In May 2019, I published an article that outlined [hope for TSLA bulls](#) in which I suggested that $180 could provide an opportunity for a long position. Since then, Tesla (TSLA) has established and strengthened along a new uptrend line. There is now evidence of key resistance near the $260 and $280 levels. The technical levels below show the key resistance trend lines, based upon weekly highs and lows since 2017.

The prior five weeks saw TSLA trade in a narrowing technical triangle, and last week?s breakout, followed by this week?s strength, appears to be a breakout through the first level of technical resistance. The current uptrend line is gaining strength and momentum. If the price closes convincingly above $280 on a weekly basis, the Tesla bears may want to hibernate for the winter.

Fundamentals and Markets

When it comes to valuing stocks and commodities, I call myself a ?recovering fundamentalist.? Having spent much of my career building private businesses, I am used to focusing primarily on EBITDA, discounted cash flows, and other fundamental metrics when evaluating stocks. When it comes to TSLA, I tend to agree with the bears that TSLA?s share price is not justified by fundamentals. In fact, TSLA?s market cap could be used as exhibit #1 to support the thesis that stocks are not valued upon fundamentals at all.

In the short run, stock and commodity prices are driven by human emotions (fear and greed) and subsequent money flows. Fundamentals ? positive or negative ? can provide the narrative and longer-term trends by which investors become bullish or bearish. I certainly don?t want to dissuade anyone from assessing TSLA weekly auto-deliveries or to research its accounting statements. Nevertheless, this recommendation is based solely on my technical view of the current price action, regardless of Tesla?s bearish fundamental backdrop.

The TSLA Options Market

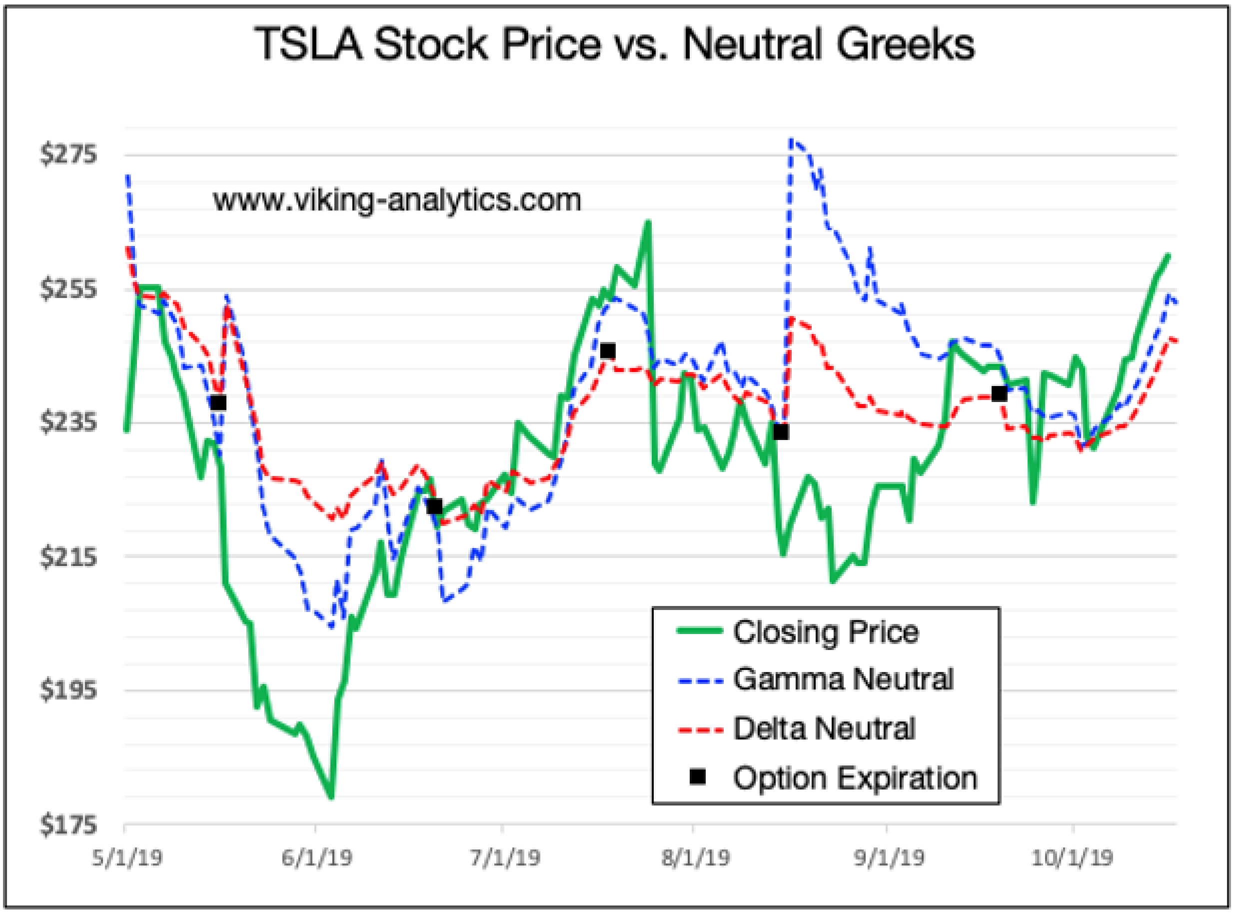
The options market provides institutions and other large position holders an ability to hedge their TSLA exposure, whether the funds are invested long or short. Since TSLA has a history of being difficult or expensive to short, the options market provides an outlet for those negative on the stock price. Due to the high demand, TSLA options tend to be liquid with high open interest. There are many retail and institutional investors who short TSLA by buying puts.

The market makers who facilitate the options trading almost always hedge their exposure instantaneously and dynamically with delta-neutral strategies.

What this means is the market makers perform combination trades to (theoretically) hedge their exposure to price while also profiting from options volatility. The maximum profit for the market makers will occur if the price of the stock settles near the price level where their portfolio is delta neutral. As a result, it can be instructive to track delta- and gamma-neutral levels in many different stocks, ETFs and commodities. For more on delta and gamma signals, you can download a quick presentation from this link.

Stock Price and Options Sentiment

Due to order flow, contract rollover, and hedging dynamics, there tends to be a convergence between stock prices and the point of delta- and gamma-neutral as option expiration comes nearer. We can provide evidence for this convergence for many different stock indices, ETFs and commodities. The chart below is TSLA stock price versus Delta Neutral and Gamma Neutral for the last several months.   Of particular note is the convergence between price (green) and Delta (red) and Gamma (blue) Neutral for each option expiry period (black square).



Not surprisingly, as TSLA broke through technical resistance last week, its Delta- and Gamma-Neutral levels followed price upward. Our interpretation of this data is that the option market makers are also buying into the upward momentum. Beyond the option expiration this coming Friday, additional data for November and December suggest that the options market will not necessarily be a headwind for continued advances in price.

The table below shows bullish put-call ratios and Gamma Neutral levels above $280 for the coming months.

TSLA 10/16/19	Op-Ex 10/18/19	Op-Ex 11/15/19	Op-Ex 12/20/19
Put/Call Ratio	2.99	2.50	2.62
Neutral Delta	$ 247.48	$ 245.20	$ 253.64
Neutral Gamma	$ 254.18	$ 280.66	$ 289.72

Source: Viking Analytics

The basic theory behind the Delta Neutral and Gamma Neutral levels can be found by **visiting our website www.viking-analytics.com.**

Final Thoughts

Based upon the technical analysis and the Delta Neutral and Gamma Neutral levels, a long position in TSLA should be considered, preferably on a retest of $240. We would also advise limiting risk with a stop loss rule that would exit the trade on a weekly close below the key trend line.

This is for informational purposes only and is not trading advice.