

Rule #	Rule	Definition
1	“1-2” Spike Combination	Primary spike (1) followed by a second, confirmatory spike (2)
2	Upward Line Trajectory	LSI line moving in an ascending trajectory
3	Positive Divergence	Buy into a weakening price versus a positive or neutral LSI line

Spotting Demand Imbalances

A Review of “1-2” Spike Combinations

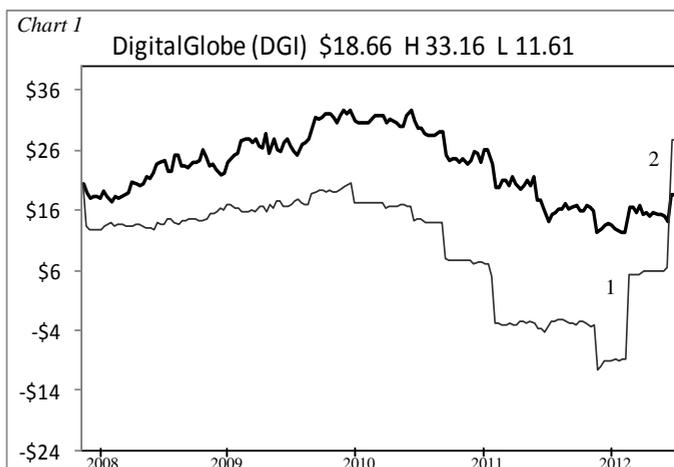
Virtually all demand imbalances can trace their origins to a “1-2” spike combination — a positive initial spike followed by a second, confirmatory spike resulting in an upward trajectory of the LSI line. These patterns signal the commencement of a demand imbalance and represent a favorable environment for investors to buy or hold a stock. These 1-2 combinations are easy for investors to recognize and are often precipitated by institutional buying in anticipation of a fundamental change in business outlook. Investors using LSI charts may search among thousands of stocks looking specifically for these combinations to find investment opportunities. These patterns can occur in rapid succession, or over the course of a few weeks to months, often serving as the precursor to a Stair-Step or more complex pattern identified later in the chapter.

One-two spike combination patterns appear prominently on the chart as the LSI line begins to decouple, or move upward in advance of the share price. In large capitalization stocks, it is important to recognize a more subtle appearance of these spike combinations due to a higher level of pre-existing institutional ownership. This can cause the LSI line to trail, or lag below the share price on a chart. However, it is important to note from Table 3 that the *trajectory* of the LSI line, not its *position* relative to share price, serves as the critical factor in assessing spike combination patterns. Seasoned LSI investors can often gain an understanding of the existing level of institutional ownership through these varying subtleties of LSI line behavior.

We’ll now take a look at an initial series of LSI charts featuring 1-2 spike combinations that demonstrate the emergence of demand imbalances. These combinations correspond to the onset of favorable investing conditions in a stock. Over the charts that follow in this chapter we’ll indicate whether a daily LSI chart — typically used to spot imbalances in large, institutionally dominant companies — or a weekly LSI chart is used. We begin with a review of the weekly LSI charts of DGI, AMED and GV (Charts 1-3) that exhibit 1-2 spike combinations resulting in an upward trajectory of the LSI line.

Chart 1–DGI

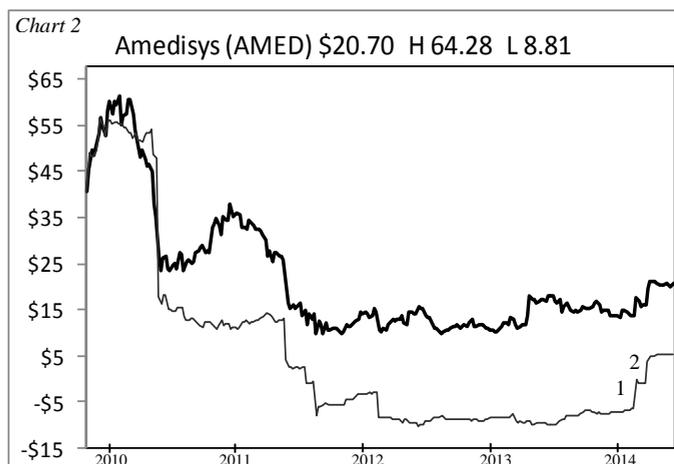
Our first LSI chart example features DigitalGlobe, a provider of satellite earth mapping services on Chart 1. A 1-2 spike combination is clearly visible in this weekly, five-year chart as spikes 1 and 2 combine to signal the return of institutional buyers into the stock. This initial spike (1) and confirmatory spike (2) result in an upward trajectory of the LSI line to satisfy the first two



rules of buying stocks using LSI charts from Table 3. We'll discuss Rule 3 regarding positive divergences in greater detail in Chapter 2. This 1-2 spike pattern signals the initiation of a demand imbalance in DGI shares and a favorable environment for investors. This activity took place as mapping providers came into favor when Google Earth became a must-have application on virtually every desktop computer.

Chart 2–AMED

One-two spike combinations typically occur in lockstep with a shift in the fundamentals of a business or change in outlook. For home health services provider Amedisys, advantageous conditions returned for investors after a change in management brought institutional investors back into the stock. The 1-2 spike combination in weekly LSI Chart 2 features an initial



spike (1) followed one month later by a second, confirmatory spike (2) resulting in the first upward move in LSI line trajectory in almost five years. The demand imbalance that developed reversed a four-year supply imbalance (period of negative LSI line activity from 2010 through 2013) and eventually lifted Amedisys to more than \$50 per share in 2015.

1-2 SPIKE COMBINATIONS

Chart 3–GV

Exciting demand imbalance patterns can develop rapidly in very small stocks. Speculative investors would delight in finding this rapid-fire 1-2 spike combination in the weekly, five-year LSI chart of tiny electrical contractor Goldfield. The formation of these patterns in small stocks often precedes positive news or events, in this case the winning of a substantial contract to build a power transmission line located

in Texas. The initial spike (1) and confirmatory spike (2) occur almost simultaneously to decouple the LSI line from the share price and signal the emergence of a demand imbalance. Rapidly forming 1-2 combination patterns are more common in smaller stocks and indicate aggressive buying activity and the potential for dramatic investment returns. Following the 1-2 spike combination in this example, Goldfield stock increased to more than \$5 per share within twelve months.

