AIQ Opening Bell ®

Monthly

INTERVIEW

FINANCIAL PROFESSIONAL SHARES HIS MONEY MANAGEMENT APPROACH

By David Vomund

A topic that we don't often discuss in the Opening Bell, but one that we all face in our investment decisions, is money management. To help answer money management questions, we interviewed Robert Rosenblum, a financial professional and AIQ user. Mr. Rosenblum is an investment broker with A G Edwards & Sons. He began using TradingExpert in 1995 and has attended four of our Fall seminars at Lake Tahoe.

OBM: In the *Opening Bell* we concentrate on trading techniques, implying that one's entire portfolio should be traded in this style. For most people, however, the trading portion of a portfolio is only one part of the entire portfolio. How do you determine how much of your portfolio should be actively traded?

Rosenblum: The trading portion typically falls within 10% to 50% of the portfolio. Most of my clients have 20%

**Robert Rosenblum
Investment Broker, A G Edwards**

allocated to trading. A typical client is more interested in a long-term strategy which minimizes taxes and commissions.

For new clients, the trading portion starts out small and it slowly increases

as they gain confidence in a more active approach.

OBM: It sounds like at least 50% of a portfolio should be held long-term.

Rosenblum: That's right. As a professional advisor I'd be uncomfortable advising people to move more than 50% of their equity positions to cash. Therefore, one-half of an equity portfolio is generally conservative even if the other half is aggressively managed. Also remember that we are talking about the equity portion of a portfolio rather than the entire portfolio.

OBM: How do you use TradingExpert to time the market?

Rosenblum: I market time differently than the traditional AIQ user. The market timing Expert Ratings are important but I add additional confirmation techniques to eliminate some of the short-term trades and whipsaws.

The MACD is one indicator that is used for confirmation but I use different settings depending on whether a buy signal or a sell signal is registered. For buy signals I use a MACD with the settings of 8-17-9. For

Figure 1
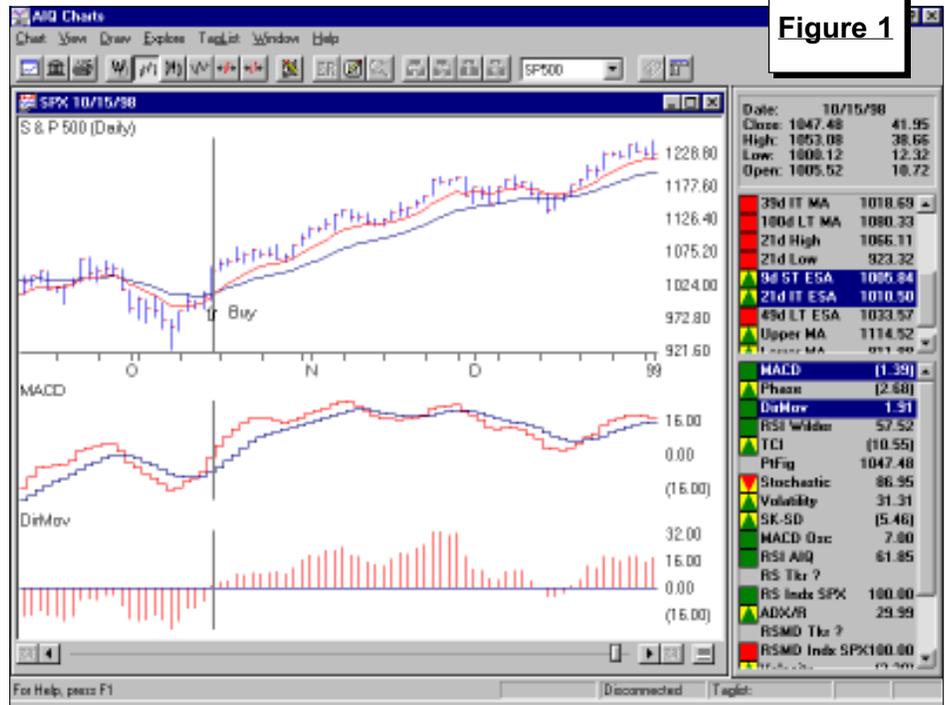
sell signals the settings are 12-25-9.

Here is how the market timing works. Looking at the sell side, a yellow caution flag occurs when there is a market Expert Rating downside signal of 95 or greater. For confirmation, the MACD (12-25-9) needs to fall below its signal line and the Directional Movement Index must move below zero.

A red flag means a high risk of loss. This occurs when a market timing Expert Rating of 98 or greater is registered and the MACD and Directional Movement rules listed above are negative.

In addition, the 9-day ESA must cross below the 21-day ESA. When this occurs, we end new stock buying. We sell all losers with principal loss in excess of 20% and take some profits,

> **"I market time differently than the traditional AIQ user. . . Expert Ratings are important but I add additional confirmation techniques to eliminate some of the short-term trades and whipsaws."**

most often selling half and keeping half of an equity position.

Looking at the buy side, a green flag occurs when there is a market timing signal of 98 or greater confirmed by the MACD (8-17-9) and Directional Movement Index. When this occurs, we quickly get all available cash in the market. The last buy signal came on October 15 and the system remained on a buy for the remainder of 1998 (see **Figure 1**).

Using the market timing model in this manner lowers return. The degradation is relatively small but the whipsaws are markedly reduced (the recent signals are shown in **Figure 2**).

OBM: Let's focus in on the trading portion of the portfolio. We've discussed several effective trading systems in the *Opening Bell* and how

INTERVIEW   *continued*   . . .

systems can be created in the Expert Design Studio module. How many trading systems should be used for the trading portion of a portfolio?

Rosenblum: That really varies with the size of the account. With $50,000 you can effectively use two strategies. There is never a need to go beyond five or six strategies, even with million dollar accounts.

OBM: How many stocks are held in a trading strategy?

Rosenblum: Usually between 10 and 25, with an equal dollar weighting in each stock. Over the years, I've found that people can't take the volatility of most strategies that invest in less than 10 stocks.

OBM: That brings us to the emotional side of trading. When you talk to people new to trading, what advice do you give them to help with their success?

Rosenblum: I try to educate my clients so they understand that not every trade will work out well. I'm a sailboat racer and I use a sailboat analogy. There are ways of keeping

Figure 2

the wind at your back and not sailing into a storm.

These include using the AIQ market timing model, having stops set in place, and selling part of the portfolio when you have significant profits in a top-heavy market.

It is very important to maintain a

Figure 3

constant communication as well. I call clients often, especially when the market is falling. Most of my clients know my approach and are comfortable following it.

OBM: Most brokers simply follow the recommendations provided by their firms. You are in the minority in that you are doing your own analysis and are using TradingExpert. What advice would you give to other brokers who are considering incorporating TradingExpert into their business?

Rosenblum: The ability to do your own analysis is what can separate you from other brokers.

Clients find it comforting to know that there is some thought behind what you are saying. You can be confident in what you know and be able to own up to anything that you don't know. People find that comforting.

I do follow the work of the analysts at A G Edwards but I'll supplement it with my own analysis. I create "favorite lists." Favorite lists are

stocks that are held by any of three money managers that I track as well as an A G Edwards focus list. These are the stocks that are closely tracked rather than analyzing a large database.

OBM: What type of analysis do you do on stocks?

Rosenblum: The real benefit of AIQ is disaster control, so I'll focus in on the sell side. The strategy is the same as for market timing. A sell occurs when a MACD line with settings of 12-25-9 falls below the signal line and when the Directional Movement Index falls below zero.

Zoltek (ZOLT) was a stock that I traded in and out of several times. It had performed well in early 1997 but its MACD went negative in September, the DMI went negative in October, and the 9-day ESA crossed below the 21-day ESA on October 22. All three were negative so the stock was sold on

October 23 (**Figure 3**).

OBM: Your input is very valuable and thanks for sharing it with us. ∎

Robert Rosenblum can be reached at 800-332-2774.

Changes to S&P 500 Index and Industry Groups

The following are recent changes to the Standard & Poor's 500 structure:

Century Telephone (CTL) replaces Rubbermaid (RBD) and is added to the Telephone group.

(ACCOB) has changed its symbol to (RKY) and remains in the Beverage (Alcoholic) group

Service Pack 2 Now Available

This Service Pack contains bug fixes and new features for TradingExpert Pro. To download the service pack from the internet, go to AIQ's Main Menu and select **Help** from the menu. Next, select **Technical Support** and **Updates**. That will launch a web page. On that page, click on **TradingExpert Pro Service Pack 2**.

The new Features from this service pack are:

- Zoom on real- time charts
- Secondary sorts on quotes page
- Four decimals displayed for mutual funds in the Profit Manager
- Real-time trendline breakouts

STOCK DATA MAINTENANCE

The following table shows past and future stock splits and large dividends:

Stock	Ticker	Split/Div.	Approx. Date	Stock	Ticker	Split/Div.	Approx. Date
Lucent Technology	LU	2:1	04/02/99	AT&T Corp	T	3:2	04/16/99
Office Depot	ODP	3:2	04/02/99	MiniMed Inc.	MNMD	2:1	04/19/99
Motive Power Inds.	MPO	3:2	04/05/99	Wal Mart Stores	WMT	2:1	04/20/99
Doubleclick Inc.	DCLK	2:1	04/05/99	St. Francis Capital	SFTR	2:1	04/20/99
Sun Microsystems	SUNW	2:1	04/09/99	Qucksilver Inc.	ZQK	3:2	04/26/99
Intel Corp	INTC	2:1	04/12/99	Fiserv Inc.	FISV	3:2	05/03/99
Swift Transport	SWFT	3:2	04/12/99				

Trading Suspended:

Fingerhut Cos. (FHT), Greyhound Lines (BUS), Hills Stores (HDS), Kimmins Corp (KVN), Kuhlman corp (KUH), LandCare USA (GRW), Microdyne Corp (MCDY), Oryx Energy (ORX), Reno Air (RENO), Rubbermaid Inc. (RBD), Waxman Inds (WAX)

Name/Ticker Changes:

Adolph Coors (ACCOB) to Coors-Adolph (RKY), Inland Steel Corp (IAD) to Ryerson Tull Inc. (RT), Newell (NWL) to Newell Rubermaid Inc. (NWL), Niagara Mohawk Power (NMK) to Niagara Mohawk Holdings (NMK), Philips Electronics (PHG) to Koninklijke Philips Electr. (PHG)

"CREATING A MARKET" — TRADINGEXPERT'S ADVANCED INDUSTRY GROUP FEATURE

By David Vomund

DAVID VOMUND

Last month in the *Opening Bell* we discussed the new Select Sector SPDRs and demonstrated the benefits of creating surrogate groups to help in the analysis of these new sector funds. Creating surrogate groups allows you to create price history for a new security or allows you to analyze volume statistics for securities such as mutual funds that do not have volume. In this article, we'll discuss an advanced industry group feature available in TradingExpert which allows you to build advance/decline data for industry groups. We call it "creating a market."

In quick review, the American Stock Exchange recently created nine sector funds that trade on the AMEX just like stocks. The securities are called Select Sector Spiders (SPDRs). The SPDRs only have four months of history so we created surrogate groups based on each sector's stock holdings. This allowed us to get several years of price history including volume statistics for the purpose of calculating volume-based indicators for analysis. The surrogate groups also allow us to use AIQ's Group Analysis report to help identify the rotation of the SPDRs as they move in and out of favor.

With our surrogate groups created, it is a very easy process to create market tickers for the SPDRs. A market is anything with price, volume, and breadth. Therefore, by creating a market, TradingExpert is able to calculate market breadth statistics for a SPDR based on its stock holdings. This allows us to use breadth-based indicators such as the Advance/Decline Line, Advance/Decline Indicator, Advance/Decline Oscillator, TRIN, and New High/New Low.

To demonstrate, we'll create a market for the Technology SPDR (XLK). In last month's *Opening Bell*, we created a surrogate group for this sector and used the ticker XLKSPDR. This surrogate group must first be created because it contains the listing of the Technology stock holdings.

The first step in building a market is to create a ticker symbol which will represent the market index. Go to the *Data Manager* application and click *Ticker* on the menu bar, then *New* to display the *New Ticker* dialog box. For the Technology market we will enter a ticker symbol called XLKMKT. To lower the odds of creating a market ticker symbol that is already in use (the same as an existing stock symbol), choose a ticker of at least 5 digits. Select *Market* and click *OK*.

In the *New Market* dialog box, fill in the *Description* field. In our example, we entered *Technology SPDR (Market)*. Under *Market Breadth Data Source*, choose *Compute from all stocks in Group* and in the adjacent text box choose the group which corresponds to the market you are creating. In our case, we enter *XLKSPDR*, the surrogate group we created (March *Opening Bell*).

The final step in our market building process is to enter a ticker in the *Price Ticker* box. You can either type in the ticker symbol of the group or from the security itself. If you type in a surrogate group ticker symbol then it will plot the surrogate group with breadth and volume data. Since
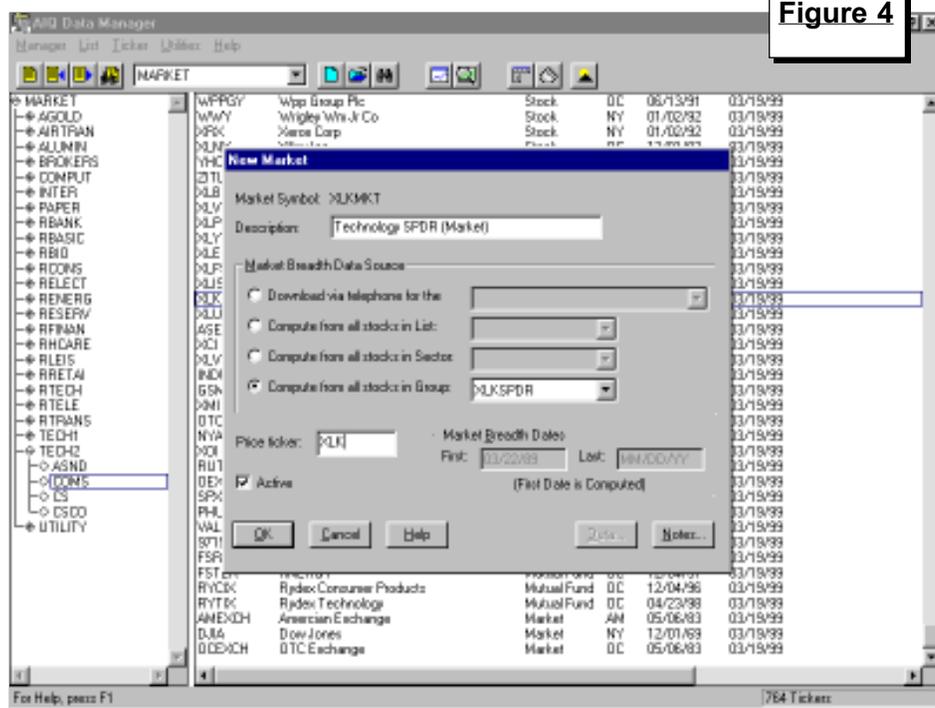
Figure 4

the SPDRs have an open, high, low, and close, we'll type in its actual ticker symbol (XLK) rather than its surrogate group ticker symbol. The Data Maintenance screen now looks like **Figure 4**. Click *OK* and compute the market.

Figure 5 shows the newly calculated market, *Technology SPDR (Market)*. The price plot shows the actual Technology SPDR. On the lower chart is the Advance/Decline Line, which is calculated based on the actual stocks held in the Technology SPDR. There is not much history for the SPDR so we are only charting three months of data but this is enough data to see the warning sign that came in January. Although the Technology SPDR moved higher for the entire month of January, its Advance/Decline Line hit its high early in the month and then continued to move lower. Few stocks powered the January rally. This ability to plot breadth data for the SPDR is an advantage TradingExpert users have over other traders.

A second advantage of creating a market is that the Expert Rating signals are improved. By creating a market, we can apply the same timing

Figure 5
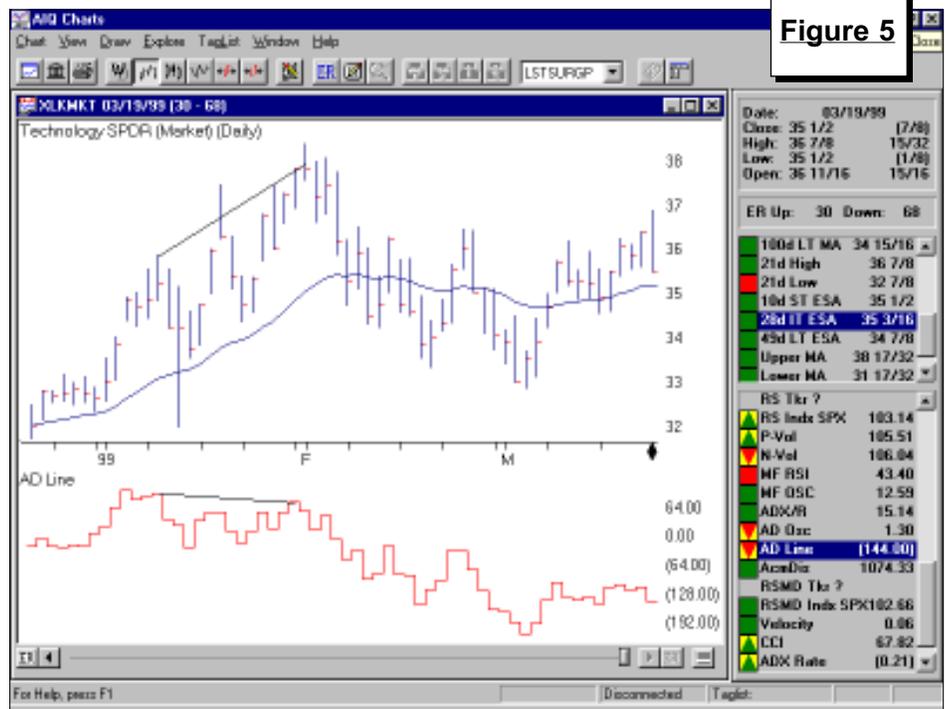
model that is used for the overall market (ticker DJIA) to industry groups. In our example, we created a market for the SPDR sectors. These sectors do not yet have enough price history to make the Expert Ratings valid but by the end of the year we'll have the minimum eight months of

data that is needed and we will be able to apply the Expert Ratings.

Our focus in this article has been on the Select Sector Spiders but we can apply the same analysis to other securities as well. There is a new trading vehicle called the Nasdaq-100 Shares (QQQ), which tracks the Nasdaq 100 index. We created a market using the Nasdaq 100 index (NDX) and the 100 stocks that comprise the index. These stocks along with information on the Nasdaq-100 Shares can be found at *www.nasdaq.com*.

Figure 6 shows a chart of the Nasdaq 100 along with an Advance/Decline Line based on the 100 shares that make up the index. The arrows represent the AIQ buy and sell signals of 95 or greater (with no confirmation). Remember, this is the same market timing model that is used for ticker DJIA. Over this time period, the signals are amazingly accurate.

Next month we'll test the accuracy of the AIQ signals and compare them to other Nasdaq market timing methods. ■

Figure 6
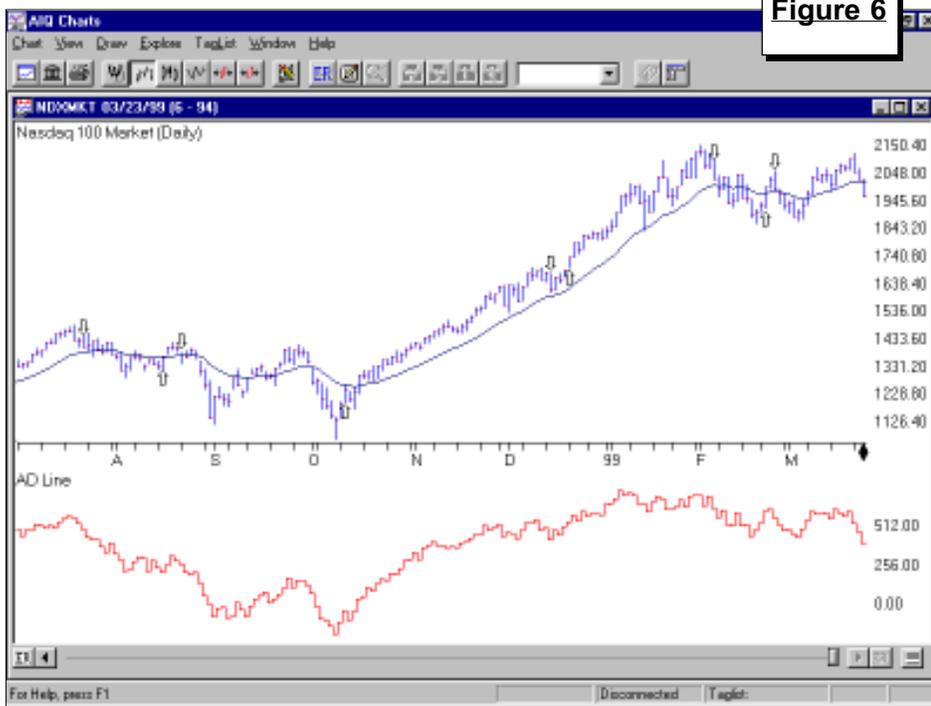
FOLLOW SECTOR ROTATION WITH AIQ'S QUOTES SCREEN

TradingExpert Pro comes with a Quotes screen that allows you to get real-time or 20 minute delayed quotes on stocks, indexes, futures, or options. There is no limit to how many quotes can be obtained, which allows investors to get a good feel for sector rotation during the trading day.

To follow sector rotation during the trading day, create separate sector files. To create a file, log onto the internet and go to AIQ's Quotes screen. Select *File* on the menu bar, then *New*. To enter tickers, select *Ticker* and then *Add Ticker*. You can type in a list of tickers by including a semi-colon between each ticker. As an example, we created a file which contains the ten largest holdings for the Rydex Energy Service fund. We added the tickers by typing:

BHI;DO;GLM;HAL;NBR;NE;RIG; SII;SLB;WFT

Click *OK* to display quotes for all tickers in the file. To save the file, click *File* on the menu bar, then *Save*, and enter a file name for the sector. By creating several files that represent

Figure 7

industry sectors, you can get a good feel for which sectors are performing well and which are lagging. To open a file, simply select *File* and *Open* and then select the appropriate file. On most days there will be some sectors where nearly every stock is increasing and some sectors where almost every stock is decreasing.

A good example is March 26, a day when the market was mostly unchanged. Our file containing the ten largest holdings in Rydex's Energy Service fund showed nine of the ten stocks moving up (**Figure 7**). This bullish movement is easy to see on your screen as the *Change* column displays positive price moves in green. (You can rearrange columns by dragging and dropping.)

In contrast to the advancing Energy Service sector, **Figure 8** shows the largest holdings from the Rydex Electronics fund. Whereas the energy stocks were increasing, the electronics stocks were moving lower. All but two stocks moved lower on the day. On your screen, stocks moving lower are shown in red.

Daily monitoring of the Quotes page serves as a good source of information on sector movement throughout the trading day. The importance of group rotation in stock selection is clearly demonstrated. ■

Figure 8

MARKET REVIEW

U pon first glance, the market has done very well this year. Record highs were recorded and the Dow closed above the magical 10,000 level. For the first quarter, the Dow is up 6.6% and the S&P 500 is up 4.64%. The leadership during this advance came from the large-cap technology stocks. The Nasdaq Composite increased 12.25%.

A closer look into market activity reveals two markets: An advancing large-cap market and a declining broader market. While the Dow and S&P 500 are setting records, far more stocks are setting new 12-month lows than highs. On most days, more stocks fall than rise. That's why the Advance/Decline Line moved below the lows set last October. Fully half of the NYSE stocks are 30 percent or more below their 12-month highs. While the Dow and S&P 500 have advanced this year, the Russell 2000 has a 5.8% loss (see **Figure 9**).

Poor market breadth readings are helping to keep the AIQ market timing model in a bearish mode. The February 25 sell signal remained in effect throughout the month of March. An additional sell signal was registered on March 23.
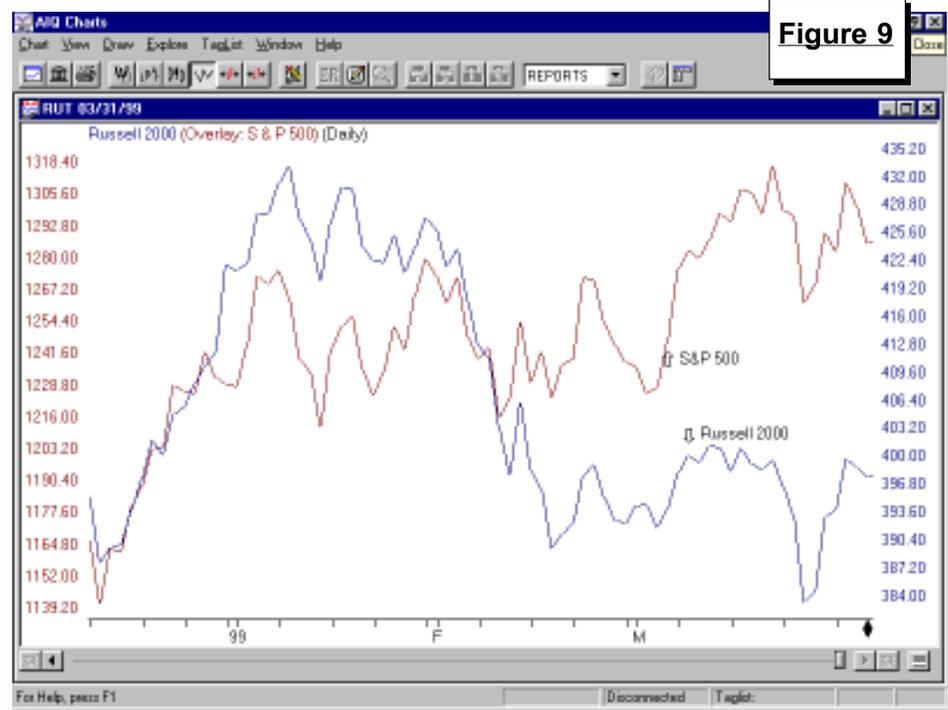
Figure 9

The February 25 sell signal may prove to be a good signal but so far the market has not cooperated. The S&P 500 has since moved above its recent trading range and the Point & Figure chart that we've discussed in the last few months shows a bullish pattern (**Figure 10**). On March 9, the S&P 500 moved above 1285, which brought the column of Xs above the level that was reached on previous rally attempts. The S&P 500 proceeded to advance to 1320 and then retreated. This Point & Figure chart will show a positive trend for the S&P 500 until the index falls below 1200, at which time a Point & Figure sell will be registered.

Most stocks are not participating in the rally but those investors with the foresight to buy the right stocks have done very well. The large-cap standout is America Online (AOL) which nearly doubled in price during the first quarter. Charles Schwab (SCH) became known as an internet stock and increased 70%. Large-cap technology stocks were also big winners. EMC Corp. (EMC) increased 50%, Sun Microsystems (SUNW) increased 45%, and Cisco Systems (CSCO) increased 18%.

For the quarter, the internet group was the winner, increasing 45%. A surprise runner up was Oil-Drilling, which increased 30%. The entire energy advance came in the month of March. The Technology-Memory Devices stocks were the losers on the quarter. Western Digital lost half its value and Applied Magnetics lost a third of its value. ∎

Figure 10