

Tuesday Trade 3-3-20

AAPL we buy 3 March 280 puts for \$6.60 we sell 6 March 255 puts at \$2.60, we buy 3 March 230 puts for \$1.14

On Sunday it was 55 degrees here in Chicago. Everyone in town was raving about the weather. Kids were out playing and riding bikes.

I took my younger son to the park to play, it was completely crowded. My older son went outside to shoot hoops.

What is crazy is that in 3 months if I said it was 55 degrees out, I might say to my younger son that its gross out and we are going to stay in. My older son might elect to stay inside because the weather 'sucks.'

What's the difference? Sunday was March 1st, 3 months from now will be June 1st. By June 1st we should be used to nice weather, 55 degrees is what it might feel like in the morning... NOT in the middle of the day.

The same goes for location. Saturday night I was actually in Austin, Texas with my wife. We sat outside on the deck of the Van Zandt hotel having drinks with friends. They were cold...we were not.

Why? Because we are used to it.

It is a proven fact that people get acclimated to weather. The longer one lives in Florida, the more the cold bites. I do not care if you lived in Siberia for 60 years. If you move to Hawaii for a couple of years, Siberia, even in the summer, is going to seem Frigid.

Trading is a lot like the weather. We get acclimated to the news. Markets are flying around because of the news around Covid 19 (coronavirus). In a few months, outbreaks will NOT affect financial markets.

Does this mean that the effect we see now will not affect the market...no. Economic data could spill into financial markets pretty quickly.

But the volatility associated with people getting sick will pass. After a time, news associated with bad economic data associated with people getting sick will also pass.

What we are seeing right now is not a 2008 systematic issue (right now). This means that, even at its worst, what we are seeing is probably transient.

This does not mean markets can't tank more. This does not mean that China doesn't get throttled by Covid 19. But the world as a whole probably IS able to get past what you are seeing.

The point is, it is so easy to fall into the 'news cycle trap' and think everything is going to be the end of the world for markets. If you keep a head on your shoulders you can trade this market (potentially well) as volatility expands and contracts.

Thus, unless we are entering a financial market 'ice age', trade what is in front of you, this is just a brief stint of winter. Markets will get used to this weather, get acclimated, and adjust.

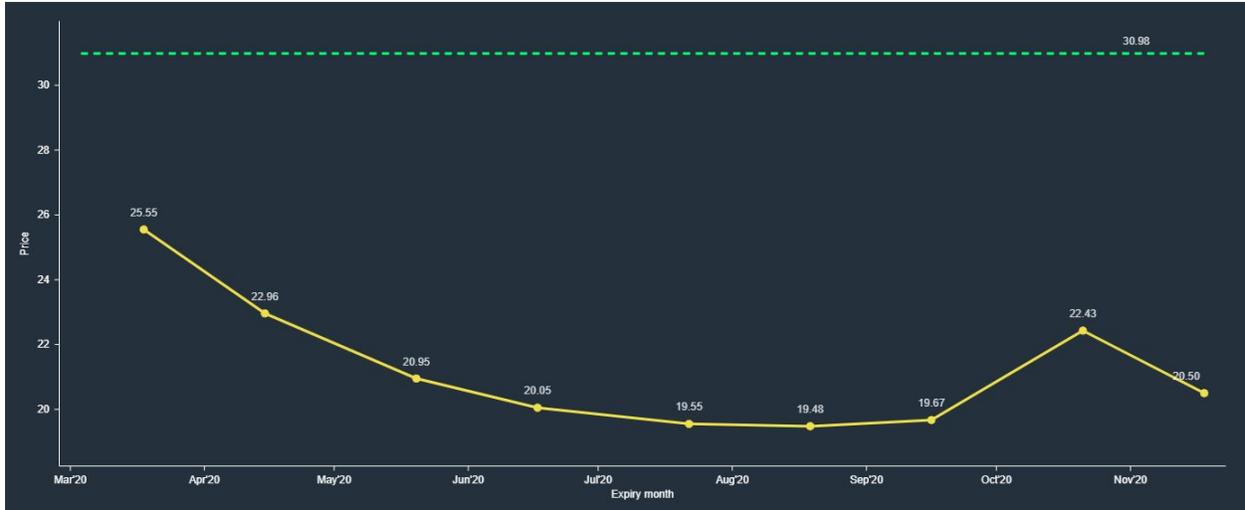
Markets:

As we said last week, when the market enters backwardation all hell is likely to break loose and markets are likely to be all over the place. I would put 3, 1000 point DJX days in that category as would I 3 100 point SPX days.



As I write this the FOMC just cut rates by 50 basis points between meetings. I can remember this happening a few times. Things didn't work out well for markets in the near term. I view today's price action as an opportunity to take off some longs that I have been sitting on. NOT as some major turning point.

The VIX is still massively backward right now although the cash index is off 18 points from the highs.



VIX is backward all the way out to September. This is not the structure of a market that is going to act logically in the next couple of days. I think the highs for the VIX are in, but the highs for the VIX futures might not be and I also think the lows for the market might not be in.

We had a nice little recovery on Monday, but I am not sure a 50 point cut is going to open ports. It might goose markets near term though.

Option Pit Traffic Light

SPX: RED

SPX IV: RED

VIX: RED

VIX IV: RED

VXX: GREEN

Basically, I feel much more confident setting up plays that go short volatility long term than I do setting up trades that go long the market.

As a macro play, a long term SPY call paired with a long term VXX call could win twice. This is a trade we MIGHT put on later in the week as a mid week trade (so be on alert).

Trade:

I have to say this is one of the hardest days to develop a trade idea. Prior to the rate cut I had about 100 ideas that I thought were great. Now I have a lot fewer. There are some trends I like:

I think the big box stores are going to make money hand over fist as customers stock up on supplies. With those customers being drawn in, I think they may see some of the positives of a Walmart or a Target. It's also going to cause impulse purchases. It may even produce some repeat customers if the experience is positive.

I will be looking for trades in TGT, WMT, and COST over the next few days.

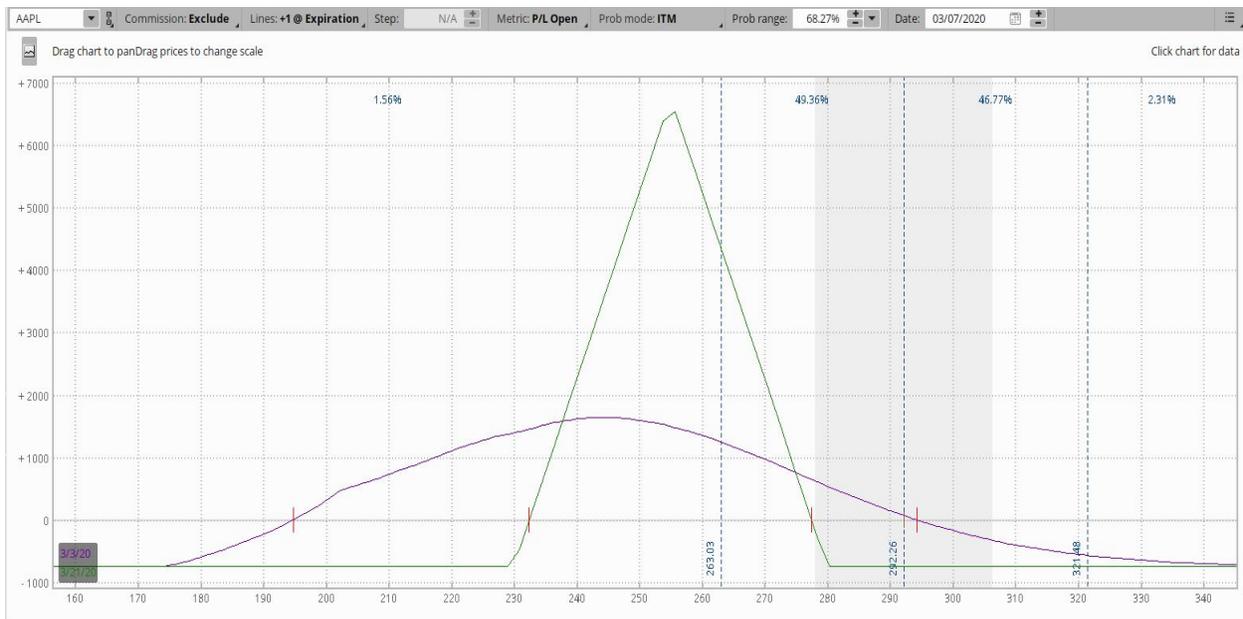
China is about to have a meat shortage. A trade we are going to do in the coming weeks with 99% certainty is a long trade in TSN. They are in a great position to pick up lots of customers in China. The stock will get a short term pop and will pick up some long term customers as a result of all the mean issues in China.

If not this week expect a long TSN trade at some point this month.

Trade I am doing TODAY:

I see a ton of opportunity in AAPL as either a strangle or as a short play. One trade I like right now is bearish butterfly similar to what I put on a couple of weeks ago. With AAPL IV high it is almost impossible to go straight long options in the name.

A trade I like is the AAPL March 280-255-230 put fly for between \$2.50 and \$2.60 a spread. My target is to sell this at \$5.00 or more as AAPL falls back to earth after yesterday's meteoric rise.



If AAPL gets back to \$280 this will be a close. I would have a standing order to close at least 1 at \$4.40 and then another at \$4.90. My final sale I might let ride.

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It makes sense to be patient on the fill as AAPL is moving around ALOT. I am not putting in a lot of vol charts and price charts because everything is so momentum driven right now.

If AAPL does run UP that means the whole market is going higher. I might add an extra UVXY put to take advantage of IV backing off. We are using less capital because the market is moving around so much, when the market is crazy, smart traders dial back the size.

Trade Updates:

That said I love my LEAP UVXY puts that I am holding because they are now essentially paid for for the next 6 months with the VXX trading action from last week. In addition we are long an extra VXX call for the next 2 ½ weeks at a huge credit (taking into account all of the sales). If the market blows up we win, if the stock market rallies, we win BIG.

BA: I think it makes sense to sell the 340 call back and buy the 300 call. I would also consider covering the 400 calls at this level.

GE: I am going to sit and wait on this one patiently. They will be in a good position when things calm down.

Your Only Option,

Mark Sebastian

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