

TUESDAY TRADE IDEA: WE BUY 6 WMT Jan31 122 calls pay \$2.10

Who is Making Money?

As many of you know, I coach ten year old baseball. Some may see it as a grueling thankless job. I see it as a way to live vicariously through my moderately athletic son. On the team, there is a whole host of skill levels from "Wow, that kid is ten and throws twice as fast as I can!" to "Wow, that kid's attitude stinks and he isn't trying; why is he on this team?"

What I think is fascinating is who is who among the players. I can say hands down, the best kid to coach also happens to be one of the two or three best players (maybe the best). While I like that he is good at baseball, as a coach, in the long term it is neither here nor there. He is not going to be a professional baseball player (probably). What is more important and what makes him such a great kid to coach is how great a team mate he is. The young man never has anything bad to say about another teammate, or even the opposing team. He tries his best, encourages his friends, and (this is what impresses me the most) is the kid that tries to pick up kids' chin's when they are feeling down on themselves for striking out. He is a great teammate.

On the other hand, of the three kids that are the worst to coach, two of them are weaker players. They don't hustle on the field, don't try in practice, and always seem to have a word for the coaches and the other players.

One particular boy is straight up mean to other kids when they strike out or when they make an error on the field. That same young man cries when he makes an error (usually because he is afraid of the ball) and is pretty much afraid to swing. He has literally told other players 'they suck' right after he struck out without taking a swing. He is this kid:



Why do I tell this story? Not because I want to bag on one ten year old or glorify another. My main point is that talk is talk. Actions are actions. Listening to others brag in a chat, bragging on Twitter, or talking themselves up on TV can be deceiving. The ones that talk the most probably aren't taking the

'bat off their shoulder'. The braggers are not trading and the chatters are chatting to cover up their own weakness. They are trolls.

The quiet ones who just drop a nugget here or there without revealing too much; they are the winners. Winners are the ones that can tell you what they think or make a prediction and own it. Alternatively, they may put out an idea and never bring it up again, right or wrong. They are just trying to help.

In the pits, the ones who talked the most about how smart they were did not make near the money they said they made. The quiet types, they usually cleaned up and did NOT want anyone to know about it.

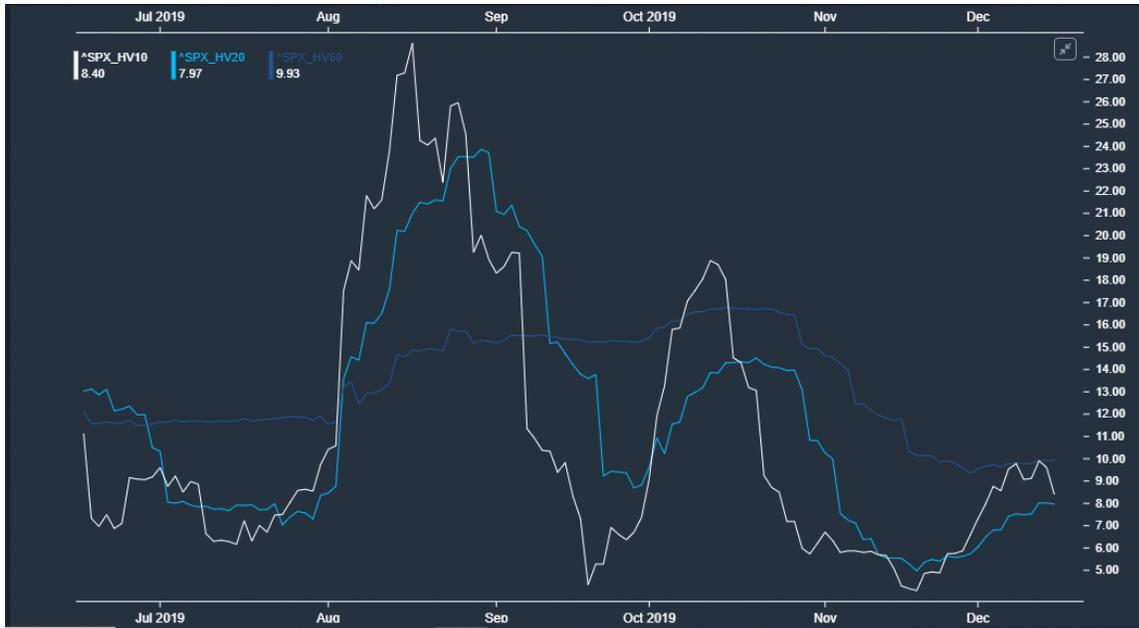
Moral of this story, do not worry about how others view your trading, or how others are presenting themselves. Do well for yourself, and if you can help other people, do it. Be hungry, be humble. Make money, talk little, and own it....words I am working to live by more myself.

Markets:

The SPX is at a new all-time high and is continuing its borderline historic month:



I mean, I am not sure what to say other than WOW. The S&P 500 has moved more than I thought possible. The last few weeks have been a good year, let alone a month. Yet what is interesting is how much energy the market has had.



One would think that at all-time highs, movement would be starting to compress. The opposite has happened. As we have headed toward new all-time highs, the rate of change of the S&P 500 has actually picked up with movement going from 5% to 10%. The index is getting stronger as it rallies.

Interestingly, the VIX, which last week seemed strong, has gotten softer.



When the VIX is near lows and the S&P 500 is at an all-time high, even with the energy picking up in the S&P 500, I see a market going higher, and I like buying SPY calls. I am a buyer of this market to get above 3200 into the end of the year, maybe 3230-3250.

Option Pit Traffic Light

SPX: Green

SPX IV: Yellow

VIX: Yellow

VIX IV: Red

VXX: Red

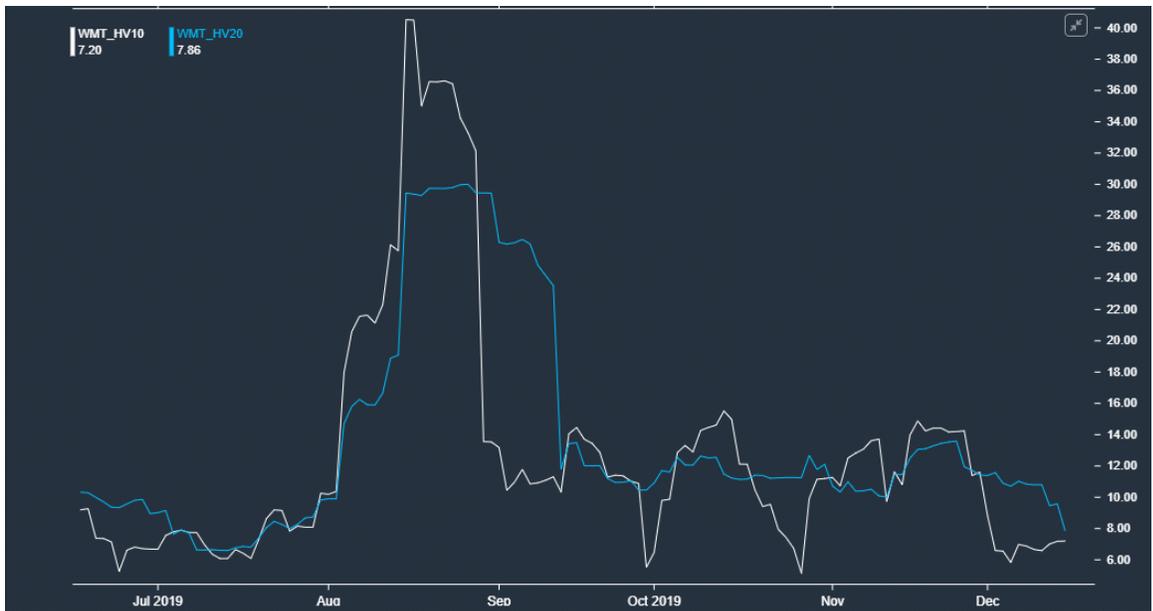
Always the Low Price

I have to say when I look at the retail space I am SHOCKED at the total lack of movement in Walmart. Target has moved hard in the last few weeks. Costco has moved hard in the last few weeks. Amazon, perhaps their toughest competitor has been all over the place. The specialty shops are hopping with names like LULU off to the races. Most of these names, sans Amazon have been hard moves higher, even JWN, which has been a mess, had a nice run the last few weeks.



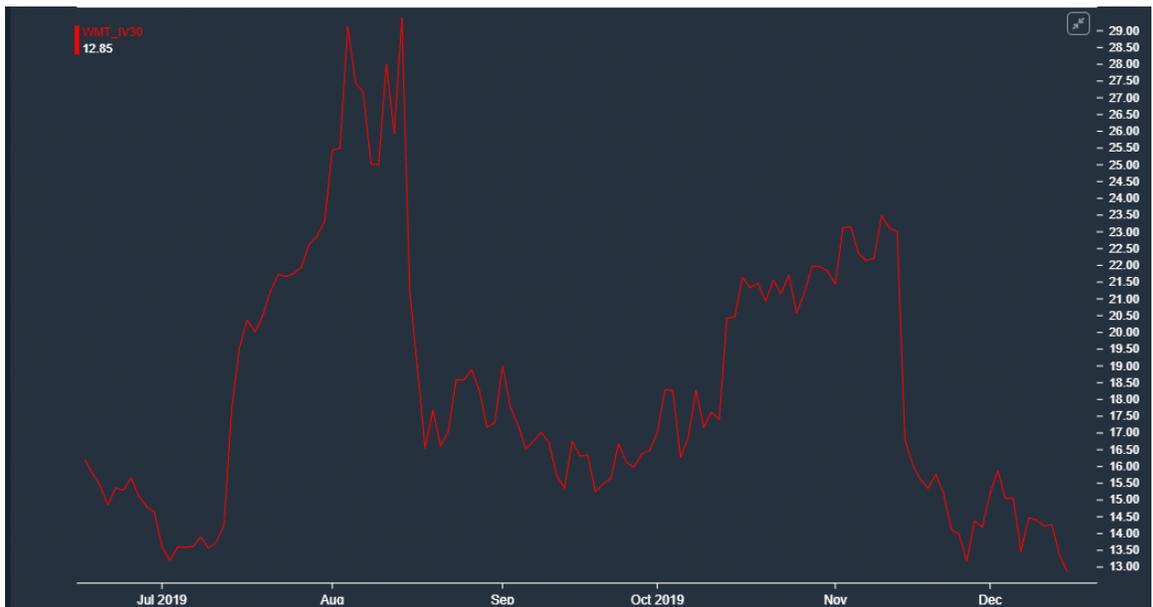
Walmart though has been a WHOLE lot of nothing. It has been SUPER range bound close to close. But what really intrigues me is that one GIANT candle higher from their last earnings report. That candle aside, this is the move BORING Walmart has been in forever, and WMT is usually a really boring stock. That said I see that giant upside candle as a juicy goal to go after.

The Energy in Walmart is completely non-existent:



The stock has not moved in the last ten days, and the 20 day IV is sinking to potential drop to 5-6%, that movement is below 10% annually right now (really low).

The IV is at a 52 week low:



This means that options have not been this cheap all year. In fact, if I go back five years, IV has been this low for maybe a day or two on four occasions. Premium in WMT options is THAT cheap.

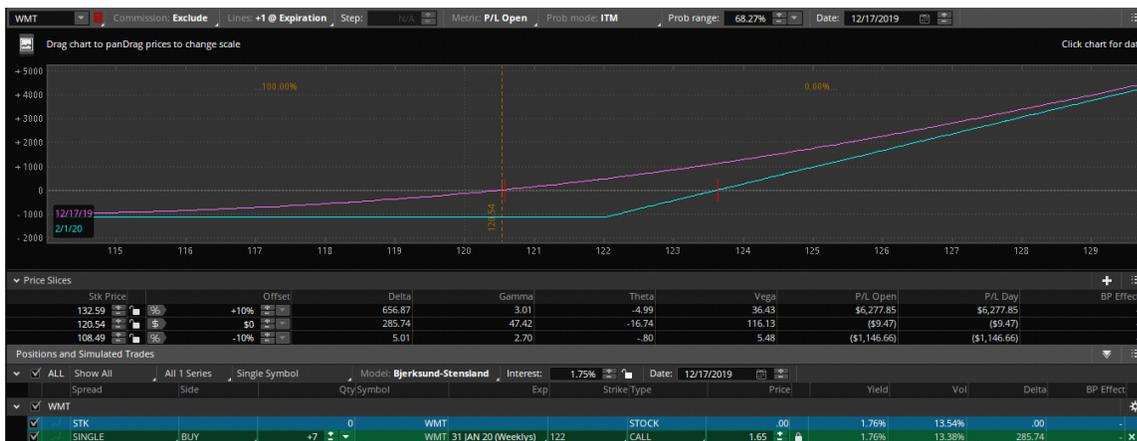


So we have a low energy name with incredibly low option premiums. This is a name that could be coiling (like twisting a spring), especially given the range it's had. Looking at the months IV's, one can see where the earnings start to get priced in.

Dec27(W)	Jan03'20(W)	Jan10'20(W)	Jan17'20	Jan24'20(W)	Jan31'20(W)	Feb21'20	Mar20'20	Jun19'20
11.47	11.47	12.12	13.14	12.71	13.04	18.37	18.16	19.28
-0.40	-0.70	-1.10	-0.40	-1.40	-1.30	-0.30	-0.50	-0.10

Given that we have Christmas sales over the next few weeks, and we will probably know how well Walmart did, I think I can skip worrying about earnings and just take a crack at the holiday sales. The Jan31 contract is SUPER cheap at 13% and has about 45 days to expire, plenty of time for me to sit on WMT while it prepares to pop.

With IV as low as it is, I do not mind spending the full allocation on this trade (\$1200) and buying just out of the money calls. I would be a buyer of the Jan31 122 calls for \$1.65. My goal is to sell these at \$2.25 or more.



As you can see, my downside is just over \$1200, if the stock runs past \$125 I will start to take profits. My hope is I get a gap and sell these at \$3.00 or \$4.00. Worst case on a rally I think I can make \$.50 or so. If the stock truly tanks, I'll dump these around \$1.25.

Trade: Buy to open 6 WMT Jan31 122 calls pay \$2.10

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