When a Price Acceleration is a Bullish Indicator of Higher Prices

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Price accelerations that occur after a stock has already made a large advance often indicate that a trend is ending.

However, sometimes it's important to put a price acceleration into the proper context before declaring that a stock's run is over.

Specifically, a price acceleration should be compared to the **market averages** and if possible, the **price action of peer stocks** related to the stock in question.

Why is this recommended?

Because, the **most bullish type of price acceleration occurs when an outperforming stock gets an added boost from an emerging market uptrend that includes peer base breakouts**.

If you see a price acceleration that's caused by these specific market dynamics, look for a stock's uptrend to continue to press higher.

Let's go through a historical example that helps demonstrate this exact scenario.

Smithfield Foods (SFD): 1990-1991 Market Leader

The **1989-1990 Bear Market** was a severe market decline.

The **Nasdaq fell 34% in 12 months** before bottoming on October 12, 1990.

Smithfield Foods (SFD) was an early leader off the October 1990 bottom.

SFD broke out of a 15-week base on October 22, 1990 (see chart 1, page 3), which was only 10 days after the market's bottom.

By early January 1991, SFD was already up nearly 50% in 11 weeks compared to the market's 9% gain (see chart 2, page 4).

Then, within the span of 5 weeks, SFD surged 60% (see chart 3, page 5).

On the surface, it appeared as if SFD was entering into a price acceleration phase, which is typically a warning sign that precedes tops.

But SFD's price acceleration was caused by one very powerful force, an emerging market uptrend that was gathering steam on the back of numerous base breakouts.

During SFD's 5-week sprint, the Nasdaq rocketed 24% in what was a very steep climb out of its lows (see chart 4, page 6).

Software, Semiconductor, Retail and Financial stocks were breaking out and providing solid leadership for the market (see charts 5-8, pages 7-10).

Those groups are all early cycle movers, a bullish sign for the market.

SFD Peers Add More Fuel to the Fire

In addition to the mentioned stock groups, several peers of SFD were also busting out of bases when SFD's uptrend accelerated 60% in 5 weeks.

This was very bullish price action and another factor that argued against a top in SFD due to a **price acceleration** (change of character).

Here are some of the **peer base breakouts** that added confirmation to SFD's move:

- **Mccormick** (MKC) broke out of a 29-week base for the week ending 01/18/91 (see chart 9, page 11).
- **Campbell Soup** (CPB) followed-through on a marginal breakout of a 31-week base during the week ending 02/01/91 (see chart 10, page 12).
- **Tyson Foods** (TSN) came out of a 35-week base for the week ending 02/08/91 (see chart 11, page 13).

SFD would go up another 75% before topping out in October 1991 (260% from its base).

So there you have it.

Two powerful, market-related forces (a new market uptrend and peer base breakouts) that can help you make a better and more educated decision.

Do you see the value in looking at the big picture before calling a top in a stock?

Sometimes a stock will break out ahead of the market and grind higher while the market isn't doing much.

Then, when the market gets going for real, many outperformers will accelerate once the negatives that have held the market back are removed from the picture.

Here are three (3) questions that may help you use market context in your evaluation of a price acceleration:

1. **Did the stock in question break out before the market and show superior relative strength?**
2. **Is the market uptrend in the early, mid or late stages of its advance?**
3. **Are there other peer stocks involved in the move? If so, are they extended from their bases or are they early in their run?**

Please >>CLICK HERE<< **for the charts of Smithfield Foods (SFD) and related stocks during 1990-1991**.

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