

## **Technical Analysis of Baby Boomer Stocks**

Most of our analysis is on the fundamentals (financial statements, intrinsic values, qualitative considerations, industry and economic analysis) of the companies we recommend. We also do technical analysis (price movement analysis) of the companies we recommend and follow.

We will be issuing several Special Reports on the technicals of some of the companies we follow.

Stocks basically have three directions: up, down, and sideways. Most of our holdings are going sideways.

We are not too surprised that most of the stocks that have recommended are going sideways. Stocks spend more than 50% of their time going sideways. Stocks spend so much time going sideways that technicians have come up with many names for this: trading, trading range, consolidation, triangles, rectangles, box trading, basing, topping, pause, moving sideways, neutral.

Today's Special Report will look at the stocks that are basically bullish.

First, let's look at the general market by looking at the S & P 500 index:



Let's review the chart:

-There are four major red flags with this chart and the markets in general:

1. Notice the head and shoulders (RS - right shoulder, LS - left shoulder) topping pattern. This could be a potential major reversal pattern as it has been building since last September. Most major reversal patterns take at least six months to build.

Sometimes head and shoulder patterns continue in their sideways pattern. This could be the case for the markets now, as it is holding major support.

For head and shoulder topping patterns, support is called a neck line, and they are normally upward slopping.

We will keep an eye on this pattern, trend and keep you updated.

2. Prices have dropped below the 200-day moving average (red trendline), a major long-term trend.

The trend has gone from bullish trending upward, to now trending sideways. If it turns down and trends downward this would be another bearish signal.

200 days is a long-term trend and is an important indicator. Many market participants consider the drop below the 200-day moving average bearish, even fundamental analysts.

3. The 50-day moving average (black trendline) is also bearish for a couple of reasons.

Notice the trendline is trending downward, bearish.

It has also broken below the 200-day moving average. Some consider this a major sell signal.

4. The index is down about 17% from its peak to the intra-day low of the current correction. A 20% fall in prices is considered a bear market.

It is very normal for stocks to pull back at least 10% at least once a year, especially after a major rally.

Corrections more than 10% should be taken seriously. The fundamentals should be looked at to determine why prices fell so much.

Again, technically these are red flags. Fundamentally and technically we need to be cautious.

Below are the stocks that have an upward bias, bullish:

SYMBOL	CRNT	SPRT	RSTNC	STOCHAST	PATTERN	COMMENTS
<b>BULLISH</b>						
EPD	35.35	30	36	89.00	BULLISH	RECENT NEW HIGH, TOPPING?
MMP	46.21	40	47	86.00	BULLISH	L-T DOUBLE TOP
CAG	23.60	23.8	25.4	12.34	BULLISH?	TOPPING?
SYT	29.25	28.5	31.5	22.00	BULLISH?	5TH STEP

Let's first review the columns of the above spreadsheet:

- The second column, CRNT, is the current price of the stock

- The next two columns are SPRT and RSTNC, Support & Resistance

Support is where buyers tend to show up – most of the time

Resistance is where sellers tend to show up – most of the time

Several years back we did a study to determine which technical tools provided the best predictive value, and support and resistance levels (according to our study) was one of the best tools to use.

Our conjecture for this is that S & R are simple to learn and use. Because it is easy to use many market participants use them and they become a self fulfilling prophecy.

Also, one of the tenets of technical analysis is that the market reflects all relevant information. Interest rates, inflation and earnings are the key variables that move markets. Interest rates and inflation don't change that often and, also tend to move in ranges. Prices tend to anticipate earnings, and so prices tend to move just before earnings and adjust and then consolidate after earnings announcements.

- Column 5, STOCASHASTICS can be a useful tool when prices are trading, moving sideways

Stochastics can be specific in terms of stocks being oversold (at support), or overbought (at resistance)

An oversold area is when both the slow and fast stochastic reach the 30 area. An overbought area is when the slow and fast stochastic reach the 80 area.

- The next column, PATTERN, describes the pattern or trend of the stock. For this report, all the stocks have a bullish bias.

- The last column, COMMENTS, provides comments regarding the pattern.

In the list above, the stocks have a bullish bias. We will look at SYE as an example:



There are several technicals that make SY1 have a bullish bias:

- The stock has moved up in 5 moves, steps

The 5<sup>th</sup> step is not as bullish as the last four, it was making higher highs and lows since last year, but the last few rallies have not

The stock looks like it is topping, or consolidating with support at the \$28.50 area

- Prices did test the 200-day moving average (red trendline), but prices did recover and are now safely above – for now

- The 50-day moving average (black trendline) did not drop below the 200-day moving average as it did for the SPX

It is trending downward

The stock pulled back about 11% after about a 50% move off the bottom. The correction is not as serious as the general market is now down about 7%.

Most of our recommendations are dividend paying stocks, and the dividend gives the stock some downside protection. Most of our recommendations have performed better than the general market.

In our next report we will look at the stocks that are trading, going sideways.