



The Week Ahead

Good News Economically

This past week was a stellar week for the U.S. economic reports. Flash Services and Manufacturing Purchasing Managers Index (PMI) both beat expectations, showing a recovery in demand. The increase in demand was confirmed by the Advance Gross Domestic Product (GDP) and Durable Goods Orders. GDP is considered the broadest measure of economic health. This week's report showed no signs of recession, only growth. Durable Goods Orders increased 5.6% showing a significant increase in demand for big ticket items. Additionally, Consumer Sentiment improved and Pending Home Sales rose, showing additional positive developments. Lastly, the Personal Consumption and Expenditure (PCE) Price Index, which is watched more closely by the FOMC for inflation data, showed a slowing in Inflation. PCE has investors feeling the worst is behind us.

THE WEEK AHEAD:

Next week has the potential of dramatic movements in the market. Employment data will be released via the ADP and government Non-Farm Payroll reports and the JOLTS job openings data. A very strong employment situation is encouraging for the economy but could provide the latitude for the Federal Open Market

Committee (FOMC) to raise rates further to get inflation to the Fed's target rate. On Wednesday, we will see the Federal Funds Rate decision which is expected to be 25 basis points. Trading seems to reflect 25 basis points or no rate hike in February and a pause in future rate hikes. If we see higher rate hikes and future expected rate hikes, equities could experience a sharp reversal to the week's gains.

Monday 01/30: none

Companies Reporting Before: BEN

Companies Reporting After: NXPI, ARE, PFG, WHR

Tuesday 01/31: Consumer Confidence, Chicago Purchasing Managers Index (PMI)

Companies Reporting Before: XOM, PFE, MCD, CAT, MPC, MCO, GM, PSX, MSCI, SYY, GLW, DOV, IP, PHM, AOS, PNR, AMCR

Companies Reporting After: AMGN, AMD, SYK, CB, MDLZ, EW, EA, IEX, MTCH, WDC, BXP, JNPR

Wednesday 02/01: ADP Non-Farm Employment Change, Institute of Supply Management (ISM) Manufacturing PMI, Job Openings Labor Turnover Survey (JOLTS), Federal Open Market Committee (FOMC) Statement, Federal Funds Rate, FOMC Press Conference, Open Meetings

Companies Reporting Before: TMO, TMUS, MO, BSX, WM, HUM, JCI, ODFL, OTIS, ABC, FTV, WRK, IDXX, FBIN

Companies Reporting After: META, MCK, CTVA, AFL, ALL, ALGN, HOLX, MAA, PTC, GL, CHRW, QRVO

Thursday 02/02: Weekly Unemployment Claims

Companies Reporting Before: LLY, MRK, BMY, COP, HON,EL, BDX, ITW, APD, ICE, HSY, PH, AME, APTV, WEC, GWW, SIRI, CAH, BR, CMS, BALL, DGX, AVY, SNA, SWK, TECH, PENN, ETN, MSI, TT, NWS, NWSA, RL, DXC

Companies Reporting After: AAPL, GOOG, GOOGL, AMZN, QCOM, SBUX, GILD, F, MCHP, CTSH, HIG, CLX, GEN

Friday 02/03: Non-Farm Employment Change, Unemployment Rate, Average Hourly Earnings, ISM Services PMI

Companies Reporting Before: CI, REGN, AON, LYB, ZBH, CHD, CBOE

Companies Reporting After: none

Forecast:

With nearly all the economic reports showing as better-than-expected, it is tempting to assume that the economic slowdown is in the rearview mirror. Multiple companies have reported missed expectations in both earnings and revenues. Additionally, many large tech companies have announced layoffs which will slow demand when the layoffs take place. We believe it is too early to bet on a strong economy and we also believe the equity markets have pushed prices higher than what will likely happen with the FOMC Fed Funds Rate. We are approaching next week with precaution as volatility will likely manifest multiple days throughout the week..

Profit Harvester Trade Rules:

- 1- Watchlist High Liquidity: 500k shares a day and penny increment options
- 2- Signal: Big move on Friday: 2.5% or more up (or down)
- 3- Signal Confirmation: Single Deviation breakout based on 20 days (using a 20-day Bollinger with a single deviation as confirmation to the 2.5% breakout move.
- 4- Entry Price: Confirmed intraday distribution entry at OB or OS pullback - This is a Time Price Opportunity chart (monkeybar) distribution projection. It generally means it needs to pull back to within 20% of the mid-price of Friday's large candle.
- 5- Target is a "fair price" or projected 50% level on the new distribution for the next day. (I hand calculated this on Friday after close)

Profit Harvester Trade

Recommendations:

(The following is intended for educational purposes only. Investors should research for due diligence and understand their own risk tolerance. Investors must recognize that investing holds no guarantees—you could lose money.)

The previous week's Profit Harvester, QCOM was very bullish as expected but gapped up to start the week and did not trigger the buy order. EWZ missed the limit by 4 cents before rallying and triggering the stop. Depending on your fill price, you might have hit the target before the stop loss. For next week, we are looking at GM for a bullish trade and CF for a bearish trade.

For all Profit Harvester examples, if the trade does not trigger within the first two trading days of next week, the trade is canceled.

General Motors (GM)

Step 1, the Setup:

Buy GM long or buy a call option with a 70 delta for 7-14 days, when price is anywhere between \$37.75 and \$37.25

Step 2, the stop loss:

Set a stop loss price \$1.00 below the entry price

Step 3, the profit target:

Consider taking profit if GM rises \$0.60 per share higher.

Probabilities: For initial target from the entry provides a 63% probability of a win.



CF HOLDINGS INC (CF)

Step 1, the Setup:

Sell CF short or buy a put option with a 70 delta for 7-14 days, when price is anywhere between \$83.65 and \$84.50

Step 2, the stop loss:

Set a stop loss price \$1.30 above the entry price

Step 3, the profit target:

Consider taking profit if CF falls \$0.90 per share lower.

Probabilities: For initial target from the entry provides a 60% probability of a win.



Worthwhile Reading from the Past Week:

<https://www.reuters.com/markets/us/us-existing-home-sales-lowest-since-2010-price-growth-slows-2023-01-20/> (Bearish to Neutral)

<https://www.reuters.com/markets/us/wall-st-week-ahead-tech-stock-rebound-faces-doubters-with-earnings-season-ahead-2023-01-20/> (Bullish to Neutral)

<https://www.forbes.com/sites/chrisgentilviso/2023/01/19/the-us-hit-its-debt-limit---what-now/?sh=66f75b47a289> (Bearish)

-Blake Young