MARKET TRACTION

Last Week's Thin Line Gave Way – Is it Finally Retest Time?

This Week's Trade Ideas:

This is a very difficult week with the holiday and super-oversold conditions so be careful. Few names are at ideal levels for proper trades at the moment.

Bullish Ideas: (View Webinar)

AMAT > Applied Materials Inc. > $35.77 Last. Buy the Dec. 21st 35 Calls for $2.45 or less with a close or anticipated close above $36.08 in an up market with expectations for continued strength in the major indices.

Bullish Mentions: **(View Webinar)**

Based upon closing prices and all assume an up market with expectations for continued strength in the major indices.
A, ICPT but it is in a triangle formation, so the market should be coming back strong to consider.

Bearish Ideas: (View Webinar)

XOM > Exxon Mobil Corp. > $76.97 Last. Buy the Dec. 21st 77 Puts for $2.35 or less with a close or anticipated close below $76.37 in a down market with expectations for continued weakness in the major indices.

Bearish Mentions: **(View Webinar)**
Based upon closing prices and all assume a down market with expectations for continued weakness in the major indices.
EPD, V, AXP.

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:

Remaining nimble is a focus in the newsletter and in our **Morning Call** webinar.

Outlook:

Last week's outlook was very short:

The outlook this week is, barring something unforeseen, that the selling is on the verge of picking up again and if it does, beware!

After some volatility that amped up as we thought it may, that's what we've gotten. Now, we're almost in the same position as we were then. Selling could really pick up, even more, if the lows we've been focused do not hold. On the flip side we must note another possible that seems lesser at the moment. A rally from those lows could be the start of a double bottom pattern from which to launch an end of year rally (Save the Year!)

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.)

Recap of Last Week:

Last week is easy to recap but it was somewhat disappointing. All bullish names were a "no go" as last Wednesday was a brutal one for the indices. A rally attempt concluded the week, but it couldn't break the market out above resistance and then Monday brought more brutal selling.

As for the bears, that's where the disappointment is to be found. Bulls not running is to be expected and we never considered them as a possibility until Monday when we noted that a strong day could result in a breakout attempt. Obviously, that wasn't to be which brings us back to the bears.

T was our bearish idea and it finally got whacked today and may yet close in on our target.

As for the mentions:

PFE - Pure disappointment. That's it.
APA - Is giving way today after trying to lift.
IBM - Also finally got hit today and could descend further in a retest scenario.
K - Has fallen, but not that much.

The summary is that we went prudent as our bias over 7 weeks ago but have stuck and moved with markets as best we could. This week gave us a look at the negative side to safer picks as we seem to be witnessing the retest but we've yet to get big drop from these names. It happens but it's not fun ☹

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Market Overview

We're off and running with a few charts from last week so we can pick things up from there:

And now this week's pictures that do their own talking:

We mentioned that FAANG may continue to act as millstone and it seems to have done that. The poor performance in those heavyweights is dragging stock prices and the mood of investors much further south as we write.

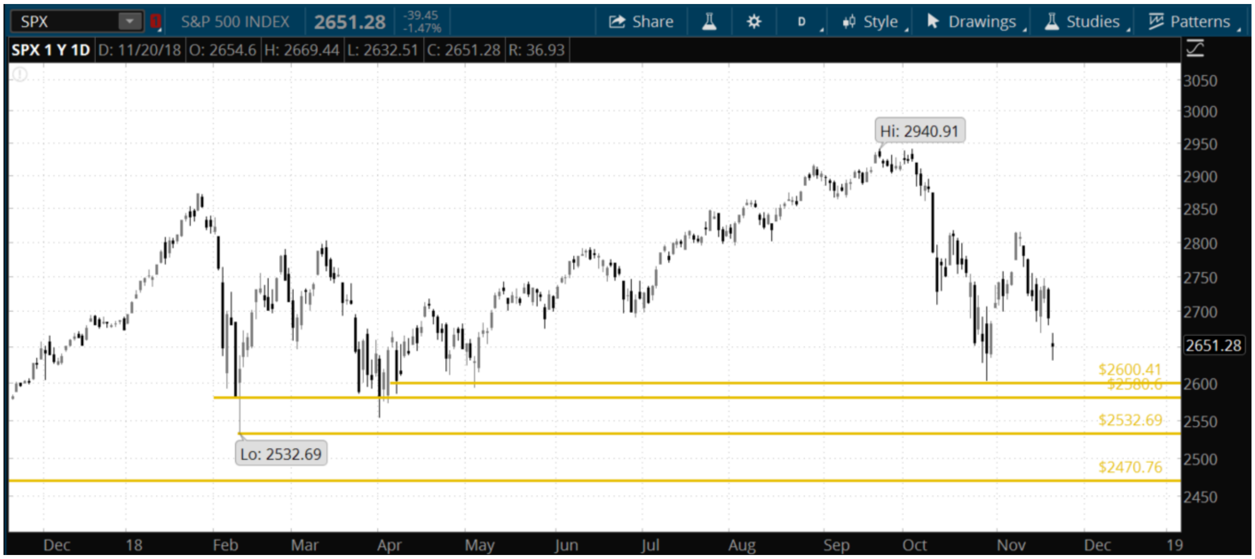
We'll jump back to last week because more may be relevant from it:

The final "whoosh" we speak of during these periods has yet to happen, but it isn't a prerequisite or lock to happen each, and every time.

That remains true, but it seems we're on the eve of a whoosh. The market continues to act poorly and save for "surprise" good news, the technicals are becoming heavier as the fundamental clouds gather and loom.

Quite interestingly, it still seems that way. We've had some poor days, but we haven't had the whoosh yet. The bottom line is that the indices remain below trend and below the vaunted 200 SMA after a failed attempt to reclaim both and are making lower lows again. As correlations have gone to near 1.0, the SPYs and FAANG cover it. It's becoming more and more likely that we'll have to wait just a little longer to see if the lowest low holds on the retest and possibly produces a double bottom or if an entire round of additional selling will begin.

Here are the next obvious levels in the SPY:



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Thanksgiving will most certainly affect the week in that little remains on the release front after Wednesday morning. However, that morning has quite a bit of data due out and could allow some to feast in that news-driven movement. Typically, Thanksgiving normally subdues the markets and they tend to rally around it. Every year is unique, and we need not say more since this year has certainly been its own year with long-standing risks finally being appreciated by market participants and especially so of late.

This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, NOV. 19					
10 am	Home builders' index	Nov.	60	--	68
TUESDAY, NOV. 20					
8:30 am	Housing starts	Oct.	1.23 mln	1.232mln	1.21 mln
8:30 am	Building permits	Oct.	1.26 mln	--	1.27mln
WEDNESDAY, NOV. 21					
8:30 am	Weekly jobless claims	11/17		215,000	216,000
8:30 am	Durable goods orders	Oct.		-3.4%	0.7%
8:30 am	Core capex orders	Oct.		--	-0.1%
10 am	Existing home sales	Oct.		5.18 mln	5.15 mln
10 am	Consumer sentiment	Nov.		98.3	98.3
10 am	Leading economic indicators	Oct.		--	0.5%
THURSDAY, NOV. 22					
	Thanksgiving Day holiday None scheduled				
FRIDAY, NOV. 23					
9:45 am	Markit manufacturing index flash	Nov.		--	55.7
9:45 am	Markit services index flash	Nov.		--	54.8

We're including next week's calendar because it contains *big stuff* in the form of GDP on Wednesday followed by the FOMC minutes on Thursday. Given the serious concerns on interest rate direction, both releases could loom large in determining the market's next major leg.

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Next Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	FORECAST	PREVIOUS
MONDAY, NOV. 26					
8:30 am	Chicago Fed national activity index	Oct.			0.17
TUESDAY, NOV. 27					
9 am	Case-Shiller house prices	Sept.			
10 am	Consumer confidence index	Nov.			137.9
WEDNESDAY, NOV. 28					
8:30 am	GDP	Q3			3.5%
8:30 am	Advance trade in goods	Oct.			-$76.0bln
10 am	New home sales	Oct.			553,000
THURSDAY, NOV. 29					
8:30 am	Weekly jobless claims	11/24			
8:30 am	Personal income	Oct.			0.2%
8:30 am	Consumer spending	Oct.			0.4%
8:30 am	Core inflation	Oct.			0.1%
10 am	Pending home sales	Oct.			0.5%
2 pm	FOMC minutes				
FRIDAY, NOV. 30					
9:45 am	Chicago PMI	Nov.			58.4

Below the Radar

Here's a refreshing reprint of a few lowlights/highlights from **BTR's** conclusion last week:

Earnings improvement is unlikely

Earnings deterioration may be likely

The FED is not only raising rates but actively reducing their balance sheet and thus liquidity

The initial tax cut effect may be burning off

Denial seems to still exist among some large shareholders (fund managers)

While the SMART money has Run Like Hell

The SPX is below trend

The SPX is below the 50 and 200 SMA, and the 50 SMA is down-sloping with the 200 looking like it may follow in that regard

Rallies are being sold in a season that's historically very bullish

Another leg lower to at least a retest isn't unlikely and likely is likely. 😉

Here it is: In this newsletter, we went into "prudent" mode in late September and have been happy to remain there. There's a lot of risks out there and that have yet to fully sort themselves out in any way, especially technically. We're forced to, at the very-minimum, remain prudent as a result and are 100% comfortable in being so. Volatility has been here to stay and thus we must trade accordingly because even in selloffs and bear market turns there are sharp rallies just as there are deep selloffs. Quick, nimble hits with aggressive rolls or closures must be the order of the day. When the environment changes, which it clearly has, we must adapt to it, it's that simple. We'll continue playing the game more cautiously until further notice. If the recent lowest-low is taken out, it's likely that the cascade selling we've yet to see, will be upon us and we'll be left wondering what magic the FED has left to save us from what the FED has wrought…

So, that's where we left off. To that list we're now adding this one that comes from the ever-reliable Lance Roberts who combined his along with those of Doug Kass:

Downside Risk Dwarfs Upside Reward.

Global Growth Is Less Synchronized

Market Structure Is One-Sided and Worrisome.

Higher Interest Rates Make It Hard for the Private and Public Sectors to Service Debt

Trade Tensions with China Are Intensifying

Any Semblance of Fiscal Responsibility Has Been Thrown Out the Window

Peak Buybacks.

China, Europe and the Emerging Market Economic Data All Signal a Slowdown

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The Democrats won control of the House in the Mid-term elections which will effectively nullify fiscal policy agenda moving forward.

The leadership of the market (FAANG) has faltered.

This list keeps growing and thus much of what we covered in **BTR** over the year is not above the figurative radar.

This week, we'll briefly focus on some comments from heavy hitters that seemed to help knock stock prices down this week. And, because nearly all of what was **BTR** material, is now being discussed all over business TV, there's no longer as much "stuff to look out for" to mine.

Here's Paul Tudor Jones courtesy of Marketwatch.com:

"From a markets perspective, it's going to be interesting. There probably will be some really scary moments in corporate credit." - Paul Tudor Jones

*Paul Tudor Jones, a hedge-fund luminary, said he's stress-testing his portfolio of corporate debt because he **expects a tumultuous road ahead on the back of the Federal Reserve's apparent commitment to normalizing interest rates** and buttressed by corporate tax cuts from the Trump administration.*

*Speaking at an economic forum in Greenwich, Conn., a hotbed for hedge funds, Jones said the Fed faces real challenges amid **"the end of a 10-year run" of economic growth that many anticipate will soon come to a screeching, cyclical end.***

Ray Dalio is also making news at Marketwatch.com and singing a similar tune:

***"I think we're in an environment where we're going to have low returns going forward for a very, very long time,"** Dalio told Bloomberg **in an interview**. And in a refrain we've heard elsewhere, he says stocks were juiced by a period of lower interest rates and liquidity injections, which has **"largely run its course."** "I think the world by and large is leveraged long," he said, **explaining that low interest rates have fueled buybacks and M&A, boosting stock prices, which also got a lift from the effect of White House tax breaks. "We've pushed assets up to levels where it is difficult to see where you can squeeze that."** His words might be echoing around this morning as investors look down the barrel of another messy day and maybe just wish we could fast-forward to Thursday's holiday.*

Not do be outdone, our friends at Goldman Sachs also chimed in and they're liking cash, YES, CASH!: https://www.bloomberg.com/news/articles/2018-11-20/goldman-says-it-s-time-for-equity-investors-to-boost-their-cash?srnd=premium-europe

*Stock investors have had a great run in recent years, but **with cash now offering positive inflation-adjusted returns, it may be wise to dial back on risk**, according to Goldman Sachs Group Inc. "Mixed-asset investors should maintain equity exposure but lift cash allocations," Goldman strategists led by David Kostin wrote in a Nov. 19 report**. "Cash will represent a competitive asset class to stocks for the first time in many years."***

The call reflects the impact of Federal Reserve interest-rate hikes that have sent yields on money-market funds well over 2 percent -- surpassing the pace of inflation. With the Fed projected to raise its *benchmark by another quarter percentage point next month, and further moves looming in 2019, cash may become all the more attractive.*

As for stocks, investors should tilt their portfolios toward defensive sectors including utilities**, the Goldman strategists wrote. They forecast the **S&P 500 will generate "a modest single-digit absolute return" next year as the "robust" profit and economic growth seen in 2018 slows.

Pick one, pick all, however you read them, those comments are legitimate ones to make and they portend something very different for stock market bulls rather than the steady diet of FED treats they've consumed for the past 9 years.

We're winding down now, and we'll finish with a little from Jesse Colombo at Forbes. Just over a month ago he focused on the VIX and possible surge which is something we've sprinkled in the newsletter ourselves over the past few weeks. We include this as put into perspective just how overbought the market had recently become on some measures:
https://www.forbes.com/sites/jessecolombo/2018/10/02/why-another-market-volatility-surge-is-likely-ahead/#427a85f62435

The stock market has gotten far ahead of itself, which means that it is overdue for another bear market to correct the excesses that have built up. According to the U.S. stock market capitalization-to-GDP ratio (also known as Warren Buffett's "favorite indicator"), the market is more overvalued than it was during even the dot-com bubble:

As my boss Lance Roberts showed, the market is currently at one of its most technically overbought levels since 1981. While the market's short-term trend is still up, investors should be aware that the market action is likely to get violent when the trend finally changes. Though most investors are extremely complacent right now, now is the time to be vigilant and to avoid getting greedy.

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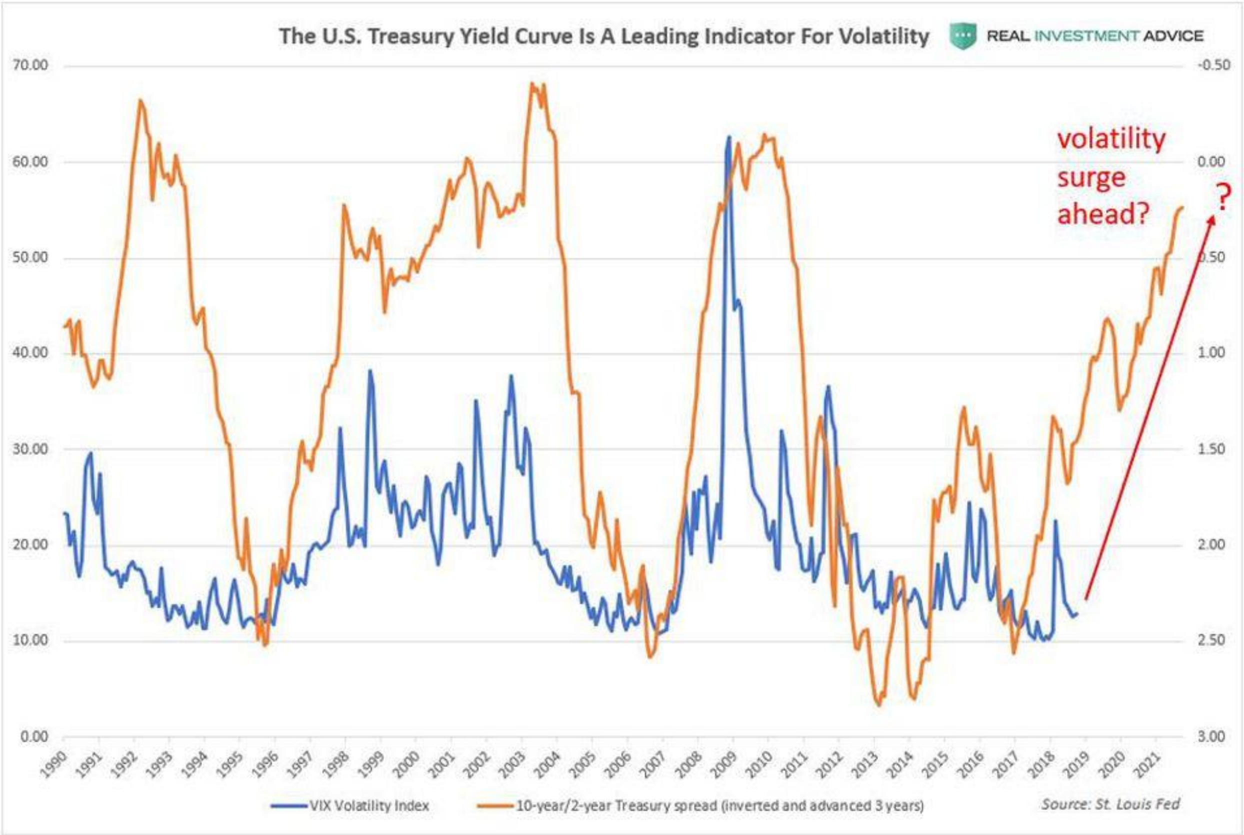
History and what could be happening again:



Bank and Roll until the Volatility goes Cold Turkey!

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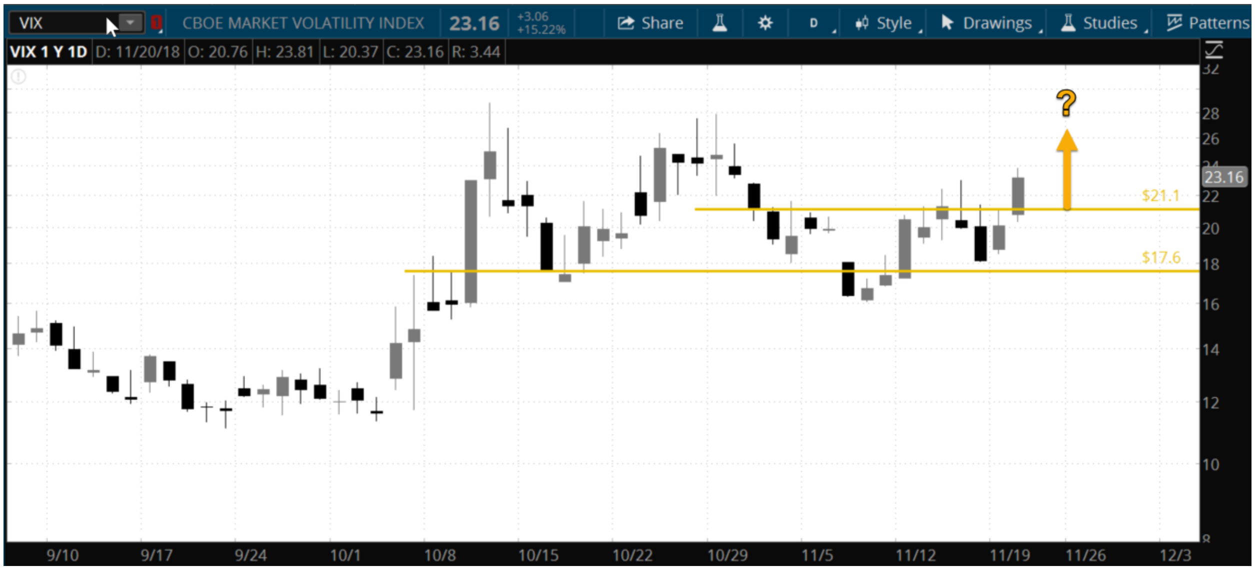
Options Academy

Before we get into this week's **OA**, here's an update on the VIX, which is potentially breaking out and doing so in front of what could be a long holiday weekend. That's impressive and concerning at the same time:



We'll see if the retest we've discussed occurs, and if so, if the lows hold. Otherwise, options insurance is likely to become much more expensive and very quickly.

As for this week, let's talk hedging one more time. The **Collar** strategy is a great one to reach for when you're at peace with not making any big money on upside movement while you keep it in place. Unfortunately, folks trapped in mutual funds can't directly protect those holdings with options, so they're left with purchases of inverse ETFs, VIX products, or with buying ETF puts to attempt to cover their downside risks. All those options can be risky or expensive or both, and a collar is still out of reach because it either wouldn't be appropriate given the product, or it can't be initiated due to a lack of ownership in the underlying shares. So, what's a committed hedger left to do? How would something quite close to a collar sound? Let's take a look at the collar first…

In the collar trade, we're supposed to already own underlying shares of a company or equities-tracking ETF and we add to that the purchase of a protective put along with the sale of a call that helps to finance the insurance we seek and the put provides. This strategy is loved by many a hedger because they feel as though they're putting out very little to nothing (at times) to protect themselves against downside risk for a certain period of time. They're OK with limiting their upside via the call sale against their long stock. They believe that once the trying period has passed, they will lift the collar and be back where they were but after having slept comfortably during market turmoil as they were hedged.

The issue with mutual funds is that options simply aren't available on them and thus hedgers are forced into the ETF options such as the SPYs to use as a proxy. Hedgers have no problem buying puts in the SPYs to help offset potential losses in their mutual fund holdings, it's when they try to sell a SPY call to finance the protective put purchase that the issue arises. As they hold NO SPYs shares, a call sale of that kind would be a naked one which, unless they have very deep pockets with their broker, won't be permitted. So how do we get around it? We hedge so we can hedge!

To the collar we add the purchase of an upside call at a higher strike that covers our nakedness and yet still allows us to own our SPY put with little, or at least less, cash outlay. From current market prices:

SPY Last Price = $265.20

Buy the Dec. 21st 260 Put for protection for $4.70

Sell the Dec. 21st 270 Call at $3.90 to help finance the protective put purchase

Buy the Dec. 21st 280 Call for $1.00 to hedge our what-would-have-been a naked sale of the 270

(Yes, that's a short vertical call spread 😉)

The sale of the call spread brings in $2.90 net to put towards the 260 protective-put that's trading at an elevated price of $4.70 due to market turmoil. Hey, we're late to the game at this point!

On balance we put out $1.80 but we've protected ourselves for the next month and we did it far cheaper than had we only bought the put for protection. And, we can remove this trade anytime we'd like. And we're still long in our mutual fund should the SPYs price rise toward our short strike of 270. Thus, we may "lose" on this package, but we'd make on our holdings to offset. Hedging our naked call in the collar allows us to hedge with the collar.

If you have questions, please ask away in our next **Morning Cal**l webinar. 😋