How to Win 90.2% of Your Trades Every Earnings Season
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What I’m about to show you is the most exciting breakthrough I’ve had in over 30 years of trading the stock market.

It’s an earnings trading algorithm – designed to spot high-probability trades on stocks just before or after they make their quarterly earnings announcements.

I’ll explain how the system works in a moment. But first, you should know this...

The system is NOT a computerized program that backtests a bunch of data and comes up with a hypothetical track record.

These sorts of programs often cherry-pick the data to make the performance look as good as possible. In my experience, the real results of these systems fall well behind the hypothetical performance.

My system is different.

For the past five years, I’ve spent thousands of hours compiling real-time data and then logging that data – item by item – into various spreadsheets in order to set the acceptable parameters for the many variables in my algorithm.

One year ago, I started trading with the system. These were real trades with my own money, not a bunch of hypothetical examples.

The results were fantastic.

In one year, the system produced 35 trades. That’s about nine trades for each earnings season.

Thirty-two of the trades were profitable. Only three trades lost money. That’s a 91.4% success rate, which is even better than the 90.2% rate in the title of this report.

(Note: We’ve recorded some more wins since first writing this special report, so our success rate could now be even higher.)

The average trade lasted less than two days. And the average return was better than 50%.

A mere $1,000 invested in each of these trades would have generated $17,547 in profits. And since I never had more than two trades working at any given time, a small $2,000 account would have earned an 877% return for the year.

Like I said... the results were fantastic.

They were so good, I felt confident sharing my earnings trades with subscribers starting in May 2017.

The system uses a variety of strategies depending on market conditions. When option prices are cheap, the system will recommend buying calls or puts. When option prices are expensive, the system will suggest selling uncovered calls and puts.

- For example, on May 16, my system alerted me to a trade in Urban Outfitters (URBN) – a beaten-down clothing retailer. The algorithm determined that selling the URBN May $19 uncovered put option was a high-probability trade. The option was expensive, and the stock was unlikely to fall all that much following its earnings announcement.

So I told subscribers to sell the URBN May $19 uncovered put option before URBN announced earnings. We bought the option back the next day, right after the earnings announcement, and recorded a 10% gain on the margin requirement for the position.

That’s not too bad for an overnight trade.

- The system triggered another trade on May 23. Luxury homebuilder Toll Brothers (TOL) announced earnings that beat expectations. The stock gapped 4% higher on the news. But my algorithm suggested the gain would not hold. It predicted TOL would reverse and turn lower on the day.
So I recommended subscribers buy the TOL June $38 put options as a cheap, speculative trade.

We bought the options at around 9:30 that morning. By about 3:00 in the afternoon, TOL had indeed turned lower, and we sold the puts for an 80% gain.

- On May 24, the system gave us a trade on Guess? (GES) – another clothing retailer. The algorithm suggested GES would likely trade higher after its earnings announcement that afternoon. So I recommended buying the GES September $10 call options.

GES gapped 15% higher the next morning, and subscribers cashed out of their call option positions for an overnight gain of 100%.

Can you see why I think this is the most exciting breakthrough I’ve had in over 30 years?

Now, before I describe how the system works, let me explain why I created it in the first place...

**FINDING THE “RIGHT” TRADE**

In order to trade options successfully, traders need to get two things right:

1. They need to be right on the **timing**...
2. And they need to be right on the **direction of the stock**.

Of these two factors, I’ll argue that timing is the most important. (In a few moments, I’ll show you an example of a trade where I was wrong on the direction of the stock but still managed to make a profit.)

Options are wasting assets. They expire on a specific date. So if the expected move on a stock doesn’t happen before your option expires, then you’re out of luck. The trade is over and you have a loss.

That’s why trading options on stocks around their earnings announcements is such an attractive idea.

We know when earnings will be announced. The companies tell us the dates well ahead of time. Traders need only buy (or sell to open) options that expire after the earnings date. That way, they’ll be sure to be in position when the move occurs.

That solves the problem with **timing**.

Now let’s deal with the **direction**...

Anything goes when it comes to earnings. It would seem to make sense for stocks to go up on good news and down on bad news.

But earnings moves don’t always make sense. Companies can beat their numbers, blow away expectations, and still see their shares get crushed. Or companies can report a horrible quarter and get a huge rally in the stock.

Like I said, anything goes. That makes it hard to get the direction right.

For the first 20 years of my career trading options, I loved to trade around earnings announcements. It was fast. It was exciting.

But when I finally took an honest look at the results of just my earnings trades, I found it wasn’t very profitable. Oh, sure, I had some big winners – trades that made me 300% or more on my money in just a few days. But I had plenty of trades where I lost 100% overnight, too.

After adding all of these trades together – more than 200 trades over 20 years – it turned out I was barely breaking even. It certainly wasn’t worth the time and effort it took to research all the ideas and put all the trading strategies together.

So I swore off earnings trades. As much as I enjoyed the action, I couldn’t justify putting in the effort for results that barely broke even.

But in the back of my head, I always thought, “There must be some way to make this work.”

For almost 10 years, I mostly watched the earnings action from the sidelines. Companies would report their numbers. The stocks would make a big move, either higher or lower. And I’d wonder if I would have gotten the direction right if I traded it.

It was painful to stay on the sidelines, thinking about how much money I could have made if I had been on the right side of those moves.
But on the few times during that period that I did dip my toe back into the earnings trading pool, the results were mixed, just like before.

About five years ago, though, I decided to make a concentrated effort to determine if there was a way to get the direction right. Was the market sending clues that I wasn’t seeing? Could I put together a formula, an algorithm that would tell me – ahead of time – the most probable direction for a stock after its earnings announcement?

For four years, I watched the companies of the S&P 500 as they traded around their earnings reports. I noted the volume, the consistency of the moves, the average percentage gain or loss, the option volume in the days before the announcement, the price of the options, the variation to historical premiums, and a whole host of other variables.

Throughout that time, I logged all of that information onto 17 different spreadsheets. Each spreadsheet contains the data for each of the variables. That data helps to determine how important each variable is in predicting the stock's movement after an earnings announcement.

I then put all of those variables and percentages together and came up with an algorithm for an earnings trading system.

This is the system I’ve been trading with over the past year. This is the system that gave me 32 profitable trades out of 35. This is the system that turned a $1,000 investment in each of those trades into profits of $17,547.

This is the system that presented three trades for Delta Report subscribers in May. Those trades earned 10%, 80%, and 100% in one day or less.

And this is the system that I’m going to share with you... sort of.

I say “sort of” because I'm not going to give you the mathematical formula. Because frankly, the algorithm itself isn't very useful on its own.

You see, the system is dynamic. It evolves. The significance of each variable changes each quarter as I input more data into the spreadsheets. The strategy that works on a stock this earnings season may not be the strategy that works in the next one.

The formula itself is almost incomprehensible without all of the historical data.

I will, however, share with you the trades that the system generates. Those trades will fall into two categories:

1. Earnings trades before the announcement...

2. And earnings trades after the announcement.

Of these two, post-announcement earnings trades are the most conservative. So let’s start with those...

**POST-ANNOUNCEMENT EARNINGS TRADES**

As a stock heads into an earnings announcement, the options on that stock tend to inflate in price. Bullish traders buy calls. Bearish traders buy puts. The increased demand forces the prices of both types of options to rise relative to what the stock is doing.

Once the earnings announcement is out of the way, and the chance of a “surprise” move no longer exists, option premiums deflate to more normal levels. Traders start to unwind their trades. Call buyers take their profits if the stock gaps higher. Put buyers take their profits if the move is to the downside.

Post-announcement earnings trades are designed to profit on that unwinding. Specifically, my system looks for stocks that show a high probability of reversing their initial earnings announcement move.

For example, if a stock gaps higher in response to an earnings announcement, my system determines the likelihood of the stock reversing and heading lower. If the stock gaps lower, my system examines the probability of it turning around and moving higher.

In order to do this successfully, you need to be aware of what options market makers are doing (see sidebar on the following page).
THE OTHER SIDE OF OPTION TRADES

Market makers (MMs) are who’s on the other side of an option trade. When you go into the market and buy or sell an option, it’s the MMs who sell or buy it from you.

But unlike a typical trader, MMs don’t try to profit on direction. They profit on the erosion of the option premium. MMs construct their trades to be “delta neutral” — meaning their positions aren’t affected by a change in a stock’s price. They’re just looking to profit as the option value wastes away over time.

In order to do this, MMs usually buy or short the underlying stock in order to neutralize the position. For example, if a bunch of traders rush in to buy call options on a stock right before its earnings announcement, MMs are the ones selling those call options to them.

The traders are betting on the stock moving higher, and the MMs — having taken the other side of the trade — are betting on a move lower. The MMs would lose money if the stock rallied.

Remember, though, that MMs don’t trade on direction. They need to neutralize the trade so they don’t lose money if the stock rallies.

So they buy the underlying stock. Now, instead of a short call position, the MMs have some form of a covered call trade.

This is a simplistic example, but it should help you understand some of the forces that are at work as a stock approaches its earnings announcement. Traders buy call or put options in order to speculate on the direction of the stock after an earnings announcement. MMs sell those options and then either buy or short the underlying stock in order to neutralize the position.

If there’s enough volume behind this activity, it creates the possibility of a reversal trade once the earnings announcement is out of the way.

If the stock gaps higher, traders who bought call options are going to be liquidating their positions and taking profits. On the other side of those trades are the MMs, who buy the call options back and then liquidate their shares.

The combination of traders selling their call options and MMs selling their shares creates selling pressure on the stock. And if the right conditions exist — which is what my system identifies — then a stock that initially gapped higher in response to an earnings announcement may reverse and turn back lower on the day.

Take our trade on Toll Brothers (TOL) when it announced earnings in mid-May, for example.

TOL gapped higher on a better-than-expected earnings report. As a result, TOL call options spiked a bit higher from their already inflated prices. But put option prices got crushed.

For example, the TOL May $37 puts, which had closed at $1.20 the previous day, dropped to just $0.40. My system identified TOL as a high-probability candidate for a reversal trade.

So about 15 minutes into the trading day, I alerted my subscribers, saying, “TOL is likely to close lower on the session.” And I recommended they buy the TOL May $37 put options at $0.50.

TOL did indeed turn lower later that day. We sold the options for $0.90 and recorded an 80% gain on the trade in just a few hours. That’s enough to generate an $800 profit on a modest $1,000 investment.
I expect we’ll make lots of these post-announcement earnings trades. This is the type of trade I prefer. Since we’re putting the trade on AFTER earnings have already been released, there’s no risk of a surprise announcement… and option premiums are cheap. I like this sort of setup.

There are, however, a couple of issues to watch out for...

Liquidity can sometimes be a problem. Oftentimes, the gap between the bid and ask prices on options widens right after an earnings announcement. This can make it difficult to get a fair price if there isn’t enough volume on the option we’re trying to trade.

In this situation, rather than chase the trade at a higher price, we’ll do better to just walk away. We’ll have plenty of other opportunities to trade. We don’t need to catch every recommendation my system generates.

Also... these post-announcement earnings trades are fast. You have to be ready for them and you have to be quick on the trigger. I expect most of these recommendations to occur within the first 30 minutes of the trading day. And you’ll probably only get 15 to 20 minutes to get into the trade before the conditions change.

PRE-ANNOUNCEMENT EARNINGS TRADES

For pre-announcement earnings trades, we’ll take an option position on a stock BEFORE the company announces earnings.

Trading options on a stock prior to earnings adds a risk element to the trade. There’s always a chance the stock moves opposite to what the system predicts. To compensate for this, traders should consider reducing the position size of these trades to perhaps 75% of what they would risk on a post-announcement trade.

In this situation, the system identifies the most likely direction a stock will move after its earnings announcement. Then, depending on the price of the options, we’ll determine if buying a call or put option is an appropriate strategy or if selling uncovered calls or puts makes more sense.

For example, Urban Outfitters (URBN) was scheduled to announce earnings before the market opened on May 17. The stock was trading for about $20.50 per share on May 16. Based on the 17 variables used in the algorithm, my system predicted URBN would most likely trade higher following its earnings announcement.

Given this situation, most traders would probably look to buy call options on URBN in order to profit if the stock gapped higher. But URBN option prices were quite inflated. The system determined there was almost no chance to profit by buying call options on URBN. The stock was not likely to move enough to compensate call buyers for the inflated premium.

So we sold uncovered put options instead. We sold the URBN May $19.50 puts for $0.65.

We collected $0.65 per share upfront, and we were obligated to buy the stock at $19.50 per share. Remember, the stock was trading $1 per share higher.

If URBN moved higher, as my system predicted, we’d profit as the put option premium declined. We could then buy the option back for pennies and record a profit on the trade. If URBN moved lower, then the upfront premium we received for selling the put would help offset any potential loss on the trade.

In this example, my system was wrong on the direction of the stock. URBN gapped lower after its earnings announcement. It opened for trading on May 17 at about $19.60 per share.

Anyone who bought URBN call options on May 16 lost money. They lost because the stock moved the wrong way and because the premium came out of the options. No one was willing to pay a high premium for URBN options anymore since the earnings announcement was out of the way.

But because we captured such a high premium for selling the URBN May $19.50 put option, my subscribers made money on this trade even though the stock fell.

We were able to buy the options back for just $0.25, and we recorded a $0.40-per-share gain on the trade. That’s a little bit better than a 10% gain on the margin required for the position— in one day.
This URBN trade is a good example of when the system is wrong on the direction of the trade but right on the magnitude of the move. So by adjusting the strategy — selling uncovered put options rather than buying expensive call options — we can still profit on the move.

Here’s a good example of what can happen when the system gets the direction AND the magnitude right...

Guess? (GES) was scheduled to announce earnings after the stock market closed on May 24. During the day, my system alerted me that GES was likely to move higher after the announcement, AND that the move would be large enough that buying call options on GES was a high-probability trade.

I recommended subscribers buy the GES September $10 calls for about $0.85.

GES was trading for about $10 per share at the time. The options certainly weren’t cheap. The stock would have had to pop 8.5% higher before the intrinsic value of the option was $0.85. And if we wanted a chance to double our money on the trade, GES would have had to pop more than 15% higher.

This was an expensive option. But my system gave this position an extremely high-probability ranking. So I posted the recommendation for subscribers early in the day on May 24.

This is one of the advantages of a pre-announcement earnings trade. We’ll typically have plenty of time to get into a position. And there’s usually no problem with liquidity, as the option market makers (see sidebar above) have plenty of time to neutralize their positions.

GES gapped 16% higher the next morning. The GES September $10 calls we bought for $0.85 were trading for $1.70. **We made 100% on the trade overnight.**

PUTTING THE SYSTEM TO WORK

As I mentioned at the start of this report, this earnings trading algorithm is the most exciting breakthrough I’ve had in over three decades of trading.

In one year of testing this system, I was profitable on 32 out of 35 trades (and I’ve added even more trades in recent weeks with similar success). All three of the trades I recommended to subscribers in May, just to test the system and see if it would work with larger participation, were profitable — earning 10%, 80%, and 100% in one day or less.

On average, I expect we’ll be able to generate eight to 10 earnings trades each quarter. And I expect the vast majority of them will be profitable.

The system is not perfect, though. We are going to have losses every once in a while.

So resist the temptation to overleverage a trade and risk more money than you can comfortably afford to lose.

The secret to successfully trading the market over the long term is not to risk everything on one big score. The secret is to consistently take advantage of high-probability, low-risk setups and avoid the overleveraged trades that can (and will, ultimately) blow up your account.

Keep your position sizes small. Don’t risk more than you’re willing to lose on any one trade. And be ready to start using my earnings trading system when earnings season kicks off in just a few weeks.

Earnings season always falls on the month following the end of each quarter — January, April, July, and October. So next month will be a busy trading month for us.

But since many companies will report earnings long before then, you should expect more of these opportunities very soon.

You’ll hear from me about any trade ideas in my daily blog, Delta Direct, and my newsletter service, Delta Report, which you’ll receive by email every Tuesday.

Best regards and good trading,

Jeff Clark

P.S. If you have any questions or comments about my earnings trading system, feel free to reach out to me right here. I can’t give out personalized financial advice, but I read every note you send.