Ophir Gottlieb (00:02):

Today we're going to focus on trading during earnings periods. We'll look at pre earnings trades and post earnings trades, but we'll also look at aggressive momentum trades, directional bets, volatility bets with no direction, and also volatility scalps. So there's something here for everyone. So let's get started. We'll start with our first pre earnings pattern. I call this a directional bet on optimism. So one of the least recognized, but most important phenomena surrounding this bull market is the amount of optimism that sets in the two weeks before earnings In the mega technology stocks, we're talking the FANG stocks. Now this is totally irrespective of whether the stocks have a history of beating earnings. In fact, many of them don't. But in the two weeks before earnings, there is a massive momentum rally into the event. Let's look at a simple idea. Let's just buy a monthly call option in alphabet two weeks before earnings and selling the call before the earnings announcement.

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So we'll get longer a call, we'll go to custom earnings handling. We'll open the trade 14 days before earnings, and we will close the trade one day before earnings. We are not taking an earnings bet. This is a pre earnings trade and here are the results. We can see across the board. This has been a winner. It looks like the 35 delta has been the sweet spot, and just to see what's happening and how these ridiculous returns are forming, we can look at the stock price. This is a two year stock chart of alphabet where the blue e icons represent the earnings dates. What's so interesting here is that while the stock almost always rallies before earnings, you can see that with these little yellow arrows into the earnings, the stock goes down off of earnings a lot. In fact, that's what these yellow rectangles are.

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This is how many times alphabet missed earnings. It's just a coin flip, but it never interferes with this optimism, this bullish momentum. Now by the way, if you're wondering why I'm not looking at more data, that's actually on purpose. If we're going to try a pre earnings momentum trade, we really want to focus on the most recent data, but there is a time when more data is better and we'll look at that soon While we're looking at this, we might as well look at the rest of Fang. So I'm just going to put the rest of the tickers in here. Delimited, as I said, this works with all of the mega tech stocks, but what we need to do to find the best trades is to focus on the win rates. Netflix and Amazon are a coin flip. Even though the returns are positive, these aren't the best of breed, but a good trade turns into a great trade only after we do risk control. So let's drop a tight stop on these calls and also a tight limit. We'll go down to the closed trade one section. We will close these long calls if they go up by 30% in a two week period and will also close them if they go down by 30% in a two week period. All of a sudden, the trade is clearly an alphabet and Facebook, not Apple, Netflix, or Amazon. So let's focus on those two.

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Now we can see the staggering returns and we can see 15 wins on one loss if we held these two as a portfolio. And just so you know, we're not pulling a fast one on you, and that calls always work on these companies. We can just look at the 15 days after earnings. So we'll open one day after earnings and close 15 days after earnings, and these trades are actually negative. So this is in fact a pre earnings momentum trade based on the personality of this bull market. Now let's focus on our second pre earnings trade. And this is not a directional momentum bit, rather it's a volatility momentum bit. This trade takes no stock direction risk at all. We'll look at all of FANG again and this time we're going to test buying an at the money straddle. But now we're going to go to custom earnings and we're going to open the trade just six days before earnings and we'll close it on the day of earnings.

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Now here's a note. All of the FANG stocks report earnings after the market closes. So when we close the position on the day of earnings, we're still not taking the earnings risk. If you do this with other companies, make sure you know what time they report earnings, and you may have to change this number to a one rather than a zero. Let's see the results. We've already got our strategies for Facebook and Google, and it looks like of the remaining ones, apple looks the best, it has the highest return and also the highest win rate. Let's focus on Apple. Now, you'll notice that we still have our strict limits and stop losses, and what we get is a 43% return over seven earning cycles. But remember, this is just a six day trade each time. So we're actually looking at an option trade with no directional bias.

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That went up nearly 200% on an annualized level. Alright, so now we have our Apple pre earnings trade, which is non-directional, and we can add that to our alphabet and Facebook trades. Now this was slightly more advanced, which is to say this was buying a straddle rather than a call. So we didn't make a directional bet, but we did make a volatility bet. We got long volatility. Now let's look to our third pre earnings trade. This is going to get a step even more advanced and I would consider this next trade we're going to look at together to be expert level option trading. We're going to look at a trade that is delta neutral earnings neutral and much closer to volatility neutral. We're going to use a pro feature, which is a custom strategy. This feature only comes with trade machine pro. Now let's build our strategy. So click custom and click add. We're going to want to buy an at the money straddle that expires in 30 days. So a call and a put.

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And we're going to want to sell an at the money straddle in the weekly options. So again, we're buying an at the money straddle with the 30 day options. We're selling an at the money straddle with the weekly options, we're going to close the entire trade together. So we're going to check this box. Let's give the strategy a name. We'll call it a long short straddle and then we save it. Now remember, we're still looking at this very short window, specifically opening the trade six days before earnings and closing on the day of earnings. Again, these stocks report earnings after the market closes. So a zero is okay here. If any of these stocks reported before the market opened, we'd have to put a one here. Let's go ahead and do this for all of fang.

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And here are the results. Over two years, it's pretty clear now that we should be focusing on Amazon, which has won all eight times with a 207% return. But this is actually a strategy where we would want more data rather than less. This is not about momentum, but about a volatility pricing mechanism or a volatility scalp. So now we take a little bit more data and we'll look at three years. Let's focus on Amazon. Now this trade should not vacillate a lot, and if it does, we have made the wrong bet and we're going to want to exit. So let's tighten our stops and our limits down to 20% each. That is, if the strategy is up 20% within the six day period, we'll close it. And if the strategy is down 20% within the six day period, we'll close it. All of a sudden we have a trade that takes no stock direction bet, no earnings bet, almost no volatility BET has extremely tight stops and we see a 286% return with a 92% win rate.

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That is it has won 11 of the last 12 earning cycles. Of course, with every back test, we can just click on the tile for details. Here we can see the 286% return in the strategy versus the stock. We can see the average win versus the average loss in dollar amounts and the gross gain and gross loss. And of course with the strategy that's this complex, you probably want to go trade by trade, download it into Excel and do some further analysis. And now we have our pre earnings trade for Amazon and before we found the trade for Apple. And then before that we found it for Alphabet and Facebook. Here they are. We should consider them not one at a time, but rather as a portfolio to manage risk. We're taking delta bets, we're taking volatility bets, and then we're taking a volatility scalp. Alright, now it's time to look at the periods right after earnings. Everything we've done so far has either been long volatility or been neutral. Let's look at a short volatility tri. Now we will look at selling an iron condor. So we'll put all the FANG stocks back in here.

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We'll go to iron Condor, we'll go to short. We'll go to custom earnings, and now we're going to switch it to one day after earnings. That's when we open it and closing it seven days after earnings. So now we're looking at our post earnings trading, and this is a one week at the same time. Instead of using the monthly options here, let's use the weekly options. So we'll put a seven in. Now it's pretty easy to see here with our short volatility trade that Facebook is the clear winner. We see a 63.6% return with 11 wins and one loss, we can go to two years as well. Now over the last two years, this trade has won eight times and never lost. And again, this 44% return is over just eight weeks of trading. Now we have our first post earnings trade, and this is also our first short volatility trade.

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Now let's look at our second post earnings pattern. And this one is to own the volatility. This trade is also right after earnings, but it's looking for a stock that moves more than the option market is pricing in. And there's no surprise here. We're going to take a look at Tesla. We're going to look to buy the iron condor. We're going to change our custom earnings to start two days after earnings and close 29 days after earnings. That is, we're looking to trade the full month after earnings and we will use the 30 day options. We can see that owning the 50 20 iron condor, which is really an iron butterfly, has won seven of the last post earnings months in Tesla with a 107% return. You can also see how the other deltas have done here. I note right now that we consider Tesla's earnings dates, the date that the company releases its quarterly automobile sales figures, not when it reports its revenue.

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And EPS just keep that in mind. If you trade this name, that's when the volatility occurs. All right, we went pretty fast. But even just limiting ourselves to a handful of stocks, we found five great trading opportunities surrounding earnings. We found that we could play momentum optimism in long calls for Google and Facebook. Two weeks before earnings, we found a Delta neutral volatility momentum trade, which was long and apple straddle. One week before earnings, we found a volatility scalp in Amazon with a sophisticated long straddle short straddle play. But remember, none of these trades stayed open during the earnings event. Remember that these are not earnings coin flips after earnings, we found other possibilities. We saw that selling the volatility in Facebook for a week was a winner and buying the volatility for a month after earnings and Tesla was a winner. Now of course, we just focused on earnings related trades.

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If you like trading the actual event, we have a button for that. You can just click only trade earnings and test any strategy you want, whether it be custom or prebuilt during the earnings event. And of course, for all other times, you can always just select never trade earnings, and you can do the same thing. You can create your own custom strategy or prebuilt strategies. And finally, it bears repeating. While we just looked at the FANG stocks in Tesla, we cover every stock and every ETF and every index in North America as well. The opportunities are there, you just need to find them. So this is it. This is how people profit from the option market. It's preparation, not luck. Thanks for watching.