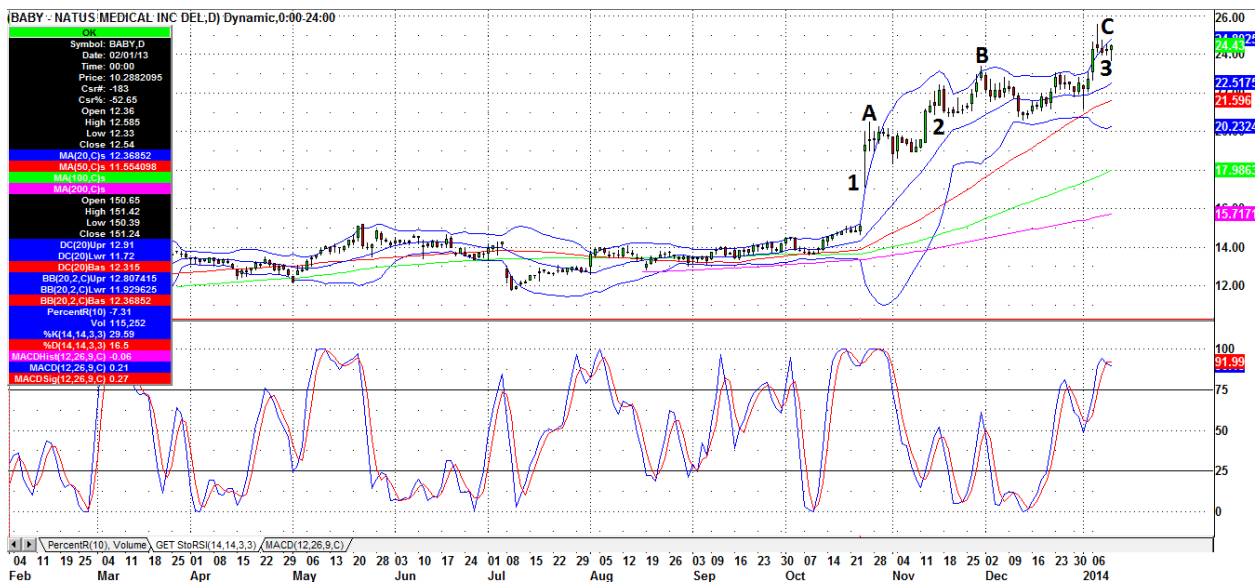




Chart Lesson

Bullish Consolidation

January 2014



Many times investors see a stock move up big and try to chase the price higher, which may or may not be a good idea depending on the stock. Usually it is a bad idea to chase a big move, but there can be indications that there will be follow through upside to big move. When a stock jumps in one day it usually gets tired soon after and begins a consolidation pattern, meaning it trades in a sideways range for a while. If an equity price can stay near the upper end of the big move than it is likely gaining energy to move higher.

The chart above is of Natus Medical (BABY) and in October the stock had a big spike higher (1) and soon after it began a tight consolidation pattern (A) for a few weeks into mid-November when it pushed higher again (2). The following consolidation pattern (B) was much choppier than the first consolidation phase and it lasted much longer (1.5 months). Notice however that price stayed in the upper end of the price movement of

the second breakout (2). This lead to a quick rise in the New Year (3) and is showing the beginning of another consolidation pattern for a move higher (C). As long as price never closes below the low of the third breakout (3) then the odds are good the price will work its way higher.

If you can identify strong price patterns you will be ahead of the game when it comes to finding successful trades.