WIZARD OF OPS
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Wow, what a month! SPX closed roughly 500+ points down, resulting in a volatile -12% month. This month involved a crypto crash thanks to a stablecoin breakdown, a 50 basis points (bps) rate raise by the FOMC, and very downbeat earnings from retail stalwarts (including last month's fundamental pick LOW that was thankfully closed early). It felt like the chickens came home to roost a little bit from inflation.

This past month has been tough, as many corners of the market from crypto to Chinese shutdowns seemed to hurt it from all angles. Inflation reared its ugly head during retail earnings reports, as companies have seemingly assumed the inflationary pressures upon their bottom lines instead of passing those price increases to the consumer. The crypto revolution hit a snag as well, sending liquidity further down from institutions exposed to cryptocurrencies as well as growth companies.

On the volatility front, this month has shown an excessive amount of undervixing. This is not a great sign, as customers have sold a lot of puts in June. While that provides some support for markets, it creates a situation where any sort of implied volatility (IV) crunch becomes muted going forward. This hurts the bull thesis going into autumn. We need to see more hedging and less selling, as what we have seen is selling of individual names and indices overall. The gamma is heavily negative, and the first instance of a decent gamma support is at around 3750, with some more at every 100 multiple SPX level. Meanwhile, inflows to ETFs have been very high; it seems retail is buying the dip, and there is a greater concentration in passive investment. So, I think these levels could mark a bottom in the longer term, but this definitely shows how option dealers can get caught up in a market crash without overvixing. In fact, it seems the market is saying they don't see a path lower. Sometimes that is a bit of a path lower in itself.

Luckily, we closed some of our fundamental trades before the major drops started to occur. Instead of just growth tech dropping with tightening credit, all techs did – and hard. That presents an opportunity, and perhaps we should look harder at tech stocks with positive cash flow for our fundamental strategies. Time to get out the shopping lists and collect some premium while we are at it!

Although it is rare with fundamental trades, sometimes there need to be adjustments to the plan. For immediate adjustments, please follow me on Twitter. My handle is @WizofOps.

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FUNDAMENTAL TRADE #1

Image Source: Value Line® Institutional Services Website.

Analyst: Arnold Bernhard founded Value Line in 1931 after spending several years on Wall Street as an employee of Moody's Investors Service. When the crash of 1929 and subsequent bear market wiped out what little savings his mother had, he determined that the then-current practice of analyzing stocks was woefully inadequate. He set out to develop a set of objective measures that would signal when a stock was overvalued and when it was undervalued – measures that would not yield to emotions. What followed revolutionized the practice of securities analysis and sent Value Line on its path to being one of the nation's largest independent research services as well as a major money management institution.

New Trade Idea

Taiwan Semiconductor (TSM)

Value Line Commentary: Taiwan Semiconductor reported strong results for the fourth quarter of 2021. On point, share net clocked in at $1.15, which was couple of cents above our estimate and nearly 19% above the previous year's tally. Sales were slightly lower than we anticipated, though they increased about 24% on a year-over-year basis. Smartphone and High-Performance Computing (HPC) accounted for the bulk of the top line during the interim (81%), which was roughly on par with last year (82%). Advanced technologies (seven nanometers and below) comprised about one half of the top line, while 5 nanometer and below (the most advanced technology) accounted for 27% of sales. We believe this is good news for Taiwan, as advanced technologies carry higher margins. We look for these trends to continue over the next two years. Healthy global demand for semiconductors ought to propel Taiwan's bottom line markedly higher in each of the next two years. However, the Russia-Ukraine war is a situation that bears closing monitoring. The longer this conflict lingers the greater the chances that it will impact the broader global economy, particularly given the sanctions levied against Russia. Those concerns aside, we look for Taiwan to continue to benefit from advanced technologies contributing a greater share to top-line growth. Taiwan is the largest chip foundry in the world and can be viewed as a harbinger of industrywide health. Furthermore, its immense size gives it a leg up on the competition, as it provides for economies of scale, which reduces expenses. The company's balance sheet is in good shape with manageable debt and a healthy cash balance. The latter is particularly important as it provides for financial flexibility when times are good and a cushion during more-difficult times. These shares have ample 18-month appreciation potential at their recent valuation. They also offer decent risk-adjusted total return potential over the pull to 2025-2027. A decent dividend helps to sweeten the pot. The company's Financial Strength is top notch, while the stock's Price Stability score is well above the Value Line median.

Wizard of Ops Commentary: I have always liked TSM for their **(continued on page 3)**

The New Trade: Sell 1 17Jun22 TSM $85 put @ $2.34 credit. ***This trade uses $8,500 in capital.***

The Plan: Keep this on through expiration. If TSM is less than $85, we own TSM at a discount. If TSM closes above $85, it yields 2.84%

(Fundamental Trade #1 continued) grip on the semi-conductor market, but it was always way overpriced. Now it has fallen a decent amount and offers dividends. Supply chain concerns might hinder them in the short term, but this is an opportunity to buy the one company with probably the strongest pricing power in the entire economy.

FUNDAMENTAL TRADE #2

Image Source: Chimera Research Group.

Analyst: David "Dave" Sobek is a disciplined value investor. Using models, research, and fundamental data, Dave devises a value for biotech stocks, buys when significantly undervalued, and sells when significantly overvalued.

New Trade Idea

Karuna Therapeutics (KRTX)

Dave's Commentary: I like KRTX into their data next quarter. Not sure when during the quarter. I would lean later in the quarter as COVID and the Ukraine war has affected a lot of trials and so I would just be conservative. Most global trials have recruitment sites in Ukraine. Eastern European states pitched themselves to pharma as a cheap option for trials. So war has disrupted a lot of global trials.

Wizard of Ops Commentary: That little nugget about Ukraine I thought was compelling. Eastern European countries basically lent themselves out for human scientific experiments for foreign medical companies. It seems like such an odd selling point. Anyway, this name has a lot of IV likely waiting for this approval. So, I'm going to do a vertical just in case data is released and it isn't good, but if the data is delayed as Dave implies, this will return nicely.

The New Trade: Sell 1 17Jun22 KRTX $85/$95 put verticals @ $1.40 credit. ***This trade uses $1,000 in capital.***

The Plan: Keep this on through expiration. If KRTX closes above $95, you receive 14% gain.

Old News

Karyopharm Therapeutics (KPTI)

Wizard of Ops Commentary: KPTI sunk with the rest of the market, hitting a low of $5.10 before rebounding. Biotech stocks tend to get whipped around in times of illiquidity, so it isn't terribly surprising to see it drop. It is just market forces, keep the shares.

The New Trade: We own 1000 KPTI shares @ $5.83. Sell 10 17Jun22 $7.5 calls @$.20 credit. ***This trade uses $5,830 in capital.***

The Plan: Keep this on through expiration. If KPTI closes above $7.5, you receive capital gains in addition to the premium.

Galapagos Pharmaceuticals (GLPG)

Wizard of Ops Commentary: There was no real news over the past month, GLPG just got caught up in the market selloff, also alongside the sector. With the IV being so high in this name, the premiums have been helpful overcoming the decline in this stock.

The New Trade: We own 200 GLPG shares @ $56.34. ***This trade uses $11,268 in capital.***

The Plan: Keep these shares, sell the $70 call if GLPG recovers to $65.

DIVIDEND PORTFOLIO

Images Sources:
https://www.redbarnfinancial.com/
https://www.wizofops.com/

Analyst: An internal trade strategy in conjunction with Red Barn Financial, the Dividend portfolio is a safer type of investment strategy, where high dividend stocks are purchased with an option collar to prevent massive drawdowns. The dividend is guaranteed while the option collar prevents excessive capital losses while sacrificing excessive capital gains.

New Trade Idea

Rio Tinto (RIO)

Wizard of Ops Commentary: Rio Tinto we had for a while before, and now it is time to invest once again. The issue with RIO is that its dividend is semi-annual as opposed to quarterly, so you need to give more leeway on the collar.
RIO has been in the news for all the wrong reasons over the past couple of years. Poor labor relations, indiscriminate digging, and poor sovereign relations have plagued them, but they mine raw materials, and that's the kind of company you want in your portfolio during inflationary periods. Their odd option strikes are due to currency changes during dividend issuance.

The New Trade: Buy 200 shares of RIO. Buy 2 21Oct22 RIO $66.88/$84.38 collar @ $5.30 debit. ***This trade uses $13,400 in capital.***

The Plan: Keep this on through expiration. At expiration, decide whether to apply a collar for next quarter or sell the position.

Old News

Enterprise Products (EPD)

Wizard of Ops Commentary: EPD literally did not move over the past month. With liquidity being so light, that is a testament to energy names and how much energy inflation is driving the weakness in the overall market. We collected the dividend in May, so it was a nice hold.

The New Trade: Hold 400 shares of EPD. Buy 4 16Sep22 EPD $25/$28 collar @ $.28 credit. ***This trade uses $10,700 in capital.***

The Plan: Keep this on through expiration. At expiration, decide whether to apply a collar for next quarter or sell the position.

PAST PERFORMANCE

This chart details past performance over a one-year timeframe. For a comprehensive trade list, please send us an email at info@addeumfunds.com. Open trades are not included in this chart.

Fundamental History (Assuming $50K in each strategy)				
	Open Capital ($)	**YTD Gains ($)**	**Portfolio Gains ($)**	**Percent Gain (%)**
Multi-Market (Value Line)	8,500	5,845	20,682	**51.7%**
Biotech (Dave Sobek)	30,000	959	18,795	**47.0%**
Dividend Portfolio	23,678	-	-	**0.0%**
Total	**62,178**	**6,803**	**39,477**	**49.3%**

