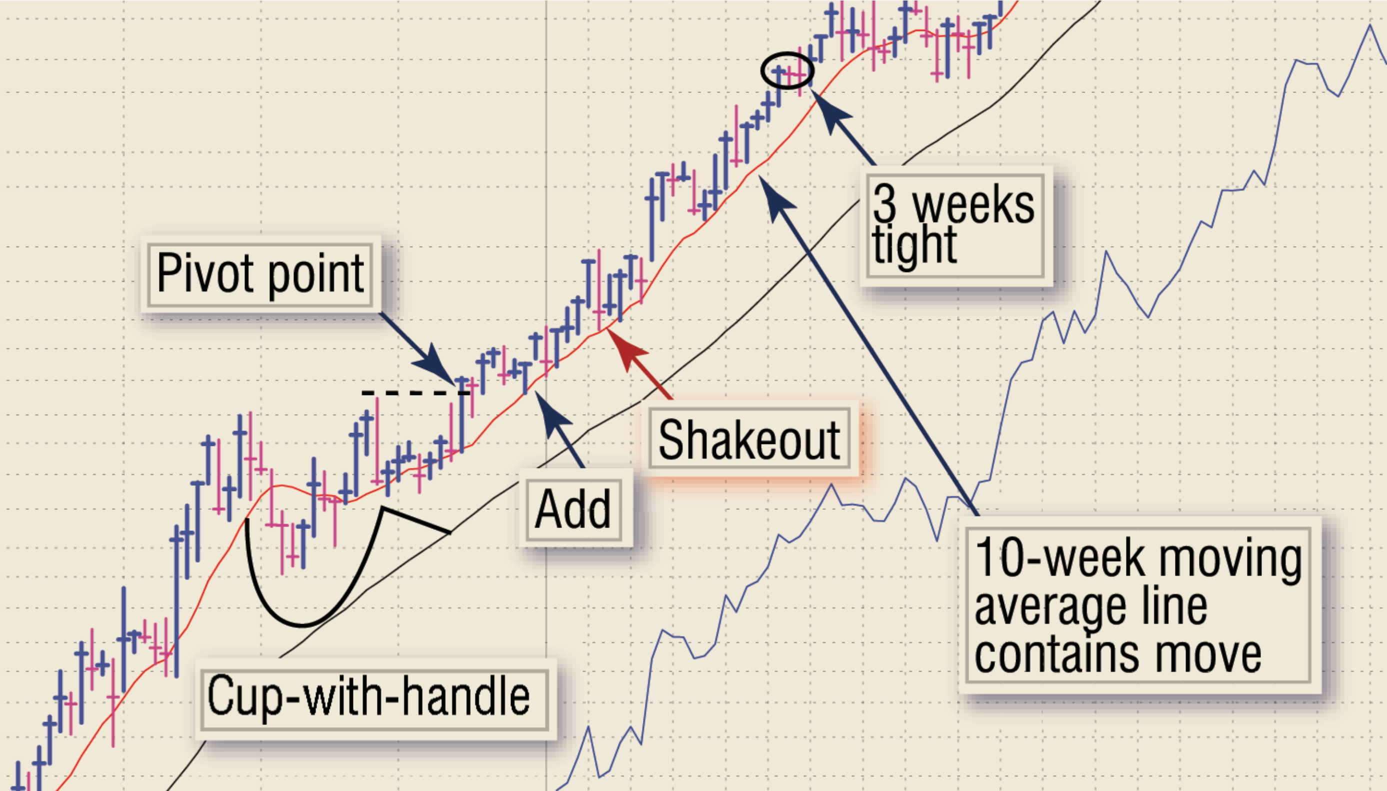


All About Charts

Investor's Business Daily

All About Charts

Introduction

A key factor to being successful in the stock market is the ability to analyze a company's fundamental information and use charts to find the right time to buy and sell the stock. IBD's CAN SLIM® Investing System makes it easy for you to do both.

The lessons in this book will cover basic and advanced chart reading. The skills you learn here can also be used to read charts on Investors.com, where you can view a full screen, color chart for any stock. These price and volume charts help you easily identify current base patterns and buy points. Use both – weekly and daily charts – to get the full story.

Contents

Classic Chart Patterns 1

Advanced Chart Analysis 27

CAN SLIM® Overview 75

Recognizing common trading patterns and determining proper buy points will help you find winning stocks before they make huge price moves. The lessons in this section will provide you with samples of common chart patterns with clearly marked buy points and detailed, actionable information. IBD’s research shows that when it comes to stock charts, history repeats itself. Become familiar with these examples to ensure that you don’t miss the next big winner!

Classic Chart Patterns

Ascending Bases Can Lift Profits Higher

BY PATRICK CAIN

INVESTOR'S BUSINESS DAILY

If you squint your eyes, most of the key base patterns found in winning stocks look similar—except for the ascending base.

The ascending base is unlike other patterns, as it has three pullbacks and, as its name implies, it continually hits new highs before the buy point is triggered.

Ascending bases, like many flat bases, occur midway along a move up after a stock has already advanced from a primary base.

The base can be a bit tricky to identify because it doesn't look like a normal consolidation. It at first may seem like a stock is climbing higher, continually finding support off of its 10-week line.

The key to finding an ascending base is to look for three pullbacks.

In each pullback, the stock generally corrects 10% to 20%. After each pullback and subsequent rebound, the stock must hit a new high.

These pullbacks are typically tied to the action of the overall market. If the market is roaring and a stock is pulling back 10% to 20%, that's a serious concern.

The overall base is typically between nine and 16 weeks. The buy point is based off the high before the third pullback. The price at which to jump in is 10 cents above that high. Of course, as with any base, you want to see the stock surpass its buy point in high volume.

Take a look at **Qualcomm**[QCOM] in 1999. Earlier that year, the wireless tech giant had already made a huge move. Even after a 660% advance in nine months, there was still plenty of gas in Qualcomm's tank.

Big run-ups often cause investors to take their gains and walk away. That's fine to do, but let the market tell you when to walk away, not your gut. At this point Qualcomm was not in a late-stage base; neither was it breaking any trend lines or triggering other sell rules.

It was, however, on the verge of setting off another buy rule based off its ascending base.

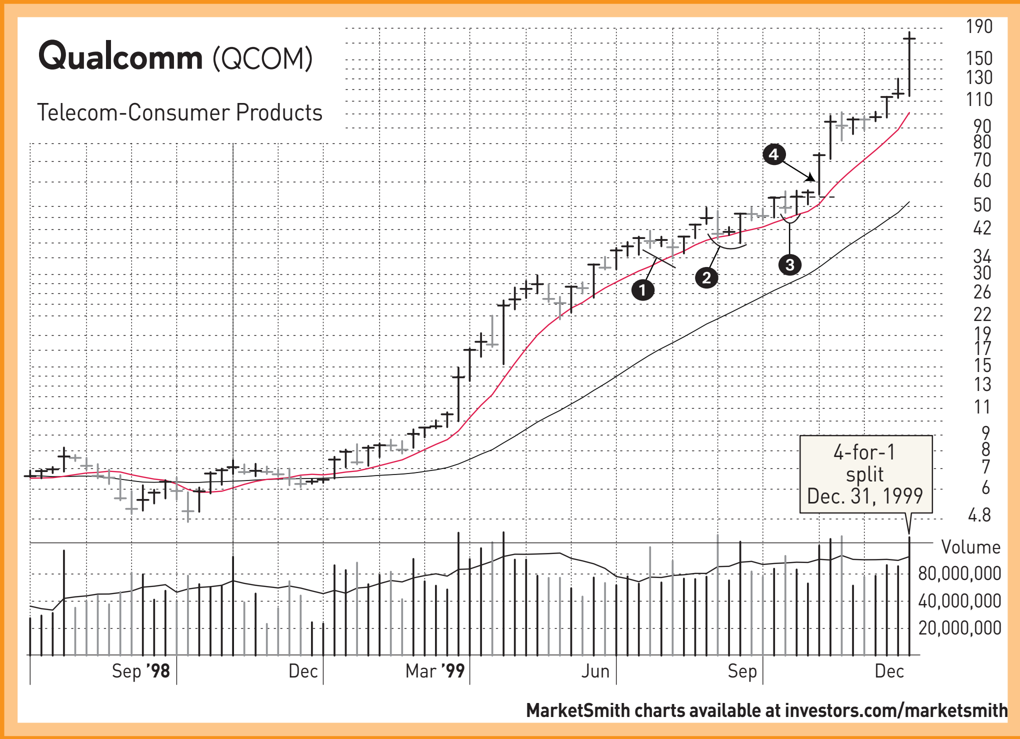
In July it peaked, then pulled back 19% ❶. This trip back to its 10-week moving average line was the first of the necessary three pullbacks.

Qualcomm then rallied for 19% and pulled back again. This second pullback retreated 23% and temporarily broke the 10-week line ❷. By the week's close, though, the stock rebounded back above it.

It then rebounded a third time, marching 13% higher. Yet again it pulled back, this time 16%. ❸ With three pullbacks in 15 weeks, the ascending base was set.

Qualcomm surged out of its ascending base Nov. 3 at 57.42 ❹ (adjusted for a 4-for-1 split). At the breakout, it showed strong IBD ratings: 99 EPS, 99 RS, B for SMR and B for Accumulation.

Buyers then were set up to gain 255% over 10 weeks. Shares topped on the first trading day of 2000.



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"Big run-ups often cause investors to take their gains and walk away. That's fine to do, but let the market tell you when to walk away, not your gut."

An Investing Classic: The Cup With Handle

BY VINCENT MAO

INVESTOR'S BUSINESS DAILY

Every field has its mainstays.

College football has the Alabama Crimson Tide, while opera has "La Boheme."

In the field of finding leading stocks before they produce a masterpiece of big gains, one mainstay is the cup-with-handle base.

If you don't know this chart pattern, then you probably don't know the right time to buy a great stock. And you're missing out on some great buy opportunities.

A cup typically begins to take shape during a mild or intermediate decline in the general market.

As a cup develops for a growth stock, it's normal for shares to fall 1 1/2 to 2 1/2 times more than the major indexes. The drop from the cup's top to its bottom usually ranges from12% to 30%.

The pattern should have a rounded U shape rather than a V shape, says William O'Neil, IBD's founder and chairman, in "How to Make Money in Stocks." "The 'U' area is important because it scares out or wears out the remaining weak holders and takes other speculators' attention away from the stock," O'Neil wrote.

He also notes that before the pattern starts to form, the stock should have been in a clear prior uptrend of at least 30% in price.

The pattern's handle starts to develop after the stock has spent time working on the right side of its cup. The handle area is characterized by a downward price drift, or what's called a "shakeout," rather than upward-drifting action.

You want to see volume dry up as the handle forms. You also want the correction in the handle to be no more than 12% to 15%. In a major bear market, the decline might be larger and the handle can still work. And it should take shape in the upper half of the base, ideally with the handle's peak within15% of the cup's peak.

How long should the handle be? At least a week. Overall, the length for the entire cup-with-handle base ranges from at least seven weeks to typically no more than 65 weeks.

Highflier Netflix[NFLX] broke out of a cup-with-handle base about a year ago. The DVD-rental-by-mail pioneer began to form a cupin April 2009, after hitting an all-time high of 50.24 ❶.

Netflix's three-week handle started to take shape in September 2009. The high in the handle was at 48.20 ❷. That's easily within 15% of the 50.24 peak for the cup's left side.

Turnover was below average as the handle developed, as you would prefer to see ❸.

Volume picked up as the stock cleared its handle buy point of 48.30 ❹. You get that buy point by adding a dime to the 48.20 peak in the handle.

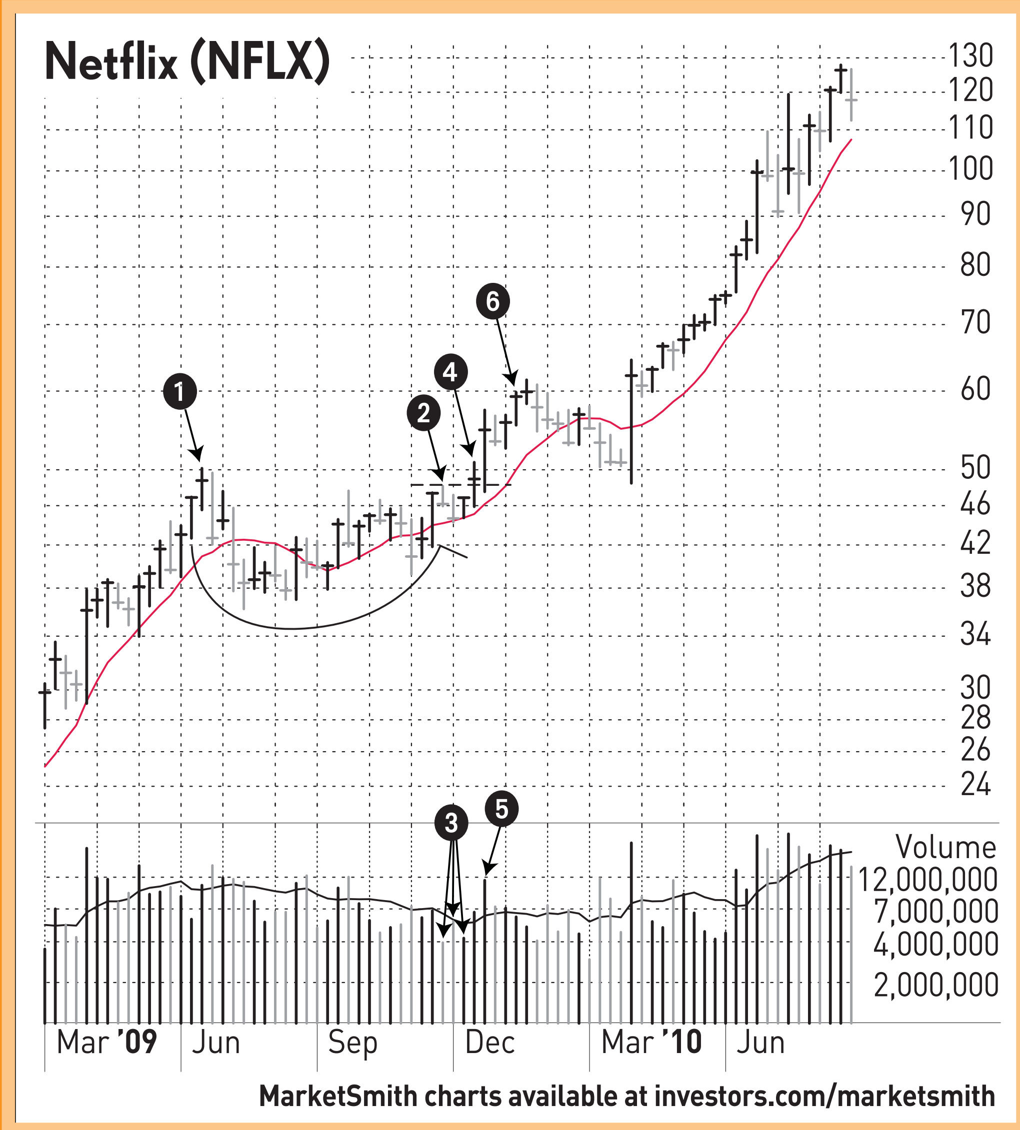
Another positive sign was that trade kicked in even more in the week after the breakout, as the stock reached another new high ❺.

So when might you have sold this stock? It's reasonable to have bailed out in the week ended Nov. 13, 2009 ❻. At that point, Netflix had advanced more than 20% from its 48.30 buy point, and one of IBD's sell strategies is to lock in your profits after a gain of 20%.

If you had sold your shares then, you wouldn't have had to sweat as Netflix corrected from mid-November through late January to as low as 48.52.

But even with that decline, the stock didn't fall below its 48.30 trigger. Most big winners don't drop below a proper buy point as they make their big advances.

Netflix went on to climb as high as 174.40 by Sept. 30 of this year. That's a gain of 261% from its cup with-handle buypoint.



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"A cup typically begins to take shape during a mild or intermediate decline in the general market."

Deep Cup Base Is Not Necessarily Bad

BY VINCENT MAO

INVESTOR'S BUSINESS DAILY

Different situations call for different measures —literally. In roaring bull markets, pick stocks that form bases within acceptable guidelines and stay away from ones that don't.

But in nasty corrections or bear markets, some good stocks will form deep bases. Not all of these should be shunned. Despite correcting more than normal, these deep patterns can still work, particularly when the company's fundamentals and other traits are outstanding.

Take a common cup-with-handle base, for example. In an uptrending market, the correction from the high of the cup to the low in the pattern should ideally be no more than 30% to 33%.

Be wary of stocks that form deep patterns during uptrending markets. But in down markets, the downdraft could knock stocks by 40%, 50% or more.

These deep cup-with-handle bases aren't pretty technically, but you need to take a stock's correction in context with action in the overall market.

Most stocks tend to be more volatile than the general market or a market index such as the S&P 500. Growth stocks, such as those featured in the IBD 100 or Your Weekly Review can correct 1 1/2 to 2 1/2 times the general market. So if the market plunges 25%, you can easily see a leader get cut in half or more.

From its October 2007 peak to its March 2009 low, the Nasdaq plunged 56%. During this time, a barrage of highly rated stocks carved out deep bases and still went onto become big winners.

BaiduBIDU plummeted 74% from its May 2008 high to its December 2008 trough. It eventually recovered and cleared a deep cup-with-handle base in the week ended July 17, 2009. It doubled in eight months.

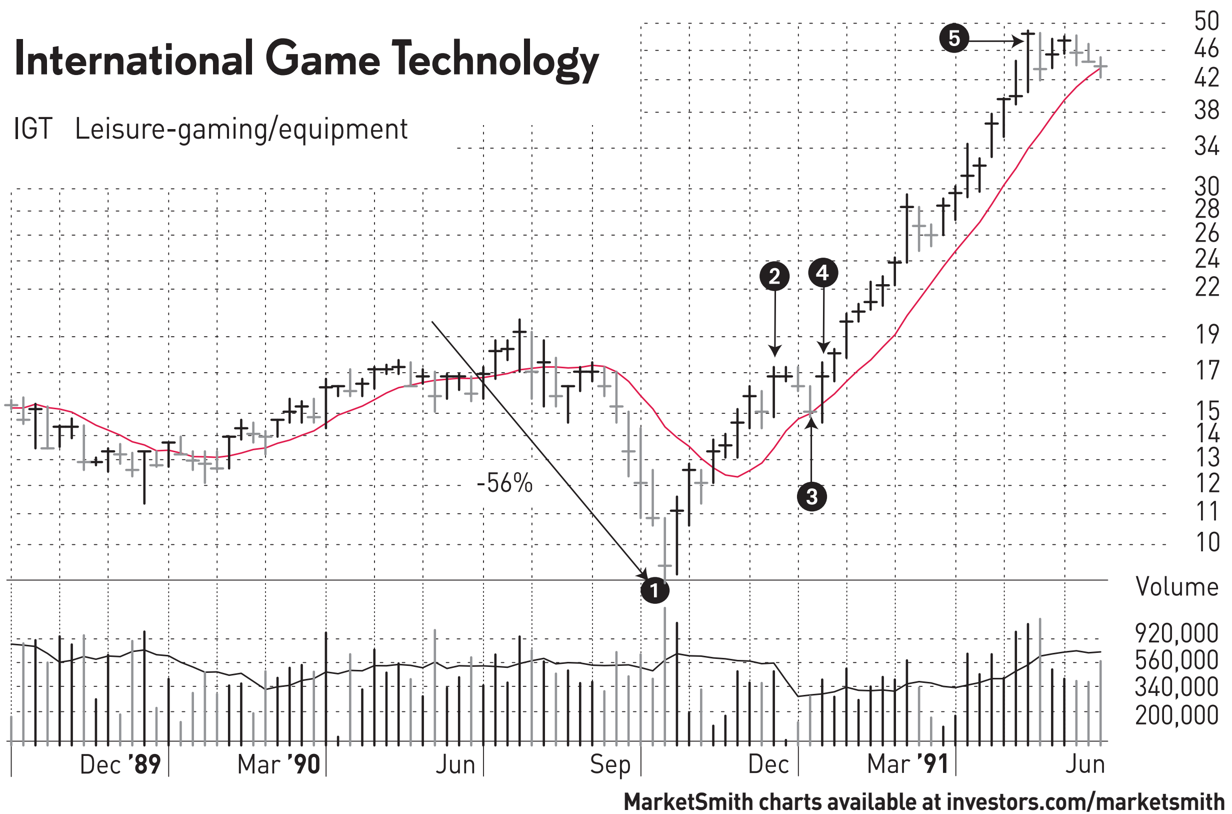
Tech icon **Apple**AAPL soured 60% from its May 2008 peak to its January 2009 low. It broke out in May of 2009 and climbed nearly 60% in five months.

These were abnormal declines, but they were a function of the severe bear market at the time.

During the 1990-91 bear market, the S&P 500 dropped 20% while the Nasdaq tumbled 31%. Gaming equipment maker International Gaming TechnologyIGT had a more drastic correction. The stock dived 56% from its July 1990 peak of 20.25 to its October low of 9 (1).

International Gaming rebounded and formed a V-shaped cup-with handle base with a 16.60 buy point (adjusted for a 2-for-1 split in July 1990). The handle corrected 18%— a tad deeper than normal, but much milder than the decline within the cup. The stock had good IBD Ratings: a 73 for EPS and a 94 RS. The company's new microprocessor based games were red-hot. Shares cleared the handle in the week ended Dec. 21 (2) but soon failed (3).

International Gaming cleared another handle in the week ended Jan. 18, 1991 (4). Shares shot up 180% by May (5) before settling into another consolidation.



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"Be wary of stocks that form deep patterns during uptrending markets. But in down markets, the downdraft could knock stocks by 40%, 50% or more."

Double Bottom Forms During Steep Falls

BY DAVID SAITO-CHUNG

INVESTOR'S BUSINESS DAILY

Sometimes a strong stock will act like a bamboo tree in a storm.

When the wind blows hard, the bamboo bends, then snaps back and stands tall. Soon another round of gusts and rain smothers the tree. But when it's over, the bamboo springs back into place.

A superior stock might behave like this in a bear market, or when investors are simply selling like mad. There might be two swift sell offs near the end of a steep decline. Then the market turns, and blue skies appear.

When the sun shines, keep an eye out for stocks that form the double bottom pattern. It's one of the most common bases that precede a great stock's tall advance.

Both the cup base and the double bottom require a minimum uptrend of 30% that precedes the start of a first-stage pattern. They both must form over a period of at least seven weeks. But the similarities practically end there.

Unlike a cup, which features a single bottom usually in the middle of the pattern, the double bottom shows a pair of lows with a middle peak. Hence, the double bottom traces the shape of a W.

After an initial sell-off, the stock rebounds but doesn't reach a new high. Then it forms a second leg down, undercutting the first low in a fast and furious manner. This shakeout is key; it fully wrings uncommitted shareholders out of the stock.

The Storm Of 1998

Take a look at **Nokia**[NOK], one of the top tech winners during the late 1990s as cell phone use spread across the world.

The Finnish phone maker broke out of a solid cup-with-handle base in March 1998 ❶ and rallied 77% in less than five months. Such a smart gain in such little time was a big clue that Nokia was worth watching.

The market, meanwhile, showed exhaustion in July that year after years of handsome gains. Distribution days piled up among the NYSE composite, Nasdaq and other key indexes. Then the market really got floored after Russia said it would default on its bonds and the ruble crumbled.

By the end of September, quantitative hedge fund Long Term Capital Management was about to blow up. The fund, graced with veteran Wall Street traders and a pair of Nobel Prize winners, had lost nearly all of its equity and was on the verge of default as well.

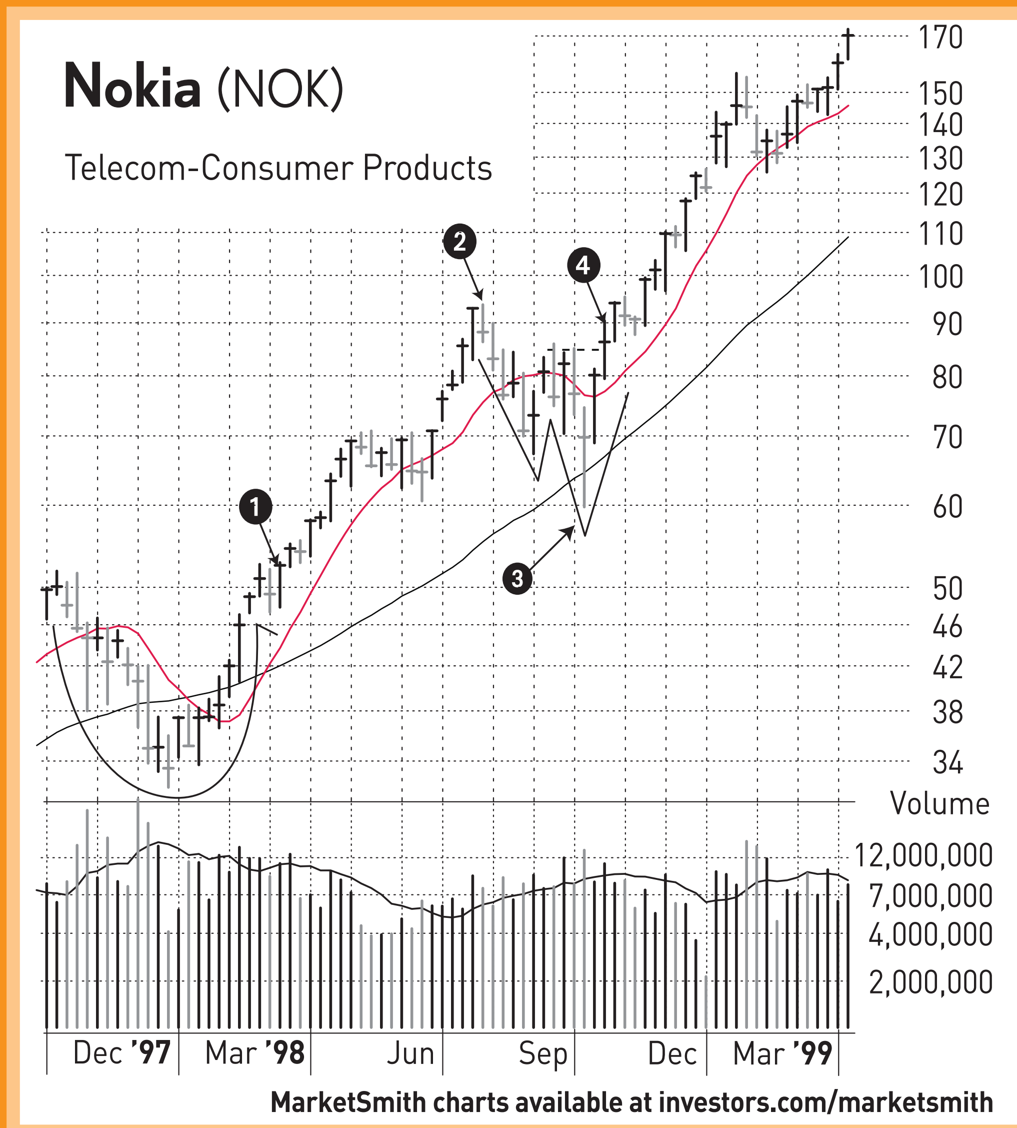
So, how did Nokia handle the storm?

After peaking at 92.75 ❷ on July 27, the stock dropped 26.25 points over five weeks, a 28% slide. Nokia rebounded to as high as 85, then caved again fast. By Oct. 8, it undercut the first low of 66.50 and reached as low as 59.06 ❸, 36% below its high.

The market recovered quickly, though, thanks in part to the Federal Reserve's decision to cut interest rates and an agreement among Wall Street banks to save LTCM. On Oct. 15, the major indexes followed through powerfully on the fifth day of anew rally attempt.

Nokia came back strong, too. On Oct. 22 ❹, it surpassed a buy point of 85.10—10 cents above the middle peak of 85—and kept going, logging gains in healthy volume. At the breakout, Nokia had a commanding 94 Earnings Per Share Rating and a 98 for Relative Price Strength. At the moment the stock was ready to launch a big move, it was already out performing 98% of the entire market over the past 12 months.

The stock gained 83% by January 1999.



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"Unlike a cup, which features a single bottom usually in the middle of the pattern, the double bottom shows a pair of lows with a middle peak. Hence, the double bottom traces the shape of a W."

Concho Run Stacks Up Square-Box Bases

ALAN R. ELLIOTT

INVESTOR'S BUSINESS DAILY

Good things, they say, come in small packages.

That can be true for chart patterns, too. One example: the square box base. As the shortest possible base within IBD's collection of winning patterns, it can form in as few as four weeks and lasts no more than seven weeks.

For chart readers, square boxes seem to happen in the wink of an eye. And they have been occurring a lot recently.

Aruba Networks[ARUN] cleared a square box on Aug. 27. Companhia de **Bebidas**[ABV] topped one the week ended Sept. 3. **Ebix**[EBIX] cleared a square box that formed within a larger base in the week ended Sept. 24. All have since gained 20% or more. Altera[ALTR] and Tibco[TIBX] are possibly forming a square box.

Like a flat base, a square box corrects no more than 15% from top to bottom. Volume tends to dry up through the correction and surges at the breakout.The buy point is the highest intraday price within the pattern, plus a dime.

Is It Square? Or Flat?

The flat base must last a minimum five weeks, but can be much longer than a square box. Unlike the rounded bottom seen in a cup or two down legs in a double bottom, the flat base's shape looks like its name implies—flat, sideways movement.

The square box is the newest base in the CANSLIM arsenal. It was introduced in the fourth edition of "How to Make Money In Stocks," written by IBD founder and Chairman William O'Neil.

"I've noted this pattern over recent years," O'Neil wrote, "but finally we've studied, measured and classified it."

As with all bases, you typically start your count of weeks for a square box during the first down week. That means the first week to log a Friday close below the prior Friday's close. A good example is Southwest U.S. oil producer Concho Resources[CXO].

Concho broke out of a cup-withhandle base in the week ended Aug. 7 last year (1). It quickly eased into a shallow correction the next week. It dipped 12%, and briefly touched its 10-week moving average during the fourth week of its pullback. A square box — and a base-on-base pattern—wasborn.

Concho rose off its 10-week line in weak trade for three days. Heavy trading then boosted it above the base's 35.37 buy point (2) as the stock gained 11% for the week. This was a telltale sign of institutional buying. At the time, Concho marked an 88 Composite Rating and a 78 for Relative Price Strength.

It pulled back to its 10-week moving average twice as it climbed 24% over the next two months. Then Concho slipped into what would become a second square-box base in November (3).

Notice in this square box how the lows from week to week were close in price — 40.24 in the week ended Nov. 20, 2009, then 40.33, 40.19 and 40.35. In the week ended Dec. 18, Concho jumped 9% and cleared its new buy point of 44.08, or 10 cents above the highest price within the box (4).The stock also leapt to an all-time high.

Volume that week was weak, however (5). Perhaps this explains why the stock soon formed a seven week cup with handle from January to February of this year (6).

Because a square box or flat base is a base pattern, it is included in a stock's base count. Look for a 20% gain from a prior base's buy point before counting it as a separate base, though. A square box can also form as part of a base-on-base pattern, which counts as a single base.

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"A square box or flat base is a base pattern, it is included in a stock's base count. Look for a 20% gain from a prior base's buy point before counting it as a separate base."

The Base-On-Base Can Help Time Your Buy

DONALD H. GOLD

INVESTOR'S BUSINESS DAILY

For some great stocks, one base just isn't enough. Some need to form a second one before shooting ahead to fantastic gains.

In this, the fifth installment of a series of columns on when to time your buy, we'll examine the base-on-base pattern. This somewhat uncommon pattern can give new life to what may first look like a fizzled out breakout.

The base-on-base is just what it sounds like: two bases, one on top of the other. Each base must be valid in its own right. The highest point of the second base can be no more than 20% above the buy point from the first base.

Often a base-on-base will appear during a tepid market, where even good stocks lack oomph. The first base doesn't work because the entire market is slack.

But don't confuse this with a base within- a-base, where the stock goes not higher from the first base, but sideways. A larger base often contains within its parameters a second base, usually with a lower buy point.

How Can I Use It?

Of the two, the second base is more important to investors. The first base may hold flaws — sloppy trading, a deep cup, perhaps no volume on the breakout. It may have been bad enough to scare you away.

Or it may be perfect. Either way, the stock won't fly more than 20% from the first base.

In fact, its post-breakout behavior may be its biggest flaw. Some of these stocks will hardly rise at all from their breakout.

At first you'll think it's just a dud. If you bought that first base, you may well unload with impatience. That's fine, but it doesn't hurt to pay attention anyway.

The second base becomes more important because that's the one that will offer you a potential entry. Whatever may be the flaw of the first base, the second must be as perfect as you would normally want.

A flawed base does not look more attractive simply because it sits atop another base. Apply the same strict standards of technical and fundamental analysis as you would to any other possible purchase. From here, you can treat the base as you would any other.

Make sure distribution doesn't dominate the base. Tighter is better than looser. Volume needs to surge at least 40% above its normal pace as the stock triggers its buy point.

Let's look at Collins & Aikman. Shares of the maker of fully assembled cockpit modules had built a long saucer-and-handle ❶ from Juneof 1981 to March of 1982.

But Collins & Aikman rose just 18% from its 11.85 pivot before stalling and falling ❷. For a while, Collins & Aikman looked like a dud.

That stall turned out to be the start of a second base. This cup with high handle ❸ yielded a breakout on Aug. 26 with triple-paced volume. Shares tripled over the next 11 months.

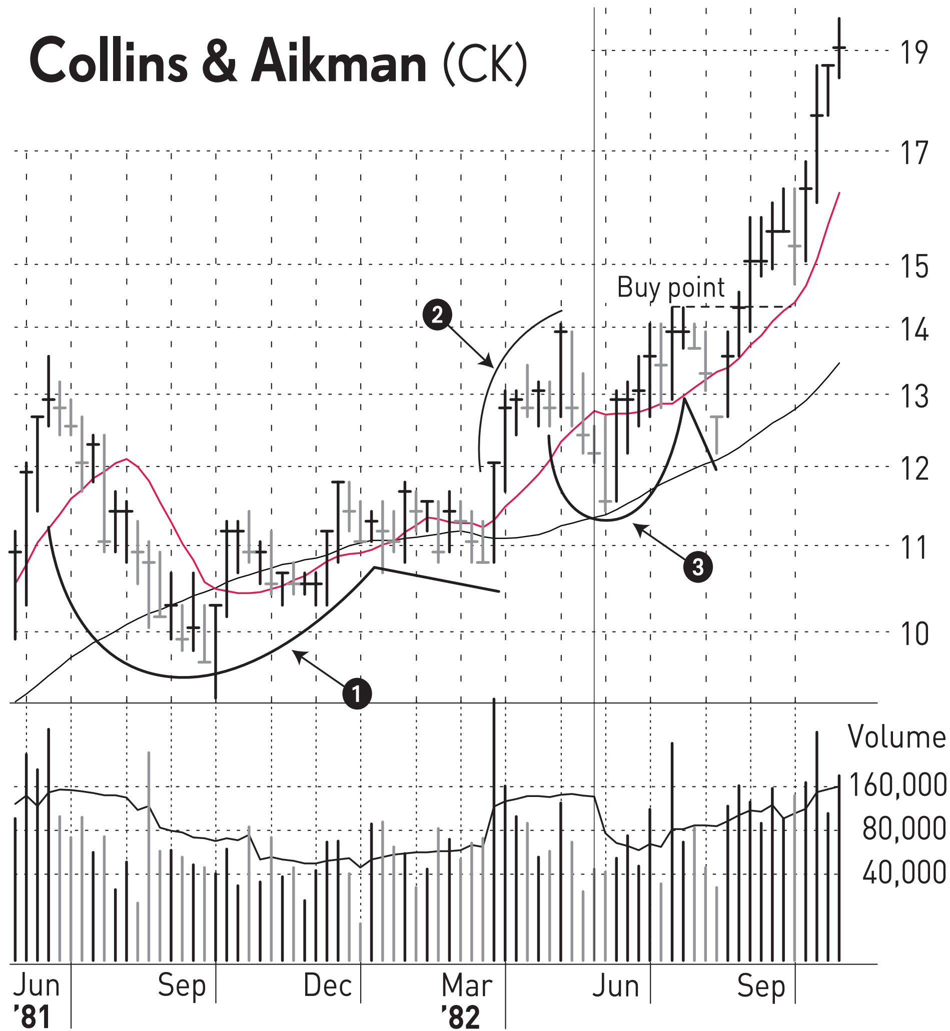
Why Is This Important?

You may think that if the second base is so crucial, the base-on-base aspect is not. You'd be wrong.

True, a base-on-base is typically no more or less powerful than a single base. But the base-on-base acts as one base for base-counting purposes.

So, when a stock breaks out from a third-or fourth-stage base, it's pushing its luck.

It may be tired, and a breakout is more prone to failure. It will be good to know that the base-on-base pattern you're looking at is just a single structure, and the stock isn't as long in the tooth as you had thought.



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"The base-on-base is just what it sounds like: two bases, one on top of the other. Each base must be valid in its own right. The highest point of the second base can be no more than 20% above the buy point from the first base."

High, Tight Flag Produces Explosive Gains

BY PATRICK CAIN

INVESTOR'S BUSINESS DAILY

There is one pattern that above all else investors should get excited about. One pattern that, when correctly spotted, translates into big gains fast.

This one pattern is the high, tight flag. This rare pattern is tough for many investors to spot because of our instinctive reaction to discount a stock that has just made a huge run-up. In the case of the high, tight flag, that's not only good to see, but also mandatory.

There are two central pieces to this pattern: the flagpole and the flag. The flagpole is a quick run-up coming out of a consolidation. It is an advance of 100% to 120% within four to eight weeks. This big move can be tricky to interpret for new investors because fast moves like that may actually lead to topping signals if not analyzed correctly.

After the flagpole forms, the stock takes a moment to relax. Typically over the course of the next three, four or five weeks the stock will decline less than 20% to 25%. As it pulls back volume is usually light, much like a handle on a cup base. The buy point is typically 10 cents above the high in the pattern.

Because of the explosiveness of this pattern, it's critical investors do their homework before the buy point is triggered. Make sure the stock has exceptional fundamentals and is showing signs of strong accumulation.

Shares may quickly leap out of an acceptable buying range, so do your research before they cross the possible trigger. Know in advance the exact buy point and don't chase the stock.

4Kids Entertainment in late 1999 showed this pattern, and investors who saw it made big gains.

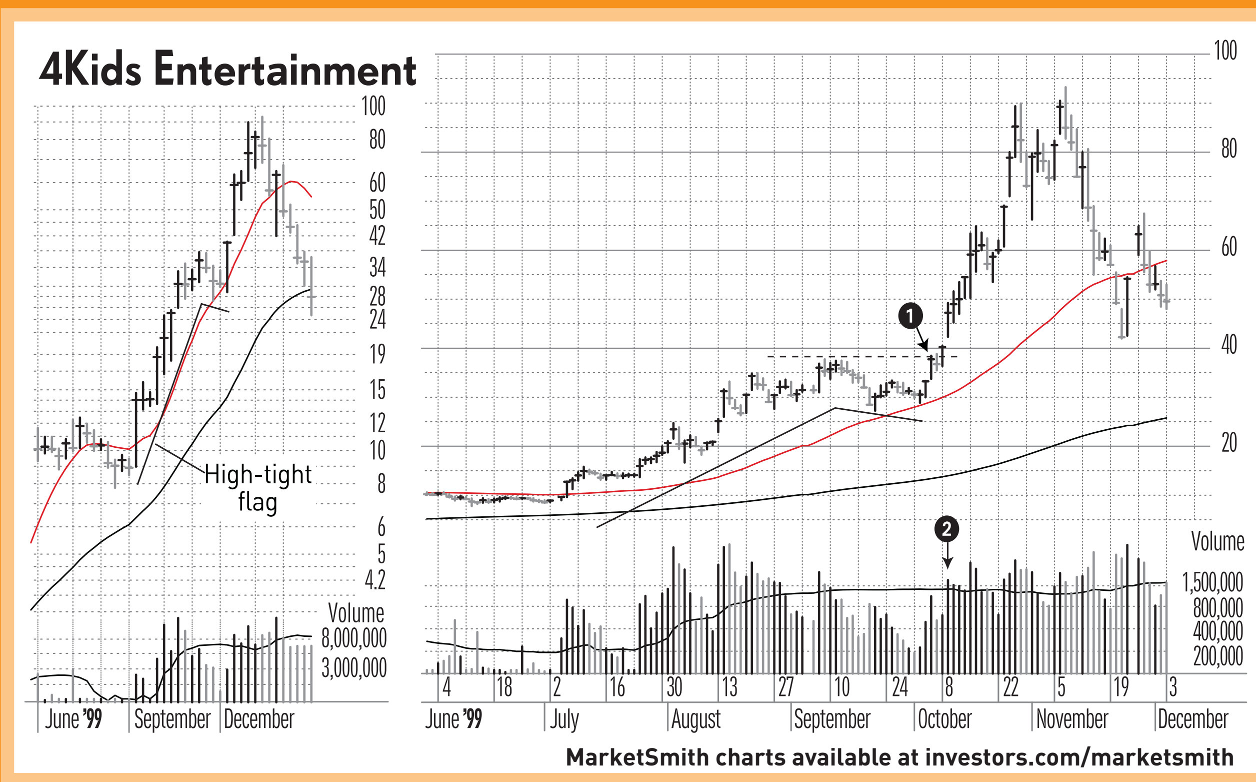
This pattern was not perfect. It's tough to find a perfect high, tight flag partly out of how rare they are. A rigid investor may have missed 4Kids' pattern because the flag corrected almost 28%. That's more than what is typical for a high, tight flag, but considering the prior run up was so big, the flag's depth was merely modest and still acceptable. When 4Kids Entertainment began its move on Oct. 6 (1), volume was light the first three days. Then on Oct. 11, the stock gapped up 17% as volume rose 31% above its 50-day moving average (2). At the time, it chalked up a 77 EPS Rating, a 99 RS and A's for industry group Relative Strength, SMR and Accumulation / Distribution.

The volume pickup was not as big as you'd like to see. However, the stock had not seen a high-volume day of any sort for a full month, so this was an encouraging change in its trading style.

This would not be the only fast-paced session; each of the next five days the stock climbed in a faster-than-normal pace.

Within a month of the breakout from the 37.85 buy point, shares had hit 93.25, up146%.

But as fast as they climbed, the gains disappeared by mid-December. Investors needed to activate their sell rules when the stock triggered them in November, such as the climax run. Today, the stock trades on the pink sheets over-the-counter market under $1 a share.



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"Because of the explosiveness of the high, tight flag pattern, it's critical investors do their homework before the buy point is triggered. Make sure the stock has exceptional fundamentals and is showing signs of strong accumulation."

Patience Is Required To Play The Saucer

PAUL WHITFIELD

INVESTOR'S BUSINESS DAILY

Some investors are naturally patient. Others prefer fast-developing situations.

A three-weeks-tight, a square-box base or a flat base favors the quick acting investor. When a stock takes only a handful of weeks to sketch a valid buy point, you must be ready to buy. An initial public offering that shapes its first IPO base also requires quick recognition.

The saucer base, however, requires a different skill set. The saucer must be at least seven weeks long, but it often will consolidate far longer — sometimes as long as one or two years. Unlike a deep cup, this pattern is shallow in depth. But the correction can still be as deep as nearly 30%.

To the impatient investor, the saucer might look more like a stock in a coma than a healthy opportunity.

Yet, you don't want your temperament to shape your investing. If you let personal inclinations dictate strategy, then you're shrinking your opportunities right from the start.

It's better to be flexible. When circumstances call for patience, resist the impulse to act. When the situation demands quick recognition and immediate action, then act.

In order to spot the saucer, you must look at the chart action over a longer period. If you look only at recent action or only at daily charts, you might never see the saucer.

The saucer base has some unique associations.

A long saucer takes a much longer time to shake out weak holders than a shorter, deeper base does. A 12-week cup, for example, corrects more quickly. When the stock climbs the right side of a cup, approaching its high, the last of the weak holders sell. They fear another sharp downtrend. The weak holders' selling sketches the handle.

The saucer can form a handle too. But time, not price, is often another irritant driving weak holders out of a saucer base. Sideways action can also make potential investors drop the stock from their watchlist.

A stock in a saucer base also might have a weaker ratings profile than a stock with a faster-developing base. The Relative Price Strength Rating might be lower than you'd expect. Some of the longer saucer bases might also feature stocks not normally associated with fast growth.

Then too, the market itself might be in more of a sideways pattern,fostering saucers with good relative strength. That's what happened in 1980-82.

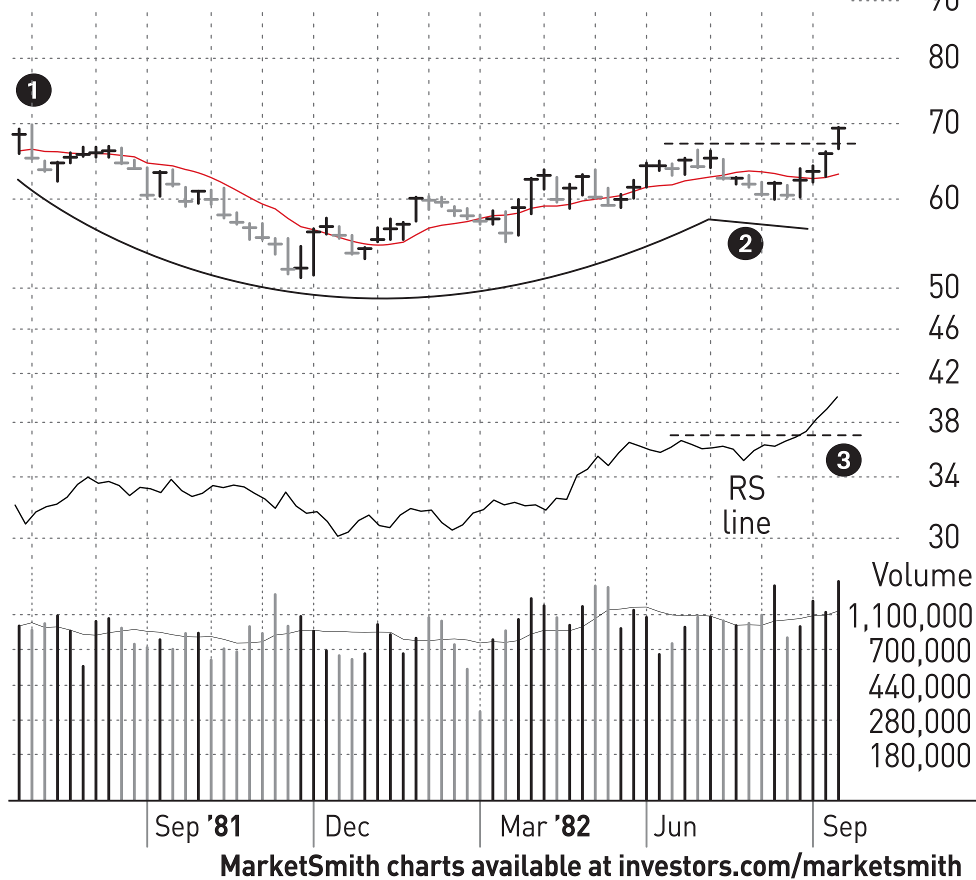
The S&P 500 peaked in late November 1980 after the election of Ronald Reagan. Then the S&P began drifting down. From Nov. 28, 1980, to Aug. 9, 1982, the S&P 500's steady slouch carved off 29%.

Meanwhile, **General Electric**GE edged up 4% in the same period.

The stock began to form a saucer base in May 1981 (1) — just one month after Jack Welch was named CEO. Welch would prove to be a dynamic leader, driving GE's stock up as much as 4,250% during his 20-year reign. (The S&P 500 rose 750% during the same period.)

A year after GE started its saucer base, it began to etch a handle (2). The decline was less than 10%, vs. a 27% drop within the saucer. In late June, the Relative Strength line hit a new high (3) When the RS line hits a new high before a breakout, this is a bullish sign.

General Electric broke out on July 12, 1982, in 81% greater daily volume. After briefly dipping below its 66.48 buy point during a month long pullback, GE picked up steam. In seven-and-a-half months, it posted a 67% gain. This breakout preceded the August '82 launch of a strong bull market. GE had out performed during the market downtrend, and it continued to outperform during the market uptrend.



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"The saucer must be at least seven weeks long, but it often will consolidate far longer - sometimes as long as one or two years. Unlike a deep cup, this pattern is shallow in depth."

Haste Makes Waste? Not For Sound Cup

VICTOR REKLAITIS

INVESTOR'S BUSINESS DAILY

Some people are always in a hurry.

While this can be annoying, often these folks actually do have a lot to do.

It's a similar situation for the cup without- handle base.

A stock forming this pattern is in too much of a rush to form the most common base—a cup with handle. But the cup base has shown that it works, so you might want to forgive the stock for being in a hurry.

The cup gets its name because it's a U-shaped pattern on a stock chart. It develops when a stock catches its breath after an advance of 30% (for a first-stage base) or 20% (for laterstage bases).

It's normal for a growth stock to create a cup pattern during an intermediate decline in the general market. The stock will often fall more than the major indexes—frequently 1 1/2 to 2 1/2 times more.

You prefer to see a correction of no more than 35% in the cup. While some cups etched during really bearish times can be 50% deep or more and still work, 35% is a good rule of thumb for most cases.

As the cup takes shape, keep in mind that tight price action is preferable to widemovements.

There also should be more up weeks in above-average volume(accumulation) than down weeks (distribution). The overall length of a cupbase is at least six weeks.

Unlike the cup-with-handle base, the cup pattern doesn't have a final shakeout area — also known as a handle—before its big breakout.

Instead, the stock goes right from working on the cup pattern's right side to surging past its buy point. The buy point for a cup is determined by adding 10 cents to the peak reached just before the pattern developed.

As with all breakouts, you want to see the stock move past its trigger in fast trade, meaning volume that's at least 40% above average.

SanDiskSNDK etched a cup base earlier this year on its way to a solid gain. The flash memory firm began to shape a cup with a 32.18 buy point in the week ended Jan. 15 ❶.

The cup's length was seven weeks. Remember that you generally don't count the breakout week when determining a base's length.

As this base developed, it was encouraging to see SanDisk find support around its 10-week moving average line ❷.

In addition, the balance had tipped in favor of accumulation by the week ended March 5, when it broke out. Before then, there had been as many down weeks in fast trade as up weeks. But this was a relatively short base. In longer bases, you'll often see a bigger buildup of up weeks.

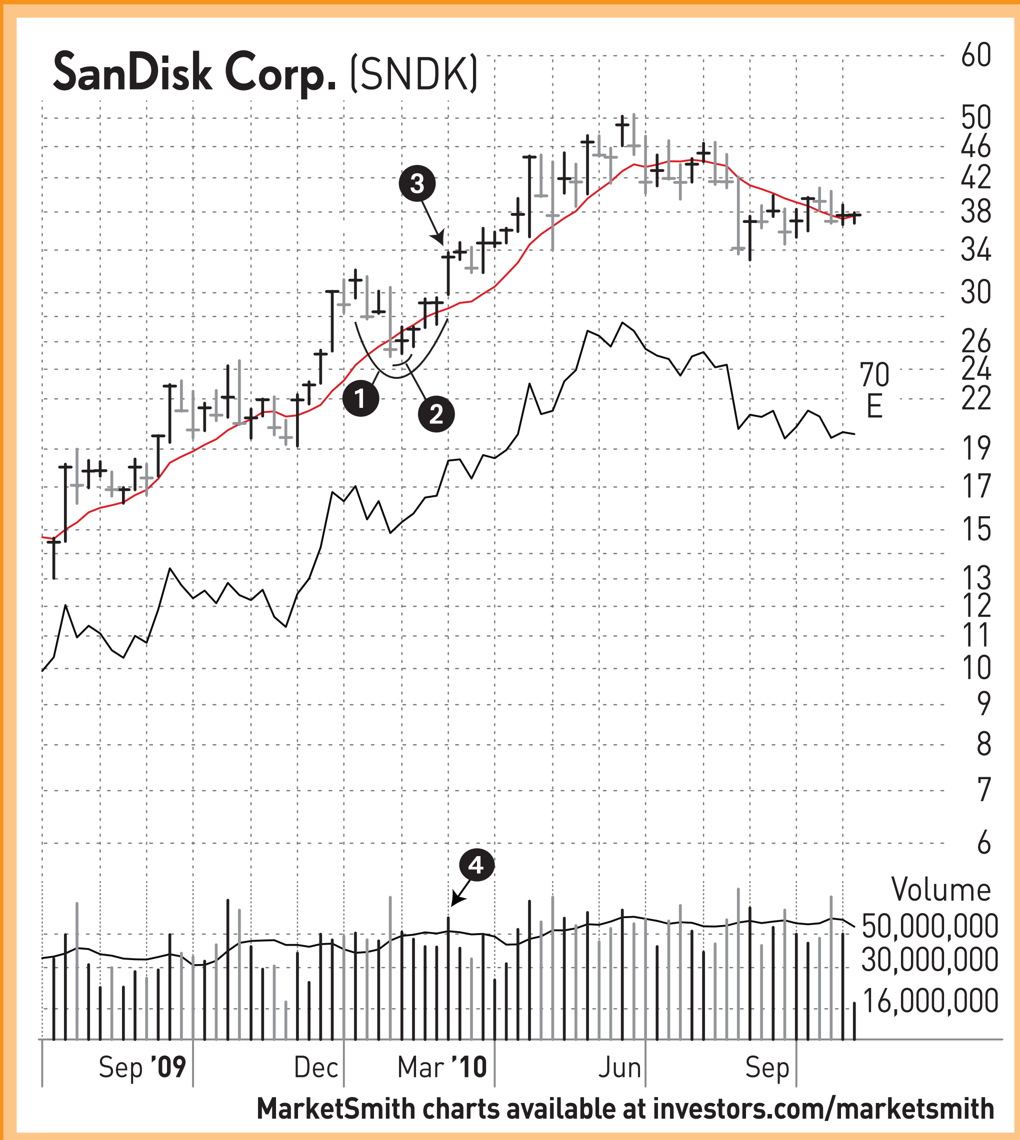
It' sworth noting that SanDisk was reporting an acceleration in sales growth as this base took shape.

Sales had increased 44% in the latest quarter, up from a 14% gain in the prior period. The firm also had returned to profitability over the past two quarters after losing money for four straight quarters.

Volume was strong as SanDisk broke out in the week ended March 5 ❸. Weekly trade came in 22% above average ❹. On March 1, the day shares surpassed the buy point, volume was 89% above average.

So when might you have sold SanDisk? If you were following the basic sell rule of locking in gains at 20%, you would have gotten out during the weeks ended April 16 or April 23, when SanDisk spent time around 38 and 39.

You also might have sold on May 5, as IBD's market outlook shifted to "market in correction." That would have saved you from sweating on May 6, the Flash Crash day, when SanDisk fell as much as 19%.



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"Unlike the cup-with-handle base, the cup pattern doesn't have a final shakeout area - also known as a handle - before its big breakout."

A Pullback Can Give A Second Chance

BY VINCENT MAO

INVESTOR'S BUSINESS DAILY

Right when a stock moves past its buy point during a base breakout, you have a 5% window of opportunity. Beyond that, don't chase the stock. Be patient, as sometimes it will offer you another chance.

Your secondary buying opportunity may come in the form of a pullback to the 10-week moving average or a three-weeks-tight pattern.

Stocks don't go up in a straight line; after breakouts or rallies they often retreat to digest gains. Sometimes the stock will pull back to a technical level such as the 10-week moving average. Use this tool to spot support or resistance. It can also help time your entry and exit.

The 10-week line is calculated by adding the latest 10 weekly closing prices and dividing by 10. You can use the 50-day moving average for the same purpose. In charts on both Investors.com and MarketSmith, the 10-week and 50-day lines are colored in red.

When watching for pullbacks, volume is key. Big turnover is welcome during breakouts, but not always so in the test of 10-week moving averages. Stocks that fall to their 10-week lines in big trade tell you that big investors are dumping shares. If the stock continues to fall further below that support line, a bigger correction is unfolding. You don't want that. It's best to see pullbacks take place on normal or below-average trade.

Once a stock dips to its 10-week line, it creates a buying range that can be traded in several ways. First, you can buy once a stock touches the line, but this is risky. Second, you can buy shares once a stock finds support at its10-week line and bounces off it in robust trade.

You can also wait until a stock rebounds off the moving average and clears its recent high by 10 cents. By waiting for the stock to take out that high, you're getting a strong confirmation that the uptrend has resumed.

The drawback is a stock may have a long way to rally before reaching its peak, boosting your average cost in the position.

Following a breakout, it's OK to buy on the first or second pull back to the10-week line.The risk increases with each test thereafter.

The three-weeks-tight pattern appears to occur less frequently. Like its name says, the formation takes place over three weeks.

On a weekly chart, look for three tight closes in a row. The stock's closing prices should be less than 1% of each other. The weekly trading range for each week is usually narrow, with fairly light volume.

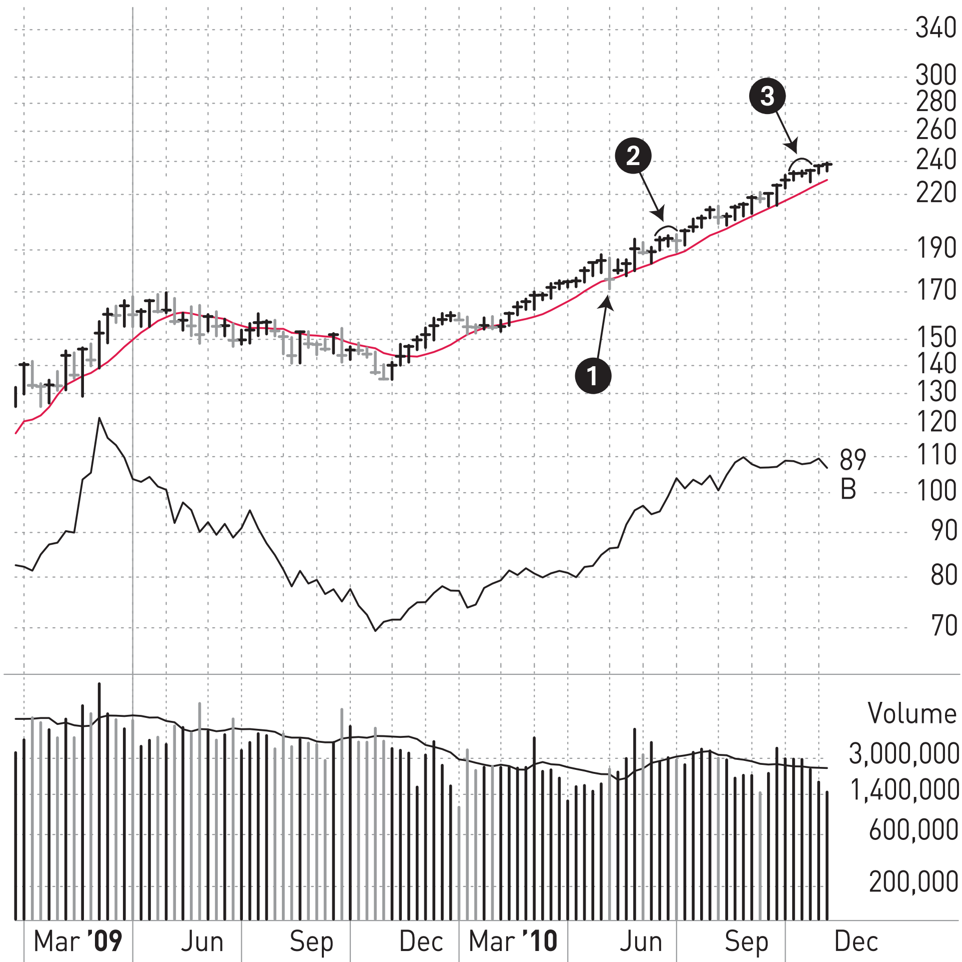
Wide and loose patterns show indecisiveness. The three-weeks-tight pattern tells you that professionals are holding or supporting the stock. The formation usually works best in top-tier market leaders. Top-rated stocks highlighted in the IBD 100, Your Weekly Review and other features cleared three-weeks-tights earlier this year.

To get the buy point in a three weeks- tight formation, add 10 cents to the high of the pattern.

Auto parts retailer **AutoZone**AZO was in a sustained uptrend following its March breakout from a saucer base. It pulled back to its 10-week line in early May (1). Volume was above average, but the stock was still able to rebound.

In the week ended July 7, Auto- Zone formed a three-weeks-tight pattern with a 198.32 buy point (2). The weekly closes were 195.31, 196.13 and 195.01. The stock had high IBD Ratings: Composite 98, Earnings Per Share 92 and Relative Price Strength 87.

It cleared the buy point the next week and gained 18% before settling into another three-weeks tight pattern (3).



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"When watching for pullbacks, volume is key. Big turnover is welcome during breakouts, but not always so in the test of 10-week moving averages."

Spot An Early Entry With A Shakeout + 3

BY DAVID SAITO-CHUNG

INVESTOR'S BUSINESS DAILY

In the family tree of bullish chart patterns — all discussed here over the past week and a half—the double- bottom base is a key member. If this one had a cousin, it would be the "shakeout +3 points."

Why learn this pattern?

It might not occur as often as the double bottom, but it carries many of the same elements of price-and-volume action. (See the Oct. 28 column for a full explanation of the double-bottom base.) So, by searching for this pattern, you're also training your eyes for the double bottom.

Another reason? Shakeout + 3, a concept discussed by legendary trader Jesse Livermore in his book "How to Trade in Stocks," can yield an earlier entry point than a double bottom.

Keep in mind, though, that because the buy point is often found deep within the base, the stock can still swing sharply as it moves up in price and approaches the high in the base. It's perhaps easier to be shaken out of the stock, even with an 8% stop-loss sell rule in place.

Shakeout + 3 is not discussed in "How to Make Money in Stocks," but it's been featured in a few examples at IBD's advanced workshops.

Like the double bottom, the shakeout + 3 features two sharp sell-offs, and the second drop undercuts the first low. This shakeout pushes the supply of readily available shares from the hands of the weak into the hands of the strong. Then the stock immediately turns and rushes higher, often within just a week or two. When the stock returns to the price of the first low, say $30, add three points. That's your entry point.

A three-point rally in a$30 stock is a 10% gain. In other words, there must be genuine demand. A stock priced at $100 a share might need a 10- or 15-point gain to reflect the same strength of demand.

In January of this year, China's fast-growing economy hotel chain, **Home Inns**HMIN, reversed from a two-year high of 41.70 ❶, then tobogganed down 14.81 points, or 36%, in just four weeks' time. From that point in early February, the stock worked its way to the top of an unusual-looking base.

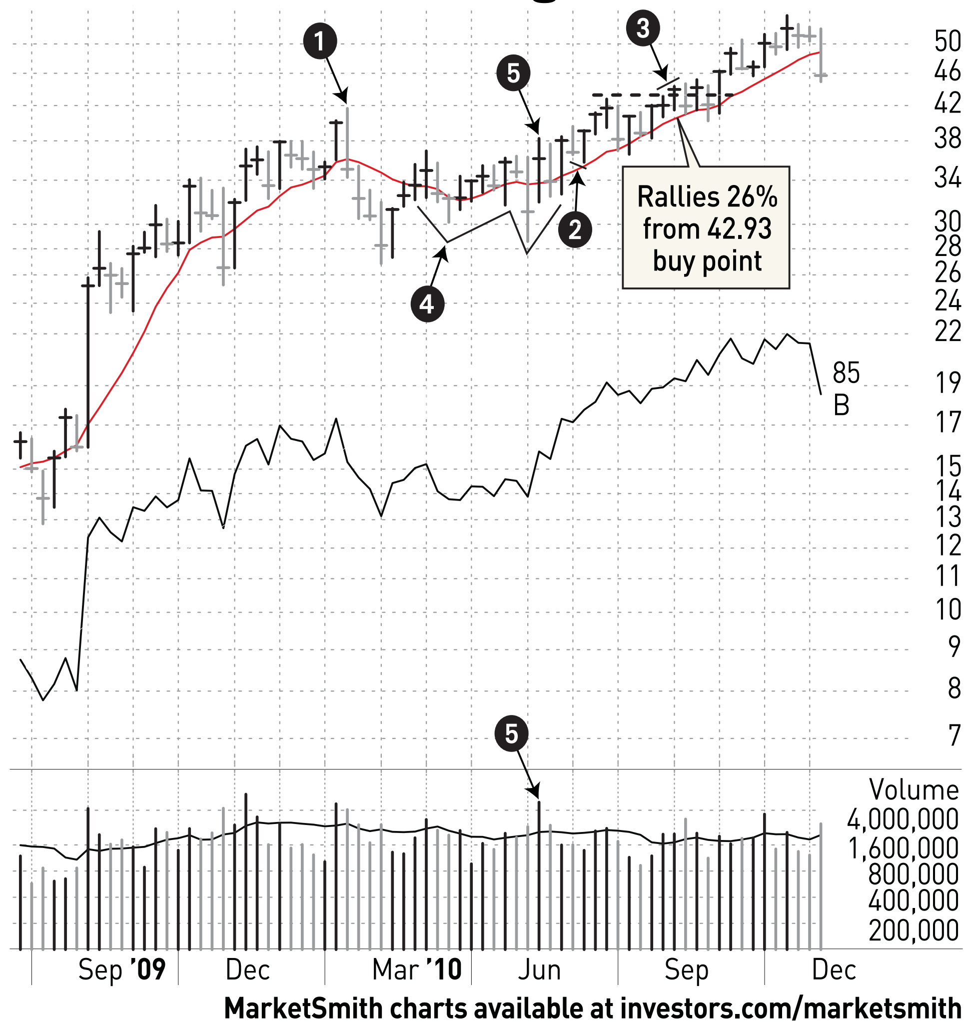
In June, Home Inns formed a narrow handle ❷, then rallied three weeks in a row while motoring past a 39.73 buy point. But in early July, the stock dipped aslo was 36.63, forcing holders to exit with an 8% loss.

The NYSE composite and S&P 500 followed through on July 7. Meanwhile, Home Inns fashioned a five-week square box with a 42.94 buy point. This time, the breakout worked ❸.

Was there an earlier buy point? Yes. In the week ended March 19, Home Inns hit a low of 30.22 ❹, then rallied through the end of April. During the May Flash Crash, Home Inns nose-dived as much as 18%, undercutting the 30.22 low in heavy volume. But the next week, the stock rebounded 16% in even faster trade ❺. That week, shares also triggered the shakeout + 3 rule, rising past 33.22. Pullbacks in the following weeks never came close to forcing holders to cut losses at 7% or 8%.

Home Inns closed the week ended May 14 at 36.19, still 13% below the high in the base of 41.70. At the beginning of the week, it marked a 99 Composite Rating, 99 EPS, 84 RS and A for SMR. By the end of that week, its Accumulation Rating improved from C+ to an A-.

In October 1990, Cisco Systems CSCO flashed a shakeout + 3 breakout at a price of $25 en route to a 140% rally and new highs in just four months. QualcommQCOM also rolled past a shakeout + 3 buy point in October 1998 before breaking out and making giant strides in 1999.



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"When the buy point is often found deep within the base, the stock can still swing sharply as it moves up in price and approaches the high in the base."

Learn How To Become An IPO Whisperer

ALAN R. ELLIOTT

INVESTOR'S BUSINESS DAILY

Few abbreviations in the investment trade are as intoxicating as IPO—initial public offering. The challenge is this: When is the right time to buy a new issue? After all, it can be highly tempting to jump quickly into a new stock.

As with any stock, you must wait for a proper base to form in order to spot a buy point that offers potential for big gains and lower risk. Focus on those with excellent growth in earnings and sales as well as solid industry group strength.

In some cases, a stock with outstanding credentials will take off after trading for only a few weeks. But in most cases, patience is key.

Fledgling stocks have no trading history. This limits an investor's ability to gauge whether shares are fairly priced.

In some cases, shares seem to be drastically underpriced—especially during a weak market — so that they will shoot higher at the start of trading. Consider SouFun Holdings[SFUN], a Chinese real estate marketer that went public Sept. 17 at 42.50 a share. It opened its first day of trade in the 60s and closed at 73.50.

IPOs are back in fashion this year after a slump, with nearly 120 new stocks hitting U.S. markets. A surprising 60% of those are currently above their IPO prices. Jinko Solar JKS and China New Borun[BORN] are two that have turned in explosive advances. Use the IPO After Market feature, found at the top of the New America page, to track significant moves by new issues.

IPOs can also tell a riveting story. Recent offerings have revealed new or developing areas in technology, energy, fashion, travel and dining.

But the charming tales and potential for outsize returns also carry above-average risks. More than 40% of this year's IPOs are still struggling below the water line. A few, like **DynaVox**[DVOX] and **MaxLinear**[MXL], have posted sobering falls.

JA Solar[JASO] rose 41% in the three weeks after its IPO in February 2007. But the stock at that point held subpar ratings for its earnings performance and other factors.

Investors were better off waiting. This meant risking being locked out of a fast advance right at the start. But a great IPO will eventually offer a solid entry point. This reduces risk, and it's smart to wait until fundamentals improve.

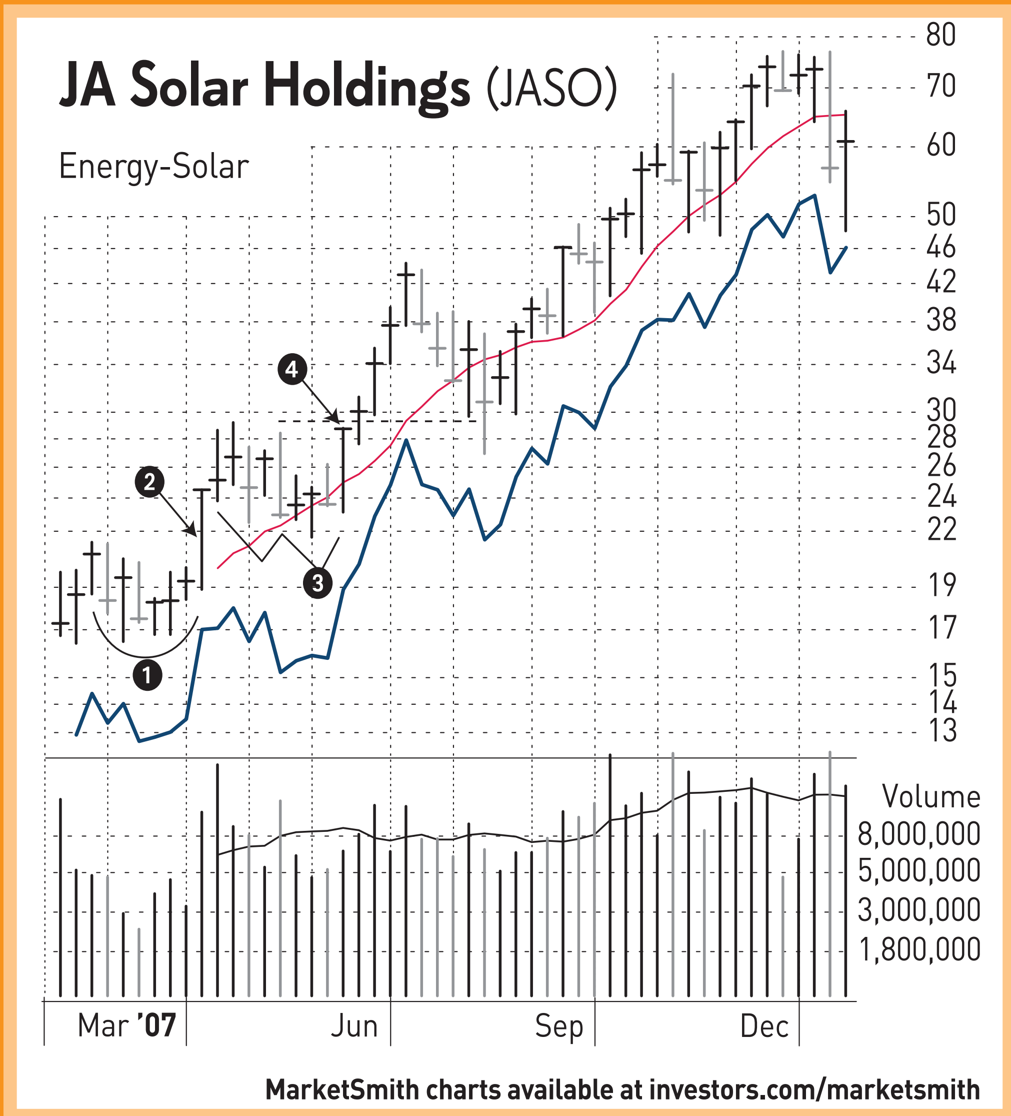
JA Solar wasted no time in laying out a welcome mat. The solar cell maker dipped into its first consolidation the week ended March 2 ❶. Shares unwound 23% as they shaped a six-week-long cup.

During that base, the company reported first-quarter earnings of 6 cents a share, sharply above year earlier levels. Revenue took a tenfold leap to more than $43 million.

The news, on April 12, sent the stock charging through the base's 21.20 buy point in very heavy trade ❷. The Big Picture's Market Pulse at the time noted that stocks were in a "confirmed rally," but cautious investors may have wanted to see better fundamentals.

The next day, April13, IBD upgraded JA Solar's EPS Rating to a 75 and its Composite Rating to an 80, alongside solid Relative Price Strength and industry group strength ratings. The stock opened the day less than 3% above the base's buy point — a good time to jump in. Shares rocketed higher and held a 36% gain through April 25.

JA Solar then turned down, forming a narrow, seven-week double bottom base ❸. As the base formed, the fundamentals strengthened even further. Shares passed the base's 28.19 buy point in soft trade onJune15 ❹. Volume kicked in several days later, and shares rose 56% over the next four weeks. JA Solar formed another base and broke out in September to big gains again.



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"IPOs can also tell a riveting story. Recent offerings have revealed new or developing areas in technology, energy, fashion, travel and dining."

Once you become comfortable with reading stock charts and recognizing classic chart patterns, you'll want to learn the advanced chart techniques covered in this section. Analyzing key events on daily and weekly charts will help you recognize bases in different chart patterns and will tell you a story of supply and demand. Learning the advanced skills of chart reading will help you recognize institutional buying and selling – this will put you ahead of other investors.

Advanced Chart Analysis

Breakaway Gaps Show Buying Stampede

BY PATRICK CAIN

INVESTOR'S BUSINESS DAILY

A critical part of investing is knowing when to buy a stock and making sure you don't chase one that has already gone up too far.

In most cases, it's best to buy a stock when it's still within 5% of the proper buy point. If you buy past that area, there's a good chance the stock will start making a normal pullback, and you'll quickly be facing a loss.

There is one scenario, however, in which buying extended doesn't apply.

Sometimes a stock will be basing for weeks or months. As it nears the buy point, a big move happens.

Before the market opens, there's positive news about the company or something else draws a wave of buyers to the stock. It could be a strong earnings report, announcement of a new product or other bullish development.

When trading opens, the stock price surges as eager buyers try to entice shareholders to sell.

The result is a breakaway gap: The stock opens far above the highest price of the previous day's trading. The sudden burst shows up on the daily chart as a gap between the prior day's price bar and the breakout's price bar.

Breakaway gaps can be so powerful that the stock is more than 5% above its buy point when you have the first chance to buy.

Even though it's extended, this type of huge-volume move tells investors that it's OK to buy. History has shown that breakaway gaps are often green lights for big run-ups.

But don't confuse a breakaway gap with an exhaustion gap.The latter is a sell signal.Toward the end of a stock's prolonged advance, stocks may gap up. In these cases, the action is known as an exhaustion gap.

One successful breakaway gap was Intuitive **Surgical's**ISRG move in 2007.

In July of that year, the maker of robotic surgical equipment formed a five-week flat base with a 146.30 buy point. But when it cleared the buy point, volume was unimpressive (1). The stock continued to move slightly higher,and volume remained light.

Then Intuitive reported a grand slam in earnings. Before the numbers were released, the stock was still within the 5% buying range.The next morning, shares gapped up19% and ended the day 32% higher (2). Volume was11 times the norm.

Investors who had realized this was a case in which buying extended was the right step were able to double their money in just a few months.

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"Breakaway gaps can be so powerful that the stock is more than 5% above its buy point when you have the first chance to buy."

Analyze Both Daily, Weekly Stock Charts

BY VICTOR REKLAITIS

INVESTOR'S BUSINESS DAILY

Experienced drivers don't just look at what's right ahead of their cars as they zip along a road.

They also glance 10 to 15 seconds down the road and try to take in the overall scene.

In investing, you can get similar up-close and big-picture views through daily and weekly stock charts.

It's best to study both types of charts, because what one shows, the other may not.

Ignoring one or the other is a bad idea. That's a bit like staring only at what's right in front of your car—or taking in only the big picture while driving and missing key details.

For rookie investors, stock charts initially might look intimidating.

Just keep in mind that in daily charts, each bar represents one day of trading activity. The top of the bar marks the day's high, while the bottom marks that day's low.

In weekly charts, each bar represents five days' worth of trading. Each bar's top marks that week's high; the bottom, that week's low. In both types, the hash mark across each bar signals the closing price. The weekly chart is the one that provides the broader view. It tends to smooth out the price action, cutting out much of the noise that you find in a daily chart.

It also gives you more history so you can see a stock's longer-term trends. You're likelier to spot a base that's a few months long on a weekly chart.

With weekly charts, you also can more easily see if a consolidation is shorter than ideal. Most bases need a full seven weeks to form. Remember to start counting with the first downweekafter a high.

Moreover, you'll be able to tell if a stock is forming a late-stage base, which is a riskier pattern, when you study a weekly chart. It could be impossible to see that a stock's doing this if you look at just its daily chart.

So what are daily charts good for?

Use daily charts to see when a stock has gapped up or down. A gap up in price is a bullish sign. A gap down is a negative sign.

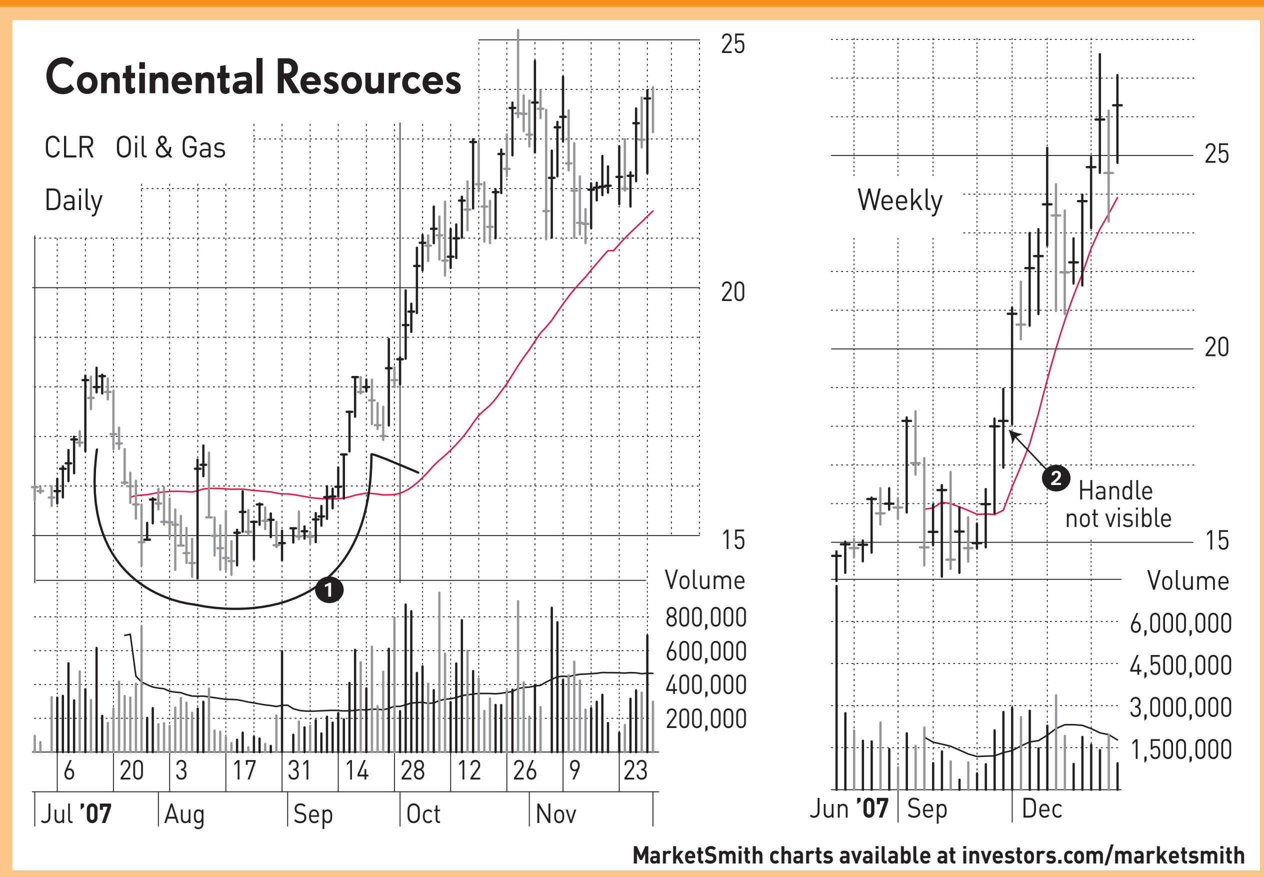
In addition, use daily charts to identify precise buy points.

Some handles might not show up on a weekly chart, so you could miss out on seeing some handle buy points.

Remember that the minimum length for any handle is five days. If a handle takes shape over five sessions that span two different weeks, it might not show up on a weekly chart.

Check the five-day handle formed by Continental Resources CLR in September 2007 (1).

This handle and its 18.30 buy point weren't apparent if you were studying a weekly chart (2).



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"Use daily charts to see when a stock has gapped up or down. A gap up in price is a bullish sign. A gap down is a negative sign."

Base's Nuances Can Help You Spot Entry

BY PATRICK CAIN

INVESTOR'S BUSINESS DAILY

Bases are rarely perfect. Most bases have nuances, and being able to spot them will help you identify the right buy point.

Let's look at **Priceline**PCLN in September 2006.

The online travel agent logged its first week down in the week ended June 9, 2006. That was the first week of the base and the first of seven straight down weeks. The streak made the base's left side (1).

Let's look deeper into these seven weeks.

Only two of the weeks came in high volume. In fact, volume dried up more and more in each of the four weeks following the start of the base. This indicates the sellers were exhausted and dwindling in numbers (2).

Another encouraging feature with this left side is the presence of tight trading (3). This is a common trait among successful base patterns.

Once the stock appeared to find the bottom, it was resting on its 40-week average. There are four weeks that made the bottom of the cup. While there was not a three weeks- tight pattern in it, three of the four weeks showed the ideal tight trading. That was another plus for the base (4).

The right side was ready to begin, and it started with a bang.

Priceline shot up the week ended Aug. 11, 2006, in huge volume on a strong earnings report. The 17% gain gave the base a strong sense of accumulation. The big gain did not make a new high, and that's important. If it had hit a new high, it would qualify as straight-up-from the- bottom action,which is a flaw.

That would've turned an otherwise great week into a weakness.

At this point, investors needed to turn their radar on and start looking for a buy point.

There was no handle, so the most immediate buy point would've been for a cup without handle with a buy point of 32.76. That was triggered Aug. 17. Volume was high when it passed the point, but finished the day just 32% above its norm (5).

While the volume was not great, it wasn't bad. Ideally, you'd like to see an increase of at least 40%.

The market was in a confirmed rally, providing a decent environment to buy stocks.

But Priceline was more of a turn around candidate than a classic, toprated stock. When it reported 10 days before the breakout, quarterly earnings had grown 34%. After-tax margin had more than doubled from the previous quarter.

Over the next three weeks, Priceline had another series of tight closes. This time, however, because the base had seemingly broken out, the tight trading could have been used as a secondary buy point.

While that looks good, investors mighthave noticed the wedgingnature to the three weeks tight (6).

When the stock passed its 33.85 buy point, volume lagged and the next day, the stock gapped down and lost 10%. That loss triggered the 7% sell rule based on the 32.76 cup-without-handle buy point.

The original breakout had failed. That happens. When it does, that's not a reason to give up on a stock. Priceline went on to prove that point.

The 10% gap-down was the shakeout the stock needed. Over the next two weeks the stock moved sideways, finding support at its 10-week moving average.

This provided Priceline with a high handle and a 34.39 buy point (7). When Priceline passed this buy point this time, there were no doubts about the volume. The day finished with volume 960% higher than normal.

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"Bases are rarely perfect. Most bases have nuances, and being able to spot them will help you identify the right buy point."

Strong Stocks Can Overcome Small Flaws

BY DONALD H. GOLD

INVESTOR'S BUSINESS DAILY

The pursuit of excellence. That's the famous Lexus motto. But the implication is that chasing perfection is like chasing the horizon. You never actually get there.

Stocks are much the same way.

Regular readers of this column already pretty much know what the perfect stock looks like. Profit and sales growth must be booming, for example. Margins should be ample.

Many Chart Characteristics

The chart should be healthy. That covers a number of chart characteristics, including a strong prior uptrend, and a sound base with proper price and volume behavior.

But as you check the various parts of a chart and the company fundamentals, you'll rarely find a stock that meets all the traits of market winners. Most of the time, leading stocks have a flaw or two.

Weigh Pluses And Minuses

It's no use talking about the few exceptions to this rule. If you are going to be a serious investor, you will simply need to evaluate and deal with flaws.

How? Imagine you are balancing a stock's pros and cons on a scale. The scale should not be at all even. Rather, it should be weighted heavily on the pro side.

Cisco Systems[CSCO], one of the superstars of the Internet boom, offered countless buy opportunities during its stunning run in the 1990s. Let's look at one.

Cisco had built a double bottom starting in late August 1998 ❶. Some investors remember how this story ended: Cisco broke out and logged historic gains.

But a scrutiny of the chart showed a few flaws:

A gap-down in the middle of the cup drew huge volume ❷. That was asign of intense selling, and not welcomed by chart readers.

The second bottom was deep, not just a few points lower than the first. That's another way the base was atypical.

A handle moved sideways for a few days, then took a sudden mini plunge. Of course, it's a shakeout reflecting selling by weak shareholders.

Finally, the biggest flaw: Cisco's breakout couldn't lure the volume surge you'd really want to see ❸.

Cisco's Strong Position

But Cisco's story was compelling: Its network switches and routers were the standard for the new Internet age.

Its position was much like that of the first company to manufacture railroad tracks in the 19th century.

Weigh these chart problems against the stock's positives.

Also bear in mind that stocks with chart defects have an easier time overcoming their difficulties during strong bull markets.

So, while you strive to find the perfect stock, you're not chasing the horizon like our imaginary friend.

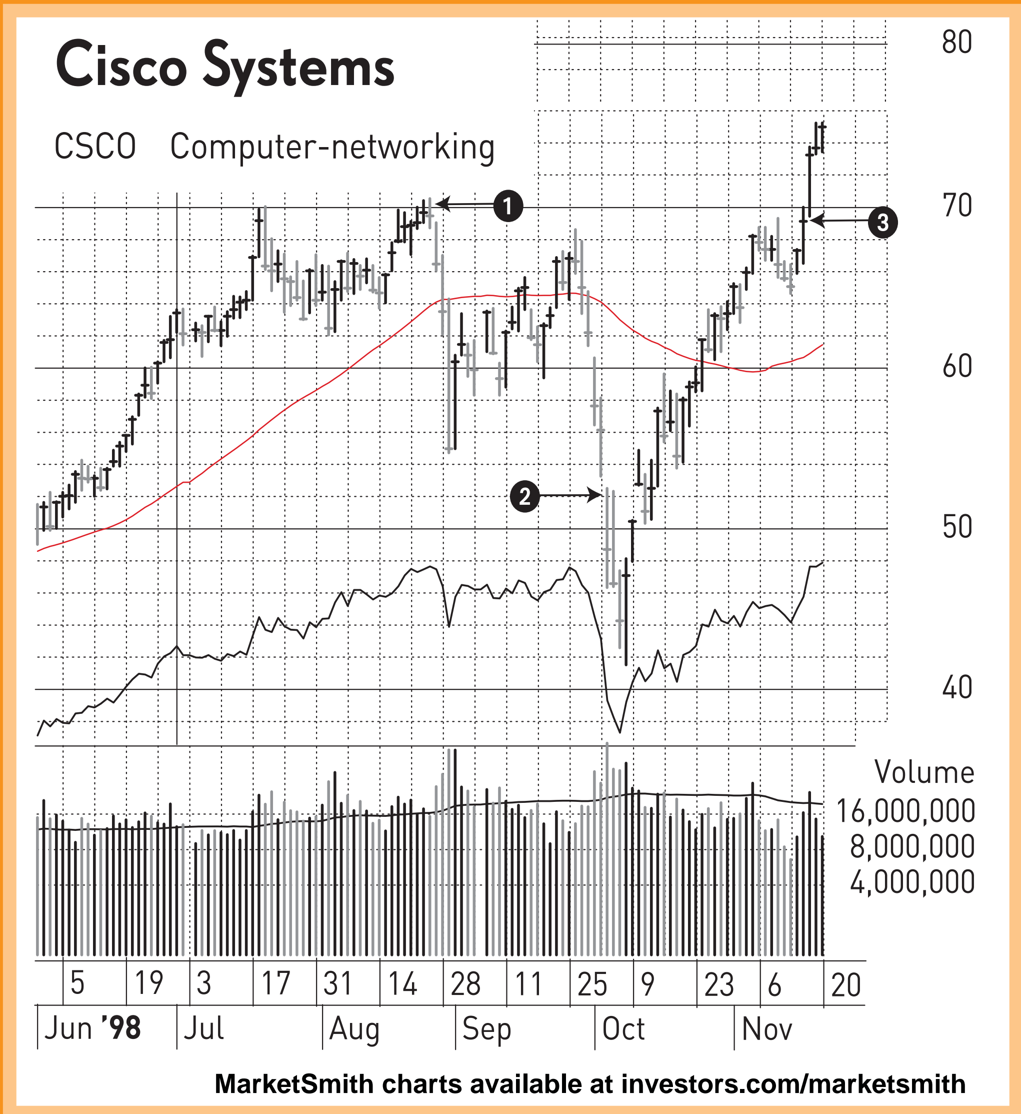
Here'sthe big difference. The horizon is impossible to catch. And if he chases it all day, he'll be just as far from it as he was that morning.

You, however, would not be wasting your time by chasing the perfect stock.

Eliminate Poorer Stocks

At the very least, the effort will whittle away many mediocre names that shouldn't be considered. More will fall by the wayside that, at first glance, you thought maybe worthy of your portfolio.

And once in a great while you'll actually find a perfect stock. But along the way, you'll find far more great stocks holding a minor flaw. Despite that, most of those stocks should go on to make sizable gains.



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"Bear in mind that stocks with chart defects have an easier time overcoming their difficulties during strong bull markets."

Top Stocks Show Brisk Trade At Buy Point

BY PATRICK CAIN

INVESTOR'S BUSINESS DAILY

In a world obsessed with thin, embrace and understand why being thin as a publicly traded company is not a selling feature.

For investors, the term "thin" refers to how many shares are traded a day by a particular company. Through studying leaders, IBD has found that any stock with a daily trading volume average less than 400,000 shares a day is generally thin and dangerous.

As you screen for potential winners, you might find quite a few highly rated stocks with an average volume in the millions of shares. That's a chic trend. It means the largest players of the market — mutual funds, banks, pension funds and the like — are snapping up shares in serious fashion.

The chief risk with a thinly traded stock is that one investor can have a bigger impact. This also makes the stock more prone to big upswings, but a smart investor minimizes risk.

The big swings typically happen when an institution decides to make or break from a position. Large investors can cause selling to swell in the blink of an eye. When a stock is thinly traded, it's less able to handle a spate of sell orders without controlling the volatility of its share price. That knocks a stock lower, possibly causing an avalanche of other sellers to jump ship.

Average daily volume can also indicate the quality of a stock. For individual investors, one way to save time and heartache is to let the big players do the discovery work.

IBD stories often mention if a stock has strong institutional support. This clues you in to what the big players are buying. If the top dogs are building on a position, it maybe a noteworthy stock. Once institutions start buying, a stock's volume is sure to surge over time.

For our readers who are well versed in older IBD books and materials, you may have noticed the volume requirements have steadily increased through the years. Not too long ago, a thin stock was one that traded fewer than 250,000 shares a day. Years before that it was 100,000.

This constant refinement occurs because the market is different today than it was a decade ago.

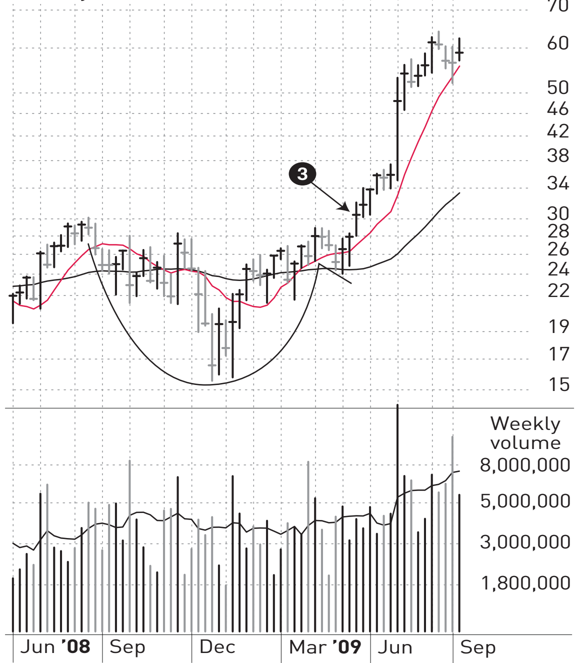
While some breakouts will work in low overall volume, if the stock is of supreme quality there will be other chances. Look at **Green Mountain Coffee Roasters**[GMCR]**.**

The maker of the unique Keurig brewer and K-cups for instant coffee and tea had an average daily volume of just 34,800 shares when it broke out Nov. 9, 2006 (1) from a saucer with handle with a 41.19 buy point. In May 2007 it broke out again (2), but volume still lagged.

But those who waited got the base they wanted after the bear market.

In March 2009, the stock had a deep-cup-with-handle base (3), in line with the volatility of the overall market. Average daily volume grew to nearly 600,000 shares. It had IBD ratings of 99 for Composite, 93 for EPS and 97 for Relative Strength. It was also the No. 15 stock and boxed in the IBD 100. From there, Green Mountain ran up more than 300%.

Green Mountain Coffee Roasters (GMCR)



MarketSmith charts available at investors.com/marketsmith

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"As you screen for potential winners, you might find quite a few highly rated stocks with an average volume in the millions of shares. That's a chic trend. It means the largest players of the market - mutual funds, banks, pension funds and the like - are snapping up shares in serious fashion."

Chart Drill Helps Avoid Missed Breakout

BBY PAUL WHITFIELD

INVESTOR'S BUSINESS DAILY

If you aren't looking for the right chart pattern at the right time, a buy opportunity canbe overlooked.

Nobody ever said spotting the buy point is a snap.

The best way to avoid lost chances is to run the stock you hope to buy through a chart drill. With many different bases and alternative entries, a drill might be the only way to avoid missing an opportunity.

Ask yourself these questions:

- Is the stock shaping a cup base?

The buy point in the cup-without handle base is the left-side high plus 10 cents. The base should be at least six weeks long. With a handle, the buy point is the high in the handle plus 10 cents. The base should be at least seven weeks long but can be as long as a year or more.

Make sure the mid point of the handle is higher than the midpoint of the base. The buy point should be within 15% of the high of the base.

- Has it formed a saucer-with-handle base?

This pattern is usually 12% to 20% deep. The buy point is the handle's high plus 10 cents.

- Could it be a double-bottom?

The price moves of this base are more severe than a cup base. The double-bottom has a W-shape.

The second low should at least slightly undercut the first low. In most cases, the undercut will be one or two points lower. The buy point is the middle of the W plus 10 cents.

The depth and length of a double bottom are similar to a cup base.

A double-bottom also can have a handle. Sometimes a high handle will offer an additional buy point, which is helpful if you missed the breakout past the middle of the W.

This was the case with **Cisco Systems**[CSCO] in October-November 1990. (See chart.) Other times, you won't see volume as it crosses the middle of the W (don't buy) but will find big volume when it clears the higher handle (buy).

- Has it sketched a flat base?

The flat base moves sideways, correcting no more than 10% to 15%. It's often a second-stage base. The minimum length is five weeks. The buypoint is the high plus 10 cents.

- Is it an ascending base?

This involves three brief pullbacks with higher highs and higher lows, usually after a stock has already broken out of a cup or double bottom. The buy point is the third high plus 10 cents. Look for this base during a short-term market sell-off. It's almost always caused by such action.

- Is it a square box base?

This needs to be four weeks long. The depth is similar to a flat base, but the shape is square like. The buy point is the high plus 10 cents.

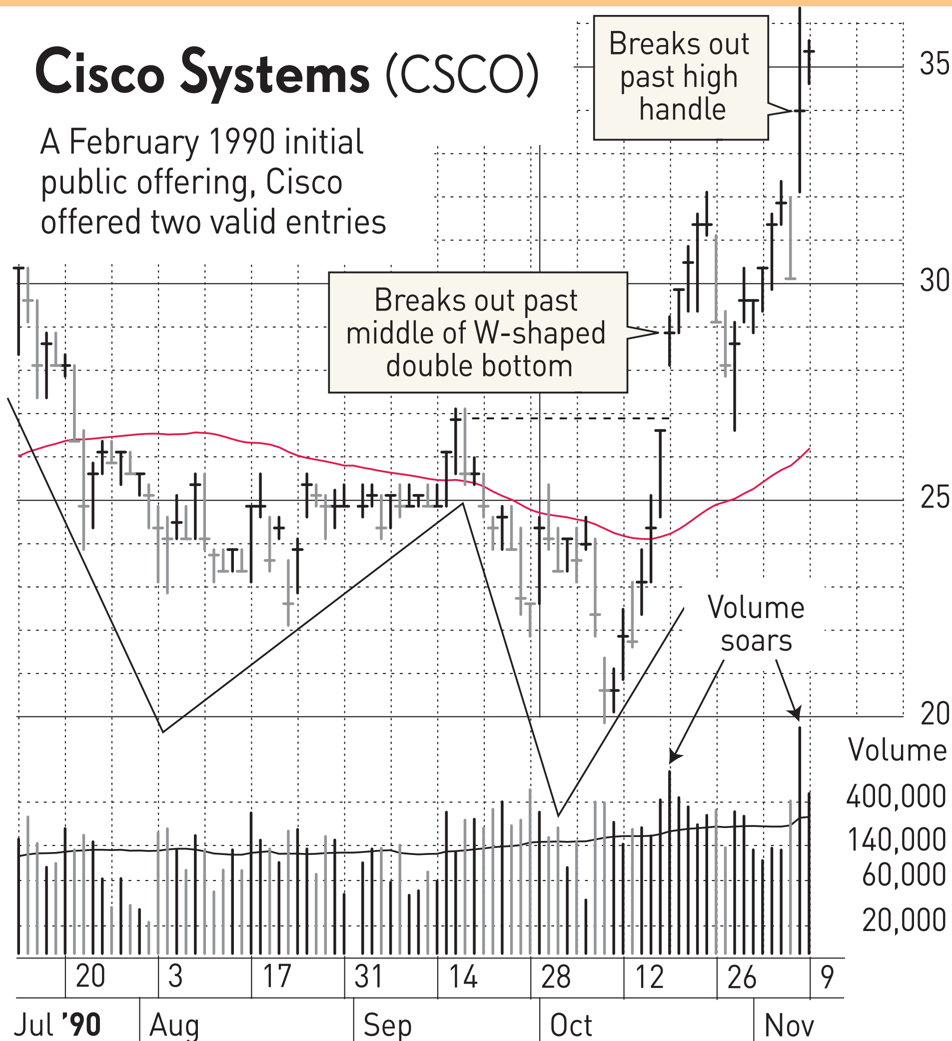
- Is it an IPO's first breakout from a consolidation?

An initial public offering will sometimes form a short consolidation that you'd ignore in a mature stock. For example, **Google**[GOOG] broke out of a consolidation that was only three weeks and two days old on Sept. 16, 2004.

The fundamentals should be exceptionally strong in such a case. Google had grown earnings 1,733% and 138% in the previous two years. Sales had jumped 409% and 234%.

"The safest time to buy an IPO is on the break out from its first correction and base-building area," IBD chairman and founder William J. O'Neil wrote in the fourth edition of "How to Make Money in Stocks."

Valid entries are also established by these patterns: a first or second bounce off the 50-day moving average in strong volume, which sets a buying range up to the previous high plus 10 cents; and a breakout from a three-weeks-tight pattern, which involves three weekly closes each within 1% to 2% of the previous. Two rare patterns — the short stroke and the high tight flag—also offer potential entries.



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"The best way to avoid lost chances is to run the stock you hope to buy through a chart drill. With many different bases and alternative entries, a drill might be the only way to avoid missing an opportunity."

How To Spot An Earlier Purchase Point

BY VICTOR REKLAITIS

INVESTOR'S BUSINESS DAILY

If you've mastered the art of spotting conventional buy points, you might want to add another skill.

It could be time to learn how to recognize a lower-than-normal buy point. This is done by drawing a trend line to identify the lower buy area.

Today's column will review this advanced technique. It kicks off a series of Investor's Corner columns about spotting different buy points. These columns will run over the next week and a half.

So, what's the advantage of a lower buy point? As you would expect, one main advantage is it often leads to a bigger gain, since you got involved at a lower price level.

But how do you determine that early entry point? First, draw a downward-slanted straight line that touches at least two peaks within the base.

When the line is penetrated, that becomes the third touch point, as well as the lower buy point.

This technique is similar in strategy to the one used when you're trying to determine a sell point. In that case, you sketch a straight trend line across three distinct lows in a rising stock.

Keep in mind that this advanced technique should only be applied to a stock with strong fundamentals that's forming a sound base. A base is sound when it shows a modest decline, tight action and plenty of accumulation, meaning up weeks in solid volume.

As always, it's also best to make sure the overall market is in a confirmed uptrend before you dive in.

In 2003, **Cognizant Technology Solutions**[CTSH] rewarded investors who spotted its lower-than-normal buy point. By early June 2003, the tech services outsourcer had spent about five months working on a double- bottom base (1).

The conventional buy point for this base was 23.83. That comes from adding 10 cents to the central peak in this W-shaped pattern.

You get Cognizant's lower buy point by drawing a straight line connecting its high just before the base started to the central peak (2).

This gives you a buy point between 22 and 22.50. That's much lower, as well as much more aggressive, than the buy point you get from a conventional chart analysis.

Cognizant cleared this lower buy point in the week ended June 6, 2003 (3). This was a week before the stock cleared its traditional trigger at 23.83.

Volume in the week ended June 6 was not only above average, but it was sharply higher than in the prior week — a good sign (4).

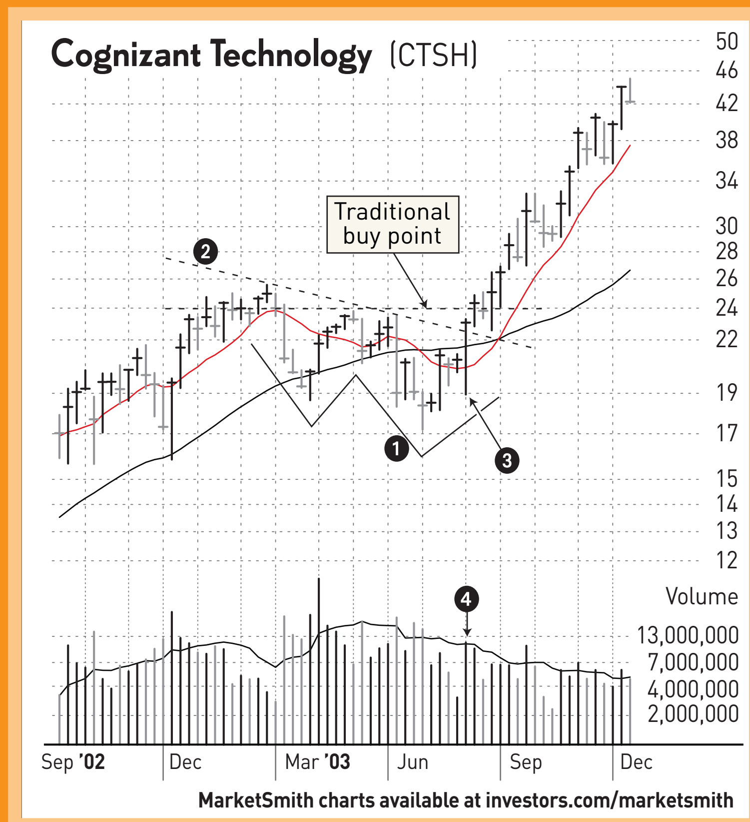
Before buying shares, you also would have wanted to check Cognizant's ratings. It turns out the stock had some stellar ratings, but also some that could have been better.

The excellent to solid ones were a 99 for its EPS Rating, an A for its SMR Rating and an 80 Composite.

The ratings that might have worried you were a C- for its Industry Group Relative Strength and a 49 for its RS Rating. Its low RS rank notes the severe damage tech stocks endured during a long bear market. The RS quickly improved, rising to 77 by July 11 and 85 by Aug. 29. The stock's C+ Accumulation/ Distribution Rating indicated that institutions were net buyers.

One big positive factor was the overall market rode an uptrend that had been confirmed by a follow through day in March 2003.

Cognizant also had undertaken a 3-for-1 stock split a couple of months earlier. But a single split wasn't necessarily excessive, so it shouldn't have raised red flags. Splits are considered excessive when there are two or three big ones in a year or 18 months.



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"A base is sound when it shows a modest decline, tight action and plenty of accumulation, meaning up weeks in solid volume."

Watch For High Handles After Cup Clears

BY VINCENT MAO

INVESTOR'S BUSINESS DAILY

Sometimes you can stalk a setup for weeks and yet miss the breakout because you weren't paying close enough attention. It's hard to watch it take off without you. But occasionally, stocks will offer a second chance to buy.

In the summer of 2004, uranium miner **Cameco**[CCJ] gave investors a couple of chances to climb on board before really blasting off. The stock was also a special situation.

Cameco built two handles. The first was a traditional one that formed below the left side of the cup. The other — a high handle — formed soon after the stock cleared the lip of the cup.

The Saskatoon, Canada-based firm is the world's biggest uranium producer. Uranium is used to generate nuclear power. Global demand for nuclear power was red hot. And prices of uranium oxide, a fuel also known as yellowcake, used in nuclear reactors, were shooting up. Earnings growth at the Canadian firm ranged from 0% to 400% in the four quarters prior to the August breakout. Over the same period, sales growth ranged from flat to a healthy 47%.

From its April 2003 low to its Jan. 2004 high (1), Cameco nearly tripled. After that, it settled into a consolidation, falling 30%. In the week ended April 20, 2004, the stock slightly breached its 40-week moving average, but it regained the line the very next week on even higher volume.

In the week ended July 23, Cameco formed a handle with a 20.37 buy point (2) (adjusted for a 3-for-1 split). On the plus side, the handle corrected only 8% and found support at its 10-week moving average (3). On the downside, there was some heavy volume in the handle. And there was a bigger obstacle — the market was in a correction.

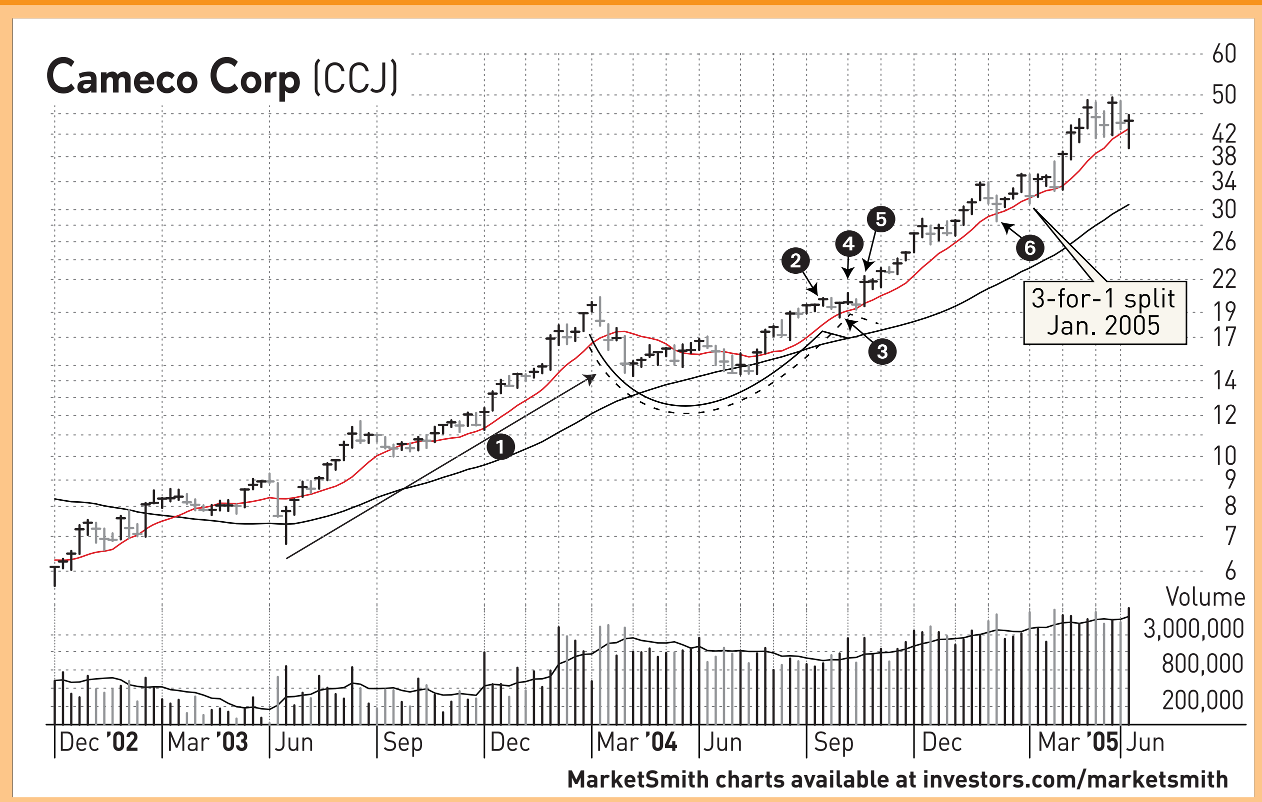
Generally, investors should only buy stocks when the market is in a confirmed rally. But one shouldn't just sit idle during downtrends either. Watch the major averages for rally attempts and be ready to pounce once the market gives a follow- through signal.

Cameco cleared that handle Aug. 2, 2004 in nearly four times average trade — far more than a minimum 40% increase you'd like to see. The high turnover left no doubt that a breakout occurred.

The stock jumped 4% to a new all time high of 20.72 on its breakout day (4). But shares then quickly retreated 7% from the new peak as the market sold off over the next few sessions. Once again there was some heavy volume in the pullback. That formed a high handle with a buy point at 20.82.

Cameco cleared the second handle Aug. 17, 2004 in double its average volume (5). The next day, the stock added 2% in even higher trade. The Nasdaq staged a follow through signal that day, gaining 2%.

By early December Cameco surged 63% before retreating to its 10-week moving average (6). The stock bolted 138% by March 2005 before settling into another base.



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"Generally, investors should only buy stocks when the market is in a confirmed rally. But one shouldn't just sit idle during downtrends either. Watch the major averages for rally attempts and be ready to pounce once the market gives a follow-through signal."

Handles Can Form On Double-Bottom Base

BY DAVID SAITO-CHUNG

INVESTOR'S BUSINESS DAILY

Once in a while, the chart action of a terrific stock overlaps the traits of two distinct winning patterns.

As you analyze a chart, you might sometimes ask yourself: Is the base pattern I'm viewing a cup with handle? Or a double bottom?

The answer? In some ways, yes — to both.

A few great winners can forge a cup and no handle, then go on to superior gains. Once in a while, you'll also come across a stock that crafts a double-bottom base, then adds a handle before taking off in price.

There's no clear reason why this happens. But once a stock has rebounded to near its highs or staked a new high, you often see a stock experience a last round of mild selling before the big run begins.

A few shareholders sick of holding on to a stock, perhaps eager to cut losses or get out even after suffering paper losses, bail out and surrender shares to stronger hands. This brief stock action produces the downward- slanting handle action within a good cup base.

The double-bottom base represents high market volatility. A 10% rally here, a 15% sell-off there—it's all included in the travel package. But if a stock then creates a handle prior to the breakout or soon after, pay special attention. The fact that it falls less and on quiet trading after building its base indicates the supply of shares readily available has shrunk further. When strong demand comes in, the stock should fly.

Dick's Sporting Goods[DKS] debuted at $12 a share in October 2002, the same month that the two-year bear market ended, and immediately flexed its strength. It rallied 93% from that offering price.

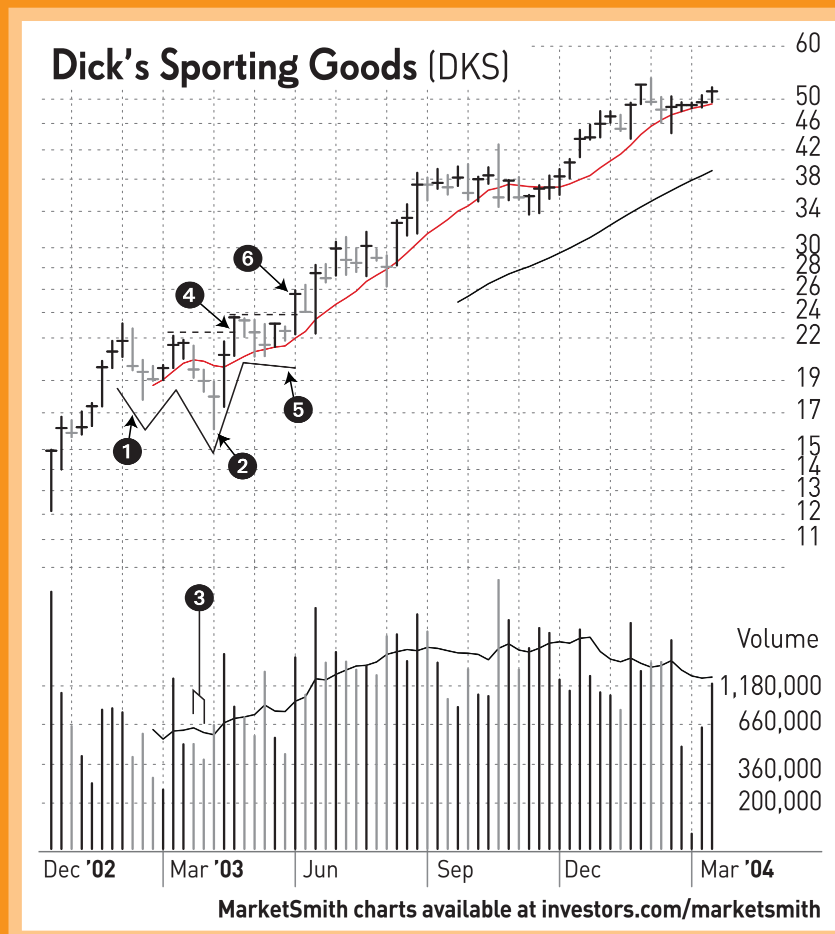
The stock succumbed to profit taking in December, plunging 23% from a peak of 23.15 in just two weeks to form the first down leg in its double-bottom pattern (1). After a rally attempt to new highs failed, Dick's sold off again as the market soured in early 2003. It easily undercut its first low of 17.80 in early February (2). Volume in two of the three down weeks was light (3), a sign that selling pressure was abating.

Dick's romped past a 22.29 buy point — 10 cents above the middle peak of 22.19 — during a two-week, 31% rally in February 2003 (4). It was still a month before the market staged a powerful follow-through in mid-March that year. So the stock's sharp swings during the next three weeks shouldn't have come as a surprise. Although Dick's didn't trigger the 8% sell rule at 20.51 (8% below the 22.29 buy point), it came awfully close. In the process, the stock formed a five week handle (5).

The handle was unusual.Forstarters, it began forming after rising above the highest point in the double-bottom base of 23.15. But it also featured many positive traits: a downward slant along its lows; whisper like trade in some weeks; and a high-volume shakeout.

The handle on this double-bottom base worked. The stock soared 14% in the week ended April 4 (6), briefly tested its new 23.80 buy point, and hiked 126% through December that year. Dick's distinguished itself from other sports retailers by creating stores within stores and hiring PGA pros for its golf department. It was featured numerous times in IBD's New America page and IPO AfterMarket during its big run-up.

Other unusual patterns of price action within a properly formed base may emerge, yet nonetheless lead to fine breakouts.You might discover a stock that etches two perfect handles before roaring to new highs (see Monday's Corner). Or a flat base might etch a handle before the breakout takes place.



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"A few great winners can forge a cup and no handle, then go on to superior gains. Once in a while, you'll also come across a stock that crafts a double-bottom base, then adds a handle before taking off in price."

3-Weeks-Tight Marks Add-On Opportunity

BY ALAN R. ELLIOTT

INVESTOR'S BUSINESS DAILY

When the major indexes broke resistance last week and moved to their highest levels since May, it was a bullish sign.

Another bullish sign came in the chart patterns of leading stocks. The charts of leader after leader arranged themselves in what is called a three-weeks-tight pattern.

This follow-on pattern is among the shortest in terms of time period to produce a buy point. It needs at least three full weeks. Each Friday close must generally be within 1% of the prior week's close.

The pattern can extend to four weeks. Beyond four weeks, it would probably be called a flat base, although the buy point would typically be determined the same way: 10 cents above the highest intraday price reached within the pattern.

Like a pullback to the 10-week moving average, this chart pattern provides an add-on buy opportunity in stocks that have already broken out of bases. Therefore, you should buy a smaller amount of shares in order to prevent your average cost from rising too fast.

You can buy shares for the first time at this pattern if you missed the initial breakout. But doing so entails more risk, because the stock is usually extended more than 5% past the proper buy point in a prior base. The 8%-loss sell rule still applies to this pattern.

A three-weeks-tight shows a stock stubbornly holding onto its gains. It suggests a stock is not only defending its recent gain but is impatient to move ahead to new highs.

Scan through the most recent IBD 100 and Weekly Review lists. You'll see repeated examples of the pattern, in many different forms. Silver Wheaton[SLW] last week cleared a three-weeks-tight with a 27.28 buy point, but pulled back Tuesday. Cable TV content provider **Discovery Communications**[DISCA] has etched a four-weeks-tight pattern. A fifth, tight weekly close would push it into flat-base status.

Baidu[BIDU] formed one of the more vexing three-weeks-tight challenges among leaders. The stock logged a wider-than-normal weekly range in the first week of the formation.

This set the potential buy point at 107.29 — a full 9% above the second week's close. That's a higher hurdle for a breakout. More experienced investors could use a daily chart to plot a line of resistance within the structure at around 103. This allows for an earlier buy point at 103.10.

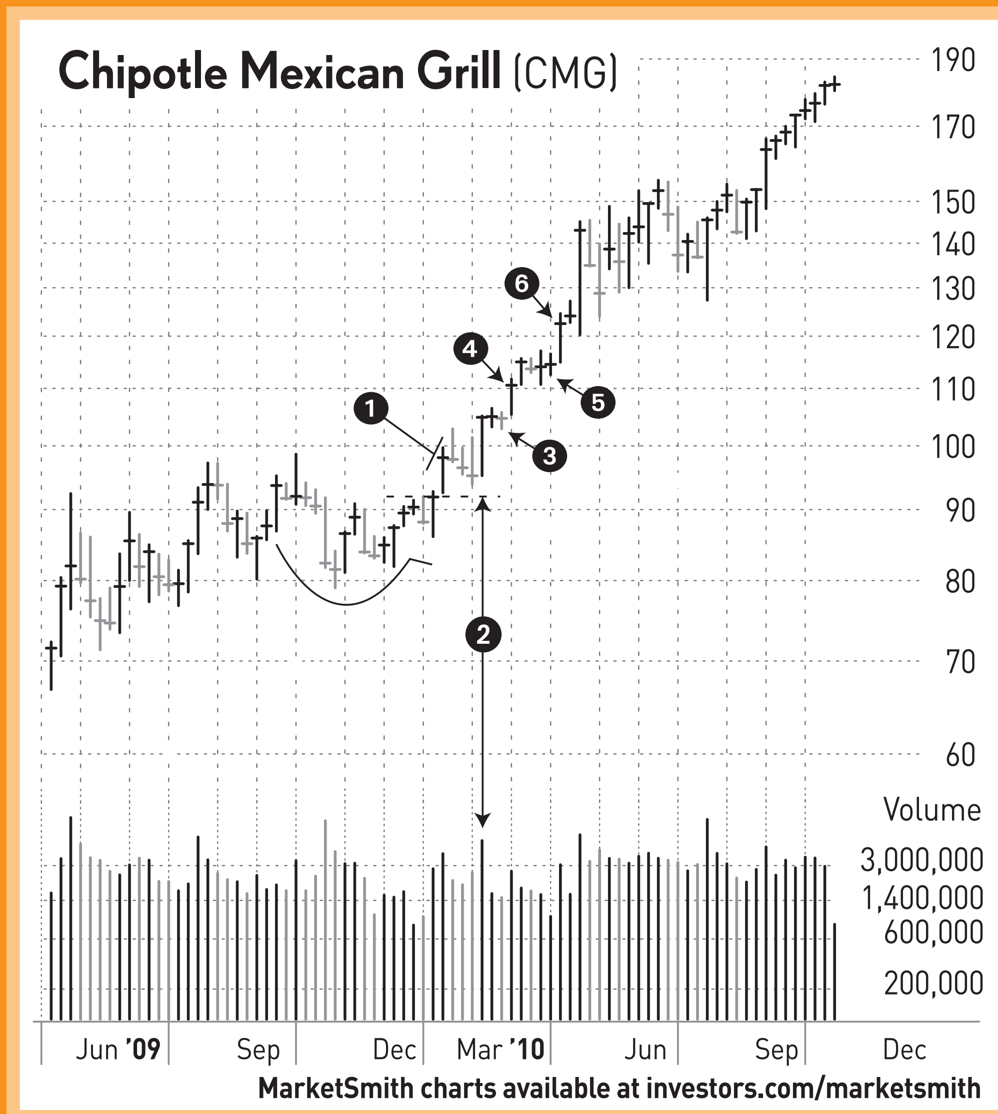
Another prime example of three weeks- tight patterns was Chipotle Mexican Grill[CMG], when it began its run earlier this year.

The innovative fast-food chain punched out of a three-month cup with- handle base with a 92.10 buy point during the first two weeks of 2010 ❶. It immediately pulled back to its 10-week moving average (but never triggered the 8% sell rule). It then exploded in powerful trade ❷.

The stock defended those gains for the next three weeks. While trading roughly 14% above the prior buy point, it formed a threeweeks tight pattern ❸. Alert investors were on board, eyeing the chance to add to their position.

Chipotle poured on the hot sauce and kicked above that holding pattern, with its 106.59 buy point, in two sessions of heavy trading, during the week ended March 5 ❹.

It scrambled higher for two weeks, then dug in its heels again. It set up a second three-weeks-tight pattern, trading in a very narrow range for the next four weeks ❺. Investors were cleared to add more shares when the stock cleared the 117.21 buy point in powerful trade April 4 to 6 6 . Chipotle ran up another 33%, then dipped into a second- stage base. Investors who had bought at the first breakout would have been sitting on a 57% cushion to ride out the correction.



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"This follow-on pattern is among the shortest in terms of time period to produce a buy point. It needs at least three full weeks. Each Friday close must generally be within 1% of the prior week's close."

Time Your Entry: Use The 10-Week Average

BY DONALD H. GOLD

INVESTOR'S BUSINESS DAILY

Many of the stock market's greatest winners will offer you several chances to buy. But not all entries will be from bases. Watch out for a first or second pullback to a rising stock's 10-week moving average.

The 10-week line tends to draw support from institutions looking to add to their positions on a setback.

What is the 10-week moving average? Add a stock's price, taken at Friday's close, for 10 straight weeks. Then just divide that sum by 10.

As a new week's close is added, the oldest drops off. That's how it moves.

Don't confuse that with the 50-day moving average. You might, as there are five days in a trading week. But the 10-week average is not impacted by one-day holidays, such as Labor Day or Presidents Day.

Institutions may not only want to buy some shares on the cheap. By shoring up the retreating stock's price at the 10-week line, they're also protecting their full position.

But not all retrenchments to the 10-week moving average are alike. Remember, a stock that crashes had tested its 10-week line at one point. In that case, the test failed.

How can you tell if a stock's retreat to its 10-week line should be bought? Look for declining volume as the stock falls, and rising volume as the stock bounces from the line.

Stick with quality stocks, as usual. Pay special attention to the stock's fund ownership. The Accumulation / Distribution Rating is one way to measure the quality of fund ownership. Prefer a stock with an A or B rating. After all, you want those big guys defending the line. And stick with just the first or second test of the 10-week line following a breakout from a base. Once you get to the third test, you're pushing your luck.

There is a proper price range in which to scoop up shares, so make sure not to buy too high. If it's trading more than 5% above the recent high before the stock pulled back to the 10-week, it's too far extended.

Look at **VanceInfo Technologies**[VIT], a Chinese provider of software research and IT outsourcing services. This company has the fundamentals in place that you'd want to see — fat profit and sales growth, a solid RS Rating and rising RS line.

Beijing-based VanceInfo thrives in a nation hungry for IT and software help. China accounted for 40% of VanceInfo's sales last year.

Among the funds owning this stock you'll find Fidelity Contrafund and Fidelity Advisor New Insights Fund.

VanceInfo broke out from a cup with handle on July 8 (1). The 25.10 buy point lured a volume surge that amounted to more than twice the stock's usual pace of business.

At the breakout, VanceInfo had strong IBD ratings: a 97 Composite, a 99 for EPS, 91 RS, an A for SMR, and a C+ for Accumulation. In the research tables, VanceInfo was highlighted at the top of the Business Services sector.

Maybe you weren't among the buyers that day. Or maybe you were, and you wanted to add to your position. Where was the chance?

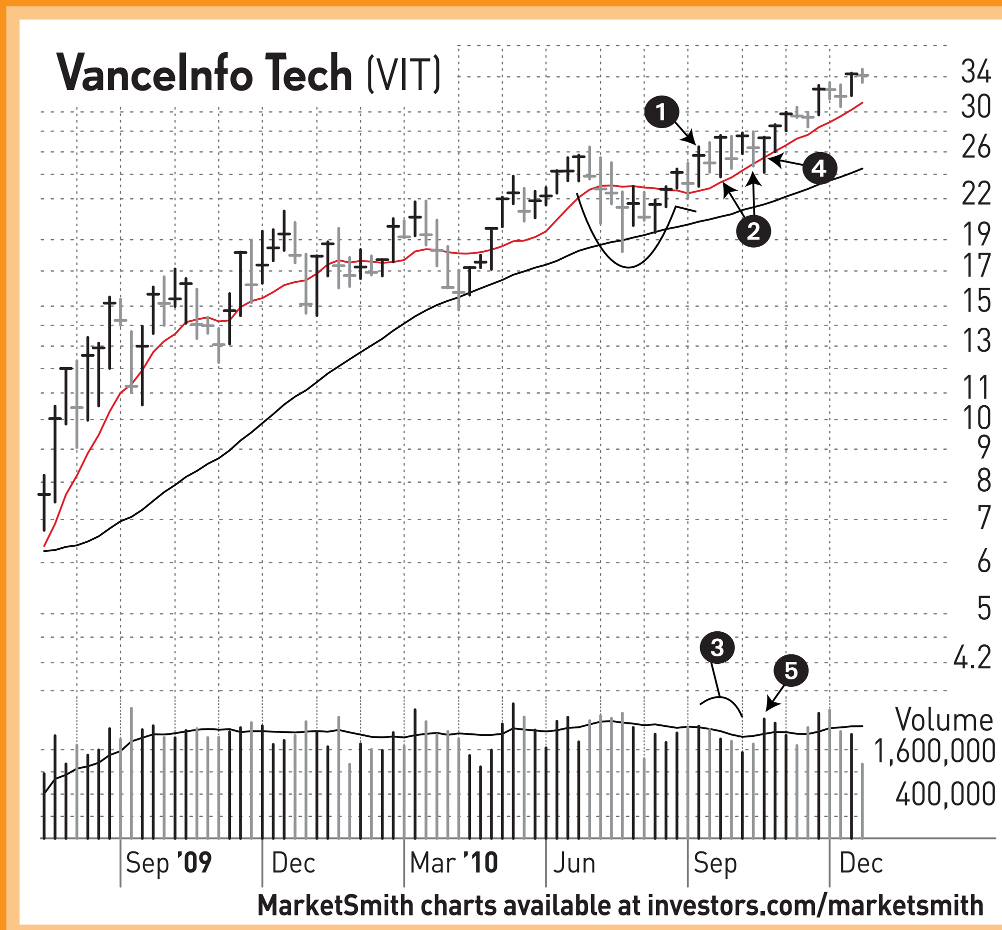
VanceInfo dithered for a week or two, then moved higher throughout July and August (2). Gains were not sharp, but note how VanceInfo kept close to its 10-week moving average without actually touching it.

Volume during this stretch didn't amount to anything special (3). That is, not until the week ended Aug. 20.

VanceInfo fell below the 10-week line, then regained that crucial marker by week's end (4). Better yet, the stock closed at the high for the week, making an upside reversal.

Best of all, this occurred with volume that rose 59% above its weekly average (5). It was a chance to buy.

One more note: When VanceInfo regained its 10-week line, at 25.49, the stock was just 2% past the 25.10 buy point from the cup-with-handle breakout. This is not unusual, but served to confirm the validity of the stock's buying opportunity. But a test of the 10-week line can occur further beyond the initial breakout.



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"How can you tell if a stock's retreat to its 10-week line should be bought? Look for declining volume as the stock falls, and rising volume as the stock bounces from the line."

A Second Effort Is Base-On-Base's Style

BY PAUL WHITFIELD

INVESTOR'S BUSINESS DAILY

It's happened to everybody.

You buy what you judge to be a quality stock on a breakout. Then the stock quickly reverses lower.

You're forced to ponder an army of maybes.

Maybe the stock wasn't truly top notch. May be the volume was in sufficient on the breakout. Maybe the stock will turn backup after visiting the buy point. Maybe the market began to retreat after the breakout, pulling the stock down with it.

Whatever the reason, you probably will become frustrated and sell for a small profit, or be chased out with a loss of as much as 8%.

Emotionally, you're now ready to put this bad experience behind you. It's only human nature to condemn and forget the stock. But if you do that, you could miss an opportunity.

After any disappointing buy, you should review the purchase. Were the stock's fundamentals truly firstrate? Did the chart show a sound pattern and valid breakout? Was the market in a confirmed uptrend?

If you can answer yes to all those questions, then market weakness probably is to blame. In that case, the stock belongs on your watch list as you wait for the market to resume an uptrend.

Some top stocks will form a base on- base pattern during temporary market weakness.

IBD chairman and founder William J. O'Neil wrote about the base on base in the fourth edition of "How to Make Money in Stocks."

When the market weakness ends, "this stock is apt to be one of the first to emerge at a new high en route to a huge gain," O'Neil wrote. "It's like a spring that is being held down by the pressure of a heavy object. Once the object . . . is removed, the spring is free to do what it wanted to do all along. This is another example of why it's foolhardy to get upset and emotional with the market or lose your confidence. The next big race could be just a few months away."

Before we talk about what a base onbase is, let's review what it isn't.

If the low of the second part of the base undercuts the previous low, then it isn't a base on base. The undercut would establish the second part as a new, first-stage base.

If the gain out of the first pattern is 20% or more, then the following pattern is not a base on base. The second pattern would be a new base.

The base on base looks sort of like a couple of porch steps. The second step is higher than the first step.

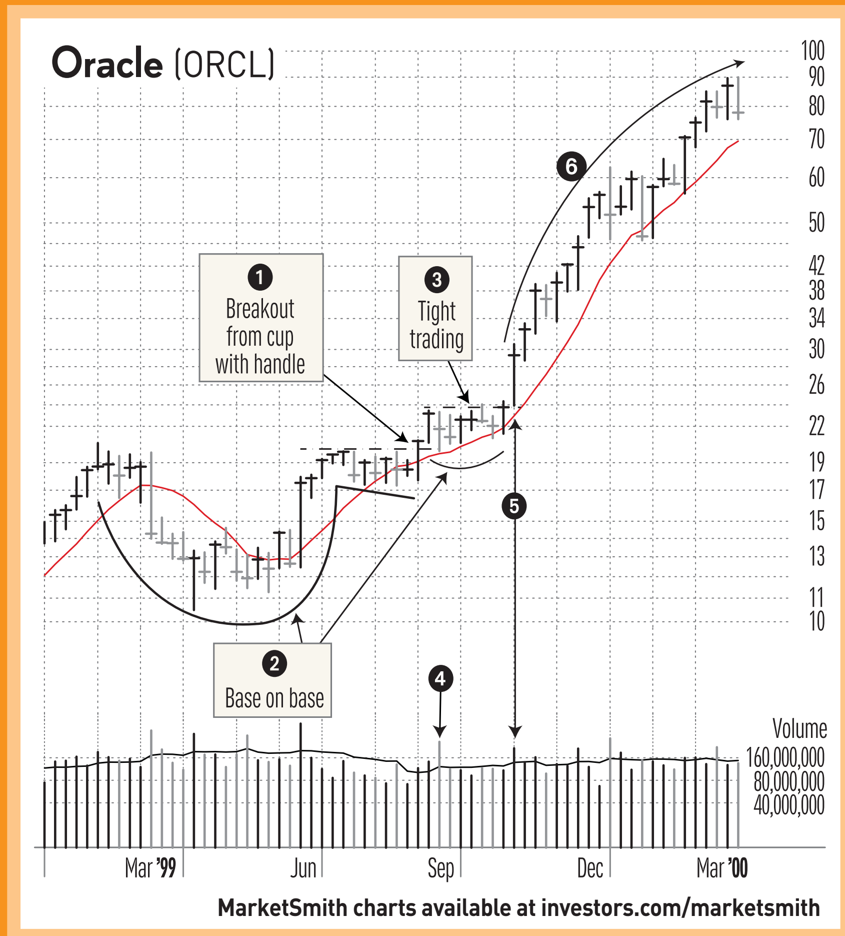
On Sept. 7, 1999, IBD reported that **Oracle**ORCL broke out (1) "on triple normal volume after forming a seven-month cup-and-handle base." The stock had strong fundamentals. The Composite Rating was 97. The Sales + Profit Margin + ROE was A.The industry group rating was A.

The market was doing well. On the day of Oracle's breakout, the Nasdaq surged 4%, "buoyed by a tame jobs report," as IBD reported. But the Nasdaq was about to roll over, delivering four distribution days in the next 13 sessions.

Oracle stumbled with the market. The tech stock also delivered quarterly results that only matched views. The Street was hoping for better. Oracle slipped.

The stock then shaped a base on base (2). The base showed positive characteristics. Trading was tight within the base (3), a sign of support. A negative week in huge volume (4) was actually a sign of support; it closed in the upper half of the week's range.

Then the Nasdaq began to climb on Oct. 28. Oracle broke out two sessions later past a 24.11buy point (adjusted for a 2-for-1 split) in heavy volume (5). The stock advanced 273% in less than five months (6), while the Nasdaq jumped 73%.



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"The base on base looks sort of like a couple of porch steps. The second step is higher than the first step."

An Excellent Base Pattern Has Symmetry

BY DONALD H. GOLD

INVESTOR'S BUSINESS DAILY

Look up the word "symmetry" and you'll find these phrases: the correspondence in size, form and arrangement of parts on opposite sides of a plane, line or point; balanced proportions; beauty characterized by such excellence of proportion.

Symmetry in a stock chart is more than just a beautiful thing. It's a feature that could improve your portfolio's performance.

It's a lot to ask for, given the emotion- driven declines and inclines logged by good and bad stocks alike. But it's your portfolio, and you have the right to expect a lot.

Symmetry is nowhere near as important to your stock-picking process as, say, spotting top-notch profit growth, sales growth, margins, and an underlying product or service that is revolutionary and new and taking the country by storm.

It also does not substitute the need for a thorough price-volume analysis of the base itself.

But the concept of studying a chart pattern in terms of its symmetry should be something to bear in mind as you sift through the charts of top-rated stocks.

You may at some point find yourself facing a few dozen potential candidates for your portfolio. When it comes down to whittling down that list to, say, seven great stocks, look for symmetry.

By tweaking your selections at the margin, you will end up with stocks that have a better chance of performing well.

What Should I Look For?

Simply put, when dealing with cups or double-bottom bases, the left side should resemble the right side. So, let's say you're looking at a 12-week cup-shaped base. The cup's bottom should appear at about the halfway point of the timeline; that is, at Week 5 or Week 6.

The initial decline should be put in roughly four or five weeks before that bottom. The right-side incline should generally take as much time to build as did the left side's decline.

Ideally, you're better off seeking those bases with more gradual declines and inclines.

If your base shows a sudden plunge on the left side and an equally drastic surge on the right side, well, that's symmetry for sure. But it's also a problem.

A sharp gain on the right side is sometimes more problematic. In an extreme case, you could be looking at a stock that shoots straight up from the bottom, triggering a buy point from the lowest depths of its cup. That's usually a fatal flaw.

Also keep an eye on the stock's trading ranges. Deep, wild swings work against the stock's success.

If the stock is truly in demand by institutions, then they won't allow big dips to appear in the first place. Their invisible hands will be there to catch modest declines. This is equally important on the left and right sides.

Nokia^{NOK} shows a symmetrical cup-with-high-handle base in its 1997-98 weekly chart ❶. The cup segment runs 20 weeks long, with the bottom appearing in Week 11 ❷. The decline's pace roughly matches that seen in the incline.

The cup has a couple of wide and sloppy trading ranges on the left side. But in the third down week, it ended near the top of the week's range, a sign of support ❸. The cup runs 34% deep, which is within the maximum range permitted for a cup base.

When the stock took out its 104.10 buy point in the week ended March 13 ❹, Nokia had a 95 EPS Rating, an 89 RS and a B for Accumulation / Distribution. The stock rose 78% before the bear market took hold in July.

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"Symmetry in a stock chart is more than just a beautiful thing. It's a feature that could improve your portfolio's performance."

Accumulation Is In Every Winner's Recipe

BY PAUL WHITFIELD

INVESTOR'S BUSINESS DAILY

Football coach Bear Bryant used to say, "You've got to have chicken to make chicken salad."

Without chicken, whatever you're making won't be chicken salad — even if it looks like chicken salad.

In the stock market, the recipe for a sound stock base has many ingredients. One of the most important is accumulation.

Accumulation points to clear institutional buying. If you spot a stock that lacks accumulation within its base, then you're looking at chicken salad without the chicken.

Savvy chart readers know this. They don't glance at a perfectly shaped cup base on a weekly chart and then say, "Good enough, I'm buying!" The disciplined investor will look within the base for signs of accumulation.

What are the telltale signs of accumulation?

Before we get into the specifics, let's review the reality behind chart action.

Some investors sneer at charts. They put chart reading in the same category as palm reading, astrological signs and Ouija board movements. Usually the skeptics believe in focusing on the fundamentals.

There is some truth to what the skeptics say. Strong fundamentals are essential. Market conditions also are important.

But the disciplined investor won't ignore the chart. The chart doesn't reflect some mysterious "technicals." It reflects the action of human beings, in particular those fund managers who control vast purchasing and selling power.

Why would any body ignore that?

Here are the signs of accumulation in a base, usually best seen on a weekly chart:

• A stock rising in above-average weekly volume is a sign of accumulation. You want the up weeks in fast trade in the base to out number the down weeks in big trade.

• Five to eight consecutive weekly gains, even in below-average volume, points to accumulation. Funds can spread their buying over many weeks when they are building a position.

You might see this kind of action deeper in the base when the value and GARP (growth at a reasonable price) fund managers are moving into a stock.

For example, look at the weekly chart of Apple[AAPL] from July 2009 to September 2009. Apple rose nine consecutive weeks, and only one week was in above-average volume. Yet, this was accumulation.

Apple eventually broke out of a cup-without-handle base on Sept. 16, 2009 in fast trade. Apple is up 77% since then.

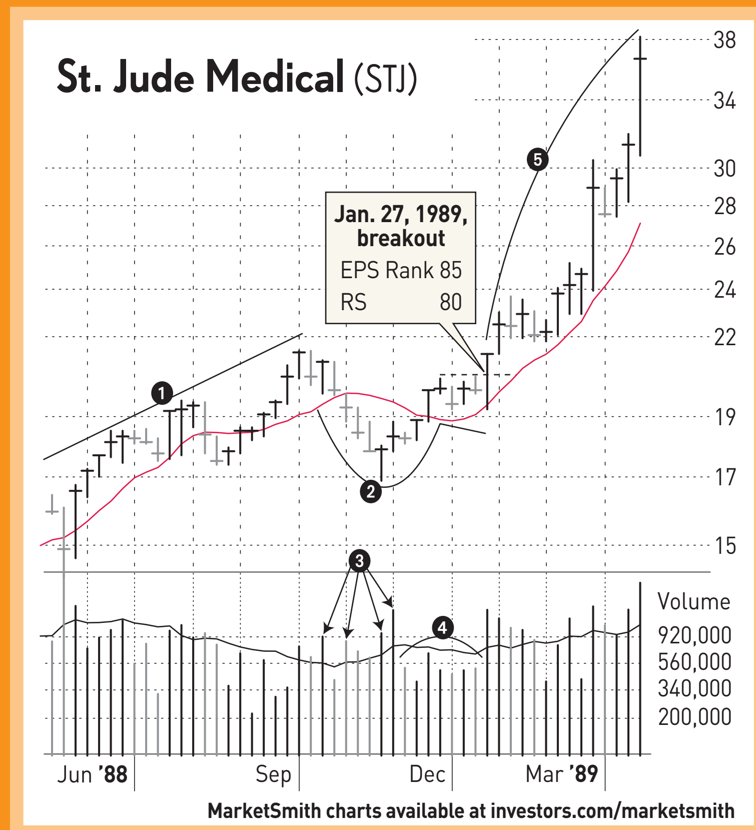
• High closes in the weekly range are signs of accumulation. And a down week can be a sign of accumulation — if the stock closes in the upper 60% of the weekly range.

• Gap-up action within the base is also a sign of accumulation. From July 1990 to January 1991, Microsoft[MSFT] formed a base that had three gap-up moves within the pattern. The stock broke out in January and advanced 160% in 12 months.

Quiet volume at the bottom of a base also can be a positive sign. While this isn't accumulation, it points to an absence of distribution. The sellers are exhausted.

In October '88, St. Jude Medical STJ closed near a new 52-week high. This concluded the 30% prior uptrend ❶ before it shaped a cup with- handle base ❷.

The cup showed accumulation ❸. It also showed quiet trade in the base and handle ❹. After breaking out, St. Jude rose 86% in three months ❺.



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"Savvy chart readers know this. They don't glance at a perfectly shaped cup base on a weekly chart and then say, 'Good enough, I'm buying!' The disciplined investor will look within the base for signs of accumulation."

Look For Calm Before A Stock Bursts Ahead

BY VICTOR REKLAITIS

INVESTOR'S BUSINESS DAILY

In many sports, the real champions are cool customers who heat up when the time is right.

The parallel in investing is that winning stocks often act calmly before their big runs.

With that in mind, look for some tight trade as a stock works on its base, rather than lots of wild swings.

Tightness means small price changes between each week's high and low. It also means having a weekly close near the prior week's close on several occasions.

William O'Neil, IBD's founder and chairman, emphasizes the importance of calm action in his bestseller "How to Make Money in Stocks."

"If the base pattern has a wide spread between the week's high and low points every week, it's been constantly in the market's eye and frequently will not succeed when it breaks out," O'Neil wrote in his book.

If there is wild action, you prefer to see positive reversals in those days or weeks of loose trade. Apositive reversal refers to a stock finishing within the upper 60% of its trading range. For example, if a stock traded between 100 and 110 for the week, a close at 104 or higher is generally favorable. It indicates that investors viewed the stock's drop as a buying opportunity rather than a signal to head for the exits — at least for the time being.

Loose, erratic trade frequently happens as a stock forms a later stage, riskier base, rather than its first- or second-stage base.

In such cases, the stock often has had a big advance already, and it has become well-known to many investors. When wild-looking stocks do work out, it's often because they've tightened up.

Dollar TreeDLTR behaved calmly as it worked on a flat base in late 2009 and early 2010.

The deep-discount retailer started the base in the week ended Sept. 4, 2009, as it slid from a 34.48 high (adjusted for a 3-for-2 split) ❶.

So where was the tight trade? Some of it came in three weeks in September and early October ❷.

Dollar Tree then displayed some looser action. It cleared a 33.28 potential buy point in late November ❸, but that breakout flopped the nextweek ❹.

The stock did some repair work in the next few weeks. There was some tight trade during four weeks in December and January ❺.

By mid-February 2010, Dollar Tree added more weeks to its flat base. The stock then surged past a 34.90 buy point in huge trade ❻. The breakout came as Dollar Tree reported strong results for 2009's fourth quarter. While some of its IBD ratings at the time may appear to be subpar, they reflect the stock's long basing action.

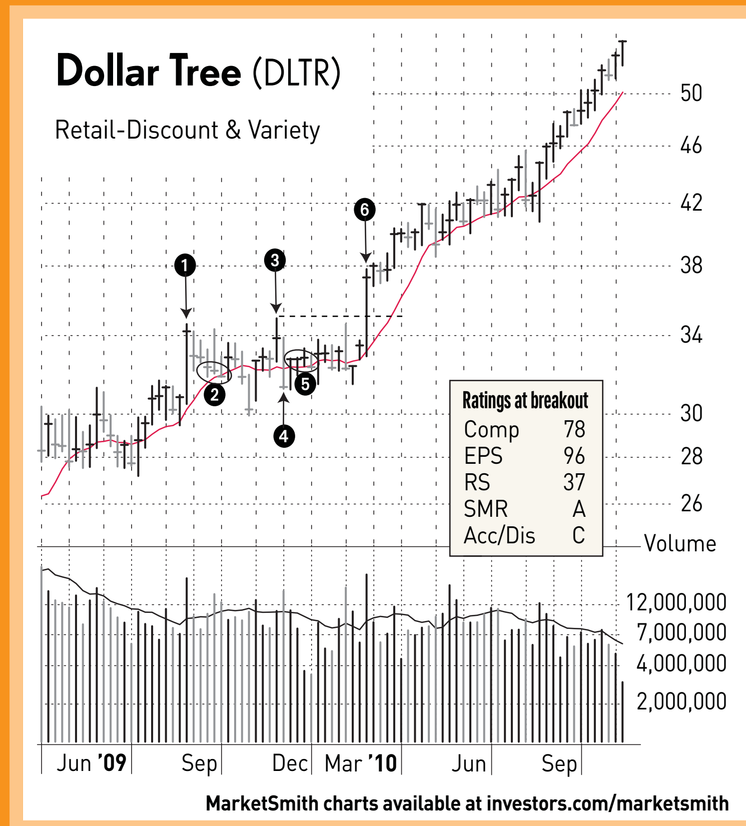
Savvy investors might already have had the stock on their watch lists, especially given the acceleration in earnings growth from 2008's Q4 through 2009's Q3.

That was an acceleration over three periods, from a 12% gain to 38%, then to 50% and finally to 65%.

The company also had shown that it could achieve steady annual gains in EPS.

In a tough economy, you also might have been drawn to the retailer's recession-resistant line of business. Dollar Tree has managed to grow as an increasing number of recession- hit consumers have traded down to deep-discount retailers.

Dollar Tree has advanced more than 50% since its breakout in February. The stock found support at its 10-week moving average in May through August, and then sprung off its 10-week line in August to hit new highs.



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"If the base pattern has a wide spread between the week's high and low points every week, it's been constantly in the market's eye and frequently will not succeed when it breaks out."

Look For Two Key Traits In Base Handles

BY VINCENT MAO

INVESTOR'S BUSINESS DAILY

Handles on a base are great. They signal that a stock may be on the verge of a successful breakout.

Handles are commonly seen latched to cup bases. But they also connect to saucer and double-bottom patterns.

Not all handles are created equally, though. Some are kosher, some are not. Two key characteristics make for proper handles: a downward slant along the price lows, and a volume dry-up.

A handle is nothing more than a modest, temporary pullback in price. You want it to slope downward as a stock retreats from recent gains. Handles should be at least five days in length and usually decline no more than 8% to 12% in a bull market. It's also best when they form no more than 15% below the left side of the high of the base. In a few cases, they begin to form slightly above the base's high.

A stock's handle serves to draw out investors who bought during the left side of the pattern and sat through the correction. Those investors are happy to get out at or near their break-even points. The time to buy a stock is when it rises 10 cents above the highest price within the handle.

You don't want a handle that shows volatile trading; this reflects indecisiveness. A pullback should show just a tiny group of investors taking money off the table. Also, wedging handles or those that drift upward are more prone to fail.

High turnover is great to see when a stock is breaking out of a base pattern or clearing a secondary buy point. But it's not something you want in a handle.

When a stock is shaping a handle, it's best to see it form in light volume. This shows that the selling is not being done by professionals. It's okay to see a shakeout day with big volume. But continued heavy volume in a handle is a red flag; it tells you that institutions such as mutual funds, banks and hedge funds are unloading their shares.

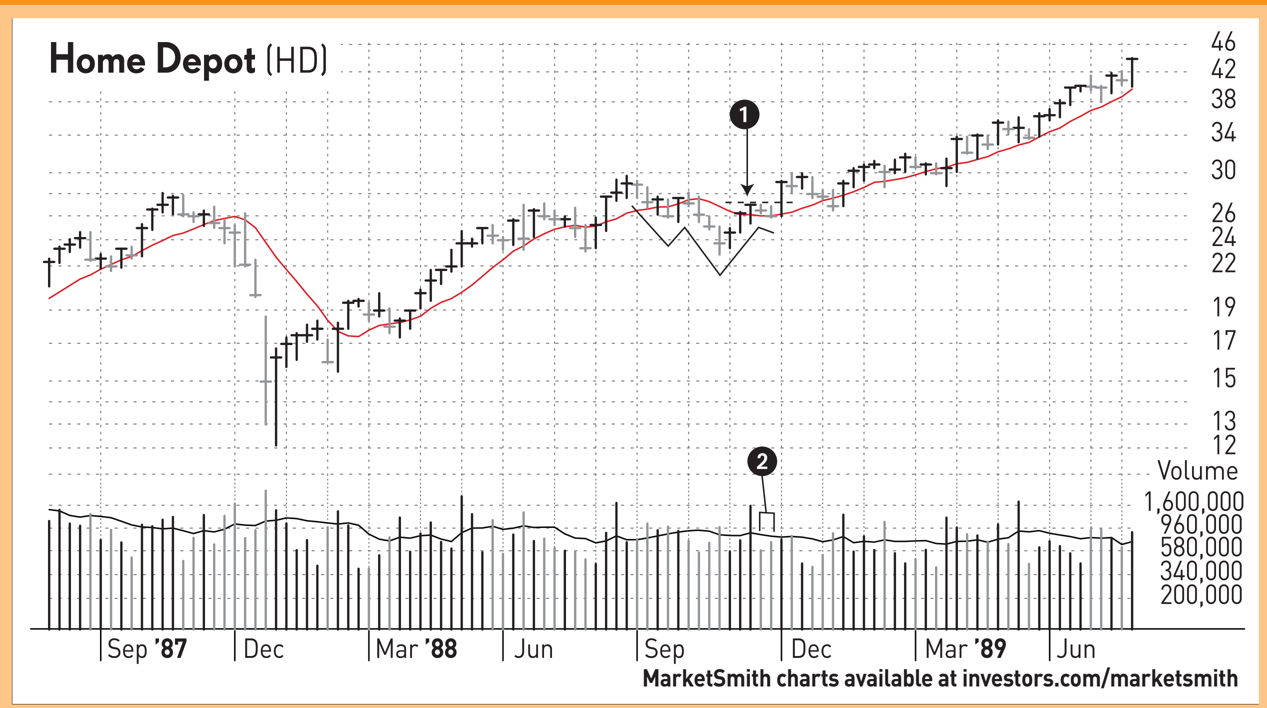
And in any pullback, you don't want to see any evidence that institutions are dumping their shares. Here are some examples for review. In June 2004, Potash Corp. of **Saskatchewan**^POT formed a six day handle on a 10-week cup base that drifted lower. It cleared the handle June 17 and nearly doubled in six months.

In late June to early July this year, **Altera**^ALTR added a two-week handle to its cup base on bone-dry volume. It cleared the handle in the week ended July 9 and, after testing its 26.44 buy point in August, climbed 27% by early November.

Home Depot^HD was a huge winner in the 1980s and 1990s. The home improvement retailer revolutionized its industry by giving customers a unique one-stop shopping experience and low prices.

In September 1988, the stock added a handle to its 14-week double- bottom base.The handle sloped downward from its high of 27 ❶ and formed in below-average trade ❷. This was a sign that the last remaining shareholders who were itching to sell their shares had gotten out.The decline within the handle was a skinny 4%.

Home Depot broke out past a 27.10 buy point in the week ended Oct. 7. It sported an Earnings Per Share Ratingof 93,meaning its profit growth exceeded 93% of all public companies, and a Relative Price Strength Rating of 77. Home Depot ramped up 62% by June 1989.



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"You don't want a handle that shows volatile trading; this reflects indecisiveness. A pullback should show just a tiny group of investors taking money off the table. Also, wedging handles or those that drift upward are more prone to fail."

Use A Checklist To Identify Great Bases

BY DAVID SAITO-CHUNG
INVESTOR'S BUSINESS DAILY

Before you travel a long way, you make a checklist of what to do. You pack clothes. Ask your neighbor to collect your mail. Lock all the doors. Then finally you go.

By checking everything off your "to do" list, you eliminate many unnecessary bumps along the way. Adopt a similar mindset when you prepare an "investing trip" with a growth stock.

With IBD's research tools, you can quickly build a watch list of potential market stars. But your work doesn't end there. To raise the probability of notching a 20% winner here and a 200% screamer there, you need to devote time to identifying those stocks that already show signs of strength.

A price base serves at least two vital functions.One, it marks the beginning of a resting phase for a stock that has already moved sharply higher. This rest period can last as little as four weeks or as long as 65 weeks or even longer. The base gives big investors a chance to pick up shares as others unload their shares to cash in gains.

Once the herd of desperate sellers has dispersed, a new crowd of hungry buyers sends the stock catapulting to a new advance.

Whether you're a brand-new IBD reader or a veteran CAN SLIM stock hunter, you can always benefit from this checklist to help you sort among your stock candidates and increase your profit potential.

• Did the stock make a run-up of at least 30% prior to beginning its base? You want to see evidence of a stock's ability to rally with vigor before you invest your hard-earned cash. If a stock has already broken out of a first base, it needs to gain at least 20% before settling into a new pattern.

• Does the base meet the minimum required length of time?

A square-box base can be as short as four weeks, a flat base at least five weeks, a cup six weeks, a cup with handle or double bottom seven weeks. Long cups and saucers can form over a year or longer.

• If there is a handle, did it form in the upper half of the base? Use the midpoint test. Add the highest price within the handle to the lowest price and divide by two. Find the midpoint for the base. The handle's midpoint should be higher. (See Monday's column for more details on spotting sound handles.)

• Are there signs of accumulation? Did the cup base form smoothly? Was the depth of the cup within limits?

Look for weeks in which shares rose in heavy volume. On a daily chart, gap-ups in strong volume are a plus. A cup should in most cases show a decline of no more than 33% to 35%. Flat bases and square boxes have a dip of less than 15%.

Amgen[AMGN] passed this checklist in the early 1990s. From March 1987 through part of 1989, the young biotech's stock moved like a sitting duck. But from August 1989, the stock ramped up 61% from 37.50 to 60.25 (before a 2-for-1 split in August1990).

It faded in November, starting a 16-week double-bottom base. It fell 29% from the base's high to low. So far, so good.

Amgen rallied past its 55.60 buy point (pre-split) in February (1), then formed a handle. The handle wasn't perfect, but volume was dry as sand. The stock also held up near its high. The time to buy: when Amgen eclipsed the handle high of 59.50 the week ended March 16, 1990 (2). It boasted a 94 EPS Rating and an 89 RS.

The stock gained 113% by year's end.

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"Look for weeks in which shares rose in heavy volume. On a daily chart, gap-ups in strong volume are a plus."

Wanna Surf? Catch A Wave Of Volume

BY ALAN R. ELLIOTT

INVESTOR'S BUSINESS DAILY

If you don't know how to pronounce a word, say it LOUDLY.

That piece of advice, from revered former Cornell professor William Strunk, applied to language, not the stock market.

But the idea, that a surge of volume can help muscle past uncertainty, also works with stocks.

This is particularly true when a stock is attempting to break out of a base pattern to new highs.

Volume, in investing lingo, refers to the number of shares bought and sold. Light volume or trading generally indicates activity mostly among smaller shareholders of a stock. Heavy trading says big money is on the move. That's the kind of action you want to follow.

Volume is expressed in the number of shares traded each day. In IBD, increases or decreases in trading are generally expressed as a percentage of average daily volume, or the stock's average over the past 50 days.

On a breakout, you would like to see volume rising at least 40% above average trade. Great breakouts often see volume doubling or tripling a stock's average level.

That trading action is important, because a stock's breakout hinges on the economic rules of supply and demand. Breakouts occur because demand for a stock overwhelms the supply of available shares. Buyers competing to obtain the stock bid up the price on the trading floor.

When trading is light, demand is satisfied after a brief spell of price gains. When buyers compete for large quantities of shares, the price increase tends to be more explosive, more sustained.

Soft-volume breakouts occasionally succeed. High-volume breakouts can fail, especially if preceded by a flawed base.

Research shows that high-volume breakouts lead to winning runs more often than soft-volume ones.

A breakout is a transition to new price levels. It follows a period of consolidation, during which less committed investors are shaken out. The more confident big money moves in to buy shares, and this accumulation narrows the supply of shares available.

Chart patterns give you a way to read that shift in supply. When volume dries up across the handle of a base, it signals that the weak holders have been shaken out and selling pressure has softened.

You could see this in a handle formed by specialty chemical and body-armor maker **Ceradyne**[CRDN] in January 2003 (1). The handle was part of a large cup started nearly a year earlier. Volume dried up as the stock price clicked through four weeks of tight closes (2).

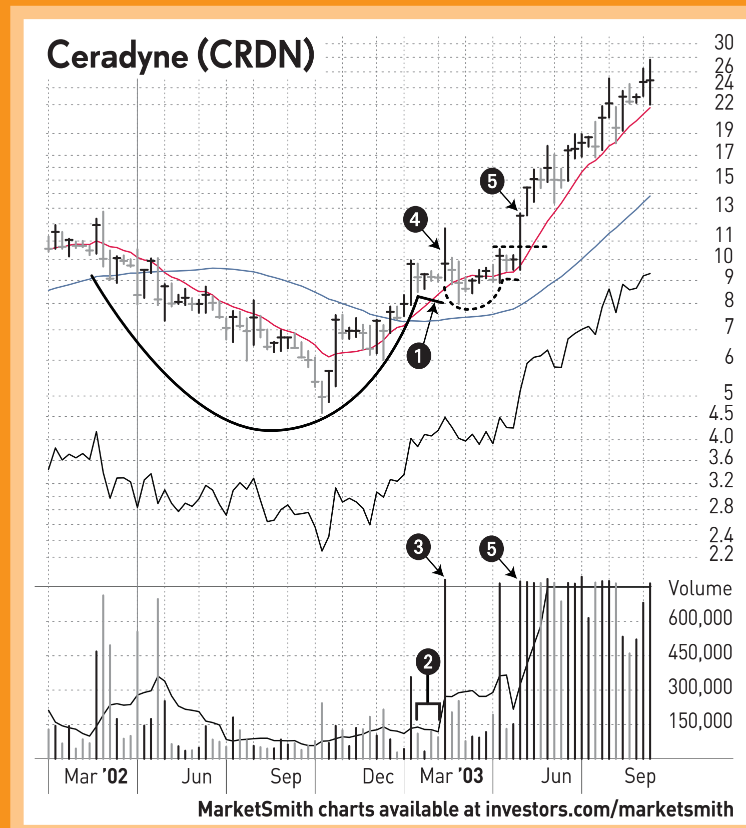
Trading erupted in a massive surge on Feb. 12 and 13 (3). The stock also encountered huge selling pressure on the 13th, sending shares to finish in the lower third of the session's broad range (4).

That was not a good sign.

Ceradyne backed off sharply over the next seven days to nearly 20% below the base's buy point of 10.09. The 7% to 8% sell rule would have protected the bulk of your capital during that pullback.

But the stock had solid fundamentals, a good reason to keep iton your watch list. Ceradyne shaped another cup with handle over the next 10 weeks. The breakout this time started with a gap-up, a 19% gain on April 30 (5). Trading that day was more than 11 times the stock's average daily volume.

The breakout continued for four days with volume increases of 1,055%, 446%, 244% and 375% above the average, lifting the stock 25% for the week. The stock ran hard for 29 weeks, rising 355% above its initial 10.67 buypoint.



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"On a breakout, you would like to see volume rising at least 40% above average trade. Great breakouts often see volume doubling or tripling a stock's average level."

Follow-Through Precedes A Good Breakout

BY DONALD H. GOLD

INVESTOR'S BUSINESS DAILY

How crucial is a follow-through day to a market's uptrend? It's more than crucial. Without that go ahead signal, you don't have confirmation that the market has turned.

No matter how good your stock picking talents may be, you'll get nowhere fast if the broad market isn't in a confirmed uptrend.

Remember, the M in CAN SLIM stands for market, and you want that trend to help you.

True, not all follow-through days lead to solid uptrends. There will be times when a confirmed rally fails. But all major bull markets are precededby a follow-through day.

Let's study the follow-through so you'll know it when you see it.

What Is A Follow-Through Day?

It is a big advance by at least one of the major stock indexes —the Nasdaq composite, the NYSE composite, the S&P 500 or the Dow industrials. The most successful follow throughs tend to appear on Day 4 through Day 7 of a new rally attempt. They can take place later than that.

Volume for the day must be higher than that seen in the prior session. It needn't be above-average trade, just higher on a day-to-day basis.

How big must the price advance be? That varies, but something around 2% will likely do the trick. The Big Picture column will help you track market follow-throughs as they occur.

Interestingly, that threshold has been rising over the years. In his best-selling book "How to Make Money In Stocks," IBD founder and Chairman William O'Neil says he remembers when, years ago, a 1% advance would be sufficient for a follow- through day.

After a substantial market correction, look for any day-over-day gain on any volume from any of the major stock indexes. That will be Day1 of the attempted rally.

That's not when you start to buy stocks; that's when you start to count trading sessions. (Weekends and holidays don't count.)

The Nasdaq notched a classic follow- through on Sept. 1, just 2 1/2 months ago (1). The 3% gain appeared with higher volume (2).

Consider when this big advance appeared.

The market had been sliding for a while and hadn't turned up in that losing streak until Aug. 27 (3).

How much did it rise that day? It doesn't matter. How was the volume? Nobody cares.

You should care that Aug. 27 was Day 1 of a rally attempt. The market dallied for the next two sessions, Days 2 and 3. On Sept. 1, it staged its explosive gain. That was Day 4 of the rally attempt.

So now consider fast-food superstar **Chipotle Mexican Grill**CMG. Chipotle had been basing during the broad-market correction. That's what many great stocks do.

The stock had carved a cup-with handle base starting in late June (4). The handle appeared as an especially tight, neat formation (5).

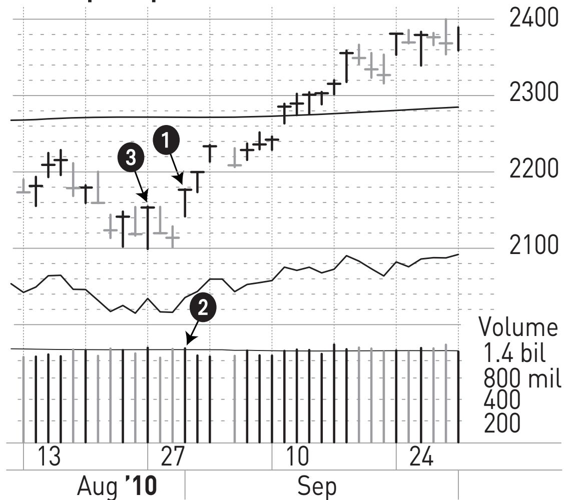
Chipotle broke out past its 154.53 entry point on Sept. 1 as the market was following through (6). Volume more than doubled from its average pace and rose for the week (7).

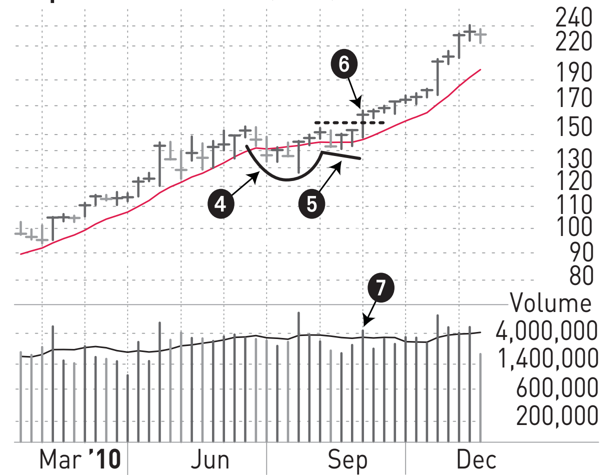
You needn't have waited for the day's final tally. If you could recognize a follow-through day in the making, you could have jumped into Chipotle as it broke out.

What was your risk? If the market fizzled out by day's end, you could have unloaded the stock.

How would some shares of Chipotle purchased at 155 look in your portfolio?

Wait For The All-Clear





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"After a substantial market correction, look for any day-over-day gain on any volume from any of the major stock indexes. That will be Day 1 of the attempted rally.

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Winners Tend To Run With A Strong Pack

BY PAUL WHITFIELD

INVESTOR'S BUSINESS DAILY

When you buy a stock, you aren't just buying an individual story.

Like it or not, you're buying into an industry group and sector. If there's trouble in either one, it's time to think twice.

Do you really want a stock that's facing stiff head winds?

The flip side is also true. If the stock you're buying is in a strong group, you have a tail wind helping that stock.

IBD research shows that 37% of a stock's move is tied to its industry group and 12% is tied to its broader sector, which means that the stock's individual merits are, in essence, only half the story.

Sure, you might find a stock in a troubled sector that is bouncing off what looks like a bottom. But unless there is something very special going on in the company, it's unlikely that a lone-wolf stock will go far.

Go with a lone wolf only when it's clear that the company has something so superior and unique in its product mix or makeup that it actually doesn't fit comfortably in any group. **Apple**AAPL, for example, has a product mix that is unique within IBD's Computer-Hardware/Peripherals industry group.

A laggard group usually carries a low Industry Group ranking for a reason. Often, industry conditions are pulling down the group. It's likely that the lone wolf will eventually succumb to those same conditions. And if the lone wolf were pointing to improving conditions, it's likely you would find more than one strong stock in the group.

How do you find strong groups and sectors? IBD's Research Tables in the B section of the newspaper are sorted and ranked by sector strength. There are 33 sectors. You want to buy stocks in the top sectors, not the laggards.

Also in the B section, today on Page B2, 197 industry groups are ranked by six-month price performance. Once again, your chances of success increase if you buy stocks in the top 20 to 40 groups.

Stock Checkup also has a convenient color-coded dot next to the ranking. Like a traffic light, it's red, green or yellow. Prefer stocks with a high majority of green dots.

The Top 15 World Stocks list on the World Stocks page is another way to look at group strength in terms of geographic region. For example, a recent issue of IBD showed that seven of the top 15 stocks were Chinese issues.

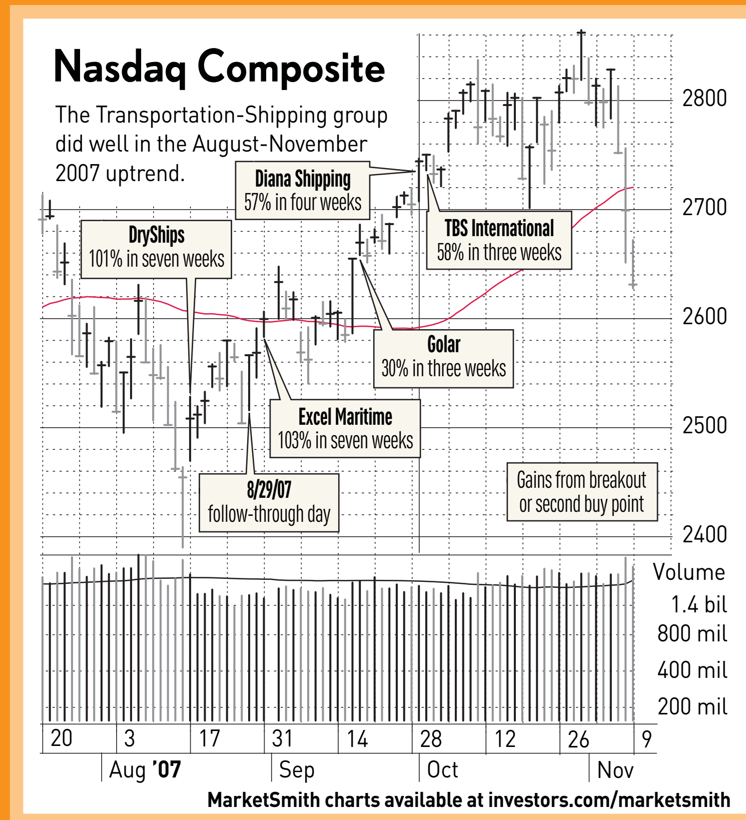
Once you have identified the strong sectors, you can narrow things down to the strongest industry groups. From 1978 to 1981, the computer sector was strong. But it was important to be in the right industry group within that sector. Stocks like **IBM**IBM moved sideways to down. Home-computer makers like Commodore soared.

As a rule, you should look for confirmation from at least one other strong stock in an industry group.

On Aug. 29, 2007, **DryShips**DRYS was in a buy range after a bounce off its 50-day moving average. It had broken out of a first-stage base in February that year, indicating strength.

The dry-bulk vessel operator was no lone wolf. The industry group was No. 8. And three other stocks in its Transportation-Shipping group were also in the IBD 100. DryShips rose 101% in two months.

Diana ShippingDSX was one of the stocks in DryShips' group. Diana broke out of a cup-with-handle pattern on Oct. 1. The industry group was ranked No. 16, still well-placed among the industry leaders. Three other shipping stocks were also in the IBD 100. Diana sprinted 57% in one month before topping.



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"Sure, you might find a stock in a troubled sector that is bouncing off what looks like a bottom. But unless there is something very special going on in the company, it's unlikely that a lone-wolf stock will go far."

A Rule Inspired By The Art Of Sitting Tight

BY VICTOR REKLAITIS

INVESTOR'S BUSINESS DAILY

Don't just do something, sit there. You may know that saying, especially if you're an advocate of small government or a contemplative monk.

The investing world has some similar adages. In Edwin Lefevre's "Reminiscences of a Stock Operator," Jesse Livermore was quoted as saying: "It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight!"

It takes time for a stock to stage a big advance. Livermore knew that it's tough to both be right about a good stock and sit tight rather than lock in your profit.

With this challenge in mind, IBD developed an eight-week hold rule for certain stocks. This rule states that if a stock breaks out and advances by 20% or more from the buy point in two or three weeks, then investors should hold it for at least eight weeks before deciding whether or not to sell.

Such stocks often end up being true market leaders. On average, it takes 12 to 18 months or longer for such a stock to complete its run.

"In many cases, stocks that advance dramatically by 20% or more in only one to four weeks are the most powerful stocks of all — capable of doubling, tripling or more," William O'Neil wrote in "How to Make Money in Stocks." He suggests trying to hold such a winner even when it pulls back to or near its 10-week moving average.

"Once you have a decent profit, you could also try to hold the stock through its first short-term correction of 10% to 20%," he wrote.

But don't expect to see the eight week hold rule triggered that frequently. Most of the time, your best bet is to follow a basic IBD rule for selling: heading for the exit once you've got a 20% to 25% gain.

If you do see a few issues touching off this rule within a few weeks of each other, you should realize that this is a great sign of strength within the overall market.

DryShips'DRYS action in 2007 offers a good example ofhow to make use of the eight-week hold rule.

By February 2007, the 2005 IPO had etched a huge cup-with-handle base, one that had taken shape over two years (1).

DryShips cleared its 18.47 handle buy point on Feb. 20 in strong volume (2). On the day of its breakout, the Greek dry-bulk shipper had solid IBD Ratings: an 89 Composite Rating, a 95 RS Rating, an A- for its Industry Group Relative Strength.

It also scored a B for its SMR Rating and a B- for Accumulation. One drawback was its 53 EPS Rating, which improved as EPS growth accelerated throughout 2007.

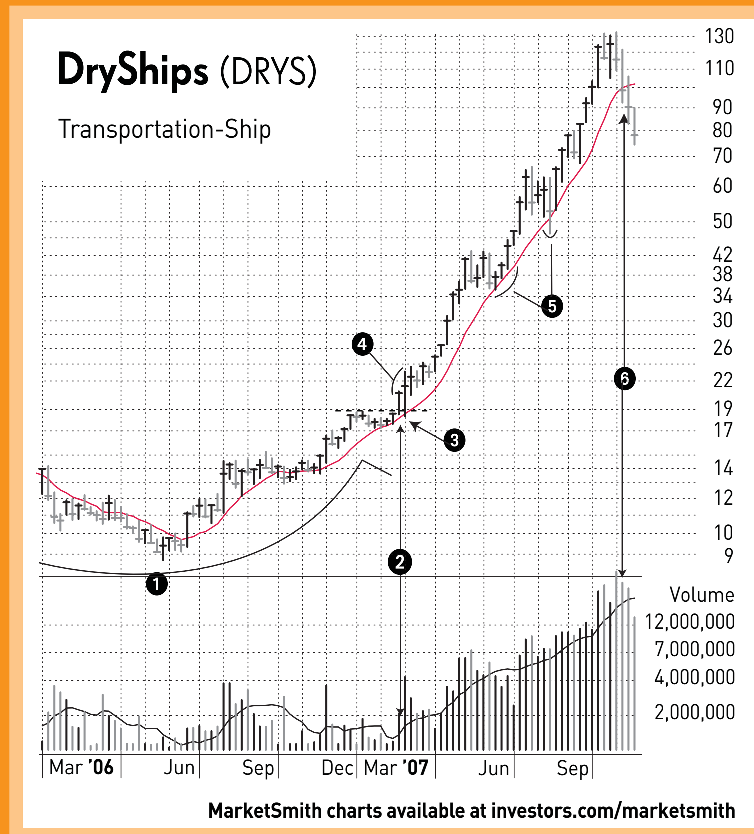
Investors who missed the Feb. 20 breakout might have bought Dry- Ships the following week, when it briefly returned below the 18.47 buy point, then rebounded off its 10-week moving average (3). The stock often appeared in bold in IBD's Research Tables as it rose by more than a point each day.

The stock triggered the eightweek hold rule, rallying as much as 22% in less than two weeks (4).

DryShips went on to test its 10-week line in June and August (5). It sliced through the line in the week ended Aug. 17, but it finished the week right at that benchmark.

The stock rewarded investors who were patient enough to see whether it would find support by that week's end. It ended up resuming its advance, only running out of steamin October and November.

A key sell signal came in the week ended Nov. 9, when DryShips tumbled 15% and closed below its 10-week line in hefty turnover (6). The stock failed to cross over the support line and fell another 50%.



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"If a stock breaks out and advances by 20% or more from the buy point in two or three weeks, then investors should hold it for at least eight weeks before deciding whether or not to sell."

Sell Early If A Breakout Doesn't Act Right

BY VINCENT MAO

INVESTOR'S BUSINESS DAILY

If you bite into the worst hamburger you've ever eaten, you should probably stop eating it. Right away.

In the market, if you buy a break out but the stock doesn't act right afterward, you don't have to wait until it falls 7% or 8% below your purchase price before selling.

IBD's golden rule of selling at 7% or 8% below your buy point reflects the maximum loss that one should take in each trade, barring any big gaps. However, in some cases your losses can be smaller. In many cases, you could sell once a stock falls between 3% and 5% below your buy point, or at break-even.

Your best trades are often the ones that start working right away—the ones where you take little or no heat because they are hitting highs fast.

At other times, the stock might surge in strong volume on breakout day and then do next to nothing over the next few sessions or couple of weeks. You may be up or down a little in the trade. But if there's no significant movement, ask yourself: How long are you going to wait?

Instead of sitting on dead money, you could use the funds to add to a winning position or buy another leading stock that is breaking out. Basically, this technique of shifting money from laggard positions to better-performing ones is what IBD founder and Chairman Bill O'Neil calls "force feeding."

Gap-ups are great when you're in a stock, but down gaps are not so good. They are especially worrisome soon after a stock breaks out of a base. These down gaps tell you that anxious sellers are there. You don't want to see that when a stock clears a consolidation.

You might also sell early ifthe leader in the industry group breaks down. If the top stock in a group falters, its group mates may be close behind.

Lastly, you can sell before your losses amount to 7% or 8% if the market comes under distribution. When the market rally breaks down,most stocks go down with it.

IXIA[XXIA] was a top-ranked member of the Computer-Networking group. The maker of ethernet interface cards for computers and networking gear owned an Earnings Per Share Rating of 80 and a Relative Price Strength Rating of 96.

The stock cleared a 19.99 buy point from a V-shaped cup-with handle base on June 2, 2005 (1). Volume was nearly four times average that day (2). But IXIA soon retreated and closed below the trigger point (3). The fact that the base was not ideal in shape also might have encouraged investors to sell early.

Big buyers returned June 13 and 14, pushing the stock up as much as 8% from the breakout. But on the 15th, the stock fell 5% intraday, telling you that sellers were present (4).

IXIA traded tightly over the next few sessions. On June 23, it fell 5% and as much as 10% intraday. IXIA also closed below the 19.99 buy point in big volume. Investors could have sold here for a small loss.(5)

Although the market was still in an uptrend, the stock cratered 50% by late October.

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"Gap-ups are great when you're in a stock, but down gaps are not so good. They are especially worrisome soon after a stock breaks out of a base. These down gaps tell you that anxious sellers are there. You don't want to see that when a stock clears a consolidation."

Keep Eye Out For Great 'Cousin' Stocks

BY DAVID SAITO-CHUNG

INVESTOR'S BUSINESS DAILY

Some movies become so popular that fans have come to automatically expect that a sequel will be in the works. "Avatar II" — wait, no, II and III, anyone?

A similar frame of mind appears to exist in the stock market.

If you catch a fantastic stock at the right time and market conditions remain solid, a sequel—in the form of another great stock that's either in the same industry or a related one— may arrive for the picking.

As the Nov. 19 Investor's Corner column explains, virtually half of a winning stock's strength can be attributed to the strength of its industry group and industry sector.

Why so?

Institutional investors—from mutual funds to state pension funds to the investing arms of insurance firms — don't simply pick individual stocks to meet their asset allocation in equities. Their stock buys may be weighted more heavily toward certain industries.

So when a certain industry sector leads the market, you can expect a multiple number of individual stocks from that sector to have the potential to score big gains.

If you've identified a winner that soon breaks out to new highs, you can leverage this knowledge incoming weeks or months to spot another candidate within the same industry group or a cousin industry.

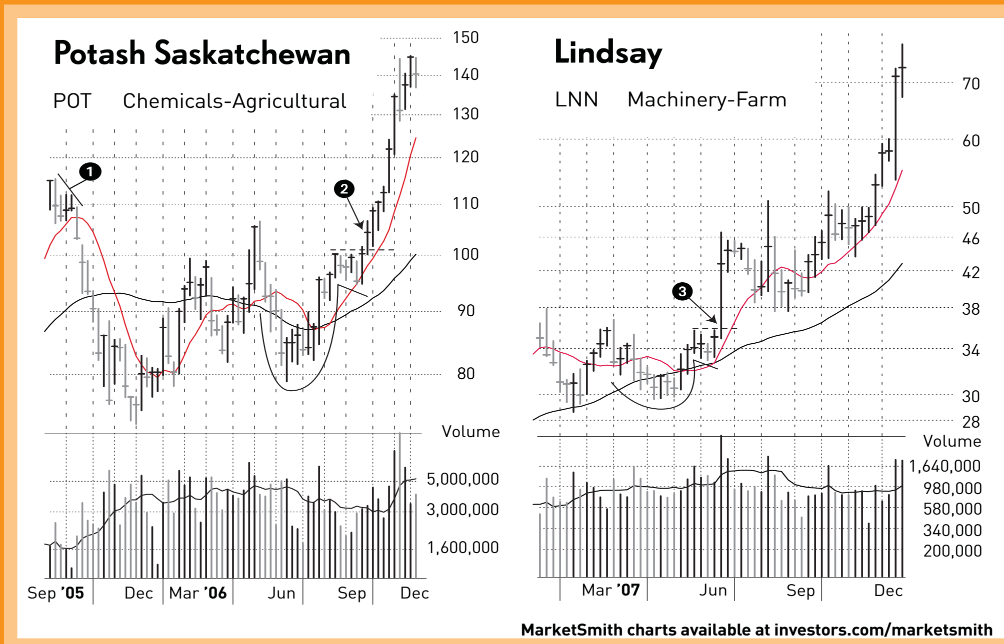
Youcan use IBD's NYSE+ Nasdaq Research tables, which begin on page B3, to spot new leadership emerging within a broad sector. Stocks that make the stock tables are classified by sector, and the strongest sectors are listed first. Right now, Agriculture, Internet, Leisure and Computer top the 33 sector rankings.

In September 2003, Canadian fertilizer supplier **Potash Corp.**[POT] pierced through upside resistance at 70 and ran up 230% to a high of 115.15 (including a 2-for-1 split in 2004) in less than two years.

From mid-August of 2005 ❶, Potash digested its stout gains for more than a year. As diets improved among emerging middle classes around the world, the need for higher crop yields stoked demand for fertilizer. Potash benefited.

By late September of 2006, Potash fashioned a 20-week cup with handle, then roared past its 100.24 buy point ❷. The stock scored a magnificent run over the next 16 months, gaining 355% and splitting its shares 3-for-1 along the way.

Less than a year before the start of Potash's huge run, **Lindsay**[LNN] built its own launching pad for big gains. The maker of crop-watering gear bolted past a 35.75 buy point in a 16-week cup with handle in the week ended June 22, 2007 ❸. After two years of slumping profits, Lindsay launched a classic turn around. Earnings per share grew 92% in the fiscal year ended August 2006 and 36% the next year. Investors hoisted the stock up 267% to a peak of 131.14 by April of 2008.



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"If you've identified a winner that soon breaks out to new highs, you can leverage this knowledge in coming weeks or months to spot another candidate within the same industry group or a cousin industry."

IBD's Founder, William J. O'Neil, studied the greatest winning stocks in history to see what made them great. O'Neil discovered seven characteristics these stocks had in common just before they made major price gains. The letters in CAN SLIM® stand for those seven traits.

This section will provide you with lessons on the importance of each letter in CAN SLIM and how you can use IBD's tools to identify winning stocks before they surge.

CAN SLIM® Overview

The ‘C’ In CAN SLIM; A Series Kicks Off

BY VICTOR REKLAITIS

INVESTOR'S BUSINESS DAILY

From a company's cash flow to its management team, investors have plenty of things to chew on as they try to figure out if a stock could turn into a big winner.

It can feel like too much to digest — like a meal with huge portions and way too many courses.

And it gives rise to a simple question: With so much information to consider, which aspect is the most important?

Current quarterly profit is the most critical, according to IBD's research.

More than any other factor, strong growth in earnings per share is what has defined market leaders ahead of their big advances.

For that reason, the very first rule in IBD's investing strategy has to do with profit. The C in CAN SLIM — as the strategy is called—stands for current quarterly earnings per share.

This Investor's Corner column is highlighting the C in CAN SLIM. It's the first of seven columns that will run from today through IBD's Sept. 7 edition.

Each column will look at one aspect of CAN SLIM, starting with C andending with M. You could think of this series of columns as an easy to- digest introduction to seven key characteristics of winning stocks.

Set A Threshold Of 25% Growth

IBD recommends looking for a per-share profit gain of at least 25% in the latest quarter.

Remember to compare the most recent EPS figure with the result for the year-ago quarter, so that you're getting an apples-to-apples comparison and avoiding distortionsfrom seasonality.

Keep in mind that highly successful firms often post explosive gains in profit, meaning increases of muchmorethan 25%.

For example, Dell's DELL EPS jumped 74% and 108% in the two quarters before the PC maker's huge advance that started in November1996.

The 25% guideline is backed up by research into the 600 best-performing stocks from 1952 to 2001. IBD found that three out of every four such stocks boosted earnings by more than 70% in the most recent quarter before their big run-ups.

Beyond strong EPS growth, you also want to see an acceleration in EPSgains. In this context, acceleration can be a confusing concept, so here's a straight forward example.

Say a company's EPS rose 25% in the year's first quarter vs. the year ago figure, then 50% in the second quarter and 80% in the third quarter. That's exactly what's meant by acceleration in EPS growth.

It's also worth noting that you should see the EPS gains supported by significant increases in quarterly sales. Demand sales growth of at least 25% in the latest period, though an acceleration in sales growth can make up for cases when the period's gain wasn't quite 25%. Companies often boost their earnings through cost cuts, especially in tough economic times, but that only works for so long.

EPS Can Also Be Warning Sign

If you pay attention to earnings, you can also spot sell signs. When profit growth slows by two thirds or more from the previous rate, that's a red flag. For example, be careful if growth drops from 100% to 30%, or from 50% to 15%.

William O'Neil, IBD's founder and chairman, has said that even the best organization can have a slow quarter every once in a while. He often prefers to see two straight quarters of slower growth before turning negative on a company's earnings.

Strong Quarterly Profit And Sales Growth

Company name	Symbol	EPS Vs 4 qtrs ago % last rptd qtr	EPS Vs 4 qtrs ago % 1 qtr ago	Sales % chg vs 4 qtrs ago last rptd qtr	Sales % chg vs 4 qtrs ago 1 qtr ago
Agnico Eagle Mines	AEM	169%	138%	155%	116%
Apache	APA	73	223	42	64
Apple	AAPL	75	86	61	49
Baidu	BIDU	112	133	76	60
Barrick Gold	ABX	59	115	34	44
Chevron	CVX	210	228	32	33
Cimarex Energy	XEC	175	2,290	70	114
Clean Harbors	CLH	508	81	119	72
Concho Resources	CXO	85	181	69	147
ConocoPhillips	COP	140	200	39	46
Cree	CREE	206	262	79	78
Ctrip.com Intl	CTRP	53	56	47	47
Eastman Chemical	EMN	138	448	38	39
ITT Educational	ESI	50	58	27	33
Itron	ITRI	100	142	38	29
Magellan Midstream	MMP	159	100	103	55
MercadoLibre	MELI	125	120	28	42
NetApp	NTAP	123	61	36	33
Netflix	NFLX	52	63	27	25
Newmont Mining	NEM	77	89	34	46
Occidental Petroleum	OXY	54	164	29	54
Potash	POT	154	224	68	86
T. Rowe Price Group	TROW	55	111	30	44
Priceline.com	PCLN	53	56	27	26
Rio Tinto	RTP	79	79	34	34
Royal Gold	RGLD	50	67	83	68

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"More than any other factor, strong growth in earnings per share is what has defined market leaders ahead of their big advances."

The 'A' In CAN SLIM: Awesome Earnings

BY VINCENT MAO

INVESTOR'S BUSINESS DAILY

What do Johnny Lee, Vanilla Ice and Sinead O'Connor have in common? They've all had one or two big hits, but have since faded from the spotlight.

When looking for companies to invest in, you don't want ones that are just one-or two-hit wonders.A company might be able to muster one or two quarters of solid bottom-line growth. But it's best to see several years of strong profit growth.

Top-notch earnings growth is essential fuel for a high-performance stock. If the company isn't making money year after year, there's virtually no reason for the stock to goup.

Before you decide to invest, always see whether your target firms have boosted earnings at respectable rates the past several years.

The strong annual earnings growth is the A in CAN SLIM. You don't have to go back 10 or 20 years. IBD checks the past three to five years. Earnings growth should be up at least 25% in each of those years. Some of the market's biggest winners have annual earnings growth of 50%, 100% or higher — before their stocks make big gains.

When scouting potential investment stocks, insist on those with solid annual profit growth as well as robust quarterly figures.

In "How To Make Money In Stocks," IBD founder and Chairman William J. O'Neil wrote, "It's the combination of strong earnings in the last several quarters plus a record of solid growth in the recent years that creates a superb stock, or at least one with a higher probability of success during an up trending general market."

BaiduBIDU was one of the top-performing stocks in 2009, gaining 213%. From 2006 to 2008, the Chinese Internet search firm's earnings per share grew 313%, 101% and 91%, respectively.

In-home nursing care provider **Almost Family's**AFAM profit grew 56%, 65% and 73% from 2005 to 2007. Despite a tough year for the overall market, Almost Family was one of the best stocks of 2008, gaining 131%.

In April 2005, Internet kingpin **Google**GOOG bolted out of a cup with- handle base. It gained more than 60% in three months before settling into another consolidation. Google's annual earnings growth was well above the 25% minimum. From 2002 to 2004, Google's profit surged 1,733%, 138% and 92%.

To find annual growth rates for companies, you can compute the figures from annual reports or earnings statements. IBD's EPS Rating gives you a quick snapshot, though.

You can also find a firm's three year earnings growth rate by checking the minicharts in the print edition of IBD or in Stock Checkup on Investors.com.

Companies With Outstanding EPS Ratings And Annual Profit Growth

Company	Symbol	Comp Rtg	EPS rank cur week	RS Rtg cur week	5-yr EPS growth rate	EPS est cur year	Earn est cur yr % chg	EPS growth latest qtr
American Tower	AMT	94	99	89	105%	$0.87	47%	92%
Aruba Networks	ARUN	99	99	98	90	0.48	66	233
Baidu	BIDU	99	99	97	98	1.40	111	112
Cardtronics	CATM	91	99	94	140	0.92	37	53
China New Borun	BORN	99	99	86	76	1.63	75	153
Cirrus Logic	CRUS	99	89	99	7	1.44	227	n.a.
Ctrip.com	CTRP	98	99	88	42	0.93	13	53
Diamond Foods	DMND	97	98	89	64	1.88	28	88
Ebix	EBIX	99	99	91	65	1.32	39	50
El Paso Pipeline Partners	EPB	99	95	93	34	2.05	28	18
Green Mtn Coffee Roasters	GMCR	96	99	93	50	0.71	87	58
Iamgold	IAG	96	86	87	26	0.77	60	11
L & L Energy	LLEN	97	99	95	91	0	n.a.	200
Lululemon Athletica	LULU	96	99	89	110	1.16	41	200
MercadoLibre	MELI	97	99	97	156	1.15	58	125
Metropolitan Hlth Ntwrks	MDF	92	98	94	62	0.53	71	100
Netflix	NFLX	99	99	98	45	2.80	33	52
Newmont Mining	NEM	99	98	87	29	3.64	30	77
Priceline.com	PCLN	99	99	97	60	12.27	44	53
SXC Health Solutions	SXCI	96	87	94	38	2.14	12	9
Solera Holdings	SLH	97	95	90	88	2.22	4	29
Valeant Pharmaceut Intl	VRX	99	95	98	57	2.94	33	33
VanceInfo Tech	VIT	98	99	97	70	0.79	39	43
Warner Chilcott	WCRX	99	99	88	61	3.45	83	116

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"Top-notch earnings growth is essential fuel for a high performance stock. If the company isn't making money year after year, there's virtually no reason for the stock to goup."

CAN SLIM's 'N': New Leaders, New Highs

BY DAVID SAITO-CHUNG

INVESTOR'S BUSINESS DAILY

We can not seem to live without cell phones or Internet-enabled devices today. But we aren't much different from the folks who sat in front of radios in the 1920s or travelers who hopped on commercial jets in the 1960s.

Human beings desire things that are new, especially if these "things" make life richer, enhance productivity and extend good health.

The stock market is no different. New companies — and the veteran firms that remake themselves — lead brand-new bull markets. These leaders tend to come up with new products and services that enjoy immense popularity. They produce the fastest-growing sales and profits, a key driver of stock prices. They create new jobs, boosting the economy.

As you build a portfolio of winning growth stocks, always keep in mind the importance of the N in CAN SLIM, which stands for "new" in IBD's seven-letter strategy for finding winning growth stocks.

A superb growth stock meets the N factor in another way: making new highs. This is why IBD features every day those stocks that are trading closest to their 52-week highs, regardless of market conditions. When a strong market rally takes hold, these stocks have the best potential to hit new highs quickly and make stunning runs.

William J. O'Neil, who founded IBD in 1984, notes that during the bull run of the 1990s, four out of every five market leaders were fresh faces that went public during the 1980s and early 1990s. Tax cuts helped unleash a wave of young Turks going public and accessing the market to fund their growth.

"This fresh blood acts as a critical revitalizing force in each new market cycle as mutual funds and other institutional investors pile into the dynamic, faster-growing new leaders that are based on unique new products or inventions," O'Neil wrote in "TheSuccessful Investor."

As you form your watch list of potential winners, ask yourself:

- Is it a relatively young issue? The best performers tend to have gone public within the past 15 years.
- Is a company coming up with new products or new services that few rivals can match? A hot product tends to command high prices, boosting a company's margins and bottom line. Also, a new CEO can cut away underperforming divisions and inspire a company wide rebound.
- Are mutual funds taking new positions in the company? One way of finding out: The Accumulation/Distribution Rating.Pay attention to those stocks earning an A or B. Your Weekly Review and the mutual funds section display information on top-performing funds and what stocks they are buying.
- Is the company's industry experiencing a new trend? In the late 1960s and 1970s, innovation in jet engines and deregulation helped airline stocks take off. Commodity stocks boomed from 2003 to 2008 as demand for raw materials in Asia soared.

MasterCardMA is not a new name. Credit cards have been around a long time. But its debut on the NYSE back in May 2006 was certainly news back then. Why did it quickly ramp up to new highs eight weeks later (1)?

The company enjoyed rapid growth outside the U.S., a new trend. The euro's big rally encouraged overseas travel and more cross border transactions. A settlement in 2003 over a U.S. merchant lawsuit helped wipe the slate clean. MasterCard also posted record earnings of $2.35 (up 34%), $3.41 (+45%) and $5.70 (+67%) a share in 2005, 2006 and 2007.

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"As you build a portfolio of winning growth stocks, always keep in mind the importance of the 'N' in CAN SLIM, which stands for 'new' in IBD's seven-letter strategy for finding winning growth stocks."

The 'S' In CAN SLIM: Share Count Matters

BY ALAN R. ELLIOTT

INVESTOR'S BUSINESS DAILY

Getting started as a CAN SLIM investor is an easy, step-by-step process. But unpacking the concepts, understanding the finer details and using your knowledge to consistently wrest healthy returns takes time, study and dedication.

Understanding the laws of supply — the 'S' in CAN SLIM — and demand for a company's shares is critical to that process. It is a crucial identifier of potential top stocks.

You already know institutional investors drive up the price of a leading stock. Chart patterns, such as the cup with handle, paint portraits of constraints being placed on the supply of a company's stock. The constraints come as weaker shareholders are shaken out, and as institutional buyers accumulate a significant number of shares.

This combination limits the number of available shares. As supply shrinks, the price rises. That attracts more buyers. The fresh demand forces prices even higher, and we're off.

The larger the volume, the easier for fund managers to enter and exit a stock. Liquidity is a key to institutional sponsorship. At a minimum, you'd like to see a 50-day average trading volume of 400,000 shares a day. If volume is, say, only 40,000 shares, it is possible for a few market players to manipulate the price. In other words, be on the lookout for false breakouts.

You can get 50-day average volume data by using the Stock Checkup at investors.com. In Stock Checkup, look under the heading, "Technical Performance." A stock quote shows how much a stock's trading volumeis above or below average. You can use the chart function at investors.com to get another key measure of supply: a company's shares outstanding. This number tells you how many common shares are held by investors, including company management.

IBD founder and Chairman William J. O'Neil, in his book "How To Make Money In Stocks," makes clear, "if you are choosing between two stocks to buy, one with 5 billion shares and the other with 50 million, the smaller one will usually be the better performer."

The rule says a **Google**[GOOG] or a **Baidu**[BIDU], if all else is equal, will outperform a Microsoft[MSFT] or a **GeneralElectric**[GE]. The reason: A smaller supply of shares is more easily constrained.

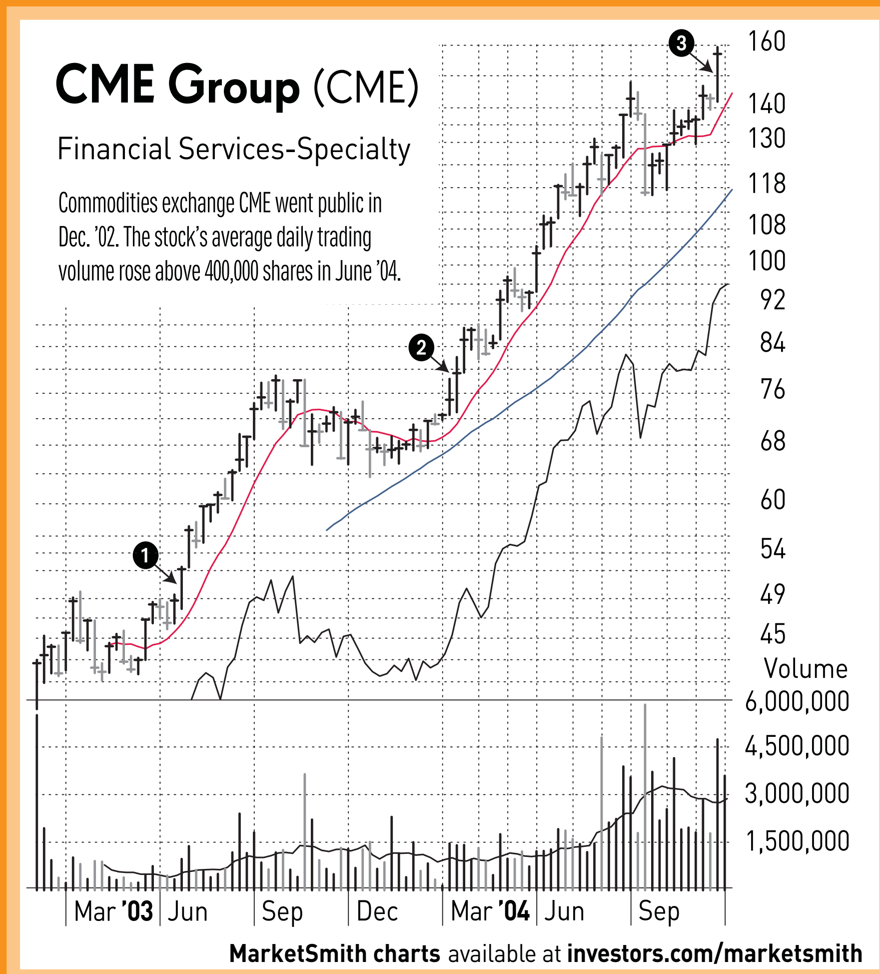
But if your choice is between a Google or a Baidu, both in a 250-million- share range, and a **Priceline.com**[PCLN] or **Netflix**[NFLX], both in the 50-million-share range, the supply distinction is less crucial.

One other important supply term: the float. The float is a subset of a stock's outstanding shares. It subtracts shares owned by management and insiders, leaving only shares publicly owned and available for sale.

In the case of a Google, in which only 1% of the company's 246 million shares outstanding are owned by management, the float is a healthy 244 million shares.

Jinko Solar[JKS] is another matter. As much as 54% of its 22 million shares are held by managers, leaving the stock with a 10-millionshare float.With an average volume of 256,000, the stock's price can be more easily influenced up or down by a large institution. But Jinko's average volume has also doubled since July 23, when a 50-day figure began to be calculated.

A similar trend took place with **CME Group**[CME]. At its first breakout in April 2003, average daily volume was a scant 90,000 shares ❶. (CME's chart is a weekly chart, so the volume bars show total weekly turnover). When CME broke out again in January 2004 ❷ and September the same year ❸, average volume grew to 220,000 and 590,000 shares, respectively.



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"Understanding the laws of supply - the 'S' in CAN SLIM - and demand for a company's shares is critical to that process. It is a crucial identifier of potential top stocks."

The 'L' In CAN SLIM: Leaders, Not Losers

BY DONALD H. GOLD

INVESTOR'S BUSINESS DAILY

There's no polite way to say it: Either your stock is a leader or a laggard. There isn't much in between.

The L in CAN SLIM stands for Leadership, not Laggardship. Learn how to recognize one from the other so you don't get snookered into buying the wrong stock.

Leader, Laggard, Who Cares?

You should. For every stock market superstar, there are a bevy of wannabes and me-too stocks.

They may look good at first, and hardly distinguishable from the real thing.

Or they may simply be a lot cheaper, as gauged perhaps by a lower price-earnings ratio, or maybe just by price.

But these stocks usually won't serve you well. Like those cheap knockoff watches you see at stands on New York's Canal Street, these stocks will work for a while, then just stop ticking.

In a strong bull market, of course, even stocks of bad companies may do well. This will make finding the leadermoredifficult.

But don't be lulled into thinking that if all stocks go up, you can't make a mistake.You can.

What To Look For

First off, the great stocks usually come from great groups.

IBD sorts all stocks into one of 197 industry subgroups. Office supplies, schools, dairy companies and drugstores have a firm grip on the basement for now. The market followed through Wednesday; you'd be very surprised if these groups suddenly led the way.

No, you're far better off focusing on the market's leaders. IBD ranks all groups based on sixmonth price performance. That ranking appears each day on IBD's How's The Market? page, which today is B2.

You'll find most of your best stocks in the first 40 subgroups, but you'll probably find fewer potential winners as you get below the top 20 subgroups.

Leading Stocks

So if you identify the top groups, are you done? No. Now you have to find that group's best stocks. They tend to have the best records for profit and sales growth, as well as a leading role in their market.

Again, turn to IBD for help. Note the highlighted stocks a top each sector listing in the daily tables.

Or say you're looking at auto parts retailer **O'Reilly Automotive**ORLY because it's building a base. Is this the highest-rated member of the Retail/ Wholesale Auto Parts group?

Learn to use the Stock Checkup feature at Investors. com. Plug in O'Reilly's ticker, then check out the group leaders listed on the right side of the screen. You'll often be surprised at what you find.

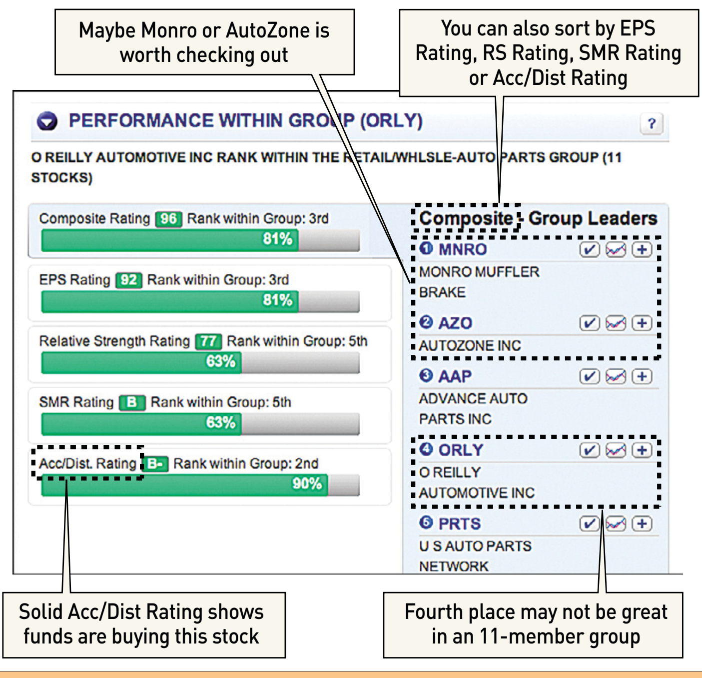
Of course, your stock must have outstanding fundamentals: sales growth, profit growth, margins, and a new idea or product that puts that company head and shoulders above the rest.

Wait, aren't we straying into the other elements of CAN SLIM? Yes. But a leader must, by definition, bring together these elements.

Be alert, too, for that rare animal: the stock from a low-rated group that takes off. How can that be?

Simple. That company invented something so totally new that it caught its fellow group mates—and the world—by surprise.

When **Whole Foods Market**WFMI broke out in late July 2001, it enjoyed some of the best IBD ratings in the supermarket subgroup: a 90 Composite, 90 EPS, 76 RS. While most of its group mates lagged, the rapidly expanding high-end food retailer climbed fivefold from its buy point to its December 2005 peak.



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"The 'L' in CAN SLIM stands for Leadership, not Laggardship. Learn how to recognize one from the other so you don't get snookered into buying the wrong stock."

CAN SLIM's 'I': Institutions Power Rallies

BY PATRICK CAIN

INVESTOR'S BUSINESS DAILY

The "I" in CANSLIM doesn't stand for "insanely important," but what it refers to is just that.

"I" stands for "institutional sponsorship." It can make or break a company with great fundamentals.

Institutional sponsorship is, in essence, asking, "Are the big boys here too?" If the big traders — the funds that can buy a million shares without hesitation — are not present, the stock won't have the fuel it'll need for a prolonged move.

Big buyers are the demand side of the supply-and-demand dynamic that runs the stock market. They could be a mutual fund, pension fund, hedge fund, trust bank or educational institution.

It's smart to follow these investors because they're the ones who have teams of people doing the research that an at-home investor simply cannot do alone. Let them do the leg work. Then once they start buying, see if it fully passes the test of CAN SLIM.Some will, many will not.

But not all institutions are made equal. At IBD we grade funds on their recent performance. A-rated funds are the best and what investors should hope to find backing a prospective buy.

There is no set number of funds you want to see. In general, the bigger the stock's market cap and the larger the average volume, the more institutional support you'll need in order to drive shares up or down. In smaller companies, a handful can get the ball rolling.

One way to watch institutional ownership is to look at quarterly filings. You'll be able to judge how the top funds feel about the stock by seeing if they are increasing or decreasing their stakes.

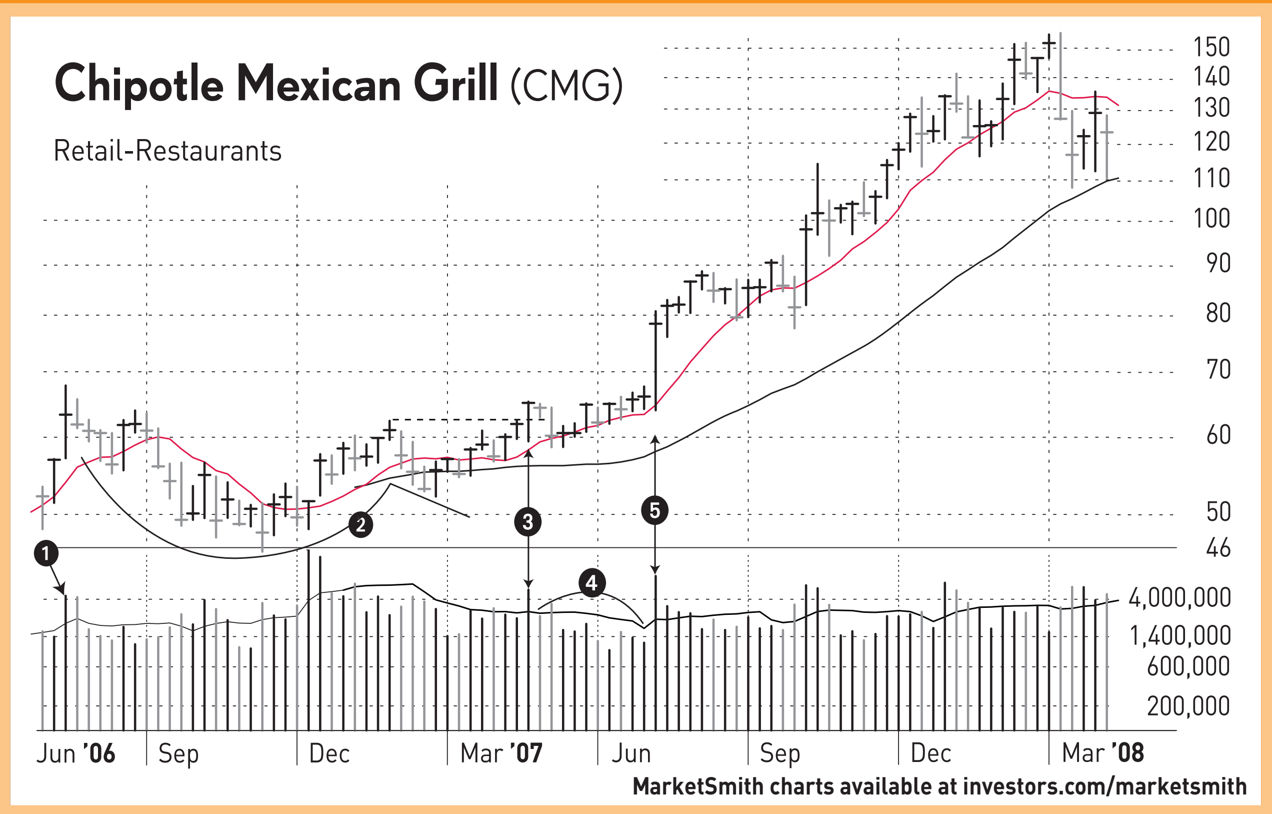
This is, of course, a backward-looking indicator, as the purchases may have been made months ago. IBD's Accumulation/Distribution Rating gives you a more up-to-date indicator of institutional demand. Focus on stocks with an A or B, which suggests funds are net buyers of a stock.

But the closest thing to a real-time indicator of institutional sponsorship you have is volume. When a heavily liquid stock sees volume surge 40% to 50% or more above its average level, it's likely the result of funds buying lots of shares.

Chipotle Mexican GrillCMG, an IPO in January 2006, showed early signs of its institutional support before it broke out, giving investors a heads-up before its breakout in early May 2007.

The dynamic burrito chain's chart signaled strong funds buying shares early on. Even before the base started, there were a few weeks in which the stock surged in price on heavy weekly volume ❶. The stock went on to form a cup with long handle ❷ and broke out in above-average trade in February 2007 ❸.

Shares pulled back to the 10-week moving average line and volume dried up ❹. Then the stock gapped up on May 2, 2007, giving investors all the reasons needed to get in ❺. On the gap-up day, Chipotle posted an 85 Composite Rating, an 82 EPS, 74 RS and B for Accumulation. In the next day's IBD, the EPS and RS shot up to 99 and 90, respectively, on a solid earnings report May 1.



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"Big buyers are the demand side of the supply-and demand-dynamic that runs the stock market. They could be a mutual fund, pension fund, hedge fund, trust bank or educational institution."

CAN SLIM's 'M': Market Direction Is Key

BY PAUL WHITFIELD

INVESTOR'S BUSINESS DAILY

If you talk to California surfers about their passion, they'll tell you that conditions are pretty much everything.

"When the waves aren't right, there's no point in going out there and getting beat up," a veteran surfer recently explained.

If the wind is blowing strong onshore and the ocean looks like a washing machine, you don't surf. If the waves are too weak, you don't surf. If the ocean's at a dead calm, you don't even try.

Transmogrify this into investing and you pretty much have IBD's stance on the stock market.

If the M for market in CAN SLIM is missing, there's no point in opening new positions. Raise cash. Wait for better conditions.

This is a hard lesson for investors to learn, especially if they are intelligent. People like to point to great stock picks they made, as if choosing the stock was the whole story.

They almost never give credit for a profitable run to the market or to the strength of the industry group. The proud think investing is an intellectual test, and that they can outsmart a downtrend.

But investing isn't an intellectual test. It's more like the art of surfing. You can't outsmart the ocean into being something it isn't. If you're going to be successful, you need to be aware of conditions and make the necessary adjustments.

If the market isn't in an uptrend, you aren't going to make much progress. In an uptrend, three of every four stocks rise. In a downtrend, it's the reverse.

The market has three possible states: confirmed uptrend, uptrend under pressure and correction. Either stocks have a tail wind helping them, a crosswind confusing them or a head wind slowing them. The Big Picture and Market Pulse on Page A1 detail the market's state every day.

An uptrend under pressure can be tough. It typically doesn't offer enough reward to justify aggressiveness or enough pain to drive you to cash.

All markets are dangerous because they shape your psychology, often without your being aware of it.

People who work at IBD seminars say that investors themselves can become indicators at key market junctures. Near market tops, it isn't unusual to run into people who are ready to quit their day job and invest full-time. After all, they've mastered the game, and general market conditions had little to do with their success, right?

A dose of humility amid your success will serve you better. If you realize that the market itself has a lot to do with your success or failure, you will watch the market closely.

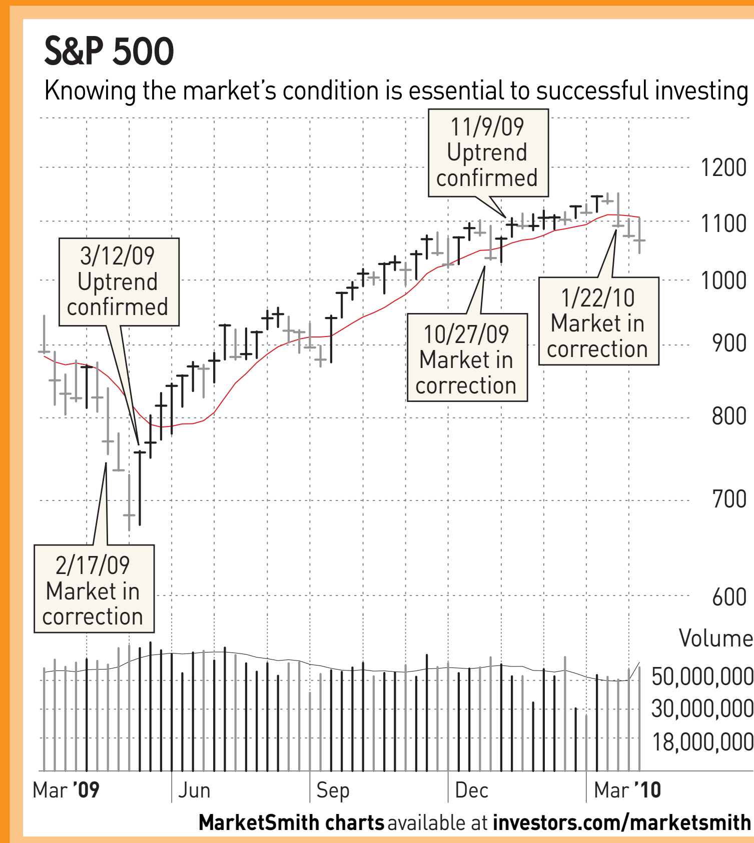
When an uptrend is under pressure, it isn't unusual to run into people who are convinced that IBD is missing calls. In a way they're right, though not in the way they imagine. A market that is under pressure invites argument. A lack of clarity is its chief characteristic.

When a market's in correction, some people quit watching the market altogether. This guarantees that they will be late in catching the next uptrend and late in identifying the strongest groups and best stocks.

After the March 12, 2009, follow through day, it was common to run into people who insisted that the market was terrible and any rise was a head fake. They missed a 77% jump in the Nasdaq over 13 months.

If there's one thing intrinsic to the IBD approach to investing, it's respect for the market. We make no claim that we can outsmart a downtrend, or predict the future. The market is like the ocean. It's a powerful force that must be respected.

You ride the strong waves as long as they last. You wait on the beach when there's no point in going out.



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"If the 'M' for market is missing, there's no point in opening new positions. Raise cash. Wait for better conditions."

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