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Schaeffer's Investment Research Review: Using Options to Profit During Earnings Season

Schaeffer's Investment Research Review explains how you can use options for profit during the earnings season.

CINCINNATI, OH, UNITED STATES, October 13, 2021 /EINPresswire.com/ -- According to Schaeffer's Investment Research Review, investors can take advantage of the earnings season through options. One way of leveraging the earning seasons via options is applying a long strangle options strategy. The investor simultaneously considers bearish options trade in a long strangle strategy and a bullish options trade. Investopedia says, " the investor simultaneously buys an out-of-the-money call and an out-of-the-money put option."

In addition, Schaeffer's Investment Research Review says that the call and put maintain a bought to open status while using the long strangle approach. And the buying and selling of options have the same expiration date. Further, " a strangle employs a call and a put at different strike prices, usually slightly out of the money, that sits on either side of the underlying stock's current price."

When should you use a long strangle? According to Schaeffer's Investment Research Review, you can employ this method when you anticipate a "volatility surge''. You expect considerable changes in a company or after earnings. However, a long strangle is cost-effective compared to a straddle strategy because " out-of-the-money options are less expensive than at-the-money contract [s]."

Schaeffer's Investment Research Review explains that a trader can only make a substantial profit under the long strangle if the underlying stock makes a huge move owing to the "spread between strikes."

Schaeffer's Investment Research Review illustrates how an investor can use a long strangle during the earnings season.

Let's say Stock XYZ is set to unveil its earnings in a couple of weeks, and the security has been known to make large post-earnings moves. If the stock is currently trading at $76, a trader could initiate a long strangle by buying to open a short-term call at the 80-strike, priced at $0.40, and a

72-strike put in the same series, priced at $0.28. This would bring the trader's total net debit to $68 ([$0.40 + $0.28] x 100 shares per contract), or $0.68 per pair of contracts.
This trade could take a number of turns. Should Company XYZ's underlying stock surge north of the strangle's upper breakeven rail at $80.68 (call strike plus net debit), the trader's profit is theoretically unlimited. On the contrary, the further south the stock falls past its lower breakeven rail at $71.32 (put minus premium paid), the bigger the gains for the trader.

The final (and worst-case) scenario will occur if the stock remains relatively static through the time of expected volatility, and settles between both strikes at expiration. Should this happen, the max potential loss will be the initial investment -- in this case $68 -- plus any brokerage fees, since both the call and put will finish out of the money.

Schaeffer's Investment Research Review notes that a long strangle is an aggressive strategy that traders must only use if they anticipate a tectonic shift like in options. Also, " since a "double premium" must be paid, the stock needs to make a big enough move to offset this cost, " explains Schaeffer's Investment Research Review.

An investor should also be aware that " anticipated volatility can drive up option premiums, which in turn results in wider breakeven rails and a bigger maximum risk."

While a long strangle strategy can be helpful during the earnings season, it's got inherent weaknesses. Schaeffer's Investment Research Review cautions investors to be more prudent in picking their options.

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