THE MAGIC

of the Stock Surge Indicator

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THE MAGIC OF THE STOCK SURGE INDICATOR

As the saying goes, “the trend is your friend.”

In the game of investing, it is best to keep things simple.

To follow the path of least resistance where the odds are squarely in your favor.

Stocks going up tend to keep going up.

And those going down usually continue that trajectory.

It really is that simple.

Sure, there are terabytes of underlying data that explain an equity’s rise and fall…

Everything from earnings growth to analyst expectations to future cash flow projections and institutional trading activity all go into producing those red and green candles on your chart.

Markets are efficient.

They’re not perfect, but they’re efficient.

The combined intelligence of those who deal in securities is fairly high.

A stock that is declining in price is doing so for a reason.

Buying stocks that are “cheap” because they have recently come down in price is a sucker’s game.

It’s an arrogant bet that you are smarter than the market… that you know more than thousands of ivy league MBAs who analyze public companies for a living.

You are not going to outsmart the marketplace – at least not on an ongoing basis.

Warren Buffett is one of the greatest stock pickers who ever lived, and even he only finds a few companies to add to his portfolio each year.

In 2019 his company bought 3.

He only picked 2 of them himself.

And only 1 of those has gone up.
Luckily, there’s an easier way to achieve success in the markets.

My method acts to put the odds in your favor by focusing only on stocks with the greatest chance of going up in value.

The Stock Surge Indicator, or SSI for short, targets high growth, high momentum companies that are surging in price right now.

By trading with the trend of the market and owning those names being investors view favorably, you can increase both your likelihood of success and your potential for swift and large gains.

It is a systematic approach based on decades of research and the work of countless successful traders who came before.

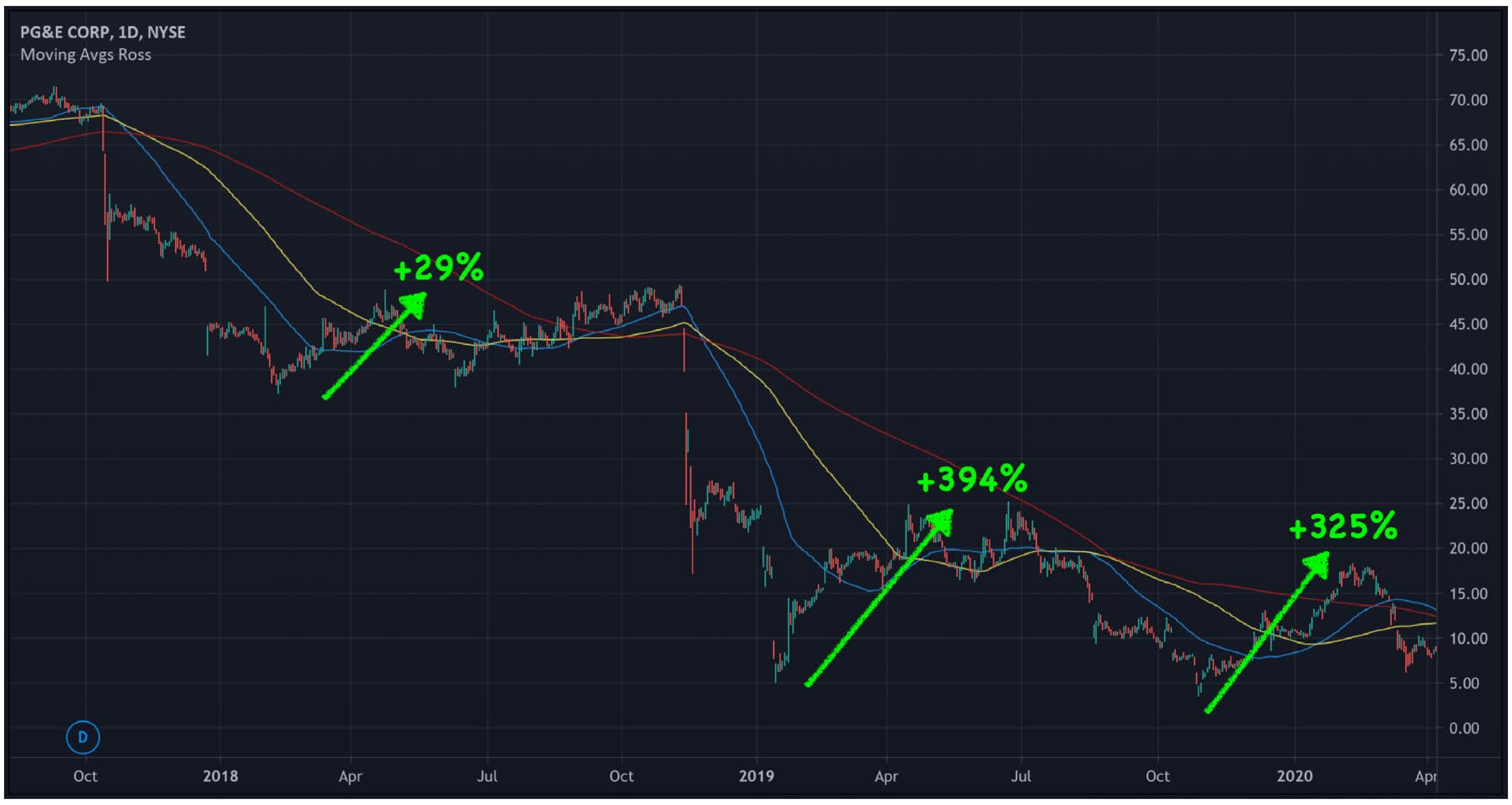
The SSI indicator has five components. Let’s break them down…

#1 Triple momentum higher over short, medium, and long-term time frames.

As I mentioned earlier, we want to trade with the trend.Our goal is to identify stocks that are not only going up right now, but have been doing so for an extended period of time.

Stocks move in waves.

Even equities in long-term down trends will have short upswings within the greater move lower. Take PG&E Corp (PCG), for example…



The stock fell 90% over a 2 ½ year period – a clear long-term down trend.

But there were brief moves higher within the larger bear move.

Unseasoned investors can make the mistake of interpreting this as a reversal.

They buy the stock because it is "cheap" relative to its previous price.

But unless perfectly timed, these trades are rarely profitable.

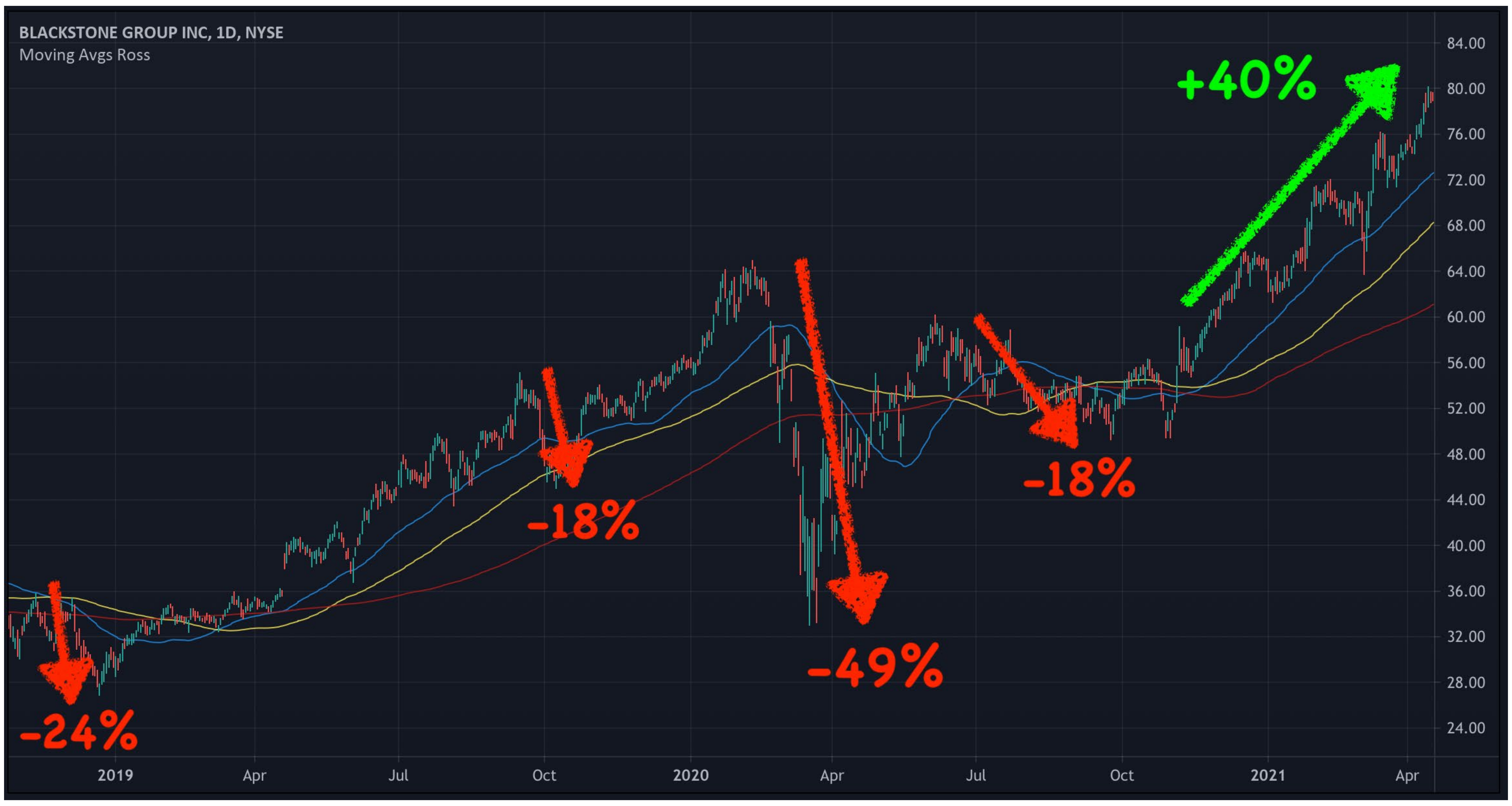
By the time the upswing is noticed, the move is usually on its last leg.

And investors are lucky to get out without suffering a substantial loss.

The opposite scenario also holds true.

Stocks trending higher over a long period are not immune from short-term waves of selling that send prices lower.

Blackstone Group (BX) nearly tripled between 2019 and 2021, but there were bearish waves within that move.



However, by waiting for short-term momentum to get in sync with the longer-term trend, investors are able to trade in harmony with the market and capture a quick 40% gain in just five months.

This is why it is important to monitor not just the short-term trend of a stock but the medium and longer-term trends as well.

The easiest way to do that is by monitoring three key moving averages.

The 50, 100, and 200-day moving averages allow traders to quickly identify the short, medium, and long-term trend of a stock.

A properly bullish setup means the **50-day average** is tracking above the **100-day average** and the **100-day average** tracking above the **200-day.**

This is the sign of a properly trending stock with all time frames in sync.

When those moving averages cross, the picture is less clear.

You also want to see each of these key moving averages trending higher.

The longer the time frame, the longer it takes to reach and respond to a stock's price movement.

The 50-day moving average is agile and quick. It flips more frequently than the others to signal changes in momentum.

You can think of it like a speedboat.

The 200-day moving average, on the other hand, is slower to turn.

It marks the longer-term trend and therefore does not move as wildly as its shorter duration friends.

The 200-day is more like a cruise ship – slower and more difficult to turn around.

It will always be the last to shift direction.

After a bearish wave or volatile period, you want to see the 200-day moving average trending higher for at least one month to confirm the long-term trend higher.

Once this is confirmed this and the moving averages are stacked in descending order, the triple momentum requirement has been met such as can be seen in Blackstone Group.

#2 Stock price is at least 30% above its 52-week low.

It is not enough that a stock is simply moving higher.

It must be doing so in a meaningful way.

You could easily find 100 stocks that meet the first criteria of having triple momentum higher.

But if they're only going up 4% a year… who cares?

It's not going to move the needle for your portfolio.

Our goal is to focus on stocks that are moving significantly higher and have the ability to continue doing so.

To filter out the laggards, you want to target those companies trading at least 30% above their 52-week low.

This shows real momentum and increases the odds that the stock is showing meaningful price appreciation. And a great example can be seen with Target (TGT).

#3 Revenue is growing by at least 25% year-over-year.

As a general rule, I ignore company fundamentals.

Not because they are confusing or difficult, but because they have little bearing on a company's share price in today's market.

Financial data like net income and book value is released by publicly traded companies once a quarter.

These numbers give investors decent insight into how well the firm is performing and whether it has met or fallen short of the market's expectations.

But it has one major flaw…

The numbers only tell you what the company did in the past, not what they will do in the future.

Company financials let you look out the rear-view mirror… not the windshield.

And since stocks are priced based on an expectation of future sales, profits and cash flow, this information is of little use to us as investors.

But…

There is one piece of information Wall Street watches like a hawk.

One metric that is more responsible for rising stock prices than any other **– SALES.**

Once upon a time, it was all about earnings.

The net income line would make or break a company in the eyes of investors.

But things have changed.

The majority of the hottest stocks in the market – those representing rapidly growing new enterprises – have little or no profits to speak of.

Unicorns like Tesla (TSLA) Uber (UBER), Snapchat (SNAP) and even Amazon (AMZN) were worth tens of billions before they made a single dollar of profit.

In fact, as of 2021, Uber still loses billions every year.

How is this possible?

How could giant money-losing operations be worth billions in the eyes of so many intelligent investors?

Remember, stocks are not priced based on what the company earned this year or last.

Their value is a reflection of projected future cash flows of that firm.

In other words, investors expect them to be profitable some day in the future.

To gauge their chances of doing so, Wall Street instead focuses on revenue, or sales.

Investors want to see large and rapidly growing sales.

They will ignore bottom line profits in the short-term as long as more dollars are coming in the door to fund growth and expansion.

I like to see sales growing at least 25% year-over-year.

GDP growth, which measures growth of the whole economy, is usually in the range of 3 to 5%.

Sales growth of 5-10% is usually considered good for large-cap companies.

Mid and small-cap companies can grow at 10-20%.

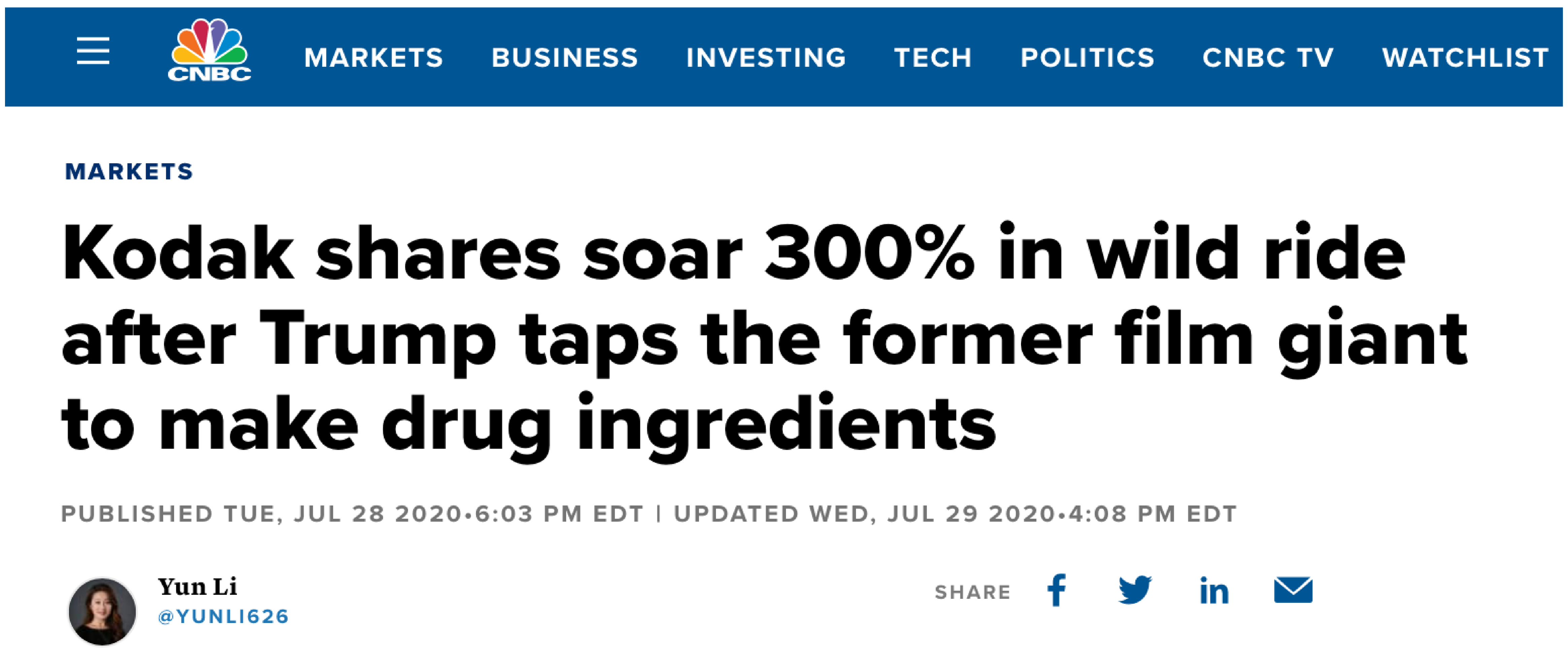
So those operations growing at rates above 25% represent the upper echelon.

It means there is strong demand for the company's products or services.

These are the stocks viewed most favorably by investors and the ones with the greatest chance of seeing rapid price appreciation.

Filtering for stocks that meet this criterion has the added benefit of removing those names trading on hope, dreams and fairy dust.

When camera company Eastman Kodak (KODK) announced plans to begin manufacturing pharmaceuticals in 2020, the stock jumped 2,743% in two days.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MARKETS

Kodak shares soar 300% in wild ride after Trump taps the former film giant to make drug ingredients

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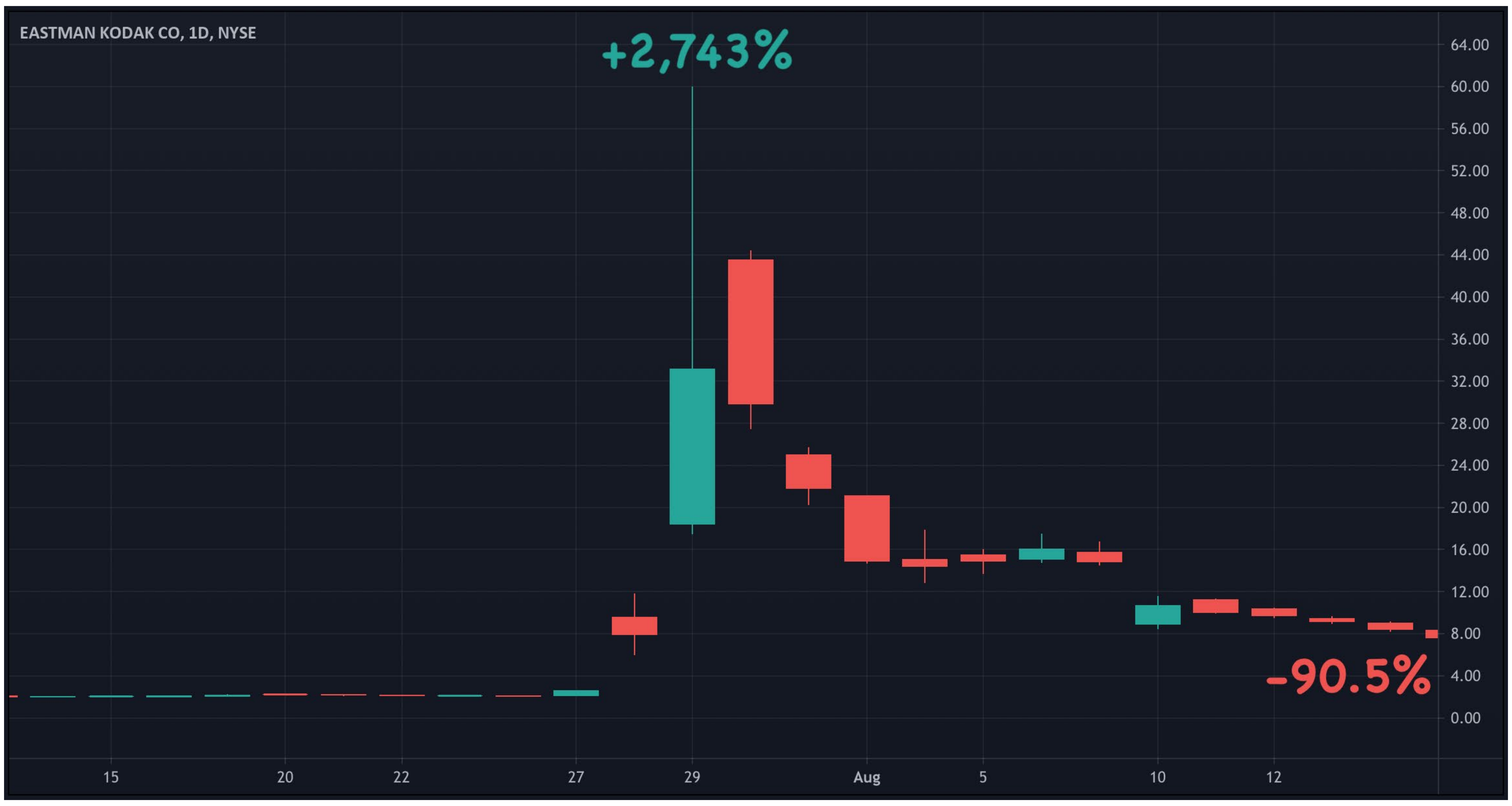
The move was based on hype and news, not facts.

Not only were sales not growing at Kodak, they were shrinking.

Cooler heads quickly prevailed, and shares fell 90% the following month.



They have yet to recover.

<u>#4 A stock "surge" score above 75.</u>

Earning $100k a year as a server at Applebee's would make you a top performer.

But as an investment banker at Goldman Sachs, you'd be at the bottom of the pile.

Everything is relative.

To find the best of anything, it must be ranked against its peers.

And stocks are no different.

We want to hold names that are not only performing well, but outpacing other investment alternatives.

In other words, we don't just want good stocks… We want the best stocks.

I use a proprietary "surge" indicator that measures each stock's price performance over a twelve-month period compared to thousands of other stocks in the database.

Performance is weighted across short, medium, and long-term time frames with additional weight given to the most recent periods.

Each stock is assigned a surge score ranging from 1 to 99 (99 being the highest) to reflect its relative price strength compared to its peers.

A surge score of 75 means the stock has outperformed 75% of all other stocks in the database.

#5 A custom Money Flow indicator reading above 50.

The traditional Money Flow Index is a technical oscillator that uses price and volume data to produce overbought and oversold signals in an asset.

Conventional oscillators like RSI only analyze price.

The MFI, on the other hand, incorporates both price and volume.

When price advances during a period, the raw money flow is positive and added to the positive money flow balance.

If the price dropped, the raw money flow is negative and added to negative money flow.

This produces what I believe to be a superior volume-weighted reading.

Over the years, I have tweaked the indicator further to smooth out the output and better identify stocks seeing consistently positive money flow.

The formula I use is as follows:

$$\text{Money Flow Index} = 100 - \frac{100}{1 + \text{Money Flow Ratio}}$$

where:

$$\text{Money Flow Ratio} = \frac{\text{50 Period Positive Money Flow}}{\text{50 Period Negative Money Flow}}$$

$$\text{Raw Money Flow} = \text{Typical Price} * \text{Volume}$$

$$\text{Typical Price} = \frac{\text{High} + \text{Low} + \text{Close}}{3}$$

I want to see a reading of 50 or greater to confirm that a stock is not only rising, but doing so on adequate buying volume.

These 5 criteria are the foundation of the Stock Surge Indicator.

The SSI is an invaluable tool used to identify market-leading stocks with sustainable price momentum in a fundamentally-supported uptrend.

Thank You for Reading.

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