MARKET TRACTION

IN THIS ISSUE:

Caught in a Trap. About to Leave It?

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

Bullish Ideas:

(View Webinar) CRUS > Cirrus Logic Inc. > $38.37 Last. Buy the Jun 22nd 38 Calls for $1.90 or less with a close or anticipated close above $38.95 in an up market with expectations for continued strength in the major indices and semi-conductors, SOX.

<u>Bullish Mentions</u>:

(View Webinar) EPC, FSLR.

Bearish Ideas:

(View Webinar) EBAY Inc. > EBAY > $37.53 Last. Buy the Jun 22nd 38.5 Puts for $1.50 or less with a close or anticipated close below $37.36 in a down market with expectations for continued weakness in the major indices.

<u>Bearish Mentions:</u>
(View Webinar) MCD, STM, GRUB, XLY, SBUX>, PCG, CSX*, GEM, VIAB, MTCH, MCK, SAP.

We're noting this AGAIN!

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

Despite being on a path to nowhere the past few weeks, volatility remains elevated. We've been in a very tight trading range, but we've bounced from the bottom to the top and back again very quickly. Thus, 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 **Morning Call** webinar for full details with respect to these idea(s), last week's and options education.

MARKET TRACTION

Week 17 of our Special Note:

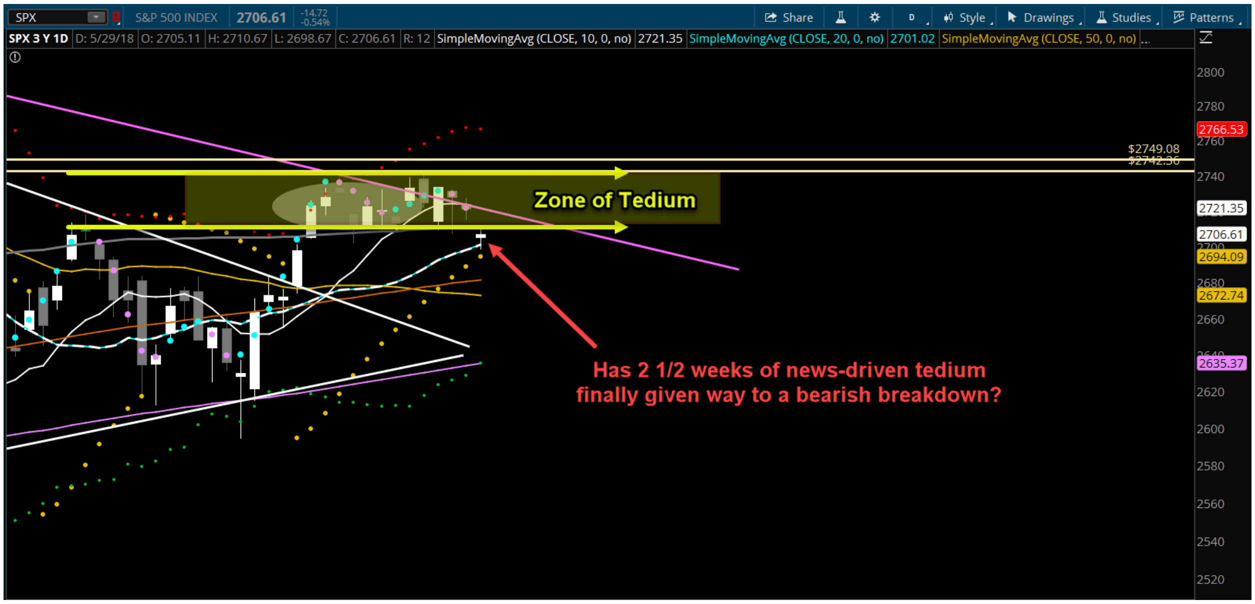
Last week be thought that things may have been clearing up, but the news cycle continues to dominate. The SPX remained trapped in a tedious, news-driven range for yet another week. Futures gaps in the mornings were fleeting and often reversed. In short, the SPX went nowhere special.

With this being the case, 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:

Last week we asked: *After a few days of pulling back from overbought, the SPX began to move higher and is now trying to add another leg to its recent bullish run. We could be closing a gap, **we could be double-topping**, we could be about to scream higher! **We're at a very interesting juncture currently.***

Last week, while we believed that bigger picture technicals were looking better, but we were candid regarding our lack of conviction in the short-term. We just couldn't get a good beat on what was happening in the markets. In our webinar, we sounded notes of frustration and bewilderment as to what would likely happen next. We had published about the same number of bullish names as bearish names, as we simply couldn't get a good read on conditions. Well…that may have been the right answer. Two Fridays back, the SPX closed near 2712. This past Friday, it closed at 2721. Virtually no change in one full week of trading action. Apparently, the SPX did not yet know its own plans for the future! However, things may have finally changed:



Last week, we discussed a possible double top in the SPX and the breakdown to the 50 SMA (yellow) and the 100 SMA (orange). That MAY be happening…FINALLY! News out of Italy is being assigned to take the blame to Tuesday's mornings initial weakness. If this nascent breakdown gains traction, we expect it to attempt to find support a little lower should it fall that far:

MARKET TRACTION

The DIAs and the QQQs are mimicking the SPX/SPYs closely. The DIAs may be a bit ahead and the Q's may be a little behind, but the pattern is very similar. At this juncture in time, the breakout from our triangle just a little less than a month ago, is in jeopardy of unraveling and even possibly testing what was the resistance line of the triangle for support. That would be a significant drop from where we are now, and naturally, volatility levels will likely spike.

Many names/regions that we've covered over the past month or so that we're looking bearish, have finally given way. Some emerging markets ETFs have started what looks like a possibly serious decline. And, naturally, with the Eurocentric news out today, the FEZ ETF (EuroStoxx) has plummeted after weakening somewhat last week. It is starting to become very interesting especially when we consider how strong and relentless the run back up has been in the IWM and many tech names. If a major-market selloff ensues, we could see much in the way a give-back price-wise.

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.)

MARKET TRACTION

Recap of Last Week:

Last week we were again split on bulls and bears fairly-evenly. This reflects the market itself as it has been equally undecided, so we were prepared to roll in other direction if the action allowed for it. It never really did but instead produced a very strange week of potentially nothingness, although, some may have done something without waiting for the market to break up or down. Allow us to explain…

MRVL was our official bullish idea and it did finally pop up a little bit very late in the week to nowhere as evidenced by the **SPX's** lack of change. On the bear side, both bearish ideas fell off since last week, at least as it stands now. **EBAY** fell off small and **AA** rather significantly. We didn't cover these officially as having triggered because the markets effectively "did nothing". **MRVL's** pop was on Friday and we didn't know if it would hold and then we arrived at a holiday weekend just in front of earnings. **AA** did fall below its trigger price and has kept dropping but it did it in a non-committal market. Market conditions made a clear triggering difficult. As for the mentions from last week, it felt like the *Twilight Zone of Bad News*!

All bearish mentions were "blown up" before we could even discuss them! Tuesday's North Korea Summit cancellation news sent our mentions upwards as they were mostly defense stocks (**RTN, LMT, NOC)** save for **LULU**. **LULU** too went up but on its own due to a price upgrade from an analyst. Those mentions were instantly worthless as a result. News trumped charts before we could even act on them. As for the bulls which were mainly financials, **KEY*, XLF*, MS*, USB*and STI* (FOMC minutes),** they were blown up by the FOMC minutes news! Which is EXACTLY why there's an asterisk after each symbol! We knew had to wait on those until the fallout from the FOMC had been at least partially factored in by the markets. The only non-financial of the bunch was **ON** and it did jam up very nicely on Thursday and into Tuesday morning! Oh, how things can work when news doesn't interfere! ON made it to our webinar-discussed resistance area on Thursday alone.

With all the being covered, it's a tough week to summarize. All 3 ideas did ultimately move in our expected direction but without any real market wind at their backs. All mentions were effectively blown up by news before we could discuss them in our webinar except for **ON** which powered higher in a big way on Thursday into Tuesday. In market that's effectively gone nowhere AGAIN, we didn't get smoked and some may have eked out something. Maybe that's not so bad considering how news could have wreaked havoc on many mentions had the news hit later in the week and after we may have been tempted to climb into.

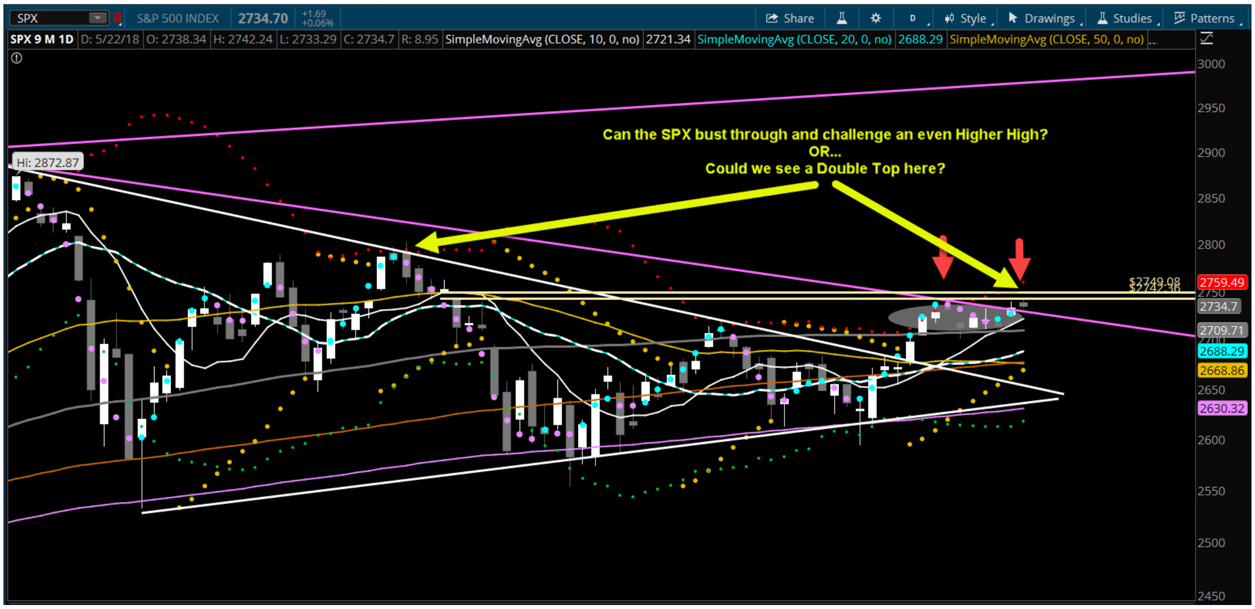
MARKET TRACTION

Market Overview

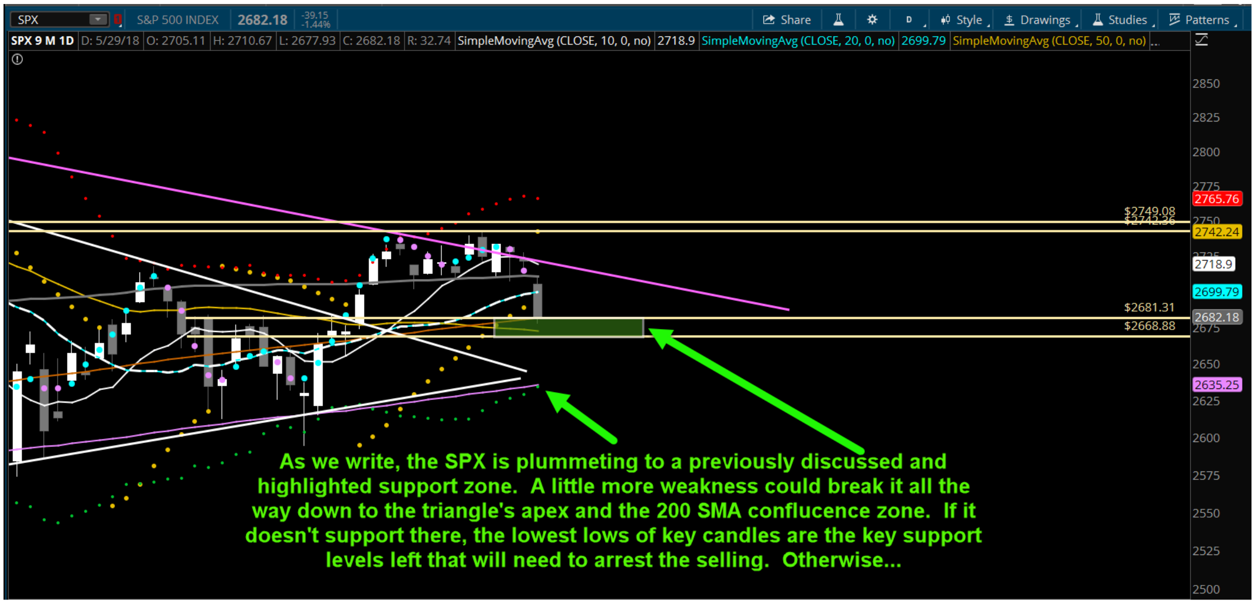
(Please see our Special Note above for additional TA commentary)

From last week:

However, we're not out of the woods…yet…:

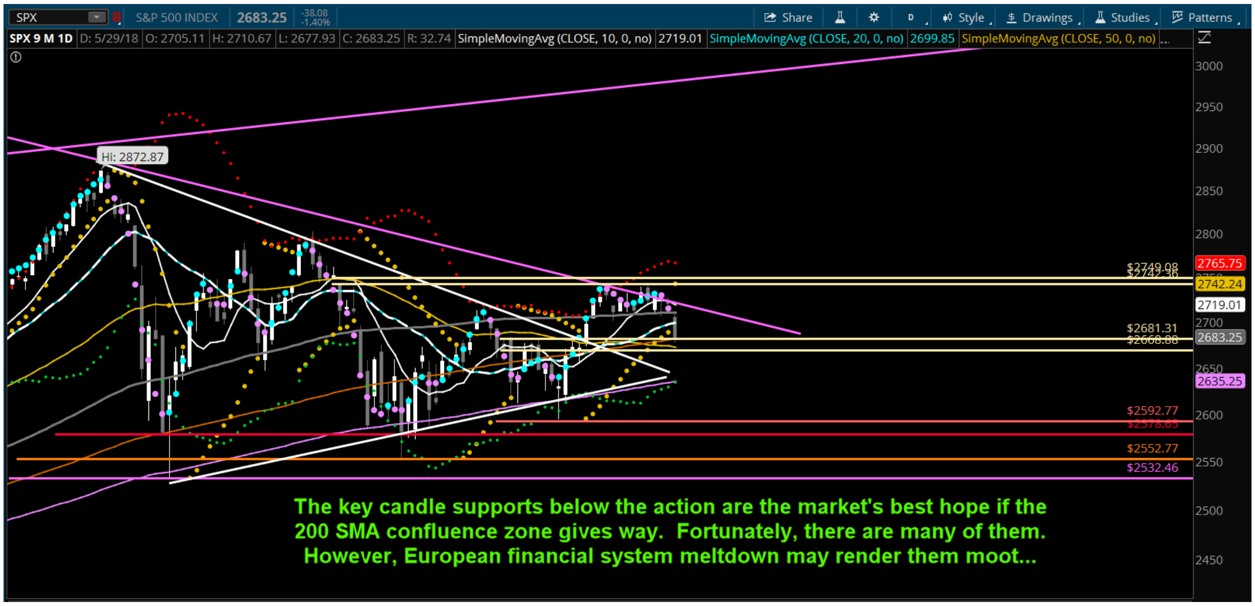


Things have stagnated as we write and not just in the SPX. FAANG is also just treading water. Thus, there's no follow through and that's a little troubling. We must remain prepared and nimble. That's all there is to it. ***This is a very interesting juncture and <u>we have a suspicion that matters will be propelled forward on news to which we're not privy but will soon be introduced to, a la the China news.</u>***



MARKET TRACTION

The chart above may not say it all, but it says plenty. We're witnessing ferocious selling and things need to hold nearby or else.



When the panic really kicks in, nearly all stocks are sold off. Once again, matters flaring up in Europe are dragging the US equity markets into stormy seas… Expect this to remain fluid.

The Calendar is back of the week heavy and it may end up becoming relevant, but it seems like eyes will turn increasingly towards Europe and what develops there this week more so than domestic economic news. We shall see…

MARKET TRACTION

This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, MAY 28					
	None scheduled Memorial Day holiday				
TUESDAY, MAY 29					
9 am	Case-Shiller home price index	March	6.5%	--	6.5%
10 am	Consumer confidence index	May	128.0	127.5	125.6
WEDNESDAY, MAY 30					
8:15 am	ADP employment	May		--	204,000
8:30 am	Gross domestic product revision	1Q		2.3%	2.3%
8;30 am	Advance trade in goods	April		-$71.0bln	-$68.0 bln
2 pm	Beige book				
THURSDAY, MAY 31					
8.30 am	Weekly jobless claims	5/26		225,000	234,000
8:30 am	Personal income	April		0.3%	0.3%
8:30 am	Consumer spending	April		0.4%	0.4%
8:30 am	Core inflation	April		0.1%	0.2%
9:45 am	Chicago PMI	May		--	57.6
10 am	Pending home sales	April		--	0.4%
FRIDAY, JUNE 1					
8:30 am	Nonfarm payrolls	May		198,000	164,000
8:30 am	Unemployment rate	May		3.9%	3.9%
8:30 am	Average hourly earnings	May		0.2%	0.1%
9:45 am	Markit manufacturing PMI	May		--	56.5
10 am	ISM manufacturing index	May		58.8%	57.3%
10 am	Construction spending	April		0.8%	-1.7%
Varies	Motor vehicle sales	May		16.8mln	17.2 mln

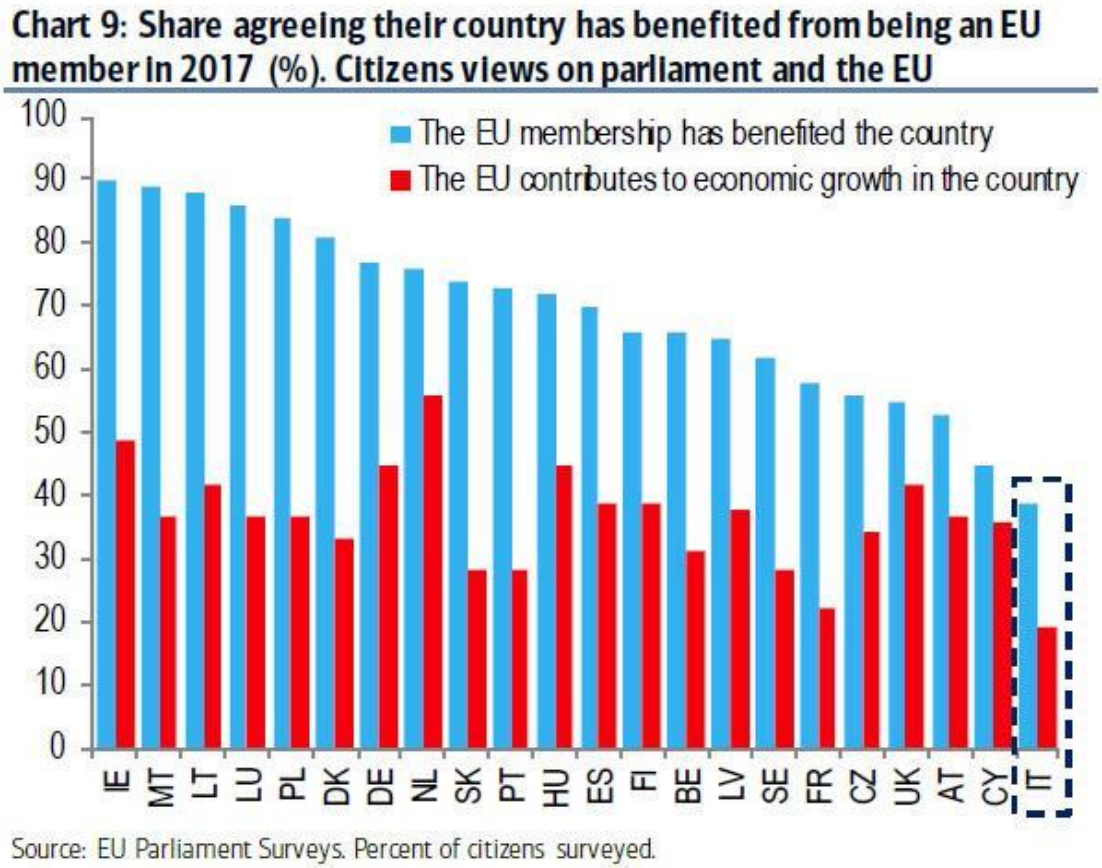
MARKET TRACTION

Below the Radar

Writing in a post-holiday shortened week that's kicked off with a market meltdown is the kind of thing that can happen quite often after the markets have lulled most to sleep with dose after dose of tedium. That's exactly what we've got on our hands here! We've noted that we should see something soon and that we didn't expect the markets to "go sideways" much longer. That turned out to be the case sooner than we expected and things may only have just begun as European bureaucrats are fanning the flames of the populism that they detest!:

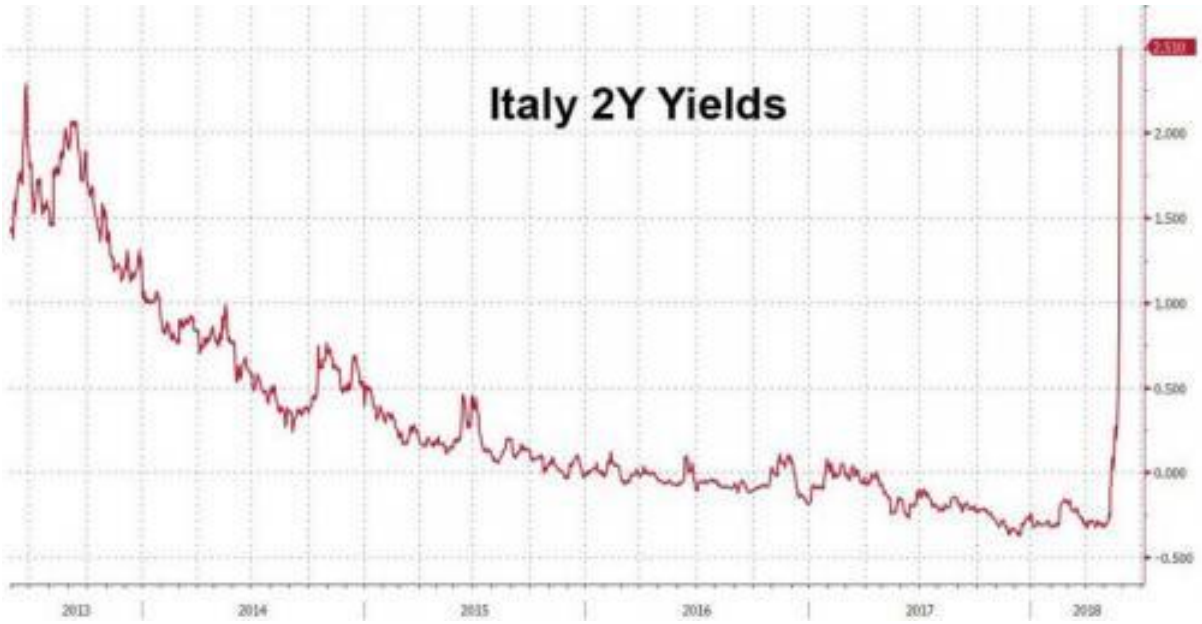
https://www.zerohedge.com/news/2018-05-29/italians-outraged-after-eus-oettinger-says-markets-will-teach-them-not-vote

These comments reached an Italian audience that's possibly the most Euro-skeptical of them all:



How serious have things become with respect to Italy's financial fortunes?:

MARKET TRACTION



Not to get overly technical, but, it appears that things have gone bonkers! Politics and European finance continue to further intertwine and who would be better to quote on these matters other than George Soros, possibly Europe’s most controversial billionaire dabbler in both!:

https://www.zerohedge.com/news/2018-05-29/everything-has-gone-wrong-soros-warns-major-financial-crisis-coming

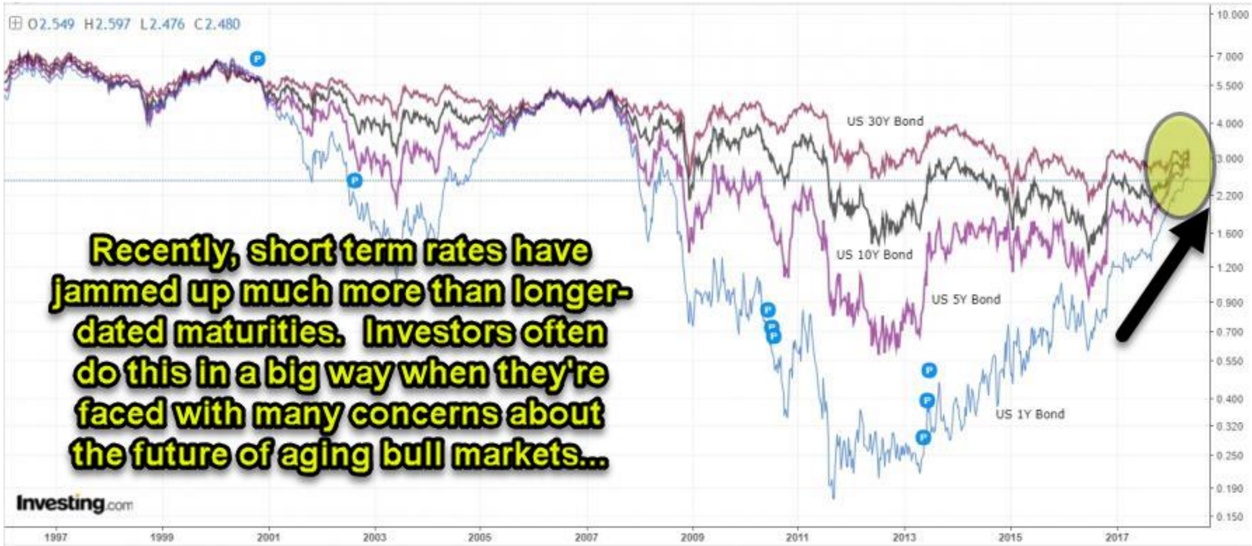
Read the full piece, which is lengthy, if you want to see why Soros is so bearish but here’s the nutshell:

In a speech delivered Tuesday in Paris, billionaire investor George Soros warned that the world could be ***on the brink of another devastating financial crisis****, as debt crises reemerge in Europe and a strengthening dollar pressures both the US's emerging- and developed-market rivals.*

And Europe, ***with Italy dragging worries about the possible dissolution of the euro back to the forefront, won't be far behind.*** *Political pressures like the dissolution of its transatlantic alliance with the US will eventually translate into economic harm. Presently, Europe is facing three pressing problems:* The refugee crisis, the austerity policy that has hindered Europe's economic development, and territorial disintegration - ***not only Brexit, but the threat that countries like Italy might follow suit****...*

This could be the real deal. Given Europe’s less than harmonious history, many have been predicting the demise of the Euro and the Union prior to even its official formation! First Brexit, now possibly Italy, the dominoes may be…well, you know the rest. Many seem to be treating it that way and have been concerned about this issue, along with many others, for some time. It takes quite a bit of aggregated capital to drive moves like this:

MARKET TRACTION



Just after things became troubling for banks post the FOMC minutes last week, the Italian news hit. Now, another turn for the worse has been taken and this is hot off the press:

Banks Tumble After JPM Warns On Q2 Revenue

by Tyler Durden
Tue, 05/29/2018 - 15:02

5 SHARES

One quarter after banks enjoyed a record boost to their equity/derivative trading revenue from the February 5 "*volocaust*", things are looking far more grim for Q2. Consider that one year after on May 31, 2017 JPM made the following warning:

- JPMORGAN 2Q MARKET REVENUE HAS BEEN DOWN ABOUT 15 PERCENT FROM YEAR EARLIER, CFO SAYS

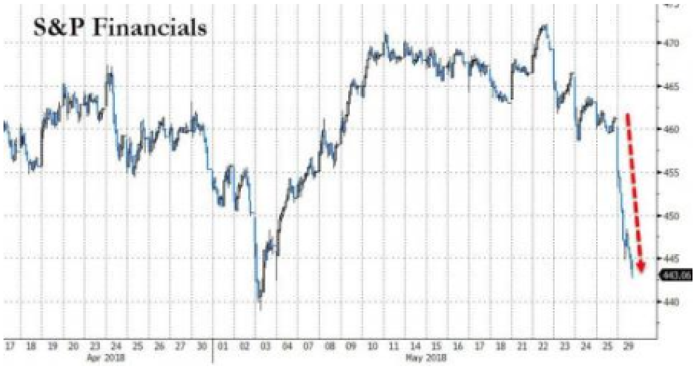
This morning JPM had news that were almost as unpleasant, when investment bank chief Daniel Pinto said that second-quarter markets revenue would be flat compared with a year earlier...

- JPMORGAN MARKETS REV WILL BE 'FLAT' Y/Y, PINTO SAYS

... and by implication, also 15% down from 2016.

Furthermore, speaking on Tuesday at an investor conference, Pinto said that the drag of several one-off items is reducing the benefit of "mid-single digit" percentage improvements in core trading business, such as in rates, credit, and equities. In other words, the bank is set for another overall revenue decline, which the collapse in NIM virtually assures that interest income will be another fiasco.

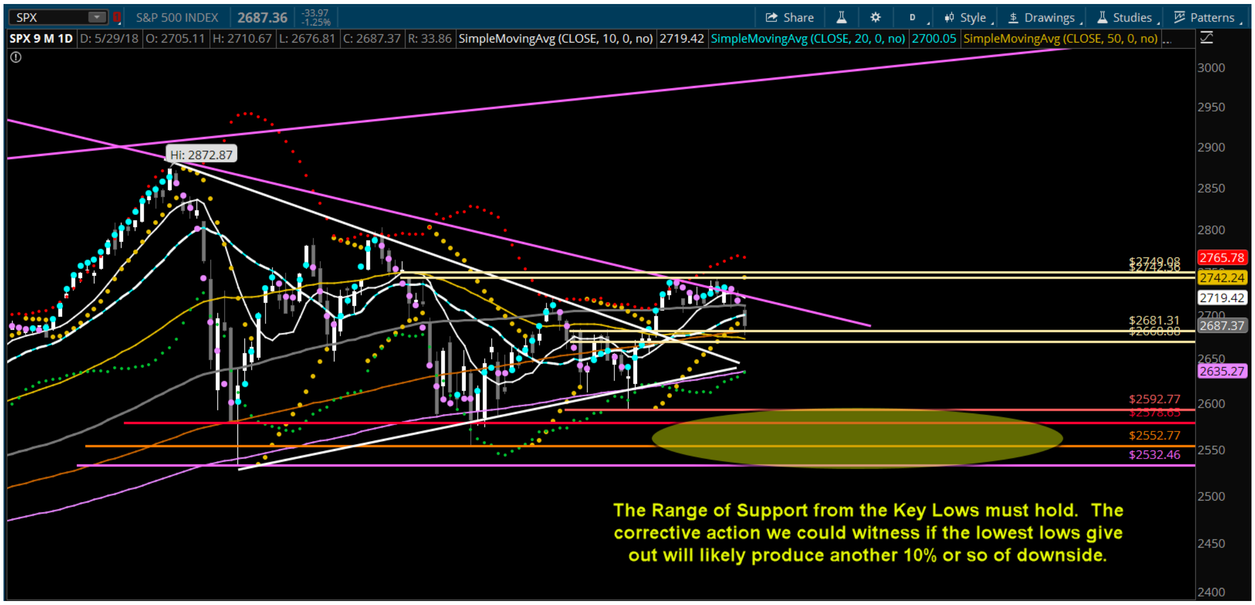
And while markets already had their hands full with negative news out of Italy, US banks extended losses after the JPM warning with most big bank shares extending losses, sliding between down ~3-5 pct, and the S&P Financial sector tumbling to the lowest in almost a month.



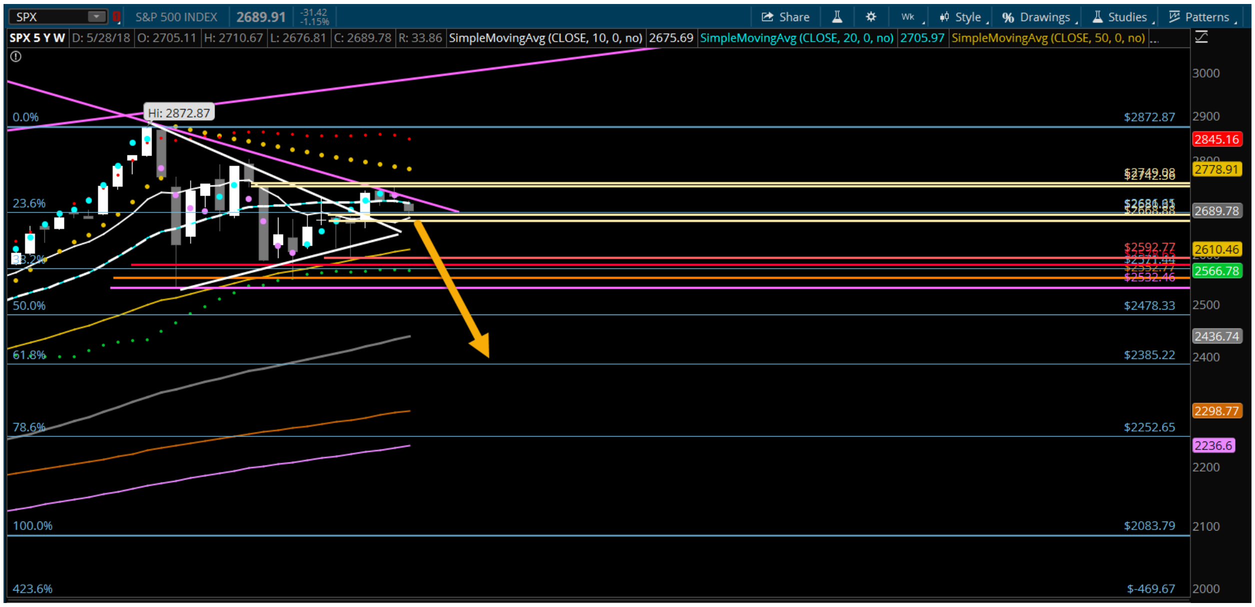
And while it may get far worse before it gets better, especially if the political chaos in Italy continues, both Goldman and Citi are already suffering from the worst start to a year since 2011.

MARKET TRACTION

And finally, since matters are so fluid and current-*eventsy,* we're going to include our own charts which have been flashing bigger-picture concerning but improving until today on the intermediate term. Today's damage could be a technical game changer. If this panic continues and produces more major selling in the final two days of May, this month will have given up all its gains and the ***Sell in May, Go Away*** chirping could become deafening on the *Bubblevision* TV outlets.



A drop that continues below the 2600ish support could spur on much more selling that may have us visit 8 to 10% lower levels from there:



This is no time for *lifestyle trading*! If you venture in, you'll need to remain on top of the rips and dips that could be about to unfold.

Remain Vigilant! - Bank and Roll!

Options Academy

This week, since we have an influx of new-to-options readers, we decided to go back to the very basics of basics and remind ourselves of how we got here! Revisiting these key concepts from time to time can help us to keep our options logic in tune and remind us of key concepts when we're still relatively new to the game and even sometimes when we're not. We're to going to go a little stream of consciousness here, to wit…

Before we get into it, let's note what a strike price is. A strike price represents the price at which we can strike a deal to buy 100 shares of a stock in the case of a call option. In the case of a put option, it is the price at which we can strike a deal to sell 100 shares of a stock. And while we're at it, where did the terms "call" and "put" come from anyway? We've heard several arguments over the years and some believe that these terms sprung out of the Dutch Tulip Bulb Mania that manifested itself in the early to mid-1600's. Others believe the terms originated in 1800's European trading while other believe they came out of early 20th century American markets. Regardless, calls allow the owner to "call away shares" from a seller that's contractually agreed to sell those shares in exchange for upfront compensation. Puts allow the owner to "put shares to" a seller that's contractually obligated to accept those shares for delivery. They too have done so only after receiving upfront compensation. Otherwise, why would they obligate themselves so?

Additionally, let's not forget about the risk transfer. The traders on the contra-side/opposite side of our options trades assume the opposite risk profile to the one we've acquired for themselves. That's part of the reason that they receive the *compensation to fair value* that they do, at least in theory.

Mark	Delta	Theta	Gamma	Vega	IV	Strike	Mark	Delta	Theta	Gamma	Vega	IV
0.35	0.13	-0.03	0.04	0.06	0.19	104.00	6.63	-0.92	-0.01	0.03	0.04	0.15
0.50	0.17	-0.03	0.05	0.07	0.19	103.00	5.73	-0.88	-0.02	0.04	0.06	0.15
0.69	0.22	-0.04	0.05	0.08	0.19	102.00	4.97	-0.81	-0.03	0.06	0.08	0.17
0.95	0.28	-0.04	0.06	0.10	0.20	101.00	4.20	-0.75	-0.04	0.06	0.09	0.17
1.27	0.34	-0.05	0.06	0.10	0.20	100.00	3.50	-0.68	-0.04	0.07	0.10	0.18
1.48	0.38	-0.05	0.07	0.11	0.20	99.50	3.25	-0.64	-0.05	0.07	0.11	0.18
1.69	0.41	-0.05	0.07	0.11	0.21	99.00	2.95	-0.60	-0.05	0.07	0.11	0.19
1.91	0.45	-0.05	0.07	0.11	0.21	98.50	2.67	-0.56	-0.05	0.07	0.11	0.19
2.17	0.48	-0.06	0.07	0.11	0.21	98.00	2.42	-0.52	-0.05	0.07	0.11	0.19
2.47	0.51	-0.06	0.06	0.11	0.22	97.50	2.18	-0.49	-0.05	0.07	0.11	0.19
2.72	0.55	-0.06	0.06	0.11	0.22	97.00	1.96	-0.45	-0.05	0.07	0.11	0.20
3.05	0.58	-0.06	0.06	0.11	0.22	96.50	1.76	-0.42	-0.05	0.07	0.11	0.20
3.35	0.61	-0.06	0.06	0.11	0.22	96.00	1.58	-0.38	-0.05	0.07	0.11	0.20
3.65	0.64	-0.06	0.06	0.11	0.22	95.50	1.41	-0.35	-0.05	0.06	0.11	0.20
4.00	0.67	-0.05	0.06	0.10	0.23	95.00	1.26	-0.32	-0.05	0.06	0.10	0.21
4.35	0.69	-0.05	0.05	0.10	0.23	94.50	1.13	-0.29	-0.05	0.06	0.10	0.21
4.75	0.72	-0.05	0.05	0.10	0.24	94.00	1.00	-0.27	-0.05	0.05	0.09	0.21
5.15	0.74	-0.05	0.05	0.09	0.24	93.50	0.89	-0.24	-0.04	0.05	0.09	0.21
5.55	0.76	-0.05	0.04	0.09	0.24	93.00	0.79	-0.22	-0.04	0.05	0.08	0.22

MARKET TRACTION

Above we can see our "**Moneyness**" options quote screen. Fortunately, we found a *mystery stock* trading right near a strike price on our first attempt and thus we'll key off the $97.52 last price to follow along as we delve into that funny word known as "moneyness"…

Moneyness, ultimately is about the proximity of a strike price to the current stock price. Thus, we highlighted the **97.50 strike in YELLOW** because it is the nearest one to the current stock price. Because of this, it is known as the **At-the-Money** option (ATM). In **GREEN**, we've highlighted the options that are **In-the-Money**. As can be seen, both Calls and Puts are highlighted, and those areas are diagonal to each other. If you're new to this, that may look odd but to understand what's happening there, you may want to ask yourself these questions:

For a call ask yourself: "Can I instantly profit if I can buy the stock at that strike price free of other charges, then sell it out at the current/last price?" If the answer is YES, then you've got an **in-the-money** call (ITM) on your hands.

For a put ask yourself: "Can I instantly profit if I can sell the stock at that strike price free of other charges, then buy it back at the current/last price?" If the answer is YES, then you've got an **in-the-money** put (ITM) on your hands.

Since we've covered ATMs and ITM, that leaves OTMs, otherwise referred to as **Out-of-the-Money** options. On our graphic above, we've highlighted the OTM calls and puts in **RED**. Let's start questioning ourselves again before anyone spots us! With respect to OTM options, we'll approach matters this way:

For a call ask yourself: "Can I instantly profit if I can buy the stock at that strike price free of other charges, then sell it out at the current/last price?" If the answer is NO, then you've got an **out-of-the-money** call (ITM) on your hands.

For a put ask yourself: "Can I instantly profit if I can sell the stock at that strike price free of other charges, then buy it back at the current/last price?" If the answer is NO, then you've got an **out-of-the-money** put (ITM) on your hands.

Next week we'll likely pick up on this and discuss, long shots, coin flips and sure things, along with what it may be like to be an insurance actuary. Doesn't that sound like fun? 😉 Following that, should we go that way, we may work our way into values of the extrinsic and intrinsic kind and discuss the Greeks in light of Moneyness. Even more fun is on the way! 😋

If you have questions, especially ones that are related to our (*s), ask away in this week's **Morning Call** webinar.