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August 10, 2022

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How to Trade Earnings Events

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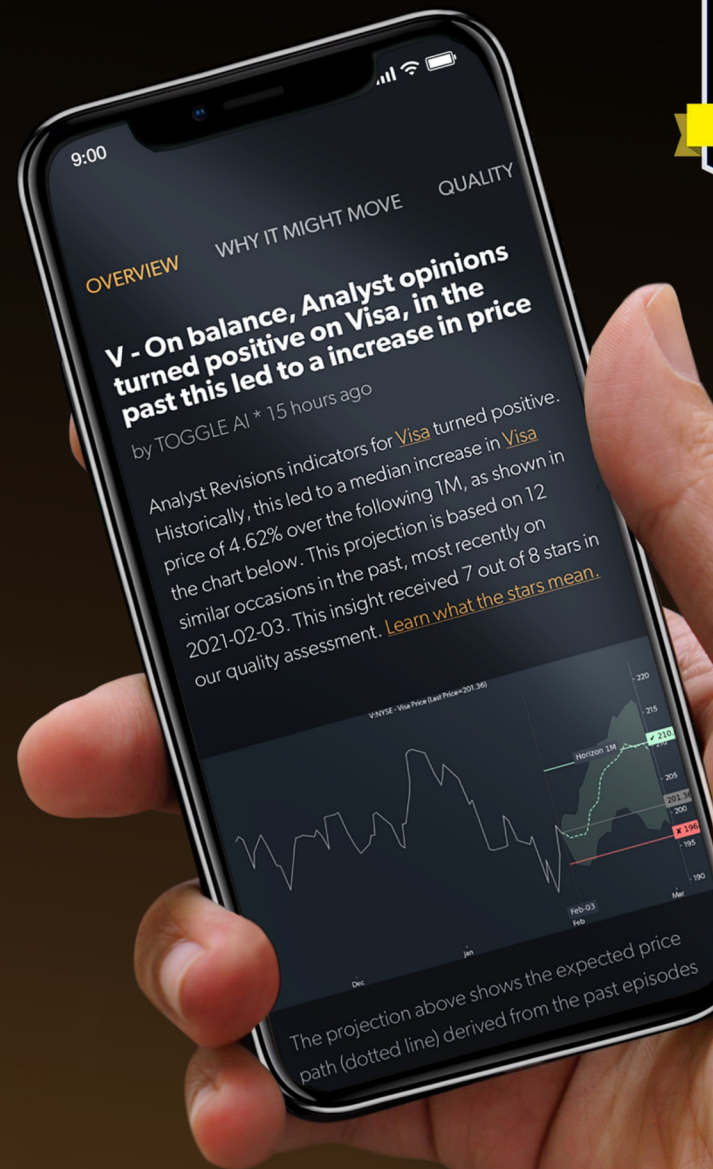
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HOW TO TRADE EARNINGS EVENTS IBKR Webinar

TOGGLE

TURN ON INSIGHTS. TURN OFF NOISE.

August 10, 2022





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AGENDA

Key topics to cover:

- Do earnings actually matter for stock prices?
- Analysis of possible outcomes
- Trading: outright or options?



HOW DO YOU TURN THIS ...

Daily barrage of data and news averages 17 headlines per second

Nikola's revenue tops expectations on delivery of 48 electric trucks

Gannett reports 'challenging' Q2 earnings, plans cost reductions

Alibaba Jumps Most in Six Weeks Before Earnings Amid Tech Rally

AMD Earnings to Follow Intel and Qualcomm

Source: Toggle

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... INTO TANGIBLE TRADE OPPORTUNITIES?

The key to avoiding risks and spotting opportunities is cutting through the noise

My Securities					
ALL ASSETS					What's currently moving the asset?
	9984 SOFTBANK GROUP C	¥5,659.00	+96.00/+1.73%	↑	Fundamentals
	AAPL Apple	\$146.36	-1.60/-1.08%	↓	News Insight +4
	AMZN Amazon	\$119.97	-1.21/-1.00%	↑	Fundamentals
	BTCETH BTCETH	ETH16.86	-0.31/-1.81%		
	BTCUSD Bitcoin	\$30,076.23	-109.35/-0.36%		
	ETHUSD Ethereum	\$1,804.60	+14.18/+0.79%		
	GBPUSD GBPUSD	\$1.2536	-0.0005/-0.04%	↑	Technical
	GC Gold	\$1,853.60	+4.40/+0.24%	↑	Technical +1
	GME GameStop	\$138.73	-7.77/-5.30%	↑	Fundamentals
	MSFT Microsoft	\$270.41	-2.09/-0.77%	↑	Technical +1
	MT ARCELORMITTAL ADR 1:1	\$31.65	-1.74/-5.21%		
	NKLA NIKOLA	\$7.02	+0.56/+8.67%	↓	Technical
	PTON Peloton	\$11.61	-0.58/-4.73%		
	TSLA Tesla	\$750.70	+25.10/+3.46%	↓	News Insight +4
	TWTR Twitter	\$40.46	+0.02/+0.05%	↓	News Insight +5
	WMT Walmart	\$123.57	+1.27/+1.03%	↓	News Insight +3

Source: Toggle

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WHEN DO EARNINGS SURPRISES MATTER?

- Management often provides guidance in order to minimize the probability of a negative surprise. As a result, 68.5% of companies in the S&P 500 beat their quarterly EPS estimates (outside recessions)*
- Price reactions to small positive surprises are quite muted.
- However, fewer than 2/3 of all earnings reports have surprises of less than +/- 15% **: there is a high probability that you will experience a substantial earnings surprise for a company that you own.
- Data shows that stocks with low P/E ratios reacted more strongly to positive earnings surprises than did high P/E stocks.
- For negative surprises, the impact is reversed: low P/E stocks barely flinch.

* Source: Factset

** Source: D. Dreman, "Contrarian Investment Strategies: The Psychological Edge" (Free Press, 2011)

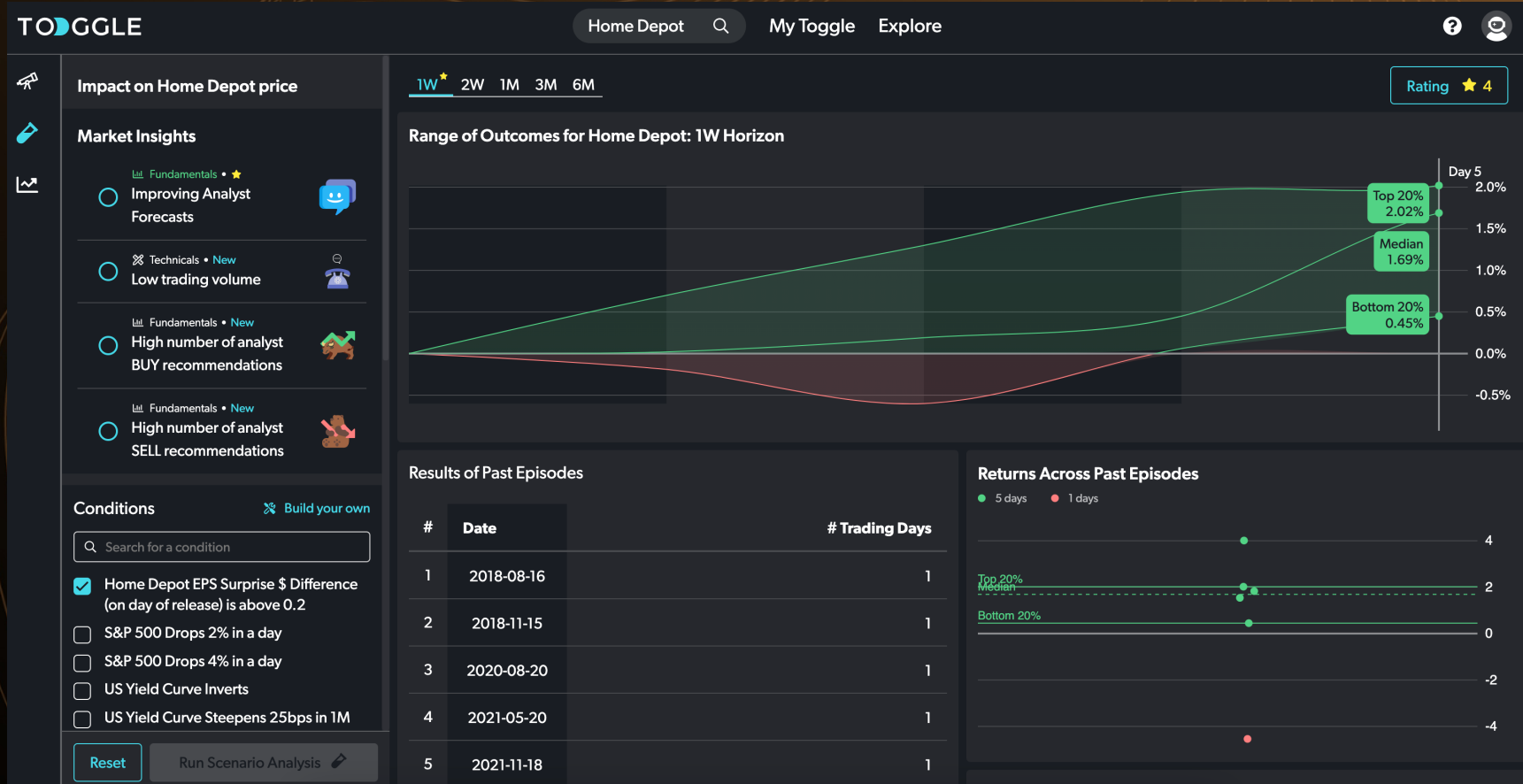
POST-EARNINGS DRIFT (PEAD)

- Changes in stock price resulting from an earnings surprise can be felt immediately, but the surprise also has a long-term effect. Studies indicate that the effect can persist for as long as a year after the announcement.
- PEAD is one of the most puzzling anomalies in finance
- The strength of the effect is inverse to the size of the company
- Early evidence shows that a strategy of zero-investment portfolios, long (short) in stocks with the most positive (negative) earnings surprise, can generate annualized abnormal returns of 18% (Josef Fink 2021)

ANALYSIS OF PAST EARNINGS ANNOUNCEMENTS

- Earnings dates and price data is usually available for free across numerous sites.
- However, the analysis can be extremely tedious: manual examination of surprise thresholds, isolating price windows around earnings dates etc. – only for the bravest Excel or Matlab users
- Machines can be useful here: unleash AI on the data, and let it analyze and uncover any post-announcement patterns

USE CASE: HOME DEPOT



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USE CASE: HOME DEPOT



TOGGLE
Home Depot My Toggle Explore
Rating ★ 3

Impact on Home Depot price

Market Insights

- Fundamentals • ★
Improving Analyst Forecasts
- Technicals • New
Low trading volume
- Fundamentals • New
High number of analyst BUY recommendations
- Fundamentals • New
High number of analyst SELL recommendations

Conditions Build your own

- Home Depot EPS Surprise \$ Difference (on day of release) is above 0.2
- S&P 500 Drops 2% in a day
- S&P 500 Drops 4% in a day
- US Yield Curve Inverts
- US Yield Curve Steepens 25bps in 1M

Reset
Run Scenario Analysis

1W* 2W 1M 3M 6M

Range of Outcomes for Home Depot: 3M Horizon

#	Date	# Trading Days
1	2018-08-16	1
2	2018-11-15	1
3	2020-08-20	1
4	2021-05-20	1
5	2021-11-18	1

Returns Across Past Episodes

● 2 days ● 3 days

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USE CASE: HOME DEPOT



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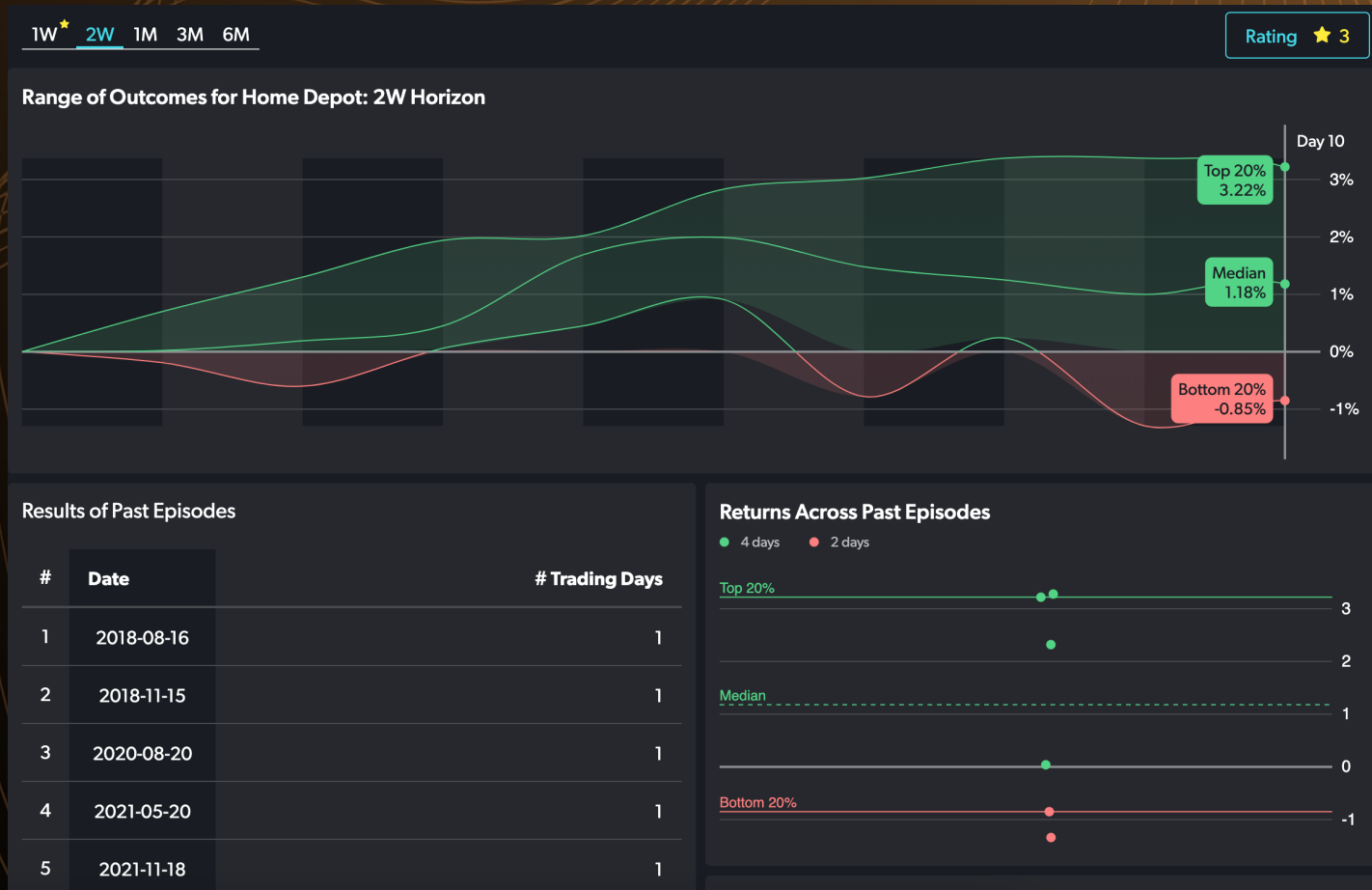
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TRADING STRATEGIES

- Depending on the expected “convexity” profile of the stock price reaction, investor might choose options rather than outright longs in the stock
- Determination of both the horizon and the strike price is key to avoid profits being eaten up by excessive Theta cost
- AI is able to lay out the range of scenarios, informed by past reactions, which is a good starting point in determining the optimal trade structure
- Overlaid with the implied volatility surface, this can be really helpful in finding the right spot on the option chain to place the trade



TRADING STRATEGIES – HOME DEPOT

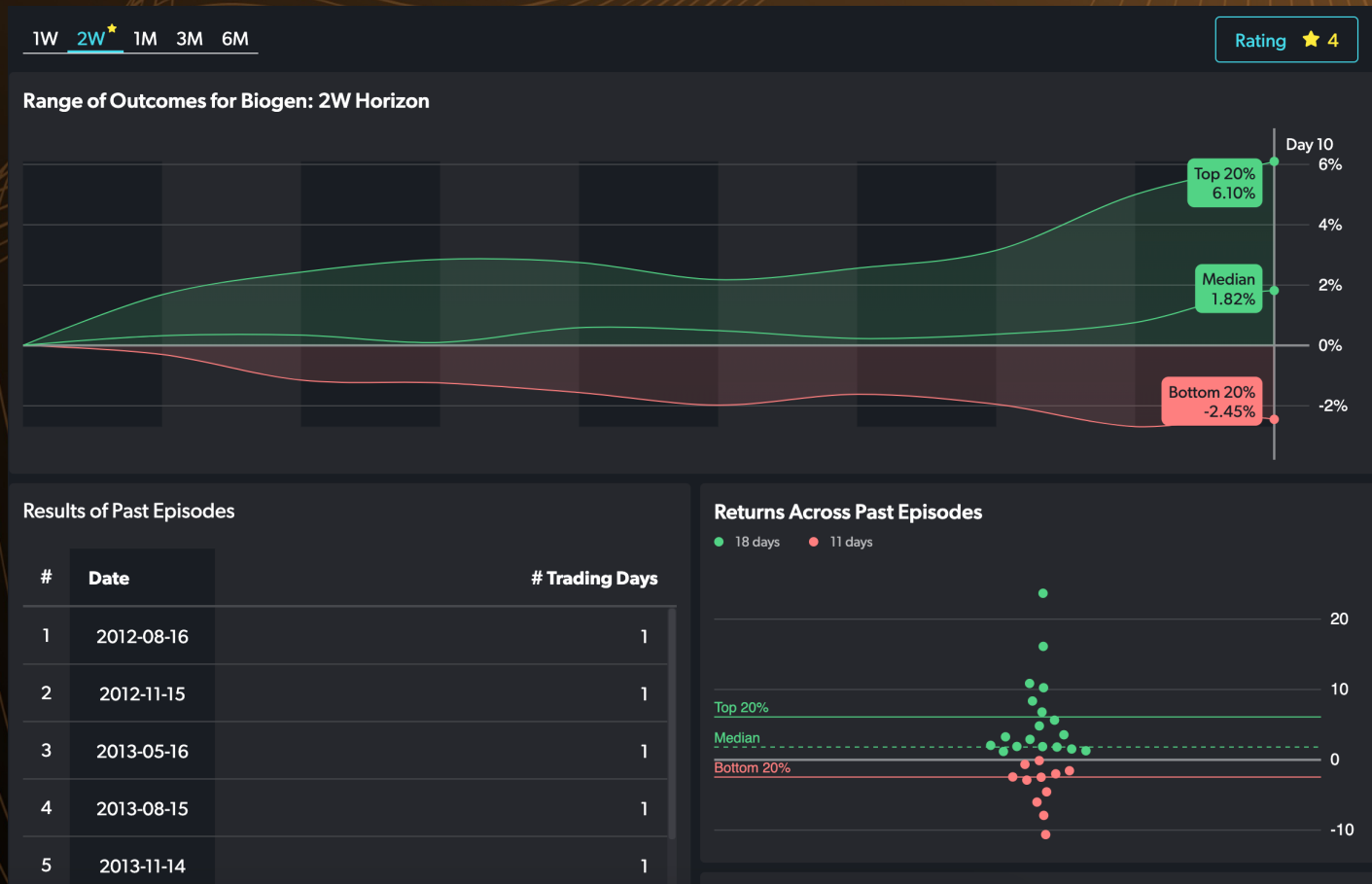


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TRADING STRATEGIES – BIOGEN



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TRADING STRATEGIES

15 Days to expiration on 2022-08-19				Next Earnings Date: 07/20/22				Implied Volatility: 29.47%				Historic Volatility: 34.65%			
Calls															
Strike	Last	Theor.	IV	Delta	Gamma	Theta	Vega	Rho	Volume	Open Int	Vol/OI	Type	Last Trade	Avg IV	Links
192.50	0.00	25.70	26.34%	0.99117	0.00205	-0.02148	0.01056	0.07823	0	0	0.00	Call	N/A	29.47%	⋮
195.00	18.21	23.55	35.61%	0.94440	0.00713	-0.07054	0.04958	0.07492	0	36	0.00	Call	07/28/22	29.47%	⋮
197.50	15.00	21.90	44.04%	0.87712	0.01045	-0.14280	0.08989	0.06957	0	1	0.00	Call	07/26/22	29.47%	⋮
200.00	19.19	19.19	37.76%	0.88010	0.01198	-0.12227	0.08835	0.07095	5	116	0.04	Call	10:24 ET	29.47%	⋮
202.50	13.10	16.15	27.28%	0.91579	0.01282	-0.07385	0.06829	0.07540	0	9	0.00	Call	07/28/22	29.47%	⋮
205.00	12.20	14.15	29.53%	0.85804	0.01722	-0.10883	0.09929	0.07105	0	49	0.00	Call	08/03/22	29.47%	⋮
207.50	7.60	12.10	29.48%	0.80800	0.02097	-0.12911	0.12069	0.06741	0	19	0.00	Call	08/03/22	29.47%	⋮
210.00	7.00	10.15	29.13%	0.75097	0.02464	-0.14590	0.14013	0.06310	0	280	0.00	Call	08/03/22	29.47%	⋮
212.50	5.05	8.40	29.08%	0.68361	0.02770	-0.16144	0.15727	0.05779	0	117	0.00	Call	08/02/22	29.47%	⋮
215.00	7.10	7.10	30.62%	0.60579	0.02845	-0.18155	0.17005	0.05135	19	284	0.07	Call	10:28 ET	29.47%	⋮
217.50	6.10	5.50	29.25%	0.53309	0.03076	-0.17841	0.17567	0.04550	2	21	0.10	Call	10:24 ET	29.47%	⋮
220.00	4.40	4.40	29.69%	0.45731	0.03024	-0.17957	0.17527	0.03916	2	3,823	0.00	Call	10:27 ET	29.47%	⋮
222.50	3.50	3.50	30.23%	0.38645	0.02865	-0.17558	0.16909	0.03318	1	40	0.03	Call	09:46 ET	29.47%	⋮
225.00	3.05	2.82	31.17%	0.32460	0.02612	-0.16952	0.15896	0.02792	6	945	0.01	Call	10:04 ET	29.47%	⋮
227.50	2.30	2.30	32.24%	0.27202	0.02330	-0.16126	0.14665	0.02342	2	48	0.04	Call	10:10 ET	29.47%	⋮
230.00	1.90	1.90	33.47%	0.22871	0.02047	-0.15230	0.13375	0.01971	6	1,997	0.00	Call	10:15 ET	29.47%	⋮
232.50	1.50	1.50	34.03%	0.18770	0.01791	-0.13754	0.11902	0.01620	5	29	0.17	Call	10:04 ET	29.47%	⋮
235.00	0.65	1.23	35.01%	0.15618	0.01548	-0.12561	0.10583	0.01349	0	690	0.00	Call	08/01/22	29.47%	⋮
237.50	0.70	0.98	35.67%	0.12783	0.01326	-0.11158	0.09240	0.01105	0	100	0.00	Call	08/03/22	29.47%	⋮
240.00	0.70	0.77	36.31%	0.10425	0.01127	-0.09815	0.07994	0.00902	0	796	0.00	Call	08/03/22	29.47%	⋮

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SOURCES

[Are All Earnings Surprises Equal? | AAI](#)

[A review of the Post-Earnings-Announcement Drift - ScienceDirect](#)

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