



|                            |                   |                       |                                 |                               |                             |                        |                         |                   |
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[Long Straddle Help](#) | [v3.0 Help Manual](#)

A long straddle consists of buying a put and a call at the same strike price and expiration date. A long straddle is a delta-neutral trade that can make a profit if the stock price goes up or down. Opportunistic times to buy long straddles are when implied volatility is historically low and some future event may occur that could cause the stock price to become more volatile or make a sudden move. Such events include: a surprising earnings report, good or bad, or a hostile or friendly takeover attempt that may or may not transpire. The procedure for finding favorable long straddles is as follows:

- Find a list of stocks that will have earnings reported in 1-3 weeks.
- Transfer this list into one of your Platinum lists.
- Rank the stocks in the list for cheap options using "Create Custom Ranker".
- View each ranked stock in a chart showing past earning dates. Look for stocks that had price movement after earnings were announced in the past.
- Search this smaller group of stocks for Buy Straddles.
- Make the trade.
- After earnings are reported, decide to close both legs, keep both open or keep one leg open.

#### **Find a list of stocks that will have earnings reported in 1-3 weeks.**

There are many web sites that show stocks with future earnings.

Optionetics has an earnings calendar at [Earnings](#). At this web page click "Corporate Events" on the left, then click the "week" tab. The stocks with earnings that week are shown at the bottom of the page. You can move forward in the week you desire using the date entry to the right of the week tab and clicking the GO button.

Links appear in the stockpoint earnings web page at the bottom. We will use the date 10/22/01. You will not be able to reproduce this help example since web sites do not keep past earnings stock lists online long. Follow along using your own lists of stocks with future earnings. The start of the list of stocks from the stockpoint earnings web site on the date 10/22/01 is shown below:

| Earnings Releases scheduled on an estimated date |                |                                                           |
|--------------------------------------------------|----------------|-----------------------------------------------------------|
| Event Title                                      | Estimated Date | Event Description                                         |
| FANUF Earnings                                   | 10/20/2002     | Interim 2002 Fanuc Ltd. Earnings Release                  |
| 00437R202 Earnings                               | 10/21/2002     | Q3 2002 ACCTON TECHNOLOGY CORP Earnings Release           |
| AASAY Earnings                                   | 10/21/2002     | Q3 2002 Apasco, Sa De C.V. Earnings Release               |
| ABB Earnings                                     | 10/21/2002     | Q3 2002 ABB Ltd. Earnings Release                         |
| ABCW Earnings                                    | 10/21/2002     | Q2 2003 Anchor BanCorp Wisconsin Earnings Release         |
| ABG Earnings                                     | 10/21/2002     | Q3 2002 Asbury Automotive Group, Inc. Earnings Release    |
| ABGX Earnings                                    | 10/21/2002     | Q3 2002 Abgenix Earnings Release                          |
| ABI Earnings                                     | 10/21/2002     | Q1 2003 Applied Biosystems Earnings Release               |
| ABX Earnings                                     | 10/21/2002     | Q3 2002 Barrick Gold Earnings Release                     |
| ABY Earnings                                     | 10/21/2002     | Q3 2002 Abitibi-Consolidated Earnings Release             |
| ACAI Earnings                                    | 10/21/2002     | Q3 2002 Atlantic Coast Airlines Holdings Earnings Release |
| ACEC Earnings                                    | 10/21/2002     | Q1 2003 Ace comm Corp. Earnings Release                   |
| ACI Earnings                                     | 10/21/2002     | Q3 2002 Arch Coal Earnings Release                        |
| ACLS Earnings                                    | 10/21/2002     | Q3 2002 Axcelis Technologies Earnings Release             |
| ACRI Earnings                                    | 10/21/2002     | Q3 2002 Acacia Research Earnings Release                  |
| ACU Earnings                                     | 10/21/2002     | Q3 2002 Acme United Earnings Release                      |
| ACXM Earnings                                    | 10/21/2002     | Q2 2003 Acxiom Earnings Release                           |
| ADRX Earnings                                    | 10/21/2002     | Q3 2002 Andrx Earnings Release                            |
| ADSC Earnings                                    | 10/21/2002     | Q3 2002 Atlantic Data Services Earnings Release           |
| ADTK Earnings                                    | 10/21/2002     | Q1 2003 Adept Technology Earnings Release                 |
| ADVNA Earnings                                   | 10/21/2002     | Q3 2002 Advanta Corporation Earnings Release              |
| AEE Earnings                                     | 10/21/2002     | Q3 2002 Ameren Earnings Release                           |
| AEGN Earnings                                    | 10/21/2002     | Q3 2002 Aerogen Earnings Release                          |
| AEPL Earnings                                    | 10/21/2002     | Q3 2002 Astromed Laboratories Inc. Earnings Release       |

### Transfer this list into one of your Platinum lists.

The method for grabbing specific web page data and loading it into a Platinum stock list is described in [Data Export/Import](#).

Not all of the stocks in the Pinnacorlist are optionable and not all the words captured in the PC past buffer are stocks. On the Site Map page, select an unused stock list and click "Edit List". Once there, as described in Export/Import Data, paste your PC's paste buffer into the top text area of the Platinum web page. (I.E., click the mouse cursor into the text area and type Ctrl-v). Name the list (we used "10/22/01 Earnings") and click the Platinum page Save button. The Platinum program searches for any optionable stock symbols in the list of words and saves them.

Another simple approach to try is click browser Edit > Select All. Then browser Edit > Copy. This copies the entire web page into the past buffer. Then in "Edit List" paste your PC's paste buffer into the top text area and click SAVE. The server may take a while to process all those symbols.

Be aware you may have inserted 100's of stocks symbols into the list, but after clicking the save button, you may end up with a much smaller number of stock symbols saved. The reason is there are over 7000 stocks with possible earnings, but only about ~2200 stocks are optionable at any given time. The list saver only saves stock symbols that have options based on the site's optionable stock database being used at the time of the save.

Single letter stock symbols may appear such as: A, N, X, T, R etc... which were not in the earnings stock list. Back space these letters and spurious symbols out of the list in the top text

area and click the Save button again. We have captured those stocks with future earnings into a Platinum list without having to type in all those symbols. (We may also have captured spurious symbols. Always check back at the earnings to make sure the stock symbols finally selected for trading are going to actually report earnings.)

### Rank the stock lists for cheap options using "Create Custom Ranker".

Go back to Site Map, select the stock list just created (10/22/01 Earnings in our case) and click "Create Custom Ranker" from the middle bottom column of links. Look at the selections made below:

| Current Ranker:                  |                |
|----------------------------------|----------------|
| Ranker Name:<br>(Rename/Edit)    | Default Ranker |
| Other Rankers:                   | High IV Ranker |
| Save Ranker:<br>"Default Ranker" | <b>SAVE</b>    |
| Load Other Ranker:               | <b>REPLACE</b> |
| Perform this                     | <b>RANKING</b> |

  

| Step 1 : Create a Ranked Stock List                                                                                                                                                                                                                                                                                                                                     | Step 2 : Option and Stock Data Filters                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Choose Stock List from</b><br><input checked="" type="radio"/> 10/22/01 Earnings<br><input type="radio"/> Top 100 by vol<br><b>Choose number of stocks retained in Output List</b><br>Top 50<br><b>Choose Stock Display in Output</b><br><input checked="" type="radio"/> Symbol Only <input type="radio"/> Symbol and Name<br>* Selections take a while to download | <b>Choose min Option Volume</b><br>500<br><b>Choose IV Period of Option Expiration</b><br>7-149 day<br><b>Choose Length of IV History</b><br>6 Months<br><b>Choose Minimum Stock Price</b> 15<br><b>Choose Maximum Stock Price</b> 200 |
| Step 3 : Ranker Type Selections                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                        |
| <b>Choose one criteria to the right</b>                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                        |
| SV and Put/Call ratio data ranked by Stock Volume (fastest)                                                                                                                                                                                                                                                                                                             | <input type="radio"/> Get SV Data                                                                                                                                                                                                      |
| IV and SV data ranked by Stock Volume (fast)                                                                                                                                                                                                                                                                                                                            | <input checked="" type="radio"/> Get IV Data                                                                                                                                                                                           |
| <b>Implied Volatility</b>                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                        |
| <input checked="" type="radio"/> IV Percentiles (Slowest but best)                                                                                                                                                                                                                                                                                                      | <input type="radio"/> Expensive                                                                                                                                                                                                        |
| <input type="radio"/> IV High/Low                                                                                                                                                                                                                                                                                                                                       | <input type="radio"/> Cheap                                                                                                                                                                                                            |
| <input type="radio"/> IV Bollinger Band Breakouts, Using 20 day +/- Standard Deviation Band                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                        |

Note we have selected our input list at the upper left as 10/24/01 Earnings and want to keep 50 in the output list. We want stocks with prices between 15 and 200 that have daily total option volume of  $\geq 500$ . Using IV Percentile as the ranker, we are clicking the Cheap button. Doing so yields the following web page:

**Rank Stock Symbols Table**Possible Views: [IVs](#) | [SVs](#) | [Bollinger](#)

Click a view to change the table data

Click a stock symbol to create a trade for the stock

Click a table column arrow or heading to resort the table

**504 stocks were searched and 50 were found satisfying your search filter.**

Option rank on date : 10-19-01

| Rk | Stock Symbol         | Stock Price | Highest IV | Lowest IV | Latest IV |   | Latest IV % of Hi-Low |   | Percentile Bin of Latest IV |   | 1 day % Chg in IV |   | 1 day Chg in IV |   | IV/6 day SV |   | IV/10 day SV |   |
|----|----------------------|-------------|------------|-----------|-----------|---|-----------------------|---|-----------------------------|---|-------------------|---|-----------------|---|-------------|---|--------------|---|
|    |                      |             |            |           | ↑         | ↓ | ↑                     | ↓ | ↑                           | ↓ | ↑                 | ↓ | ↑               | ↓ | ↑           | ↓ | ↑            | ↓ |
| 1  | <a href="#">THOR</a> | 20.85       | 95.94      | 54.16     | 61.02     |   | 16.42                 |   | 2                           |   | -5.54             |   | -3.58           |   | 0.92        |   | 1.1          |   |
| 2  | <a href="#">CTIC</a> | 29.42       | 112.25     | 75.72     | 82.26     |   | 17.9                  |   | 4                           |   | 2.38              |   | 1.91            |   | 1.34        |   | 1.06         |   |
| 3  | <a href="#">GILD</a> | 65.04       | 85.10      | 60.66     | 65.96     |   | 21.69                 |   | 6                           |   | -3.19             |   | -2.17           |   | 1.08        |   | 1.18         |   |
| 4  | <a href="#">UNH</a>  | 67.61       | 44.57      | 29.75     | 33.01     |   | 22                    |   | 7                           |   | -0.24             |   | -0.08           |   | 2.14        |   | 1.98         |   |
| 5  | <a href="#">UTSI</a> | 20.15       | 96.16      | 55.75     | 72.09     |   | 40.44                 |   | 7                           |   | -0.7              |   | -0.51           |   | 1.63        |   | 0.95         |   |
| 6  | <a href="#">ISIL</a> | 34.56       | 115.97     | 72.72     | 85.7      |   | 30.01                 |   | 8                           |   | -5.17             |   | -4.67           |   | 1.29        |   | 0.99         |   |
| 7  | <a href="#">SEE</a>  | 40.01       | 63.73      | 37.00     | 46.16     |   | 34.27                 |   | 8                           |   | 1.76              |   | 0.8             |   | 5.17        |   | 1.36         |   |
| 8  | <a href="#">DISH</a> | 25.50       | 85.03      | 54.54     | 64.85     |   | 33.81                 |   | 9                           |   | -1.53             |   | -1.01           |   | 1.26        |   | 1.34         |   |
| 9  | <a href="#">RJF</a>  | 29.15       | 50.49      | 35.36     | 39.59     |   | 27.96                 |   | 9                           |   | 4.96              |   | 1.87            |   | 1.02        |   | 1.02         |   |
| 10 | <a href="#">RMD</a>  | 53.63       | 108.96     | 41.95     | 52.35     |   | 15.52                 |   | 10                          |   | 4.03              |   | 2.03            |   | 1.17        |   | 1.17         |   |
| 11 | <a href="#">SGP</a>  | 38.56       | 54.12      | 30.27     | 38.43     |   | 34.21                 |   | 11                          |   | 5.26              |   | 1.92            |   | 1.77        |   | 1.5          |   |
| 12 | <a href="#">NNS</a>  | 70.08       | 36.41      | 10.00     | 23.67     |   | 51.76                 |   | 11                          |   | -4.36             |   | -1.08           |   | 1.01        |   | 1.31         |   |
| 13 | <a href="#">CL</a>   | 58.16       | 39.58      | 24.79     | 28.99     |   | 28.4                  |   | 11                          |   | -2.36             |   | -0.7            |   | 2.02        |   | 1.85         |   |
| 14 | <a href="#">WLP</a>  | 104.65      | 50.03      | 31.68     | 37.5      |   | 31.72                 |   | 11                          |   | -0.4              |   | -0.15           |   | 0.81        |   | 1.08         |   |
| 15 | <a href="#">VLO</a>  | 36.68       | 59.87      | 36.84     | 49.72     |   | 55.93                 |   | 11                          |   | -2.36             |   | -1.2            |   | 1.64        |   | 2.04         |   |

The stocks were ranked using the column that says "Percentile Bin of Latest IV". We will be moving down the stock list looking for good candidates for straddle trades. Lets first save the ranked list into a new list. At the top, enter 50 next to "Save Top", select a new list to the right of the text box, change the list name to "Low IV Earnings" and click the Save button.

**View each ranked stock in a chart that shows when past earnings occur.**

Start a new browser window. Again click the market data tab at Optionetics.com. Enter a stock symbol (we are using the cheap stock GILD) in the text box next to Quote at the top. Select Chart instead of Quote. Click Go. A price chart with earnings will appear once you make the selections at the bottom of the chart that matches those in this picture.



The above chart shows the Earnings reports as blue E boxes and splits as the red letter S. GILD split in February. The Jan 00 earnings appear to have caused a moderate stock drop. The April 01 earnings appear to have caused a substantial stock rise (the stock price doubled in 2 months). The Jul 01 earnings report did not cause any noticeable stock movement. These then are the possible outcomes after earnings are reported:

1. The stock moves rapidly the next day. It moves strongly up if the company made substantial profits (the end of a recession happens). It moves strongly down if the earnings are a surprise and the company did not meet even the whisper numbers.
2. The earnings are moderately better or worse than expected. The stock may move up or down over the next few weeks as stock owners decide what to do.
3. The earnings are as expected. Little price movement happens

These are our possible responses to the list above. We have an objective of a 50% return on our investment.

1. The stock moved rapidly. Set a stop order on the winning trade. The stock may continue to rise or fall over the next few days so use a stop order, not a market order to close the trade. Consider keeping the losing trade, especially if its a call, and there is not a lot of time value left to capture. The stock may rebound later.
2. The earnings were not quite as expected. Look at the earnings and past stock behavior. If earnings are good, close out the put (capturing any time value left) and see if the call makes a profit over the next 30 days. Set a price goal, like 50% return of the call to get out. If earnings are not good, close the call and wait and see if the put will be profitable.
3. If earnings are as expected, close the trade and collect the remaining time value of the trade.

Since time value is an important part of the trade, enter the trade 1-30 days before the announcement with an option that has at least 90 to 120 days left to expiration.

Lets say we had bought the GILD 4/02/01 long straddle.

- Enter 04/02/01 on the upper right of site map and click Go.
- Enter GILD in the text box and click Create Option Tables.
- Next to Turn on Create A Trade using Option Tables at the top click Yes.
- Put a 1 in the text box next to the AUG01 30 call and 30 put.
- Click Analyze at the top.
- Click Save. Name the trade and click Save again.

It would appear earnings were slightly positive, so we would close the put and let the call play out. You can close one leg in a trade using "Close Trade" (lower left of Site Map), which also locks in its profit or loss, and continue to use Risk Graph to analyze the remaining trade leg. Below is the Risk Graph of the GILD Buy Straddle trade on 4/05/01 after the put was closed.

**Gilead Sciences, Inc. (GILD) Option Trade with 1X**

| Position | Num | OptSym | Expire | Strike | Type | Entry  | Bid/Ask     | Model | IV    | Vol | OI | Days |
|----------|-----|--------|--------|--------|------|--------|-------------|-------|-------|-----|----|------|
| Bought   | 1   | GDQHF  | AUG01  | 30     | Call | @ 6.5  | 6.875/7.375 | 7.1   | 79.7% | 0   | 8  | 134  |
| Bought   | 1   | GDQTF  | AUG01  | 30     | Put  | @ 5.25 | 4.5/4.875   | 4.7   | 79.0% | 0   | 32 | 134  |
| Sold     | 1   | GDQTF  | AUG01  | 30     | Put  | @ 4.5  | 4.5/4.875   | 4.7   | 79.0% | 0   | 32 | 134  |

| Cost     | Profit   | Max Profit | Max Risk  | Delta (Shares) | Gamma  | Vega   | Theta   |
|----------|----------|------------|-----------|----------------|--------|--------|---------|
| \$725.00 | \$-75.00 | Unlimited  | \$-725.00 | 64.4           | 2.3565 | \$6.94 | \$-1.95 |

| Downside Breakeven | Upside Breakeven | Max Profit/Max Risk | Max Profit/Cost |
|--------------------|------------------|---------------------|-----------------|
| 37.25              | 37.25            | Unlimited%          | Unlimited%      |

If the model option price is outside of the bid/ask price range, there may be a discrepancy between latest Profit, (which uses bid/ask prices), and the Red curve's profit, (which uses model prices).

**Price & Risk Graphs**



At what price should we close the call so we make a 50% profit and what stock price will likely give us this exit point. Under the cost column you can see we have paid \$725. We would like a profit of  $0.5 * 725 = \$362$ . Platinum has a tool which can answer the stock price question.

Go to Site Map. Select the trade which in our case we named "GILD 04/01 Straddle". Click the "What If? Analysis" link in the lower left of Site Map. The following analysis occurs once we made a few more changes:

| Analysis                                                                       | What if? Analysis                                                            | Back test                                                                                                                                                                                     |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Trading Trades:</b><br>4/01 Straddle                                        | <b>Current Trade:</b><br>GILD 04/01 Straddle                                 | <b>Variation</b> <b>Start</b> <b>Increment</b> <b>Stop</b><br>Stock price    35    .1    40<br>Days left to expiration    134    -5    84<br>IV % change from nominal    -10 %    2 %    10 % |
| <input type="button" value="What if?"/><br><input type="button" value="EDIT"/> | <input type="button" value="UPDATE"/><br><input type="button" value="UNDO"/> |                                                                                                                                                                                               |

| Stock Price | 134    | 129    | 124    | 119    | 114    | 109    | 104    | 99     | 94     | 89     | 84     |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 36          | 291.33 | 279.75 | 267.98 | 255.99 | 243.79 | 231.36 | 218.68 | 205.75 | 192.55 | 179.06 | 165.26 |
| 36.1        | 299.09 | 287.52 | 275.75 | 263.78 | 251.58 | 239.16 | 226.5  | 213.58 | 200.4  | 186.92 | 173.15 |
| 36.2        | 306.87 | 295.31 | 283.54 | 271.58 | 259.4  | 246.99 | 234.34 | 221.43 | 208.26 | 194.81 | 181.05 |
| 36.3        | 314.67 | 303.11 | 291.36 | 279.4  | 267.23 | 254.83 | 242.19 | 229.31 | 216.15 | 202.72 | 188.99 |
| 36.4        | 322.48 | 310.93 | 299.19 | 287.24 | 275.08 | 262.69 | 250.07 | 237.2  | 224.06 | 210.65 | 196.94 |
| 36.5        | 330.31 | 318.77 | 307.03 | 295.1  | 282.95 | 270.57 | 257.96 | 245.11 | 231.99 | 218.6  | 204.91 |
| 36.6        | 338.16 | 326.63 | 314.9  | 302.97 | 290.83 | 278.47 | 265.88 | 253.04 | 239.94 | 226.57 | 212.9  |
| 36.7        | 346.03 | 334.5  | 322.78 | 310.87 | 298.74 | 286.39 | 273.81 | 260.99 | 247.91 | 234.56 | 220.91 |
| 36.8        | 353.91 | 342.39 | 330.68 | 318.78 | 306.66 | 294.33 | 281.76 | 268.96 | 255.9  | 242.56 | 228.95 |
| 36.9        | 361.81 | 350.3  | 338.6  | 326.71 | 314.6  | 302.28 | 289.73 | 276.95 | 263.9  | 250.59 | 237    |
| Stock Price | 134    | 129    | 124    | 119    | 114    | 109    | 104    | 99     | 94     | 89     | 84     |
| 37          | 369.73 | 358.22 | 346.54 | 334.65 | 322.56 | 310.26 | 297.72 | 284.95 | 271.93 | 258.64 | 245.07 |
| 37.1        | 377.66 | 366.17 | 354.49 | 342.62 | 330.54 | 318.25 | 305.73 | 292.98 | 279.97 | 266.71 | 253.16 |
| 37.2        | 385.61 | 374.13 | 362.46 | 350.6  | 338.53 | 326.26 | 313.76 | 301.02 | 288.04 | 274.79 | 261.27 |
| 37.3        | 393.57 | 382.1  | 370.45 | 358.6  | 346.55 | 334.28 | 321.8  | 309.08 | 296.12 | 282.9  | 269.4  |
| 37.4        | 401.56 | 390.09 | 378.45 | 366.61 | 354.57 | 342.33 | 329.86 | 317.16 | 304.22 | 291.02 | 277.55 |
| 37.5        | 409.55 | 398.1  | 386.47 | 374.64 | 362.62 | 350.39 | 337.94 | 325.26 | 312.34 | 299.16 | 285.72 |

The stock price variation was changed to: start=35 inc=0.1 end=40. The days variation was changed to: start=134 inc=-5 end=84. From the data we can see that we need stock prices of :

- 37.0 in 5 days
- 37.2 in 10 days
- 37.4 in 15 days

and so on to collect a profit of \$362 with the close stock price at 31 on 4/05/01.

We reached our profit goal for the "GILD 04/01 Straddle" trade in 11 days after 4/05/01. To see this we changed the web site date to 5/30/01 and with "GILD 04/01 Straddle" selected in Site Map, we clicked "Historical Profit/Loss". The results appear below:

|          |       |           |           |  |        |        |
|----------|-------|-----------|-----------|--|--------|--------|
| 04-09-01 | 33.81 | \$-725.00 | \$840.00  |  | 15.86  | \$115  |
| 04-10-01 | 36.29 | \$-725.00 | \$1010.00 |  | 39.31  | \$285  |
| 04-11-01 | 35.74 | \$-725.00 | \$950.00  |  | 31.03  | \$225  |
| 04-12-01 | 35.74 | \$-725.00 | \$1150.00 |  | 58.62  | \$425  |
| 04-16-01 | 37.80 | \$-725.00 | \$1080.00 |  | 48.97  | \$355  |
| 04-17-01 | 39.24 | \$-725.00 | \$1190.00 |  | 64.14  | \$465  |
| 04-18-01 | 41.00 | \$-725.00 | \$1330.00 |  | 83.45  | \$605  |
| 04-19-01 | 42.07 | \$-725.00 | \$1460.00 |  | 101.38 | \$735  |
| 04-20-01 | 40.42 | \$-725.00 | \$1310.00 |  | 80.69  | \$585  |
| 04-23-01 | 38.34 | \$-725.00 | \$1140.00 |  | 57.24  | \$415  |
| 04-24-01 | 36.87 | \$-725.00 | \$1000.00 |  | 37.93  | \$275  |
| 04-25-01 | 39.24 | \$-725.00 | \$1160.00 |  | 60.00  | \$435  |
| 04-26-01 | 41.69 | \$-725.00 | \$1360.00 |  | 87.59  | \$635  |
| 04-27-01 | 45.58 | \$-725.00 | \$1700.00 |  | 134.48 | \$975  |
| 04-30-01 | 48.98 | \$-725.00 | \$1980.00 |  | 173.10 | \$1255 |
| 05-01-01 | 50.09 | \$-725.00 | \$2070.00 |  | 185.52 | \$1345 |
| 05-02-01 | 49.42 | \$-725.00 | \$2040.00 |  | 181.38 | \$1315 |
| 05-03-01 | 47.81 | \$-725.00 | \$1880.00 |  | 159.31 | \$1155 |
| 05-04-01 | 50.54 | \$-725.00 | \$2140.00 |  | 195.17 | \$1415 |
| 05-07-01 | 51.15 | \$-725.00 | \$2190.00 |  | 202.07 | \$1465 |
| 05-08-01 | 50.08 | \$-725.00 | \$2080.00 |  | 186.90 | \$1355 |
| 05-09-01 | 49.60 | \$-725.00 | \$2020.00 |  | 178.62 | \$1295 |
| 05-10-01 | 48.51 | \$-725.00 | \$1910.00 |  | 163.45 | \$1185 |
| 05-11-01 | 48.75 | \$-725.00 | \$1950.00 |  | 168.97 | \$1225 |
| 05-14-01 | 48.01 | \$-725.00 | \$1870.00 |  | 157.93 | \$1145 |
| 05-15-01 | 46.52 | \$-725.00 | \$1740.00 |  | 140.00 | \$1015 |
| 05-16-01 | 52.76 | \$-725.00 | \$2290.00 |  | 215.86 | \$1565 |
| 05-17-01 | 57.94 | \$-725.00 | \$2800.00 |  | 286.21 | \$2075 |

The right side green column is the profits of the trade on the days shown at the far left. We could have exited with \$362 profit on 4/17/01. With more patience the trade exceeded \$2000 in profits later in time but the temporary dip on 4/24/01 would have caused most everybody to exit.

Returning to the Site Map page, return the site date to the date of interest, select the previously created "Low IV Earnings" and click "Edit List". Go through the list by observing each stock's chart with earnings using the Optionetics Chart option discussed above. Keep those stocks where the earnings report appears to have triggered past stock price activity. We kept these five stocks: GILD ISIL SEE NNS and WLP, then clicked the Save button again.

#### **Search this smaller group of stocks for straddles.**

On Site Map, select the list we have called "Low IV Earnings" and click Find Trades II (middle bottom column). Checkmark "Buy Straddles" and make the selections shown below:

**Your selected Strategies**

Buy Straddle

**SEARCH >>>**

Searching one stock with the default settings below duplicates a Find Trades I Search.

**Choose max and min days to expirations**

Max   or  Unlimited

Min   or  Zero

**Choose your max cost for the trades**

\$   Unlimited

**Choose your initial trade Sort method:**

**Search options with Volume** >=

**Search options with Open Interest** >=

**All option legs should have real quotes**  Yes  No

**Or use the Find Trades II Search Wizard settings based on:**

We want to find low cost straddles expiring 90 to 180 days away that have Open Interest but may not have had recent trading volume activity. In General Settings, a link on Site Map, we selected "20 Day SV" as the Find Trades default SV setting. The search resulted in:

| Option search on date : 10-19-01 |       |                                                                                        |             |           |            |            |                |          |      |
|----------------------------------|-------|----------------------------------------------------------------------------------------|-------------|-----------|------------|------------|----------------|----------|------|
| Rk                               | Stock | Composed of                                                                            | Stock Price | Cost      | Max Profit | Max Risk   | Prob Of Profit | Odds     | Days |
| 3                                | ISIL  | <a href="#">Buy 1 JAN02 40 Call@ 3.90</a><br><a href="#">Buy 1 JAN02 40 Put@ 9.10</a>  | 34.56       | \$1300.00 | Unlimited  | \$-1298.65 | 49.97%         | 1.8 to 1 | 91   |
| 2                                | ISIL  | <a href="#">Buy 1 JAN02 35 Call@ 6.00</a><br><a href="#">Buy 1 JAN02 35 Put@ 6.20</a>  | 34.56       | \$1220.00 | Unlimited  | \$-1217.69 | 46.55%         | 1.9 to 1 | 91   |
| 1                                | ISIL  | <a href="#">Buy 1 JAN02 30 Call@ 8.60</a><br><a href="#">Buy 1 JAN02 30 Put@ 3.80</a>  | 34.56       | \$1240.00 | Unlimited  | \$-1236.73 | 43.03%         | 1.9 to 1 | 91   |
| 5                                | ISIL  | <a href="#">Buy 1 JAN02 20 Call@ 16.10</a><br><a href="#">Buy 1 JAN02 20 Put@ 1.05</a> | 34.56       | \$1715.00 | Unlimited  | \$-1713.49 | 45.10%         | 1.7 to 1 | 91   |
| 7                                | NNS   | <a href="#">Buy 1 FEB02 75 Call@ 1.05</a><br><a href="#">Buy 1 FEB02 75 Put@ 7.20</a>  | 70.08       | \$825.00  | Unlimited  | \$-824.81  | 48.39%         | 1.4 to 1 | 119  |
| 4                                | ISIL  | <a href="#">Buy 1 JAN02 25 Call@ 12.10</a><br><a href="#">Buy 1 JAN02 25 Put@ 2.10</a> | 34.56       | \$1420.00 | Unlimited  | \$-1417.54 | 41.71%         | 1.8 to 1 | 91   |
| 6                                | NNS   | <a href="#">Buy 1 FEB02 70 Call@ 3.60</a><br><a href="#">Buy 1 FEB02 70 Put@ 4.20</a>  | 70.08       | \$780.00  | Unlimited  | \$-779.48  | 46.68%         | 1.4 to 1 | 119  |
| 8                                | NNS   | <a href="#">Buy 1 FEB02 65 Call@ 7.00</a><br><a href="#">Buy 1 FEB02 65 Put@ 2.25</a>  | 70.08       | \$925.00  | Unlimited  | \$-923.77  | 44.81%         | 1.3 to 1 | 119  |
| 9                                | GILD  | <a href="#">Buy 1 FEB02 40 Call@ 26.80</a><br><a href="#">Buy 1 FEB02 40 Put@ 1.40</a> | 65.04       | \$2820.00 | Unlimited  | \$-2816.70 | 45.98%         | 1.2 to 1 | 119  |
| 10                               | GILD  | <a href="#">Buy 1 FEB02 45 Call@ 22.70</a><br><a href="#">Buy 1 FEB02 45 Put@ 2.35</a> | 65.04       | \$2505.00 | Unlimited  | \$-2501.96 | 42.41%         | 1.0 to 1 | 119  |
| Rk                               | Stock | Composed of                                                                            | Stock Price | Cost      | Max Profit | Max Risk   | Prob Of Profit | Odds     | Days |
| 11                               | WLP   | <a href="#">Buy 1 JAN02 85 Call@ 22.20</a><br><a href="#">Buy 1 JAN02 85 Put@ 1.70</a> | 104.65      | \$2390.00 | Unlimited  | \$-2388.36 | 43.40%         | 0.9 to 1 | 91   |
| 12                               | GILD  | <a href="#">Buy 1 FEB02 50 Call@ 19.00</a><br><a href="#">Buy 1 FEB02 50 Put@ 3.50</a> | 65.04       | \$2250.00 | Unlimited  | \$-2247.22 | 38.06%         | 0.9 to 1 | 119  |
| 15                               | NNS   | <a href="#">Buy 1 FEB02 80 Call@ 0.65</a><br><a href="#">Buy 1 FEB02 80 Put@ 11.60</a> | 70.08       | \$1225.00 | Unlimited  | \$-1224.10 | 41.10%         | 0.7 to 1 | 119  |
| 14                               | WLP   | <a href="#">Buy 1 JAN02 95 Call@ 14.10</a><br><a href="#">Buy 1 JAN02 95 Put@ 3.80</a> | 104.65      | \$1790.00 | Unlimited  | \$-1786.94 | 36.45%         | 0.7 to 1 | 91   |
| 13                               | GILD  | <a href="#">Buy 1 FEB02 55 Call@ 15.50</a><br><a href="#">Buy 1 FEB02 55 Put@ 5.00</a> | 65.04       | \$2050.00 | Unlimited  | \$-2047.48 | 33.90%         | 0.7 to 1 | 119  |

The ranking shown above was obtained by clicking the "Risk" view.

#### Make the trade.

The trade: "ISIL Jan02 35 put and call" trade appears to be a compromise between costs, Odds and the strike near the stock close. A Risk Graph of the trade appears below:

## Intersil Holding Corp. (ISIL) Option Trade with 1X

| Position | Num | OptSym | Expire | Strike | Type | Entry | Bid/Ask | Model | IV    | Vol | OI  | Days |
|----------|-----|--------|--------|--------|------|-------|---------|-------|-------|-----|-----|------|
| Bought   | 1   | UFHAG  | JAN02  | 35     | Call | @ 6   | 5.5/6   | 5.7   | 83.9% | 6   | 792 | 91   |
| Bought   | 1   | UFHMG  | JAN02  | 35     | Put  | @ 6.2 | 5.7/6.2 | 5.9   | 87.0% | 0   | 563 | 91   |

| Cost      | Profit    | Max Profit | Max Risk   | Delta (Shares) | Gamma  | Vega    | Theta   |
|-----------|-----------|------------|------------|----------------|--------|---------|---------|
| \$1220.00 | \$-100.00 | Unlimited  | \$-1218.86 | 16.9           | 5.2155 | \$13.27 | \$-6.06 |

| Downside Breakeven | Upside Breakeven | Max Profit/Max Risk | Max Profit/Cost |
|--------------------|------------------|---------------------|-----------------|
| 22.80              | 47.20            | Unlimited%          | Unlimited%      |

If the model option price is outside of the bid/ask price range, there may be a discrepancy between latest Profit, (which uses bid/ask prices), and the Red curve's profit, (which uses model prices).

## Price &amp; Risk Graphs



The top stock chart left x-axis scale is time. The stock chart right x-axis scale defaults to option trade dollars. Four lines are drawn with the colors red, blue, green and black. Lets start with the red line. The red line shows the dollar value of the trade at today's prices with 91 days until the put and call expire. As the stock price moves up and down the y-axis, the red line shows how the dollar value of the option combination will change with stock price movement.

You can use the red line to determine the current value of your trade. As the trade evolves in time, look at the stock's closing prices. The above chart has a black line that is parallel to the y-axis and passes through the stock closing price. Move along this black line until you intersect the red line. At the red line intersection move down until you hit the combo dollars y-axis. The y-

axis dollars value is the latest profit/loss value of your option trade based on the "option model" price. The profit/loss of your trade based on the actual quotes is below the word "Profit" above the chart. These two "profit" values should be close to each other.

The blue line also moves with the stock price but represents conditions when there are 60 days left to expiration. There are 31 days between the red and blue line on the trade date shown. The days difference between lines change as we approach expiration. The blue line is drawn assuming the implied volatility of the trade has not changed over these 31 future days. If the stock price does not move much in 31 days, the puts and calls lose time value and more stock movement is needed to get past breakeven.

The black line shows performance at expiration. The other lines may change with implied volatility but not the black line. The maximum loss in the plot is \$1218, the cost of the trade. Click the save button. Name the trade and click Save again.

You can force the black line in Risk Graph to be at any day to expiration. 0 days to expiration is the default. At the bottom of Risk Graph look for "Days to Expiry" to change it to say 30 days and click the green ANALYZE button.

**After earnings are reported, decide to close both legs, keep both open or keep one leg open.**

Buy the trade using market values below or near the above ask values. Once you purchased the trade, edit the trade again and change the option prices shown to those you received from your broker. You can now analyze the trade with the actual trade option prices.

The above approach requires diligent effort. Below is a quicker but less refined approach:

- Once you have saved the earnings stock list, rank the stocks using Cheap IV/20 day SV keeping the top 50.
- Search these top 50 in Find Trades II for 90-180 day Buy Straddles.
- Look for a compromise between Odds > 1.0, low cost and a strike near the close.
- There will be a lot more trades with Odds > 1.0 because you used low IV/SV as the ranking filter.

The key to a low IV Buy Straddle trade making a profit is your decision whether to close the legs or keep one or both of the legs open once the earnings are announced. May all your Buy Straddles use stocks with an earnings surprise!

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