



Cherry Picks

tastytrade's Quantitative Newsletter for Traders

January 2, 2018

Options involve risk and are not suitable for all investors. Please read [Characteristics and Risks of Standardized Options](#) before deciding to invest.

Looking Back

- The S&P 500 cash index (SPX) was up **19%** in 2017. **What made 2017 so unusual is not the 19% return, but the absence of large declines in the market.**
- Since 1990, we've had positive monthly returns of the S&P 500 60% of the time.
- S&P 500 annualized dividends are currently 1.8% – not out of the ordinary. Since 1990, this has varied from a low of 1.2% (in 1999) to a high of 3.7% (in 1990). **Utilities (XLU) had the highest dividend yield at slightly over 4%.**

S&P 500 Returns by Month

	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.
2010	-5%	1%	5%	1%	-9%	-4%	7%	-7%	6%	3%	0%	4%
2011	1%	2%	1%	2%	-1%	0%	-4%	-5%	-6%	14%	2%	1%
2012	3%	3%	3%	-1%	-7%	7%	1%	2%	3%	-2%	-1%	1%
2013	2%	0%	3%	2%	3%	-2%	4%	-4%	3%	4%	3%	3%
2014	-3%	7%	1%	0%	2%	2%	-2%	4%	-2%	4%	2%	0%
2015	-3%	4%	-2%	1%	0%	-2%	1%	-6%	0%	8%	-1%	-3%
2016	-4%	0%	4%	0%	1%	0%	3%	0%	0%	-2%	4%	2%
2017	1%	4%	-1%	1%	1%	0%	2%	0%	2%	2%	3%	1%

Looking Forward

- **Don't fall into the trap of thinking that markets can't continue higher.** Since 1990, the S&P 500 has gone up 19% or higher 10 times – in all but one year, the market continued higher the following year. Continue to stay true to mechanics, roll positions when appropriate, and diversify positions.

Description	1-Year Theo. Expected Range	Description	1-Year Theo. Expected Range	Description	1-Year Theo. Expected Range
Oil Services (OIH)	±29%	Tech. (XLK)	±19%	Staples (XLP)	±15%
Retail (XRT)	±24%	Materials (XLB)	±18%	Gold (GLD)	±14%
Silver (SLV)	±22%	Indust. (XLI)	±18%	Bonds (TLT)	±12%
Emerging Mkt (EEM)	±22%	Discretionary (XLY)	±17%	Euro FX (FXE)	±8%
Russell (IWM)	±20%	S&P 500 (SPY)	±16%		
Nasdaq (QQQ)	±20%	Utilities (XLU)	±16%		
Financials (XLF)	±19%	Health Care (XLV)	±15%		

Michael Rechenin, PhD
Kai Zeng, MBA



Upcoming Earnings



Symbol	Description	Expected Report Date	Time of Day	Weekly Options	In Dow?	In S&P 500?	In Russell 2000?	In tastytrade Watchlist?
WBA	Walgreens Boots Alliance	Thu Jan-04	Before Open	Yes	-	Yes	-	-
MON	Monsanto	Thu Jan-04	Before Open	Yes	-	Yes	-	-
LEN	Lennar (Class A)	Wed Jan-10	Before Open	-	-	Yes	-	-
KBH	KB Home	Wed Jan-10	After Close	-	-	-	Yes	-
DAL	Delta Air Lines	Thu Jan-11	n/a	Yes	-	Yes	-	-



Upcoming Dividends



Stocks and ETFs with an **upcoming dividend**.

In the money short call options are the only options at risk of additional early assignment due to the dividend. If the extrinsic value of the in the money short call is less than the dividend, the option is at (a greater than average) risk of being assigned.

Symbol	Description	Ex-Dividend Date	Dividend Per Share	In Dow?	In S&P 500?	In Russell 2000?	In tastytrade Watchlist?
JPM	JP Morgan Chase & Co.	Thu, Jan 04	0.56	Yes	Yes	-	-
CSCO	Cisco Systems	Thu, Jan 04	0.29	Yes	Yes	-	-
BMJ	Bristol-Myers Squibb	Thu, Jan 04	0.4	-	Yes	-	-
MON	Monsanto	Thu, Jan 04	0.54	-	Yes	-	-
AXP	American Express	Thu, Jan 04	0.35	Yes	Yes	-	-
MA	Mastercard	Mon, Jan 08	0.25	-	Yes	-	-
T	AT&T	Tue, Jan 09	0.5	-	Yes	-	-
ORCL	Oracle	Tue, Jan 09	0.19	-	Yes	-	Yes
VZ	Verizon Communications	Tue, Jan 09	0.59	Yes	Yes	-	-
CPB	Campbell Soup	Tue, Jan 09	0.35	-	Yes	-	-



Shows From the Research Team The Past Few Days:

Date	Segment	Title	Link
Tue, Jan 02	Market Measures	Market Measures	LINK
Tue, Jan 02	Options Jive	Options Jive	LINK
Tue, Jan 02	Best Practices	Delta Types	LINK
Fri, Dec 29	tasty Extras	Bouncing Back After Negative Returns	LINK
Fri, Dec 29	Resize & Analyze	Week of December 25th	LINK
Fri, Dec 29	Closing the Gap - Futures Edition	Futures Markets: January Trends or Reversals?	LINK
Thu, Dec 28	Market Measures	Yield Curve Setups Using ETFs	LINK
Thu, Dec 28	Options Jive	Bitcoin: Margin & Historical Volatility	LINK
Thu, Dec 28	Trades From the Research Team LIVE	Trades From the Research Team LIVE	LINK
Wed, Dec 27	Market Measures	Best of 2017: Market Measures	LINK
Wed, Dec 27	Options Jive	Buying Stock with Calls and Puts	LINK
Wed, Dec 27	Best Practices	Understanding Our Studies	LINK
Tue, Dec 26	tasty Extras	Jeremy Siegel's Market Forecast	LINK
Tue, Dec 26	Market Measures	Best of 2017: Options Jive	LINK
Tue, Dec 26	Options Jive	Extrinsic and Intrinsic Value	LINK
Tue, Dec 26	Anatomy of a Trade	Worst Time to Roll in AMZN	LINK
Fri, Dec 22	Market Measures	Buying Options in 2017	LINK
Fri, Dec 22	Resize & Analyze	Week of December 18th	LINK
Fri, Dec 22	Closing the Gap - Futures Edition	Pairs Extremes in 2017	LINK
Thu, Dec 21	Market Measures	Jade Lizards in 2017	LINK
Thu, Dec 21	Options Jive	Why Synthetics?	LINK
Thu, Dec 21	Trades From the Research Team LIVE	Trades From the Research Team LIVE	LINK
Wed, Dec 20	Market Measures	How Much Buying Power is Enough?	LINK
Wed, Dec 20	Scalping	Scalping 2017: Part 6	LINK
Wed, Dec 20	tasty BITES	Using Credit Spreads	LINK
Tue, Dec 19	Market Measures	Rolling & Managing Winners: Delta Dynamics	LINK
Tue, Dec 19	tasty Extras	Sosnoff Says Financial Red Flags	LINK
Tue, Dec 19	Options Jive	A Look at the Yield Curve	LINK
Tue, Dec 19	Best Practices	Understanding Ratio Spreads	LINK
Mon, Dec 18	Market Measures	Binary Events & Short-Term Implied Volatility	LINK
Mon, Dec 18	Options Jive	Short Strangles & Gamma	LINK
Mon, Dec 18	Anatomy of a Trade	Rolling a Loser Into a Gain in SNAP	LINK



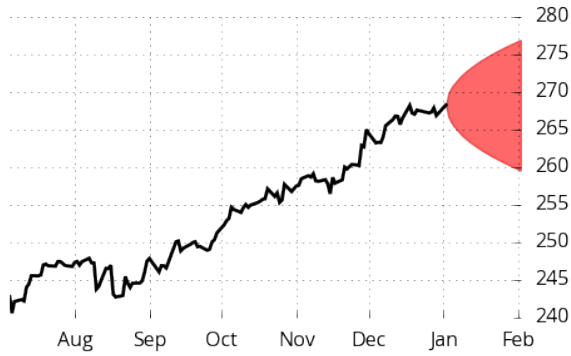
Current Market Outlook



30-Day Expected Range Plots – The colored cone represents a 30-day expected theoretical price range that is calculated from the options' implied volatilities. In theory, we expect that prices will stay, with a 68% probability, within the boundary of the cone.

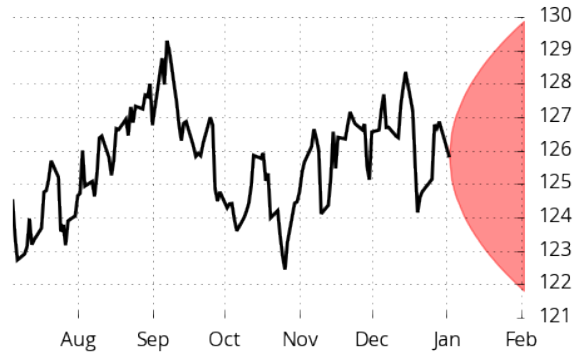
SPDR S&P 500
IV: 11
IV Rank: 22 (Low)
Estimated Liquidity: Great

SPY



iShares 20+ Year Treasury Bond ETF
IV: 11
IV Rank: 30 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: -0.29

TLT



iShares Russell 2000 ETF
IV: 15
IV Rank: 32 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.65

IWM



Guggenheim CurrencyShares Euro Currency Trust
IV: 7
IV Rank: 20 (Low)
Estimated Liquidity: Good
Correlation with S&P 500: -0.23

FXE



PowerShares QQQ Trust, Series 1
IV: 16
IV Rank: 59 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.79

QQQ



SPDR Dow Jones Industrial Average ETF
IV: 12
IV Rank: 38 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.77

DIA





Current ETF Watchlist



30-Day Expected Range Plots – The colored cone represents a 30-day expected theoretical price range that is calculated from the options' implied volatilities. In theory, we expect that prices will stay, with a 68% probability, within the boundary of the cone.

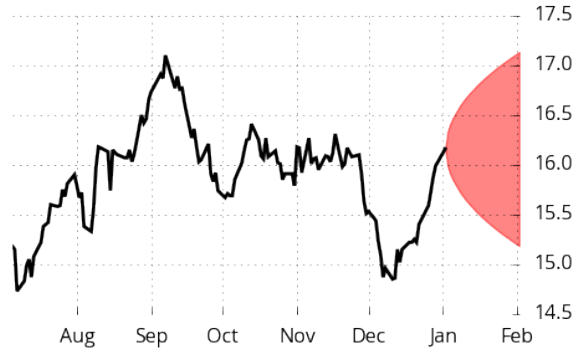
iShares 7-10 Year Treasury Bond ETF
IV: 4
IV Rank: 27 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: -0.33

IEF



iShares Silver Trust
IV: 20
IV Rank: 28 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: -0.09

SLV



VanEck Vectors Oil Services ETF
IV: 28
IV Rank: 42 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.21

OIH



iShares MSCI Emerging Index Fund
IV: 17
IV Rank: 38 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.56

EEM



SPDR S&P Retail ETF
IV: 23
IV Rank: 44 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.2

XRT



SPDR Select Sector Fund Technology
IV: 16
IV Rank: 45 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.82

XLK

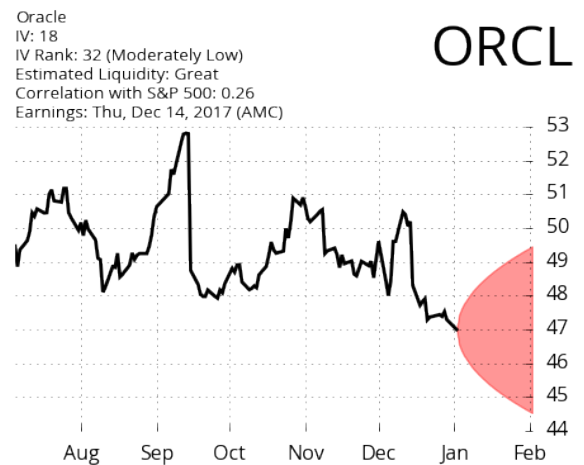
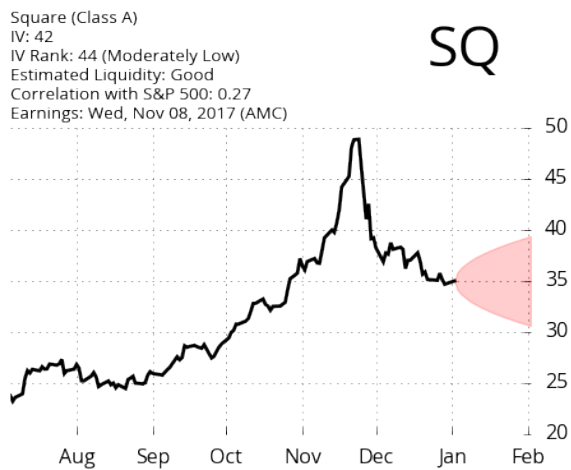
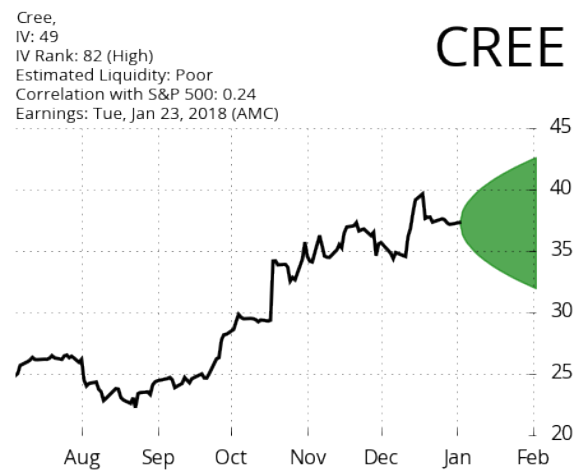
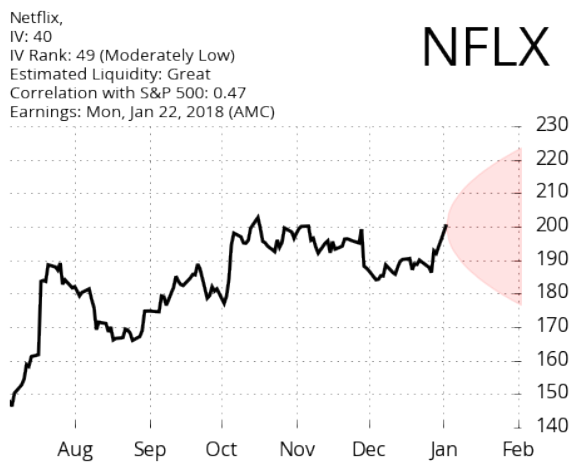
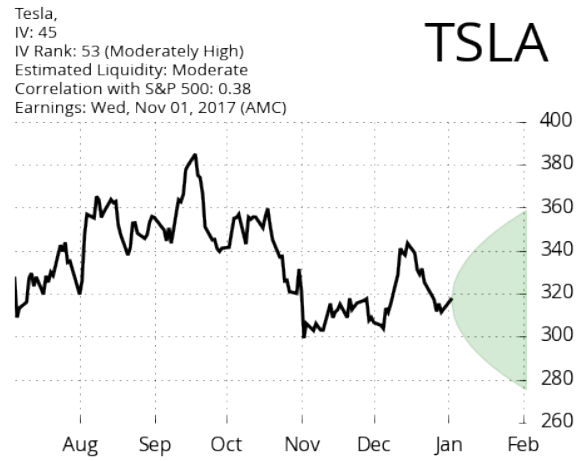
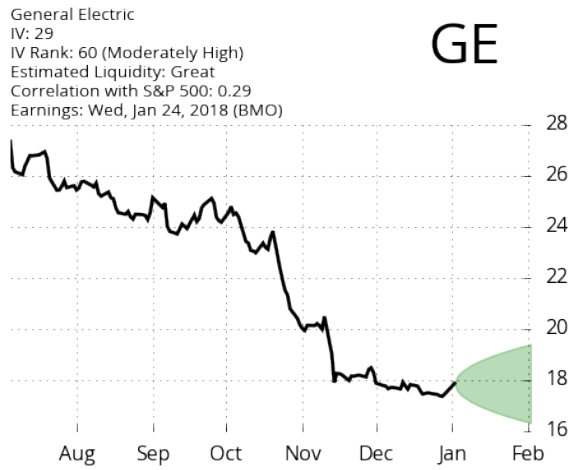




Current Stock Watchlist



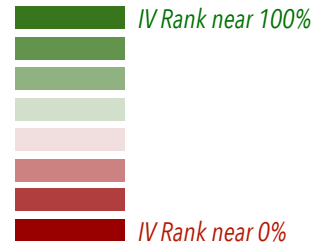
30-Day Expected Range Plots – The colored cone represents a 30-day expected theoretical price range that is calculated from the options' implied volatilities. In theory, we expect that prices will stay, with a 68% probability, within the boundary of the cone.



Reading this Report

Expected Range Cone. The colored cone represents a 30-day expected theoretical price range that is calculated from the options' implied volatilities. If the implied volatility is relatively high, then the market is expecting a larger price change in the underlying stock or ETF. From this we can derive the market's 1 standard deviation theoretical expectation of where prices might be in the future. In other words, the market is expecting, with a 68% theoretical 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). This information can help you decide on a trading strategy.



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 theoretical measure of option liquidity, Poor, Moderate, Good, or Great. It examines the options' bid/ask spread, 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. In parenthesis, is BTO or AMC; "Before the Open" or "After Market Closes", respectively. Upcoming earnings dates do sometimes change.

Disclosures

Options involve risk and are not suitable for all investors. Please read Characteristics and Risks of Standardized Options before deciding to invest in options: <https://www.theocc.com/components/docs/riskstoc.pdf>

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