Victory in Stock Trading

Strategy and Tactics of the 2020 U.S. Investing Champion

by Oliver Kell

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 | First Edition | KellTrading.com

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Introduction

Formal education will make you a living;
self-education will make you a fortune.

—Jim Rohn

I have been posting charts and ideas on Twitter for many years as a part of my process. Since winning the US Investing Championship, I've seen a major increase in followers and the questions that come with them. The goal of this book is to show you my approach to the markets and the way that I interpret the price cycle to make decisions. It's important to highlight that I have been studying the markets for over 10 years, making money and losing money along the way. I put in the hard work required to achieve success. This strategy can definitely help you, but your own personal grit will be far more important to your long-term success.

I feel blessed to have been exposed to the book *How to Make Money in Stocks* by William O'Neil. His methods are the root of my methodology and around which I have developed my own strategy. I highly suggest you start with his book, study his methods, and then read this text to better understand the concepts. Some additional influences on my trading strategy have been Jesse Livermore, Nicolas Darvas, Peter Lynch, and many of the proteges who have followed in their footsteps. At the end of the book, you'll find reading lists from trading legends who I am grateful to have learned from.

In many ways, this ebook is my spin on their foundational ideas, meant to improve your learning curve. However, I want to be clear: This is the strategy I built for my personality. You will have to do the same for yourself. I firmly believe that with diligence, commitment, and eagerness to learn, the individual retail investor can trounce the "Gods of Wall Street". Never let anybody tell you differently. Whether you're a seasoned trader or a small investor with big dreams, trading is an exhilarating, challenging, and memorable journey. Let me tell you about mine.

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Background

The Game Taught Me the Game. And
It Didn't Spare the Rod While Teaching.

—Jesse Livermore

Trading was the family business where I come from. My father was a market maker on the Pacific Stock Exchange, so not only did I grow up knowing about the markets, but I was fortunate to witness the energy and camaraderie of the exchange when open outcry and exchange trading were still a thing. I played football in college, and the end of my senior season was the first time I really started to think about what I wanted to do with my life. I started picking my Dad's brain about trading. A friend of mine had recently landed a gig at First New York Securities, an elite prop firm in NYC. He sent me the reading list for new hires and I was instantly hooked. For all the potential loss that comes with trading, I realized it also presented a chance for me to satisfy the fire in my belly. To compete. I was 100% committed to getting a job at First New York Securities. I went to sit on their desk multiple times and created a vision in my head of massive success.

My senior year, I approached my favorite professor, Christian P. Potholm, about an independent study. He specializes in war and politics, having authored a book called *Winning at War: 7 Keys to Military Victory Throughout History.* I proposed writing a 50-page paper comparing his Template of Mars to the traits of the perfect trader. The seven traits are: Superior Technology, Superior Discipline, Sustained Ruthlessness, Receptivity to Innovation, The Ability to Protect Capital, Superior Will, and the Belief There Will Always be Another War. Ten years later, the parallels between the Template of Mars and the traits of the perfect trader continue to amaze me. Someday, I hope to revisit that paper and maybe turn it into a book. If you have any interest in war or history, and are willing to think about their parallels to trading, I highly recommend reading Potholm's work.

Long story short, I scored an interview at First New York, but not a job (I'd go on to interview there four more times with no luck). I took my first trading job at what I'll call a "modern day bucket shop" in New York City. I graduated college in 2010, took $5,000 dollars of my own money, and went to work at a firm that gave me 60 to 1 margin. We were trained to look for big bids and offers on the Level 2 screen, execute in front of them, and use the bid or offer as our out price. I learned a good deal but the strategy did not resonate with me. Plus, I didn't make any money.

So, I went back to my mother's house and traded the e-minis from my bedroom for a few months (my sister brought this up at my wedding rehearsal dinner) and eventually got a job at a small hedge fund in Stamford, Connecticut. Their strategy was international arbitrage. We looked for discrepancies in stocks that traded between the U.S., Australia, London, Japan, or Hong Kong. These could be complicated, two-part trades that included the stock and the currency. We also made other complicated trades on index rebalances and other things of that nature. I made and lost money but never had any sustained success.

With a desire to find another way, I found a guy on Twitter by the name of @TraderFlorida. He uses chart patterns, price action, and volume. I watched his market updates every single night of the week in addition to reading, studying charts, and watching the market for 16-18 hours per day. That is not an exaggeration. I had one issue though—I'd get so anxious about losing all of my earnings that I would often get ticked out of stocks only to watch them turn and do exactly what I intended them to do. For all my studying, I still struggled to embrace the idea of controlled risk, a vital part of trading.

Over time, I started to make money trading my own ideas. I grew my confidence and managed to find consistent success. In 2011, I noticed the OIH breaking down from a symmetrical triangle, shorted it with good size, watched the market fall over night, and came into the office with my chest held high. The market opened and my position continued to grow in profit. I was ecstatic. A few short hours later, I was called into a small conference room and told the firm was going out of business. My personal position was good but, as a firm, we were positioned incorrectly. When you have the smallest book, that is not a good combination. Another set-back in my journey.

Discouraged, I decided I needed to get a “real” job. Through some Bowdoin connections, I got a job at an institutional brokerage trading firm for large institutional investors and hedge funds. I worked as part of a two-man team, and the man I worked for taught me so much about the intricacies of the market. He taught me how to hunt for order flow with the goal of showing our clients big block opportunities that we would eventually print to the tape. I learned algorithmic trading, saw high-frequency traders front run our orders, and learned there are many different timeframes, strategies, and motivations for different investors. We put on large option trades, executed corporate bonds, and just about anything in between. I absolutely loved it. I was able to subconsciously learn what happened to stocks after we put a huge print on the tape or understand the thought process behind a very large institution who may have had millions of shares to purchase in an illiquid name over the course of multiple months. At the time, I didn’t quite understand all the knowledge I was absorbing through that experience. I was getting 300 level lessons while getting paid for it!

Additionally, my mother, sister and I each put up $2,500 to open a joint trading account. We were on our road to riches and it was a bull market. I ran this account up to about $85,000 in a few short years, thinking I had everything figured out. In reality, I had just developed a big head. I opened an option account with about $7,500 and in a few weeks ran it up to about six-figures, mostly in a stock called NQ Mobile. I was rolling in the money calls with my entire account and was on my way to massive wealth. I was totally on cloud nine. Nothing could stop me. That is, until Muddy Waters put out a report exposing NQ as a fraud in October 2013. I could only make three trades per day at the brokerage and had already made two. I had a large position in NQ in the family account, which I sold to protect my mom and sister. Then, I stared at the screen as my options literally went to zero and the equivalent of my entire annual W-2 income disappeared in the course of one day. Once again, the market had humbled me.

That blow set me back. I struggled for more than a year. Looking back, I was young, arrogant, and probably paid too well. For whatever reason, I was often long in the names that many hedge funds were short and losing money on. Combine that with the fact that most hedge funders, in my experience, can’t take responsibility for their own losses, and it became clear that I was rocking the boat. I was overtrading my personal account and

pissing off people above me at the firm. In the end, I was more or less fired and back out on my own again. At the time, I felt wronged, but as I’ve matured I recognize that I wasn’t ready for such a great job. That’s just part of the journey of life.

My return to trading from my bedroom started with reasonable success, but I was not making the money I needed to pay rent, grow my account, and support my social life. I needed to get another job. My first thought was to work in technology so I could freely trade without all the compliance restrictions, but I had trouble getting anyone to take a shot on me. In the end, I became a mutual fund wholesaler. In that role, I was the top salesman on the West Coast for my role. Financial advisors loved me and people could sense my passion for the markets. I learned how financial advisors picked funds as well as how portfolio managers of these funds picked stocks. From what I could tell, they more or less copied the index and got paid a lot for it. To be fair, there were some exceptional managers, but it always felt like a big game to me. Our main objective was to take a closet indexed strategy, spin a good story, and sell it to Main Street. A veteran wholesaler taught me something that I’ve never forgotten: “If you can under or outperform the index by 20-50 bps in each direction and never blow that out too badly, you can make millions.” That’s the Wall Street investment management model.

As a student of the game, this bothered me. I needed to grow my accounts and get out of there. I’d drive from office to office for my day job, pitching funds I only half believed in. All the while, I was buying and selling growth stocks from my cell phone. (If you were ever concerned about drunk or wild drivers, let me tell you something: You should be far more concerned with the mobile stock trader.) I grew my accounts from a 2” x 3” screen until the compliance restrictions on personal trading increased and it tabled my ability to trade. I put positions on that would reverse and then I would sell them 30 to 60 days later at massive losses. I put positions on that would go up nearly 40% in 10 to 12 days, only to watch them pull back to my cost basis. I would sell at flat prices by the time I could, only to see them rise again once exited. There is no better way to learn about stock price movements than to have a position on with no ability to trade it. You are forced to go through just about every human emotion. I was in a complete funk and almost gave up on the market entirely. But in retrospect, this is how I started to fundamentally understand price movements.

In 2016, I met my future wife, Margaux. At the time, I was living in San Francisco and this proved to be a very important bright spot in my life. For family reasons, she moved back to Philadelphia, where she is from, and I was planning to follow her once I got a job. Once again, I wanted to get into technology so I could freely trade my accounts. And once again, I couldn’t get anyone to take a shot on me. So, I succumbed. I took a job as a financial advisor at a big name Wall Street firm and, rather than betting on myself, I tried to fall in line. I made 200 to 300 cold calls per day and tried to raise assets with no success. I had some stock positions on but the compliance rules were by far the worst so the idea of trading was completely out of the question. (SHOP $45, VEEV $28, ANET $70s were the buy areas of the three I owned—wish I still had those shares!)

Housing prices in Philadelphia were much cheaper than anywhere I had ever lived. About two to three months into my new job, I found myself making 100 cold calls by 9:30AM and then crawling around in broken down shells (falling down houses) from 10AM to 2PM, only to run back to the office and get another 100 calls in by 5PM. I hated it and raised zero dollars in assets.

I started to sink into a depression, homesick for San Francisco and frustrated that I couldn't focus on trading. I needed something to get excited about and real estate became just that. I took all my money and partnered with my wife to start aggressively buying houses. We rolled out a construction team and built ourselves a small portfolio. I was still watching the market, but real estate had taken over my mind. At least for the moment.

Things were going great, but there was still something missing: Passion. Real estate for me was a means to an end. I believe in it and will continue to buy it because it's a great source of long term wealth. But I wasn't in love with it. Before long, I felt hungry again to get back to the markets.

In time, I was able to get a new job at a smaller technology company that taught me about the SAAS model. I really liked working at my new company too. I was learning a lot about sales, Margaux and I were starting to build our life together, and I had begun trading our accounts again. A few years later, I learned about the U.S. Investing Championship in 2019 and felt like I could win it.

I approached Margaux, told her if I entered I would win, and she was so confident in me that she said she wanted to enter our joint account. Many people don't know this, but my wife is technically a U.S. Investing Champion, as her name is on the account that entered! In 2020, we grew all of our accounts dramatically, put up a 941.10% return and won the the competition!

2020 United States Investing Championship Results

Stock Division

Oliver Kell	+941.1%
Tomas Claro	+497%
Ryan Pierpont	+448.4%
Matthew Caruso	+346%
Shahid Saleem	+322%
Anish Sikri	+209.6%
B.J. Patel	+187.7%
Ricardo Valenzuela	+161.4%
Vibha Jha	+155.2%
Evan Buenger	+141.8%
Vitan Peychev	+142.3%
Sean Ryan	+128%

I am now trading full time again with a strategy I believe in and humility defined by a journey of setbacks. The game truly did teach me the game, and it did not spare the rod. What follows is the strategy I've developed and how I think about the markets. I hope what you take away from these pages will help you become the next US Investing Champion or accomplish whatever dreams you have for your life!

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My Trading Approach

Tell me and I forget. Teach me and I remember. Involve me and I learn.

-Benjamin Franklin

I consider myself to be an intermediate term trend follower and a swing trader. I am always looking for the strongest growth stocks with big earnings and sales growth and a game-changing story. For my longer holding period trades, I want to find breakouts from big basing patterns. For my swing trades, I try to buy pullbacks or play shorter term continuation chart patterns. In the end, I am a slave to price and use volume for clues. Once positioned, I utilize moving averages to ride the trend. Lastly, I firmly believe intuition and feel are a vital part of trading and mine improve every day. A rules-based strategy with the ability to act on your gut feel (right or wrong), while managing risk, is the ultimate combination for big returns. Here are my tools for analysis:

1. Price

2. Volume

3. Moving Averages

10 Period Exponential Moving Average (All Timeframes)
20 Period Exponential Moving Average (All Timeframes)
50 Period Simple Moving Average (Daily Chart)
200 Period Simple Moving Average (Daily Chart)

4. Multiple Timeframes and the Fractal Nature of Price Action

5 Minute
15 Minute
Hourly
Daily
Weekly
Monthly

5. Chart Patterns

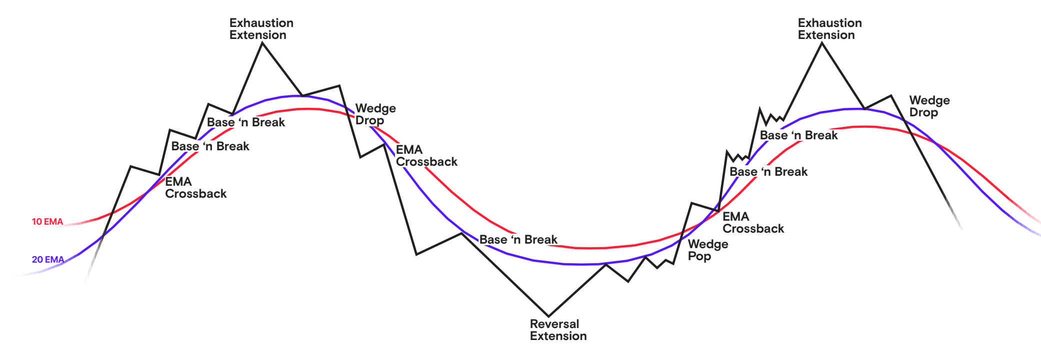
4

Ebb & Flow of the Market

To anticipate the market is to gamble. To be patient and react only when the market gives the signal is to speculate.

—Jesse Livermore

The stock market goes up when there are more buyers than sellers and goes down when there are more sellers than buyers. It's that simple. There can be news, earnings, headlines, and rumors, but I wholeheartedly believe you can make informed decisions without seeing anything but the market and its price movements. Additionally, it creates these trends on all different timeframes, from tick charts through monthly charts. What follows is how I think about what I call the "Cycle of Price Action."



When a stock tops, turns into a downtrend, and then eventually bottoms out it follows these steps:

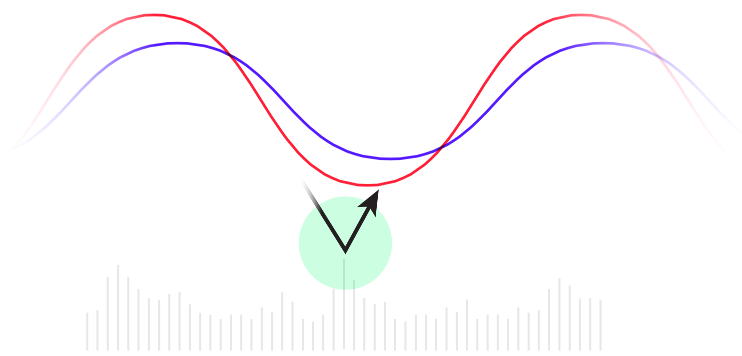
Exhaustion Extension →
Wedge Drop →
EMA Crossback →
Base n' Break →
Reversal Extension

When a stock bottoms, turns into an uptrend, and then eventually tops out it follows these steps:

Reversal Extension →
Wedge Pop →
EMA Crossback →
Base n' Break →
Exhaustion Extension

PROCESS

Reversal Extension (Bottoming)



This is generally capitulation and a sign that the market is bottoming.

A. Look for a defined support level on a higher timeframe.

B. When price approaches the higher timeframe level, it must be extended from the 10 EMA on the lower timeframe chart (air between price and the moving average).

C. When the stock starts to put in a reversal bar, go long.

D. Heavy volume capitulation on the reversal bar is a key ingredient in this setup.

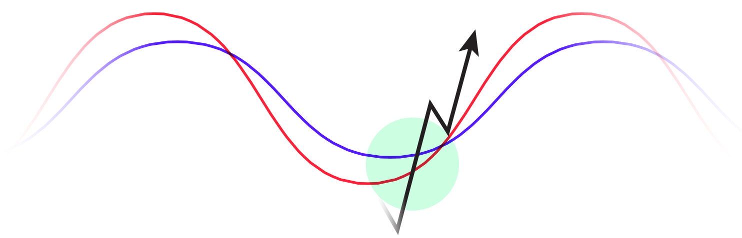
E. Initial stops go below the low of the reversal bar area.

F. First profit target is the 20 EMA on the trading timeframe.

G. Stops move to cost when partials are taken with discretion used to exit the remaining shares.

This is also an excellent pattern to add on pullbacks in an uptrending stock. For example, a stock is pulling back to the Daily 20 EMA and you look for a Reversal Extension on the 5 Minute chart. The higher timeframe support level is the Daily 20 EMA with the Reversal Extension setup taking place on the intra-day 5-minute chart. This may be a Base n' Break setup on the daily chart executed via a reversal extension on the intraday chart to manage risk.

Wedge Pop



This is the first time the market trades back up across the moving averages after a reversal extension.

H. Price trades in a tight range as it works lower.

I. Often for longs, the stock is showing relative strength to the underlying index.

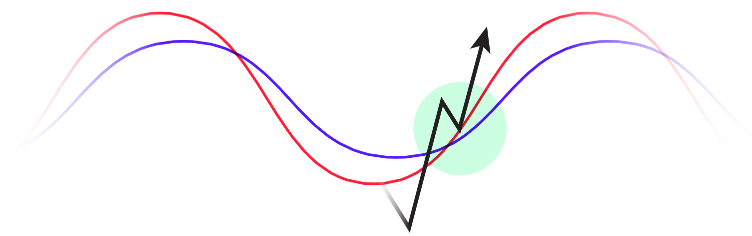
J. The 10/20 EMA should be tightening, showing a lack of overall momentum despite being “dragged” in the direction of the underlying market.

K. When price recaptures the tight 10/20 EMA, go long with a stop below the near-term price consolidation.

L. Ride the EMAs as a trailing stop once the trade triggers.

**This pattern can also be “confirmation” that a previous reversal extension is valid.*

EMA Crossback



This the first retest of the Moving Averages following a Wedge Pop.

M. Price has already recaptured the 10/20 EMA on the chart to be a candidate.

N. It then pulls back into the 10/20 EMA for the first time.

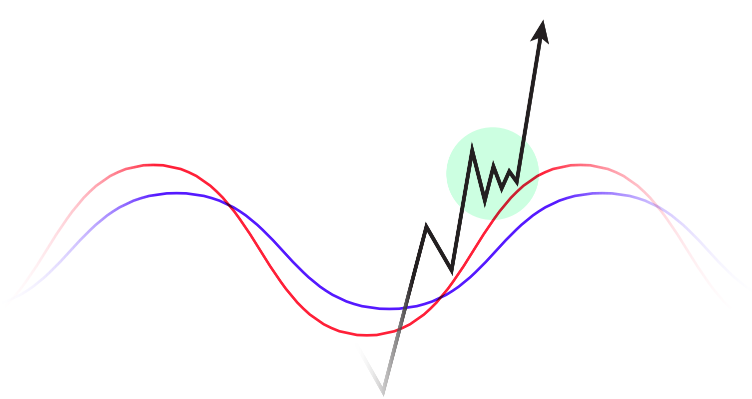
O. Buy the stock against the 10/20 EMA.

P. Stops are placed below the moving averages.

Q. Raise stops in a trailing format with the 10/20 EMA.

**Opposite for short sales or downtrending stocks*

Base n' Break



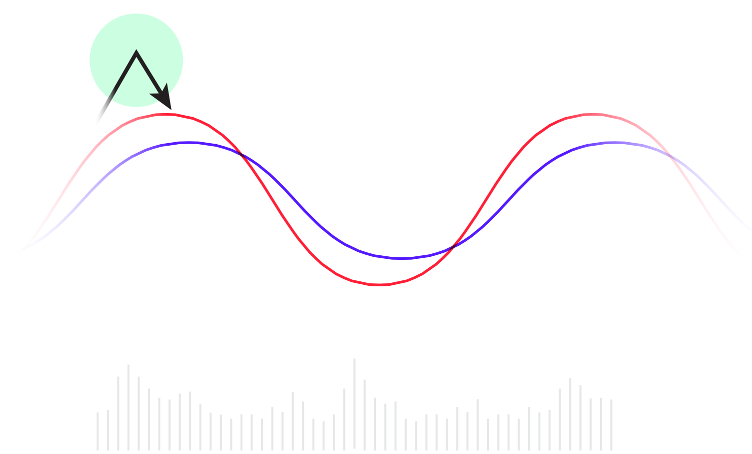
R. Price will build a basing pattern finding support at the 10/20 EMA. This is often a slightly longer consolidation rather than a short 1–3 day pullback.

S. Buy against the moving averages with confirmation adds on the base breakout.

T. Stops are placed at a loss of the moving averages.

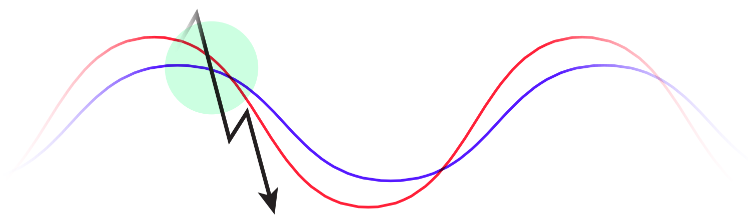
U. Ride the moving averages higher while selling into pops away from the 10 EMA moving average with final stops at a loss of the EMAs.

Exhaustion Extension (Topping)



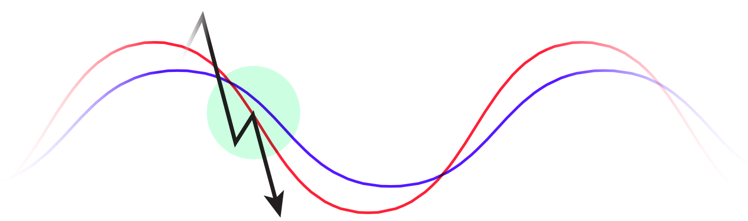
This is blowoff/euphoria and a sign the market may be topping. The further you get into an uptrend and the more extensions you get away from the 10EMA the more likely a stock is to re-base. The second extension from the 10EMA is generally a good place to take profits. If you get a third extension you are often getting late in the intermediate term trend.

Wedge Drop



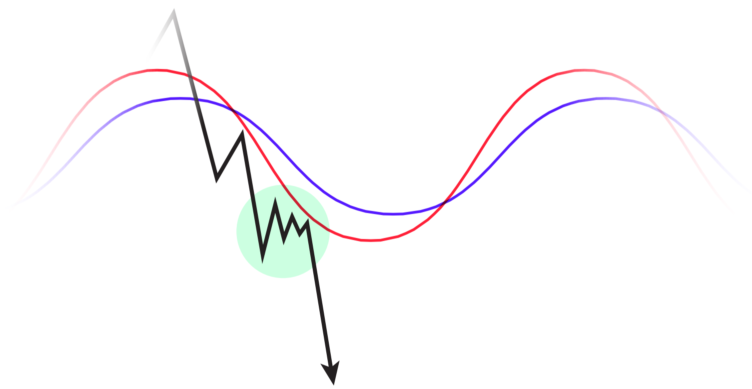
This is the first time the market drops down across the moving averages after an Exhaustion Extension.

EMA Crossback



Now we're back to a crossback, but this time we're in a down trend and rallying up into the moving averages.

Base n' Break



In a downtrend, we're basing to head lower. **Note: EMA Pullback Entry.**

This is not really a step in the Cycle of Price Action, this is simply a pullback to the EMAs, but is much shorter in length than a Base n' Break. It may be in the form of a one to two day pullback and can be used as an opportunity to add to positions or raise stops on existing positions. It is important to note that the more extended you get into a trend, the lower the odds are of a pullback entry working.

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Will the patterns always be present, never skipped and follow that perfect set of steps? No. That is not the point. This a framework to think about price. Maybe a stock can bottom on a Wedge Pop without ever having the full on capitulation phase or top on a Wedge Drop without a euphoric blowoff. Or, hopefully, a stock may have Base n' Break after Base n' Break and continue trending higher above the 20 EMA for an extended period of time! These steps are simply a guide to keep us out of trouble, on the right side of the market, prevent chasing, and help make disciplined risk/reward decisions. The goal is to combine multiple different timeframes so you can capture a higher timeframe trend while defining your risk with a lower timeframe entry.

Let's study a stock and talk through the steps of its cycle.

A Review of $TSLA

Below is the complete cycle of $TSLA but we will zoom in on each phase.

Referencing the weekly in addition to the daily will help provide greater clarity.

Phase 1

Topping out. Entering a Down Trend. Tactically Rebuilding for a New Uptrend

[A] Blowoff Exhaustion
Prior to the Covid top, $TSLA went on a parabolic rise, extended from the 10-day on massive capitulation volume, and completed a topping pattern that began with this Blowoff Exhaustion.

[B] Wedge Drop
$TSLA "Wedged" back higher and made it seem like the stock was setting up to break back out to new highs. We then "dropped" back down below the 10/20 EMA confirming the Reversal Extension from a few weeks prior.

[C] EMA Crossback
After breaking the moving averages on the Wedge Drop, price supports itself at the 50 period simple moving average. Price rallies back up and is rejected by the 10/20 EMA in the form of an EMA Crossback. This is further confirmation that lower highs and lower lows are in place and a further decline is in store.

[D] Reversal Extension
Price extends to the downside into a higher timeframe support level. There is also confluence with the 200 period simple moving average (orange moving average). We find support here and begin the potential for a trend change.

[E] Wedge Pop
After price trades up to the 20 EMA and is resisted, it bases under the 20 EMA. At point E,

we “pop” back through the 20 EMA, confirming the Reversal Extension off the 200 SMA. This is the first clean buy area without picking a bottom.

[F] EMA Crossback
After trading higher, price pulls back into the 20 EMA and is supported. This is a great risk/reward area to execute as you trade against the moving average. It either holds and you are onto a trend, or it fails and you sell at a small loss. There is also an EMA Crossback into the 10 EMA in the form of a bull flag prior to earnings.

Phase 2

Stage 1 traditional buy point and the initial trend higher

[G] Base n’ Break / Cup n’ Handle
We now get a multi-week consolidation above the 10/20 EMA. Additionally, this builds a traditional CAN SLIM Cup n’ Handle Pattern and is a Stage 1 Base (reference the first chart to see the entire pattern). When we break out of this pattern you can buy with a stop below the moving averages.

[H] Base n’ Break
Price moves higher and then consolidates above the 10/20 EMA to build an additional Base n’ Break Pattern. You can buy or add to a position while adjusting stops higher to below the 10/20 EMA.

[I] Blowoff Exhaustion
Price extends from the 10 EMA and reverses with heavy volume. This is also a gap while

extended, which can often be a profit taking opportunity. Depending on your timeframe and personality, this could be an area to exit your position if you are a shorter term trader. As a longer term holder, it could be an area to manage expectations and understand that a new basing pattern is likely to build.

[J1/J2] Wedge Drop
Price “drops” through the 10-day prior to this issuing a red flag but officially shows a “Wedge Drop” when we lose the 20 EMA. It is very important to note that discretion in determining which moving average (10 or 20 EMA) a stock is respecting is not an exact science, but a judgement call.

[K] Wedge Pop
Very quickly, we truly “pop” back up through the moving averages and break out of this descending channel chart pattern providing a strong buy area. From failed moves come fast moves, so this is a powerful set up and the “pop” we want to see is there. Flexibility and the ability to pivot on the fly is vital to implement my strategy.

[L] Blowoff Exhaustion
Price trades higher, extends from the 10 EMA and puts in a reversal exhaustion. Important to highlight is this is the second extension from the 10 EMA since the traditional Cup n’ Handle buy point. My observations have shown me that the second extension from the Daily 10 EMA after a traditional pattern (larger base) often leads to a more sustained top or at longer basing pattern. That is exactly what happens here. It is prudent to be more aggressive in taking profits on the second extension vs. the first extension. Especially if the price is extended from the Weekly 10 EMA.

Phase 3

Stage 2 of 3 basing patterns and the intermediate term topping process

[M] Base n' Break
After building a new basing pattern, price breaks out of a Base n' Break only to fail and stop the position out when the breakout day low is lost.

[N] Wedge Drop
This failure is confirmed when we trade back down through the 10/20 EMA. Price is not sustaining in either direction and we are in a "chop tape." These are dangerous markets for a trend trader but also build bases for future gains.

[O] Wedge Pop
Price "pops" back through the 10/20 EMA on the CATALYST of $TSLA being added to the SPX-500. This is what is needed to get this stock going again. The unfilled gap created here is a sign of "strength." Additionally, this is a new traditional flat base pattern, which may lead to a stronger sustained move.

[P] Blowoff Exhaustion
Price extends from the 10 EMA, gaps up, and fades. The stock likely needs to re-test the moving averages. Given how early we are in the flow of price (we haven't even had a Base n' Break yet) it is reasonable to hold through this extension and is actually a sign of strength. There was also not an extreme amount of volume to the exhaustion so the stock is likely just a little ahead of itself.

[Q] EMA Crossback / Pullback
Price pulls back into the moving averages and provides a low risk-spot to add to the position or raise stops and continue to hold the position.

[R] Base n' Break
Price breaks out of a Base n' Break and fails. We then find support at the EMAs, build a bull flag and make a second breakout attempt. This could be a new initial buy point given the length of the consolidation or an add spot if already holding a position.

[S] Blowoff Exhaustion
Price extends from the 10 EMA on the daily chart. If you were to look at the weekly chart we are also extended from the Weekly 10 EMA and this is the second or third extension from the daily 10 EMA since the traditional Flat Base breakout. Shorter to intermediate term traders may take profits as a longer basing period may be in store.

[T] Base n' Break
This is a valid Base n' Break pattern in that we consolidate for about two weeks above the 10 EMA. It is important to highlight that it follows a later stage Reversal Exhaustion and we are very extended from the Weekly 10 EMA. By understanding where the market is on a higher timeframe (Weekly), we can understand the odds of this trade working are much lower.

[U] Wedge Drop
Price gaps down on earnings and loses the 20 EMA, confirming the reversal exhaustion, and officially ending the uptrend cycle. A pullback entry to the 20 EMA could be entered if the entry is close to the 20 EMA but, again, given where we are in the price cycle it should be taken with caution.

REVIEW

At this point, it is unknown if this will end up being a long-term top or a multi-week basing pattern that will eventually turn back into an uptrend. Given this is the second or third extension from the daily 10 EMA and we are also extended from the weekly 10 EMA it is reasonable to assume that there will be a consolidation similar to what took place at Point L. The great thing is that if we are going to rebuild and create a new uptrend, price is going to recapture the 10/20 EMA at some point in time and my strategy is going to provide a low-risk opportunity to hop back on board. However, if this does prove to be a longer-term top we are out of the stock and in the safety of a cash position! Knowing the future is not a requirement

5

Name Selection

The number one market leader is not the largest company or the one with the most recognized brand name; it's the one with the best quarterly and annual earnings growth, return on equity, profit margins, sales growth, and price action.

—William J. O'Neil

Relative Strength

Relative strength is the concept that a stock is holding up better than the underlying index in a downtrending market or outperforming the underlying index in an uptrending market. A fundamental truth in my trading is that I believe buying the strongest stocks on a relative basis will lead to the greatest future returns. Sometimes, at the beginning of new trends, I can get caught in former leaders as I try to determine what the leaders are. That is okay but it is important to work out of those and allocate the money to the new leaders that are outperforming as quickly as possible.

Volume

Volume is representative of the amount of trade taking place in a specific stock. If you see enormous volume relative to the typical amount of trade in a stock it is a sign of institutional buying. I call heavy volume signatures "Bull snorts". As a smaller investor, we want to find the stocks institutions are building positions in, with the goal of riding their coattails for large gains. Therefore, when we see huge volume, it is a sign to pay attention and search for a low risk entry.

Big Theme

Stocks are driven higher when there are more buyers than sellers. There can be many different reasons for people to buy a stock, and one of those reasons is the "story" or "theme" behind a stock. Many long-term holders are buying a vision of the future. If the vision of the future is powerful enough you will have many more people interested in buying the stock. The company then needs to deliver and hopefully exceed on the mission. When they do, it can lead to powerful long-term uptrends. Secondly, having a powerful "story" can inspire conviction to hold a stock through pullbacks in an uptrend.

EXAMPLES

- **Major Recent Themes:** Movement to Digital/Remote, EVs/Green Energy, Platform Companies
- **Theme:** Electric Vehicles and Green Energy (Tesla: $TSLA)
- **Theme:** Movement to the At-Home Gym: (Peloton: $PTON)
- **Theme:** Telehealth (Teladoc: $TDOC)
- **Theme:** Work from Home (Zoom: $ZM)
- **Theme:** E-Commerce ($ETSY, $PINS, $SHOP, $AMZN)
- **Theme:** Cloud Edge ($FSLY, $NET)
- **Theme:** Cloud Security ($CRWD, $ZS)
- **Theme:** Gig Worker ($FVRR, $UPWK)

Sales Growth

In “How to Make Money in Stocks,” William O’Neil teaches us that the greatest performing stocks in history have sales growth of 25% or more annualized. Many studies show that sales growth is actually the greatest predictor of future stock appreciation. Companies that can grow revenue have the ability to restructure their spending to increase earnings in the future. Therefore, revenue growth is a key metric in finding big market leaders.

Earnings Growth

William O’Neil also teaches us that the greatest market winners historically have high earnings growth. Peter Lynch builds on this idea in “One Up on Wall Street” by showing us that, over the long term, stocks will move in alignment with their earnings per share. The higher, the better. This makes perfect sense. If a company earns money, its stock price goes higher. The more they earn, the higher the stock price should go.

Trade What You Know

I am a huge believer in the Peter Lynch “Buy What You Know” approach. If you can find a strong stock with big earnings and sales, relative strength, a strong new theme, AND you understand it, that is the ultimate combination for a “Top Idea.”

High Beta & Liquid

I prefer to trade very liquid stocks as they have more defined price movements. Getting in and out of a stock with very little slippage is important as my system can have more signals than a buy-and-hold strategy. Usually, I prefer stocks that trade 1 million shares per day or more. It is more about how the stock moves as the price action should feel uniform. It’s tough for me to describe this, but I get a feel that a stock is acting correctly and if it isn’t then I don’t trade it. Secondly, you want higher beta stocks so that when you do catch onto a strong trend it has the potential to move quickly in a short period of time.

Avoid Penny Stocks

You can make a ton of money in penny stocks… if you are right. You can also lose a lot if you are wrong. My number one goal is to protect my principal capital, so for those reasons I do not trade stocks under $10 and the stocks I usually trade are well over $50 per share.

Many institutions have rules that do not allow them to buy stocks below a certain share price or market cap and I want institutional sponsorship in any name I am trading.

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Additionally, I would highlight that Wall Street analysts often compartmentalize stocks with mathematical models. Top performing growth stocks can’t be analyzed with a model. They will surprise and exceed the expectations of these models, showing upside follow-through when they blow out expectations. I feel very strongly that the “average guy/gal” has a much better feel for new brands and innovative companies of the day than a professional analyst, fundamental hedge fund manager, or well-studied CFA. My “Lead Analyst” is my wife as she likes to shop, is in touch with new consumer trends, and has no idea what “overvalued” is. This gives her an enormous advantage in spotting big growth stocks. All the top analysts on Wall Street would have an impossible task in changing my mind if the price action, my lead analyst, and consumer-oriented opinions are to the contrary. In the end, traditional valuation metrics do not hold a lot of value when analyzing growing companies that are changing the way we live our lives.

Example of Relative Strength

Relative strength is the concept that an underlying stock is showing strength relative to the index. This is most helpful during corrections and pullbacks in the indexes. It can also be used on an intra-day basis on lower timeframes. When indexes are pulling back, we want to look for stocks that are heading higher or pulling back, but less so than the underlying index. I sometimes say a stock is being “Stubborn to the Downside” or there are “No Sellers Down Low” or “The Stock Feels Sold Out.” The stock doesn’t want to go down but is being pulled down by pressure on the overall market. The idea is that when the underlying market turns back higher, the stock showing relative strength will move higher much more quickly.

On the contrary, relative weakness takes place when a stock is underperforming the underlying index. The index may be heading higher and for whatever reason the individual stock is moving lower or moving higher, but less so than the underlying index. This can be a red flag and a sign to take profits on a stock or short sell a weak stock in a bear market. A common concept is “wedging” action, where a stock makes a new high but sells back down, performing this way for multiple days without really being able to push higher with other stocks. It is a warning sign that buyers are unwilling to take the stock higher for whatever reason.

Let's look at an example from the Covid correction by comparing the NASDAQ ETF (QQQ) to a big-winning growth stock coming out of the correction by the name of Livongo Health ($LVGO).

The Backdrop

Telehealth, preventative health theme. Big earnings and sales growth. New company, but also passed the six-month IPO lock up period. Combined with relative strength, which I will outline below:

(A) — 03/09/2020
The NASDAQ makes a new low and so does $LVGO.

(B) — 03/12/2020
The NASDAQ makes a new low and so does $LVGO. Let's note that $LVGO has barely moved to the downside while the NASDAQ is 6-7% lower. This is a sign the selling in $LVGO is not as intense as the underlying index.

(C) — 03/16/2020
The NASDAQ makes a new low and so does $LVGO.

(D) —03/18/2020
The NASDAQ scums another new low. $LVGO makes a higher low. This is where your antenna should really perk up. $LVGO has not corrected as much as the underlying index and is now starting to diverge from the underlying index by making a higher low when the index is making a lower low.

(E) —03/23/2020
The NASDAQ scums another new low. $LVGO makes a second higher low—this is further confirmation of the strength in $LVGO. $LVGO continues to show a positive divergence in its strength relative to the underlying index. This is two higher lows for $LVGO versus two lower lows for the NASDAQ. Each market proceeds to put in a "Wedge Pop" buy area, but the stock showing relative strength absolutely explodes higher and turns into a leadership stock for the entire market.

6

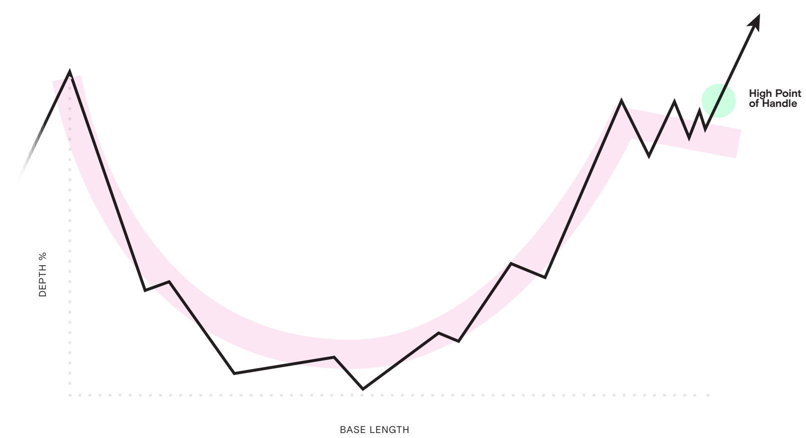
Chart Patterns

"Whenever I have had the patience to wait for the market to arrive at what I call a Pivotal Point before I started to trade; I have always made money in my operations."

—Jesse Livermore

Traditional Can-Slim Patterns

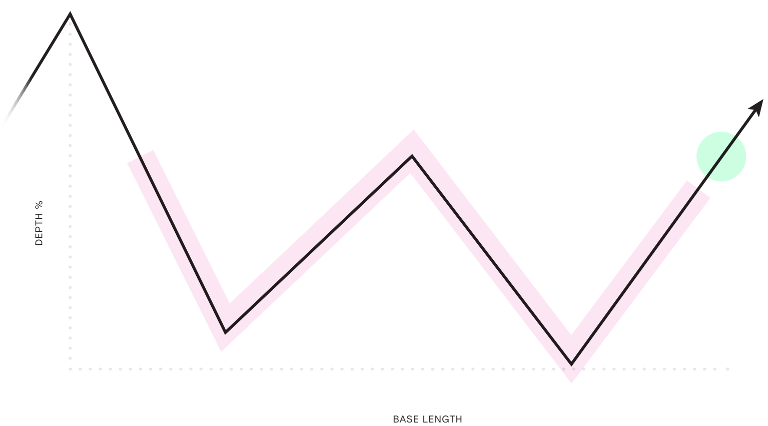
Cup + Handle



This pattern is exactly what it sounds like. It builds via price climbing up the right side of a big cup and then consolidating, contracting volatility, and "tightening" up a handle.

After triggering a Cup n' Handle buy point, TTD traveled 100 plus points and gave a 30% plus gain in about a month.

Double-Bottom Base

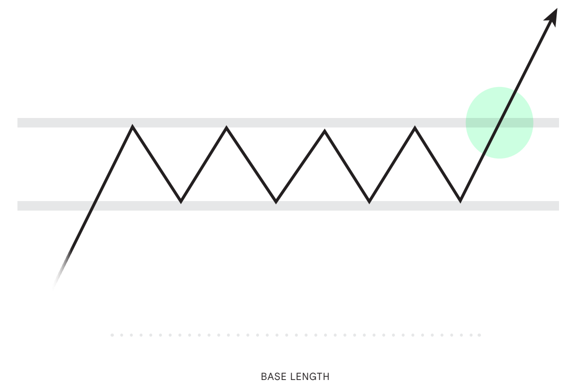


A multi-week basing pattern with a 2B Reversal shakeout on the lows. This is shaking out the weak hands before regrouping and triggering a move to the upside.

After triggering a double bottom base, APPS delivered a 30%+++ gain in about a month.

Flat Base (Large Base)

There is the specific flat base from How to Make Money in Stocks, but I widen that and just look for large bases. This could be a six-week flat base used as an initial/continuation buy point or re-initiating a primary trend move. It can also be a massive base signifying a major shift in price sentiment signified by the breakout. If it is a large monthly base it is really worth paying attention to.



FLAT BASE EXAMPLE: $SPOT

Notice the size and width of the monthly chart on $SPOT before beginning its large breakout move. Two examples with $SPOT and $TWLO and some notes on the daily charts:

(A) Wedge Pop
Price trades back up through the short term moving averages signifying the beginning of a potential trend.

(B) EMA Crossback / Bull Flag
Low risk entry area on a pullback to the moving averages. A position can be entered with a stop below the moving averages. Notice this is also a back-test of the descending trendline.

(C) EMA Pullback / Bull Flag
After a big gap up, price pulls back to the moving averages and offers another low risk entry against the moving averages.

(D) Base n' Break
Price builds a basing pattern under the major monthly resistance level while funding support at the moving averages on dips. As things tighten, the breakout provides a buy area. This is an important buy area because not only are we breaking a level on the daily chart but it is a major level on higher time frames such as the weekly or monthly as well.

(E) Base n' Break
After the initial breakout on the weekly chart price builds another multi-week consolidation under the all time high level. Notice how we find support at the 10/20 EMA as the basing pattern develops. Initial purchases can be made against the moving averages with adds on a breakout to new all time highs or waiting for the full blown breakout to new all time highs is an option.

(F) Ignite Bar / Major Breakout
When we trigger the pattern, this is a major breakout of a monthly, weekly, and daily charts

as well as being a move to new all time highs. The volume is also extremely heavy. These are the best kinds of breakouts that often lead to accentuated moves, which we see here.

(G) Exhaustion Extension
As we extend from the moving averages price is likely to snap back or rest/base to let the moving averages catch up.

(H1/H2) Exhaustion Extension / Bearish Engulfing / Shooting Star
The second extension is often a time to take profits as we are usually also extended from the 10 week EMA. At H1, we see a bearish engulfing pattern. At H2, a shooting star candle pattern offers a third extension. In this instance, the stock sold hard showing sellers rejected buyers and closed the stock near the lows of the day.

(I) Wedge Drop
When we lose this trendline and the short term moving averages. The Wedge Drop then

confirms the validity of the previous Exhaustion Extension and marks an end to the intermediate term trend.

FLAT BASE EXAMPLE: $TWLO

(A) Wedge Pop
Price trades back through the 10/20 EMA and clears a descending trendline, signifying the potential beginning of a new trend. Notice that this entire set of price action is a 2B Reversal on the Weekly chart as we take out support, but then trade back up through support, showing a failed move lower. From failed moves come fast moves.

(B) EMA Crossback
This is the first pullback to the 10/20 EMA and offers a low risk “buy opportunity” to potentially hop on a trend. This takes place right in front of earnings.

(C) Gap Up = Street Caught Off Guard / Major Weekly / Monthly Breakout
This is a gap up through resistance with an earnings catalyst. Because this is a major pattern with a catalyst it may be considered a buyable gap up with a stop at the low of the day.

(D) Base n’ Break
This basing pattern represents the first consolidation into the 10/20 EMA after the higher time frame base breakout and is a lower risk area to buy against the moving averages and add on the breakout.

(E) Base n’ Break
This is a second basing pattern finding support at the short term moving averages and might be an area to add to the position.

(F) Exhaustion Extension
This is the first extension away from the moving averages and can normally be held through as we see in this instance.

(G) Exhaustion Extension
This is the second extension from the moving averages and is often a good time to sell the position as the market is often also extended from the weekly 10 EMA.

(H) Exhaustion Extension
This is the THIRD extension from the 10/20 EMA and is pretty rare in my experience. Notice how the market has accelerated in its advance and the pullback is now being supported at the 10 EMA vs the 20 EMA in previous pullbacks.

(I) Wedge Drop
Due to the extension of price from the Weekly 10 EMA and this being the third Exhaustive Extension the 10 EMA is used to execute the Wedge Drop. We continue to trade right down through the 20 EMA as well. This action represents an unwinding of some of the euphoria represented by the third extension from the daily 10 EMA.

(J) Wedge Drop
After “Wedging” higher in a tight little channel without showing the ability to re-base in a proper fashion, the stock “Drops” back down through the 10/20 EMA confirming an end to the intermediate term trend and marks a true end to an advance in the stock.

*Notice on the weekly chart how we also see a bearish engulfing bar signifying that the stock likely will need more time to base before a new trend can emerge. New long trades would be fighting the clues we are getting on higher timeframes.

Non-Traditional Patterns

Bull Flag

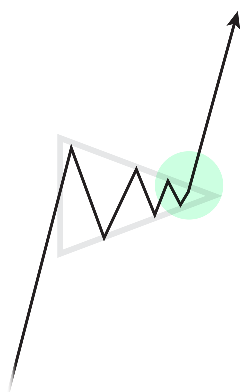
Shorter-term continuation pattern of lower highs and lower lows. Sometimes I call this a “mini-channel,” but that is my own slang that most people won’t recognize. It triggers when we breakout through the lower highs.

After triggering a bull flag, FUBO delivers a 100% plus gain in five days.

(A) Bull Flag
(B) Wick Play

Bull Pennant

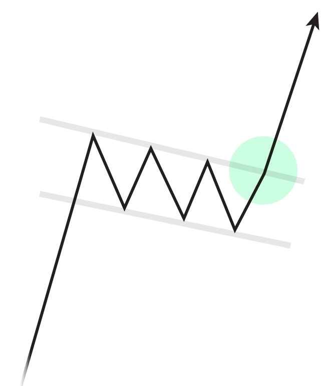
A shorter-term continuation pattern displaying lower highs and higher lows and declining volatility until we see a breakout to the upside.



(A) Bull Pennant

Descending Channel

This is a multi-week pattern of lower highs and lower lows. If you see a descending channel on the daily chart, it may look like a bull flag on the weekly chart.



After triggering a descending channel, CHGG travels 30% plus over the next two months.

(A) Gap Up = Street Caught Off Guard
Combined with a Monthly timeframe Wedge Pop.

(B) Base n' Break (or Wedge Pop)
Price builds a "Descending Channel" into the 10/20 EMA. This would be a Base n' Break to me but could be interpreted as a Wedge Pop.

(C) Pullback to the EMA
This is a quick retreat but on the advance allows a pivot point to raise stops.

(D) First Exhaustion Extension
Can usually be held through. Notice that this is a gap up as we are extended from the EMAs. That scenario of a gap up in an extended stock is usually an opportunity to reduce.

(E) Exhaustion Extension
This is the second extension from the 10 EMA and is usually an opportunity to sell the position and lock in gains.

(D) 2B Reversal
The failure of the second extension is marked by a 2B Reversal, where we make a new high but then fail, and finish the day with a bearish engulfing bar. What follows is a loss of the rising trendline 10 EMA and a Wedge Drop showing the Exhaustion Extension was valid and this intermediate term trend has come to an end.

Little Tricks

Inside Bars
When a bar trades "inside" the previous day's bar, it is a sign that volatility is contracting. Inside bars can have even greater meaning if they take place on extremely light volume. This is a sign that not only is volatility contracting, but trade has completely dried up in anticipation of a future movement. Multiple inside bars can amplify this pattern.

Pivot Low Failures (2B Reversals)
When a market trades down through the low or up through the high of a previous pivot low/high and then reverses. This is a sign that price was rejected and can be an early tell to look for evidence that a stock will move in the opposite direction of that failure. This concept was named by the famous Market Wizard, Victor Sperandeo, and I highly recommend reading all his work.

Wick Play
When a stock closes off the highs of the day in the previous session, there is a "wick" in the daily bar. If the market gaps higher the next day, it will open in the wick of that previous bar. If the stock stays positive and holds within the "wick" it is a sign of strength. This is a tool to use in context of a larger pattern. (The FUBO Bull Flag shows an excellent Wick Play example.)

Outside Reversal
If an uptrending stock in a higher timeframe pulls back for a few days, then has a bar that trades down through the low of the previous day or opens below the low of the previous day, and then trades back up through the previous days low, take it as a sign that buyers have stepped in and the pullback in the stock may be over. This can be a great strategy to step in on stocks on pullbacks. Many Bullish Engulfing or Bullish Piercing candlestick patterns are outside reversals.

Candlestick Patterns
There are so many great candlestick patterns that can be utilized for greater confluence in your trading. The great book "Japanese Candlestick Charting Techniques" by Steve Nison is the most comprehensive work on the subject I have read. I reference it daily. When reading his book, I recommend trying to understand the psychology behind why the patterns are important.

Too Tight For Too Long (TTFTL)
This means a market is basing in a tight formation to the point where it is obvious to everyone. These situations can prove to be traps. If the underlying index is moving

higher, an individual stock shows relative weakness and "tightens for too long," this can be the ultimate trap. Always be suspicious when something is too obvious and has been underperforming. This doesn't happen as often as you might think, but when it does, a lot of traders are trapped and the ensuing sell-off can be violent.

Events/News

An election, Fed meeting, major political issue, or corporate action can be a point in which the market "sets up" its move. If it's a large enough event, the market may wait for it, setting up its move a few days before or after. This could be a good time to look for opportunity. On a single stock level, any type of action (an earnings report or merger, for example) that greatly affects the company for better or worse may be a turning point for the stock, depending on how it reacts to the news. The only thing that matters is how the stock or market trades around that event. Depending on where a market is in its cycle will determine how that trade hits the tape. Good news is sold on extended stocks and bad news puts bottoms in turning stocks. The reaction to the news is what counts. To reiterate, it is important not to have a strong opinion about the actual news, but to view it as a catalyst and trust whatever the price action tells you.

Recognize Your Emotional Tendencies

As I have traded longer, I have learned about my own emotions. Having the flexibility to fade these emotions can be an *extremely powerful indicator*. We will all have different emotions so my weaknesses may be different then yours but it is important to recognize them so you can use them to your advantage. I will give you an example from my own personal trading. In most corrections, we will get a reversal extension off the lows, trade up to the 20 EMA, start to trade back down, and at some point a higher low will be put in place. This will eventually mark the beginning of the Wedge Pop. A weakness of mine is that I will want to start shorting stocks at just about the exact low of that Wedge Pop (and I rarely short). I understand this about myself so when I get that feeling I still can't help but be negative on the market but also know I need to be aware that we could be very close to a low. It's funny how that works.

7

Stop Loss Placement & Selling

I decided to let my stop-loss decide.

—Nicolas Darvas

What Was Your Reason For Buying? Still Valid?

To make things very simple, if you buy a stock for a specific reason and that reason is no longer true, then your reason for being in the trade is now invalid. Basically, if you buy a stock for a specific reason, you should sell the stock if that reason is violated.

Breakout Day / Reason For Buying Low

When a stock puts in a strong breakout, especially if there is heavy volume, the stop should be put at the low of the day. If the low of that day is violated, it is a sign that the sellers have overpowered the heavy volume that caused the initial explosion. In choppy markets, or if you are in a little bit of a rut, it may even make sense to sell if the breakout level fails prior to the daily bar low being hit.

Ignition Bar Low

An ignition bar is some sort of wide range bar or heavy volume continuation bar. When we see movements like this, they should be noted and those daily lows should not be violated. Therefore, when we see an ignition bar low, we want to adjust ours stops to the low of that bar.

Reconfirming Price Strength Confirmation

This is a play on the “Darvas Box” concept. When a stock moves higher, eventually it will pull back or “rest.” When it pulls back, it now has the opportunity to reconfirm with price strength confirmation. After resting, when a stock trades back through the highs that initiated the pullback, price strength confirmation is achieved. Stops are raised to below the new pivot low. With a big winner, this will happen over and over and stops will be raised with the ascending movements in the price action.

10/20 EMA Trailing Stop

Sell when a market closes below the 10/20 EMA. Which specific EMA is open to interpretation, based on whatever moving average the stock is showing respect for during its move higher. As a trend extends, price may accelerate and it may be worth moving to a shorter moving average to protect profits. I have even seen some people move down to the 5 EMA in those situations.

Rising Trend Line Breaks

When a stock gets into its trend and you have at least three touchpoints, a trendline becomes a valid point of reference. If it breaks, that can be a signal to exit a trade. I often find that the rising trendline will be in a similar place as the 20 EMA on the Daily chart.

Weekly 10 EMA or Daily 50 SMA Extensions

I have no hard, fast rules on the percentage extension from each of these moving averages as each stock has its own unique personality. With that said, when a stock gets very extended from the Weekly 10 EMA the odds of it going through a consolidation period increase. Booking partial profits, if not full profits, into these extensions may be prudent. I find it easier to assess an extension from the Weekly 10 EMA than from the Daily 50 SMA.

Gap Up Exhaustive Extensions

When a stock gets extended into its trend, gets extended from the 10-Day EMA, and has a large gap up, this can often be a time to sell or at least partially sell a portion of your position.

Sell Some, Hold Some

At the end of the day, stock trading is all about selling at a multiple of your risk over and over again. This turns you into the casino. Let's say you risked $2 on your trade and have a $10 gain and the stock is a little bit extended. It is reasonable to "Sell Some, Hold Some" because you have gained 5x your risk. This concept may help hold a core position for a larger move. It also allows you to have more losers than winners as gains are a multiple of losses.

8

Avoiding Bad Markets & Protecting Capital

The most important rule of trading is to play great defense, not great offense.

—Paul Tudor Jones

Follow the Price Cycle

Generally, when trading growth stocks the NASDAQ Composite or the QQQ ETF is the index reflective of those underlying stocks. When it is below the 20 EMA it is better to be cautious, raise cash, or be far more selective in taking new opportunities.

A future down trend will be triggered by a major “Blowoff Extension” like we saw on the NASDAQ in early September of 2020 and is confirmed by a “Wedge Drop” below the 20 EMA. From there it is a waiting game for the index to complete its downside price cycle steps and re-build for a future uptrend.

To Short or Not to Short

Many people say the market goes down just as it goes up and when stocks are in down trends you should look for shorting opportunities. This is true but I find it is more difficult to play the short side. Because of that I do not often short or am much less aggressive in shorting stocks.

When shorting, I think it is important to recognize that you are not in an ideal market. Take profits more quickly into weakness then you might sell a long position into strength. Take less risk via smaller position sizing and tighter stops.

Expect more volatility. The biggest daily rallies occur during corrections. I have been short at times when I felt the market was going to break wide open only to have it rally 5% against me in the morning, stop me out, then roll over and finish in the red.

Avoid Margin

As stated above, if below the QQQ 20 EMA, we are in a less than ideal market. Margin is to be used when progress is being made and “the stars are aligned.”

Uncover Relative Strength

The next big winners are found during corrections. They are found by screening for stocks that hold up better than the market. One of the main reasons not to short stocks is because it may distract you from uncovering the next big winners.

9

Putting It All Together

I believe in analysis and not forecasting.

—Nicolas Darvas

Let's look at a few different stocks.

$ZM: Zoom

The theme here is "work from home" or even "socialize from home". The Covid pandemic more or less closed offices and people needed a remote video system to communicate with each other. We had family Zooms to stay in touch and had fun with our friends via Zoom happy hours and the like. Many grandparents met their new grandkids over Zoom meetings. "Zooming" became a daily activity in our household. Zoom was a newer company that had only IPO'd about eight months earlier. This new change in our way of life brought Zoom massive triple digit sales growth.

(A) Base n' Break / Wedge Pop
Breakout through a monthly descending trendline and "pop" up through the monthly 10/20 EMA. A sign it will be easiest to trade lower timeframe patterns to the long side.

(B) Exhaustive Extension / Shooting Star
Price Extends from the 10-Month EMA and Reverses. This is a sign it will be more difficult to take long trades and those lower timeframe signals should be avoided.

$ZM Phase 1

This was a volatile, difficult environment for my strategy as the stock was fighting a downtrend in the underlying index. Given the theme of the stock and the pandemic it is one of the few stocks that was attempting to work higher. Due to the volatility, there was more whipsaw action and less consistent follow through, but some progress was still made.

(A) Wedge Pop Through The Daily 10/20 EMA
Stop below the breakout day low. As we work higher, price shows respect for the 10 EMA (very short timeframe on that test).

(B) Wedge Drop
The position stopped out on a loss of the 10 EMA with confluence from a mini rising trendline.

(C) Wedge Pop
Pushing up through the 10/20 EMA and triggering a buy area. Position re-entered with a stop on the breakout day low.

(D) Price finds support as the 10 EMA catches up to price. Stop is adjusted higher with the trailing 10 EMA.

(E) Base n' Break
After two weeks of consolidation and support at the 10 EMA price pushes out triggering a new buy area and a resumption of the initial move. Good area to buy/add, increase size and raise stops to below the bottom of the Base n' Break.

(F) First Extension from the 10 EMA can likely be held through.

(G) Gap Up Exhaustive Extension
This is an area to take profit or at least partial profits. This would be the second extension from the 10 EMA. Take partial profits in the gap up and possibly stopped out on the sell off through the 10 EMA depending on your risk tolerance.

(H) Exhaustive Extension
This is the third extension from the 10 EMA. The more extensions we get, the greater the likelihood of a further pullback.

(I) Base n' Break
After re-basing and finding support on the 10/20 EMA for two weeks, we breakout and trigger a new buy area. Good area to re-enter the position.

(J) Exhaustive Extension
Price goes parabolic traveling 40-50% in four to five days. This is only an exhaustive extension in retrospect. At the time, it's reasonable to think this market is showing real strength and you want to hold the position.

(K) Wedge Drop Sell Signal
After a gap up reversal, price "drops" through the 10 EMA confirming an end to this trade. The hopes created by the initial strength are invalidated. The gap up reversal two days prior is a sign that sellers are not willing to pay up at these levels and there is now a lower high in place. This "drop" holds more significance because of that. As a discretionary trader, we can only do our best and things don't always work out.

(L) Wedge Pop
Price pulls back and "Pops" back up through the 10/20 EMA triggering a buy area. Price found support at the 50 SMA prior to this "pop" higher. Good area to enter a position with a stop on the breakout day low.

(M) EMA Crossback
Price finds support at the rising 10 EMA.

(N) Base n' Break
After five days of basing action price moves higher. Good area to buy/add to the position and adjust stops higher. A great example of the "Reconfirming Price Strength Confirmation" concept.

(O) Gap Up Exhaustive Extension
With price extended from the 10 EMA there is a large gap up. This is a good area to take partial profits. Two days later the Wedge Drop invalidates the trade and it becomes a cash market.

*During this highlighted period from **(F)-(O)**, the underlying index was correcting, making the price action of Zoom much more volatile and difficult for a smooth/consistent trend to develop. My system had more signals than normal because of the shorter term moving averages and volatile price action. It is important to note the stock displayed relative strength as it was advancing in a declining market.

$ZM Phase 2

With the indexes entering a new uptrend, you can see how much smoother the trade becomes in this stock. My strategy provides fewer signals and is more easily implemented.

(P) Base n' Break / Wedge Pop
Think you could interpret this to be either pattern. Notice the strong volume. Stops to the breakout day's low.

(Q) EMA Crossback
Support at the 10 EMA. Raise stops to below the 10 EMA. A day or two later could be viewed as a bull flag buy/add area.

(R) EMA Support
Raise stops with the 10 EMA

(S) Bearish Engulfing Candle / Trendline Break / 10 EMA Break Sell Signal
Price has shown to respect the 10 EMA. The stop out could be on the bearish engulfing bar, but definitely the next day on a loss of the bearish engulfing bar low.

(T) Wedge Pop / Base n' Break
Breakout of a descending trendline. Stops at the breakout day's low.

(U) Stop Out Sell Signal
This trade never really got going and amounted to a scratch or a small loss when price lost the moving averages.

(V) Wedge Pop
This might have been a more difficult pattern to catch but is a valid Wedge Pop. Stops to below the breakout day's low. Notice how the Ignite Bar signaling the Wedge Pop also took out the highs of the previous Wedge Drop at **(U)**. The Wedge Drop bar is what I call a "Knockout" as it represents many people being stopped out of the stock, without further selling. Recapturing this makes it a more powerful signal.

(W) EMA Crossback
A low risk entry on a pullback to the 10 EMA. Stops adjusted higher to the Crossback day low if entered on the Wedge Pop. Another example of "Reconfirming Price Strength Confirmation."

(X) Ignition Bar
Stops adjusted to below the ignition bar daily low. Each individual would have to decide on position size for earnings based on their strategy.

(Y) Exhaustive Extension
Huge extension from the 10 EMA on heavy volume. Good area to take partial profits.

(Z) Exhaustion Gap Potential (Blowoff Top)
Exhaustion Gap potential when the gap day low is lost. Take profits on the remainder of the position. I often find myself looking for post-EPS bull flags or consolidations to take place with these big gap ups and end up frustratingly selling my position when the gaps fail. Handling these situations is something I am studying in more detail.

$ZM Phase 3

We continue to trend higher, ride the moving averages, and eventually top out near the end of October. This is further reinforced by the Exhaustion Extension from the monthly 10 EMA. You can also see a “Rising Wedge” chart pattern developing, leading into the top.

(AA) Base n’ Break / Bull Flag
Large gap up pullback to the 10 EMA, gap unfilled equals strength. Purchase versus the 10 EMA with a stop below the 10 EMA. Waiting for the next day when it breaks out of the flag with a stop on the low.

(BB) Reconfirm Price Strength
Price pulls back, bases, and we reconfirm higher so stops are raised to below the mini-base low.

(CC) EMA Crossback
Bullish counterattack/Outside Reversal bar as the gap down is bought up. Stops raised to below the Crossback daily bar low.

(DD) Exhaustive Extension
This is the first extension from the 10 EMA since the buy area. Given the extension of the market vs the 10 Week EMA one might take profits here but at your own discretion and interpretation. (This stock is certainly getting later into its overall trend though)

(EE) 10 EMA Support
The stock continues to support at the 10 EMA. The 10 EMA is the reason for buying so that remains the stop.

(FF) 10 EMA Support Again
Further evidence that the 10 EMA is the moving average of relevance.

(GG) Base n’ Break Breakout / Descending Trendline / Ignition Bar
Good area to buy/add a new position. Stops raised to below the Ignition Bar low.

(HH) Reconfirming Price Strength / Ignition Bar
After a rest day, price reconfirms higher. Stops raised to below the Ignition Bar low

(II) Exhaustive Extension
This is the second extension from the 10 EMA since the original buy area. Notice the rising wedge pattern that is now evident too. There is also a shooting star candle pattern. Lastly, on the weekly chart we are also extremely extended from the Weekly 10 EMA. Confluence!

(JJ) Just pointing out how hard the price traded down through the shooting star low. Subtle evidence that sellers are being more aggressive.

(KK) EMA Support at 20 EMA
Patient traders may be using the 20 EMA as a stop (The market did show us the 10 EMA was what was being respected but if the 20 EMA was used we find support there and stops raised.)

(LL) Wedge Drop Sell Signal
Bearish engulfing bar and we then “Drop” through the EMAs. For aggressive traders this could have been used as a short sell area based on there being an exhaustive extension on the monthly timeframe.

***The shooting star on the monthly chart is a red flag and a hint to avoid attempting long trades in this particular stock. If you go through and study $ZM you will see the following long signals all failed as they were fighting the higher timeframe.

$FSLY: Fastly

The $26 and $35.50 levels are very defined levels on a higher timeframe. The Cloud Edge theme is developing, with earnings as a catalyst and a bull flag into the weekly 10/20 EMA we catapult through $26 on heavy volume. That is the buy point for the trade. This is a young stock but also through the IPO lock-up period and breaking out to new highs.

$FSLY Phase 1

(A) Base n' Break
Breaking the 26 level on earnings with heavy volume. This is also called a "buyable gap up." The unfilled gap is a sign of strength and the stop is at the day's low. Breaking out of a large base with an earnings catalyst is one of the highest risk/reward patterns in my toolbox.

(B) First Pullback to the EMAs
A break back higher is a potential add spot but is also a RECONFIRMATION OF PRICE STRENGTH CONFIRMATION. Raise stops to below the pivot low and ride the moving averages higher.

(C) Pullback to the EMAs and finding support.

(D) Base n' Break
This is another area to buy a new position or add to an existing one. We reconfirm price strength and stops should be raised to below the breakout day's low.

(E) Ignite Bar
A small range bar followed by a heavy volume Ignite Bar. A sign of strength. Stops should be raised to below the ignite bar day low.

(F) Exhaustive Action
This is the first sign of some profit taking and something to note for the future. After we pull back and take back this high, it is reconfirming price strength confirmation and stops are raised to the new pivot low.

(G) Exhaustive Extension
This is the first extension from the daily 10 EMA and we see more profit taking. As we get later in the trend these are clues that selling pressure is increasing in the stock.

(H) Base n' Break
After supporting at the 10 EMA the stock breaks higher. There is also a wick play on the first ignition bar day. This is another buy/add area. Stops raised to the ignite day bar low.

(I) Trendline / Ignite Bar Stop
Stopped out on a break of the short trendline and eventually the 10 EMA. This also triggers the recent buy area ignite bar low, making it easier to exit.

(J) EMA Pullback
The big sell down bar is a sign that the stock may need rest. I believe in buying pullbacks until proven wrong. This could be an opportunity to attempt the stock on a pullback.

(K) Rolling back over and losing the moving averages without following through is a sign the stock still needs more time.

(L) Wedge Pop
In the form of a wick play, we pop back through the moving averages and out of this tight consolidation and rocket higher on heavy volume. This looks like the beginning of a new uptrend with potential areas to add to the stock after earnings.

(M) Wedge Drop
Combined with the earnings event and the massive volume this is a sell signal. This is a sign a stock is broken to me and will need a lot more time to repair before having a chance to really perform again. When faced with a large gap down contrary to your position, I am a big believer in exiting quickly.

$FSLY Phase 2

(N) Wedge Pop
With the 50 SMA/20/10 EMA all coiled up and volatility tightened, $FSLY "pops" back through the 10/20 EMA triggering a buy area. The stop is the "pop" day low.

(O) EMA Crossback
After "popping" through the EMAs to trigger the trade, price pulls back and finds support at the EMA's. This could be an area to add but stops would be raised to below these lows as we turn higher off the EMAs.

(P) Base n' Break
We squat on the breakout for a day or so before really turning up. Once price pushes out, stops are raised to below the base and with the moving averages.

(Q) Ignite Bar
Stops are raised to below the ignite bar low.
(R) Stops raised after a basing day and then another ignite bar. Another example of reconfirming price strength confirmation. In this instance, the goal may be to have a looser stop and try to let the moving averages cover this pivot point and allow more support for the stock. It is clearly a strong name.

(S) Exhaustion Reversal
With price very extended from the 10 EMA and earnings in two days it would have been prudent to book some partial profits. (I unfortunately did not)

(T) Wedge Drop Sell Signal
We gapped down on earnings with massive volume through all the moving averages and

this is technically a Wedge Drop. This gapped down below all relevant stop levels and highlights one of the risks in holding through earnings. (I felt we were just getting started in a new uptrend and was hoping to find an opportunity to add to the position after earnings. I was wrong. When wrong, in my experience, it's best to sell out, regroup, and find a new trade when you have a clearer head.)

$AMZN Daily

You can also trade the big caps or anything for that matter with success if you use the moving averages as a guide. Notes on the chart:

(A) Wedge Pop
(B) EMA Crossback
(C) Base n' Break
(D) Base n' Break / EMA Pullback
(E) Bull Flag / Base n' Break
(F) Bull Flag / Base n' Break
(G) Exhaustion Extension / Bearish Engulfing

$PTON Weekly

I am considering focusing more on the weekly in another account I am running to hold through longer basing periods to try and catch bigger moves. This is obviously just one example but leading stocks will generally hold the 10-Week EMA. Notes on the chart:

(A) Major IPO Flat Base Breakout, Post-Lockup Period
(B) Base n' Break into 10 EMA
(C) Stage 2, Flat Base
(D) Exhaustion Extension
(E) EMA Support on the Pullback
(F) Stage 3 Base (Base is more wide & loose)
(G) Exhaustion Extension, 2nd from 10 EMA
(H) Faulty Base after failed move higher (4th Candle)
(I) Stage 4 Base (Stage 4 or later often fail)
(J) Wedge Drop

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Position Sizing & Portfolio Construction

Put all your eggs in one basket and then watch the basket very carefully.

—Stanley Druckenmiller

The way my account is put together is not always the exact same, but over time I generally hold 8–12 names with a thought process somewhere along the lines of the following. I lay out the way I think about the different positions in my account and then the overall portfolio make-up.

Top Idea

This is just as it sounds. I usually have 2-3 top ideas where I know the story, feel the theme is excellent, and the name is near the beginning of its trend. I want these ideas to be breaking out of larger basing patterns and to show the volume from the get go for a sustained move.

Conviction Core Idea

A Conviction Core Idea is a high-conviction name that fits all the criteria of my top ideas but doesn't quite fit into the absolute best in breed column. It might fit into positions four through seven in my account.

Volatile Conviction Core Idea

This is a conviction core idea, but the stock may have higher volatility so I want to position size down to account for that. It still fits in the position four through seven bucket but has a smaller account weighting as its effect on the account volatility is similar despite the slightly smaller position size. I judge the volatility based on how the stock trades and my interpretation of its movements. Some people might use something like ATR (Average True Range) to measure volatility. I'm not that scientific, but I think it would be a valid approach.

Core Name

This is a name I want in my top seven to eight holdings and plan to hold for more of a sustained move but, for some reason, it is second tier relative to my top holdings. Maybe it is breaking out later than the other names and that is all the capital left in my account to allocate to new names.

Swing Position

As we get further into the trend, it becomes more difficult to find names breaking out from large basing patterns. I still want to try and keep my capital working for me, so I may take positions on shorter patterns such as bull flags, pullbacks to the moving averages, bull pennants, etc. Given the shorter pattern, I expect a shorter term trade and plan to book the profits on these trades more quickly.

My Overall Portfolio Approach

I trade with margin, so my specific approach may be different than the average person. The following is to give you a baseline as to how you might trade your own account. I like to top-weight my top 3-7 ideas and diversify the back of my portfolio as I start to put margin on. Additionally, I view my top holdings as higher conviction plays that I am going to be more interested in holding through pullbacks. The back half of my portfolio are my "cash flow" names where I want to be more aggressive in booking profits on extensions from the 10 EMA to keep the account moving. The total numbers add up to 190% but things are constantly rotating when you take partial profits, reallocate, and work the strategy. If fully invested, I will have between 120-150% margin in my portfolio. There are risks that come with this and I would not advise margin trading to anyone without experience. Below is what it might look like:

MARGIN APPROACH

Postion 1: 25-35% Top Idea: The goal is to reduce down to 20-25% on the first initial extension from the 10 EMA so I can hold my core more confidently for a more sustained trend.
Position 2: 25-35% Top Idea: The goal is to reduce down to 20-25% on the first initial extension from the 10 EMA so I can hold my core for a more sustained trend.
Position 3: 15-20% Conviction Core Idea
Position 4: 15-20% Conviction Core Idea
Position 5: 10-12% Volatile Conviction Core Name
Position 6: 10-12% Volatile Conviction Core Name
Position 7: 10-12% Core Name
Position 8: 10-12% Core Name
Position 9: 7-8% Swing Position
Position 10: 7-8% Swing Position
Position 11: 7-8% Swing Position
Position 12: 7-8% Swing Position

NON-MARGIN APPROACH

Position 1: 12-15%
Position 2: 12-15%
Position 3: 12-15%
Position 4: 12-15%
Position 5: 12-15%
Position 6: 12-15%
Position 7: 12-15%
Position 8: 3-5%
Position 9: 3-5%
Position 10: 3.5%

**This adds up to more than 100% but portfolio movements will have you adding and subtracting to positions as required.*

Buying And Selling In Pieces

A key to risk management is buying in pieces and selling in pieces. This is difficult to show in a short e-book and really needs to be learned with live trading. Overall, the goal is to tighten your stops as your position size increases. You use initial profits to increase your size while maintaining or even reducing the principle capital at risk by raising stops. For example, let's say you bought 100 shares at $50 with a $2 stop and $200 of risk. The stock advances to $55, pulls back to $53 and presents a new buy area at $55. You add an additional 100 shares at $55 and adjust the stop to $53 on the entire position. Your total risk is actually a $100 profit in that you are using the $3 profit from the initial entry (assuming you get stopped out at $53) to pay for the additional 100 shares of risk. Despite having double the position size, and double the potential profit if the trade works, you have less principle risk. When these types of scenarios play out in your favor you have the opportunity to have a large position that can really move your account if the trade works.

Compounding To Beat The Market

Many people are told that if you invest in index funds, the SPX-500 does 8-9% per year over the long run. Never sell and you will be wealthy when you retire. I believe this to be a great way to invest for the long term. I do it myself.

But I want to do better than that. I want to take what might happen over 30 years in my retirement account and turn it into a one-year return in my trading account. How do I go about that? I look to compound my monthly returns.

- 5% return per month = 79.59% per year
- 10% return per month = 213.84% per year
- 15% return per month = 435.03% per year
- 20% return per month = 791.61% per year
- Want to do 1,000% per year? Do 22.12% per month for 12 months.

It is very unlikely to put up the same return each month. You may have 5% months, losing months, or 60% months. The goal is to avoid major setbacks and let compounding work for you through the year so you can finish strong. A strong start to the year will unlock new margin early (if you trade with margin) and allow you to amplify the compounding factor if you are disciplined. I had a 1,000% return in 2020 and gave back into the end of the year, costing me that goal. My goal is to have a 1,000% return and check that box. Knowing last year was an all-time year for many people I try to temper that expectation, but the competitor in me wants it and it will bother me until I capture it.

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Old Sayings with a Lot of Meaning

"When people tell me they've learned from experience, I tell them the trick is to learn from other people's experience."

—Warren Buffett

Below are sayings I have picked up over the years from veteran traders with far more experience than me. I have my own interpretations as to what they mean but I thought I would leave them blank so you can think about what they mean to you.

Price is News

Volume = Price, Cause = Effect

Don't Trust Your Stocks, Trust Your Stops

Discipline Weighs Ounces, Regret Weighs Tons

Losers Average Losers

Price Hurts, but Size Kills

Gap Ups = Street Caught Off Guard

Bigger the Base, the Higher in Space

Buy Right, Sit Tight

It's Better To Be Out and Want In, Than In and Want Out

Sell When You Can, Not When You Have To

From Failed Moves Come Fast Moves

Sell Into Strength or You Will Sell Into Weakness

Take Small Losses or You Will Take Big Losses

Buy the Rumor, Sell the News

Be A' Buyin' When They Cryin' and A' Sellin' When They Yellin'

You Can Always Buy It Back

Sell Margin Into Strength and Equity Into Weakness

Reading List to Speed Up the Learning Curve

Reminiscences of a Stock Operator by Edwin Lefevre
How to Trade in Stocks by Jesse Livermore
How to Make Money in Stocks by William O'Neil
Trade Like a Stock Market Wizard by Mark Minervini
Think & Trade Like a Champion by Mark Minervini
Trade Like an O'Neil Disciple by Gil Morales and Chris Kacher
Japanese Candlestick Charting Techniques by Steve Nison
Technical Analysis Using Multiple Timeframes by Brian Shannon
Secrets for Profiting in Bull and Bear Markets by Stan Weinstein
One Up on Wall Street by Peter Lynch
Market Wizards by Jack Schwager
New Market Wizards by Jack Schwager
Stock Market Wizards by Jack Schwager
Hedge Fund Market Wizards by Jack Schwager
Unknown Market Wizards by Jack Schwager

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Conclusion

It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat."

—Theodore Roosevelt

Trading is often looked at as a game for the Haves, not the Have-Nots. I've come to learn on my journey that David can defeat Goliath. If David is the individual investor and Goliath is the large institutional investor, understand that David has the advantages of flexibility, liquidity to get in and out, and can control the strategy implemented. The sad truth is most institutional investors have no strategy, or worse, a strategy that is not based on what has driven the returns of the markets biggest historical winners. William O'neil has provided the blueprint for success. The key is to take advantage of his studies, build a strategy that fits your personality, and execute.

In his book *Winning at War: Seven Keys to Military Victory Throughout History*, Christian Potholm outlines that winning wars requires discipline, ruthlessness, innovation, and always planning for another war. The markets, in my mind, are not dissimilar from war. In the end, money and power aren't as important as strategy, discipline to implement that strategy, the sheer will to win, and the foresight to manage risk for the next trade.

Secondarily, if you miss the optimal buy point, I still think it is worth trying to be in the top liquid leading stocks versus a secondary stock. In those instances, paying attention to the price cycle or patterns like flags, pennants, or pullbacks to the moving averages may present opportunities for entry.

Intuition, experience, and controlled aggression are all vital components of trading. Flexibility when wrong and patience when right are also key factors for outperformance. These skills are created through hard work and time. I highly recommend you come into the day with your own ideas planned out or discovered the night before, and then execute when presented with the opportunity during the day. Trading your own trades is going to allow you to better critique your performance, learn from it, replicate it, become consistently profitable, and grow your account. The learning and growing never stops, but I hope this e-book will speed up your learning curve in your pursuit of success.

Good luck!

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Appendix

Initially, I would like to thank my buddies Chris Rogers and Brandon Berry for supporting me throughout the year. Thank you to my brothers Fred, Arthur, and Walter for pounding the competitive spirit into me over the years and always having my back.

I want to thank Matthew Thompson and Tim Beitz for helping me put together this e-book. It was a lot more work than I expected but I'm pleased with how it came out and I hope that it helps many others to speed up their learning curve. It has been great getting to know Tim a little bit. A lot of time was spent on Zoom meetings and the effort he put into configuring the charts, making the diagrams, and formatting the book are what make it readable. We have only known each other a short time but I am excited to see all he will accomplish with his talents. Thank you for all your hard work, Tim and Matthew.

From a trading perspective I would like to thank @TraderFlorida for being my first mentor and getting me started down the right path. I have learned so much from many others on twitter but specifically Brian Shannon, Kier McDonough, Joe Fahmy, Kevin Marder, and Mark Minervini. On a more personal level, I want to thank Jim Fardin, Mark Johnson, Rick Caerbert, Brian Zinman, Dan McCormick, Ryan Davis, John Whitcraft, John Vietor, Mitch Tripo, Jay Oliveira, and @Duckman1717 for teaching me random things over the years and still guiding me today. You have been great mentors and have taught me so much at various points over the last decade. The great thing about everyone mentioned is that you probably never really meant to help me, specifically, but I have watched every word you have tweeted, typed in a chat room, or said to me in private. If you have helped me, it is safe to say you have influenced thousands of other people too. Anyone willing to study, put in the work, and commit to improving their craft has the knowledge to succeed because you have shared it with us. You should take a lot of satisfaction in that as your generosity has likely changed many people's lives.

I don't know how any CAN SLIM trader or anyone who has created their own strategy around this approach cannot feel heavily indebted to William O'Neil. I think it is fair to say that not many people would find the key to massive wealth and then share it with the world with the level of humility of William O'Neil. He is a truly great man who millions of people look up to. I certainly do.

Special thanks to Jason Thompson of @tickermonkey for always supporting me and having a positive attitude. I had many setbacks when I was learning to trade. I still have ruts that are inevitable for any trader. JT has always been there to support me and motivate me to get better. I would be surprised if there is a single person on this earth who loves the market more than Jason. His passion is infectious, and it has certainly rubbed off on me.

I would like to thank my Dad for always talking about the markets with me and understanding that we have an entirely different approach and letting me find my own way. My mother gave me my first copy of How to Make Money in Stocks and put up money to help me get started when she didn't have a ton to spare. Mom, your support for me in every aspect of my life has been second to none, thank you.

My sister Abby has been the ultimate supporter. I consider her my first and most loyal investor in that she was there in the beginning, rode the ups and downs, turned her investment into a line of credit when I got into real estate, was pumped to roll it back into stocks a few years ago, and is now a seed investor in my fund. I think it's been a pretty solid investment so far, but my goal is to really be able to change her and her family's lives with more success in the future. Thank you so much Abby.

Lastly and most importantly, I want to thank my wife, Margaux. You have without question been my number one trade. I think we are a Stage 1 Leader breaking out of an IPO Base and I can't wait to take the ride with you. I am pretty intense and have big dreams. When others give me looks like I am crazy you tell me to put it on the vision board or write it down. Your positive influence on me has given me confidence and I hope I can do for you what you have done for me.

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