



Momentum Stock Trader

User's Guide

Intermediate-Term Trades

Intermediate-term trade setups are very desirable, and therefore infrequent. All intermediate-term trade setups look the same on the chart. Some turn out to be big winners, while others turn out to be small losers. I never know ahead of time which of these will work out and which won't, and neither do you. Therefore, **we must trade each and every intermediate-term setup with equal dollar amount**. That way, you will not cherry-pick stocks and end up with 2 losers and one that isn't moving while the other 3 go straight up.

Doing equal dollar amount is very important. Please don't fall into the trap of trading equal share amounts. The reason why is because, while the chart patterns on all intermediate-term trades look the same, they are not always at the same price levels.

For example, if I recommend two trades with identical chart patterns but one stock is at 45, the other at 17, and we lose 10% on the \$45 stock but make 20% on the \$17 stock, here's how the money management will work on both these trades:

Equal Share Amount

By buying 1,000 shares of each,
 $1,000 \times 45 = \$45,000 \times 10\% \text{ loss} = \$4,500 \text{ loss.}$
 $1,000 \times 17 = \$17,000 \times 20\% \text{ gain} = \$3,400 \text{ gain.}$

Result: a net loss of \$1,100.

Equal Dollar Amount

Buying \$10,000 worth of the \$45 stock x 10% loss = \$1,000 loss (10% of \$10,000).
Buying \$10,000 worth of the \$17 stock x 20% gain = \$2,000 gain (20% of 10,000).

Result: a net gain of \$1,000.

There are never more than 6 intermediate-term positions open at one time. Therefore, when you start to trade intermediate-term positions, take 15-20% of your trading capital and set it aside as a "reserve amount", then divide the remaining amount in six equal chunks and trade each and every intermediate-term trade with equal dollar amount.

For example, if we start out with a \$100,000 account, we will set aside \$16,000 as the "reserve amount", divide the remaining \$84,000 in 6 equal chunks, and trade each and every intermediate-term position with \$14,000.

We set aside the 15-20% "reserve amount" for the simple reason that if we hit a losing streak right off the bat, we will still be able to continue to trade each and every position with \$14,000 dollar (using the example above). If we didn't set aside a reserve amount and we hit a few losing trades in the beginning, we wouldn't have enough to continue trading the same size, and it would be an uphill battle.

When you get an intermediate-term trade, it will read something like "Buy TBSI @22.49 Stop 23.49 Limit GTC. One your order is executed, immediately place an order to sell TBSI @20.16 Stop GTC."

In English, this means "When TBSI trades at 22.49 or higher, buy it at the best available price but don't pay any more than \$23.49 for it". The 23.49 limit on the buy-price ensures that you won't pay substantially more for the stock if it gaps-up at the open and you, as an EOD trader cannot be there to cancel the order when you find out where the stock is going to open. The rules for limits on stops are .50 limit on stocks under 20, 1.00 limit on stocks above 20.

IMPORTANT: If you are new, don't buy the existing positions that have already moved. Start out by getting into the next new intermediate-term trade.

Place every order exactly as it reads with equal dollar amount. If your broker doesn't accept different prices for the stop and the limit and you can't be in front of the computer all day, consider a different broker. Don't jump the gun and try to buy these stocks before they go .02 above the buy-signal day's high. Often if they don't trigger, we cancel them and move into others. Just as often, if they don't trigger, they go down and make lower lows.

After you receive confirmation of the buy, place the accompanying stop. This is the single most important thing you can do for your success in the market. Failure to do so will almost guarantee future failure. Don't "watch it". Don't "set a mental stop". Place the actual stop EXACTLY as it reads in the Momentum Stock Trader.

When the stock goes through the sell-stop (and it will, if you don't place it), the phone and the mouse weigh a ton. Hope springs eternal.

When you place the stop, you show maturity and discipline. You also take the decisions out of your hands at the moment of truth. Why test your ability to follow through on your decision? I have seen so many people fail at trading because they were unable to execute their decision to sell at a certain price when the stock got there.

Place the stop. It is an easy habit to develop. Develop it now, before you blow your trading account. Many brokers these days offer OSO orders, whereas your sell-stop is entered automatically as soon as your buy is executed, so look into it.

After you place the stop, all you have to do is keep checking the Momentum Stock Trader section titled "Intermediate-term Positions Updates" every night for instructions on raising the stop or cancelling the stop and selling the stock at the market at the open the next day.