MARKET TRACTION

A Time Where Nearly Everything is Betwixt and Between

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

Bullish Ideas: (View Webinar)

***SO > Southern Co. > $45.67** Last. Buy the Dec. 21st 44 Calls for $2.40 or less with a close or anticipated close above $45.70 in an up market with expectations for continued strength in the major indices.

*****EARNINGS DUE OUT IN MORNING**! THIS WOUD ONLY BE FOR POST-EARNINGs FOLLOW THROUGH IF THE STOCK BEGINS TO PERFORM IN AN UP MARKET!

<u>Bullish Mentions</u>: **(View Webinar)**

Based upon closing prices and all assume an up market with expectations for continued strength in the major indices.

V, MA, AXP, PYPL, HLF, LRCX, Z.

Bearish Ideas: (View Webinar)

Plan to re-scan if indices become heavy again.

None at this time due to so many names being deeply oversold.

<u>Bearish Mentions:</u> **(View Webinar)**
Based upon closing prices and all assume a down market with expectations for continued weakness in the major indices.

LLY.

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 and will be so.

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Outlook:

Here's last week's Outlook with added emphasis:

We didn't buy last week's early rally: "It could be, but our gut still isn't buying that it's over."
We're not buying this one fully, ***but, with so many stocks at extremely oversold levels, we are much more open minded with respect to a rally.*** *However, without having seen a final wipeout phase, we can't say this is over yet.*

Writing this Tuesday, we still feel as we did a week ago **EXCEPT** we have the midterm election fallout to face in less than 24 hours. We aren't fully convinced that the corrective phase is over but still see that stocks want to rally at this snapshot in time. That can change or accelerate very easily given the outcome of elections. Guessing is always tough, but these midterms seem to have many perplexed and unwilling to commit. We typically square up in front of unpredictable events because we feel that guessing is gambling instead of trading. In short, we believe that the election results will drive the markets for at least a short period of time.

On another note and on a side note, we recently learned that we have more company in the camp that believes the short squeeze of a lifetime maybe not be too far away. Late last week it was announced that Trump and China's Xi will meet late this month after the G20 meeting in Argentina. We're digging for dollars on this one and will reveal what we find.

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:

Much like last week, we can only talk about one set of names. Bearish names were non-existent for us last week as we simply couldn't find any that were suitable despite repeated scanning. We went with one bullish idea and several bullish names and fortunately our "the market is really oversold" thesis held up. Our names were safe ones, maybe even safer than usual, but that's "OK" from our point of view because volatility maelstroms tend to be "take no prisoner" and often become news-driven-bi-directional-short-cycle-guessing-games, which are games we prefer not to play, at least, aggressively.

We summarized last week this way:
"Last week our bears all delivered to one degree or another, but we wanted more and hoped to see it with a final round of cascade selling but that's yet to come. ***All you can do is play the game the smart and safe way and hope. That's what we'll continue to try to do****."*

And that is what we'll continue to try to do. Last week was somewhat similar to the prior week but reversed in polarity. With the exception of our **GIS** idea, which became very strangely heavy from the start and never could attempt to trigger, most of the other names did all try to move up somewhat.

HRB – Moved up through the trigger level but stopped right at the nearby target level 1.
VIRT – Finally moved up through the trigger level for over $1.00, which is decent for a low-priced stock, but it hasn't powered to level 2 quite yet and is running out of time due to an imminent earnings release.
ORCL – Is the dud of the mentions. It won't fight its way past the trigger level.
JNJ – Did move up past the trigger and did get very close to target level 1 but it has stopped there.
ETFC – Took off right away and moved up very nicely, by over $4.00. It is about to hit the 50 SMA it would seem. Still has a little room to make it to our next target level.

The bottom line is that we're running out of time due to the midterms. Our take is that stocks would continue to rally for at least a little while longer normally, but the midterms are likely to determine all in the near term.

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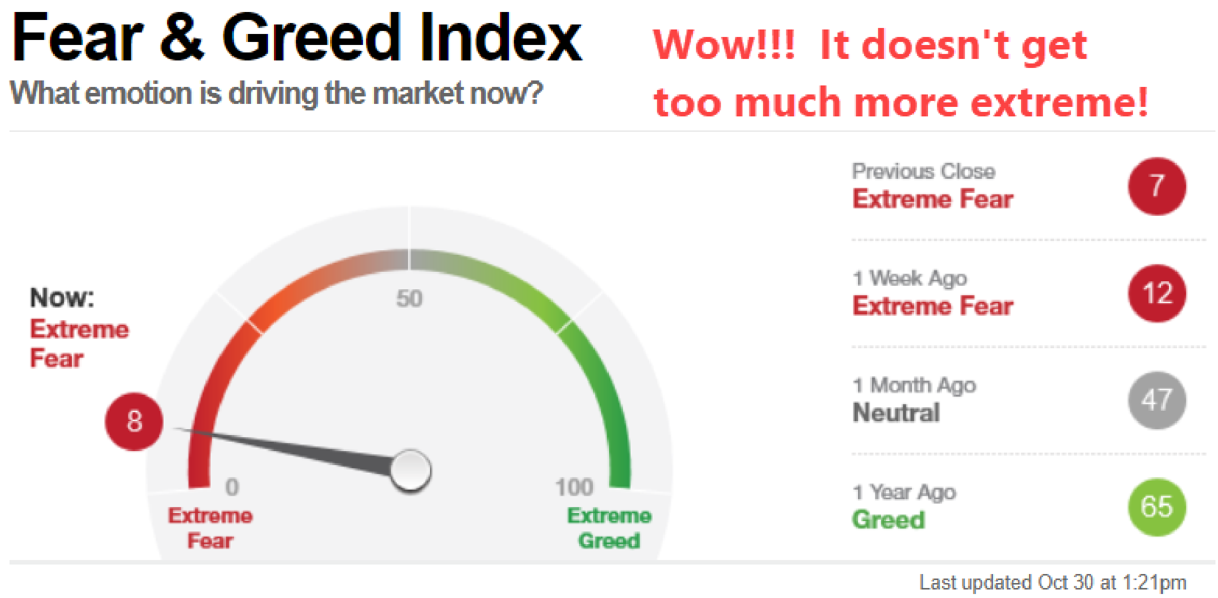
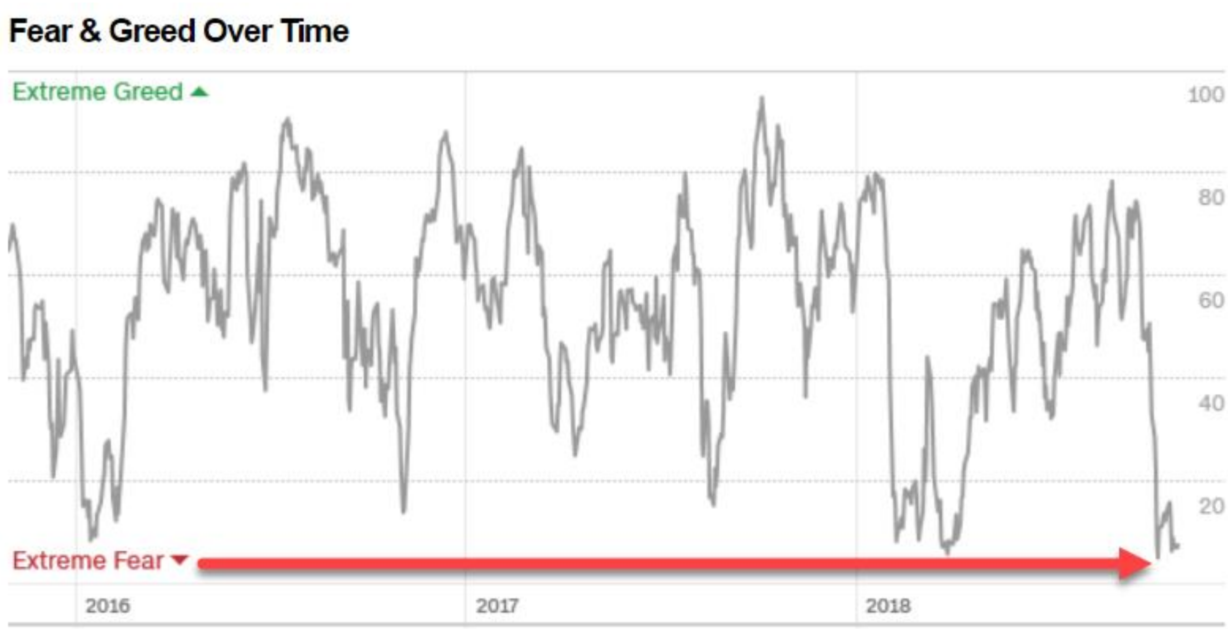
Market Overview

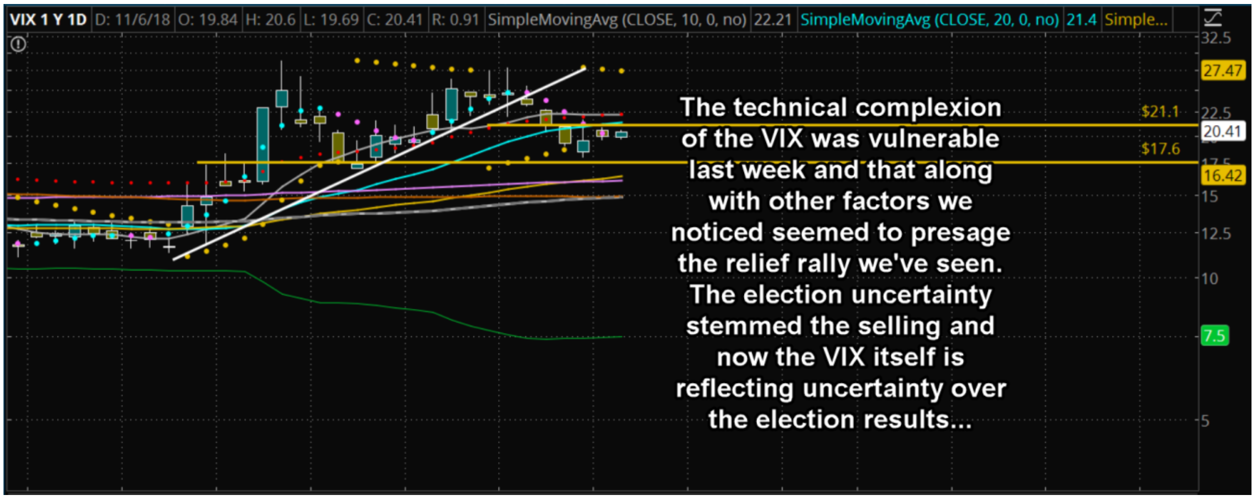
Last week we thought that Apple's earnings could be used to moved stocks higher along with conditions being very oversold. Here's material from last week's **MO**:





… the VIX, looks VULNERABLE:

And now for this week's VIX etc.:



The VIX was indeed vulnerable but so was Apple! Apple's post-earnings struggle has been significant and may have weighed down the indices, but it hasn't been enough to crush them lower. They've been fairly-resilient and are seemingly waiting to learn of their fate on election night, as we all are!

This week's **Market Outlook** is the easiest of the year: It's a guessing game. That's something we try to avoid as it is not so much trading as it is gambling. If a gun were put to our heads, we'd guess that there's more upside to be had as the retracement from the lows hasn't been all that impressive (leaving room) and we think the bulls want to save their years with less than 2 months remaining until their ***end of year bonuses*** are determined. In their own self-interest, we'd expect them to muster more of a rally attempt than what they've put together so far. They're in control at the moment too, and stocks are still emerging from oversold conditions. However, a gun is not at our heads and for that we're grateful! We don't have a gun pointing at us and thus we choose to remain prudent and that means avoiding guessing! Not being chopped up by news developments is winning from where we sit.

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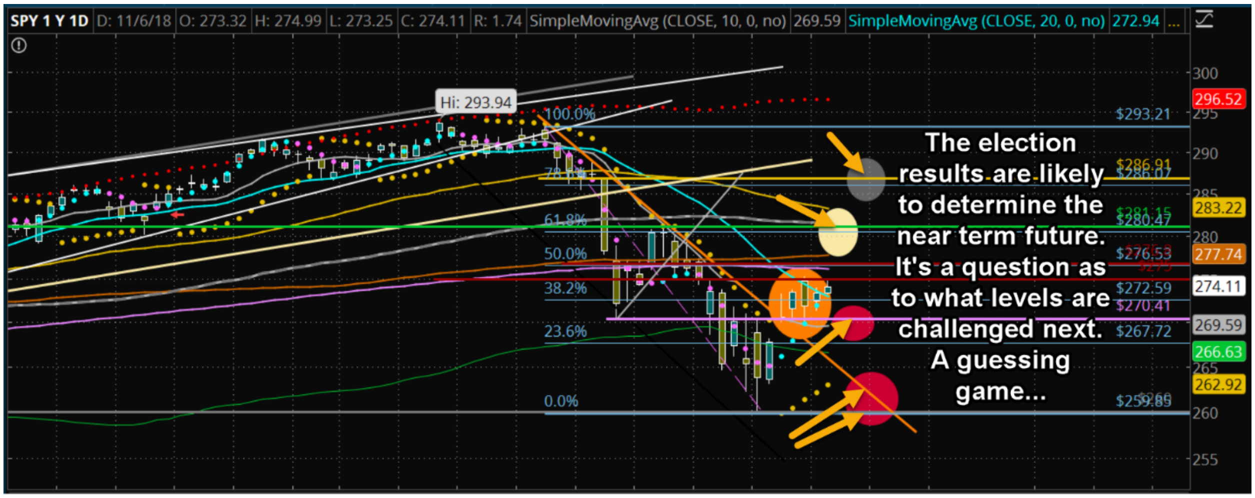
Below, we have pointed out the levels we expect to be most important and we can now say that our levels have served us well for the most part. A few that we thought would matter on the way down, were dispatched in no time, but the eventually the lowest low and other levels subsequent to that low, have been relevant.

If they break through the recent high, they'll attack the next level up and so on. If they break them down below established support, we expect to see our angular support line matter and then possibly a full-blown retest of the low will be upon us. We just can't know…yet. Regardless, the SPY stopped, for now, at the level we'd expect it to stop.



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.

We have a very light calendar this week, but it contains 2 whoppers!

1. Election Results

2. FOMC Announcement

Interestingly, Trump's agenda could survive the election but still get derailed by the FED in the same week! Or it could get **Double Whammy'd**! Or be back in business!

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This Week's Economic Calendar

TIME (ET)	REPORT	PERIOD	ACTUAL	MEDIAN FORECAST	PREVIOUS
MONDAY, NOV. 5					
9:45 am	Markit services PMI final	Oct.	54.8	--	54.7
10 am	ISM nonmanufacturing index	Oct.	60.3%	59.0%	61.6%
TUESDAY, NOV. 6					
	Election Day				
10 am	Job openings	Sept.	7.0 mln	--	7.3 mln
WEDNESDAY, NOV. 7					
3 pm	Consumer credit	Sept.		--	$20 bln
THURSDAY, NOV. 8					
8:30 am	Weekly jobless claims	11/3		210,000	214,000
2 pm	FOMC announcement			2-2.25%	2-2.25%
FRIDAY, NOV. 9					
8:30 am	Producer price index	Oct.		0.2%	0.2%
10 am	Consumer sentiment	Nov.		98.2	98.6
10 am	Wholesale inventories	Sept.		--	1.0%

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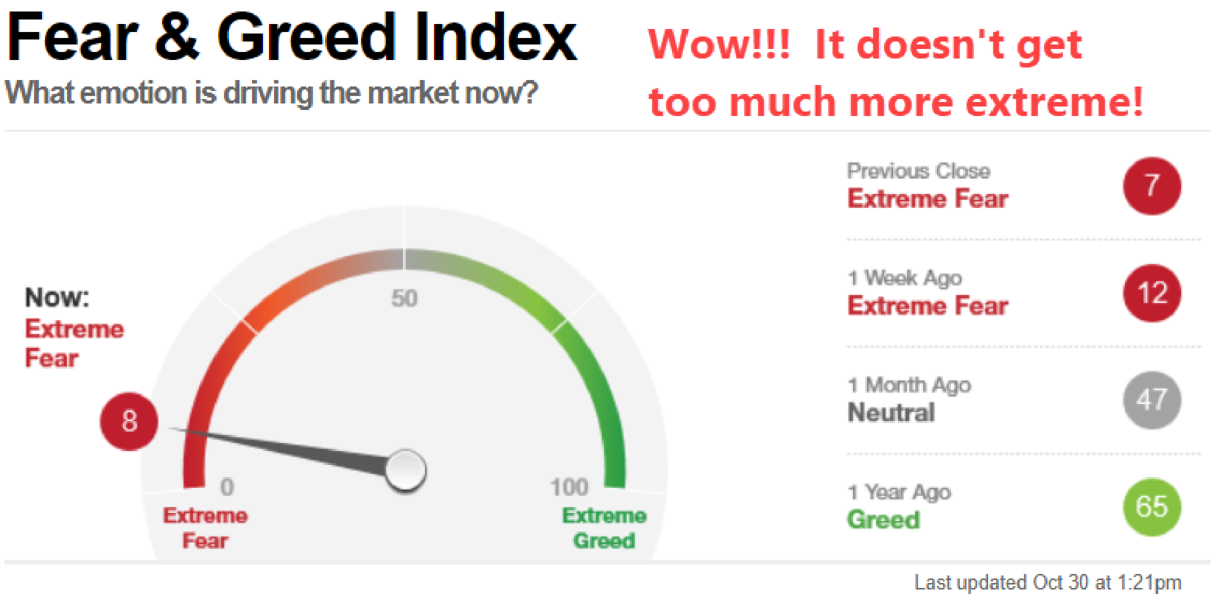
Below the Radar

Last week, **BTR** was more balanced than usual as we started it out very negatively but ended more positively because October was on the way out and the markets were beyond pasted! Additionally, ***Buyback Magic*** was about to resume! A few reminders on both fronts:



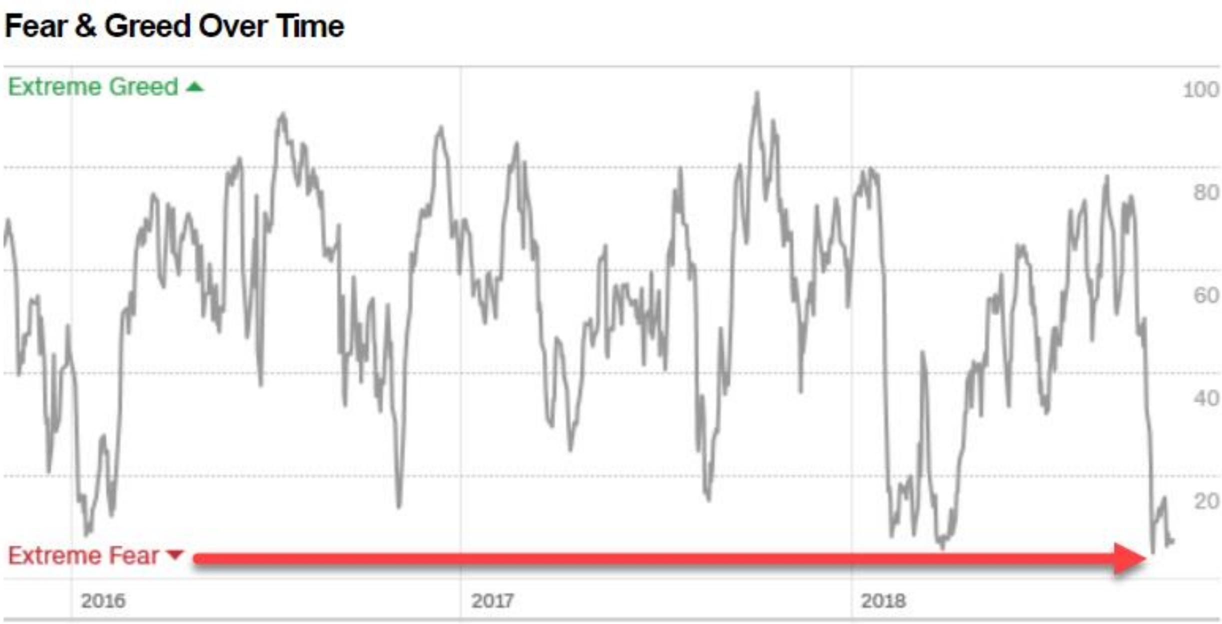


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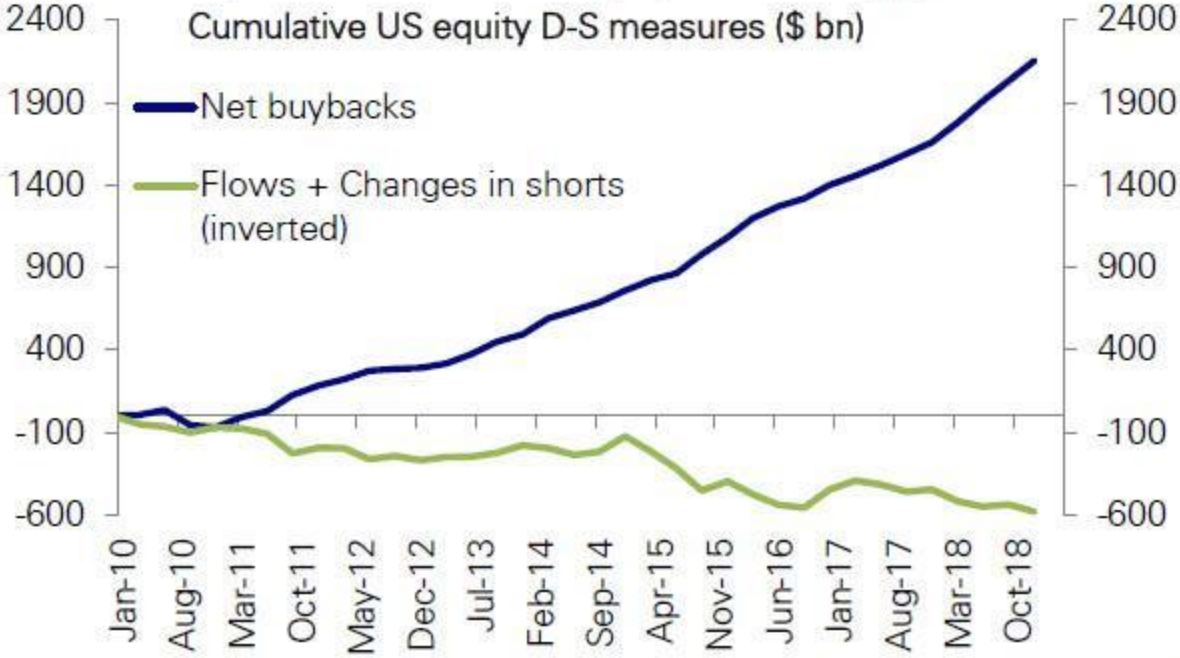
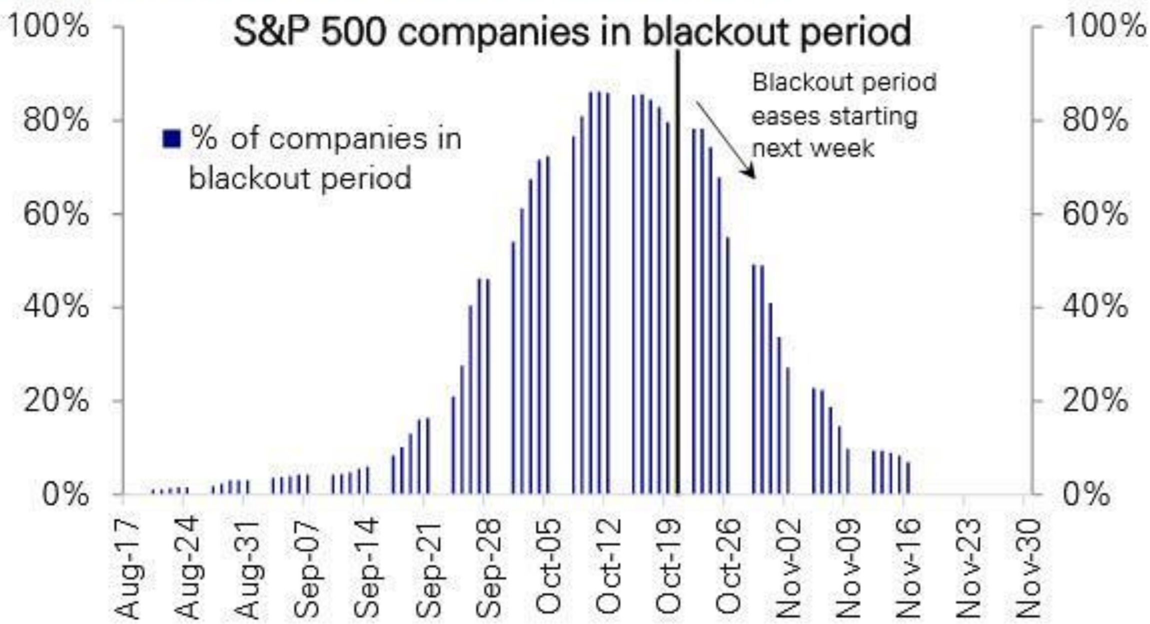
Figure 12: Buybacks main driver of equity demand-supply



Source: EPFR, Haver, Compustat, Deutsche Bank

Figure 7:Blackout period starts to ease next week



Source: Deutsche Bank Asset Allocation & Delta-1 Strategy, Factset, Data as of 18-Oct-18

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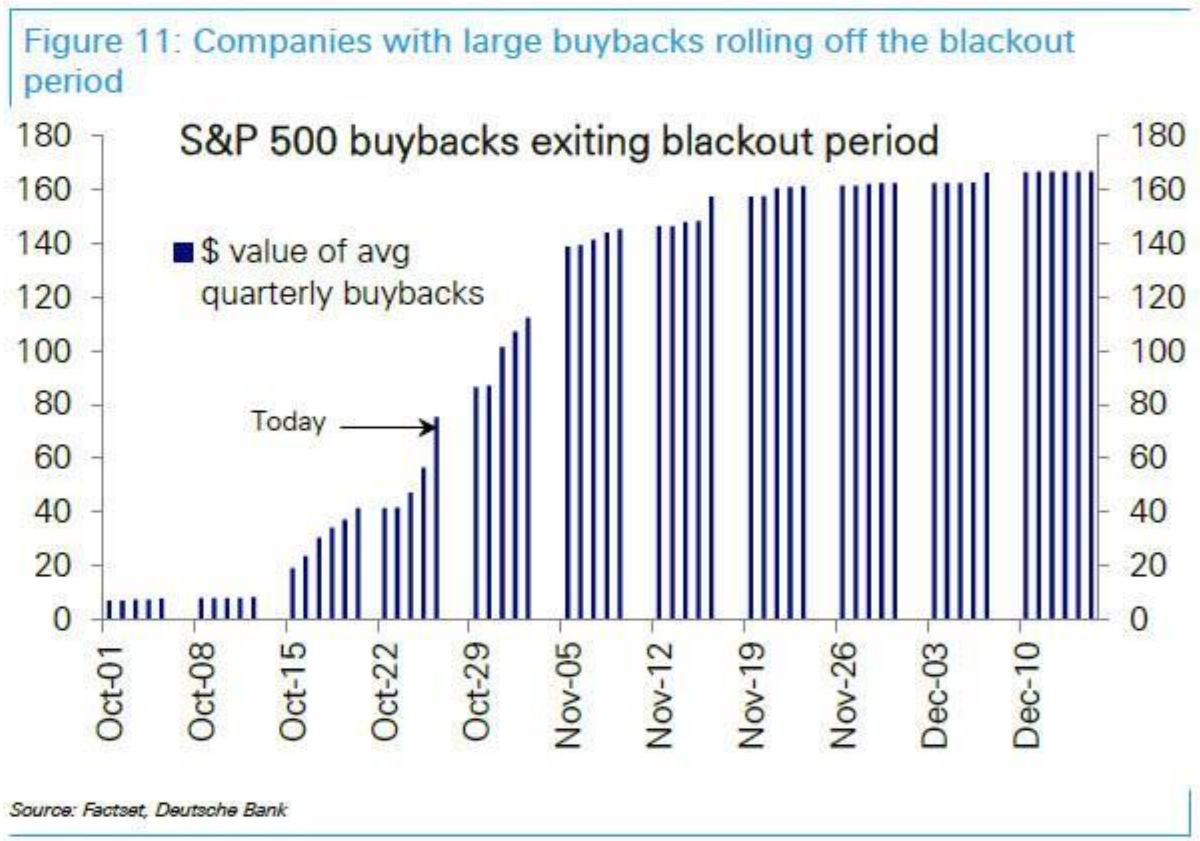


Figure 11: Companies with large buybacks rolling off the blackout period

Source: Factset, Deutsche Bank

We’re now in a better position on the one hand as we’ve emerged from those deeply oversold conditions AND, the buybacks are kicking in! On the other hand, the oversoldness is gone and sellers may be readying for another fresh wave of selling! Oh, and about those buybacks…:

https://www.marketwatch.com/story/if-youre-expecting-buybacks-to-rescue-the-stock-market-think-again-says-strategist-2018-11-02

But if you’re betting on such repurchases to power the stock market beyond its recent peaks, think again*, says Vincent Deluard, global market strategist at INTL FCStone. In an interview with MarketWatch, Deluard said constituents of the* ***S&P 500 index are on track to buyback 30% less in stock than they did in the second quarter, and he predicts the rate will continue to slow from here.***

That means the ***much heralded predictions*** *that there will be $1 trillion in stock buybacks this year* ***“won’t even come close”*** *to being realized, Deluard estimates.*

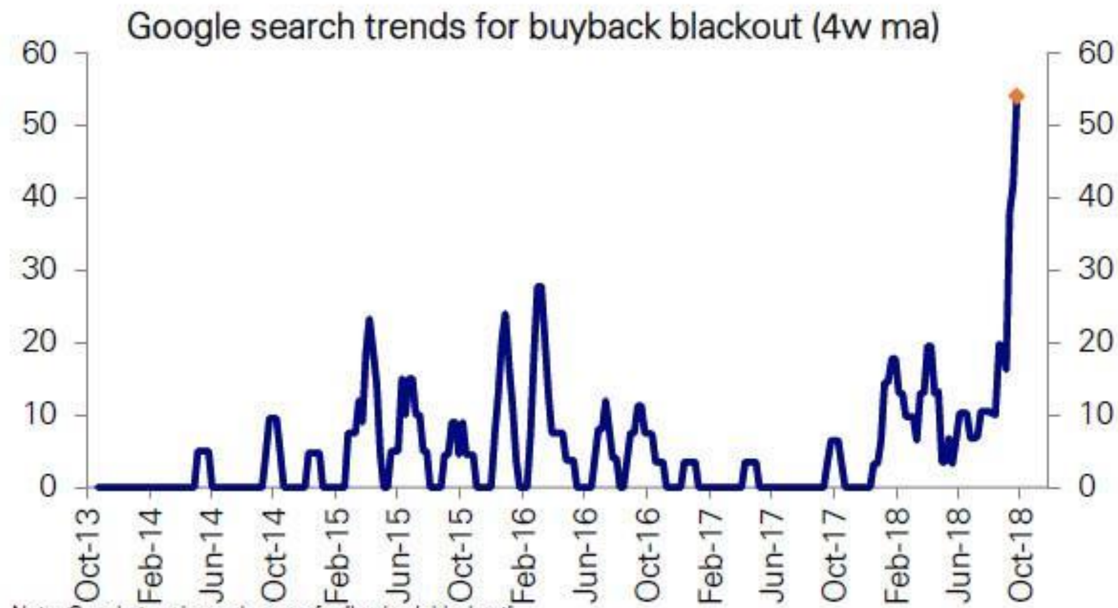
There is a simple reason for this slowdown to continue: rising interest rates. *Years of massive monetary stimulus meant that the dividend yield for many U.S. companies remained higher than the interest those companies had to pay on debt, making it sensible to issue new debt to buyback shares. That all ended when the Fed started raising interest rates, and* ***“as a result investors are no longer rewarding companies for purchasing their own stock,”*** *according to Deluard.*

The INTL FCStone strategist declares that ***“the market top for this cycle has already passed.”***

That may be bad news for stock-market bulls.

At this point, we can bring this one back from last week:

Figure 10: Google searches for "buyback blackout" surged in October



Note: Google trend search score for "buyback blackout"

Source: Deutsche Bank

It would seem that many more investors than at any other time may have been depending on those buyback programs to save the day, the quarter and the year for that matter! With so many potentially depending on that boost, ***look out below*** if it doesn't come to pass and those overly-confident bulls begin to realize the cavalry isn't coming this time! And neither is the FED it would seem!

At times, it pays to "step back" and look less at all the details and focus only on the critical details. We've been doing a little more of that ourselves lately (we try to do as much as we can) and we've found ourselves wondering about the obvious. The obvious is that the FED is full steam ahead with higher rates and with balance sheet reduction. Both of those factors, at least superficially, should reduce liquidity and tamp things down somewhat. Worse, the FED chairman seemed to indicate that overshooting isn't something he's worried about avoiding only 1 month ago. We know that ever since he made those comments on October 3rd, the markets haven't been the same. One would think that he'd be overly diplomatic with respect to "overshooting" considering the FED's history of destroying the economy and the stock market after propping both up. However, Powell was undeterred. Is there more of a message in there than what's been discussed? The market seemed to think so, but many have tried to explain it away by saying we were simply overdue for a pullback. That may be true, but many still be underplaying his comments. This bull market has been the most heavily engineered bull market we've ever seen and by no small margin. The FED and the FEDs lifted this market back up by design using nearly 0% interest rates and by buying up and hiding the mess that the FED and the FEDs created in the previous bull market! 0% rates and asset purchase hocus-pocus along with super-rosy accounting and stock buybacks have made *dreams* come true for years. As is nearly always the case, we have company in our thinking:

https://www.marketwatch.com/story/after-midterm-election-focus-on-the-healthy-30-plus-stock-correction-headed-our-way-2018-11-06

"Ultimately…i think we need to defer to the longer-term cycle and ***where things look at this stage in the game now that the economy is getting off central-bank proponomics and has to stand on its own two feet. This leads me to believe whatever the outcome…the market will find a reason to be selling risk (selling stocks) to allow for what has been a long overdue correction,"*** *says Kruger, in emailed comments.*

Now, much of what lifted the market higher and higher and higher, is not only going away, but reversing. Let's not forget who was found to be the lead actor causing prior recessions. You guessed it!:

https://www.zerohedge.com/news/2017-06-24/goldman-finds-most-modern-recessions-were-caused-fed

The FED has a history of tightening into an event that is eventually cited as a driver of recessions that follow:

That, and the election, which is supposed to produce "gridlock" as per the expert consensus, are all that we need to know that it is best to be prudent. If things continue to roll favorably for Trump, there will be plenty of time to ride stocks to even higher stock prices. If the times turn on him, we're very late cycle and we wouldn't expect the FED to ride to his rescue the way they have for others. That scary prospect could trigger the panic selling we've yet to see. We have plenty saved for next week which is better left for beyond the election.

Seriously…Bank and Roll!

Options Academy

In our updates, webinars, and at the conclusion each week of the ***Below the Radar*** section, we nearly always implore or remind folks to roll. We thought it might be a good time to revisit why we're so adamant about rolling.

First off, we nearly exclusively try to capitalize on directional movement in stock prices and therefore buy calls and puts well over 95% of the time in the newsletter. That establishes us not only as players but in fact to be playing smart. That's because we're keeping unlimited potential as a possibility for profits but limiting our risk and dramatically reducing the capital expenditure versus that of stock players. The ability to roll because we're options players only adds to our embarrassment of riches! But add it does!

When riding ideas that are working out, through the process of rolling we can…

Lock in accumulated profits as we sell out of the option that's been appreciating in value and simultaneously buy another lower cost option to maintain our directionally oriented position. Clearly, we now have profits that are realized, but we've also reduced our risk by switching into that less expensive one vs. the one we had been riding.

AND…

We're still riding the stock to the same extent as to when we originally started. This is something that stock, and futures players simply cannot do!

Here's a breakdown:

Stock Guy:

Stock Guy buys 1000 shares and the stock price rises, and he gets antsy. So…, Stock Guy sells out 500 shares to reduce risk and capture profits. He may be riding high but he's no longer riding 1000 shares! That's for d@^# sure! He's only got 500 shares left and he's worried he could give back all the profits on them!

Now let's compare him to the ever-more relaxed and much smarter player:

Options Guy:

Options Guy buys 10 calls to control 1000 shares of stock (potentially) and the stock price rises, and he gets antsy as well (humans are humans). So…, Options Guy sells out ALL 10 contracts to reduce risk and capture profits. But fear not! He's not reducing his exposure! He's maintaining it! So, he simultaneously buys 10 less expensive calls to maintain control over 1000 shares, but he's got profits banked and risk reduced as a result. He never has to reduce control to take profits UNLESS he prefers to do so. And let us not forget that he's playing on the cheap (so to speak vs. stock guy) and he's got built in *Max Loss* protection, something Stock Guy never has, the second he pulls the trigger on the trade.

Oh, and one other thing, he can't give back all his profits on whatever number of shares he decides to continue to control. Why? Because he can only lose the finite amount paid for his LAST roll and that's it!

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What gets overlooked when folks learn about rolling is not the mechanics. They get the mechanics down fairly-quickly, although there are many possible and smarter variations than it first seems. What many fail to fully appreciate is the psychological release of stress that comes from rolling. Rolling is cathartic. Rolling alleviates (to a degree) that antsy feeling that all price wave riders experience and by doing so it can bring renewal. It can bring freshness to the mind and allow for objectivity to make a comeback because rolling backs fear down and allows analysis to fight its way back into the mix! There's much more that could be discussed with respect to rolling (variations) but that's enough for now!

We thought the timing was nearly ideal for this reminder on rolling. The midterm outcome this time around certainly has the potential for fireworks, and even if you're committed to your positions beyond this week, rolling can not only reduce risks, but also can put us psychologically more at ease and that's not a bad thing!

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