

# **Volatility Trading on Special Events**

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## **Abstract:**

It has long been observed that volatility increases around a firm's quarterly earnings along with increased trading volume. Stock returns and trading volume tend to be positively correlated. Stocks tend to rise on high volume and decline on low volume. Option prices are relatively overvalued during this time due to the high volatility. In this paper, I introduce a trading strategy that capitalizes the relatively overvalued options using implied volatility. By collecting all of stock data from 2006, I was able to run simulations to see how the implied volatility was affected by earnings announcements. The results of the simulation show how trading during earnings announcements can be very effective.