OptionProfessor.com Weekly
April 30th, 2022

PORTFOLIO ROADMAP & BLOG

BY THE OPTION PROFESSOR

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Read on for this week's update from The Option Professor...

OptionProfessor Market Update

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

OPTIONPROFESSOR PORTFOLIO ROADMAP 4/30/22:

This week the stock market continued to unravel and reprice based on tighter evaluations, a slower economy and higher interest rates. As we have said that a earnings of $2.30 on SPX with P/E Ratios of 17 = SPX 3900 and at 15X is SPX 3450. This is why we have been saying since last year that most stocks peaked in 2021 and Learning About Hedging was reasonable.

Evidence came out in the form of earnings and guidance (AMZN & AAPL) and growth (GDP) and Inflation & Interest Rates. No one knows for sure where this will end or if we are close or far from a sustainable low point. Some cycle believers think that a serious unwind (more than already seen) is ahead while others opine that the lows will hold and sentiment's low.

Two things we have believed is that a short term (0-24 mos duration) LADDER could help stabilize Income portfolios and for those who would rather watch Rome burn for afar.....and for those needing to be in the market...look to staples, utilities, and dividend payers and energy metals and agriculture beneficiaries. This was pretty good thru the first 4 months of 2022 BUT if a truly severe unwinding from here materializes....short term cash equivalents (Treasuries) may be true shelter.

We have spoken of Covered Calls 15% to 20% ABOVE the market as a way of protecting the cost basis and on many markets that has been reasonable. In many cases; the consideration of Collars & Married Puts has been even more than reasonable

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Let's take a look at the Portfolio Road Map to see how things are going...Remember CONSULT YOUR BROKERAGE FIRM to determine your own risk tolerance and suitability. This for informational purposes only It is NOT advice.

Income/Bond Market

Interest rates continue to be pressured upward as the inflation numbers may have a structural element to them and prove more difficult to break. Home buying and other interest sensitive purchases declining may help ease some of the pressure off inflation in the months ahead but structural pricing in rents and wages may be here to stay awhile longer. The rates market is way ahead of the Fed so IF we get a break in markets, demand and prices the Fed may not boost rates as much. We have looked at Ultra Short Term Bond Funds with a duration of about 1 year as an area that may be interesting

Stocks-Growth vs Value

We have opined that Growth peaked in Dec 2021 vs Value as that Ratio rolled over. We thought staples, dividend payers and utilities were the way to get hurt the least BUT should a severs unraveling occur...most all values will be affected. When and if we see a downtick in inflation and an uptick on the unemployment rate; the Fed may relax their vigor and a heavily discounted mega cap tech & growth new day may begin. Patience may be a virtue here thru the end of Q2.

International/ US Dollar

We have felt that China's lockdown and other factors made that region difficult to consider despite easing monetary policy and the strong dollar hurt emerging markets. Europe is mired in the worst inflation in memory so caveat emptor. Mexico & Brazil were doing well but inflation and higher interest rates may be their Achilles heel. We will monitor for a turn there and Pacific Rim (Korea Japan Australia). The Dollar is firm & talk of parity to the Euro looms while the Yen fights with 20yr lows

Speculation Oil Gold Ags Crypto Base Metals

We are suspecting that many of these markets may be peaking in 2022 and continue to look for price evidence confirming that opinion. We have started to see the markets stop making new highs which is the first step....and we have seen some declines to boot. When markets go parabolic as many of these markets have done; a peaking process may take some time
Unless more parabolic moves and some for of hyper inflation evolves...prices such as Oil 147 Gold 2100 Copper 5.00 with Soybeans 18 Corn 8-9 Coffee 2.60 GBTC 55 ETHE 45 may prove difficult to exceed....but the jury is still out...Fed's coming in

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BLOG UPDATE 04/30/22: Stock Market-There's A Reason We've Encouraged Learning to Hedge-Must Read!

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April 30 2022 Option Professor Opinions & Observations

There's really not a whole lot to add to our basic message that BONDS PEAKED in 2020 and STOCKS PEAKED in 2021 and we expecting COMMODITIES PEAK in 2022 (Oil Metals Grains). We spoke of these to our readers for a long time and this week we got more evidence of a slowing economy (GDP contracted). We also got more evidence of either slower earnings (AMZN Operating Income off 58%-$8.9 Billion to $3.7 Billion) and concerning guidance (AAPL- supply chains and almost 60% of business from China-Europe-Japan-Asia….all with dodgy economic outlooks). The bloom has come off the rose a bit in the commodity oriented stocks like Energy (CVX BKR) and Metals (NEM CLF) and Agriculture (ADM CF MOS) which have seen recent pull backs and depending upon how things shake out in the weeks ahead may be creating the price evidence of exhaustion in what could be peaking commodity prices this year.

As we have stated; the Fed is REMOVING LIQUIDITY and markets are in the process of REPRICING that reality. Questions abound…are the banks dropping because their is risk to the mortgages and refis that they did when rates were low now that the Fed is not buying mortgages? Have they done mortgages with loans to values that will be problematic if real estate prices buckle? Will the consumer spend up a storm or succumb to higher cost of living? Is the inflation more structural (rents, wages, PCE Index 60% HIGHER than LT Average ect) and therefore difficult to suppress? The Treasury yields continue to JUMP into new high territory for the move this month (is their a credit crisis ahead?) Defaults on HY have been near nil & that's not exactly normal. If rates remain elevated; rolling over that debt is tough.

Here's some numbers we are watching on the major indexes as TECHNICAL LONG TERM Support and Resistance…SPX Resistance 4434 and Support at 4000 and 3650…..QQQ Resistance 326 & 363 Support 280….IWM Resistance 215 and 196 Support 180…..SMH Resistance 270 & 233 Support 197….AAPL Support 155 135 110 AMZN Resistance 2745 3170…. MSFT Resistance 298 Support 258 222 IYT Resistance 260 Support 234 216 ….we suspect Q2 much of the repricing seen

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We look forward to hearing from you!

Thanks!

The Option Professor

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