MARKET TRACTION

IN THIS ISSUE:

The Great Triangular Consolidation Phase of 2018 Lulls On…

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

Bullish Ideas:

(View Webinar) Oracle Corp. > ORCL > $45.94 Last. Buy the Jun 1st 45 Calls for $1.67 or less with a close or anticipated close above $46.24 in an up market with expectations for continued strength in the major indices.

AND/OR:

(View Webinar) IShares China Large Cap > FXI > $46.97 Last. Buy the Jun 1st 45.5 Calls for $2.07 or less with a close or anticipated close above $47.13 in an up market with expectations for continued strength in the major indices.

AND/OR:

(View Webinar) Vaneck Vectors Russia ETF > RSX > $21.08 Last. Buy the Jun 1st 20 Calls for $1.44 or less with a close or anticipated close above $21.22 in an up market with expectations for continued strength in the major indices.

<u>Bullish Mentions</u>:

(View Webinar) OIH, XLE, CVX, LUV, UAA, APA, LLY, BIDU, ZION, ROST, TRGP, AXP, BYD, PUMP*.

Bearish Ideas:

(View Webinar) Johnson & Johnson > JNJ > $122.61 Last. Buy the Jun 1st 124 Puts for $4.10 or less with a close or anticipated close below $121.28 in a down market with expectations for continued weakness in the major indices.

<u>Bearish Mentions:</u>
(View Webinar) WYNN, DLR.

<u>**Market Overview:**</u>
All turned out to be relevant as the Gang did bring the SPX down to our support level, they staged an amazing rally in FAANG (mainly AAPL, more on that shortly) to save the market leadership and goose the indices, and thus they did change things soon!

<u>**Below the Radar:**</u>
We must keep in mind that this marketplace has become **"what have you tweeted for me lately-ville"** at this point! Long-standing concerns have become current issues and very current ones at that. We must

stay in the here and now to try to keep pace with what's happening between tweets! That means a shorter and more current **BTR** than in months past.

Options Academy:

Of late, we've been asked more and more about the concept of "premium collection". Perhaps the lack of a dominant market trend has led our weekend seminar guests to wonder about what other ways may exist for them to profit in the markets. Fortunately, options allow us to profit even when stock prices are stagnant. Something that simply isn't possible using shares alone. Though premium collection is not the focus of this newsletter, we'll explore it from a higher level as it has become more popular.

Make sure to attend the ***Morning Call*** each Wednesday morning at 11:00am Eastern Time.

This Week's Trade Ideas:

The Great Triangular Consolidation Phase of 2018 Lulls On…

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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 14 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!

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**:

We've said this many times and the bulls have saved the day many times over the past 9 years, but we'll say it again: ***"The bulls better step in soon and levitate stock prices away from the danger zone or things could become very ugly, very quickly."***

And that friends, is EXACTLY what they did! And then some. They goosed markets from breakdown levels all the way up to BREAKOUT levels. "Can they push through?" is the big question at the moment. We're thinking they can, but we also know that things could change quickly and dramatically!

Technicals:

Will be discussed in-depth in the **Advantage Point Morning Call** webinar.

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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:

For the second week in a row, a recap of the prior week is quite easy, brief and FRUSTATING.

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.

Bullish idea **ORCL**, has simply not surpassed our trigger level on the close. NOR did our bearish ideas in **VWO** and **FE**. They did appear to be ready to break down, but **AAPL's** save of the markets spilled over into those names as well but did not help **ORCL** enough. There's a reason we pick the triggers that we do and the past few weeks have taught us again and again how important those levels are to the process.

Bullish mentions, **MSFT, INTC, MDT, LVS, TXN, TOL**, all attempted to move higher, which is nice at least. MDT and LVS made the best upside moves of the bunch.

Bearish mentions were, **RSG, IEMG, EL****. **RSG** continued to move down but we updated on that one with respect to closing it out to avoid earnings release on 5/2 to avoid shenanigans. It did indeed experience an earnings reaction and moved higher. **IEMG** moved lower by a little and remains there and **EL** got smashed but PRIOR to us having a chance to become bears. Again, due to an imminent earnings release. Earnings yet again monkey-wrenched what could have been good stuff for us! ☹

All in all, our mentions were fairly-good ones. Only **RSG** moved against our directional bias and that was only after earnings that we knew to avoid.

We'll close with last week's close since, unfortunately, it still applies:

"When moment to moment news is pushing markets around thus even swing trade durations are curtailed, that's maybe all we can expect while trying to remain relatively safe."

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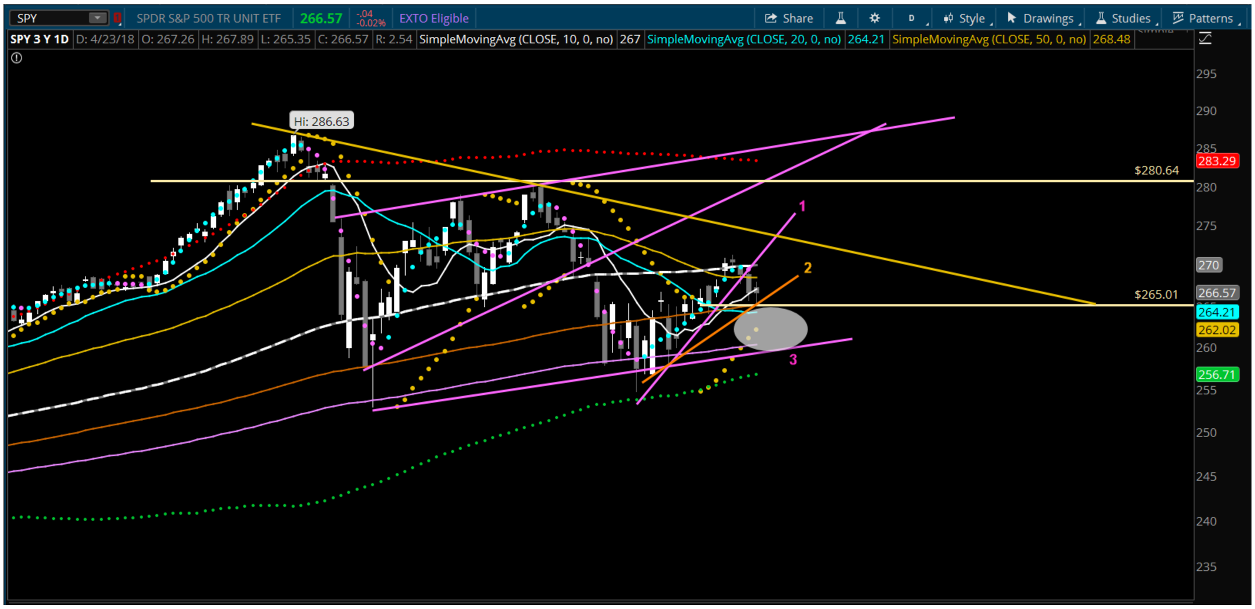
Market Overview

Last week in our **headline and Market Overview,** we made a few notable comments:

Things Better Change Soon or…

AND



Though that chart is from a week ago, the forecast that left us concerned, seems to be playing out(above):

AND

Finally, the lead sled dogs of this market seem to have at least momentarily lost it: (Pertaining to FAANG)

All turned out to be relevant as the Gang did bring the SPX down to our support level, they staged an amazing rally in FAANG (mainly AAPL, more on that shortly) to save the market leadership and goose the indices, and thus they did change things soon! We thought this:

visit of the 200 SMA and support nearby it will be under attack in the not so distant future... may be happening as we type. Things, at this writing, have deteriorated again and rather quickly:

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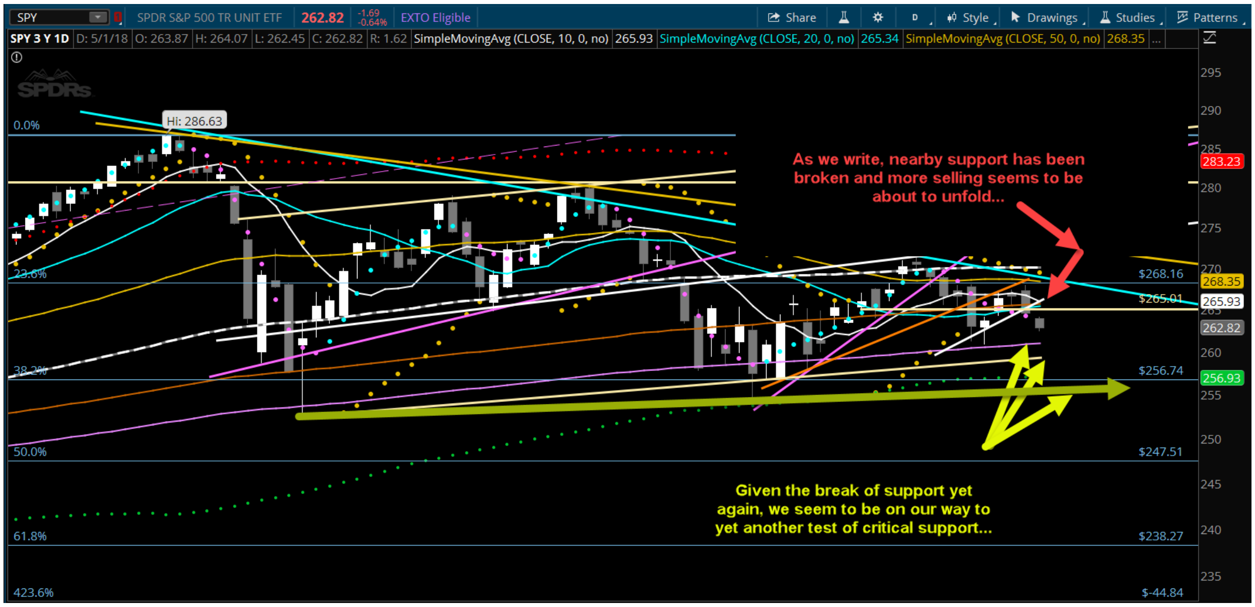
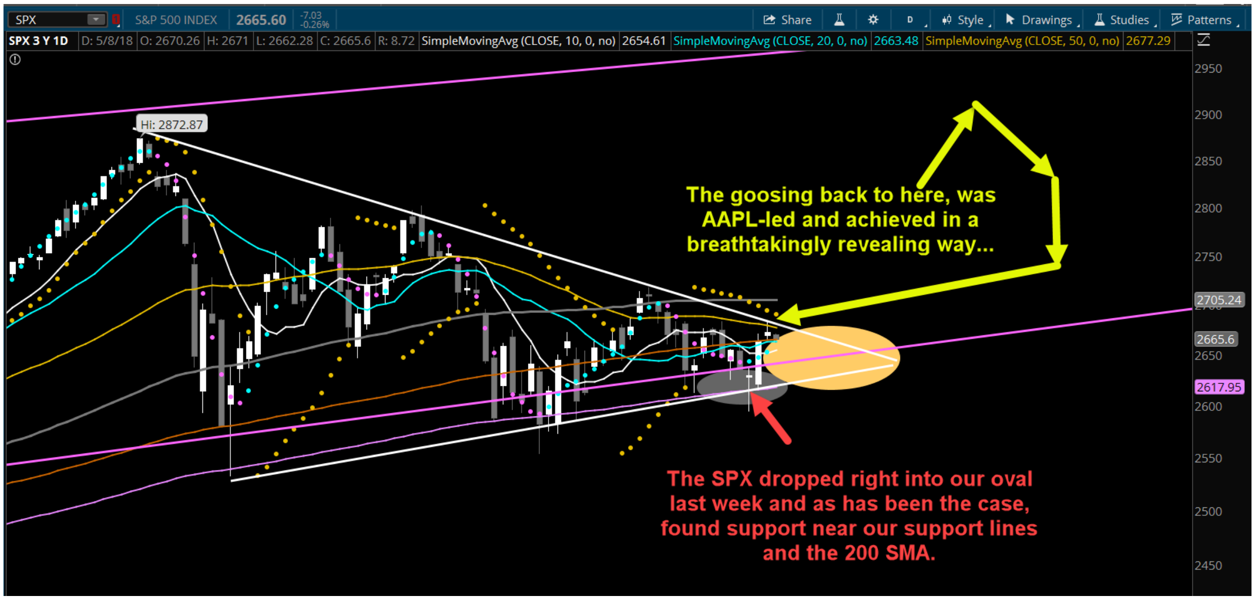
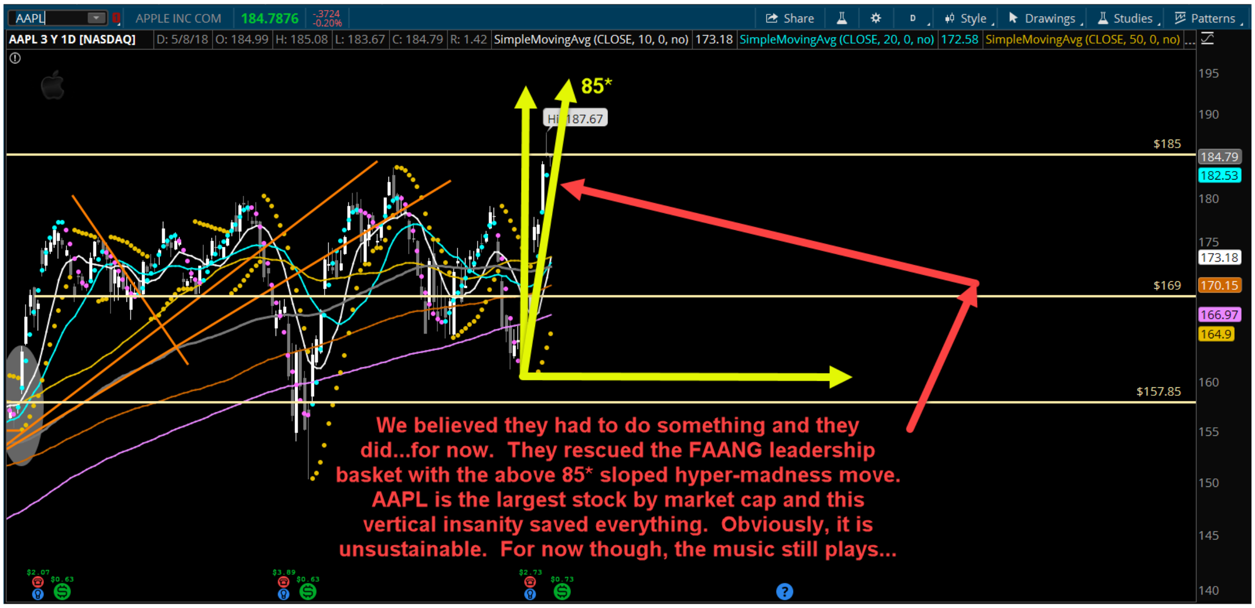


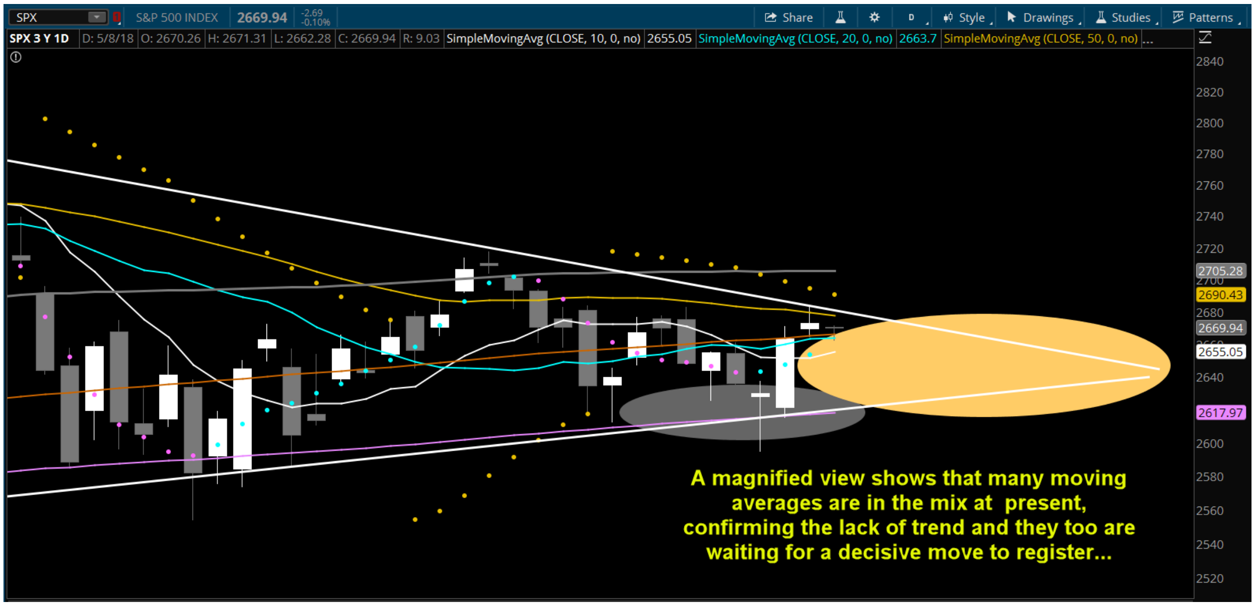
Which happened as we expected. But then this followed, so let's review, first, the SPX once the above scenario played out:



To put things in another yet similar perspective, the Gang rallied the Dow Jones Industrial Average by nearly 1000 points in about 2 trading days of time! A mere 4% in 2 days! Driven mainly by AAPL:

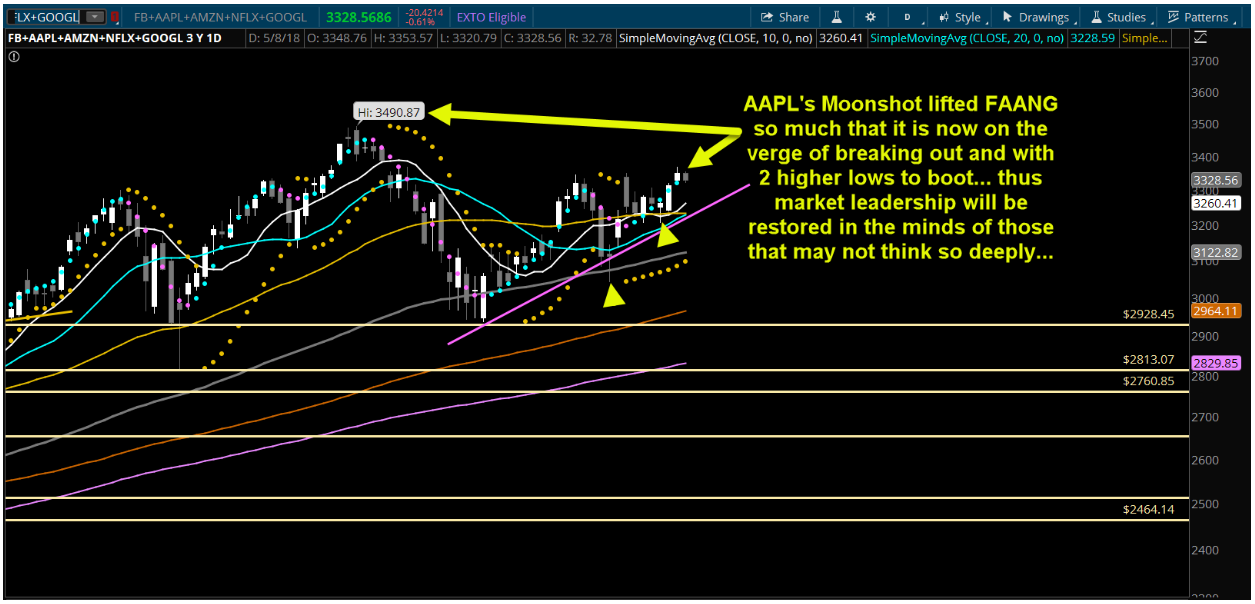


In one of the most brazen "goosings" we've ever witnessed, the gang jammed AAPL up nearly 17% in just barely over one week's time! The largest market cap company in the world was worth more than 17% of what it had been just one week later! As can be seen on our chart above, that type of movement is unsustainable, but they did what they had to do to *kick the can* further out in time. Regardless, they achieved what they set out to: saving the markets from massive damage that would likely result if the SPX fell below the key support levels mentioned above. Naturally, their efforts were aided by a short-squeeze as it is likely that many read the poor market action and jumped on the bearish momentum which was reversed take-no-prisoners style and brought us to the other side of our triangle. Our triangle has proven reliable but do note that we're approaching the apex (the chart above the chart above has a peach oval) and thus we should begin to see a break in one direction, or at least a head-fake that way!

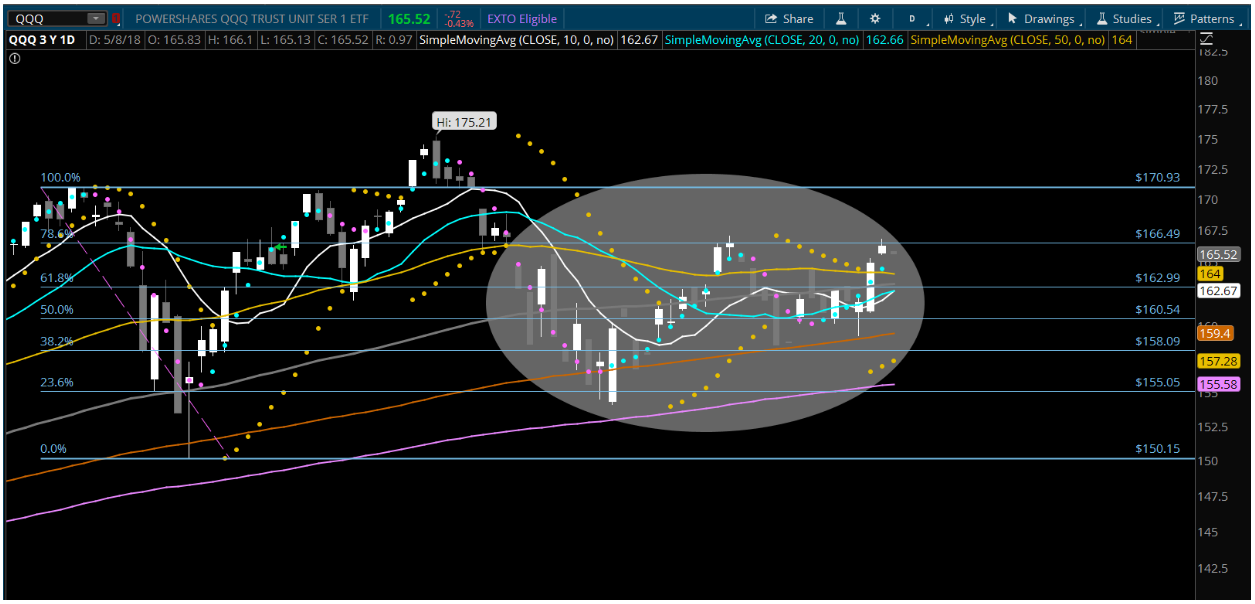


So...yet again we find ourselves STILL within this symmetrical triangle and the movement from support to resistance and back again continues to tighten leaving less and less opportunity to ride trades in either direction. This constriction should end soon, but it won't be soon enough for directional swing traders as this news-driven environment has been a squirrely one in which to attempt to trade.

At this very moment, and moments are fleeting (as has been demonstrated time and time again recently in the markets), we're thinking that things are leaning more bullishly from a technical perspective, behold FAANG:



And thus, as with FAANG, goes TECH:



As can be seen, TECH in the form of the QQQ, has a similar look to FAANG and is very close to eclipsing a key high and thus making a higher high…

Circling back to the S&P 500, though not looking as perfectly poised as FAANG and TECH, it and the DOW looking very similar as well, it isn't very far from surpassing a key level to the upside and we all know what that will portend:

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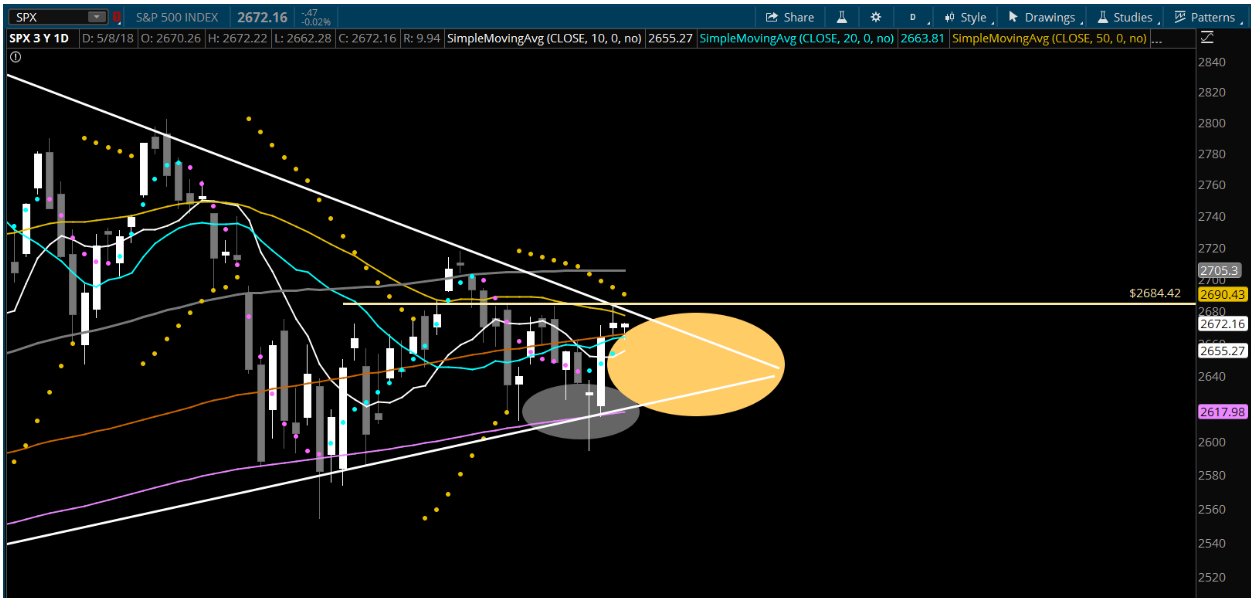

Thus, as we move to the calendar, things look poised to move higher with a little more push. Can they achieve it? We think so, but we're prepared for yet another failure to do so as well…

The calendar leans towards the light-side this week with a few FED speeches remaining and a few reports. Once again, the news will be what THEY make of it. No guesswork here aside from the fact that the bulls hold the baton until further notice.

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This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, MAY 7					
2 pm	Tom Barkin speech				
3 pm	Consumer credit	March	$12 bln	--	$14 bln
3:30 pm	Rob Kaplan, Charles Evans panel				
TUESDAY, MAY 8					
6 am	NFIB small business index	April	104.8	--	104.7
10 am	Job openings	March	6.6 mln	--	6.1 mln
WEDNESDAY, MAY 9					
8:30 am	Producer price index	April		0.3%	0.3%
10 am	Wholesale inventories	March		--	1.0%
1:15 pm	Raphael Bostic speech				
THURSDAY, MAY 10					
8.30 am	Weekly jobless claims	5/5		215,000	211,000
8:30 am	Consumer price index	April		0.3%	-0.1%
8:30 am	Core CPI	April		0.2%	0.2%
2 pm	Federal budget	April		--	$182bln
FRIDAY, MAY 11					
8:30 am	Import price index	April		--	0.0%
8:30 am	James Bullard speech				
10 am	Consumer sentiment	May		98.7	98.8

Below the Radar

It’s not just us, several others noting that, for the moment, the bulls seem ready to strike again:

The chart above comes from, frequently cited in **BTR,** writer Lance Roberts. Here are a few comments that he concluded with:

If the market does break down out of the current consolidation process, the decline could well be fueled by a sudden shift out of long-asset exposure. In other words, investors haven’t “panicked” yet.

While “everyone loves a good bullish thesis,” ***the reality is that several changes are occurring simultaneously that have chipped away at the markets previous pillars of support:***

- *The Fed is raising interest rates and reducing their balance sheet.*
- *The yield curve continues to flatten and risks inverting.*
- *Credit growth continues to slow suggesting weaker consumption and leads recessions*
- *The ECB has started tapering its QE program.*
- *Global growth is showing signs of stalling.*
- *Domestic growth has weakened.*
- *While EPS growth has been strong, year-over-year comparisons will become challenging.*
- *Rising energy prices are a tax on consumption*
- *Rising interest rates are beginning to challenge the valuation story.*

While there have been several significant corrective actions since the 2009 low, ***this is the first correction process where liquidity is being reduced by the Central Banks.***

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*The current correction process is coming to an end, and soon. **The only question is simply which way it breaks?***

My suspicion is that even if the market breaks out to the upside, the advance may be somewhat limited as investors remain way too "complacent" currently.

And that's how we'll get started! We must keep in mind that this marketplace has become **"what have you tweeted for me lately-ville"** at this point! Long-standing concerns have become current issues and very current ones at that. We must stay in the here and now to try to keep pace with what's happening between tweets! That means a shorter and more current **BTR** than in months past.

Case in point, as we're writing, Trump has left the infamous Iran Deal behind and shortly after this item appeared:

Defense Stocks Jump As Israel Opens Shelters, Puts Troops On "High Alert For An Attack"

by Tyler Durden
Tue, 05/08/2018 - 14:16

55 SHARES

The Israeli Defense Force says it has identified "unusual movements of Iranian forces in Syria" and has responded by ordering the opening of shelters along the Golan Heights – its border area with Syria – and ordering its troops to be on "heightened alert" for an attack.

According to Reuters, Israel has instructed local authorities in the border region to "unlock and ready [bomb] shelters".

Amichai Stein
@AmichaiStein1

#BREAKING: Israeli IDF says it has identified "unusual movements of Iranian forces in Syria", ordered the opening of Shelters in the Golan Heights and are saying: "We are on hightend alert, and forces are deployed & we are ready for all scenarios" (Video: @IDFSpokesperson)
2:14 PM - May 8, 2018 · Israel

4 · 16 people are talking about this

So, while we may be ready to lean a little more towards the bullish side, we realize that we may have to change on a dime and nothing will be resolved until we move beyond the current "**coiled spring triangle**" note above by Roberts and further above by Us in **Market Overview**.

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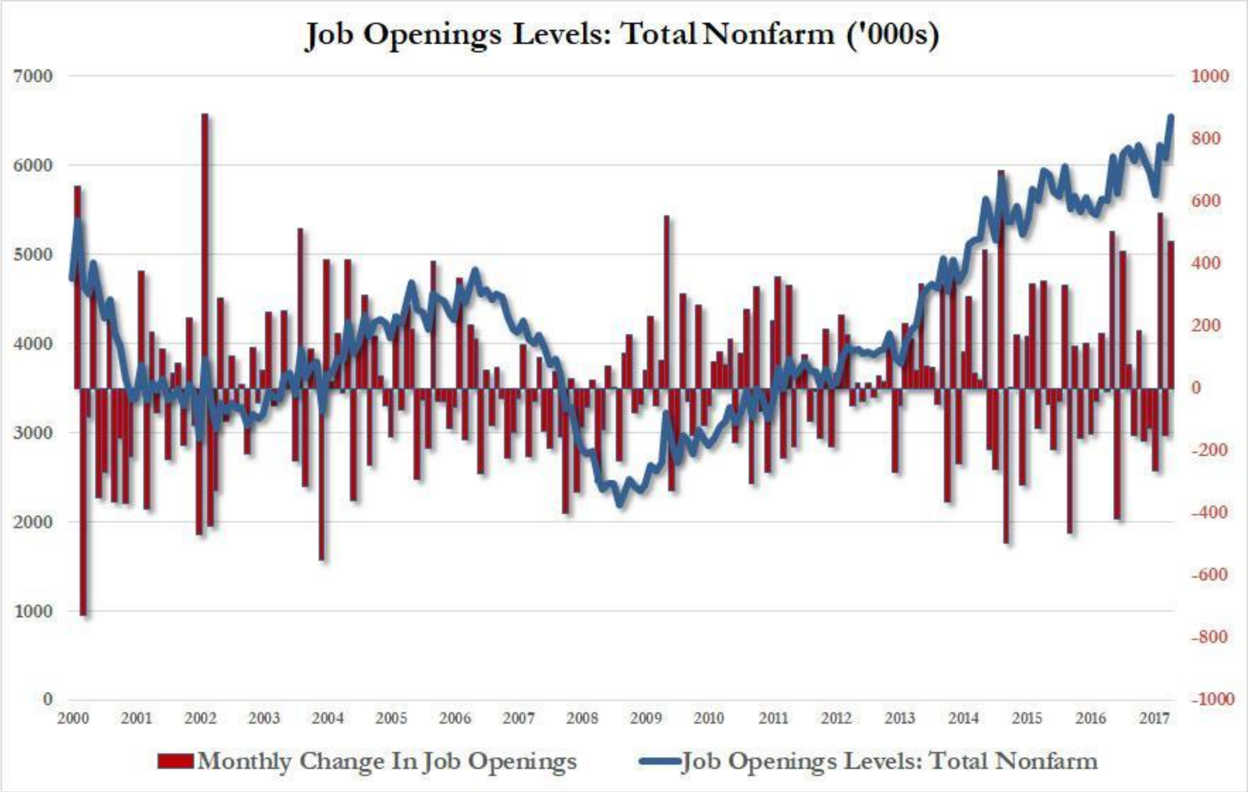
A little counterbalance to the concerns lurking out there is this bit of info on job openings:



If reading the chart above leads you to conclude that Job Openings are at an all-time, then you win! Because they are! That would seem to be a very good thing as that means that at this late stage of the cycle companies are looking to hire to EXPAND. We'll have to see how the future treats this development but naturally, with the indices trapped in such a wound-up trading range, folks are concerned that the data above will force the FED's hand and even more rate hikes will be on the way. This is the kind of thinking that usually follows euphoric periods (January!). Folks seem flummoxed after finally getting exactly what they've been craving for several years! (Be careful what you wish for! Or Be careful if the FED gooses things too long! Take your pick) Alas, the Great Triangular Consolidation Phase of 2018! (As it's likely to be known)

We've covered it a little bit of this lately and here's just a tidbit for now, but the Emerging Markets/Global Growth story has a crack in it the won't self-repair quite yet. Even CNBC has touched on it, and, since it's bearish in nature, that's news! BofA touching on it though, is standard stuff. They're concerned as what they consider the best predictive data they have on it, South Korean Export Growth, is tanking:

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Chart 1: South Korean export growth, a great lead indicator of global EPS, just turned negative

Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg

And finally, something very timely to put ***our Triangle*** into perspective. As if there wasn't enough uncertainty!:

https://www.marketwatch.com/story/goldman-joins-the-cash-is-king-bandwagon-amid-market-uncertainty-2018-05-08

Goldman is upgrading cash! They've joined Morgan Stanley and Vanguard in this regard. Here's Goldman's take in a nutshell:

"Despite volatility settling from its highs year-to-date, conviction levels are low near-term as the growth/inflation mix has worsened and policy uncertainty remains elevated," the note read. "Bonds have been under pressure in the U.S., while equities remain stuck in a 'fat and flat' range."

And now Morgan Stanley:

*MS's Wealth Management's Global Investment Committee said it was "focusing more on cash as a critical asset class for 2018," citing **"this backdrop of an increasingly pricey U.S. equity market**, and extremely rich credit market and **rising global rates.**"*

And now, Vanguard, which states things very directly:

"F**or global stocks and bonds remains the most guarded it has been in ten years**."

Is there any wonder that the equity markets have been trapped in this Triangle???

Let's Win by NOT Losing! - Tread Lightly! - Bank and Roll!

Options Academy

Of late, we've been asked more and more about the concept of "premium collection". Perhaps the lack of a dominant market trend has led our weekend seminar guests to wonder about what other ways may exist for them to profit in the markets. Fortunately, options allow us to profit even when stock prices are stagnant. Something that simply isn't possible using shares alone. Though premium collection is not the focus of this newsletter, we'll explore it from a higher level as it has become more popular.

Simply put, premium collection is an attempt to profit by selling options that have extrinsic value. As many know, the extrinsic value portion of an option's value is also known as time value. It will dissipate to ZERO at expiration. As time runs out at the option's expiration date, so will it's time value. Though there are many ways to engage in premium collection, we're going to focus less on strategies and more on concepts, at least at this juncture. Just keep in mind that it can be done in trending conditions and non-trending conditions. So, essentially, it is readily available in all market phases. We must apply it differently though depending on market conditions. That's where the proper selection of strategy becomes crucial, so we'll keep it simple and higher-level for now.

As we noted above, premium collection banks on something very bankable; an option's time value dwindling to ZERO at expiration. It's MOSTLY (almost 100%) true that options will either only be worth their intrinsic value or ZERO at expiration. That is, they'll be in-the-money by a certain amount or simply finish out-of-the money and worthless. Every now and then, an option may go out still bid above $0.00, but that's very rare percentage-wise compared to options that finish in a clear-cut manner with NO EXTRINSIC value remaining. Taking these realities, a little further, it should be clear that we need to focus on selling options that have entirely extrinsic value to profit from collecting premium. "Premium" is truly only time value aka extrinsic value. Thus, we shouldn't expect to sell an option that is mainly made up of intrinsic value and profit greatly from it due to the passage of time. NO, we must sell options that are entirely comprised of time value. That limits what we should sell but it helps in other ways too, like avoiding assignment, and ideally by boosting our probabilities for success. But, to be more direct, we need to sell ATM and OTM options. Naturally, if we sell ATM options that will bring in the most premium since ATM options have the most extrinsic value of them all. However, by selling further OTM options, we bring in less pure premium, but we allow more cushion for stock movement that will not hinder us in any way. Selecting the proper options to sell???? It's a balancing act so to speak, and there are many variables and thus we'll reserve that discussion for future **OA** installments. Let's get back to other key thoughts…

If you're familiar with the Greeks, you may already have guessed that we seek to profit from THETA, which is the Greek that describes how much an option's value is set to decay in a day in dollar terms. Please do not conflate this with CREDIT spreads. Many new-to-options folks believe that ONLY credit spreads make it possible to profit from premium collection. This simply isn't the case. DEBIT spreads can be structured to thrive on theta as well. So, let's not worry about those types of things and let's keep in mind NET Theta, as in, the amount of Theta set to come our way due to how we've structured our premium collection strategy! That's what matters most!

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As many that have learned about the decay curve will recall, we can profit the most by consistently selling near-term options as opposed to those further out time/further back on the decay curve. Why? Well, we know that options lose their time value the most rapidly in the final weeks and days of their lives. If we want to make the most over time, we need to focus on selling more often. At times and due to skews, it can make a little more sense to go out further in time to sell but for the most part, selling the next expiration or second one out, consistently, is a better way to go IF you can handle the greater activity required to manage such positions.

We haven't discussed how powerful this process can be when compounded over a year's time nor have we discussed the finer points and how these approaches crush the dividend dreams of stockholders. Perhaps we'll explore those and other premium collection concepts in the near future.

If you'd like to inquire about learning these techniques in ridiculous detail (😊), just let us know.

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