

Ch..Ch..Changes!!!

Trade: We buy to open 1 BA Jan 380 call for \$10.90, sell to open 1 BA Jan 425 call at \$1.40

Sometimes a change agent is really difficult to enact. Inertia is such a strong thing in us humans. We do not like to admit we are wrong; we do not like to admit when we need to make a change. Recently something really jarring happened to an entire generation of people in the US: They realized times had changed and they were the old people now.

The phrase 'Ok, Boomer', might be the single weakest insult I have ever heard in my life. It is not insulting, pithy, thought provoking, or powerful. Given that the criticism around Millennials and Gen Z is that they are lazy and entitled, they maybe have proven the point with such a lazy insult. They are entitled to think it's funny, but seriously, 'dudes' work on your game; don't just assume that everyone is going to think you are hilarious, you aren't.



The fact that this was a thing for a few days is actually what is wrong with the internet right now. That said, it did have one effect on the Boomers they might, as a generation, realize that they are to Millennials and Gen Z what everyone who voted for Richard Nixon was to them. The Boomers are now not just 'in with the bad guys' like some of the jokes from an 80's sitcom, they ARE the bad guys. Yet many still see themselves as the free spirit that hated Nixon, drove a Camaro, and busted their butts through the highest 'misery index' we may ever see. I mean the sweatshirt even rips off the styles Boomers wore WHEN THEY WERE THAT AGE (I would think it was on purpose and smart if I didn't know they were stealing those awful looks from that time period already).

Listen, I am not here to make you feel bad or old (that is your kid's jobs). I am here because times change, situations change, and if a company doesn't recognize it or do something about it they get left in the dust (see IBM last week).

However, sometimes the problems are more on the surface, and it is not a full overhaul the company needs, but more just a few serious changes to itself. Much like a parent coddling a whining Millennial's feelings, a company need not change in full, but make some small effort to show the world it is fixing things. Here is that conversation:

Stock Market : "You never listen and I trusted you, I hate you and wish I didn't own you!!!"

Stock: " I am sorry, I will make this change, that really isn't much of a change, but makes you happy."

Stock Market : "I love you"

I believe this is the situation with Boeing. But before that let's talk markets.

Markets:

The SPX is just below an all-time high right now. We continue to see the same themes: Earnings were pretty good and China seems to be on the back burner, as long as there is still a plan to sign 'Phase 1.' The Fed is out of the way. Now, this does not mean there will not be sell offs, but until we get some real 'news', the path of least resistance will be up.



We are currently in Options Expiration week, these tend to be bullish. We are also heading into the end of the year which can be bullish, too. I am using a one year chart to remind everyone HOW AWFUL last December was. December does not have to be slow, and an actual trade blow up could push things around. That said, every metric is saying we are due for some sleep here, until at least Thanksgiving. Take a look at VVIX.



It's been in the 80's for a week now. It had not been that low since July, so we are talking a pretty decent period of higher VIX IV probably taking a several week break. It tends to stay low for a while (several weeks). In addition, the VIX curve is REALLY steep, but NOT just the VIX to month one, but at Month 1 to Month 2 and Month 2 to Month 3.



This is not a 'vol is over sold' formation. This is a 'we do not know when IV is going to pick up a gain, but we do not want to sell it down too hard' formation. To me, it points toward a 'we could be slow and meander higher for a while' type market. I would NOT want to carry a big long vol position at this point.

TRAFFIC LIGHT:

SPX: GREEN

VIX: RED

SPX IV: YELLOW
VIX IV: YELLOW
VXX: RED

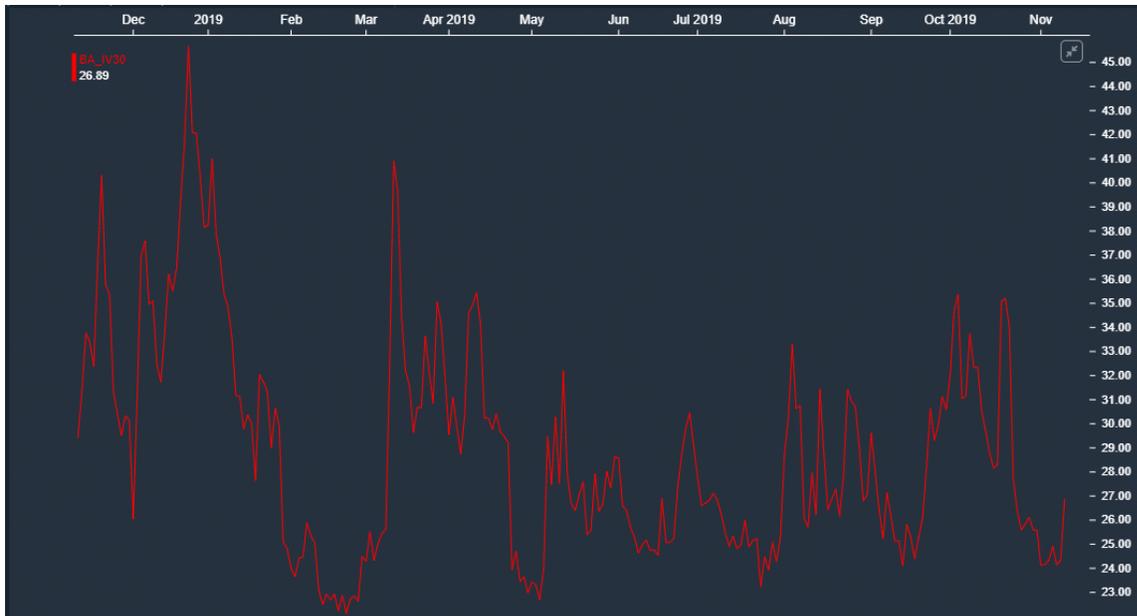
Hired or Fired:

Boeing needs to either hire or fire someone. They should fire a C level employee for what happened with the 737-MAX; plain and simple. If they did, the stock would pop. If they do not want to do that, they should HIRE someone to make sure that something like this never happens again. Some sort of ombudsman to make sure that there is never even a perceived profit over safety issue ever again. If they hire or fire, the stock makes a VERY quick move back over the 50 DMA. If they do not, it still probably goes there ONCE the Max is able to fly again.

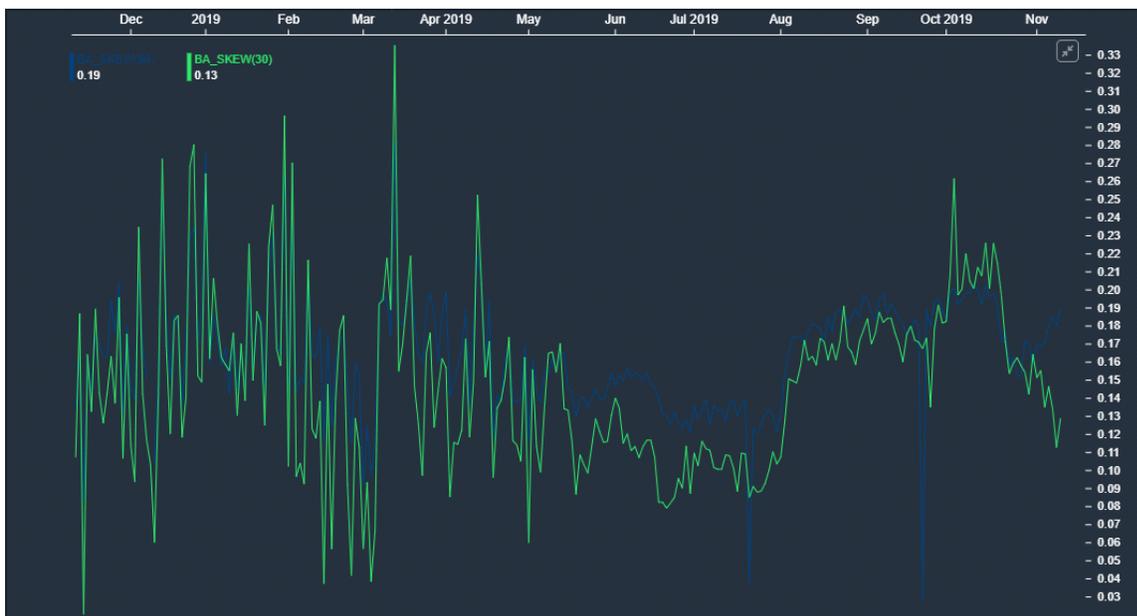


The stock has been bouncing in no-mans-land for a while unable to break over the 50 DMA or the 200 DMA it fell below back in May. It needs a catalyst to break higher. The MAX pushes it above the 200 DMA. If they add a 'hire', I think the push could be back to \$400 or even higher. I am bullish BA and not sure how it drops back below \$340. If the last set of whistleblower news couldn't push the stock to \$300, I am not sure what will.

Looking at the IV, it is not the lowest it's been over the last year, but it is pretty darn cheap. An IV of 27% is not high and is only picking up because there might be some FAA activity in the coming few weeks.



I would be a buyer of premium in BA options because I think it is going to go higher or stay stable. Skew is interesting: longer dated puts are actually more expensive than near dated puts.



Interestingly, and more importantly, near dated calls are expensive relative to longer dated calls. This is why the light green line is trading at 5 points lower skew than 90 day skew.

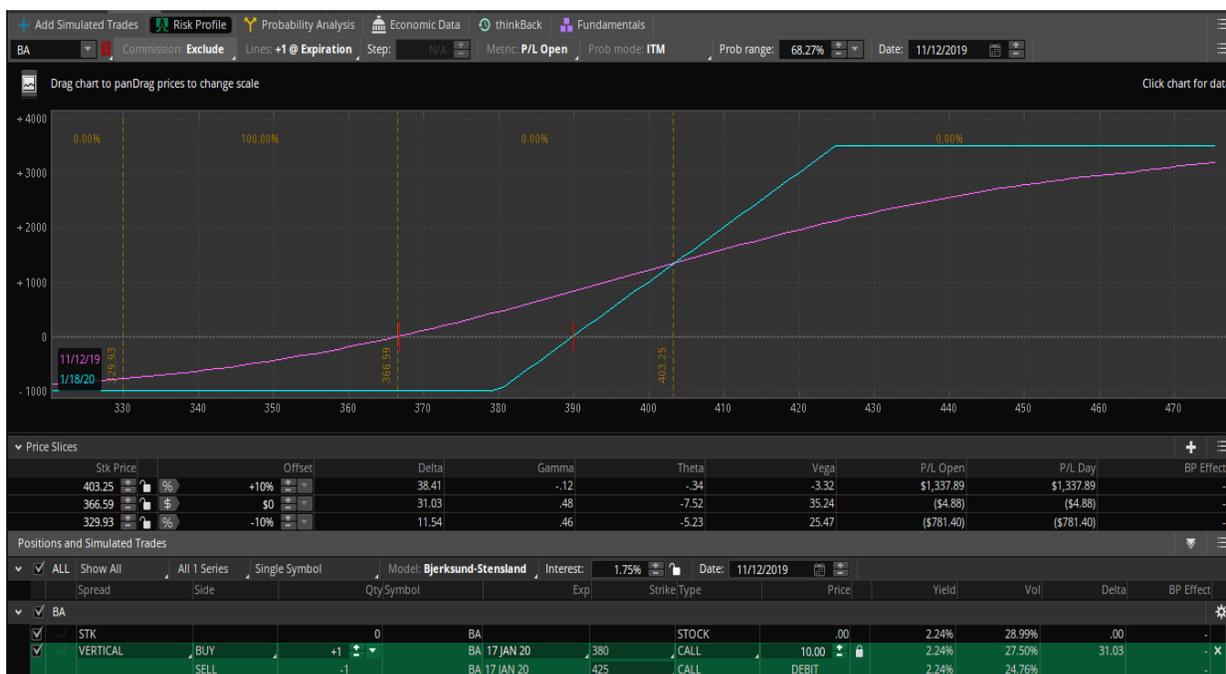
This means diagonal and calendar spreads, that are bullish, might make some decent sense. It also means that long OTM puts are not a deal. Keeping our approach more simple, I would be looking to sell upside calls and buy near the money calls.

Looking at term structure, there does not seem to be a lot of great expensive or cheap months:

Options Chain									
<< <	Nov22(W)	Nov29(W)	Dec06(W)	Dec13(W)	Dec20	Dec27(W)	Jan17'20	Feb21'20	Mar20'20
	28.79	26.58	26.75	26.95	27.25	26.89	27.61	29.68	30.23
	4.90	3.60	2.80	1.80	1.00	0.80	0.60	-0.60	0.20

One can see that February has earnings, but what does not appear to be priced in ATM is that there will be some movement as the 737-MAX comes back online. There will be a serious increase in IV then. That could be part of the reason we saw some buying here in BA today, even as the stock was up about 2%. I know we own a lot of January in our 'model portfolio', but that appears to be the right month to buy.

Since I think the stock is going to make an outsized move higher, and upside is expensive, I would be a buyer of a January call spread. The Jan 380-425 call spread, a 45 point spread costing only \$10, is less than 2% out of the money.



I would be looking to make at least \$10 on this spread, setting a price target at \$20. If the stock drops, I will cover the 425s, and sell a lower call to keep the spread open. I do not want to lose more than \$400.00 on this spread.

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Mark Sebastian

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