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InvestorsObserver Workshop

InvestorsObserver Workshop

- What's going on at *InvestorsObserver*:
- What the Fed Said
- Charts
- Member-driven content: Questions, site demonstrations, etc.
 - Can prepare slides for questions submitted ahead of time: Mention “workshop”

What's going on at IO?

- We're building an app!
 - iPhone first
 - Android to come later
- Be on the first wave to get the app AND
- Get a chance to win \$500!
 - Two grand prizes
 - 25 IO T-Shirts
- Extra chances for sharing on social media
- Go to: www.investorsobserver.com/app-coming-soon

What the Fed Said

	2016	2017	2018	2019	2020	2021	2022	2023	Longer run
Actual	2.1	2.7	2.5	2.3	-2.4	-	-	-	-
Upper End of Range	-	-	-	-	-	7.8	4.2	2.7	2.2
Upper End of Central Tendency	-	-	-	-	-	7.3	3.8	2.5	2.0
Median	-	-	-	-	-	7.0	3.3	2.4	1.8
Lower End of Central Tendency	-	-	-	-	-	6.8	2.8	2.0	1.8
Lower End of Range	-	-	-	-	-	6.3	2.6	1.7	1.6

June GDP expectations

- Better this year
- Higher upper-end next year
- Higher in 2023

March GDP expectations

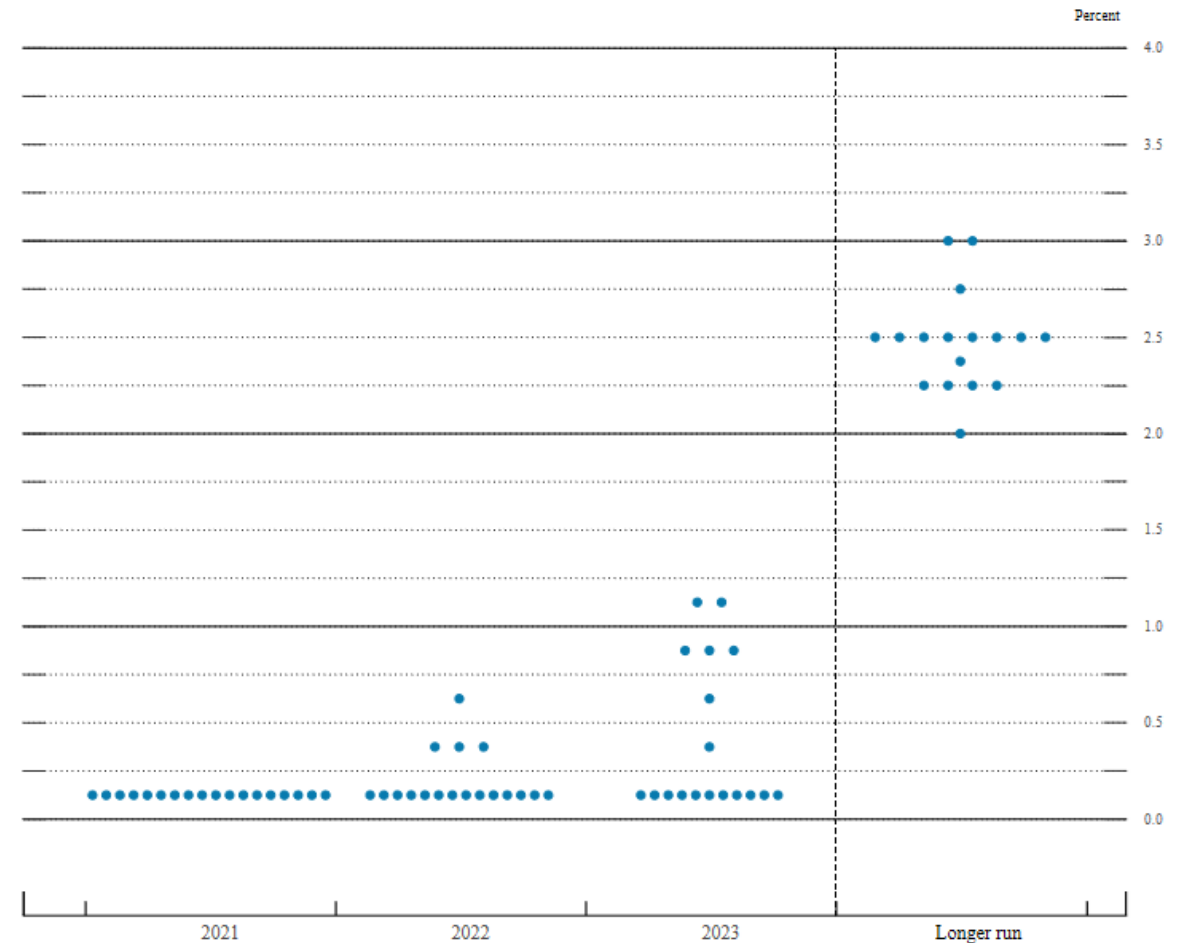
	2016	2017	2018	2019	2020	2021	2022	2023	Longer run
Actual	2.1	2.7	2.5	2.3	-2.4	-	-	-	-
Upper End of Range	-	-	-	-	-	7.3	4.4	2.6	2.2
Upper End of Central Tendency	-	-	-	-	-	6.6	3.8	2.5	2.0
Median	-	-	-	-	-	6.5	3.3	2.2	1.8
Lower End of Central Tendency	-	-	-	-	-	5.8	3.0	2.0	1.8
Lower End of Range	-	-	-	-	-	5.0	2.5	1.7	1.6

What the Fed Said

March Dots

- Maybe a hike in 2023
- One important thing about dots. There are 18 dots and 12 votes.
- In each year, six dots don't matter, you just don't know which six.
- Look at the "longer run" that's what the Fed assumes is the normal rate, or maybe the non-emergency rate.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

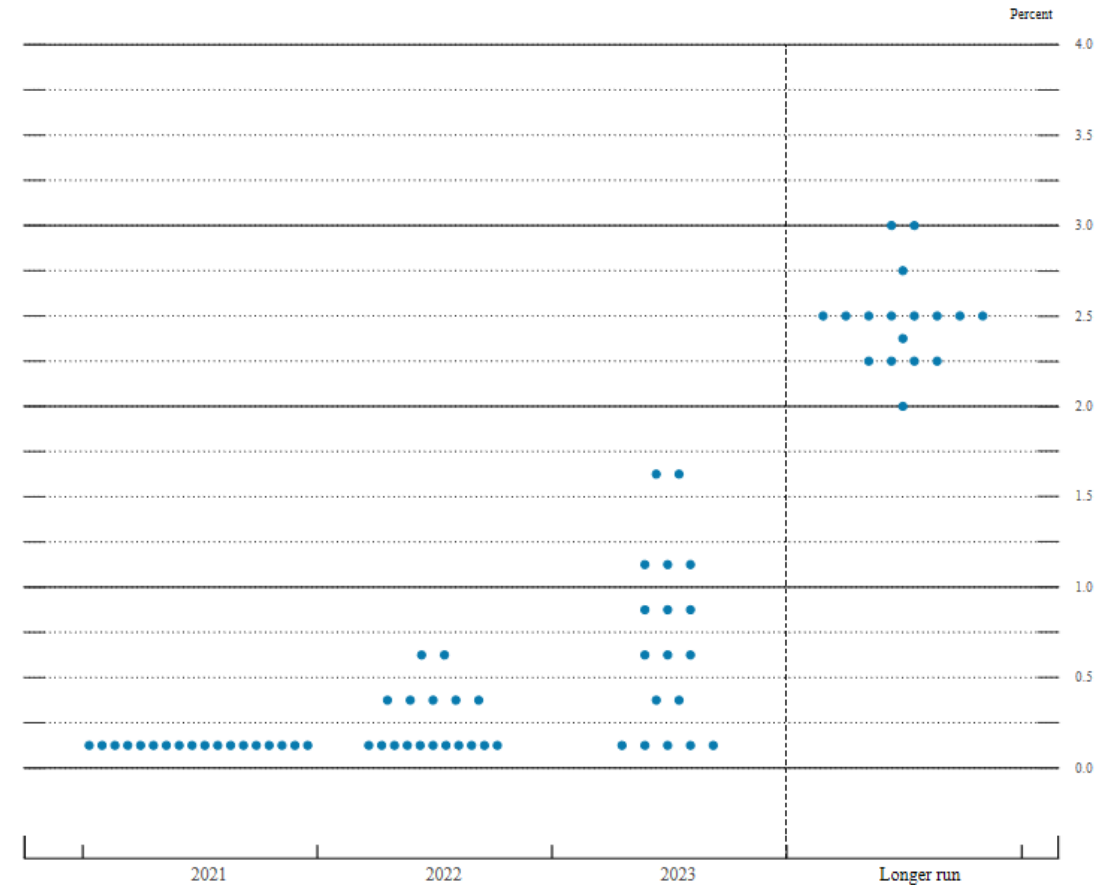


What the Fed Said

June Dots

- A few more dots for a hike next year, but not a majority.
- Average 2023 dot suggests two hikes by the end of the year, but some of those higher dots may not vote in 2023.
- The reason the Fed raises rates is to cool inflation, but there's also some aspect of policy normalization... Once we're back to "normal" emergency measures aren't needed.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



What the Fed Said

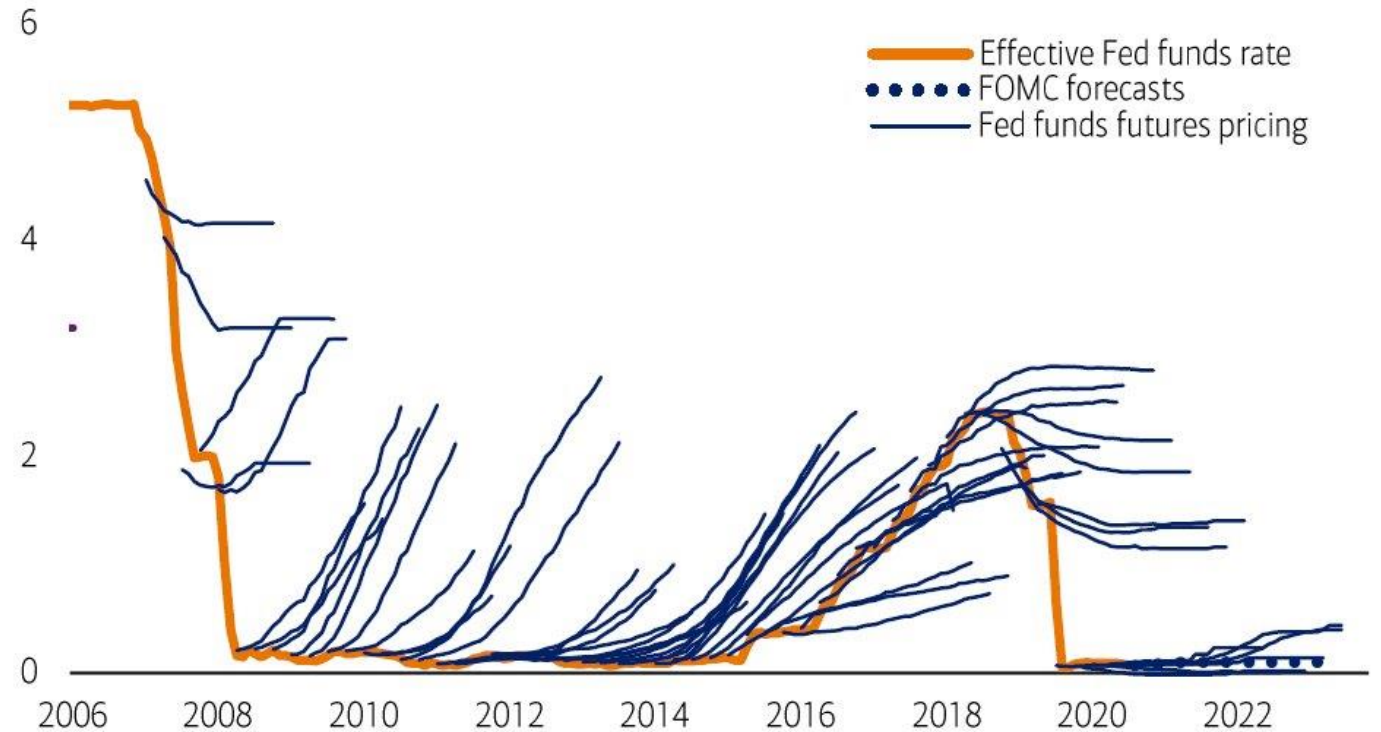
- Green line is actual Fed Rate
- Blue line is pricing of futures, which are usually based on the dots.
- Dotted line is pre-meeting dots.

TAKEAWAYS:

1. A forecast is not set in stone.
2. Forecasts have been consistently high.

Exhibit 3: A long, sordid history of overestimating inflation

Fed funds rate and futures market implied rates



Source: BofA Research Investment Committee, Bloomberg

BofA GLOBAL RESEARCH

More Fed Thoughts

- Forward guidance IS a policy tool.
 - The idea is that the Fed can say “We got this” without actually changing the current policy rates.
 - Remember “Not thinking about talking about”? The point was to signal that under those conditions, there was no reason to start planning for normalization.
 - So now, economy is recovering, faster than expected, and so normalization is on the table.
- Fed controls very short-term rates. Anyone lending for the longer term needs to anticipate rate changes, so by signaling they think things are looking better, lenders *should* adjust.
- What the Fed is trying to do is tamp down inflation concerns. Since inflation expectations can be a driver of inflation, if they signal they’re ready to act to stop it, it increases the chance they won’t have to.
- This does shift the risk from overheating to Fed acts too early, which is why the yield curve flattened on the news. Longer-term growth expectations are now lower, because the Fed has signalled a readiness to cool things off.

What this Means For Investors

1. Expect more volatility around Fed events.
 - a. Meetings and minutes (Taper talk is going to happen eventually)
 - b. Also potentially speeches by various Fed officials.
2. Also likely to see more volatility around economic data releases
 - a. A return of the Bad News is Good News trade.
 - b. Worse-than-expected data means the Fed won't hike as soon
3. "Goldilocks" data
 - a. Not too hot: Don't want the Fed to raise
 - b. Not too cold: Also want the economy to continue to recover
4. Broad-based recovery still works
 - a. Recovery still happening, so reopening trade still works
 - b. Money is still relatively cheap, so there's room for tech and other growth sectors to rise as well

S&P 500



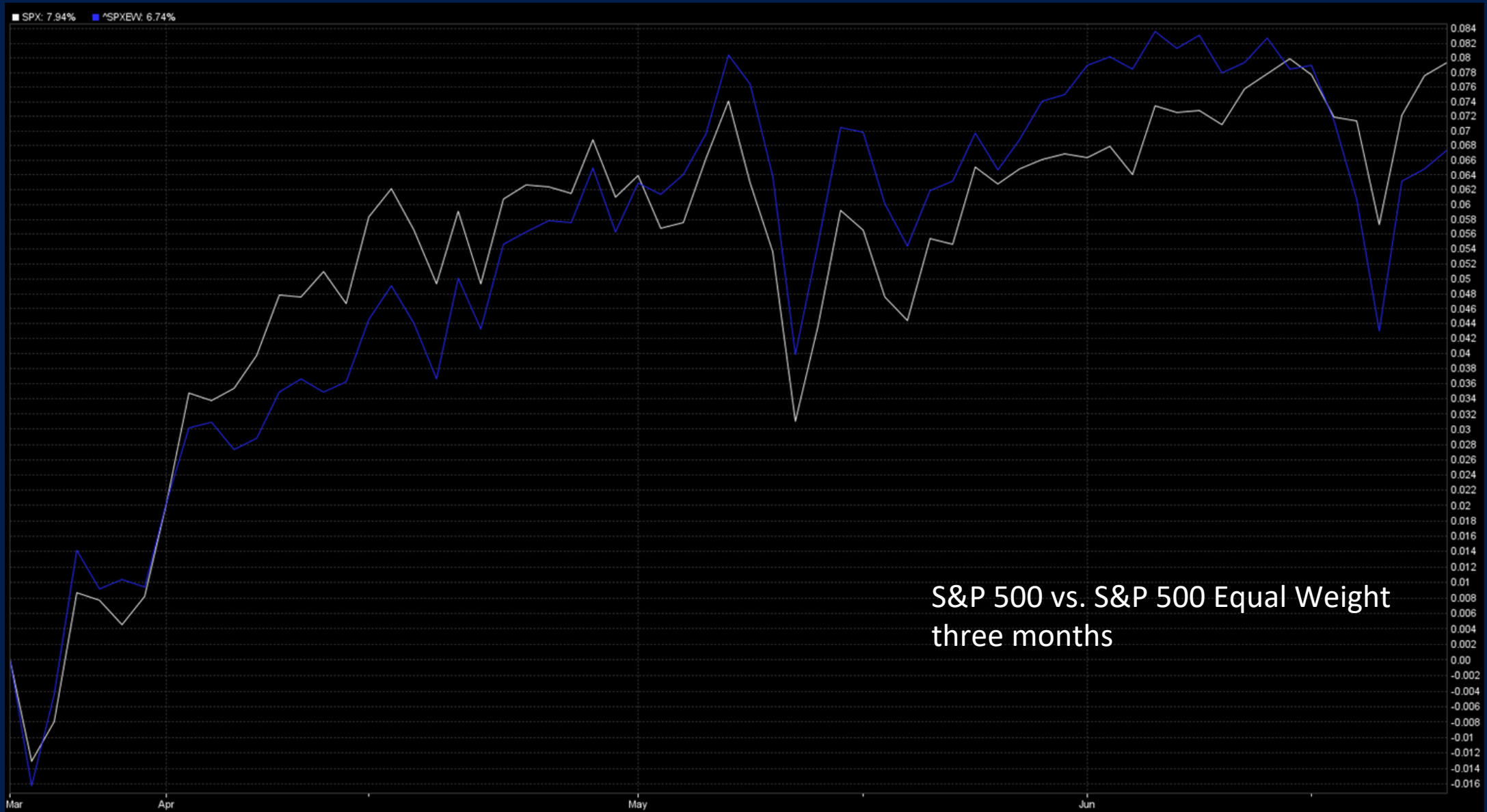
S&P 500
One year

Nasdaq

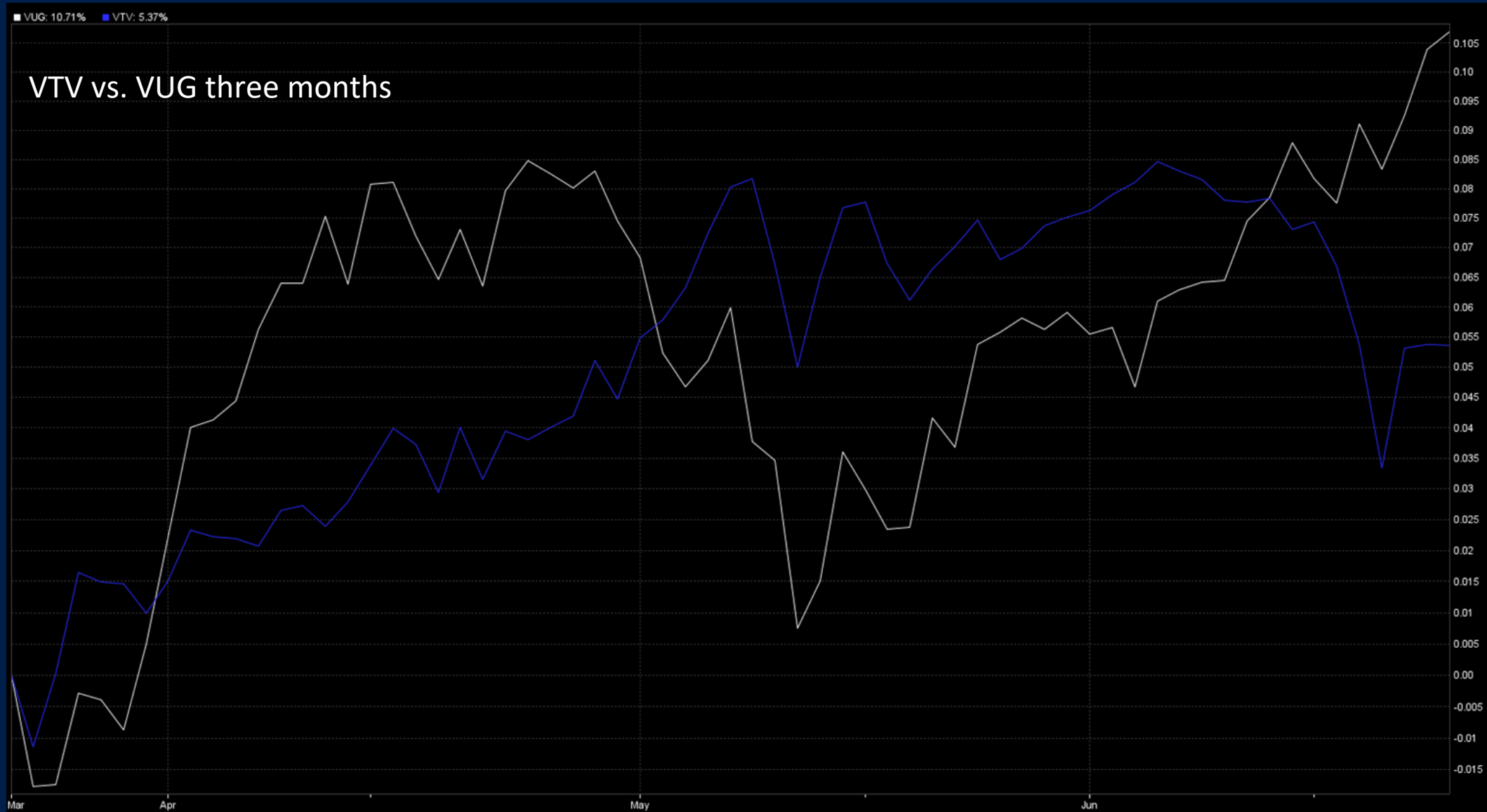


Nasdaq
One year

S&P 500 vs. S&P 500 EW



Growth vs. Value



Earnings Preparation

- Look for downward revisions from analysts
- Consider trimming positions that have become overweight
- Beware of “hot stocks”
 - Big hype in certain parts of the market
 - Earnings is where the rubber can meet the road
- Consider international exposure
 - U.S. recovery is looking pretty good. Other parts of the world are less vaccinated and things are moving slower
- Consider supply chains
 - Does your stock need a lot of specific commodities or chips?
 - Supply constraints may make those hard to do.

Questions?

What is the difference between the personalized vertical spread trades. The conservative, balanced and aggressive vertical spread trades are always quite close to the current price. How can I best take advantage of the trades. -- Samuel

- The difference is in the stock selection
- Aggressive trades tend to be on more volatile stocks, may have earnings soon, etc.
- Conservative trades will be less volatile, avoid earnings

Questions?

I trade primarily shorter term credit spreads (typically 30-90 days). I am looking to diversify my credit spread portfolio by industries. Was wondering if you might have time to discuss how to use the search tools on your site to:

1) Identify upward and downward trending industries in the markets

2) identify credit spread opportunities within those industries and top ranked companies. -- Kevin

Questions?

Any information on the merger between CCHWF & SHWZ ? Thank you -- James

This deal appears to have been canceled and both companies seem to agreed to different, separate mergers with private companies since then.

Questions?

Please address these stocks; CRUS/NVAX/CLF. -- Carlos