

AIQ MatchMaker: An Overview

MatchMaker is an AIQ utility specially designed to help users of AIQ TradingExpert Pro make the most of the program's powerful group/sector features. Its basic function is to compare the price activity of two tickers over a specified period of time and to compute a statistical measure of how well the first ticker correlates with the second.

MatchMaker correlations can be used in a number of different ways to improve the reliability of group/sector analysis. In addition, MatchMaker correlations can be used to develop surrogate groups which allow securities such as mutual funds and market indexes to be analyzed using volume data that is not otherwise attainable.

MatchMaker can improve the reliability of group/sector analysis by helping you to restructure the group/sector data in your TradingExpert Pro data base. This is done by creating groups of stocks that move together statistically, and sectors of groups that also move together statistically.

Until now, groups and sectors were organized entirely on the basis of fundamentals; stocks were formed into groups because they happened to be in the same business. The analysis of sector rotation was hindered by the fact that some stocks within a sector go their own way regardless of the sector's movement. However, with MatchMaker, you now have a scientific basis for eliminating such stocks and for creating groups of stocks and sectors of groups that move together. As a result, your analysis of sector rotation is much improved.

MatchMaker correlations are ideally suited for developing surrogate groups which are collections of specially selected stocks compiled to represent a particular index or mutual fund. By forming surrogate groups to represent mutual funds or market indexes, you can expand your analysis to include volume indicators and Expert Ratings which are otherwise not available for these types of securities. To form a surrogate group, you simply use MatchMaker to construct a group containing stocks that are highly correlated to the particular mutual fund or index.

MatchMaker provides information needed to build groups with strong affinity using a statistical method called Spearman Rank Correlation. The Spearman method is a statistical technique that computes a measurement of the affinity between two sets of data. You can compare two stocks, or a stock and a group, a group and a sector, and so on. The more closely the two data sets agree, the better the

statistical fit and the stronger the correlation. The stronger the correlation, the stronger the affinity between the two data sets.

MatchMaker computes both positive and negative correlations. The benefit of finding positive correlations is discussed above. Negative correlations can also provide important information such as which groups move against which groups, and which stocks move against which stocks. You might even use MatchMaker to create a group which moves against another group.