

[Print this Article](#)[\[Close Window\]](#)

BIOTECH REVERSING TO UPSIDE - 3X leveraged ETF to play the upswing...

originally published February 4th, 2016

A hastily written article was posted on the site yesterday afternoon about half an hour before the close of trading, entitled [Biotech Sector Intraday Reversal Alert](#), recommending the Biotech sector for an intermediate recovery, and in particular the 3X leveraged Biotech bull ETF, LABU, as it had become clear that strong reversal candles were forming across the sector.

Now we will review the charts to see in detail why the sector looks good for a sizeable tradable rally here.

We'll start by looking at the market background. The broad market S&P500 index finished the day with a fine bull hammer on its chart, which is kind of what we expected, marking completion of the Right Shoulder low of its intermediate Head-and-Shoulders bottom shown on its 3-month chart below. This was despite the dollar plunging. Lately many traders have got it into their heads that the dollar and the stockmarket move together, as if joined at the hip. This is nonsense. There has been a correlation recently but it can end at any time, as it did yesterday. The picture now looks bullish for the medium-term and the pattern projects a rally to the 2040 area, perhaps a little higher.

Positive action in the broad market yesterday, with it dropping hard in the early trade but then rebounding to close up on the day, leaving behind a bullish hammer candlestick on the chart, and contradicting the recent folklore that when the dollar drops, the stockmarket will too. There has been a correlation in the recent past, but it could break at any time - like now. This action marks completion of the Right Shoulder low of the small Head-and-Shoulders bottom shown and sets the stage for a breakout from the pattern and advance to the 2040 area that we are expecting.



Having become extremely oversold after a severe downtrend from the start of the year, Biotech sector proxy Biotech iShares put in a fine large bull hammer on its chart yesterday, signaling a probable final low for this downtrend and a reversal...

IBB is a proxy for the sector, and on its latest chart we see that after a severe intermediate downtrend resulting in a deeply oversold condition, a fine large "Bull Hammer" formed yesterday, signaling that it is about to reverse to the upside.



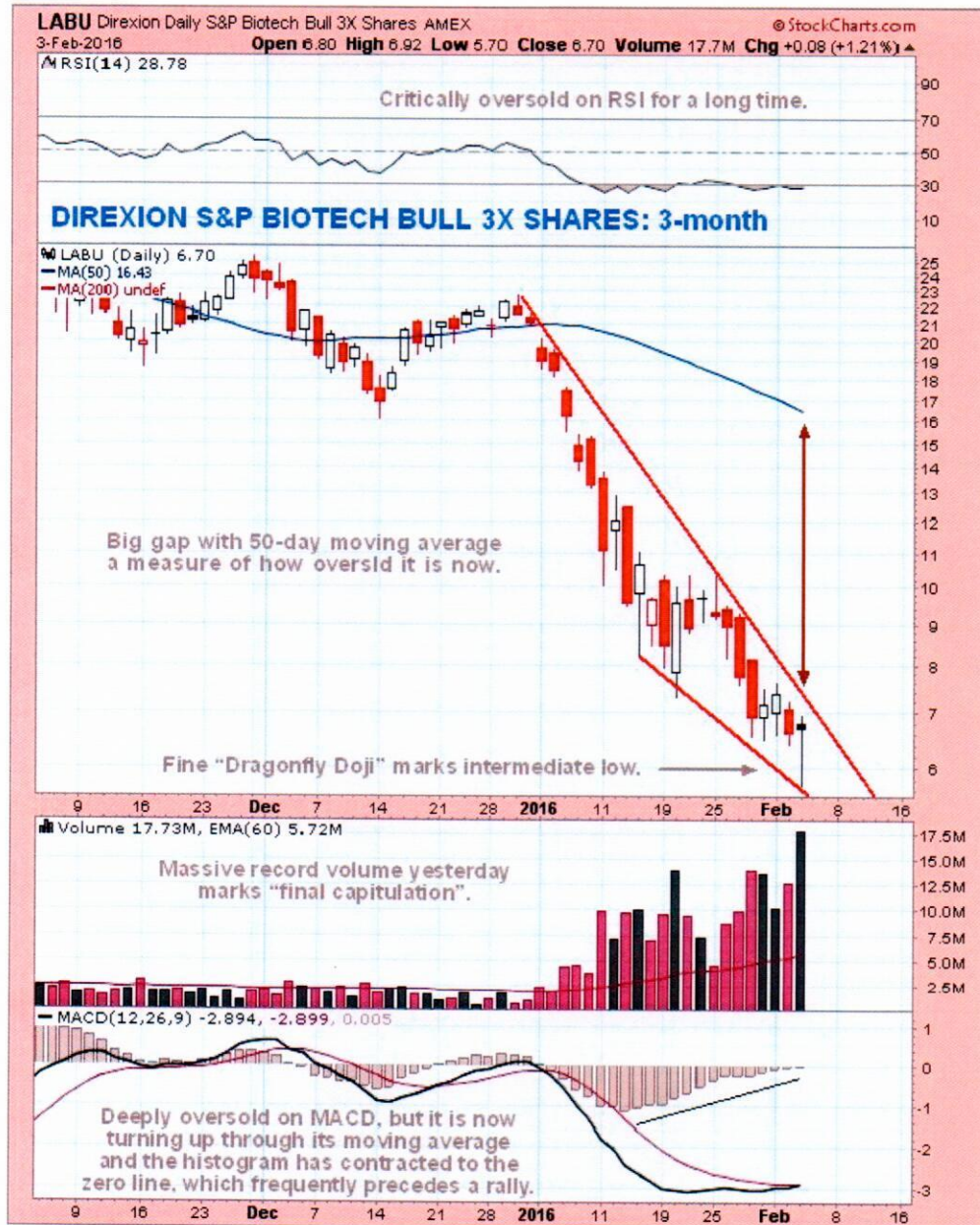
Meanwhile, the 3X leveraged Biotech inverse ETF, LABD, that we did a successful trade in for part of the Biotech sector drop, put in a fine large "Gravestone Doji" on its chart yesterday, right at the top of a Distribution Dome. This is a sure sign that it is topping out – and the sector is therefore bottoming. A reason for showing this chart is that it provides a fine example of a very bearish "Gravestone Doji", and it is said in Japanese candlestick literature of this candlestick that it represents the gravestone of the bulls that died defending their territory. This is grim indeed, but only if you are mug enough to continue holding this after such a candlestick has appeared. It's not grim at all if you simply switch to the up escalator, by buying its converse, LABU, which we will now look at, and which is the main focus of this update.

We did a good trade in this, but sold too soon, as you may recall. Given that we are now bullish the sector for the short to medium-term, you may wonder why we are looking at this bear ETF now. The reason is that it is providing confirmation that the sector is about to rally, because a fine large highly bearish (for it) "Gravestone Doji" formed on its chart yesterday, which means that it is about to turn and drop hard, as the sector turns up and recovers, making its converse ETF, LABU, the one to go for.



LABU could not look better as an intermediate speculative play. It has been trashed this year by a savage downtrend that has erased two-thirds of its value. Yesterday however, after making new lows by a sizeable margin early in the session, it ended the day with a fine large bullish "Dragonfly Doji" candlestick on its chart, which is the inverse of the highly bearish "Gravestone Doji" that we have just observed on the LABD chart. This action was made all the more bullish by the fact that it occurred on massive record volume – this is as sure an indication that you can get that this is reversing to the upside. Other bullish additional factors worthy of note are the big gap with its moving averages, which is a measure of how oversold it is, and the extremely oversold condition shown by both its RSI and MACD indicators, with the latter turning up and about to rise through its moving average, and its histogram shrinking to the zero line, which typically precedes a rally. This is regarded as a terrific buy here. It's just a shame that we went for it too early, in mid-late February, and are nursing a loss, but the way it looks you should get your money back and even come out of it with it a decent profit, and anyway buying here should "make a killing". This ETF is triple leveraged and could easily double or more in the weeks ahead. It is considered prudent to put a stop beneath the intraday hammer low, just in case, but the chances of its being triggered are considered slim.

A SPECULATOR'S DREAM - this COULD NOT LOOK BETTER. After a savage decline that has shaved two-thirds off its value, a fine bullish "Dragonfly Doji" formed yesterday on massive record volume. Observe also the other bullish factors - the big gap with the 50-day moving average, the deeply oversold MACD indicator rising and ready to cross its histogram as its histogram starts to move into positive territory. With its 3X leverage, there are BIG GAINS to be made in this in coming weeks. What a shame we used up some of our ammo buying it too early in mid-late February. **RATED A RED HOT BUY HERE.** Go overweight on this, but be careful not to "put all your eggs in one basket".



LABU [webpage](#)

Direxion Biotech Bull 3X Shares, LABU, closed at \$6.70 on 3rd February 16.

End of update.

This update will be filed under Exchange Traded Funds in the Archive.

Posted at 6.10 am EST on 4th February 16.