WHEN A GREAT COMPANY GETS CRUSHED

A Practical Income Investing cheat sheet for deciding whether to buy the LEAPS now, wait a couple days, or stay the hell away.

THE BIG QUESTION

Did the stock get hurt - or did the business get hurt?

1. THE 5-QUESTION CRASH TEST

1	**Was this a great company BEFORE today?** Use your Seven Fundamentals. Do not call it 'quality' just because it eventually bounced.
2	**What actually changed?** Headline, guidance, CAPEX, competition, regulation, safety, management, or balance-sheet problem?
3	**Did long-term earnings power change?** A stock can get smoked for a day or two without the long-term business changing much.
4	**Is management fixing a problem - or defending a broken business?** Temporary issue = possible opportunity. Structural issue = a dip that can keep on dipping.
5	**If I could not see the stock price, would today's news make me sell the company?** This strips out the emotional pull of the red candle.

2. WHAT KIND OF CRASH IS IT?

Type	Default response
PANIC / SENTIMENT	The price probably moved more than the news changed the company. **Best immediate-entry candidate.**
REAL PROBLEM, MAYBE FIXABLE	Some business damage exists, but the moat, cash flow, balance sheet, or earnings engine may still be intact. **Smaller first bite or wait 1-3 days.**
BUSINESS MAY BE BROKEN	Regulatory, safety, solvency, accounting, license-to-operate, or major moat damage. **Usually pass.**

3. THE PROBLEM NOBODY TALKS ABOUT

The stock can be on sale while the option is not. A violent drop can make the underlying cheaper while fear pushes option premium higher.

Stock drops hard	Call gets cheaper from the stock side.
Fear rises / IV rises	Option can get more expensive from the volatility side.
Wait too long for IV	You may save on IV but lose the better stock price if shares rebound fast.
Buy instantly with no homework	You might catch the turn - or buy right before continuation lower.

4. WHAT THE BROAD RESEARCH CHANGED

Broad S&P; 500 event screen - not a Seven-Fundamentals quality screen: waiting 5-10 days did not reduce later drawdown, and the average stock was modestly higher by Day +5 and Day +10.

Practical takeaway: If the business passes your own filter and the catalyst makes sense, an immediate or 1-3 day entry is defensible.

The broad data did not support waiting a full week simply because volatility should cool down.

What it does NOT prove: It does not prove that every "great company" should be bought after a crash. The quality screen and catalyst classification are still the judgment layer.

THE PRACTICAL INCOME INVESTING EXECUTION PLAN

How to structure the trade, what the broad screen actually showed, and what still depends on your own judgment.

5. CONTRACT SELECTION

Check	What I would lean toward
Expiration	**18-24+ months** whenever possible. A one-year LEAPS can run out of time before the thesis works.
Delta	Compare roughly **70-80 delta** with ~60 delta. Deeper ITM usually means more intrinsic value and more stock-like behavior.
Intrinsic vs. extrinsic	During a panic, ask how much premium is real stock exposure versus expensive 'air.'
Specific LEAPS IV	Look at the actual expiration you want - not just front-month IV.
Liquidity and spread	A beautiful idea can become a bad trade if the bid/ask spread is ugly.
Risk plan	Know your trade-management rule before you buy. A LEAPS is still a wasting asset.

6. WHAT THE 2,011-EVENT SCREEN FOUND

Finding	Result
252-day return	**Event screen: +18.2%** **SPY: +17.2%**
Excess vs. SPY	+1.0% mean / -3.6% median
Beat SPY	46.5%
Average max drawdown	-23.6%
No recovery in 2 years	14.9%
Waited Day +5 / Day +10	Slightly worse

The raw +18.2% number is a trap by itself. SPY returned +17.2% over the same windows, so there was no reliable broad edge.

7. BIG CAVEAT: THIS WAS NOT YOUR EXACT STRATEGY

The broad study did NOT test 'high-quality companies' specifically. It used point-in-time S&P; 500 membership as a rough proxy. It did not apply the full Seven Fundamentals to every event, did not classify every catalyst, and did not have real historical LEAPS quotes, IV, or Greeks. **So the narrower setup - great business + temporary overreaction - is still unproven by this screen.**

8. RULES I WOULD ACTUALLY USE RIGHT NOW

1	**Do not buy the red candle alone.** The edge, if it exists, comes from understanding the business and catalyst.
2	**Do not assume a bigger drop is a better bargain.** The broad screen showed the biggest drops often had the worst future outcomes.
3	**Do not make IV the whole decision.** The stock path mattered much more than perfect IV timing in the broad research.
4	**Lean deeper ITM for this setup.** **Modeling** strongly favored around 75 delta over around 60 delta. This was not measured historical option-return data.
5	**Avoid certain catalyst types.** Regulatory, safety, solvency, accounting, and license-to-operate events deserve a much higher bar or an outright pass.
6	**Give the thesis enough time.** For a long-term recovery trade, 18-24+ months fits the actual recovery distribution better than a one-year option.

THE BOTTOM LINE

I am not buying just because a stock fell 10%. I am buying only if I believe the market changed the price a hell of a lot more than the news changed the company.