

PENNOCK IDEA HUB

eResearch Corporation is pleased to feature an investment article by Edward Pennock, who is a seasoned investment professional. He, together with other experienced investment specialists, has formed a comprehensive investment website known as **Pennock Idea Hub**.

One of the features of the website is **The Morning Call**, a daily article that features an insightful commentary on the market.

Today's article begins on the following page, and is entitled:

And We Thought It Was Simple

You can access the **Pennock Idea Hub** website at the following link:

<http://pennockideahub.com>

eResearch was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, our Subscribers (*subscription is free!!!*) benefit by having written research on a variety of small- and mid-cap, under-covered companies. We also provide unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis. We complement our corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals. We provide our professional investment research and analysis directly to our extensive subscriber network of discerning investors, and electronically through our website: www.eResearch.ca.

Bob Weir, CFA
Director of Research

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Research Reinvented

Thursday, March 23, 2017

The Morning Call

And We Thought It Was Simple

We, and others, have been focussed on the intersection of Fundamental, Technical, and Political influences. The Heisenberg quoted Marko Kolanovic, the smartest guy on Wall Street, by their reckoning. He said, in essence, that what you think you saw, it wasn't.

"Following Friday's option expiry, the gamma imbalance shifted towards puts for the first time in ~5 months, and the market was 'free' to move again. Hence, it should not be a surprise that, today, for the first time in ~5 months, we have a meaningful down move and intraday acceleration. The S&P 500 option gamma imbalance turned ~\$20bn towards puts today, significantly contributing to the selling. In addition, we had a break in short-term momentum (1M momentum) that may cause modest equity selling by CTAs (Trend Following Algos), and an uptick in realized volatility is also starting to cause outflows from volatility-sensitive investors. We maintain that the market is entering a vulnerable phase, where increased volatility can further contribute to equity outflows. While we don't want to minimize the impact of political developments, today's move was primarily technical and should not be fitted into a political narrative (which, in fact, was neutral between developments in France and USA)."

It was a "VAR move". The USD downturn traded as a proxy for the "Reflation Trade". That trade has been losing momentum. For this to be a more significant and persistent move, you have to watch the VIX. It has to go higher and stay higher.

Heisenberg wrote: These "sharp" draw-down events will continue to occur with greater frequency. It is a product of having more AUM than ever in systematic-trend/tactical-allocation/model-driven rebalancers, nearly all with "vol targets" setting their leverage or allocation and, thus, "momentum" inherent at their root.

Oil is stabilizing. Maybe. The Saudis need to protect their preferred supplier status to the USA and Asia. In January, they cut -482K bpd versus last year. Their exports, though, were only down 122K bpd. Small wonder that crude stocks resisted a decline. U.S. crude stocks were down 11mm bbls in January. They have been down for 13 of the last 14 months. Traders had been expecting exports to be way down. The Saudis are facing a test of their will. Stay Tuned.



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The Reflation Trade is now being viewed, by some, as one of a proxy for U.S. growth prospects. It seems to be falling behind the Rest-Of-World. The PMI's in Japan, the U.K., and the Eurozone are accelerating. Those stocks are looking attractive if, for no other reason, that they trade at about a 10% discount to their 2014 highs.

The USD is down for the 7th session. The 10-year Treasurys' yield has dropped below 2.40%. Long the USD and Short the 10-year is not working.

Europe has looked interesting to us. But, the LTRO is set to end next month. Will that set off a "Taper Tantrum"? That would see money flow back to U.S. equities. We are getting up our nerve to "Sell in May". Until we get there though ...

Invest the Money.

In 2010, Obama signed the Affordable Care Act. Today, the vote is to Repeal and Replace.

Regards,

Edward Pennock CFA, Founding Partner

ABOUT PENNOCK IDEA HUB

We are creators of independent equity research. The Pennock Idea Hub team members are veterans of the investment industry. Much of our team has spent their careers at Merrill Lynch, Deutsche Bank, RBC Capital Markets, and Wood Gundy. We have taken every aspect of research back to the studs and returned to first principles. The Pennock Idea Hub marries the interests of the sell- and buy-side.

We offer the best research for institutional investors by: only publishing research from veteran Analysts; eliminating the inherent conflicts of the traditional sell- and buy-side relationship; ensuring team accessibility; and collaborating with clients to nurture our collective success.

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