

OptionProfessor.com Alert

March 4th, 2022

WHAT'S BETTER NOW? VALUE OR GROWTH



BY THE OPTION PROFESSOR

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OptionProfessor Alert:
LEARN! What's Better Now? VALUE or GROWTH
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Before we get going here; let's give a primer to understand the difference between VALUE stocks and GROWTH stocks.

VALUE stocks are usually thought of as stocks that have LOW P/E's (Price to Earnings Ratios), low price to cash flow, and a high DIVIDEND YIELD. The GROWTH stocks have high valuations (P/E ratios and other metrics) and pay little or NO DIVIDENDS as they reinvest profits to try to sustain and expand growth rates. VALUE & GROWTH serve opposite objectives.

There is always a debate between growth investors and value investors as to which style of stocks is the place to be. Since the GFC (Great Financial Crisis); we saw GROWTH outperform VALUE for the majority of time. The Growth bulls prevailed.

We brought to the ATTENTION of investors in DECEMBER 2021 that the TIDE WAS TURNING in the relationship between value and growth favoring value for the foreseeable future and suggested a SWITCH in EMPHASIS was in order based on the DIFFERENTIAL between the ratio of the Wilshire US Large Cap Growth Index and the Wilshire US Large Cap Value Index

We looked at the chart and went back OVER 40 years and came to the conclusion that AFTER a stock market peak and sometimes a Fed tightening cycle; we saw a distinct change with investor attitudes toward growth versus value stocks.

For example; after the peak in 1980, VALUE ratio outdid GROWTH until 1985. After the 1987 peak; VALUE ratio outdid GROWTH until 1989. After the peak in 2000; VALUE ratio outdid GROWTH until 2006. We saw VALUE pick up steam after 2015 and 2018 but those periods were BRIEF probably due to a pivot in Fed policy amongst other factors.

RIGHT NOW; we have seen SPX peak at 4800 and the Fed switch to removing accommodation and fighting inflation.

TWO MONTHS AGO; we got a PEAK in that ratio and a ROLLOVER that may be significant for future TRENDS in VALUES.

Should INFLATION not abate and the Fed need to TIGHTEN MONETARY CONDITIONS greater than anticipated; positioning that is weighted toward VALUE may make sense. Growth stocks tend to have earnings in the future-higher rates hit values.

GET YOURS! The Option Professor is making AVAILABLE to YOU a GROWTH STOCKS to VALUE STOCKS Ratio Chart so you can see for yourself the historical relationship. We believe investors should be AWARE & MONITOR this relationship in 2022!

ALSO- The Option Professor has created a PDF REPORT outlining OUR BEST VALUE STOCKS for 2022 and beyond!

To Get Yours TODAY! Simply email us at optionprofessor@gmail.com or call 702-873-8038 or visit optionprofessor.com

- The Option Professor, 03/04/2022

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- 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 (σ) 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](#).

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