

Spreadsheet Explained

Discounting \$SPCE going to the moon, there is never certainty in the market. However, there is a likelihood. For example, it is very likely that if your stock is in the NASDAQ, it will go down in september. On average, the NASDAQ has lost 1% every September since 1971.

Because there are various statistics with varying success rates on the stock market, we can use some of them to better predict if a stock will rise or fall in the short term. We do not think in the long term of stocks. There are too many variables to consider including global pandemics, natural disasters, firing, hiring, retiring, government, recessions, wars, depressions, and so on. To weigh all of this in would be impossible. So instead we simply don't. We play the short term game.

Without further ado, here are the indicators we use to determine the best time to buy a stock. Which I abide by the great Warren Buffet's rule of buying the dips.

RSI

The relative strength index is actually quite a simple concept. It measures whether a stock has been overbought or oversold, based on recent (the past 29 days, usually) price changes. It takes the change of price day to day and then averages the upward or downward movement for the past 14 days starting with today minus 15 work days. Then it divides the upward average by the downward average to get relative strength. Then it inverses this number with the equation below to get RSI.

$$RSI = 100 - \frac{100}{Rel.Str. + 1}$$

The tell tales for the RSI are 30 and 70. If the number is above 70, the stock is overbought. If the number is below 30, it is oversold.

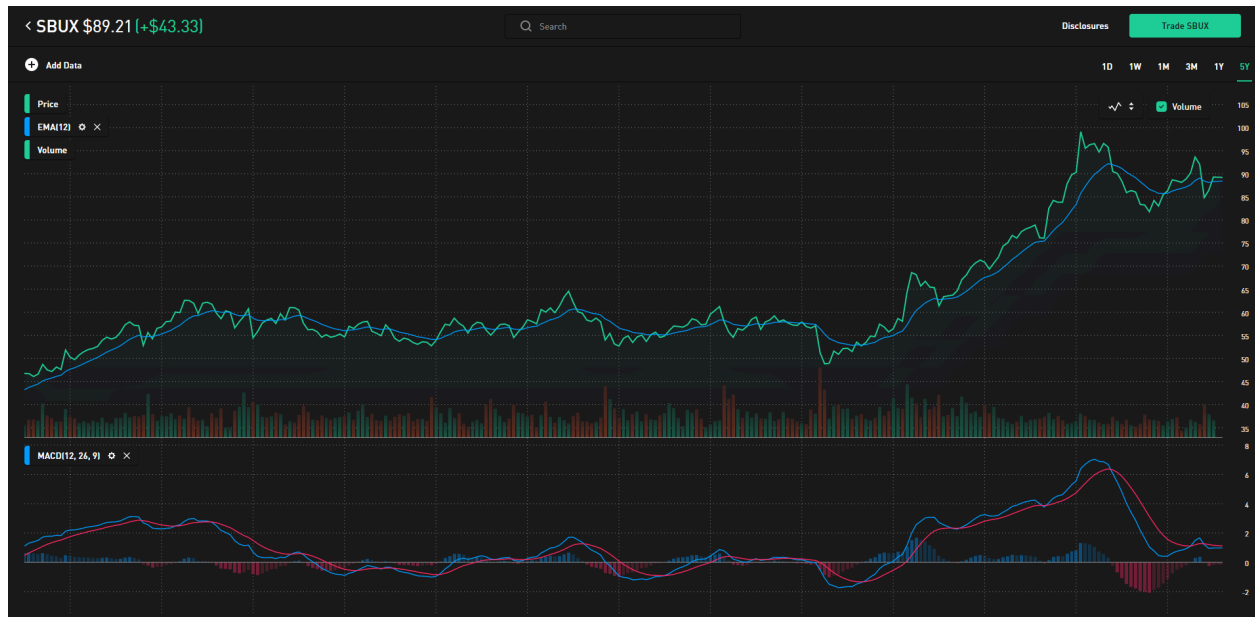


Using the chart above, you can see where RSI dips below 30 (below the shaded orange area) and then proceeds to trend upwards. However, not every overbought RSI indicator leads to a downward trend. Therefore I do not use RSI for trading puts.

EMA

Exponential Moving average is a trend calculation that gives you an average over the past 12, 26, or 9 days while giving more weight to days that are closer to current day. This is useful for seeing trends that are currently happening and giving less thought to long term data.

EMA is combined with other averages in our spreadsheet to better predict trending and bottom of dips. For calculating the MACD, or Moving Average Convergence Divergence, is the 12 day EMA minus the 26 day EMA. There is then a signal line calculated with the 9 day EMA. This is used by seeing where the lines have intersections. If the MACD is below the signal line, or negative then you can wait for it to bottom out and trend upwards, closing the gap on the signal line, to predict upward momentum. On the chart below, you can see when there is a large divergence, there is generally a more dramatic shift in price.



MA

Moving average averages the past 20 days closing price. This is a very simple one to calculate. If the stock is below the MA, then it is on a downward trend. We want to buy in dips so being below the MA is crucial.

52 week high

If the stock is hitting a new high then it is either through the ceiling of its resistance or hitting resistance. When trading options, you don't want resistance as it challenges your contract expiration if it is out of the money. Therefore, I look for stocks below 90% of the year high. This shows a significant dip.

Therefore, using these indicators is hopefully better than not using anything and buying on highs. I encourage you to use other charts and backtest the strategy. I have found it to be very positive. Any further questions just message me and I will add it in.

Good luck.