

Trade: We buy 4 XOM Mar20 70 calls pay \$2.20 or better

Control and Trading

This week as I am out of town, I had Andrew Giovinazzi write up the actual trade idea. I hate the idea of someone writing this piece for me. However, I have a family and I know I will need vacations...meaning there is no way I am going to keep this piece timely with consistent publishing week in and week out. This leads me to the concept of control. Control is something that every human desires. We want it in our relationships, in our careers, and in our trading.

A close friend of mine is an Airline Pilot. He and I were talking once about flying. I told him how I don't like it despite the fact that my brain knows it's the safest way to travel by many multiples. He then stated that HE was not that great of a flier. I said "Let me get this straight, you fly planes for a living, and yet YOU are not a particularly good flier?" My next question was "What if you know the guy flying?" He responded that it did not bother him as much (unless he thought the guy was an idiot).

It was during this conversation that I realized my issue with flying had nothing to do with actually being in the air. It has to do with control. If I was flying the plane, I would not be nervous at all. Some pilot, I am scared. This might be part of the reason that when the pilot gets on the PA and introduces himself then explains what kind of flight I am going to have, I do not get nearly as nervous.

So what does control have to do with trading? Sometimes our need to control the situation can lead to our trading demise. When a trade is winning, we feel like we feel fear of losing control of the P&L. If we are not at our P&L target and the stock moves against us, we feel like its

our fault. Even though we were simply sticking to the plan (this is where a stop profit can help). Moreover, when we are losing on a trade, we sometimes feel like we can wait for the trade to come back into profitability, even when we know for certain we should close. This is probably where the feeling of 'as soon as I close this it's going to move in the other direction' feeling comes from so many traders. The fact is that when you close a trade has nothing to do with what the next direction of the stock is going to be, or whether your trade would have ended up profitably.

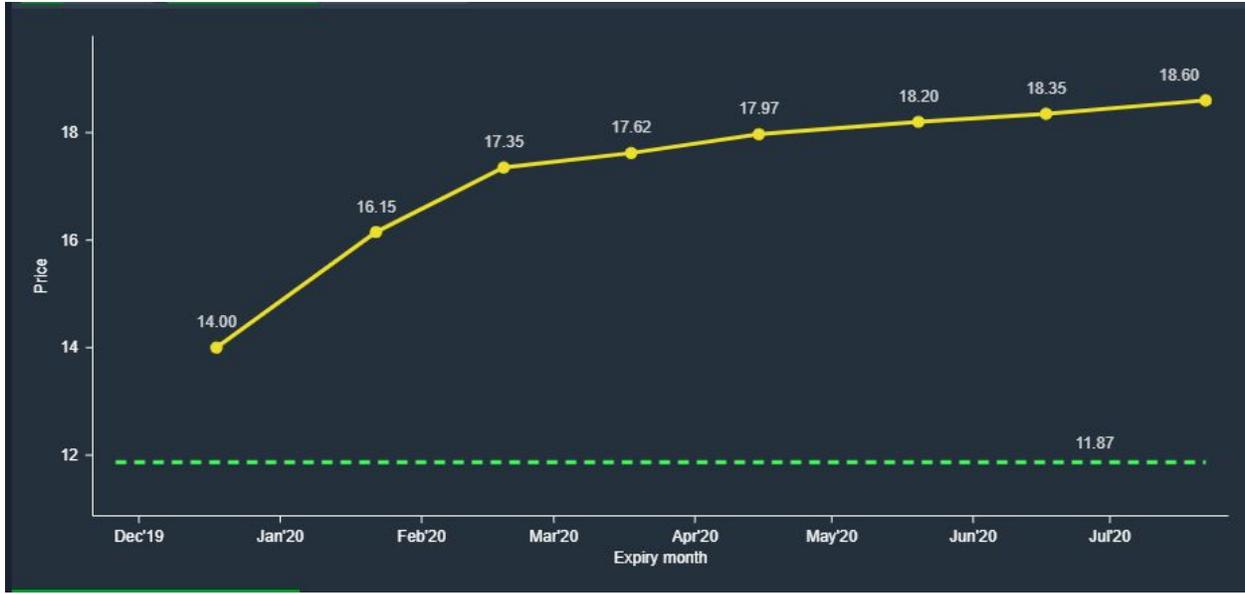
Basically, if we try to fix the things we can help, and understand what we cannot control we are far more likely to make dollars.

Have a Happy Thanksgiving.

Mark

Overall Market

We are going to do an extra short version of market analysis today. But I do want to make one big point: the VIX curve is steep, just as steep as last week:



It is going to take a pretty nice sell off to make the curve move, even if we get a pop back to 12.75-13.00. At this point in the cycle, the VIX future should be trading at a 1.25-1.5 point premium, not 2 points. Even worse is Jan, which is trading over 4 points, with only about 58 days to expire. Thus, the formation is saying: we might sell off, but its not now, and the market is HEAVILY insured.

OPTION PIT TRAFFIC LIGHT

SPX: Green

VIX: Green

SPX IV: Green

VIX IV: Red

VXX: Red

The Oil and Gas Sector is a Sleeping Giant, so is XOM

If we use the BETS system in practice it is helpful to break down the individual parts. Part of what gets me interested is the story. That would be the “Background” in BETS. [A link to the video is here](#). I like being a contrarian when it suits me. SPX has gone straight up but parts of the market are lagging. A big part of that is oil so the contrarian in me wants to look for cheap oil stocks and XOM fits the bill.

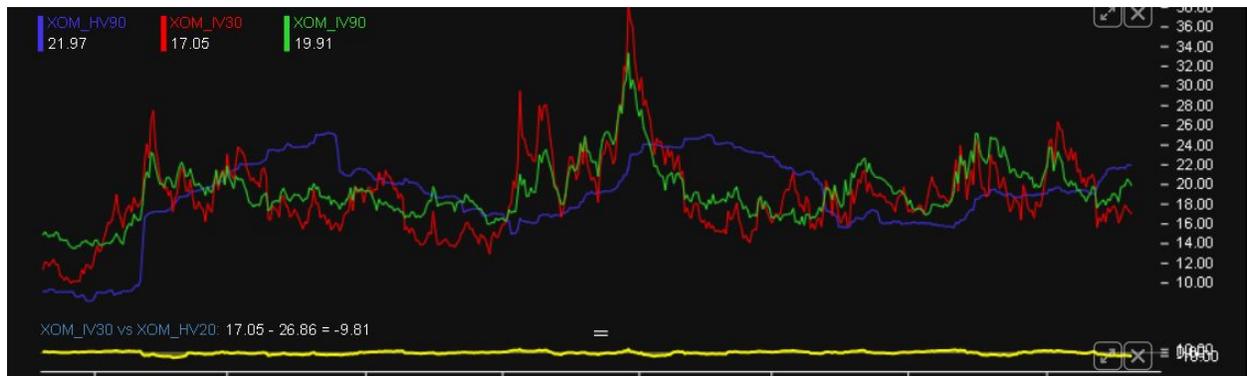
The next area is “Energy” or velocity of the name. This goes by many names like realized volatility, momentum, ATR or Bollinger Bands, etc. We learn how to use realized volatility in Gold and Plat but it is clear from the chart here that there is A BIT OF A PICKUP in realized volatility in XOM recently. The stock is moving more after what appeared to be a decent earnings report. Mid-60s for XOM look like a low but the stock can move back to the low 70s easily and was just there after earnings. Let's say there is some energy with a decent bottom settling in.



XOM is near the bottom of the 52 Week range with SPX at ATH

The biggest issue with all oil related names is Climate Change fears that depress the oil industry by and large. For now there is not a substitute for oil and gas and that is not likely to change for several years. Any strategy would need some time to work things out. Taking a page from the “energy” area in BETS, oil companies tend to move slower so paydays will be in the mid to longer term area. I am thinking Mar cycle

since SPX at all-time highs will have market players looking for stocks that have not participated yet.



XOM is bringing some realized volatility

I don't have an interest in being short the big oil stocks. XOM is yielding 5% so even a basic wheel strategy here would well but the stock trading at lower levels makes me want to generate some real capital gains in the option positions. Both XOM Mar20 70 and 72.5 calls are cheap at a 17.79 and 17.10 implied volatility with XOM 90 day realized volatility around 22% This makes me want to lean into buying calls and ride them for a couple of months.

We buy 4 XOM Mar20 70 calls for \$2.20 or better. I would look to exit on double at least to \$4.40 or better. \$1.50 would be the exit area where I would switch the wheel strategy as XOM would make 1 year lows at that point.

Andrew Giovinazzi

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