

# Trading Earnings IV

quantish.io

Work In Progress

## Strategy Overview

### TLDR

Trade earnings volatility with options. Diagonal spreads, buying/selling calls during extreme IV troughs/peaks.

## Logic

### Entries

#### 1. Long: One month after earnings, buy cheap LEAP calls.

- Entry Criteria (all must be met)
  - It's been at least 30 days since the last earnings report
  - It's over 30 days until the next earnings report
  - IV Percentile is between 0 & 10 (per last 100 days)
- Contract Selection
  - 300 - 400 Days till expiration
  - Strike is OTM by approx 10 x 20-Day ATR
- Allocation
  - 10% of available buying power

```
DaysSinceLastEarnings >= 30 .
DaysUntilNextEarnings >= 30
0 < IVPercentile100Day <= 10 .
```

```
300 < DaysTillExpiry < 400 .
ClosePrice + (10 * 20D ATR)
```

#### 2. Short: Leading up to next earnings, sell calls to match each LEAP.

- Entry Criteria
  - It's less than 10 days until the next earnings report
  - IV Percentile > 90 (per last 100 days)
- Contract Selection
  - 20 - 30 Days till expiration
  - Strike is OTM by approx 10 x 20-Day ATR

```
DaysUntilNextEarnings <= 10
IVPercentile100Day > 90 .
```

```
20 < DaysTillExpiry < 30 .
ClosePrice + (10 * 20D ATR)
```

### Exits

#### 1. Long (LEAP) Exit Criteria

Any of these criteria can be met

- LEAP gains 100% return
- LEAP takes 50% loss
- LEAP expires within 90 days

```
LEAPUnrealizedProfitPct >= 100
LEAPUnrealizedProfitPct <= -50
DaysTillExpiry <= 90
```

#### 2. Short Exit Criteria

Any of these criteria can be met

- LEAP position was closed
- It's been over 30 days since last earnings report
- Price crosses above the short's strike price
- Short leg gains 50% of maximum reward

```
DaysSinceLastEarnings >= 30 .
ClosePrice > ShortStrikePrice
PctReturnOfMaxReward >= 50
```

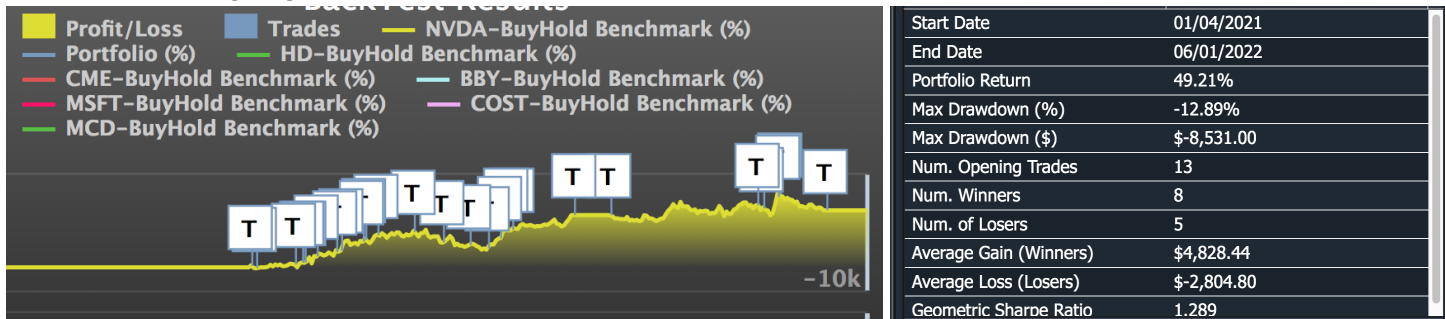
# Backtests

## Backtest Set-Up

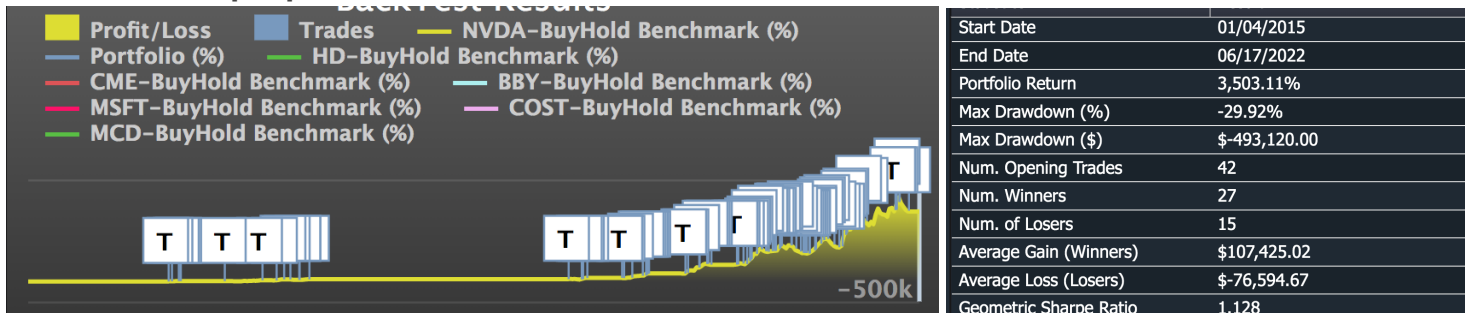
- Cash : \$50,000
- Stock selection:
  - A Portfolio of the below 7 Stocks, selected at Random from SP500.
  - Selection

MICROSOFT(MSFT)  
 HOME DEPOT(HD)  
 MCDONALDS(MCD)  
 COSTCO WHOLESALE(COST)  
 NVIDIA(NVDA)  
 CME GROUP(CME)  
 BEST BUY(BBY)

### 10% of account per position. 2021 - Present



### 30% of account per position. 2015 - Present



### 40% of account per position. 2015 - Present

