FAANG's Not Dead Yet

Facebook took a beating last week. And as a stock market bulls, we definitely don't want to see a leader break trend and gap down 20% in a day...

But at the same time, one piece of bearish evidence isn't enough to flip an entire bias. We have to analyze all variables, assign each an appropriate weight, and then from there determine the forward probabilities of market direction.

After taking this weekend to review everything, we believe FB's weakness is idiosyncratic and not a harbinger of macro trouble.

Facebook dropped hard because Zuck and Co. basically said the following in the earnings call:

- Expenses will grow 50%-60%
- Revenue grew 42% but will slow
- We anticipate that total expense growth will exceed revenue growth in 2019
- Operating margins were > 50% will be "mid 30's"
- Don't expect the company's financial results to get better anytime soon

Our take is as follows:

Facebook's learned a lot from its mistakes during the 2016 election. And those lessons were reinforced when the Cambridge Analytica scandal broke earlier this year. Now they have decided to take action in order to transform themselves into a tech company that can proliferate in a privacy conscious era. They're trading short-term pain for long-term gain.

This makes a lot of business sense to us, but it's not what a bunch of myopic momentum oriented hedge fund traders wants to hear which is why we saw the stock get absolutely crushed after the call.

So in our opinion, the growth narrative on Facebook isn't dead, it's just delayed while Zuck and the team makes the changes they need to make behind the scenes.

Despite FB's brutal earnings call, the rest of the FAANG stocks have actually been able to hold up pretty well. That's a subtle cue we can use to support the bullish stock case into the end of the year.

Netflix, has a bad earnings call, but the uptrend has remained intact. We can interpret the recent pullback in the stock as a retrace rather than a trend change.

Amazon had a good earnings report and trades right near it’s all-time highs.

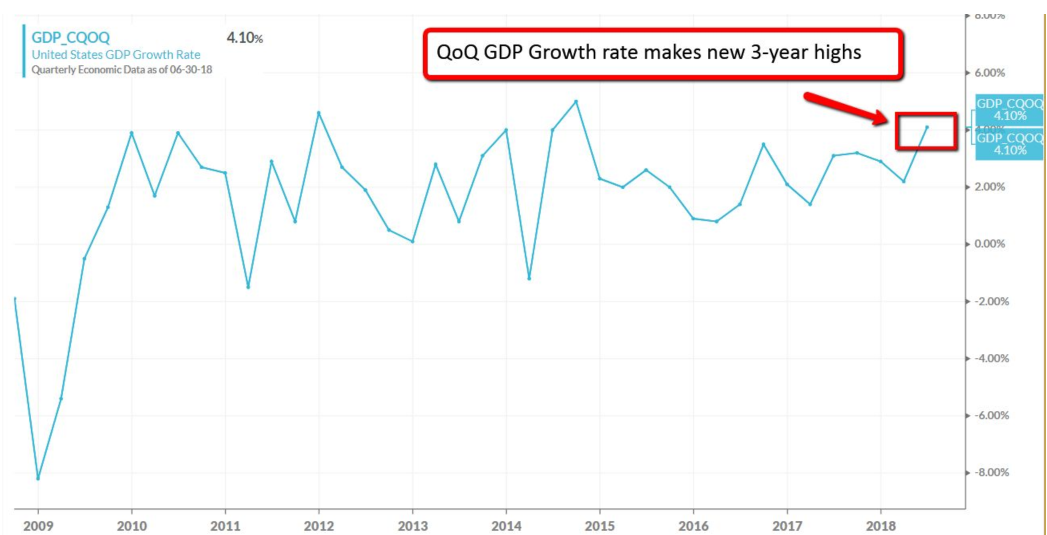
Google also had a great earnings report and is currently trading a few percent off of its all-time highs.

And Apple, which reports earnings later this week is hovering right underneath its all-time highs.

So it looks like the major weakness has been contained to Facebook while the rest of FAANGs continue to show strength.

The S&P 500 still looks bullish too. Facebook had even less of an impact here. Since the April lows, we've been moving methodically upward in a price channel.

The market has been robust to Facebook's event because the US economy overall continues to boom. The advanced GDP number came out last Friday at 4.1% And that will mark a new 3-year high for the QoQ growth rate.



For now FB weakness hasn't been enough to shift our assumptions on the broad market. We'd like to see the macro data turn south before making any changes to our 2018 outlook. We remain bullish for now.

Going Forward...

The big macro news this week will come from the "game masters" (central bankers) of the world. This week the U.S., Japan, U.K., Brazil and India will all be updating monetary policy.

Traders expect the BOJ to keep interest rates the same. The market will be paying close attention to Governor Kuroda's fresh forecasts to see if it offers up any clues on where monetary policy will be headed.

The Fed and Brazilian banks are expected to stand pat on rates, while the BOE will likely hike despite gloom from the Brexit situation.

An unanticipated announcement out of these guys will affect our dollar and gold positions, so we'll be keeping a tight leash on those.

For those of you who like short-term trades, we have a few things we like to play around with during FOMC meetings.

The first is a short-vol day trade on the day of the announcement (this Wednesday). You can read more about that trade by reading this Vault document here.

In 2018 it's paid to take the trade off almost directly after the announcement at 2PM EST. The longer the holding period the worse the performance. Taking the trade off 30 minutes after the announcement has shown a small profit for the year while waiting an hour after the announcement has shown a loss for the year.

2018 Announcements	VXX 3 hours Before Announcement	VXX 30 Min After	VXX 60 Min After	VXX Close	30 Return	60 Return
Jan 31	$30.11	$30.30	$30.45	$29.95	-0.63%	-1.13%
Mar 21	$41.27	$40.51	$41.24	$41.95	1.84%	0.07%
May 2	$40.59	$39.71	$40.48	$40.68	2.17%	0.27%
Jun 13	$31.59	$32.22	$31.93	$32.39	-1.99%	-1.08%

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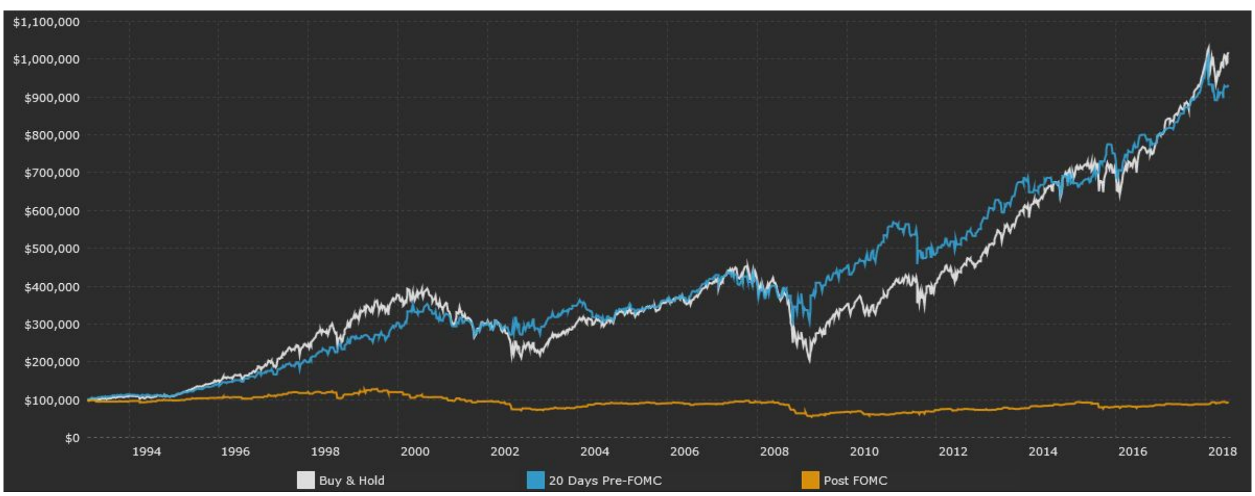
This week's trade should work out because of the recent pop in the VIX. A 14 handle gives us some room for the VIX to sell back off again down to its 2018 floor.

We don't send out any alerts for this trade, but if you're interested in seeing what it's about join us in the Volatility and Options channel of the Comm Center on Wednesday morning (August 1).

Another interesting trade that comes out of FOMC week is the post meeting SPX call sell. It's a bearish trade on the S&P 500 that lasts about 7 days. The idea comes from the observed anomaly that stocks tend to perform poorly after Fed meetings. Check out the chart below from Movement Capital that shows SPX returns pre-meetings and post-meetings:



For some reason most of the S&Ps gains since the mid 90's have occurred leading up into the FOMC announcements. After the meetings the market's much weaker. And then if we further filter the trade down by seasonality we find that this sideways to down bias post-FOMC is even stronger during the summer months.

I went back to 2013 and tracked the P&L of selling an ATM call in SPX with 7-12 days until expiry one day after the FOMC announcements. **The strategy had an astounding 93.75% win rate.**

Sell 1 ATM SPX Call Day After Fed Meeting With 7-12 Day Expiry

	2013	2014	2015	2016	2017	2018
June	$452	$644	$1,305	$2,215	$740	$1,333
Jul/Aug	$830	$1,716	$1,120	$253	$680	??
Sep	$980	$815	$2,225	$940	-$601	??
Win%	93.75%					

Selling an ATM call should have a theoretical win rate of 50%. The fact that this trade wins 93.75% of time means there's a ton of edge here to harvest.

So if you're looking for a way to offset some long beta in your portfolio this summer consider taking a look at this trade after the conclusion of the Fed meeting this Wednesday.

Portfolio Update

We continue to stay disciplined on cutting losers and letting winners run and we'll continue to do so for the rest of the year.

Today we cut both JD.com and Facebook out of the portfolio. (The DOTM calls in these names remain on the book.)

JD has been a dud for us all year — as has everything Chinese. The CCP managed deleveraging coupled with escalating trade wars has put a strong headwind against Chinese stocks. JD closed below our risk point, so it's time to move on and revisit once again when the macro situation in China has turned more bullish.

Facebook we closed because the stock is likely to meander sideways now that short-term optimism has broken. After last week's earnings call the primary growth narrative has been disrupted so we no longer expect this name to perform in the short-term. The stock will likely sell off even further from here as systematic momentum funds and hedge funds derisk their books that have been full of FB.

After expectations fully reset we'll take another look. I don't think we've come close to seeing the all-time highs in FB, but it's going to be awhile before the stock gets started on another uptrend.

That leaves us with the following stocks:

- DISCA
- SFIX
- AMD
- GOOGL
- DIS
- UIHC
- YTRA

AMD, **GOOGL**, and **Disney** are all at all-time highs or near all-time highs. From here, we're resisting any attempt to take profits and letting these stocks maximize their up trends. AMD has so far been the star of the show for us over earnings season cancelling out a lot of the losses we took from the FB collapse.

UIHC has a decent unrealized profit of 158 bps, but it's one of our oldest positions on the book and momentum has started to stall. Since the run up at the beginning of the year, the stock hasn't done much. We'll be digging further into the story again in the coming weeks to see if it's worth the risk allowance.

DISCA, **SFIX**, and **YTRA** are currently sitting underwater from our entries.

DISCA has earnings coming up in about a week. As long as the stock stays above our risk point of $23.80 we'll wait until after the announcement to make a trade management decision.

We're in wait and see mode in SFIX as well. Our risk point is down at the $25.50 level.

The stock is undergoing a corrective move in the context of a larger uptrend. We're going to stick with this name until it forces our hand by crossing below our stop.

YTRA has been the dog of the portfolio for all of 2018. But we're sticking with it because of our fundamental conviction. The original write up of the thesis can be found [here in the February 2018 MIR](). Right now we're waiting for the next earnings report which is supposed to come out on August 6th before reassessing this name.

That's it for the vanilla stock positions.

All of our futures positions have a short leash now. The CB announcements this week will inject an extra amount of volatility into the currency and metals market and we don't want to give back too much unrealized gains on positions that have gone our way.

All of our gold exposure has been rolled to the December contract. And we have moved up our stop to the prior swing high. If price breaches 1245 we're going to take profits.

We've also moved up stops on our dollar positions as well. It hasn't paid us since we rolled to the September contract. Momentum has stalled, and the greenback is vulnerable to a sharp pullback. We don't want to stick around for that volatility and would rather monetize our gains from earlier in the year.

Finally, our crude oil short appears to of been a dud. We never got a favorable excursion from our entry. Our stop's a buck away from current prices. If breached we'll take the 35 bp loss and move on.

As it stands now the MO portfolio is up about 9% year-to-date. So although we have retreated from our high watermark, we still have a healthy lead against the S&P 500 for 2018.

That's all I've got for this week. Alex is currently recovering from an ultramarathon he participated in this weekend out in Vancouver. He'll be back in front of the screens tomorrow and starting production on the August MIR where we will be outlining our revised and up-to-date macro outlook for the rest of the year.

If you've got any questions for us in the meantime, let us know in the Comm Center.

Your Macro Operator,

Tyler

Macro Ops Portfolio			YTD	Inception (16')			
NAV	$2,957,137		9.38%	47.19%			
Big Bet Macro							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	Discovery DISCA	3,450	$28.09	$23.80	$8,177	$60.00	$26.17
Equity	Stitch Fix SFIX	1,750	$32.96	$25.50	$5,390	$60.00	$28.58
Equity	Advanced Micro AMD	14,818	$14.84	$11.50	$117,803	$25.00	$19.45
Equity	United Insurance UIHC	13,000	$16.98	$17.45	$40,690	$20.00	$20.58
Equity	Google GOOGL	332	$1,073.37	$992.00	$79,016	$1,400.00	$1,230.00
Equity	Disney DIS	5,694	$102.34	$95.00	$100,385	$150.00	$112.63
Equity	Yatra Online YTRA	36,819	$7.24	Investment	~	$15.00	$5.68
Equity	MU Jan '19 70 Call	118	$2.12	$0.00	$21,948	$10.50	$1.86
Equity	FB Jan '19 260 Call	35	$2.59	$0.00	$1,085	$20.00	$0.31
Equity	AMD Jan '19 28 Call	192	$0.40	$0.00	$6,912	$3.90	$0.36
Equity	BCS Jan '19 15 Call	574	$0.35	$0.00	$8,610	$3.50	$0.15
Equity	DB Jan '19 30 Call	670	$0.30	$0.00	$1,340	$3.00	$0.02
Equity	CCJ Jan '19 17 Call	236	$0.41	$0.00	$2,360	$5.00	$0.10
Equity	FCAU Jan '19 25 Call	108	$0.90	$0.00	$1,620	$5.00	$0.15
Equity	JD Jan '19 70 Call	108	$0.92	$0.00	$1,512	$7.00	$0.14
Equity	TRIP Jan '19 75 Call	108	$0.89	$0.00	$16,200	$7.00	$1.50
Equity	CHK Jan'19 10 Call	750	$0.14	$0.00	$14,250	$1.00	$0.19
FX	UUP Jan'19 27 Call	1,230	$0.13	$0.00	$18,450	$1.20	$0.15
Commodity	Sep Crude Oil Futures	-3	$67.17	$71.00	$3,060	$60.00	$69.98
FX	Sep Dollar Futures (DXU8)	20	$94.44	$93.71	$8,800	$96.00	$94.15
Metals	Dec Gold Futures (GCZ8)	-9	$1,234.0	$1,245.7	$13,680	$1,110	$1,230.50
Volatility							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Commodity	GLD Sep 2018 128 Straddle	24	$15.10	$0.00	$30,000.00	$30.00	$12.50

Risk Budget

	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1,649	851	65.97%
Big Bet Macro	2250	1594	656	70.83%
Volatility	250	101	149	40.58%

**Updated 7/30