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Feature

Sections

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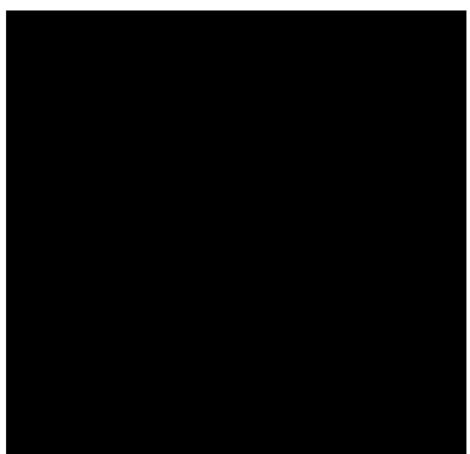
TRADING TECHNIQUES

SOME WORDS OF WISDOM FROM LEADING EXPERT IN QUANTITATIVE ANALYSIS

By David Vomund

James P. O'Shaughnessy, founder and president of O'Shaughnessy Capital Management, Inc. (800-797-0773), is recognized as a leading expert and pioneer in quantitative equity analysis. The results of his research are detailed in his newly published book, *What Works on Wall Street*. He runs four mutual funds based on the stock screening techniques found in this book. *Stock Traders Almanac* says of Mr. O'Shaughnessy's book: "Best investment book of 1996. Very likely, it will be the most important book on investing in this decade." We agree. It is a must read for anyone who performs a fundamental screening technique.



James O'Shaughnessy
Author of *What Works on Wall Street*

We are pleased to publish this interview with Mr. O'Shaughnessy.

DV: *In your book 'What Works On Wall Street' you say that you prefer a systematic or mechanical approach to investing rather than incorporating some judgment. Why is this the case?*

JO: I prefer this approach because it works. In virtually every test that was ever conducted where the outcome of the human forecaster was compared to the outcome of a simple actuarial model using variables that are known to be associated with the outcome, the mechanical model beat the human forecaster. This was true for all types of fields: parole boards trying to determine whether someone should be paroled, academic groups trying to

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TRADING TECHNIQUES *continued* . . .

determine good candidates for graduate level work, or doctors trying to diagnose liver cancer. In all cases, the model beat the human forecaster.

The reason that the human forecasters fail is they are inconsistent. One time they use a bit of information that is highly relevant and another time they ignore it based on either their whims or the prejudice of the moment. It happens all the time on Wall Street. Eighty percent of traditional money managers fail to beat the S&P 500 because they inconsistently and haphazardly make investment choices. Most money managers have a good strategy. The problem is they don't follow the strategy. Our approach is to find a great strategy and let it work.

DV: *Is it harder for money managers to follow their strategy compared to other fields because of the emotional element of investing?*

JO: No matter what the field, we always think we are better than those around us. In an investment survey, the majority of investors consider themselves to be above average investors. Where are all the below average investors? When you have the attitude that you are smarter than everyone else, it is very hard to stick with a systematic strategy through thick and thin.

There are two ways of investing—the humble way and the proud way. The proud way is the way that says, "I'm smarter than everyone else; I work harder and have better insights. I can pick better stocks than my competition." Unfortunately this attitude is embraced by the majority and their results are mediocre. They may have good empirical models but they end up going with whims and the stock du jour. Their portfolios are filled with stocks that are stories rather than good stocks.

> ***"There are two ways of investing—the humble way and the proud way... Unfortunately (the proud) attitude is embraced by the majority and their results are mediocre. They may have good empirical models but they end up going with whims and the stock du jour...The humble investor uses models that are empirically supported and tested over long periods of time."***

Then there is the humble way. The humble way is to say, "I know how little I know." The humble investor uses models that are empirically supported and tested over long periods of time.

DV: *When technicians form models, they can become very complicated, sometimes too complicated and over optimized. Do you find that the models need to be complicated?*

JO: Quite the opposite. When I see a complicated model, I see data mining or over optimization. I'm skeptical anytime a model is filled with "ifs" "ands" or "buts." These models ultimately fall into the trap of letting the data influence them. Models should be simple such as being "x" percent above a 200 day moving average with the moving average moving higher, price to book of less than 1, or PE less than 20.

DV: *You performed an in-depth study on the performance of stocks relative to their market capitalization. What was the result?*

JO: We found that the small cap effect, where small company stocks significantly outperform large company stocks, is true only when you include microcap stocks — stocks with capitalization below $25 million. $10,000 invested in microcap stocks at the end of 1951 would be worth $60 million at the end of 1996. The problem is they are very difficult to trade. Academic studies of small versus large company stocks included the microcaps but didn't take into effect the true cost of buying these stocks. Because of the bid-to-ask spread, you can lose 15% by just buying the stock.

When you remove the microcaps, the performance of small company stocks is greatly reduced but is still higher than the large cap stocks. They are also far more volatile.

DV: *With these results in mind, if investors are considering an index fund, should they buy one that tracks the S&P 500, Wilshire 5000, or Russell 2000?*

JO: They should buy one of the strategy index funds that we offer instead! I call S&P 500 funds idiot indexes because they are based on market capitalization alone. If back in the '50s the people at Dow Jones decided to switch the components of the Dow from 30 large-cap stocks to 50 stocks based on a value measurement such as how much sales you can buy for every dollar per share, the market would be four times higher. The Dow would be at 25,000.

If you are looking for a traditional index fund, you should probably pick the one with the most stocks so one that tracks the Wilshire 5000 is best.

DV: *A lot of people screen stocks based on a high one year earnings*

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TRADING TECHNIQUES *continued . . .*

growth. You actually found that those stocks with poor earnings growth actually perform better. Why?

JO: Expectations. It is true for high earnings growth, high price to book, and high PE ratios. Because of high expectations, investors become "irrationally exuberant." With such high expectations, the stock can only disappoint.

On the other hand, if investors have low expectations for a stock and it reports disappointing earnings, people say, "we didn't expect anything better from that dog." It is like the saying, "been down so damn long it looks up to me." Eventually the dog starts to bark and you ride the expectation curve up.

DV: *The majority of your testing was based on fundamental data but you also tested relative strength as well. What were your findings as to whether you should buy into strength or weakness?*

JO: Looking only at single variables associated with a growth approach, there was only one variable that beat the market and that was high price performance (i.e. high relative strength). High return on equity, high profit margins, and high earnings gains failed to beat the market. Unfortunately, extremely high volatility comes with the great performance of high relative strength stocks.

On the other side of the equation, the absolute worst way to buy stocks over the last 45 years was to buy the 50 stocks with the worst one year price appreciation (i.e. the biggest losers.). That was like getting on the bus one step before it plunges off the cliff. A $10,000 investment turns into around $35,000 over the last 45 years using this technique. Mattresses pay a better return!

I was surprised at the results of screening for relative strength because my nature is somewhat of a contrarian. Buying into strength works and picking bottoms is tough. Every once in a while there is a success story like Kmart, but for every Kmart there were 49 other companies that continued to fall.

DV: *Did you find additional screening techniques which helped lower the volatility of the high relative strength stocks?*

JO: Yes, our funds and our privately managed accounts will never use relative price strength alone. Volatility is greatly reduced when you combine good valuation measurements with relative strength. An example is to screen for companies with a low price to sales along with high relative strength. That way, you buy the best performing of the beat up companies. You buy cheap stocks on the mend and it works beautifully.

"I used to think that 10 years was a long enough time period to get a good idea of whether something really works. It turns out that is woefully inadequate. You need 25 years to even begin to start saying something works."

DV: *You have performed a great deal of research preparing for your book. How has it changed the way that you invest?*

JO: It has completely changed the way I invest. I used to think that 10 years was a long enough time period to get a good idea of whether something really works. It turns out that is woefully inadequate. You need 25 years to even begin to start saying something works. The models that are used in our funds have been tested going back 40 years. People say things are different this time. No way. If you buy a dollar's worth of sales for less than a dollar, then the stock will turn around. If you pay $1000 for every dollar of sales, economic law says you will eventually lose. This has been and will always be true.

The research has also turned me into more of a value investor. We have two growth funds but each has a value component to it. Our Aggressive Growth fund has a PE ratio that can't be in excess of 40 on an absolute basis, and our Cornerstone Growth fund has to have a price to sales ratio below 1.5. I consider myself a hybrid investor where both growth and value measures are combined. You combine the low PE ratios and low price to sales ratios with high relative strength.

The research has changed my overall perspective of the marketplace. I just read in *Barron's* that a gentleman warned that over the last 15 years the market had a compound rate of return of 18 ½% and that this was without precedent. People with false information are being quoted all the time. The market over the last 15 years compounded at 16% instead of 18 ½% and there were ten 15-year periods since 1950 where the market's compounded return was more than 16%.

DV: *In your research you always look at a one year time horizon, screening the stocks and rebalancing the portfolio at the beginning of every year. Do you have a stop strategy or do you hold the stocks through thick and thin?*

JO: In three of our four funds, we have a one year stock holding period. With the Aggressive Growth fund, we use six months. We are investigating stop strategies but so far we have found little use for them. In our preliminary research, and the research is not yet completed, we are finding it just leads to more trading activity and whipsaws. For tax reasons we like to have long term capital gains.

DV: *Do you worry that the strength in the market over the last 10 years is creating unreasonable expectations*

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TRADING TECHNIQUES *continued . . .*

among mutual fund investors?

JO: I saw a survey of investors and 75% of them anticipate annual returns of 22-25% over the next 10 years. That's absolutely insane. We focus on reasonable expectations and long term savings. For the investor with 25 years until retirement, the stock market is simply without equal. It beats bonds and cash. That was true in 1929 and it is true now. Sure the market is high now but 10 years from now it will beat both bonds and cash. Darting in and out of the market can be done, but almost never profitably.

The model used in our Cornerstone Growth fund for tax free accounts has an annual return of 18.86% over the last 44 years. That is a magnificent return when compounded. A $10,000 investment goes to $20 million. My advise is to invest in the market for the long term, preferably in a tax free environment.

DV: *When you backtest a model and graph year-to-year results, you don't feel the pains of a down market, especially if there are consecutive years of losing money. What do you tell people in a time period like this where people have given back all the gains made earlier in the year and then some? What do you tell people when all you see is gloomy reports on TV and predictions of a bear market?*

JO: We try to bring things into perspective. We point out statements that were made by gurus throughout the bull market predicting disaster. If we have a bear market we'd still be higher than when they jumped ship. In 1994 almost everyone was predicting a tailspin. Now they look silly. It is important to look at the forest instead of a tree. Let the data guide you.

If you want to talk about being terrified, think of what it will be like to be 65 with little savings. You'll be going into retirement knowing that you were terrified out of the market because of a bad quarter in 1997. Do you remember the pain suffered in the third quarter of 1990? Probably not, but at that time people were white knuckled with fear. Look what you would have missed by getting out of the market back then.

There is no better savings vehicle than the stock market but the sad thing is so few people stick with it. Right now you see mutual fund outflows to cash and bonds. They may be happy in the short run if the market continues to head lower, but in the end they will sit there and watch the market pass them by. We try to teach people to liberate themselves from the short term mentality and focus on the success of long term investing.

DV: Thank you.

What Works On Wall Street by James O'Shaughnessy can be purchased through Trader's Library at 800-272-2855. For information on O'Shaughnessy mutual funds, call 800-797-0773. ■

STOCK DATA MAINTENANCE

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

Stock	Ticker	Split/Div.	Approx. Date
Flowers Inds	FLO	3:2	05/05/97
PRI Automation	PRIA	2:1	05/05/97
Seaway Food Town	SEWY	2:1	05/08/97
Barr Labs	BRL	3:2	05/08/97
General Electric	GE	2:1	05/12/97
Suncor Inc.	SU	2:1	05/13/97
Guilford Mills	GFD	3:2	05/13/97
Aon Corp	AOC	2:1	05/15/97
TR Financial	ROSE	2:1	05/15/97
Zions Bancorp	ZION	4:1	05/15/97
Colcate Palmolive	CL	2:1	05/16/97
BCE Inc.	BCE	2:1	05/16/97
Emerald Fin'l	EMLD	2:1	05/16/97
Mosinee Paper	MOSI	3:2	05/16/97

Stock	Ticker	Split/Div.	Approx. Date
Energy Ventures	EVI	2:1	05/20/97
Paccar Inc.	PCAR	2:1	05/22/97
Friedman Inds.	FRD	5%	05/26/97
Wolverine Worldwide	WWW	3:2	05/26/97
Illinois Tool Works	ITW	2:1	05/28/97
Volt Info Sciences	VOLT	3:2	05/28/97
Globalstar Telecom	GSTRF	2:1	05/28/97
Eaton Vance	EV	2:1	05/30/97
Paychex Inc.	PAYX	3:2	05/30/97
Cincinnati Bell	CSM	2:1	06/02/97
Textron Inc.	TXT	2:1	06/02/97
Merrill Lynch	MER	2:1	06/02/97
Timken Co.	TKR	2:1	06/02/97

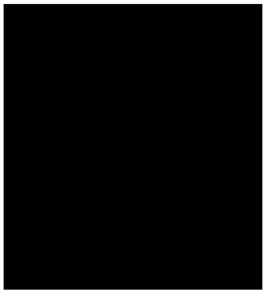
Trading Suspended:

Pacific Telesis (PAC), Tyco Toys (TTI), Vons Cos. (VON), Target Therapeutics (TGET), Mark Twain Bancshares Inc. (MTWN)

Name/Ticker Changes:

Cliffs Drilling (CLDR) to Cliffs Drilling (CDG), SCI Systems (SCIS) to SCI Systems (SCI), Trinova Corp. (TNV) to Aeroquip-Vickers Inc. (ANV), State Street Boston (STT) to State Street Corp (STT), Granite Construction (GCCO) to Granite Construction (GVA)

PRODUCT REVIEW



STEVE HILL

AIQ DATA TRANSFER UTILITY — A UTILITY FOR ALL SEASONS

By Steve Hill

Back when AIQ was developing its first system (AIQ StockExpert, released in 1987), the programming team designed a robust and efficient data format for the storage of ticker files. Today, although the original data format has been modified, the underlying structure remains the same and is still unique to AIQ.

With the proliferation of personal computers and the desire on the part of investors to blend together a variety of investment software tools, the need arose to transfer data between AIQ and other popular file formats. Hence, AIQ created the Data Transfer Utility (more commonly known as DTU) to perform this task.

DTU Export Features

After downloading data into AIQ TradingExpert from your data service, you can take advantage of the true flexibility of the DTU and easily export data from TradingExpert to other applications or into other data formats. You can export your entire database, an AIQ list, or any number of individual tickers and there is no limit on the number of symbols that can be transferred. Once set up, the transfer is invoked with just a few mouse clicks. Only the data required to update the other application's files is transferred across.

The DTU can export the following types of data From AIQ TradingExpert for Windows:

- Stocks
- Indices
- Warrants/ Futures
- Mutual Funds
- Group and Sectors
- Market Breadth (Excel and ASCII files only)

The DTU exports data directly into the following applications and file formats:

- Microsoft Excel
- ASCII and PRN (text file)
- Equis MetaStock
- Omega SuperCharts
- Worden Brothers TC2000

"Transferring data between AIQ TradingExpert and other financial software is a relatively easy process with DTU. In addition, many of the processes available through AIQ's communications application can be automatically performed"

Exporting to TC2000

The DTU Export function updates all existing ticker symbols in your TC2000 database. If there are tickers in your AIQ database that are not also in your TC200 database, DTU will create files in TC200 format and place them in the correct TC200 directories. Better still, AIQ's uniquely calculated group and sector indices can be exported to TC2000 as well.

Exporting to MetaStock

MetaStock data can be updated directly from your AIQ files. By accessing your MetaStock master files, DTU is able to create symbols in your MetaStock data directories so any stocks not already in MetaStock, such as stocks you've added to your AIQ database, are transferred into files created in new data directories. Again, AIQ's uniquely calculated group and sector indices can also be transferred.

Note: Versions of MetaStock 6.0 and above support data directories of more than 255 symbols, but the DTU will only transfer data to directories with 255 symbols or less. (AIQ is working with MetaStock on this issue).

Exporting to SuperCharts

Although DTU does not directly update SuperCharts data files, you can export AIQ data into a correctly formatted file which SuperCharts can read and use to update your SuperCharts data. Again, AIQ's uniquely calculated group and sector indices can be transferred.

Note: Omega SuperCharts is able to read AIQ TradingExpert for Windows v2.1 or higher data files directly.

Exporting to an ASCII or PRN file

DTU allows you to export AIQ data to ASCII or PRN files, which are basically text files. Any number of symbols can be exported and a separate file can be created for each symbol during the one transfer. The ticker and description can also be included in each file.

DTU can also create a single ASCII or PRN file containing all symbols designated for export and the same file can include data for any number of days. Additionally, market breadth data (advancing, declining, and unchanged issues and volume)

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PRODUCT REVIEW *continued . . .*

and new highs and lows can be transferred to an ASCII or PRN file.

Exporting to Excel

DTU can create an Excel spreadsheet with all the export flexibility discussed above. In addition, market breadth can be transferred to an Excel spreadsheet.

DTU Import Features

Importing data into AIQ TradingExpert for Windows has flexibility similar to that of the DTU Export function. When exporting from TC2000 and MetaStock, you can specify one symbol or multiple symbols and you can specify a date range for exporting historical data. Symbols not already in AIQ can be created. There is no limit for the number of symbols transferred.

Once set up, the transfer can be invoked with just a few mouse clicks. Better still, once the data is imported, all the automated update functions inherent in AIQ's communications application can be utilized. These include Compute Groups and Sectors, Generate Reports, Print Messages, and Print Reports.

The DTU is able to import the following types of data into AIQ TradingExpert for Windows:

- Stocks
- Indices
- Warrants/ Futures
- Mutual Funds
- Market Breadth (Excel and ASCII files only)

The DTU is able to import data from the following applications and file formats:

- Microsoft Excel
- Equis MetaStock
- Omega SuperCharts
- Worden Brothers TC2000
- ASCII and PRN (text files)

Importing from TC2000

TC2000 stores ticker data files in alphabetical directories within the main data directory, TC2000\DATA. When the TC2000 file type is selected for import, DTU looks for the TC2000\DATA directory and transfers any data from within the alphabetical subdirectories. In the same process, AIQ files are updated, new AIQ files (if required) are created, groups and sectors are computed, and reports are generated.

Importing from MetaStock

The MetaStock program may create data directories in numerous locations on your drive. With DTU, you are able to select any or all of these directories at one time to import data from these locations. In the same process, AIQ files are updated, new AIQ files (if required) are created, groups and sectors are computed, and reports are generated.

Importing from SuperCharts

The DTU does not import SuperCharts data directly into your AIQ data base. It does, however, import files that have been exported from SuperCharts to the CSV format. The same all in one process to update AIQ files, create new AIQ files if required, compute groups and sectors, and generate reports is available.

Importing an ASCII or PRN file

In these basic text file formats, DTU allows you to import all types and any number of symbols into AIQ TradingExpert. Market breadth data, which is not available through the MetaStock, TC2000, or SuperCharts import functions, can also be imported when in these file formats. DTU will create new files for any symbols not already in your AIQ database. You may also specify that DTU perform certain processes upon completion of the data transfer. These include compute groups and sectors, generate reports, and print reports.

Importing From Excel

DTU allows you to import ticker data from an Excel spreadsheet file. You can import any type or number of symbols from the Excel CSV file format. Market breadth data, which is not available through the MetaStock, TC2000, or SuperCharts import functions, can also be imported from an Excel spreadsheet. DTU will create new files for any symbols not already in your AIQ database. You may also specify that DTU perform certain processes upon completion of the data transfer. These processes include compute groups and sectors, generate reports, and print reports.

Technical Notes

For advanced users, DTU provides command line capability which allows you to program an update without opening the DTU application. A document explaining this feature is available by request. Please call AIQ technical support for more information.

Market breadth data, crucial to AIQ's market timing, is not available through TC2000, MetaStock or SuperCharts.

Summary

Transferring data between AIQ TradingExpert and other financial software is a relatively easy process with DTU. In addition, many of the processes available through AIQ's regular communications application, such as the update of groups and sectors and generation of reports, can be automatically performed as part of the DTU Import process.

The transfer of data between any two different formats is often complicated by conditions outside of AIQ's control. A change in any third party software program (new versions etc.) can affect the DTU's ability to transfer data. While we endeavor to keep up with all changes, it can take several months to program and test these updates. ■

AIQ REPORTS

Persistence of Money Flow Revisited — Results Continue To Be Very Good

By David Vomund

A year ago, we discussed the Persistence of Money Flow report and performed a study testing its effectiveness. We found that the stocks that appear on the report tend to outperform the S&P 500 by 13% per year. At that time, we listed the stocks that appeared on the report on March 29, 1996 and said that we'd update the results in May 1997. In this article, we will bring that study up to date.

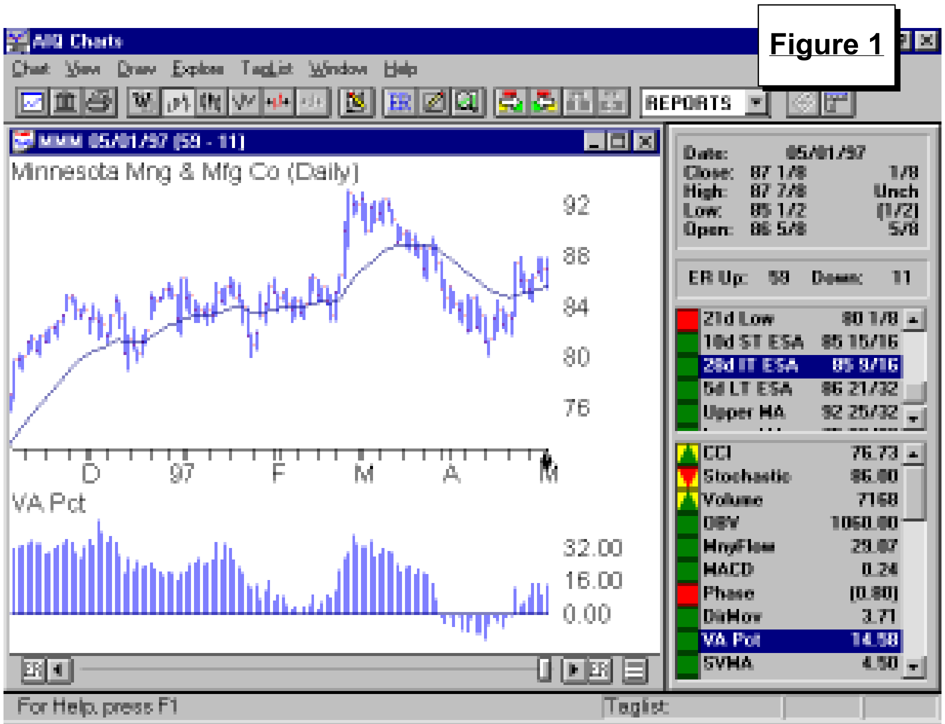
The Persistence of Money Flow report is designed to pick stocks that will outperform over a six month to one year time horizon. The report, developed by Marc Chaikin, looks for stocks whose Volume Accumulation Percent (VA Pct) indicator is above zero at least 90% of the time in the last six months. An example is found in Minnesota Mining & Manufacturing (MMM). In **Figure 1**, we see that there have only been a few days in the last six months that the VA Pct indicator was below the zero line. That means that the stock tends to close in the upper end of its daily range and when it does close near its high it does so on above average volume.

Table 1

Yearly Performance Study

Time Period	S&P 500 % Change	Stocks % Change	Portfolio Holdings (Ticker Symbols)
1994 Q1-1995 Q1	-1.54	7.90	FNM,MDT,BGEN,KFV,GEMS, VO,EFU,ROPR,RPR,CA
1994 Q2-1995 Q2	12.33	36.54	SUNW,DE,KLM,LSI,ITT,JNJ,HD, QCOM,KO,OCF
1994 Q3-1995 Q3	22.62	48.76	FTEN,FORE,BCN,BBV,ANDW, ALRC,VRI,ESV,DEVN,ELF
1994 Q4-1995 Q4	26.30	42.75	LYX,CSCC,BCN,TESS,ACSA,DRE, ADTN,BOBJY,IFF,AFL,ADTN,
1995 Q1-1996 Q1	34.11	45.03	DIGI,LNTV,PHAM,PHYN,PLT, IFF,HPH,RAH,JNJ
1995 Q2-1996 Q2	28.92	21.91	LUC,ASMLF,COHR,DLTR,ADTN LNTV,PHAM,RAH,SBH,LMT
1995 Q3-1996 Q3	17.61	51.98	LYX,ATLS,CSCO,FLT,LIZ NOB,PPH,SPY,SOLV,BSX,AZPN,
1995 Q4-1996 Q4	20.26	29.39	BSX,CEN,DTE,FVB,HOLX,ION, MTC,THC,NOB,DJ,
1996 Q1-1997 Q1	17.29	17.48	LMT,MTC,DTE,RD,NOB,SC, HMC,UN,FLE
Average =	**19.77**	**33.53**	

Figure 1



In last year's test of the Persistence of Money Flow report, we ran the report on a 1500 stock database. The report was generated at the beginning of each quarter dating back to the beginning of 1994. The top 10 stocks that appeared on the report were purchased and held for the following year at which time their performance was compared to the S&P 500. No market timing or individual stop loss parameters were used.

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AIQ REPORTS *continued* . . .

The results of the screening are found in **Table 1**. The results before the third quarter of 1995 were taken from last year's study. For such a simple screening technique, the results continue to be very good. The Persistence of Money Flow stocks continue to outperform the S&P 500 stocks by about 13% per year. These stocks even outperformed the S&P 500 in 1996 when it seemed that only the large-cap stocks participated in the advance.

It is easy to combine the Persistence of Money Flow screening with other techniques in order to form a long term stock selection strategy. For people who use Telescan's ProSearch or our Fundamental Module, you can screen the stocks based on the criteria that James O'Shaughnessy found effective (see article on page 1 of this newsletter) such as a low price-to-sales or high relative performance and then use the Persistence of Money Flow as a second screening.

The Persistence of Money Flow report can also be combined with other AIQ reports. By using the "Build List" function found in the Reports application, you can run a stock screening report on the stocks that appear in another report. (This technique was discussed in the March 1996 *Opening Bell*.)

We decided to combine the Persistence of Money Flow report with the Moving Average Status report. We've often said that people would be better off by limiting their stock purchases to stocks that are above their 28-week moving average (the middle line on the weekly chart). Therefore, our first screening uses the Moving Average Status Report to screen for stocks that are above their 28-week moving average. The parameters for this report can be changed in the Reports application by choosing Settings on the menu bar, then Report Criteria and Weekly Stock Criteria. Change the Short Term Moving Average value to 28 for the Moving Average Status report (we left the existence time to 5 weeks). Also, make sure the Print Range setting in the lower right section of that screen is set to "all." That way, all the stocks are saved to a list when the "Build List" function is run.

After this report is generated on the stocks in the database, pull up the report and highlight any ticker symbol in the short term section. Click on the "Build List" icon on the toolbar. This will create a list called "Reports" for all the stocks that are above their 28-week moving average.

We now want to run the Persistence of Money Flow report on the new list called "Reports" that we just built. Again in the Reports application, choose the Settings command, then Global Criteria and Daily Global Criteria. Next to Stock, highlight the "Reports" list. That way, the next time the reports are generated they will be run only on the stocks that are above their 28-week moving average. Click OK and then generate the Persistence of Money Flow screen. Note: this process is thoroughly outlined in AIQ's training video titled, "Growth Stock Investing."

We performed this multiple stock screening technique at the beginning of each year beginning in 1995 and tracked each year's performance. The results are found in **Table 2**. This test is too limited to give conclusive results but the results are interesting nonetheless. This technique significantly outperformed the market in 1995 and 1996. This year, the stocks are lagging but the year is young.

This update of the Persistence of Money Flow report confirms the conclusion of our earlier studies. This is AIQ's most effective report for screening stocks for long term trading situations (i.e., 6 months to 1 year). The stocks that show a high persistence of Money Flow tend to outperform the S&P 500 by 13% per year. ■

Persistence of Money Flow Screening Test Results — **Table 2**

Year	S&P 500	Screened Stocks	Ticker Symbols
1995	34.11%	52.66%	PLT, PPH, PHAM, ADTN, DIGI, HPH, IFF, JNJ, COMM, BWC, NWK, SLVN, RPR, CL, NETG
1996	20.26%	33.00%	MTC, DTE, UPR, ION, STB, TNH, NOB, PGN, RD, AZPN, THC, BSX, EFS, ZION, FVB
1997	8.24%	2.58%	SNV, THC, CFL, ELF, MT, TMK, GBP, SHU, MMM, TNB, DRE, RP, GTK, WKS, NOB

MARKET REVIEW

Conventional wisdom says that the market goes down faster than it goes up. This is not always the case. The Dow corrected 9.8% in 22 trading days beginning in March. From its mid-April low point, it only took 16 days for the Dow to advance and reach a new all-time high once again. How quickly things can change!

Several AIQ buy signals were registered in April, no sell signals were registered. A 97 buy came on April 7, a 99 buy on April 8, a 95 buy on April 14, and a 98 buy on April 15. Looking back, we see the the initial March 21 buy signal was too early but the April signals were very timely. By early May, all the major indexes including the Russell 2000 broke their upper trading bands.

D.V.