Being Prepared…

Trading Wisdom

> *Being prepared, on a few occasions in a lifetime, to act promptly in scale in doing some simple and logical thing will often dramatically improve the financial results of that lifetime. A few major opportunities, clearly recognizable as such, will usually come to one who continuously searches and waits, with a curious mind, loving diagnosis involving multiple variables. And then all that is required is a willingness to bet heavily when the odds are extremely favorable, using resources available as a result of prudence and patience in the past.* ~ Charlie Munger

Doing nothing. Sitting tight — or "sitting on your hands" as Livermore would say — is one of the hardest things to do in this game. The constant flood of information and nearly 24hr fluctuating prices creates a constant pull to be doing something, and to have an opinion.

We're always trying to assign meaning to random moves in the markets. To convince ourselves we know more than we do. Ignorance and arrogance are not a traders friend.

Much of a speculator's success depends on his ability to resist these urges and to only act when he has a superior edge. And to "bet heavily when the odds are extremely favorable".

This is a lesson I've learned over and over… usually at the cost of a lot of red on my P&L statements.

Markets and Macro

The market sold off as much as 12% from all-time highs over the last two weeks. It finished down 9% still honoring the trendline on the SPX and bouncing off of its 200day moving average.

Narratives are being assigned as to why the market sold off.

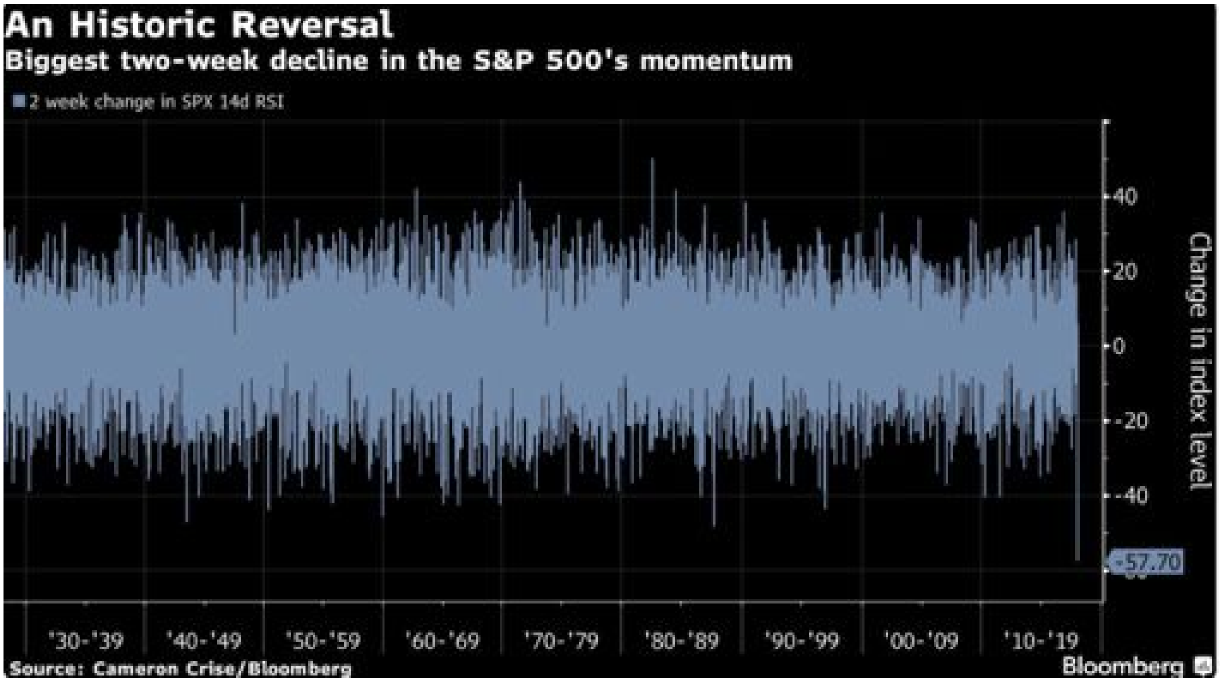
Some are saying it's because there's signs of inflation picking up and concerns it'll lead to a more aggressive Fed. Others are saying it was because of the massive short-vol trade and a systematic unwind caused by the selling off of both equities and bonds at the sametime.

Both are likely partly true.

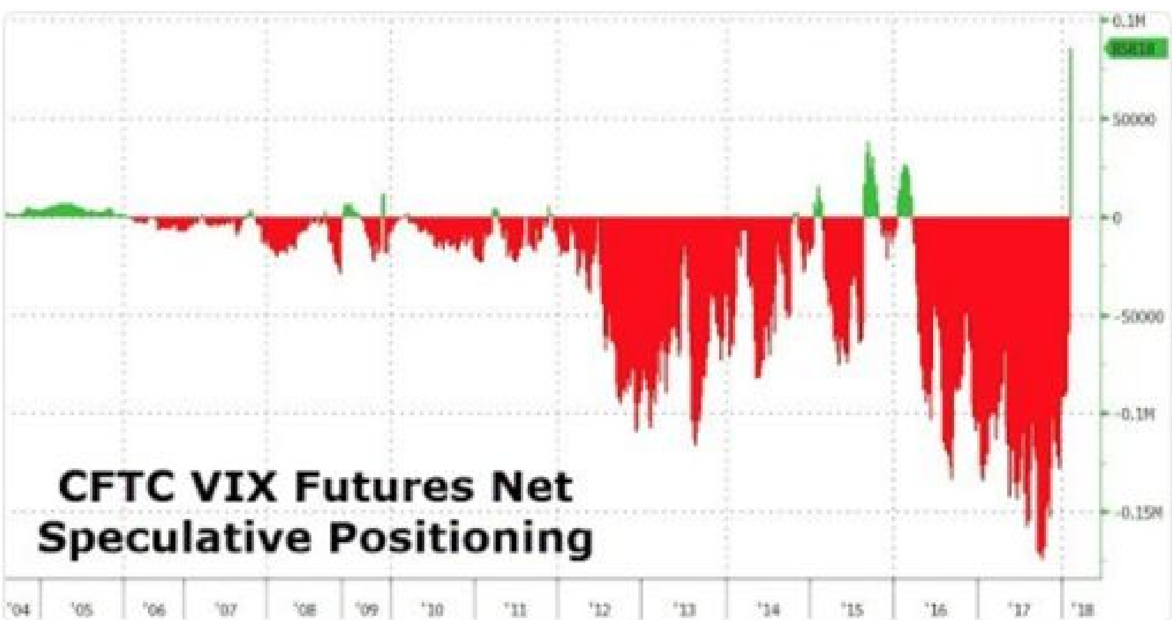
But the most persuasive narrative is that it's just what markets do. The S&P, on average, experiences a selloff of at least 10% or more, every year. And with the market going near vertical over the last year, it's only natural this selloff would be the mirror image of that.

Let's take a look at the technical damage.

This selloff was unique in the speed at which momentum reversed. The chart below shows it's the biggest two-week decline in momentum in history. No doubt a result of computer trading and algorithms built using similar frameworks.

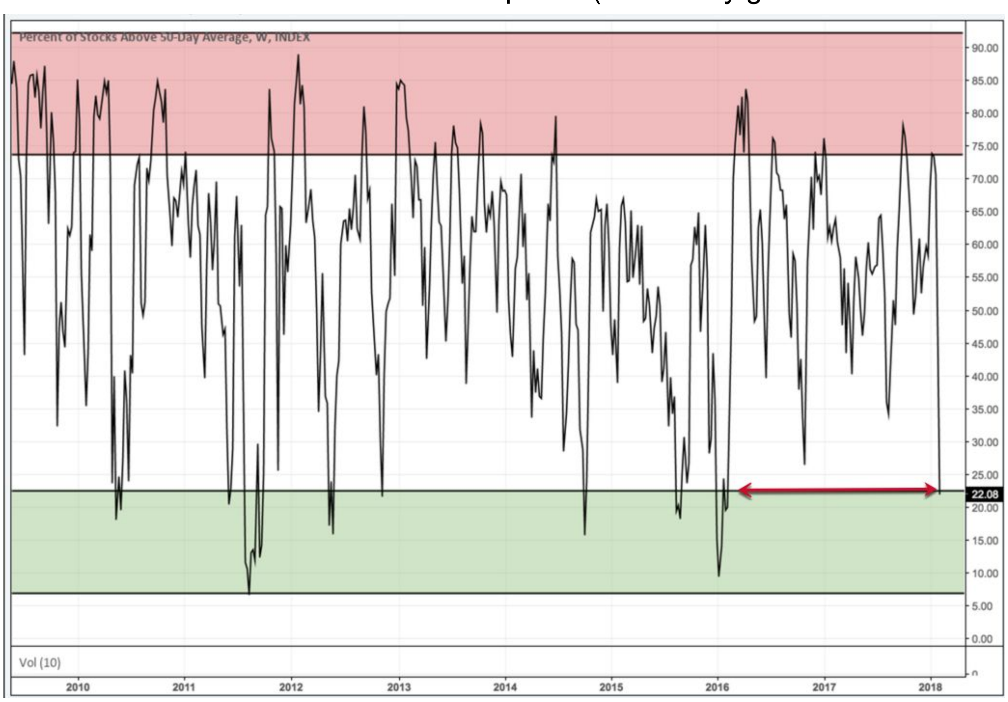


The reversal wiped out the large net spec short positioning to the short side in VIX futures (chart via Zerohedge). Specs are now long volatility for the first time in over 2-years.



The selloff was as broad as it was swift. NYSE new highs over lows hit its lowest reading since January 16'. It's near a level that tends to mark oversold conditions and a short-term bottom.

Now only 22% of stocks are trading above their 50-day moving averages. This is near oversold capitulation levels that mark short-term reversal points (marked by green on the chart below).



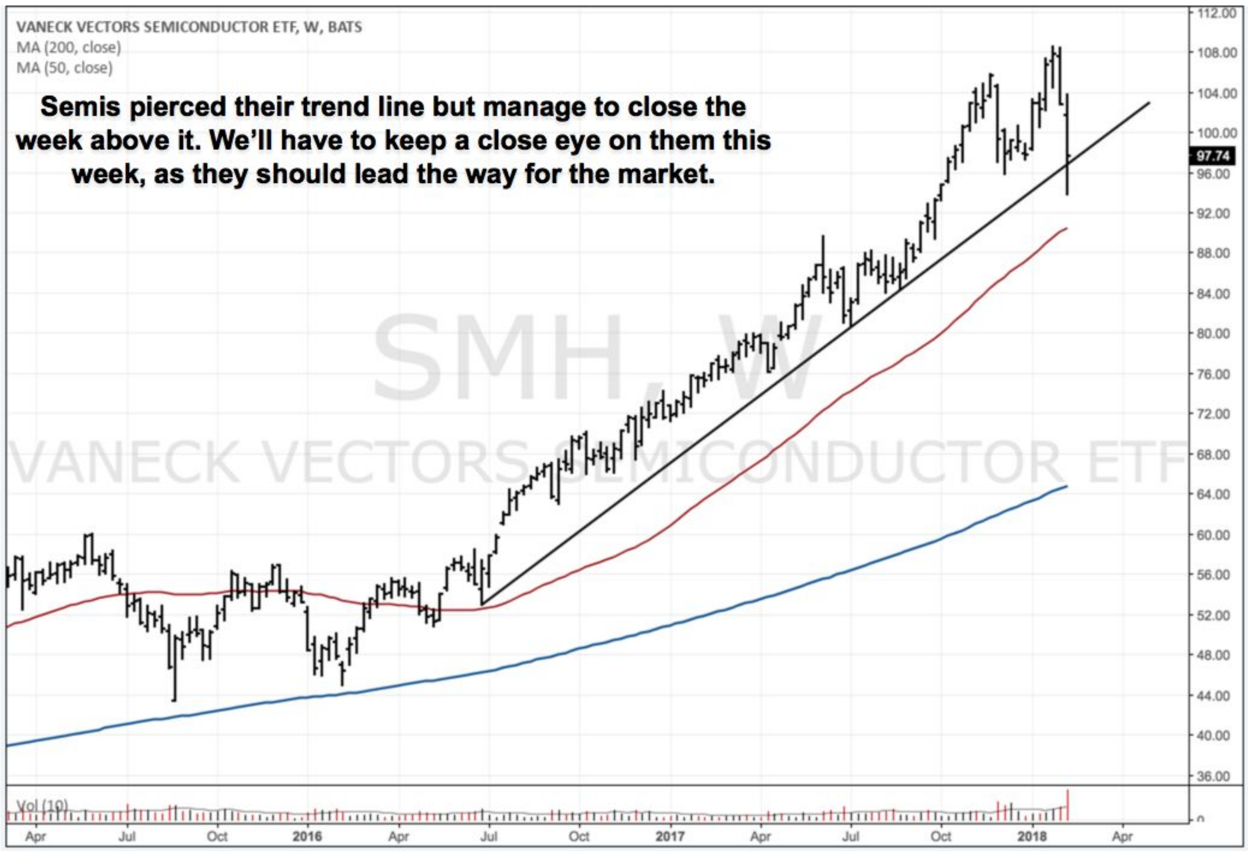
According to the *WSJ*, “Investors yanked a net $30.6 billion out of equity funds in the week through Wednesday, according to fund tracker EPFR Global. That’s the largest weekly net outflow based on data going back to 2004, based on Bank of America Merrill Lynch analysis of EPFR data.”

Weekly net flows for equity funds

Source: EPFR

Junk bonds have also been selling off hard and are now in a technical downtrend.

Semiconductors (SMH) are always an important bellweather to watch. A good indicator of the markets mood. They tend to lead broader equities. This week they pierced their 2-year trendline but managef to close just above it on Friday. I wouldn't be surprised to see this trendline violated within the next few weeks.



Here's my take on where we're at.

I'm not convinced this selloff is over. Very seldom does the market reverse in a v-bottom fashion after a selloff of this magnitude. Usually, we see a rally that's followed by another dump that puts in a double bottom, at least.

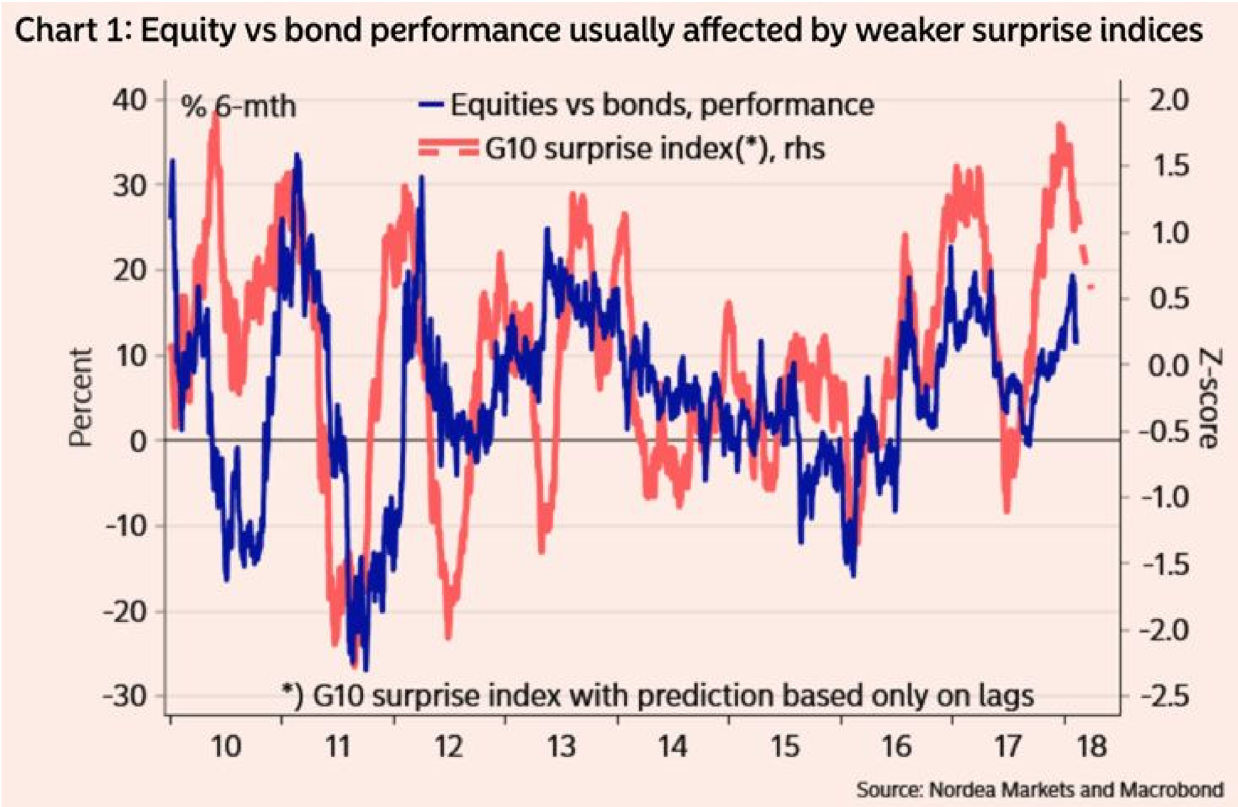
That's my base case but there's no way to know, of course, so I'm fine sitting on the sidelines with our current holdings and just watching it playing out. Do nothing. If stops get hit we'll cut. And we have our long VXX position to help protect our downside.

US inflation numbers come out on Wednesday. The market will be playing close attention to this print. Whether it prints above or below expectations will likely drive action this week. Especially in bonds.

And bonds (shown on the chart below) can't find a bid.

That's even with the recent equity weakness. Typically, bonds and equities move inversely to one another. But not as of late. This is an important signal to watch. I think it's highly unlikely that stocks will be able to put in a solid bottom until bonds do. And it might take another selloff in both for that to happen.

Another important chart is this one from Nordea Markets. It shows the Citi Economic Surprise Index for the G10 countries. Along with the relative performance of stocks over bonds. As you'd expect, stocks outperform when there's a trend higher in positive economic surprises (red line) and lower when economic data disappoints relative to expectations.



The red line has rolled over.

If history is any guide, this suggests that bonds should *soon* start performing better relative to stocks. Of course, it's also possible that economic data continues to surprise and the red line turns up and bonds dump while stocks scream higher.

To sum up: The market is nearing oversold conditions but selloffs like these rarely end in v-bottoms. It's probable that we see a rally followed by another selloff in stocks. A double bottom. And stocks are unlikely to find a base that will support their next leg higher until bonds stabilize somewhat.

The best things to do in markets like these is nothing. Wait patiently for clear technical signals before making moves. Don't rush to up or cut exposure.

Once the wash looks complete we'll be jumping in an adding size to the trades on our book that we like. Along with a few more names that we've been waiting to buy . Hopefully at much better prices.

That's all I've got for now. Expect some trade alerts and research to come your way this week.

Have a great week in the markets and see you in the CC!

Your Macro Operator,

Alex

Macro Ops Portfolio			YTD	Inception (16')			
NAV	$2,723,347		0.97%	35.56%			
Big Bet Macro							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	Limbach LMB	2,750	$13.66	$12.00	$5,362.50	$18.00	$13.95
Equity	JD	5,867	$44.74	$36.00	$40,658.31	$72.00	$42.93
Equity	Interactive Brokers IBKR	1,800	$41.71	$58.50	$6,336.00	$55.50	$62.02
Equity	W&T Offshore WTI	16,000	$2.18	$3.30	$4,160.00	$4.50	$3.56
Equity	Yatra Online YTRA	39,286	$7.40	$6.45	$29,464.50	$14.00	$7.20
Equity	United Insurance UIHC	13,000	$16.98	$17.00	$21,450.00	$20.00	$18.65
Equity	Trip Advisor TRIP	7,754	$36.46	$33.80	$34,970.54	$50.00	$38.31
Equity	BCS Jan '19 15 Call	574	$0.35	$0.00	$13,776.00	$3.50	$0.24
Equity	DB Jan '19 30 Call	670	$0.30	$0.00	$6,030.00	$3.00	$0.09
Equity	CCJ Jan '19 17 Call	236	$0.41	$0.00	$3,540.00	$5.00	$0.15
Equity	FCAU Jan '19 25 Call	108	$0.90	$0.00	$24,408.00	$5.00	$2.26
Equity	JD Jan '19 70 Call	108	$0.92	$0.00	$11,988.00	$7.00	$1.11
Equity	TRIP Jan '19 75 Call	108	$0.89	$0.00	$6,156.00	$7.00	$0.57
Equity	CHK Jan'19 10 Call	750	$0.14	$0.00	$7,275.00	$1.00	$0.10
Equity	Tesla Mar '18 240 Put	28	$8.80	$0.00	$6,076.00	$24.00	$2.17
Equity	MS June '18 65 Call	126	$0.46	$0.00	$3,402.00	$3.00	$0.27
Equity	WMT June '18 120 Call	126	$0.51	$0.00	$10,836.00	$3.00	$0.86
Volatility							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Volatility	VXX	3,326	$45.21	$0.00	$166,399.78	~	$50.03
Rates	IEF March 2018 104/109 St	150	$1.31	$0.00	$30,450.00	$7.00	$2.03
Commodity	SLV June 2018 17 Straddle	130	$2.84	$0.00	$26,780.00	$5.00	$2.06
Commodity	GLD Sep 2018 128 Straddle	24	$15.10	$0.00	$25,248.00	$30.00	$10.52

Risk Budget				
	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1,780	720	71.20%
Big Bet Macro	1250	866	384	69.29%
Volatility	1250	914	336	73.11%

**Updated 2/10