

OptionProfessor.com Weekly

November 6th, 2021

PORTFOLIO ROADMAP & BLOG



BY THE OPTION PROFESSOR

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

OptionProfessor Market Update November 6th, 2021

- Questions or comments? Email optionprofessor@gmail.com

PORTFOLIO ROADMAP 11/06/21:

Well our mantra of Don't Fight the Tape & Don't Fight the Tape served us well during the last 5 weeks of melt up. Let's explain why it's happening and what we see looking forward. As we illustrated with the yield on the 2 yr Treasury at .2% or .5%; there is no economics to leaving your money on the sidelines. This week we got ISM services number that confirms the epidemic appears over and happy days are here again (indoor stuff fails PTON ZM and outdoor stuff wins EXPE MAR CZR SHAK AAL CCL LYV ect). We also got the Fed and BOE ECB basically saying let inflation run when bottlenecks ease and consumers tire of high prices (e.g. Zillow & real estate) demand destruction will bail them out. Maybe but what about the Employment Participation staying low (higher wages) and rent up double digits..are they going away? History tells us that letting inflation run has NEVER resulted in a soft landing so we will be keeping a close eye in 2022. NEXT year earning may be 2.30 to 2.40 or at a slower pace and now we must figure out what multiple are you comfortable with on SPX (example $2.40 \times 15 = 3600$, $2.40 \times 20 = 4800$, $2.40 \times 25 = 6000$ another reason why interest rates better not rise too much if at all). Now we have earnings and margins doing great (pricing power) and we have no alternative (bond valuations are a joke) and we have enough demand to choke a race horse and we have positioning suggesting that more flows into stocks to come thru Jan EOM. We are OVERBOUGHT but that can persist....next week we get PPI & CPI (inflation numbers) out of USA & China and the VIX was moving up off the 14 handle....so by late next week we could get bumpy and provide a buy opportunity before T-day. Gold & Silver got off the mat so keep an eye on the barbaric relic and the white metal this week.. we smell possible turn. Also; a record TRADE DEFICIT suggest that overseas markets may see earnings spike higher

Let's look at the Portfolio Road Map...Remember-All investing involves risk and it is not right for everyone. Consult your brokerage firm & broker to determine your suitability & risk tolerance. It is information It is NOT advice.

Income

We are very proud that we have stuck to our guns with the call that 10yr Treasury 1.75% is the PEAK until taken out and any moves up toward that level is a gift. The Fed helped us with the no hike for 8 months scenario and BOE

helped further as their rates tanked making us look like the one-eyed man in the valley of the blind. We stick with VWLUX VFSUX and pepper in FFRHX PFF VWEAX and dividend payers like VYM VYMI to add more yield at albeit more risk

Growth

Growth has come from consumer discretionary-travel leisure re-openings and tech/semis but may come from more sources looking forward. The consumer is flush with funds and wants to spend...margins operating leverage pricing power sound like a good recipe. We always talk barbell approach so VUG VGT to go with MGV XLE VFH XLE XLI XLB IWM IYT to diversify. For those wanting to look at a balance tax managed approach VTMFX may be worth a look--get the prospectus to familiarize.

International

China remains a nightmare with real estate, covid and blackouts killing them.. but nightmares end so we monitor for possible pre Feb 22 Olympic turn. As we said our consumer's got \$2 Trill sloshing around and our trade deficit is a RECORD high so we think that money finds it way overseas. Canada Mexico & Europe should all benefit as well as the Pacific Rim so VGK EUFN VPL EWW with an outside shot at VWO if China gets its act together.

Speculation

This week watch to see if Gold & Silver maintain and improve on this weeks advance as well as Copper via GDX SIL FCX SCCO and industrial metals XME. Crypto is high but some call for 100k Bitcoin by year end (coming soon?) as you know e like GBTC & ETHE (going green in 2022) BUT we liked them on drops and in July August so now is harvest time for us. Watch oil XLE XOP OIH as the supply demand is tight as OPEC+ did nothing and the firms pay debt buyback & hike dividends.

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BLOG UPDATE 11/06/21: Stock Market-Is the Pandemic Over? Stocks Say Yes! Read This!

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- *Weekly FREE Market Updates at <https://www.optionprofessor.com/blog/>*

November 5 2021 Option Professor Inc Opinions & Observations

This Week we got big numbers out of ISM Services (if everybody's spending on experiences-they're also tipping so of course workers returned after benefits ran out). We also got a wimpy Fed & ECB & BOE who continue to fight a War that's already been essentially won-employment (jobs although we remain 4 mill under pre covid but with productivity & retirements they ain't comin' back). The Central Banks are betting the pot that inflation will back off when easing of bottlenecks (ships will ultimately unload) and prices will fall under their own weight (Zillow's failure @ flipping houses & many sellers cutting asking prices). Maybe so but higher wages (employment participation rate still low) and higher rents aren't dropping after being raised. The jobs report should have been a yawner as anyone who's been to the stores, out to eat, at a casino knows it's game on. We have officially switches to buying things and stay at home to doing things and going places. Our trip to Hawaii that we booked a little while ago (Thank God) would be substantially higher if we booked to day. So it is out with PTON & ZM & DoorDash and in with Eats (Shake Shack-Bloomin' and the Cheesecake Factory) Travel (Expedia MAR HLT CCL ect) plus AAL DAL Entertainment (LYV AMC MSGE). Cutting to the chase....we have earnings and operating leverage and margin expansion (all good) and we have demand coming out of ears (good) and we have no alternatives to be found (yields are a joke on fixed income and prices/valuations sky high) and we have many investors under invested (positioning) and we have \$2 trillion in excess household buying power going into a holiday season nad we have central banks spraying gasoline on the fire or at least standing idling by with dovish stances.....THIS WEEK we get PPI & CPI (inflation numbers) out of USA & China PLUS industrial production in UK & Eurozone. Overbought so do we get choppy here as VIX moves up....maybe but by Turkey Day & JAN EOM.-OK We have our Fibonacci target at SPX 4724 area (61.8) & had 4660 (38.2) the latter blew out the former still held Friday

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Stock Market

As we said before we have an everything rally going on but rotation toward energy-value dividends-may be at hand. Semis pot stocks travel and leisure had a big week last week....email us optionprofessor@gmail.com—get our research

Bond Market

If you get our research; you know our position has been that the 10yr Treasury topped in March at 1.75% and EDV and TLT bottomed in price at the same time...we stick with that call....email us at optionprofessor@gmail.com—Get our ideas

US Dollar & International

The Central Banks worldwide (major ones) punted the ball and our yields dropped as in comparison they look like King Kong so our US Dollar (DXY 94+) has been rising a bit toward what we see is a wall of resistance (94-96) so we will see where it goes from here. International markets look interesting to us as we have a RECORD trade deficit which to us means that overseas firms should make a bundle. China is a nightmare (real estate-covid-blackouts) but even nightmares end so we look for a possible turn BEFORE the Feb 2022 Olympics email us at optionprofessor@gmail.com and get our ideas on investing in the Pacific Rim-Europe and the Emerging Markets.

Crude Oil Natural Gas

So far a mild fall/winter is saving the demand crunch as OPEC+ won't go beyond prior supply hikes and our reserves are on the table but not yet on the market. TIME...it takes time for rig counts to get up and investment to occur (free cash flows going to debt repay-dividends and buybacks)...supplies still way under pre covid and so the ratio remains tight. Natural Gas prices have come off but a lot will depend on demand this winter email us @ optionprofessor@gmail.com to get our picks on where and how to gain exposure to what could be a very exciting energy market dead ahead

Gold Silver Copper Crypto

Well is it real or not...we have seen many head fake in Gold & Silver in the last few months and Friday we saw another as Gold got above & closed above \$1800 and Silver approached \$25 but did not exceed it. We have told you we suspect the lows are in from the recent pullbacks but want \$1850+ & \$25 + to

feel that we got a green light. Copper is still in short supply and if we get an infrastructure bill...could be supportive..back above 4.50 needed. We told readers in July that BitCoin & Ethereum (gong green in 2022) bottomed (GBTC ETHE) and we only are interested on dips (100K EOY?) Simply email us @optionprofessor@gmail.com and learn the best ways we see getting exposure to these markets

Soybeans Sugar Coffee

Soybeans trying to hold around 12 and if successful and closes above 12.50 could be a legitimate turn. Sugar and Coffee were big for us last year but now are consolidating...more data needed to discern accumulation or distribution

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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

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REMEMBER There is a risk of loss in all trading and it is not right for everyone. Consult your brokerage firm/broker/advisor to determine your own suitability. Past performance is not indicative of future results. Information and opinions provide are for informational purposes only. It is NOT advice.

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