Understanding the Earnings Sheet

Investor Strategy

Investor Strategy describes a strategy for investors who are long the stock going into earnings, and looking to optimize their position. It is determined by an algorithm that considers the earnings score, the expected move, and the last 4 earnings moves. The possible values are:

- **Buy Calls:** In addition to the shares you own, buy calls to take advantage of a possibly larger than expected move upwards. You should consider calls that are 1x the expected move above the current price.
  Example: Price is 100. Expected move is 10%. Buy the 110 calls.

- **Add Shares:** Add shares to your already existing position, in anticipation of the price increasing.

- **Sell Near Puts:** Sell puts that are out of the money, but near the current price. This strategy is used to take advantage of a likely move higher when the expected move is much larger than normal, giving you an opportunity to take advantage of inflated put prices on a bullish position. This strategy calls for selling puts that are approx. 1 expected move lower than the current price. If the price moves up, you will keep the money from selling the puts.
  Example: Price is 100. Expected move is 10%. Sell the 90 Puts
  If the price moves down significantly, you will be "put" the shares, and own more shares at the strike price.

- **Sell Far Puts:** Similar to "Sell Near Puts". The difference is that here the strategy calls for selling of puts that are a farther away from the current price (lower). This strategy is used in the same situations as when "Sell Near Puts" is used—the difference being that this is preferred when the score is lower, or we are less certain of a move higher in price. Usually "Far Puts" refers to puts that are 1.5 to 2 times the expected move under the current price.
  Example: Price is 100. Expected move is 10%. Sell the 80 puts
  If the price moves down significantly, you will be "put" the shares, and own more shares at the strike price.

- **Hold:** There is not enough information to warrant any other action, and so holding your shares is preferred.

- **Sell Far Calls:** When we are concerned with a potential downward move, and the expected move is much higher than normal, this strategy is used to turn an existing position into a Covered Call position by selling calls that are out of the money, and higher than the current price. Generally, it is recommended to sell calls that are approximately 1.5 to 2 times the expected move above the current price.
  Example: Price is 100. Expected move is 10%. Sell the 120 Calls.
  If the price moves up significantly, you will be forced to sell shares at the strike price.

- **Reduce Position:** This strategy should be used when the score is negative, and we are concerned the price will move downward after earnings. Reducing a position refers to selling some or all of the shares held.

- **Buy Puts:** Similar to "Reduce Position", we are concerned of a negative price move in the stock after earnings. The difference here is that the expected move is lower than normal, and therefor puts could be considered cheap ways to insure our position. Generally buying puts 1 expected move lower than the current price is the recommended move.

Example: Price is 100. Expected move is 10%. Buy the 90 Puts.

Trader Strategy

Trader Strategy describes the strategy for traders who are looking to make a short term trade on this earnings report. It is determined by an algorithm that considers the earnings score, the expected move, and the last 4 earnings moves. The possible values are:

- **Buy OTM Calls:** Buy "Out of The Money" Calls. This simple trade is used when we have a very bullish score and very cheap options. We buy calls that are significantly higher than the current price. This is a swing for the fences type trade. Low hit rate, but big when it comes in.
  More info: Buy OTM Calls

- **Very Bullish Spread:** This type of vertical spread is used when we have a very bullish score and relatively cheap options. Low max loss and high potential gain accompanied by a low win percentage.
  More info: Very Bullish Spread

- **Coin Flip Bullish:** This is a bullish vertical spread that is used when the options prices are generally very fair and in line with previous moves of the stock. Balanced max win and max loss.
  More Info: Coin Flip Bullish

- **High Probability Bullish Spread:** Bullish set up used when options prices are too high relative to what this stock has done in the past. High win % but risks more than the maximum gain.
  More info: High Probability Bullish Spread

- **Iron Condor:** This is a 4-legged options trade that takes advantage of a neutral score and high options prices. When used, we want the price to move very little.
  More info: Iron Condor

- **High Probability Bearish Spread:** Same as the Bullish version, except used when the score is negative.
  More info: High Probability Bearish Spread

- **Coin Flip Bearish:** Same as the Bullish version, except used when the score is negative.
  More info: Coin Flip Bearish

- **Very Bearish Spread:** Same as the Bullish version, except used when the score is negative.
  More info: Very Bearish Spread

- **Buy OTM Puts:** Buy "Out of The Money" Puts. This simple trade buys puts well below the current price in anticipation of a significant move downward. It is used when options prices are relatively cheap.
  More info: Buy OTM Puts

Earnings Score
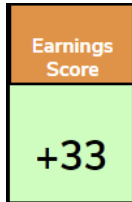
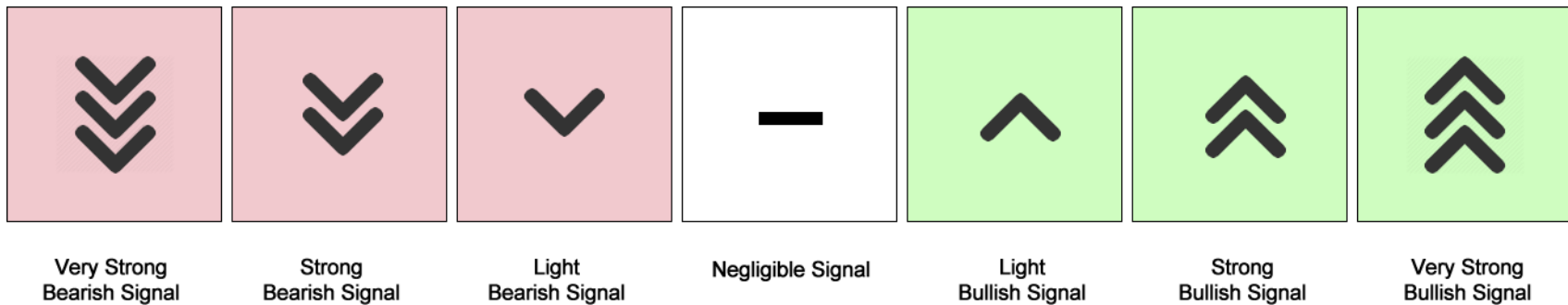| Earnings Score |
|---|
| **+33** |

 LikeFolio Earnings Score is a proprietary score from indicating how bullish or bearish we are for this company's earnings reaction. Scores will range from -100 to +100, with negative numbers being a bearish indication, and positive numbers being a bullish indication. The larger the number, the stronger the indication. It takes into account the values of Demand Growth, and Happiness Growth, as well as how predictive those metrics have been in the past.

Earnings Score takes the actual values from the formulas posted below along with the actual values of the predictiveness scores for each metric. Sometimes a Demand Growth score might be 1 arrow up, but 90% of the way to qualifying for 2 arrows, or it might be just a little shy of deserving a star. The Earnings Score formula doesn't care about arrows or stars, it cares about the actual numeric values of growth and predictiveness. Earnings Score is by far the most important thing to look at when determining bearish or bullish. The arrows and stars simple help you understand why the Earnings Score is what it is.

Arrows

Both of the 2 metrics (Demand Growth and Happiness Growth) are indicated with arrows. Simply put, up is bullish and down is bearish. The more arrows, the more bullish or bearish that metric's signal is:

Very Strong Bearish Signal	Strong Bearish Signal	Light Bearish Signal	Negligible Signal	Light Bullish Signal	Strong Bullish Signal	Very Strong Bullish Signal
⌄⌄⌄	⌄⌄	⌄	—	⌃	⌃⌃	⌃⌃⌃

Demand Growth

Demand Growth represents the change in demand versus what the expected change in demand was. We use a variety of inputs to determine demand, including but not limited to:

- Social Media Mention volume & Purchase Intent volume

- Website visits, duration, search market share, demographics, etc

- App downloads and usage

- Macro Trends that support or hinder demand

Happiness Growth

Happiness Growth is very similar to Demand growth, except that it measures the ratio between happy customers and all customers with an opinion. Inputs include but are not limited to:

- Social Media positive and negative brand mentions

- Website bounce rate and visit duration

- Brand-specific trends or lenses that indicate happy or unhappy customers

Stars

You will notice that sometimes, arrows are accompanied by a star. This means that that metric (Demand Growth or Happiness Growth) is particularly predictive of stock prices moves on earnings reports. More attention should be given to metrics that have a star.

For example:

Earnings Score	Demand Growth	Happiness Growth
+27	☆ ⌃⌃	⌄⌄

Here we can see that Demand Growth is strong (2 arrows up), but Happiness Growth is very weak (3 arrows down). But notice that Demand Growth has a star on it. This means that this metric is very predictive of earnings reactions, and far more consideration should be given to Demand Growth than Happiness. In fact, in this example, once the math is done, the overall signal is positive +27, meaning our system is bullish on this company.

☆ ⌄⌄⌄	☆ ⌄⌄	☆ ⌄	—	☆ ⌃	☆ ⌃⌃	☆ ⌃⌃⌃
Very Strong Bearish Signal	Strong Bearish Signal	Light Bearish Signal	Negligible Signal	Light Bullish Signal	Strong Bullish Signal	Very Strong Bullish Signal
And this Metric has been very predictive in the past	And this Metric has been very predictive in the past	And this Metric has been very predictive in the past		And this Metric has been very predictive in the past	And this Metric has been very predictive in the past	And this Metric has been very predictive in the past

What Demand Growth measures

The Sheet shows information that quantitative models have shown to be valuable to predicting earnings movement. However, that information is not always intuitive when looking at a chart of the underlying data. For example, consider the chart on the left:
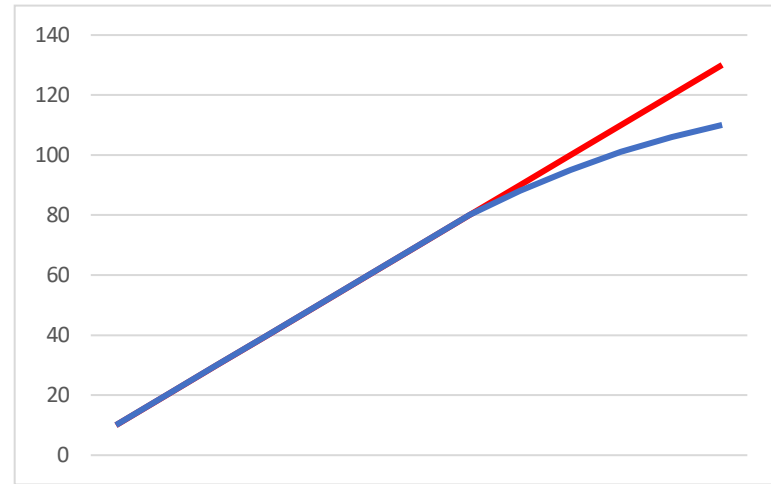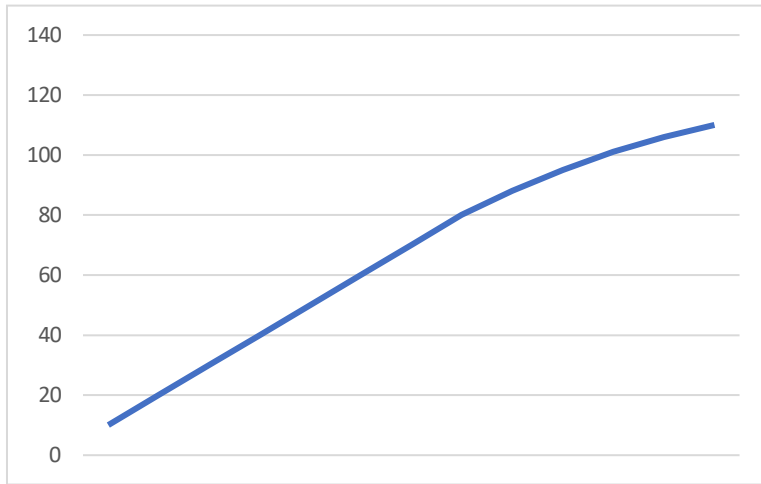
Data is at all-time highs. Yet if this was Demand Growth, the value would be negative. To understand why, consider the 2nd chart. The red line shows the expected trajectory of the data. Notice that while the value of the data is still growing, the rate at which it is growing is decreasing, thus Demand Growth would be negative and shown with down arrows.

If you're interested in purely whether the data is higher than it was this time last year or last quarter, that information is available in the dashboard.

How Demand Growth accounts for seasonality

When looking at Demand Growth, the formulas above account for the seasonal nature of companies. For example, consider this hypothetical example:
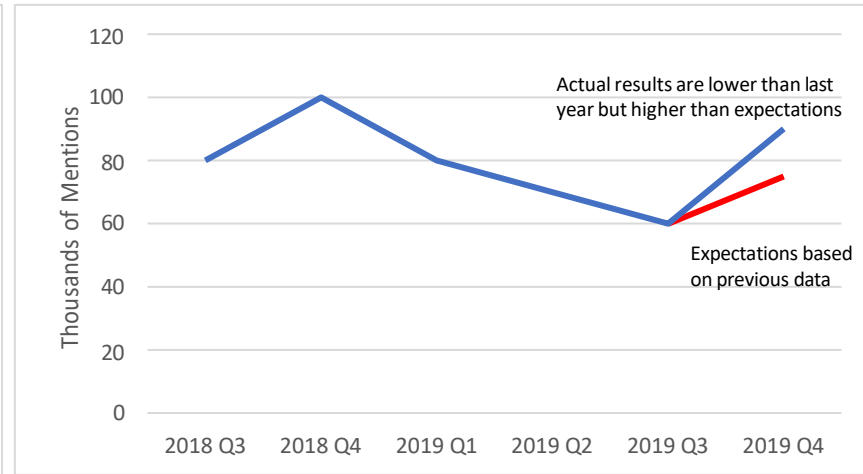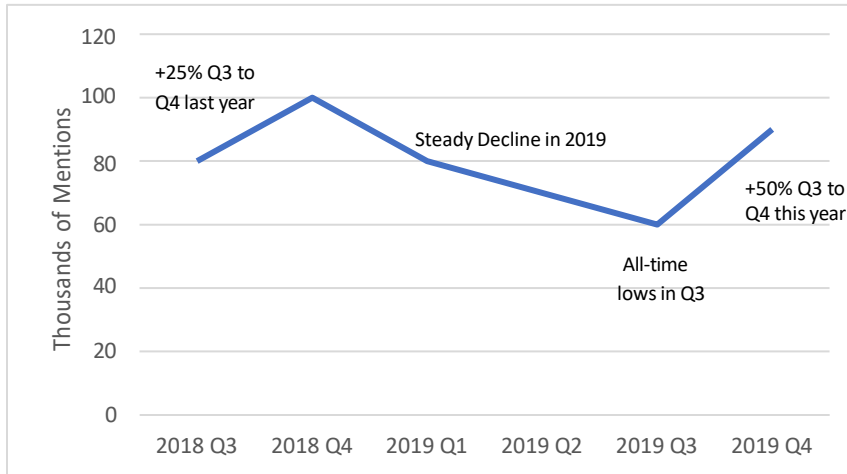
Last year, this retailer saw a +25% bump from Q3 to Q4 because of holiday sales. After that, the company's mentions declined steadily for the next 3 quarters. Then in Q4, the holiday spike was +50% (vs +25%) last year. Although this Q4 is still lower than last year's, the growth from Q3 to Q4 was far more than expected, because the company was in a slump. This chart would result in positive (bullish) signal for Q4.

This week's Earnings Sheet starts on the next page

2023 Q1 Week 1

Reporting

DFS   FITB   PG   UAL   NFLX   ALLY   ERIC

LikeFolio Sunday Earnings Sheet

Week 1
Jan. 16 - Jan. 20

Company	Earnings Score	Demand Growth	Happiness Growth	YoY Change	Expected Move	Past 4 Moves	Investor Strategy	Trader Strategy	Commentary
Monday									
No trades									

Company	Earnings Score	Demand Growth	Happiness Growth	YoY Change	Expected Move	Past 4 Moves	Investor Strategy	Trader Strategy	Commentary
						Tuesday			
United Air UAL $ 51.3 Tue after market Options: Weekly	**-5**	—	—	Demand: -8.7% Stock: +10.2%	±$ 2.8 ±5.5%	22Q3: +12.0% 22Q2: -7.7% 22Q1: +17.0% 21Q4: -8.7%	Hold		-Rally into earnings looks overbought -Comprehensive demand down -25% YoY in Q4 -Travelers finally balking at higher fares -Staffing shortages limit flight capacity -FAA outage a bad look for the industry

Company	Earnings Score	Demand Growth	Happiness Growth	YoY Change	Expected Move	Past 4 Moves		Investor Strategy	Trader Strategy	Commentary
						Wednesday				
5/3 Bank FITB $ 34.9 Thu before market Options: Monthly	+34	⌃	⌃⌃	Demand: +54.4% Stock: -29.1%	±$ 1.24 ±3.6%	22Q3: 22Q2: 22Q1: 21Q4:	-4.9% -0.4% -1.6% -9.2%	Add Shares	Coin Flip Bullish	-Comprehensive demand/stock disconnect -Q4 Purchase Intent up +62% YoY -Higher rates, loan growth are catalysts -Rolled out new mobile app look -Caveat: 4 straight post-earnings slides
P&G PG $ 149.81 Thu before market Options: Weekly	+4	⌃	—	Demand: +21.1% Stock: -5.8%	±$ 4.66 ±3.1%	23Q1: 22Q4: 22Q3: 22Q2:	+1.0% -3.5% +2.7% +3.8%	Hold		
Discover DFS $ 106.06 Wed after market Options: Weekly	-35	⌄⌄	⌃	Demand: -24.3% Stock: -17.0%	±$ 5.28 ±5.0%	22Q3: 22Q2: 22Q1: 21Q4:	+10.2% -5.0% -0.2% -7.5%	Buy Puts	Coin Flip Bearish	-Purchase Intent mentions near a 10-year low -Consumer card spending slowed by inflation -Loan quality at risk as rates rise -Operating expenses up 7% YTD -Premium valuation relative to industry peers

Company	Earnings Score	Demand Growth	Happiness Growth	YoY Change	Expected Move	Past 4 Moves	Investor Strategy	Trader Strategy	Commentary
Thursday									
Netflix NFLX $ 330.13 Thu after market Options: Weekly	**+20**	⭐ ∧	—	Demand: +2.6% Stock: -38.5%	±$ 35.47 ±10.7%	22Q3: +18.1% 22Q2: +15.5% 22Q1: -36.2% 21Q4: -22.2%	Hold	Coin Flip Bullish	-New subscriber mentions up 3% YoY -Only streamer to increase new subs -Only streamer to increase viewership -Big rallies followed last 2 releases -Caveat: Cancellation mentions up, but deep dive suggests concern is exaggerated
Ericsson ERIC $ 6.33 Fri before market Options: Monthly	**+1**	—	∨	Demand: +16.6% Stock: -43.7%	±$ 0.47 ±7.4%	22Q3: -12.8% 22Q2: -3.0% 22Q1: -9.2% 21Q4: +10.7%	Hold		
Ally ALLY $ 27.04 Fri before market Options: Monthly	**-37**	—	∨	Demand: -12.9% Stock: -48.0%	±$ 1.58 ±5.8%	22Q3: -13.4% 22Q2: -3.2% 22Q1: -3.3% 21Q4: -7.4%	Buy Puts	Coin Flip Bearish	-Demand slipping -Sold off last 4 reports -Bank layoffs suggest trouble in sector -Stock has slid all year but bounced recently: -Bearish opportunity

Company	Earnings Score	Demand Growth	Happiness Growth	YoY Change	Expected Move	Past 4 Moves	Investor Strategy	Trader Strategy	Commentary
Friday									
No trades									