EXPLANATION OF QQQ AND MY HIT AND RUN METHOD

I am writing this note because I did not have enough time to clearly explain to you all the above. (Please use STOCKCHARTS.COM, INVESTOPEDIA.COM, WWW.OPTIONSEDUCATION.ORG for learning). There are over 1600 Exchange Traded Funds (ETFS). There are four major ones SPY, QQQ, DIA and IWM. Among those I call QQQ as the king of ETFs. QQQ is Powershares QQQ Trust ETF. It seeks daily investment results that correspond to the daily performance of NASDAQ-100 index which represents the largest non-financial domestic and international stocks (no energy or utility stocks). This index is heavy in technology stocks. QQQ is market capitalization weighted, which means that more money would be invested in large companies. If we rank the stocks by market capitalization, the list starts with Microsoft and the descending order are Amazon, Apple, Google, Facebook, Cisco, Intel, Comcast, Pepsi, Netflix, etc. So risk of investment is reduced because there are 100 largest capitalized stocks in NASDAQ. So QQQ is less volatile than the individual stocks.

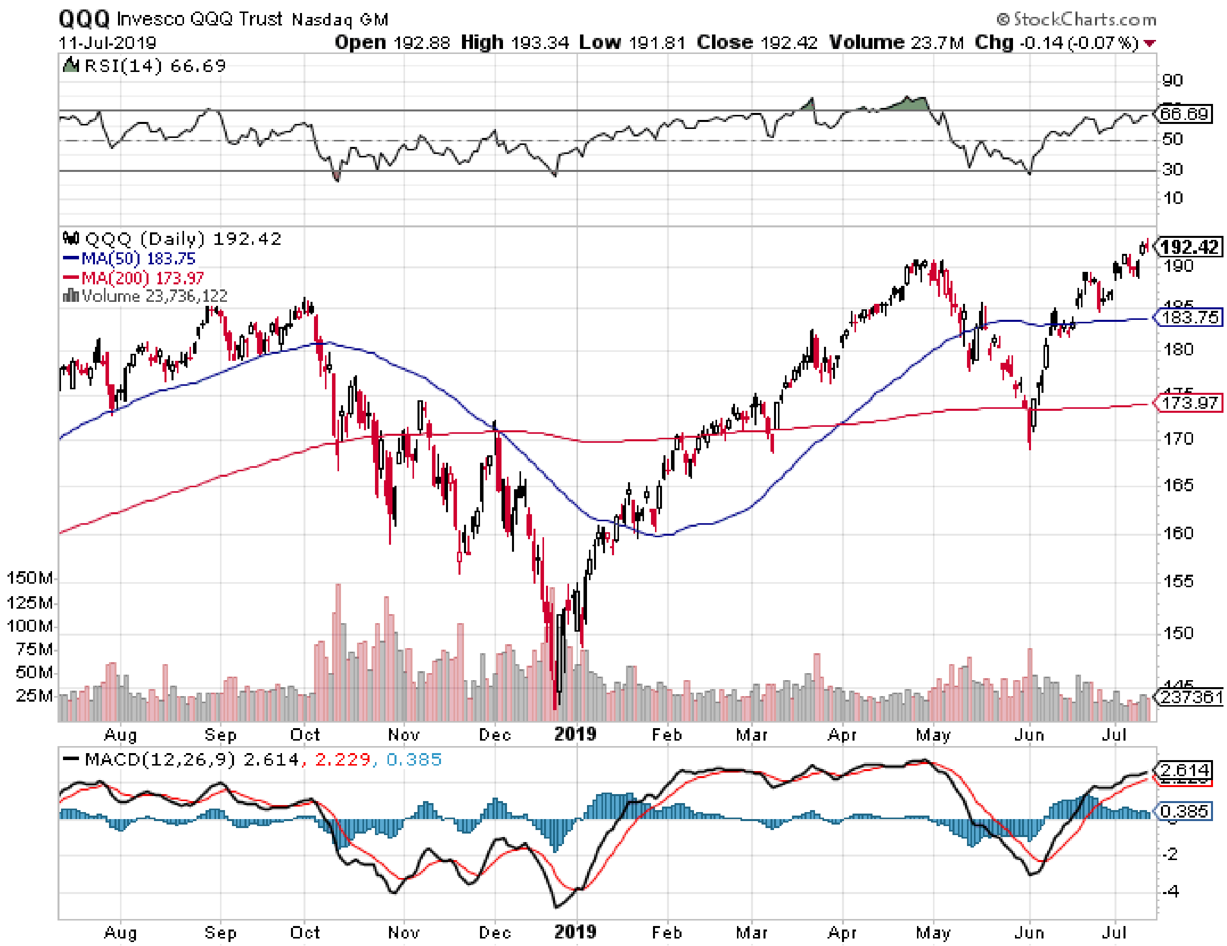
I want to be clear. For youngsters who are investing for retirement, the best way, is to invest $6,000 in the beginning of each year in QQQ in IRA or retirement account. Stock market goes up and down but you will retire as a millionaire due to compounding of the investment. In IRA and other retirement accounts, the growth is not taxed. I have shown these in the NRIVA slides.

For all others for shorter time horizon, I recommend my Hit and Run Method. Since 7/11/2018 to 7/11/2019 QQQ has gone up from $176 to $192, only by $16. But looking at the chart, you can see so many ups and downs in the chart below from Stockcharts.com (free site). Please look at the MACD given below the chart. (You can read about MACD Stockcharts.com under ChartSchool). So we have to utilize the fluctuations in the price to get in and out of the QQQ. We buy and sell buy following some indicator like MACD. In the chart below there is a fast moving black line which cuts the slower red line from below and then from above. When the black line cuts the red line from below, we invest in QQQ and then go to cash when it goes the other way. This way we are protecting our investment and also creating profits. I call this Hit and Run method, because we are not invested in QQQ all the time. We have to use some technical method to do this. MACD is fine.

I like TDAmeritrade's Thinkorswim software for my trading. The set up I have given has MACD, RSI, OBV, TTM Scalper Alert and TTM Squeeze. I give lot of importance to TTM Scalper Alert. I use the one year/one chart for the time period. You have to learn about TTM Scalper Alert and the other technical indicators in Youtube.com. You have to understand that TTM Scalper Alert has a lag period. It triggers up and down arrows. But in the one year/one day chart, it takes about three closings to indicate change in the direction of the QQQ. In general, when the arrow points upward, we invest in QQQ and when it points down we go to cash. The other parameters are there to make a good judgement.

When you start investing and coming into the market suddenly, it would be a good idea to divide your investment money into three parts. Invest 1/3. Then wait until it goes up by 3%, then invest the next 1/3 and then the last 1/3. When the signal changes to down, sell everything and go to cash.

I do not buy QQQ itself as it costs $192 now. One hundred share purchase would cost me $19,200. If the indicators show that the QQQ is in uptrend, then I buy October $192 call option. It will cost me now $641. So with $641 I am controlling $19,200 worth of QQQ. The initial transaction is called the opening transaction.



Courtesy of Stockcharts.com

You can close this position anytime between now and the third Friday in October. But remember that the option premium will go down fast in the last month, October. So it is better to close before Oct 1st. If you want to be invested in QQQ, sell by Oct 1st and then buy Jan 2020 contract.

This is how I keep most money in cash and use a small percentage of money and yet get the same benefit. That is why I use options only for my investment, because of my age. So please learn about options in general using Options Industry Council site. There are so many options strategies. I buy call option if I think that the market is going up. I buy put options if the market is going to go down. Call option premium goes up when the QQQ goes up. Put option premium goes up when the QQQ goes down. The maximum loss in the above scenario is $641. The gain is unlimited except for the cost of the premium.

Once I know the direction of the market, in the Thinkorswim software I use one hour or four-hour time zones to trade. I look at the weekly chart and use the daily chart for understanding the market direction. This is the most important factor.

GENERAL RECOMMENDATIONS:

Invest 5% or less in any one stock or ETF (exception: you can invest more in index options like DIA, SPY, QQQ or IWM as the risk of investing in individual stocks does not exist here. Some people invest all their money in only these, especially in SPY). As you know DIA represents all the large cap stocks of the Dow Jones Industrials; SPY represents all the 500 stocks in S & P 500 Index; QQQ represents 100 of the largest capitalized stocks in NASDAQ with no petroleum or utility stocks; IWM representing the Russell 2000 small cap index stocks. SPDR ETF called GLD represents 1/10th the price of gold bullion. As gold is very volatile it is recommended not to invest more than 10% of your entire portfolio.

Instead of investing in a stock, you may consider investing one third of the 5% in call option expiring 90 days or longer. In the last month of the life of these options the value will come down fast and end in 0.

The advantage of buying a call option is that your investment is much smaller but the upside potential is unlimited. For example, a call option on QQQ expiring 3 months from today will cost only 1/3 of what it would cost to buy the QQQ ETF. But in 3 months if QQQ closes below the strike price you will lose the entire price of the call option you bought. Of course, you may sell to close it any time after buying the option.

For stocks, I use one year/daily charts. I use Marketvolume.com (subscription…real time charts) and Stockcharts.com (free charts with 15 min delay and real time charts with subscription).

Stockcharts.com has a great feature called Seasonality. You can get the seasonality of any stock by entering it in the quote box. You have to try it to appreciate it. It is free.

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You should consider virtual/paper trading before investing your hard earned money. You should consider the possible risks of investing in the stock market and consider your investment goals and risk tolerance before investing. You should understand that past performance does not guarantee future results. By reading this email you are implicitly agreeing to these terms.

Best wishes,

RAJ