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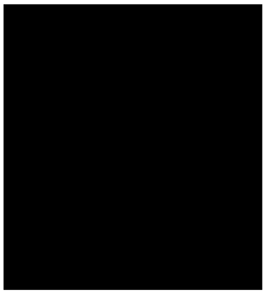
USING AIQ REPORTS

# NEW TESTS OF RELATIVE STRENGTH REPORT CONTINUE TO IMPRESS

**By David Vomund**



DAVID VOMUND

In the April 1997 issue of the *Opening Bell*, we discussed a very simple but surprisingly effective strategy which combined AIQ's market timing with the Relative Strength-Strong report. This strategy produced an average yearly return of 32.8%. We received more feedback from this article than any other this year, and a few subscribers were kind enough to send the results of additional testing that they performed. In this article we'll report results from testing done by one of our subscribers and results of a few additional tests of our own.

*Feedback from our readers: testing confirms that the Relative Strength-Strong report works well...buying stocks with strong relative strength is a winning strategy.*

Before we discuss the new testing results, let's review the strategy that was used in our first study which tested the effectiveness of the Relative Strength-Strong report going back to mid-1992. The strategy was simple.

Using a database of the stocks that comprise today's S&P 500 index, we ran the Relative Strength report anytime there was an AIQ market timing buy signal (an Expert Rating of 95 or greater). Only the first signal in a string of buy signals was used and no confirmation was applied to the market timing signals. The top five stocks that appeared in the Long Term section of the report were purchased and held until a market sell signal was registered, at which time all positions were moved to cash.

To obtain the average yearly return of 32.8%, the following assumptions were made:

- The portfolio started with $25,000 in September 1992.
- All profits/losses were reinvested in the next block of trading with each of

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the five stocks receiving an equal amount of capital.

- The buy and sell points for the stocks were the opening prices the day after the market timing Expert Rating.
- Commissions were factored in using discount brokerage rates ($33 per stock trade).
- Slippage, dividends, and money market interest received were not factored in.

After performing this test, several questions remained:

Would results be higher using the report's Short Term section rather than the Long Term? How would the results differ if the strategy was used on a larger database instead of S&P 500 stocks? How would this strategy fare under poor market conditions? What if more stocks were purchased instead of just five?

**Table 1**

**Long Term Relative Strength Strong Report Details**
**Stocks 6 to 10**

| E.R. Buy Signal | E.R. Sell Signal | S&P 500 (% ch) | Rel. Str. (% ch) | Stocks Held (ticker symbols) |
|---|---|---|---|---|
| 09/10/92 | 09/22/92 | -0.67 | -2.08 | FTL,U,WWY,AMD,SFA |
| 09/28/92 | 12/14/92 | 3.89 | 31.17 | COMS,DELL,WIN,UIS,SFA |
| 12/18/92 | 01/07/93 | -2.39 | -0.98 | SFA,WIN,BAY,CC,BKB |
| 01/12/93 | 02/16/93 | 0.67 | -5.15 | CSCO,BAY,C,SFA,AMD |
| 07/06/93 | 10/22/93 | 4.95 | 33.54 | SLI,TLAB,BAY,GIC,ORCL |
| 12/17/93 | 02/04/94 | 0.74 | 3.59 | PDG,EMC,HFS,ORCL,DIGI |
| 02/28/94 | 03/24/94 | -0.05 | 0.54 | COMS,HUM,HFS,ANDW,HLT |
| 03/28/94 | 06/20/94 | -0.99 | -8.73 | HUM,COMS,CPQ,THC,ECO |
| 06/27/94 | 08/05/94 | 2.17 | 7.84 | COMS,LSI,AR,MIL,CEN |
| 08/23/94 | 09/19/94 | 1.36 | 6.77 | ANDW,DELL,TLAB,TDM,LOW |
| 09/26/94 | 09/29/94 | 0.31 | 3.45 | AR,HUM,TEK,UK,ANDW |
| 10/10/94 | 10/20/94 | 1.67 | 0.23 | ANDW,HUM,AMH,MU,ADSK |
| 11/07/94 | 04/20/95 | 9.19 | 18.15 | DELL,TEK,TDM,MU,CPQ |
| 04/21/95 | 06/16/95 | 6.16 | -2.60 | MDT,EC,AMH,TEK,BMET |
| 08/25/95 | 10/02/95 | 3.86 | 4.04 | DIGI,TLAB,DELL,COMS,CSE |
| 10/12/95 | 10/19/95 | 1.29 | 2.44 | BAY,CSCO,LSI,MDP,GNT |
| 11/16/95 | 12/18/95 | 1.59 | -11.14 | CSCO,CS,BSX,DELL,COMS |
| 01/16/96 | 04/03/96 | 7.80 | 23.09 | PX,S,NEM,TMC,U |
| 04/15/96 | 04/17/96 | -0.14 | 0.85 | Z,SUNW,ANDW,CSCO,U |
| 05/08/96 | 06/07/96 | 4.32 | 7.43 | CSCO,USS,SUNW,RDC,SMED |
| 07/09/96 | 08/29/96 | 0.41 | 7.70 | CSCO,GPS,CHRS,WCOM,DELL |
| 09/09/96 | 01/06/97 | 12.64 | 13.43 | RDC,HFS,NKE,HLT,CPB |
| | Average = | **2.67** | **6.07** | |

Of the feedback that we received, the most extensive testing came from Dennis Nichols. Mr. Nichols posted his results on his Trading Connections Internet home page at www.tradingconnections.com. (Trading Connections develops add-on programs for TradingExpert.)

Here are a few of Mr. Nichols' findings:

### Study #1, Eight-year Test

Mr. Nichols ran the same test as we did (see above) but his was an eight year test beginning on 11/09/88. Buying the top five stocks from the Long Term section of the Relative Strength-Strong report produced a compounded annual rate of return of 42.9%. He appropriately cautions readers that this was based on today's S&P 500 structure so some of the stocks that were purchased may not have been in the structure at that time.

### Study #2, Broader Database

Mr. Nichols ran the same eight year test using a broader database of 1600 stocks that have been traded since 1988. By purchasing the top four stocks on the report, the return was 41.8%.

He notes that this is somewhat overstated because the stocks that have been trading since 1988 have

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passed a "survival of the fittest" test.

**Study #3, Using Short Term Section**

Mr. Nichols' next test used the Short Term section of the Relative Strength-Strong report. By purchasing the top three stocks on the report using a database of the current S&P 500 industry group structure, the trading strategy produced a return of 42.3%. This result is very similar to his test which purchased the top five stocks on the Long Term section of the report.

**Study #4, Effect of Market Timing**

Our simulated testing included two elements: market timing and stock selection. Mr. Nichols wanted to test the effect that market timing had on the simulated results.

Using the same number of trades as AIQ's market timing signals, a series of randomly timed trades was created for the 11/09/88 to 01/06/97 testing time period. He found that buying the top five stocks from the Relative Strength-Strong report using S&P 500 stocks averaged 31.7% per year. If you purchased the S&P 500 index rather than high Relative Strength stocks, your annual return would only have been 9.4%.

Many thanks to Dennis Nichols for performing this research and posting the results on his web site. Now for some of our own studies.

**Table 2**

**Short Term Relative Strength Strong Report Details**

| E.R. Buy Signal | E.R. Sell Signal | S&P 500 (% ch) | Rel. Str. (% ch) | Stocks Held (ticker symbols) |
|---|---|---|---|---|
| 09/10/92 | 09/22/92 | -0.67 | -0.65 | DIGI,ADSK,WWY,SFA,HAL |
| 09/28/92 | 12/14/92 | 3.89 | 20.56 | DIGI,COMS,WIN,RDC,WWY |
| 12/18/92 | 01/07/93 | -2.39 | 8.58 | DIGI,COMS,DELL,BAY,EMC |
| 01/12/93 | 02/16/93 | 0.67 | -7.79 | DIGI,COMS,DELL,HET,INTC |
| 07/06/93 | 10/22/93 | 4.95 | 21.53 | ECO,DIGI,MU,HM,EMC |
| 12/17/93 | 02/04/94 | 0.74 | 5.53 | COMS,TLAB,AMH,THC,HET |
| 02/28/94 | 03/24/94 | -0.05 | 12.67 | COMS,STO,CPQ,THC,BAY |
| 03/28/94 | 06/20/94 | -0.99 | -5.99 | MU,DELL,STO,AMD,COMS |
| 06/27/94 | 08/05/94 | 2.17 | 9.87 | MU,LSI,AMD,ANDW,NUE |
| 08/23/94 | 09/19/94 | 1.36 | 5.61 | SFA,AMGN,MSFT,TLAB,IBM |
| 09/26/94 | 09/29/94 | 0.31 | 0.85 | LSI,TLAB,AMH,COMS,SFA |
| 10/10/94 | 10/20/94 | 1.67 | 1.19 | LSI,CA,DELL,USS,VIA-B |
| 11/07/94 | 04/20/95 | 9.19 | 16.99 | LSI,DELL,AMH,CSCO,AAPL |
| 04/21/95 | 06/16/95 | 6.16 | 28.15 | EC,U,MU,DEC,BMET |
| 08/25/95 | 10/02/95 | 3.86 | 3.91 | MU,AMAT,SUNW,LSI,CSCO |
| 10/12/95 | 10/19/95 | 1.29 | 4.82 | U,HFS,BAY,CSCO,MDT |
| 11/16/95 | 12/18/95 | 1.59 | -6.78 | SUNW,HFS,BAY,DGN,CSCO |
| 01/16/96 | 04/03/96 | 7.80 | 20.40 | HFS,RDC,SUNW,DEC,NKE |
| 04/15/96 | 04/17/96 | -0.14 | -0.89 | CHRS,RDC,GAP,SMED,Z |
| 05/08/96 | 06/07/96 | 4.32 | 10.45 | CHRS,ENS,TDM,RDC,TJX |
| 07/09/96 | 08/29/96 | 0.41 | -6.17 | CHRS,Z,RDC,KM,ANDW |
| 09/09/96 | 01/06/97 | 12.64 | 12.71 | DELL,BG,NAE,CHRS,ORX |
| | Average = | **2.67** | **7.07** | |

**Results of Purchasing Ten, Instead of Five, Stocks**

In our work published in the April *Opening Bell*, we always used the top five stocks on the Relative Strength report. To only hold five stocks, however, is risky and will lead to a volatile portfolio. Our first test is to see how the results change if ten stocks were purchased after each market timing buy signal instead of five stocks. In this test, we looked at the performance of the sixth to the tenth highest rated stocks.

**Table 1** shows the trade by trade details of this test. We would expect that the top five stocks on the report would outperform the next five stocks and that is what happened. The top five stocks on the report had an average return per trade of 9.04% while the next five stocks had an average return per trade of 6.07%. While this is a lower value, it is still well ahead of the S&P 500's 2.7% return per trade.

Looking at yearly returns, the April *Opening Bell* article reported that trading the top five stocks on the report from 1993 through 1996 led to an average yearly return of 29.2%. Using the next five highest rated stocks, (stocks six to ten) the average yearly return drops to 19.4%. Therefore, using this trading strategy on the top ten stocks would lead to a return of about 24% per year. This compares to the S&P 500's 15% yearly return. The overall return is lower when 10 stocks are purchased instead

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USING AIQ REPORTS *continued . . .*

of 5 but the volatility will be lower as well.

**Table 3**

**Summary Results (%)**

| | S&P 500 Index | Average S&P 500 Stock | Long Term Rel. Str. Stocks 1-5 | Long Term Rel. Str. Stocks 6-10 | Short Term Rel. Str. Stocks 1-5 |
|---|---|---|---|---|---|
| 1993 | 7.06 | 14.27 | 20.38 | 17.73 | 33.45 |
| 1994 | -1.54 | 0.21 | 28.94 | 9.33 | 2.28 |
| 1995 | 34.11 | 30.99 | 37.36 | 6.11 | 42.56 |
| 1996 | 20.26 | 18.14 | 30.16 | 44.39 | 22.67 |
| Avg. = | **14.97** | **15.90** | **29.21** | **19.39** | **25.24** |

### Results of Test Using Short Term Section

In our next test, we looked at the results from using the Short Term section of the Relative Strength-Strong report. We ran the exact same study as reported in the April *Opening Bell* but purchased the top five S&P 500 stocks that appeared on the Short Term section of the report. Whereas the Long Term section of the report looks at a one year time horizon, the Short Term section looks at a six month time horizon. The trade-by-trade results are found in **Table 2**.

I was surprised how many of the same stocks appeared on both the Short Term and the Long Term section. As a result, the overall percentage return per trade is similar. The average trade using the Long Term section gained 9.04% while the average gain per trade using the Short Term section was 7.07%.

The overall return was comparable but the results were less consistent. In 1994, trading results using the Long Term section was 28.9% but the Short Term section only produced a return of 2.3%.

We again caution that these results are overstated because they are using the stocks from today's S&P 500 structure. The only way to get a true test is to use the S&P 500 structure that was available at the time of each market timing buy signal. That is beyond the scope of this article. What we did instead was to create an industry group that contains all of today's S&P 500 stocks. Since this is the database of the stocks we are trading, it makes sense to compare our trading results to this S&P 500 industry group.

We found that the industry group that contains all of today's S&P 500 stocks did outperform the S&P 500 index, especially when you go back to 1993 where many of the stocks in today's S&P 500 index were not a part of the S&P 500 structure at that time. The degree of outperformance over the entire testing time period was not significant, however. From 1993 through 1996, the S&P 500 index averaged 14.97% per year. The average return on the group of stocks that we used for our studies gained 15.90%.

The results from all of the tests we performed are found in **Table 3**. The best return was seen by using the Long Term section of the Relative Strength-Strong report with AIQ's market timing model.

**Table 4**

**Trading During Bearish Time Periods**

| Bearish Period | S&P 500 (% ch) | S&P Stocks (% ch) | Rel. Str. (% ch) |
|---|---|---|---|
| 07/16/90 to 10/11/90 | -19.92 | -24.82 | -27.00 |
| 02/02/94 to 04/04/94 | -8.93 | -8.13 | 2.75 |
| 07/01/96 to 07/23/96 | -7.25 | -7.98 | -15.40 |
| 03/10/97 to 04/11/97 | -9.34 | -8.50 | -9.84 |
| Avg. = | **-11.36** | **-12.36** | **-12.37** |

### How Does the Strategy Work in Bear Markets?

In our final test, we looked at how this stock picking strategy works in grim market environments. Since no market timing model works all the time, we want to see how this stock selection system works during corrections/bear markets. The best trading strategies outperform in both bull and bear markets.

In this final test, we looked at four of the worst time periods to be long in stocks in the last seven years. We assumed that you bought the day of the high and sold on the day of the low. Therefore, the Relative Strength

USING AIQ REPORTS *continued* . . .

report was generated at the market's high point and the top five stocks on the Long Term section were purchased and held until the low was made in the market.

Table 4 shows the time periods used and the results from trading the stocks based on the report.

The first time period listed is the bear market of 1990. From July to October, the S&P 500 index fell nearly 20%. An unweighted index of today's S&P 500 stocks fell 24.8% over the same time period. If you ran the Relative Strength report and purchased the top five stocks, you would have lost 27%.

Another bad period was the short but sharp drop in the summer of 1996. The S&P 500 fell 7.25% but the five high Relative Strength stocks fell an average of 15.4%.

During our recent March/April correction, the Relative Strength stocks fell about the same amount as did the market.

The best time period was in early 1994 when the five Relative Strength stocks rose at the same time that the S&P 500 fell almost 9%. This was due to one stock, Micron Technology, which rose 43% over that time period. Unfortunately, Micron Technology was not a part of the S&P 500 at that time.

From our testing it appears that this trading strategy will typically underperform during bearish time periods.

**In Conclusion**

The results of our Relative Strength report testing are encouraging for those like myself who have been preaching the benefits of buying into strength rather than trying to call the lows. I'm not saying that counter-trend trading is ineffective — many people are able to call the low points. Rather, unless you are very good at identifying support levels and reading the indicators, buying into strength is an easier and, for most, a more profitable strategy.

We ended our current studies by looking at bearish time periods, which is important. Quite often, high Relative Strength investors outperform during bullish time periods and underperform during bearish time periods.

Anyone applying a high Relative Strength strategy must be willing to accept volatility. There are ways to lower volatility. Market timing is one of them. Performing some fundamental analysis on the high Relative Strength stocks is another method (see May 1997 issue of the *Opening Bell*).

Next month we'll look at multiple technical screenings run on high Relative Strength stocks. ■

## STOCK DATA MAINTENANCE

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

| Stock | Ticker | Split/Div. | Approx. Date |
|---|---|---|---|
| State Street | NYSTT | 6:5 | 07/07/97 |
| Outdoor Systems Inc. | OSIA | 3:2 | 07/07/97 |
| Presstek Inc. | PRST | 2:1 | 07/08/97 |
| Orion Capital | OC | 2:1 | 07/08/97 |
| MAF Bancorp | MAFB | 3:2 | 07/10/97 |
| Info. Mgt. Res. | IMRS | 3:2 | 07/11/97 |
| Schlumberger Ltd. | SLB | 2:1 | 07/14/97 |
| Caterpillar | CAT | 2:1 | 07/14/97 |
| St. Paul Bancorp | SPBC | 3:2 | 07/15/97 |
| Interpublic Group Cos. | IPG | 3:2 | 07/16/97 |
| First Charter Corp. | FCTR | 6:5 | 07/16/97 |
| Fairfield Communities | FFD | 3:2 | 07/16/97 |

| Stock | Ticker | Split/Div. | Approx. Date |
|---|---|---|---|
| American Stores | ASC | 2:1 | 07/17/97 |
| Hughes Supply | HUG | 3:2 | 07/18/97 |
| STB Systems Inc. | STBI | 3:2 | 07/18/97 |
| Trans Atlantic Holdings | TRH | 3:2 | 07/21/97 |
| Halliburton Co. | HAL | 2:1 | 07/22/97 |
| Jabil Circuit | JBIL | 2:1 | 07/23/97 |
| American Int'l Group | AIG | 3:2 | 07/28/97 |
| Air Express Int'l | AEIC | 3:2 | 07/28/97 |
| Earthgrains Co. | EGR | 2:1 | 07/29/97 |
| First Union Corp. | FTU | 2:1 | 08/01/97 |
| Family Dollar Stores | FDO | 3:2 | 08/01/97 |

**Trading Suspended:**

Revco DS Inc. (RXR), Goulds Pumps Inc. (GULD), Conrail Inc. (CRR), Providian Corp. (PVN), Vivra Inc. (V), USLIFE (USH), PanEnergy Corp (PEL), US Robotics (USRX)

**Name/Ticker Changes:**

American Brands Inc. (AMB) to Fortune Brands Inc. (FO)
CIBER Inc. (CIBR) to Ciber Inc. (CBR)
DeKalb Genetics (DKALB) to DeKalb Genetics (DKB)
Duke Power (DUK) to Duke Energy (DUK)
Flores & Rucks Inc. (FNRI) to Ocean Energy (OEI)

SELL STRATEGIES

# Use a Disciplined Sell Strategy to Avoid Being Swayed by Emotion

**By David Vomund**

One of the toughest elements of trading is deciding when to sell. People agonize and second guess themselves over sell decisions more than they do for buy decisions. Yet, it does not have to be this way.

The time to decide when to sell is before you make the purchase. That way, emotion does not play a role in your decision process.

The AIQ Profit Manager helps in this regard because when you enter a new position it requires you to select a sell strategy. Unfortunately, many investors deviate from their original strategy and sell for other reasons. People generally sell too early based on two factors, impatience and emotion.

When we purchase a stock, we want it to immediately increase in value. Unfortunately, the market does not always adhere to our wishes.

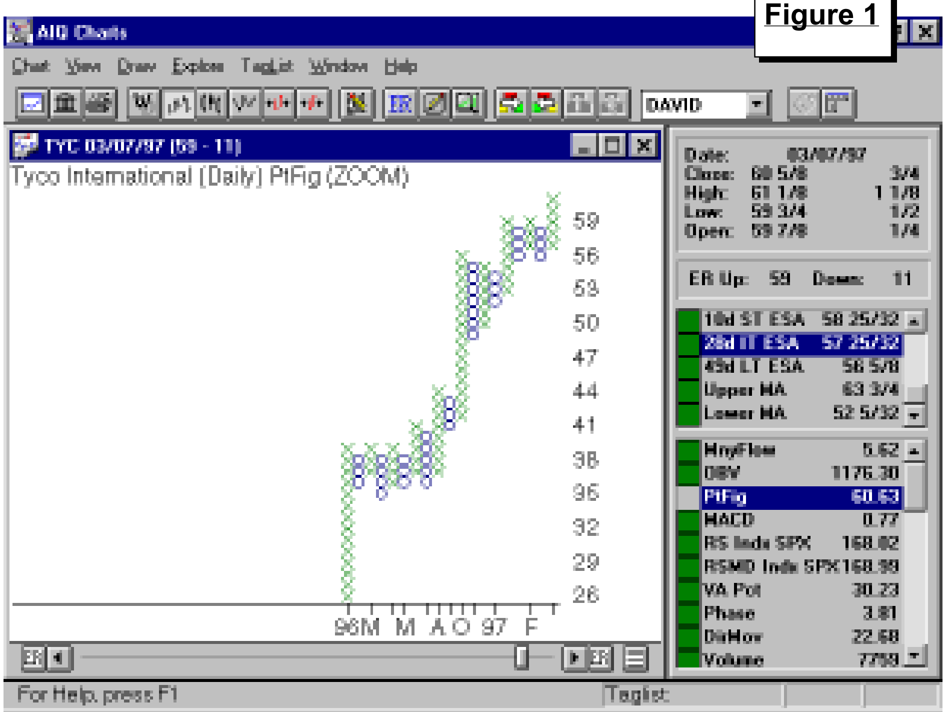
In the December 1996 *Opening Bell*, I discussed how stock investing was a game of probabilities. I named two stocks that were purchased in August for the same technical reasons. The stocks were Conseco Inc. (CNC) and Precision Castparts (PCP).

***"The time to decide when to sell is before the stock is ever purchased. That way, emotion does not play a role in your decision process."***

In the article, I said one stock worked and one didn't. CNC was a big winner and PCP was drifting sideways as the market moved higher.

At the time this article was written, I was giving up on PCP and labeling it a trade that didn't work out. My patience was wearing down. Yet, the stop strategy that I selected before the stock was purchased was not triggered. PCP came to life this spring. If I had sold when I prematurely labeled it a loser, a 30% profit would have been missed. Be patient, you don't need to outperform the market every week.

**Figure 1**




The second and more common reason that people sell is based on emotion. This is a mistake. In many cases, people with careers other than those affiliated with Wall Street have an advantage over financial professionals. Wall Street insiders look at the ticker all day and listen to the opinions of other analysts. This outside interference raises emotions and forces them to make sell decisions based on emotion rather than fact.

For example, just as group rotation is turning against you and your stock holdings are losing value, one of the many analysts interviewed on CNBC (have you ever wondered what their track records are?) reports that a critical trendline has been broken. Your stop has not been hit but you sell.

Emotions also come into play when the market is falling. About the worst time to buy stocks this year was in March when the market was entering a swift correction.

In my newsletter *VIS Alert*, I entered long stock positions in three of the four weeks in March. The positions were Plum Creek Timber (PCL) on March 3, Tyco Int'l (TYC) on March 7, and Smithfield Foods (SFDS) on March 21.

As the market fell, non-S&P 500 stocks lead the downward move. I wanted to undo time and wished the newsletter was listing short positions. Analysts on CNBC told me important support had been broken, we were too irrationally exuberant, and valuation measures were too high.

## SELL STRATEGIES *continued . . .*

My emotions told me to switch to cash. My emotions said to sell but my stop levels were not hit and I did not sell. Now each stock has a handsome profit.

What is my stop strategy? I am longer term than the average AIQ user so I keep the stops loose enough to where normal stock fluctuation does not trigger a sell. I achieve this by using a simple trailing 15% stop (see December 1996 *Opening Bell*). That is, a stock is sold anytime it falls 15% from its high point after the purchase date. (To enter this stop in the AIQ Profit Manager, choose a trailing stop and enter a value of 85).

With loose stops I have essentially decided that I don't want to get stopped out often but I'm willing to accept a larger than normal loss when a stop is reached.

Looking at the Tyco Int'l (TYC) example described above, the AIQ market timing model was on a January 7, 1997 buy signal. TYC was a high Relative Strength stock that had just broken above consolidation. This is best seen on its Point & Figure chart (see **Figure 1**). The $60 price twice acted as resistance, but on the third attempt the stock broke above this level as seen from the last column of Xs. (Note: The Point & Figure Breakout report screens for triple top buy signals.)

TYC's volume indicators pointed to higher prices as well. Both On Balance Volume and Money Flow


**Figure 2**

were hitting new highs in concert with the stock price (see **Figure 2**). TYC was also on a confirmed buy signal (PCL and SFDS were purchased for the same reason, although we bought SFDS on a pullback).

At the time TYC was purchased, a 15% trailing stop was activated. If I bought the day of the high, a 15% loss would have been the result (yes, I've done that before!). As the stock increases, so does its stop. TYC will have to fall 15% from its high point before it is sold.

It doesn't matter if TYC receives an Expert Rating sell signal and it doesn't matter if an analyst on CNBC says it is overvalued. Even if it drifts sideways for a few months, TYC is not sold until the stop is reached (if you buy stocks that are in a trend, they won't drift sideways for long).

What stop strategy to use is a highly individual decision. The important thing is to use a stop strategy. People who don't have the discipline to follow a stop strategy are typically a step behind the game, selling into weakness and missing the big moves. Rather than leading the Wall Street herd, they are running after it trying to catch up. ■

## MARKET REVIEW

The market ended the month and the quarter on a high note, with the S&P 500 rising more than 4% in June. For the year, the S&P 500 is up 19.5%. Smaller company stocks have lagged with the Russell 2000 rising 9.3%.

The activity in the broader market picked up in the second quarter as both the S&P 500 and the Russell 2000 gained an amazing 18% from the April low. During this rally, all major indexes rose above their AIQ Trading Bands and the Advance Decline Oscillator rose to a level not seen in the last 20 years. Certainly not a sign of a market top.

The AIQ timing model continues to ride the wave of the bull run. The last timing signal was a 98 buy on April 15. Congratulations to people who bought OEX call options with a 3 month expiration date from the signal!

It is surprising to see that the AIQ Pyramid's Trucking group is this year's big winner, gaining over 40%. This group actually lost money last year. Other strong groups are Securities Brokers, Air Freight & Couriers, and Savings & Loans. The weakest group this year is Computer-Networks, down about 25%. In this group, Cisco Systems has recovered most of its losses but 3Com and Novell are near their lows. ■

--D.V.

AIQ GROUP PYRAMID

# NOW READY: UPDATED VERSION OF AIQ INDUSTRY GROUP PYRAMID

We've completed a new version of the AIQ Pyramid, our industry group structure.

In review, the AIQ Pyramid is an industry group structure that is classified on both a fundamental and technical basis. Most industry group structures are classified only on the basis of fundamentals—stocks with comparable products are placed into an industry group. AIQ has taken it a step further by performing a technical test to ensure that all the stocks in each group are behaving similarly with respect to price action.

The AIQ MatchMaker program is used to test the correlation of the stocks within an industry group to the industry group index. Only stocks with high correlations are kept in their group.

To create the Pyramid structure, we began with the Dow Jones industry group structure and ran the MatchMaker program to test the correlations. Only those stocks that demonstrate a high correlation to their industry group index are kept.

We then compared each industry group to a database of 2000 stocks, looking for new stocks to add to the structure. Only those that fit on a technical and fundamental basis are added. The industry group index then becomes a better representation of the underlying stocks.

An example of one of this year's strongest groups is the Pyramid Brokerage Group. **Table 5** lists the components of the group along with their correlation values. Any stock with a correlation between 500 and 1000 is highly correlated, with 1000 being a perfect correlation..

The AIQ Pyramid structure is primarily designed for investors who use a top-down approach and prefer large company stocks. The structure has approximately 425 stocks classified into 72 industry groups (average of 5.9 stocks per group). A similar correlation test is run on sectors. The 72 groups are classified into 15 sectors.

The AIQ Pyramid sells for $188. If you are a registered owner of a previous version of the AIQ Pyramid, you can purchase the newly updated version for $44. If you are interested in ordering the Pyramid or an update, call your sales representative at (800) 332-2999. ■

**Table 5**

**AIQ MatchMaker Brokerage Group**

06/27/96 to 06/27/97

| Coef. | Ticker | Stock |
|---|---|---|
| 759 | MER | Merrill Lynch & Co. |
| 730 | AB | Alex Brown Inc. |
| 710 | SCH | Charles Schwab |
| 645 | AGE | Edwards AG |

## TradingExpert 4.0 Speed Increase

Many Opening Bell readers have recently received the new TradingExpert 4.0 which features 32 bit processing. This version has a dramatic speed increase over previous versions and you can make it even faster.

By default, the Access Plot which appears on the market log is generated when you compute your reports. The Access Plot, which gives an indication of the strength/weakness of the stocks in your database, is important to people who follow stocks that are not well represented by the S&P 500 or the Dow. This computation is math intensive and significantly slows down the computation of the reports.

If you do not use the Access Plot, you can tell TradingExpert to skip its calculation. This significantly increases the speed of the report generation process. To turn off the Access Plot calculation, go to *Reports*. Choose *Settings, Global Criteria, Daily Global Criteria*. Under the *Market Log* section of the screen in the lower left corner, uncheck the box next to *Compute Access*. Click *OK*.

## AIQ 1997 LAKE TAHOE SEMINAR

Hyatt Regency Hotel, Incline Village, Nevada

Thursday thru Saturday, September 25 thru 27

All-day Options Session Wednesday Sept. 24 (optional)

Tracks for beginners and more advanced users of AIQ TradingExpert

Keynote speakers:

- Linda Bradford Raschke: modern applications of classic timing techniques
- Michael Burke: timing industry groups with Point and Figure analysis
- Henry Brookins: growth stock investing

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