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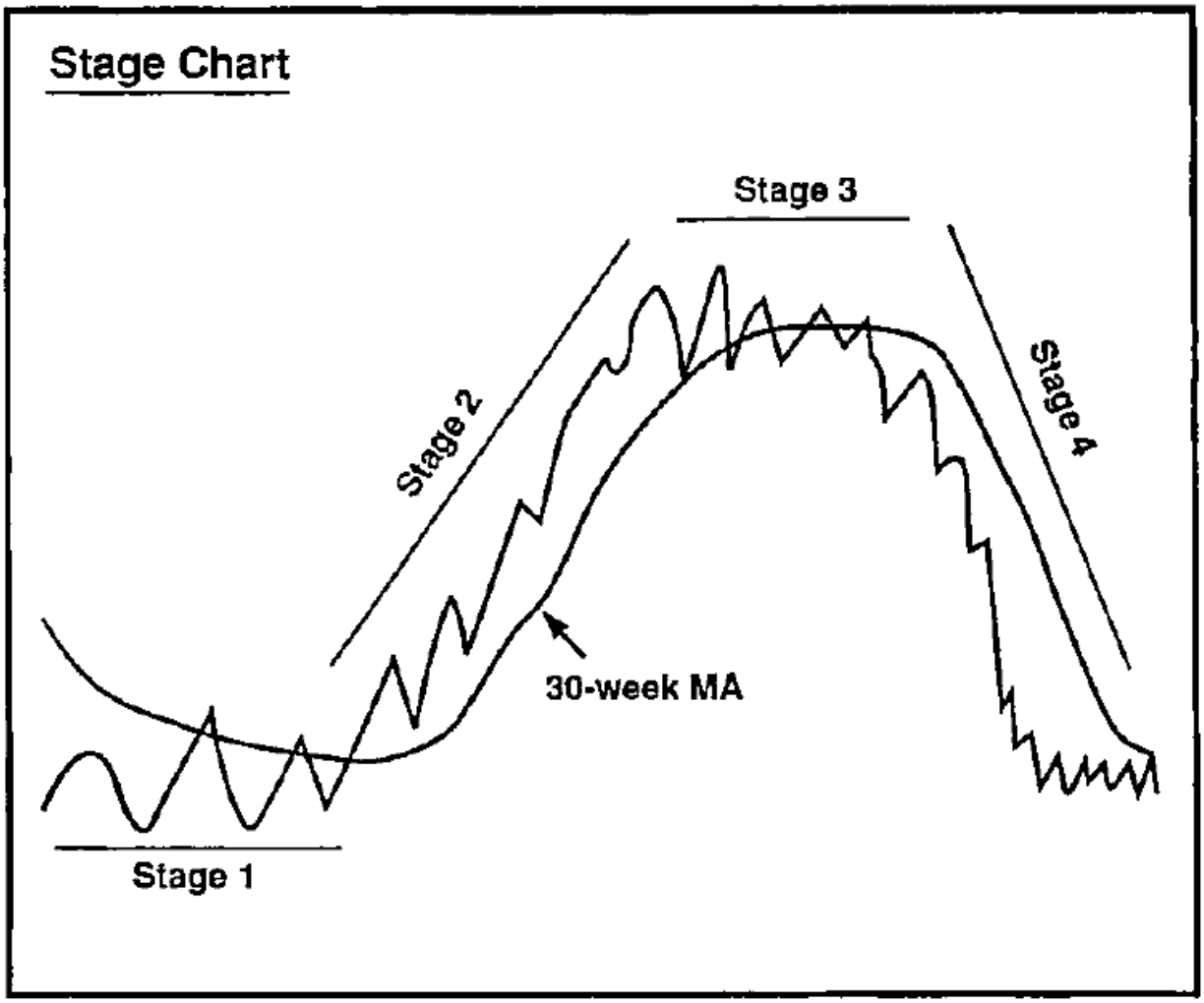
Stage Analysis ■

Source : Stan Weinstein's Secrets For Profiting in Bull and Bear Markets

1. Stage Chart ■

Stage 1 : Basing Area
Stage 2 : Advancing Stage
Stage 3 : Top Area
Stage 4 : Declining Stage

CHART 2-1



Stage 1 : Basing Area

(a)Buyers & Sellers are starting to move into equilibrium

(b) Several Swings b/w support & resistance

STAGE 1: THE BASING AREA

After stock XYZ has been declining for several months, it eventually will lose downside momentum and start to trend sideways. What's actually taking place is that buyers and sellers are starting to move into equilibrium, whereas previously the sellers were far stronger, which is why the stock had plummeted. Volume will usually lessen—dry up—as a base forms. But often volume will start to expand late in Stage 1, even though prices remain little changed. This is an indication that dumping of the stock by disgruntled owners is no longer driving down the price. The buyers who are moving in to take the stock off their hands are not demanding any significant price concession. This is a favorable indication.

Stage 2 : Advancing Stage

(a) Initial rally & a pullback

(b) MA Starts to trend upwards

(c) Successive leading peaks

STAGE 2: ADVANCING PHASE

The ideal time to buy is when a stock is finally swinging out of its base into this more dynamic stage. Such a breakout above the top of the resistance zone and the 30-week MA should occur on impressive volume. This is the start of the advancing Stage 2 uptrend phase. However, before the really dynamic part of the advance gets rolling, be aware that there is usually an initial rally followed by at least one pullback. That dip brings the stock back close to the breakout point, which is a good second chance to do low-risk buying. Don't become a fanatic about saving a few cents per share! If the breakout occurs at 12'/8, for example, the pullback may turn out to be 12³/8 or 12⁵/8 but will come close. The less it pulls back, the more strength it actually is showing. Interestingly enough, at the breakout point—which is the perfect time to buy—the reported fundamentals will often be negative. And unless your stockbroker is technically oriented, he may try to talk you out of buying the stock.

Towards the end of Stage 2 advance

(a) Erratic price swings

(b) Angle of ascent of the MA will slow down

After several months of bullish bliss as the fundamentals start to improve and more and more investors belatedly jump on the bullish bandwagon, the stock will eventually start to sag closer and closer to its MA. The angle of ascent of the MA will slow down considerably. At this point, the stock is a "hold." Although it is still in Stage 2, this stock is now trading far above its support level and MA and is being discovered by the investment community; it is overextended and most definitely no longer a buy. This is the point where buying puts you at considerable risk.

Stage 3 : Top Area

(a) Buyers & Sellers are again at equal strengths

(b) Moves are sharp & choppy

(c) Price will move back & forth along the MA

STAGE 3: THE TOP AREA

Eventually, all good things come to an end. In the stock market, this takes the form of a Stage 3 top as the upward advance loses momentum and starts to trend sideways. What's going on beneath the surface is that buyers and sellers are once again about equal in strength. In Stage 2, the buyers were far stronger and overwhelmed the sellers. Now that the advance is ending, the stock is in equilibrium and the mirror image of a Stage 1 base starts to take shape.

Volume is usually heavy in Stage 3 and the moves are sharp and choppy. If you've ever heard the expression that a stock is "churning" (moving sideways on heavy volume), this stage is an outstanding example of it. The heavy volume on the part of buyers, who are excited by the improving fundamentals or "story," is met in equal measure by aggressive selling by the people who bought at considerably lower prices and are heading for the exits.

Here is how all of this takes shape on the chart. First the 30-week MA loses its upward slope and starts to flatten out. Whereas Stage 2 price declines always held at or above the MA, the stock will now tiptoe below and above the MA on declines and rallies.

Stage 4 : Decline Stage

(a) Sellers overpower buyers

(b) Fundamental news will still be good

(c) Volumes during decline can be low as well as high

STAGE 4: THE DECLINING PHASE

This is a period when the factors that maintained a stock's price during the topping phase give way to the fatigue and pressures of fearful sellers. It shows up on the chart in the following manner: After moving back and forth in a neutral trading range, a stock eventually breaks below the bottom of its support zone. Our XYZ chart (1-6) shows a support zone of 26 to 26'/2, resistance near 30, and a basically flat MA. Unlike an upside breakout, which needs a *significant increase in volume* to be considered trustworthy, a downside break into Stage 4 doesn't necessarily need such a huge increase in volume to be considered valid. A volume increase on a breakdown followed by a volume decrease on a pullback to the breakdown point does signal a very dangerous situation; yet I've seen many cases where a stock moved into Stage 4 on relatively light volume and dropped substantially in the months ahead. Therefore, while a volume increase on the breakdown is even more bearish, don't ever let yourself get lulled into a false sense of security because the volume isn't heavy![1] One way or another, you should get out of the stock. If your broker is a fundamentalist, he

Knowing what to throw away & what to keep

losses. The amateur investor creates a nightmare as he sells the winners too quickly with small profits while holding the losers that turn into Stage 4 disasters. The more sophisticated players, however, end up with super profits because they ride the Stage 2 winners all the way up while quickly getting out of their problem stocks. So it really is a matter of "knowing what to throw away and knowing what to keep."

The cycle repeats all over again with the start of base formation (Stage 1)

By learning the consistent discipline of following market's message of charts we too can learn to be cool, calm & calculating while others get consistently whipsawed by the greed fear syndrome.