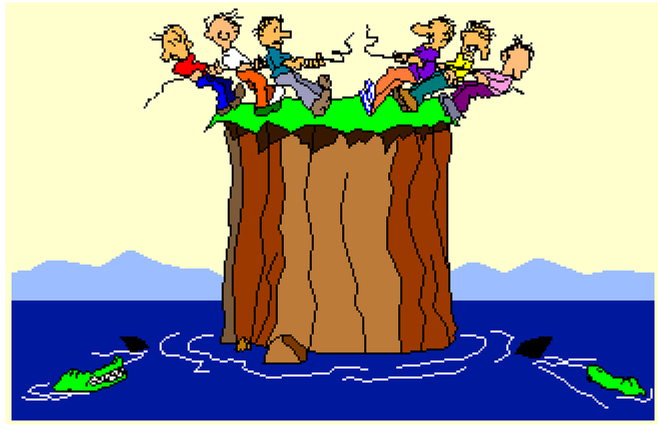
within the context of the bars before it. Leave the volume bars black so that you can approach them without bias. If you use candles, their graphic clarity should be enough to give you a general idea of where prices are closing. As for "indicators", you need nothing else, not even moving averages. Just a plain ol' nekkid price and volume chart.

First, volume should be relatively quiet. It should reflect indecision, not an ongoing tug-of-war for dominance between bulls and bears. To the contrary, there should be general agreement between fans and detractors that the stock is pretty much worth whatever it's going for. There should be no massive flows of volume on either up days or down days. In fact, the "up" days and "down" days should be within a fairly narrow range of each other.



Second, even if volume is quiet there should not be a generally wide range between highs and lows each day. If there is a wide range between the highs and lows (indicated by long bars), there is still considerable disagreement intraday and day-to-day as to the value of the stock.

Third, when prices hit the low end of the trading range in the base (the "support" or "demand" line), **volume should remain low.** Coincidentally, when prices reach the upper end of the trading range (the "resistance" or "supply" line), volume should be higher. Color-coded volume, if you just can't live without it, should show generally higher green bars than red bars, though, again, even a high red bar should be analyzed carefully. As mentioned earlier, if the stock falls toward the support line and shows a strong recovery during the day, closing near its high for the day but a hair below the previous day's close, it will show as red. However, you have been sent a message that there is strong support at whatever level the stock reached before rebounding and that there was enough demand on that day to propel it back into the court. Make sure that you're home to receive this message.

Fourth, is the low end of the trading range less than halfway to the support line? For example, if the highest high is 24 and the lowest low is 20, are most of the price bar bottoms at 22 or higher?

Fifth, if the base is several weeks (or months) old, have there been any shakeouts, i.e., short, sharp spikes to the downside generally accompanied by relatively high volume but which last for only a day or so and which have no lasting effect on the day-to-day progress of the stock?

If the answers to the above questions are mostly if not all yes, then your stock is probably under accumulation. But first, a few more words about shakeouts, as they can be very unsettling to those who don't know what they are or how to recognize them.

Shakeouts

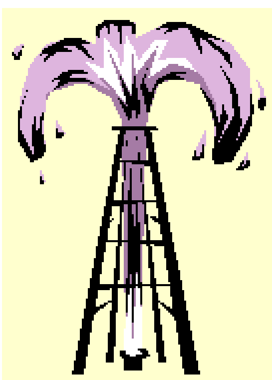
A shakeout is designed to frighten, and it does a pretty damn good job of it. **The general idea is for an elephant who's been accumulating a stock to throw a sizeable portion of it onto the market and temporarily drown demand, thereby temporarily driving the price down.** This rattles the unwary and prods them to sell their shares, making those shares available for purchase by the elephants. Those who have grown weary of waiting for the stock to do something other than drift along in this interminable base may also decide to throw in the towel and let somebody else babysit. And, of course, those who have placed hard stops just below the support line will be stopped out in a flash.

The shakeout is not always easy to spot at the time as one's first reaction is that something has gone horribly wrong and the stock is in deep trouble. But if the stock has been basing for a while, if the base has been relatively contained (it hasn't shot out of the trading range so far), if volume has subsided, and if there has been evidence of accumulation up to that point, one can at least suspect that a shakeout is taking place.

The acid test is the next day or so. If the stock bounces back into its trading range and makes its merry way as if nothing had happened, then you have probably witnessed a shakeout. On the other hand, if volume picks up and efforts to push the stock back up are defeated by too much supply and/or too little demand (except on the sell side), then the stock may actually be in trouble, and if you can't find out what's going on, you may want to get out and watch from the sidelines until the situation becomes clearer.

Markup

Toward the end of the accumulation campaign, we get ready for the second act of our little drama, the "markup" phase. This can get its motor running in several ways, and the road ahead may be rocky and full of potholes, but **the general idea is to propel the stock upwards so that the elephant(s) who went through all this accumulation hassle can make some money.** You'll begin to notice the **lows are gradually millimetering their way higher** and that **volume is increasing** -- perhaps ever so slightly -- along the way (volume need not be terribly heavy, however, as there is now much less supply than there was at the beginning of the base; therefore, it takes less demand to move the price upward). You may notice also that **price ranges from low to high are getting wider,** indicating that those who want the stock are willing to pay higher prices for it and aren't as content to "wait" for their price. The **closes are getting nearer and nearer the daily highs.** And there is **an increasing amount of net upside progress from day to day.** If there are rallies, they may stop short of resistance, but reactions must stop well short of support.



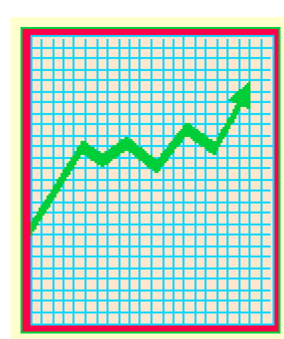
At some point, however, one must inevitably face the supply or resistance line. One can get there gradually as just described, or the stock may "pop" on strong volume and "break out" of the constraining base. **What happens at this point will tell the investor a great deal about the presence of demand and the quality of whatever demand there may be.** If the price breaks through resistance with increased volume, there is likely sufficient demand to sustain an upward move. The larger and swifter the increase in volume, the more likely you're looking at a turning point.

This initial move upward, however, is only the beginning. Does the stock close more than halfway up from the low to the high for the day? Is it breaking through interim resistance or is it making a new high? Is the volume strong, i.e., at least 150% of the ADV (Average Daily Volume)? Is the volume *too* strong?

Too strong? What do you mean "*too* strong"? Well, oddly enough, volume can be too strong on a breakout. Remember that volume is entirely a function of supply. **No matter what the demand, if there's no supply to meet it, the volume is going to remain low.** The price may rise because those who want the stock are willing to pay a premium for it, but the volume will remain low due to the fact that there aren't many shares available for trade.

But so what? All that matters is that the price go up, right? Well, no. Demand will drive up the price in the face of meager supply, but what happens when those few who really want that stock have all that they want or need or can afford? Who's going to take over the reins and continue to move the price? If you happen to have taken the momentum train (either by design or by mistake), perhaps daytraders will begin to churn the stock and turn over whatever shares are available over and over again at higher and higher prices, calculatingly selling to the "greater fool". In this case, **a long volume bar will reflect this churning** (check the float against the number of shares being traded), **not genuine demand for the stock** by people who really want it and want to hold onto it for at least the intermediate-term. If this is what you want and you know what you're doing, great. If it's not what you want and you don't know what you're doing, you better know how to recognize what's going on. Otherwise, the greater fool who winds up holding the bag and an empty wallet will be you.

Therefore, **you want to see strong volume on the breakout (or break"through") because it shows strong demand, with enough supply to feed that demand but not so much that it drowns demand.** But you don't want to see it so strong that it becomes more indicative of rapid turnover, even some distribution, ending in a move that collapses back into the base, than it is of a stock that is on its way higher. If the stock breaks out on decent volume which is nothing to write home about, that doesn't mean the breakout is faulty. If everything else is in order, consider buying the breakout anyway. However, if increased volume doesn't kick in within a day or two, you may be in trouble. If supply is being withheld, or the float is thin, you may be being manipulated.



The move upward, if it is healthy and legitimate (not the result of short-covering or daytrader manipulation), will usually take place in several stages, what are sometimes called "two steps forward and one step back" or some variant. The first step may actually be a return to the base, if it hasn't moved too far away from the base in the first place. This is generally the result of "**fading**", or a short-lived short-term bout of profit-taking done by those who played the breakout for only a few points, or even less. Volume should be lower on a fade. If it is, this U-turn represents a "**second chance**" to buy into the stock (see Rectangles). It is also usually a much safer spot to enter since the very-short-term players are now mostly out of it.

Stocks don't always return to the base, however, and the "second chance" may not arrive until the stock is considerably higher. If it looks particularly strong, even short-termers may stick with it for the ride. Therefore, no fade. **Your first opportunity to buy, if you hadn't already done so, or to pyramid your position if you *had* done so, will probably be during the first bout of more serious profit-taking.** Here again, volume should be relatively low and the stock shouldn't break its trendline or fall below its last reaction low (much of this will be done by the elephants who were