trade ideas

EARNINGS SEASON: HOW TO USE IT IN YOUR TRADING.

@davemabe

Some of your assumptions about earnings season are probably wrong. Here's a new approach.

Written by Dave Mabe
Chief Information Officer

EARNINGS SEASON

HOW TO USE IT IN YOUR TRADING

Most traders and investors are familiar with the concept of earnings season: the period of time when most public companies release their earnings and other fundamental financial metrics (price/earnings, cash flow, debt, etc) required by the SEC. These company announcements very often trigger moves in the stock price and establishes a new equilibrium. The volatility around this response is often strong and is the focus for many trading strategies. As I often say, "I don't attempt to trade the news but I trade the market's reaction to the news."

Most traders think about earnings season in an inaccurate way. This book explains why that is and suggests a much better way to think about earnings seasons.

WHY "SEASON" MAKES NO SENSE

The word "season" implies that there's a definite start and end date. Like deer hunting season, you have a start date where it is legal to shoot deer up until the end date of the season at which point it is illegal again. Everyone knows the

> ## "YOU CAN LITERALLY FIND COMPANIES REPORTING EARNINGS ON EVERY TRADING DAY OF THE YEAR."

well defined dates of the season and almost everyone adheres to these rules. This is not at all the case with earnings releases. You can find companies reporting earnings on every trading day of the year.

There is also general disagreement about when earnings season starts and ends. Traditionally, it was thought that earnings season officially kicks off with the earnings release from one company: Alcoa (AA). Over the years, as technology companies have become increasingly important, this tradition seems to be fading. I've noticed that traders often speak as if they are intimately familiar with earnings season, but if you ask them to put the earnings season start and end dates on their calendar you'll end up with a variety of different dates.

Does this make the entire concept of earnings season invalid? Of course not. But, there is a much more useful way to think about the concept. Different trading strategies perform differently depending on how many

companies are reporting. Some strategies depend entirely on earnings announcements and others avoid earnings announcements. It's important to think about how your trading strategy is affected by earnings announcements and earnings season – for example, when you're planning time away from the market you probably want to schedule the time outside of earnings season.

A BETTER WAY TO THINK ABOUT EARNINGS

Here's how I've come to think about earnings season over the course of over a decade of trading.

First, when you look at the distribution of when companies report earnings, you see a clustering around certain times of the year. However, you'll also notice a lot of companies reporting outside those clusters. See the chart below.

**When Companies Reported Earnings 2019**
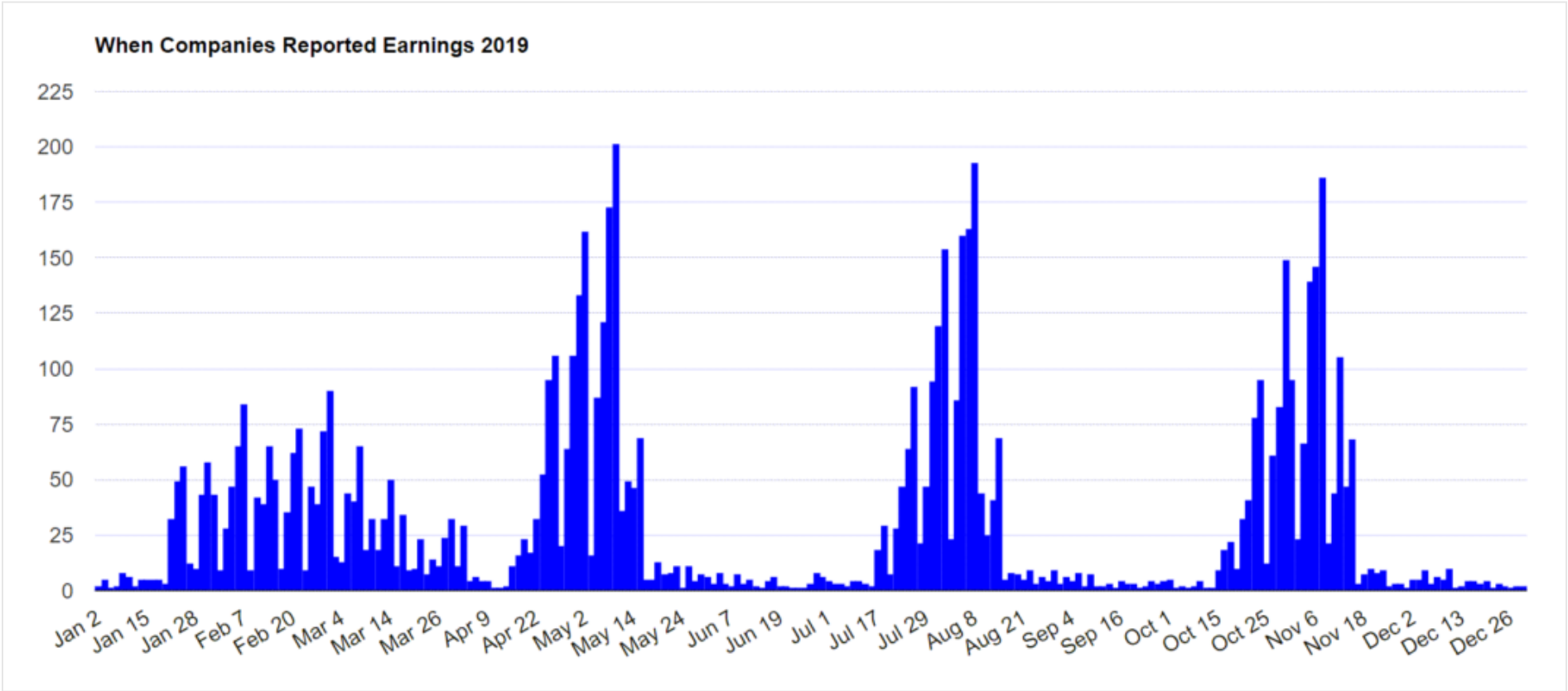
The second thing that stands out from the chart: there are four earnings seasons throughout the year but the length of each of them varies. The first earnings season of the year is much more spread out than the rest of the earnings seasons. Why? Most companies have fiscal years that align with the calendar year. These companies are reporting earnings for an entire year starting in mid January. It takes longer to report annual earnings than quarterly earnings since you're producing fancy, glossy reports and fulfilling additional requirements.

So, what date makes sense to use as the start of a particular earnings season given the fact that there are companies reporting every trading day? Enough traders still respect the Alcoa earnings report as the start of the season to follow along. When you plot those dates on the chart it does seem to align pretty well with what most would consider the start of the earnings seasons. Until some other method comes into vogue this seems logical.

What about the end date for each season? You can't simply add a certain amount of days to each start date since the season length varies so much. A better way to think about it is for a given day calculate a percent of the way through that particular earnings season. In other words, of the total number of companies reporting that season, what percent have reported as of a particular date?

CHART SHOWING EARNINGS BIG PICTURE

Earnings Season

Feb 11 2020, Reporting: 42, 33.1% done
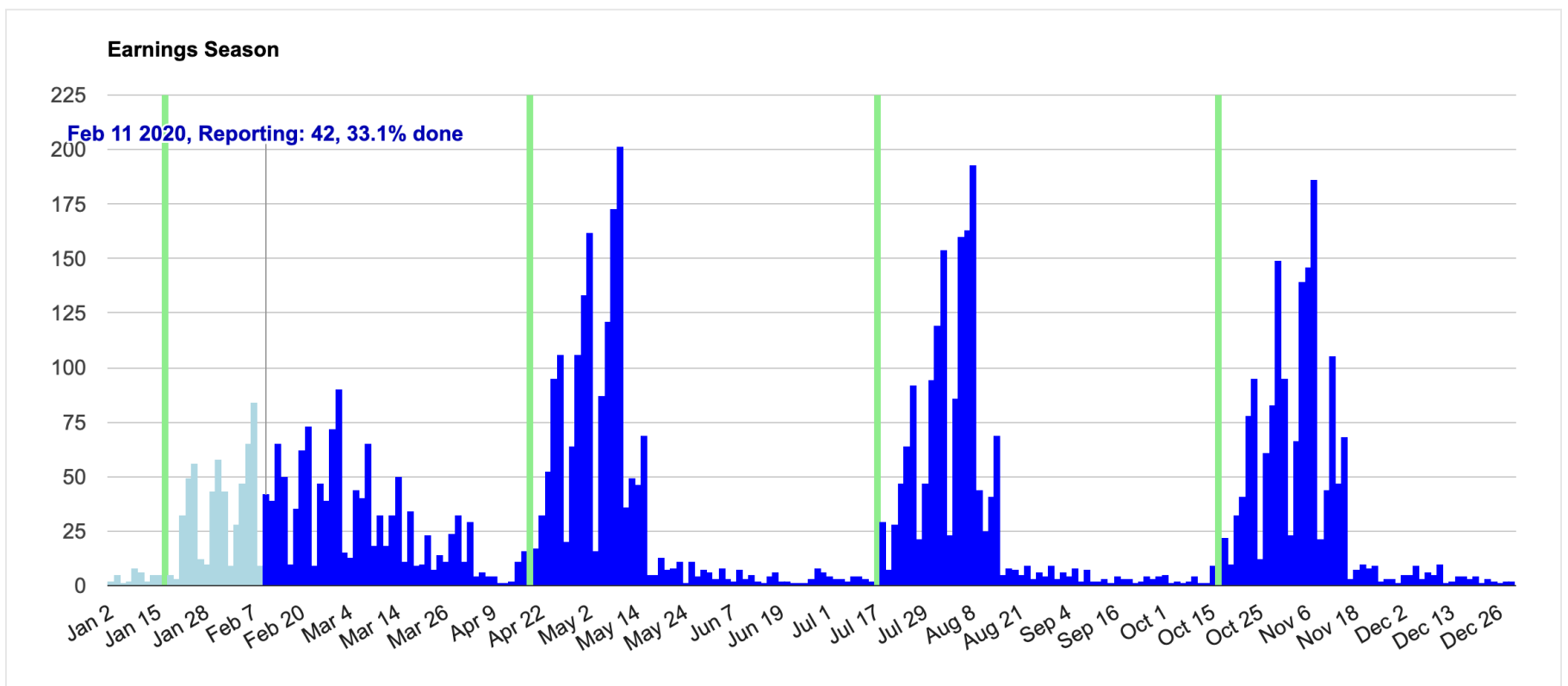
The above chart is shows the 2020 earnings season. As of this writing it shows February 11th and that we're 33.1% through the current earnings season. You could **use this chart** to determine when it's best to take time away from the market. Because the earnings seasons have different lengths, this visualization is a much better way to think about earnings.

EARNINGS SEASON IS THE FOREST, NOW LET'S LOOK AT THE TREES

Now that we've used a better way to determine where we are within earnings season, let's look at the best way to scan for individual companies that have reported recently or in the near future. There are a few different tools you can use for this purpose but we'll look at two: Yahoo! Finance Earnings Calendar and the Trade-Ideas Top List.

YAHOO! FINANCE EARNINGS CALENDAR

The Yahoo! Earnings Calendar is very popular and does a decent job of allowing you to see which companies are reporting on a given day. By default it shows all companies that are reporting today and you can click on adjacent dates in the header and see earnings announcements for these different days.

Because it shows all companies reporting earnings, the first thing you're going to want to do is filter this list down. On the date I've chosen here you can see there are 122 companies displayed. That is going to be far too many to be able to process in a reasonable amount of time.

Most of these companies don't have enough volume to trade. There are some filters you can apply to the list by clicking on Event Filters and at first glance the list seems substantial. However, when you look closer and try to apply a simple filter for Average Volume you quickly realize that it doesn't contain this very elementary filter.
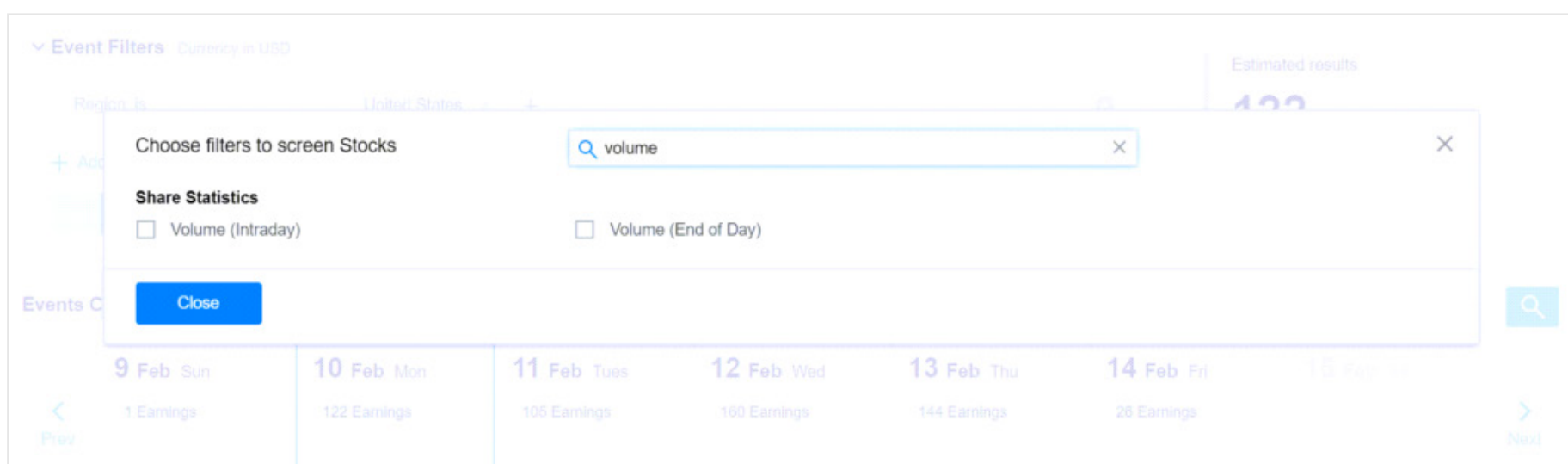
No average volume filter available

This alone makes the list unusable but on top of that there are only a couple fields available to display for each stock. As a trader you need to be able to view the appropriate fields right alongside the symbol in the list. Looking them up for each symbol is time consuming and requires many mouse clicks. This could be the difference between catching the trade and being too late to catch the move.

The other major drawback of this calendar is the fact that all companies that are **scheduled to report earnings today** are in the list. This includes companies that are reporting **before the open** as well as companies reporting **after the market close.** Why is important to make this distinction? Imagine you're looking at the list in the middle of the trading day. A sizable number of companies in the list will have already reported prior to the market open but most of the rest will be reporting after the close.

These two categories of companies are dramatically different. Companies reporting prior to the open will likely be quite volatile while the ones reporting after the close will still have relatively calm price action prior to their earnings release. Similarly, when you look at yesterday's earnings reports, the one that reported before the close have already had a full day of trading to process the report while the ones that reported after hours have not.

Most companies report their earnings after the close but a significant number report before the open. Here's the breakdown:

After the Close vs. Before the Open

- 27.9%
- 72.1%

- ● Before Open
- ● After the Close
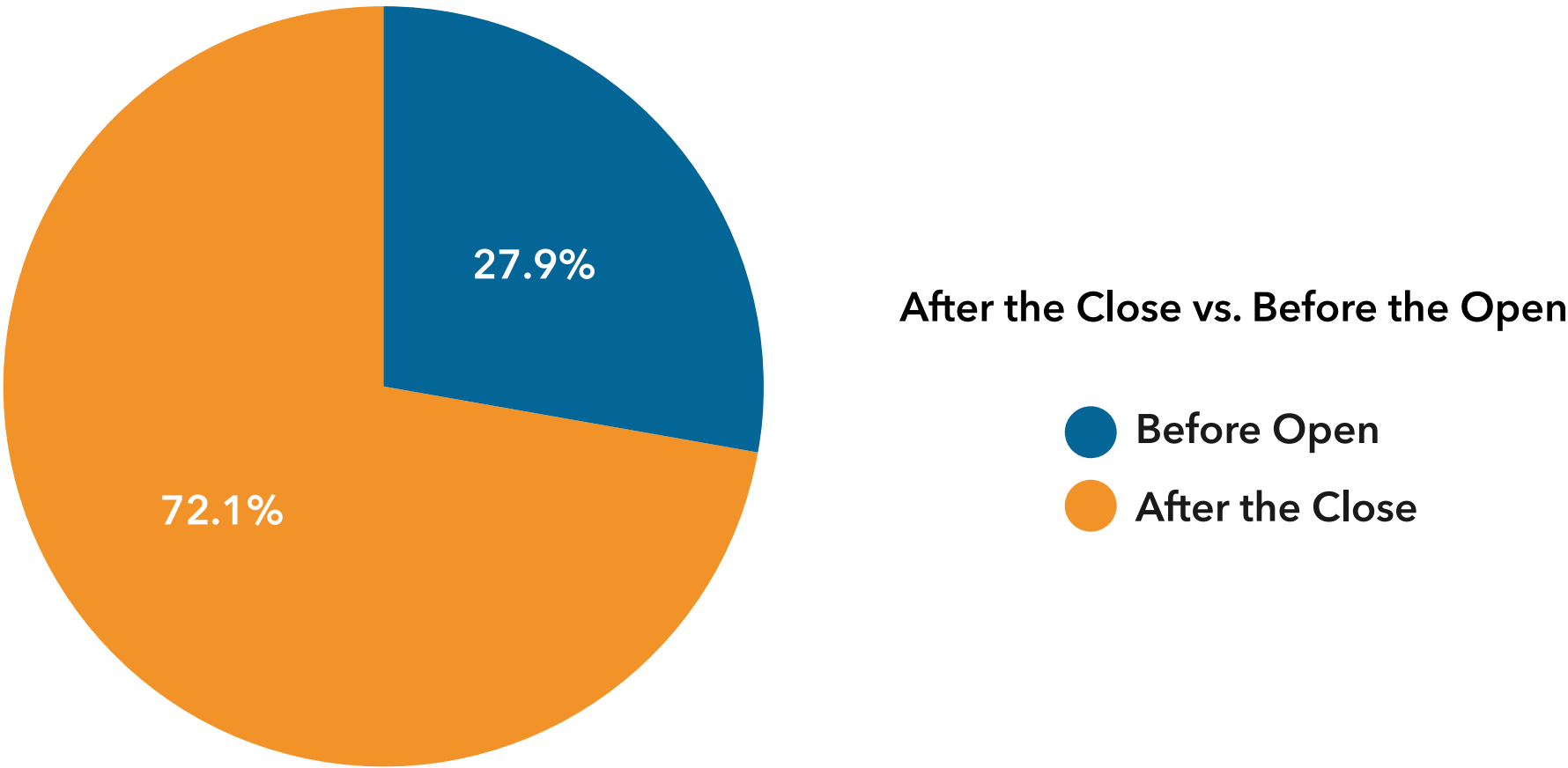
Why is this important? It's good to understand what the majority of companies do, but there's another important difference. When companies report after the close there's the post market trading session, the overnight, plus the pre market session before the next normal trading day begins. There's significantly more trading time plus clock time before the next trading day compared to companies that report before the market open.

I have strategies where this dynamic has a strong effect. By the time the regular session rolls around, companies that reported yesterday after the close can be somewhat superseded by the companies that reported in the pre market.

Nasdaq has a similar earnings page but it suffers from the same limitations as the Yahoo! earnings page. These earnings views could be fine for a lot of investors. But, if you're trading the markets you are definitely going to need more flexibility in your scan to save time and effort and allow you to take more profitable trades.

A MUCH BETTER EARNINGS SCANNER: TRADE-IDEAS

Trade-Ideas is a scanner and artificial intelligence product that is the best way I know to display recent and upcoming earnings announcements. It doesn't have the filtering limitations like the Yahoo calendar and you can display any data fields you want for each symbol. You can also quickly sort the list by any field and even paper trade any symbol using the Trade-Ideas simulated trading mode that is included with every subscription.

Here's a view of my **Recent Earnings Announcements** top list window in Trade-Ideas. This list allows me to view only companies that have reported earnings this morning before the open OR yesterday after the close.

RECENT EARNINGS
ANNOUNCEMENTS WINDOW

That is, it only shows companies where the current trading day is the first trading session after the company's earnings announcement. I also applied some basic filters to reduce the list of companies reporting earnings to just the ones that I'm likely to trade. For example, I have a minimum value for daily average volume, a minimum price of $1, and a maximum price of $500. I know that I won't trade symbols outside of those thresholds, so my list excludes them.

This view is just not possible on other platforms. Here's the **cloud link for this window** so you can bring up this exact top list in your Trade-Ideas account.

Symbol	Company Name	Price ($)	Chg Close ($)	Chg Close (%)	Vol Today (Shr)	Rel Vol	Vol Today (%)	Pos Rng (%)	Gap (%)	Volatility ($)	Avg True	Earn Date	Pos 5 Day	Pos Yr Rng	Sector
TCO	Taubman Centers, Inc	53.13	18.46	53.2	24,959,795	29.29	1,016.3		53.2	0.1582	1.64	0.25			Finance and Insurance
MPAA	Motorcar Parts of America, Inc	19.06	-2.23	-10.5	451,383	6.66	461.6		-8.0	0.0502	0.86	0.25			Manufacturing
JE	Just Energy Group, Inc	1.15	-0.36	-23.8	1,572,945	3.68	428.4		-17.2	0.0142	0.08	0.25			Utilities
MYOV	Myovant Sciences Ltd	13.24	0.23	1.8	2,139,553	4.08	390.1		7.6	0.1055	0.71	0.25			Manufacturing
EPC	Edgewell Personal Care Co	38.47	7.99	26.2	3,131,489	7.73	322.2		24.8	0.1079	1.37	0.25			Manufacturing
IVC	Invacare Corp	8.77	1.20	15.8	1,246,433	5.55	293.0		1.1	0.0498	0.39	0.25			Manufacturing
CRNT	Ceragon Networks Ltd	1.84	-0.24	-11.5	1,464,611	2.61	261.4		-6.7	0.0165	0.09	0.25			Manufacturing
AVYA	Avaya Holdings Corp	12.88	0.70	5.7	5,872,706	3.08	233.7		3.8	0.0636	0.62	0.25			Information
DO	Diamond Offshore Drilling, Inc	3.93	-0.47	-10.6	6,940,102	3.23	207.8		-2.1	0.0537	0.35	0.25			Mining, Quarrying, and Oil and Gas Extraction
CNA	CNA Financial Corp	50.78	3.93	8.4	301,186	3.92	204.2		5.0	0.0472	0.89	0.25			Finance and Insurance
QSR	Restaurant Brands Intl, Inc	65.37	1.51	2.4	3,807,856	2.18	165.2		1.8	0.1318	1.14	0.25			Accommodation and Food Services
NMM	Navios Maritime Partners	11.05	-1.05	-8.7	183,707	2.34	158.8		-6.4	0.0687	0.71	0.25			Transportation and Warehousing
MCY	Mercury General Corp	53.66	4.70	9.6	349,100	3.27	147.4		3.2	0.0574	0.75	0.25			Finance and Insurance
CVM	Cel-Sci Corp	14.88	0.33	2.3	903,091	1.22	104.5		-0.1	0.1229	1.38	0.25			Manufacturing
AXGT	Axovant Gene Therapies Ltd.	4.42	0.08	1.7	113,309	0.97	100.1		-1.6	0.0429	0.29	0.25			Manufacturing
GBDC	Golub Capital BDC, Inc	18.16	-0.25	-1.4	567,644	1.41	99.7		-0.5	0.0214	0.13	0.25			Finance and Insurance
L	Loews Corp	55.74	2.49	4.7	822,306	2.21	95.1		4.3	0.0636	0.94	0.25			Finance and Insurance
AGN	Allergan, Plc	199.21	2.16	1.1	1,980,401	1.60	72.4		0.0	0.2284	1.92	0.25			Manufacturing
BIP	Brookfield Infrastructure	55.03	0.72	1.3	151,299	0.86	67.5		0.0	0.0567	0.65	0.25			Utilities

Recent earnings announcements in a Trade-Ideas Top List

UPCOMING EARNINGS ANNOUNCEMENTS WINDOW

The second top list I frequently use in Trade-Ideas for earnings is my **Upcoming Earnings Announcements** window. I have it configured to show me all companies that are reporting earnings after the close today or at anytime over the following week.

This view has all my favorite columns to sort by including the Earnings Date field. That allows me to quickly sort the list by when the company is releasing earnings relative to the current point in time.

So, symbols will appear first on my Upcoming Earnings Announcements window. And, when the first trading session after their announcement comes around, they'll fall off that top list and appear on the Recent Earnings Announcements list that I use during the trading day. Here is the **cloud link for my Upcoming Earnings Announcements window** so you can bring up this exact top list in your Trade-Ideas account.

Upcoming Earnings Announcements: 3:06:03 - 3:06:32

Symbol	Company Name	Price ($)	Chg Close ($)	Chg Close (%)	Vol Today (Shr)	Rel Vol	Vol Today (%)	Pos Rng (%)	Gap (%)	Volatility ($)	Avg True	Earn Date	Pos 5 Day	Pos Yr Rng	Sector
PYX	Pyxus Intl, Inc	7.08	0.81	12.9	818,766	2.55	298.3		8.9	0.0980	0.60	0.75			Wholesale Trade
ELY	Callaway Golf Co	20.59	0.39	1.9	1,231,068	3.29	192.3		0.1	0.0515	0.59	0.75			Manufacturing
CHGG	Chegg, Inc	44.15	1.44	3.4	2,429,528	3.67	191.1		0.7	0.1121	1.07	0.75			Educational Services
AMKR	Amkor Tech, Inc	11.52	0.44	3.9	1,751,800	3.17	166.1		0.0	0.0414	0.45	0.75			Manufacturing
MIME	Mimecast Ltd	53.21	0.29	0.5	813,886	2.54	160.8		-0.6	0.1420	1.42	0.75			Information
VRNS	Varonis Systems, Inc	91.94	1.99	2.2	417,290	3.36	151.9		0.0	0.1609	2.18	0.75			Information
RNG	Ringcentral, Inc	212.72	5.25	2.5	1,247,797	2.25	138.9		0.0	0.5370	6.18	0.75			Information
RPD	Rapid 7, Inc	61.97	1.62	2.7	420,876	1.64	110.3		-0.3	0.1691	1.84	0.75			Information
ITUB	Itau Unibanco Banco Holding SA ADS	7.88	0.12	1.5	28,617,067	1.86	108.8		0.3	0.0346	0.21	0.75			Finance and Insurance
IIIV	i3 Verticals, Inc	36.11	-0.16	-0.4	122,834	1.51	107.9		0.5	0.1001	1.19	0.75			Administrative and Support and Waste Management and Remediation Services
ELVT	Elevate Credit, Inc	4.51	0.26	6.2	363,701	2.88	94.2		-1.2	0.0157	0.38	0.75			Finance and Insurance
APPS	Digital Turbine, Inc	6.46	0.46	7.7	2,096,401	1.50	92.3		1.3	0.0483	0.39	0.75			Information
DVA	DaVita, Inc	82.15	0.81	1.0	827,500	1.61	83.2		0.0	0.1351	1.93	0.75			Health Care and Social Assistance
MESA	Mesa Air Group, Inc	7.81	0.01	0.1	188,802	0.74	82.4		0.1	0.0430	0.39	0.75			Transportation and Warehousing
BRX	Brixmor Property Group, Inc	21.18	0.30	1.4	1,912,296	1.61	80.5		0.9	0.0468	0.34	0.75			Finance and Insurance
GPP	Green Plains Partners LP Units	14.20	0.00	0.0	56,110	2.23	79.8		-1.0	0.0175	0.25	0.75			Mining, Quarrying, and Oil and Gas Extraction
GPRE	Green Plains, Inc	12.56	0.15	1.2	337,362	1.22	75.2		-1.0	0.0544	0.61	0.75			Manufacturing
BLKB	Blackbaud, Inc	78.22	-0.04	-0.1	249,713	1.88	74.6		-0.1	0.1380	2.16	0.75			Information
FRT	Federal Realty Investment Trust	127.66	-0.36	-0.3	298,738	1.83	73.3		0.5	0.1313	1.71	0.75			Finance and Insurance
OMF	OneMain Holdings, Inc	44.58	0.84	1.9	583,564	1.84	73.2		-0.2	0.0902	1.37	0.75			Finance and Insurance
STE	Steris Plc	153.45	0.58	0.4	361,172	1.32	72.8		-0.2	0.2368	2.23	0.75			Manufacturing

You can easily modify the Earnings Date filter for your own use and, for example, only show companies reporting earnings before the next session or fewer days. To view only the companies reporting earnings in the next two days, change the value of 5.5 to 2.5:
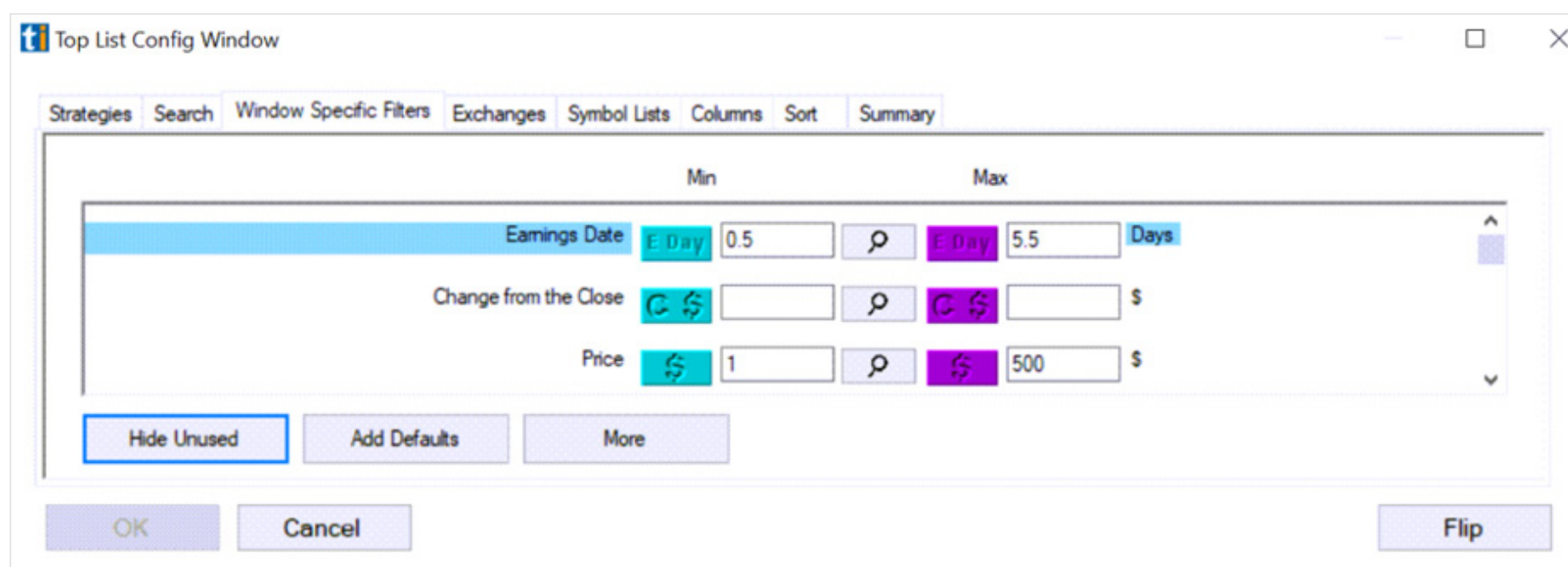
The filter that controls how many days to display

These earnings scans are just one of many features that Trade-Ideas offers. I wrote this article to describe new ways for you to approach each earning season in order to gain an information advantage using technology more effectively for better decisions.

Having a thoughtful plan to navigate earnings season, short term investing and trading can be surgical and precise vs. aimlessly looking or waiting for opportunity. When technology improves routines and identifies ways to save time and improve results, the gains are obvious.

Originally published at davemabe.com
by @davemabe