Event-Driven Analysis

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The underlying idea beind Event-Driven Analysis is to identify and trade around events that can influence stock prices.

1 Actionable Events

1. Internal
   - Corporate
     - Earnings Report: The classical approach of "event-driven" hedge funds focuses mostly on the following corporate events.
       * Happens four times per year (quarterly) and offer trading opportunities during the days leading up to them, on the reporting day itself, and throughout the aftermath.
       * The key to understnding post-earnings market movements is EPS expectations as well as guidance issued.
       * Either EPS reported is below the analysts predictions, which usually preceeds a drop in stock price, EPS reported is above the analysts predictions, which usually preceeds little market movement or a rise in stock price, or EPS reported is exactly (or right around) the analysts predictions, which usually preceeds very little movement in price or a drop in price due to the fact that the analysts tend to be quite conservative when predicting the EPS report while the company tries to be a bit liberal with the numbers they report. If these two numbers are the same, it signals to the market that, for all their boasting on the EPS report, this company is only doing as well as a conservative estimate says they are.
     - Mergers & Aquistions (M&A)
       * The main strategy with M&A's is to explout price inefficiencies especially before the event itself takes place. In order to be succesful with these trades, a high degree of information about the event taking place is needed.
     - Initial Public Offerings (IPO's)
       * When trading around IPO's the strategy is to attempt to identify undervalued and overvalued stocks based on corporate research. Aside from this, you can also profit from IPO-related movements, ie by trading around lockup periods or meida hype surrounding the company when going public. Price action on the day of the IPO tends to be significant.
       * Ususally the first day of an IPO sees immense trading and changes in stock price.
       * Lockup periods are periods of time after an IPO when insiders of the company cannot trade their shares.
   - Non-Corporate
     - Insider Transactions
       * All stock purchases or sales by corporate insiders (defined as top level executives, members of the BoD, or owners with at least 10% of the shares) must by law report such transactions to the SEC. This is doen to protect the public from insider trading, and as a result these reports are public.
       * Generally, stock purchases tend to be more significant than stock sales. Transactions by top level executives (such as corporate CEO) also tend to carry more weight than transactions by directors or owners. It is also important to look at the amount of the transactions and consider it in relation to that person's net worth.
     - Death/Removal/Scandal of key people
       * News regarding key people within a company is bound to move the stock price significantly. For example if a top CEO has been involved in a sexual scandal and the stock has dropped as a result, if that scandal is not likely to affect the companies performance, this may be a buying opportunity.
2. External

- Primary: Events that while originating outside the company, they directly and specifically affect it.
  - The Media
    * Media stories surrounding the company can move the stock significantly. It does not have to be a story in the mainstream media. It can be as simple as an article published on an investing site. These price movements can often be exaggerated.
  - Disasters/Scandals
    *
  - Specific Regulation
    * Government regulation can make or break a company, especially in sectors that are sensitive to regulation (import/exports, energy, utilities, etc.). Some companies have gone bankrupt due to certain regulations being passed so it makes sense that keeping and eye on them can potentially identify investment opportunities.
- Secondary: A favorite strategy of the "global macro" funds, keeping an eye on macro events can be very profitable.
  - Politics
    * Political changes can have a very important impact on stock prices. For example, a Republican victory in the US tends to favor military stocks in expectation of increased efense spending. Political climate changes can also trigger significant changes in tax policy, free trade, enironmental regulations, etc.
  - Macroeconomics
    * There is no denying that the state of the general economy will affect stock prices. Being able to predict macroeconomic trends or react to the impact of macroeconomic events like monetary policies, global economic data, inductry-specific changes, etc. can trigger investment opportunities.
  - Societal Changes
    * While these changes tend to happen over the long-term, cretain events, such as the Covid-19 epidemic, can cause long-lasting changes in a society, like increased use of teleworking tools or hightened helathcare spending. With societal changes such as these, some companies will win and some companies will lose.