



tastytrade Research presents

Cherry Picks

January 17, 2017

Contrarian Opportunity in EWW? Since the U.S. elections, Mexico's broad market ETF (EWW) has performed poorly – down roughly 20% since November. The peso is down an almost equal amount.

While EWW's implied volatility is not as high as the 45% it reached in November, it is still at 27% – twice that of the current implied volatility of the S&P 500.

If you think the Mexican market has been hit too hard, too fast, we present two trade ideas:

Trade Idea	Max Profit	Prob. Success	Breakevens
Short 2x 41 puts Long 1x 42 puts	\$132	79%	\$39.68 w/ no upside
42 / 43 Jade Lizard with Long 44 call	\$140	70%	\$40.60 w/ no upside

Gold Miners (GDXJ) Trade. The Junior Gold Miners ETF (GDXJ) keeps popping up on our radar due to its high implied volatility – **its current IV is above 90% of its past year's IVs**. Viewers of tastytrade know that when IV is high, options are expensive – historically an ideal time to sell expensive options. The ETF itself is comprised of micro- and small-capitalization companies around the world that are in the *"exploratory and early development phase of mining."*

We provide two relatively neutral trade ideas with varying levels of risk. Those with smaller accounts might consider buying the far out-of-the-money wings. This however may result in worse breakevens with lower probabilities of success.

Trade Idea	Max Profit	Prob. Success	Breakevens
33/44 strangle (Feb)	\$132	70%	[31.68, 45.32]
37/39 strangle (Feb)	\$395	55%	[33.05, 42.95]

Financial Sector Potential Movers. Not only did the Federal Reserve raise its benchmark interest rate in December and signal that it expects to raise rates again in 2017, but also Trump has said he is looking to ease the regulations faced by many of the stocks in the financial ETF (XLF). With the increase in XLF of 20% over the past two months, both of these events already seem to be priced into the market.

There are, however, some **big components of the financial ETF (XLF) with earnings this week**: Goldman Sachs (GS), Citigroup (C), Morgan Stanley (MS), U.S. Bancorp (USB), and American Express (AXP). Earning surprises may result in movement to XLF.

Upcoming Earnings. Below we've noted some large market cap. stocks that are of interest due to their upcoming earnings. Note: AMC = After Market Closes; BMO = Before Market Open.

Stock	Earnings Date
NFLX	1/18 Wed, AMC
AXP	1/19 Thur, AMC
GE, PG	1/20 Fri, AMC
MCD	1/23 Mon, BMO
BABA, JNJ, VZ	1/24 Tues, BMO

Trump Inauguration. Trump's inauguration is this Friday (January 20). While election season was controversial and exciting, **we don't expect there to be much of a crush in volatility around this event**. We would trade it like any other Friday.

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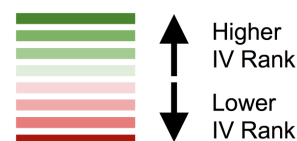
Reading this Report

Expected Range Cone. The following pages shows stocks and ETFs that the tastytrade Research Team currently finds interesting. The colored cone represents a 30-day expected price range that is calculated from the option's implied volatility. If the option is expensive, then the market is expecting a large move in the underlying stock or etf. From this we can arrive with the market's 1 standard deviation expectation of where prices are implied to fall. In other words, the market is expecting, with a 68% probability, that prices will fall within the boundary of the cone at the end of 30 days.

Cone Color. The color of the cone is significant. The darker the color the more "extreme" the implied volatility (IV) which is represented by implied volatility rank (IV Rank). Strategies that tend to perform best in high IV are short naked options, strangles, straddles, and credit spreads. With lower IV, calendars, diagonals, and debit spreads tend to perform the best.

Full Stock Name
IV: 24
IV Rank: 69
Option Liquidity: Great
Correlation with S&P 500: 0.8

XYZ



Glossary

IV. Implied Volatility is the estimated volatility of a security's price derived from its option price; the higher the IV, the more expensive the option and therefore the larger the expected price move. IV is an annualized number of volatility, e.g. a IV of 27 means the option's market is pricing in an annualized price range, either plus or minus, of 27%.

IV Rank. IV by itself doesn't tell us if the volatility is high or low - but IV Rank does. An IV Rank of 70 means that the IV is 70% between its low and high IV over the past year. The higher the IV Rank, the higher the security's IV is compared to its past year. We provide six levels to make evaluating easier:

- **Extremely High:** IV Rank between 90 and 100
- **High:** IV Rank between 75 and 90
- **Moderately High:** IV Rank between 50 and 75
- **Moderately Low:** IV Rank between 25 and 50
- **Low:** IV Rank between 10 and 25
- **Extremely Low:** IV Rank between 0 and 10

Option Liquidity. At tastytrade we have our own measure of option liquidity; Poor, Moderate, Good, or Great. It examines the option bid/ask spread, the open interest, and the number of strikes with non-zero bids.

Correlation with S&P 500. Correlation is a statistical measure of how strong a relationship two securities have with one another. A correlation of -1 means the stocks are perfectly negatively correlated (they move in opposite directions), while a correlation of +1 means the stocks are perfectly positively correlated (they move in the same direction). A correlation of 0 means there exist little relationship.

Earnings. The earnings date of the security. In practice we tend to see stocks have a larger amount of implied volatility (IV) nearer to earnings as the market is pricing in the fear of the upcoming earnings announcement. Upcoming earnings dates do sometimes change.

Disclosures

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Current Market Outlook



This is our broad view of the market ranging from stocks to bonds to currencies.

SPDR S&P 500

IV: 12

IV Rank: 7 (Extremely Low)

Estimated Liquidity: Great

SPY



SPDR Gold Trust

IV: 16

IV Rank: 11 (Low)

Estimated Liquidity: Great

Correlation with S&P 500: -0.19

GLD



iShares 20+ Year Treasury Bond ETF

IV: 14

IV Rank: 27 (Moderately Low)

Estimated Liquidity: Great

Correlation with S&P 500: -0.12

TLT



Guggenheim CurrencyShares Euro Currency Trust

IV: 10

IV Rank: 37 (Moderately Low)

Estimated Liquidity: Good

Correlation with S&P 500: -0.26

FXE



VOLATILITY&P500

IV: 93

IV Rank: 33 (Moderately Low)

Estimated Liquidity: Good

Correlation with S&P 500: -0.66

VIX



United States Oil Fund

IV: 31

IV Rank: 3 (Extremely Low)

Estimated Liquidity: Great

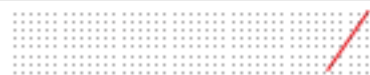
Correlation with S&P 500: 0.19

USO





Current ETF Watchlist



Exchange-traded funds (ETFs) are securities that trade like stock while tracking indices, commodities, bonds, and baskets of assets. We are tracking these ETFs because of the opportunity that they present and the liquidity that they exhibit.

VanEck Vectors Junior Gold Miners ETF
IV: 58
IV Rank: 74 (Moderately High)
Estimated Liquidity: Good
Correlation with S&P 500: 0.06

GDXJ



Guggenheim CurrencyShares Japanese Yen Trust
IV: 13
IV Rank: 35 (Moderately Low)
Estimated Liquidity: Moderate
Correlation with S&P 500: -0.42

FXJ



SPDR Select Sector Fund - Financial
IV: 21
IV Rank: 17 (Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.59

XLF



Guggenheim CurrencyShares Euro Currency Trust
IV: 10
IV Rank: 37 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: -0.26

FXE



SPDR S&P Retail ETF
IV: 20
IV Rank: 19 (Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.54

XRT



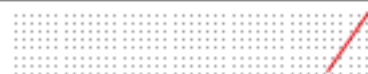
iShares MSCI Mexico Capped Investable Market Index Fund
IV: 27
IV Rank: 29 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.39

EWX





Current Stock Watchlist



These are a few of the individual stocks that we have on our radar. Always be aware of expected earning date when choosing your expiration. Individual stocks do have more risk of sudden moves - make sure you are compensated for the risk.

United States Steel Corp.
IV: 76
IV Rank: 13 (Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.47
Earnings: Tue, Jan 31, 2017

X



lululemon athletica inc.
IV: 32
IV Rank: 46 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.29
Earnings: Wed, Dec 07, 2016

LULU



Tesla Motors, Inc.
IV: 41
IV Rank: 12 (Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.45
Earnings: Wed, Feb 08, 2017

TSLA



Twitter, Inc.
IV: 57
IV Rank: 20 (Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.29
Earnings: Thu, Feb 09, 2017

TWTR



J.C. Penney Company, Inc. Holding Company
IV: 59
IV Rank: 41 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.29
Earnings: Thu, Feb 23, 2017

JCP



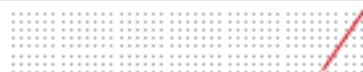
Pandora Media, Inc.
IV: 69
IV Rank: 31 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.19
Earnings: Thu, Feb 09, 2017

P





Upcoming Earnings



Earnings trades offer investors opportunities in stocks with the largest potential of a volatility contraction the day after a company announces their quarterly earnings report.

Netflix, Inc.
IV: 54
IV Rank: 51 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.31
Earnings: Wed, Jan 18, 2017

NFLX



Procter & Gamble Company
IV: 17
IV Rank: 41 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.28
Earnings: Tue, Jan 24, 2017

PG



American Express Company
IV: 28
IV Rank: 44 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.39
Earnings: Thu, Jan 19, 2017

AXP



McDonald's Corp.
IV: 20
IV Rank: 30 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.32
Earnings: Mon, Jan 23, 2017

MCD



General Electric Company
IV: 18
IV Rank: 9 (Extremely Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.52
Earnings: Fri, Jan 20, 2017

GE



Alibaba Group Holding Limited ADR
IV: 35
IV Rank: 36 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.44
Earnings: Tue, Jan 24, 2017

BABA

