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Buying Techniques I

The Pocket Pivot Buy Point

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Chart Notes

Moving Averages:

Magenta = 10-day simple moving average.

Green = 20-day simple moving average.

Blue = 50-day simple moving average.

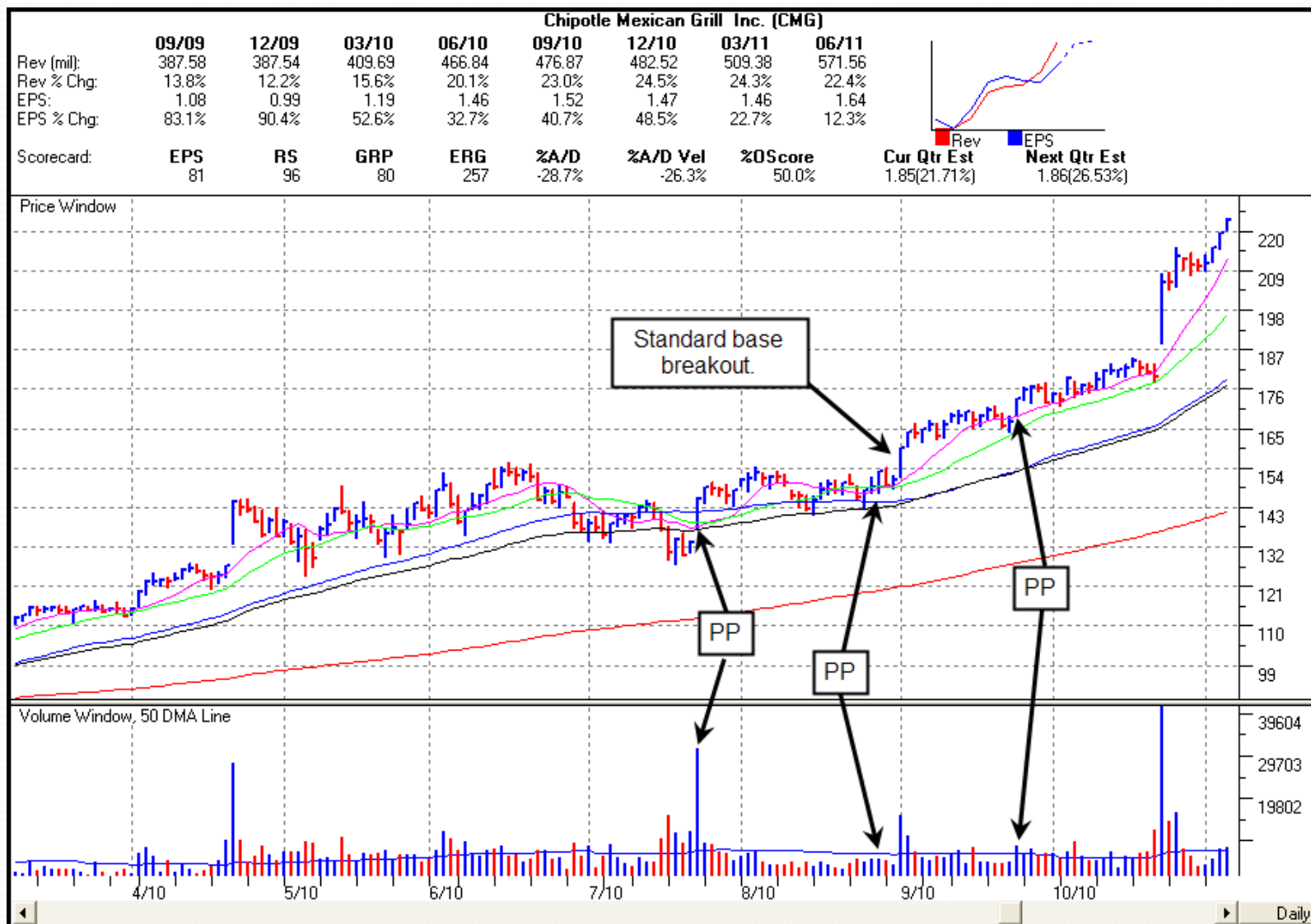
Black = 65-day exponential moving average.

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

What is a “Pocket Pivot?”

- An early buy point within a potential leading stock's consolidation or basing pattern. When utilized as a buy point within a consolidation or base it provides an “early mover” advantage to the investor.
- A continuation buy point for a leading stock that is already firmly entrenched in a strong uptrend. This offers both a way to get “onboard” strong leaders later on in their uptrends as well as an extremely reliable and powerful tool for adding to positions purchased earlier when a stock was still within or just emerging from its original consolidation or basing formation.

Pocket Pivots are Unique Buy Points



Basic Premise of the Pocket Pivot

- Institutional Buying creates new-high base breakouts, but we also know that **institutional buying occurs within consolidations and during uptrends.**
- This buying within consolidations and uptrends should, theoretically, have its particular, identifying **price and volume “signature.”**
- The pocket pivot describes that “signature,” and **provides a clear, buyable “pivot point,”** or “pocket pivot buy point.”
- Pocket pivots also provide a **tool for buying leading stocks as they progress higher within uptrends,** extended from a prior base or price consolidation.

Pocket pivots are just a way to identify institutional investors' footprints within a base or an uptrend.



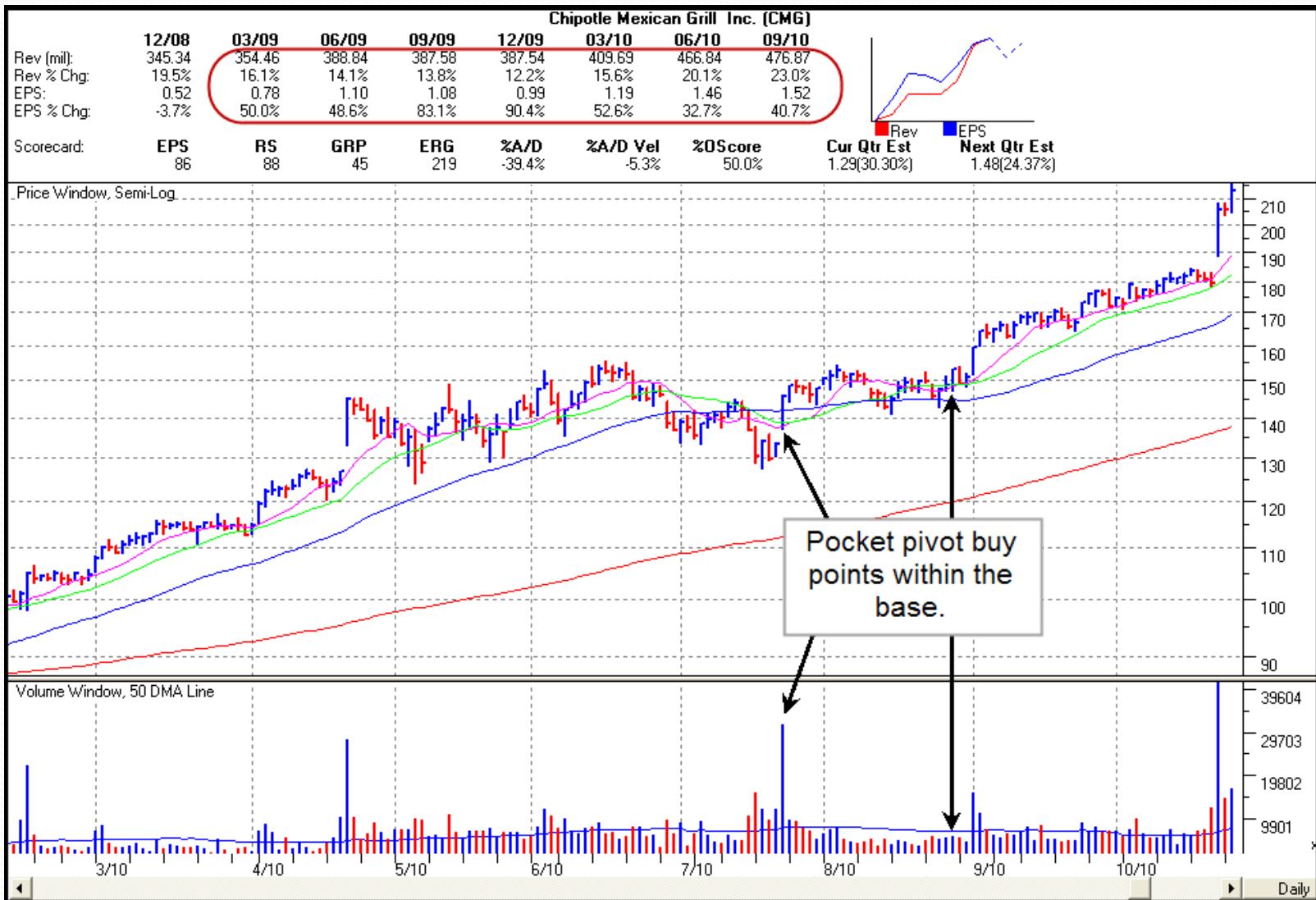
The Ten Commandments of Pocket Pivots

1. As with base breakouts, proper pocket pivots should emerge within or out of constructive basing patterns.
2. The stock's fundamentals should be strong, i.e., excellent earnings, sales, pretax margins, ROE, strong leader in its space, etc. or should have a compelling thematic basis for consideration.
3. The day's volume should be larger than the highest down volume day over the prior 10 days.
4. Pocket pivots sometimes coincide with base breakouts or with gap ups. This can be thought of as added upside power should this occur.
5. If the pocket pivot occurs in an uptrend after the stock has broken out, it should act constructively around its 10-dma. It can undercut its 10-dma as long as it shows resilience by showing volume that is greater than the highest down volume day over the prior 10 days.
6. Some pocket pivots may occur after the stock is extended from the base. If the pivot occurs right near its 10-dma, it can be bought, otherwise it is extended and should be avoided. Give the 10-dma the chance to catch up to the stock, where the stock would consolidate for a few days, before buying such a pocket pivot.
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9. Do not buy pocket pivots if the stock formed a 'V' where it sells off hard down through the 10-dma or 50-dma then shoots straight back up in a 'V' formation. Such formations are failure prone.
10. Avoid buying pocket pivots that occur after wedging patterns.

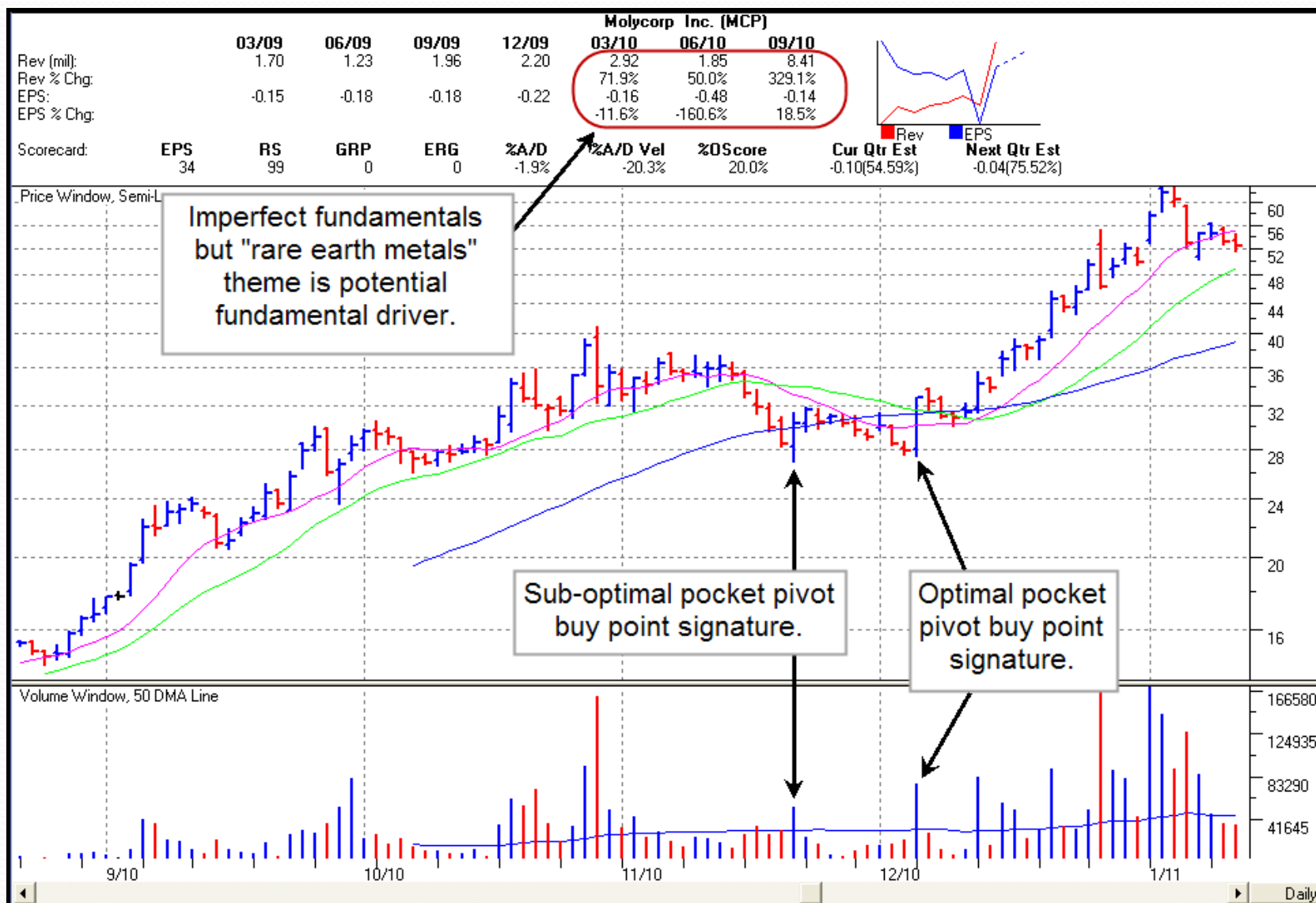
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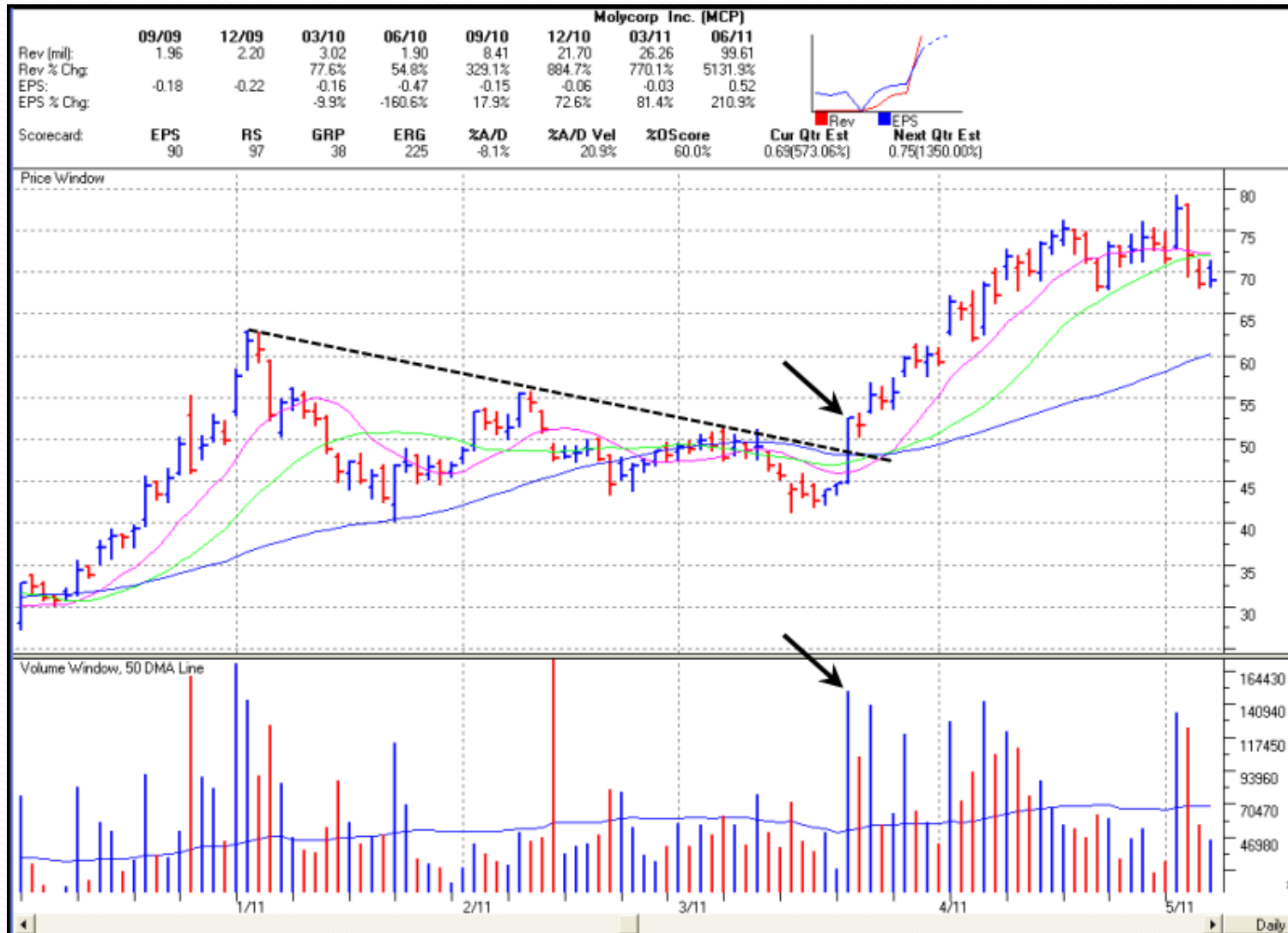
Chipotle Mexican Grill (CMG) – 2010



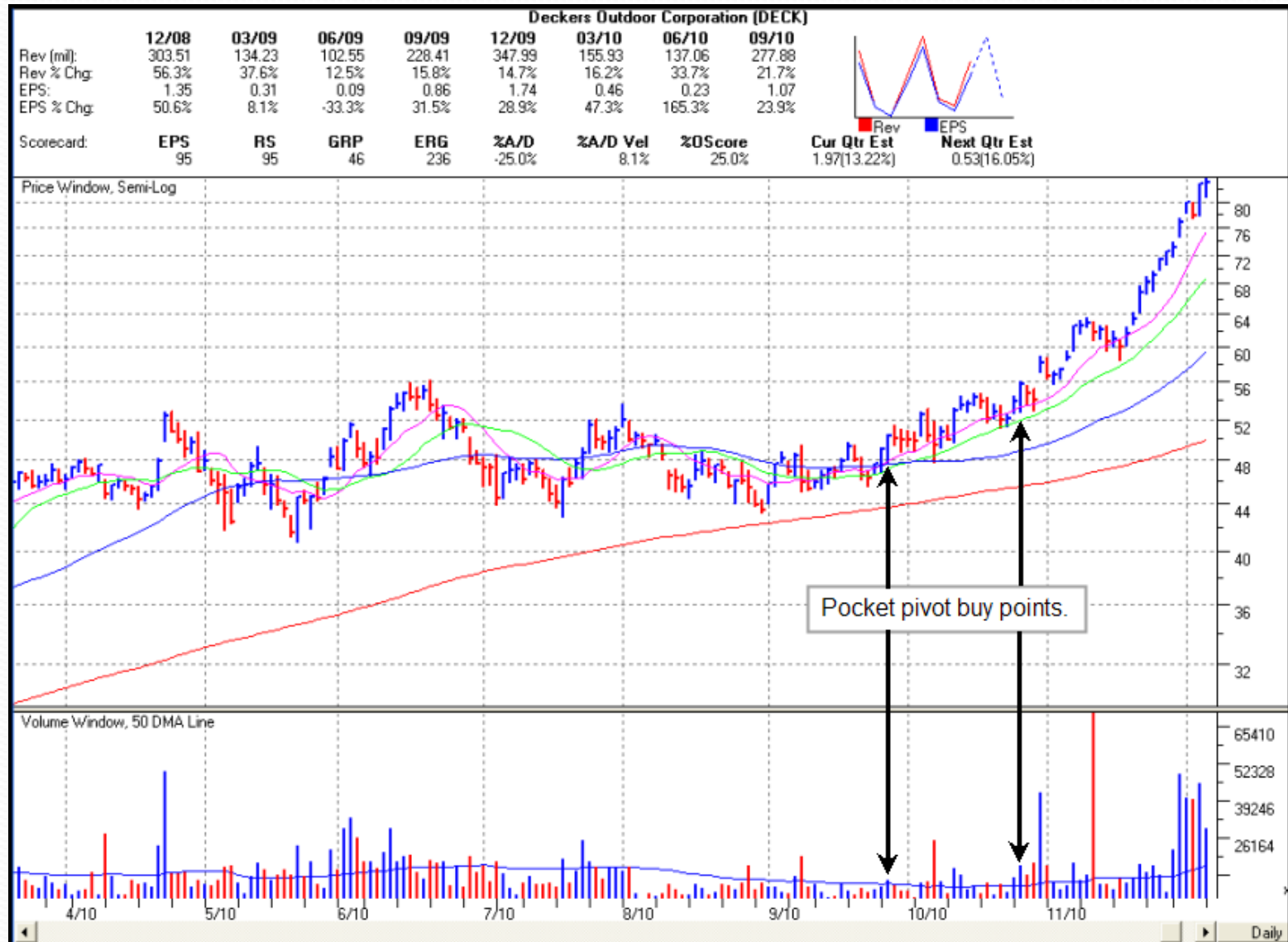
Molycorp, Inc. (MCP) – 2010



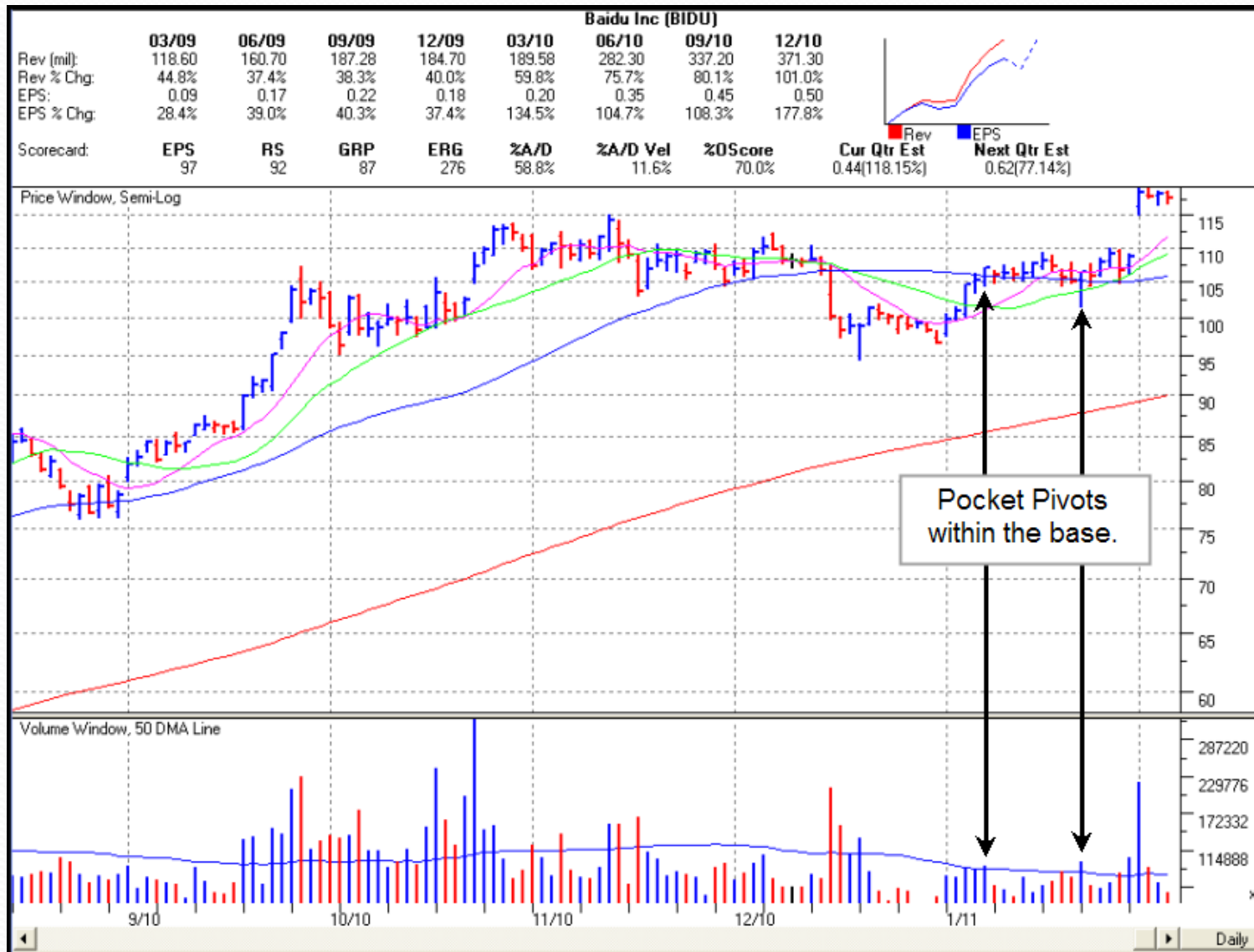
Molycorp, Inc. (MCP) - 2011



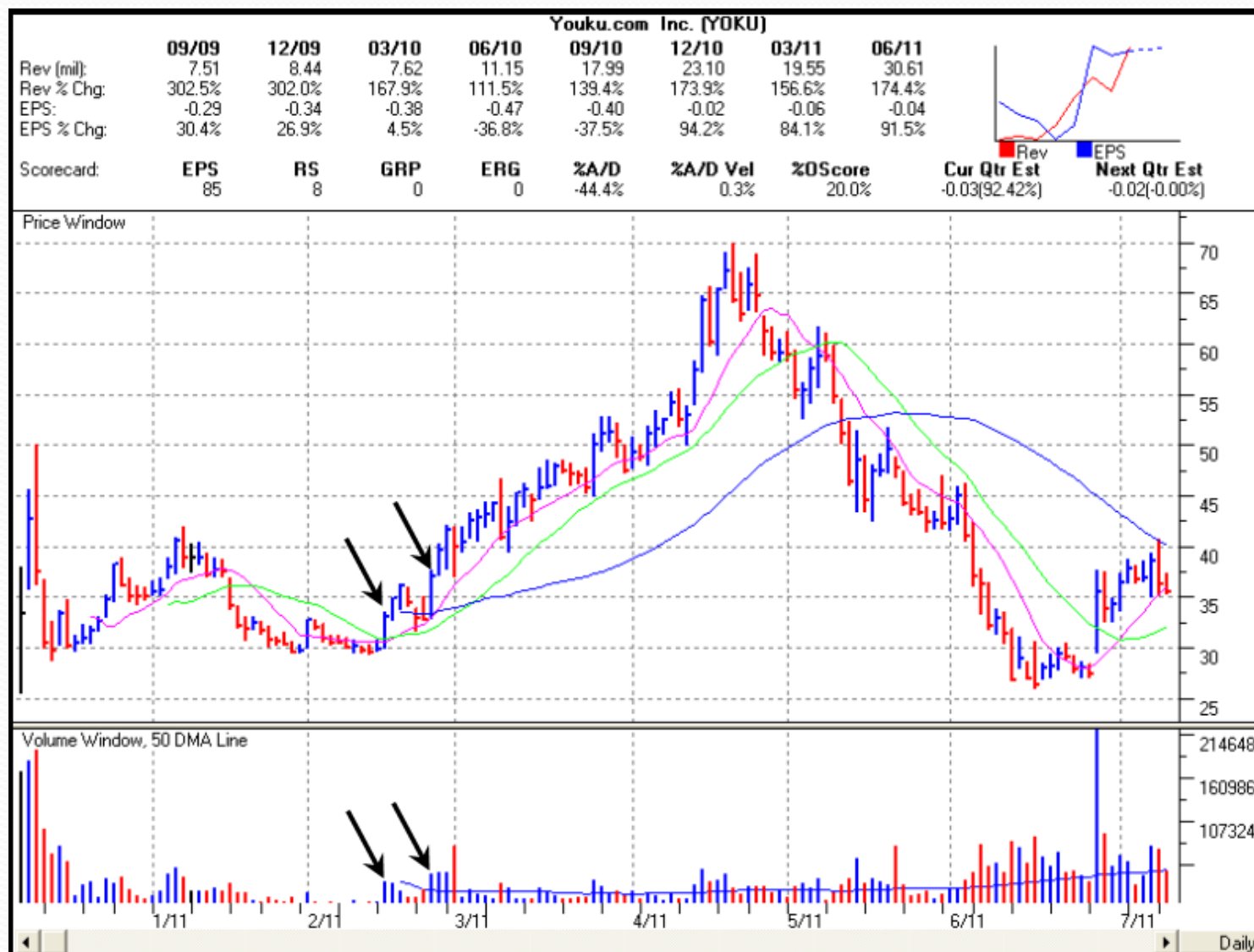
Deckers Outdoor Corp. (DECK) - 2010



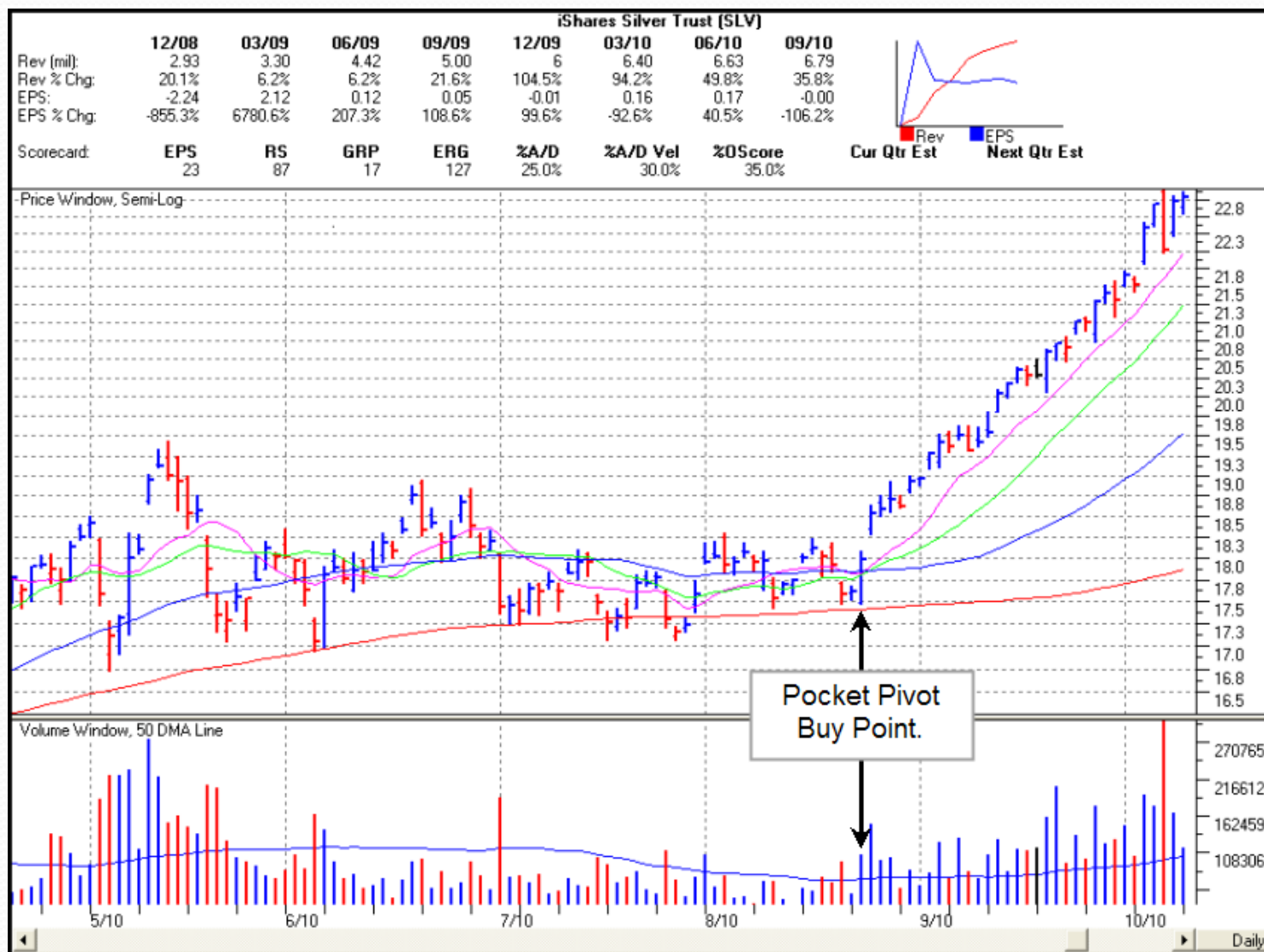
Baidu, Inc. (BIDU) –2011



Youku.com, Inc. (YOKU) - 2011



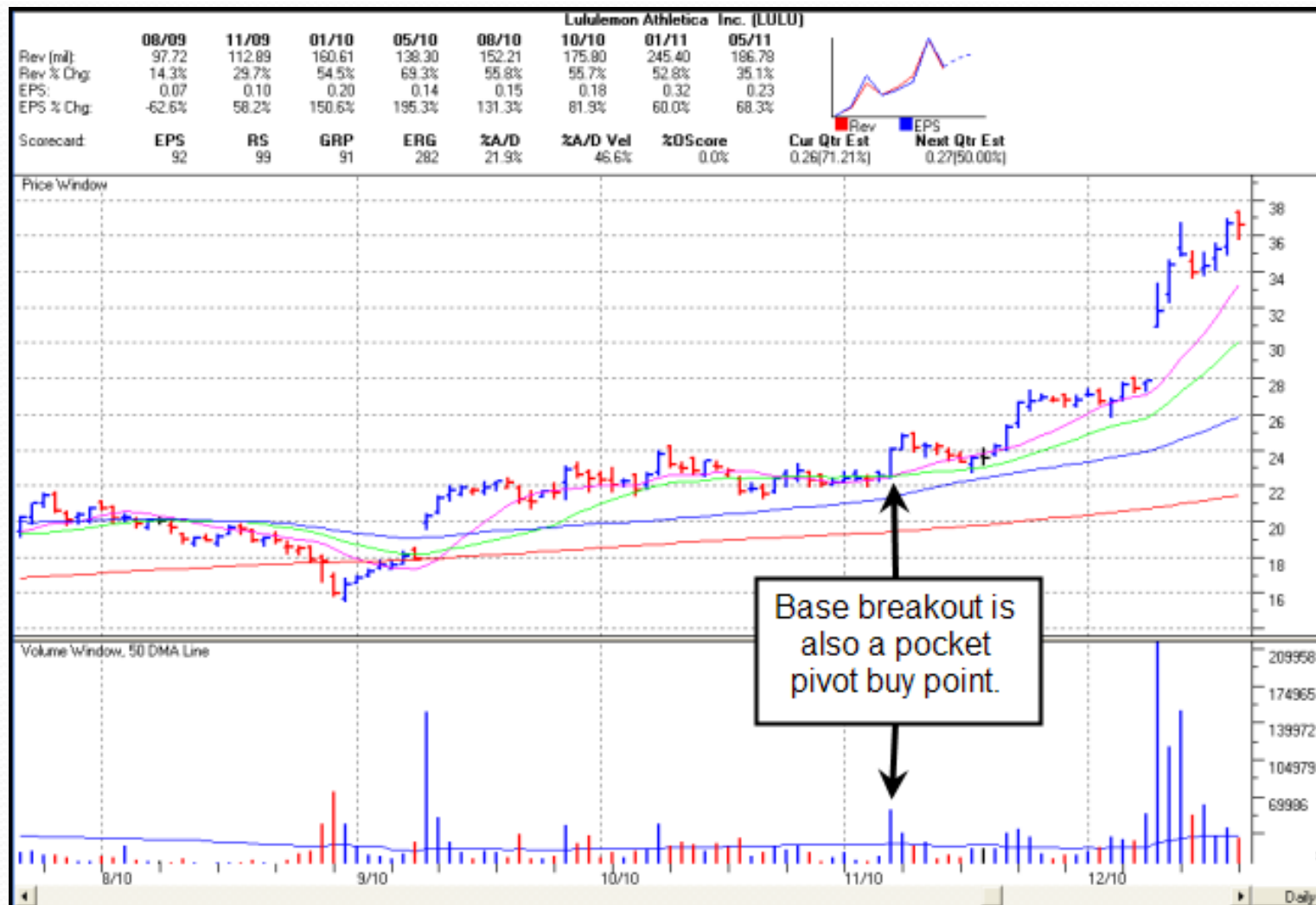
iShares Silver Trust (SLV) – 2010



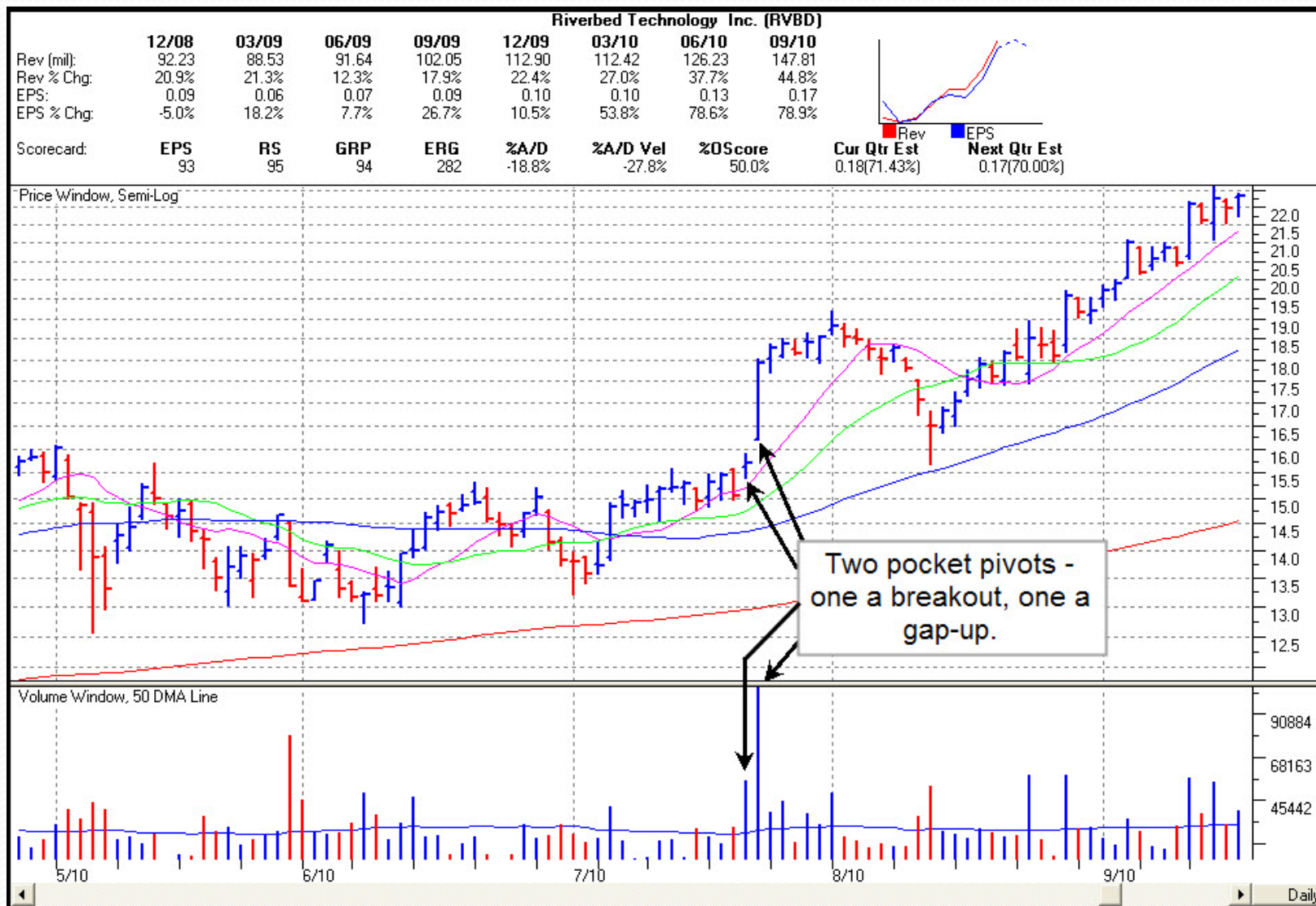
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Lululemon Athletica (LULU) - 2010



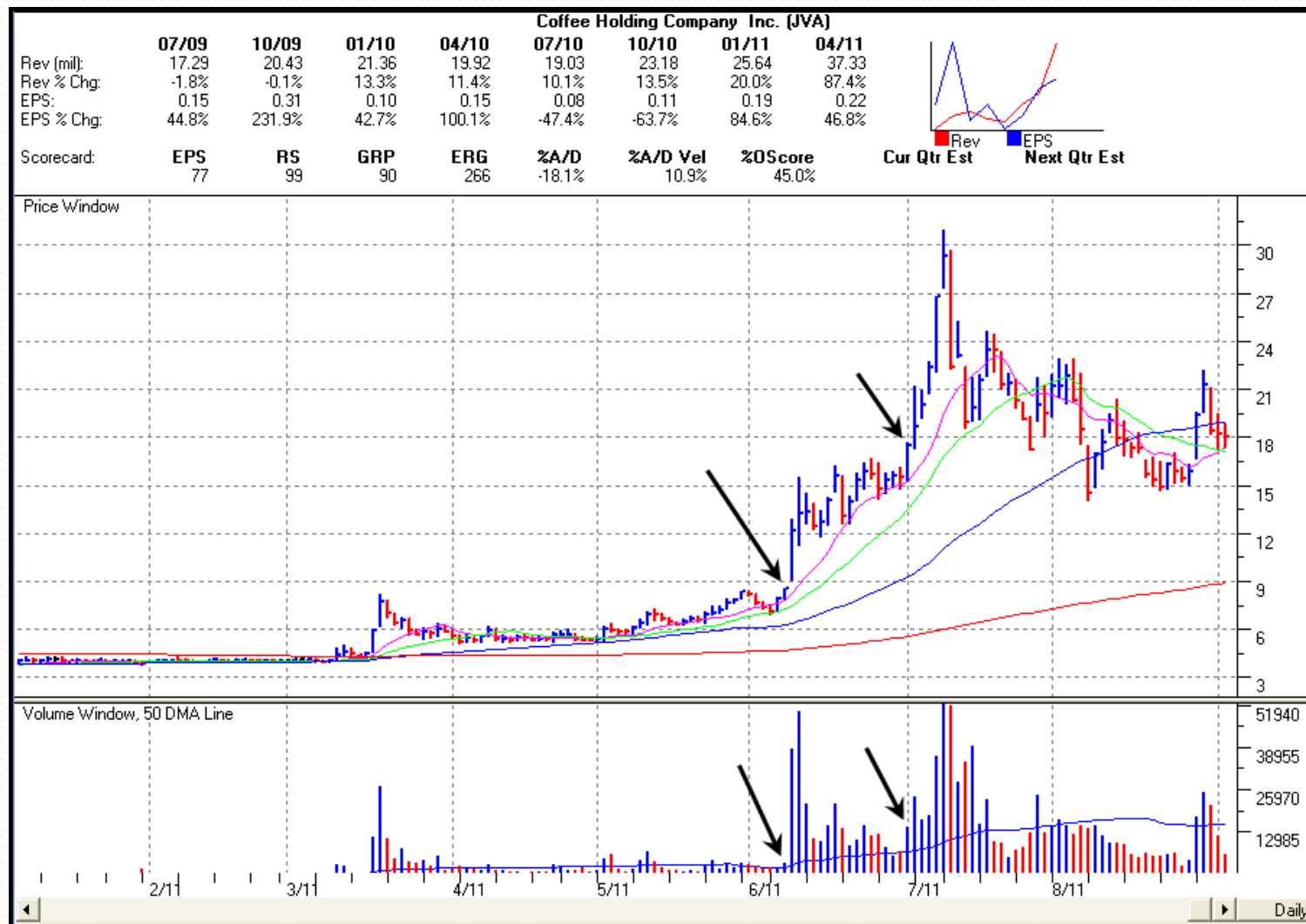
Riverbed Technologies (RVBD) July 2010



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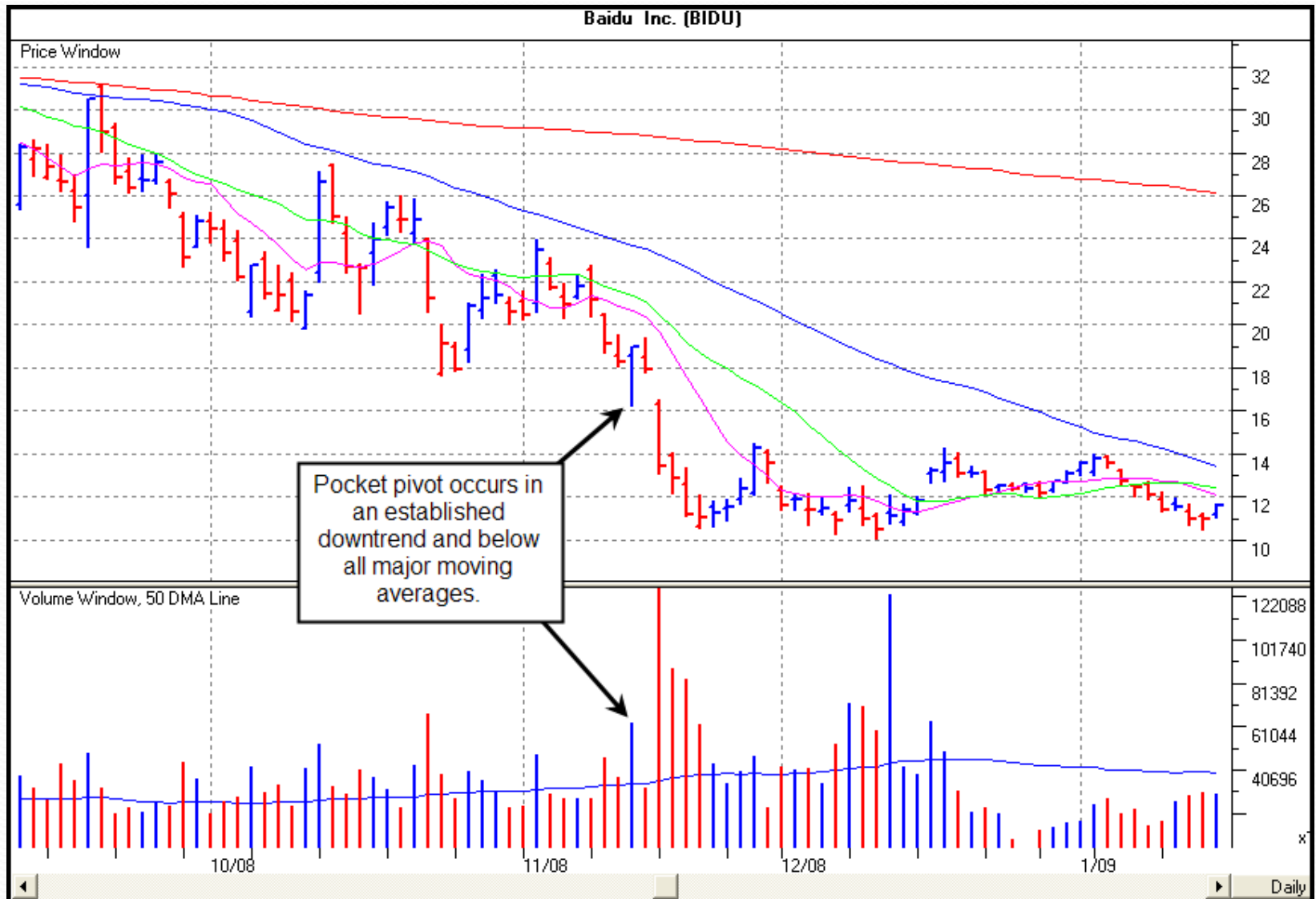
Coffee Holding Company, Inc. (JVA) - 2011



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Baidu, Inc. (BIDU) - 2011



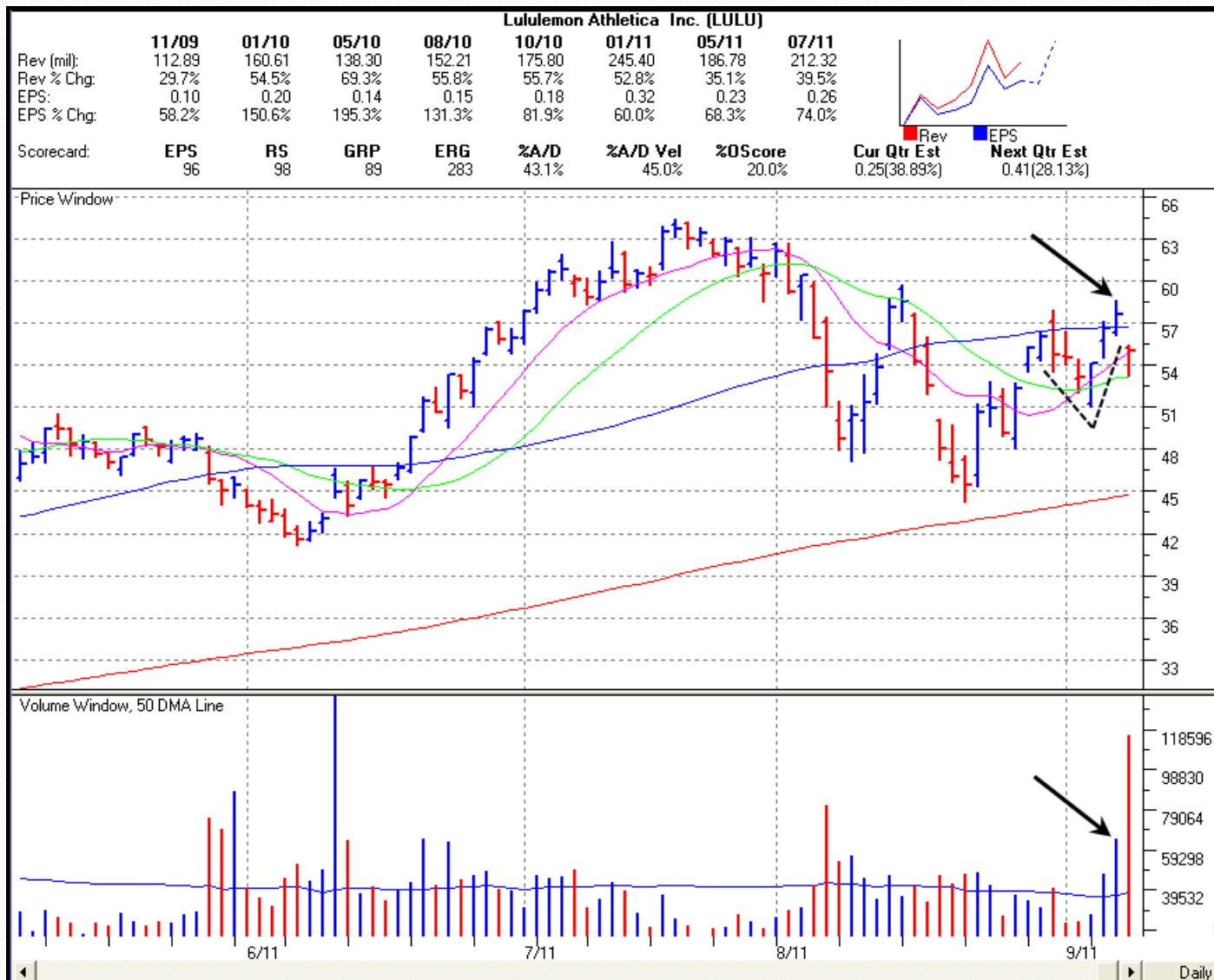
Research in Motion (RIMM) - 2011



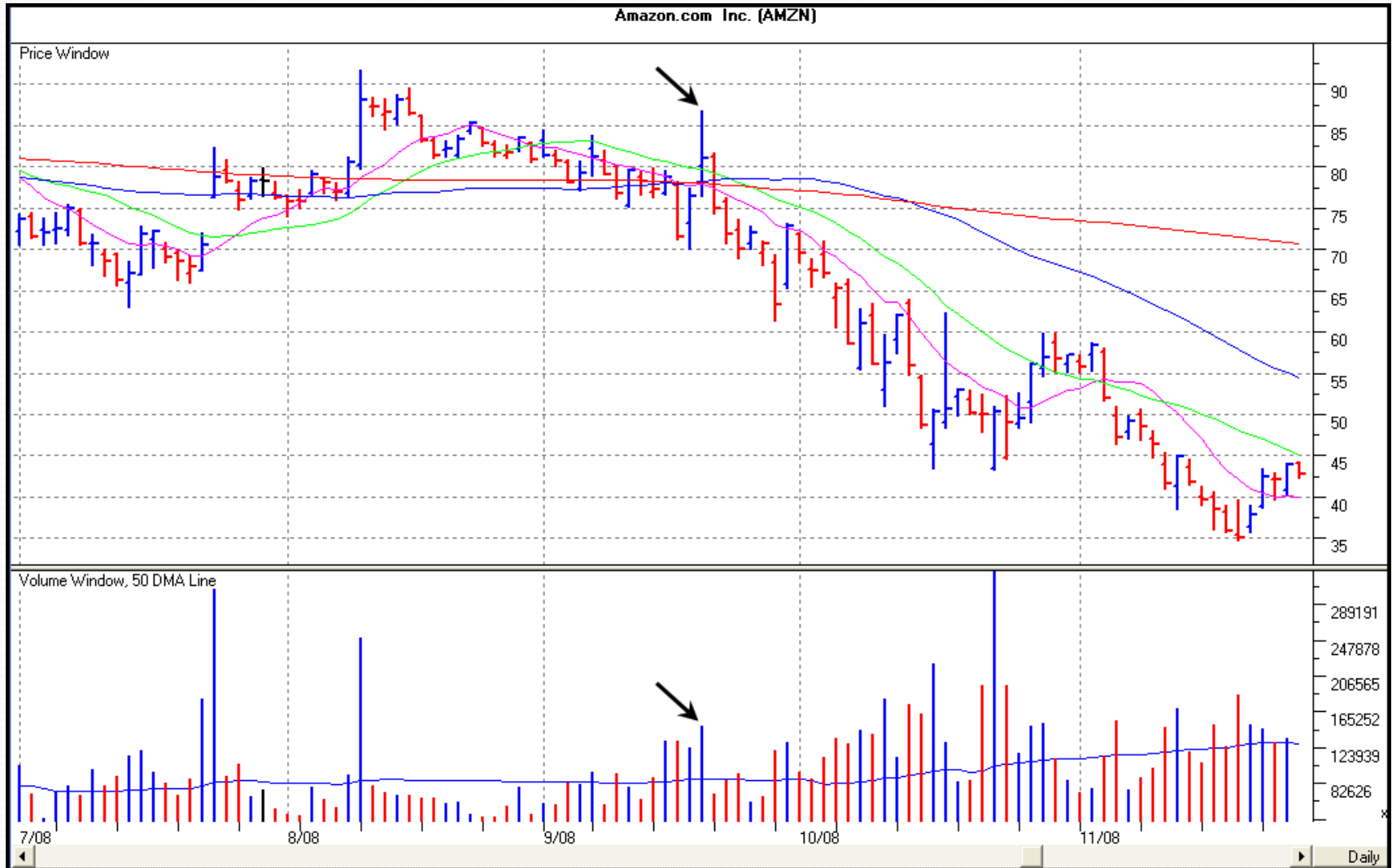
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Lululemon Athletica, Inc. (LULU) - 2011



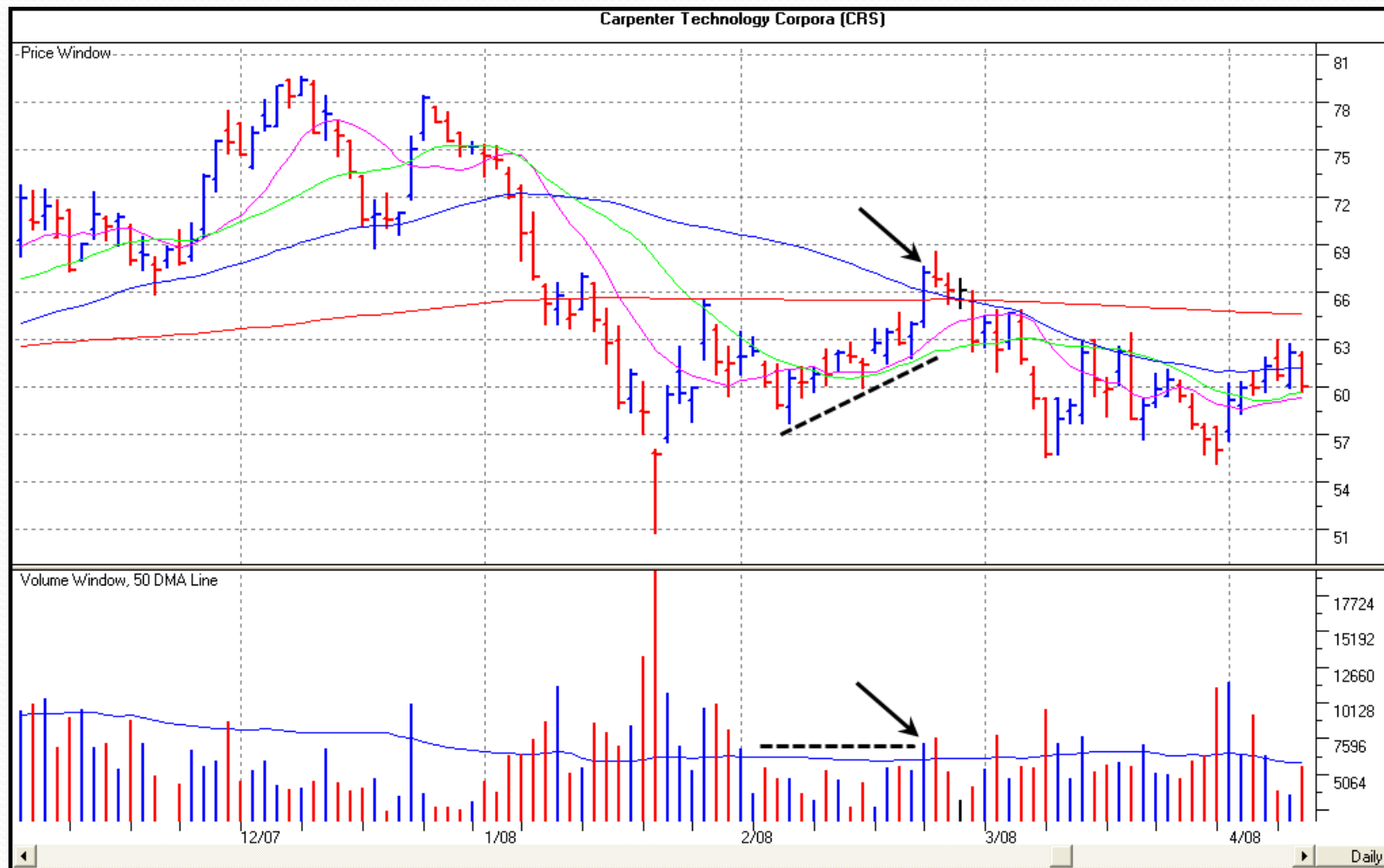
Amazon.com (AMZN) - 2008



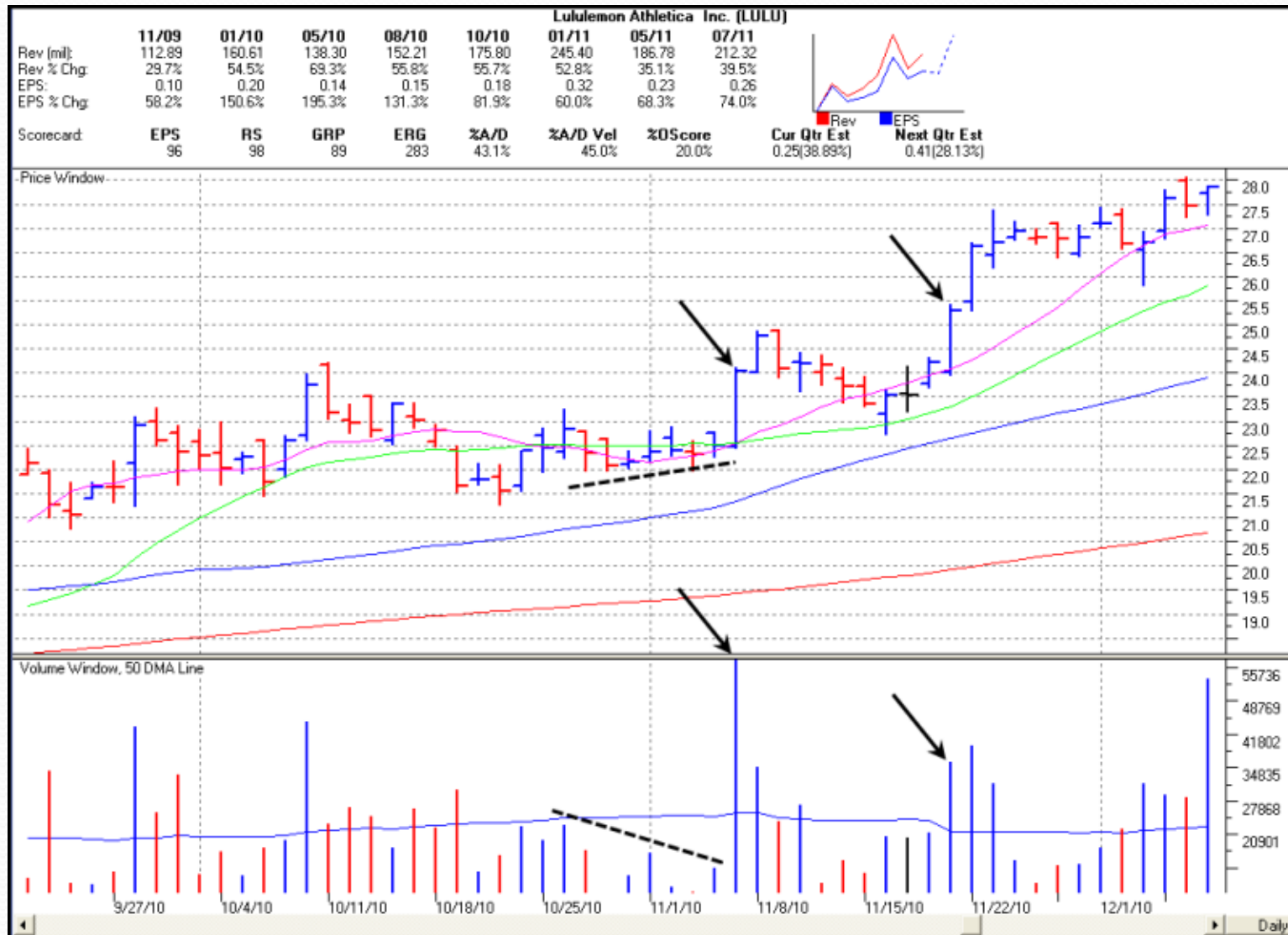
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Carpenter Technology Corp. (CRS) - 2008



Lululemon Athletica – 2010



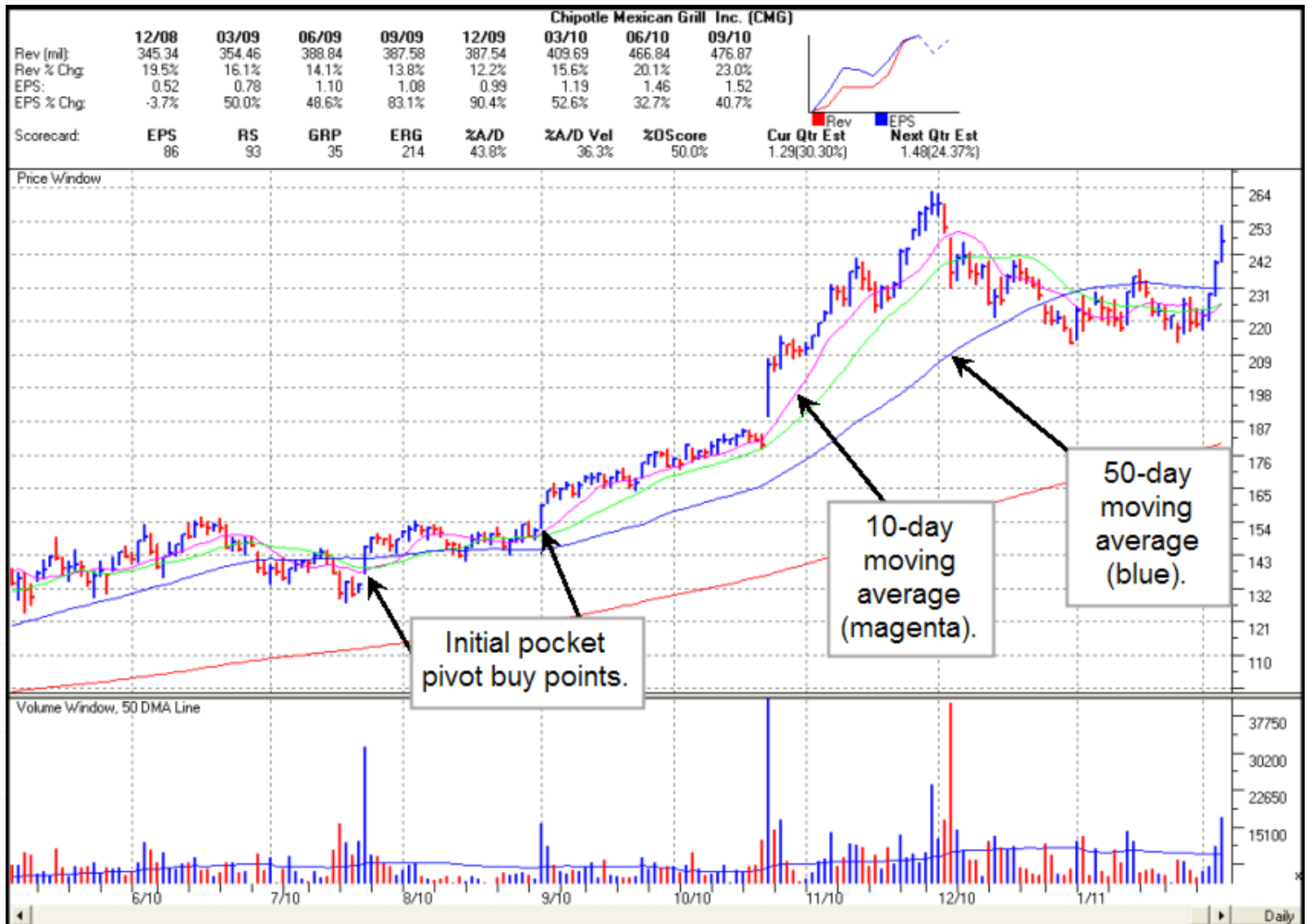


The Seven Week Rule

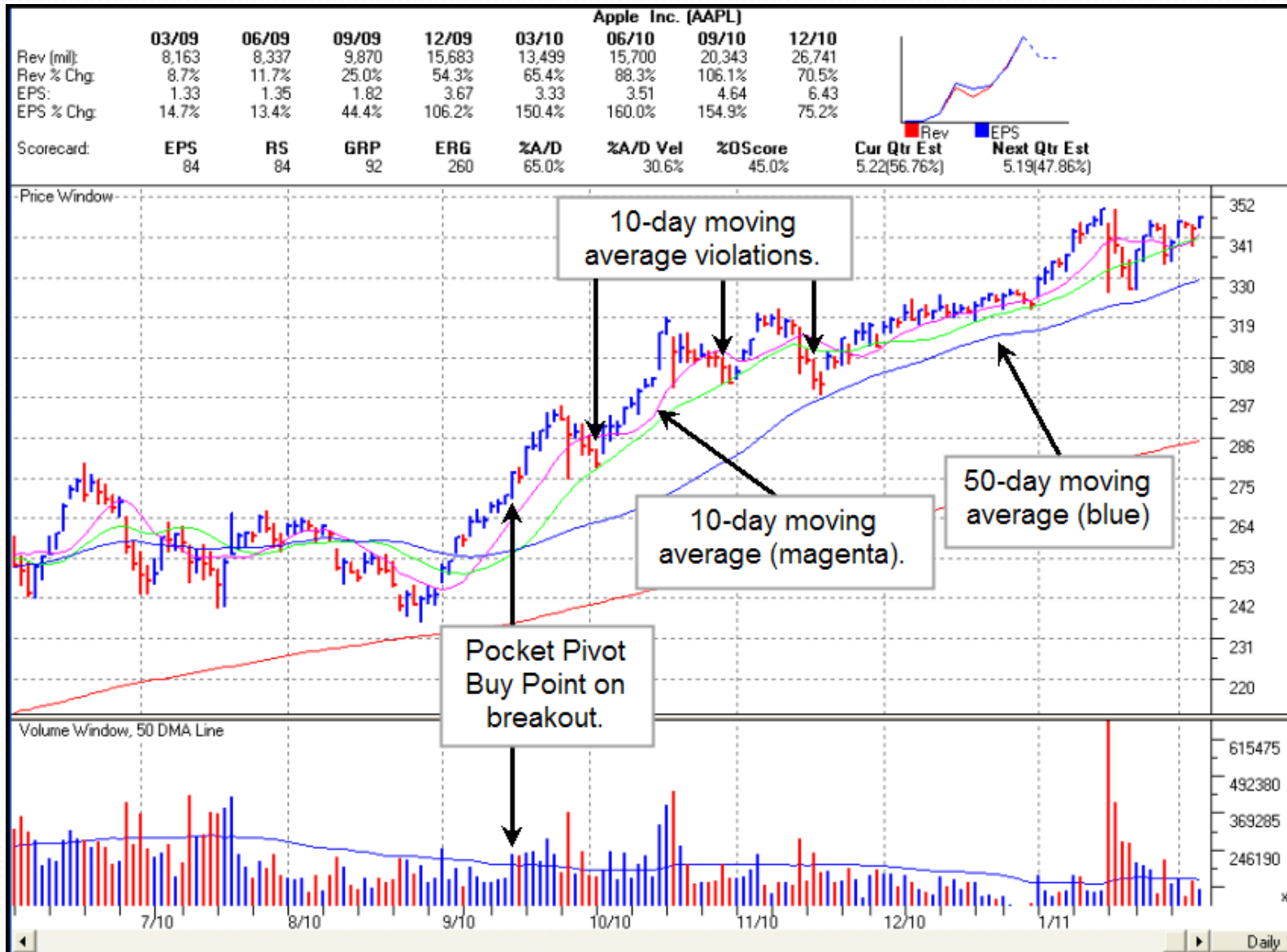
Use of the 10-day and 50-day moving averages in conjunction with the Pocket Pivot tool is governed by the “Seven-Week Rule.”


- **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 of pocket pivots indicate that a pocket pivot buy point which results in an uptrend that is shown to obey the 10-day moving average for at least 7 weeks following the initial pocket pivot 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 in the Trading Simulation later today.

Chipotle Mexican Grill (CMG) and the 10-day Moving Average



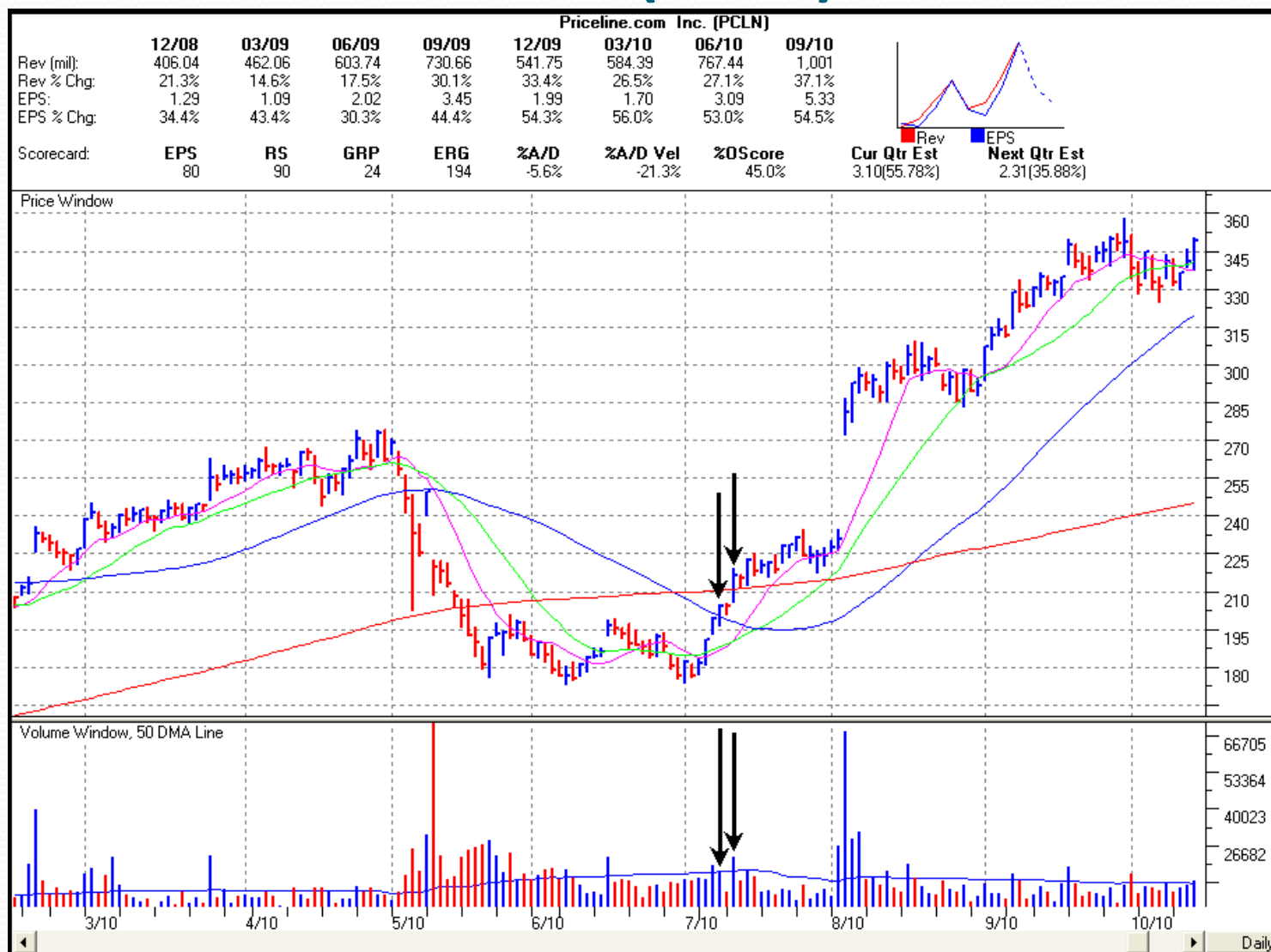
Apple, Inc. (AAPL) and the 50-day Moving Average





Appendix A: “Bottom-Fishing” Pocket Pivot Buy Point Examples

Priceline.com (PCLN) – 2010



Google, Inc. (GOOG) - 2010



Intuitive Surgical, Inc. (ISRG) – 2009



Summary

- Pocket pivots function as early buy points within a base or as continuation buy points once a stock is extended from a prior base breakout.
- Pocket pivots are often strong clues during market corrections when they occur within the base or consolidation of a potential leader just before a market bottom and new rally phase.
- Pocket pivots are not a panacea, but they do offer an edge in today's markets. Proper risk management must always be employed. basing formation.