POWERFUL STOCK SET-UPS
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HOW TO GET THE MOST OUT OF THIS BOOK

Thank you for downloading “Powerful Stock Set Ups”. This book is designed for beginning, intermediate and advanced traders. The presenters in this book are leading experts in trading Stocks, Options, Futures and Forex markets.

As you read this book, you will be exposed to multiple strategies that have high probabilities of success and/or high profit. Most of the strategies in this book are divided into three sections:

- **“The Game Plan”** – An introduction to a charting technique. The strategy is then thoroughly explained along with illustrations and examples.

- **“The Movie”** – Once you have read the chapter, you can view the complete webinar on the strategy. You will gain a better understanding of the strategy along with multiple examples not covered in the chapter. In some cases, the presenter switches in to live trading to demonstrate the strategy in action. In many of the webinars, the presenter also fields questions from attendees.

- **“Special Offers”** – If you really like a strategy, you can follow the presenter and the strategy. There are thousands of dollars’ worth of trading tools, indicators, training and mentoring services, books and videos available at steeply discounted prices.

In short, you will have all of the information you need to trade your new favorite strategy tomorrow. Some of the things you will learn in this book are:

- How to easily identify not just price, but value on your charts.
- Multiple strategies for using the RSI to give you an edge in your trading.
- Using the Ichimoku Cloud to read and understand Any Market in 3 seconds.
- Using the 50 SMA to stay on the right side of a trend.
- Understanding how large institutions balance currency portfolios and how to determine which currency is likely to make the best move.

At TradingPub, it is our sincere hope that you take away several strategies that you can use when you are done reading this book. You will also learn about markets that you currently don’t trade, and you will find out if they are suited to your trading personality.

Finally, make sure to subscribe to TradingPub. We provide free ebooks, webinars, on-demand videos and many other publications for active traders in all of the markets. Our presenters are world-renowned industry experts and our content is provided free of charge in a relaxed and friendly setting. Cheers to your trading success!
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A SIMPLE METHOD FOR TRADING WITH THE TREND

By Jeffrey Gibby,
MetaStock

“The trend is your friend.” “Befriend the trend.” “A rising tide lifts all boats.” I’m sure many of you have heard these and other cliché phrases. The truth is that the trend is your friend, until it ends. I love trend trading and I’ve found it to be a lot more consistent, than trying to “catch the falling knife.” (Excuse me if I borrow another cliché).

The problem I find with most traders is the ability to successfully follow the trend and stay with it. There are literally hundreds of indicators available to measure trend. It’s very easy for new traders to fall into the “Analysis Paralysis” trap.

For me simplicity is the key to trading. My parameters for a trading system that I am willing to use are quite simple as well:

1. Must be Objective and Rule Based -- Systems and methods that rely on news, earnings, or subjective items are disqualified. I will not be making guesses out what effect the new Fed Stimulus package is going to have in the market! I am not in the business of trying to measure the effect earnings will have on a stock. Having something that is Objective and Rule based helps me employ discipline and removes emotions from my trading.

2. Must Employ Solid Money Management -- I remember Robert Deel’s saying “You can win 90% of the time and still lose everything.” There are old traders and bold traders, but seldom are there bold and old traders. It’s important to use solid money management in your trading. Having defined entries and exits, will help you stay disciplined in your trading. It will also ensure you are trading for many years to come.

3. I must be able to understand the system. In the last 18 years, I’ve seen all types of systems. I’ve seen and tested systems from very easy to systems that are very hard. I’ve seen systems that use simple moving averages and systems that use (literally) rocket science. I’ve always had better luck with systems that are easier. I’m not making the argument that complicated systems don’t or won’t work. In fact, I’m sure they most likely do. MY experience has been better with systems I understand. I believe this is simply due to the fact that if I understand a system -- I am more likely to trust it. If I trust it, I am more likely to follow it. It helps my discipline and emotional management.
There are of course other things to consider in systems. It should make money over a broad spectrum of instruments. The system should be frequent but not too frequent for you. I teach classes on finding methods that will work with your time and risk tolerances.

One of my favorite systems that meet these criteria is a system built by Rahul Mohindar. It is a simple trend following system, it employs solid money management, and it is very easy to understand and teach.

In case you are not familiar with Rahul Mohindar, he is a market educator in India. He’s a regular contributor to CNBC in India and has trained thousands of traders. He has been a long standing partner and distributor of MetaStock. Several years ago he was visiting us in our Utah office and we asked him to show us what he teaches his clients to trade. He taught us this method. We were impressed. In fact, we set up an agreement with him to give the Rahul Mohindar Oscillator or RMO to all our clients for free.

Since then, I’ve been able to use his simple method and have been able to share it with thousands of traders worldwide.

The system is simple and can be boiled down to three steps:

1. Identify the Primary (Long Term) trend.
2. Identify the Short Term Trend.
3. Identify your Entry and Exit triggers and Execute.

Let me walk you through this simple system on a trade example with Apple. Starting with step 1 Identify the Primary (Long Term) trend.
The first indicator we want to look is the Rahul Mohindar Oscillator (RMO). It is the green indicator identified and the Primary trend in the image. This indicator is designed to measure the primary trend in the instrument you are using.

Rahul in his teaching of this method is very specific. Size and shape do not matter. The RMO is either Above Zero or below Zero. If RMO above zero, then you are in a bullish phase. If it is below zero, the instrument you are looking at is in a bearish phase. You will also notice the chart has a Green/Red Ribbon on the bottom of the chart that identifies these phases for you. The rules for these phases are similarly very simple:

Primary Bullish Trend (RMO Above Zero):

- You are allowed to buy long
- You are not allowed to short
- Not a trigger to enter the security.
Primary Bearish Trend (RMO Above Zero):

- You are allowed to short
- You are not allowed to buy long.
- Not a trigger to enter the security.

In both cases, take careful note of the bullet that says “Not a Trigger.” **You won’t place a trade based on the RMO (or green indicator) alone.** At this point we are looking at the trend to decide our bullish/bearish bias. We’ll get to trading -- remember there are three steps here. The goal is to make sure that we are doing what we can to put the odds in our favor and trade in conjunction with the defined trend. Combining multiple trends gives us a better view of the overall trend.

That’s it for Step 1. Step 2 is also simple.

**Identify the Short Term Trend.**

Using the same screenshot from Step 1, focus on the purple indicator identified as short term trend. It is called Swing Trade 2. You’ll notice that it is also either above zero or below zero. You’ll also notice that it tends to be a lot faster to change from being above zero or below zero. This indicator is measuring trend, but it is measuring a shorter term trend. As such, it tends to be faster to react to changing market conditions.

The good news-- you read it in exactly the same way. If it is above zero, than the stock is currently short term Bullish. If it is below--Short Term Bearish. One thing I’d like to point out is that the colors of the bars on this chart match the short term trend. If we are short term Bullish-- the bars on the chart are blue. If we are short term Bearish-- then the bars color red.

Of course the Rules for this are simple as well.

If our Primary trend **and** our Short term trend are both Bullish (above zero):

- You are still allowed to buy long
- You are not allowed to Short
- Not a trigger to enter the security.

If our Primary trend **and** our Short term trend are both Bearish (below zero):

- You are allowed to short
- You are not allowed to buy long
- Not a trigger to enter the security
If our Primary trend and our Short term trend do not match:

- You are allowed to wait until they do.
- If you really want to make a trade-- the MetaStock Explorer will allow you to scan and find some better probability trades. Let’s follow the rules. “The trend is our friend” after all.

Let’s move to Step 3.

**Identify your Entry and Exit triggers. Execute.**

For step number three we’ll focus on the Blue indicator in the image below and its relationship to the Swing Trade number two (Short term trend).

We’ve talked a lot about the Long Term Trend and the Short Term trend. If you haven’t guessed, the Blue indicator is the Medium term trend and is called Swing Trade 3. With this indicator, we do not care if it is above or below zero. What we want to look at is the relationship between the Medium Term trend and the short term trend.

What we are looking at is the relationship between the short term trend and the medium term trend. If we see a rise of the short term trend above the long term trend we have a bullish trigger. Rahul calls this a change of momentum or a change of force. It means short term we have more buyers than we have had and the price is getting more bullish.

If we have a fall of the Short Term trend below the medium term trend, we have the opposite. We would have a bearish trigger.
These are triggers to enter a trade as long as the rest of the criteria match up. Let’s go through a few examples:

In this example, I’ve added a blue vertical line when we had a Bullish Change of momentum. We have a bullish trigger. Now we want to make sure that we follow the first two rules to make sure those match a buy signal.

4. Do we have Bullish Primary Trend? Yes
5. Do we have a Bullish short term trend? Yes
6. Do we have a Trigger? Yes.

Since all of our criteria match, we can now structure a trade. There are a few rules about execution, but these are very simple to follow as well. We want to identify where we will buy and we want to identify our initial stop level. To do this we look at the price of the security.

The line marked A is going to be my entry price. To confirm an entry, I want to wait until the price of the stocks confirms the move by going above this level. You determine this level just above the higher either (1) today’s high or (2) yesterday’s high. If the price after everything lines up travels above your
entry price, you have a confirmed buy setup. You would want to buy as close to this price as possible. Line B will be your first stop. You will identify the first stop and put it just below the most recent trough in prices. If prices fall below this support you will exit your trade.

I love this method. It allows us to identify our potential risk on a trade before we trade and have a very clear entry and exit strategy. We also know our game plan before we trade and our not making our decisions in the heat of battle. In this example, we would have bought this security on the gap up. We also caught a very nice move.

There are also some other rules to keep in mind. If we are in a long trade and we get all the rules necessary for a short trade, we would want to get out of our long trade and setup a trade to the short side. In my experience most trades with RMO are excited by a stop. Stop management is an important part of any strategy and RMO is no exception.

Here's our chart of AAPL again.

This is the same example, hypothetically at the circled area, we would be in a long trade, that just completed a nice move up. As is natural in stock cycles the momentum starts to expire in the upward move and you get a pullback. This pull back will usually be accompanied by a change of momentum or a change of force. This is indicated on the chart by the red sell signal. This is not a signal to exit. However it is notice to start to pay closer attention. If we start to get a severe pullback we will go into a Bearish cycle and will look to reverse.
In this example however, AAPL establishes a new support area and continues on its upward trajectory. As the momentum shifts back to a bullish phase, we have setup a new support level. Since we have a new support level we would move our stop to lock in profits from this trade:

![Chart Image]

**THE SPECIAL OFFER**

We do have some great supporting videos and I’d recommend that you watch our video to help understand this simple trading system. Repetition and practice are important. You can view a training video on RMO and even [SIGN UP FOR A COMPLIMENTARY TRIAL OF METAStock HERE](#). I’d recommend with all new methods that you paper trade it until you are comfortable. Then as anything else you use with your trading ease into it with smaller positions until you feel you are ready to go full scale.

**ABOUT THE AUTHOR**

Jeffrey Gibby has been working for MetaStock for over eighteen years. He is currently in charge of new business development and works to create new MetaStock distributors and partners worldwide. Mr. Gibby works with training companies to help people learn the power of MetaStock. He has spoken to traders from around the world and has trained people on how to use the software and trade various markets. Among his areas of responsibilities are the management of new products and services for MetaStock and creating strategic partnerships.
Whether you are new to trading, or have years of trading experience, this eBook is for you because it will enable you to identify the best time to enter a trade, and determine which trades have the least amount of risk with the greatest potential for gains.

Trade identification, or knowing which instrument to trade, can be daunting if you don’t have a simple way to know the true direction of the market.

Many investors are baffled by the media’s scaremongering. Often, confusion lies between the fundamentals of an asset and technical condition of its chart. Both types of analysis often come to totally different conclusions.

The “Gurus” are as varied in their analysis and opinions as there are instruments to look at.

Warren Buffett’s advice for the average person: Look at as many companies as possible and when you find the “bargains” you have to act. He says, “Start turning pages on 1000s of companies and turn the pages twice…”

He believes people should look for these companies themselves since, “The world is not going to tell you about great investments.” Buffett believes, “the worst investment you can have is cash.”

Great advice, but very few can actually “turn the pages” once let alone twice and readily comprehend and then decide what to do with the information on those pages.
DON’T RELY ON THE ‘EXPERTS’ YOU CAN DETERMINE WHICH WAY ANY MARKET WILL MOVE NEXT!

Does this describe your trading style?

- I stay with losses for way too long yet cut my winners way too soon.
- I can’t easily figure out what to trade in any market environment.
- I have trouble deciding whether I should day trade, swing trade or trade options.
- I have no clear measure for risk or really know when to take a profit.

If one or more of those statements describe how you feel about trading, you’re not alone. Trading is not easy, especially if you’ve not found a good source of trading education.

However, all of those frustrations listed above can be avoided when you understand how to read the Phases of the market.

THE 6 MARKET PHASES THAT WILL ELIMINATE ANY MYSTERY OF THE MARKET’S NEXT MOVE
Simply put, a “Phase” is the description of the direction and strength of the market’s trend. It is the “stage in the process” that most traders casually refer to as the market’s trend.

But you’re about to discover more than “trend”.

There is something even more powerful than identifying a trend, and that is being able to perceive the beginnings and ends of a trend. To be able to do that is to be able to take full advantage of knowing when to be in and when to be out of the market.

There are 6 market Phases. The above chart illustrates the low of the 6 Phases in the market.

Most people are familiar with the terms “bullish” and “bearish”, but you can be more precise than that.

If you look at the chart like time on a clock, we begin with the Bullish Phase as High Noon. Moving clockwise from a Bullish Phase, the next phase is a Warning Phase.

Markets may move from a Bullish to Warning Phases as certain economic, geo-political, or even psychological factors spook the market and cause it to decline.

If the market continues to decline, the Phase will deteriorate into a Distribution Phase. When things go from bad to worse, the most negative market condition is the Bearish Phase.

RECOGNIZING PHASES IS LIKE HAVING A GPS FOR MARKET DIRECTION

Knowing the Phase and what course of action to take in any given phase is like having your own GPS. This GPS works for the overall market, sectors of the economy, individual stocks, and almost any tradable instrument.

With a GPS, you never feel or get lost because you know your starting point and what direction you need to go next.

Successful technical analysts (chartists) will tell you that the chart precedes the news. Imagine, having the time to prepare for a downturn in advance rather than waiting for some “expert” to tell you that things are worsening.

In addition, picture having a jumpstart on investing or making good financial decisions way before the experts tell you to buy!
Even if you are not tuned in to the “news” or the reaction to the news 24/7, the Phase changes tell you so much; it is actually better than hearing the media or financial experts telling you what is happening. In other words, you will have all the information you need to make decisions, long before the “experts” advise you on the appropriate action to take.

Perhaps the most comforting feature of understanding phases, is that like everything in life, there are cycles. Eventually, everything moves through each cycle.

Often, as you will see later in this book, an instrument might move in between two cycles, going back and forth for a long time before finding momentum in one or the other. The comforting part is that even when everything looks disastrous, you know eventually, conditions and phases will improve.

**THE MOST POWERFUL AND PROFITABLE STRATEGY! TRADING PHASE CHANGES.**

In 2009, the Real Estate ETF bottomed. By the beginning of April 2009, the Phase changed from Bearish to a more positive Recovery Phase. This was a strong signal.

Perhaps some of you were following, but if you weren’t, that turned out to be the BOTTOM of the Real Estate meltdown and the bottom of the stock market for the next 6 years and counting!
Were the pundits telling you that? Was your Financial Planner helping you scope out cheap real estate deals? Were you prepared at all for perhaps the best opportunity in the real estate sector in this century?

Perhaps you saw this headline:

*Industry | Wed Jun 24, 2009 2:02pm EDT*  
*U.S. commercial property market thawing*

*(Reuters) - The gap between U.S. commercial property buyers and sellers is narrowing, indicating the shattered market is closer to beginning the painful path to recovery, the head of Prudential Real Estate Investors said on Wednesday.*

Would you have believed this useful news story given that most Financial Planners and Money Market Managers were in the throes of Post-Traumatic Stress Disorder?

You might have if you looked at the Real Estate ETF chart and could independently recognized the Phase Change to Recovery - and a great one at that!

**HOW TO DETERMINE THE PHASE**

Forecasting direction naturally, is open to interpretation. Experienced investors who use technical analysis will use a variety of indicators besides moving averages.

For our purposes, I have found that keeping analysis simple is the easiest way to understand how predictions are made regardless of how much experience you have.

The constant blast of information available to anyone and everyone goes beyond overkill. Then add interpretations or “opinions” and it leaves you feeling numb, confused and alienated.

**THE MOVING AVERAGE**

The moving average may be the most universal of all technical analysis indicators. For our purposes, we use the simple 50 and 200-day moving averages to determine any and all of the 6 Phases.

The 50-day moving average (“50 DMA”) is calculated by summing up the past 50 closing prices points and then dividing the result by 50, while the 200-day moving average is calculated by summing the past 200 daily closes and dividing the result by 200.

The 200-day moving average may be the granddaddy of moving averages. Simply put, a financial instrument that is trading above it is healthy; below it, anemic. The 200-day moving average measures the sentiment of the market on a longer term basis. This is where major players like pension plans and hedge funds need to look in order to move a large amount of stocks.
Imagine, just 2 simple daily moving averages can help you make the best trading decisions of your life, whether you are a day, swing or options trader!

**THE BULLISH PHASE**

The 50 DMA describes recent price trend; the 200 DMA describes longer term price trend. By examining current price in relation to these MAs, and the averages in relation to each other, we have an excellent toolkit for analyzing trends.

The S&P 500 (SPY) Bullish Phase Change in 2013

**HOW DO YOU IDENTIFY A BULLISH PHASE?**

1. The 50 DMA is above the 200 DMA.
2. The slope on the 50 DMA should be positive with the 200 DMA neutral to positive.
3. The price of the instrument should be above both the 50 and 200 DMAs.
In the above S&P 500 ETF or SPY chart, as 2013 began, all 3 criteria to confirm the Bullish Phase were in place. The 50 DMA was above the 200 DMA, the slope turned from neutral to positive, and the price was above both of the moving averages.

Literally, the first day of 2013, the price began sitting right on the 200 DMA and then proceeded to climb above it. On the second day of the year the price gapped higher, but it was still close enough to the 200 DMA that a Phase Change trade made sense.

If you had bought the S&P 500 or SPY anytime that first or second week of 2013, you still had time to use a decent risk to under the 200 DMA. You would have been buying around $145.00, risking around $5.00 to under $140.00. Even if you took the profit in June, once it broke the 50 DMA, you still made over $25.00 on that investment with just an initial risk of $5.00. That’s a profit that is 5 times the risk.

**THE ‘GOLDEN’ PHASE CHANGE THAT SIGNALS BIG TREND TRADES**

The chart below of the TLTs show that in late June of 2011, the Phase changed to bullish in the most powerful way.

Where I have highlighted, the 50 DMA crossed over the 200-day moving average in what is called a Golden Cross. When an instrument gets a Golden Cross, it indicates a bull market is on the horizon. Looking at the 3 criteria for a Bull phase, the TLT chart certainly fits all 3 perfectly.

1. The 50 DMA clears over the 200 DMA.

2. The slope of the 50 DMA is positive when it crosses the 200 DMA, however, it is a more reliable signal of when the slope of the 200 DMA is also up. The market has more momentum, and it’s a stronger signal of longevity for the Bullish Phase when both the 50 and 200 DMAs have positive slope. That began in August 2011.

3. The price of the TLTs crossed above both moving averages in July. By August, the price began to accelerate to the upside, confirming that the interest rates were set to decline, thus the TLTs were set to rally.

*Interest Rates are easily followed by looking at the ETF TLT or The 20-Year Treasury Long Bonds.*
THE BEARISH PHASE

Naturally, all phases fade in time, which is when we see the cycle go from bullish into warning, then distribution and eventually to bearish.

However, using the same 3 criteria for identifying a bullish phase:

1. The position of the 50 DMA compared to the 200 DMA,
2. The slope of both moving averages,
3. Where the price falls relative to both,

You will always be one step ahead in planning your trading strategy.
Furthermore, after you determine the phase, you will be more informed than most traders and “experts.”


Paul Tudor Jones, founder of Tudor Investment Corporation, a private asset management company and hedge fund and ranked as the 108th richest American and 345th richest in the world, was asked during an interview, “How do you determine the trend?”

He answered, “My metric for everything is I look at is the 200-day moving average of closing prices. I’ve seen too many things go to zero, stocks and commodities. The whole trick in investing is: “How do I keep from losing everything?” If you use the 200-day moving average rule, then you get out. You play defense, and you get out.”

The interviewer went on to ask, “You exited your long positions before the (1987 Crash)! Did your theory about the 200-day moving average alert you to that one?”

Paul Tudor Jones’ answer, “You got it. It had gone under the 200-day moving target. At the very top of the crash, I was flat.”
HOW DO YOU IDENTIFY A BEARISH PHASE?

1. The 50 DMA is below the 200 DMA.
2. The slope on the 50 DMA should be negative with the 200 neutral to negative.
3. The price of the instrument should be below both the 50 and 200 DMAs.

During a Bearish Phase, heightened selling pressure ensues. Price closes below the 50 and 200 DMA and the 50 DMA turns down beneath the 200 DMA.

Paul Tudor Jones gave us the example of the 1987 crash and how he exited his long positions based on the move below the 200 DMA in the stock market.

Without having to be one of the richest people in the world, you could have applied this same tactic at the end of 2007 and avoided the historic market decline in 2008. As you can see in the chart above, the SPY fit all 3 criteria of a Bear Phase.

THE BEST TIME TO ENTER A TRADE

The best time to enter a trade with a low and reliable risk setup is when the price is sitting close to the moving averages as a Phase Change is about to occur.

Close to the end of 2007, just as the S&P 500 chart began entering the Bear Phase, the price was trading between $145.00 and $150.00. Investors had a chance to liquidate their long positions. You also had a choice to go “short” the SPY with a minimal risk as the price stayed close to the moving averages until later on in January 2008.

Had you gone short just under $145.00 as 2008 began, the risk was just over $150.00 or $5.00. Although by 2009, the price traded above and below the 50 DMA, it wasn’t until April 2009, the slope on the 50 DMA turned positive. At that point, the price was $77.00.

Knowing how to trend trade using Phases, could have yielded you a HUGE profit of about $70.00 with only a $5.00 initial risk. That’s a risk/reward of 15 to 1!

If the goal is to **Minimize Risk and Book Bigger Profits Using the Phase changes**, a short position back in 2008 generated the type of gains most wait a lifetime for and never achieve.

Trading Phases, you can score huge gains over and over again with easily defined, low risk trades!
**THE DEATH CROSS**

Note that just as 2008 began, the 50 DMA crossed below the 200 DMA. This is the mirror image of a “Golden Cross” during the Bullish Phase. When the 50 DMA drops below the 200 DMA it is called a “Death Cross.”

With the slope of the 50 DMA very negative and the price below it and 200 DMAs, even the novice investor to clearly “see” that the market was in trouble.

Imagine, having the time to prepare for a downturn in advance rather than waiting for some “expert” to tell you that things are worsening.

**LIGHT AT THE END OF THE TUNNEL REVEALS MY FAVORITE TIME TO BUY**

Going back to the cycles of how Phases move, the Recovery Phase happens to be one of my favorites since it taps into perhaps the greatest attribute of us humans—hope!

After 2007-2008, during the intense Bear Phase, the switch into a Recovery Phase also tapped into exactly that - hope. Hope that the economy would improve, hope that the 2008 was truly, “the darkest period before the dawn.”

Looking at the SPY chart, by March 2009 the price crossed over the 50 DMA. By April the slope on the 50 DMA turned positive. Then in July 2009, the 200 DMA also became positively sloped.

Once all three criteria of the Bull Phase were in place the market’s trend was steadily up, and it was clear that the worst was over for the S&P 500. The Bullish Phase is one of the first trend conditions that active investors learn to trade because it is typically characterized by reasonable corrections and steady rallies, but the Recovery Phase is one of my favorites.

One of the most powerful times to buy an instrument is after it’s been in a long and powerful downtrend and begins to turn up, entering into a Recovery Phase. The change from a Bearish to Recovery Phase is a way to get into major trends early.

During a Recovery Phase, the 50 DMA is still below the 200 DMA. The price of the instrument crosses above the 50 DMA and the slope begins to neutralize. As the slope turns more positive, so does the strength of the Recovery Phase.
TRADING PHASES WORKS GREAT ON COUNTRY ETFS TOO

In the chart below you’ll see an example of a Recovery Phase Trade in the Russian ETF RSX. After a long decline RSX traded over the 50 DMA in February of 2015, and then its slope turned up in March which adds strength to a Recovery Phase trade.

The low risk trade opportunity occurred after RSX declined and closed under a positively sloped 50 DMA in March of 2015. When it quickly traded back over the 50 DMA, moving back into a Recovery Phase it became a good candidate for a trade.

Buying The Russian ETF (RSX) During A Recovery Phase

The Russian Stock Market (RSX)

On March 30th 2015, we entered long the Russia Country Fund ETF at $17.26. Our risk was minimal. We risked to $16.50 or 0.76%, which was just under the 50 DMA.

On April 16th, we took a profit target at $20.67, booking $3.41. Simply buying during a Recovery Phase when the price was close to the 50 DMA, kept our risk to a minimum and, gave us a risk to profit ratio of nearly five to one!

As of mid-May, we were still holding a partial position with a profitable trailing stop!
IT’S EASY TO START USING MARKET PHASES AS YOUR GPS FOR THE MARKET’S NEXT MOVE

Using Market Phases to analyze the markets and identify trading opportunities is not hard. You can begin with the basics I’ve outlined here, and then quickly develop an expert’s insight into market direction with some practice.

Let’s review:

1. There are 6 Market Phases. All are easily identified by the simple 50 and 200-day moving averages.
2. Knowing the Phase of any market, sector or stock is like having your own GPS for market direction.
3. You now have a way to time yourself into a trade with the least amount of risk and the most potential for profit.
4. No longer do you have to feel solely dependent on the media, your financial planner or anyone for that matter, to make smart and timely decisions about your money under any market environment.

SPECIAL OFFER

To Learn And Earn More

If you’d like to learn more for your trading and earn more in your investing by using MarketGauge’s favorite strategies and tactics including Market Phases, please use the link provided below.

Use the link below to gain access to special training and discover how to:

• Profit from the current condition of the Market Phases
• Identify upcoming massive profit opportunities based on shifting Market Phases
• Trade with Mish’s strategies in only minutes per week
• Identify the best time to enter a swing trade for maximum gains
• Anticipate when to enter a swing trade for quick profits
• Eliminate any fear of trades gapping against you, so that you can ride winning traders for bigger gains
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ABOUT THE AUTHOR

Michele Schneider, Director of Trading Education and Research for MarketGauge.com, began trading on the floor of the NY Commodities Exchanges in 1980.

“Mish” worked for Conti-Commodities, a division of Continental Grain as an analyst and floor broker.

Soon thereafter, she became an independent floor trader. Known for her charting skills and technical analysis expertise, she has advised and continues to advise some of the top traders in the world.

In 2009, Mish created, “Mish’s Premium Service, a complete trading system for investors to follow her picks and trade exactly what she sees, along with a totally transparent model portfolio of her track record. Part of the service includes MarketGauge’s educational content on the specific strategies Mish and the MG team uses, plus access to proprietary software tools.

In 2013, MG started “Mish’s Market Minute Advantage” Service. This also tracks Mish’s trades offering subscribers one trading pick per week.

She continues to write a daily financial “infotainment” blog called, “Mish’s Market Minute Daily. The blog typically includes actionable and timely trade analysis.

Currently, Mish is a partner in MarketGauge Asset Management Company and in Wizard Intellectual Property LLC.

With a Master’s Degree in Special Education, Mish combines a rare blend of skills from caring teacher to experienced trader.

Stay tuned for her first full-length book on Phases due out in 2016!
INTRODUCTION

*Birds of a feather flock together - proverb*

The concept works with people - you are likely to become the average of your five best friends. And it’s true on Wall St too.

There are outlier stocks that move to the beat of their own drummer (Apple, Tesla, etc), but they are the exception, not the rule. Despite the intense competition that takes place in corporate America, most companies are closely correlated with their peers. If biotech stocks are doing, all the major players will do well. If railroads are playing a leadership role, most railroad stocks will participate to some degree or another.

Research has shown that about 25% of a stock’s movement is due to the group it belongs to. Strong group = high odds a stock from the group will be strong.

It’s no different than the adage: The trend is your friend. Except here we’re talking about the strength/weakness of a stock’s peers, not the overall market.

My powerful stock setup isn’t a setup per se, it’s a concept. Money rotates around the market. Groups run hot and cold. They come into and fall out of favor. At any given time, you are better off trading stocks that come from leading groups instead of random charts, regardless of how good they look.

PRESENTATION

When I started trading in 1999, I looked for and traded the best charts I could find, but I traded in vacuum. I paid no attention to anything going on. I just wanted to trade the best looking charts.

Over time, after taking diligent notes on all my trades, I realized similarities between my winners and losers. More times than not, my winning trades tended to come from groups that were doing well while my losers tended to be great-looking outlier stocks that didn’t have the same peer confirmation.

This was a breakthrough realization. Instead of simply trading the best stocks I could find, one of my key criteria became: Trade great stocks that come from great groups.

Here’s an example.
One Aug 7, XHB, a residential construction ETF broke out to a new high and started a new uptrend.

Seven trading days later, Toll Brothers (TOL) broke out and rallied better than 20%.
Two weeks later, KB Home (KBH) broke out and continued its uptrend and rallied over 50%.

The next day, Pulte (PHM) traded out of a consolidation pattern and continued its uptrend.
Two trading days later, Horton (DHI) broke out of a consolidation pattern and rallied about 15%.

The same day, Lennar (LEN) broke out and rallied about 15%.

On their own, these stocks would not have done nearly as well, but as a group, since money was flowing in, they all did great. Once you see one stock doing well, your first reaction should be: What other stocks in the group are setting up?
The reason why stocks tend to move together is because, although they are in brute-force competition with each other, they all benefit from the same underlying forces, and no company will ever come close to getting 100% market share. If cheap gas results in people buying SUVs, all car companies that make SUVs will benefit. If a high oil price increases the need to invest in solar, all solar companies will do better. If consumer spending is ticking up - for whatever reason - most retail stocks will trend up. It's relatively rare for Nike to do well while Under Armour doesn't or for Visa and MasterCard to move opposite each other.

Stocks move in groups, so when you notice a stock trending and doing well, your first thought should be: I wonder what other stocks in the same group are also doing well.

Here's another example. The solar group was showing signs of life. The group had already rallied a bunch off its low and was setting up for another leg up.

On April 7, SunPower (SPWR) broke out and more than doubled over the following month.
Two weeks and three days later, Canadian Solar (CSIQ) broke out an almost doubled.

The same day, SolarCity (SCTY), which was already in a steady uptrend, jumped on high volume and also doubled.
The next day, SunEdision (SUNE), broke out from a three month consolidation pattern and rallied forcefully.

Again, by themselves, the gains wouldn’t have nearly been as good, but since the underlying theme at the time had money rotating into the solar group, these stocks all did great.

These are not short-lived or fly-by-night situations. Themes, or stories, tend to last many months, possibly upwards of a year. If a group is hot, there’s probably an underlying story that investors are slowly catching onto, and the strength in the group is likely to last a long time, definitely much longer than what would be a quick trade.

Not all stocks within a group will be tradable. Some won’t trade smoothly. Others won’t have enough liquidity. Others may move too slowly, and therefore would not be good candidates. Still others may be too far gone, so the risk/reward won’t be very favorable. But there are usually a handful of smooth-moving, high-volume stocks that can be culled from the list.

Besides increased odds of executing a profitable trade when it comes from a leading group, the practice is a big time saver. After all, instead of starting with the entire universe of tradable stocks, why not start with a small handful of groups that are performing the best?

One more example before I discuss how to identify the strongest groups.

Crude oil was bouncing around in the 90’s and 100’s, so oil stocks were hot.
On February 5, Athlon Energy (ATHL) broke out and began a move that didn't end until well into the summer (with a 6-week pause in the middle).

The next day, Diamondback Energy (FANG) completed a double bottom pattern by trading through resistance with a solid block of volume. The stock rallied 50% in under three months.
Three weeks and three days later, Callon Petroleum (CPE) broke out from a large consolidation pattern, tested the former resistance level and then rallied into the summer.

Three weeks and a day after that, Concho Resources (CXO) broke out from a 1-month consolidation pattern and grinded its way higher.
Stocks move in groups. When a group starts to move, don’t look at the entire universe of stocks and pull out the best opportunities. Start with the best performing groups. Then pull out the best charts. How to tell what’s leading?

Identifying the best performing groups at any given time is not rocket science. Here are a few ideas. 1) Pay attention. At the end of the day, get a list of leading and lagging groups. When you notice the same groups appearing on the list, take note and look inside those groups.

I have 159 sectors in a watch list in stockcharts.com. At the end of the day, I glance at the list, sorted by performance, to see what’s leading and what’s lagging. Here’s a snapshot of what I may see on any given day.

<table>
<thead>
<tr>
<th>Symbol</th>
<th>Name</th>
<th>Close</th>
<th>Chg</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>$DJUSIU</td>
<td>Reinsurance</td>
<td>185.51</td>
<td>+3.16</td>
<td>1.73%</td>
</tr>
<tr>
<td>$DJUSMF</td>
<td>Mortgage Finance</td>
<td>6.05</td>
<td>+0.10</td>
<td>1.68%</td>
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<td>$DJUSCA</td>
<td>Gambling</td>
<td>685.10</td>
<td>+10.12</td>
<td>1.50%</td>
</tr>
<tr>
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<td>+4.56</td>
<td>1.40%</td>
</tr>
<tr>
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<td>Marine Transport</td>
<td>260.83</td>
<td>+3.45</td>
<td>1.34%</td>
</tr>
<tr>
<td>$DJUSOE</td>
<td>Electronic Office Equipement</td>
<td>179.22</td>
<td>+2.25</td>
<td>1.27%</td>
</tr>
<tr>
<td>$DJUSHP</td>
<td>Health Care Providers</td>
<td>1273.51</td>
<td>+14.01</td>
<td>1.11%</td>
</tr>
<tr>
<td>$DJUSDV</td>
<td>Computer Services</td>
<td>140.93</td>
<td>+1.51</td>
<td>1.08%</td>
</tr>
<tr>
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<td>Specialty Finance</td>
<td>139.84</td>
<td>+1.49</td>
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<tr>
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<td>Financial Services</td>
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<td>+4.62</td>
<td>1.02%</td>
</tr>
<tr>
<td>$DJUSSB</td>
<td>Investment Services</td>
<td>826.92</td>
<td>+7.95</td>
<td>0.97%</td>
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</tbody>
</table>

Don’t have a subscription to stockcharts.com? No problem. There are free online sources.

BigCharts.com (http://bigcharts.marketwatch.com/industry/bigcharts-com/default.asp) ranks sectors and allows users see performance for the last week, month, 2 months, etc. Here’s a snapshot.
Barchart.com (http://www.barchart.com/stocks/sectors/sic/) also ranks stocks per their own criteria. I find it a great starting point. Here’s a snapshot. And by the way, the great thing about these online sources is you can click on the group names and get a list of stocks within the groups.

<table>
<thead>
<tr>
<th>Weighted Alpha</th>
<th>Industry Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>+25.63</td>
<td>SIC-45 Transportation By Air</td>
</tr>
<tr>
<td>+24.06</td>
<td>SIC-78 Motion Pictures</td>
</tr>
<tr>
<td>+23.07</td>
<td>SIC-22 Textile Mill Products</td>
</tr>
<tr>
<td>+21.99</td>
<td>SIC-80 Health Services</td>
</tr>
<tr>
<td>+20.14</td>
<td>SIC-24 Lumber And Wood Products, Except Furniture</td>
</tr>
<tr>
<td>+17.25</td>
<td>SIC-55 Automotive Dealers And Gasoline Service Stat</td>
</tr>
<tr>
<td>+16.58</td>
<td>SIC-58 Eating And Drinking Places</td>
</tr>
<tr>
<td>+16.27</td>
<td>SIC-47 Transportation Services</td>
</tr>
</tbody>
</table>

2) Scroll through the market’s top-volume stocks and pull out the best looking charts. Then dig deeper into the groups that are most prevalent on your list. For example, if you scan the Russell 3000 and notice numerous semiconductor stocks look very good, look at the group. There are probably others.

Barchart.com (http://www.barchart.com/stocks/sectors/-TOP) has a list of Top 100 Stocks. Some aren’t tradable because they’re too cheap or lack volume, but many are. Check out the list once/week.

3) Look at relative strength charts. These are charts that compare a group to the broader market. A quick glance will reveal which groups are out-performing. This doesn’t guarantee a group is doing well; it only means the group is doing better than the market. At the very least it’s a starting point. Here’s an example. It’s the aerospace index charted vs. the S&P 500. The group under-performed last summer, out-performed December-February and is now under-performing.
4) Apply your stock trading indicators to group charts. If you like to buy stocks whose MACD is starting to curl up from an oversold level, use that same indicator on the group charts, and then look inside the groups that meet the requirement.

You can be creative. The goal is to simply narrow the universe of groups to a small, workable number and then look inside those groups for trading/investing ideas.

**CONCLUSION**

It’s simple. Instead of playing great-looking charts, play great-looking charts from leading groups.

**THE MOVIE**

Here’s a video to a webinar I did for Trader Planet. In it, I discuss the above concept, along with a few others. [WATCH IT HERE](#)

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**ABOUT THE AUTHOR**

Jason Leavitt is the founder and head of research at LeavittBrothers.com - a boutique research firm which offers market analysis and trading ideas to hedge funds, financial advisors and full- and part-time independent traders.
Are you lured by the siren song of searching for an elusive trend reversal and fighting the price action? It’s understandable that many traders want to gratify their ego by pinpointing the exact spot that a trend reverses, but unfortunately many trading accounts have been dashed in the process of calling reversals.

Join me for a brief journey as we “go with the flow” with price action as it moves forward in a trend. We’ll focus specifically on identifying a trend in motion and the perfecting a classic trade set-up that will reduce frustration and - hopefully - build up your trading account consistently over time.

**TRENDS - THE FOUNDATION OF TRADING**

Technical Analysis and chart-based trading builds on the idea that trends, once established, have greater odds of continuing than of reversing. It’s such a simple principle but so many traders get trapped in the allure of calling a market top or bottom - a trend reversal - and miss the easier profits that can be made by trading with the trend and not against it.

In Technical Analysis Explained, Martin Pring defines the entirety of technical analysis with this quote:

“Technical Analysis is the art of identifying a Trend Reversal at the earliest stage possible and then trading in the direction of that trend until the weight of the evidence proves that trend has reversed.”

In this article, we’ll focus on the portion of the definition that addresses “trading in the direction of that trend” and specifically develop a trade set-up you can recognize in any market or timeframe. You can use this as a building block to more complex strategies in your trading toolbox, or as a standalone set-up.

**TWO QUICK WAYS TO IDENTIFY A TREND IN MOTION**

If our first goal is to “identify a trend reversal at the earliest stage possible,” how exactly do we do that? Let’s build an official way to define a trend in motion.
1. **PURE PRICE METHOD**

The most basic method for identifying an official trend is to compare price highs and lows as they develop over time. On a price chart, simply draw a line over each swing high in price and also on each swing low. It can be helpful to draw small green lines over price highs and small red lines over price lows so you can compare them easier.

**An uptrend** is defined as a price movement having BOTH a higher high and a higher low

**A downtrend** is thus a price movement over time having BOTH a lower low and a lower high

**A sideways trend** occurs when the swing highs and lows closely overlap prior highs and lows

Many new traders simply “eye-ball” a trend and have no formal way of defining it.

Let’s see this on the chart:

![Chart showing trend identification](chart.png)

**Figure 1:** CME Group (CME) Identified by Simply Labeling Higher Highs (Green) and Higher Lows (Red)
A Trend Reversal - by this definition - would occur when an uptrend develops BOTH a lower low AND a lower high; by the same logic, a downtrend would reverse ONLY when price then made a higher high and higher low.

2. MOVING AVERAGE CROSSES

In addition to drawing your own highs and lows to define a trend, we can use two moving averages to define a trend in motion. We’ll need a short-term and intermediate term moving average to place on our price chart.

There’s no secret formula to which a moving average is the perfect tool to use, though in my experience I’ve consistently used the 20 period Exponential Average (which I often color green) and the 50 period Exponential Average (which I color blue).

An uptrend is identified when the 20 period (short-term) moving average is rising steadily above the rising 50 period (intermediate-term) Exponential Moving Average.

A downtrend is identified when the 20 period Exponential Average (EMA) is falling steadily beneath the falling 50 period EMA.

A flat or sideways trend occurs when the moving averages repeatedly cross each other as they take a sideways or horizontal slope.

Trend Reversals occur when the moving averages cross each other, especially after a lengthy uptrend or downtrend.
Here is CME again with the 20 and 50 day Exponential Moving Averages applied:

![Chart with 20 and 50 day EMAs Applied](image)

Figure 2: CME with 20 and 50 day EMAs Applied. Uptrends contain rising moving average and crossovers reveal likely Trend Reversals

While there are many formal chart-based methods for identifying trends, often these simple methods are easier to identify and can outperform complex methods with many variables. New traders especially should begin with simpler methods, build success with them, and then only if necessary move toward more complex methods of trend identification.

**NOW THAT WE’VE IDENTIFIED THE TREND... WHAT DO WE DO WITH IT?**

A main goal of new traders is to identify a trend in motion and then trade in the direction of that trend as long as it lasts. How exactly do we do that?

Just like there are multiple ways to identify a trend in motion, there are even more methods to align your trades in the direction of the trend and profit from the trend continuing into the near-term future. For this article, let’s focus on pullback or retracement trades and maximize our efficiency with this simple yet very powerful and consistent foundational set-up.
There are three foundational trade set-ups as follows:

**Retracement Trades** trigger on a pullback in an established uptrend.

**Reversal Trades** trigger on a breakout or reversal spot from a mature trend that is ending (as a new trend begins)

**Breakout Trades** trigger on the breakout beyond a new high or new low, or a clear support/resistance level (or from a price pattern). Breakout trades may trigger in the direction of a prevailing trend, or also against it.

For this article, we will only focus on the Retracement Trade identification and strategy.

The first step is to identify a trend in motion and thus the second step is to trade in the direction of that trend as it progresses.

Retracement trades attempt to identify a short-term turning point when a counter-trend retracement (price moving against the trend) ends and a new swing in the direction of the trend develops. Price tends to move in “waves” or swings that are either with the current trend direction (also called “impulses”) or against it (“counter-trend reactions” or “retracements”). The goal is thus to enter as close as possible at the end of a short-term retracement and join in the direction of the trend when price resumes moving in the direction of the trend.

As you can imagine, there are hundreds of ways of accomplishing this goal, and there are just about as many methods and indicators you can imagine to pinpoint the end of a retracement and the beginning of a new uptrend price swing. Once again, new traders should start with simple methods and build complexity ONLY if it is necessary (never start with the complex).

### THREE SIMPLE TOOLS TO PINPOINT THE END OF A RETRACEMENT

**1. Hand-Drawn Price Trendline**

Let’s start with the simplest tool, the hand-drawn (on your computer screen or on a printed chart) trendline. The goal when drawing trendlines is to connect as many price swing highs or lows as possible. More is better if possible. By definition, a trendline requires at least two points and the preference would be to connect three or more swing highs or lows. Extend trendlines into the future and when price “pulls back” to a trendline, it can be a low-risk spot to enter the market.

**2. Moving Averages**

They’re back! We can use moving averages both to identify a trend in motion and also to enter a position into the trend once price “pulls back” or retraces to either our short-term or intermediate term moving average. Look closely at the chart of CME above to pinpoint each time price touched - or tested - the
rising 20 or 50 day EMA and then rallied up off this “moving trendline.” January 2015 reminds us that no method is perfect in trading a retracement, but each indicator gives us guidance and clues as to when a retracement may end and price will then swing back in the direction of the trend.

Here’s Apple (AAPL) to demonstrate both the Trendline and Moving Average Tactics:

Figure 3: Apple (AAPL) with Hand-Drawn Trendline (Black) which was touched four times and successful Pullbacks (labeled “P”) to the rising 20 (green) or 50 (blue) moving average

From April 2014, Apple shares burst into a strong uptrend on the Daily Chart and the series of higher highs and higher lows continued into 2015 without any sign of reversal. After April, price “pulled back” or retraced toward the rising 20 or 50 EMA.

Late 2014 saw a strong resumption of the trend but also a strong retracement against it. Instead of “stopping” or reversing up off the moving averages as was the case in 2014, price reversed off the hand-drawn black trendline to resume the strong uptrend in motion. The uptrend never reversed.
3. **FLAG PATTERNS**

Sometimes the price trend is so strong that we never see a touch of a trendline or moving average. In these cases, especially on lower timeframes, our only method for entering a strong trend is to do so not at a support (uptrend) or resistance (downtrend) level like a moving average or trendline, but on the breakthrough of a smaller, mini-trendline that we call a “flag” pattern. These would be your classic Bull and Bear Flag price patterns.

Here’s the same chart of Apple, only with the “Flags” highlighted:

![Apple (AAPL) with Bull Flag Retracement Patterns Highlighted](image)

Figure 4: Apple (AAPL) with Bull Flag Retracement Patterns Highlighted. Instead of aiming to buy at a support level (like a trendline or moving average), the goal becomes to buy shares on a price breakout above the smaller ‘flag trendline.
Here’s a zoomed-in perspective of the first two flag patterns in mid-2014:

Figure 5: Apple (AAPL) with zoomed-in perspective of two pro-trend “Flag” retracement price patterns

So now we have three simple ways to identify both a counter-trend retracement and when it is likely to end - and thus resume moving in the direction of the uptrend (where we seek to make profit).

Let’s create a specific strategy for entering and managing these Pro-Trend Pullback (retracement) Strategies.

**HOW TO TRADE A RETRACEMENT PLAY**

It’s one thing to recognize a retracement as it develops in real-time but we don’t make any money just watching patterns develop. We need specific parameters for entry, targets, stop-loss placement, and management once we recognize a set-up in motion. Fortunately, retracement trades naturally develop these parameters and all we must do is enter, manage, and exit as the trend resumes. We need to have a stop-loss strategy also in case the price “surprises” us with a trend reversal.
Here are the simple, specific steps to trade a retracement play:

1. **IDENTIFY** a Mature Uptrend in Motion (using the Price and/or Moving Average Method)

1. **MAINTAIN** the stock in your watch list UNTIL price retraces lower in an uptrend to a support level (trendline or moving average) in an uptrend or higher to a resistance level (trendline or moving average) in a downtrend

1. **BUY** as price touches the moving average or trendline in a prevailing uptrend; SHORT-SELL as price touches the moving average or trendline in a prevailing downtrend

1. **PLACE YOUR STOP** beyond the trendline or moving average (usually 1% to 2% away from the level on a Daily Chart by this varies depending on your timeframe and the volatility of the stock). Ideally, TRAIL THE STOP under the rising 50 EMA (uptrend) or above the falling 50 EMA (downtrend)

1. **TARGET** a minimum of a touch of the prior swing high in an uptrend and the touch of the prior swing low in a downtrend (you can choose to exit your full position or exit half the position at the achievement of the minimum goal)

1. **HOLD** the remaining position until price breaks under a smaller hand-drawn price trendline in an uptrend or over a smaller hand-drawn trendline in a downtrend

Make a check-list from these simple rules and use them as guidance for entering and exiting positions.

The chart below reveals four small (yet profitable) pro-trend retracements trades in Monster Beverage (MNST) and each trade developed and played out:
Figure 6: Monster Beverage (MNST) with Four Retracement Trades (Trendlines, Moving Averages, and Flags Highlighted) as the Uptrend Continues on the Daily Chart

Here’s a final glance at two simple Retracement Trades in Apple (AAPL):
Figure 7: Apple (AAPL) - two detailed (yet small) pro-trend retracement trades in a strong uptrend. The Yellow Highlight indicates BUYING when price TOUCHES the rising moving average while the Green Highlight indicates BUYING the “flag” or trendline breakout as price moves up off support. The Target is the prior price swing high and the stop is located beneath the moving averages (not exactly under the averages, as was the case at the end of June)

SUMMING IT ALL UP:

No trading strategy guarantees perfect outcomes. The goal is always to take high probability set-ups and craft trades that aim for a higher profit relative to the risk of loss as defined by your stop-loss. Retracements take advantage of the higher probability of a trend in motion continuing to extend higher (or lower in the case of a downtrend) and provide a clear, low-risk entry where the stop-loss is small relative to the larger target.

If price fails to hold support (or resistance when short-selling into a downtrend), take your stop-loss and prepare for the next opportunity. Also, don’t keep your stop-loss positioned exactly at the reversal point - always locate it just beyond the trendline or moving average.
With experience, you’ll be able to recognize trends, pullbacks, and opportunities more effectively and can add additional parameters that can increase your probability of success or maximize the profit (play for larger targets) relative to the risk. Start simple and grow from a solid foundation.

**TAKING IT ONE STEP FURTHER...**

For ambitious traders, the following strategies can help you further master your pullback trades:

- Adding Fibonacci Retracements to pinpoint “hidden” turning points (and to manage stops)
- Incorporating Reversal Candles that develop at trendlines or moving averages
- Stepping inside the price action to a lower timeframe to pinpoint more accurate entries
- Using Oscillators to quantify entries (especially when an oversold buy signal occurs at support or an overbought sell signal occurs at resistance)
- Incorporating Volume or Market Internals into the chart

Don’t start with the complex; instead, build from successful trades you take using the simpler methods described here. You can’t improve upon something when you don’t have a solid foundation. The basic strategies here serve as building blocks you can use as a stand-alone strategy or preferably as a core method to add your own personal improvements as you gain experience as a trader.

**SPECIAL OFFER**

Download four in-depth lessons on how to apply this simple, effective retracement strategy to your successful trading activities.

Lesson 1: Specifically, How do Trends Develop and How Do We Identify Them?

Lesson 2: What Indicators are Best for Trend Trading Tactics?

Lesson 3: How to Take Advantage of Trends through the Perfect Pullback Strategy (Set-up, Entry, and Targets)

Lesson 4: When to STOP Trading With the Trend When it is Showing Signs of Reversal (and What are Those Signs?)

Get the special “Trend Trader Tactics” for only $27.00, simply [CLICK HERE](#)
ABOUT THE AUTHOR

Corey Rosenbloom’s interest in the stock market began as a junior in High School where his team won an investment challenge competition which drew him into investing actual money in the market using basic fundamental analysis. Later, the Bear Market of the early 2000s would challenge these assumptions and force him into deeper study of market concepts – “There had to be a better way than Buy and Hold strategies”.

He was soon introduced to the concepts of price charting, or more formally known as “Technical Analysis” and the pattern recognition, along with indicator combinations, drew his attention sharply in that direction. As the market began its recovery, he was participating as a momentum intraday trader, which soon gave way to broader swing-trading strategies. He describes one of many “light-bulb” moments when he was introduced to Sector Rotation Concepts which seemed to make the price charts fit into a logical progression of expectations. From there, he deployed options trading strategies which gave way to ETF trading, which itself finally gave way to active futures market trading tactics.

Mr. Rosenbloom holds a bachelor’s degree in both Psychology (cognitive research focus) and Political Science and later received a Master’s Degree in Public Affairs with a Business concentration. He has completed Levels I, II, and III of the Market Technician’s Association’s Chartered Market Technician (CMT) program and is awaiting the official charter in early 2009.

He currently serves as an independent consultant, analyst, author, and educator. He manages both personal and family accounts using the concepts discussed here, employing both long-term and active intraday trading strategies.
THE CROWBAR- THE STRATEGY SURE TO MAKE OTHER TRADERS JEALOUS — AS YOU AT LEAST QUADRUPLE YOUR MONEY NEARLY EVERY TIME

By Preston James,
TradersEdgeNetwork.com

Before we begin, here are some important facts about stocks pretty much from Day One:

• In general, stocks go up over time
• Stocks don’t go up in a straight line
• Stocks aren’t very logical
• There are always too many damn stocks
• Penny stocks suck, so do utility, teen-themed apparel, restaurant, and grocery store stocks
• It sucks to watch stocks too closely, like every 5 minutes

And finally, and probably most important:

• The biggest, most salivating stock moves (the moves that truly make a difference in your life – like a doubling or tripling of the share price) most often come from stocks you only hear about when it’s too late.

These stocks are seldom brought up on CNBC or pointed out in newsletters. Why? Because in both cases, they’re too busy blubbering on about what lower oil prices may mean to the economy, and whether it’s a safe time to buy some more Cisco.

So the question is:

How do you saddle up to the biggest stock moves in the land and catch some of the biggest moves of your trading career? (Especially using option leverage to carve out King-Sized home runs while tying up far less capital and risk than buying the stock).

How do you find them?

How do you get the confidence to buy them?

Is it easy?

Do you stand to lose your mind and your wits?
Can you still work the same amount of hours in your career? Or do you need to “put in the time” spending hundreds of hours becoming an expert in bio-science patents, or a pseudo expert in the new 3-D printing space?

**ENTER IN THE “CROW BAR”!**

So what is this… and why the weird name? The visual here is to imagine this:

Picture a 400-year old sunken treasure chest that’s finally been hauled up to the surface. It’s latches are locked and all crusted over. But a trusty CrowBar is just the leverage tool to jam in there to bust it open . . . and feel the glow on your face as all that shiny treasure stares back at you!

I’ve done many, many CrowBars in my time. They’ve always existed, and always will. And once you study up on the CrowBar, you’ll have a whole new world opened up to you. I want to say one final thing before revealing this to you. And that is, the reason I’m even writing this down and making this available for so cheap.

After all, if this is “soooo compelling” and such a big money maker, why share it or sell it? Why not just keep quiet about it?

I have 2 reasons for this:

1. We live in the “80/20” world. What’s this? According to TrimTabs Research and Jupiter Research (as well as appearing several times on the TV program “60 Minutes”), fully 80% of the stock market volume today is done by institutional investors. That means approximately 20% of the market participants are YOU and ME. Fact is, it doesn’t matter a wink how many of you’s and me’s there are…we’re out-numbered by the big-money players.

2. I’ve learned everything I know by getting to know others, asking them questions, being curious, and sharing what I’ve learned with others. Fact is, if you’re reading this, you’re in the 20% with me, and it’s time we stuck together (we’re just not each other’s competition anymore!)

**THE ESSENTIALS**

So now that I’ve got your attention, let’s continue. At this point I strongly urge you to become “unavailable.” That is, don’t check your email, return a text or take a phone call for the next little while. I give you permission to “unplug” so you can devour everything I’m about to share with you.

Okay, good. I seem to have your full attention (ain’t it a miracle in this day and age?!). Let’s roll up our sleeves!

The magic of the CrowBar is to get you and I involved in a stock when a huge EDGE sets-up for us…

**This edge is:** hopping on board a stock when normal growth turns into warp-speed-like growth, then hopping off when normal growth returns.
When we started, I mentioned some facts about stocks. #2 on the list was, “Stocks don’t go up in a straight line.” What I mean is . . . the most compelling growth stories out there do a lot of their growing in bunches, not in boring straight, ascending lines.

This is what’s known as . . .

“S-CURVES”

Certain periods of growth can be downright explosive, and that’s what the term “S-Curve” is all about. This is a growth spurt that looks like the letter “S”

S-Curve growth usually happens to newer companies feverishly growing and executing.

As you can tell, this is rapid, warp-speed-like action. And frequently, it’s a never-to-be-repeated phase of a company’s history.

Ok. Now that I’ve explained the “edge” of what we’re trying to accomplish as traders here, it’s now time to unfurl the rules for an official CrowBar Set-Up.

Each rule is critical. In fact, you need to find all of the following, or you don’t have a true CrowBar Set-Up! Here are the hard-won nuggets from the real-world trading trenches:

CrowBar Set-Up Rules:

1. The stock MUST hit a new 52-week high

2. The stock MUST have doubled during the past year (For example, if the 52-week low is 50 we would want to see the stock at or above 100)

3. The stock MUST also be making a new, **ALL-TIME** high.

4. The stock must have an Earnings Per Share (EPS) ranking of 80 or above.

5. The stock MUST have a Relative Strength (RS) rating of 80 or above. (*Both the EPS and RS rankings can be found on IBD’s website, under the “Stock Checkup” section*)

These are the essentials!
However, you should take a look at these additional considerations and clarifications:

- **You want to buy within 10% of the “double” high.** For example, if the 52 week low is 50 we would want to buy when the stock is in the 100-110 range – not much more than $110. You don’t want to chase something, you’re buying into something red hot, we don’t want to buy white-hot!

- **The Crow Bar set-up uncovers stocks that are drastically growing.** We’re jumping on board with the anticipation (and expectation) this stock will cover A LOT OF GROUND over the next year.

With that said, we want to get long for approximately one year.

I LOVE doing this with a long-term call option, or a LEAP. These are normally January options. In choosing a strike price, I’m almost always going for an in-the-money option. This way, for each $1 move in the stock we’re getting a pretty decent move in the call options. I search for a strike price where the premium paid is comprised of approximately half in-the-money (or intrinsic) value and half time value.

- So when do you sell the CrowBar? I sell if any one (or a combination) of the following happens:
  - If the Relative Strength rating drops below 75
  - If the stock drops suddenly below the 50 day moving average on big volume
  - If the value of the call option (LEAP) drops below 50% of what I paid for it.
  - If any kind of fraud, government investigation or other weird event of news happens.

Additional considerations to keep in mind are:

- **If you keep finding CrowBar set-ups, it means the market is healthy and robust (bullish).** If you’re only able to find a few (or none at all), it means market conditions are shaky and dicey (bearish). You can still trade them, but waiting for a more opportune market may be necessary.

- **I never consider or look for CrowBars in the pink sheet or penny stock arena.** No penny stocks allowed here!

- **I also don’t like stocks tied heavily into a commodity** (i.e. oil, gold, crops, lumber, precious metals, other materials like paper, specialty chemicals, etc). Too many outside factors can quickly kill your edge with commodity related stocks. Things like elections, wars, weather, politics, etc.

- **Bill O’Neill (founder of IBD) stands by this rule:** If a stock has a breakout, and it gains 20% or more within the first 2-3 weeks of the breakout, the stock is extraordinary and likely gains MORE ground. In this case, Bill says to hold the stock at least 8 weeks from the breakout. If you witness one of your CrowBars being extraordinary like this right out of the gate…this will only give you an extra dose of confidence for this position!

- **You could just buy stock (although this is too capital intensive, and far too much risk for my taste)**

- **You could also trade bullish option spreads (for example a bull put credit spread, or money press)**
HOW DO YOU FIND CROW BARS?

**New high list.** Try to find the daily list of stocks that are hitting new 52-week highs. This is pretty much the only thing you need! I subscribe to Investor’s Business Daily and these new 52-week highs are listed in both the print and digital editions (the eIBD).

The ultimate resource is to check each stock that’s making a new 52-week high that day. Plain and simple!

**Now let’s take a look at a couple of real world CrowBar examples:**

**CROW BAR EXAMPLE: JAZZ**

Here’s a real-world successful CrowBar trade. It was done inside an IRA account to boot! Here you can see a screen capture showing you the security name (JAZZ), the date I entered the trade, and the purchase price of the call options:

As you can see, on November 25th, 2013 it cost me $2,320 (plus commissions) to enter this trade. I bought one contract of the January 2015 $110 Calls at $23.20.

Now let’s look at a screen capture of the date and price where I exited this CrowBar trade:

From the above screen capture you can see that I closed the trade on March 5th, 2014. When I closed the trade, the same January 2015 $110 Call was worth $54… or $5,392 (after commissions)
I profited $3,072 on a $2,320 investment. A cool 132% return on investment. Here’s what this same CrowBar trade looks like on a stock chart:

Let’s look at another example:

**CROW BAR EXAMPLE: REGN**

Here’s another CrowBar trade done in the same IRA account. Again, here’s a screen capture where you can see the security name, the April 9, 2013 entry date, and the purchase price of $35 for the January 2014 $175 Call options:

Next, here’s a screen capture of the date and price I chose to exit the CrowBar – selling the calls:

If you did a double-take… I don’t blame you! Because yes, you read it right – a single call option contract was sold for over $11,600 bucks! It cost me $3,500 to enter the trade… and when I exited they were worth $11,630.

A stunning 231.3% return on investment!
Here's what this CrowBar trade looks like on a stock chart:

![Stock Chart Image]

**CROW BAR EXAMPLE: QLKS**

Now let’s look at another CrowBar trade done in a different account of mine. This next screen capture shows where I purchased the June 2015 $30 Calls on 11/7/2014. And you can see I paid $7.70 per contract for these call options:

![Table Image]
Next, here’s what this CrowBar set-up looked like on a 1-year chart:

And here’s the “all-time” view of QLYS:

**Note on this example... There is no sell date yet as QLYS is a brand new CrowBar I recently got into!**

CrowBar “Enhancer” Strategy – Selling Weekly Options For Opportune Income
Owning a long term call option (LEAP) is a lot like owning the stock itself. In fact, the technical term in the options world is a “synthetic long” position.

**What this means is:** having the “right to buy the stock” gives you some of the same privileges. One big plus is the ability to sell calls against your position – the same as if you owned the stock itself!

With a crowbar position, however, my main goal is intense capital appreciation from the stock going up and simply owning the long-term call (LEAP) options.

But it’s still fun to enhance profits by selling calls, especially weekly calls (if available) along the way! Not all crowbar trades will have weekly options traded on them, but that’s ok. Even with the traditional monthly options, you can sell them, say, two weeks before they expire and still collect some additional premium (profits) along the way.

**So when do I become an opportune call seller on a CrowBar position?**

First of all, all future earnings dates need to be mapped out and known. This is oh, so very important! You don’t want to sell an option – unknowingly- over the earnings date!

**Repeat After Me... “Know Thy Earnings Dates!”**

The most important thing *(besides the date of the next earnings announcement)*, is to take note how the stock has behaved during the last 2-3 earnings announcement periods.

Since we’re talking about a stock with pumped-up momentum, I specifically take a look at the stock’s behavior during the 1-month period of time leading up to its past two or three earnings announcement periods.

(Finding past earnings announcement dates is not hard. You can always google them!)

Perhaps the stock really gets excited and likes to rally during this 30-day period before earnings. If that’s been the trend, then let the stock price run *(and hence the value of your LEAPs!)*.

If you notice more random behavior in the stock (during the 1-month period before the earnings announcement), perhaps you more aggressively sell call options for income during that time.

Always, always be careful when you sell a weekly call for income purposes! I always try to evaluate how much a stock typically moves (up and down) in a given week, then try to choose a strike price outside of this range to sell (for the week).

It’s not uncommon to see premiums of $1.00, 3-4 strike prices OUT OF THE MONEY . . . for a SINGLE WEEK OF TIME! (52 weeks X $1.00 equals a lot of money over a year’s time... chances are, way more than the cost of your CrowBar!)
Finally, it’s not uncommon for CrowBar type stocks to get mentioned in the news often while you own them. Here’s a little tip that helps me when surprise news hits the stock. I call it the 3-Day rule.

For example, if the stock suddenly gets an upgrade, it will probably bolt up higher on day one. Perhaps it trades up some more on day two, then succumbs to profit taking on day three. The point is, the stock is probably done reacting to the sudden news after 3 days.

For selling calls (collecting income) purposes, I like to sell out of the money call options AFTER a scenario like this – to rake in some additional income along the way (I’ll often sell one or two strike prices out of the money to given the stock even more cushion to run higher)

To repeat, you don’t ever have to sell any calls against your CrowBar! The above ideas help define when I do so. And finally . . .

Here are some other things I look for while I’m in a CrowBar trade. Every few days I’ll note things like:

- **How the underlying stock moves in its trend** *(when the stock pulls back, does it do so on lower volume? When it surges higher, is the higher than normal volume for these moves? And how does it track along with the overall market?)*
- **If it’s been upgraded or downgraded** by the analyst cartel
- **How it’s industry seems to be progressing along**
- **I check in to see if there’s any upcoming industry conferences, analyst day events, or company presentations**. *(You can Google these and also check www.Briefing.com for these kinds of events)*
- **Weigh any other kinds of weird market-wide events/news**

What’s important to keep in mind is the uniqueness of a CrowBar situation. These are often triple-digit stocks that are hot and bothered and active. Big institutional money is either funneling money into them and/or watching them like a hawk.

**Your intuition will also kick in after a while.** You will OWN this intuition.

Why? Because that’s what happens when you OWN something instead of paper trade something!

You’ll get to see how your stock does on poor market days *(if it’s attached or detached from the overall market)*. You’ll get to see the volume come in every day. If it’s traveling lower *(in its uptrend)*, you can notice if volume is picking up there or decreasing, etc.

**CONCLUSION**

Happy CrowBar hunting! And remember, weekly options are an enhancer along the way. I don’t want this to blow your mind – but it really IS a mind blower!!!

Talk Soon, Preston “Pirate” James
SPECIAL OFFER
If you would like to learn more ways to improve your trading get the Money Press Trading Strategy Package. Some of the benefits you will gain include:

- Protection is built right into all of the trades (so you can sleep at night!)
- There is NO MORE being glued to 6 monitors all day long. It just takes 20–30 minutes, a few times per week
- $600, $700, $800, $900 stocks are all well within your reach, even with a small account
- And much more

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ABOUT THE AUTHOR
Preston James is the founder of investor education company Traders Edge Network. Preston is a veteran trader of 22 years with a heavy emphasis on options and options strategies.

Jon “Dr J” Najarian, a 25-year CBOE floor trader, says this about Preston:

“I’ve known Preston (aka ‘Pirate’) for coming up on a decade now and he’s one of the sharpest option traders around. He’s constantly creating opportunities – he is also one of the best I’ve ever seen at exploiting those opportunities.”

Preston’s the creator of Weekly Options Windfall, a popular home study course focused on creating income from weekly options. He’s very passionate about finding the market’s buried treasure (hence the ‘Pirate’ nickname).

Preston’s also known for his Pre-Announcement Profits training, creating the “1% Solution” investor guide, as well as the Trader’s Edge Podcast. He’s also interviewed many of the top traders and investing minds on the planet.

Preston was a walk-on linebacker who earned a full-ride scholarship as a 2-year starter at the University of Utah. He graduated with a B.S. degree in Finance.
As an investment advisor, there’s nothing more exciting than discovering the exact set-up I’m looking for in a trade.

Today I’ll share three set-ups from the three trading services I run, including one play that delivered a 717% gain in less than 8 days. I was grateful to be able to explain the trade and tell my story on the Making Money with Charles Payne show on Fox Business TV.

Let’s begin with a recent trade from my Growth & Dividend Report… a play on my Safety & Security “Power Trend.”

(Power Trends are major market shifts at the intersection of economics, demographics, psychographics, tech, regulatory mandates and more. Every trade I recommend stems from at least one of my eight proprietary Power Trends.)

The pick in this case was a cybersecurity play: **KEYW Holding Corporation (ticker: KEYW).**

This wasn’t the first time I’d traded the company… Just prior to this time, I’d recommended my subscribers exit their position with profits in hand. Cybersecurity stocks in general had gotten, in my view, a little ahead of themselves.

Keep in mind, though, the fundamentals driving cybersecurity are here to stay. You hate to see cyber attacks ramp up globally as they have, but – as they say – for every crisis, there’s a solution…

And this company’s solution is looking incredibly profitable.

So, with KEYW shares having fallen more than 32% and into an oversold condition, and while “favorable” data regarding cyber attacks continued to mount…

We re-entered the position, and bought KEYW at $11.62 per share.

My recommendation came just after the company reported good quarterly results, even though they narrowly missed Wall Street expectations.
The shortfall in the company’s quarter was due to the continued impact of Washington, DC sequestration, and the harsh winter weather that led to more than several closed days for the government and other area businesses.

In total, KEYW had to contend with four days of closure and six days of liberal leave — all due to 1Q 2014 weather.

But here’s the kicker, and then some...

KEYW had recently picked up $17 million in contracts. That figure is in addition to the $72.1 million in new funding actions KEYW recorded during the March quarter.

Those wins, I concluded, would lead to double-digit percentage growth at the company’s core government business.

Also, the company’s new commercial cyber security business, known as Hexis, continued to grow its revenues, and that signals it is gaining traction.

More than two dozen pilot programs are underway with a number of customers, including energy, finance, medical and other verticals.

What’s more, KEYW’s management team has built and sold companies to larger government contractors in the past. With Chairman and CEO Len Moodispaw clocking in at 71 years old, I would not be surprised to see it happen again.

In just under two months after recommending the position in Growth & Dividend Report, the share price rose dramatically. We sold one half of the position to lock in profits, capturing a 46.82% gain.

But the momentum didn’t stop there. We sold the second half of our position just two months later at $18.92, for an even bigger gain of 62.82%.
Now let’s review that 717% windfall I mentioned earlier – from my PowerOptions Trader advisory.

Here’s how this “tasty” trade went down…

The original catalysts were falling pork and cheese prices (these are “input costs”).

There were also clear broader trends we were seeing in the U.S. at the time, such as stagnant incomes, and more people eating at home/fewer people eating out.

To me, Kraft represented a solid short-term trade on fundamentals alone.

I recommended buying the call option on KRFT (June $62.50 calls).
The trade looked rock solid, with the position moving higher.

Then the shares gapped up significantly (35%) on the BIG BUFFETT NEWS that made just about every financial headline that day:

Kraft was being merged with Warren Buffett’s Berkshire Hathaway’s (BRK.A) H.J. Heinz business to form Kraft Heinz Co.

The position quickly catapulted… and in just 8 days, it was up more than 700% from my $2.30 buy price recommendation.

The call option was a big win for PowerOptions Trader subscribers, and for long investors, the good news didn’t end there.

The combined company will have eight brands worth more than $1 billion each and five worth $500 million-$1 billion each.

The transaction will close later this year, but Kraft shares will also benefit from the one-time, $16.50 special dividend that Kraft shareholders will receive in the coming months.

Finally let’s look at a trade set-up from my PowerTrader service…

Utilities Select Sector SPDR ETF (XLU) stock + call option

In February 2015, two key observations resonated with me:

First, following what the market viewed as a bullish January Employment Report, the possibility of an interest rate hike by the Fed resurfaced.

Coupled with upward revisions to prior-month results, the reported January jobs number of 257,000 capped off the creation of 1 million jobs in the last three months.

On the one hand, that’s the best level in 17 years, and we can see why observers speculated about a “Fed hike” (which, as you know, didn’t happen).

The rebound in wage growth helped foster that view, which in turn led to a sharp jump in the 10-year Treasury bond, which closed at the end of that week at 1.95%.

That move pummeled high-dividend-paying stocks, such as utilities and real estate investment trusts (REITs), as the Utilities SPDR (XLU) dropped 4% on Friday while the SPDR Dow Jones REIT ETF (RWR) fell just shy of 3% that day.

On top of that, just like last year, this year’s cold winter clinched the trade set-up in my PowerTrader service…
And made for an easy pick in the index fund XLU, which comprises electric utilities, independent power producers, gas utilities, and the like.

Our March $45 calls on XLU resulted in an 86.73% gain on the first half we sold...

And then we really rang the register 8 days later, recording a gain of 189.38% on the other half.

In addition to the call option, we also made double digit gains (16.94%) on the stock.

Interestingly enough, this has become a “repeatable” trade.

Back in January 2014, we bought the XLU March $39 call options, selling one half (are you seeing a pattern here?) in early February for a 154.29% gain.

We closed the second half 11 days later with a profit of 257% in hand.
SPECIAL OFFERS

I hope you enjoyed reading my Powerful Trade Set-Ups case studies. If you’re interested in learning more about my trading services and how you can profit by them, simply follow these links for my latest research:

**Growth & Dividend Report:** The “Guardian Angel” stock -- Early Investors Could Bank Gains as High as 1,350% from its World-changing Technology

**PowerTrader:** Collect Massive Tolls from the World’s Biggest Companies as They Travel the “2nd Information Superhighway”

**PowerOptions Trader:** How You Can Finally BEAT Wall Street’s “Options Bookies”

ABOUT THE AUTHOR

Chris Versace is a portfolio manager of the Thematic Growth Portfolio at Fabian Wealth Strategies, and an equity analyst with more than 20 years of experience in the investment industry at several top tier investment banks.

He has been ranked an All Star Analyst by Zacks Investment Research, and his efforts in analyzing industries, companies and equity securities have been recognized by both *Institutional Investor* and Thomson Reuters’ *StarMine Monitor*.

He’s regularly published on Forbes.com and FOXBusiness.com, and is a frequent guest on *Making Money with Charles Payne* and Neil Cavuto, both on the FOXBusiness Network.

He has been quoted in *The Wall Street Journal, Investor’s Business Daily, The Street, USA Today* and other publications. In addition, Versace is a regular on-air guest across various radio programs throughout the country.

Chris earned his bachelor’s degrees in Economics and Mathematics at Fairfield University before receiving a Master of Business Administration degree in Finance at Fordham University.

Chris is the Editor of PowerTrend Bulletin, a free weekly e-newsletter; Growth & Dividend Report, a monthly newsletter; PowerTrader, a weekly trading service; and his fast-paced, options-only trading service, PowerOptions Trader, which gave subscribers a 37% average gain on closed trades in 2014.