AIQ Opening Bell Newsletter

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AIQ Opening Bell Interview

Want Financial Freedom? Listen to What Acclaimed Author Dr. Van K. Tharp Has to Say

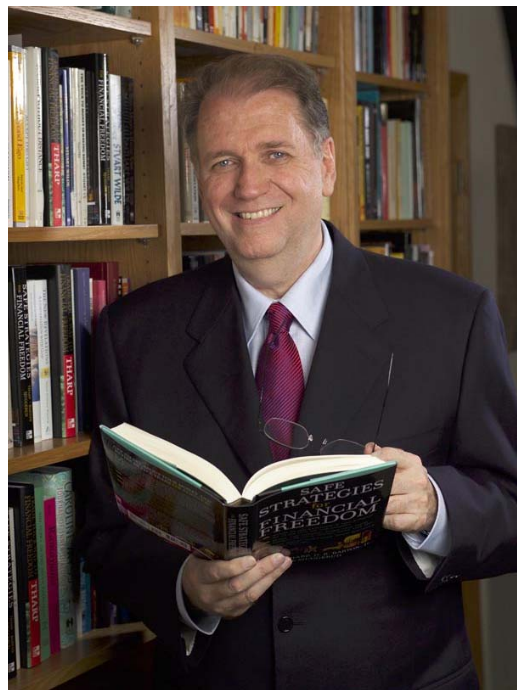
David Vomund

This month we are pleased to present an interview with Dr. Van K.Tharp. Dr. Tharp was featured in the original *Market Wizards* book, writing on the subject of trading psychology. Worldwide, he has helped traders to improve on maximizing their trading potential.

Dr. Tharp is the author of three acclaimed books published by McGraw Hill: the *New York Times* bestseller, *Safe Strategies for Financial Freedom*; *Trade Your Way to Financial Freedom*; and *Financial Freedom Through Electronic Day Trading*. More educational information including a free newsletter can be found at *www.iitm.com*.

Vomund: You are best known as a successful coach for traders and your previous books were geared to those who have a trading background. Your new book, "Safe Strategies for Financial Freedom," has a broader audience. This is more of a financial planning book that is appropriate for everyone. Can you explain the shift in focus?

Tharp: I'd been coaching traders since 1982, coaching dozens of traders who'd taken a million dollars or more out of the markets. I was also quite successful myself, as a businessman and in my own trading. In fact, I'd become a millionaire. By most people's standards, when you get there you've made it. However, I discovered that I had the same financial problems – only now they had more zeros behind them. And I was really frustrated. I was a financial coach and I wanted a solution.



Dr. Van K. Tharp

Vomund: Your books contain "financial freedom" in the titles. Can you define financial freedom?

Tharp: What happens is that most people play a game in which the winner is the person with the most toys and / or the most money. What this means is that very few people win the game. Only 2% of the population becomes millionaires and chances are that only about one in two million becomes a billionaire. The net result is that most people lose this game. Donald Trump, whom most people believe has definitely won the money game, has proven that even billionaires can go bankrupt – he nearly declared personal bankruptcy in 1990 and even now he's having trouble with his most famous holdings – his casinos.

"Very few people win the game. Only 2% of the population become millionaires and chances are that only about one in two million becomes a billionaire…why play this game in which most people lose?…I decided that the financial freedom game fit me (and most other people) much better."

As a result, I said to myself, why do we have to play this game in which most people lose? Why not invent a different game? And that's when I decided that the financial freedom game fit me (and most other people) much better.

Financial freedom occurs when your passive income (income that comes from money earning money for you) is greater than your expenses. That means that the average American family is about $3500 per month away from financial freedom.

Vomund: Do you have to be rich to obtain financial freedom? Is this a case of "it takes money to make money?"

Tharp: I think anyone can obtain financial freedom in anywhere from six months to six years. It just amounts to calculating your financial freedom number and then constantly working to move it toward zero. And we want you to do it without changing your current lifestyle, so it doesn't mean becoming a monk.

"I think anyone can obtain financial freedom in anywhere from six months to six years. It just amounts to calculating your financial freedom number and then constantly working to move it toward zero."

It is a lot easier for a person who lives very modestly and needs $1500 per month to reach financial freedom than it is for what we'd typically call a successful person – say a doctor whose monthly expenses might be $30,000 per month. Thus, the financial freedom game actually favors the person with the more modest lifestyle.

Vomund: So what are the steps to financial freedom that you outline in your book?

Tharp: First, assess your financial freedom number so that you know where you stand and you can start thinking about how to move your number towards zero.

Second, reduce your expenses without changing your lifestyle. Most people have a lot of bad habits that they could reduce – each of which could save hundreds of dollars per month. If you drink a cappuccino each day, that probably amounts to $125 per month for caffeine, sugar, and foam. You'd be healthier without it. If you smoke and could reduce or eliminate that, you'd probably save $300-400 per month. There are many habits like that.

Most people also do compulsive spending, which could be cured by simply waiting 24 hours before making a purchase of $100 or more. Often, you are happy when you buy something, but a week later it doesn't do anything for you and you are still making payments on it.

There are also two other types of expenses that can be eliminated or reduced without affecting your lifestyle – debt and taxes. In the book, we show you how to get out of debt, including your mortgage, in five to seven years. As for taxes, if you receive a salary, then your employer is required to pay half of your Social Security taxes, your unemployment taxes, and worker's compensation. Since they pay those taxes for you, they are counted

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toward your salary even though you never get to see that money. If you shift from wage income to passive income (income that comes from investment money earning money for you), you gain about 20% in tax savings.

Third, I recommend some sort of automatic savings plan so that you are paying yourself first. The government gets its taxes off the top of your paycheck, so perhaps it's important for you to start paying yourself first as well.

Next, I recommend that you list all your assets and determine what they are doing for you. First, list all the assets that are earning money for you. List them; along with how much they are worth and the passive income return they are giving you. Next, list all your non-productive assets – anything that's worth at least five hundred dollars. What you then need to do is determine how you can make your assets more productive. If it's earning 2%, can you bring in 10% or 25%? If you can, that's a huge jump in your passive income. If it's earning nothing, you can sell it and turn it into a productive asset. You can also borrow against it, and then use that money to give you a higher rate of return.

"If you stop working, does your house pay you money? No it doesn't – even when it's paid off it doesn't pay you money. Instead, you have to pay taxes, utilities, maintenance, and many other things that basically cost you money each month. That really sounds like a liability."

Lastly, we recommend that you totally think outside the box. The financial freedom number is thinking outside of the box and there are many ways that you can become financially free by thinking outside of the box in terms of your finances.

Vomund: Your book points out that the average consumer holds an extraordinary amount of debt. What are some common ways that people can reduce their debt?

Tharp: I recommend that you list all of your debt, including your mortgage, along with the balance and the minimum monthly payment. Then I recommend that you divide the balance by the minimum payment to give you an idea of how fast you can pay off your debt. Next, find the total of your minimum payments and add 10% for debt reduction. Thus, if you are paying $2500 per month to service debt, commit another $250 to reducing your debt.

"Most Americans are not aware that they've lost 40% of their net worth, relative to the Euro, over the last few years…when you are aware of these things you can move into strategies that will protect you."

Now, go back to your list and find the debt you can pay off the fastest – the one that gave you the smallest payoff time number. Then add the extra 10% of your total payments to the payments for that debt. For example, you might have a $300 furniture bill that has a number of 7 and that's your lowest number. Okay, then add $250 to your monthly furniture bill so that you make monthly payments of $550 per month. Chances are you can pay off that first bill in less than a year.

Next, celebrate and just spend that extra $550 (your financial freedom number is now $550 lower). The following month, add the $550 to your next highest priority bill. Perhaps you can pay that one off in six months. You keep working through your list and most people can pay off everything in five to seven years (including their mortgage). Of course, this assumes that you stop adding new debt when you begin the process.

Vomund: A key component in your book is how you encourage people to increase their passive income. Can you explain this?

Tharp: We recommend that you find four or five strategies that are congruent with the macro-economic picture. We present our version of that picture in the book along with simple models you can follow so that you can measure when things change and when your strategies should change.

For example, right now we believe we are in a secular bear market that could last 15 more years. However, all that means is that the long-term direction of the market is down. There will be great up years like 2003 and people will be able to make money both on the upside and the downside.

Furthermore, we have a simple 1-2-3 model that allows you to determine what the overall market will do in the near term.

We have similar models for inflation / deflation, real estate, and the dollar. Most Americans are not aware that they've lost 40% of their net worth, relative to the Euro, over the last few years.

However, when you are aware of these things you can move into strategies that will protect you. And that's the key to success and getting the passive income you need to achieve financial freedom.

It's important to give a few words of clarification here – I'm willing to consider trading income that requires perhaps a half hour each day to be passive income.

Vomund: With the understanding of passive income, you treat real estate as a liability. Can you explain why a homeowner shouldn't view a house as an investment?

Tharp: If you stop working, does your house pay you money? No it doesn't – even when it's paid off it doesn't pay you money. Instead, you have to pay taxes, utilities, maintenance, and many other things that basically cost you money each month. That really sounds like a liability. And all the money you build up in equity is hard to count until you sell it. What if there is a real estate crash and your house is suddenly worth 50% of what it's worth now?

That doesn't mean that real estate isn't a good strategy; you just have to be careful. For example, I particularly like a strategy called real estate wraps that my good friend, John Burley, wrote about in the book. With this strategy, you buy houses selling in the $100,000 or lower price range at 60-70% of their asking price. If you make enough offers, you'll find that you can get 1 to 2% of such offers accepted – although probably not in the bubble areas of the country. Then you keep the original mortgage and sell a wrap around mortgage to someone else. You have to be careful how you structure the deal but there are many ways to do it. People are willing to pay 20% more to own a house than they'll pay for rent – so that gives you an idea about what you can get.

I can't go into all the details here, but you can sometimes get returns on your up front cash of 100% with these deals. And quite often you are only talking about an initial cash outlay of $7,500 or less with such deals. So you don't have to be a big deal maker to do them – they're open to anyone who has the knowledge.

"The good thing about thinking "how can I move $500 per month closer to financial freedom this month" is that when you get that mindset, ideas continue to pop into your head."

Vomund: Several of the investment recommendations in the book, like the Rydex Juno fund, don't bring in any passive income. When are these "growth" oriented investments appropriate?

Tharp: Sometimes you need to hold something that fits the big picture. And perhaps you'll keep it a month or two – which is pretty close to passive income – and sometimes you might keep it a year or two. If it gives the best overall rate of return, it's probably the best thing to do. Incidentally, although it's beyond the scope of what we talk about in the book, there are a lot of options strategies that you can use on most stock investments (that might be adjusted every few days) that will basically provide a pretty good regular income.

"Bear markets don't tend to end until there is blood in the street and PE ratios get into the single digit range. It wouldn't surprise me if the S&P 500 has a PE of about 6 or 7 by the time this bear market is over."

For example, suppose you wanted to buy a gold stock like Newmont Mining (NEM) and just hold it because you think the big picture will bring inflation and perhaps the dollar will also be going down. You could buy Newmont and then sell a synthetic short position when the stock is going down. When you think the decline is over, then you unload your short and you still have the gold stock.

The good thing about thinking "how can I move $500 per month closer to financial freedom this month" is that when you get that mindset, ideas continue to pop into your head.

Vomund: With the low interest rates, many people are getting second mortgages. Do you recommend against this even if they try to invest the additional funds?

Tharp: Not if they know what they are doing, but refinancing might be cheaper. However, the key is to make sure your return is a lot better than your outflow and that you don't lose that capital. However, we have a large section of the book devoted to risk control to make sure that you don't get yourself into trouble.

I actually have a very short-term mortgage on my house. It's adjusted monthly according to the Libor rates, and my monthly payments have been around $1600 per month on a rather large loan. With the extra cash, I bought a condo in Lake Tahoe's Incline Village – right across from your AIQ office building. I rented the condo out for a positive cash flow for over three years. And I just sold it for double what I paid for it.

Now my plan is to simply invest the profits in something that will bring in 9% — if I can do that it will cancel out my entire mortgage. However, you have to be careful with this strategy. When your short-term mortgage starts to rise, it probably means the end of the strategy. That's not happened yet, even with the Federal Reserve raising interest rates.

Vomund: When the book was written the market's PE ratio was about 23. Now that the PE has fallen toward its historical average, has your bearish market outlook changed?

Tharp: No. Bear markets don't tend to end until there is blood in the street and PE ratios get into the single digit range. It wouldn't surprise me if the S&P 500 has a PE of about 6 or 7 by the time this bear market is over. But, of course, that will mean that you've been able to capitalize on the short side and pick up many bargain stocks at 60% of their liquidation prices. There is always a silver lining.

Vomund: When analyzing stocks for going long, you look for "efficient" stocks. What are efficient stocks and how do you use AIQ to screen for them?

Tharp: Efficient stocks are stocks that are moving up without a lot of volatility. I basically have a screen that looks at the change in price over the last 90 days. Divide that change in price by the average true range over that 90-day period. Stocks with the highest numbers are probably the most efficient – although you always have to look at the chart as well.

"Comparing investing to gardening-- You don't want to be a buy and hold investor in a secular bear market. However, if you continually get rid of your weakest stocks and keep the strong ones – you'll basically have a garden full of great flowers."

Sometimes the stock moves along at $6 a share for a month, jumps to $10, and then stays there. That kind of stock would also come out as being efficient.

I actually use a screen that averages four different efficiencies from 180 days to 20 days. That actually gives you the best overall efficiency.

When I first started doing this in 2001, there were two amazingly efficient stocks – Autozone and Deluxe Checking. They were almost straight lines going up even during the bear market. Thus, it's always a good idea to use AIQ for this sort of screen to see what the market is willing to give you.

(Editor's Note: You can download an Expert Design Studio file that searches for efficient stocks. Visit www.aiqsystems.com*, click Educational Products and Opening Bell.)*

Vomund: You talk about owning a stock for free. Can you explain this concept?

Tharp: Okay, you buy a stock that is selling at 60% of its liquidation value. At the bottom of the last bear run, there were about 10 of them. Only buy these stocks when they've been going up for at least two months – because that saves you a lot of grief. You want the trend to be in your favor. When they double in value, then sell half of your shares and keep the rest. What will happen is that you'll accumulate a lot of very sound stock during this bear market that will be virtually free. And when the market moves down, you use your cash for the bear market strategy that we describe in the book.

Vomund: Most people without overseas travel plans don't watch the value of the dollar. Should they?

Tharp: I think everyone should.

"Most people in other countries are much more aware of what their currencies are doing than Americans are. That's probably because we've been the reserve currency of the world for so long. However, that could change as our debt and our balance of payments continue to climb."

Most people in other countries are much more aware of what their currencies are doing than Americans are. That's probably because we've been the reserve currency of the world for so long. However, that could change as our debt and our balance of payments continue to climb. As I mentioned earlier, if your wealth is totally in the dollar you basically lost 40% of your wealth (compared with many currencies) in the last few years.

When the dollar is going down, we have a strategy in the book that allows you to invest in foreign currencies, only making one decision each year. If you follow that strategy when the dollar is weak, you'll make double-digit returns from it. Of course, when the dollar is strong, you don't want to be using that strategy.

Incidentally, we have a free weekly email newsletter at www.iitm.com. The first issue of the month contains an update about what the economy is doing – things like the stock market, the dollar, inflation, real estate, etc. Many of the models are quite mixed right now, but people can take advantage of the signals that are quite clear.

Vomund: You have an important chapter on risk analysis and setting stops. This information is appropriate for both amateurs and professionals. In the chapter, you compare investing to gardening, saying that if you pull the small weeds daily they never take root and grow big. Can you expand on this?

Tharp: The golden rule of trading is cut your losses and let your profits run. You don't want to be a buy and hold investor in a secular bear market. However, if you continually get rid of your weakest stocks and keep the strong ones – you'll basically have a garden full of great flowers.

Instead of buying and holding, we recommend that you use a 25% trailing stop based upon the close. This would have gotten everyone out of the stock market by about May of 2000. And since we were in red light mode, you'd be looking for value or for shorting strategies.

Another key point is position sizing or how much. I don't recommend that you risk more than 1% of your portfolio on any given stock. Thus, if you have a $100,000 account and want to risk 1%, you'd risk $1000 on each stock you purchase. If your risk per stock were 25%, you'd allocate $4000 to each stock and get out if it drops by $1000. This is what makes strategies safe.

Vomund: Once you get stopped out, how do you know when to get back in? For example, suppose the timing model you present in the book is bearish and you hold a bearish mutual fund but the market rallies 3% in a week. If that forced you to sell 25% of your portfolio, then at what point do you re-enter the bearish mutual fund?

Tharp: In the case of the bear market strategy, you enter when the S&P 500 drops 2.5% per week and 1) the market is in red light mode, and 2) the S&P 500 is lower than it was five weeks ago. This particular strategy would have gotten you into the S&P 500 in September of 2000 and kept you with some short position until the end of 2002. Of course, there were times when I recommended taking profits.

"We've discovered with much research that you need to spend a lot of time with your system thinking about your objectives. Then, assuming you have a fairly good system, you need to use position sizing to meet those objectives."

Vomund: Most people would guess that the risk of an investment accounts for most of the variability of a system's result but you say that position sizing is the more important factor. Can you please explain the importance of position sizing?

Tharp: I like to call the initial Risk in a stock R (for Risk). Let's say you have a strategy that calls for you to buy a stock when it's in an uptrend and it breaks out of a consolidation range. This is pretty much what CANSLIM traders and investors do.

Let's say you buy a $50 stock when it breaks out and you keep a pretty tight stop. Let's say you get out if it drops to $49. Chances are you'd be stopped out a lot – say 4 out of 5 times. But on the fifth time, you could easily make $10 because such breakouts usually go 20% in a few weeks. Thus, this means you have a system that loses 1R 80% of the time and it makes 10R (ten times your risk) 20% of the time. This is actually a pretty good system.

Now suppose you made ten trades and risk 1% of your portfolio on each trade (that's position sizing). After ten trades, you'd probably have eight 1R losers and two 10R winners. You'd be up 12R or about 12%. Pretty good for a system that loses 80% of the time.

However, suppose you risked 20% on each trade instead of 1%. You'd start out with $100,000 and you'd risk $20,000 – you'd lose 1R and be down to $80,000. Now you risk $16,000 (another 20%) and you'd lose 1R and be down to $64,000. At this point you might just quit trading because you could not tolerate the loss. You've still got that great winning system, but you need to be able to risk at a level that will allow you to survive the worst possible contingency in the short run so you can survive to benefit from the system.

In the system we are talking about, it's not the stop point. That was only a dollar. It's the number of shares you'd buy – 20,000 – that really affects your bottom line. We basically have a simulator that allows you to determine what to expect from such a system. And you need to be capable of withstanding a 30R drawdown or bigger when you only win 20% of the time. And if, psychologically, you couldn't tolerate a 25% drawdown in your capital, then you'd have a problem even risking 1%. Chances are you should only risk ½% on this system.

We've discovered with much research that you need to spend a lot of time with your system thinking about your objectives. Then, assuming you have a fairly good system, you need to use position sizing to meet those objectives.

Vomund: Thanks for sharing your thoughts with us.

More educational information including Dr. Tharp's free newsletter can be found at *www.iitm.com.*

Real-Time Back Testing

Now You Can Back Test a Trading System with Real-Time Data – Using New TradingExpert 7.4

By David Vomund

David Vomund

Until recently, AIQ back tests were limited to end-of-day systems. With the release of TradingExpert 7.4, users can back test historical real-time data. Back testing a trading system with real-time historical data is no different than back testing daily or weekly data. In each case, the Expert Design Studio (EDS) module is used.

Similar to end-of-day data, TradingExpert will download historical real-time data and save it to your hard drive. One month of historical data per ticker can be downloaded to your hard drive. By updating it regularly, you will continually build your database of historical real-time data.

"Once you have created a real-time database, back testing a trading system in Expert Design Studio (EDS) is no different than back testing with daily or weekly data."

You will want to be selective when choosing how many tickers to get real-time data for. Remember, each trading day has 390 minutes and for each minute an open, high, low, close, and volume is stored. One month of real-time data takes approximately 500K of space on your hard drive. For 100 tickers that would be about 50MB. Only save real-time data on tickers that you know you might day-trade.

To select which stocks should get real-time data, you'll need to open the new Historical Real-Time Downloader (HRT Downloader). Enter the Data Manager and select the HRT Downloader icon (green down arrow). From the menu bar, select **Ticker** and **Add**. Enter the ticker symbols separated by a semi-colon. If the tickers are in a list file, then you can select **Add Tickers From List**.

With the tickers added, you can establish the data download directly from the HRT Downloader screen. Select **Ticker** and **Download**.

Once the data is downloaded, the price data will appear on the HRT Downloader page. Although one-minute data is stored, any period from one to 60 minute increments can be displayed by clicking the appropriate icon.

To automatically update real-time data on a daily basis, go to the AIQ Data Retrieval module. Under Update, place a check market next to **Historical RT** and click **Save Setup**. Real-time data will be updated automatically with each end-of-day download. Since the number of days of historical real-time data that can be downloaded is limited to 30, there will be a gap in your historical data if you fail to perform an update during a given month.

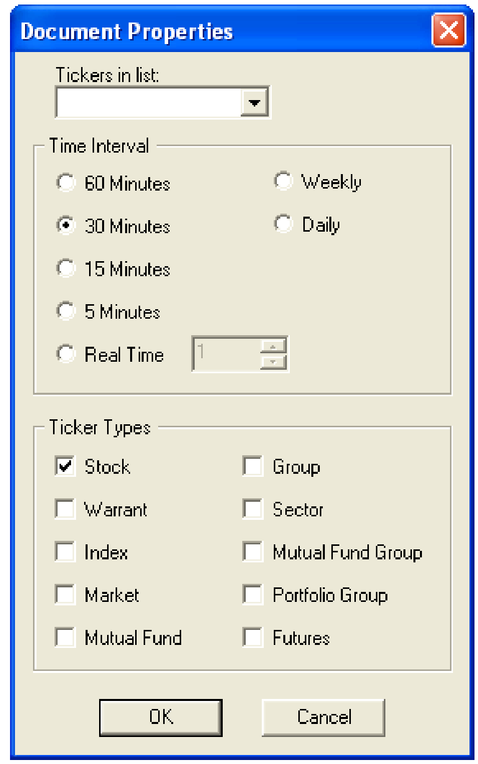


Figure 1. EDS Properties screen. Prior to running a real-time test, use this screen to select a real-time back test time interval.

Once you have created a real-time database, back testing a trading system in Expert Design Studio (EDS) is no different than back testing with daily or weekly data. This was covered in the July 1998 *Opening Bell* (http://www.aiqsystems.com/july1998.pdf).

The only change is that you must select the time interval used for the test. In EDS, click the **Properties** toolbar button. Under the Document Properties screen, click on preferred time interval (**Figure 1**). The shortest interval that can be tested is one minute. The longest real-time interval is 60 minutes.

On this screen, you can also select daily or weekly data. At this time, you can't combine a real-time screening with an end-of-day screening.

To demonstrate the back testing capability, we created a system that looked at the relationship between the open and the close. Using an hourly time frame, our bullish setup is that the security's closing price is greater than its opening price for four consecutive hours. Here is the EDS code:

Hour1 if [close]>[open].

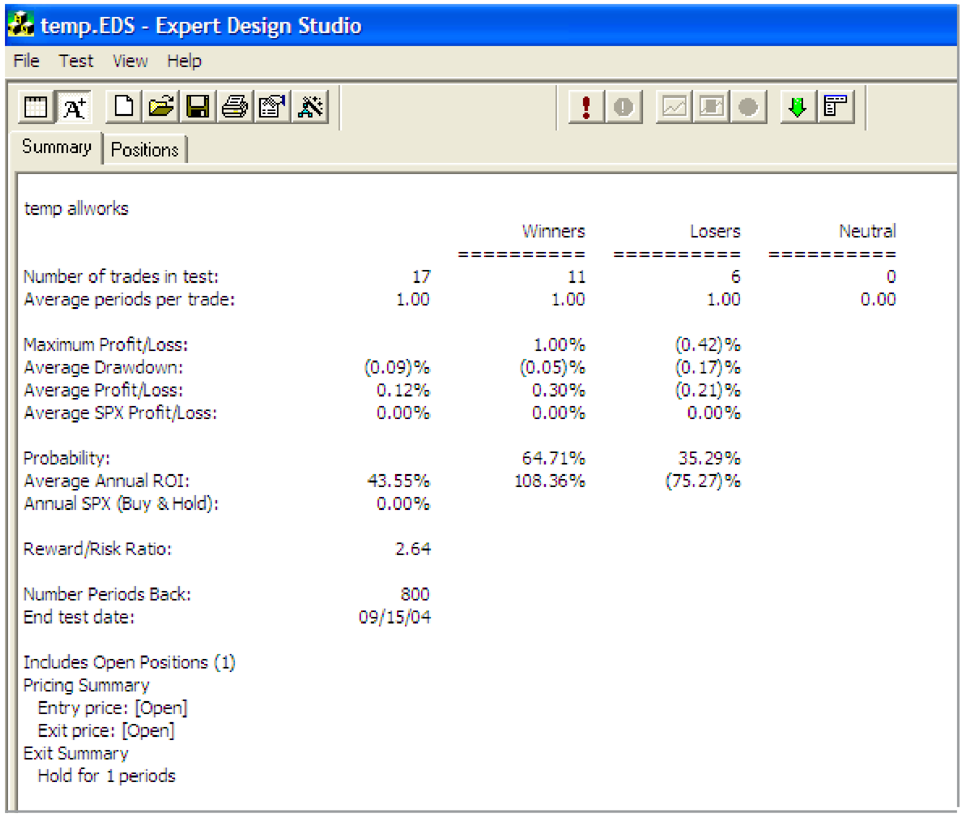
Hour2 if val([close],1)>val([open],1).

Hour3 if val([close],2)>val([open],2).

Hour4 if val([close],3)>val([open],3).

allworks if hour1 and hour2 and hour3 and hour4.

We chose to get 30 days historical real-time data for the S&P 500 SPDR (SPY), which tracks the S&P 500 index, and the Nasdaq 100 ETF (QQQ), which tracks the Nasdaq 100 index. Both of these exchange traded funds are highly liquid with small bid-to-ask spreads. The holding period is a fixed one-hour time period. **Figure 2** shows the back testing results. There were 17 trades with an average gain per trade of 0.12%. You would expect a small number given our holding period was one hour. There were about twice as many winners as losers. The results show a zero percent return on the average trade for the S&P 500. That's because we didn't get real-time data for this index. If we did, then it would have been purchased and sold in the back test as well. To avoid this problem, create an AIQ list of the real-time tickers you want used in the back test and then run the EDS screen on that list.



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File Test View Help

Summary Positions

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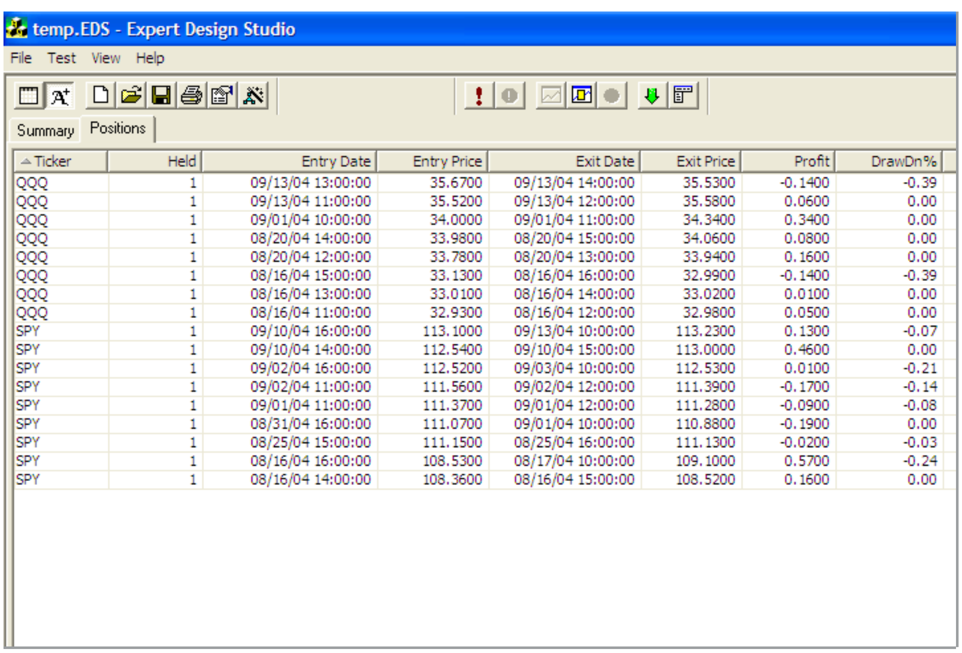
		Winners	Losers	Neutral
		==========	==========	==========
Number of trades in test:	17	11	6	0
Average periods per trade:	1.00	1.00	1.00	0.00
Maximum Profit/Loss:		1.00%	(0.42)%	
Average Drawdown:	(0.09)%	(0.05)%	(0.17)%	
Average Profit/Loss:	0.12%	0.30%	(0.21)%	
Average SPX Profit/Loss:	0.00%	0.00%	0.00%	
Probability:		64.71%	35.29%	
Average Annual ROI:	43.55%	108.36%	(75.27)%	
Annual SPX (Buy & Hold):	0.00%			
Reward/Risk Ratio:	2.64			
Number Periods Back:	800			
End test date:	09/15/04			

Includes Open Positions (1)
Pricing Summary
Entry price: [Open]
Exit price: [Open]
Exit Summary
Hold for 1 periods

Figure 2. EDS Summary page lists back test results from the example day-trading system. Using real-time data from two stocks (SPY and QQQ), 17 trades occurred in 30-day test period.



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Summary Positions

Ticker	Held	Entry Date	Entry Price	Exit Date	Exit Price	Profit	DrawDn%
QQQ	1	09/13/04 13:00:00	35.6700	09/13/04 14:00:00	35.5300	-0.1400	-0.39
QQQ	1	09/13/04 11:00:00	35.5200	09/13/04 12:00:00	35.5800	0.0600	0.00
QQQ	1	09/01/04 10:00:00	34.0000	09/01/04 11:00:00	34.3400	0.3400	0.00
QQQ	1	08/20/04 14:00:00	33.9800	08/20/04 15:00:00	34.0600	0.0800	0.00
QQQ	1	08/20/04 12:00:00	33.7800	08/20/04 13:00:00	33.9400	0.1600	0.00
QQQ	1	08/16/04 15:00:00	33.1300	08/16/04 16:00:00	32.9900	-0.1400	-0.39
QQQ	1	08/16/04 13:00:00	33.0100	08/16/04 14:00:00	33.0200	0.0100	0.00
QQQ	1	08/16/04 11:00:00	32.9300	08/16/04 12:00:00	32.9800	0.0500	0.00
SPY	1	09/10/04 16:00:00	113.1000	09/13/04 10:00:00	113.2300	0.1300	-0.07
SPY	1	09/10/04 14:00:00	112.5400	09/10/04 15:00:00	113.0000	0.4600	0.00
SPY	1	09/02/04 16:00:00	112.5200	09/03/04 10:00:00	112.5300	0.0100	-0.21
SPY	1	09/02/04 11:00:00	111.5600	09/02/04 12:00:00	111.3900	-0.1700	-0.14
SPY	1	09/01/04 11:00:00	111.3700	09/01/04 12:00:00	111.2800	-0.0900	-0.08
SPY	1	08/31/04 16:00:00	111.0700	09/01/04 10:00:00	110.8800	-0.1900	0.00
SPY	1	08/25/04 15:00:00	111.1500	08/25/04 16:00:00	111.1300	-0.0200	-0.03
SPY	1	08/16/04 16:00:00	108.5300	08/17/04 10:00:00	109.1000	0.5700	-0.24
SPY	1	08/16/04 14:00:00	108.3600	08/16/04 15:00:00	108.5200	0.1600	0.00

Figure 3. EDS Positions page lists all trades that occurred in 30-day back test of the example day-trading system. Trade data includes date & time in addition to profit/loss information.

To see a listing of the trades, click the Positions page (**Figure 3**). This page shows the date and the time of each trade.

There are better day-trading systems than this example model. Now that TradingExpert has a historical real-time back tester, we'll be able to find these systems. Users no longer have to accept systems with blind faith.

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

STOCK DATA MAINTENANCE

The following table shows stock splits and other changes:

Stock	Ticker	Split	Approx. Date
Ansys Inc.	ANSS	2:1	10/05/04
Michaels Stores	MIK	2:1	10/13/04
Raven Industries	RAVN	2:1	10/18/04
NuCor Corp.	NUE	2:1	10/18/04
Pacific Cont'l	PCBK	5:4	10/18/04
Celgene Corp	CELG	2:1	10/25/04
Patterson Cos.	PDCO	2:1	10/25/04

Trading Suspended:

Allete Inc. (ALE)
Apollo Group Univ. of Phoenix Online (UPOX)
Charter One Financial (CF)
GB Holdings (GBH)

Name Changes:

Boston Biomedica (BBII) to Pressure BioSciences Inc. (PBIO)
Medical Technology Systems (MPP) to MTS Medication Technologies (MPP)
Meritage Corp (MTH) to Meritage Homes Corp. (MTH)
Orthodontic Centers of America (OCA) to OCA Inc. (OCA)
Wilshire State Bank (WSBK) to Wilshire Bancorp (WIBC)

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- Rich Denning, CPA, *long-time investor & AIQ user*
- Jerry Klein*, investtalk.com*
- David Vomund, *Chief Analyst, AIQ Systems*
- Dean Kasparian, *President, AIQ Systems*
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Market Review

The late-August rally continued into the first half of September. By mid-month, however, the S&P 500 reached a resistance trendline drawn from the highs on March 5 and June 24. The trendline held and the market sold off. Until this trendline is broken, the S&P 500 is in a pattern of lower highs.

The S&P 500 closed at this trendline at month's end. Other market indexes performed better. The Russell 2000, an index of small-company stocks, closed above its equivalent trendline. Better yet, the S&P 600 Small-cap value (CVK) closed at a new all-time high. The iShares Small-Cap Value (IJS) exchange traded fund tracks this index.

Whereas the Nasdaq Composite underperformed the S&P 500 in July and August, it bounced back and outperformed in September. In September, the S&P 500 gained 2.47% and the Nasdaq Composite gained 5.67%.

The winning sector in September had nothing to do with the Nasdaq. Oil prices hit new all-time highs and the energy stocks benefited. In September, Energy and Energy Services both gained 13%. These are the two best performing sectors for the year, with returns of about 35%. Other leading sectors were Precious Metals, up 11%, and Telecommunications, up 8%.

The lagging sectors were conservative ones, sectors that people rotate to in times of uncertainty. Consumer Products and Health Care each lost about 3%.

S&P 500 CHANGES

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

Coach Inc. (COH) replaces Charter One Financial (CF). COH is added to the Apparel & Accessories (TEXTILEA) group.

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You are cordially invited to join us at the **2nd Annual Las Vegas Traders Expo,** which will be held November 18-21, 2004, at the Mandalay Bay Resort and Casino. As an AIQ client, you are entitled to free admission when you mention AIQ and priority code #003524.

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- State-of-the-art interactive trading lab featuring live and simulated trading on individual terminals.
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- Traders' Open Forum
- Live Trading Challenge
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This year's stellar roster of speakers includes Linda Raschke, Larry Williams, Robert Miner, Joe DiNapoli, Larry McMillan, John Bollinger, Alexander Elder, Larry Pesavento, and many more. Whatever markets, instruments, and time frames you trade, regardless of your experience level, portfolio size, or risk posture, The Las Vegas Traders Expo will help you become a more skillful, knowledgeable, confident, and profitable trader.

Some of the topics to be presented include:

- New Concepts for Short-Term Trading Success from Market Wizard Linda Raschke
- Larry Williams Personal Patterns to Short-Term Profits
- 16 Sweet Spot Trading Industries for 2004
- Nail Market Turning Points Using Specific Advanced Fibonacci Techniques
- Binary Options: The Newest Innovation in Trading
- Trading the E-mini S&P and NASDAQ Stocks with Pattern Recognition Swing Trading
- Optimal Probability Beyond the 50% Outcome
- The Tax Guide for Traders

Just to name a few!

The Las Vegas Traders Expo WILL be booked up quickly, so call **800/970-4355** now or visit this Web page to make your reservations online today.

http://www.tradersexpo.com/mainTE/main.asp?site=lvot04N&cid=default&sCode=003524

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Hope to see you there!

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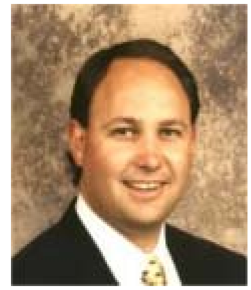
Saturday, Nov. 20



Dean Kasparian

2:30 pm - 3:15 pm

Dean Kasparian, President, AIQ Systems

Perfecting Market Timing and Group/Sector Strategies

Dean Kasparian will use AIQ's unique tools in TradingExpert Pro to focus on strategies for both timing the market and effective group / sector rotation.

Speaker Biography

Dean Kasparian is President of AIQ Systems and also Chief Technology Officer for the AIQ's TradingExpert Pro and OptionExpert. An experienced analyst, Dean has also been a market commentator for both radio and television. Dean is a frequent guest speaker at many trade shows, AAII and other investor meetings. Dean has been actively involved in all aspects of AIQ product development for the last 14 years.

Sunday, Nov. 21

Steve palmquist

2:15 pm - 3:45 pm

Steve Palmquist, Founder, DaisyDogger.com

ProfitableTrading in Today's market

Learn proven methods for improving your results in current market conditions from a full time trader who invests his own money and depends on a successful outcome. Learn how to find profitable set ups for up, down, and sideways markets. Know when to be in the market, when to stand aside, and how to trade difficult markets. Learn how to adjust holding times and stops based on market conditions. Learn to use Market Adaptive Techniques (MAT) for dealing with specific trading environments, and how to use that information to select setups and adjust holding timeframes. Specific trading patterns will be explained, along with the best approaches to using them in different market conditions. The results from extensive system back testing will be shared, as well as results from using these systems in the real world. Traders will receive tips and techniques on tools, and the trading process, based on nearly 20 years of market experience.

Speaker Biography

Steve Palmquist is a full-time trader with nearly 20 years of experience. He is the founder of www.daisydogger.com, which provides free market analysis, trading tips, and educational material. Steve is also publisher of the Timely Trades Letter available through the web site. Steve will be a featured speaker at AIQ's October Lake Tahoe Seminar.