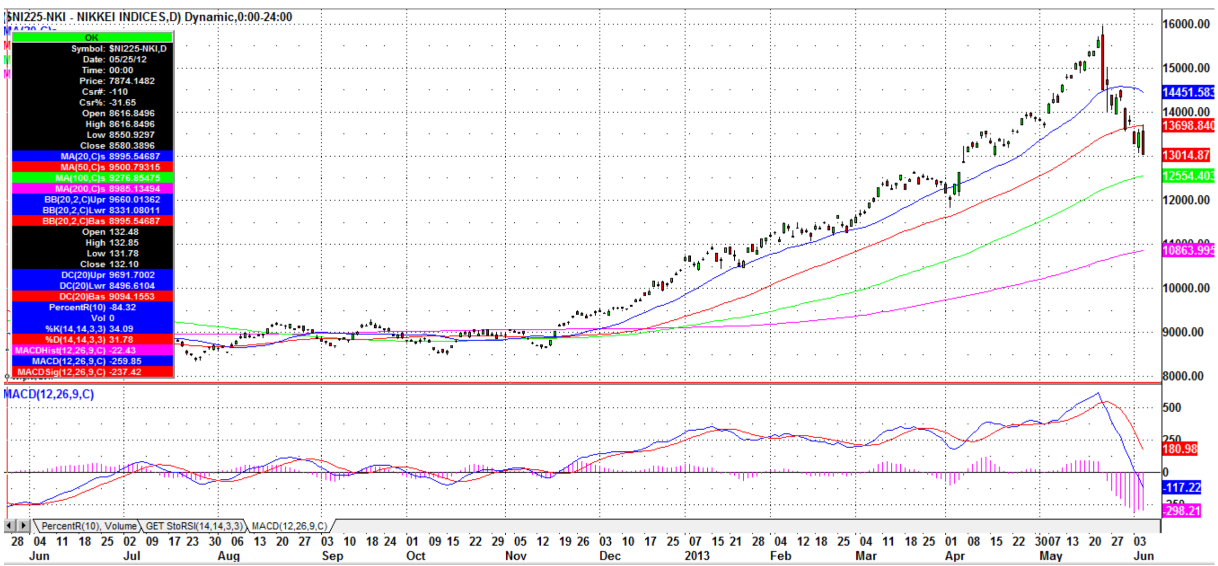
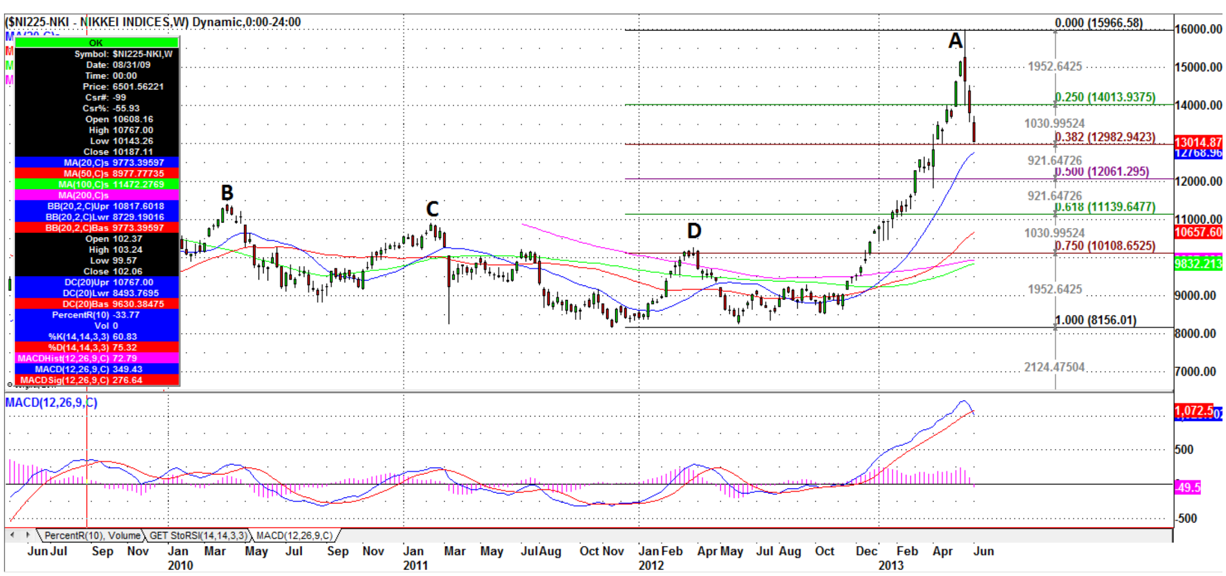
Chart Lesson

Wide Range Reversal's

June 2013





Many investors love to ride the trend of a stock because they can rack up big gains in a short period of time as more investors jump on board the profit train. However, the failure of most traders is that they ride the stock too long and end up getting out with little profit or actually a loss. Understanding when to get out is just as crucial as knowing when to get in.

Above are daily and weekly charts of the Nikkei 225, Japan's version of our S&P 500 or Dow 30. Record money printing by their central bank caused the value of the yen to plummet and a record run of nearly 95% since the middle of last year. However, as most good things, it had to come to an end at some point. On May 23rd the Japanese market reversed sharply as news out of the U.S. Fed discussed cutting back quantitative easing. The first lesson from this move is that when any stock or index reverses on high volume from a high, the trend is likely over. The daily chart (the first chart) shows that quick one day reversal and how it has continued on the weekly chart (the second chart). For anyone riding the Japanese bull market, they should have jumped ship that very day. The next thing anyone must understand is where the support levels will be on the way down.

The weekly chart shows Fibonacci retracement levels that will become support at each level on the way down. Those lines are drawn using the Fib tool built into the chart program we use and are widely available on most chart programs, by using the low from 2012 and the high in 2013 (A). The other support levels will be at points where the index broke out from resistance, which are points (B), (C), and (D).

You will also notice the MACD crossed over to the downside on both charts, which adds to the bearishness of the chart.

Trends can change quickly and if you are not prepared to exit at the right time you will be hurt badly. Be diligent and disciplined.