S&P 500 Weekly Forecast 11/21

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Hey guys,

Distributions and weather maps at https://jim.squeezemetrics.com will now update every evening (~7pm), just like the PIVT plots at https://pivt.squeezemetrics.com.

Password is YachtClub.

Without belaboring the point: An allocation to around ten or more of Robot Jim's favorite tickers, short and long, from the "50worst" and "50best" spreadsheets last weekend, should have performed pretty well (save for long VIPS, but that was because of earnings [a known binary vol event], and arguably, earnings is something to be avoided here). Indeed, this has been our experience thus far—that taking some guidance from Jim has improved our process in single-names.

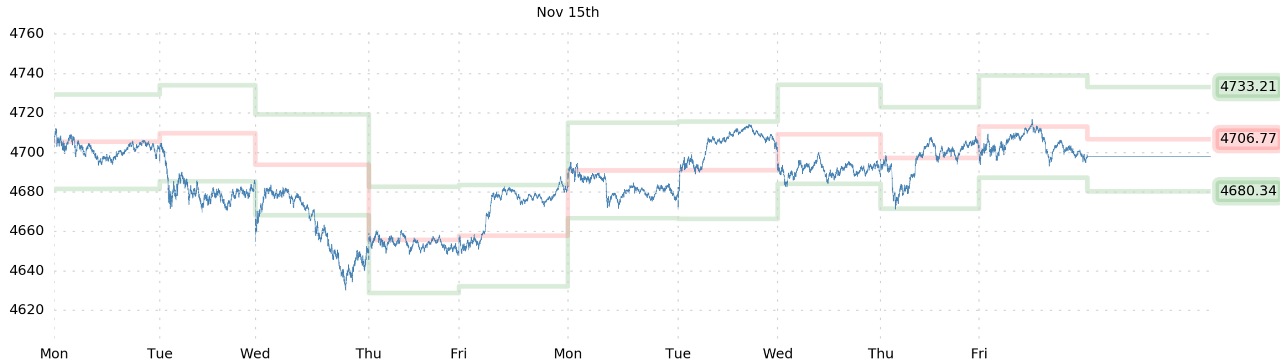
An example below of how we pick Robot Jim's silicon brain.

But first...

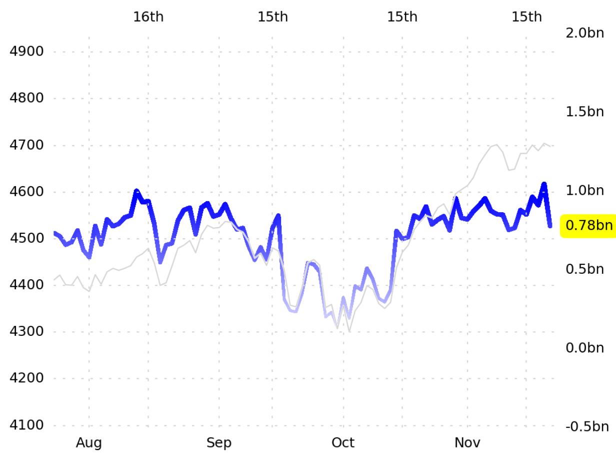
1. Gamma going, going
2. Gamma gone?
3. Selling insurance and other questionable pastimes

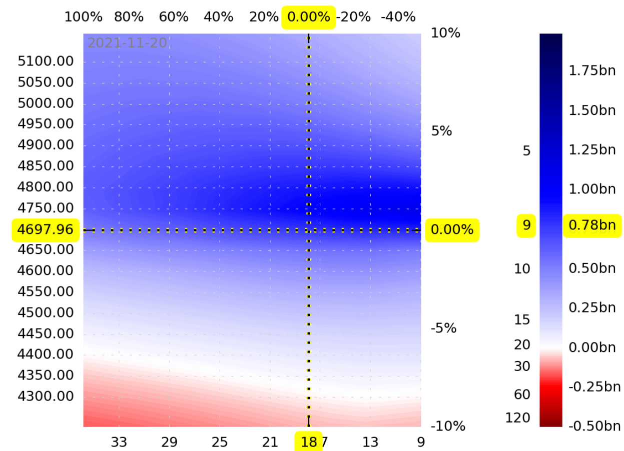
Gamma going, going
Last weekend, we saw an opportunity in holding on to a bit of short vol, via short VIX. We held on to that through Wednesday, where our front-month exposure expired and settled to cash (yes, we do that). It went very nicely.

After that, we switched over to some short SPX delta, via SPX put spreads. Specifically, the intention was to capture the potential for either (1) a frontrunning of the monthly OpEx, or (2) the likely "liquidity dislocation" post-OpEx. Well, (1) didn't happen.



But we're still positioned for (2).





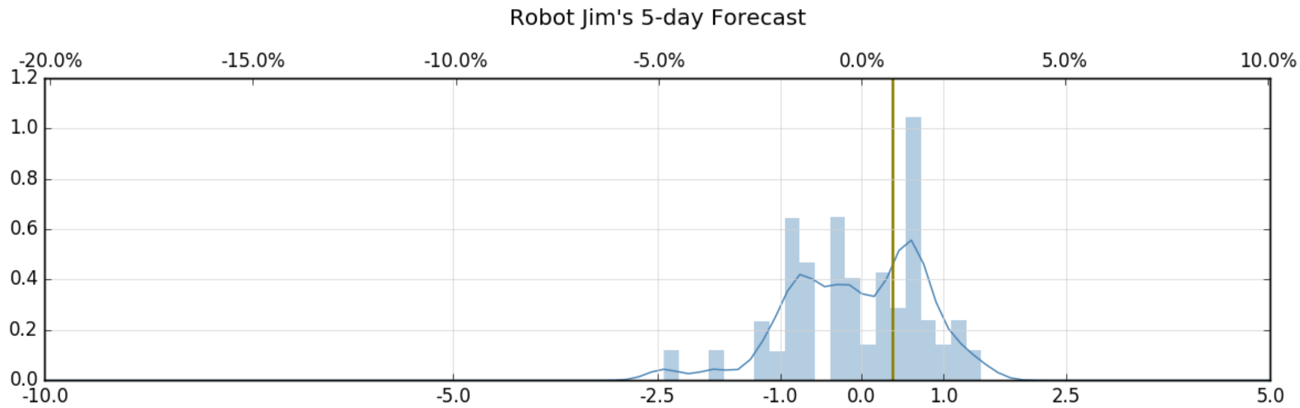
As for the *prospects* of (2): GEX+ has indeed fallen after OpEx, though customer re-positioning since then seems to have made it around $80mm higher than we were expecting (we were thinking it'd fall from $1bn+ to about $700mm, but it only fell to $780mm). This *does* raise gamma-implied vol (GIV), which moved from 7.37 to 9.03—but that's not anything crazy.

Hmm.

So, what happens when we mix this new info together with DIX, NPD, and VGR?

Gamma gone?

Here's what Robot Jim says:



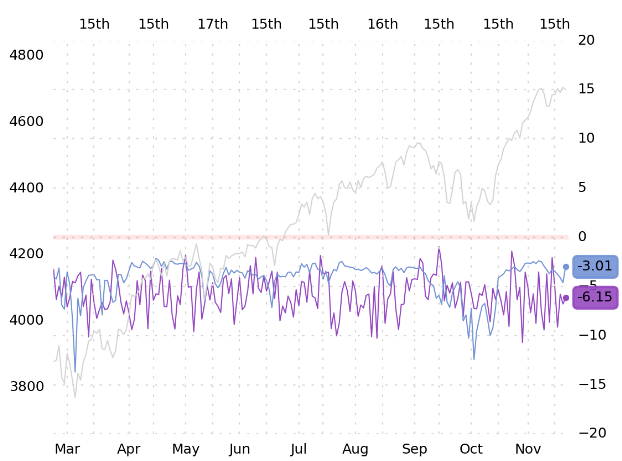
Hmm.

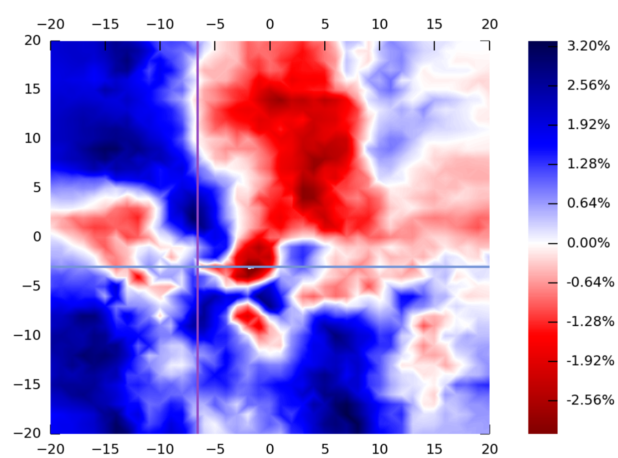
Yes, sure, there's a left shoulder, but the probability of a >2.00% weekly loss is... quite small. That means that any SPX movement below 4600 would be exceptional. To boot, the mean and median weekly return are both +0.75%. *Not* bearish.

And then tack on the Thursday holiday, *and* the Friday early close, and you have yourself the fixings for a low-volume, low-volatility week.

So yes, it'd be wonderful if we can liquidate our put spread tomorrow for something close to a profit, but that'll be a matter of luck. We wouldn't anticipate any early-day, post-OpEx selloff to be sustained. Indeed, the SuMo bands—in a low volume environment—are likely to keep working (and in this case, supporting SPX), as they did last week.

NPD/VGR uninteresting, as Jim implied.





That means we're out of all SPX positions before noon tomorrow. We lose this round.

What a great time to think about single-stocks, though!

Selling insurance and other questionable pastimes

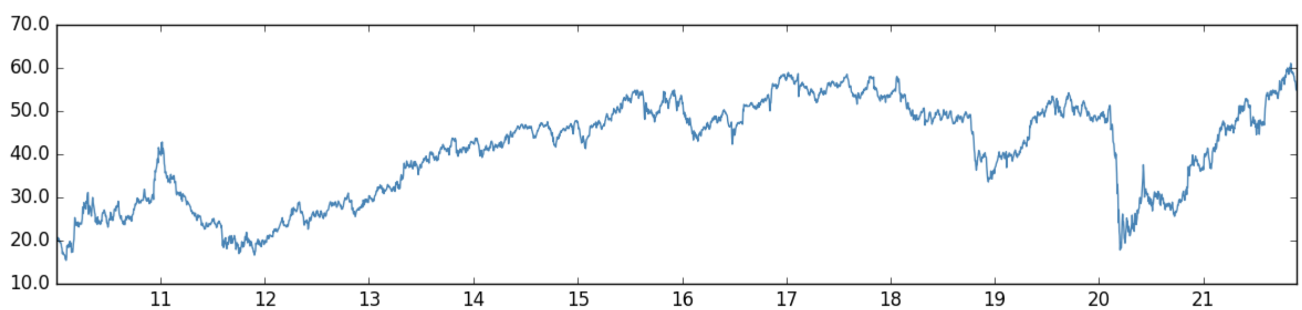
We look at *lots* of stock charts. Always have. Still not sure if that's a good thing.

Often, when we click on a stock chart, we immediately recognize the price patterns. We can see how investors respond to events, we can see how volatility waxes and wanes, and we can broadly categorize it as "trending," "range-bound," or any number of such things. We might even be able to tell you what sector it's in, since there are common patterns to certain groups of securities.

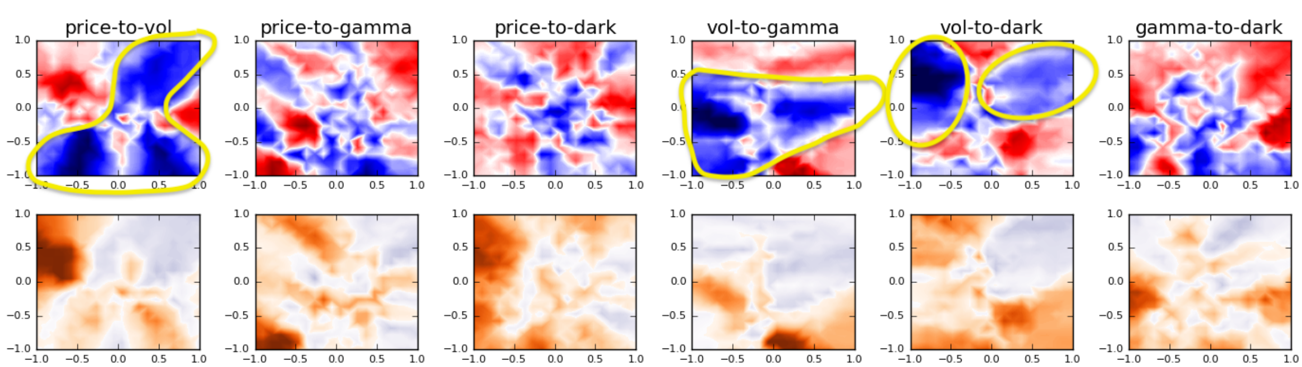
Often, a stock's price-action can be likened to that of an option, or spread. E.g., you would expect a small biotech to have a chart that resembles that of a long OTM call, a large commodity-linked company to look more like an ATM call spread, and a utility to look more a like a *short* ATM call.

And an insurance company, you might expect to look more like a short *put*, with really excellent-looking returns—if it weren't for those *really* nasty drawdowns. Because that's, well, the nature of the insurance business: Over the course of years—decades, even—there is a lot of downside risk. In the *meantime*, though, there can be excellent, low-volatility returns.

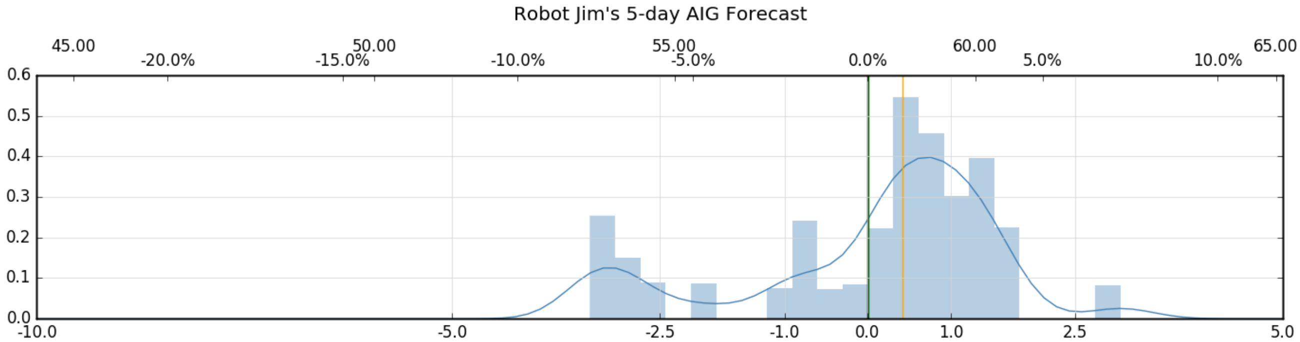
But when you look at a stock chart of an insurance company, you really can't do anything but idly ponder this—because in a time-series of price, it's hard to see anything but those big, sweeping, years-long patterns. Consider AIG in the last decade.



We only ponder this *now* because, at this time last week, we happened to be looking at the weather maps of AIG, and we were struck by how there were only large, consistent patches of returns when "vol" was a component of the map. I.e., only in the *price-to-vol, vol-to-gamma,* and *vol-to-dark* maps.

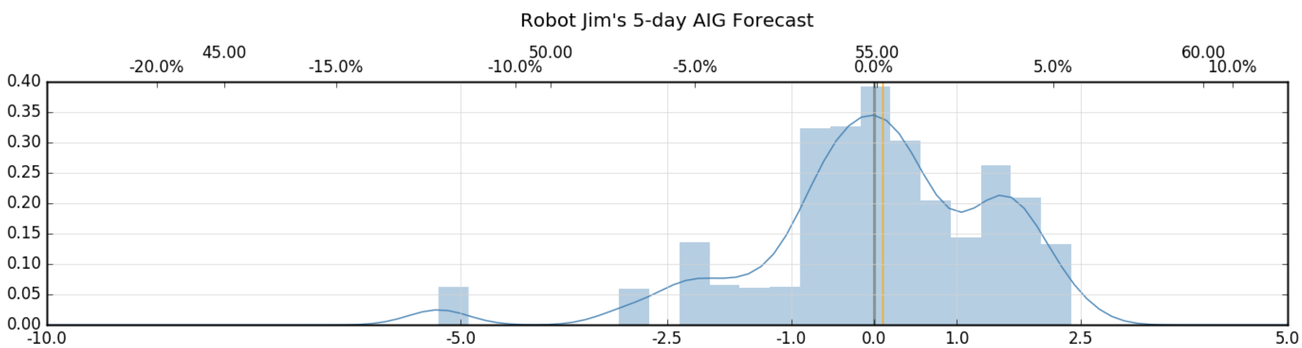


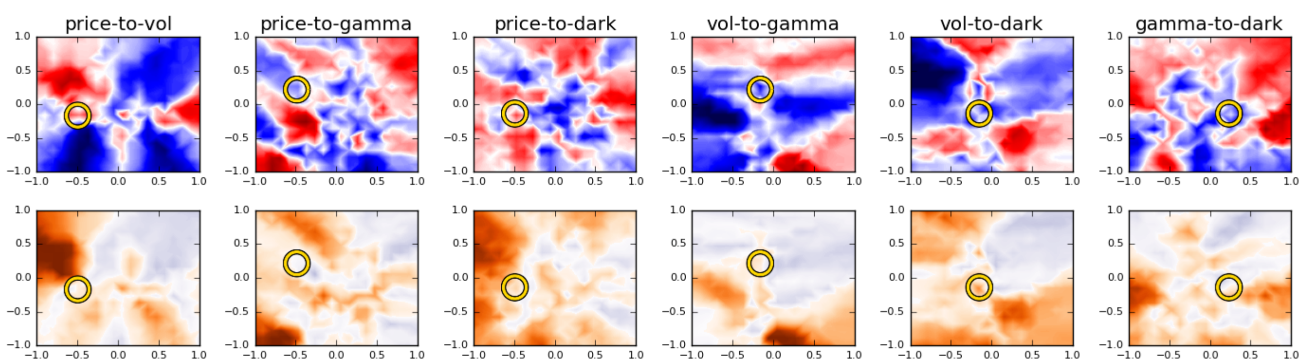
Then, we followed up on it, because a little left-tail lump of >5.0% losses on last week's forecast ended up actually being realized (last week's forecast below).



And, owing to this volatile movement, we were curious what would happen next *(mostly because we have a character flaw where we think buying a stock into a volatile dip is, by default, a good idea; and we say "character flaw" because there is truly nothing that can inform a preference for catching knives except for pure stupidity or a clinically enlarged ego).*

Of course, what we were treated to, in Jim's forecast, was still not especially bullish (here).





And that really shouldn't be surprising to us, because if we consider the weather maps again, we can ascertain that, really, *the best weekly returns in AIG only happen when "vol" is low.* I.e., when realized volatility is trending down. Which is interesting... because it suggests that the "big picture" patterns in AIG—an insurance company with a stock chart that looks like a short put, and thus, that benefits from low volatility—are actually *reflected in week-to-week returns as well! Declining volatility makes AIG stock go up!*

Yet, crucially, you'd never be able to see this pattern just by looking at the chart. We really need to have a view on the co-movement of realized volatility and price (and other things), and we need to measure this relationship with some precision if we're interested in extracting a signal. In other words, *we really need the weather maps* to see and understand this pattern.

What exciting about that is that it's all the same data. Nothing on the weather maps is new to us—but it's a totally different *angle*—a different way to visualize and understand it. And that seems to make all the difference when it comes to understanding the day-to-day behavior of a security.

So, in conclusion, we're not going to buy AIG right now.

But at any given moment, the scales are tipped in favor of several names: And that's what the "50best" spreadsheet at https://jim.squeezemetrics.com is for. Take, for example, XPO Logistics, Jim's #1 ticker. *Yowza.*

Jim's data should be updating at the same time as PIVT data, before 7:00pm.

Alright, that's enough for now.

Isn't this exciting, though? We think it's exciting. And maybe that's our cue that we need a holiday—so enjoy the holiday week, everyone!

The SqueezeMetrics Team