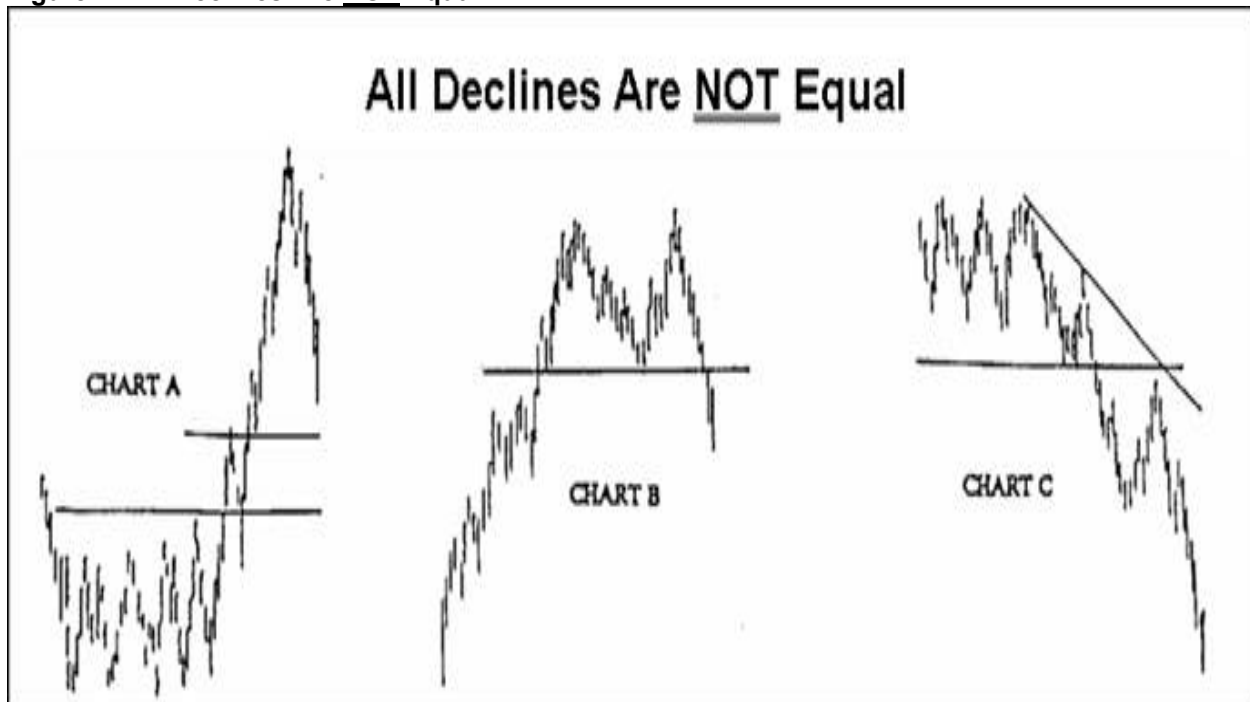


SPECIAL FEATURE: All Declines Are Not Equal.

It is pertinent to remember that there are always stocks to sell into rising markets and stocks to buy into falling markets. Even in a general market correction it is important to distinguish that all declines are not equal *under the surface*. By that we mean that while prices may all head in a southern direction, what is important is the point from which that decline began in the more structural price pattern of each individual stock.

In other words, we seek to identify what the individual price patterns technically signify in the supply and demand factors underlying the decline. In the past, we have characterized declines in three distinct patterns (see **Figure 1**).

Figure 1. All Declines Are NOT Equal



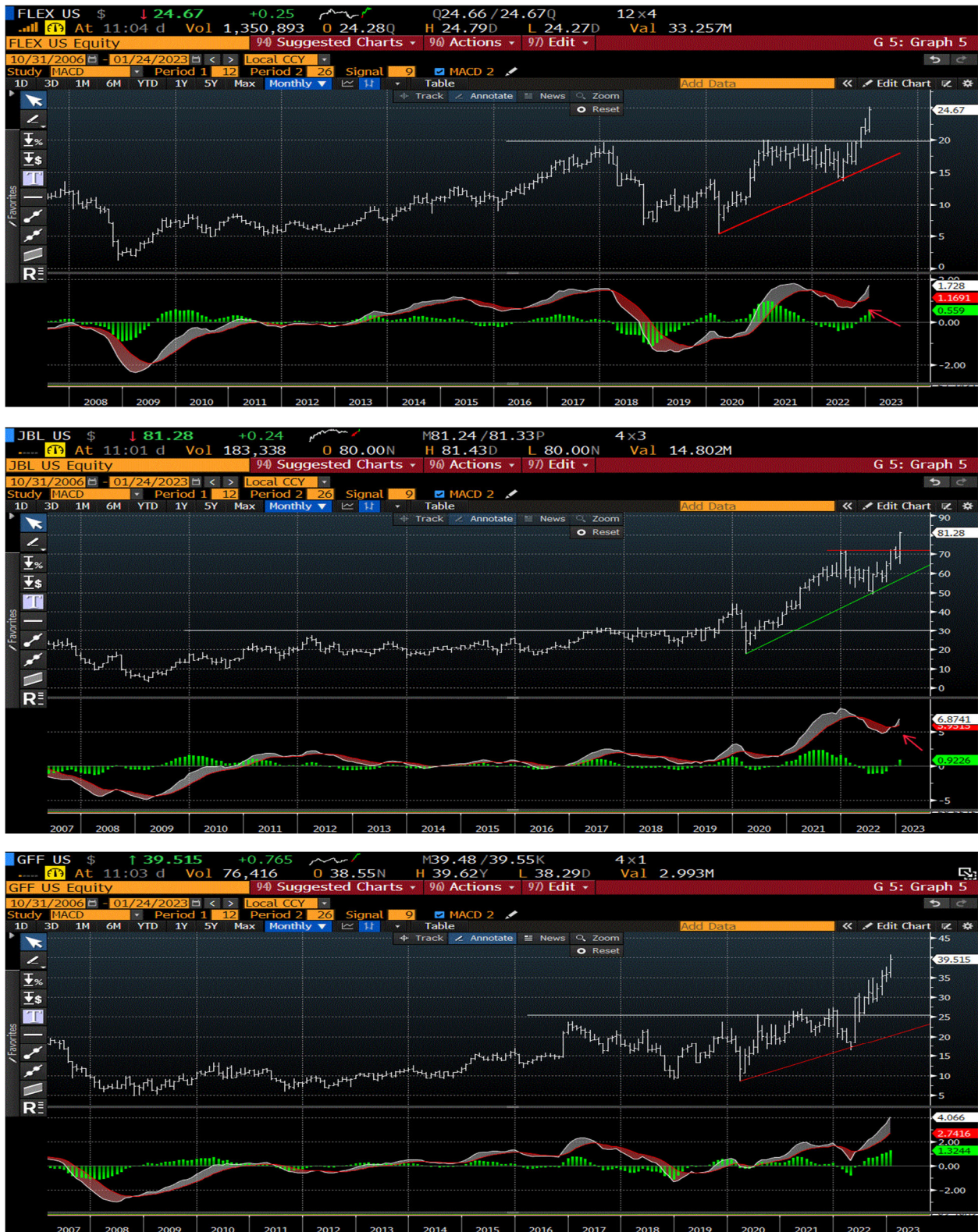
Source: LY Advisors

Chart Pattern A (see **Figure 2** for educational examples): *Declines that may occur within the framework of a structural uptrend in a stock.* This pattern would imply that the stock had emerged from a base, or from a secondary consolidation within an uptrend and has declined, *or may decline*, back toward (or into) that congestion area that now represents support (or an area of demand) for the stock; or pull back within an extended uptrend to create a new area of congestion representing support.

We would *not expect stocks representative of this pattern* technically to fall to new lows (although in any volatile environment, support levels can be temporarily breached). On balance, we would perceive these **Chart A** patterns to be among the market leaders, which could be bought into weakness with the longer-term trend in mind.

Notice *price uptrends, breakouts* through multi-year resistance levels; perhaps a secondary resistance level and the *Monthly MACDs on Buy signals* (rising).

Figure 2. Examples of Chart A: As an Educational Exercise FLEX, JBL, GFF, Monthly.

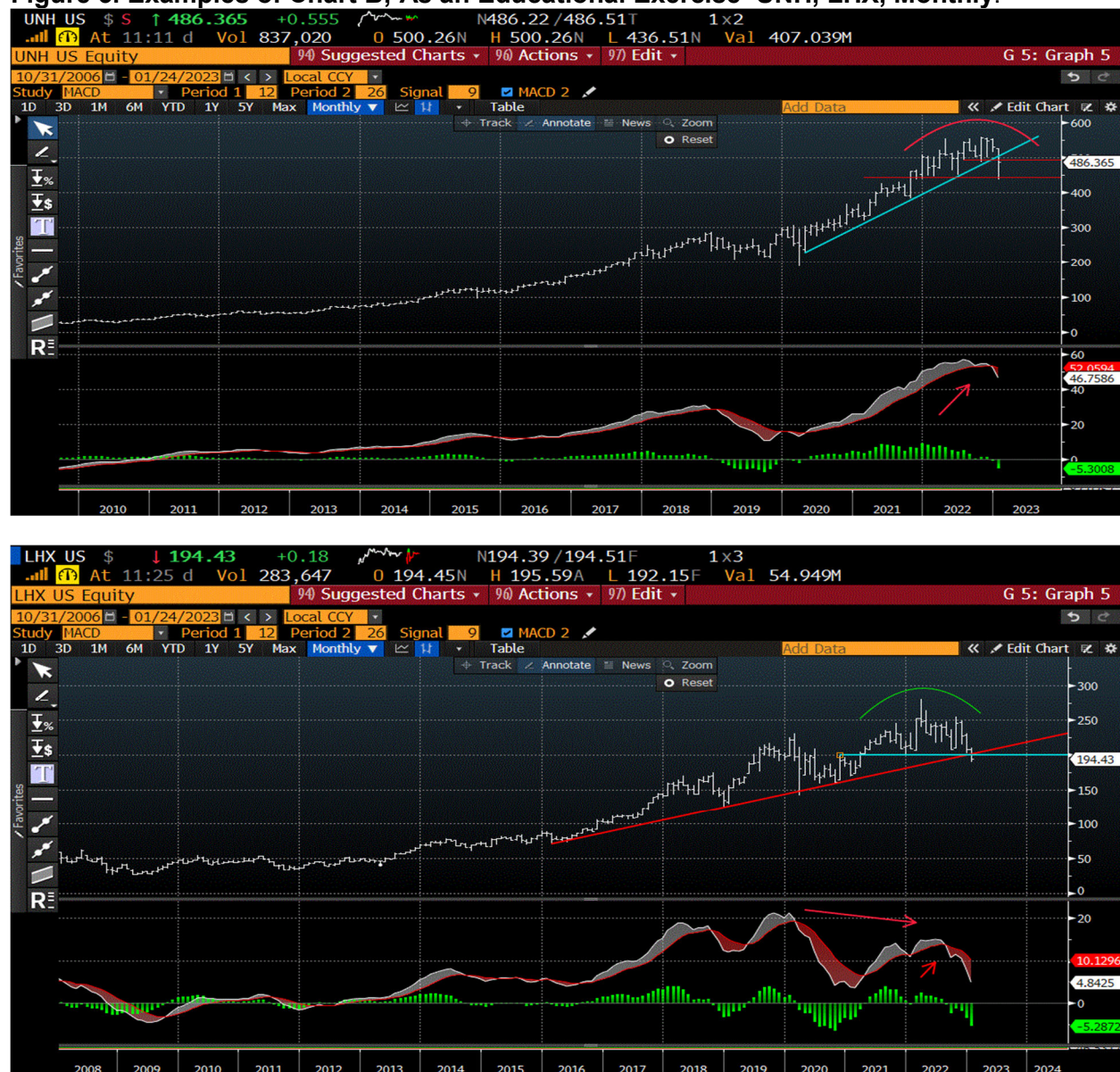


Source: Bloomberg and LYAdvisors

Chart Pattern B (see **Figure 3** for educational examples): *Initial declines, which break below an established support level following an extended uptrend, frequently defining a “topping” pattern* (see arcs) and initiating a *structural downtrend* for the stock. The Monthly MACD has moved into a declining *Sell* signal (see red arrows) often with a negative divergence. Patterns of this type can be expected to fall to new lows, often following a kickback rally toward the broken support, now defined as resistance (offering an opportunity to sell into strength), and to underperform the market during weakness (go down more).

This is the pattern to watch for with stocks and / or groups, to guard against a reversal of trend from positive to negative (from a trend of demand to one of supply). Some names that had continued to lift in uptrends during the initial markets’ decline through 2022 are now appearing vulnerable (see **Figure 3** below).

Figure 3. Examples of Chart B; As an Educational Exercise UNH, LHX, Monthly.



Source: Bloomberg and LYAdvisors

Chart Pattern C (see **Figure 4** for educational examples): *Secondary declines, generally occur in stocks that have experienced initial structural declines (Pattern B) in the recent past, and thereafter may have bounced into resistance (formerly support) where they encountered supply (selling) and have thereafter fallen back, sometimes establishing a trading range that is eventually penetrated once again to the downside, accompanied by a declining MACD, on a Sell signal; thus extending the structural decline already in place. New lows in price are generally established for the stock.*

Such stocks experience their own private corrections and bear markets, sometimes even under the surface of a rallying equity market, as well as into an overall declining market.

Figure 4. Examples of Chart C: As an Educational Exercise AMZN, BAC, Monthly.



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