

## **Trade: We buy to open 2 AAPL Dec6 265 puts for \$3.25**

### It's Gotten Too Cool

When I was in High School there was a dude named Mike. He was grunge to say the least. He literally cried when Kurt Cobain killed himself, as if they were longtime friends. He wore lots of flannel, had long hair, a wallet on a chain, and wore converse all stars. Needless to say, this guy was a rebel. At least, that was the persona he wanted to exude. Thus, anytime something that he was into started to get TOO popular (sans Nirvana) he would stop liking it. I remember him slowly moving away from flannel and into ugly ratty tee shirts. I remember him deciding he hated The Offspring. If he was into it, and then the basketball team got into it, he did not want to be a trend setter; he wanted to be rid of whatever it was.

Sometimes stocks can be the same way; a stock can be too popular or too hated. In the early teens, I remember hating Apple because it was only on AT&T. I almost hated these stocks just to hate on the stock 'fanboys' as much as I did the stock itself. Now I laugh because I see the error of my ways. The stock had everything in a 'story' I would normally like. I just couldn't see the forest through the trees (in the form of tech nerds). Needless to say, I was too busy having fun hating a stock, to decide if I should actually hate the stock. I was wrong.

Today I question whether I have the same issue with Tesla. It's been really fun hating TSLA, and there are legit some very good reasons to hate Tesla. However, the fun of hating on TSLA is not a good one. So I may come up with all sorts of shorts for TSLA, but if I hate the stock for the fun of hating the stock, I am going to get myself into trouble.

The same can hold true for liking a stock though, which leads me back to AAPL. This is not a stock I hate anymore, however I am now removed enough to be able to see when it might be overbought, and certainly when it is too cheap. Today's trade idea is going to take a look at whether the stock is starting to get topy.

### The Market

Here we are at a new all-time high. Does the market look like it wants to sell off? If you follow the doomsday preppers, the answer is yes. If you look at the VIX, the answer is not so clear. Yes the S&P 500 certainly seems to have some momentum right now:



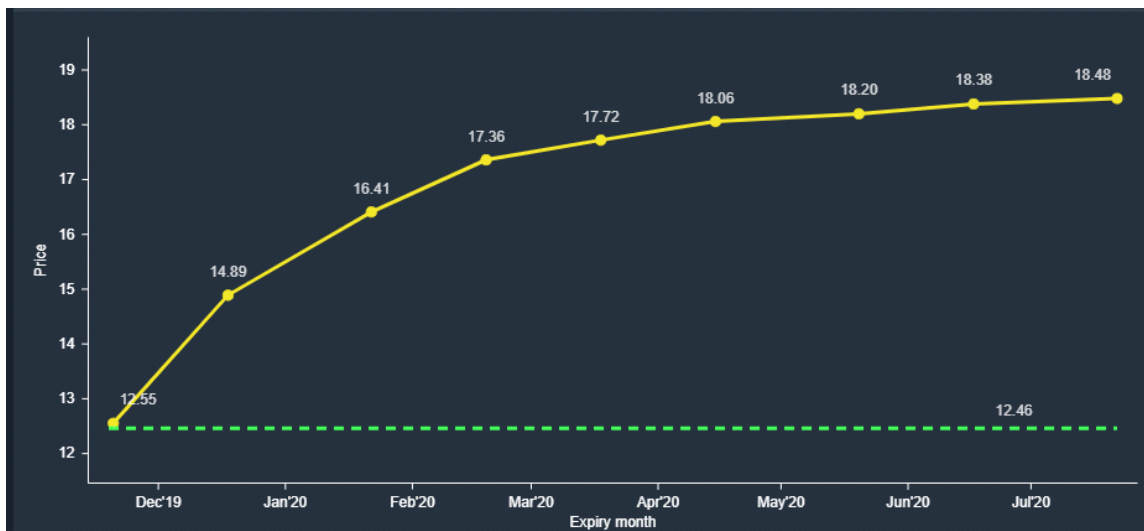
That chart is going straight up over the last few weeks. The amount of buying pushing the S&P 500 is pretty darn impressive. The last time I saw the S&P 500 do something like this it RAN for a while, but did eventually fall. Who can guess what time frame I am referring to?



The answer of course is November and December of 2017 through Feb of 2018. The market was CLEARLY over heated, but the amount of time it took the market to sell off was THREE MONTHS, not three weeks. So how do we know when 'the gig is up'? The answer is the VIX. The last time the S&P ran like this VIX dropped or stayed stable for close to two months, it was not until the final 2-3 weeks we saw the classic UH OH. The Classic UH OH is when the SPX and the VIX rally at the same time.



I'm no expert (wait I guess I am) but to me the VIX looks like its dropping not moving higher. Additionally the VIX curve itself is STEEPENING, not flattening



I have seen a few sell offs, in the VIX futures era, typically an extended sell off does NOT begin when the front month future (December NOT November that expires tomorrow) is trading at a 2.5 point premium and the second month is about 4 points higher. To me, this says IV is low, but the market is as NOT complacent as it possibly could be.

Market Traffic Light:

SPX: GREEN

VIX: YELLOW

SPX IV: YELLOW

VIX IV: RED

VXX: RED

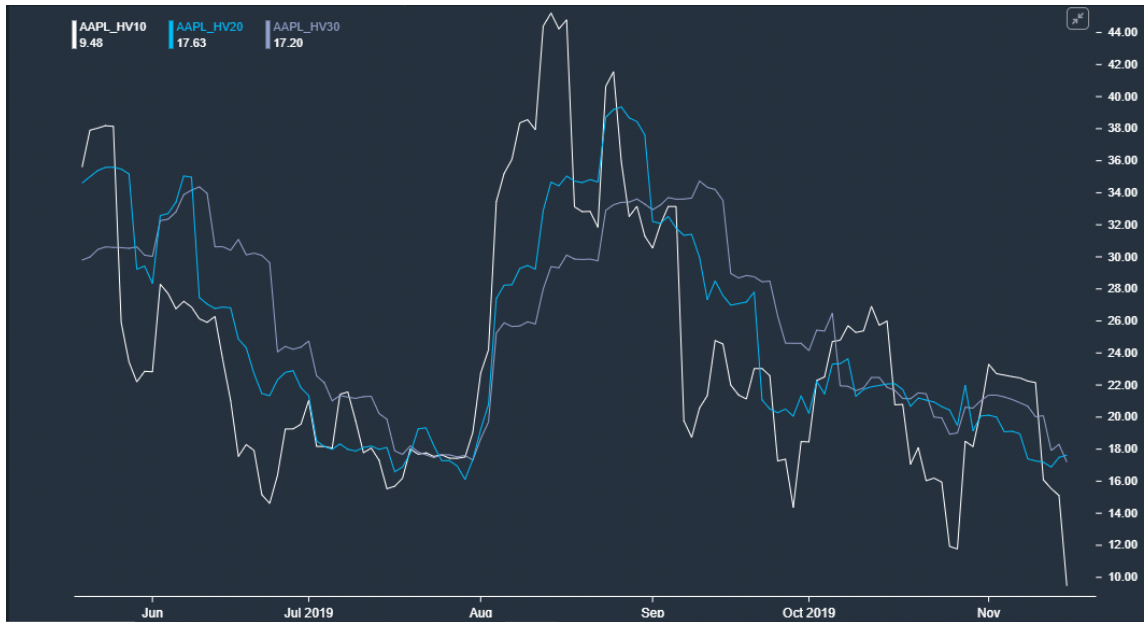
AAPL

Part of the major drivers of the S&P 500 over the last few weeks has been the move higher in AAPL. Talk about off to the races, AAPL is the strongest I can remember seeing it in YEARS, probably the strongest post-split.



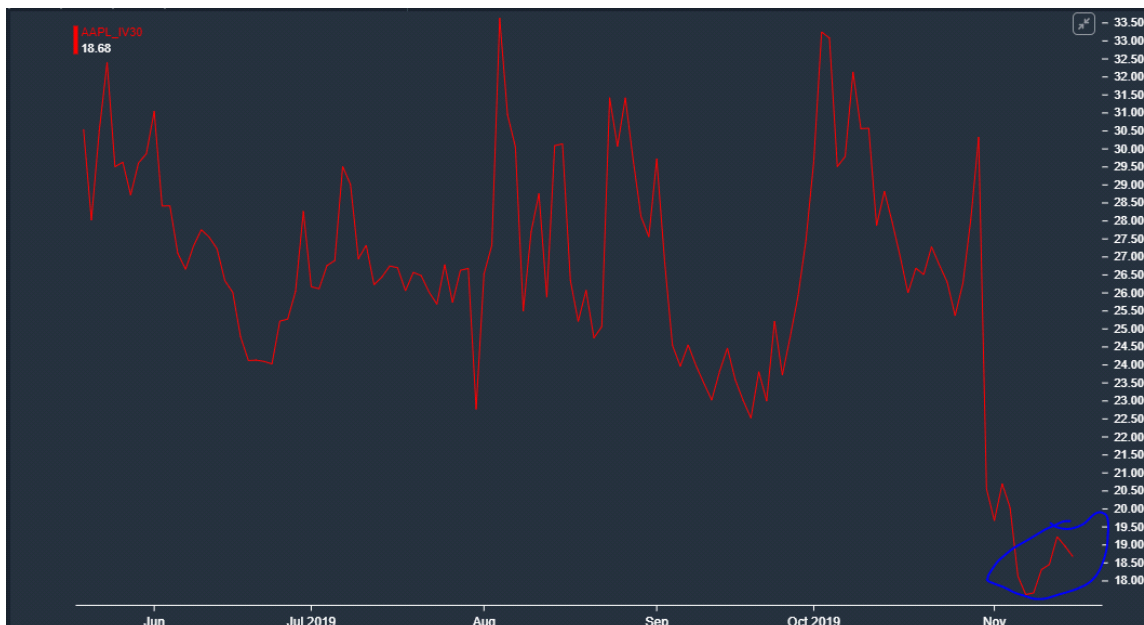
In the long term, and I mean over the next year or so, the stock is going to go over 300. In the near term, it is time for the stock to back off. This stock has been almost straight up since August. The story on this name is that it's a long term buy, but a near term maybe it's time for this stock to take a break.

What's crazy is how one directional the stock has been. I mean this is a stock that literally has NO realized volatility to it, based on traditional measures.



A 10 day HV in AAPL is less than 10; 20 and 30 day are less than 18. Yet, it probably does not feel that way if you are short calls, iron condors, or iron butterflies. This is because when a stock moves in one direction, if you are not delta hedging constantly, AAPL does not feel like it doesn't have movement.

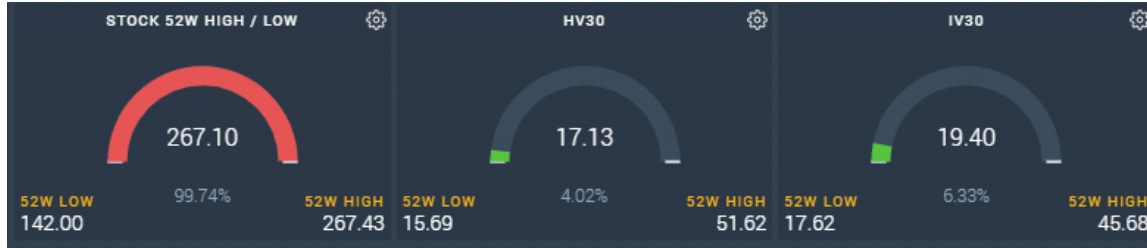
That being said, could it be that I am spotting a chink in the armor of AAPL? Remember above when I explained that IV (VIX) going up and SPX going up at the same time typically means a sell off? Here is a chart of AAPL IV:



It is not a huge move, but AAPL implied vol has moved from the 17's back to near 20 since last Monday. This is being caused by the value of calls going up. Calls that are more than a few percent out of the money are trading at an IV premium to at the money options. AAPL DOES have an event on December 2nd, which I am guessing is going to be the company talking its favorite APPS. This is a non-event

(probably). Thus I do not mind using it as an event to set up a short position, if I get a chance to set up a short call spread.

However, with the IV THIS low and movement also at near historic levels, I am willing to put a letter out to buy options.



I am an interested put spread buyer (there are more advanced trades I like better). With traditional vol metrics really low and the stock at a high, it likely does not cost very much to set this trade up, depending on the timing.

Nov29(W)	Dec06(W)	Dec13(W)	Dec20	Dec27(W)	Jan17'20	Feb21'20	Mar20'20	Apr17'20
17.23	18.23	18.97	19.56	19.48	20.83	24.05	23.69	23.99
0.60	-0.10	0.60	0.70	0.70	0.40	0.50	-0.30	-0.30

The cheapest contract to own is probably the December 6th contract. It has that event in front of it, and it takes place after the Thanksgiving holiday. I am going to be using a smaller allocation because I do not know the exact timing of an AAPL turn around (it could keep going). The December 13th 265 puts only cost about 3.30. I would be a buyer of 2 of these puts.

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This is a 50% normal allocation. I will add to this trade if AAPL has more upside and I will take this trade off and/or reposition if the AAPL puts get to be worth less than \$2.25 a contract.

Mark Sebastian

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