Trade: We sell to open 1 AAPL Dec 272.5 call at $2.00 and buy to open 1 AAPL Dec 277.5 call at $.95.

This trade has made the move Mark was planning on capturing. They will discuss during the chat.

New trade: We sell 3 Dec 250/245 put spreads collect $1.00

Too Short

I am a big fan of football, namely, the Chicago Bears. I have the history of the Chicago Bears on DVD, and when they were REALLY bad, I make my son watch the 1985 Bears season in review DVD (narrated by Harry Kalas). I wanted to make sure that my son had a Bears team to root for so that he wouldn't turn into a fair weather fan. I may have done too good of a job, because his favorite player is Walter Payton...he is 9. But I needed young Mark to know a good team, because for a child bad can seem like it will never end.

The Bears were REALLY bad from 2013-2018; it probably seemed like Bear badness will never end to Mark. Mostly because that would be all Mark knew. I mean he literally cried on a missed Robbie Gould field goal (https://wgntv.com/2015/12/14/the-morning-after-the-crying-shame/) scroll down watch the video, it's heart breaking.

When I was a kid, I had the exact opposite happen from 1984-1990; it seemed like the Bears would be good forever. Needless to say, that changed. Mike Ditka was fired for Dave Wanstedt and the Bears sucked for about 15 years.

Why am I telling you this story? Because for about a month straight ALL I saw on Twitter was Fed is buying bonds forcing the market to go up, "The Market MUST go up forever". Then last week I saw "now that we are in December there MUST be a Santa rally". It is amazing how much childlike "recency bias" (most easily remembering something that has happened recently compared to remembering something has occurred in the past) there can be in the market and ESPECIALLY in retail traders.

Generally speaking, most traders are not five years old like my son was in the video above. They have seen a market where we drop and a market where we rally. Heck, in a five year period, we had a 2008 and a 2013. In the last year, we have seen a market have a near record breaking up month (November) and a REALLY ugly near record breaking post-Christmas sell off (last year).

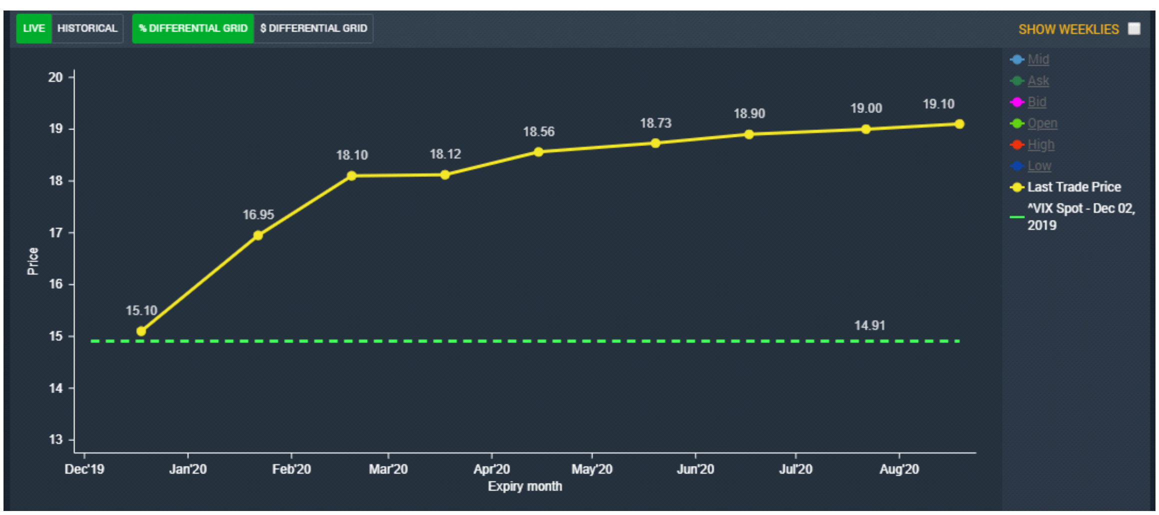
Yesterday, (12-1-2019), the market had its first major sell off in nearly two months, dropping ALMOST 1% (laughable). Needless to say, the only tweets I saw were shock, but it will bounce (a few), and I told you so (almost everyone even though they kept it too themselves). Do I think we are doomed to have a December like last year? No, I do not. Do I think we are going to have a November like this year? No, I do not. I am simply going to look at the market, see what happens today, and take what the market is going to give me.

Thus, for the time being, I think the money to be made is going to be in stocks not in indexes. SPX markets are relatively thin; stocks maybe make more sense. This is why I am taking another crack at one of the leaders for 2019: AAPL. However, I will be using a slightly different relative to the trade from a few weeks ago.

But first, let's about talk the S&P 500.

The S&P 500 is down over 1% in a two day period. Yesterday's down move was a giant candle relative to what we have seen recently

The last time it had a candle like Monday was back in early October. That turned out to be a rocky few days, but actually lead to the November rally. The question now is does this shake out and pull us back? Do we chop? Or do we V bottom and rally? The answer is we do not know, yet. I will say that the VIX made a strong move today popping 2.3%: from the high 11s to the low 12s back to near 15. Yet on a strong move, the VIX curve held solid:



Last week I commented that the contango was GIANT. The spread between Dec and cash was wide; at the time, VIX was 12, Dec future was about 14.20. Now VIX is 14.90 and Dec is about 15. With about two weeks to go, the Dec future moved at a beta of less than .50 for the day. That is because this sell off was BUILT IN. The point is that the market was ready for the shake out, almost expecting it. Where to next? We will find out tomorrow, but as long as we are in a contango formation, the lean is that we go higher, although probably not like the last few weeks. I DO think we see the VIX back off from the current level by the next time I write this.

Option Pit Traffic Light:

SPX: Yellow

VIX: Red

SPX IV: Red

VIX IV: RED

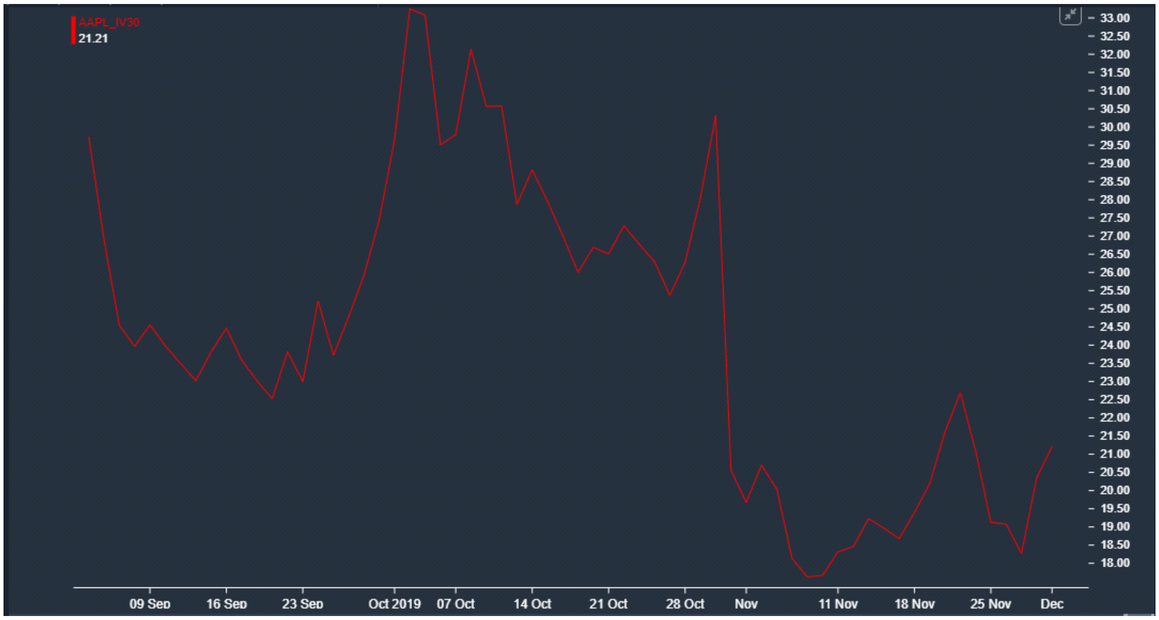
VXX: RED

The Bad AAPL

A few weeks ago I wrote how AAPL seemed to strong. I was right, literally the next day AAPL gave away about five points.

AAPL went from over 266 to near 260 in short order. Yet, the stock quickly recovered....WITHOUT making a new high. Yesterday, on a day when the S&P 500 was having its worst day in a while, AAPL was not dying the way it did two weeks ago.

Yet, at the same time, the IV of AAPL got a really nice POP with the VIX.

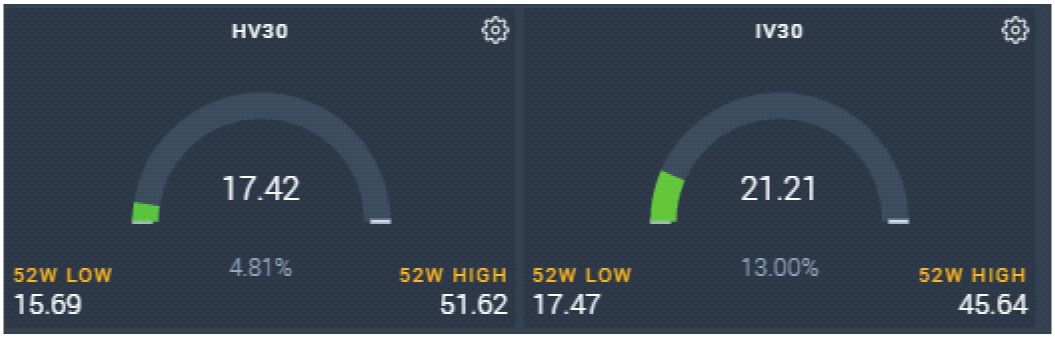


AAPL IV, on a three point move, rallied almost as hard as IV rallied on a six point move two weeks ago. IV is back above 21 looking at 30 day IV. And if one is strategic, there are places where IV might be even higher.

Yet, take a look at the momentum of AAPL. While 10 day is ticking up a touch, 20 and 30 day are not.

I actually WANT HV to tick up in AAPL, if I want to short it. This is because LOW HV typically means a stock is slowly climbing higher, relentlessly. A change in HV in 10 day, to get OVER a clearly sinking 20 day HV, means that AAPL is finally starting to see investors willing to sell the stock when it gets to a certain level. That level appears to be $265. Thus, the pop in 10 day HV is a benefit.

Even with the pop, though, one can clearly see that IV is expensive relative to movement



With the choppy movement in the stock that I believe is coming, and HV rallying a touch, I am finally willing to sell an option in the face of AAPL. I want to sell a call spread in the stock betting that AAPL might not tank, but that it's probably done relentlessly climbing higher, for the next few weeks.

Looking at term structure, I want to sell the most expensive term that expires before Christmas, and that would be regular December.

Dec06(W)	Dec13(W)	Dec20	Dec27(W)	Jan03'20(W)	Jan10'20(W)	Jan17'20	Feb21'20	Mar20'20
21.59	20.92	22.16	21.19	21.22	21.37	22.24	25.76	25.22
4.70	2.50	2.50	2.10	1.60	1.30	1.50	1.30	1.00

Looking at strike to strike IV's, the cheapest option to own is the Dec 275 and 277.5 calls. The 270 and 272.5 calls are both decent sales. Given this is AAPL, I like giving myself a touch more room. I can take in over $1.00 selling the 272.5-277.5 call spread, or $1.40 selling the 270-275 call spread. If I sell three of the 272.5-277.5 call spreads and collect $1.05, I would be looking to make about $150-$200 on the three spreads.

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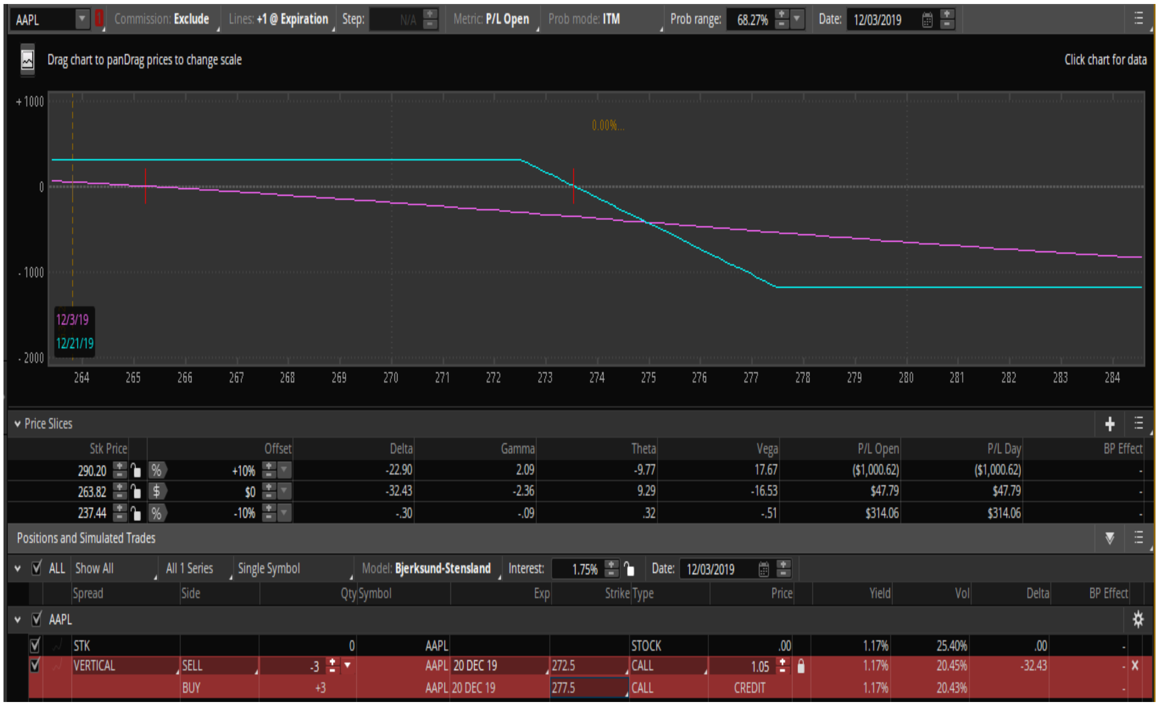

I am trying to buy these spreads back for less than \$.40-\$.50 a spread, meaning I want to make about \$175.00 on the trade.   I am willing to lose \$250 on this spread, thus I will cover for \$1.75 a spread.

bastian