

## LSI Power Patterns: Wings, Ladders and Waves

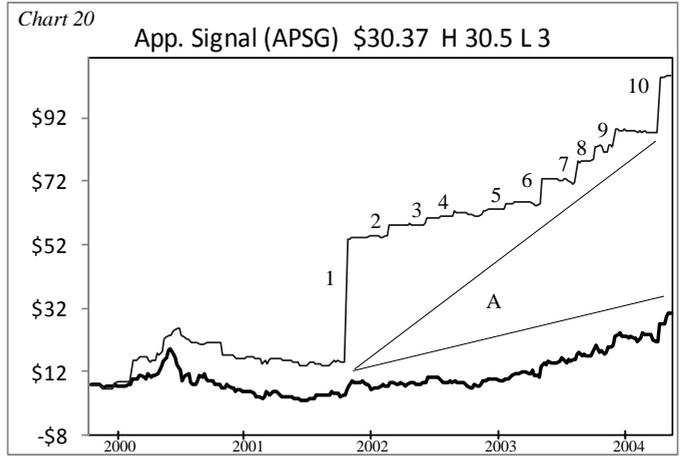
Massive, emerging demand imbalances, particularly in stocks with little or no existing institutional ownership, result in dramatic LSI chart patterns. These patterns are highly coveted by LSI chartists and associated with the biggest and most explosive stock gainers in the market. While the 1-2 spike combination remains at the heart of virtually all LSI patterns, power patterns are typically associated with a much more aggressive and complex series of spike patterns. These patterns are notable for a rapid succession of spikes across a range of different magnitudes. LSI power patterns are known as Wings, Ladders, and Waves, and many of the market's best performing stocks can trace their emergence to one of these three patterns.

### Wing Patterns

Among LSI power patterns, Wings are one of most distinctive formations that can result in significant share price gains. Wings are unique by virtue of a major initial spike that launches the LSI line from the share price in a sudden, vertical trajectory. Then, over time, the gap between the LSI line and underlying share price widens, forming a pattern resembling a bird's wing. Wings represent the onset of institutional buying that either reverses a negative trend or, more commonly, follows a long period of inactivity to signal the onset of a favorable buying environment. The major spike, called a "Wing spike," indicates a surge in demand often prompted by a material change in the fundamental outlook of the company's business. As the Wing forms, additional positive spikes occur, contributing to the development of the pattern. Another LSI feature prominent in Wing patterns is an **ascending delta**. Ascending deltas are characterized by an LSI line that rises at a steeper slope than the share price. Ascending deltas are highly positive patterns that appear to "lift" the share price higher over time. From a supply and demand perspective, ascending deltas indicate heavy institutional demand working through an ample supply of stock. An increase in share price eventually arrives when the large existing supply of shares is exhausted. By definition, a Wing pattern features a major spike followed by an upward trajectory of the LSI line to create an ascending delta.

Chart 20–APSG

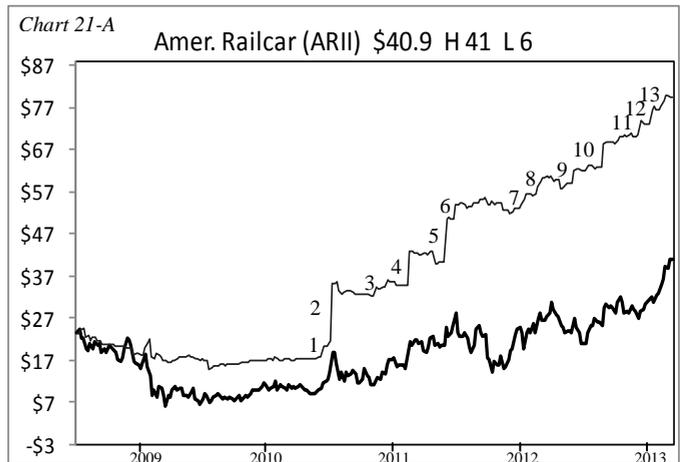
Following the events of 9/11, the U.S. Government dramatically stepped up its intelligence capabilities to include the enhanced monitoring of cellular transmissions with solutions provided by Applied Signal. The abrupt nature by which APSG shares came into favor led to the formation of a Wing pattern on weekly, five-year Chart 20, beginning with a



major spike at 1 (Wing spike) signaling a burst of institutional buying. An ascending delta (A) begins to build in the months following the appearance of the Wing spike, driven by several smaller spikes (2 through 9). The faster ascent of the LSI line versus the share price that forms the ascending delta (A) reveals the presence of a large supply overhang that required almost one year to work through before the share price rose rapidly in 2003.

Chart 21–ARII

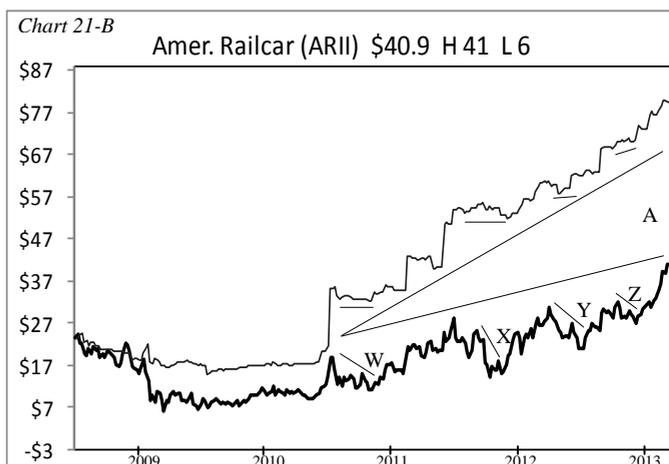
Shares of boxcar manufacturer American Railcar snapped back into favor during the rebound in transportation stocks after the Financial Crisis. What is distinctive about this Wing pattern in the weekly LSI chart of ARII (Chart 21-A) is the number of small (micro) spikes present, following the primary Wing spike at 2. The unique aspect of micro spike patterns are the multitude of spikes that are typically associated with



these formations (a total of 13 in this example). This represents a period of near continuous institutional buying in the stock. The spikes that occurred in this example developed over the course of two and half years indicating a significant ongoing demand imbalance.

## POWER PATTERNS

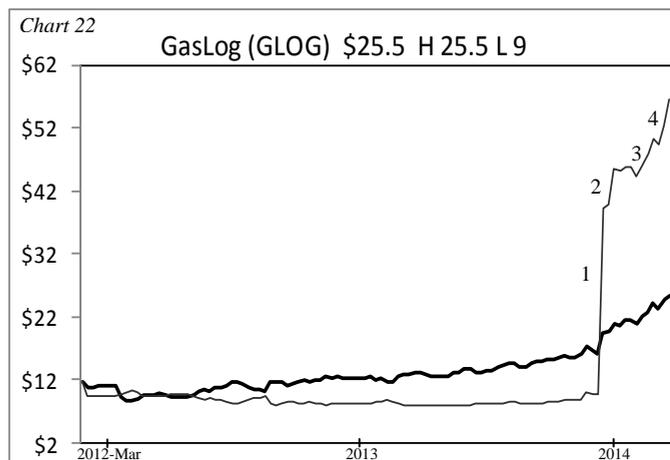
LSI Chart 21-B is the same chart represented in 21-A for the purpose of highlighting the ascending delta (A) formation, which confirms the Wing pattern, as well as several positive divergences (W through Z). Positive divergences are buying opportunities under LSI analysis that form when the share price declines against a neutral or rising LSI line, which we'll cover in detail in



Chapter 2. Similar to the ascending delta visible in LSI Chart 20 of Applied Signal, the area between the two lines of the ascending delta continues to grow before the share price eventually closes the gap. We begin to see this gap close at the latter stages of Chart 21-B with the ascent in share price (dark line) that is visible just below the “A” designated on the chart.

### Chart 22—GLOG

Our final Wing example is a fast moving pattern on the weekly LSI chart of GasLog (Chart 22), an operator of liquefied natural gas (LNG) tankers during the height of the gas confrontation between Russia and Ukraine in 2014. The major Wing spike at 1, closely followed by spikes 2 through 4, indicates a rapidly building demand imbalance in the stock. An ascending delta formed between the LSI line and share price highlighting significant institutional activity.



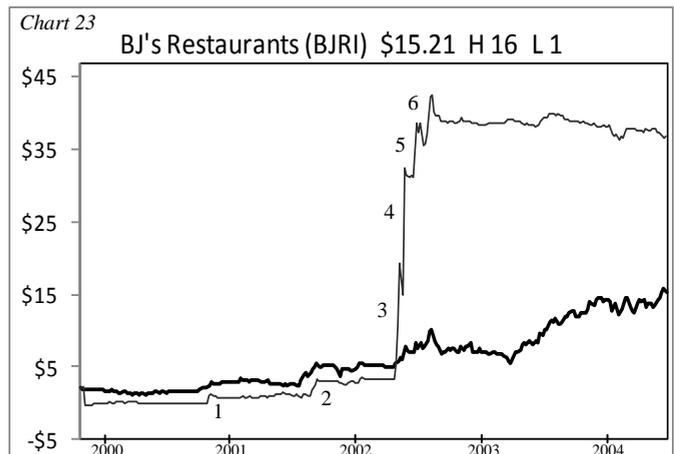
## Ladder Patterns

Ladders are among the most dramatic and sought after of LSI power patterns. These formations result from a sudden, aggressive burst of spikes, unlike the more drawn out development of spikes in Wing patterns. A Ladder forms when multiple spikes occur in quick succession, one right after the other, to produce an upward thrust in the LSI line. Most Ladders see a near vertical rise in the LSI line, while others may display a compounding of small spikes. These patterns are associated with Stair-Steps, but develop so rapidly that they more closely resemble the upward rungs of a ladder. A Ladder has been described as a Stair-Step on steroids, and after reviewing many examples it is hard to argue with that comparison. The most exciting aspects of these patterns are the eye-catching surge of the LSI line and their immediate and, oftentimes, dramatic impact on share price. The formation of a Ladder pattern is considered a most prized discovery for LSI chartists.

From a supply and demand perspective, the formation of a Ladder represents a massive demand imbalance, often against a relatively small supply of shares. These patterns usually occur in smaller stocks with little existing institutional ownership. By the time a Ladder formation is complete — over the course of several weeks to months — institutional ownership has been known to increase from less than 5 percent of total shares outstanding to as high as 40 percent in some cases. Ladder formations revealing massive demand imbalances have signaled the emergence of such iconic brands as Deckers Outdoor (UGG boots), Monster Beverage, and Keurig Green Mountain.

Chart 23—BJRI

A prime example of the near vertical LSI line ascent that can be found in Ladders occurred in 2002 in the weekly, five-year chart of fast growing pizza chain, BJ's Restaurants. The Ladder in LSI Chart 23 corresponds to a massive demand imbalance that developed in the stock as institutional ownership rose from less than 15 percent of total shares outstanding to



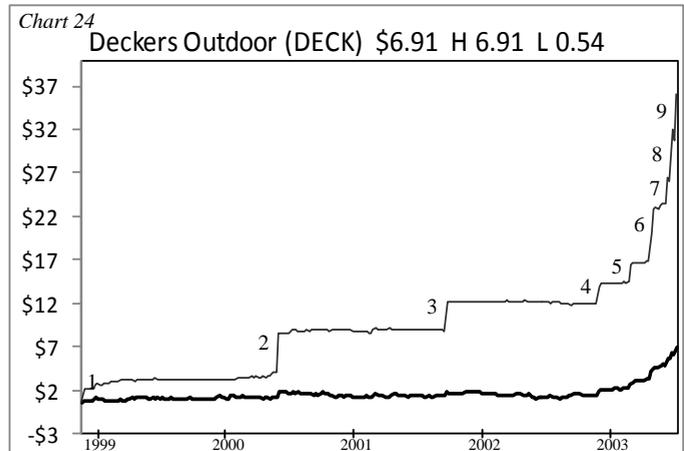
more than 35 percent over a compressed period of just six months. The LSI line reveals how quickly Ladders can develop, as exhibited by consecutive spikes (3 through 6) and the

## POWER PATTERNS

highly favorable environment for investors that they signify. That is because before a Ladder forms, a demand imbalance is usually in place, as seen here with the small spikes at 1 and 2. The LSI chart of BJ's represents a classic Ladder pattern.

### Chart 24–DECK

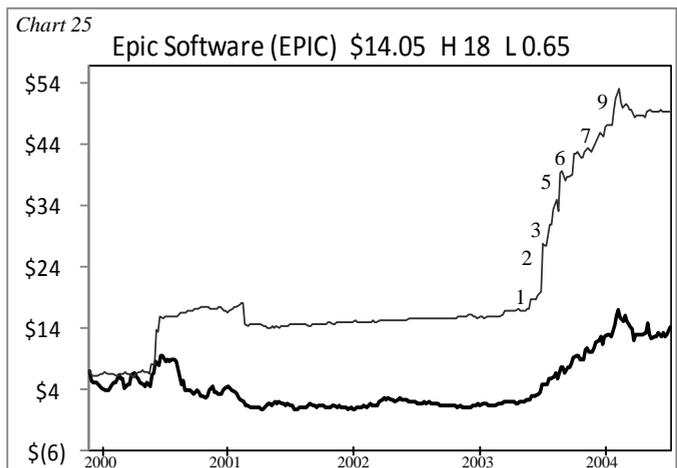
One of the most iconic brands in fashion footwear to emerge at the turn of the century was the UGG Boot, marketed by a small company called Deckers. As UGG emerged, so too did Deckers — from an institutionally neglected company into a must-own stock. Against this backdrop, Deckers' weekly, five-year LSI chart (24) develops into a Ladder pattern (spikes 6



through 9) beginning with the spike at 6. The chart of Deckers, like BJ's above, shows that most Ladders develop in stocks already experiencing a demand imbalance, represented here by spikes 1 through 5. The Ladder that developed in Deckers resulted in the steady rise of its share price, eventually climbing to more than \$100 in 2014.

### Chart 25–EPIC

A rather unique Ladder formed in the weekly LSI Chart 25 of software solutions provider EPIC, in 2003. In this example, we find a Ladder consisting solely of micro and minor spikes (2 through 9), with the pattern spanning almost an entire year. Unlike the previous two examples, the Ladder in EPIC developed without warning from a multiyear equilibrium of supply and demand. The



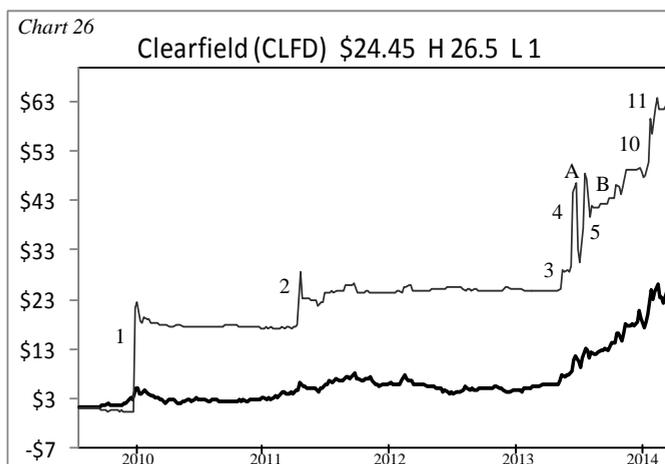
major demand imbalance that produced the Ladder of EPIC indicated an immediate opportunity for investors that led to a tenfold increase in share price in the year following its formation.

## Wave Patterns

LSI Waves are an explosive power pattern that feature rather odd but highly positive spike behavior. Wave patterns acquire their name from a condensed period of rapid up-and-down spike activity that looks similar to the wave pattern of a seismograph during an earthquake. A Wave is a series of two or more upward and downward spikes occurring over a short duration. Each subsequent downward spike, however, is usually of lesser magnitude than the preceding positive spike, so that despite the upward and downward movement, the LSI line's overall trajectory remains upward. The pattern is interesting by virtue of having just as many negative spikes as positive ones. Yet, despite this seeming contradiction in the supply and demand trend, Waves boast a remarkable track record of signaling significant share price appreciation. Wave patterns are unfortunately rare, occurring in only a handful of stocks annually, but have been shown on average to produce a doubling or more in share price over the ensuing twelve- to fifteen-month period. While the underlying cause of this pattern from a supply and demand perspective is not well understood, the distinctiveness of a Wave pattern makes it among the most recognizable on LSI charts. The LSI charts of CLFD, PATK, HCI, and MNST (Charts 26 through 29) represent a diverse collection of Waves to reveal the highly unique nature of this power pattern.

### Chart 26—CLFD

The odd but explosive nature of Wave patterns is captured vividly in the weekly LSI chart (26) of communications equipment maker Clearfield. Institutional investors surged into the stock in 2013 when it was rumored that Google's initiative to bring gigabit speed optical fiber to the home would include Clearfield products. The Wave pattern in this example develops

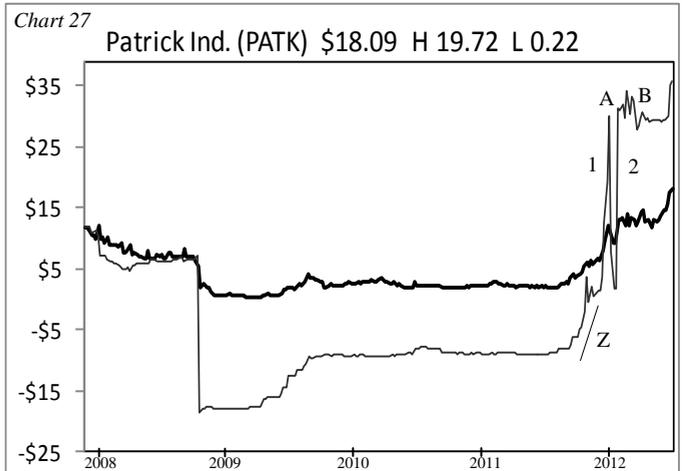


POWER PATTERNS

abruptly following a spike at 3 and is created by positive spikes 4 and 5, and negative spikes A and B. While these negative spikes may lead to the conclusion that the demand imbalance has evaporated, the pattern's sheer volatility indicates that something unusually bullish is under way. Following the completion of the Wave, we find a string of positive spikes (6 through 11), pulling Clearfield shares higher.

Chart 27-PATK

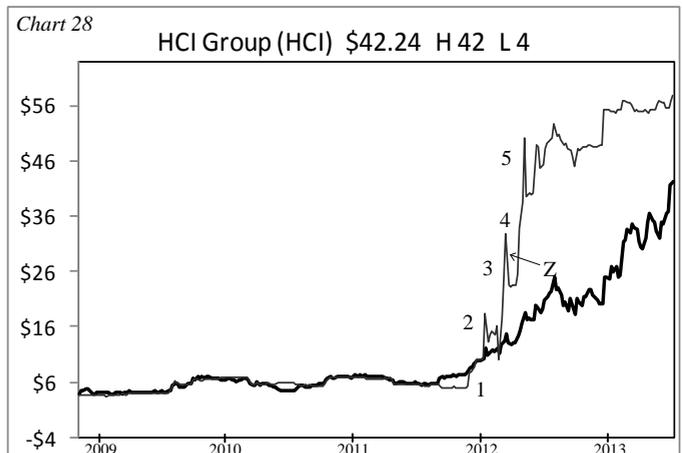
A particularly violent Wave forms in the pattern rich weekly LSI chart (27) of manufactured home and RV firm Patrick Industries. Investors began to aggressively take positions in the stock on the anticipation of sharply higher earnings that followed a string of acquisitions. Patrick's earnings didn't disappoint, and a large demand imbalance was already under way as



indicated by a small Ladder pattern (Z) that formed a couple of months prior to the Wave. The Wave in this example is made up of two positive spikes at 1 and 2, and a large negative spike at A. Another interesting facet of this unique LSI chart comes with what appears to be a second Wave pattern consisting of only small (micro) spikes at B. This example of Patrick provides one of the most remarkable collections of LSI power patterns packed onto one chart we've ever encountered, reflecting the sheer magnitude of the demand imbalance that developed in the stock.

Chart 28-HCI

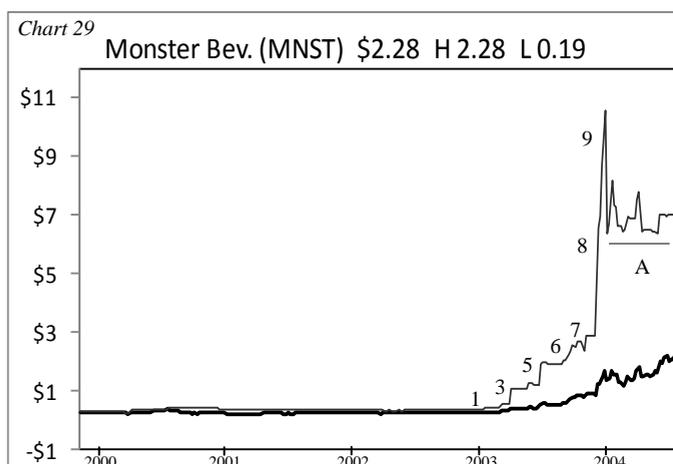
A rather unusual cross between a Wave and a Ladder pattern developed in the weekly LSI chart (28) of HCI in 2012. The pattern formed as the Florida-based home insurer completed a major



acquisition that institutional investors were speculating would boost earnings. The pattern in HCI comprising spikes 1 through 5 is either a Ladder with **Barbs** or a Wave with much smaller down waves. A Barb is a small negative spike that immediately follows a major or primary positive spike, and is associated with highly bullish patterns discussed more extensively in Chapter 2. Both characteristics indicate a massive demand imbalance created by institutional buying that resulted in a highly favorable environment for investors.

Chart 29–MNST

An explosive LSI pattern is found on the weekly chart (29) of Monster Beverage during the period that marked the company's emergence on Wall Street. Monster Beverage rose from obscurity in 2002, as the company transformed its business from Hansen's sodas into energy drinks that would eventually rival incumbent Red Bull. The LSI chart of Monster reveals the formation of a massive demand



imbalance created by institutional investors rapidly taking positions in a stock where there had been little previous fund ownership. The pattern begins with a highly bullish decoupling of the LSI line from the share price followed by a spike rich Stair-Step (spikes 1 through 7) and associated ascending delta. The major spike visible after spike 7 is actually made up of two spikes, 8 and 9. An oddity of the pattern forms above the line (A), which shows a muted Wave pattern followed by positive and negative spikes. The LSI chart of Monster provides a spectacular example of what highly aggressive institutional buying looks like in a small, previously neglected stock.