

## SPOTLIGHT OPTION TRADE



### Bear Call Spreads into Overvalued Retailer at Resistance

#### TRADE SNAPSHOT

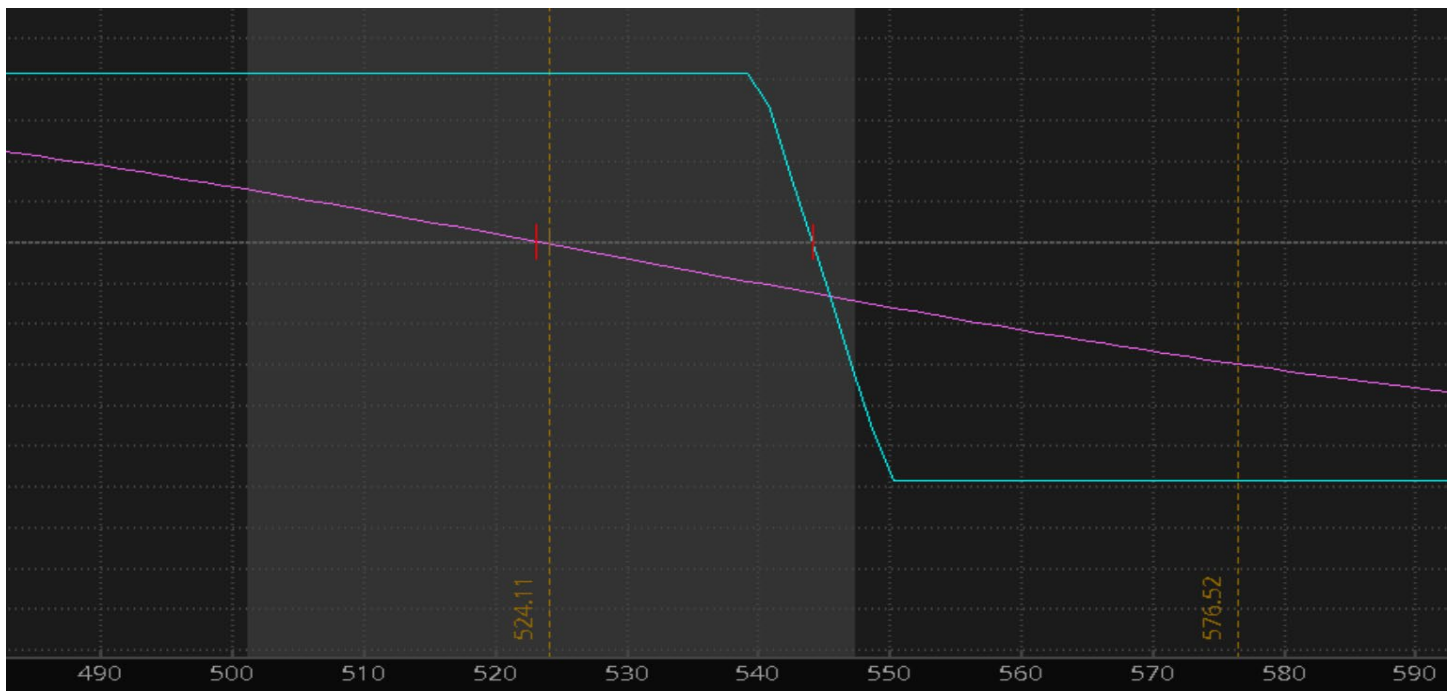
TICKER	COST
SECURITY	Costco Wholesale
SECTOR	Consumer Defensive – Discount Stores
CURRENT PRICE	\$524
LONG/SHORT	Short Bias
TARGET	Below \$540
STOP	None – Defined Risk
TIMEFRAME	2 Months

**Trading Strategy:** Sell the **COST** January \$540/\$550 Call Spreads for \$4.15 Credit (Bear Call Spreads)

**Net Debit/Credit:** Credit of \$4.15

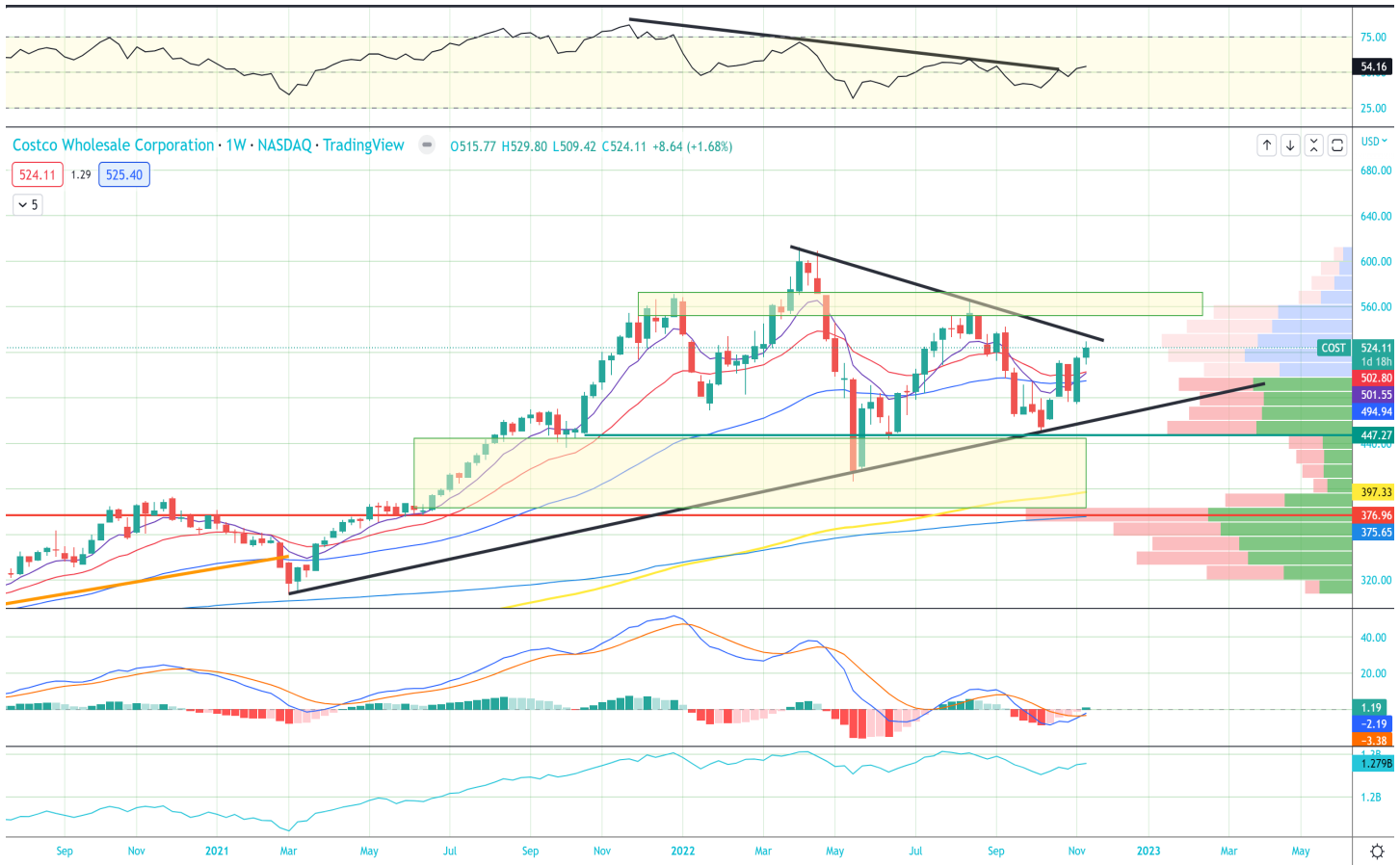
**Profitability Zone:** COST Below \$544.15 on January OpEx

**Options Volatility / Trade Simulator View:**





**Technical Analysis:** COST has rallied off vital support but now comes into trend resistance and higher volume resistance as well as the 61.8% Fibonacci at \$532. COST may be forming a multi-month topping pattern long-term with a large volume pocket left to fill back towards \$400.



**Fundamental Analysis:** COST has a market cap of \$230B and continues to trade rich at 32.5X Earnings and 115X FCF with a weak 0.69% dividend yield. COST has always been a strong operator but entering a period of slowing topline growth while EPS growth seen at 10-12% annually. COST likely faces mounting pressures from weaker consumer spending, lower fuel costs and potential trade-down risk. International is a bullish case for shares with it underpenetrated. COST has not faced inventory challenges like many peers due to a heavier grocery mix but some of the food inflation tailwinds are fading and COST also faces increasing wage costs. COST does have \$10B cash and could decide to do a special dividend while also has reportedly been eyeing a potential membership fee increase. Analysts have an average target of \$565 and short interest is low at 0.9% of the float. Wells Fargo cut to Neutral on 11/7 citing food dis-inflation risks, tough comps and a weaker consumer while being a high multiple stock.

### Options Activity:

Date	Ticker	Contract	Volume	Price	OI	Delta	IV	Premium	Last	CurrentOI	Price %
10-11-2022	COST	COST 100 20 JAN 23 490 PUT	1,000	\$42.12	918	-0.56	31.38%	\$4,235,000	\$11.85	3,744	▼ 71.87%
10-11-2022	COST	COST 100 20 JAN 23 520 PUT	2,811	\$59.5	1,246	-0.69	29.32%	\$16,261,635	\$21.7	3,476	▼ 63.53%
10-28-2022	COST	COST 100 16 DEC 22 480 PUT	1,004	\$13.04	399	-0.30	32.83%	\$1,285,120	\$5.29	1,985	▼ 59.43%
10-18-2021	COST	COST 100 20 JAN 23 620 CALL	500	\$5.55	9	0.12	20.94%	\$277,500	\$1.99	1,936	▲ 64.14%
10-28-2022	COST	COST 100 16 DEC 22 480 CALL	1,291	\$44.35	180	0.72	33.99%	\$5,835,320	\$53.55	1,606	▲ 20.74%
05-25-2021	COST	COST 100 20 JAN 23 510 CALL	800	\$9.6	329	0.19	22.52%	\$768,000	\$37.18	1,239	▼ 287.29%
11-11-2022	COST	COST 100 16 JUN 23 450 PUT	709	\$20.25	495	-0.24	31.54%	\$1,435,725	\$16.7	1,195	▲ 17.53%
11-11-2022	COST	COST 100 16 JUN 23 540 CALL	534	\$36.7	196	0.47	29.39%	\$1,959,780	\$45.85	745	▼ 24.93%

**Potential Catalysts:** Earnings 12/8

## **Disclaimer:**

### **Not Investment Advice or Recommendation**

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