CASE STUDY (ASO):
Using Earnings Releases to Manage/Repair Put Selling Trades

*The following case study is based on a successfully repaired put selling trade on **ASO** during the fall of 2024 . . .*

Today, I want to share some of the details of a put selling trade on ASO we did inside the Leveraged Investing Club and illustrate how we took advantage of an earnings release to make progress repairing the trade (which had definitely gone against us).

(I'm a firm believer that every trade has something to teach us, or something to reinforce in us, and this is a good example of that.)

OUR APPROACH TO EARNINGS SEASON

Inside the Leveraged Investing Club, we have something of a unique take on earnings season and selling/writing cash-secured puts:

>> We avoid entering any new trade if it exposes us to an earnings release

>> But once we're in a trade and we're unable to exit it (because we're repairing it), we'll often use the earnings calendar to our advantage

And how do we do that?

I spell out the technical set ups I like best for finding new put selling trades in **Chapter 4** of my **Complete Guide to Selling Puts** (just scroll down to **Section #3** in that chapter).

Now, I've never viewed technical analysis as anything like having a crystal ball.

Rather, I view technical analysis as a tool that simply tells you what's more likely to happen in the near term and what's less likely to happen.

In other words, it's kind of like a snapshot of Mr. Market's current psychology.

The problem with an earnings release, however, is that Mr. Market's psychology can change dramatically - and in an instant - because now he's getting access to important new information.

Bottom line - you can't assume the old technicals will still be relevant on the other side of an earnings release.

Again, that's why we avoid entering new positions if our holding period includes an earnings report.

But there is a positive aspect to earnings season.

And that's that premium levels spike along with all the uncertainty.

That means we get paid a lot more for selling options - or in our case, rolling and adjusting them.

If we're already in a trade - and it's gone against us - we're not going to exit it for a loss (except in the rarest of situations) - we're going to repair it.

I also cover trade management and repair strategies in Chapter 6 of my Complete Guide to Selling Puts.

But the number one objective we have for a put selling trade that goes in the money on us (i.e. the stock trades below the strike price of our short put) is to work that strike price lower.

That's conditional, however - we require both a net credit (receiving more for selling the new put than what it costs us to close out the old put) and we don't want to roll out more than (3) monthly expiration cycles.

>> The more we can work the strike price lower, the quicker we'll be out of the trade (since the stock no longer has to "come back" to the original strike price).

>> And the more premium and net credits we pile up, the greater our final profits will be.

As you might imagine, rolling an in the money short put down and out to a lower strike for a net credit and not going out more than (3) months is not always an easy thing to pull off.

But it does get a lot easier if there's an earnings release included in that roll (because of the extra premium available during those expiration cycles).

Theory is nice, but let's run through a real world trade that illustrates the principle nicely.

(And it makes sense to divide the trade into (3) parts - the entry, the roll/adjustment, and then the exit.)

PART 1 - THE ENTRY

Back on October 8, 2024, we entered a put selling trade on ASO, based on fundamentals and technicals.

I didn't annotate the chart above, but I did draw in a couple of lines where I saw likely support – a little below the $56 share price level and then again, just above the $52 share price level.

The details:

>> ASO trading @ $55.07/share

>> SOLD TO OPEN (1) ASO NOV 15 2024 $52.50 PUT for $1.55/contract (near the secondary support level)

>> After commissions/fees, I collected $153.86 in net premium (or a 28.15% annualized rate projected over the following 38 days until expiration)

PART 2 - THE ROLL DOWN AND OUT

Unfortunately, **ASO** misbehaved and traded below our strike price.

We gave the stock as much time and opportunity as we could to rebound, but on November 13, 2024 (2 days prior to expiration) with the remaining time value on our expiring $52.50 short puts pretty much gone, we had to make our next move.

Fortunately, I was able to roll the position down and out to the DEC 20 2024 $50 STRIKE for a $0.40/contract net credit

This move was possible because ASO was set to report earnings on December 10th, so we got a premium boost on the new (December) put we were selling.

The details:

>> ASO trading @ $50.02/share

>> BOUGHT TO CLOSE (1) ASO NOV 15 2024 $52.50 PUT for $2.64/contract

>> SOLD TO OPEN (1) ASO DEC 20 2024 $50 PUT for $3.04/contract

>> New Net Premium Collected = $38.73

>> Now, that was only a 7.64% annualized rate on this leg of the trade (projected through the December expiration), but we gave up a higher rate in exchange for working the strike price lower by $2.50

PART 3 - THE EXIT

ASO would eventually bottom around the $45 share price level before finally rebounding ahead of - and then after - that December earnings release.

And on December 11, 2024 (the day after earnings), I took advantage of the continued post-earnings rise in **ASO** shares to exit the trade on the cheap and lock in some overall really good returns.

>> **ASO** trading @ $54.70/share

>> BOUGHT TO CLOSE (1) ASO DEC 20 2024 $50 PUT for $0.20/contract

>> Final Booked Gains = $172.47 on $5140.63 of daily average weighted cash secured capital base for a 19.13% annualized ROI over 64 days

>> I'd be happy with a near 20% AROI over a longer 2-month holding period on any trade, but I was really pleased given this one also required a repair move (rolling down and out) that limited how much new net premium we collected on the second leg of the trade

True, we would've collected more if we'd simply rolled the $52.50 short put straight out to the same DEC 20 2024 $52.50 strike price.

And everything would've worked out fine since **ASO** did, in fact, have a nice rebound.

But we had no way of knowing that would be the outcome.

It was much safer, smarter, and more responsible to take the opportunity to roll down and out to a lower strike (and for a net credit) when the trade moved the wrong way on us.

And with the new construction of the trade, the stock never had to come close to trading back to the level it had been when we first entered the trade.

The stock was trading @ $55.07/share when we sold/wrote the NOVEMBER $52.50 PUT.

After we rolled down/out to the DECEMBER $50 PUT, as long as ASO was trading @ $50.00/share or higher at expiration, we still would've gotten those 19-20% annualized returns.

And that's a deal I'll take every time.