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# Market Structure **EDGE**

## How and When to Trade Momentum

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**Tim Quast**

Founder & CEO  
Market Structure EDGE

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# **How – and WHEN – to Trade Momentum**

*Using Market Structure EDGE*

**Tim Quast, founder and CEO of  
Market Structure EDGE**

**Nov 13, 2023**

- **Tim Quast – founder of two market structure analytics firms**
- **ModernIR.com – Market leader, quantitative equity Market Structure Analytics for US issuers**
- **Market Structure EDGE – Only quantitative Supply and Demand data for traders**



“One thing I've learned over my career, buying something because it's cheap is a value trap, and shorting something because it's very expensive is a death wish.”

-Steve Eisman, Neuberger Berman, Nov 2, 2023, CNBC Squawk Box (Actor Steve Carrell played Eisman in the movie “The Big Short,” from the book by Michael Lewis)

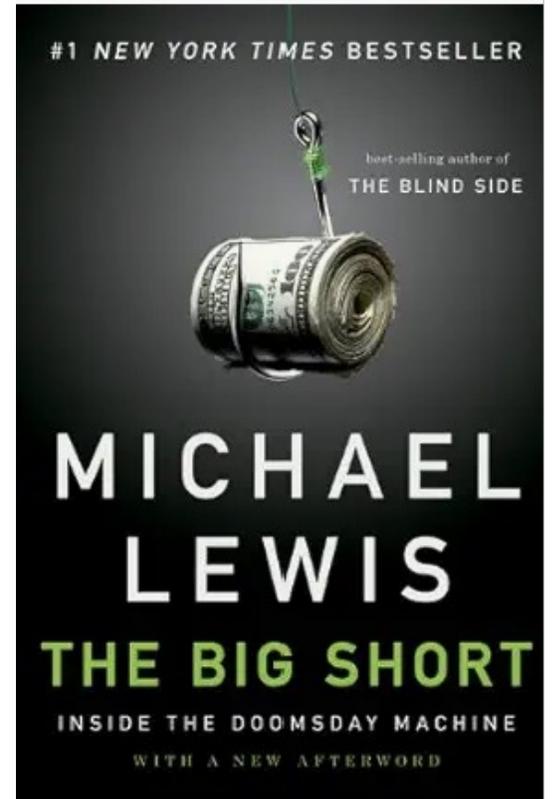


Image: Amazon.com

**Why not just trade relative strength?**



# What do these have in common?

*Relative Strength Index*

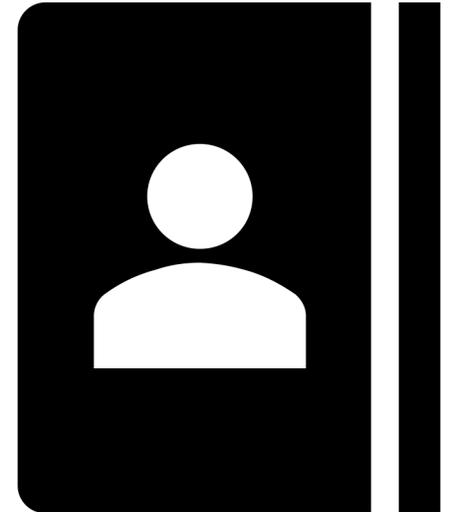
*Parabolic SAR*

*Average Directional Movement Index*

*Swing Index*

*Volatility Index*

*Commodity Selection Index*



# They were all introduced by John Welles Wilder in 1978

*Relative Strength Index*

*Parabolic SAR*

*Average Directional Movement Index*

*Swing Index*

*Volatility Index*

*Commodity Selection Index*

*Source: Wilder, J. Welles (1978). New Concepts in Technical Trading Systems. Trend Research. [ISBN 9780894590276](#).*

# What's happened in the stock market since 1978:

- *Index funds were three years old, today more than 3 million global index products*
- *No Exchange Traded Funds (ETFs) until 1992, today 3000 ETFs traded in US markets*
- *First electronic stock market in 1986 (Cincinnati), today 100% electronic*
- *No algorithms in 1978, today 98% algorithmic*
- *Stock-decimalization in 2001*
- *Regulation National Market System in 2007, regulating quotes, trades, data, access*
- *Explosion in Fast Trading*
- *Vast use of derivatives (20% of market cap)*
- *70% of equity assets in US running on models*
- *Short Volume is roughly 50% of total volume*



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*Past performance is not necessarily indicative of future results.*

Sources: Vanguard, Investment Co Institute, Nasdaq, SEC, Sifma, Finra, ModernIR models

**How do we stay out of value traps  
and death wishes, get free of  
outdated models, and just trade  
momentum?**

# Rule #1: Understand the stock market

# And Demand and Supply Reflect DIFFERENT Purposes, Horizons

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**active**

Stock story

**Horizon: 1-25+ yrs**

**Active Investment (10%)**

Institutional Investors

Capital Research  
American Century  
Wellington  
T Rowe Price

**passive**

Characteristics similar  
to other stocks

**Horizon: Weeks**

**Passive Investment (20%)**

Index Funds, ETFs, Quant Funds

Blackrock  
Vanguard  
State Street  
Invesco  
UBS  
JP Morgan  
Morgan Stanley  
Fidelity  
Renaissance Technologies  
Worldquant

**fast trading**

Profit on price differences  
in securities

**Horizon: A day or less**

**Fast Trading (52%)**

High Frequency Trading Strategies

Citadel  
Jane Street  
Susquehanna  
Quantlab

**risk  
management**

Leverage/Protect  
with derivatives

**Horizon: days to months**

**Risk Management (18%)**

Options, forwards, futures

Millennium Partners  
Point72  
Bridgewater  
AQR

Source:  
ModernIR.com  
research, 200D Ave  
2023

***The market is short-term, volatile,  
because 90% of the money buying  
and selling stocks has horizons  
ranging from a day to months.***



	Prior Period
Start Date	10/1/2023
End Date	10/31/2023

Refresh Data

	Current Period
Start Date	11/1/2023
End Date	11/1/2023

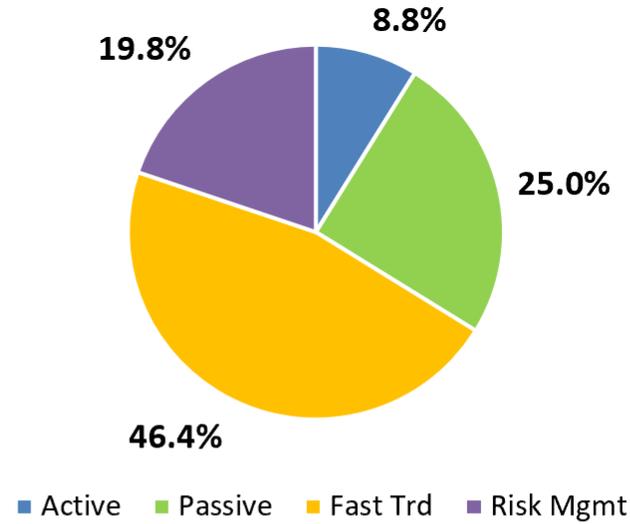
Create Email

Enter Ticker Below:

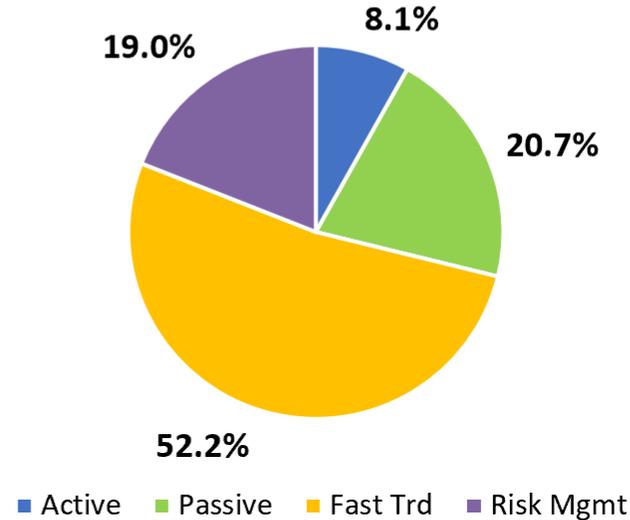
ROKU	10/1 - 10/31	11/1 - 11/1	Chg %
Active Investment	8.8%	8.1%	-8.1%
Passive Investment	25.0%	20.7%	-17.1%
Fast Trading	46.4%	52.2%	12.5%
Risk Mgmt (derivatives)	19.8%	19.0%	-4.0%
Short Volume (Supply)	63.6%	64.2%	0.9%
Demand (10pt scale)	3	1	
Rational Price	\$56.13	\$56.13	0%
Engagement Score	25%	25%	0%
Market Price	\$59.57	\$59.70	0%

This is ROKU. 8-9% of volume is the “Story.” Nearly 20% is derivatives (Risk Mgmt). ROKU jumped 31% on earnings 11/2.

Prior Period



Current Period



Source: ModernIR.com models using trade-execution data under Reg NMS

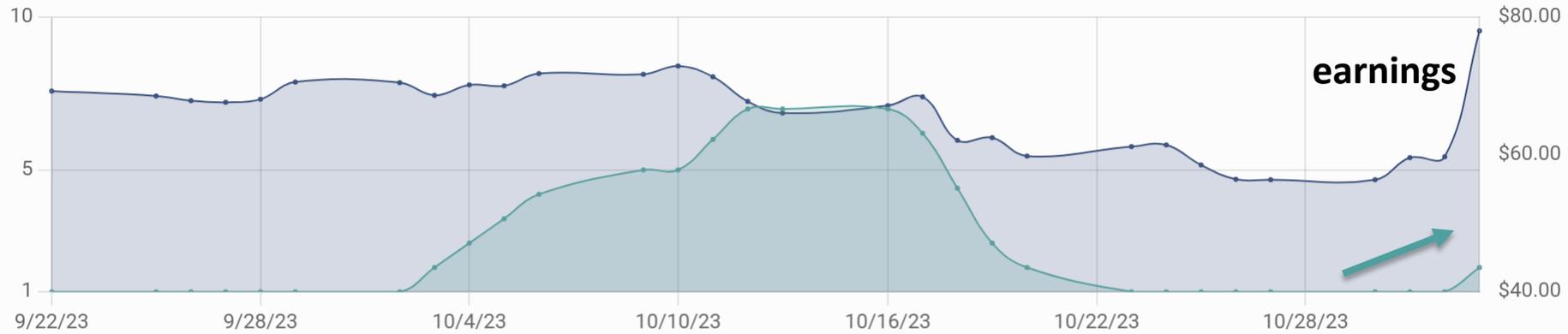
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**Rule #2: Know when momentum exists (and it's not all the time!)**

## ROKU Market Structure Sentiment™ (Demand) vs. Closing Price

September 22, 2023 - November 2, 2023

Market Structure Sentiment™: 1.8 Closing Price: 78.05 Trade Date: 11/2/2023



We can simplify buying and selling to **Demand**, and juxtapose Demand with **Supply**, a measure of Short Volume.

**CONCLUSIONS:**  
Sharp drop in **SUPPLY** vs bottomed **DEMAND** can boost price.

## ROKU Short Volume % (Supply)

Short Vol %: 61.9 Trade Date: 11/2/2023



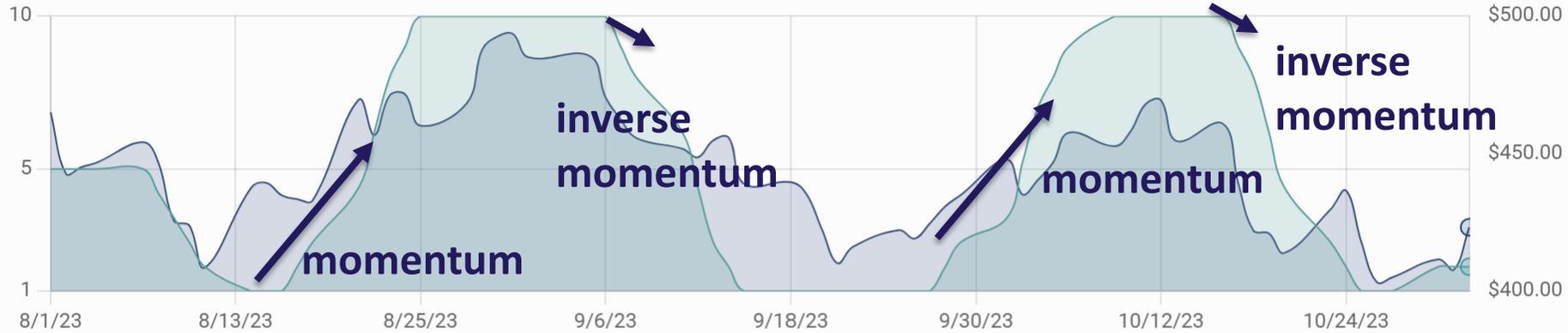
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### NVDA Market Structure Sentiment™ (Demand) vs. Closing Price

August 1, 2023 - November 1, 2023

Market Structure Sentiment™: 1.8 Closing Price: 423.25 Trade Date: 11/1/2023



**Key: It's not WHAT you own. It's WHEN you buy, sell.**

### NVDA Short Volume % (Supply)

Short Vol %: 45 Trade Date: 11/1/2023



Source: Market Structure EDGE. Past performance is no guarantee of future outcomes.

# What Are “Supply” and “Demand”?

**Demand.** An algorithm called “Market Structure Sentiment” metering buying and selling by investors under rules governing quotes and trades in US stocks. It’s a predictive mathematical calculation of the velocity of short-run price-movement driven by behavioral change and normalized to a scale of 1-10 with 1 being negative but oversold and 10 being positive but overbought. It’s the DEMAND read, and Demand over 5.0 tends to produce rising stocks and markets, and vice versa.

**Supply.** Short volume is the percentage of trading volume predicated on borrowed stock. It derives from 2010 Reg SHO modified-uptick rules for shorting stocks, is regulated by Finra, and includes market-making exemptions to short-locate rules under Reg SHO Rule 203b(2).

## **Rules for trading Momentum:**

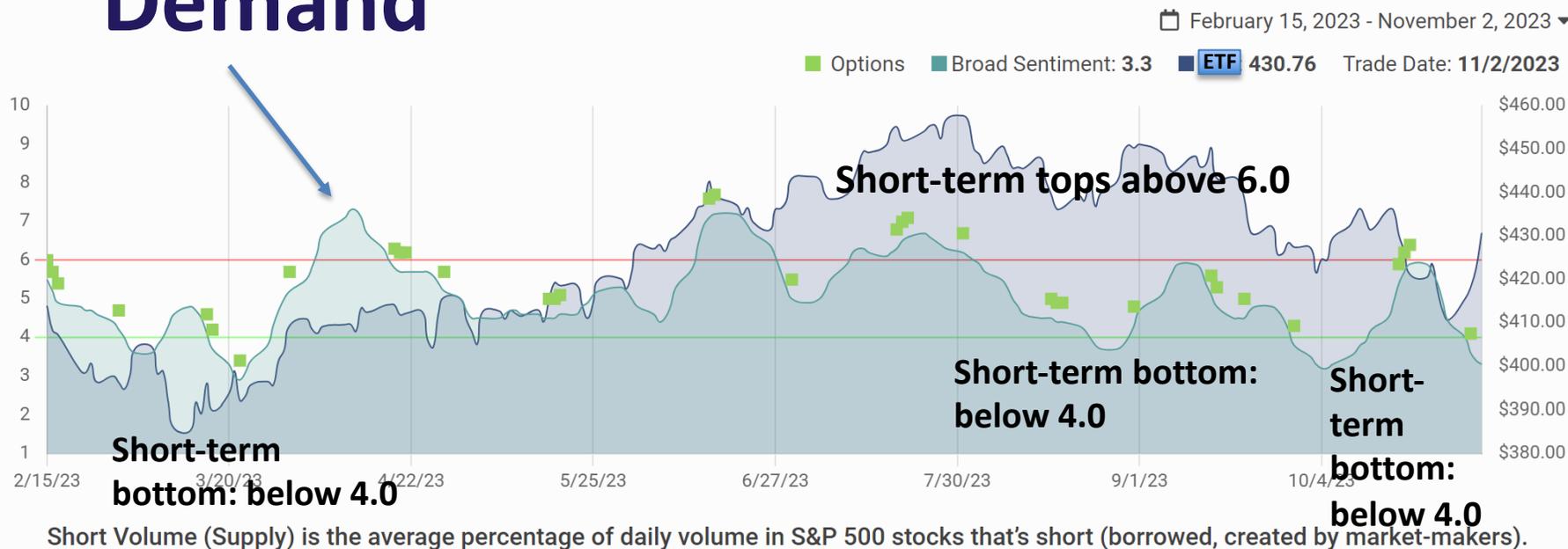
- 1. Be sure the broad market is supportive**
- 2. Find Demand/Supply divergences**
- 3. Focus on liquid stocks**

# Broad Sentiment for Risk Management



Broad Sentiment, the EDGE risk-management tool, reflects average Market Structure Sentiment™ (Demand) for composite S&P 500 stocks versus the price of [ETF] ETF. Green squares show monthly options and futures expirations.

## Demand



**Demand over 6.0:  
Index declines**

**Demand below  
4.0: Index rises**

Mathematical analysis supports it. So what? Since Jan 3, 2022, Index is down 226%, up 220% (-6% delta). What if you could change that ratio by 10,15, 20%?

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# Now let's use EDGE to help us find these:

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- **Demand: 8.0 or more**
- **Trend: Up**
- **Supply: <50%, and falling**

### KDP Market Structure Sentiment™ (Demand) vs. Closing Price

September 22, 2023 - November 2, 2023

Market Structure Sentiment™: 8 Closing Price: 30.86 Trade Date: 11/2/2023



### KDP Short Volume % (Supply)

Short Vol %: 37.9 Trade Date: 11/2/2023



*Don't chase these when Broad Sentiment is topped, falling!  
Short the market then.*

Shorting involves risk and added costs. Statistics improve probabilities but don't guarantee outcomes

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