Earnings trades

per Jerry

EBAY example earnings announcement set for 4 pm est on 1/16/13

1/16/13 EBAY $52.90

1. Look for implied volatility to be 2x or more than Historical volatility by checking the option tables. In this case we were at 86% versus 32%
2. Sell premium for a credit and evaluate the MMM move (in this case it was $2.93)
    a. iron condor
    b. call/put spread
    c. calendar
    d. back ratio
3. The ratio back spread offered the most ways to win within the above parameters and the least “price risk” so we BTO (1) 50 put (weekly 2 days left) and STO (2) 49 puts for a credit .15/.14
4. AYTHING above $47.84 (more than 2x MMM) to Infinity we make money (see fig 1)
5. A close near the MMM expected move and we hit a home run of more than $100 profit (see fig 1)
6. Below $47.84 you can incur substantial loss down to theoretically $0 in the stock or about $5k per trade in this case.
7. The margin for this trade is about $700 per spread
8. If you are uncomfortable with the risk profile, you can drastically reduce it by using the broken wing butterfly.
9. BUT you also reduce your ability to make money to only a downside move in the stock. Nothing is free and there are always tradeoffs.

SO WE BASICALLY GOT PAID $15 to make this trade…☺