AIQ Opening Bell® Monthly

IN THIS ISSUE   VOL. 10   ISSUE 12   DECEMBER 2001

Feature

Sections

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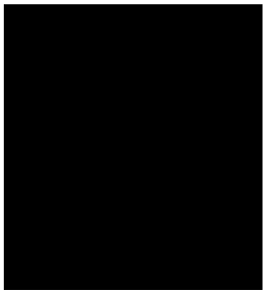
ADVANCED LIST FEATURES

Create and Manage Lists Quickly and Easily—With TradingExpert 6.0 Tools

By David Vomund



DAVID VOMUND

In TradingExpert 6.0 there are several features that are helpful tools for list management. For example, you can import and export AIQ lists to Excel and you also can merge lists. Let's see how these features can be helpful.

Longtime *Opening Bell* readers know that we often run reports or Expert Design Studio (EDS) screenings on a list of the Nasdaq 100 stocks. Unfortunately, to create the list of Nasdaq 100 stocks we had to manually type in all of the ticker symbols. And the stocks that comprise the Nasdaq 100 change over time so we had to enter the stock ticker symbols often. With the release of TradingExpert 6.0, the manual process of typing in the individual tickers is eliminated.

"To create a list of Nasdaq 100 stocks, we had to manually type in all of the ticker symbols…With the release of TradingExpert 6.0, the manual process of typing in the individual tickers is eliminated."

Here is how to import a list of Nasdaq 100 stocks into an AIQ list file. To see a list of the Nasdaq 100 stocks, go to *www.nasdaq.com* and search for the Nasdaq 100 components. You'll find a direct link to the Nasdaq 100 components on the Links page of my web site *www.visalert.com.*

AIQ imports files in a CSV format. Unfortunately, the Nasdaq web page doesn't provide an option to save the Nasdaq 100 components to a CSV format. There is another method, however. You first transfer the list to an Excel spreadsheet and then import the CSV file to TradingExpert. Start by highlighting all the tickers on the Nasdaq 100 page and then copy and paste the stocks to

Advanced List Features continued on page 2

ADVANCED LIST FEATURES *continued . . .*

an Excel spreadsheet. In Excel, we want column A to list each ticker symbol in its own cell. The other columns should be empty so erase any column that lists each stock's name. Save the Excel file to a CSV format.

To import these Nasdaq 100 ticker symbols, go to AIQ's Data Manager and click *List* and then *Advanced List Edit*. We'll make a new Nasdaq 100 list so click *File, New*, and type in a list name (we called our list NDXCUR). Click *OK*.

With the list open, we can now import the CSV file. Click *File* and then *Import*. Highlight the proper file and click *Open*. The ticker symbols will appear under the list name. Click *File* then *Save* and the process is completed. These steps may sound difficult but in reality the process is fast and easy, especially if you understand how to use Excel.

Another application that we've performed in past *Opening Bell* issues is running reports and EDS scans on a list of S&P 500 and Nasdaq 100 stocks. In the past, the S&P 500 and Nasdaq 100 ticker symbols had to be entered manually to form the list. Now we can use TradingExpert's Advanced List tools to merge two list files into a single file.

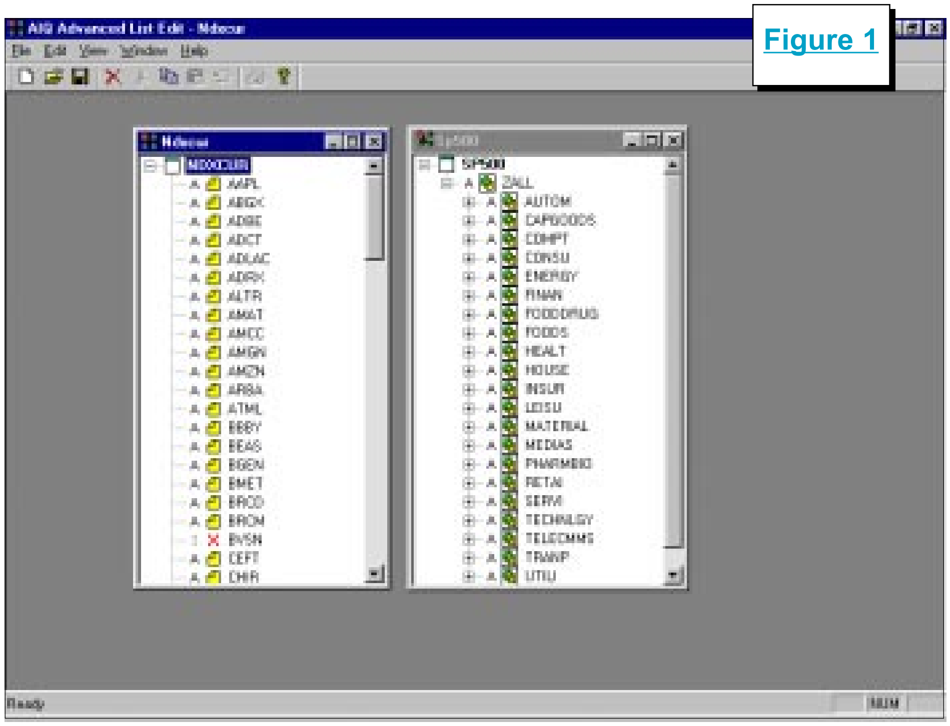


Figure 1

To make a single list of the S&P 500 and the Nasdaq 100 stocks, go to the Data Manager and select *List* and then *Advanced List Edit*. To open both the S&P 500 list file and our newly created Nasdaq 100 list file, click *File, Open*, and select the S&P 500 list. Then click *File, Open* and select the Nasdaq 100 list file. Display both these structures, similar to Figure 1.

> ***"These steps may sound difficult but in reality the process is fast and easy."***

To combine the two list files, simply drag and drop one list into the other list. Single-click the Nasdaq 100 list name (remember, we called our list NDXCUR) and drag it to one of the S&P 500 industry group symbols. (You can also make a special Nasdaq 100 group and place the stocks in that group.) Unclick and the two lists are combined.

Some stocks are in both the S&P 500 and the Nasdaq 100 so their ticker symbols will appear twice in the list structure. That's no problem. AIQ's reports and EDS scans will work fine even though some tickers appear twice.

To save this newly created list file with a new file name, click *File* and then *Save As*. Enter a new file name (we called ours SPNASD) and click *OK*.

With the list created, we next want to see if all of the stocks in the list structure are in our database. Looking at Figure 1, we see that BVSN is not. There may be other stocks that need to be added to our database as well.

We can use TradingExpert's Find and Create feature to add the missing stocks to our database. In Data Manager, make the newly created list the active list (in our example, the list name is SPNASD). Select *List*, and *Find & Create*. The ticker symbols that are in the list file but are not in the database will appear. You can then click *Histori-*

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ADVANCED LIST FEATURES *continued . . .*

cal Stock CD to copy the stock files from AIQ's Historical Stock CD to your database.

Alternatively, if you are a myTrack subscriber you can access the myTrack database to automatically get the ticker data. When you are connected to the internet, click *myTrack Online*. The Description, Start Date, and Market fields will appear (Figure 2). Then click the *Make DTA Files* button. Data will be retrieved for these stocks on the next database update. The advantage of running this myTrack feature is that it will retrieve stock information on any active ticker symbol, even if it is a new listing.

We've shown you how the Advanced List management features in TradingExpert 6.0 can save an extraordinary amount of time and effort in creating and managing lists. This is extremely useful since most power-users often rely heavily on user created lists that are designed to meet their specific needs. ■

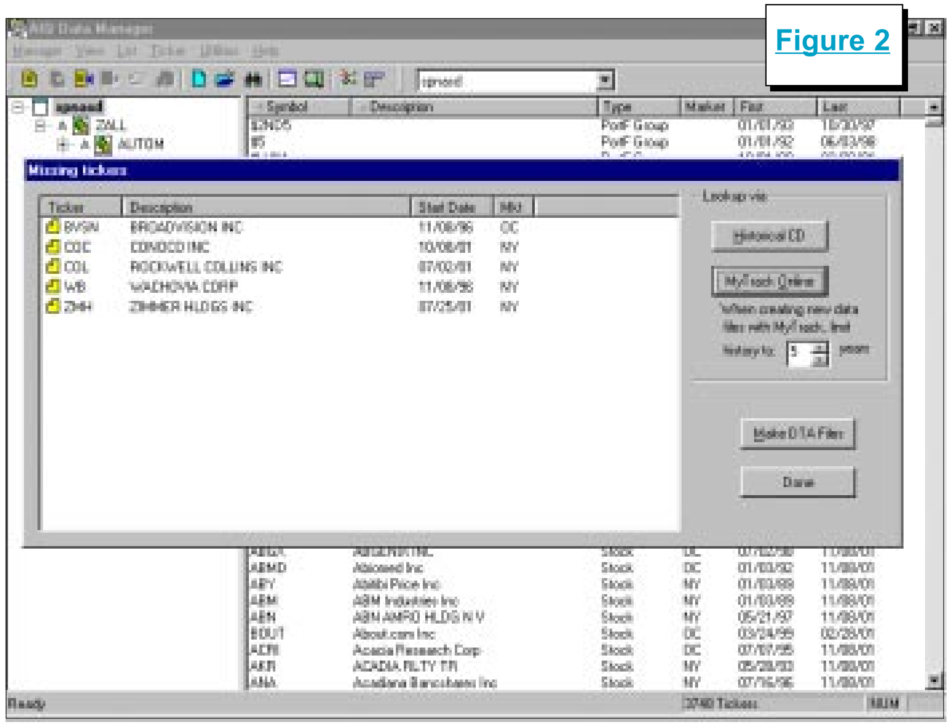

Figure 2

MARKET REVIEW

The AIQ timing model did not register any signals in November. Heading into November, the timing model was on a sell signal so it was on the wrong side of the market. For the month, the S&P 500 rose 7.5% and the Nasdaq rose 14.2%.

With the Nasdaq leading the market higher, it is not surprising that the best performing groups were technology related. The Internet Software & Services group rose 38% and the IT Consulting & Services group rose 28%. The Airlines group rallied from a very depressed level, gaining 28%.

While the market rose there were some groups that performed poorly. The worst performing group, Multi-Utilities, lost 60% of its value. Most of that damage came from Enron's collapse. The oil related groups lost 11%.

Most of the market's gain came at the beginning of the month. In mid-month the market hit resistance levels and then stalled.

The 1940 area acted as support for the Nasdaq two times in July, and then acted as resistance on August 27. In addition, the Nasdaq rallied right to its 28-week moving average. During the bear market this moving average has acted as resistance.

After the 1982 bear market the S&P 500 and the Nasdaq formed a "V" shaped bottom. If the S&P 500 and the Nasdaq break above their resistance levels then we may have a "V" shaped bottom.

More often, there is a retest where the first low occurs below the lower AIQ weekly trading band and the second low takes place above the band. Should there be another round of selling the S&P 500 has support at 1050. ■

Happy Holidays

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Peace and Prosperity in the New Year

RSMD INDICATOR - RESULTS OF STUDY

WHICH IS THE BETTER MARKET TIMING INDICATOR — RSMD SPX OR RSMD DJIA?

By David Vomund

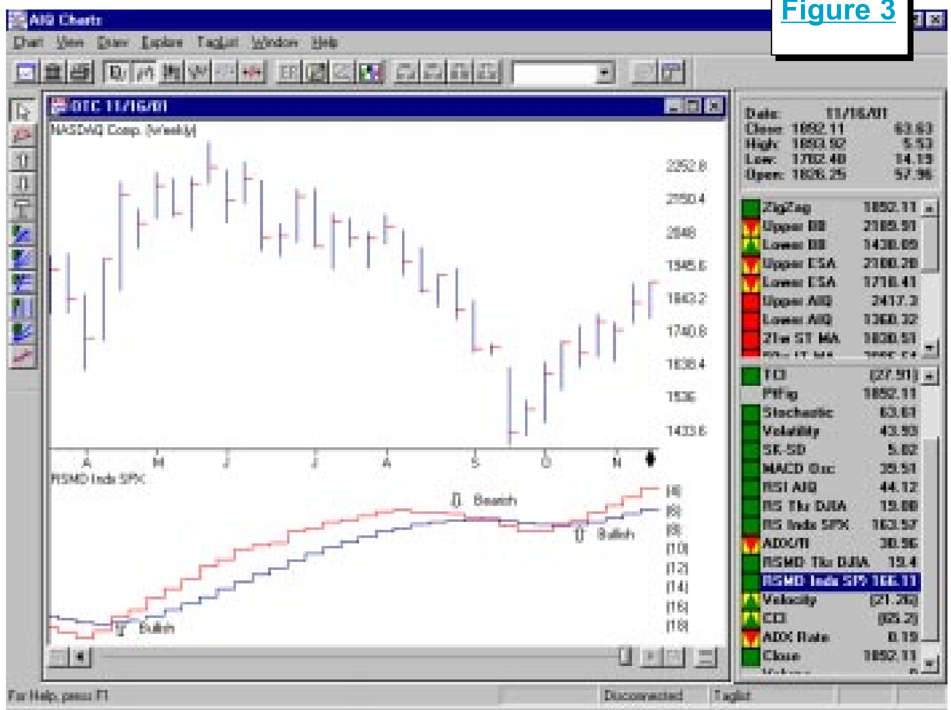
At the fall seminar, I gave a presentation on how the RSMD indicator can be used as an effective market timing tool, just as was covered in the April 2001 *Opening Bell*.

In that article, we found that when the RSMD indicator favored the Nasdaq Composite over the S&P 500 the market was generally more bullish. These favorable conditions reflect investors' willingness to take more aggressive positions. When the S&P 500 outperformed, however, people were buying more defensive issues and the market was generally less favorable.

During my seminar presentation, the question was asked if results would be even better if we used the RSMD indicator to compare the Nasdaq versus the Dow Jones Industrial Average instead of the Nasdaq versus the S&P 500. The thought was that the Dow is generally more conservative than the S&P 500 so it might give a better indication as to when money is flowing to defensive issues. That was a good question but because it required some study it was left unanswered… until now.

Before we begin our study, let's quickly review the RSMD indicator and our findings from the April 2001 issue of the *Opening Bell*. RSMD is a relative strength indicator that is exclusive to AIQ's TradingExpert. It takes the commonly used relative strength indicator and plugs it into the MACD formula.

Figure 3



In effect, RSMD measures the momentum of the relative strength indicator.

In the April *Opening Bell* article, we plotted the Nasdaq Composite (OTC) and used the weekly RSMD SPX indicator to examine the relative strength of the Nasdaq versus the S&P 500. When the indicator is rising, the Nasdaq is outperforming the S&P 500. When the indicator is falling, the S&P 500 is outperforming the Nasdaq.

> *"…the question was asked if results would be even better if we used the RSMD indicator to compare the Nasdaq versus the Dow Jones Industrial Average instead of the Nasdaq versus the S&P 500."*

Although this indicator is designed to tell which of two markets is outperforming, it can also be used for market timing. We found that when the RSMD indicator favored the Nasdaq over the S&P 500 then the market environment was favorable. When the S&P 500 outperformed the Nasdaq then the market environment was unfavorable, especially to growth investors.

This is true even if you buy non-Nasdaq stocks. In fact, in our test we found that an effective market timing strategy was to buy the S&P 500 during times when the indicator favored the Nasdaq and hold money market instruments when the indicator favored the S&P 500.

Rather than using crossovers of the indicator, we looked for a two-week change in the Phase line (the

RSMD Indicator-Results of Study *continued* . . .

faster of the two lines) as our signal. Let me explain this with the aid of a graph. In Figure 3 we see the Nasdaq Composite's weekly RSMD SPX indicator. A reversal signal occurs when the indicator changes direction for two consecutive weeks. The upward arrows represent times when the indicator's fast line changed direction to the upside and then increased the following week. In late August the indicator fell two weeks, representing a bearish signal.

To see the signals, it is best to use TradingExpert's Zoom feature, which enlarges the indicator to fill the entire screen. (Simply position your mouse cursor on the indicator plot and press the Z key. Pressing the Z key again restores the indicator plot to its original size.)

Table 1

RSMD Indicator Test Results

RSMD SPX			RSMD DJIA		
Buy Date	**Sell Date**	**% Ch.**	**Buy Date**	**Sell Date**	**% Ch.**
2/23/1996	6/14/1996	1.03	3/29/1996	6/21/1996	3.31
9/6/1996	10/25/1996	6.90	9/13/1996	10/25/1996	2.99
12/13/1996	12/27/1996	3.86	12/13/1996	12/27/1996	3.87
1/10/1997	2/14/1997	6.45	1/31/1997	2/14/1997	2.84
5/9/1997	10/24/1997	14.17	4/11/1997	4/25/1997	3.76
1/30/1998	5/29/1998	11.28	5/9/1997	11/7/1997	12.45
7/3/1998	8/28/1998	-10.40	1/30/1998	4/17/1998	14.53
11/6/1998	2/26/1999	8.53	6/26/1998	8/28/1998	-9.35
4/9/1999	4/23/1999	0.63	9/25/1998	10/9/1998	-5.78
7/2/1999	8/6/1999	-6.54	11/6/1998	2/19/1999	8.60
9/3/1999	10/29/1999	0.42	4/9/1999	4/23/1999	0.63
11/12/1999	3/24/2000	9.41	7/2/1999	8/13/1999	-4.57
6/16/2000	8/4/2000	-0.10	9/3/1999	3/24/1900	12.54
9/1/2000	9/15/2000	-3.61	6/16/1900	8/4/1900	-0.10
1/19/2001	2/16/2001	-3.05	9/1/1900	9/15/1900	-3.61
4/20/2001	8/31/2001	-8.80	1/19/1901	2/16/1901	-3.05
10/19/2001	N/A	4.18	4/20/1901	9/14/1901	-12.10
			10/12/1901	N/A	2.45
S&P 500 Return = 35.17%			S&P 500 Return = 27.97%		

Past performance does not guarantee future results

When the S&P 500 outperforms the Nasdaq, it shows people are getting defensive and the market environment tends to be unfavorable. Conversely, when the Nasdaq outperforms the S&P 500 it implies a more favorable environment as people are willing to take aggressive positions. With that said, would it work better to compare the Nasdaq with the Dow instead of the S&P 500? After all, the Dow is a more conservative market measurement than the S&P 500.

We tested the RSMD indicator comparing the Nasdaq to the S&P 500 and then ran a second test comparing the Nasdaq to the Dow. To be consistent, the S&P 500 was purchased anytime the indicator (using a two-week reversal) favored the Nasdaq. In one test, we moved to cash when the S&P 500 outperformed and in the other test we moved to cash when the Dow outperformed.

The trade details are found in Table 1. In the left section we are looking at the Nasdaq's RSMD SPX indicator and we buy the S&P 500 when the indicator rises for two weeks. The right section shows the signals for the Nasdaq's RSMD DJIA indicator, once again buying the S&P 500 when the indictor rises for two weeks. In both tests, the S&P 500 is sold when the indicator falls for two weeks.

Although the results are close, we see that the return is greater using the RSMD SPX indicator. That is, the return is greater when you look at the relative strength of the Nasdaq versus the S&P 500.

Comparing the Nasdaq to the Dow produced a lower return and was also more prone to whipsaws. In our test, substituting the Dow for the S&P 500 resulted in one additional trade. We also looked at using a one-week reversal in the RSMD indicator. The RSMD DJIA indicator had many whipsaws, especially in the first half of 1998.

We've known that using the Nasdaq's RSMD SPX indicator is an effective market timing tool. We thought the results would be improved using the RSMD DJIA indicator but our analysis has shown otherwise. Comparing the Nasdaq to the S&P 500 instead of the Dow produced higher returns with fewer whipsaws. ■

IT'S ALL ABOUT SELLING

Testing Proves It -- Sell Strategy Plays Very Important Role in System's Performance

By David Vomund

A common question of investors is "what stocks do you like?" People always want to know what stocks other people are buying. It may be better to ask what they are selling instead. Some analysts consider the "when to sell" decision to be more important than "when to buy." In this article, we'll see how applying different sell strategies can dramatically affect performance.

To demonstrate how different sell strategies affect overall results, we will use AIQ's Portfolio Simulator. The Portfolio Simulator allows us to backtest a trading system under real-world conditions. We can specify how much money is placed in each stock trade and new positions cannot be purchased unless there is sufficient cash in the portfolio.

How to use the Portfolio Simulator was the topic of an article in last month's *Opening Bell* and this new function is also covered in TradingExpert's *User Reference Manual* beginning on page 469. A detailed step-by-step procedure is found on page 480.

In our tests we will use the Citizen Kane Expert Design Studio model that was featured in the April 2000 *Opening Bell*. In quick review, the Citizen Kane model looks for stocks that have corrected by at least 30% sometime in the last 10 to 50 days. In addition, their Volume Accumulation Percent (VaPct) indicator must be above zero and trending higher.

We are using the time period of January 1998 through November 26, 2001 for all the backtests in this article. The commission schedule corresponds to Ameritrade's rate. The entry rule is the Citizenkane rule and for simplicity we are not using a tiebreaker ranking UDF (see last month's article). Our capitalization rules state that each stock purchased represents 10% of the entire portfolio, there are no more than 10 open positions, and no more than three stocks are purchased on a given day. All trades are executed on the next morning's opening price and only S&P 500 stocks are purchased.

In our first test, our sell strategy is a simple 10-day fixed holding period. That is, when a stock is added to the portfolio it is held for 10 business days. On day 11 the stock is sold whether it has a profit or it has a loss. The Portfolio Simulation results from this test are found in Figure 4.

Figure 4

Account Statistics/Analysis

		Winners	Losers	Neutral
Number of trades:	547	279	263	5
Average periods per trade:	14	14	14	14
Maximum Profit/Loss:		68.16%	(58.58)%	
Average Drawdown:	(9.10)%	(3.23)%	(15.50)%	
Average Profit/Loss:	0.67%	12.02%	(11.35)%	
Probability:		51.01%	48.08%	
Average Annual ROI:	17.00%	304.64%	(285.95)%	
Reward/Risk Ratio:	1.12			
Portfolio:				
Starting Balance:	60000.00			
Ending Balance:	71420.82			
Gain/Loss:	11420.82			
Gain/Loss %:	19.03%			

10-Day Holding Period

OK Print

From 1998 through November 26, 2001, there were 547 trades that resulted in a portfolio gain of 19%. Making 19% in four years doesn't sound like much but that's about in line with the S&P 500 index. Still, it would have been a lot easier to buy-and-hold the S&P 500 instead of placing 547 trades. Although stocks were only held for 10 days, there were some big winners and some big losers. The best stock

"The Portfolio Simulator allows us to backtest a trading system under real-world conditions...we can specify how much money is placed in each stock trade and new positions cannot be purchased unless there is sufficient cash in the portfolio."

IT'S ALL ABOUT SELLING *continued* . . .

gained 68% while the worst stock lost 59%.

In our next test, we used the same entry system but this time our sell strategy was to use an 85% trailing stop. That means a stock is sold anytime it falls 15% from its highest point after the purchase date. If the stock never goes up then it will be sold for about a 15% loss. The results are found in Figure 5.

Using this sell technique, the average holding period increased to 48 days and there were 208 trades, far fewer trades than our first test. The "let your winners run and cut your losses short" philosophy worked well with this strategy. While there were more losing trades than winning trades, the overall portfolio return increased to 110%, well above the 19% return from our first test.

Our next test demonstrates the importance of understanding a system and fully reviewing its characteristics before real money is used. In this test we used the same entry system but with a sell strategy using a 90% profit protect when profits are above 10%. That means

Figure 5

Account Statistics/Analysis

		Winners	Losers	Neutral
Number of trades:	208	87	120	1
Average periods per trade:	48	83	24	8
Maximum Profit/Loss:		295.43%	(43.56)%	
Average Drawdown:	(9.79)%	(3.37)%	(14.52)%	
Average Profit/Loss:	4.20%	26.63%	(12.02)%	
Probability:		41.83%	57.69%	
Average Annual ROI:	31.33%	116.08%	(182.18)%	
Reward/Risk Ratio:	1.61			
Portfolio:				
Starting Balance:	60000.00			
Ending Balance:	125669.51			
Gain/Loss:	65669.51			
Gain/Loss %:	109.45%			

85% Trailing Stop

OK Print

that once a stock has a 10% profit, then a 90% trailing stop is placed on those profits. If the stock keeps going up, then it is held. But when it begins to give back its profit, then it is sold. The results are found in Figure 6. Notice the incredible 540% return during a time when the S&P 500 only rose about 20%! A separate test showed this system even made money in 2000 and 2001.

Figure 6

Account Statistics/Analysis

		Winners	Losers	Neutral
Number of trades:	192	187	4	1
Average periods per trade:	61	62	15	29
Maximum Profit/Loss:		45.17%	(27.69)%	
Average Drawdown:	(12.46)%	(12.49)%	(14.40)%	
Average Profit/Loss:	11.56%	12.10%	(10.98)%	
Probability:		97.40%	2.08%	
Average Annual ROI:	68.28%	70.18%	(254.55)%	
Reward/Risk Ratio:	51.51			
Portfolio:				
Starting Balance:	60000.00			
Ending Balance:	384189.56			
Gain/Loss:	324189.56			
Gain/Loss %:	540.32%			

90% Profit Protect above 10% (excluding open positions)

OK Print

Unfortunately, however, if you were to place real money in this strategy you would be disappointed. By examining the results in greater detail, we found that there were stocks with huge losses that weren't taken into account. The reason being that, under this strategy, a stock must reach a profit of 10% before it can be sold and, since we didn't check the box to include open positions, only those stocks that were sold were included in the calculation of return. The result was that some sizeable losses were ignored. This shows the importance of including open positions in a portfolio's return as well as the importance of examining the trades and overall philosophy of a system, making sure the system is working correctly.

Figure 7 shows the results of the same test that was used in Figure 6. This time, however, we included open positions. The overall return dramatically fell from 540% to 122%. The largest losing trade increased from negative 28% to negative 61%. If you employ a system that protects

It's All About Selling continued page 8

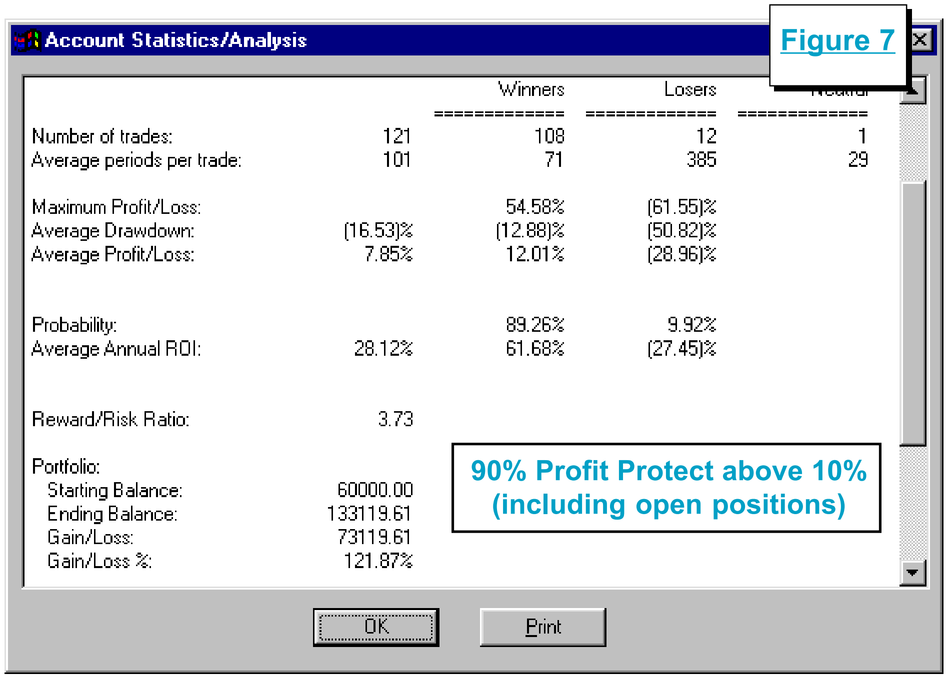
IT'S ALL ABOUT SELLING *continued* . . .

profits, then there should be a capital protection feature as well.

Our testing has demonstrated the important role that a sell strategy plays in a system's performance. Even the best entry system will have poor results if the sell strategy doesn't work. Conversely, a decent entry system can have very good results if it employs a highly effective sell strategy.

AIQ users should spend time testing different sell criteria using the Portfolio Simulator. The Portfolio Simulator answers the question of what happens to a trading system under different exit conditions and does so in a quick and easy-to-use manner. If you've wondered what would happen if you employed a tight stop system or if you employed a system that wouldn't allow a profit to turn into a loss, then test it with the Portfolio Manager's Simulator. The answers to those questions are very important and they will vary for each individual trading system. ■

Figure 7


Account Statistics/Analysis

		Winners	Losers	Neutral
Number of trades:	121	108	12	1
Average periods per trade:	101	71	385	29
Maximum Profit/Loss:		54.58%	(61.55)%	
Average Drawdown:	(16.53)%	(12.88)%	(50.82)%	
Average Profit/Loss:	7.85%	12.01%	(28.96)%	
Probability:		89.26%	9.92%	
Average Annual ROI:	28.12%	61.68%	(27.45)%	
Reward/Risk Ratio:	3.73			
Portfolio:				
Starting Balance:	60000.00			
Ending Balance:	133119.61			
Gain/Loss:	73119.61			
Gain/Loss %:	121.87%			

90% Profit Protect above 10% (including open positions)

STOCK DATA MAINTENANCE

The following table shows stock splits and other changes:

Stock	Ticker	Split	Approx. Date
Pennichuk Corp.	PNNW	4:3	12/04/01
Astoria Financial	ASFC	2:1	12/04/01
Pepsi Bottling Grp.	PBG	2:1	12/05/01
LSI Industries	LYTS	3:2	12/07/01
Tetra Tech	TTEK	5:4	12/10/01
Merchants Bancshares	MBVT	3:2	12/17/01
First Midwest Bancorp	FMBI	5:4	12/17/01
Commerce Bancorp	CBH	2:1	12/19/01

Trading Suspended:

Alliance Forest Prod. (PFA)
Aames Financial (AAM)
Burlington Inds. (BUR)
Birmingham Steel (BIR)
Charles E. Smith Realty (SRW)
G&P Realty Corp. (GLR)
Gen Rad Inc. (GEN)
General Semiconductor (SEM)
Global Marine (GLM)
GPU Inc. (GPU)
House2Home Inc. (HTH)
Indonesia Fund (IF)
Sensormatic Elect. (SRM)
Tucker Anthony Sutro (TA)

S&P 500 Changes

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

Equity Residential Properties (EQR) replaces National Service Ind. (NSI). EQR is added to the Real Estate Investment Trusts (REITRUST) group.

Health Management Associates (HMA) replaces GPU Inc. (GPU). HMA is added to the Health Care Facilities (HEALTHLT) group.

NVIDIA (NVDA) replaces Enron Corp. (ENE). NVDA is added to the Semiconductors (ELCTRONS) group.

Please Note

The information in this newsletter is believed to be reliable but accuracy cannot be guaranteed. Past performance does not guarantee future results.