THE Wizard OF OPS

TECHNICAL TRADER

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WOW! That was a month. As soon as options expired, the flood gates opened. We saw the bull market end, we were reintroduced to circuit breakers, limits up and down in futures markets, and triple digit moves in SPX became almost the norm. We saw an oil price war at the most inopportune time, introducing a credible threat of shale bankruptcies. We saw rapid and unprecedented central bank moves, all seemingly doing nothing to help the situation. There are many reasons for this, most of which I will try to deconstruct here, and use the rest of the newsletter to show where I think we are going.

I will first talk about the coronavirus disease of 2019 ("COVID-19") and its impact on the economy since it is the most public, most understandable reason for this drop. The virus was underestimated by our authorities, and it is resulting in an immediate economic halt unlike anything any of us has experienced. In truth, the real problem is the US and EU government's under-response that is the cause of this problem. What I said on Twitter is true and was finally validated this past week by the US Government. There is a treatment developed by Chinese and South Korean authorities, a mixture of chloroquine and zinc that has successfully contained the virus. Further, we would have tested everyone entering the country, and if testing were more pervasive now, we wouldn't need these social distancing standards we have now. In short, if the American government took the virus more seriously, demand would not have taken this bad of a turn for the worst.

But now we are in this position, and it is no coincidence that the selloff started the day after options expiration. There were a lot of purchased puts expiring on that February expiration date, which unwound the hedged positions of gamma hedgers. They were forced to unwind their gamma positions, initiating the selloff. COVID-19 was a known issue for 2 weeks before the selloff started; this is why.

As the selloff ensued, there was a massive spike in volatility. This absolutely crushed a crowded SPX put-selling trade, and forced several of the riskier hedge funds to unwind. The CBOE trade floor closing didn't help either. Right now, the volatility complex is at its highest since 2008. This is a bit of a financial crunch, so this isn't too surprising. However, if VIX falls enough, we can see a pressure squeeze down on volatility and up on equities.

We saw an international and domestic cash crunch, causing bonds, gold, and equities all to sell off in unison. Of course, oil sold off too. In fact, in the liquidity crunch, even merger arbitrage sold off. All of this is showing how fragile our economy is. No matter how much financial juggling that is done, if the demand is not there, the economy goes to dust. If the supply is not there, at least prices can make up for the shortage, but when demand is not there, we enter a period of deflationary contraction. That is what we face now. **(continued on page 2)**

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(Introduction continued) How can it be fixed? It can be fixed through inflationary measures. This means fiscal policy. The government needs to give people the money that they no longer have. They need to support businesses who owe money, and now have no means to pay it. All this time, there hasn't been enough dollar issuance to handle the economy. It took a virus to really expose it for what it was, an economy completely dependent on the growing consumerism demand. When this newsletter started, I had a major bearish trade on because I saw this developing. Eventually I surrendered to the numbers, seeing unemployment crater even without inflation. I saw loans being taken out to buy back shares, a move that makes sense when assuming a certain demand level. When that demand goes away, it is exposed for the risky strategy it is. Now, can these companies like Boeing pay their loans back? Fiscal policy is the only way to fix the monetary troubles we have, and virus testing and treatment is the only way to bring the demand back to the economy.

Technical trades are hit or miss. I have been a lot more short-term in recent days because I didn't think this is over yet. I do think there are still some bounces to be had, but I also think the bottom is not in yet. I will talk more specifically about my expectations for markets below, but overall, I am not convinced that this will be over until the COVID-19 crisis is over, and all are back to work. Even then, businesses will fail and the economy will likely not return to the robust all-time highs we have seen in February.

Particularly for technical trades, sometimes there need to be adjustments. So far, I have been posting them in the blog, and likely will continue to do so. However, for immediate adjustments, please follow me on Twitter. My handle is @WizofOps. These adjustments HAVE been included in the calculation for the portfolio in this newsletter. Further, if you subscribe to this newsletter and use the thinkorswim service, please request to follow @WizofOpsVIP on Twitter, as the links I provide will load the order directly into the platform for you.

Key to Position Tables

Stock Name	Primary Analyst	Other Analysts for Confirmation		
Long Term Position				
Short Term Position				

Equities

Position Table:

SPX	Hadik: Insiide Track	Avi: EWT	EcoQuant Intel
Long Term	Bullish trend	Bullish	Bullish, sideways action
Short Term	Recovery	One More Low	One more Low

The Long-Term Trade: Hold 20 15May20 SPX 3565/3570 call verticals @$.50 debit. This trade uses $1000 in capital.

Hold 3 15May20 3325/3375/3425 Flies at $2.50 debit. This trade uses $750 in capital

Hold 3 27Mar 2560/2610/2660 flies at $3 debit. This trade uses $900 in capital.

The Plan: Hold until you can regain full capital, then sell both trades. If there is a precipitous increase in SPX, sell the fly at delta neutral.

Thesis: Well, thank goodness I put on that hedge, that was a **(continued on page 3)**

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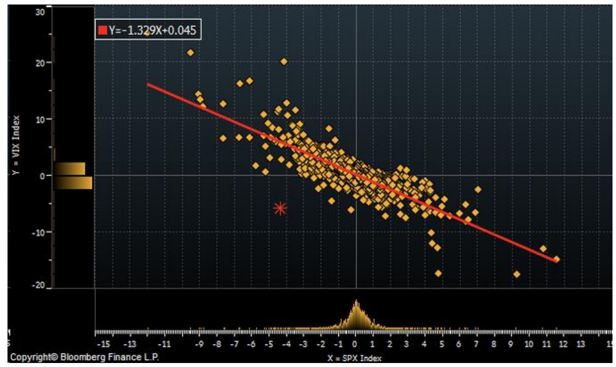
(Equities continued) brutal start to the month. After options expiration, SPX sold off in impressive and scary fashion. Luckily, I had a downside hedge that paid for the above vertical in full, and most of the fly.

Initially I thought the drop was going to be somewhat temporary, as in the beginning of the fall, gold and bonds stayed positive, and the market making system was clearly working all right. There was a real threat, it was sold, and the market was functioning well. Bonds were being bought, gold was being bought, and it seemed the financial mechanism was working properly. This is why I held a bullish position early in the drop, but then abandoned it when I saw gold start selling off in unison with SPX. That usually is a sign of liquidation, and I got concerned over the long-term health of the markets. Market makers were no longer serving their function, and it became a bloodbath. I had a bearish calendar that I later sold at a small profit, had a double fly both on the bull and bear side that was not my best trade but legged out of successfully. I also had a VIX vertical that I closed out of with modest gains.

Most of these trades I was following volatility indicators, basically the inverse correlation between VIX and SPX % returns. There was also the steep backwardation of the VIX term structure. Then this happened:



That red dot is Friday, a collapse in volatility and a collapse in SPX at the same time, not seen to that extent ever. As such, this is not the time to play the bounce because the markets are broken. Volatility market makers (like Ronin Capital) have liquidated. Our technical analysts that are actually suggesting anything is seeing a small bounce then another drop. On that drop we need to see markets working again. From the market standpoint, I need to see this correlation working again as well as the "risk-off" assets trading similarly to their pre-COVID-19 correlations, particularly gold.

When I do see a long-term bounce coming, I will announce it on Twitter, and will make a trade for it, likely a butterfly of some sort considering how high volatility is right now.

The Short-Term (1-Month) Trade: None.

SPX Graphic: Liquidity issues show negative marks on the fly trade, and is out of range on the vertical.

Metals

Position Table:

GLD, SLV, GDX	Hadik: Insiide Track	EcoQuant Intel	Avi: EWT
Long Term	Advance for the next several years	Strong bull	Hyper-bullish
Short Term	Pullback into April	One more Low	Uncertain

The Long-Term Trade: Buy 100 SLV 15Jan21 15/17/19 butterflies @.13 debit. This trade uses $1300 in capital

The Plan: Hold until delta neutral.

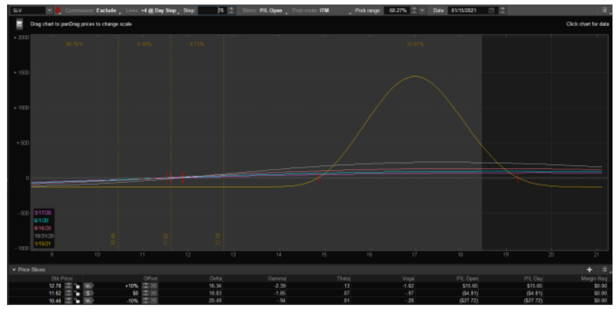
Thesis: Metals have had some massive swings over the past few weeks, not to mention the whole metals complex is very discombobulated. Silver would plunge when gold takes off. Miners have been swinging wildly as they have **(continued on page 4)**

(Metals continued) issues with debt, and the debt complex has been overwhelmingly volatile.

It is not a matter of if, but when, government institutes fiscal policy; then inflation will take off. Bonds will be devalued, and the metals complex should take off. By virtue of silver being a better inflation hedge and being sold off hard recently due to a spiking value of the dollar, I have chosen silver as the best way to play this spike for the rest of the year.

The Short-Term (1-Month) Trade: None.

Long Term SLV Graphic: 76-day interval for March trade. See the bottom left corner for dates.



Energy

Position Table:

USO, XOP, UNG	EcoQuant Intel	Hadik: Insiide Track
Long Term	Bearish after rise USO, UNG	Bearish USO
Short Term	Rangebound USO, Bullish UNG	Bullish UNG, USO continued lower.

The Long-Term Trade: Hold 25 UNG 17Jul20 18/21/23 call butterflies @$.46 debit. This trade uses $1150 in credit.

The Plan: Hold until profit reaches 150%, then sell half.

Thesis: Oil has taken the double hit of tumbling demand, and excessive supply thanks to a price war effectively killing OPEC. Saudi Arabia decided to pump their full output capacity, sending oil prices to a tumble of 70% since the last newsletter. The reverberations of this are worldwide, as many of the fringe oil producers that are able to produce at higher prices (such as Canada) cannot anymore. Further, the $20 area is about the breakeven point for shale drillers, Saudi Arabia is ~$7.50/barrel, and Russia is ~$15/barrel. However, the overhead attached to the oil industry in Saudi Arabia is far higher. Bloomberg estimates that Saudi Arabia spends at a level of $83.60/barrel, therefore if anyone will lose this price war, it will be them. Russia and the more efficient shale companies in the US will survive, as including overhead costs, they both pump in the range of $45/barrel.

Natural gas now has an interesting scenario as well. As the less efficient, highly indebted shale producers go bankrupt, natural gas should go up in price. If a deal involves Texas paring down oil production as has been reported, natural gas, an output of Permian Basin drilling, will be reduced and its price will finally rise as well. Natural gas is not an output of Saudi Arabian pumping. So even though the selling has hit natural gas as well, I'm still confident in that butterfly above.

I do believe oil can and will fall a little further just because of uncertainty in this space, as DWT and UWT have closed their doors which is because of high volatility. But if I were to do a move for USO now it would be about a 6/8/10 butterfly, maybe for 3 months out. So again, keep an eye on Twitter for when this move will be executed.

The Short-Term Trade: No short-term trade at this time.

Long Term UNG Graphic: Liquidity concerns make this graphic not representative of the trade.

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Bonds

Position Table:

TLT	Avi EWT	EcoQuant Intel	Hadik: Insiide Track
Long Term	Bearish	Bullish	Bullish
Short Term	Uncertain	Bullish	Bearish spike

The Long-Term Trade: Buy 5 3Apr/15May TLT $130 calendars at $1.05 debit each. This trade $525 in capital.

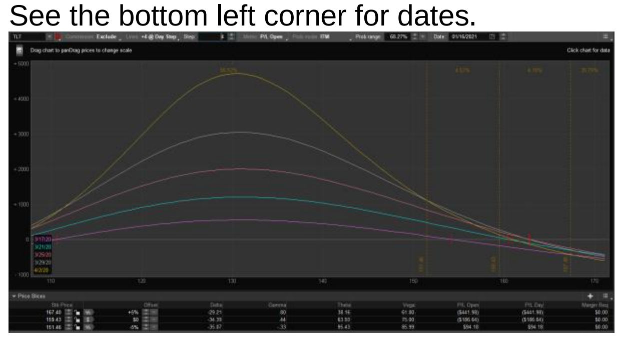
The Short-Term Trade: No Short-term trade at this time.

The Plan: Hold until TLT reaches 130. If the 3Apr option expires worthless, sell the next put that is 2 weeks out (campaign calendar)

Thesis: Bonds are going to drop. There aren't many scenarios where I see a short-term rally with the exception of if fiscal policy does not happen. Right now, bonds are not being bought by anyone but the central bank. This is evidenced by the occasional drop of TLT to $8-$9 below its Net Asset Value (NAV). That is arguing for a swift re-pricing of bonds in the marketplace, and likely means that some of those hedge funds who were leveraged in bonds fell apart in this market turmoil. We know several risk parity funds liquidated, when bonds and stocks sold off in concert, so there are more bonds in supply than in demand. This has far-reaching implications, however. This means interest rates are going to jump, and there is a chance the Fed will implement a massive QE program to mitigate that. That would be the longer-term bond rally.

This also seems like an appropriate place to talk about dollar demand. The dollar is the world's reserve currency, and in order to trade, other countries need dollars. These dollars are in very short supply right now, as companies start hoarding cash to be able to keep their capital requirements and pay their obligations. Small businesses and individuals need dollars to pay off their debt loads. Countries need dollars to trade. This is mitigated by fiscal policy, the central bank has done what they can, but fiscal stimulus is needed in order to get dollars into the system domestically. Until that happens, bonds will stay high and the value of the dollar will also remain high. So, if you wish to hedge this position, buy calls in UUP.

TLT Graphic: 4-day interval for March trade. See the bottom left corner for dates.



The Stock Pickers

ElliottWaveTrader

New Trade Idea:

Twitter (TWTR)

Zac's Thesis: While there can be near-term congestion in TWTR, Zac ultimately sees prices in the 50s by the third quarter.

Wizard of Ops Commentary: Zac is seeing an amazing bounce into the second half of the year. Despite implied volatilities being high, in the out months, IVs are still more muted. So, I will do a September trade that is a better bargain. **(continued on page 6)**

The Trade: Buy 10 TWTR 18Sep20 $38/$39 call verticals @ $.11 debit. This uses $550 in capital.

The Plan: Risk the full premium. Sell half when it is up 200%.

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(The Stock Pickers continued)

Old News:

Health Insurance Innovations, Inc. (BFYT)

Wizard of Ops Commentary: HIIQ changed their name to Benefytt Technologies, and is now trading under a new ticker symbol. It didn't stop them from being sold off, and these options with them. The remaining half will expire worthless.

EcoQuant Intel

Image source: EcoQuant Intel.

New Trade Idea:

Scorpio Tankers (STNG)

Thesis:

Wizard of Ops Commentary: I really like the tanker story, as they are operating as normal under the COVID-19 cloud, and with the extreme cheap prices in oil, their floating storage will give excellent returns and have the added value of reducing ships able to transport oil, causing rates to skyrocket. Shipping stocks is where to be right now. Unfortunately, liquidity is very tough to gauge where to buy the vertical, so I will assume the trade below based on deltas, but if you can get a $.10 execution at a lower price, take it.

The Trade: Buy 50 STNG 16Oct20 $21/$22 call verticals @ $.10 debit. This uses $500 in capital.

The Plan: Risk the full premium. Sell half when it is up 200%.

Old News:

iShares Trust Real Estate ETF (IYR)

Wizard of Ops Commentary: This trade was sold off very swiftly, and at a total loss.

Wizard of Ops Volatility Trading

Thesis: In this section, I am exposing the cheapest and most expensive options as related to historical volatility. The way you use this information is to note the stock, and complete some due diligence to make a strategy for the stock. I share my lean and provide a little information about any upcoming catalyst I know of. Please do your own due diligence as well with this information. All volatilities are expressed in the monthly term.

All option classes are highly illiquid, so this trading strategy does not apply this month.

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Past Performance

This chart details past performance from January 2018 to present. For a comprehensive trade list, please send us an email at info@addeumfunds.com. Open trades are not included in this chart.

Trade Type	Open Capital	Realized Risk	Realized Profit/Loss	Realized Percentage (%)
Equity Trades	$2,650	$53,707	$3525	7%
Bond Trades	$550	$12,060	$2,815	23%
Energy Trades	$1,150	$28,180	$(1,105)	-4%
Metals Trades	$1,300	$20,697	$11,394	55%
EcoQuant Intel	$500	$12,819	$4,874	38%
Stock Waves - EWT	$550	$16,108	$11,735	73%
Volatility Trading	$0	$13,538	$2,735	20%
Total	**$6,700**	**$157,109**	**$35,973**	**23%**

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Analyst Credits

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.

Image Source: Jake Gaft.

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.

Image source: EcoQuant Intel.

Analyst: EcoQuant uses his PhD training in Integrative Biology and Quantitative Ecology to identify human behavioral patterns in economic markets that mimic cycles observed in the natural world. Using concepts of natural selection, scale, and spatial patterning, he positions in trades that will respond similar time and time again given the same set of initial conditions. EcoQuant is a self-taught investment analyst and advisor and believes in demonstrating process for instruction and providing consistent results to increase the likelihood of your trading and investment success.

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