

OptionProfessor.com Quick Alert

May 27th, 2022

STOCKS-SHOULD YOU FEAR JUNE?



BY THE OPTION PROFESSOR

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OptionProfessor Alert:
Stocks-Should You Fear June?
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We have gotten a big rally in the last 2 days in stocks. We told readers that when the 10 yr Treasury backed off the 3.20% yield and traded sub 2.8%....the SPX low at 3800 was safe for now and a rally into the holiday was on (EXACTLY) . We see stocks like NVDA & DKS issue cautious guidance & drop in price only to jump up in price thereafter. Very Good price action!

The LIQUIDITY of the market stinks so when it's RISK ON (dark pools-high-frequency traders-citadel) provide gaps up and sometimes just a quickly you get RISK OFF and prices can get pummeled. For longer term investors; their balances gyrate.

The consumer is going nuts. They are out there eating, drinking and traveling up a storm (they even have a new phrase called YOLO...means you only live once:). That's Great!!....However; it does very little to help the Fed achieve their mandate of stable prices which is their MISSION at this point. BANKS are not helping as to make up for refi loan biz collapsing...some are extending CREDIT for no interest for a number of months (use 10 grand credit pay 5% upfront net \$9500) and then get 20% interest on the balance down the road! The unemployment report did even less to help as the SURPRISE number was to the downside suggesting that this labor market remains white hot. Everyone's working plus got raises and Covid's prisoners have been let out. Next Friday we get another jobs report...if it's hot again...the Fed's hurtin'.

There is PLENTY of RESISTANCE technically above the market on SPX at 4150-4260 and if very lucky 4425. The late great Marty Zweig said it well with "Don't Fight the Tape & Don't Fight the Fed" so when we saw the 10 yr Treasury and SPX 3800 relationship; we had no trouble going with this bounce BUT we do have trouble with buying too much of this strength in the SPX QQQ ect when we have so many moving averages on LT chart crossed and pointing down and with RSI's sub 50.

When the market on SPX was double testing 3800 and the VIX was close to 35 was the time for cash secured put writing and call spread reversal strategies.....now the odds are shifting back to portfolio insurances strategies into resistance.

CORPORATE EARNINGS have been guided lower by the firms themselves as inflation costs increases and margins cut is real

VALUATION COMPRESSION is getting a bit of a recess but we believe school will be coming back into session fairly soon as the Fed cannot get some DEMAND DESTRUCTION until credit spreads widen, labor cools, and the consumer comes up for air.....this ain't gonna happen if stocks go thru the roof and yields are accommodative....so we'd careful betting that way

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Thanks!

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All the Best,

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- The Option Professor, 05/27/2022

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