



On the QQQ daily chart, we see a decline from the March, 2000 high. Temporary support formed at 78.00 on April 14 and a horizontal line was drawn across the low. In late May, the stock fell below the trading range and closed on the low. On the next day, May 24, the stock fell to 72.25 and reversed upward to close near the high and above the bottom line of the trading range. Thus the stock was in a potential spring position. On the next day the stock rallied, but all of its gains were erased on the close. But the next day was the ideal behavior. The daily range narrowed, prices closed on a steady note, and volume contracted. It reflected a lack of selling pressure and said an upmove was imminent. Notice how the stock rallied the next day with widening price spread that reflected an ease of upward movement: i.e., demand. After turning down in August, the QQQ began a long downtrend in which prices temporarily stabilized, broke down, tried to spring upward and rolled over. (I call this a “Bottom-Picker’s Nightmare.”) It is typical for springs in a downtrend to fail. If you look carefully, you will see that each time support was broken there was almost always an attempt to reverse upward or spring. The lack of follow through on these failed springs provided an excellent sell signal for the short seller. At point “e” the price/volume behavior looked more constructive. Notice the huge volume on the upward reversal. Three days later we see a relatively narrow price range that re-tested the spring. Here the close is well off the day’s low. While there is no substantial drying up of volume, we have the “look” of a secondary test of the spring. From the low of the secondary test, the stock rallied \$15; however, this was not enough to reverse the downtrend. This spring only provided a short-term buying opportunity in an intermediate downtrend. All of the other spring attempts failed. How do we know when a spring is going to fail? The first clue is the stock’s inability to rally away from the danger point. Look at the spring in May, 2000. After the secondary test, the stock quickly moved away from the lows. On the failed springs at “a,” “c,” and “d,” the stock was unable to make much upward progress off its respective lows. The spring at “b” moved off the low, but look at the daily ranges: they remained narrow as there was no ease of upward movement. The spring at “e” never produced the kind of wide-spread rallies that are typically associated with springs. But, alas, some springs begin by creeping upward rather than exploding. Since there is no definite, always-true-formula, we always have to rely on our judgment. Judgment is a by-product of Experience.

From our examination of the QQQ chart, it should be obvious that for me a spring is synonymous with a washout of a trading range that fails to produce additional weakness. The trading range may have formed for many months or only a few days. This view comes from years of tracking intraday price movement where four days' bond data, for example, is the same as 320 price bars on a five-minute chart. Thus a washout of a support level or trading range that contains 320 price bars, regardless of the time frame, suddenly looks like an important event. For the short-term trader interested in gaining a half-point or more per contract in bonds, this degree of springs offers a worthwhile trading opportunity. There is no problem with viewing a spring of 320 5-minute price bars in the same manner as a spring of a four-month trading range. The potential gain may be considerably greater following a spring of a larger trading range; however, that is a function of the larger trend. Look at the low of July 28 on the QQQ chart where a red line is drawn. You see that prices held above this low for three days until the sell-off on August 3. The lack of downward follow through provided an opportunity to punish the shorts who had jumped aboard the bandwagon on weakness. As you can see, a spring occurred from this low. It produced a 20-point rally before stopping on September 5. Such a spring could only have been identified from an intraday chart. The hourly bar chart for this period



is shown here. Someone who was following the intraday price/volume behavior would have known that the +10 million shares in the first hour on August 3, 2000 was the heaviest since June 2. Despite the enormous selling effort, the stock recovered to close near the high of the hourly range. Furthermore, measuring the distance between the minor lows within the decline to August 3, we see obvious shortening of the thrust (SOT) at 83.31. The climactic volume and SOT provided the only evidence of an impending spring. It required the courage to act on fast, volatile price movement. This comes from understanding the dynamics of trading ranges—both large and small.