WIZARD OF OPS
TECHNICAL TRADER
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June's monthly expiration had a lot of hedging from the bank crisis, so it was not surprising to see an advance. However, to see SPX rise 5.7% was very surprising. I had projected a bit of a rally for this month, which I thought would get to as high as 4325, but it exceeded that target by 100 points.

An extreme move in SPX, and in particular the tech sector, dominated headlines this month. There was a lot of put vanna underneath the market to support such a move, but the underlying economy is not supportive of it. Bank lending is contracting, ISM indices are showing contraction, and earnings reports are declining. In fact, the S&P500 stocks combined for a -6.5% contraction in 2023Q1. That is not consistent with 5.7% SPX rallies. We do know that flow is a main component and the hedge unwind was strong, but for it to go this far was remarkable. At some point, the fact that these are pieces of ownership of contracting companies will play a part. With vanna taking a hit over the next several weeks on the put side, this rally should be coming to an end.

The technical trader had mixed results. Overall, they fared well, considering the successful trades were the shorter-term ones. The thesis is that a recession is coming, and the tech trader is prepared for it. Be patient with the existing positions, as they should become profitable very soon.

Particularly for technical trades, sometimes there need to be adjustments. For immediate adjustments, join my Discord and message me to be added to the private #woo-subscribers server. These adjustments HAVE been included in the calculation for the portfolio in this newsletter.

Contents

KEY TO POSITION TABLES

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

EQUITIES

Position Table:

SPX	Volland	EcoQuant Insight	Hadik: Insiide Track
Long Term	Bearish	Consolidation	Bearish
Short Term	Bearish	Bearish	Bearish

The Long-Term Trade: Hold 2 XSP 18Aug +405P/-368P @$5.93 debit. This trade uses $1,186 in capital.

Hold 2 XSP 18Aug +420P/-400P @$4.12 debit. This trade uses $824 in capital.

Thesis: All fundamental, technical, and Volland data is pointing bearish. This is why I doubled up my put spreads. They have two months to manifest, but I have a feeling it will happen before then. The bullish trade last month served its purpose for all but the last 100 points. Now we are ready to see this drop as vanna declines on the put side from $110B to $90B in 2 weeks, not to mention the decline in vanna that already took place from $125B. This is why I thought the drop can start this month, but there are quad witching, event volatility, and rebalancing flows that caused a bullish run over the past week.

Everything is saying bearish now, this is a good time to stay short. There is a thought of selling call verticals, but with how sharply equities have risen over the past month, I am holding off in case I am wrong. But bearishness is a high probability trade at this point.

The Short-Term (<1-Month) Trades: None at this time.

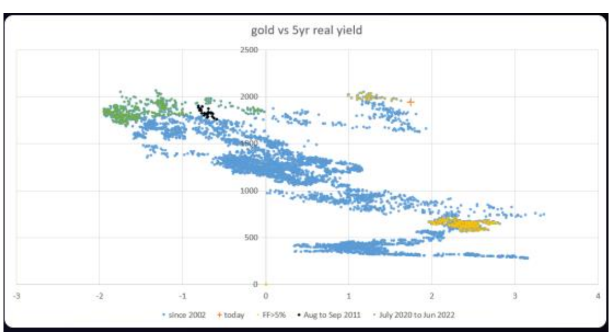
METALS

Position Table:

GLD, SLV, GDX	Hadik: Insiide Track	EcoQuant Insight
Long Term	Bullish	Bullish
Short Term	Consolidation	Consolidation

The Long-Term Trade: None at this time.

Thesis: Metals have deviated significantly from their real rate correlation as seen in this chart.



At this point, short metals are probably the better play, especially in combination with the long bond positions we currently have on. But for now, I am going to wait even though the technical analysts are saying bullish eventually. I think there needs to be a signal that the Fed is going to stop rate hikes. It might be clearer as we approach the next meeting what the Fed plans on doing, and that will help with a metals decision. Right now, I expect them to not move much, but in a way that any news event could move metals strongly.

The Short-Term (1-Month) Trades: None at this time.

ENERGY

Position Table:

UNG, USO	EcoQuant Insight	Hadik: Insiide Track
Long Term	Rangebound	Near long term low
Short Term	Bottoming	Bottoming

The Long-Term Trade: Buy 50 UNG Jul/Oct $8 call calendars @$.64 debit. This trade uses $3200 in capital.

Thesis: Thanks to a strong push by El Niño, warm air has come over most of the United States. Because of how cheap it has been, natural gas has been used to power electric power plants for some time now. Over 50% of all powerburn is now from natural gas. Exports have dropped due to maintenance. As they come back online, I expect natural gas pricing to increase even more. I expect the calendar to be very profitable, moreso than it currently is.

The Short-Term Trade: None at this time.

BONDS

Position Table:

TLT	Hadik: Insiide Track	EcoQuant Insight
Long Term	Rangebound	Bullish
Short Term	Bottoming	One More Low

The Long-Term Trade: Hold 10 20Oct23 TLT short put spread 96/100 @1.15 credit. This trade uses $2850 in capital.

Hold 20 15Dec2023 IEF 103/110 call verticals @1.10 debit. This trade uses $2200 in capital.

Hold 10 109/114 18Aug23 TLT call spreads @$.90 debit. This trade uses $900 in capital.

Thesis: Bonds have been stubbornly low. They are lower than where we put on the bond trade, but considering how far out this bond trade is, we have plenty of time for recessionary forces to show up in the statistics.

Here, I will show some statistics and charts to show why I think we are headed for recession. That is the primary thesis of the bonds trade, and right now the bond trade is the primary thesis of the technical trader.

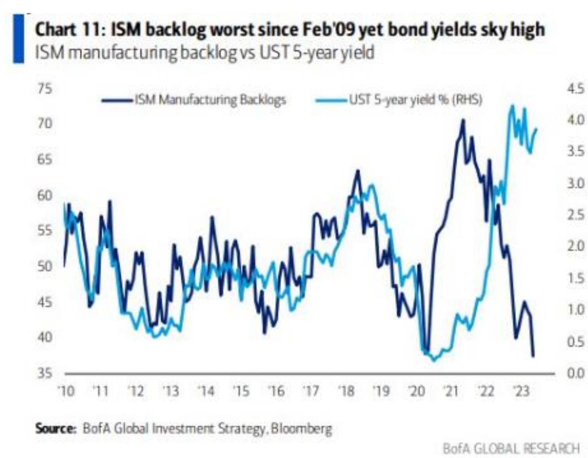
1. Unemployment leading indicator

When large companies (more than 50 employees) are about to lay off workers, they must send a warning notice to their state unemployment office with varying lead times. Here is a chart of how many workers have been put on notice that they will be laid off. You can see that the past several months is the highest since data has been available:

Source: State unemployment offices.

You can see that it has spiked even higher than the dot com bubble in 2000 and the 2008 GFC.

2. ISM backlog data



The ISM backlog typically runs concurrent with the 5y bond yield, but now that the backlog orders have dropped to recessionary lows, the bond yields need to fall too. This means now is the time to buy bonds.

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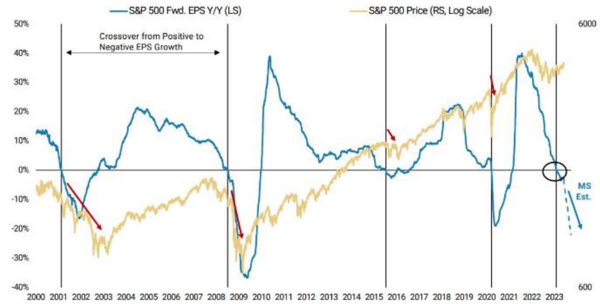
(Bonds continued)

3. Slowing Growth



Up until now, as SPX forward P/E Ratios have declined (and SPX has been on the rise for a while now to that ratio is clearly on earnings decline). Price is overdue for a correction.

Further, bank lending has been restrictive as well. There is way too much data pointing to recession with a sudden spike in unemployment and sudden drop in inflation.

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

THE STOCK PICKERS

EcoQuant Insight

Image source: EcoQuant Insight.

New Trade Idea

No new trade idea.

Old News:

SPDR Financial Trust ETF (XLF)

The Trade: Sell 10 18Aug23 +$29/-$31/-$34/$+36 XLF Iron Condors @$.86 credit. This trade uses $1140 in capital.

Wizard of Ops Commentary: XLF has risen with the rest of the market, but sold off a lot during the banking crisis. As a result, it has stayed consistently in the iron condor range. Keep this position on, especially with the downside prediction in equities. 50% of the premium is realized, so it is doing very well.

VOLATILITY TRADING

Introduction to Volatility Products

VIX – a 30-day measure of implied volatility based on SPX options. While you cannot trade this as a stock, it represents the fair price of a product only institutional investors can trade called variance swaps. When you have a VIX of 30, and you buy/sell a variance swap, you are betting that the realized volatility will be over/under 30% annualized in 30 days. 2 out of 3 months, you win by selling that var swap, so typically pension funds and insurance companies will execute this strategy. Funds sell var swaps like crazy... but the payment on the swap is the difference between the realized volatility and the purchase price, so those months when realized var is 80 are bad months for pension funds, particularly Canadian ones.

There is a clear correlation between the VIX and percent change in SPX. Sometimes VIX runs higher than the SPX change implies. I call that "overvixing". The opposite is "undervixing". When the market overvixes, typically it mean-reverts strongly with an SPX rally and a VIX drop. When the market undervixes, it typically does not strongly mean-revert; it gradually gets more and more undervixed until an event that causes an overvixed drop in SPX. So, overvixing is corrected swiftly due to market maker vanna exposure while undervixing needs a catalyst to be corrected.

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(Volatility Trading continued)

VXX – This is a ratio of monthly VX Futures between 23 and 37 days away to try to reflect the VIX index. This is an Exchange Traded Note, so you can buy this like you would a stock. When VX futures are in contango (near term VIX is lower than long term VIX) this product degrades. In backwardation, it accumulates. As institutions buy VXX, it can accelerate the degradation or accumulation as well. Unfortunately, institutions know how this is managed and front-run its buying and selling. So, unless the market is extremely volatile, even with event risk, there is pretty much always term risk premium in the rollover.

VX Futures – These are bets on what volatility will be on the expiration date. This is different than a var swap, as this predicts what the implied volatility will be, not the realized volatility. Without a futures license, the way to play this is through VIX options, which are based in VX futures (with changing expirations, so please be careful when considering this).

SPX Options – The driving force between all these volatility products is the implied volatility on SPX options. The VIX is derived from it, which is the basis for var swaps and VX futures, and VX Futures are what derives VXX. But all these products can get bought and sold, so it creates situations where the tail can truly wag the dog. And last but not least...

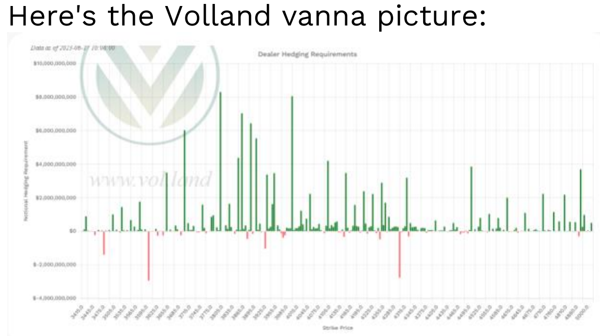
/ES Futures – These are futures on the dividend adjusted value of SPX. The term structure on these cannot be read into very much, but the near term /ES futures are used to hedge the institutional positions of SPX options traders, and the no arbitrage rule states that SPX must move in concert with /ES futures. So, this product does have implications on volatility and the equity market. Not to mention /ES also has options associated with them, further complicating the landscape.

There are also a bunch of other products out there that shows the tail wagging the dog. UVXY, SVXY are examples of other ETNs that are based on VX Futures. There is VVIX, which is just an index (which cannot be traded) showing the volatility of volatility (whoa). There are many other indicators showing the volatility of other markets, like OVX monitoring the volatility of oil markets, but this section will focus on the equity volatility landscape.

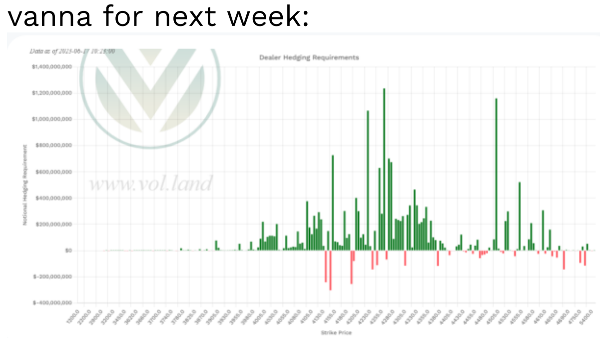
The Equity Volatility Landscape

Last month, SPX had a rally as we thought, but it went a bit higher than anticipated. This month there is a JHEQX trade where 4320 is the possible pin at the end of the month, but if IV spikes upward it could result in a strong spike to the downside if it gets passed.

Here's the Volland vanna picture:



For a few weeks, I have been talking about a lack of downside vanna that could cause a vacuum that can create a large downside move. Since the meteoric rise last week, vanna has returned to normal levels, however most of it is very short term. Right now, we have $127B in downside vanna total, but here is the vanna for next week:



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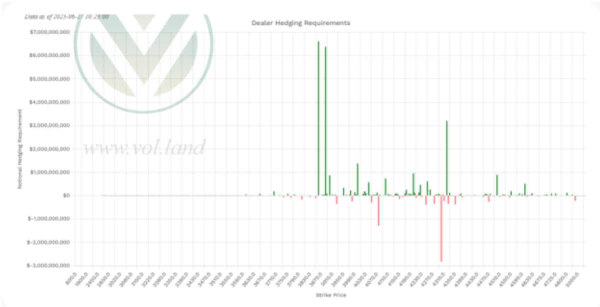
(Volatility Trading continued) That's $13.5B just for the 4 days next week. Here is the vanna for the last week in June:



That's another $18.5B in vanna due to drop off. Sure, a lot of that is the JHEQX trade that will be delta neutral, but the vanna still goes away for a trade 3 months out.

That means the direction of implied volatility will be key to determining which direction we will go. VIX is currently 13.5 with realized volatility at 11.5. That is roughly neutral for a weekend, but with so many events coming, and possibly a desire to re-hedge for the following week, IV should be neutral to higher over the coming weeks.

Over the past week, when SPX was up 3%, there was a lot of mention of call volume. Much of that call volume was closing call volume. Rumors were abounding that banks were closing hedges on some structured products, causing a squeeze to the upside. If that is true, those products and hedges are gone and should result in still more of a vanna vacuum to the downside, perhaps going towards the 4320 JHEQX strike before month end.

PAST PERFORMANCE

This chart details past performance over a 1-year timeframe. For a comprehensive trade list, please send us an email at info@addeumfunds.com. Open trades are not included in this chart.

Technical History (Past Year)				
Trade Type	**Open Capital ($)**	**Realized Risk ($)**	**Realized Profit/Loss ($)**	**Realized Percentage (%)**
Equity Trades	2,010	59,578	(1,021)	(2)
Bond Trades	5,950	9,270	415	4
Energy Trades	3,200	11,904	(2,225)	(19)
Metals Trades	-	9,437	10,636	113
EcoQuant Insight	1,140	7,297	(2,630)	(36)
Total	12,300	97,486	5,175	5

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: EcoQuant Insight.

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.