



Cherry Picks

tastytrade's Quantitative Newsletter for Traders

April 3, 2018

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

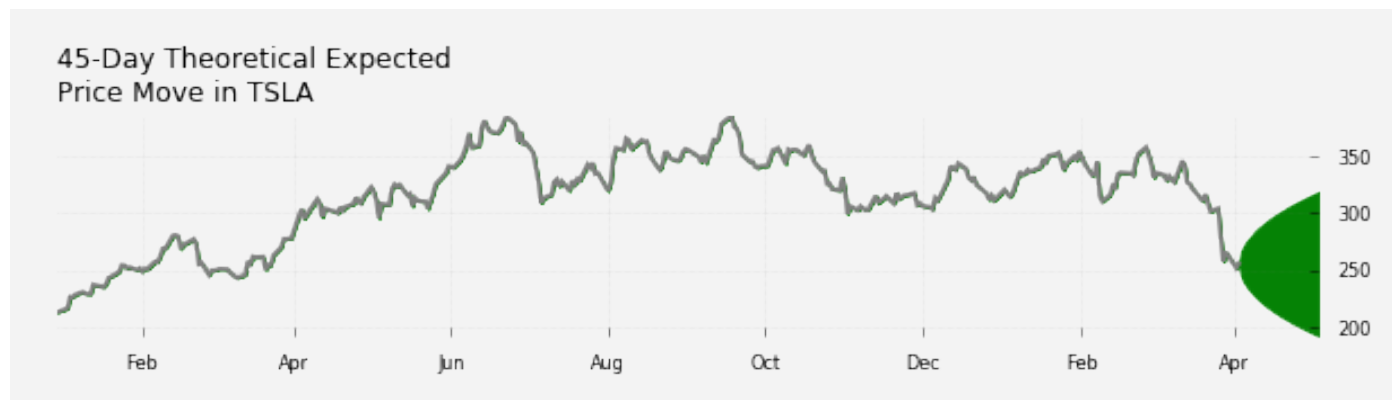
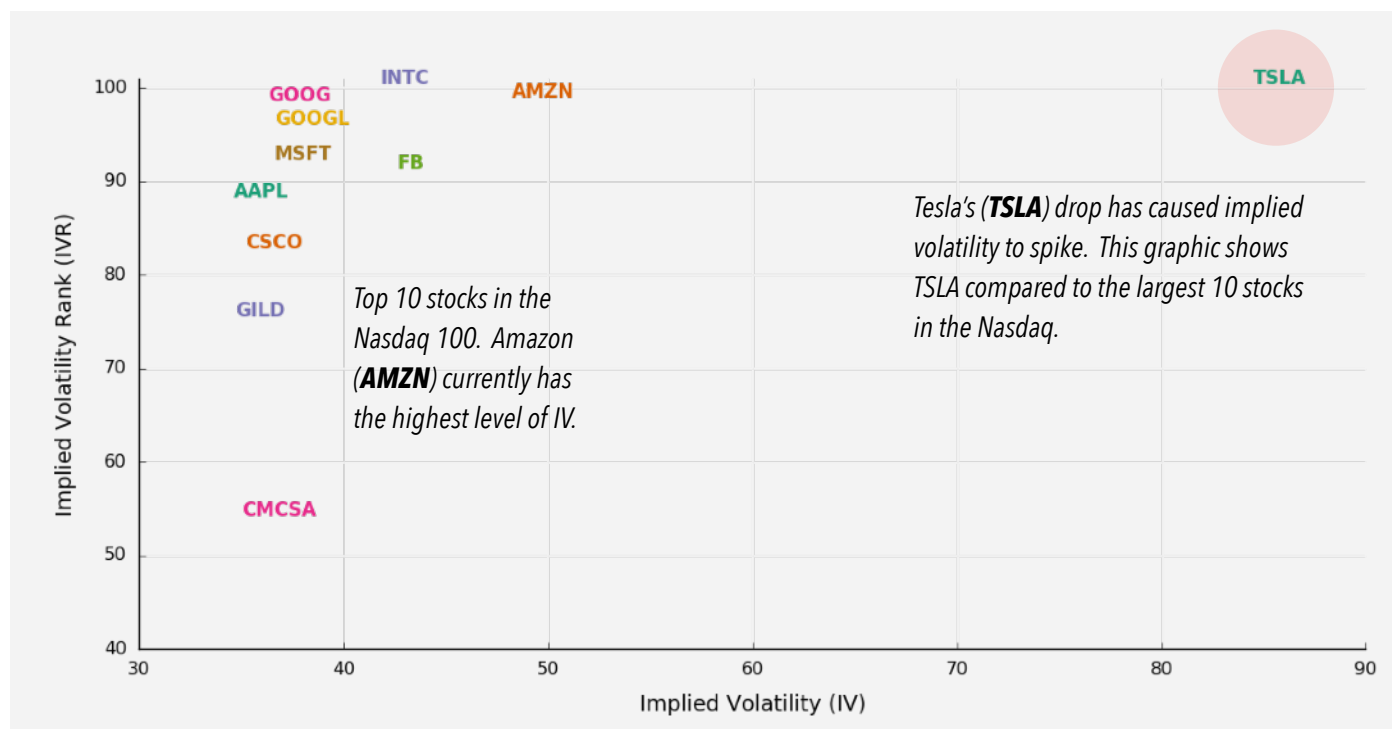
TSLA Options Pricing In Huge Potential Moves.

The spike in implied volatility in TSLA has us wondering...is there more bad news to come? The stock is in the \$250's and the 100 put for 2019 is going for 7.5. Additionally, going out 654 days, the 20 strike has a bid of 1.94. Going concern? Or trade potential? Keep small.

Michael Rechenthin, PhD

Kai Zeng

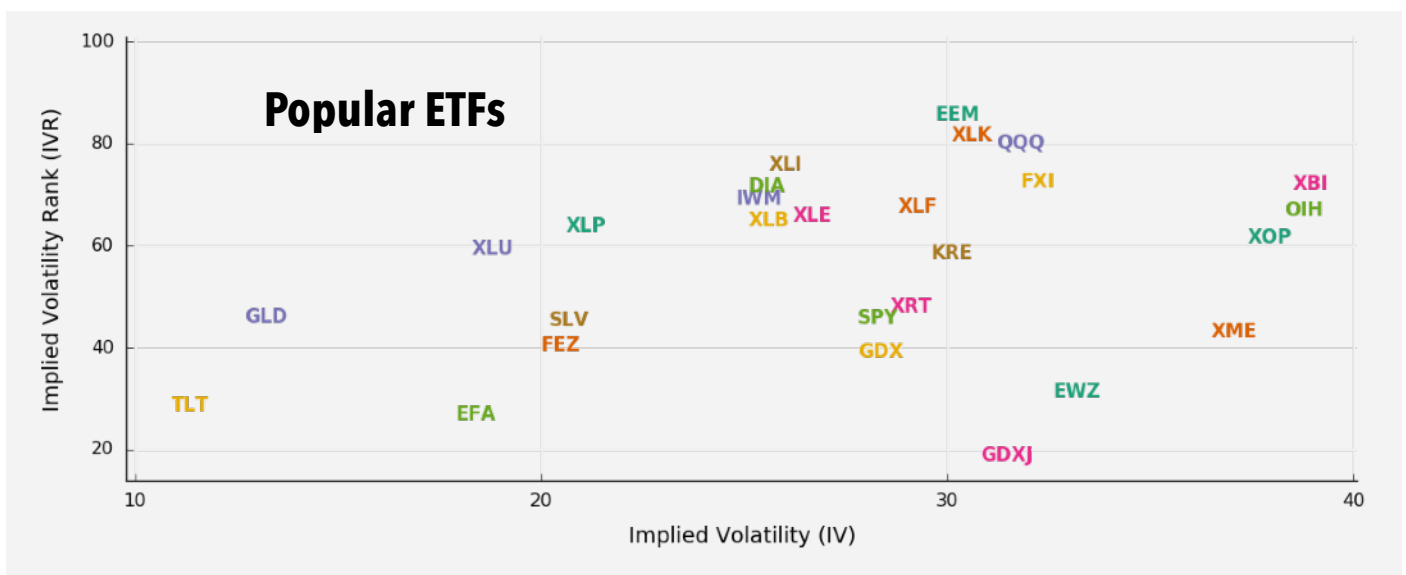
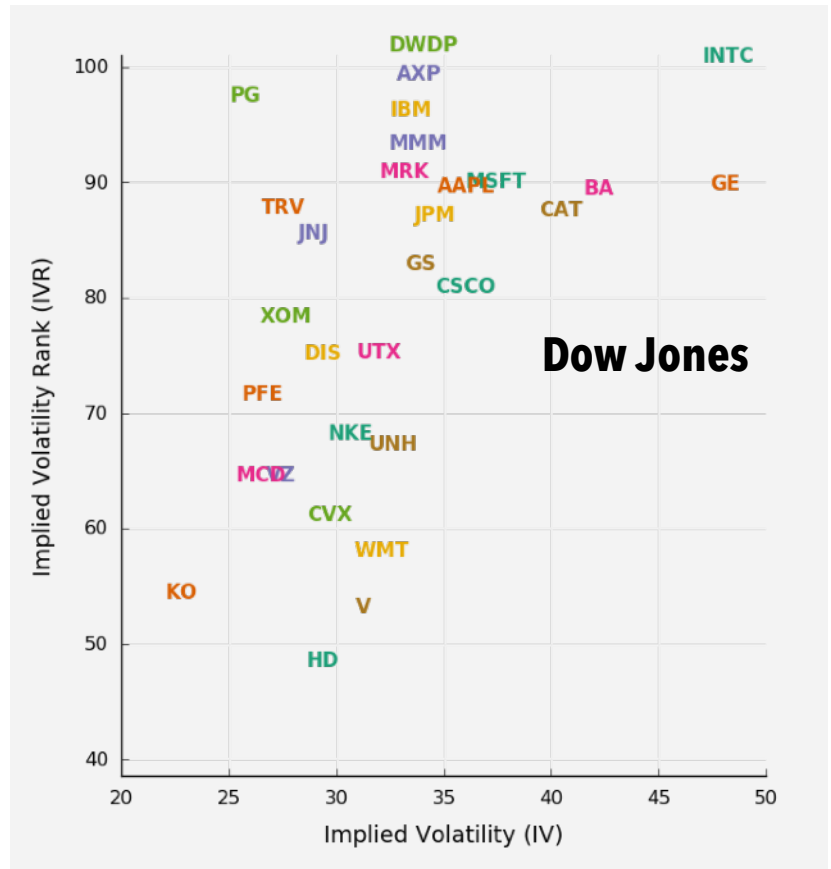
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Visualizing IV and IV Rank

Ideally, we'd want stocks that are displaying a higher than normal level of implied volatility. This includes stocks about 50% IV Rank – i.e. stocks in the top right of the graphics.





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?
CSCO	Cisco Systems	Wed, Apr 04	0.33	Yes	Yes	-	-
JPM	JP Morgan Chase & Co.	Thu, Apr 05	0.56	Yes	Yes	-	-
AXP	American Express	Thu, Apr 05	0.35	Yes	Yes	-	-
BMJ	Bristol-Myers Squibb	Thu, Apr 05	0.40	-	Yes	-	-
NTAP	NetApp	Thu, Apr 05	0.20	-	Yes	-	-
MON	Monsanto	Thu, Apr 05	0.54	-	Yes	-	-
MA	Mastercard	Fri, Apr 06	0.25	-	Yes	-	-
DG	Dollar General	Mon, Apr 09	0.29	-	Yes	-	-
VZ	Verizon Communications	Mon, Apr 09	0.59	Yes	Yes	-	-
INTU	Intuit	Mon, Apr 09	0.39	-	Yes	-	-
GPS	Gap	Tue, Apr 10	0.24	-	Yes	-	-
FCX	Freeport-McMoRan	Thu, Apr 12	0.05	-	Yes	-	Yes
TOL	Toll Brothers	Thu, Apr 12	0.11	-	-	-	-
ABT	Abbott Laboratories	Thu, Apr 12	0.28	-	Yes	-	-

* Highlighted the stocks from our tastytrade watchlist



Shows From the Research Team The Past Few Days:

Date	Segment	Title	Link
Mon, Apr 02	Market Measures	BRIC Economies	LINK
Mon, Apr 02	The Skinny on Options: Abstract Applications	Uncorrelated Risk Reduction	LINK
Thu, Mar 29	Market Measures	How to Maximize a Trade's Potential	LINK
Thu, Mar 29	Options Jive	Trading Mechanics	LINK
Thu, Mar 29	Trades From the Research Team LIVE	Trades From the Research Team LIVE	LINK
Wed, Mar 28	Market Measures	Closing Near Highs and Lows	LINK
Wed, Mar 28	Options Jive	Is There a Trade? Week of March 26th	LINK
Wed, Mar 28	Options Jive	What is tastytrade Trading?	LINK
Tue, Mar 27	Market Measures	Where is the Opportunity in Metals?	LINK
Tue, Mar 27	Options Jive	How to Pump Up Your POP	LINK
Tue, Mar 27	tasty BITES	Scaling in Small Accounts	LINK
Mon, Mar 26	Market Measures	Managing Winners + Losers	LINK
Mon, Mar 26	The Skinny on Options: Abstract Applications	Return Dynamics	LINK
Mon, Mar 26	Best Practices	Intrinsic & Extrinsic	LINK
Fri, Mar 23	Market Measures	Guide to Pairs Trading Stock Indexes	LINK
Fri, Mar 23	Resize & Analyze	Week of March 19th	LINK
Fri, Mar 23	Closing the Gap - Futures Edition	Crude: Through the Lens of FX	LINK
Thu, Mar 22	Market Measures	Short VIX Strategies: Varying Timeframes	LINK
Thu, Mar 22	Strategies for IRA	Condors in an IRA	LINK
Thu, Mar 22	Trades From the Research Team LIVE	Trades From the Research Team LIVE	LINK
Wed, Mar 21	Market Measures	Managing Winners or Losers - Volatility Comparison	LINK
Wed, Mar 21	Options Jive	Is There a Trade? Week of March 19th	LINK
Wed, Mar 21	tasty BITES	Upping Returns	LINK
Tue, Mar 20	Market Measures	Sector ETFs vs Largest Components	LINK
Tue, Mar 20	Options Jive	The Hunt for Expensive Options	LINK
Tue, Mar 20	tasty Extras	An Update From Dylan Ratigan	LINK
Mon, Mar 19	Market Measures	Wide Iron Condors: Max Loss Expectations	LINK
Mon, Mar 19	The Skinny on Options: Abstract Applications	The Lognormal Distribution	LINK
Mon, Mar 19	Best Practices	Synthetics Advantage	LINK
Fri, Mar 16	Market Measures	VIX Expected Moves and POT	LINK
Fri, Mar 16	Resize & Analyze	Week of March 12th	LINK
Fri, Mar 16	Closing the Gap - Futures Edition	Triple Witching: Time to Roll Equity Futures	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: 27
IV Rank: 45 (Moderately Low)
Estimated Liquidity: Great

SPY



iShares 20+ Year Treasury Bond ETF
IV: 11
IV Rank: 29 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: -0.12

TLT



iShares Russell 2000 ETF
IV: 25
IV Rank: 70 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.88

IWM



Guggenheim CurrencyShares Euro Currency Trust
IV: 7
IV Rank: 23 (Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.23

FXE



PowerShares QQQ Trust, Series 1
IV: 30
IV Rank: 77 (High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.95

QQQ



SPDR Dow Jones Industrial Average ETF
IV: 25
IV Rank: 65 (Moderately High)
Estimated Liquidity: Good
Correlation with S&P 500: 0.94

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.

SPDR S&P Metals & Mining ETF
IV: 37
IV Rank: 43 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.63

XME



iShares China Large-Cap ETF
IV: 32
IV Rank: 75 (High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.79

FXI



iShares MSCI Emerging Index Fund
IV: 29
IV Rank: 83 (High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.91

EEM



VanEck Vectors Oil Services ETF
IV: 38
IV Rank: 65 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.71

OIH



SPDR Select Sector Fund Technology
IV: 30
IV Rank: 80 (High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.95

XLK



SPDR S&P Oil & Gas Explor & Product
IV: 37
IV Rank: 60 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.74

XOP

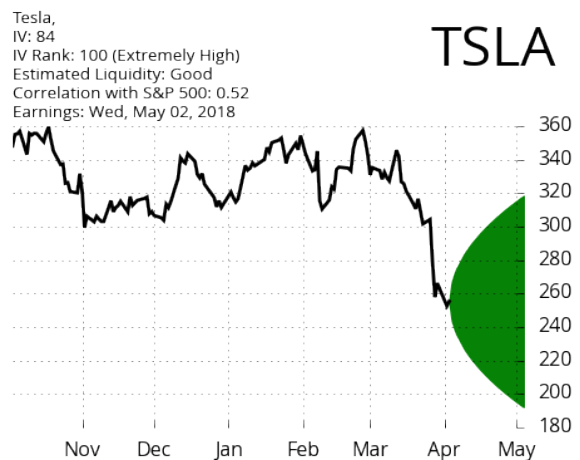
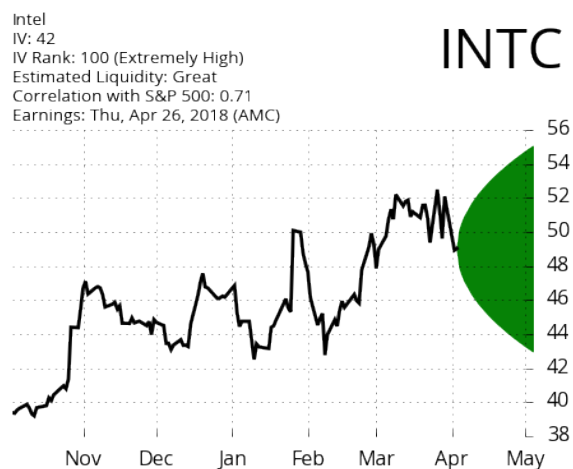
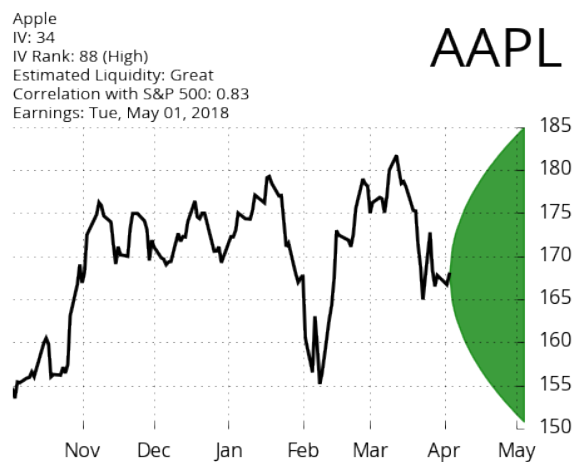
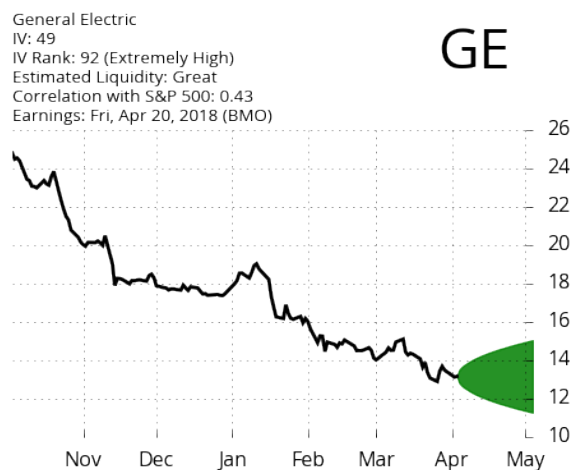
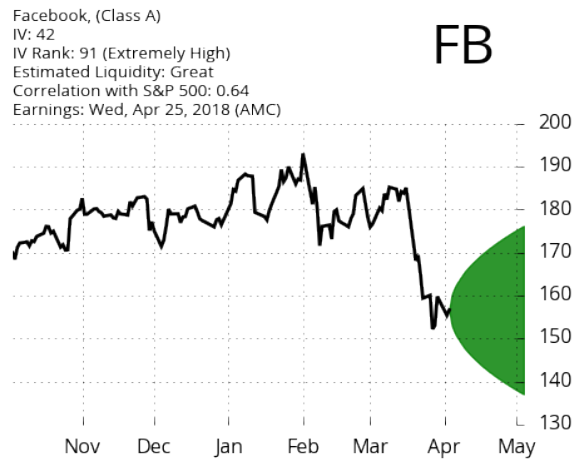
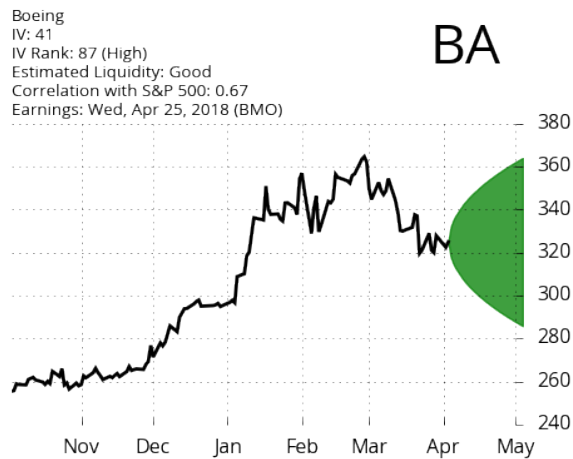




Current Stock Watchlist



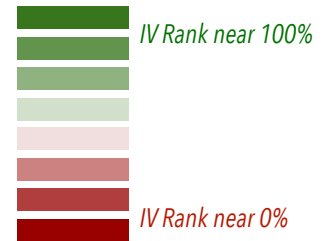
30-Day Expected Range Plots – The colored cone represents a 30-day expected theoretical price range that is calculated from the options' implied volatilities. In theory, we expect that prices will stay, with a 68% probability, within the boundary of the cone.



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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