Third Party Research February 16, 2018

Five Days In A Row

***e*Research Corporation** is pleased to provide an article by Larry Levin, whose Trading Advantage is a leading investment education firm that empowers traders to achieve and surpass their financial goals. More than 50,000 students have used Larry Levin's proven techniques for powerful results.

Daily Newsletter: Starts on the ensuing page, in which he reviews recent market behavior.

Market Comment: He thinks the market could possibly rally back to its all-time highs.

Larry Levin's website is known as Trading Advantage: http://www.tradingadvantage.com

Larry Levin trades the S&P 500 at the Chicago Board of Trade, now known as The CME Group, the world's largest and most diverse financial exchange. He has been trading his own account or companies' proprietary accounts since 1993. At the height of his trading career, he averaged between 2,500-3,000 S&P contracts per day. Larry Levin appears regularly on CNBC, Bloomberg Television, The Business News Network, and other major media outlets, providing his expertise and insight on the current market. His lifelong vision is to teach people how to trade the right way.

A direct link to personal information of Larry Levin, from his website, is as follows:
http://www.tradingadvantage.com/larry-levin.html

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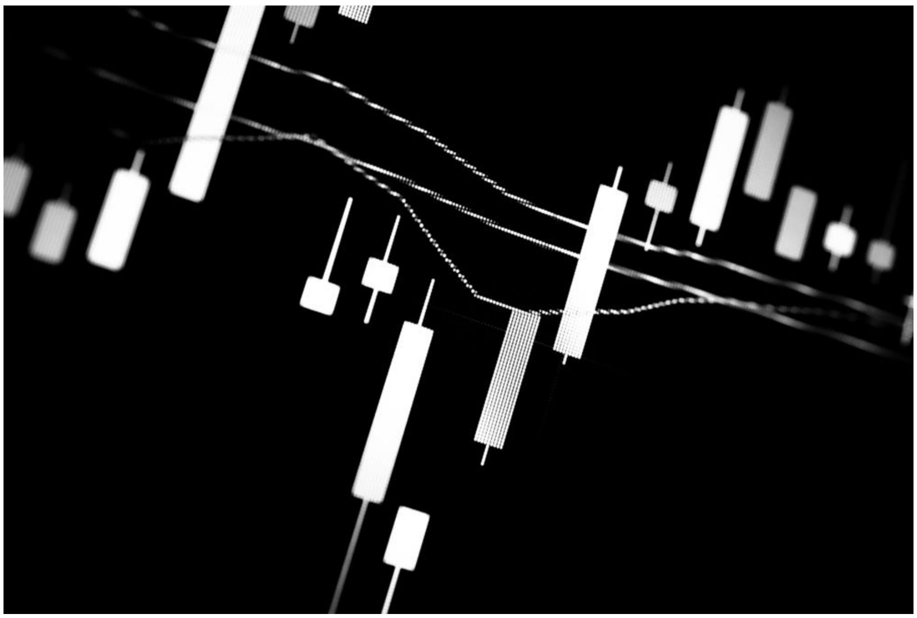
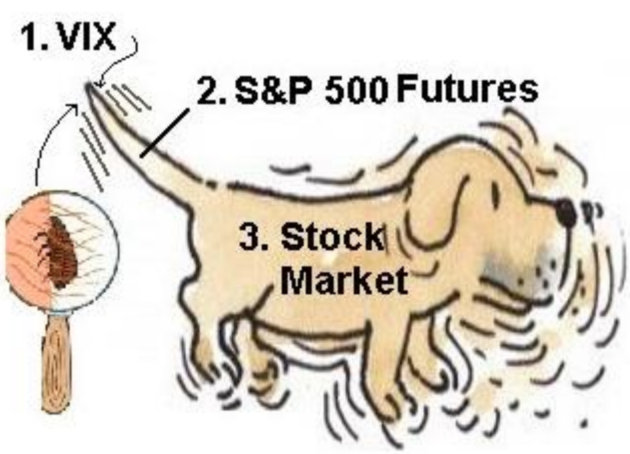


The stock indices rallied for the fifth day in a row. As we said yesterday, suddenly, higher interest rates are bullish; however, that was also rather sarcastic. You picked that up, right?

Last week, the market was crushed by a series of financial dominos falling that was started by the volatility indices (VIX & XIV) blowing up. At the time, many were furious that "the tail was wagging the dog" when such a massive effect rippled through the whole market.



Additionally, almost every pundit on television was making like Chicken Little: “the sky is falling!” Of course, a 5-day rally sure changes things; those same analysts are telling anyone who will listen that it is all over and to buy with both hands.

Not everyone believes that. Charlie McElligott, MD at Nomura Cross-Asset Strategy, certainly disagrees. He wrote the following to his clients:

> Regarding yesterday’s selloff in USTs, comments from our Rates team were extremely telling from the positioning perspective, in that there was very little “stress.” My outstanding colleague Darren Shames noted that the shorts were in no rush to cover, communicating high conviction that yields still have more room to move higher. Real Money simply wasn’t there, feeling like there is still more move to shake out / better entry-points, potentially eying that ~3.20% level in the 30Y that has held since 2014.
>
> Darren too mentions that convexity hedgers were present to a certain extent, but by no means forcing the flows—even at the worst levels of the day. When viewing that alongside his observation that dealer gamma hedging flows too were negligible, it indicates that the “sellers are lower” supply still has yet to be seen (although notable that ~7k futs traded overnight as yesterday’s 120-08 low in TYH8 was breached—looks like a “stop loss”).
>
> As previously stated, it’s the move in “real rates” that risk traders need to keep an eye on. My yesterday afternoon piece focused on this, because despite the move in nominal yields, the “gap” move in inflation expectations (thus the widening in break-evens) actually kept “real rates” stable on the day. This in turn provided relief from the recent equities-theme of the negative impact of “tighter financial conditions.”
>
> However, I REALLY think that it was the USD breakdown which provided the most relief for U.S. equities.
>
> I think you are going to have another chance to buy stuff lower, before another rally off the back of a “tradeable bottom”…and, more importantly, that higher volatility / “chop” is “here to stay.”

If there will be another (and tradeable) bottom, then it better get to falling soon. If it doesn’t, then traders will believe, if they don’t believe this already, that the low is in. If true, then the market will be going higher from here on a near daily basis…with LESS volatility and less volume. In other words, back to normal.

Larry Levin

<For today’s Market Comment, see the following page>

LARRY LEVIN'S
TRADING ADVANTAGE

Market Comment: Markets Continue To Rumble Forward

It sure didn't take long to breach the 50-day SMA in the SPY / SPX. All in all, it did offer up some early resistance as the markets dropped sharply from that technical range. Then, we slowly climbed back to retest that level and easily breached resistance.

The markets rallied and closed above the 50-day SMA. With an open above this level with immediate support, it will show us a very bullish maneuver. You can then anticipate a possible rally back to the previous high range or what is known as the all-time highs.

Technical support and technical analysis has been reigning supreme these days, so I suspect that predictable behavior is back. If support fails to hold, expect a slight reversion but, ultimately, should be bought back up to rally. Long live the Perma-Bull!

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