

February 19,2020

DIS: We buy 3 Apr 145 calls pay \$2.61

Family Ties

A few days ago I was flipping through the TV channels and came across an old episode of Family Ties.

This one happens to be a 'very special episode'. It starts off with the usual Jokes of Alex (and now the little brother in his image) being republicans.

This episode happend to be just after Bush I was elected. Steve Keaton gets back from a run and is having a pain in his chest.

Alex P. jokes that he is having 'Dukakis separation syndrome'. I imagine at one point that was actually funny.

Now, as I am older, it is still funny, just not funny ha ha. It's more funny 'what a weird premise that would never work in today's polarized political environment type of way' (Heck I am not sure if they could get away with Dharma and Greg nowadays).

Getting back to why the episode is special, Steve Keaton's pain in his chest is actually a heart attack. The man had 'ignored his body' and ended up having bypass surgery.

Cut to flash back scene of him proposing to Merideth Baxter-Burny, cut to him back on the operating table with the flat-line beep going and scary:

TO BE CONTINUED...

I was younger than Mark II when this episode came out. I specifically remember watching this on Network TV.

At the time, my whole family was sitting around the family room watching this. We were silent at the end of the episode. I think my mom said something like

"Oh my gosh"

Looking back it seems a little silly to me, who in their right mind thought Steve Keaton was going to die?

I tried to watch the whole episode but frankly found it to be campy and cringe worthy.

Yet, it is one of the more memorable sitcoms from the 80's. I remember really liking this show.

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Our trading can kind of be like an old sitcom. We remember how great it was and how great we did at this time or that time.

Yet I think if many of us had to go back and look at what we were ACTUALLY doing at the time, it would not be nearly as wonderful as we remember.

If we were making money, was it because we were a really good sitcom, or was it that there were only 3 networks (and maybe Fox for part of it) while we were 'killing it'?

There are times where it is really easy to make money, and times where it is hard. Maybe Family Ties is from the 'easy times'. Maybe our trading past is too, who knows.

Whatever was made or lost in the past was from a VERY different time. Even 3 years ago it was a totally different trading environment from today.

Television (that isn't reality TV) is MUCH better than it used to be...because it has to be. You as traders are MUCH better than traders used to be 30 years ago, because you have to be.

Thus be careful of those who wax poetic of trading 30 years ago, it could be they were actually just a crappy unwatchable sitcom with no competition.

Markets

The S&P 500 is a pittance away from an all time high as we write this, most of the gains have been on the backs of the 'Big 5' which are ALL tech names.



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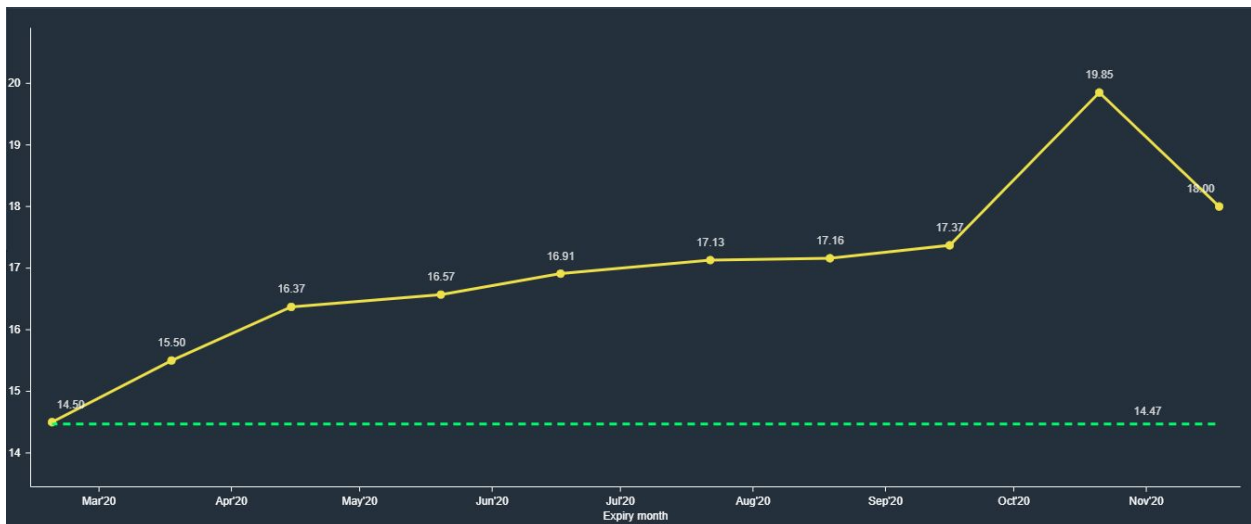
The S&P 500 is brushing off the pandemic fears out of Asia, potentially slowing growth world wide, because corporate earnings were pretty good last year. Yes, there are some insane movers right now, which brings back memories of 1999, but the speed of the market is not there. Nor, outside of TSLA, is the crazy price action of stocks. The S&P rally has mostly been a slow rally.

Thus, maybe do not go out looking for 'the big one' but maybe go looking for the slow one. By that I mean markets could slow down CONSIDERABLY as we enter the election and we sort out issues in the east. Corrections can come in two ways.

1. A sell off
2. Slitting around for an extended period of time.

Markets, especially some of the crowded names like AAPL, could be heading for the latter, NOT the former.

If you are looking for a sell off, the one thing that would keep you tuned in is the VIX, which continues to trade relatively tight. The Cash is above 14 and the spread between cash and the March future is only 1 point. This is soft by about 50%, because the cash is expensive.



When we see these types of relationships the future tends to be right, this implies that the VIX will be dropping in the coming days all other things being equal.

As a whole, I think this all adds up to 3400 in the S&P 500, but not so sure from there. It also seems to point toward the VIX making a trip back below 13.5 maybe 13 in the coming days.

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Option Pit Traffic Light:

SPX: Yellow

SPX IV: RED

VIX: RED

VIX IV: RED

VXX: Yellow

Disney

A few weeks ago we made a case for Disney. That base case still exists. We think there is going to be GREAT growth from Disney Plus. The parks are going to recover, and even Asia will stop being a drag on the stock.

Now that earnings are out, the structure of the options has changed and we have a much more reliable stock chart. Starting with the chart, the 200 DMA seems to be a really nice line in the sand for the stock. It has bounced off that sans a short period prior to earnings (that we took full advantage of).



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As the Asia virus fears calm down, I think we are going to see DIS make a run at the high from just before earnings, if not the high from December. Remember this is NFLX, but makes money hand over fist in other operations.

IV of the options has gotten extremely cheap relative to the daily moves:



30 day IV is approaching 52 week lows, 90 day IV is already there. This makes trading in the April May June time frame attractive to me. Looking at term structure, there is a nice discount to the trade to buy April options relative to March:

Feb21	Feb28(W)	Mar06(W)	Mar13(W)	Mar20	Mar27(W)	Apr03(W)	Apr17	Jun19
18.49	17.13	18.14	18.14	18.80	18.48	18.55	18.75	20.39
0.10	-0.30	0.00	-0.10	-0.20	-0.10	0.10	-0.20	-0.20

In a more complex structure a calendar spread would make a ton of sense in DIS. For the purposes of this letter though, I like the simple approach of buying the April 145 calls.

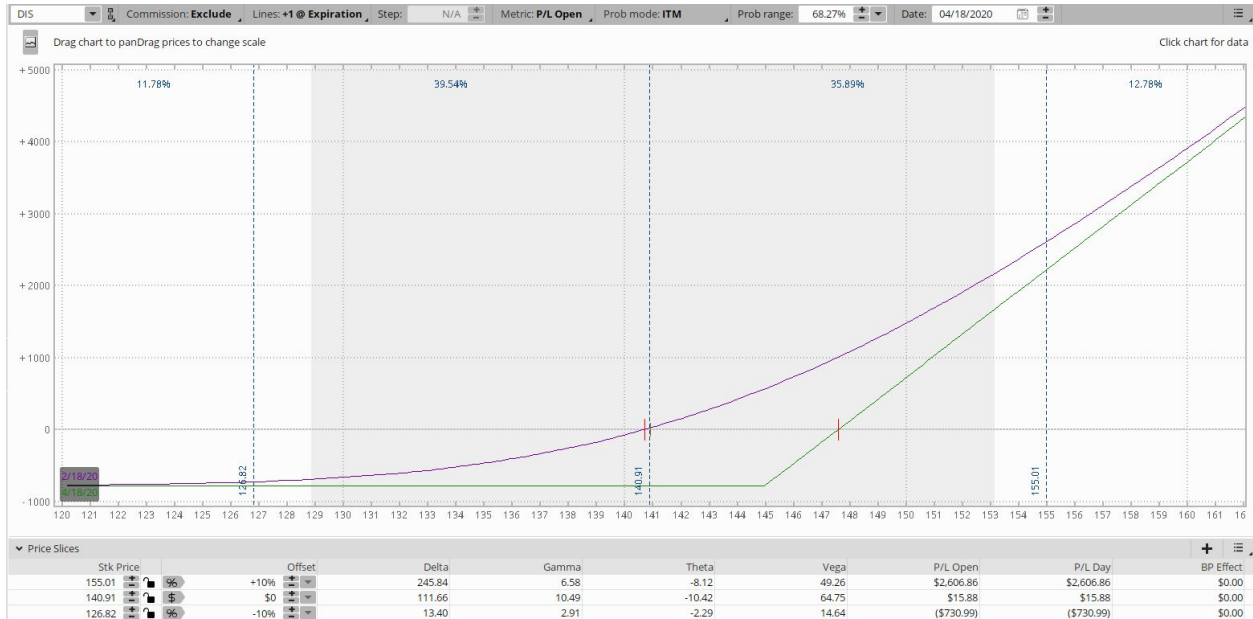
A 3 lot of calls costs about \$750.00. I could buy 4 and still only spend \$1000. But with the aggressive nature of this position, I do not need to spend that much to get a GREAT bang for my dollar. I also have room to add to this position prices become more favorable.

I expect to be out of this trade in the next couple of days as the market pulls the mega caps higher. In addition, the fundamentals of DIS itself make this trade quite favorable.

Trade: buy to open 3 DIS April 145 calls for \$2.61

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On my 800 dollar trade I would like to make 300-400 dollars, with luck I will get a 'gap' and potentially make much more. I would have a soft out at less than \$2.00 a contract, and if some sort of negative news breaks I will need to have a quick trigger.

Your Only Option

Mark Sebastian

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