

# THINK, TRADE, & GROW RICH!

A Powerful Beginner's Guide to  
Building Passive Income Through  
Momentum Swing Trading and  
Stock Market Investing

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**BENJAMIN KAHRIMAN**

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INCOME THROUGH MOMENTUM SWING TRADING AND  
STOCK MARKET INVESTING*

*BENJAMIN KAHRIMAN*

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*Nena. Tata. Mama. Kevin. Memphis. Camila.*

*Inspiration, love, and life.*

## WHY YOU SHOULD READ THIS BOOK

*Think, Trade, & Grow Rich!* is your ticket to financial freedom. Within these pages, you will find a true beginner's guide to the author's time-tested and results-driven momentum swing trading and investing method. No prior experience, investing knowledge, or large cash pool is required. With simple step-by-step instructions, Kahriman guides readers through the very trading method that set him on a path to financial independence. You will learn to, "plan your trade, then trade your plan."

You will find invaluable concepts and investing ideas that generate income, reduce risk, and offer a tested pathway to financial freedom. Kahriman distills years of research, data analysis, and trading experience into an easy-to-follow trading method that dramatically increases profits and minimizes risk. Kahriman describes the fundamentals of Japanese candlesticks, technical analysis, momentum swing trading, and investing. You will learn to use a stock screener to find stocks with substantial upside, read candlesticks, implement technical data and analysis, and set entry and exit points that maximize gains and minimize loss. However, before you start investing your hard-earned money, Kahriman will teach you to use *free* stock market simulators that allow you to trade stocks without upfront capital.

Using the trading method outlined in his book, Kahriman's top-10 stocks for 2018 generated double and triple-figure returns as of late May 2018. From February 13, 2018, to May 31, 2018, Kahriman made over \$19,000 in profit from his top-10 stocks. See for yourself below!

### Kahriman's Top-10 Stocks for 2018

Flag	trkDate	Sym	% Change	trkPrice	trk%	▼	trkGainLoss	Price
↑	4/16/18	HEAR	+1.34%	4.37	+298.17%	+1303.00	17.4	17.4
↑	2/26/18	ENPH	-8.03%	2.47	+131.98%	+326.00	5.7	5.7
↑	2/13/18	CLNE	+1.61%	1.44	+119.44%	+172.00	3.1	3.1
↑	2/13/18	DNR	-0.93%	1.99	+113.57%	+226.00	4.2	4.2
↑	4/16/18	I	+11.08%	8.41	+112.25%	+944.00	17.1	17.1
↑	2/13/18	ARWR	-1.56%	5.31	+101.88%	+541.00	10.1	10.1
↑	2/13/18	CRC	+4.20%	18.74	+96.05%	+1800.00	36.1	36.1
↑	2/13/18	MDGL	+144.96%	135.93	+95.40%	+12968.00	265	265
↑	2/13/18	VCEL	-3.58%	6.90	+94.93%	+655.00	13.1	13.1
↑	4/25/18	TNDM	-1.54%	7.23	+94.05%	+680.00	14.1	14.1

*Think, Trade, and Grow Rich!* will teach you to:<sup>[1]</sup>

- Make money trading and investing in stocks for maximum profit and minimum risk
- Use the building blocks to a tested and proven trading system in simple, understandable language
- Use Kahriman's step-by-step checklist to find and evaluate stocks that fit your financial goals
- Identify and utilize Japanese candlesticks in conjunction with technical and fundamental analysis
- Read, analyze, and apply performance data and factors that significantly increase your odds of outperforming the stock market
- Trade Cryptocurrency (e.g., Bitcoin, Bitcoin Cash, Litecoin, Ethereum) and stocks affiliated with Cryptocurrency
- Understand market sentiment and the psychology behind investor decisions
- Combine a variety of powerful factors to generate a single data point that ranks stocks and potential trades along a spectrum

from high to low-degree of profitability

*Think, Trade, and Grow Rich!* is an investment in your future, but the benefits extend beyond its pages. Please feel free to email Kahriman at [benjamin@kahrimanpublishing.com](mailto:benjamin@kahrimanpublishing.com) with questions as you embark on your journey to financial freedom.

# WHY I WROTE THIS BOOK

My path to financial freedom started fifteen years ago. Refugees of the Yugoslavian war, my family and I settled in the Silicon Valley. My father worked construction while my mother managed estates for those who profited big during the “Dot.com Boom.”

A couple of months after settling into our modest, one-bedroom apartment, my mother received an offer to tend to the estate of a prominent investor. In return, my family and I were offered housing on the estate. As a son of immigrant parents whose ambitions and aspirations for my brother and I led them to flee war-torn Yugoslavia, I took it upon myself to honor their sacrifices and realize the opportunities our great nation presents to the willing and ambitious. It is at this point in my life that I grasped the financial opportunities presented to those able to navigate the stock market successfully.

Within a few months of living on the estate, I had the pleasure to meet our Japanese neighbor, a trader and investor in overseas and U.S. markets. An immigrant himself who made a small fortune investing and trading securities using Japanese candlesticks, I soon grew infatuated with his work. I stood and watched intently as he danced across his office, from chart to chart, jotting a line here, a dash there, and a scribble over there. He resembled a painter, fortuneteller, and mathematician, all at once. Where others saw neuroticism and borderline madness, I saw precision and passion. I marveled at his self-discipline, attention to detail, and unwavering determination to fulfill his self-proclaimed prophecy. I saw a man exercising his inalienable rights to life, liberty, and the pursuit of happiness. I saw a man with an unquenchable desire not just to live, but to thrive. To not only win, but to conquer. To not only dream, but to realize the life he always imagined.

I too wanted what he possessed, both the intrinsic and extrinsic. I shadowed my new mentor and soon discovered the source behind the excitement in his eyes and the fervor with which he worked. I discovered a world of analytics, a system of trading and investing, mostly unknown outside Asia; candlestick trading. I quickly allocated my time among academics, athletics, and my new passion: investing and trading.

With the help of my family, I excelled in the classroom and on the football field. I received a scholarship to play collegiate football, earned the President's Scholar Award at the University of British Columbia, graduated Magma Cum Laude from the University of California, Berkeley, and attained my law degree by the time I turned twenty-six. With the same drive and determination that led to my academic and athletic success, I studied the stock market.

Cautious by nature and very much restricted financially, entering the stock market with my new-learned skill- candlestick trading- was not an option. Instead, I did what every foreign parent asks of their children; study. Years of research, mentorship, data collection, analysis, and countless hours practicing trading and investing on stock market simulators, led me to create a trading system designed to minimize risk and maximize profit. My research on candlestick patterns led to technical analysis, one of the major investing styles of traders in the West. Technical analysis opened the door to fundamental analysis, another major investing style of the West. Years passed, my research notes accumulated in stacks, my stock market simulator portfolio grew at an exponential rate; but my investments amounted to zero. It was time for the next step.

With my trading system and checklist in hand, I opened my first brokerage account with just \$500. By the end of the first quarter, that account grew well over 1,500%. With the goal of helping others realize their own "American Dream," I embarked upon telling my story and teaching others to invest and trade in the stock market.

In *Think, Trade, and Grow Rich!*, I outline and share my powerful trading and investing formula forged from years of research and trading experience. I explain how you too can realize your dreams and reap the bountiful financial opportunities present in the stock market. Best of all, I demystify the technical, hard to understand, and complicated aspects of trading and investing. *Think, Trade, and Grow Rich!* is concise, practical, and written for everyone, in effect, a true and complete beginner's guide to not only trading, but a better life.

Moreover, as a purchaser of *Think, Trade, and Grow Rich!*, you will receive one *FREE* stock to get you started on your path to financial freedom. You will also receive an invite to Kahriman's community of traders and

investors at [www.kahrimanventures.com](http://www.kahrimanventures.com) and [www.kahrimanpublishing.com](http://www.kahrimanpublishing.com). You can follow Kahriman's trades and investments, learn more about the trading and investing system, and access insider reports and market news. Finally, you will have access to Kahriman himself. Directly introduce yourself to Kahriman at [benjamin@kahrimanpublishing.com](mailto:benjamin@kahrimanpublishing.com) and claim your welcome package.

Do not let this life-altering opportunity pass you by. This is the time, *your* time, to embark upon a path to financial freedom. A path that leads to the life you always imagined for yourself.

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# CHAPTER 1

## INTRODUCTION

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*One 's act, one 's profit.*

In the bustling markets of Japan's Tokugawa, buyers and sellers of rice coupons relied on *candlesticks* to study price movement, interpret investor sentiment, and determine market patterns. By the mid-1700s, years of quantitative research and trading experience prompted seasoned Japanese traders like Munehisa Homna to rely on candlestick price action charts to maximize profits and decrease market risk. The hollow or filled portion of the candlestick, "body", marked the rice coupon's opening and closing price. The long, thin lines above and below the body, "shadows," depicted the high/low price range. Generations of use in Asian markets helped refine this early form of price action analysis. Today, candlestick chart analysis is not just a trading tool; it is a form of market analysis in its own right.

In the early 1990s, candlestick analysis made its way to the United States. The reliability and utility of candlesticks to provide early indications of market turns, furnish market insights, and enhance Western charting analysis, ignited the interest of investors and traders alike. Since candlesticks provide a clear and easy-to-identify set of patterns that are highly accurate in predicting market trends, they are the preferred charting technique of momentum, swing, and intra-day traders. We will use the terms candles and candlesticks interchangeably throughout the book.

## BACK TO THE FUTURE: 21<sup>ST</sup> CENTURY MONEY AND 16<sup>TH</sup> CENTURY JAPANESE CANDLESTICKS

You may be thinking, "We are a couple-centuries late to the rice coupon trading boom, candles were made obsolete by electricity, and no one asked for a history refresher." To which I respond, 1) you are destined to be forever-single with that kind of attitude and 2) candles are hardly obsolete,

Newell Brands (NYSE: NWL), makers of Yankee candle, is trading at about \$27 per share.

In all seriousness, the services candlesticks provided in the 16<sup>th</sup> century apply to the 21<sup>st</sup> century. What services? Well, for one thing, candlesticks tell you where a stock has been and where it is going. Further, candlesticks illustrate market sentiment. That is, candlesticks help traders and investors determine whether buyers, sellers, or neither are in control of a stock at any point in time. A large bullish candlestick tells us buyers are in control, and you may want to join them. A large bearish candlestick suggests sellers are in control, and you may wish to consider exiting the trade.

### *JAPANESE CANDLESTICKS*

When you think “best friend,” an image of candlesticks should come to mind. Why? Because *candlesticks* and *candlestick charts*:

- *Are easy to read:* It does not take a rocket scientist to read candles and thereby predict a stock’s price movement.
- *Are psychic:* Well, as good a psychic there is. Candlestick patterns, i.e., one or more candles in a group, often warn the chartist, i.e., you, that the price of the stock may change course in the opposite direction. If the price of the stock was trending lower, and your best friend candlestick appears, you may want to listen and ride the bullish price movement train to profit-land; and vice-versa.
- *Are powerful:* Candlesticks may look and sound cute, but they kick harder than a mule. Like my dad likes to say, “don’t get caught staring at an ass, or you just might get a kick to the face.” If you are drooling over a stock and the candles warn you the price of the stock will drop, look elsewhere, or, you get the point (kick to the face).
- *Are efficient:* Because of the immediate visual warning sent out by candlestick patterns, they will make your stock market analysis faster and much, much more efficient.

At its core, we use candlesticks for analyzing and identifying patterns and setups that suggest what the stock’s future will be. We find a pattern, evaluate the direction (up, down, or sideways) the stock was trading leading up to that

pattern, and decide whether to buy or sell the stock. I will walk you through candlesticks, candlestick charts, and candlestick patterns in chapter four.

Candlesticks are potent weapons in your battle against the stock market, but the path to financial freedom requires additional tools and skills. You will learn to merge, buy, and sell signals given by candlesticks with Western technical analysis tools and other powerful factors to generate a data point that will help you rank stocks and guide you to more secure, profitable trades. You will discover how joining candlesticks, Western technical and fundamental analysis, my tips and trading method, produce consistently profitable trades with minimum risk. Essentially, we will take 16<sup>th</sup> century trading tools, 21<sup>st</sup> century stock analysis, and create a powerful trading method based around buying low and selling high.

### *WESTERN TECHNICAL ANALYSIS*

*Technical analysis*, a Western school of thought for trading and investing, is primarily based on chart observation and data analysis. Traders typically use technical data as guideposts to determine when to enter or exit a trade. Technical analysis centers around the idea that all the information a trader needs from a stock, whether the stock will move up or down, is already reflected in the stock price, chart, and data points. The kinds of data technical traders evaluate include: volume, cash flow, moving averages, relative strength index, and lines of support and resistance. In effect, we are analyzing and identifying patterns, data, and setups that suggest what the stock's future will be. Do not worry if this sounds foreign to you, we will cover technical analysis in much greater detail in chapter five.

If candlesticks are your best friend, technical analysis is your consigliere or advisor. When candlesticks tell you to buy or sell a stock, you first consult your consigliere, technical analysis, before you pull the trigger. Why? Because technical analysis is mostly rational. It analyzes statistics generated by market activity; such as past prices, volume, trends, etc. Traders' biggest nemesis is emotion. There is no psychological or emotional component involved in technical analysis. Technical data looks at the market, measures the "irrational" (emotional) component of the market, and gives its diagnosis in the form of a number. For example, relative strength index (RSI), measures the momentum and condition of a stock. If the RSI is above 70, the stock is overbought. This means that people bought too much of the

stock and it is due for a pullback (i.e., decline in price). If the RSI is 30 or below, the stock is oversold, which means people sold too much of the stock and it is due for a turnaround (i.e., price hike). You, the trader, analyze the data. You evaluate cold, hard numbers. The numbers are either in your favor or against you. Simple as that. Technical analysis objectively assessed the stock, measured the market (traders/investors) emotional attachment/detachment to the stock, turned that information into a number from 1 to 100, and advised you whether the stock's price is too high or too low. There is no room for emotion. You may love a stock, but if technical analysis, your consigliere, determines the numbers are not in your favor and you ignore your consigliere's advice, well, that is on you you hardhead.

## *THE PROCESS*

Candlesticks and technical analysis will only get you so far. Let's say you are on the path to financial freedom. Your best friend, Candlesticks, and your consigliere, Technical Analysis, are with you. They will tell you what roads to take, the speed you should travel, where to turn, when to turn- you get the point.

Sounds good, right? Well, not really. None of you noticed the path to financial freedom is a bustling highway carrying ten lanes of traffic through Los Angeles. You did not realize it is rush-hour. Semi-trailers are clogging up the adjacent lanes. There are minivans and sedans in the middle lanes, cruising slightly faster. There is a carpool lane with Teslas, Priuses, and Chevy Volts whizzing by.

All of the sudden, your best friends, Candlesticks and Technical Analysis, find a utility road that runs along the highway. No traffic, no speed limit, no red lights or stops! This is it, you are about to make it big! Nope. You know what semi-trailers, sedans, minivans, Teslas, Priuses, and Chevy Volts have in common? Wheels and motors (more-or-less). You, my friend, you, along with Candlesticks and Technical Analysis, are on foot. Your mother-in-law was right about you all along, who sets out on a trip without some type of transportation, a vehicle? You might as well be back in the 1700s trading rice coupons in Japan, but even they had horses and other forms of transportation. Doom, despair, and dread set in, when, as if dropped from the heavens themselves, appears a brand-new, supercharged, 707 horsepower, 6.2L gas V8, Dodge Challenger SRT Hellcat. You see the

words, “The Process,” inscribed on the hood. You approach, “The Process.” You see an envelope on the windshield. You open the envelope. Key falls out. You pick it up. Inscribed on the key are the words, “Drive me.” Goosebumps, my friend, goosebumps.

“The Process” is years of research, data analysis, trading, investing, trial-and-error, and reflection. “The Process” is the book you are holding, the trading method within, the rules, tips, and insight scattered throughout these pages; and the vehicle by which you will reach financial freedom. You are behind the wheel, and as J.P. Morgan put it so eloquently, you will “go as far as you can see; when you get there, you’ll be able to see farther.” Step 1 – set a course. Step 2 – listen to your best friend and consigliere. Step 3 –drive, live, and breathe “The Process.” Step 4 – go as far as you can see. When you get there, repeat steps 1-4. Put simply, “The Process” will minimize risks, maximize profits, and help you avoid common trading and investing mistakes.

### *WHAT KIND OR INVESTOR DO YOU WANT TO BE?*

Before we go any further, I need you to have a heart-to-heart with yourself. What does financial freedom mean to you? For some of us, financial freedom is passive income, cash in the pocket at the end of the month. For others, financial freedom is a hearty retirement savings account, equipped to take you well into your golden years. While others associate financial freedom with working from home, no longer shackled to a nine-to-five. So, what does financial freedom mean to you? Take as much time as you need, be honest with yourself, and once you are entirely sure in your answer; write it down.

Broadly speaking, traders and investors fall into four categories: day traders, swing and momentum traders, position traders, and investors. Your definition of financial freedom will determine the type of trader or investor you will be.

### **Day Trader**

*Day trading* is the buying and selling of a stock within a single trading day.<sup>[2]</sup> Typically, day traders rely on a large pool of capital and short-term trading strategies to capitalize on small price movement in stocks. The day trader may use candlesticks, technical analysis, and most of the tools and

factors outlined in our method to find stocks suitable for quick, intra-day trading. In most cases, day traders will look for ‘penny stocks’, broadly speaking, ‘small-cap’<sup>[3]</sup> companies whose stock trades at a relatively low price –typically, below \$5 per share.<sup>[4]</sup> She will look to buy before stock price surges and sell before stock price plunges; often holding the stock for no more than a few hours. Day traders use charts, including candlestick charts, and evaluate technical data derived from minute-by-minute or hour-by-hour price movement of a given stock.

We will cover the different kinds of charting and technical analysis time periods in chapter three and chapter five. All you need to know at this point is that the price of a stock (i.e., *price movement*) can be broken down into minutes, hours, days, weeks, months, and years.

As with any type of trading, there are pros and cons to day trading.

Some benefits of day trading include:

- *Potential to make substantial profits:* Day trading is incredibly difficult, risky, and requires a unique skill set that can be difficult to master. Many professional money managers and financial advisors shy away from day trading, arguing that in most cases the reward does not justify the risk.<sup>[5]</sup> That being said, there is the potential to make thousands of dollars of profit in a single day.
- *Be your own boss:* Day traders set their own work schedule. If a day trader wants to take a day off, she simply stays out of the market that day. Since she buys and sells stocks within a market day, her workday ends at the closing bell. Successful day traders may take time off whenever needed, work at their own pace, and do not have to answer to the whims of corporate bigwigs.
- *No school, no prior job experience, no problem:* Day trading does not require an expensive Ivy League degree, heck, it does not even require a high school degree. There are no job experience requirements or qualifications. The day trader is limited only by her wallet, skill set, and trading technique or method.

Some cons of day trading include:

- *Receiving a one-way-ticket to the poorhouse! Significant risk of substantial losses:* The United States Securities and Exchange Commission points out that, “day traders typically suffer financial losses in their first months of trading, and many never graduate to profit-making status.” The odds are stacked against day traders. Those with a predisposition to gambling and financial risk-taking are all but guaranteed to not only lose their trading capital, but land in substantial debt; if not bankruptcy. I strongly urge anyone who considers themselves a beginner, novice, or even experienced trader or investor, to abstain from day trading. The risks are just too high and, truthfully, unnecessary.
- *SEC requirements:* The United States Securities and Exchange Commission (“SEC”) requires that day traders have a minimum of \$25,000 in their trading account at the end of the trading day if they plan on making at least four round-trip day trades over a five-day period. In other words, unless you have \$25,000 in your trading account, you may only conduct four intraday trades (i.e., buy and sell a stock on the same market day) over a five-day period.
- *High stress and risk of burnout:* Day trading is incredibly stressful. A day trader must watch multiple computer screens, keep second-by-second track of price movement, and act quickly to buy or sell a stock. Profit windows disappear in a matter of seconds. This has to be done day after day. The level of high degree focus and concentration, combined with the stress often leads to burnout and financial losses.

The rewards are great, but the risk is even greater.

## **Swing or Momentum Trader**

Swing trading and *momentum trading* are essentially the same concept or style of trading. I will refer to this style of trading as, “swing trading.”

Swing traders take big positions in a stock, expecting to profit on the

next swing up or down in the stock price. Trades typically last for a few days to a few weeks with the goal being to capture a larger price move than is possible on an intra-day basis. Relying on charts on technical analysis, swing traders seek to exploit a stock's short-term price momentum. Swing traders must act quickly to find situations in which a stock has extraordinary potential to make significant moves in a short time frame. Candlesticks are the swing traders' weapon of choice. Technical analysis indicators supplement candlestick charts and offer swing traders a stable platform from which to execute trades.<sup>[6]</sup> The trading method I teach is geared towards momentum swing trading. When correctly implemented, traders minimize risk, maximize profits, and consistently beat the market.

As in with any kind of trading, there are pros and cons to swing trading.

Some benefits of swing trading include:

- *The market is in your favor:* Financial markets never move in one direction forever; there is a natural ebb and flow. Swing trading allows you to take advantage of market ebb and flow. Your returns increase as you, in theory, are going to buy a stock when the market begins to rise and sell before the market pulls back.<sup>[7]</sup>
- *Picking from a large pool of stocks:* Practically every stock will see its price rise and fall. Again, very rarely does stock price move in one direction forever. Therefore, by getting in and out of the market in a matter of days, you can collect profits, and identify other markets that are gearing up for positive price movement. By closing your first position and taking profit, you will not have to deposit more money in your account to cover your next position or purchase.
- *Opportunity to minimize risks:* Swing traders will determine entry and exit points based on candlesticks, technical analysis, and other indicators that we will cover. If the stock price reaches your “entry point,” the price at which your research indicates the stock price will move higher; you buy the stock. If the stock price reaches your exit point, the price at which your research indicates the stock price will move lower; you sell the stock. The difference between the price you paid for the stock

and the price you sold the stock is your profit margin. As long as you set and abide by your entry and exit points, you will know exactly when the trade is no longer working in your favor and therefore exit the trade; containing any financial loss.

Some cons of swing trading include:

- *Time intensive homework:* Simply memorizing profitable candlestick patterns and bullish technical data will not make you a successful swing trader. You have to learn, comprehend, master, and apply the indicators and factors outlined in this book. It takes practice, and you must develop an “eye” for charts and data. It took years of practicing on stock market simulators before I had enough confidence in my training and research to swing trade with my hard- earned money. I wholeheartedly believe that anyone can learn to swing trade successfully, it is not rocket science. However, trading takes a driven, determined individual to put in the time and effort needed to reap the benefits swing trading offers.
- *Nerve-wracking pullbacks:* Swing traders run the risk of being, “spooked out of the markets,” as pullbacks at the micro level, i.e., pullbacks at the daily level, tend to be more violent than to someone looking at a stock through the lens of a weekly chart. This is a psychological issue and one you must conquer if you are to become a successful swing trader. We will discuss the psychological and emotional aspects of trading and investing in later chapters.

## **Position Trader**

*Position traders* take smaller positions in a stock, expecting a significant move in stock price. In most cases, position traders hold onto a stock for a few weeks to a few months. Position trading is somewhat similar to swing trading. The major difference between the two methods is time. Position traders study and analyze weekly charts and technical data. As you may recall, swing traders use daily charts and technical data. Consequently, position traders buy and sell stocks on a weekly basis; instead of intraday (day traders) or daily (as is typically the case with swing traders). Position traders are not concerned with short-term fluctuation in stock price. Instead, position traders look to profit from stocks with gradual, steady price movement, under the belief that price movement will stabilize over the long-term; eventually generating a profit in the coming weeks or months.

## **Investor**

*Investors* utilize investments to grow their money and/or provide an income during retirement; such as with an annuity. In large, investors buy stocks of companies they believe to be both undervalued and possess a durable competitive advantage. Most investors hold smaller position sizes and seek greater portfolio diversification than day, swing, and position traders. In deciding which stocks to buy or sell, investors look at fundamental data such as forward price-earnings-ratio, earnings per share, long-term debt to equity, price-to-cash ratio.<sup>[8]</sup> Most investors hold their stocks anywhere from a few months or years to several decades. Among day trading, swing trading, and position trading; many consider investing to carry the least amount of risk. On the other hand, investors typically wait years before realizing substantial returns on their investments. Consequently, once an investor allocates her investing capital among the stocks in her portfolio, she will need to deposit additional funds to purchase other stocks or shares.<sup>[9]</sup>

## **Conclusion**

Allow me to repeat myself. Please define what financial freedom means to you and determine what type of trader or investor you wish to be. Your decision will dictate the kinds of stocks you will buy and sell, as well as influence the way you utilize the trading checklist.

**MARKET SENTIMENT, HUMAN EMOTIONS, AND THE**

## PSYCHOLOGY BEHIND INVESTOR DECISIONS

Sentiment represents an individual's or group's opinions, emotions, or views. Similarly, *market sentiment* summarizes the overall attitude of investors towards the market as a whole.<sup>[10]</sup> Financial professionals, psychologists, and academics are increasingly realizing the importance of 'investor sentiment' – the propensity of individuals to trade on "noise" and emotions rather than facts.<sup>[11]</sup> Research indicates *sentiment* causes investors to form beliefs about future cash flows, price movement, and investment risks that simply is not justified by objective data. In fact, researchers found a correlation between investor sentiment and future capital returns. The greater the degree of investor sentiment, the lower the investor's future returns; and vice versa. Not only are traders and investors susceptible to emotional trading and investor sentiment; they are exposed to, and more often than not, impacted by external investor sentiment. A recent, investigative report by CBS News found external, investor sentiment –that is, individuals who influence other investors to buy or sell a stock based on their own propensity to trade on "noise" and emotions rather than objective facts- to be "contagious," and likely responsible for, "the poor performance of individual investor[s]...[in the stock market]."<sup>[12]</sup> For example, despite large April 2000 market losses, investor expectations of future returns did not significantly fall. Instead of adjusting portfolios, many individual investors "expected" a positive reversal despite current financial facts and figures.<sup>[13]</sup>

Two emotions are behind most, if not all, disastrous trades and investments; fear and hope. Traders are overcome with fear when they hold a winning trade; when they are in a profitable position. Even if there is no substantive basis behind their anxieties, they cannot help but fear the trade will fall apart, the price of the stock will plummet, and profit will turn to loss. The fear of, "losing out on what you have now," causes traders to prematurely sell profitable stocks; leaving considerable money on the table.

Hope is just as averse to trading as fear. Hope manifests itself as an unjustified belief that an unprofitable trade or position will miraculously turn profitable. This blind hope causes traders to hold onto their losing positions for way too long; maximizing their losses and not their gains. Hope is a trap that everyone one of us will fall into at one point or another in our trading

career. Some of you will never recover from that mistake. That is why you have to decide today that you will not be the type of trader that holds onto losing positions just because you hope to one day break even on the trade. Trust me, that day will (almost) never come. Over the course of my trading and investing career, that hopeful day only came once. If, like me, you are an optimist, abiding by this rule will be difficult. However, it is not impossible. In the coming chapters you will learn to set objective, data-driven, entry and exit points for all your trades. Entry and exit points will prevent and ensure you do not fear profits and place hope in lost causes. Instead, you will be hopeful about your profitable positions and will let fear drive you from unprofitable positions. You and your wallet will thank me for it.

There is no room for “noise,” emotion, or investor sentiment in successful trading. Your emotions will not sway you, and under no circumstance are you to be swayed by external “noise.” Within these pages, you will learn a proven, highly-profitable, data-driven trading and investing system rooted in objectivity.

For instance, most Western traders and investors consider technical analysis, one component of our trading method, “the only mechanism to measure the ‘irrational’ (emotional) component present in all markets.”<sup>[14]</sup> Western traders believe the market, as a whole, has a propensity to act irrational, mirroring an irrational world, and technical indicators serve as a gauge of market sentiment. In sum, technical indicators help ensure traders and investors leave their emotions at the door. That is, *technicals* put objectivity in the driver’s seat.

By following our step-by-step investing and trading guide, the pitfalls inherent to market sentiment, investor sentiment, emotion, and “noise,” are removed from investing and trading decisions.

# CHAPTER 1 RECAP

1. ***Candlestick History and Significance:***
  - a. 16<sup>th</sup> Century Japanese buyers and sellers of rice coupons relied on *candlesticks* to study price movement, interpret investor sentiment, and determine market patterns.
  - b. In the early 1990s, candlestick analysis made its way to the United States.
  - c. The reliability and utility of candlesticks to provide early indications of market turns, furnish market insights, and enhance Western charting analysis; ignited the interest of investors and traders alike.
  - d. We use candlesticks to analyze and identify patterns and setups that predict a stock's future price.
  - e. Candlestick patterns forecast a change in the direction of a stock's price trend.
  - f. Since candlestick patterns send out immediate visual warnings, they will make your stock market analysis faster and much, much more efficient.
2. ***Back to the Future: 21<sup>st</sup> Century Money and 16<sup>th</sup> Century Japanese Candlesticks:***
  - a. You will discover how combining candlesticks, Western technical and fundamental analysis, and my trading system produces consistently profitable trades with minimum risk.
  - b. We will take 16<sup>th</sup> century trading tools, 21<sup>st</sup> century stock analysis, and create a powerful trading system based around buying low and selling high.
  - c. Technical analysis, a Western school of thought for trading and investing, is primarily based on chart observation and data analysis.
  - d. Traders typically use technical data as guideposts in determining when to enter and exit a trade.
  - e. Technical analysis centers around the idea that all

the information a trader needs from a stock, whether the stock will move up or down, is already reflected in the stock price, chart, and data points.

3. ***Types of Traders and Investors, Market Sentiment, Human Emotions, and the Psychology Behind Investor Decisions:***

- a. *Day trading* is the buying and selling of a stock within a single trading day.
- b. *Swing traders* take big positions in a stock expecting to profit on the next swing up or down in stock price.
- c. *Position traders* take smaller positions in a stock, expecting a significant move in stock price.
- d. *Investors* make investments to grow their money and/or provide an income during retirement; such as with an annuity.
- e. Sentiment represents an individual's or group's opinions, emotions, or views. Similarly, *market sentiment* summarizes the overall attitude of investors towards the market as a whole.
- f. Not only are traders and investors susceptible to emotional trading and investor sentiment; they are exposed to, and more often than not, impacted by external investor sentiment.
- g. Two emotions are behind most, if not all, disastrous trades and investments; fear and hope.
- h. Most Western traders and investors consider technical analysis, one component of our trading method, “the only mechanism to measure the ‘irrational’ (emotional) component present in all markets.”

# CHAPTER 2

## WHEN TO TRADE, WHERE TO TRADE, WHAT TO TRADE, HOW TO TRADE

夏炉冬扇

*A winter fan for summer heat.*

Before you can master candlesticks, technical analysis, and supplementary indicators, you must acquaint yourself with the basic rules and tools by which you will think, trade, and grow rich!

In this chapter, you will learn when to trade, where to trade, what to trade, and how to trade. As a novice trader, you will trade and invest during the regular trading session for the U.S. stock market, between 9:30 a.m. to 4:30 p.m. Eastern Time. You will use a trading platform, such as Robinhood, to place your trades. You will learn to identify tradable stocks -i.e., stocks that fit our trading method, and avoid non-tradable stocks. Finally, I will introduce you to our trading checklist; the engine behind my trading and investing system.

## WHEN TO TRADE AND WHEN NOT TO TRADE

Major U.S. stock markets are only open for trading on normal business days –i.e., Monday through Friday. As far as the New York Stock Exchange (NYSE) and the Nasdaq markets are concerned, the federal government’s holiday calendar and schedule are observed, with a few exceptions.<sup>[15]</sup>

Ordinarily, traders and investors buy and sell stocks during the ‘trading session,’ that is, “a period of time consisting of one day of business in a financial market, from the opening bell to the closing bell.”<sup>[16]</sup> The regular trading session for U.S. stocks occurs between 9:30 a.m. to 4:30 p.m. Eastern Time, Monday through Friday. In addition to the regular trading session, some markets may have pre-market and after-hours trading sessions. Pre-market trading for U.S. stocks occurs between 4:00 a.m. and 9:30 a.m. Eastern Time, Monday through Friday. After-hours trading occurs between 4:00 p.m. and 8:00 p.m. Eastern Time, Monday through Friday.<sup>[17]</sup>

### *PRE-MARKET HOURS*

*Pre-market* trading sessions allow investors to trade stocks between the hours of 4:00 a.m. and 9:30 a.m. Eastern Time. You, as a novice trader, will not be trading in the pre-market and post-market sessions.

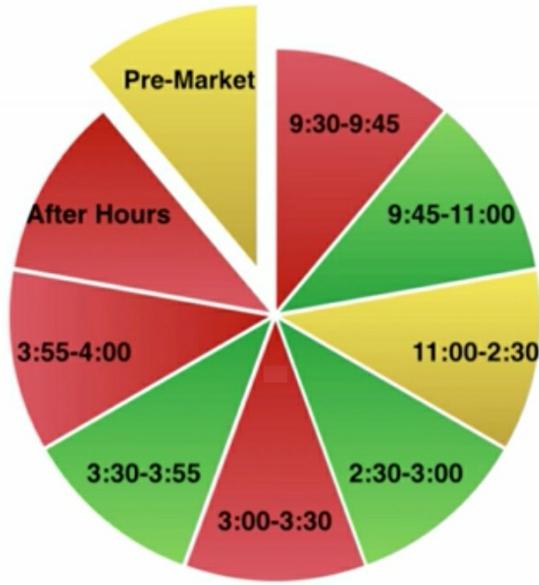
The *pre-* and *post-market* sessions are for long-time investors. Volume, the number of shares of stocks being traded, is very low during pre- and post-market hours. Therefore, the price of a given stock may vary significantly from the price range the stock trades during regular market hours. Think of it in terms of poker. If you never played poker, your first time at the table probably would not be with World Series of Poker players. The pre- and post-market hours are for ‘poker sharks’, they are highly-trained, professional traders that will eat you up in a microsecond.

Instead, we will use the pre-market hours for research. Often, news and earnings reports are released during the pre-market hours. Pre-market news sets the tone for the day for specific trading securities. You will use the pre-market hours to scan and find tradable stocks that are showing increased volume activity. You will look at the stocks in your watchlists (we will cover watchlists later in the chapter) and find stocks in your watchlist that are

showing trading activity. These are called, “morning movers.” Stocks showing trading activity after hours are called, “after-hour movers.”

### *REGULAR MARKET HOURS*

Regular market hours are 9:30 a.m. to 4:00 p.m. Eastern Time. We will trade stocks during regular market hours. However, over the course of my trading experience, I have discovered there are certain times in the regular market trading session when trading is more favorable. Below you will find a pie chart, where green slices signify the “best time to trade,” yellow slices signify “trade with caution,” and red slices signify the “worst time to trade.”



Please remember, the trading hours listed on the trading chart are in Eastern Time. Therefore, if you, like me, live in California, you will subtract three hours from each slice of the trading chart. You will not trade between 6:30 a.m. to 6:45 a.m. Pacific Time. You will look to trade between 6:45 a.m. to 9:00 a.m. Pacific Time.

The trading chart is there to help you, it is based on the meticulous data collection I keep on all my trades. Yes, some call it crazy. I call it due diligence. As you gain more experience, you will be able to determine for yourself if it is an opportune time to trade.

For now, know that trading at the opening bell, 9:30 a.m. to 9:45 a.m. Eastern Time is a risky venture. The first 15 minutes of trading are the most hectic. On a typical day, more shares trade hands in the first hour than during any other hour in the trading day.<sup>[18]</sup> Higher volume is generally good for active traders, but if you are not careful, trades can quickly move against you. The speed at which a stock's price moves at the opening bell is incredible. In a matter of minutes, a stock's price may rise and fall hundreds of percent.

Think of yourself as a first-time surfer. You walk out to the beach and see these monster waves crashing onto the shore. True, there are some smaller waves sprinkled among the giants. But you know once you are out on the water, there will be no way to predict if you will catch an "ankle buster" (i.e., waves that are too small to ride) or a "bomb" (i.e., monster wave). If you misread the conditions, you can easily get hurt (badly). Those waves are

price movement. In the morning, near the opening bell, a stock's price will rise and fall; forming ankle busters and bombs. An experienced surfer jumps into the opening bell sea because she does not worry what waves the ocean will throw at her. She will ride the waves she chooses, bypass the monsters, and surf when and how she pleases. With time, you too will surf when and how you please. Until then, stay onshore and thank your lucky stars you are not being dragged out to sea with the rip current.

Once 9:45 a.m. Eastern Time hits, you may paddle out into the ocean. Conditions are generally calmer. You will have enough time to assess a stock's price movement, run through the trading checklist, and either ride the wave or wait for a better opportunity. Most investors and traders agree, by 10:00 a.m. Eastern Time you should know whether a stock's opening price trend will hold or reverse.

### *AFTER-HOURS MARKET*

Everything we discussed about pre-market trading applies to the *after-hours* trading session. You, as a novice trader, will not trade from 4:00 p.m. to 8:00 p.m. Eastern Time. Furthermore, for the same reasons I do not want you trading near the opening bell, I would prefer if you did not trade near the closing bell, from 3:55 p.m. to 4:00 p.m. Eastern Time. When you become the Kelly Slater of investing and trading stocks, feel free to tell me and my trading pie chart to buzz off. Until then, just stick to the trading pie chart, please.

### WHERE TO TRADE

Now that we know when to trade and when not to trade, we need a place to trade. We will trade stocks through a *trading platform*. A trading platform is a software that allows traders and investors to place trades and monitor accounts through financial intermediaries. In other words, a trading platform is the “place” where you will buy and sell stocks. Once you find a stock to buy, you will enter that stock's *ticker symbol*<sup>[19]</sup> in the search bar of your trading platform. The stock will appear on your screen and you will enter the number of shares you wish to purchase. The trading platform sends your order to a broker. The broker looks at the size and availability of the order to decide which path is the best way for your order to be executed.<sup>[20]</sup>

Let's assume the broker directed your order to the floor of the stock exchange and a 'floor broker' filled your order. The floor broker will send the broker a receipt listing the name of the stock, the number of shares, and the price at which the stock was purchased. The broker sends the receipt to your trading platform which, in turn, shows you the receipt. The price at which your order was executed will likely differ from the price you saw when you placed your order. Why? Time and price movement. The time it took you to place your order, for your order to reach the broker, for the broker to reach the floor broker, and for the floor broker to finalize your purchase; the stock's price rose and fell. Stephen Chbosky famously said, "Things change. And friends leave. Life doesn't stop for anybody." Well, like life, time and price movement, "doesn't stop for anybody." All you need to know at this point is that, by law, brokers are obligated to give each of their investors the best possible order execution.

Brokers frequently offer trading platforms for free or at a discount rate in exchange for maintaining a funded account and/or making a specific number of trades per month.

When picking a trading platform, you should consider:

- *Cost per transaction:* Commissions are typically an investor's biggest cost. Many trading platforms offer transaction fees as low as \$4.95 per trade. This means you pay \$4.95 no matter how many shares are purchased or what stock is purchased.
- *Account minimums:* This is a fee some brokers charge if your account balance is below their, "minimum account balance requirement."
- *Charges for data, research, and tools:* Many online stock trading platforms have quality market data such as real-time quotes, educational resources, and stock screening tools built right into their platforms. Some platforms charge for these resources while others do not.
- *Extra costs:* There are plenty of trading platforms that boast having financial experts on-call 24 hours a day to help you make a trade. However, many do not tell you those services come with additional fees. For instance, executing a trade over the phone can increase an \$4.95 commission fee to \$25 or more.

Some popular trading platforms include: Ally Invest, E\*Trade, TD Ameritrade, OptionsHouse, Fidelity, and Robinhood. Of these options, the trading platform I use and suggest for novice traders is Robinhood. Robinhood is an app available to iOS and Android users. Robinhood is a barebones, trading platform. It does not offer research reports, extensive charts, data, analysis, or much of anything in terms of resources. However, by cutting the data, research, and tools; Robinhood is able to offer zero commission trading. That means you may buy and sell stocks on Robinhood for FREE! Because I use other websites and resources to gather relevant information on a stock, Robinhood is my trading platform of choice. If you wish to receive one FREE share of Facebook, Apple, Microsoft, General Electric, Ford, or Advanced Micro Devices stock, send me an email with your phone number, and I will send you my personal Robinhood link. You may reach me at [benjamin@kahrimanpublishing.com](mailto:benjamin@kahrimanpublishing.com).

## WHAT TO TRADE

Now that we know when and where to trade, we need to find *tradable stocks* –i.e., stocks that fit our trading method or style. Below you will see many of the resources I use to find tradable stocks. These are the websites and software I have found to be most useful and helpful over the years. No one is paying me to mention their website or software. If you find something more appealing, by all means, go right ahead. I am not very sentimental, so if you find a better resource, please email the link. Until something better comes along, we will use these resources to find tradable stocks. Robinhood lists over 5,000 stocks on its platform. The tools you pick up from this book will help you narrow your search down to just over 100 stocks. Additional scanning criterion will help reduce that number to just 10 to 12 stocks.

### *FINVIZ*

Financial Visualizations (Finviz), is a website that offers a free stock screener. A stock screener is a tool that traders and investors use to filter stocks based on user-defined metrics. You will learn to use a stock screener in chapters four and five. The site provides advanced scanners, market maps, analysis, comparative tools, and charts. There is no fee to use the website, however, they offer an “Elite Feature.” I use Finviz Elite to check my

charting and analysis. For novice traders, Finviz Elite may be very helpful as it allows you access to Finviz technicians' charting. For instance, if you want to check out Apple's stock, you simply type "Apple" in the search bar, and Apple's chart will appear with trendlines, double tops/bottoms, multiple tops/bottoms, etc., charted or drawn on the chart. Until you master charting, drawing technical lines and indicators on a chart to determine where the stock's price is moving, Finviz Elite may be a helpful tool. As of February 2018, Finviz Elite will cost you \$39.50/mo.

## *TC2000*

In my opinion, Worden's TC2000 is the best stock scanning software on the market. First, its smart scaling system makes it easy to visually compare trend strength, swing sizes, and price movement between stocks. Second, the software is incredibly user-friendly, allowing traders to mark charts, jot down notes, draw trendlines, and much more. Finally, TC2000's 2-second scanning helps you quickly find stocks based on technical parameters, candlesticks, volume, and other indicators. TC2000 is not free, it will cost you about \$15 a month. However, the benefits drastically outweigh the price tag. I strongly recommend you purchase the software; you will use it on a daily basis. We will learn to use TC2000 in chapter five.

## *NON-TRADABLE STOCKS AND TIPS*

Before we begin searching for quality stocks, we need to examine the characteristics of "non-tradable stocks" –i.e., stocks I suggest you avoid. These stocks may be too expensive, volatile, lack trading volume, etc. Whatever their flaw may be, avoid stocks that fall under any one of the categories below. Consider these tips to be your Ten Commandments of *Think, Trade, and Grow Rich!*

### **Expensive Stocks**

The first commandment of *Think, Trade, and Grow Rich!* is: Thou shall not trade *expensive stocks*. In general, I suggest you avoid trading stocks with a price value higher than \$50. One obvious reason to avoid trading expensive stocks is that you do not have the capital to purchase expensive stocks. Let's look at an example.

Imagine you have \$1,000 to invest in the stock market. You come across two stocks that meet our trading criteria. The candles, technical

criteria, and other factors indicate these stocks are bound for an upswing in price movement. Stock A costs \$100 per share. Stock B costs \$10 per share. If you were to buy Stock A, you could only purchase ten shares. If you were to buy Stock B, you could purchase 100 shares. In general, expensive stocks are less volatile and do not fluctuate several percentage points within a single trading day or even week. That means, had we bought Stock A right before its price swing up, after one week, we could hope for about a 5% increase in stock price. So, our \$100 per share investment in Stock A is now worth \$105 per share. Since we purchased ten shares of Stock A, we made a \$50 profit in one week. Not bad? Well, definitely not great either.

Stock B is a relatively inexpensive stock at \$10 per share. Inexpensive stocks may be more volatile, but they have the potential to increase 15-20 percentage points in just a few trading days. Since we will set stop losses with all our trades, we will significantly minimize the risk of losing money on the trade. Thus, had we bought Stock B right before its price swing up, after a few days, we could expect up to a 20% increase in stock price. Our \$10 per share investment in Stock B is now worth \$10.20 per share. Since we purchased 100 shares of Stock B, we made a \$200 profit in less than one week. Take it a step further. Had we purchased just 50 shares of Stock B, leaving us \$500 of our initial \$1,000 investment capital, we would have made a \$100 profit, which is \$50 more than we would have made had we invested all our investment capital in Stock A.

Not only do expensive stocks require larger pools of investment capital, and offer smaller profit margins, large brokerages and hedge funds often trade expensive stocks. In other words, you are competing in the Premier League of stock trading when you purchase expensive stocks. There is no reason to make trading and investing any harder than it already is, I suggest you stay away from expensive stocks until you become a fat cat yourself.

## Famous Stocks

The second commandment of *Think, Trade, and Grow Rich!* is: Thou shall not find fame and fortune trading famous stocks. *Famous stocks* are stocks of famous companies. Look at your phone. What brand is your phone? Do not trade their stock. Look at your car. What company makes your car? Do not trade their stock. You get the point.

Trading famous stocks from famous companies requires a lot of trading skill. You are competing against professional stock brokers, traders, and investors; the World Series of Poker sharks, the Premier League, “The Big Time.” The biggest trading firms (e.g., Goldman Sachs, JP Morgan, TD Ameritrade, etc.,) put their best traders and investors in charge of these famous stocks. Every time you trade big names like Apple (APPL), Google (GOOGL), Amazon (AMZN); you are putting your skills and money against the best traders in the world. If that sounds scary, it should. There is no reason to take such a significant risk when you can just as easily trade a lesser-known stock and (more often than not) make more money! There are hundreds, if not thousands, of smaller stocks of relatively unknown companies that can deliver huge profits in just a few days or weeks. Until you get your feet wet trading, I suggest you stay away from famous stocks.

## **Insufficient Trading Volume**

The third commandment of *Think, Trade, and Grow Rich!* is: Thou shall not trade stocks that lack sufficient *trading volume*. Trading volume is what pushed the price of a stock higher or lower. If there is little volume, there is little price movement to the upside. As a rule of thumb, I suggest you do not trade stocks that have an average trading volume of less than 300,000 shares. We will cover trading volume in chapter five when we discuss the technical criteria and analysis in our trading formula. For now, just remember to avoid stocks with insufficient trading volume.

## **Large Bid-Ask Spread**

The fourth commandment of *Think, Trade, and Grow Rich!* is: Thou shall pay attention to the *bid price* and the *ask price* before placing an order to buy a stock. We will cover bid-ask spreads in detail in chapter five.

All you need to know at this point is that the ‘bid price’ is the price buyers are willing to pay for a stock. The ‘ask price’ is the price sellers are willing to sell the stock. The ‘bid-ask spread’ is the difference between the bid price and the ask price. This is also known as ‘the spread.’ The smaller the ‘the spread,’ the smaller your cost. Therefore, I suggest you avoid stocks with a bid-ask spread larger than \$.06 per share; try to trade stocks with a bid-ask spread between \$.01 and \$.05.

## **Underperforming Sector and Industry**

The fifth commandment of *Think, Trade, and Grow Rich!* is: Thou shall check a stock's *sector* and *industry performance* prior to purchasing the stock. A sector is an area of the economy in which businesses share the same or a related product or service. Investors use sectors to place stocks and other investments into subcategories such as technology, healthcare, energy, utilities, and telecommunications.<sup>[21]</sup> Industry groups are a classification method for individual stocks or companies, usually grouped based on common lines of business. Most of the companies within one industry group tend to rise and fall as a whole. By knowing the trends in place within an industry group, traders can better understand the investment potential of the companies within that group.<sup>[22]</sup>

Broadly speaking, trading is a game of probability. Therefore, you want the odds to be in your favor before you enter a trade. If you are planning to trade a stock, you should first check that stock's sector or industry performance. If the stock's sector is performing poorly and generating losses, approximately 80% of the stocks related to that particular sector will be performing poorly. If the stock's sector is performing well, approximately 80% of the stocks related to that sector will be performing well. Picking stocks belonging to sectors and industries that are outperforming the market as a whole increases your odds of completing a successful trade. If you are planning to buy and hold a stock, I suggest you buy stocks that belong to sectors that are in an uptrend –i.e., price movement is trending up.

The major sectors you should keep an eye on include:

- Materials
- Energy
- Financial
- Industrials
- Technology
- Consumer Staples
- Utilities
- Consumer Discretionary
- Health Care

## Runaway Stock Trains

The sixth commandment of *Think, Trade, and Grow Rich!* is: Thou

shall not chase trades; the market will be there tomorrow. A common mistake among novice traders is that they find a stock that matches their trading strategy, and, for whatever reason, wait (or fail) to buy the stock. Instead, they chase the stock and its rising price and buy once the price swing up is completed. I get it, there is nothing quite as annoying as watching a stock you knew was about to go up in price, move up without you. Unfortunately, the point at which you bought the stock is also the point at which those who bought the stock at the beginning of the upswing, sell and take profit. Consequently, the price of the stock plummets, taking you down with it. Early buyers cash in while late buyers cash out.

How can we avoid chasing runaway stock trains? Whenever you feel out of your comfort zone because the price of a stock seems too high, ask yourself these questions: Is it too late to get into this position? Had I bought the stock at the beginning of its price swing, would I sell now or wait and let it go higher? If the answer to the second question is you would wait and let the price go higher, then the stock might not be done running. If the stock fits our trading strategy and you see more upside potential, pull the trigger, and buy the stock. On the other hand, if your answer to the second question is to sell and take profit, then it makes little sense to buy the stock. Wait until the stock completes its downswing or simply find another stock that fits our trading strategy. Remember, if you miss the stock train, do not chase it. The stock train runs on a roundtrip schedule; it will come back to your price station. Candlesticks and technical analysis are fantastic trading tools that will help you time your trades, allowing you to ride the stock train up, but not down.

## Psychological Price Levels

The seventh commandment of *Think, Trade, and Grow Rich!* is: Thou shall be mindful of *significant price levels*. Stock prices at whole, round numbers often act as support and resistance. Support or support level refers to the price level below which, historically, a stock has had difficulty falling.<sup>[23]</sup> Resistance or resistance level refers to the price point above which, historically, a stock has had difficulty breaking.<sup>[24]</sup> We will cover support and resistance in detail in chapters four and five. Significant price levels to be mindful of include: \$10, \$20, \$40, \$50, \$60, \$75, \$100. Furthermore, strong price levels for individual stocks can be found at multiples of \$50 and \$100 – e.g., \$50, \$100, \$150, \$200, \$250, \$300...\$500, \$1,000, etc.

Once you find a stock that meets our trading criteria, make sure its *share price* is not near a significant price level. If the stock price is near a significant price level, wait until the stock breaks through the price level before you purchase any shares.

## Penny Stocks

The eighth commandment of *Think, Trade, and Grow Rich!* is: Thou shall not trade *penny stocks*. A penny stock typically trades at a relatively low price and has a small market capitalization. We will cover market capitalization in chapter five. For now, you just need to know that penny stocks are more or less stocks that trade below \$5 per share.

The main reason you should avoid penny stocks is that they are targeted by ‘pump and dump’ traders. ‘Pump and dump’ is a scheme that attempts to boost the price of a stock through recommendations based on false, misleading, or greatly exaggerated statements. The *pump and dump* trader will establish her position in a stock, “pump” the stock up by hyping the stock up on websites and forums, and sell her position after the hype has led to a higher share price. Once the ‘pump and dump’ trader sells her shares, the price of the stock plummets, leaving duped traders and investors with major losses. Traders that claim a stock is about to break out should be greeted with skepticism and treated with extreme caution. Always do your own homework on a stock before listening to others’ claims and making an investment.

## Fear and Loathing

The ninth commandment of *Think, Trade, and Grow Rich!* is: Thou shall not fear what thou cannot see, thou shall not loathe what is not real. I am talking about panic selling. Panic selling is owning a stock and selling it simply because everyone else seems to be selling. Markets pullback as geopolitics cause our notoriously frightful stock market to plummet, and you sell your Amazon stock (NYSE: AMZN) after it reports better than expected earnings and revenue. Why? Did you read, see, or hear something negative about the company that would suggest the price of the stock will more than likely drop? That would give you reason to fear a price decline and therefore force your hand to sell? If you find yourself on the brink of selling a good company’s stock for no other reason than, “everyone seems to be selling, I think the stock market is going to crash.” Stop and think about this: You met

the man/woman of your dreams. You have been together for 15 years now, and, somehow, he/she exceeds your wildest expectations month-after-month. They are everything you hoped for in a partner. You went to bed last night thinking, “he/she makes me happier by the minute.” You woke up this morning, turned the news on, and heard, “the divorce rate in the United States is somewhere between 40 to 50 percent.” You walk straight to your closet, pack your bag, Heisman trophy stiff-arm your better half, and hit the road, never to see or talk to him/her again. Why? Ha! Why because you heard on the news that everyone seems to be getting a divorce and the idea of love itself is on the brink of collapse.

There are more lumps of coal than diamonds in the world, should you somehow get your hands on a diamond, you better treat it like the diamond it is, for if you mistake it for coal, you will only have yourself to loathe.

For those of you considering investing, as opposed to trading stocks, you should know that stock markets trade in cycles. What does that have to do with you? Well, it means you have to watch the calendar at particular times. Since 1950, most of the stock market gains have occurred in the November to April timeframe, while during the May to October period, the averages have been relatively static. Cycles can be used to traders’ advantage to determine good times to enter into long positions. Put simply, consider buying from May to October and selling from November to April.

## Earnings Surprise Surprises

The tenth commandment of *Think, Trade, and Grow Rich!* is: Because thou are a stock trader and not a stock gambler; thou shall not gamble on earnings reports. Before most companies *report* their quarterly financial results, stock market analysts predict *EPS* (earnings per share) for the quarter based on the company’s guidance and other factors. If a company *beats* the *projected earnings*, its stock price will usually go up. However, if a company fails to meet projected earnings, its stock price will most likely decline. [\[25\]](#)

It is not unusual for a company to see its stock price increase dramatically, sometimes in a matter of minutes, after reporting a strong ‘beat.’ This causes some traders to buy a company’s stock right before its earnings report, praying the company reports better than projected earnings;

driving the price of the stock even higher. You are learning to trade and invest, do not buy a stock right before its earnings report just because you hope it tops projected earnings. If you want to gamble, go to Las Vegas. If you happen to own a stock, a quality stock, and its earnings report is approaching, I suggest you sell at least half of your position. Take some profit. If the company tops its projected earnings, great! You made more money. If the company reports less than projected earnings, the profit you made from selling at least half your shares before the earnings report will most likely offset any losses you incur after the earnings report miss.

## TRADABLE STOCKS: OUR TRADING STRATEGY & PERFORMANCE INDICATORS

Now that we have an idea of what kind of stocks to avoid, let's take a look at the factors that will help us find tradable, profitable stocks. You will find our trading checklist on the pages below. If you wish to print a copy of the checklist, please visit [www.kahrimanventures.com](http://www.kahrimanventures.com), [www.kahrimanpublishing.com](http://www.kahrimanpublishing.com), or send me an email at [benjamin@kahrimanpublishing.com](mailto:benjamin@kahrimanpublishing.com). You will find a PDF copy of the checklist under the resources tab. Refer to the checklist as you progress through the book.

Thirteen factors, taken together, will dictate 90-95% of our trades. By the end of *Think, Trade, and Grow Rich!* you will be able to identify, categorize, and use these indicators in a manner that will guide you through every trade and investment; maximizing your profits and minimizing your risk.

# KAHRIMAN VENTURES' TRADING CHECKLIST

- |      |                                |          |
|------|--------------------------------|----------|
| I.   | <b>Trend</b>                   | [#/5]    |
|      | a. Short-term                  | 1        |
|      | b. Primary                     | 2        |
|      | c. Long-term                   | 2        |
|      | d. Score                       |          |
| II.  | <b>Candlestick</b>             | [#/8]    |
|      | a. Performance                 | 5        |
|      | b. Frequency                   | 3        |
|      | c. Score                       |          |
| III. | <b>Volume</b>                  | [#/8]    |
|      | a. Average                     | 1        |
|      | b. Above Average               | 6        |
|      | c. Increasing                  | 1        |
|      | d. Decreasing                  |          |
|      | e. Score                       |          |
| IV.  | <b>Moving Averages</b>         | [#/2.25] |
|      | a. SMA 5-day                   | ½        |
|      | b. EMA 8-day                   | ¼        |
|      | c. SMA 20-day                  | ¼        |
|      | d. EMA 34-day                  | ¼        |
|      | e. SMA 50-day                  | ½        |
|      | f. SMA 200-day                 | ¼        |
|      | g. Bonus Point                 | ¼        |
|      | h. Score                       |          |
| V.   | <b>Stochastics</b>             | [#/2]    |
|      | a. Overbought                  | 0        |
|      | b. Oversold                    | 2        |
|      | c. Score                       |          |
| VI.  | <b>Money Flow</b>              | [#/3]    |
|      | a. Value                       |          |
| VII. | <b>Relative Strength Index</b> | [#/2]    |
|      | a. Value                       |          |

- VIII. ***Sector Performance*** [#/4]
- a. Day 1
  - b. Week 1
  - c. Month 1
  - d. Quarter 1
  - e. Score
- IX. ***Analyst Rating/\$ Target*** [#/3]
- a. Rating 2
  - b. Price Target 1
  - c. Score
- X. ***Stock Performance*** [#/6.5]
- a. Week  $\frac{1}{2}$
  - b. Month 2
  - c. Quarter 2
  - d. YTD 2
  - e. Score
- XI. ***Support & Resistance*** [#/4]
- a. Resistance Levels 2
  - b. Support Levels 2
  - c. Score
- XII. ***News*** [#/2]
- a. Insider Buying/Selling 1
  - b. News 1
  - c. Score
- XIII. ***Earnings Report*** [#/1.5]
- a. Earnings Date  $\frac{1}{2}$
  - b. Expected Earnings  $\frac{1}{2}$
  - c. Expected Revenue  $\frac{1}{2}$
  - d. Score
- XIV. ***Final Score & Comments*** [#/52]
- a. Bonus (.75)
  - b. Score [ X / 52 ]
  - c. Rating [A+, A, A-, etc.,]

<b><i>Letter Grade</i></b>	<b><i>Point Range</i></b>
A+	52 - 48

<b>A</b>	47.99 - 44
<b>A-</b>	43.99 - 40
<b>B+</b>	39.99 - 36
<b>B</b>	35.99 - 32
<b>B-</b>	31.99 - 28
<b>C+</b>	27.99 - 24
<b>C</b>	23.99 - 20
<b>C-</b>	19.99 - 16
<b>D+</b>	15.99 - 12
<b>D</b>	11.99 - 8
<b>D-</b>	7.99 - 4
<b>F</b>	3.99 - 0

- d. Comments
- e. Strategy

In the following chapter, we will discuss trends and trendlines. If a stock is trending lower, making “lower highs and lower lows,” we stay away from the stock. If the stock is trending higher, making, “higher highs and higher lows,” we will reference our checklist and evaluate all relevant factors before pulling the trigger and making the trade. Once we define the direction a stock is trending, we look for a bullish candlestick pattern. The candlestick pattern will be the most decisive factor in determining whether to trade a stock. However, before we look for candlestick patterns, we must find stock charts with proper trends and trendlines. The journey to financial freedom begins with the trend.

## CHAPTER 2 RECAP

1. ***When to trade:***
  - a. The regular trading session for U.S. stocks occurs between 9:30 a.m. to 4:30 p.m. Eastern Time, Monday through Friday.
  - b. The *pre-market* trading session allows investors to trade stocks between the hours of 4:00 a.m. and 9:30 a.m. Eastern Time.
  - c. *The after-hours* trading session allows investors to trade stocks between 4:00 p.m. to 8:00 p.n. Eastern Time.
2. ***Where to trade:***
  - a. We will trade stocks through a *trading platform*. A trading platform is a software that allows traders and investors to place trades and monitor accounts through financial intermediaries.
  - b. Some popular trading platforms include: Ally Invest, E\*Trade, TD Ameritrade, OptionsHouse, Fidelity, and Robinhood.
3. ***What to trade:***
  - a. We need to find *tradable stocks* –i.e., stocks that fit our trading method or style.
  - b. Out of 5,000+ stocks, the trading checklist will help you single out 10 to 12 *tradable stocks* -i.e., low-risk stocks with high-profit potential.
  - c. Financial Visualizations (Finviz), is a website that offers a free stock screener. A stock screener is a tool that traders and investors use to filter stocks based on user-defined metrics.
  - d. TC2000 is a popular and user-friendly stock scanning software that helps traders visually compare trend strength, swing sizes, and price movement between stocks.
  - e. Avoid *non-tradable stocks*, including:

- i. Expensive Stocks
  - ii. Famous Stocks
  - iii. Stocks with insufficient trading volume
  - iv. Stocks with a large bid-ask spread
  - v. Stocks in underperforming sectors and industries
  - vi. Runaway stock trains
  - vii. Stocks at or near significant, psychological price levels
  - viii. Penny stocks
- f. Tips on what NOT to do:
- i. Fear and loathing
  - ii. Earnings surprise surprises

**4. *Our Trading Strategy/Checklist:***

- a. Trend
- b. Candlestick
- c. Volume
- d. Moving Averages
- e. Stochastics
- f. Money flow
- g. Relative strength index
- h. Sector performance
- i. Analyst rating
- j. Price Target
- k. Performance
- l. Resistance and Support
- m. News
- n. Earnings Report

# CHAPTER 3

## TRENDLINES, TREND STAGES, AND GAPS

出る釘は打たれる

*The nail that sticks out gets hammered down.*

As a momentum swing trader, your goal is to profit from a stock's price moving higher and higher in a steady trend over a certain period of time. How do we determine if stock price is making *higher highs* and *higher lows*? We look at the *pivot points*. If the pivot points are gradually rising, the stock is following a *bullish uptrend* or just 'uptrend.'. We want to trade stocks that are in a bullish uptrend because the price is moving higher and higher. If the pivot points are gradually descending, the stock is following a *bearish downtrend* or just 'downtrend.' We will avoid trading stocks that are in a bearish downtrend. If we own the stock and it begins a bearish downtrend, we will sell and take profit. Most traders scour the market for stocks that are in a bullish uptrend. Once they find those stocks, they wait. They wait and look for any weakness in the ride up, that is, they look for stock price to pullback a bit, purchase the stock, and ride the bullish, uptrend wave up to profit-ville. In this chapter, we will take an in depth look at all the above terms and concepts. By the end of the chapter, you will know how to draw trendlines, trends, trend stages, and gaps.

## TRENDLINES

This subchapter examines the parts that make a *trendline*. We will learn to identify and use pivot points, *trends*, trendlines, and *trend stages* to our advantage. We will look to buy when a stock is in an uptrend and sell when it is in a downtrend.

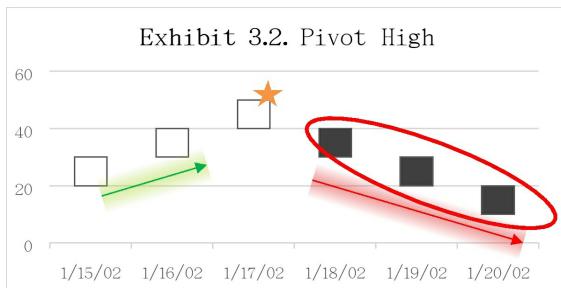
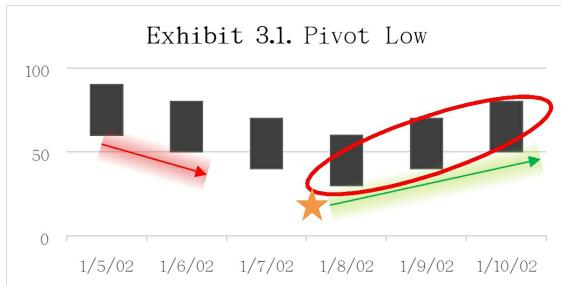
Trendlines are extremely important. Technically speaking, trendlines are lines that we draw through or near the highest and lowest points of a stock's price chart. Take a look at the figure below. The blue lines with arrows are trendlines.



Think of trendlines as the tide. If you are in the ocean and need to swim to shore, you want the tide to push you towards the shore. If the tide is pushing against you, you will be pulled out to sea. Same thing with trendlines. If the trendline is bearish and you enter the trade, you will be pulled out to sea. If the trendline is bullish and you enter the trade, your odds of reaching the shore increase exponentially. Swim with the tide, not against the tide.

## *PIVOT POINTS*

A pivot point is just a change in the direction of a stock's price movement. If the price of a stock is going down and it suddenly changes direction, moving up; you have a pivot point. Same thing in the inverse. If the price of a stock is going up and it suddenly changes direction, moving down; you have a pivot point. The gold stars in Exhibit 3.1 and 3.2 represent pivot points.



The pivot point is the highest candle of the pivot point or the lowest candle of the pivot low. The pivot low forms when a stock has been trading downward, and then pivots and begins to trade upward. Exhibit 3.1 shows a classic pivot low. Three candles form a pivot low. There must be a candle to the upper left and upper right of the pivot low candle. On a candlestick chart, pivot lows look like valley lows.

The pivot high forms when a stock has been trading upward, then pivots and begins to trade downward. Exhibit 3.2 shows a classic pivot high. There must be a candle to the lower left and lower right of the pivot high candle. On a candlestick chart, you will notice pivot highs look like mountain peaks.

## *BULLISH UPTREND*

An uptrend market is defined by the price of stocks moving in a general upward direction.<sup>[26]</sup> To determine which direction a stock is trending,

we chart the stock's pivot points. In an uptrend market, the trend is often marked by a stock's price making higher pivot highs and higher pivot lows. Let's look at an example.

### Exhibit 3.3. Pivot Highs & Pivot Lows Example



Exhibit 3.3 shows a three-month candlestick chart for Google (NASDAQ:GOOG). We find the first pivot high in mid/late November 2017. Mark the candle by writing “PH #1” above it. Google’s stock price suddenly drops after “PH #1” and hits a bottom in early December 2017. The lowest candle, marked “PL #1,” is the pivot low. After “PL #1,” Google’s stock price rises gradually, creating a mountain peak in mid-December 2017. We mark that peak, or pivot high, as “PH #2.” The stock price plummets after “PH #2,” and creates a valley bottom in late December 2017/early January 2018. The tiny, red candle is the pivot low. Mark it as, “PL #2”. Google’s stock lifts off after “PL #2” and creates a series of mountain peaks in late January 2018. Mark the highest candle as, “PH #3” our third pivot high. Soon after, the stock price declines just a smidge, creating our third pivot low, “PL #3”.

Notice how the pivot highs and pivot lows gradually climb up the chart. “PH #3” is higher than “PH #2” which is higher than “PH #1”. Same with the pivot lows. “PL #3” is higher than “PL #2” which is higher than “PL #1”. Let’s draw some arrows through or near the pivot highs and pivot lows.

### Exhibit 3.4. Bullish Uptrend



Exhibit 3.4 reminds us of a valuable lesson, “charting is an art, not a science.” Accordingly, your arrows do not need to pierce every pivot high and pivot low. The arrows should run in the general direction of the pivot highs and pivot lows. The arrow running through and along the pivot highs is the upper trendline. The arrow running through and along the pivot lows is the lower trendline. A *trendline* is merely a line we draw on the candlestick chart depicting the general direction in which the stock is headed.<sup>[27]</sup> Since the upper and lower trendline arrows are pointing up, we can confidently say Google’s stock is in a bullish uptrend. Our pivot highs and pivot lows are moving higher and higher up the chart; meaning share price is increasing. Since the stock is in a bullish uptrend, we may continue our evaluation process by proceeding to the next factor on our checklist.

### *BEARISH DOWNTREND*

So far you should know that we may trade stocks that are in a bullish uptrend and should avoid stocks that are in a bearish downtrend. How do we know if a stock is in a bearish downtrend? Let’s take a look at General Electric’s (NYSE: GE) stock.

### Exhibit 3.5. Pivot Highs & Pivot Lows Example #2



Exhibit 3.5 shows a six-month candlestick chart for General Electric's stock. The first pivot high occurs in mid/late October 2017. Notice how the pivot high candle ("PH #1") is flanked by a lower, green candle to its left and a lower, red candle to its right. From "PH #1," General Electric's stock price plummets to a red, hammer-looking candle, marked "PL #1." The stock price recovers a slight bit and hits a peak at "PH #2." Suddenly, the stock price plummets creating a bottom at "PL #2." Notice the higher, red candles to the left and right of "PL #2." General Electric's stock price trades sideways for about a month and shoots up a couple of floors to create "PH #3." Again, notice how the green and red candles to the left and right of "PH #3" are lower. The stock price falls again, creating a bottom at "PL #3." The stock price rebounds just a bit, but suddenly drops, creating "PH #4." Finally, the stock price resumes its downward spiral, creating a bottom around "PL #4."

To determine which direction the stock is trending, we need to chart arrows through or along our pivot highs and pivot lows. Again, we are roughly plotting these arrows to gauge the general direction of General Electric's stock price.

### Exhibit 3.6. Bearish Downtrend



The arrow running

through and along the pivot highs is our upper trendline. The arrow running through and along the pivot lows is our lower trendline. Notice how the arrows are pointing downwards. This means that General Electric's stock price is trending lower and lower. The stock is in a bearish downtrend. Stay away. Remember what I said about swimming against the tide? Well, trading General Electric's stock, while it is in a bearish downtrend, is the same as swimming against the tide. You will be pulled out to sea, and nothing good happens in open water.

Before we continue, take a look at the pivot highs and pivot lows in Exhibit 3.6. General Electric's stock price is in a bullish downtrend. That we know. Take a look at "PH# 1," "PL #1," and "PH #2." Notice the breadth of the downward price movement. General Electric's stock price dropped about \$4 from "PH #1" to "PL #1." However, the stock price climbed to within a dollar of "PL #1" to "PH #2." Roughly speaking, for every four-dollar dip in stock price, General Electric's stock jumps back up a measly dollar. Think of it in terms of stairs. For every one step General Electric takes up a flight of stairs, it turns around and takes four steps down the flight of stairs. The downward change in General Electric's stock price is significantly higher than the upward change in stock price. This is a common, telltale sign the stock is in a bearish downtrend. The inverse is true for bullish uptrends. Take a look at Exhibit 3.4. Google's stock price takes large, sweeping steps up, and miniature, partial steps down. The breadth of the upward price movement supports our conclusion that Google's stock is in a bullish uptrend.

## SIDEWAYS TRADING

A *sideways trend* is the horizontal price movement that occurs when buying and selling demand are nearly equal.<sup>[28]</sup> Often, sideways trading occurs during a period of consolidation before share price continues with a previous trend or reverses into a new trend.<sup>[29]</sup>

### Exhibit 3.7. Sideways Trend Pivot Highs & Pivot Lows



Exhibit 3.7 shows the stock price of Athersys, Inc. (NASDAQ: ATHX) over a seven-month period. The first pivot high occurs in late October/early November 2017. The first pivot low forms mid-December 2017. Soon after, the second pivot high forms at or about the same price level as the first pivot high. The second pivot low falls considerably below the first pivot low. In early/mid-March 2017, share price stalls near the same price levels as the first and second pivot highs. The third pivot low develops near the same price level as the first pivot low. Finally, the fourth pivot high materializes at or near the same price level as the previous highs. Excluding the second pivot low, most of the pivot highs and lows fall within two narrow price levels -\$2.10 and \$1.65. As charting is an art, not a science, we may safely conclude Athersys Inc.'s stock is trading sideways.

## TREND STAGES

Stocks are limited in their mobility. They can only move in three

directions: up, down, or sideways. The examples above helped us gauge the direction Google, General Electric, and Athersys, Inc.'s stock price was moving over the span of several months. A three-month candlestick chart of Google's stock price indicated the stock was in a bullish uptrend. A six-month candlestick chart of GE's stock price indicated GE was in a bearish downtrend. A seven-month candlestick chart of Athersys, Inc.'s stock price suggested ATHX is in a sideways trend.

As momentum swing traders, we look to profit from stock price moving in a steady trend over a certain period of time. The general direction in which stock price is trending is also classified by the length of time during which a trend develops. Trends are defined in terms of time: long-term, intermediate, and short-term. A month may seem like an eternity to the day trader, however, it is nothing more than a blink of an eye to the value and growth investor.

What if we used a one-month candlestick chart? How about a one-year candlestick chart? Since the six-month candlestick chart indicated General Electric is in a bearish downtrend, does that automatically mean General Electric's one-month or one-year candlestick charts will also depict a bearish downtrend? Not necessarily. The classification of a stock's price movement –i.e., bullish uptrend, bearish downtrend, or sideways trading– may vary based on the candlestick chart we choose to look at.

As momentum swing traders, we will look at a stock's price movement from the short-term, intermediate, and long-term perspectives. The short-term trend generally encompasses a stock's price movement for the last month. The intermediate trend looks at a stock's price movement for the previous 1-3 months. The long-term trend covers a stock's price movement over the previous year. Momentum swing traders primarily focus on a stock's price movement for the previous three months –i.e., the intermediate trend.

### *SHORT-TERM TREND*

Picture the ocean with the tides moving the entire ocean on and off the shore. The waves, working together to move the tide in whichever way it pleases. Water ripples, tiny waves generated due to wind friction or vibrations, dance among the waves. The tide is the *long-term trend*. The waves are the *intermediate trend*. Water ripples are the *short-term trend*;

tracking a stock's price movement for the last month or so.

As momentum swing traders, 90% of our attention goes to the *intermediate, primary trend*. A general rule is that the longer the time frame, the more reliable the signals being given. If the price of 'Stock A' steadily increased over the last year but declined the past two weeks; you should be inclined to buy 'Stock A.' Why? Because the long-term trend –i.e., price of 'Stock A'- more-or-less rose up for an entire year. 'Stock A' proved its worth; it kicked butt for an entire year! Yes, 'Stock A' slacked off a bit for a week or two –i.e., short-term decline in 'Stock A' price- but does that really erase its track record of success? Of course not.

Clearly, we do not consult the short-term trend for advice on *whether* to buy a stock; we consult the short-term trend on *when* to buy a stock. The more powerful trend, or *primary* trend, we look at, is the intermediate trend. If the intermediate trend shows us a pattern of success; then, and only then, do we look at the short-term trend to time our entry and exit –i.e., when to buy and sell.

Exhibit 3.8 is an example of a short-term trend; depicting the share price movement of BlackBerry (NYSE: BB) over the course of a month or so. In early/mid-January 2018, BlackBerry stock was priced at about \$14.50. From there, BlackBerry's share price steadily declined, reaching its lowest point in early/mid-February 2018. Although BlackBerry's share price increased from about \$11.50 in early/mid-February 2018 to \$12.55 on February 23, 2018, the short-term trend remains bearish, a short-term downtrend. If we drew a line through or along the pivot highs and pivot lows from early/mid-January 2018 to February 23, 2018, the trendlines would point down; depicting a gradual decline in price.

### **Exhibit 3.8. Short-Term Trend Example**



### **INTERMEDIATE TREND**

The *intermediate trend* or *primary trend* looks at a stock's *price movement* over the course of one to three months. Momentum swing traders are said to, "trade in the direction of the intermediate trend." That is, if they own a stock and the intermediate trend turns bearish; momentum swing traders sell the stock. If the intermediate trend of a stock is bullish; momentum swing traders consider buying the stock. We consult the intermediate trend for advice on whether to buy or sell a stock. Let's look at an example.

### **Exhibit 3.9-1. Intermediate Trend Example**



Exhibit 3.9-1 is a candlestick chart of Boeing (NYSE: BA) share price movement over the course of a few months. Share price gradually rises, trading horizontally from early October 2017 to late November 2017. In early December 2017, Boeing pours some jet fuel in its tank and its share price skyrockets to \$270 on December 4, 2017; reaching cruising altitude of about \$340 on January 16, 2018. I couldn't help myself, sorry. Nonetheless, if we drew a line through or along the pivot highs and pivot lows, from early October 2017 to February 23, 2018, the trendlines point up; depicting a gradual incline in price. Thus, Exhibit 3.9-1 is not only a textbook example of an intermediate trend; it is a textbook example of the kind of stocks we want to trade –stocks in an intermediate and long-term, bullish uptrend.

Intermediate trends are made of steady price movements reflecting the direction of the trend as well as several short-term trends; often moving in the opposite direction of the primary trend. These movements in the opposite direction of the primary or intermediate trend are called consolidations, corrections, and pullbacks.<sup>[30]</sup> Take another look at Boeing's candlestick chart in Exhibit 3.9-2.

### **Exhibit 3.9-2. Intermediate Trend Example**



Notice the dips sprinkled within the long, gradual rise in price? There is an almost rhythmic set of price declines from October 2017 to December 2017. We see a more dramatic drop in price in January and February of 2018. Considering Boeing's chart is riddled with these “mini bearish trends,” how do we conclude Boeing is in a bullish, intermediate trend? Well, because size does matter. Remember my spiel on ‘Stock A’ and its ‘track record of success.’ The “mini, bearish trends,” sprinkled in the chart are just that; ‘mini.’ Accordingly, they deserve a “mini-mum” amount of your attention. Instead, 90% of our attention goes to the intermediate, primary trend, and in Boeing’s case, that intermediate, primary trend is a momentum, swing trader’s bullish dream.

### **Exhibit 3.9-3. Intermediate Trend Example**



## LONG-TERM TREND

Although the intermediate, primary trend garners most of our attention, we must not turn our back on the *long-term trend*. The long-term trend covers a stock's price movement over the course of a year, or longer. Traders may track that price movement in daily, weekly, or monthly intervals. I suggest you break the long-term trend down into weekly, and then daily intervals. I think pictures, not words, will better convey the importance of the long-term trend. So, take a look at Exhibit 3.10.

**Exhibit 3.10.** Long-Term Trend Example



Exhibit 3.10 is a candlestick chart of Sturm Ruger (NYSE: RGR) share price movement over a year or so. I broke the price movement down to weekly intervals, meaning each candle represents Sturm Ruger's price movement for one week. Our first pivot low is around late January/early February 2016. The second pivot low is in November 2016, and the third pivot low is mid/late August 2017. We draw a line through or near the pivot lows, and we get a downward sloping, lower trendline.

Our first pivot high is in early March 2016. The second pivot high formed in mid-June 2017. We do not see a third pivot high because our chart stops at the third pivot low. However, if you would recall, we only need two pivot highs to draw a trendline. We can make do without a third pivot high. Therefore, we draw a line through or near the pivot highs, and we get a downward sloping, upper trendline. Because the upper and lower trendlines slope down, we conclude Sturm Ruger's stock is in a bearish, long-term downtrend.

Trading a stock in a long-term, downtrend is like walking a tightrope between two skyscrapers without any safety mechanism to prevent you from torpedoing the pavement fifty stories below. Until you become a first-team, all-universe, professional trader; I suggest you avoid trading stocks that are in a long-term, downtrend. Let me paint this picture for you.

### Exhibit 3.11. Long-Term Trend Example



Exhibit 3.11 is a candlestick chart of Sturm Ruger's share price movement over a year or so. I took the candlestick chart we used in Exhibit 3.10 and simply broke it down into daily intervals so that I can warn you against trading stocks in a long-term, downtrend; even when the intermediate trend is bullish.

In Exhibit 3.11, we see a bearish, intermediate downtrend (marked on the chart as “#1 Intermediate Trend [Bearish]”) from late December 2016 to early March 2017. Since we do not trade bearish, intermediate downtrends; we move on. A few weeks later, in early April 2017, we notice the share price of Sturm Ruger gradually increasing (marked on the chart as “#2 Intermediate Trend [Bullish]”). Let’s take a closer look at this bullish price movement.

### Exhibit 3.12. Long-Term Trend Example

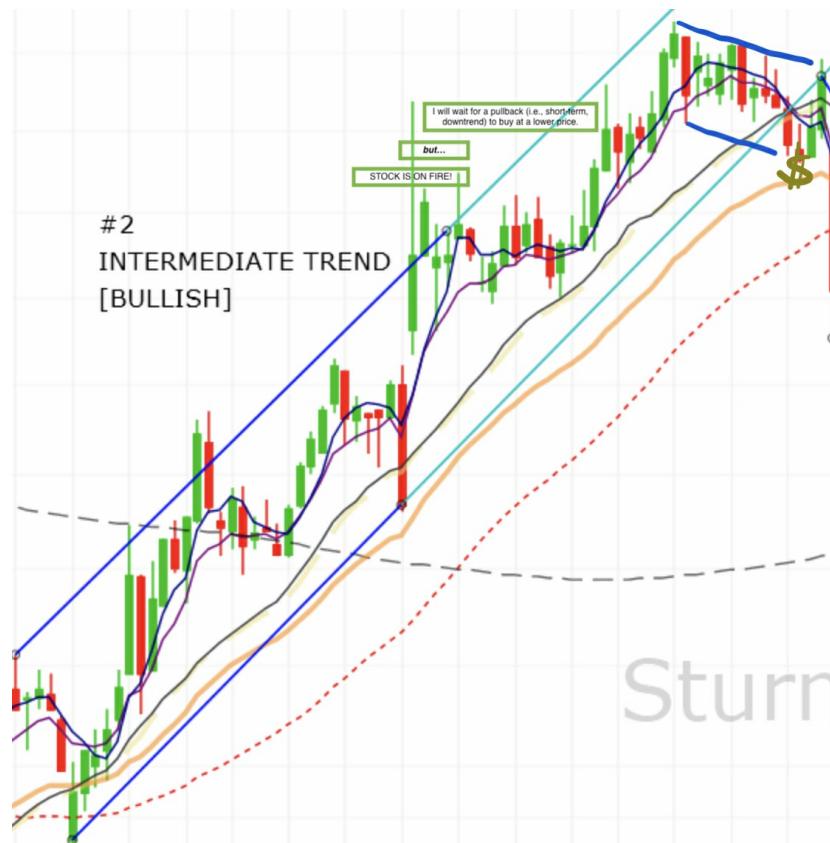


Exhibit 3.12 provides us a closer look at the April 2017 intermediate uptrend we found in the long-term candlestick chart. We see the share price increase, eventually leaping up (known as, ‘gap up’) midway through the chart. At this point, you are tempted to buy the stock as it has run up in price for a couple of weeks now. However, as experienced traders, you know better than to chase stock price.

So, you wait for a short-term pullback in share price before you buy. You get that short-term pullback at the top of the chart (marked by two, slightly downward sloping lines). A bullish candle formation forms at the bottom of the short-term pullback (denoted by a gold ‘dollar sign’) and you buy the stock. I would not blame you for buying the stock; the intermediate trend is bullish, you did not chase the share price up, you waited for a pullback, and bought shares once a juicy, bullish candlestick formation formed. But, and it is a big ‘but,’ you did not pay attention to the long-term trend. So, what happens after you buy the stock?

### Exhibit 3.13. Long-Term Trend Example



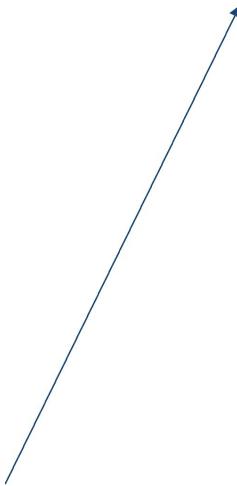
Exhibit 3.13 is what happens. A couple of days after you bought shares of Sturm Ruger, a bearish, intermediate downtrend formed and sent the stock plummeting below the last pivot low. Should you be shocked? No! Of course not, the long-term trend told you the stock is heading lower. It may take a day, weeks, maybe even months, but, rest assured; the stock is headed down and taking you with it should you buy shares.

Like I said, as momentum swing traders, most of our attention goes to the intermediate trend. That does not mean we ignore the long-term trend. By ‘most’ I mean, most of your time will be spent looking at and analyzing intermediate trends. You will spend five minutes looking at the long-term trend, and that is only to see if it is bullish, bearish, or trendless. In those five minutes, you will mark the pivot highs and pivot lows for the long-term trend and draw your upper and lower trendlines. If the trendlines are anything but bullish uptrends, you will move on to another stock.

The long-term trend will take little of your time, but it deserves a lot of your

respect because it carries a veto vote. If the long-term trend is bearish or even trendless, that means the long-term trend just vetoed your proposal to analyze further and potentially purchase the stock. Should you try to overrule the long-term trend, you, my friend, are in for a world of pain. And, trust me, it is not the ‘fun’ kind of pain. Get your mind out of the gutter.

### Exhibit 3.14. Long-Term Trend Example



## CHAPTER 3 RECAP

In Chapter 3 we learned about pivot points –i.e., highs and lows-, trends, trendlines, and trend stages. The way I learn new concepts is by analogizing them to subjects and topics I nerd out about. I hope you are a history buff like myself, because we are going back in time to The Battle of Britain in WWII.



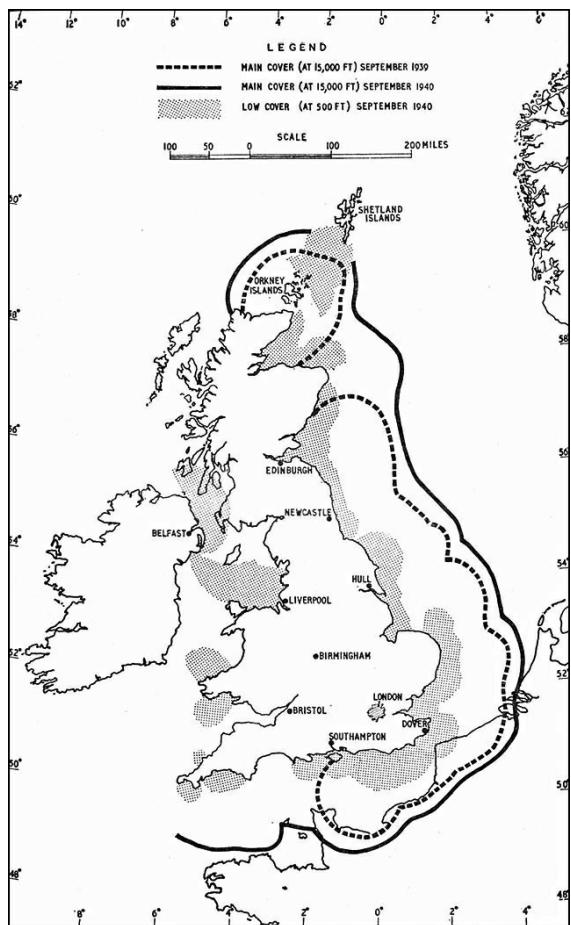
You are a four-star general in the Royal Air Force (RAF) defending the UK against the German Luftwaffe (German Air Force). The Germans are conducting a mass air raid, “The Blitz,” against British industrial targets, towns and cities.



You are outnumbered, under-resourced, and morale is low. Your only chance of saving Britain is to ambush the Luftwaffe bombers on their next air raid. In your arsenal is the Supermarine Spitfire, a single-seat fighter aircraft fast enough to outmaneuver the German bombers; yet strong enough to shoot them down with its .303 caliber machine guns.



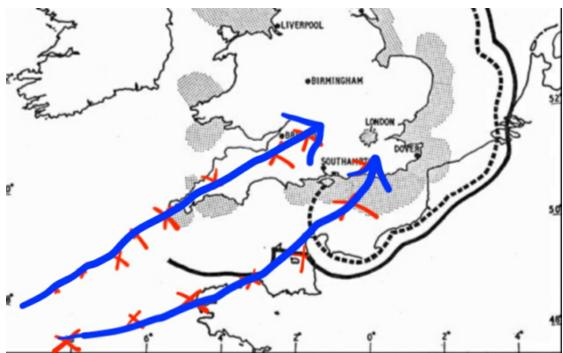
The element of surprise is imperative. You need to figure out where the Luftwaffe will be before they get there. Before you is a map of Britain (i.e., candlestick chart).



The best way to predict the future is to reference the past. So, you mark the Luftwaffe's previous air raid targets (i.e., pivot highs and pivot lows) on the map with an X.



You notice the Xs roughly align to two parallel lines, running south to north. You draw one line through or along the Xs in group #1 (i.e., upper trendline). You draw a second line through or along the Xs in group #2 (i.e., lower trendline).



You notice the air raid targets slightly diverge from the line at certain points (i.e., short-term trend, pullbacks), diverge a bit more at other points (i.e., intermediate trend), but, historically, the air raid targets fall within the two, long, parallel lines (i.e., long-term trend). Your military experience taught you that air raids can move in only three directions: up, down, or sideways. You look at the map (i.e., candlestick chart) and see the two parallel lines are sloping upwards (i.e., bullish uptrend); as opposed to downwards (i.e., bearish downtrend) or sideways (i.e., trendless). The military also taught you that, "a good general does not order an ambush unless the enemies' coordinated attacks historically (i.e., long-term trend) and recently (i.e., i.e., intermediate trend) follow an upward trend. Since the two parallel lines are sloping upwards, towards London, you order RAF Supermarine Spitfires to ambush the Luftwaffe in and around the city (i.e., buy signal).

# CHAPTER 4

## JAPANESE CANDLESTICK PATTERNS

初心忘るべからず<sup>”</sup>

*We should not forget our beginner ' s spirit.*

Congratulations! You made it through the most challenging material for beginners and novice traders. You learned to think like a momentum swing trader. Now, you will learn to trade like a momentum swing trader. In other words, welcome to Candlesticks 101, your new favorite subject at the Kahriman Ventures School for Traders Who Can Read Candlesticks Good (hope you caught the *Zoolander* reference).

In Chapter 4, you will learn to read candlesticks, search for specific candlestick formations, analyze *candlestick patterns*, and ultimately trade stocks using candlesticks. Our trading method relies on candlesticks more than any other factor to determine whether to buy or sell a stock. Please note, we will use the terms *candles* and *candlesticks* interchangeably throughout this chapter and the rest of the book.

# INTRODUCTION TO CANDLESTICKS

Candlesticks contain the same price information as traditional Western charts like *line charts*, *bar charts*, *point and figure charts*.

**Exhibit 4.1.** Line Chart Example[\[31\]](#)



**Exhibit 4.2.** Bar Chart Example



**Exhibit 4.3.** Point and Figure Chart Example[\[32\]](#)

**Goldman Sachs Group, Inc. (GS) NYSE**  
 20-Apr, 15:39 ET, daily, O: 116.97, H: 118.90, L: 115.67, C: 116.54, V: 16.3M, Chg: -4.06  
 No New P&F Pattern  
 Traditional, 3 box reversal chart  
 Bullish Price Obj. (Rev): 155.0

© StockCharts.com

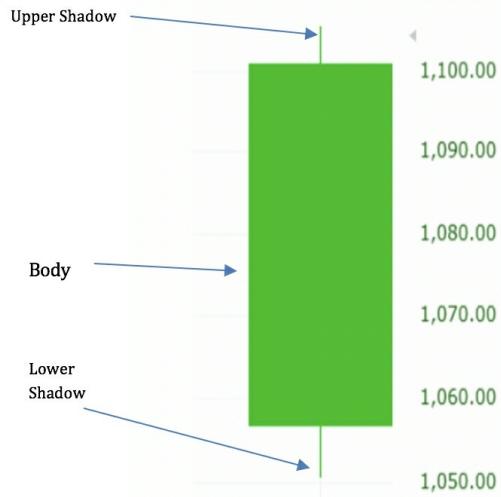


The most significant difference between traditional Western charts and candlestick charts is that candlesticks not only tell you where the stock has been, but also where it is going. When combined with our trading method, you will even recognize when it will get there, when you should be there, and when you should get out of there. The most beautiful thing about it is that it is not rocket science! However, I would much rather show you, than tell you.

## CANDLESTICK ANATOMY 101

[Insert Name Here], meet candlestick.

### Exhibit 4.4. Candlestick (Bullish Candlestick)



The numbers to the right of the candlestick are share price. The thin, green line sticking out of the green, rectangular box is the *upper shadow*. The upper shadow is the high of the session –i.e., the highest point share price reached that session. Here, the session high is over \$1,100. The *lower shadow* is the other thin, green line sticking out at the bottom. The lower shadow is the low of the session –i.e., the lowest point stock price reached that session. Here, the session low is right around \$1,050. The *body*, also known as the *real body*, represents the price range between the session's *open* and *close* –i.e., stock price when the stock market opened and stock price when the stock market closed. Here, the *opening price* is around \$1,060. The *closing price* is about \$1,100.

### Bullish and Bearish Candles

There are two kinds of candles, *bullish candles* and *bearish candles*. A bullish candle implies the stock's opening price is lower than its closing price. In other words, the price of stock when the stock market closed was higher than the price of the stock when the stock market opened. Take a look at Exhibit 4.5.

### Exhibit 4.5. Bullish Candlestick



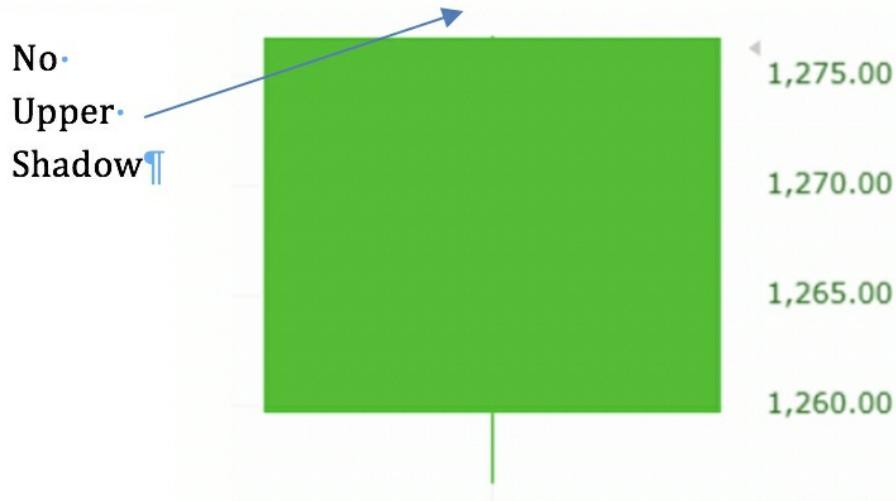
Bullish candles (depending on the website, book, publisher) are either white or green, in comparison, bearish candles are black or red. A bearish candle implies the stock's opening price is higher than its closing price. Take a look at Exhibit 4.6.

**Exhibit 4.6.** Bearish Candlestick



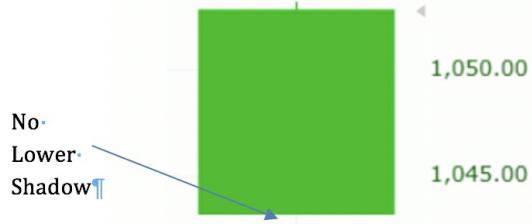
We see red, and therefore we know it is a bearish candle. Since it is a bearish candlestick, we know the price of the stock when the market closed was lower than the price of the stock when the stock market opened. Here, the opening stock price is around \$1,070 and the closing stock price is approximately \$1,045. If a bullish candle does not have an upper shadow, then the closing price was the highest price the stock reached that session.

**Exhibit 4.7. Bullish Candlestick With ‘No Upper Shadow’**



In Exhibit 4.7 the highest price the stock reached that session was about \$1,275. If a bullish candle does not have a lower shadow, then the opening price was the lowest price the stock reached that session.

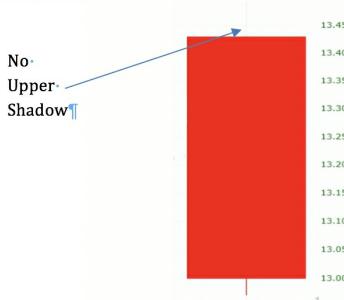
### **Exhibit 4.8. Bullish Candlestick With ‘No Lower Shadow’**



The bullish candlestick in Exhibit 4.8 does not have a lower shadow. Therefore, the lowest price the stock reached that session was about \$1,045.

What about bearish candles and shadows? Remember, a bearish candle means the price of the stock when the market closed was lower than the price of the stock when the market opened. If a bearish candle does not have an upper shadow, then the opening price was the highest price the stock reached that session. Take a look at Exhibit 4.9.

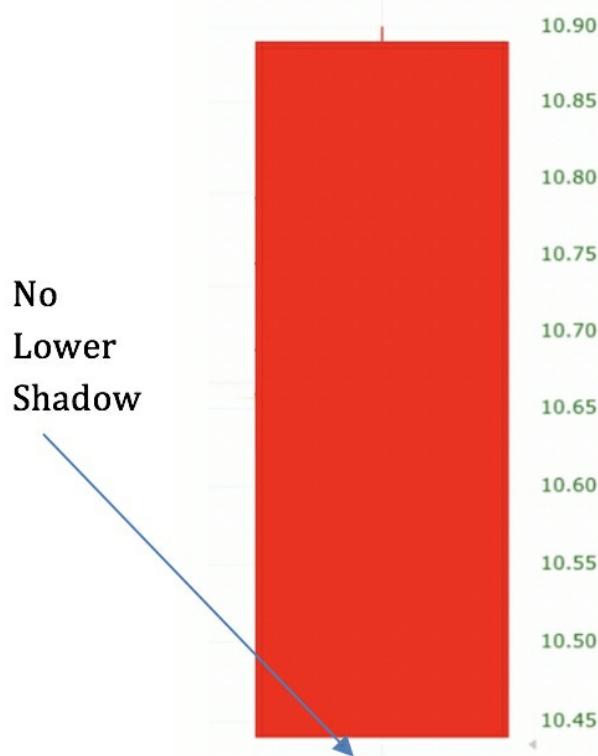
### **Exhibit 4.9.** Bearish Candlestick With ‘No Upper Shadow’



The bearish candlestick in Exhibit 4.9 does not have an upper shadow. Therefore, the highest price the stock reached that session was about \$13.42; the opening price.

If a bearish candle does not have a lower shadow, then the closing price was the lowest price the stock reached that session. Take a look at Exhibit 4.10 on the next page.

#### **Exhibit 4.10.** Bullish Candlestick With ‘No Upper Shadow’



The bearish candlestick in Exhibit 4.10 does not have a lower shadow. Therefore, the lowest price the stock reached that session was about \$10.45.

#### **Bullish and Bearish Candle Bodies**

Candles may look simple enough, but they convey a great deal of information. The Japanese consider the candle’s real body, the filled in area of the candle, to be, “the essence of the price movement.” In English, please? You see, the color, size, and shape of the real body tell traders whether the sellers, buyers, or neither were in control for that session. A bullish (green or white) candle signifies that buyers were in control of that session. If buyers are in control, then the price of the stock rises. Simple economics concept; supply and demand. There are a limited number of shares of stock, if traders are buying the stock hand over foot; then share price rises. A bearish (red or black) candle signifies what? The sellers are in control. Since the sellers are in control, the price of the stock drops. The selling pressure overwhelms the buying force. If sellers are selling and flooding the market with the stock, then supply is undoubtedly high, but demand is low.

To take it a step further, the size of the candle provides traders important clues about the control buyers and sellers exert. The longer the candle, the greater the control. Here is an analogy that helped me when I just started trading. You and I are going to play a game of tug of war. You are on the red team (i.e., sellers), and I am on the green team (i.e., buyers). In between us is a dividing line. On your side of the dividing line, the referee marks the field ‘level 1’, ‘level 2’, and ‘level 3’. ‘Level 3’ is nearest to your respective team. ‘Level 1’ is nearest the dividing line, or “no man’s land.” A referee does the same for my side of the dividing line. If your red team (i.e., sellers) is dominant and/or outnumber my green team (i.e., buyers), then your red team (i.e., sellers) will drag my green team (i.e., buyers) across the dividing line; sending us falling face first on your ‘Level 3’ patch of earth. The red team sellers overwhelm the green team buyers (i.e., a long, bearish candle). If our teams are more or less equally matched, either team may drag the other team to perhaps the ‘Level 1’ patch of earth (i.e., a short, bearish or bullish candle). If my green team (i.e., buyers) overpowers and/or outnumbers your red team (i.e., sellers), then my green team (i.e., buyers) will drag your red team (i.e., sellers) across the dividing line, and face first to my ‘Level 3’ patch of earth. My green team buyers overwhelm your red team sellers (i.e., a long, bullish candle).

So, when you see a long, bullish candle, tell yourself, “the buyers were in control of that session.” And, you guessed it, if you find a long, bearish candle, the sellers were in control that session.

Individual candles tell us a great deal about the trading session. When analyzed collectively, candles tell a stock’s story; its history, its present, and its future. These candle stories are incredible buy and sell signals that, when quickly recognized, generate substantial profits and minimize risk. In a sense, you must become a ‘candle whisperer.’ Try saying that out loud with a straight face.

## INTRODUCTION TO CANDLESTICK REVERSAL PATTERNS

Candles illustrate stock price movement; they tell us what happened during one, individual trading session. That’s great, but it is not enough information to make a calculated trading decision. So, traders step back from individual candles and look at the candlestick chart from afar. Traders scour

candlestick charts for a candle or groups of candles that tip them off to a *reversal*. Whether it is a single candle or a group of candles, traders refer to these special signals as *reversal patterns*.

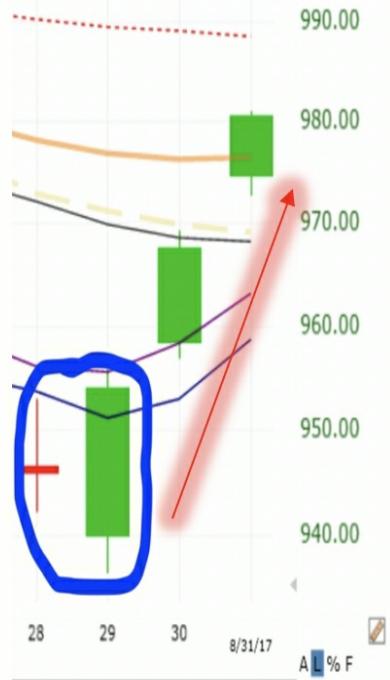
Reversal patterns are potent signals that indicate the previous trend in price movement (i.e., uptrend, downtrend, or trendless) stopped and a new trend moving in the opposite direction is about to begin. Let's look at an example.

## Exhibit 4.11 Reversal Pattern Example



In Exhibit 4.11 you see Amazon's share price rise from mid-July 2017 to July 27, 2017. After the tall, bearish candle, share price plummets; sending Amazon's stock into a downtrend. In late August 2017 (circled in blue marker), a reversal pattern termed, "bullish engulfing," forms. This is a signal that the previous trend, the downtrend, is about to end, or "reverse." So, you decide to buy shares of Amazon and what happens the next day? Take a look at Exhibit 4.12.

### **Exhibit 4.12.** Reversal Pattern Example #2



The previous bearish downtrend ends and a bullish uptrend forms. The reversal pattern, bullish engulfing, tipped you off to the reversal before it even started. Had you bought 1,000 shares of Amazon once the reversal pattern formed, you would have made approximately \$30,000 in two trading days. Reversal patterns are the single, most important factor in our trading method because they provide the opportunity to solidify substantial gains and profits. Next, let us turn our attention to some individual candles that we will repeatedly see in our most powerful candlestick patterns.

#### *FREQUENT FLYER CANDLES*

Think of the candles discussed in this subsection as Legos. Each candle is a single Lego piece.



While, candlestick reversal patterns are the completed, Super Star Destroyer.



You need a Lego (i.e., candle) to make a Super Star Destroyer Lego set (i.e., candlestick pattern).

## **Umbrella Lines**

The first group of candles, or Lego pieces if you prefer, are called *umbrella lines*. Traders call them umbrella lines because, well, they look like umbrellas. Take a look at Exhibit 4.13.

**Exhibit 4.13.** Umbrella Lines



As you can see, umbrella lines are candles with long, lower shadows and small real bodies (red/black [bearish] or green/white [bullish]). “Perfect” umbrella lines do not have an upper shadow. However, if you find a candle with a long, lower shadow, small real body, and a tiny upper shadow; you may classify the candle as an umbrella line.

## *Hammer*

An umbrella line that emerges at the bottom of a downtrend is called a *hammer*. Take a look at Exhibit 4.14.

**Exhibit 4.14.** Hammer



For an umbrella line to be called a hammer, it must emerge at the bottom of a downtrend. If you find an umbrella line at the top of an uptrend or in the middle of a trendless period; it is not a hammer. A classic hammer has a long, extended lower shadow and small real body. Again, it is okay if the hammer has a slight upper shadow. The length of the lower shadow should be at least twice the size of the real body. The color of the hammer is nowhere as important as the location of the hammer. If it is not at the bottom of a downtrend, it is not a hammer.

Let's see what happened to Apple's share price after the hammer formed at the bottom of the downtrend.

#### Exhibit 4.15. Hammer Price Movement



Shares of Apple rose about \$20 in five trading days after the hammer formed at the bottom of a downtrend. Had you bought 100 shares of Apple when the hammer formed, you would have made a profit of \$2,000 in five trading days. Not bad, eh?

How to identify a *hammer*:

- ✓ *Small real body at the top of the candle*
- ✓ *Long, lower shadow at least twice the size of the real body*
- ✓ *Located at the bottom of a downtrend*
- ✓ *No (or a very short) upper shadow*

### *Hanging Man*

Another member of the umbrella line family is the *hanging man*. As mentioned, the location of the umbrella line determines its classification. An umbrella line at the bottom of a downtrend is a hammer. However, an umbrella line at the top of an uptrend is called a hanging man. The Japanese call this candle “hanging man” because, you guessed it, it looks like a hanging man. Take a peek at Exhibit 4.16.

**Exhibit 4.16.** Hanging Man



As you can see, a hanging man is essentially identical to a hammer. They both have a small, real body at the top of the candle and a long, lower shadow at least twice the size of the real body. The major difference between the two candles is that a hanging man only comes after a rally –i.e., at the top of an uptrend. If you think you found a hanging man at the bottom of a downtrend, I guarantee you it is *not* a hanging man. Why? Because you cannot have a hanging man without an uptrend; its position at the top of an uptrend is what makes it a hanging man. What you saw at the bottom of the downtrend is a hammer.

Let’s see what happens when a hanging man forms at the top of an uptrend:

**Exhibit 4.17.** Hanging Man at the Top of an Uptrend



Exhibit 4.17 shows Square Inc. (NYSE: SQ) share price rise from mid/late October 2017 to Mid/late November 2017 when a hanging man forms at the top of an uptrend. What happened after the hanging man?

#### Exhibit 4.18. Hanging Man Share Price Movement



Square's share price plummets approximately \$12 in eight trading days. The wise trader would have sold her shares of Square once the hanging man formed on November 22, 2017.

How to identify a *hanging man*:

- ✓ *Small real body at the top of the candle*
- ✓ *Long, lower shadow at least twice the size of the real body*
- ✓ *Located at the TOP of a downtrend*
- ✓ *No (or a very short) upper shadow*

## Stars

The second group of candles we repeatedly see in candlestick patterns or formations are called *stars*. A star is a candle with a small real body (red/black [bearish] or green/white [bullish]) and longer upper and/or lower shadow. Take a look at Exhibit 4.19.

**Exhibit 4.19. Stars**



The star's small real body represents indecision; a stalemate between the bulls and bear. Therefore, when a star appears in an uptrend, traders consider it a signal that the bulls (buyers) are no longer in complete control. The bears or 'sellers' are challenging. A star that appears in a downtrend is a signal that the bears (sellers) are no longer in complete control, the bulls (buyers) are forging a challenge.

The star family has four members:

1. Morning star
2. Evening star
3. Doji star
4. Shooting star

### *Morning Star*

The first member of the star family is the *morning star*. The morning star presages higher prices; it is a bottom reversal pattern. So, when a morning star forms at the bottom of a downtrend, share price should move higher in the following days. There are three candles in the morning star pattern:

- *Candle 1.* An extended bearish (red/black) candlestick.
- *Candle 2.* A star, comprised of a small real body that does not

- touch Candle 1's real body.
- *Candle 3.* An extended bullish (green/white) candlestick.

Take a look at exhibit 4.20.

### **Exhibit 4.20. Morning Star**



The morning star pattern in Exhibit 4.20 is highlighted in grey. Notice the sideways share price movement leading up to the morning star, and the bullish turnaround in share price after the morning star. We will take a closer look at the morning star candlestick pattern later in the chapter.

### *Evening Star*

The second member of the star family is the *evening star*. Unlike the morning star, the evening star is a bearish candlestick pattern. In other words, once an evening star forms in an uptrend, you can expect share price to decline in the following trading sessions.

The evening star pattern consists of three candles:

- *Candle 1.* Extended bullish (green/white) candle.
- *Candle 2.* A star, comprised of a small real body.
- *Candle 3.* Extended bearish (red/black) candle.

Take a look at Exhibit 4.21.

### **Exhibit 4.21. Evening Star**



The evening star pattern in Exhibit 4.21 is highlighted in grey. Notice

the share price movement that precedes the evening star and the decline in share price that follows the evening star. A wise trader would sell her shares once an evening star candlestick pattern forms. We will take a closer look at the evening star pattern later in the chapter.

### *Doji Star*

The most popular member of the star family –based on how common it is– is the *doji star*. A doji star forms when a candle’s opening price and closing price are equal or almost equal. When the doji star appears, there is an equilibrium between supply and demand; between sellers and buyers. Take a look at Exhibit 4.22.

## Exhibit 4.22. Doji Star



The doji star can be bearish (red/black) or bullish (green/white). It is identified by a long upper and lower shadow, and a small real body. Ideally, the real body should be approximately in the middle of the candle. In Exhibit 4.22, the opening price and closing price are within a couple of cents of each other. We will see the doji star in a number of powerful candlestick patterns.

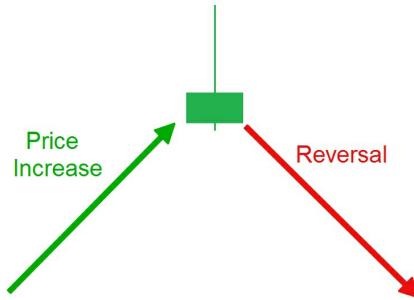
How to identify a *doji star*:

- ✓ *Small real body around the middle of the candle*
- ✓ *Long, lower shadow at least twice the size of the real body*
- ✓ *Long, upper shadow at least twice the size of the real body*

## *Shooting Star*

The final member of the star family is the *shooting star*. The shooting star pattern at the top of an uptrend. Take a look at Exhibit 4.23.

**Exhibit 4.23.** Shooting Star



Share price gradually increases until the shooting star forms at the top of an uptrend. Once the shooting star forms, whether it be bearish (red/black) or bullish (green/white); share price reverses from an uptrend to a downtrend. The wise trader would sell her shares once the shooting star forms.

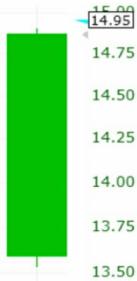
How to identify a *shooting star*:

- ✓ *Small real body*
- ✓ *Long upper shadow*
- ✓ *Little or no lower shadow*
- ✓ *Located at the top of an uptrend*

## Extended Range Candles

The third and final group of candles we commonly find in candlestick patterns or formations are called *extended range candles*. An extended range candle has a long, real body. It can be bearish (red/black) or bullish (green/white). An extended range candle may have small upper/lower shadows or no shadows at all. Take a look at Exhibit 4.24 and Exhibit 4.25.

**Exhibit 4.24.** Extended Range Candle (Bullish)



**Exhibit 4.25.** Extended Range Candle (Bearish)



An extended range candle is rather large in comparison to other candles in a candlestick chart. A bullish, extended range candle means the bulls (buyers) enjoyed complete dominion over the trading session and drove share price upwards. A bearish, extended range candle means the exact opposite. The bears (sellers) controlled the trading session and drove share price down. Many of the candlestick patterns we study in this book are comprised of extended range candles.

## TIPS AND TOP-PERFORMERS

In this section, we will review research on fundamental criteria shared by stocks that tend to double in share price. I will teach you how to find these stocks using our stock screener (Finviz.com). I will also share with you my “Top-8 Best Performing Candlestick Patterns” list. The candlestick

patterns on the list generated the most substantial profits in my trading and investing career. The candlesticks are ranked on overall performance and frequency. Overall performance measures the size of share price movement once the candlestick pattern forms. Frequency measures how often the candlestick pattern forms in candlestick charts.

## Tips

Before we review the top-performing candlestick patterns, let's assess some of the factors that may impact candlestick performance.

### Cap Size

The first common criteria of stocks that double in share price is *cap size*, or "market cap," if you prefer. Publicly traded companies are typically grouped into three different market cap categories: large cap, mid cap, and small cap.<sup>[33]</sup> Simply put, cap size equates to a company's value. To calculate cap size, multiply a stock's share price by the number of *outstanding shares*. Take a look at Exhibit 4.26.

**Exhibit 4.26.** Cap Size Example



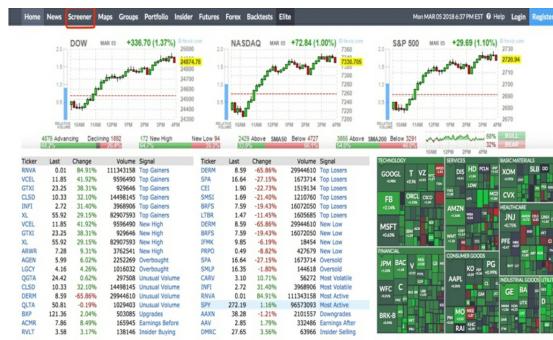
Exhibit 4.26 shows Vericel Corporation's (NASDAQ: VCEL) share price. Notice the data table. In the top-left corner of the table (marked in blue ink) is a section titled "Market Cap." Vericel Corporation's market cap, or "cap size," is approximately \$398.75 million. How did we get that figure?

In the top-right corner of Exhibit 4.26, we find one share of Vericel

costs \$11.85. Go back to the table. Do you see a box titled “Shs Outstand” (marked in red ink)? It stands for, “shares outstanding.” Approximately 33.65 million shares of Vericel are outstanding.<sup>[34]</sup> Multiply the share price (\$11.85) by the number of shares outstanding (33,650,000), and you will get \$398,750,000 -i.e., Vericel Corporation’s cap size.

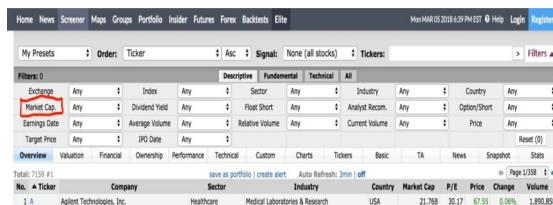
When screening for stocks, look for small cap companies. That is, companies with a market cap less than \$1 billion. To screen for *small cap* stocks, go to [www.finviz.com](http://www.finviz.com).

### Exhibit 4.27. Finviz Small Cap Screener (Step 1)



Click on the “Screener” tab in the top-left corner.

### Exhibit 4.28. Finviz Small Cap Screener (Step 2)



Click on the box next to “Market Cap” (marked in red ink). Scroll down to “Custom” and type in 0B to 1B. Click anywhere on the screen and Finviz will reload the page with a list of small cap companies.

### Exhibit 4.29. Finviz Small Cap Screener (Step 3)

Filters: 1											
	Descriptive(1)			Fundamental		Technical		All(1)			
Market Cap	0 <input checked="" type="checkbox"/> B-1 <input type="checkbox"/> B <input type="checkbox"/> C	Dividend Yield	Any <input type="checkbox"/>	Sector	Any <input type="checkbox"/>	Industry	Any <input type="checkbox"/>	Country	Any <input type="checkbox"/>		
Earnings Date	Any <input type="checkbox"/>	Average Volume	Any <input type="checkbox"/>	Float Short	Any <input type="checkbox"/>	Analyst Recom.	Any <input type="checkbox"/>	OptionShort	Any <input type="checkbox"/>		
Target Price	Any <input type="checkbox"/>	IPO Date	Any <input type="checkbox"/>	Relative Value	Any <input type="checkbox"/>	Current Volume	Any <input type="checkbox"/>	Price	Any <input type="checkbox"/>		
											Reset (1)
Total: 2390 #	save as portfolio   create alert   Auto Refresh: 10s   1min   off   Page 1/328   <input type="button"/>										
No.	Ticker	Company	Sector	Industry	Country	Market Cap	P/E	Price	Change	Volume	
1	AAC	AAC Holdings, Inc.	Healthcare	Specialized Health Services	USA	235.81M	-	9.78	-0.20%	346,214	
2	AMC	Altitude Asset Management Corporation	Financial	Asset Management	USA	101.71M	-	65.20	-2.25%	638	
3	AME	Altisource American Corporation	Financial	Life Insurance	USA	68.47M	21.26	3.35	1.52%	2,451	
4	AQII	Applied Optoelectronics, Inc.	Technology	Semiconductor - Integrated Circuits	USA	\$11.05M	8.07	27.53	-1.50%	946,394	
5	AIU	Almaden Minerals Ltd.	Basic Materials	Gold	Canada	87.15M	-	0.88	-0.58%	99,548	
6	AVV	Advantage Oil & Gas Ltd.	Basic Materials	Oil & Gas Drilling & Exploration	Canada	\$29.97M	10.67	2.85	1.79%	332,486	
7	AWAC	Artemis Tissue Group, Inc.	Consumer Goods	Farm Products	China	18.80M	21.13	2.39	-0.02%	820	
8	AWCD	Cambium Learning Group, Inc.	Services	Education & Training Services	USA	329.94M	18.82	7.02	-3.31%	62,799	
9	AWCC	Acientra Capital Corporation	Financial	Asset Management	USA	106.55M	-	7.48	0.54%	46,317	
10	ABEO	Abero Therapeutics Inc.	Healthcare	BioTechnology	USA	650.65M	-	15.40	-0.65%	1,276,525	
11	ABL	Ability Inc.	Technology	Communication Equipment	Israel	9.65M	-	0.37	-1.51%	37,760	
12	ABIO	ARCA biopharma, Inc.	Healthcare	BioTechnology	USA	8.44M	-	0.68	-0.73%	1,552,886	
13	ABR	Arbor Realty Trust, Inc.	Financial	REIT - Diversified	USA	\$38.70M	8.53	8.64	0.93%	1,273,624	
14	ABTX	Allegiance Bancshares, Inc.	Financial	Regional - Southwest Banks	USA	\$67.43M	26.30	36.55	0.38%	18,830	
15	ABUS	Arbutus Biopharma Corporation	Healthcare	BioTechnology	Canada	294.52M	-	5.35	0.00%	55,373	
16	ACBI	Atlantic Capital Bancshares, Inc.	Financial	Regional - Mid-Atlantic Banks	USA	449.82M	21.68	17.85	1.13%	46,308	
17	ACER	Ascor Therapeutics Inc.	Healthcare	BioTechnology	USA	124.64M	-	17.58	-2.33%	9,752	
18	ACET	Acto Corporation	Basic Materials	Chemicals - Major Diversified	USA	220.72M	32.75	7.50	2.04%	207,106	
19	ACFC	Atlantic Coast Financial Corporation	Financial	Regional - Southeast Banks	USA	163.40M	34.34	10.68	1.42%	9,266	
20	ACHR	Achillion Pharmaceuticals, Inc.	Healthcare	BioTechnology	USA	499.12M	-	3.62	3.13%	1,200,980	

Filters: cap (0.01)

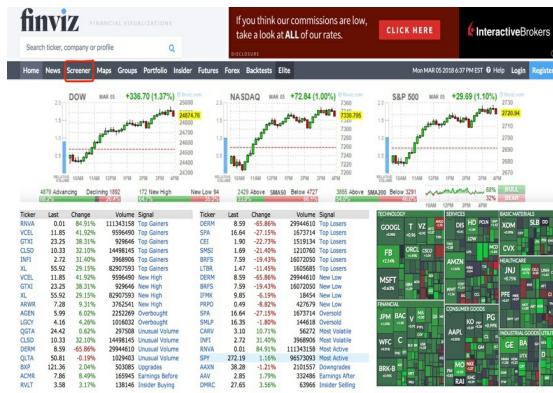
export

## Share Price

The second common criteria of stocks that double in share price is stock price. Stocks priced between \$5 and \$20 have the highest frequency of doubling.<sup>[35]</sup> To screen by stock price, go to [www.finviz.com](http://www.finviz.com).

Click on the screener tab in the top-left corner.

**Exhibit 4.30.** Finviz Stock Price Screener (Step 1)



Click on the box next to “Price” (marked in red ink). Scroll down and click on the “\$5 to \$20” tab. Click anywhere on the screen and Finviz will reload the page with a list of companies whose share price is between \$5 and \$20.

## Exhibit 4.31. Finviz Stock Price Screener (Step 2)

The screenshot shows the Finviz Stock Price Screener interface. At the top, there are dropdown menus for 'My Presets' (set to 'None'), 'Order' (set to 'Ticker'), 'Asc' (set to 'None'), 'Signal' (set to 'None (all stocks)'), and 'Tickers' (set to 'AMC1'). Below these are three tabs: 'Description', 'Fundamental', and 'Technical'. The 'Technical' tab is selected, showing various filters: 'Exchange' (Any), 'Index' (Any), 'Sector' (Any), 'Industry' (Any), 'Country' (Any), 'Market Cap.' (Any), 'Dividend Yield' (Any), 'Float Short' (Any), 'Analyst Recom.' (Any), 'Option/Short' (Any), 'Earnings Date' (Any), 'Average Volume' (Any), 'Relative Volume' (Any), 'Current Volume' (Any), 'Price' (\$ 5 to \$ 20), and 'Target Price' (Any). There is also a 'IPO Date' filter. A 'Reset (1)' button is at the bottom of the filters. Below the filters is a table header with columns: No., Ticker, Company, Sector, Industry, Country, Market Cap, P/E, Price, Change, and Volume. The table lists five companies: AMC Holdings, Inc., Cambium Learning Group, Inc., Alcentra Capital Corporation, Aberdeen Emerging Markets Smaller Company Opportunities Fund, Inc., and Abona Therapeutics Inc. The data for each company includes its name, sector, industry, country, market cap, P/E ratio, current price, change in price, and volume.

No.	Ticker	Company	Sector	Industry	Country	Market Cap	P/E	Price	Change	Volume
1	AMC	AMC Holdings, Inc.	Healthcare	Specialty Healthcare Services	USA	239.01M	-	5.78	-0.05%	2,254
2	ALGD	Cambium Learning Group, Inc.	Services	Education & Training Services	USA	339.94M	18.82	7.02	-3.31%	42,759
3	AMDC	Alcentra Capital Corporation	Financial	Asset Management	USA	106.53M	-	7.48	0.54%	46,317
4	ABE	Aberdeen Emerging Markets Smaller Company Opportunities Fund, Inc.	Financial	Exchange Traded Fund	USA	-	-	15.89	0.21%	12,098
5	ABIO	Abona Therapeutics Inc.	Healthcare	Biotechnology	USA	650.65M	-15.40	0.65%	1,276,525	

## 52-Week High/Low

Finally, the 52-week high/low range is a technical indicator expressing the highest and lowest price that a stock traded over the last 52 weeks –i.e., year. You should familiarize yourself with the 52-week high/low range as stocks trading within the bottom or top quarter of their 52-week price range are more likely to double in share price than those trading in the middle of their 52-week price range. Now, this tip does not apply to all stocks. Certain candlestick patterns perform better in specific *52-week high/low ranges*. When we look at individual candlestick patterns, I will highlight where in the 52-week high/low range the candlestick pattern performs best.

## TOP-EIGHT BEST PERFORMING CANDLESTICK PATTERNS

Now that we reviewed some of the factors that impact stock performance, let's take a look at the top-performing candlestick patterns based on my trading experience and research. The ranking system below ranks candlesticks out of 100 candlestick patterns. Each candlestick will have a frequency ranking, and overall performance ranking. The frequency ranking tells us how likely it is we will see the candlestick pattern. A rank of 1 means the candlestick pattern is as common as the common cold. A grade of 100 means the pattern is as rare as a dodo bird sighting (dodo birds are extinct). A candlestick pattern may earn up to three points for the frequency category. Please see the chart below.

Frequency	1-20	21-40	41-60	61-70	71-80	81-100
Points	3	2	1	0	-1	-2

The overall performance ranking tells us how well a stock performs after a given candlestick pattern forms in its chart. A rank of 1 means the candlestick pattern produces vast profits. A rank of 100 means the candlestick pattern produces, well, it does not produce much of anything really. A candlestick pattern may earn up to five points for the overall performance category. Please see the chart below.

Overall Perform	0-10	11-20	21-30	31-40	41-50	51-60	61-70	71-80	81-90	91-100
Points	5	4	3	2	1	0	-1	-2	-3	-4

### THREE WHITE SOLDIERS

The *three white soldiers* candlestick pattern signals a bullish reversal 82% of the time.<sup>[36]</sup> In other words, imagine ‘Stock X’ share price is declining. Stock X is in a downtrend. Suddenly, the three white soldiers candlestick pattern appears, and, 82% of the time; ‘Stock X’ hits the brakes and share price starts rising. ‘Stock X’ share price enters an uptrend.

**Exhibit 4.32.** Three White Soldiers



How to identify *three white soldiers*:

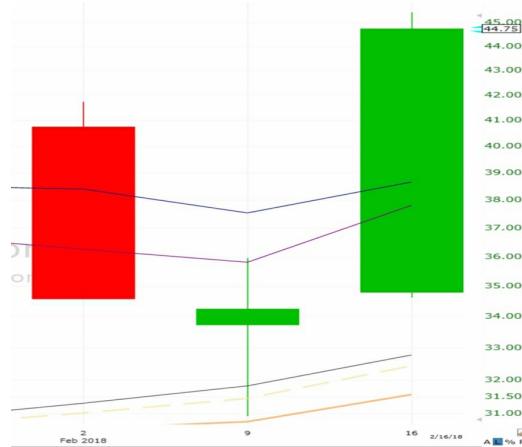
- ✓ *Downtrend leading up to the candlestick pattern*
- ✓ *Three, bullish(green/white) extended range candles*
- ✓ *Each candle's closing price is near the previous candle's high*
- ✓ *Each candle's real body overlaps or is near the previous candle's real body*

Three white soldiers candlestick pattern ranks 59 out of 100 in terms of frequency; earning one point out of a possible three points for the category. However, the overall performance rank is 40. Meaning, the pattern performs better than 60 candlestick patterns. The three white soldiers pattern earns two points out of a possible five points.

## MORNING STAR

We touched upon the *morning star* candlestick pattern earlier in the chapter. Three candles comprise the pattern. The morning star signals a bullish reversal 78% of the time.

**Exhibit 4.33.** Morning Star



How to identify a *morning star*:

- ✓ Downtrend leading up to the candlestick pattern
- ✓ The first candle is a bearish (red/black) extended range candle
- ✓ The second candle is a doji star with a small, real body. It may be bullish or bearish. The second candle's real body should be beneath the first candle's real body
- ✓ The third candle is a bullish (green/white) extended range candle. The third candle's real body should be above the second candle's real body

The morning star pattern is a star, no pun intended, with an overall performance rank of 12 out of 100; earning it four points out of a possible five points. However, the morning star is rather rare. It ranks 70 out of 100 in terms of frequency, earning it no points for the category.

## THREE OUTSIDE UP

Three candles comprise the *three outside up* candlestick pattern. The pattern signals a bullish reversal 75% of the time.

**Exhibit 4.34.** Three Outside Up



How to identify *three outside up*:

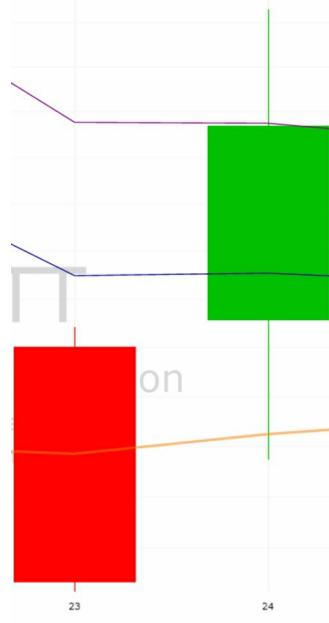
- ✓ *Downtrend leading up to the candlestick pattern*
- ✓ *First candle is bearish (red/black). It may be a bearish extended range candle or a bearish star candle; it just needs to be a bearish candle*
- ✓ *Second candle is a bullish (green/white) extended range candle. The second candle's real body should completely envelop the first candle's real body. This means two things. The second candle's opening price is lower than the first candle's closing price. The second candle's closing price is higher than the first candle's closing price*
- ✓ *Third candle is a bullish candle. The third candle's closing price should be higher than the second candle's closing price*

The three outside up pattern is relatively common, ranking 24 out of 100 candlestick patterns. The pattern receives two points in the frequency category. Furthermore, the three outside up candlestick pattern is an earner. Ranking 29 out of 100 in the overall performance category, the three outside up pattern earns three points out of a possible five points. This is one of my favorite candlestick patterns.

### *BULLISH SEPARATING LINES*

Two candles comprise the *bullish separating lines* candlestick pattern. The pattern signals a bullish continuation 72% of the time. In other words, if bullish separating lines appear in an uptrend, 72% of the time; that uptrend shall continue for some time after the bullish separating lines form.

### **Exhibit 4.35. Bullish Separating Lines**



How to identify *bullish separating lines*:

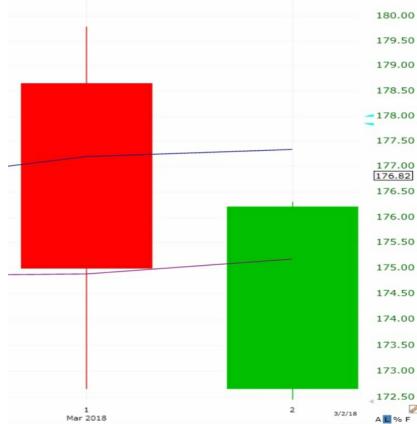
- ✓ *Uptrend leading up to the candlestick pattern*
- ✓ *First candle is bearish (red/black). It may be a bearish extended range candle or a bearish star candle, it just needs to be a bearish candle with a real body*
- ✓ *Second candle is a bullish (green/white) extended range candle. The opening price of the second candle should be within a few cents of the previous candle's closing price*

The bullish separating lines pattern is rather rare, ranking 76 out of 100 candlestick patterns in terms of frequency, earning it a negative point for the category. Where the pattern lacks in frequency, it makes up in performance. Bullish separating lines outperform about three-fourths of all candlestick patterns, ranking 36 out of 100 in overall performance and earning two points out of a possible five points.

## *PIERCING LINE*

The *piercing line* pattern is by far my favorite candlestick pattern. The pattern signals a bullish reversal 70% of the time. There are two candles to the pattern.

### **Exhibit 4.36. Piercing Line**



How to identify the *piercing line*:

- ✓ Downtrend leading up to the candlestick pattern
- ✓ First candle is a bearish (red/black) extended range candle
- ✓ Second candle is a bullish (green/white) extended range candle.  
The second candle's opening price should fall below the first candle's closing price. The second candle's closing price should be approximately between the midpoint of the first candle's real body and opening price

The piercing line pattern ranks 38 out of 100 in terms of frequency; earning it two points out of a possible three points. However, I find the pattern to be one of my best performing candlesticks patterns. The piercing line pattern ranks 11 out of 100 in terms of overall performance; earning four points out of a possible five points.

### *BULLISH ENGULFING*

Two candles make up the *bullish engulfing* candlestick pattern. The first candle is bearish; the second is bullish. The bearish candle should be significantly smaller than the bullish candle which, ideally, should be a bullish, extended range candle. The bullish candle's real body must completely envelop the bearish candle's real body.

**Exhibit 4.37.** Bullish Engulfing



The bullish engulfing pattern signals a bullish reversal 65% of the time. It is one of the more common candlestick patterns, ranking 12 out of 100 in frequency; earning it the maximum number of points allotted for the category. As for performance, the bullish engulfing pattern is our baseline standard. The pattern ranks 50 out of 100 in overall performance; earning it one point out of five possible points.

How to identify the *bullish engulfing* pattern:

- ✓ *Downtrend leading up to the candlestick pattern*
- ✓ *First candle is a bearish (red/black) candle*
- ✓ *Second candle is a bullish (green/white) extended range candle. The second candle's real body should completely envelop, or "engulf" the first candle's real body. In other words, the second candle's opening price should be less than the first candle's opening price. Also, the second candle's closing price should be above the first candle's closing price*
- ✓ *You may ignore the shadows. The bullish engulfing pattern only considers candle real bodies*

### *BULLISH HARAMI*

The *bullish harami* candlestick pattern also consists of two candlesticks. The first candle is a bearish (red/black) extended range candle. The second candle is a small bullish (green/white) candle; preferably a bullish doji star or star candle.

The bullish harami pattern signals a bullish reversal 59% of the time. The pattern ranks 25 out of 100 in frequency, and 38 out of 100 in overall performance. Consequently, earning the bullish harami two points for

frequency and performance.

### Exhibit 4.38. Bullish Harami



How to identify the *bullish harami* pattern:

- ✓ *Downtrend leading up to the candlestick pattern*
- ✓ *First candle is a bearish (red/black) extended range candle*
- ✓ *Second candle is a small bullish (green/white) candle, preferably a doji star or star candle. The second candle's (bullish candle) real body should be within the first candle's (bearish candle) real body*

## BULLISH HAMMER

The *hammer* is a single candle, but do not let that fool you. A hammer signals a bullish reversal 62% of the time. Although it is a rather common candle (frequency rank: 36); it performs rather well. The hammer pattern ranks 36 out of 100 in overall performance. The pattern earns two points out of three for frequency and two points for performance.

**Exhibit 4.39.** Hammer

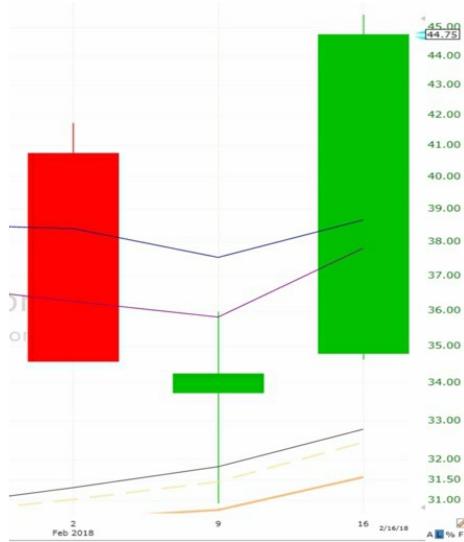


A bearish downtrend must precede the hammer candle for it to be considered a hammer. In Exhibit 4.39, Apple's share price declines from mid-January 2018 to early February 2018. On February 9, 2018, a hammer candle forms. The candle has a small real body located near the top of the candle. A little, upper shadow is visible, but that in itself does not invalidate the candle. A hammer may have a slight upper shadow. The candle's lower shadow is at least twice the size of its real body.

How to identify a *hammer*:

- ✓ A downtrend precedes the candlestick pattern
- ✓ The candle has a long lower shadow at least twice the size of its real body. The candle has a little or no upper shadow

## POWERFUL CANDLESTICK TRADING PATTERNS – MORNING STAR



Now that we have quickly reviewed some powerful candlestick patterns, let's look at some of my favorite (and most profitable) patterns in greater detail.

The morning star is one of my top performers. As mentioned, three candles comprise the pattern. The morning star signals a bullish reversal 78% of the time. With an overall performance rank of 12. The morning star pattern will be one of your favorites. However, it may take some time before you find one. They are rather rare. However, keep an eye out, for substantial profits lie at the other end.

On the first day of the morning star pattern, you see a strong downtrend with the bears (sellers) entirely in control. This is the first candle in the morning star pattern; a bearish (red/black) extended range candle.

On the second day, the bears (sellers) take the price down further. You may even see a gap sized down between the first and second candle. However, during the course of the trading session, bullish activity emerges. The bulls (buyers) drive the price of the stock from the lows all the way up to the opening price, ideally passing the opening price and creating a bullish doji star or star candle.

On the third day, share price opens above the middle candle's real body. The bulls (buyers) slowly gain control and move the price of the stock higher and higher, closing at least halfway up the first candle's real body. Take a look at Exhibit 4.40.

**Exhibit 4.40.** Morning Star (Third Candle's Closing Price is Above Halfway Point of First Candle's Real Body)



The first candle in Exhibit 4.40 is a bearish extended range candle with a real body stretching from about \$34.50 to \$40.50. The halfway point of the real body is marked in blue ink, approximately \$37.50. The third candle in Exhibit 4.40 is a long, bullish extended range candle. The third candle closed well above the halfway point of the first candle, approximately \$44.75. However, the third candle only needed to close above the halfway point of the first candle's real body. Therefore, had the third candle closed anywhere in the blue shaded area, a morning star pattern would have been confirmed. It is worth noting that the size of the third candle often indicates the strength of the possible reversal movement. The bigger the third candle, the stronger the potential reversal.

## HOW TO CATCH A MORNING STAR?

Most of the candlestick patterns discussed in this book will appear readily in charts. For the morning star pattern, you may need to do a little extra digging. To help you with your search, I will share with you my personal “stock screener formula” for finding morning stars. Let’s begin.

Go to [www.finviz.com](http://www.finviz.com). Click on the “Screener” tab. You will see four tabs: “Descriptive,” “Fundamental,” “Technical,” and “ALL”. Click on the “Descriptive” tab.

### Exhibit 4.41. Morning Star Screener

The screenshot shows the Finviz.com website's screener interface. At the top, there are navigation links: Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, Elite. The date is listed as Fri MAR 09 2018 6:01 AM EST. Below the navigation is a search bar with "My Presets", "Order: Ticker", "Asc", "Signal: None (all stocks)", and "Tickers:". There are four tabs at the top of the filter section: Descriptive (selected), Fundamental, Technical, and All. The Descriptive tab has several dropdown filters: Exchange (Any), Index (Any), Sector (Any), Industry (Any), Country (Any); Market Cap. (Any), Dividend Yield (Any), Float Short (Any), Analyst Recom. (Any), Option/Short (Any); Earnings Date (Any), Average Volume (Any), Relative Volume (Any), Current Volume (Any), Price (Any); Target Price (Any), IPO Date (Any). Below the filters are tabs for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats. A "Filters ▲" button is located at the top right of the filter section.

Find the “Price” category and click on the “Over \$1” tab.

### Exhibit 4.42. Morning Star Screener (Price)

This screenshot is identical to Exhibit 4.41, but the "Price" filter under the "Price" category has been changed from "Any" to "Over \$1". The rest of the filters and interface remain the same.

Find the “Average Volume” category and click on the “Over 300k” tab.

## Exhibit 4.43. Morning Star Screener (AVG. Volume)

The screenshot shows the Morning Star Screener interface with the 'All' tab selected. The 'Filters' section at the top has 0 filters applied. Below it, there are several filter categories: Exchange, Market Cap., Earnings Date, Target Price, and IPO Date. Under the 'Earnings Date' category, the 'Average Volume' filter is highlighted with a red circle. Other filters include Dividend Yield, Relative Volume, Current Volume, and Price.

Now, click on the “Technical” tab.

## Exhibit 4.44. Morning Star Screener (Technical)

The screenshot shows the Morning Star Screener interface with the 'Technical' tab selected. The 'Filters' section at the top has 2 filters applied. Below it, there are several filter categories: Performance, Moving Average, 20-Day High/Low, Beta, Performance 2, Moving Average, 50-Day High/Low, and Average True Range. Under the 'Performance' category, the 'Change from Open' filter is highlighted with a red circle.

Find the “Change from Open” category and click on “UP” tab.

## Exhibit 4.45. Morning Star Screener (Change from Open)

The screenshot shows the Morning Star Screener interface with the 'Change from Open' tab selected. The 'Filters' section at the top has 2 filters applied. Below it, there are several filter categories: Performance, Moving Average, 20-Day High/Low, Beta, Performance 2, Moving Average, 50-Day High/Low, and Average True Range. Under the 'Change from Open' category, the 'Up' filter is highlighted with a red circle.

Find the “52-Week High/Low” category and click on “15% or more below high” tab.

## Exhibit 4.46. Morning Star Screener (52-Week High/Low)

The screenshot shows a stock screener interface with various filters applied. The filters include:

- Performance: Any
- 20-Day Simple Moving Average: Any
- 20-Day High/Low: Any
- Beta: Any
- Order: Ticker
- Signal: None (all stocks)
- Tickers: All (2)
- Filters: Descriptive, Fundamental, Technical, All (highlighted)
- Specific filters under All:
  - 20-Day Simple Moving Average: Any
  - 20-Day Simple Moving Average: Any
  - 52-Week High/Low: Any
  - Change: Any
  - Change from Open: Any
  - Pattern: Any
  - Candlestick: Any
- Reset (2)

Finally, find the “Candlestick” category and click on “Marubozu White” tab. A marubozu white candle is more or less another name for a bullish extended range candle.

## Exhibit 4.47. Morning Star Screener (Candlestick)

The screenshot shows a stock screener interface with the same filters as Exhibit 4.46, but with a specific filter highlighted:

- Performance: Any
- 20-Day Simple Moving Average: Any
- 20-Day High/Low: Any
- Beta: Any
- Order: Ticker
- Signal: None (all stocks)
- Tickers: All (2)
- Filters: Descriptive, Fundamental, Technical, All (highlighted)
- Specific filters under All:
  - 20-Day Simple Moving Average: Any
  - 20-Day Simple Moving Average: Any
  - 52-Week High/Low: Any
  - Change: Any
  - Change from Open: Any
  - Pattern: Any
  - Candlestick: Any** (circled in red)
- Reset (0)

Scroll through the stock charts that appear and look for the morning star pattern. As I mentioned before, this is a rare pattern, so do not expect the stock screener search to return more than ten stocks a day. Patience is a virtue.

### *IDEAL CONDITIONS*

To get the most out of a morning star pattern, look for the following conditions:

- Bullish intermediate uptrend
- Bearish short-term downtrend
- Above average volume on the third and last candle (we will discuss volume in chapter five)

### *SUPPORT*

The morning star pattern is not only useful as a reversal signal, but it is also a powerful tool for technical charting. *Support* or *support level* refers to the price level below which, historically, a stock has had difficulty falling below.<sup>[37]</sup> We will cover support in detail in chapter five. What does support have to do with the morning star pattern? Well, the lowest low of the three candles –i.e., the middle candle– may be used to mark a support level. Take a

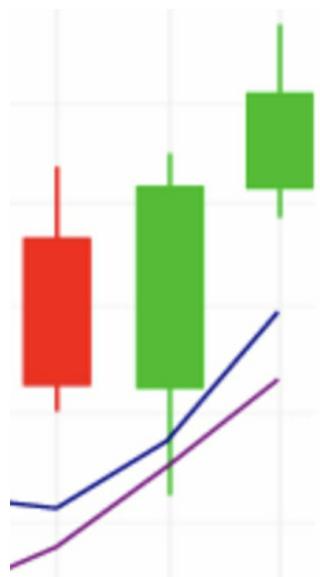
look at Exhibit 4.48 on the next page.

### Exhibit 4.48. Morning Star Support Level



In Exhibit 4.48, a morning star pattern appears in US Steel Corp (NYSE: X) candlestick chart in early February 2018. The middle candle, here a bullish, doji star; can be used to mark support. The support line should be drawn at the bottom of the middle candle's lower shadow. Think of the support line as a floor. If share price drops to the support line and bounces right back up; it is a solid floor. The floor held, share price hit the floor and bounced back up. If share price reaches the support line and continues to decline, falling below the support line; it is a broken floor. The floor did not hold, and share price fell through the floor. Share price will likely drop until it finds a stronger floor at a lower price level. Wise traders look to buy stocks that are near historically strong support levels and sell stocks that break below support levels.

## POWERFUL CANDLESTICK TRADING PATTERNS – THREE OUTSIDE UP



The three outside up candlestick pattern signals a bullish reversal 75% of the time. The pattern is one of the better-performing candlestick formations, ranking 12<sup>th</sup> overall in performance and 24<sup>th</sup> in frequency.

The three outside up candlestick pattern appears at the bottom of a retracement or pullback. However, the stock must be in an intermediate uptrend. In fact, the best set up is one in which price trends upward over the long-term.

The first candle is a bearish (red/black), preferably extended range, followed by a bullish (green/white) extended range candle that opens below the first candle's real body and closes above the first candle's real body. The third and final candle is a bullish (green/white) extended range candle that closes above the second candle's real body. Take a look at Exhibit 4.49 below.

**Exhibit 4.49.** Three Outside Up (Second Candle Opens Below First Candle's Real Body & Closes Above First Candle's Real Body. Third Candle Closes Above Second Candle's Real Body)



Once the three outside up candlestick pattern formed in Exhibit 4.49, the wise trader would have purchased shares of the stock near the third candle's closing price. What followed the three outside up candlestick pattern? Take a look at Exhibit 4.50.

## Exhibit 4.50. Three Outside Up Performance



Marked in blue ink in Exhibit 4.50 is the three outside up pattern from Exhibit 3.49. The closing price for the third candle was approximately \$1,120. A steep uptrend followed the candlestick pattern, sending share price all the way up to \$1,450 in a couple of months. Had our wise trader purchased 100 shares of Amazon near the close of the third candle, she would have made approximately \$33,000 in profit in a couple of months.

## *HOW DO I FIND THE THREE OUTSIDE UP PATTERN?*

Finviz is an excellent tool for finding candlestick patterns, including the three outside up candle pattern.

Go to [www.finviz.com](http://www.finviz.com). Click on the “Screener” tab. You will see four tabs: “Descriptive,” “Fundamental,” “Technical,” and “ALL”. Click on the “Descriptive” tab.

### **Exhibit 4.51. Three Outside Up Screener**

The screenshot shows the Finviz Descriptive Screener interface. At the top, there are tabs for Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, and Elite. The date is listed as Fri Mar 09 2018 6:01 AM EST. Below the tabs is a search bar with 'My Presets', 'Order: Ticker', 'Asc', 'Signal: None (all stocks)', and 'Tickers:'. A 'Filters' button is also present. The main area has a 'Filters: 0' section with tabs for Descriptive, Fundamental, Technical, and All. Under Descriptive, there are dropdowns for Exchange (Any), Index (Any), Sector (Any), Industry (Any), Country (Any), and Price (Any). Other dropdowns include Dividend Yield, Float Short, Analyst Recom., Option/Short, Average Volume, Relative Volume, Current Volume, IPO Date, and Target Price. At the bottom of the filter section are buttons for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Find the “Price” category and click on the “Over \$1” tab.

### **Exhibit 4.52. Three Outside Up Screener (Price)**

This screenshot is identical to Exhibit 4.51, but the 'Price' dropdown in the 'Price' section of the filters has been changed from 'Any' to 'Over \$1'. A red circle highlights the 'Over \$1' option in the dropdown menu. The rest of the interface remains the same, showing the general screener settings and filter categories.

Find the “Average Volume” category and click on the “Over 300k” tab.

## Exhibit 4.53. Three Outside Up Screener (AVG. Volume)

The screenshot shows the Stock Screener interface with the following filters applied:

- Filters: 0**
- Order:** Ticker
- Signal:** None (all stocks)
- Tickers:**
- Technical** tab selected.
- Average Volume** is circled in red.

Now, click on the “Technical” tab.

## Exhibit 4.54. Three Outside Up Screener (Technical)

The screenshot shows the Stock Screener interface with the following filters applied:

- Filters: 2**
- Order:** Ticker
- Signal:** None (all stocks)
- Tickers:**
- Technical** tab selected.
- Change from Open** is circled in red.

Find the “Change from Open” category and click on “UP” tab.

## Exhibit 4.55. Three Outside Up Screener (Change from Open)

The screenshot shows the Stock Screener interface with the following filters applied:

- Filters: 2**
- Order:** Ticker
- Signal:** None (all stocks)
- Tickers:**
- Technical** tab selected.
- 52-Week High/Low** is circled in red.

Find the “52-Week High/Low” category and click on “30% or more below high” tab.

## Exhibit 4.56. Three Outside Up Screener (52-Week High/Low)

The screenshot shows the Stock Screener interface with the following filters applied:

- Filters: 2**
- Order:** Ticker
- Signal:** None (all stocks)
- Tickers:**
- Technical** tab selected.
- 52-Week High/Low** is circled in red.

Finally, find the “Candlestick” category and click on “Marubozu White” tab.

## Exhibit 4.57. Three Outside Up Screener (Candlestick)

The screenshot shows the Stock Screener interface with the following filters applied:

- Filters: 0**
- Order:** Ticker
- Signal:** None (all stocks)
- Tickers:**
- Technical** tab selected.
- Candlestick** is circled in red.

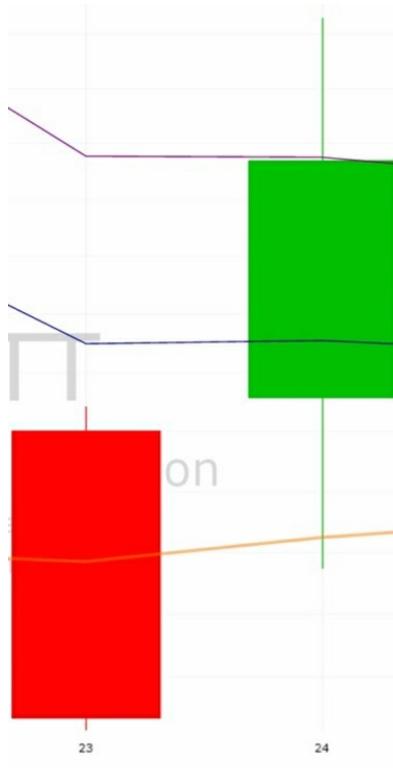
Scroll through the stock charts that appear and look for the three outside up pattern.

### *IDEAL CONDITIONS*

To get the most out of a morning star pattern, look for the following conditions:

- The candlestick pattern appears within a third of the 52-week low.
- Tall, extended range candles tend to perform better than smaller candles.
- The candlestick pattern appears at the bottom of a retrace or pullback within a longer, intermediate uptrend.

## POWERFUL CANDLESTICK TRADING PATTERNS – BULLISH SEPARATING LINES



The bullish separating lines candlestick pattern signals a bullish continuation 72% of the time. In terms of performance, the pattern ranks 36

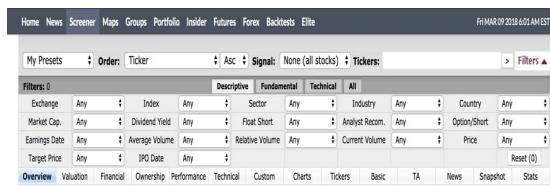
out of 100. However, bullish separating lines are somewhat rare, ranking 76<sup>th</sup> on the frequency list.

## *HOW DO I GRAB A BULLISH SEPARATING LINES PATTERN) BY THE HORNS?*

To help you with your search for bullish separating lines, take a look at my “stock screener formula” for finding bullish separating lines.

Go to [www.finviz.com](http://www.finviz.com). Click on the “Screener” tab. You will see four tabs: “Descriptive,” “Fundamental,” “Technical,” and “ALL”. Click on the “Descriptive” tab.

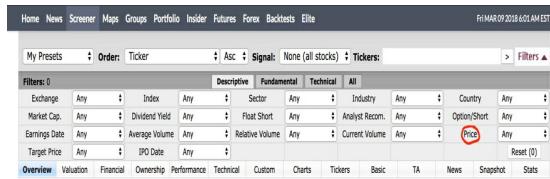
### **Exhibit 4.58. Bullish Separating Lines Screener**



The screenshot shows the Finviz Descriptive screener interface. At the top, there are tabs for Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, and Elite. The date is listed as Fri Mar 09 2018 6:01 AM EST. Below the tabs is a search bar with 'My Presets' and 'Order: Ticker Asc'. There are also 'Signal: None (all stocks)' and 'Tickers:' dropdowns. A 'Filters ▾' button is present. The main area contains several filter categories: Exchange (Any), Index (Any), Sector (Any), Industry (Any), Country (Any); Market Cap. (Any), Dividend Yield (Any), Float Short (Any), Analyst Recom. (Any), Option/Short (Any); Earnings Date (Any), Average Volume (Any), Relative Volume (Any), Current Volume (Any), Price (Any); Target Price (Any), IPO Date (Any). Below the filters are tabs for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats. The 'Price' filter under Earnings Date is circled in red.

Find the “Price” category and click on the “Over \$1” tab.

### **Exhibit 4.59. Bullish Separating Lines (Price)**



This screenshot is identical to Exhibit 4.58, showing the Finviz Descriptive screener interface. The 'Price' filter under Earnings Date is circled in red, indicating it has been selected. The rest of the interface, including the tabs and other filters, remains the same.

Find the “Average Volume” category and click on the “Over 300k” tab.

### Exhibit 4.60. Bullish Separating Lines (AVG. Volume)

The screenshot shows a financial screener interface with various filters applied. The 'Filters' section is expanded, showing the following settings:

Category	Filter Type	Value
Market Cap	Average Volume	Any
Earnings Date	Average Volume	Any
Target Price	Average Volume	Any
Market Cap	Dividend Yield	Any
Earnings Date	Relative Volume	Any
Target Price	IPO Date	Any

Find the “Market Cap.” category and click on the “Custom” tab. Enter the number zero in the left box, and fifteen in the right box.

### Exhibit 4.61. Bullish Separating Lines (Market Cap)

The screenshot shows a financial screener interface with various filters applied. The 'Filters' section is expanded, showing the following settings:

Category	Filter Type	Value
Market Cap	Market Cap	0 - 15
Earnings Date	Average Volume	Any
Target Price	Average Volume	Any
Market Cap	Dividend Yield	Any
Earnings Date	Relative Volume	Any
Target Price	IPO Date	Any

Now, click on the “Technical” tab.

### Exhibit 4.62. Bullish Separating Lines (Technical)

The screenshot shows the 'Technical' filters section of the Stockopedia interface. The 'Change from Open' filter is highlighted with a yellow box. Other filters like 'RSI (14)', 'Gap', and 'Candlestick' are also visible.

Find the “Change from Open” category and click on the “UP” tab.

### Exhibit 4.63. Bullish Separating Lines (Change from Open)

The screenshot shows the 'Change from Open' filter set to 'Up' with a red circle around it. Other filters like 'RSI (14)', 'Gap', and 'Candlestick' are also visible.

Find the “52-Week High/Low” category and click on “30% or more above low” tab.

### Exhibit 4.64. Bullish Separating Lines (52-Week High/Low)

The screenshot shows the '52-Week High/Low' filter selected with a red circle around it. Other filters like 'RSI (14)', 'Gap', and 'Candlestick' are also visible.

Finally, find the “Candlestick” category and click on “Marubozu White” tab.

### Exhibit 4.65. Bullish Separating Lines (Candlestick)

The screenshot shows the 'Candlestick' filter selected with a red circle around it. Other filters like 'RSI (14)', 'Gap', and 'Marubozu White' are also visible.

Scroll through the stock charts that appear and look for the bullish separating lines pattern.

#### *IDEAL CONDITIONS*

To get the most out of a bullish separating lines candlestick pattern, look for

the following conditions:

- The pattern appears 30% or move above the 52-week low<sup>[38]</sup>
- An intermediate and short-term uptrend precedes the pattern
- The second candle, a bullish (green/white), extended range candle is larger than the first candle; a bearish (red/black) extended range candle
- The two candles share the same opening price

## PRICE TARGET

Traders use the bullish separating lines candlestick formation as a reversal pattern. However, the pattern also provides traders with the opportunity to set a price target. A price target is the projected price level of a stock. It represents a stock's price that, if achieved, results in a trader recognizing the best possible outcome for her investment.<sup>[39]</sup> Data suggests that the height of the pattern, that is, the height of the two candles combined and added to the top of the pattern; provides traders a target price for the stock. Let's take a look at an example.

**Exhibit 4.66.** Bullish Separating Lines & Target Price



Exhibit 4.66 is a candlestick chart of Amazon's share price from mid-June 2016 to early July 2016. A bullish separating lines candlestick pattern appears in mid-June 2016 (marked in blue ink).

### Exhibit 4.67. Bullish Separating Lines Measurement



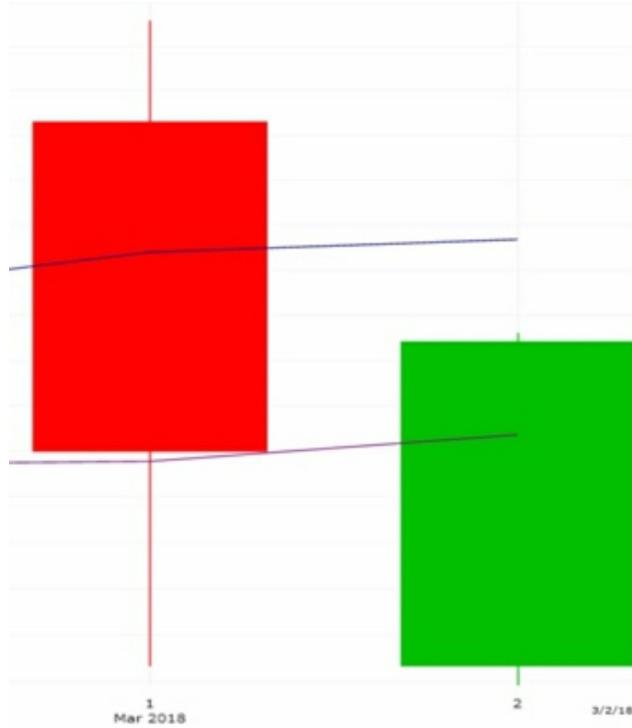
To find the price target, the price we may expect shares of Amazon to reach after the bullish separating lines pattern forms; we measure the height of the two-candlestick pattern. Take a look at Exhibit 4.67. I drew a horizontal line at the lowest point of the first candle; approximately \$707 (bottom line, circled in blue ink). Next, I drew a horizontal line at the highest point of the second candle; roughly \$722 (top line, circled in blue ink). I subtract the bottom line (\$707) from the top line (\$722), and get \$15; the pattern spans \$15. In other words, the “height” of the pattern is \$15.

### **Exhibit 4.68. Bullish Separating Lines Target Price (\$737)**



I added the height of the pattern (\$15) to the top of the second candle (\$722), which gave me a target price of \$737. In other words, now that the bullish separating lines candle pattern formed, I expect Amazon share price to reach approximately \$737 in the coming days or weeks. I purchase X shares of Amazon and watch its chart in the coming days and/or weeks. Nine days later, on July 6, 2016, Amazon share price hits \$737 (Exhibit 4.68, circled in blue ink). I sell my shares of Amazon, earning a profit of \$15 per share. Was it wise to sell at my target price? Yes, because the next day, July 7, 2016, a bearish candlestick pattern forms, telling me Amazon share price movement is about to reverse from a bullish uptrend to a bearish downtrend. The bullish separating lines not only signaled a bullish uptrend before it even started; the pattern warned me that I should get out of the trade at about \$737. The bullish separating lines candle pattern saw weeks into the future. I know, mind blown.

## **POWERFUL CANDLESTICK TRADING PATTERNS – PIERCING LINE**



The piercing line candlestick pattern signals a bullish reversal 70% of the time. Not only is the pattern rather easy to find, ranking 38<sup>th</sup> in frequency, but it is also potent, ranking 11<sup>th</sup> in overall performance. In light of these figures, the piercing line candlestick pattern, statistically speaking, is my top pick.

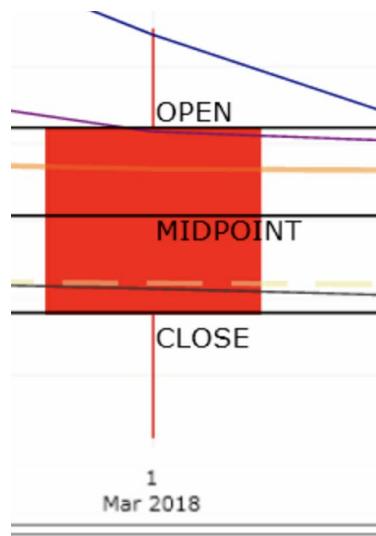
The first candle in the piercing line pattern is a bearish (red/black) extended range candle. The second candle is a bullish (green/white) extended range candle. The bullish candle's opening price is below the bearish candle's real body. Most importantly, the bullish candle closes at or above the bearish candle's midpoint. Take a look at the example below.

**Exhibit 4.69.** Piercing Line Pattern (Midpoint)



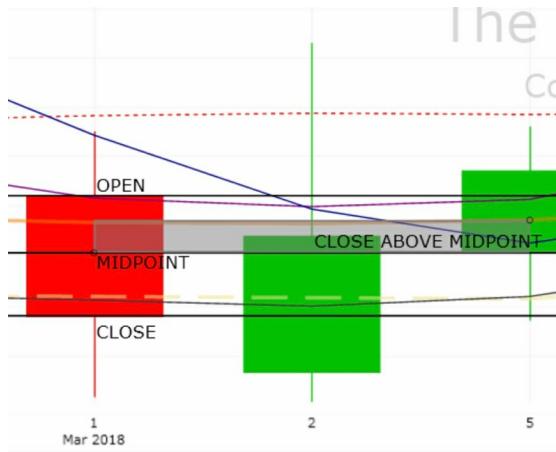
The candlestick chart in Exhibit 4.69 shows share price movement for The Wendy Company (NASDAQ: WEN). A piercing line pattern forms from March 1, 2018, to March 2, 2018 (marked in blue ink).

### **Exhibit 4.70.** Piercing Line Pattern (Candle #1)



Take a look at the first candle in Exhibit 4.70. I drew three lines. The top line marks the opening price. The bottom line marks the closing price. The line in between the two is the midpoint line. To get the midpoint line, I subtracted the opening price from the closing price and divided the result by two.

### Exhibit 4.71. Piercing Line Pattern (Candle #2)



The second candle appears in Exhibit 4.71. Notice the closing price? The second candle closes above the midpoint line of the first candle. Since the second candle opened below the first candle's real body and closed above the first candle's midpoint line; the two candles make a piercing line pattern.

## Exhibit 4.72. Piercing Line Pattern (Performance)



Take a look at Exhibit 4.72. Had you purchased shares of Wendy's after the piercing line pattern formed on March 2, you would have made approximately \$1.32 profit per share by March 10.

### *HOW DO I FIND THE PIERCING LINE PATTERN?*

Go to [www.finviz.com](http://www.finviz.com). Click on the “Screener” tab. You will see four tabs: “Descriptive,” “Fundamental,” “Technical,” and “ALL”. Click on the “Descriptive” tab.

## Exhibit 4.73. Piercing Line Screener

The screenshot shows the Piercing Line Screener interface with the following filters applied:

- Order: Ticker Asc
- Signal: None (all stocks)
- Filters: 0
- Category: Descriptive
- Sub-categories: Exchange, Market Cap., Earnings Date, Target Price
- Options: Any, Any, Any, Any

Find the “Price” category and click on the “Over \$1” tab.

## Exhibit 4.74. Piercing Line (Price)

The screenshot shows the Piercing Line Screener interface with the "Price" filter set to "Over \$1".

The "Price" filter row is highlighted with a red circle around the "Over \$1" option.

The rest of the filters remain the same as in Exhibit 4.73.

Find the “Average Volume” category and click on the “Over 300k” tab.

## Exhibit 4.75. Piercing Line (AVG. Volume)

The screenshot shows the Piercing Line Screener interface with the "Average Volume" filter set to "Over 300k".

The "Average Volume" filter row is highlighted with a red circle around the "Over 300k" option.

The rest of the filters remain the same as in Exhibit 4.73.

Find the “Market Cap.” category and click on the “Custom” tab. Enter the number zero in the left box, and fifteen in the right box.

### Exhibit 4.76. Piercing Line (Market Cap)

The screenshot shows a financial screening interface with a toolbar at the top and a main search area below. The search bar includes fields for 'My Presets', 'Order' (set to 'Asc'), 'Signal' (set to 'None (all stocks)'), and 'Tickers'. Below this is a 'Filters' section with tabs for 'Descriptive(1)', 'Fundamental', 'Technical', and 'All(1)'. Under 'All(1)', there is a 'Market Cap' filter where the left input field is set to '0' and the right input field is set to '15'. Other filters include 'Exchange', 'Index', 'Sector', 'Industry', 'Country', 'Dividend Yield', 'P/E Short', 'Analyst Recom.', 'Option Short', 'Earnings Date', 'Average Volume', 'Relative Volume', 'Current Volume', 'Price', 'Target Price', 'IPO Date', and 'Reset [1]'. At the bottom of the interface are tabs for 'Overview', 'Valuation', 'Financial', 'Ownership', 'Performance', 'Technical', 'Custom', 'Charts', 'Tickers', 'Basic', 'TA', 'News', 'Snapshot', and 'Stats'.

Now, click on the “Technical” tab.

### Exhibit 4.77. Piercing Line (Technical)

The screenshot shows a financial screening interface similar to Exhibit 4.76, but with more complex technical filters applied. The 'Technical' tab is selected in the 'All(2)' tab bar. The filters include: 'Performance' (Any, Any), 'Performance 2' (Any, Any), 'Volatility' (Any, Any), 'RSI (14)' (Any, Any), 'Gap' (Any, Any); '20-Day Simple Moving Average' (Any, Any), '50-Day Simple Moving Average' (Any, Any), '200-Day Simple Moving Average' (Any, Any), 'Change' (Any, Any), 'Change from Open' (Any, Any); '20-Day High/Low' (Any, Any), '50-Day High/Low' (Any, Any), '52-Week High/Low' (Any, Any), 'Pattern' (Any, Any), 'Candlestick' (Any, Any); and 'Beta' (Any, Any), 'Average True Range' (Any, Any). The bottom tabs are identical to Exhibit 4.76.

Find the “Change from Open” category and click on the “UP” tab.

### Exhibit 4.78. Piercing Line (Change from Open)

The screenshot shows a financial screening interface with various filters applied. The 'Technical' tab is selected, and under 'All(2)', the 'Change from Open' filter is set to 'Any'. The 'Up(1)' tab is highlighted, indicating it is active.

Find the “52-Week High/Low” category and click on “15% or more below high” tab.

### Exhibit 4.79. Piercing Line (52-Week High/Low)

The screenshot shows a financial screening interface with various filters applied. The 'Technical' tab is selected, and under 'All(2)', the '52-Week High/Low' filter is set to 'Any'. The '15% or more below high' tab is highlighted, indicating it is active.

Find the “Performance” category and click on the “Quarter Up” tab.

### Exhibit 4.80. Piercing Line (Performance)

The screenshot shows a financial screening interface with various filters applied. The 'Technical' tab is selected, and under 'All(1)', the 'Performance' filter is selected. The 'Quarter Up' tab is highlighted, indicating it is active.

Finally, find the “Candlestick” category and click on “Marubozu White” tab.

### Exhibit 4.81. Piercing Line (Candlestick)

The screenshot shows a financial screening interface with various filters applied. The 'Technical' tab is selected, and under 'All(1)', the 'Candlestick' filter is selected. The 'Marubozu White' tab is highlighted, indicating it is active.

Scroll through the stock charts that appear and look for the bullish separating lines pattern.

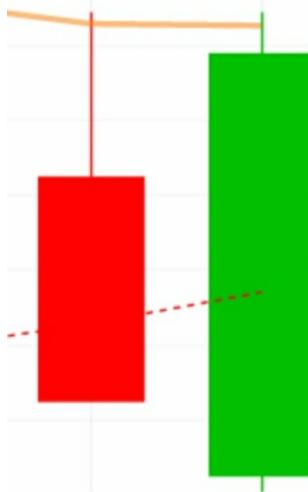
## *IDEAL CONDITIONS*

To get the most out of a piercing line candlestick pattern, look for the

following conditions:

- The pattern appears within a third of the 52-week low
- An intermediate and long-term uptrend precedes the pattern
- The second candle, a bullish (green/white), extended range candle is larger than the first candle; a bearish (red/black) extended range candle
- The second candle pierces but does not completely engulf the first candle's real body

## POWERFUL CANDLESTICK TRADING PATTERNS – BULLISH ENGULFING



The bullish engulfing candlestick pattern signals a bullish reversal 65% of the time. In terms of performance, the pattern ranks 50 out of 100. However, bullish separating lines are rather common, ranking 12<sup>th</sup> on the frequency list.

When a bullish engulfing appears at the bottom of a downtrend and/or after a series of red candles, and possibly in oversold conditions, this indicates that a bullish reversal is about to occur. Wait for further bullish confirmation before you purchase shares of the stock. If the price opens above the previous day close of the tall, green candle; consider it bullish confirmation that the reversal has occurred and that the bulls are stepping in with even greater strength.

### *HOW DO I FIND A BULLISH ENGULFING?*

Go to [www.finviz.com](http://www.finviz.com). Click on the “Screener” tab. You will see four tabs: “Descriptive,” “Fundamental,” “Technical,” and “ALL”. Click on the “Descriptive” tab.

**Exhibit 4.82.** Bullish Engulfing Screener

The screenshot shows the Stock Screener interface with the following filters applied:

- Order:** Ticker
- Signal:** None (all stocks)
- Filters:**
  - Price:** Any
  - Market Cap.** Any
  - Earnings Date:** Any
  - Target Price:** Any
  - IPO Date:** Any
- Tabs:** Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, Stats

Find the “Price” category and click on the “Over \$1” tab.

### Exhibit 4.83. Bullish Engulfing (Price)

The screenshot shows the Stock Screener interface with the Price filter set to "Over \$1".

Find the “Average Volume” category and click on the “Over 300k” tab.

### Exhibit 4.84. Bullish Engulfing (AVG. Volume)

The screenshot shows the Stock Screener interface with the Average Volume filter set to "Over 300k".

Find the “Market Cap.” category and click on the “Custom” tab. Enter the number zero in the left box, and fifteen in the right box.

### Exhibit 4.85. Bullish Engulfing (Market Cap)

The screenshot shows the Stock Screener interface with the Market Cap. filter set to a custom range of 0 to 15.

Now, click on the “Technical” tab.

### Exhibit 4.86. Bullish Engulfing (Technical)

The screenshot shows the Stock Screener interface with the Technical tab selected. The filters applied are:

- Order:** Ticker
- Signal:** None (all stocks)
- Filters:**
  - Market Cap.**: 0 - 15
  - Performance:** Any
  - 20-Day Simple Moving Average:** Any
  - 20-Day High/Low:** Any
  - Beta:** Any
  - Performance 2:** Any
  - 50-Day Simple Moving Average:** Any
  - 50-Day High/Low:** Any
  - Average True Range:** Any
  - Volatility:** Any
  - Moving Average:** Any
  - SMA:** Any
  - RSI (14):** Any
  - Change:** Any
  - Pattern:** Any
  - Candlestick:** Any
  - Gap:** Any
  - Change from Open:** Any
  - Reset (1):** Any
  - Reset (2):** Any
- Tabs:** Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, Stats

Find the “Change from Open” category and click on the “UP” tab.

### Exhibit 4.87. Bullish Engulfing (Change from Open)

The screenshot shows a financial screening interface with various filters applied. The 'Filters' section is expanded, showing the following settings:

- Order: Ticker
- Signal: None (all stocks)
- Tickers: All (2)
- Performance: Any
- 20-Day Simple Moving Average: Any
- 50-Day Simple Moving Average: Any
- 20-Day High/Low: Any
- Beta: Any
- Avg True Range: Any
- Volatility: Any
- 200-Day Simple Moving Average: Any
- S2-Week High/Low: Any
- RSI (14): Any
- Pattern: Any
- Candlestick: Any
- Gap: Any
- Change: Any
- Change from Open: Any

The 'Change from Open' filter is highlighted with a red box. Below the filters, there are tabs for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Find the “52-Week High/Low” category and click on “15% or more below high” tab.

### Exhibit 4.88. Bullish Engulfing (52-Week High/Low)

The screenshot shows a stock screening interface with various filters applied. The 'Performance' section is highlighted, and the '52-Week High/Low' dropdown is set to '15% or more below high'. Other filters include '20-Day Simple Moving Average', '50-Day Simple Moving Average', '200-Day Simple Moving Average', 'RSI (14)', 'Change from Open', 'Pattern', 'Candlestick', and 'Beta'.

Find the “Performance” category and click on the “Quarter Up” tab.

### Exhibit 4.89. Bullish Engulfing (Performance)

The screenshot shows a stock screening interface with various filters applied. The 'Performance' section is highlighted, and the 'Quarter Up' tab is active. Other filters include '20-Day Simple Moving Average', '50-Day High/Low', 'RSI (14)', 'Change from Open', 'Pattern', 'Candlestick', and 'Beta'.

Scroll through the stock charts that appear and look for the bullish engulfing pattern.

### *CRITERIA*

For a candlestick pattern to be considered a bullish reversal pattern, the pattern must appear at the bottom of a short-term downtrend. This point is particularly important when working with a bullish engulfing pattern. The market has to be in a clearly defined intermediate uptrend, with a bullish engulfing pattern appearing at the bottom of a short-term downtrend. That is, a pullback or retracement within an intermediate and long-term uptrend.

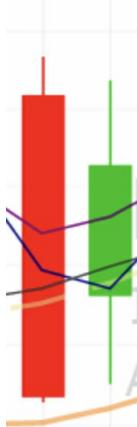
Many factors increase the likelihood that an engulfing pattern could be an important turning signal. If the first day of the pattern –i.e., the bearish (red/black) candle– has a very small real body, and the second day –i.e., the bullish (green/white) candle– has a very long real body. Also, if there is light volume on the first day of the pattern, and heavy volume on the bullish, second candle. We will discuss volume in chapter five.

### *IDEAL CONDITIONS*

To get the most out of a piercing line candlestick pattern, look for the following conditions:

- The pattern appears within a third of the 52-week high
- An intermediate and long-term uptrend precedes the pattern
- The second candle, a bullish (green/white), extended range candle is significantly bigger than the first candle, a bearish (red/black) candle
- The second candle completely engulfs the first candle's real body

## POWERFUL CANDLESTICK TRADING PATTERNS – BULLISH HARAMI



The *bullish harami* candlestick pattern signals a bullish reversal 59% of the time. The pattern ranks 25<sup>th</sup> in frequency and 38<sup>th</sup> in performance. The pattern consists of two candlesticks. The first candle is a bearish (red/black) extended range candle. The second candle is a small, bullish (green/white) candle; ideally a bullish star or doji star. The second candle's real body should fit within the first candle's real body. In other words, the price of the second candle should open and close inside of the opening and closing price of the first candle. Ideally, the second candle should be half or less than half the size of the first candle. It is okay if the second candle's shadows extend out and beyond the first candle's real body.

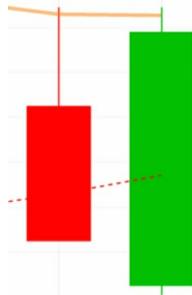
The bullish harami shows that the short-term downtrend is about to exhaust its energy, and the bulls are preparing to move in with strength. However, a wise trader does not buy without confirmation that the downtrend is over and that the formation of an uptrend is just beginning. The next day, if the stock's opening price is higher than the previous session's closing price; you may consider purchasing shares of the stock. However, if the opening price is below the last session's close, wait for bullish confirmation before proceeding.

### *BULLISH HARAMI VS. BULLISH ENGULFING*

The bullish harami pattern is the mirror image of the bullish engulfing pattern. The combination of candles in the harami pattern, with its first candle being a tall, real body, followed by a small, real body, bullish

candle; is the reverse of the bullish engulfing pattern. In the engulfing pattern, a small, bearish candle, precedes a large, bullish candle<sup>[40]</sup>.

**Exhibit 4.90.** Bullish Engulfing



**Exhibit 4.91.** Bullish Harami



*HOW DO I FIND A BULLISH HARAMI?*

Go to [www.finviz.com](http://www.finviz.com). Click on the “Screener” tab. You will see four tabs: “Descriptive,” “Fundamental,” “Technical,” and “ALL”. Click on the “Descriptive” tab.

## Exhibit 4.92. Bullish Harami Screener

The screenshot shows a financial screener interface with a toolbar at the top. Below the toolbar, there are several filter categories: Exchange, Market Cap., Earnings Date, Target Price, and so on. The 'Price' category is highlighted with a blue border. At the bottom of the screen, there are tabs for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Find the “Price” category and click on the “Over \$1” tab.

## Exhibit 4.93. Bullish Harami (Price)

The screenshot shows the same financial screener interface as Exhibit 4.92, but with the 'Price' category selected. The 'Over \$1' tab under the Price section is highlighted with a blue border. The other tabs in the Price section (Underperform, Average, and Price) are also highlighted with blue borders. The rest of the interface remains the same, with the toolbar and various filter categories visible.

Find the “Average Volume” category and click on the “Over 300k” tab.

## Exhibit 4.94. Bullish Harami (AVG. Volume)

The screenshot shows the financial screener interface with the 'Average Volume' category selected. The 'Over 300k' tab under the Average Volume section is highlighted with a blue border. The other tabs in the Average Volume section (Underperform, Average, and Over 300k) are also highlighted with blue borders. The rest of the interface remains the same, with the toolbar and various filter categories visible.

Find the “Market Cap.” category and click on the “Custom” tab. Enter the number zero in the left box, and fifteen in the right box.

## Exhibit 4.95. Bullish Harami (Market Cap)

The screenshot shows the financial screener interface with the 'Market Cap.' category selected. The 'Custom' tab under the Market Cap. section is highlighted with a blue border. In the right input field, the number '15' is highlighted with a yellow box. The rest of the interface remains the same, with the toolbar and various filter categories visible.

Now, click on the “Technical” tab.

## Exhibit 4.96. Bullish Harami (Technical)

The screenshot shows a financial analysis platform's screener feature. At the top, there are tabs for Home, News, Screener, Mags, Groups, Portfolio, Insider, Futures, Forex, Backtests, and Elite. The date is Fri Mar 09 2018 6:09 AM EST. Below the tabs is a search bar with 'My Presets', 'Order: Ticker', 'Asc', 'Signal: None (all stocks)', and 'Tickers:'. There are four main filter categories: Descriptive(2), Fundamental, Technical, and All(2). The 'All(2)' tab is selected. Under 'Technical', the 'Change from Open' filter is set to 'Any' and is highlighted with a blue background. Other filters include Performance, Volatility, RSI (14), Gap, 20-Day Simple Moving Average, 50-Day Simple Moving Average, 200-Day Simple Moving Average, Change, 52-Week High/Low, Pattern, Candelstick, Beta, Average True Range, and a 'Reset (2)' button. Below the filters are links for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Find the “Change from Open” category and select the “UP” tab.

### Exhibit 4.97. Bullish Harami (Change from Open)

This screenshot is identical to the one above, except the 'Change from Open' filter is now set to 'Up', indicated by a red circle. All other filters and settings remain the same.

Find the “52-Week High/Low” category and select the “15% or more below high” tab.

### Exhibit 4.98. Bullish Harami (52-Week High/Low)

The screenshot shows the Stockopedia search interface with the following filters applied:

- Order:** Ticker
- Signal:** None (all stocks)
- Tickers:**
- Filters:** 2
- Performance:** Any
- 20-Day Simple Moving Average:** Any
- 20-Day High/Low:** Any
- Beta:** Any
- Order:** Asc
- Signal:** None (all stocks)
- Tickers:**
- Filters:** 1
- Performance:** Any
- 20-Day Simple Moving Average:** Any
- 20-Day High/Low:** Any
- Beta:** Any
- Category:** Descriptive (2)
- Technical:** Any (1)
- Doji:** 15%

Find the “Performance” category and click on the “Quarter Up” tab.

### Exhibit 4.99. Bullish Harami (Performance)

The screenshot shows the Stockopedia search interface with the following filters applied:

- Order:** Ticker
- Signal:** None (all stocks)
- Tickers:**
- Filters:** 1
- Performance:** Quarter Up
- 20-Day Simple Moving Average:** Any
- 20-Day High/Low:** Any
- Beta:** Any
- Order:** Asc
- Signal:** None (all stocks)
- Tickers:**
- Filters:** 1
- Performance:** Any
- 20-Day Simple Moving Average:** Any
- 20-Day High/Low:** Any
- Beta:** Any
- Category:** Descriptive (1)
- Technical (1):** Any (1)
- Doji:** Quarter Up

Find the “Candlestick” category and select the “Doji” tab.

### Exhibit 4.100. Bullish Harami (Candlestick)

The screenshot shows the Stockopedia search interface with the following filters applied:

- Order:** Ticker
- Signal:** None (all stocks)
- Tickers:**
- Filters:** 1
- Performance:** Any
- 20-Day Simple Moving Average:** Any
- 20-Day High/Low:** Any
- Beta:** Any
- Order:** Asc
- Signal:** None (all stocks)
- Tickers:**
- Filters:** 1
- Performance:** Any
- 20-Day Simple Moving Average:** Any
- 20-Day High/Low:** Any
- Beta:** Any
- Category:** Descriptive (1)
- Technical (1):** Any (1)
- Candlestick:** Doji

Scroll through the charts and look for the bullish harami pattern.

### *IDEAL CONDITIONS*

To get the most out of a bullish harami candlestick pattern, look for the following conditions:

- The pattern appears within a third of the 52-week low
- An intermediate and long-term uptrend precedes the pattern
- The second candle’s body and shadows fit within the first candle’s real body

## POWERFUL CANDLESTICK TRADING PATTERNS – BULLISH HAMMER



The *bullish hammer* candlestick pattern signals a bullish reversal 62% of the time. The pattern ranks 36<sup>th</sup> in frequency and 36<sup>th</sup> in performance.

As mentioned before, the color of the hammer candle does not determine whether it is a bullish or bearish hammer. The location of the candle determines whether the hammer is bullish or bearish. Also, unlike other candlestick patterns, confirmation is not needed. You may consider buying the stock once a bullish hammer forms.

### *HOW DO I FIND A BULLISH HAMMER?*

Go to [www.finviz.com](http://www.finviz.com). Click on the “Screener” tab. You will see four tabs: “Descriptive,” “Fundamental,” “Technical,” and “ALL.” Click on the “Descriptive” tab.

## Exhibit 4.101. Bullish Hammer Screener

The screenshot shows a financial screener interface with the following details:

- Header: Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, Elite. Date: Fri MAR 09 2018 6:01 AM EST.
- Search bar: My Presets, Order: Ticker, Asc, Signal: None (all stocks), Tickers: > Filters ▲
- Filter section: Filters: 0. Categories include: Exchange, Any; Index, Any; Sector, Any; Industry, Any; Country, Any; Market Cap., Any; Dividend Yield, Any; Float Short, Any; Analyst Recom., Any; Option/Short, Any; Earnings Date, Any; Average Volume, Any; Relative Volume, Any; Current Volume, Any; Price, Any; Target Price, Any; IPO Date, Any.
- Tab navigation: Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, Stats.

Find the “Price” category and click on the “Over \$1” tab.

## Exhibit 4.102. Bullish Hammer (Price)

The screenshot shows a financial screener interface with the following details:

- Header: Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, Elite. Date: Fri MAR 09 2018 6:01 AM EST.
- Search bar: My Presets, Order: Ticker, Asc, Signal: None (all stocks), Tickers: > Filters ▲
- Filter section: Filters: 0. Categories include: Exchange, Any; Index, Any; Sector, Any; Industry, Any; Country, Any; Market Cap., Any; Dividend Yield, Any; Float Short, Any; Analyst Recom., Any; Option/Short, Any; Earnings Date, Any; Average Volume, Any; Relative Volume, Any; Current Volume, Any; Price, Any; Target Price, Any; IPO Date, Any.
- Tab navigation: Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, Stats. The "Price" tab is highlighted.

Find the “Average Volume” category and click on the “Over 300k” tab.

## Exhibit 4.103. Bullish Hammer (AVG. Volume)

The screenshot shows a financial screener interface with the following details:

- Header: Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, Elite. Date: Fri MAR 09 2018 6:01 AM EST.
- Search bar: My Presets, Order: Ticker, Asc, Signal: None (all stocks), Tickers: > Filters ▲
- Filter section: Filters: 0. Categories include: Exchange, Any; Index, Any; Sector, Any; Industry, Any; Country, Any; Market Cap., Any; Dividend Yield, Any; Float Short, Any; Analyst Recom., Any; Option/Short, Any; Earnings Date, Any; **Average Volume, Any**; Relative Volume, Any; Current Volume, Any; Price, Any; Target Price, Any; IPO Date, Any.
- Tab navigation: Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, Stats. The "Average Volume" tab is circled in red.

Find the “Market Cap.” category and click on the “Custom” tab. Enter the number zero in the left box, and fifteen in the right box.

#### Exhibit 4.104. Bullish Hammer (Market Cap)

The screenshot shows a financial screening interface with various tabs at the top: Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, Elite. The date is Mar 12 2014 10 AM EST. Below the tabs are sections for 'My Presets' and 'Orders'. A 'Filters' section is open, showing 'Filters: 1' with tabs for Descriptive(1), Fundamental, Technical, and All(1). Under 'Market Cap', the 'B' input field is highlighted with a yellow box and contains '15'. Other filters include 'Dividend Yield' (Any), 'P/E Short' (Any), 'Analyst Recom.' (Any), 'Option Short' (Any), 'Earnings Date' (Any), 'Average Volume' (Any), 'Relative Volume' (Any), 'Current Volume' (Any), and 'Price' (Any). At the bottom of the filters are tabs for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Now, click on the “Technical” tab.

#### Exhibit 4.105. Bullish Hammer (Technical)

The screenshot shows the same financial screening interface as Exhibit 4.104. The 'Technical' tab is selected under the 'All(1)' tab in the 'Filters' section. The filters are set to 'Performance' (Any) and 'Performance 2' (Any). Under 'Moving Average', '20-Day Simple' and '50-Day Simple' are selected. Under '20-Day High/Low', '50-Day High/Low' is selected. Under 'Beta', 'Average True Range' is selected. Other filters include 'Volatility' (Any), '200-Day Simple' (Any), 'Moving Average' (Any), 'Change' (Any), 'RSI (14)' (Any), 'Gap' (Any), 'Change from Open' (Any), '52-Week High/Low' (Any), 'Pattern' (Any), and 'Candlestick' (Any). At the bottom of the filters are tabs for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Find the “52-Week High/Low” category and select the “20% or more below high” tab.

## Exhibit 4.106. Bullish Hammer (52-Week High/Low)

The screenshot shows a financial analysis software interface with a toolbar at the top and a main search area below. The search bar includes fields for 'My Presets', 'Order: Ticker', 'Asc', 'Signal: None (all stocks)', and 'Tickers'. Below the search bar is a 'Filters' section with tabs for 'Descriptive', 'Fundamental', and 'Technical'. The 'Technical' tab is selected, showing the following filter criteria:

- Performance:** Any
- 20-Day Simple Moving Average:** Any
- 20-Day High/Low:** Any
- Beta:** Any
- Performance 2:** Any
- 50-Day Simple Moving Average:** Any
- 50-Day High/Low:** Any
- Beta:** Any
- Average True Range:** Any

Specific filters under 'Technical' include:
 

- Volatility:** Any
- RSI (14):** Any
- Gap:** Any
- Change from Open:** Any
- Change:** Any
- Change from Open:** Any
- Pattern:** Any
- Candlestick:** Any

At the bottom of the interface are tabs for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Find the “Performance” category and click on the “Quarter Up” tab.

## Exhibit 4.107. Bullish Hammer (Performance)

This screenshot shows the same financial screening tool as Exhibit 4.106, but with different filter settings. The 'Performance' tab is selected in the 'Technical' filter section. The other filter criteria remain the same as in Exhibit 4.106.

Find the “Performance 2” category and select the “Week Down” tab.

## Exhibit 4.108. Bullish Hammer (Performance 2)

This screenshot shows the financial screening tool with the 'Performance 2' tab selected in the 'Technical' filter section. Additionally, the 'Week Down' tab is selected in the 'Technical' filter section. The other filter criteria remain the same as in Exhibits 4.106 and 4.107.

Find the “Candlestick” category and select the “Hammer” tab.

## Exhibit 4.109. Bullish Hammer (Candlestick)

This screenshot shows the financial screening tool with the 'Candlestick' tab selected in the 'Technical' filter section. The 'Hammer' tab is also selected. The other filter criteria remain the same as in Exhibits 4.106 through 4.108.

Scroll through the charts and look for the bullish harami pattern.

### *IDEAL CONDITIONS*

To get the most out of a bullish hammer candlestick pattern, look for the following conditions:

- The pattern appears within a third of the 52-week low
- An intermediate and long-term uptrend precedes the pattern

- The hammer is bullish (green/white)

## BEARISH CANDLESTICK TRADING PATTERNS

As discussed earlier in this chapter, reversal patterns are powerful signals that indicate the previous trend in price movement (i.e., uptrend, downtrend, or trendless) stopped and a new trend moving in the opposite direction is about to begin. The reversal patterns we covered thus far were *bullish reversal patterns*. That is, a downtrend was in place and one of the top-performing candlestick patterns we covered appeared, thereby signaling the downtrend is about to stall and an uptrend will take its place. Bullish reversal patterns tell us when to buy a stock. *Bearish reversal patterns*, on the other hand, tell us when to sell a stock. Let's take a look at an example.

**Exhibit 4.110.** Bearish Reversal Pattern Example



In Exhibit 4.110 you see shares of Netflix (NASDAQ: NFLX) rise from early-January 2018 to January 31, 2018. However, a bearish, candlestick reversal pattern (marked in blue marker) forms over two trading sessions; January 30 and 31, 2018. That bearish reversal pattern is a bearish engulfing; the bullish engulfing's evil twin. The bearish engulfing is a signal that the previous trend, an uptrend, is about to end, or "reverse." A downtrend will take its place. If you purchased shares of Netflix before the bearish engulfing formed, this would be the time to sell and take profit. Why? Take a look at Exhibit 4.111.

**Exhibit 4.111.** Bearish Reversal Pattern Example (2)



The bearish reversal pattern, i.e., bearish engulfing, is marked in blue ink. The uptrend preceding the bearish engulfing? Gone, baby, gone.

On February 1, 2018, one day after the bearish engulfing formed, shares of Netflix fell approximately \$5. By February 9, 2018, shares of Netflix were trading in the high \$230s. From the tip of the uptrend (roughly \$285) to the bottom of the downtrend (approximately \$238), Netflix share price fell about \$50 in a little over a week. However, the wise trader would have declined Netflix's invitation to freefall with its share price. Why? Because the wise trader recognized the bearish reversal pattern and sold her shares of Netflix the moment the bearish engulfing formed. The only guaranteed money, is money in the pocket. Consider bearish reversal patterns your reminder to take profit. An old Wall Street saying goes, "Bulls make money, bears make money, pigs get slaughtered." Don't be a pig, take profit.

Like I said, reversal patterns are the single most important factor in our trading method because they offer us the opportunity to solidify significant profits. Bullish reversal patterns tell us when to buy while bearish reversal patterns tell us when to sell. You need both to make a profit.

### *POWERFUL (BEARISH) CANDLESTICK REVERSAL PATTERNS*

In this section we will cover some of the most potent bearish, reversal patterns. When one of these candlestick patterns appears on the chart of a stock you own, it is time to sell.

## Bearish Engulfing



The *bearish engulfing* pattern is composed of two candles. The first candle in the pattern is a small, bullish (green/white) candle. There should be lighter volume for the first candle. The second candle is a large, bearish (red/black) extended range candle. There should be heavier volume for the second candle. Furthermore, the second candle's real body should completely envelop the first candle's real body. The second candle's real body need not encompass the first candle's shadows.

### Criteria

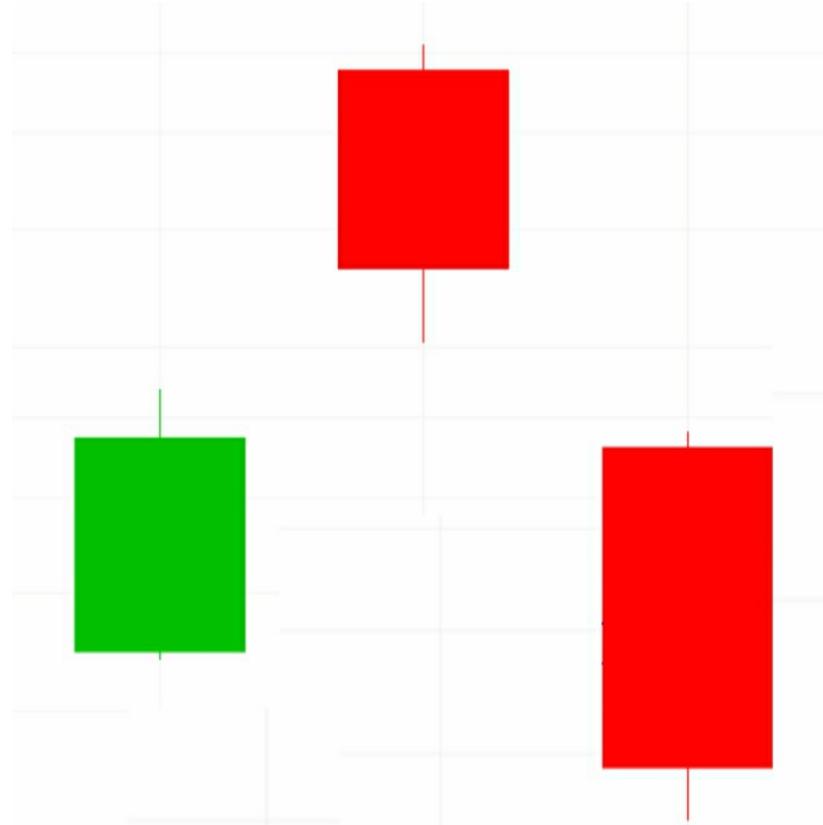
Three criteria must be present for a candle pattern to qualify as a bearish engulfing:

- ✓ The market has to be in a clearly defined uptrend; either an intermediate uptrend or a short-term uptrend
- ✓ Two candles comprise the pattern. The second candle's real body must engulf the prior candle's real body
- ✓ The first candle must be bullish, and the second candle must be a bearish candle

### Technique

When a bearish, engulfing forms at the top of an uptrend, you should strongly consider downsizing your position. That means selling most or all of your shares. Look to sell near the close of the second candle's session.

## Evening Star



The *evening star* pattern is a powerful bearish reversal of the preceding uptrend. The pattern is composed of three candles. The first candle is a medium bullish (green/white) extended range candle. The following trading session, a small-bodied candle, either bullish or bearish, gaps above the bodies of the first and third candles. The shadows need not gap above the other two candle's real bodies. The third and last candle is a tall, bearish (red/black) extended range candle that opens below the second candle's real body and closes at least midway down the body of the first candle.

### *Criteria*

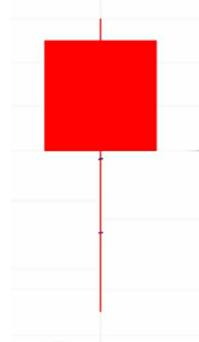
Three factors must be met for a candle pattern to qualify as an evening star:

- ✓ The market has to be in a clearly defined uptrend, either an intermediate uptrend or a short-term uptrend
- ✓ Three candles comprise the pattern. The second candle's real body must rise above the first and third candle's real body
- ✓ The first candle is bullish. The second candle may be either bullish or bearish. The third candle is bearish

### *Technique*

When an evening star forms at the top of an uptrend, you should look to sell your shares. Look to sell your shares as the third candle forms, preferably during the first half of the trading session.

## Hanging Man



The *hanging man* candle is a single candle, reversal pattern. The length of the lower shadow must be at least twice the size of the real body, which should be near the top of the candle. The longer the shadow, the stronger the potential for a reversal. The hanging man is the bearish counterpart of the bullish hammer. Therefore, the hanging man appears at the top of an uptrend, whether it be intermediate or short-term. The color of the candle is not as important as its position in the trend. If you find a candle at the bottom of a trend, with a long lower shadow and small real body near its top; it is not a hanging man. Repeat to yourself, “a candle cannot be a hanging man unless it is at the top of a uptrend.”

## *Criteria*

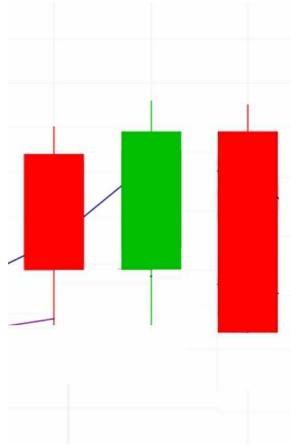
Four factors must be met for a candle pattern to qualify as a hanging man:

- ✓ The market must be in a clearly defined uptrend, either an intermediate uptrend or a short-term uptrend
- ✓ The candle appears at the top of the trend
- ✓ The candle's lower shadow is at least twice the size of its real body
- ✓ The small real body is located at or near the top of the candle

## *Technique*

When a hanging man forms at the top of an uptrend, you should look to sell your shares near the session's close.

## **Stick Sandwich**



The *stick sandwich* pattern is a three candle, bearish reversal pattern. Look for a medium-sized, bearish (red/black) candle in a falling price trend. In other words, any kind of downtrend or pullback. The following session, a bullish (green/white) candle closes above the previous candle's close. On the last trading session, a bearish (red/black), extended range candle opens below the previous candle's open and closes at or near the first candle's close.

## *Criteria*

Five factors must be met for a candle pattern to qualify as a stick sandwich:

- ✓ The market must be in a clearly defined uptrend, either an intermediate uptrend or a short-term uptrend
- ✓ The candle appears in a downtrend or pullback

- ✓ The first candle is bearish
- ✓ The second candle is bullish and closes above the previous candle's close
- ✓ The third candle is bearish and opens below the second candle's closing price and closes at or near the first candle's closing

### *Technique*

When a stick sandwich forms, you should look to sell your shares. Since the first two candles of the stick sandwich pattern look similar to a bullish engulfing, a bullish reversal pattern, you should hold onto your shares until the third candle forms. Ideally, wait until the second half of the third candle's trading session to sell.

## Bearish Harami



The *bearish harami* pattern is the bearish counterpart to the bullish harami. The pattern is composed of two candles that form at the top of an uptrend. The first candle is a bullish (green/white), extended range candle. The second candle is a small or medium, bearish (red/black) candle. The second candle's real body should fit within the prior candle's real body. In other words, the second candle's opening price is higher than the previous candle's, and the second candle's closing price is below the first candle's closing price.

### Criteria

Five factors must be met for a candle pattern to qualify as a bearish harami:

- ✓ The candle appears in an uptrend
- ✓ The first candle is a bullish (green/white), extended range candle
- ✓ The second candle is small/medium sized, bearish (red/black) candle
- ✓ The second candle's real body fits within the first candle's real body. It is okay if the second candle's shadows extend beyond the first candle's real body

### Technique

When a bearish harami forms, you should look to sell your shares at or near the second candle's close.

## Dark Cloud Cover



The *dark cloud cover* pattern is a bearish reversal, consisting of two candles. The pattern appears at the top of an upward price trend. The first candle is a bullish (green/white), extended range candle. The second candle is a bearish (red/black), extended range candle. The second candle's opening price is above the first candle's real body. Furthermore, the second candle closing price is below the mid-point of the first candle's real body.

## *Criteria*

Five factors must be met for a candle pattern to qualify as a dark cloud cover:

- ✓ The candle appears in an uptrend
- ✓ The first candle is a bullish (green/white), extended range candle
- ✓ The second candle is bearish (red/black), extended range candle
- ✓ The second candle opens above the previous candle's close
- ✓ The second candle closes at or below the mid-point of the first candle's real body

## *Technique*

When a dark cloud cover forms, you should look to sell your shares at or near the second candle's close.

# CHAPTER 4 SUMMARY OF REVERSAL PATTERNS

## 1. *Intro to Candlesticks:*

- a. A candlestick represents a stock's share price movement during a trading session
- b. A candlestick usually has a real body and an upper and lower shadow
- c. The real body represents the price range between the session's open and close
- d. The upper shadow represents the high of the session. The lower shadow represents the low of the session
- e. There are two kinds of candlesticks, bullish candles and bearish candles
  - i. Bullish candles are either green or white
  - ii. Bearish candles are either red or black
- f. Think of a candle as a single Lego piece
- g. Common candles include:
  - i. Umbrella lines
  - ii. Hammer
  - iii. Hanging man
  - iv. Stars
  - v. Morning star
  - vi. Evening star
  - vii. Doji star
  - viii. Shooting star
  - ix. Bullish extended range candle
  - x. Bearish extended range candle

## 2. *Intro to Candlestick Reversal Patterns:*

- a. Reversal patterns are powerful signals that indicate the previous trend is complete and a new trend moving in the opposite direction is about to begin
- b. Traders look for specific candlestick patterns to tip them off to a reversal in the trend
- c. Think of candlestick reversal patterns as the assembled Super Star Destroyer Lego set

**3. *Top-8 Best Performing Candlestick Patterns:***

- a. Top-performing candlestick patterns, based on my trading experience and research, include:
  - i. Three white soldiers
  - ii. Morning star
  - iii. Three outside up
  - iv. Bullish separating lines
  - v. Piercing line
  - vi. Bullish engulfing
  - vii. Bullish harami
  - viii. Bullish hammer

**4. *Individual “Best Performing” Candlestick Pattern Review:***

- a. Morning star:
  - i. Three candles comprise the pattern
  - ii. The first candle is a bearish extended range candle
  - iii. The second candle is a star
  - iv. The third candle is a bullish extended range candle
- b. Three outside up:
  - i. Three candles comprise the pattern
  - ii. The first candle is a bearish candle, preferably bearish extended range candle
  - iii. The second candle is a bullish extended range candle
  - iv. The third candle is a bullish extended range candle that closes above the second candle's real body
- c. Bullish separating lines:
  - i. Two candles comprise the pattern
  - ii. The first candle is a bearish extended range candle
  - iii. The second candle is a bullish extended range candle
- d. Piercing line:
  - i. Two candles comprise the pattern

- ii. The first candle is a bearish extended range candle
  - iii. The second candle is a bullish extended range candle that opens below the first candle's real body and closes at (or above) the midway point of the first candle's real body
- e. Bullish engulfing:
  - i. Two candles comprise the pattern
  - ii. The first candle is a small or medium bearish candle
  - iii. The second candle is a small or medium bullish candle that fits within the first candle's real body
- f. Bullish harami:
  - i. Two candles comprise the pattern
  - ii. The first candle is a bearish extended range candle
  - iii. The second candle is a small or medium bullish candle that fits within the first candle's real body
- g. Bullish hammer:
  - i. One candle comprises the pattern
  - ii. The candle consists of a long umbrella line with a small (or no) real body near the top of the candle
  - iii. The color of the candle does not determine whether the hammer is bullish or bearish
  - iv. The location of the candle determines whether the hammer is bullish or bearish

## 5. ***Bearish Candlestick Trading Patterns:***

- a. Bearish reversal patterns tell us when to sell a stock, whereas bullish reversal patterns tell us when to buy a stock
- b. Common bearish reversal patterns include:
  - i. Bearish engulfing

- ii. Evening star
- iii. Hanging man
- iv. Stick sandwich
- v. Bearish harami
- vi. Dark cloud cover

# CHAPTER 5

## TECHNICAL INDICATORS

ねこをおうよりさらをひけ

*Rather than chase the cat, take away the plate.*

Phew! I imagine you will never look at a candle the same way again. We covered quite a bit there, but deservedly so since candlesticks are the single most important factor in our trading method. Most traders stop there. They master candlesticks, accept the “Eastern Trading Methodology,” and go on trading securities. And that is just fine; they will likely do just fine in the market.

However, personally, ‘just fine’ was never enough for me. We have but one life, and there is only one thing guaranteed in it. Death. Well, that escalated quickly. This just turned from, *Think, Trade, and Grow Rich!* to, *Overthink, Give Up, and Die!* I hope you are at least smirking because I am most certainly laughing at my own joke. You see, knowing my time on this earth is limited drives me to heights I could not previously imagine. It is rocket fuel. It is what propelled me to author a book at the age of twelve. It is the reason I graduated from high school with a football and academic scholarship in hand. It is what drove me to open and operate multiple restaurants with my family. It is the reason I graduated *magna cum laude* from Berkeley. It is the reason I earned my J.D. at the age of twenty-six. It is the reason why I spent years researching, practicing, trading, tinkering, and developing a trading method that beats not only the market but seasoned-veteran traders. And it is the reason why you will not accept ‘just fine,’ but will build on your trading and investing education, and will bet on yourself even when no one else believes in you.

### EAST MEETS WEST

Candlesticks, as you probably know by now, are Eastern trading tools. *Technical indicators* are, you guessed it, Western trading tools. Yes, candlesticks account for most of our decision-making process. And, yes, we

will rarely, if ever, make trading or investing decisions based solely on technical indicators. However, that does not make technical indicators any less important. You see, over the years I discovered candlesticks are only as strong as their partner; technical indicators. Batman has Robin. Mario has Luigi. Bert has Ernie. Ben has Jerry. Tom has Jerry, too. Peanut butter has jelly. And, candlesticks have technical indicators. Peanut butter without jelly is just a deadly peanut allergy. Candlesticks without technical indicators, you get it.

## *INTRODUCTION TO TECHNICAL INDICATORS*

Substantively, technical indicators analyze financial statistics generated by market activity. Most Western traders and investors consider technical analysis, “the only mechanism to measure the ‘irrational’ (emotional) component present in all markets.”<sup>[41]</sup> Considering the market, as a whole, has a propensity to act irrational, mirroring an irrational world; technical indicators serve as a gauge of market sentiment. Furthermore, technical indicators help ensure traders and investors leave their emotions at the door. That is, technicals put objectivity in the driver’s seat. They provide a mechanism to set *entry and exit points*, to set *risk/reward ratios*, or *stop out levels*.<sup>[42]</sup> In essence, technicals help us foster a risk and money management approach to trading debased from emotion.

Technical indicators include such statistics as: volume, price trends, relative strength index, moving averages, support and resistance levels, buying and selling pressure, money flow index, etc., Combined with the pillar of our trading and investing methodology, Japanese candlesticks; a robust trading system emerges.

For purposes of our trading and investing method, we will focus on the following contributors to technical analysis:

1. Price trend
2. Volume
3. Moving averages
4. Stochastics
5. Money flow index
6. Relative strength index
7. Analyst target

8. Performance
9. Resistance/Support levels

In sum, we will look to technical indicators to confirm predictions and alerts made by Japanese candlesticks. We must always consider the overall picture, i.e., follow our trading checklist before reacting to a single candlestick pattern.

## *PRICE TREND*

We covered *price trends* and trendlines in chapter three. You learned to identify trends and trade in the direction of the long-term and intermediate trends. Keep the ocean tides metaphor in the back of your mind whenever you evaluate trends and trendlines. If you are in the ocean and wish to swim to shore, you will want the tide to push you towards shore. You will swim with or along the tide. If you swim against the tide, you will find yourself pulled out to sea. This is also the case with trendlines; if the trendline is bearish and you enter the trade, you will be pulled out to sea. If the trendline is bullish and you enter the trade, your odds of reaching shore increase exponentially. Swim with the tide, not against the tide.

In Chapter 6, we will evaluate and analyze a stock according to our trading checklist. You will learn how to grade and allocate points. In the meantime, lets quickly review the point allocation system for our trading checklist.

For purposes of our trading checklist, you will evaluate the trend category in the following manner.

I.	<b>Trend</b>	[ #/5 ]
a.	Short-term	1
b.	Primary	2
c.	Long-term	2
d.	Score	5

A total of five points may be awarded for the trend category. An ideal short-term trend or pullback -i.e., a decline in stock price over the last month - is worth one point. A flawed short-term trend is worth  $\frac{1}{4}$  to  $\frac{3}{4}$  point. For example, a decline in stock price consisting of only a few candles may be labeled “flawed.” Finally, deduct one point if the short-term trend is not ideal -e.g., the short-term price trend is positive, and the oscillator bands are in the overbought range. You will learn about oscillator bands later in the chapter.

Ideal intermediate and long-term trends are each worth two points. A flawed intermediate or long-term trend is worth 1.25 to 1.75 points. If the long-term or intermediate-term trends are not ideal, deduct two points for

each for a total of negative four points.

Breathe. At this time, you should not worry about mastering or memorizing the point system. I will walk you through it all in Chapter 6. Furthermore, the more charts you see and the more you study and practice trading, the easier it will be to identify what is ‘ideal,’ ‘flawed,’ and ‘not ideal.’ Hang in there, grasshopper.

## VOLUME

*Volume* is the fuel that drives stocks. Volume is the water pressure in a hose. The greater the volume or water pressure, the more force behind the move or hose. A powerful candlestick pattern combined with high volume translates into powerful movement in price action. For baseball fans, a bullish candlestick reversal pattern with high volume, preceded by a downtrend with low volume is your hanging changeup. The perfect pitch to crush out of the park.

Substantively, volume is the number of shares traded during a given trading period.<sup>[43]</sup> It measures the number of transactions, i.e., buying and selling shares of a stock in a trading session. For instance, approximately 74.5 million shares of General Electric (NYSE: GE) trade per day.

Volume is one of the most important technical indicators used by traders and investors to measure the “worth” of a market move. The higher the volume during the price move, the more significant the move and vice-versa.

## Candles and Volume

Whether there is a single candle or a candlestick pattern forming, the chances of a reversal increase if volume confirms what the candle pattern is showing. Explosive volume is a powerful confirmation of a candlestick reversal pattern. On positive, bullish days, heavy volume indicates that the stock should continue to rise. Money is pouring into the stock. On down, bearish days, heavy volume signals that the stock price should continue to decline. Money is flowing out of the stock. Let’s take a look at an example.

## Exhibit 5.1. Candles and Volume Example



Exhibit 5.1. shows the share price movement of Microsoft (NASDAQ: MSFT) from late January 2018 to mid/late February 2018. Notice the bullish engulfing (marked in blue ink) that forms at the bottom of a downtrend in early February 2018. The bullish engulfing is a signal that the preceding downtrend is about to stall and an uptrend form. Below the bullish engulfing is a volume bar chart. The red bars depict bearish volume, while the green bars illustrate bullish volume. Notice the bearish volume on the first day of the candlestick pattern is lower than the bullish volume on the second day of the pattern. This indicates that the buying pressure is higher than the selling pressure. This is a good sign. However, the true value of volume as a technical indicator lies in the averages. Notice the black, horizontal line that cuts through the volume bar chart? That line depicts the average volume. In other words, the average number of shares of Microsoft traded per trading session. Bullish volume on the second day of the bullish engulfing pattern rises well above average volume. In fact, the volume bar is approximately twice as tall as the average volume bar. This tells us that the buying pressure for that trading session, the second candle in the bullish engulfing pattern, was immense.

## **Exhibit 5.2. Candles and Volume Example (2)**



To bring it all together, we have a bullish engulfing at the bottom of a short-term downtrend, with bullish volume that not only exceeds the previous trading session's bearish volume but also surpasses (by a compelling amount) the average number of shares of Microsoft traded on any given trading session. Take a look at Exhibit 5.2. (above).

Sure enough, after a few days of consolidation, share price rises above the bullish engulfing that formed in early February 2018. Price movement breakouts are strongest when accompanied by explosive volume.

## **How to Evaluate Volume for Purposes of our Trading Methodology?**

- |                              |              |
|------------------------------|--------------|
| <b>I.      <i>Volume</i></b> | <b>[#/8]</b> |
| a.    Average                | 1            |
| b.    Above Average          | 6            |
| c.    Increasing             | 1            |
| d.    Decreasing             | 0            |
| e.    Score                  | 8            |

For purposes of our trading checklist, the above-average volume category is worth up to eight points. A stock that trades an average of 300,000 shares (or more) per trading session receives one point for the average volume section.

- |                              |              |
|------------------------------|--------------|
| <b>I.      <i>Volume</i></b> | <b>[#/8]</b> |
| a.    Average                | 1            |

A stock that trades more than 100,000, but less than 300,000 shares

per trading session is ‘flawed.’ You may award between  $\frac{1}{4}$  to  $\frac{3}{4}$  points to the stock for average volume. Use your discretion, but do not get caught up in overanalyzing anyone one category; we are talking about a quarter point here. Trading and investing is just as much an art as it is a science. With time and practice, you will get a feel for how many points to award.

The above-average volume category is worth up to six points. You will learn how to calculate above-average volume in Chapter 6. For now, you only need to know a stock with an above-average volume reading between 0.1%-20% is worth one point. A reading between 20.1%-40% is worth two points. Three points may be awarded if volume is 40.1%-60% above the average volume. A reading between 60.1%-80% is worth four points. A reading between 80.1%-100% is worth five points. Finally, an above-average volume reading of 100.1% or more is worth six points.

- |    |               |       |
|----|---------------|-------|
| I. | <b>Volume</b> | [#/8] |
| a. | Average       | 1     |
| b. | Above Average | 6     |

Next, the increasing volume category is worth up to one point. Increasing volume means there is a general, upward trend in trading volume. You will learn how to find increasing volume in Chapter 7.

- |    |               |       |
|----|---------------|-------|
| I. | <b>Volume</b> | [#/8] |
| a. | Average       | 1     |
| b. | Above Average | 6     |
| c. | Increasing    | 1     |

On the other hand, deduct one point for a stock with decreasing volume.

- |    |               |                      |
|----|---------------|----------------------|
| I. | <b>Volume</b> | [#/8]                |
| a. | Average       | 1                    |
| b. | Above Average | 6                    |
| c. | Increasing    | 1                    |
| d. | Decreasing    | (-1) <sup>[44]</sup> |

## MOVING AVERAGES

*Moving averages* are another important technical factor we will

consider in our trading and investing decisions. Moving average is a trend-following, or lagging, indicator of price action over a specified period of time.<sup>[45]</sup>

The most commonly used moving average is the *simple moving average*, or “SMA.” The simple moving average measures the average of all the price points used. For instance, let us say the last eight closing prices of a stock were \$1, \$2, \$5, \$4, \$7, \$6, \$5, and \$4. The 8-day SMA of these closes would be:  $\$34 / 8 = \$4.25$  SMA.

The term “moving,” in moving average, signifies that as the newest data is added to the moving average, the oldest data is dropped. The average is always changing or “moving” as new data is added.

The shorter the term of the moving average, i.e., the fewer closing prices you use, the closer the moving average line will “hug” the stock prices. Longer-term moving averages provide a greater smoothing effect, but, at the same time, are less responsive to recent price. Take a look at Exhibit 5.3. below.

### Exhibit 5.3. Moving Average Example



In Exhibit 5.3. we see AxoGen (NASDAQ: AXGN) share price movement over a couple of months. Notice the blue line marked “5-Day SMA” at the bottom of the Exhibit? That blue line tracks AXGN’s average share price for the last five days. As you can see, AXGN share price more or less hugs the 5-Day SMA. Slightly above the 5-Day SMA is a purple line marked “8-Day SMA.” You guessed right; the 8-Day SMA tracks share price for the last eight days. Some of the most important simple moving averages used by traders are the 5-day, 8-day, 21-day, 50-day, and 200-day simple moving averages.

### Exponential Moving Average

The *exponential moving average*, or “EMA,” is a front weighted moving average. Let us say the last five share prices of a stock are \$10, \$11, \$12, \$13, \$14. The stock price was \$10 yesterday and the stock price five days ago was \$14. In calculating the exponential moving average, the formula will assign progressively smaller weight to each of the past prices. In other words, yesterday’s stock price will be more heavily weighted, or taken into account, than the previous day’s stock price, and so forth.

The most important exponential moving averages used by traders are the 34-day and 100-day EMA.

### Using Moving Averages

Moving averages provide traders and investors with objective strategies with clearly defined trading rules.<sup>[46]</sup>

Some of the most prevalent uses for simple moving averages include:

1. 5-day and 8-day simple moving averages may be used to time entry and exit points for trades. If stock price is above the 5-day and/or 8-day simple moving average, consider it a positive sign and proceed through our checklist; evaluating the stock. If stock price is below the 5-day and/or 8-day simple moving average, consider it a negative sign and proceed with caution.
2. If the 21-day simple moving average and 34-day exponential moving average cross below the 50-day simple moving average, the stock is in an intermediate downtrend. You should avoid the stock until the 21-day SMA and 34-day EMA cross above the 50-day SMA. If you have a position in the stock, you should consider taking profit and selling most of your shares. If the 21-day SMA and 34-day EMA are above the 50-day SMA, you may proceed to evaluate the stock.
3. If stock price is below the 50-day simple moving average, you should avoid the stock until share price rises above the 50-day SMA. If you have a position in the stock, and share price drops below the 50-day SMA, you should take profit and sell most of your shares.
4. The 50-day simple moving average should be above the 100-day exponential moving average and 200-day simple moving average.
5. You may use the 50-day simple moving average as support or resistance levels. If share price closes above the 50-day simple moving average, consider it a bullish sign. If share price closes below the 50-day simple moving average, consider it a bearish sign.

If share price is below the 100-day exponential moving average and the 200-day simple moving average, move on. There is nothing good for you here. Let us take a look at share price action and the 50-day simple moving average.

#### **Exhibit 5.4. 50-day Simple Moving Average Example**



Take a look at Exhibit 5.4. The red, dotted-line symbolizes the 50-day simple moving average. Look at what happens to AXGN share price in early February 2018 when share price dips below the 50-day simple moving average. AXGN share price enters a short-term downtrend, falling to \$24.50 price level over the course of a few days. Share price rebounds by late February 2018 and crosses above the 50-day SMA. Once share price crosses above the 50-day SMA line, AXGN enters an intermediate uptrend, sending share price well over \$32.00. The intelligent trader would have sold her shares once share price dipped below the 50-day SMA, and bought shares once share price crossed above the 50-day SMA.

### **How to Evaluate Moving Average for Our Trading Purposes?**

For purposes of our trading checklist, the moving averages section is worth up to 2.25 points.

#### **I. Moving Averages [#/2.25]**

- a. SMA 5-day       $\frac{1}{2}$
- b. EMA 8-day       $\frac{1}{4}$
- c. SMA 20-day       $\frac{1}{4}$
- d. EMA 34-day       $\frac{1}{4}$
- e. SMA 50-day       $\frac{1}{2}$
- f. SMA 200-day       $\frac{1}{4}$
- g. Bonus Point       $\frac{1}{4}$
- h. Score

The SMA 5-day category is worth a  $\frac{1}{2}$  point. You may award a  $\frac{1}{2}$  point if the SMA 5-day is above the EMA 8-day *and* share price is above the SMA 5-day line.

I. ***Moving Averages*** [#/2.25]

a. SMA 5-day  $\frac{1}{2}$

If the SMA 5-day is below the EMA 8-day *or* share price is below the SMA 5-day, award a  $\frac{1}{4}$  point for the SMA-5-day category.

No points may be awarded for the category if share price is below the SMA 5-day *and* the SMA 5-day is below the EMA 8-day.

The EMA 8-day category is worth up to a  $\frac{1}{4}$  point. You may award a  $\frac{1}{4}$  point if the EMA 8-day is above the SMA 20-day.

I. **Moving Averages** [#/2.25]

- a. SMA 5-day  $\frac{1}{2}$
- b. EMA 8-day  $\frac{1}{4}$

If the EMA 8-day is below the SMA 20-day, do not award any points. If the EMA 8-day is below the SMA 20-day *and* share price is also below the EMA 8-day line, deduct a  $\frac{1}{4}$  point for the EMA 8-day category.

The SMA 20-day category is also worth a  $\frac{1}{4}$  point. You may award a  $\frac{1}{4}$  point if the SMA 20-day is above the EMA 34-day.

I. **Moving Averages** [#/2.25]

- a. SMA 5-day  $\frac{1}{2}$
- b. EMA 8-day  $\frac{1}{4}$
- c. SMA 20-day  $\frac{1}{4}$

Do not award any points if the SMA 20-day is below the EMA 34-day. If the SMA 20-day is below the EMA 34-day *and* the share price is below the SMA 20-day line, deduct a  $\frac{1}{4}$  point for the SMA 20-day category.

The EMA 34-day category is worth  $\frac{1}{4}$  point. You may award a  $\frac{1}{4}$  point if the EMA 34-day is above the SMA 50-day *and* share price is above the EMA 34-day line.

I. **Moving Averages** [#/2.25]

- a. SMA 5-day  $\frac{1}{2}$
- b. EMA 8-day  $\frac{1}{4}$
- c. SMA 20-day  $\frac{1}{4}$
- d. EMA 34-day  $\frac{1}{4}$

Do not award any points if the EMA 34-day is below the SMA 50-day *or* share price is below the EMA 34-day line. Deduct a  $\frac{1}{4}$  point if the EMA 34-day is below the SMA 50-day *and* the share price is below the EMA 34-day line.

The SMA 50-day category is worth a  $\frac{1}{2}$  point. You may award a  $\frac{1}{2}$  point if the SMA 50-day is above the SMA 200-day and the share price is above

the SMA 50-day.

I. **Moving Averages** [#/2.25]

- a. SMA 5-day       $\frac{1}{2}$
- b. EMA 8-day       $\frac{1}{4}$
- c. SMA 20-day       $\frac{1}{4}$
- d. EMA 34-day       $\frac{1}{4}$
- e. SMA 50-day       $\frac{1}{2}$

If the SMA 50-day is below the SMA 200-day or share price is below the SMA 50-day, you may only award a  $\frac{1}{4}$  point for the SMA 50-day category. Do not award any points if the SMA 50-day is below the SMA 200-day and the share price is below the SMA 50-day line.

The SMA 200-day category is worth a  $\frac{1}{4}$  point. You may award a  $\frac{1}{4}$  point if share price is above the SMA 200-day line. On the other hand, deduct a  $\frac{1}{4}$  point if share price is below the SMA 200-day line.

I. **Moving Averages** [#/2.25]

- a. SMA 5-day       $\frac{1}{2}$
- b. EMA 8-day       $\frac{1}{4}$
- c. SMA 20-day       $\frac{1}{4}$
- d. EMA 34-day       $\frac{1}{4}$
- e. SMA 50-day       $\frac{1}{2}$
- f. SMA 200-day       $\frac{1}{4}$

Finally, if a stock scores a perfect score in all six categories of the moving averages section, you may award the stock a  $\frac{1}{4}$  point as a bonus.

## *STOCHASTIC OSCILLATOR*

The *stochastic oscillator* is a momentum indicator that compares the closing price of a security to the range of its prices over a specified period of time. In laymen terms, the stochastic oscillator tells traders whether a stock is overbought or oversold. If a stock is overbought, most traders who wanted to buy the stock have already purchased the stock. There are not that many buyers left; consequently, there are more sellers than buyers. When there are more sellers than buyers, share price declines. If a stock is oversold, most traders who wanted to sell the stock have already done so. This leaves more buyers than sellers, permitting share price to increase gradually.

## Exhibit 5.5. Overbought/Oversold Example



Exhibit 5.5 shows AXGN share price from early February 2018 to early April 2018. The stochastic oscillator is at the bottom of the Exhibit, the pink and blue lines.

In early February 2018, the stochastic oscillator hits the oversold line (black, horizontal line). At the same time, share price dips down to the \$24 level. Starting in mid-February 2018, the stochastic oscillator begins rising in unison with share price. The stochastic oscillator hits overbought conditions by late February/early March 2018 and stays overbought until late March 2018. Meanwhile, share price continues to rise until late March 2018. In late March/early April 2018, the stochastic oscillator begins declining, and, accordingly, share price starts falling as well.

The intelligent trader would have bought shares of AXGN when the stochastic oscillator began its rise from oversold conditions. The intelligent trader would have held onto her shares of AXGN until the stochastic oscillator hit overbought conditions and started its decline in early April 2018.

## How to Evaluate Stochastics Oscillator for Our Trading Purposes?

For purposes of our trading checklist, the stochastics section is worth up to two points.

I.	<b>Stochastics</b>	[#/2]
a.	Overbought	0
b.	Oversold	2
c.	Score	

If the stochastics oscillator indicates the stock is overbought, i.e., a reading between 71 to 100, deduct one point.

I.	<b>Stochastics</b>	[#/2]
a.	Overbought	(-1) <sup><a href="#">[47]</a></sup>

Neither award nor deduct any points if the stochastics oscillator reading is between 50 to 70. If the stochastics oscillator reading is between 31 to 49, you may award the stock one point in the oversold category.

I.	<b>Stochastics</b>	[#/2]
a.	Overbought	0
b.	Oversold	1

If the stochastics oscillator indicates the stock is oversold -i.e., reading between 0 to 30, you may award the full two points in the oversold category.

I.	<b>Stochastics</b>	[#/2]
a.	Overbought	0
b.	Oversold	2

## *MONEY FLOW INDEX*

The money flow index tracks the level of volume on each price change to determine if money is flowing into or out of a stock. If money is flowing into a stock, consider it a bullish sign. Accordingly, if money is flowing out of a stock consider it a bearish sign.

## **How to Evaluate Money Flow Index for Our Trading Purposes?**

For purposes of our trading checklist, the money flow section is worth up to three points.

I.	<b>Money Flow</b>	[#/3]
----	-------------------	-------

a. Value

A stock with a money flow index reading between 86 to 100 may receive the full three points.

I.	<b><i>Money Flow</i></b>	[#/3]
a.	Value (100-86)	3

A reading between 71 to 85 is worth two points.

I.	<b>Money Flow</b>	[#/3]
a.	Value (85-71)	2

A reading between 51 to 70 is worth 1 point.

I.	<b>Money Flow</b>	[#/3]
a.	Value (70-51)	1

Do not award any points for a reading between 41 to 50.

I.	<b>Money Flow</b>	[#/3]
a.	Value (50-41)	0

Deduct one point for a reading between 21 to 40.

I.	<b>Money Flow</b>	[#/3]
a.	Value (40-21)	-1

Finally, deduct two points for a reading between 0 to 20.

I.	<b>Money Flow</b>	[#/3]
a.	Value (20-0)	-2

## *RELATIVE STRENGTH INDEX*

The *relative strength index*, or “RSI,” is a significant technical factor for traders and investors. RSI compares the magnitude of a stock’s recent gains to the magnitude of its recent losses and turns that data into a number ranging from 1-100. The formula uses only one parameter; time period. Most traders use 14, RSI-14.

The RSI reading helps traders determine the momentum and condition of a given stock. If RSI is between 70 and 100, the stock is overbought and the current price may be too high. You should find another stock. If you own shares of the stock, consider taking profit. An RSI reading between 50 to 70 indicates short-term strength. You may proceed to evaluate the stock. An RSI reading between 30 and 50 indicates short-term weakness. Proceed with *caution*. Finally, if the RSI is between 0-30, the stock is oversold. The current price is too low. You may proceed to evaluate the stock.

## **How to Evaluate RSI for Our Trading Purposes?**

For our trading checklist, the relative strength index (“RSI”) section is worth up to three points.

I. ***Relative Strength Index***[#/2]  
a. Value

If the RSI reading is between 100 to 71, deduct one point. The stock is overbought.

I. ***Relative Strength Index***[#/2]  
a. Value (100-71) -1

Neither award nor deduct any points if the RSI reading is between 70 to 51.

I. ***Relative Strength Index***[#/2]  
a. Value (70-51) 0

You may award one point if the RSI reading is between 50 to 31.

I. ***Relative Strength Index***[#/2]  
a. Value (50-31) 1

A stock with an RSI reading between 30 to 0 is oversold and may receive the full two points.

I. ***Relative Strength Index***[#/2]  
a. Value (30-0) 2

*ANALYST TARGET*

Next, we will look at *analyst price targets*. A price target is the projected price level of a stock stated by an investment analyst or advisor.<sup>[48]</sup> In other words, it is an analyst's expectation on the future price of a stock.

Different analysts and financial institutions use various valuation methods to arrive at a target price. Sometimes these valuation methods are not the most honest or ethical valuations. For instance, if a financial institution wishes to purchase a stock, but the price of the stock rose at an exponential rate, an analyst working for said financial institution may be inclined to influence price action with a negative review and low price target. That is not to say that all price targets are weapons for price manipulation. However, we should always remain conscious and vigilant of the fact that there are a few bad apples out there set on generating profits over the backs of new and naïve traders.

Since ulterior motives may influence analysts, we will study price targets, but never outright rely on the opinions of analysts. We will consider the average *analyst rating* for stocks. That is, a number from one to five, one being a *strong buy* and five being a *strong sell*, which signifies analysts' average recommendation for a given stock.

Below you will find two charts. The first chart is for analyst ratings. A rating between 1-1.9 is a strong buy and is worth two points for purposes of our trading checklist. A buy rating is worth one point. A hold rating is neutral and therefore worth zero points. Sell and strong sell ratings are worth negative points; -1 for a sell and -2 for a strong sell.

Rating	Recommended Action
1-1.9	Strong Buy = 2 Points
2-2.9	Buy = 1 Point
3-3.9	Hold = 0 Points
4-4.5	Sell = -1 Point
>4.5	Strong Sell = -2 Points

Below is a price target chart. If the current price of a stock is above analysts' price targets, you deduct one point in the analyst price target section of our trading checklist. If the current share price is within 10% of the price

target -e.g., price target is \$10 and current price is \$9.95- the stock will not receive any points. Finally, if the current price of a stock is more than 10% below the price target, the stock earns one point for the category.

Price Target	Recommended Action
Current Price Above Price Target	-1 Point
Current Price w/in 10% of Price Target	0 Points
Current Price Below Price Target	1 Point

A stock with a rating between 1-1.9 is a *strong buy* stock. Analysts recommend buying the stock as soon as possible. A stock with a 2.0-2.9 rating is a *buy* stock. Broadly speaking, analysts recommend buying the stock whenever it reaches oversold conditions. A stock with a rating between 3.0-3.9 is a *hold* stock. Meaning, if you own the stock, continue owning the stock. If you do not own the stock, move along and find another stock. A stock with a rating between 4.0-4.5 is a *sell* stock. Analysts recommend not buying the stock. If you own the stock, you should look to sell it once it reaches overbought conditions. Finally, a stock with a rating above 4.5 is a *strong sell* stock. Analysts recommend you sell the stock as soon as possible.

Sounds great, right? Professional analysts advising you, free of charge, which stocks to buy and which to sell? Not only that, but professional analysts tell you when to buy and when to sell. Bless your heart. But, no, just no, my friend.

Let's say you are at an auction for your dream car. At the auction are millions of other [insert name of your dream car] lovers who want the car just as much as you do. The MSRP price tag for this four-wheeled beauty is \$100,000. You only wish to spend \$50,000, and you know you will get it for about \$50,000. Why? Because you are an [insert name of car] specialist, you have millions of followers who read your car blog and rely on your recommendations when buying and selling cars. A day before the auction, you write a scathing opinion piece on [insert name of car], telling your readers that [insert name of car] combusts, spontaneously combusts, whenever you tap the brakes. Naturally, you say to your followers that the MSRP is outright outrageous, the car is not worth half the price. Auction day

comes and you get your [insert name of car] for less than Halloween candy the day after Halloween.

That average analyst recommendation is most likely skewed, one way or the other, by analysts with ulterior motives. I am not saying the figure is useless. If it were useless, I would not waste our time discussing analyst recommendations. Because they are neither meaningless nor crucial to trading or investing, you will treat these recommendations as you would a tiny puzzle piece in a very, large mural called “our trading method.”

## How to Find Analyst Ratings & Recommendations?

Now that you have analyst ratings and recommendations in perspective (for what they are) of our greater trading methodology, we will learn to find them. Please go to Finviz.com and search for Square (NYSE: SQ)

### Exhibit 5.6. Analyst Rating & Recommendation Example

Index	14.43B	P/E	-	EPS (lmtm)	-0.17	Insider Own	0.90%	Shs Outstanding	414.93M	Perf. Weeks	-0.46%
Market Cap	14.43B	Forward P/E	<b>62.57</b>	EPS next Y	0.74	Insider Trans	-44.96%	Shs Float	276.40M	Perf. Month	-8.84%
Dividends	\$2.00B	P/B	1.00	EPS curr Y	0.74	Inst. Hold	0.00%	Short Interest	10.00M	Perf. 1 Year	-17.70%
Sales	2.31B	P/S	8.96	EPS ltm Y	66.80%	Inst. Trans	0.02%	Short Ratio	2.55	Perf. Half Y	55.40%
BookVal/N	2.02	P/B	<b>23.66</b>	EPS next Y	68.30%	RSI	-3.30%	Target Price	<b>48.97</b>	Perf. Year	186.40%
Current Ratio	2.09	P/C	1.00	EPS curr Y	69.20%	ROI	-0.80%	Perf. 3 Month	184.40%	Perf. 1 MTD	37.87%
Dividend	-	P/CF	<b>155.31</b>	EPS past 5Y	6.40%	ROE	-4.80%	S2W High	-18.33%	Beta	-
Dividend %	-	Quick Ratio	1.80	Sales past 5Y	81.20%	Gross Margin	<b>37.90%</b>	S2W Low	<b>186.91%</b>	ATR	2.54
Employees	2358	Current Ratio	1.80	EPS Q4	0.74	Op. Margin	-2.40%	Volatility	1.21	Volatility	4.47%
Operative	Yes	Debt/Cap	0.46	EPS Q3	4.40%	Profit Margin	-2.80%	Prev Volume	0.25	Prev. Close	45.80
Showable	Yes	LT Debt/Cap	0.46	Earnings	May 32 AMC	Payout	-	Avg Volume	<b>15.13M</b>	Price	<b>47.80</b>
Recom	2.40	Shs20	<b>-7.14%</b>	SMAS5	0.34%	SMAS200	32.68%	Volume	<b>8,716,121</b>	Change	4.16%

Take a look at Exhibit 5.6. At the bottom, left-hand corner of the data table you will find a box titled, “Recom.” The number, here 2.4, is the average analyst rating for the stock. If you reference the chart on page 223, you will find that a 2.4 rating means analysts recommend you “buy” Square. Not an ideal rating, we would prefer to see something in the “strong buy” range. But, do not be discouraged. You see, today’s 2.4 rating is actually an improvement. I started trading Square a year ago, and the average analyst rating was in the 3+ range. During that period, Square generated significant returns for me. So much so that I purchased Square’s credit card reader for all my friends and family for Christmas.

## How to Evaluate Analyst Ratings & Recommendations for Our Trading Purposes?

For purposes of our trading checklist, the analyst rating and price target section are worth up to three points.

- I. **Analyst Rating/\$ Target**      [#/3]
  - a. Rating      2

- b. Price Target 1
- c. Score

You may award up to two points for the analyst rating category. A stock with a “strong buy” rating between 1 to 1.9, will receive the full two points.

- I. ***Analyst Rating/\$ Target*** [#/3]
  - a. Rating (1-1.9) 2

A stock with a “buy” rating between 2 to 2.9, may receive one point.

- I. ***Analyst Rating/\$ Target*** [#/3]
  - a. Rating (2-2.9) 1

Do not award any points for a “hold” rating -i.e., between 3-3.9.

- I. ***Analyst Rating/\$ Target*** [#/3]
  - a. Rating (3-3.9) 0

Deduct one point if the stock has a “sell” rating between 4-4.5.

- I. ***Analyst Rating/\$ Target***      [#/3]  
 a.    Rating (4-4.5)                -1

Deduct two points if the stock has a “strong sell” rating above 4.5.

- I. ***Analyst Rating/\$ Target***      [#/3]  
 a.    Rating (>4.5)                -2

<b>Rating</b>	<b>Recommended Action</b>
1-1.9	Strong Buy = 2 Points
2-2.9	Buy = 1 Point
3-3.9	Hold = 0 Points
4-4.5	Sell = -1 Point
>4.5	Strong Sell = -2 Points

For purposes of our trading checklist, the price target section is worth up to one point.

If the current share price of a stock is below the analyst price target, you may award one point to the stock for the price target section.

- I. ***Analyst Rating/\$ Target***      [#/3]  
 a.    Rating  
 b.    Price Target                1

If the current share price of a stock is more than 10% above the analyst price target, deduct one point from the stock for the price target section.

- I. ***Analyst Rating/\$ Target***      [#/3]  
 a.    Rating  
 b.    Price Target                -1

<b>Price Target</b>	<b>Recommended Action</b>
Current Price Above Price Target	-1 Point
Current Price w/in 10% of Price Target	0 Points
Current Price Below Price Target	1 Point

## *PERFORMANCE*

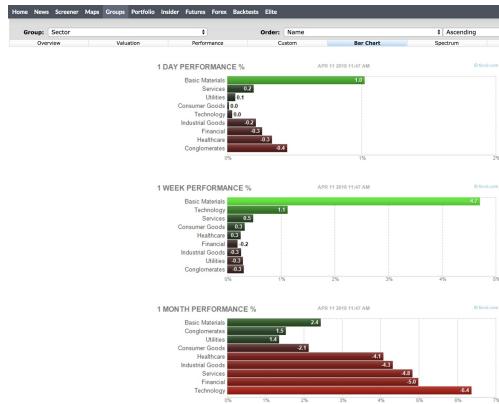
Next up in our technical factor checklist is *performance*. We will look at sector and industry performance as well as individual stock performance.

### **Sector and Industry Performance**

In general, if a sector or industry is performing poorly and generating losses, 80% of the stocks related to that particular sector are also performing poorly and generating losses. Equivalently, if a sector or industry is performing well and generating gains, 80% of the stocks in that particular sector are also performing well and producing gains. Therefore, it is often helpful to evaluate sector and industry performance before screening for individual stocks.

To find sector and industry performance, go to Finviz.com. Click on the “Groups” tab in the top menu.

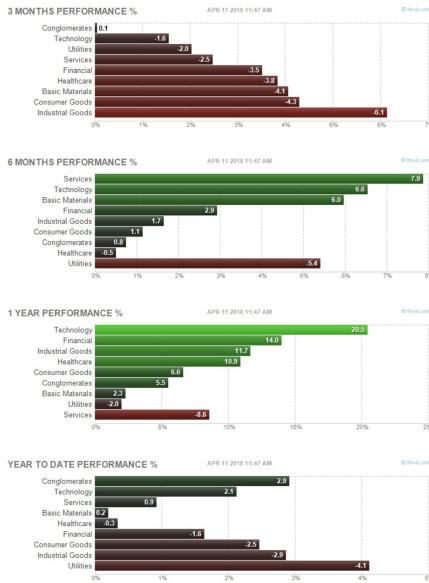
## Exhibit 5.7. Sector and Industry Performance Search



Please take a look at Exhibit 5.7. The light green bars depict sector leaders, in terms of percentage point gain, for the day. The dark green bars depict sectors that are neither generating significant losses nor noticeable gains. The red bars depict sector laggards, sectors generating losses.

The first chart shows sector performance for the day. Today, basic materials are leading the market, while conglomerates are generating losses. Below the “1 Day Performance %” chart is the “1 Week Performance %” and “1 Month Performance %” charts. Akin to trends, we value intermediate and long-term performance over single-day performance. If a sector is generating profits for the day, and losses over the intermediate and long-term, purchasing a stock in that sector is ill-advised. It is relatively similar to buying a stock in an intermediate or long-term downtrend. Instead, we will look for sectors that generate gains over the intermediate and long-term.

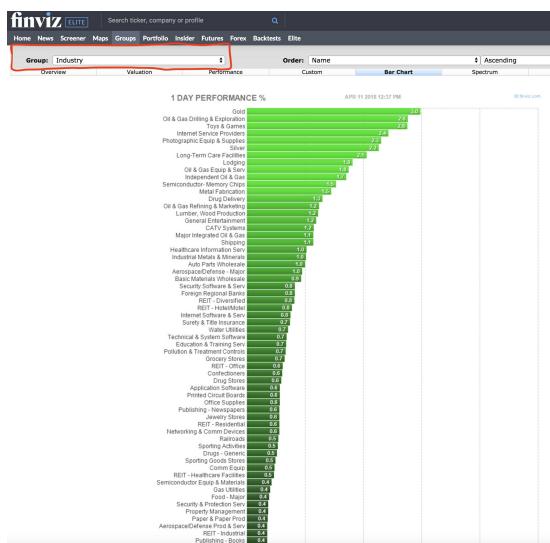
## Exhibit 5.8. Sector and Industry Performance Search (2)



Take a look at Exhibit 5.8. Intermediate performance encompasses one and three-month performance. Based on the charts in Exhibit 5.8., technology, conglomerates, services, and basic materials performed relatively well over the intermediate term. Long-term performance encompasses six month and one-year performance. Services, technology, financial, and possibly health care; exhibit stable long-term performance. Based on the intermediate and long-term performance charts, a trader or investor may want to focus on technology stocks when screening for stocks.

You may further narrow your search by checking industry performance. Take a look at Exhibit 5.9. below.

### Exhibit 5.9. Industry Performance



To search for industry performance, click on the “Group” menu tab in the top left-hand corner of the screen (marked in red ink). Scroll through the charts and identify leading intermediate and long-term industry performers.

## **How to Evaluate Sector Performance for Our Trading Purposes?**

For our trading checklist, a stock may earn up to four points for the sector performance section.

### I. ***Sector Performance*** [#/4]

- a. Day 1
- b. Week 1
- c. Month 1
- d. Quarter 1
- e. Score

For our trading checklist, a stock may earn up to four points for the sector performance section. Evaluate the daily, weekly, monthly, and quarter performance. If the figure is positive (i.e.,  $>0.1\%$ ), award one point for the category. If the figure is negative (i.e.,  $<0.1\%$ ), deduct one point for the category.

So, if a stock’s sector performance is positive for the day, week, month, and the quarter; you award the full four points for sector performance section.

### I. ***Sector Performance*** [4/4]

- a. Day 1
- b. Week 1
- c. Month 1
- d. Quarter 1
- e. Score 4

If, for instance, a stock’s sector performance is positive for the day and week, but negative for the month and quarter, how many points would you award the stock? Zero.

### I. ***Sector Performance*** [0/4]

- a. Day 1



Exhibit 5.10. is a data table for Enphase Energy, Inc. (NASDAQ: ENPH). Stock performance looks at a stock's gains or losses over the past week, month, quarter, half-year, year, and year-to-date (marked in red ink). ENPH is down approximately five percent over the past week. However, ENPH shows substantial intermediate and long-term growth. Over the last quarter, three months, ENPH gained nearly 65%. Over the last year, ENPH increased approximately 194%. Intermediate and long-term growth above 40% is significant growth. Based on performance data, ENPH is a stock worth analyzing under our trading checklist.

Broadly speaking, you should consider stocks with double-digit intermediate and long-term gains. Akin to trends, avoid purchasing stocks with historically negative returns over the intermediate and long-term period.

## **How to Evaluate Stock Performance for Our Trading Purposes?**

For our trading checklist, a stock may earn up to six and a half (6.5) points for the stock performance section.

I. <b><i>Stock Performance</i></b>	[#/6.5]
a. Week	½
b. Month	2
c. Quarter	2
d. YTD	2
e. Score	

A stock may earn up to a ½ point for the weekly performance category. If a stock's weekly performance figures are between -5% to +5%, the stock receives a ½ point for the weekly performance category.

I. ***Stock Performance*** [#/6.5]  
a. Week ½

A stock may earn two points each for the month, quarter, and YTD performance categories, for a total of six points.

A month, quarter, or YTD performance reading greater than 50.1% will earn a stock the full two points for that category. In other words, if monthly, quarter, and YTD performance is higher than 50.1%; the stock will earn six points.

I. ***Stock Performance*** [#/6.5]  
a. Week  
b. Month (>50.1%) 2  
c. Quarter (>50.1%) 2  
d. YTD (>50.1%) 2  
e. Score 6

A reading between 50%-31% is worth 1.5 points. So, if the monthly, quarterly, and YTD performance figures are greater than 31%, but less than 50%, the stock will earn 4.5 points.

I. ***Stock Performance*** [#/6.5]  
a. Week  
b. Month (50%-31%) 1.5  
c. Quarter (50%-31%) 1.5  
d. YTD (50%-31%) 1.5  
e. Score 4.5

A reading between 30%-16% is worth one point. So, if the monthly, quarterly, and YTD performance figures are greater than 16%, but less than 30%; the stock will earn three points.

I. ***Stock Performance*** [#/6.5]  
a. Week  
b. Month (30%-16%) 1  
c. Quarter (30%-16%) 1  
d. YTD (30%-16%) 1

e. Score 3

A reading between 15%-1% is worth a  $\frac{1}{2}$  point. So, if the monthly, quarterly, and YTD performance figures are greater than 1%, but less than 15%; the stock will earn 1.5 points.

I. ***Stock Performance*** [#/6.5]

- a. Week
- b. Month (15%-1%)  $\frac{1}{2}$
- c. Quarter (15%-1%)  $\frac{1}{2}$
- d. YTD (15%-1%)  $\frac{1}{2}$
- e. Score 1.5

Deduct one point for a reading between 0.9% to -10%. So, if the month, quarter, and YTD performance figures are less than 0.9%, but more than -10%, the stock will ‘receive’ -3 points.

I. ***Stock Performance*** [#/6.5]

- a. Week
- b. Month (0.9%--(-10%)) -1
- c. Quarter (0.9%--(-10%)) -1
- d. YTD (0.9%--(-10%)) -1
- e. Score -3

Deduct two points for a reading between -10.1% to -25%. So, if the month, quarter, and YTD performance figures are more than -10.1%, but less than -25%, the stock will receive -6 points.

I. ***Stock Performance*** [#/6.5]

- a. Week
- b. Month (-10.1%--(-25%)) -2
- c. Quarter (-10.1%--(-25%)) -2
- d. YTD (-10.1%--(-25%)) -2
- e. Score -6

Deduct three points for a reading that is more than -26%. So, for instance, if the month, quarter, and YTD performance readings are -30%, -29%, and -26%, respectively, the stock will ‘earn’ -9 points.

I. ***Stock Performance*** [#/6.5]

- |    |                 |    |
|----|-----------------|----|
| a. | Week            |    |
| b. | Month (<-26%)   | -3 |
| c. | Quarter (<-26%) | -3 |
| d. | YTD (<-26%)     | -3 |
| e. | Score           | -9 |

I understand this is a lot of information. At this point in your studies, I do not expect you to memorize the entire point allocation system and guidelines (I certainly did not when I was at this stage). Breathe, relax, and move on. After a couple of months of studying and practicing, this will all become second nature to you. Furthermore, you will learn how to use the trading checklist -i.e., evaluate, apply, allocate points, etc.- in Chapter 7 when I walk you through the entire trading and investing process.

### *RESISTANCE AND SUPPORT LEVELS*

The concepts of *support* and *resistance* are two of the most highly discussed attributes of technical analysis.<sup>[49]</sup> Traders and investors use the terms support and resistance to refer to price levels that tend to act as barriers that prevent the price of a stock from being pushed in a particular direction.<sup>[50]</sup>

I like to think of support as a concrete floor and resistance as a concrete ceiling. In my hand, I hold a bouncy ball called “Share Price.” If I toss the share price ball against the floor, the ball will hit the floor and bounce back. The height that the ball bounces is tied to the force behind the throw. Sometimes the ball may bounce a couple of inches, sometimes several feet. And, sometimes I may muster up so much force that I drive the ball through the floor to the apartment below mine. Similarly, I toss the share price ball against the ceiling. Sometimes the ball may bounce back down, and, sometimes I may drive the ball through the ceiling and to the apartment above mine. Similarly, support is an imaginary line below the current price level where share price may hit and (hopefully) rebound. Resistance is an imaginary line above the current price level where share price should hit and (hopefully) break, rising to a higher “story” or level.

### **Significance of Support and Resistance Levels**

Support and resistance levels are incredibly important; you should always remain conscious of where share price is located in relation to support and resistance levels.

## How to Draw Lines of Support and Resistance?

First, log onto to TC2000 and enter the stock symbol “AAPL.” Extend the chart so you can view Apple share price over the past six months. Identify the highest highs and lowest lows. Click on the horizontal line in the toolbox on the right side of the page. Set a horizontal line on the highest high and lowest low.

**Exhibit 5.11.** Support and Resistance Levels: Step #1



Take a look at Exhibit 5.11. The highest high occurred in early March 2018. Meanwhile, Apple hit its lowest low in late October 2017 and late-February/early-March 2018. One way to identify lines of resistance and support is to identify an area where share price touched a price level and bounced back in the opposite direction. For instance, in late October, Apple share price hit the \$155 price level multiple times. However, share price did not penetrate below the \$155 level. Consider this a clue; you threw a ball down, it struck the \$155 level and bounced back up. Clearly, the ball, or share price, hit a floor –i.e., support. Areas of support and resistance are often price levels where share price hits that level and rebounds up (if it hit support) or down (if it hit resistance).

Now, you may be wondering why we set resistance at the \$155 price level when a giant, red hammer’s lower shadow extends well below the \$155 price level. Support and resistance lines are not perfect. Sometimes share price may penetrate below the support line or above resistance line. However, to consider a support or resistance line broken, share price must close above the resistance line or below the support line on two consecutive trading sessions. In our example, if Apple share price closed below the \$155 support level on Monday, Apple share price would have had to close below the \$155 support level on Tuesday and Wednesday before we could consider the \$155 support level broken. Often, once a support line is broken, it becomes a

resistance line. That is, had we broken the \$155 support line and closed below that level on two consecutive trading sessions; we would rename the \$155 support line, the \$155 resistance line. To identify a new support line, we would expand the chart to encompass Apple share price over the past year. For instance, April 2, 2017, to April 2, 2018.

Once we identify the highest high and lowest low, we identify the next highest high and lowest low. For resistance, look for an area where share price hits a price level and bounces back down. For support, look for an area where share price hits a price level and jumps back up. Take a look at Exhibit 5.12 on the next page.

## Exhibit 5.12. Support and Resistance Levels: Step #2



In late-January 2018, late February 2018, and early March 2018, Apple share price hits the \$179 price level and bounces back down. Click on the horizontal line in the toolbox and place a line where share price hit and bounced back down. Now, this is an art, not a science. So, do not fret if there are a couple of upper shadows that penetrate above the \$179 resistance level. The lines are there to warn you that share price is nearing support or resistance. It may be a thick resistance line; encompassing a twenty-cent range from top to bottom, or it may be a thin resistance line that only spans a few cents. That is beside the point; you just need to be aware that share price is approaching a psychological floor or ceiling.

Next, we look for our second support line. In early November 2017, late January 2018/early February 2018, and early April 2018, Apple share price hits the \$164 price level and jumps back up.

## Exhibit 5.13. Support and Resistance Levels: Step #3



We found two sets of support and resistance lines, but another set remains. Take a look at Exhibit 5.13. In late November/early December 2017, early January 2018, and mid-March 2018, Apple share price hits the \$169 price level and jumps back up. Now, share price penetrates the \$168 price level in mid/late March 2018. This does not mean that a support line does not exist; instead, it tells us that it is a weaker support line.

Next, we find a resistance line at the \$176 price level. In late October/early November 2017 and mid-December 2017, share price hits the \$176 price level and bounces back down. So, we place a horizontal line at that level to mark resistance.

Now that we completed drawing support and resistance lines for Apple share price over the intermediate term, we expand the chart to encompass the long-term price trend. Click on the scroller at the bottom of the chart, and expand the chart so you can view share price from April 2, 2017, to April 2, 2018.

## **Exhibit 5.14.** Long-Term Support and Resistance Levels



First, notice how the support and resistance lines we drew for the intermediate term apply to the long-term trend. Notice the \$155 price level support line we drew, it serves as a significant resistance level for share price in mid/late May 2017 and early June 2017.

Now that we expanded the chart to cover the long-term trend, look for any lines of support and resistance we may draw. Take a look at Apple share price in mid/late April 2017 and mid/late June 2017. Share price hits the \$140 and \$142 price levels and jumps back up. Now, as I mentioned, lines of support and resistance are an art, not a science. So, we may consider the \$140 and \$142 price levels “support zones.” In other words, a thick support line that spans from \$140 to \$142. The \$142 support line would not be considered a line of resistance because share price does not hit the line and bounce back down. Instead, the line acts as a floor. Share price hits the \$142 line and jumps back up.

With that, we have completed drawing lines of support and resistance for Apple share price over the intermediate and long-term trend. Drawing lines of support and resistance takes time and practice. However, if you refer to this example as your practice on your own, you should get the hang of it in no time.

## **How to Evaluate Lines of Support and Resistance for Our Trading Purposes?**

For our trading checklist, a stock may earn up to four points for the support and resistance section.

- I. ***Support & Resistance*** [#/4]
  - a. Resistance Levels 2

b.	Support Levels	2
c.	Score	

A stock may earn up to two points for the resistance levels category if its share price is not near intermediate or long-term resistance levels or share price recently broke intermediate or long-term resistance levels in a bullish manner -i.e., share price rose above the resistance level.

I.	<b><i>Support &amp; Resistance</i></b>	[#/4]
a.	Resistance Levels	2

If share price is nearer intermediate or long-term resistance levels than support levels, deduct two points for the resistance levels category.

I.	<b><i>Support &amp; Resistance</i></b>	[#/4]
a.	Resistance Levels	-2

Finally, if share price recently tested *and* failed to break intermediate or long-term resistance levels, deduct four points for the resistance levels category.

I.	<b><i>Support &amp; Resistance</i></b>	[#/4]
a.	Resistance Levels	-4

A stock may also earn up to two points for the support levels category, if:

1. Share price is near intermediate or long-term lines of support that, historically, have held and acted as a price floor.
2. Share price recently tested an intermediate or long-term line of support and the support level held.

If share price is closer to intermediate or long-term resistance levels than support levels, deduct two points for the support levels category.

I.	<b><i>Support &amp; Resistance</i></b>	[#/4]
a.	Resistance Levels	
b.	Support Levels	-2

Finally, deduct four points if share price recently broke through intermediate or long-term support levels in a bearish manner -i.e., share price broke and fell down through the line of support.

I. ***Support & Resistance*** [#/4]

- a. Resistance Levels
- b. Support Levels -4

In sum, a stock with “ideal” lines of support and resistance will receive the maximum four points for the section.

I. ***Support & Resistance*** [#/4]

- a. Resistance Levels 2
- b. Support Levels 2
- c. Score 4

A stock with “unattractive” lines of support and resistance will forfeit up to eight points in the support and resistance section.

I. ***Support & Resistance*** [#/4]

- a. Resistance Levels -4
- b. Support Levels -4
- c. Score -8

With that, we conclude the technical factors part of our program.

# CHAPTER 5 TECHNICAL FACTORS SUMMARY

## 1. *East Meets West:*

- a. Technical indicators are Western trading tools that we will use in conjunction with Japanese candlesticks
- b. Technical indicators analyze financial statistics generated by market activity and gauge market sentiment
- c. We will focus on the following technical indicators:
  - i. Price trend
  - ii. Volume:
    - 1. Volume is the number of shares traded during a given trading period
    - 2. Candles and volume
      - a. A powerful candlestick pattern combined with high volume translates into powerful movement in price action
  - iii. Moving averages:
    - 1. A trend following -i.e., *lagging*, indicator of price action over a specified period of time
    - 2. Simple moving average
      - a. Measures the average of all the price points used
    - 3. Exponential moving average
      - a. A front weighted moving average
      - b. In calculating the exponential moving average, the formula

will assign progressively smaller weight to each of the past prices

iv. Stochastics:

1. A momentum indicator comparing the closing price of a security to the range of its prices over a certain period of time
  - a. When there are more sellers than buyers, share price declines
  - b. When there are more buyers than sellers, share price increases

v. Money flow index:

1. Tracks the level of volume on each price change to determine if money is flowing into or out of a stock

vi. Relative strength index:

1. Compares the magnitude of a stock's recent gains to the magnitude of its recent losses and turns the data into a number ranging from 1-100

vii. Analyst target

1. Price target is the projected price level of a stock stated by an investment analyst or advisor

viii. Performance

1. Sector and industry performance
  - a. In general, if a sector or industry is

performing poorly and generating losses, 80% of the stocks related to that particular sector are also performing poorly and generating losses

2. Stock performance

- a. Looks at a stock's gains or losses over the past week, month, half-year, year, and year-to-date

ix. Resistance and support levels

1. Price levels that tend to act as barriers, preventing the price of a stock from getting pushed in a particular direction

- a. Think of support as a concrete floor and resistance as a concrete ceiling

# CHAPTER 6

## FINDING TRADABLE STOCKS, TRADING EXAMPLES, AND WATCHLISTS

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*Debts of money are more easily repaid than those of gratitude.*

Now that we covered the basics of our trading method, we will get into the nitty-gritty of trading stocks. First, we will use Finviz to screen for tradable stocks. Next, we will create watchlists on TC200. Finally, we will analyze the stocks we found using our trading checklist and develop a plan of action, focusing on stocks with the greatest potential for profits.

## SCREENING FOR TRADABLE STOCKS

There are two ways to find tradable stocks. The first is the candlestick-based method we covered in chapter four. That is, pick a candlestick reversal pattern you like, enter the screening criteria for that candlestick reversal pattern, and analyze the stocks recovered by your screen. I call the second method, “Trawling for Stocks.” Trawling is a method of fishing that involves pulling a fishing net through the water behind a boat. The fisherman catches a great number of fish through trawling. Some fish are worth keeping; others are tossed back into the water. Similarly, trawling for stocks requires concocting a large screen that returns a significant number of stocks, which you sift through to identify a handful of keepers. Try both methods out and pick the method that works for you.

### *TRAWLING FOR STOCKS ON FINVIZ*

Go to [www.finviz.com](http://www.finviz.com) and click on the screener tab in the top menu. Once the page loads, you will see the Descriptive, Fundamental, Technical, and All tabs. Click on the Descriptive tab.

### **Descriptive Tab**

First, click on market cap on the left side of the screener menu and select, “custom.” Enter the number zero in the first box and ten in the second box.

## Exhibit 6.1. Descriptive Tab- Market Cap

The screenshot shows a financial screener interface with various filters applied. The 'Filters' section includes:

- Market Cap: 0 - 10 B+
- Average Volume: Over 200K
- Current Volume: Over 200K
- Price: Over \$1

Other visible filters include Exchange (Any), Dividend Yield (Any), and Relative Volume (Any). The interface also shows tabs for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Next, click on the Average Volume tab and select, “Over 200K.” Find the Current Volume tab and also select, “Over 200K.”

## Exhibit 6.2. Descriptive Tab- Average Volume & Current Volume

The screenshot shows a financial screener interface with filters applied under the 'Ave' tab. The 'Filters' section includes:

- Average Volume: Over 200K
- Current Volume: Over 200K
- Price: Over \$1

Other visible filters include Exchange (Any), Dividend Yield (Any), and Relative Volume (Any). The interface also shows tabs for Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Find the Price tab next to Current Volume and select, “Over \$1”.

### Exhibit 6.3. Descriptive Tab- Price

The screenshot shows the Stock Screener interface with the 'Descriptive' tab selected. The top navigation bar includes links for Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, and Elite. The date is Sat Apr 14 2018 5:45 PM EST. The main search area has 'My Presets' and 'Order: Ticker Asc'. Below it, there are four tabs: Descriptive (selected), Fundamental, Technical, and Alt(4). The 'Alt(4)' tab is highlighted in yellow. The filters section contains several dropdown menus for various criteria like Exchange, Market Cap, Earnings Date, and Target Price. The bottom menu bar includes Overview, Valuation, Financial, Ownership, Performance, Technical, Custom, Charts, Tickers, Basic, TA, News, Snapshot, and Stats.

Finally, go to the Analyst Recom. tab and select, “Hold or better.”

### Exhibit 6.4. Descriptive Tab- Analyst Recom.

This screenshot is identical to Exhibit 6.3, but the 'Analyst Recom.' filter under the 'Alt(4)' tab has been changed from 'Any' to 'Hold or better'. The rest of the interface, including the filters and menu bar, remains the same.

## Technical Tab

Once you complete the descriptive tab, click on the technical tab in the screener menu. Find the performance tab to the left of the menu options and select, “Quarter Up.”

## Exhibit 6.5. Technical Tab- Performance

The screenshot shows the 'Performance' tab selected. The 'RSI (14)' tab is highlighted in yellow. Other tabs visible include 'Quarter Up', 'Performance 2', 'YTD Up', 'Volatility', '200-Day Simple Moving Average', 'Moving Average', 'SMA50 below 200', 'Change', 'Pattern', 'Candlestick', and 'Reset (?)'. The interface includes a top navigation bar with links like Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, and Elite. A timestamp at the top right indicates it's Saturday, April 14, 2018, 8:07 PM EST.

Next, click on the Performance 2 tab and select, “YTD Up.”

## Exhibit 6.6. Technical Tab- Performance 2

The screenshot shows the 'Performance 2' tab selected. The 'YTD Up' tab is highlighted in yellow. Other tabs visible include 'Quarter Up', 'Performance', 'RSI (14)', 'Volatility', '200-Day Simple Moving Average', 'Moving Average', 'SMA50 below 200', 'Change', 'Pattern', 'Candlestick', and 'Reset (?)'. The interface includes a top navigation bar with links like Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, and Elite. A timestamp at the top right indicates it's Saturday, April 14, 2018, 9:01 PM EST.

Find the RSI (14) tab and select, “Custom.” Enter the number zero and eighty.

## Exhibit 6.7. Technical Tab- RSI (14)

The screenshot shows the 'RSI (14)' tab selected. The 'Custom' tab is highlighted in yellow. Other tabs visible include 'Quarter Up', 'Performance 2', 'YTD Up', 'Volatility', '200-Day Simple Moving Average', 'Moving Average', 'SMA50 below 200', 'Change', 'Pattern', 'Candlestick', and 'Reset (?)'. The interface includes a top navigation bar with links like Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, and Elite. A timestamp at the top right indicates it's Saturday, April 14, 2018, 9:02 PM EST.

Find the 20-day simple moving average tab, right below performance, and select, “Price above SMA 20”. Also, click on the 50-day simple moving average tab and select, “SMA 50 below SMA 20.” This means the 20-day simple moving average is above the 50-day simple moving average. In other words, the stock is in an intermediate uptrend.

## Exhibit 6.8. Technical Tab- 20-Day SMA & 50-Day SMA

The screenshot shows the '20-Day SMA' and '50-Day SMA' tabs selected. The '20-Day SMA' tab is highlighted in yellow. Other tabs visible include 'Quarter Up', 'Performance 2', 'YTD Up', 'Volatility', 'RSI (14)', 'SMA50 below 200', 'Change', 'Pattern', 'Candlestick', and 'Reset (?)'. The interface includes a top navigation bar with links like Home, News, Screener, Maps, Groups, Portfolio, Insider, Futures, Forex, Backtests, and Elite. A timestamp at the top right indicates it's Saturday, April 14, 2018, 9:03 PM EST.

Next, find the 200-day simple moving average tab and select, “Price above SMA 200.” If the price of a stock is below the 200-day simple moving average, the stock is in a long-term downtrend. As you know by now, buying a stock that is in a long-term downtrend is equivalent to jumping onboard a sinking ship. Think Titanic, and you are Jack, not Rose.

## Exhibit 6.9. Technical Tab- 200-Day SMA

The screenshot shows the Finviz.com search interface with various filters applied. The 'Filters' tab is selected, and under the 'Performance' section, the '52-Week High/Low' filter is set to 'Any'. Other filters include 'Quarter Up', 'YTD Up', 'Volatility Any', 'RSI (14) 0 - 80', 'Gap Any', '20-Day Simple Moving Average Price above SM 1', '50-Day Simple Moving Average SHMA5 below \$ 1', '200-Day Simple Moving Average Price above SM 1', 'Change Any', '1 Change from Open Any', '52-Week High/Low Any', '52-Week Low/High Any', 'Pattern Any', 'Candlestick Any', and 'Beta Any'. The 'Reset (11)' button is visible at the bottom.

Finally, find the 52-week high/low tab and select, “5% or more below high.”

### Exhibit 6.10. Technical Tab- 52-Week High/Low

The screenshot shows the Finviz.com search interface with various filters applied. The 'Filters' tab is selected, and under the 'Performance' section, the '52-Week High/Low' filter is set to '5% or more below high'. Other filters include 'Quarter Up', 'YTD Up', 'Volatility Any', 'RSI (14) 0 - 80', 'Gap Any', '20-Day Simple Moving Average Price above SM 1', '50-Day Simple Moving Average SHMA5 below \$ 1', '200-Day Simple Moving Average Price above SM 1', 'Change Any', '1 Change from Open Any', '52-Week High/Low Any', '52-Week Low/High Any', 'Pattern Any', 'Candlestick Any', and 'Beta Any'. The 'Reset (12)' button is visible at the bottom.

That's it! Out of a potential 7,157 stocks, we narrowed our search down to about 140 stocks.

### *PHASE ONE: SORTING THE CATCH*

Once we finish setting our screening criteria, we sort through the stocks that Finviz recovered. Place your mouse over a stock ticker to see a snapshot of that stock. As you scroll through the stocks, you want to keep an eye out for the intermediate-trend, short-term trend, candlestick reversal patterns, and volume. The snapshot does not encompass the long-term trend. To identify the long-term trend, you will need to click on the stock ticker symbol. However, that does not mean you spend hours clicking through each and every stock your search recovered. With some time and practice, you will hover the mouse over the stock ticker symbols, glance at the snapshot, and within a matter of seconds, analyze the intermediate and short-term trends, candlestick reversal patterns, and volume. If a stock's snapshot looks good, you will click on the stock symbol and analyze the chart and data table.

For a variety of reasons, you will have days where you find an abundance of tradable stocks and days where you cannot find a single tradable stock. That is perfectly fine. We are not looking to trade the entire market. We are looking for the cream of the crop. At any point in time, you should have no more than twelve stocks in your trading portfolio.

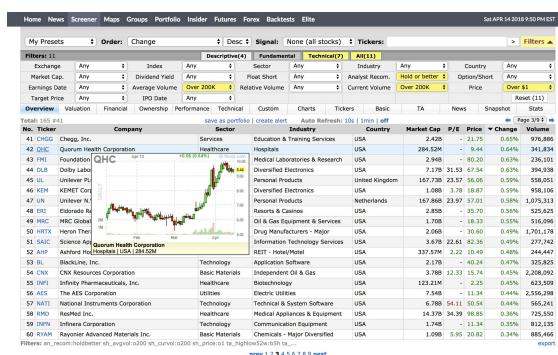
There are a number of reasons why you should limit your portfolio to twelve stocks. First, the more stocks you own, the more likely it is that your portfolio will mirror the entire market. That is, if the market is up 1%, your portfolio will be up 1%. If the market is down, your portfolio will be down. For certain investors and traders, that is perfectly fine. However, they

purchase ETFs, “Exchange Traded Funds,” that mirror the market and hold onto the ETF for years, sometimes until retirement age. Their portfolio grows slowly over the decades, and, similarly, their risk exposure is low. However, we are momentum swing traders, not lifetime retirement savers. We need to get in and out of a trade within a matter of weeks or months. Therefore, we are picky with our stocks and look for exponential, short-term growth.

Second, our trading capital is precious. If you have millions of dollars to invest, then, by all means, buy as many stocks as you please. However, for our trading method, we must allocate our trading capital wisely. We will limit our single stock exposure to 12% of our total trading capital. What does that mean? Well, if you have \$10,000 to trade and invest, you will divide that \$10,000 by 12. You will allocate that \$10,000 among 12 stocks. At most, you will purchase approximately \$833 worth of shares of any given stock. If you have \$1,000 to trade and invest, you will purchase approximately \$83 worth of shares of any given stock. Discipline is key. We must scrutinize stocks to find the cream of the crop, adhere to a trading capital formula to limit our risk exposure, and generate substantial profits.

Keeping these rules in mind, browse through the stocks Finviz recovered. The market is somewhat volatile today because of rising tensions in Syria, fears of a trade war with China, and a Facebook data breach. Consequently, I only identified a single stock worth further analysis.

### Exhibit 6.11. QHC Snapshot

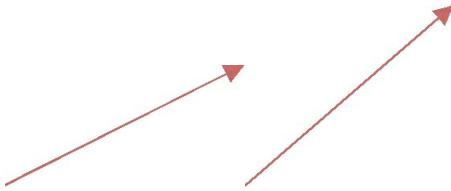


Take a look at Exhibit 6.11. A snapshot of QHC’s chart shows an intermediate uptrend, a short-term pullback, a “mini-piercing line,” and decent bullish volume. QHC is worth a closer look, click the symbol ticker.

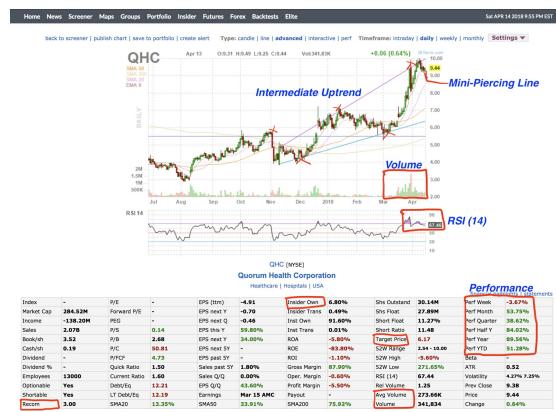
## TRADING EXAMPLE

Before we proceed with thoroughly analyzing the stock in accordance with our trading checklist, we conduct a quick eye test.

## *PHASE TWO: EYE TEST*



### **Exhibit 6.12. QHC Chart & Data Table**



On the next page, we find QHC's stock chart and data table. We are merely taking a closer look at the stock, spending only a couple minutes analyzing the chart and data table. If QHC passes the "eye test," we will add QHC to TC2000 and examine the stock per our trading checklist.

Take a look at Exhibit 6.12. First, notice the intermediate and short-term trends. We have a solid intermediate uptrend with a minor pullback. Second, a small piercing line reversal pattern appears at the bottom of the pullback. Obviously, we would prefer to see larger candles. But, this is only an "eye test," and we must move on to other important factors.

Third, notice the volume on the second day of the piercing line pattern. We find decent bullish volume. Furthermore, notice the bullish and bearish volume over the last few weeks. One trading session saw significant bearish volume in late March/early April. However, if we take a step back, we notice the bullish volume is stronger than the bearish volume over this time span.

Next, we look at the data table to find the average volume and current volume. We see the volume on the second day of the piercing line pattern is greater than the average volume. Now, current volume numbers did not blow the average volume out of the water. Nevertheless, it is a mildly bullish figure.

Fifth, we check the RSI (14) and find QHC's RSI is around 67. Think back to Chapter 5. An RSI reading between 50 to 70 indicates short-term strength. You may proceed to evaluate the stock. Although the RSI is nearing 70, we are merely at the "eye test" phase and that on its own is not enough to stop our analysis.

Next, we look at the data table for stock performance. QHC is down -3.67% over the last week. I like that. Why? Because a negative single-digit weekly performance number indicates nothing more than a pullback. Next, we find the intermediate performance figures, "Perf Month, Perf Quarter, Perf Half Y," are +53.75%, +38.62%, and +84.02%, respectively. An intermediate performance figure above +15% may be considered positive. Similarly, long-term performance, +89.56% over the last year, is stellar. I like it.

Let's check the analyst rating and target price figures. Analysts give

QHC a 3.00 rating, “hold,” and a target price of \$6.17. QHC shares are currently trading at \$9.44. Not a fan of these figures. However, as mentioned before, we do not base our trading decisions on analyst recommendations and target prices. Take these figures for what they are, opinions.

Finally, we check the insider ownership figure. Approximately 6.80% of QHC shares are owned by insiders, such as the CEO, CFO, etc. A large insider ownership percentage leaves stocks susceptible to price manipulation and volatility. If the insider ownership figure is high, Finviz will mark it in red ink. If the insider ownership figure is low, Finviz will mark the figure in green ink. Black ink indicates a neutral figure, neither too high, nor too low.

We found some bullish indicators in QHC’s chart and data table, as well as some bearish indicators. Overall, based on a quick “eye test,” QHC is worth a much closer look. Log into your TC2000 account.

## *PHASE THREE: TRADING CHECKLIST*

Once you are logged in to your TC2000 account, type in the symbol, “QHC.”

**Exhibit 6.13. TC2000 & QHC**



Once QHC’s chart loads, we will use our trading checklist to evaluate QHC

# KAHRIMAN VENTURES' TRADING CHECKLIST

- |      |                                |          |
|------|--------------------------------|----------|
| I.   | <b>Trend</b>                   | [#/5]    |
| a.   | Short-term                     | 1        |
| b.   | Primary                        | 2        |
| c.   | Long-term                      | 2        |
| d.   | Score                          |          |
| II.  | <b>Candlestick</b>             | [#/8]    |
| a.   | Performance                    | 5        |
| b.   | Frequency                      | 3        |
| c.   | Score                          |          |
| III. | <b>Volume</b>                  | [#/8]    |
| a.   | Average                        | 1        |
| b.   | Above Average                  | 6        |
| c.   | Increasing                     | 1        |
| d.   | Decreasing                     |          |
| e.   | Score                          |          |
| IV.  | <b>Moving Averages</b>         | [#/2.25] |
| a.   | SMA 5-day                      | ½        |
| b.   | EMA 8-day                      | ¼        |
| c.   | SMA 20-day                     | ¼        |
| d.   | EMA 34-day                     | ¼        |
| e.   | SMA 50-day                     | ½        |
| f.   | SMA 200-day                    | ¼        |
| g.   | Bonus Point                    | ¼        |
| h.   | Score                          |          |
| V.   | <b>Stochastics</b>             | [#/2]    |
| a.   | Overbought                     | 0        |
| b.   | Oversold                       | 2        |
| c.   | Score                          |          |
| VI.  | <b>Money Flow</b>              | [#/3]    |
| a.   | Value                          |          |
| VII. | <b>Relative Strength Index</b> | [#/2]    |
| a.   | Value                          |          |

- VIII. ***Sector Performance*** [#/4]
- a. Day 1
  - b. Week 1
  - c. Month 1
  - d. Quarter 1
  - e. Score
- IX. ***Analyst Rating/\$ Target*** [#/3]
- a. Rating 2
  - b. Price Target 1
  - c. Score
- X. ***Stock Performance*** [#/6.5]
- a. Week  $\frac{1}{2}$
  - b. Month 2
  - c. Quarter 2
  - d. YTD 2
  - e. Score
- XI. ***Support & Resistance*** [#/4]
- a. Resistance Levels 2
  - b. Support Levels 2
  - c. Score
- XII. ***News*** [#/2]
- a. Insider Buying/Selling 1
  - b. News 1
  - c. Score
- XIII. ***Earnings Report*** [#/1.5]
- a. Earnings Date  $\frac{1}{2}$
  - b. Expected Earnings  $\frac{1}{2}$
  - c. Expected Revenue  $\frac{1}{2}$
  - d. Score
- XIV. ***Final Score & Comments*** [#/52]
- a. Bonus / .75
  - b. Score [ X / 52 ]
  - c. Rating [A+, A, A-, etc.,]

<b><i>Letter Grade</i></b>	<b><i>Point Range</i></b>
A+	52 - 48

<b>A</b>	47.99 - 44
<b>A-</b>	43.99 - 40
<b>B+</b>	39.99 - 36
<b>B</b>	35.99 - 32
<b>B-</b>	31.99 - 28
<b>C+</b>	27.99 - 24
<b>C</b>	23.99 - 20
<b>C-</b>	19.99 - 16
<b>D+</b>	15.99 - 12
<b>D</b>	11.99 - 8
<b>D-</b>	7.99 - 4
<b>F</b>	3.99 - 0

- d. Comments
- e. Strategy

## Trend Analysis

According to our trading checklist, the first section we must evaluate is the stock's trend. We will chart and score the short-term, intermediate, and long-term trends. A total of five points is available in the trend section.

## **Exhibit 6.14. QHC Intermediate/Primary Trend**



Expand the chart to encompass the intermediate trend. Find the trendline button in the toolbox on the right side of the page. Drop an upper trendline on or near the highs, and a lower trendline on or near the lows. If you take a look at Exhibit 6.14., you will find QHC is in an intermediate uptrend. We will award QHC two points for the primary category.

### I. **Trend** [      ]

- a. Short-term
- b. Primary<sup>[51]</sup> 2
- c. Long-term
- d. Score

Take a look at the short-term trend. QHC share price declined a bit from its highs in early April 2018. However, it is a minor pullback. First, a handful of candles comprise the pullback. Second, the stochastic reading is over 70 and the stochastic bands started descending from overbought conditions only a few days ago. Third, the candles comprising the piercing line are rather small. These are all clues that a pullback started. However, we are still in the early stages of the pullback. QHC share price will likely decline for a few more trading sessions before an uptrend takes its place. Since it is not an ideal pullback, we will give the short-term trend a quarter point.

## **Exhibit 6.15. QHC Short-Term Trend**



- I. **Trend** [ ]
- Short-term  $\frac{1}{4}$
  - Primary 2
  - Long-term
  - Score

Next up is the long-term trend. Expand the chart to encompass QHC share price for the past year. Click on the trendline button in the toolbox on the left side of the page and place an upper trendline on the highs and a lower trendline on the lows. Look at Exhibit 6.16., QHC is in a long-term uptrend. Award QHC two points for the long-term category.

**Exhibit 6.16. QHC Long-Term Trend**



## I. Trend [4.25/5]

- a. Short-term 1/4
- b. Primary 2
- c. Long-term 2
- d. Score 4 1/4

Out of a possible 3 points, QHC scores 2.25 in the trend category.  
Next up is candlestick analysis.

## Candlestick Analysis

As mentioned, we have a “mini-piercing line,” at best. If the market were performing better, I would label the candlestick as a doji. But, for purposes of practicing stock analysis and evaluation, let’s call it a mini-piercing line.

**Exhibit 6.17. QHC Candlestick**



If you reference Chapter 4, you will find that a piercing line ranks 38 out of 100 in terms of frequency and 11 out of 100 in terms of overall performance. Not to bash QHC’s candlesticks, but we have a measly piercing

line, earning it a quarter point. A piercing line ranked 11<sup>th</sup> in performance earns 4 points. Because QHC's piercing line earned a quarter point rating, we will award it a quarter of its performance points, 1 point. A piercing line ranked 38<sup>th</sup> in frequency earns 2 points. QHC will earn a quarter of its frequency points, .5.

### I. **Candlestick** [1.5/8]

- |                |                 |
|----------------|-----------------|
| a. Performance | 1               |
| b. Frequency   | $\frac{1}{2}$   |
| c. Score       | $1 \frac{1}{2}$ |

A perfect candle, ranking in the top-20 in frequency and top-10 in performance, will be awarded a total of 8 points. Here, QHC's piercing line earns it 1.5 points out of a possible 8 points. Next up is volume.

## Volume Analysis

Second on our trading checklist is the volume section. A total of eight points are at stake.

To begin, bring QHC's chart back to the intermediate trend. Click on the 6M button at the bottom of the page. Second, open QHC's page on Finviz.

First up in volume analysis is *average volume*. On QHC's Finviz page, we find average volume data in the data table.

## Exhibit 6.18. QHC Average Volume

QHC [NYSE] Quorum Health Corporation Healthcare   Hospitals   USA											financial highlights   statements		
Index	-	P/E	-	-	EPS (Next)	-0.41	Dividend Payout	6.80%	Div. Outstanding	25,144	Per Week	-3.67%	
Market Cap	284.82M	Forward P/E	-	-	EPS Next Y	-0.70	Insider Trans.	0.40%	Shs. Outstanding	23,894	Per Month	-0.8%	
Income	-139.20M	P/BG	-	-	EPS Next Q	-0.46	Inst. Trans.	91.60%	Short float	11,277	Per Quarter	38.62%	
Sales	2,078	P/S	0.14	-	EPS This Y	59.80%	Inst. Trans.	0.01%	Short Ratio	11.48	Per Half Y	84.02%	
Book/SH	3.52	P/B	2.61	-	EPS Next M	34.00%	ROA	-5.80%	Target Price	6.17	Per Year	89.55%	
Gross Sh.	0.19	P/C	0.51	-	EPS Next 3Y	37.00%	ROE	-83.80%	Trade Range	1,400	Per YTD	51.58%	
Dividend	-	P/FCF	4.73	-	EPS past 5Y	-	ROI	-1.10%	52W High	-5.60%	Beta	-	
Dividend %	-	Quick Ratio	1.50	-	Sales past 5Y	1.80%	Gross Margin	87.90%	52W Low	271.65%	ATR	0.52	
Employees	13400	Current Ratio	1.60	-	Sales Q/Q	0.00%	Oper. Margin	-0.60%	RSI (14)	67.44	Volatility	10.0%	7.25%
Opex/Revenue	-	Debt/EQ	1.51	-	EPS Q/Q	0.00%	Net Margin	-5.30%	Stoch. Osc.	2.2	Prev. Close	9.38	
Shortable	Yes	LT Debt/EQ	12.19	Earnings	Mar 15 AMC	Payout			Avg. Volume	273.80K	Price	9.44	
Recom	3.00	SHM520	13.35%	SHM50	33.91%	SM4200	75.92%		Volume	341,834	Change	0.64%	

The average number of QHC shares traded in any given trading session is approximately 273,660. Ideally, we look for stocks that trade 300,000 or more shares per trading session. Therefore, we will award QHC ¾ points for average volume.

- I. **Volume** [ ]
- Average ¾
  - Above Average
  - Increasing
  - Decreasing
  - Score

Next up is *above-average volume*. QHC traded 341,834 shares during the last trading session. Average volume is 273,660. Approximately 68,174 extra shares were traded the last trading session ( $341,834 - 273,660 = 68,174$ ). That is a +24.91% above QHC's average volume. If you reference Chapter 5, you will find a +24.91% increase in volume earns QHC 2 points.

- I. **Volume** [ ]
- Average ¾
  - Above Average 2
  - Increasing
  - Decreasing
  - Score

Next, we need to determine whether QHC's volume is increasing or decreasing. To find increasing/decreasing volume data, go to TC2000, and click on the "Reports" tab at the top of the page.

## Exhibit 6.19. QHC Increasing/Decreasing Volume Step #1



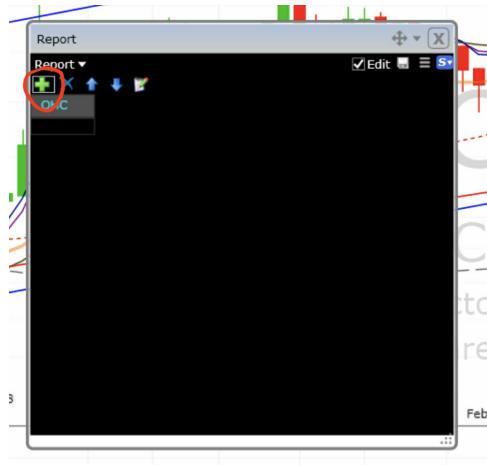
Click on the “Blank Report” icon.

**Exhibit 6.20.** QHC Increasing/Decreasing Volume Step #2



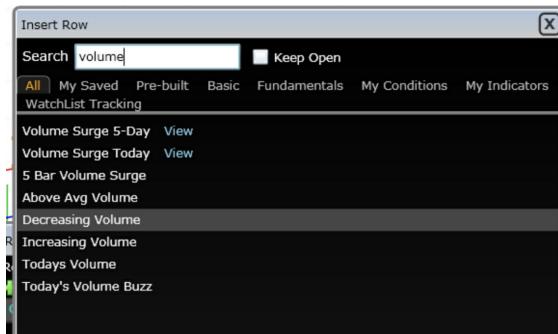
Click on the green addition symbol.

### **Exhibit 6.21. QHC Increasing/Decreasing Volume Step #3**



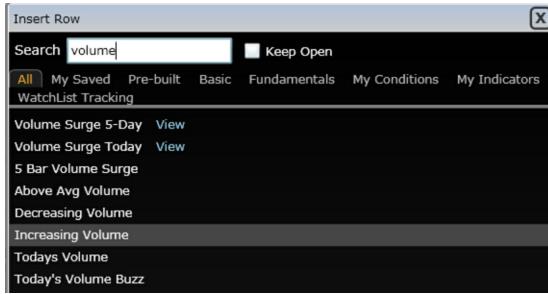
Type “volume” in the search bar and click on “Decreasing Volume.”

### **Exhibit 6.22. QHC Increasing/Decreasing Volume Step #4**



Click on the green addition symbol again. Type “volume” in the search bar, and select “Increasing Volume.”

### **Exhibit 6.23. QHC Increasing/Decreasing Volume Step #5**



Take a look at the report TC2000 generated for QHC.

### **Exhibit 6.24. QHC Increasing/Decreasing Volume Step #6**



There is a green checkmark next to the “Decreasing Volume” box. This tells us that volume is decreasing, not increasing. Consequently, we award QHC a negative point for increasing/decreasing volume.

## I. **Volume** [1.75/8]

- a. Average  $\frac{3}{4}$
- b. Above Average 2
- c. Increasing 0
- d. Decreasing -1
- e. Score  $1\frac{3}{4}$

A stock with perfect volume would score one point for average volume, six points for above-average volume, and one point for increasing volume. QHC earned 1.75 points out of a potential 8 points for volume.

## Moving Averages Analysis

Next on our list is moving averages analysis. First up is the 5-day simple moving average.

**Exhibit 6.25.** QHC Moving Averages



Here, the 5-day SMA is above the 8-day EMA. However, QHC share price fell below the 5-day SMA level and is resting at the 8-day EMA. Therefore, we will award QHC a quarter point out of a possible  $\frac{1}{2}$  point for the 5-day (since the 5-day is above the 8-day).

The 8-day EMA is above the 20-day SMA, earning QHC another quarter point.

The 20-day SMA is above the 21-day SMA and 34-day EMA, earning QHC a quarter point.

The 34-day EMA is above the 50-day SMA, another quarter point.

The 50-day SMA is above the 200-day SMA, and QHC share price is above the 50-day SMA; earning QHC a half point.

Finally, share price is above the 200-day SMA, earning QHC a quarter point.

I. **Moving Averages** [2/2.25]

- a. SMA 5-day       $\frac{1}{4}$
- b. EMA 8-day       $\frac{1}{4}$
- c. SMA 20-day       $\frac{1}{4}$
- d. SMA 21-day       $\frac{1}{4}$
- e. EMA 34-day       $\frac{1}{4}$
- f. SMA 50-day       $\frac{1}{2}$
- g. SMA 200-day       $\frac{1}{4}$
- h. Score            2

Out of a possible 2.25 points, QHC earns two points in the moving averages category.

## Stochastics Analysis

Next on our list is stochastics analysis.

**Exhibit 6.26.** QHC Stochastics



Here, we find the stochastics reading for QHC is 74.78. That figure means QHC's stock is overbought. Take a look at the stochastics oscillator point allocation chart. How many points does QHC earn in the stochastics section?

Stochastics Oscillator Reading	Points to Award
100-70 (Overbought)	-1
69-50	0
49-30	1
29-0	2

Because QHC's stochastic oscillator reading falls within the overbought range, we have to deduct, not award, a point.

- I. **Stochastics** [ -1/2 ]
- a. Overbought (74.78) -1
  - b. Oversold 0
  - c. Score -1

## Money Flow Index

Next, we look at the money flow index for QHC's chart. Up to three

points are available in the money flow index section.

### Exhibit 6.27. QHC Money Flow Index



You will find the money flow index on the bottom, right side of the TC2000 page. Here, the money flow index reads 68.45. If you reference Chapter 6, you will find that a 68.45 reading earns QHC one point.

- I. Money Flow [1/3]  
a. Value (68.45) 1

### Relative Strength Index (“RSI”)

Next, we review the relative strength index for QHC. A total of two points are up for grabs in the RSI section.

### Exhibit 6.28. QHC Relative Strength Index



Currently, QHC is reporting an RSI reading of 65.63. If you reference Chapter 6, you will find a RSI above 70 means the stock is overbought. On the other side of the spectrum, an RSI reading of 30 or below means the stock is oversold. QHC is near overbought conditions with an RSI

reading in the 50 to 69 range. Therefore, QHC will not receive points for the RSI section.

### I. **Relative Strength Index[0/2]**

a. Value (65.63) 0

## Sector Performance Analysis

Moving right along, we analyze QHC's sector performance over the long, intermediate, and short-term periods. Go to [www.Finviz.com](http://www.Finviz.com) and find the sector QHC belongs to.

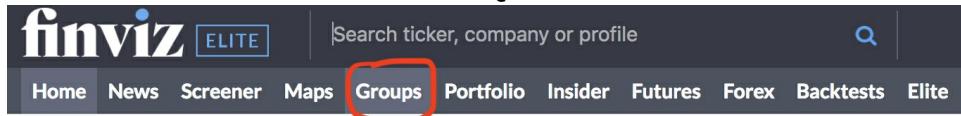
**Exhibit 6.29.** QHC Sector



At the bottom of QHC's chart on Finviz, we find QHC belongs to the healthcare sector and is a member of the medical care industry.

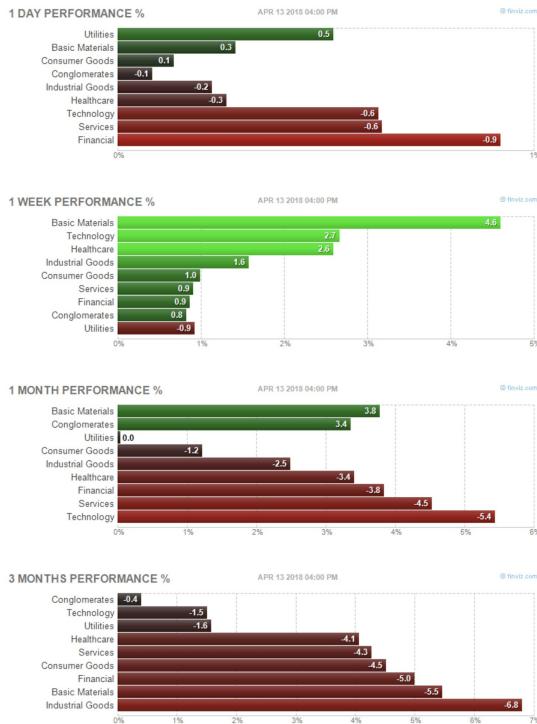
Go back to the Finviz home page and click on the Groups tab in the top menu.

**Exhibit 6.30.** QHC Sector #2



Among the list of sectors, you will find Healthcare.

### Exhibit 6.31. QHC Sector #3



Please record Healthcare's 1-day, 1-week, 1-month, and quarter (3 month) performances. As of mid-April 2018, healthcare is down .3% for the day, up 2.6% for the week, down 3.4% for the month, and down 4.1% for the quarter. QHC will receive one point for the positive weekly reading, and negative three points for the negative daily, monthly, and quarterly readings.

#### I. *Sector Performance* [-2/4]

- a. Day -1
- b. Week 1
- c. Month -1
- d. Quarter -1
- e. Score -2

QHC earned -2 points out of a possible 4 points for sector performance.

#### **Analyst Rating & Target**

Next on the list is the analyst rating and price target. Go to QHC's Finviz page by typing QHC in the search bar at the top of the page.

## Exhibit 6.32. QHC Analyst Rating & Price Target

Index	P/E	EPS (Trailing)	EPS (Next Y)	EPS (Next 5Y)	Beta	Outstanding	Market Cap	Perf Week	Perf Month	Perf Year	Perf Half Y	Perf Year
Market Cap	284.54M	Forward P/E	-	-	-	36.11M	31.13B	-3.67%	-3.75%	-3.75%	-3.75%	-3.75%
Income	113.20M	P/BG	-	-	-	Short Posit	7.93M	Perf Week	33.75%	Perf Month	33.75%	Perf Year
Sales	2.07B	P/S	0.14	EPS next Q	-0.50	Inst Own	91.63%	Perf Quarter	-0.20%	Perf Year	-0.20%	Perf Half Y
BookValue	3.52	P/B	2.48	EPS next 5Y	\$9.80%	Inst Trans	0.01%	Short Ratio	111.18	Perf Year	84.02%	Perf Half Y
Cash/Debt	0.19	P/C	50.34	EPS next 5Y	34.00%	ROA	-5.80%	Target Price	6.17	Perf Year	89.56%	Perf TTD
Dividend	P/E/CF	-	EPS next SV	-	ROI	-1.50%	52W Range	43.40%	Delta	51.38%	Delta	51.38%
Dividend %	-	Quick Ratio	1.50	Sales pert. S/Y	1.80%	Gross Margin	87.50%	52W Low	271.65%	ATR	0.52	ATR
Employees	13000	Current Ratio	1.40	Sales Q/Q	0.00%	Oper. Margin	-0.60%	KSI (14)	67.44	Volatility	4.27%	Volatility
Optimistic	Yes	Debt/Equity	1.70	EPS Q/Q	-0.60%	Profit Margin	-5.50%	Rel Volume	125	Prev Close	9.38	Prev Close
Stagnant	Yes	LT D/E/R	12.19	Earnings	Mkt Cap / MNC	Payout	273.66K	Avg Volume	341.834	Price	9.44	Price
Record	3.00	SHAZD	13.35%	SHAZD	33.93%	SHAZD	75.92%	Volume	341.834	Change	0.64%	Change

If you go back to Chapter 5, you will find our point allocation table for analyst rating and price targets.

<b>Rating</b>	<b>Recommended Action</b>
1	Strong Buy = 2 Points
2	Buy = 1 Point
3	Hold = 0 Points
4	Sell = -1 Point
5	Strong Sell = -2 Points

<b>Price Target</b>	<b>Recommended Action</b>
Current Price Above Price Target	-1 Point
Current Price w/in 10% of Price Target	0 Points
Current Price Below Price Target	1 Point

Here, QHC has an analyst rating of 3. Referencing our chart above, QHC will not receive points for the analyst rating category.

I. ***Analyst Rating/\$ Target*** [ ]  
 a. Rating 0

Further, QHC's analyst price target (\$6.17) is well below the current price (\$9.44). We will deduct a point for the price target category.

II. ***Analyst Rating/\$ Target*** [-1/3]  
 a. Rating 0  
 b. Price Target -1  
 c. Score -1

Out of a possible three points for the analyst rating and price target section, QHC's lackluster analyst rating and price target earned the stock -1 point for the section.

## **Stock Performance Analysis**

Next up on our list is stock performance over the last week, month, quarter, and year-to-day. Go back to QHC's data table on Finviz.

**Exhibit 6.33. QHC Performance**

Financial Highlights   Statements									
Index	P/E	EPS (ttm)	-4.9%	Insider Own	<b>6.80%</b>	Shs Outstand	30,110	Per Week	<b>-3.67%</b>
Market Cap	264.24M	Forward P/E	-	Insider Trans	<b>0.89%</b>	Shs Public	27,850	Per Month	<b>53.75%</b>
Income	17.32B/DM	Rev	-	Inst. Own	<b>0.0%</b>	Short Interest	11,579	Per Year	<b>50.1%</b>
Sales	2.07B	P/S	0.14	Inst. Trans	<b>0.01%</b>	Short Ratio	11.18	Per Half Y	<b>84.02%</b>
Book/Value	3.52	P/B	<b>2.68</b>	ROA	<b>-5.80%</b>	Target Price	<b>6.17</b>	Per Year	<b>89.55%</b>
Cash/Rv	0.19	P/C	<b>0.76</b>	EPS next Y	<b>34.00%</b>	52W Range	2.81 - 10.00	Per TTD	<b>31.28%</b>
Dividend		P/FCF	4.71	EPS next Q	-	52W Low	2.71	Target	
Dividend %		Quick Ratio	<b>1.50</b>	Sales per SV	<b>1.80%</b>	52W High	10.00	ATR	<b>0.32</b>
Employees	13000	Current Ratio	<b>1.60</b>	Sales QoQ	<b>0.00%</b>	RSI (14)	<b>67.44</b>	Volatility	<b>4.27% 7.28%</b>
Dividends	\$0	Debt/Equity	0.21	Sales YoY	<b>-0.00%</b>	Rel Volume	1.12	Close	<b>5.8</b>
Shortable	Yes	Lt Debt/Eq	<b>12.19</b>	Earnings	<b>Mar 15 ANC</b>	Avg Volume	273,66K	Price	<b>5.44</b>
Revenue	3.00	SM20	13.35%	SM40	33.91%	Volume	341,824	Change	<b>0.64%</b>

QHC is down 3.67% for the week. That is fine. We cannot expect a positive weekly reading when a stock is pulling back. Therefore, QHC earns a  $\frac{1}{2}$  point for weekly performance.

## I. Stock Performance [ ]

- a. Week  $\frac{1}{2}$

QHC is up 53.75% over the past month; that is a great number. A performance figure north of 50.1% earns a stock the maximum two points. Award QHC 2 points for monthly performance.

## I. Stock Performance [ ]

- a. Week  $\frac{1}{2}$
- b. Month 2

Similarly, QHC's performance over the quarter and YTD are 38.62% and 51.28%, respectively. QHC earns 1.5 points for the quarter and 2 points for YTD.

II. <b>Stock Performance</b>	[6/6.5]
a. Week	½
b. Month	2
c. Quarter	1 ½
d. YTD	2
e. Score	6

A maximum of 6.5 points may be awarded for the stock performance category. QHC's performance numbers are almost perfect, earning the stock 6 points.

## **Support and Resistance Analysis**

Go to QHC's TC2000 page to draw lines of support and resistance for the intermediate/primary term.

### **Exhibit 6.34. QHC Lines of Support & Resistance (Intermediate/Primary Term)**



We find resistance at the highest high (\$9.93) and support at the lowest low (\$4.12 - \$4.02) levels. We find our second set of support and resistance at the \$7.17 and \$5.80 levels, respectively.

Next, expand the chart to encompass QHC share price for the past year and draw lines of support.

### Exhibit 6.35. QHC Lines of Support & Resistance (Long-Term Trend)



Upon expanding the chart to encompass QHC share price for the past year, we find that the highest high, recorded in the intermediate/primary term, is also the highest high for the long-term trend. Therefore, we mark the \$9.93 resistance line as “Long-term & intermediate/primary term resistance”.

Next, we find resistance at \$4.52 level. Share price hits the \$4.52 level in mid-June and late August 2017. I roughly marked the areas where share price hits the \$4.52 resistance ceiling.

Finally, we find long-term support at the \$2.91 price level. QHC share price hits the \$2.91 level in mid-May and early August 2017. The areas of impact are marked with red x's.

We see QHC share price is currently at or near the long-term and intermediate/primary term resistance level. It is rather difficult to break long-term resistance lines. Therefore, we must deduct QHC two points for the resistance levels category until it breaks long-term resistance.

- I. ***Resistance & Support*** [ ]
  - a. Resistance Levels -2

Next, we award QHC two points for the support levels category. Why? Because share price stayed above the last support level of \$7.17. Also, QHC did not break through long-term support at the \$2.91 price level.

- I. ***Resistance & Support*** [ ]
  - a. Resistance Levels -1
  - b. Support Levels 2

In sum, QHC earns one point out of a possible four points for the support and resistance section.

- I. ***Resistance & Support*** [1/4]
  - a. Resistance Levels -1
  - b. Support Levels 2
  - c. Score 1

## News Analysis

Next up on our checklist is the news category. Go to QHC's Finviz page and scroll down. The news section is right below the data table. Read the headlines. If you find positive news in the last month or two, jot it down in your notes.

### Exhibit 6.36. QHC News Step #1

Apr-18-18 09:19AM	Is Quorum Health Corporation (NYSE:QHC) Expensive For A Reason? A Look At The Intrinsic Value Simply Wall Street
Apr-03-18 08:00AM	Quorum Health Corporation Completes Sale of Hospital in Georgia Business Wire
Mar-28-18 07:45AM	Recent Analysis Shows EPAM, Sibanye Gold, Fate Therapeutics, Howard Hughes, CBL & Associates Properties, and Quorum Health Market Influences Renewed Outlook, Key Drivers of Growth Globally
Mar-23-18 04:30PM	Quorum Health Corporation Announces Board of Directors Leadership Transition Business Wire +9.56%
Mar-19-18 03:26PM	Edited Transcript of QHC earnings Conference call or presentation 16-Mar-18 3:00pm GHT Thomson Reuters DirectWires
Mar-15-18 04:17PM	Quorum Health Corporation Announces Fourth Quarter and Year End 2017 Operating Results and Issues 2018 Guidance Business Wire
Mar-14-18 09:00AM	Quorum Health Corporation Completes Amendment of Senior Credit Facility and Schedules Broadcast of Fourth Quarter 2017 Conference Call Business Wire

There were a couple positive articles published on March 23 and March 28. Take note of the articles. Scroll down to the very bottom of the page. Here you will find insider buying and selling data. If insiders are selling shares of their own stock or company, consider it a bearish sign. If insiders are buying shares of their own stock or company, consider it a bullish sign.

### Exhibit 6.37. QHC News Step #2

Insider Trading	Relationship	Date	Transaction	Cost	#Shares	Value (\$)	#Shares Total	SEC Form 4
Kerry Sheehee	SVP and Chief Medical Officer	Nov 13	Buy	4.69	8,000	96,000	96,000	Nov 13 Dec 24 PM
Kerry Sheehee	SVP and Chief Medical Officer	May 25	Buy	3.56	8,500	30,260	88,680	May 25 Oct 31 PM
MCCARTHY HAROLD JR	SVP and General Counsel	May 18	Buy	2.67	4,000	10,680	67,016	May 18 12:45 PM
Kerry Sheehee	SVP and Chief Medical Officer	May 18	Buy	2.71	32,000	86,720	86,720	May 18 12:45 PM
WILLIAMS Daniel	President and CEO	May 18	Buy	2.85	189,000	527,250	614,439	May 18 12:45 PM

open in yahoo | open in reuters | open in google

We see some QHC insider buying; however, the purchases, or “stock buyback,” are from November and May of last year. Therefore, we will not consider the insider buying in our news category evaluation.

The articles on March 28 and March 23 were rather positive, earning QHC one point. The insider buying does not influence our evaluation. In sum, QHC earns one point out of a possible two points for the news category.

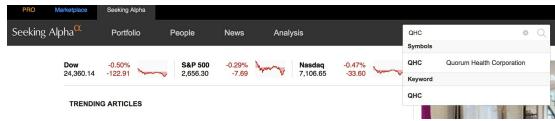
## I. News [1/2]

- a. Value 1

## Earnings Analysis

The last category in our checklist is earnings analysis. Visit [www.seekingalpha.com](http://www.seekingalpha.com) to review earnings data for QHC. Type QHC in the search bar at the top of the page.

### Exhibit 6.38. QHC Earnings Step #1



Next, click on the earnings category under QHC's stock price data.

## Exhibit 6.39. QHC Earnings Step #2



We find that QHC reported earnings on March 15, 2018. Since QHC recently had its earnings call, and there is quite some time until next earnings season, we award QHC a  $\frac{1}{2}$  point. We also see that QHC beat its earnings per share prediction by \$0.02, earning QHC a  $\frac{1}{2}$  point. Further, QHC beat its revenue prediction by \$12.34M, earning QHC another  $\frac{1}{2}$  point.

### II. *Earnings Report* [1.5/1.5]

- a. Earnings Date  $\frac{1}{2}$
- b. Expected Earnings  $\frac{1}{2}$
- c. Expected Revenue  $\frac{1}{2}$
- d. Score  $1 \frac{1}{2}$

QHC earned the maximum amount of points allotted towards the earnings category,  $1 \frac{1}{2}$  points.

## **Final Score, Comments, & Evaluation**

Our evaluation of QHC is complete! Now, we tally the points, jot down some notes, and determine whether to purchase shares, stay put and wait, or remove QHC from consideration.

### **I. Final Score & Comments [16/52]**

- a. Bonus / .75
- b. Score [16/ 52] [C-/D+]
- c. Rating 52 PTS / 13 letter grades = 4

<b><i>Letter Grade</i></b>	<b><i>Point Range</i></b>
<b>A+</b>	52 - 48
<b>A</b>	47.99 - 44
<b>A-</b>	43.99 - 40
<b>B+</b>	39.99 - 36
<b>B</b>	35.99 - 32
<b>B-</b>	31.99 - 28
<b>C+</b>	27.99 - 24
<b>C</b>	23.99 - 20
<b>C-</b>	19.99 - 16
<b>D+</b>	15.99 - 12
<b>D</b>	11.99 - 8
<b>D-</b>	7.99 - 4
<b>F</b>	3.99 - 0

### **d. Comments:**

#### **i. C-/D+:**

- 1. Not a good buying opportunity at this time (date of analysis)
- 2. Share price is near the upper trendline and failed to break through the trendline in a bullish manner -i.e., rise and stay above the upper trendline

3. Because of its size and lack of significant volume, the candlestick pattern is not ideal, to say the least

e. ***Strategy:***

- i. No Buy.
- ii. Wait and see →
  1. I want to see the upper trendline broken in a bullish manner
  2. I want to see increasing bullish volume and decreasing bearish volume
  3. I want to see a much better bullish, candlestick reversal pattern
  4. If all of the above conditions are met, I want to purchase shares at a significant, long-term support level

QHC earned 16 points out of a possible 52 points. That translates into a C-/D+ letter grade. In the comments section, I listed some of the main points or factors influencing my decision not to buy shares of QHC. In the strategy section, I remind myself not to purchase shares of QHC. I list some of the things I want to see happen before I even consider purchasing shares of QHC. In your analysis, look to record at least three takeaways from the stock evaluation and at least three factors that might cause you to change your stance or evaluation of the stock.

## WATCHLISTS

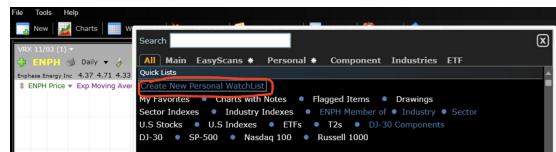
Finally, we will learn to create *watchlists* in TC2000. We will use watchlists to track stocks that we like. So, go to TC2000 and find the Watchlists tab in the top menu.

### Exhibit 6.40. TC2000 Watchlists Step #1



Click on the “Create New Personal Watchlist” tab.

## Exhibit 6.41. TC2000 Watchlists Step #2



You will be prompted to name your new personal watchlist. Type, “Stockpile.”

## Exhibit 6.42. TC2000 Watchlists Step #3



Repeat steps 1-3, creating a Top-50%, Top-33%, Top-25%, Top-15%, Top-10%, Top-5%, and Top-3% watchlist. You will also create a “Portfolio” watchlist, “Quality Stocks I Want” watchlist, “Hall of Fame” watchlist, and “Top-10 2018” watchlist. You probably think I am crazy or are wondering how many sets of eyes do I have to follow all these watchlists. Yes, I march to the beat of my own drum. And, maybe a bit neurotic; I am an attorney by title after all. However, one thing I learned from the legal world is that information and organization is key. These watchlists will help you consume a large quantity of data, and, at the end of the day, save you time. Let’s get started.

### *STOCKPILE WATCHLIST*

The stockpile watchlist is the foundation upon which all your watchlists will be built. As you become a seasoned trader and investor your stockpile watchlist will grow.

## Exhibit 6.43. Stockpile Watchlist

	Symbol	Price	Val	% Change	Open	High	Low	Net Change	Yield	Sector	TrkShares
>	2/26 ENP 2.47 +85.4% +121.458 +22.4 +7.76%	131.95		+0.33	1.81	Technology	100				
>	2/13 VCE 5.90 +73.9% +150.12.01 -22.4 -4.05%	77.69		-0.50	4.39	Healthcare	100				
>	2/26 AVX 121. +71.8% +722.20.6 +2.0 -0.42%	102.04		-0.88	4.55	Healthcare	100				
>	2/13 GER 2.20 +67.7% +149.3.69 -38.7 -1.34%	61.33		-0.05	1.34	Healthcare	100				
>	2/13 DNR 1.99 +50.2% +116.3.15 +22.4 +0.32%	122.1 ✓		+0.01	1.37	Energy Se	100				
>	3/W AMT 1.15 +48.5% +65.0 1.80 -86.3 -5.25%	13.66		-0.10	0.26	Basic Mat	100				
>	2/13 AXG 2.60 +54.5% +142.40.21 -17.4 -0.98%	82.76		-0.40	0.59	Healthcare	100				
>	2/13 IGN 123. +39.0% +482.171.1 +4.8 +1.53%	104.77		+2.59	2.04	Healthcare	100				
>	2/13 HRT 21.5 +38.8% +83.29.81 -37.0 -3.24%	62.99		-1.00	3.00	Healthcare	100				
>	2/26 WRL 1.80 +38.0% +68.24.9 +27.4 +2.51%	127.11 ✓		+0.61	2.26	Energy Se	100				
>	2/9/1 COX 8.10 +37.0% +30.111.11 -17.0 -2.20%	82.98		-0.25	1.77	Healthcare	100				
>	2/13 HSK 50.5 +35.7% +2154.82.11 -45.5 +0.76%	54.54		+0.62	1.18	Healthcare	100				
>	2/13 VR 27.4 +35.2% +195.37.05 -58.8 +1.79%	63.17		+0.65	2.35	Financial	100				
>	2/13 IMA 16.8 +32.1% +54.122.2 -32.4 +2.93%	132.0 ✓		+0.52	1.46	Energy Se	100				
>	2/13 ADM 23.1 +31.1% +727.206.1 -11.9 -0.38%	88.35		-1.18	0.23	Healthcare	100				
>	2/13 ARW 5.31 +30.8% +164.6.95 -61.4 -0.88%	38.57		-0.06	0.44	Healthcare	100				
>	2/13 PLN 31.3 +30.0% +94.40.7 -56.0 -0.15%	43.95		-0.06	0.11	Consumer	100				
>	2/13 GHN 4.74 +29.9% +142.6.16 -20.7 -4.50%	79.30 ✓		-0.29	4.55	Healthcare	100				
>	4/4/1 EBK 1.25 +29.6% +37.0 1.62 +47% +8.72% ✓ 579.31 ✓			+0.13	4.52	Healthcare	100				
>	2/W CTE 2.45 +28.9% +71.0 3.16 +78.4 -0.65% ✓ 178.71 ✓			-0.02	0.50	Energy Se	100				
>	2/9/1 BPM 0.18 +27.7% +5.00 0.23 55.6 -4.17% 44.47			-0.01	4.17	Healthcare	100				
>	2/13 CRC 18.7 +26.8% +50.1 23.7 +8.8 -1.12% 108.81 ✓			-0.27	0.50	Energy Se	100				

Take a look at Exhibit 6.43. This is my Stockpile Watchlist for 2018. The watchlist comprises of stocks I found “intriguing” in 2018. Think back to our analysis of QHC. Once I finished evaluating QHC, I added it to my stockpile watchlist. QHC may not be a great buying opportunity today, but maybe it grows into a buying opportunity next week or month. Therefore, I added QHC to my stockpile so I can keep an eye on it over the coming weeks and months. I do the same thing for every stock I evaluate over the year. I add stocks to my Stockpile Watchlist and assess them collectively. How? Through TC2000’s sorting options.

Notice the addition sign in the top-right corner of the watchlist (marked in red ink)? Click on the addition sign to add sorting categories to your watchlist. For instance, if you wish to track percentage point change for stocks in your stockpile watchlist, click on the addition sign, type “trk%” and add the category to your watchlist. Click on the “trk%” tab at the top stockpile watchlist and TC2000 will sort all the stocks in your watchlist by percentage points gained or lost. In my stockpile watchlist, ENPH ranks first out of 432 stocks in terms of positive percentage point growth (+85.4%) since I added the stock to my watchlist.

## Exhibit 6.44. Stockpile Watchlist (ENPH)

	Symbol	Price	Val	% Change	Open	High	Low	Net Change	Yield	Sector	TrkShares
>	2/26 ENP 2.47 +85.4% +121.458 +22.4 +7.76%	131.95		+0.33	1.81	Technology	100				
>	2/13 VCE 5.90 +73.9% +150.12.01 -22.4 -4.05%	77.69		-0.50	4.39	Healthcare	100				
>	2/26 AVX 121. +71.8% +722.20.6 +2.0 -0.42%	102.04		-0.88	4.55	Healthcare	100				
>	2/13 GER 2.20 +67.7% +149.3.69 -38.7 -1.34%	61.33		-0.05	1.34	Healthcare	100				
>	2/13 DNR 1.99 +50.2% +116.3.15 +22.4 +0.32%	122.11 ✓		+0.01	1.37	Energy Se	100				
>	3/W AMT 1.15 +48.5% +65.0 1.80 -86.3 -5.25%	13.66		-0.10	0.26	Basic Mat	100				

You may add as many sorting categories as you please. My watchlist categories include: Flag, trkDate, trkPrice, trk%, trkGainLoss, Price, Vol Buz, Increasing Volume, % Change, Decreasing Volume, Volume Surge Today, Above Avg Volume, Recent Downtrend, Net Change, % Change Since Open Daily, Sector, and trkShares.

As you find and sort through stocks on Finviz and TC2000, add them to your stockpile watchlist. Once a day, check your stockpile watchlist and look for stocks that are outperforming the other stocks in the watchlist. When you find an intriguing option in your watchlist, you may add it to the “Top-X%” watchlists.

## *TOP-X% WATCHLISTS*

As mentioned, you will create watchlists titled Top-50%, Top-33%, Top-25%, Top-15%, Top-10%, Top-5%, and Top-3%. For each watchlist, you will click on the addition sign in the top-right corner and add sorting categories. Again, you may add as many sorting categories as you please. As a novice trader, you may find the following categories helpful: Flag, trkDate, trkPrice, trk%, trkGainLoss, Price, Vol Buzz, Increasing Volume, % Change, Decreasing Volume, Volume Surge Today, Above Avg Volume, Recent Downtrend, Net Change, % Change Since Open Daily, Sector, and trkShares.

## **Organizing Top-X% Watchlists**

My watchlists are organized in the following manner. On the right side of the TC2000 home page, from top to bottom, are the following watchlists: Portfolio, Long-Term Portfolio, Top-3%, Top-5%, Top-10%, Top-15%, Top-25%, Top-33%, and Top-50%.

## Exhibit 6.45. TC 2000 Home Page Watchlist Organization (Right Side of Page)

**Personal WatchList**

Flag	Sym	trkPrice	trk% ▼	trkGainLoss	Price	Vol Buzz	% Change	Avg Volume	Surge	Net Change
NSC	143.84	50	+1.47%	+106.00	145.90	+8.14%	279.1	279.1	+179.7%	+10.14%

**Long-Term Portfolio**

Flag	Sym	trkPrice	trk% ▼	trkGainLoss	Price	Vol Buzz	% Change	Avg Volume	Surge	Net Change
EBIO	1.75	100	+35.43%	+620.00	2.37	+6.76%	+261.9	361.1	361.1	+0.15%
SPOT	148.19	70	+3.47%	+359.80	153.33	-1.12%	-58.9%	...	...	-1.74%

**Top-3%**

Flag	Sym	trkPrice	trk% ▼	trkGainLoss	Price	Vol Buzz	% Change	Avg Volume	Surge	Net Change
USNA	106.80	0.00%	0.00	106.80	+423.40	+11.24%	+523.41	+523.41	+523.41	+4/25/18 Cons

**Top-5%**

Flag	Sym	trkPrice	trk% ▼	trkGainLoss	Price	Vol Buzz	% Change	Avg Volume	Surge	Net Change
Rpt	GLNG	30.89	+4.24%	+131.00	32.20	-29.4%	+2.19%	70.62	70.62	+0.14%

**Top-10%**

Flag	Sym	trkPrice	trk% ▼	trkGainLoss	Price	Vol Buzz	% Change	Avg Volume	Surge	Net Change
#1	VRNS	64.60	+1.55%	+100.00	65.60	-8.8%	+1.08%	91.23	91.23	+0.71%

**Top-15%**

Flag	Sym	trkPrice	trk% ▼	trkGainLoss	Price	Vol Buzz	% Change	Avg Volume	Surge	Net Change
#2	ZS	27.73	+1.37%	+38.00	28.11	-77.8%	+3.57%	...	...	+4/20/18

**Top-25%**

Flag	Sym	trkPrice	trk% ▼	trkGainLoss	Price	Vol Buzz	% Change	Avg Volume	Surge	Net Change
#3	WTM	64.68	+6.42%	+415.00	68.85	-44.3%	+0.75%	55.68	55.68	0.69

**Top-33%**

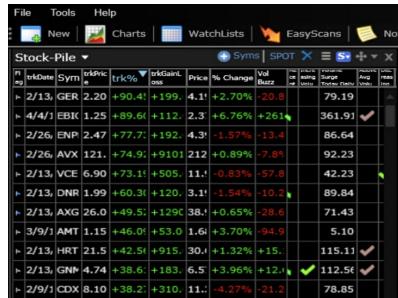
Flag	Sym	trkPrice	trk% ▼	trkGainLoss	Price	Vol Buzz	% Change	Avg Volume	Surge	Net Change
#4	NIHD	2.76	0.00%	0.00	2.76	-67.8%	+0.73%	32.19	32.19	+0.02%

**Top-50%**

Flag	Sym	trkPrice	trk% ▼	trkGainLoss	Price	Vol Buzz	% Change	Avg Volume	Surge	Net Change
#5	ATRA	36.25	+12.28%	+445.00	40.70	-54.9%	+2.26%	45.10	45.10	...

On the left side of the TC2000 home page is my stockpile watchlist.

## Exhibit 6.46. TC 2000 Home Page Watchlist Organization (Left Side of Page)



The screenshot shows the TC 2000 software interface with the 'Stockpile' tab selected. The main area displays a table of stocks, each with a small green checkmark icon to its right. The columns in the table include: Date, Stock Symbol, Price, % Change, Vol, and Buzz. The table lists 15 stocks, such as GER, EBK, ENP, AVX, VCE, DNR, AXG, AMT, HRT, and GNP.

Date	Sym	Price	% Change	Vol	Buzz
2/13	GER	2.20	+90.4%	1199	4.11
2/13	EBK	1.25	+89.6%	112	2.3
2/26	ENP	2.47	+77.7%	192	4.31
2/26	AVX	121.	+74.9%	910	212
2/13	VCE	6.90	+73.1%	505	11.1
2/13	DNR	1.99	+60.3%	120	3.11
2/13	AXG	26.0	+49.5%	129	38.1
3/9/	AMT	1.15	+46.0%	53.0	1.61
2/13	HRT	21.5	+42.5%	915	30.4
2/13	GNP	4.74	+38.6%	183	6.5
2/9/	COX	8.10	+38.2%	310	11.1

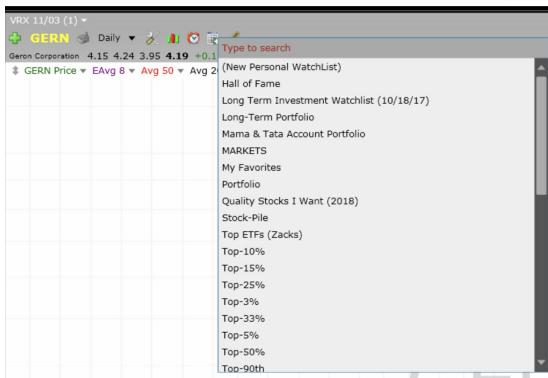
You will use the stocks in your Stockpile Watchlist to fill your Top-X% Watchlists. At the end of every trading session, you will scroll through your Stockpile Watchlist and identify the Top-3% best performers. So, for instance, if you have 100 stocks in your Stockpile Watchlist, you will identify up to three of the best stockpile stocks, and add them to your Top-3% Watchlist. To add a stock to another watchlist, you click on the stock symbol and click on the “Add to Watchlist” button at the top of the page.

### Exhibit 4.67. TC2000 “Add to Watchlist” Button



A list of all your watchlists will appear. Select whichever watchlist you wish to place the stock in.

### Exhibit 4.68. TC2000 “Add to Watchlist” Button (2)



The stock will appear in whichever watchlist you choose.

You will review stocks previously added to the Top-3% Watchlist and decide whether to keep them at the Top-3% level or move them to a lower-ranked watchlist –e.g., Top-5%, Top-10%, etc. To remove a stock from a watchlist, simply double-click on the stock symbol and select, “Remove ‘[name of stock]’ from List.” If you wish to add the stock to another watchlist, simply type the stock symbol, click on the “Add to Watchlist” button, and pick a watchlist you wish to place the stock in.

### Exhibit 4.69. TC2000 Remove Stock From Watchlist



Repeat the above steps for your Top-5%, Top-10%, Top-15%, Top-25%, Top-33%, and Top-50% watchlists. Please note, the Top-3% watchlist should house the least number of stocks as it is, “the top-3%” best stocks in your stockpile. The Top-50% watchlist will house the most stocks, up to 50%

of your stockpile. However, I recommend limiting any given Top-X% watchlist to twenty stocks. From my trading and investing experience, I found having more than twenty stocks in the lower tier, Top-X% watchlist – i.e., Top-25%, Top-33%, and Top-50% watchlists- consumes too much of my time and prevents me from diligently evaluating stocks in the upper Top-X% tiers –i.e., Top-3%, Top 5%, and Top-10% watchlists.

# CHAPTER 6 SUMMARY

## 1. *Finding Tradable Stocks:*

- a. There are two methods for finding tradable stocks:
  - i. The candlestick-based method – pick a candlestick reversal pattern, enter the screening criteria for that pattern, and evaluate the stocks recovered by your screen
  - ii. Trawling for stocks – concoct a large screen that returns a significant number of stocks, which you sift through to identify a handful of keepers
- b. Trawling for Stocks:
  - i. Finviz.com → Screener
    - 1. Descriptive tab
    - 2. Technical tab

## 2. *Trading Example:*

- a. QHC

## 3. *Watchlists:*

- a. Top-50% watchlist
- b. Top-33% watchlist
- c. Top-25% watchlist
- d. Top-15% watchlist
- e. Top-10% watchlist
- f. Top-5% watchlist
- g. Top-3% watchlist
- h. Stockpile watchlist

# CHAPTER 7

## BITCOIN, CRYPTOCURRENCY, & CRYPTO-RELATED STOCKS

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*A thunderclap from a clear blue sky*

Before we wrap up our first book in the *Think, Trade, and Grow Rich!* Series, I want to touch on Bitcoin and cryptocurrencies in general. If you have not heard about *Bitcoin*, *Ethereum*, or the term *cryptocurrency*, you are most likely awakening from a deep coma. In which case, welcome! Nice to have you back. Let me sum up the talk of the town, err, world, for the last year or two.

### BITCOIN?

Bitcoin is an “invisible” currency. Transactions are made with no middle men – meaning, no banks.<sup>[52]</sup> Although Bitcoin can be used to purchase things, such as hotel rooms on Expedia, much of the hype is about people getting rich by trading Bitcoin. That is, buying and selling Bitcoin just as you would a stock or security.

## *WHY BITCOIN AND HOW DO I BITCOIN?*

One of the appeals of Bitcoin is that it allows people to buy merchandise anonymously.<sup>[53]</sup> There are many marketplaces where you may buy or sell Bitcoin. One of the leading marketplaces is Coinbase. However, you may also be able to buy and sell Bitcoin on other platforms, for instance, Robinhood. Once you purchase Bitcoin, they are stored in a *digital wallet* which exists either in a “cloud” or on a user’s computer. Unlike bank accounts, Bitcoin wallets are not insured by the FDIC.

## *BTCOIN: PET.COM OR AMAZON.COM?*

As of April 2018, the future of Bitcoin and cryptocurrency is a hotly debated subject. Proponents argue cryptocurrency is a commodity and the future of commerce; opening the door to global trade through cross-border payments and transactions. Benoit Coeure, European Central Bank Executive Board Member, argues, “...Bitcoin can help us, it can pay us a service by forcing us to upgrade our systems.”<sup>[54]</sup> Howard Schultz, Starbucks Corp. Chairman and Founder, goes a step further explaining, “I believe that we are heading into a new age in which Blockchain technology is going to provide a significant level of a digital currency that is going to have a consumer application.”<sup>[55]</sup>

At the other end of the spectrum, cryptocurrency bears warn that Bitcoin’s meteoric rise is reminiscent of the dot-com bubble, forecasting a collapse of cryptocurrency and Bitcoin; rivaled only by Pets.com in early 2000.<sup>[56]</sup> Famed investor and CEO of Berkshire Hathaway, Warren Buffet, explains, “People get excited from big price movements, and Wall Street accommodates... You can’t value Bitcoin because it’s not a value-producing asset. It’s a real bubble.”<sup>[57]</sup> Similarly, Janet Yellen, Federal Reserve Chair, points out, “It is not a stable store of value, and it doesn’t constitute legal tender... It is a highly speculative asset....”<sup>[58]</sup>

It is not my place to tell you whether or not to dabble in cryptocurrency. Personally, I have a small stake in Bitcoin. Two years ago, I invested about a \$1,000 in cryptocurrency and have not touched my crypto account since. If the price of Bitcoin skyrockets, great. If Bitcoin collapses, no big deal. No, my job is to teach you how to trade; not what to trade. So, if you decide to apply the tools and resources you learned to trade Bitcoin, then

that is your decision. Just tread cautiously, keep your emotions in check, and apply the rules you learned.

## BITCOIN-ASSOCIATED STOCKS

Certain stocks are linked to Bitcoin and cryptocurrency. In general, these “crypto stocks,” trade in tandem with the price of cryptocurrencies. For example, if Bitcoin has a terrible day, the Bitcoin-associated stock will have a less than stellar day as well. I may not be an avid crypto-trader, but I have enjoyed my fair share of successful trades with Bitcoin-related stocks. In the next section you will find some of my “preferred” Bitcoin-related stocks.

### *PREFERRED CRYPTO-RELATED STOCKS*

Below you will find my preferred list of crypto-related stocks, ranked from top to bottom. If you wish to learn more about these companies, visit [www.kahrimanventures.com](http://www.kahrimanventures.com) , [www.finviz.com](http://www.finviz.com) , or just run a Google search.

### **Nvidia Corporation**

In my opinion, the most stable and reliable of the crypto-associated stocks is Nvidia Corporation (NASDAQ: NVDA). Nvidia is a global, visual computing company.<sup>[59]</sup> The company operates two segments, GPU and Tegra Processor. The GPU segment offers processors, including GeForce Now for cloud-based gaming and streaming services. There is a massive demand for cloud-based software and services, and, there are not that many suppliers. In other words, NVDA is at the forefront of all things cloud.

Furthermore, the GPU segment powers cryptocurrency-specific graphic processing units. There are not many other players in this field. Therefore, NVDA’s mini-monopoly in this area fuels its stock price to the tune of \$239 as of late-April 2018.

### **Advanced Micro Devices**

Advanced Micro Devices (NASDAQ: AMD) is known for its microprocessors used in computing and graphics, including Xbox One X and Xbox One S. Additionally, AMD supplies GPUs to cryptocurrency miners. In a recent 10-k annual filing, AMD highlighted, “the rise of cryptocurrency prices and the introduction of new cryptocurrencies created a demand for our GPUs in 2017.”<sup>[60]</sup> The release is in line with past predictions from AMD,

which suggested near the end of 2017 that its GPU business was getting a lift thanks to crypto-miners.

Since a modest percentage of AMD's GPU production is linked to demand from the cryptocurrency sector; a decline in the crypto sector may hit AMD stock price. AMD explained, "several factors could change the environment on the GPU front, highlighting market and regulatory risks that could lead to a decline in the number of GPUs being bought by cryptocurrency miners."<sup>[61]</sup>

## Square

Next up on our list is Square (NYSE: SQ). Square provides payment and point-of-sale solutions across the globe.<sup>[62]</sup> The company's commerce ecosystem includes point-of-sale software and hardware that enables sellers to turn cellphone and computing devices into payment and point-of-sale solutions.

Square may be best known for offering a device that helps small merchants accept credit cards. However, in January 2018, the company began officially offering a peer-to-peer payment service, Square Cash. As of this writing, the Bitcoin trading service appears to be gaining some traction, accounting for nearly 5% of Square's overall revenue. The bad news is that Square spent nearly as much to acquire Bitcoin in the first place.<sup>[63]</sup> Fortune magazine explains, "Square's difficulties may stem in part from an ongoing slump in Bitcoin prices since the boom of late 2017, and its strategy for acquiring it –which is similar to how the average person would buy Bitcoin."<sup>[64]</sup> Be that as it may be, Square's stock is up 146% for the year, 41% year-to-day, and 13% for the quarter.

## Digital Power

Lastly, Digital Power (NYSE: DPW) offers traders and investors a speculative cryptocurrency play. The company is a traditional manufacturer of power-supply products for demanding applications. The company is also getting into equipment and services targeting cryptocurrency. Speculation mainly stems from DPW's ties to Amazon. The stock ran up on a rumor that Amazon had ordered hardware from the company related to cryptocurrencies. The rumor turned out to be false, and the stock pulled back.<sup>[65]</sup>

## *WHERE TO TRADE BITCOIN AND CRYPTOCURRENCIES*

There are several platforms for those interested in trading and investing in Bitcoin and cryptocurrencies. First, you may find Bitcoin candlestick charts and data at [www.investing.com](http://www.investing.com). The site offers a modest amount of data and technical factors; including hourly, daily, monthly, and yearly candlestick charts for cryptocurrencies. The services are free. Second, you may find crypto market data on a number of sites. Personally, I prefer to visit [www.marketwatch.com](http://www.marketwatch.com) as it offers technical data as well as up to date articles and news.

Finally, I recommend two trading platforms for trading and investing in cryptocurrency. The first is none other than Robinhood. Yes, you may trade stocks, cryptocurrency, and even options on the app. There is no fee for trading. The second and most popular crypto-trading platform to date is Coinbase. You may download Coinbase in the Apple or Android store. Unlike Robinhood, Coinbase charges a fee for trades.

# CHAPTER 7 SUMMARY

1. ***Bitcoin:***
  - a. Bitcoin is an “invisible” currency
  - b. You may buy and sell bitcoin using our trading checklist
    - i. Simply conduct a Google search for “Bitcoin candlestick chart” and use the trading checklist just as you would for a stock
  - c. Bitcoin: Pet.com or Amazon.com?
    - i. Some argue cryptocurrency, and Bitcoin, is a commodity and the future of commerce, opening the door to global trade through cross-border payments and transactions
    - ii. Others argue Bitcoin and cryptocurrency’s meteoric rise is reminiscent of the dot-com bubble, forecasting a collapse of the two similar to Pets.com in early 2000
  - d. Preferred Bitcoin-associated stocks
    - i. Nvidia Corporation (NASDAQ: NVDA)
    - ii. Advanced Micro Devices (NASDAQ: AMD)
    - iii. Square (NYSE: SQ)
    - iv. Digital Power (NYSE: DPW)
2. ***Where to Trade Bitcoin and Cryptocurrencies?***
  - a. Coinbase
  - b. Robinhood
  - c. Investing.com
  - d. Marketwatch.com

# CHAPTER 8

## ADDITIONAL TIPS, RESOURCES, PORTFOLIO PERFORMANCE, AND CLOSING REMARKS

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*A journey of a thousand “ ri ” starts with one step*

As you near the end of this chapter in your investing and trading career, I hope to leave you (for now) with some lasting advice to carry you on your journey. In this chapter we will cover some of the more helpful tips and advice seasoned traders imparted upon me over the years. You will also find additional trading and investing resources that I hope will prove useful in your trading. We will touch on portfolio performance and tracking. Alas, I will bid you farewell (again, for now) with a parting gift.

## TIPS

Traders often say you learn more from losing than winning. Below you will find what I learned the hard way. I hope you take these tips to heart and save yourself from unnecessary losses. Don't get me wrong; losses will come. After all, none of us are investing prophets. However, it does not take an investing deity to apply what you learned and minimize your losses.

### *TIP #1: WHAT IS IT YOU DO EXACTLY?*

If I offered you \$1 million to start a business of your choosing, what industry would your company belong to? If you worked as a chef for twenty years, you probably would feel comfortable opening a restaurant. You more-or-less have a general idea of how a restaurant operates. On the other hand, if I offered you \$1 million dollars on the condition you open a biotech company, you would be in trouble. Even if you were savvy enough to hire corporate officers with a background in biotech, you and your company would be at the mercy of their whims, interests, and predispositions. A lawyer does not tell a surgeon how to operate, and a chef does not tell a biological scientist how to research.

Where am I going with this? To tip #1, of course: Never invest in something you do not understand. This sage advice comes straight from the Oracle of Omaha, “Never invest in a business you cannot understand...Just as you would never purchase a private business from someone else without at least looking at its sales, profits, debt, and trends; you need to do the same thing before purchasing stock in a company.”<sup>[66]</sup> Now, I am not telling you to only invest in businesses you could run yourself. No, if you are interested in a business or sector, educate yourself! Read about the company’s products, its competitors, its sources of revenue, analyze the balance sheet. Research, research, and once you are convinced you understand the business, research some more. Because, “if a company’s business or product is too difficult to understand, it’s better to just file it in the ‘too hard’ category and move on to another opportunity.”<sup>[67]</sup>

### *TIP #2: HISTORY REPEATS ITSELF*

You may recall your 6<sup>th</sup>-grade history teacher using the aphorism, “history repeats itself,” to explain the utility of history. Although your daily

subsistence may not hinge on your trove of historical facts, your livelihood as a trader and investor is directly tied to the history of the stock market. You see price patterns repeat themselves. So much so that one of the most well-known investing books of the past century, “A Random Walk Down Wall Street,” argues (if not proves) that historical price patterns repeat themselves. Why? Because a set of two principles govern the stock market; fear and greed. Both principles are innate in human nature; and (make sure your significant other is not in the room) human nature does not change.

Most, if not all, stocks plummet in a bear market. Greed turns to fear, and investors sell like there is no tomorrow. But, there is a tomorrow. As weak hands sell, savvy investors buy. They buy shares of good companies with “bad” stocks. That is, value-bin share prices of high-end companies. So, when the market hits rock bottom, good companies with bad stocks will have already built bases. These stocks will be the first to breakout to the upside, make new highs, and lead the way to a new bull market.

### *TIP #3: WHAT GOES UP (USUALLY) MUST COME DOWN*

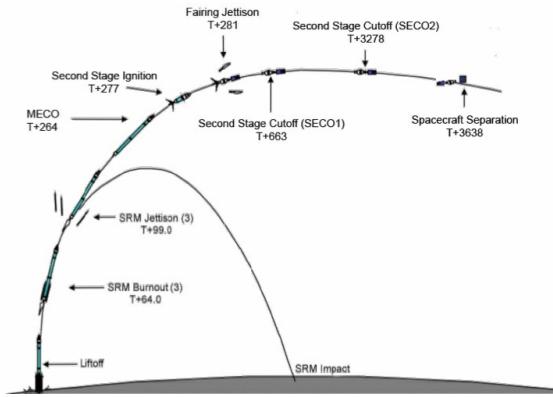
In your investing and trading career, you will stumble upon some of the juiciest looking stocks you have ever seen. Huge, green candles. Triple-digit growth. Bullish trendlines that look more like Space X launches than mountain tops and valleys. Your mouth will water, your eyes will bulge, and your legs will tingle with electricity. But, from the corner of your eye, you spot the stochastic oscillator reading; 96. This thing is overbought. I’m talking mid-2000s-UGG-boots-overbought. This thing makes Bitcoin look rare; Hope Diamond rare. This, my friend, is a Medusa stock.



In Greek mythology, Medusa was initially a ravishingly beautiful maiden, “the jealous aspiration of many suitors.”<sup>[68]</sup> Due to man’s wrongdoings and her subsequent hatred of mortal man, Medusa seduced the simpler sex only to turn those who set their eyes upon her into stone.

Similarly, when you come across a stock and find yourself experiencing the same feeling and sensations you experienced the first time you set eyes on your significant other; walk away from your computer and take a cold shower.

If you recall from earlier in the book, stocks and rockets (metaphorically) share a lot in common. A rocket carries only so much fuel. If a rocket burns through its fuel reserve at stage 2 of preliminary flight sequence, SRM Jettison (3), it will most likely fail to reach the thermosphere; causing it to plummet back to Earth. The rocket will burst through the lower levels of the atmosphere, only to run out of fuel and stall before reaching cruising altitude.



Similarly, a stock that rips through levels of support and resistance at an astonishing pace will most likely run out of fuel (buyers/buying pressure) and plummet back down to oversold conditions. That is not to say that you should avoid fast, high-growth, stocks. No, you need to separate emotions from investing, let go of your “fear or missing out,” and wait for share price to fall back down to realistic levels before entering the trade. Easier said than done, but done it must be.

## RESOURCES

Finviz, TC2000, Marketwatch, Kahriman Ventures, and Kahriman Publishing are my most utilized sites for stock data, information, and news. Below, you will find some additional resources that I find useful. Pick and choose whichever work best for you.

## *TIPRANKS*

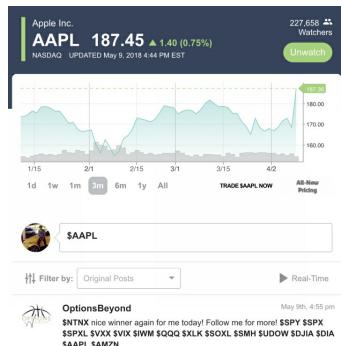
Tipranks is a site that claims to offer a dataset of analysts, hedge fund managers, financial bloggers, and corporate insiders. The site is free to access, however, more in depth information and data requires a paid subscription to access. Tipranks attempts to calculate the reliability, accuracy, and track records of analysts. If you wish to learn more about a stock's analyst recommendation and target price, Tipranks may prove helpful in your research.

## *ZACKS*

Next up is Zacks.com. In addition to stock information, data, and ratings, Zacks offer a free portfolio service. Under the Portfolio tab in the top menu, you may enter ticker symbols of stocks you own and your position in each stock. Zacks will send you emails updating the ranking of your stocks. The ranking system is simply Zacks.com's opinion of how well the stock is performing. This is no different from an analyst changing her rating and target price of a stock. I use the portfolio service for my long-term positions, providing me an additional set of data to consider.

## *STOCKTWITS*

StockTwits claims to be, "The Largest Social Network for Investors and Traders." Their mission is to connect investors and traders with each other. Simply put, StockTwits is a message board for stocks and cryptocurrency. For instance, if you type AAPL, Apple's ticker symbol, you will find a message board where investors and traders, like you, voice their opinion of the stock in 135 characters.<sup>[69]</sup>



I use StockTwits to check sudden price changes in stocks. For

example, if Apple's stock price suddenly increases and I cannot find an article to explain the movement, I check StockTwits in case another investor found information. If the person soliciting the information cannot cite their source with an article from a reputable site, I disregard the comment.

As useful as the message board may be, I strongly advise you to take any information on StockTwits with a grain of salt. Since StockTwits offers a platform to over a million investors and traders; people who wish to artificially manipulate the price of a stock for their own gain may feel inclined to post false information about a stock in hopes of getting others to buy or sell the stock. If you are easily swayed, please stay away from such platforms. You did not spend your precious time learning to trade and invest to then fall prey to malicious actors. You are better than that.

### *BITCOIN WISDOM*

For those of you interested in Bitcoin and cryptocurrencies, I suggest you check out [bitcoinwisdom.com](http://bitcoinwisdom.com). The site offers a “tick-by-tick” candlestick chart of Bitcoin price, as well as partial order history. You may analyze Bitcoin price over a one-week, three-day, one-day, twelve-hour, six-hour, four-hour, two-hour, one-hour, thirty-minute, fifteen-minute, five-minute, three-minute, and one-minute, time intervals.

### *CNBC*

You may have heard of CNBC or seen their channel while remote surfing. Their site provides stock, market, cryptocurrency, and investing articles. In all honesty, there is nothing particularly special about CNBC. But, I am a creature of habit, and CNBC is one of the first market-related sources I accessed when I just started learning about stocks. So, take a look if you're curious.

## MARKETBEAT

I visit marketbeat.com when I wish to learn more about a stock's dividend history<sup>[70]</sup>, earnings history, and insider transactions. Just type a ticker symbol in the top-right search bar. Once the page loads, you will find several tabs ranging from Company Profile to Chart. Take a look at Exhibit 8.1.

### Exhibit 8.1. MarketBeat Dividend History

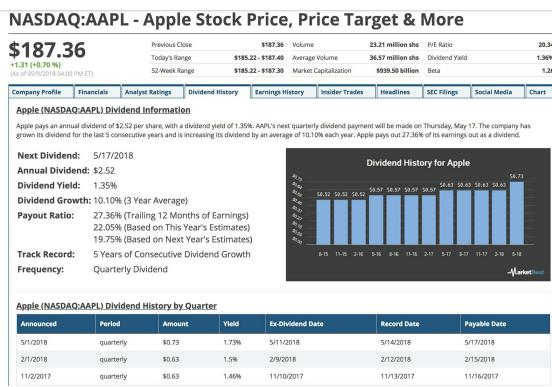


Exhibit 8.1. shows Apple's dividend history. The dividend data goes back to 2013; detailing the amount awarded, the record date, and payable date. Let's take a look at Apple's earning history.

## Exhibit 8.2. MarketBeat Earnings History

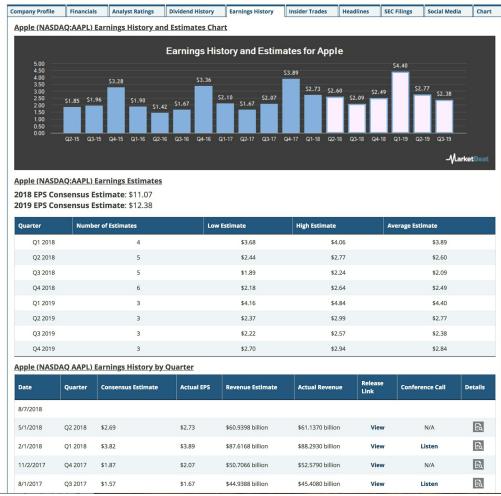


Exhibit 8.2. shows Apple's earning history. You will find earnings per share and revenue estimates, as well as reported earnings per share and revenue. Finally, take a look at Apple's insider trading history.

### Exhibit 8.3. MarketBeat Insider Trades



Exhibit 8.3. shows Apple's insider trading activity –i.e., trading of the stock by individuals with access to nonpublic information about the company, such as Apple's corporate officers. MarketBeat provides the date of the transaction, the insider's name, title, whether they bought or sold stock, number of shares, average share price, total transaction cost, and remaining shares held by the insider. If several insiders are selling their shares, consider it a bearish sign for the stock. On the other hand, insider buying may be viewed as a bullish sign.

### THE STOCK MARKET GAME

Finally, and most importantly, I suggest you visit [www.stockmarketgame.com](http://www.stockmarketgame.com). The site offers a free stock market simulator. You are 'given' \$100,000 to use towards investing and trading. The simulator tracks the market, offering you the opportunity to practice trading and investing without risking your own money. I suggest you utilize the simulator and practice trading for at least a couple of months before putting your own money to work.

### PORTFOLIO PERFORMANCE

Before we conclude, I want to mention the benefits of tracking your trades. It is quite easy to get lost in the day-to-day of trading and lose sight of the big picture –i.e., long-term portfolio growth. If you only monitor your daily, weekly, and monthly performance; you may find yourself looking at a loss at the end of the trading year. Therefore, it is imperative to track your long-term portfolio performance. To do so, investors use a *trading calculator*. The trading calculator calculates your profit or loss for each trade and tracks your overall investment performance for the year. You may find and download a free trading calculator at [www.kahrimanventures.com](http://www.kahrimanventures.com) or

[www.kahrimanpublishing.com](http://www.kahrimanpublishing.com).

## CLOSING REMARKS

Congratulations! We have come a long way on this journey. But, as Martin Luther King Jr., famously said, “If you can’t fly, then run, if you can’t run, then walk, if you can’t walk, then crawl, but by all means keep moving.”

You have the knowledge, practice, and capability to profit greatly in the stock market. However, that is no reason to stop your journey; for profiting and beating the market takes constant effort. This means you keep reading, learning, and practicing trading and investing. You have this book and a robust trading checklist to guide you through your journey. You have numerous resources at your fingertips. You have me in your corner. I am just an email away. I will continue writing, teaching, and sharing my knowledge, experiences, and tips. Just by reading this book, you accomplished a feat many others will fail to complete. You sought more in your life. You believed financial freedom is within your grasp, and you acted on your beliefs! From the bottom of my heart, I am proud of you and excited. Excited for your future and eager to realize a dream of mine: to help others achieve financial freedom. Money does not bring happiness, but it brings opportunity. Be good to yourself, be kind to your family, radiate confidence, and embody humility as you accomplish your goals. Finally, please feel free to get in touch and consider me an ally in your journey. You may join our community of traders and investors at [www.kahrimanventures.com](http://www.kahrimanventures.com) or email me at [benjamin@kahrimanpublishing.com](mailto:benjamin@kahrimanpublishing.com). Few things make me happier than putting a face behind a success story. God bless!

# GLOSSARY OF TERMS AND CANDLESTICK PATTERNS

## TERMS

### A

#### **Above-average volume:**

An indicator signaling an above average number of shares were traded that trading session.

#### **After-hours:**

Refers to the buying and selling of stocks after regular trading hours –i.e., after 4:00 p.m. Eastern Standard Time.

#### **Analyst price target:**

The projected price level of a stock stated by an investment analyst or advisor.<sup>[71]</sup> The price target is an analyst's expectation on the future price of a stock.

#### **Analyst rating:**

A number from one to five, one being a *strong buy* and five being a *strong sell*, that represents analyst sentiment towards a stock.

# B

## **Bar chart:**

A chart that presents categorical data with rectangular bars with heights or length proportional to the values they represent.

## **Bearish candle:**

A candle whose opening price is higher, or above, its closing price.

## **Bearish engulfing:**

A bearish candlestick reversal pattern consisting of two candles. The first candle is a small, bullish candle. The second candle is a large, bearish extended range candle. The second candle's real body should completely envelop the first candle's real body.

## **Bearish harami:**

A bearish candlestick reversal pattern consisting of two candles. The first candle is a bullish, extended range candle. The second candle is a small bearish candle. The second candle's real body should fit within the first candle's real body.

## **Bearish reversal pattern:**

A single or group of candles that signal the previous price trend (uptrend) is complete and a new price trend moving in the opposite direction is about to begin.

**Bearish trend:**

A downward trend in the price of a stock. The trend is characterized by investor selling and pessimism about the stock's future growth.

**Beat:**

A company reports better than expected earnings.

**Bid-ask spread:**

The amount by which the ask price for a stock exceeds its bid price. The bid-ask spread is essentially the difference between the highest price a buyer is willing to pay for the stock and the lowest price a seller is willing to accept to sell the stock.

**Bitcoin:**

A type of digital currency also known as *cryptocurrency*.

**Body:**

The hollow or filled in portion of a candlestick. The body represents the price range between a stock's opening price and closing price.

**Broker:**

A person who buys or sells securities on a stock exchange on behalf of clients.

**Bullish candle:**

A candle whose opening price is lower, or below, its closing price.

**Bullish engulfing:**

A bullish candlestick reversal pattern consisting of two candles. The first candle is a small, bearish candle. The second candle is a bullish, extended range candle. The bullish candle's real body should envelop the bearish candle's real body.

**Bullish hammer:**

A bullish candlestick reversal pattern consisting of one candle. A bullish hammer has a long, lower shadow at least twice the size of its real body. A

small, real body is at or near the top of the candle. The candle may have a small, upper shadow. A bearish downtrend must precede the candle.

### **Bullish harami:**

A bullish candlestick reversal pattern consisting of two candles. The first candle is a bearish, extended range candle. The second candle is a small, bullish candle. The bullish candle's real body should fit within the bearish candle's real body.

### **Bullish reversal pattern:**

A single or group of candles that signal the previous price trend (downtrend) is complete and a new price trend moving in the opposite direction is about to begin.

### **Bullish separating lines:**

A bullish candlestick reversal pattern consisting of two candles. The first candle is a bearish, extended range candle. The second candle is a bullish, extended range candle. The second candle opens at the same opening price of the previous day's candle and closes well above the first candle.

### **Bullish trend:**

An upward trend in the price of a stock. The trend is characterized by investor buying and optimism about the stock's future growth.

### **Buy:**

Analysts anticipate a stock's total return, or profit/performance, over the market's long-term historical annual rate (approximately 10%).

### **Buying/selling pressure:**

Buying pressure essentially means increasingly higher demand for shares of a particular stock. The demand exceeds the supply, causing the stock price to grow. On the other hand, selling pressure means decreasing demand for shares of a particular stock. The supply exceeds the demand, causing the stock price to decline.

C

**Candle:**

An illustration that displays the high, low, opening, and closing price of a particular stock over a set period of time.

**Candlestick chart:**

A type of financial chart that uses candles to describe price movement of a particular stock over a set period of time.

## **Candlestick patterns:**

A single candle or group of candles that predict future share price movement. Candlestick patterns signal the previous price trend is complete and a new price trend moving in the opposite direction is about to begin.

## **Cap Size:**

Cap refers to market capitalization and is calculated by multiplying the price of a stock by the number of shares outstanding –i.e., essentially the market's estimate of a particular company's value. Size refers to the levels of market capitalization: mega-cap (>\$100 billion), big-cap (\$100 billion to \$10 billion), mid-cap (\$2 billion to \$10 billion), small-cap (\$300 million to \$2 billion), micro-cap (\$50 million to \$300 million), nano-cap (<\$50 million). In sum, cap size refers to the market's perceived value of a company.

## **Close:**

The end of a trading day.

## **Closing Price:**

The trading price of a stock at the end of the trading day.

## **Cryptocurrency:**

A digital currency in which encryption techniques regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank.

## **Current Volume:**

The number of shares of a stock traded during a particular trading session.

## **D**

## **Dark cloud cover:**

A bearish candlestick reversal pattern consisting of two candles. The first candle is a bullish, extended range candle. The second candle is a bearish, extended range candle. The bearish candle's opening price is above the bullish candle's real body. The bearish candle's closing price is below the mid-point of the bullish candle's real body.

**Day trader/trading:**

The act of buying and selling a stock within the same trading day, such that all positions are closed before the market closes for the trading day.

**Decreasing volume:**

An indicator signaling a decrease in trading volume for a particular stock over a certain period of time.

**Digital wallet:**

An electronic device or online service that allows an individual to make electronic transactions.

**Doji star:**

A neutral candle with a long upper and lower shadow, and a small real body.

**Downtrend:**

A stock with declining pivot highs and pivot lows indicating an overall decline in share price. Also known as a *bearish downtrend*.

**E****Earnings date:**

The date on which a company is expected to report its financial results for a specific time period, usually a quarter or year.

**Earnings per share (EPS):**

An indicator of a company's profitability. Technically speaking, EPS is the portion of a company's profit allocated to each outstanding share of common stock.

**Earnings report:**

An official public filing made by public companies to report their financial performance.

**Entry/exit point:**

Entry point is the price at which an investor buys shares of a stock. Exit point

is the price at which an investor sells shares of a stock.

**Ethereum:**

A type of digital currency also known as *cryptocurrency*.

**Evening star:**

A bearish candlestick reversal pattern consisting of three candles. The first candle is a bullish, extended range candle. The second candle is star. The third candle is a bearish, extended range candle. The second candle gaps above the bodies of the first and third candles. The third candle opens below the second candle's real body and closes at least midway down the first candle's real body.

**Expensive stocks:**

Stocks with a price value higher than fifty dollars.

**Exponential moving average (EMA):**

A technical indicator measuring the average share price of a stock over a set period of time. EMA is front weighted. The formula used to calculate EMA progressively assigns less weight to past prices.

**Extended range candles:**

A bullish or bearish candle with no (or small) upper and lower shadows, and a long real body.

*F*

**Famous stocks:**

Stocks of universally recognized and known companies.

*H*

**Hammer:**

A bullish candle with a long, extended lower shadow and small real body. A hammer only appears at the bottom of a downtrend.

**Hanging man:**

A bearish candle with a long, extended lower shadow and small real body. A hanging man only appears at the top of an uptrend.

**Higher high:**

Another term for rising *pivot high*.

**Higher low:**

Another term for rising *pivot low*.

**Hold:**

Analysts anticipate a stock's total return, or profit/performance, will be in line with the market's long-term historical annual rate (approximately 10%).

**I****Increasing volume:**

An indicator signaling a surge in trading volume for a particular stock over a certain period of time.

**Industry:**

A classification method for individual stocks or companies, usually grouped based on common lines of business.

**Industry performance:**

A measure of an industry's returns on shares over a period of time.

**Insider ownership:**

The amount of a company's available stock owned by the company's owners, executives, and top-management.

**Intermediate primary trend:**

The general direction stock price moved over a one to three-month period.

**Investor:**

An individual who utilizes investments to grow their money and/or provide an income during retirement. Most investors hold their stocks anywhere from a few months to a few decades.

## *L*

### **Line chart:**

A chart that presents price movement data by joining a series of closing prices together.

### **Lines of support and resistance:**

Lines of support are price levels below which, historically, a stock has had difficulty falling. Lines of resistance are price levels above which, historically, a stock has had difficulty rising.

### **Long-term trend:**

The general direction stock price moved over the course of a year.

### **Lower high:**

Another term for declining *pivot high*.

### **Lower low:**

Another term for declining *pivot low*.

### **Lower shadow:**

A thin line that extends below the real body of a candle. The lower shadow is the low of the session –i.e., the lowest point share price reached that session.

## *M*

### **Market sentiment:**

The overall attitude of investors towards the financial market.

### **Mid-cap:**

A company with a market capitalization between \$2 billion and \$10 billion.

**Miss:**

A company reports worse than expected earnings.

**Momentum trader/trading:**

Traders who take a large position in a stock expecting to profit on the next swing up or down in share price. Momentum traders typically hold on to their stocks for a few days to a few weeks, with the goal being to capture a larger price move than is possible on an intra-day or long-term hold basis.

**Money flow index:**

A technical indicator that tracks the level of volume on each price change to determine if money is flowing in or out of a stock.

**Morning star:**

A bullish candlestick reversal pattern consisting of three candles. The first candle is a bearish, extended range candle. The second candle is a doji star with a small, real body. The final candle is a bullish, extended range candle. The doji candle's real body must be below the first and third candle's real bodies.

**Moving averages:**

A trend following or lagging, technical indicator of price action over a given period of time.

**O****Open:**

The beginning of a trading day.

**Opening price:**

The trading price of a stock at the start of the trading day.

**Outstanding shares:**

Refers to a company's stock currently held by all its shareholders.

**P**

**Penny stocks:**

A common stock valued at less than one dollar, and therefore highly speculative.

**Piercing line:**

A bullish candlestick reversal pattern consisting of two candles. The first candle is a bearish, extended range candle. The second candle is a bullish, extended range candle. The bullish candle opens below the first candle's close and closes approximately between the first candle's midpoint and open.

**Pivot high:**

The highest candle of the pivot point. The pivot high forms when a stock has been trading upward then pivots and begins to trade downward.

**Pivot low:**

The lowest candle of the pivot point. The pivot low forms when a stock has been trading downward, and then pivots and begins to trade upward.

**Pivot point:**

A change in the direction of a stock's price movement.

**Point and figure chart:**

A chart that plots day-to-day price movements without taking into consideration the passage of time. The chart is composed of a number of columns that either consists of a series of stacked Xs or Os.

**Position trader:**

A trader who, like momentum traders, takes a position in a stock; expecting a bigger move in stock price. Typically, position traders take a smaller position in a stock than momentum traders. Furthermore, position traders analyze and focus on weekly charts, whereas momentum traders prefer daily charts.

**Post-market:**

Refers to the buying and selling of stocks after regular trading hours –i.e., after 4:00 p.m. Eastern Standard Time.

**Pre-market:**

Refers to the buying and selling of stocks before regular trading hours –i.e., before 9:30 a.m. Eastern Standard Time.

**Price trend:**

The general direction in the price of a stock. Trends are identified by trendlines that connect a series of pivot points, specifically, pivot highs and pivot lows.

**Price movement:**

Also known as *price action*, price movement describes the characteristics and patterns of stock price.

**Projected earnings:**

Also known as *forward earnings*, projected earnings, are an estimate of a company's future earnings and performance; usually to completion of the current fiscal year and sometimes of the following fiscal year.

## **Pump & dump:**

Dishonest scheme traders use to artificially boost the price of a stock through recommendations based on false, misleading or greatly exaggerated statements. The trader sells her position after the hype has led to a higher share price. Once she sells her shares, the price of the stock plummets, leaving the duped traders with significant losses.

## **R**

### **Real body:**

The hollow or filled in section of a candle that represents the price range between the session's open and close.

### **Relative strength index (RSI):**

A technical indicator that compares that magnitude of a stock's recent gains to the magnitude of its recent losses and turns that data into a number ranging from 1-100.

### **Resistance:**

A price level that, historically, tends to act as a ceiling; preventing share price to rise above it.

### **Resistance level:**

A price level above which, historically, a stock has had difficulty rising.

### **Reversal:**

A change in the direction of price movement or action.

### **Reversal pattern:**

A single or group of candles that signal the previous price trend is complete and a new price trend moving in the opposite direction is about to begin.

### **Report:**

An official public filing made by public companies to announce their financial performance.

**Revenue:**

The amount of money that a company receives during a specific period, including discounts and deductions for returned merchandise. It is the top line or gross income figure from which costs are subtracted to determine net income.

**Risk/reward ratio:**

A subjective formula used to measure the expected gains of a given trade against the risk of loss.<sup>[72]</sup>

**S****Screening:**

Tool investors and traders use to filter stocks based on user-defined metrics.

**Sector:**

A classification method for individual stocks or companies, usually grouped by an area of the economy in which business share the same or a related product or service.

**Sector performance:**

A measure of a sector's return on shares over a certain period of time.

**Sell:**

Analysts anticipate a stock's total return, or profit/performance, below the market's long-term historical annual rate (approximately 10%).

**Session:**

A period of time consisting of one day of business in a financial market, from the opening bell to the closing bell.

**Share(s):**

A piece of paper that denotes ownership in a particular company –i.e., ownership certificate of a particular company. Today, the terms *stock* and *share* are often used interchangeably.

**Share price:**

The price of a single share of a number of saleable stocks of a company. In layman's terms, share price is the price traders are willing to pay for a "piece" of the company. Theoretically speaking, an investor who holds or owns all the shares of a company's stock owns the company.

**Shooting star:**

A bearish candlestick reversal pattern consisting of one candle. The shooting star has a small real body, long upper shadow, and no (or little) lower shadow. The shooting star can only form at the top of an uptrend.

**Short-term trend:**

The general direction stock price moved over the past month or so.

**Sideways trading/trend:**

Horizontal price movement that occurs when buying and selling demands are nearly equal.

**Significant price levels:**

Stock prices at whole, round numbers that often act as support or resistance.

**Simple moving average (SMA):**

A technical indicator measuring average share price of a stock over a set period of time. SMA measures the average of all price points used.

**Small cap:**

A company with a market capitalization between \$300 million to \$2 billion.

**Stars:**

A neutral candle with a small, real body.

**Stochastics/stochastic oscillator:**

A momentum indicator used in technical analysis. The stochastic oscillator compares the closing price of a stock to the range of its prices over a specific period of time. In layman's terms, the stochastic oscillator tells you whether a stock is overbought or oversold.

**Stock:**

A type of security that signifies ownership in a company and represents a claim on part of the company's assets and earnings.

**Stock price:**

Also known as *share price*.

**Strong buy:**

Analysts anticipate a stock's total return, or profit/performance, significantly above the market's long-term historical annual rate (approximately 10%).

**Strong sell:**

Analysts anticipate a stock's total return, or profit/performance, significantly below the market's long-term historical annual rate (approximately 10%).

**Support:**

Lines of support are price levels below which, historically, a stock has had difficulty falling.

## **Support level:**

A price level below which, historically, a stock has had difficulty falling.

## **T**

### **Technical analysis:**

A Western school of thought for trading and investing, primarily based on chart observation and data analysis. Traders who rely on technical analysis typically use technical data as guideposts in determining when to enter or exit a trade.

### **Technical indicators:**

A trading tool of Western traders. Technical indicators help traders analyze financial data, gauge market sentiment and quiet the emotional component present in all markets.

### **Three outside up:**

A bullish candlestick reversal pattern consisting of three candles. The first candle is a bearish extended range or star candle. The second candle is a bullish, extended range candle whose real body completely envelops the first candle's real body. The second candle closes above the first candle's closing price. The third candle is a bullish candle that closes above the second candle's closing price.

### **Three white soldiers:**

A bullish candlestick reversal pattern consisting of three bullish, extended range candles. Each candle closes near the previous candle's high. Furthermore, each candle's real body overlaps with the previous candle's real body.

### **Ticker symbol:**

An abbreviation used to identify publicly traded shares of a particular stock.

### **Trading calculator:**

A tool that calculates an investor's profit or loss for each trade they made and tracks their overall investment performance for the trading year.[\[73\]](#)

**Trading platform:**

A software that allows traders and investors to place trades and monitor accounts through financial intermediaries. In other words, a trading platform is where traders and investors buy and sell stocks.

**Trading volume:**

A technical indicator that measures the amount (total number) of shares of stock traded during a given period of time.

**Trend:**

The general direction of a stock's price movement. Trends are identified by trendlines that connect a series of pivot points, specifically, pivot highs and pivot lows.

**Trendline:**

A line running through or along the pivot highs and pivot lows, depicting the general direction of the stock's price movement.

**Trend stages:**

A classification method for the types of trends traders may find in stock charts. Trend stages include such trends as: long-term, short-term, upward, downward, or sideways.

**U****Umbrella lines:**

Candle with a long, lower shadow and small, real body with little or no upper shadow.

**Upper shadow:**

A thin line that extends above the real body of a candle. The upper shadow is the high of the session –i.e., the highest point share price reached that session.

**Uptrend:**

Stock with rising pivot highs and pivot lows, indicating an increase in share price. Also known as *bullish uptrend*.

**V****Volume:**

A technical indicator measuring the number of transactions –i.e., buying and selling shares of a stock, in a trading session.

**W**

**Watchlist:**

A folder used by traders to track stocks and stock performance.

**#**

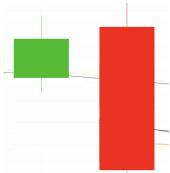
**52-week high/low range:**

A technical indicator expressing the highest and lowest price that a stock traded over the last 52 weeks –i.e., year.

# CANDLESTICK PATTERNS

B

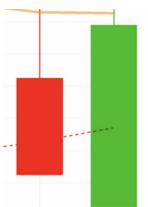
**Bearish engulfing**



**Bearish harami**



**Bullish engulfing**



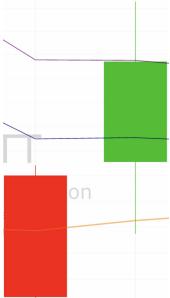
**Bullish hammer**



**Bullish harami**

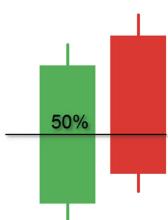


**Bullish separating lines**



*D*

**Dark cloud cover**

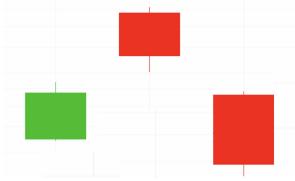


**Doji star**

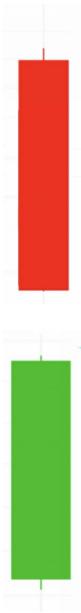


*E*

**Evening star**



**Extended range candles**



*H*

## **Hammer**

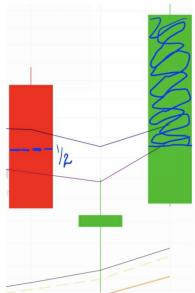


## **Hanging man**



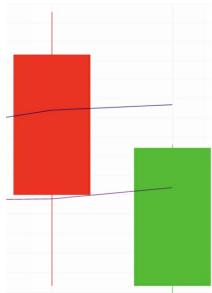
*M*

**Morning star**



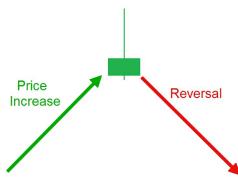
*P*

**Piercing line**

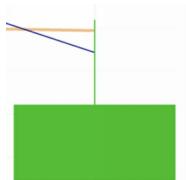


**S**

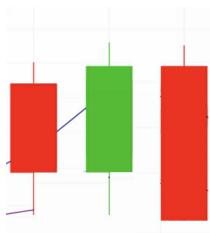
### **Shooting star**



**Stars**



### **Stick sandwich**

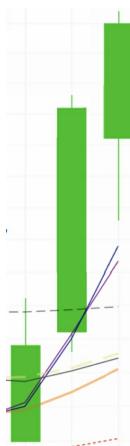


*T*

**Three outside up**



**Three white soldiers**



# KAHRIMAN VENTURES' TRADING CHECKLIST

- |      |                                |          |
|------|--------------------------------|----------|
| I.   | <b>Trend</b>                   | [#/5]    |
|      | a. Short-term                  | 1        |
|      | b. Primary                     | 2        |
|      | c. Long-term                   | 2        |
|      | d. Score                       |          |
| II.  | <b>Candlestick</b>             | [#/8]    |
|      | a. Performance                 | 5        |
|      | b. Frequency                   | 3        |
|      | c. Score                       |          |
| III. | <b>Volume</b>                  | [#/8]    |
|      | a. Average                     | 1        |
|      | b. Above Average               | 6        |
|      | c. Increasing                  | 1        |
|      | d. Decreasing                  |          |
|      | e. Score                       |          |
| IV.  | <b>Moving Averages</b>         | [#/2.25] |
|      | a. SMA 5-day                   | ½        |
|      | b. EMA 8-day                   | ¼        |
|      | c. SMA 20-day                  | ¼        |
|      | d. EMA 34-day                  | ¼        |
|      | e. SMA 50-day                  | ½        |
|      | f. SMA 200-day                 | ¼        |
|      | g. Bonus Point                 | ¼        |
|      | h. Score                       |          |
| V.   | <b>Stochastics</b>             | [#/2]    |
|      | a. Overbought                  | 0        |
|      | b. Oversold                    | 2        |
|      | c. Score                       |          |
| VI.  | <b>Money Flow</b>              | [#/3]    |
|      | a. Value                       |          |
| VII. | <b>Relative Strength Index</b> | [#/2]    |
|      | a. Value                       |          |

VIII.	<b><i>Sector Performance</i></b>	[#/4]
	a. Day	1
	b. Week	1
	c. Month	1
	d. Quarter	1
	e. Score	
IX.	<b><i>Analyst Rating/\$ Target</i></b>	[#/3]
	a. Rating	2
	b. Price Target	1
	c. Score	
X.	<b><i>Stock Performance</i></b>	[#/6.5]
	a. Week	½
	b. Month	2
	c. Quarter	2
	d. YTD	2
	e. Score	
XI.	<b><i>Support &amp; Resistance</i></b>	[#/4]
	a. Resistance Levels	2
	b. Support Levels	2
	c. Score	
XII.	<b><i>News</i></b>	[#/2]
	a. Insider Buying/Selling	1
	b. News	1
	c. Score	
XIII.	<b><i>Earnings Report</i></b>	[#/1.5]
	a. Earnings Date	½
	b. Expected Earnings	½
	c. Expected Revenue	½
	d. Score	

**XIV.     *Final Score & Comments* [#/52]**

- a.    Bonus                / .75
- b.    Score               [X / 52]
- c.    Rating              [A+, A, A-, etc.,]

<b><i>Letter Grade</i></b>	<b><i>Point Range</i></b>
<b>A+</b>	52 - 48
<b>A</b>	47.99 - 44
<b>A-</b>	43.99 - 40
<b>B+</b>	39.99 - 36
<b>B</b>	35.99 - 32
<b>B-</b>	31.99 - 28
<b>C+</b>	27.99 - 24
<b>C</b>	23.99 - 20
<b>C-</b>	19.99 - 16
<b>D+</b>	15.99 - 12
<b>D</b>	11.99 - 8
<b>D-</b>	7.99 - 4
<b>F</b>	3.99 - 0

- d.    Comments
- e.    Strategy

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## ABOUT THE AUTHOR



**Benjamin Kahriman** is a stock market investor, trader, author, and entrepreneur. A refugee of the Yugoslavian War, Benjamin and his family landed in the San Francisco Bay Area. There, Benjamin excelled in the classroom and on the football field. He received a scholarship to play collegiate football, earned the President's Scholar Award at the University of British Columbia, graduated Magma Cum Laude from the University of California, Berkeley, and attained his law degree by the time he turned twenty-six. With the same drive and determination that led to his academic and athletic success, he studied the stock market. In *Think, Trade, & Grow Rich!* Benjamin outlines and shares his powerful trading and investing formula forged from years of research and trading experience. He explains how you too can realize your dreams and reap the bountiful financial opportunities present in the stock market. Best of all, Benjamin demystifies the technical, hard to understand, and complicated aspects of trading and investing. *Think, Trade, and Grow Rich!* is concise, practical, and written for everyone, in effect, a true and complete beginner's guide to not only trading, but a better life.

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