



Momentum Stock Trader User's Guide

Introduction

The StockProfit Momentum Stock Trader only trades in the direction of the long-term trend. That means it only buys stocks that are in long-term up-trends, and it only sells-short stocks that are in long-term down-trends.

The direction of the long-term trend is determined by the stock's position relative to the 200-day moving average:

- If the stock is trading above a rising 200-day moving average, it is in a long-term up-trend. If the stock is trading below a declining 200-day moving average, it is in a long-term down-trend.
- If the stock is trading below a declining 200-day moving average, it is in a long-term down-trend.

However, simply being above or below the 200-day moving average doesn't necessarily mean the stock is trending. The stock actually has to trend, or sustain movement, AWAY from the moving average to develop move that is sustainable over time. The longer the stock can continue to move in the same direction, the more money can be made on it, pure and simple.

[Relative Strength Differential \(RSD\)](#) measures how strong these moves away from the 200-day moving average are. An RSD measure of 30 indicates the stock's Relative Strength line (RS) is 30% above its own 200-day moving average. A minimum RSD reading of 25 is required for a stock to be a momentum stock. If a stock's RSD is below 25, it means either the stock is in a slow-moving up-trend or not in an up-trend at all. This means that if a stock's RSD is greater than 25, the stock is up-trending and outperforming the S&P 500.

Momentum Stocks give a buy signal when they rally with a white candlestick and above-average, rising volume. The signal is then confirmed when the stock goes .02 above the high of the buy-signal day. Therefore, we enter the position ONLY when the stock trades 0.02 above the high of the white candlestick or the buy-signal day.

How far the stock is off its high when it rallies with the white candlestick and above-average, rising volume indicates how long the ensuing up-trend is likely to last and therefore how long we should plan to stay in the trade:

- If the stock is at or near a new high, we expect the ensuing up-trend to only last the next day and it's called a daytrade setup. In reality, trends like that could last longer, but a new high is often a bad place to enter trades for any longer than just the next day.
- If the stock is off its high but not enough to be oversold, we expect the ensuing up-trend to last several days to several weeks, known as a swing trade setup.
- If the stock is off its high AND oversold, the ensuing up-trend should last several weeks to several months, and is therefore a very desirable point to enter a trade.