

**Trader's Expo 2011**  
**Bally's Las Vegas**  
**November 18, 2011**

# **Buying Techniques II**

## **Buying Gap-Up Moves in Leading Stocks**

Chris Kacher & Gil Morales  
Managing Directors  
MoKa Investors, LLC  
[www.mokainvestors.com](http://www.mokainvestors.com)  
[www.selfishinvesting.com](http://www.selfishinvesting.com)  
©2011 MoKa Investors, LLC

# Chart Notes

Moving Averages:

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

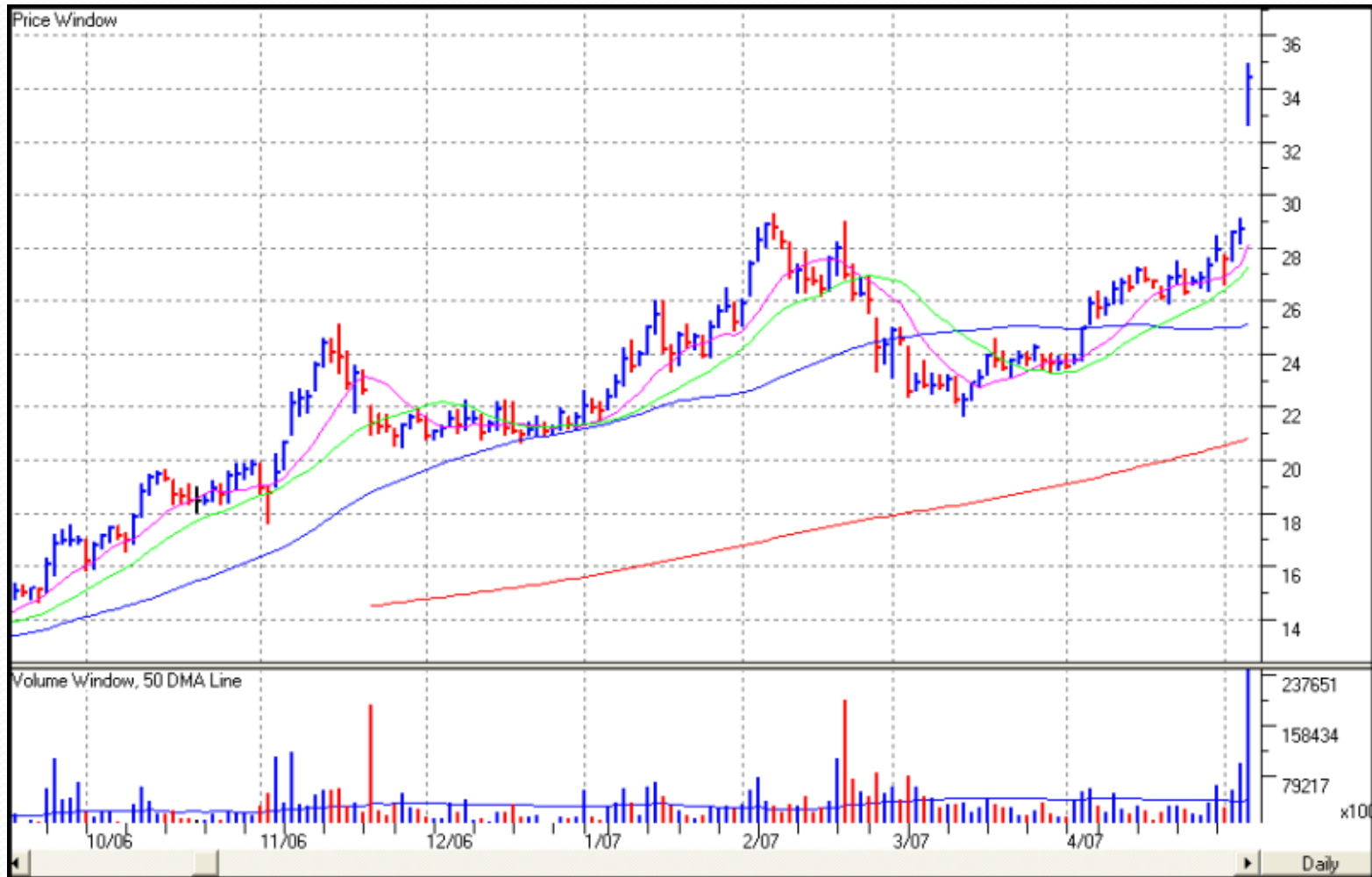
**Green** = 20-day simple moving average.

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

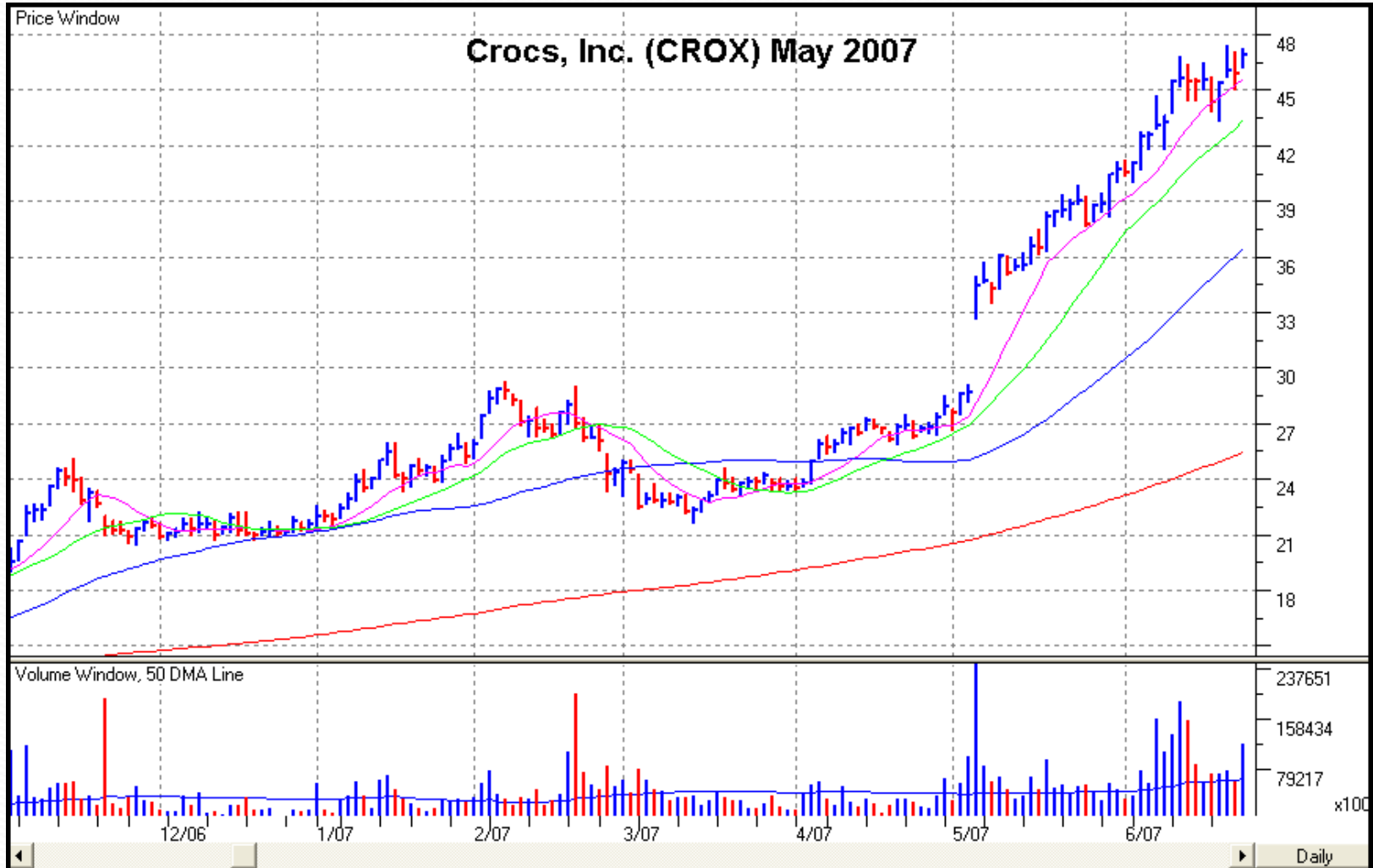
**Black** = 65-day exponential moving average.

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

# Gap-up Moves Usually Look too “Crazy” to Buy



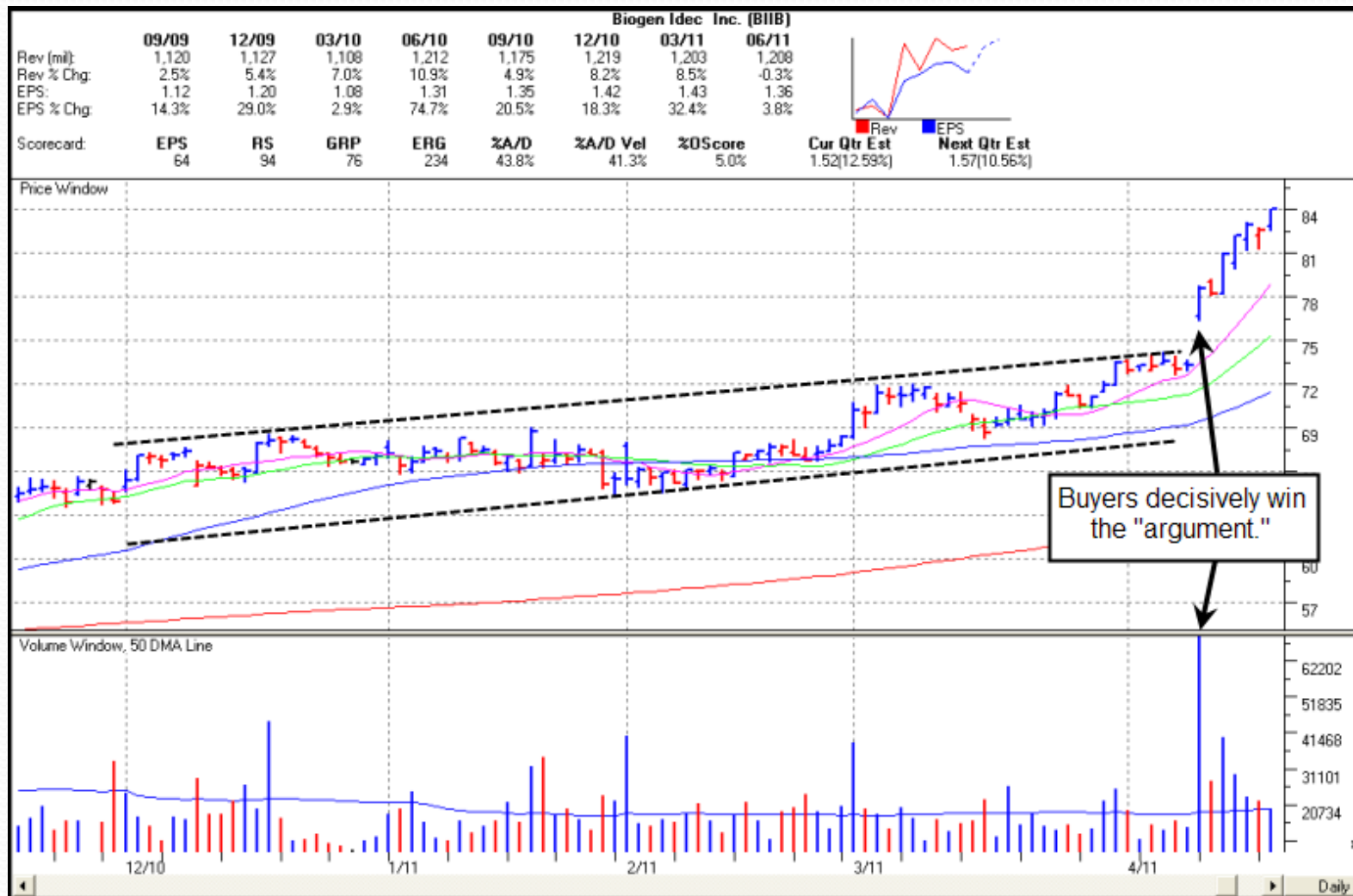
But Often One Would be “Crazy” Not to Buy Them.



# Why Buyable Gap-Ups Work

- When a stock gaps up on tremendous volume, the “argument” has been won decisively by buyers.
- The power or “decisiveness” with which this argument is won is characterized by sharp upside price movement accompanied by a significant increase in trading volume – the “signature” of a buyable gap-up.
- This same tremendous buying volume is a clear sign of huge institutional buying done with conviction.
- Buyable gap-ups are aided by a unique “contrarian” aspect in that most investors don’t believe the gap and are afraid to buy it because they think it is “too high.”

# The "Argument" is Won Decisively by the Buyers



# Huge-Volume Gap-Ups are the Biggest Foot Prints of Institutional Investors

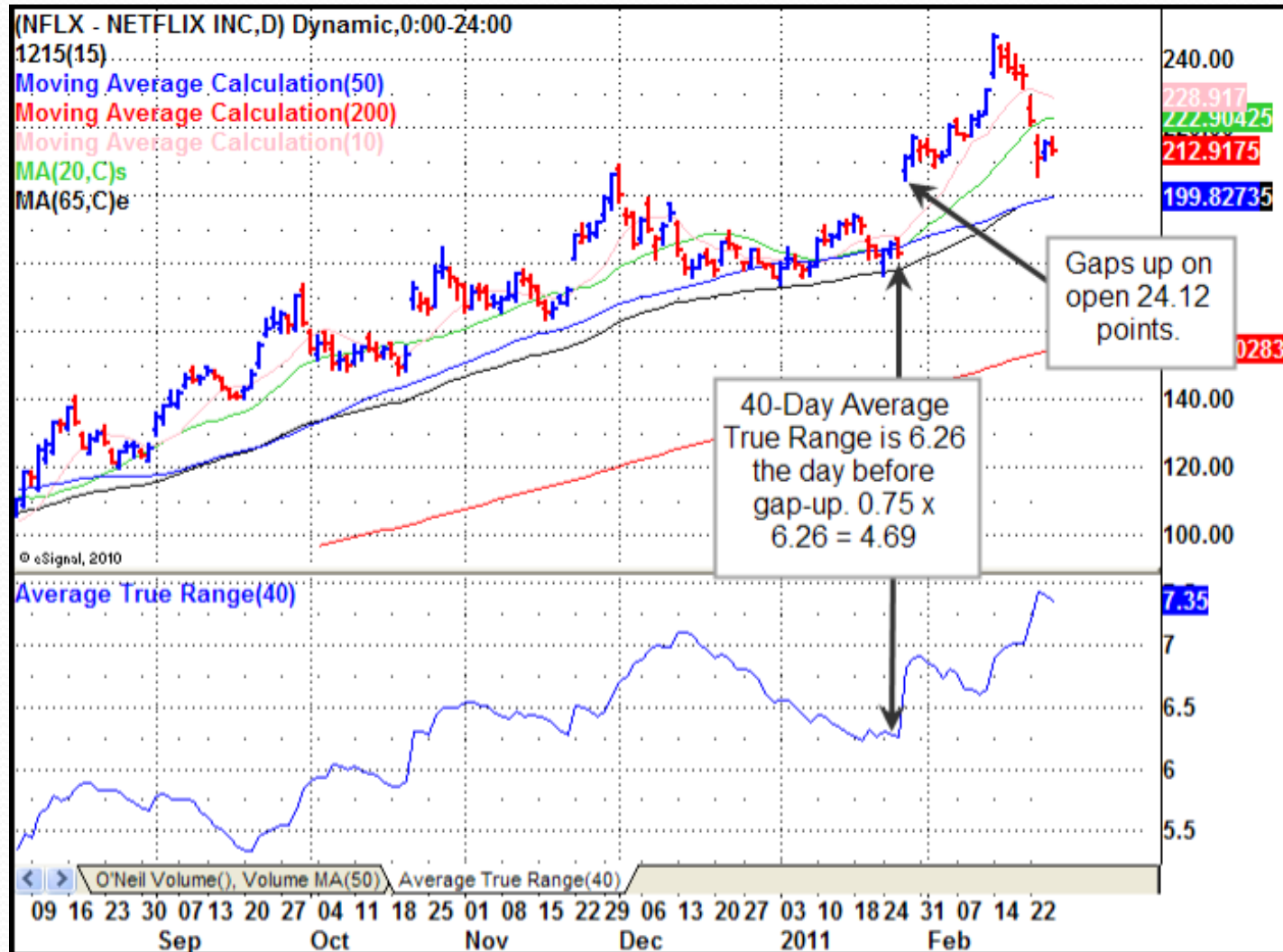


# Characteristics of Buyable Gap-Ups

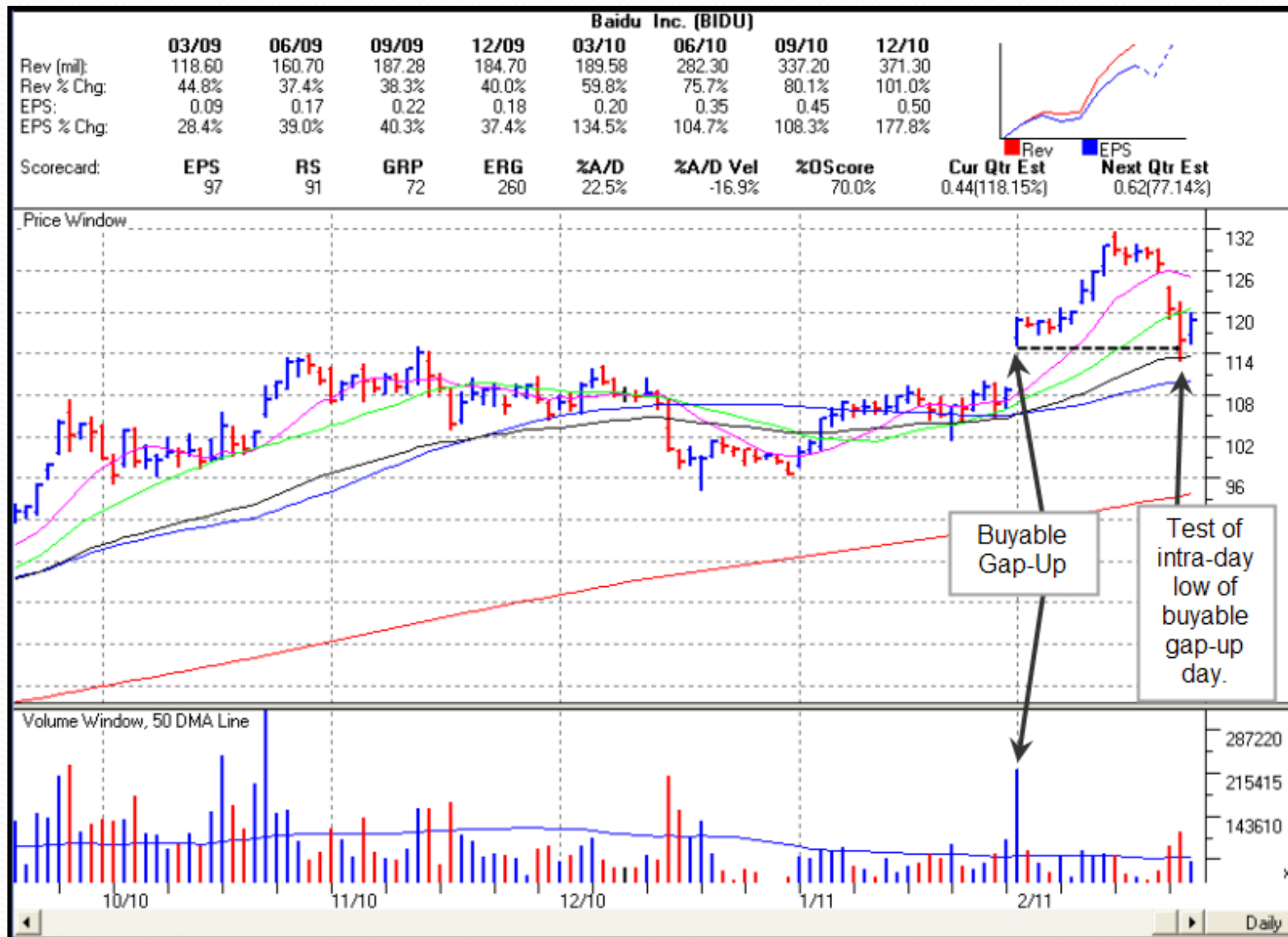
1. Buyable gap-ups should occur in fundamentally strong and sound leading stocks, or there should be a compelling thematic basis for consideration.
2. A buyable gap-up move must be at least 0.75 times the stock's 40-day Average True Range.
3. A buyable gap-up move must occur on volume that is at least 1.5 times or 150% above the 50-day moving average of daily trading volume.
4. Buyable gap-ups should occur within an uptrend or constructive consolidation, not while a stock is in a downtrend.
5. A buyable gap-up should hold above the intra-day low of the gap-up day.



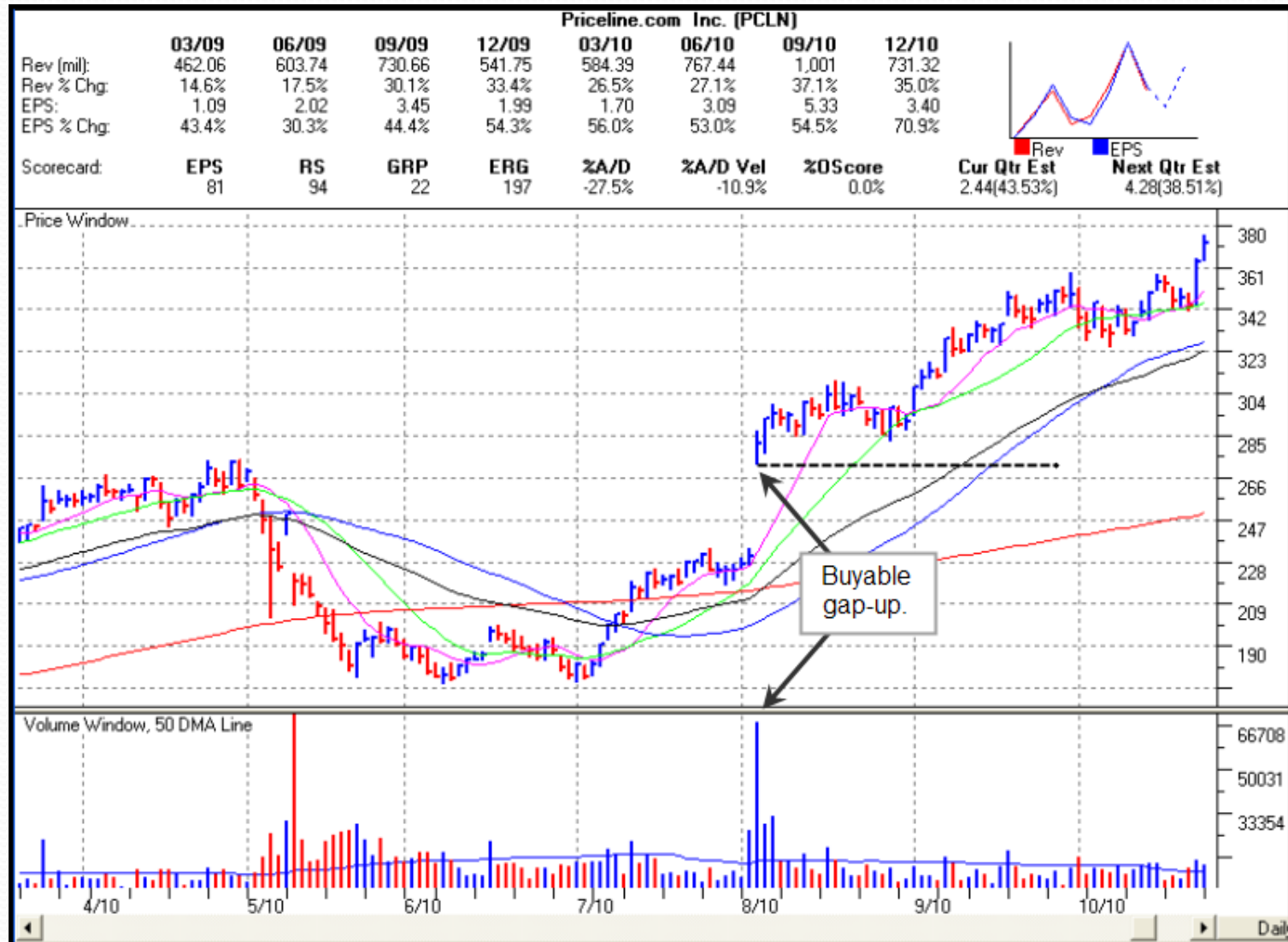
# Netflix, Inc. (NFLX) Average True Range



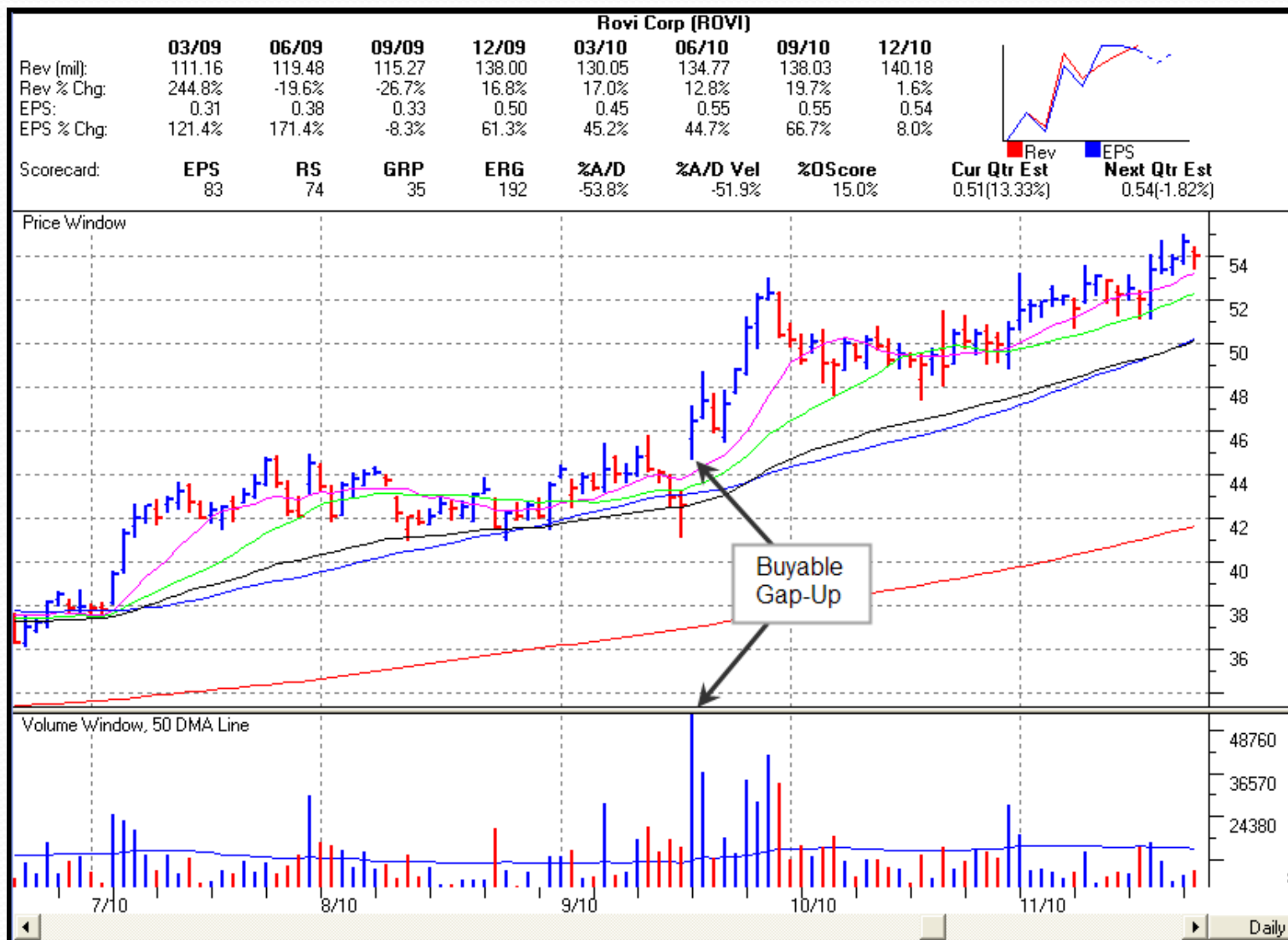
# Baidu, Inc. (BIDU) - 2011



# Priceline.com (PCLN) – 2010



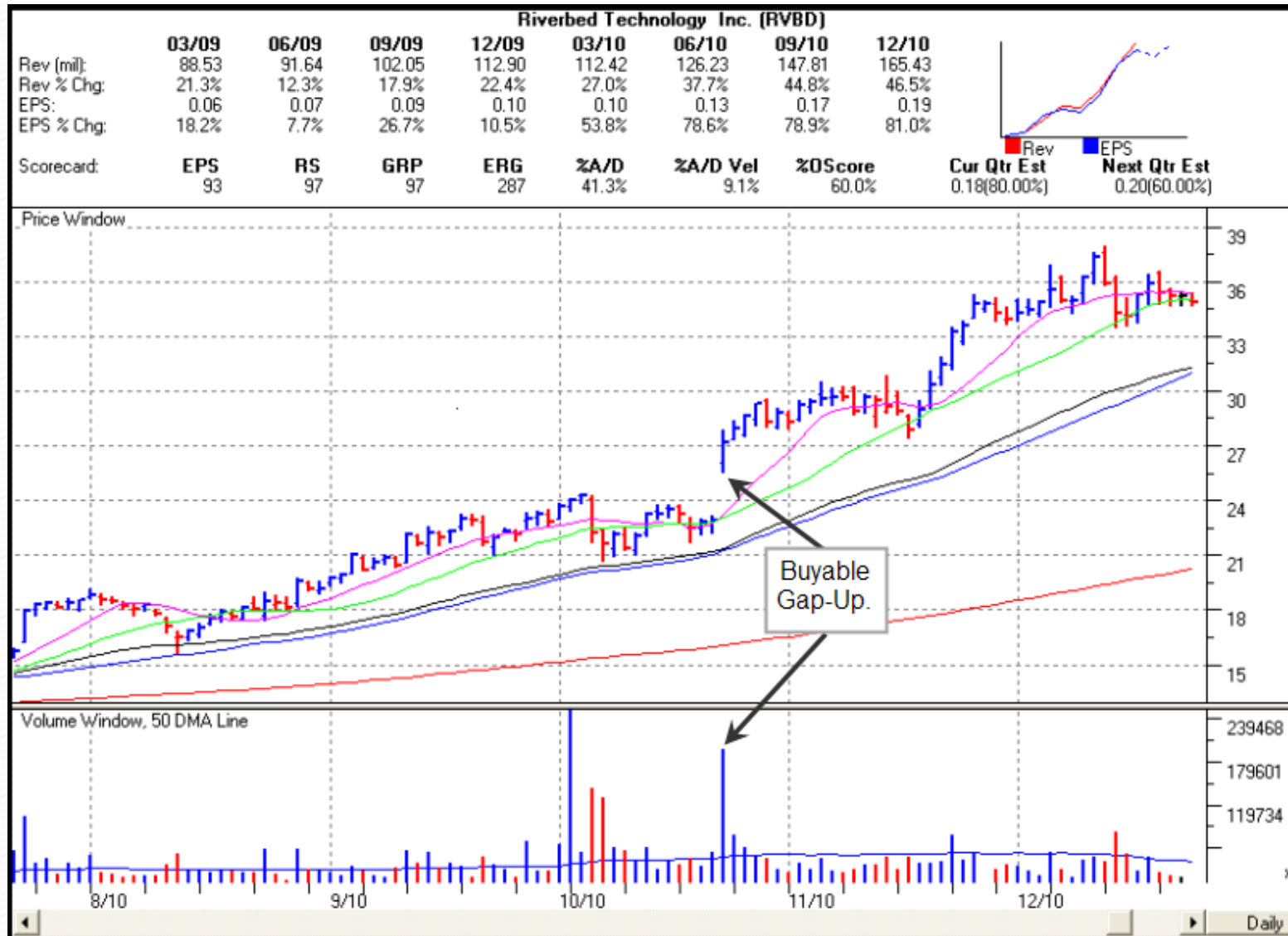
# Rovi Corp. (ROVI) – September 2010



# Netflix, Inc. (NFLX) – 2011



# Riverbed Technology, Inc. (RVBD) –2010

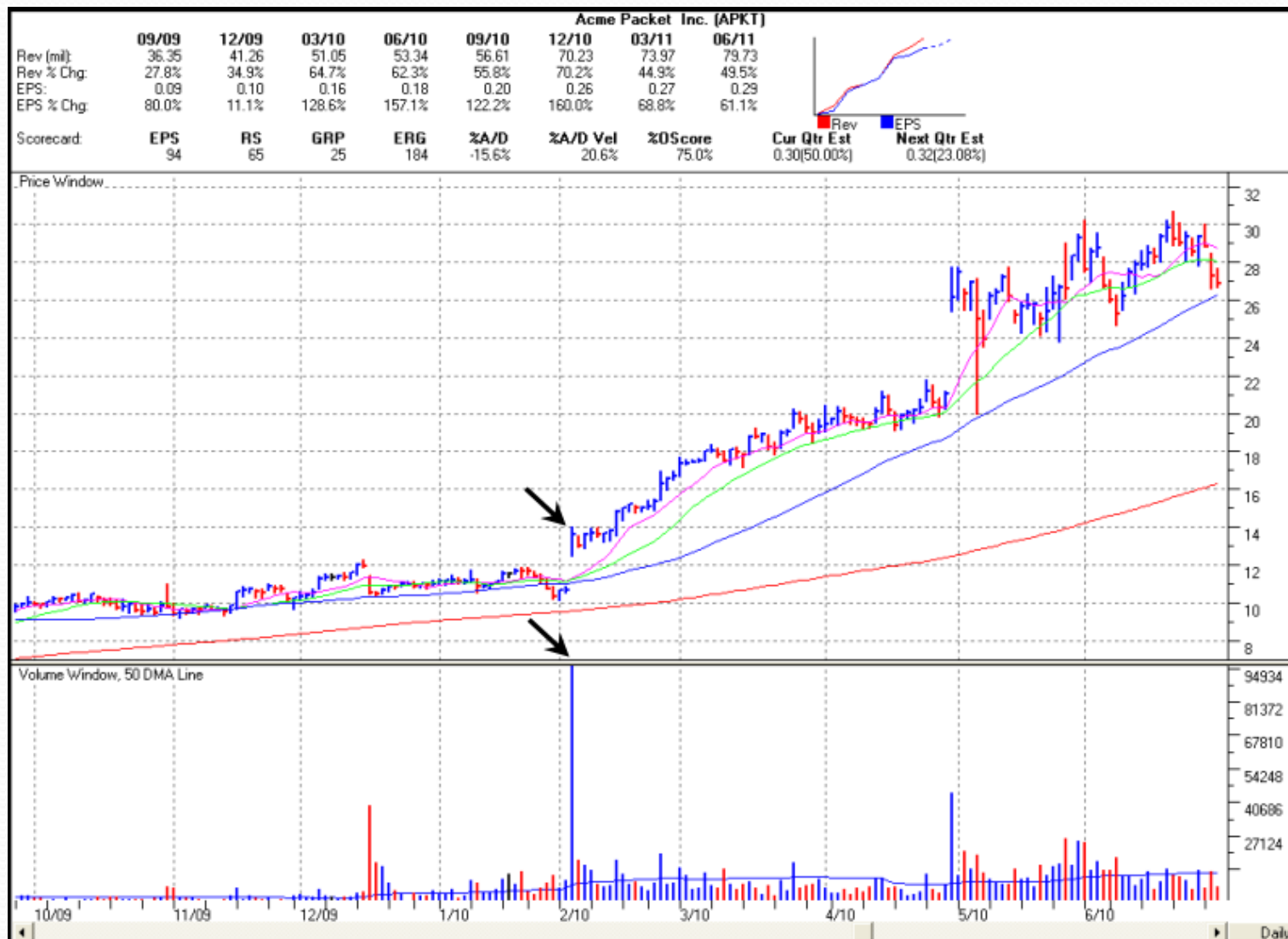


# Acme Packet, Inc. (APKT) – 2011



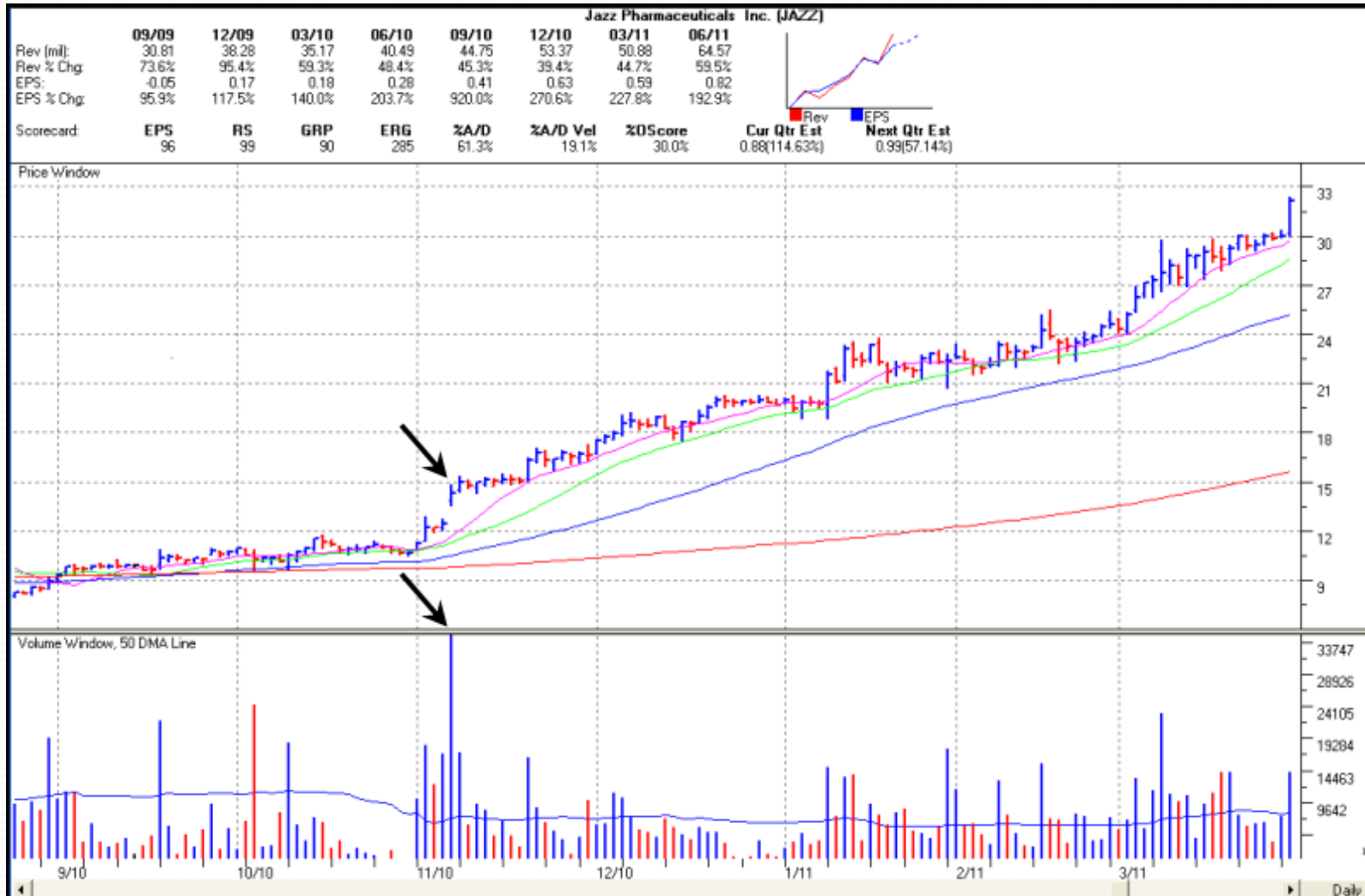


# Acme Packet, Inc. (APKT) – 2010

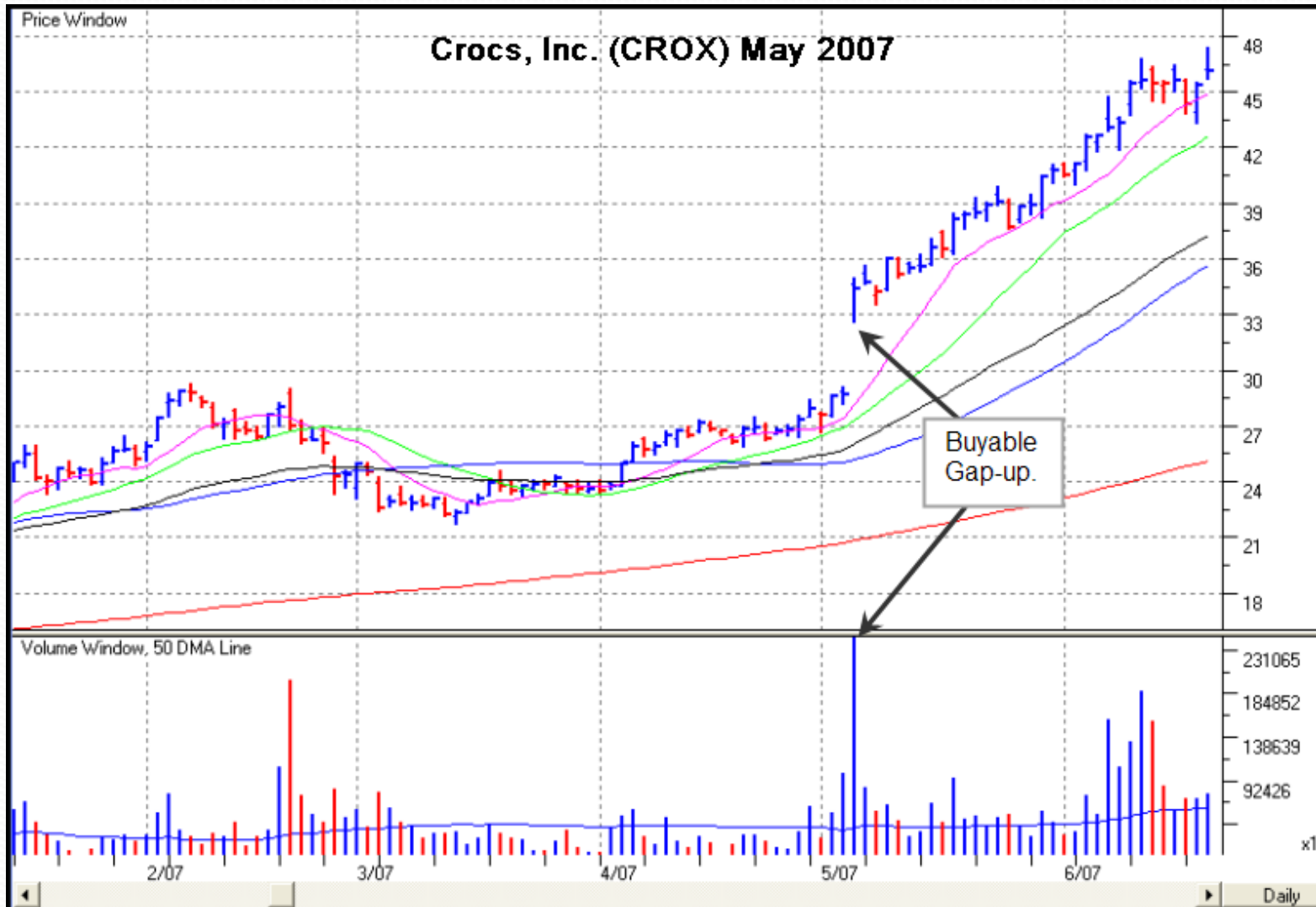




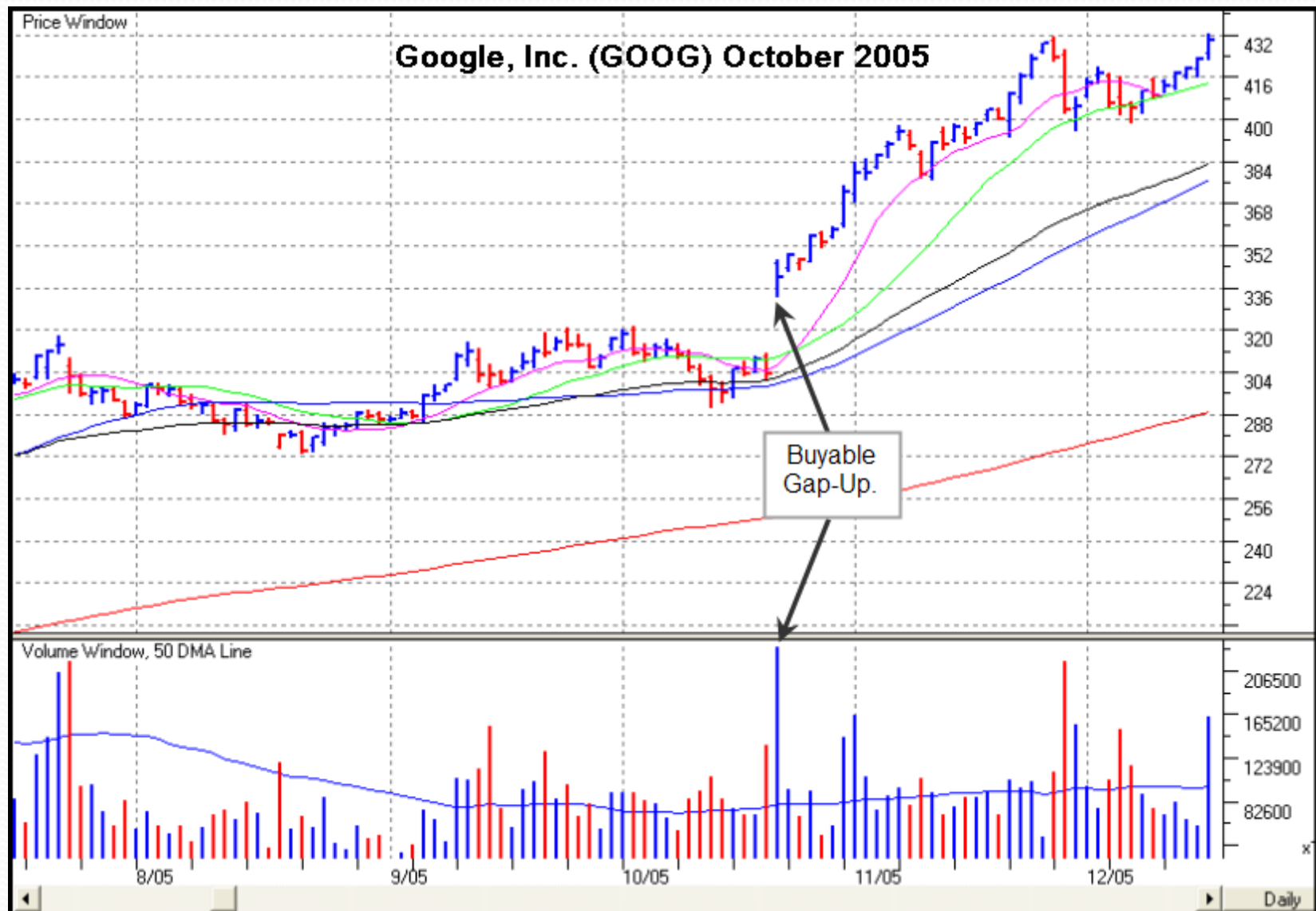
# Jazz Pharmaceuticals (JAZZ) - 2010



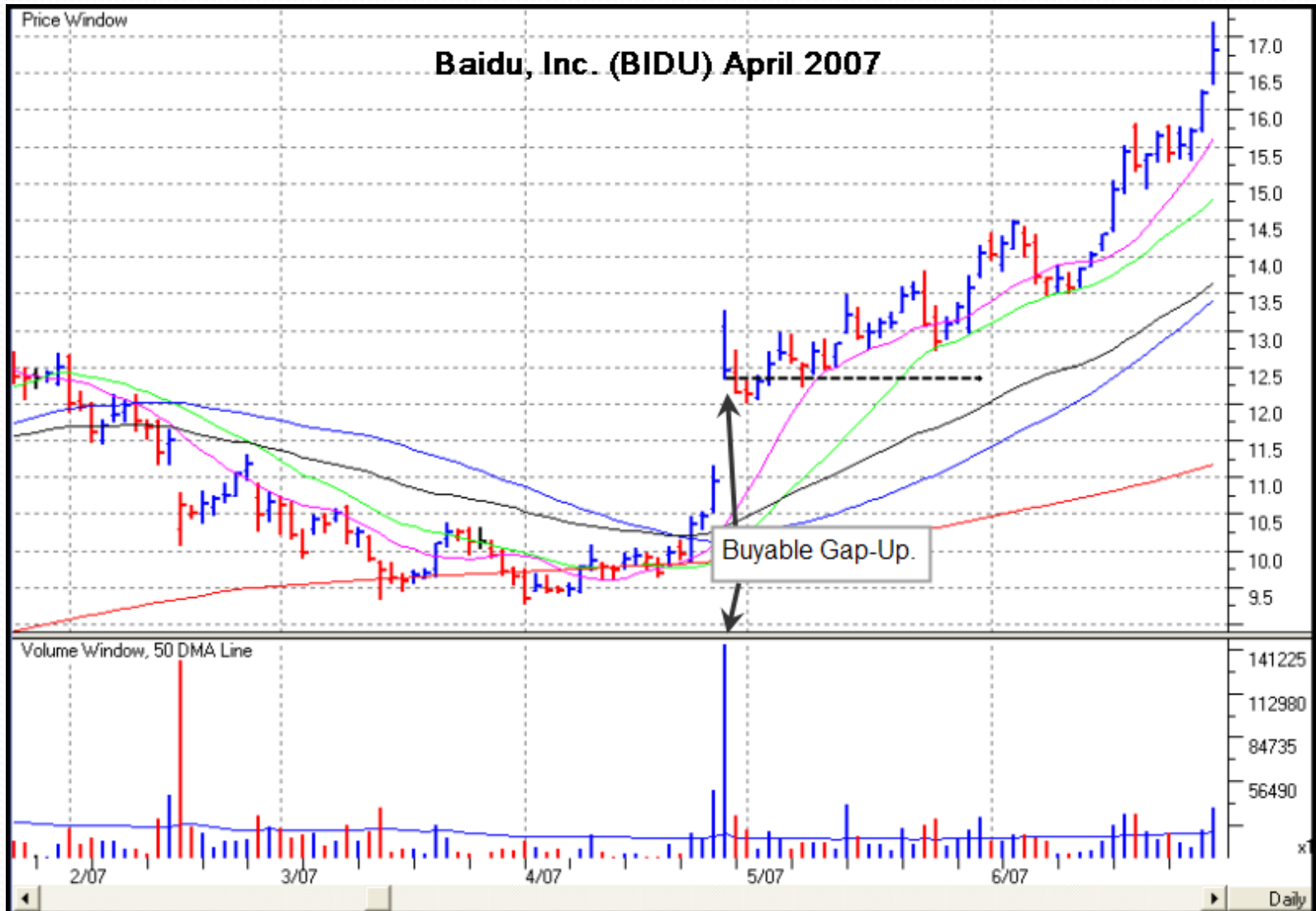
# Crocs, Inc. (CROX) – May 2007



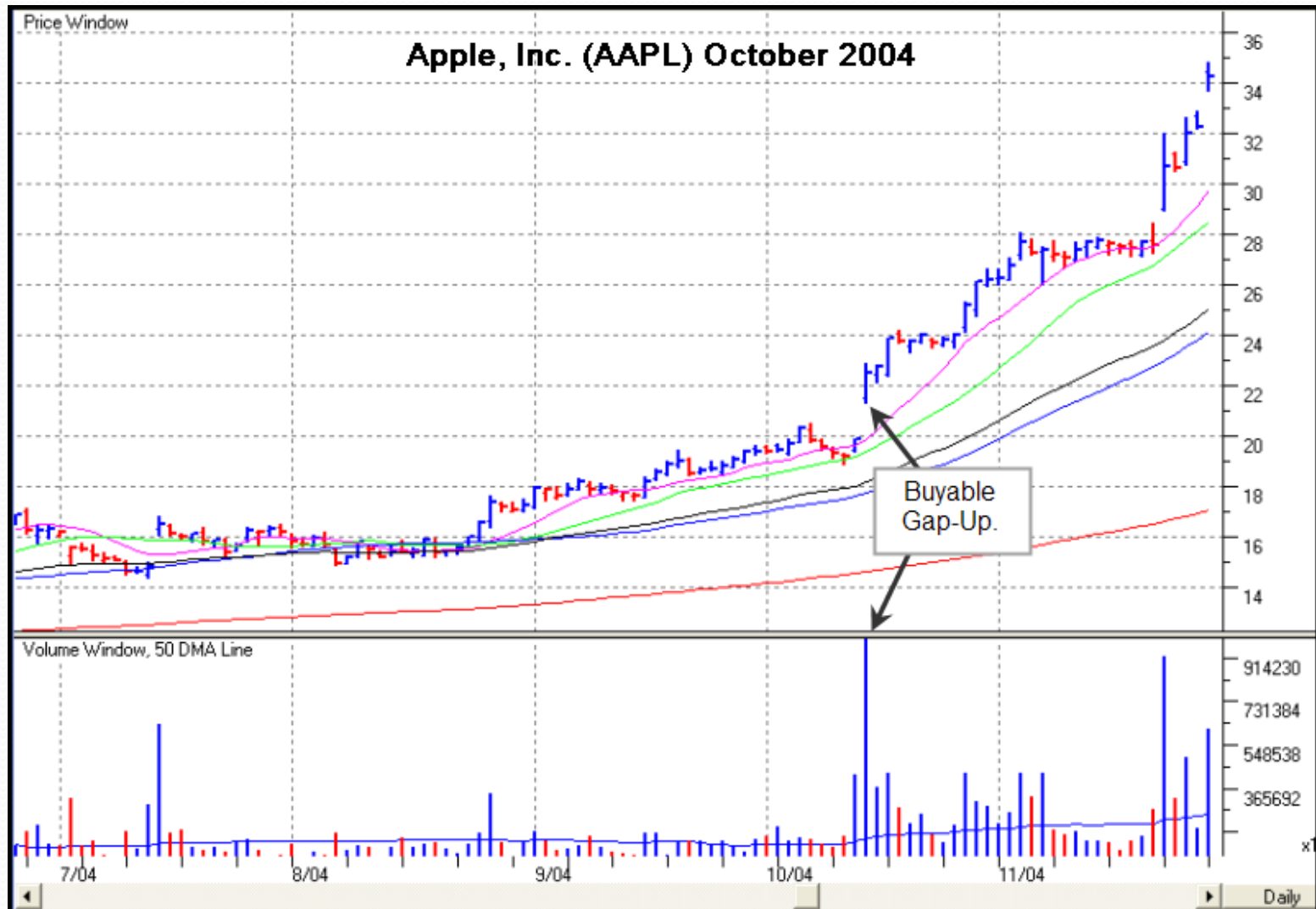
# Google, Inc. (GOOG) – 2005



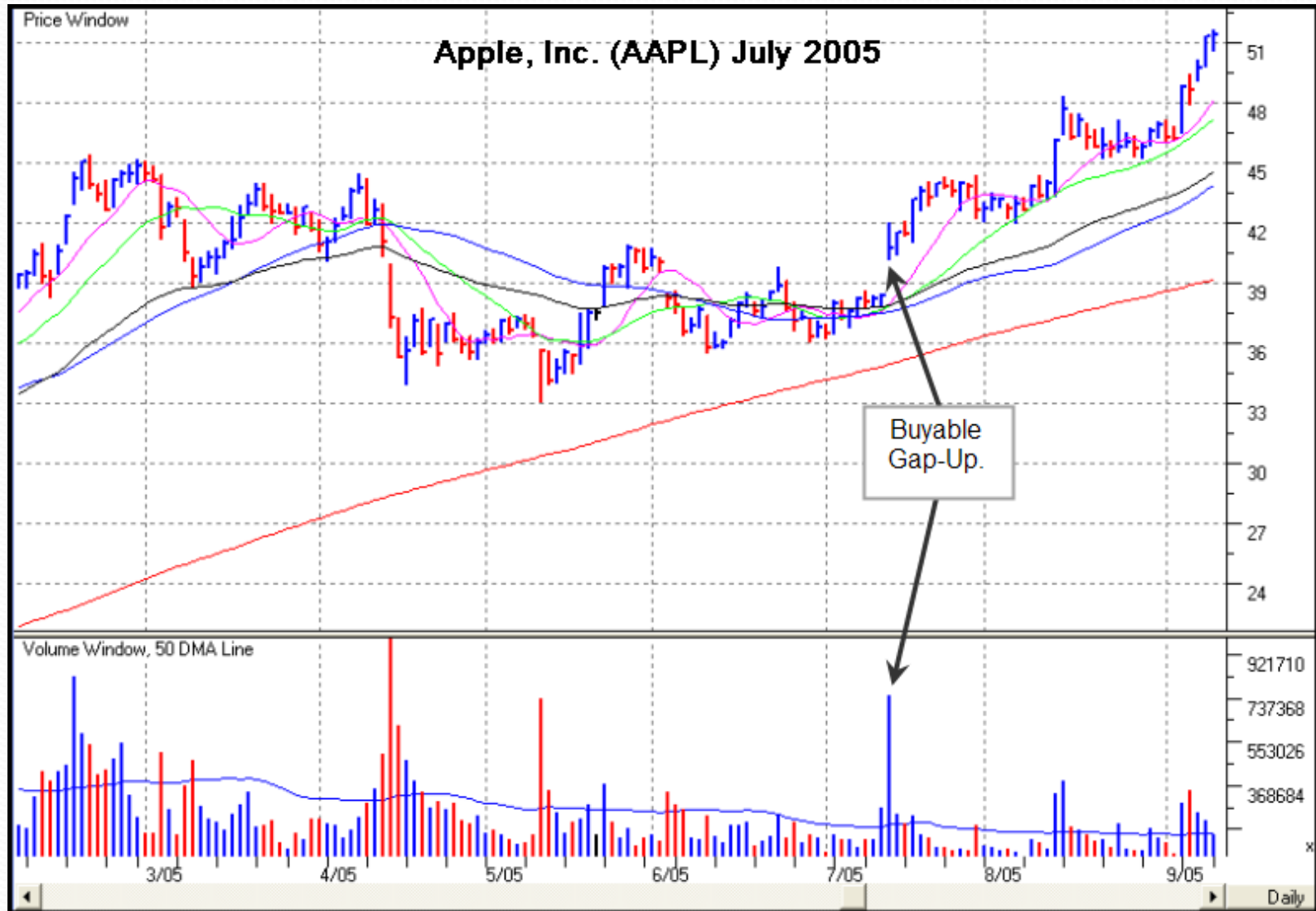
# Baidu, Inc. (BIDU) – 2007



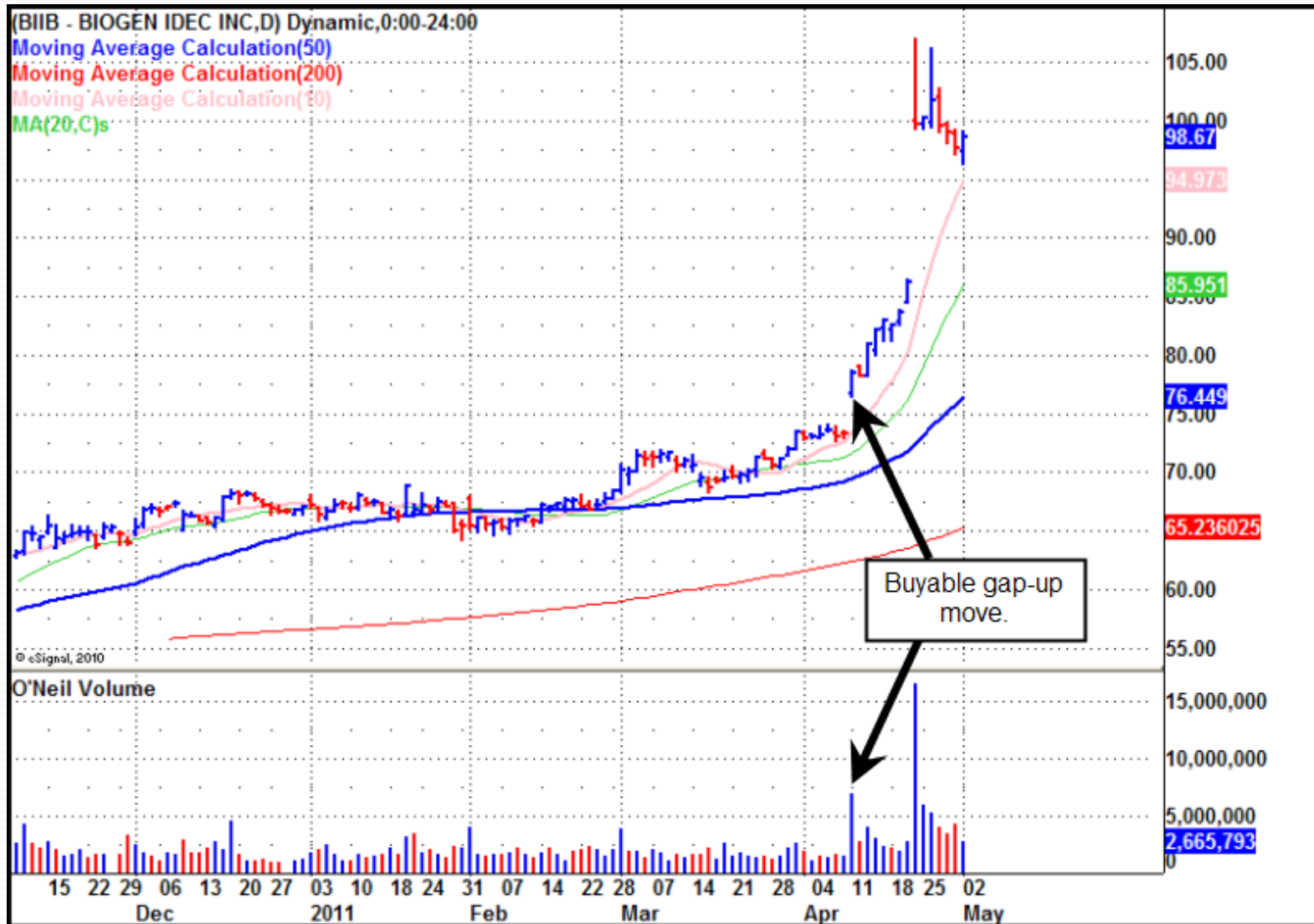
# Apple, Inc. (AAPL) – 2004



# Apple, Inc. (AAPL) – July 2005



# Biogen Idec, Inc. (BIIB) – 2011



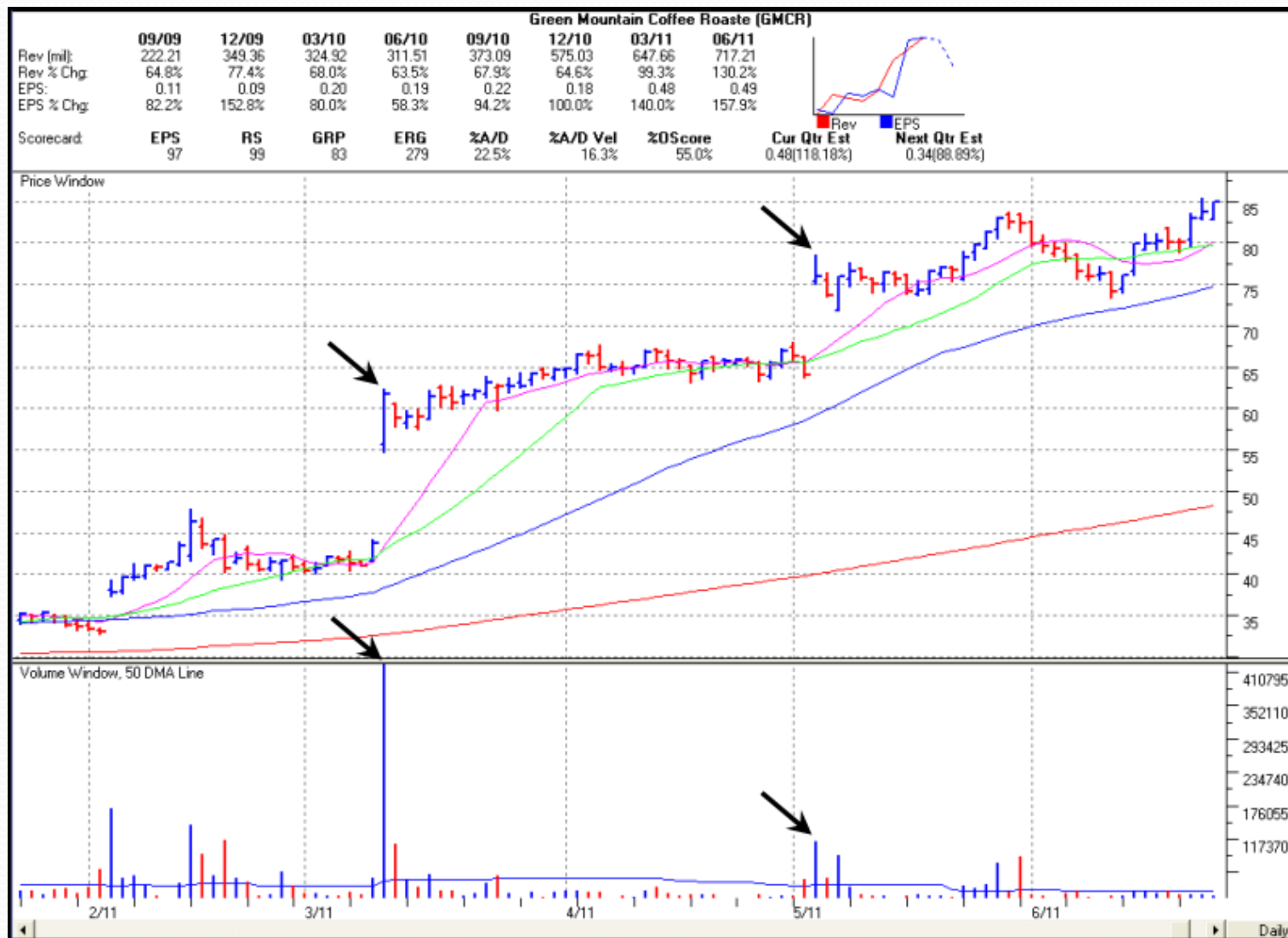


# Finisar Corp. (FNSR) - 2010

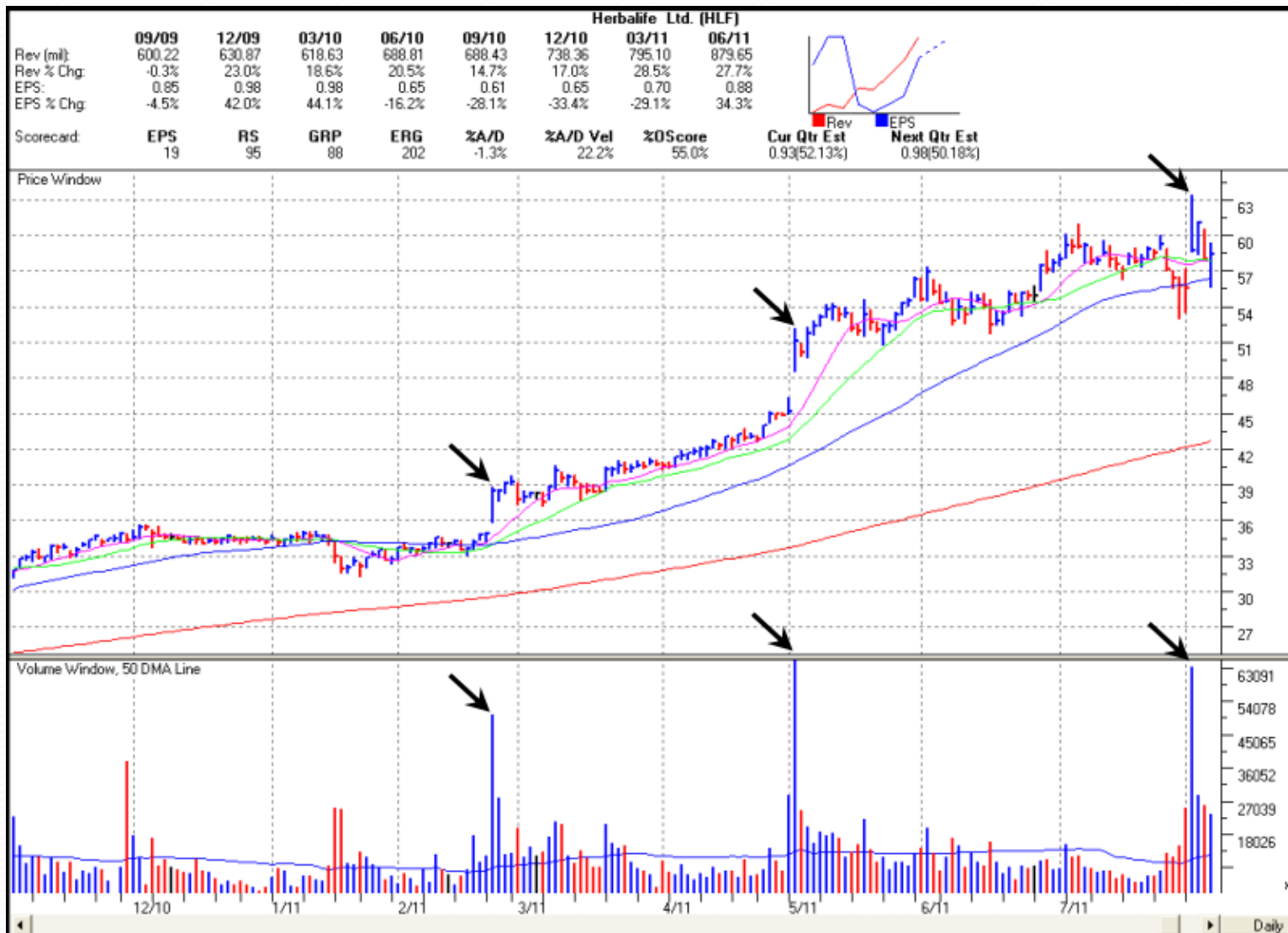




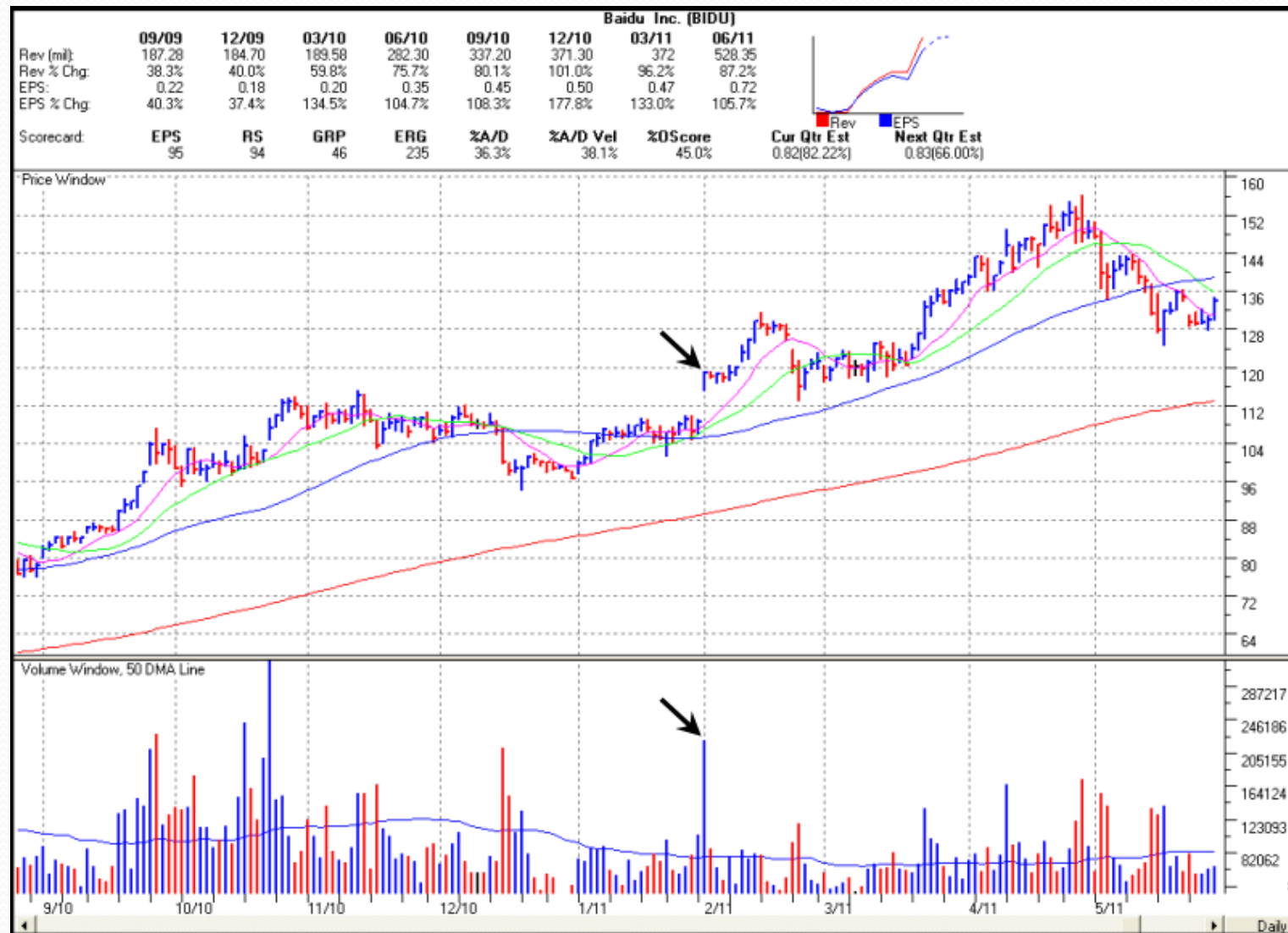
# Green Mountain Coffee Roasters (GMCR) - 2010



# Herbalife, Ltd. (HLF) - 2011



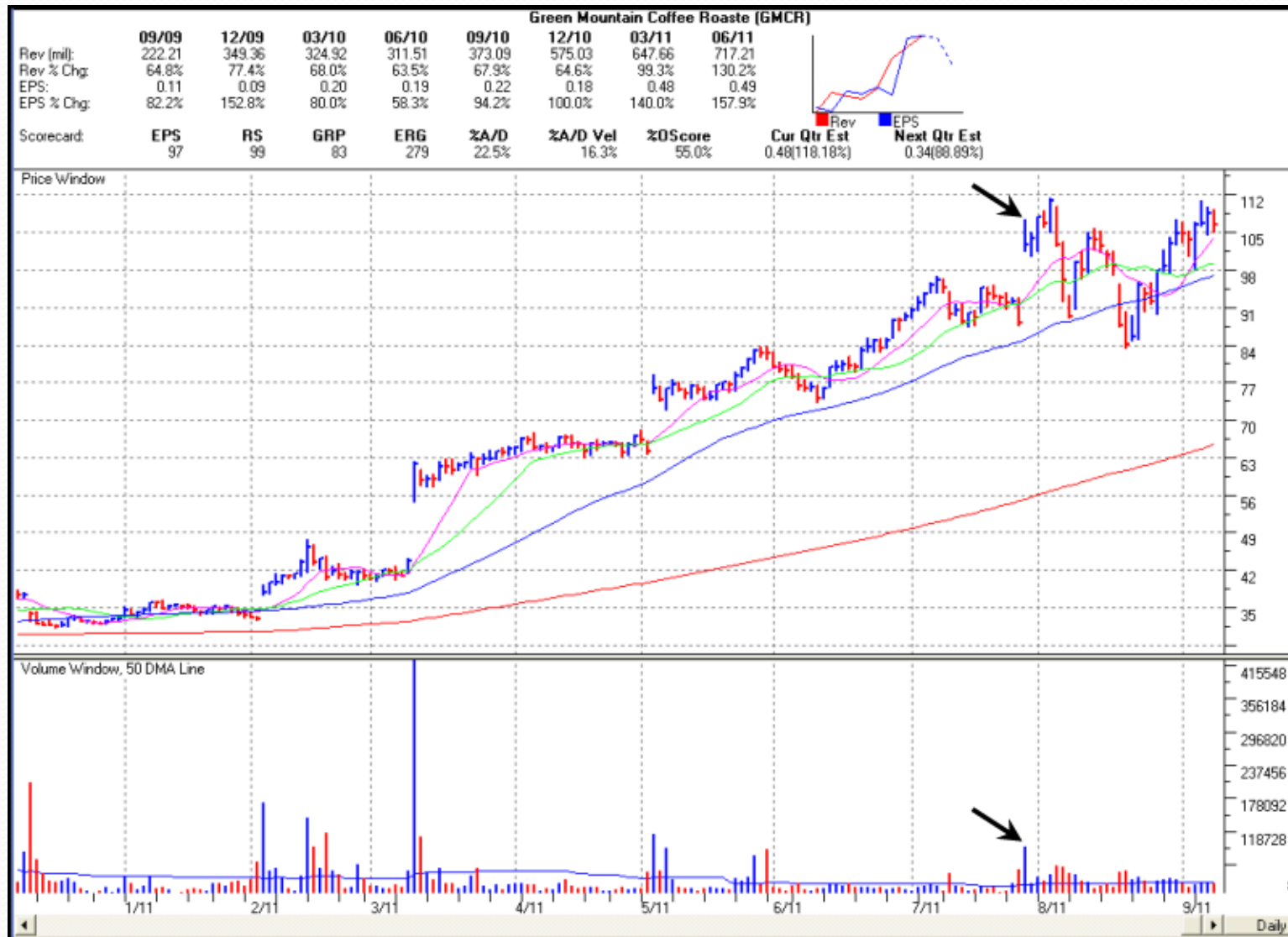
# Baidu, Inc. (BIDU) – 2011



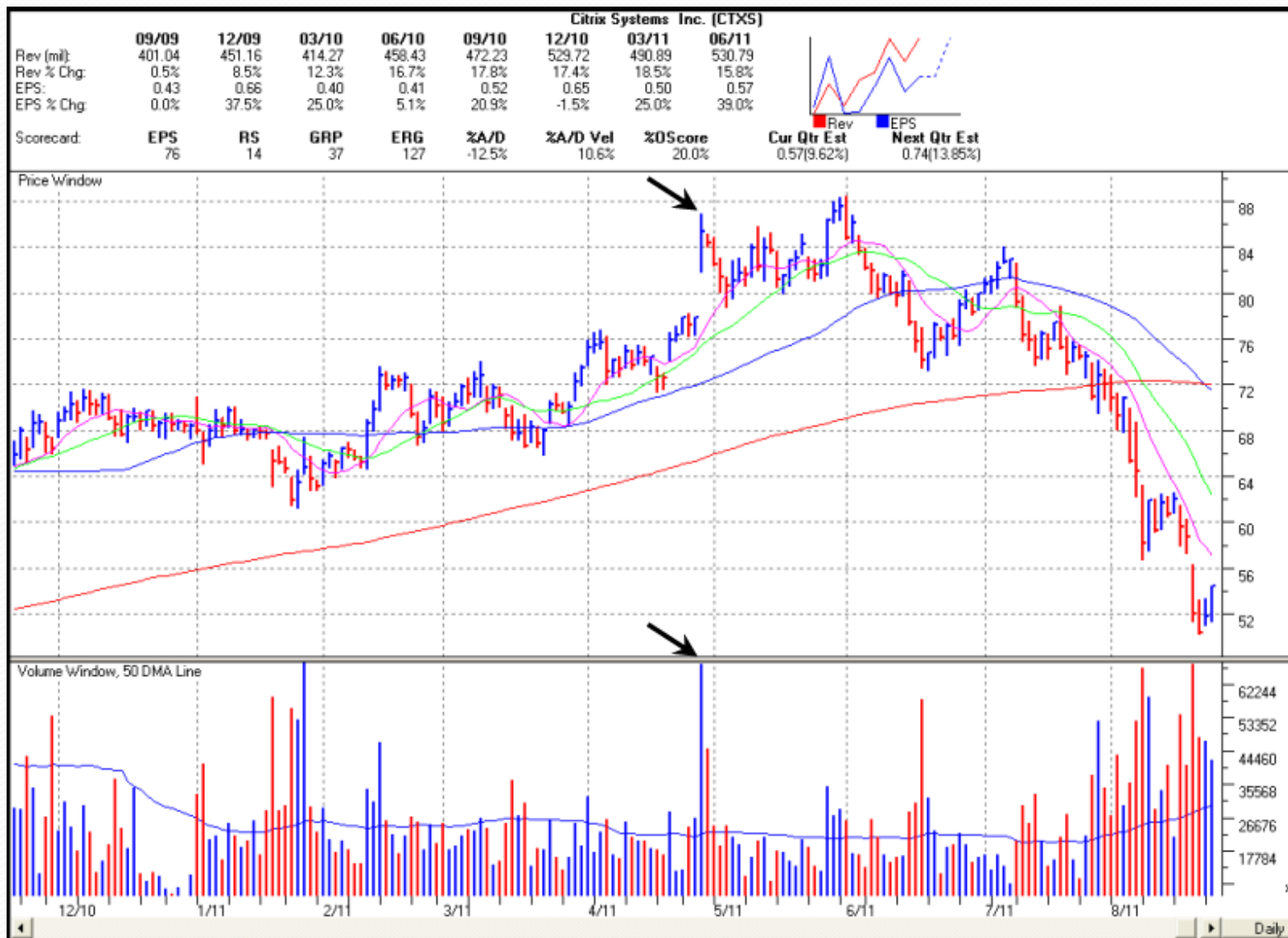


# **Failure Analysis**

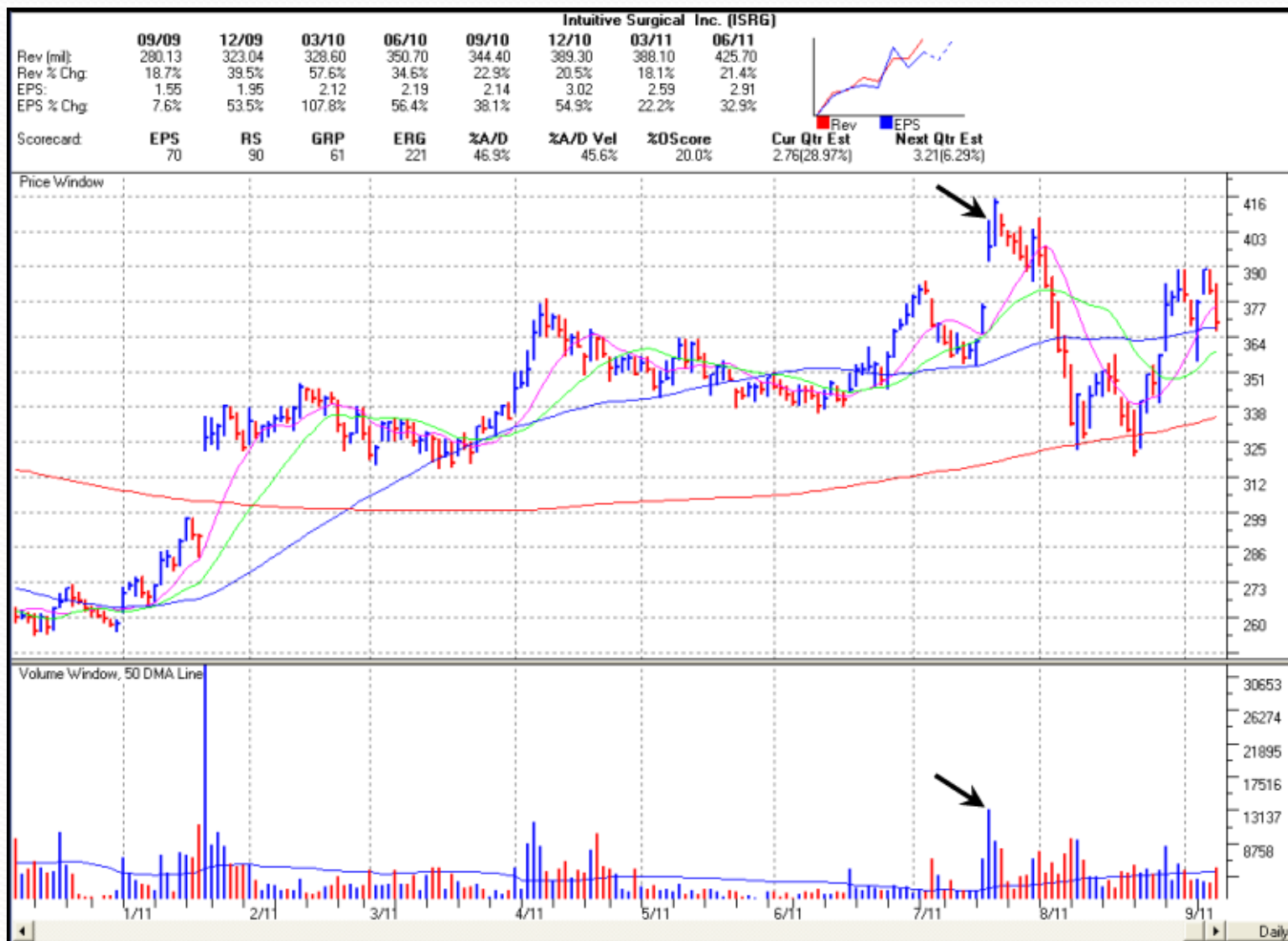
# Green Mountain Coffee Roasters (GMCR) - 2011



# Citrix Systems, Inc. (CTXS) - 2011

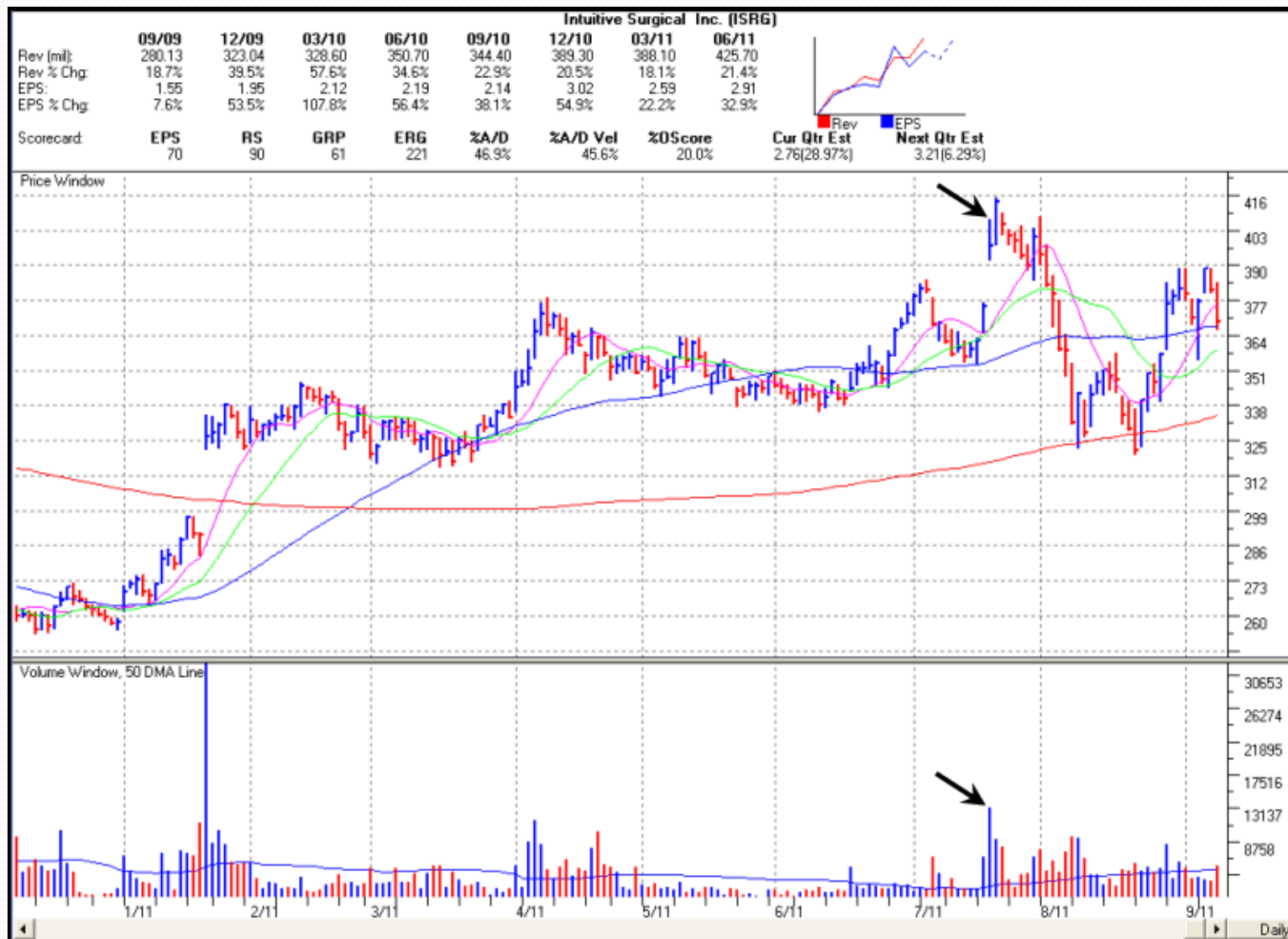


# Intuitive Surgical, Inc. (ISRG) - 2011





# Cepheid (CPHD) - 2011





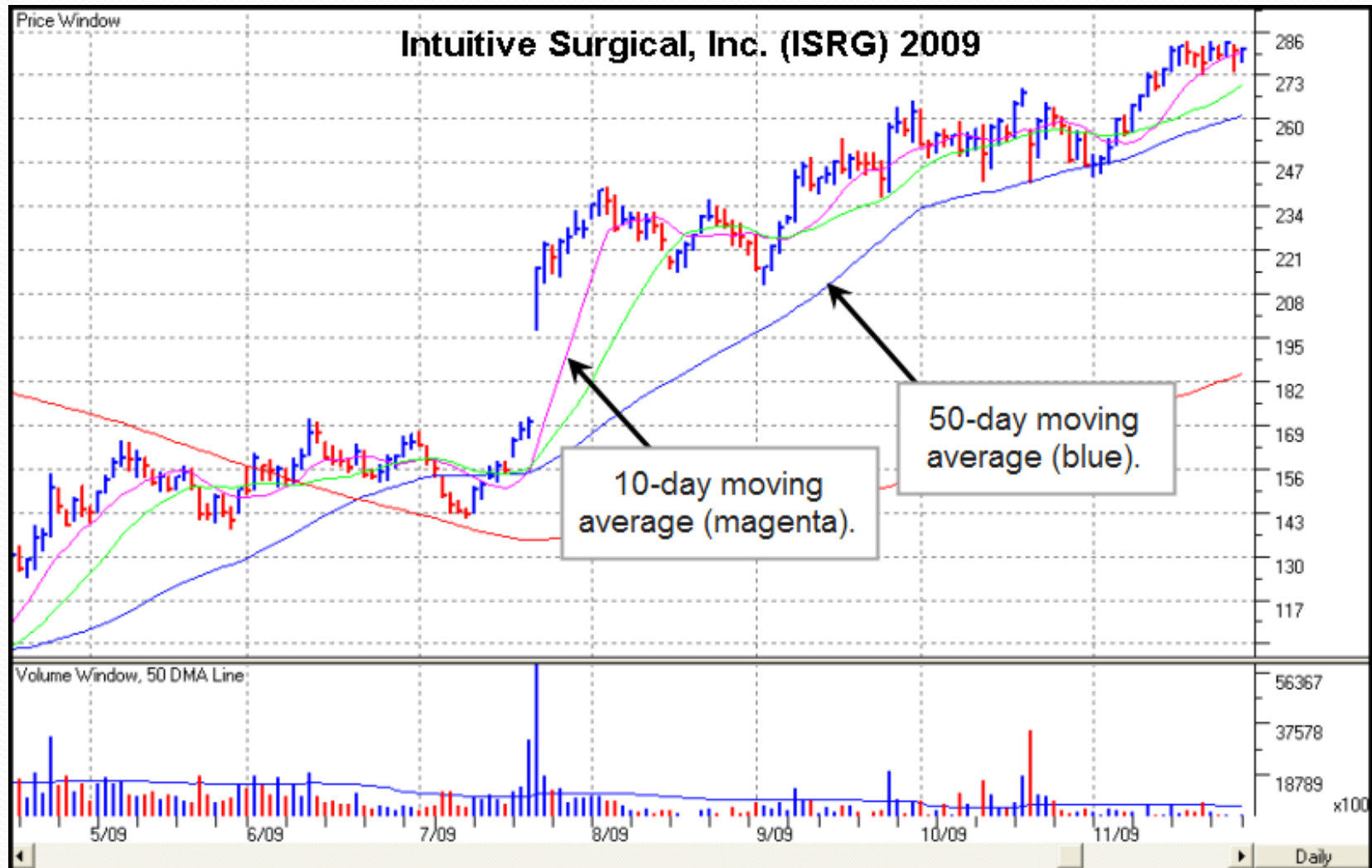


# **The Seven-Week Rule**

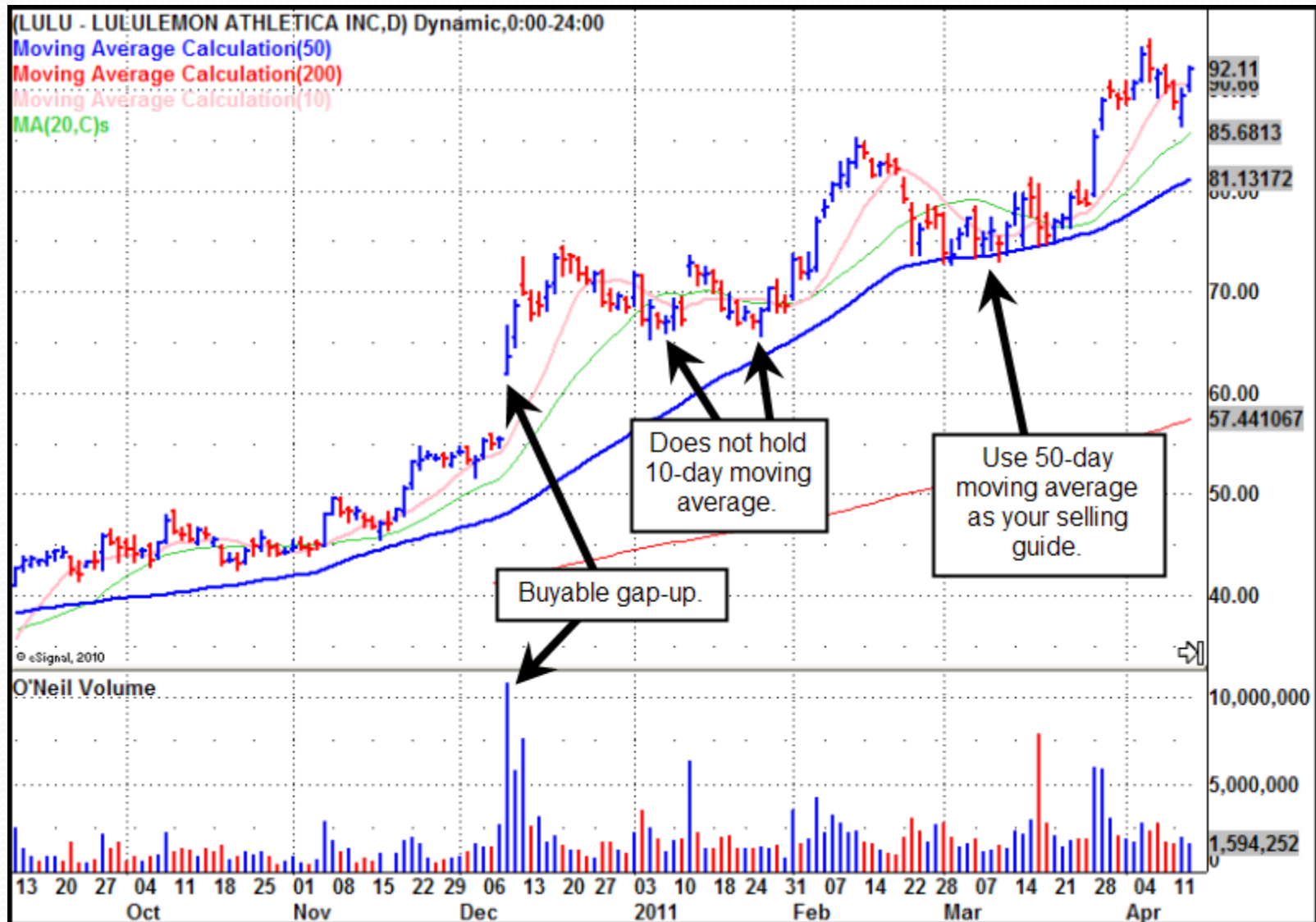
## **Selling Guides for Buyable Gap-Ups: Use of the 10-day and 50-day moving averages in conjunction with Buyable Gap-Ups is governed by the “Seven-Week Rule.”**

- **10-day** = Stocks that have shown a tendency to “obey” or “respect” the 10-day moving average for at least **7 weeks** in an uptrend should often be sold once the stock violates the 10-day line.
- **50-day** = If they don’t show such a tendency to obey the 10-day moving average then it is better to use the 50-day moving average as your guide for selling.
- This rule can help prevent you from selling a stock prematurely if it is simply not its nature to hold the 10-day moving average and it tends to drop below the 10-day line often. Our studies indicate that a stock within an uptrend and which is also shown to obey the 10-day moving average for at least 7 weeks following a buy point (e.g., breakout, pocket pivot, buyable gap-up, etc.) should be sold upon its first violation of the 10-day line. A “violation” is defined as a close below the 10-day moving average followed by a move on the next day below the intraday low of the first day.
- More on this later today in the Trading Simulation.

# Intuitive Surgical, Inc. (ISRG) and the 50-day Moving Average



# Lululemon Athletica, Inc. (LULU) - December 2010



# Summary

- Buyable gap-ups are often “too high to buy” and thus increase the contrarian odds of success since the crowd is scared away.
- Buyable gap-ups often lead to sharp, sustained upside price moves, particularly in the earlier stages of a stock’s overall price move during a bull market, e.g., coming out of the initial or second-stage base consolidations as the stock starts to make new price highs at or near the start of a new bull market phase.
- Buyable gap-ups that occur in strong, fundamentally thematic leadership have the highest probability of success.