

**Is 4,000 More than Just a Round Number?**

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The week is starting off with a “bang.”

Rather than a typical T-Report this weekend, we published [World War v3.1](#). If you get some time when markets aren’t whipsawing back and forth, I think that it is well worth the read. It lays the foundation for how Academy’s GIG is viewing semiconductors from a geopolitical standpoint (with potentially large market and economic ramifications).

But back to the “fun” topic of trading this market.

**Round numbers (like 4,000) are rarely that interesting from a technical standpoint.** Amateurs (like me) who only play technicians on TV often refer to round numbers because they are “easy.” Regarding the S&P, for example, we should probably be more fixated on the 50 DMA at 3,979. The Nasdaq 100 is approaching its 200 DMA at 11,912, which is likely important as well. **Having said that, I’m hearing from multiple sources that 4,000 is a big number for S&P option strikes.** That ties in with 400 on SPY (which I suspect is NOT coincidental) and has caused the SPY Feb 21 400 Put to be by far the most actively traded option.

Yes, I’m back to eyeing ODTE options. I first really harped on them a couple of weeks ago in [Zero Dark Thirty](#). We learned a lot since then as they continue to dominate our conversations on a daily basis.

[Bloomberg TV](#) did a carve out from our interview last Thursday on ODTE which went “viral” by my TV standards. That led to a written report on [Betting with ODTE](#) that briefly made it to TOP stories on Bloomberg.

As we explore ODTE more, there are some nuances shaping my view:

- They have a tendency (at least in the initial response to news) to drive markets further than they would otherwise.
- They have an easier time triggering “stops” (due to their fantastic leverage) than other strategies which propel markets much further than would be expected.
- They can act like “windshield wipers” scraping back and forth searching for weak hands and stops.
- If they don’t trigger stops, **they tend to pull back to “rational” levels or “pin” to levels** that have a lot of strikes (similar to options expiration), but this occurs every day of the week. This is something I’m trying to better understand.
- **It is not driven by retail traders, this is an institutional tool at this point.**

**We need to keep all of this in mind as the S&P 500 nears 4,000 today (though my guess is that we bounce) and we still have the Fed minutes tomorrow.**

The **minutes** are a policy tool in their own right. They are crafted well after the meeting with the intent of “correcting” mistakes that the markets made in interpreting the last FOMC and “prepping” us for the next one.

While Chair Powell doubled down on his “disinflation” comments post FOMC, this is starting to feel like a report that could try to “Jackson Hole” the market.

When looking at risk assets, the market has been led by **meme stocks, penny stocks, microcaps, nonprofitable companies, and crypto** – not the sort of leadership that the Fed would like to see.

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**I'd argue that the rates move is nearly over, but stocks could see significant downside.**

That is especially true if “convexity” or “gamma” or [insert your favorite option term here] changes at 4,000, which I am told would add to the selling pressure. With the moving averages aligned just below 4,000 (starting with the 50 DMA followed by the important 200 DMA at 3,940), could we see stops hit? Could this be aided and abetted by more and more daily put buying? Remember ODTE can work both ways.

The 200 DMA was a crucial component of accelerating the rally a few weeks ago when it was breached from the other direction.

This is all a little technical. It is also a little strange that I think stocks can do poorly here without rates gapping much higher. 4,000 might just be more than a round number, but it is the world we live in. This is a world where faux liquidity (**algos competing for scraps, but fleeing at the first signs of larger moves**) coupled with daily options can cause a market fixated on central banks to experience some big moves (in either direction).

**We will keep an eye on yields, equities, spreads, and the Fed, but please read World War v3.1 if you get a chance!**

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