



# Cherry Picks

tastytrade's Quantitative Newsletter for Traders

May 22, 2018

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

## Interesting ETFs

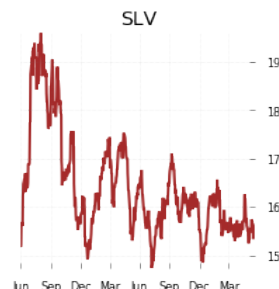
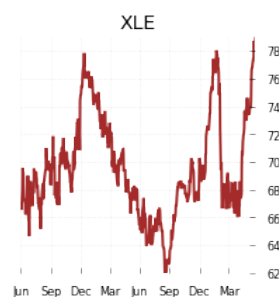
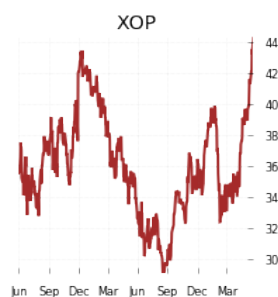
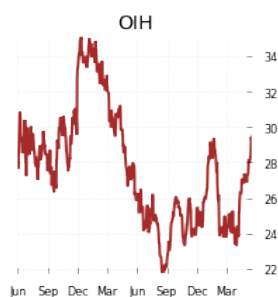
We've listed below a few ETFs that have potential – either in movement (at extremes) or in relatively high IV Rank.

Symbol	Description	IV	IV Rank	Price
XLP	Consumer Staples ETF	14	27	49.75
OIH	Oil Services ETF	26	14	29.51
XOP	Oil & Gas Explore & Pro. ETF	28	19	44.22
XLE	Energy Sector ETF	19	31	78.91
EWZ	Brazil ETF	31	33	38.39
XRT	Retail Sector ETF	20	10	46.77
XLU	Utility Sector ETF	14	37	49.24
XLV	Health Care Sector ETF	15	16	83.28

## Staples Down 15% from Peak. Potential?

Take a look at XLP and the stocks that make up 63% of the ETF.

Name	Symbol	Weight in XLP
Procter & Gamble Company	PG	12%
Coca-Cola Company	KO	11%
PepsiCo Inc.	PEP	9%
Philip Morris International Inc.	PM	8%
Walmart Inc.	WMT	8%
Costco Wholesale Corporation	COST	5%
Altria Group Inc	MO	4%
Mondelez International Inc.	MDLZ	4%
Walgreens Boots Alliance Inc	WBA	4%
Colgate-Palmolive Company	CL	4%



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## Upcoming Earnings

Symbol	Description	Expected Report Date	Time of Day	Dividend Yield (%)	Weekly Options	In Dow?	In S&P 500?	In Russell 2000?	In tastytrade Watchlist?
HPE	Hewlett Packard Enterprise Comp	Tue May-22	After Close	1.82	Yes	-	Yes	-	-
LOW	Lowe's Companies	Wed May-23	Before Open	2.01	Yes	-	Yes	-	-
RL	Ralph Lauren Corp	Wed May-23	Before Open	2.19	Yes	-	Yes	-	-
TIF	Tiffany & Co	Wed May-23	Before Open	2.13	Yes	-	Yes	-	-
TGT	Target Corp	Wed May-23	Before Open	3.3	Yes	-	Yes	-	-
BBY	Best Buy Co	Thu May-24	Before Open	2.43	Yes	-	Yes	-	-
ROST	Ross Stores Inc	Thu May-24	After Close	1	-	-	Yes	-	-
GPS	Gap Inc	Thu May-24	After Close	3.37	Yes	-	Yes	-	-
HPQ	Hewlett-Packard Company	Tue May-29	After Close	2.47	Yes	-	Yes	-	Yes
CRM	Salesforce.Com Inc	Tue May-29	After Close	-	Yes	-	Yes	-	-
CIEN	Ciena Corp	Thu May-31	Before Open	-	Yes	-	-	Yes	-
COST	Costco Wholesale	Thu May-31	After Close	1.23	Yes	-	Yes	-	Yes
ANF	Abercrombie & Fitch Company	Fri Jun-01	Before Open	3.1	Yes	-	-	Yes	-
AVGO	Broadcom Ltd	Thu Jun-07	After Close	1.67	Yes	-	Yes	-	-
FDX	Fedex Corp	Tue Jun-19	After Close	0.87	Yes	-	Yes	-	-
ADBE	Adobe Systems Inc	Tue Jun-19	n/a	-	Yes	-	Yes	-	-
LEN	Lennar Corp	Tue Jun-19	n/a	0.28	-	-	Yes	-	-

## Historical Earnings Moves for Select Stocks

It is often nice to examine historical moves in stocks around earnings. At the very least, it provides some context.

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
	2017	2017	2017	2017	2016	2016	2016	2016	2015	2015
ADBE	3%	1%	-5%	3%	4%	-1%	7%	-8%	4%	3%
ANF	4%	24%	28%	3%	5%	-14%	-26%	-19%	10%	25%
AVGO	-5%	-2%	-4%	8%	1%	5%	-2%	5%	6%	12%
BBY	1%	-3%	-13%	17%	1%	11%	20%	-3%	3%	-3%
CIEN	16%	1%	-9%	17%	-10%	14%	7%	18%	-17%	-18%
COST	1%	3%	-6%	2%	-4%	4%	3%	3%	-1%	-5%
CRM	5%	-2%	1%	0%	1%	3%	-5%	4%	12%	5%
FDX	-9%	3%	2%	3%	-2%	-3%	7%	-8%	13%	-1%
GPS	8%	7%	0%	-4%	3%	-17%	4%	4%	-1%	8%
HPE	11%	-6%	-7%	-7%	-7%	2%	-5%	12%	14%	5%
HPQ	2%	-3%	9%	-5%	0%	8%	-2%	-14%		
LEN	8%	4%	6%	-1%	-3%	0%	-4%	-4%	2%	-2%
LOW	-11%	-3%	-3%	-2%	10%	0%	-4%	5%	2%	4%
RL	-4%	1%	7%	-5%	-13%	5%	14%	1%	-24%	21%
ROST	-4%	10%	11%	2%	-2%	4%	3%	-5%	2%	10%
TGT	-6%	-3%	2%	3%	-14%	7%	-7%	-7%	6%	-3%
TIF	-5%	3%	-1%	-7%	3%	4%	7%	-2%	3%	4%



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

Date	Segment	Title	Link
Mon, May 21	Market Measures	How to Trade Currency Options	<a href="#">LINK</a>
Mon, May 21	The Skinny on Options: Abstract Applications	Biased Probabilities	<a href="#">LINK</a>
Mon, May 21	tasty BITES	Reducing BPR: Iron Fly vs Straddle	<a href="#">LINK</a>
Fri, May 18	Market Measures	Ultimate Guide to Managing Straddles	<a href="#">LINK</a>
Fri, May 18	Resize & Analyze	Week of May 14th	<a href="#">LINK</a>
Fri, May 18	Closing the Gap - Futures Edition	Interest Rates, the Dollar, and Commodities	<a href="#">LINK</a>
Thu, May 17	Market Measures	Pushing the Limit - Capital Allocation	<a href="#">LINK</a>
Thu, May 17	tasty Extras	Stock or Options   Choose Your Own Direction	<a href="#">LINK</a>
Thu, May 17	Trades From the Research Team LIVE	Trades From the Research Team LIVE	<a href="#">LINK</a>
Wed, May 16	Market Measures	Tight Iron Condors	<a href="#">LINK</a>
Wed, May 16	Options Jive	What Markets Are Moving?	<a href="#">LINK</a>
Wed, May 16	Options Jive	What's tastytrade Trading? Taking Directions	<a href="#">LINK</a>
Tue, May 15	Market Measures	Finding Delta Neutrality	<a href="#">LINK</a>
Tue, May 15	Options Jive	Neutral Strategies	<a href="#">LINK</a>
Tue, May 15	Anatomy of a Trade	Defending Wide Iron Condors	<a href="#">LINK</a>
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>



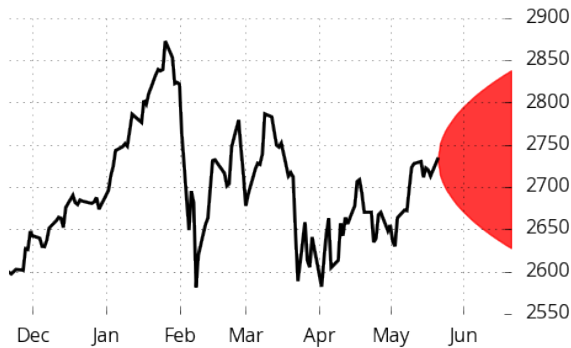
# Current Market Outlook



**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  
Correlation with S&P 500: 1.0

## SPX



iShares 20+ Year Treasury Bond ETF  
IV: 10  
IV Rank: 20 (Low)  
Estimated Liquidity: Great  
Correlation with S&P 500: -0.17

## TLT



iShares Russell 2000 ETF  
IV: 14  
IV Rank: 13 (Low)  
Estimated Liquidity: Great  
Correlation with S&P 500: 0.87

## IWM



Guggenheim CurrencyShares Euro Currency Trust  
IV: 8  
IV Rank: 64 (Moderately High)  
Estimated Liquidity: Good  
Correlation with S&P 500: 0.08

## FXE



Invesco QQQ Trust, Series 1  
IV: 17  
IV Rank: 22 (Low)  
Estimated Liquidity: Great  
Correlation with S&P 500: 0.96

## QQQ



SPDR Dow Jones Industrial Average ETF  
IV: 14  
IV Rank: 21 (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.

SPDR Select Sector Fund Consumer Staples  
IV: 13  
IV Rank: 26 (Moderately Low)  
Estimated Liquidity: Great  
Correlation with S&P 500: 0.77

## XLP



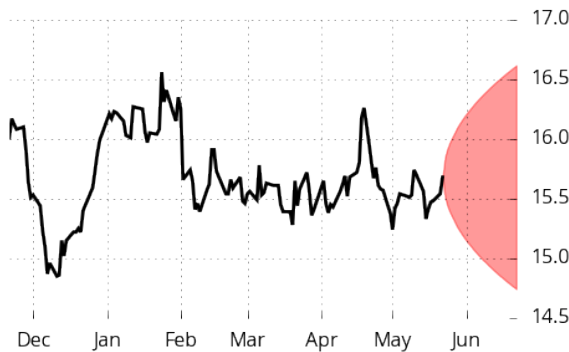
SPDR S&P Oil & Gas Explor & Product  
IV: 28  
IV Rank: 18 (Low)  
Estimated Liquidity: Great  
Correlation with S&P 500: 0.59

## XOP



iShares Silver Trust  
IV: 20  
IV Rank: 33 (Moderately Low)  
Estimated Liquidity: Great  
Correlation with S&P 500: 0.13

## SLV



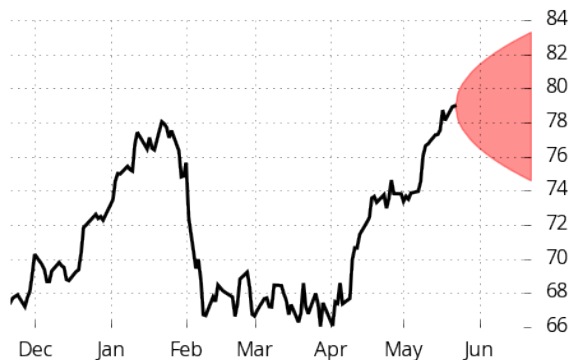
iShares Inc iShares MSCI Brazil ETF  
IV: 31  
IV Rank: 32 (Moderately Low)  
Estimated Liquidity: Great  
Correlation with S&P 500: 0.55

## EWZ



SPDR Select Sector Fund Energy Select Sector  
IV: 18  
IV Rank: 31 (Moderately Low)  
Estimated Liquidity: Great  
Correlation with S&P 500: 0.7

## XLE



SPDR Select Sector Fund Health Care  
IV: 14  
IV Rank: 15 (Low)  
Estimated Liquidity: Great  
Correlation with S&P 500: 0.9

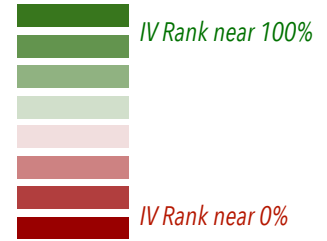
## XLV



# 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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