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# Market Chameleon

## How to Trade an Earnings Move

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# Trading an Earnings Move

Using Options

## Common Mistake Traders Make Trading Earnings

They sell an option straddle when the front month implied volatility is high thinking they are playing the implied volatility crush but in reality they are playing the earnings move.

# Earnings Move Explained

## **What is an earnings move mean?**

A stock can go up or down after it announces earnings.

What we are concerned about is how much can it go up or down. What will be the magnitude of the move in percentage terms. This will be a part of the options strategy.

## **How do we determine what the options prices are expecting?**

The markets expected move can be interpreted from the options straddle market.

# Expected Earnings Move

Options Straddle nearest expiration that covers earnings

Stock is \$100

Call Strike 100 = \$3

Put Strike 100 = \$3

Straddle = \$6

Expected move  $\$6/\$100 = 6\%$

# Historical Moves Vs Expected

Historical Data

+5% 5%

-5% 5%

+8% 8%

-8% 8%

+3% 3%

-3% 3%

Expected Move:

6%

Avg Hist Moves:

5.3%

Overestimate:

0.7%

Hist Odds Success:  $2/6 = 33.3\%$

# Option Straddle Insights

Upcoming Earnings Analysis

Insights into recent option straddle performance