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## OptionProfessor Alert:
## Why No Rate Hikes? Which Stock Sectors Makes Sense?
## December 17th, 2021

The Fed announce yesterday that they will accelerate tapering and end it by March with potential 3 hikes in 2022 ect.
They also said that they will be flexible if the data changes. We believe this is EXACTLY what may occur in 2022. We see a possible 2010 thru 2015 repeat: the Fed promised higher rates but the economic data got soft & they never actually hiked

Inflation is huge and wages & rents will keep it going for awhile but the forces of DEMAND & SUPPLY are at risk. The demand side has been fueled by a rush to buy things (durable goods) and to avoid services (travel-leisure-medical ect). We believe a swing the other way in 2022 is in the cards. On the supply-costs side; the bottlenecks fueled higher costs BUT are improving and may lead to oversupply whilst demand wanes leading to discounting to offset double ordering by retailers.

Growth & valuations have a good shot at contracting and frankly has already begun (retail sales-high valuation stocks). If your time horizon is 3-5 years; the ARKK type companies may be ok as the 30-50yr old demographic is expanding rapidly.
SNOW & RBLX may be where the future lives but for now the sideline money is concerned with the old adage of "Return of My Money rather than the Return ON My Money". YESTERDAY we got a sizeable drop in SPX & Nasdaq but where did money flow toward? It went to Dividends-Value-Financials-Industrials Utilities-Energy-Staples....Boring Stuff...Get Bored in 2022!

We got Mid Term Elections...Lots of Liquidity....Contact Us for Our Focus List & Ask Us Questions? optionprofessor.com

### - The Option Professor, 12/17/21

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- 10/27/21 – Growth Over Value
- 10/21/21 – The Replacement Trade
- 10/20/21 – FB Value Trade

*The following is an excerpt from the eBook "7 Best Ways to Trade Options" by The Option Professor, download the full PDF eBook HERE.*

**#3. How Does Implied Volatility Affect Options?**

Implied Volatility is the market's forecast of a likely movement in a price of an underlying market. It is a metric used by investors to estimate future fluctuations (volatility) of a price based on certain predictive factors. Implied Volatility denoted by the symbol (sigma) can often be thought to be a proxy of market risk. It is commonly expressed using percentages as standard deviations over a specified time horizon. When use in the stock market; implied volatility generally (but not always) increases in bearish markets when investors believe prices will decline over time. Implied Volatility will generally (but not always) decrease when the market is bullish and investors believe the market will rise over time. Implied Volatility does not predict the direction that the price change will continue.

Implied Volatility is one of the deciding factors in the pricing of options. Buying options contracts lets the holder buy or sell an asset at a specific price for a specific period of time. Implied Volatility approximates the future value of the option and the current option value is also considered. It is important to note that implied volatility is based on probability. It is only an estimate of future prices rather than an indication of them. There is no guarantee that an option price will follow a predicted pattern. However; when considering an option, it may be worthwhile to consider the actions of others activity in the option so implied volatility is directly correlated with market opinion which of course affects option pricing

CONCLUSION-OPINION...Our opinion with Implied Volatility is that it tells us what has happened but not will happen. Just like the point spread in a football game is indicative of how teams have been playing to some degree. It is important you remember that options have intrinsic value (the amount it is in the money-higher than the strike price on calls & lower than the strike price on puts) AND time value/implied volatility which is a discounting mechanism to some degree of future price movements. EXAMPLE if the underlying market has been 40-45 (flat) for the last year; the Implied Volatility would be lower and the option price generally lower. Conversely; if a market has been 100-200 (volatile) for the last 2 months; the Implied Volatility will generally be high. In some respects option trading is volatility trading and if you enter calls after a volatile move to the upside where implied volatility is high; the market will have to keep that pace and then some to overcome the premium. The direct opposite with entering puts after a big decline. Of course; there are a variety of option trading tactics buying/selling/spreading and Implied Volatility measures are an important consideration. Our opinion is that generally low volatility can present an opportunity for buyers to use longer dated options and high implied volatility options can present an opportunity to use as a hedge in a number of strategies or a means to contract to buy the market at a discounted price.

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