OptionProfessor.com Weekly
November 20th, 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 20th, 2021

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

PORTFOLIO ROADMAP 11/20/21:

November 20 2021

As we said last week; with earnings and flows coming into the market the likelihood was to press the upper ranges and in fact we made new closing highs. BUT we did see that if you were not in certain sectors (tech-growth-rate sensitive) you had little to show for the week...we'll see if value can catch up this week as unusual option activity in the banks (XLF) may be a tell. It looked like game set match for energy this week so we will see if this was just a shakeout (10% drop) or a short term that will take months to resolve. Unless somebody cough up some oil (oil companies putting money elsewhere/rig counts still way under prior levels); this may be an area to start testing the water (great free cash flows being returned to shareholders).

We told you the growth to value ratio has been accelerating lately (heard growth in the last 50 years we've only had 4 down years). It may be a relief that yields still refuse to take out 1.75% 10 yr and if inflation abates (oil-coal Baltic dry index-housing prices)......and GDP slows...bottlenecks ease...pent up demand normalizes...the Fed may end up correct. Homebuilders still may have plenty of demand ahead as rents have gone thru the roof. COVID is key looking forward as the reopening stocks (air-cruise-hotels-bookings-restaurants) saw fleeing while big tech (AAPL AMZN GOOG ect) seems to be where people want to hide out if the indoor-get together season ahead produce Germany like outcomes.

With infrastructure passing the House (good luck with that in the Senate); EV's are all the rage so stocks like Rivian Lucid ect are being bid to the moon and supporting companies APTV CHPT EVGO in some cases either are losing money or are years away with so much that could change so old sods like F GM and Panasonic & VW may be better choices & valuations. DECEMBER is dead ahead...in fact there's only about 30 trading days or less before year end. Do we have a sharp pullback as the debt ceiling-Fed meeting-Chair-inflation data-Covid takes the wind out our sails OR will SPX support hold and we melt up into year end and the January Effect seasonality? SPX 46080-4660 & 4630-4600 probably hold the keys..En Garde!

Let's look at the Portfolio Road Map. Remember All investing involves risk and is not right for everyone. Consult your brokerage firm to determine your own suitability and risk tolerance. Information/Opinions are NOT advice.

Income

Well we are still standing by our guns that 1,75% is the top in yields and this week we were rewarded again as the COVID news out of Europe and other factors have got the word interruption back in the lexicon of economics. Parking in VWLUX VFSUX has been good and peppering the portfolio with FFRHX SRLN PFF VWEAX has increased yield albeit with additional risk while DIVIDEND payers like VYM VYMI and growers DGRO & payers XLU may be worthwhile in 2022 as well

Growth

We told you the growth-value ratio has been zooming in the last couple months after a pause we saw in September...more of the same this week as XLK SPYG XLY were the places to be but this week we will see if MGV SPYV can play catch up along with XLF XLI XLB IWM IYT...we did get good action on ITB....the barbell approach is still the favored methodoligy.

International

Despite the pullback in China (VWO FXI KWEB) due to spotty earnings and their multitude of challenges (their trade surplus & consumer spending are NOT 2 of those)...we feel a move before the Beijing Olympics Feb '22 still out there while Latin America mired in fighting inflation thru higher interest rates (EWW EWZ). Pacific Rim & Europe languishing as our trade deficit and holiday shopping could be the gas needed but we want more up out of VPL VGK EUFN before engaging.

Speculation

Gold & Silver are pulling back toward breakout points as we said last week....we need Gold above 1775-1825 to continue to feel that year end thru Q1 2022 will be an acceleration phase...if Covid hits and deflation hits...tough place. Energy markets rolled over and we will monitor to see if this is a buying opportunity (we suspect) or game set match. Crypto is pulling back (GBTC ETHE) and hit some support this week....if we are to hit 100k as some say...we're running out of shopping days:):)

One stop shop for commodity exposure is VCMDX...get the prospectus learn more about it.

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BLOG UPDATE 11/20/21: Stock Market Steady & Ready for Takeoff? Let's Talk-Read More

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• *Weekly FREE Market Updates at https://www.optionprofessor.com/blog/*

November 20 2021 Option Professor Opinions & Observations

Last week we told readers that the parameters on the SPX were 4724 upside and 4630 downside with the likely testing on the upside limit which is exactly what we got. We also noted that the growth to value ratio has been making new highs lately and this week was no different as Tech & Growth blew away banks industrials energy ect in net results. We noted that the 1.75% 10yr Treasury still has not been taken out despite 6% & 8% handles on the inflation readings. In fact; we got a decent RALLY in EDV & TLT which are proxies for long term yields. Covid cases are exploding in Europe and Austria going into LOCKDOWN while Germany suggests it's not off the table. The reopening trade got hit (air-cruise-hotel-booking companies) as well as energy as slowdowns & supplies from strategic reserves haunted the market.

Earnings out of China disappointed so if you wanted a dip to buy into you are getting one. EV's and filling stations were all the rage this week BUT there will be many winners AND losers there as many people like to fill up at home so even the existing stations are not being used which has translated to losses for some firms. Some bulls have changed their tune this week and are looking for a correction…..of course it's possible as December has lots to worry about (debt ceiling-new Fed chair?-inflation numbers-Fed meeting and accelerated tapering?) to name a few. BUT..in the next 60-90 days the biggest risk of all would be a spike in Covid cases. Sometimes there is a delayed reaction (in June July we got a spike but the market didn't get hit until Sept). LIQUIDITY around the holidays can be thin (people out of the office) and complacency (VIX unable to sustain 14 handle) could lead to some air pockets if things break bad Companies are getting hit with higher costs which are squeezing margins (WMT-TGT). EXPECTATIONS are very big for Q4 GDP and holiday shopping but how much is baked in? The consumer has been spending (retail sales 1.7% upside surprise) which is great but consumer discretionary (XLY) reflects that and will need more juice to avoid a correction. This week we get earning from some retailers and ZM plus DE so let's see.

SPX support is at 4665-4660 then 4630 and if we break those levels–more to come? We've looked into a HEDGED STOCK STRATEGY which may make sense if we lose gas up here……SPX is still ABOVE support but never a bad idea to know where the raincoats are before the rain hits

Contact us at optionprofessor@gmail.com to LEARN what's on our focus list & ask your questions!

Stock Market

SPX in the short run…stay above 4670-4660….and more importantly above 4600-4630….or the odds of a surprise correction may materialize….we say surprise because the bulls have lost their humility and are banking on seasonality and the January Effect 100% and are all in. In a little over 15 trading days; we will have the Fed meeting/Powell retention or not/more inflation numbers/more Covid data/the last of earnings a=AND a VIX that may blow thru 20 as stocks roll over or loses steam and we go after SPX 4800…..could be a time for vacation-come back for the joy-carnage

Email us your questions at optionprofessor@gmail.com LEARN our opinion on positioning for year end and Q1 2022

Bond Market

The entire planet seems to be calling for higher interest rates (yields) but that has NOT been our call since March 2021 when the Treasury 10yr hit 1.75%…we said that until taken out that is your CEILING on yields and TLT 133 is the FLOOR. This view has been very good to us and reaped benefits again this week. Inflation is abating when you look at oil (down in the 70's), China coal prices down 55% and Baltic Dry Index suggests shipping rates are hitting lower levels. Rents & wages will remain elevated but even housing price seemed to have leveled off if not faded. ECB can't hike and the Fed seems loathe to even taper ($15 billion was supposed to be $30 billion).

Email us at optionprofessor@gmail.com and get our views on INCOME positioning as we head into 2022!

US Dollar/International Markets

Our view in the Dollar in the last year or so is as follows…peak at 100-14 and decline ended at 88-90…we are now in a rebound rally toward 94-96 which may hold UNLESS the ECB & BOE do nothing on rates which reinforces our yield advantage and/or their economies get hit with COVID issues in which case the door opens thru 95-96 and a move toward 100 commences. International Markets are broken down to Europe (struggling to maintain strength but offers lower valuations) Pacific Rim (Japan-Korea-Australia monetizing our trade deficit but still lack momentum) and Emerging Markets (China trying to rally before Beijing Olympics Feb'22-Latin America/others raising rates for inflation)

Email us at optionprofessor@gmail.com to get our views on positioning in the Dollar & Overseas Markets!

Crude Oil Natural Gas

The energy boat has clearly taken on some water lately but longer term the supply dynamic still should be tight. ANY market that has a meteoric rise is prone to sharp corrections to test longer term moving averages and this is a case in point. This 75 neighborhood on WTI could find support but if broken on news an air pocket into a 60's handle a risk. Natural Gas has had a sizeable drop as supply demand came back so a move above 5.5 would be a nod to the bulls.

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Gold Silver Copper Crypto

We have been patient with Gold & Silver and have avoided a number of head fakes & big drops in the last year. We felt when Gold broke above $1800-$1850 & Silver above $25 that we may be on the road again. Last week we suggested a pullback to the breakout point could be in the cards (we're getting that) so NOW a close above recent highs needed to increase odds that these metals are not barbaric relics replaced by digital currencies but rather going on sustained runs to the upside. If Covid interrupts the markets and prices fade like oil just did then the timeline for the bull run altered. Copper prices had corrected toward $4 but has bounced nicely….the supplies are tight and new streams of supply hard to come by so ABOVE $4 is constructive while infrastructure cat fight in the Senate not so much. Our view on Bitcoin (GBTC & ETHE) has been pretty good as in JULY we said the correction was done and the time to take your chance was at hand. We are loathe to buy strength even if 100k target is possible so the lows this week mad some sense and 10%-15% below that would be are preferable levels…but being patient for selloffs of 30%-50% remains our main view.

Soybeans Sugar Coffee

The food shortage remains as Sugar & Coffee have remained firm (some call for $300 on Coffee). We told you that 12 area on soybeans was former resistance and could be an area for the rebound which is exactly what we have just seen.

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