

The Future is Now

Recently, I was watching Youtube and came across the brilliant astrophysicist Brian Cox. I had a couple of take-aways. One thing I had never thought fully through is how incredible it is that we are all actually here: you reading this, me writing this.

The universe is 13.5 Billion years old. It took 13,499,900,000 of those years to get to people. Think about that? Now contemplate this, it took 13,499,999,700 of those years to get to modern economics. It took us 13,499,999,850 of those years for the stock market, flight, cars, computers, everything that has occurred in the last 150 years.

Basically everything we know about everything, has happened in an incredibly short relative period of time.

Another take away I had involved time travel. It is possible to travel into the future.

If you and I are standing on a rocket platform, and you jump in a Rocket Ship moving at 30,000 miles an hour for several months. If you are wearing a self winding watch and I am as well, when you get back to earth, our watches will NOT be synchronized.

At 99.94% of light speed, if you travel far away from earth for 5 years and come back for 5 years, according to Einstein, 29 years would have passed on earth. It's incredibly fascinating. Watch the 4 minute video here:

<https://www.youtube.com/watch?v=-O8lB1cHre0>

The final take away also involves time travel. Based on the exact theory above, it is impossible to travel backward in time. That ticking clock function Mr Cox demonstrated does NOT work in reverse:

We can travel into the future, but we can never go back....just like something I call living.

So what is the point of all this?

1. If it can take the universe billions of years to get to where we are now, is a few extra hours of study for you, to get to where YOU want to go worth it? Yes. Yes it is.

If you live to be 90, you will have just under 790,000 hours on this earth. You'll be awake for 530,000 of those. You'll be an adult for 440,000 of these hours. Spending 20-30 of them to improve your life (like learning to manage your dollars) is worth it.

2. We might be able to time travel, but we cannot see into the future or use it to our advantage. We can only use the information that is at our fingertips. Is there a 'rigged

system'? In some ways, yes, but not in a way that you would be able to notice it. The 'rigged system' is a lot more like the plot of Superman 3 than it is a boiler room for traders like you:

. <https://www.youtube.com/watch?v=N7JBXGkBoFc>

In the end, you have as much of an edge trading and investing as anyone else if you pour your heart into it (or in this case, learn from people who are pouring their heart into it....me, Andrew, Licia, Joshua etc).

3. Finally, and this is the most important part...we cannot travel back in time. It appears to be against the laws of physics. Therefore, it is important to learn from past mistakes, but not to live in them. If you are beating yourself up over some bad mistakes from the past, you are not traveling forward. You are stopping yourself from time traveling, with the scarce hours you have on earth.

Many of the formulas that tie options together are straight out of a physics textbook, The laws of trading apply to us, and the products we trade.

And now the Markets

To say the market has been volatile over the last few sessions would be an understatement. Friday the S&P was down 60, yesterday the S&P was up 40 before being up ONLY 23 at the end of the day. As I write this the S&P 500 is up over 40 again.

If you think that lots of volatility is bullish you would be wrong. These things tend to lead to a shake out BEFORE the market rallies. That said, it's not like things are THAT cheap, we are about 2% off the highs right now.

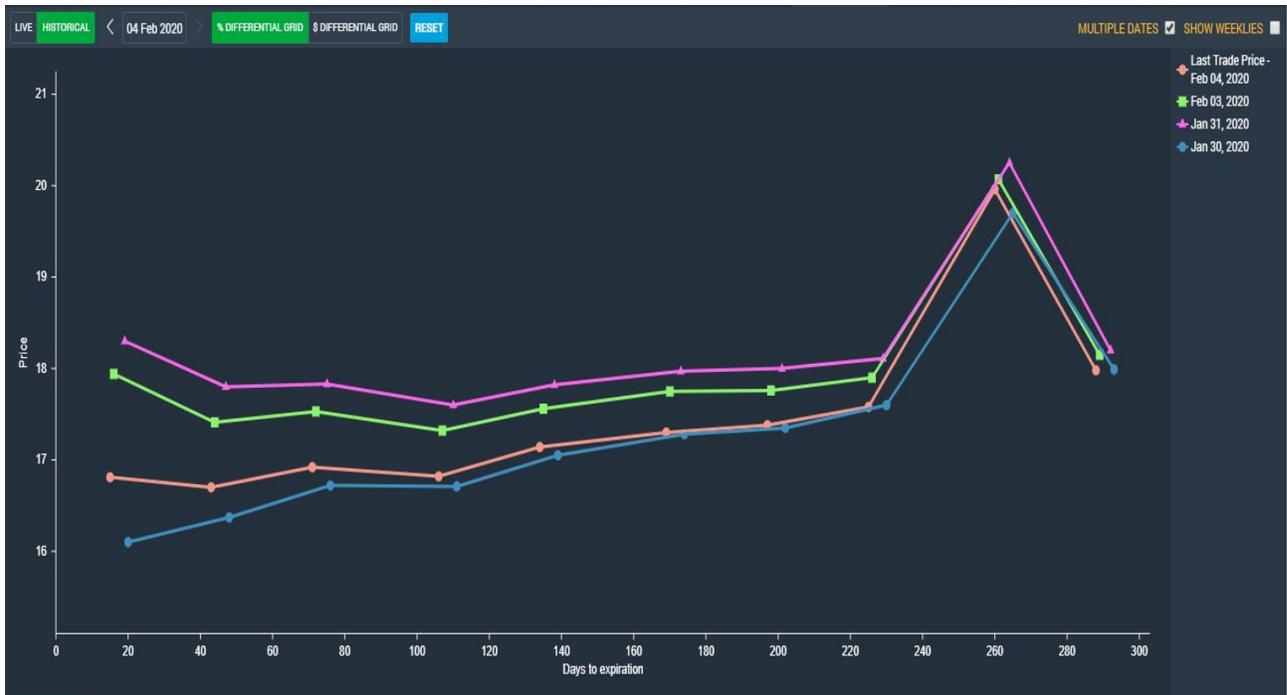


If you look at how long chop, like the one we are having right now lasts, in September the chop took a couple of trading sessions to work out. Prior to that we had a LOT of chop for 3 weeks in August. Based on the way the year started and the run up prior to that I could see this kind of chop lasting for a few more days, with maybe one more BIG leg down.

Realized volatility is going up not down, that is not bullish the market



I think the most important part of all of this though is the VIX. With the S&P now HIGHER than the close of business on Friday, take a look at how VIX term structure has moved from Thursday to today:



The VIX futures are WAY above Thursday's close and are still showing slightly backward/flattish. This means that by no means is the market giving an all clear signal. At this point I am not adding to hedges, but I am not rushing to take them off either.

If one was looking for a true green shoot to rush out and buy on it would be this: the cash index is below the entire future curve. That is not the BEST bull sign and I would argue that its showing a weak correlation to the index today as well. But if you are looking for the bull case this chart below is it:



The one area where I do think IV may have played itself out is in the VIX options themselves. VVIX is probably heading lower, not higher.



Option Pit Traffic Light

SPX: Yellow

SPX IV: Yellow

VIX: Yellow

VIX IV: RED

Stock Trade:

UPDATE on DIS

We have CLOSED DISNEY AS OF THIS MORNING: Normally I would hold it, but when we make 23% BEFORE they announce earnings we take our dollars. We may get back in at some point.

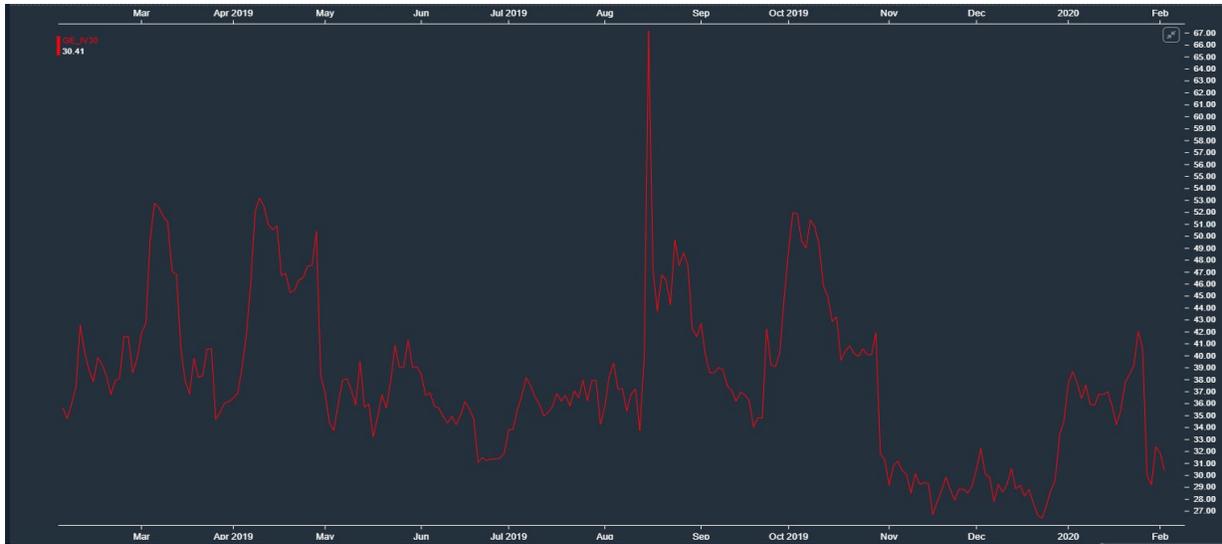
Going through my lists today it is VERY difficult to find something I like. I was looking for something to sell, the only thing I can find that I actually think is going to drop is AAPL. The problem with setting up a short AAPL trade is that it literally has to be at a moments notice. So what I will say is keep an eye on the Videos I put out, there will be a similar trade to last week's AAPL short at some point. For those of you desperate for a TSLA short I like the Feb 800-700-600 put fly for less than 15 bucks, but that is NOT going to be something we add in as a trade either.

So what do I do when the market is completely crazy? I like boring. I also look for stocks that are hitting some of my 'system B.E.T.S.' Which brings me to General Electric. GE might be the most boring stock in the world to most people, but one look at the chart and we can see it is not.



Since the stock got 'whistleblown' it has seen a crash and a recovery. It is currently JUST off its 52 week high on the heels of really good earnings. I personally LOVE stocks that had a gap on earnings higher, and then subsequently gave some back without completely tanking (see Walmart Price Action Rope A Dope that caught me last year).

At the same time the IV of GE is about as low as it has been over the last year save a few weeks in December when the VIX was also really low. For the IV30 to be JUST above the 52 week low in THIS vol environment tells me that there is A LOT Of call overwriting here.



As I review the Options Tape I can actually SEE call overwriting today. Take a look at the paper in GE June 13 calls:

Time	Option	Qty	Price	Exchange	Condition	Market
09:40:25	Jun19 13C	518	0.75	BATS	AUTO	0.74 x 0.75
09:40:34	Jun19 13C	134	0.75	BATS	AUTO	0.74 x 0.75
10:11:33	Jun19 13C	116	0.81	NSBX	AUTO	0.81 x 0.82
10:11:33	Jun19 13C	800	0.81	CBOE	AUTO	0.81 x 0.82
10:47:02	Jun19 13C	105	0.81	BATS	AUTO	0.81 x 0.82
10:47:02	Jun19 13C	136	0.81	NSDQ	ISOI	0.81 x 0.82
10:47:02	Jun19 13C	214	0.81	PHLX	AUTO	0.81 x 0.82

There are about 6700 trading on the day. Almost all of them are call sales. This is because there is a long shareholder that is selling calls. I LOVE buying heavily shorted strikes on a stock I think is going higher. Why? Let me explain.

When I sell a covered call the last thing I want is for the call to go in the money (second to last after the stock tanking actually). This is because many do not want to deal with the tax consequences of having their stock called away.

THUS if a stock rallies THROUGH a heavily shorted strike the call sellers have 2 options:

1. Buy GE stock to deliver (remember stock runs on FIFO rules)
2. Buy back the calls.

Either way the actions I take are going to cause the stock to rip higher like a mini short squeeze. This is especially true when IV is in the tank like it is for GE right now.

Looking out term structure is pretty darn flat all the way out to January of 2021.

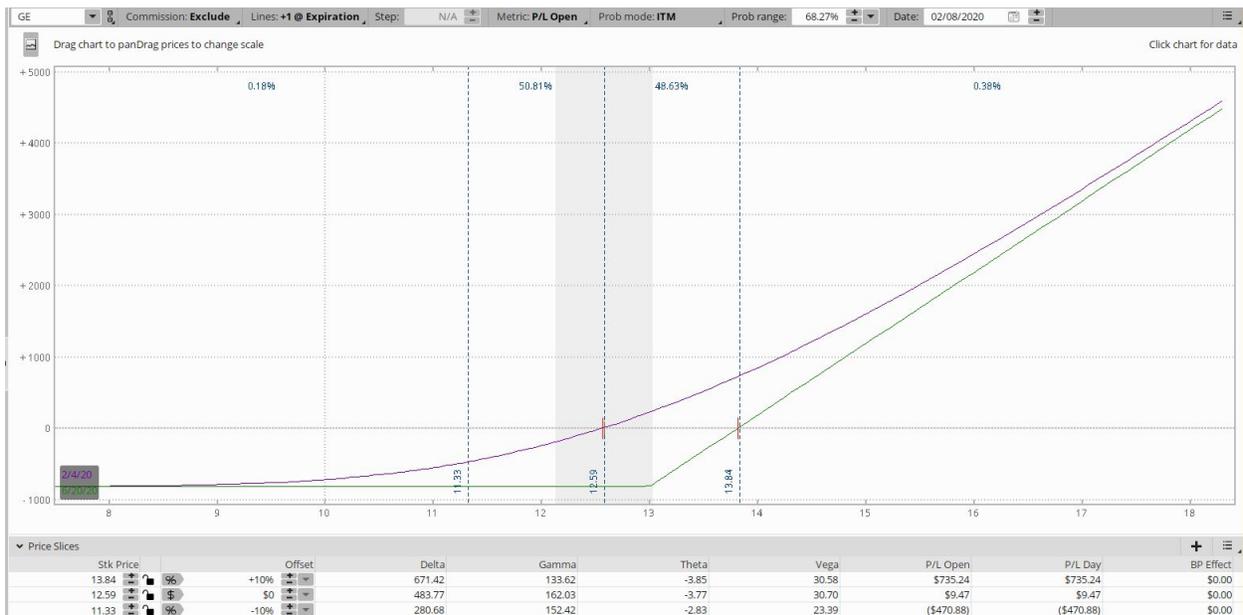
Feb07(W)	Feb14(W)	Feb21	Feb28(W)	Mar06(W)	Mar13(W)	Mar20	Jun19	Aug21	Sep18	Oct16	Nov20	Dec18	Jan15'21
35.21	30.84	28.55	29.26	30.74	30.65	32.23	32.40	33.18	32.45	32.21	33.23	33.12	32.61
-2.80	-3.00	-2.30	-1.90	-1.40	-1.40	-0.40	-1.30	-0.60	0.80	0.90	-1.10	-1.20	-2.00

Some of the way back months do not have dollar strikes which puts them out of the running. So the real question is where am I going to find the most value. If I buy June calls, I get a look at 1 earnings, and the next 5 months of the stock likely rallying higher. August has 2 earnings, but the IV in August at the 13 strike is actually on a relative scale a touch expensive (this could be because of all the selling on the June 13 strike today).

Thus I am going to be a buyer of the June 13 calls in GE paying about \$.82. I am going to buy 10 contracts which costs just over 800 bucks. Yet I think I will get to sell these calls at \$1.20 or higher if GE is able to break above 13 in the coming month or two.

If GE takes a real dive, I will blow out of these, if it does back off slightly I do have room to add more if the IV gets even cheaper. One could make an argument that buying these calls over a few days will produce a better price than buying them today on a day when the market is up 50. Even so, with the call IV being pummeled and the stock off its highs, I see value in these calls.

Trade: We buy 10 GE June 13 calls for \$.82



I am targeting GE to at least 13.5 bucks with these calls and an exit above \$1.20. If GE really tanks we will bail on these. This is one that could take a few weeks to pay out or could pop.

Your Only Option,

Mark

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