

"How To Pick Stocks During A Recession... And Still Profit!"

Greetings!

In this issue, it's **back to the basics**. I'm dusting off the cobwebs on the **Three-Step Set-up**.

I'll show you how to **find potentially profitable stocks** using free stock trading tools found online **quickly and easily**.

Let's get started!

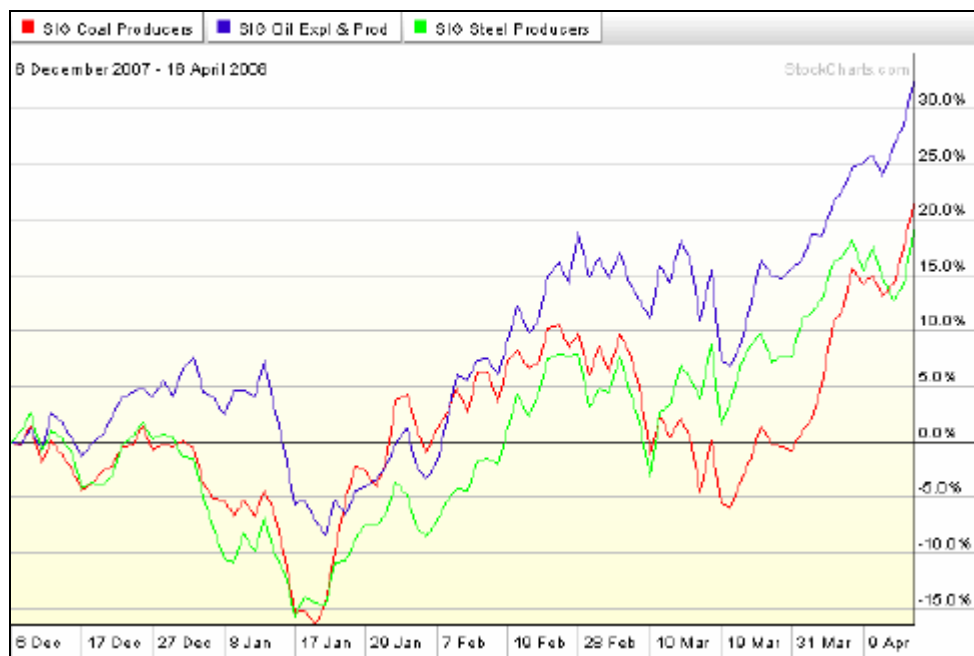
Market Sectors

1 Determine the strongest stock sector.

Start your search at StockCharts.com. Under **Tools & Charts** select the option for **PerfCharts**.

In this example, I selected three sectors that have been strong in the past: **Coal Producers**, **Oil Exploration & Production** and **Steel Producers**.

The following chart represents their **relative performance** for the last 90 days.



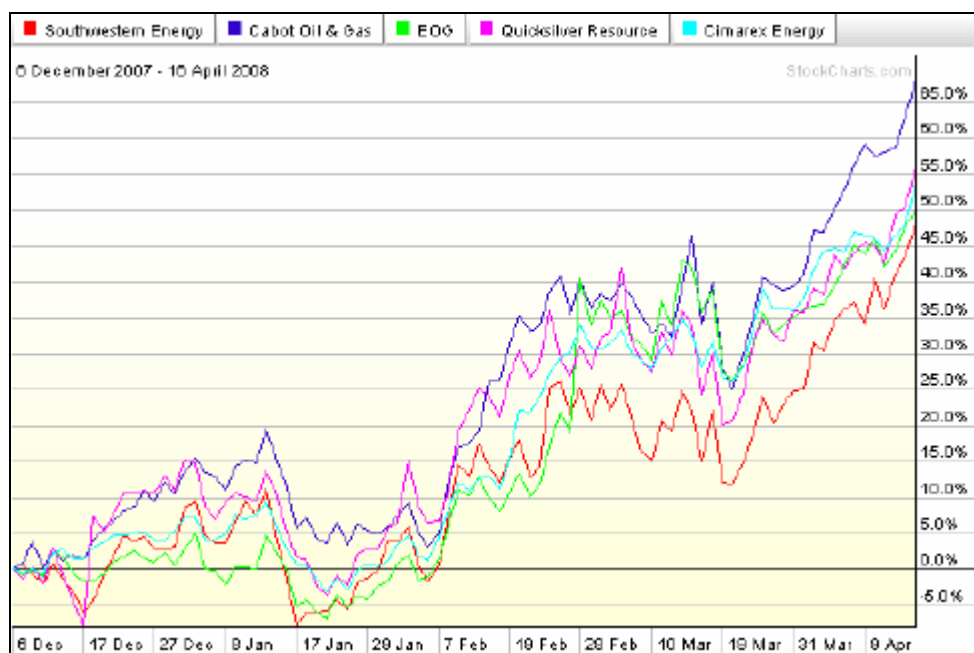
It's no surprise the **Oil Exploration & Production** sector is leading with a hefty **30%+ gain**.

We'll go with this sector.

2 Select the strongest stocks in the sector.

Next, we need to **compare the component stocks** of the sector. There are 21 stocks which make up the Oil Exploration & Production index.

For a clearer chart, I'm showing the **top five, only**.



Again, there is an obvious front-runner... **Cabot Oil & Gas Corp. (COG)**.

Featured Chart

3 Apply technical analysis to determine entry and exit strategies.

Now, it's time to look at the **stock chart**.

Under **Tools**, select **SharpCharts**. Enter the **ticker symbol COG** and click **Go**.

I modified the default settings adding three **exponential moving averages (EMA)**, a **trend line** and **Wilder's DMI (ADX)**. The **MACD** is included, already.

Below is my modified **daily stock chart**...



Let's look at each indicator, individually.

1. I added a trend line to **define the current dominant trend**. We're looking at a **moderate up-trend** since the angle of the line is **less than 45 degrees**.
2. Next, the **MACD** is a close representation of my **Trend Oscillator** indicator. In the beginning of April it had a **positive cross to the up-side**.
3. **Wilder's DMI (ADX)** is an excellent indicator for **determining the strength of the trend**. It shows the **potential for trend continuation**.

The ADX has **crossed above 25 (3a)** signaling new strength. The **DMI + (3b) is breaking above old highs...** another sign of strength.

Use the ADX as a **Go/No-Go signal** for taking the trade.

4. Finally, I added the **8, 13 and 21-period EMAs** to help in trade entry. Notice the time periods are **Fibonacci** numbers.

Use **pull-backs to the EMAs as entry signals (4a)**. We might have entered a trade on April 14th.

Trade entry and **profit potential** for **COG** are good. Price **support is near \$58**.

Be careful... when the **ADX turns down**, it's time to look for another stock to trade.



The **Three Step Set-up** is the best way to reduce a large number of stocks into a **tradable list**.

And... with **free online trading tools** you can have your list **easily and quickly**.

Let me know your thoughts. I'd like to read your [feedback](#).

Until next time...

Good trading,

Russ Schmidt, Editor
Chart Wealth



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