Twitter Thread by Ashish Gupta

Ashish Gupta
@AshishGupta325

Trading earnings (A short thread trying to explain in laymen terms) ■

Earnings can be traded in many ways and I do it in three different ways -
a) Trading direction
b) Long volatility
c) Short volatility (most common).

Let's talk about each one of them.

+

a) Direction - The most difficult way for me to trade esp. before the earnings. For ex, you expect HUL to post a strong set of numbers due to huge demand of consumer items in previous quarter and go long. But, HUL has already run up and the street estimates are also on the +

higher side so there could be profit booking even after strong numbers or if there's a slight miss, street won't like it and stock may fall. Even the technicals don't matter much prior to the earnings as nobody knows what lies ahead in the earnings. Trading directionally post +

result can do better where you can mark certain important support/resistance or supply/demand zones which when taken out post result can present a good trade. I sometimes do trade this way.

b) Long volatility - Here, I take long vega strategies going into the result. +

Volatility usually increases as we move closer to the result and thus resulting in increase in option pricing. I almost always take long straddle trade for this (buying ATM call and put both) much ahead of the earnings (anytime between 13DTE - 5DTE). Since I am buying options, +

theta is against me but the expectation is that vega expansion might compensate for the theta loss. Many a times a stock moves too fast going into the earnings and it makes my long straddle a very good trade. Things to look out for before initiating this trade - current IVs vs +

previous few quarters IVs at the time of earnings, say for ex current TCS IVs are 26 vs previous few quarters where it was 32/36/40, etc. There is no perfect fix time to enter and it varies from stock to stock but usually going long when you either see IVs starting to expand or +

they are ridiculously low makes for a good trade. At times, I try to scalp gamma and use 25-30 delta options for this. These trades have limited losses and can be very rewarding occasionally when there is a good delta move.

c) Short volatility - Everyone's favorite because it

makes money real quick when it works. I take this trade just prior to the earnings. So if TCS is declaring result on 8th post market, I will take this trade on 8th. When trading multiple lots, I will build the position from the morning based on my assessment of volatility. +

Taking this trade as close to the earning as possible usually works well because you don't have to worry about any delta move prior to the result. I either short strangles (~20 delta) or take flies (short straddle with buying OTM options as wings). When I have directional bias, +

I create different structures like skewed strangles, jade lizard or reverse jade lizard, broken wing flies, etc. but the underlying idea behind each trade remains to be short vega. These are limited profit trades and when trading naked, theoretically there is unlimited loss so +

position should be sized keeping in mind the fat tail risk associated with trading naked options. Earlier I used to trade very aggressively and would take 1 lot with 10L capital but given my current position sizing rules wherein I don't carry more than .2X exposure of account +

size in one stock, I won't take more than 2-3 lots for a 1 cr account. Shorting naked options is not advisable unless your capital is at least 20L. If new, it's better to go with flies/condors for short volatility trades ahead of result.

I have been trading earnings for many

quarters now and will post some of my trades like I always do with every earning season. If you are new to SSO trading, try and observe how earning trades work for a few quarters before taking trades.

Good luck to all earning traders.