

Accepted Manuscript

Earnings announcements and option returns

Sung Gon Chung, Henock Louis

PII: S0927-5398(16)30074-3
DOI: doi: [10.1016/j.jempfn.2016.07.010](https://doi.org/10.1016/j.jempfn.2016.07.010)
Reference: EMPFIN 926

To appear in: *Journal of Empirical Finance*

Received date: 13 May 2015
Revised date: 28 April 2016
Accepted date: 12 July 2016



Please cite this article as: Chung, Sung Gon, Louis, Henock, Earnings announcements and option returns, *Journal of Empirical Finance* (2016), doi: [10.1016/j.jempfn.2016.07.010](https://doi.org/10.1016/j.jempfn.2016.07.010)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Earnings announcements and option returns

Sung Gon Chung*
Wayne State University
sgchung@wayne.edu

Henock Louis
Pennsylvania State University
hul4@psu.edu

April 2016

* Corresponding author. Tel.: 313-577-4528

Abstract

While prior studies find that returns on option straddles are generally negative, we show that returns on straddles purchased prior to earnings announcements are actually positive. The earnings announcement impact is compounded when the pre-portfolio formation volatility is low (high) and the pre-expiration realized volatility is high (low). Apparently, the average option trader underestimates future volatility before forthcoming earnings announcements, particularly after a period of relatively low volatility, and overestimates future volatility after recent earnings announcements, particularly after a period of relatively high volatility. The overestimation of future volatility after recent earnings announcements also increases with the magnitude of the earnings surprise.

Download English Version:

<https://daneshyari.com/en/article/5100302>

Download Persian Version:

<https://daneshyari.com/article/5100302>

[Daneshyari.com](https://daneshyari.com)