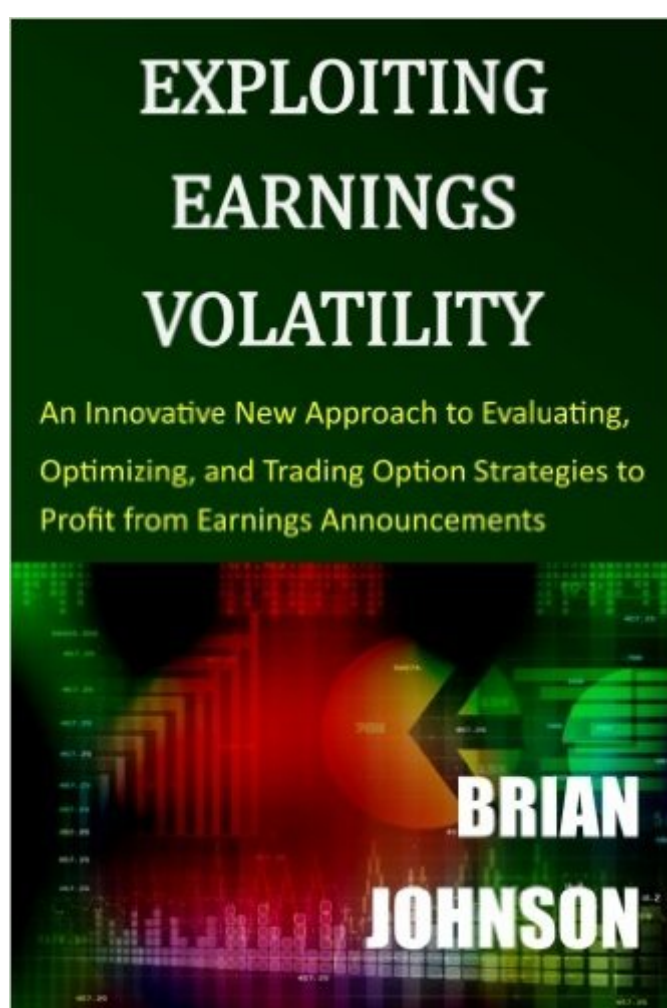


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# Exploiting Earnings Volatility: An Innovative New Approach To Evaluating, Optimizing, And Trading Option Strategies To Profit From Earnings Announcements



## Synopsis

Exploiting Earnings Volatility introduces an innovative new framework for evaluating, optimizing, and trading option strategies to profit from earnings-related pricing anomalies. Leveraging his extensive background in option-pricing and decades of experience in investment management and trading, Brian Johnson developed this inventive approach specifically to design and manage option earnings strategies. In an Active Trader article titled "Modeling Implied Volatility," Mr. Johnson introduced a formula for aggregating discrete volatility measures into a single metric that can be used with conventional option pricing formulas to accurately model implied volatility before and after earnings announcements. The practical application of this formula has profound implications for option trading and strategy development. Exploiting Earnings Volatility is written in a clear, understandable fashion and explains how to use this novel approach to 1) solve for the expected level of earnings volatility implicitly priced in an option matrix, 2) calculate historical levels of realized and implied earnings volatility, 3) develop strategies to exploit divergences between the two, and 4) calculate expected future levels of implied volatility before and after earnings announcements. Furthermore, Exploiting Earnings Volatility also includes two Excel spreadsheets. The Basic spreadsheet employs minimal input data to estimate current and historical earnings volatility and utilizes those estimates to forecast future levels of implied volatility around earnings announcements. The Integrated spreadsheet includes a comprehensive volatility model that simultaneously integrates and quantifies every component of real-world implied volatility, including earnings volatility. This powerful tool allows the user to identify the precise level of over or undervaluation of every option in the matrix and to accurately forecast future option prices and option strategy profits and losses before and after earnings announcements. The Integrated spreadsheet even includes an optimization tool designed to identify the option strategy with the highest level of return per unit of risk. Written specifically for investors who have familiarity with options, this practical guide begins with a detailed review of volatility and an explanation of the aggregate implied volatility formula. A separate chapter provides a conceptual and mathematical explanation of "True Greeks," accurate measures of risk and return sensitivity that reflect the real-world behavior of options. New option Greeks that are specific to earnings announcements are also introduced. Four chapters explain how to use the Basic and Integrated spreadsheets and two chapters document trade examples that use actual market data and analytical results from both spreadsheets to design a unique option strategy to exploit earnings-related pricing and volatility anomalies. The final chapter examines practical considerations and prospective applications of these innovative new tools. This book introduces a new analytical framework that may sound

complicated at first, but is really quite intuitive. The formulas presented in the book are limited to basic high-school algebra. Mathematical relationships are also explained intuitively and depicted graphically. Most important, you will not need to perform any of these calculations manually. Exploiting Earnings Volatility includes a link to Excel spreadsheets that perform all of the calculations described in the book. The unique price and volatility behavior of options before and after discrete earnings announcements is an enigma to most option traders, even to many professionals. The aggregate volatility formula is relatively simple, but it has profound implications. When integrated with a real-world volatility model, it offers unique insights into earnings volatility, price behavior, option strategy construction, and prospective value-added opportunities.

## **Book Information**

Paperback: 254 pages

Publisher: Trading Insights, LLC; 1 edition (April 8, 2015)

Language: English

ISBN-10: 0996182306

ISBN-13: 978-0996182300

Product Dimensions: 6 x 0.6 x 9 inches

Shipping Weight: 15.7 ounces (View shipping rates and policies)

Average Customer Review: 4.5 out of 5 starsÂ Â See all reviewsÂ (12 customer reviews)

Best Sellers Rank: #342,696 in Books (See Top 100 in Books) #142 inÂ Books > Business & Money > Investing > Options

## **Customer Reviews**

Most books about trading are filled with generic ideas which might sound interesting in theory or but offer very little practical advice. I am delighted to report that this is definitely not the case for Brian Johnson's book. The author covers the material with the right mix of theory and practice so that every reader can get as much from this book as her or she is capable of absorbing at any given time. Granted, in order to make the most of Exploiting Earnings Volatility, it is essential to approach it as study material, rather than reading material, therefore requiring some investment of time in order to become proficient with the computational tools provided as free download by the author. In my experience, the author is very responsive and has helped me troubleshooting some Mac-related technical glitches. I will update this review as I progress in grasping the material covered in the book. Highly recommended.

Through original research, Brian delivers a comprehensive framework for trading options on equities around earnings announcements in this book. After using the spreadsheets that came with the book, I've identified both past trades and trades in real-time. My results are very promising so far. To potential buyers and practitioners: You won't need the math skills or Excel skills to reconstruct Brian's spreadsheets, but you will need the comprehension skills and background on implied volatility to accurately put the framework to work for you. I did have to re-read some sections many times, but I feel I've gained that comprehension. If you are anyone besides an advanced options trader, I would caution that you may need weeks to fully digest the framework. The framework in this book is ready to go. You'll need a reliable source of historical data and possibly the skills to reformat that data in Excel if you aren't using Optionvue, but Brian explains the data format needed so you can reliably use the spreadsheets.

In this, his 2nd book, he shows how a sophisticated program, using his own new, advanced models, can be used to uncover very profitable, low risk trades during the days leading up to an earnings announcement, and often even going through the announcement. We at OptionVue have implemented many of Brian's formulas into our software, and yet continue to be challenged to go further. For instance, his discussion of a search algorithm that can find a 4-6 legged trade that maximizes return while minimizing variance was something new, and we'll have to think about how we might be able to incorporate that. Speaking from personal experience, there definitely are good trading opportunities surrounding earnings announcements.

I found the book to be very informative. The author includes some of the formulas and calculations involved, but as he says in the book, those are not necessary to know, just there for those interested. Ultimately, the biggest value add with Mr. Johnson's work is he shares it with you by including two very advanced Excel spreadsheets that perform all the necessary calculations for you and can even provide optimized solutions. These spreadsheets are included with the purchase of the book and the author walks you through how to use them. Those tools in my opinion make the cost of the book seem minuscule. I personally enjoyed the book and it has benefitted my earnings related trading already.

Ever since I heard from Len Yates that this book was coming, I could not wait. It has lived up to all my expectations. Having traded earnings for many years, I have always found maneuvering around volatility dynamics leading up to and during earnings difficult. Brian Johnson has provided the

solution in this book. His explanations of how and why the model was developed expanded my understanding more than any other material I have read or viewed. The Basic and Integrated spread sheets are invaluable tools for finding profitable earnings strategies. This is by far the best book available regarding option trading around earnings. As a bonus, Brian Johnson including his email address so you can ask questions and I have found him to be very responsive and helpful. If this book cost 10 times what I paid, it would still be an excellent value.

The options market is an interesting thing. One can go from rags, to riches, and back again if he or she lacks a disciplined, strong theoretical framework for success. Brian Johnson's latest book offers a thoroughly researched, accessible discourse that allows the reader to take advantage of the inevitable changes in Implied Volatility (or "price" of an option contract), and other phenomena that occur uniquely around earnings announcements. This information is particularly important, now that options on many stocks are available on a weekly, rather than just a monthly, basis. I actually shudder at some of the mistakes that I have made trading options around expirations, and wish that I had read this book - "it certainly would've saved me money!" Johnson's style is detailed, but readable. His spreadsheets are both easy to use and useful. And, I myself, as an individual investor, truly get the feeling that he is on the side of "the little guy." I truly mean it when I praise and thank Johnson for helping the individual investor...

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