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An independent and profitable state of mind.

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SL: The Worst Trade I Ever Made in My Life

Garrett Baldwin
Financial Adventurer

Index Momentum

S&P 500	**RED**
Nasdaq	**RED**
Russell	**RED**

Dear Fellow Expat:

It's the first day of another negative momentum cycle.

So, greetings from Lansdowne Pub.

It's a Boston-themed (BOO!) sports pub with pictures of Red Sox memorabilia on the wall, enough "*handsome*" pictures of Tom Brady to launch 1,000 ships to Tampa, and a large, drunken moose on every menu.

It's the closest restaurant in the Florida Republic - just a quick golf cart trip up the road. There's a fine Greek salad.

Negative momentum periods offer an opportunity to enjoy life a little more. We've largely moved to cash in trading accounts and hedged existing long positions by selling calls.

Safe and sound, we now wait to see just what it is that's caused the markets' current predicament.

Is it a global liquidity event? A problem with global collateral or cross-border capital movement - yuan-dollar woes?

What about rising interest rates? Or some other fun gray or even black swan lurking just beyond the horizon?

We'll find out… but hopefully, while out kayaking or walking the dogs. To be frank, I really don't care right now. It's 80 degrees and sunny.

Negative cycles also offer a time for reflection, market study, reading, and more editorial. I can focus on writing the Florida Republic's launch book and spend more time tapping into academic and professional networks to identify great investment ideas.

When we have cash, we can plan.

But there's more than just looking forward. We must look back at where we've been, what we've learned, and what mistakes we might have made along the way.

And today, I want to share with you a very important lesson. Last year, during one of the worst negative momentum cycles of 2023, I made an error that cost me quite a bit of money.

While it all worked out in the end, it was a very tumultuous period.

It didn't just cost me money. It cost me time and opportunity.

I don't want this to happen to you, so I'll show you an easy way to track your trades.

June 2022: Negative Momentum Hammered Energy

Think back to the first half of 2022. It was a rally for the ages in the materials and energy sectors. The war in Ukraine unleashed an epic buying bender for all things oil, natural gas, potash (fertilizer), platinum, wheat - any commodity that wasn't nailed down.

Because the paper markets (forwards and futures) are much larger than the physical spot markets, speculation went *wild*.

The **Energy Select Sector SPDR Fund** (XLE) rallied from $55 at the start of 2022 to nearly $92.00 by early June. This included BIG moves on some of the top American oil producers.

At the end of May, I was confident in the oil markets. But I didn't want to speculate entirely on the upside. As I've noted, the probability of success in buying call options just one tick above the current strike price is less than 40% at best.

As I've explained, selling put spreads is a smart strategy on stocks that you want to buy. It offers a higher probability of profit and we typically see great potential on names with strong fundamentals, insider buying, and a history of bouncing back from any selloffs.

But here's the problem. Here's where I learned a damned important lesson in a world dominated by liquidity and momentum

What happens if the entire energy market sells off in an epic decline that comes largely out of nowhere?

What happens if we sell put spreads on a stock that we want to own… but the entire industry takes a nosedive, and those desirable stocks crater alongside the market?

That's what happened last year on June 8, 2022.

Last year, XLE collapsed in an epic oil-and-gas selloff. Stocks like **Exxon Mobil** (XOM)and **Chevron** (CVX) tanked in nine days.

The price of **Exxon** went from $105 to $85 per share in less than 10 days. **Chevron** went from $180 to $140 in the same period.

That's just insane.

Now, if I was selling a put spread on Exxon at the $90-$95 strikes, and I put up $400 to make $100, the most I could lose was that $400, right?

But most people don't just sell one contract. And I didn't either. I had a few of them.

While the stock traded at $105, I entered a trade with an 80% probability of success, returning a maximum $100 per contract (or 25%), and the option expiration was only 45 days away.

So, what went wrong in this situation?

First, we had the massive energy selloff. Momentum went negative on June 8, 2022.

The markets collapsed through June 17 of that year. We didn't know it at the time, but this was the largest hedge fund selloff in 15 years. Fund managers rushed to take all possible gains ahead of the end of the first half of the year.

But there was another error that I made in my trading.

My energy sector reading (which I'd just developed) *also* went negative. And what did I do? I ignored it.

Why? Because I didn't want to take a small loss and, I kept telling myself that I wanted to buy this stock at $95.

By the time the options expired, XOM was at $89.50.

Since I sold the $95 put and owned the $90 put, I had the right to buy the stock at the higher level and sell at the lower one on or before that date. But I lost the full position.

So, What’s the Lesson?

There are plenty of things I could tell myself to feel better.

First, instead of buying 100 shares (for each one contract) at $105 and watching shares drop to $85 (representing a $2,000 loss on paper), I technically only lost $400 per contract.

Yeah, that’s a nice thing to consider.

I can also take some solace in the fact that I did buy back into the stock at $89.50 when Equity Momentum readings turned positive on July 19, and the energy sector reading turned positive on July 23.

Yes, I’ve been able to make some money back here.

But that’s not going to make a person like me feel too much comfort.

It shouldn’t have happened in the first place.

I should have sold my position immediately, even at a loss, when momentum went negative on energy, and not consumed myself with that selloff that took place over the next nine days.

I should have bought the contracts back at a small loss – maybe a stop loss of $50 per contract – and waited for energy to turn positive again. Once energy turned positive and the stock was oversold, I could make the exact same put spread trade with Exxon – but this time – maybe all the way down at the $80 level.

I hate to lose. And I’ll never put myself in a position again where we have a negative momentum event carry an energy trade like this much lower.

The smartest way to trade this is to open the trade – and then set a tight stop just in case a surprise occurs.

Our job as investors and traders is to stay solvent, boost our income, and take what the market is giving us.

We don't want to turn a bad situation into a nightmare.

This won't happen again. It's important to learn lessons and fine-tune strategies. Over the last few months, I've used market downturns as **a chance to get out of the way**, focus on the **easier money in the market**, and **stop worrying** about what any- and everyone else is saying.

We've improved our knowledge of the role of global liquidity on momentum readings, expanded our network for clues into the state of energy markets, and taken advantage of incredible trends like M&A in the Permian Basin and the ongoing surge of natural gas demand from Europe.

You can't win every trade. But you must learn how to protect yourself from any surprises. Maybe it's using trailing stops… maybe its rolling over trades to increase the probability of breaking even… or perhaps it's doing what I do – moving to cash the second our EQM readings turn red – and drilling down on individual sectors.

Here at the Florida Republic, we'll be launching a simple morning letter that features all the key indicators that I follow each day. These include a deeper dive into the EQM reading – but for each sector – and an update on insider activity that gives us explicit price levels to trade around depending on the state of individual sectors.

It will all be in one place and easily accessible.

I look forward to showcasing it soon.

And Finally

Am I still bullish on oil?

You bet I am. Yes, there may be a few selloffs in the coming months, but I'm enthralled by the way that our U.S. energy-producing companies continue to exert shareholder discipline in the face of the most anti-cheap energy administration in memory.

This morning, the Biden Administration cancelled all oil leases in Alaska that had been approved by Congress in 2017. The U.S. Department of the Interior took the authority by claiming that the process to grant those leases was "environmentally flawed."

In fact, U.S. Interior Secretary Deb Haaland made the declaration this morning in the announcement to cancel the energy rich deals.

And if there's one thing, we know… it's that Haaland is an energy expert… right?

Check it out: Haaland is an English major with a law degree.

She's a career politician… and she had a very successful background as the operator of a salsa company.

So… if there's one thing that a salsa expert knows about… it's the environment and U.S. oil production.

And if anyone knows that an ANWR environment study is "seriously flawed…" it's clearly a salsa expert and lawyer.

Stay positive,

Garrett Baldwin
Secretary of Finance
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