

Plan & Strategy going into 2019

Thoughts 2018 was a very difficult year for both institutional & retail investor / traders with many hedge funds having to close their doors / shut down. Not to single him out but I just read David Einhorn was down 33.9% in 2018. Greenlight Capital and many similar funds that have access to top research and analysis and they trailed the SPX! This just illustrates how difficult the year was and how disciplined one's trading plans needs to be.

Alright, now the good news! **It is a whole new year – we are starting with a fresh, clean slate.** If you had a great or horrible 2018, learn from it, move on, and improve. The performance that was achieved in 2018 will / should have little impact on your 2019 % performance. As I have said in previous newsletters, I like using a Bill Belichick approach – focus on winning one game at a time and you will make it to the playoffs if you win a lot of games. I like to translate that into trading – **win one month at a time and you have a good profitable year.**

Predictions: My plan is to follow price action and spot relative strength and weakness in 2019. There will be new trends that emerge in 2019 – my thought here is to play to my strengths and spot those trends first (through my dedicated research) and relay to TTG members.

No SPX / NDX targets / etc. I want to be objective as possible because when you make predictions, you often are held to them and have trouble deviating from them. Therefore, when market conditions change, I want to be ready to pounce on those opportunities rather than stay anchored to predictions.

Observations: In December '18 US stocks hit extreme oversold levels and were ripe for a bounce. That bounce started the day after Christmas and is ongoing. So, the question now is are the lows in or will US indices retest those lows made on 12/24? There are several good & thorough articles / blogs discussing bear market bottoms and whether we have currently seen one, here are a couple:

<https://theirrelevantinvestor.com/2018/12/27/a-history-of-bear-market-bottoms/>

<https://realmoney.thestreet.com/investing/revisiting-some-key-charts-and-indicators-as-we-look-to-2019-14821318>

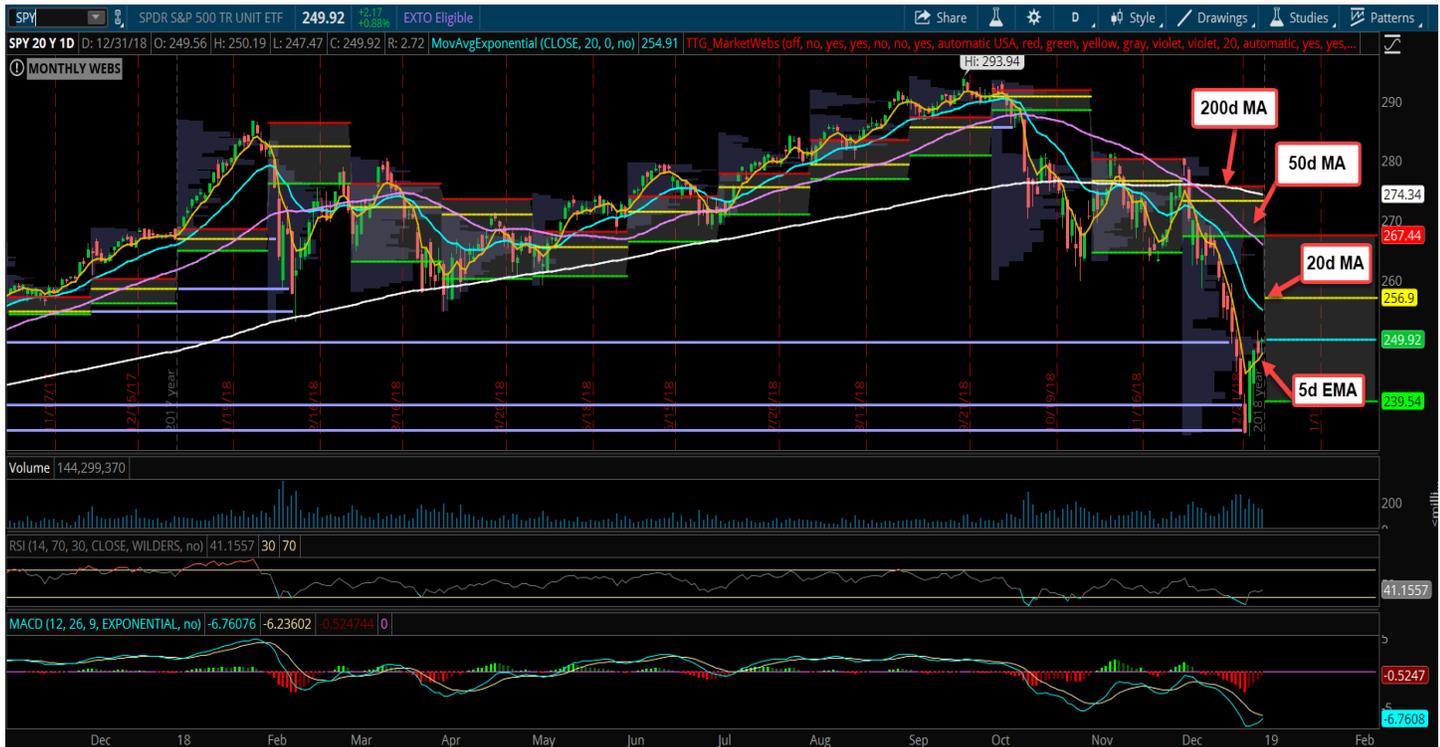
Bottom line, in my opinion, it is very difficult to tell if the lows are in, and I do not think there is a “magic indicator” that will tell you that we have bottomed.

So here are my thoughts and levels to watch and then I will talk about Strategy.

1. Indices are in a downtrend which I define by the 200d MA. SPY is ~ 7.5% and IWM is ~ 15% below their 200d MAs. So, it will take a decent move to recapture the uptrend.
2. Is this a buying opportunity? It depends on your timeframe. My take is if you have a long-term timeframe than this may be a place to scale into strong & well positioned companies that have had a correction.
3. How to watch out for overhead supply (sellers that live at higher levels)? I use a simple approach that keep me honest. Right now, the SPY, QQQ, IWM are above the 5d EMA (Exponential Moving Average) on the Daily chart. The 5d EMA is great for watching the super short-term trend. While price is above the 5d EMA, indices are above the super short-term trend and I want to favor longs. If & when the

price loses or falls below the 5d EMA I want to abandon my long stance / act more conservatively in my long single stock positions. Currently, that is the only MA that price above so this is pretty simple.

SPY Daily Chart



Strategy:

Going back to observations, US and the majority of International indices are in downtrends, and the US indices have only regained the 5d EMA.

To me, **this is not a place where I want to take a huge amount of risk**. I want to be picky and choosy and only play the best setups with defined stops. In fact, every time I get into a position, I want to know my exits → both the stops and the price targets. This is not a “set it and forget it” market. In regards to swing trades, I want to be cognizant of when the market is changing directions... due to changing conditions, I may have to alter my price targets once in the trade. Recently, we are also seeing more gap ups and fades on the open which is a characteristic of bear markets. So, this will affect day trading, and there may also be more adding trades near the close of the trading session and then unwinding the trades right at the open.

Stock trading vs option trading. Given the current level of the VIX, the level of volatility is higher than average. That makes option trading more complicated as volatility is built into the price of the option and will make the price of the option more expensive. Because of this and the volatility itself, I do not want to hold directional option trades as long as normal. So, for most of my option trades, they will be shorter holding periods. I will also use spreads for higher priced names and higher volatility names. By selling a further out of the money option I am reducing the cost and volatility.

In addition, I will be using stocks / cash trades more. There is no optionality in cash trades so I do not have to worry about volatility in the price of the stock. Same with maturity, there is no maturity in a cash/stock trade. I control that. I can also sell premium (covered call) when I think I can make a little money if I think the tape will be choppy. Finally, I can also use a combination of stock and options if I feel like I want a little leverage with the stock position. In conclusion, these are tweaks and adjustments that I can make in sideways or bear markets.

Quantity of positions. To reiterate, with the indices all below their major MAs (Moving Averages) I want to own a small amount of positions and monitor them closely. Generally, I believe in holding a smaller amount of positions in higher volatile times.

Daily routine & Game plan / Option Activity

Pre-market you should have already established your game plan for the day.

Questions like:

- am I adding or reducing risk today? If I am looking to add risk, how much? And in what groups / sectors?
- am I only going to day trade today? Or will I leave a position on overnight?
- am I just looking for ideas and will research the ideas later?

I have found that if I pre-determine what I am doing for the day (before the market opens) I end up taking the appropriate level of risk and do not make uninformed decisions in the heat of the moment.

Option Activity – This is something I say a lot in the trading room but will re-iterate here: **I use option activity to help in idea generation.**

I do not follow Unusual or Aggressive Option Activity. The reasoning is I have no idea what that option buyer's motivation or positions are. I do not know 100% if they are hedging, adding, unwinding, or what their overall size is. Too many unknowns here. I also have seen traders abandon their own rules because they think the buyer of the option call or put may "know something" which in my opinion, can lead to more losses than winners. Further, as noted above, many institutions / hedge funds are not performing well. Why follow poor performance?

Now the positives of Option Activity and tape reading. It is a front row seat into what the institutions are doing. Are they aggressively adding longer term calls in single names, buying Index puts, buying short dated calls / puts? Each one of these will give you a feel for the appetite of risk that institutions are taking. This is important because the institutions are the ones that are really pushing and controlling markets. In addition, as said above, option activity can help idea generation. Let's face it, there are a lot of stocks, ETFs, and indices to watch. If I have done my homework and I know where I want to place money or risk, it can be beneficial to see a large institution express a similar view or a view on a different stock in a sector that I am watching. Option Activity can also be a great sentiment read. I want to know when there is an extreme level of bullish or bearish positioning – this can often lead to a market turn.

Technicals. Value areas and Moving Averages. Can use these for any timeframe - I will hold a webinar to discuss this week.

Thank you for reading the TTG newsletter, please respond back to me with any comments or questions.

Copyright © Tribeca Trade Group. All of the information in this newsletter is for entertainment and educational purposes only and is not to be construed as investment or trading advice. None of the information in this newsletter is guaranteed to be accurate, complete, useful or timely.

IMPORTANT NOTICES AND DISCLAIMERS TriBeCa Trade Group is not an investment advisor and is not registered with the U.S. Securities and Exchange Commission or the Financial Industry Regulatory Authority. Further, owners, employees, agents or representatives of TriBeCa Trade Group are not acting as investment advisors and might not be registered with the U.S. Securities and Exchange Commission or the Financial Industry Regulatory Authority. All persons and entities (including their representatives, agents, and affiliates) contributing to the content on this website are not providing investment or legal advice. Nor are they making recommendations with respect to the advisability of investing in, purchasing or selling securities, nor are they rendering any advice on the basis of the specific investment situation of any particular person or entity. All information in this newsletter is strictly informational and is not to be construed as advocating, promoting or advertising registered or unregistered investments of any kind whatsoever. The information provided on this website is provided "as-is" and is not guaranteed to be correct, complete, or current. The sole purpose of this newsletter (including, but not limited to, the contents of this website and any oral or written presentation made in any way referring to or relating to this website) is to provide information which could possibly be used by a person or entity in discussions with his/her/its investment advisors and/or investment decision makers and does not function as a substitute for the advice of an investment advisor. You should consult with your own trusted financial professionals before making any investment or trading decisions. TriBeCa Trade Group is not responsible for the accuracy of any information on this website or for reviewing the contents of the listings that are provided by the listees or any linked websites, and TriBeCa Trade Group is not responsible for any material or information contained in the linked websites or provided by listees. TriBeCa Trade Group makes no warranty, express or implied, about the accuracy or reliability of the information on this website or on any other website to which this website is linked. Your use of this website is at your own risk. In addition, if you use any links to other websites, you do so at your own risk and understand that such linked website is independent from TriBeCa Trade Group. TriBeCa Trade Group does not endorse such linked websites and is not responsible for the contents or availability of such linked websites. These links are provided only as a convenience to you. TriBeCa Trade Group is not responsible for any loss, injury, claim, liability, or damage related to your use of this website or any website linked to this website, whether from errors or omissions in the content of our website or any other linked websites (e.g., injury resulting from the website being down or from any other use of the website). Any information that you send to us in an e-mail message is not confidential or privileged, and TriBeCa Trade Group may use any information legally provided to us for any legal purpose. Owners, employees, agents or representatives of TriBeCa Trade Group may have interests or positions in securities of the company profiled herein. Specifically, such individuals or entities may buy or sell positions, and may or may not follow the information provided in this newsletter. Some or all of the positions may have been acquired prior to the publication of such information on the website, and such positions may increase or decrease at any time. Any opinions expressed and/or information on this website are statements of judgment as of the date of publication /or/ circulation on the website, and such opinions and/or information are subject to change without further notice. Any such change may not necessarily be made available immediately on this website or elsewhere. None of the materials or advertisements herein constitute offers or solicitations to purchase or sell securities of the company profiled herein. Day trading, short term trading, options trading, and futures trading are extremely risky undertakings. They generally are not appropriate for someone with limited capital, little or no trading experience, and/ or a low tolerance for risk. Never execute a trade unless you can afford to and are prepared to lose your entire investment. All trading operations involve serious risks, and you can lose your entire investment. In addition, certain trades may result in a loss greater than your entire investment. Always perform your own due diligence and, as appropriate, make informed decisions with the help of a licensed financial professional. TriBeCa Trade Group makes no warranties or guarantees as to our accuracy, the profitability of any trades which are discussed, or any other guarantees or warranties of any kind. You should make your own independent investigation and evaluation of any possible investment or investment advice being considered. Commissions, fees and other costs associated with investing or trading may vary from broker to broker. You should speak with your broker about these costs. Be aware that certain trades that may be profitable for some may not be profitable for you, after

taking into account these costs. You should also be aware that, in certain markets, you may not always be able to buy or sell a position at the price I discuss. Thus, you may not be able to take advantage of certain trades discussed herein.