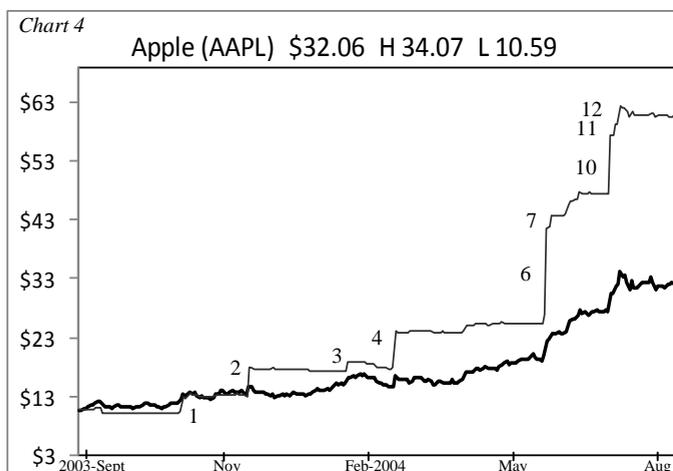


Stair-Step Patterns

The signature pattern of LSI charts is called a Stair-Step. No other pattern exemplifies the vivid upward progression of the LSI line as well as the “green light” it represents to investors looking to buy stocks. Whereas the 1-2 spike combination marks the creation of a demand imbalance, a Stair-Step pattern confirms the presence of a demand imbalance through a series of spikes that look like a staircase formed over a sustained period of time. The positive spikes building upon each other create a pattern resembling an ascending flight of stairs with an LSI line that traces an upward trajectory. The magnitude of the spikes usually ranges within the definition of primary spikes in Table 2, and the upward trajectory of the line is fairly consistent throughout the pattern. It should be noted that there is often a lack of any significant negative spikes during the formation, which gives these patterns the distinctive appearance of an upward sequence of steps. For investors, these patterns signify a favorable investing environment in which to enter a stock. The LSI charts of AAPL, ISRG, AMZN (Charts 4-6) to follow are classic examples of Stair-Step patterns over a one-year period that represent an ongoing demand imbalance in their respective shares.

Chart 4–AAPL

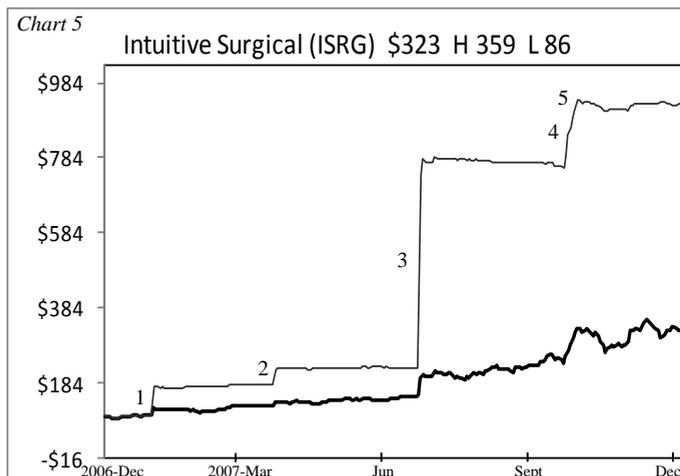
Apple’s growing popularity among institutional investors following the return of founder Steve Jobs is captured in this Stair-Step pattern on the daily, one-year LSI Chart 4 of Apple from August 2003 to August 2004. Long before consumers had ever heard of an iPhone or iPad, the LSI line reveals institutions jumping back into Apple in anticipation of a return to its glory days of developing innovative new



products. The Stair-Step that formed in Apple indicates the creation of a large demand imbalance and continuation of the favorable buying environment in the stock originally signaled by a 1-2 spike combination (spikes 1 and 2). The LSI chart features twelve positive spikes that range in magnitude, including five primary spikes (spikes 1, 2, 4, 6, and 10) and several smaller spikes that serve as markers of heavy institutional buying.

Chart 5–ISRG

Surgical robotics became big business by the turn of the century, led by Intuitive Surgical, maker of the innovative *da Vinci* surgery system. As hospital adoption of *da Vinci* surged during the middle part of the decade, a Stair-Step pattern on this daily, one-year Chart 5 alerted investors to the heavy institutional buying that eventually drove ISRG shares



from a low of under \$100 to more than \$300 by 2007. Four spikes (1, 2, 4, and 5) straddle a major spike (3) on the chart to reveal substantial institutional buying. Spikes 4 and 5 appear to be one spike but are actually two occurring in rapid succession, while the spike at 3 is of such large magnitude that it skews the appearance of the other spikes into looking more like smaller ones. Note the lack of any material institutional selling, or negative spike activity, over this 12-month period that gave investors confidence to maintain positions despite several declines in share price.

Chart 6–AMZN

Following the bursting of the Internet bubble in 2000, shares of the leading Internet companies were shunned by investors and took several years to recover. By mid-decade, however, LSI Chart 6 indicates the return of a favorable buying environment for investors of Amazon before it once again acquired the status of Wall Street darling. A well-formed Stair-Step pattern from



December 2006 to December 2007 was initiated by a rapid 1-2 spike combination (spikes 1

and 2) that signaled the emergence of a demand imbalance in the stock. Notable as well is a bullish decoupling of the LSI line from Amazon’s share price following the 1-2 spike combination.

Aggressive Stair-Step Patterns

An aggressive Stair-Step pattern features a steeper ascent of the LSI line and greater density of spikes in comparison to the classic Stair-Steps just highlighted. Aggressive Stair-Steps indicate a more intensive level of institutional buying that corresponds with a major demand imbalance. These patterns provide a highly favorable environment for investors to buy alongside heavy institutional demand. Spikes of many different magnitudes may be present, as primary spikes are often intermingled with major, minor, and micro spikes. The sizable demand imbalances revealed by aggressive Stair-Steps typically result in a stronger and more rapid influence on share price. These patterns are far less uniform than classic Stair-Steps and develop more quickly. The following LSI charts of FSLR, PCLN, TARO, and MDSO (Charts 7 through 10) represent aggressive Stair-Step patterns and signal a highly favorable environment for buyers.

Chart 7–FSLR

For investors that can withstand added volatility, aggressive Stair-Step patterns represent a welcome sign for buyers on LSI charts. One of the leading solar plays at the time of its initial public offering in late 2006 was First Solar, a stock widely considered to be a “must own” by institutional investors. The aggressive buying that formed the Stair-Step in this daily LSI

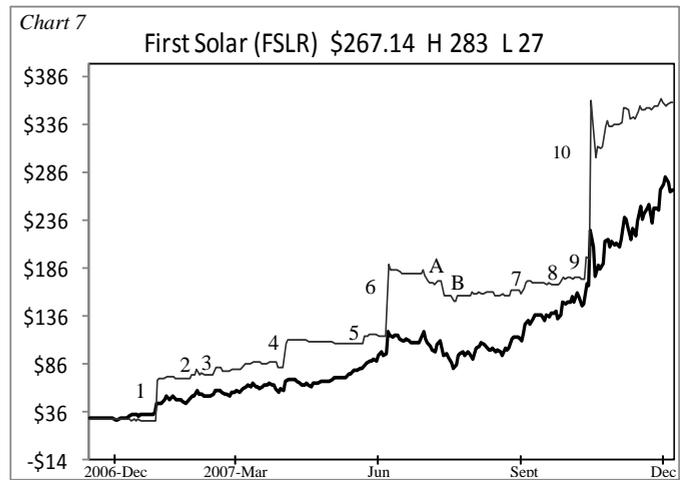


chart of First Solar (Chart 7) features a multitude of spikes in close proximity along a steeply ascending LSI line. This indicates a more rapidly developing demand imbalance than found in charts 4 through 6 above and a highly positive environment for investors. Aggressive Stair-Step patterns often experience short-term periods of negative spike behavior (negative spikes A and B), but without a material influence on the overall upward trajectory of the LSI line.

Chart 8-PCLN

One of the most successful companies of the Internet era is online travel site, Priceline (Chart 8). A major demand imbalance heralded the emergence of Priceline in 2005, visible to LSI chartists through an aggressive Stair-Step pattern on this weekly chart. The opportunity for buyers produced by the aggressive Stair-Step continued for more than two years following the spike at 1 as a series of steps formed on the LSI line. Note the relatively long period of flat LSI line behavior in the middle portion of the chart, representing a far less favorable environment for investors, before the spike at 1 indicated a return of institutional buying.

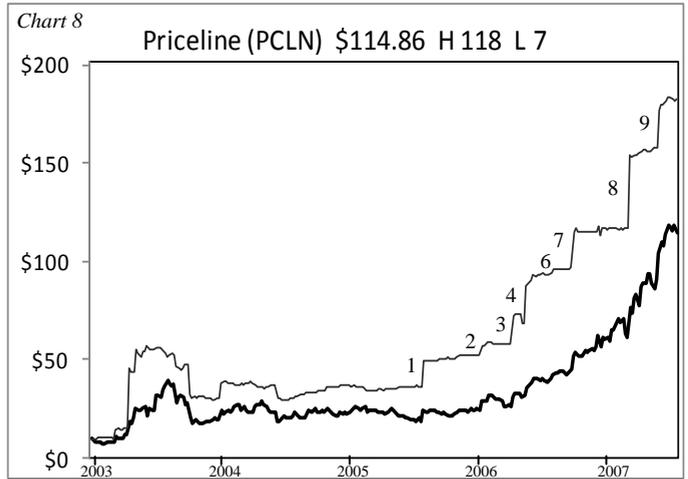
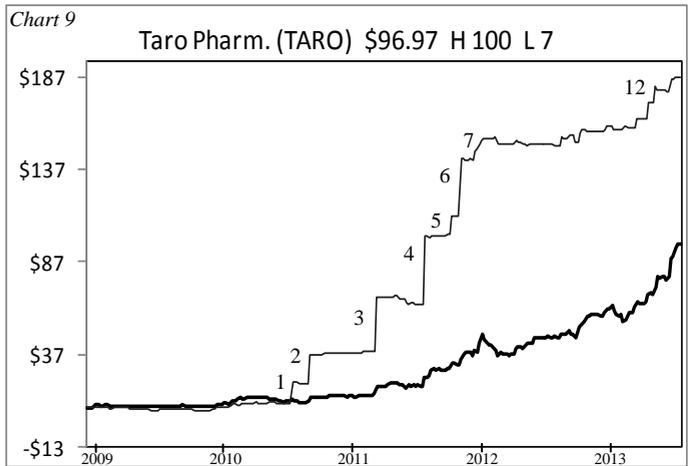


Chart 9-TARO

Institutional investors began snapping up Taro Pharmaceutical shares in 2010 as the small OTC drug developer appeared poised to begin delivering significant increases in revenue and earnings (Chart 9). Following an initial spike at 1, positive conditions for investors continued for a full three and a half years on this weekly chart. What is unique about Taro's aggressive Stair-Step



pattern is the increasing trajectory of the LSI line, as spikes occur with greater frequency in the middle-portion of the chart, from spikes 4 through 7. This increasing trajectory indicates a demand imbalance that is growing in intensity and highly favorable for investors.

POSITIVE STAIR-STEP PATTERNS

Chart 10–MDSO

As cloud-based computing became the rage during the first decade of the new century, Medidata Solutions tapped into the cloud for drug developers to access its suite of clinical trial solutions. This weekly, five-year LSI chart (Chart 10) features a particularly aggressive Stair-Step ascending at a steep angle, more resembling a ramp than steps. The feverish pace of buying indicated by this

pattern provided an opportunity for investors to take advantage alongside the heavy institutional demand. This pattern is highlighted by a series of small spikes (1 through 3) before growing more aggressive as the larger spikes (4 through 8) combined to accentuate the Stair-Step.

