Three Ways to Exploit Herd Mentality

Over the last 20 years, I've created several options and stock trading advisories using a unique combination of technical, fundamental, news and billionaire strategy to exploit and easily profit from herd mentality.

At times, my success rate has been as high as 85%.

With six simple technical tools, I can oftentimes determine whether the "herd" has gotten far too bullish or far too bearish. I can then combine that analysis with billionaire strategies with a history of exploiting herd-mentality, including:

- Warren Buffett tells us to be greedy when others are fearful, and fearful when others are greedy
- Sir John Templeton, who taught us to buy on "excessive pessimism"
- Baron Rothschild, who taught us to buy when there's blood in the streets

While each of them relied only on fundamental analysis, I take it a step further by taking a look at the psychology of the herd I'm attempting to exploit. In fact, we've done that with a few examples we've shared, including Lowe's, Home Depot, AT&T and even Verizon.

- The Home Depot (HD) September 145 calls ran from $4.40 to more than $10
- The Lowe's (LOW) September 77.50 calls ran from $2.30 to $2.90
- AT&T (T) ran from $36.60 to $39.67
- Verizon (VZ) ran from $43 to $49.63.

We're not here to pat ourselves on the back, though. We simply want to remind you why we like to take a 360-degree view of potential trades using technical, fundamental, billionaire and even news-based strategies of anticipation, dissemination and death of news.
Finding opportunity isn't difficult. You just have to be dedicated to making money, which I'm happy to help you with. In fact, I've found three new opportunities.

Trade No. 1 – TrueCar (TRUE)

Even after posting solid second quarter results, TRUE gapped lower. Adjusted EPS was one penny on revenues of $81.8 million. Both topped estimates. However, it was forward guidance that knocked the stock down unfairly.

While the company expects third quarter revenue of $85 million to $87 million – a solid year over year gain – it was just below expectations for $87.68 million.

That's not terrible. And it shouldn't have resulted in such a big move lower.

It's now oversold and hands us a good buying opportunity. In fact, let's buy shares of TRUE here, as well as the TRUE October 2017 16 calls and the January 2018 16 calls at market prices.

This is a company that is growing fast, but being sold for no reason recently. We can't ignore a company where adjusted EBITDA jumped from 3.7% last year to 9% this past quarter. Let others ignore it, though. We'll make money from their naivety.

Trade No. 2 – Cirrus Logic (CRUS)

In the latest quarter, revenue was up 23.6% to $320.7 million, as the company benefited from smartphones and heavy demand for digital headset tools. That was in line with expectations. However, CRUS did mention that it expects a slowdown later this year, forcing it to guide lower for second quarter revenues. It now expects to see a range of $390 million to $430 million, which is a 4% year over year decline.

The CRUS stock is undervalued with a PEG ratio of only 0.51. It currently carries a P/E of 14.29, which is cheap in comparison to annual earnings growth of 23%. Technically, CRUS is now oversold on RSI, MACD and Williams' %R, as it consolidates just under $56 a share. We'd like to see a potential move to $60, near-term.

There are two potential ways to trade CRUS.

One, we can buy the stock at current market prices, and, or we can buy to open the CRUS December 2017 55 calls at market prices, as well.

Trade No. 3 – NVIDIA (NVDA)

In August 2017, shares of NVDA fell from a $175 high to slightly less than $153 a share on reaction to an earnings report. Two days after the herd finished overreacting, NVDA raced higher by $12.45 in a day.

Granted, profit taking after such a run higher is always warranted.

But the reasons behind the sharp move lower should not have resulted in such a sharp pullback. The company just finished its latest quarter with a 56% jump in revenue to $2.23 billion, incredible acceleration over the first quarter. It also beat expectations for $1.96 billion. EPS was 92 cents, well above expectations for 70 cents.

It's the conservative forecast that threw things off, though.

The company expected revenues of $2.35 billion, which is the midpoint of the range. Margin expansion had apparently come to halt, too. But in our opinion, the company was simply being conservative, as they usually are. In fact, prior to its second quarter earnings results, the company guided for revenues of $1.95 billion, which they crushed.

Even analysts at Roth Capital were left scratching their heads at the overreaction.

> "NVDA's performance over the past several quarters has been nearly flawless, and it is clear that neither Intel nor AMD have been successful in slowing the company's growth. With mega trends like eSports, Artificial Intelligence, High Performance Computing, Cryptocurrencies and Autonomous Driving, Nvidia stands alone among semiconductor companies in terms of big volume/dollar growth potential, in our view," they noted.
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> "While the exceptional growth can't mathematically last forever, we fail to identify an competitive threat that is likely to impede Nvidia over the next several quarters. As such we are raising our FY:19 revenue estimate by roughly $1 billion, thus driving the out year EPS up from $3.37 to $4.52," the analyst added.

Other analysts believe the stock could head to $200 before long.

At current market prices, we can either buy the stock, which now trades at $163, and or, we can buy to open the NVDA October 2017 170 calls at market. While out of the money (OTM), we believe this trade could work out nicely with patience.