OptionProfessor.com Alert
December 23rd, 2021

YIELDS

BY THE OPTION PROFESSOR

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Read on for the latest ALERT from The Option Professor...

OptionProfessor Alert:
Stocks-What to Buy? What If Yields Don't Rise?
December 23rd, 2021

We brought to your attention that the SPX 24 SMA on our 5yr chart came in about 4510-4530 area which was hit earlier this week and it's gone. Now a key area for SPX is on our 1 yr charts where the 12-24-36 SMA's converge around SPX 4645-4665...and today we've traded above it....let's see if we close out the week above or below those key short-term levels.
We also have told readers that when the VIX reading is in the 25-35 range this year it has been a buying opportunity.

For 2022; there is a consensus that the yield curve will steepen and financial, industrials, materials and cyclicals will shine. The fact right now is that the 10yr Treasury remains stubbornly UNDER the 1.75% level while the 2yr Treasury rate has risen which actually has the effect of FLATTENING the yield curve. This may very well change over time but that is a wish/hope.

It may be reasonable to get more defensive and look toward ENERGY-(Structural Shortage) LARGE CAP TECH-(Weather Proof) and HEALTH CARE (Supply-Demand) as a place to sit while the markets digest Fed stimulus removal, Omicron, slower growth, lower valuations & more volatility thru March '22. Mid Term Elections-Geo-Political wild cards are also a risk ahead.
This year most all the surprises were to the upside and that may not be the case in the first half on the new year.

We have a FOCUS LIST of diversified ETF's in Large Cap Tech (-Apple-Microsoft-Google-Amazon-Facebook) PLUS Health Care, Medical Devices, Precision Medicine, Health Care Providers, Pharma PLUS Big Oil, Oil Exploration, and Oil Services.

In 2022; it may be important to survive the first half of this ELECTION YEAR to reap the potential rewards of the 2nd half.
Go to option professor.com or email us optionprofessor@gmail.com and we will share our information with you

Merry Christmas Everybody!!

- The Option Professor, 12/23/21

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Be sure to read the other recent Option Professor Alert ETFs HERE:

• 12/17/21 – Accelerated Tapering

• 12/08/21 – VIX Buy Signal

• 11/26/21 – COVID Fears

• 11/11/21 – SPX 4724 Resist

• 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.

-7 Best Ways to Trade Options" download the full PDF HERE.

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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