

# THE SUPERSTOCK LETTER

by Jesse Stine

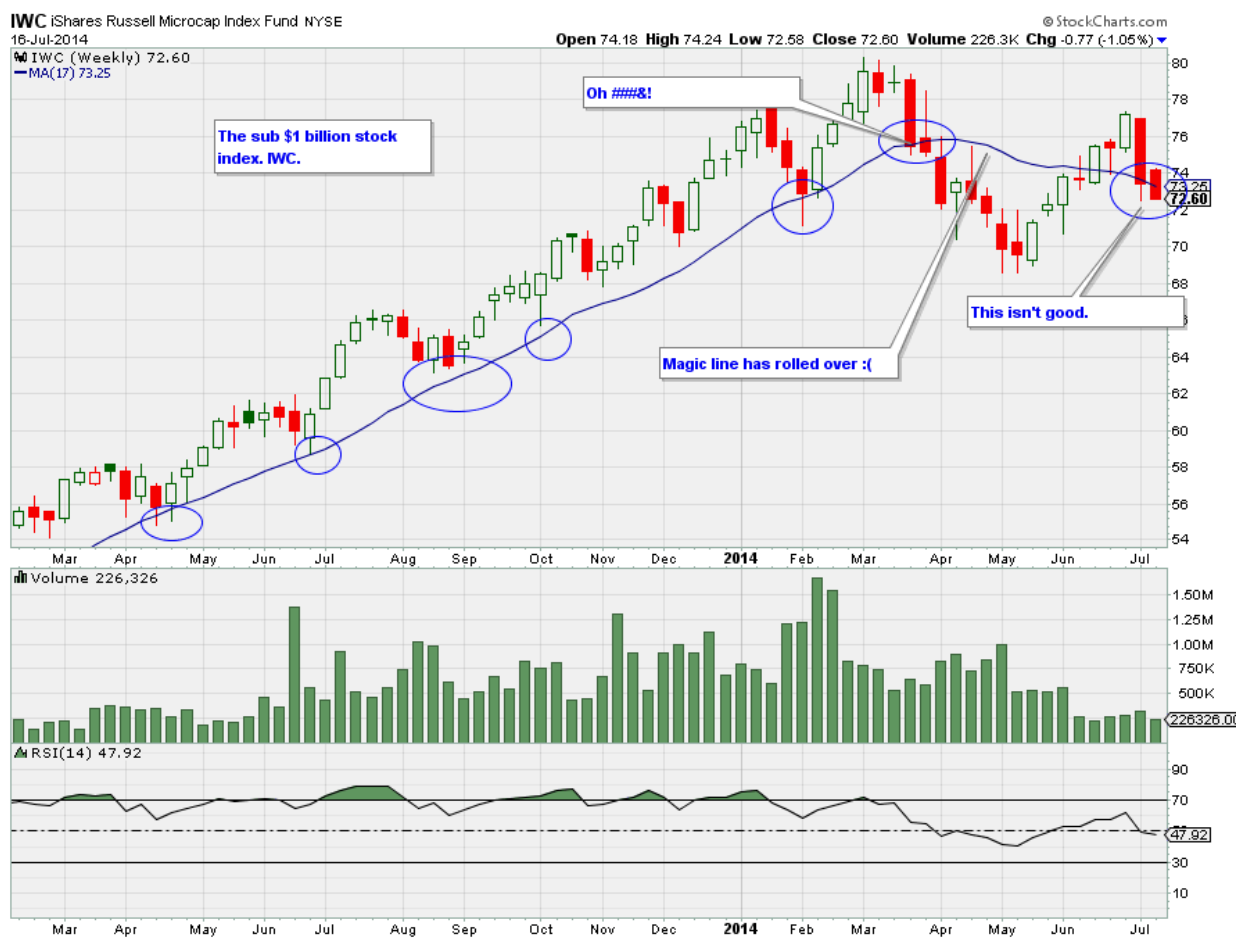
Issue Number 162, JULY 16TH 2014

Per the terms of membership, this letter is strictly confidential.

Good evening World 40 members!

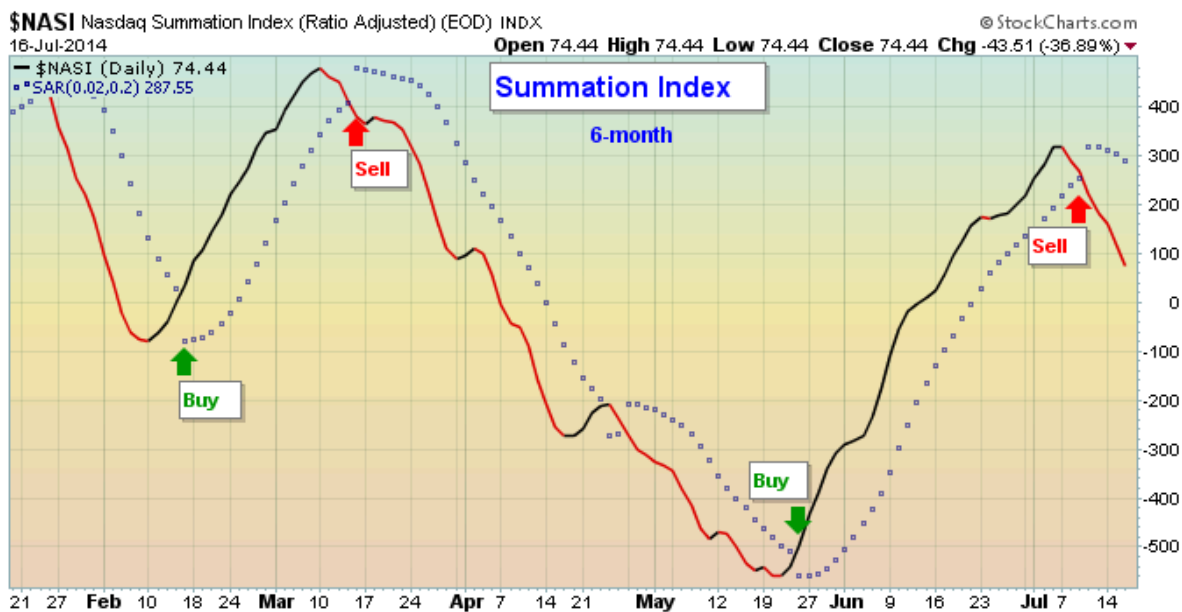


Tim asked for a global market update. There are some *JUICY* charts in here. Well, here they are!



BIG MONEY is made when the NAZ summation index issues a buy signal. When it issues a sell signal,....well.....

#### -06- Summation Index -- Market Breadth



IEV Europe 350 iShares NYSE  
16-Jul-2014

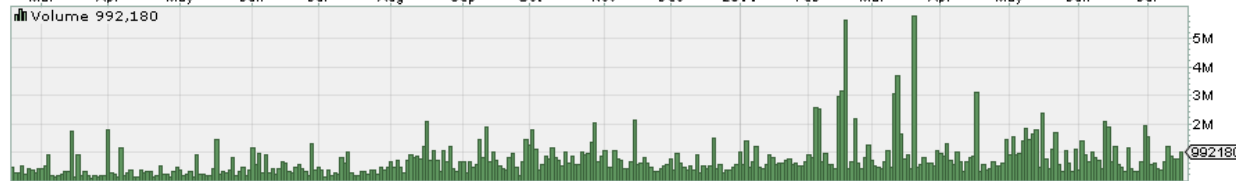
Open 48.26 High 48.26 Low 48.10 Close 48.17 Volume 992.2K Chg +0.38 (+0.80%)

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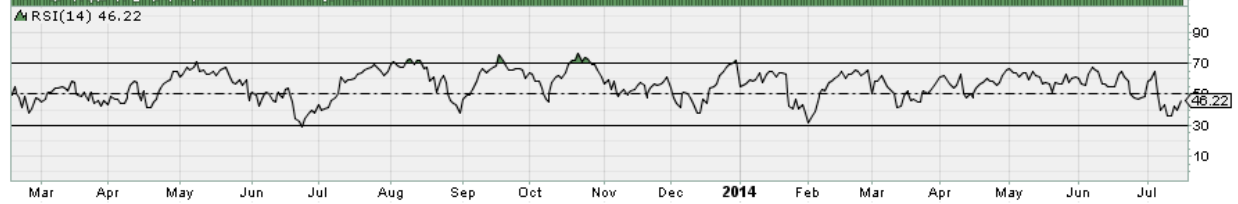
IEV (Daily) 48.17  
MA(20) 48.55



Volume 992,180



RSI(14) 46.22



UNG United States Natural Gas Fund NYSE + BATS

15-Jul-2014 2:15pm

UNG (Daily) 22.54

Open 22.80 High 22.87 Low 22.53 Last 22.54 Volume 2.1M Chg -0.35 (-1.53%)

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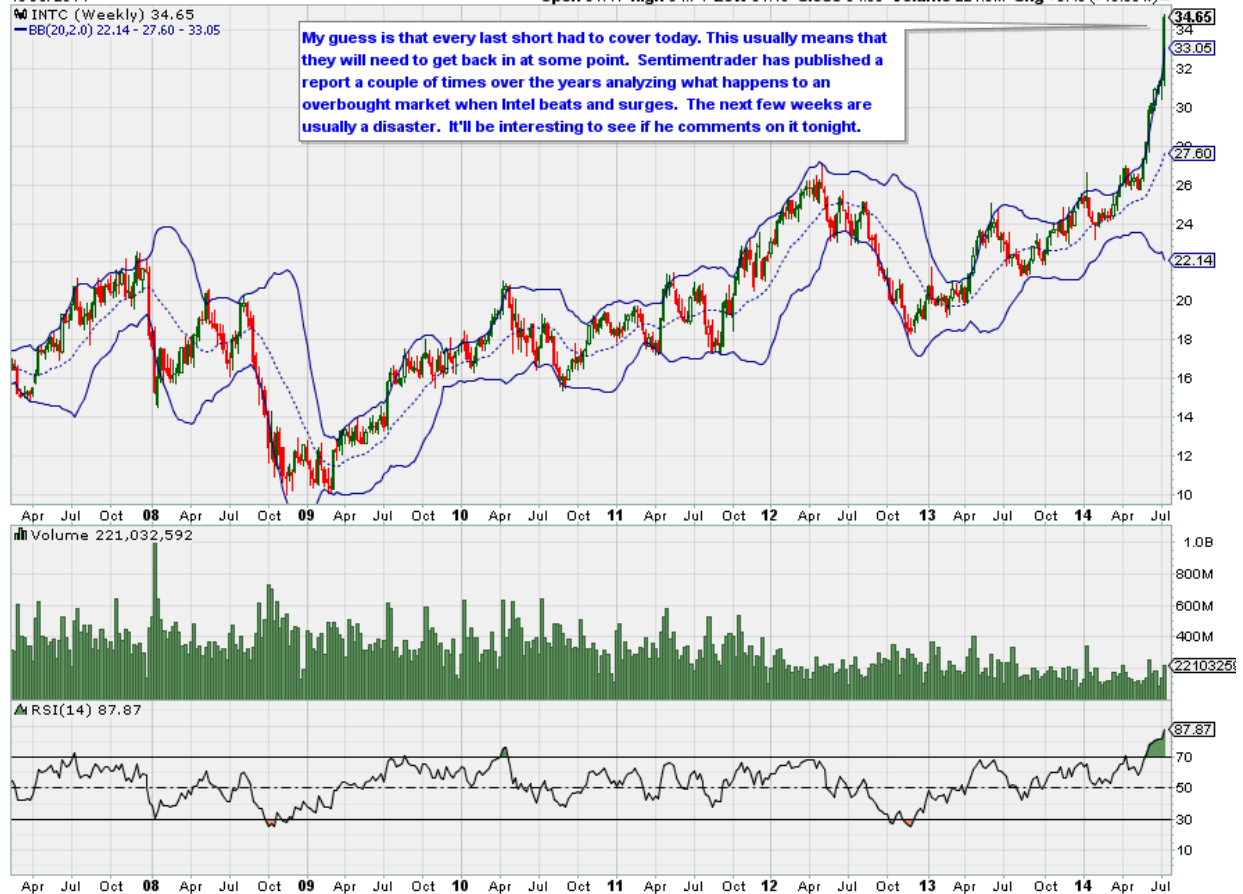


INTC Intel Corp. Nasdaq GS  
16-Jul-2014  
INTC (Weekly) 34.65  
BB(20,2.0) 22.14 - 27.60 - 33.05

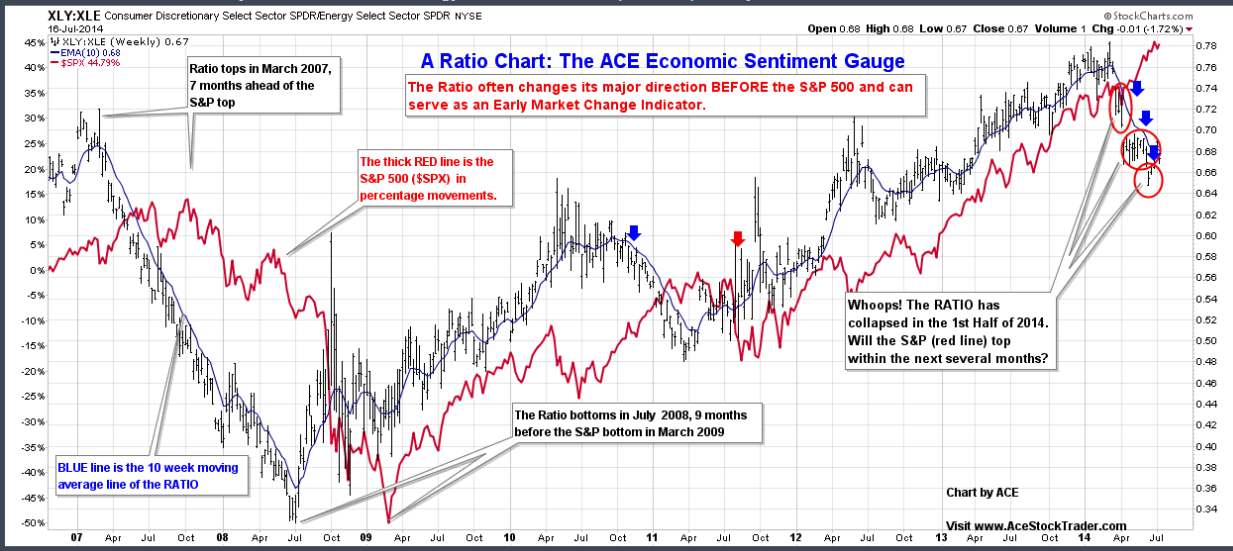
Open 31.41 High 34.74 Low 31.16 Close 34.65 Volume 221.0M Chg +3.40 (+10.88%)

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My guess is that every last short had to cover today. This usually means that they will need to get back in at some point. Sentimentrader has published a report a couple of times over the years analyzing what happens to an overbought market when Intel beats and surges. The next few weeks are usually a disaster. It'll be interesting to see if he comments on it tonight.



#### -0.1ab- Consumer Discretionary Select Sector SPDR/Energy Select Sector SPDR (XLY:XLE)-Weekly Ratio



This is an old chart updated with today's data. The Put/Call ratio has put in its low.



\$HUI Gold Bugs Index - NYSE Arca IND $\times$   
16-Jul-2014

© StockCharts.com



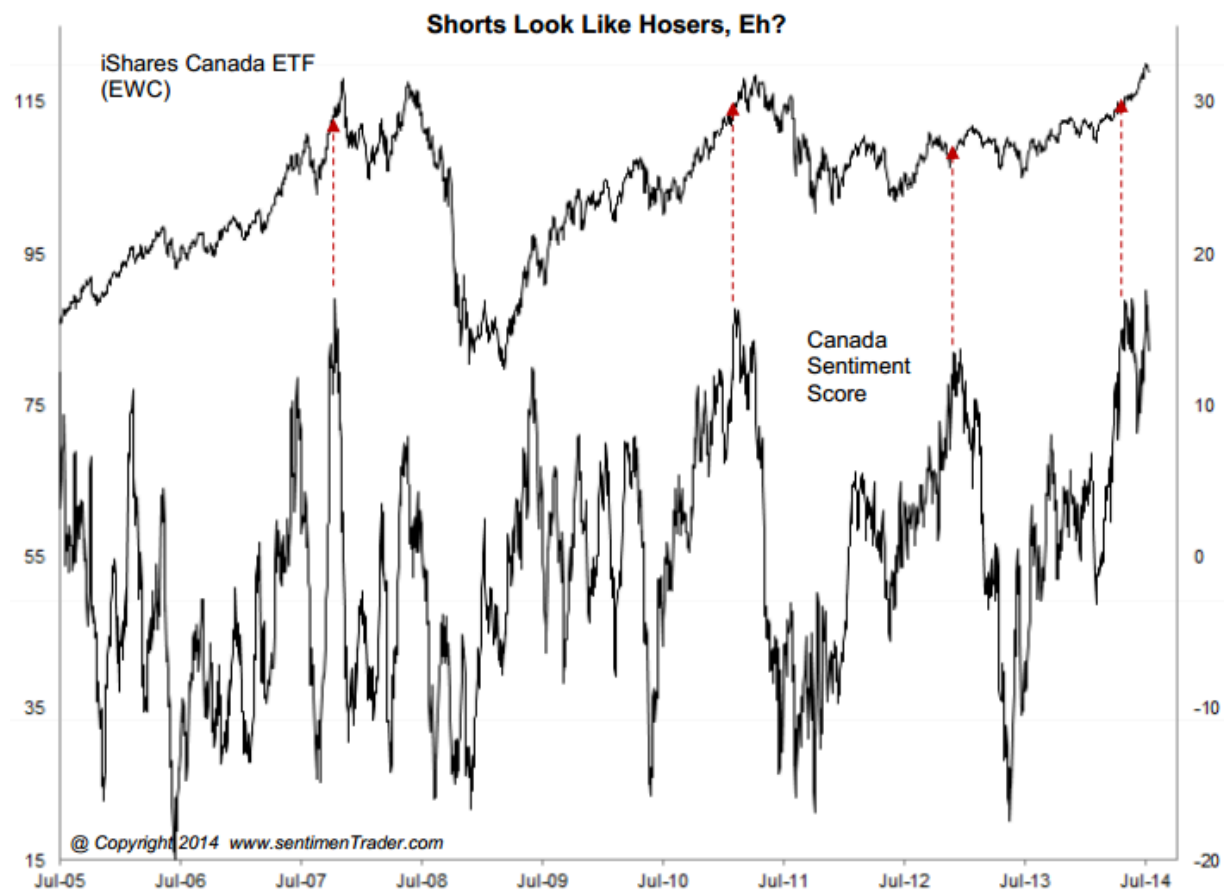


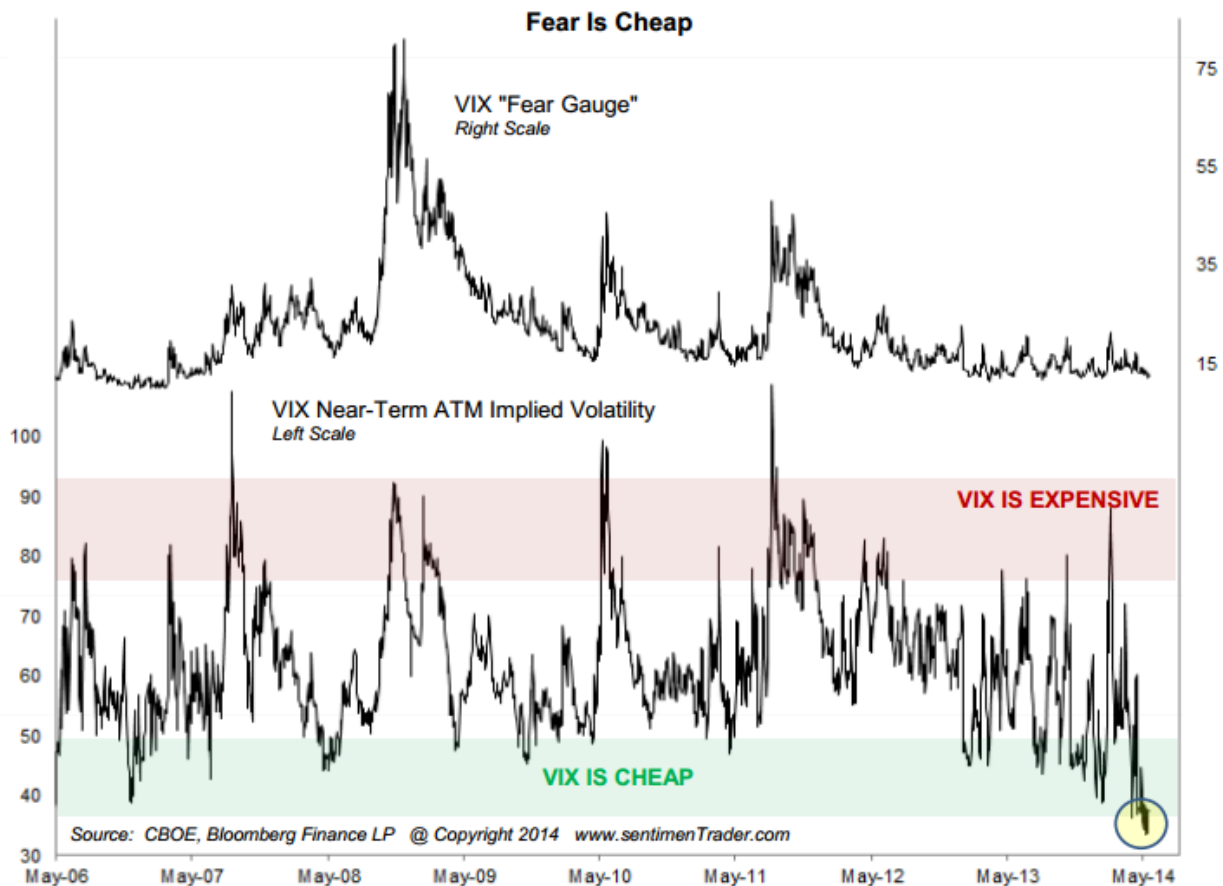
**\$CAC French CAC 40 Index (EOD) ENXT**  
16-Jul-2014  
\$CAC (Weekly) 4369.06

© StockCharts.com  
**Open** 4327.66 **High** 4374.22 **Low** 4303.47 **Close** 4369.06 **Chg** +52.56 (+1.22%)



Canadian Sentiment from Sentimentrader.com





An article in respected financial magazine *Barron's* over the weekend generated a few questions because we'd discussed something similar recently.

The article, "How To Play The VIX Now", highlighted the fact that implied volatility on one-month at-the-money options on the VIX was among the lowest in history. That's options market jargon for "cheap".

When such an option has low implied volatility, it means that traders are pricing in a low probability for a big near-term move either way.

Related to the *Barron's* article, consider the chart above. It shows the implied volatility of near-term at-the-money VIX options back as far as we can go, 8 years.

Of the 45 days that the figure had dropped below 45%, three months later the VIX was higher 42 times (93% of the time) with an average change of +21%. The three days that showed a decline in the VIX, in November 2006, soon reversed course and saw a higher VIX.

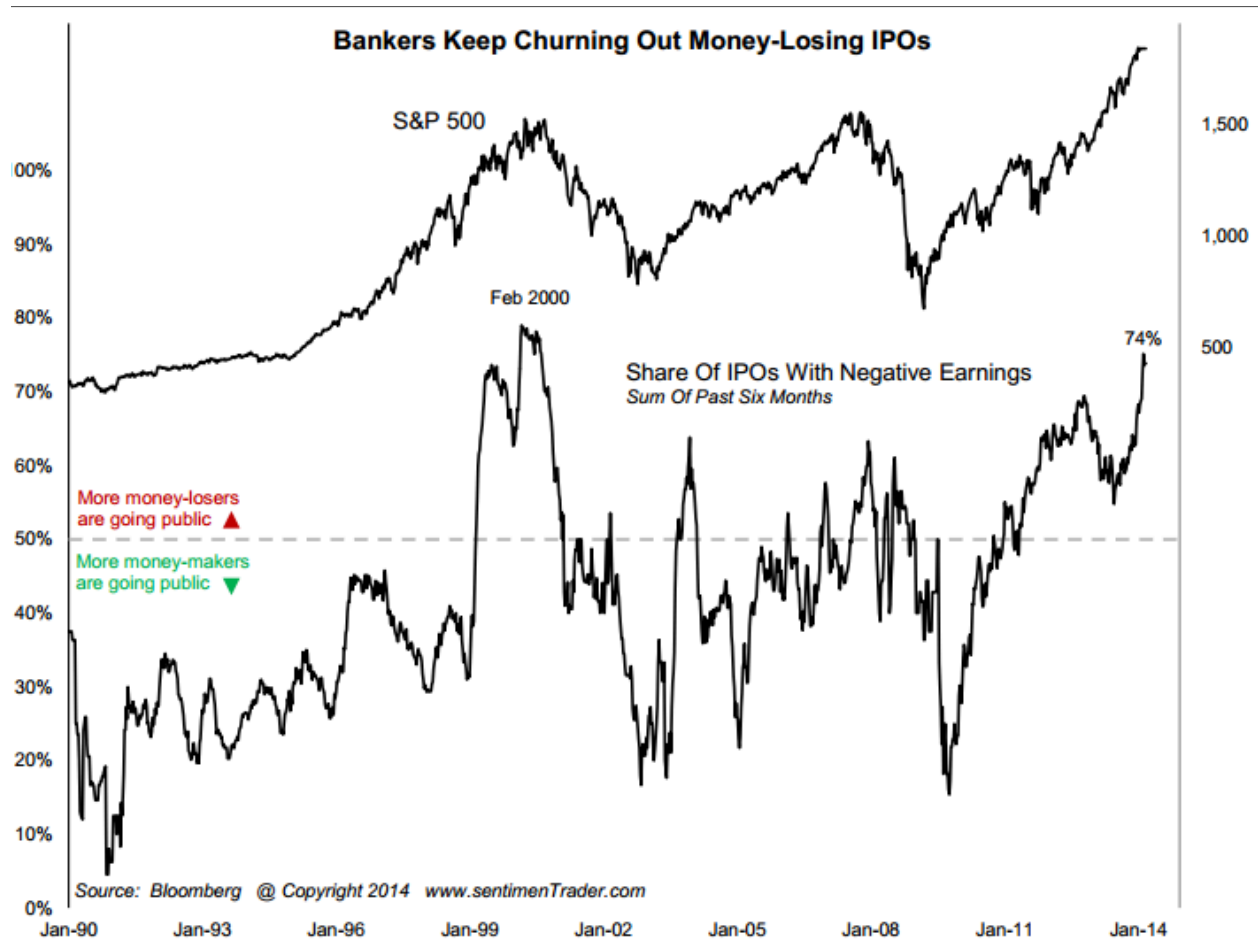
Even if we look at the 228 days when the implied volatility was less than 50%, three months later the VIX was higher

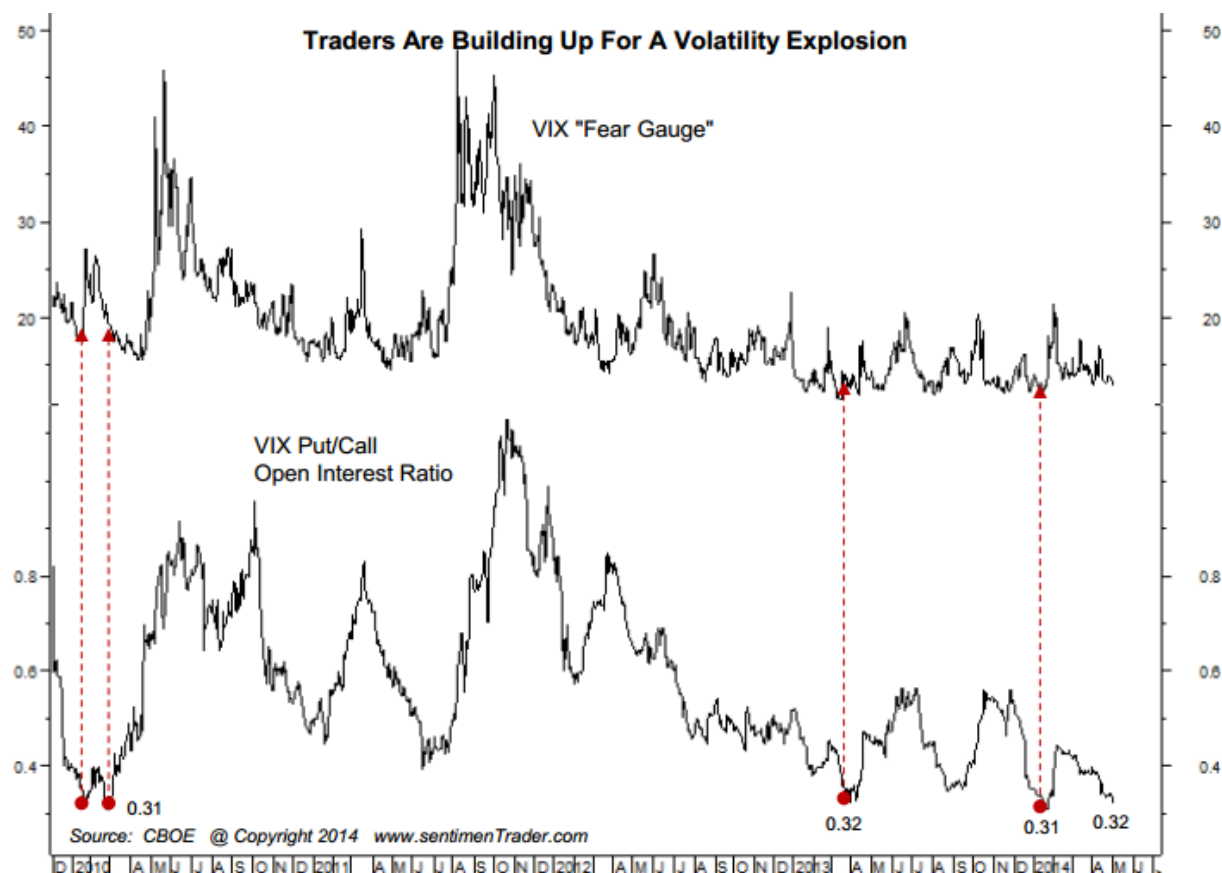
82% of the time by an average of +17%.

If you look to the far right of the chart at our current date, the implied volatility figure is outside the green band, lower than any other time in data's history. In other words, the VIX has never been cheaper.

At the opposite extreme, when fear became expensive, it didn't stay there for long. Of the 259 days that had an implied volatility reading of 75% or higher, three months later the VIX had increased even more only 8% of the time, and its average change was -24%.

Equities have managed to continually hit new highs and have thrown a lot of formerly consistent patterns out the window over the past 18 months, but if we manage to go another few months without seeing a spike in the VIX above 18 or so, it would truly be one of the market's more remarkable achievements to date.





On January 10, we discussed the VIX "fear gauge" and that it has become more difficult using that indicator as a measure of sentiment due to that fact that it can now be traded.

When something can be traded, it can be manipulated, intentionally or not, and becomes less pure as a read on what traders are actually doing with their money.

On the upside, the fact that options and futures and ETFs are now traded on the VIX means that we have more information on how traders are positioning themselves for volatility going forward.

One of those pieces of information is what we focused on in January. It measured the number of put options outstanding on the VIX versus the number of call options. At the time, the ratio was becoming skewed, showing that traders had opened a great many more call options than put options. Historically when they've done that, the VIX has spiked at some point in the months ahead, without losing too much beforehand.

It did so again. From the date of that report through early

February, the VIX jumped more than +76%. Since then, stocks have settled down and so have volatility expectations; the VIX is back down to 13%.

And now the call option traders are back.

Over the past few days, the put/call open interest ratio has slipped under 0.33, meaning that for every 100 put options that traders have opened on the VIX, they have opened more than 300 call options. On the surface, this would suggest that they are expecting an uptick in volatility in the months ahead.

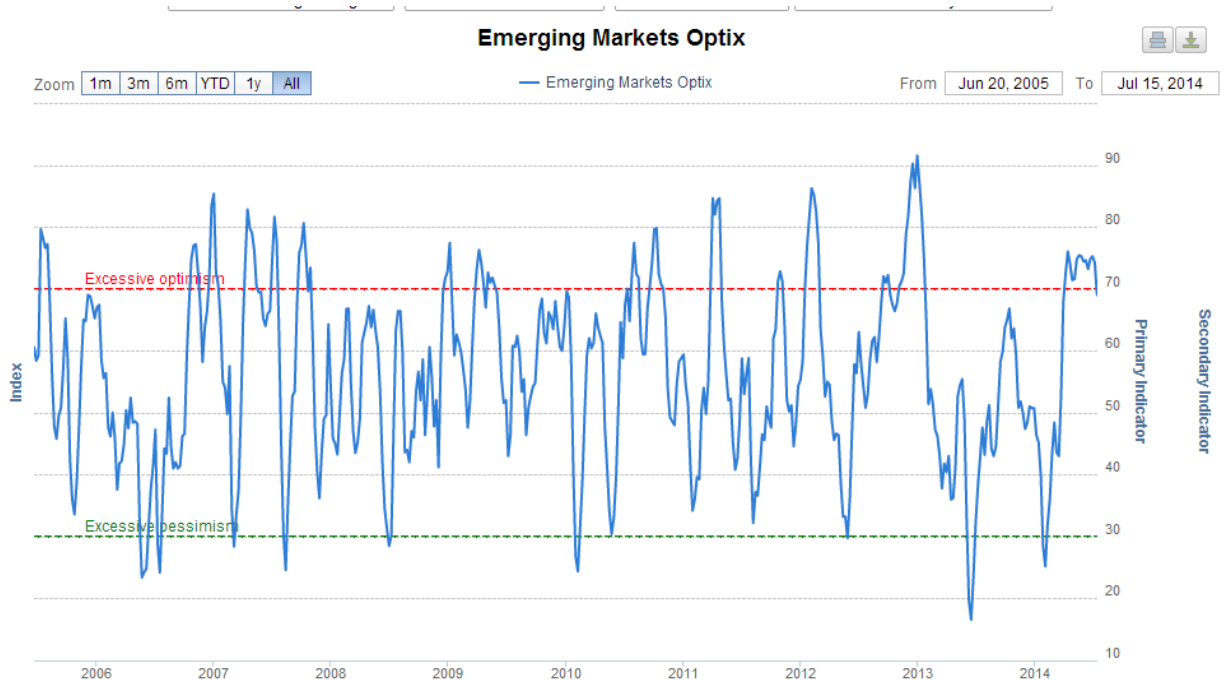
Based on what has happened before, they're likely to get it. When the open interest ratio was below 0.33, then over the next six months the VIX saw a spike of at least 50% after 75% of the days. At the other end of the spectrum, when the open interest ratio was above 0.75, then there was only an 18% chance of seeing the VIX jump by more than 50%.

The summer months tend to be relatively muted as volume ebbs, but the odds of a volatility spike between now and the end of summer have increased markedly.

Given the complacency in the Shanghai index, I would have expected extremely low bullishness from investors. Here is what we're seeing:



Emerging Market Bullishness



Ummm.....lowest fear ever heading into the crash months of August, September, and October?? I be buying fear hand-over-fist and stuffing it under my mattress!



\$CRB Reuters/Jefferies CRB Index (EOD) INDX  
16-Jul-2014

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Open 296.98 High 297.57 Low 294.61 Close 296.79 Chg -0.28 (-0.09%)





**\$CRB Reuters/Jefferies CRB Index (EOD) INDX**

16-Jul-2014

© StockCharts.com

📊 \$CRB (Monthly) 296.79

— BB(20,2.0) 269.92 - 291.90 - 313.88

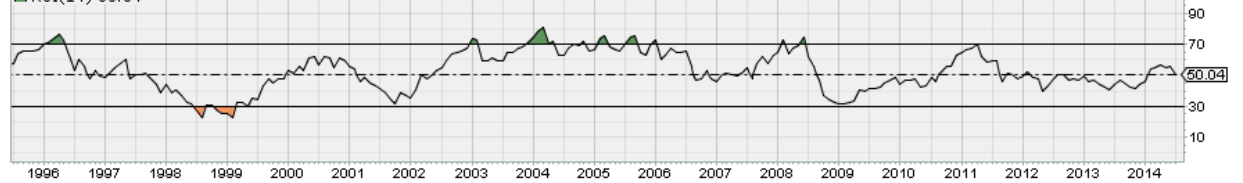
Open 308.04 High 308.06 Low 294.61 Close 296.79 Chg -11.43 (-3.71%)

Very few people watch  
Bollinger Bands but look at  
these monthly candles for  
commodities. Pretty  
amazing stuff.



📊 Volume undef

▲ RSI(14) 50.04





My general market leading indicator SNDK:

**SNDK** SanDisk Corp. Nasdaq Q.S  
16-Jul-2014

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Open 104.87 High 108.77 Low 101.70 Close 107.83 Volume 32.9M Chg +3.40 (+3.26%)

SNDK (Monthly) 107.83  
BB(20,2.0) 31.69 - 67.98 - 104.28

Ridiculous.



**SNDK** SanDisk Corp. Nasdaq Q:Q

16-Jul-2014

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SNDK (Weekly) 107.83

BB(20,2.0) 67.77 - 90.39 - 113.01

Open 105.58 High 108.77 Low 104.52 Close 107.83 Volume 13.2M Chg +2.86 (+2.72%)



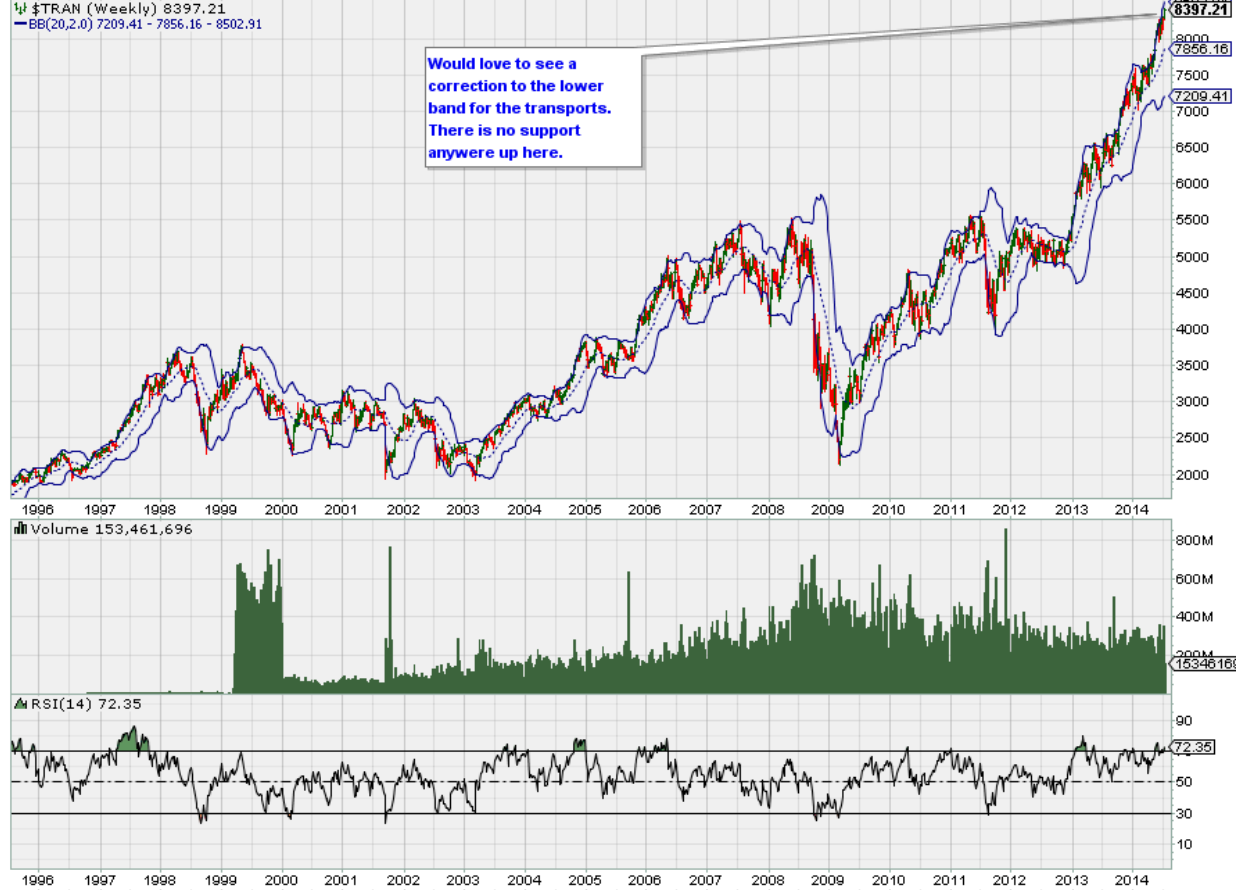
**\$TRAN** Dow Jones Transportation Average INDEX  
16-Jul-2014

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📊 \$TRAN (Weekly) 8397.21  
— BB(20,2.0) 7209.41 - 7856.16 - 8502.91

Open 8260.13 High 8403.57 Low 8260.13 Close 8397.21 Volume 153.5M Chg +142.90 (+1.73%)

Would love to see a  
correction to the lower  
band for the transports.  
There is no support  
anywhere up here.



FDX FedEx Corp. NYSE

16-Jul-2014

FDX (Weekly) 154.38

BB(20,2.0) 126.56 - 140.74 - 154.92

Open 151.65 High 154.50 Low 149.58 Close 154.38 Volume 3.8M Chg +3.74 (+2.48%)

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FDX is pretty darn stretched. This sucker's gonna crash when AMZN starts package delivery via drones lol

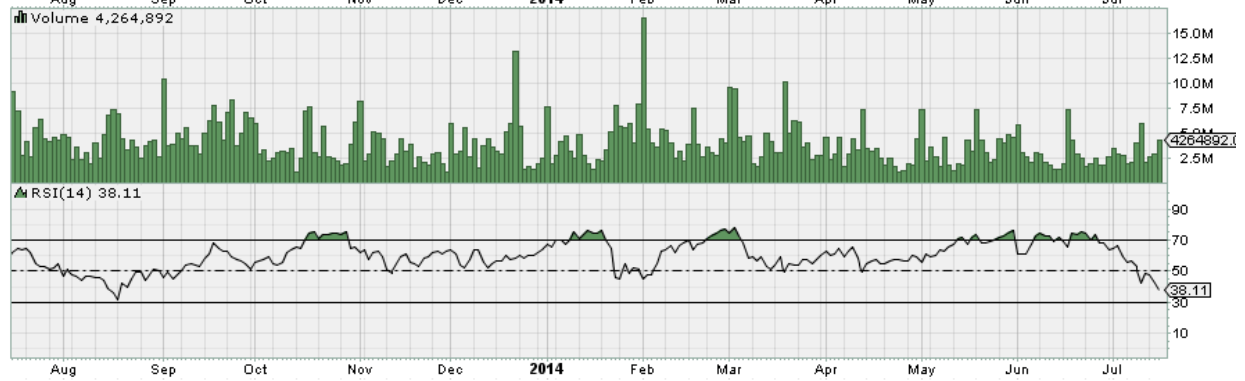


**HYG** iShares iBoxx High Yield Corporate Bond Fund NYSE  
16-Jul-2014

Open 94.41 High 94.41 Low 94.13 Close 94.15 Volume 4.3M Chg -0.15 (-0.16%)

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HYG (Daily) 94.15  
MA(50) 94.25



**\$DJUSCR** Dow Jones US Computer Hardware Index INDX  
 16-Jul-2014

Open 1408.88 High 1456.61 Low 1407.26 Close 1433.92 Volume 23.8B Chg +32.16 (+2.29%)

© StockCharts.com

\$DJUSCR (Monthly) 1433.92  
 BB(20,2.0) 827.39 - 1129.31 - 1431.24

We should see some major selling in the high tech area creating some nice opportunities sometime between now and the Fall.

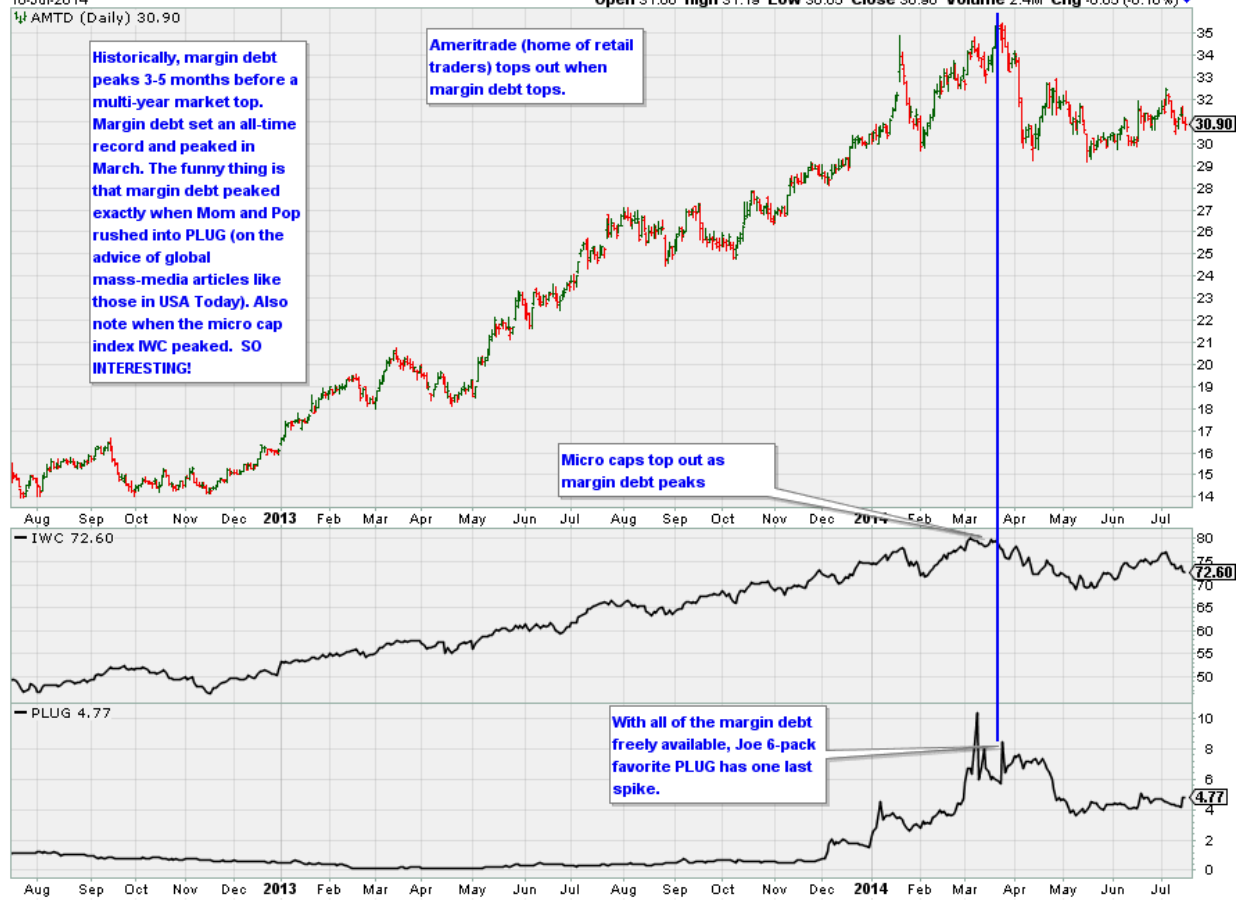




AMTD TD Ameritrade Holding Corp. NYSE  
16-Jul-2014  
AMTD (Daily) 30.90

Open 31.00 High 31.19 Low 30.65 Close 30.90 Volume 2.4M Chg -0.05 (-0.16%)

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Good night and good luck everyone!

Jesse

## THE SUPERSTOCK LETTER

A PUBLICATION OF JESSE STINE

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