
A Buyable Dip

Buy greed at tops; Sell fear at bottoms; Repeat until broke. ~ Carl Richards

I just wanted to get out a short note to the group as I think we're going to get a tradeable bottom soon and I'm making some position changes accordingly.

First, let me reiterate my base case.

1. We're in an extended and volatile trading range for the next few months as the market works off over-positioning and adjusts to the uncertainty caused by the coronavirus.
2. This range has a downside bias.
3. Expect continued gut-wrenching drops followed by face-ripping rallies. This is the new norm for the time being.
4. Recession risks have risen significantly and we could very well be in the early innings of putting in a cyclical market top.
5. Market tops are processes, not events. The average market top takes 10-months to form.
6. There's a LOT of unknowns right now, so strong opinions very weakly held and all that.

The number one rule in an environment like this is to protect your cash. Cash is a really good position to have right now and it could very well outperform the indices for the year, and with much less volatility to boot.

If you're a long-only investor, hedge your portfolio when protection is cheap or when technical entries to the short-side arise.

If you're a trader, buy dips and sell rips until the regime changes.

Also, due to the volatility we're seeing across the board, it's important to decrease your position sizing to adjust for the added risk. There'll be some great setups that'll come out of this action but best to trade gingerly and build up some dry powder. And just as importantly, preserve your mental capital, for when those opportunities come along.

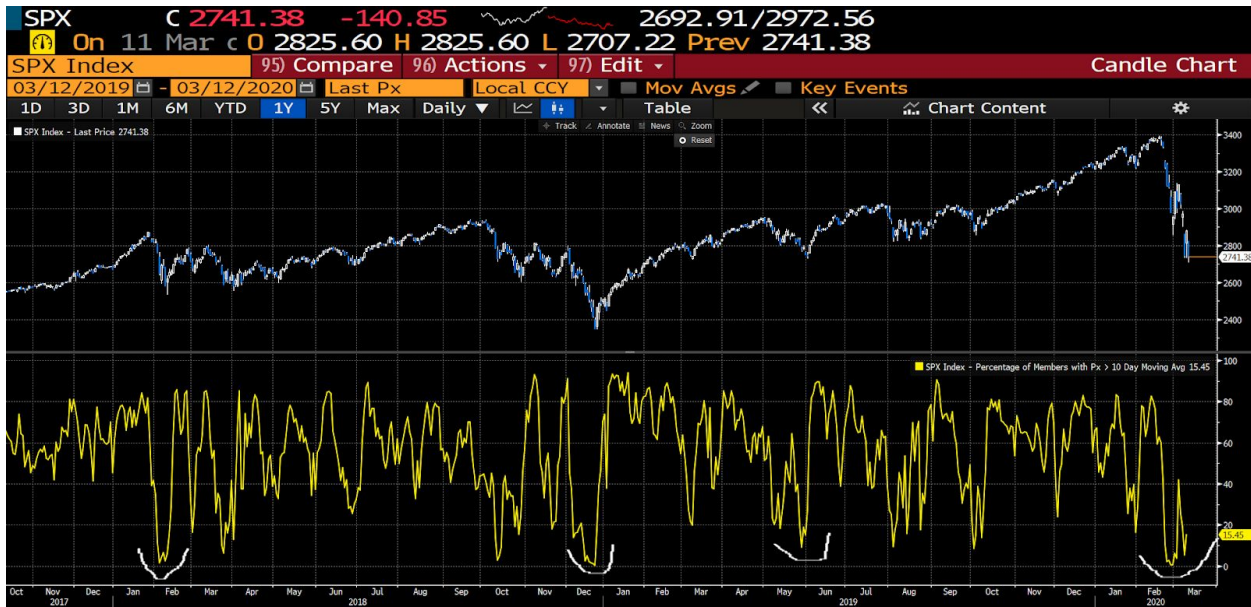
I think that covers the housekeeping stuff, now onto markets.

I pointed out in [this week's chart pack](#) how the conditions were now set for a tradeable market bottom — a bounce in the 1-3 week range — and we just needed to wait for price to confirm. Well, it looks like we might be getting that confirmation.

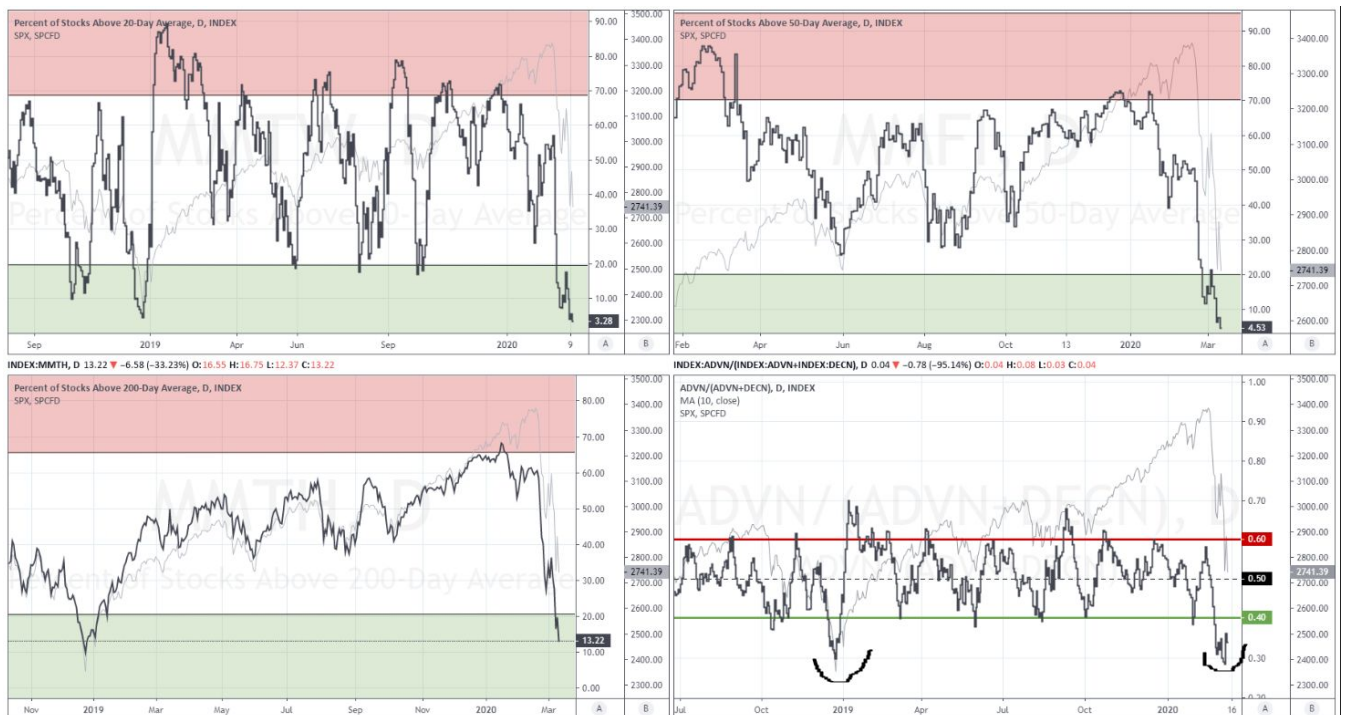
The SPX has put in a double bottom on the 1hr chart and we're starting to see a number of hooks from deeply oversold conditions.



Check out this chart for example. The yellow line is the percent of SPX members trading above their 10-day moving averages. This indicator essentially hit zero the other week but is now starting to hook upwards. Note my crudely drawn white hooks marking similar instances.




We can see the same thing in our Zweig Breadth Thrust indicator (bottom right chart). It's starting to hook higher from deeply oversold conditions, similar to the bottom in Jan 19'. The other three charts show the percent of NYSE stocks trading above their 20, 50, and 200-day moving averages. All indicate this technical down move is exhausting itself.





The technical “Bear Market” we officially hit today is helping to set the stage for a short-covering rip higher. Here’s some of the headlines I’ve collected over the last few minutes.


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3.
'It's like a Gothic novel.' My mom had an aortic-aneurysm rupture — my sister moved into her home and, when our mother died, never moved out. Is it too late for justice?
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4. Opinion
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Goldman Sachs analyzed bear markets back to 1835, and here's the bad news — and the good — about the current slump

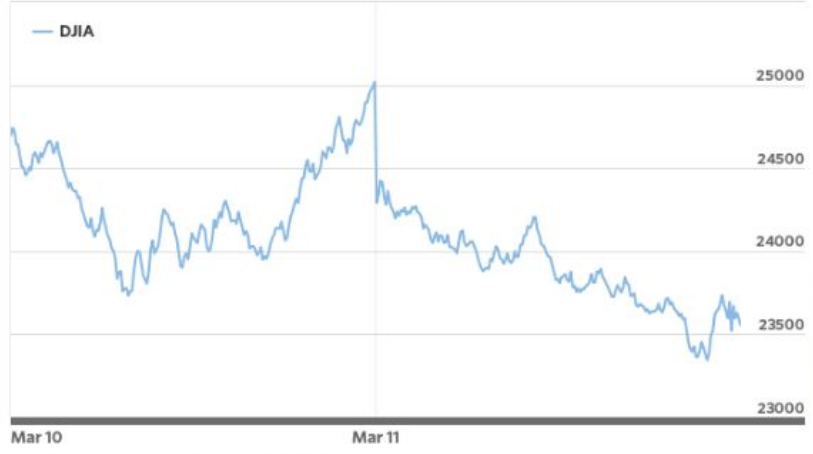
It's just ALL doom and gloom right now.

bear market, ending the longest bull-market run in history—here's how those downturns last on average



No fans for March Madness: Sporting events are being canceled or will be held in empty arenas amid coronavirus concerns

- The coronavirus is forcing the NCAA, NBA, MLB, NFL, NHL and other sports leagues to take action
- Top U.S. health official recommends playing NBA games without fans
- Coachella festival postponed due to coronavirus, a day after Pearl Jam puts off tour
- March Sadness: NCAA tournaments to be played without fans due to coronavirus



DJIA -5.86% ▼ SPX -4.89% ▼ COMP -4.70% ▼

- The Dow is in a bear market: here's where the S&P 500 and Nasdaq would have to close to join it
- Dow ends in bear-market territory after WHO declares coronavirus a pandemic while market looks for fiscal stimulus
- This plunge looks a lot like the ones that rocked stocks in 1929, 1987 and 2008 — if it keeps tracking, look out
- 'This could cascade': investor whose contrarian bet has him up 10% as coronavirus rocks stock market
- Coronavirus stock selloff means bull market will 'soon end', says Goldman — sees S&P 500 falling another 15%
- It's still way too soon to buy stocks, warns Deutsche Bank's Torsten Slok
- Chart of Wall Street's 'fear' index in 2020 illustrates how unhinged stock markets have been over coronavirus compared to the 2008 crisis
- Here's how hard global markets could be hammered by a pandemic, according to UBS
- These U.S. stocks fell the most after the coronavirus was declared a pandemic

'The numbers likely will get substantially worse,' economist warns
DJIA -5.86% ▼

World's most valuable public company slammed for 'utterly shameful' and 'inhumane' behavior toward worker
SA:2222 9.88% ▲

Boeing's push to preserve cash and tap huge credit line spooks investors
BA -18.15% ▼

Trump meets bank chiefs as coronavirus declared pandemic and Dow falls into bear market
BAC -3.98% ▼

DJIA 23553.22 -0.86% ▼ S&P 500 2741.38 -1.85% ▼ Nasdaq 7992.05 -1.70% ▼ U.S. 10 Yr 2.8732 Yield 0.822% ▼ Crude Oil 33.12 -1.61% ▼ Euro 1.1263 -0.06% ▼

THE WALL STREET JOURNAL. Ashwin Kumar ▼

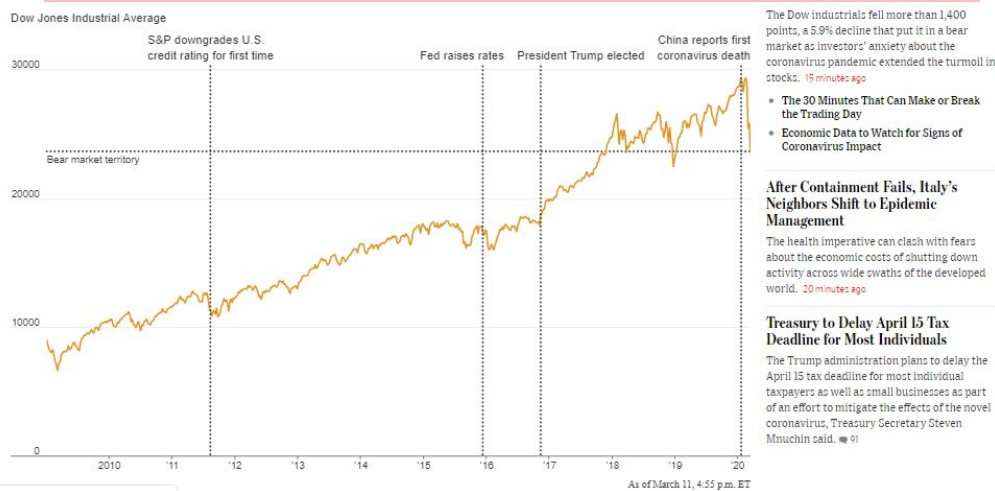
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Dow Jones Industrial Average's 11-Year Bull Run Comes to an End

Blue-chip stock index drops more than 20% from its February high, felled by coronavirus fears



Widespread sentiment like this means there's positioning to fuel a move in the other direction.

The Trump is holding a press conference tonight at 9pm EST. Let's see if he's learned his lesson that he can't simply offer payroll taxes, stick his head in the sand, and wish for this thing to go away. Counteracting the economic impact of this virus is going to take broad-based **we're bringing in the FULL armada** style talk and action.

If he disappoints tonight then I don't doubt this microstructure double bottom will fail and I'll have to flip our positioning with a small loss.

Mark Dow captured the steps of the political economy in crisis well with this tweet.



Dow ✓
@mark_dow

Following

The three steps of political economy in crisis are:

- 1) Do the authorities 'get it'?
- 2) Do they have the organizational and administrative capacity to formulate and implement?
- 3) are there political obstacles to getting it done?

The US now at 1). Not enough, but no small thing

5:11 AM - 10 Mar 2020

The market has been throwing fits because the administration has been acting way too sanguine. And it'll keep twisting Trump's arm until it gets what it wants. Hopefully, this technical bear market is enough to nudge him into action.

Here are the moves I'm making.

We took profits on all of our shorts during the week, except for BA but I plan to close that out tomorrow or at least put in a trailing stop if it's still trading heavy. I've been very active in the port over the last two weeks, much more than usual. I'm updating all portfolio changes in the #mo_trade_updates Slack channel as I make them. So make sure to check in there regularly to see what's going on.

I also took full profits on the rest of our long bond trade the other day. Bonds have been a big bottom-liner for us year-to-date but now they're looking weak and are ripe for a snapback should equities jump from here.

In that same vein, I flipped our positioning in gold from a Core 50% long position to 25% short this evening. Gold moves off the real yield and risk-on/off sentiment, so a run in equities and a dip in bonds (rise in yields) would be bad for the yellow metal.

Positioning is also incredibly offside. There's a lot of weak hands to unwind here. The chart below shows the net position of commercial hedgers and the indicators z-score. When commercial hedging is this short it often coincides with an intermediate peak in gold.



Also, take a look at a chart of any gold miner... It's nasty stuff. GDX has already broken below its trading range and 200-day. If we see follow-through tomorrow then I'll look to add to this position. If not, I'll happily cut or reverse again.

My MO right now is to take quick small losses when the tape doesn't agree with me and position myself to get lucky a few times.

As far as buying individual equity names here I may reload on some of the stocks we were long, things like Square (SQ), Livongo Health (LVGO), Altria (MO) etc... Though I think the play here might be taking some small positions in knee-capped names, stocks down 25%+ over the last few weeks and ride them for a pop. Perhaps look at a list of high short-interest names and ride them for a quick covering rally.

I'm also starting to test some longs in shippers again. I put on a small starter position in Dorian (LPG) today — details for the trade are in the slack.

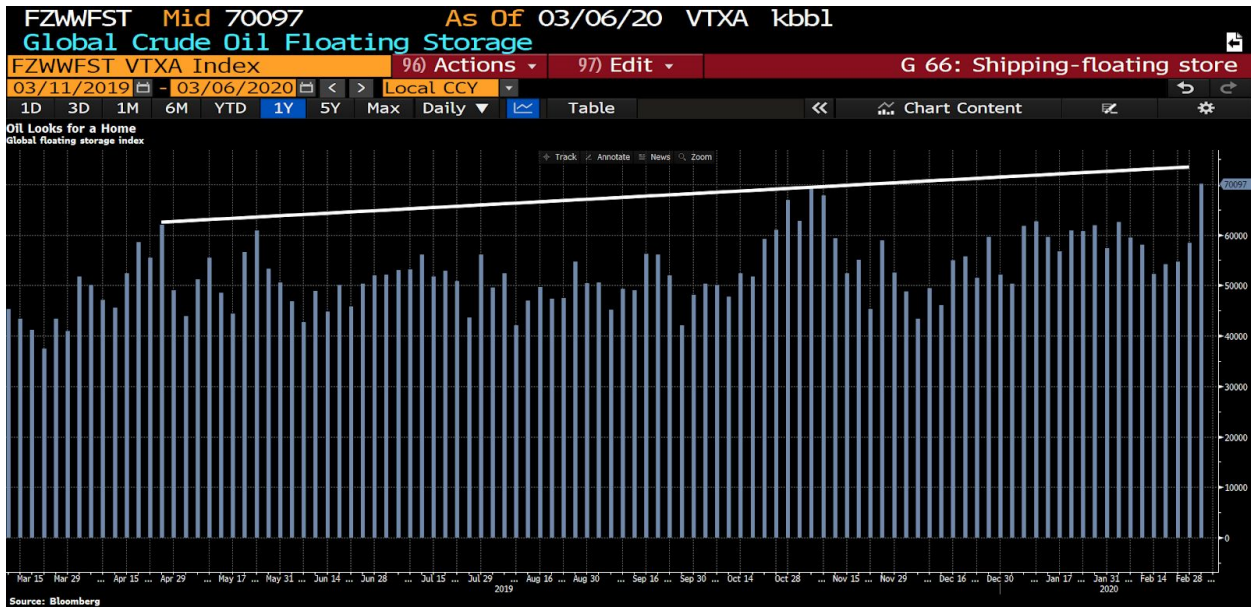
Crude tanker plays like TNK, EURN, STNG, DHT etc... are on my list. I'm hoping to get some small starter positions on a few of them tomorrow if the market holds up.

These stocks which have been killed due to the coronavirus shock are now benefitting from the Saudi/Russia price war in oil. The reason being is that the two countries are flooding the market with crude and this is pushing the limits of storage capacity which is being exacerbated by falling demand.

For instance, refineries in China have cut output by 1.5mbpd according to Bloomberg. We have more crude hitting the market and fewer places for it to go. So it's going into floating storage. And with CL_F in deep contango, meaning the near term oil contracts are much cheaper than the ones further out in time, putting oil on boats for a while makes for a profitable trade (red line is current CL_F curve, green is 1-month ago, blue is last year).



These dynamics are pushing the global floating storage index to new multi-year highs.



And the charter rates for the Gulf to Asia route are inflecting higher (charts via Bloomberg MLIV).



I'll post whatever moves I make as I make them to the Slack.

Here's a snapshot of our portfolio. We're up a bit over 15% year-to-date.

The Four Pillars Portfolio		<u>YTD</u>				
		15.30%				
The Core	Fixed Allocation	Market-Timing		Net Position		
Large Cap Equities (/ES_H or VOO)	25%	0%		25%		
Short-term Bills (/ZT_M or VGSH)	25%	-25%		0%		
Long-term Bonds (/ZB_M or TLT)	25%	-25%		0%		
Gold (/GC_M or GLD)	25%	-50%		-25%		
Big Bets	Thematic	Cost Basis	At Risk	Notional %	Risk Point	Last Price
Centrus Energy (LEU)	Uranium Bull Cycle	\$6.69	B/E	7%	\$6.00	\$7.62
Dorian LPG (LPG)	Shipping Bull Cycle	\$8.26	50bps	4%	\$7.12	\$8.03
Boeing (BA) - Short	Technical/Overvalued	\$298.00	B/E	-9%	\$298.00	\$262.33

I'm excited for the next couple of months in markets. I see some big opportunities brewing, it's just going to take a little time to get there. Next week, Brandon and I will be kicking off a deep dive series where we'll explore the minefield that is the energy sector.

Be safe out there and keep your head on a swivel!

If you've got any questions or comments. Don't hesitate to shoot them my way.

Your Macro Operator,

Alex

At the extreme moments of fear and greed, the power of the daily price momentum and the mood and passions of 'the crowd' are tremendously important psychological influences on you. It takes a strong, self-confident, emotionally mature person to stand firm against disdain, mockery, and repudiation when the market itself seems to be absolutely confirming that you are both mad and wrong. ~ Barton Biggs