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Sell Rules For Growth Stocks: Use A Climax Top To Convert Paper Gains Into Real Profits



SCOTT LEHTONEN | 08:15 PM ET 09/04/2019

Do you keep a list of **excellent sell rules** for growth stocks?

<https://www.investors.com/how-to-invest/investors-corner/sell-rules-using-climax-top-convert-paper-gains-real-profits/>

While it's easy to bask in the glory of an ongoing successful trade, savvy investors know that the trade isn't over until the paper gains have been converted into realized gains.

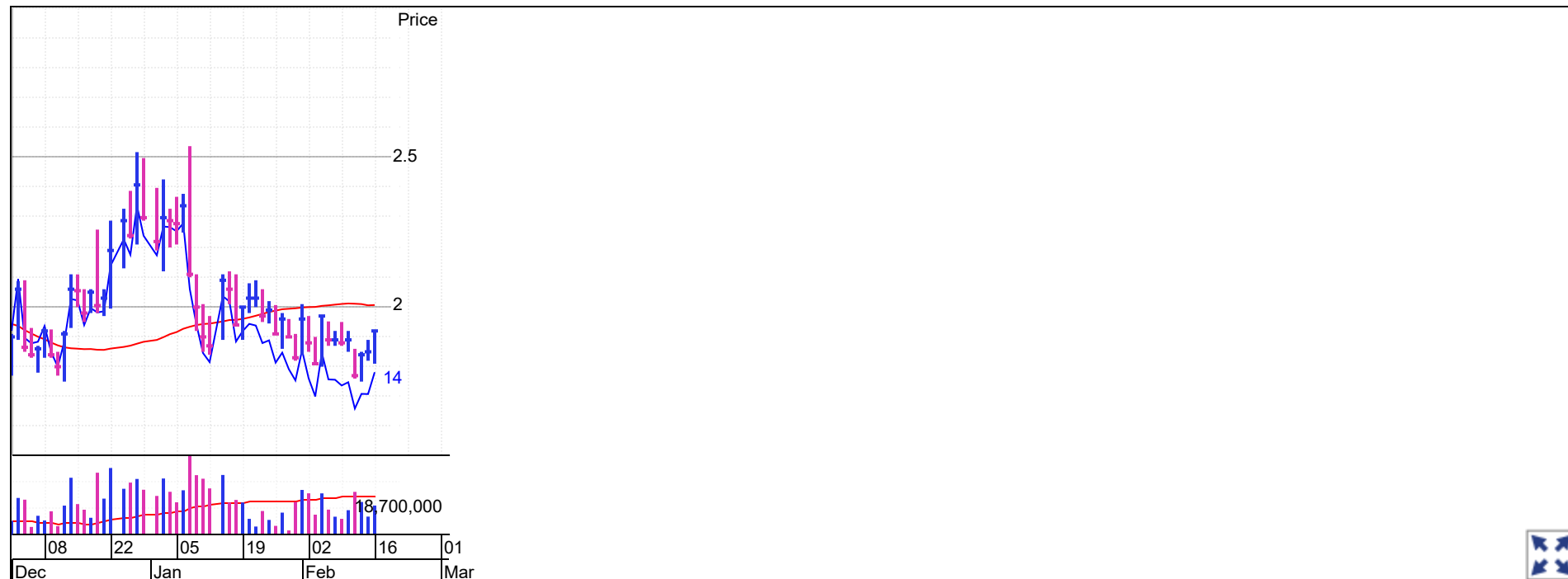


The action in marijuana play **Tilray (TLRY)** offers the latest example. Through Wednesday's close, Tilray gained as much as 175% over a three-day span after breaking out of a **narrow IPO base** with a 34.20 buy point on Aug. 20.

These savvy investors are always on the lookout to lock in those gains when the going is *too good* to be sustainable. The ability to lock in gains on the upside is a key asset at an investor's disposal.

Tilray Brands (TLRY)

\$1.92 0.07 ↑ 3.78%



02/16/2024 (Market Close)

A climax top is a rare **sell signal** that a **leading growth stock** is overheated and may be in the process of topping. This signal allows investors to lock-in hard fought gains on the upside, while the stock is still advancing.

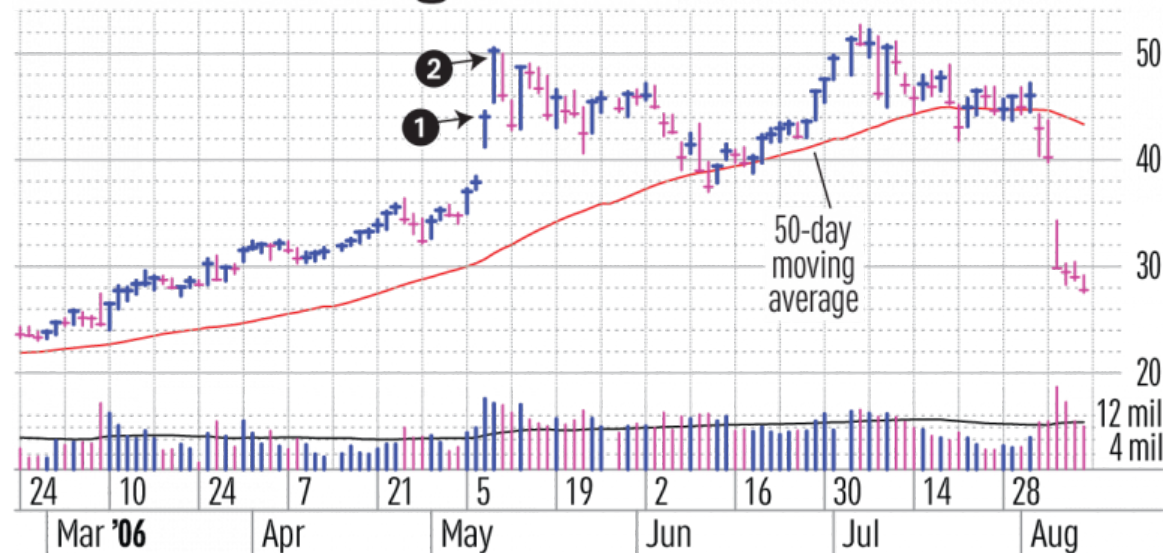
The ability to discern these signals — and more importantly heed them — can separate the great investors from the good ones.

A Monster Stock Run

Hansen's Natural — now **Monster Beverage (MNST)** — triggered a number of climax top signals in May 2006 at the end of a long and profitable move that began in July 2003.

IBD's **MarketSmith** allows users to change the date and go back in time to study the price and volume action of former model book winners that are still active today. Simply use the Change Date feature located at the top of the MarketSmith research tool.

Monster Beverage (MNST)



Shares of the energy drink, juice and soda marketer blasted out of a short consolidation on May 5. Two days later, the stock's first exhaustion gap appeared as Monster rose 16% **(1)**.

An **exhaustion gap** occurs at the end of a long price move when the low of the day is above the high of the previous trading day, creating a gap in the chart's price action.

Big Paper Gains? Watch For

Exhaustion Buying

The next day gave investors another exhaustion gap, as the stock surged another 14% and posted the largest one-day point gain **(2)** since the start of the move. Over that four day period, the stock would advance 45% to end up 92% above the most recent buy point — a 26.30 **cup-shaped base** entry.

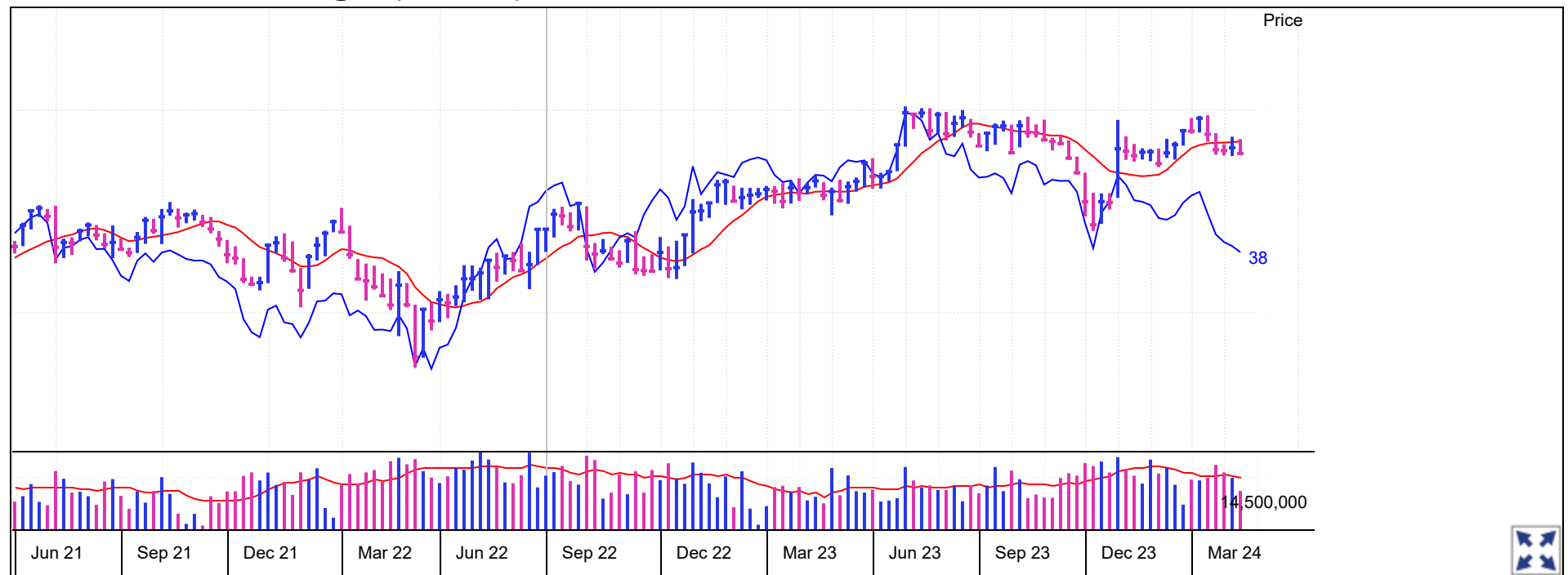
That week was the stock's widest weekly price spread since the beginning of the move, another common signal shared by many climax runs.

After climaxing, the stock would go on to form an improper base and break out on July 5, 2006. Three days later, the stock plunged 9% after the company's excessive 4-1 stock split — another potential sell signal — went into effect, less than one year after its 2-1 split.

The stock would go on to fall almost 50% over the next month.

Monster Beverage (MNST)

\$55.02 0.64 ↓ 1.15%



02/16/2024 (Market Close)

It would be more than a year later before the stock would briefly trade again at record highs.

A version of this column was first published on Aug. 9, 2018.

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