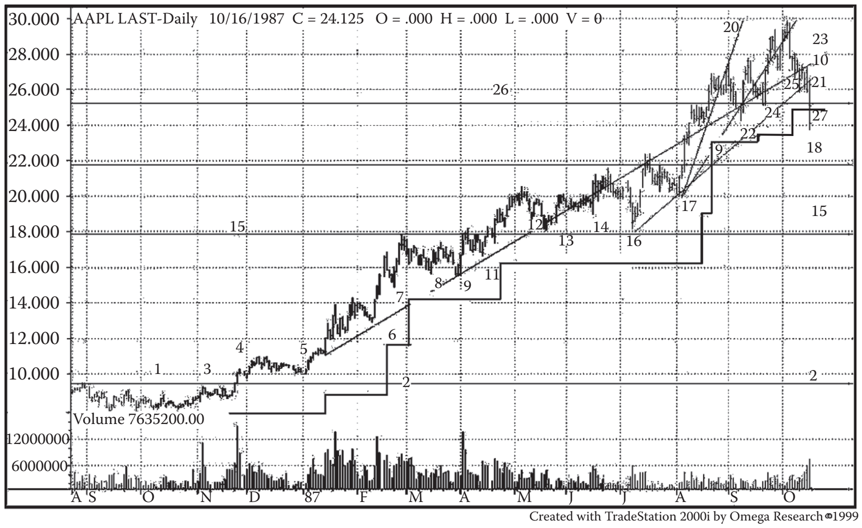

FIGURE 210.1 Apple Computer, bull market and 1987 crash. A near perfect example of the use of Basing Points for trading of a reasonably regular and smooth bull market.

KEY TO FIGURE 210.1 ANALYSIS

1. A rounding bottom, or perhaps a scallop.
2. Resistance or breakout line.
3. Wake up call on volume.
4. Run Day, big volume. Breakout through line 2. Sure entry signal.
5. First Basing Point (BP) Notice prior volume fall off in consolidation, and surge on run-day.
6. BP
7. A weak BP (because of shallowness of retracement)
8. BP
9. Test of BP at 8.
10. A trendline drawn after point 9.
11. BP
12. BP candidate which fails 3 day rule.
13. BP
14. A potential BP but not a very good one because new high has not been made from 13.
15. A support/resistance line.
16. A test of BP 13 .
17. BP
18. A resistance/support line.
19. Flag which becomes BP.
20. TL, but too steep to last.
21. Trendline.
22. BP
23. Trendline.
24. BP
25. BP
26. Horizontal trendline.
27. BP at 25 53.50 (stop 50.82). Stopped out at 50.82.

A Narrative of the events in the Chart

1,2,3. Had we been asleep the event at number 3 should have awakened us. A volume day like this should catch the attention, and we begin paying attention to the stock and note the pattern that has been developing—the rounding bottom, or scallop.

4. And at number 4 we see a 'run day' on heavy volume. A good signal for entry with the breaking of the horizontal line at 2. When we enter we set our stop 5% under the recent low. After entering on strength there is every possibility that some profit taking will occur as well as probing by locals to chase out *arrivistes*.

5. We watch with interest for the first reaction. Each day we observe as a candidate for a possible 'basing point.' This occurs at 5 and we now begin to count 'days away' from the basing point, that is, days whose range is entirely outside the range of the candidate day, and which occur before a lower low is made. When the basing point at 5 is confirmed we raise our stop to 5% under 5.

6. A higher high is made after 5 with a subsequent reaction to 6, which proves to be another basing point. So we raise our stop to 5% under 6.

7. Prices continue to climb and another basing point is made at 7. The procedure is becoming clear: Find a basing point and establish a stop a prudent distance under it. If a new basing point is made raise the stop. Watch with interest the reactions against the trend. Either they allow you to establish a new higher basing point, or they end your trade.

8,9. We find a new Basing point at 9, raise our stop and draw the trendline at 10. At 9 we have a lower low than 8, but our 'filter,' our 5% padding keeps our position intact. We do not lower our stops using 9 as a new basing point. One of the inviolable rules is that stops are never lowered. The filter is important, since traders try to take out nearby lows and exacerbate volatility. It is called the running of the sheep.

11. At 11 we find a new, if tenuous basing point. An advance with a thin higher high.

12. At 12 we have a candidate for a basing point which fails the 3 day rule.

13. At 13 we find the basing point that is good and raise our stop.

14. And at 14 we are confronted with a marginal situation. It is potential basing point. But a marginal one because a higher high was not made after 13.

15. At 15 we are able to draw a line defining resistance — a line which will become a support line.

16. At 16 we get a test of the basing point at 13. Our hesitation about finding a point at 14 may have been well founded. At any rate our point, if 13 was in no danger

17. At 17 we find a new basing point and at 18 we can identify a resistance line. The spurt across this line is both gratifying and a warning. Because it becomes a flagpole from which the flag at 19 flies. Flags and flagpoles are messages that the market has heated up and now wants close watching. A flag can serve as a basing point, so we move our stop again, fully aware that the end may be approaching. The trendline at 20 is further confirmation of this environment due to its steepness. But we see two good anchor points in 16 and 17 and draw trendline 21 — a better line to defend.

22. A good reaction finally occurs at 22 giving a strong basing point and good rationale for raising the stop. Notice the interesting fact that points 22 and 24 have come back to rest on the trendline we drew at 10.

23. As the tempo has increased and the volatility 24 furnishes us another valid basing point.

24. Even 25 is a valid point and we can now see the clear support line at 26.

25. When this line is pierced at 27 upon extraordinary volume, and in the process takes out our basing point stop from 25, it is clearly time to exit the train.

The Basing Point concept is even more thoroughly explored in the paper titled "Stair Stops" on the John Magee Technical Analysis website: www.johnmageeta.com