

Using Sector Leadership to Anticipate Base Breakouts

by Erik Grywalski

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Note: The following lesson is meant to **help you learn from the market** and **does not serve as investment advice** for any specific group or individual. For more information, **please read the [HSR Terms of Use](#)**.

This historical review will **help you anticipate base breakouts in individual stocks by using sector leadership as an early (leading) indicator**.

Please don't confuse this for predicting where a stock is going.

That's not my intention with this lesson.

I used to follow a professional trader who often said that you should **"anticipate to participate."**

I believe this is true because anticipating is about being prepared for something *if it happens* and is not about being inflexible/sure about where a stock is going.

Being inflexible (predicting) is not beneficial in the market because you refuse to change when the market/stock changes.

You'll certainly have instances where price doesn't follow-through and act normal, but that's inevitable and a good reason to clearly define your risk before entering the market.

As a stock investor, you should expect that **something will happen**, but not necessarily assume that the ultimate outcome will always be bullish (base breakout and trend higher).

Why is this a good idea?

Mainly because when we assume (predict) that something will happen, we have the potential to get disappointed if the result is not what we expected.

I'm getting into too much [psychology](#) and that is not the focus of this lesson (or this site), but I wanted to be sure that you understand my use of the word **anticipate**.

This really comes down to **improving or heightening your attention to detail using market facts**, which is one of the benefits of [historicalstockresearch.com](#).

There are three (3) technical factors that can help you anticipate base breakouts:

1.) Sector Leadership - A pattern of stocks breaking out of bases from the same sector/industry group.

Note: It's common for stocks in the **same sector/group** to follow each other. If one stock breaks out of a base, other members may follow. The bigger the sector/group, the more evidence you'll have in your favor.

2.) Market Condition - Definitive market uptrend or upside bias to the stock market.

Note: **A clear market uptrend is desirable**, but may not always be present. Instead, an **upside bias should exist** and the only way to find this is to review individual stock charts to determine the market's tone.

3.) Specific Price Behavior in a Mature Base - A fellow sector/group member showing [Right Side Curl with Reaccumulation](#).

Note: I wrote more about this price behavior [here](#).

Numbers 1 and 2 don't have to be in order, but **#3 should come last and use 1 & 2 as points of strength**.

Historical Example: [1997 Energy Stock Leadership and Market Uptrend Preceded a Breakout in Cabot Oil & Gas \(COG\)](#)

1.) Sector Leadership - For 2 months, energy stocks were breaking out of bases as the market got stronger coming out of its early Spring Correction of 1997.

This was an important clue to notice for COG (an energy stock).

Please take a look at these market facts:

WeatherFord (WFT) - Broke out of a base on the week ending 04/25/97 (see chart 1, page 3).

National Oilwell Varco (NOV) - Broke out of a base on the week ending 05/02/97 (see chart 2, page 4).

Patterson Energy (PTEN) - Broke out of a base on the week ending 05/02/97 (see chart 3, page 5).

Key Energy Services (KEG) - Broke out of a base on the week ending 05/16/97 (see chart 4, page 6).

Cameron International (CAM) - Broke out of a base on the week ending 05/16/97 (see chart 5, page 7).

Helmerich & Payne (HP) - Broke out of a base on the week ending 06/06/97 (see chart 6, page 8).

That's six (6) stocks from the energy sector and definitive proof that the market liked the prospects for energy.

By the time COG broke out (early August), **most stocks mentioned above were already up 45%-100% and exhibiting strong market leadership.**

2.) Market Condition - The market was up 23% from its April low and in a clear uptrend when COG showed Right Side Curl with Reaccumulation in late June 1997.

In addition to the sector/group breakouts, a vibrant market uptrend provided a second point of strength when COG flashed Right Side Curl with Reaccumulation in late June (see chart 7, page 9).

3.) Specific Price Behavior in a Mature Base - Cabot Oil & Gas (COG) exhibited Right Side Curl with Reaccumulation in late June 1997.

In its base, Cabot Oil & Gas (COG) found support at a price range where you may see accumulation because of [prior demand](#). COG also retraced to an important moving average (40 Week EMA).

For the week ending 07/04/97, COG moved above the high of its reaccumulation week (see chart 8, page 10) and began to move out of its base.

Cabot Oil & Gas (COG) broke out of a base on the week ending 08/01/97 (see chart 8, page 10).

COG ran up 30% from its August breakout before topping and rolling over 60%.

In late 1997, the **Asian Financial Crisis** hit oil prices and eventually, the US Market.

As a result, most energy stocks took a beating and fell hard.

Sometimes a stock will break out late in a market uptrend and won't accumulate large gains because the market turns down.

This appears to have happened to COG and other stocks.

I have more historical examples of using sector leadership to anticipate base breakouts and may feature them later.

Please [>>>CLICK HERE<<](#) for the charts of the Energy Stocks and Cabot Oil & Gas (COG) in 1997.