Measured Move - Bearish (Continuation)

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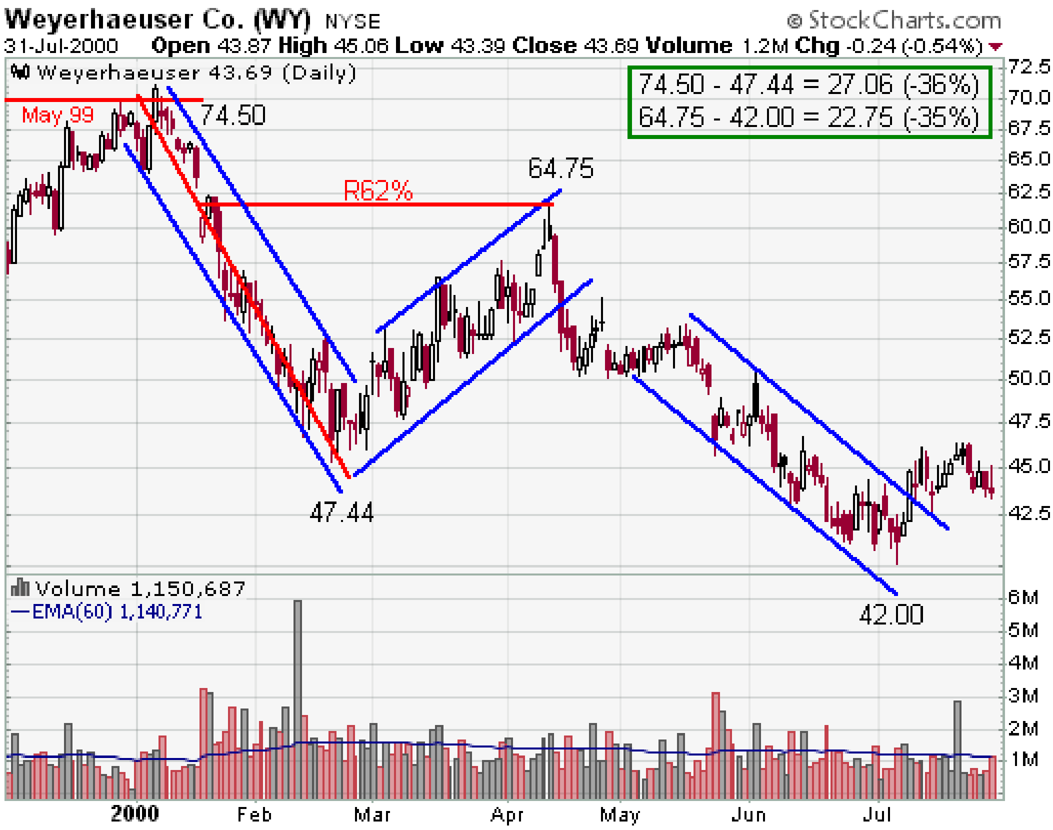
The Measured Move is a three-part formation that begins as a reversal pattern and resumes as a continuation pattern. The Bearish Measured Move consists of a **reversal decline, consolidation/retracement and continuation decline.** Because the Bearish Measured Move cannot be confirmed until after the consolidation/retracement period, it is categorized as a continuation pattern. The pattern is usually long-term and forms over several months.



1. **Prior Trend:** For the first decline to qualify as a reversal, there must be evidence of a prior uptrend to reverse. Because the Bearish Measured Move can occur as part of a larger advance, the length and severity of the prior decline may vary from a few weeks to many months.

2. **Reversal Decline:** The first decline usually begins near the established highs of the previous advance and extends for a few weeks or many months. Sometimes this reversal pattern can mark the initial trend change, other times a new downtrend is established by new reaction lows or a break below support. Ideally, the decline is fairly orderly and lengthy with a series of declining peaks and troughs that may form a price channel. Less erratic declines are satisfactory, but run the risk of turning into a different pattern.

3. **Consolidation/Retracement:** After an extended decline, some sort of consolidation or retracement can be expected. As a retracement rally (or reaction rally), prices could recoup 33% to 67% of the previous decline. Generally speaking, the bigger the

decline is, the bigger the reaction rally. Some retracement formations might include an upward sloping flag or rising wedge. If the formation turns out to be a consolidation, then a continuation pattern such as a rectangle or descending triangle could form.

4. **Continuation Decline - Length:** The distance from the high to the low of the first decline can be applied to the high of the consolidation/retracement to estimate the length of the next decline. Some technicians like to measure by points, others in percentage terms. If a security declines from 60 to 40 (20 points) and the consolidation/retracement rally returns the security to 50, then 30 would be the target of the second decline (50 - 20 = 30). Using the percentage method, the decline from 60 to 40 would be -33% and projected decline from 50 would be 16.50. (50 X 33% = 16.50 : 50 - 16.5 = 33.50). Deciding which method to use will depend on the individual security and your analysis preferences.

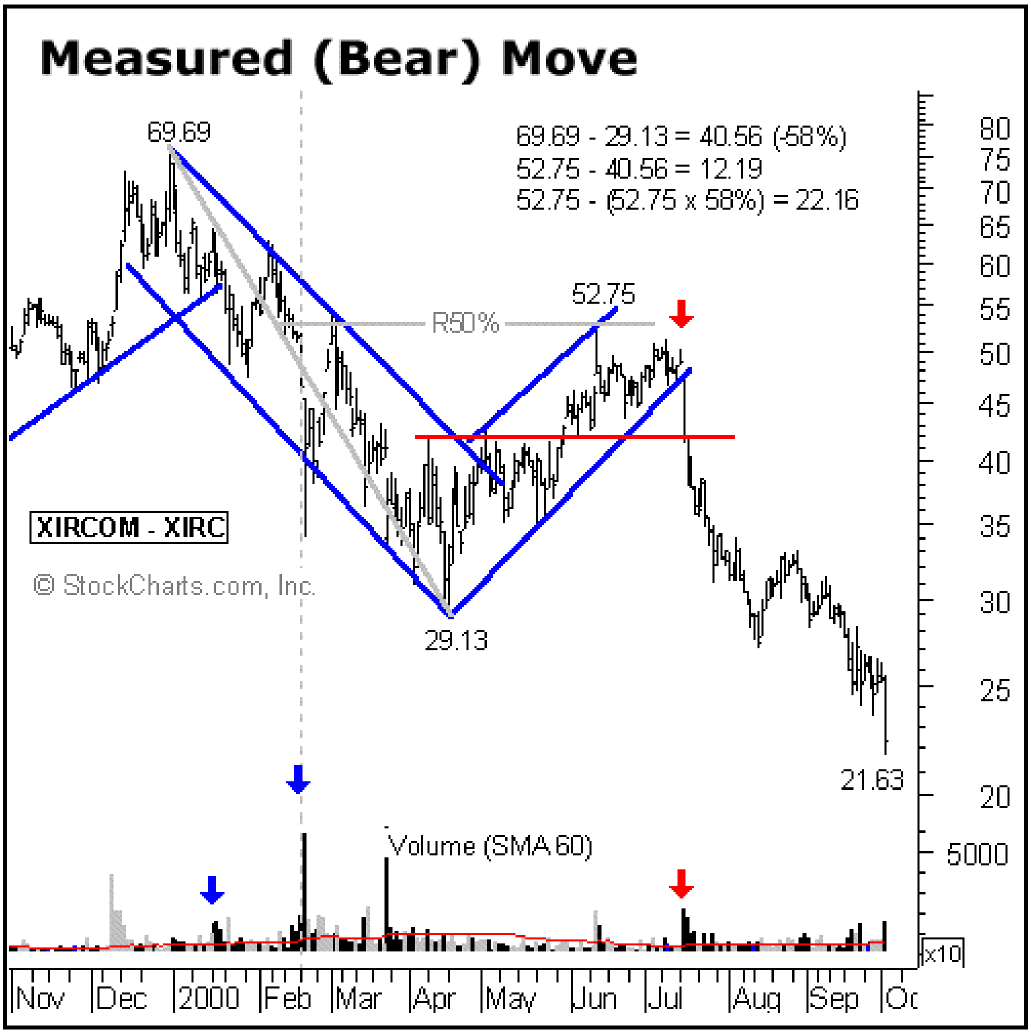
5. **Continuation Decline - Entry:** If the consolidation/retracement forms a continuation pattern, then an appropriate second leg entry point can be identified using traditional technical analysis rules. However, if there is no readily identifiable pattern, then some other signal must be sought. In this case, much will depend on your trading preferences, objectives, risk tolerance and time horizon. One method might be to measure potential retracements (33%, 50% or 62%) and look for short-term reversal patterns. Another method might be to look for a break below the reaction low set by the first decline as confirmation of continuation. This method would make for a late entry, but the Measured (bear) Move pattern would be confirmed.

6. **Volume:** Volume should increase during the reversal decline, decrease at the end of the consolidation/retracement and increase again during the continuation decline. This is the ideal volume pattern, but volume confirmation is not as important for bearish patterns as it is for bullish patterns.

More than one pattern can exist within the context of a Bearish Measured Move. A double top could mark the first reversal and decline, a price channel could form during this decline, a descending triangle could mark the consolidation and another price channel could form during the continuation decline.

During multi-year bear markets (or bull markets), a series of Bearish Measured Moves can form. A bear move consisting of three down legs might include a reversal and decline for the first leg, a retracement, a decline for the second leg, a retracement and finally the third leg decline.

While the projection targets for the continuation decline can be helpful, they should only be used as rough guidelines. Securities can overshoot their targets, but also fall short. Technical assessments should be ongoing.



As illustrated in the XIRCOM (XIRC) chart above, the second decline of a Bearish Measured Move may not be as orderly as the first, especially when volatile stocks are involved.

- **Prior Trend:** After a multi-year bull move, XIRC reached its all-time high at 69.69 on 31-Dec-99.
- **Reversal Decline:** The stock broke trend line support in Jan-00 and a lower low was recorded when the stock dropped below 45 in Feb-00. The decline took the stock to 29.13 in Apr-00 for a total of 40.56 points down.
- **Consolidation/Correction:** In April, May, and June, the stock recouped about 50% of its previous decline with a retracement rally to 52.75. Including the spike high at 52.75, a parallel price channel formed (resembling a large flag) with support marked by the lower trend line. Excluding the spike high, the interpretation could have been a rising wedge. Either way, support was marked by the lower trend line.
- **Continuation Decline - Length:** The estimated length of the continuation decline was 40.56 points from the June high at 52.75, which would target 12.19. Percentage estimates can sometimes be more applicable to Measured (Bear) Moves, especially if the target appears unusually low. The decline from 69.69 to 29.13 was 58%. A 58% decline from 52.75 would mark a target around 22.16 (52.75 x .58 = 30.59 : 52.75 - 30.59 = 22.16).
- **Continuation Decline - Entry:** Because the consolidation/retracement portion

formed a continuation pattern, entry could have been based on a break below the support trend line (red arrows).

- **Volume:** Volume increased just prior to the trend line support break in Jan-00 and again when the stock broke below its previous reaction low (blue arrows). Later when the stock broke trend line support in July, volume also increased significantly (red arrows).