



The Week Ahead

Strong Data Raises Rate Risk

Economic reports throughout the week showed continued strength and growth. Institute of Supply Management (ISM) Purchasing Managers Index (PMI) increased, showing the services remain in a growth trend. Consumer Sentiment also increased, which can indicate continued consumer spending. The producer Price Index (PPI), an indicator of inflation, also rose, showing inflation is not slowing. With both economic growth and inflation growth, investors began to price in continued rate hikes from the Federal Reserve. Equities pulled back in response to the rising inflation, and prices fell back to near-term support. The U.S. dollar (\$dxy) stabilized at support.

THE WEEK AHEAD:

Next week will only have a handful of earnings reports. More importantly, next week will see the Federal Reserve Rate Decision and statement and the Consumer Price Index (CPI). The expectation is the Fed will raise rates by 50 basis points, but the Fed could provide more guidance on future rate hikes. We do expect a more hawkish tone with inflation remaining strong.

Monday 12/12: none

Companies Reporting Before: none

Companies Reporting After: ORCL

Tuesday 12/13: Consumer Price Index (CPI) m/m, CPI y/y, Core CPI m/m

Companies Reporting Before: none

Companies Reporting After: none

Wednesday 12/14: Federal Funds Rate Decision, Federal Open Market Committee (FOMC) Statement, FOMC Economic Projections, FOMC Press Conference

Companies Reporting Before: none

Companies Reporting After: LEN

Thursday 12/15: Retail Sales, Core Retail Sales, Empire State Manufacturing Index, Weekly Unemployment Claims, Philly Fed Manufacturing Index

Companies Reporting Before: none

Companies Reporting After: ADBE

Friday 12/16: Flash Services Purchasing Managers Index (PMI), Flash Manufacturing PMI

Companies Reporting Before: ACN, DRI

Companies Reporting After: none

Forecast:

If CPI increases higher-than-expected, following PPI, then we will likely see the market price in higher rates in the futures and a drop in equities. Normally, we expect December to be somewhat bullish but all bets are off until after the Fed Rate Decision and CPI.

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)

For the Profit Harvester Trade recommendations below, be sure to follow the entry and exit rules especially the entry prices.

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, DIS triggered the bullish entry on Monday's open and hit the target in the first 15 minutes of trading. EOG also filled the bearish order on Monday and reached the target later in the day. For next week, we are looking at CHWY for a bullish trade and BP for a bearish trade. For all Profit Harvester examples, the trade is canceled if the trade does not trigger within the first two trading days of next week.

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Chewy Inc (CHWY)

Step 1, the Setup:

Buy CHWY long or buy a call option with a 70 delta for 7-14 days, when price is anywhere between \$43.95 and \$42.75

Step 2, the stop loss:

Set a stop loss price \$2.50 below the entry price

Step 3, the profit target:

Consider taking profit if CHWY rises \$1.80 per share higher.

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



BP ADR (BP)

Step 1, the Setup:

Sell BP short or buy a put option with a 70 delta for 7-14 days, when price is anywhere between \$33.65 and \$33.80

Step 2, the stop loss:

Set a stop loss price \$0.50 above the entry price

Step 3, the profit target:

Consider taking profit if BP falls \$0.30 per share lower.

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



Worthwhile Reading from the Past Week:

<https://www.reuters.com/markets/german-finance-ministry-lays-out-joint-eu-response-us-inflation-act-2022-12-09/> (Bearish)

<https://www.forbes.com/sites/zinnialee/2022/11/25/binance-pledges-up-to-2-billion-to-bail-out-distressed-crypto-firms-as-ftx-contagion-spreads/?sh=2642ef416017> (Bullish to Neutral)

<https://www.investing.com/news/stock-market-news/stock-market-today-dow-falls-as-hot-inflation-data-lifts-stake-for-hawkish-fed-2961475> (Bearish)

-Blake Young
