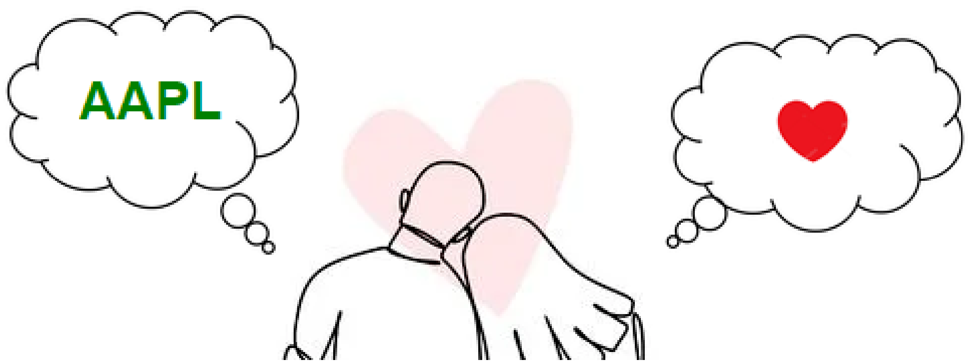
2.1 Stock Second - Fundamental Analysis

Stock Second Introduction

Novice traders start their analysis with a "hot" stock. They read a headline, they look at the chart and they are "good to go." A few days later, they wonder what went wrong. If this sounds familiar, stop that routine. Go back to step one and learn how to "read" the market. This section is for those of you who have a firm market opinion! We'll show you the characteristics that make a stock attractive. Relative strength is a key component because it is a sign of institutional buying and we want to "follow the money."

We exclusively use technical analysis to evaluate stocks and there are many properties that we search for. They keyword in the last sentence is "search." Our search engine is like an online dating service for stocks. The more checkboxes we mark, the more likely we are to find the right mate.



Stock Second

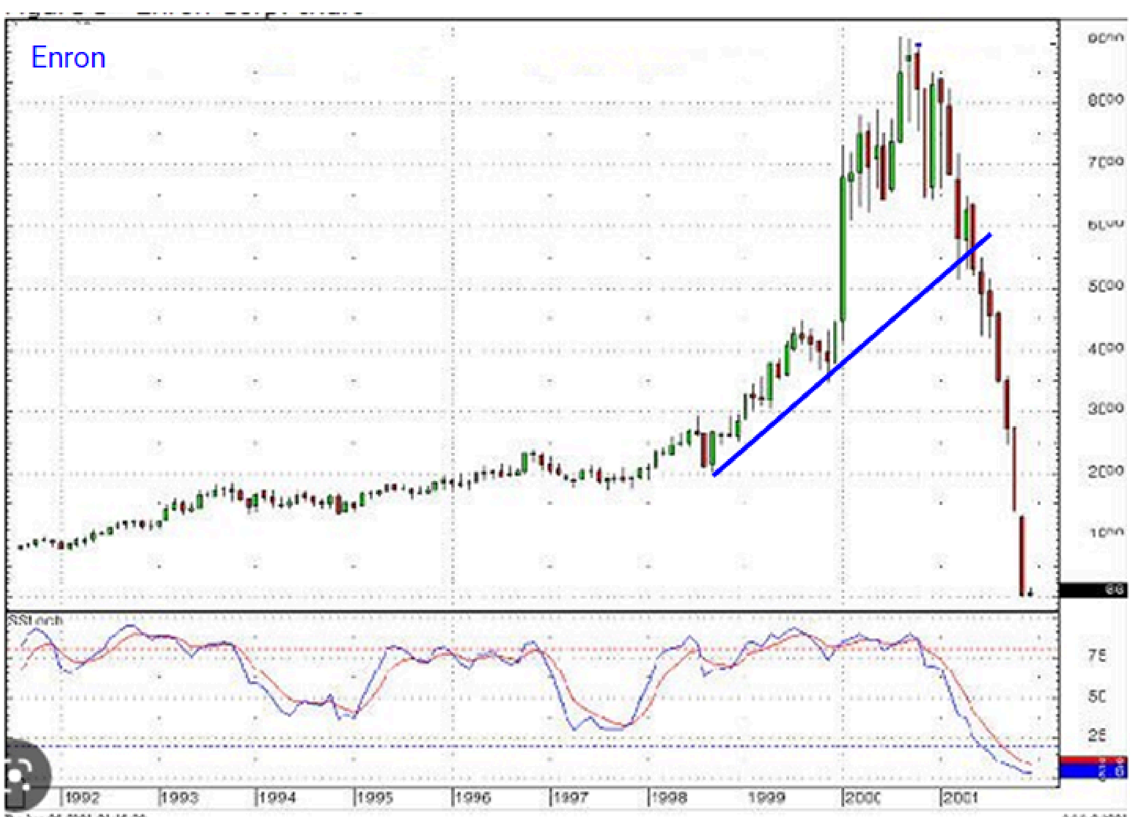
In this section we are going to describe the most desirable stock characteristics and how to find them quickly. Once you've mastered the first two steps of the process, you don't need to go any farther – you can just trade stock!

This section will get you to that point.

Fundamental Analysis

This form of analysis determines the stock's value. Some of this information is publicly available, but much of it is not. Research is extremely expensive and it is difficult to compete against large institutions at this level.

Stock fundamental analysis measures the internal performance of a company and the macro business conditions they face. Technical analysis gauges the price movement of the stock. Many methods and metrics are used to conduct fundamental analysis. I am very comfortable reading financial statements, press releases and research reports, but the trade duration for this system is less than three months. The fundamentals don't change that much in a quarter so we focus on technical analysis. Large financial institutions have better information than I do and that gives them an edge. They spend billions of dollars conducting "boots on the ground" analysis, conducting channel checks with suppliers, touring plants, tracking clinical trial results, sitting in courtrooms during patent litigation and talking to legislators who will be voting on new regulations. I don't have the resources to compete with large institutions on a fundamental basis, so I don't even try. Instead, I watch the technicals. We all have equal access to real-time price and volume and that tells us what the large institutions are doing. Our job is to follow the trail of bread crumbs they leave behind. With that in mind, let's cover the basics of fundamental analysis. This is by no means a comprehensive course on this form of analysis, it is just an overview.



The fundamentals on Enron looked great, but investors did not have the same information institutions had. That is why I prefer to "follow the money". The technicals don't lie and they were telling us the selling pressure was heavy.

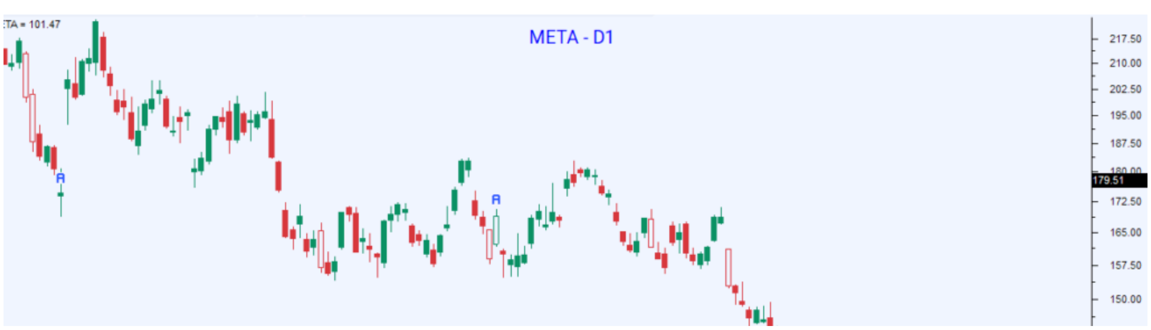
Let me first emphasize that longer-term traders and investors with trade durations that are longer than 3 months have to incorporate fundamental analysis into their game plan. If you hold positions for 6 months and longer, I consider you to be more of an investor and you need to lean more heavily on fundamental analysis than technical analysis. In this fast-paced world, conditions change quickly. Competition is fierce and there is always a “better mouse trap”. Consumer preferences can also change quickly.

One of my steadfast rules is that we do NOT hold trades over earnings announcements. We trade before the number and after the release. These are binary events and the stock can swing either way. I’ve seen stocks plunge after posting better than expected results and I’ve seen stocks that missed the number shoot higher. If our win rate on non-earnings trades is greater than 75%, why would we accept anything less? You can guess the earnings reaction correctly some of the time and get lucky. You might even go on a winning streak. Unfortunately, I have yet to meet anyone who can predict the reaction correctly 75% of the time over a large sample size. There is one earnings trade that works consistently, but it is non-directional and I will discuss it in the options section of the course. When you get the earnings reaction wrong, you are adjusting losing positions. That means you are distracted and you will miss great trades where you can hit your 75% win rate. When you get the reaction wrong, you are often “bag holding” because the stock will move adversely and it won’t retrace for many months (if at all). Your precious capital is tied up. This lesson took me years to learn and I did try to develop earnings systems. I was not able to outperform the results from this system. Now, I leave earnings trades for the institutions. We trade after the number where we can base our decisions on technical analysis, rather than a “gut feeling”.

Earnings announcements provide us with a window of opportunity. Institutions gauge the company’s performance and they compare them to their expectations. They scrutinize the financial statements, they review the guidance to catch a glimpse of the future and they ask “pointed” questions during the press conference. Stocks often make large moves after an earnings announcement. If there are material developments, the stock will go through a price discovery process where buyers and sellers digest the news and they act in accordance with their pricing models. Often the analysts adjust their expectations for future earnings. That discovery process presents trading opportunities for us and we will cover that extensively in the technical analysis section. We love trading after the number is posted. Here are some of the fundamentals that large institutions evaluate.

Let’s start with the Income Statement. You often hear the phrase “topline growth”. Revenue (sales) is the first item listed in this statement. It is a very important metric and it is perhaps the most important way to gauge a company’s performance. If revenues are not growing, no one is buying their product. New companies often have extreme revenue growth. They are just starting out so the comparisons ("comps") to the previous quarter (q/q) or to the previous year (y/y) are easy to exceed because the company might not have had revenues. The company could also have a new product that is incredibly popular that generates robust sales. Some companies have stable revenues (Pepsi), some have cyclical revenues (General Motors) and some have seasonal revenues (Macy's). Large mature companies like McDonalds will have gradual revenue increases in the low single digits y/y and new companies like Tesla will have explosive revenue growth that can be in the triple digits. There are tech companies like Twitter that did not have any revenue initially because they were focused on users and not monetization. We are only one paragraph into the Income Statement and you can see how difficult it can be to analyze revenue. In general, the goal for financial analysts is to compare the company's revenue growth to industry peers and to the historic sales. They want to see that the company is developing new areas of revenue growth and that the company's current product lines are healthy (consumers are buying their product). Analysts will also be gauging future revenue growth based on the guidance provided by the company. A decline in revenue growth that is not related to cyclicality or seasonality could be a warning sign to investors. Their product line is losing market share or the product's life cycle is ending (VCRs).

The next section of the Income Statement includes all of the expenses. They are broken into two categories (Cost of Goods Sold and Operating Expenses). We are not going to get that granular. The goal is to subtract all of the costs needed to generate the revenues (inventory, raw materials, office supplies, advertising, insurance, rent, legal, payroll, returns…) so that we can determine how much money the company actually made. If the company has robust revenue growth it would stand to reason that the expenses will also be higher. If the revenue growth is outpacing the increase in expenses, profits will expand. This could be due to economies of scale or because the company has large fixed expenses and low variable expenses (low incremental costs of production). Investors need to tread cautiously if expenses are rising faster than revenues. That is a sign that customers are not buying the product and that the company is not managing expenses. There might be reasons for this like the added costs of launching of a new product line. Analysts will be monitoring the situation very closely because profits will be declining. They want to feel optimistic about the investments the company is making. For example, Facebook recently changed its name to Meta and the investment into this new business was met with skepticism (the stock plunged).



Companies need to invest in new products and those expenses are always “well received” by shareholders.

Expenses are subtracted from revenues to determine earnings (also known as net income or profits). This is the last item on the Income Statement and it is also referred to as the “bottom line”. One of the most common ratios used by analysts is called Profit Margin. Net income divided by revenues reveals how efficiently the company is operating. Profit margins vary from one industry to another so peer comparisons are used to evaluate management as well as the comps (q/q and y/y). Companies that have high revenue growth, increasing profit margins and growing profits are obviously more attractive, but that will be reflected in the price of the stock. Companies that are struggling to generate revenue growth will often cut expenses to preserve earnings. This is a less attractive situation, but it could be due to a business cycle and not a fundamental change in the business. Companies that have deteriorating top and bottom line grow could be in trouble and they could set up well for shorting.

Balance Sheets subtract the company’s liabilities from its assets. The remainder is Shareholders Equity. I don’t want to dive too deep into balance sheet analysis. Investors want to make sure that current assets (cash and receivables) are greater than current liabilities (accounts payable and short term interest payments). If this is not true, the company might have to issue debt or shares to meet its short term obligations. Tech companies do not often have big fixed overhead so you might see situations where Current Assets exceed Total Liabilities (cash exceeds long-term and short-term liabilities). Companies with this type of balance sheet have extreme liquidity and they are able to weather adverse business conditions. Industries like airlines require large investments in long-term assets and they finance plant and equipment with long term debt. These companies have large fixed overhead expenses and they are exposed to economic downturns. During Covid-19, many airlines needed government assistance to maintain operations because revenues stopped immediately and they still had to cover their overhead expenses.

The last financial statement is called the Cash Flow Statement. It measures cash in and cash out. For many analysts this is the key metric because their models calculate the current value of a stock by discounting future cash flows (based on the company's average cost of capital).

Quarterly earnings reports put extreme pressure on CEOs because their performance is only as good as the last quarter. Compensation packages are often based on the price of the stock and that short-term focus could jeopardize the company's long-term prospects.

Financial statements reflect the current health of the company and many analysts use ratios to gauge performance. Here are the most widely followed metrics.

Revenue growth rate – The current revenue less the revenue from the prior period divided by the revenue from the prior period x 100. We want to buy companies that have strong top line growth.

Net Profit Margin – Net income divided by total revenues x 100. Healthy net profit margins are a sign that top line growth is translating into bottom line growth. Management is effectively controlling expenses and competition might not be a factor.

Earnings Growth Rate – Net income from this period less the net income from a prior period divided by the net income from the prior period. These comparisons can be q/q and y/y. Investors are looking for long-term consistency in earnings growth.

Earnings Per Share (EPS) – Net income divided by the shares outstanding. There are times when revenue and net income don't increase much, but EPS move higher. This is often the result of stock buybacks. There are fewer shares outstanding and that increases the EPS.

Trailing P/E Ratio – This is the current price of the stock divided by the EPS during the last 12 months. This is a valuation metric used by many analysts. A low trailing P/E ratio suggests that the stock price is attractive.

Forward P/E Ratio – This is the current price of the stock divided by the forecasted EPS for the stock. Typically stocks are projected to make more than they did last year and this P/E is typically lower than the Trailing P/E. If the Trailing P/E is high and the Forward P/E is low, the expected earnings are projected to be very good.

PEG Ratio – The P/E ratio divided by the expected earnings growth rate. It factors in the growth rate and it is thought to provide a clearer representation of value. This is particularly true for high growth stocks that have a high P/E ratio. In general, a low PEG ratio is desired and a value of 1 is considered attractive.

Quick Ratio – Cash and cash equivalents are divided by current liabilities. This ratio measures a company's liquidity. A number greater than 1 means it can easily meet all of its short-term obligations.

Debt to Equity – Total Liabilities divided by Shareholders Equity. This ratio indicates how highly leveraged a company is. A low number is preferred and it indicates that the company is less risky. This number varies greatly from one industry to another so those comparisons are important.

Book Value – Total Assets less Total Liabilities divided by the number of shares outstanding. This number indicates what the value per share would be if the company sold all of its assets and it settled all of its debts.

Return on Equity – Net income divided by Shareholders Equity. This measures the percentage return on net assets (Total Assets minus Total Liabilities). The higher the number the better, but this is also industry specific.

Dividend Yield – Total dividends paid per share divided by the share price. Some companies choose to pay investors on a regular basis. This payment has a tendency to attract conservative investors and money from balanced funds. If the stock does not appreciate in value, shareholders will still receive a return from the dividends. Some analysts argue that the company has run out of attractive investments and that is why it is returning capital to investors. In general, these stocks tend to have less volatile price action because the investors don't move in and out of the stock with frequency.

% Institutional Holdings – The number of shares held by large institutions is divided by the total number of shares outstanding. A large number indicates that the ownership is stable. Institutions tend not to move in and out of a stock with frequency and the price action should be less volatile.

% Short – The shares sold short are divided by the total shares outstanding. A high percentage indicates severe pessimism. Institutions and retail traders have to find shares to be able to short them. If the shares become unavailable for borrow, these traders could be forced to buy back the shares. That could result in a short squeeze where the stock shoots higher and it forces short sellers out of the position.

Days to cover – This is the number of shares shorted (short interest) divided by the 20-day average daily volume for the stock. A large number would indicate that the stock is heavily shorted and that it will take many days for shorts to cover their positions.

This is a basic overview of financial statements and key ratios used by analysts. Each quarter you can read the quarterly earnings report. If you are a longer term trader or investor, I suggest looking at the growth numbers and key ratios. Read the guidance provided in the earnings report and when possible listen to the press conference after earnings are posted.

Fundamental analysis also considers macro events that are going to impact the company. Here are some of those considerations.

Regulatory – The regulatory environment could increase costs. Strict EPA laws, OSHA safety codes and labor laws are only a few examples and the regulatory backdrop changes constantly. Large trading firms know legislators who are going to be voting on new regulations and they know which way the "wind is blowing". Congressmen can trade on this information legally and they have inside information. This is NOT a level playing field.

Taxes and subsidies – Corporate taxes impact companies. These laws change frequently and business compete on a global basis. Where a company is located might present tax advantages. Many corporations moved their offices to Ireland for this reason. Subsidies might encourage investments in plant and equipment for certain manufacturers and that will impact profits. Again, inside information prevents us from competing with trading firms that know which way the "wind is blowing".

Interest rates – Monetary tightening makes it more expensive for companies to borrow money. Rising interest rates will also make it more expensive for consumers to buy homes, cars and appliances. Fed tightening often leads to a slowdown in economic activity and companies have to adjust their forecasts.

Litigation – Lawsuits can be filed by individuals (personal injury), shareholders (fiduciary negligence), other companies (patent infringement) or the government (anti-trust). We live in a litigious society and corporations can be sued on many different levels. Large institutions monitor lawsuits closely and they gauge the possible outcomes and potential damages. This is another example of information that we do not have access to.

Competition – As completion increases, profit margins decline. This will impact profits.

Product Life Cycle – The life cycle for a primary product might be nearing its end. Once example might be a drug company that is about to lose its patent on a popular drug. Generic versions will greatly reduce the profit margins. In some cases, new technology could make the product obsolete (VCRs).

Clinical Trials – The FDA approval process is rigorous and expensive. The results of clinical trials will have a huge impact on a biotech company's stock price and it will impact their ability to raise capital.

Inflation – Inflation impacts input costs. Raw materials and higher labor costs will bite into profits and the company might see a large decline in revenues if they increase the price of their product.

Economic cycles – Some companies are cyclical. Purchases of heavy equipment are postponed during economic declines. The depth and duration of economic downturns is difficult to predict and the company will need a strong balance sheet to ride out the cycle.

Credit – Tight credit conditions will make it more expensive for companies to borrow capital. During the 2008-2009 financial crisis banks were shoring up their own balance sheets and new loans were very difficult to secure.

Supply disruptions – During Covid-19 global shutdowns created long-term supply disruptions that took years to resolve. One small product component or one raw material could completely halt production.

Weather – Consumers will buy more snow boots and coats during a cold winter. Natural disasters can destroy plant and equipment. The Tsunami in Japan caused a nuclear plant shutdown and it impacted the power grid. Hurricane Katrina destroyed manufacturing facilities in Louisiana. Drought impacts crops and the demand for agricultural equipment.

New Technology – New technology can replace old products/services with blinding speed. My option order execution business is a classic example. The method that had been used for two hundred years was obsolete in the course of two years. Automated driving systems are going to dramatically change the transportation industry in the next decade.

As you can see, fundamental analysis can be very complicated. When I started my career in finance some stocks were referred to as being stable enough for “widows and orphans”. Those included AT&T and General Electric. It was common for investors to buy shares of a company and to actually take physical delivery of the shares. They had no intention of ever selling the stock. Investing and trading have changed. Sociological changes (the need for immediate results), trading technology (high frequency trading), the availability of information (internet), technological advancements in products (computers) and globalization (consumers can buy anywhere) have all reduced the holding period for traders and investors. Companies that were dominant in a particular industry for decades suddenly find themselves in survival mode.

Prior to the 1980’s it was common for investors to take physical delivery of stock certificates because they did not intend to sell them.

I did not intend for this to be a comprehensive guide to fundamental analysis. This article barely scratches the surface. Instead, I wanted to point out how difficult it is to value a company. Fundamental analysis tries to determine if a stock is overvalued or undervalued. There are many considerations and they are constantly changing. Large financial institutions employ hundreds of analysts and they have incredible resources that they dedicate to research. They have better information and I can’t compete with them when it comes to fundamental research. I want to follow the “smart money”. When they are buying or selling stock, I can see that in the price action. We all have access to this information and that is why the rest of this Stock section is dedicated to technical have access to this information and that is why the rest of this Stock section is dedicated to technical analysis.

How To Trade Earnings

These announcements will drive the price action for many weeks and often for the entire quarter.

Earnings releases provide us with important insights on how well the company is performing and the earnings statement determines investor expectations. Asset Managers adjust their positions based on this news. The current stock price is a function of the expected future earnings. Large proprietary trading firms spend billions of dollars conducting “channel checks” and they talk to suppliers so they can gauge business conditions before the release. This research drives their valuation models. Earnings reactions produce the biggest stock moves of the year. When the performance and the guidance are materially different from analyst expectations, there is a price discovery process. The current stock valuation needs to be adjusted. There is a window of opportunity to join that move.

Buy and hold investors weather the earnings reports. They don’t care if the company had a bad quarter, they plan to hold the stock for years and they are only concerned with the long-term prospects. They read the earnings release to make sure that there have not been any material changes that would impact the future of the company. If everything is on track, they stick with the position.

Traders who have a holding pattern of three months or less should not hold positions over the earnings report. Many traders will attempt to predict the earnings reaction and this is pure gambling. They want the adrenaline rush that comes with a big move after an earnings announcement. This will be their chance to “win big”. They buy call (or put) options and they don’t know that the cards are stacked against them. Market Makers know that earnings releases generate big moves so the option premiums are sky high. Most of the time, the stock does not make the expected move that is priced into the options. These traders don’t spend billions of dollars on research, they are acting on a “gut feeling”. Stock traders will also find it impossible to predict earnings reactions. Often, a fantastic “beat” will result in a negative reaction. I can’t say this strongly enough, don’t hold trades over the earnings announcement!

There are plenty of opportunities before the earnings announcement. Some stocks have a historical tendency to rally two weeks ahead of the release and we have tracked this price behavior over the last few years. We have searches that tell us which companies will be reporting earnings in the next two weeks and which ones rally (or drop) into the number. We are not trying to predict the earnings reaction, we are just trading price action and we will exit before the release. If the stock is moving higher on heavy volume and it is strong relative to the market, we have an opportunity. Ideally, the stock is also breaking above technical resistance. Ride the momentum as long as it lasts, but exit before the earnings announcement. I suggest exiting the position the day before the release. Stocks will be choppy during the last trading session before the number and they will have random price movement. Institutions are making last minute adjustments to their positions and the action can be two-sided.

I've spent years experimenting with different methods to predict earnings reactions and I have reached a conclusion. This is an absolute coin toss and there is no way to consistently predict the reactions based on the price action ahead of the earnings release. I don't have billions to spend on research and I don't have access to that research. That means that others will always have the upper hand. Even if I had access to that research, the reaction is often not what we would expect. I've seen companies report much better than expected results and the stock declined after the news. I've seen companies miss expectations miserably and then rally after the news.

There is one earnings trade that works and I reference it in the Options Last section. It is non-directional trade and it capitalizes on the implied volatility spread between this week's options and next week's options.

When you consider the amount of time spent looking for earnings trades, entering them and then managing the reaction, it's not worth the hassle. Holding over earnings releases is a 50:50 proposition and we avoid binary events. We can hit a 75% win rate or more if we stick to the system. The options bid/ask spreads widen out and it is difficult to exit the trade. There will be plenty of opportunities after the earnings release and we can trade the reaction.

This section focuses on longer-term stock selection so I will only discuss swing trading after the earnings release in this article. I will discuss shorter-term post earnings plays in the short-term section.

The initial reaction to an earnings release is not always indicative of where the stock is heading. Investors and speculators will adjust positions after the release and reversals are common. For instance, let's say that the stock has rallied 20% into the number. Good news is priced in and the company substantially beat expectations. To the surprise of many, the stock declines after the earnings report. This reaction could just be profit taking. Once that supply of stock is worked off, buyers will still be engaged. The stock will erase the losses and rally to a new relative high. A weak stock that has been in a steady down trend could miss earnings expectations badly and gap higher after the report. Bad news was priced in and the announcement could be better than feared. That initial move sparks short covering and once that buying dries up, the longer-term sellers return and they drive the stock down. My point it that from a longer-term trading perspective, you should not take new swing trades based on the initial reaction because it is often false. You should wait 5-10 days for the dust to settle. By then it will show its "true colors".

Stocks that make moves greater than 10% often blow through technical resistance levels. If they are in a longer-term up trend, they tend to hold the breakout. Not all of them, but most of them. We don't have to chase the initial move, there will be plenty of opportunities. Ideally, the stock holds the opening price of the gap up and it advances during the first session after the release. If it closes higher, a green candle will form. A long green candle is preferred because that is a sign that buyers supported the gap up the entire day and they still viewed this as an attractive entry price. The strongest stocks will barely retrace that long green candle. They might test the middle of that candle, but the bid is so strong that the stock advances the next few days and it makes a new relative high. If you've waited at least a week, you have the confirmation you need that the stock is heading higher.

In the chart below you can see how the stock gapped up after earnings. On the charts an "A" represents earnings "after the close" and a "B" represents earnings "before the open". The stock never tested the opening price from the gap and that is bullish. It continued to rally all day forming the long green candle. That is also bullish. During the next few days the stock barely tested the half-way point of the long green candle and that is also bullish. Buyers are supporting this move and it made a new relative high. This stock wants to go higher and now we have the technical confirmation we need to enter a swing trade.

In the next chart you can see how the stock gapped up after the earnings report, but it sold off the rest of the day. That resulted in a red candle and this is not ideal. This could still be bullish, but buyers did not support this move initially and that was a sign that more of the gap could fill. After a week of trading, the supply of stock was exhausted and it started to move higher. You would take a starter position when it makes a new relative high. It probed for support and it bounced above AVWAPE. This is a bullish sign and you would add to the position when it makes another relative high. You can see that the stock has retained its relative strength (RS).

Before we go any farther, it is important for you to set alerts. Set an alert at the high of the day for the first post-earnings candle. It might take a few days before that price point is breached, but it will be a reminder that the stock is ready to move higher. In Option Stalker Pro we have a search called Strong After Earnings. It searches for stocks that have reported earnings in the last two weeks, the stock gapped up and the last price is greater than the opening price of the initial reaction. In Option Stalker Pro, you can also search for stocks that recently released earnings and that are above AVWAPE. There many ways to set alerts and to run searches for earnings trades. We don't want to miss these great opportunities.

Many traders will buy big gaps down and they will view this as an opportunity to buy the stock at a discount. Not all gaps down are the same. The price action before the gap down is very important. If the stock has been generally trending higher, the gap down could be a buying opportunity. Buyers have been supporting the stock previously and good news is priced in. The pullback could just be profit taking. We need to give the stock at least a few days to settle down. In the chart below you can see how the stock rallied hard into the number. After the announcement it dropped and it found support. Now it has rallied above the 50-day MA and AVWAPE. It is filling the earnings gap and this would be a good entry point for a long.

In this example, the stock has been in a slight down trend before the earnings announcement. The reaction is negative and it falls below the 200-day MA. We need to give this stock lots of time to confirm support and a base needs to form over a period of many weeks. Once the stock starts to move through technical resistance levels, we can consider it as a long. Given the price action before the earnings announcement, I would tend to favor day trading the stock from the long side on notion that some of the gap will fill. I would not consider a swing trade until it can fill the gap and close above the 100-day MA. The risk of sellers keeping a lid on the bounce is still high and we need to make sure they are out of the way. A rally above the 100-day MA would indicate that the sellers are gone and the stock has lots of room to run.

In this final example, the stock is in a long-term down trend. It gaps down on the earnings release. This is not a bargain and this is not a good entry for a long. Sellers are lined up. The stock tries to bounce and that move is easily squashed. When the stock makes a new relative low, it is a good short. It is below all of the major moving averages and AVWAPE.

Earnings reactions present some of the best trading opportunities for us. We rely heavily on technical breakouts and the price action tells us if the move is legitimate or fake. We just have to wait a week until we have technical confirmation one way or the other. Institutions are going to be adding or reducing exposure based on the number and the guidance. They want to minimize market impact so they spread their orders out over a period of days and perhaps weeks. This gives us time to evaluate the price action. If buyers are aggressive, we will see very little if any retracement after the earnings gap up. The stock will also be strong relative to the market and the green candles will outnumber the red. Stocks have a tendency to resume the previous trend that was in place before the earnings announcement. Macro business conditions that were present before the release don't typically change quickly and they are likely to continue into the next quarter.

During earnings season it is important to know when similar companies are reporting. Some industry groups like airlines, basic materials and casinos have stocks that are highly correlated. If you own

WYNN shares, you had better know when Las Vegas Sands is reporting. HD and LOW, CVX and XOM, LEN and TOL. These are other examples of stocks that are highly correlated. The earnings backdrop for one company is likely to be similar for peers. There are other companies that are unique and they are not highly correlated to other stocks. Microsoft and Meta are both tech companies, but the businesses are very different from each other.

Earnings season provides us with many trading opportunities. We can make money before the release and we can make money after the release by just trading price action and our odds are very high. Don’t hold trades over the announcement. Your odds of success are 50:50 and you should avoid binary events.