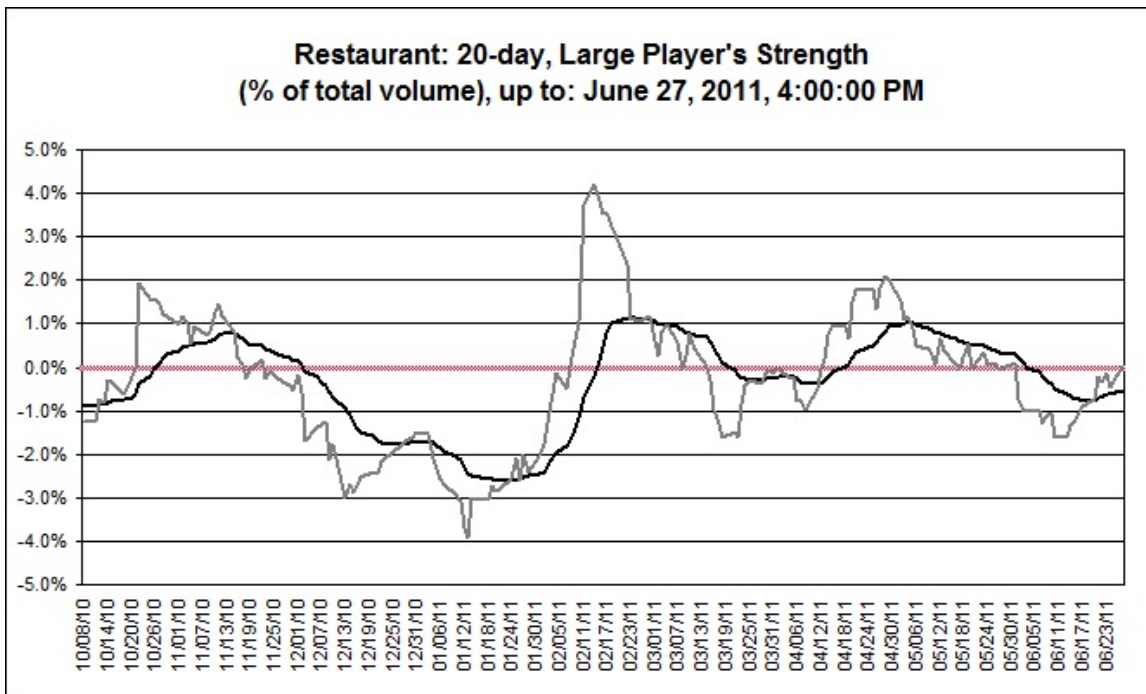


Stock: Red Robin Gourmet Burgers RRGB
Date: 6/28/2011
Setup: Sector/Stock RS + Sector buy signal
Entry: 36.07
Stop: 34.64

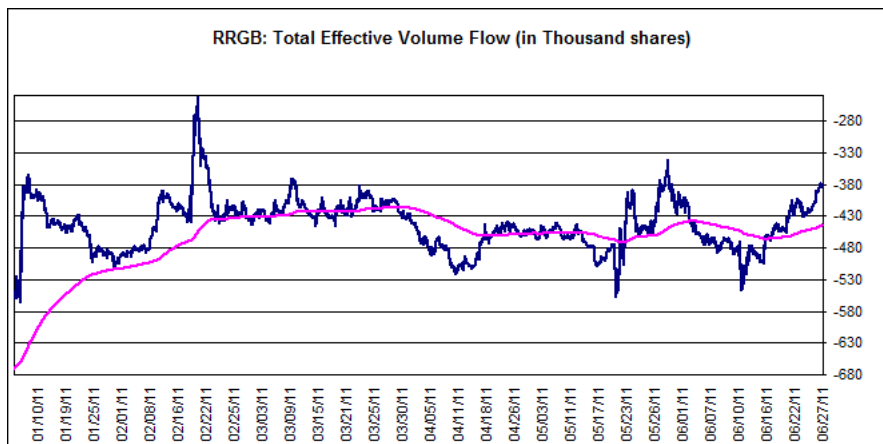
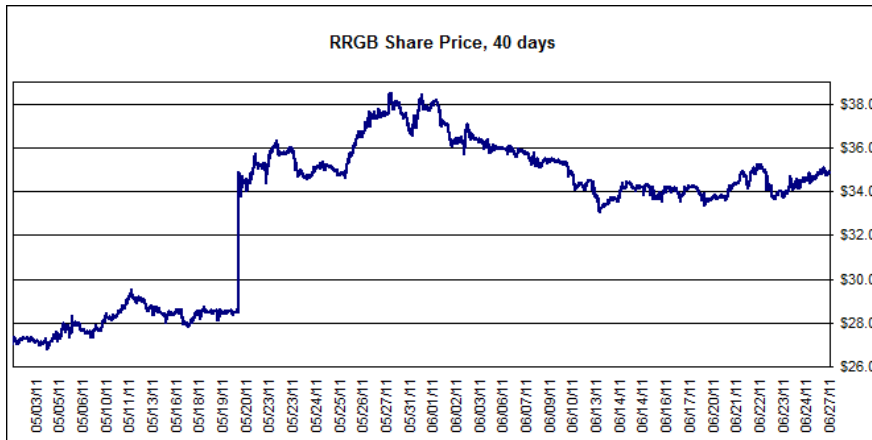
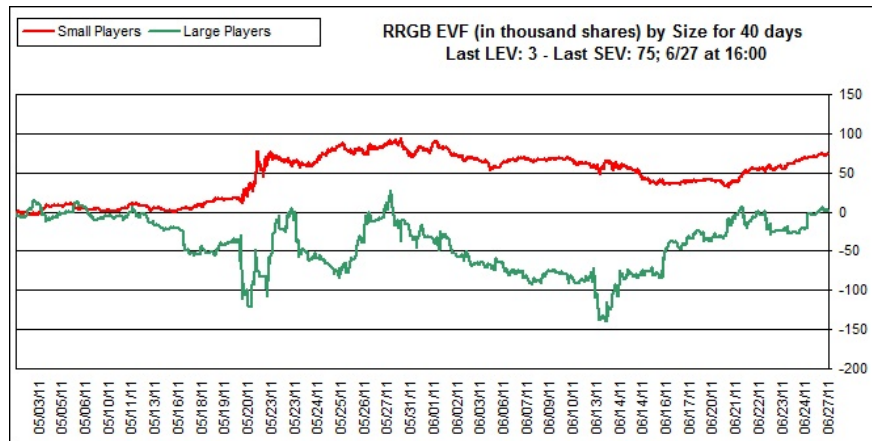
Summary: RRGB is a casual dining restaurant chain focused on serving gourmet burgers. It owns and operates and franchises or licenses restaurants in the United States and Canada.

RRGB belongs to the highly ranked *Retail – Restaurants* group (9). Amidst the market correction, numerous stocks in this sector outperformed the broad market averages (CMG, BWLD, BJRI, MCD). What I especially like about RRGB is the May 20th gap-up on extreme volume, which with the exception of a brief intraday shakeout below breakout day, has held onto those gains quite steadily. RRGB has shown earnings surprises the past two quarters of 155% and 143%. Additionally, the tight closes in this most recent correction are encouraging. Short interest on RRGB represents about 15% of the float. Contextually, restaurants are likely direct beneficiaries of commodity pullbacks/declines – with lower oil improving margins and consumer sentiment.

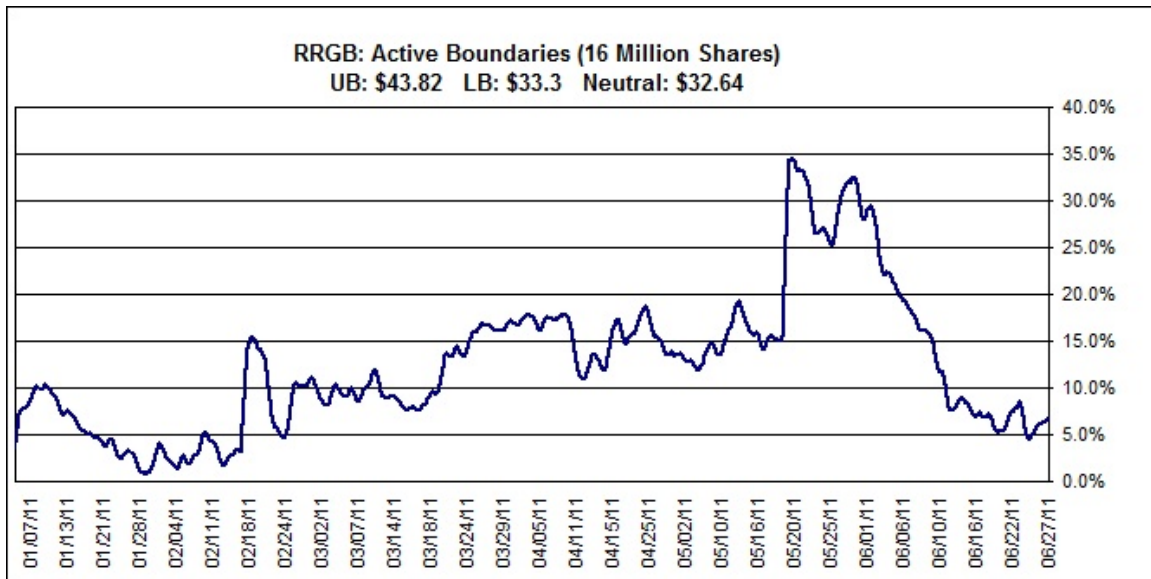
A quick look at the sector:



Effective Volume and Price: RRGB's LEV is turning up while price consolidates sideways. TEV moves up through the average, which is also starting to trend higher after a sideways move.



Active Boundaries: Price has rebounded nicely from lower and neutral values. Notice that LB is above NB. Pascal notes that *this occurs when a stock is in a strong uptrend. The neutral boundary is the place where the average earnings of active players is null. If LB is above NB, it means that buyers come in and push the price higher even before that equilibrium point is reached.* The 96 RS rating that is approaching new highs ahead of price confirms the underlying buying pressure.



Technical Analysis Daily + Weekly: Longer-term, RRGB moved meaningfully above the 30 price level that has contained price for the last few years. On the daily, we can see that RRGB trades above 10, 21, and 50-day moving averages. The weekly stage structure is *Strong Mark-up*. Additional consolidation or a strong volume move up could take the daily structure from *Early Distribution* to *Strong Mark-up* rapidly.

Weekly: Notice the powerful break above the 30-level. In my interpretation, this type of move is what one looks for, as summarized in the following paragraph taken from Stan Weinstein's book Secrets to Profiting in Bull and Bear Markets:

The ideal time to buy is when a stock is finally swinging out of its base into this more dynamic (Stage 2) stage. Such a breakout above the top of the resistance zone and the 30-week MA should occur on impressive volume. This is the start of the advancing Stage 2 uptrend phase. However, before the really dynamic part of the advance gets rolling, be aware that there is usually an initial rally followed by at least one pullback. That dip brings the stock back close to the breakout point, which is a good second-chance to do low-risk buying. Don't become fanatic about saving a few cents a share!

Weekly Chart with 10 and 30 week MA's:



The May 20 breakout represents the move into “Dynamic Stage 2” (one might suggest the February breakout signifies the transition. Either way, both show nice high-volume signatures and the more recent breakout took out multi-year highs so it was indeed significant.) Another brief show of strength then quickly faded. The recent market pullback coincides with the “dip that brings the stock back close to the breakout point,” as visualized in the daily chart below:



Summary: Combining EV tools with stage analysis can help identify areas of low-risk buying. With the 20 day MF on a buy signal and more leading stocks showing improving action, select longs are offering buyable situations.

