HOW TO PROFIT FROM EARNINGS ANNOUNCEMENTS USING OPTIONS

MTM

DAN PASSARELLI

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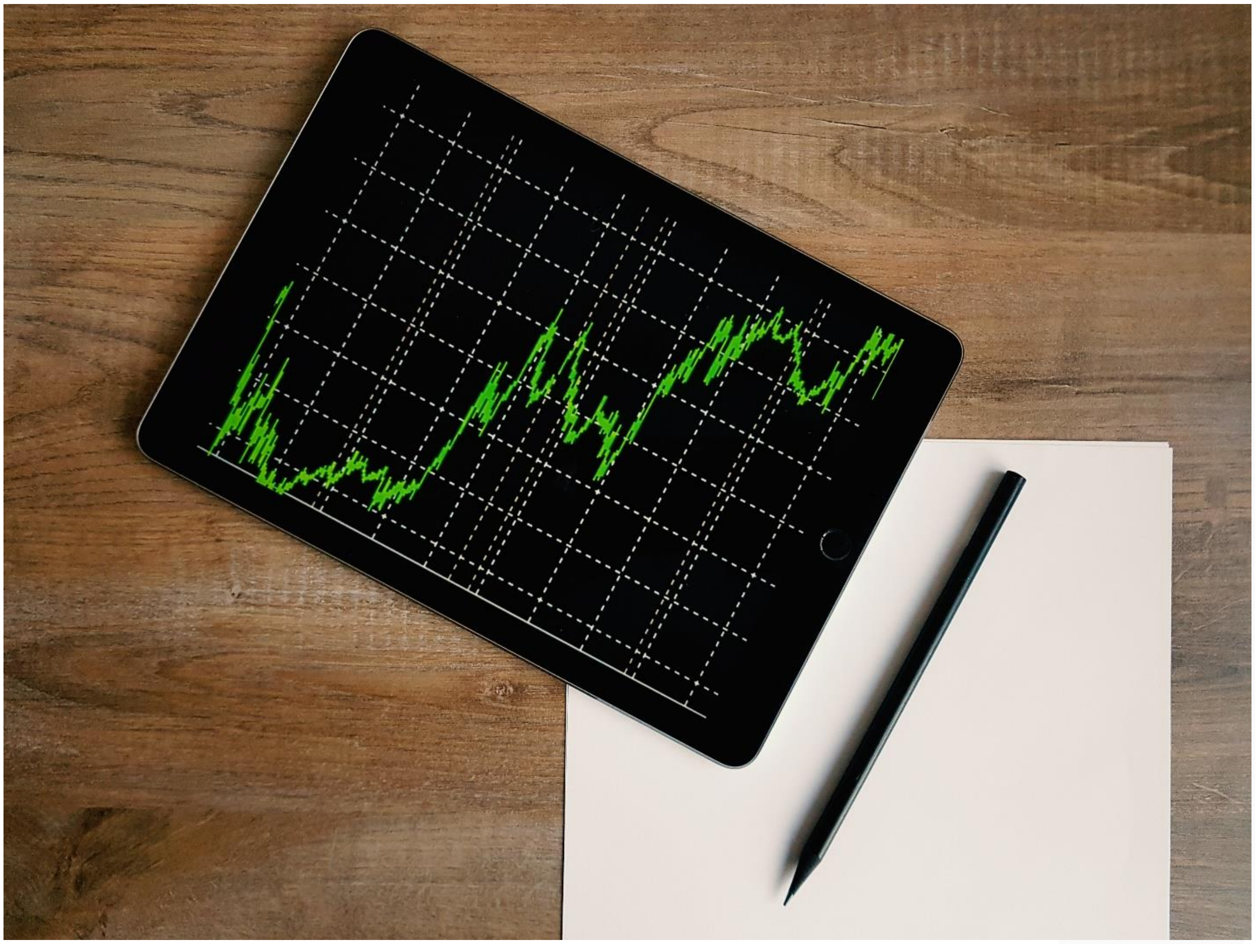
INTRODUCTION

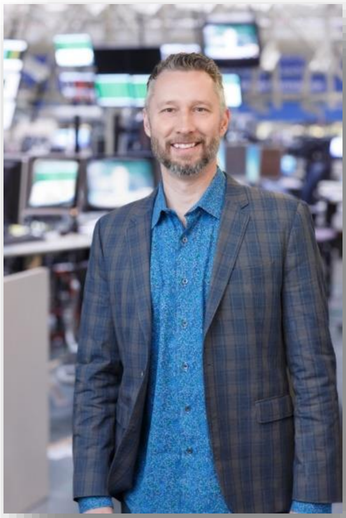
A lot of traders talk about trading earnings. In my experience, very few of them do it well. There's too much randomness. Too much guessing. Too much uncertainty.

Today, I want to share with you how you can replace uncertainty with confidence in your trading. With the right earnings trading system, you can profit consistently, no matter what the rest of the stock market is doing.



I believe this is the best opportunity there is to reclaim a **FEELING OF CONTROL** over your trading and to quite possibly make the next couple of months the best months of trading you've ever had.

MEET THE AUTHOR



Hi. I'm Dan Passarelli. I traded for years down on the floor of the Chicago Board Options Exchange. I wrote two of the most popular books on option trading. I've worked with every major options broker in the U.S. and abroad as well as pretty much all the options exchanges in the world. And I get to be on TV a lot.

I guess if you spend enough time in an industry—28 years in trading for me—you get to do some pretty cool things.

But enough about me.

Let's talk about you. You may have traded earnings in the past. Or you may not have.

Here's the thing. If you have traded earnings, I can help you do it **BETTER** and be more profitable with less risk.

If you have not traded earnings in the past, you're in the right place at the right time because this is my specialty. It's what I'm known for.

WHY? Because of my experience. I've traded literally thousands and thousands of earnings trades in my career.

That alone is why you should follow other successful people in this business—because their experience proves they know when and how to take money from the market. I'm here today to share with you exactly what I look for in my process before I make an earnings trade and how simple it can be.

I'm not saying trading is easy by any means, but I have my strategy down to a simple three-minute scan that anyone can trade.

Let's take a look.

THE SEASON OF OPPORTUNITY

If you watch business news or read Bloomberg, you know **"Earnings Season"** is a roughly six-week period that comes around once every quarter.

But let's face it. That's kind of a fallacy. Only roughly 80 percent or so of companies announce during what we refer to as earnings season.

In fact, retailers traditionally announce the month after what we call earnings season. So, there are earnings pretty much year-round. That said, some periods are a lot more active than others. We want to be ready when that happens. Right?

There are a couple of key characteristics of earnings announcements that make them great for trading.

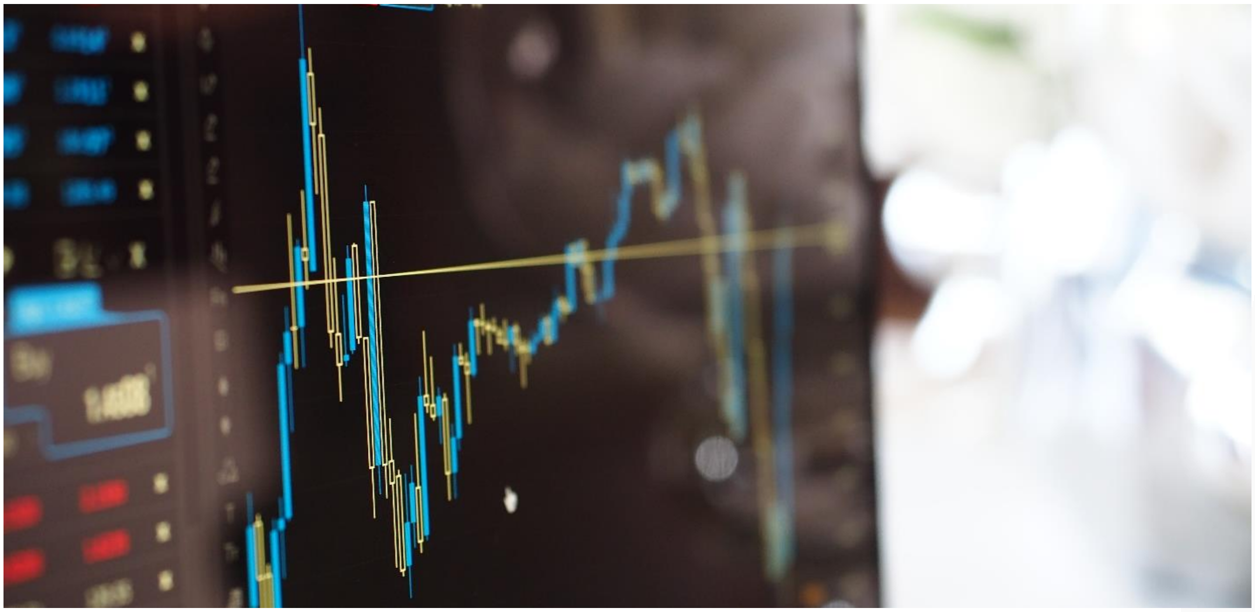
- First, the timing of them is very predictable. Companies state when they are going to announce their quarterly earnings on their website—sometimes weeks in advance.
- Second, stocks can have outsized moves after they announce their earnings. And we can look back in time to see how big those moves have been in the past. That's important.
- Finally, option prices can have huge swings in their price around this time. The days and weeks leading up to earnings tend to see options get more expensive. The day after they can change in price greatly as the stock moves, and they can also lose a lot of value as hedgers sell them back.

And it's easier to predict that "crush" in option prices than it is to predict the direction of the stock. We're replacing the hard-to-predict thing with the easy-to-predict thing.

Trading earnings announcements is opportunity.

HOW THIS WORKS

Our earnings trades are all either time **spreads** or **straddles**. The best thing about those trades is they are direction indifferent. That means we don't care about the direction of the stock.



Let me repeat:

WE DON'T CARE ABOUT THE DIRECTION OF THE STOCK.

Whether it goes up or down, it's possible to make money.

Our earnings trades are market independent. That means whether we're in a bull market or a bear market, you can still make money.

These trades are very short term. We hold them just overnight. These are the shortest trades we make.

There are potentially **Greatly Leveraged Profits.**

There is a simple "Yes / No" test to screen trades.

And lastly (and the best part) … They work.

Let me break these trades down.

Time Spreads

A time spread is when a trader buys one option and sells another, both of the same type (calls or puts), with the same strike price but a different expiration date. Traders buy the longer-dated expiration.

Straddles

A straddle is when a trader buys both a call and a put with the same strike price and same expiration date.

We do a series of analyses to determine which (if either) of those two strategies to use. More often than not, it'll be a time spread.

Screening for Trades

Here's the thing…

Not every stock that has an earnings announcement triggers a trade.

So, don't think you can just trade a time spread or straddle on every single stock announcing earnings.

That will NOT work.

Here are some guidelines on how you screen them.

- First, we find all stocks that have options listed on them and have earnings coming out **After The Close Today** or **Before The Open Tomorrow Morning.** That's really important.
- Then we find the Modeled Endurable Gap (or MEG for short) and compare that against past earnings moves to see if a trade is triggered and whether it's a time spread or a straddle.

For the past few years, mostly time spreads were the ones that triggered. More than 95% of our earnings trades historically have been time spreads. That has started to shift as volatility has begun increasing on earnings announcements.

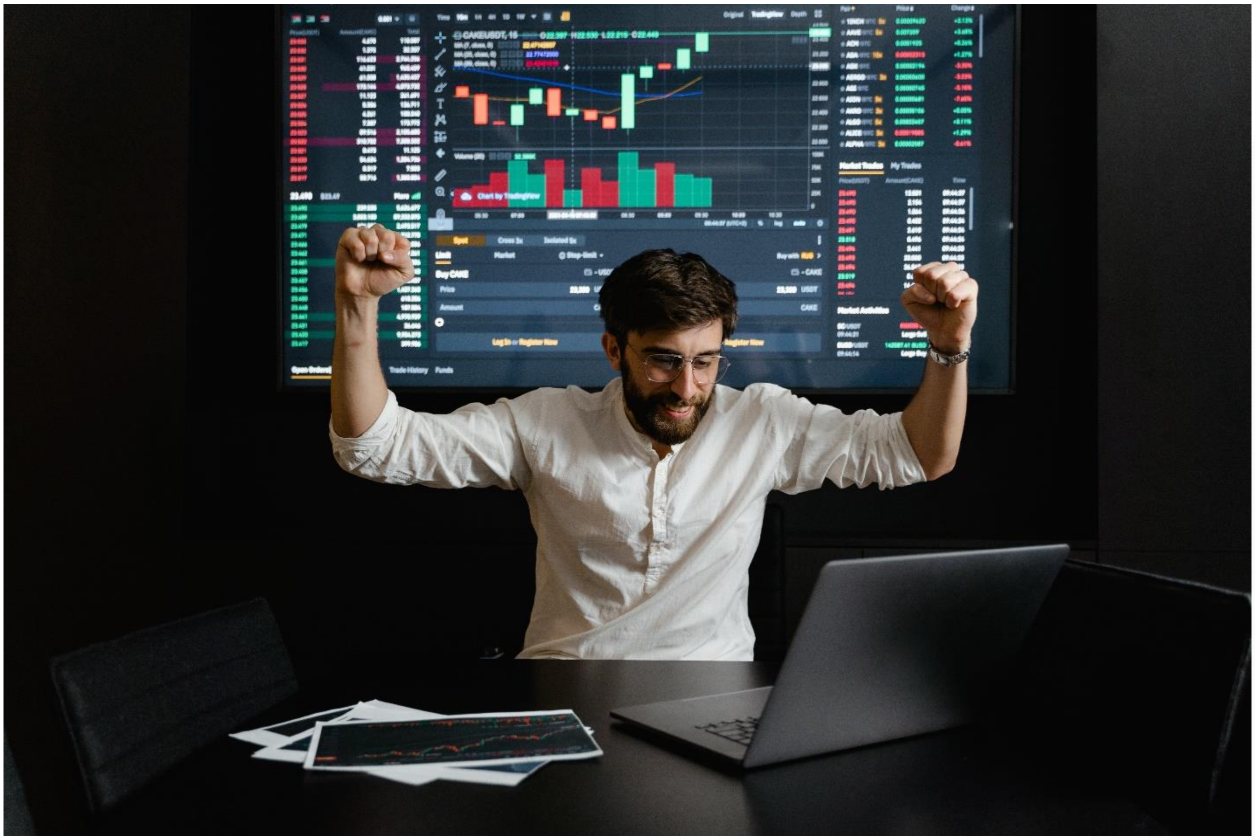
We always take these trades off during the session following earnings. So, it's less than a 24-hour trade.

The key with time spreads is to isolate the earnings event.

We want as little time exposure before the event and as little as possible after the event. So, once liquidity returns after the announcement, we're out.

A CONSTANT IN THE MARKET

This is a trade we can keep going back to like clockwork that can produce outsized profits consistently. And that's the key. A trader's objective isn't just to make money on one trade and quit. It's to have a consistent income stream. To be able to keep **"going back to the well."** That is what can lead to true financial freedom.



Trade smart,

Dan Passarelli