Jason Hitchings (00:00):

I'm going to look at this diagonal, this pre earnings diagonal. So this is going to be a more advanced trade. It's going to have one leg that expires before earnings and it's going to have one leg that expires after earnings. And we're actually going to dive into the trade details and look at one of the specific trades that it places to show you that it's doing exactly that. So looking at this trade, it's this diagonal. And then we're going to look at the custom strategy and the custom earnings. So the strategy says I want to have an at the money call approximately 14 days out. And I'm going to be long that call, but I want to be short and out of the money call that expires seven days out. Now when you look at the custom earnings, it says, I want to open this position 14 days before earnings.

(00:43):

And so according to our logic above, this option will be forced to be greater than or equal to the earnings date. And this one will be forced to be less than the earnings date. Now, not all options have, not all stocks, not all underlying, have weekly options. And so even without weekly options, it might have an option expiration expiring before earnings in the next 13 days. And it will always have an option expiration after 14 days. So if it happens to have an option expiration before earnings, it will do its best. It'll choose as close to seven days as possible, but it'll choose anywhere from one day to 13 days. It'll just force it to be less than the upcoming earnings event. And this one, it'll force it to be greater than the upcoming earnings event in terms of the expiration date. And again, if it doesn't have weeklys, then that might be, it could be potentially 45 days out if it only has monthlies, like if one's expiring in a week and another one's expiring in 37 days or something.

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So let's look at that in some depth. And so when I click on this strategy and I look at the actual trades the first time that there's some technical conditions with this too, but the first time that this trade triggers is on the 3rd of November. So obviously both legs get opened at the same day and we see that one is this November 19 call and the short option is this November 12 call. And so one of these is basically nine days out and the other one is 16 days out. So it did a pretty good job of finding something close to the desired timeframe of seven and 14 days in the future. And so you can kind zoom in. So if I go to the today tab and I click this thing, you can kind of zoom in on this individual trade. So I'm going to go down here, I'm going to scroll this over, kind of zooms in, and you can also move left and right this way, but I can zoom in on the trade, it's a little too far in the future.

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This is the trade we're looking at. And if we look closely, you can see these lines, these little dotted lines going up and down. And those are the earnings events. And so when I scroll over to figure out the exact earnings date, I can see that that earnings date's on the 17th of November. And then we open the position and close the position. So let's see if it did a good job. So as I zoom in here, I'm just putting strong lines there so you can see it. Sometimes these little e's will get hidden on the chart when you're zooming in, but those dotted lines always show you what the earnings date is. And we can see that we opened it a little bit before earnings and we closed it before the earnings event as well. So that's when that trade took place, zoomed in on the map.

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And I saw that it was on the 17th of November that that earnings event took place. And then we're going to look at our strategy. So again, we have this, we wanted to open this position 14 days before earnings. This description tells us why we opened. It says open 14 days, the long calls and the short calls. And this one expiring on the 19th. Well, the 19th is after the 17th of November. So that did it correctly. And then seven day role should expire before, and the seven day short option is expiring on the 12th. So you can see that using these rules, this seven day role in this 14 day role, it is forcing the short option to expire before the earnings event and it's using and the long option will expire after the earnings event. The nice part about that strategy is that when there's an upcoming earnings event, the potential movement of this stock is going to keep a lot of value in that option because even if the option's expiring in one day, if it's going to capture an earnings event, then it's going to have a lot of premium built into it because there's a lot of potential movement.

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This one that's expiring before, this one's going to decay pretty fast so that we open this thing for a dollar, that dollar is going to drop off pretty fast in value, and then this one's going to maintain a lot of value. And if we're lucky, there might also be some kind of pre earnings excitement. And this one's capturing it, and this one's decaying pretty rapidly. So that's kind of what this strategy is built around, and it's why we use a diagonal. When you first get into trade machine, if you click and it's like a diagonal and it's a custom strategy, it's like it's a lot for someone that's brand new and it's like all these custom rules and that kind of thing. But using these settings, you can have an option that this option is expiring very quickly. There's a lot of theta decay, and this one is maintaining a lot of value.

(05:02):

So even if nothing happens, even if the stock moves sideways, this one's probably going to decay a lot faster than this. So this strategy can do well even if the stock moves sideways a lot of the time. Okay, so then let's just quickly look at when we're going to close it. So our rule is to say close one day before earnings. When we look at this, we know that the earnings is November 17th, so we would expect it to close on the 16th, but this actually says on 12th of November it closed and it said days to expiration. So the reason it's closing on the 12th instead of the 16th is because when we created this custom strategy, we said close all legs with front month options. And so when we sold this out of the money call, it was for the 12th of November. And so when this reaches expiration, it closes both positions. If you uncheck this, it will actually continue to then hold this long call up until

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One day before earnings, because that was the earnings rule we had. And then it'll close this on the 16th. So this would close on the 12th, and this would close on the 16th as is. It says close them together. And so when this front month expires, it closes both positions. If we just said, okay, let's just do a call, let's not do this diagonal thing, then we can see that it opens on the same day that you'd expect and it waits until the 16th to close it. So nothing's expiring before the earnings event. And so it is just going to close it one day before as expected. So that's what that little close all legs with the front month options, that's relevant for all custom strategies, not just earning strategies. If the front one expires, it'll close 'em all. Okay, great. So that was one of the more involved earning strategies with a diagonal. That one is expiring before and one's expiring after.