



# Cherry Picks

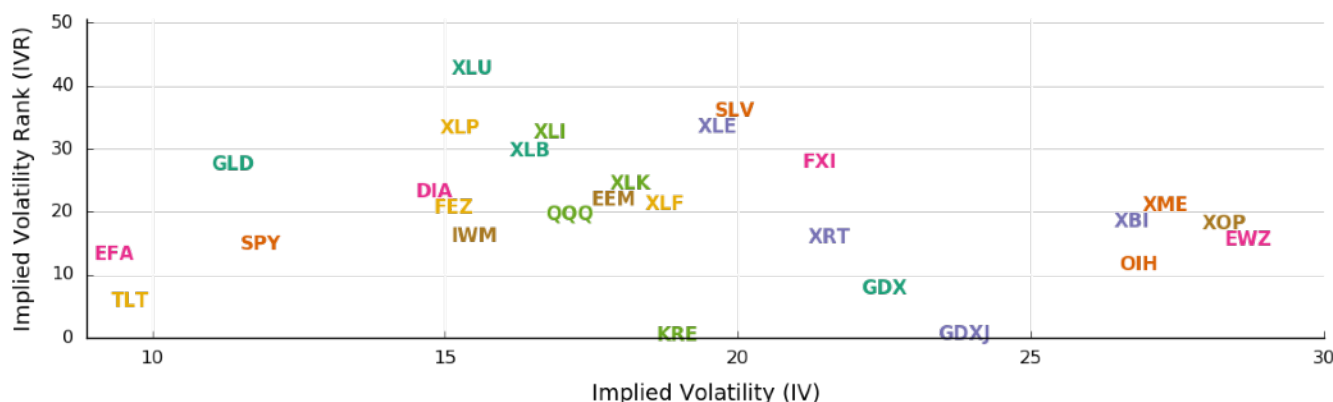
tastytrade's Quantitative Newsletter for Traders

May 15, 2018

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

## Snapshot of IV

We tend to gravitate toward the ETFs in the upper right corner since they have higher levels of IV and IV Rank.



## Research's Favorite ETFs

If you are new to trading options, I recommend you start with ETFs. Below I've provided a list of 27. ETFs do tend to have lower levels of implied volatility – this means that when you short puts (for example), you'll get paid less. But, ETFs also tend to have significantly lower probabilities of having outsized moves. For many, including myself, this is a worthwhile tradeoff.

<b>DIA</b>	Dow
<b>EEM</b>	Emerging Index Fund
<b>EFA</b>	MSCI EAFE
<b>EWZ</b>	Brazil
<b>FEZ</b>	Euro Stoxx 50
<b>FXI</b>	China Large Cap
<b>GDX</b>	Gold Miners
<b>GDXJ</b>	Junior Gold Miners
<b>GLD</b>	Gold

<b>IWM</b>	Russell 2000 ETF
<b>KRE</b>	Regional Banking
<b>OIH</b>	Oil Services
<b>QQQ</b>	Nasdaq 100
<b>SLV</b>	Silver
<b>SPY</b>	S&P 500
<b>TLT</b>	20+ Year Treasury Bond ETF
<b>XBI</b>	Biotech
<b>XLB</b>	Materials

<b>XLE</b>	Energy Select Sector
<b>XLF</b>	Financial
<b>XLI</b>	Industrial
<b>XLK</b>	Tech
<b>XLP</b>	Consumer Staples
<b>XLU</b>	Utilities
<b>XME</b>	Metals and Mining
<b>XOP</b>	Oil & Gas Exploration & Prod.
<b>XRT</b>	Retail

If you have any conspiracy theories, trade ideas/questions, etc. don't be afraid to reach out. Best of luck in your trading this week.

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# Upcoming Earnings



## Upcoming Earnings

Symbol	Description	Expected Report Date	Time of Day	Weekly Options	In Dow?	In S&P 500?	In Russell 2000?	In tastytrade Watchlist?
<b>M</b>	Macy's Inc	Wed May-16	Before Open	Yes	-	Yes	-	-
<b>CSCO</b>	Cisco Systems	Wed May-16	After Close	Yes	Yes	Yes	-	-
<b>WMT</b>	Walmart	Thu May-17	Before Open	Yes	Yes	Yes	-	-
<b>AMAT</b>	Applied Materials	Thu May-17	After Close	Yes	-	Yes	-	-
<b>DE</b>	Deere &	Fri May-18	Before Open	Yes	-	Yes	-	-
<b>AZO</b>	AutoZone	Tue May-22	Before Open	Yes	-	Yes	-	-
<b>TIF</b>	Tiffany & Co.	Wed May-23	Before Open	Yes	-	Yes	-	-
<b>TGT</b>	Target	Wed May-23	Before Open	Yes	-	Yes	-	-
<b>LOW</b>	Lowe's Companies	Wed May-23	Before Open	Yes	-	Yes	-	-
<b>HPQ</b>	HP	Wed May-23	n/a	Yes	-	Yes	-	Yes
<b>MDT</b>	Medtronic plc.s	Thu May-24	Before Open	Yes	-	Yes	-	-
<b>BBY</b>	Best Buy Co.	Thu May-24	Before Open	Yes	-	Yes	-	-
<b>GPS</b>	Gap	Thu May-24	After Close	Yes	-	Yes	-	-
<b>ADSK</b>	Autodesk	Thu May-24	After Close	Yes	-	Yes	-	-
<b>DLTR</b>	Dollar Tree	Thu May-24	n/a	Yes	-	Yes	-	-
<b>CRM</b>	Salesforce.com Inc	Tue May-29	After Close	Yes	-	Yes	-	-
<b>KORS</b>	Michael Kors Holdings Limiteds	Wed May-30	Before Open	Yes	-	Yes	-	-
<b>CIEN</b>	Ciena	Thu May-31	Before Open	Yes	-	-	Yes	-
<b>COST</b>	Costco Wholesale	Thu May-31	After Close	Yes	-	Yes	-	Yes
<b>ANF</b>	Abercrombie & Fitch	Fri Jun-01	Before Open	Yes	-	-	Yes	-
<b>AVGO</b>	Broadcom	Thu Jun-07	After Close	Yes	-	Yes	-	-
<b>DG</b>	Dollar General	Thu Jun-07	n/a	Yes	-	Yes	-	-

Symbol	Historical Price Move From Immediately Before Earnings to that Friday's Expiration											
	4th Q	3rd Q	2nd Q	1st Q	4th Q	3rd Q	2nd Q	1st Q	4th Q	3rd Q	2nd Q	1st Q
	2017	2017	2017	2017	2016	2016	2016	2016	2015	2015	2015	2015
<b>BBY</b>	1%	-3%	-13%	17%	1%	11%	20%	-3%	3%	-3%	23%	-2%
<b>COST</b>	1%	3%	-6%	2%	-4%	4%	3%	3%	-1%	-5%	1%	-2%
<b>CSCO</b>	5%	5%	-6%	-8%	3%	-4%	-1%	5%	12%	-6%	4%	1%
<b>DG</b>	7%	1%	-5%	8%	-1%	-4%	-18%	7%	13%	6%	-2%	4%
<b>LOW</b>	-11%	-3%	-3%	-2%	10%	0%	-4%	5%	2%	4%	-3%	-3%
<b>M</b>	11%	14%	-10%	-20%	3%	8%	17%	-16%	6%	-17%	-6%	2%
<b>TGT</b>	-6%	-3%	2%	3%	-14%	7%	-7%	-7%	6%	-3%	-2%	2%
<b>WMT</b>	-11%	9%	-2%	5%	4%	-4%	0%	11%	-2%	4%	-7%	-5%



## Shows From the Research Team The Past Few Days:

Date	Segment	Title	Link
Mon, May 14	Market Measures	Implied Volatility: Magnitude of Direction	<a href="#">LINK</a>
Mon, May 14	The Skinny on Options: Abstract Applications	Negative Drift?	<a href="#">LINK</a>
Mon, May 14	Best Practices	Adding Diversification	<a href="#">LINK</a>
Fri, May 11	Market Measures	Rolling Covered Calls	<a href="#">LINK</a>
Fri, May 11	Resize & Analyze	Week of May 7th	<a href="#">LINK</a>
Fri, May 11	Closing the Gap - Futures Edition	Trades Within a "One Way" \$ Move	<a href="#">LINK</a>
Thu, May 10	Market Measures	Stock Candidates for Short Puts	<a href="#">LINK</a>
Thu, May 10	tasty Extras	Stock or Options   Trading Time	<a href="#">LINK</a>
Thu, May 10	Trades From the Research Team LIVE	Trades From the Research Team LIVE	<a href="#">LINK</a>
Wed, May 09	Market Measures	Replacing USO with Energy & Oil ETFs	<a href="#">LINK</a>
Wed, May 09	Options Jive	Is There a Trade? Week of May 7th	<a href="#">LINK</a>
Wed, May 09	Options Jive	What is tastytrade Trading? Neutral Equity Plays	<a href="#">LINK</a>
Tue, May 08	Market Measures	IV Rank & Buying Options	<a href="#">LINK</a>
Tue, May 08	Options Jive	Why Trade VIX Options?	<a href="#">LINK</a>
Tue, May 08	Anatomy of a Trade	A Rollercoaster Experience	<a href="#">LINK</a>
Mon, May 07	Market Measures	Narrow Width ICs - Managing Winners	<a href="#">LINK</a>
Mon, May 07	The Skinny on Options: Abstract Applications	Convexity Risk: Part 2 - Options	<a href="#">LINK</a>
Mon, May 07	Best Practices	Trade Timing	<a href="#">LINK</a>
Fri, May 04	Market Measures	Long Premium	<a href="#">LINK</a>
Fri, May 04	Resize & Analyze	Week of April 30th	<a href="#">LINK</a>
Fri, May 04	Closing the Gap - Futures Edition	Possible Pairs	<a href="#">LINK</a>
Thu, May 03	Market Measures	SPY & VIX   Inverse Strategy Results	<a href="#">LINK</a>
Thu, May 03	tasty Extras	Stock or Options   Playing the Probabilities	<a href="#">LINK</a>
Thu, May 03	Trades From the Research Team LIVE	Trades From the Research Team LIVE	<a href="#">LINK</a>
Wed, May 02	Market Measures	Actual Moves	<a href="#">LINK</a>
Wed, May 02	Options Jive	Is There a Trade? Week of April 30th	<a href="#">LINK</a>
Wed, May 02	Options Jive	What is tastytrade Trading? Tech Plays	<a href="#">LINK</a>
Tue, May 01	Market Measures	Apple Earnings and Straddles	<a href="#">LINK</a>
Tue, May 01	Options Jive	How to Add Occurrences	<a href="#">LINK</a>
Tue, May 01	tasty BITES	Option Pricing	<a href="#">LINK</a>
Mon, Apr 30	Market Measures	Gold & Stocks: Positive or Negative Correlation?	<a href="#">LINK</a>
Mon, Apr 30	The Skinny on Options: Abstract Applications	Convexity Risk: Part 1 - Bonds	<a href="#">LINK</a>
Mon, Apr 30	Best Practices	Step by Step Pairs Trading	<a href="#">LINK</a>



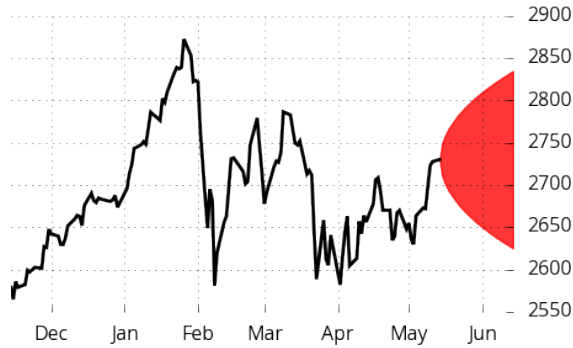
# Current Market Outlook



**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.

S&P500INDEX  
IV: 13  
IV Rank: 11 (Low)  
Estimated Liquidity: Great

## SPX



iShares 20+ Year Treasury Bond ETF  
IV: 9  
IV Rank: 5 (Extremely Low)  
Estimated Liquidity: Great

## TLT



iShares Russell 2000 ETF  
IV: 15  
IV Rank: 16 (Low)  
Estimated Liquidity: Great

## IWM



Guggenheim CurrencyShares Euro Currency Trust  
IV: 7  
IV Rank: 47 (Moderately Low)  
Estimated Liquidity: Good

## FXE



PowerShares QQQ Trust, Series 1  
IV: 17  
IV Rank: 19 (Low)  
Estimated Liquidity: Great

## QQQ



SPDR Dow Jones Industrial Average ETF  
IV: 14  
IV Rank: 21 (Low)  
Estimated Liquidity: Good

## 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 Select Sector Fund Utilities  
IV: 15  
IV Rank: 42 (Moderately Low)  
Estimated Liquidity: Great

**XLU**



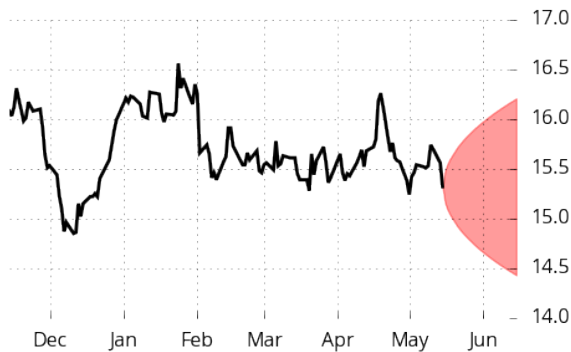
SPDR S&P Metals & Mining ETF  
IV: 27  
IV Rank: 18 (Low)  
Estimated Liquidity: Good

**XME**



iShares Silver Trust  
IV: 19  
IV Rank: 33 (Moderately Low)  
Estimated Liquidity: Great

**SLV**



SPDR S&P Oil & Gas Explor & Product  
IV: 28  
IV Rank: 18 (Low)  
Estimated Liquidity: Great

**XOP**



SPDR Select Sector Fund Energy Select Sector  
IV: 19  
IV Rank: 33 (Moderately Low)  
Estimated Liquidity: Great

**XLE**



iShares Inc iShares MSCI Brazil ETF  
IV: 28  
IV Rank: 15 (Low)  
Estimated Liquidity: Great

**EWZ**





# Current Stock Watchlist

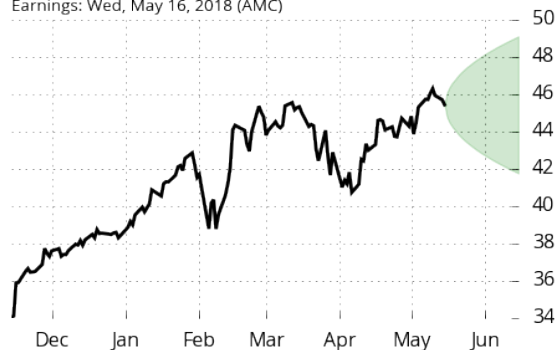


**30-Day Expected Range Plots** – The colored cone represents a 30-day expected theoretical price range that is calculated from the options' implied volatilities. In theory, we expect that prices will stay, with a 68% probability, within the boundary of the cone.

Cisco Systems,  
IV: 27  
IV Rank: 54 (Moderately High)  
Estimated Liquidity: Great

## CSCO

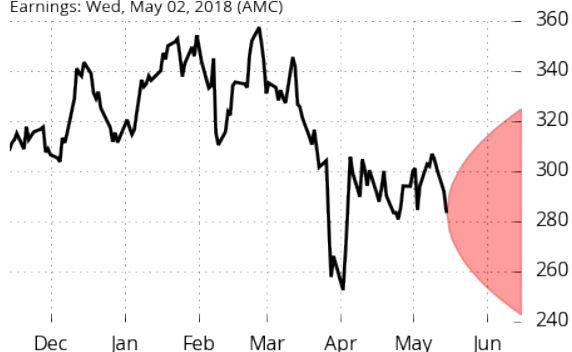
Earnings: Wed, May 16, 2018 (AMC)



Tesla,  
IV: 49  
IV Rank: 33 (Moderately Low)  
Estimated Liquidity: Good

## TSLA

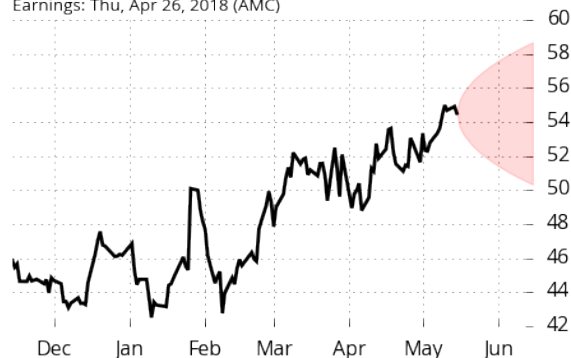
Earnings: Wed, May 02, 2018 (AMC)



Intel  
IV: 26  
IV Rank: 47 (Moderately Low)  
Estimated Liquidity: Great

## INTC

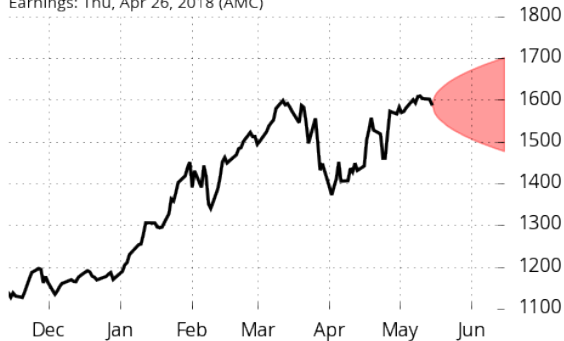
Earnings: Thu, Apr 26, 2018 (AMC)



Amazon.com,  
IV: 24  
IV Rank: 33 (Moderately Low)  
Estimated Liquidity: Great

## AMZN

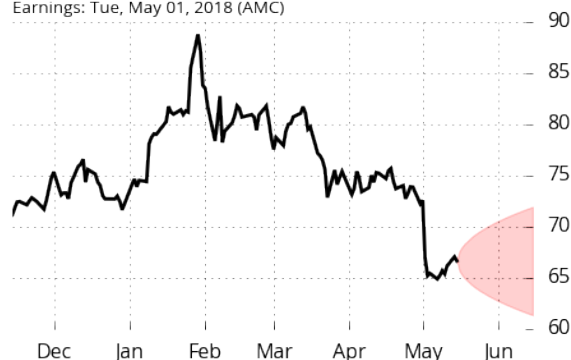
Earnings: Thu, Apr 26, 2018 (AMC)



Gilead Sciences,  
IV: 27  
IV Rank: 45 (Moderately Low)  
Estimated Liquidity: Great

## GILD

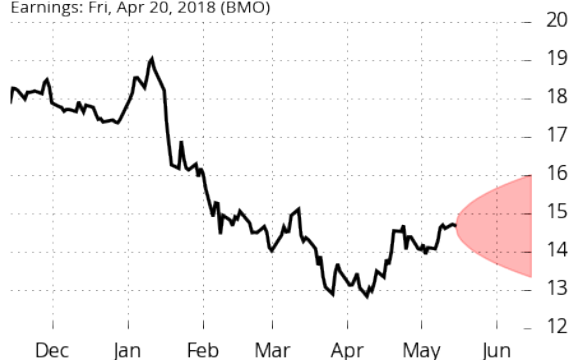
Earnings: Tue, May 01, 2018 (AMC)



General Electric  
IV: 31  
IV Rank: 39 (Moderately Low)  
Estimated Liquidity: Great

## GE

Earnings: Fri, Apr 20, 2018 (BMO)

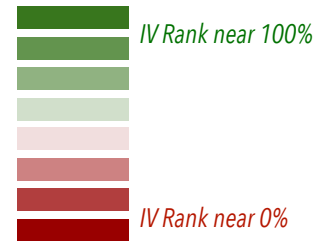




# Reading this Report

**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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