THE Wizard OF OPS

TECHNICAL TRADER
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Welcome to the first edition of The Wizard of Ops technical newsletter! This is an exciting endeavor for me, and I hope you find the ideas useful.

Before you read this newsletter, please read the introduction section since that will give you an idea of what this newsletter will provide. Personally, I recommend just sitting on the sidelines a month or two to see the flow of the newsletter and if the options strategies provided match your risk profile. I recommend having $20,000 to start this portfolio. If you want to start with less, please contact me and we can discuss the changes you would need to make.

Please let me know what you think! Submit feedback to manager@addeumfunds.com.

Introduction to The Wizard of Ops Technical Trader

● This newsletter delivers ideas that use price chart technical analysis to identify trading ideas. The underlying business statistics are assumed to be known by price, so they instead try to predict behavior patterns by other traders in the market.
● This trading style will require less capital to start, but returns are more volatile.
● This newsletter will produce ideas that could be long or short, which means that this portfolio's returns will not correlate with the market.

The technical trader is one who looks at stock price charts and tries to use them to determine what the price will do next. It is assumed that all the fundamental information is incorporated into the current price, and uses one of many theories about predicting the future price through the price history of the stock to determine its next movement.

Examples of the technical trader's toolset are momentum, trendlines, Fibonacci levels, candlestick patterns, and price patterns.

Technical traders identify long and short positions, so they have **reduced market risk**.

While this is true, technical traders have more variability in their returns, as their theories and price patterns can easily be invalidated.

The strategies that are used for technical trades will be less routine and based on the status of the option statistics. This newsletter will have more swing trade positions that will last 1-3 months. **The key to trading these positions is good risk management and adhering to stop-loss levels with discipline.**

Technical trading will lose more often than the fundamental trading style, but will usually realize **more annual gains**.

The following will be the most common option strategies, but may be different based on the situation.

● **Campaign Calendar/Diagonal** – This is a trade plan where a long-term goal is reflected in the long strike 3-6 months away, but the short strike reflects a short-term plan that essentially reduces the price of the long strike. Month after month, the long strike stays put **(continued on page 2)**

(Introduction Continued) while the short strike expires worthless, continually reducing the price of the long strike until it costs little money to keep it. The goal of this strategy is risk management, so as time goes on, the cost of the position decreases as you wait for your thesis to come true. This is very good in a low-volatility period.

● **Verticals** – Both in the money and out of the money verticals are going to be used based on the thesis. In the money verticals will be used for less risky trades while out of the money verticals will be used to expected swift stock price move.

● **Butterflies/Condors** – In order to realize a price move in a high volatility environment, these strategies will be used out of the money to realize expected price movement with very little risk.

Technical Trade #1

Image Source: Zac Mannes**Analyst:** Avi Gilburt and his analyst team use Elliott Waves and his proprietary Fibonacci pinball system to predict future price movements. This newsletter will primarily use the analysis of Zac Mannes and Garrett Patten, who perform this analysis on individual stocks. Occasionally you will see analysis by Luke Miller, who performs a different technical analysis using Bayesian Data Analysis.

Accounting: $10,000 starting capital
Trade Idea: Alexion Pharmaceuticals

Thesis:

Symbol:	ALXN
Direction:	Bullish
Target:	195
Invalidation:	110.88

Elliottwave Trader Commentary: "Any consolidation now should really hold the 115-110 region."

Wizard of Ops Commentary: The current price is at roughly $123, the target is $195 a year away. From an options standpoint, the implied volatility is fairly high compared to its history likely because earnings are due in late January. Because of that, I want to do a trade that is vega-negative, which means a vertical, butterfly, or condor. Since we are close to support, I'm going to propose a vertical that is in-the-money.

The Trade: Sell 2 Feb. $120 put, buy 2 Feb. $110 put @ ~$2.85 credit
This trade uses $1,430 capital.

The Plan: This vertical is meant to capture the gains from a falling implied volatility when earnings are released. As long as the price stays above $120 in February (the support level that was stated), you will realize a 39.8% return on this trade. You can upsize the trade if you like, but at this point it is wise to build the portfolio using solid risk management, so we will start with a solid cash position as we ramp up the portfolio. This trade is expected to last 1 month, the stop loss is $110.

Technical Trade #2

Image Source: Eric Hadik

Analyst: Eric Hadik provides technical & cyclical-based analysis and publications - dedicated to educating & informing traders and investors while preparing them for developing opportunities. This analysis is structured to take a practical approach to trading, rooted in sound principles of proper money management and risk control. This analysis is limited to markets, currencies, commodities, and metals.

Accounting: $10,000 starting capital
Trade Idea: Vectors Gold Miners ETF (GDX)

Thesis: "Intermediate (2-4 week & 1-3 month) traders could have entered Gold stocks or related instruments before mid-Dec. and can now risk a weekly close below 82.77/XAU."

Hadik Commentary: "The XAU has corrected after reversing its weekly trend up. This occurred right after it tested & held 2 – 3 month resistance at 88.00/XAU. As long as the XAU does not reverse its daily trend down, it should resume its advance in the second half of January. Multiple monthly targets, extreme targets & key resistance projections group at 92.87 - 93.06/XAU in January and could be tested before month-end."

Wizard of Ops Commentary: Insiide Track uses many tools to make infrequent, yet high-confidence, trade ideas. While Eric Hadik comments on the XAU (Philadelphia Silver and Gold), XAU does not have very good option volume. It is, therefore, difficult to get good execution on any strategy. A close relative of XAU is the GDX in that they both are ETFs that group gold and silver mining companies. GDX has a lower underlying cost and low implied volatility. The projected correlated move is at roughly $24.50-$25 in the next couple of months. Still, I will execute a vertical, since I plan on being a little aggressive and this is a short-term trade.

The Trade: Buy 10 Feb. GDX $23 Calls, sell 10 Feb. $25 GDX puts @ ~$1 debit. See if there is a dip on Tuesday before you buy.
This trade uses $870 in capital.

The Plan: Set an alert on your platform for an email or text to be sent to you when XAU is greater than 92.50, and be prepared to sell when we reach that point. Also, set an alert for when XAU is less than 83, and be wary if that happens. XAU is currently at $89.10, and the way the trade is structured, you should make more if successful than you would lose if unsuccessful.

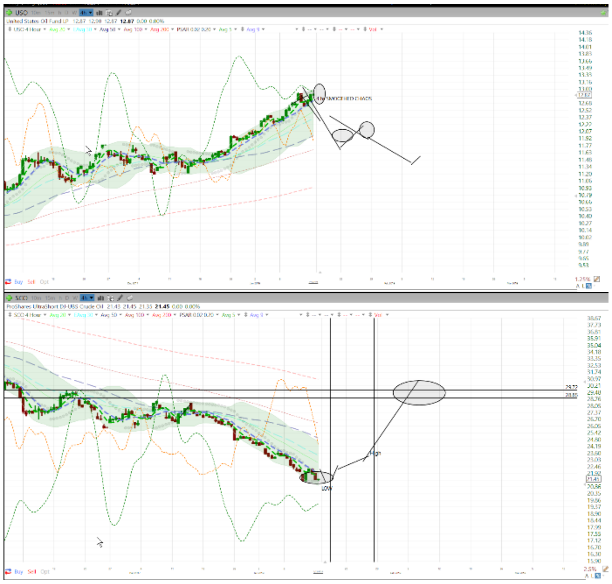
Technical Trade #3

Analyst: MTF stands for Mandelbrot Trend Forecasting. Using all the ingredients the markets present (volume, price, and time), ratios are created and plotted to create shapes that resemble frequencies moving through time. These shapes are compared, and behavior of price most often follows similarly. The MTF system was created and provided by Jake Gaft. **(Continued on page 4)**

Image Source: Jake Gaft.

(Technical Trade #2 Continued)
Accounting: $10,000 starting capital
Trade Idea: United States Oil Fund LP (USO)

Thesis:



MTF Commentary: "Had 2 MTFs and didn't relate them to each other. Both discovered these frequencies so I find that to be high probability set up."

Wizard of Ops Commentary: I have traded USO a few times. It is a rough combination of low volatility and low underlying price. That doesn't necessarily mean a strategy won't work; but it will require a lot of spreads to populate the appropriate capital. Most times, option commissions are higher than stock commissions, so they can add up a lot in a position like this. If you are a beginning trader and your commission is larger than $1/option, I would consider just watching from the sidelines, or negotiate lower rates with your broker. Those rates are always negotiable.

The Trade: Sell 150 Feb. $11.5 USO puts, buy 150 May $11.5 USO puts @ $.12 debit. ***This trade uses $2,025 in capital.***

The Plan: Jake Gaft has noted that this is supposed to be a selloff into May. There are four scenarios:
- If USO reaches 11.75 before February expiry, roll the short strike to Mar $11 puts. (Buy back the February puts, Sell the March $11 put).
- If USO reaches $13.55, sell the position.
- If USO does not drop below $12.68 before 1/18, sell the position.
- If 1-3 does not happen before February expiry, you will likely sell the March $11.5 puts after the February ones expire. That will be addressed next month.