Your batting average is important to track personally but is a lot less important as a performance indicator than traders believe.

Many market wizards and traders we've met actually have win rates of around 40% on average. This may seem low, but in reality what this means is that they are excellent at cutting the losers short. They have a lot of small losses but make up for all of them with large gains when they do have winners.

However, the batting average or win % is helpful to track on a personal level to see how it fluctuates in different market environments. If you notice your average dipping, it's a sign to take the foot off the gas and pump the brakes. The market could be weakening, or your style simply could not be working as effectively as usual.

Average gain

Your average gain is calculated by taking the average of all your winning trades. You should calculate it three ways: dollar amount, % gain on the position, and equity contribution. This is because you could have a trade that was a huge winner, but it was also a tiny position. That will skew the % gain calculation but not the equity contribution. To calculate the equity contribution, multiply the % gain on the position by the position size. A 30% gain on a trade that was 20% of your portfolio was a 6% equity contribution.

Tracking this over time gives a similar view to the batting average. It can help you identify the best trading periods as you see it trending upwards, and then in choppier periods it will contract.

Average loss

Your average loss is calculated by taking the average of all your losing trades. Like the average gain you should calculate it three ways: dollar amount, % gain on the position, and equity contribution.

To really excel at trading this should be one of the key metrics that you focus on improving. Just a small tweak in your average loss can dramatically improve your risk/reward ratio and your overall performance.

This is also one of the metrics that we have the most control over through the methods discussed in the risk management chapter.

Risk/reward ratio

The risk/reward ratio is calculated by dividing the average gain by the average loss. You should do this for all three ways.

This is the key metric that shows how effective you are as a trader. You should shoot for a 2:1 or more ratio.

Swing traders may have a lower ratio but make up for it with a higher win % while position traders may have 4:1, 6:1, or even higher but a lower win %.

All these combinations can be effective; it’s about finding the style that suits you. All styles must keep their losses small, but they can differ in terms of the amount of trades they are taking to turn over their edge.

Max gain

The max gain is the maximum gain you made over the period. This can help you know what’s possible with your style.

Max loss

Your max loss is the maximum loss you made over the period. Ideally this is nearly the same as your average loss. If you have a much larger max loss, make sure to identify what mistake you made and take steps to avoid it in the future.

You should also analyze any loss significantly higher than your average loss. Simply improving the tail end of the distribution of your losses can significantly improve your performance.

Average trade length for winners

This is the average number of days from entry to exit of your winning trades. It can help tell you if you are letting your winners run. Ideally this is much longer than the average duration of your losers.

Average trade length for losers

This is the average number of days from entry to exit of your losing trades. We want to minimize this as much as possible to make sure we are cutting losses fast and moving that capital toward the next potential winner.

EQUITY CURVE ANALYSIS

Your equity curve is the plot of your account value over time. It provides the truth about your trading. We ideally want it to resemble a staircase from bottom left to top right and avoid a lot of erratic moves up and down.

If you plot your equity curve and there are a lot of boom and bust periods, it means that you really need to work on your risk and position management.

Looking at your equity curve, pay special attention to large jumps and strong uptrends. These are your difference maker periods. Look back at your trades during these periods and your journals to identify what setups you were using, what stocks you traded, and any other important factors.

Study yourself at your best and try to replicate those actions as much as possible. Your performance will be somewhat correlated to the market, so don’t forget how much of an impact that can have. The key is to try to flatten drawdowns in your equity curve which were caused by market corrections and pullbacks.

STUDYING YOUR TRADES

As we discussed above, in addition to calculating these metrics, you should review your best and worst trades on charts. You should do this with as many as you can, but to start with we recommend taking your top five to ten best and worst trades and marking them up.

Look for common factors in the trades to identify your strengths and weaknesses. This can be a game-changer in your performance.

With regular post analysis, you will start to notice tendencies. Once you do, use that feedback and analysis to adjust your trading rules to target your weaknesses and enhance your strengths.

If for example you notice all your biggest losses come from one type of setup, limit the use of that setup for a month or two and see how that impacts your data. Iterate, analyze, adjust, repeat.

Of course, you can't adjust your rules if you don't have any. This is a serious endeavor and is worthy of you spending the time to think through your system. Let's cover the process below and get your started.

THE IMPORTANCE OF BUILDING A TRADING RULE SET

What is the key to longevity in the markets? Certainly keeping losses small and allowing winners to run is part of it, but what does that really mean? How small will you cut losses and why? And how do you find stocks to trade in the first place? And how do you size them so a winner will actually have an impact?

The answer to these questions (and many others) should lie within your own personal set of trading rules. Your rules may look very different than ours, but they should still address the most important questions that govern your personal trading system.

And why is it important to have rules in the first place? Consistency in process and in actions will ultimately lead to success, with the caveat that you establish a feedback loop which constantly re-evaluates the system, makes adjustments and improvements, leading to continuous improvement.

Random actions lead to random inputs to the system, causing impulses which can bypass important protections and cause serious damage to your account and confidence.

So how do you become more disciplined? How can you make sure you avoid random actions and follow a strong plan? The answer is developing a robust rule set and actually following it.

Why you need a set of trading rules

If you are reading this and do not have a set of trading rules, then the most important thing you need to do to improve your performance is read through this entire section and spend a weekend or two outlining exactly how you will trade.

Similarly, if you have some rules but sometimes fail to abide by them, or often make trades outside of your system, then you need to put in more work, and make a rule set that you will actually follow 99% of the time.

And by the way, if your rules are not written down and outlined so clearly that someone with similar knowledge could follow them to a T, then you need to put in more time until it gets to that point. Rules in your head don’t count, especially if you are in the first three or even five years of your journey. You haven’t earned the right by successfully trading and managing risk through multiple market cycles to say you don’t need written rules.

So we need rules, rules to manage risk, rules to govern our trading, rules to ensure that we protect our capital over time and can benefit from a long career of compounding.

As you read this section remember as we do so that everyone's rule set will look slightly different, and it will be catered toward their own personal situation, skills, interests, goals, style, and time frame. Feel free to get creative with this—add sections, add subsections, and even remove parts if you find it necessary. At the end of the day, your rules are for you.

Value yourself and spend significant time on this, revisit and revise occasionally, and you'll find that it will help answer key questions you may have, make you more confident, and improve your execution.

Building your rule set

As you write your rules, the focus should be on clarity, specificity, and depth.

A trader of similar skill and knowledge as yourself should be able to follow your process. This ensures that you are fully thinking through each aspect of your rules and are clarifying it enough for the rule to be usable.

For example, don't just say: "If the market is in an uptrend I will buy good stocks."

What is the market? How do you define an uptrend? What makes a good stock? How will you buy them? How much?

Instead it should look similar to something like this: If the Nasdaq Composite is above a rising 21 EMA I will look to buy 5% positions in five stocks with YoY EPS quarterly growth > 25% on breakouts from sound bases.

You don't have to define every little thing, but like we said you should define it well enough that a trader of similar experience level and style could follow.

Here are the sections that we encourage you to start with:

- Section 1: Market analysis

- Section 2: Stock selection and routines
- Section 3: Edges, setups, and entry tactics
- Section 4: Risk management and position sizing
- Section 5: Sell rules and position management
- Section 6: Post analysis and journaling
- Section 7: Contingency planning

We've covered each of these sections throughout this book, so as you define your rules, it may be helpful to re-read those parts of the handbook.

SECTION 1: MARKET ANALYSIS

Assessing the market, and really here we mean the larger context and current environment, is a key aspect of trading and reaching higher levels of performance.

Market and trends

The first part of the section should describe how you will analyze the larger market and determine the relevant trends for your time frame.

For instance, you can use a key moving average on an index or index ETF to define these trends. Using QQQ as an example, you can say that the market is in a short-term uptrend if it is above a rising 10 SMA, an intermediate-term uptrend if it is above a rising 21 EMA, and a long-term uptrend if it is above a rising 200 SMA.

You can use these definitions of trend later on in your rule set. For example:

> If the market is in a long-term downtrend but in an intermediate-term and short-term uptrend. I will look to increase exposure to 40% by purchasing strong stocks with 5% size.

Group and theme analysis

In addition to analyzing the general market, you also should have rules which help define your process for identifying both leading and lagging groups.

For instance, you can sort thematic ETFs by performance over different time frames to see what groups are performing well.

Qualitative analysis of the performance of current market leaders

Speaking of leadership, it is extremely helpful to define what that means to you:

- How do you determine leadership?
- How will you add/remove stocks to your leadership list?
- How will you assess the health and breadth of leadership?
- How will your market analysis inform your actions?

Having written rules to identify the market environment and the status of leadership. You need to next determine how this will impact your trading decisions. You may find it helpful to come up with rule variations for the following market types.

- Uptrends on all time frames, strong leadership.
- Long-term uptrend, short-term downtrend, leaders weakening.
- Long-term downtrend, lack of leadership.
- Long-term downtrend, short-term uptrends, developing leader-ship.
- Choppy short- and medium-term trends, mixed leadership.

In these different situations you should be clear about position sizing, types of setups you will take, risk management rules, and general aggressiveness.

SECTION 2: STOCK SELECTION AND ROUTINES

Stock selection

Stock selection is an important aspect of trading. However, remember that even a great stock, when traded poorly, can lead to mediocre results. We want to focus on great stocks, but don't get so lost in the search for the absolutely perfect stock that you degrade the quality of your execution.

When it comes to stock selection, you want to create a universe of ideas that meet your criteria for a "high potential stock." How you define that specifically is up to your strategy.

In general, however, this should be a decent definition:

> A high-potential stock is a stock that has shown a display of power and strength, and has now setup in a repeatable pattern that provides the opportunity for an asymmetric reward to risk.

We are looking for stocks that through price and volume, have shown recent Relative Strength, have shown the character of a leader that can trend in the past, and are now presenting a setup where you can manage risk tightly and logically.

The stock should also ideally be part of an emerging theme where a group of stocks are together showing signs of accumulation. They will have a large runway in terms of new and developing products, and strong earnings, sales growth, and/or the anticipation of future growth through excellent estimates.

Routines

In order to consistently find high-potential stocks at the correct moment, you need to develop routines to screen and manage watchlists as well as analyze the markets.

Review Chapter 9 for an in-depth walkthrough of what to include here.

SECTION 3: EDGES, SETUPS, AND ENTRY TACTICS

In this section of your rules, you should define the specific edges, setups, and entry tactics you will use to trade high-potential stocks. This goes hand in hand with stock selection as you should be focusing your watchlist on stocks that are showing many edges, and presenting chart patterns that are constructive and tradable.

For further detail and guidance on this section of your rules, review Chapters 4 and 5.

You should include in this section a database with chart examples of the edges, setups, and entry tactics you will use. Creating this database not only provides you with precedents that you can refer back to, but it also helps build intuition and clarifies exactly what you are looking for.

SECTION 4: RISK MANAGEMENT AND POSITION SIZING

This section should outline your process for managing risk for the different setups and tactics you trade. This includes how you will set and adjust stop losses.

You should also define for yourself the amount of total risk you will have in different market conditions and situations, as well as when you might go on margin and by how much.

You should also define your process for sizing positions, including what your starting size is, and if and how you would increase your size. This includes defining a maximum position size.

Review Chapter 6 for help with this section.

SECTION 5: SELL RULES AND POSITION MANAGEMENT

In this section you should define how you will manage positions. This includes trade execution, selling into weakness, and selling into strength.

Chapter 7 should be a helpful resource here.

SECTION 6: POST ANALYSIS AND JOURNALING

In this section you should lay out how often you will analyze your trading and what you will do each time.

You should also cover your process for journaling and also when/how you will update your rules based on your post-trade analysis. The early part of this chapter should be reviewed as you plan out these rules.

SECTION 7: CONTINGENCY PLANNING

There are a lot of special cases and potentially devastating scenarios associated with trading. Thousands of dollars are on the line, and you should try to plan for anything that can happen.

- How will you handle it if one of your positions gaps down huge on earnings or news?
- How will you trade if you lose power or internet?
- Where and how will you store important passwords to your broker?
- What will you do if you are locked out of your accounts?

What are important numbers that you should have quick access to just in case?

These are some examples of situations that you should address in this section.

TRADER’S HANDBOOK CHALLENGE 8

Write your trading rules.

For this exercise, write or revise your trading rule set. Take your time with this and think things through. Your trading rules are for your benefit; they are part of your contract with yourself that you will be taking trading seriously. Be sure to share your work on twitter and tweet at us @TraderLion_ and #THChallenge.

KEY TAKEAWAYS

Here are five key takeaways from this chapter:

1. Post analysis of your trading will allow you to understand your strengths and weaknesses.
2. Analyzing your worst performing stock can help you dramatically improve your performance.
3. Journaling can help you stay in tune with your thoughts and actions.
4. Your trading statistics reveal the truth about your trading, and can help you understand which parts of your system to focus on improving.
5. Trading rules define our system. They are a living document you will update over time as you evolve as a trader.

BONUS RESOURCE

We recorded a webinar about post analysis and we also include a free trade log which can calculate key stats for you.

You can watch it today at traderlion.com/handbook.

CHAPTER 11: FINDING NEW EDGES, SETUPS, AND ENTRY TACTICS

"Once you stop learning you start dying."

—Albert Einstein

How can you find new edges and setups, and adapt your trading as the markets change over time? That's the question that we aim to answer in this chapter.

We will answer it in two parts. First we will cover our process for studying the market and running experiments to test out new ideas. Then we will discuss how you can create model books: Resources that are focused on studying the top-performing stocks to build references for future trades.

If you are newer to trading, this chapter will be a great way for you to structure a deep dive into an edge/setup/entry tactic that you learned in this book or elsewhere, and to build confidence in that setup.

If you are more advanced, the same blueprint can help you investigate observations that you have noticed during your trading, and you can then create your own setups and structure.

This chapter is where your passion for the markets comes alive as you can put on your scientist hat and explore new ideas.

Here's a quick outline of what we will cover:

- Trading studies:
    - coming up with ideas
    - defining a study

    - collecting examples and data
    - analyzing the results
    - drawing conclusions.
- Building model books.

Now let's dive in!

TRADING STUDIES

Coming up with ideas

The first step to completing a trading study is being motivated to start one. This may sound a bit funny, but in order to complete a trading study you need to be passionate enough about the particular topic to really spend the time collecting and analyzing data.

The ideas you pick to study should be reasonably focused, and it can be anything that you are curious about with respect to the markets or trading.

A great place to start is a trading setup or pattern that you wish to learn more about and add to your arsenal. You can also find ideas by reading trading books, listening to what other traders have studied or how they trade, or by analyzing previous model book stock moves.

Here are some questions that can help you find a topic:

- If there was one setup that you wanted to learn more about, what would it be?
- What part of trading do you think is your weakness? What specifically do you need to work on?
- When you look at past stocks, what stands out to you that they all seem to share?

- When you listen to market wizards, what stands out to you as the reason for their success? Is it something that you can investigate further to learn more about?
- Is there a very unique model book stock that you have noticed recently? What made it different?
- What are some commonly accepted truths about the market that you’ve found are not always the case with real trading?
- Are there any strategies that you’ve learned about from traders of other time frames that you think could apply to your style?
- How would your personal performance have changed if you tweaked your entries or exit rules, say only sold if a stock closed twice below the 21ema?

You can study a setup, an indicator signal, dive deep into a particular model book stock, or anything else that you would love to learn more about.

Once you have a few ideas, think about which of them you want to focus on. There will be plenty of downtime during market corrections or after market hours to get to all of them eventually.

Defining a study

Once you have your topic in mind, verify that it is focused enough that you could reasonably expect to complete the study in about a month.

We’ve found through personal experience that most studies take a lot longer to complete than we expect, especially if we are very ambitious from the start.

A month-long study will likely turn into two to three months, so make sure you set reasonable expectations with yourself about how much time you can commit to the study.

Also make sure that the topic is feasible, meaning that you have access to the data or programs needed to complete it. Excel can get most people pretty far once they learn to use a few formulas, but data is not always available.

Once you have your scope set, you should be able to phrase it in a similar format to this:

> I will complete a trading study on ___________ with the goal of __________________. To do this I will __________________ and then _________________ to come up with my conclusion.

An example would be:

> I will complete a trading study on large gap downs with the goal of defining a tradable setup. To do this I will collect many examples of gap downs that successfully rebounded as well as failed and then analyze them to find common characteristics and patterns.

or

> I will complete a trading study of Google's IPO move with the goal of identifying entry points as well as characteristics that led to its success. To do this I will analyze the price and volume data as well as research news catalysts during the time and then create a detailed case study with my findings.

Gap Down Study Example

Google IPO Base Study Example

We also highly recommend at this point that you try to find a few friends who would also be interested in this study. This can split up the workload going forward and invite different perspectives and questions.

Collecting examples and data

The next step is to define the exact data you need and how you will use it. Be very specific and again remember to try to keep the study as focused as possible.

Motivation is high at the beginning of a study, but you want to make sure that you are not biting off more than you can chew later. You can always do follow-up studies later based on your findings and expand the scope.

Next, you will want to create a data table and add a few examples. Collect the data you want from these examples and analyze them completely.

Going through this process with just a few examples will show you any blind spots you may have in your scope or study design. Make any adjustments necessary to your study design.

Before you go through the process of collecting a ton of examples, make sure you have the final data points set. It will save you a lot of time if you plan things out well rather than having to backtrack and re-analyze many stocks. We know this from unfortunate experiences.

If we were designing a setup based on the earnings gap down scope example, here are some data points we might consider:

1. Closing ranges of the gap down day.
2. % close off lows of the gap down day.
3. % undercut of the gap down close over the next three days.
4. Volume compared to average of the gap down day.
5. % the gap down low is below the 50 SMA.
6. % from the gap down low after five days.
7. Trends of the ten day, 21 EMA, 50 SMA, 200 SMA before the gap down.
8. QQQ versus the 21 EMA.
9. Performance from the gap down one month later.
10. Performance from the gap down three months later.
11. Performance from the gap down six months later.

If you have an example of the setup that worked particularly well, really analyze its chart and the characteristics that defined the move. This can help you come up with important data points.

Especially when studying a pattern or setup, we find it is very important to collect examples from different time periods and market environments. You can even track these as data points and be able to come up with very interesting conclusions (if you have a statistically relevant sample size). As an example: “Earnings gap ups have a 70% success rate when the QQQ is above the 21 EMA but only a 40% success rate when it is below.”

These numbers are just examples, but you can see how that kind of information can give you a real edge and deeper understanding of a setup.

Analyzing the results

Once you have the data, make sure it is organized, and you are not missing anything. You will be amazed at how annoying it can be to have to redo analysis after finding that you pasted in a column incorrectly.

Next write down a handful of hypotheses after collecting all the examples and looking at their charts. They should be testable based on the data you have.

Some examples:

- I hypothesize that stocks which are higher than the gap down close three days later are more likely to outperform over the next few months.
- I hypothesize that stocks whose gap down lows were more than 30% below the 50 SMA are more likely to outperform over the next few months.

The benefit of having the data is that you can always come up with new questions to answer.

The next step is to make plots of your data. Plot characteristics of the setup versus their performance over the next few months, and note any trends or interesting observations you see.

You can also look to group your examples based on similar data points or outcomes. Think about what characteristics the most successful examples share.

It’s also very helpful to analyze outliers in the data. How are they different than the others? How did that impact things?

You should also remember to be open-minded. You may not find any commonalities or key results and that’s OK! Or you may find that your hypotheses were completely wrong. Let the data guide your thinking.

Drawing conclusions

Once you have analyzed the data and jotted down any initial observations, organize your findings in a document and summarize your key takeaways.

Include any relevant plots or charts for quick access in the future. You can also have a section that contains key statistics that you found from your data.

These questions can help you with the final report:

- What was the most significant finding from the study?
- Which of your hypotheses were definitely true or false? Which were ambiguous?
- What key statistics did you find that could help your trading?
- How did the market environment impact the performance of the setup?
- What was the most interesting plot of your data? Why?
- What was the most surprising thing you learned?

- What would you like to investigate in a follow-up study?

Once you have completed your study, we recommend you share the findings with others to get their perspectives.

That’s it! You’ve now completed your first study and taken a definitive step toward expanding your trading knowledge.

BUILDING MODEL BOOKS

The importance of building model books

A crucial step in a trader’s journey is when they focus on studying the past to analyze what factors led to winning trades and what repeatable setups existed in the market.

During these studies, you should build repositories of examples grouped by market cycle, type of setup, or other similarity.

You can then use these model books to search precedents from the past that can help you perform in future market cycles.

But first, let’s define a model book even further.

What is a model book?

A model book is a compilation of the highest quality, best-performing stocks over any particular period or cycle. For each stock, both fundamental and technical data relevant to that period are included and then “marked up” with detailed notes.

Model books serve two purposes:

1. They serve as a reference of historical precedent which can be referred back to and applied to a relevant, current situation.

2. Going through the process of creating your own model book gives you a deep, detailed understanding of what these stocks look like, time after time, cycle after cycle, as well as some of the inherent differences, based on things such as a particular stock's personality, liquidity, size, etc.

BUILDING MODEL BOOKS AT O'NEIL

When I was a portfolio manager at O'Neil I was tasked with building the 1998–2000 model book with Mike Webster and Charles Harris.

This was certainly a very interesting market cycle to study. I learned a lot from this experience, especially working with Bill to select the top stocks from this time period.

One of the first things I noticed about Bill is that he was incredibly selective with the stocks we included in the book. They had to be textbook CANSLIM and fit his model of the greatest performing stocks of all time.

Many of the stocks that I and the other portfolio managers traded in our personal accounts most definitely did not fit the bill.

O'Neil focused on the highest quality stocks with standout earnings and sales growth as well as the N-factor in CANSLIM.

Personally, when building my own model books, I do not require every single CANSLIM criteria to be met. However, I do focus on liquid stocks which trade tightly in an organized manner, since that is what I prefer to trade.

THE STEPS OF BUILDING A MODEL BOOK

There are six main steps to building a model book:

1. Determine the scope of the model book.
2. Building a larger list.

3. Finalizing a smaller list.
4. Researching fundamental drivers.
5. Annotating the charts.
6. Building the model book.

Let’s dive into each one with more detail.

Step 1: Determine the scope of the model book

The first step of the process is to determine the scope of the model book. This depends on the type of reference you wish to create.

The model books that I built for the firm and now for TraderLion focus on different market cycles or years. However, you could also build a model book organized around studying a particular setup or group of stocks such as IPOs or Stage 2 Breakouts.

The bottom line is that a model book should help you study winners and be able to serve as a reference for future trades. I like building them covering full market cycles because it will show how leaders break out, make their moves, and then ultimately break down.

Step 2: Build a larger list

Once you have determined the scope of the model book, the next step is to start to source ideas and build a larger list of stocks to choose from.

Cast a wide net at first as this will help you study history and determine a better idea of what you are looking for.

For building yearly or market cycle model books I like to start with looking at the best-performing stocks each year. You can use a screening software for this or simply google top-performing stocks for 202x.

Step 3: Finalize a smaller list

After you have created a larger universe of stocks to sort through, it's time to be extremely selective and only accept the best examples.

This could be based on % moves, liquidity, trading style… based on your preferences. I would suggest focusing on only a select few stocks, especially if this is your first model book. Some very strong years, like in 2020, you may have a large list of market leaders, but most years won't have quite so many prime model book stocks.

I consider acceleration in earnings and sales, institutional sponsorship, and last but not least, the N in CANSLIM, meaning the story, key driver, or metric behind each stock.

The final list should be both representative of the leading themes of the market cycle and contain excellent charts to study.

Step 4: Research fundamental drivers

After you have your final list, the next step is to start analyzing the stocks from both a fundamental and technical perspective.

I like to include a summary of the business and a description of the company. Then I note how the group and sector of the stock performed over the course of the year. Finally, I look at the earnings growth, sales growth, fund sponsorship, and any other standout CANSLIM fundamentals.

I suggest looking into any other fundamental factors that could have contributed to the stock's performance, such as a new product announcement or significant change in management.

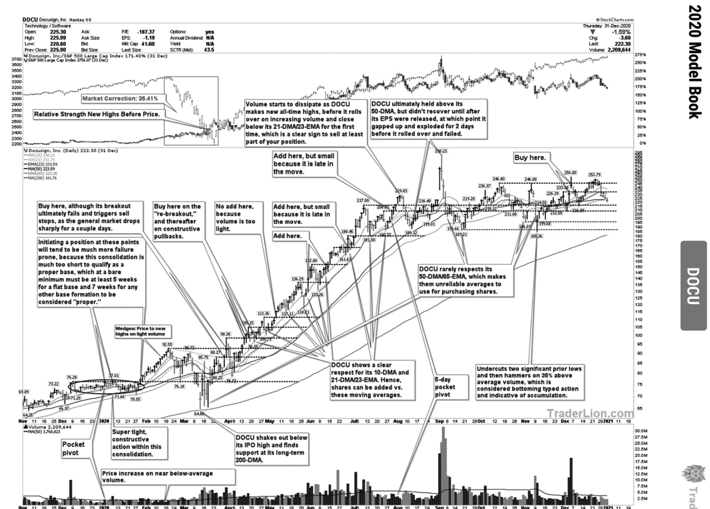
Step 5: Annotate the charts

The next step is to analyze the stock's chart throughout its entire move. You want to highlight any important price and volume characteristics for your trading style as well as potential entry and exit points.

One key aspect of my annotations is looking at the Relative Strength line to watch for periods of outperformance and Relative Strength new highs before price. This is a key characteristic that I have noticed in market leaders cycle after cycle.

Here is an example of chart annotations and the Relative Strength line new high before price from the TraderLion 2020 model book. You can access this for free at TraderLion.com.

Model Book Annotation Example: DOCU 2020 TraderLion Model Book



	Quarter Ended January 31, 2020				Quarter Ended April 30, 2020				Quarter Ended July 31, 2020				Quarter Ended October 31, 2020			
EPS	0.12	vs	0.06	100%	0.12	vs	0.07	71%	0.17	vs	0.01	999%	0.22	vs	0.11	100%
Revenue	274.90	vs	199.70	38%	297.00	vs	214.00	39%	342.20	vs	235.60	45%	382.90	vs	249.50	53%

Step 6: Build the model book

To build the final model book we use a graphic design tool like Canva (several are available online) to organize both the fundamental and technical information into one document. On one page I include the fundamental information and then on the next the annotated chart with earnings and sales growth.

Key takeaway

As I have mentioned in the past, one of the most important takeaways from building model books has been the consolidation pivot entry. It allows you to begin your position at low-risk entry points up the right side of a promising stock’s base, much earlier than waiting for a traditional base breakout to occur.

I’ve also noticed that even when you think you have missed a true market leader’s move, it will almost always present another low-risk entry point, such as a pullback to a pivot or key moving average. As you build your own model books, you will come up with your own takeaways that you can apply to future trades and market cycles.

Advice for building model books

I strongly believe that every trader should build model books of winning stocks. It is one of the best ways to study and build a strong intuition/conviction surrounding different setups.

As I mentioned before, traders should focus on a small set of stocks at first and analyze them deeply. Then as you become more familiar with the process and gain experience, you can expand your focus.

TRADER’S HANDBOOK CHALLENGE 9

Construct your own model book using stocks from the most recent year. Be sure to share your work on twitter and tweet at us @TraderLion_ and #THChallenge.

KEY TAKEAWAYS

Here are five key takeaways from this chapter:

1. Trading studies are an excellent way to continue to improve your performance as a trader.
2. You should choose ideas that you are passionate about studying.
3. Refine the scope of your trading study to ensure that it is manageable.
4. Model books allow you to learn the template for winning trades.
5. A model book is a compilation of the highest quality, best-performing stocks over any particular period or cycle. For each stock, both fundamental and technical data relevant to that period are included and then “marked up” with detailed notes.

BONUS RESOURCE

Looking for inspiration or just want to study our model books? They are available for free 2018 onward on TraderLion.com.

You can find them linked at traderlion.com/handbook.

CHAPTER 12: CHARTS WORTH STUDYING

"The first step in learning to pick stock market winners is for you to examine leading winners of the past to learn all the characteristics of the most successful stocks."

—William O'Neil

TO GIVE YOU a head start on studying top performing stocks, we wanted to include this bonus chapter of many market leaders from the recent past.

We've compiled over 120 annotated stocks for your review. Each has important lessons that you can apply to your own trading.

Take your time and study how they set up, break out, trend, and ultimately pullback and breakdown.

With enough careful analysis, you will start to recognize the commonalities and phases among these stocks that you will be able to identify in real time going forward.

We've broken down these charts into different sections:

- Base Breakouts
- Failed Base Breakouts
- Gaps
- Failed Gaps
- 2016 and Earlier Market Leaders
- 2017 Market Leaders
- 2018 Market Leaders

- 2019 Market Leaders
- 2020 Market Leaders
- 2021 Market Leaders
- 2022 Market Leaders
- 2023 Market Leaders
- 2024 Market Leaders

TRADER’S HANDBOOK CHALLENGE 10

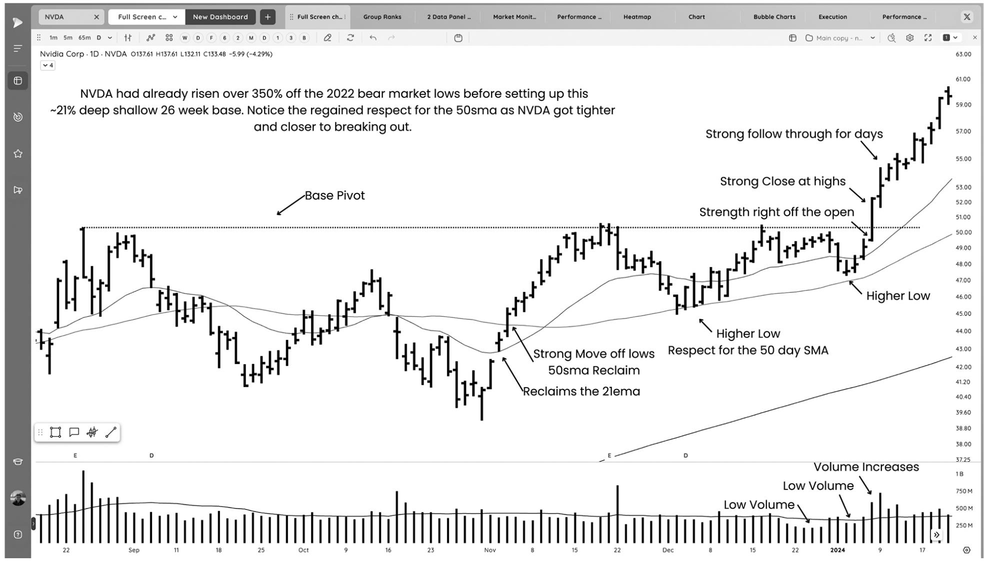
After going through all of these charts, pick three of your own and annotate them in a similar manner. Label key price and volume characteristics, entries, exits, and any other relevant details.

Be sure to share your work on twitter and tweet at us @TraderLion_ and #THChallenge.

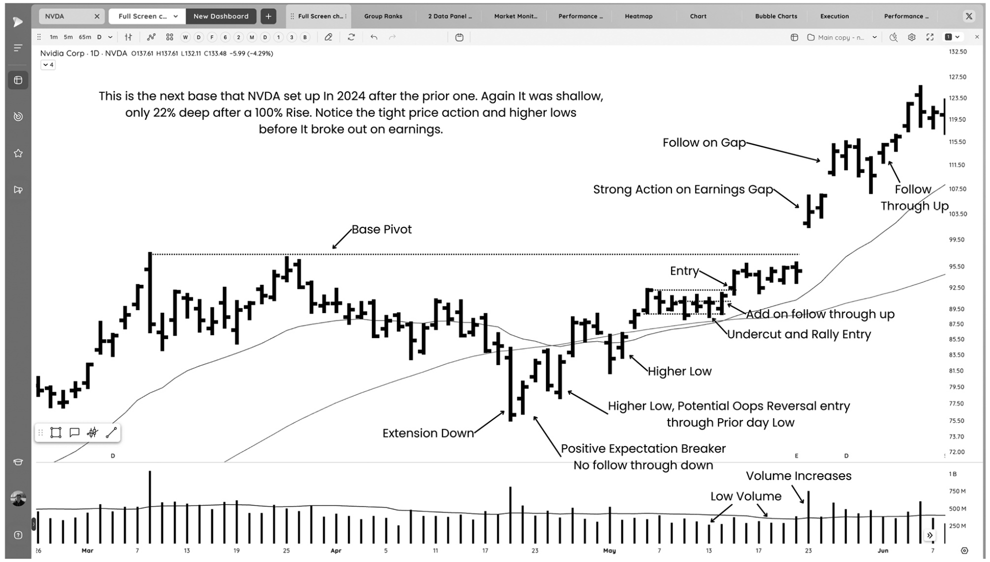
This section focuses on textbook examples of trading up the right side of a base and finally the base breakout.

This includes highlighting early entries such as upside reversals, range breakouts, inside days and more.

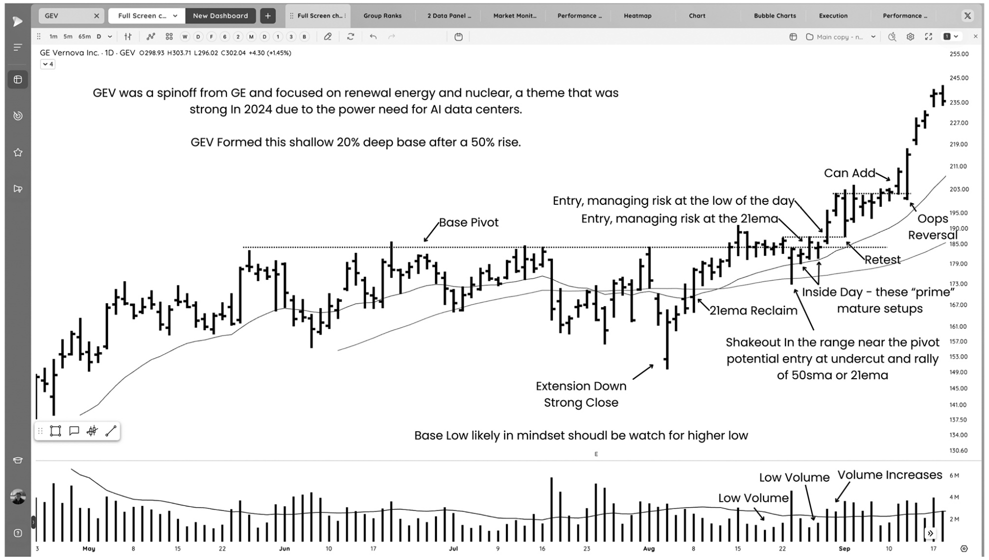
NVDA 2024 Daily Base Breakout - 180% in 23 Weeks



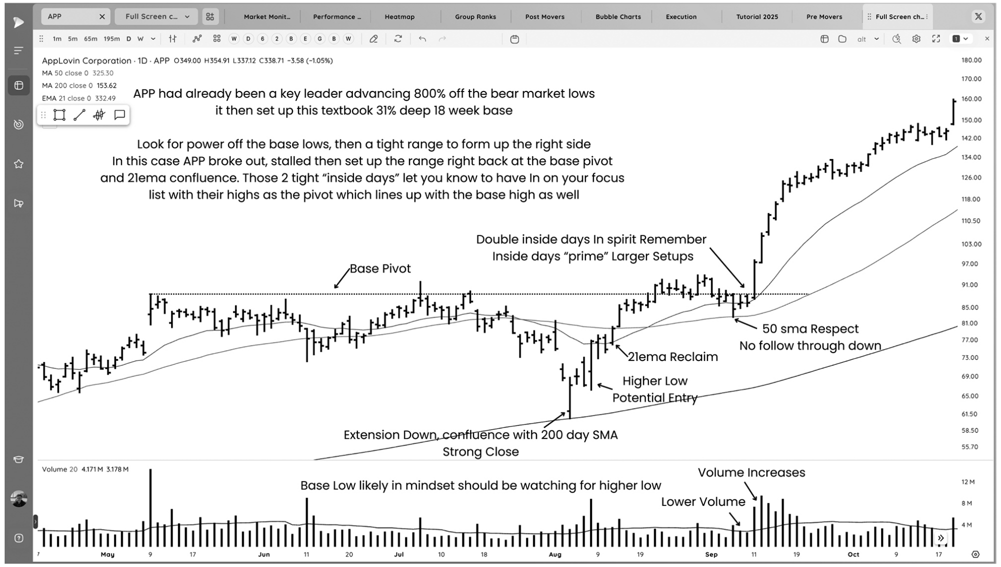
NVDA 2024 Daily Base Breakout- 50% Rise In 24 Days



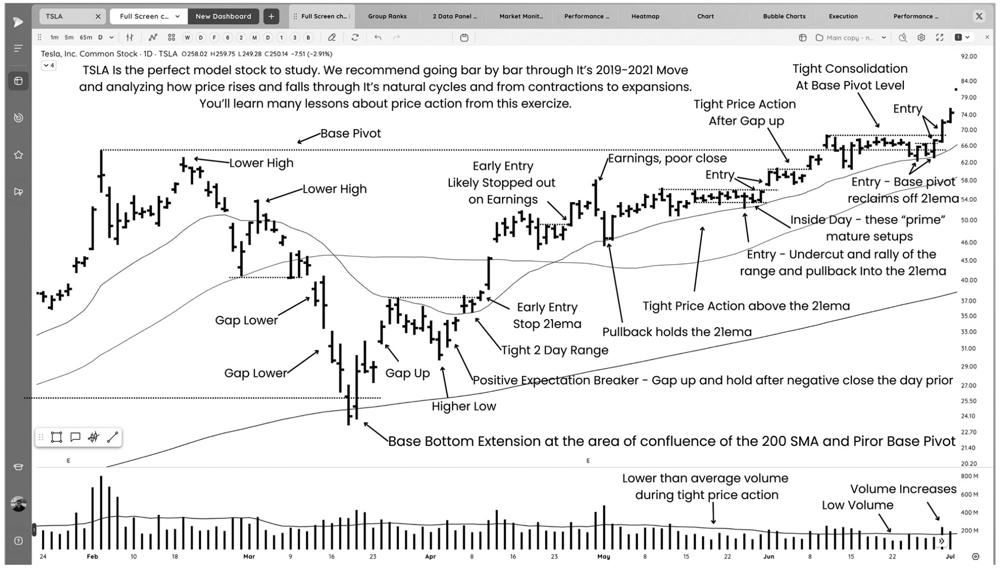
GEV 2024 Daily Base Breakout



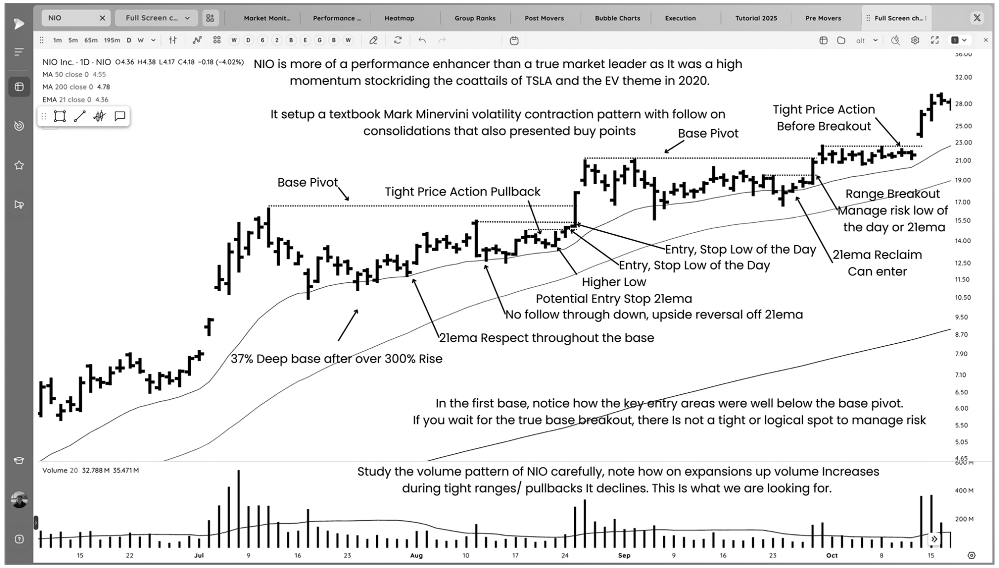
APP 2024 Daily Base Breakout



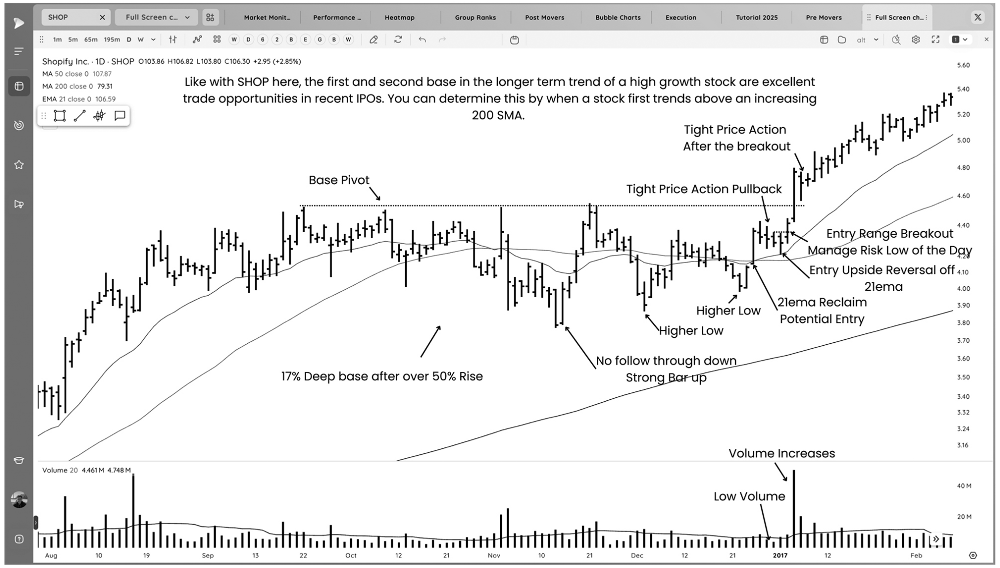
TSLA 2020 Daily Base Breakout - 300% In 30 weeks



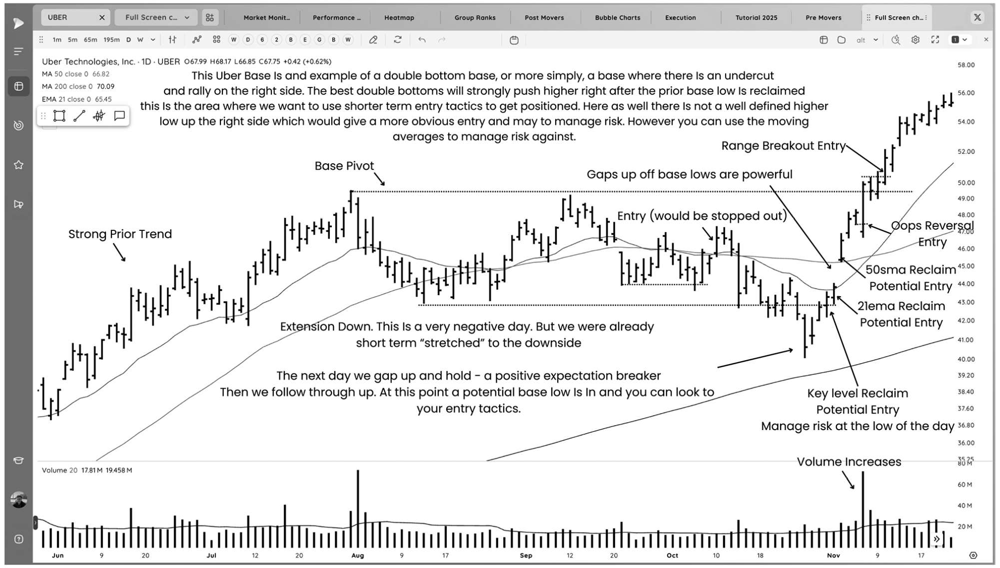
NIO 2020 Daily Base Breakout



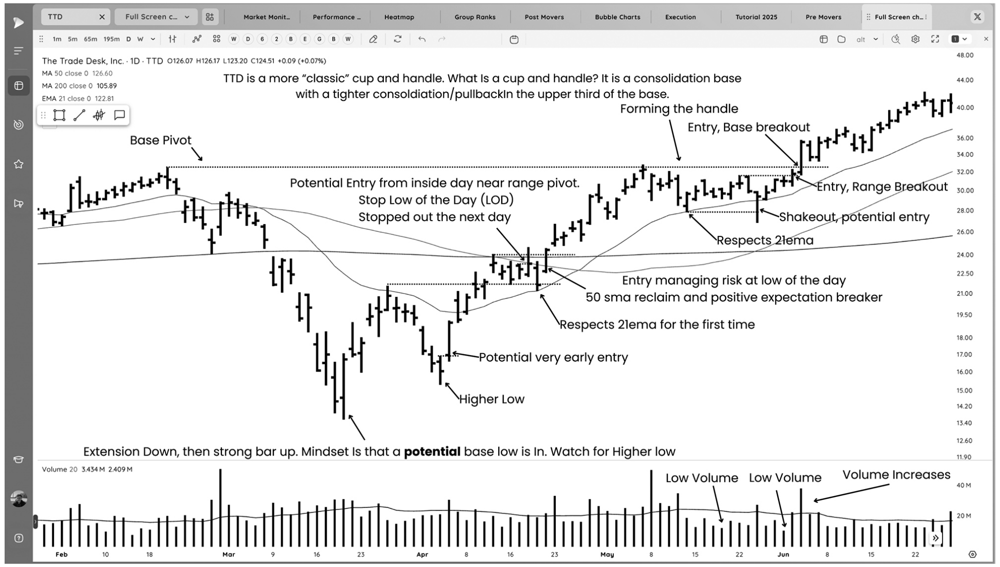
SHOP 2017 Daily Base Breakout



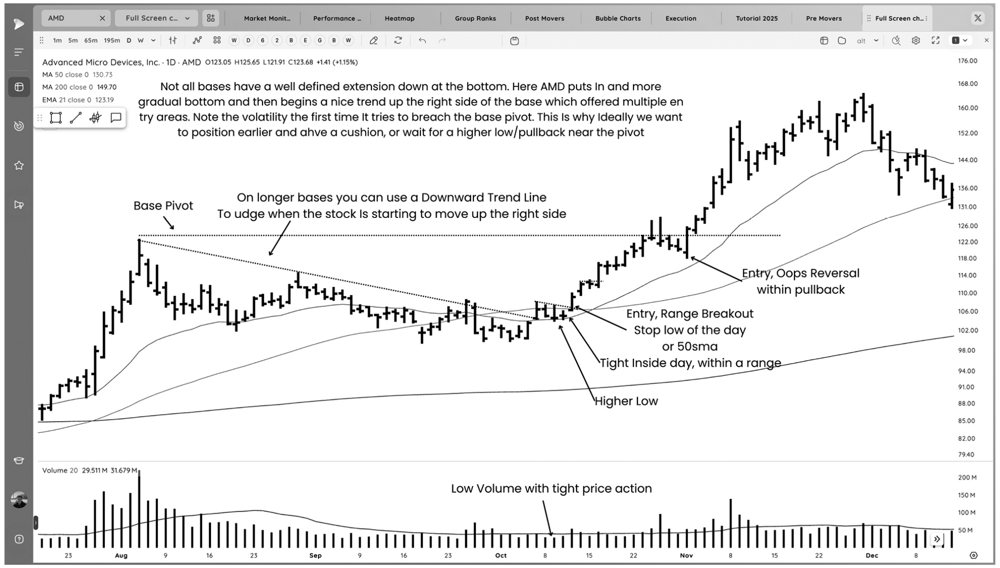
UBER 2023 Daily Base Breakout



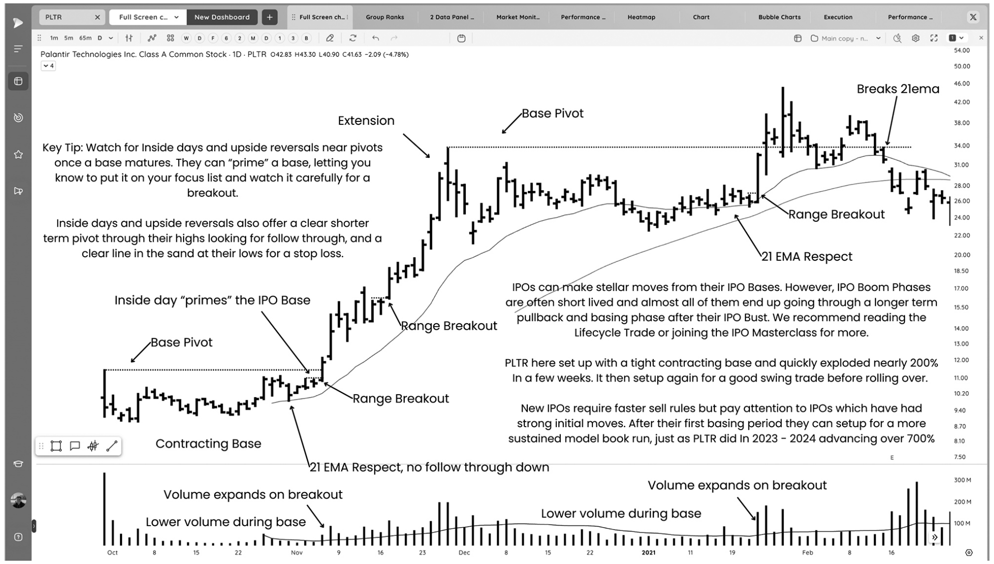
TTD 2020 Daily Base Breakout



AMD 2021 Daily Base Breakout

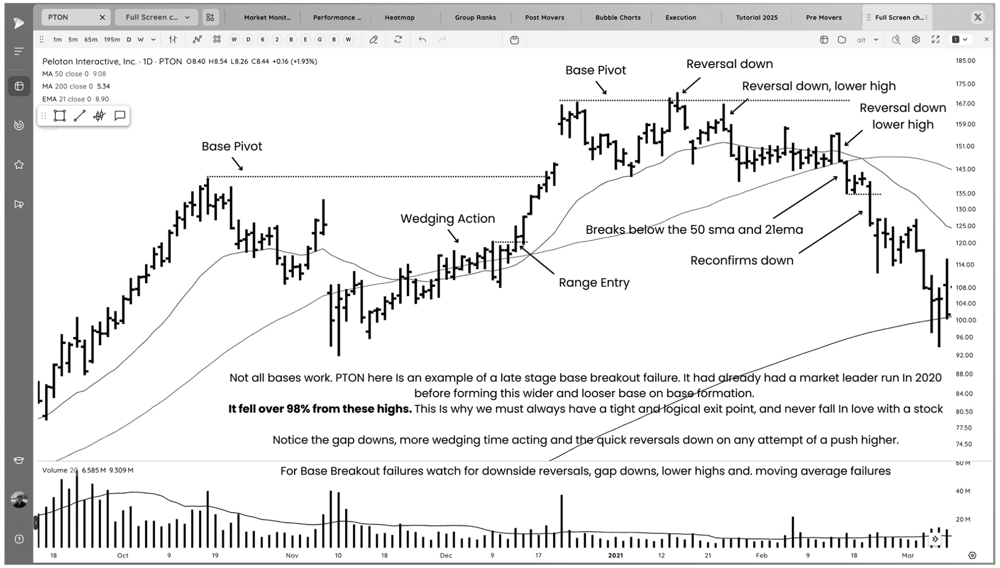


PLTR 2020 Daily

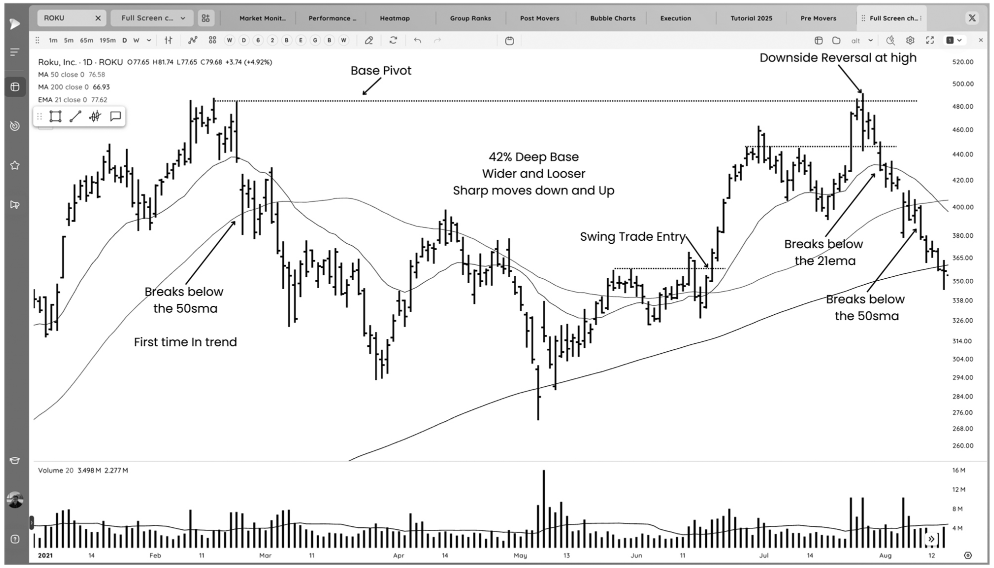


Breakouts do not always succeed. This section focuses on examples of later stage base failures or bases that simply rolled over. The goal here is to analyze how to identify a failure and logical spots to exit to protect yourself.

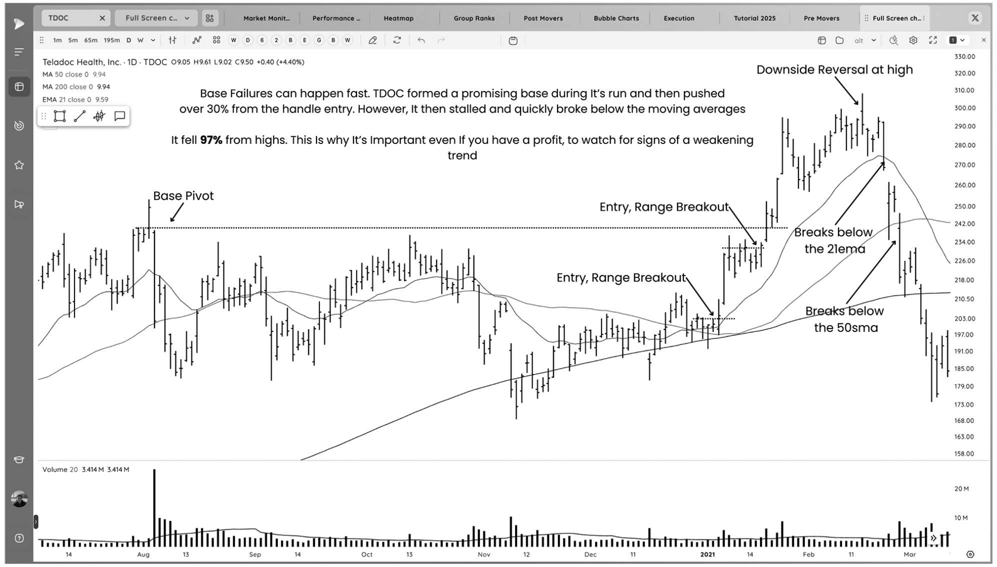
PTON 2021 Daily Base Breakout Failure



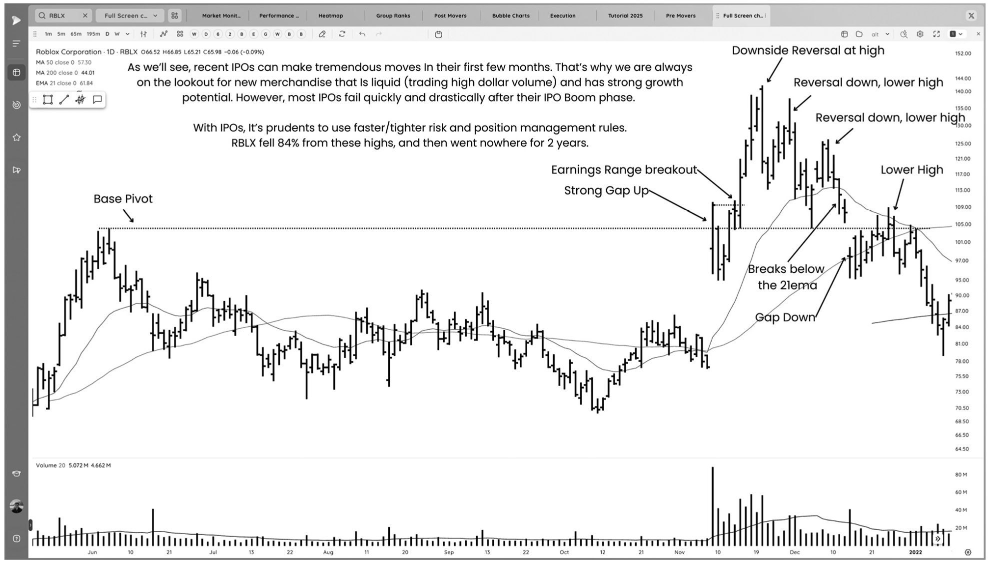
ROKU 2021 Daily Base Breakout Failure



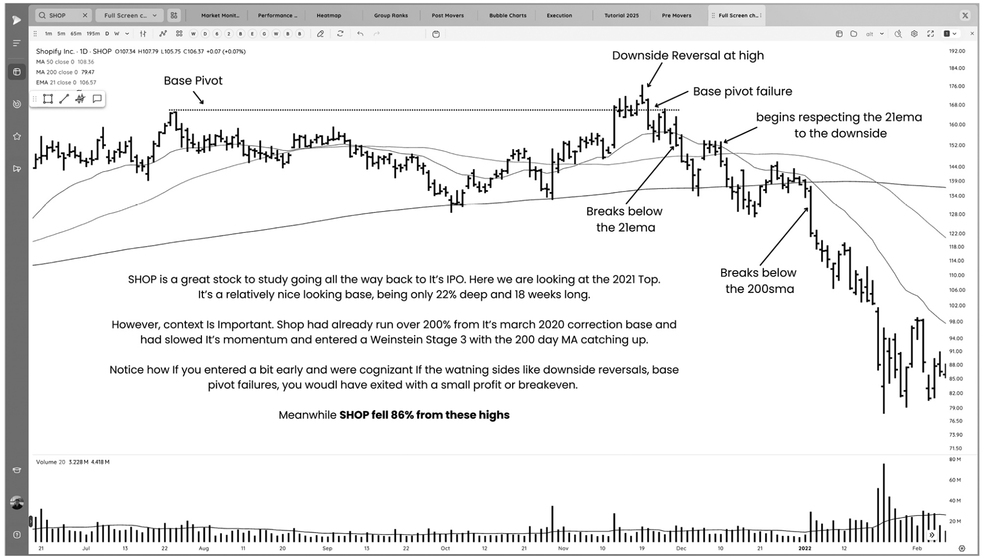
TDOC 2021 Daily Base Breakout Failure



RBLX 2021 Daily Base Breakout Failure

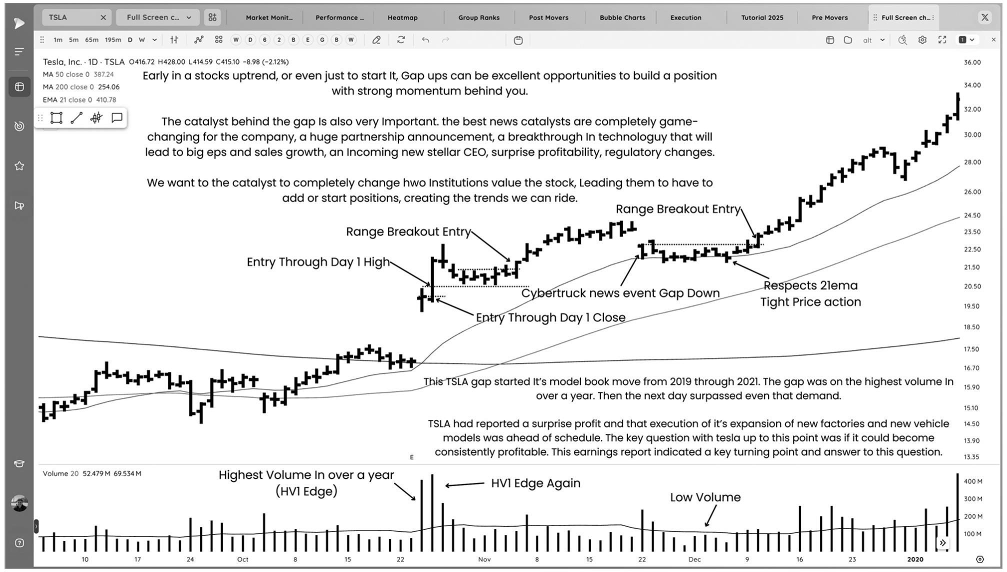


SHOP 2021 Daily Base Breakout Failure



This section focuses on strong examples from the past that were tradeable and resulted in strong trends and market leading moves. Gaps, most often caused by news catalysts such as earnings reports, offer a great setup in the right environment.

TSLA GAP 2019 DAILY



FSLR GAP 2022 Daily