

INVESTOR'S BUSINESS DAILY®

INVESTOR'S CORNER

Why The Climax Run Is Top Gun Of A Sell Signal; Axon Triggered This Sell Rule



DAVID SAITO-CHUNG | 01:00 PM ET 06/21/2023

It's a warm and fuzzy feeling when your stock, after posting a solid rally, suddenly goes on a tear. Cannabis play **Tilray (TLRY)** gave investors such a sensation several years ago. Yet at some point, you begin to think about when to sell stocks that go on such a hot run.



But how can you tell whether it'll keep going or fall back to earth? IBD offers research-driven, time-proven objective guidelines on **spotting a climax run** on a stock chart.

This is the final advance after a long move up. It's the high point at the very end of the stock's long march higher. The climax run may also occur as a bull market enters its final stages.

In a climax run, the tempo of the stock's rise suddenly speeds up, much like the ending of a much-loved Brahms symphony.

5 Nasdaq Stocks To Buy And Watch Right Now

Climax Top Sell Rule: How It Looks On A Stock Chart

On a chart, at some point the stock's run may look even vertical. That's the time to curb your emotions of greed or glee. Act like a robot: Take the gains and calmly exit the stock.

Anyone can execute this key sell signal if he or she understands that many of the great stock market winners ended their huge price runs this way. Why not sometimes take an offensive stance in your sells when you can?

One key technical characteristic of a climax run is it generally occurs at least 18 weeks after a breakout from a **first- or second-stage base**. So don't call them too early in the rally.

But after those 18 weeks have passed, make sure you're counting bases as well. When a stock has moved out of a later-stage base, the climax run may happen sooner, not later.

When To Sell Stocks: For Some Leaders, This Happens At The Peak

A climax run typically features a rapid price run-up for two or three weeks (or 10 to 15 trading sessions on a daily chart), with usually a 25%-50% gain during that period.

Also on a daily chart, look for something like seven up days in eight sessions, or eight up days over 10 sessions. The stock's run should be white-hot.

In addition, you'll often see a wide trading range as **the stock is staging a climax run**.

"The price spread from the stock's low to its high for the week will almost always be greater than that for any prior week since the beginning of the original move many months ago," wrote William J. O'Neil, IBD's founder and chairman, in his investment classic "How to Make Money in Stocks."

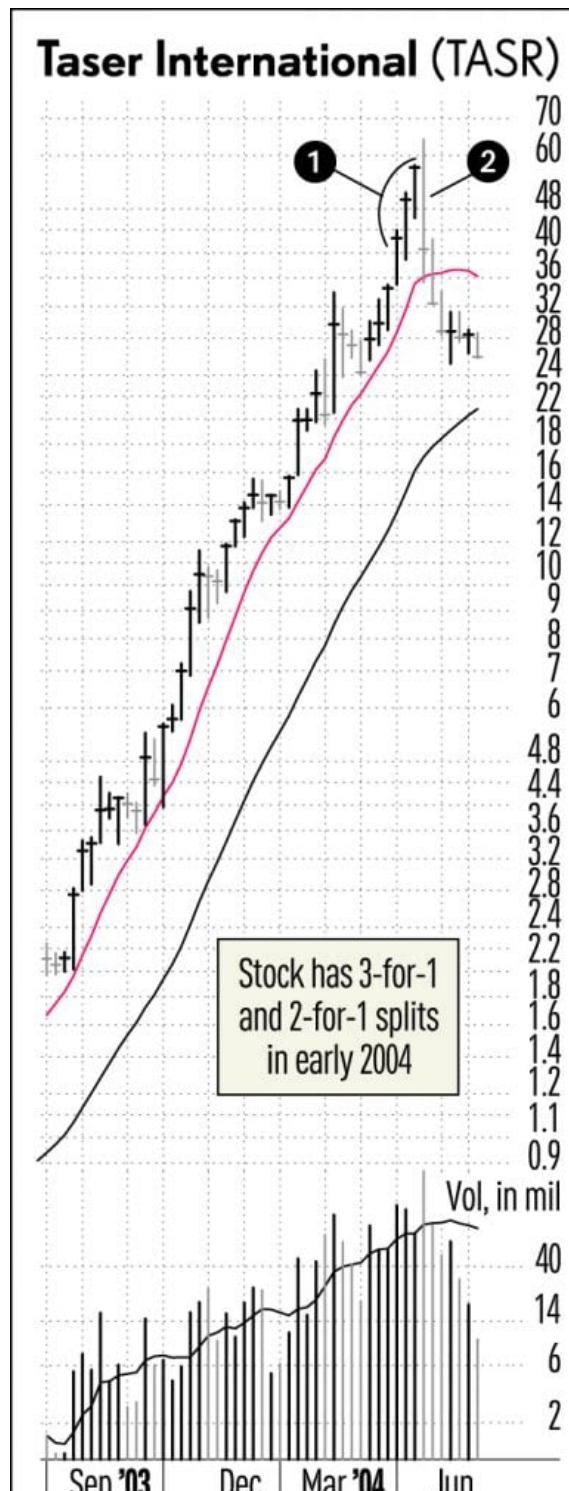
Other indications of a climax run include a stretch to 70% or 100% beyond the 200-day moving average, as well as excessive stock splits. (You can see the 200-day line drawn in black in all **MarketSmith daily charts**.)

Taser International, which changed its name to **Axon Enterprise (AXON)** in the spring of 2017, provided a good example of when to sell stocks for maximum profits. Simply put, Axon surged into what IBD calls a climax run in 2004.

The maker of stun guns got hot in the years following the 9/11 terrorist attacks on New York and the Pentagon in 2001. The stock cleared a big, overly deep base in the summer of 2003 (you can see a customized historical weekly chart at IBD's premium charting service **MarketSmith**). It advanced more than 800% for eight months before showing signs of a climax run.

Climax Run: These Moves Occur

The warning signs included a gain of 65% in the last three up weeks of the stock's big advance. That began during the week ended April 2, 2004, and lasted through April 16 **(1)**.



In the week that the stock actually hit its peak, Axon also showed a huge weekly price spread of almost 29 points, or an astounding 82% (2).

Another troubling development was Axon's excessive stock splits, with a large 3-for-1 split in February 2004 and a 2-for-1 in April. Another 2-for-1 split arrived nearly eight months later.

Axon also got extended more than 100% above its 200-day line. The stock corrected 63% by June that year.

At its April 19, 2004, peak, the stock scored a maximum 99 Composite Rating on **Stock Checkup**. Its RS Rating was also the best possible at 99. Yet these two specific ratings do not help you determine when to sell stocks at the right moment. The chart offers you the most timely signal to nail down maximum gains.

In July of 2015, the market leader briefly eclipsed its all-time highs set in May 2004 and January 2015, but then dived hard again. At one point, shares plunged 62% from a peak of 35.95 to a low of 13.56.

A version of this column was originally published in the April 29, 2013, edition of IBD.

Please follow Saito-Chung on Twitter at both @SaitoChung and @IBD_DChung for more on growth stocks, chart analysis, buy points, sell signals, and financial markets.

YOU MIGHT ALSO LIKE:

When To Sell Stocks: Why New Highs In Low Turnover Trigger A Key Signal

Can You Spot The Next Major Market Top? Yes, Here's The Easy Way

How Technical Analysis And Fundamental Analysis Differ, And Why You Need Both To Win At Growth Stocks