

An Options Trading Pick on the QQQQ

The following options trading pick is a special feature...

The Quads are challenging recently formed support at 47.25. A break of that level would leave a potential inverted Cup with Handle on the chart. There are other technical factors that point to an imminent breakdown; we'll get to them and to thorough trade details in a second. Let's first take a look at the chart.



The chart clearly shows that an important support level at 47.00/47.25 is being challenged. Other signs of technical deterioration include apparent negative centerline crossovers on RSI and MACD. Additionally, the fact that volumes have been rising as prices have started to roll over, does not augur well for the bulls.

Looking at the action over the past 2 months, one sees that the support level at 47.00/47.25 doubles as the “rim line” of an inverted Cup with Handle pattern. If true, the pattern calls for a move to 44.00. A move to that level would probably take 2-3 weeks; if one were to play such a move, the July options (exp. Jul 18) would be appropriate.

However, we’re looking at getting the maximum bang-for-the-buck; having a low initial capital outlay and maximizing leverage. Accordingly, we’re featuring options of the **Jun Quarterly** series. They expire on Jun 30 and, as of today, have 7 days to expiration.

That would give us enough time to attain **targets of 46** and, quite possibly, **45**, which are a third and two-thirds of the way to the target derived from the highlighted pattern.

We’d look to **book profits on half the position at each** of these levels.

As far as the particular strike that will be chosen, the at-the-money **47.00 Puts**, would be the perfect choice.

When to enter: Given the technical importance of the support levels mentioned earlier, we’d look to enter the Puts on Monday/Tuesday, as long as the QQQQ is trading in the area between 46.90 and 47.50. Waiting for a move below the lower end might prove to be a late entry and make the trade a difficult one. On the other hand, if prices get above 47.50, there will need to be a consideration of the fact that support may have been found.

Limit Price: The absolute limit price we’d be willing to pay on the options would be 0.80.

Stop Loss: The position should be stopped out, if the ETF (QQQQ) closes above 47.50. A close above that level would put in doubt the immediate likelihood of a move towards the aforementioned targets.

This trading pick will be followed in the Options Picks section of our site, starting Monday, and will be updated on a daily basis until its conclusion.

Important Note: Please note that the opinions stated in the trading opportunity showcased above may or may not represent our views of the general markets.

That’s it for this issue of Purely Technical.

Good luck with your trading!

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