

WEIS TECHNICAL REPORT — FEBRUARY 28, 2003

At the close of Day #1, the bulls are seemingly in control. The stock closes slightly above the trading range from the October low and at the high of the day's range. Volume is moderate but gives no indication supply has been encountered. All of these gains are erased on Day #2. Here we have ease of downward movement, increased volume (i.e., selling pressure), and a weak close. The sellers have gained the upper hand as the breakout on Day #1 becomes an upthrust. On Day #3, the market rests. There is little downward progress as the range narrows; however, volume does not diminish. We assume some short sellers may have taken profits and light buying emerged. But the action on Day #4 does not reflect aggressive demand. The mid-range close and reduced volume reflect weak buying power. The market falls with ease on Day #5. Because prices close near the low of the range we assume the low volume indicates lack of demand rather than no supply. In other words, the market falls slowly but steadily as the buyers back away. Similar behavior occurs on Day #6 but less downward progress. This suggests some attempt to rally is possible. On Day #7, the market rallies briefly above the high of Day #6 but cannot hold the gains and reverses to close on a very weak note. The low volume says little effort is required to push prices lower. The miniscule rally on Day #8 is the personification of weakness: narrow range, weak close, low volume. On Day #9, the stock gaps lower to test the bottom of the trading range. Volume is the heaviest in about 8 weeks. When a market re-tests the bottom of its trading range and volume increases sharply, the odds favor at least a washout of the trading range. But the pressure abates on Day #10 as prices bob upward. The narrow range and moderate volume do not suggest robust demand but the lack of downward follow through has to catch our attention. Day #11 is a weak attempt to rally. Here the market erases all of the loss made on Day #9 but the buyers were unable to hold their gains as evidenced by the position of the close. Prices gap lower and penetrate the bottom of the trading range on Day #12. Although the price range appears narrow one must take into account the gap as part of the range. Thus there is ease of downward movement, heavy volume and a weak close. The sellers are in control. This message is driven home on Day #13 where there is steady selling and equally heavy volume. Taken together, Day #12 & Day #13 tell us the sellers have clearly gained the upper hand. But look at the behavior on Day #14. The market rallies and closes above the highs of the previous two days. All of the selling on Day #12 & #13 has been erased. Those traders who jumped aboard the bearish bandwagon are now trapped. Suddenly the balance in the struggle between the sellers and buyers has shifted in favor of the bulls. That the volume did not expand on Day #14 does not bother us. It is the reversal action negating the two previous days of heavy selling pressure that screams out SPRING. There is no upward follow through on Day #15; no instant gratification. Instead, the market erases the gains made on Day #14. Now we are faced with the uncertainty of whether the reversal on Day #14 is indeed a spring. Perhaps it was a fast washout of the weak shorts who sold "in the hole." There are always two interpretations, but, because the volume diminished on Day #15, the idea of a spring still has validity. Day #16 does not resolve the question. Here the market eases lower and closes near the day's low. Volume in-

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creases fractionally but there is little downward progress. The message of Day #16 is mixed. On Day #17, however, the message is loud and clear. The market tries to go lower but refuses to stay down and closes in mid-range. This is more typical of a secondary test of a spring; however, the volume does not dry up. We cannot allow ourselves to be locked into thinking about price/volume behavior in terms of absolutes. There is a preponderance of evidence that says the market has had a spring and a secondary test. This becomes even clearer on Day #18 and Day #19. Trading tightens into two narrow ranges. There is little movement in either direction. The position of the close on both days is not ideal and suggests demand is weak. But look at the overall evidence: the high-volume selling effort on Day #12 & #13 has been negated, a secondary test occurred on Day #17, and now trading has tightened for two days within the range of Day #17. This says the market is on the springboard. Here is the point to make the bet. Go long on Day #18 or #19 and put a stop below the low of Day #13. You are buying at the “danger point” where the risk is least. If you wait to go long on a rally above the top of Day #11, for example, you take much greater risk. But we are not buying just because it is low risk. We are buying because we have observed enough bullish price/volume behavior that warrants going long.

The photographer Ansel Adams was riding one evening in a car through some mountains. Suddenly he saw a beautiful moonrise over a western town. He instantly stopped the car and took one photograph. It has been acclaimed as one of his finest. About this photograph, he said it was a perfect example of “chance favoring a prepared mind.” You are studying price/volume behavior so that when chance offers a set-up such as the one presented on this unnamed chart, you will have a prepared mind.—David Weis