



tastytrade Research presents

Cherry Picks

April 18, 2017

Earnings Season. Earnings season is here once again and with this comes opportunity: options tend to be priced richer due to the uncertainty surrounding the release of the quarterly earnings reports.

For example, the following stocks have earnings this week; the closest expiration pricing in the highest level of uncertainty:

Symbol	Earning Release	Apr 21's IV	May 19's IV	June 16's IV
EBAY	Wed, After Close	83	36	30
QCOM	Wed, After Close	60	32	31
V	Thurs, After Close	45	25	24

There are two different strategies when it comes to trading these earnings events:

1. The first is a more hyperactive approach that uses the weekly expiration closest to the earnings date. With this approach, the trader places a short premium strategy hoping to make money on the collapse of implied volatility. While the success rate is historically high, an earnings surprise may cause a large move in the underlying stock; since there is little time before expiration, these trades often require quick management. An advantage is the potentially large return on capital.
2. The second approach also takes advantage of the historically high implied volatility; the main difference is it uses the back month. An outlier move will have less of an impact on the options because more time is

remaining until expiration. While the return on capital may not be as high as strategy 1, the trade's potential is often considerably higher.

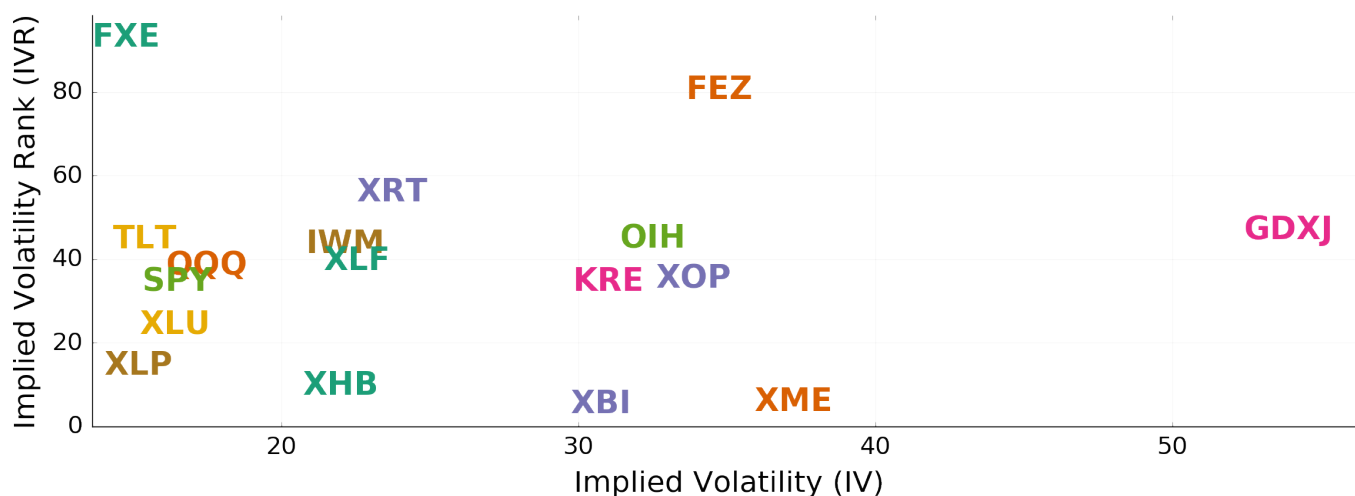
Our choice comes down to personal preference and objectives; most of us in Research tend to use both strategies.

Sector ETFs. The Euro Stoxx 50 (FEZ), a group of 50 of the largest companies in Europe, is currently displaying some of the highest IV Rank, along with the Euro Currency ETF (FXE). The Junior Gold Miners (GDXJ) is also still displaying high implied volatility.

Below we list a few trade ideas:

Strategy	Max Profit	PoP	Breakeven
FXE Skewed Strangle JUNE 107/102 Strangle	\$163	60%	100.37/108.63
FEZ Tight Iron Condor MAY 40/36/35/30 Iron Condor	\$190	51%	33.10/37.90
GDXJ Jade Lizard MAY 41/40/33 Jade Lizard	\$101	75%	32

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Earnings trades offer investors opportunities in stocks with the largest potential of a volatility contraction the day after a company announces their quarterly earnings report. For trade ideas watch **"In the Hot Seat with Pete"** daily at 2:30pm CST.

Expected Date	Symbol	Description	Release Time	Market Cap (Billions)	Weekly Options
Wed Apr-19	LVS	Las Vegas Sands Corp.	n/a	44.86	Yes
Wed Apr-19	MS	Morgan Stanley	Before Open	77.43	Yes
Wed Apr-19	ABT	Abbott Laboratories	Before Open	74.84	Yes
Wed Apr-19	QCOM	QUALCOM	After Close	78.12	Yes
Wed Apr-19	AXP	American Express Company	After Close	69.1	Yes
Wed Apr-19	KMI	Kinder Morgan	After Close	47.71	Yes
Wed Apr-19	EBAY	eBay	After Close	37.44	Yes
Thu Apr-20	VZ	Verizon Communications	Before Open	198.99	Yes
Thu Apr-20	PM	Philip Morris International	Before Open	178.01	Yes
Thu Apr-20	V	Visa	After Close	208.73	Yes
Fri Apr-21	GE	General Electric Company	Before Open	258.6	Yes
Mon Apr-24	NEM	Newmont Mining Corp.	After Close	18.37	Yes
Mon Apr-24	AA	Alcoa Corp.	After Close	5.77	Yes
Tue Apr-25	COH	Coach	n/a	11.15	Yes
Tue Apr-25	KO	Coca-Cola Company	Before Open	184.92	Yes
Tue Apr-25	MMM	3M Company	Before Open	113.49	Yes
Tue Apr-25	CAT	Caterpillar	Before Open	55.21	Yes
Tue Apr-25	VLO	Valero Energy Corp.	Before Open	29.4	Yes
Tue Apr-25	FCX	Freeport-McMoRan	Before Open	18.43	Yes
Tue Apr-25	T	AT&T	After Close	247.51	Yes
Tue Apr-25	TXN	Texas Instruments Corporation	After Close	78.69	Yes
Tue Apr-25	X	United States Steel Corp.	After Close	5.03	Yes
Tue Apr-25	CREE	Cree	After Close	2.39	Yes

Date	Time (CST)	Economic Report
Wed, Apr 19	9:30	Energy Dep. Crude Oil Inventories
	9:30	Energy Dep. Gasoline Inventories
	18:50	Trade Balance (Japan)
Thur, Apr 20	9:30	EIA Natural Gas Stocks Change
Fri, Apr 21	3:00	Services PMI (Euro)
	3:00	Manufacturing PMI (Euro)
	8:45	Manufacturing PMI (US)



Upcoming Dividends

Below we have select S&P 500 stocks 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 Amount	Payment Date	Last Price
CLX	Clorox	Mon, Apr 17	0.8	Fri, May 05	135.27
F	Ford Motor	Tue, Apr 18	0.15	Thu, Jun 01	11.1184
CVS	CVS Health Corp.	Wed, Apr 19	0.5	Mon, May 01	77.95
PNR	Pentair	Wed, Apr 19	0.345	Fri, May 05	63.21
CL	Colgate-Palmolive	Wed, Apr 19	0.4	Mon, May 15	74.255
PG	Procter & Gamble	Wed, Apr 19	0.69	Mon, May 15	90.72
CAT	Caterpillar	Thu, Apr 20	0.77	Sat, May 20	93.81
LOW	Lowes Companies	Mon, Apr 24	0.35	Wed, May 10	82.25
FAST	Fastenal	Mon, Apr 24	0.32	Wed, May 24	45.0575
LNT	Alliant Energy Corp.	Wed, Apr 26	0.315	Mon, May 15	39.86
NI	NiSource	Wed, Apr 26	0.175	Fri, May 19	24.03
UNM	Unum Group	Wed, Apr 26	0.2	Fri, May 19	45.35
CAG	ConAgra Brands	Wed, Apr 26	0.2	Tue, May 30	40.7493
SIG	Signet Jewelers	Wed, Apr 26	0.31	Wed, May 31	66.83

Below are the segments that got among the highest views per day.

Date	Segment	Title
Tue, Apr 18	Market Measures	Equity Indices: Outperformers and Underperformers
	Options Jive	Opportunity in Sector ETFs
	tasty BITES	Earnings in Small Accounts
Mon, Apr 17	Options Jive	Selling Portfolio Insurance
	Market Measures	Theta Expectation - Managing Earlier
	Best Practices	Trade Tips
Thu, Apr 13	Market Measures	Iron Flies: Maximum Loss Expectations
	The Skinny On Options Data Science	Market Probabilities
	Trades From the Research Team LIVE	Trades From the Research Team LIVE
Wed, Apr 12	Market Measures	Buying Premium in Low IV?
	Options Jive	Defending Against Trading Slumps
	tasty BITES	Scaling Up in tastyBITES Accounts
Tue, Apr 11	Market Measures	IVR Occurrences & Straddle Premium
	Options Jive	Strategy Selection Based on Risk and Reward
	Strategies for IRA	Acting on Directional Bias



Current Market Outlook



This is our broad view of the market ranging from stocks to bonds to currencies.

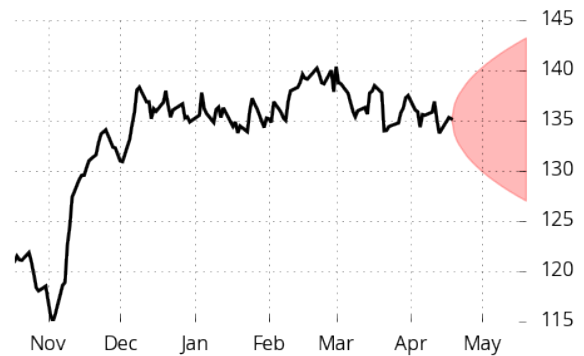
SPDR S&P 500
IV: 14
IV Rank: 28 (Moderately Low)
Estimated Liquidity: Great

SPY



iShares Russell 2000 ETF
IV: 20
IV Rank: 40 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.81

IWM



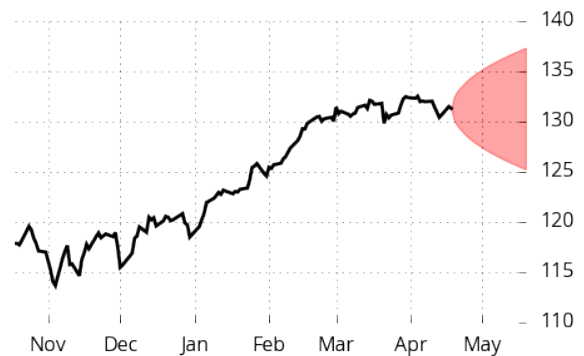
iShares 20+ Year Treasury Bond ETF
IV: 14
IV Rank: 46 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: -0.33

TLT



PowerShares QQQ Trust, Series 1
IV: 15
IV Rank: 35 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.83

QQQ



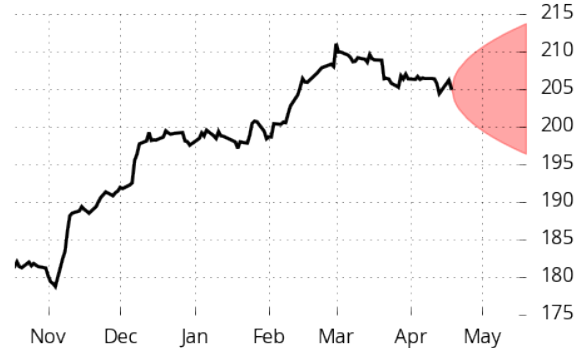
Guggenheim CurrencyShares Euro Currency Trust
IV: 13
IV Rank: 90 (Extremely High)
Estimated Liquidity: Good
Correlation with S&P 500: -0.13

FXE



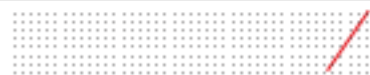
SPDR Dow Jones Industrial Average ETF
IV: 14
IV Rank: 36 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.88

DIA





Current ETF Watchlist



Exchange-traded funds (ETFs) are securities that trade like stock while tracking indices, commodities, bonds, and baskets of assets. We are tracking these ETFs because of the opportunity they present and the liquidity they exhibit.

SPDR DJ Euro STOXX 50 Etf
IV: 33
IV Rank: 79 (High)
Estimated Liquidity: Good
Correlation with S&P 500: 0.57

FEZ



SPDR S&P Metals & Mining ETF
IV: 35
IV Rank: 32 (Moderately Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.5

XME



SPDR S&P Retail ETF
IV: 22
IV Rank: 55 (Moderately High)
Estimated Liquidity: Great
Correlation with S&P 500: 0.47

XRT



iShares MSCI EAFE ETF
IV: 19
IV Rank: 46 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.62

EFA



SPDR Select Sector Fund - Utilities
IV: 15
IV Rank: 23 (Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.06

XLU



SPDR S&P Oil & Gas Explor & Product
IV: 31
IV Rank: 27 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.64

XOP





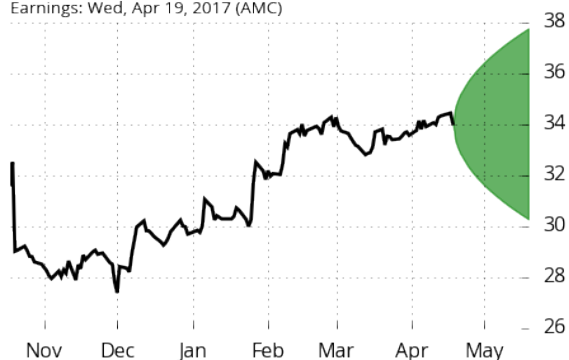
Current Stock Watchlist



These are a few of the individual stocks that we have on our radar. Always be aware of expected earning date when choosing your expiration. Individual stocks do have more risk of sudden moves - make sure you are compensated for the risk.

eBay
IV: 37
IV Rank: 78 (High)
Estimated Liquidity: Good
Correlation with S&P 500: 0.3
Earnings: Wed, Apr 19, 2017 (AMC)

EBAY



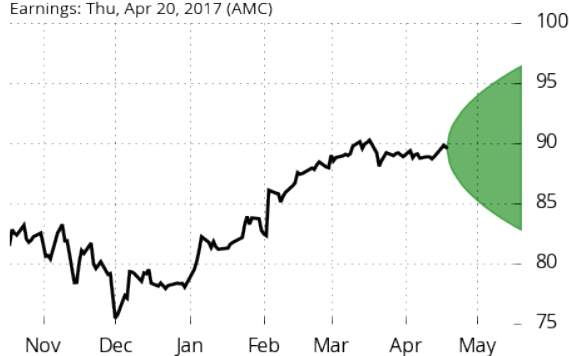
Alcoa Corp.
IV: 50
IV Rank: 17 (Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.25
Earnings: Mon, Apr 24, 2017 (AMC)

AA



Visa
IV: 26
IV Rank: 77 (High)
Estimated Liquidity: Good
Correlation with S&P 500: 0.52
Earnings: Thu, Apr 20, 2017 (AMC)

V



United States Steel Corp.
IV: 72
IV Rank: 64 (Moderately High)
Estimated Liquidity: Good
Correlation with S&P 500: 0.45
Earnings: Tue, Apr 25, 2017 (AMC)

X



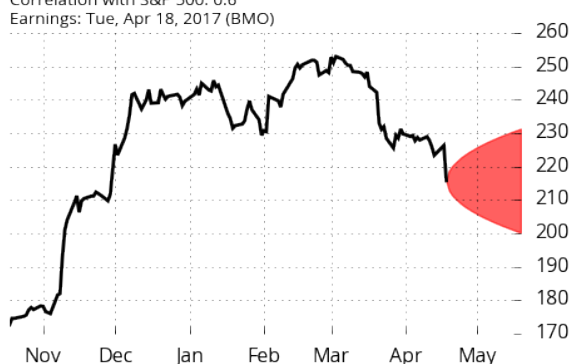
Coca-Cola
IV: 15
IV Rank: 42 (Moderately Low)
Estimated Liquidity: Great
Correlation with S&P 500: 0.15
Earnings: Tue, Apr 25, 2017 (BMO)

KO



Goldman Sachs Group
IV: 24
IV Rank: 20 (Low)
Estimated Liquidity: Good
Correlation with S&P 500: 0.6
Earnings: Tue, Apr 18, 2017 (BMO)

GS



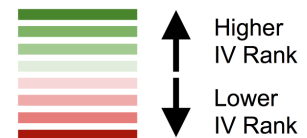
Reading this Report

Expected Range Cone. The following pages show stocks and ETFs that the tastytrade Research Team currently find have relatively high or low volatility. 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.

Full Stock Name
XYZ
IV: 24
IV Rank: 69
Option Liquidity: Great
Correlation with S&P 500: 0.8

XYZ



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

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