

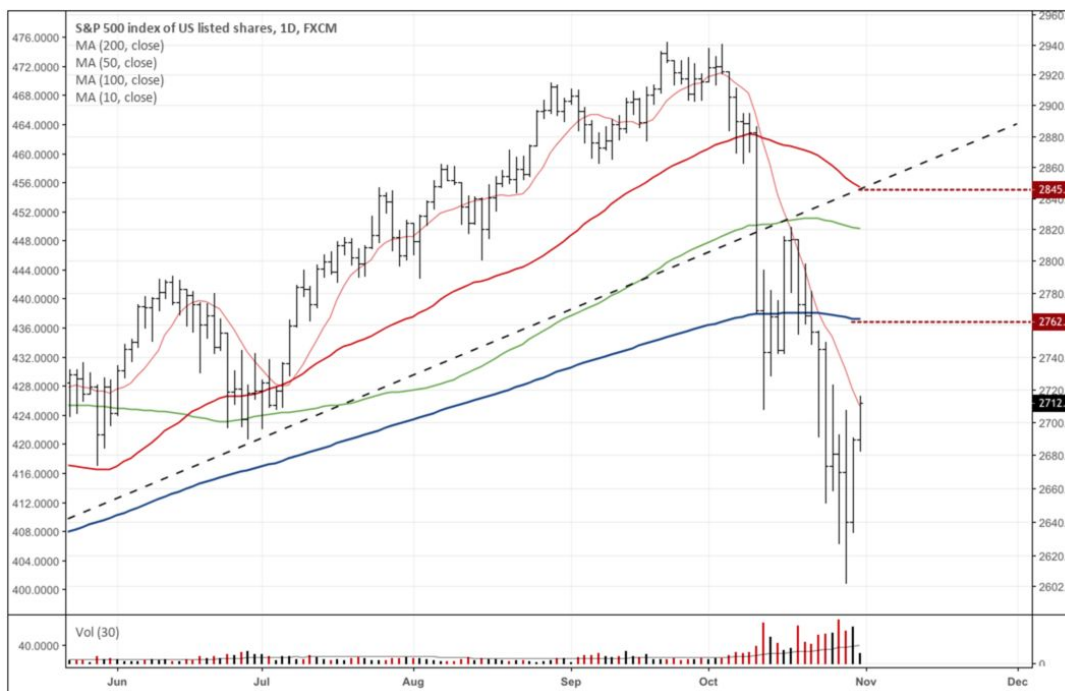
We're Not Out of the Woods Yet

Operators,

Here's a quick update on the market and where I think things are headed. I'm grinding on the MIR at the moment which I hope to get out to you guys sometime in the next week.

It looks like a bottom (a temporary one at least) is in. Let's go through the charts and discuss what technical hurdles the market needs to tackle for this bottom to hold.

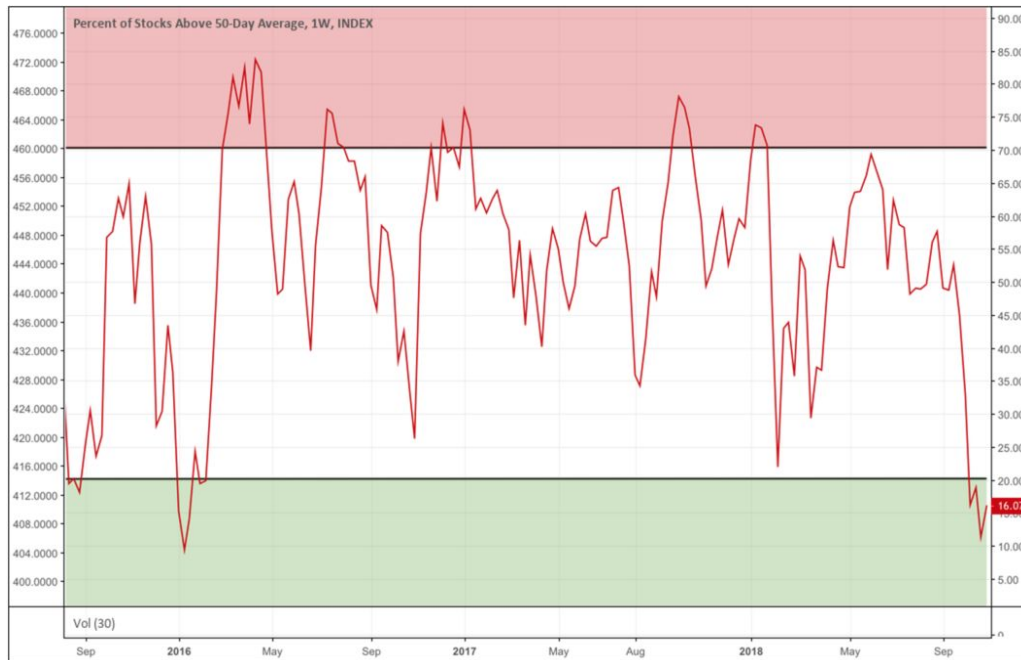
First, we need to see the S&P have a daily close above its 10-day moving average (dma) which is the thin red line below. The 10dma has been acting as a point of significant resistance during this selloff. I suspect we'll see the market close above this point today.



The next significant area of resistance is at the 200dma (blue line above). This level also happens to coincide with a number of weekly closes. If we're going to see another selloff lower it'll likely happen somewhere around this level, in the 2,750-70 range.

And then the final hurdle that the market needs to clear on its way to new highs is the 2,850 level. This is its 50dma (thick red line) which also happens to be right at its 2-year upward trendline.

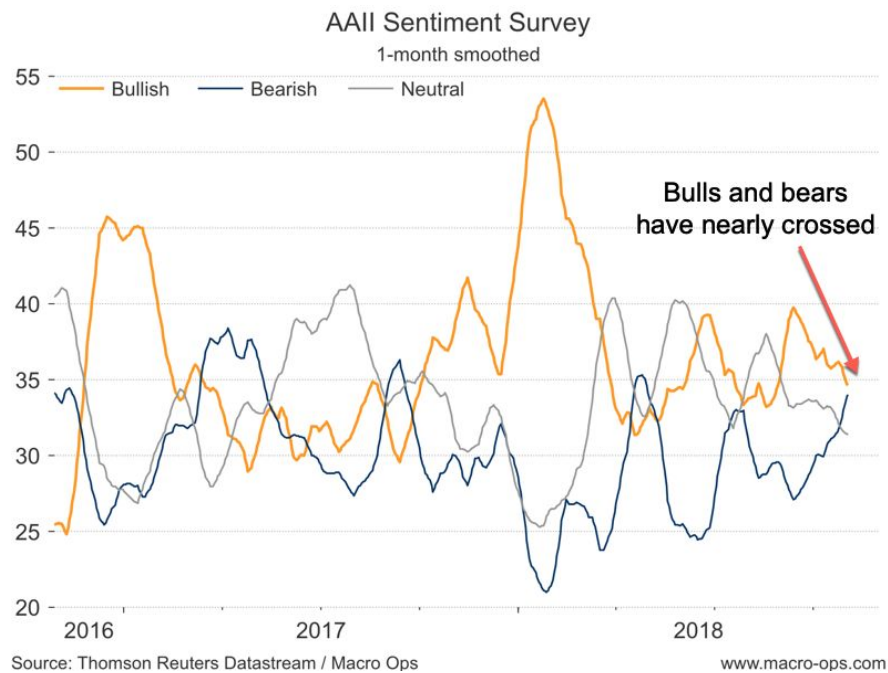
The percent of stocks above their 50dma is triggering a buy signal due to oversold conditions.



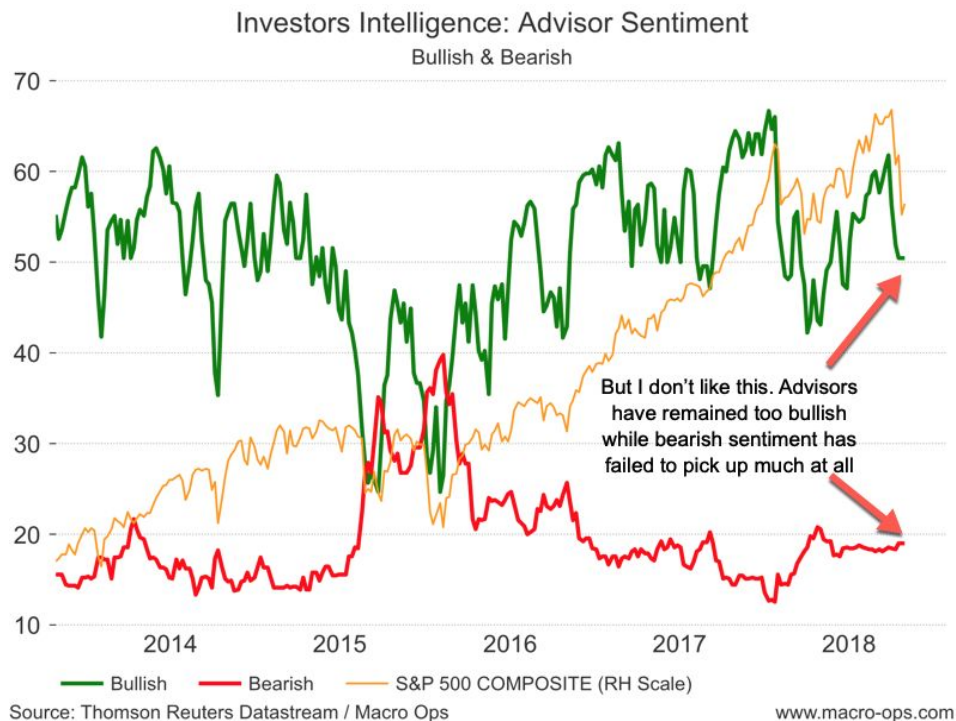
And the percent of stocks above the 200dma (a longer-term indicator of oversold conditions) just touched the 25 level (black horizontal line below) that we wanted to see. This means the market is deeply oversold and now has the elasticity for a significant rally higher.



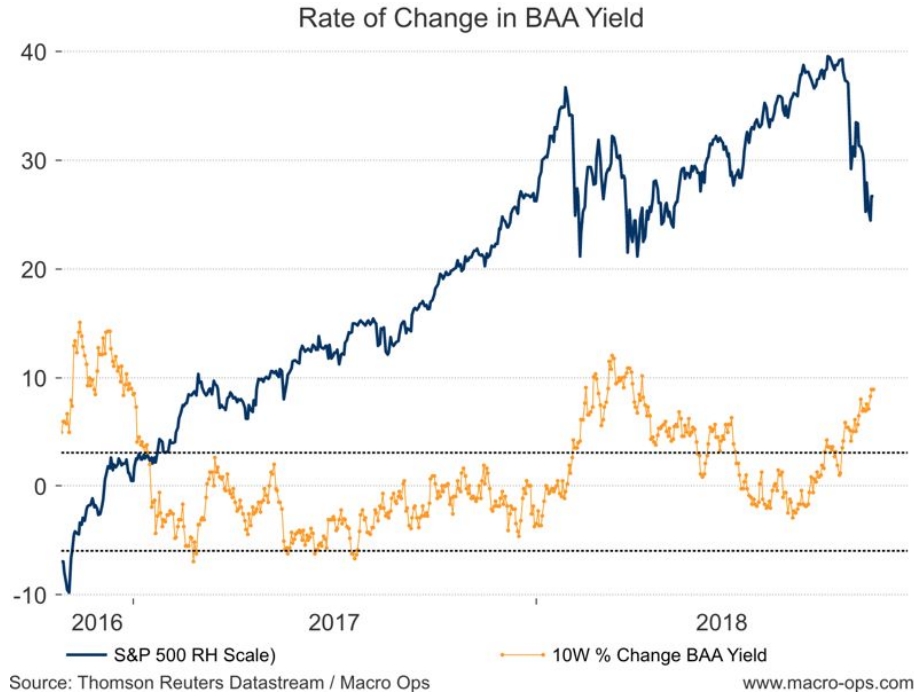
Sentiment, which has been stubbornly complacent during this selloff, has finally come down somewhat.



But Advisor sentiment failed to react much to this market action. The II survey is a better indicator of intermediate sentiment, while the AAll is more short-term. This is a headwind the market is going to have to fight through in the weeks ahead. And it raises the odds of further volatility ahead.



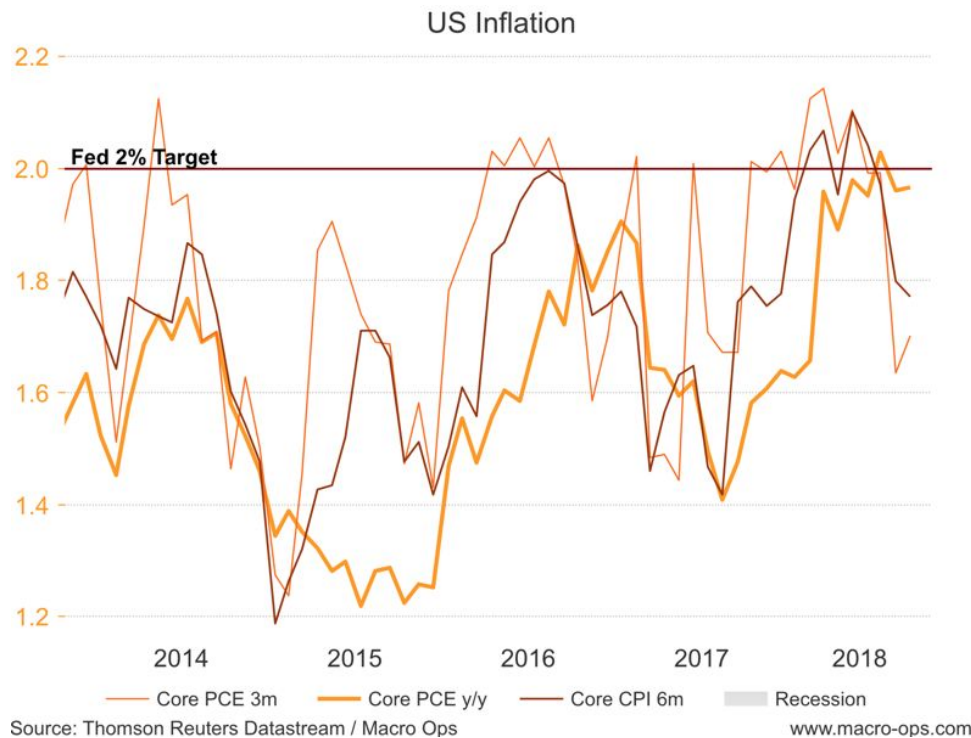
The rate of change in rates is still elevated. This is another technical hurdle the market will need to digest on its move higher. We'll need to watch the yield on the 10yr closely over the next week. If bonds selloff hard (yields rise) on the market's move up, then it significantly raises the odds of us seeing another market selloff.



A more positive development for interest rates is that indicators for inflation and inflation expectations are suggesting that we're likely to see lower inflation prints in the quarter(s) ahead, which we discussed in last month's MIR.



The next inflation data comes out in two weeks. If it prints lower than expected then that should help anchor rates from rising too quickly on the next leg up.



Furthermore, the broader fundamentals in the US continue to support higher stock prices. Liquidity remains flush and earnings continue to grow.



Here are the latest highlights on this quarters earnings so far, via Reuters. You can find the whole report [here](#).

- ▶ Third quarter earnings are expected to increase 25.2% from Q3 2017. Excluding the energy sector, the earnings growth estimate declines to 22.3%.
- ▶ Of the 240 companies in the S&P 500 that have reported earnings to date for Q3 2018, 78.3% have reported earnings above analyst expectations. This is **above** the long-term average of 64% and **above** the average over the past four quarters of 77%.
- ▶ Third quarter revenue is expected to increase 7.7% from Q3 2017. Excluding the energy sector, the revenue growth estimate declines to 6.6%.
- ▶ 57.9% of companies have reported Q3 2018 revenue above analyst expectations. This is **below** the long-term average of 60% and **below** the average over the past four quarters of 73%.
- ▶ For Q3 2018, there have been 81 negative EPS preannouncements issued by S&P 500 corporations compared to 40 positive, which results in an N/P ratio of 2.0 for the S&P 500 Index.
- ▶ The forward four-quarter (4Q18 – 3Q19) P/E ratio for the S&P 500 is 15.6.

Summary:

- The market is deeply oversold and conditions are ripe for at least a short-term snap back rally.
- But indicators of intermediate sentiment remain elevated (the BTD reflex is too strong) and the rate of change in yields is still high. This increases the odds that we'll see more market volatility ahead.
- The key will be to watch where yields go in the week(s) ahead. If they jump significantly on a market rally then we'll almost certainly see the market make another low.
- Longer-term though, the market fundamentals are sound with earnings growth trending in the right direction.

The way I see it is that we don't want to get too aggressive here. We already have a good amount of long exposure on our books, so we'll capture any market upside. We'll selectively add to some positions, but hold off on making any big new additions until rates have stabilized more. Apple reports after the close on Thursday and I think their earnings will likely determine the near-term direction of the market. If they beat, then we should run higher but if we see a significant miss, then look out below...

Portfolio Update

I'm thinking about adding a little bit more to our Yelp position here. The stock is currently trading at the lower boundary of its 18-month channel and earnings come out next week.



The price action in the dollar (DXY) is telling me that I am likely wrong in my short-term suspicions of this bullish move.



I'm afraid that might have gotten too cute in my trade management here. I'm long-term bullish on the dollar and bearish precious metals and emerging markets. I should be positioned accordingly when the market is moving in line with this thesis. I am not right now but I plan to rectify that. Look for some trade alerts soon.

That's all I've got. I've got some great trade ideas that I'm excited to share with you guys in the coming MIR. There's LOTS of opportunity in these markets.

If you've got any questions for us in the meantime, just hit me up in the Comm Center.

Your Macro Operator,

Alex

Macro Ops Portfolio			YTD	Inception (16')			
NAV		\$2,810,975	3.97%	39.92%			
Big Bet Macro							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Equity	Yelp (YELP)	6,667	\$45.10	\$40.65	\$3,600	\$80.00	\$41.19
Equity	Stratasys (SSYS)	6,196	\$24.76	\$20.50	-\$4,523	\$50.00	\$19.77
Equity	Discovery DISCA	3,450	\$28.09	\$26.70	\$11,834	\$60.00	\$30.13
Equity	United Insurance UIHC	13,000	\$16.98	\$19.20	\$15,080	\$20.00	\$20.36
Equity	Google GOOGL	519	\$1,129.78	\$1,100.00	-\$8,314	\$1,400.00	\$1,083.98
Equity	Disney DIS	5,694	\$102.34	\$108.50	\$30,121	\$150.00	\$113.79
Equity	Yatra Online YTRA	36,819	\$7.24	Investment	~	\$15.00	\$4.48
Equity	DAX December Futures	-2	€11,960.0	€12,420.0	€61,750.00	€10,600.0	€11,185.00
Equity	NVDA Mar '19 150 Puts	43	\$6.60	\$0.00	\$30,315	\$22.00	\$7.05
Equity	BABA Jan '20 110 Puts	75	\$4.10	\$0.00	\$55,500	\$20.00	\$7.40
Equity	SPX Mar '19 3150 Call	19	\$8.10	\$0.00	\$6,270	\$80.00	\$3.30
Equity	DIS Jan '20 165 Call	545	\$1.11	\$0.00	\$64,310	\$10.50	\$1.18
Equity	MU Jan '19 70 Call	118	\$2.12	\$0.00	\$3,186	\$10.50	\$0.27
Equity	FB Jan '19 260 Call	35	\$2.59	\$0.00	\$1,085	\$20.00	\$0.31
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 Mar '19 24 Call	360	\$0.25	\$0.00	\$7,200	\$2.50	\$0.20
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	\$1,620	\$7.00	\$0.15
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	\$6,150	\$1.20	\$0.05
Metals	Platinum Jan Futures	13	\$817.9	\$794.00	\$27,300	\$920	\$836.00
Metals	Silver Dec Futures	9	\$14.9	\$14.40	\$13,500	\$16.50	\$14.70
Volatility							
Asset Class	Position	Size	Cost Basis	Risk Point	Open Risk	Target	Last Price
Volatility	Dec VIX Futures	32	\$18.73	~	~	~	~

Risk Budget				
	Total Allowed (In Bps)	Total Used	Total Available	Percentage Used
Master	2500	1265	1235	50.61%
Big Bet Macro	2250	1265	985	56.24%
Volatility	250	0	250	0.00%

**Updated 10/28