

Bollinger Band Basics

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One of the better ways to evaluate a stock is to chart the stock with a Bollinger Band.

From Investopedia.com:

What Does Bollinger Band Mean? Pasted from <<http://www.investopedia.com/terms/b/bollingerbands.asp>>

A band plotted two standard deviations away from a simple moving average, developed by famous technical trader John Bollinger. The price of the stock is banded by an upper and lower band along with a 21-day simple moving average.

This is one of the most popular technical analysis techniques. The closer the prices move to the upper band, the more overbought the stock/market, and the closer the prices move to the lower band, the more oversold the stock/market.

This is a chart of JNPR, a stock that has done well in several editions of "Your Stock List". From September 2010 until it's top Feb 15, 2011, observe the obvious uptrend and how the stock moved back and forth between the upper and middle of the Bollinger Bands. **The middle band provided support during this move.** When you have a stock in an uptrend and it pulls back to the middle band, it's often a buy the dip opportunity. When a stock is touching the upper band it's usually overbought and not the most opportune place to buy. When you see a chart pattern like this, you have a good stock and let it ride.



On the right side of the chart JNPR broke down through the middle Bollinger band March 3. As the stock fell in price note how it stayed on the lower Bollinger Band for 11 days until it found an intermediate bottom on March 22. It tried to recover and rose up until it hit the middle band and fell back. **In a downtrend the middle band provides resistance.** JNPR repeated this pattern several times, this is a clear indication a stock is in trouble and not a place to buy and probably a confirmation an exit is advised.