

In season three of the children's show Sesame Street, a new character was introduced: Mr Snuffleupagus. 'Snuffy' was Big Bird's best friend and constant companion. The two were borderline inseparable, EXCEPT if anyone over the age of ten was around. If there was anyone over ten, Mr. S would somehow manage to disappear, usually having to run home.

Thus, no one on Sesame Street believed that Mr. 'S' was real. Typically, Big Bird would grab an adult to prove Snuffy was really, then RIGHT BEFORE THE MEETING, the elephant like two person puppet would realize that he needed to be somewhere else and disappear. As a four year old, I remember how frustrating it was that Susan, Gordon, Bob, Mr. Hooper, and company never could actually meet the character. To make matters worse, they insisted that this character, CLEARLY REAL to the viewer, was in fact made up by Big Bird.

The crazy thing is how long Sesame Street was able to keep this gag going. In a normal sitcom, this type of scenario could last two or three seasons, TOPS. The closest 'running gag' to this was maybe not seeing Wilson's face on the other side of the Fence in Home Improvement. On Sesame Street, this gag lasted about 15 years!

Then...it happened! The adults FINALLY MET MR SNUFFLEUPAGUS:



After years and years of denying, the adults had to admit that they were wrong and Big Bird, the silly, lovable, eight foot canary with the mind of a six year old had not made the character up.

I bring up this story for two reasons:

1. Caroll Spinney, the longtime voice of Big Bird passed away this week. His work had a lasting impact on my and millions of other children's lives and he will be missed. Heaven is funnier today.



2. It can be so easy for us to believe things can't happen and/or don't exist. If the following items sound familiar, be aware that you may not be wrong now, but some day, your opinion will meet Snuffy.

1. A 20% drop can't happen again
2. The FED put will hold the market
3. Bonds won't go below a zero yield
4. Bonds won't go above a 15% yield
5. Yield backwardation means we have to have a recession
6. This time it's different
7. This always happens when these conditions exist
8. Federal debt is going to crush the market
9. Debt doesn't matter
10. With (insert the President's name) in the White House we are all screwed and markets will tank

AND MANY MANY MORE

The point of this is that the only thing I really know is that if I think I can't be wrong, I am wrong. Speaking of which, let's talk markets.

The Market

I am nervous about the current market. Why? We are just south of the all-time high in the S&P 500. Shouldn't I be feeling bullish? Take a look at the path of the VIX over the last week and you tell me:



The VIX has been over 17 in the last week, coming from 11.5. Now it's back over 15 coming from 12. This on the back of a tiny 10 point sell off on Monday. The VIX was strong on Friday, on a 30 point rally. It was up 2 points on a .3% sell off. The VIX is acting EXTREMELY nervous.

The VIX curve is backward between cash and month 1



The curve is flat between February and March, with Feb maybe a touch OVER March. The entire back half of the curve is now pricing like there is some serious near term and medium term risk in the overall market. Perhaps Mr. Dalio was right to buy all those March puts. Basically, between now and December 12-15 (when the tariffs do or do not go into effect), there is real risk of a 100-200 point sell off.

Thus the Option Pit Traffic Light Signal is

SPX: RED

SPX IV: Yellow

VIX: Yellow

VIX IV: Red

VXX: Yellow

Basically, caution abounds. We also think there is a high probability of a 1% sell off in the next day or two.

This Week's Trade:

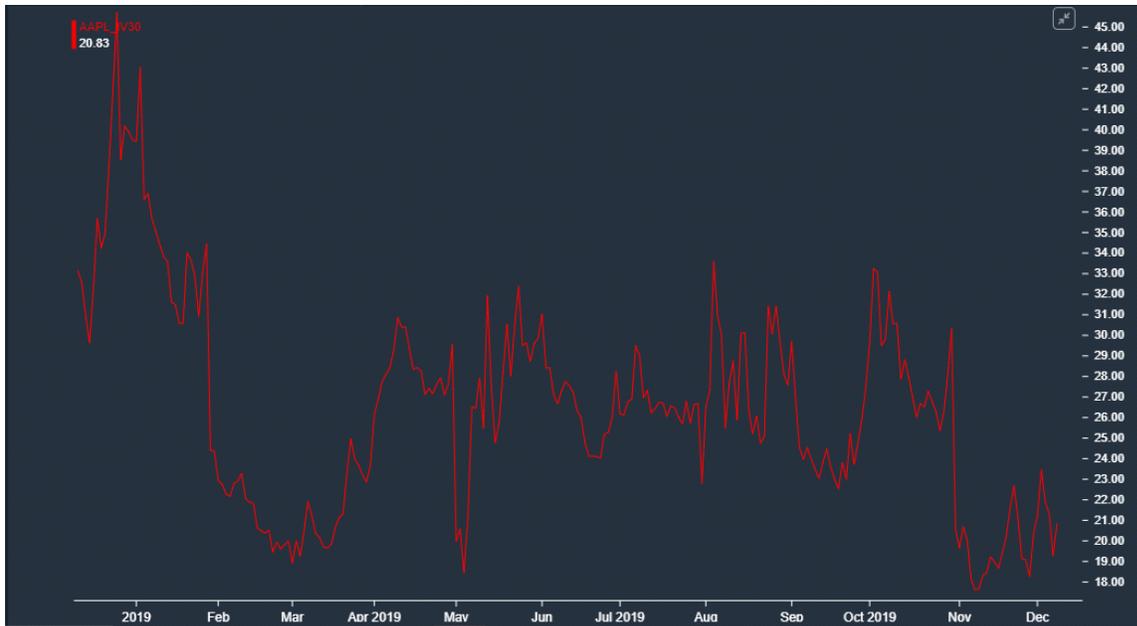
I hate repeating the same trade over and over; however, sometimes the situation calls for it. This week I had every intention of writing up a long retail play in Walmart, Target, or Costco. Instead, I am going to build yet another AAPL trade. I am doing this for two reasons:

1. It's a good proxy for the market
2. Its rebound off the \$255 level last week was INCREDIBLY fast

I think the name will eventually settle down and maybe get back to \$270-\$275, but there is a TON of energy in this name. The 10 day HV keeps getting hotter and hotter; it's now above 20 and 30 day HV.



Even more interesting, 10 day HV is now popping above 10 day IV. With IV relatively low, 10 HV climbing and at a premium to implied volatility, I can say that relative to option prices, there is a LOT of energy in this name.



Thus, I have a stock I think is going to back off, and a ton of energy relative to the cost of the options. I want to own puts. I do not think we are talking extended awful sell off with AAPL testing lows below \$250. I am looking for a short sell off, where AAPL makes another drop below \$260. Now the question is time.



Based on the chart above, I would love to see a touch of \$255. This movement I think takes place in the next two weeks, not in the next two months. I want a short term trade.

Dec13(W)	Dec20	Dec27(W)	Jan03'20(W)	Jan10'20(W)	Jan17'20	Jan24'20(W)	Feb21'20	Mar20'20
23.37	23.22	20.80	20.58	20.93	21.30	21.76	24.95	24.64
6.00	4.00	2.20	1.60	0.80	1.00	1.40	0.30	-0.10

The two cheapest contracts on the board are Dec27 and Jan03. The Dec27 may already have some of the Dec 25 holiday coming out of it. I also like the fact that it is AFTER the December 15th Trade Deal deadline.

The December 265 puts cost \$4.00 or so. With IV lower, and buying options naked, I am going to risk less than my normal maximum premium of \$1200. I am only going to spend \$800 on a bear AAPL play, buying 2 puts.

Trade: Buy to open 2 AAPL Dec27 265 puts for \$3.3.0



I am looking to make 100% on these puts as I think I could get a quick drop. If I do not get a 'gap' and instead the underlying just meanders lower, I will take closer to 50%. If I am wrong and AAPL gets back over \$270, and these become worth less than \$3.00 I am going to close and close fast.

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