

West Coast Cycles

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Pocket Pivots and the IBD
CANSLIM system

Background



"We diversified your money by turning some of it into butterflies."

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"Have I (hic) godda deal for you."

- Beginners Luck got me hooked on Stocks (1958)
- Next twenty years with brokers
- Decided to do it myself (1980's)
- Wm O'Neil's Book-CANSLIM with IBD Newspaper
 - Good Results (but lot of work with failures)
- Had good luck with Value Line 1s also
- Merging the two reduced the work and reduced the failures versus only CANSLIM
 - Easily Beat the SP 500 for the past 25 Yrs
- Currently fewer VL1s with IBD 50; Now using VL 2s to find commonality with IBD CANSLIM stks

Pocket Pivot Background

- Book “Trade Like an O’Neil Disciple” by Gil Morales & Dr Chris Kacher
 - “How we made 18,000 % in the stock market”
- Pocket Pivots or “buying in the pivot” is an early base breakout indicator
 - designed to find buyable pivot points within a stock’s base shortly before the stock actually breaks out of its chart base or consolidation and emerges into new high price ground
- Is an early buy point relative to traditional O’Neil techniques
- Discovered in Dr. K’s Lab in 2005
 - Looking for solution to sideways moving markets of mid 2000s vs trending mkt’s in the 1980s and 1990s
- Supported by interfacing with institutional investors
 - They do not like to buy breakouts to new highs
 - Prefer to buy off of the lows of a constructive formation
- Definition: UP-Volume equal or greater than the largest Down-Volume day over the prior 10 days during a stocks basing formation with a higher price.

Ten Rules for 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
3. The day's volume should be larger than the highest down volume day over the prior 10 days
4. 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.
5. Pocket pivots sometimes coincide with base breakouts or with gap ups. This can be thought of as added upside power should this occur.
6. 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

Ten Rules for Pocket Pivots con't

7. Do not buy pocket pivots if the stock is under a critical moving average such as the 50-dma or 200-dma. If well under its 50-dma, and getting support near the 200-dma, it can be bought provided the base is constructive.
8. 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.
9. Avoid buying pocket pivots that occur after wedging patterns.
10. 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 would consolidate for a few days, before buying such a pocket pivot.

Implementing Pocket pivot screening

- Need to start with a good group of stocks with excellent earnings, sales, pretax margins, ROE, strong leadership in their space
 - IBD 50, IBD big Cap 20, IBD “Your Weekly Review” (varies from 50 to over 100 stocks-depending on the market trend) are good lists
 - Value Line 1s AND 2s,
- Finding Pocket Pivot opportunities can be enhanced with screening
- I electronically import good stk lists into my TC2000 Stock Program
- I then screen these lists with a TC2000 PCF (Personal Criteria Formula) that I wrote to identify Pocket Pivots
 - $V = \text{MAX}V10$ AND $C1 > C1 * 1.02$ AND $C = \text{MAX}C10$
 - Can get 5 to 10 to look at and check against the 10 rules
 - I believe pivots from longer basing patterns are better
- I had some beginners luck:
 - LULU >25% in 3 weeks; Now up 100%; I will show the chart

Chart Samples

- LULU- Lululemon Athletica
- BIDU-Baidu Inc Ads
- CMG-Chipotle Mexican Grill