Buy Options Ahead of Earnings Reports

AAPL earnings came out and the stock went down 2.1% after going up 0.6% the day before. The issue with Apple was that iPhone sales were down. It appears that Apple product devotees are waiting for the tenth anniversary launch of the iPhone 8 later this year. Nevertheless if you purchased AAPL in the run up to the earnings report you lost money. An alternative could be to buy options ahead of earnings reports. *Investor's Business Daily* makes the same suggestion in an article about how **stocks are set to fall on Apple** earnings miss.

> *Investors should be careful of holding or buying stocks heading into earnings and may want to use options as a way to shield themselves from a sudden plunge. That's something to keep in mind as Facebook and Tesla reports loom Wednesday.*

How does that work? There are two types of stock options, **calls and puts**. Our sister site, *Options-Trading-Education.com* explains.

> *A call contract gives the buyer the option to purchase the underlying equity which he will do if the equity price moves in the direction anticipated. A call contract confers an obligation on the seller (writer) of the call option to sell the underlying equity if the buyer executes the contract. Similarly a put contract gives the buyer the option to sell the underlying equity which he will do if the equity price moves in the direction anticipated. A put contract confers an obligation on the seller (writer) of the put option to buy the underlying equity if the buyer executes the contract.*

The point is that if you believe that a stock you hold might be subject to a huge loss you can buy puts on the stock. If it does fall you can execute the put contract and sell the stock at the contract price instead of the now-lower market price. And if you were thinking of buying a stock like AAPL before earnings reports you might consider buying a call option instead. If the stock goes up you get to exercise the contract and buy at the contract price instead of the now-higher market price. In each case, call or put, your expense is limited to the price of the options contract which is essentially insurance against a market loss.

Making Money Selling Options

Let's say that you own AAPL stock and you believe that it will not go up with the next earnings report. You are not planning on buying any more but you would like to make a little money anyway. In this case you can **write a covered call option**. Here is again is what *Options-Trading-Education* has to say.

A covered call option is an options contract sold by someone who owns the underlying stock, commodity, or future. How to write a covered call most profitably has to do with picking the strike price of the option. A very high strike price, compared to the current price of the stock, will sell for less but the contract will be less likely to be executed. Thus the owner of the stock and writer of the option will be able to recurrently sell options on his stock. This is a little bit like eating your cake and having it too.

Because you own the stock and are familiar with how it trades you can often sell call options repeatedly, making a profit each time, and keep your favorite stock as well.