

Tax Reform Hands Traders Potential 650% and 451% Returns

As the market gets a bit topy following news of tax reform, we wanted to talk about some recent winners with tax reform.

In fact, on November 1, 2017, we shared some ideas on how to trade that very idea.

But first, let's talk about what's being proposed.

In the wee hours of Saturday morning, Senate Republicans passed a bill 51-49 in favor of reform. Now, the bill goes to conference, where both the Senate and House need to create a joint bill. It will then be presented to the President for his signature.

In particular, the market is most excited about the potential for a 20% corporate tax rate, which could boost earnings by 8% or so, according to Market Watch.

Those lower taxes will be a big positive for both stocks and the economy.

In fact, *"with this tax deal, markets could pick up speed into the end of the year. It looks like the ingredients for a year-end rally are there,"* said Angelo Meda, head of equities at asset manager Banor SIM in Milan, predicting equity gains of 3 to 4 percent, as quoted by Zero Hedge. *"Tax cut hopes have been a significant tailwind this year for U.S. stocks."*

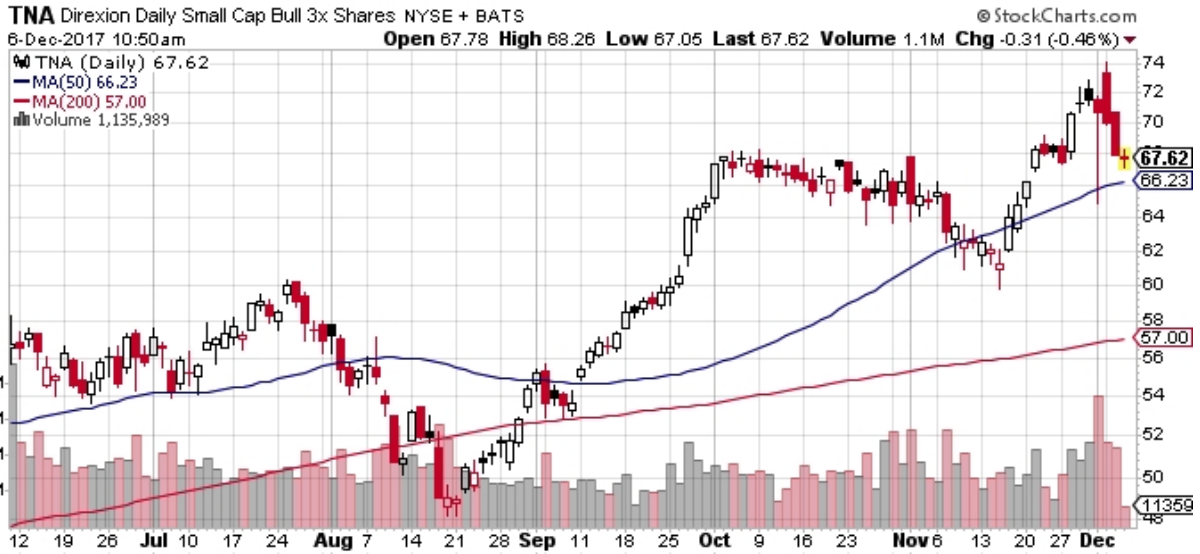
There will be some hurdles to overcome. The two bills do differ in some ways.

- For example, individual provisions would expire in 2025 under the Senate proposal. Under the House, such provisions would be permanent.
- The Senate wants to keep seven tax brackets, but lower them -- 10%, 12%, 22%, 24%, 32%, 35% and 38.5%. The House wants four brackets -- 12%, 25%, 35% and 39.6%.
- The Senate would raise standard deductions from \$6,350 to \$12,000 for single filers; from \$9,350 to \$18,000 for heads of household; and from \$12,700 to \$24,000 for joint filers. The House wants it raised to \$12,200 for single filers; \$18,300 for heads of household; and \$24,400 for joint filers.
- The Senate wants to increase the child tax credit from \$1,000 to \$2,000. The House would increase it from \$1,000 to \$1,600.
- The Senate would keep mortgage interest deductions as is. The House would lower the amount of mortgage debt on which interest may be deducted to \$500,000 from \$1 million.
- The Senate would keep student loan interest deductions as is. The House would eliminate those deductions altogether.

So far, the markets like what they see.

It's why most of the recommendations issued on November 1, 2017 are working out well.

We mentioned that one of the best ways to trade the potential news was with the Direxion Daily Small Cap Bull 3x (TNA). At the time, it traded at \$66 before running to \$74.



We also mentioned buying higher taxed companies.

About 99% of Southwest Airlines (LUV) flights are domestic. It also sees a monster tax rate of 38% at the moment. Depending on the outcome of the latest tax plan, reform could add millions of dollars to the company's bottom line every year. Plus, a boost to the middle class could mean a boost to travel plans and higher revenue to the airline, as well.

We talked about picking up the LUV December 15, 2017 57.50 calls, which exploded from 60 cents to \$4.50 – a gain of 650% in a month.



Even Home Depot was a likely beneficiary, we noted.

Right now, 87% of its stores are in the United States, paying a tax rate of 36.3%. In short, it gets hosed on taxes. But if the rate were to be dropped to 20% let's say, shares of the home improvement retailer could see millions added to its bottom line.

Traders have been buying the HD December 15, 2017 170 calls, we said.

At the time, those calls traded at \$1.85. They're now up to \$10.20 for 451% returns.



If you followed along with these trade opportunities, I'd take the wins.

However, now that the tax news is out, we're beginning to see signs of profit taking from lofty valuations, which hands us an opportunity to now trade the short side of HD and LUV.

In fact, here are two great ways to potentially make more money this week.

- Buy to open the LUV January 19, 2018 60 puts at market prices.
- Buy to open the HD January 19, 2017 175 puts at market prices.