AIQ Opening Bell ®
Monthly

PUTTING IT ALL TOGETHER

THE NEW, ALL-IMPROVED GROUP REPORT

By Dr. J. D. Smith

DR. J.D. SMITH

My favorite approach to picking stocks is the top/down approach. In the top/down approach, I focus first on market direction, then sector and group direction, and finally the stocks themselves.

AIQ TradingExpert version 3.0, which will be released very shortly, contains many new and improved tools to help us in our trading processes. My favorite may well be the new Group Analysis Report. Significant changes have been made in this report. One of the important changes is the fact that the former Group/Sector Report is now divided into a separate report for just groups and a separate report for just sectors. Therefore, the composite data that appears at the top of the report now reflects data exclusively for the groups or exclusively for the sectors that are shown in the body of the report.

> *"If I am bullish, I look for a group with a positive and fairly high Trend Score — in the 70's to 90's. I also look for a group with a positive Delta Trend Score."*

Actually, in TES 3.0 there are four group and sector reports; the Group Analysis Report can be generated with either daily or weekly data, and the Sector Analysis Report can be generated with either daily or weekly data.
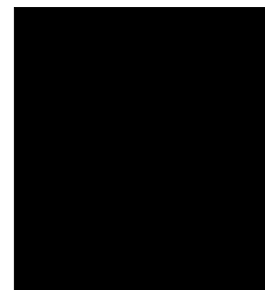
Figure 1 is the new daily Group Analysis Report, generated on December 17, 1993. My group/sector structure is the AIQ Group/Sector Pyramid. Like the former version, the report is sorted 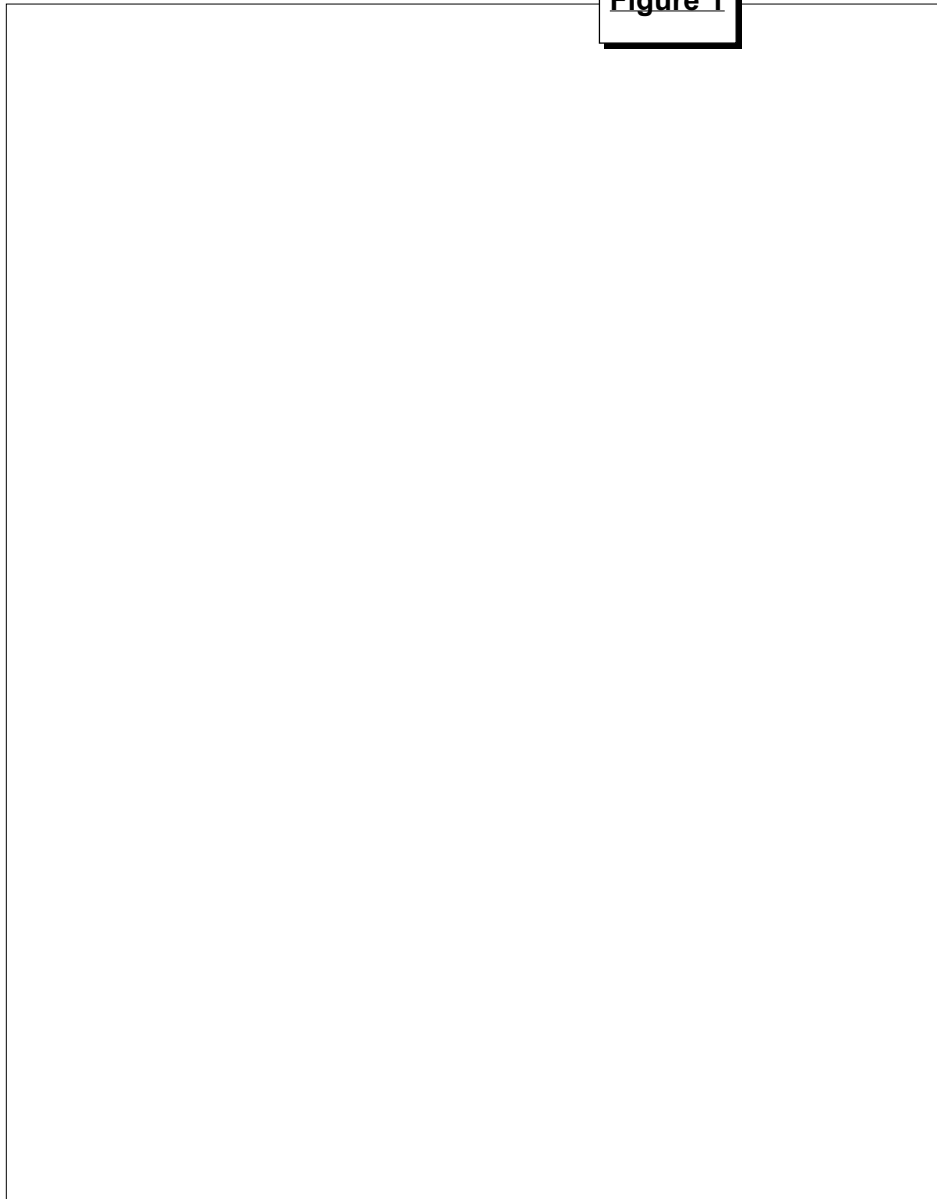by Trend Score, with the strongest groups at the top of the report and the weaker groups at the bottom. Also, just as the last version, the report contains, from left, the symbol, the type (group or sector), and the name of each group.

Trend Score (TS) is displayed next. Trend Score is a trend-following indicator which is a combination of MACDI, Directional Movement, Positive Volume,

PUTTING IT ALL TOGETHER   *continued* . . .

Figure 1

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represent composite information from all of the active stocks that populate each group. Up% is the percentage of stocks that have an up Expert Rating in the last x number of days, and down% is the number of stocks within the group that have a down Expert Rating within the last x number of days.

The size of the ER that qualifies the up% and down% is user controlled. The number of days (x) that determines how far back the system scans to find the ER is also user controlled. These user changeable criteria are displayed in the third line down from the top of the report. In Figure 1, the specified criteria is an ER greater than or equal to 90 that has occurred sometime within the last 10 days.

MDO is the percentage of active stocks with an increasing MACDI; i.e., an increasing price momentum. DMI is the percentage of active stocks in the group that have an increasing Directional Movement Index. In the final column, MFO is the number of stocks with an increasing Money Flow Oscillator.

What I look for when using this new Group Analysis Report depends on my prognostication from the Market Log. If I am bullish, then I look for a bullish group and a bullish stock within that group. If I am bearish, I look for a bearish group and a bearish stock within that group.

For example, if I am bullish, then I would look for a group with a positive and fairly high Trend Score — in the 70's to 90's. (Chances are, if a group already has a Trend Score of 100 that happened some time ago, I am already in that group.) I also would look for a group with a positive Delta Trend Score.

Being bullish, I want a good percentage of the active stocks within that group to have high Expert Ratings within the last ten days (high up%). In addition, I look for high percentages of stocks with increasing MACDI, Directional Movement Index and Money Flow Oscillator.

and Volume Accumulation. The Trend Score number will vary between +100 and -100, where +100 means a very strong upward trend and -100 means a very strong downward trend.

The next column, DTS or Delta Trend Score, is the change from one day to the next in the value of the Trend Score. DTS is very useful because it gives early warnings of groups that are on the move.

Num, in the next column, is the number of active stocks within the group, and er is the Expert rating for that group on this particular day.

The next five columns of data

If I were bearish, the reverse would be true. I would look for a group with a Trend Score that's fairly negative, -70 to -90, with a negative Delta Trend Score. A high percentage of the active stocks would have to be in the down% column (that is, a high percentage of the stocks within that group would have downside Expert Ratings within the last 10 days). Finally, I would look for a very low percentage of stocks with increasing MACDI, Directional Movement Index, and Money Flow Oscillator.

To continue with the example, let's go back to the recent past and recall what it was like in the middle of December 1993. Life in general was very good: holiday parties, eggnogs, shopping for presents, Christmas lights in the houses. The market, on the other hand, was boring. The SPX was at 466.38, and had been trying to break 467 for a month. Then, on December 17, AIQ generated a 98 up signal. Reviewing my Market log, I had very good indicator confirmation for this signal immediately, as well as good Access confirmation. Sector rotation was not terrific, but it was Christmas time. My prognostication was bullish.

The group report shown in Figure 1 was generated from TradingExpert 3.0 for the example date. The composite scores at the top of the report helped to confirm the Expert Rating of 98 up: 58% of the groups had positive Trend Scores, 56% of the groups had increasing Deltas, and the average increase in Delta was 16 versus an average decrease of 11.

Putting it all together, I'm bullish. Therefore I will look only for groups with Trend Scores between 70 to 90, with increasing Delta Trend Scores. In addition, I want groups with a large up% (stocks with Expert Ratings greater than 90), and with large percentages for MACDI, Directional Movement, and Money Flow Oscillator.

You will now see why the new

Group Analysis Report has become one of my favorite reports. The thrust of it all "hits you right in the head". Twelve lines down in the report is group 7380A, Diversified Technology. This group has a Trend Score of 98 and a positive Delta Trend Score. Unfortunately, it has only three stocks in it — but, all I need is one.

> *"(When I'm bullish), I want groups with a large up% of stocks with Expert Ratings greater than 90, and with large percentages for MACDI, Directional Movement, and Money Flow Oscillator."*

Reading the report, we see that two out of the three stocks in group 7380A had an ER greater than 90 within the last 10 days (one of the stocks had a down signal). All three stocks have increasing MACDI, Directional Movement, and Money Flow Oscillator.

This takes us to the last step in the top/down approach. I am bullish in the market, this particular sector (a Miscellaneous sector) has been bullish for some time, and I have chosen a

bullish group.

It is time to look at the stocks in the group. There are three: Minnesota Mining & Manufacturing, Litton Industries, and Tektronix. I immediately eliminate Minnesota Mining & Manufacturing because of its 92 down signal the day before. It was easy to pick between the two remaining stocks.
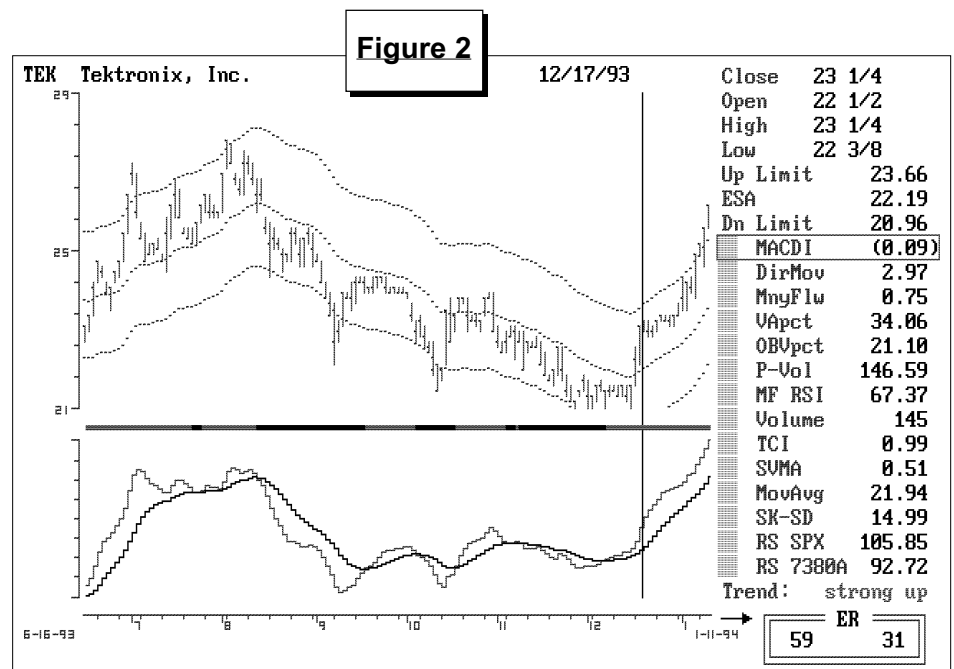
Although Litton had an up signal on December 13, it has a very mixed Barometer on December 17. Tektronix has a totally green Barometer, a 99 up two days before the 17th, and very large values for Volume Accumulation and On Balance Volume percentages. The Tektronix choice is what you might call a "no brainer."

The chart for Tektronix is shown in **Figure 2**. Following a four-month long correction, Tektronix has shown almost three weeks of consolidation. A breakout to the upside follows the AIQ signal. As of the day that this article was written (mid-January 1994), the stock had increased 11.8%.

Unfortunately, all our selections do

Figure 2

TEK Tektronix, Inc.	12/17/93		
	Close	23 1/4	
	Open	22 1/2	
	High	23 1/4	
	Low	22 3/8	
	Up Limit	23.66	
	ESA	22.19	
	Dn Limit	20.96	
	MACDI	(0.09)	
	DirMov	2.97	
	MnyFlw	0.75	
	VApct	34.06	
	OBVpct	21.10	
	P-Vol	146.59	
	MF RSI	67.37	
	Volume	145	
	TCI	0.99	
	SVMA	0.51	
	MovAvg	21.94	
	SK-SD	14.99	
	RS SPX	105.85	
	RS 7380A	92.72	
	Trend:	strong up	
6-16-93	1-11-94	ER 59	31

not perform so successfully. But that, of course, is why we have stops. The Tektronix stock did work out well, and, after taking a position, it is simply a matter of keeping a very proactive trendline stop to protect and realize profits when Tektronix slows down.

My orientation tends to be shorter term, as most of you well know. For those of you who prefer a longer term trading strategy, simply use the Group Analysis Report with weekly data. Weekly data is slower to react, but the result is fewer and longer term trades.

Overall, the new group report from TradingExpert 3.0 should speed up my daily analysis. (Less time spent on work, and more time spent on fun.) This new and improved report also is going to help me maintain my focus on strong and weak groups. If the results continue to be as good as they have been in the recent past, confidence in my trading process will increase and make me a better trader. ■

AIQ 1994 EDUCATIONAL SEMINARS

Hyatt Regency O'Hare, Chicago
Friday and Saturday,
March 11 and 12
(1-day and 2-day seminars)

Hyatt Regency, Orlando, FL
Orlando International Airport
Thursday, Friday, and Saturday
April 28, 29, and 30
(1-day, 2-day, and 3-day seminars)

5th Annual Lake Tahoe Seminar
Hyatt Regency, Incline Village, NV
Thursday, Friday, and Saturday
September 29, 30, and October 1

For reservations or for more information, call **1-800-332-2999**

READERS FORUM

STEVE HILL

HINTS AND TIPS

By Steve Hill, AIQ Product Manager

A t AIQ, we have endeavored to make our documentation as comprehensive as possible. However, no manual is able to cover all aspects of a program, hence the existence of technical support services. Questions received at AIQ technical support cover two broad areas: interpretation/how to use the program, and technical problems related to functionality. In this and later articles, I will attempt to address some functionality questions that commonly arise.

Q. HOW DO I USE THE PRINT SCREEN KEY ON AIQ PLOTS?

A. AIQ programs have built in chart printing capabilities under the Analysis and Plots/Market Plot and Analysis and Plots/Ticker Plots menus. The PRINT SCREEN key is an IBM keyboard function that when pressed (or pressed with the SHIFT key) will print whatever is showing on your screen. However, to use PRINT SCREEN to print a graphics screen like AIQ's Market Plot or Ticker Plot, you need the DOS GRAPHICS command loaded into memory, as is mentioned in the AIQ documentation. With the release of DOS 5.0, new parameters for configuring different printers were added to the GRAPHICS command. For more information on how to set up the graphics command, refer to your DOS manual.

Q. WHY DOES IT TAKE SO LONG TO UPDATE ALL MY AIQ FILES AFTER I'M OFF THE MODEM? I HAVE A 486DX COMPUTER.

AIQ program and data files require more than 13MB of hard disk space. Every ticker symbol you are following is a separate file on your disk. When you update your database, every one of these files may be accessed more than once. The more symbols you are following, the greater the access requirements to and from your hard disk. In the era of upgrades to faster and faster CPU's like the 486 DX2, the processing of data becomes ever more reliant on how quickly the data can be sent to the processor. If you believe your hard disk may be slowing down your processing, look into checking the following areas with your computer dealer.

1) Hard disk access speed measured in milliseconds. The lower the number, the faster data can be retrieved from the drive.

2) Hard disk caching. Defined as Volatile memory devoted to speeding up transmission to and from your hard drive, a disk cache can reduce disk access time. The larger the cache, the greater the increase in speed.

3) Disk-caching software. A utility program (e.g., Smartdrive) that is used to reduce disk access time. Disk-caching software sets aside extended or expanded memory for use as a disk cache.

4) Hard disk fragmentation. Over time, the reading and writing of files to and from your hard disk will cause fragmentation which can slow disk access and your AIQ software. Disk fragmentation can be eliminated with utilities such as Norton Speed Disk.

Readers Forum is compiled from questions frequently asked by our users. If you have a question or comment, please send a note to Editor, Opening Bell Monthly, P.O. Box 7530, Incline Village, NV 89452. ■

TOOLS OF THE TRADE

FUN WITH MATCHMAKER - PART II

By David Vomund

Last month, we examined which groups are the most defensive during bearish market environments. This time our focus is on bullish market environments. With the use of AIQ's MatchMaker module, we will see which groups show the highest correlation to the market during time periods when the market goes up. These are usually the best groups to be in after a market buy signal.

For this study, we tested the correlation of each industry group in the AIQ Group/Sector Pyramid against the Standard & Poor's 500 index during bullish market environments. The bullish time periods examined are 10/12/90 to 4/17/91, 11/29/91 to 1/14/92, 10/09/92 to 03/10/93, 04/26/93 to 10/15/93. Daily data is used for the correlation readings.

Table 1 shows the results. We immediately see that financial related stocks show a strong correlation with the market. The group that shows the strongest correlation to the market is securities brokers. There are four banking groups and one savings & loan group. This makes intuitive sense since the market and financial stocks usually do well in periods of falling interest rates.

We also see that many of the groups that were in the low correlation camp during bearish market environments also show a low correlation during bullish environments. Once again, precious metals shows the lowest correlation. When AIQ registers a market buy signal, it is better to buy a group that moves closely with the market rather than a group that has a low correlation to the market.

Examining the AIQ Group/Sector report is the best way of following the rotation of the industry groups. When you find several of the high correlation groups at the top of the report, then Wall Street is poising itself for an upward move. When the low correlation groups dominate the top of the ranking, then investors are getting defensive.

As an example of how this works, the last AIQ market buy signal was on December 17. On that day, five of the top ten industry groups on the Group/Sector report were among the highly correlated groups in Table 1. This bullish signal was timed perfectly. ∎

Table 1

Correlations of Industry Groups to the
Standard & Poor's 500 Index During Up Markets

High Correlation Groups	Low Correlation Groups
Securities Brokers	Metals, Precious
Telephone Systems	Oil, Drilling
Household Products (Non-Durable)	Transportation Equipment
Retailers, Broadline	Consumer Services
Paper & Forest Products	Beverages
Banks, Eastern	Office Equipment
Electric Utilities	Factory Equipment
Railroads	Heavy Construction
Insurance, Full Line	Air Freight & Couriers
Pharmaceuticals	Industial & Commercial Services
Banks, Southern	Marine Transportation
Banks, Central	Home Furnishings & Appliances
Savings & Loans	Real Estate Investment
Banks, Western	Gas Companies
Software & Processing	Advertising

LONGER TERM INVESTING - PART V
WHEN TO SELL

By David Vomund

DAVID VOMUND

We're now at the last, and probably the most difficult part of longer term investing--when to sell. Although "when to sell" is half the investing equation, it is often overlooked. Rarely do panelists on CNBC or Wall Street Week talk about their sell strategies. Buying is much more glamorous. One reason people don't talk about selling is that knowing when to sell is much harder than knowing when to buy. The sell side tests your emotions and discipline more than the buy side.

It is rare that a person can look at a stock that was sold and be happy. Two things almost always go wrong: money is left on the table or the position is sold too early. Do I have the answer to avoid these situations? No. The key is to realize and accept that this will happen. I rarely sell at the exact top, nor do I expect to. I never buy at the bottom so why should I expect to sell at the top? Also, if a stock is sold and the profits are good, then I won't sulk if the stock goes higher.

With that said, let's look at the sell disciplines for most investors. As an avid Clint Eastwood fan, I classify investors' sell strategies into three camps:

-The Good - An investor who not only establishes a stop strategy before the stock is purchased, but follows the strategy during the holding period.

-The Bad - An investor who establishes a stop strategy before the stock is purchased, but sells the stock for a reason other than that sell strategy. More often than not, the investor

panics because an analyst made negative comments about the stock on TV. or because the stock moved down for a couple days, turning some indicators negative.

-The Ugly - An investor who establishes a stop strategy before the

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"A key to being a good seller is to establish a sell strategy before the stock is purchased and then follow the strategy."

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stock is purchased, but didn't sell the stock when it hit its stop level because the investor didn't want to take a loss. A buy and hold strategy with a stop level of zero is adopted because a small loss becomes a large loss. The investor then rationalizes, "I can't sell the stock now because it has gone down too far.

It will surely come back."

A key to being a good seller is to establish a sell strategy before the stock is purchased and then follow the strategy. A dynamic sell strategy, one that changes as the stock moves higher, should be implemented to protect profits.

The first decision to make when a stock is purchased is the stop-loss level. That is, how far down the stock can go before it is sold. Here the investor must balance between having a tight stop (stopped out often but losses are small) or a loose stop (seldom stopped out but big losses are taken). I'm in the loose stop camp because the stocks I purchase tend to be volatile and I don't want to be stopped out just because of temporary weakness. Loose stops also lower overall commission costs.

In general, my initial stop-loss point is 12% to 15% below the purchase price. There have been several instances, such as with Cheyenne Software, or more recently, Standard Microsystems, where I was within a few eighths of getting stopped out but ended up with large gains. These gains

Figure 3

CA Computer Associates Intl   01/12/94 Weekly

Close	42 3/4
Open	42 3/8
High	44 1/2
Low	42
Up Limit	49.90
ESA	36.44
Dn Limit	31.90
MACDI	8.62
DirMov	25.33
MnyFlw	1.16
VApct	25.59
OBVpct	7.88
P-Vol	317.79
MF RSI	43.91
Volume	179
TCI	65.43
SVMA	0.23
MovAvg	30.98
SK-SD	(3.73)
RS SPX	401.65
RS A036	100.00

Trend: weak up

ER   2   91

4-5-91   1-12-94

Figure 4

PATK   Patrick Industries   01/13/94 Weekly

keeps me in upward trending stocks and allows for short corrections or consolidations. Using the middle band on the weekly chart works for me because I'm looking for situations where the middle band is acting as support. While stop levels can be adjusted upward using trendlines, they can never be adjusted downward. ∎

David Vomund is president of Vomund Investment Services, publisher of two advisories for stock and sector fund investing available by fax or mail. For information, phone 702-831-1544.
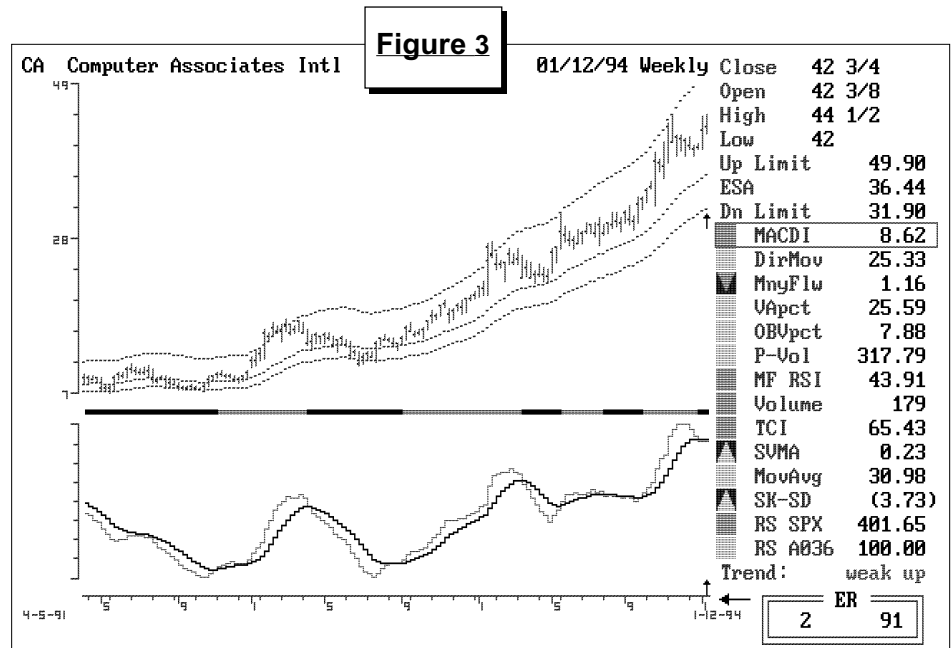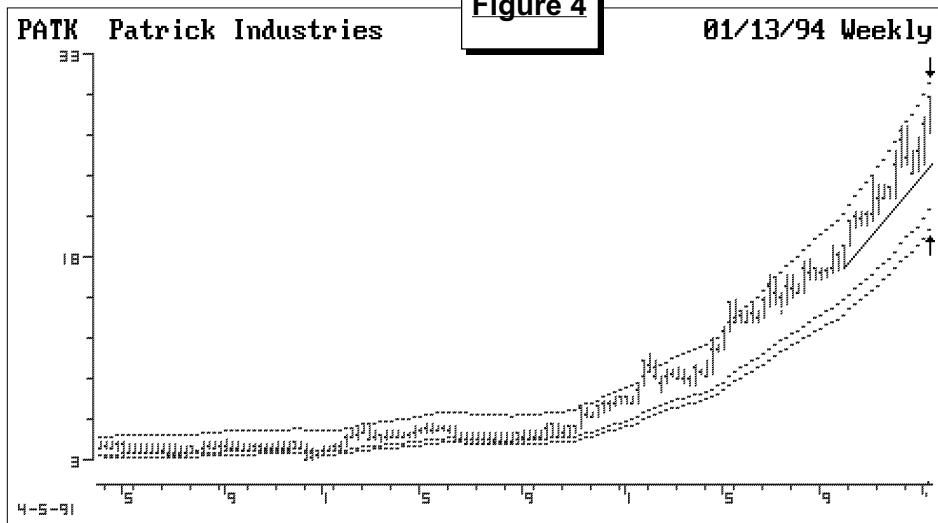
MARKET REVIEW

would have been missed with a tighter stop method. The downside to this strategy is that when I am stopped out, I have a big loss---but a loss I'm willing to take.

You will remember from the December 1993 *Opening Bell Monthly* that I purchase stocks that fluctuate between the upper and middle band on the weekly charts (the 21 week exponential moving average). With these stocks, the middle band acts as support. With this in mind, my stop strategy is simply to place the stop level just below the middle band. The stops are adjusted upward as the middle band moves higher. The nice part of this strategy is that it keeps me in uptrending stocks but forces me to sell when the trend is in doubt (when the stock falls below the middle band). Although this stop method is not incorporated in the Profit Manager, you can use it simply by placing a trendline on top of the middle band and then designating a trendline stop.

Figure 3 shows Computer Associates (CA), which was first highlighted in the December newsletter. This stock was purchased in late June 1993. The initial stop was placed about 15% below the purchase price and was below the middle weekly band. As the stock moved higher, the stop was raised to a level just below the middle band. To find the level of the middle

band, look for the ESA figure in the upper right corner of the AIQ screen. In figure 1, CA is at 42 3/4 and the middle band is at 36.44. With this strategy, we'll be holding CA as long as it continues to go up. There may be periods of temporary weakness or sideways consolidation, but we are in the position until the middle band is broken.

Many of you will notice that the stop on CA is real loose and, should the stock go down, a lot of money is left on the table. This is a chance I'm willing to take as a longer term investor but many AIQ users will want to adjust their stops closer to the current price. In fact, I'll adjust stops upward if the stock rises too far above the middle band or if a market sell signal is given.

Figure 4 is a Ticker Plot of Patrick Industries (PATK). This stock has been so strong that it would have to fall more than 28% before it hit its stop level. That's too much. In this rare situation (I wish it happened more often!) a new stop can be placed just below a trendline that connects the stock's low points. This is the new stop level.

That is my sell strategy. Negative comments from an analyst on CNBC, a negative divergence in a technical indicator, or an Expert Rating sell signal on that particular stock is not part of the sell strategy. This strategy

No AIQ signals were registered in the last month so the last signal is a buy on December 17. Initially, the large-cap stocks outperformed the overall market but, in early January, the "January effect" took over and in the week of January 14, all major indexes, including the S&P 500, NY Composite, and Russell 2000 rose to new all-time highs.

Many AIQ software programs listed December 31, 1993 as the New Year's holiday. While the stock market is normally closed for the New Year's holiday, it did trade on December 31. Depending on when you retrieved your data, your software may not have loaded the closing prices for that day. Please check your data to see if you received prices for December 31, 1993. If data is missing for this date, please do the following to correct the data:

1. Under the Holiday Designation screen, change the New Year's date to 01/01/94.

2. Under Database Update, reload data for that day (i.e., set the start and end date to 12/31/93). This will correct any gaps found in your database for that day.

If you have any questions, please contact AIQ Technical Support. ∎

GROUP OF THE MONTH

GROUP 1000A METALS, NON-FERROUS

O One of the strongest groups in recent months is Metals, Non-Ferrous. The AIQ Pyramid is first compiled from the Dow Jones industry groups. We then use AIQ MatchMaker to test the correlation of the stocks within each group and keep those that are highly correlated. The Pyramid group is similar to the Dow Jones industry group except MatchMaker found that Nord Resources (NRD) also has a strong correlation to the group. This stock is then added to the group. The group then consists of five stocks: Phelps Dodge (PD), Magma Copper (MCU), Asarco Inc. (AR), Cyprus Minerals (CYM), and Nord Resources (NRD). **Table 2** shows the correlation of each stock. A score above 500 means the stock is highly correlated with the industry group. ■

Table 2

1000A Metals, Non-Ferrous
AIQ MatchMaker Weekly Analysis
01/17/93 - 01/17/94

Coef.	Tic.	Stock
830	PD	Phelps Dodge Corp
823	MCU	Magma Copper Co.
747	AR	Asarco Inc.
734	CYM	Cyprus Minerals Co
530	NRD	Nord Resources

STOCK DATA MAINTENANCE

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

Stock	Tic	Split/Div.	Date
Bombay Co BBA	3:2		01/04/94
Paccar Inc. PCAR	15%		01/04/94
Eastman Kodak	EK	25%	01/04/94
Peoples First	FPKY	2:1	01/05/94
LDDS Metro Media	LDDS	2:1	01/07/94
1st Fed Svgs LaGrange	FLAG	2:1	01/11/94
AEP Industries	AEPI	3:2	01/12/94
Healthwatch Inc.	HEAL	1:4	01/13/94
Chico's FAs CHCS	2:1		01/17/94
Daig Corp DAIG	2:1		01/20/94
Champion Inds	CHMP	5:4	01/25/94
Comcast Corp	CMCSA	2:1	02/03/94

Stock	Tic	Split/Div.	Date
Advance Ross Corp	AROS	2:1	02/07/94
First United Corp	FUNC	2:1	02/09/94
Authentic Fitness	ASM	2:1	02/11/94
Magnetic Technol	MTCC	2:1	02/16/94
Caseys Genl Stores	CASY	2:1	02/16/94
First Home Svg Bank	FSPG	2:1	02/16/94
Williams Sonoma	WSGC	2:1	02/21/94
Outback Steakhouse	OSSI	2:1	02/21/94
Financial Instit Ins Grp	FIRE	2:1	02/25/94
Health Mor Inc	HMI	2:1	02/26/94
First Mich Bank	FMBC	2:1	03/01/94
Marshall Industries	MI	2:1	03/01/94

Name Changes:

Philadelphia Electric (PE)	to	PECO Energy (PE)
Pacific Nuclear Systems (PACN)	to	VECTRA Technologies (VCTR)