



Cherry Picks

tastytrade's Quantitative Newsletter for Traders

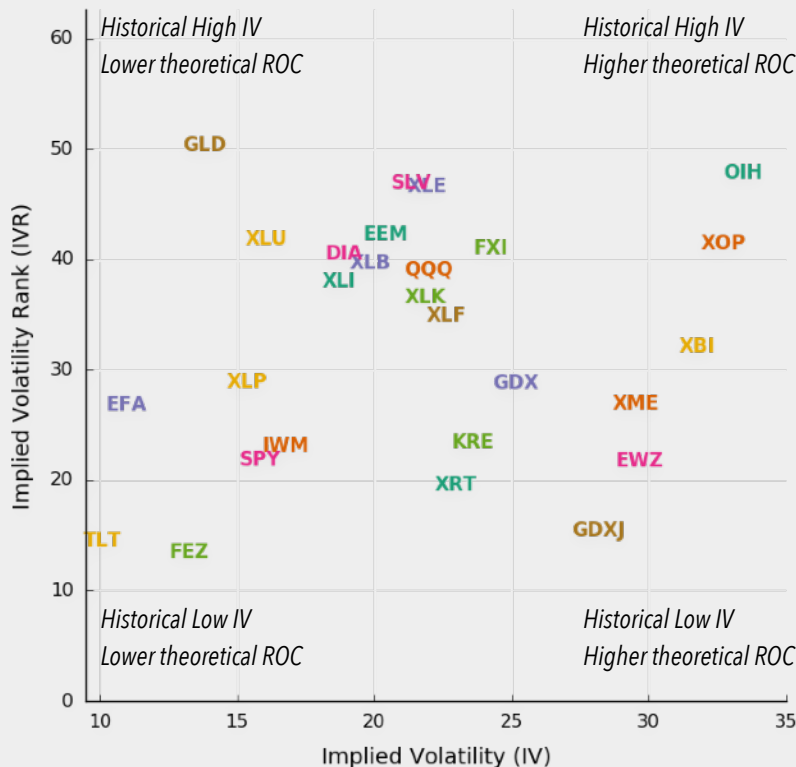
April 17, 2018

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

Implied Volatility of Popular ETFs.

Gold (GLD and /GC) is relatively high – an implied volatility rank of 52%. You'll get paid more for selling the options than you would have historically, but with an IV of only 13, you'll have a theoretical return on capital less than in any other ETF to the right of it on the chart. That doesn't mean to avoid it though – we'd tend to use it for diversification purposes. Or trade it with Silver (SLV or /SI) for a pairs trade.

Oil services (OIH) and Oil and Nat. Gas Production (XOP) are both on the upper right quadrant – meaning they have historically high implied volatility and a theoretically high return on capital.



Cherry Picks Earnings Edition.

Last Friday, we sent out the Cherry Picks Earnings Edition – if you didn't get it, you can download it here: <https://goo.gl/c2HRvm>

It is broken down into two sections. **Part 1** provides the upcoming earnings calendar – useful if you are looking to place short-term trades that take advantage of the historical *crush in implied volatility that usually occurs around earnings*.

Part 2 provides the past movement of the stocks around earnings up to the Friday expiration. Wanna know what happened during the last few quarters after the stock released earnings? See this section.

Part 1: Upcoming Earnings

Part 2: Historical Earnings

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Shows From the Research Team The Past Few Days:

Date	Segment	Title	Link
Tue, Apr 17	Market Measures	Strangle Losses Relative to Buying Power	LINK
Tue, Apr 17	Options Jive	Rolling Rules: Mechanics for Trade Defense	LINK
Tue, Apr 17	tasty BITES	Drawdowns	LINK
Mon, Apr 16	Market Measures	Diversification Options for All Environments	LINK
Mon, Apr 16	The Skinny on Options: Abstract Applications	The Color of Gamma	LINK
Mon, Apr 16	Best Practices	Probability and Number of Occurrences	LINK
Fri, Apr 13	Market Measures	2018: The Return of Two Sided Trading	LINK
Fri, Apr 13	Options Jive	Reducing Risk with Options	LINK
Fri, Apr 13	Closing the Gap - Futures Edition	FX: Where are the Extremes?	LINK
Thu, Apr 12	Market Measures	The Importance of Controlling Volatility	LINK
Thu, Apr 12	Options Jive	Finding Diversification in Commodities	LINK
Thu, Apr 12	Trades From the Research Team LIVE	Trades From the Research Team LIVE	LINK
Wed, Apr 11	Market Measures	What Makes a Losing Trade?	LINK
Wed, Apr 11	Options Jive	Is There a Trade? Week of April 9th	LINK
Wed, Apr 11	Options Jive	What's tastytrade Trading?	LINK
Tue, Apr 10	tasty Extras	tasty Extras	LINK
Tue, Apr 10	Market Measures	Managing Short Straddles: How Early is too Early?	LINK
Tue, Apr 10	Options Jive	The Tradeoff with Options	LINK
Tue, Apr 10	Best Practices	The Greeks & Implied Volatility	LINK
Mon, Apr 09	Market Measures	2 Standard Deviations & Beyond	LINK
Mon, Apr 09	The Skinny on Options: Abstract Applications	Z-Scores	LINK
Mon, Apr 09	Anatomy of a Trade	Two High Tech ICs	LINK
Fri, Apr 06	Market Measures	When Do Strangles Make Money?	LINK
Fri, Apr 06	Resize & Analyze	Week of April 2nd	LINK
Fri, Apr 06	Closing the Gap - Futures Edition	Safe Haven: Does the Yen Qualify?	LINK
Thu, Apr 05	Market Measures	Be Patient with Small Losing Positions	LINK
Thu, Apr 05	Options Jive	Delta & Probability	LINK
Thu, Apr 05	Trades From the Research Team LIVE	Trades From the Research Team LIVE	LINK



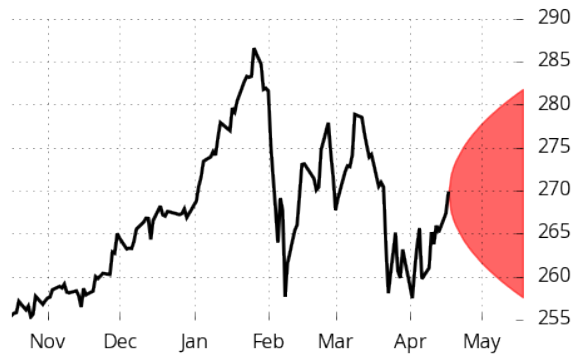
Current Market Outlook



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: 15
IV Rank: 21 (Low)
Estimated Liquidity: Great

SPY



iShares 20+ Year Treasury Bond ETF
IV: 9
IV Rank: 14 (Low)
Estimated Liquidity: Great
Correlation with S&P 500: -0.23

TLT



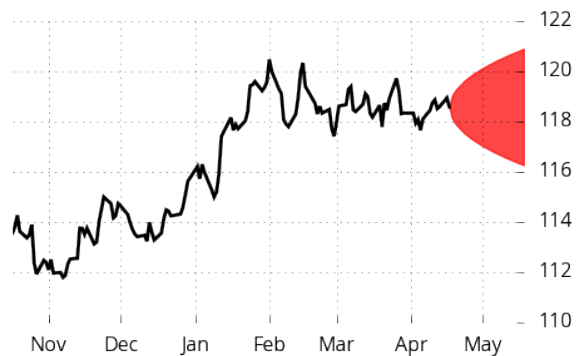
iShares Russell 2000 ETF
IV: 16
IV Rank: 22 (Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.91

IWM



Guggenheim CurrencyShares Euro Currency Trust
IV: 6
IV Rank: 14 (Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.18

FXE



PowerShares QQQ Trust, Series 1
IV: 20
IV Rank: 37 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.96

QQQ



SPDR Dow Jones Industrial Average ETF
IV: 18
IV Rank: 39 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.96

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.

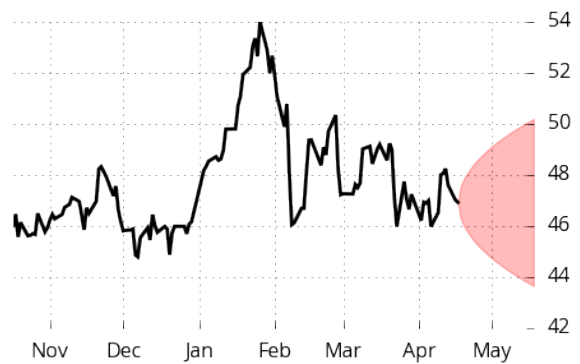
SPDR Gold Trust
IV: 13
IV Rank: 49 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.07

GLD



iShares China Large-Cap ETF
IV: 23
IV Rank: 40 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.78

FXI



SPDR Select Sector Fund Technology
IV: 19
IV Rank: 36 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.97

XLK



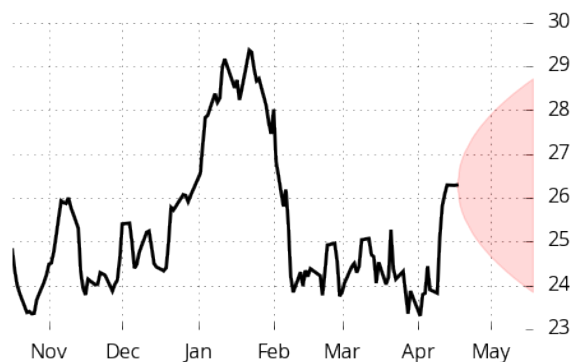
iShares MSCI Emerging Index Fund
IV: 19
IV Rank: 41 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.88

EEM



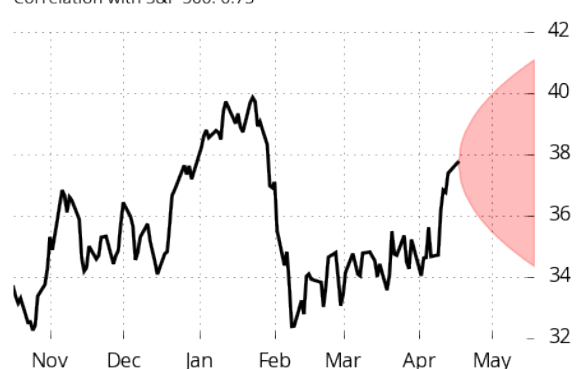
VanEck Vectors Oil Services ETF
IV: 31
IV Rank: 47 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.69

OIH



SPDR S&P Oil & Gas Explor & Product
IV: 30
IV Rank: 41 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.73

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.

United Continental Holdings
IV: 38
IV Rank: 56 (Moderately High)
Estimated Liquidity: Good
Correlation with S&P 500: 0.57
Earnings: Tue, Apr 17, 2018 (AMC)

UAL



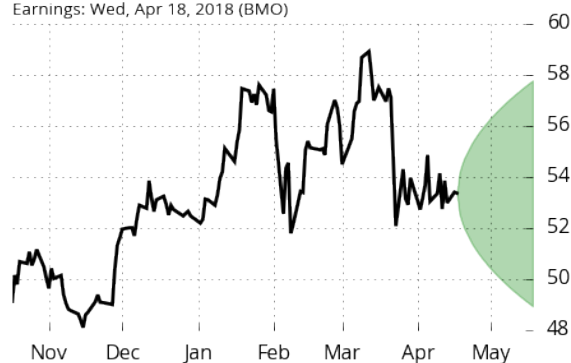
General Electric
IV: 41
IV Rank: 72 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.47
Earnings: Fri, Apr 20, 2018 (BMO)

GE



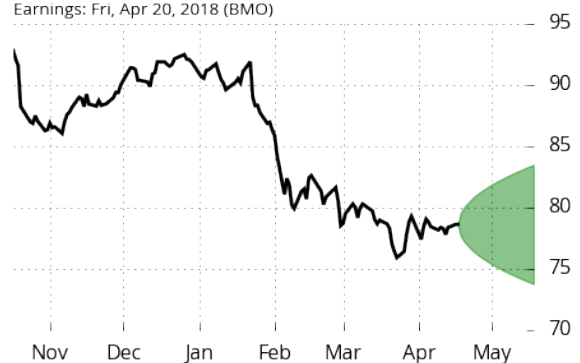
Morgan Stanley
IV: 28
IV Rank: 62 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.86
Earnings: Wed, Apr 18, 2018 (BMO)

MS



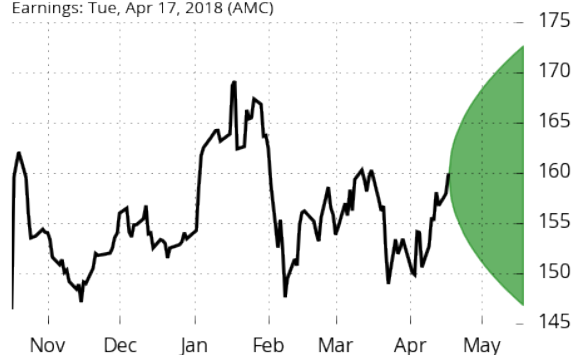
Procter & Gamble
IV: 21
IV Rank: 70 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.56
Earnings: Fri, Apr 20, 2018 (BMO)

PG



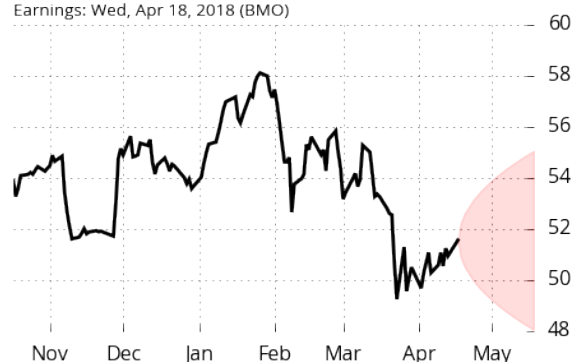
International Business Machines
IV: 27
IV Rank: 78 (High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.8
Earnings: Tue, Apr 17, 2018 (AMC)

IBM



U.S. Bancorp
IV: 23
IV Rank: 48 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.78
Earnings: Wed, Apr 18, 2018 (BMO)

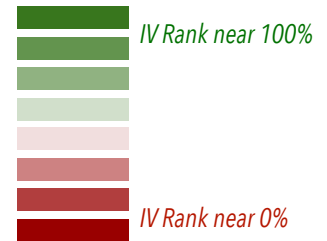
USB



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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