



I keep stressing the importance of drawing lines. We draw the lines in order to better follow the struggle between buyers and sellers. On the daily chart of GM, we see a low in April, 1997 at 52.25 and a rally to the May 6 high at 59.87 (point #1). Once it is evident a low of some degree has been made, I draw line A. The ensuing rally reaches the top of a minor up-channel creating a possible overbought condition. But there is better evidence the stock has reached a stopping point: First, we see the position of the close on May 6 is well off the high of the range indicating the presence of some selling. Second, we note that the volume is the heaviest in about 25 days. We deduce that a large amount of buying encountered an equally large amount of selling and the sellers gained the advantage. After prices fall a little, we draw line A' across the high of May 6. Volume remains heavy on the sell-off to 55.00 and a trading range develops between 55.00 and 58.37. The boundaries are framed by lines B and B'. At point #2, the volume increases on the test of trading range BB'. This would make me believe a re-test or washout of line A is possible. Prices stir about in a narrow range for another few weeks but are unable to rally sufficiently away from line B. A downtrend line is drawn from the May high and it creates a wedge or apex with line B. We see how the stock is unable to rally out of this apex. On July 15 (point #3), the stock breaks below trading range BB'. Look at the large increase in volume and the weak close: they say the sellers have the upper hand; lower prices are likely. Yet, on the next day (July 16), there is no downward follow. There is even more volume here, but the weak position of the close says the sellers are still dominant. It is the action on July 17 that catches our eye and alerts us to the possibility of a spring. We see again there is no downward follow through and prices hold in a narrow range on heavy volume. Buying is present. On July 18, the stock holds its ground and refuses to move up or down. Something is about to happen. This is the place to make the bet on the long side. A test of line A is now less likely. Go long on the next day's open and protect below 53.87. This is buying at the "danger point" where the risk is least. Or, wait for the stock to rise above the high of July 16 and go long with a stop below 53.87. After the breakout in August, the

stock pulls back on August 18 to test the breakout (point #4). The reversal action on August 18 indicates the stock found support on top of resistance lines A' and B'. Here is a place to add to longs. If you missed the spring, there is often another buying opportunity on a back-up to test the breakout. In this case, however, any stock purchased on August 18 must be protected below 56.87.

The purchase of the spring required the ability to recognize that the sellers had lost the opportunity to take prices lower after the penetration of line B. Because of the lack of follow through we go long to see what will happen. We would stay long until the market tells us the rally is tired or encountering supply. We might have closed out the long position when the stock reached an overbought level in its up-channel. The shortening of the thrust (SOT) on August 7 and the weak position of the close also would have warned us the rally was tiring (note the drop in volume on this day). For a sense of the spring's larger significance, we would need to have studied the weekly and/or monthly charts. From these charts, we would be able to understand if the price movement between April-July, 1997 was a correction in an uptrend, downtrend, or within a larger trading range.

—————David Weis 8/3/02