OptionProfessor.com Alert
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COMMODITIES PEAK 2022

BY THE OPTION PROFESSOR

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OptionProfessor Alert:
Bonds PEAKED '20/Stocks PEAKED '21/Commodities PEAK '22??
March 4th, 2022

With the price of Crude Oil-Natural Gas flying through the roof along with Grains (Wheat-Corn Soybeans) and now Precious & Industrial Metals (Gold-Palladium-Copper-Aluminum ect); we thought it important to review what we have seen in the last 24 months and many of you may have failed to recognize as sometimes we "Can't See the Forest for the Trees."

The prevailing opinion (hope) is that inflation will go away, the Fed can't hike too much and commodities will stay on fire.
The market has had HISTORICAL CYCLES that are worth looking at and give an appropriate amount of weight RIGHT NOW!

We'll share our OPINION on the 20yr and 40yr CYCLES. Let's start with the BOND MARKET....interest rates ROSE from about the early 1940's to a PEAK in the early 1980's (16% Long Bond!) or about 40 years. From that PEAK in the 1980's to 2020 interest rates DECLINED to where Treasury interest rates BOTTOMED near a ZERO interest rate or about 40 years. The NEW CYCLE began in March 2020 and interest rates have been moving overall HIGHER or put another way closer to home Bond investors have seen the Bond Values DECLINING since March 2020. The expectations are the interest rates will be RISING.

Should the RISE in interest rates and SLOWER GROWTH intersect; the DEBT market could be vulnerable to more DEFAULTS

Let's move to the STOCK MARKET......the Stock Market has had two (2) MAJOR runs since the 1980's....one RUN was from 1980's to 2000 which culminated in the DotCom blowoff and bubble bursting. From the early 2000's to 2021; we also had a RUN to 2021 (last year) which is in the ball park of BOTH the 20 and 40 yr CYCLES. As we know; stock prices have been DECLINING this year & where BUYING the DIP has been effective in the past, some MOVING AVERAGES are pointing DOWN

COMMODITIES like Crude Oil-Grains-Metals are on a BIG RUN UP as we write this and it has been our base case that we saw a BOTTOM of the COMMODITY CYCLE in 2020 April. The price action has been violent on the upside and NOW prices may TEST or EXCEED the HIGHS of 2008 of the GOLDMAN SACH COMMODITY INDEX. With the war in Ukraine, supply chain issues and other factors; the stage is set. The next 12 to 24 months may see VOLATILITY spikes in Stocks, Bonds, Commods.

OUR CONCLUSION- Investors may want to consider SAFETY in their BOND portfolios in a rising rate environment of which the road is UNCERTAIN. Investors may want to prepare for UNUSUAL VOLATILITY in STOCK portfolios until SPX 4600 is EXCEEDED. Finally; investors may want to PREPARE EXIT STRATEGIES in Commodity Related Markets for a potential PEAK in 2022 when and if we TEST or EXCEED the 2008 highs of the Golman Sachs Commodity Index. Things can move very quickly.

Remember All investing involves risk and it is not right for everyone. Consult your brokerage firm/broker to determine
your own suitability and risk tolerance. Past performance is not indicative of future results. Information and opinions are provided for informational purposes only. It is NOT advice.

- The Option Professor, 03/06/2022

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- 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.