

Momentum Strategy Preliminary Rules

- A maximum of 25 open positions are allowed in the portfolio at any one time.
- Only trade stocks that belong to the Nasdaq100.
- Only enter new positions if the NDX (Nasdaq100 Cash Index) **is in a bull market**.
- Only enter new positions if the stock **is not in a bear market**.
- Only enter new positions if the stock has **not had a 6% or greater gap-down** during the past one month.
- Buy the top ranked stocks according the ranking formula that you will learn below.
- Sell open positions if the stocks rank falls below 30 OR the stock begins to trade in a bear trend OR has a 6% or greater gap-down.
- Assign equal weights to each of the stocks in your portfolio using a volatility adjusted position-sizing formula (outlined later in this document).

Momentum Strategy Logic

To understand why trading a strategy such as that outlined above works so well, it helps to first understand the difference between a cap-weighted index and an equal-weighted index.

Cap-Weighted Index

A cap-weighted index is an index such as the S&P500 or Nasdaq100 which weights each of its components according to their market capitalization. What this means is that a stock with a large market cap is weighted more heavily than stocks with a lower market cap.

If we take the Nasdaq100 as an example:

The top ten holdings by percent weight in the Nasdaq100 are:

Apple Inc: 14.31%

Microsoft Corp: 7.07%

Google Inc: 6.62%

Amazon.com Inc: 4.00%

Facebook Inc: 3.82%

Gilead Sciences Inc: 3.41%

Comcast Corp-Class A: 2.98%

INTEL Corp: 2.86%

CISCO Systems Inc: 2.77%