The Next Market Leader

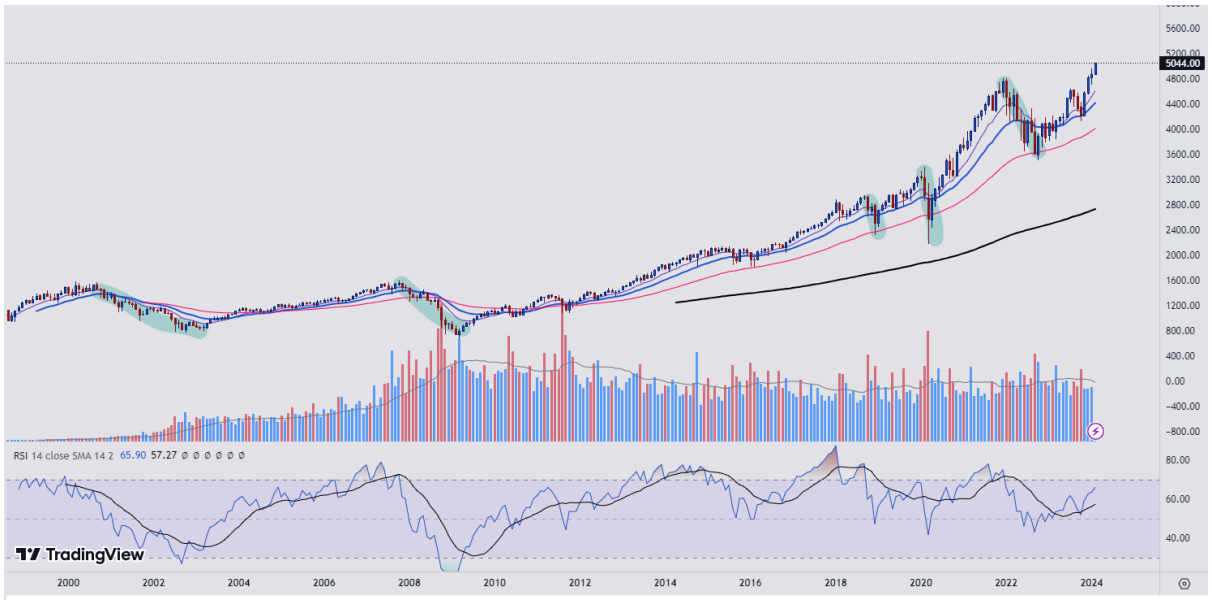
A study based on market cycles and leadership characteristics to identify winning stocks

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February 9, 2024

i) Introduction

Throughout the course of my trading career, I have studied and tried many different strategies, identifying which characteristics propel stocks for gains. I decided to reflect on the biggest wins of my career, to see what these big wins had in common. To name a few examples, I alerted $NVAX on March 18th 2020 at $9.80 per share, where almost a year later it reached a peak of $331 per share, for a gain of 3278%. I also alerted $CVNA at $10.91 on May 26 2023, where it reached a peak of $62 only 50 days later for a 420% gain. To list a few others, I alerted $POWL on December 7 2022 at $30.18 per share, $NVDA on January 31 2023 at $193.90 per share, and $ELF on August 5 202 at $36.97 per share which are all now trading at 350%+ since my alerts. After analyzing these leaders, and many others that I have missed, I was able to develop the strategy that will be outlined in this paper. Through a broad scope, there is one characteristic that these winners had in common; momentum. Momentum is proven to be a great indicator for a stocks direction, as it shows where the bias is in terms of supply and demand. In addition, it is a lot easier for a stock to continue its trend rather than to reverse it. Take a look at the famous S&P 500 for example;



The highlighted portions show the times where the trend actually reversed. Since 1998, momentum has reversed 5 times, proving my point. In summary, the trend is your friend, and is the one of the most significant factors determining stock performance. We have identified that momentum makes money, great, but this is a very broad statement. There are so many variables that influence a stock's price, that depict the top 1% performers from the other 99%. In this study, the characteristics of these top 1% stocks will be identified, and compiled into a strategy that can make money for a lifetime.

Nature of the Strategy

Many concepts included in the paper are derived from those of William J O'niell, and his concept of CAN SLIM;

Current Quarterly Earnings; growth of at least 25% for the past 2 quarters, in addition to growing profit margins and sales.

Annual Earnings; growth of at least 25% annually, in addition to a Return on Equity of at least 17%

New; Innovative/new products, services, management, or price highs

Supply and Demand; Accumulation on positive days>Distribution on negative days

Leader; displays relative strength in the sector its a part of, as well as the overall market

Institutional Sponsorship; Identify any institutional support

Market Direction; Follow the trend of the market/sector index to increase probability of success

The strategy, in theory, is designed to be held anywhere from weeks to years, but these dates vary based on the nature of the stock. On average, most stocks exhibiting true leadership characteristics will continue their run for around one to two years. Let's start our first example with the market leader at the time of this paper, Nvidia.

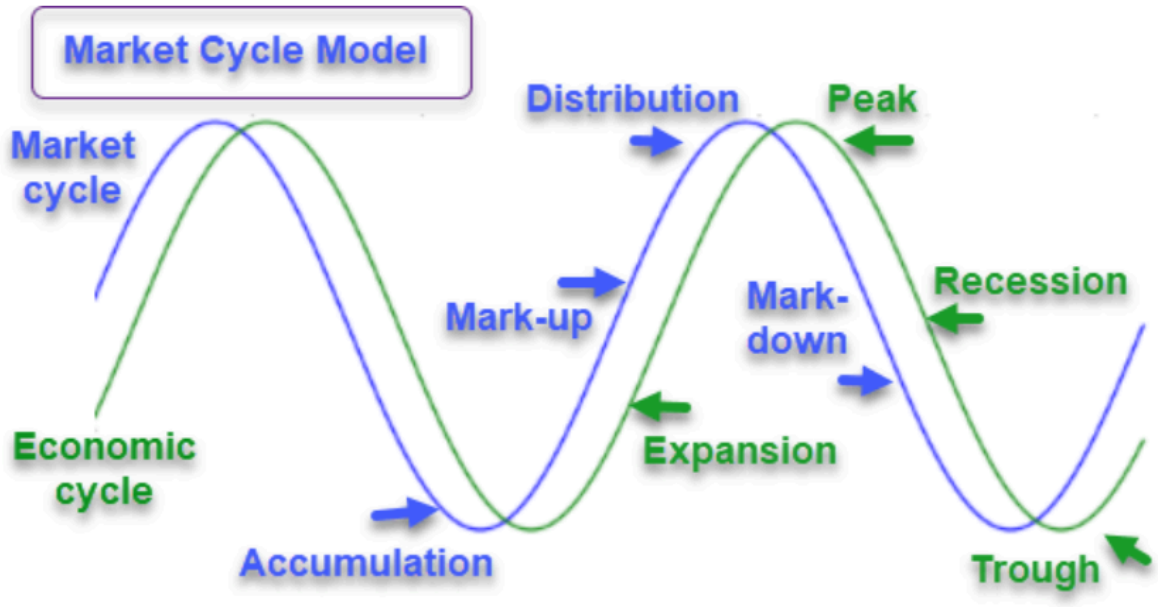


In 483 days, we have seen a 550% run. The causes of Nvidia's monster run will be delved into at a later section of the paper.

This strategy is not a holy grail, however. There is risk beared with it, along with any other trade that is made in the stock market. The strategy overall carries a medium level risk associated with it, if managed appropriately. Risk management techniques will be covered further throughout the study. The subsequent sections of this paper should not be interpreted as financial advice, and rather as techniques to embed in your own trading and investing strategy.

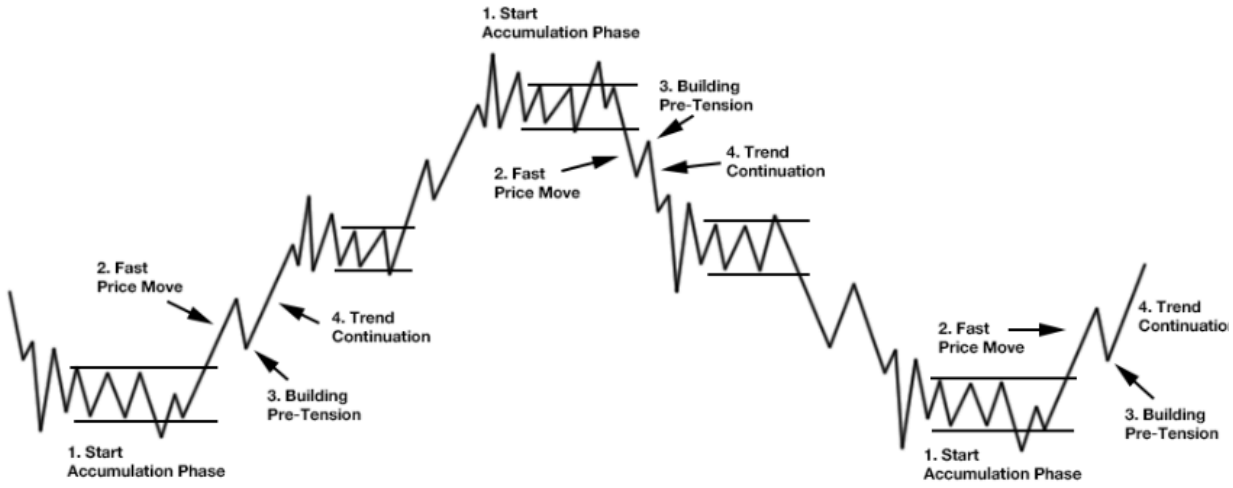
ii) Prerequisite Knowledge and Theory

In theory, the market moves in four stages; Accumulation, Mark-up, Distribution, and recession. This theory does not only apply to the overall market, but also individual stocks. The accumulation stage is the first stage of the cycle, when the stock reaches the end of its downtrend, and has a period of consolidation. We refer to it as accumulation as institutions are likely accumulating shares through this consolidation. To identify if institutions are entering during this stage, we need to conduct volume profile analysis, which will be covered later. Institutions accumulate their shares to build up a position for the second stage - marl-up. The mark-up stage is where the momentum follows through and money is made on the long side. These first two stages are the stages that are going to be focused on during the study. The third stage, distribution, is when these institutions begin to sell their shares to prepare for the fourth stage of a recession. The reason why I keep emphasizing the word institutions rather than just buyers is because institutions are who ultimately moves the markets. Individual traders do not have the capital to move markets and create trends, which is why institutional behavior should be focused on. In addition, institutions have access to much more information and data than retail investors do, meaning that they are one step ahead of the game. Identifying this institutional behavior is a large portion of this strategy. They tend to search for certain characteristics, such as industry, market share, EPS, fair value, revenue, profits, future projections, so on and so forth. Their criteria ultimately combines and leads to their investment decisions, which is important to monitor as retail investors



Lehman , Richard. Market Cycle: Definition & 4 Stages . February 24, 2022.

To depict this cycle into more detail, Wycoff theory can be used to explain general stock behavior in each stage;



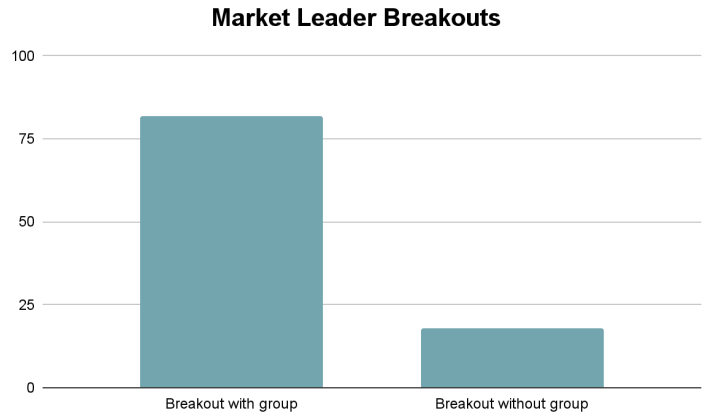
the1millionproject. The Wyckoff Method . July 27, 2019. Photograph.

Keep this picture in mind as we will be focusing on the accumulation and mark up phases in detail.

iv) Factors that Compliment Momentum

As mentioned previously, the overall market is what will determine the direction of most stocks. The S&P 500 is a great indicator of market health, as it holds some of the world's most valuable companies. Generally, on strong green days for the S&P 500, most stocks in your portfolio will follow the trend. Specifically, William J O'neill discovered that approximately three out of four stocks follow the overall direction of the market. However, this can be misleading because of the weighting of the S&P 500. For example, Apple is the company that makes up the most part of this index. As a result, If Apple is having a strong positive day for any reason, and other stocks in the index are doing the opposite, the S&P 500 can still be green on the day. Therefore when judging Market health, further variables need to be considered to see how narrow or broad the breadth of the market is. This can be done by looking at the NASDAQ McLean oscillator (NAMO) and the New York Stock Exchange McLean oscillator (NYMO) which reports how many stocks applicable to the oscillator are positive or negative on the day. Another indicator that can be used to measure breadth is the United States net high and low oscillator (USHL) which shows how many stocks that day are making net new highs and net new lows. By combining the results from these oscillators, an overall uptrend will indicate wider, healthier breadth. However if you see the opposite then you know that it may not be the best time to invest your funds in the market. Going back to the previous example of Apple, if you see breath declining but the market still increasing it requires additional research to be conducted to judge if you are missing out on any economic profits. The research that needs to be conducted in this scenario is to analyze the particular sectors or stocks that are outperforming the overall market. It is important to find the strongest stocks that are inside of the strongest sectors, as these will be the stocks that have the most momentum behind them to run. To identify if a group is strong, a

number of different tests can be conducted. The test that I find to be the most accurate is when the performance of various stocks in the group are analyzed. I usually do so by analyzing the performance of the group from the past month through year. Let me use a numerical example to illustrate this. Hypothetically let's say the market has increased by 3% in the past three months. Correspondingly, various tickers in the semiconductor industry have outperformed the market in the past three months, for example, NVDA - +50%, SMCI - +200%, AMD - +30%, AVGO - +35%. These returns illustrate that the semiconductor group is moving as a whole. With the big players in the industry outperforming the market, it gives investors clues as where to rotate their capital. Groups breaking out as a whole provide more conviction for an investment, as an industry breakout confluences price. Another way to analyze industry breadth is by checking the ETFs corresponding to each one. This is a great, efficient method, however, there is bias towards the larger players in the ETF. For example, the semiconductor ETF is $SMH, the uranium etf is $URA, the biotech ETF is $XBI, and so on. To further prove this confluence, I have taken a manual tally of tickers exhibiting leadership characteristics, and compared the amount of tickers that broke out with group support, and without group support. The criteria for the ticker to be considered a breakout with its industry is if >50% of group outperformed the S&P 500 market in 3 months, OR its Related ETF outperformed the S&P 500 in 3 months;



Source; Tradingview.com

82 Broke out with its industry, 18 did not, on a 100 stock sample size.

Although the other 18 leaders did not break out with their industry, they did not break out just by coincidence either. The underlying theme behind these tickers that outperformed their groups are their earnings, or catalyst reports. All investors, both institutional and retail, bias their judgment heavily on earnings reports. If a company has both a blowout quarter, and a strong future outlook, the stock will most likely react positively to the news. However, I have observed that the company's future growth does not necessarily depend on the actual number, but rather how the market reacts to the number. Regardless, a strong report will provide more conviction towards the trade. In addition to positive price action, it is important that volume accompanies this move to prove its strength. As mentioned previously, one of the main goals of this study is to track institutional behavior, which volume price analysis is capable of doing. Besides the numbers of the report itself, there are other details hidden inside of the report that have a strong influence on momentum. These details are the pivotal points of the company - events that prove to investors that the company is making positive, innovative progress, whether this is achieving benchmarks, or releasing a new product. Recently, there have been a few stocks that have reported pivotal points in their earnings reports, which in turn, resulted in a massive price surge. For example, Uber reported a 3% profit margin in their Q3 2023 report. You are probably thinking that a 3% profit margin is well below average. However, this figure represents a pivotal change in the company, as they have never before been profitable. A positive profit margin is very attractive to any investors, and it may have caught institutions off guard. Since that report, the stock has surged 88% in 107 days. Another example is Palantir Technologies, who in their report stated that their consumer line of products is outperforming their government line. Just three years prior, they were only serving the government, and larger institutions. As this is both a clear pivot in their operations, and another revenue stream added to their arsenal, the stock had a

very positive reaction. Specifically, the stock surged 50% in 3 days, on above average volume, signaling that a larger run is underway.

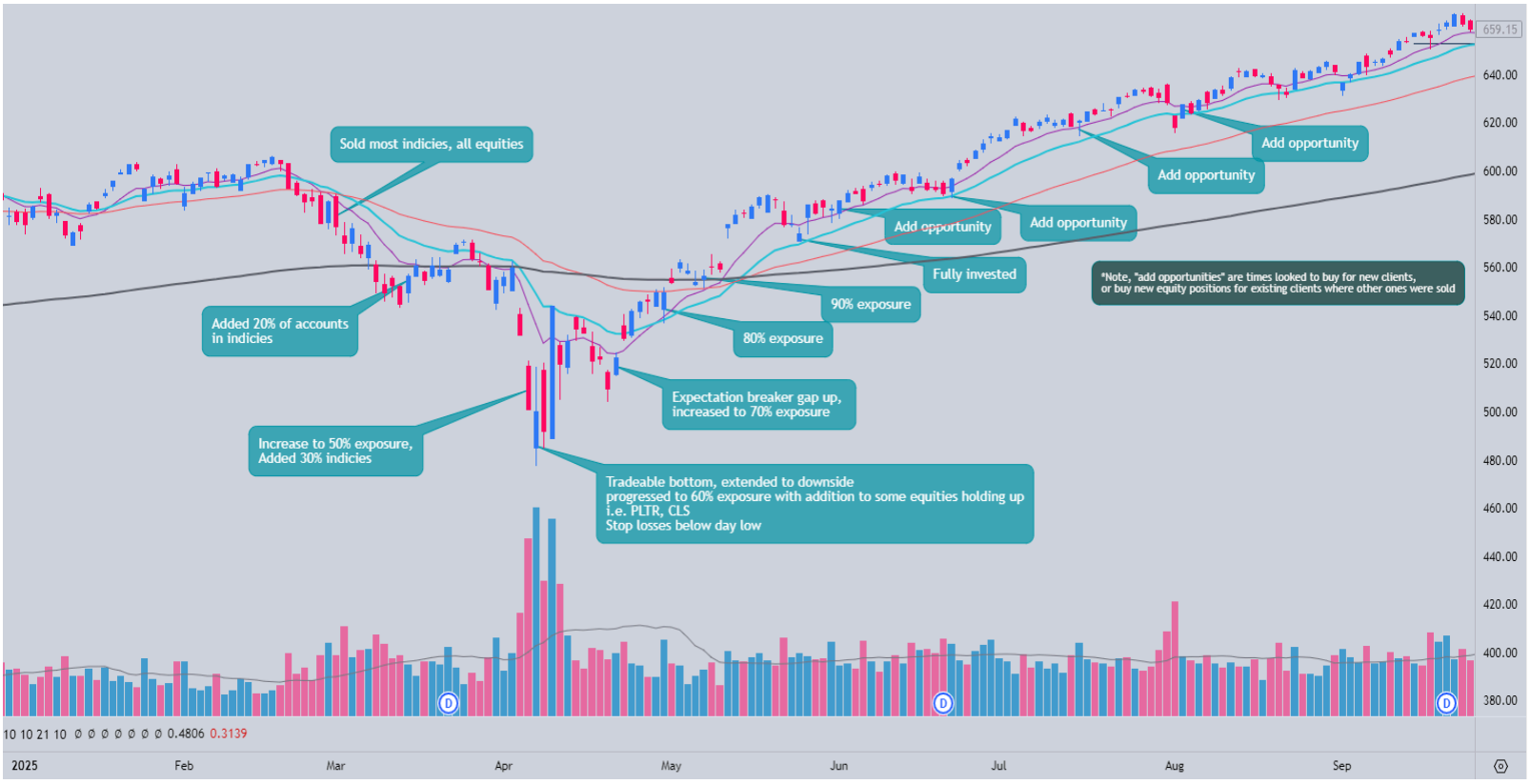
When to add exposure into the market

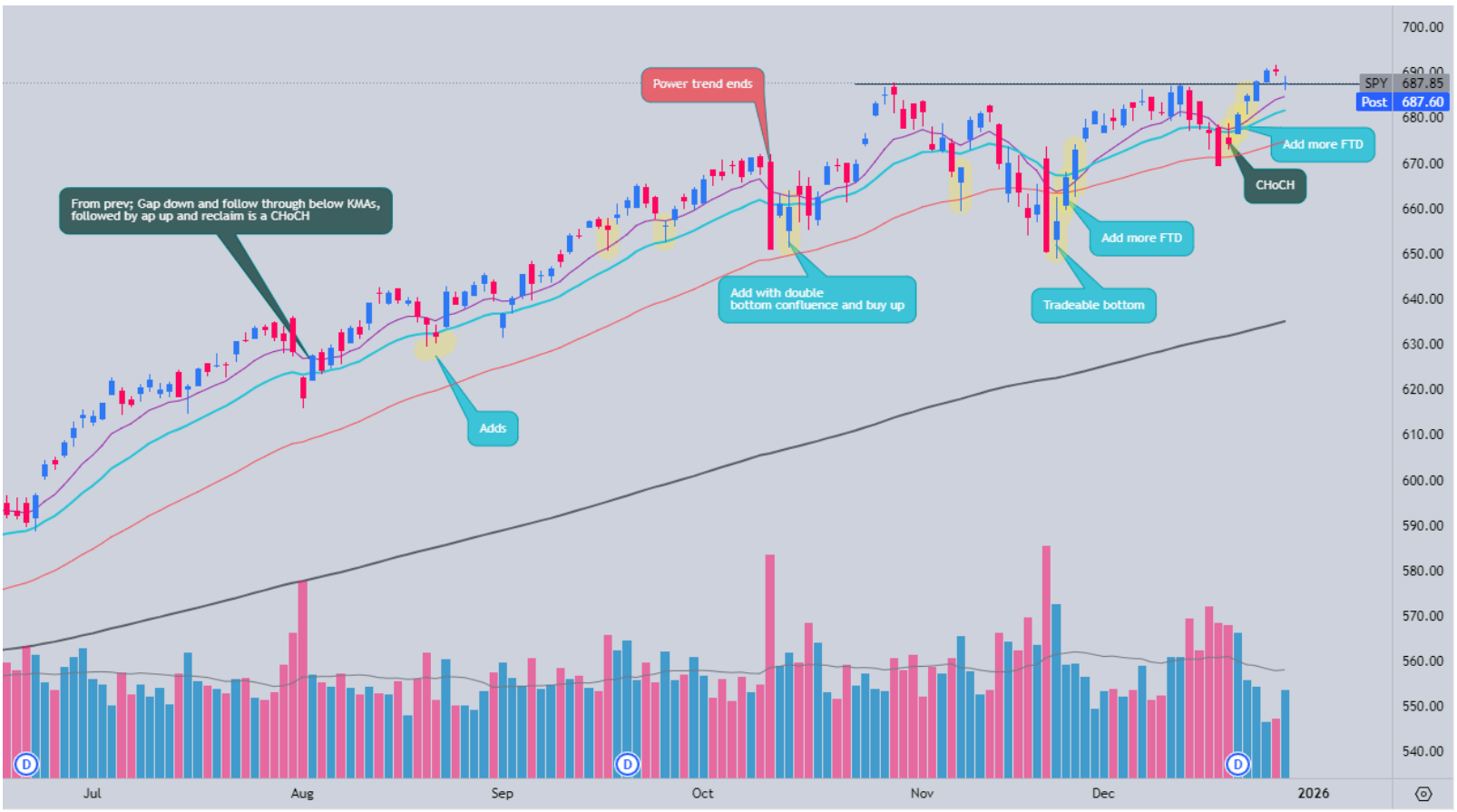
Fear of missing out (FOMO) can lead to overtrading, which can lead to a mass drawdown in one's portfolio even if risk is properly managed. This is because it is human nature to initially think with their emotions, especially if they see their portfolio underperforming the broad market. It is important to stick to your plan to avoid the fear of missing out, so that calculated decisions can be made. It is important to add exposure only when your edge is presented. The indicators previously mentioned (NYMO, NAMO, USHL) are great indicators on how much exposure should be kept in the market. However, decisions should not be made solely off of this. Your own trading results can be a great gauge of when your edge is, and how much exposure you should have. If your trades have been working, it makes sense to add more exposure as clearly your trading edge is presented. On the other hand, if you notice your trades are failing, it may be a good idea to take less trades, or reduce position size until trades start working again. ETFs can be used to gauge market health and timing of exposure. For example, I use the $SPY and $QQE to help define my exposure, especially during market corrections. By using this, I have noticed that it is a good time to add exposure when the $SPY sits between 30-40 on the RSI, and makes a higher low or lower low on key support after the initial knife. To know if the bottom is put in, a good indicator is a reclaim of moving averages followed by a follow through day;



A great entry to use is a gap down and recover, as shown in the most recent low. This is because it shakes out stop losses and allows large players to pilot a position. The gap down low will also act as a "line in the sand" to manage risk again. During periods of correction, track which stocks are holding up the best, and add to them when market conditions become favorable. If a leading stock gaps down and reverses off a key level along with the market, it would be smart to begin a pilot position, and make it a full position after a follow through day. Another great entry tactic is a gap up after an ugly bar down with broad participation, showing a change of character in the market. With everyone flipping bearish and being washed out, this action accumulates more shorts and leaves more people on the sidelines, adding fuel to a broader rally. Below is an annotation of the S&P 500, and times to add exposure into the market;

NOTE: our goal is not to "time" the market, it is to identify times to initiate pilot positions with a clear and favorable risk to reward, and progressively add exposure.


Sold most indicies, all equities
Added 20% of accounts in indicies
Increase to 50% exposure, Added 30% indicies
Tradeable bottom, extended to downside
progressed to 60% exposure with addition to some equities holding up
i.e. PLTR, CLS
Stop losses below day low
Expectation breaker gap up, increased to 70% exposure
80% exposure
90% exposure
Fully invested
Add opportunity
Add opportunity
Add opportunity
Add opportunity
*Note, "add opportunities" are times looked to buy for new clients, or buy new equity positions for existing clients where other ones were sold
659.15
640.00
620.00
600.00
580.00
560.00
540.00
520.00
500.00
480.00
460.00
440.00
420.00
400.00
380.00
10 10 21 10 Ø Ø Ø Ø Ø Ø Ø Ø 0.4806 0.3139
2025
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep


From prev; Gap down and follow through below KMAs, followed by ap up and reclaim is a CHoCH
Power trend ends
Adds
Add with double bottom confluence and buy up
Tradeable bottom
Add more FTD
Add more FTD
CHoCH
SPY 687.85
Post 687.60
700.00
680.00
670.00
660.00
650.00
640.00
630.00
620.00
610.00
600.00
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Jul
Aug
Sep
Oct
Nov
Dec
2026

iii) Technical Analysis

The basis of this strategy requires a proficient understanding in technical analysis, as many investment decisions will be made based on this information. Technical analysis is more than just patterns, as it includes the forces of supply and demand, and trader psychology. At the end of the day, you are buying and selling your shares at market value, rather than a value that was determined based on a financial model. For this reason, price is the single most important piece of information that a stock can tell you, meaning no matter how great of a story a company has, ultimately the direction of price decides its value and your profit or loss. To find out the direction of price, various technical analysis strategies are used. In this report, the scope of technical analysis will be narrowed down to institutional clues, as well as contraction and expansion. Please note that there are many forms of technical analysis that work, and it is all what the trader makes of the information. Trading is a probabilities game, to be successful, you need to confluence different technical analysis techniques with each other, to boost your probability of profit. The following techniques are the primary clues that I look for when conducting my analysis, which are coupled with other factors.

The applications of technical analysis can vary drastically depending on the user and their goals. To narrow the scope of this report, I have conducted a deep dive of the stages of a leader's market cycle which offer the best risk:reward ratio, as well as the highest probability of working.

Stage 1 Breakouts

As mentioned previously, stage 1, or the accumulation phase is the phase that a stock undergoes following a decline. The stage 1 bases should have distinct volume accumulation, to show evidence of institutional buying and a bottom forming. Many leading stocks in their early stages will exhibit a HVE (highest daily volume ever) candle, or a 10/300 day, when the stock moves

10%+ on 300%+ average daily volume. These days are evidence of institutional capitalization, whether it is because of an earnings report, or another catalyst. There are three ways to depict an entry on a stage 1 base. The first is when the stock makes a pattern/base directly under the resistance line. This should be monitored, as it shows that sellers are no longer as aggressive selling at this level. To gain further conviction, volume should be coming in on the right side of the base, near the breakout point. If the stage 1 breakout is missed, do not chase into the move days after. Instead, wait for either a retest of the breakout point, or the first base after the breakout. Both entries require your own technical analysis judgment, and historically have offered the highest probability of a continuation higher. This is because the stock is not yet extended, while buyers are still eager to enter.





However, many institutions will deploy manipulation tactics to get their entries filled, such as pushing prices below key levels of liquidity. Again, investor judgment must be used to determine whether this may happen or not, but it is impossible to be sure. In a volatile, mixed environment, these liquidity sweeps are more likely to happen due to investor inconfidence. However, during times of strong breadth, funds may be eager to buy these stocks, and will buy right at key support levels. With a strong sentiment, retail investors may not be as willing to sell their shares to the funds as they would be during rocky environments. Liquidity sweeps triggering investor stop losses happen to everyone, even professionals, so it is important to not let emotions bias your feelings towards a stock. Even though you may need to buy back at a higher price, it is better than missing out on the move entirely.



Therefore, when leading stocks break down a key level or moving average, especially on light volume, do not take it off your radar. Analyze the stock to see if it finds support on another level, or if it quickly reclaims the original level. If the stock has another leg down after this, then it is safe to move your focus elsewhere.

Green Line breakouts

Green line breakouts are essentially all time high breakouts in a stock from a consolidation that lasted at least six months. This is very powerful as once a green line break occurs, there is no overhead resistance. The larger the stock was basing, typically, the larger the subsequent move. When looking to play a green line breakout, the same three entry techniques as a stage 1 breakout still apply. In addition, the setup is more powerful if the stock breaks out on a strong earnings report or other catalyst.





Quality of Consolidations

To maximize probability of an upwards continuation after a consolidation, as well as the timing of the breakout, it is important to note three key characteristics;

1) Tight areas are important on charts for many reasons. One of the main benefits of trading names with tight areas is the risk:reward ratio you can take advantage of. Seeing the stock's daily range contract to a much smaller multiple than usual can be defined as the stock's tight area. An *inside day* is a good trigger for interpreting the tightness of a stock. Using tight areas to find

names that offer strong risk:reward is key for position sizing as well. The tighter the *logical* stop, the more you can position size (even if the name is a 'slower mover').

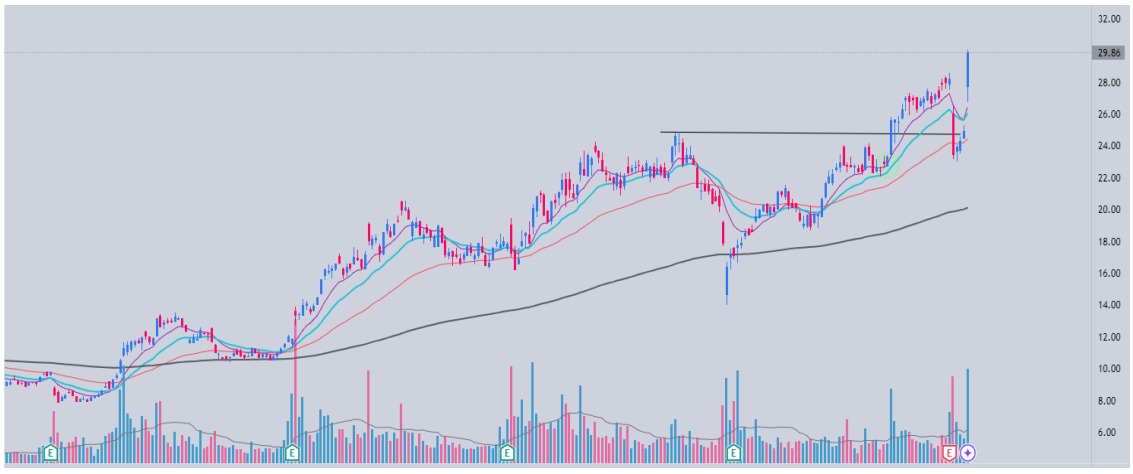
2) Decreasing/below average volume during a consolidation is a common trait amongst the market's biggest winners. The lack of volume tells us that institutions are not distributing stock while the name goes sideways and it is important to note the consolidation volume right under resistance/pivot points. These same players are likely to continue buying.

3) The final trait to look for is a stock's action around its key moving averages (10/20/50SMA/EMA). Just like humans, stocks have personalities since they are controlled by humans, so analyze which moving average the stock respects the most on prior waves. This action makes it easier to hold positions for days/weeks at a time.

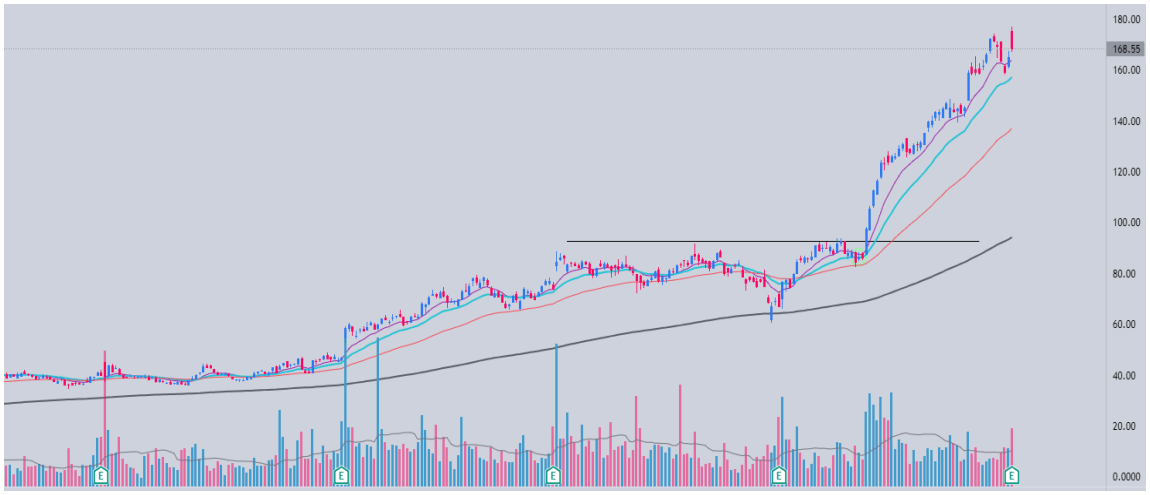
3) Style of base

The type of base that seems to yield the highest probability rates and returns are months in duration, and have undercuts of moving averages and key levels that are bought up. This is because it flushes out buyers and creates liquid spots for institutions to accumulate. After the stock tightens after these flushes is when the breakout occurs. Examples will be posted below;

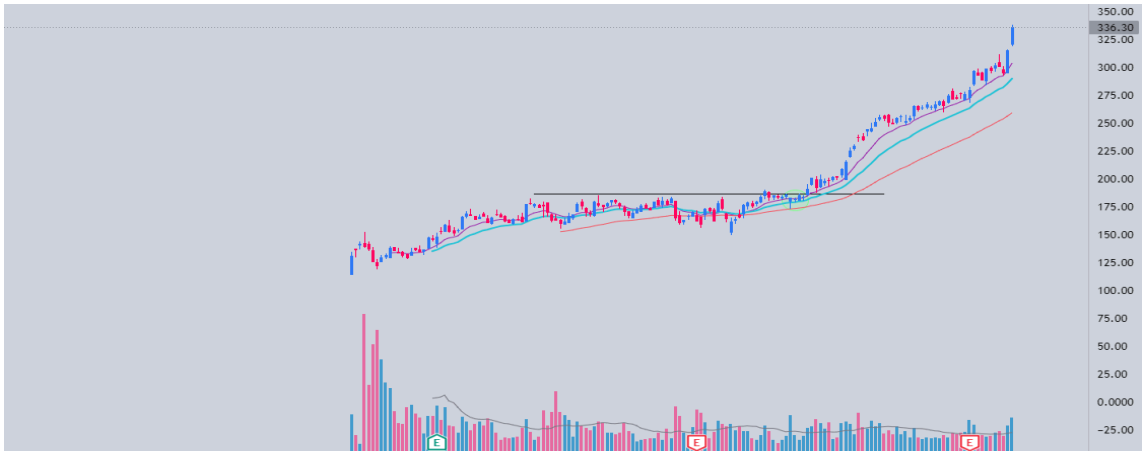
Robinhood Markets - $HOOD



Applovin Corp. - $APP



General Electric Verona - $GEV



Pinpointing an entry

Finding an entry can vary based on the individual's strategy, as there is no real right answer to the perfect time to buy a stock. This strategy focuses on buying stocks on pullbacks that are also in an overall uptrend. To know when the stock is ready for entry, lower time frames can be used to see a contraction in price. We want to see a contraction in price for two reasons; to offer a defined risk to reward, and because from contraction, comes expansion. Pairing a lower time frame contraction with a larger time frame setup will often help time the breakout points. Below is an hourly chart of $UPST, which is a great example of using hourly clues to time breakouts.



ANTS is another technical concept that is used to identify leading stocks supported by mass institutional accumulation. Founded by David Ryan, a three US Investing champion, this indicator has been used to tell if a stock will continue higher after a base, rather than failing its breakout. The criteria for ANTS is as follows;

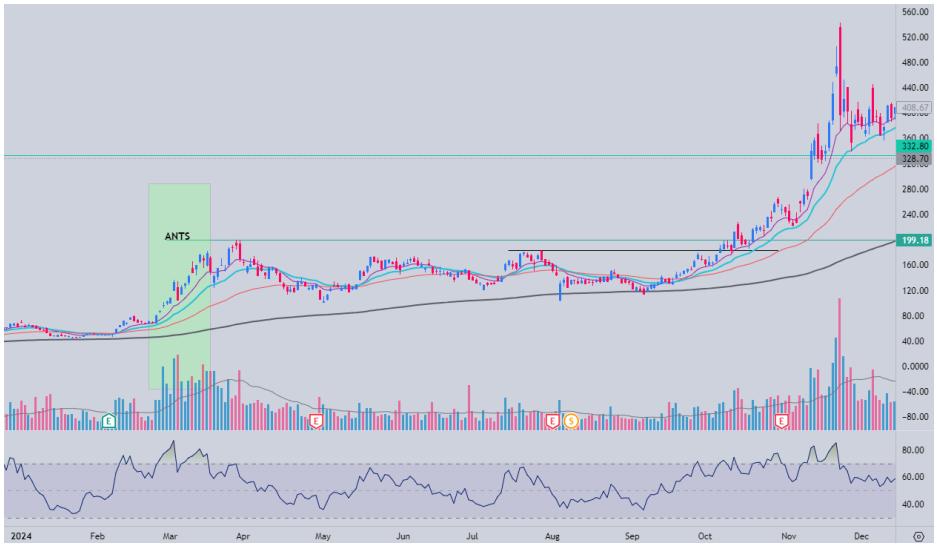
- 20-25% increase in price
- 20-25% increase in volume
- 12 out of the past 15 days are up

Source: Deepvue - https://deepvue.com/indicators/david-ryans-ants/

The following is an example of ANTS on $MSTR;



Followed by…



By combining these technical analysis techniques, a trading system can be created that will stay true throughout future generations. However, all of these techniques can fail if trading in the wrong market conditions.

v) Fundamental Analysis

By the time that you see a stock, their past earnings performance is likely already priced in. Although past earnings are a good indicator of the company's health, future earnings and revenue projections are what really get investor attention. This is because these projections are not already priced in, and will be once the subsequent earnings reports are established. Generally, the higher the year over year (YoY) % change in earnings and revenue growth, the more likely it is for the stock to run. Take $TMDX for example;

For the Fiscal Period Ending *Currency*	12 months Dec-31-2020A *USD*	12 months Dec-31-2021A *USD*	12 months Dec-31-2022A *USD*	12 months Dec-31-2023A *USD*	12 months Jun-30-2024A *USD*	12 months† Dec-31-2024E *USD*	12 months Dec-31-2025E *USD*	12 months Dec-31-2026E *USD*
Total Revenue	**25.6**	**30.3**	**93.5**	**241.6**	**358.8**	**443.06**	**575.16**	**693.87**
Growth Over Prior Year	*8.6%*	*18.0%*	*208.8%*	*158.5%*	*137.5%*	*83.37%*	*29.82%*	*20.64%*
Gross Profit	**16.6**	**21.2**	**65.3**	**154.1**	**217.8**	-	-	-
Margin %	*64.9%*	*69.9%*	*69.8%*	*63.8%*	*60.7%*	*61.56%*	*63.52%*	*64.07%*
EBITDA	**(24.8)**	**(37.6)**	**(28.0)**	**8.7**	**42.8**	**86.91**	**122.22**	**170.32**
Margin %	*(96.8%)*	*(124.3%)*	*(29.9%)*	*3.6%*	*11.9%*	*19.62%*	*21.25%*	*24.55%*
EBIT	**(26.4)**	**(39.4)**	**(31.4)**	**0.5**	**28.4**	**48.75**	**75.88**	**128.78**
Margin %	*(102.9%)*	*(130.3%)*	*(33.6%)*	*0.2%*	*7.9%*	*11.00%*	*13.19%*	*18.56%*
Earnings from Cont. Ops.	**(28.7)**	**(44.2)**	**(36.2)**	**(25.0)**	**3.0**	-	-	-
Margin %	*(112.1%)*	*(146.1%)*	*(38.8%)*	*(10.4%)*	*0.8%*	-	-	-
Net Income	**(28.7)**	**(44.2)**	**(36.2)**	**(25.0)**	**3.0**	**46.30**	**64.96**	**100.92**
Margin %	*(112.1%)*	*(146.1%)*	*(38.8%)*	*(10.4%)*	*0.8%*	*10.45%*	*11.29%*	*14.54%*
Diluted EPS Excl. Extra Items³	**(1.16)**	**(1.60)**	**(1.23)**	**(0.77)**	**0.09**	**1.32**	**1.80**	**2.72**
Growth Over Prior Year	*NM*	*NM*	*NM*	*NM*	*NM*	*1,703.08%*	*37.04%*	*50.96%*

Currency: USD	Q4 '22	Q1 '23	Q2 '23	Q3 '23	Q4 '23	Q1 '24	Q2 '24	Q3 '24	Q4 '24	Q1 '25	Q2 '25
Reported	-0.21	-0.08	-0.03	-0.78	0.12	0.35	0.35	–	–	–	–
Estimate	-0.30	-0.25	-0.13	-0.16	-0.07	-0.02	0.21	0.29	0.29	0.35	0.43
Surprise	+29.87%	+67.48%	+77.06%	-380.99%	+273.29%	+2,217.49%	+66.04%	–	–	–	–

Sources- S&P Capital IQ, TradingView

TransMedics group has surged nearly 330% from their 2023 Q3 report (in november) to the end of August. On the day of the Q3 2023 report, the stock missed earnings estimates by 380%, but still surged 51% the same day. Why is this the case? Because they had a phenomenal future outlook, with triple digit earnings growth estimates. For the next three quarters to date, the company has blown estimates out of the water, which added fuel to the run. Their revenue and earnings growth have also seen triple digit YoY multiples, which have supported the stocks growth.

It is a useful tool to conduct a regression on the growth of EPS and Sales over the past year and into the next few years. To do so, you take the current quarter growth and compare it to the reported number of the quarter one year ago (i.e. take December 2024 and compare it to December 2023). Seeing double to triple digit growth numbers across the board is a characteristic that all market leaders that I have observed had. In general, the higher the numbers, the better. In addition, it is important that the stock you are buying has a real story or catalyst. Stories and catalysts are what drive market price as this is news that investors react to. This news is also episodic, as it has potential to change the direction of the company's future. For instance, if a company has been stagnant for years, then suddenly receives a market tailwind causing them to guide higher, the stock will likely trend higher due to its change in character. The news will catch investors by surprise, and most will want to get in early on this "new" chapter of the company's life. If the stock builds out a base after, this is good news, as this means there is minimal selling pressure even after the catalyst. This initial period of stagnation is where we find the entry, and based on past estimates and future outlooks, it is likely that the trend continues. By coupling volume characteristics and technical analysis with a strong future outlook which has been supported by past earnings reports, it makes a recipe for a leading stock.

Another key metric to use is Return on Investment Capital (ROIC). This is because the best growth companies know how to effectively reinvest their cash into the business. Companies with a high ROIC have been proven to outperform the market, as shown through a study by Goldman Sachs:

Display 1: **Companies with a high ROIC have outperformed over time**



Source: Goldman Sachs Research Estimates, Quantum database. Data as at March 31, 2015. Data shown is the performance of the share price of the highest 25% of companies in terms of ROIC as compared to the lowest 25% of companies. Companies are sourced from the MSCI Europe Index. **Past performance is not a guarantee of future performance.**

To find the ROIC of a company, simply divide the company's net operating profit after tax, (which is the operating income after taxes) by the the average value of invested capital (which is the average value of a company's debt, equity, and other long-term funding sources). Although this metric should not be used to "make or break" an investment decision, it can very helpful when supporting an original thesis.

vi) Risk Management

Risk management is a very overlooked topic when traders develop their strategies, which is what ultimately leads most traders to their demise. When trading and investing, it is much more important to focus on small losses rather than large gains as our main mission is to preserve capital. In addition, it is true that it is a lot harder to regain losses as more capital is lost. The mathematics behind this claim are below, using a starting balance of $100,000;

Starting Balance	% Loss	Ending Balance after loss	Gain needed to recover loss
$100,000	5%	$95,000	5.26%
$100,000	10%	$90,000	11.11%
$100,000	15%	$85,000	17.65%
$100,000	20%	$80,000	25.00%
$100,000	25%	$75,000	33.33%
$100,000	30%	$70,000	42.86%
$100,000	35%	$65,000	53.85%
$100,000	40%	$60,000	66.67%
$100,000	45%	$55,000	81.82%
$100,000	50%	$50,000	100.00%
$100,000	55%	$45,000	122.22%
$100,000	60%	$40,000	150.00%
$100,000	65%	$35,000	185.71%
$100,000	70%	$30,000	233.33%
$100,000	75%	$25,000	300.00%
$100,000	80%	$20,000	400.00%
$100,000	85%	$15,000	566.67%
$100,000	90%	$10,000	900.00%
$100,000	95%	$5,000	1900.00%

As seen above, it is crucial to keep losses to a minimum and preserve capital, or else it will be a lot more difficult to recover from unprofitability. This is what risk management focuses on. Risk

management policies will vary based on the individual's personality and emotional control, which is a personal factor that every trader should be aware of. In the case of this strategy, these are risk management rules that are followed;

- Only trade when your edge is presented, do not force trades.
- Target the trade to have a minimum 1:2 risk:reward ratio, and try and maintain this ratio across all trades
    - As a result, you will only need to profit from 33% of trades to breakeven
- After the R:R is achieved, de-risk the position. This can be done by selling shares or moving stop losses to a breakeven
    - A concept that can be used is the 8% rule. That is, sell ⅓ or ½ of holdings if the stock surges 8% or more in a single trading session
    - Use an Offensive Selling strategies (reversal candles, extensions) during choppy markets and a defensive selling strategy (i.e. trailing stop loss) during momentum markets
- Never average down on positions, instead, average up on pullbacks from the main breakout. Averaging down on positions has the potential of leading to massive losses if the security never performs again. When averaging up, you can raise stop losses to protect this increase in exposure, which can lead to larger gains while risking the same amount of total equity.
- Analyze which moving average the stock tends to respect the most, and it can be used as a trailing stop loss. This will provide an emotional-free solution to selling too early or too late.

- When your edge is presented (in this strategy's case, green line setups while the overall market is breaking out) and trades begin working, risk more. When trades begin to not work as well, risk less and become less aggressive.
- Never risk more than 2% of total equity (That is, if your account balance is $100,000, do not risk more than $2000 on the trade)

Here is an annotated deep dive on a recent personal winner, *$GEV,* and how I was able to effectively manage the position:



Risk management is crucial in the stock market because it helps investors protect their capital from potential losses in a volatile and unpredictable environment. By identifying and assessing various risks—such as market volatility, economic downturns, and company-specific issues—investors can make informed decisions that balance potential returns with acceptable levels of risk. Effective risk management strategies, like diversification, asset allocation, and the

use of stop-loss orders, can soften the impact if the market takes a turn for the worse. Without proper risk management, investors expose themselves to significant losses that can derail their financial goals and long-term investment strategies.

vii) Conclusion

In conclusion, this study emphasizes the crucial role of momentum and leadership characteristics in identifying winning stocks. By examining successful stock alerts and understanding institutional behavior, it's clear that momentum, supported by strong earnings and sector trends, is a key driver of stock performance. Utilizing William J. O'Neill's CAN SLIM framework, the study highlights how focusing on factors like earnings growth, market direction, and institutional sponsorship can help investors consistently identify top performers.

The analysis also reinforces the importance of aligning with institutional behavior, as large investors significantly influence market trends. Recognizing accumulation phases, supported by volume and breadth indicators like the NASDAQ McLean Oscillator, provides a more comprehensive view of market health. This enables traders to make informed decisions, especially when selecting leaders within strong sectors, such as the semiconductor industry.

Finally, effective risk management is central to this strategy. By employing a disciplined approach—targeting favorable risk-reward ratios, setting stop losses, and avoiding emotional decision-making—investors can preserve capital while positioning themselves for substantial gains. By focusing on stocks with strong earnings growth, sector leadership, and institutional support, while also adhering to sound risk management principles, traders can enhance their probability of success and potentially generate significant returns over time.

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