



Chart Lesson

Topping Tail

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In order to invest in the stock market you must buy and sell stocks and ETFs. Buying a stock is an easy task. The hardest part of investing is knowing when to sell and take your profits off the table. When a stock is rising, most investors are happy and ride the trend. For the most part this is a good idea, but at some point the stock will hit an inflection point and top out. The key for an investor is to be able to identify this turning point and reduce or eliminate their exposure to that particular equity.

The chart above is a one year chart of Toll Brothers, one of the largest home builders in the industry. In early May interest rates started to rise, which is bad news for the real estate sector as financing costs have been on the rise. In late May the market started to wake up to this fact and selling pressure came into the home building sector. On May 22nd the stock rallied hard early in the day but soon reversed to close near session lows. This also occurred on unusually high volume. That day's action created what is

called a *Topping Tail* on a candlestick chart. A *Topping Tail* is characterized by a large wick at the top of the candle with a small body that closes near the bottom third of the price range for that day. When the price closes below the *Topping Tail* low on any day over the next few weeks then a near term top is probably in for that equity.

The *Topping Tail* chart pattern signals an exhaustion of buyers and a high likelihood of price reversal in the near term. Be wary of holding or buying any company that exhibits this chart pattern.

*Note: KPP Financial is short Toll Brothers (TOL) for some managed accounts.