

**Diversified Trading Institute**  
**April 9, 2012**

# **Short-Selling**

## **Principle & Technique**

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**Managing Directors**  
**MoKa Investors, LLC**  
**[www.mokainvestors.com](http://www.mokainvestors.com)**  
**[www.selfishinvesting.com](http://www.selfishinvesting.com)**

# Chart Notes

Moving Averages:

**Magenta** = 10-day simple moving average.

**Green** = 20-day simple moving average.

**Blue** = 50-day simple moving average.

**Black** = 65-day exponential moving average.

**All charts courtesy of  
HighGrowthStock Investor  
and  
eSignal, Inc.**

# The Golden Rules of Short-Selling

- Short only during bear markets and during the earlier phases of a bear market trend.
- What goes up must come down: focus on the big upside leaders from the prior bull market trend as your primary short-sale target stocks.
- Some stocks will break sharply off of their peaks, presenting short-term short-sale opportunities, and then usually will take 8-12 weeks, sometimes longer, to fill out bearish formations and continue lower during an overall bear market.
- Trade stocks that are very liquid.
- Set tight stops of 3-5%.
- Set profit projections for your initial short-sale position.

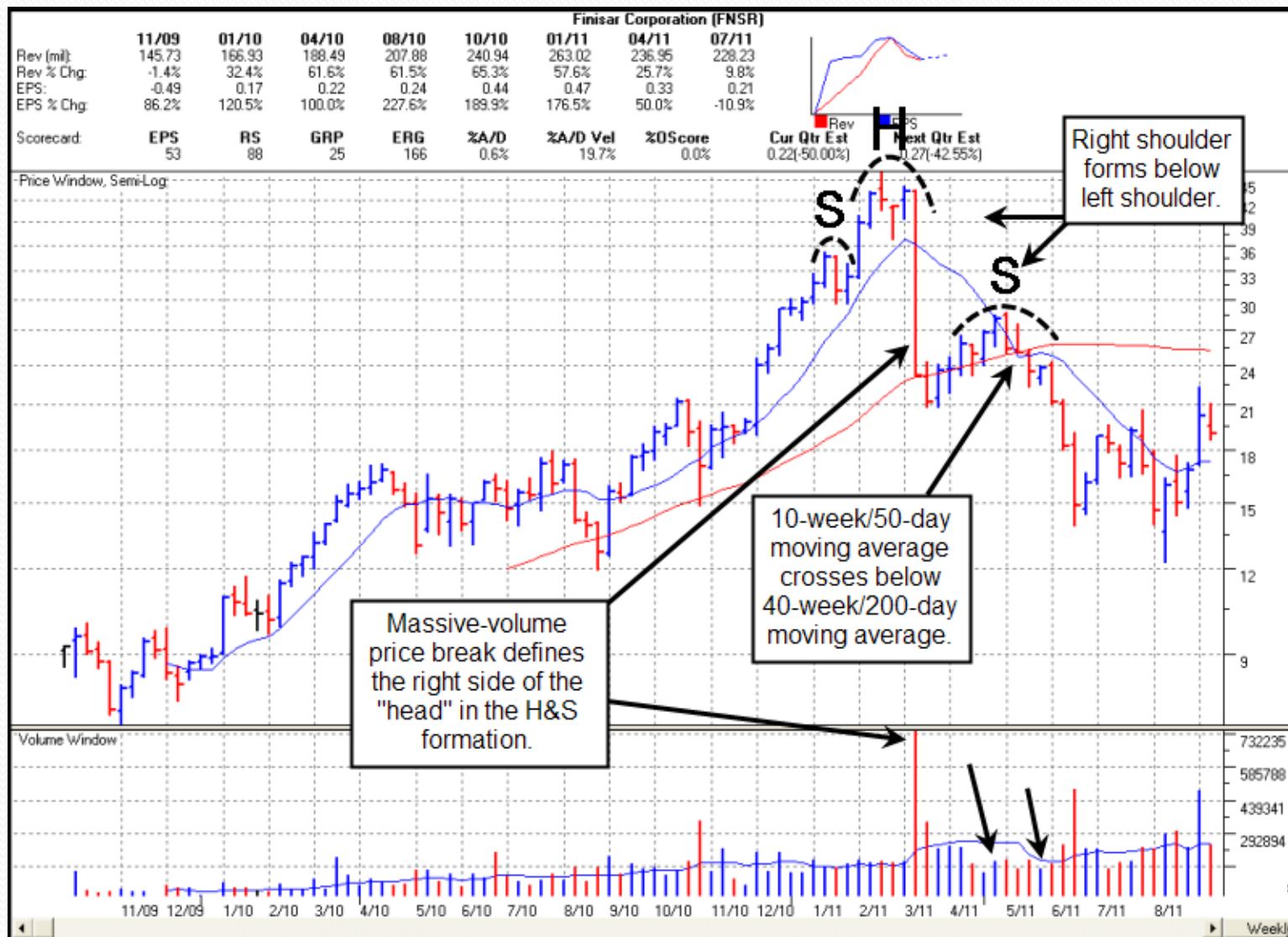
# Short-Sale Set-Ups

- Three basic formations, although some can overlap or and/or metamorphose (“morph”) into one-another.
- Head & Shoulders Top (H&S) formation – the classic topping formation taught in all technical analysis manuals.
- Late-Stage Failed Base (LSFB) – when breakouts become too obvious.
- Punchbowls of Death (PODs) – Straight down and straight up, and then straight down to new lows.

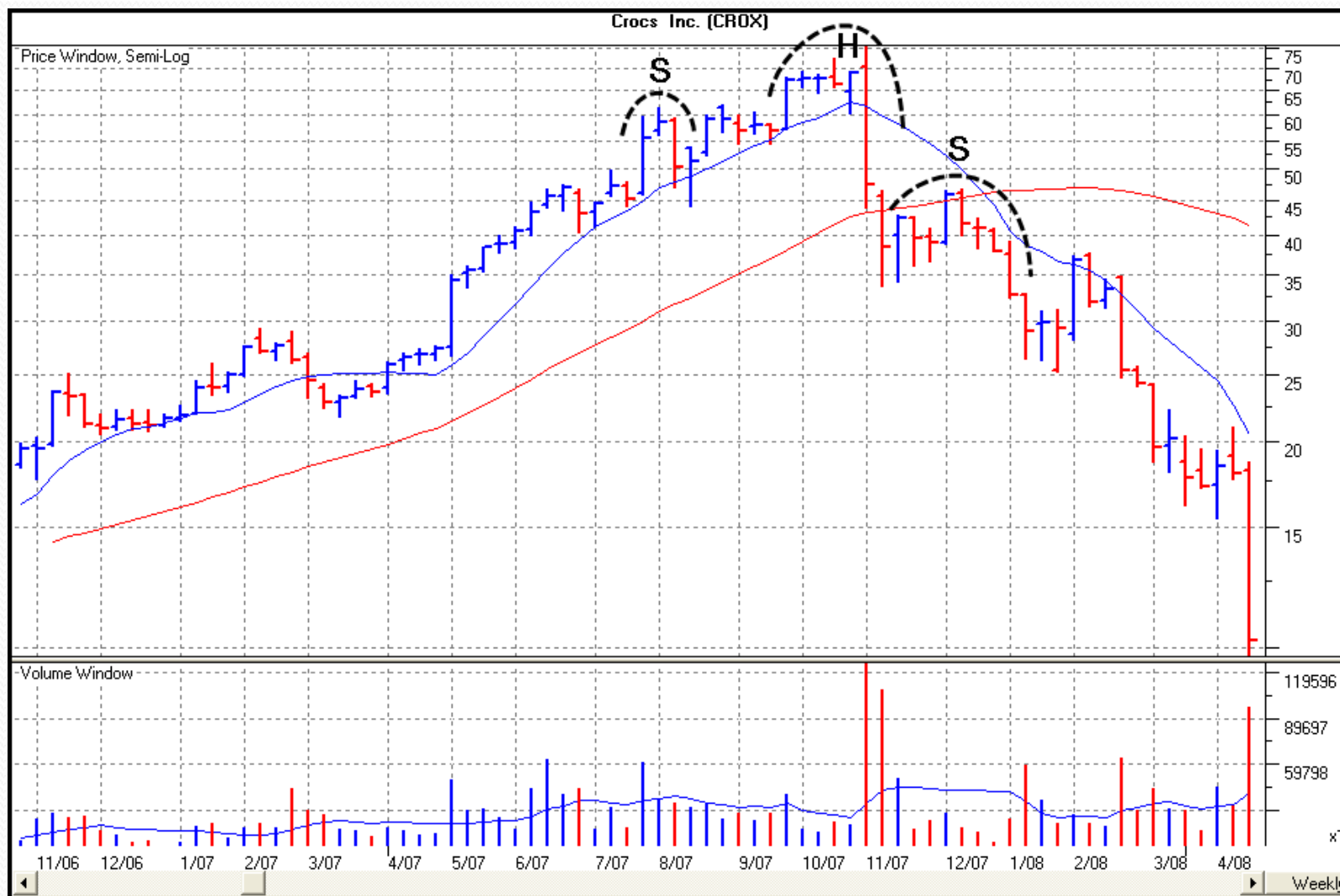


# **Head & Shoulders Top Formation**

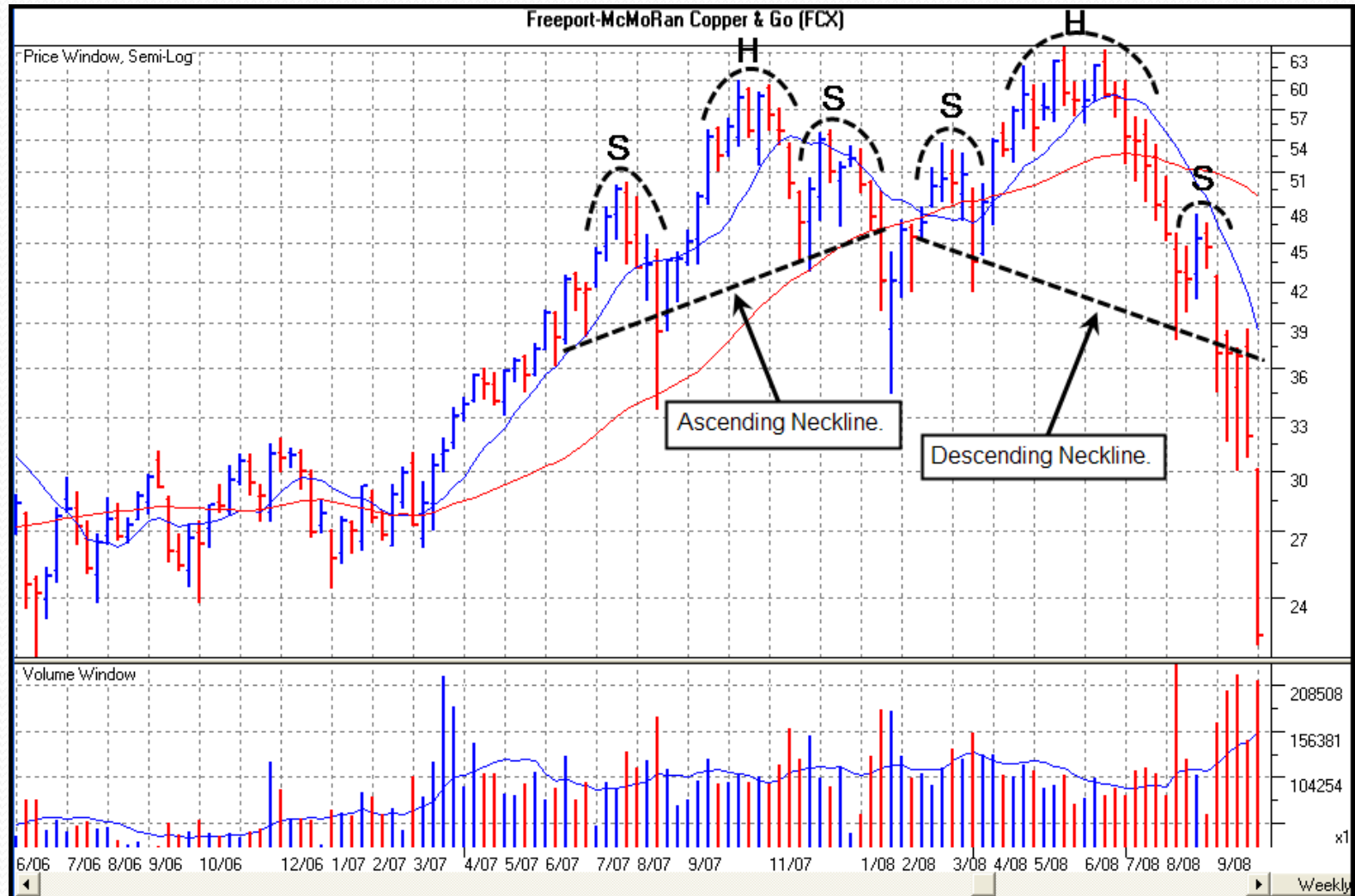
# Finisar Corp. (FNSR) – 2011



# Crocs, Inc. (CROX) - 2007

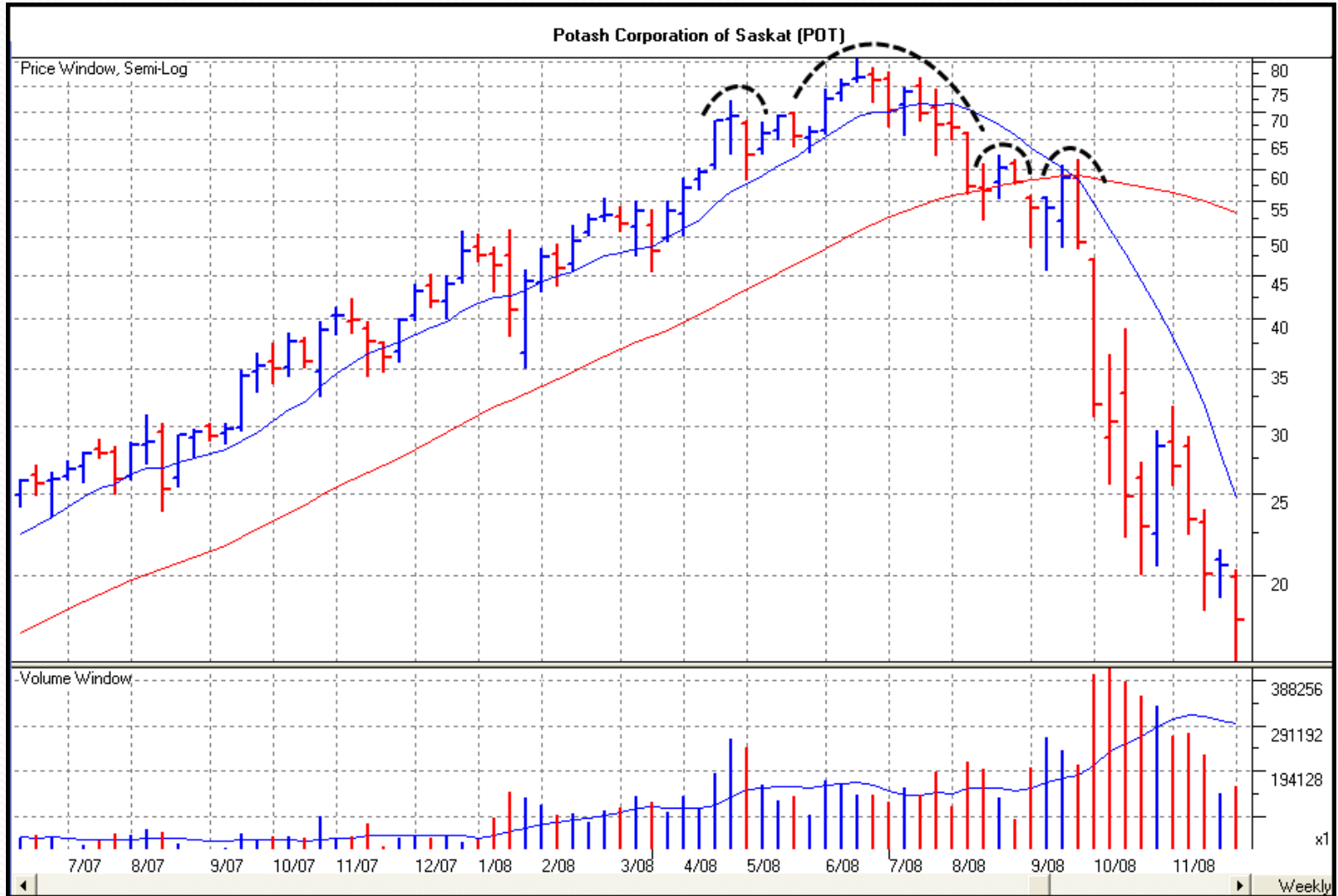


# Freeport-McMoran Copper & Gold (FCX) – 2008

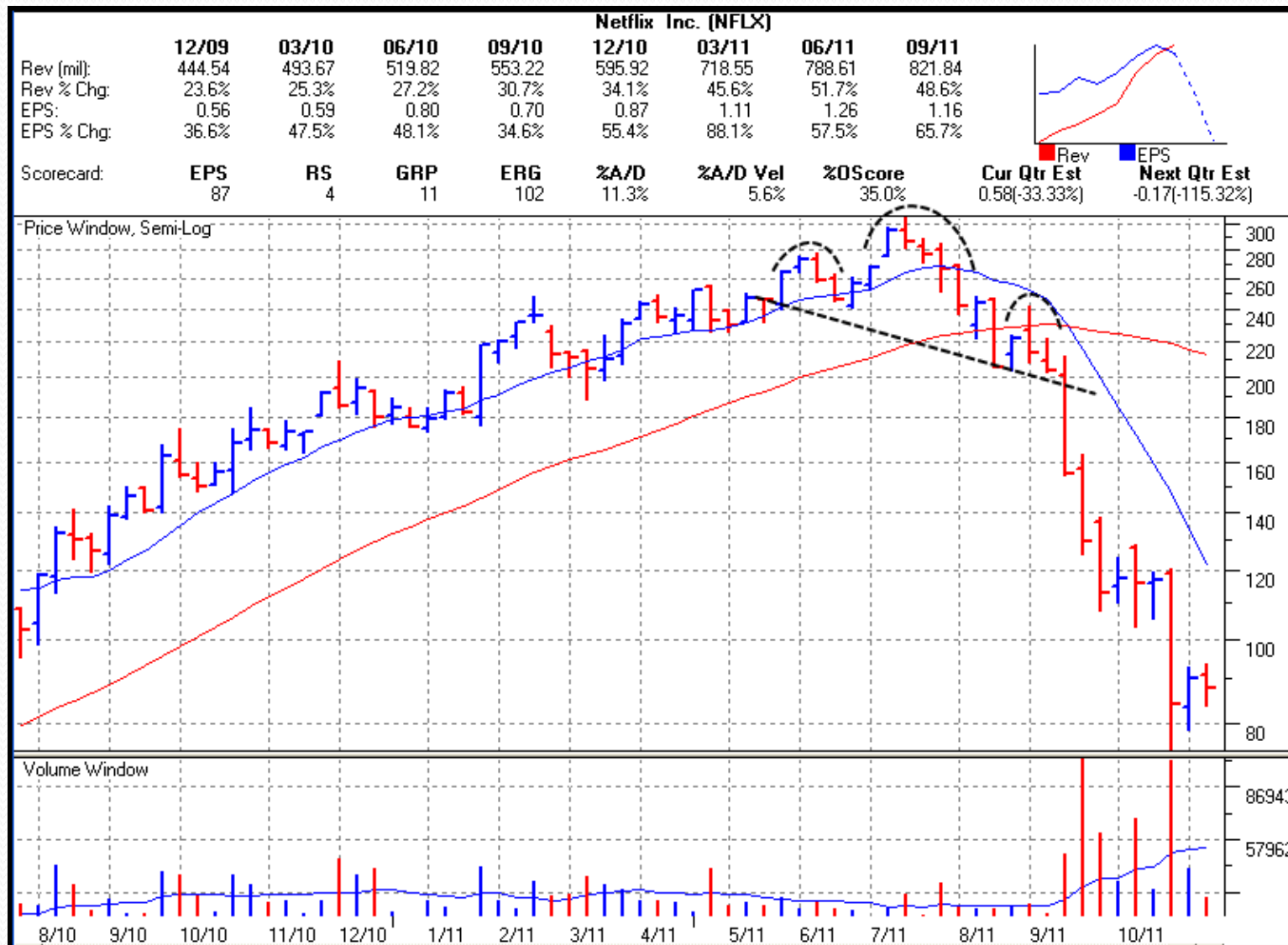




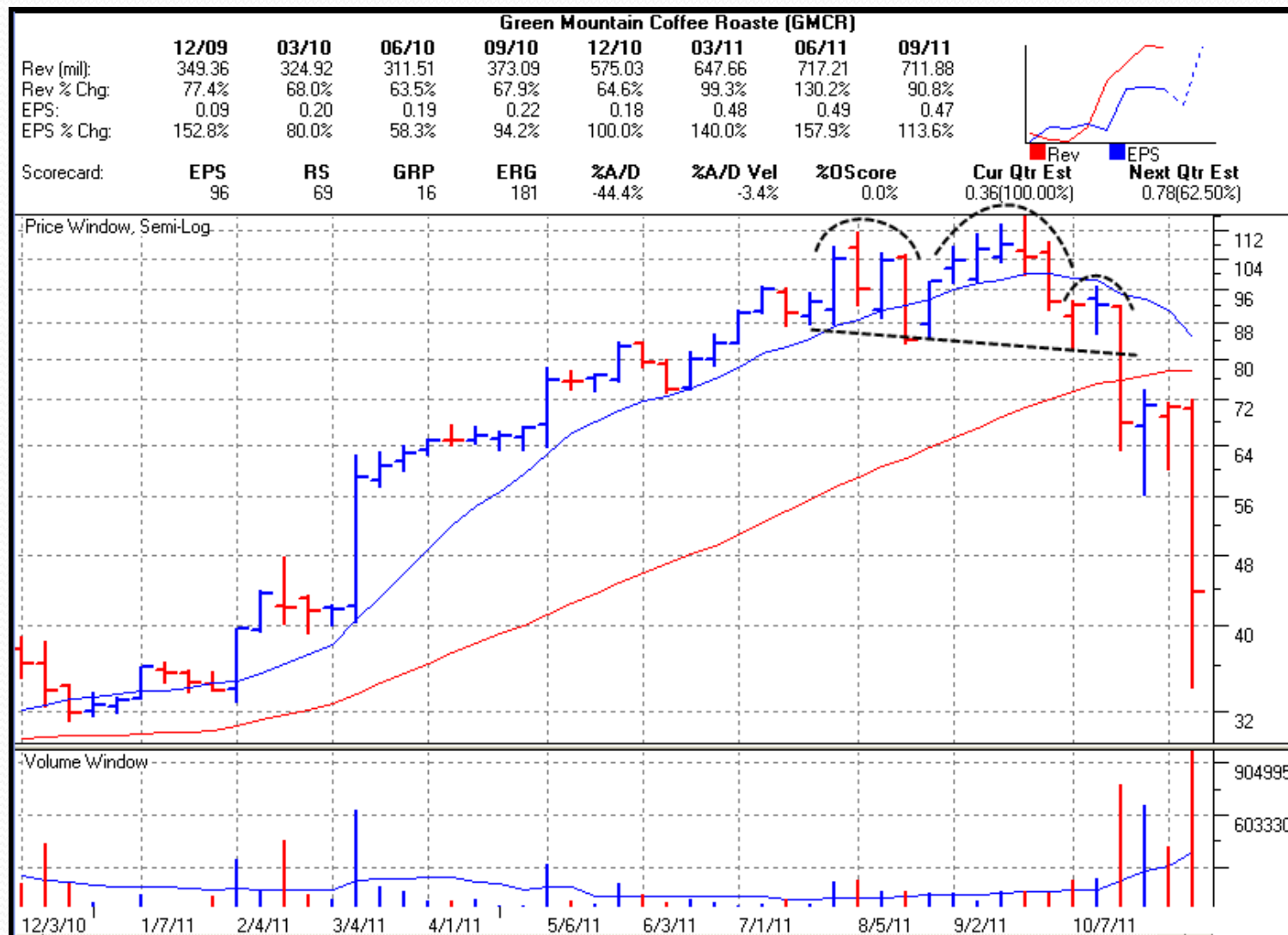
# Potash Corp. (POT) - 2008



# Netflix, Inc. (NFLX) - 2011



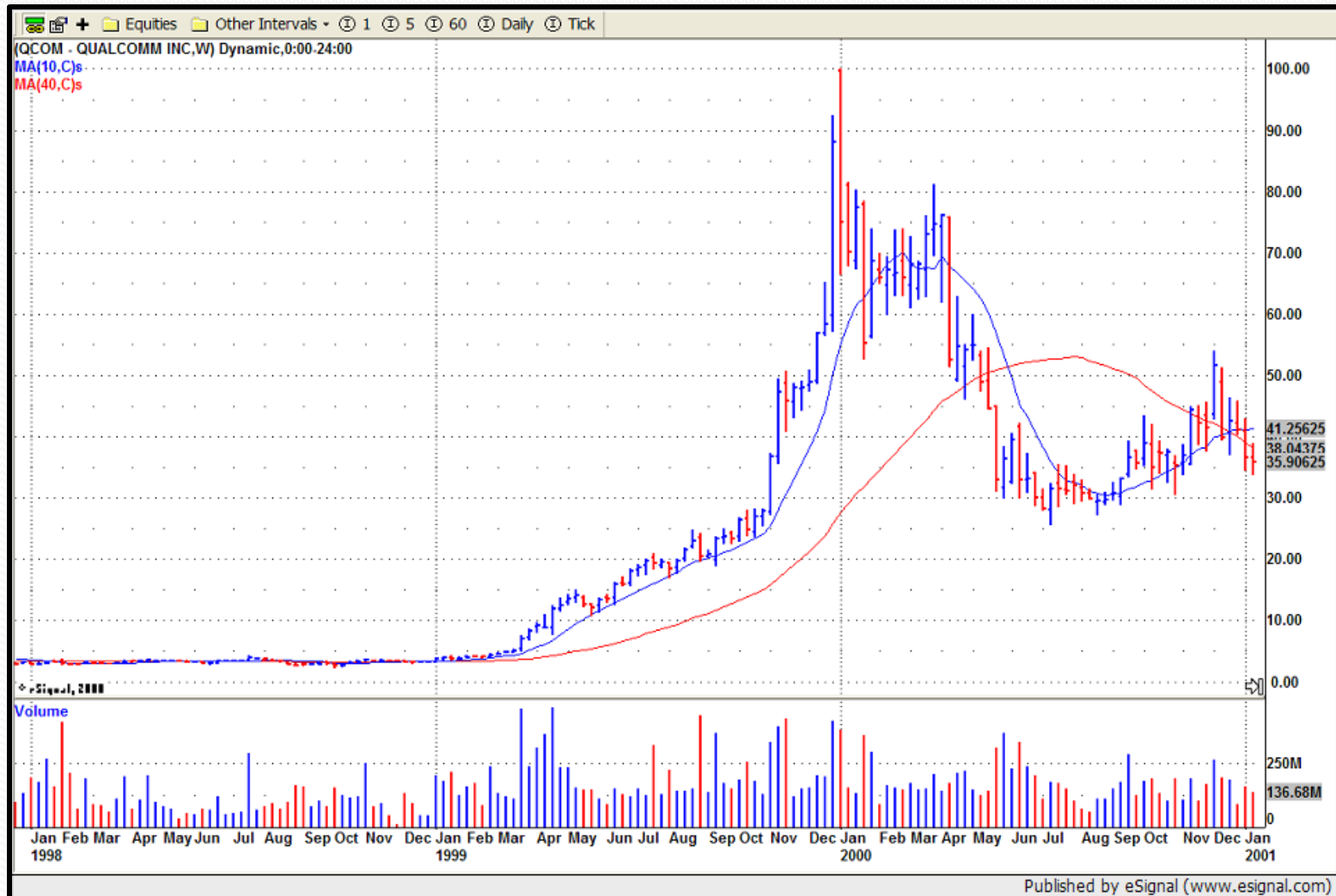
# Green Mountain Coffee Roasters, Inc. (GMCR)



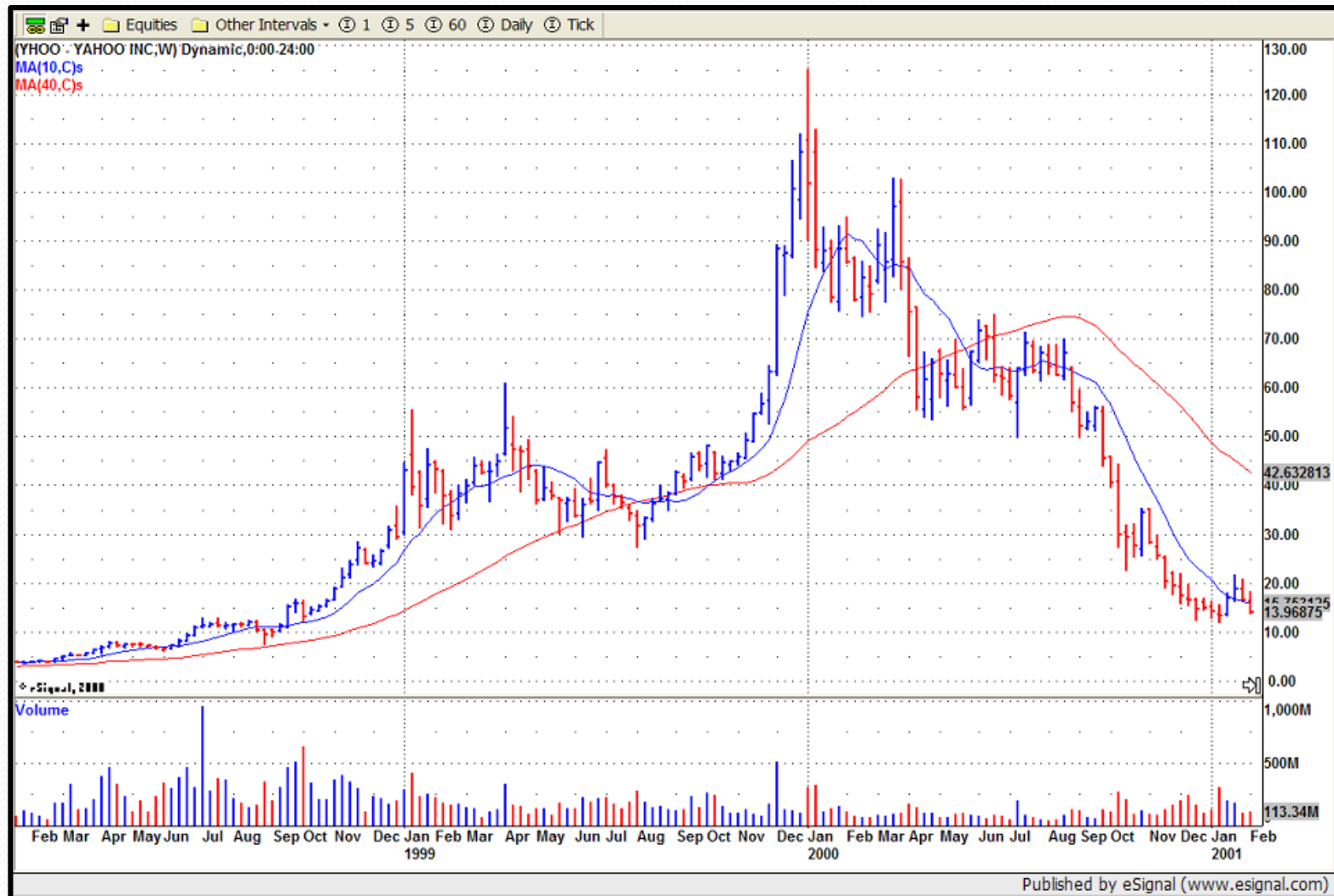


# **Late-Stage Failed-Base Top Formation**

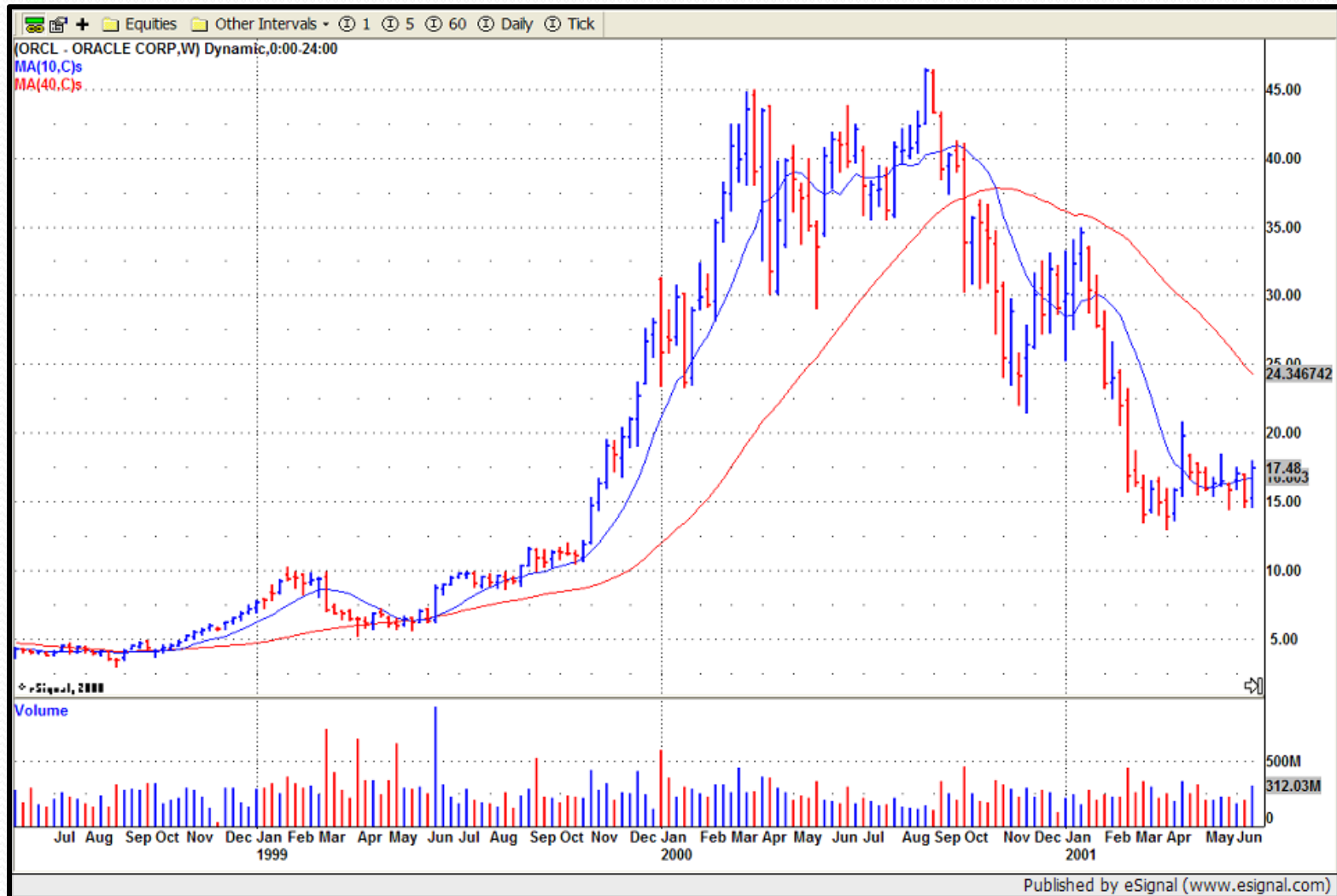
# Qualcomm, Inc. (QCOM) 2000



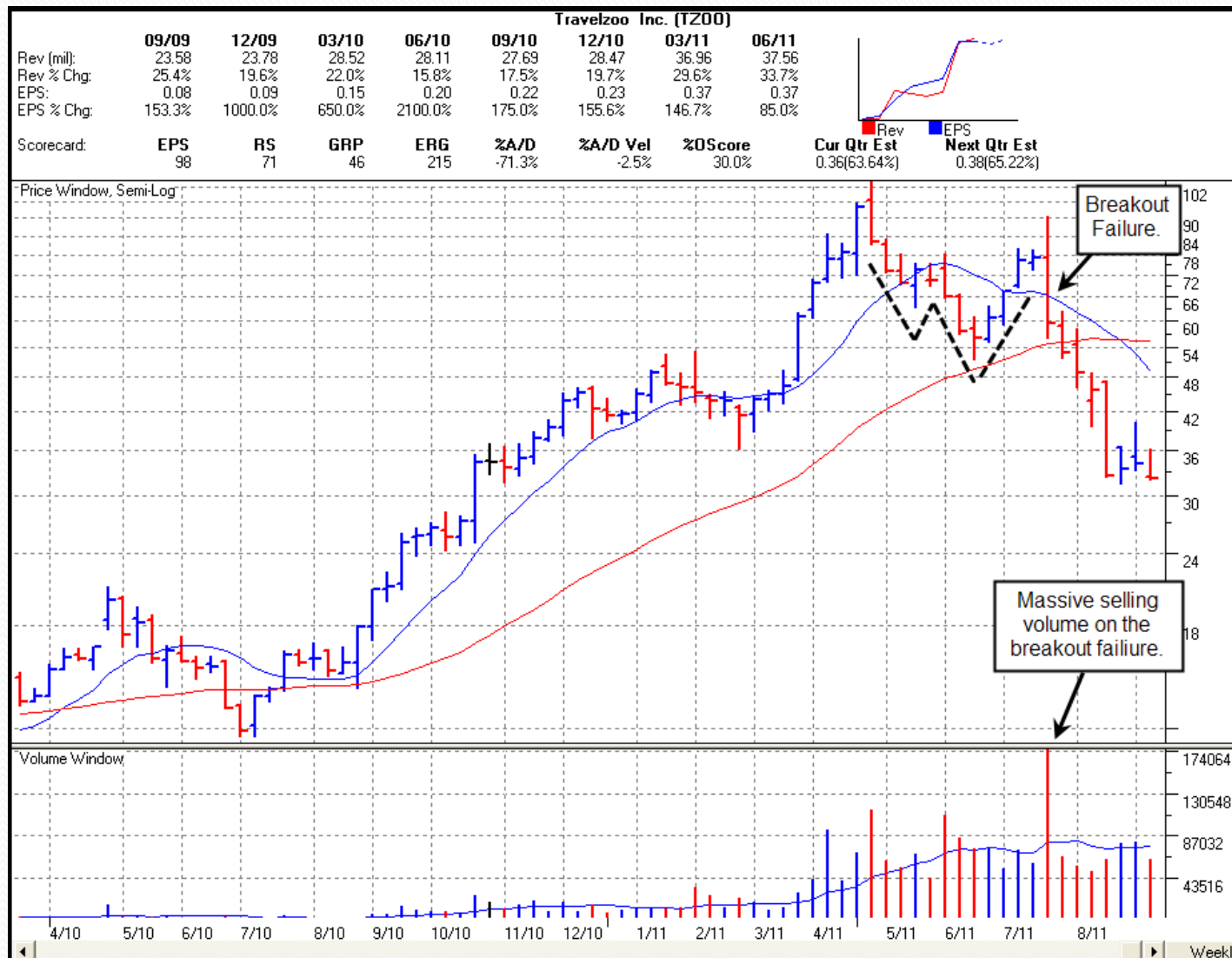
# Yahoo! Inc. (YHOO) - 2000



# Oracle Corp. (ORCL) - 2000

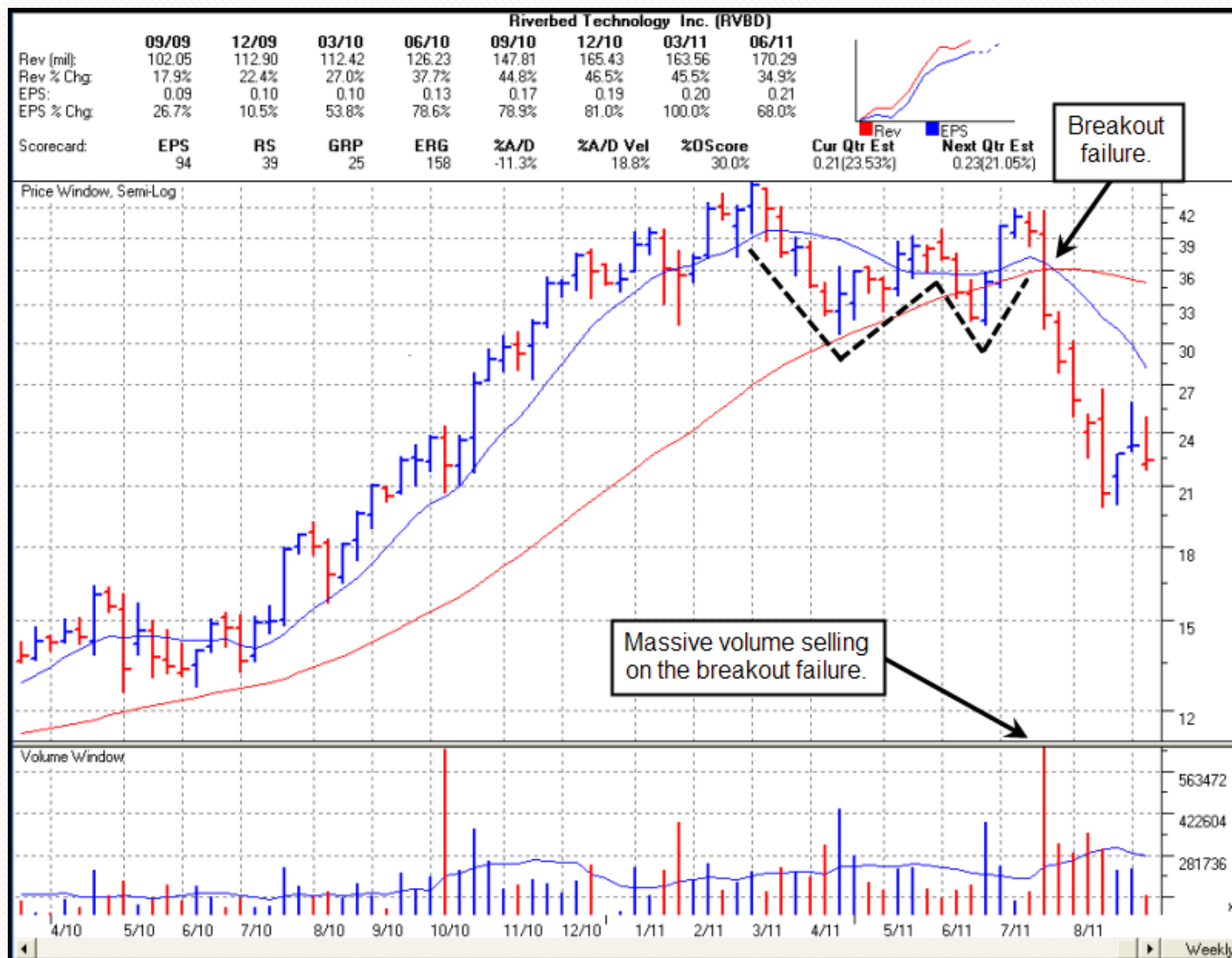


# Travelzoo, Inc. (TZOO) - 2011

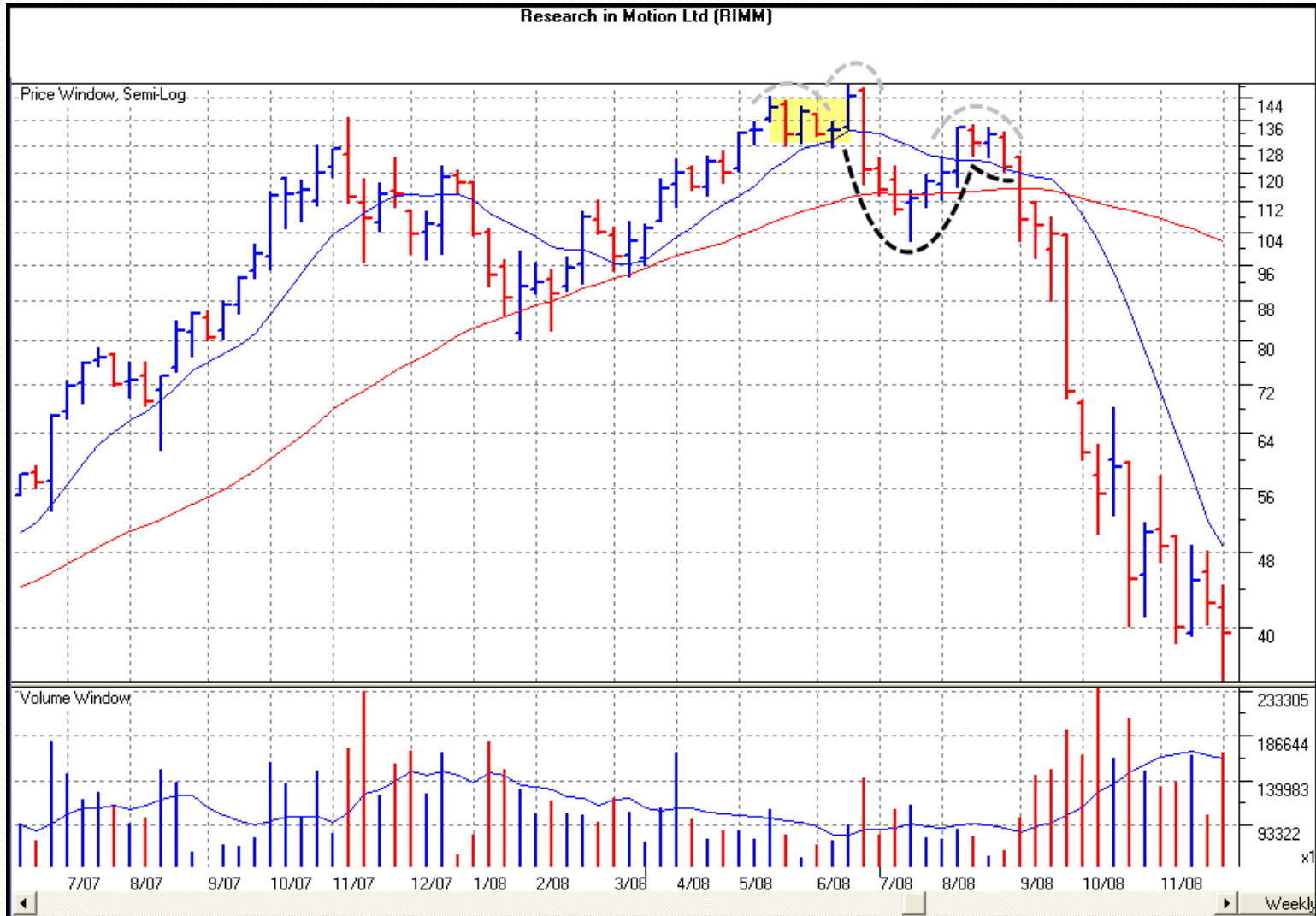




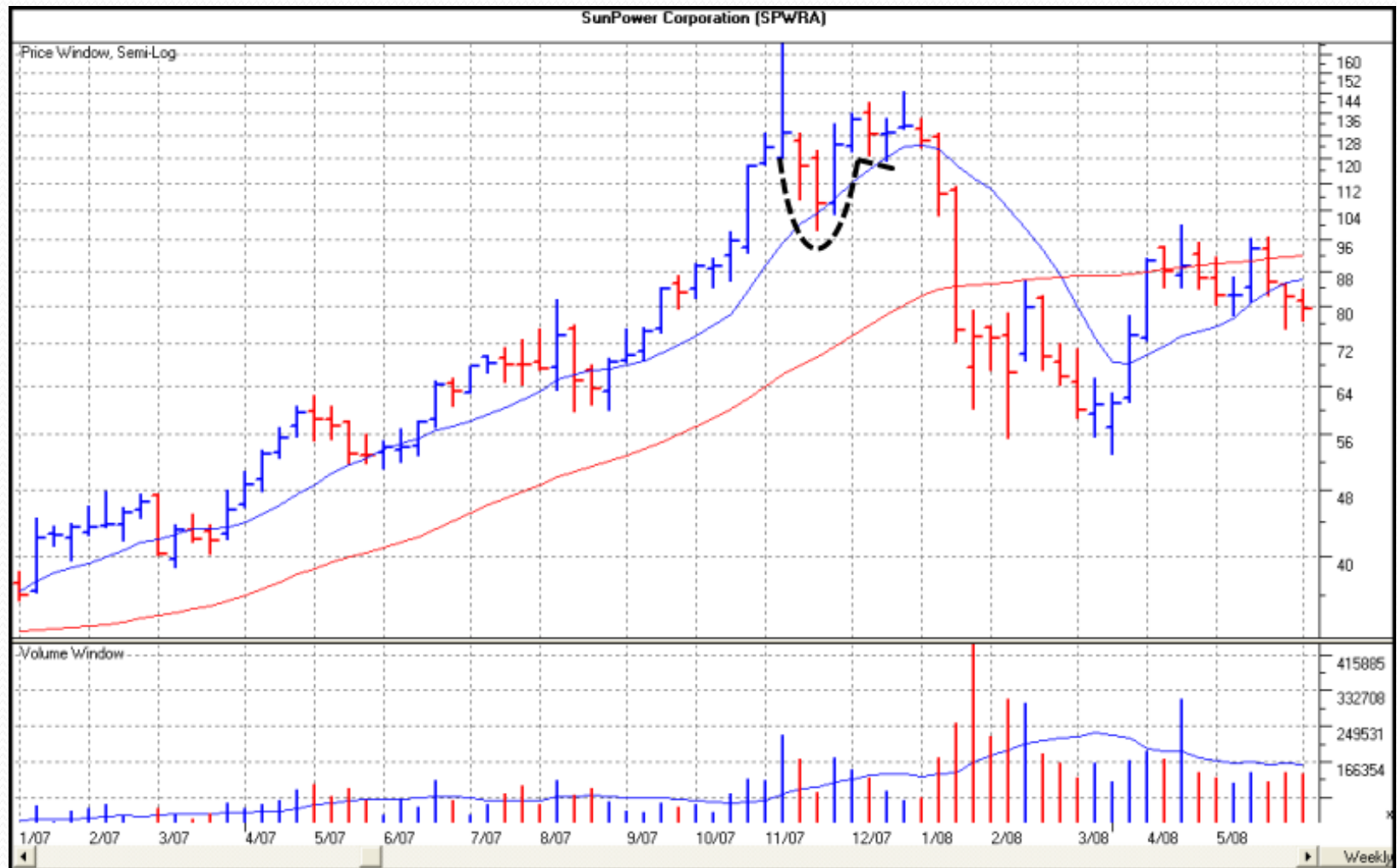
# Riverbed Technology, Inc.(RVBD) - 2011



# Research in Motion, Ltd. (RIMM) - 2008



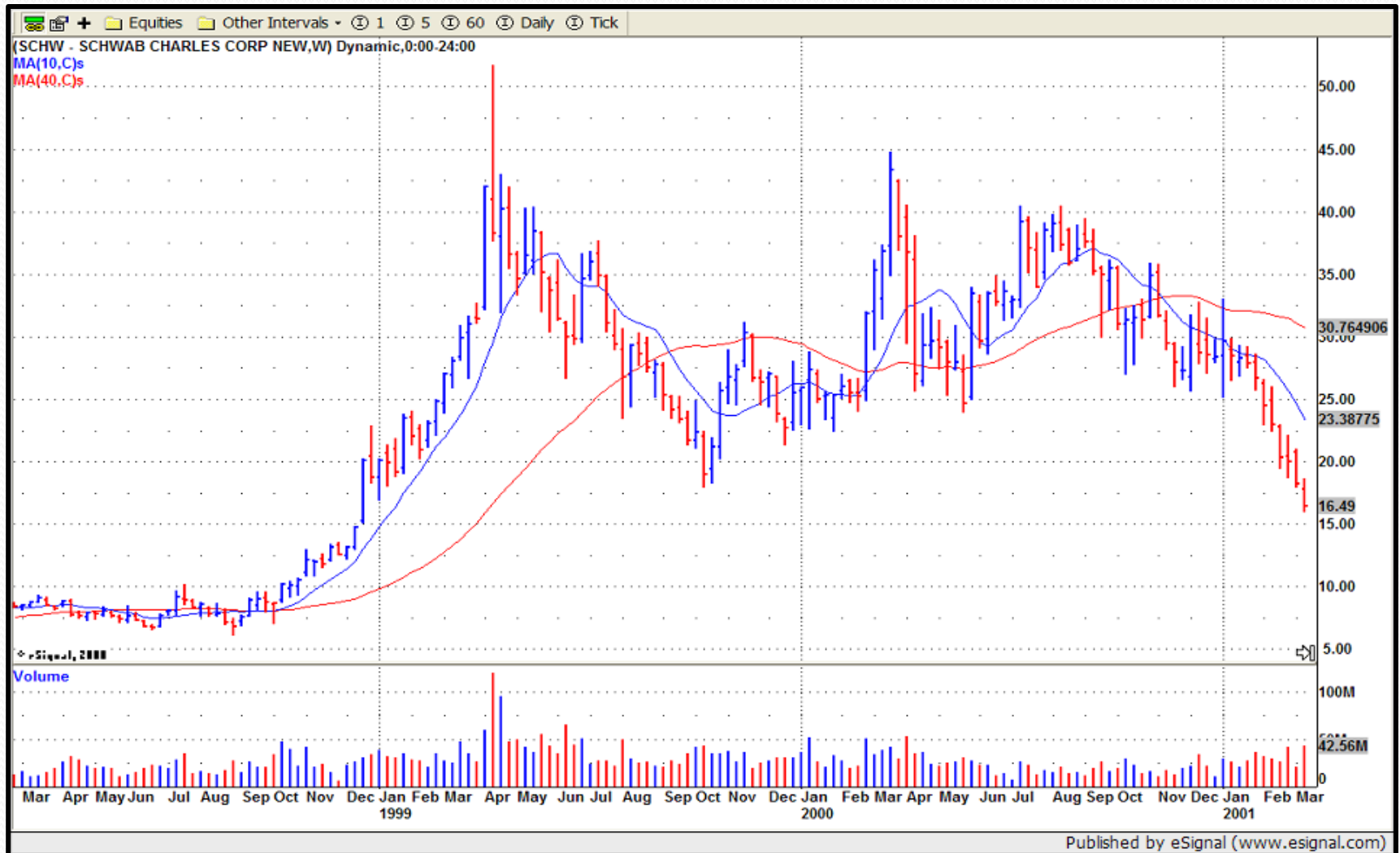
# Sunpower Corporation (SPWRA) – 2007-2008



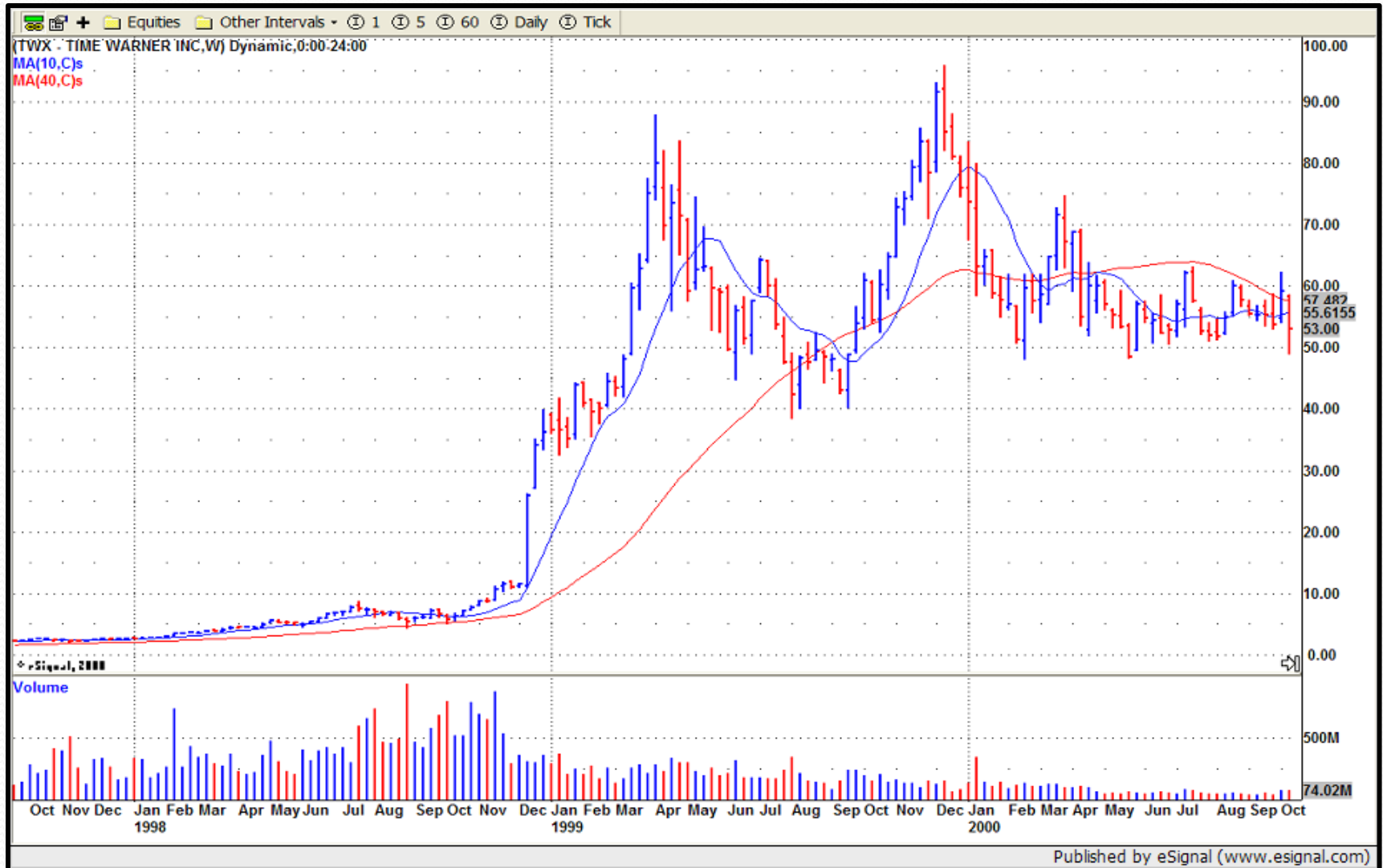
# Punchbowl of Death Top Formation



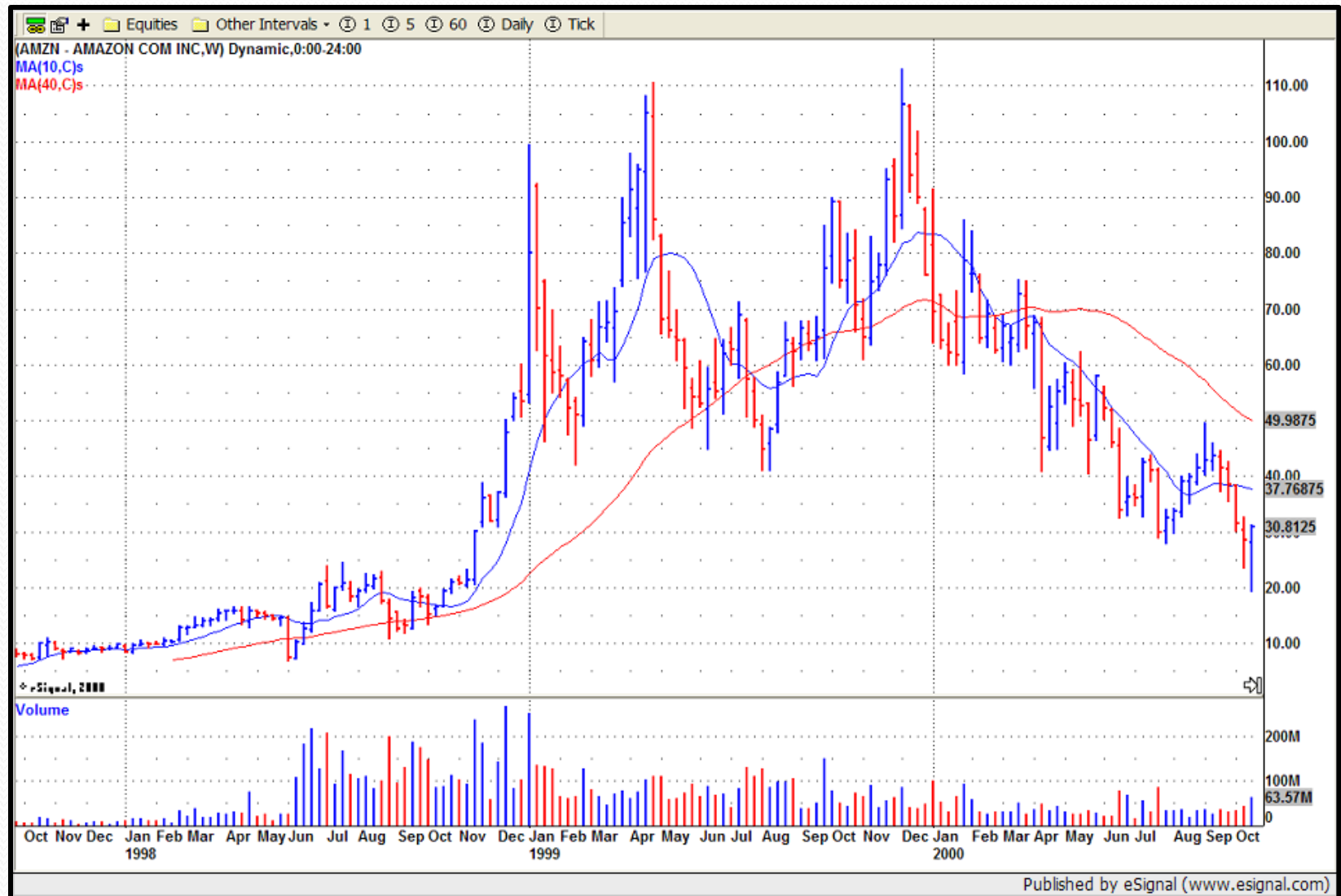
# Charles Schwab & Co. (SCHW) 2000



# America Online (AOL) - 2000

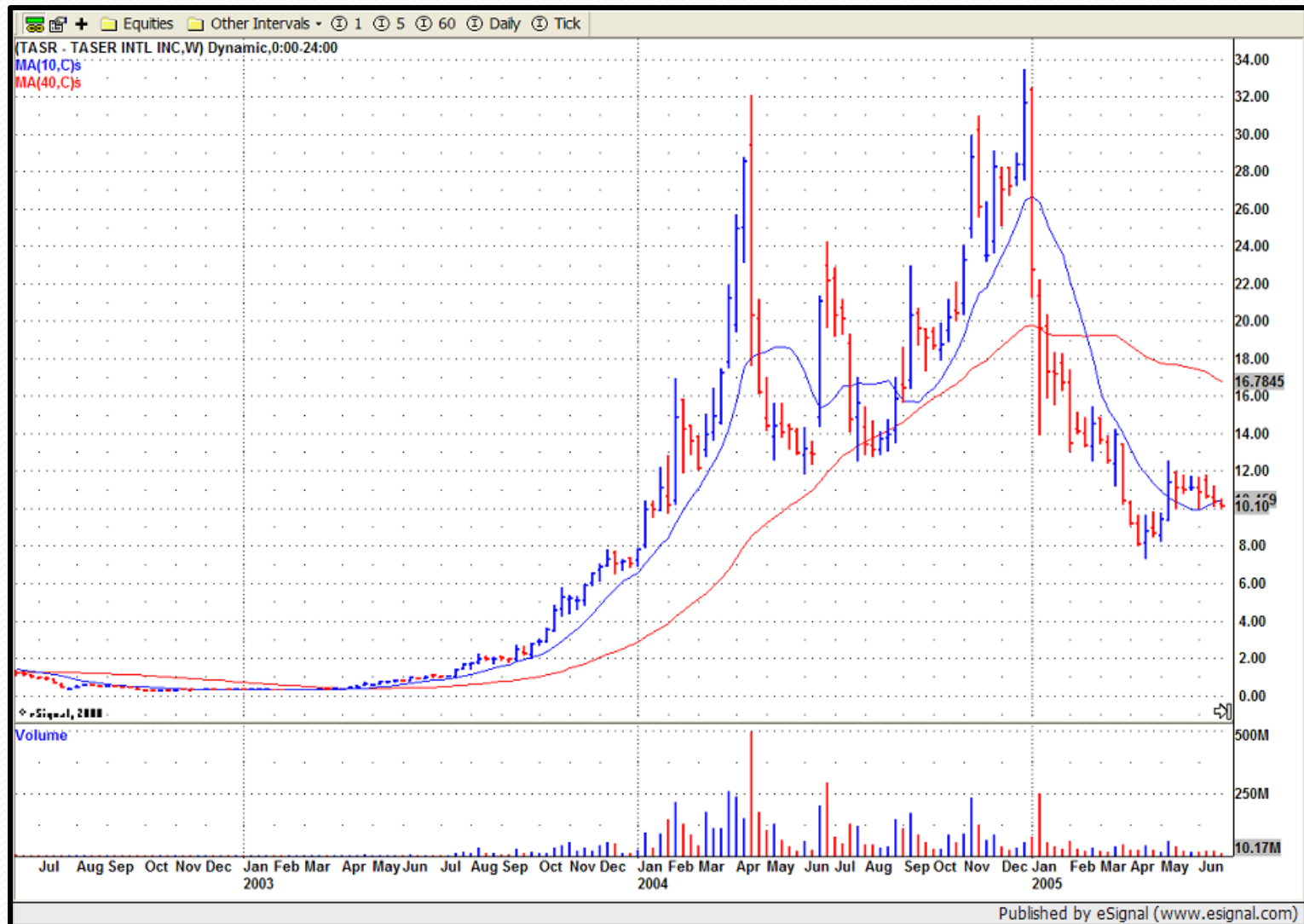


# Amazon.com (AMZN) 1999





# Taser International, Inc. (TASR) – 2004-2005

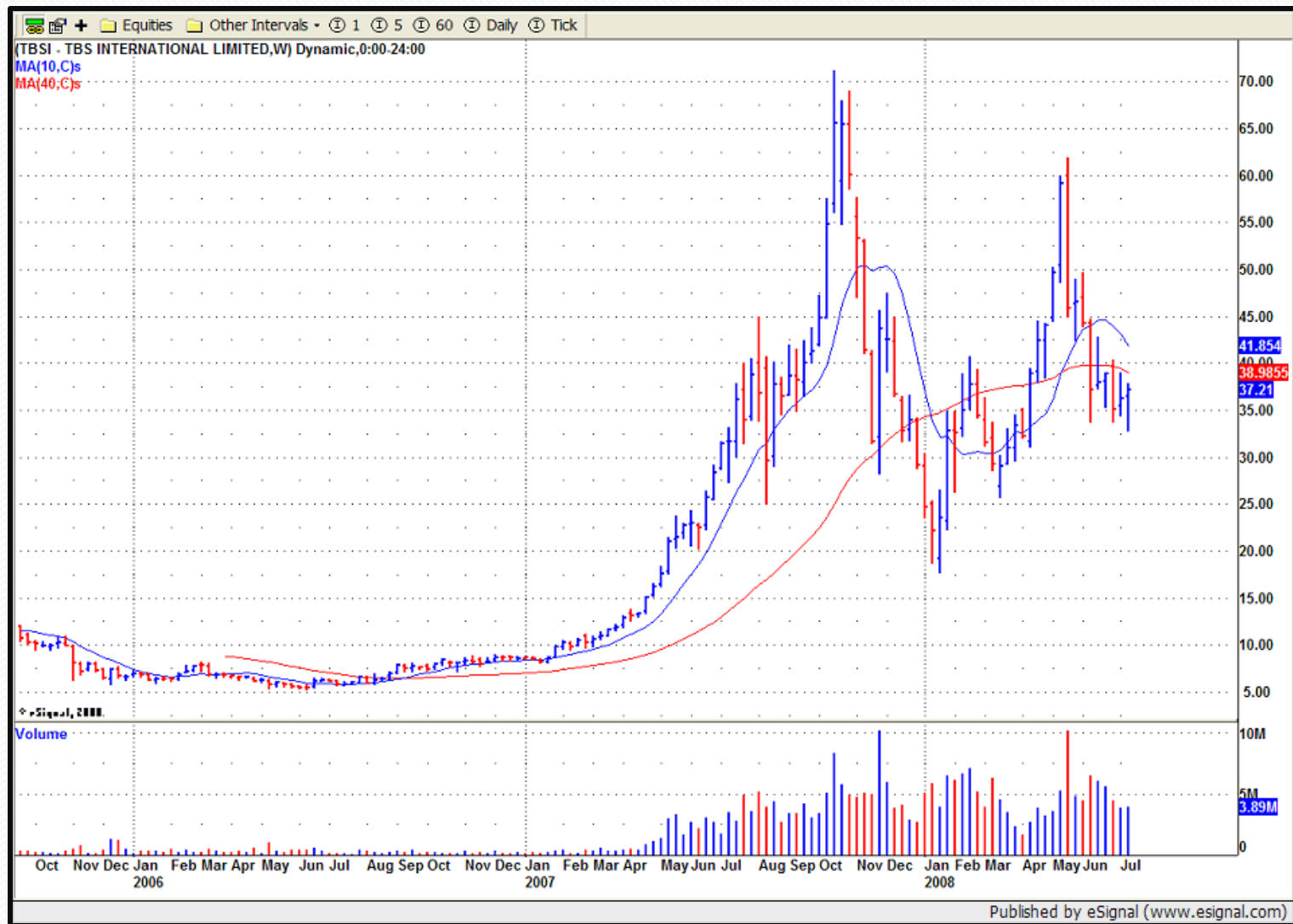




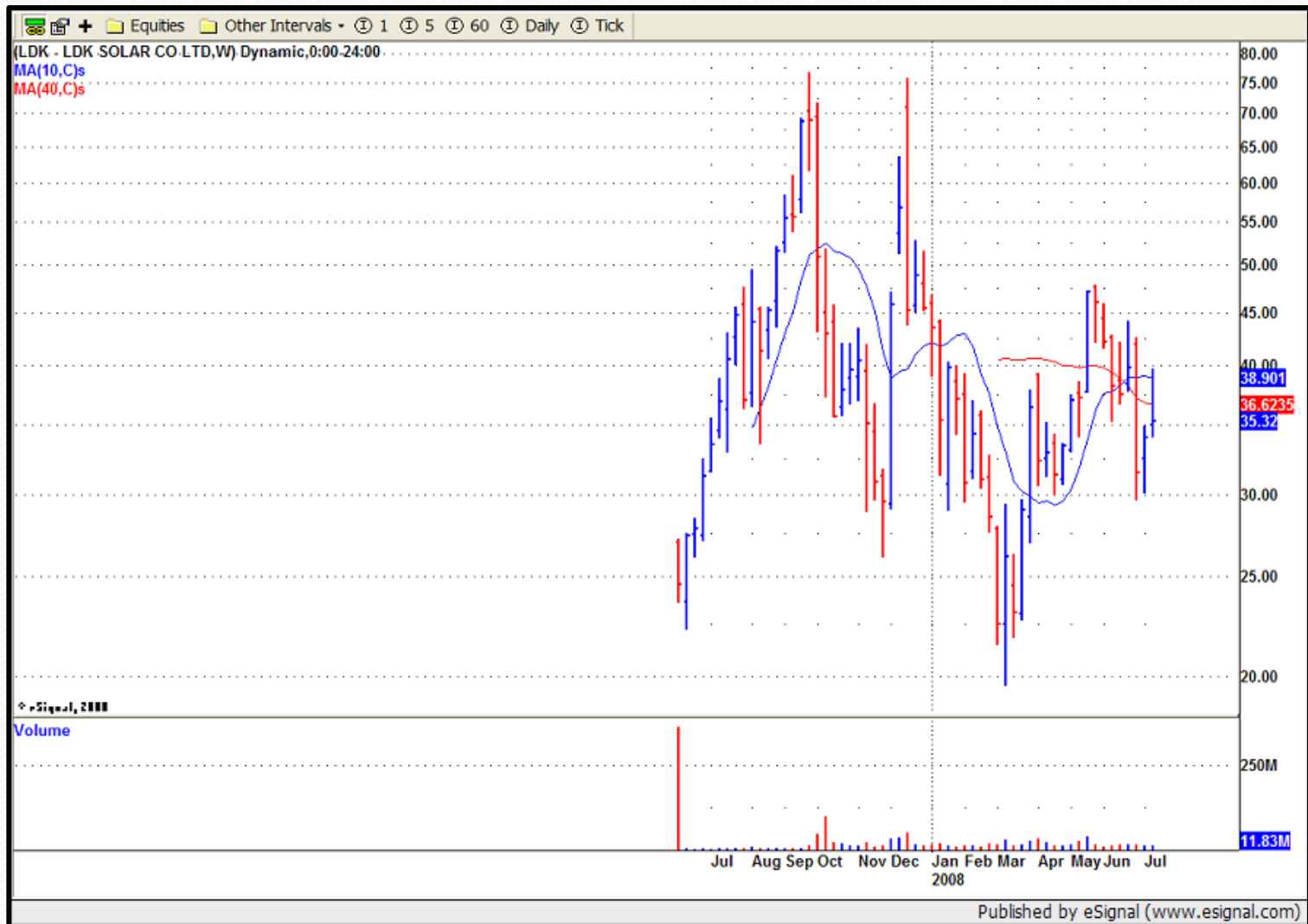
# Dryships, Inc. (DRYS) - 2008



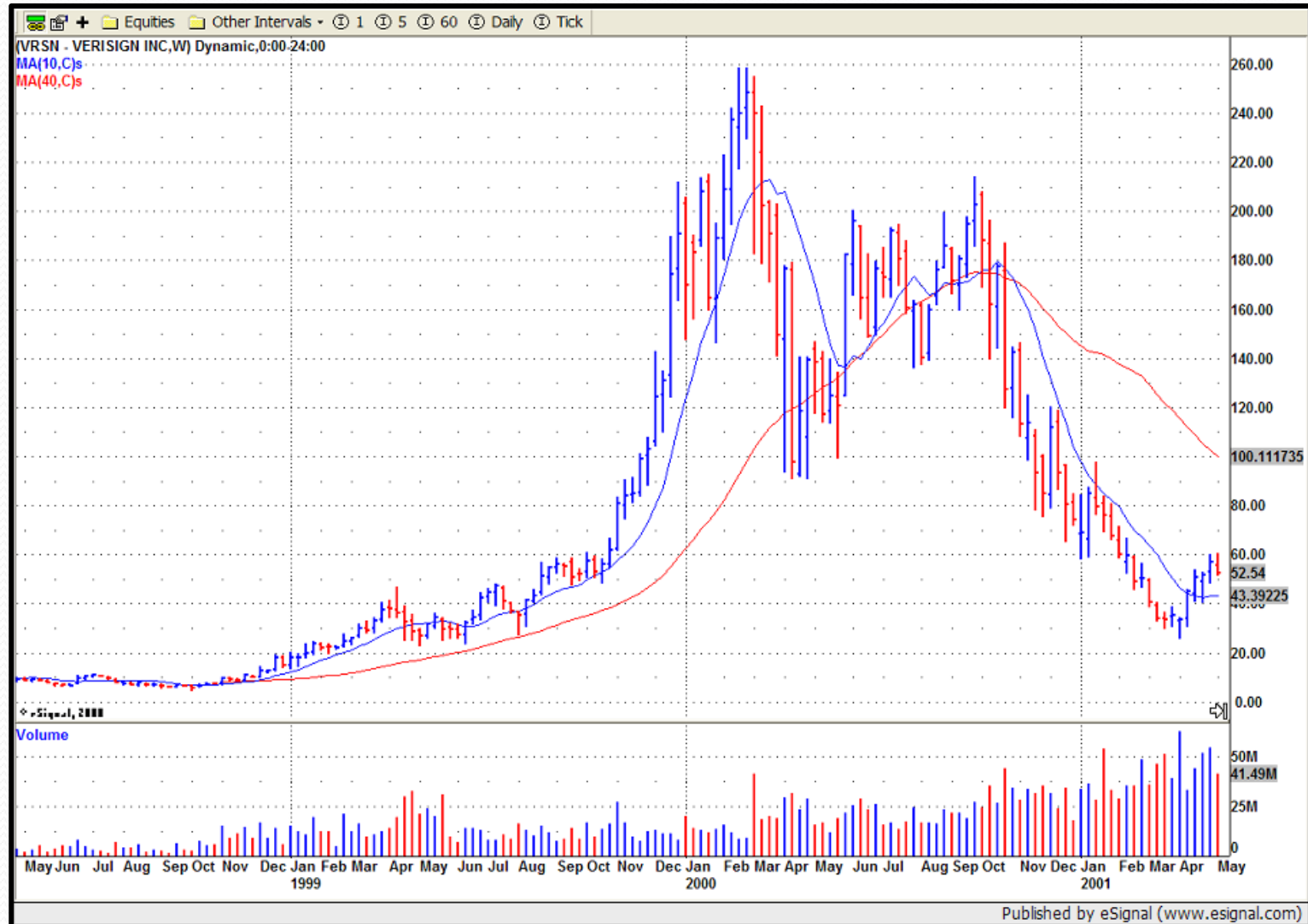
# TBS International, Ltd. (TBSI)



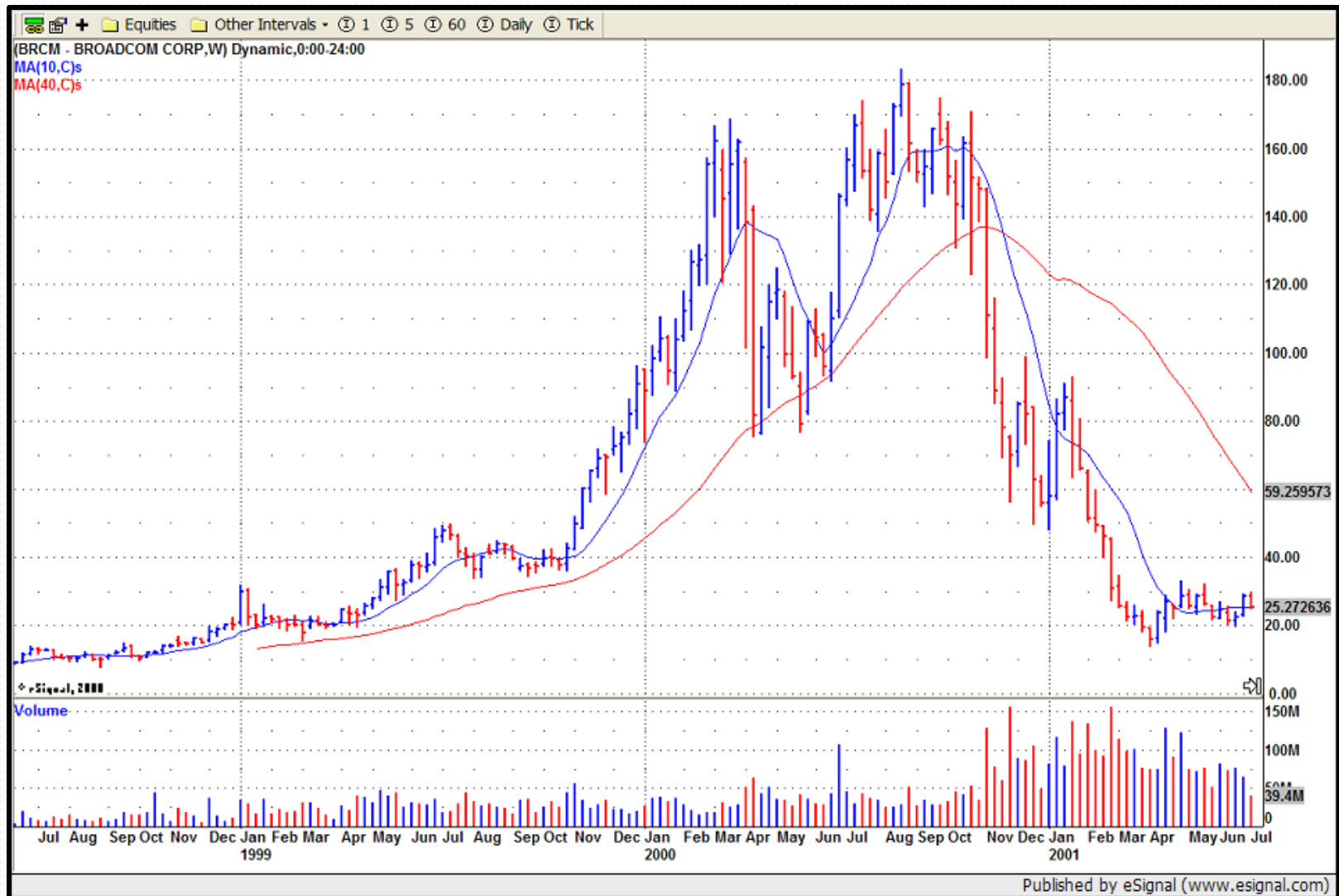
# LDK Solar Co., Ltd. (LDK) – 2007-2008



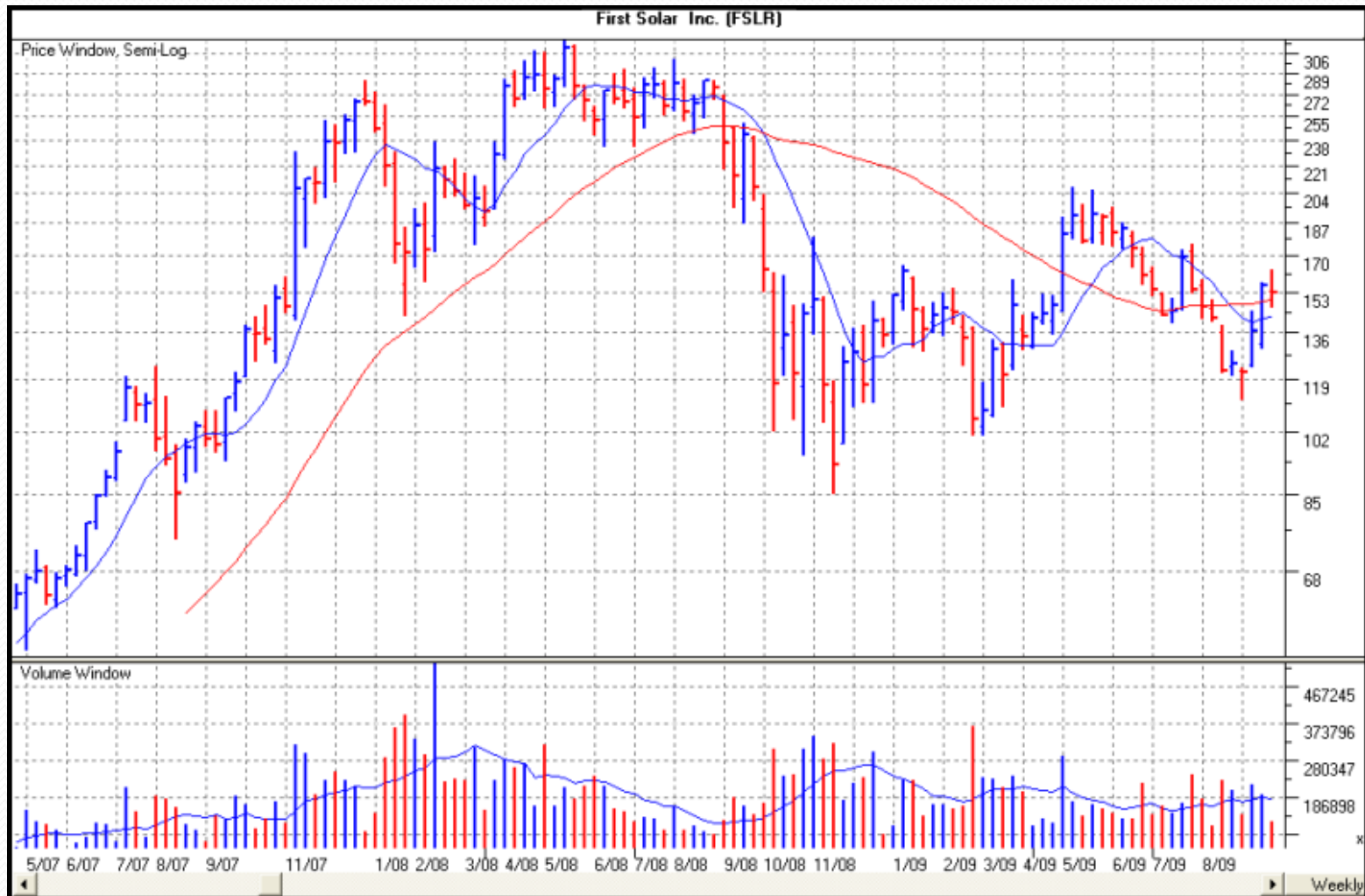
# Verisign, Inc. (VRSN) - 2000



# Broadcom Corp. (BRCM) - 2000



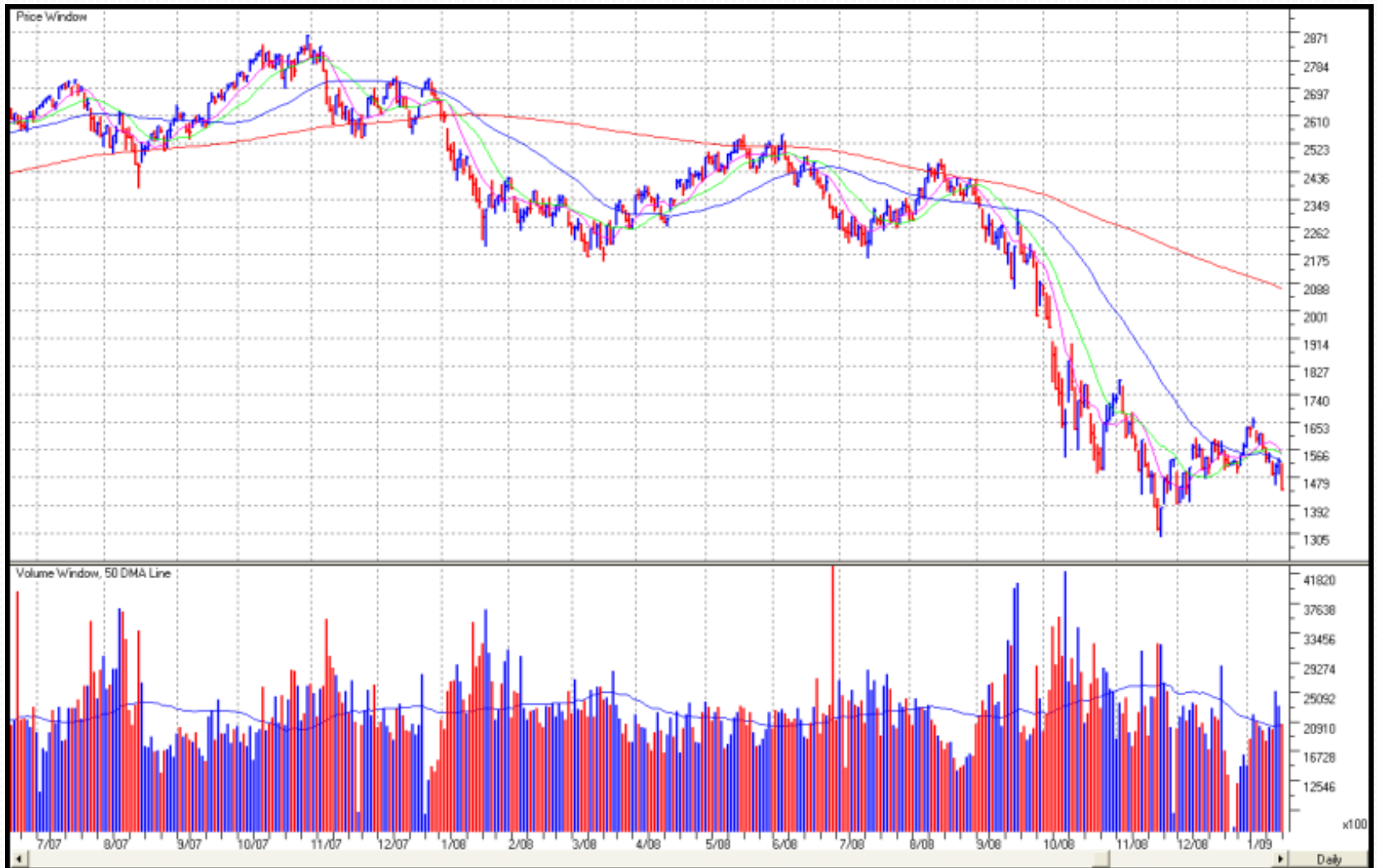
# First Solar, Inc. (FSLR) - 2007





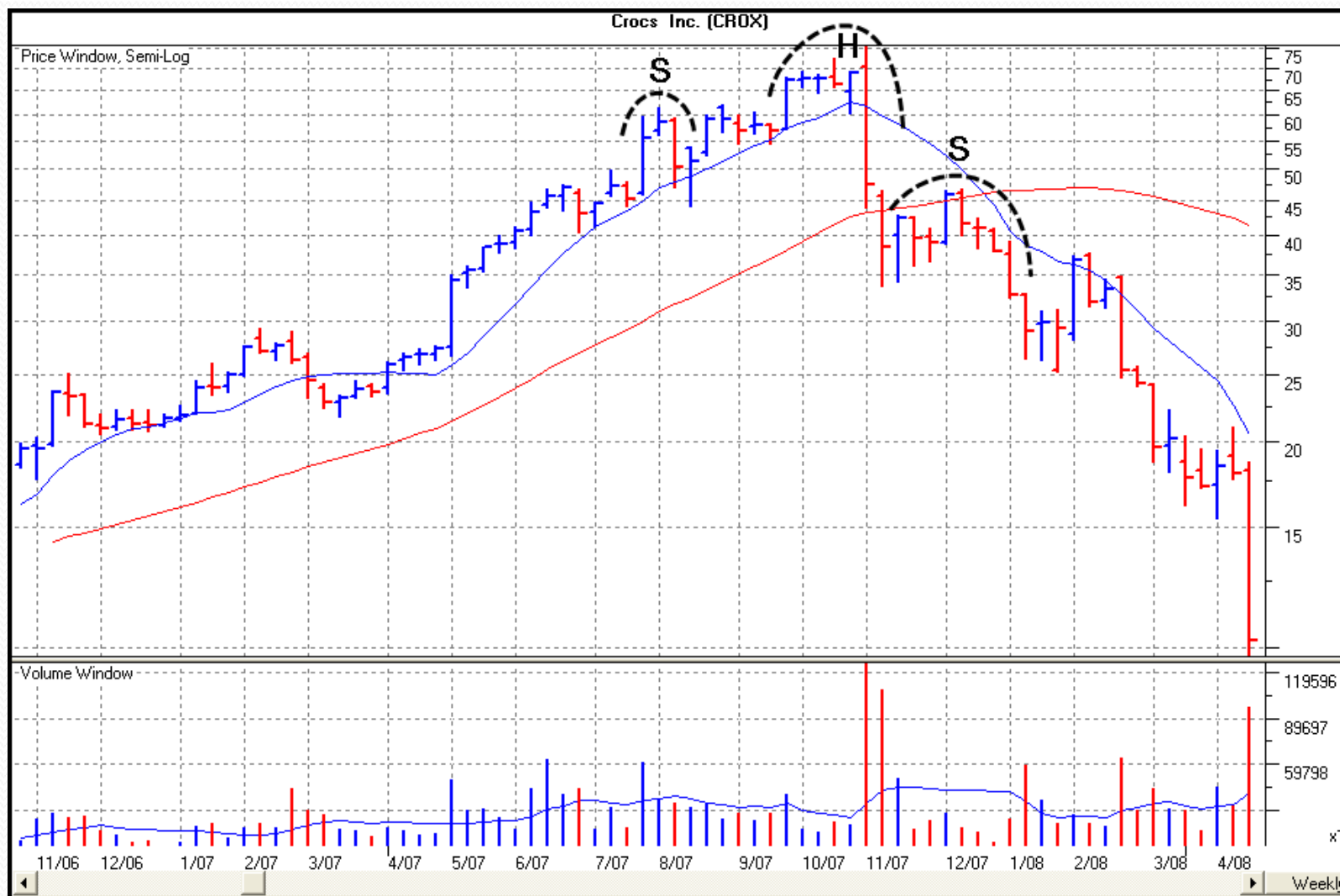
# Short-Selling Mechanics

# NASDAQ Composite Index – 2007 thru 2008





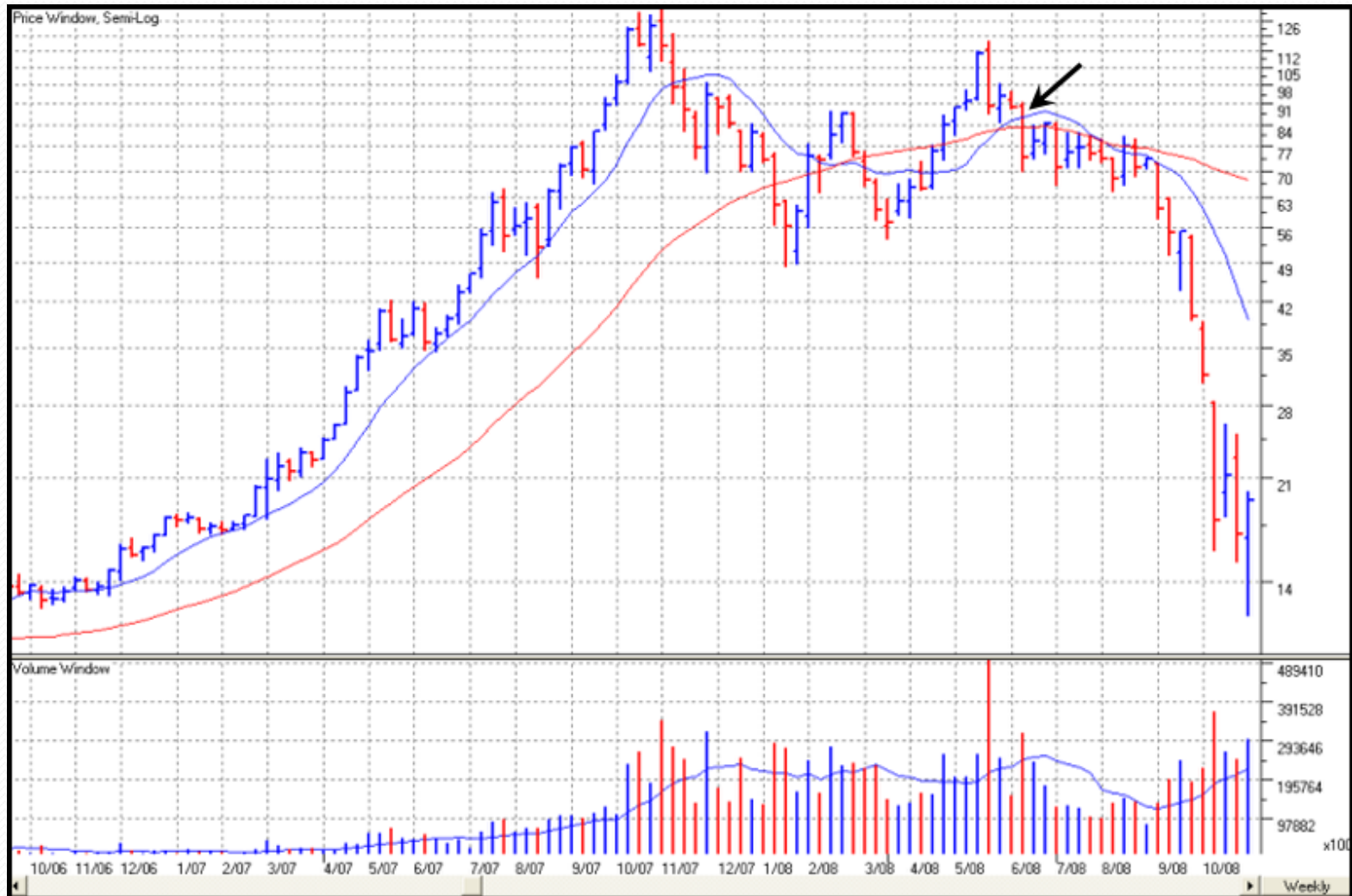
# Crocs, Inc. (CROX) - 2007



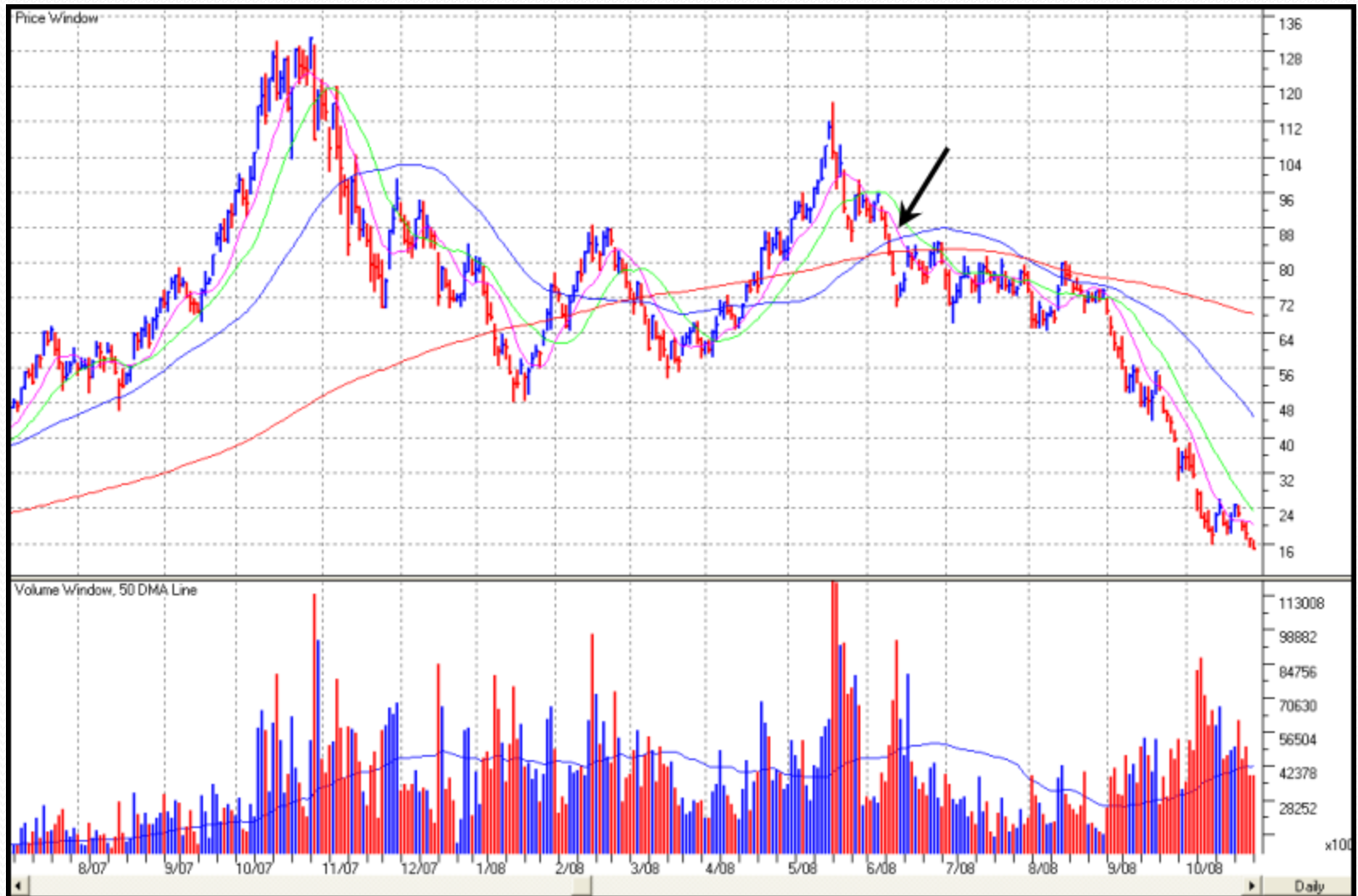
# Crocs, Inc. (CROX) - 2007



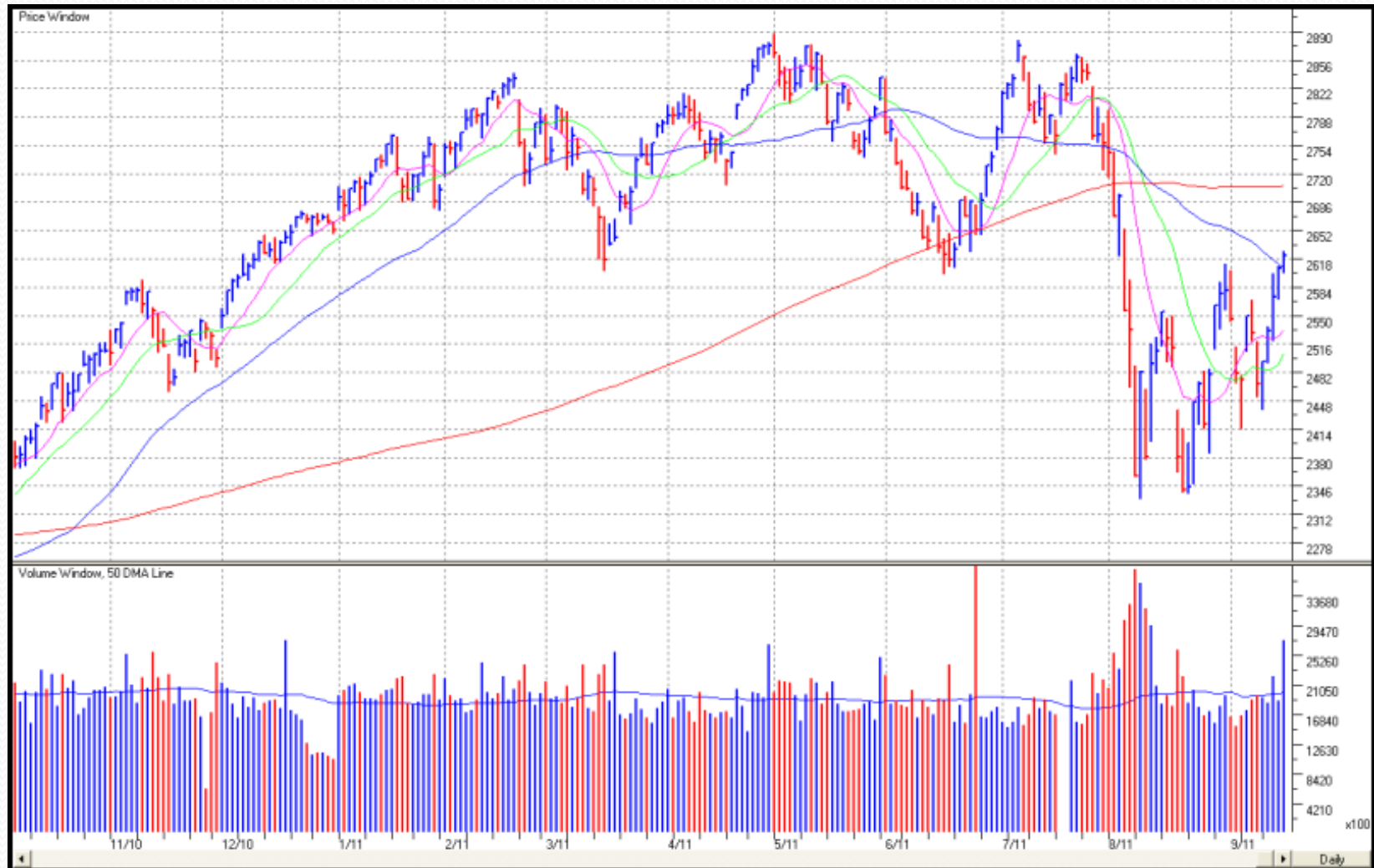
# Dryships, Inc. (DRYS) – 2007-2008



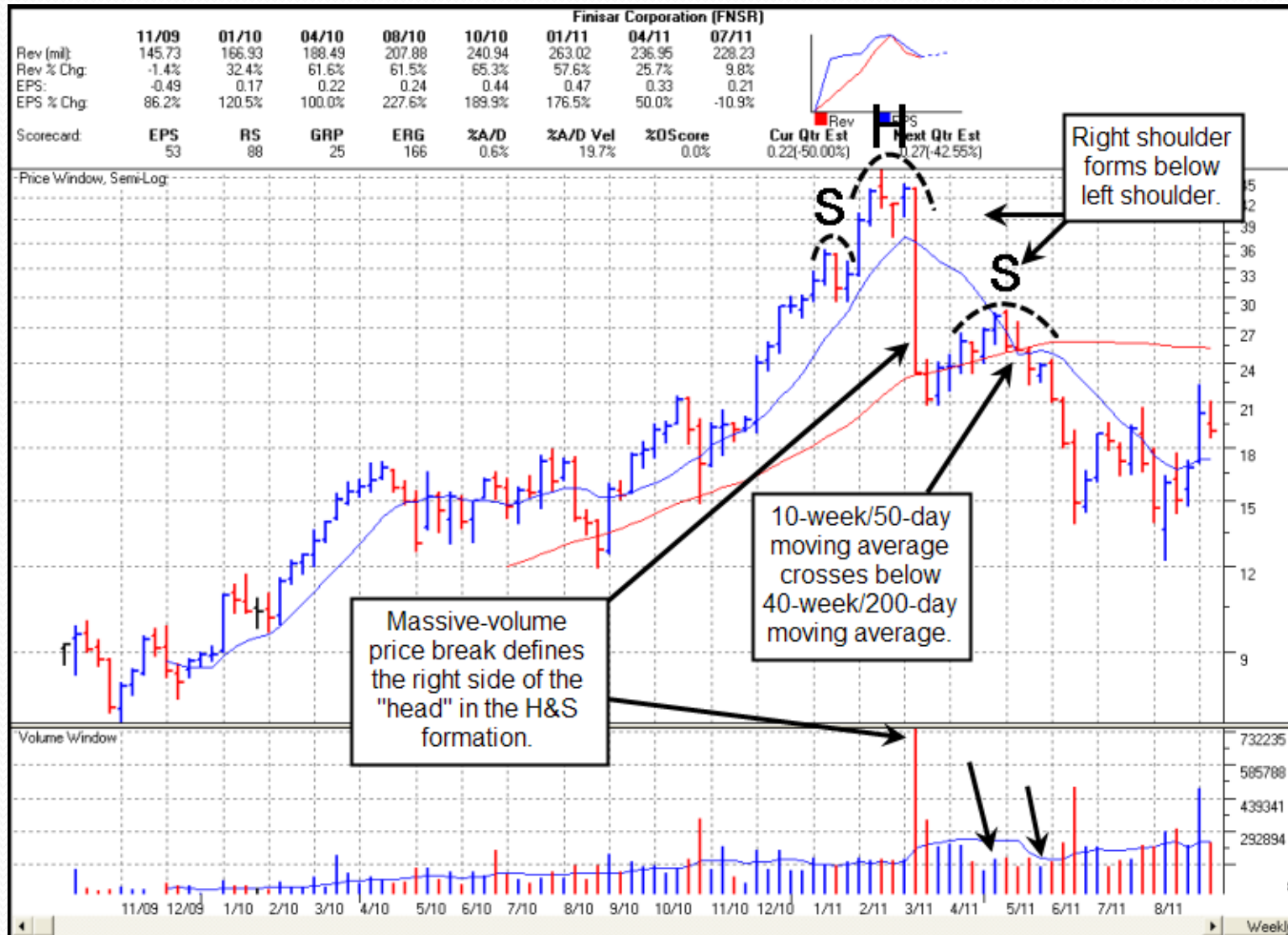
# Dryships, Inc. (DRYS) – 2007-2008



# NASDAQ Composite Index – 2011



# Finisar Corp. (FNSR) – 2011

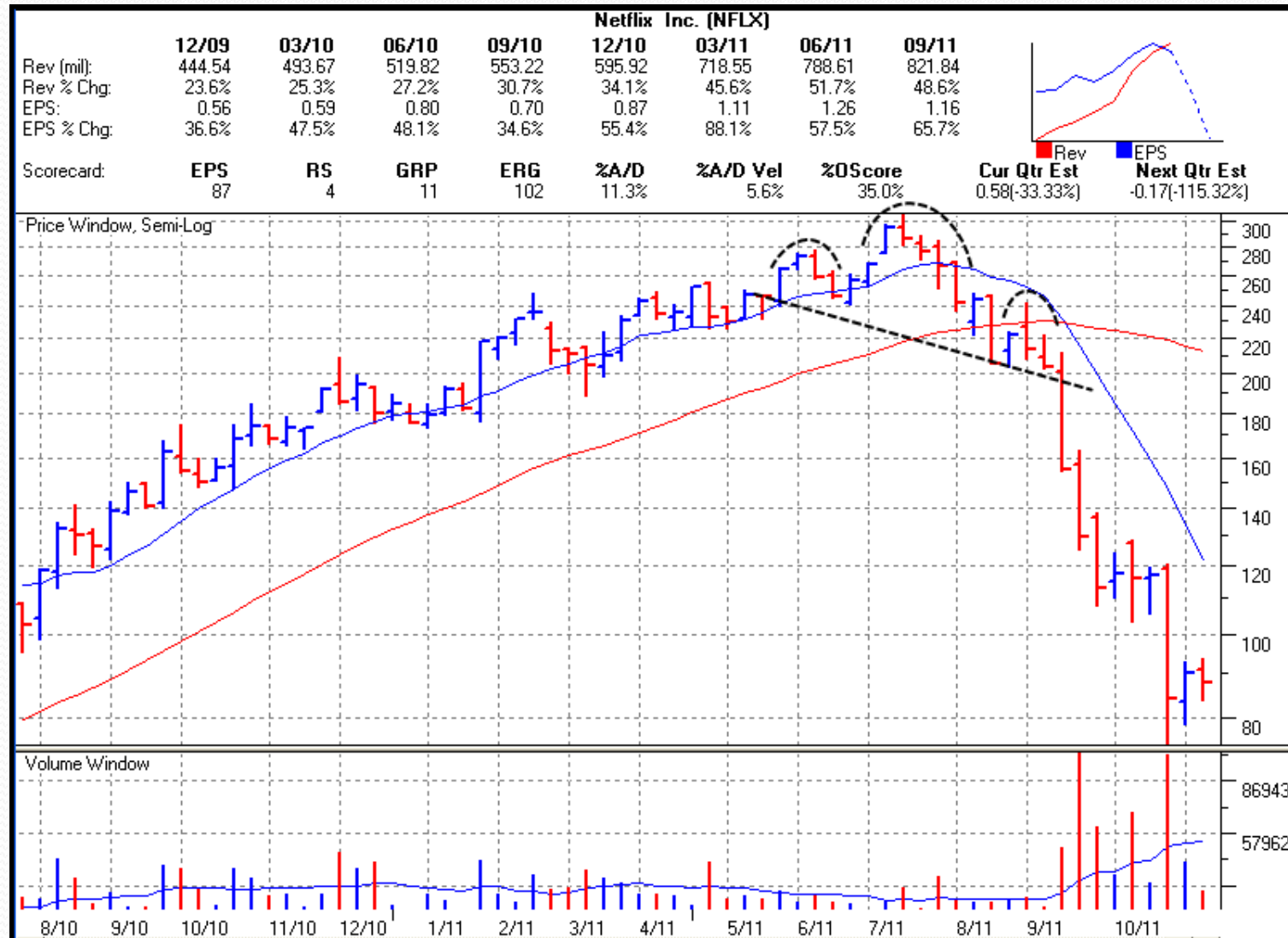




# Finisar Corp. (FNSR) – 2011

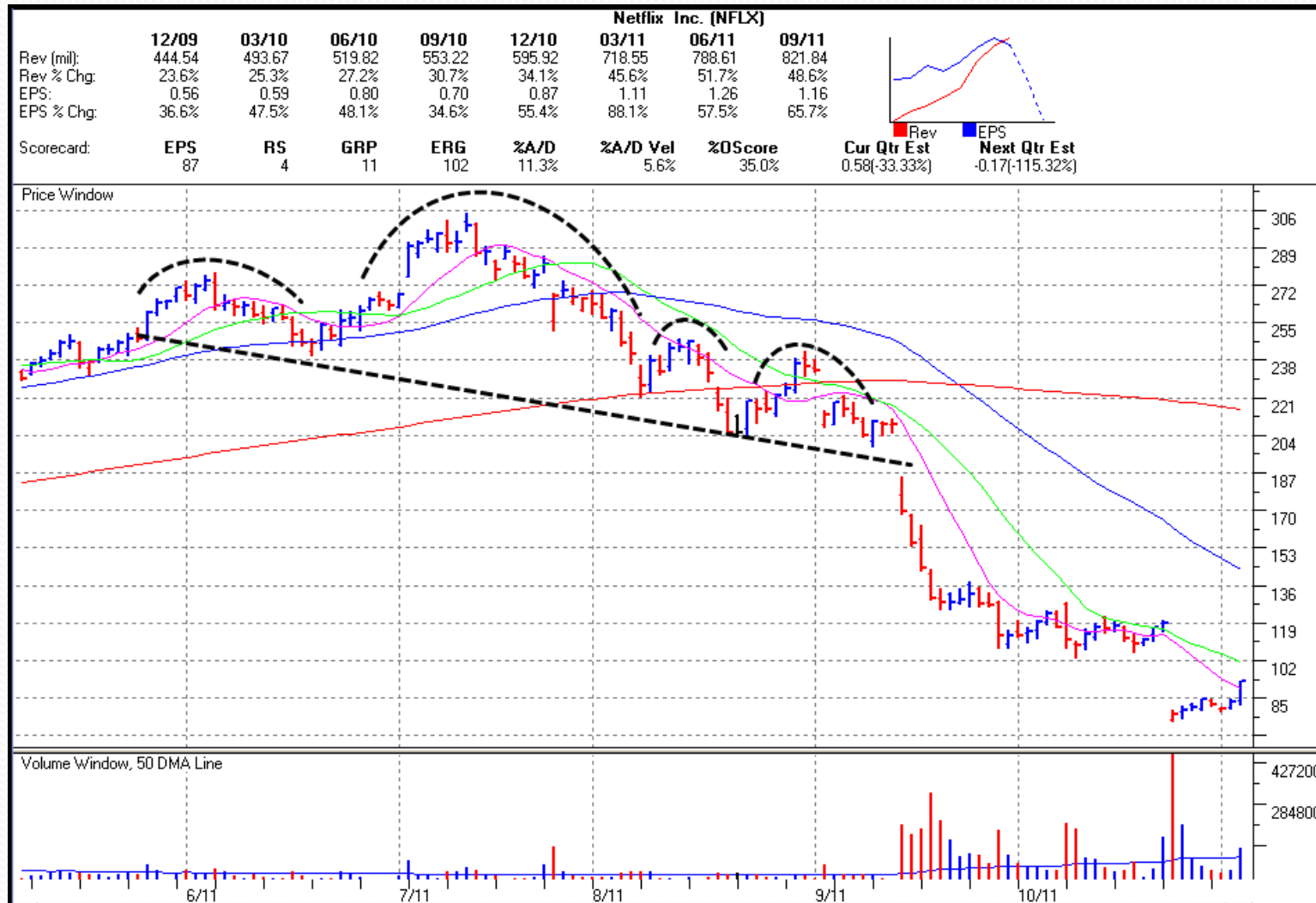


# Netflix, Inc. (NFLX) - 2011

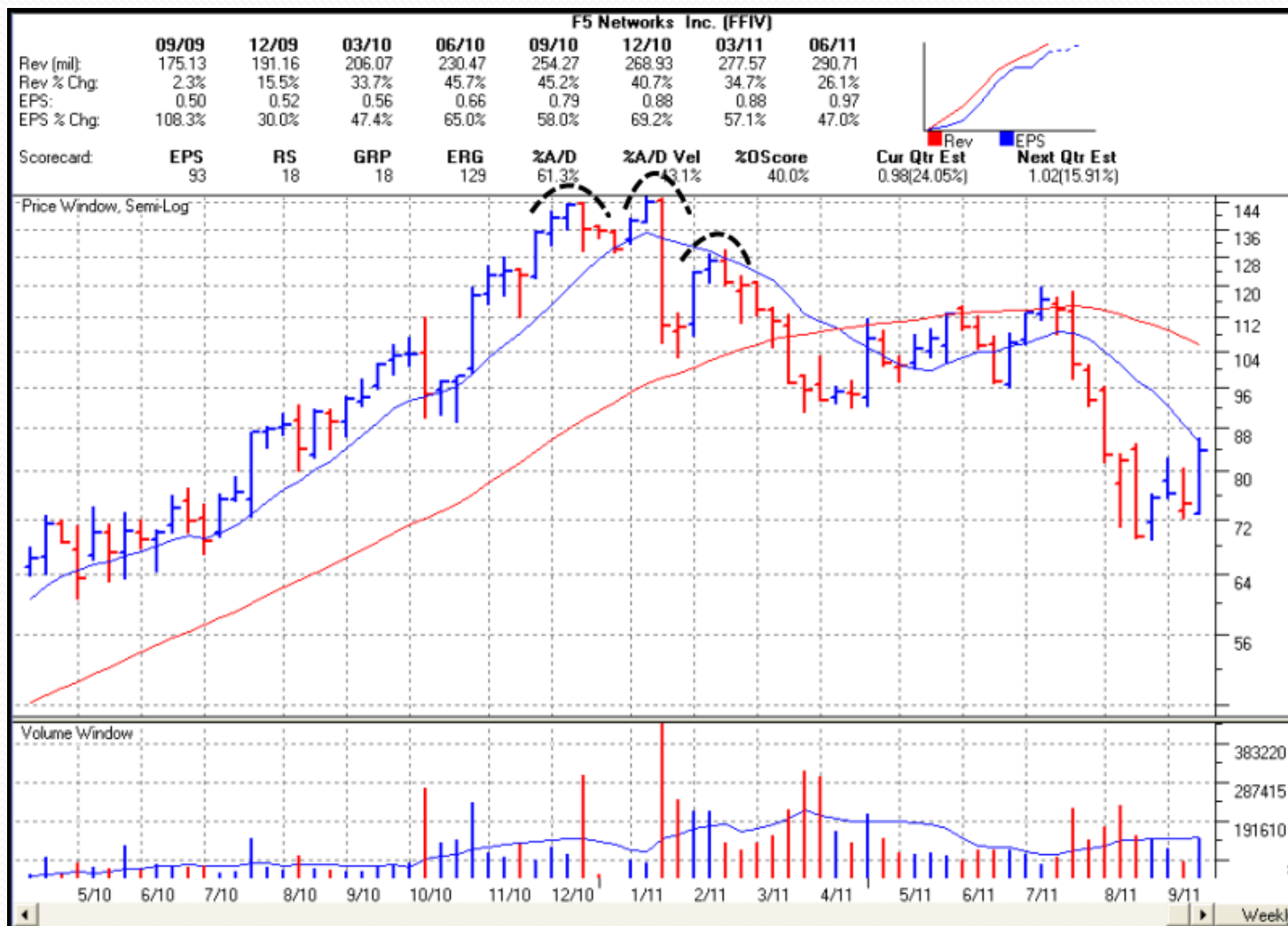




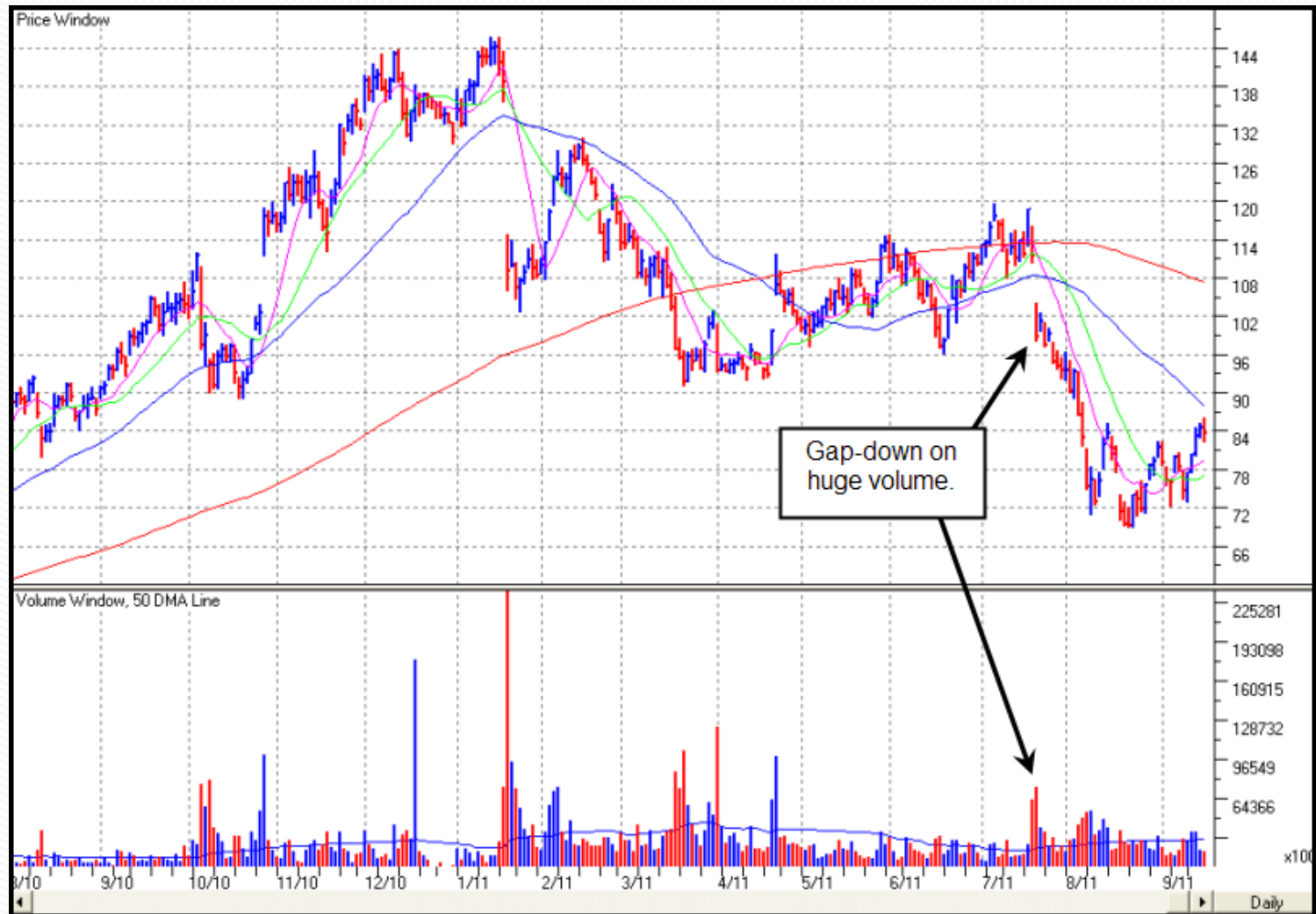
# Netflix, Inc. (NFLX) - 2011



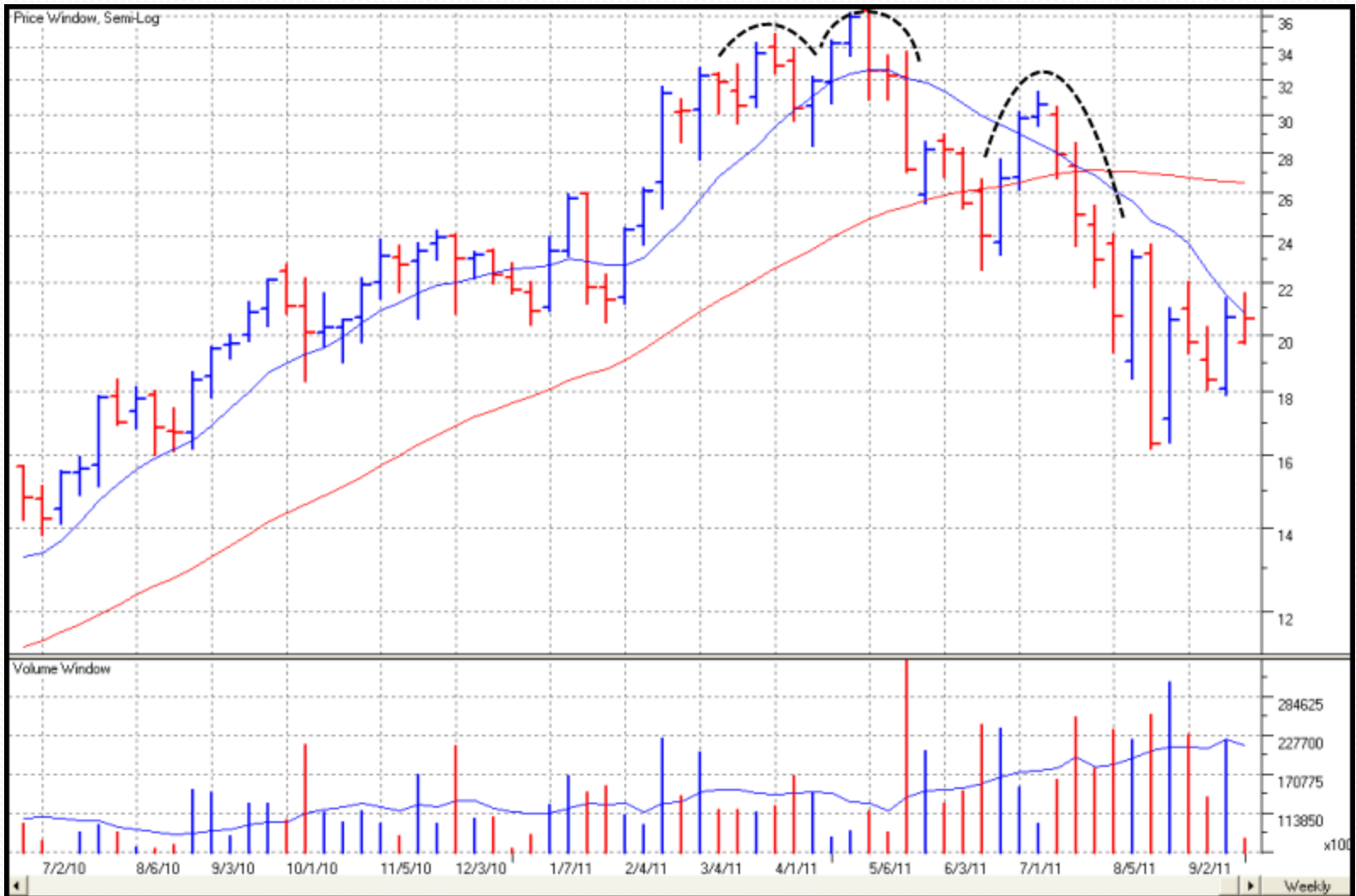
# F5 Networks, Inc. (FFIV) - 2011



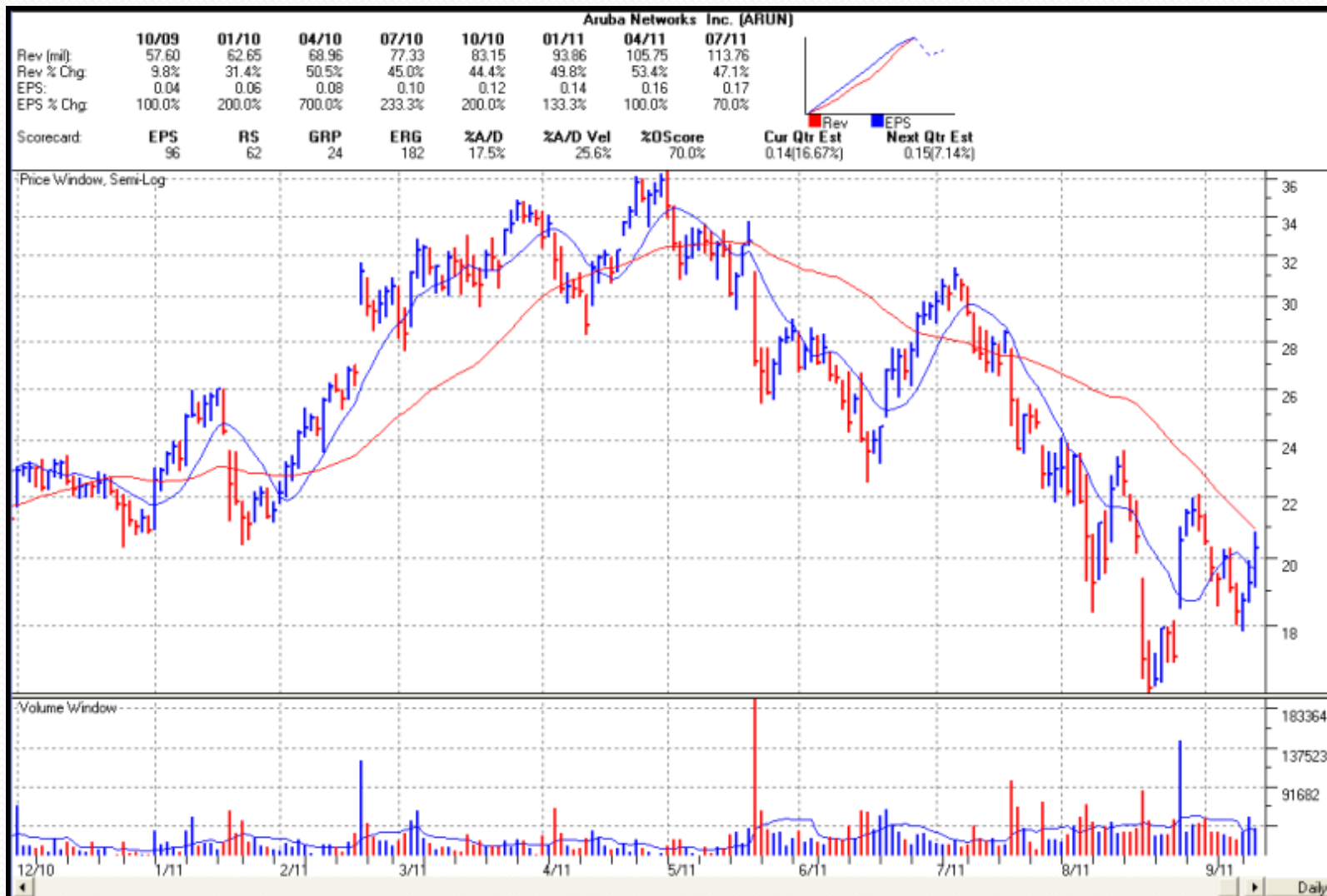
# F5 Networks, Inc. (FFIV) - 2011



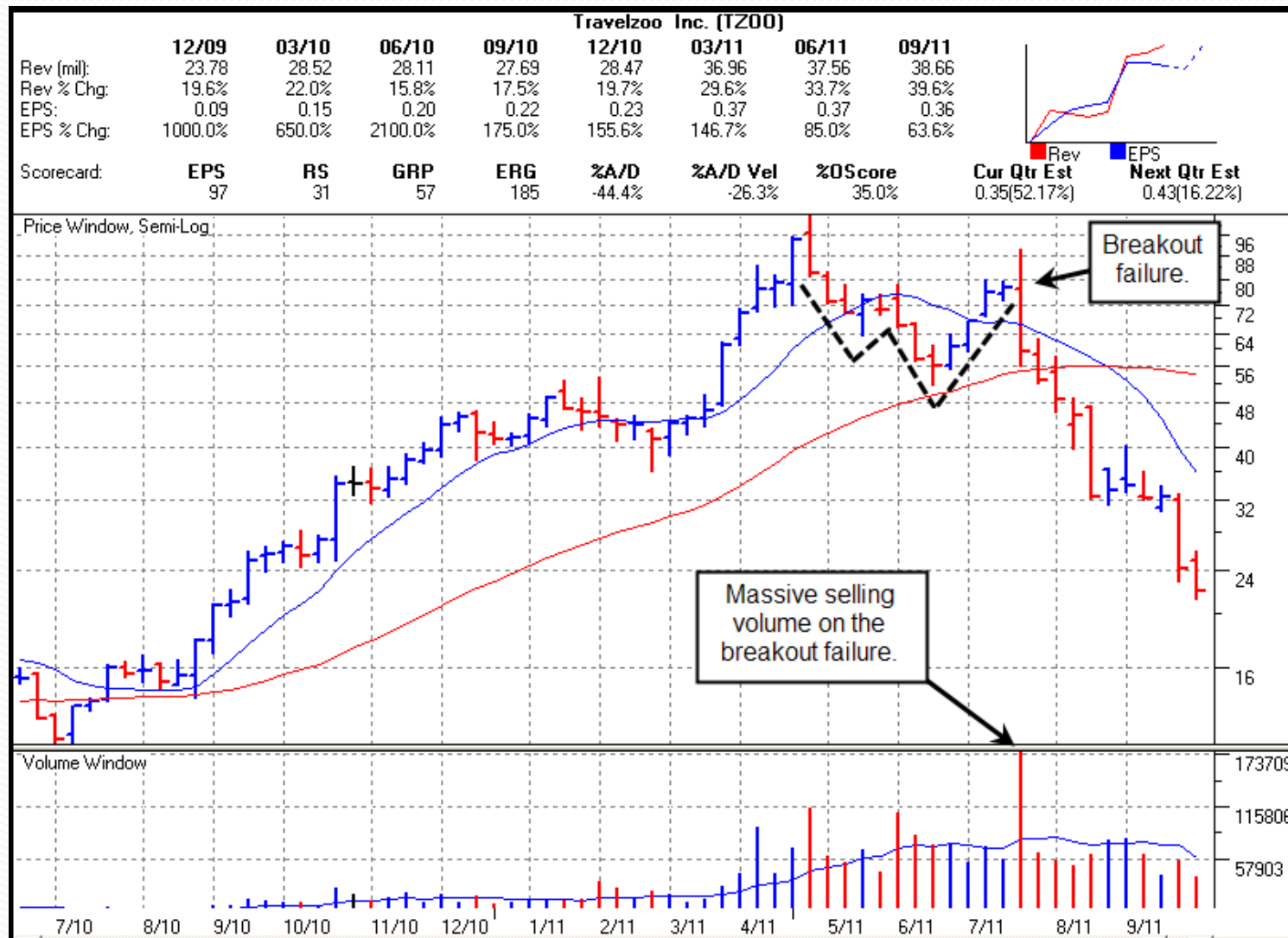
# Aruba Networks, Inc. (ARUN) - 2011



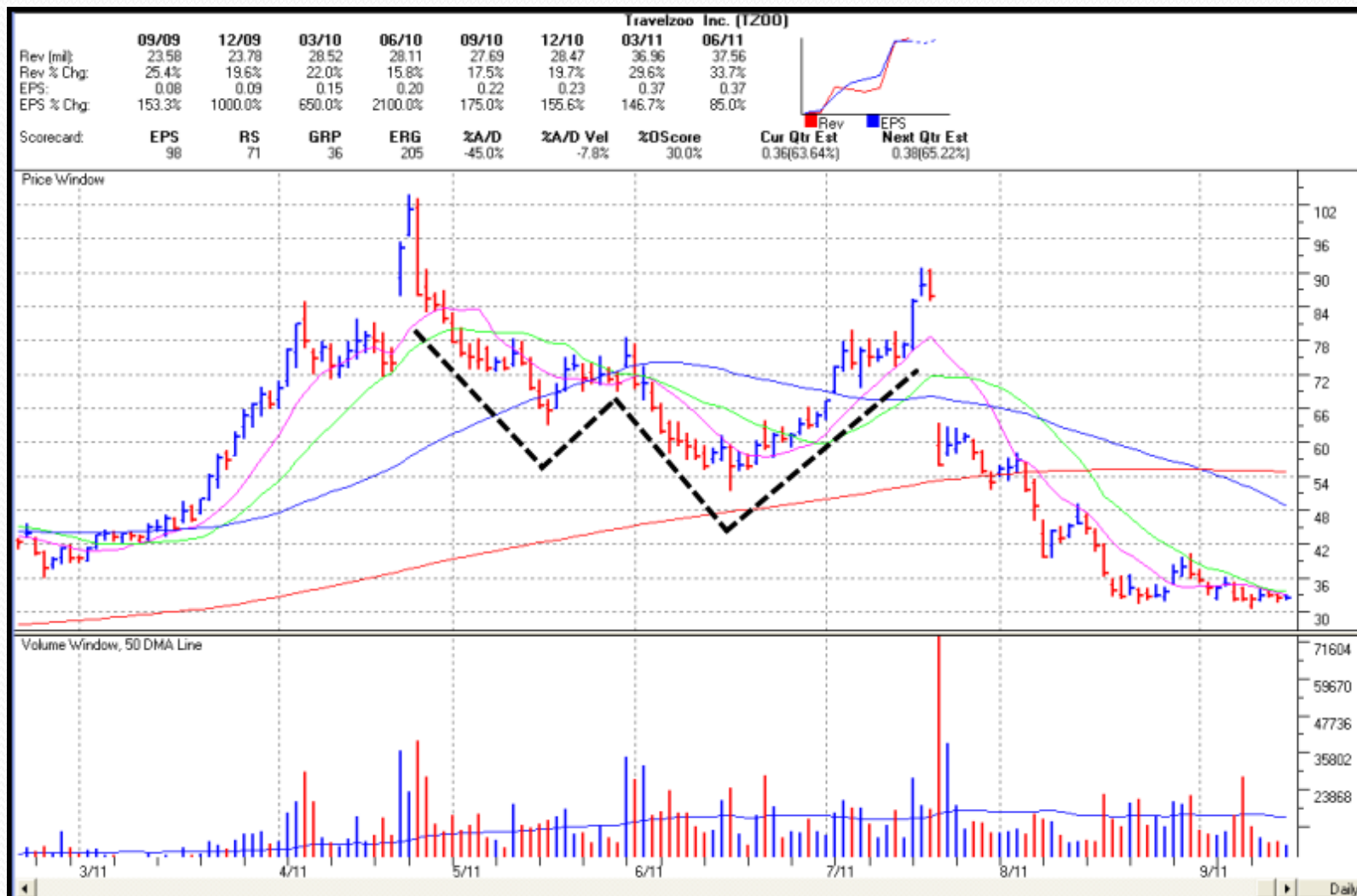
# Aruba Networks, Inc. (ARUN) - 2011



# Travelzoo, Inc. (TZOO) - 2011

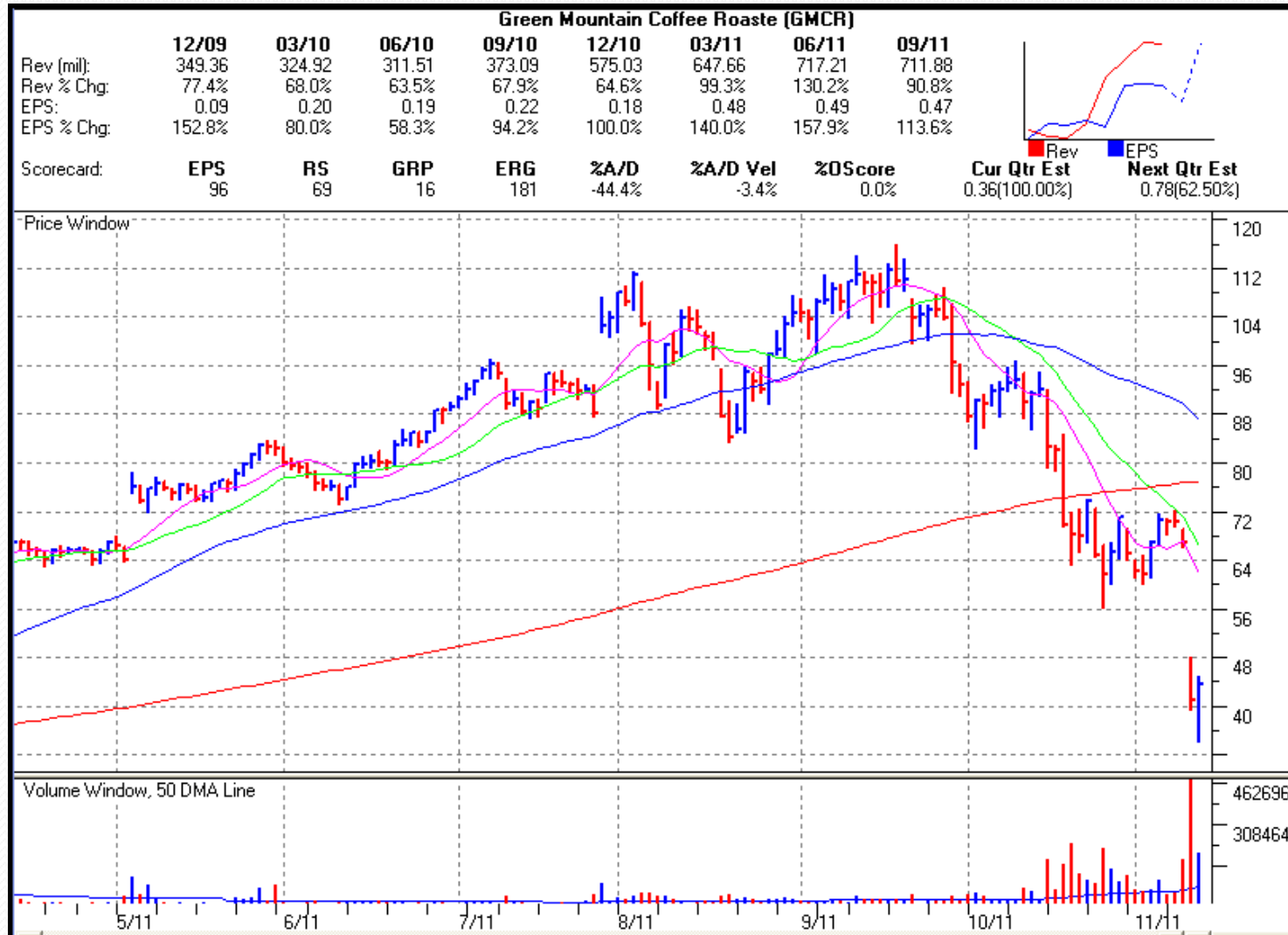


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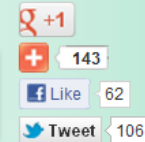
# Green Mountain Coffee Roasters, Inc. (GMCR)





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Gil Morales achieved a return of **+10,904.25%** as audited by Rothstein Kass

Dr. Kacher and Gil Morales wrote the book, "[Trade Like An O'Neil Disciple: How We Made 18,000% in the Stock Market](#)" and contributed to the book, "[Wiley Trading Guide, Volume II](#)".

2000-2010 market timing results using conservative approach/NO leverage (NASDAQ Composite): **+741.1%** vs. Buy-and-Hold: **-34.8%**

2011 **+35.0%** using 3-times ETF TYH (achieved in a generally trendless, volatile year - one of the most challenging)

Market timing results (unaudited):

Vehicle	2010	2009
3x ETF TNA	<b>+86.5%</b>	<b>+157.3%</b>
3x ETF TYH	<b>+83.8%</b>	<b>+118.3%</b>

CONSERVATIVE APPROACH using market timing model:

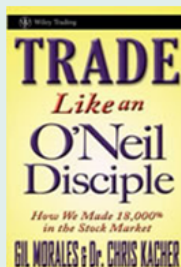
June 9, 2009 - June 9, 2010 **+55.1%** with exposure to the market less than half the time as audited by Rothstein Kass



For our free Market Lab Report:

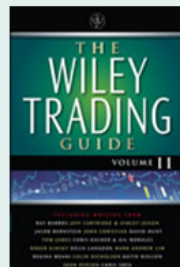
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