OptionProfessor.com Weekly
October 30th, 2021

PORTFOLIO ROADMAP

BY THE OPTION PROFESSOR

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OptionProfessor Market Update
October 30th, 2021

• *Questions or comments? Email optionprofessor@gmail.com*

PORTFOLIO ROADMAP 10/30/21:

Hello Everyone

The month of October is in the books and a great month it was as SPX was up 6.9% the most in a very long time. Earnings came in good across the board but the tone from AAPL & AMZN (2 behemoths) about wage inflation supply shortages and the economy next year has us concerned looking forward. GDP came out way low and some say it may be revised and some say (Atlanta Fed) it will fall further. SLOWDOWN & RISING PRICES are the big risks right now as well as the Holiday season not having enough products (shortages) to sell to consumers. Expectations are for a jump of 10.5% in holiday sales so we'll see if the Global slowdown (Europe-China-EM) comes to our shores. This week will be huge for data as the big numbers for ISM manufacturing and services numbers come out and spending has swung from things to experiences so we'll see where the chips fall. The inflation Genie is out of the bottle and it will be interesting to see how long it remains & will it go back in. Labor shortages, Supply Shortages, Stagflation--PCE Index & GDP going in opposite directions-sometimes leads to Recession Cycle theorists are saying the 20 & 40 year cycles are due to bottom in 2022-ergo a RISK of repricing within 12 months. we are not Chicken Little (the sky is falling) BUT we are not Pollyanna either so we ride the wave and watch our P&L's closely. Things are slowing and prices are rising with some looking quite sticky. Friday; we will get the jobs report and let's see the Employment Participation Index to get an idea of how many are returning to the workforce (we need 80,000 truck drivers) The higher we go the further we get from dry land (moving averages) and the more buying power is being used....short interest (betting the market will drop) & VIX are coming off LOWS and the Greed index is flashing very HIGH...A Tell???? In the last few weeks; we spoke of areas that may benefit and see earning & revenues rise like Transports (transfer goods via railroads trucks) and Growth and Dividend Growth plus Consumer Discretionary Tech and Communications & Resources. Friday-a fever to cover shorts and get in before the end of the month-this week we will see if the economic data chills it. We always have said Do Not Fight The Tape & Do Not Fight the Fed---the tape is narrowing but strong....will the Fed follow suit?

Let's Review the Portfolio Road map this week. Remember all investing involves risk and consult your brokerage firm and broker to determine your own risk tolerance and suitability. This is information only. It is NOT advice.

Income

The interest rate market is getting volatile but our base case remains that 1.75% on 10yr Treasury & TLT 133 from Q1 was the high until taken out so 1.70%+ was a gift as we now have a 1.50% handle and shrinking GDP. The FRONT end of the yield curve is a different story as the 2yr Treasury yield JUMPED over 100% in October from .2% to as high as .56% and the 20yr inverted with the 30yr. BUT to put it in perspective; if you loaned the government $100,000 at .2% they would pay you $200 bucks a YEAR and now it would be about $500 bucks a YEAR with inflation 4% to 6% and you're out $100,000....so now you know why stocks (Return on Equity versus Cost of Capital) keeps going & the Government keeps issuing DEBT. You also now know what negative real yields mean (inflation rate less interest rate)....is this a charade or are we Japan-Europe? We sit in VFSFX & VWLUX and pepper that with PFF FFRHX VWEAX for more yield at additional risk. VYM VYMI for dividends

Growth

We told you tech growth consumer discretionary and now resources communications and dividend growth may be OK.
If we have inflation and a slow down we need to focus on deflationary bets and those with pricing power and digital transformational themes. some ideas include XLK SPYG SPYD VIF XME XLE XLY XLC are a few but breadth seems narrowing

International

China seems to be in a slowdown if not recession and Europe and Pacific Rim & Emerging Markets may not be far behind as higher food & energy prices hit these regions hard. HOWEVER; we are monitoring VWO VPL VGK EWW INDA VSS closely to see if a Q4-January Effect may turn the tide here but this week the jury was out. Lots of data this week so stay tuned.

Speculation

The Gold & Silver markets keep teasing us with rallies but then slide back...this week was no different. we suspect the lows are in BUT we told traders that SUSTAINED prices of Gold 1800-1850 and Silver ABOVE 25 needed to confirm instincts. So far unable to deliver that bacon. Energy markets got hit but rebounded and this week we may hear if the supply controllers will increase supplies in advance of potentially a high demand winter. If not; maybe it will be new highs. Crude UNDER 80 & Nat Gas Under 5.00 would to us spell ample supplies are being provided XLE XOP & LNG are our favorites for the bulls. GBTC & ETHE (crypto) went up and stabilized (ETHE is going better as it has committed to clean energy for 2022)...now we embark on the last 8 weeks of the year where some say $100,000 BitCoin is in the cards...we will see soon enough

Remember All investing involves risk and it is not for everyone. Consult your brokerage firm and broker to determine your own suitability and risk tolerance. Pat performance is not indicative of future results. Information and Opinions are for informational purposes only. It is NOT advice.

BLOG UPDATE 10/30/21: Stocks Hit All-Time Highs Make Hay While the Sun Shines-Must Read

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October 30 2021 Option Professor Inc. Opinions & Observations

Greetings Everyone!

Our insights into the market swings have been pretty sharp with a sell call at SPX 4500+ and the subsequent decline to SPX 4280 followed by a buy signal at SPX 4355-4400 which has now been followed by all time highs-not too shabby. So what do we think lies ahead?? Well we will go over things we see going on globally and see if you reach the same conclusions. Let's get a couple of definitions out of the way- first is STAGNATION- means lack of activity, growth or development while the second is INFLATION- means a general increase in prices in an economy and consequential fall in the purchasing value of money. Got it. We just got GDP numbers for Q3 and they came in at 2% about 30% UNDER estimates and about 75% UNDER the prior Q2. We just got the PCE (Personal Consumption Expenditure Index) up 4.3% the HIGHEST reading since 1991 fueling concerns that price increases will last longer than expected. Whether you look at gas prices UP 100%, housing UP 20+% rents UP 11%+ and more, food stamps UP 25%, Social Security UP 5.9%, and there doesn't seem to be a light at the end of the tunnel. China, Europe, and the Emerging Markets are getting hit too with China GDP at 4.9% (if you believe them) DOWN about 40% from the prior quarter and their PMI's point to possible RECESSION. Germany cut its 2021 GDP to 2.6% DOWN 25% from prior forecasts. Supply shortages and rising inflation are the root cause. These guys plus Emerging Markets get whacked when food and energy rise or there are shortages and their consumer gets nailed. Supplies (bottlenecks) are improving with the ports around L.A. going to 24/7 shifts but on time shipments are at ONLY 34% which is almost 60% LOWER than pre Covid levels. According to trade associations; we are SHORT 75,000+ truck drivers as the pandemic reevaluation phenomenon has made less attractive and lower paying jobs difficult to fill. Cyclical theorists believe the 20 & 40 year Cycles will BOTTOM in 2022!

OK…that was very enlightening….now what can we do about it? Well…we are in a seasonally strong period (October SPX UP 6.9%) with Holiday Sales expected UP as much as 10.5% this year (last year was up 8.5% and pre Covid ranged between 1.8% and 3.5%). Could supply shortages revert us back toward the Mean? We also have the January Effect when money flows into the stock market historically. The RISK here is that you can't sell products that are not on shelves and personal income and savings are slipping with higher cost of living causing a pinch. Even Apple's Tim Cook said he expects things to get better "depending on the economy" in 2022…..their final product comes out of China but components come from all over the world. So-"Make Hay While the Sun Shines" BUT keep a close eye on your P&L!!!

RIGHT NOW we see a NARROWING of stock opportunities (check market breadth).are focused on stocks that can benefit from this scenario which in our view include Transports-Growth-Dividend Growth-Resources-Tech and others. We will share our VIEWS on where we see OPPORTUNITIES and HEDGED STOCK STRATEGIES as it will soon be 2022!!

Simply EMAIL US at optionprofessor@gmail.com with your contact information to LEARN what we see coming!

Stock Market

This week we get a lot of data that will cause VOLATILITY. Watch how the relationship of consumer staples do versus consumer discretionary….could be a key to the winds of change. THIS WEEK we get ISM manufacturing and service numbers PLUS Labor Costs & Productivity AND Friday-the JOBS Report..WATCH–EMPLOYMENT PARTICIPATION RATE!

Email Us at optionprofesor@gmail.com with questions

Bond Market

Globally Interest rates are rising and in some places a lot (Australia Brazil) and even Germany almost got out of negative territory! Central Banks have started issuing a lot of RHETORIC and sound a lot to us like that old song Prince's big hit "This is What it Sounds Like When Doves Cry". If inflation persist that song will get louder as they are all betting on "transitory inflation" and with the amount of printing and debt out there.. so they better be right!

Get our views on our views in TLT & FIXED INCOME…EMAIL US at optionprofessor@gmail.com and ask your questions!

US Dollar International Markets

The US Dollar (DXY) is up against our resistance zone at 94-96 and now we see DECISION time dead ahead as our Long Term RSI is at about 50 and was ABOVE 50 during the run UP in the Dollar between 1996 and 2002 and more recently between 2014 and 2020. So if we get ABOVE & SUSTAIN this 94-96 level the surprise could be Dollar STRENGTH. Should we break UNDER the yearly lows SAYONARA! The USA is the best market on the planet as supply shortages and higher food and energy prices are hurting China Europe & Emerging Markets much worse than here.

EMAIL US at optionprofessor@gmail.com and we will share our views in the Dollar-China-Pacific Rim-Europe & EM!

Crude Oil Natural Gas

These markets could get wild SOON depending how the winter unfolds and if OPEC will release more oil and Russia will deliver the gas they promised. Big oil companies are woefully inadequate delivering supplies and energy problems are definitely hurting global economies. We saw oil prices back off temporarily this week…they recovered…this week?

EMAIL US and we will share our views on oil and gas and ways we see opportunity optionprofessor@gmail.com

Gold Silver Copper BitCoin

We have been patient in our views on Gold & Silver as while we feel there is potential that the lows are BUT the failure to maintain Gold ABOVE 1800-1850 and Silver ABOVE 25 has us feeling traders should sit on their wallets a bit longer as if those levels are exceeded and maintained…it should be game on. Copper mines are talking supply shortages again and that may spell good times UNLESS we take out 4 bucks and we enter a slowdown or heaven forbid RECESSION. Bitcoin & Ethereum (GBTC ETHE) jumped up and are now meandering (actually Ethereum is performing better as they have committed to clean energy in 2022). Will we see a end of the year STAMPEDE as many expect…we will soon see.

EMAIL US and we will share our views on these markets optionprofessor@gmail.com

Soybeans Sugar Coffee

We told readers last year that Soybeans were a bargain at 8-10 and they ran about 15….former resistance was at 12 so when we pulled back toward 12 we thought it could bounce and it has….if w take out recent lows just UNDER 12 then all bets are off and there seems to be supply issues in Corn & Wheat & fertilizer issues in Europe-ammonia -13yr highs. Sugar and Coffee (softs) had huge run ups after we told reader about them last and recently have gone into ranges as they digest parabolic moves. If supply chains & weather are problematic for as far as the eye can see…more if not less.

BONUS: Hedged Stock Strategy-Can the VIX Protect Your Portfolio?

When the stock market is going up; it is easy to lose perspective that there is always a possibility that things could change down the road. When the VIX is low and the profits are flowing; it is difficult to conceive that a drop will ever occur. Things like Inflation, GDP, Valuations, Interest Rates, Taxes, Elections ect. are factors that can change things fast. History tells us that when changes arrive; they can come fast before investors adjust their portfolios and they can lose substantial values.

The act of hedging is prevalent throughout our society. People buy auto-fire-life insurance as a hedge against adverse outcomes of their cars, homes and health. Corporations (energy-homebuilder-food-airlines ect) employ hedging tactics to offset risks on raw materials they need to stabilize costs. While not as simple nor as precise as buying insurance; investors use financial instruments with a negative correlation to hedge their exposure to a negative outcome on their portfolio.

We explained some of the option strategies to protect your portfolio from market declines include Covered Call Writing as well as Collar Strategies, Married Puts, and Replacement Trades Using Options. All of these strategies serve a purpose with opportunity and other risks outside the outcomes they can cover. Timing is key with these so we look for an alternative.

The VIX is based on the implied volatility of S&P Index options. When the VIX is Low; Volatility can be low Complacency High and when VIX goes Higher we can see Market Fear. In March 2020; the VIX went UP about 5X in price while the S&P 500 FELL 36% while in 2021 we have seen the VIX somewhat rangebound while the S&P 500 has advanced to record highs.

Interested? Got questions?....Simply Ask… Email Us at optionprofessor@gmail.com and include your contact info

Remember All investing involves risk and it is not right for everyone. Consult your brokerage firm/broker to determine your own suitability and risk tolerance. Past performance is not indicative of future results. Information and opinions are provided for informational purposes only. It is NOT advice.