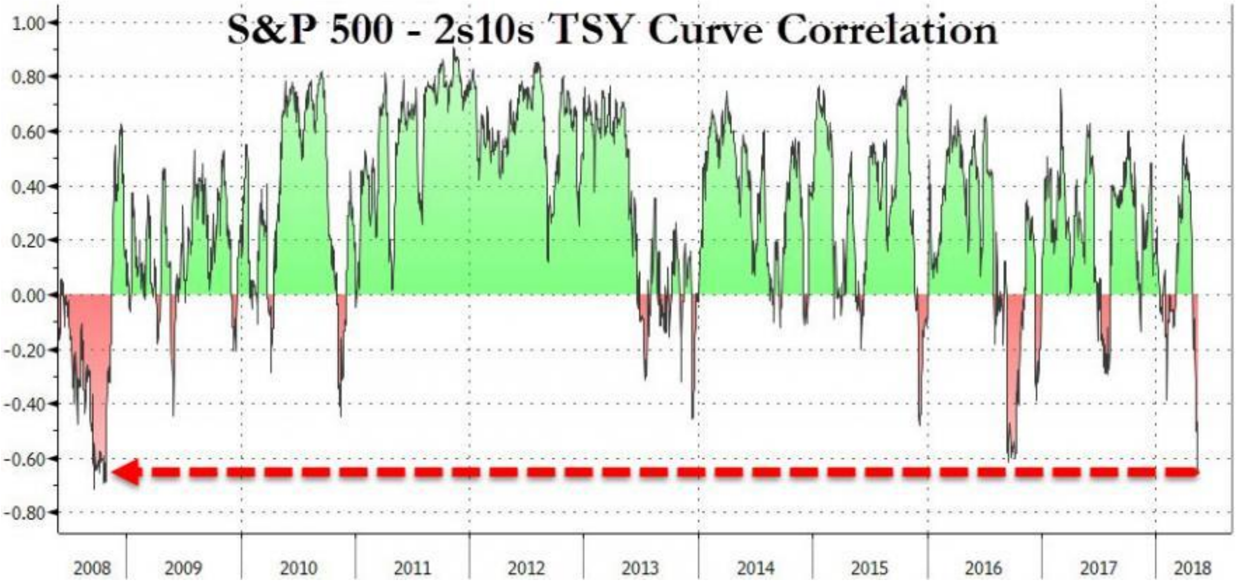


Just out, we have this for those that care about the bond market and what it may be saying vs. the stock market. 2008 comparisons are always worth the read:

https://www.zerohedge.com/news/2018-05-15/stock-bond-markets-have-not-disgreed-much-2008



Bank, Roll and Prosper!

Options Academy

We thought it might be a good idea to follow-up with a discussion of simplified compounding and crushing dividend dreams of stockholders, in light of last week's premium collection discussion. So…let's have at it! This won't take long as we're merely setting the stage for next week's Grand Finale!

We're heading into MSFT to get things started. MSFT is currently trading at $96.95 as we write on May 15^{th,} 2018. We can sell the slightly OTM June 15th 97.5 calls for $1.85. (There are other ways to do this, but this one will work for us for now.) We selected that call as it brings in nice chunk of premium in just about 1 month (31 days). That will provide us with easy extrapolation for a full year (12 months). We can be more aggressive sellers by selling only 1 or 2 weeks out in time, but we're keeping it simple as the concept is more important than the mechanics at this point. We'll look at 3 outcomes of the many that are possible:

A: The stock *sits still*, and we collect the full $1.85.

B: The stock rises to $97.50 where it closes on expiration day.

C: The stock drops $1.85 from where we bought it and closes there on expiration day.

Let's work out scenario A. We buy 100 shares for the current price of $96.95 and sell 1 June 15th 97.5 call for $1.85 and the stock closes on expiration day exactly where we bought it at $96.95. In this scenario, we make nothing on our stock position but make $1.85 by selling the call. Our return for the month is: $1.85 / $96.95 = 1.9%. That's pretty-darn good all things considered (interest rates!). Let's project that out over 12 months but without any fancy compounding math. 1.9% x 12 months = 22.8% annual return! (simplified). That's very good and we're doing it on what's considered a very safe stock which is a very important part of the process. It's hard to knock this outcome.

Now, scenario B. It's pretty much the same but better than A. In this case, we keep the full $1.85 of premium on the call but add $0.55 of profit due to the stock rising. Thus, we make $1.85 + $0.55 = $2.40 for the month. $2.40 / $96.95 = 2.47%. Even better than A above! Over a year above: 2.47% per month x 12 months = 29.64%

And finally, scenario C. The stock drops $1.85 from where we bought in to $95.10. We lose a $185.00 on the shares but make $185.00 (in the real world) via the sale of the call which offsets our loss in the stock. Thus, we lose nothing! We have about a 0% return using this simple math approach but normally, had we not *written* a call, we'd have lost about 2% ($96.95 x 2% lower = A loss of $1.93.)

A Note before we move on: Because we receive a credit on the sale of the call, our basis is not $96.95 in these scenarios but a $1.85 lower: $95.10. Thus, our performance was even better but we wanted to keep it very simple.

Now, back to it, albeit briefly. We covered the covered call this week under 3 scenarios. There are many other possible outcomes, but these are 3 key ones we can use to compare this approach to a superior approach next week. Remember, we're not big on covered calls, so we'll compare and contrast this to the other approach next week.

Before we conclude, we want to note that MSFT pays a $0.42 dividend each quarter for a total of $1.68 in dividends for the year. The stark contrast should be obvious. In ONE month, if we write the proper call, we can make more in premium collection than capturing an entire year's dividend stream. That's very powerful. Granted, there's risk to be taken and there are tradeoffs, but there's risk in owning stocks and trying to collect dividends as well.

We will follow up on this and go into further depth on these matters next week.

If you have questions, ask away in this week's **Advantage Point Morning Cal**l webinar.