



Cherry Picks

tastytrade's Quantitative Newsletter for Traders

May 8, 2018

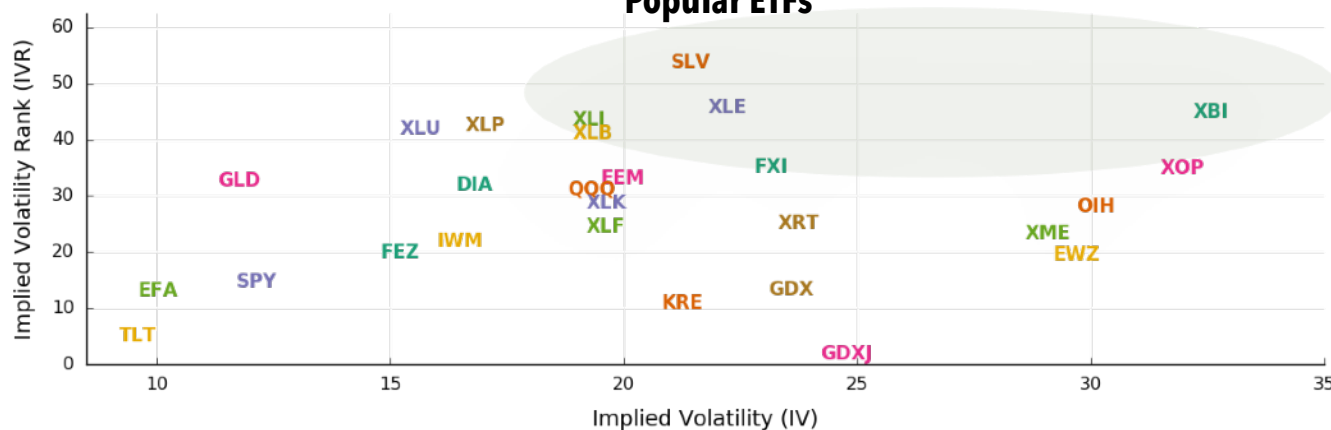
Options involve risk and are not suitable for all investors. Please read [Characteristics and Risks of Standardized Options](#) before deciding to invest.

High Combinations of High IV Rank and IV

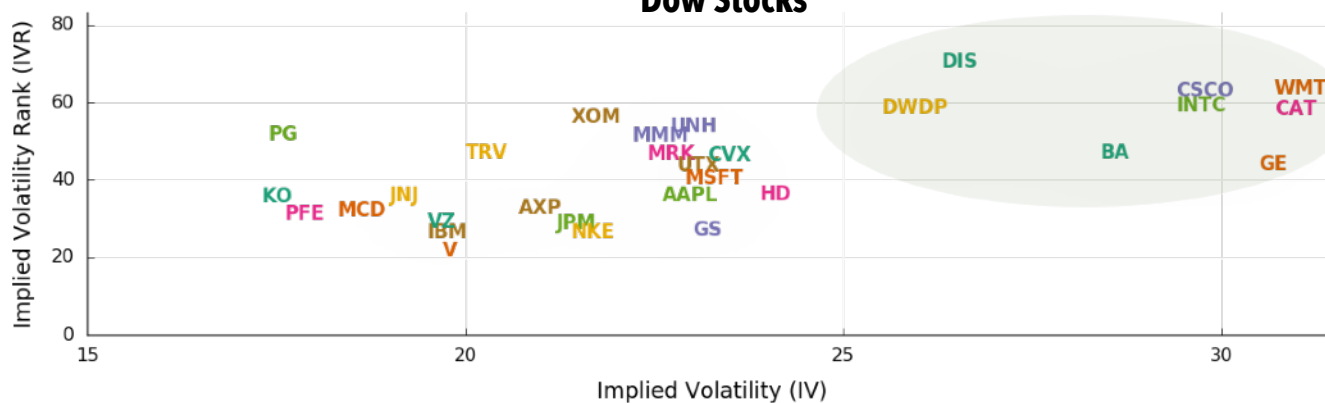
Industrials (**XLB**), silver (**SLV**), oil services (**XLE**), and materials (**XLB**) all have nice combinations of high implied volatility and implied volatility rank. Since they are ETFs we are eliminating much of the earnings risk.

On the Dow side, we have Disney (**DIS**), Cisco (**CSCO**), Wal-Mart (**WMT**), Caterpillar (**CAT**) and Intel (**INTC**).

Popular ETFs



Dow Stocks



Best of luck in trading this week. Ideas, comments, etc. We'd love to hear it.

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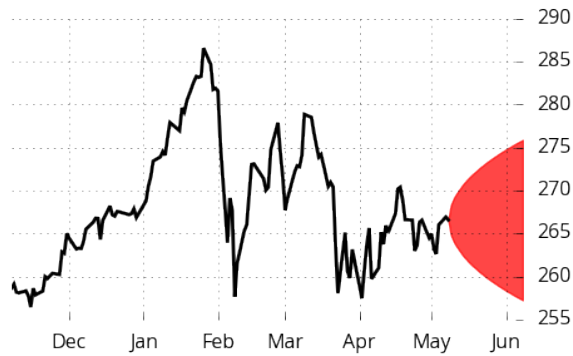
Current Market Outlook



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: 12
IV Rank: 14 (Low)
Estimated Liquidity: Great

SPY



iShares 20+ Year Treasury Bond ETF
IV: 9
IV Rank: 5 (Extremely Low)
Estimated Liquidity: Great
Correlation with S&P 500: -0.17

TLT



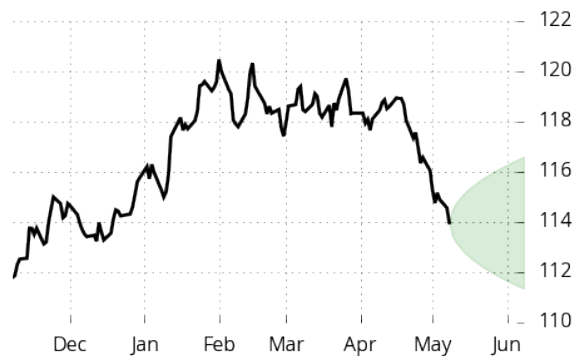
iShares Russell 2000 ETF
IV: 16
IV Rank: 21 (Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.9

IWM



Guggenheim CurrencyShares Euro Currency Trust
IV: 7
IV Rank: 52 (Moderately High)
Estimated Liquidity: Good
Correlation with S&P 500: 0.16

FXE



PowerShares QQQ Trust, Series 1
IV: 19
IV Rank: 28 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.96

QQQ



SPDR Dow Jones Industrial Average ETF
IV: 16
IV Rank: 31 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.95

DIA





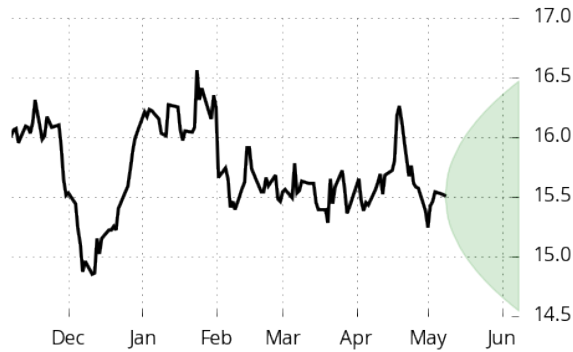
Current ETF Watchlist



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 Silver Trust
IV: 21
IV Rank: 53 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.15

SLV



Materials Select Sector SPDR
IV: 19
IV Rank: 40 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.92

XLB



SPDR Select Sector Fund Energy Select Sector
IV: 22
IV Rank: 45 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.72

XLE



SPDR S&P Oil & Gas Explor & Product
IV: 31
IV Rank: 34 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.66

XOP



SPDR Select Sector Fund Industrial
IV: 19
IV Rank: 43 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.9

XLI



iShares China Large-Cap ETF
IV: 23
IV Rank: 34 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.67

FXI





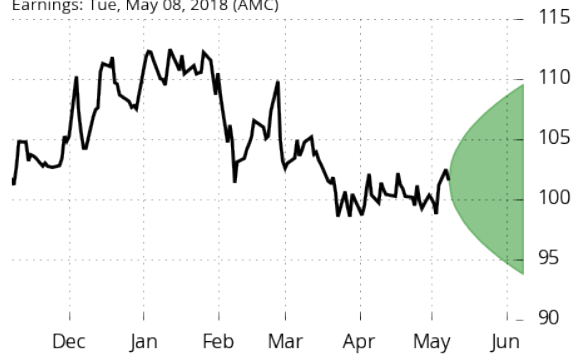
Current Stock Watchlist



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.

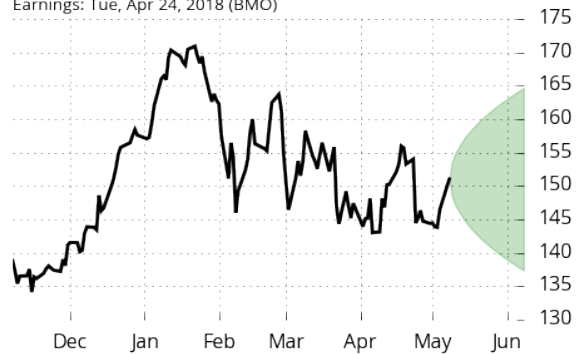
Walt Disney
IV: 26
IV Rank: 69 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.77
Earnings: Tue, May 08, 2018 (AMC)

DIS



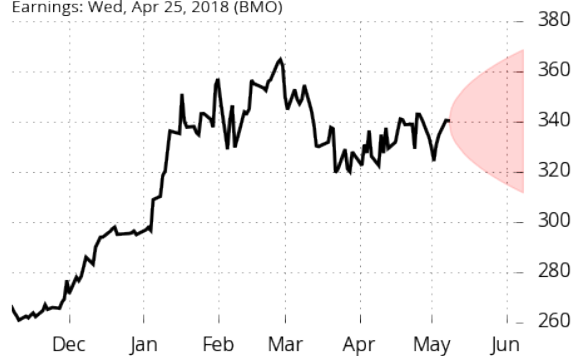
Caterpillar
IV: 31
IV Rank: 57 (Moderately High)
Estimated Liquidity: Good
Correlation with S&P 500: 0.82
Earnings: Tue, Apr 24, 2018 (BMO)

CAT



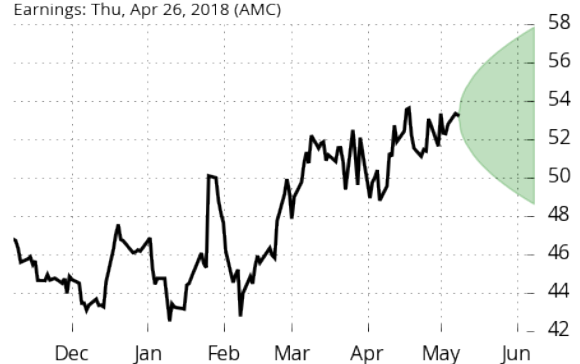
Boeing
IV: 28
IV Rank: 46 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.68
Earnings: Wed, Apr 25, 2018 (BMO)

BA



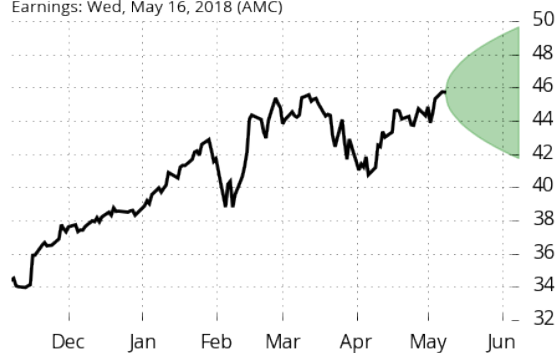
Intel
IV: 29
IV Rank: 58 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.79
Earnings: Thu, Apr 26, 2018 (AMC)

INTC



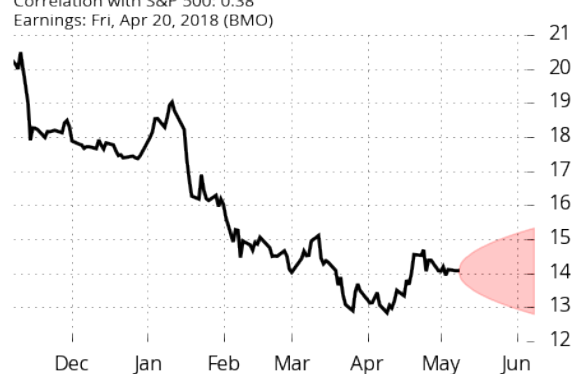
Cisco Systems,
IV: 29
IV Rank: 62 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.87
Earnings: Wed, May 16, 2018 (AMC)

CSCO



General Electric
IV: 30
IV Rank: 43 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.38
Earnings: Fri, Apr 20, 2018 (BMO)

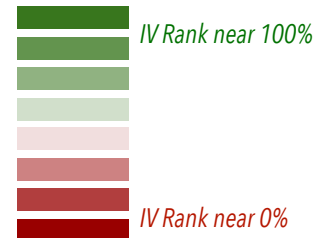
GE



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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