

OPTIONS MARKET OUTLOOK

Week of 16 February 2016

Options volatility and risk for the tactical allocator

- ▶ Global stocks were soft last week, as nearly all major indexes booked significant losses. EM stocks are showing some outperformance, but this is most likely mean reversion and not a sign to focus on these countries.
- ▶ Watch for a rally in stocks this week. The strength of the rally will give good information about character and tone of this market. A sharp rally, recovering much of the recent damage, is somewhat unlikely, but would be an extremely bullish signal. Do not fade a strong rally in stocks.
- ▶ Longer-term bullish patterns are intact in stocks, but short-term tactical risks demand attention. **Look to buy calls on major indexes at 6+ month expirations.**
- ▶ The US Dollar continues to slide, and now appears to be in a year-long trading range. Here, too, the longer-term bullish setup is still intact, but a retest of the lower end of the range is likely.
- ▶ Sharp upside volatility in gold last week, but be careful—this move could indicate a short-term momentum extreme, likely leading to a setback and reversal. If there is a spot to buy gold, it will require a few days to stabilize and set up a good pullback. Long positions are possible, but highly speculative at this point in time. **Calls or call spreads on GLD or metals and mining stocks are one way to play this with limited, defined risk.**
- ▶ Downtrends in crude oil and related stocks are intact. No reason to look to fade this trend at this time. **Puts and put spreads in crude oil and related stocks still make sense.**

Major Market Direction and Bias

Market	Short term (< 1 month)	Int. Term (2-12 months)
USA		Up
Europe		
Asia		
Developed		
Emerging		
10 Yr Tr		
Euro		
Yen		Up
Gold		Up
Crude	Down	

Last Week's Performance

Market	Return	σ Spike	Kpos	Trend	Volatility
USA	(0.81%)	(0.3 σ)	15	Bear	Volatile
Europe	2.20%	0.8 σ	14	Bear	Volatile
Asia	(1.76%)	(0.6 σ)	8	Bear	Volatile
Developed	(1.91%)	(0.7 σ)	7	Bear	Normal
Emerging	(2.30%)	(0.5 σ)	11	Bear	Normal
30 Yr Tr	(0.66%)	(0.5 σ)	92	Bull/Neutral	Normal
Euro	(0.72%)	(0.5 σ)	66	Bull/Neutral	Normal
Yen	1.08%	0.7 σ	14	Bear/Neutral	Volatile
Gold	(2.52%)	(1.0 σ)	91	Bull/Neutral	Normal
Crude	4.82%	0.8 σ	9	Bear	Normal



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TRADE IDEAS

Long Call on WTR

L/S	#	P/C	Exp	Strike	Delta	Price	Days to Exp
L	1	C	3/18/16	30.00	71	2.15	31
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
Totals					71	215.00	

Stock data: Close: 31.57; HVolRng: 0.7; IVolRng: 0.3; Bull, Volatile
 Position data: Max loss: 215; Max gain: +∞; Breakeven(s): 32.15

Defensive names show many bullish patterns. It makes sense to take these trades, but focus on short expirations and look to rotate into more cyclical names if the market rally develops further legs.

WTR - Daily Aqua America Inc



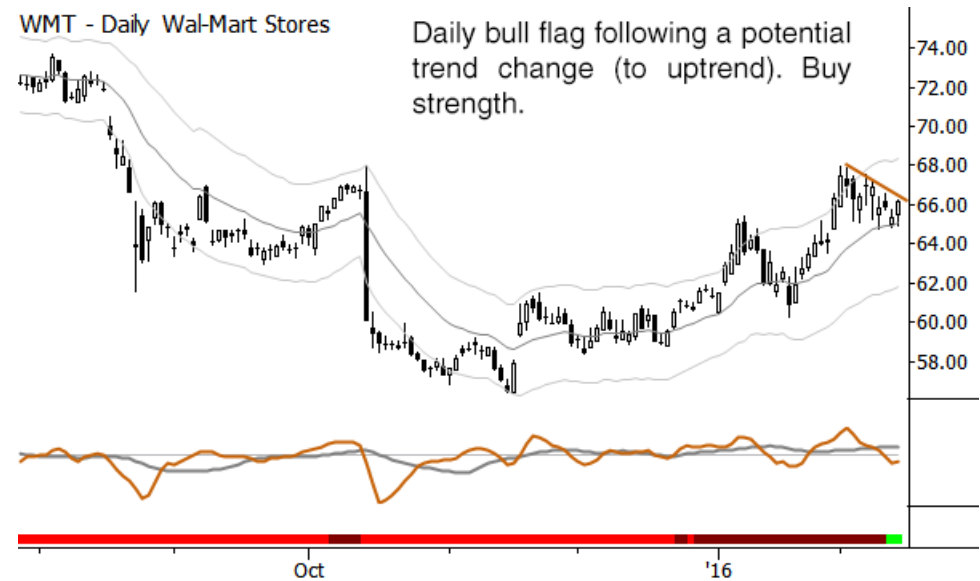
Call Spread on WMT

L/S	#	P/C	Exp	Strike	Delta	Price	Days to Exp
L	1	C	4/15/16	65.00	58	3.20	59
S	1	C	4/15/16	75.00	-9	0.24	59
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
Totals					49	296.00	

Stock data: Close: 66.18; HVolRng: 0.5; IVolRng: 0.8; Bull, Volatile
 Position data: Max loss: 296; Max gain: 704; Breakeven(s): 67.96

Possibly grinding toward a longer-term trend change. Call spread provides clearly-defined risk and the potential to roll into further expirations if the trade is profitable.

WMT - Daily Wal-Mart Stores



TRADE IDEAS (continued)

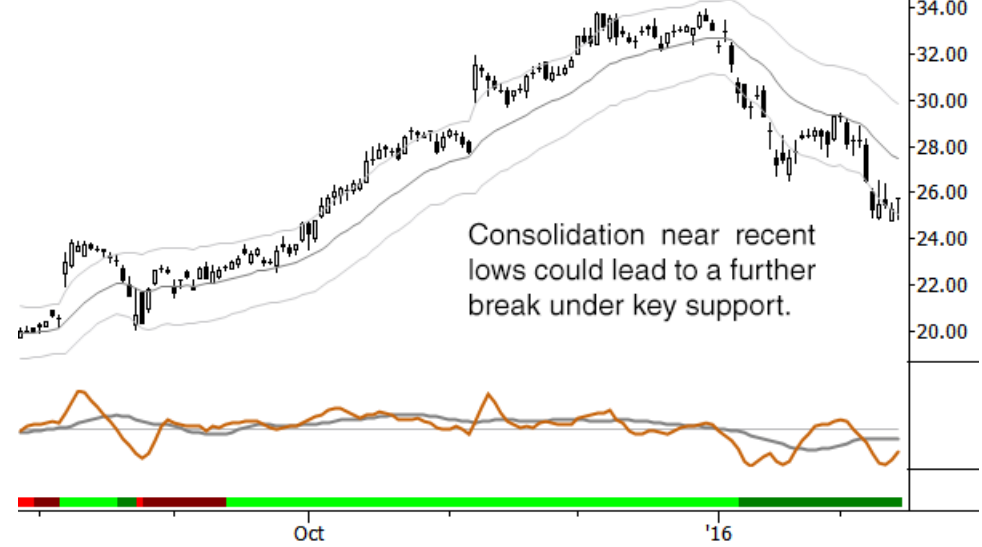
Put Spread on NVDA

L/S	#	P/C	Exp	Strike	Delta	Price	Days to Exp
L	1	P	3/18/16	26.00	-48	2.20	31
S	1	P	3/18/16	19.00	8	0.23	31
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
Totals					-40	197.50	

Stock data: Close: 25.73; HVolRng: 0.6; IVolRng: 1.0; Bull/Neutral, Volatile
 Position data: Max loss: 198; Max gain: 503; Breakeven(s): 24.03

High volatility, but skew favors this trade. Good downside potential, and any breakdown is likely to be sharp and quick below recent support.

NVDA - Daily Nvidia Corp



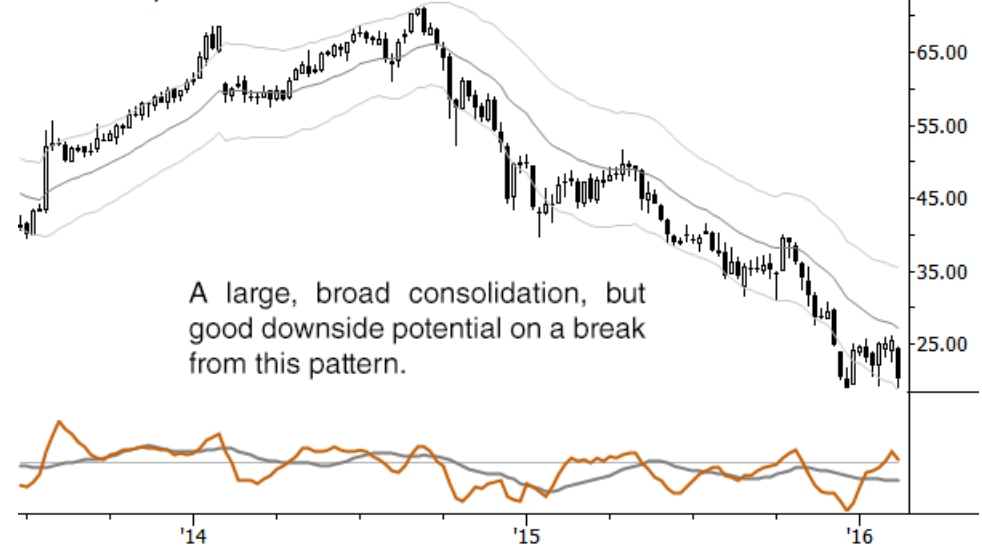
Long Put on OKE

L/S	#	P/C	Exp	Strike	Delta	Price	Days to Exp
L	1	P	4/15/16	20.00	44	2.53	59
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
Totals					44	252.50	

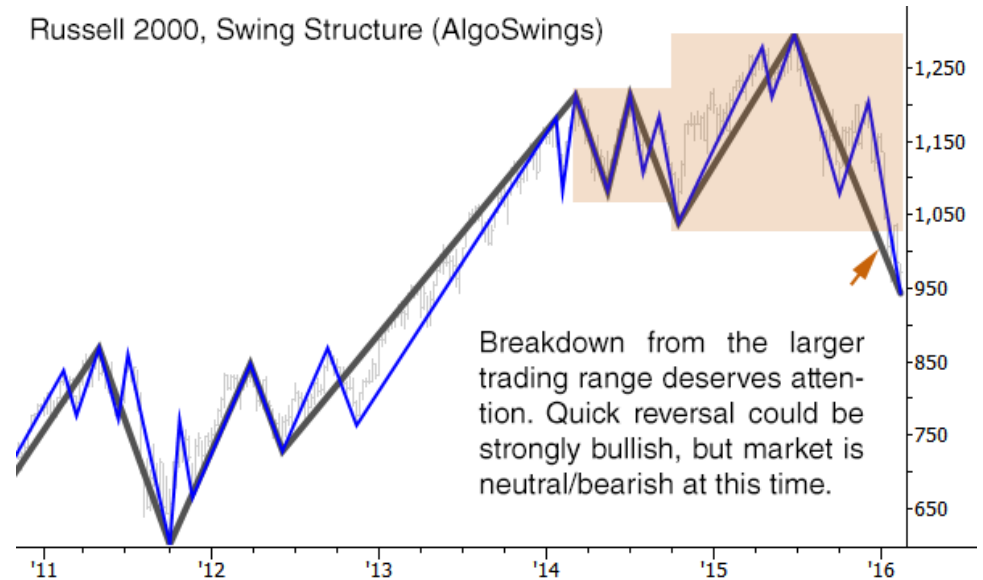
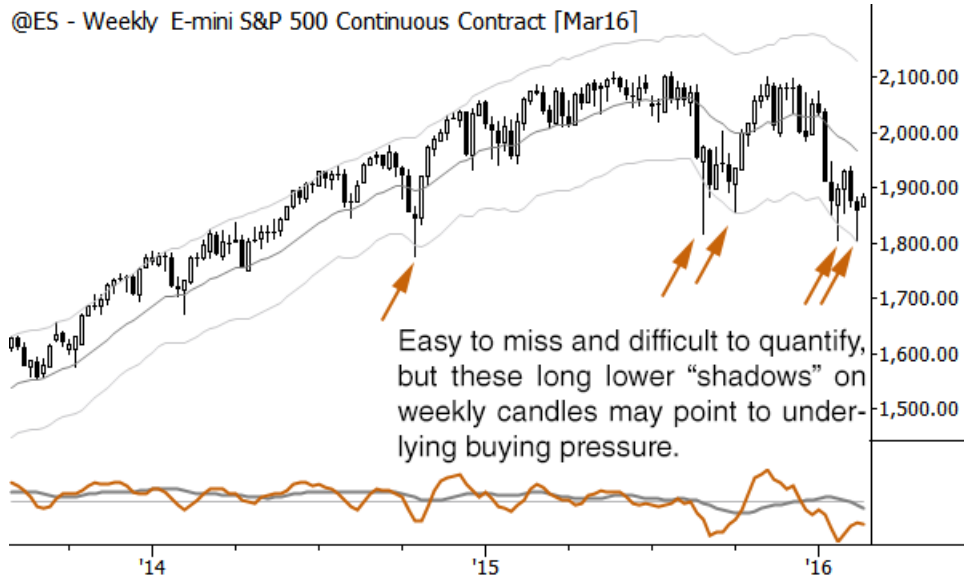
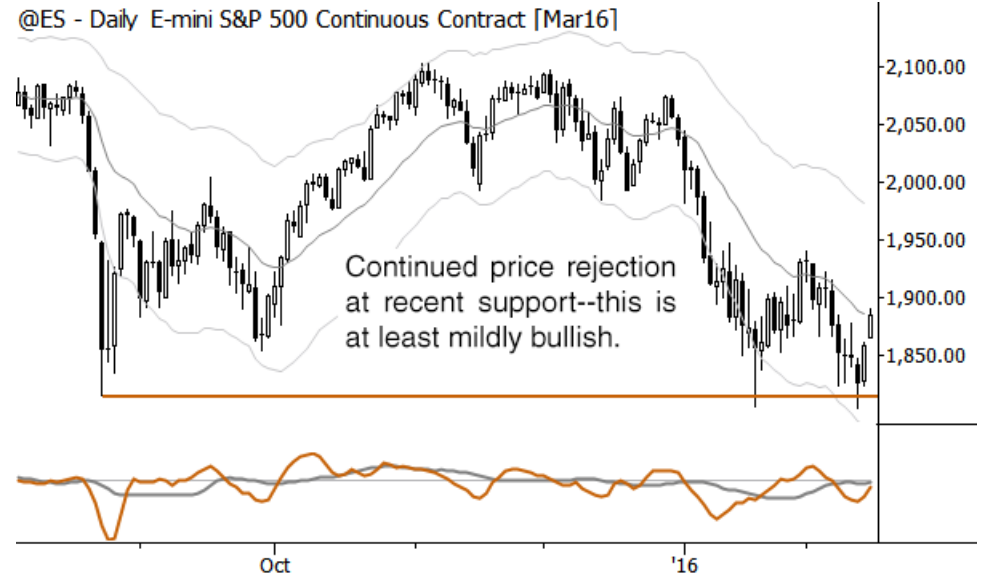
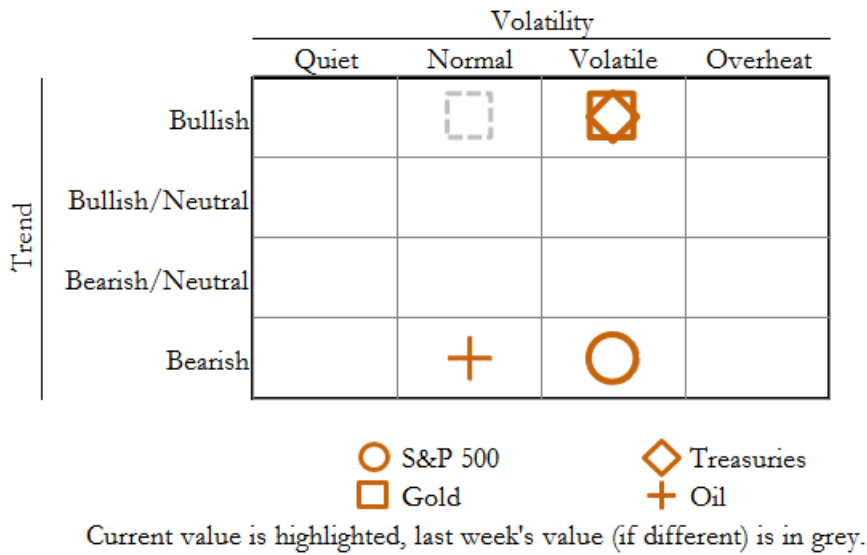
Stock data: Close: 20.18; HVolRng: 1.0; IVolRng: 1.0; Bear, Volatile
 Position data: Max loss: 253; Max gain: 1,748; Breakeven(s): 17.48

Good downside potential in this name. Note wide spreads in options--work for close to midpoint pricing on executions.

OKE - Weekly Oneok Inc

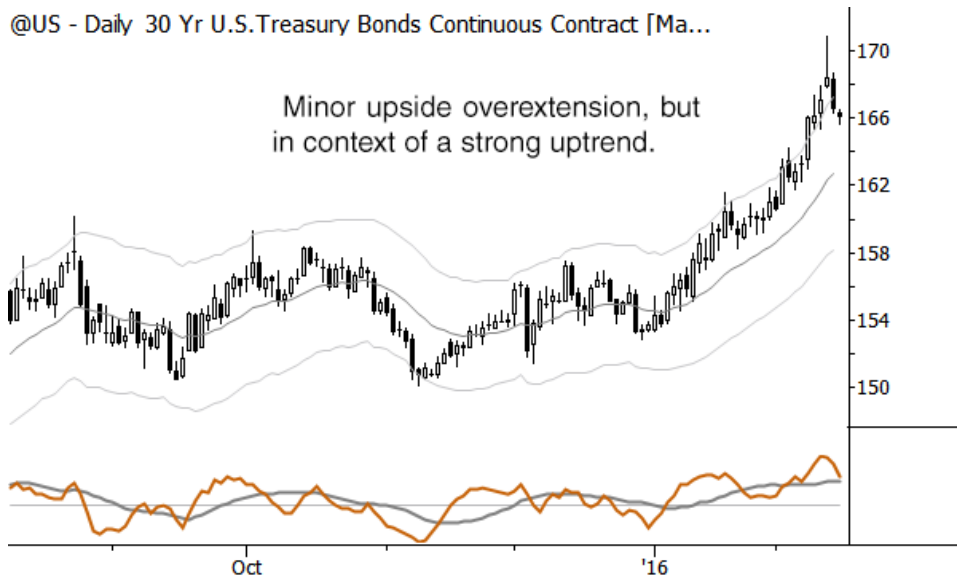


MARKET PERSPECTIVE

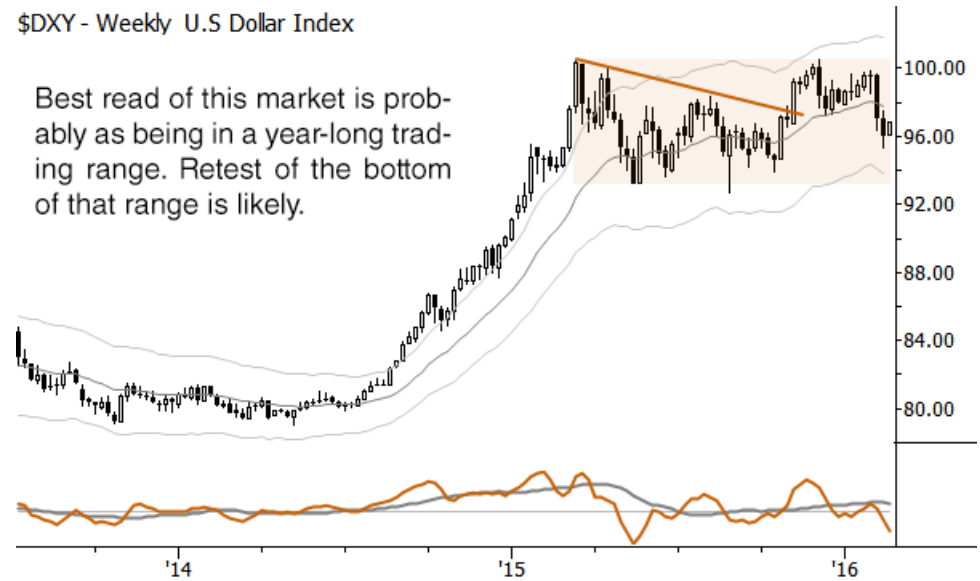


MARKET PERSPECTIVE (continued)

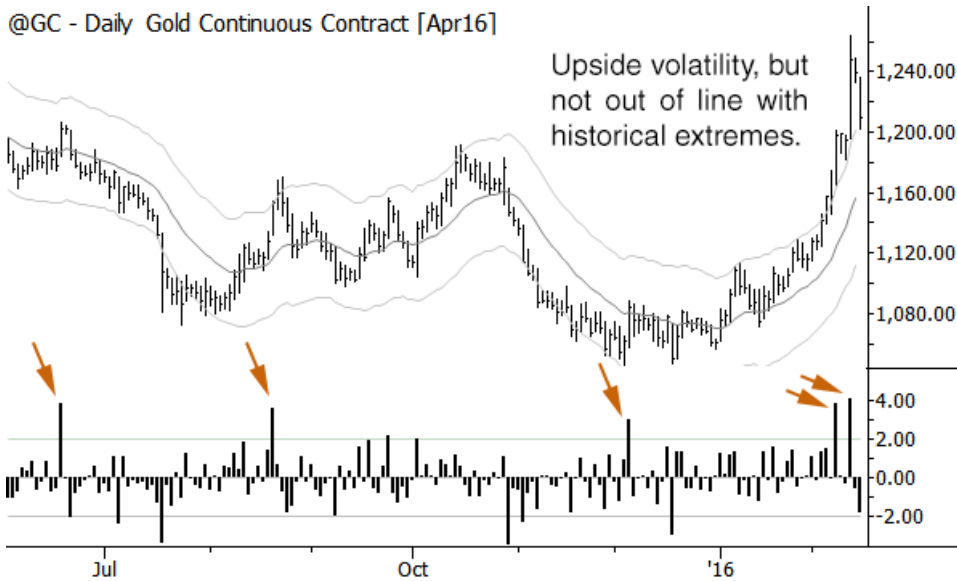
@US - Daily 30 Yr U.S.Treasury Bonds Continuous Contract [Ma...



\$DXY - Weekly U.S Dollar Index



@GC - Daily Gold Continuous Contract [Apr16]



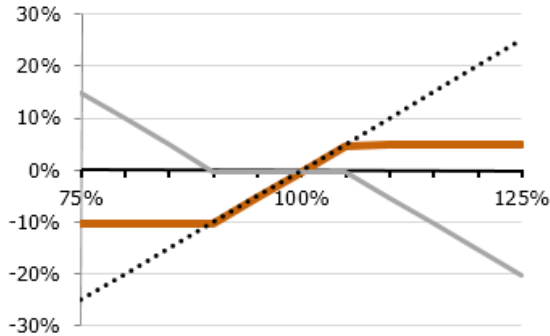
Sector Leaders & Laggards

Energy	Leaders	CNX, SE, SWN, CAM, COG, XOM
	Laggards	CHK!*, WMB, ESV, MRO, DVN, RIG
Industrials	Leaders	CHRW!, FAST, GWW, ITW, XYL, JBHT
	Laggards	MAS, URI, BA!*, RHI!*, TXT, ADT
Technology	Leaders	CTL!*, VZ, T, XLNX, AKAM, FLIR
	Laggards	PYPL, HPQ, EBAY, CSC, ADS!*, WDC
Materials	Leaders	NEM!*, ARG, NUE, AVY, SEE, MLM
	Laggards	WRK!, DD, MOS, CF, OI, IP
Discretionary	Leaders	KORS, WYNN, MAT, COH, GPC, ROST
	Laggards	DRI, VIAB!*, SIG!, RCL, SPLS, HAR
Financials	Leaders	O!*, NDAQ, CINF!*, ALL!, AON!, MMC
	Laggards	VTRI!*, GNW!, HCP!*, LNC!*, LMI, BAC!
Staples	Leaders	GMCR, TSN!*, HRL, CPBI, K, MKC
	Laggards	KHC, MNST, ADM, MDLZ, MJN, WBA
Healthcare	Leaders	HSIC, BXL, SYK, EW, JNJ, BCR
	Laggards	BAX, REGN, VRTX, MYL!*, ESRX, THC
Utilities	Leaders	CMS, ED, NEE, SCG, WEC, XEL
	Laggards	NI, NRG, AES, SRE, D, CNP

Key: ! = overextension, !* = extreme overextension

HEDGING: CONTEXT & STRATEGIES

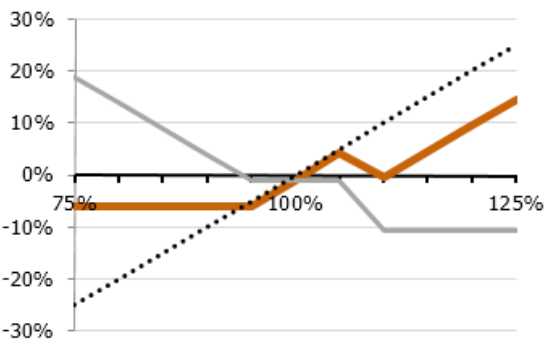
- ▶ Tactical risks are still elevated, though the longer-term bull market is intact. Compared to a year ago, we advise hedging larger percentages of equity exposure, still protecting against moderate (15% - 20%) declines at 4-6 month horizons.
- ▶ Continue to look to add to hedges on rallies, or as markets quiet. From a timing perspective, the difference of a few days when initiating hedges can have a significant impact on costs.
- ▶ Keep hedges simple. Broad market hedges, perhaps with relevant market cap or sector tilts, make the most sense. For the majority of portfolios, simple is better, and one broad market, major index, hedge can significantly reduce the risk of price direction.



5/10 Collar

S 1 × 196.00 C (6/17/16)
B 1 × 168.00 P (6/17/16)
Cost: 0.49=0.3% (0.8% ann.)

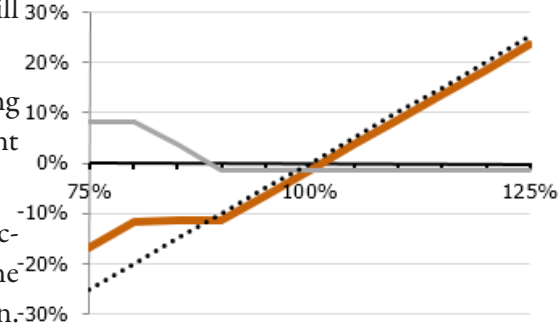
Max Gain: 4.76%
Max Loss: -10.24%



"Waverly W" Hedge

B 1 × 177.00 P (6/17/16)
S 2 × 196.00 C (6/17/16)
B 2 × 205.00 C (6/17/16)
(Long 1 × SPY Underlying)
Cost: 1.63=0.9% (2.6% ann.)

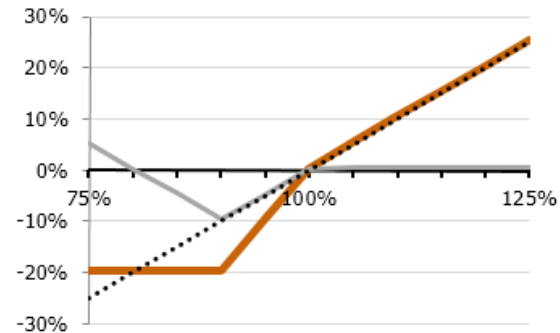
Max Gain: Unlimited
Max Loss: -4.29%



10/20 Put Spread

B 1 × 168.00 P (6/17/16)
S 1 × 150.00 P (6/17/16)
Cost: 2.74=1.5% (4.4% ann.)

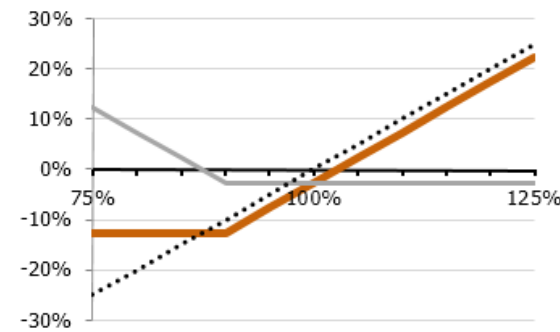
Max Gain: Unlimited
Max Loss: ~Unlimited



Put Backspread

S 1 × 187.00 P (6/17/16)
B 2 × 168.00 P (6/17/16)
Credit: -0.96=-0.5% (-1.5% ann.)

Max Gain: Unlimited
Max Loss: -19.85%



Long ~10% OTM Put

L 1 × 168.00 P (6/17/16)
Cost: 5.02=2.7% (8.0% ann.)

Max Gain: Unlimited
Max Loss: -12.67%

Key: Dotted line = S&P 500, Gray = Options, Orange = Combined Portfolio

COVERED CALL SCREEN

Ticker	Close	WVScore	WV/T	WV/V	HVolRng	IVolRng	30DPrem	30DIVol	Volume	CallOI	PutOI	Stability	Shock	Up/Down	Extension	RS	WTrend
VFC	58.79	3.88	1.88	2.00	0.6	1.0	26.50	63.40	5.4K	34.3K	24.0K	0.7	6/252	2/4	-	0.6	Bear/Neutral, Volatile
NRG	9.58	3.88	1.88	2.00	0.6	1.0	15.90	89.45	1.9K	46.2K	81.5K	0.6	7/252	2/5	-	0.1	Bear, Normal
NVDA	25.73	3.88	1.88	2.00	0.6	1.0	68.24	111.13	53.4K	114.1K	73.6K	0.9	4/252	2/2	-	0.8	Bull/Neutral, Volatile
GRMN	34.36	3.88	1.88	2.00	0.4	0.8	25.68	54.62	832	25.9K	29.7K	0.7	6/252	1/5	-	0.6	Bear/Neutral, Normal
CF	30.00	3.88	1.88	2.00	0.7	1.0	32.72	82.38	8.5K	87.7K	39.6K	0.8	5/252	2/3	-	0.1	Bear, Normal
MRO	7.49	3.88	1.88	2.00	0.9	1.0	27.50	133.19	21.0K	216.8K	254.8K	1.0	3/252	2/1	-	0.0	Bear, Normal
CHK	1.59	3.88	1.88	2.00	1.0	1.0	31.43	200.64	123.1K	726.7K	1.4MM	0.7	6/252	3/3	-	0.0	Bear, Quiet
COG	19.75	3.75	1.75	2.00	0.8	0.9	29.82	90.26	1.3K	55.2K	39.3K	0.3	9/252	4/5	-	0.6	Bear/Neutral, Volatile
NTAP	21.89	3.75	1.75	2.00	0.7	1.0	35.10	69.74	2.6K	22.0K	12.1K	0.4	8/252	2/6	-	0.3	Bear, Normal
FSLR	60.99	3.75	1.75	2.00	0.5	0.8	16.20	64.69	8.2K	50.3K	50.8K	0.4	8/252	5/3	-	0.9	Bull/Neutral, Normal
MCHP	40.41	3.63	1.88	1.75	0.6	0.9	5.25	39.87	2.0K	9.8K	13.3K	0.7	6/252	2/4	-	0.6	Bear, Volatile
RIG	8.86	3.63	1.88	1.75	0.9	0.9	12.28	92.02	32.3K	279.6K	605.1K	0.9	4/252	3/1	-	0.1	Bear, Quiet
ROK	96.33	3.63	1.88	1.75	0.8	0.8	8.18	39.09	288	14.0K	31.2K	0.9	4/252	2/2	-	0.6	Bear/Neutral, Overheat
ED	70.72	3.63	1.88	1.75	0.3	1.0	8.09	24.85	2.5K	18.8K	21.1K	0.9	4/252	1/3	-	0.9	Bull, Overheat
SPLS	8.32	3.63	1.88	1.75	0.3	0.6	27.35	58.21	640	125.3K	62.8K	0.6	7/252	2/5	-	0.2	Bear, Normal
GGP	25.56	3.63	1.88	1.75	1.0	0.9	6.90	47.02	1.4K	97.2K	32.0K	0.6	7/252	2/5	-	0.7	Bear/Neutral, Volatile
HRL	41.50	3.63	1.88	1.75	0.9	1.0	8.54	37.03	3.8K	10.2K	31.1K	0.7	6/252	4/2	-	1.0	Bull, Overheat
THC	24.00	3.63	1.63	2.00	0.6	0.8	21.56	79.70	416	37.6K	11.9K	0.1	10/252	6/4	-	0.2	Bear, Normal
ESV	8.38	3.63	1.88	1.75	1.0	1.0	10.43	91.80	783	85.8K	148.9K	0.6	7/252	3/4	-	0.0	Bear, Quiet
ESRX	67.34	3.63	1.63	2.00	0.7	0.9	21.76	48.75	4.1K	126.2K	102.7K	0.1	11/252	6/5	-	0.4	Bear, Volatile
VRTX	83.23	3.63	1.88	1.75	0.5	0.6	16.13	59.43	1.1K	16.0K	9.2K	0.7	6/252	5/1	-	0.2	Bear, Normal
WM	53.98	3.63	1.88	1.75	0.9	1.0	8.79	30.93	478	22.9K	13.5K	0.6	7/252	2/5	-	0.9	Bull, Overheat
ENDP	50.09	3.63	1.88	1.75	0.4	0.7	23.65	75.36	659	17.5K	28.7K	0.6	7/252	3/4	-	0.3	Bear, Normal
JOY	11.15	3.50	1.75	1.75	0.9	0.8	6.15	82.33	4.8K	40.9K	49.3K	0.4	8/252	4/4	-	0.2	Bear, Quiet
JWN	48.91	3.50	1.50	2.00	0.5	1.0	39.60	79.66	6.8K	52.9K	54.8K	0.0	13/252	5/8	-	0.5	Bear, Normal
NSC	72.56	3.50	1.75	1.75	0.4	0.8	8.26	37.63	1.2K	22.1K	15.6K	0.3	9/252	4/5	-	0.6	Bear, Normal
ETFC	21.15	3.50	1.75	1.75	0.6	0.8	11.94	50.65	1.2K	26.1K	15.0K	0.4	8/252	4/4	-	0.3	Bear, Volatile
DE	78.27	3.50	1.75	1.75	0.8	0.8	14.40	46.95	11.3K	52.9K	175.1K	0.4	8/252	5/3	-	0.7	Bear/Neutral, Volatile
ZTS	40.43	3.50	1.75	1.75	0.2	0.6	16.38	38.07	10.2K	14.0K	102.2K	0.3	9/252	4/5	-	0.6	Bear, Normal
WMT	66.18	3.50	1.75	1.75	0.5	0.8	9.29	32.05	14.4K	348.3K	272.6K	0.4	8/252	3/5	-	0.8	Bull, Volatile
PSX	75.20	3.38	1.88	1.50	0.8	0.8	2.74	39.33	10.0K	58.2K	63.6K	0.7	6/252	3/3	-	0.6	Bear, Volatile
RHT	64.11	3.38	1.88	1.50	1.0	0.8	0.06	48.53	4.4K	15.1K	14.3K	0.6	7/252	5/2	-	0.5	Bear, Volatile

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