The #1 Indicator for Identifying Stocks and ETFs That Explode Higher In Bull and Bear Markets!

MARKETGAUGE

Welcome active investors or traders!

I’m going to cut right to the chase.

There are three simple but very important principles of market behavior that often distinguish successful traders and investors from those who are frustrated, confused, and not profitable.

These three principles can have a dramatic impact on your trading very quickly regardless of whether you are an investor, swing trader, day trader or options trader.

This report will focus on the first principle, because it will give you the quickest and most dramatic insight into finding the best trends in stocks or ETFs to trade in bull market or in bear markets.

However, don’t ignore the other two principles because they’ll improve your ability to anticipate the market’s next move, and help you confidently understand why markets consistently confuse and frustrate so many traders.

I hope your trading benefits immediately from this report and its related video tutorial!

Best wishes for your trading,

Geoff Bysshe
MarketGauge.com
Co-founder

The First Principle of Market Behavior

The #1 indicator that professional money managers and traders use to find the best investments in bull and bear markets is LEADERSHIP.

Leadership in the market can simply be viewed as being the best. It may be the best at earning profits, generating revenue, paying a dividend, or even just attracting more customers or free members to the company's service!

As a result, there often several kinds of leading stocks at any one time in the market. Later in this report I'll show you how to find them.

Institutional investors and traders have the biggest influence on the direction of stocks, ETFs and even markets and they like to own the "leaders".

Don't take my word for it… William J. O'Neil, a highly respected money manager, financial advisor to professionals, and founder of the newspaper Investor's Business Daily, advises…

"Buy leading stocks, not laggards. Buy the number one company in its field or space." – page 233 of "How to Make Money In Stocks", 4th edition.

When you know how to identify market leaders you'll have the buying power of the largest institutions working in your favor. And when enough institutions focus on the same market leaders, the prices of their stocks have extraordinary moves that you can profit from!

Unfortunately, most amateur traders prefer to buy stocks that are moving down because they feel like they're getting a good price. This is a big mistake. Leading stocks are often the ones moving up so the average trader consistently ends up trading the wrong stocks!

However, during major market corrections and bear markets, it is possible to find emerging leaders near lows! Later in this report you'll discover how to find them.

The Second Principle of Market Behavior

Professionals look at everything in the market as relative. On the contrary, amateur traders are too focused on absolute values and price levels.

As a result, the pro and the amateur are often executing EXACTLY OPPOSITE trading strategies!

As stated above, institutional money flows into to stocks that demonstrate leadership. However, determining why certain stocks are viewed as the 'best' at any given time is a function of many different factors.

For example, when the U.S. consumer is strong and driving the economy with robust spending, the companies that are the beneficiaries of this trend are likely to be some of the fastest growing and most profitable. Therefore they trend higher as they are viewed as the best opportunities for investors to make money.

However, as fears of a recession develop and consumer spending declines the previously 'best' stocks to own will not be able to maintain their growth rates or status as 'best', and their leadership and price trends will decline.

Next, stocks which benefit from lower interest rates, a typical result of recession fears, may become the market's new market leaders.

Additionally, stocks which are less effected by consumer spending could rise to the status of the 'best' as investors view more stable earnings performance as most desirable at the time.

Rotation from one group of 'leaders' into the next is not necessarily based on the prices of the stocks declining in value as the average trader would think. It is based on institutional trader's perceptions of future events and relative value.

While this may sound complicated, it doesn't have to be.

You don't have to be an economist or Wall Street analyst to determine which stocks and ETFs are market leaders, because with the right knowledge you can let the market tell you!

Before we evaluate how to listen to the market to identify the best leading stocks and ETFs, it's very important to review the third market principle of market behavior.

The Third Principle of Market Behavior

The current market direction is based on where traders believe the market should be in the next 6 to 12 months, not where it should be right now!

Professional traders evaluate news and economic data and anticipate its implications for the next 6 to 12 months, NOT what it means for right now.

The amateur trader does the opposite by evaluating the market's direction as a reflection of the current condition of the world, and as a result, he or she is always behind the market's next move.

This principle also applies to the market's leadership!

It is critical that you understand not only which stocks are demonstrating good leadership now, but also be able to identify the new and upcoming leaders as markets "rotate" from one type of leader to the next.

Be careful…

Many newly enlightened traders, after discovering the market principle above, "market leadership", will underestimate the importance of the second two principles.

As a result, again, they will be left buying when the pros are selling!

Now You're Ready!

Now you can avoid the costly mistakes that too many traders continuously make which put them on the OPPOSITE side of the trades and trends that the professionals are profiting from, because…

Now that you know that leading stocks and ETFs are the ones that institutions crave, and as a result, they have the best trends to trade for both quick explosive moves and big swing trades for massive gains. The next question is how can YOU EASILY identify these "market leaders"?

I'll outline are several ways to find market leading trends. Some will be our favorites and found only at MarketGauge.com, and others will be available elsewhere.

The Real Reasons To Trade Leading Stocks and ETFs

Before we look at how to find market leaders, let's be clear about why we're interested in them.

Here are just a few of the reasons to focus your trading on market leading stocks and ETFs:

- **They have the best potential for massively profitable swing trades that last from a few days to several months**, because they have predictable and reliable trends.

- With proper entry tactics you can avoid being whipsawed by the general market's volatility, so you can stay in your trades longer for bigger profits with less effort.

- They provide the best trends for buying pull backs that have a high probability to resuming their trend and moving to new high levels, so you can get into big swing trades early with less risk.
- Their breakouts have a higher probability of following through, so you can consistently and confidently catch explosive moves with amazing timing for trades that yield quick profits.

Proven Methods For Identifying Market Leaders

Relative Strength Ranking Quantifies Market Leaders

Price Relative Strength Ranking is one of the easiest methods to understand so let's start here. Simply put, it is a measure of an instrument's price performance, relative to other instruments over a defined time frame which is typically 12 months.

Relative Strength Ranking begins by defining the universe of instruments you're tracking, and then ordering the list by the percent change over a defined time frame. Then the list is grouped in to 99 segments by performance to assign each instrument a rank value of 99 (highest) to 1 (lowest).

Investor's Business Daily (IBD) is known for doing exactly this for about 2,500 stocks in its database.

The benefit of the rank value is that it quickly tells you that a stock ranked 90 has outperformed 90% of all the other stocks in the data set.

This is a simple and effective method for determining the market's leading stocks. IBD advocates focusing your trading on stocks that rank above 80.

IBD is not the only professional institution to find value in Relative Strength Ranking. James O'Shaughnessy, whose asset management firm manages over $6 billion, wrote a detailed book on trading systems called, "What Works on Wall Street".

In his book James O'Shaughnessy analyzed dozens of trading systems, and one of his conclusions is that systems based on Relative strength are some of the best performing. More specifically, in his support for relative strength ranking he states…

"Over six-month and twelve month periods, winners generally continue to win and losers generally continue to lose" – page 443

Here at MarketGauge we've also found that relative strength ranking is an incredibly powerful way to identify the best stocks and ETFs to own!

For example, we use a special calculation of a trend strength that improves on the simple concepts of 6 to 12 month percent change used by IBD and James O'Shaughnessy. We call this calculation our Trend Strength Indicator (TSI). The TSI measures the price momentum over multiple time frames to be more responsive to changes in momentum than a basic percent change measure.

We use our TSI to determine the rank of specific ETFs and to rank the stocks in the NASDAQ 100, and the results have been remarkable.

The proof that rankings like this can dramatically improve your stock or ETF selection is in the fact that our ETF systems and NASDAQ systems both trade with similar rules which are to be long only the top ranking 3 to 5 instruments at any one time.

These simple rules have generated returns of 3 to over 5 times the returns of the S&P 500 and NASDAQ 100 since 2007!

In short, focusing on the leading ranked stocks and ETFs will put you in the right place to catch big swing trades.

For this reason, we provide free access to a list of the major market sectors on our website where we rank them based on 6 month percent change. You'll find it here: http://www.marketgauge.com/sectors/free

On that same page you'll also discover how powerful sector leadership as defined by 6-month percent change can be in determining the strength of the general market's trend.

WARNING: Relative strength ranking based on time frames as long as 6 to 12 months is a proven method for finding great stocks and ETF's to trade, but it should be used as a first step in finding trading candidates. You'll most likely want to employ shorter-term trading criterial as well.

Unfortunately one of the shortcomings of relative strength ranking is that it doesn't easily allow you to see any trend in an instrument's ranking.

While this is not critical, as you learned in the third market behavior principle above, markets are always looking forward. As a result, changes in momentum can be very helpful in determining when the markets are rotating into new market leaders, or out of the existing ones.

I'll cover how to see trends in market leadership later in this report.

New Highs Demonstrate Market Leadership

Another simple way to identify the market leading trends is to use the list of stocks reaching 52-week highs provided by many newspapers and websites.

Like relative strength ranking, this will identify the strongest stocks in the market at the time.

This is not to suggest that merely reaching a new high is a reason to buy a stock but it does identify market leaders, and when used at the right time it can be EXTREMELY powerful.

One of the most powerful times to look at the new high list is when the general market is not close to its 52-week high. In such a circumstance almost any stock that reaches a new high is most likely outperforming the market on a percentage basis, and it may also be at its all time high which suggests it is doing something very right!

Consider this… when the market enters a correction most stocks decline with the general market. However, before the market recovers from its correction there are usually stocks that institutions start buying. Often times their reasons for buying are based on a belief that those companies are "the best" or future leaders!

You don't need to be a financial analyst to figure this out. The stocks that hit new highs before the market does are very often the ones that go on to make massive moves!

Here is a simple example of just how powerful this simple concept of following the first stocks to make new highs after a market down turn.

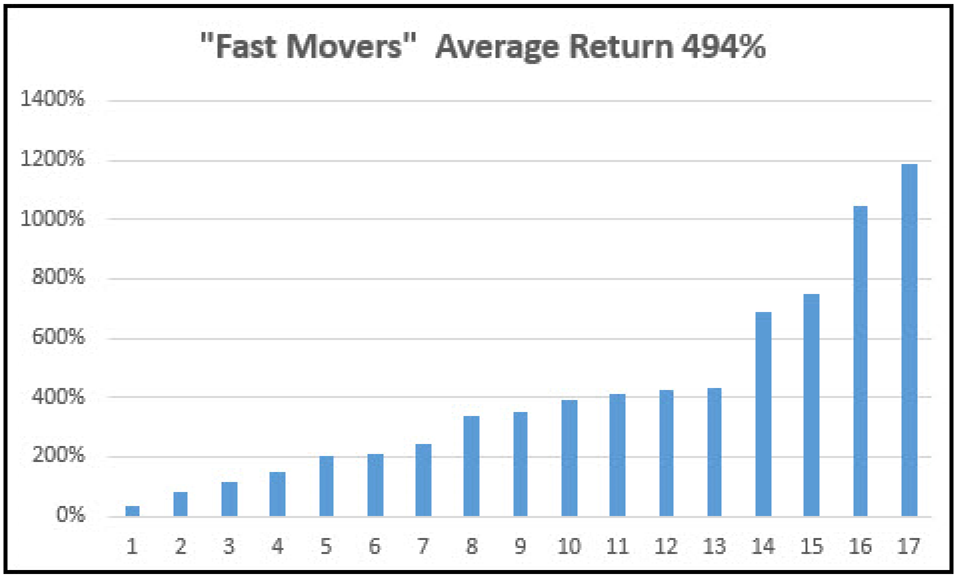
The QQQ peaked in November of 2007, and spent the next year declining. In fact, it reached its bear market low in November of 2008.

Then it did not return to its November 2007 high again until January of 2011!

However, there were plenty of market leaders that did break their 52-week highs and their 2007 or 2008 highs well before the QQQ did. This simple piece of information was incredibly valuable.

If you bought the stocks that broke their 2007-08 highs before 2010 and held them until March of 2015 you would have bought 17 stocks, had zero losses, and had an average gain of 415%!

The performance of these trades is below:



It is true that the market (QQQ) also rallied during this time frame, however, if you compare the performance of the QQQ during the same time that the individual stocks were held, the QQQ returned 189%. The leading stocks more than doubled the performance of the broader market!

Over time this "first mover" edge does diminish. As you can see in the table below, the longer it took for the stocks to break to new highs the less they returned and the less they outperformed the QQQ. However even beating the best performing index at time (the QQQ) by 44% is remarkable!

New Highs in the NASDAQ 100 Stocks vs. The QQQ.

Breakout Prior to	Average Gain	% Wins	Outperformance vs. QQQ
2010	415%	100%	119%
2011	233%	97%	52%
2012	194%	93%	44%

Clearly this is a powerful way to identify great market leading stocks when the market declines significantly. I hope you remember it, and use it as a way to find great trades resulting from bear markets!

MarketGauge's Price Leadership Indicator

At MarketGauge, our three partners have over 90 years of collective trading experience which includes time as floor traders and hedge fund managers. We use both Relative Strength Ranking and New Highs in our trade selection process. However, each has weaknesses that encouraged us to find something better, easier to use, and more versatile.

The weaknesses of the Relative Strength Ranking is that it can require a lot of work, and you can't easily see how it changes over time to assess the stocks "true relative strength trend".

The weakness of the new highs method is that it only applies to new highs and if the market is making new highs at the same time it's a limited measure of leadership.

For these reasons we developed our Price Leadership Indicator!

The leadership indicator is displayed as a series of three lines on a chart, and measures any stock or ETF's leadership strength relative to its absolute price action very easily.

Since it includes three lines you're able to see how the leadership is trending over multiple time frames, and more quickly adjust to shorter-term changes in the market as you see a stock's leadership improving or declining.

Plus, as a result of being able to track shorter time frames, you're able to measure price leadership on stocks that are rising from low base patterns so in choppy or bear markets you can find new market leaders rising off lows in addition to those breaking out to new highs!

Below you'll find a chart illustrating the power of MarketGauge's Price Leadership Indicator.

In the most basic use of the indicator you will look to confirm positive price action with a positive reading on the Price Leadership Indicator. When the short-term reading (in blue) on the Price Leadership Indicator is over the longer term measure in red then Leadership is improving and you'll look to confirm bullish price action.

If the blue line moves under the red line then you should not expect support level on the price charts to hold.

For a more detailed analysis of how to trade with the Price Leadership indicator, watch this quick video and discover how you can improve your trading results using leadership indicators!

In the PM chart below you can see how a simple approach to following bullish chart patterns in the price action was successful when the Price Leadership Indicator was in a bullish condition of the blue line over the red line

And, when the indicator turns negative, down moves tend to continue lower.

After the price chart broke over $90 the Leadership line slipped, but the price did not break support, and now if the price and leadership move higher this could be the beginning of a big move.

Phillip Morris (PM)

[Go here for a video of more examples](#) of how to use MarketGauge's Price Leadership indicator!