

Five Ways to Trade Tax Reform in 2018

By TradeWins Publishing

When the Dow Jones Industrials exploded to an all-time high of 26,086, it did so just a week after hitting 25,000. That was the fastest 1,000-point rise we've ever seen.

"We're just starting to see Corporate America tell us what a lower corporate tax rate means to the bottom line. We shouldn't dismiss that," noted Art Hogan, chief market strategist at B. Riley FBR, as quoted by CNN Money.

In short, 2018 was picking up where 2017 left off thanks to tax reform backed by global economic growth, stable U.S. unemployment, consumer spending, and earnings.

Even better, Goldman Sachs believes the bull market could run another three years.

In its latest market outlook, Goldman forecast a 15% gain in the S&P 500 over that period with a target of 3,100 by the close of 2020. Earnings growth, they noted will be a dominant driver of those gains. It's also projecting a 14% gain in earnings for 2018 led by strong sales growth, and margin expansion as a result of recent tax reform. Without the tax cut, we may have only see earnings growth of 9%.

Better still, Goldman also just forecast an 8% jump in capex, a 5% rise in dividends and a 3% increase in buybacks. And it believes we could see net inflows of \$400 billion into U.S. stocks with corporate buybacks and ETFs under considerable demand.

In short, even after a 7,000-point move since Trump was elected, the bull market is alive and doing very well. However, with any substantial move in stocks, ETFs and markets, there are rules that all investors should abide by.

Thanks to the excitement generated by Trump, we're all a little richer.

As the economy continues to strengthen under the leadership of Donald Trump, and as tax reform puts more money in the pockets of Americans and corporations, we could see higher highs. Here are five of the top stocks we believe could benefit the most.

Trump Trade No. 1 – Car Max (KMX)

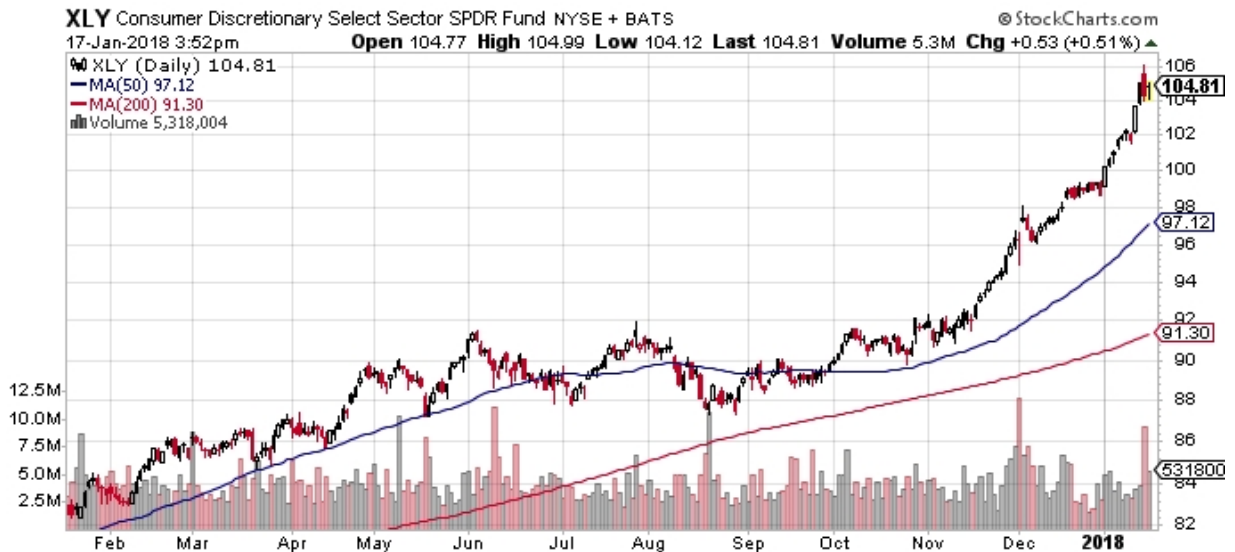
Typically, the company gets punished around tax time, paying a tax rate of 37%. But with the corporate tax rate being slashed to 21%, the company could see millions added to its bottom line. Plus, with personal income taxes being cut, too, more Americans may have a little extra cash lying around to buy one of the company's many cars.



While the stock does appear topy at the moment, we'd like to see a potential push to highs of \$77.50, near-term on tax savings realizations. One-way to trade KMX is by buying to open the KMX April 20, 2018 72.50 calls at market prices.

Trump Trade No. 2 – Consumer Discretionary SPDR (XLY)

"Consumers' expectations remain at historically strong levels, suggesting economic growth will continue well into 2018," said Lynn Franco, director of economic indicators at the Conference Board, as quoted by CNN.



Given record low unemployment, high consumer confidence, disposable income and tax reform, consumers are spending again.

"The economy has been booming," said Mark A. Cohen, director of retail sales at Columbia Business School, as quoted by The Washington Post. *"Unemployment is at the very lowest point in eight years — even though there remain folks who are unemployed who are not being counted, and there are still folks who are underemployed. The fact is there are employment rolls [that] are high, consumer confidence seems to be remarkably*

high, disposable income is therefore robust and consumers seem to be once again loading their credit cards.”

As long as that remains the case, we could see higher highs in ETFs like the XLY, too. There are two ways to trade the XLY. One, we can buy the ETF. And, or two, we can buy to open the XLY June 2018 105 calls at market prices.

Trump Trade No. 3 – Bank of America (BAC)

Bank of America has performed quite well since Trump’s election. That growth has a lot to do with the president’s promises of lower corporate taxes and less financial regulation. Even though revenue has been basically unchanged since 2012, the company is pulling in fatter profit margins by cutting credit losses and non-performing loans. Prior to the tax reform, BAC was paying an effective tax rate of 26.3%. With it now dropping to 21%, it could also see millions added to its bottom line. We can either buy the BAC stock or buy to open the BAC January 18, 2019 32 call options, which won’t expire for some time.

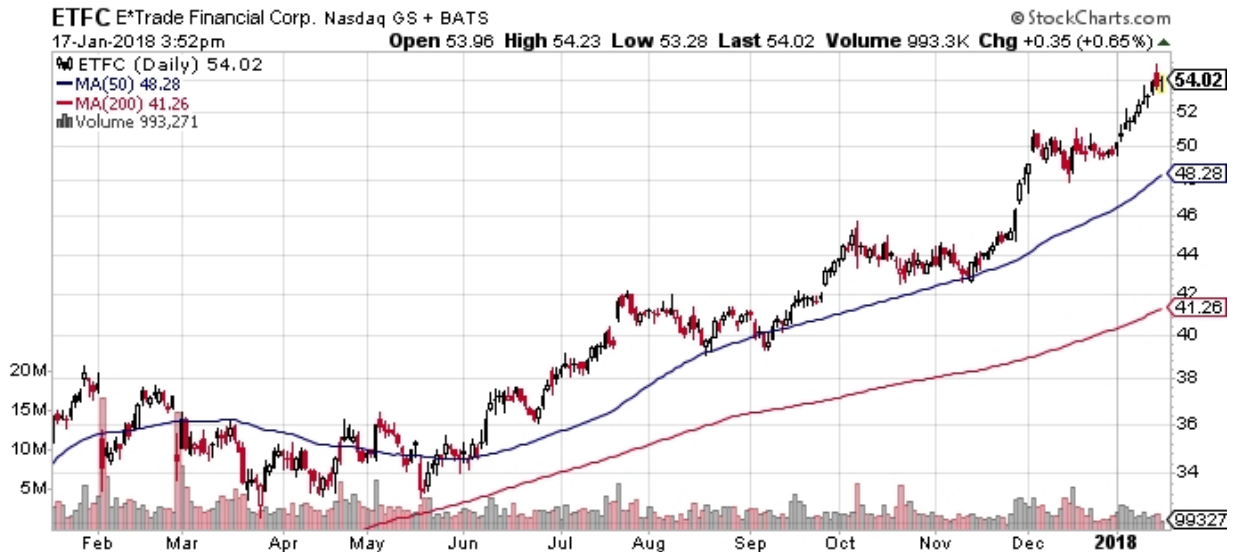
Trump Trade No. 4 – Best Buy (BBY)

“Tax cuts, an improved economy, and an American consumer that is less cautious about spending will make 2018 a sweet year for retailers, economists and analysts at the National Retail Federation trade show,” as noted by NorthJersey.com. Retail sales are on track to match or exceed the healthy 4.2 percent gain they made in 2017, they also noted. Plus, the tax reform legislation is expected to increase disposable income for consumers by an average of 2 percent, the panelists said. An even-bigger boon to retailers will be the reduction in their corporate tax rate with many retailers paying some of the highest corporate tax rates in the United States, in some cases as high as 38 percent.

Of the many retailers, we like Best Buy. We can either buy the stock, or buy to open the BBY March 2018 75 calls at market prices.

Trump Trade No. 5 – E*Trade Financial Corporation (ETFC)

Shares of ETFC may have further upside with more Americans investing in our lengthy bull market with even more disposable income in hand. Better yet, the stock is still trading at a discount to peers, which leads Morgan Stanley to upgrade the stock from equal weight to overweight with a price target of \$63 from \$43.



According to Investopedia:

The discount brokerage stands to benefit from the lowering of the corporate tax rate. The Wall Street analyst said that E*TRADE's tax rate is 38% to 39%, which is one of the highest in its industry. On a conservative basis, Morgan Stanley believes that the corporate tax rate can decline to 27%. E*TRADE should also benefit in a rising interest rate environment, with high expectations that the Federal Reserve will make at least two rate increases this year. Every 25-basis-point increase in interest rates means \$60 million in net interest income for E*TRADE. The analyst noted that the company is also seeing an increase in retail trading activity, and those management efforts to improve the business making the firm an attractive target for would-be suitors.

To trade ETFC, we can buy the stock, or buy to open the ETFC July 20, 2018 55 calls.