BULL MARKET RULES

By Daryl Guppy

A reader has asked us to further explain the bull market rules. A bull market and a bull market has three rules. They are:

- Buy new highs
- Buy dips
- Sell trend breaks

BUY NEW HIGHS

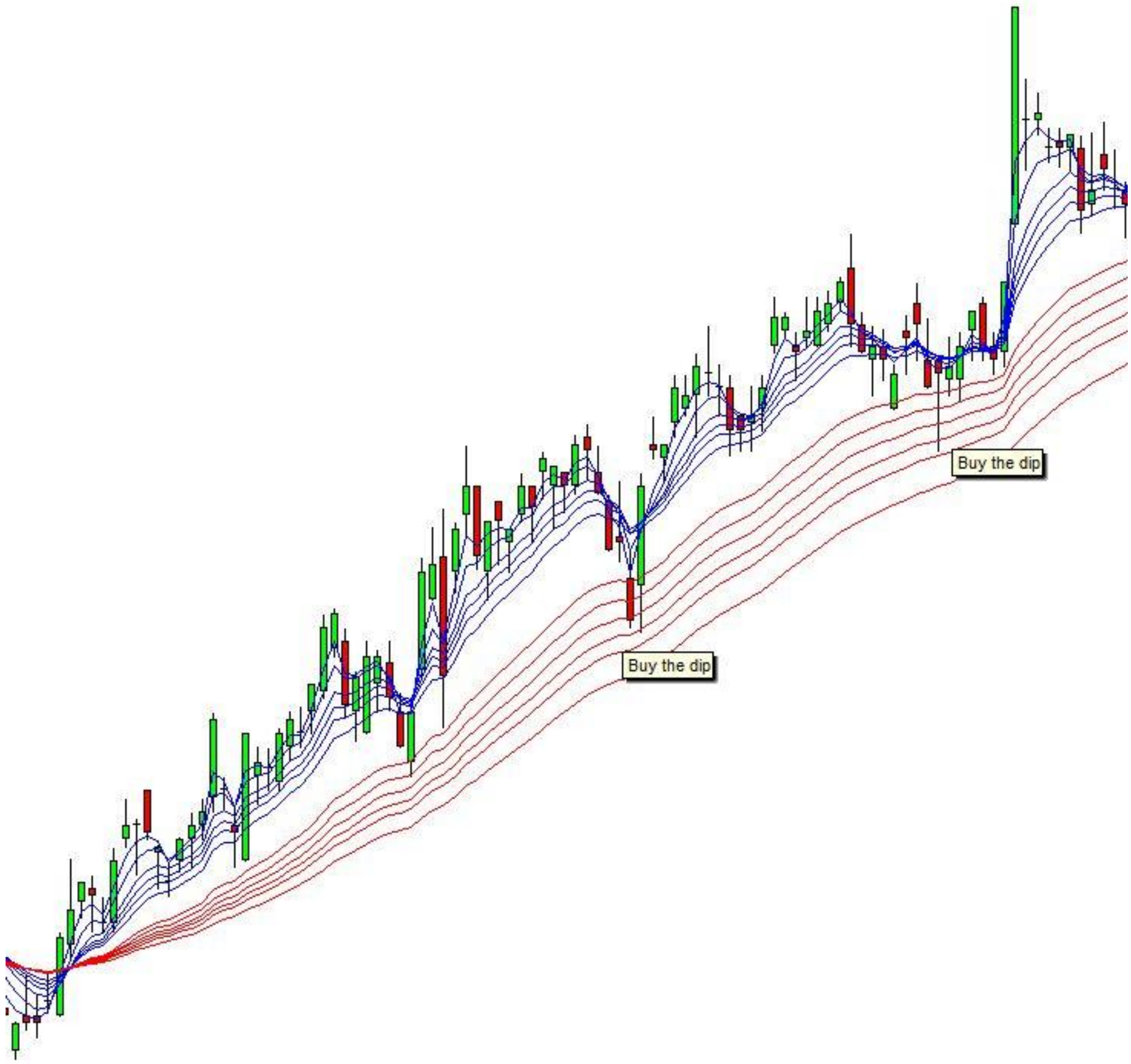
This means buy new rolling 12 month highs. It should also be noted that this is the trigger for applying a Darvas Box trading method.

Our standard chart display shows 12 months of daily price activity. This makes it easy to identify new highs. You can also construct a Metastock search to identify new highs.

The sample chart shows the 12 month high that was broken in December 2016. Once this happened we can apply a Darvas trading method as shown. By definition any new highs after December 2016 were also new 12 month highs.

BUY DIPS

This is buying dips in uptrends – not dips in downtrends. This strategy is most usefully applied when the long term GMMA shows a well established and stable uptrend. This does not require any new 12 months highs. It is based on uptrend strength. In this situation it can usually be assumed that dips are temporary. However it’s wise to wait for evidence of a rebound before buying.



SELL TREND BREAKS

This is an exit strategy. Not everything goes dup in a bull market. A break of an uptrend is often a sign of serious trouble because the rest of the market is strong. In applying this rule remember to make allowances for reactions when a stock goes ex-dividend. However, an ex-dividend stock should not break an uptrend line.

In a bull market the temptation is to hold on because everything else is going up and the trade might also be deep in profit. . Do this, and you can quickly turns profits into a loss. This happened to many people in 2008. They turned good profits into deep losses by holding on.