

## LSI Turnaround Patterns: Bowl, U and V Patterns

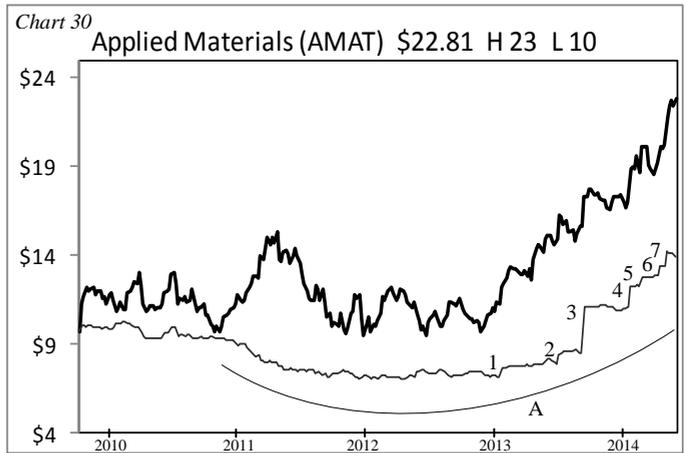
LSI charts can be a powerful tool when looking for stocks poised for a turnaround. Our review now focuses on spike patterns associated specifically with turnaround stocks as the LSI line trajectory shifts from negative to positive. This reversal is driven by dissipation of a supply imbalance and a shift toward a demand imbalance. The three turnaround patterns featured in this section are defined by the magnitude of the underlying imbalance and speed of the associated share price turnaround. LSI Bowl patterns are the slowest moving and typically occur in larger market capitalization stocks. LSI “U” patterns signal an abrupt shift from negative to positive, and “V” patterns can occur somewhat violently with an instantaneous shift in imbalance from supply to demand. The characteristic these patterns all share is a reversal in direction of the LSI line that results in the return of a favorable environment for investors. These patterns often mark an absolute bottom in the stock and are powerful indicators of a return to a sustained period of positive share price activity.

### **Bowl Patterns**

Bowls are the slowest developing of LSI turnaround patterns. As their name implies, Bowls feature rounded LSI lines as the trajectory of the line gradually shifts from negative to positive. Bowls tend to occur in larger market cap stocks, often in cyclical industries, as significant institutional demand is usually needed to reverse the large supply imbalance previously in place. These turnaround patterns are distinctive in appearance and highly effective in providing an opportunity for investors to “bottom pick” stocks. Bowls are completed by satisfying the 1-2 spike combination rules that create a buying opportunity during a positive divergence (see Table 3). The following LSI charts of AMAT and WBMD (Charts 30 and 31) feature examples of Bowl patterns that represented turnaround opportunities for investors.

Chart 30–AMAT

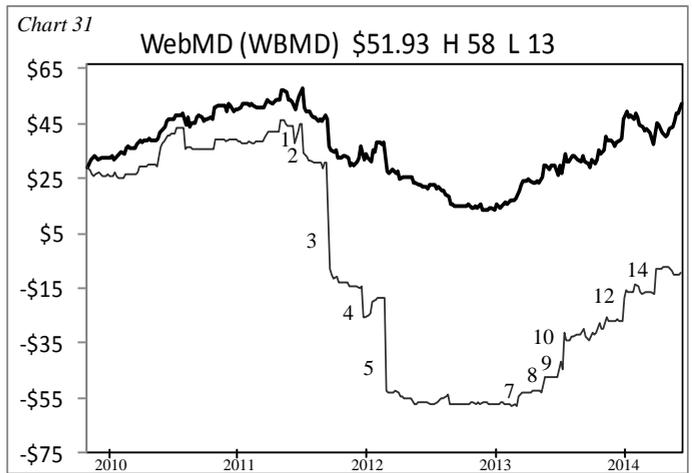
Semiconductor equipment maker Applied Materials operates in the highly cyclical computer chip industry. As a new leg upward in the chip market began in 2013, the weekly LSI chart (30) of AMAT features a Bowl pattern highlighting a shift from a slight negative bias of the LSI line into a positive trend. Bowls typically take place in larger market cap



stocks, such as AMAT, and tend to develop slowly and build momentum. There are two micro spikes at 1 and 2 that indicate the formation of a small demand imbalance, before the primary spike at 3 provides confirmation of a positive environment for investors. The continuing development of spikes (4 through 7) accentuates the Bowl pattern traced by the curve (A) and affirms a demand imbalance in the stock.

Chart 31–WBMD

A rebound in web advertising revenue in 2013 at leading health information portal WebMD brought institutional investors back to its attractively priced shares leading to the formation of a Bowl pattern. The Bowl that developed in this weekly LSI chart (31) is much more uniform than that of AMAT above and, as we'll see in Chapter 2, often very similar



to the U patterns that we'll discuss next. The steep descent of the spikes (1 through 6) resembles a negative Ladder, before small spikes at 7 and 8 indicate the initial stages of a shift from supply to demand imbalance. The progression of positive spikes from 9 through 14 builds upon the appearance of a Bowl and confirms a growing demand imbalance.

## U Patterns

U Patterns represent a more abrupt shift in imbalance from supply to demand in comparison to the Bowl patterns featured above. These turnaround patterns display a positive spike after a period of relatively flat LSI line movement that occurs following a negative spike. What is notable about this pattern is that both the negative and positive spikes in the formation are of roughly similar magnitudes to create their resemblance to the letter "U." These patterns indicate a cessation of an existing supply imbalance created by institutional sellers and the emergence of a demand imbalance in the stock following the completion (positive) spike that forms the U. The creation of a U pattern following a positive spike also represents a shift in LSI line trajectory from negative to positive. The following LSI chart examples of AOL, MDCO, and DAN (Charts 32 through 34) represent U pattern stocks that highlight a shift from supply to demand imbalance and the unique symmetry of this formation.

Chart 32–AOL

Distinction in U patterns originates from their symmetry, as we find in the weekly LSI chart (32) of Internet portal pioneer AOL. The shares of AOL, formerly known as America Online, were largely without interest for almost two years following their spin-off from parent Time Warner in 2009. Experienced investors will recognize the phenomena of post spin-off institutional

selling as holders of the parent company typically sell the smaller (spun-off) company because it doesn't meet the defined investment criteria of the fund. This institutional trait is evident in AOL with the two negative spikes (1 and 2) that took place after the company separated from Time Warner. A U pattern is formed in this example with the positive spike (4) offsetting the negative primary spike (2) as the imbalance pattern shifts from supply to demand. A small negative spike (3) is noted but does not influence the U formation in this example. Highlighting the return of a demand imbalance in AOL shares are additional positive spikes (5 through 9) that combine over the course of two years to produce a Stair-Step pattern.

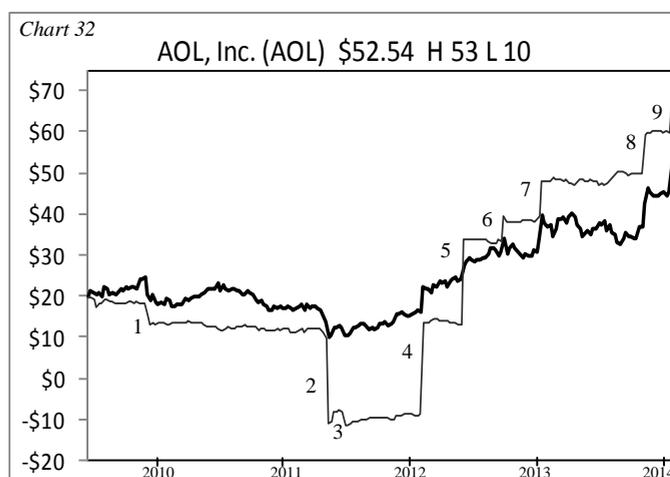
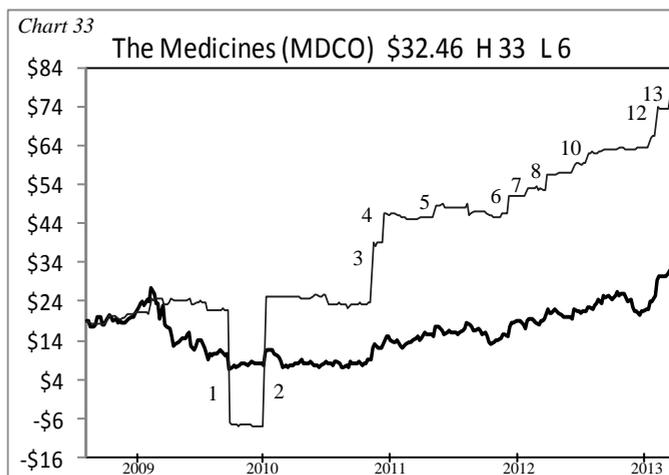


Chart 33–MDCO

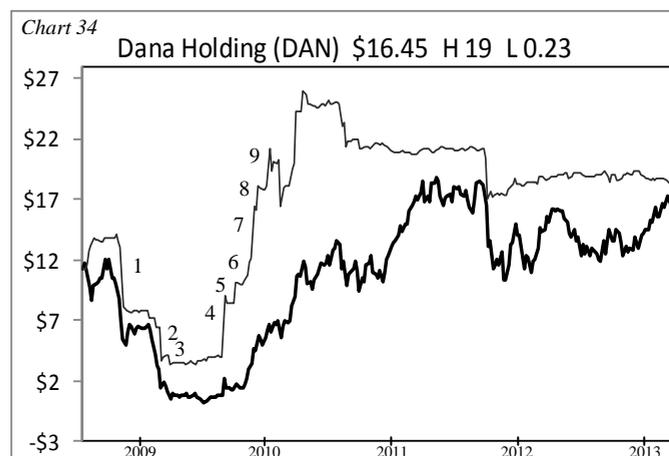
As sales rebounded for a key company drug, the weekly LSI chart (33) of The Medicines formed a distinctive U pattern in early 2010. Spikes 1 and 2 on this weekly LSI chart complete a rather short duration U pattern, confirming a change from supply to demand imbalance in the stock. While it took several months following the U for the arrival of positive spikes at 3 and 4, a reversal in the trajectory of the LSI line was already in place following the spike at 2. As the demand imbalance grows we find a rich pattern of small spikes (5 through 13) occurring as sales for the company continued to strengthen.



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Chart 34–DAN

Near death experiences for companies can produce dramatic changes in supply and demand imbalance patterns. None was more interesting to speculative investors than weekly LSI Chart 34 of highly leveraged auto parts maker Dana during the height of the Financial Crisis. A bucket-like U is formed by the combination of negative spikes (2 through 3) and a positive spike (4). This chart is also unique by virtue of the U pattern triggering a Ladder formation (5 through 9).



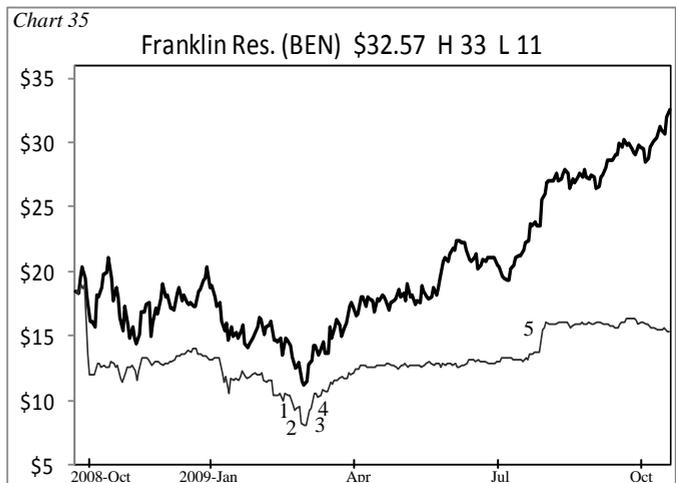
This U pattern highlights how quickly a heavy supply imbalance can shift to a major demand imbalance, in this case driven by fears of an impending bankruptcy that failed to materialize.

## V Patterns

V patterns are much more rapid and actionable LSI turnaround formations, in contrast with the U and Bowl patterns just described. The V pattern marks an instantaneous change in LSI line trajectory, usually developing in conjunction with small (micro) spikes as opposed to the larger spikes found in U patterns. V patterns completely bypass the supply and demand equilibrium stage to look just like the letter of the alphabet they resemble. And unlike U and Bowl turnaround patterns, V's represent an immediate buying opportunity for investors following the positive spikes that form to complete the pattern. V patterns typically arise during extreme market conditions or corporate events that precipitate immediate shifts in institutional sentiment. The following examples of Franklin Resources and FedEx (Charts 35 and 36) represent V pattern turnaround formations that took place during the height of market volatility in early 2009 following the Financial Crisis.

Chart 35–BEN

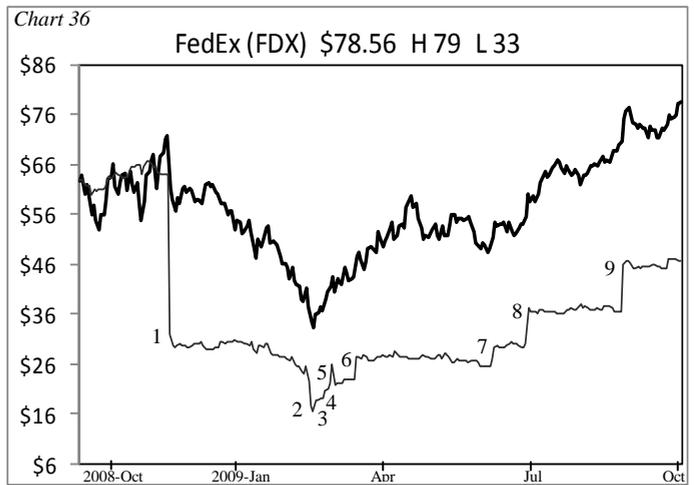
A classic V pattern takes place on the daily, one-year LSI chart (35) of investment management giant Franklin Resources in early 2009. The multitude of negative spikes leading into the V pattern underscores the major supply imbalance that was pressuring the stock during the height of the Financial Crisis. The V pattern is created as the negative spike at 2 is reversed by a positive spike at 3, accentuated by spikes 1 and 4.



This pattern indicates an instantaneous reversal of supply imbalance to demand imbalance and the return of a more favorable investing environment in BEN, in this case led by institutional investors betting on a rebound in equity values. Note the multitude of small negative spikes that preceded the negative spike at 1, highlighting the significant degree of institutional selling prior to formation of the V pattern. After completion of the V, we see an uptrend in the trajectory of the LSI line boosted by the positive spike at 5, followed by a substantial turnaround in Franklin shares.

Chart 36–FDX

As investors began to realize the world wasn't coming to an end during the Financial Crisis, buyers came rushing back into the largest global companies, including FedEx (Chart 36). This rapid sentiment change from negative to positive led to the formation of a V pattern produced by a minor negative spike at 2 and three small spikes upward (3 through 5). Although V pattern



turnarounds are a rarity among LSI charts, they represent an immediate and powerful shift to a demand imbalance, making them a much sought after pattern by LSI chartists.