

OptionProfessor.com Weekly

October 23rd, 2021

PORTFOLIO ROADMAP



BY THE OPTION PROFESSOR

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Read on for this week's update from The Option Professor...

OptionProfessor Market Update October 23rd, 2021

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PORTFOLIO ROADMAP 10/23/21:

October 22 2021

Greetings Everybody!

We had a very wild week and today we will share with you many thoughts on many markets as the next week will be huge with 30% pf S&P 500 companies announce earnings and maybe some guidance. Earnings have surprised on the upside and estimates have been increased to about +30% jump in earnings up from the low 20's earlier. We have told you that OPERATING LEVERAGE at companies and now PRICING POWER would be the propellers. It may be the market will get thru the end of the month but in early November (1 week away) we will get Central Banks news of tapering or actual hikes (Russia & Brazil ect) and also an OPEC meeting where supplies will be increased or not. WAGE INFLATION is here to stay for the foreseeable future. The JOLTS report (available jobs) is still really high due to as is the ratio of people quitting their jobs versus people getting laid off. This is due in part to better jobs better pay better benefits elsewhere especially in lower paying service jobs. PRICE INFLATION is mostly caused by demand outstripping supply capabilities but that may change if as an example the increased rig counts & OPEC releasing some barrels & investment & fracking resume. Bottlenecks will ease over time and if demand backs off due to higher prices combined with normalized supply the inflations numbers may look much different by next fall. If Mother Nature is kind with her WEATHER (no crop disruption on food nor a inordinate cold winter); food and energy could be priced far differently in 2022. If not; another leg higher we go. Interest rates took a stab at 1.70% handle this week but backed off. The 1.75% 10 Yr Treasury high point remains but Central Bank taper action commencing next month is problematic. China has economic numbers coming out slowly and their housing market prices declined for the first time in 6 years with XI reminding people that property is not for speculating which got rampant. We are watching the front end of the yield curve (2yr & 5 yr) as those yields have jumped and if they ever invert-watch out! The trade deficits and budget deficits are a concern for the future value of the US Dollar. Nothing is truly cheap right here..not stocks bonds commodities or real estate. Some say Europe & Emerging Markets may offer value in both debt and equity. Should we melt up in this last week of October into early November; we expect a pause to refresh thereafter. Last time we saw the VIX at these levels was August and we did see

a quick drop followed by an advance....support of SPX 4520-4500 then 4450-4480 and finally 4360 the GAP where we broke out from which seems unlikely to see if a year end rally happens.

Bottom line is if yields on Treasuries stay here and Q3 earnings have upside surprises....5%-10% EOY still upside possible.

Let's update the Portfolio Road Map. We'll share our opinions and observations. All investing involves risk and it is not right for everyone. Consult your brokerage firm/broker to determine your own suitability and risk tolerance. This is NOT advice.

Income

The yields were rising this week until Friday when Powell made some comments of his awareness of inflation and realization that some parts of inflation are not immediately transitory. BOE, Canada and developing markets are already on the taper conga line but TLT is still above the March lows so most fixed income doing okay. High yield, floating rate and preferred issues seem to fare better so far. We said we will reassess if we make new lows in TLT and so we stick with VWLUX VFSUX and are happy to see PFF FFRHX VWEAX help the portfolio with better yield & price at more risk. Dividend paying stocks VYM VYMI MGV and even Utilities VPU have been appreciating. NOVEMBER may be the month where we get clarity.

Growth

A month ago; growth was nowhere to be found but as we discussed the Q3 earnings season has been the straw that stirs the drink (Reggie Jackson Mr. October:) SNAP earnings and concerns with changes at AAPL hit the tech sector but this week they get a chance to return serve with Q3 earnings coming out for FB GOOG AMZN MSFT AAPL. VUG VGT VONG all hanging in there but the reflation trade VFH XLB XLI XLE XLY are no slackers and should participate in a value-cyclical-reopen trade. The Transports have been a great place to get in as delivery of goods (CSX UNP UPS ect) should have a surge coming soon

International

Weeks ago; We have said we believe the lows may be in for Chinese stocks as the shock and awe regulatory campaign has slowed and the property crisis is being addressed (unlike the blind side Lehman collapse in 2008). As we go into the Beijing Olympics in Feb 2022; our thoughts are that we could be on an upswing especially with the loud Chorus of China being un-investable AFTER

we already saw BABA go from 320 to 140. The US Dollar had a high point at about 104 (DXY) and fell to the 89 area and has bounced but we feel 94-96 should be it and then our fiscal & budget deficits will dominate the talk. Valuations in Emerging Markets (VWO EWW EWZ FXI KWEB) and Europe equity & High Yield Debt (VGK EWG EWU EUFN) are much lower than the USA and a downmove in the Dollar could be the story ahead. There has been some improvement in the countries around the Pacific Rim such as Australia, Japan & Korea so we look to VPL to gain exposure.

Speculation

We are awaiting confirmation from Gold & Silver that our bullish instincts are correct as we seek confirmation via closing & SUSTAINING above 18000-1850 and 25 on the Silver. Mining shares popped a bit and we will see if more would chop for a few weeks or if the boat will finally leave the harbor. Copper supplies will be overall tight so demand is the only wild card. Crypto is at or near new highs which is no surprise to us since we said for months the lows in July was the buy zone. The new ETF may spell a temporary high if buy the rumor sell the fact prevails. VCMDX is a one stop commodity shop.

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BLOG UPDATE 10/23/21:

Stocks-30% of the S&P Report This Week- Be Ready! Must Read

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October 22 2021 Option Professor Opinions & Observations

Hello Everybody!

Since we got back from the Caribbean a few weeks back our insight have been spot on. First we told you of the important support on SPX at 4300 area and then the resistance at 4360 & 4450 both crucial to the rally. We sent out an alert on the Gold & Silver stocks that have had a significant rally (Gold had best week in many months). We sent out an alert suggesting short term traders evaluate switching out of big gains in stocks and replacing them with limited risk option strategies BEFORE tech rolled over. Now what is ahead?? Here's our view....tapering and interest rate hikes are on the horizon. In the weeks ahead central banks (ECB-Canada-the Fed) will announce plans on tapering while developing nations (Russia & Brazil) are announcing substantial interest rate increases. We will be looking for sideline oil out of OPEC to cool off the prices (they meet Nov 4) but who knows what will be decided as oil companies like the high prices, OPEC sees we are trying to switch to electric and fracking and investment are not quick fixes. How will the winter paly out? If we are colder than normal and Russia fails to deliver more energy as promised.. another leg up is in the cards. If we break 1.75% on the 10yr Treasuries; you could see 2%+ before EOY. Inflation may close out the year with a 5% handle and next year could be 4% for all we know. Some say demand will rollover and supply chains will resume and kill the inflation beast.. we'll see. Should rates rise; valuations (which we have told you based on inflation rates and now higher yields should be 18 PE) are at risk of compressing not unlike China has seen. Some say the US Dollar will roll over due to fiscal and trade deficits exploding (although corporate & personal taxes paid are at records). We hear European stock are the place to be on that scenario as well as emerging markets. In this type environment; banks, materials, energy, consumer discretionary, industrials and reopening stocks may be the place to be. The Transports (CSX UNP ect.) have been running great as when bottlenecks subside ...who's going to deliver all these goods.. Santa?? We may be able to survive next week as earnings may put the glow back on traders faces but once all these central backs start taking away accommodation we will see what happens with the 10 Yr Treasury.....if it behaves (1.50% to 1.70%).....then the 5%-10% year end rally may still be on

but if there is an exodus out of bonds....upside capped. Stocks Bonds Commodities Real Estate.....nothing looks particularly cheap here so some cash for a rainy day OK Instead of fearing the Ides of March...we may need help from the Gnomes of November if interest rates pop.

Do you have specific questions?...email us at optionprofessor@gmail.com with questions & Contact Information

Stock Market

We got about a double top at SPX 4550 and now we will see if the VIX hitting 15+ and a market high point coincides with a correction of 100 to 150 point like it did last time in August. If not; the 4500-54550 area may actually be the base level for the rest of the year. Find out what we like here....go optionprofessor@gmail.com

Bond Market

Should you look at your bond portfolio in the last few weeks you probably are seeing valuations dropping. Some areas like high yield still attract interest despite negative real yields as well as preferred shares and the frontrunner floating rate issues.....want more information...email us at optionprofessor@gmail.com

Us Dollar/ International Markets

Our view is the DXY will not be able to get thru 94-96 and has a decent chance of rolling over due to deficits both fiscal and trade. This should benefit Europe-Pacific Rim-Emerging markets. With Chinese stocks trading at reduced prices and valuations and with 40% of the market in tech..we have ideas for prior to Beijing Feb 2022 Email us at optionprofessor@gmail.com and we are happy to share with you.

Crude Oil Natural Gas

We have told readers about this sector since oil was trading in single digits in 2020 and Nat Gas (LNG) was at half the prices they are today. NOW??...you tell me what winter weather will be and if Russia & OPEC will release reserves...we will tell you where prices go....early November they meet...email us at optionprofessor@gmail.com

Gold Silver Copper Crypto

Gold & Silver are teasing with rallies but then fade down...we believe there is a good chance of a face ripper rally by the end of the year but not without closes over 1800-1850 Gold and 25 Silver. Copper has been touted as the new oil as supplies are tight (most mines already done and new ones are in dodgy countries with dodgy infrastructure). Having said that in the last year this market in all forms have been very good to us. We told everyone Bitcoin & Ethereum bottomed in July months ago so we are not adding on strength...we get another tank job we have our levels of interest as the new ETF may mark a short term double top but anything is possible with crypto either way....next week let's see CPI data....Email us at optionprofessor@gmail.com with questions

Soybeans Coffee Sugar

We told readers about Soybeans going up last year between 8 & 10 and it ran to about 17. We said former resistance at 12 would be an area to trade against and we just got a great rally off that area that faded. If we hold the recent lows and take out this weeks high...we would be very encouraged. Coffee and Sugar were brought to readers attention at 12.50 Sugar and 100 Coffee....little steep now for us email us optionprofessor@gmail.com

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