Reading gaps around earnings

> **EARNINGS GAP**
>
> The jump between the close before results and the first auction after them: the batch repricing of a quarter's information in one cross. Its size measures surprise against expectations, not quality of results - and its aftermath, the first hours of continuous trading, is where the market shows whether the gap was under- or over-done.

Every track has one scheduled event that owns its reading lesson. For a single name it is earnings: quarterly, dated in advance, and delivered - by construction - as a gap.

The gap measures surprise, not results

The commodities expectation lesson transfers whole: by results day, consensus estimates for revenue, profit and guidance are in the price, and the gap prices only the difference. Good numbers against better expectations gap down; bad numbers against worse fears gap up - both routine, both baffling to anyone reading the results instead of the surprise. And guidance usually outweighs the quarter: the print is history, the outlook is the repricing.

Reading the gap itself

Size against the name's own history: every liquid name has a typical earnings-move range - options traders price it, and module 8's track will show where to read it. A gap inside the usual range is a shrug wearing drama.Direction against the sector's season: in reporting season, peers' results move the whole group - part of any gap is the sector layer, and the decomposition applies even here.The first hours after: a gap that holds and extends through the morning found the surprise under-priced; one that fades found it over-done. The aftermath is a reading, not a rule - but it is the day's honest referendum on the auction's guess.

What gap reading is for

Not prediction - modules 4 and 6 handle the risk and the testing. The reading skill is calibration: knowing a name's normal earnings behaviour, so the abnormal one stands out. A habitual 3% gapper printing 12% has said something about the quarter; a habitual 8% gapper printing 6% has said almost nothing. As with every reading lesson on this platform, the baseline is the instrument, and information is distance from it.

Check your understanding

1. A company reports record profits and gaps down 7%. What happened?

a. The market made an error the morning will correct

b. The record was already priced and expectations sat higher still - the gap prices the surprise, and the surprise was negative

c. Short sellers overwhelmed the auction

Answer: b. Results trade against expectations, not against history. Record numbers below consensus - or cautious guidance beside them - is a negative surprise wearing a positive headline.

2. What does the first morning after an earnings gap tell you?

a. Nothing - the gap already priced everything

b. Whether the auction's guess was under- or over-done: a gap that extends found the surprise under-priced, one that fades found it exaggerated

c. The direction of the next quarter's gap

Answer: b. The auction batch-prices overnight opinion; the continuous session then tests it with real two-way trade. The aftermath is the market grading its own gap - a reading, never a rule.