

security to roll over when the general market is weak.

### Climax Signals

In many cases, after a long move up, the price advance gains traction in a dramatic and unsustainable way "climax top". At this phase, investor optimism is

excessive and prices run rampant. The day opens with an "exhaustion" gap up after it has extended greatly from its consolidation levels and basing pattern, as well from its "optimal" pivot buy point.

However, shortly after this price jump, market sentiment shows a sharp and sudden deterioration, causing a gap down in price and forming a "bearish island reversal" on the

chart. The weekly price trading range (high to low distance) is the greatest of the last months.

Note that not all price gaps are exhaustion gaps. Also do not confuse a climax top, like the one described above, with a security advancing from a nice basing pattern and making new highs on big volume as this latter case often signifies a likely continuation of the uptrend.

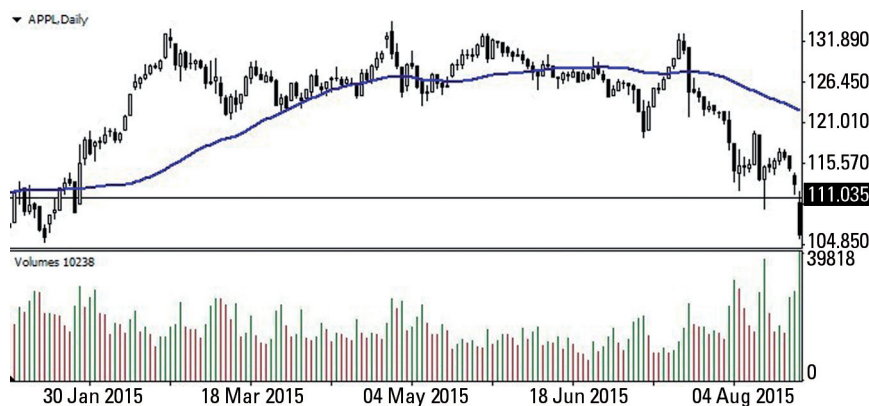
### Volume Signals

Given the significance of institutional trading in today's markets, an efficient way to identify such trading is through volume data, which are readily available. Pure price and technical analysis signals gain in significance when "confirmed" by volume. Traders need to compare the day's volume to its moving average first, in order to get a better idea about its relative size. The most reliable volume-based hints that a market has topped are the following:

Price is falling on heavy, above-average volume. Big volume on a down day implies that some important negative fundamental information hit the wires and institutional investors unloaded their large positions aggressively.

Price moves sideways even though trading volume is heavy. This shows that there are a lot of persistent sellers who limit the market's upside price momentum. A topping market often shows such signs of "distribution" after a prolonged rally. During this market phase, informed investors ("smart money") take advantage of high

#### F3) Topping Signals on Apple



Following a nice uptrend, the Apple share failed three times within a few months to close above its record high (\$134). During the unsuccessful breakout days, price could not hold on to its intraday gains, retraced and closed at the session lows, in the red. In those days, trading volume was significantly higher than average. On 22nd July, price opened with a big gap down and formed an "island reversal" pattern which reversed the one week's gains. A few days later, price broke below its 200-day moving average. There was a negative crossover of the 50-day MA and its 200-day counterpart. The 50-day MA started to act as price resistance, confirming the new downtrend.

Source: Metatrader

#### F4) Topping Signals on DAX



After advancing for more than four years without suffering any major corrections, the DAX exceeded its old record high in the summer of 2007. However, the index marked its largest monthly loss in January 2008. The weak rebound that ensued could not make it to the highs and a ferocious high-volume downmove took place for more than a year. The trader could stay with short positions for as long as the DAX was below crucial moving average levels. Once again price moves preceded fundamental changes.

Source: Metatrader