

Should You Buy a Stock Trading at Its Bottom?

This question frequently arises among investors who see a stock trading at significantly low levels – sometimes 30%, 40%, or even 50% off its peak. It becomes especially tempting when the stock is already on their watchlist, and they feel they missed an earlier opportunity to buy. Let's dive into the details with an example.

Take a look at the chart of **OXY (Occidental Petroleum)**. The stock has been in a clear downtrend since April 2024, when it reached a high of \$70.30. At first glance, it may look like an irresistible opportunity. However, OXY has a strong downward momentum. Each time the stock bounces, it faces **overhead supply (resistance)** and drops further – a phenomenon known as a “**Dead Cat Bounce**.” This pattern often frustrates investors and can lead to substantial losses.



So, when is the right time to buy a stock like this?

The first step is identifying the **trend**. In the above chart:

- The stock is in a **downtrend** with downward momentum, illustrated by the large arrow and the expanding **Bollinger Bands** (pink lines).
- Unless this trend is broken, the stock will likely absorb buyers at the bottom, only to continue its downward trajectory until it finds **long-term support**, or a **key catalyst** changes the momentum.

A potential reversal could occur when a significant event takes place, such as:

- Positive earnings reports or future guidance
- A major change in market/sector sentiment
- Introduction of a new product or service

But how can you confirm that the downtrend has reversed? Let's analyze the chart using **Moving Averages** and the **PPO (Price Percent Oscillator)** indicator.

Key conditions to watch for reversal:

1. **Stock Price Above Its 200-Day EMA (Point #1):** The price must break above the 200-day Exponential Moving Average (EMA).
2. **200-Day EMA Turns Upward:** This indicates a shift in long-term direction.
3. **20-Day EMA Above the 50-Day EMA:** A short-term bullish signal.
4. **50-Day EMA Above the 200-Day EMA:** A medium-term confirmation of upward momentum.
5. **PPO (Black Line) Above the PPO Signal Line (Red):**
 - PPO must turn **positive** (above zero) and slope upward (Point #2 on the chart).

When all these conditions align, the downtrend has reversed into an upward trend, and momentum will likely drive the stock higher. In OXY's case, once the stock consolidated and fulfilled these conditions, it quickly moved from \$60 to \$70.

The importance of PPO signals

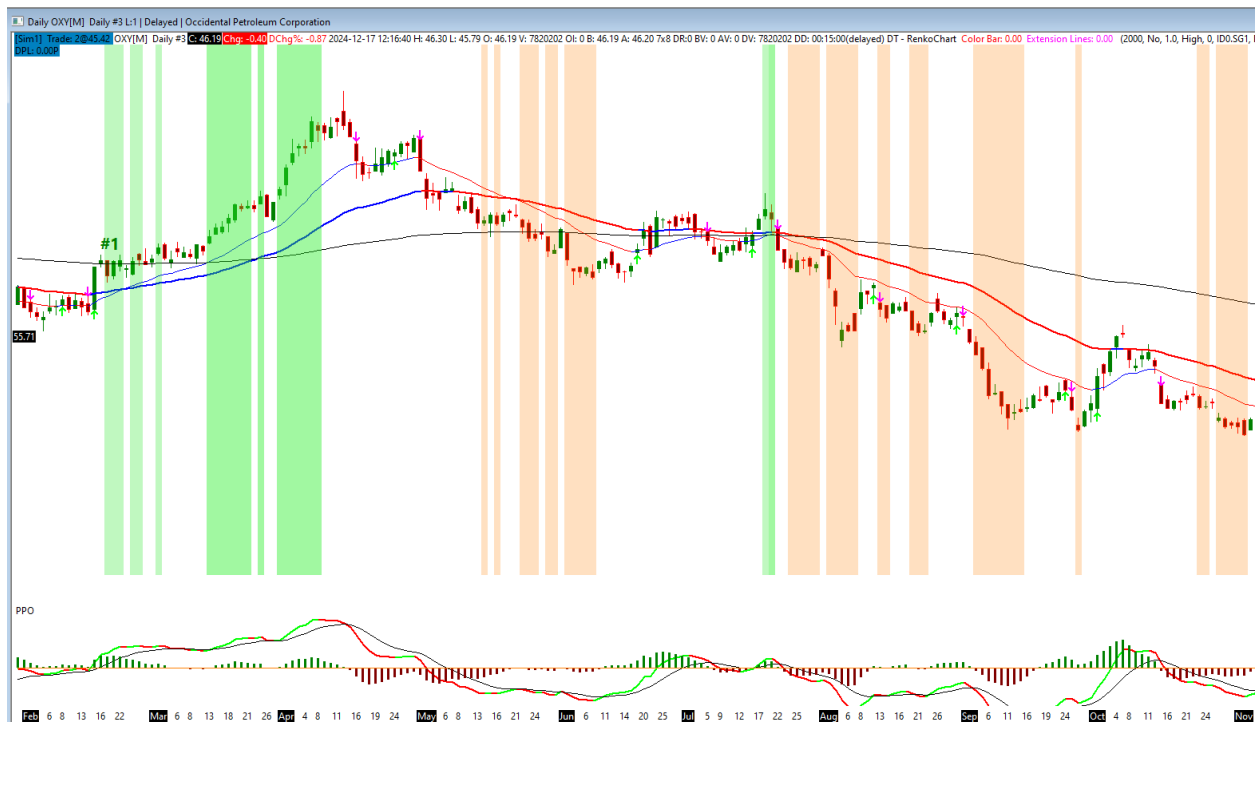
When the **PPO line** slopes downward, remains below zero, and stays under the PPO Signal Line, the stock is in a clear downtrend. In such situations:

- Avoid new long positions.
- Exit existing positions, unless you have confidence the stock will find support (e.g., long-term leaders).

TR Indicator Insights

Our **Trend Recognition or TR Indicator** (available through our **Advanced Stocks Analysis Software for Excel 365**) picked up the uptrend on chart:

- A long signal (light green zone) appeared at Point #1, driving the stock to \$70.30.
- A second long signal occurred but failed quickly. In such cases, if the stock drops below key moving averages or triggers an **8-10% stop loss**, exiting immediately is critical to avoid larger losses.



Fundamental checks

While technical signals are vital, some **fundamentals** must also be considered:

1. Is the stock leading its peers within its industry group?
2. Is the industry group outperforming other sectors and the broader market (S&P 500)?
3. Is the company consistently beating earnings estimates and growing revenue and earnings for the past 3-4 quarters?

Stocks that meet these criteria have a significantly higher chance of performing well.

Strong Earnings List for Better Selection

We maintain a **Strong Earnings List** on our website, analyzestocks.net, which is frequently updated to reflect the latest earnings data. Stocks on this list are:

- **Liquid:** They have sufficient trading volume.
- **Lead Peers:** They have a high relative strength compared to their peers, and
- **Consistent Performers:** Beating earnings estimates while increasing revenue and earnings over the past year.

Selecting a stock from this list at the **right buy point**, supported by technical indicators, improves the probability of success.

Key Terms to Know:

- **EMA (Exponential Moving Average):** A moving average that gives more weight to recent data points.
- **PPO (Price Percent Oscillator):** A momentum indicator similar to MACD but expressed as a percentage, making it easier to compare across stocks.

By combining technical signals with strong fundamentals, you can identify **high probability buy opportunities** and avoid falling into the trap of chasing stocks in a downtrend.

Stay disciplined, follow the indicators, and let the charts guide you to better decisions!