Trading Secrets: How to Win 80% of the Time

Always trade excessive fear and greed.

It's how Warren Buffett has made so much money. In fact, to this day, he'll tell you to "be fearful when others are greedy; and greedy when others are fearful."

Baron Rothschild would tell you to "buy when there's blood in streets."

Sir John Templeton would tell you to buy at "points of maximum pessimism."

They all took full advantage of herd mentality. They know as well as we do that excessive fear can lead to value. They also knew the excessive greed could lead to rewards, as well.

So how do we spot such opportunities?

One of the best ways is to simply watch momentum indicators, which gauge the sentiment of fearful and greedy traders. For example, for the last 20 years, I've used Bollinger Bands, moving average convergence divergence (MACD), relative strength (RSI), Williams' %R (W%R) and a host of other indicators that we'll discuss moving forward.

To make money using these indicators, each has to be in agreement with the others.

Look at NVDA, for example.

At $95 a share in early March 2017, the stock found double bottom support following a laughable downgrade that sent the stock too low, too fast. At the same time, though, RSI was at its 30-line. Money Flow was nearing its 20-line. Williams' %R was under its 80-line. All confirmed the stock was oversold at support.

Plus, it was also testing its lower Bollinger Band.

In simple terms, agreement from all indicators told us the "rubber band" had been pulled too far in one direction. It was likely to revert to mean, which it did not long after.

Only a fool would have passed up the opportunity at $95 a share. Since finding support at $95, it spiked to $154 in just months. The options on this trade were just as explosive.

We can't really do anything with the long side of NVDA any longer, though.

So we begin to look for the next opportunity, which we can find with gold. Using the same indicators, look at what's happening. Gold prices are again at the upper Bollinger Band, where it has historically failed. That's confirmed with RSI at the 70 line, confirmed with Money Flow at the 80 line, confirmed with W%R at the 20 line.

What that tells us is that gold is very likely to pull back, near-term just as it's done multiple times. The question then becomes – how do we trade it?

One way is to buy a bearish gold ETF, like the Pro Shares Ultra Short Gold ETF (GLL), which last traded at $72.45. Or, we can open a put option position in the Randgold Resources (GOLD) stock with the July 2017 95 put, which traded at $2.75, as of this writing.

The GOLD September 2017 95 put also looks good, last trading at $4.85.

Interesting to note, even GOLD is exhibiting the same technical weakness at the upper Bollinger Band, MACD, RSI, and Williams (W%R). We'll be sure to discuss even more of the indicators we use moving forward. For the time being, test out these specific indicators with stocks on your own, too, just to get an idea of how well they can work when spotted.