

Jason Hitchings (00:00):

Today we're going to do a focus on the pre earnings calls. They're pretty straightforward strategies, so that won't take super long. Let's just talk a little bit about the today tab, earnings strategies, the pre earnings calls. They're pretty nice and simple strategies. So when you scroll down in the today tab, you'll see these three strategies. They're all pretty similar. They all leverage the fact that oftentimes going into earnings, especially in bull markets, there tends to be some anticipation, some excitement going into that earnings event. And oftentimes the volatility will be increasing and oftentimes the stock prices will also be increasing going into earnings. These don't actually hold through earnings, they just hold up until the day before earnings and then they exit. So this is the three day version, the seven day version, the 14 day version. So when looking at these, so these are down below these three strategies.

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There's more details about how we develop this trading strategy, but some of these names you might not be familiar with and if you just sort of click any one of these right now, you might find that the options were quite wide. The markets were quite wide, and so what you can do is use this liquidity one through five. I tend to use three. That just tells you that the market's going to be pretty tight. You can also use four or five. Three is moderate as we'll see in the example I looked at today. So now it reduced the field a little bit. We have some other videos on the pre earnings, 14 day diagonal, and I'll go into this again in the future, but we're just going to focus on these calls today. And so now what's kind of reduced the number in terms of when it triggered.

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So anything that's blue for today means it triggered today, and then you can check to see if it's still active or not. I'm going to click this Sky Trade 245% return, six months one loss. This is just a three day pre earnings strategy. Clicking on Sky, you can see that the, it's a 40 delta call and that the stock has to be above the 50 day simple moving average in order to trigger. And in order to find out the specifics on the earnings strategy, you go down, scroll to earnings handling, and it says custom earnings. If you click nothing special, you're just going to hold it right through earnings. If you click never trade earnings, it's going to sell immediately before earnings and buy it after earnings. If you click only trade earnings, it'll open it two days before earnings and close it two days after earnings, and you click custom earnings, then you can adjust the strategy.

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So in terms of if you want to open it before or after earnings by how much, and if you want to close it before or after earnings by how much as well, if you do something strange, like you say you want to open it seven days before earnings, but you want to close it 10 days before earnings, then it will give you a little message that there's another way to do the exact same thing a little differently. So there's certain settings that don't make too much sense. So this one's real basic. You just open it three days before earnings. You close it one day before earnings and it's using the 40 delta. If you click this tile, you can scroll down and these are the list of all the historical trades that it's simulated out, and you

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Can scroll through one by one. You can download the trade list and look at the details and it'll tell you if it exited the position because of it being one day before earnings as this one does, or if you hit the 40% stop or the 40% limit down here it says close the trade at one of these two times, so it'll close if this position is 40% up or 40% down based off of the initial cost of the position. And additionally, it'll close one day before the earnings event. Okay, so just what we walked through real quick a little earlier today, all the conditions were active. It looks like the stock dipped just a little bit below that 50 day moving

average towards the end of the day. So it was no longer active. And these are all the conditions. Oh, yes, it was also when buying the option, you're also buying something out.

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This is days expiration. So you're looking to buy something as close to seven days to expiration as possible, but it needs to be after the earnings event. And the reason it's after the earnings event, intuitively, if it's an earnings strategy, you would want it to be after the earnings event. But the way that we're communicating to trade machine that we want it to be after the earnings event is that our desired days to expiration is greater than this number than the three days before earnings. We're saying we're three days before earnings and we're looking for something about seven days out. So even if there's not an expiration seven days out, if this stock doesn't have weeklys, if there was something expiring in two days and something expiring in 32 days because there weren't weekly options, it would still choose the 32 day expiration because it knows from the logic inside of it that if you're trying to open something before earnings and you're saying I want the expiration to be after earnings, that you're trying to capture that earnings event.

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So it will impose some logic on that to make sure that you're getting what you're expecting. You can also do custom strategies. You could do a custom strategy and say, I want the front month to expire six days before expiration and the back month to expire eight days before expiration. And it will force the front month to expire before the event. And if it can't find options that expire before earnings, it won't do the trade. So there's a lot of logic built in to make sure it's doing something sensible, but it's looking for an expiration about seven days in the future. And if it doesn't have weekly options, it will just go out to the next month. So we'll use whatever monthly option is next in line.

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Great. Yeah, so it's important to note that the earnings are also confirmed here. You'll see something saying not verified if it's not a verified earnings event, in which case you need to go do a little research online and make sure that's the true earnings event. The vast majority of the time, if you have earnings coming up in a week or so, unless it's a very unusual pink sheet kind of strange symbol, you'll see verified earning event. And if it doesn't say unverified, then it's good and you can count on it. Use a company called Wall Street Horizon, and they put kind of a money back guarantee on every prediction that they make. But when it's verified, it means the company really released a specific statement and we know for sure when it's going to be okay. So looking at the calendar days, it's three days in the future.

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So today is Thursday, and so three days right now means three trading days, so it'd be Friday, then Monday, Tuesday. And as we see the events on the 21st, but throughout the product, anytime we start going over seven days, it doesn't count the trading days anymore. It starts looking at it in terms of calendar days. So if you say seven days in the future, then it would choose a week from now. And the reason for that is if someone is saying, Hey, I want to look at an expiration 60 days in the future, they don't have to do the mental math in their head and say, okay, well there's 22 trading days in a month, so I want an expiration 44 days out. And we keep that consistent between those numbers line up between the earnings event and the days expiration so that the backtester knows if you're trying to go before or after earnings with a particular trade.

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So starting at seven days in the future, then we're looking at trading days. So that's just something to note in the product. And for those of you have platinum, you can click the little show options button, it will show you the actual trade. If you don't have platinum as an annual subscriber, not a problem. You'll

still get the little notification whether it's still active. As we noted, it looks like the stock might've just dropped right below the 50 day moving average, so it stopped being active during the day. But you can click the show options button and we'll just let pull up real quick. And we're looking as close to seven days out in the future as we can find. But as we mentioned, this stock doesn't have weekly options. So technically one day in the future is closer to seven days than 36, but this would not capture the earnings event.

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It'd be a pretty strange rate. So it's going to choose the June 21st expiration. So if you want to, you can just filter on that. And then we know that we're doing the 40 delta call. And so Delta is listed here and we can just find the one that's closest to 40 delta and that's this June 85 call. And so that's the strike that we're going to be trading. That's the option we're going to be trading to do it. I just went ahead and put this trade on earlier today just because I wanted to make sure to have a real trade to walk through even though it's no longer active right now. But if you want to hold to the trade machine as closely as possible, then the Backtester does its trades in the last 15 minutes or so of the trading day. So all of the simulations are based off of trading towards the end of the trading day, which is when the market is the most squid and active.

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And so if you are able to and you want to hold as closely as possible trade machine, then you can kind of wait until the end of the day, make sure that this still says active before putting on a trade. I generally end up putting on trades as I see them during the day. If I like the trade, I tend to put it on unless I notice something strange about it. And I have a good track record with trade machines. So I don't think it's a requirement, but it is how the backtester works. And if you put a trade on in the middle of the day, you might see that it's inactive at the end of the day. So this is a good example of that. So this is just using the Think or Swim web client. I just find it just faster to load and easier to log into just to kind of quickly place trades.

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If I'm doing more intensive analysis, then the desktop is good. Lots of good platforms out there. Tasty Trade, Schwab, a lot of other ones. So this isn't any bias towards this. We did survey our users and found that plurality of users use Think or Swim. And so that's what we're using for the example. So on the web platform, if I click the Ask, then it'll open up a ticket to buy. And it started off with 10 contracts. I decided I just wanted to do five for this particular trade, so I bumped that down to five. This was the market, 2 45 at three 30. So not wildly wide, but not super tight either. This is pretty representative of what a three liquidity would look like in that liquidity filter in the today tab. Very, very tradable, but not super tight. So I tried to get filled at three, sent that through.

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It lets me know what that's going to cost me. My bid became the best bid, so now the market's moved three to three 30. I didn't get filled, so I bumped up to 3 0 5, still didn't get filled, bumped up to three 10, eventually got filled at three 10 and then the markets kind of went back to where they were. And so it was showing that the mark was back at 2 82. So temporarily it's showing a small loss, and I'm going to hold that for another day or two and let that time play out. I'm going to exit this either on one day before earnings or when we either hit a 50% limit or a 50% stop if it goes up or down 40%, I think I just said 50%, but if you go up or down 40%, then we're going to exit out. So I can also put a limit in here.

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So I got in at three 10, so four would be my limit. You can do the same thing for your stop and you change the day to good till canceled. You click send and now it will exit this position for me. I don't have

to think about it too much if the stock, if it reaches that limit, you can do the same thing for a stop. And I also will put an alert in my calendar. So when I click add alert here, so I'm looking at the trade, I can click add alert, and I like to remind myself to exit if it's an earnings trade like that. And so by default, when you click Add Alert, it's talking about your opening position. So it's going to say, Hey, when the technical condition is true, and when your before earnings by three days. But instead you can just say days before earnings with no technicals. And you can say just one day before earnings. And I can say close trade in case it's still open. You click add alert, and now trade Machine will reach out to you and let you know that it's time to close the position. And you can add your phone number if you want to get a text alert as well.