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Buying Techniques:
Pocket Pivots, Buyable Gap Ups

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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.

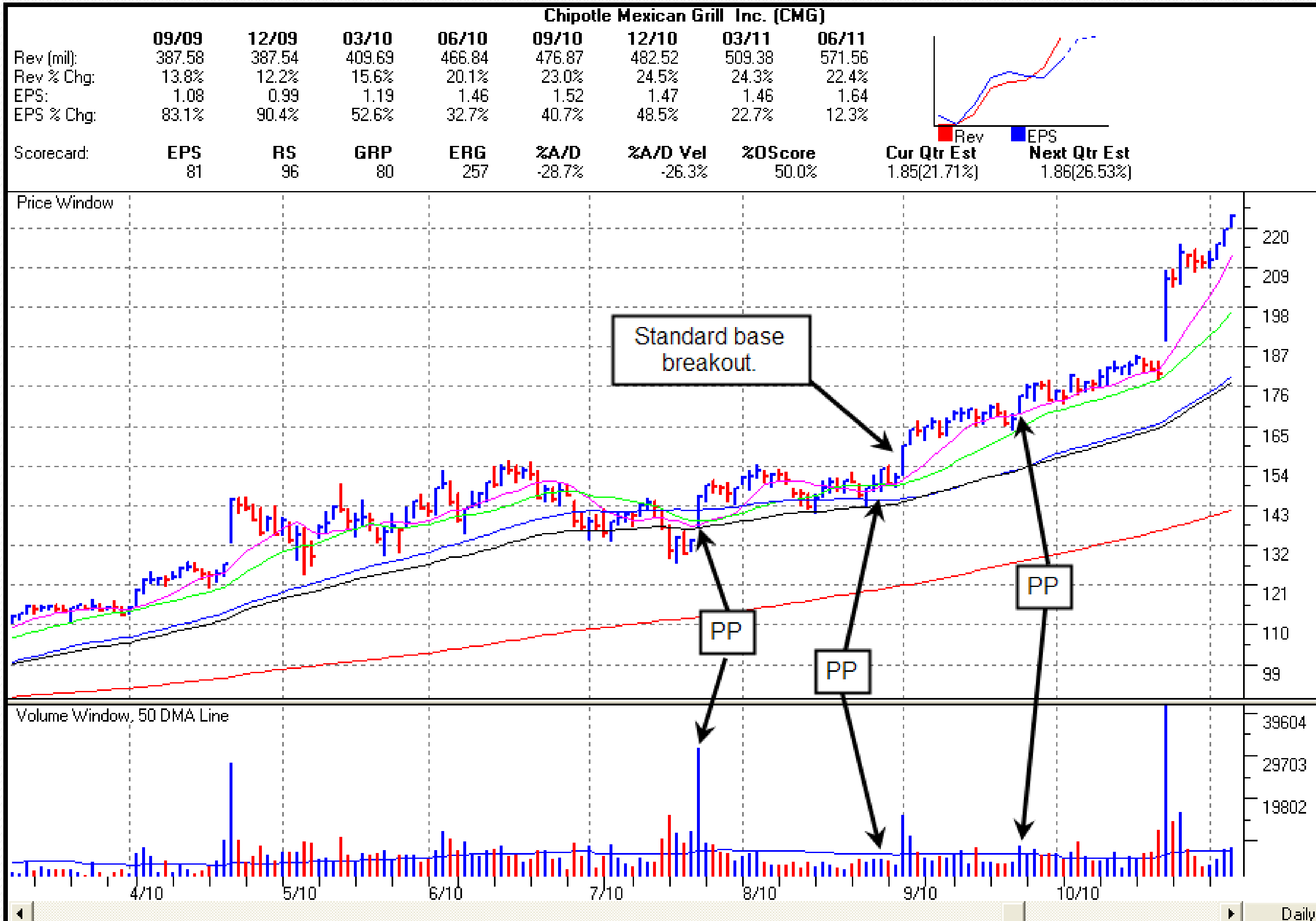
Black = 65-day exponential moving average.

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.
7. Do not buy pocket pivots if the overall chart formation is in a multi-month downtrend (5 months or longer). It is best to wait for the rounding part of the base to form before buying.
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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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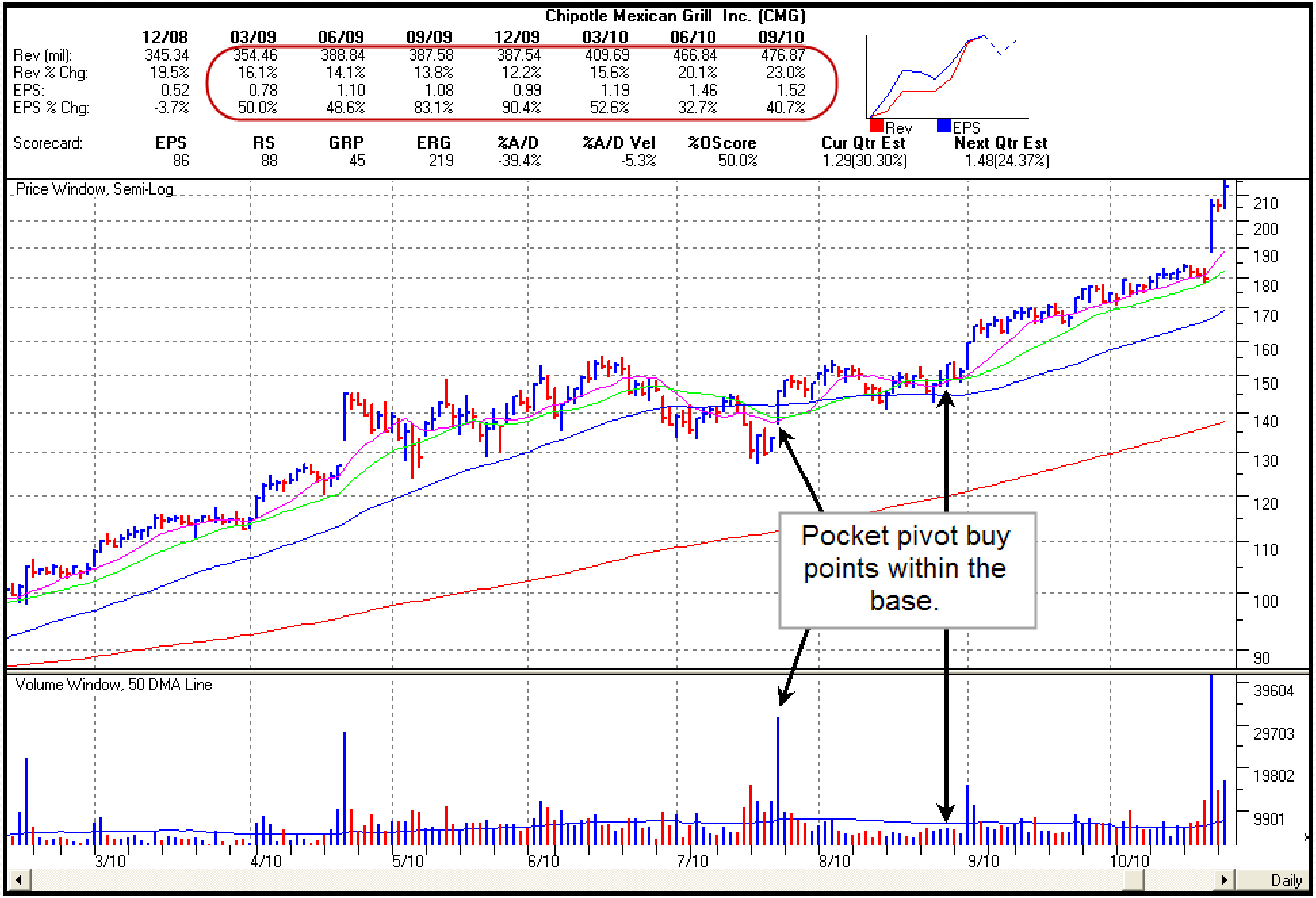
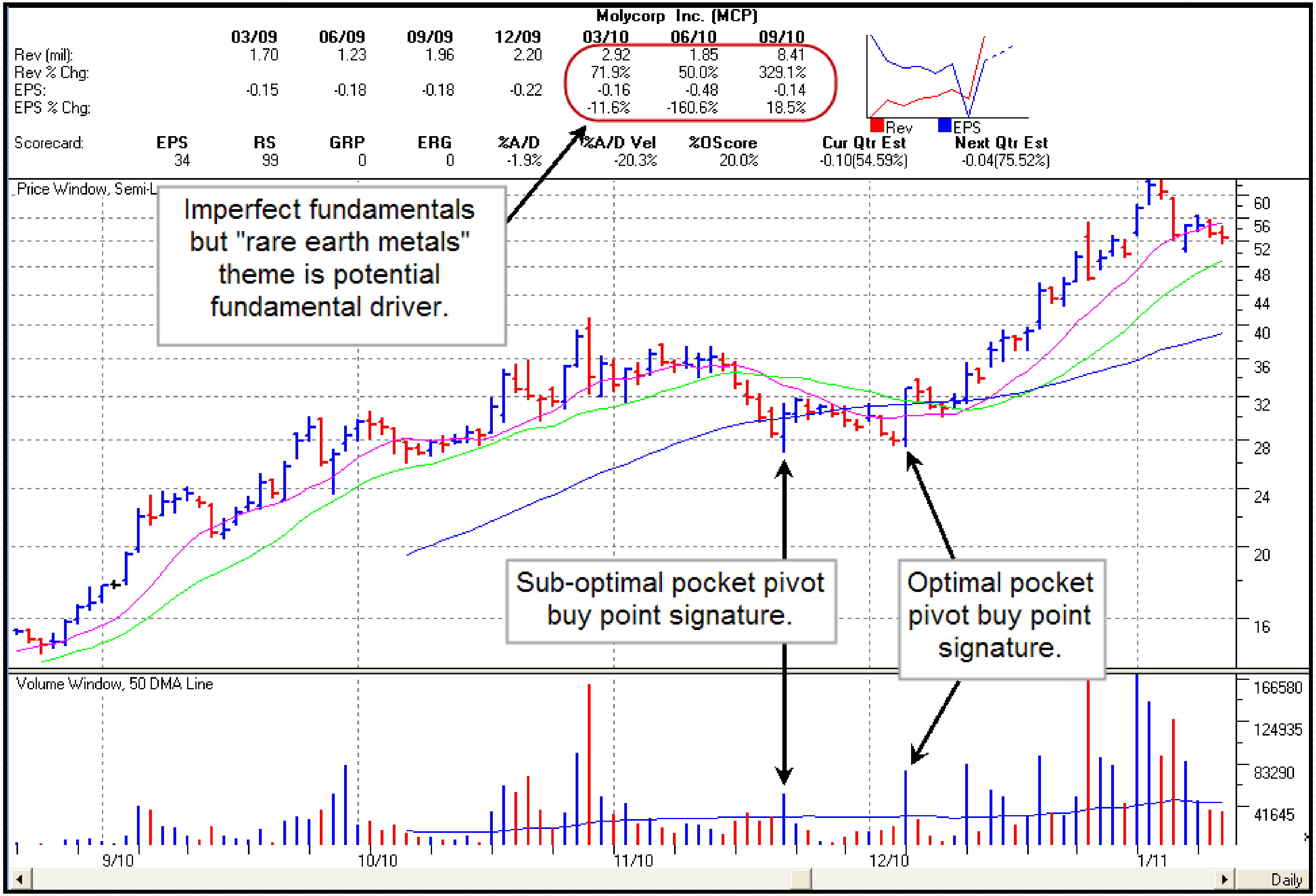


Molycorp, Inc. (MCP) – 2010



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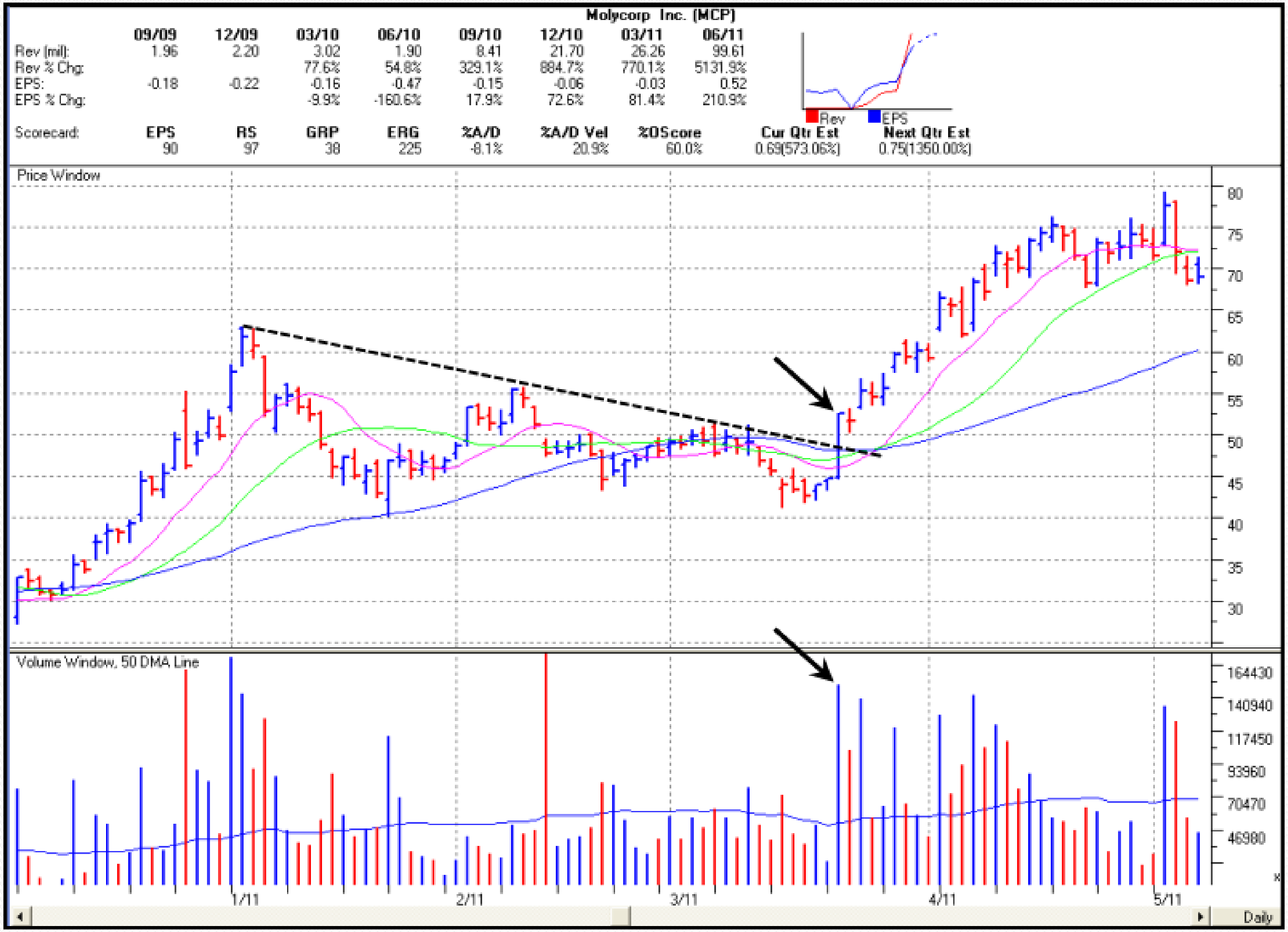
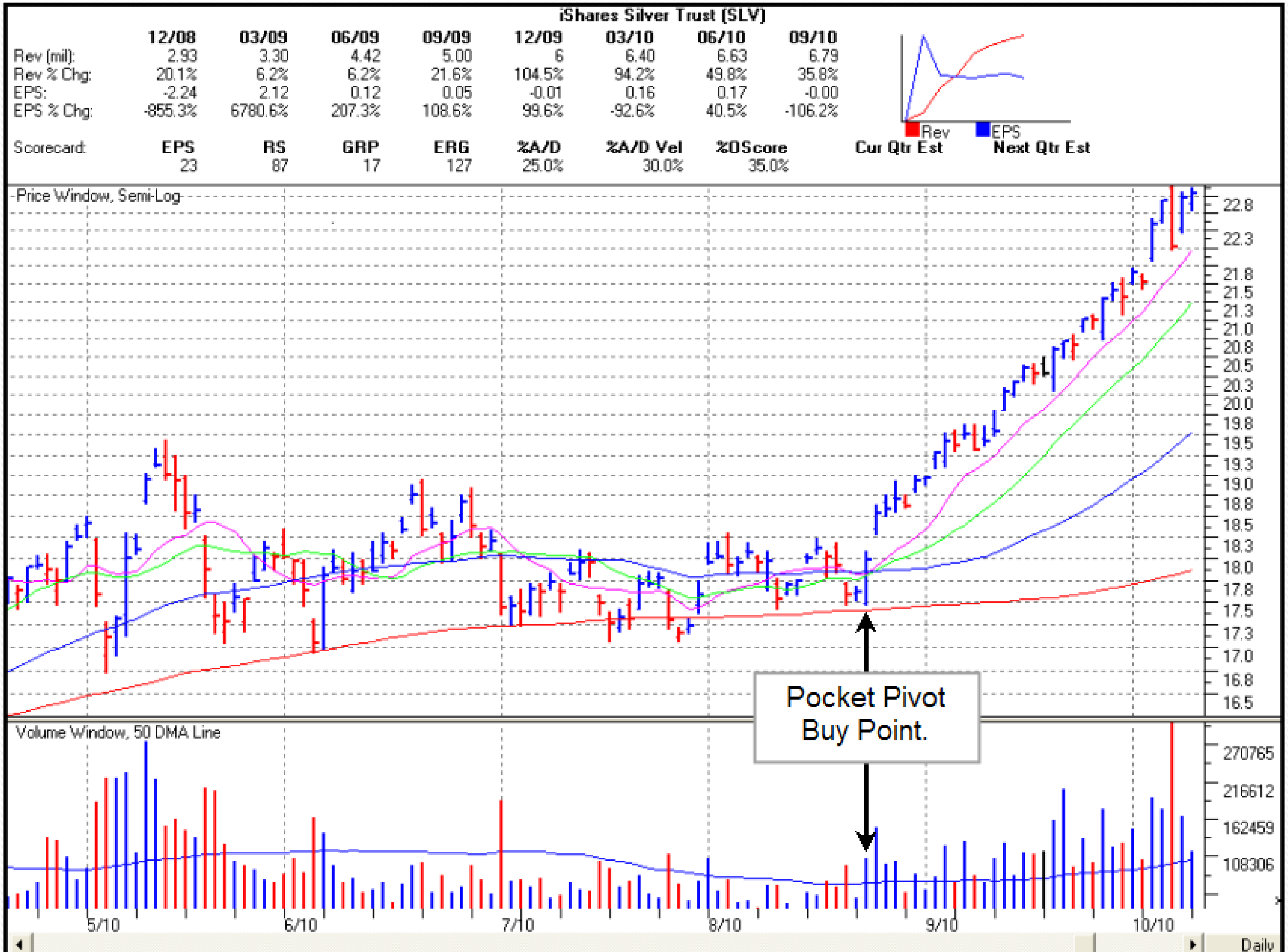


Youku.com, Inc. (YOKU) - 2011

iShares Silver Trust (SLV) – 2010



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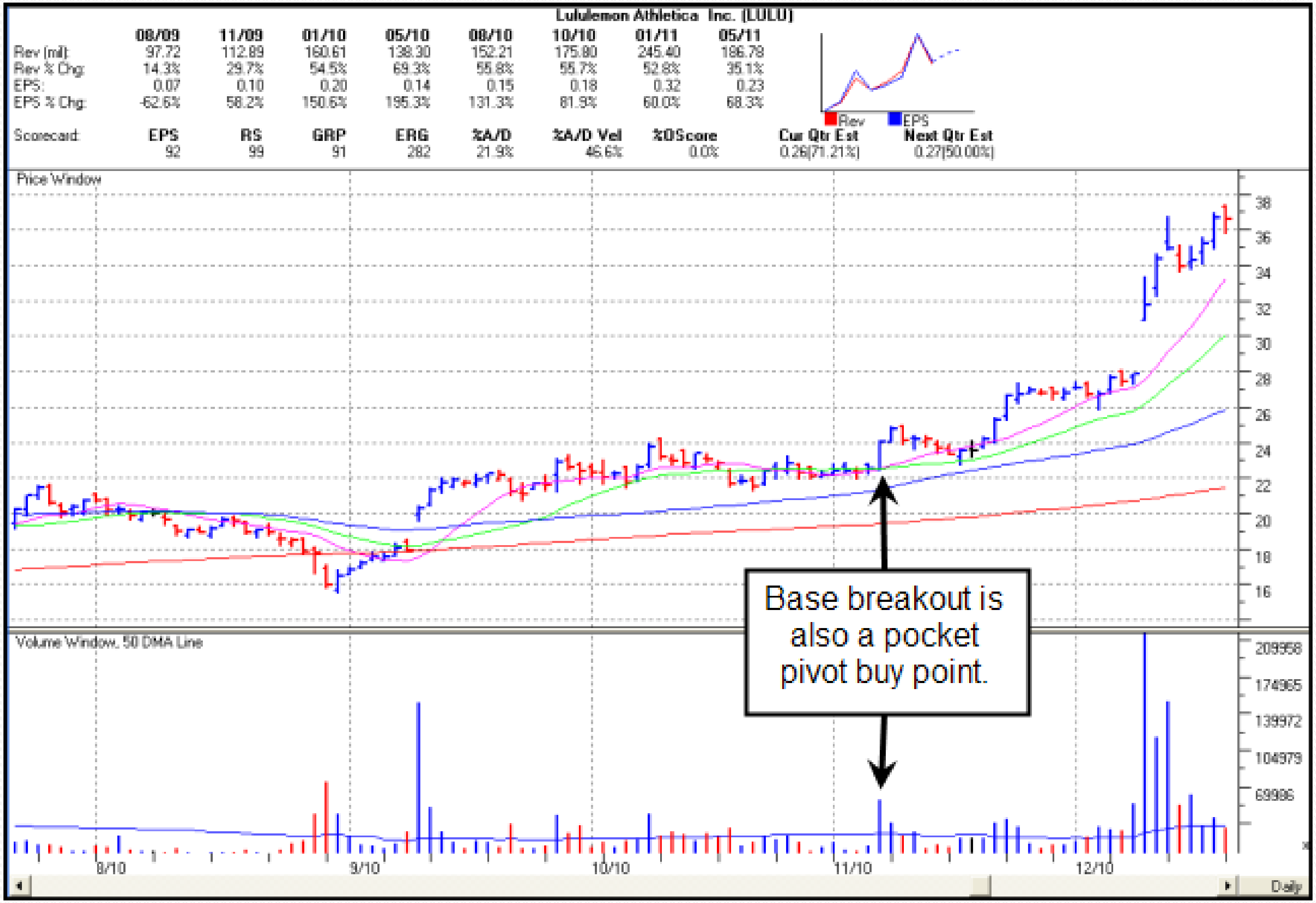
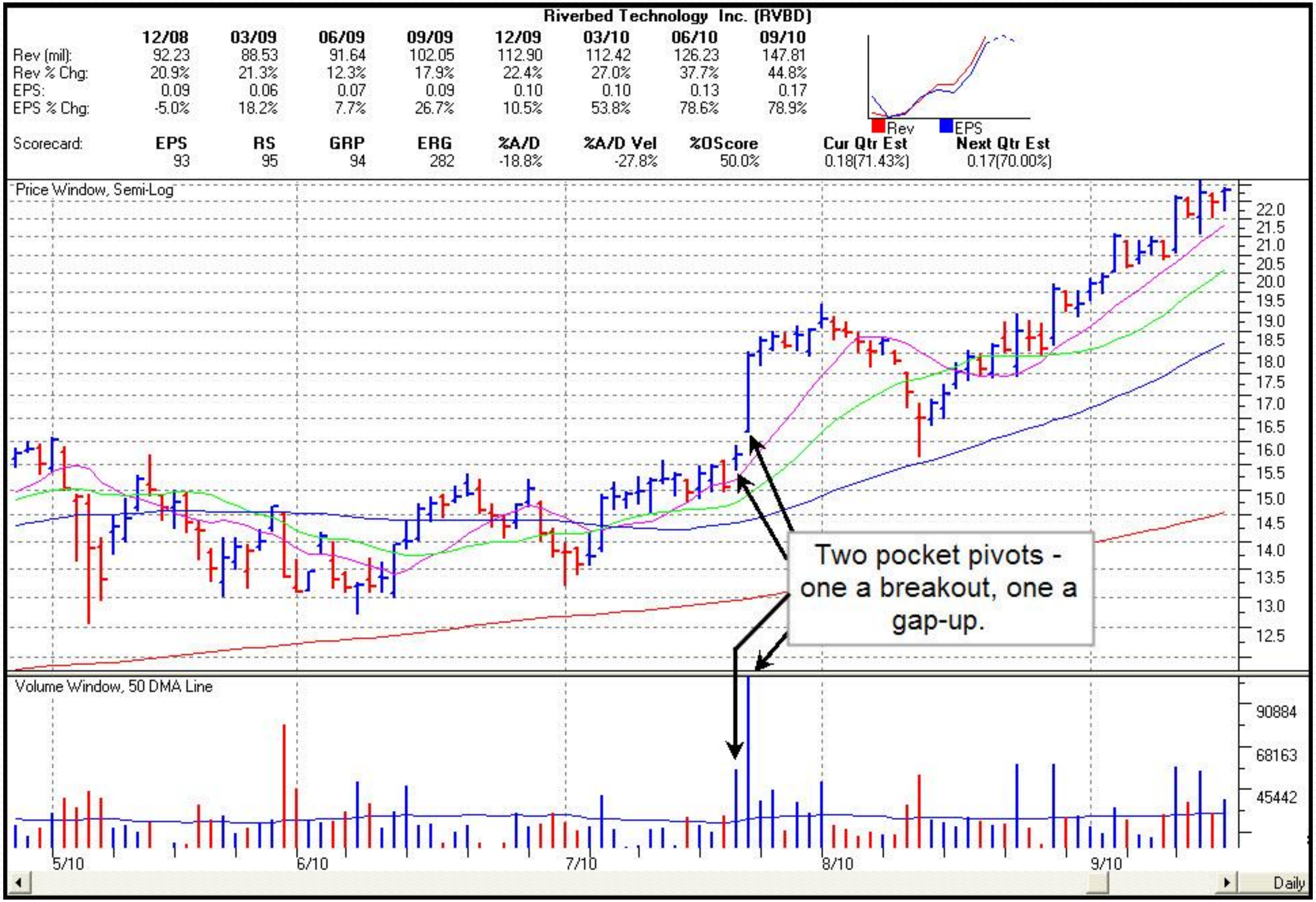
Lululemon Athletica (LULU) - 2010



Riverbed Technologies (RVBD) July 2010



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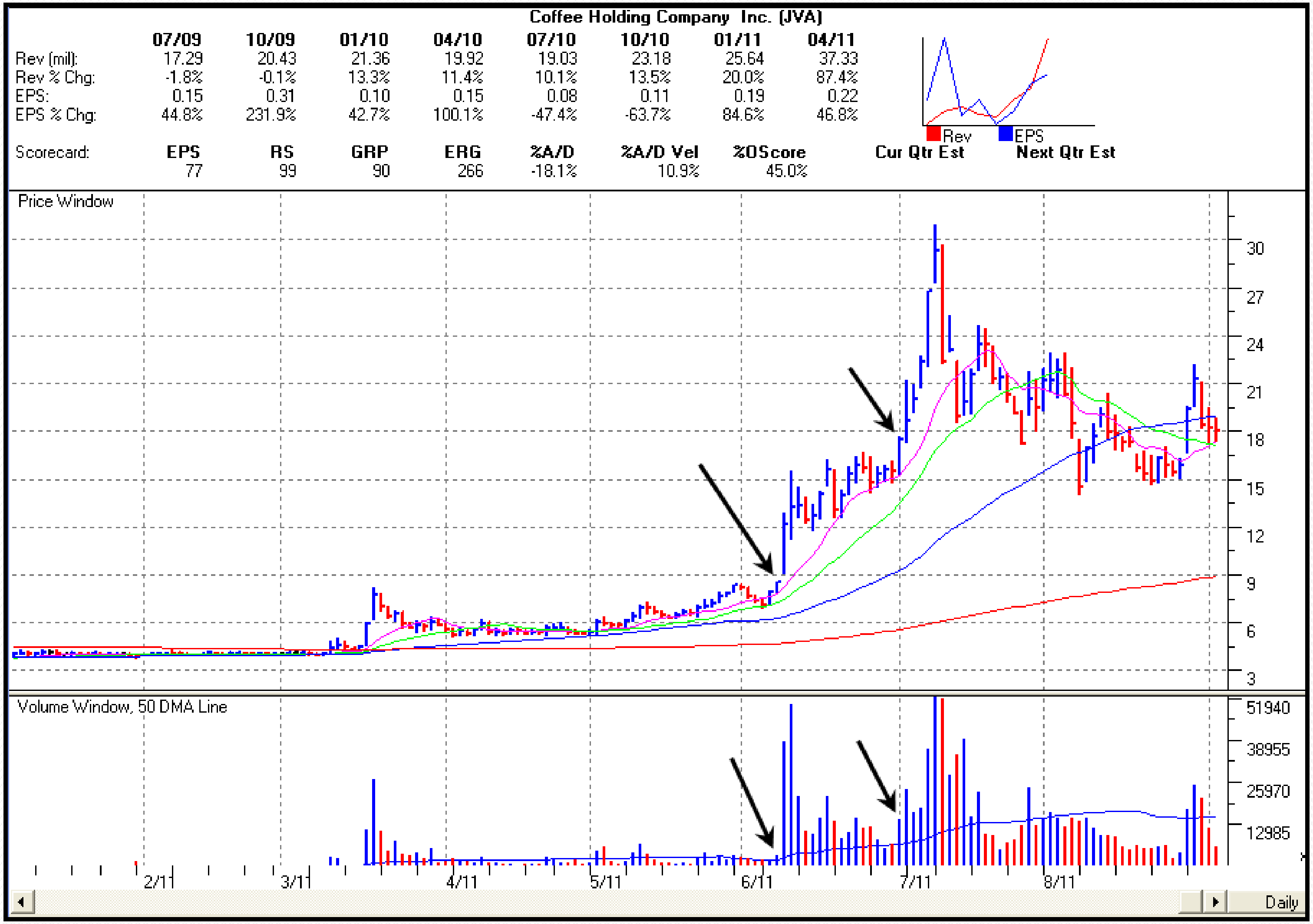
Coffee Holding Company, Inc. (JVA) - 2011



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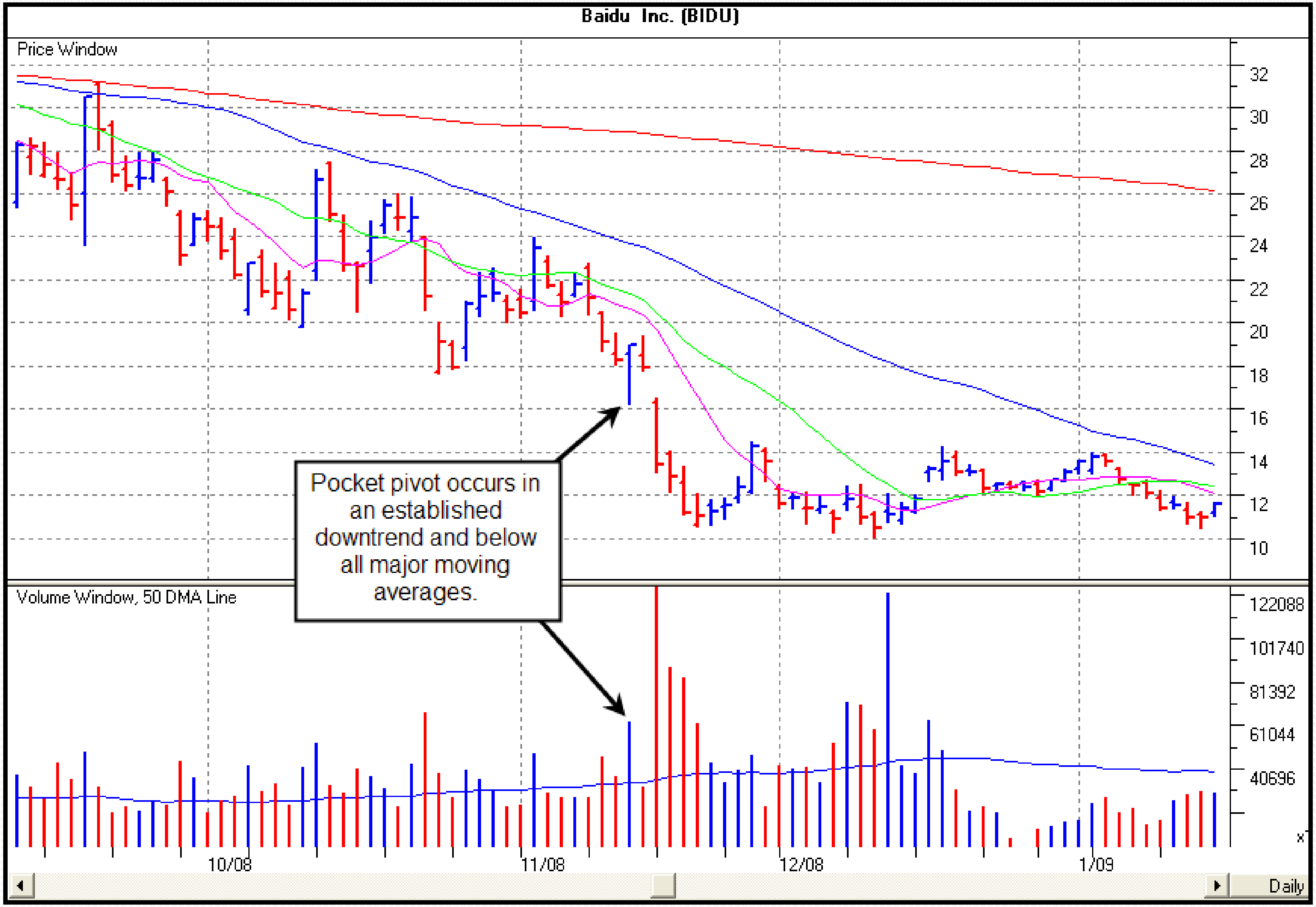

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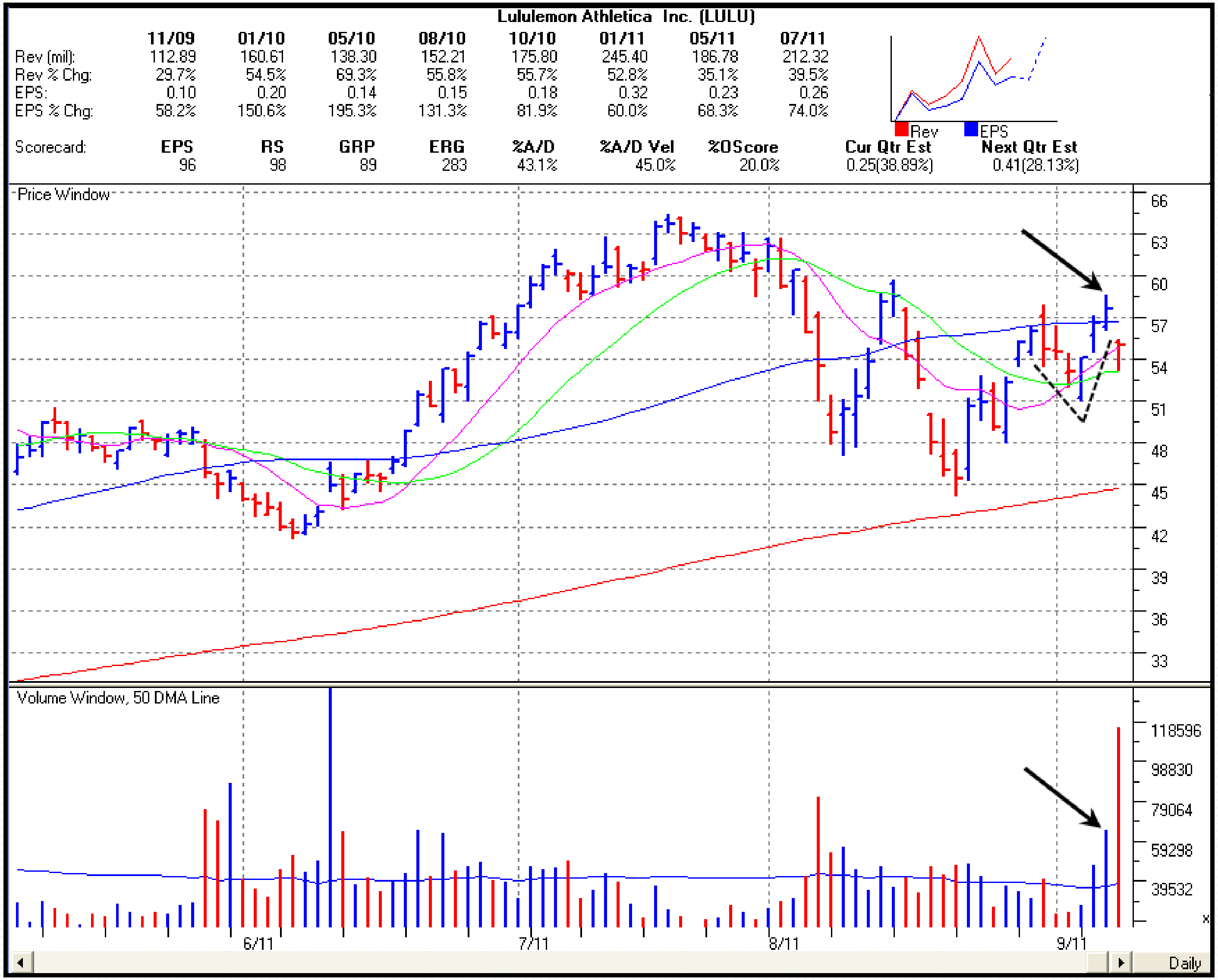
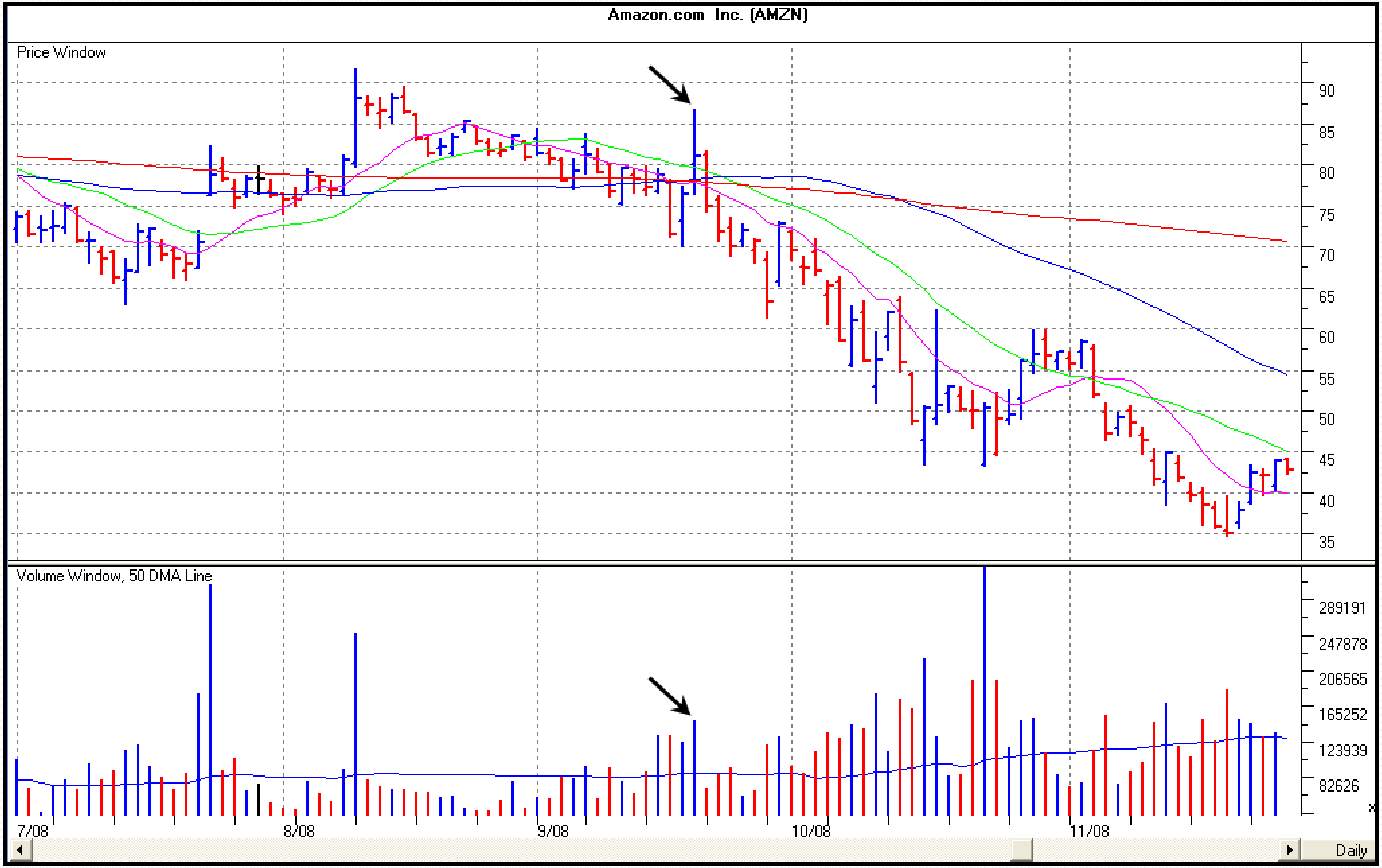


Amazon.com (AMZN) - 2008



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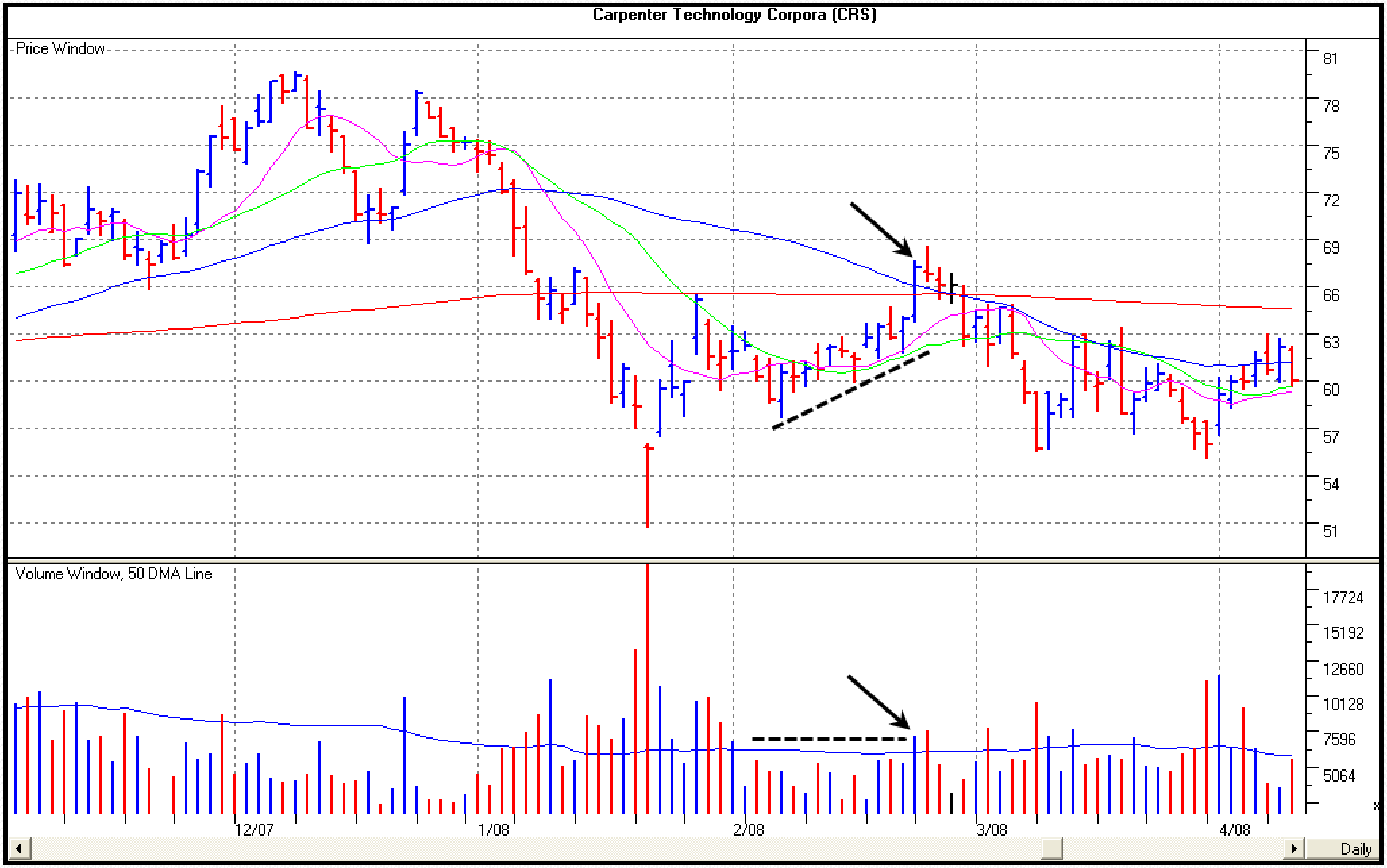
Carpenter Technology Corp. (CRS) - 2008



“Bottom-Fishing” Pocket Pivot Buy Point Examples

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.

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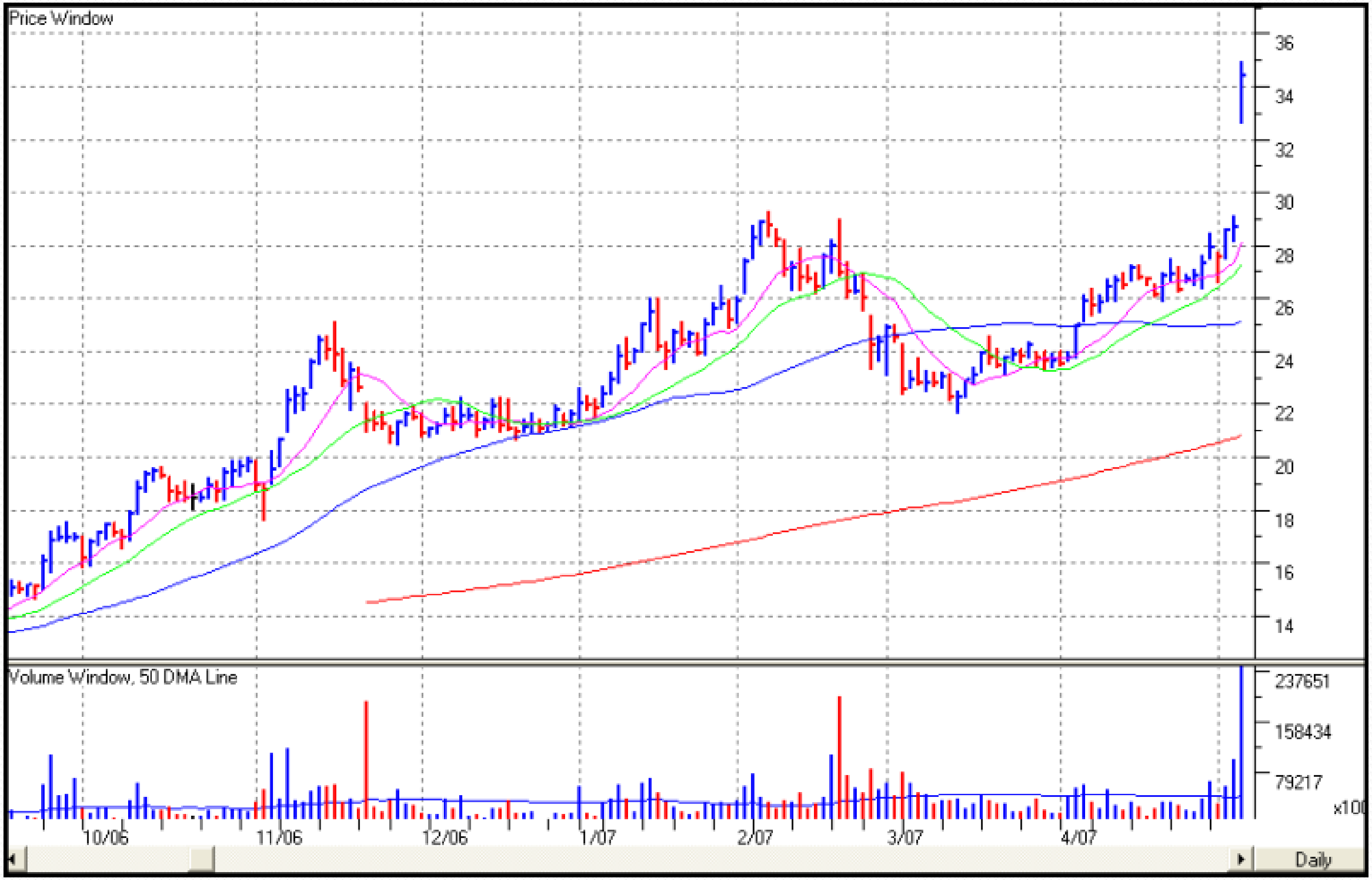
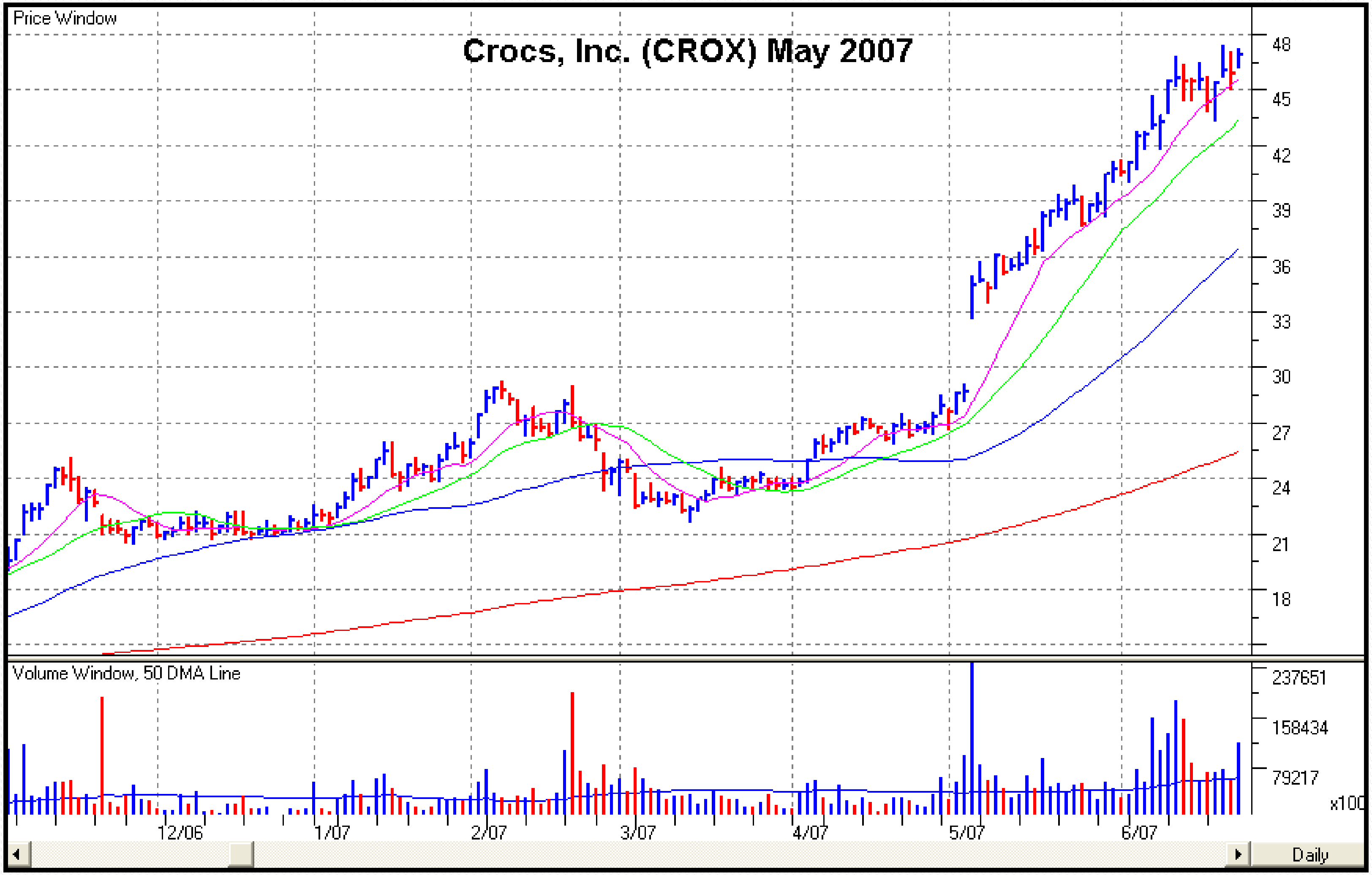
http://www.SelfishInvesting.com/faqs

Buyable Gap Ups

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



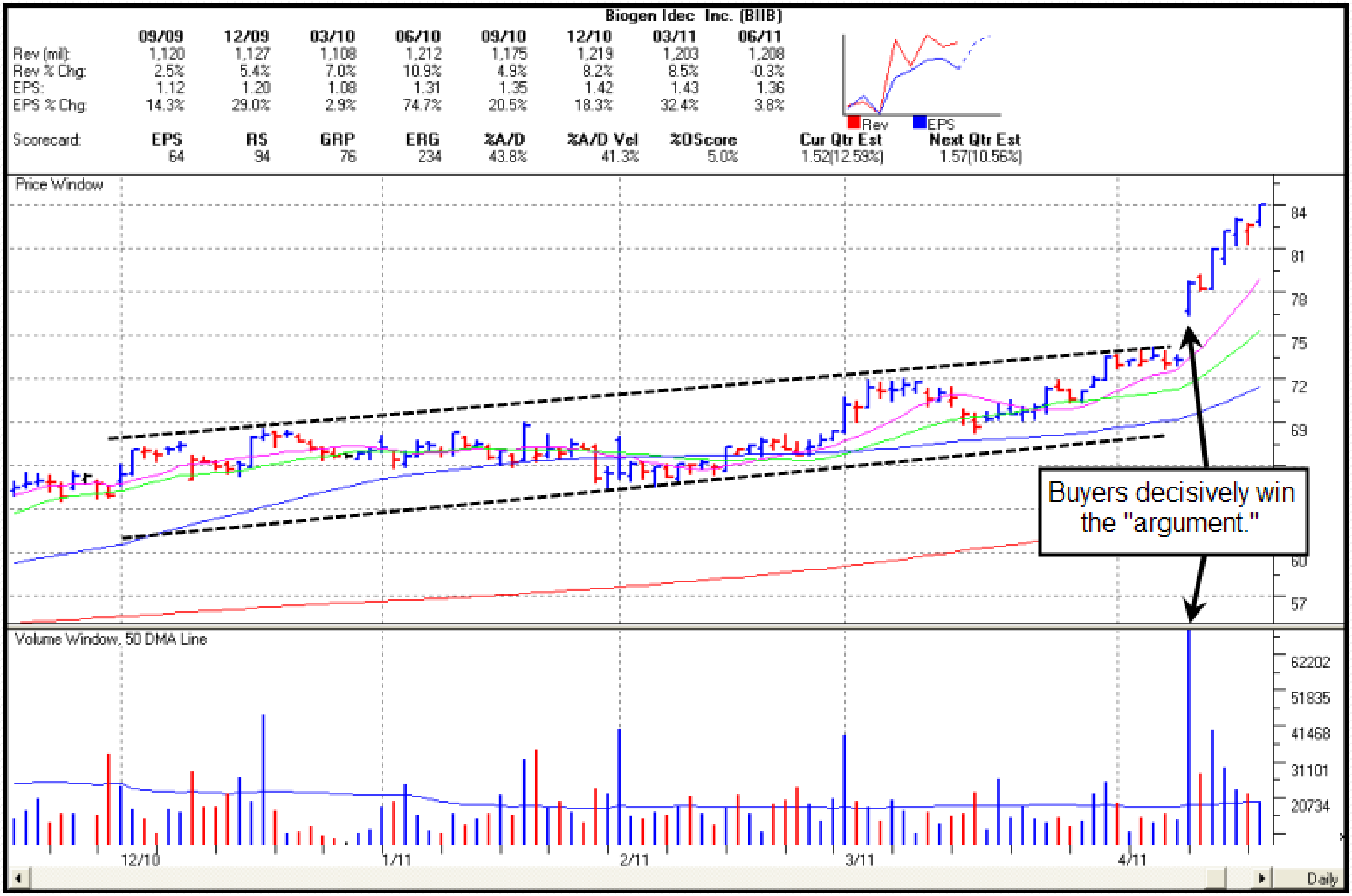
But Often One Would be "Crazy" Not to Buy Them.



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."

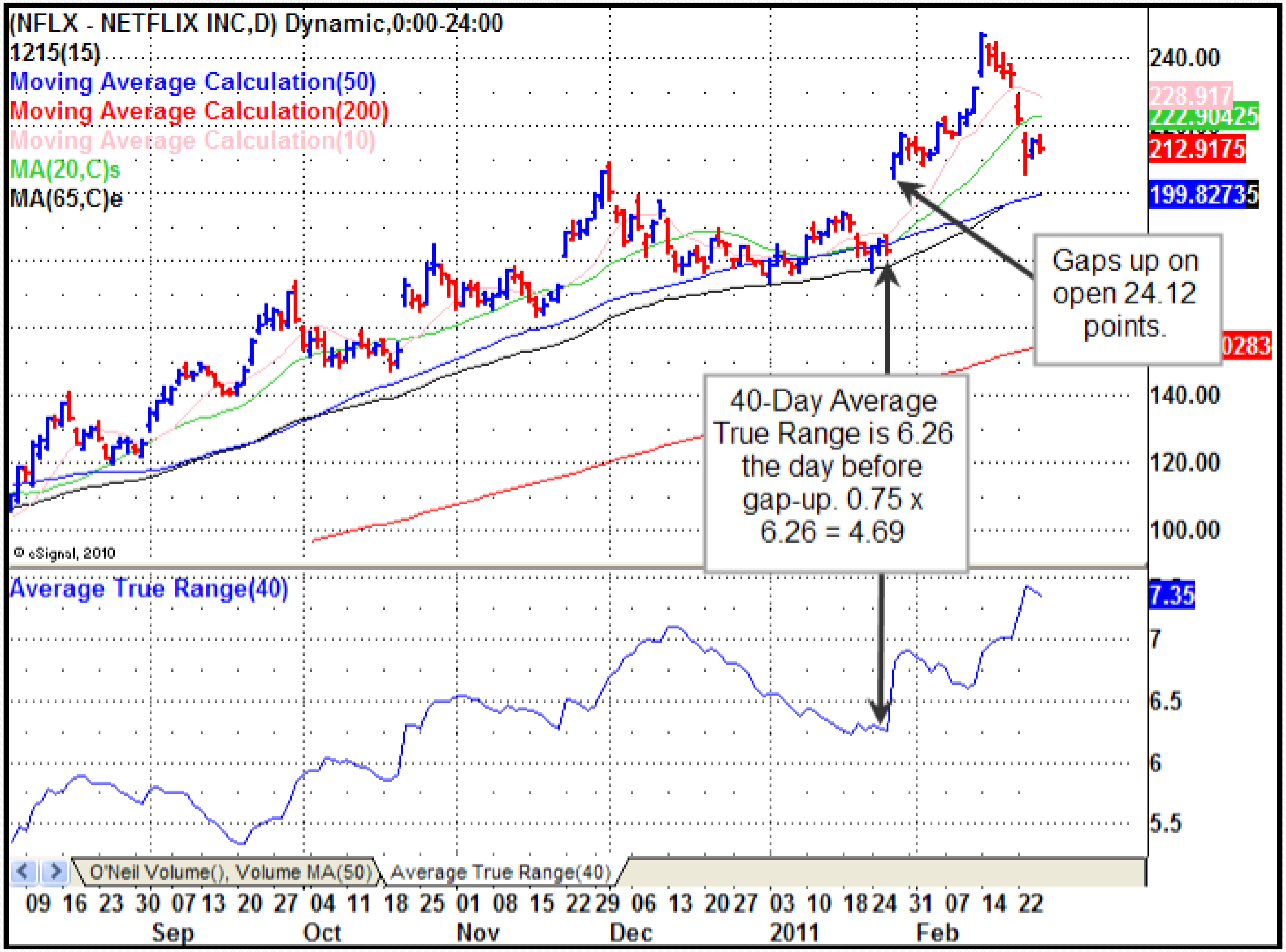
The “Argument” is Won Decisively by the Buyers



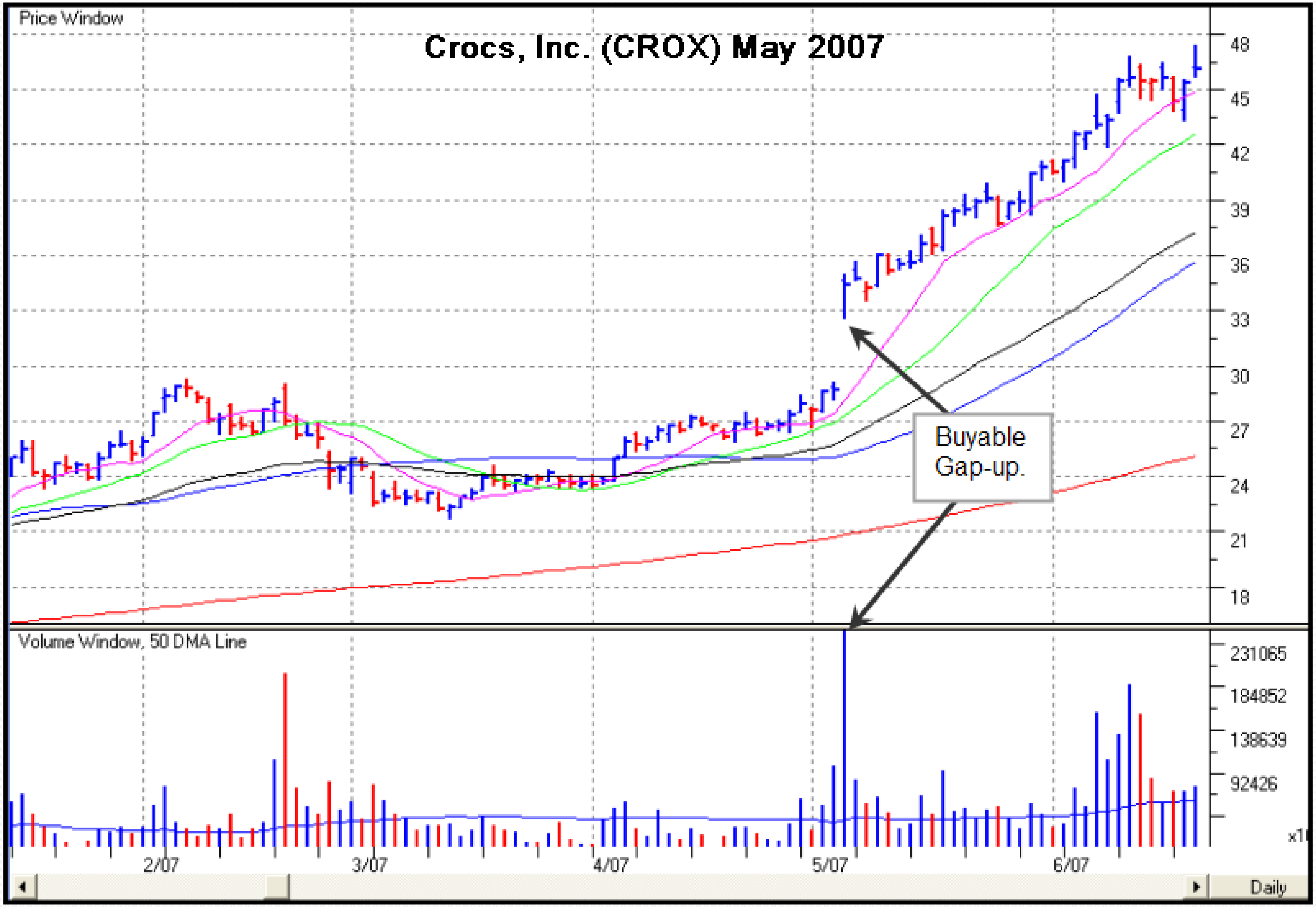
Characteristics of Buyable Gap-Ups

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.

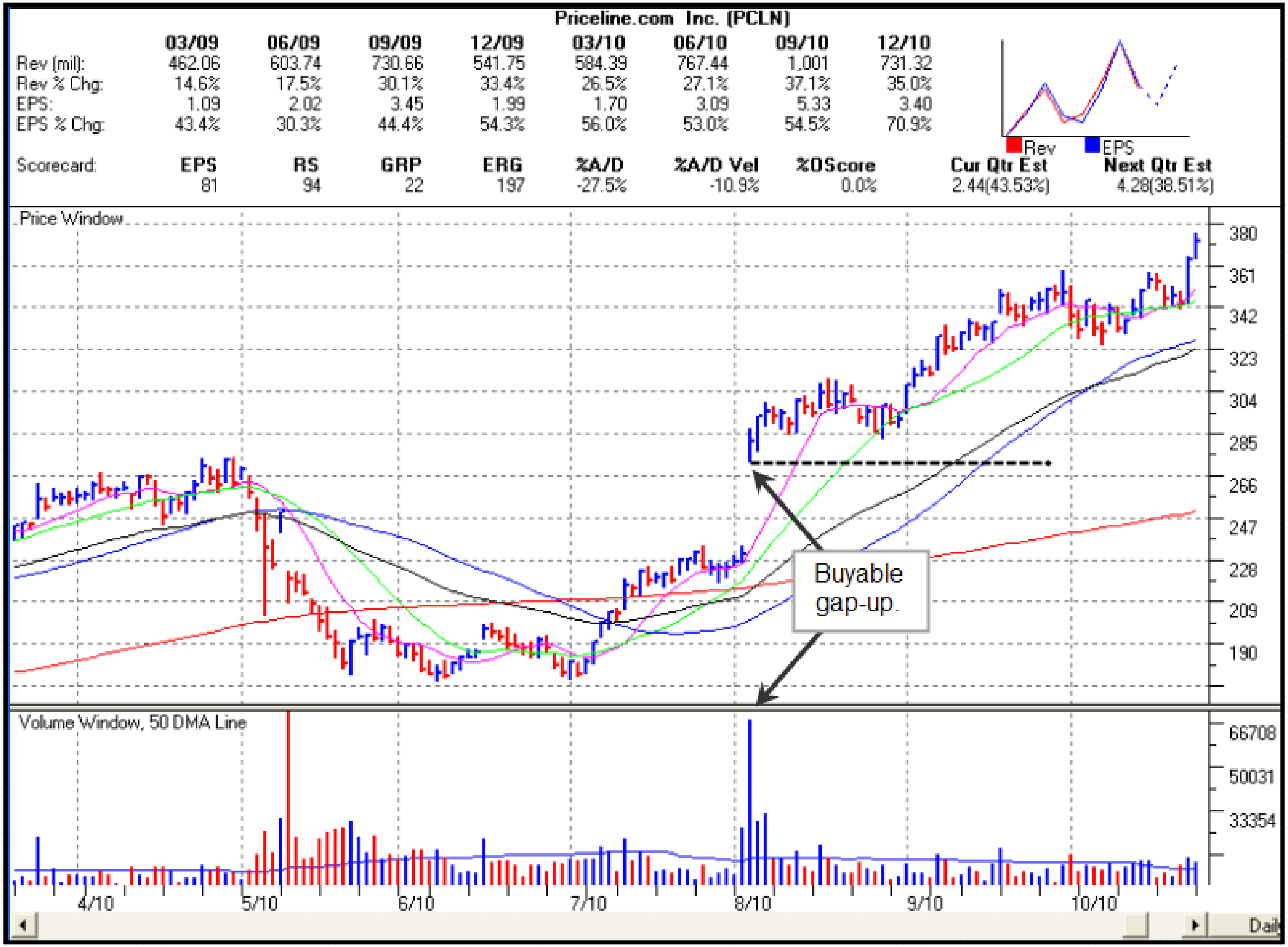
Netflix, Inc. (NFLX) Average True Range



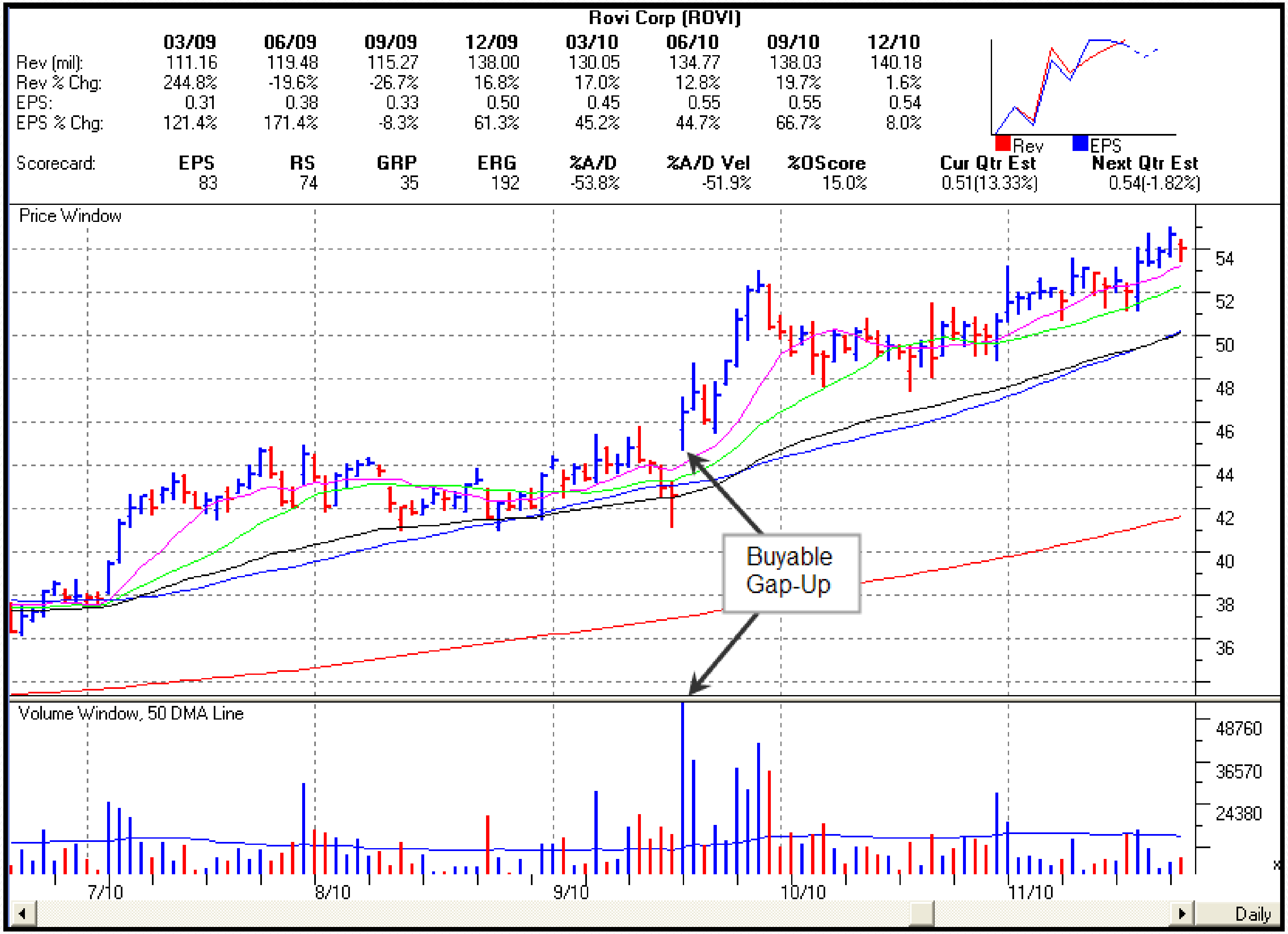
Crocs, Inc. (CROX) – May 2007



Priceline.com (PCLN) – 2010

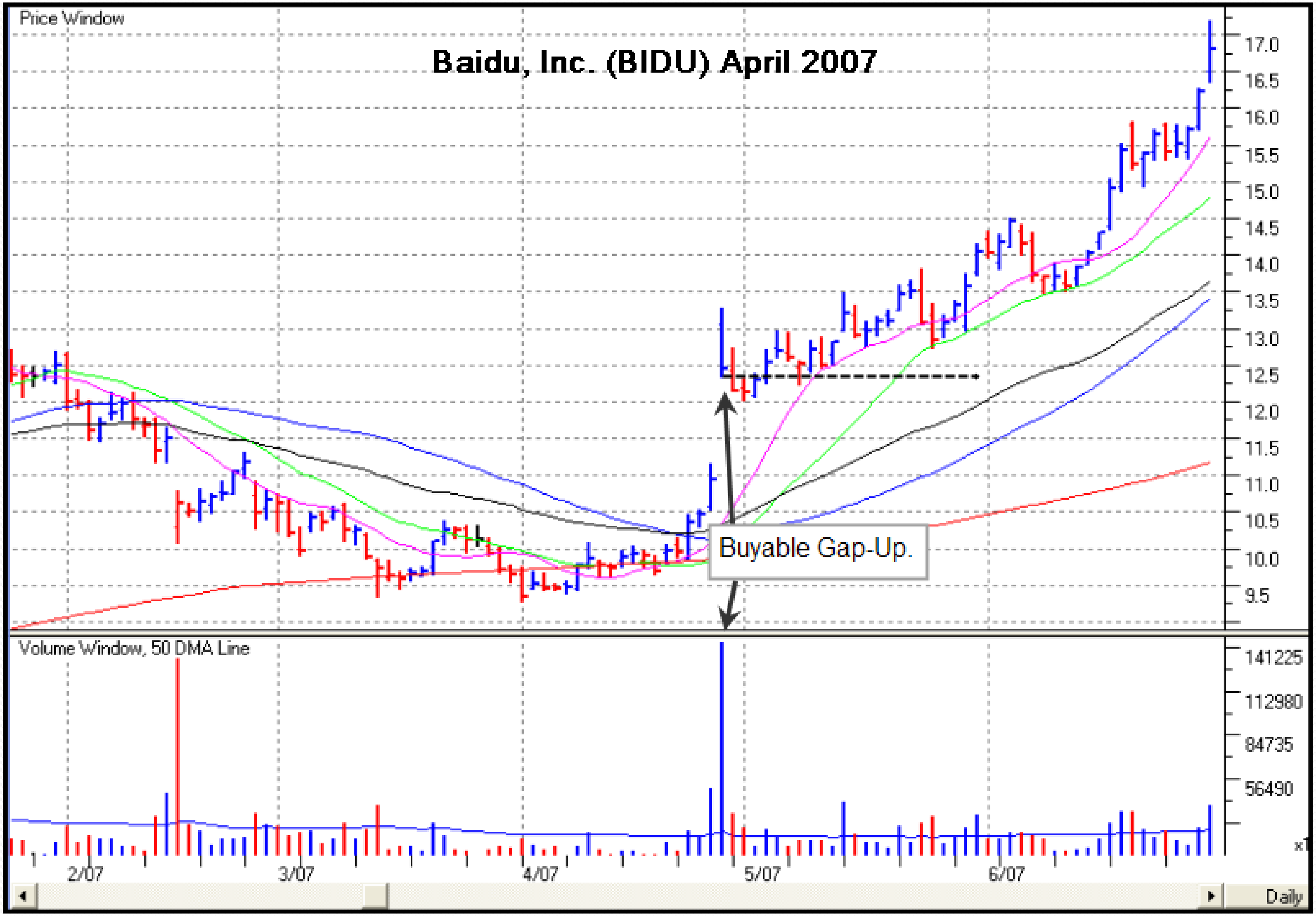


Rovi Corp. (ROVI) – September 2010

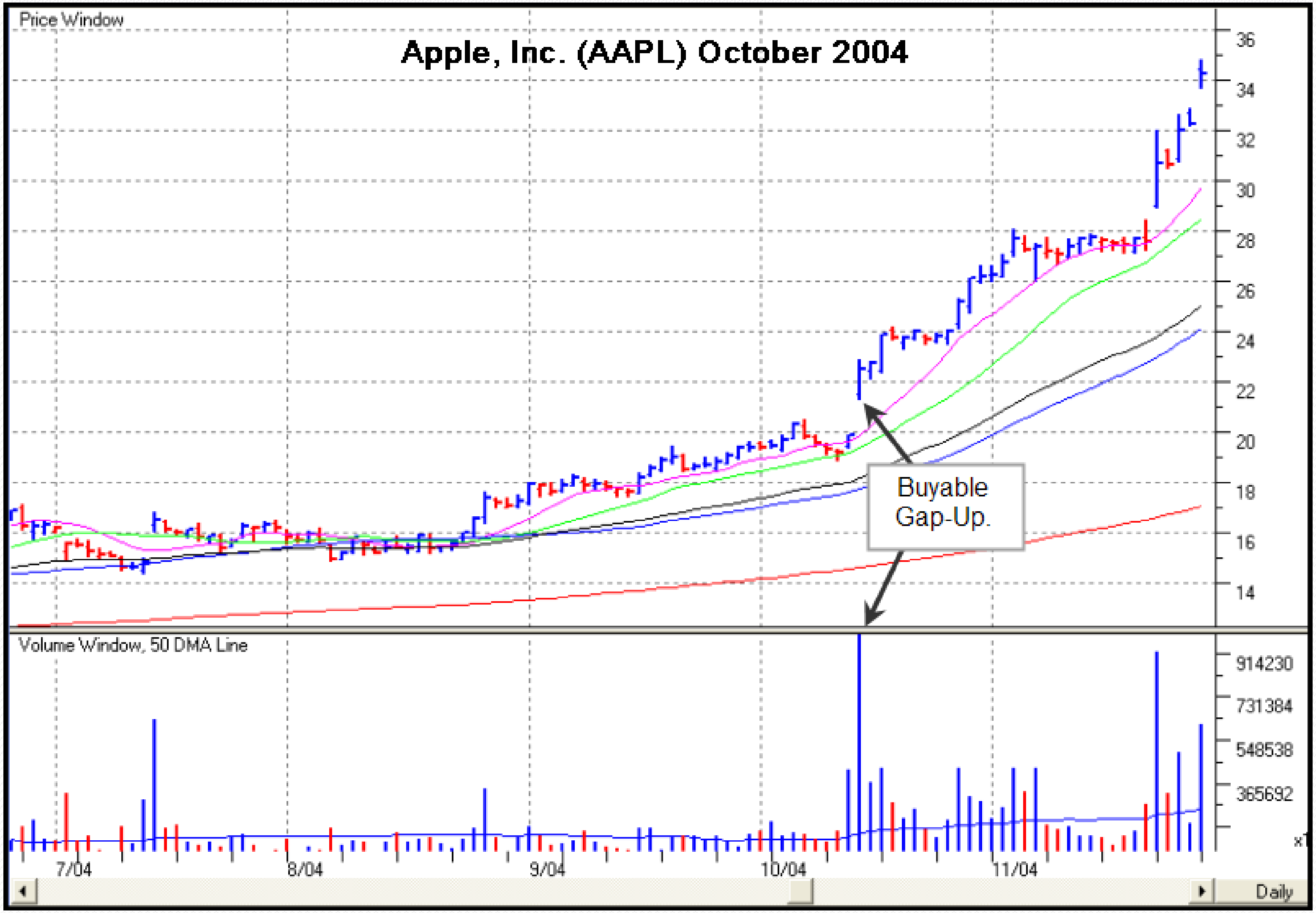


Netflix, Inc. (NFLX) – 2011

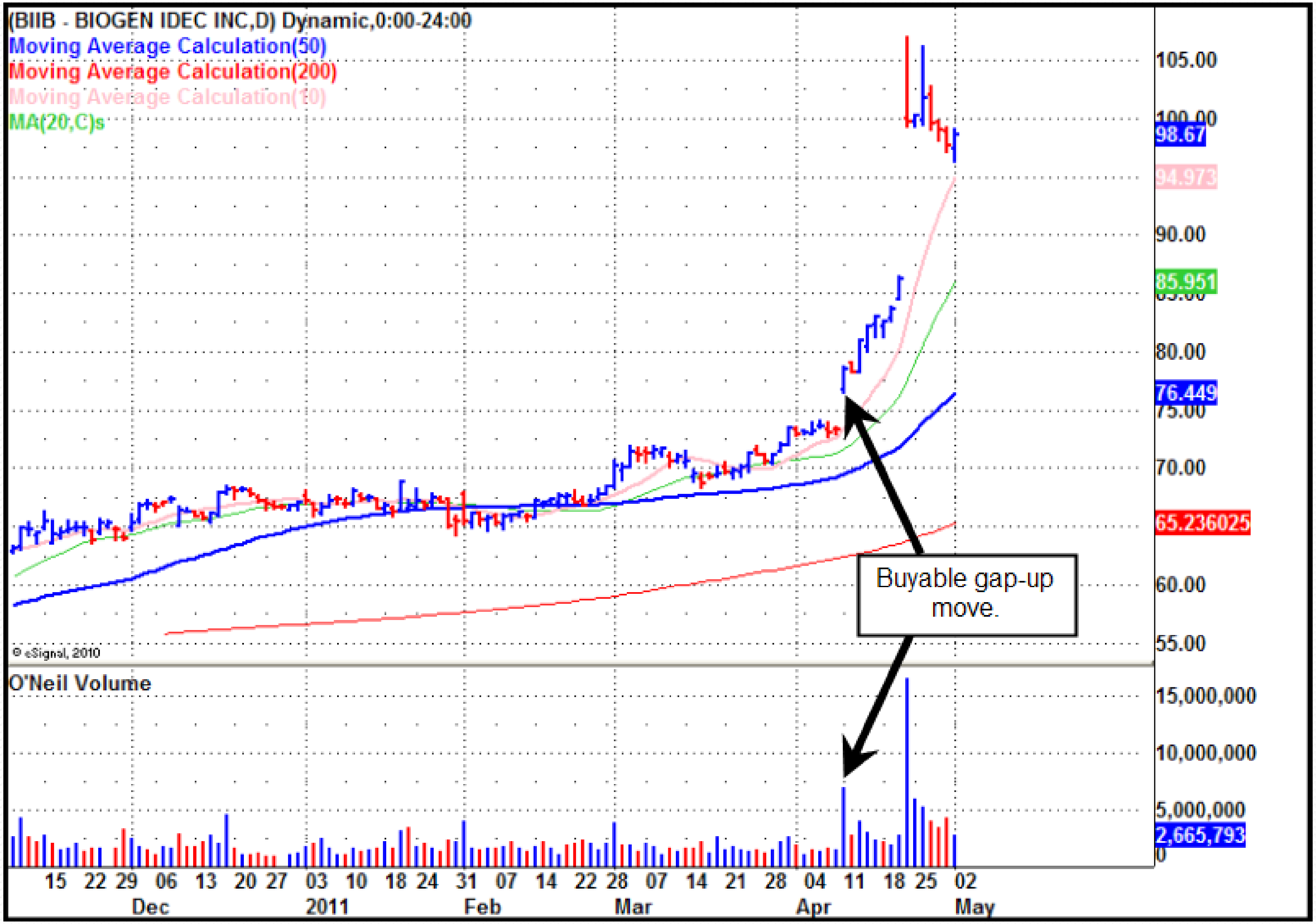
Baidu, Inc. (BIDU) – 2007



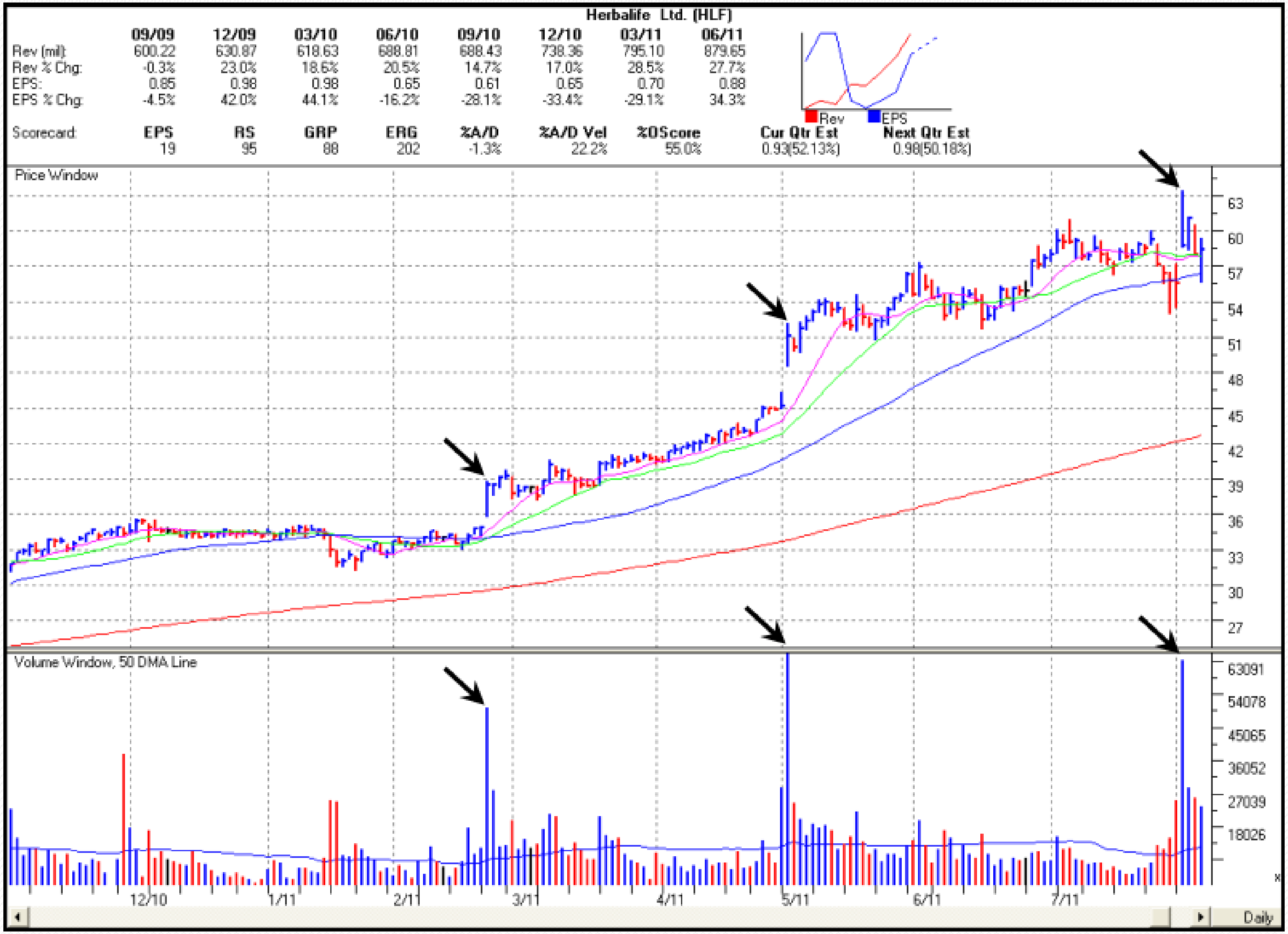
Apple, Inc. (AAPL) – 2004



Biogen Idec, Inc. (BIIB) – 2011

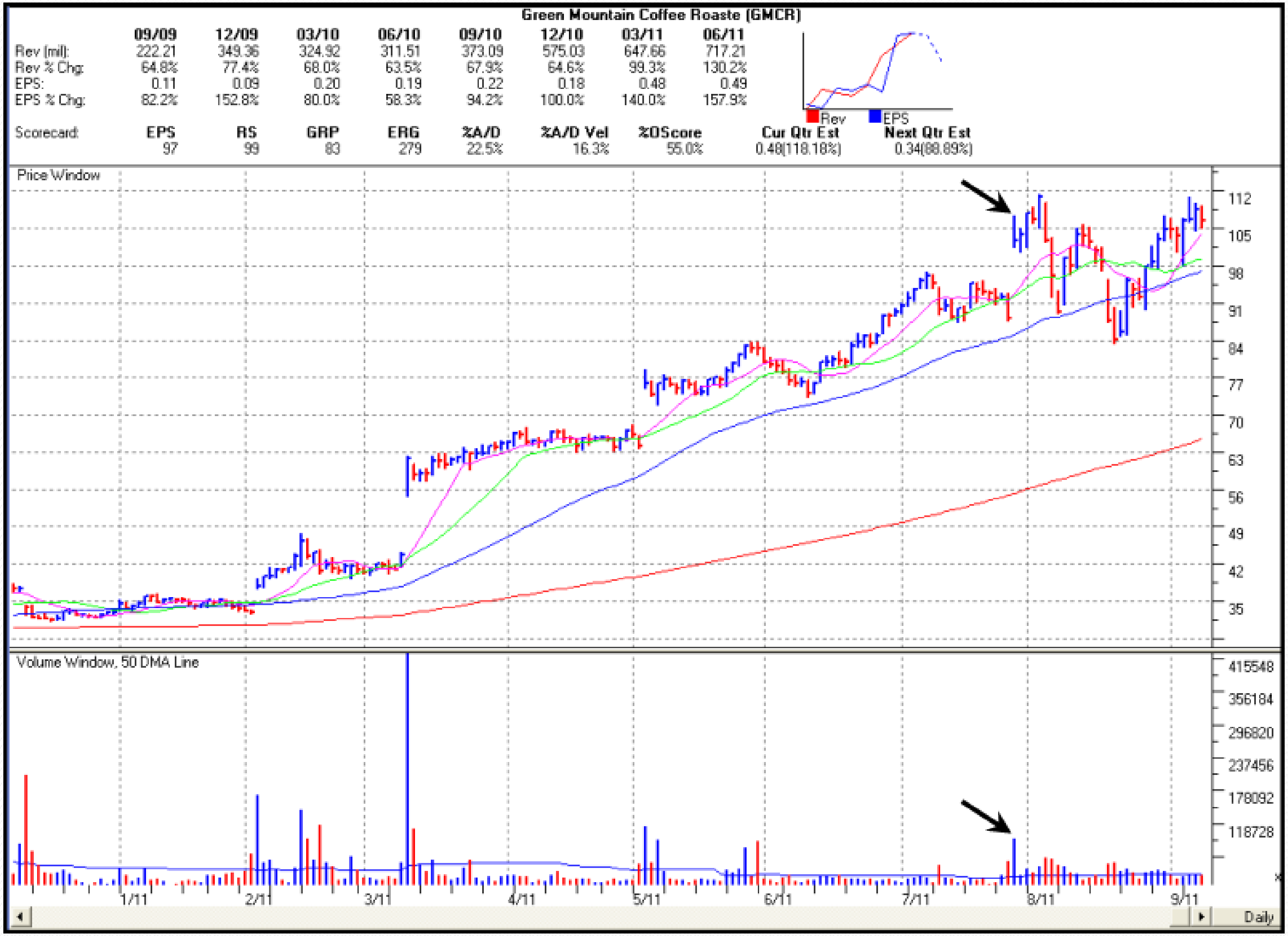


Herbalife, Ltd. (HLF) - 2011

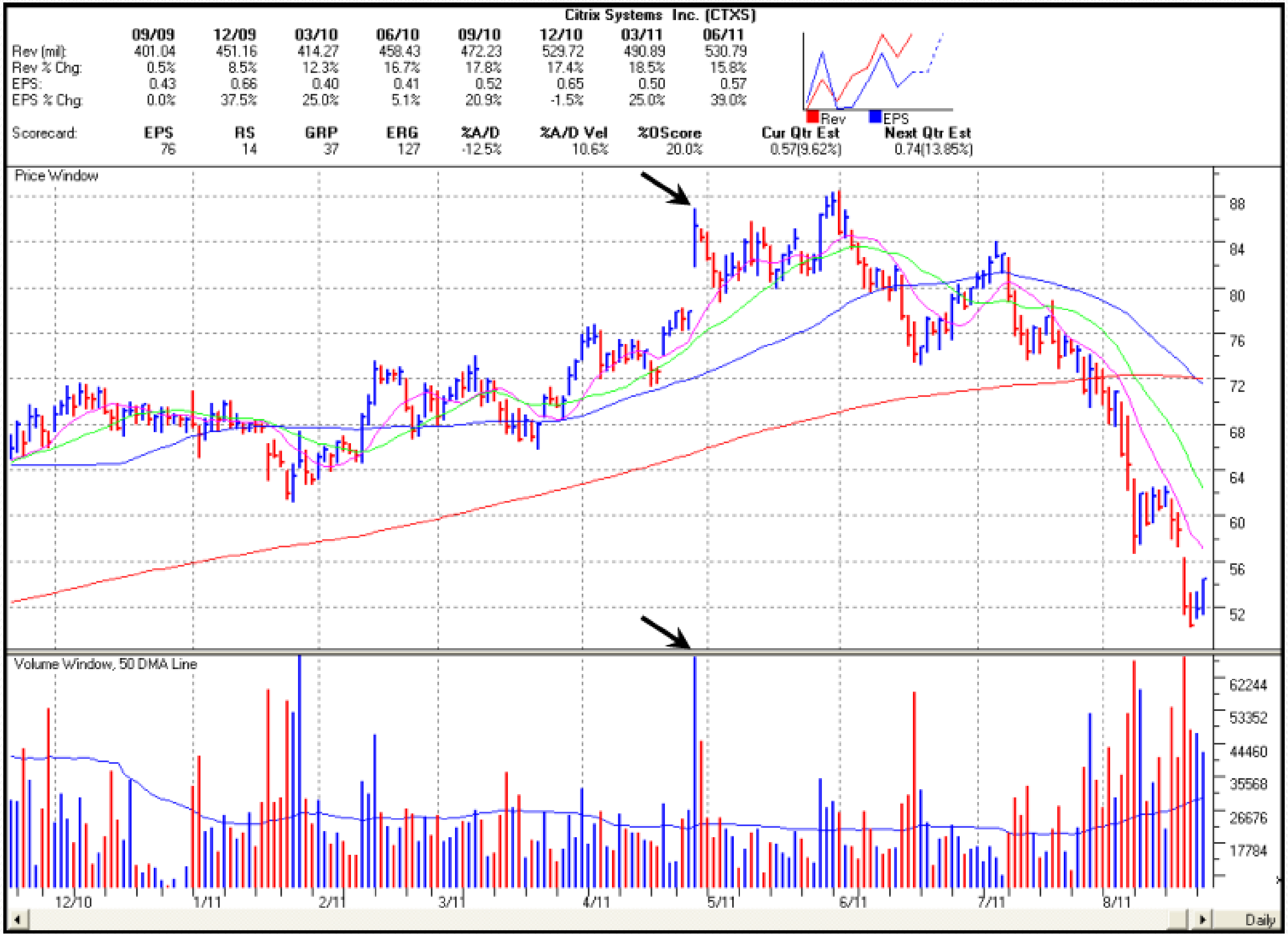


Failure Analysis

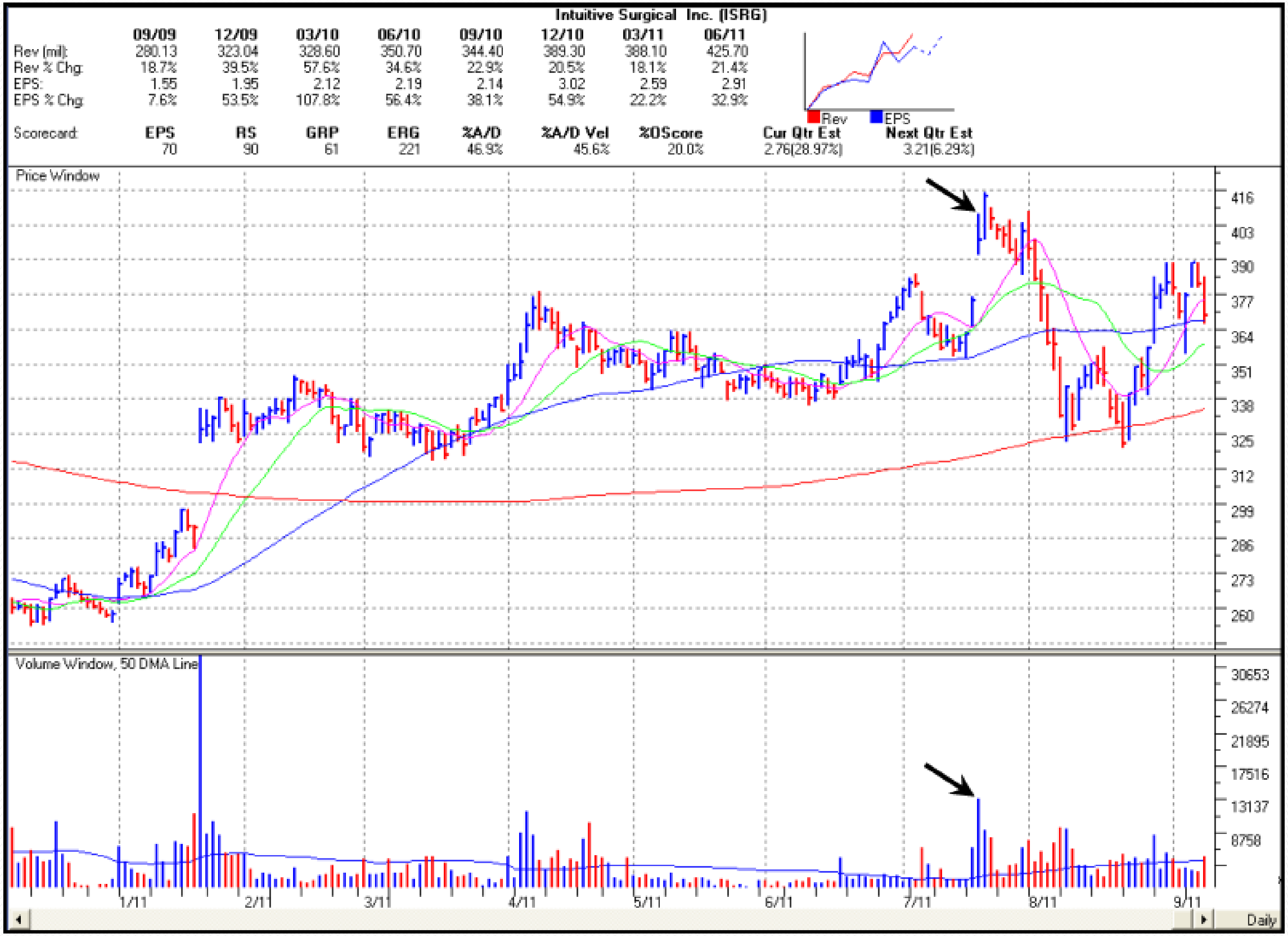
Green Mountain Coffee Roasters (GMCR) - 2011



Citrix Systems, Inc. (CTXS) - 2011



Intuitive Surgical, Inc. (ISRG) - 2011



The Seven Week Rule

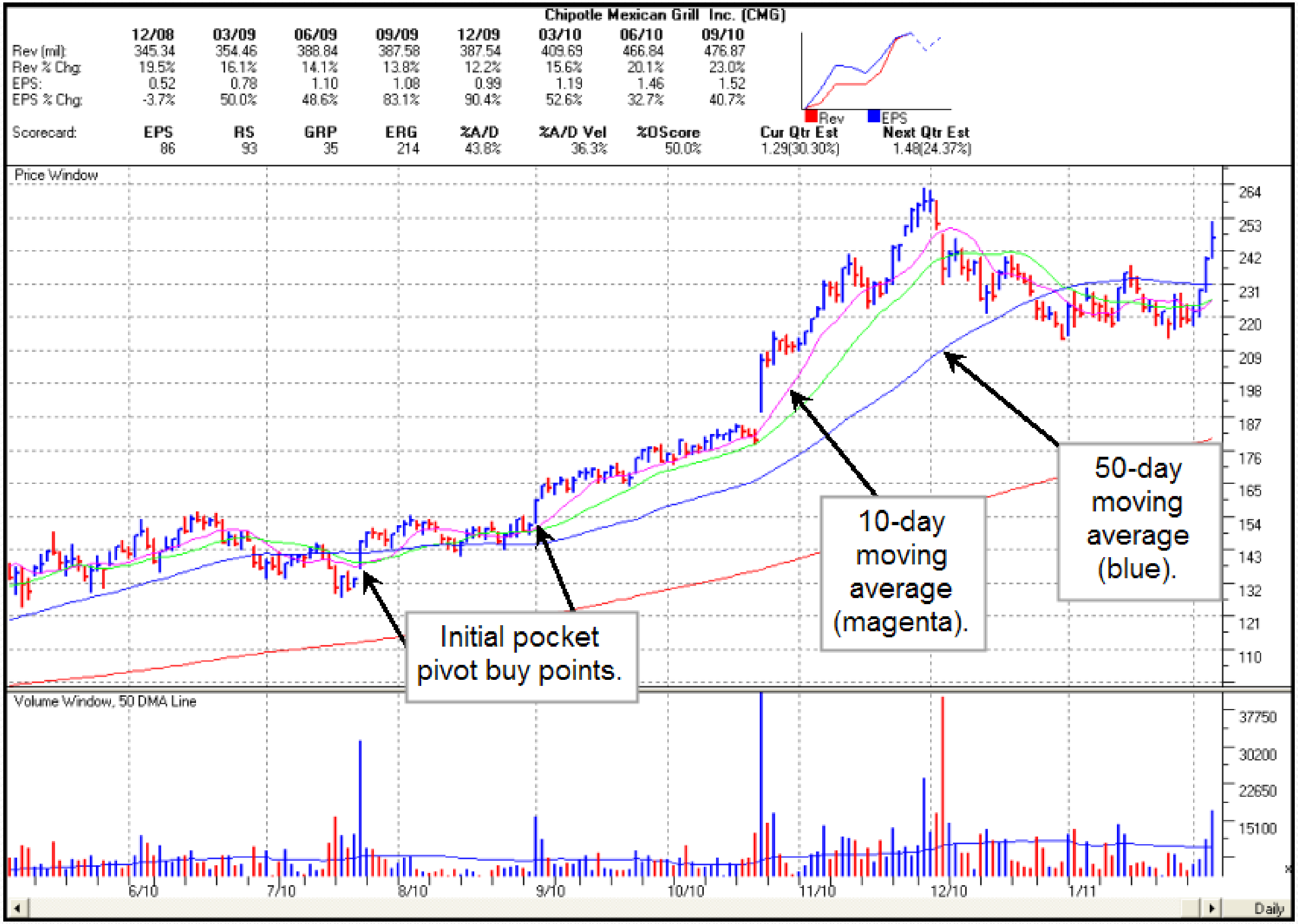
Use of the 10-day and 50-day moving averages in conjunction with the Pocket Pivot tool is governed by the "Seven-Week Rule."

- **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.

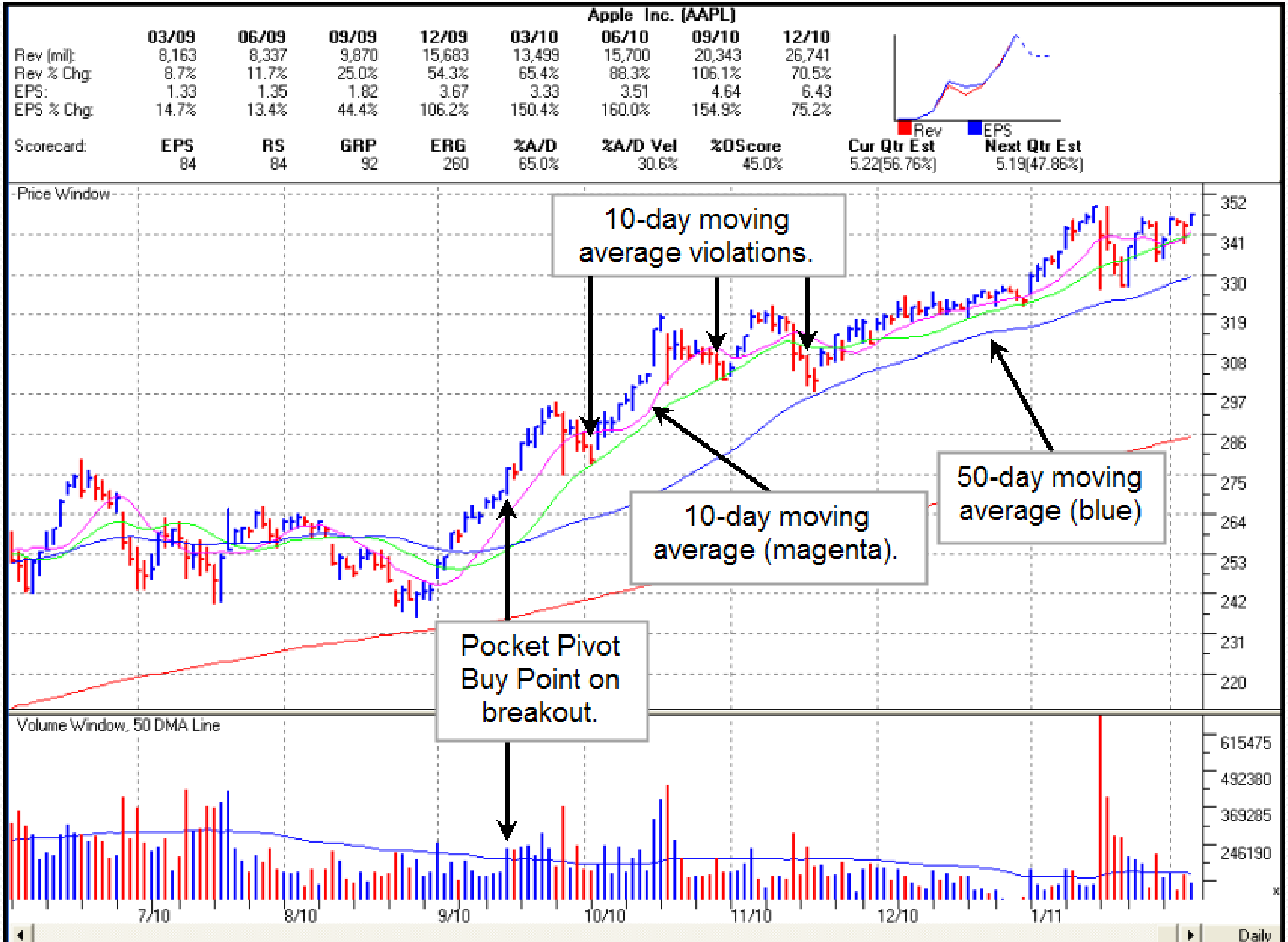
- **50-day** = If they don't show such a tendency to obey the 10-day moving average then it is better to use the 50-day moving average as your guide for selling.

- 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.

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



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



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.

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http://www.SelfishInvesting.com/faqs

MoKa Market Direction Model™

- The model seeks to capitalize on bear and bull trends in the U.S. and international stock markets, as well as related asset classes such as commodities or currencies.

- The model primarily invests in Exchange Traded Funds (ETFs) as vehicles for exploiting identifiable trends.

MoKa Market Direction Model™

- The model is based upon a proprietary algorithm that captures intermediate- to longer-term moves up or down in the stock market and associated asset classes.

- The model generates buy, sell, or neutral signals of varying strength, which in turn drives the discretionary portion of the model with respect to the selection of appropriate Exchange Trade Fund (ETFs) vehicles in order to optimize the exploitation of any market trend.

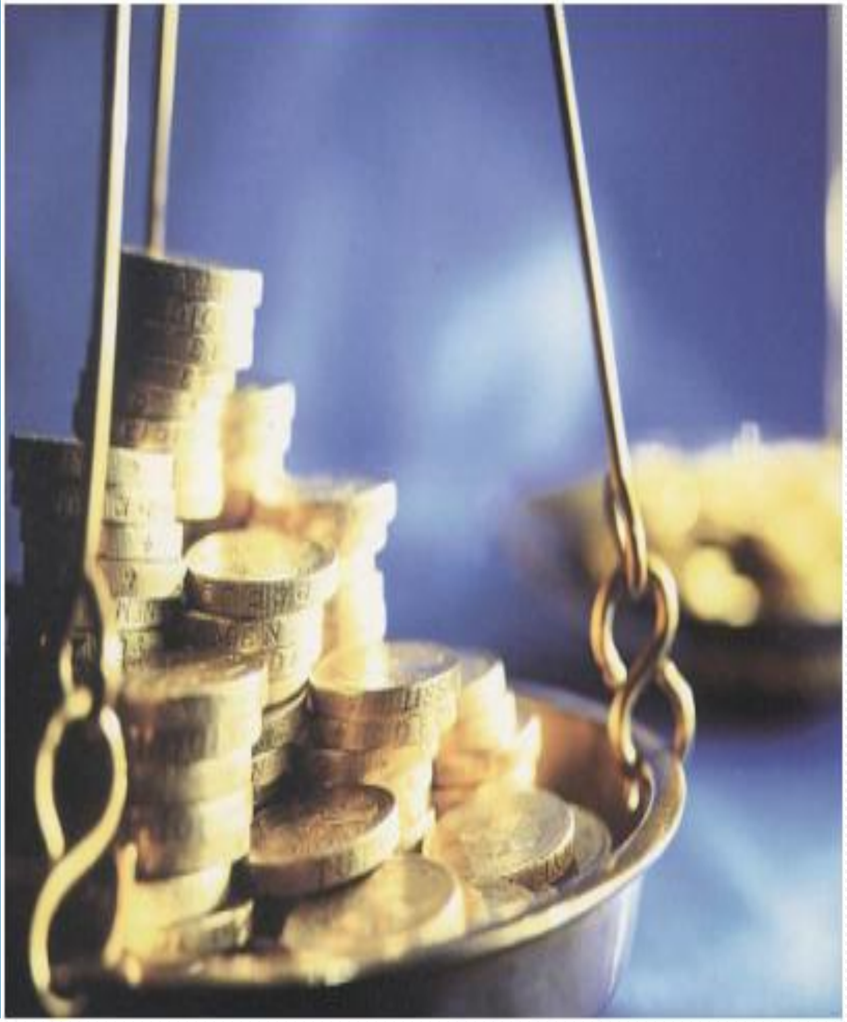
- The model is asymmetric; the model will seek to profit from both bull and bear trends, while remaining in cash during periods of trendless action.

“Fail-Safes” Built into the Model

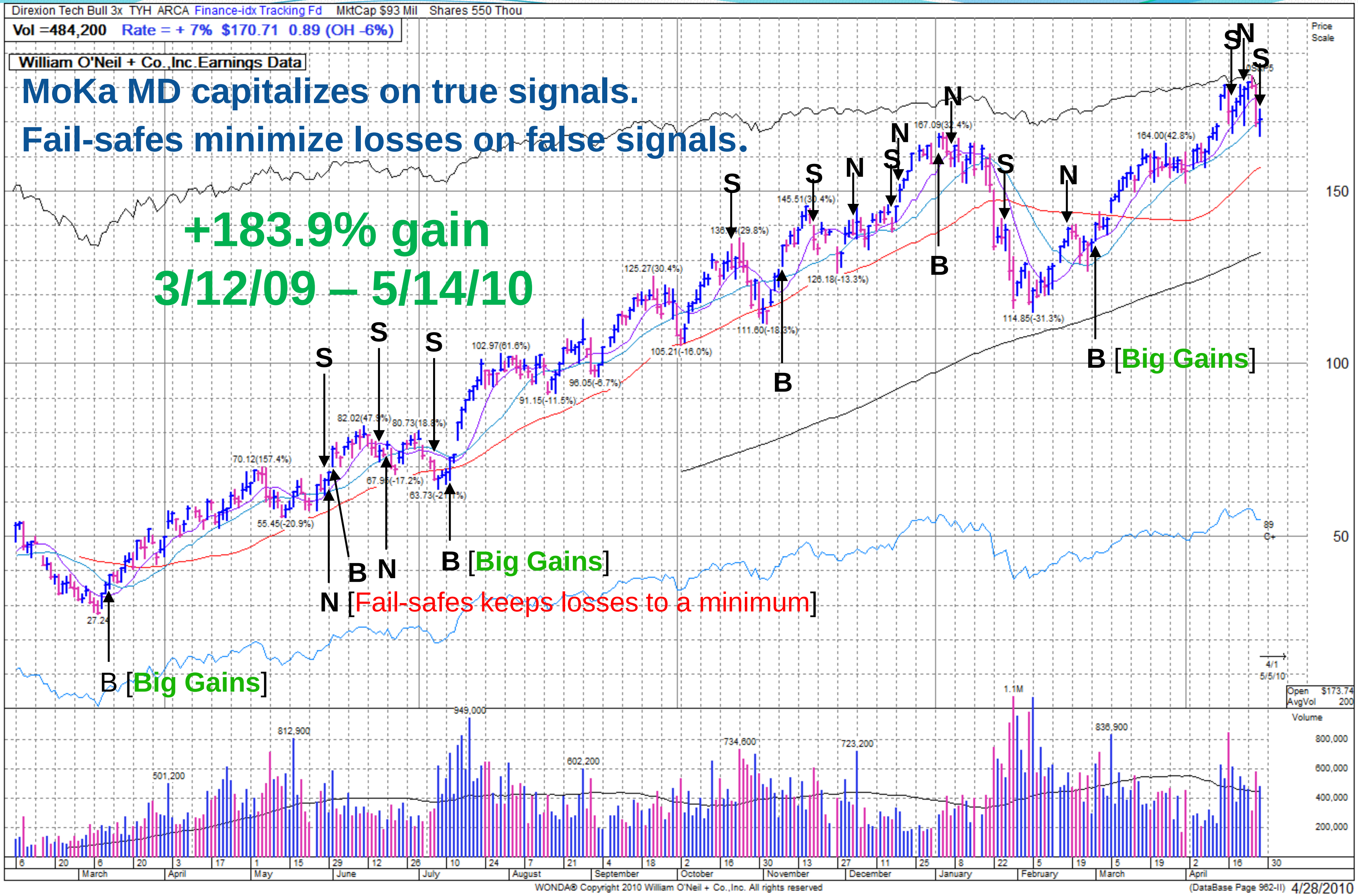
A unique feature of the MoKa Market Direction Model™ are its built-in “fail safes” which take the model to a neutral, or “cash,” position when a trend cannot be adequately determined. Dr. Chris Kacher, when first developing the model, recognized that the majority of so-called “timing” models fail because they are often locked into a “buy” or “sell” signal. MoKa Market Direction Model™ adheres to a philosophy of identifying optimal “windows of opportunity” in the market such that the fund may only be invested during such windows of opportunity while remaining in cash the rest of the time.

MoKa Market Direction Model™ in Action

Some Visual Examples of the Model's Signals and Strategies in Real-Time.



MoKa Market Direction Model™ Buy/Neutral/Sell Signals using **TYH** ETF 2009-2010

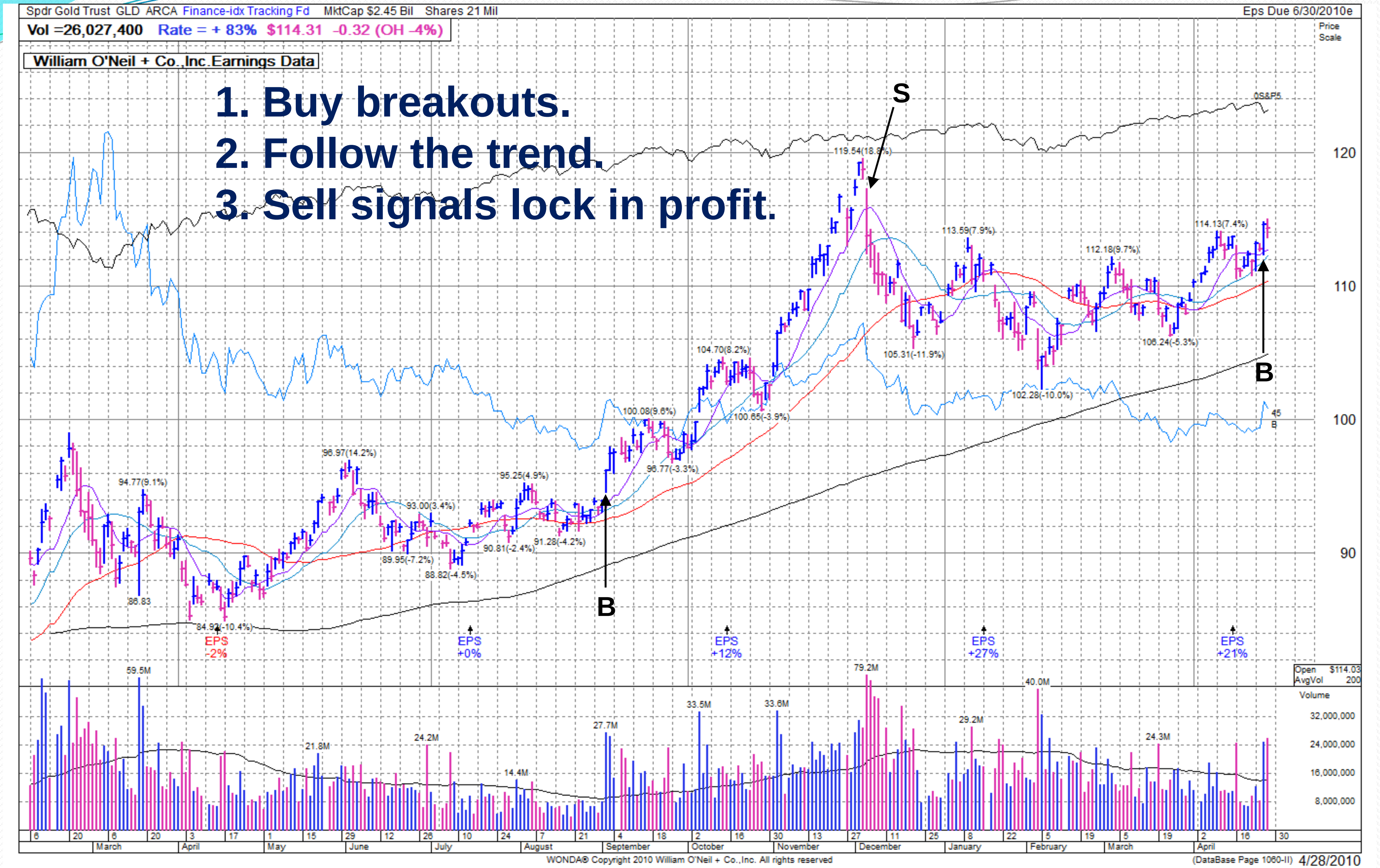


You will notice in the tables below how the Market Direction Model's gains on a true signal more than make up for the small losses. You should notice that a string of small losses can occur during trendless, volatile periods which are the most challenging not just for the model but also for traders and investors who are attempting to buy or short individual stocks. Such a period has characterized much of 2011. Fortunately, such periods always come to an end, new trends begin, and the model's gains in catching these trends have always more than made up for the small losses, thus, the model's long term returns average out to be about +33%/year. Had the 3-times ETFs that exist today existed from inception, the model's long term returns using 3-times ETFs would probably be 3-times its long term +33%/year average, or roughly +99%/year. Keep in mind that the drawdowns in getting such a return would also be 3-times as great, so position size accordingly and know your risk tolerance levels.

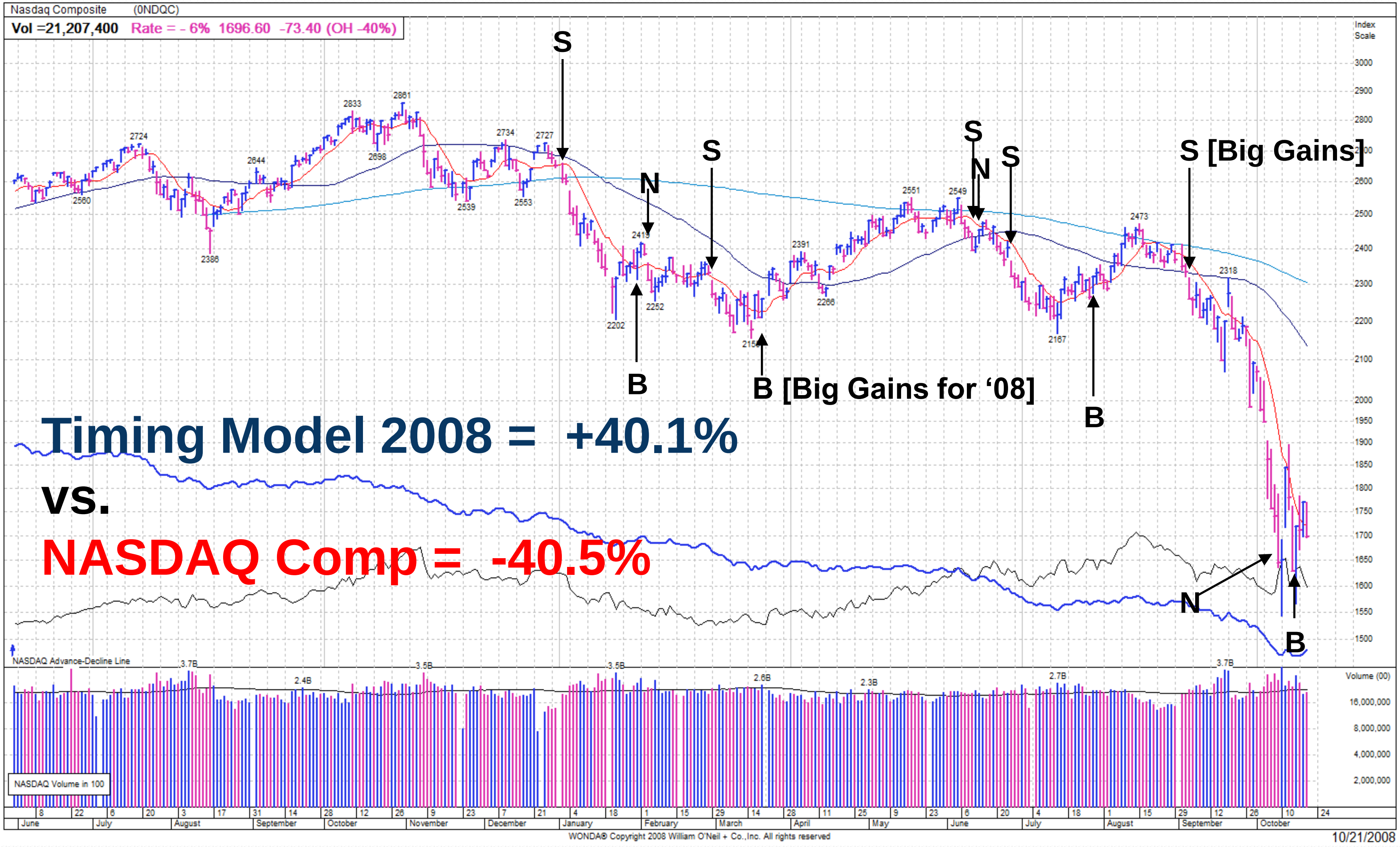
Timing Model profit/loss on NASDAQ Composite - Annualized return July 1974 - present: **+32.87 % / year** [100% long Nasdaq Composite on buy signal, 100% short Nasdaq Composite on sell signal, 100% cash on neutral signal]

Date	Signal	% gain / loss	$1 becomes
12-27-2011	Cash		41849.64
12-18-2011	Sell	-2.38	41849.64
12-14-2011	Cash		42869.35
12-02-2011	Buy	-3.12	42869.35
11-11-2011	Cash		44247.78
11-10-2011	Sell	-2.49	44247.78
11-01-2011	Cash		45377.88
10-27-2011	Buy	-1.64	45377.88
10-20-2011	Cash		46132.52
10-19-2011	Buy	-2.39	46132.52
10-07-2011	Cash		47264.38
10-05-2011	Buy	2.94	47264.38
08-31-2011	Sell	6.12	45914.9
08-31-2011	Cash		43265.61
08-26-2011	Buy	3.28	43265.61
08-23-2011	Cash		41889.81
08-16-2011	Sell	3.26	41889.81
08-11-2011	Cash		40565.57
08-02-2011	Sell	11.65	40565.57
07-27-2011	Cash		36334.08
07-13-2011	Buy	-1.43	36334.08
07-12-2011	Cash		36859.33
07-11-2011	Buy	-0.97	36859.33
06-27-2011	Cash		37221.4
06-22-2011	Sell	-0.82	37221.4
06-21-2011	Buy	-0.11	37530.41
05-31-2011	Cash		37572.55
05-05-2011	Sell	-0.97	37572.55
03-24-2011	Buy	2.54	37941.42
03-16-2011	Cash		37001.4
03-15-2011	Buy	-0.61	37001.4
03-08-2011	Sell	3.65	37227.62

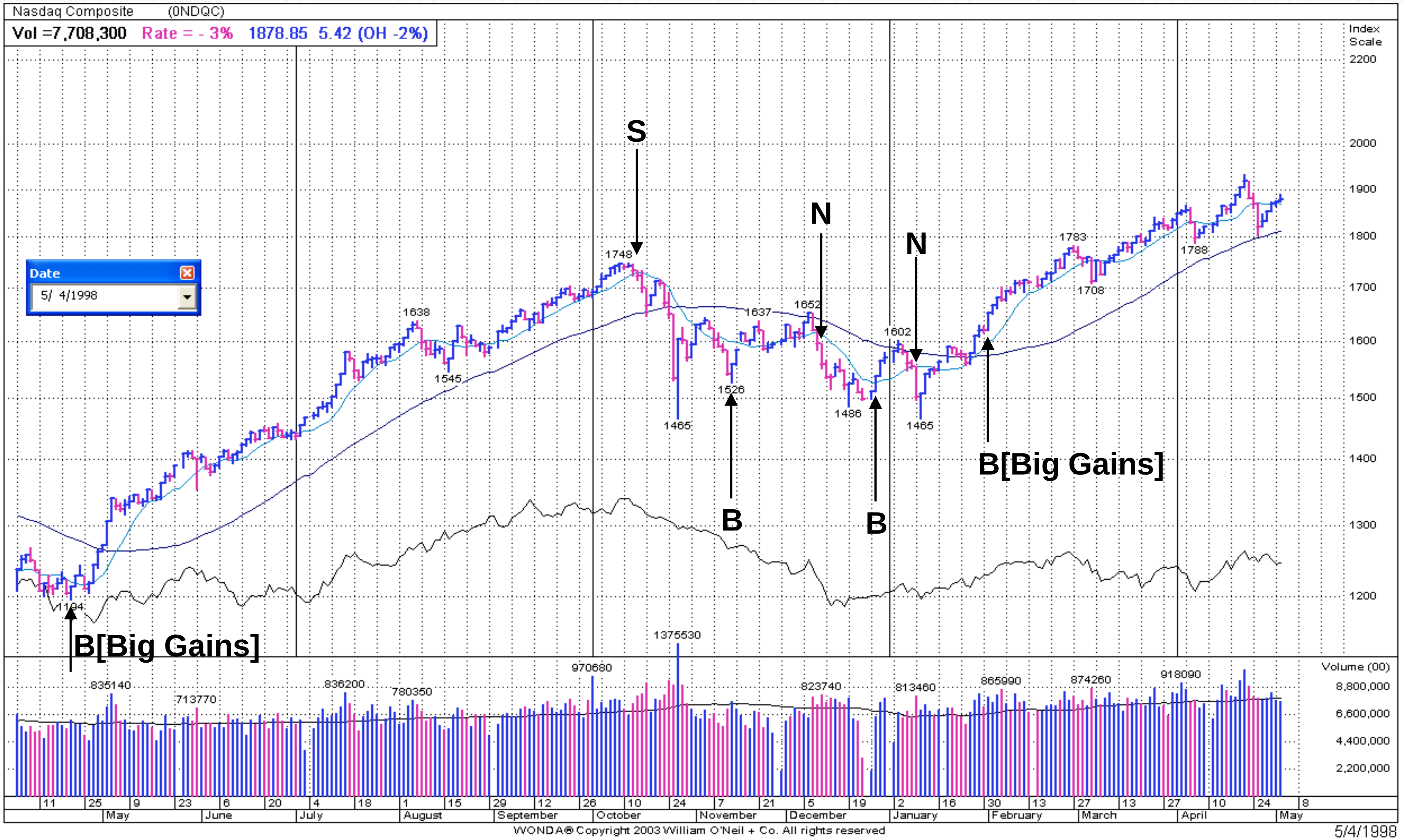
The Model & the SPDR Gold Trust (GLD) ETF in 2009-2010



The Model during the “Crash” of 2008

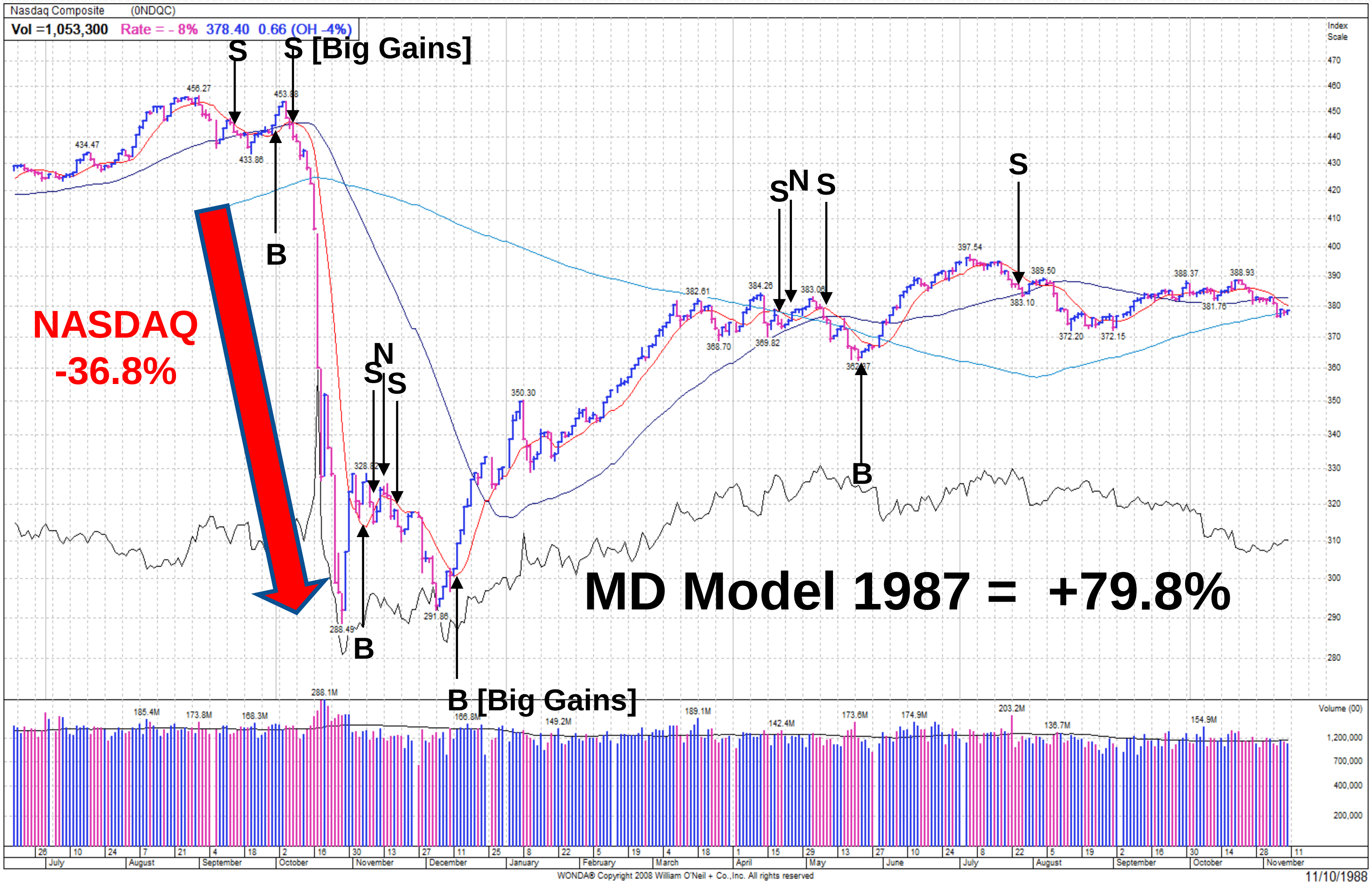


The Model and the NASDAQ Composite Index during the October 1997 Asian Currency Crisis



The Model and the NASDAQ in 1994-1995

The Model during the Crash of October 1987



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