Ophir Gottlieb (00:02):

We are now going to build with new research that we first started with in our webinar. A volatile market with options can yield opportunity before we show the results. We have a disclaimer. This is not a solicitation to buy or sell any security. This is not advice. In fact, it's the opposite of advice. This is empirical historical results. This is objective data, not an opinion. In our prior webinar, we showed the massive repeating pattern of pre earnings momentum. That is owning calls anywhere from three days to two weeks before earnings events and selling before those events and how those results were fantastically better than the standard buy a call at all times. And that makes sense During the bull market. We also showed how a non-directional trade that is owning a long straddle anywhere from 14 days to four days before earnings showed positive results while taking on no stock direction risk.

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And again, that also makes sense that it would work during a bull market, but we also showed that these exact same strategies were robust and they worked during the great Recession. In our prior webinar, we showed that using bullish positioning that is long calls pre earnings, and then closing before the earnings announcement. Not only work during the bull market from 2012 to 2018, but also during the Great recession. And here are some of those examples. Nvidia, for example, was down 72% during the Great recession, yet bullish positioning before earnings was up 74%. We also saw a non-directional option strategy, which was just owning a straddle seven days before earnings and closing before the event and while stocks collapsed, like GE was down 55% just owning the straddle, which was non-directional returned 171%. We're now here to refine those results. As a reminder, the pre earnings momentum long call was set up like this.

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You look seven days before earnings, we opened a 40 delta call. That's an out of the money call. We waited until one day before earnings and closed the trade. This was not a test of earnings. This was not a test that took on earnings risk. Now we have a question. Does the prior earnings result impact the stock movement for the next earnings move? And here's a chart for an example. This is actually a chart of Nvidia. It beat earnings here and then in the next earnings run up there was momentum. So a big earnings beat impacted the future momentum in the next earnings release. Again, this doesn't take earnings risk. So the question is, is there empirical evidence that this is in fact true? Or are we just seeing conveniently what we want to see? First, let's define what a large post earnings move is.

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That is a move of 5% or greater in absolute value. So that's up or down by 5% or more. And here are the results for the pre earnings long call. It turns out the baseline strategy that is just owning a call seven days before earnings selling it the day before earnings in the NASDAQ 100 and Dow 30 from 2014 through 2018 returned an astonishing 11%. We already knew that this strategy was in fact an anomaly that's 11% in seven days. And for those of you that like the math, here is the confidence interval, 8% to 13.9%. Now, if we only did this pre earnings long call after the stock had a large earnings beat. So the next earnings report, the return went from 11% in seven days to 14.4% in seven days. And again, the 95% confidence interval ended at 13.9%. So this is statistically significant.

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If you're wondering how often a 5% or more move happens, it happened about 24% of the time. So 480 out of 1,970 earnings events. If there was a large down move in the prior earnings, then the next pre earnings momentum was considerably weaker. It was a 5.1% return compared to the baseline of 11%. So the conclusion here is that if you're looking for pre earnings, momentum calls running up to earnings without taking the earnings risk. Historically, what we really want to do is look for companies that had

big beats the last time and then try to run with that momentum ahead of the next earnings release. These are statistically significant results. They are empirical. We are being explicit, and this is objective. Let's do the same thing with our pre ning straddle, our non-directional one. Again, the back test opens the trade seven days before earnings closes.

(04:40):

The back test one day before earnings does not take on the earnings risk. This strategy, of course, takes on less risk in that, and so the results always show lower returns, but also much smaller losses. So again, we ask the question, does the prior earnings result impact the stock movement for the next pre earnings move? It turns out it does. Our baseline is 2%. That is on average from 2014 to 2018. This pre-running straddle returned 2% over a seven day period with a confidence interval that shows that that 2% was statistically significant. If we looked at stocks that had a large up move, it turns out that pre earning straddle was a negative 0.3%. It was actually negative. But for stocks that had large down moves, that is the stocks collapse after earnings. Then the next earnings movement was significantly larger showing a 6.9% return in seven days.

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Again, the confidence interval, 0.1% to 3%. So in conclusion, we know that if we're looking for pre earnings bullish momentum, it has been a significantly stronger signal. If the prior earnings result had a 5% or larger move to the upside, that is 14.4% versus 11% in just days. But fear not. If there was a really bad earnings move, then it turns out the non-directional back test showed 7% returns versus 2% in the baseline in just seven days. So more than three times the return. This has not been implemented in the product yet for scanning, so we still have to go one by one. So go to the pro scanner, find the results that had strong pre earnings momentum, go to the scanner, find the ones that had strong pre earnings volatility with straddles, then look back at the prior earnings and see if it fits this pattern. We will soon build this into the product so you can scan for the names yourself. As always, thanks for watching. And remember, empirical objective and explicit. That's how we approach trading analysis.