OptionProfessor.com Weekly
December 18th, 2021

PORTFOLIO ROADMAP & BLOG

BY THE OPTION PROFESSOR

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OptionProfessor Market Update
December 18th, 2021

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

PORTFOLIO ROADMAP 12/18/21:

We had a very volatile week and as we said in other writings we believe the Fed is still accommodative on a net basis and there does not seem to be a recession dead ahead with the consumer in this kind of shape and real interest rates are negative and may stay that way so the competition for stocks is not great and foreign money flows into our markets like a fire hose. The SPX has support at 4600-4575 and down to 4500...option expiration is over and we will see if next week so is the selling. We have viewed the barbell approach as the best way to go as the results of value ETF's vs growth seems to be tight. Liquidity around the holidays and year end tax maneuvers can make strange bedfellows so we hold some of the action as temporary. A worldwide recovery is expected...a slower inflation and growth picture and valuation contraction is expected.....variant interruption is expected to abate....operating leverage at firms is outstanding and some have pricing power....total return (appreciation + dividends) may replace abject speculation....low P/E's & services (travel & leisure ect) may be much more in demand than in 2021. Having hedges to address portfolio risk could be considered in a Mid Term Election year when volatility may increase (remember 2020).We can share ideas-ask @email optionprofessor@gmail.com

Let's take a look at the Portfolio Road Map and get a look what sectors seemed to have worked & others not so much. Remember All investing involves risk and is not right for everyone. Consult your brokerage firm/broker to determne your own suitability and risk tolerance. Information and opinions given are for infromation purposes. It is NOT advice.

Income

We have maintained that 1.75% 10yr Treasury was the peak yield & EDV & TLT bottomed in price in March. Despite rhetoric but EVERYONE that rates have to rise they have not and until they do break above 1.75% and EDV TLT make new lows we will stick to our guns as we have been very correct. This year VFSUX has been stable with a slight gain and VWLUX has been stable while an attractive total return in our opinion. Added yield enhancer like FFRHX VWEAX

PFF XLU Plus high dividend VYM have done their jobs of enhanced yield at reasonable risk to date.

Growth

We tend not to delve into the way down the road earnings crowd where multiples and prices have tanked but rather the larger more reasonable earners. XLY VUG SPYG VCR and others have had an outstanding year while the other barbell of value MGV SPYV SPYD XLV XLI VAW VDE XLF have done a great job bringing growth to the Portfolio Road Map. We are researching VAC JETS HTZ ABNB EXPE and others to see if we will embark on a more return to normal in 2022.

International

This area has been pretty much a non event as the Pacific Rim and Emerging Markets (China ect) have been a disappointment as China slows down and Europe had about half as good a year as our indices. Next year if the global recovery broadens and normalizes VPL VWO VGK VSS may see a brighter day or a diversified VT may be a dark horse.

Speculation

We said stay away from Bitcoin & Ethereum (GBTC & ETHE) unless you get 30%-50% drops in prices (we got a buy signal in July) and now we may be on a precipice of another buy zone....we will see this week. Gold & Silver have whipsawed back & forth and our demands of sustained prices above 25 and 1850 have not been met. BUT...we monitor this closely as a turn may be in place but the strong dollar and distraction of crypto has hurt the upside BUT how long can low negative real rates & high inflation & fiat currency explosion go on without something causing a metals run from some level? We still like FCX as long as it stays above 36 and XLE above 52. Commodities in general have had a huge year which we spoke of in 2020 so the one stop shop VCMDX which was almost 50% thru Sept 30 was not the worst way to play it. Get prospectus.disclosures.

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BLOG UPDATE 12/18/21: Stocks Dive on 3X Witching-What Next? Bounce on Short Covering? Read & Learn

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

December 17th 2021 Option Professor Opinions & Observations

We got what we expected out of the Fed last week with 2x taper ending in March and 3 “hikes” next year. The stock market initially went euphoric with a run above SPX 4700 only to tank as the tech sector which got slammed then stabilized while financials energy value dividends gave back their advance by the end of the week… triple witching. Okay; that’s what has happened..what’s the reality of what is coming next. OUR VIEW is that the 10 yr Treasury and money markets are still a joke so if you want a guaranteed money loser vs inflation… have at it. The new variant is problematic (Radio City & Hamilton cancelled performance in NYC)……but if South Africa is an indicator the situation rolls over and deaths & hospitalizations are manageable. Retail sales were skinny in Nov but Oct was revised upward big time (maybe early shoppers) BUT without stimulus/unemployment the less fortunate among us (the spenders) may be less inclined to spend. The fed balance sheet at $9 trillion coming down may be offset by 2 factors which are less issuance next year (maybe all this selling is to create tax bills-revenue for govt) and more important the US Dollar is the big dog and foreigners are buying up our debt like mad (almost 70% of auction last week was foreign buyers). They get a massive increase on the local yield and they get a currency play. The ECB is easing and Japanese does nothing and do you want your $$ in the Yuan (ask Jack Ma how that’s worked out!). We feel we may be in a 2010-2015 repeat when the Fed promised hike but the data went south and so did those plans. Inflation may not go away on its own as shelter inflation (rents ect.) plus wage inflation is sticky. Maybe if stocks cool the employment participation index rises. We currently believe 3 MAJOR themes for 2022 makes sense……#1…investors will want income on their investments and reasonable P/E ratios as the look for the return of their capital…..#2….the heyday of durable goods purchases (Home Depot ect) will be replaced by money going into services (travel-leisure-re-openings) as the consumer is still in great shape and wages are flowing and global recovery continues plus the old song goes “People Just Want to Have Fun!”….Finally #3….A hedged Portfolio in 2022 may make a lot of sense as it is a Mid Term Election Year and at some point the market will get whacked as Long Term Moving Averages on SPX are about SPX 4200-3700-3500 and if Fair Value P/E is 18X at 2.30 earnings could put us at SPX 4100. The drop does happen earlier rather than later historically. We hit SPX support at 4600 Friday (50 day moving average)….more underneath at 4575-4500 and worst case at 4400 while closes ABOVE 4650 could very well start the engines for year end and January Effect prices..LEARN MORE NOW!

Go to optionprofessor.com and enter your email and we can provide our Focus List for 2022…Now’s the Time to Do It!