AIQ

Opening Bell
Newsletter

In This Issue

Testing Expert Design Studio Rules

Which of the 250 Pre-Built EDS Rules Are the Most Effective?

By David Vomund

When we created the Expert Design Studio (EDS) module, we wanted to allow people to develop their own screening models, but we also understood that many people don't want to do their own programming. In that regard, about 250 pre-built screening techniques come with TradingExpert Pro, allowing users to simply copy and paste these rules as they build their own models.

Many users know what models they want to develop. For others, however, they don't know where to start. They

> *"Running 250 tests is obviously time consuming and we expect few, if any, users have actually completed similar tests. If you use EDS, then you may want to refer to this article often."*

just want a model that works! That leads to the question— which pre-built screening rules are the most effective? If we know the best pre-built rules, then it is easy to create an effective model.

In the October 2002 and March 2003 *Opening Bell* newsletters, we tested all of the pre-built screening rules. One test was based on a 22-day holding period

while the other was based on a 5-day holding period.

Those were very useful studies but now we'll take it a step further by testing more advanced sell strategies that include a capital protection feature. Plus we'll test through a more recent period to see if new effective rules have emerged.

DAVID VOMUND

Running 250 tests is obviously time consuming and we expect few, if any, users have actually completed similar tests. If you use EDS, then you may want to refer to this article often.

Our stock database used in the test is the S&P 1500 stocks. The tests were run from January 3, 2001 through December 29, 2006. This is a good period because it includes both bull and bear markets.

For the sell strategy, we used a 97% capital protect with an 85% profit protect once a 10% profit is reached. The 97% capital protect means that if a stock falls 3% from the point of purchase then it is sold on the next day's open. This is tighter than what most people

Table 1 - Highest ROI Trades

The following lists the results of testing the pre-built EDS rules using the S&P 1500 stock database. A 97% capital protect combined with an 85% profit protect above a 10% profit was used. The test is from 2001 through 2006.

|	FOLDER/SUBFOLDER	FILE NAME	RULE NAME	ROI	# TRADES
1	Technical indicator strategies/Strategies using Candlesticks	gravestone doji	gravestone	84.57	2636
2	Technical indicator strategies/Strategies using Candlesticks	long leg doji	longlegdoji	77.74	2114
3	Miscellaneous/OpeningBellStrategies	december	allworks	75.30	443
4	Miscellaneous/OpeningBellStrategies	jun99obm	allworks	74.95	6160
5	Technical indicator strategies/Strategies using Candlesticks	four price doji	fourprice	67.06	792
6	Miscellaneous/OpeningBellStrategies	november	allworks	64.59	348
7	Technical indicator strategies/Strategies using Candlesticks	tri star doji	tristardoji	62.55	20
8	Technical indicator strategies/Strategies using Candlesticks	meeting lines	meetinglines	56.60	22
9	Miscellaneous/OpeningBellStrategies	denningvcr	golong	55.02	875
10	Price and volume based strategies	close with a % range of close days back	close60to70	50.40	12734
11	Technical indicator strategies/Strategies using Candlesticks	tweezer bottom	tweezerbottom	49.22	5436
12	Technical indicator strategies/Strategies using Candlesticks	doji star	dojistar	48.25	3388
13	Shorter term strategies/Hit and Run Trading - Jeff Cooper	lizards short	lizardsell	42.36	3350
14	Technical indicator strategies/strategies based on one indicator/ADX	adx trend in place and directional movement down	ADXupDirMovdn	37.35	34341
15	Miscellaneous	VBB System1	longsetup	36.61	2222
16	Shorter term strategies/Hit and Run Trading - Jeff Cooper	gilligansislandsell	gilligansislandshortbuy	34.27	4090
17	Technical indicator strategies/strategies based on one indicator/MoneyFlowRSI	mfrsi is lower than 20	MFRSIunder20	30.56	28105
18	Miscellaneous/OpeningBellStrategies	Dec—99	buy	29.33	1715
19	Price and volume based strategies	price up 20% on 2x avg volume	up20	28.77	2437
20	Technical indicator strategies/strategies based on one indicator/RSIWilder	rsi wilder in oversold territory	RSIWilderunder30	28.68	25456
21	Technical indicator strategies/strategies based on one indicator/OBVPct	obv pct slope is up while price slope is down	OBVPctDIVup	28.12	42972
22	Technical indicator strategies/strategies based on one indicator/ESA	Price Crosses from above to below the Upper ESA	ESAupperDN	27.98	18728
23	Miscellaneous/OpeningBellStrategies	April—2000	best of kane	27.31	644
24	Price and volume based strategies	price down 20% on 2x avg volume	dn20	26.01	27059
25	Swing trading strategies/Street Smarts - Rasche, Connors	turtle soup plus one	tsposu	25.76	3152
26	Technical indicator strategies/strategies based on one indicator/RSIWilder	rsi wilder slope is up while price slope is down	RSIWilderupPRICEdn	24.99	46768
27	Technical indicator strategies/Strategies using Candlesticks	3 white soldiers	threesoldiers	24.91	2549
28	Technical indicator strategies/strategies based on one indicator/phase	negative phase with 3 day slope down	PhaseSlopeDown	24.74	83084
29	Miscellaneous/OpeningBellStrategies	aprilobm	allworks	24.42	618
30	Technical indicator strategies/strategies based on one indicator/VP Trend	vp trend slope up while price slope is down	VPTupPRICEdn	24.40	52799
31	Technical indicator strategies/strategies based on one indicator/OBV	price reaches new low not confirmed by low in obv	OBVloNON	24.38	27076
32	Longer Term Strategies/Strategies based on AIQ Reports	volume trend	volumetrend	23.83	12288
33	Technical indicator strategies/strategies based on one indicator/CCI	CCI cuts from below -100 to above -100	CCIcovershort	23.72	29410
34	Technical indicator strategies/strategies based on one indicator/OBVPct	price new low not confirmed by low in obv pct	OBVPctLOnon	23.36	37236
35	Technical indicator strategies/Strategies using Candlesticks	dragonfly	dragonfly	22.93	5448

Table 1 - Highest ROI Trades (Continued)

	FOLDER/SUBFOLDER	FILE NAME	RULE NAME	ROI	# TRADES
36	Technical indicator strategies/strategies based on one indicator/Volatility	volatility reaches a 21 day high	VOLTY21hi	22.75	75557
37	Technical indicator strategies/strategies based on one indicator/ADX	adx increasing and above the 25 line	adxup	22.60	59984
38	Technical indicator strategies/strategies based on one indicator/RSIAIQ	rsi aiq rises from below to above 30	RSIAIQupCUT30	22.03	16517
39	Technical indicator strategies/strategies based on one indicator/MoneyFlow	moneyflow has reached a new low	MFnewLO	22.01	19997
40	Technical indicator strategies/Strategies using Candlesticks	black marubozu	mar	21.99	14493
41	Technical indicator strategies/strategies based on one indicator/ESA	Price crosses from below to above the lower ESA	ESAlowerUP	21.84	21886
42	Technical indicator strategies/strategies based on one indicator/RSIAIQ	rsi aiq in oversold territory	RSIAIQunder30	21.70	18865
43	Technical indicator strategies/strategies based on one indicator/Simple Mov. Avgs.	price cross downside lt ma	LTMApriceDN	21.68	29654
44	Technical indicator strategies/strategies based on one indicator/OBV	obv has reached a new low	OBVnewLO	21.31	25591
45	Price and volume based strategies	price new low not confirmed by low in vp trend	vptnonlo	21.08	37859
46	Technical indicator strategies/strategies based on one indicator/VP Trend	price new low not confirmed by low in vp trend	VPTnonLO	21.08	37859
47	Technical indicator strategies/strategies based on one indicator/Trend	trend changed down	TrendChangeDown	20.83	105162
48	Technical indicator strategies/strategies based on one indicator/OBVPct	obv pct crossed from negative to posit	OBVPctBUY	20.81	59105
49	Technical indicator strategies/strategies based on one indicator/MoneyFlowRSI	moneyflow slope is up while price slo	MFupPRICEdn	20.57	40444
50	Longer Term Strategies/Strategies based on AIQ Reports	price gap up	gapup	20.54	35554
51	Technical indicator strategies/strategies based on one indicator/Trend	10 day trend of ticker is negative	TrendDn10Day	20.48	131578
52	Technical indicator strategies/Strategies using Candlesticks	shooting star	shootingstar	20.32	179
53	Miscellaneous/OpeningBellStrategies	juneobm	BuyOEXst	20.29	58834
54	Technical indicator strategies/strategies based on one indicator/accum. distrib.	accum. dist. slope ascending price slope descending	ACMDISupPRICEdn	20.23	54678
55	Technical indicator strategies\Strategies using multiple indicators	obv pct and va pct are positive	OBVPctVAPctUP	20.03	87614
56	Technical indicator strategies/strategies based on one indicator/OBVPct	obvpct and vapct positive	OBVPctandVAPctpositive	20.03	87614
57	Charts Patterns Strategies	Close bottom quarter yesterdays range	bottom25	20.02	135429
58	Price and volume based strategies	john hunts exploration	johnhuntexplore	19.64	21271
59	Swing trading strategies/Street Smarts - Rasche, Connors	holy grail strategy	holygrail	19.60	4981
60	Technical indicator strategies/strategies based on one indicator/RSIAIQ	rsi aiq slope is up while price slope is down	RSIAIQupPRICEdn	19.46	63098
61	Longer Term Strategies/Strategies based on AIQ Reports	price volume divergence report	negpricedivergence	19.36	44809
62	Technical indicator strategies\Strategies using multiple indicators	obv pct and va pct are negative	OBVPctVAPctneg	19.36	90264
63	Technical indicator strategies/strategies based on one indicator/OBVPct	obvpct and vapct negative	OBVPctandVAPctnegative	19.36	90264
64	Technical indicator strategies/Strategies using Candlesticks	tweezer top	tweezertop	19.33	9417
65	Technical indicator strategies/strategies based on one indicator/VAPct	price new low not confirmed by low in vapct	VAPCTlowNON	19.14	39413
66	Technical indicator strategies/Strategies using Candlesticks	engulf bullish	engulfbullish	19.13	49124
67	Technical indicator strategies/strategies based on one indicator/MoneyFlowRSI	mfrsi crosses from above to below 90	MFRSIcross90	19.02	4792
68	Technical indicator strategies/strategies based on one indicator/Stochastic	stochastic is in oversold territory	STOCHunder20	18.84	85440
69	Day Trading Strategies\The Complete Day Trader - Jake Bernstein	openclose oscillator	ocoscbuy	18.47	119345
70	Technical indicator strategies/strategies based on one indicator/Trend	trend changed up	TrendChangeUp	18.35	95757
71	Technical indicator strategies/strategies based on one indicator/Simple Mov. Avgs.	price cross downside st ma	STMApriceDN	18.15	61223
72	Technical indicator strategies/strategies based on one indicator/accum. distrib.	price new low not confirmed by low in accum. dist.	AcmDisLOnon	17.99	33828
73	Technical indicator strategies/Strategies using Candlesticks	black closing	closingbozu	17.71	40864
74	Technical indicator strategies/Strategies based on one indicator/CCI	CCI cuts from above -100 to below -100	CCIsellshort	17.61	22683

use but the goal in creating a model is to not have a stock fall deeply in the red after purchasing it, so the 97% capital protect is appropriate.

The 85% profit protect after a 10% profit means that once the stock hits a 10% profit, we are only willing to give up 15% of that profit before selling. If the stock goes parabolic then we'll remain in it but once it gives back 15% of the profit then it is sold. This forces us to lock in profits, which is very important in effective trading.

Due to space limitations, we are not able to list the results of all the rules. Because of the importance of this time consuming test, we are listing as many results as possible. **Table 1**, which covers two pages, shows the 74 most effective rules, sorted by their annual return on investment (ROI).

To help identify the pre-built rules listed in Table 1, we indicate which folders they reside in and what the rule names are. The first column in the Table displays the name of the folder (or folders) followed by the file name. The next column shows the name of the rule that was tested.
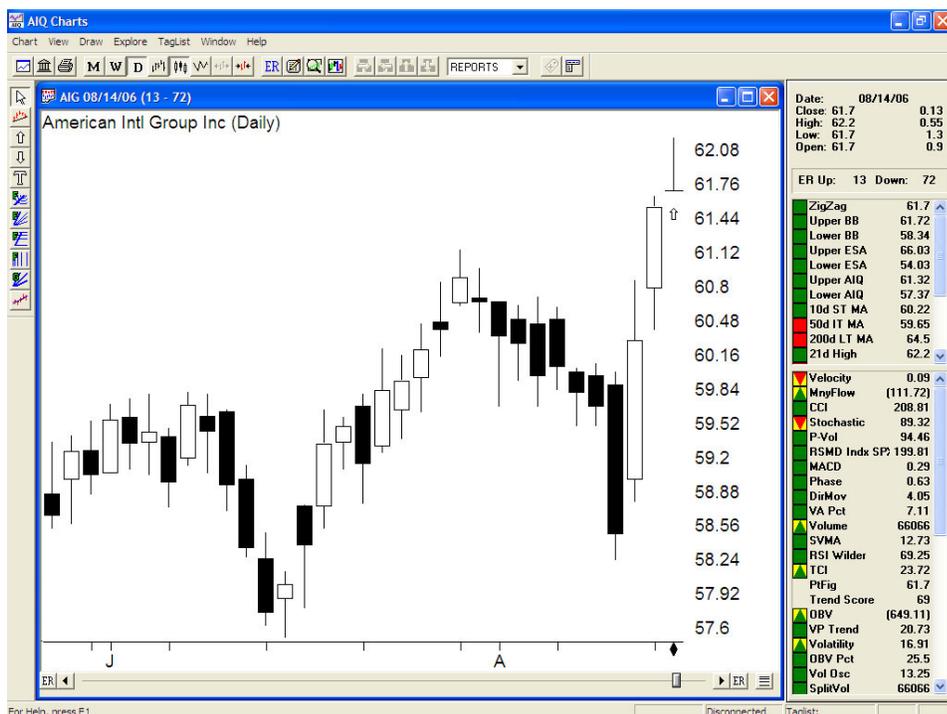
Figure 1. Candlestick chart of AIG on 8/14/06. Arrow points to most recent Candlestick, a Gravestone Doji pattern which is the basis for the number one performing EDS screening rule.

To find a pre-built rule, open the Expert Design Studio and select *File, Open*, and double-click *the EDS Strategies* folder. This accesses the list of folders in which the rule files reside. Double-click the appropriate folder name and then highlight and

open a file. With the file open, the rule will be displayed in the *Rule Library* page of the EDS window.

For a description on how to use EDS, please refer to the March 2006 *Opening Bell*. For more advanced rule manipulation, please refer to the May 2006 issue.

Those who like Candlestick charts will be pleased, since seven of the top twelve strategies are based on a Candlestick pattern.

The best screening rule uses the Gravestone Doji. This pattern simply requires a stock to open, trade higher, and then close back at the same level as the open. The Candlestick chart shows no body with an upper shadow. An example of this one-day pattern is found in **Figure 1** (see arrow). Ironically, the Gravestone Doji is typically thought of as a bearish formation. Some analysts, however, consider this to be a bullish pattern if it appears near a market low. It would be worth testing this pattern after periods of strength and after periods of weakness.

The second best rule is the Long-Legged Doji. Once again, this pattern requires the stock to open
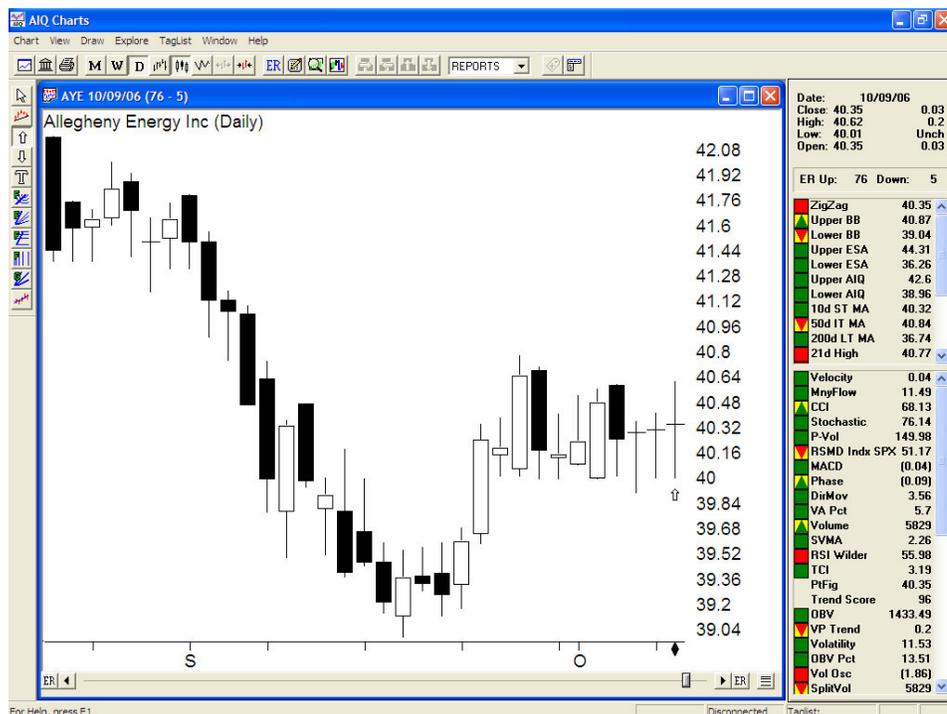
Figure 2. Candlestick chart of Allegheny Energy on 10/09/06. Most recent Candlestick (arrow), a Long-Legged Doji, is the basis for the number two performing EDS rule.

and close at the same price. This time, however, the stock trades both higher and lower mid-day. **Figure 2** shows an example of a stock that has three Long-Legged Doji's in a row. The most classic formation occurred on October 9 (see arrow) since the stock closed in the middle of its daily range. We can see from this and the Gravestone Doji that it is generally bullish to see a stock open and close at the same level.

I would discount Candlestick rules 10 and 11. They have too few trades to be reliable.

Rule 14, Tweezer Bottom, is attractive because there are a lot of trades and the pattern is meant to be bullish. This two-day pattern simply requires two consecutive days to have the same low price (**Figure 3**). For example, in Figure 3 the low price on both December 13 and December 14 was $9.09.

We are pleased to see that four of the top ten rules were models that were created in *Opening Bell*. The third best rule is one that I continue to use today and was featured in the December 2000 *Opening Bell*. This "Extreme Growth" model buys high relative strength stocks that have paused for at least ten days. I

Figure 3. Candlestick chart of LSI Logic on 12/14/06. Most recent two Candlesticks (arrows) form a Tweezer Bottom pattern which is the basis for the 14th best performing EDS rule.

currently use this model without the VA rule.

Whereas the third best rule bought uptrending stocks, the fourth best rule is a bottom-fishing model. This model, featured in the June 1999 *Opening Bell*, screens for stocks that

have corrected at least 30% but have a positive Volume Accumulation Percent indicator.

The sixth best rule is a near duplication of the third best rule.

The ninth best rule was featured in the September 2001 *Opening Bell* and was created by AIQ power user Richard Denning. As a tribute to how good Richard is at model creation, he doesn't even trade this model, preferring newer and more effective models.

For more detailed information on each *Opening Bell* model, please visit the issue they were originally covered in. For back issues, visit www.aiqsystems.com, click *Training and Education*, *Opening Bell Monthly*, and then *Opening Bell Monthly Archive*.

When it comes to building a new model, you want to begin with effective scans that produce a lot of trades. With that in mind, rule 14, 17, 20, and 21 come to mind. Each of these rules has more than 25,000 signals during our back test period.

Examining the rules with lots of trades, we see most of them buy oversold conditions. For example, rule 14 requires the DMI indicator to
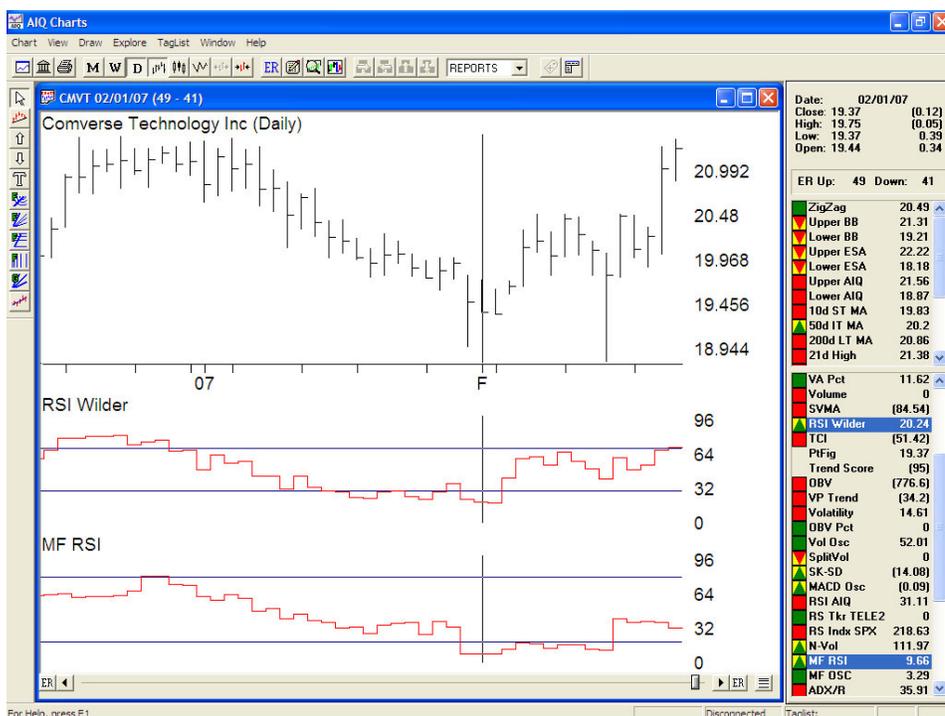
Figure 4. Daily chart of Comverse Technology on 02/11/07 with two RSI indicators plotted below. Vertical bars show a buy point indicated by combining rules based on these two indicators.

be moving down while the ADX indicator shows a trend, rule 17 requires the Money Flow RSI to be below 20, rule 20 requires the RSI to be below 30, and rule 21 requires a decreasing price at the same time that OBVpct is moving higher.

By combining some of the above rules into one model, results can be further improved. For example, an EDS rule that combines the "Money Flow RSI Less Than 20" rule with the "RSI Below 30" rule will find securities such as Comverse Technology (CMVT) on February 1 (**Figure 4**). Combining two rules will

typically work better than the individual rules. The process of combining rules is covered in the March 2006 *Opening Bell*.

The testing from this article will be extremely beneficial in creating future EDS models. In upcoming issues, we'll use these results to build new highly effective models. We'll also continue to report results of our testing.

David Vomund publishes VIS Alert, a weekly investment newsletter. For a sample copy, go to *www.visalert.com*.

S&P 500 Changes

Changes to the S&P 500 Index and Industry Groups:

Developers Diversified Realty (DDR) replaces Caremark Rx (CMX). DDR is added to the Retail REITS (REITRET) group.

Host Hotels & Resorts (HST) replaces Phelps Dodge (PD). HST is added to the Specialized REITS (REITSPC) group.

C.H. Robinson Worldwide (CHRW) replaces Health Management Assoc. (HMA). CHRW is added to the Air Freight & Logistics (AIRFREIG) group.

Integrys Energy Group (TEG) replaces Peoples Energy (PGL). TEG is added to the Multi-Utilities (UTILMULT) group.

Hudson City Bancorp (HCBK) replaces American Power Conversion (APCC). HCBK is added to the Thrifts & Mortgage Finance (THRFTMTG) group.

Varian Medical Systems (VAR) replaces Equity Office Properties (EOP). VAR is added to the Health Care Equipment (HEALTHMP) group.

MARKET REVIEW

After a terrible February, the market was volatile but closed with small gains in March. The S&P 500 rose 1% while the Nasdaq Composite rose 0.2%. Despite many wild swings, one thing is clear—the S&P 500's 1405-1410 support level is both strong and important. This level acted as support at the start of the year, resistance in late February/early March, and is support once again. A close below 1405 would very likely trigger a retest of the lows or even an eventual move to new lows.

A 9% sell-off in China sparked global selling but since then international markets have outperformed the U.S. market. While the S&P 500 is well off its February high, broad international exchange-traded funds like iShares EAFE (EFA) and iShares Emerging Markets (EEM) are near their highs.

Oil prices soared in March, as can be felt at the gas pumps. Needless to say Energy was the best performing sector, gaining 8%. Home Finance was the worst performer, falling 4%.

STOCK DATA MAINTENANCE

The following table shows stock splits and other changes:

Stock	Ticker	Split	Approx. Date
Village Super Market	VLGEA	2:1	04/10/07
Fst. Long Island	FLIC	2:1	04/10/07

Trading Suspended:
Bema Gold (BGO), Caremark Rx (CMX), Clark (CLK), Columbia Equity Trust (COE), Phelps Dodge (PD), Readers Digest Assoc. (RDA)

Name Changes:
American Eagle Outfitters (AEOS) to American Eagle Outfitters (AEO)
CVS/Caremark (CVS) to CVS (CVS)
SimpleTech (STEC) to STEC (STEC)
St. Paul Teravelors (STA) to Travelers Cos. (TRV)
United Domain Realty Trust (UDR) to UDR (UDR)
Unum Provident (UNM) to Unum Group (UNM)

AIQ 18th Annual Lake Tahoe Seminar
October 1-3, 2007
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Key note speaker Linda Bradford Raschke

Linda Bradford Raschke is President of LBRGroup, Inc., a registered CTA and money management firm and president of LBR Asset Management, a CPO. She began her professional trading career in 1981 as a market maker in equity options. In addition to running LBRGroup's CTA program, she is the principal trader for the Granat Fund.

Ms. Raschke was recognized in Jack Schwager's critically acclaimed book, The New Market Wizards, and is known for her own top selling book, Street Smarts - High Probability Short-Term Trading Strategies. She has been featured in dozens of financial publications, radio and financial television programs, and has served on the Board of Directors for the Market Technician's Association and is currently Vice President of the American Association of Professional Technical Analysts.

Ms. Raschke has presented her research and lectured on trading for the Managed Futures Association, American Association of Professional Technical Analysts, Bloomberg, Market Technician's Association, International Federation of Technical Analysis, Canadian Society of Technical Analysts, TAG, Omega World, International Online Trading Expo, AIQ, Futures Conference, Carlin Equities and has lectured in over 16 different countries for Dow Jones/Telerate.

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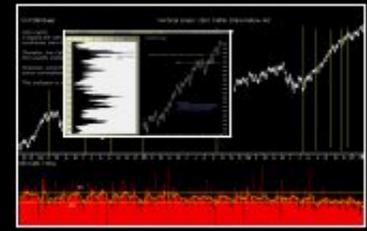
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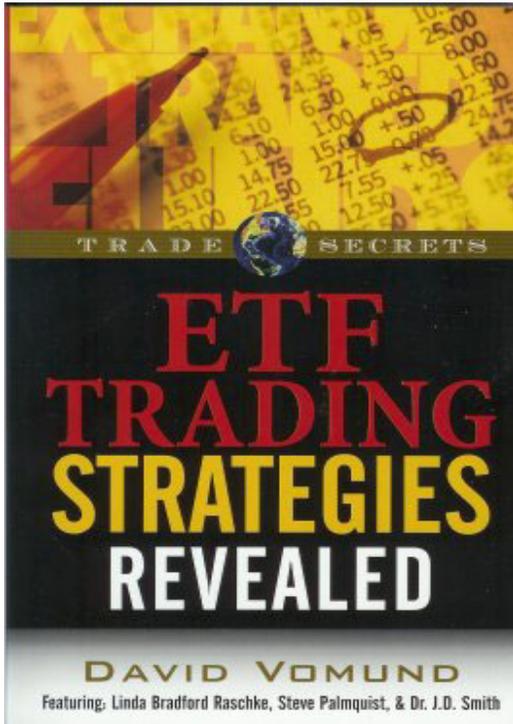**That's less than $9 per recorded session**

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