The Amazon Fear Factor: Three Ways to Profit

One of the scariest things on the Street is not the fear of war, concerns over stretched valuations, or even poor economic numbers.

It’s Amazon.com.

The very idea that it could encroach entire industries has already led to panic-induced sell-offs. For example, when Amazon announced it would buy Whole Foods, grocery stocks – like Costco (COST), Supervalu (SVU) and Kroger (KR) took a hit on fears the behemoth online retailer could dominate the space.

COST plummeted from $180 to $150 alone. It’s just now recovering. KR fell from $30 to less than $21. SVU fell from $4.10 to $2.90. However, fear would lead to opportunity. Most of the grocery stocks are now rebounding well off lows.

SVU for example is now up to $3.70 weeks after pricing in the fear.

Just last week, stocks like Home Depot (HD), Whirlpool (WHR), and Lowe’s (LOW) began to fall apart on news that Amazon would begin to sell Sears’ Kenmore-brand appliances. As a result,
nearly $13 billion was wiped off of Lowe’s Best Buy, Whirlpool and Home Depot’s stocks. All because traders believed Amazon was about to invade and take over the appliance market. However, all it really did though was create opportunity to buy the mentioned stocks on the cheap.

LOW is already beginning to recover.

Then it happened again. Rumors surfaced that Amazon.com would enter the realtor space, and potentially knock Zillow Group (ZG) off its ledge. In fact, on that rumor alone the stock fell from $47 to $44. It’s now recovering.
Funny thing is, according to the Seattle Times, the rumor isn’t true.

Even better, technical pivot points can tell us exactly when fear has gotten way out of hand with each of these knocked-down trades, too. Look at ZG for instance. In late July 2017, it was at its lower Bollinger Band oversold and confirmed with MACD, RSI and Money Flow, too. That told us fear was way out of hand.

If you know how to spot fear, you have an opportunity to capitalize on it. It’s how Warren Buffett, Baron Rothschild, and Sir John Templeton made so much money, too.

The question now is – how can we make some money from the Amazon fear factor.

There are a few ways. Here are some of my favorites.

No. 1 –The HD September 15, 2017 145 calls are attracting a good amount of interest with open interest of 994 contracts.

No. 2 – The LOW September 15, 2017 77.50 calls are also showing an incredible about of interest with open interest of 28,927. What we like most about LOW is that it has a very strong economic moat. Amazon threats or not, LOW is very likely to recover much of the lost ground with an opportunity to test $81, near-term.

No. 3 – The ZG stock is technically and fundamentally attractive. We like the stock at current prices, as well as the ZG September 15, 2017 45 call options. Fundamentally, there’s a lot to like about this company.

This is an $8.3 billion company with exceptional growth, and quite a future. The best part of a company like this is its exposure to a multi-billion dollar housing market. The stock is up nearly 27% in 2017, too. Part of the reason for that is the company’s earnings.

In May 2017, for example, quarterly revenue was 32.2% higher year over year to $245.8 million – also well above guidance for $232 million to $237 million. Adjusted net income also swung for $21.9 million, or 11 cents a share, from a net loss of $22.8 million, or 13 cents a share year over year. Then it raised full-year revenue guidance to a range of $1.05 billion and $1.65 billion. EBITDA of $215 million to $230 million is also expected.

In the prior quarter, the company posted revenue of $227.6 million, a 34% jump year over year. Even full-year revenue was up 31% to $846.6 million. Plus, traffic to the company’s mobile apps
and sites reached more than 140 million monthly unique users. That's great growth.

As CEO Spencer Rascoff said at the time, "Zillow Group had a fantastic year in 2016. We set records for annual revenue and site traffic, and ended on a strong note with solid fourth quarter results that were ahead of expectations. We executed on all of our strategic priorities for the year and completed the roll out of our self-serve account interface to Premier Agents nationally. In 2017, we are committed to further extending our audience leadership in the online real estate category. We expect to pass the $1 billion annual revenue mark in 2017, and we will press our advantage with continued investment across all Zillow Group's brands and emerging marketplaces."