

Chart of the Day

Two sectors are working. I'm covering one of them tonight. Here's your biotech trade.

February 19, 2026

Dan analyzed the current market shift away from momentum breakouts toward tactical continuation trades, noting that "the easy money" from initial breakouts has already been made. With the market feeling heavy and the Magnificent Seven stalling, Dan identified Biotech (\$XBI) as a key "discrete theme" that trades independently of broader market laggards like Caterpillar or Ford. Focusing on the XBI's 9.2 million share liquidity, he highlighted the stock's consolidation around a flattening 50-day moving average as a high-probability setup. Dan emphasized that while a move to 135 represents a 7% gain, the real value lies in the risk-reward ratio, where a tight stop of less than 2% allows for a significant "R-multiple" return on a small amount of risk.

Next Steps:

1. Monitor the 50-Day Moving Average: Watch for the \$XBI to hold above its 50-day moving average. If the moving average begins to flatten out, treat a successful bounce or breakout from this level as a primary entry signal.
2. Set a "Drop-Dead" Stop Loss: Place a tight protective stop just below the 50-day moving average (approximately 2% below current price). If the stock hits this alert, Dan advises being completely out of the trade to avoid capital decay in a heavy market.
3. Anticipate the "Even Number" Pause: If the stock breaks out, expect a temporary pause or resistance at the 130 level. Do not panic-sell during this "even number" friction; instead, look for it to clear 130 for a run toward the 135 target.
4. Prioritize "R-Multiples" Over Percentages: Before entering the trade, calculate your risk-to-reward ratio. Aim for setups like the one in \$XBI, where the potential reward (7%) is at least 3 to 4 times greater than your defined risk (2%).
5. Focus on Non-Correlated Sectors: Since the broader market is currently struggling, audit your portfolio for "discrete" themes like Biotech or Gold. These sectors can offer positive price action even when the S&P 500 or tech leaders remain stagnant.

Transcript:

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00:00:01.710 --> 00:00:19.350

Dan Fitzpatrick: Hey, Dan Fitzpatrick here, StockMarketMentor.com, and I want to look at biotech today. Now, generally speaking, in this market, just breakouts have not been working. They were a while ago. It's funny how the market kind of goes in cycles, what was working.

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00:00:19.350 --> 00:00:24.190

Dan Fitzpatrick: Last week, or last month, or several months ago, is not working now.

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00:00:24.220 --> 00:00:45.369

Dan Fitzpatrick: That's just the way it goes. We have to get used to it. You better be used to it. But a couple months ago, even a month ago, breakouts were working pretty well. Well, all those breakouts have already broken out, and now we're in the other part of the phase where, we're actually just kind of looking for continuation trades. We're looking to buy.

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00:00:45.370 --> 00:00:52.679

Dan Fitzpatrick: pullbacks within uptrending stocks. The easy money has been made

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00:00:52.790 --> 00:01:10.779

Dan Fitzpatrick: with respect to buying a strong stock on a breakout, because it's a bona fide breakout. If it's a valid one, it's gonna go a ways, and it's gonna reward you for acting, for taking action at the right time. That's why we like breakouts. They tend to give us good profits really, really fast.

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00:01:10.900 --> 00:01:18.309

Dan Fitzpatrick: when they work But they don't work when the market's really, really heavy. And the market has been...

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00:01:18.400 --> 00:01:33.189

Dan Fitzpatrick: pretty heavy. The Magnificent Seven haven't been doing much at all. There's just not a lot of real positive pin action, I would say, in the market, and so we have to trade accordingly. Now.

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00:01:34.040 --> 00:01:35.730

Dan Fitzpatrick: With that said.

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00:01:35.830 --> 00:01:58.159

Dan Fitzpatrick: there's one... well, there's actually two areas that are working pretty well, only one of them I'm gonna show you, today. The two that I think are working really well now are, gold or precious metal stocks, and then also some biotech. That's... and these are... they're not really correlated with the rest of the market. Like, if you're in some biotech company.

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00:01:58.180 --> 00:02:01.159

Dan Fitzpatrick: You really don't care what Caterpillar's doing.

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00:02:01.160 --> 00:02:24.040

Dan Fitzpatrick: Or, you know, they don't really relate to each other. Same thing with gold. If you're in gold, like, do you really care what Ford or General Motors are doing, or Walmart's doing? So, these are all kind of different, discrete trades, discrete themes, and we're seeing some pretty good price action, in those areas, but I just want to look at one...

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00:02:24.370 --> 00:02:28.669

Dan Fitzpatrick: one chart, and I'm being real general here, and that's,

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00:02:29.370 --> 00:02:32.980

Dan Fitzpatrick: Biotech, the XBI. Now, there's another one.

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00:02:33.180 --> 00:02:40.629

Dan Fitzpatrick: You can do the IBB. This has 1.8 million shares, 1.6 million shares.

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00:02:40.970 --> 00:02:58.190

Dan Fitzpatrick: I'm a big fan of XBI because the liquidity is much more. Either one is fine. When you get in the millions of shares, you're good. Buy as much as you want. You're not gonna move the chart. But here, with 9.2 million, I like this. So, what I like about this is...

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00:02:58.190 --> 00:03:07.890

Dan Fitzpatrick: that it's... it's kind of... it's tightening up here, right along the 50-day moving average, which is actually starting to be flat. It's starting to flatten.

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00:03:07.890 --> 00:03:09.630

Dan Fitzpatrick: This is what we want.

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00:03:09.630 --> 00:03:20.369

Dan Fitzpatrick: to see. We want to see a breakout from a flat moving average. I don't think we're quite there yet to where you can expect this kind of move.

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00:03:20.370 --> 00:03:34.040

Dan Fitzpatrick: But I think we're close. And so, what I want you to do is just watch how this stock trades. It needs to stay above, the 50-day moving average. I'll set a price alert just for me.

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00:03:34.930 --> 00:03:36.279

Dan Fitzpatrick: right down there.

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00:03:37.830 --> 00:03:44.090

Dan Fitzpatrick: If this falls down, If this falls down and hits this price alert, I don't want to be...

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00:03:44.150 --> 00:03:57.479

Dan Fitzpatrick: I don't want to be involved in this, so this is kind of my drop-dead zone here. But if you're long this stock, that's fine. I think a lot of you are. Well, 9 million shares traded, hell, somebody owns it.

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00:03:57.480 --> 00:04:15.609

Dan Fitzpatrick: But watch for the stock. If it does break out above here, look for a little pause at 130, just because stocks tend to pause at even numbers. But then, if it runs farther than that, you're probably gonna get a trade maybe to 135. Doesn't seem like a lot.

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00:04:15.610 --> 00:04:26.889

Dan Fitzpatrick: But if you're able to start with a pretty tight stop, like just less than 2%, just a little bit below the 50-day moving average, then if the stock does come up here.

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00:04:26.930 --> 00:04:51.700

Dan Fitzpatrick: That's over 7%, just to get you up here, and that's a really good return on a small amount of risk. So I want you to always be thinking about trading in terms of our multiples, instead of just, how many dollars did I make, or what percentage gain did I make? Everything has to start with risk. You start with risk first. Once you've built your trade so that you know exactly what your risk is.

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00:04:52.270 --> 00:05:03.660

Dan Fitzpatrick: Now you start looking for the reward. Okay, and I talk more about that at Stock Market Mentor, so if you are not a member, I'm inviting you to join me, 7 bucks.

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00:05:05.280 --> 00:05:14.590

Dan Fitzpatrick: How good is that? Okay? I'm just telling you, so... Okay, listen, I will see you guys, I'll see you guys next time, okay? Have a good one.