The Trump Effect: Four Ways to Trade Potential Tariffs

On February 14, 2018, we recommended taking advantage of the fear in the markets by buying to open the DIA April 2018 245 calls.

At the time of that note, the call traded at just $7.50 at the time.

Two days after that idea was issued, the call was up to $11.90. Not bad.

As for new opportunities, we're taking another look at the beloved Trump Effect.

Love him or hate him, Donald Trump has had quite an impact on portfolios.

From infrastructure and cyber security to defense and biotech stocks, most have soared on the mere mention of presidential policy.

He sent banking ETFs like the Financial Select Sector SPDR (XLF) from $19.50 to $25 on the mention of potential deregulation.

When he signed an executive order with regards to cyber security Palo Alto Networks (PANW) would run from $110 to $122. Fire Eye (FEYE) would pop from $14 to $16.50. Check Point (CHKP) would soar from $105 to $110.

Infrastructure stocks exploded after he mentioned fixing the nation's bridges and roads.

Defense stocks popped on mentions of increasing funds for the military.

It even happened again in early February 2017.

At the time, the President noted that he was "considering all options" on tariffs on steel and aluminum imports, which were reportedly hurting U.S. products thanks to an influx of foreign metals that are *"threatening the viability of American manufacturers who make planes, armored vehicles and other products for military,"* as noted by The New York Times.

Commerce Secretary Wilbur Ross even recommended three options to the president, including imposing across the board tariffs on steel and aluminum, targeting select countries with even higher tariffs, and liming the total amounts of steel and aluminum flowing into the United States.

- Tariffs could be 24% on all steel imports from anywhere in the world, and around 7.7% for aluminum imports
- Another option could be tariffs on 53% on steel imports from Brazil, China, Costa Rica, India, Russia, Egypt, Malaysia, South Korea, Thailand, South Africa, Turkey, and Vietnam. That's in addition to an option to add 23.6% tariffs on aluminum imports from China, Hong Kong, Russia, Venezuela, and Vietnam, with quotas for all other countries.
- Quotas could be implemented on 63% of steel imports and 87% of aluminum exports

Of course, many of the steel and aluminum stocks certainly cheered the news.

That's because such tariffs could be a substantial boost to related companies that have struggled with lower prices and glut, as many argued.

- AK Steel (AKS) ran from $5 to $6.14
- U.S. Steel Corporation (X) ran from $39 to $45
- Century Aluminum (CENX) ran from $21.82 to nearly $25

- Steel Dynamics (STLD) ran from $46.50 to nearly $50
- Nucor Corporation (NUE) ran from $65 to $69.50

There are multiple ways to trade the opportunity for further upside, including:

- Buying to open the CENX June 2018 25 calls
- Buying to open the X April 2018 45 calls
- Buying to open the AKS June 2018 6 calls

Or, we can even buy an ETF such as the Van Eck Vectors Steel ETF (SLX).

While there are plenty of companies that could benefit from tariffs, we must also consider the potential losers along the way, too.

If the U.S. were cut down on imported aluminum and steel, several companies could suffer, according to analysts at the time. That's because a crackdown could drive up prices for raw materials used by companies like Ford Motor (F) and General Motors (GM).

It was even argued that beer stocks – which use aluminum to make their cans – could be hurt by tariffs. In fact, when Trump pushed for duties on aluminum imports, mid-2017, Molson Brewing Company warned, *"If there are duties on aluminum coming to this country, it will obviously get passed on to us and the customers. Our prices will go up."*

If any are pressured by potential tariffs, we can always look to buy on weakness.

Again, love him or hate him, ignoring the Trump Effect has proven costly since the election.