AIQ Opening Bell® Monthly

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The *Opening Bell Monthly*
is a publication of
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USING AIQ SYSTEM REPORTS

The Unconfirmed Signal Ratio

By Mary Jane Evans & David Vomund

MARY JANE EVANS

The automated Market Log is a very powerful report. On one piece of paper, you get a clear picture of how strong the market is and where it is likely to go. An excellent overview written by Dr. Smith on how to use the Market Log appeared in the March '94 issue. In this article, we present a more detailed view of a part of the log that most people ignore–the Unconfirmed Signal Ratio (US). Perhaps, by the end of this article, the US reading won't be ignored any longer.

"Anytime the US score shows a high percentage of stocks giving unconfirmed buy signals . . ., be assured that most unconfirmed stocks will be confirmed as soon as the market starts to rise."

The US value, which appears in the upper left section of the Market Log (see **Figure 1**) represents the percentage of stocks in your database that have registered Expert Ratings greater than 98 in the last 10 days but have not yet been confirmed by the Price Phase indicator. (The values 98 and 10 are the default values for the daily Signal Review report.) In **Figure 1**, a Market Log for October 5, 1992, we see that 94% of the stocks in our database that have registered unconfirmed signals are on the buy side and 6% have given sell signals.

The US statistic is helpful in these three ways:

- It is often an early indication of a market buy signal.
- It gives a clue as to how powerful the market buy signal will be.
- It can give caution to an incorrect market sell signal.

Let's explore each area in detail.

Early Indication of a Market Buy Signal

In our conversations with users, we are often asked when the next market buy signal will occur. Obviously, we don't know the answer. By looking at the

Using AIQ System Reports continued on page 2

USING AIQ SYSTEM REPORTS *continued . . .*

percentage of stocks giving unconfirmed buy signals, however, we can often get an indication as to when we are nearing a market buy signal.

When more than 90% of the stocks that have given unconfirmed signals are on the buy side, the technical picture of the market is improving and a market buy signal is often near.

A recent example of how the US score gave an early indication of a market buy signal is found by looking at the activity just before the October 10, 1994 market buy signal. Referring again to Figure 1, we see that just three days before the market buy signal was registered, 94% of the stocks giving unconfirmed signals were on the buy side. There are plenty of other instances like this example, where a US score greater than 90 led the market buy signal. **Table 1** shows more examples.

A word of caution should be issued here. In periods of sharply declining stock prices, the US can show a score of 90 or above during most of the decline. That's what happened in the summer of 1990 when the Dow fell 20%. Keep this in mind during such periods.

Figure 1

```
                    AIQ Trading Process - Market Log
Date  10/05/92    Day of Week MONDAY         DJIA   3179.00   SP    407.57
ER    91-9        99-1    Days 17       Change DJIA    -21.61   SP     -2.90
WAL   20-80   US  94-6    Group Score 44+ 56-  Group Delta 6+ 91-

              MARKET PLOT                            ACCESS PLOT 1489
          +    u    s    d    -                  +    u    s    d    -
Macdi    ( )  ( )  ( )  (X)  ( )     Macdi      ( )  ( )  ( )  ( )  (X)
MD Osc   ( )  ( )  ( )  (X)  ( )     MD Osc     ( )  (-)  ( )  ( )  ( )
DirMov   ( )  ( )  ( )  (X)  ( )     DirMov     ( )  ( )  ( )  (X)  ( )
VApct    ( )  (-)  ( )  ( )  ( )     VApct      ( )  ( )  ( )  (+)  ( )
OBVpct   ( )  ( )  ( )  (X)  ( )     OBVpct     ( )  ( )  ( )  ( )  (X)
P-Vol    ( )  ( )  ( )  ( )  (X)     P-Vol      ( )  ( )  ( )  (X)  ( )
N-Vol    ( )  ( )  ( )  (X)  ( )     N-Vol      ( )  ( )  ( )  (X)  ( )
MF Rsi   ( )  ( )  ( )  (X)  ( )     MF Rsi     ( )  (-)  ( )  ( )  ( )
SVMA     ( )  ( )  ( )  (X)  ( )     MnyFlw     ( )  (X)  ( )  ( )  ( )
AD Line  ( )  ( )  ( )  (X)  ( )     OBV        ( )  ( )  ( )  ( )  (X)
AD Ind   ( )  ( )  ( )  (X)  ( )     MA 21      ( )  ( )  ( )  (X)  ( )
AD Osc   ( )  ( )  ( )  (X)  ( )     MA 100     ( )  ( )  ( )  (X)  ( )
SK-SD    ( )  ( )  ( )  (X)  ( )     MA 200     ( )  ( )  ( )  (X)  ( )
SumInd   ( )  ( )  ( )  (X)  ( )     Index      ( )  ( )  ( )  (X)  ( )
HI/LO    ( )  ( )  ( )  (X)  ( )     Raw Scr    ( )  (-)  ( )  ( )  ( )
RS S&P   ( )  (X)  ( )  ( )  ( )     HILO21     ( )  ( )  ( )  (X)  ( )

 Press PgDn to view, P to print, B to print blank, G to generate report.
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Table 1

Unconfirmed Up Signal Ratio
Examples of Early Market Buy Signals

US Up %	Date	Market ER	WAL Up %
94	10/05/92	91 - 9	20
95	10/06/92	100 - 0	39
90	09/21/93	21 -79	68
89	09/22/93	33 -33	72
86	09/23/93	94 - 6	72
87	09/24/93	95 - 5	74
94	06/24/94	33 -33	35
95	06/27/94	98 - 2	47
96	06/28/94	93 - 7	49
95	06/29/94	80 -15	60
94	06/30/94	88 -33	72
95	07/01/94	92 - 8	81
94	07/05/94	99 - 1	87
89	07/06/94	99 - 1	90
84	07/07/94	33 -33	93

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USING AIQ SYSTEM REPORTS *continued . . .*

Indication of How Powerful a Market Buy Signal Will Be

Past studies show that the best market timing buy signals come at a time when there is also a high percentage of stocks giving confirmed Expert Rating buy signals (see OBM July 1993). The percentage of stocks giving confirmed buy signals is found at the top of AIQ's Weighted Action List report or just left of the US score on the Market Log (marked "WAL").

Anytime the US score shows a high percentage of stocks giving unconfirmed buy signals at the same time that there is a market buy signal, be assured that most unconfirmed stocks will be confirmed as soon as the market starts to rise. The high US number will lead to a high WAL number as the market rises.

Let's look at an example. **Figure 2** shows the Market Log for June 27, 1994. We see that there was a 98 buy signal for the market on that day. The WAL figure shows that 47% of the stocks giving confirmed signals were on the buy side. Ideally we want that number to be at least 85%. The US column, however, shows that 95% the stocks in our database giving unconfirmed signals were on the buy side.

Figure 2

```
═══════════════════ AIQ Trading Process - Market Log ═══════════════════
Date   06/27/94    Day of Week MONDAY           DJIA   3685.50   SP    447.31
ER     98-2        0-100   Days 5        Change DJIA     +48.56   SP     +4.51
WAL    47-53   US  95-5    Group Score 18+ 82-  Group Delta 33+ 67-

              MARKET PLOT                          ACCESS PLOT 499
           +    u    s    d    -                 +    u    s    d    -
Macdi     ( )  ( )  ( )  (X)  ( )      Macdi    ( )  ( )  ( )  ( )  (X)
MD Osc    ( )  ( )  ( )  ( )  (X)      MD Osc   ( )  (-)  ( )  ( )  ( )
DirMov    ( )  ( )  ( )  ( )  (X)      DirMov   ( )  ( )  ( )  (+)  ( )
VApct     ( )  ( )  ( )  ( )  (X)      VApct    ( )  (-)  ( )  ( )  ( )
OBVpct    ( )  (-)  ( )  ( )  ( )      OBVpct   ( )  (-)  ( )  ( )  ( )
P-Vol     ( )  ( )  ( )  (X)  ( )      P-Vol    ( )  ( )  ( )  (+)  ( )
N-Vol     ( )  (X)  ( )  ( )  ( )      N-Vol    ( )  ( )  ( )  (+)  ( )
MF Rsi    ( )  ( )  ( )  (X)  ( )      MF Rsi   ( )  (X)  ( )  ( )  ( )
SVMA      ( )  ( )  ( )  ( )  (X)      MnyFlw   ( )  (-)  ( )  ( )  ( )
AD Line   ( )  ( )  ( )  ( )  (X)      OBV      ( )  ( )  ( )  (X)  ( )
AD Ind    ( )  ( )  ( )  ( )  (X)      MA 21    ( )  ( )  ( )  (+)  ( )
AD Osc    ( )  ( )  ( )  ( )  (X)      MA 100   ( )  ( )  ( )  (+)  ( )
SK-SD     ( )  ( )  ( )  (X)  ( )      MA 200   ( )  ( )  ( )  (+)  ( )
SumInd    ( )  ( )  ( )  (X)  ( )      Index    ( )  ( )  ( )  ( )  (X)
HI/LO     ( )  ( )  ( )  (X)  ( )      Raw Scr  ( )  ( )  ( )  ( )  (X)
RS S&P    (X)  ( )  ( )  ( )  ( )      HILO21   ( )  ( )  ( )  (X)  ( )

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With the high number of stocks giving unconfirmed buy signals, we can be assured that as long as the market begins to move higher, these stocks will be confirmed, increasing the WAL score.

And, that's what happened. Referring to the bottom section of Table 1, we see that by July 7 the market had rallied and the stocks that had unconfirmed buy signals were now showing confirmation. The US buy score decreased to the 84 level, but the WAL rating revealed that 93% of the stocks with confirmed signals were on the buy side. The combination of an Expert Rating buy signal and a high WAL score is bullish.

Caution to an Incorrect Market Sell Signal

It doesn't happen very often, but there are times when we see a high percentage of stocks with unconfirmed buy signals at the same time that AIQ's market timing model is registering a sell signal. The sell signal on the market is valid but bearish enthusiasm should be held in check.

Figure 3 shows the Market Log for November 8, 1993. Notice the US shows that 90% of the stocks with unconfirmed signals were on the buy side. It was just two trading days earlier that AIQ registered a 96 sell signal. The market rallied over the next few weeks.

A more recent example came on September 21, 1994 and is shown in the Market Log in **Figure 4**. Notice that AIQ registered a 99 down signal for the market but at the same time the US

Using AIQ System Reports continued on page 4

Figure 3

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═══════════════════ AIQ Trading Process - Market Log ═══════════════════
Date   11/08/93    Day of Week MONDAY           DJIA   3647.90   SP    460.21
ER     80-15       1-99    Days 3        Change DJIA      +4.47   SP     +0.64
WAL    34-66   US  90-10   Group Score 52+ 48-  Group Delta 29+ 68-

              MARKET PLOT                          ACCESS PLOT 1491
           +    u    s    d    -                 +    u    s    d    -
Macdi     ( )  ( )  ( )  (X)  ( )      Macdi    ( )  ( )  ( )  (X)  ( )
MD Osc    ( )  ( )  ( )  (X)  ( )      MD Osc   ( )  ( )  ( )  (X)  ( )
DirMov    ( )  (-)  ( )  ( )  ( )      DirMov   ( )  ( )  ( )  (+)  ( )
VApct     ( )  (-)  ( )  ( )  ( )      VApct    ( )  ( )  ( )  (+)  ( )
OBVpct    ( )  (-)  ( )  ( )  ( )      OBVpct   ( )  ( )  ( )  (+)  ( )
P-Vol     ( )  (-)  ( )  ( )  ( )      P-Vol    ( )  ( )  ( )  (+)  ( )
N-Vol     ( )  ( )  ( )  (X)  ( )      N-Vol    ( )  ( )  ( )  (+)  ( )
MF Rsi    ( )  (X)  ( )  ( )  ( )      MF Rsi   ( )  ( )  ( )  (+)  ( )
SVMA      ( )  ( )  ( )  (X)  ( )      MnyFlw   ( )  ( )  ( )  (X)  ( )
AD Line   ( )  ( )  ( )  (X)  ( )      OBV      ( )  ( )  ( )  (X)  ( )
AD Ind    ( )  ( )  ( )  (X)  ( )      MA 21    ( )  ( )  ( )  (+)  ( )
AD Osc    ( )  ( )  ( )  (X)  ( )      MA 100   ( )  ( )  ( )  (+)  ( )
SK-SD     ( )  ( )  ( )  (X)  ( )      MA 200   ( )  ( )  ( )  (+)  ( )
SumInd    ( )  ( )  ( )  (X)  ( )      Index    ( )  ( )  ( )  (X)  ( )
HI/LO     ( )  ( )  ( )  (X)  ( )      Raw Scr  ( )  ( )  ( )  (X)  ( )
RS S&P    ( )  ( )  ( )  (X)  ( )      HILO21   ( )  ( )  ( )  (X)  ( )

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Using AIQ System Reports *continued . . .*

showed that 92% of the stocks with unconfirmed signals were on the buy side. The market initially fell but then registered a buy signal just three trading days later.

Our analysis is based on the 500 stocks in the S&P 500 index but similar results are expected for larger databases.

In this article we have focused exclusively on the buy side. That is because the same analysis performed on the sell side has not yielded significant results, partially a result of being in a bull market over our study time period. ■

Figure 4

```
                         AIQ Trading Process - Market Log
Date  09/21/94    Day of Week WEDNESDAY        DJIA    3851.60   SP    461.46
ER    1-99        2-98    Days 2         Change DJIA    -17.49   SP     -1.90
WAL   17-83   US  92-8    Group Score 41+ 59-   Group Delta 7+ 93-

                MARKET PLOT                              ACCESS PLOT 499
             +    u    s    d    -                    +    u    s    d    -
Macdi       ( )  ( )  ( )  (X)  ( )     Macdi       ( )  ( )  ( )  (X)  ( )
MD Osc      ( )  ( )  ( )  (X)  ( )     MD Osc      ( )  ( )  ( )  (X)  ( )
DirMov      ( )  ( )  ( )  (X)  ( )     DirMov      ( )  ( )  ( )  (X)  ( )
VApct       ( )  (-)  ( )  ( )  ( )     VApct       ( )  ( )  ( )  (X)  ( )
OBVpct      ( )  (X)  ( )  ( )  ( )     OBVpct      ( )  ( )  ( )  (X)  ( )
P-Vol       ( )  (-)  ( )  ( )  ( )     P-Vol       ( )  ( )  ( )  (X)  ( )
N-Vol       (X)  ( )  ( )  ( )  ( )     N-Vol       ( )  ( )  ( )  (X)  ( )
MF Rsi      ( )  ( )  ( )  (X)  ( )     MF Rsi      ( )  ( )  ( )  (X)  ( )
SVMA        ( )  (-)  ( )  ( )  ( )     MnyFlw      ( )  ( )  ( )  (X)  ( )
AD Line     ( )  ( )  ( )  (X)  ( )     OBV         ( )  ( )  ( )  (X)  ( )
AD Ind      ( )  ( )  ( )  (X)  ( )     MA 21       ( )  ( )  ( )  (X)  ( )
AD Osc      ( )  ( )  ( )  (X)  ( )     MA 100      ( )  ( )  ( )  (X)  ( )
SK-SD       ( )  ( )  ( )  ( )  (X)     MA 200      ( )  ( )  ( )  (X)  ( )
SumInd      ( )  ( )  ( )  (X)  ( )     Index       ( )  ( )  ( )  (X)  ( )
HI/LO       ( )  ( )  ( )  (X)  ( )     Raw Scr     ( )  (-)  ( )  ( )  ( )
RS S&P      ( )  ( )  ( )  ( )  (X)     HILO21      ( )  ( )  ( )  (X)  ( )

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READERS FORUM

Q. How is weekly data stored in AIQ TradingExpert?

A. TradingExpert does not store weekly data. The weekly data is calculated from the daily price data. The calculation for a full week of data is as follows:

- Open on Monday
- High for the week
- Low for the week
- Close on Friday
- Volume for all 5 days summed

During the middle of the week, the weekly chart in the Ticker Plot will use the same calculation but the close will be the closing price for the last day of daily data (Wednesday's closing price is used on Wednesday, for example). The volume is summated through that day.

Note: The volume displayed in the Ticker Plot on a weekly chart is in 10,000 instead of 1,000 shown on the daily chart.

Readers Forum is compiled by our Product Support staff from questions frequently asked by our users.

STOCK DATA MAINTENANCE

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

Stock	Ticker	Split/Div.	Date
Parkvale Financial	PVSA	5:4	10/19/94
La Quinta Inns	LQI	3:2	10/26/94
Vincor Inc.	VC	3:2	10/26/94
Amer. Mgmt. Sys.	AMSY	3:2	10/31/94
Mason Dixon Bancshares	MSDX	3:1	10/31/94
Corel Corp	COSFF	3:2	10/31/94
Staples Inc.	SPLS	3:2	10/31/94
Microtouch Sys.	MTSI	2:1	11/02/94
Boole & Babbage	BOOL	3:2	11/08/94
Chipcom	CHPM	3:2	11/15/94
Mellon Bank	MEL	3:2	11/16/94
Swift Transportation	SWFT	2:1	11/21/94
Broderbund Software	BROD	2:1	11/22/94

Trading Suspended:

(MCAWA) McCaw Cellular Comm.
(MRX) Medical Care America
(NGNA) Neutrogena

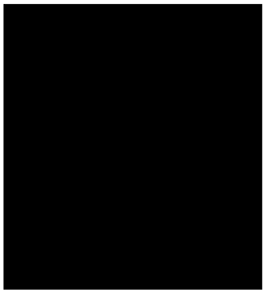
Name/Ticker Symbol Changes:

Cohu Inc. (COH) to Cohu Inc. (COHU)
AL Laboratories (BMD) to AL Pharmaceutical (ALO)

OPTIONS ANALYSIS

A Hedge for Hard Times, Part II

By David Vomund



DAVID VOMUND

To most investors, the mention of the word "option" evokes images of quick profits or quick losses. Many people think the only difference between options and gambling is that you can write off your option losses! This may or may not be true for option buyers (I'll let you decide) but it is certainly not true for those who write covered call options.

A covered call writer is an investor who writes call options against a stock that is currently being held. The writer (a.k.a. seller) hopes to keep the entire premium of the option. (That is, he hopes whoever bought the option loses all of his money.) The time value of options, which is the buyer's worst enemy, becomes the friend of the option writer.

By selling options against a stock that is being held, the investor is able to collect hundreds of dollars of other people's money just for agreeing to give up the unknowable price potential in a stock above a certain price in a given amount of time.

The sale of the call option obligates the seller to deliver stock at the strike price of the option if the option holder decides to exercise the option. The term "covered" refers to the fact that the option writer's obligation is covered by ownership of the underlying stock.

Some people choose to write calls at the same time that the stock is being purchased. Another strategy is to write calls against a stock that is attractive over the long term but is vulnerable short term. This may be when you still like the stock but a market sell signal is registered. Or it could be that the stock is overbought and is registering AIQ sell signals. Rather than selling a stock that you believe in long term, covered calls can be written on the stock to partially offset some of the losses if the stock does move lower.

Table 2 shows the attractiveness of writing covered calls. The only case where the common stock owner fares better than the covered call writer is when the stock rises above the option's strike price plus its premium.

> *"Rather than selling a stock that you believe in long term, covered calls can be written . . ."*

This strategy works best for large company stocks that pay a good dividend. That way, you can collect the dividends paid to you as the owner of the underlying stock and the premium paid by the option buyer.

Never sell a call unless you will be completely satisfied in the event of exercise. It is usually best to pick a strike price that is two strike levels above the stock's current price.

While covered call writing insulates a portfolio from a downward market, it provides no substantial protection against a large fall in the security. If you believe the stock will have a substantial drop, sell it. Only write calls on stocks that you believe are attractive long term.

Further Reading: *The Conservative Investor's Guide to Trading Options* by Leroy Gross. ■

Table2

Possibilities at Expiration Date of Option

	Common Stock Owner	Covered Call Writer
Stock's price rises above Strike price plus premium	Fares better	
Stock's price rises less than strike price plus premium		Fares better
Stock's price unchanged from when the option was purchased		Fares better
Stock's price declines after option purchase		Fares better

STOCK ANALYSIS

SELLING STRATEGIES

BY DAVID VOMUND

When to sell is half of the investment equation. It is just as important as when to buy but it receives little attention. We've addressed the issue in previous *Opening Bell's* (2/94, 6/94, 7/94) but discussions of selling strategies are rare. Selling is more frustrating than buying because we rarely sell at the perfect time. Either the stock was higher before we sold or the stock rallied after it was sold. I've never sold a stock right at the high point (nor do I ever expect to). Stocks very often move higher than my selling point. If they didn't, I'd begin to wonder how good my stock selection process is.

A recent example is American Medical Holdings (AMI). This stock passed my fundamental screening, looked attractive on a technical basis and was in a strong industry group. I was stopped out for a loss, however, at the end of September. AMI initially moved lower but within the next week rallied 9%. This is a situation many people can identify with. Rather than sulk over the past, it's best to use constructive energy and concentrate on the next investment opportunity.

The American Medical Holding example was a good trade. Why? Because I had a strategy and stuck with it. In hindsight I would have been better off by holding AMI as it rallied after my sell date. That isn't always the case.

In April, I bought Cisco Systems (CSCO). Unfortunately, CSCO fell shortly afterward and reached my stop. Although disappointed with the results, I sold the stock at a loss when my stop level was reached. Fortunately, a disciplined approach was followed as CSCO promptly fell another 33%. Many people enter a trade with a fixed stop but then choose not to sell when the stop is reached. "Surely the stock can't go lower" they reason. The stock moves lower and the reasoning becomes, "Its gone down so far that there is no point in selling it now." When a stock is purchased, establish a sell strategy and follow it. Don't sell before the stop is reached due to emotional factors and don't choose to not sell when the stop is triggered for fear of taking a loss.

Just like the buy side, there is no single best sell strategy. Different types of investors prefer different sell strategies. Some people are adverse to trading and want a strategy that will allow them to hold securities for more than six months. Others want to trade often capturing small but steady moves in stocks. Here are some examples of stop strategies.

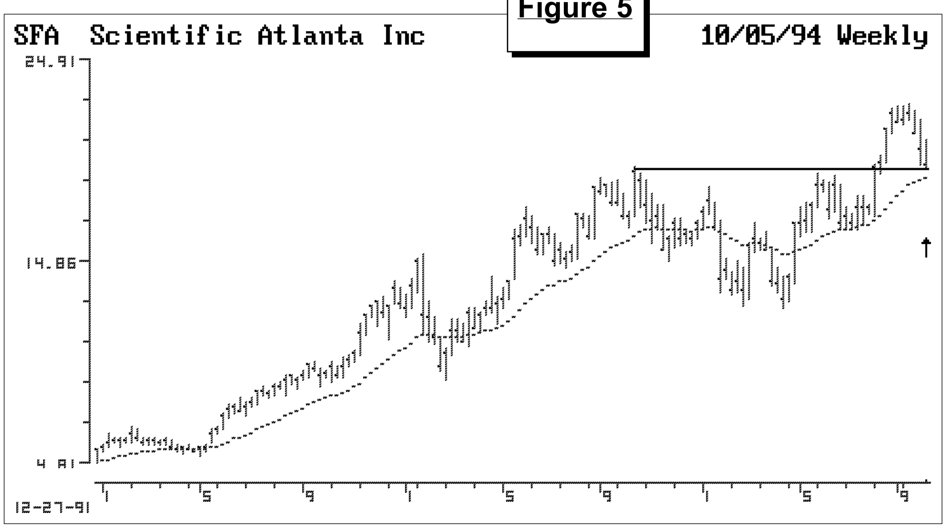
Short Term Stop Strategies

Short term traders often enter a position when the stock is near support. This usually means the stock is just above recent lows. Setting the initial stop is easy—place it just below the support level. An example is shown in **Figure 5.** Notice the trendline drawn initially acted as resistance for Scientific Atlanta (SFA) but is now support. A case can be made that SFA made a reverse head-and-shoulders pattern and the breakout came when the trendline (right shoulder) was broken. The stock moved above its trendline about the same time the daily chart gave a buy signal. A close stop is placed just below the trendline. If the stock moves down, losses are small. Profits can be nice if the stock rallies. There is a high return to risk ratio. This is one strategy. Another strategy may be to sell when the daily MACDI moves negative or when the stock falls below the lower Bollinger Band.

Longer Term Stop Strategy

When a stock looks good on a longer term basis, a stop strategy should be employed that will keep you in if the stock experiences short-term weakness but gets you out if a downtrend starts. The sell strategy I often employ uses the 21 week ESA (middle band on the weekly chart) or a trendline. Anytime these are broken, I'm out. The ideal situation occurs when both point to the same support level. **Figure 6** shows Barrett Resources (BARC). Notice the middle band and the support trendline almost fall on top of one another. This shows support so the trailing stop level is placed just below the ESA and trendline values. As the stock moves higher, so does the stop.

Figure 5



STOCK ANALYSIS *continued . . .*

Market Timing

Market timing is important whether you are short term or long term. Short term traders often sell most of their long positions when a market sell signal is registered. Longer term investors may simply chose to not purchase new stocks when AIQ is on a market sell signal. I'm a firm believer in AIQ's market timing model and follow it daily. That doesn't mean that I'm either 100% long or 100% short. There is a middle ground.

When AIQ registers a market sell signal, I'll often sell some of my weakest holdings. **Figure 7** shows the Russell 2000, a measure of small company activity, and **Figure 8** shows the percentage of my Fidelity mutual fund portfolio that was invested. We see that last year the portfolio was usually 80% invested but this year the portfolio is sometimes only 40% invested. We also see that my timing is far from perfect. In March too much was invested but too little was invested during the July to September rally.

Market timing doesn't have to be perfect to work, however. Because the portfolio held cash levels, the risk of my Fidelity portfolio (as measured by standard deviation) is lower than the risk of buying and holding the S&P 500 index.

The benefits of market timing shine best in sideways or down markets. Incorporating market timing can lower portfolio risk and increase portfolio returns. This is becoming increasingly important in today's market. We've had a decade of market strength. That's why the highest rated mutual funds (Fidelity Magellan and 20th Century Growth) and investment newsletters over five and ten year time periods have a policy of remaining fully invested. They are a product of the market environment. What happened over the past ten years won't likely last for another ten years. The market averages a 20% to 40% correction about twice a decade. We are overdue.

The decision of which sell strategy to follow is a personal one. A strategy that uses close stops will lower the percentage of winning trades but losses are small. A distant stop strategy will reduce the number of trades but the average loss per trade is higher. Either will work—the key is to pick a strategy and have the discipline to follow it. ■

Figure 6

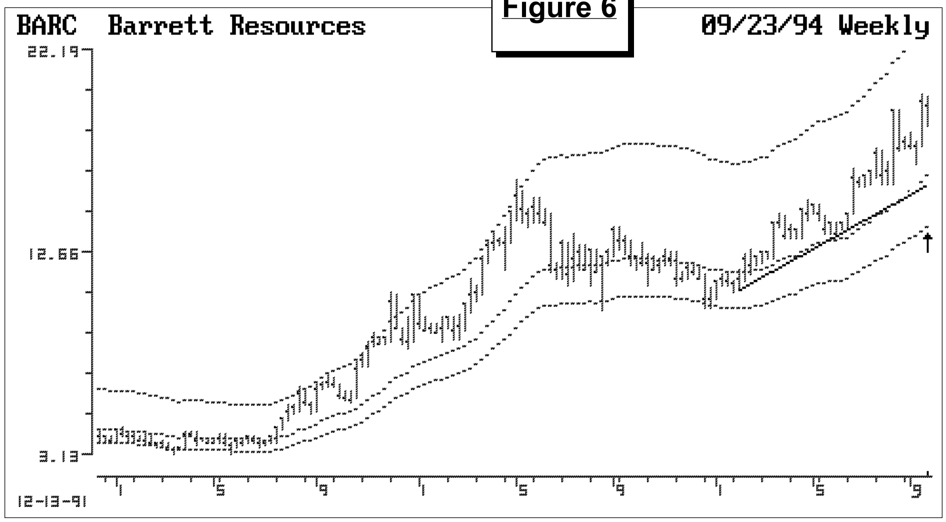


Figure 7

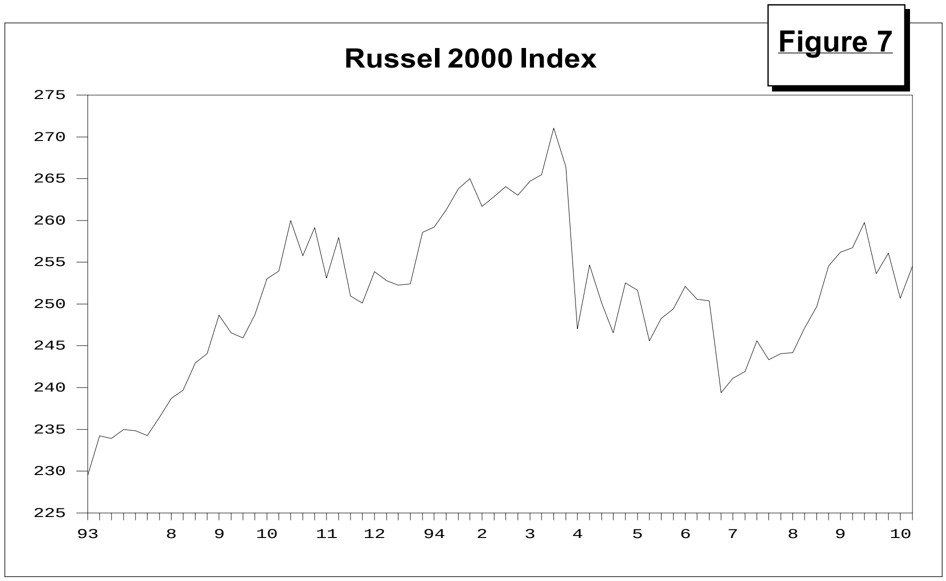
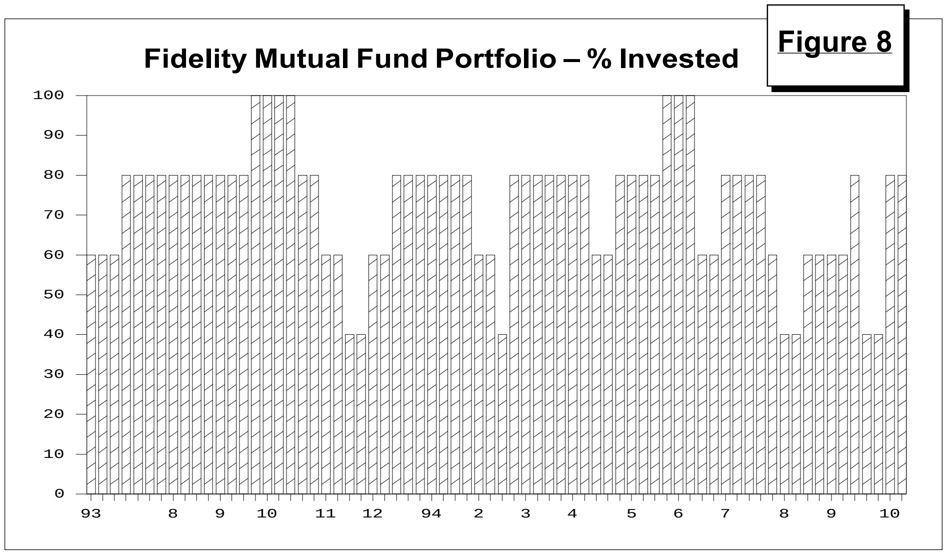


Figure 8



MARKET REVIEW

"TIMING IS EVERYTHING"

By David Vomund

The title of AIQ's recent advertising series, "Timing is Everything", proved true for the most recent monthly time period. AIQ registered a 98 sell signal on September 19, the day before the Dow fell 67 points. The signal was registered when the Dow was within 50 points of closing at a new high. Surprisingly, we didn't see a high percentage of stocks with confirmed sell signals even after the market drop. Another sell signal was registered on September 21.

The only downside to the timing signals came on September 26, when AIQ gave a 95 buy signal. This signal was short lived. Four days later a 98 sell signal was registered. The Price Phase indicator didn't confirm the initial buy signal but there was a high percentage of stocks giving confirmed buy signals. The September 29 sell signal proved once again to be timely as the Dow fell 80 points in the next five days.

The good signals didn't stop there as a 100 buy signal was registered on October 10. At that time, 93% of the stocks giving confirmed signals were on the buy side. That is a very high number. The next day saw the strongest market advance since April. By the end of that week, the Dow had its eighth biggest weekly point advance ever. Of the days that the Dow closed with more than a 50 point gain or loss, our market timing model gave a signal the day before the move three out of the last five times.

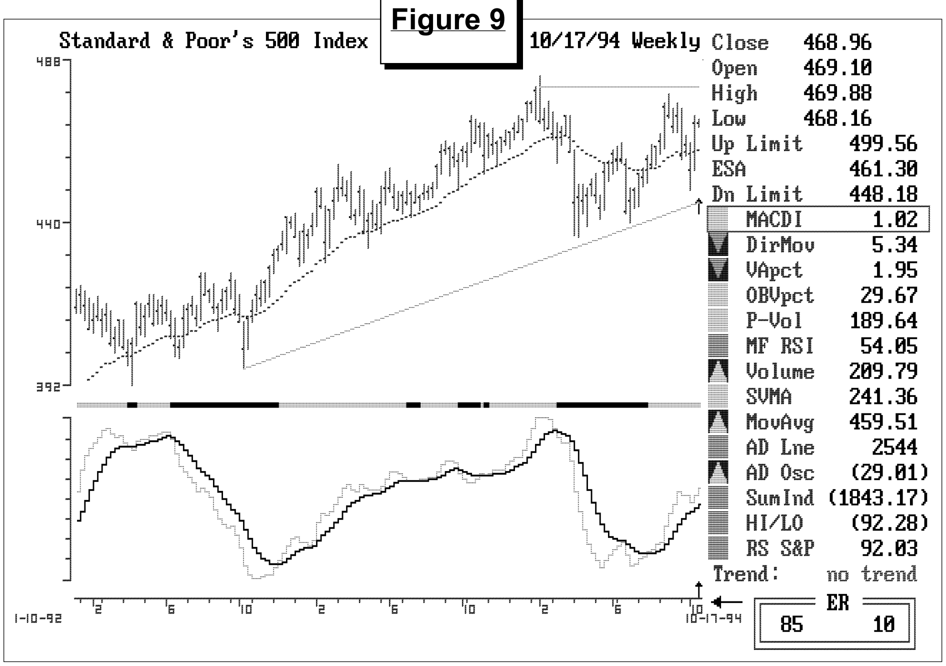
"Our market timing signals have been deadly accurate but the trading range still exists."

Normally there is only one signal to talk about in this column. This month there were plenty. In this market environment, we are receiving more signals than what is typically the case. To see what is happening, let's look at the weekly chart for the S&P 500. The weekly chart shows more data than is the case for daily charts so it enables one to see the forest instead of the trees. The weekly chart for the S&P 500 is shown in **Figure 9**. We see that the market tends to stall when it hits the upper trendline and may be in the process of forming a double top. The lower trendline, however, is acting as support. The market has been in this wide trading range for most of the year. Our market timing signals have been deadly accurate but the trading range still exists. With the trading range in place, the buy and sell signals are occurring more frequently than usual because there is no trend to the market.

Anytime there is a sideways market, sector/group rotation becomes critical. While the market is about the same level as this time last year, the health care and consumer-non cyclical sectors have been in a bull market while leisure and transportation have been in a bear market. ■

David Vomund is publisher of two advisories for stock and sector fund investing available by fax or mail. For a free sample of the advisories, phone 702-831-1544, or write Vomund Investment Services, P.O. Box 6253, Incline Village, NV 89450.

Figure 9



PRODUCT ENHANCEMENT SUGGESTIONS

As part of our continuing policy to provide products that meet the needs of our customers, AIQ invites *Opening Bell* readers to submit suggestions for feature enhancements and new technical indicators for use in future products. If you would like to participate, please submit your ideas in writing or by fax to:

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