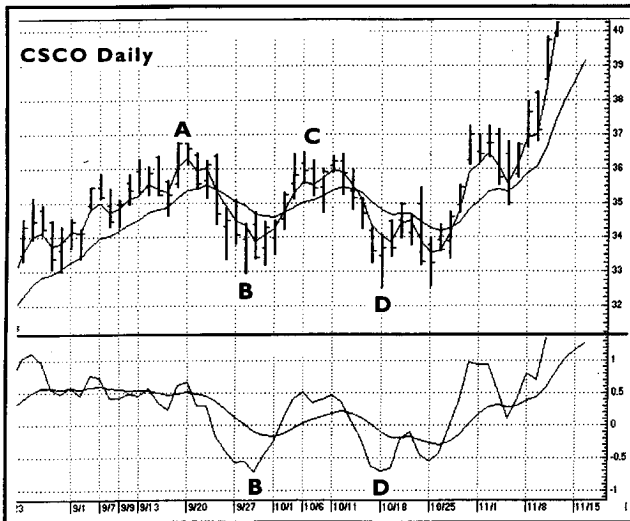


Chart 113. 18D RePo loss of momentum.

If we bear in mind the principle that momentum extremes precede price extremes, we can isolate classic trades that have better-than-average NTL as well as trend-based profit potentials (as opposed to just-good-enough NTL potentials and so-so trend-based potentials). In doing so, we're increasing our overall average profit potentials.

In the example Chart 113 illustrates, note that the 18D uptrend does not get underway in earnest until the 18D RePo develops, at C. Again, the momentum extreme (B) precedes the price extreme (C).

Chart 114. 5D RePo loss of momentum.



bar at B, right at the 5D RePo area; and this test of the POC, at A, has a lower potential momentum peak (see MACD line). All of this defines a compelling short. Again we see a momentum peak (A) preceding the price peak (B).

On Chart 113, left, the 5D RePo in the Oil Services Index from A to B is a clear momentum thrust down. We see in the rally upward from B a move that in retrospect may provide a good NTL-type trade; from a trend position-trading standpoint, however, this rally is disappointing.

Of course many 18D RePos and 5D RePos, especially in strong

underlying trends, will prove to be exceptions to this principle, and they'll work out just fine even so. But in stock and index trading, where the risk of minimized participation is less, this tool lets the trader be more successfully defensive, or more selective, or both, and participate in trading situations that offer the very best odds of both price movement to NTL and trend-based profit.

On Chart 114, left, we see a classic 5D RePo in CSCO (which happens to occur in a strong mar-