

Happy New Year

It's a new year and a new decade. So, to quote Twisted Sister: What Do You Want to Do With Your LIFE?? ARE YOU LISTENING TO ME!!!

Obviously, I am kidding, the reason you are reading this is because you know what you want to do with your life....at least from an investment perspective. You want to do the work to beat the market or at least beat some advisor off the street.

If you are accomplishing this, here are some questions you can ask yourself:

1. Am I good or lucky?

Crushing it because you rode Apple calls up for three months is either brilliant or lucky. In fact it could be lucky for one person and good for another.

2. If I was good, why?

What am I doing right? What am I doing wrong? Answer this question.

3. What are the EASY things I can do to get better? What are the hard things I can do to get better?

Trading Management triage is important and should be done on a regular basis, ESPECIALLY at the beginning of the year, when you're probably coming off of a holiday 'reset.'

4. Here are the things I am NOT going to change no matter what, here is what I am.

What if you are NOT accomplishing your goals as a trader/investor?

Ask yourself the same exact questions. Replace good with bad. The answer almost always lies in between luck and bad. You probably have some bad habits. You probably have had some bad luck.

You need to know what is what.

Notice I did not get into what kind of macro events could affect the markets? I'll get into why in the coming days.

Let's Talk Markets:

The current fundamentals tell us that it's over bought. All of the standard 'market internals' also tell us that the market is overbought. About the only thing that is telling me we are not overbought is IV, and even that is marginally weary.

When the markets rally and VIX does not slowly meander lower that is typically a sign markets are

nervous. You tell me:



The top line is the S&P, the bottom red line is IV. Notice that the red IV number has been creeping higher since the second half of December. Part of that is because IV got a touch oversold, but it's also because there are premium buyers out there.

I would also point out that hedging activity is CLEARLY showing up in the VIX curve. While still in contango, signifying a calm market, take a look at the Feb-Mar spread:



Notice the hitch. The question is what is up with March futures? My answer: nothing. Nothing is up with March. It's the February future that is over bid. Right now the Feb future should be trading around 15.80-16.00. Remember when Ray Dalio bought all that March protection? We can see that risk premium he bought manifesting itself in a higher Feb VIX future (remember Feb expires into SPX March Options).

For now it still appears risk it is on, BUT we are seeing the inklings of things that can cause a 2-3 month sell off beginning to form.

**Option Pit Traffic Light:**

**SPX: Yellow**

**VIX: RED**

**VXX: RED**

**SPX IV: RED**

**VIX IV Yellow**

While you may know me as Mark Sebastian founder of Option Pit, I actually have a more famous title:



If you are not aware, my wife runs a pretty well-known reality fashion news site called Big Blonde Hair. Prior to that she was in the fashion industry for about ten years as a wholesaler. She knows her stuff.

What I like about her site is I have inside analytics as to what sales look like for her. She generates the plurality of her sales from two companies: Nordstrom and Revolve clothing. Most of you have heard of JWN, many of you have not heard of Revolve.

In Short Revolve is a GREAT online retailer. The company has done extremely well partnering with celebs and social media influencers. Unlike most, they are actually good at monetizing social media and knowing what is worth the investment. They also have great private label brands.

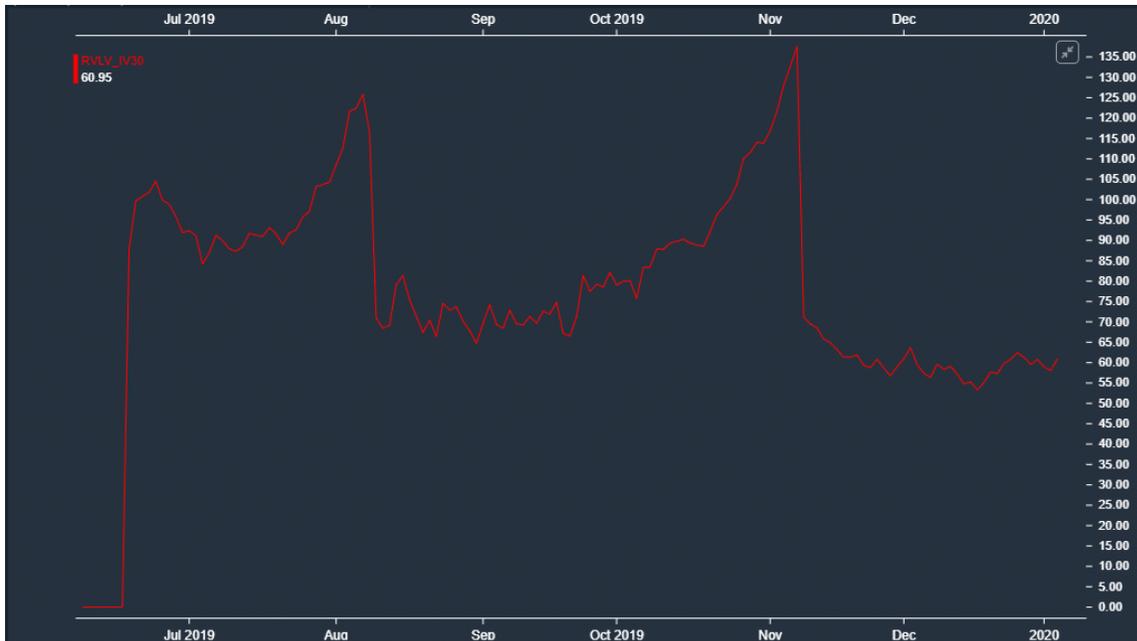
They seem to be two steps ahead of many of the online fashion sellers, even the likes of Amazon. They were quick to offer free shipping and free return shipping. Now they are sending TWO sizes of the same article so that women can find the right fit. This is another game changer. They will no doubt sell MORE because of this, not less.

The stock is still above its IPO price but is below its opening price on the first day of trading. That is going to change.



The stock had the unfortunate luck of listing in the second half of 2019, instead of the first half. It cost them. Sentiment for 'unicorn' stocks has stunk. However, I think that is going to change.

To coincide with this ugly chart is some really low IV:



While it could go lower, with an IV of 60% and earnings coming up in early Feb, I think it is really interesting to buy premium in RVLV. IV could go up and HV almost has to go up. The current movement is literally below the one percentile:



Movement will pick up and when it does the stock is going higher, not lower.

So, we have a stock that I think is going to go higher, low IV and movement that almost HAS to increase. This makes me a call buyer.

Let's look at term structure to determine where to buy:

Jan17	Feb21	Mar20	Jun19	Jan15'21	Jan21'22
61.10	60.82	67.55	65.11	64.23	63.53
5.90	-0.70	-0.20	-0.80	-1.00	-0.50

I can buy Jan for 61% or go out to June, which includes at least one earnings report, for 65%. That is cheap. Buying June calls gives me a lot of time to let a trade develop at a cost that is more than palpable. If the stock gets a run higher one can easily convert the call into a spread. Thus, I would be a buyer of the June 60 calls for about \$2.70.

**Trade: buy to open 4 RVLV June 20 calls pay \$2.70.**



If the stock dips below its all-time low, I will consider blowing out of this trade, or if the call option becomes worth less than \$1.25. If the stock runs higher I will start selling at \$4.00, although I think RVLV makes a run at \$30.00 by mid-year.

Happy Trading

Mark