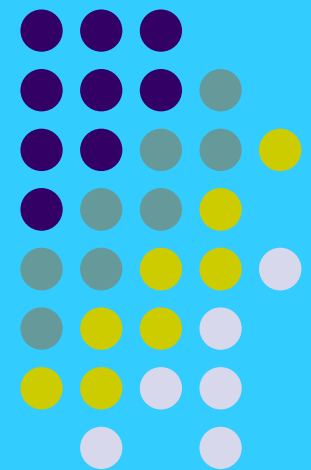# Jake Bernstein

Trading Webinar
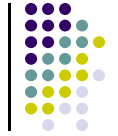
jake@trade-futures.com

Momentus Maximum

6 Ways to Maximize Performance
Using the Powerful Momentum Indicator

Saturday 10 May 2008

© 2008 by Jake Bernstein
jake@trade-futures.com
800-678-5253 * 831-430-0600

Why "Momentus Maximus"?

- Momentum is the single most versatile and powerful tool I know

- It has the ability to give you indications of trend strength, direction, and possible change of direction

- It is a leading indicator or at worst time current

- It can be applied to all markets and in all time frames

- CALCULATION is simple (example)

- WHY does momentum work?

- Theory and application

- Markets and the fuel of market movements

- What makes markets move?

Introduction: What I will discuss today…

- What is MOMENTUM and why use it
- Timing triggers, timing indicators, objective methods and trading systems – a brief overview
- Why most timing triggers and indicators don't work
- Why perception and interpretation fail
- Importance of a TRADING MODEL
- What have you learned from your trading experiences?
- Why do so many traders lose?
- How to traders win?
- Review of my Setup – Trigger – Follow through trading model and its importance to success
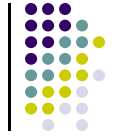
What I will discuss today…(cont'd)

- The importance of 100% objectivity in timing triggers
- Valid triggers are only ONE PART of the equation
- If you don't have effective profit maximizing methods and loss management rules **you have nothing**
- Different types of triggers   - be careful what you tell yourself or you may start to believe it
- Lagging indicators: traditional moving averages etc
- Time current indicators: divergence, stochastic etc
- Leading indicators: cycles, seasonals, divergence, sentiment
- The "danger zone" concept – one of my TOP 5 rules
- The importance of diversification

Momentum and its applications: an overview

1) Momentum as an indicator of trend

2) Momentum – normal and abnormal patterns

3) Momentum divergence

4) MOMENTUM / MA, and

5) Momentum tops and bottoms

6) Power momentum formula

7) MACD divergence and smoothed MACD

8) Smoothed MOMENTUM and 2nd Order Momentum

These are all momentum and MACD based methods that I have developed on my own with the benefit of nearly 40 years in the markets – they aren't perfect but when combined with follow through and a concise trading model they are powerful and will help you get the big moves – let's be specific

Goals and Objectives of this Session

- To show you my best momentum based methods
- To give you examples of how to apply them
- To give you the pro's and con's of each method
- To show you how the momentum and its applications can be applied to stocks, futures, futures spreads and Forex
- To show you how the momentum triggers can be applied in different time frames for timing
- To give you some guidelines on how to manage risk and maximize profits using the momentum methods
- To illustrate the relationship between momentum timing triggers and set ups
- To do all of these as clearly and as objectively as possible

Jake's Theory of Market Behavior

- What do we learn from normal human behavior – very little
- What do I mean by "normal"?
- Normal is a function of environment
- This is true for human behavior as well as markets
- Most changes in human behavior are preceded warning signs
- Most market turns are accompanied by warning signs
- Examples of abnormal behavior in humans and in markets (see charts)
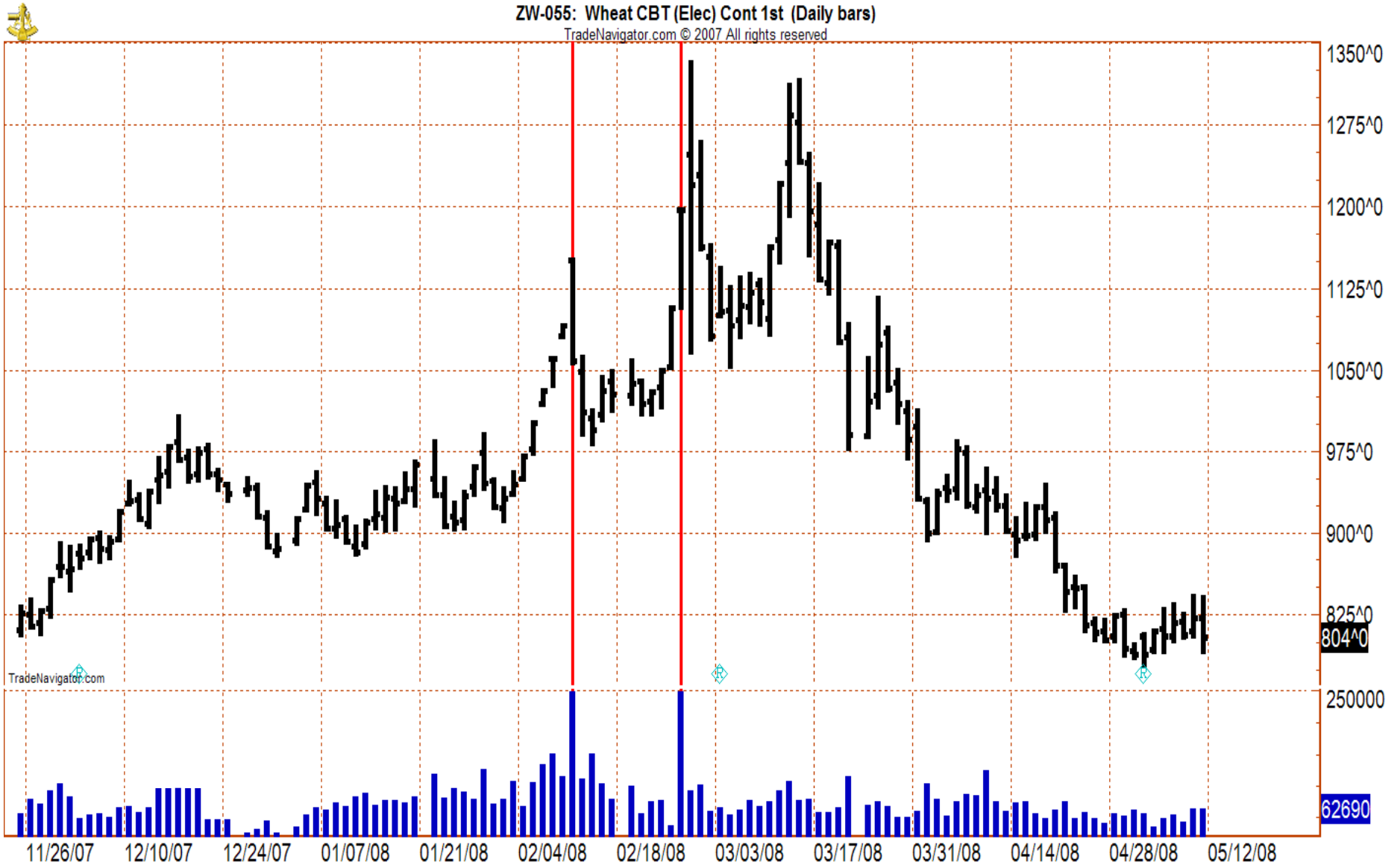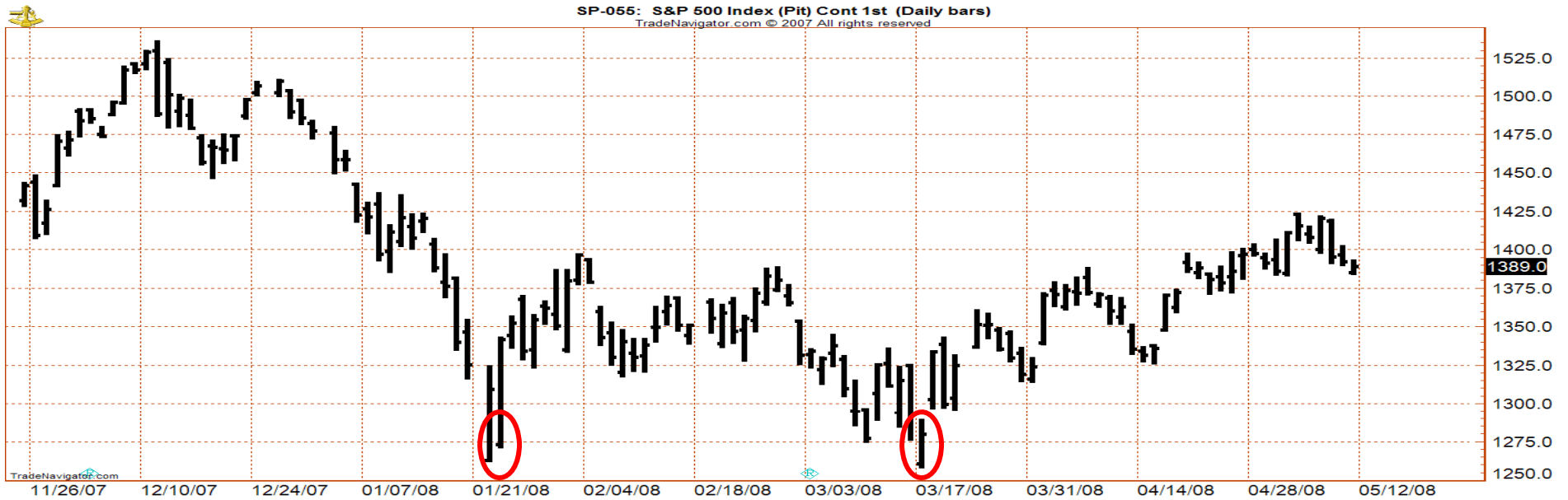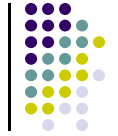- How does momentum alert us to change and why?

Volume spikes – abnormal behavior

MOT: Motorola (Daily bars)
TradeNavigator.com © 2007 All rights reserved

Volume Spike at low

BSC: Bear Stearns Cos (Daily bars)
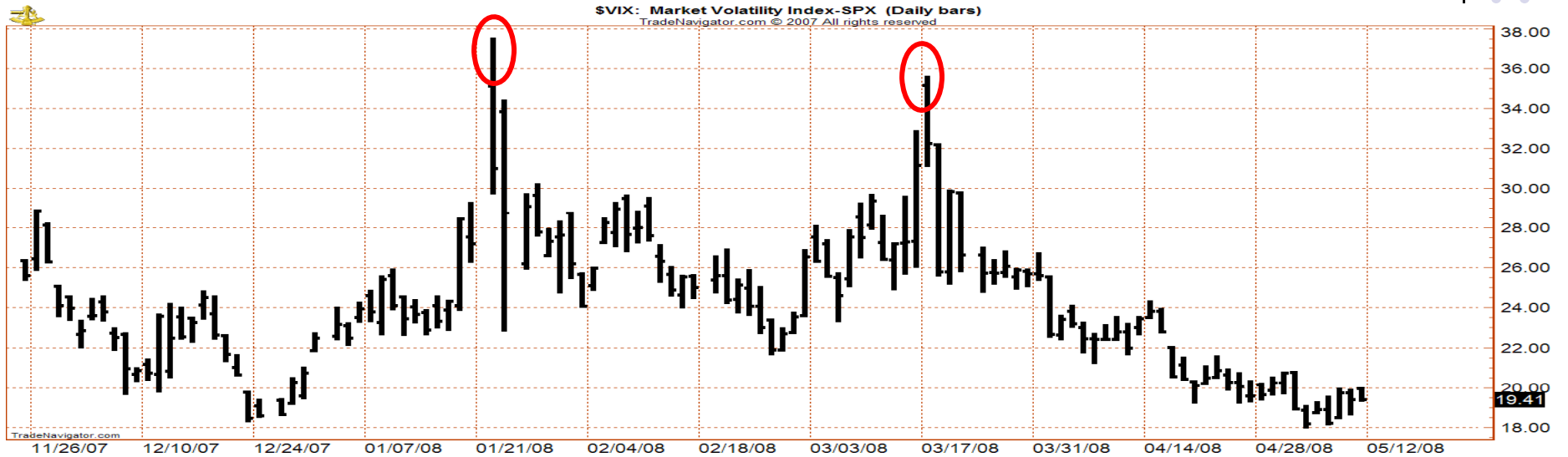
Volume spike at low

CSCO: Cisco Systems, Inc. (Daily bars)
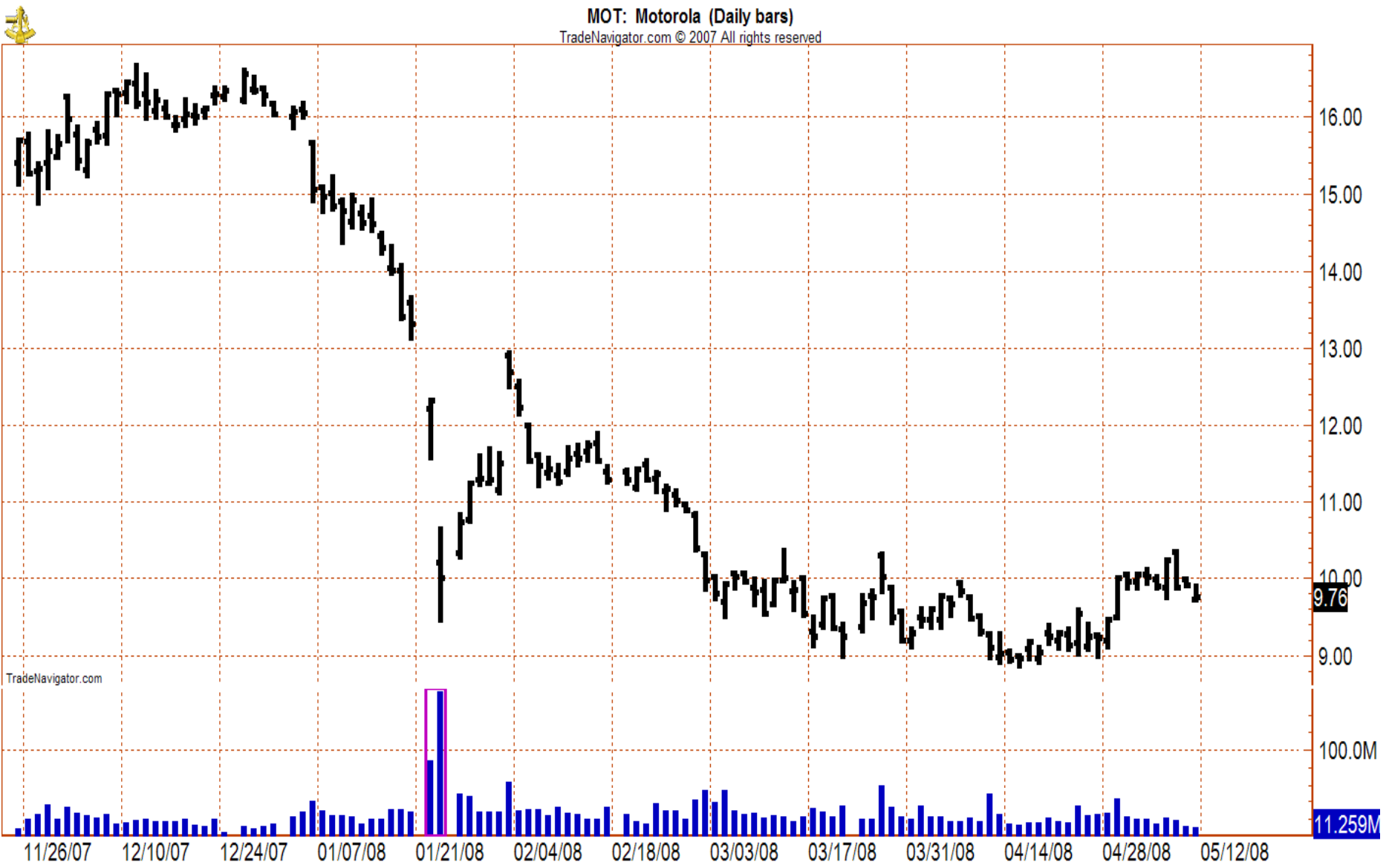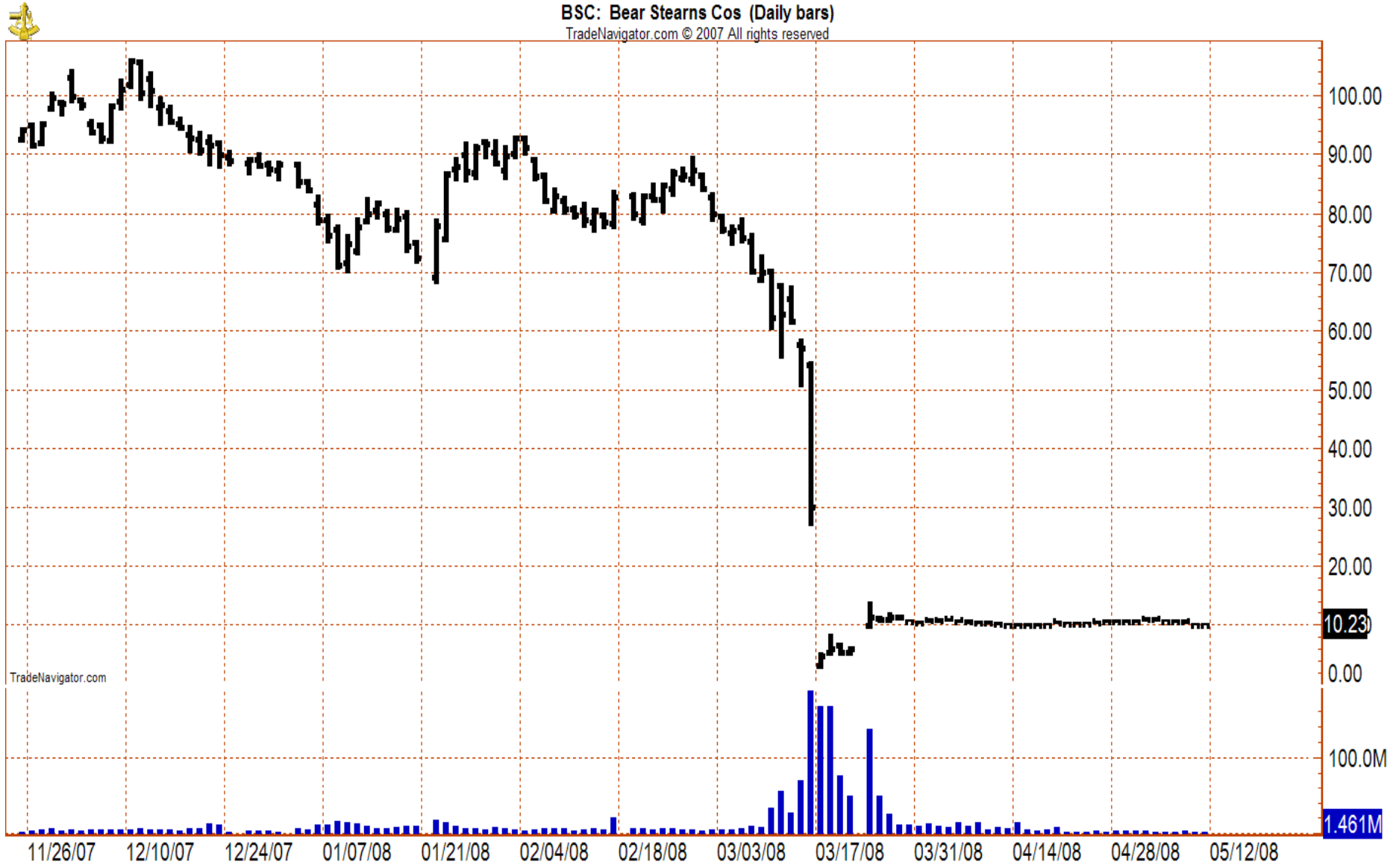
VOLUME SPIKE AT LOW

Volume spike at high

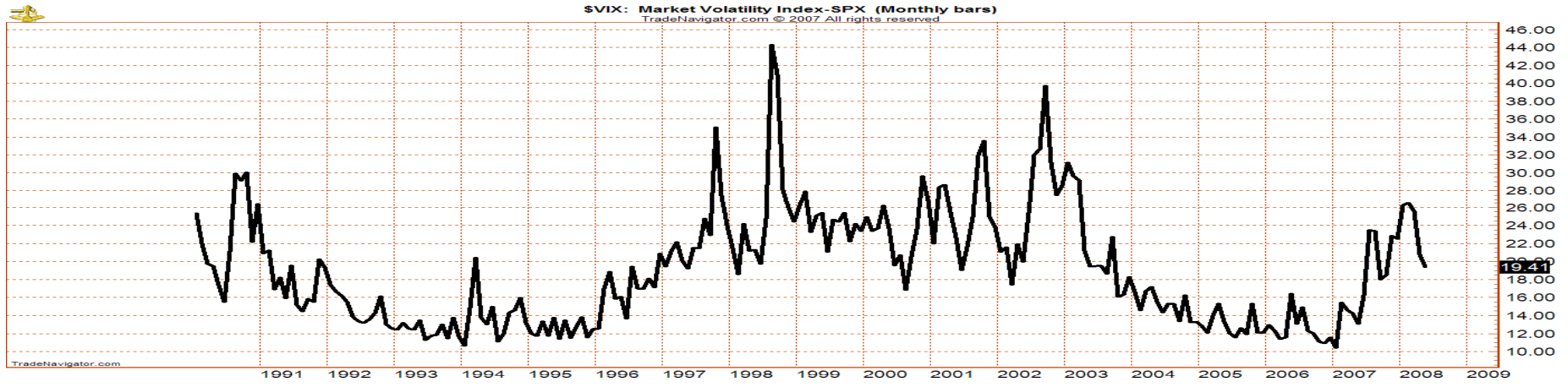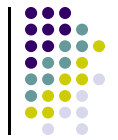ZW-055: Wheat CBT (Elec) Cont 1st (Daily bars)

VIX Volatility Index

$VIX: Market Volatility Index-SPX (Daily bars)

SP-055: S&P 500 Index (Pit) Cont 1st (Daily bars)

12

More VIX at market bottom

$VIX: Market Volatility Index-SPX (Daily bars)

SP-055: S&P 500 Index (Pit) Cont 1st (Daily bars)

Long Term VIX and S&P

$VIX: Market Volatility Index-SPX (Monthly bars)

SP-055: S&P 500 Index (Pit) Cont 1st (Monthly bars)
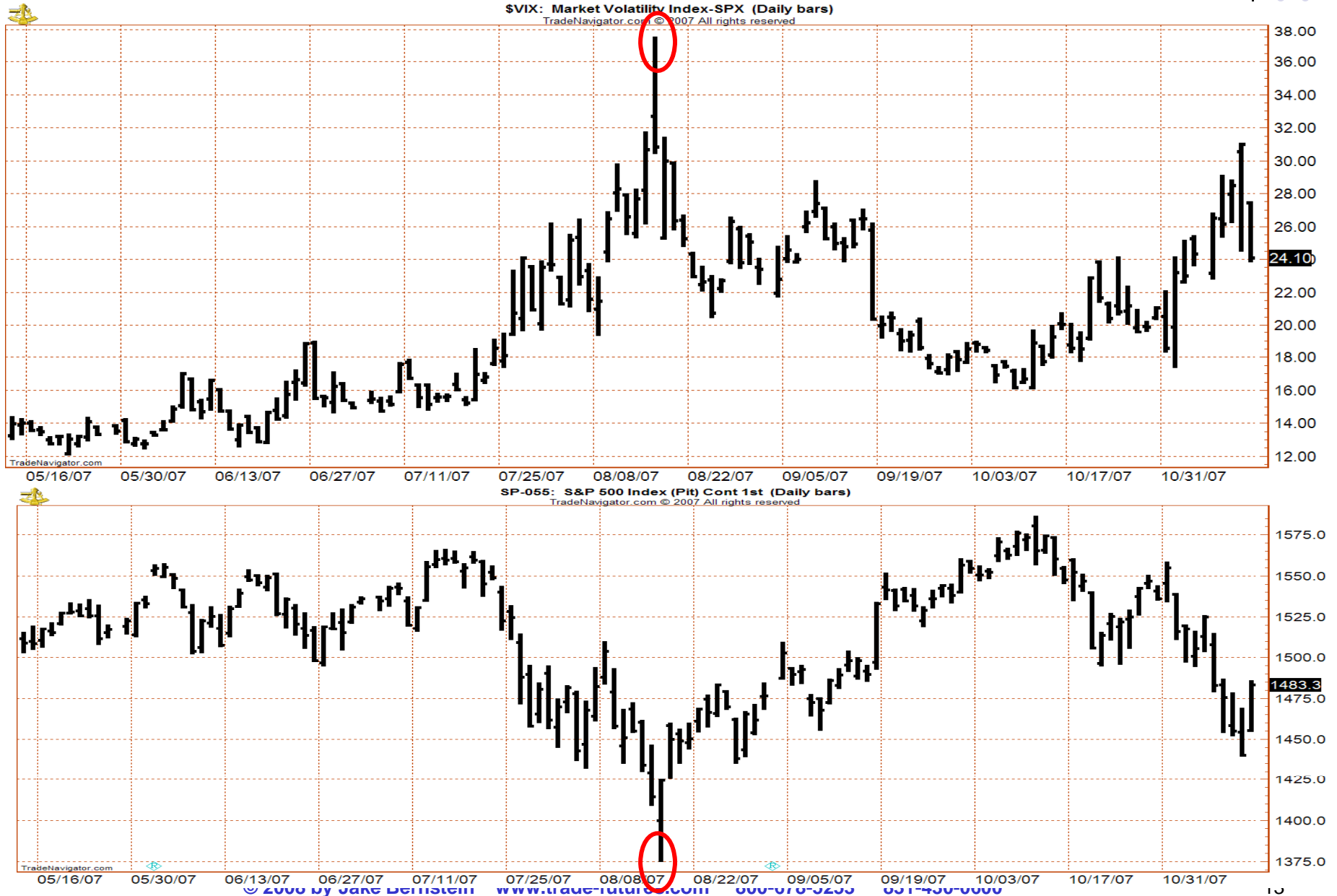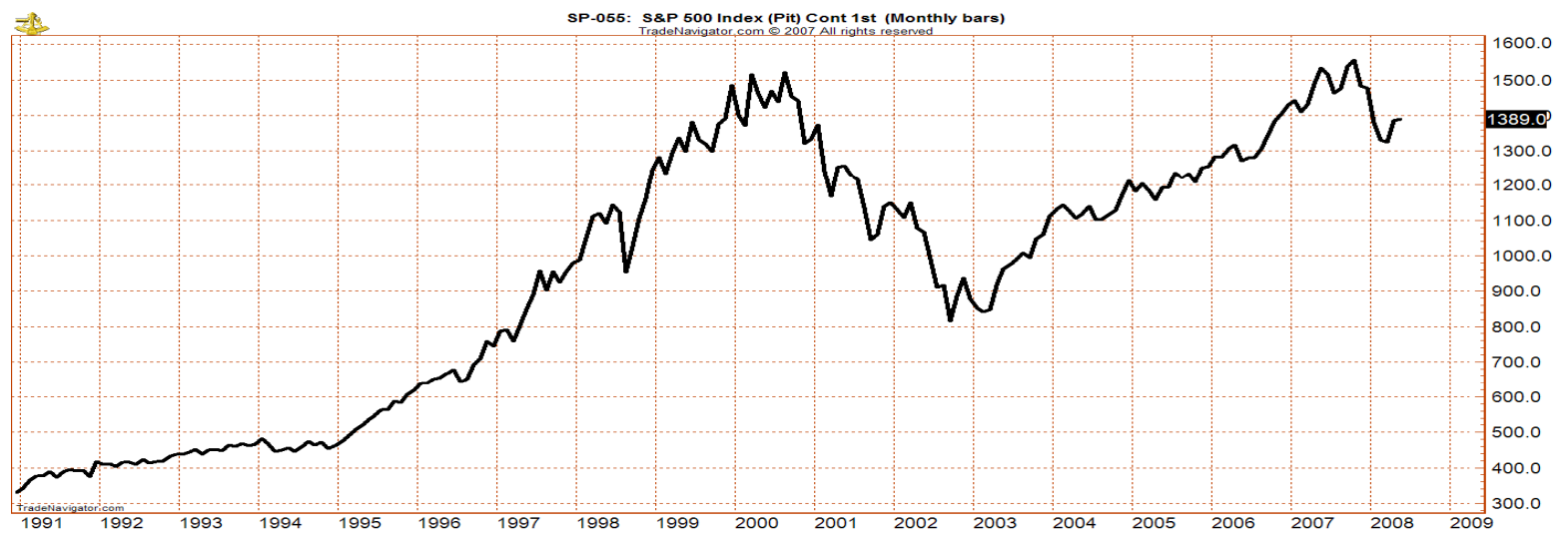
Momentum Normal Behavior

Price makes new high and momentum makes new high

Price trends higher and momentum trends higher

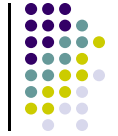Price makes new low and momentum makes new low

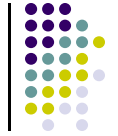Price trends lower and momentum trends lower

Look only at last 60 price bars. WHY?

SEE charts of normal momentum behavior
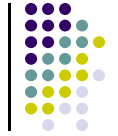
Bull market pattern normal behavior

CL3-055: Crude Oil NY (Elec) Cont 1st (Daily bars)
TradeNavigator.com © 2007 All rights reserved

16
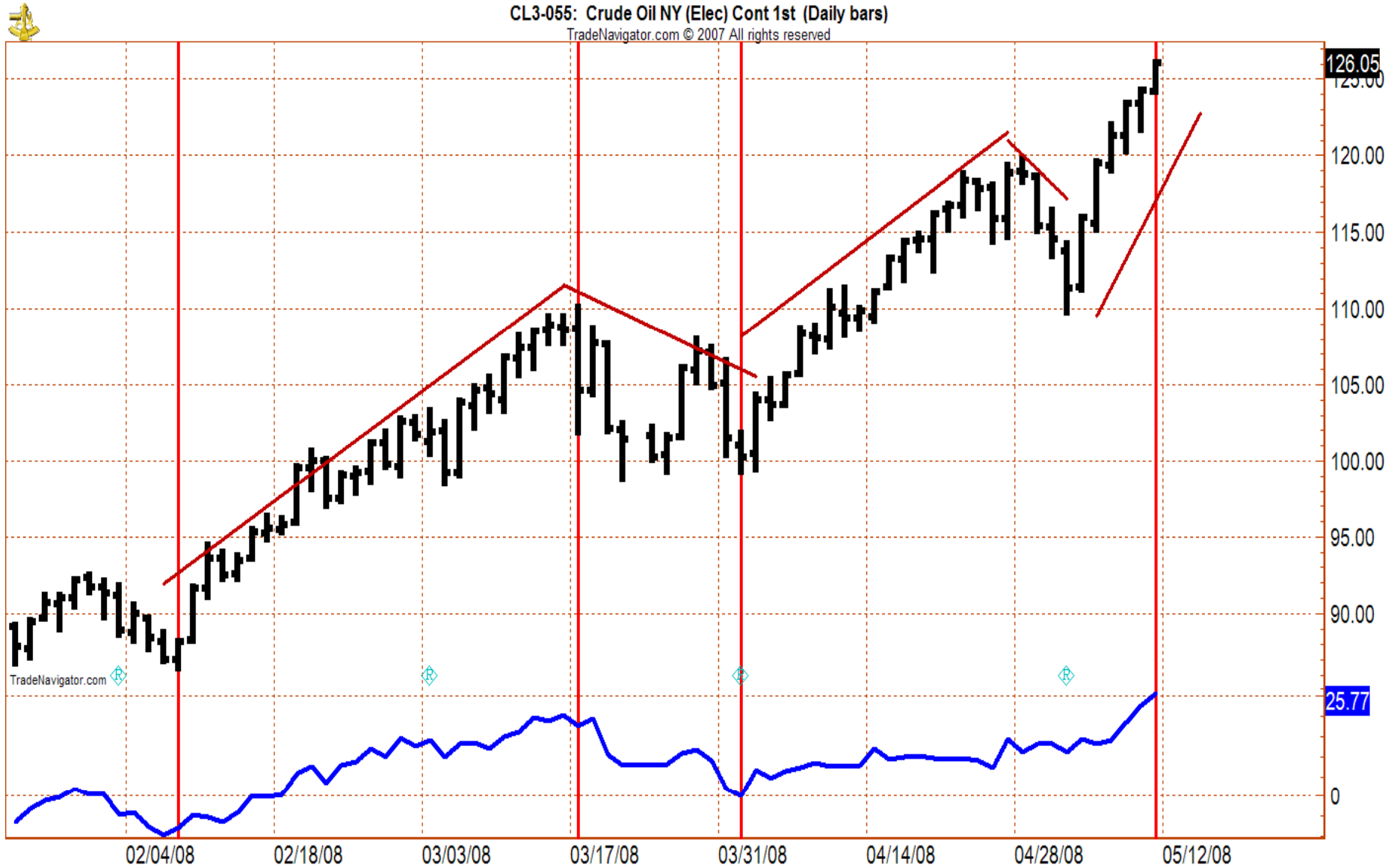
Bear market momentum normal behavior

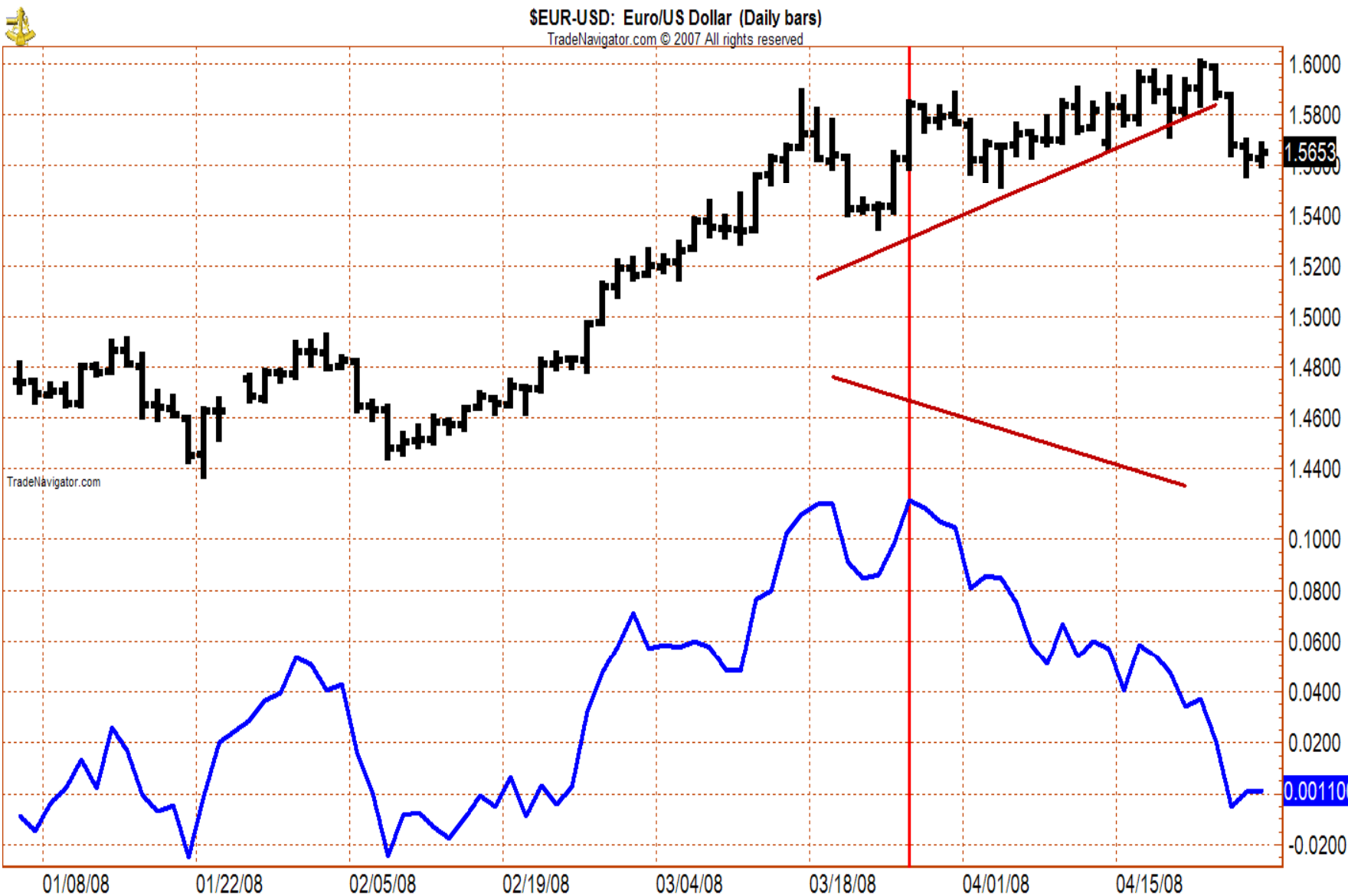DX-055: US Dollar Index (ETH) Cont 1st (Daily bars)

Bullish divergence – market bottoming

CTB: Cooper Tire & Rubber (Daily bars)

TradeNavigator.com

Bearish divergence market topping

$EUR-USD: Euro/US Dollar (Daily bars)
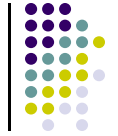
What happens next? Bull trigger

AAPL: Apple Computer, Inc. (Daily bars)

TradeNavigator.com

20

Bear trigger

AAPL: Apple Computer, Inc. (Daily bars)

TradeNavigator.com

183.45

200.00

175.00

150.00

125.00

50

33.92

25

0

-25

-50

-75

09/07/07 09/24/07 10/09/07 10/24/07 11/08/07 11/23/07 12/10/07 12/25/07 01/09/08 01/24/08 02/08/08 02/25/08 03/11/08 03/26/08 04/10/08 04/25/08 05/12/08

21
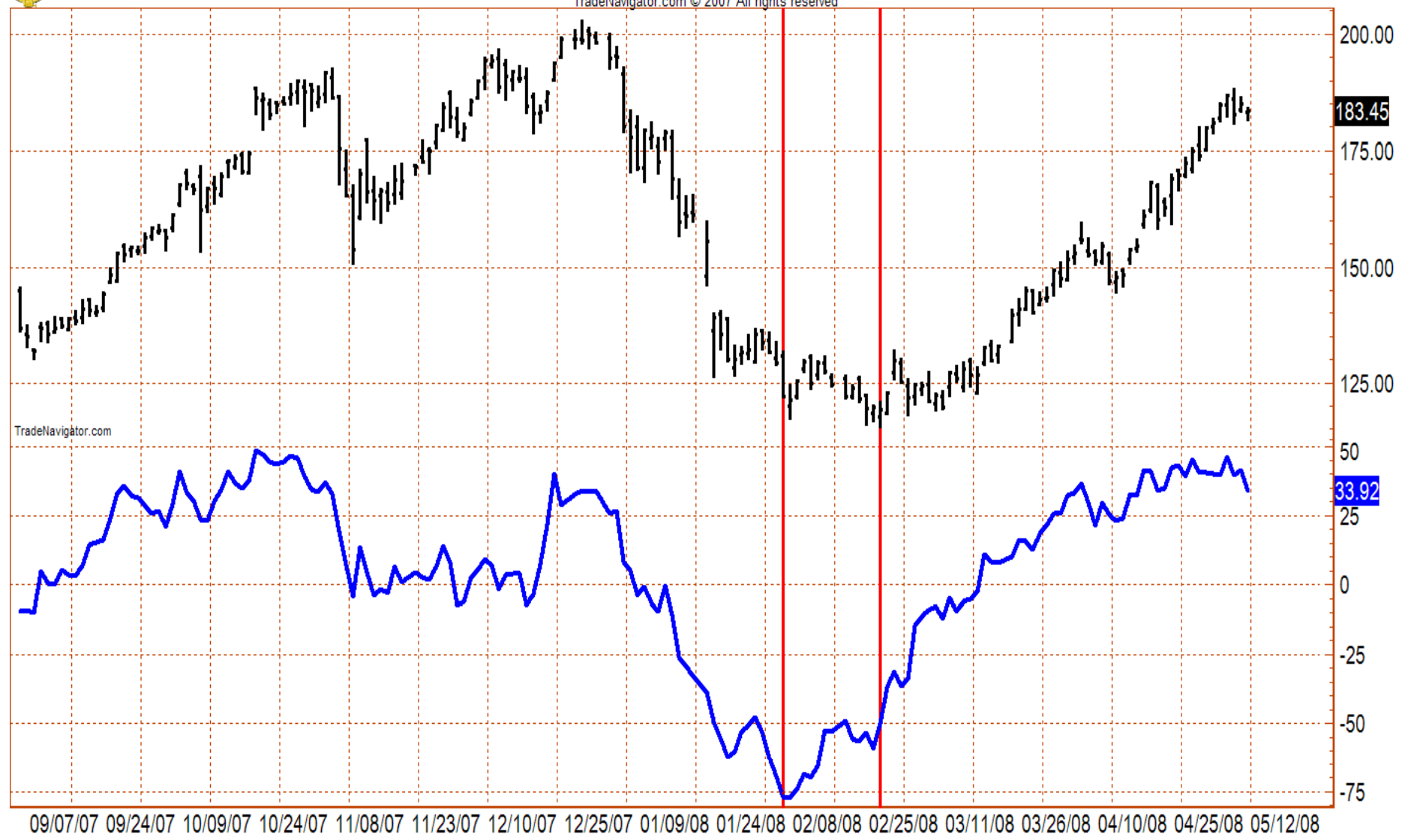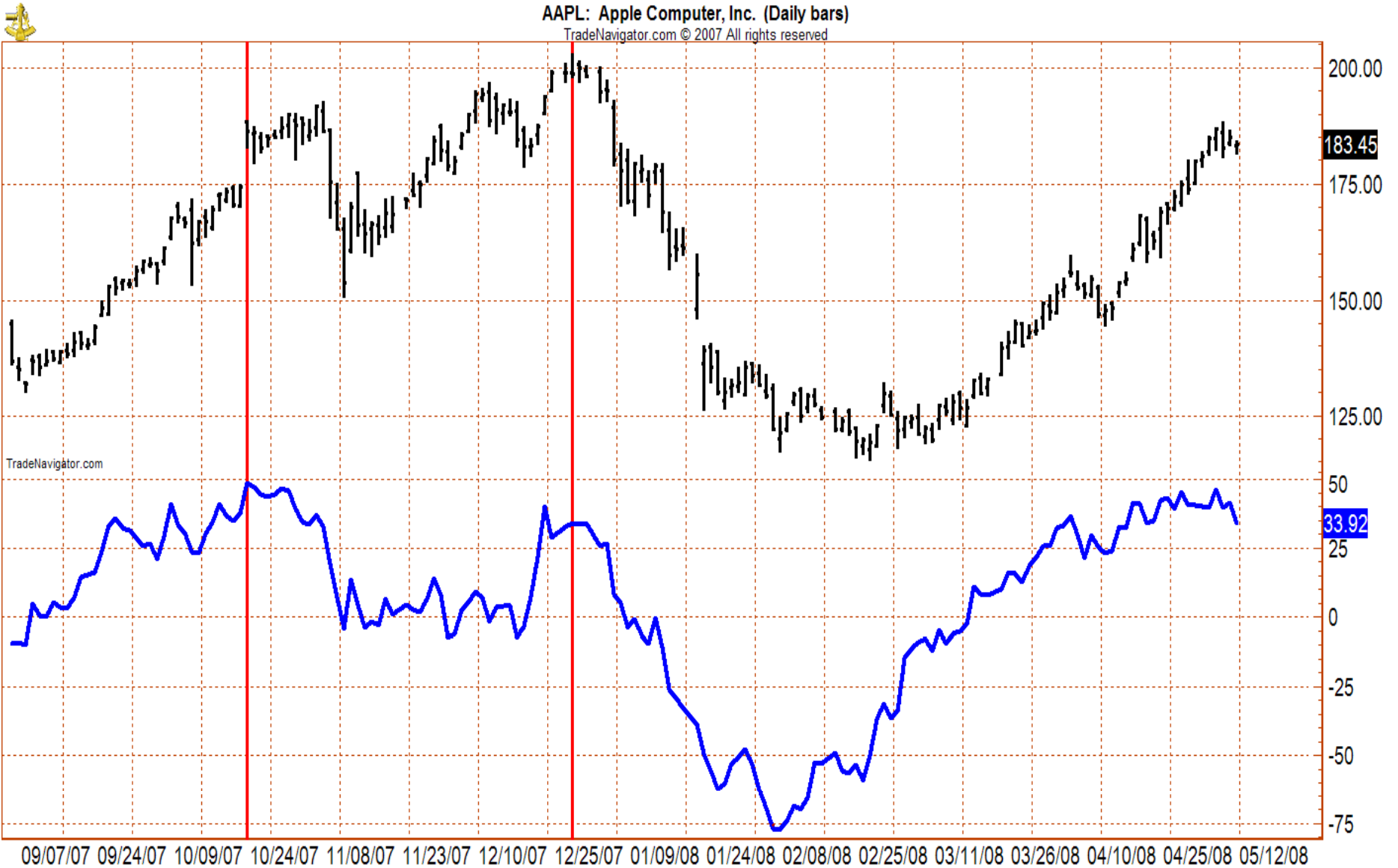
Setup – Trigger and ?

GOOG: Google Inc. (Daily bars)
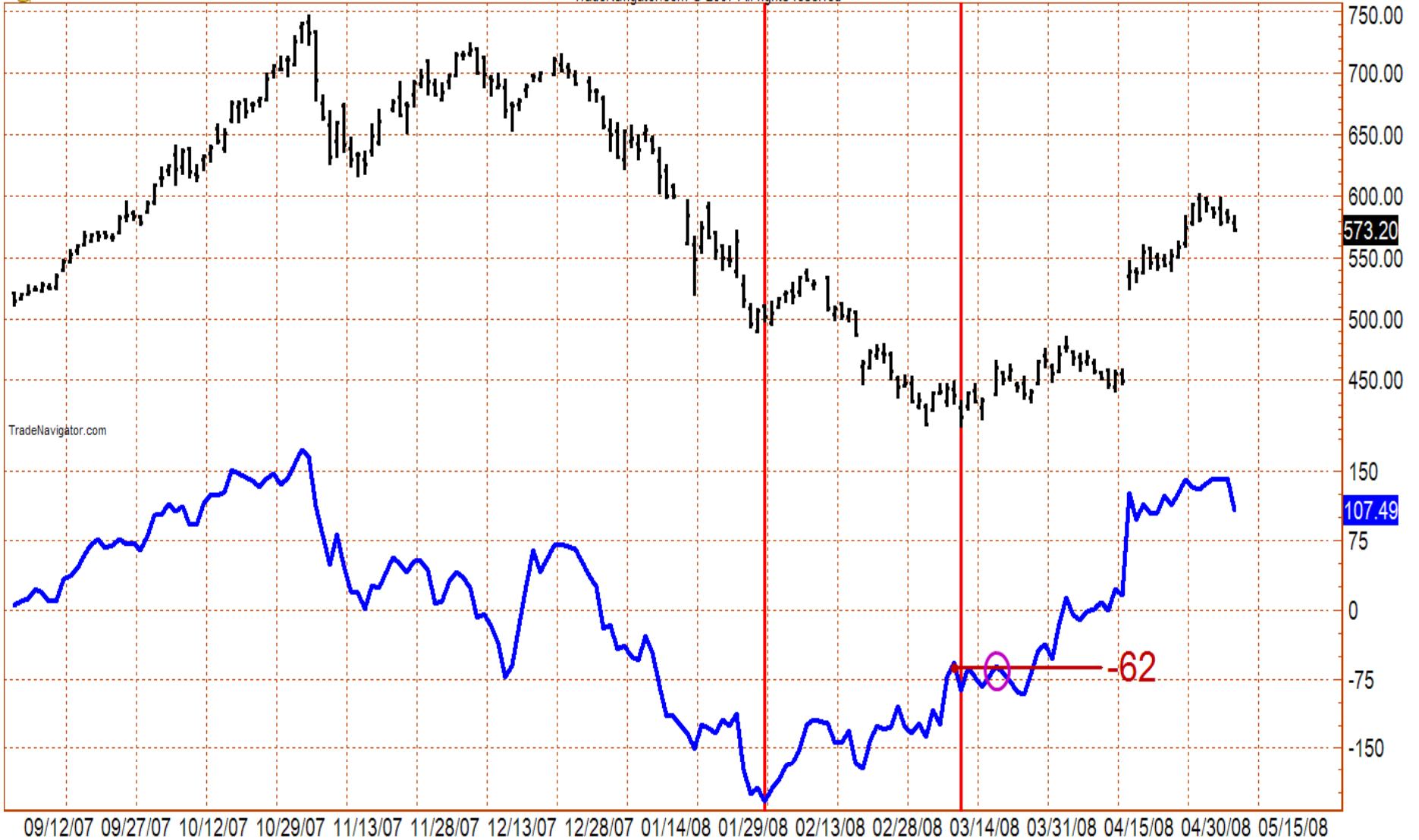
How gold made its cycle low

GC-055: Gold Comex (Pit) Cont 1st (Monthly bars)

-73

All time frames are valid

SP-055: S&P 500 Index (Pit) Cont 1st (Monthly bars)

427
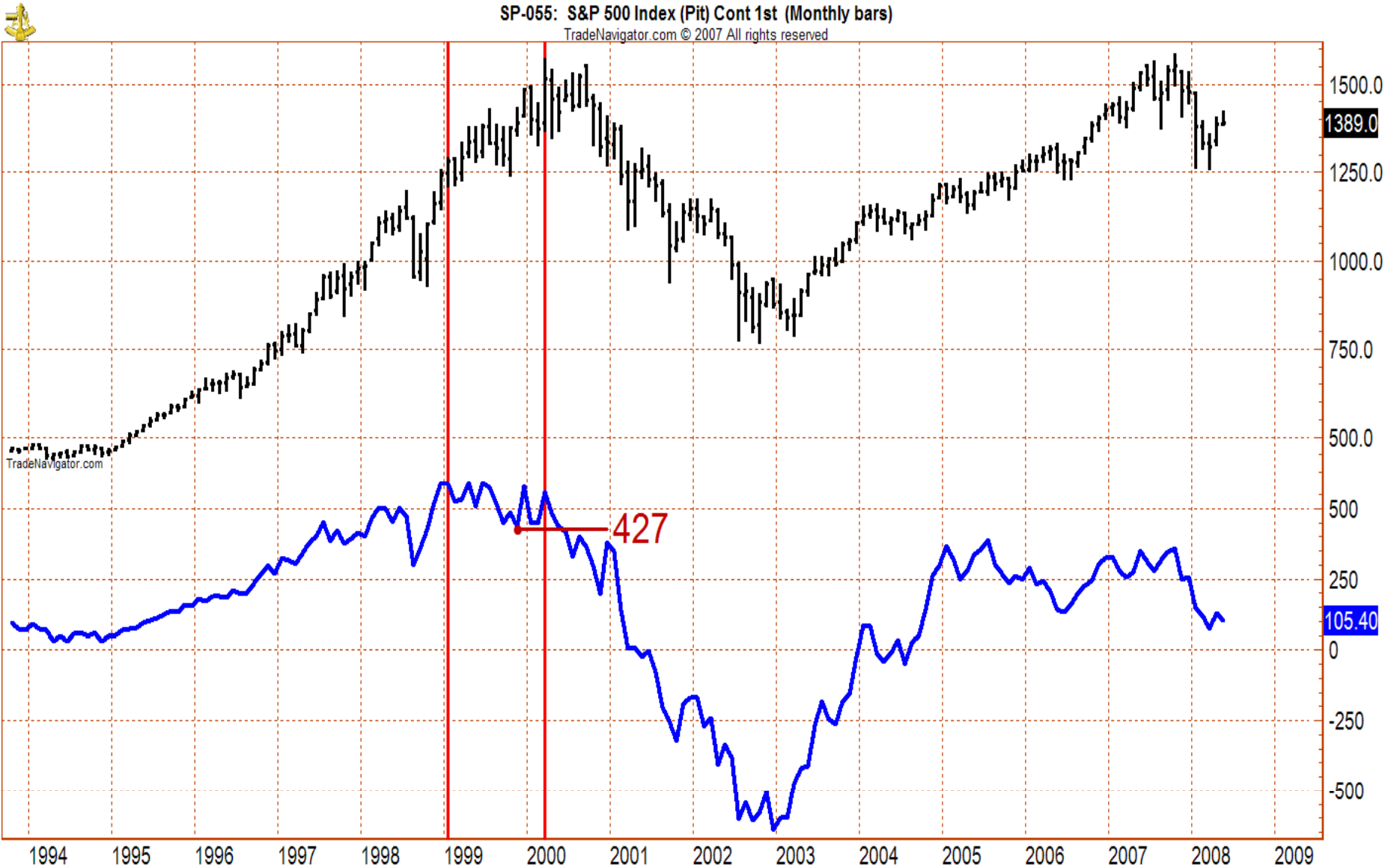
Lets practice….

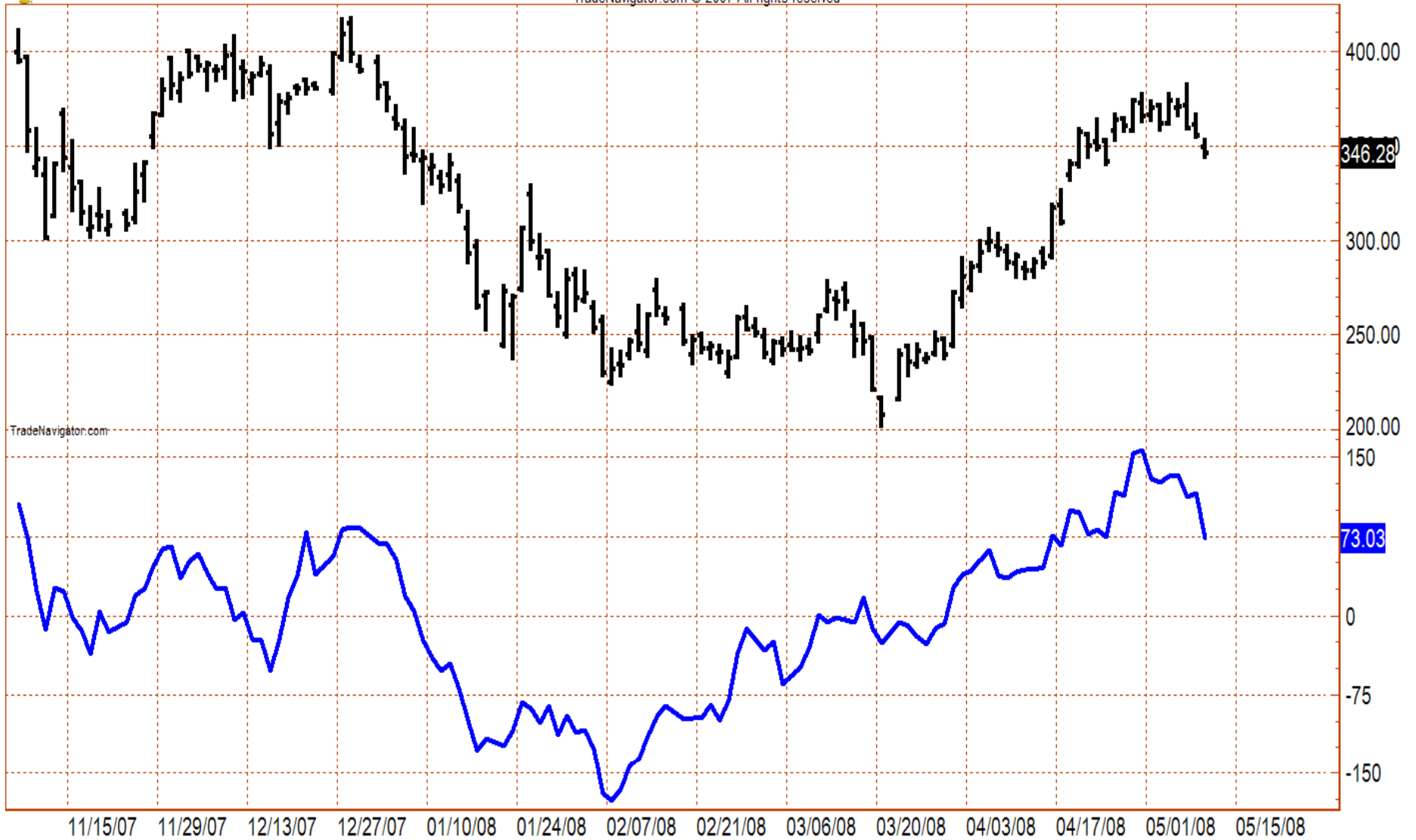SP-055: S&P 500 Index (Pit) Cont 1st (60 minute bars)
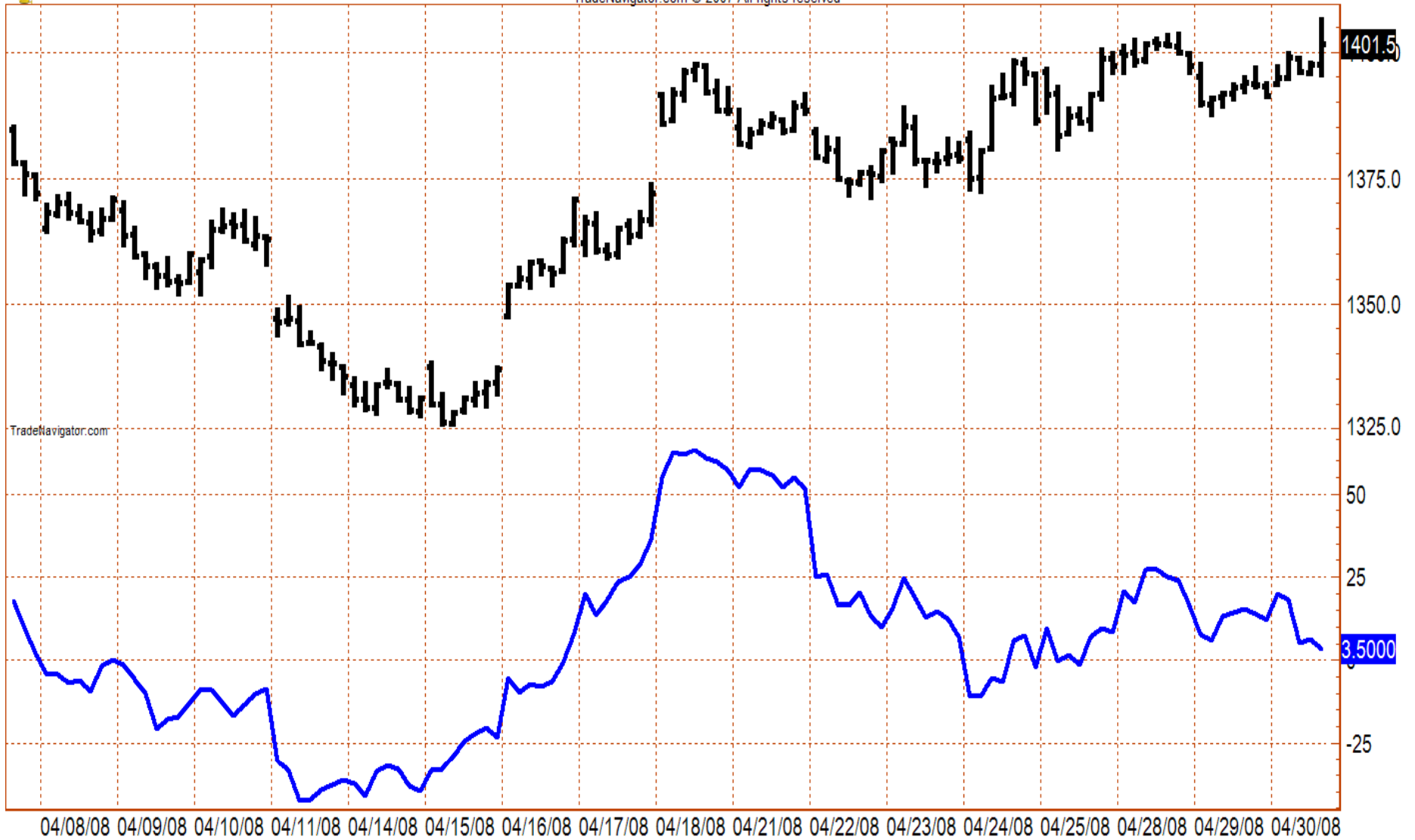
More practice – find the setup

BIDU: Baidu.com, Inc. (Daily bars)
TradeNavigator.com © 2007 All rights reserved

The outcome

BIDU: Baidu.com, Inc. (Daily bars)

Target calculation

BIDU: Baidu.com, Inc. (Daily bars)

8042 ticks

321.85

-8049 ticks

TradeNavigator.com

13

400.00

346.28

300.00

250.00

200.00

150

73.03

0

-75

-150

11/15/07   11/29/07   12/13/07   12/27/07   01/10/08   01/24/08   02/07/08   02/21/08   03/06/08   03/20/08   04/03/08   04/17/08   05/01/08   05/15/08

28

More practice

G6E-200806: Euro FX (Elec) Jun 2008 (Daily bars)
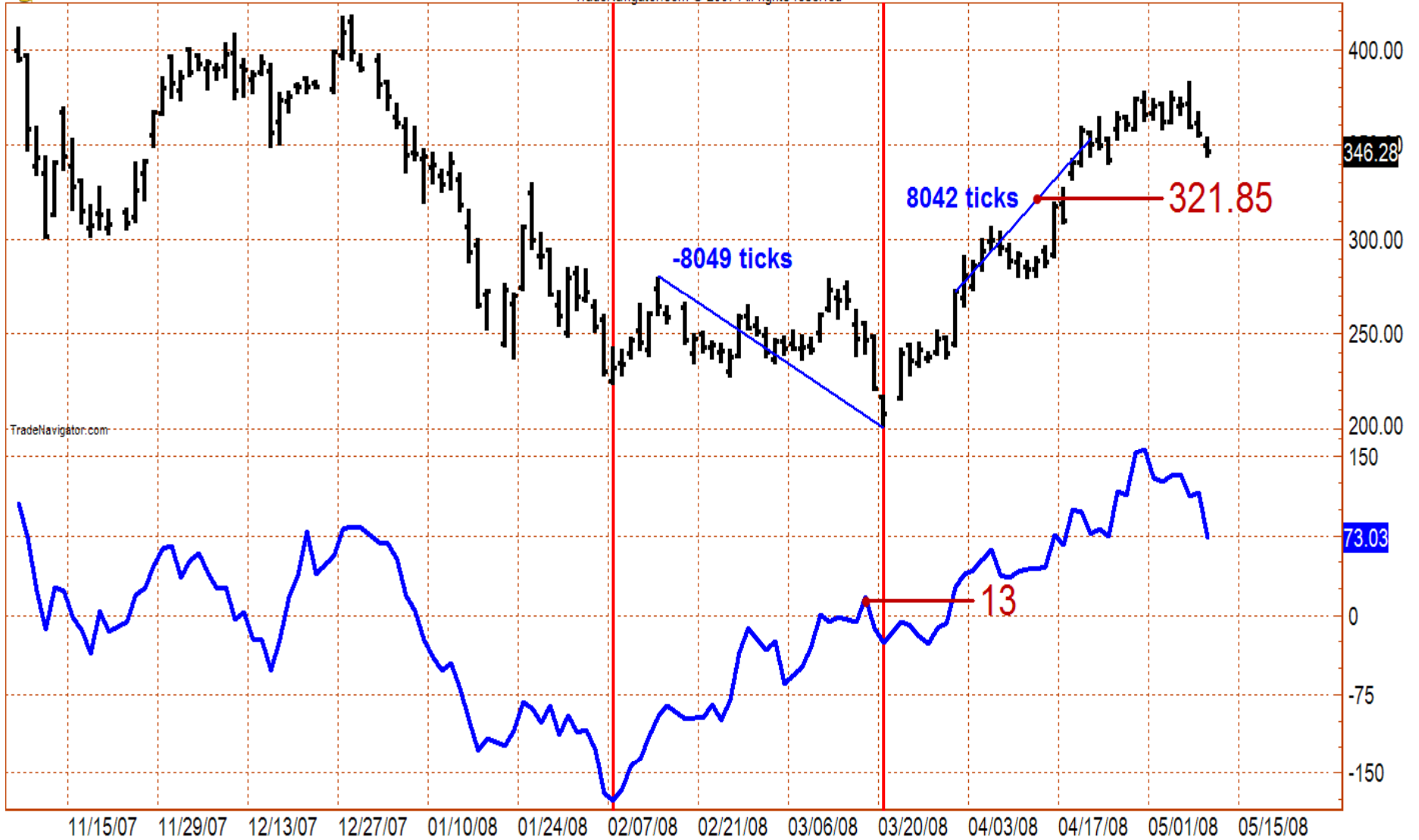
The Cookbook method to Power Momentum

- Use 28 period Momentum
- Look at last 60 price bars
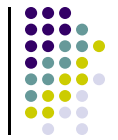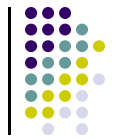- Bullish divergence – new high in price for last 60 bars with NO new high in MOM
- Bearish divergence – new low in price for last 60 bars with NO new low in MOM
- The Power Momentum Method cookbook – BULLISH CASE
- Find closest point low or high
- If closest point is a price low see if momentum is also at a low – if not then you have BMD if yes then you have no BMD
- If yes then Find the LOWEST momentum previous to that
- Is it at least 6 bars inclusive? – if no there is no setup – if yes then there is bullish divergence setup
- Mark 4 points clockwise A, B, C, D
- Find highest momentum between B and C inclusive mark it as E
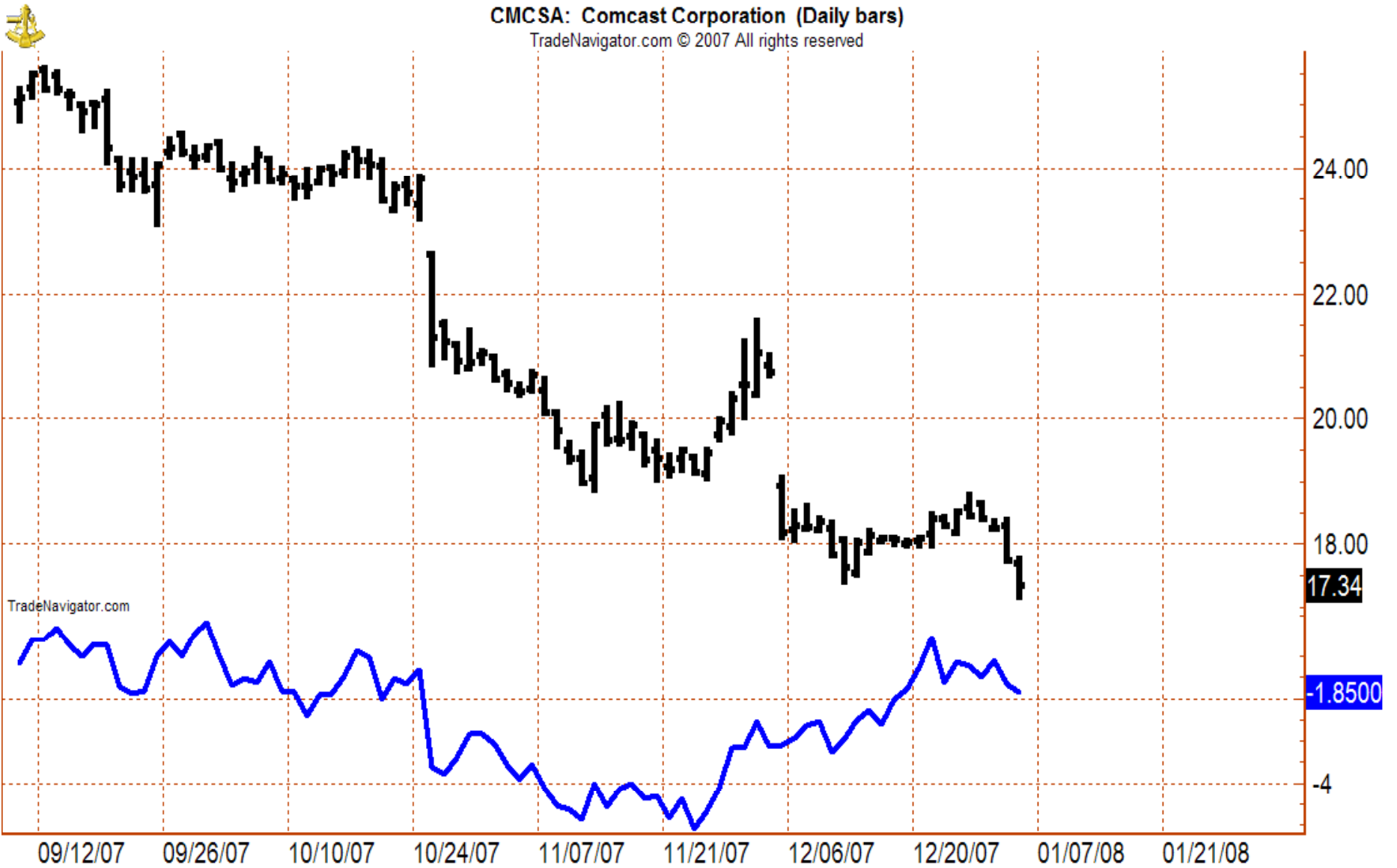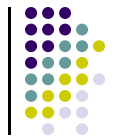- Closing bar above E is a buy trigger

Bullish divergence set up

MOT: Motorola (Weekly bars)

Bullish divergence set up

F: Ford Motor (Daily bars)

TradeNavigator.com

32

Bullish divergence set up

CMCSA: Comcast Corporation (Daily bars)

TradeNavigator.com

24.00

22.00

20.00

18.00

17.34

-1.8500

-4

09/12/07   09/26/07   10/10/07   10/24/07   11/07/07   11/21/07   12/06/07   12/20/07   01/07/08   01/21/08
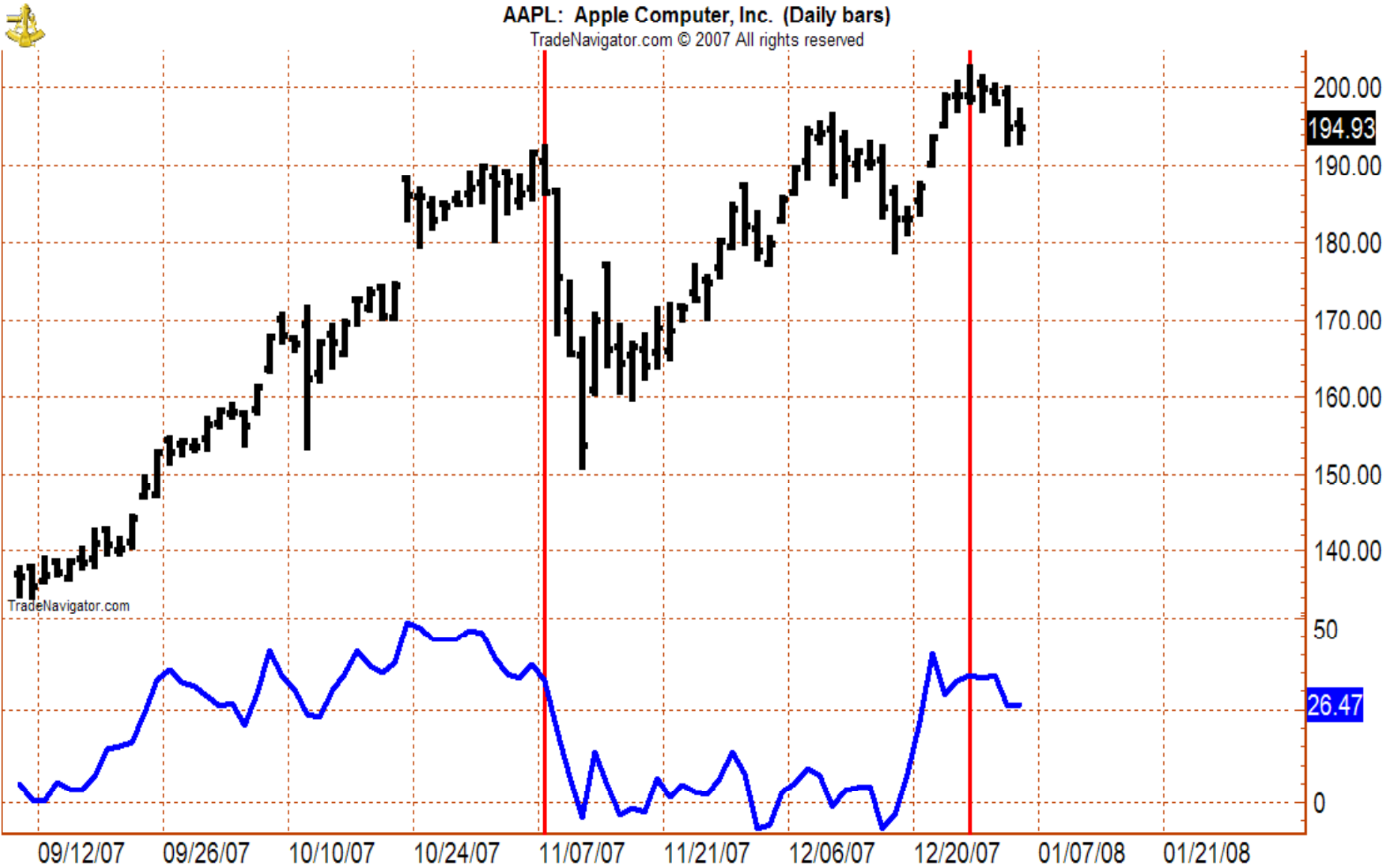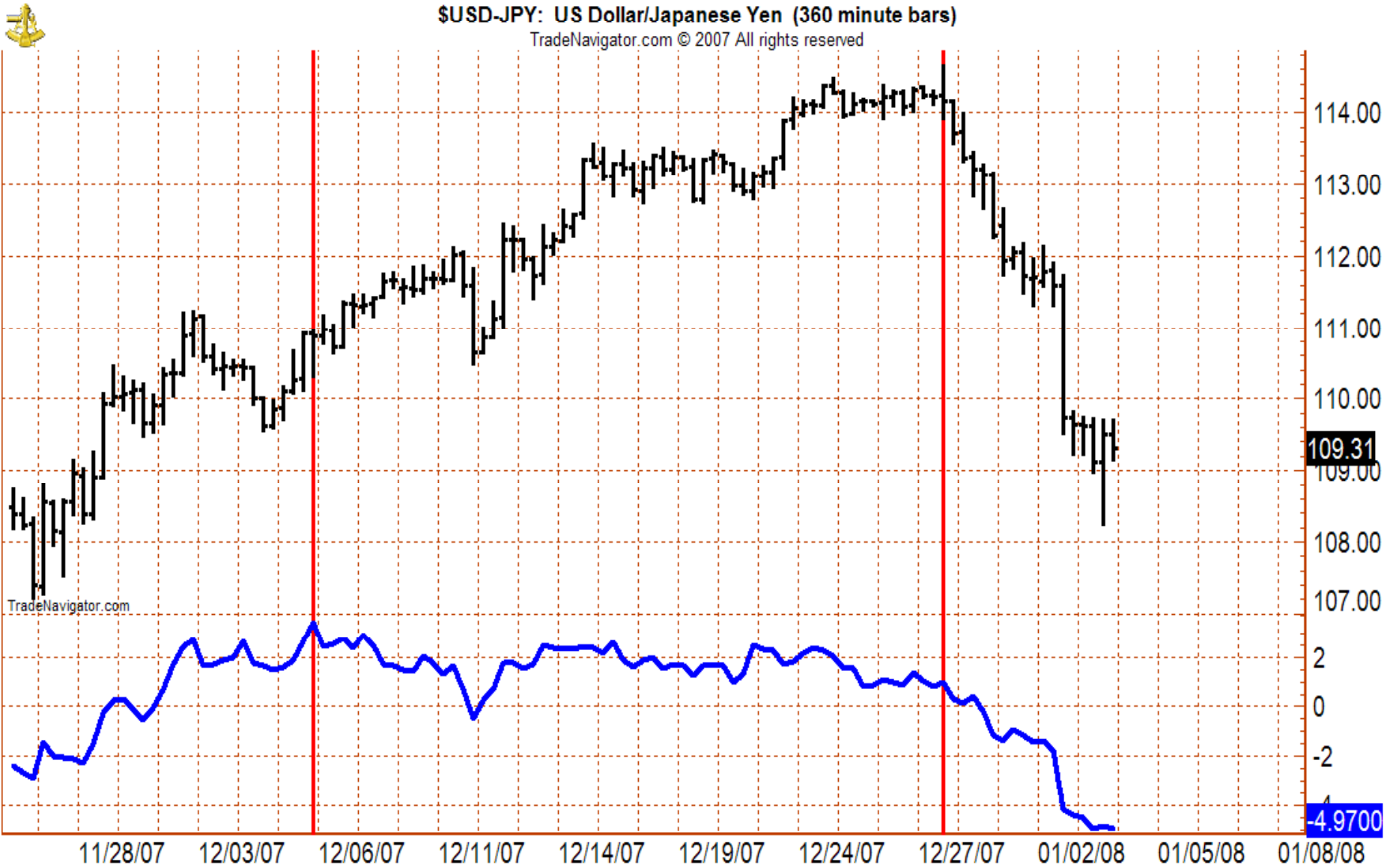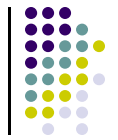
Sell MD set up and trigger selection

- Find closest point low or high
- If closest point is a price high see if momentum is also at a high – if not then you have SMD if yes then you have no SMD
- If yes then Find the HIGHEST momentum previous to that
- Is it at least 6 bars inclusive? – if no there is no setup – if yes then there is sell divergence setup
- Mark 4 points clockwise A, B, C, D
- Find lowest momentum between B and C inclusive mark it as E
- Closing bar below E is a buy trigger

MY ADVICE…this is a NEW language for most traders. You need to practice on at least 50 charts in ALL time frames before you get good at it. Let's look at a few more…

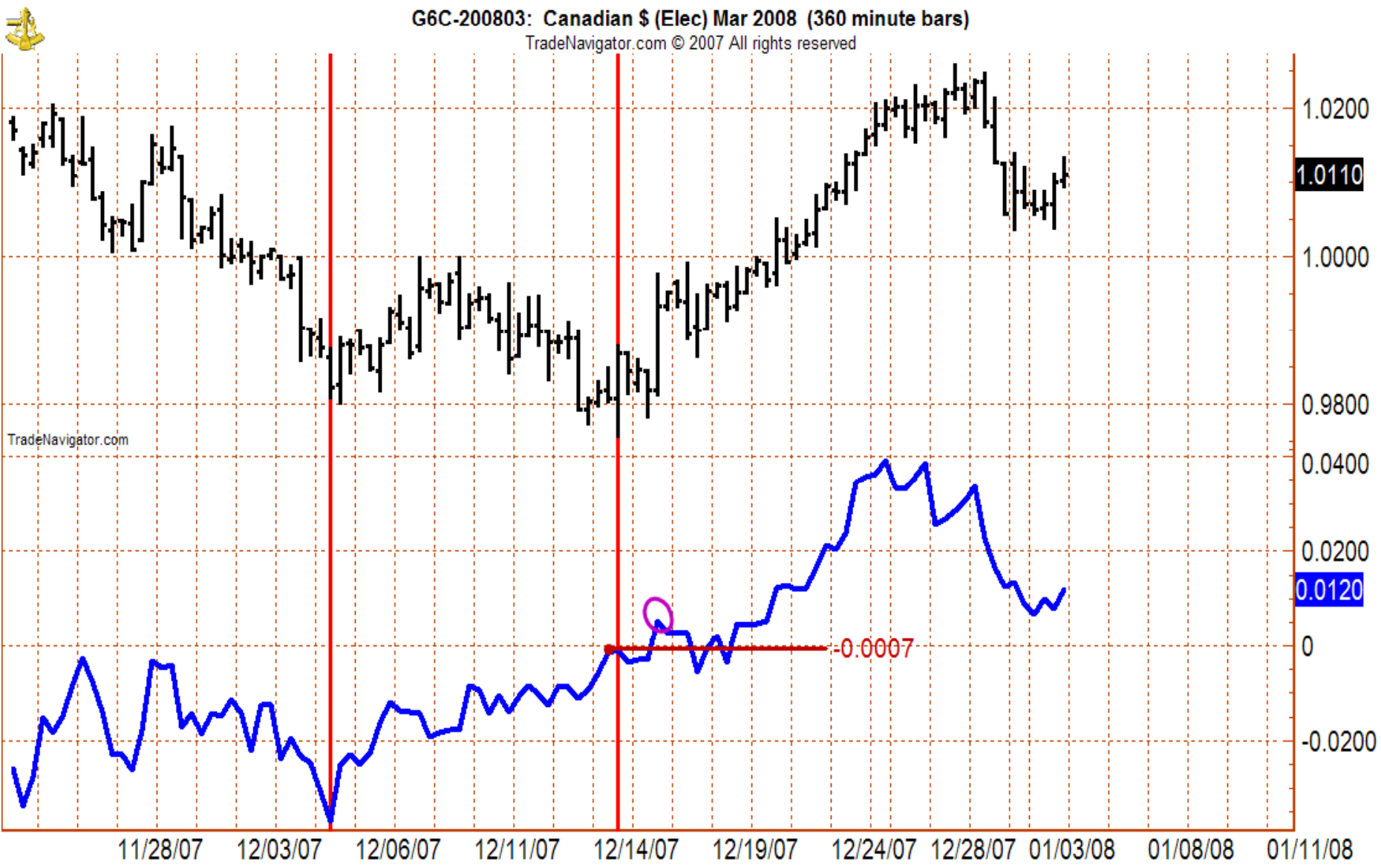# Bearish divergence set up

AAPL: Apple Computer, Inc. (Daily bars)

Bearish divergence set up

$USD-JPY: US Dollar/Japanese Yen (360 minute bars)

Bullish divergence set up and trigger

G6C-200803: Canadian $ (Elec) Mar 2008 (360 minute bars)

TradeNavigator.com

-0.0007

37

Bullish divergence set up and trigger

SB-200803: Sugar #11 Mar 2008 (60 minute bars)

TradeNavigator.com
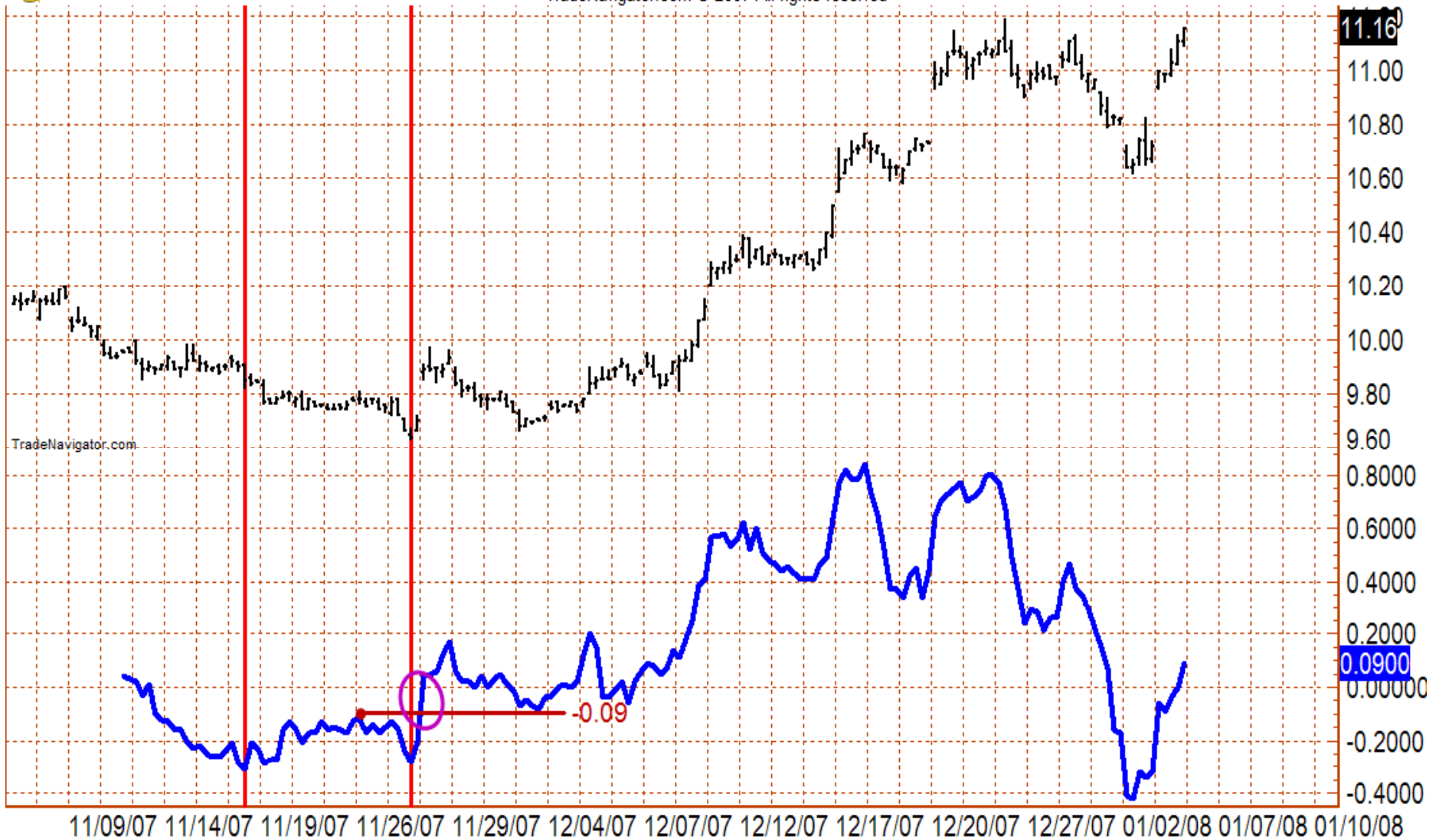
-0.09

0.0900

11.16

11.00

10.80

10.60

10.40

10.20

10.00

9.80

9.60

0.8000

0.6000

0.4000

0.2000

0.00000

-0.2000

-0.4000

11/09/07 11/14/07 11/19/07 11/26/07 11/29/07 12/04/07 12/07/07 12/12/07 12/17/07 12/20/07 12/27/07 01/02/08 01/07/08 01/10/08

Bullish divergence set up and trigger

ASA: Asa Ltd (30 minute bars)

Bullish divergence set up and trigger

G6C-055: Canadian $ (Elec) Cont 1st (240 minute bars)

0.0078

TradeNavigator.com

40

Bearish divergence set up and trigger

G6C-200803: Canadian $ (Elec) Mar 2008 (120 minute bars)

Bearish divergence set up and trigger

MER: Merrill Lynch (Daily bars)

Bearish divergence set up and trigger

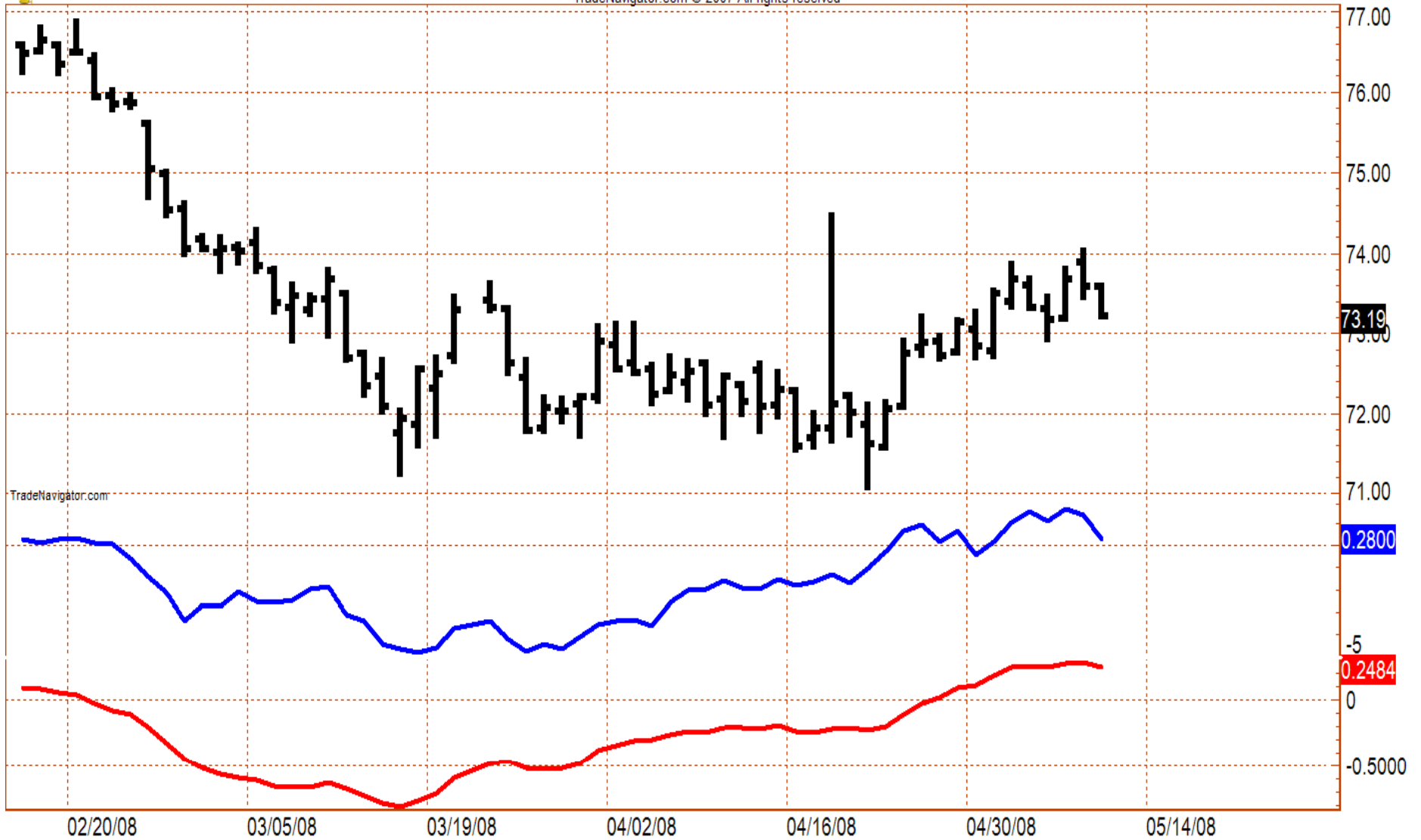G6B-055: British Pound (Elec) Cont 1st (Weekly bars)
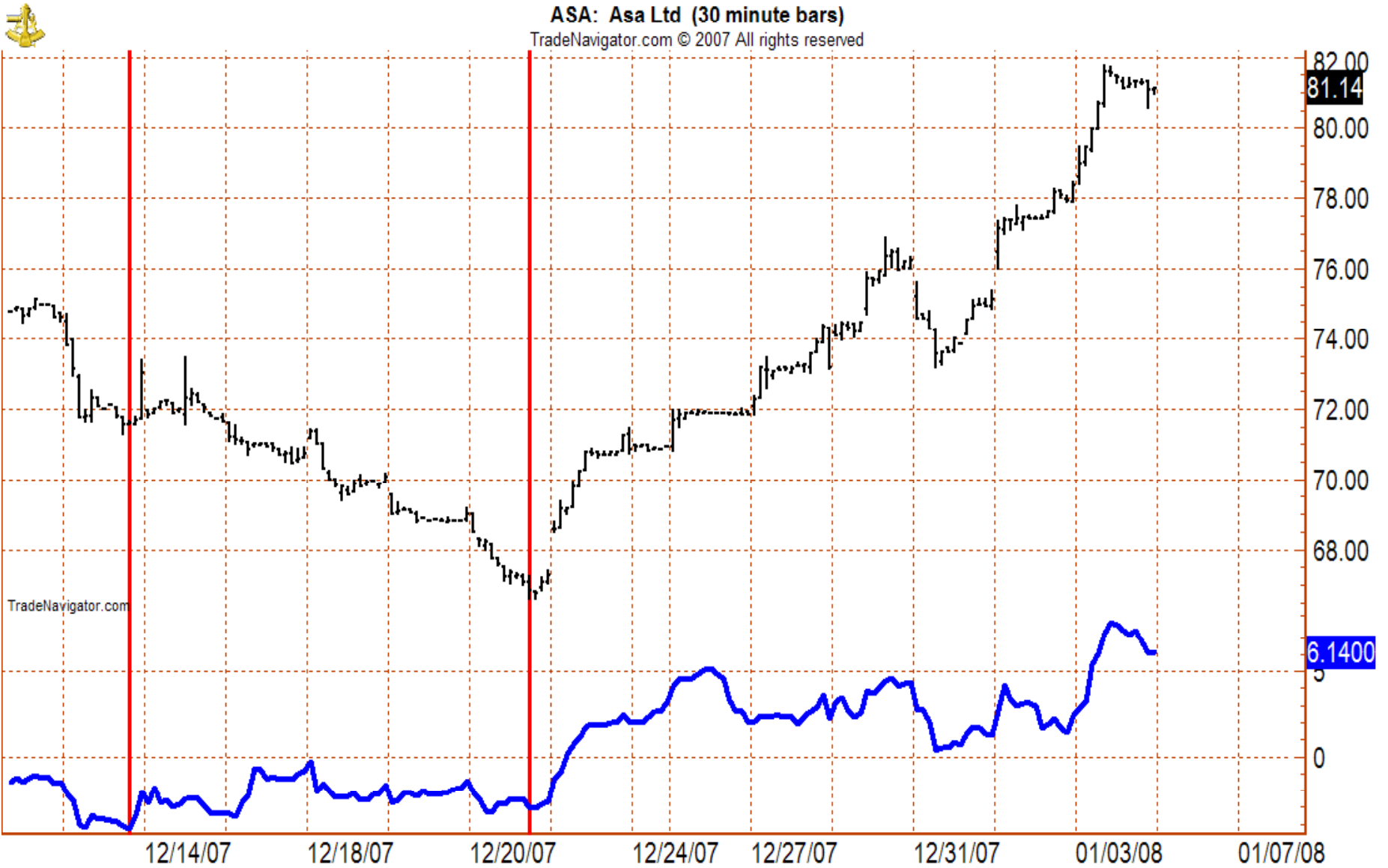
Use MACD 9,18 as backup

DX2-200806: US Dollar Indx (Comb) Jun 2008 (Daily bars)

44

MACD and MOM – why both?

ZS-055: Soybeans CBT (Elec) Cont 1st (360 minute bars)

45
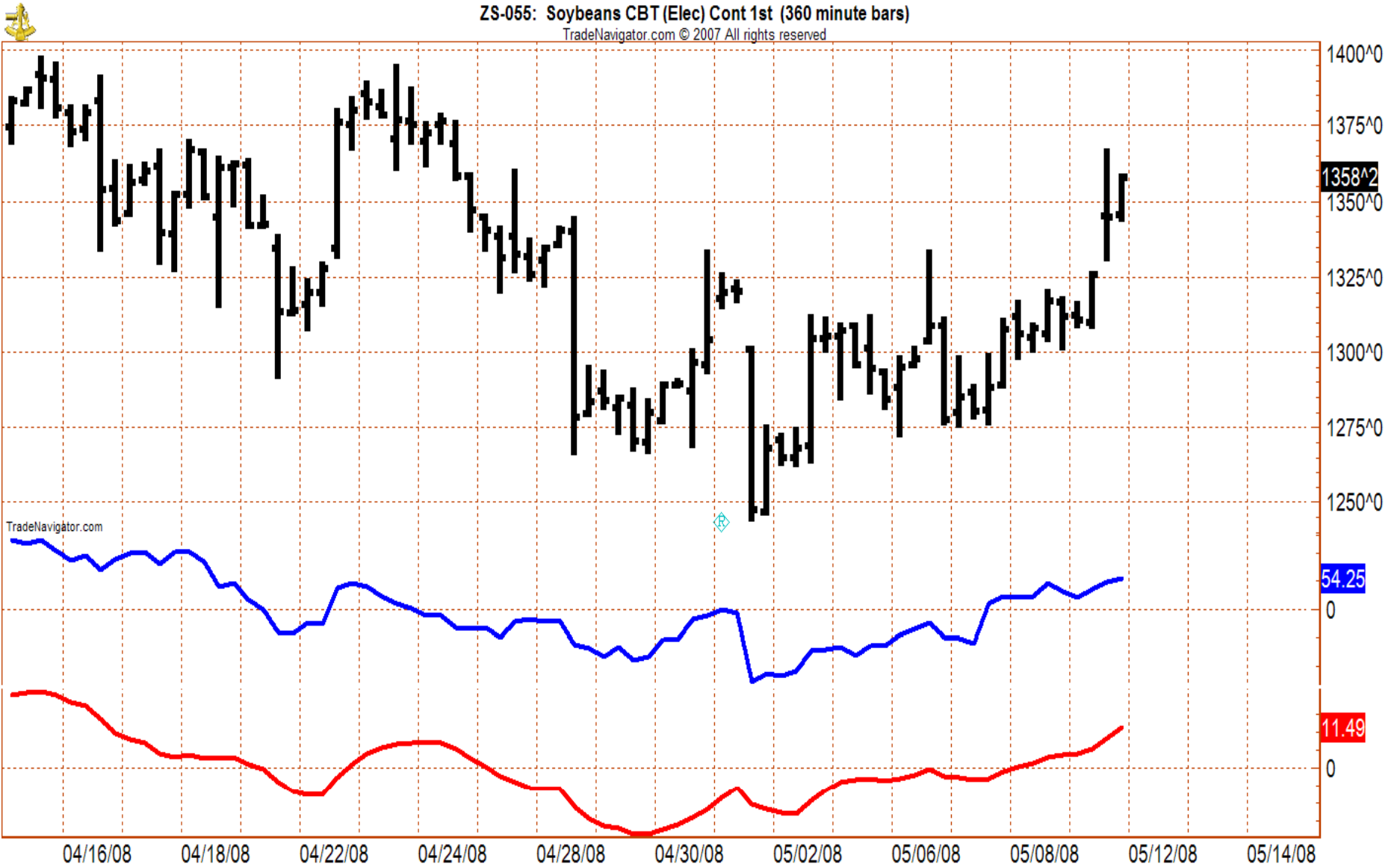
MACD and MOM

$USD-JPY: US Dollar/Japanese Yen (240 minute bars)
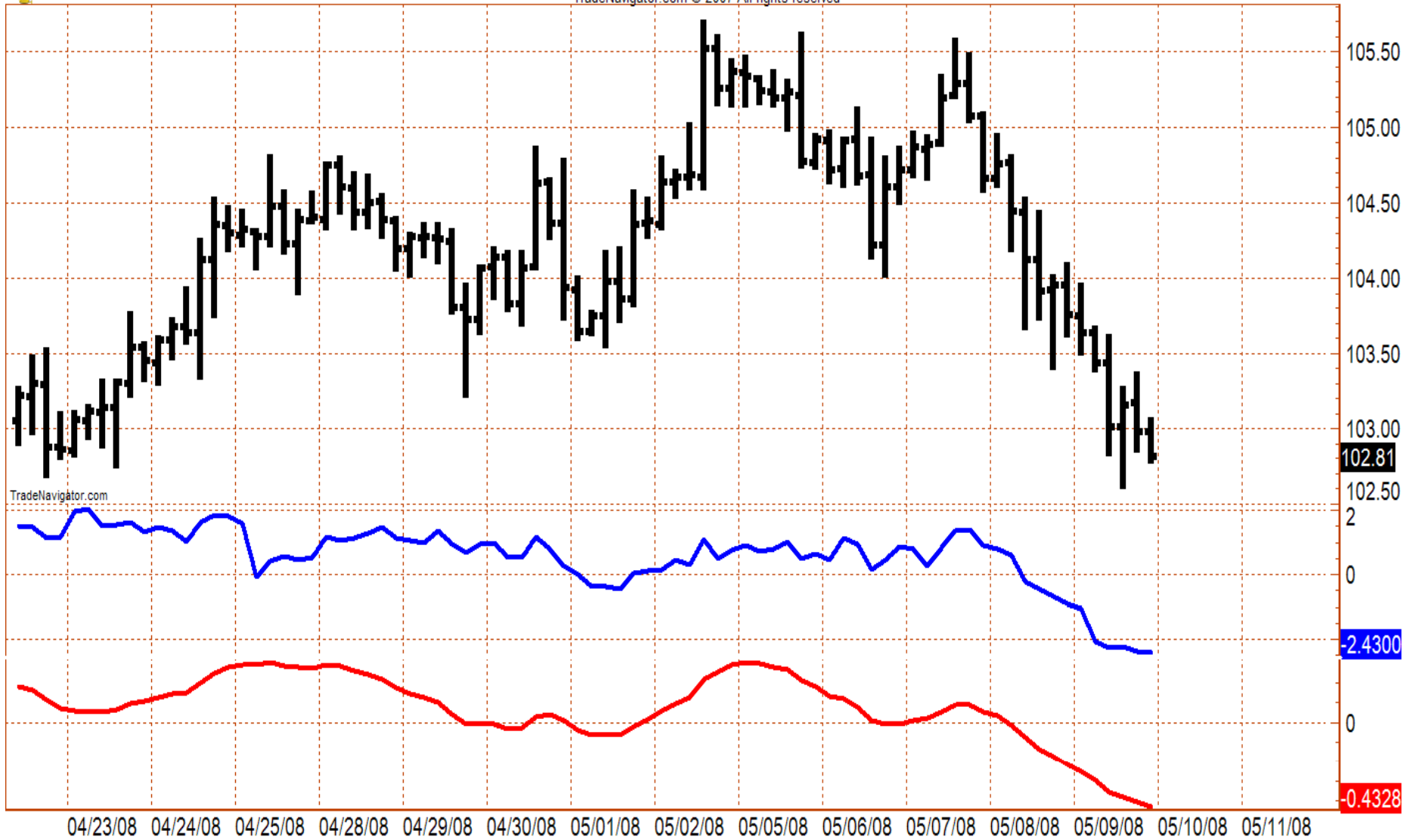
Same combination high volatility spread – 120 min

ZC-055,ZS-055: 03/23/2008* - 05/09/2008 (120 minute bars)

-305 ticks
($3,812.50)

47

Another spread

ZC-200807,ZC-200812: 12/15/2005 - 05/09/2008 (Daily bars)

-120 ticks
($1,500)

8.3

0.93

TradeNavigator.com

11/12/07 11/26/07 12/10/07 12/24/07 01/07/08 01/21/08 02/04/08 02/18/08 03/03/08 03/17/08 03/31/08 04/14/08 04/28/08 05/12/08

48
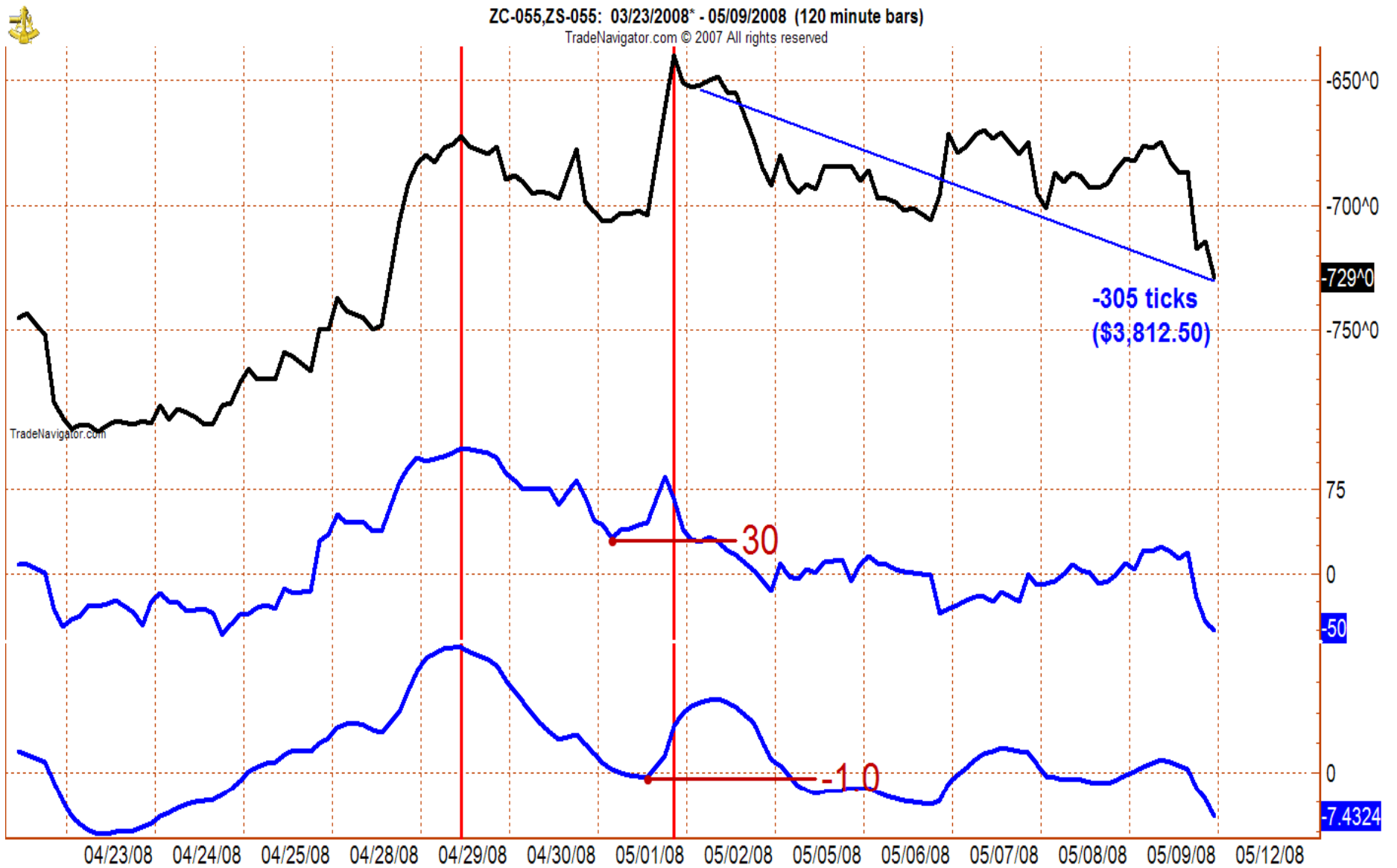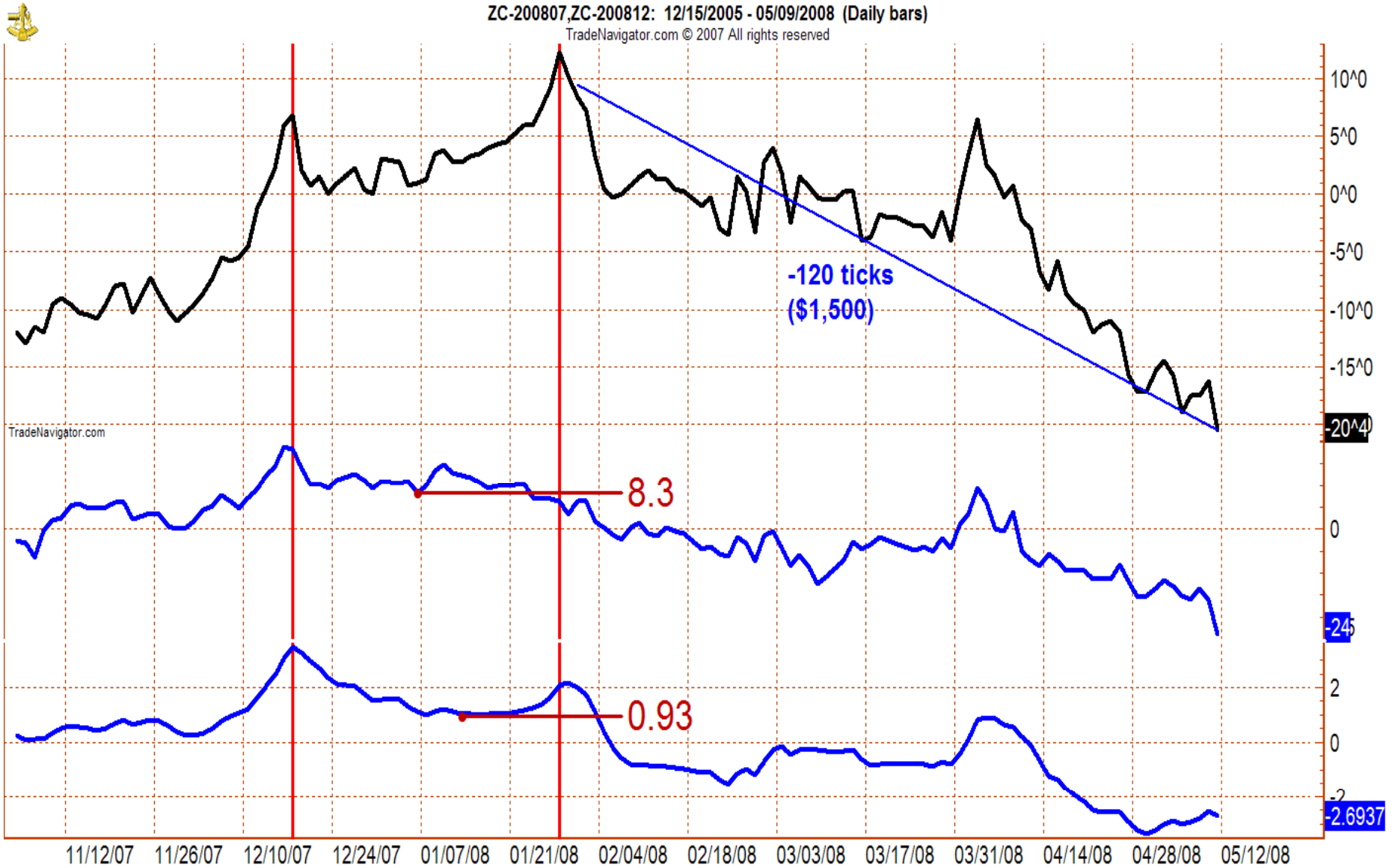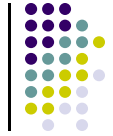
Can you spread stocks with MD? Implications for options strategy – think about it!

GOOG,BIDU: 08/05/2005 - 05/09/2008 (Daily bars)
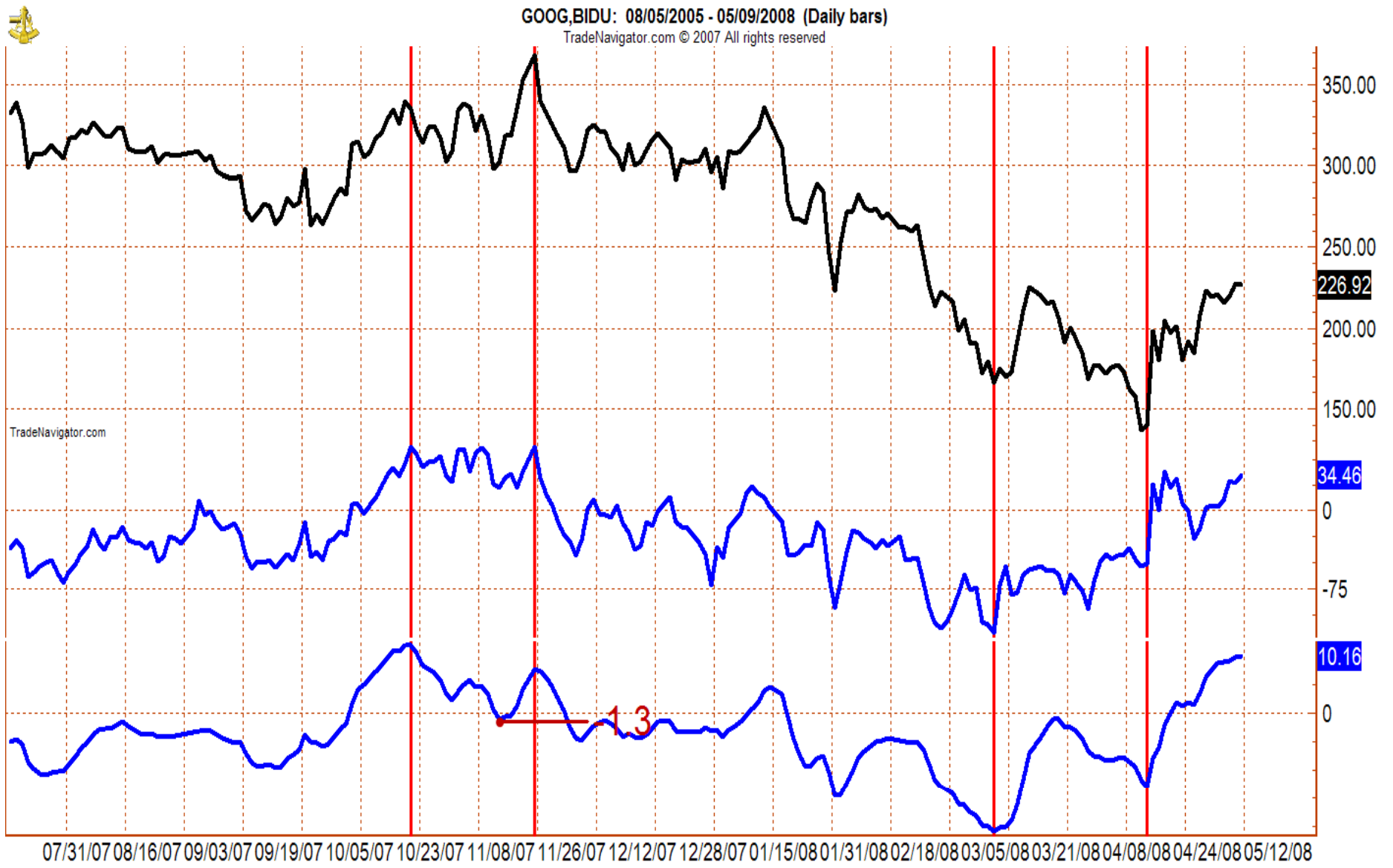
Double and Triple Divergence

- When there are several divergence setups in a row the odds favor a large move

- See recent examples

Double divergence at bottom

GCI: Gannett Co (Daily bars)

Triple Bear MD

G6E-200806: Euro FX (Elec) Jun 2008 (Daily bars)
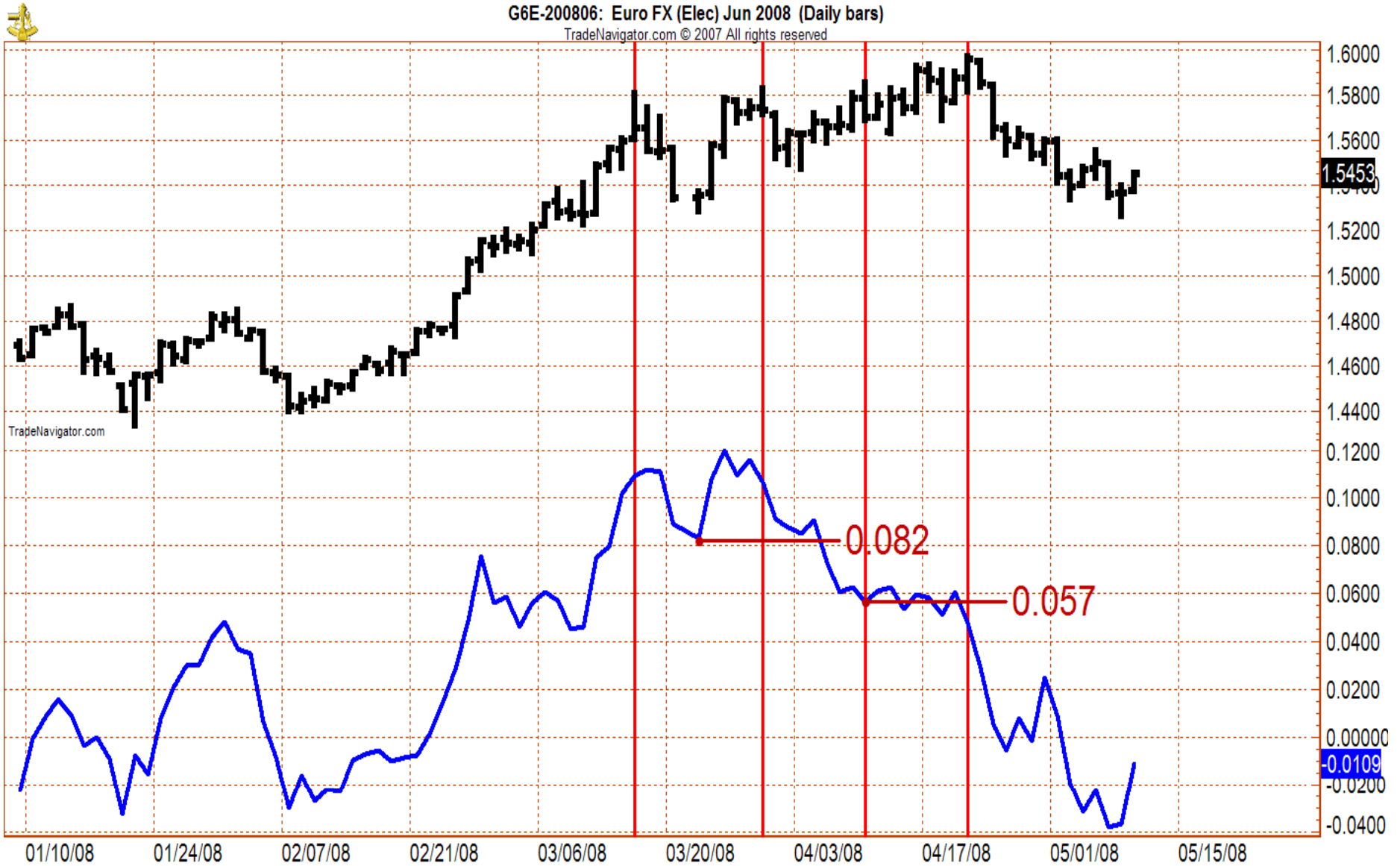
Jakes MOM/MA – another way to use momentum

- Momentum and its MA
- Momentum 28 and MA 28
- Buy or sell on crossovers
- Use profit target and danger zone concept
- Trail stops or exit on reversals
- Can optimize MOM/MA periods for best results
- Examples of systematic approach
- Examples of basic method

Download the JB Tools file

- It will find the momentum and macd divergences for you by filtering at end of session
- What you will see by clicking the SYMBOL GRID
- (ctrl + G)

Flag	△ Symbol	Description	First Date	La
☑	C-055	Corn CBT (Pit) Cont 1st	03/28/68	⅃/09/
☑	C2-055	Corn CBT (Comb) Cont 1st	03/28/68	⅃/09/
☑	GPB-055	Pork Bellies (Elec) Cont 1st	12/10/04	⅃/06/
☑	HE-055	Lean Hogs (Elec) Cont 1st	12/01/04	⅃/09/
☑	JGL-055	Gasoline TCE Cont 1st	01/27/96	⅃/09/
☑	LH-055	Lean Hogs (Pit) Cont 1st	06/25/69	⅃/09/
☑	LH2-055	Lean Hogs (Comb) Cont 1st	10/01/04	⅃/09/
☑	NG-055	Natural Gas NY (Pit) Cont 1st	04/03/90	⅃/09/
☑	NG2-055	Natural Gas NY (Comb) Cont 1s	05/12/03	⅃/09/
☑	QG-055	e-miNY Natural Gas Cont 1st	01/28/05	⅃/09/
☑	SPI-055	SPI 200 Index Cont 1st	09/25/91	⅃/09/
☑	XC-055	Mini-Sized Corn Cont 1st	10/13/92	⅃/09/
☑	YI2-055	SPI 200 Index (Comb) Cont 1st	01/26/93	⅃/09/
☑	ZC-055	Corn CBT (Elec) Cont 1st	03/28/68	⅃/09/

Symbols

Settings | Jake Futs Daily Bear MD

Bear MD stocks

Settings	Jake Stk Wkly Bear MD			▼

Flag	⌀ Symbol	Description	First Date	Last Date
☐	ACL	Alcon Inc	03/21/02	05/09/08
☐	AKS	Ak Steel Holding	03/30/94	05/09/08
☐	AMSC	American Superconductor Corp	03/19/03	05/09/08
☐	ANSS	ANSYS, Inc.	06/20/96	05/09/08
☐	ANST	Ansoft Corporation	04/03/96	05/09/08
☐	ARA	Aracruz Celulose S.a.ads	05/27/92	05/09/08
☐	ARD	Arena Resources, Inc	04/28/03	05/09/08
☐	ARG	Airgas Inc	12/19/86	05/09/08
☐	ARO	Aeropostale Inc	02/19/02	05/09/08
☐	ASIA	AsiaInfo Holdings, Inc.	03/03/00	05/09/08
☐	ATLS	Atlas America, Inc.	05/11/04	05/09/08
☐	ATVI	Activision, Inc.	10/25/93	05/09/08
☐	BABY	Natus Medical Incorporated	07/20/01	05/09/08
☐	BAP	Credicorp Ltd	10/25/95	05/09/08
☐	BBG	Bill Barrett Corporation	12/13/04	05/09/08
☐	BBL	Bhp Billiton Plc	06/27/03	05/09/08
☐	BHP	BHP Billiton	05/29/87	05/09/08
☐	BKE	Buckle Inc	05/08/92	05/09/08
☐	BRY	Berry Petroleum'a'	07/07/87	05/09/08
☐	BWA	Borg-warner Automotive	08/13/93	05/09/08
☐	CE	Celanese Corporation	01/24/05	05/09/08
☐	CHD	Church & Dwight	03/17/80	05/09/08
☐	CLHB	Clean Harbors, Inc.	11/24/87	05/09/08
☐	CNQ	Canadian Natural Resources	07/31/00	05/09/08
☐	CNX	Consol Energy Inc	04/30/99	05/09/08
☐	COST	Costco Wholesale Corporation	07/09/86	05/09/08
☐	CQB	Chiquita Brands Intl	03/17/80	05/09/08
☐	CRM	Salesforce.Com Inc	06/24/04	05/09/08
☐	CSTR	Coinstar, Inc.	07/03/97	05/09/08
☐	CTRP	Ctrip.com International Ltd.	12/10/03	05/09/08
☐	CVX	CHEVRONTEXACO CORP	01/02/70	05/09/08
☐	DAR	Darling International Inc.	09/07/94	05/09/08
☐	DCOM	Dime Community Bancshares, Ir	03/19/03	05/09/08
☐	DTV	The DIRECTV Group, Inc.	12/23/03	05/09/08
☐	DVN	Devon Energy Corporation	07/22/85	05/09/08
☐	E	Eni S.p.a. Ads	11/28/95	05/09/08
☐	ELN	Elan Corp Ads	01/04/84	05/09/08
☐	EOG	Eog Resources Inc	10/04/89	05/09/08
☐	EP	El Paso Corp	01/07/02	05/09/08

101 symbols

MOM/MA

DX2-055: US Dollar Indx (Comb) Cont 1st (Monthly bars)

MOM 28

MA 28 OF MOM 28

73.19

-6.2861

-18.32

2001   2002   2003   2004   2005   2006   2007   2008   2009

More fun with MOM/MA

ZS-200807: Soybeans CBT (Elec) Jul 2008 (Daily bars)

# More MOM/MA signals

CD-055: Canadian $ (Pit) Cont 1st (Weekly bars)

58
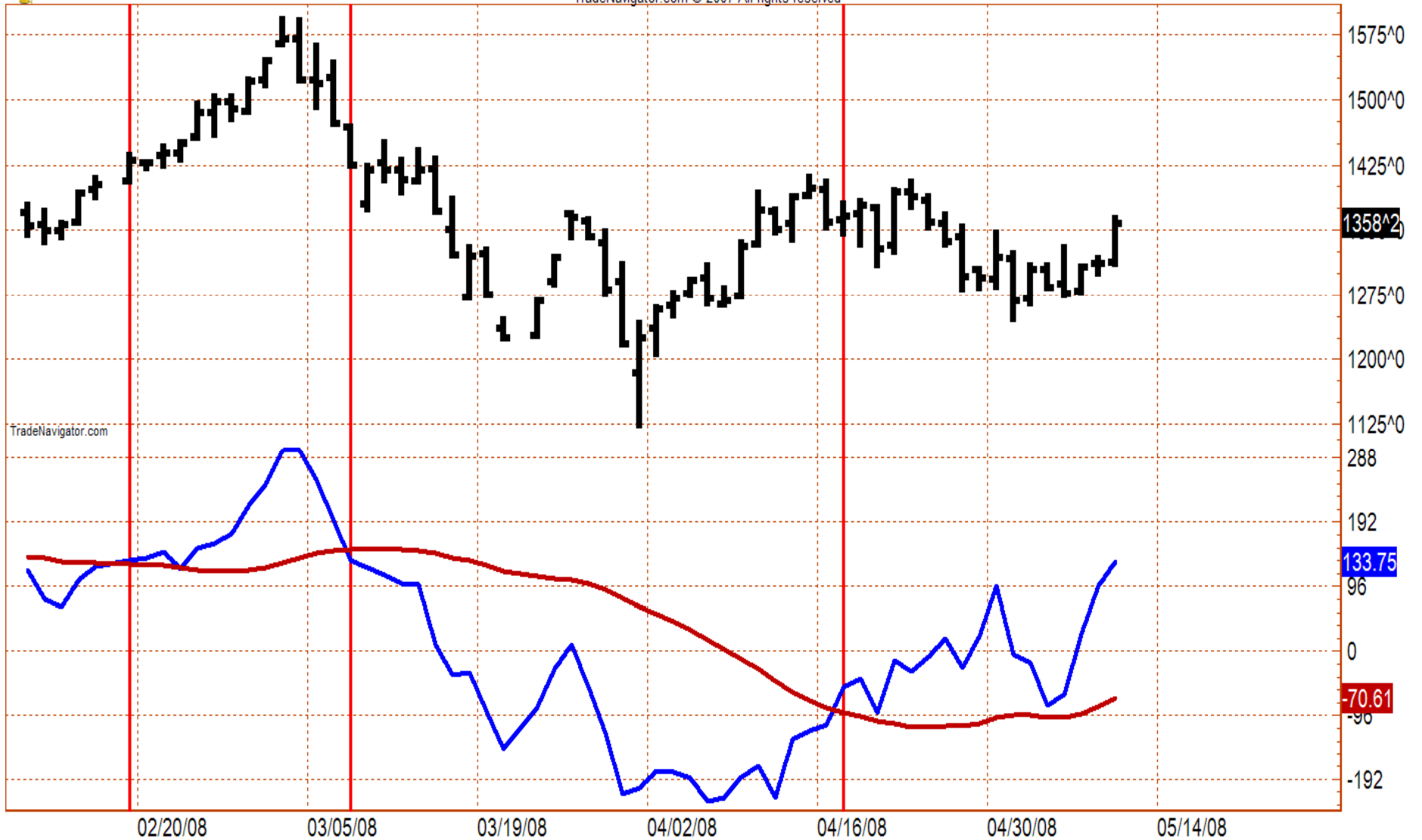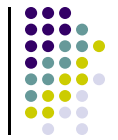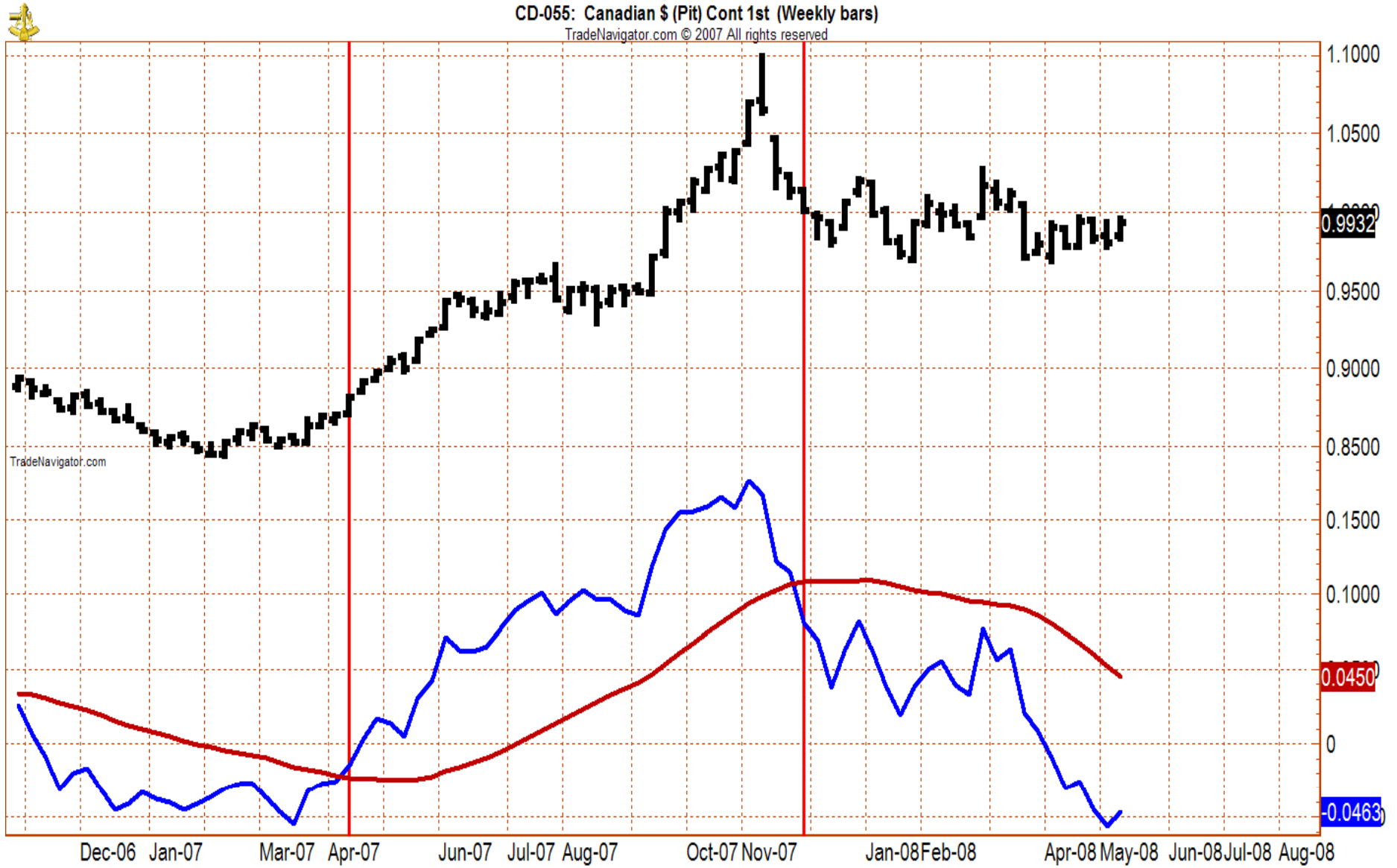
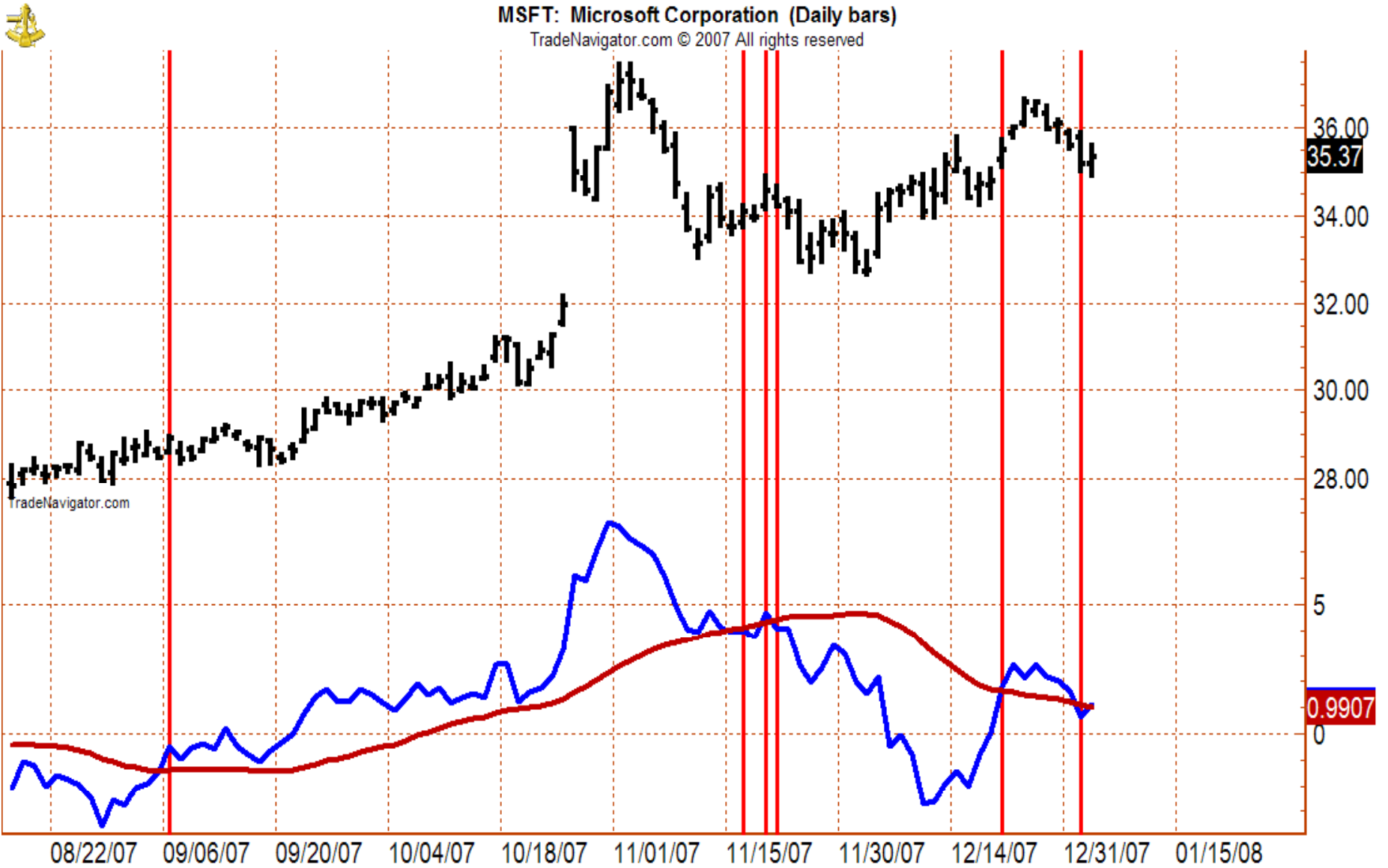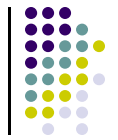# Trigger 4: MOM/MA

- Use momentum 28
- Use 28 period simple MA of MOM 28
- Buy trigger MOM > 28 MA of MOM
- Sell trigger MOM< 28 MA of MOM
- Can be used in all time frames
- Retain part of position for larger move

MOM/MA triggers

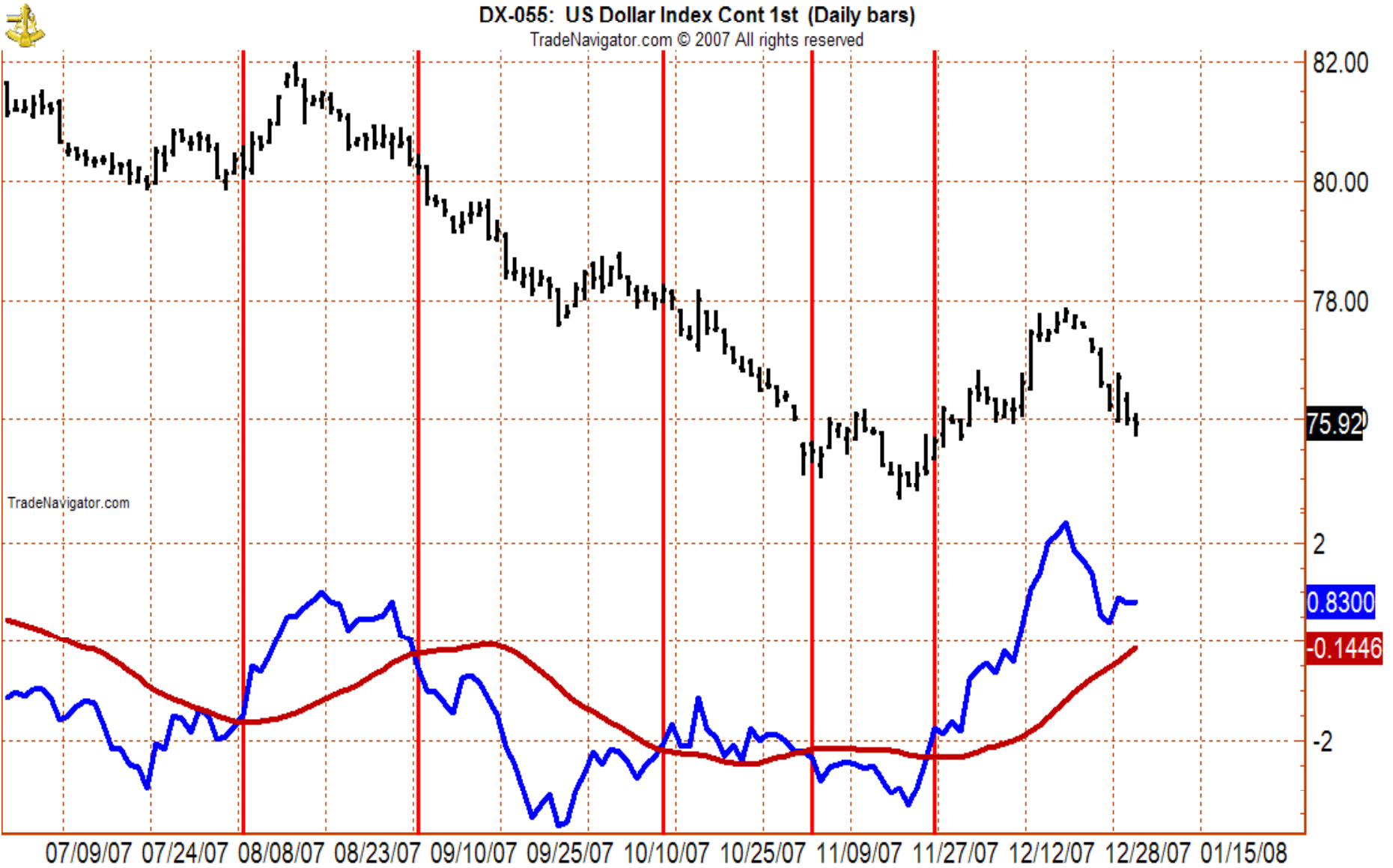
C: Citigroup Inc (Daily bars)

MOM/MA triggers – the problem

MSFT: Microsoft Corporation (Daily bars)
TradeNavigator.com © 2007 All rights reserved

MOM/MA triggers

DX-055: US Dollar Index Cont 1st (Daily bars)

MOM/MA triggers

SB-055: Sugar #11 Cont 1st (Daily bars)
TradeNavigator.com © 2007 All rights reserved
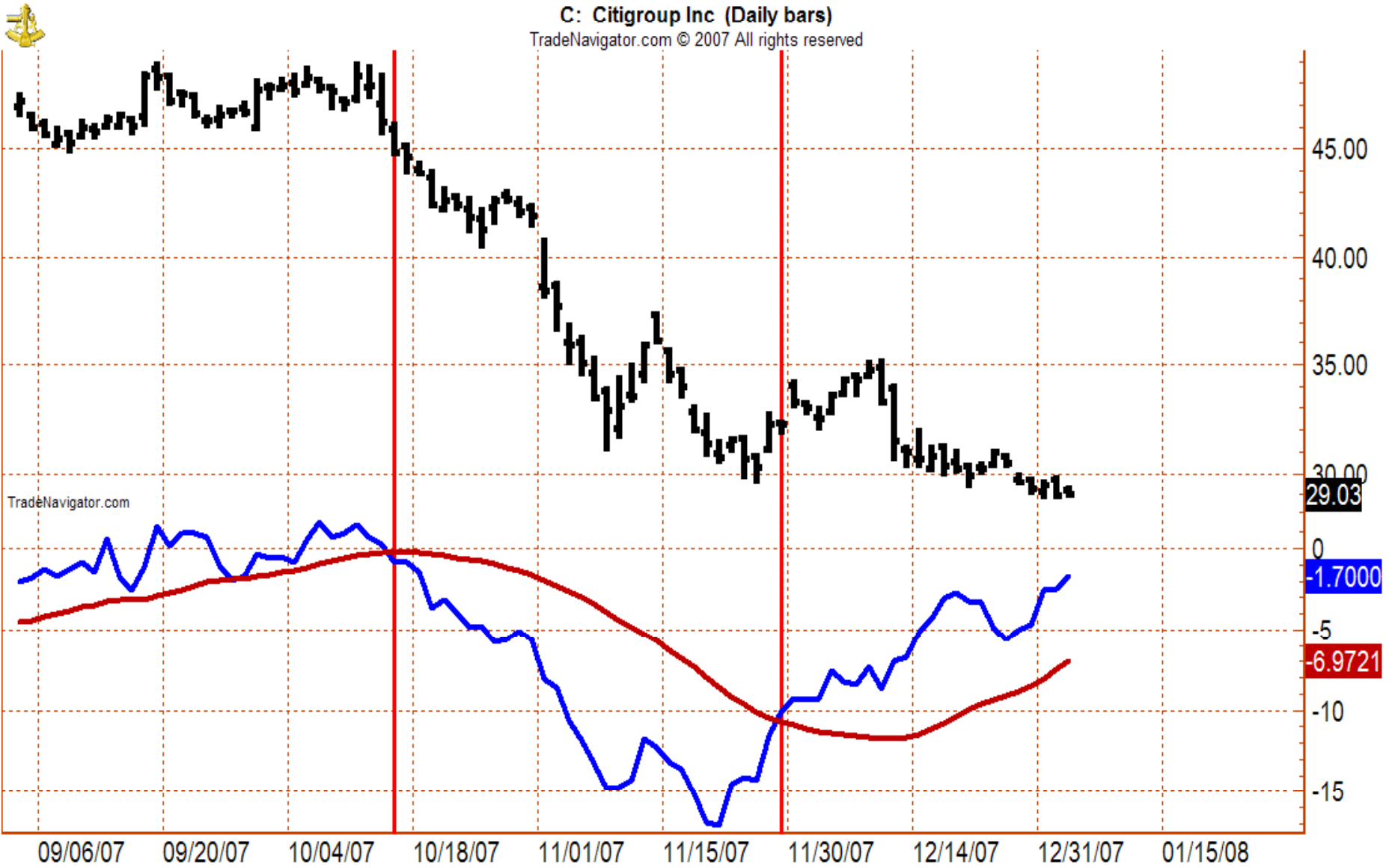
MOM/MA triggers – the problem

APA: Apache Corp (Weekly bars)
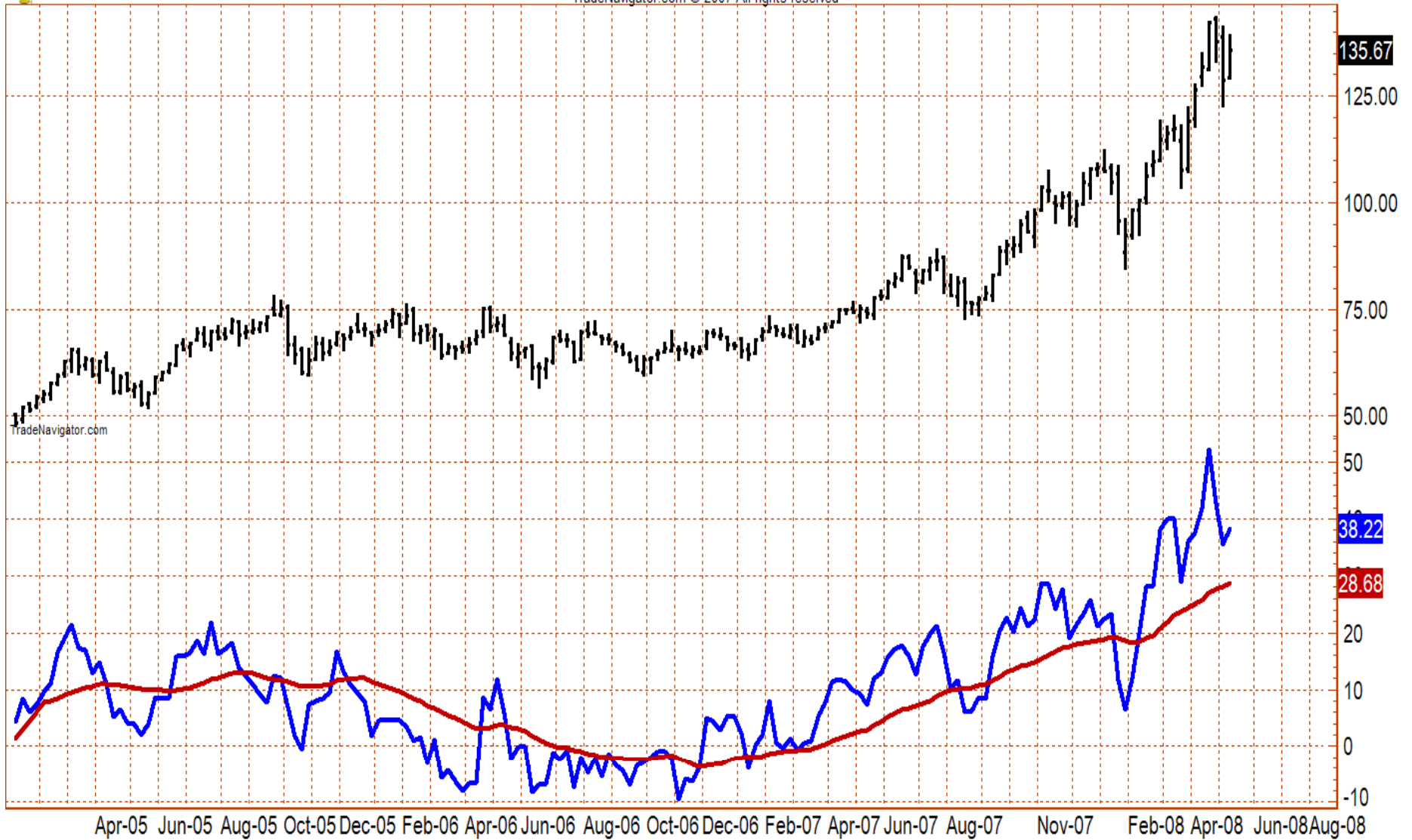
MOM/MA triggers - solutions

- Smooth the MOM/MA – examples
- Optimize the MOM/MA - examples
- Markets have different personalities – ones size does NOT fit all when it comes to indicators
- Optimization – the good the bad and the ugly
- The Whizzard system and results
- The good news is that it has gone forward for over 8 years now with winning results
- Let's take a look

Optimized MOM/MA Track Records

Symbol	Win%	Wins	Losses	Avg Win	Return%	Avg Loss	Large Win	Large Loss	Net Profit	Avg Trade
KC-055	65.00%	461	248	$1,705	1966.20%	($1,643)	$27,978	($7,929)	$378,573	$534
DX-067	63.80%	187	106	$1,587	1406.50%	($1,165)	$17,925	($3,385)	$173,395	$592
CT-055	66.30%	173	88	$1,420	1223.50%	($1,192)	$18,690	($3,185)	$140,825	$540
DJ-067	65.50%	78	41	$2,774	844.50%	($2,154)	$20,655	($4,435)	$128,065	$1,076
G6E-055	70.40%	50	21	$2,115	576.60%	($1,564)	$10,365	($2,435)	$72,915	$1,027
ZN-055	64.10%	84	47	$1,302	1355.50%	($826)	$7,011	($1,926)	$70,552	$539
G6S-055	80.00%	48	12	$1,308	638.00%	($1,386)	$9,265	($2,085)	$46,163	$769
G6B-055	61.50%	40	25	$1,743	397.80%	($1,261)	$5,728	($2,285)	$38,206	$588
G6J-055	72.50%	58	22	$1,140	162.80%	($1,445)	$7,353	($2,248)	$34,313	$429
HO3-055	66.70%	18	9	$2,430	175.30%	($2,150)	$22,981	($3,303)	$24,381	$903
CL3-067	69.60%	16	7	$1,474	99.70%	($1,671)	$8,855	($2,135)	$11,885	$517

Track record MOM/MA 11 markets

By Year
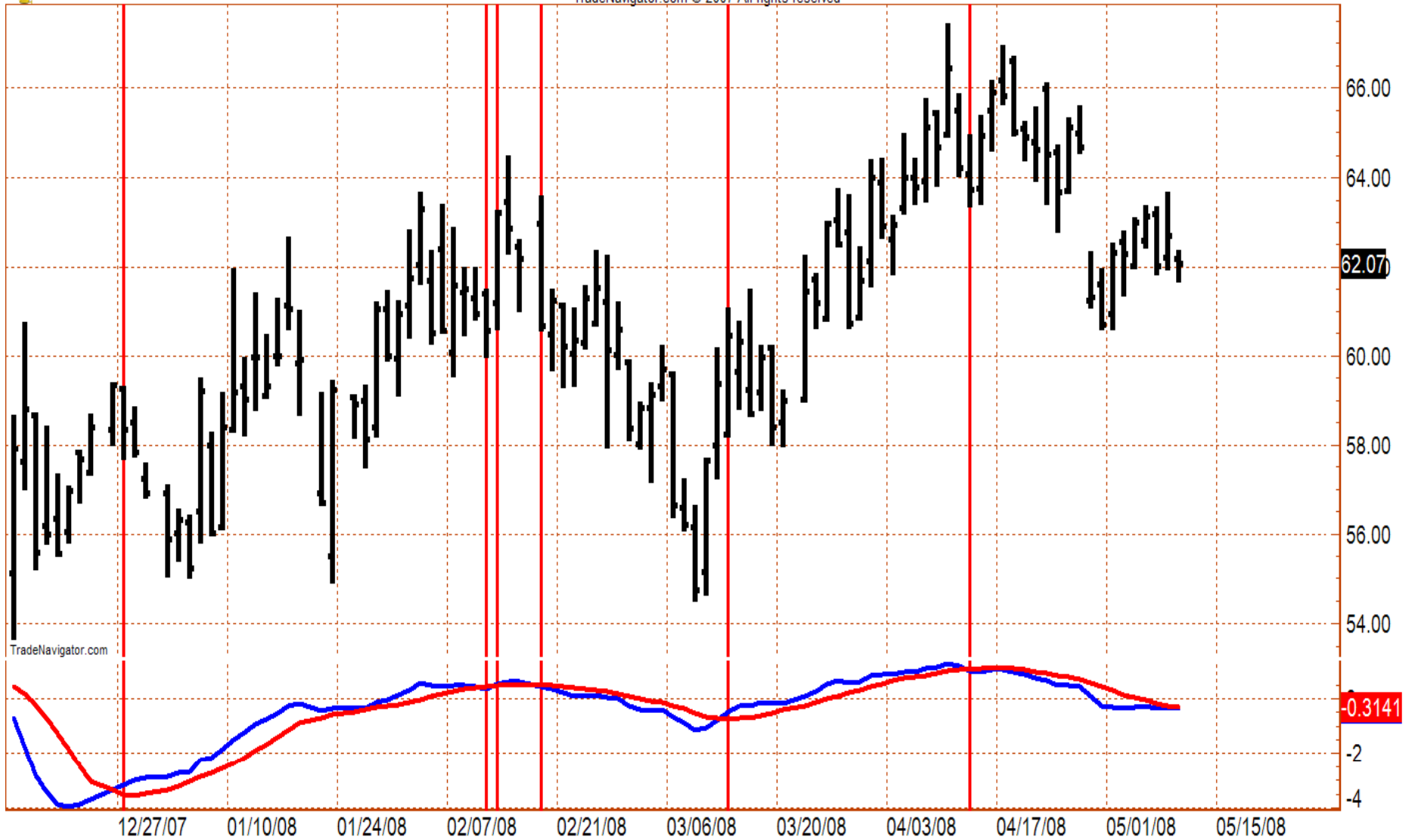by Profit
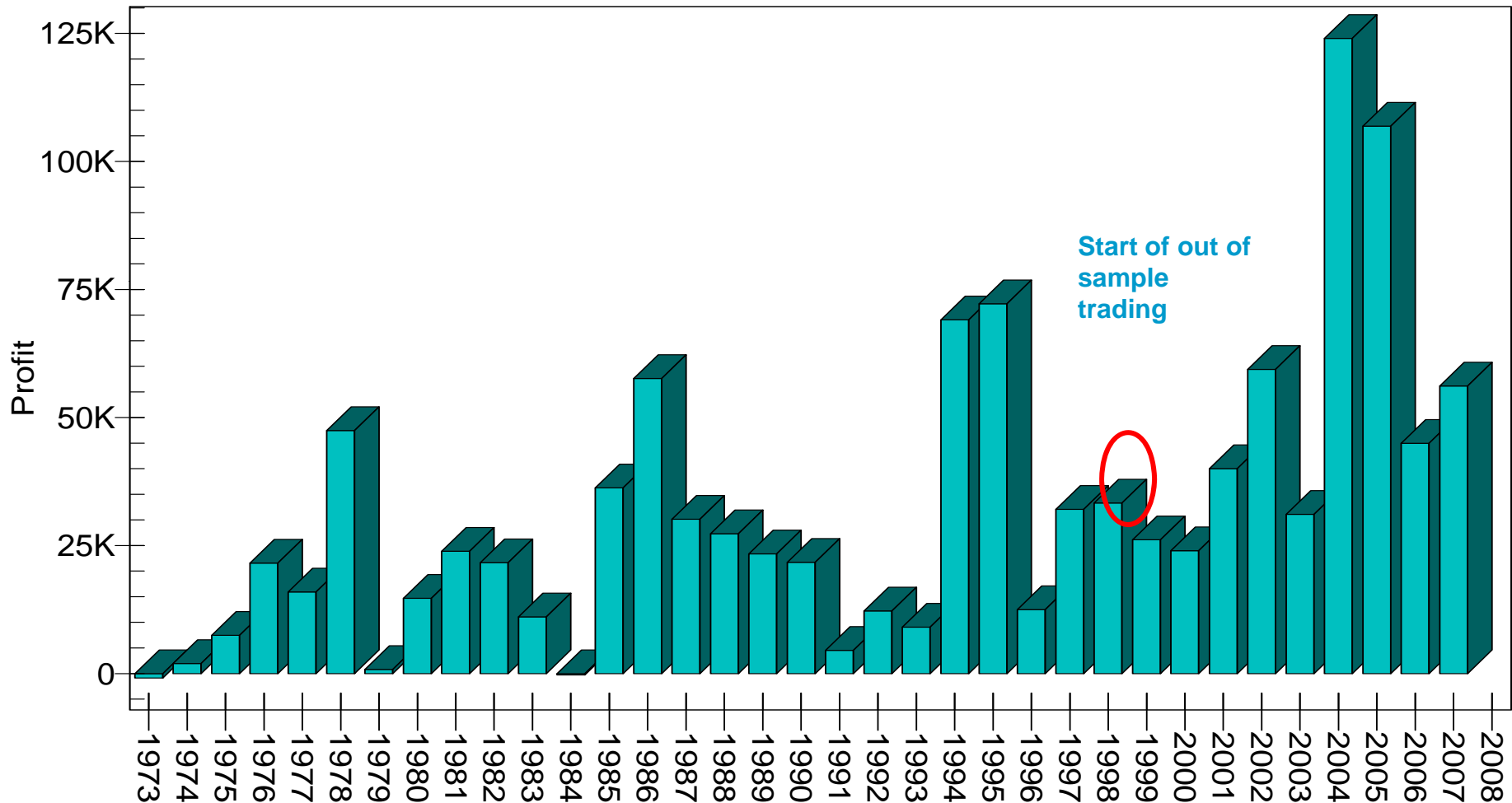
That was then – last 2.5 years

Equity Curve

Max Drawdown: -$28,249.28 on 04/18/2008 ▲ | ▼ Longest Flat: 177 days ending 12/27/2006
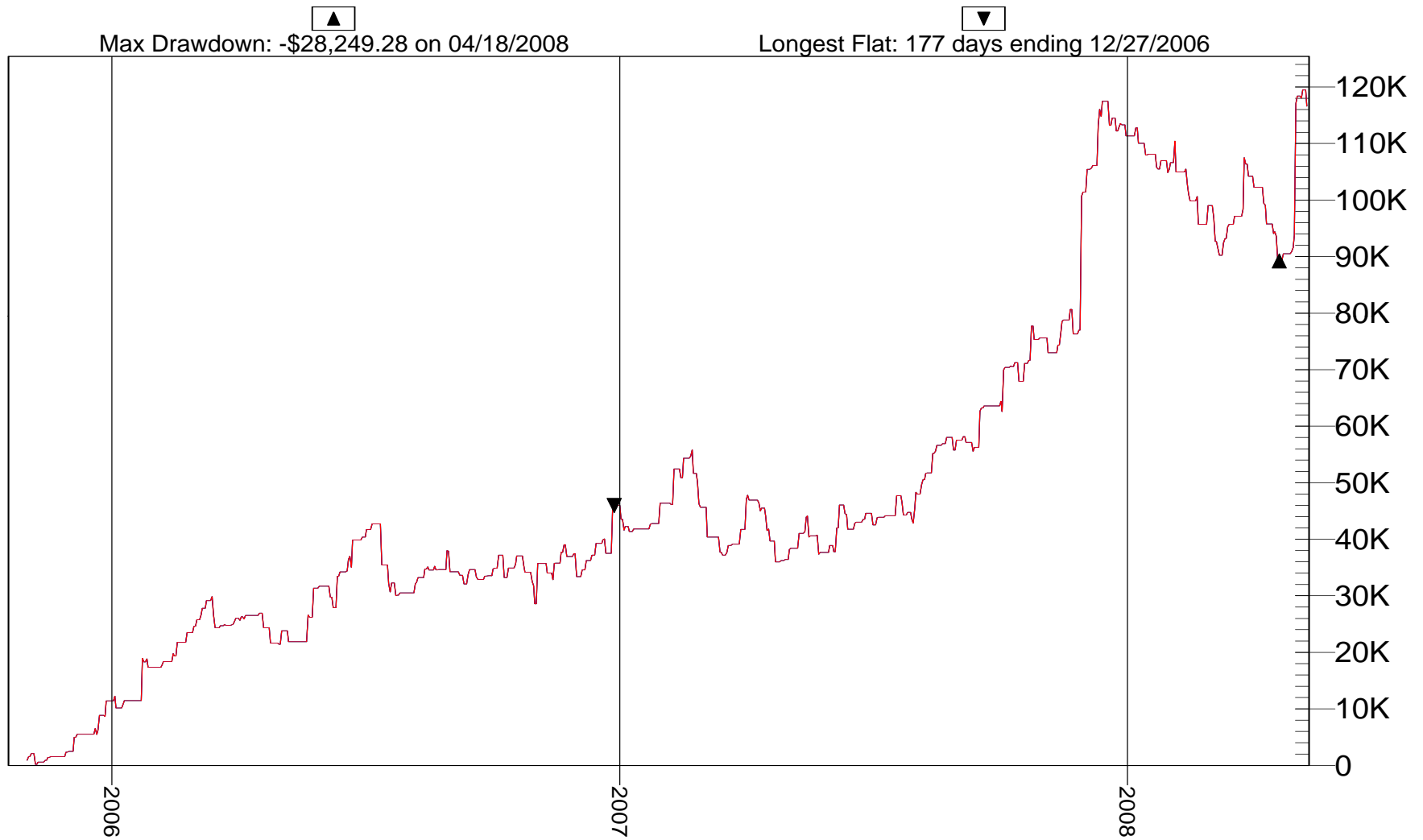
MACD and MA – Original application - Appel

BIIB: Biogen Idec Inc (Daily bars)

69

MAC and MA

BA: Boeing Co (Daily bars)

macd ma
9, 18, 8

MACD MA FOREX – a thing of beauty

$USD-JPY: US Dollar/Japanese Yen (Daily bars)

71
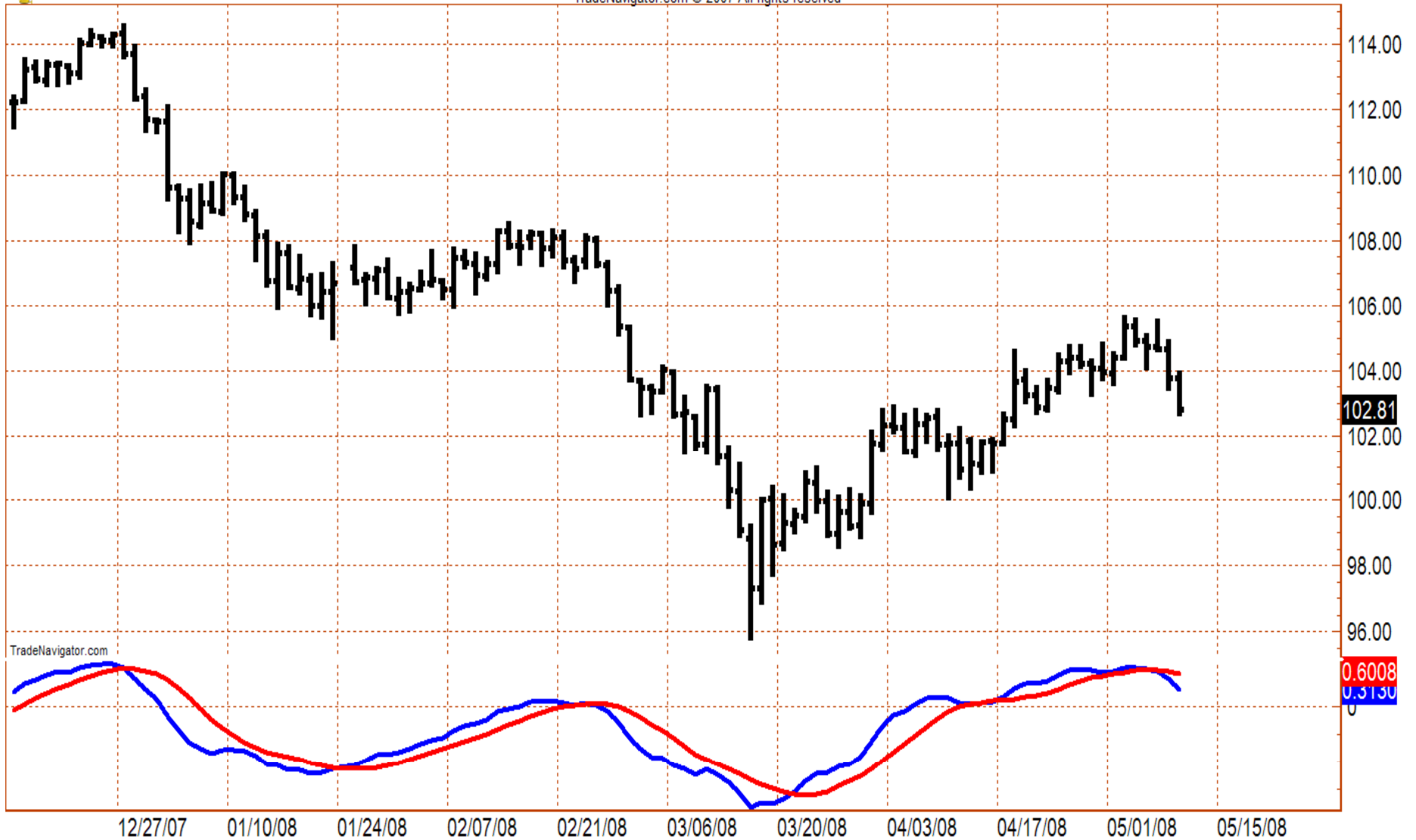
MACD MA and FOREX

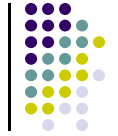$USD-CAD: US Dollar/Canadian Dollar (30 minute bars)
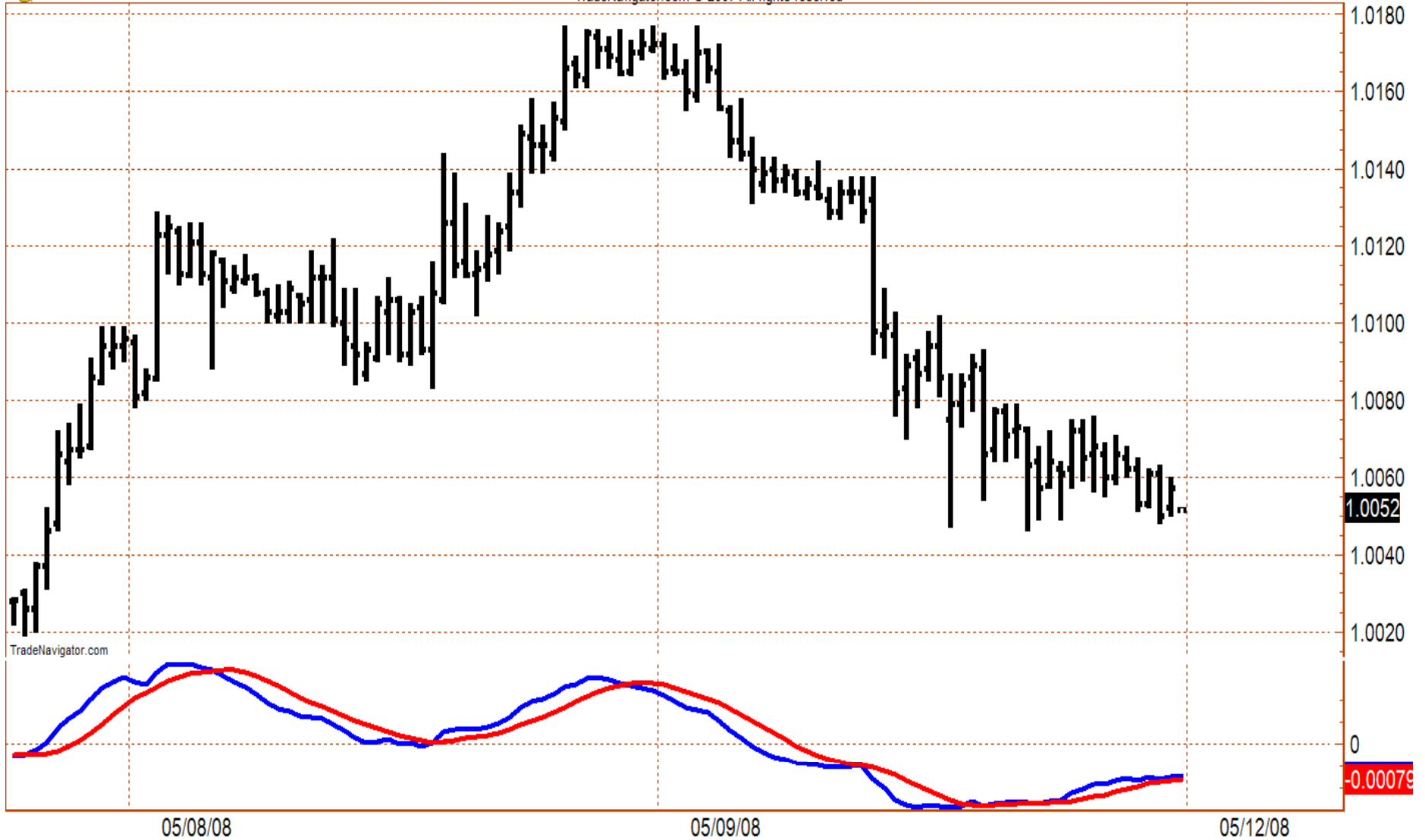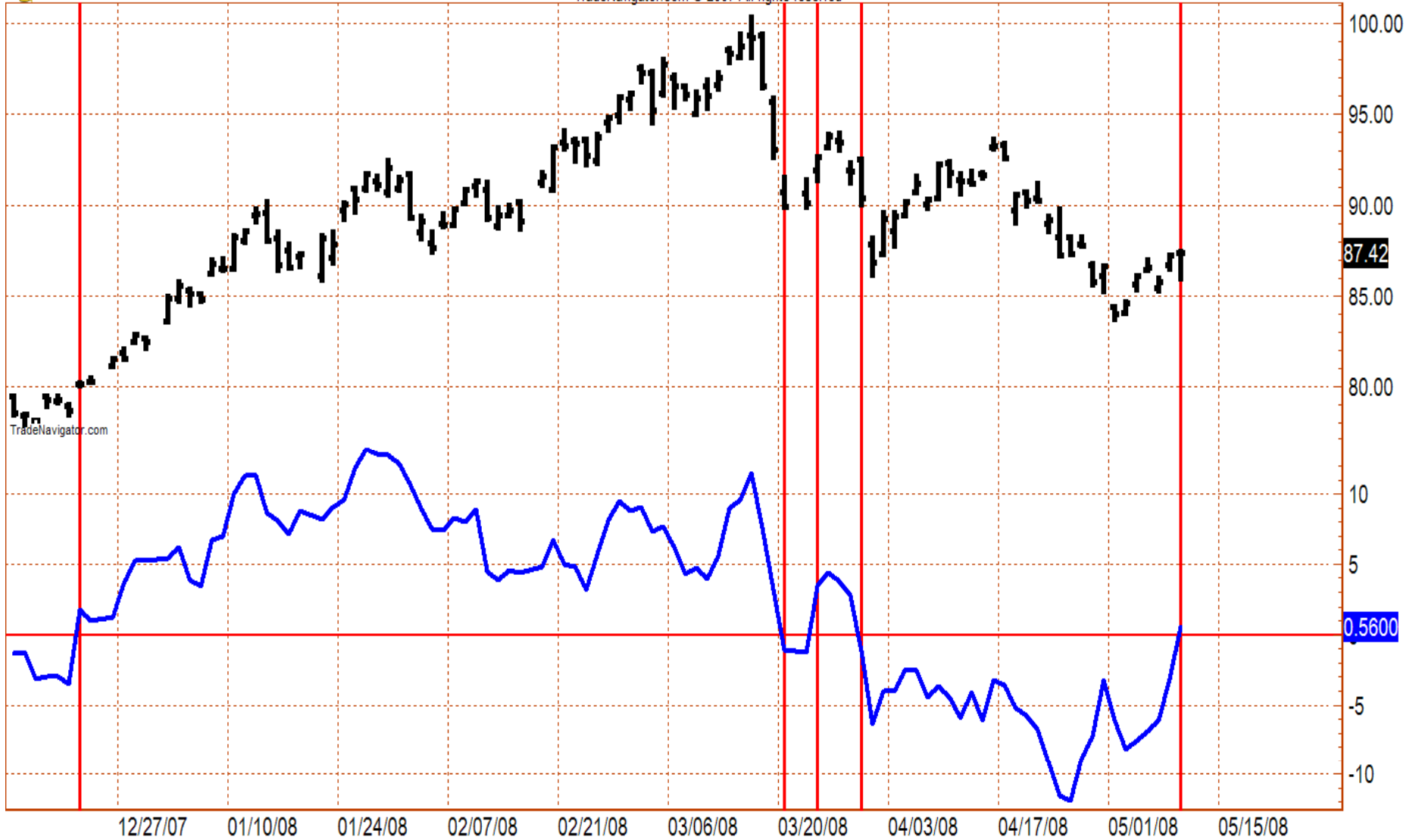
Using the MOM Zero line

The concept

- If MOM or MACD crosses from below zero to above it suggests that the trend has turned bullish

- If MOM or MACD crosses from above zero to above it suggests that the trend has turned bearish

- Critically important to select correct values

- The problem – many times the move has already been large by the time MOM or MACD cross the zero line
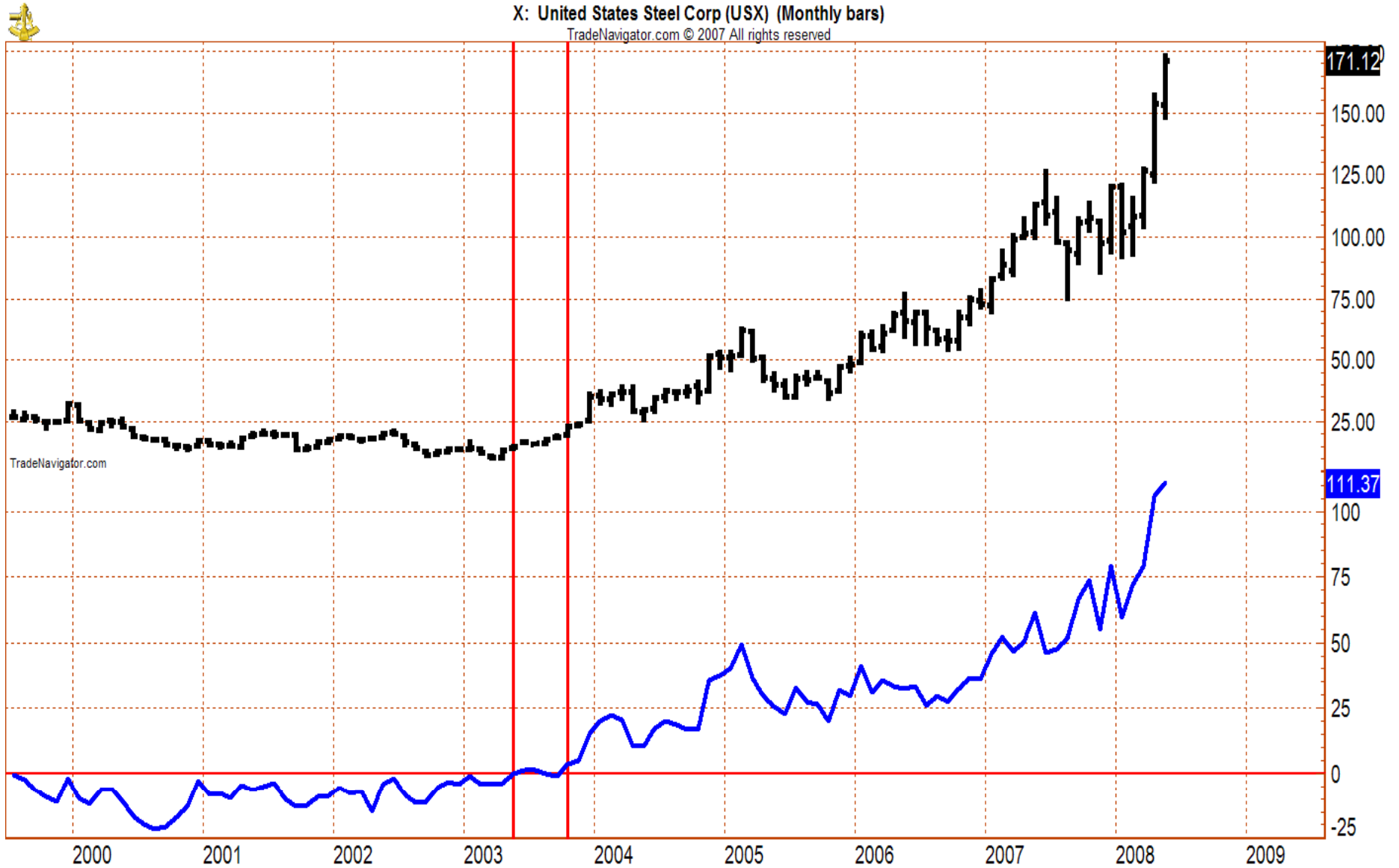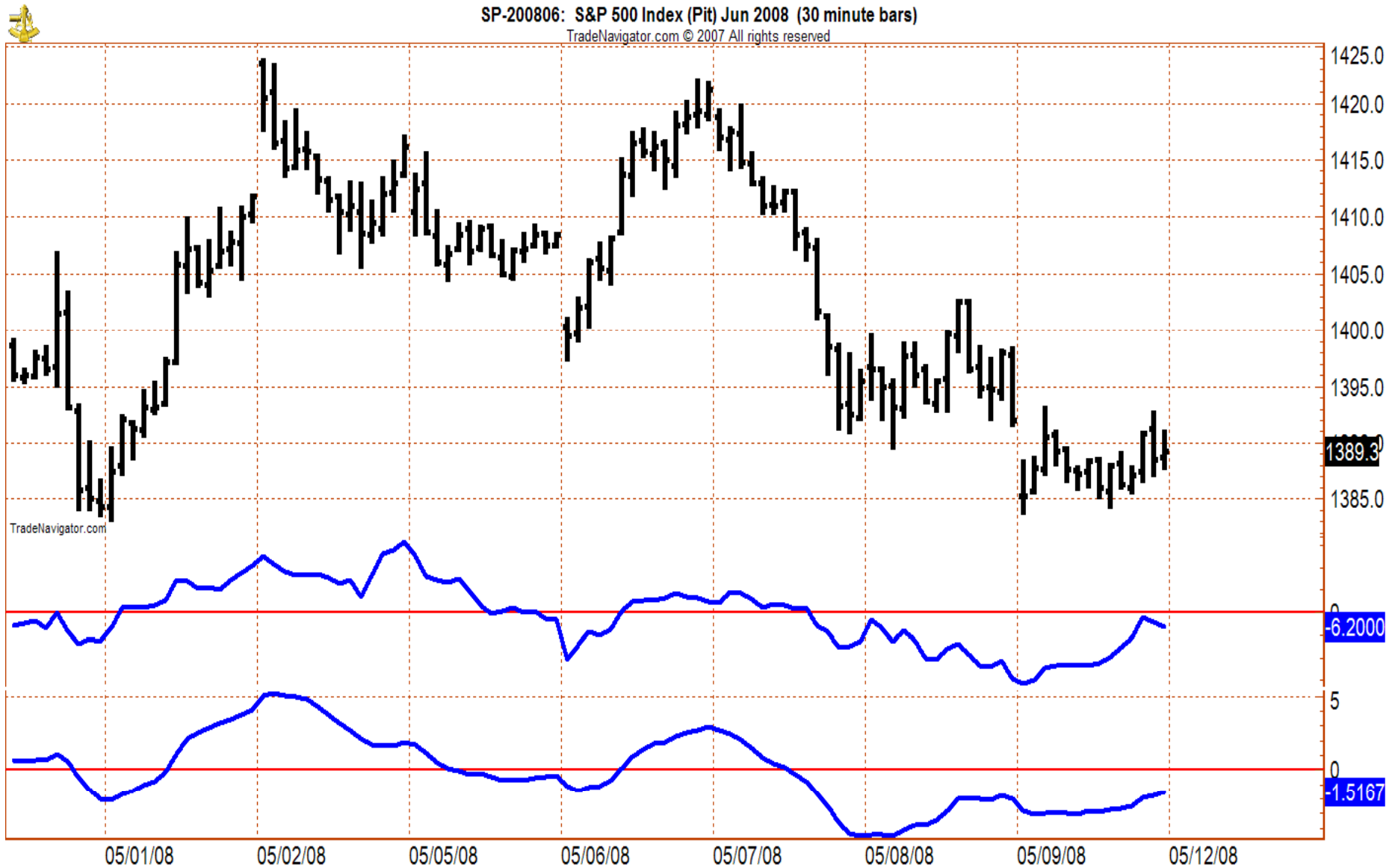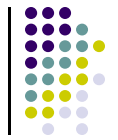
- Let's look at some examples

MOM Crosses Zero

GLD: Streettracks Gold Trust (Daily bars)

Zero cross MOM 28

X: United States Steel Corp (USX) (Monthly bars)

TradeNavigator.com

171.12

150.00

125.00

100.00

75.00

50.00

25.00

111.37

100

75

50

25

0

-25

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

MACD and MOM compared as day trading trigger

SP-200806: S&P 500 Index (Pit) Jun 2008 (30 minute bars)

Another look at MACD for day trading

SP-200806: S&P 500 Index (Pit) Jun 2008 (30 minute bars)

77
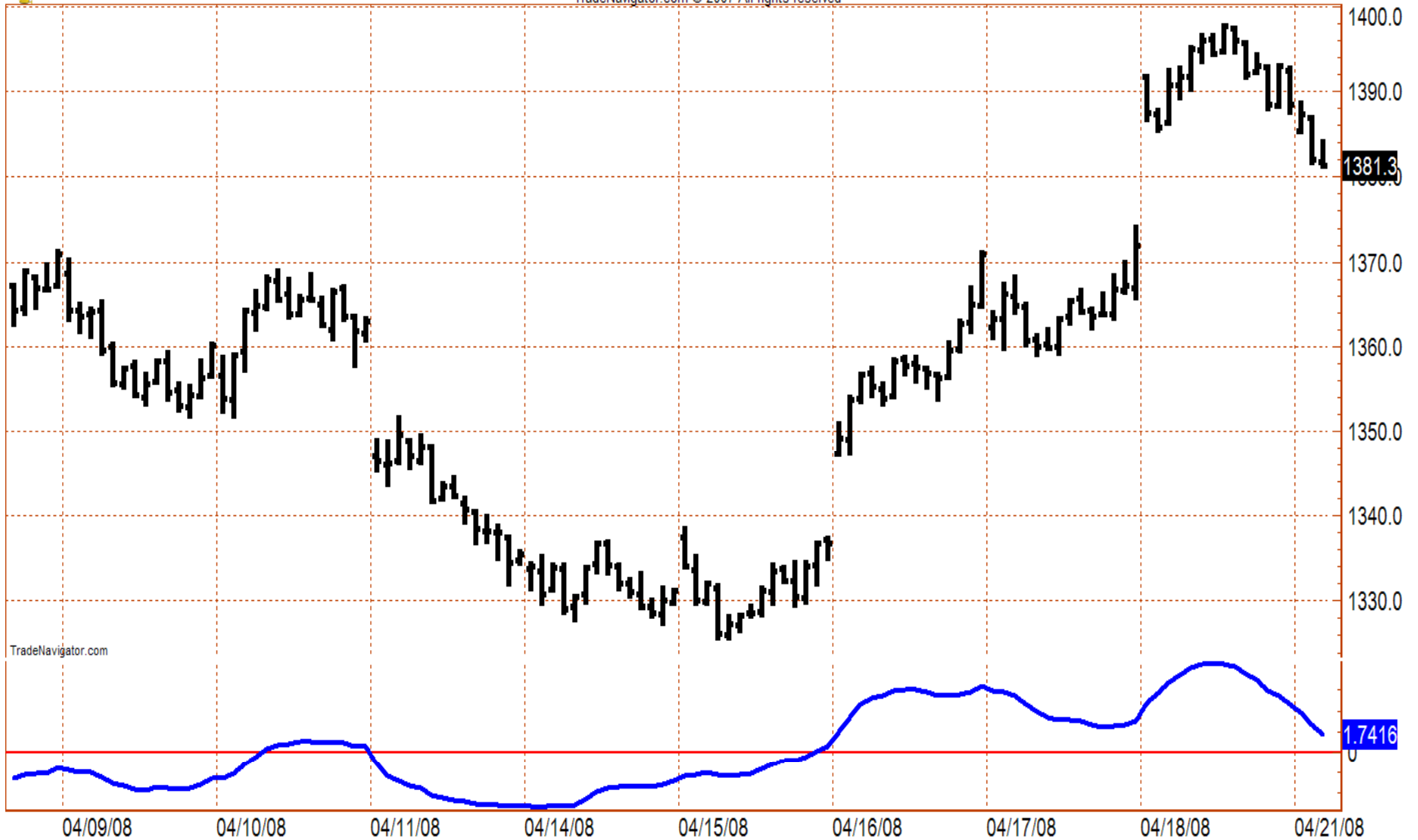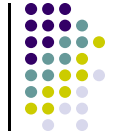
Concluding

- Momentum concepts, indicators and triggers were illustrated and explained
- Examples were give
- Follow through was discussed
- **Jake Bernstein 3 Day - Real Time Trading Seminar
  San Francisco   7-9 June 2008   GENESIS CLIENT DISCOUNT**
- INFO AT http://www.2chimps.com/web/sf_seminar.html
- I can be reached at 800-678-5253 or 831-430-0600
- Email me if you have questions: jake@trade-futures.com
- Thank you for attending
- **Mentoring appointment interview and information:**

http://www.comtrade1.com/letter/

Best of trading

- **Jake Bernstein**