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NEW HIGHS

Super Micro Computer Plummets In Bearish Reversal; How To Hedge A Hot Stock



KIMBERLEY KOENIG | 01:36 PM ET 02/16/2024

Chat with an Expert

Super Micro Computer (SMCI) made a sharp bearish reversal in heavy **volume** after topping the 1,000 level and making an all-time high Friday morning. The abrupt change in direction sent investors scrambling for their next move.

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Super Micro Computer stock opened higher but gains vanished in the first half-hour of trading. In midday trading, shares were down about 12% in volume nearly six times its average.

Explosive moves such as SMCI's cannot be sustained. The stock had tripled from its breakout at 357 in January.

Keen-eyed investors could take profits now that the stock is flashing a topping signal. The run-up had several qualities of a **climax top**.

Shares climbed 18 out of the 20 days to the peak, all in heavy trading with wide price spreads. In a climax run, stocks climb 25% to 50% in two to three weeks and show wide daily spreads from low to high.

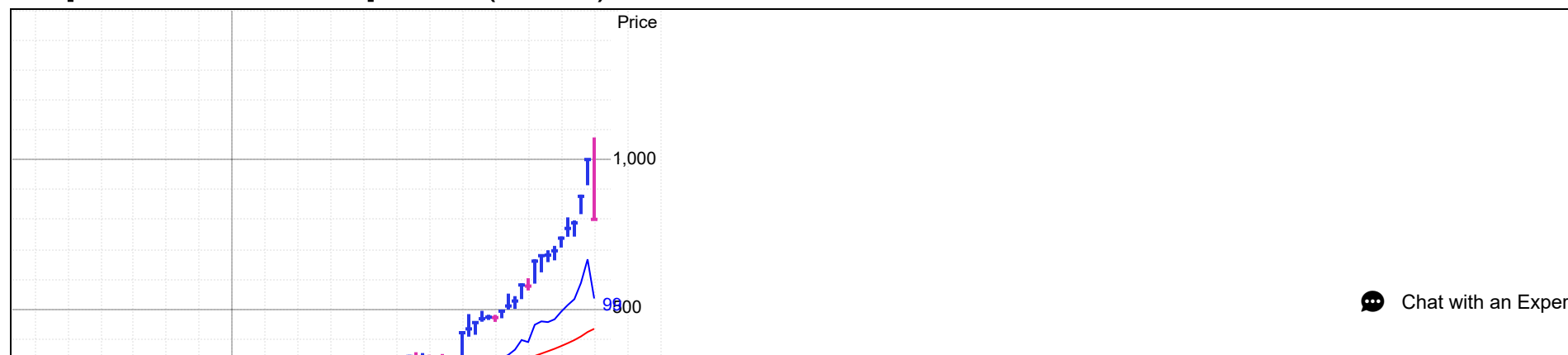
The stock was more than 200% above its **200-day moving average**. Typically, if a stock is 70% to 100% beyond that line it is considered another sign of a climax top. In addition, the stock was more than 100% above its **50-day moving average**, another sign of overheating.

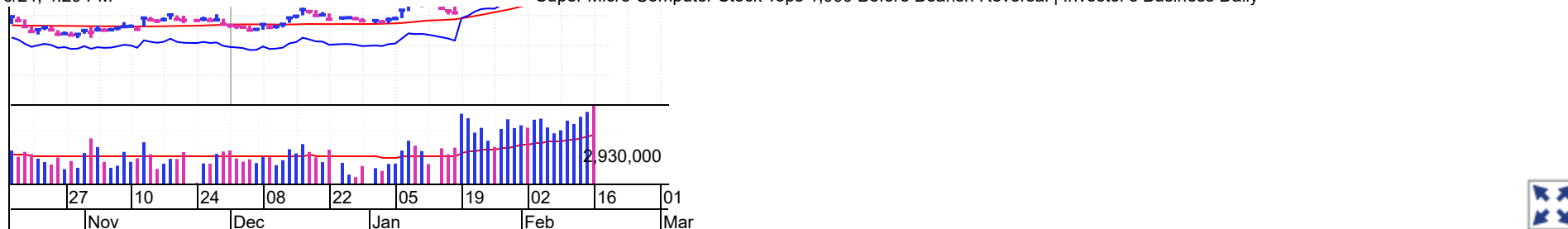
The stock also came out of a **late-stage** base. Late-stage bases are more likely to fail than early-stage one.

Hedging Strategy For Super Micro Computer Stock

Super Micro Computer (SMCI)

\$803.32 200.68 ↓ 19.99%





02/16/2024 (Market Close)

But what if you believe in the company and don't want to sell now? There are ways to hedge your gains. One strategy is **buy put options to help offset a loss**. One put option gives investors the right to sell 100 shares of stock at a set price, called the strike price.

One way to neutralize losses is by buying two puts for every 100 shares owned, using a strike price with a delta of negative 0.5. The delta tells you how much the option price moves compared with the underlying stock. At 0.5, that means one put basically offsets a decline of 50 shares, and two puts offsets 100 shares.

In the case of Super Micro Computer stock Friday, the April 19 puts with 970 strike had a -0.5 delta.

If the stock continues to fall the delta will also decline. But that means you will start making more from the puts than what you lose on the stock.

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