

Title:

Better Trades Momentum Part III

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Summary:

Momentum can make a stock move quite far in a short period of time and create spectacular money making opportunities for us. Sometimes stocks will move well for no particular reason (as you learned in the previous article) but other times it is a news headline that gets these stocks moving.

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Article Body:

Momentum can make a stock move quite far in a short period of time and create spectacular money making opportunities for us. You recently received from me an article in which you learned to recognize some of the typical patterns that stocks form when they are moving with a lot of momentum. Sometimes stocks will move well for no particular reason (as you learned in the previous article) but other times it is a news headline that gets these stocks moving.

When a stock moves on news the trade is similar to a momentum trade that occurs for no apparent reason but there are some distinct differences that you need to be aware of. First, the timing is different on a news trade because momentum plays out much more quickly than usual. Second, news creates opportunities with other stocks in the same sector that you may not have had otherwise.

Let's start with the timing of a news trade. When a stock moves because of a good or bad headline we immediately see an influx of volume as traders react and buy the stock to take advantage of something positive or sell to protect their position. We usually see a lot of movement on the first day of the trade but as more and more people hear the news there can be continued buying or selling pressure for the next day or so. Most reactions to news last anywhere from one to three days and most of the movement occurs on the first day. Because of this you need to be diligent in setting your stops. What we get with a news trade is a great way to trade momentum and bank our profit within a few days.

When you enter based on news, only do the trade if the technicals confirm the entry. Our entries will be very much like the entries you learned about in Part

II of this article but we need to use tighter stops because this trade is so fast. Take for example Conoco Philips (COP) on the latest oil price drop. The price of oil had already been weak and COP was in a downtrend. The stock had just filled the gap from early January when the price of oil dropped once again. COP gapped down giving us an entry. This was a great technical entry and the news just tempted more traders to sell COP and drive it lower. The stock was down \$1.98 the first day of the trade. I set my stops slightly above a closing price when a stock moves well on news. I do this because, as I mentioned earlier, news trades may last up to three days and may even end after just one day. What I want to do is set my trade up to exit with profit if the stock bounces the next day.

You will notice that on the second day COP continued to sell off another \$2.71 and I tightened my stop down once again to protect the money from this trade. The following day I was stopped out for about a \$3 profit. This trade only took two days. When you are trading on news I recommend that you use tight stops because these trades can be so short lived. And of course by tightening your stops rather than exiting the trade you will still have your trade if the stock continues to run.

Las Vegas Sands (LVS) became a news trade on January 10th when they announced they had received approval to build a new resort near Macau. The news sent the stock skyrocketing and it closed up over \$10 that day. By running through my scans, I generally find stocks that are moving even before I hear the news. When LVS came up on my momentum scan (for more information on my scans, join me in my Ultimate Scan free online workshop) the stock was rallying in a bullish candle pattern with bullish indicators that confirmed this was the right time to do the trade. The price pattern on LVS was bullish and volume was very strong. This was also a stock that had traded in an uptrend for most of 2006 when it moved from about \$38 to about \$90. The retracement you see in December probably washed out a few traders but when the new resort was announced the buyers came flooding back in.

As the stock rallied above the \$94 area we had a bullish entry. The price remained strong for two days and then the stock formed a doji. I tightened my stops to just below the opening price on the doji day to exit the trade if the stock pulled back from there. As you can see, tightening the stop rather than just exiting the trade kept me in the trade for one more day and another \$4.85 rally. I once again tightened my stops and exited the trade the following day. This momentum trade ran \$14 points from \$94 to \$108.

One of the advantages of news trades like this is that we can look to other

stocks in the same sector that may also benefit from the news. The day the price of oil dropped COP wasn't the only oil stock to trade. Of course, that news affected the whole oil sector and you could have place a bearish trade on many of the oil stocks that weakened on the news. The same holds true for the news on LVS. That news created a lot of excitement in the Casino & Gaming sector and we saw other gaming stocks that moved well along with LVS. This is called a sector trade and is an easy way to trade stocks in the same sector that may not have run quite as quickly and thus the options may not be as inflated and expensive as the stock with the news.

When you see a news headline check out the stock with the news first and then you can begin to dig a little deeper for a sector trade. Look for a stock that is moving in the direction of the stock with the news. For instance, when LVS made their announcement I checked the other gaming stocks and noticed that Wynn Resorts (WYNN) was rallying along with LVS. The stock had already been in an uptrend and had just broken above a previous high a couple days earlier. With the bullish price pattern and the strong move in tandem with LVS we had an entry.

WYNN ran right along with LVS. The stock rallied from \$100 to \$107 and triggered an exit the same day we got our exit from LVS. Although WYNN did not rally the \$14 that LVS did we still had a great \$7 trade. This is very typical of the sector trades. The most profitable trade is generally made on the stock with the news but sometimes you hear the news too late after the run is done or after the options have become too inflated. Then go to the sector trade and find the other stocks within the same sector that are benefiting from the news.

Momentum trades occur all the time. Whether it is news or just a sudden increase in buying or selling pressure the secret to trading this strategy is in the technicals. Watch for these basic price patterns and join me in my Technically Speaking workshop or Trend Trading My Way DVD's to learn more about recognizing momentum patterns to enter these trades just as the momentum begins.

Hope to see you soon!

Markay with Better Trades