

The Earnings Play

Go Long the *Rumor*, Sell Short the News

Earnings Plays in these markets are not what they used to be. We are no longer anticipating any real possibility of going long the stock AFTER the earnings. This is especially true in the Technology Sector. Below are some trading strategies and tips to help you capitalize on these VOLATILE but HIGH-FLYING "Earnings Plays".

- Start tracking the stock 4 to 5 days before the earnings report. Look especially for any analyst downgrades, earnings shortfalls already mentioned and any negative (or positive) comments you can find about the company. If you see a rather positive report, expect "Anticipatory Upswing" prior to the report. Always be skeptical of these stocks holding their gains after a pre-earnings run up. For the last 6 months, technology stocks have been shorted almost after every report.

Tuesday March 20, 4:39 pm Eastern Time

Manugistics stock up ahead of earnings report next week

NEW YORK, March 20 (Reuters) - Shares of software vendor Manugistics Inc. (NasdaqNM:[MANU](#) - [news](#)) rose 8 percent on Tuesday ahead of the company's fourth-quarter earnings report due next week, which Manugistics has said will meet analysts' expectations.

Most analysts attributed the rise in the stock to the fact that the software vendor earlier this month affirmed its previous guidance for the fourth quarter, citing strong demand for its software.

“Manugistics pre-announced that it's going to hit its quarter which gives people a bit more comfort about owning the stock,” said Pawan Malhotra, an analyst with brokerage firm S.G Cowen Securities. “My guess is that you've got a combination of bounce-back in the market and people trying to buy ahead of next Monday's earnings release.”

- Always keep up charts with MULTIPLE TIME FRAMES. Look to the Daily Chart for the historical price patterns of the stock and chart the trendlines, support and resistance levels.
- Use a 2 to 4 day 5 or 15 minute chart to keep up with trends in the stock. Even if you don't hold your play overnight, you will be seeing a continuation of the previous trend as the stock is nearing the report date.
- Once you see trend change, set up your entry price, Exit Price and Stop Loss price. You might decide to stay in the trade as a swing trade depending on the stock trend into the close and the market internals. In the illustration of MANU, the swing trade was a SWING SHORT after the earnings were out, but because of extreme volatility, we daytraded the LONG SIDE BEFORE the earnings were out, and closed the position nightly.
- Don't NEGLECT plays like these after just one trade. Track them consistently BEFORE and AFTER the report comes out. It will give more than one trading opportunity for nice gains.

BEFORE the Earnings Report

In the chart below, MANU is set up with the DAILY CHART, and a 5 or 15 minute 3 to 4 chart up until earnings come out. In this case we elected to play the long side and set up our play in the latter reversal period when volume was strongest and the nasdaq was in a rally mode.

The following morning, MANU was not neglected and was followed up DAILY until March 26, the day the BOTTOM DROPPED OUT FINALLY and MANU gapped and crashed and was a short up until April 4 (or April 3 depending on when the position was covered).

Manugistics Group, Inc. (MANU) DAILY Chart



Figure I DAILY MANUGISTICS CHART This chart was created after the earnings report to illustrate the "Anticipatory Upswing" BEFORE the report, leading to the sharp sell off after the report. When charting yourself, make sure you note the areas of support/resistance as well as the upper and lower trendlines.

Manugistics Group, Inc. (MANU) 15-minute Chart

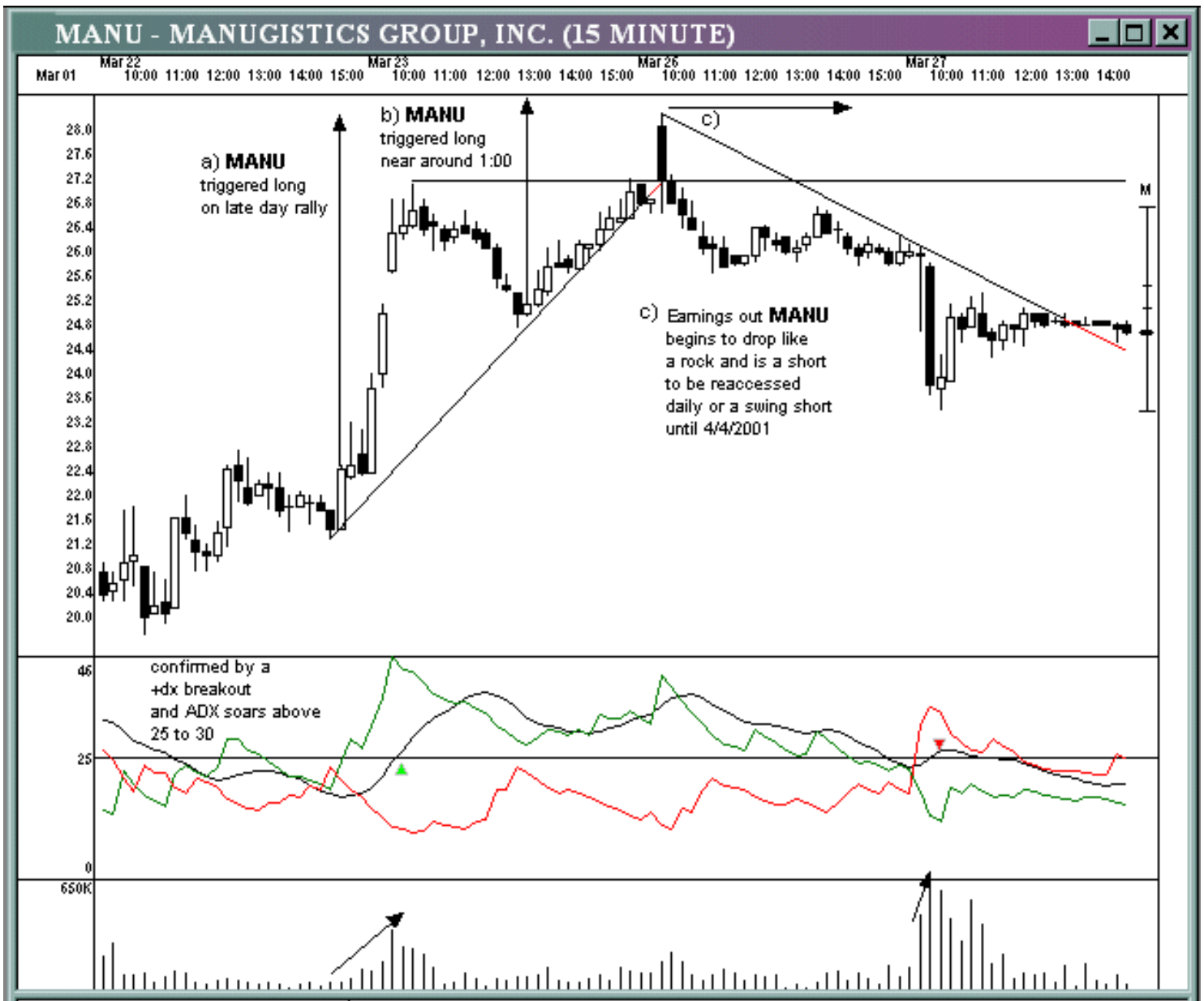


Figure II Here is a MANU chart in the 15 minute time frame (5 is good also). Entries were based on rising trendline, the ADX and +DX moves and the strong volume. All entries were also made concurrent with later day REVERSAL PERIODS and in the DIRECTION of the Market Internals.

AFTER the Earnings Report

Read the report. Reports like this spell BIG TROUBLE. If the loss widened from \$0.02 to \$0.26 this is not a good report. Don't be misled by the Sales Growth or any other 'filler' in the report.

Manugistics Posts **Wider Net Loss** On Items Amid Strong Sales Growth

ROCKVILLE, Md. -- [Manugistics Group](#) Inc. said its net loss widened in its fiscal fourth quarter, but operating earnings were in line with Wall Street expectations amid healthy demand for its supply-chain management software.

Manugistics said its net loss came to \$16.7 million, or 26 cents a diluted share, for the quarter ended Feb. 28, compared with a loss of \$1.1 million, or two cents a share, a year earlier.

In the 30 -minute chart below you can see MANU is of an "event driven" stock which we have traded a number of times already for multi-point gains to the upside. Now that earnings are already out (see c) you can see the results when the report is not quite as good as we would like. Once MANU triggered short on the 26th, we held it as a swing short a number of days until it rallied for one afternoon. Because of the depressed state of MANU, it was a short candidate shortable on all rallies.

Manugistics Group (MANU) 30 and 10-minute Chart



Figure III MANU 'gapped and crapped' the day after the report and except for one day was a short play from the moment the market opened. Holding the short over was recommended but after the first rally, we took each day and had the choice of covering the short completely before the end of the session, leaving some over for the next session. Forget about any company with a 'questionable' earnings report to be anything more than an occasional momentum play on the long side, it will be a "BEEFY" short for quite a while.