Twitter Thread by Richard Moglen ■■■■

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What is Relative Strength (RS) and how to identify it (Thread)

Focusing on stocks exhibiting strong Relative Strength is one of the keys to achieving superior returns. This is one of the core ideas of #CANSLIM

In one sentence showing RS means outperforming other stocks both during market uptrends and downtrends.

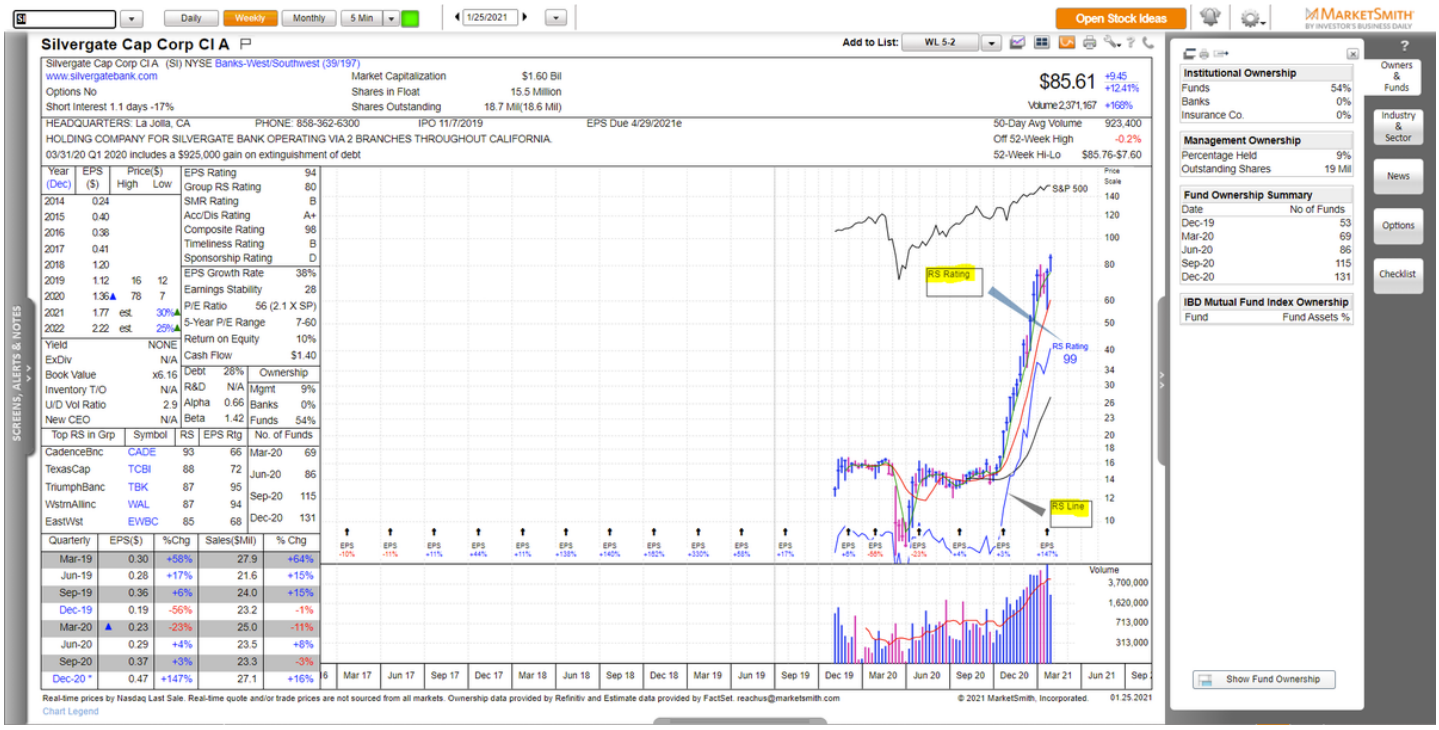
In this thread we will cover examples, how to spot it, and how to use it to make sure you are in the top stocks.

If you want to outperform the indexes, logic says you have to be invested in stocks doing the same.

First Some Basic Terminology:

RS Rating: @IBDinvestors Proprietary measure of RS scored 1-99. Stocks with an RS rating of 80 have outperformed 80% of stocks over the past year.

RS Line: The Line plotted by dividing each day's stock price/ price of the SPX.

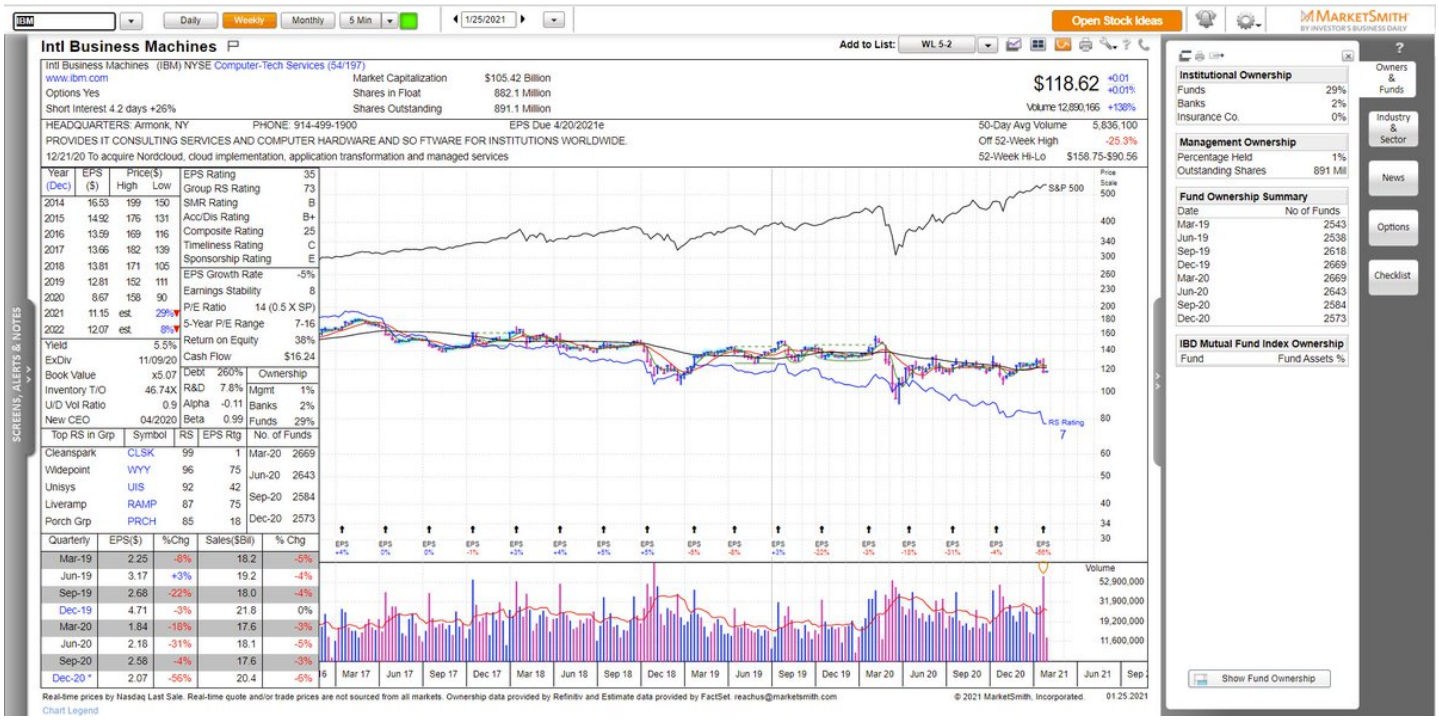


The value of the RS line itself does not mean anything, but the trend of this line is very important.

-Note RSI (Relative strength index) is something completely unrelated to the concept of this thread.

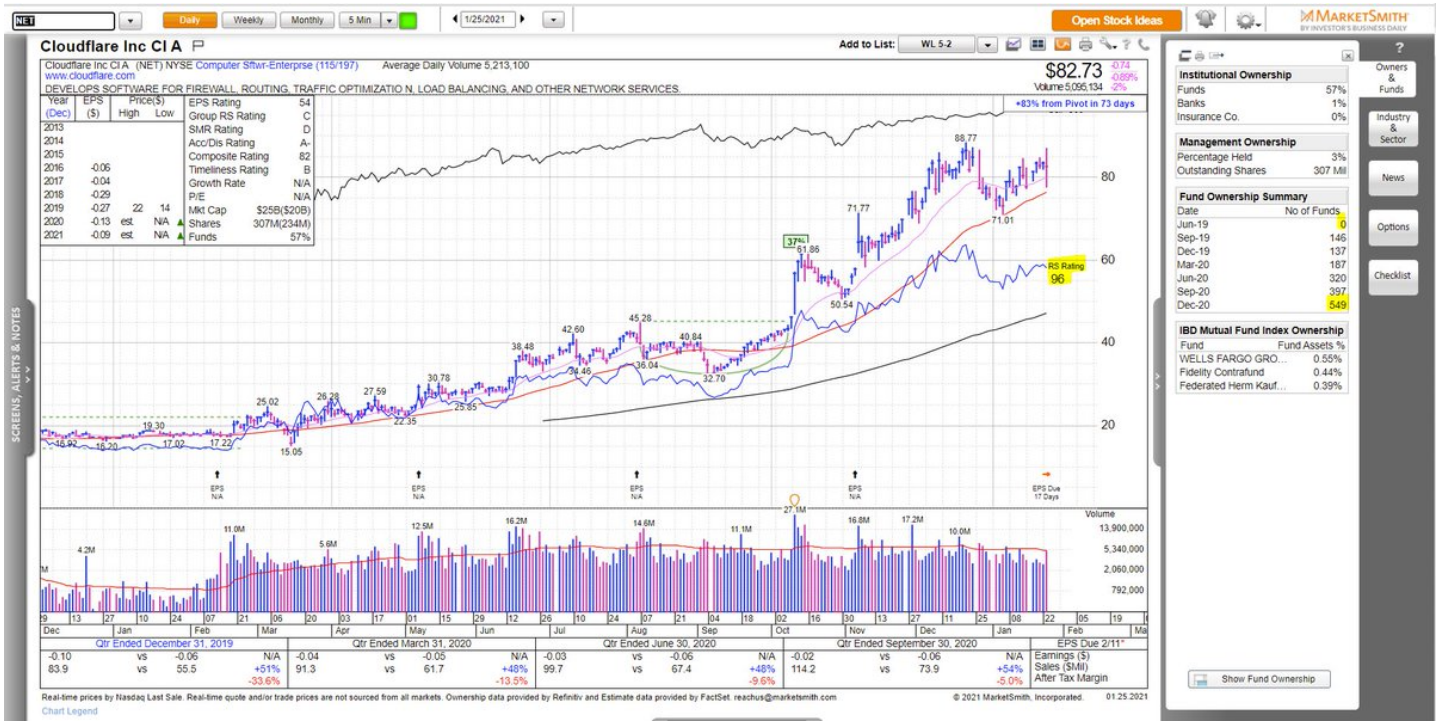
RS is the result of supply and demand. Stocks with poor RS are in a distributive phase by major players and institutions. During corrections, such stocks will be sold first instead of accumulated. $IBM is an example of poor RS.

RS rating: 7, decreasing RS line



Strong RS on the other hand is shown by stocks that are under accumulation. Funds are tripping over each other to build positions. This results in the stock price being “supported” even during market turbulence.

NET is an example
RS rating of 98, ■■ RS line and # of funds.



So how can you identify Relative strength?

There are many different ways summarized extremely well by @duckman1717 in the document below and I will expand on a couple of these concepts.

Duckman's Relative Strength Techniques

(RS = Relative Strength; MAs = Moving Averages)

Here are some techniques I have found useful over the years to find stocks that stick out during a selloff, correction, or pullback. Nicolas Darvas eloquently stated in his book, (How I Made $2,000,000 in the Stock Market) "I tried to detect those stocks that resisted the [market] decline. I reasoned that if they could swim against the stream, they were the ones that would advance most rapidly when the current changed." This gentleman laid it all out for us and William J. O'Neil galvanized this concept and folded it into the CANSLIM methodology. Relative Strength is the single most underrated tool within the technical analysis spectrum in my opinion. Here are some ways to identify RS:

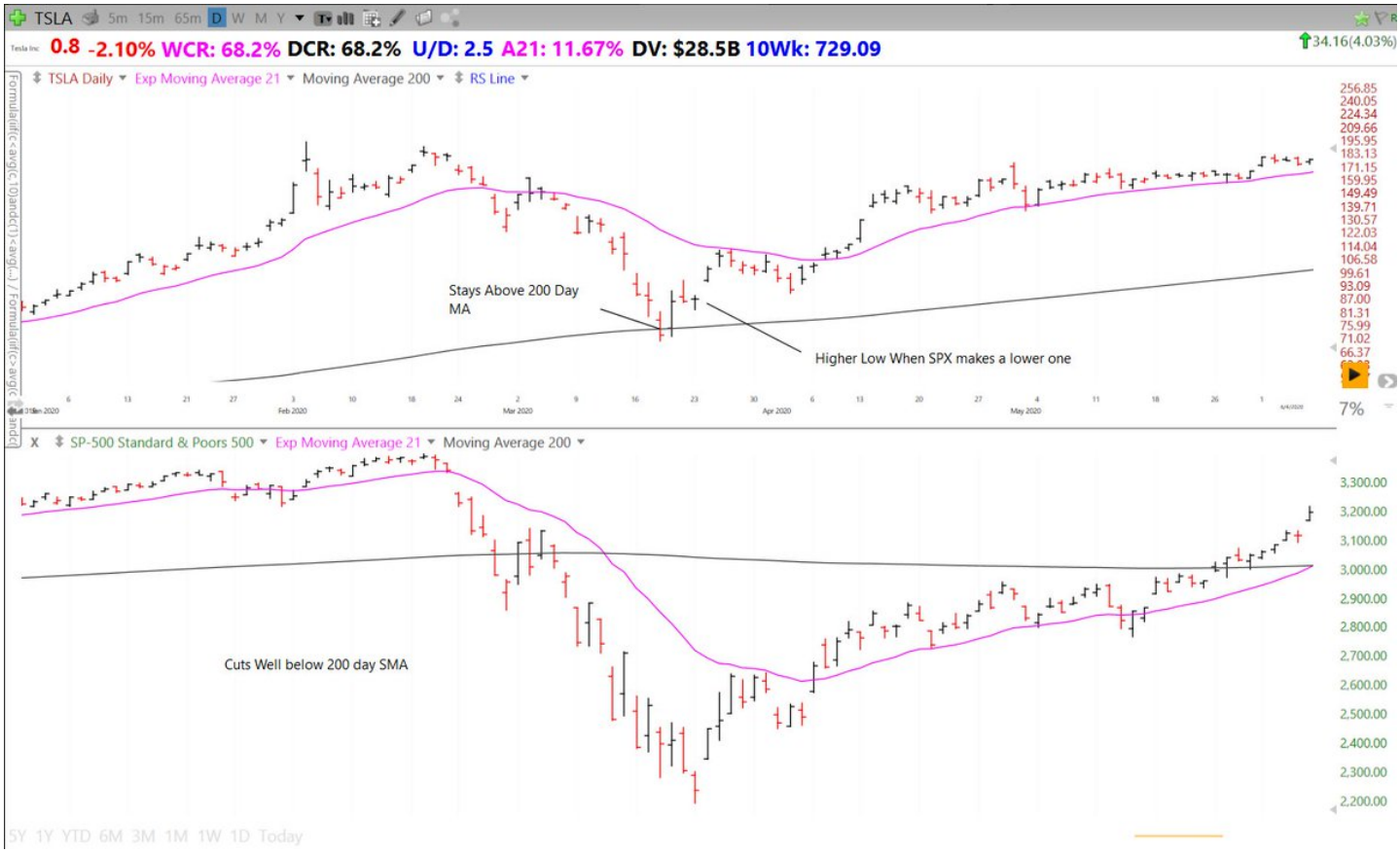
- RS line at new highs
- Stocks with an RS line pointed at 12 to 2:30ish before a stock breaks out or as a stocking is breaking out (upward trending with the greater the ascent angle, the better)
- Stocks making 52-weeks as the market is in a correction or pulls back
- Stocks making all-time highs
- Stocks NOT making a new low when the S&P500 and Nasdaq are
- Stocks holding above short-term MAs like: 8ema, 10sma, 21ema, etc.
- Stocks with short-term MAs in order: 5ema above the 8ema, 8ema above the 10sma, 10sma, above the 21ema, etc.
- Stocks that undercut long-term MAs like the 50sma or 200sma less than the general market undercuts those same MAs on a percent basis
- Support candle on weekly/daily which needs to close in the upper half and preferably not a gap down but doesn't necessarily have to be a positive week or day
- Stocks that closed green for the week or day while the general market was down substantially
- Stocks that did not participate in the most recent rally and now act calm and orderly in a corrective tape
- Tight range closes and a tight high/low candle on minimal volume on a weekly or daily chart during a bad tape
- High RS rating (preferably >87)
    - Note: The RS line is more of a leading indicator than the rating
- Top RS stocks in the top 40-50 industry groups
    - Pick the fundamentally most sound stock with good liquidity that has the strongest RS line of the GROUP and not just the market
- EPS driven gaps on BIG volume are huge institutions buying clues
- Stocks holding EPS driven gap gains (<10% from the gap day close) in the following days
- Stocks breaking out of a sound base
- Stocks basing or consolidating calmly sideways while the market makes new lows
- Stocks clinging on to MAs that it hasn't attached to in the past (character change)
- Stocks not making a new intraday low when the market does
- Stocks that open green or near green on a deep red open

First Case Study: $TSLA

Makes a higher Low when the SPX makes a lower one
Stays above 200day SMA while SPX undercuts by 28%

The Leaders often bottom before the indexes

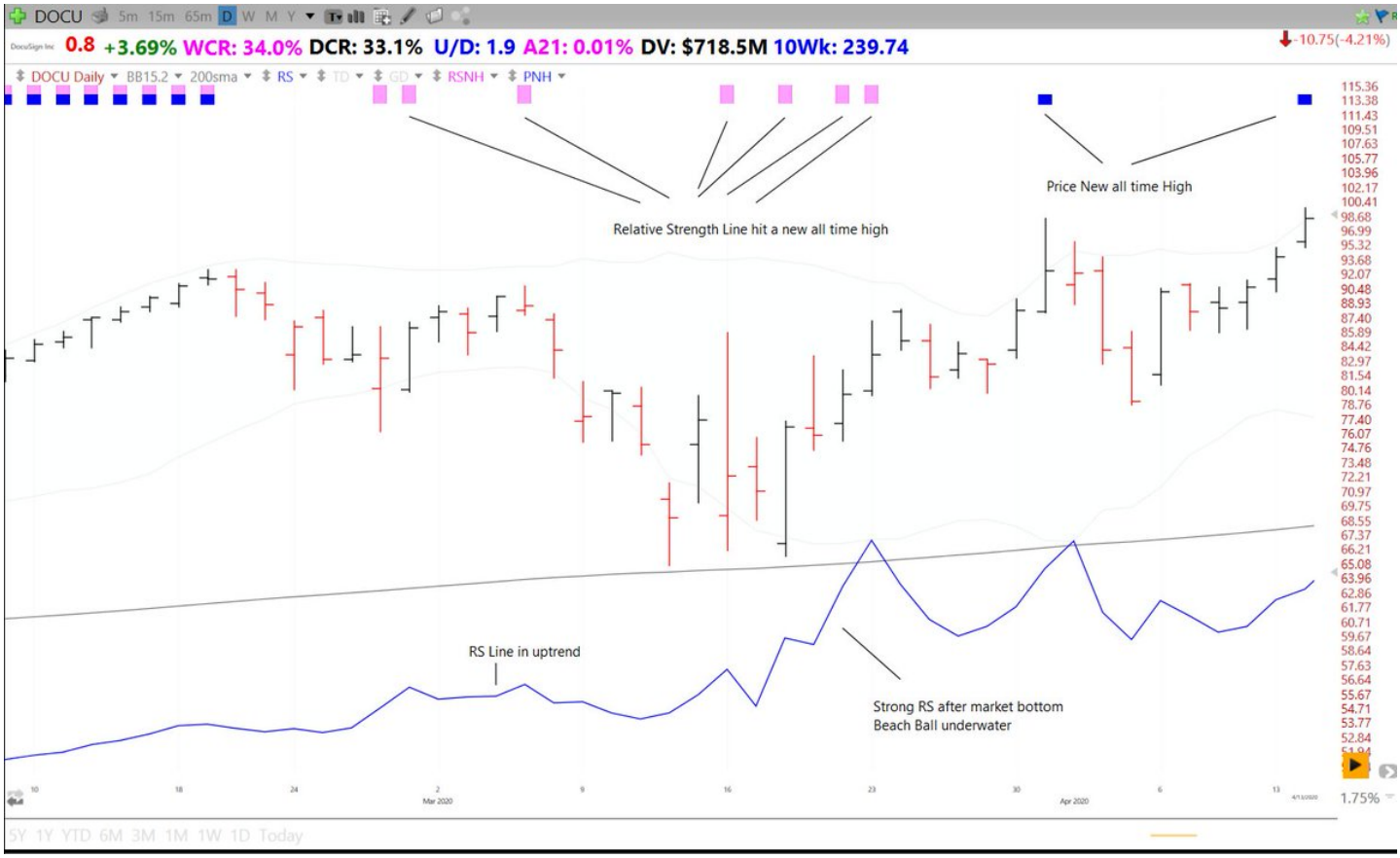
$TSLA increased 800% from this point in 9 months



2nd Case Study: $DOCU

Higher Low again
RS Line hitting new all time highs during correction
Strong bounce once market pressure lifts
Broke out to new all time highs shortly after correction

$DOCU increased 120% in 3 months



3rd Case Study $NIO

Trends above all Key Moving Averages
RS Line in Uptrend
Forms Tight Price areas then breaks out.
Pullbacks are on lower volume than advances

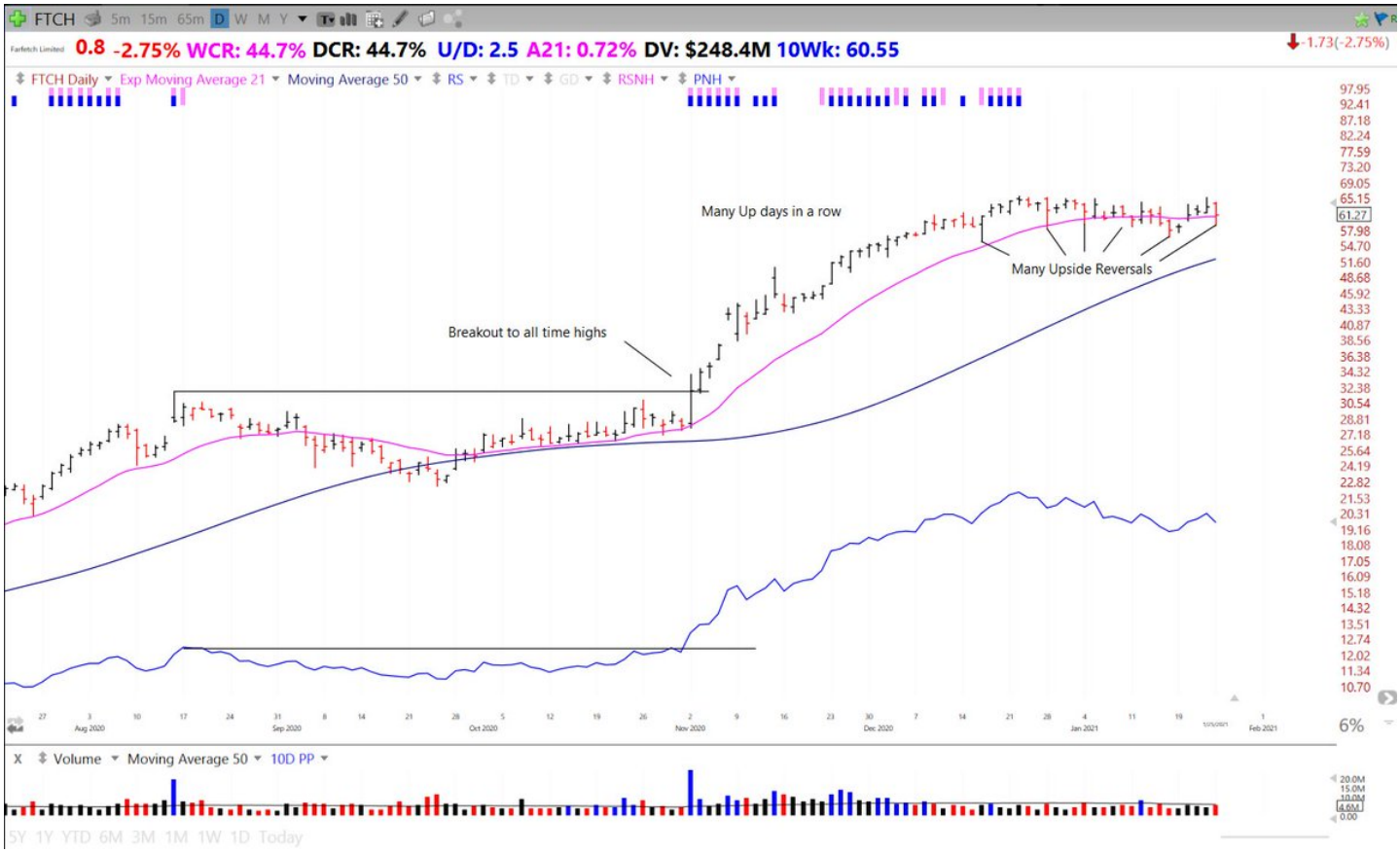
Increased 1000% in 6 months while trending with the 21ema



4th Case Study $FTCH

Breakout on large volume to all time highs
Many up days in a row
Upside reversals near the bottom of price consolidations
Tight price action during correction and right before BO

Increased 100% in 1.5 months from the breakout



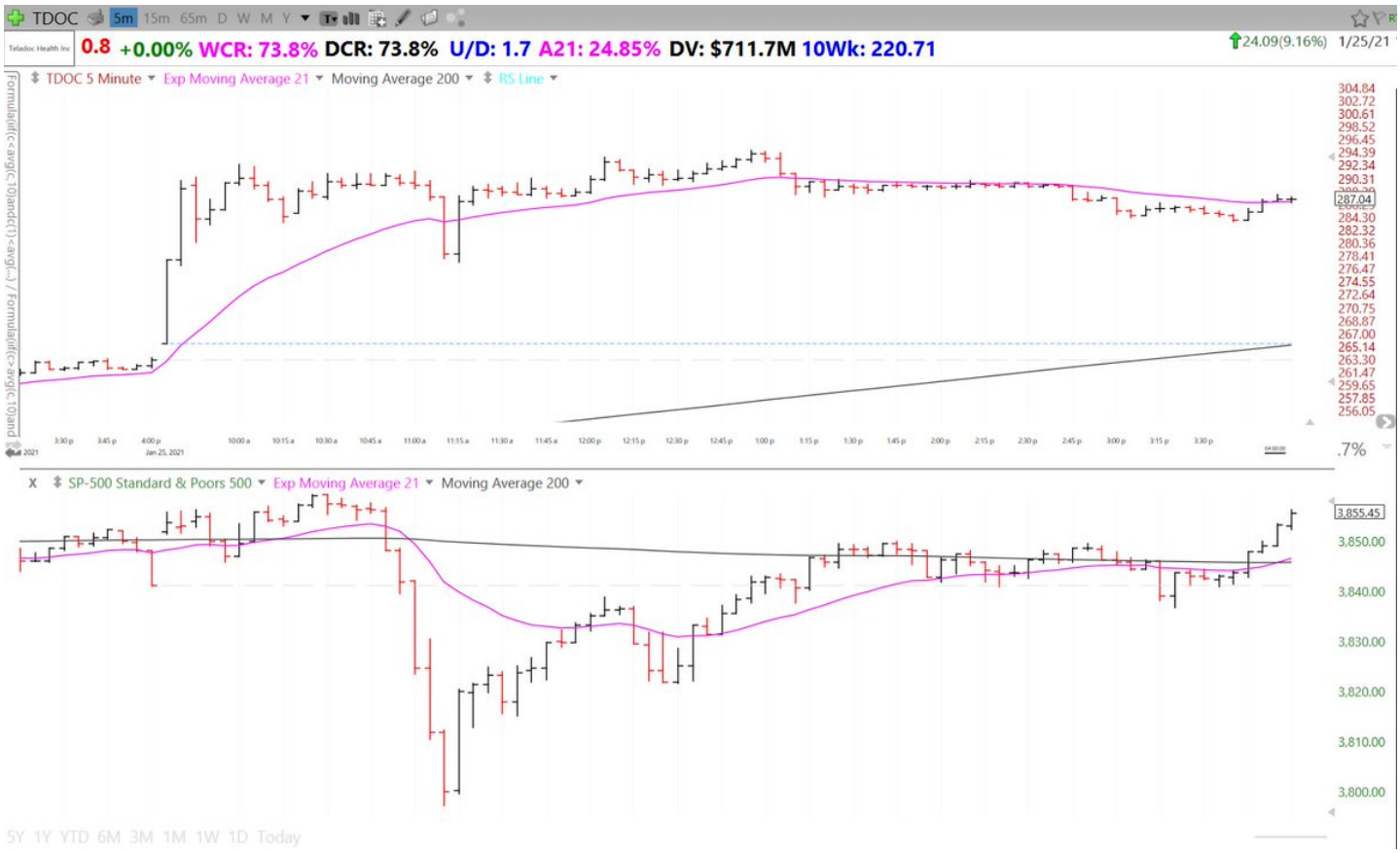
5th Case Study: $CRSR

Red to green move on a gap down day
Upside reversal
Prior Uptrend and Volume Contraction within base



These same concepts hold true on shorter timeframes. $TDOC today showed RS for much of the day as it ignored the market intraday pullback for the most part

5 minute chart with SPX comparison



Also take note of #RS changes in character, these can make the start of a strong uptrend/downtrend

For instance:

- Earnings gap ups from Bases on large volume
- Newfound respect for a key moving average

Avoid

- Gap downs on large volume
- Breaking previously respected KMAs



General #RelativeStrength Signs. These are indications that institutions are supporting a stock

- Red to green moves
- Green on Red days
- High DCR +WCR compared to $SPX
- Closing well off lows
- Tight price action compared to $SPX
- RS line ■■
- Pullbacks are on low vol

So now how should you use RS?

- Pick stocks with increasing RS Lines + other Signs of RS
- On red days track what is showing RS
- During corrections cut weak stocks first
- During Bear Markets track RS signs- Future Leaders

I hope you found this thread helpful and if so feel free to check out my other ones and retweet:

https://t.co/gCwio1qYWX

What is Relative Strength (RS) and how to identify it (Thread)

— Richard Moglen \U0001f4fd\ufe0f\U0001f981\U0001f6a2 (@RichardMoglen) January 25, 2021

https://t.co/4nYwV8Zu2A

What is an Optimal Buy Point? (thread)

— Richard Moglen \U0001f4fd\ufe0f\U0001f981\U0001f6a2 (@RichardMoglen) August 29, 2020

https://t.co/ZKQPFIVrWu

What is a True Market Leader / TML (Thread)

(And how to find them)

— Richard Moglen \U0001f4fd\ufe0f\U0001f981\U0001f6a2 (@RichardMoglen) November 6, 2020

https://t.co/INUSXTYoGo

An Introduction to Price and Volume Action (thread)

— Richard Moglen \U0001f4fd\ufe0f\U0001f981\U0001f6a2 (@RichardMoglen) December 4, 2020