From: Ens, Amanda <[redacted]>
Sent: Friday, January 13, 2017 2:39 PM
To: jeffrey E.; Richard Kahn
Subject: ***As January passes, It's Time to BUY Energy....Seasonality becomes a tailwind...See Chart below...

Jeffrey,

Buy an XOP (E&P ETF) appearing call spread into seasonal tailwinds, taking advantage of very cheap implied vol

* Buy a 6 month XOP 110% call with a short 117.5% call that knock in if XOP trades above 125% during the life of the trade (continuous observation) for 2.45% premium cost

o Gross max payoff if knock-in is triggered: 3.1x (7.5%/2.45%)

o Gross max payoff if knock-in is not triggered: 6.1x (14.9%/2.45%) – you have upside up to 124.9%

Rationale

The Energy Sector began the year on a weak note, trading off about 2% since the start of the year as recent oil weakness has not created any sense of urgency to buy the sector, and see a long awaited reallocation of capital back into the sector...

But, The MTD performance in January so far is very typical, and is basically following the normal seasonal pattern of the past 10yrs, with WTI crude selling off 3.6% on average. In looking at the Energy Equities a similar pattern prevails, with the S&P 500 Energy Index trading off 1.8% in January. From a seasonal perspective this turns more favorable in February....

***The good news is that following this weak initial month, the following 3 month period between Feb-April is typically one of the strongest seasonal periods for both crude and The Energy Equities. The S&P 500 Energy Index has typically risen 1.1%, 1.9%, 4.5% on average February-April respectively over the past 10 years, for an average 3mos gain of ~7.5%. In fact the only Feb-Apr 3mos period that didn't produce a positive return for the Energy sector in the past 10yrs, was back in 2009, which was largely a market phenomenon in February '09 when the broader S&P 500 fell ~11%.

Please see Heat map below, showing the S&P 500 Energy Index over the past 10yrs...

Source: Bloomberg

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