

How could charts hint towards a post earnings reaction?

Earnings announcements are binary events, and unexpected swing could result after earnings, especially for speculative and growth stocks. However, analyzing the charts could hint toward possible market reaction after the results are announced.

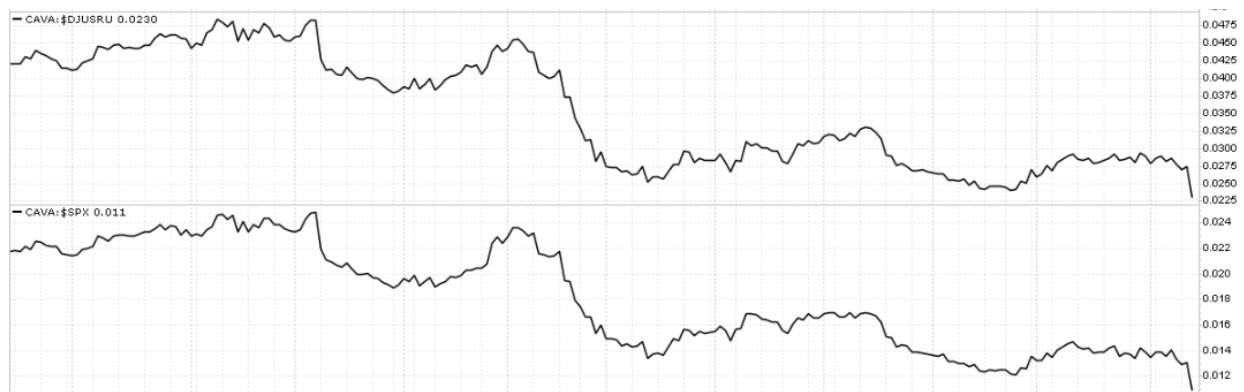
CAVA group announced results for Q2 on 8/12. The restaurant chain shares plunged 24% after the company reported worse-than-expected Q2 sales results. The Mediterranean fast-casual eatery also cut its full-year same-store sales outlook.

Let's evaluate its charts to see what Wall Street was doing with it:

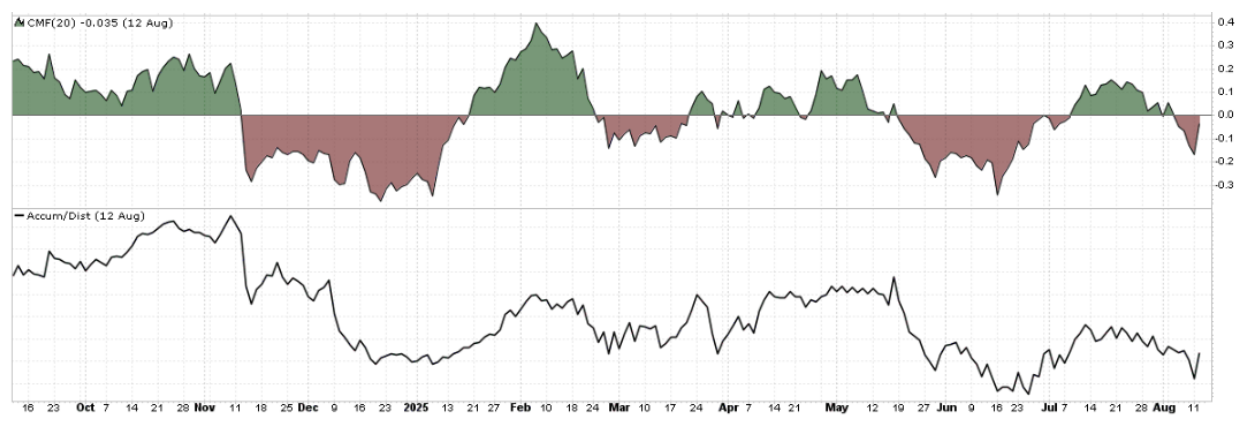
1. It was already under 200-day EMA line and failed two times while trying to regain it in May and July.
2. Its relative strength vs. its peers in the industry group (DJUSRU) and against the broader index S&P 500 was at 52-week low
3. Its A/D (Accumulation / Distribution) line was weak and near its 52-week low. Wall Street was distributing its shares prior to the earnings.



CAVA Price Chart



Relative Strength (CAVA vs Industry Group and S&P 500)



Money Flow and A/D line (showing distribution)

No wonder, street was expecting a bad report in advance and hence a drop in stock price is not unexpected.

Is it guaranteed every time? Of course not, but a combination of these factors at the time of earnings could hint how Wall Street pros are expecting from the upcoming results and hence traders could increase the success probabilities of their strategies while taking measured risk.