

Accumulation

Accumulation is a process through which the SM acquires a large quantity of the stock at the lowest possible price. Accumulation is a subtle, sophisticated and sly process of cornering a huge quantity of the stock that makes the following phases possible and worthwhile. Once a large quantity has been absorbed the number of floating stock reduces and the demand increases. This makes possible the next phase Markup.

Accumulation normally takes place in congestion areas. Congestion areas are mostly sideways range bound movements where the stock appears to have no interest to either move up or move down. The SM ensures that the stock is contained below a certain upper level which is the supply area. At the same time the SM also supports the prices above a certain lower line which is the support area. The stock moves within an upper resistance or supply area and a lower support area.

The congestion areas are characterized by Indecision. One of the most important characters of congestion areas is the Low Volume. When most traders are bullish or bearish the volume is high. Low volumes indicate indecision among the traders on bullishness and bearishness.

Ah.. Sounds easy..... Well the problem is that congestion areas are seen in both accumulation areas as well as Distribution areas oh , Well that is not the only problem..... There will be periods where no one seems to be interested in the stock... the pattern of price movement most of time very similar to the congestion pattern.....

So the naturally the question is how one would ascertain if the pattern is really accumulation in progress..... A little later on this and other congestion patterns.....

So the question was ...How one checks if the congestion area is really an accumulation area.

There are a few things to lookout for..

- First, the indecision should be quite visible. In other words the volume should be low and quite. No huge volume upsurges. Even if the volume is relatively higher the range between up day volumes and down day volume should be narrow.
- Second, the spread of the bars (High – Low) should be narrow.
- Third, the volume should shrink near the support line and expand near the resistance line.
- Fourth, the stock should be trading in a range for some weeks if not months.

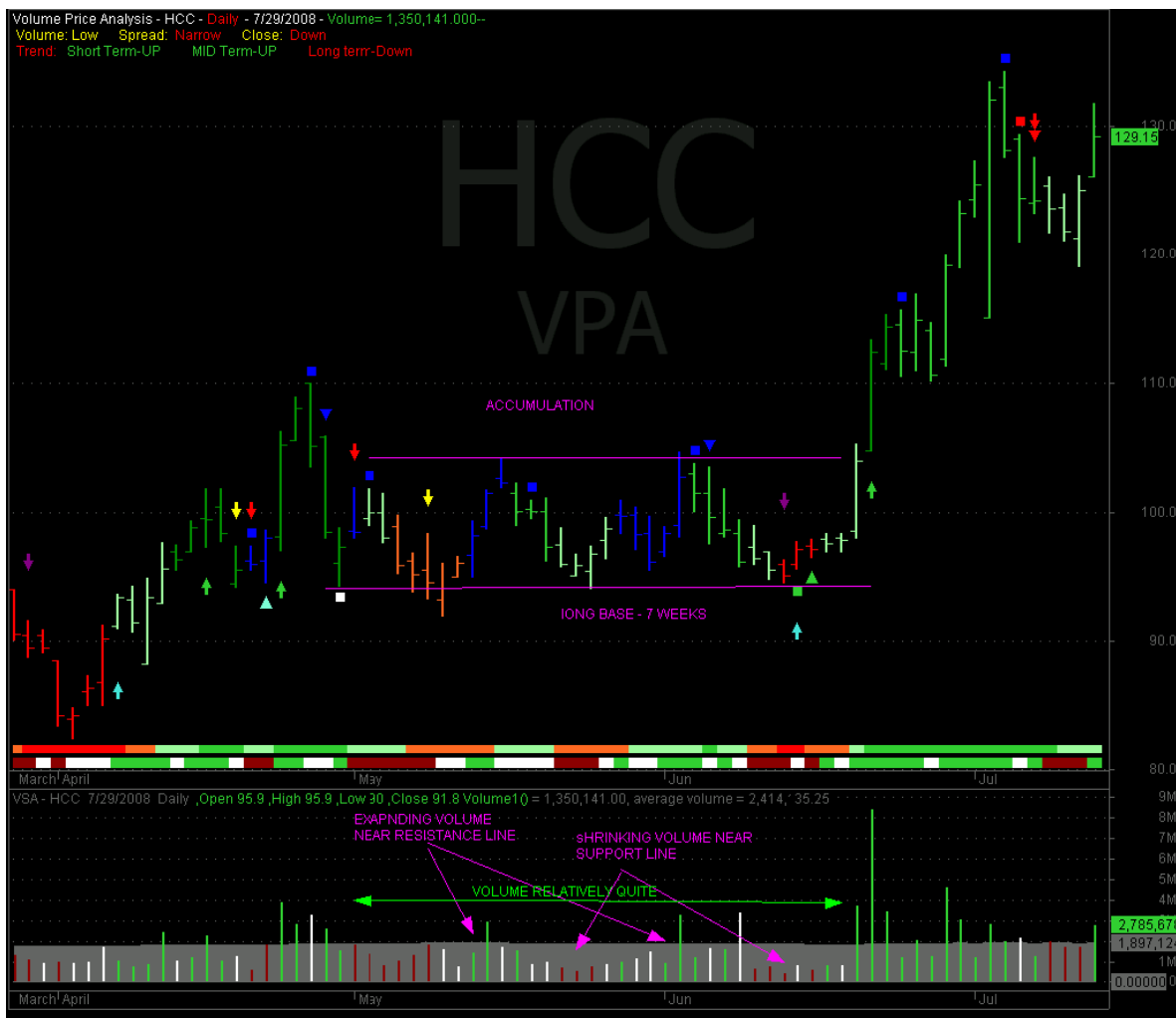
Also you may see some shakeouts in the trading range. The SM would temporarily drive down the prices below the support line in order to takeout the stop losses and panic the weak hands into selling. You will see the stock bounces back above the support line immediately. By this process the SM is shaking out the weak money from the stock. For most of us it is just a failed breakout. Sometime the stock instead of bouncing

back would continue to drop if there was too much supply. So trading these breakouts could be tricky.

Also it would a good sign if the stocks trading range is much above the support line.

Normally we would see some of the above signs if not all in the accumulation area. There are many other patterns which signify accumulation. Some of them are rounding bottoms, reverse head and shoulder and double bottoms (or "W") patterns. Each could be explained in terms of SM activity. However we would go into the details now. One thing to keep in mind when evaluating patterns is that it is very important to check the volume pattern as well.

For an example we will look at the chart of HCC where a clear accumulation indication was seen June 2007



A few points about the congestion zone we are looking at for signs of accumulation. It is important to look at the history of the stock prior to the congestion area. A few things to look out for....

Has the stock gone through a cycle of accumulation, markup, distribution and arkdown previously? Were there signs of a selling climax just prior to the congestion? If so, the SM are really looking out for making another round.

Or the stock has been languishing aimlessly prior to the congestion zone you are looking at. If so, this area you are looking at is not accumulation at all.

Was the stock enjoying an uptrend prior to the congestion? If so, this could be a re-accumulation going on here.

Was the stock undergoing a minor down trend (after an up move) prior to the congestion? Was there a downtrend without selling climax? Then this could mean there is re-distribution in progress and it may be advisable to look out for sign of distribution.

