

HOW TO BUY STOCKS AT SAFE, ALTERNATIVE ENTRY POINTS

Recently we've been talking about Trend Channel Support and Trend Channel Resistance. The markets though have been locked in a sideways trading range which is really the same thing only there is no upward tilt to it. Basically we technicians call it a base being built.



So the big question at this point in time is:

If it breaks out is it going to head to the green trend channel resistance? OR
If it breaks down is it going to the green trend channel support?

One look at two of the market's main movers and shakers shows that of a bullish mini Pullbacks Off Highs (POH) pattern forming.



If the OTC continues to rollover then this issue is going to retest the sub 190 level, you then know what you need to consider doing at that level right?

If the OTC plays catch up to the Dow and SPX then the Pink Line is in play. The same goes for BIDU below as well only if we rollover expect BIDU to break into a new low on the chart below.



In summary we are basically half way through the month and we still don't know if the Grinch is going to steal Christmas or if Santa is going to brave the elements and pull it off.

With the indexes consolidating near the highs and remaining in a clearly defined uptrend above their uptrend lines and 50-day moving averages, we want to focus on stocks that are in the same position and have simply pulled back off of their highs to those support levels. This is called trading in tandem with the market.

Now there's two ways to buy stocks. The first way is to find a stock that has formed a base and buy it when it breaks into new highs above the base. This is called buying a traditional breakout.

CMFO (China Marine Food Group Ltd.) AMEX © StockCharts.com
19-Nov-2009 **Op** 5.35 **Hi** 5.87 **Lo** 5.22 **Cl** 5.79 **Vol** 1.4M **Chg** +0.69 (+13.53%) ▲



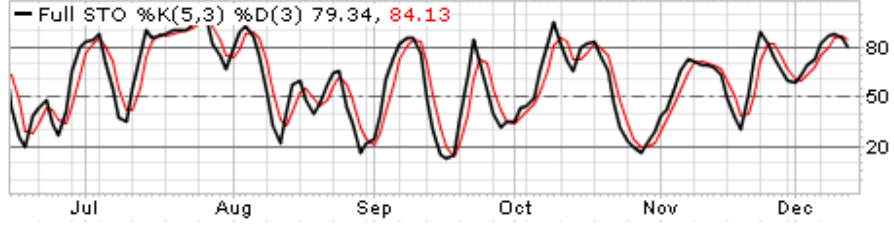
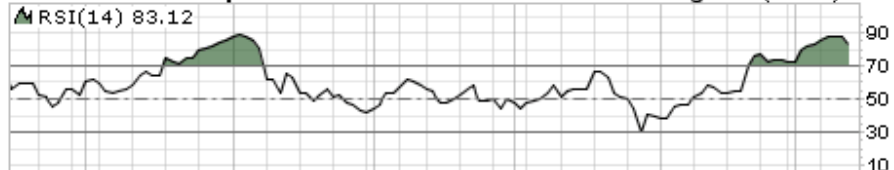


These stocks can be bought upon a break above the green line.

But most breakouts after an initial run tend to come back and retest the area that was once resistance. We call that the initial pullback. So rather than chase the stock, we patiently wait for it to come to us.

In this case, the pink line represents the stock's pullback off of its highs back to what was once resistance, that now should be support. Our buy point is a break above the pink line.

CMFO (China Marine Food Group Ltd.) AMEX © StockCharts.com
11-Dec-2009 Op 7.89 Hi 8.00 Lo 7.74 Cl 7.80 Vol 222.3K Chg -0.12 (-1.52%) ▼





That's a lot better than chasing a stock only to get stopped out as the stock retests support and then takes off without you.

So what does that mean for us today?

Well, since the markets are consolidating in a sideways fashion, near their highs on light volume, now is the time to be prepared to take advantage of opportunities to buy stocks in confirmed uptrends at a risk-adverse place. This is where your watch list comes into play.