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# Do You Know How To Count Bases In Top Stocks? Do It To Assess Risk

**ALAN R. ELLIOTT** | 08:00 AM ET 05/17/2022

As a growth stock investor, do you know how to count bases that top stocks rack up before they tend to run out of steam? Do you recognize when a **leading stock market winner resets its base count**? If not, here's a review.


Leading stocks normally form and break out of more than one **base** in the course of a long-term advance. Keeping track of these bases is important because the first couple of bases tend to produce much larger gains than third, fourth or later bases. In fact, most fourth-stage bases fail.

**First-stage bases** can form after an IPO, after a **market correction**, or after a major decline in the stock of, say, a year or longer.

Once you've identified each base — **flat bases, cups with handles and other types** — check how much the stock climbs from its **buy points**. As long as the stock rises more than 20% from the buy point to its next bases, count that as a new, separate base.



True market leaders often generate follow-up or add-on buy opportunities as they move between bases. These might include **three-weeks-tight patterns** or **pullbacks to their 10-week moving averages**. These don't affect your measure of a base-to-base advance.

### How To Count Bases In Top Stocks: When 2 Equals 1

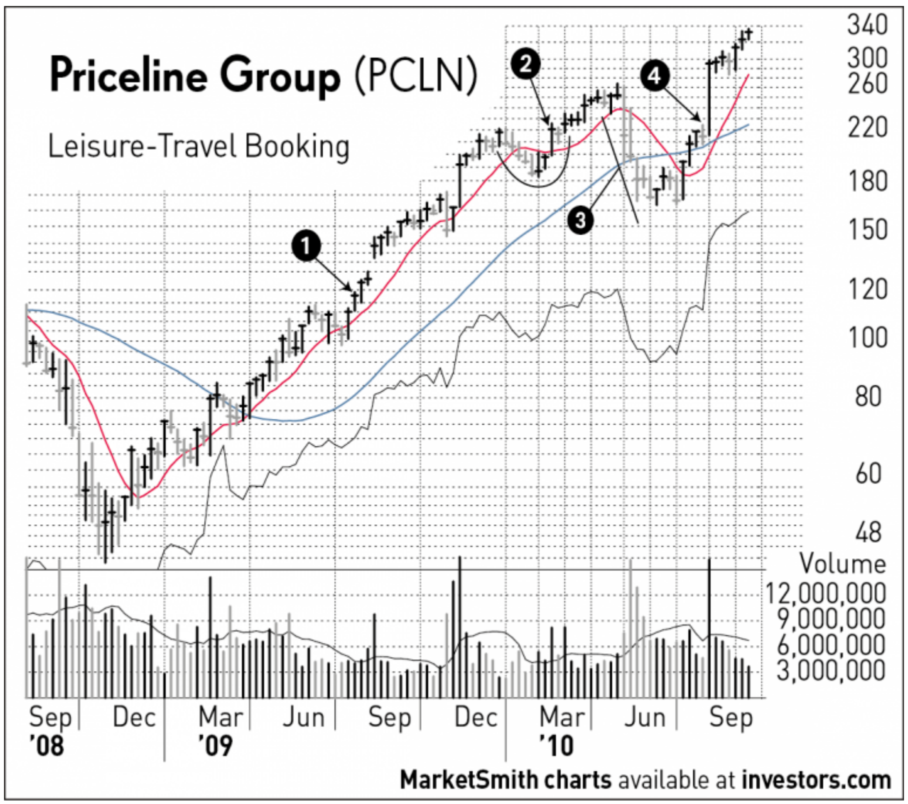
Sometimes top stocks don't log a 20% climb between bases. In this case, the paired consolidations might be considered a **base-on-base pattern**. These count as a single stage in your base count.

If and when a stock reaches a third-stage base, it is typically starting to run out of steam. IBD research shows the success rate for breakouts from third-stage bases is around 67%. The failure rate climbs to 80% for fourth-stage bases.

Stocks sometimes plateau after their third- or fourth-stage base levels. They can also turn down and slide into steep, long-term declines.

## How To Count Bases: Booking And Its Superb Stock run

**Booking Holdings** (**BKNG**), formerly known as Priceline Group, provides valuable lessons in its big run after the major market bottom in 2009. The online travel agent went into a severe decline during the 2008 bear market, falling as much as 69% from its peak of 144.34.




Booking bottomed ahead of the general market in October 2008. It rallied sharply in the first half of 2009, as the market followed through in March of that year, then bolted past a **six-week handle** on its long cup base to 52-week highs in July **(1)**. This was the first breakout.

The stock advanced 94% from its 119.24 buy point, then formed a second-stage cup base in January and February of 2010 **(2)**. It snapped out of that base in huge trade Feb. 18. Booking briefly slipped 5% below its 231.59 buy point, but that **did not trigger a loss-cutting sell signal**.

## How Top Stocks Reset The Base Count

The Nasdaq big cap resumed its rally with two high-volume up days on March 1 and 2. After an 18% climb in May, the stock fell 37% and undercut the low of the most recent base **(3)**. Any time a stock undercuts its prior base, it **resets the base count**. That is, the next base can be treated as a first-stage base.

The stock formed a **narrow handle** with a 234.55 **buy point (4)**. It hurtled out of that new, first-stage base in four days of massive trade in early August. Booking announced an outstanding second quarter, as earnings per share grew 53% on a 27% bump-up in revenue.

By May 2011, the stock went on to rally 139% from the latest **proper entry** and begin its next basing effort.

*A version of this article originally published in the Sept. 23, 2010, edition of IBD. Follow Elliott on Twitter:* ***@IBD_Aelliott****.*

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