GENERAL

momentum masters by mark minervini

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Introduction

In the fast moving world of equities, traders are constantly searching for a winning edge. While many approaches promise success, few combine the rigor of disciplined strategy with the thrill of riding a stock's upward momentum as effectively as the teachings found in **Momentum Masters by Mark Minervini**. This book distills the author's decades of experience, turning complex market dynamics into actionable rules that can be applied by both novice and seasoned investors. In this article, we'll explore the core concepts of the book, break down its nine essential rules, and provide practical guidance on how to implement these ideas in your own trading routine.

Who Is Mark Minervini?

Before diving into the specifics of **Momentum Masters**, it's worth understanding the man behind the methodology. Mark Minervini is a former U.S. Securities and Exchange Commission (SEC) trading champion who won the prestigious U.S. Investing Championship in 1997. His trading philosophy centers on a meticulous blend of technical analysis, risk control, and psychological discipline. Over the years, Minervini has authored several best selling books, including *Trade Like a Stock Market Wizard* and *The 4 Week Highs*, each of which has become a staple in the trading community.

Minervini's approach is often described as "momentum driven" because he focuses on stocks that are already demonstrating strong upward trends. By identifying these high potential plays early, he aims to capture significant gains while minimizing exposure to market volatility. The principles he outlines in **Momentum Masters** are not just theoretical; they are rooted in real world trading data and proven track records.

Why Momentum Trading Matters

Momentum trading is based on the idea that a stock's price movement is likely to continue in the same direction for a certain period. This concept is supported by behavioral finance theories, which suggest that investors often act on trends rather than fundamentals alone. By aligning your trades with existing momentum, you can:

- Capture larger price moves before the market corrects.
- Reduce the time spent in the market, thereby lowering transaction costs.
- Leverage the self reinforcing nature of trend following behavior.

However, momentum is a double edged sword. While it can generate impressive returns, it also amplifies losses if a trend reverses unexpectedly. That's why Minervini's rules place a heavy emphasis on risk management and precise entry/exit points.

Overview of the Nine Essential Rules

At the heart of **Momentum Masters** lies a concise framework of nine rules designed to filter the best opportunities and protect capital. Below, we'll examine each rule in detail, explaining its purpose and how it integrates into a cohesive trading system.

Rule 1: Look for a New 52 Week High

Minervini asserts that the most reliable indicator of a strong upward trajectory is a stock that is breaking its own 52 week high. This breakout signals that the price is outpacing its historical performance, a hallmark of momentum plays. Traders should verify that the breakout is accompanied by a volume spike, indicating genuine market interest.

Rule 2: Confirm the Trend with Moving Averages

Once a new high is identified, the next step is to confirm the trend using moving averages. Minervini recommends a 20 day simple moving average (SMA) for short term confirmation and a 50 day SMA for longer term validation. A stock that sits above both averages is considered to be in a robust uptrend, making it a prime candidate for a momentum trade.

Rule 3: Use the Relative Strength Index (RSI) Wisely

While many traders avoid the RSI during strong uptrends, Minervini uses it to gauge potential pullbacks. An RSI below 70 indicates that the stock is not yet overbought, allowing room for further gains. Traders can also use the RSI to set a “take profit” threshold; for example, exiting when the RSI climbs above 70 or 80 can lock in profits before a reversal.

Rule 4: Set a Clear Entry Point

Entry precision is vital. Minervini suggests placing a buy order just above the recent high, ensuring you capture the momentum as it builds. In electronic trading environments, this often translates to a market order at the next available price. For more conservative traders, a limit order slightly above the high can avoid overpaying during a rapid surge.

Rule 5: Determine Position Size Early

Risk management begins with position sizing. Minervini recommends allocating no more than 2% of your total trading capital to any single trade. This conservative approach protects your portfolio from catastrophic losses while still allowing you to benefit from significant upside.

Rule 6: Employ a Trailing Stop Loss

A trailing stop loss locks in profits and limits downside risk. Minervini advises setting the stop at 10% below the highest price achieved since entry. As the stock climbs, the stop moves upward, ensuring that you exit the trade if the price falls more than 10% from its peak.

Rule 7: Watch for Volatility Breakouts

High volatility often precedes large price moves. By monitoring the average true range (ATR), traders can identify when a stock’s volatility spikes beyond its typical range. A volatility breakout can signal an impending surge, offering an opportune moment to enter or add to a position.

Rule 8: Recognize the “W” Pattern

Minervini identifies a “W” pattern as a critical formation in momentum trading. The pattern occurs when a stock pulls back after a breakout, forming two lows that resemble the letter W. If the second low is higher than the first, the stock is likely to resume its upward trend. Traders can use this pattern to time entries during a pullback, capturing a larger move from a lower price.

Rule 9: Exit When the Trend Falters

The final rule is perhaps the most important: close the trade when the trend shows signs of weakening. This can be identified by a cross over of the 20 day SMA below the 50 day SMA, a sudden drop in volume, or an RSI exceeding 70. By exiting at the first hint of reversal, traders preserve capital and avoid prolonged exposure to a declining trend.

Implementing Momentum Masters in Your Trading Routine

Having broken down the nine rules, the next step is to integrate them into a systematic workflow. Below is a step by step guide that can be applied to daily, weekly, or monthly trading horizons.

Step 1: Screen the Market

Use a screening tool to filter stocks that have recently broken their 52 week highs. Add filters for volume (e.g., 50% above average) and market capitalization (e.g., >$200 million) to narrow down the list to high quality candidates.

Step 2: Confirm Trend Strength

For each candidate, plot the 20 day and 50 day SMAs. Only keep stocks that sit above both averages. This visual check ensures that you're trading in a confirmed uptrend.

Step 3: Analyze Volatility and RSI

Calculate the ATR and RSI for each remaining stock. Exclude those with an RSI above 70 or with an ATR that has not increased in the past week. This step weeds out stocks that are either overbought or lacking sufficient volatility.

Step 4: Set Entry and Exit Parameters

Define your entry price (just above the recent high), position size (2% of capital), trailing stop (10% below peak), and exit triggers (SMA cross over, RSI >70, or volume drop). Document these parameters in a trading journal for consistency.

Step 5: Execute the Trade

Place the buy order immediately after confirming all conditions. If you're using a limit order, set it slightly above the high to avoid paying too much during a rapid move. Keep a close eye on the ATR to adjust your trailing stop as volatility evolves.

Step 6: Monitor and Adjust

Throughout the trade, watch for the "W" pattern and any signs of trend fatigue. If the stock pulls back but forms a higher low, you can add to the position at a lower price. Conversely, if the trend shows weakness, activate your exit rules.

Step 7: Review and Learn

After closing the trade, record the outcome in your journal. Note what worked, what didn't, and any deviations from the plan. Over time, this review process will refine your execution and improve your overall performance.

Case Study: Applying Momentum Masters to a Real Stock

Let's walk through a hypothetical example using a well known technology stock, *TechCo Inc.* (ticker: TCI). Assume the following data as of today:

- 52 Week High: $120
- Current Price: $122 (breaking 52 week high)
- 20 Day SMA: $118
- 50 Day SMA: $115
- RSI: 65
- ATR (20 days): $2.50

Applying the nine rules:

1. New 52 Week High: TCI is above its 52 week high.
2. Trend Confirmation: Price sits above both SMAs.
3. RSI: Below 70, indicating room for upside.
4. Entry: Place a market order at $122.05.
5. Position Size: Allocate $2,000 (2% of $100,000 capital).
6. Trailing Stop Loss: Set at $110.20 (10% below the peak).
7. Volatility: ATR is rising, confirming a breakout.
8. W Pattern: Not applicable yet, but monitor for pullback.
9. Exit: If the 20 day SMA crosses below the 50 day SMA, or if RSI rises above 70, close the position.

Suppose TCI rallies to $135 over the next week, hitting a new peak. The trailing stop adjusts to $121.50. As the price continues to climb to $140, the stop moves to $126. After a brief pullback, the stock resumes its trend, and the trailing stop remains below the new high. Finally, the 20 day SMA crosses below the 50 day SMA, signaling a trend reversal. The trade is closed at $139, yielding a 13.5% return on a $2,000 position.

Common Pitfalls and How to Avoid Them

Even with a robust framework, momentum traders can fall into traps. Here are some common mistakes and how to guard against them:

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