S&P 500 Weekly Forecast 6/20

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Hey everyone,

Last weekend, we used the existing "Research" page to pull a bunch of high- and low-DPI tickers out of a hat, and then we used a normalized DPI number and a messy proto-zomma number to see if we could isolate some spread trades with a positive expected value for the week.

And we did. And here's how that went.

Trade	Return	Adj. Return
+COP	-4.07%	-1.17%
–CAT	+5.36%	+2.06%
+GILD	-2.13%	-0.94%
–UNH	+2.14%	+1.05%
	+1.30%	**+1.00%**

The "Adjusted Return" column adjusts for the volatility of the stock. So, e.g., since COP volatility is higher than CAT volatility, we'd want to have proportionally *more* money in the CAT leg of the trade, to make up for its lower volatility.

In any case, our shorts outperformed our longs, and we came out ahead. And we *like* to think that this is attributable to the fact that we're using good data.

So let's keep talking about this. But first...

1. Then
2. Now
3. (Intentionally) Obfuscatory (Artisanal) Discretionary (Proprietary) Trading

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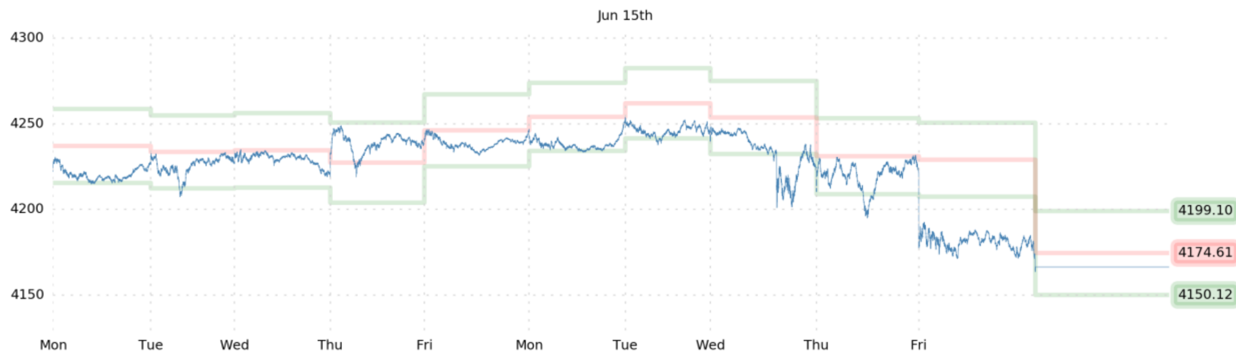
Then

Last weekend, we said we pretty much didn't have an edge in trading the S&P 500. So we didn't do anything, except trade a bit of intraday SuMo levels. And that went pretty well.

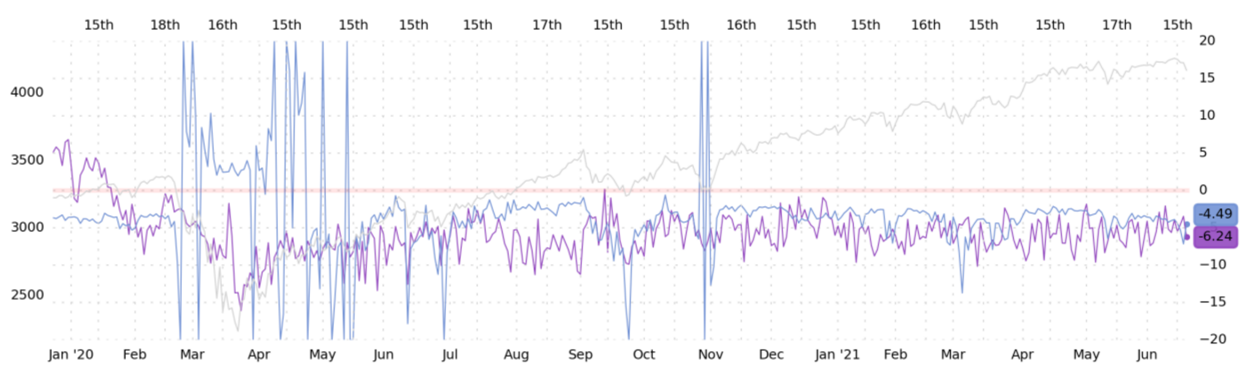


But on Friday morning, after a healthy gap down, we started taking on a wee bit of short July VIX, at around 20.35. Well, that contract moved up to 21.50 or so throughout the day, so that didn't turn out just yet—but we're not disturbed.

Why are we so optimistic?

Now

Well, overall, the data is still very boring. Probability densities are all lining up, showing no edge. Crash risk is still very low. Customer positioning (NPD and VGR) isn't exceptional at all except for NPD spending some time between -5 and 0 recently—but then we just got a volatility spike, and neither NPD nor VGR suggest that it ought to continue. They, too, remain neutral.



Still, the increase in volatility is real. GEX+ fell to \$280mm per SPX point, down from \$800mm, and that means there's less liquidity around SPX spot. Expect something more like 0.66% sustained average daily moves, up from 0.45%. And while VIX spends some time above 20, don't be surprised by some 1.00% moves. Nothing unusual about that at this point.

But there appears to be no reason to believe in *increased* volatility to the downside, and that's what we really care about when we're short VIX. Heck, even DIX is telling us that there's a bid under the index. So if the July VIX contract opens higher than it closed on Friday, we'll be happy to gradually up our size on that.

Moving on.

(Intentionally) Obfuscatory (Artisanal) Discretionary (Proprietary) Trading

There's nothing especially exciting about a 1.00% adjusted return on a 1-week spread trade. It's nothing outside of the norm. It could be an accident.

But if it's representative of an edge—something replicable—then it's very interesting indeed. So let's see if we can replicate a successful trade this week, by leaning heavily on our gamma-zomma data and a sprinkling of fairy dust, instead of the normalized DPI that we largely referred to last week.

So without further ado, and without explanation, here are a bunch of potential long/short pairs. They don't *need* to be paired: each ticker should be able to stand on its own. But there are obvious benefits to trading a pair, or multiple pairs.

Long	Short
QQQ	IWM
CMG	NKE
PYPL	GS
CHWY	BBY
USO	GLD
AZO	FDX
NVDA	MU

In the same way that we emphasized the "adjusted return" of last weekend's pairs, we will do the same in *next* weekend's post-mortem of *these* pairs. It is assumed that you will size the position according to not only the dollar value of the shares, but also the volatility—and as a measure of volatility, we're looking at the price of the 1-month option straddle. (You can use realized volatility or implied volatility, or whatever you like.) What matters is that higher volatility means we want to size the position relatively smaller. The usual stuff.

If we were to summarize the data as we see it, the bigger and tech-ier a stock is, the better its current option/gamma/zomma/liquidity profile. The Nasdaq-100 is the clear favorite, with the Russell 2000 and the Dow as laggards. Not surprising.

Also, and somewhat tangential, there's a super fascinating tendency in 2x/3x leveraged ETFs to have a strong inverse relationship with their DPIs. I.e., the more dark pool short volume (higher DPI), the more likely it is that the leveraged ETF goes *down* over the next week. And we're talking, like, an R-squared of 0.15 on some of these. Are leveraged ETFs full of smart-money? Are their impacts this large? Or is there a hedging thing going on here that's just mirroring a larger market? Sorry, that was definitely tangential.

Anyway. Enjoy the week!

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