

Feature

Interpreting Point & Figure Charts 1

Sections

Market Review 3
 AIQ Reports 4
 Data Maintenance 7
 Windows Commentary 8

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TOOLS OF THE TRADE

POINT & FIGURE CHARTING, I SUPPORT AND RESISTANCE

By David Vomund

With the introduction of TradingExpert for Windows, we now have the ability to use Point and Figure charts. Unlike bar charts where the vertical coordinate is based on price and the horizontal coordinate is based on time (day or week), the Point and Figure chart is only concerned with price. Although the year and months are reported on the horizontal axis, they are shown merely to establish a frame of reference.

Since time is not a factor, small fluctuations in price are often not charted. Without these disturbances, it is easier to spot critical support and resistance levels and visually locate chart patterns. In this article, we'll focus on determining support and resistance. Next month, we'll explore important charting formations.

AIQ's Technical Indicators Reference Manual has a good explanation of the mechanics of Point and Figure charting, beginning on page 94. To give

a short summary, Point and Figure charts are plotted with Xs and Os. Vertical columns of Xs represent increasing prices while the Os represent decreasing prices. Each X or O represents a specific increment of change in price, which is called the box size.

For example, each X may represent a \$2 increase in the price of the stock. Every time the stock increases by \$2, an X is plotted. Time is irrelevant so it doesn't matter how long it takes for the security to make the \$2 advance.

When Xs are being plotted, we know the stock is advancing. TradingExpert's pre-set default values specify that a stock must fall by three times the box size before a new column of Os is plotted. In our example, where the box size is \$2, a stock must fall by \$6 (3 times \$2) before a new column of Os will appear. This 3 box reversal is what eliminates all minor and sometimes confusing fluctuations.

Tools of the Trade continued on page 2



DAVID VOMUND

"...it is easier to identify support and resistance levels for stocks using Point & Figure charting techniques."

It is helpful to understand the mechanics of Point and Figure charting but it is not critical. The software will take care of constructing the charts and you can concentrate on their interpretation. Luckily, it is much easier to interpret the charts than it is to understand their construction.

To plot a security using the Point and Figure technique, first chart the security and click on the PtFig indicator in your control panel. The chart will initially appear very small so AIQ's Zoom feature must be used. Place your mouse cursor on the Point and Figure plot and press the Z key and the plot will fill the entire window. Pressing the Z key again restores the plot to its original size.

As we stated earlier, it is easier to identify support and resistance levels for stocks using Point and Figure charting techniques. Examining **Figure 1**, we can quickly identify a support level at around \$34. Echlin (ECH) dropped to this level five times but found buyers each time the level was tested. We drew a support trendline to help you identify the support.

(Note: The current version of TradingExpert does not allow trendlines to be drawn on Point and Figure charts. However, this feature will be included in the next upgrade.) With support identified, we can look to

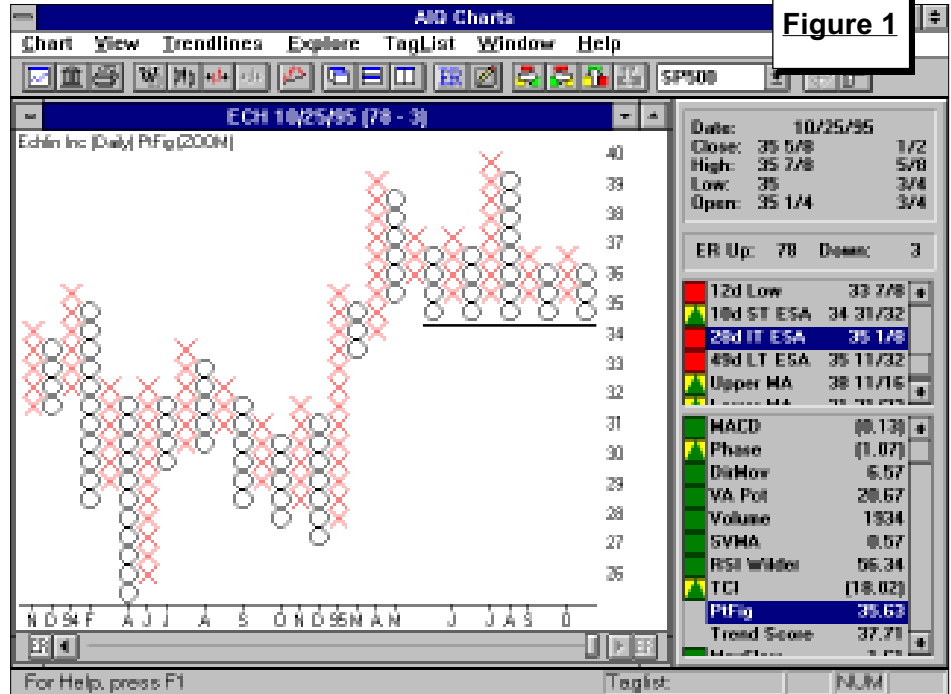


Figure 1

buy the stock when it is just above support and sell (or short) if the support is broken.

Our second example is Equifax Inc (EFX) in **Figure 2**. This time, a resistance level is spotted as the stock found sellers each time the stock rose to the \$31 level.

Our third example in **Figure 3** shows Illinois Tool Works (ITW) in a

trading range and so both support and resistance levels are seen. Notice the Xs rose to \$46 on three occasions but found sellers. By late 1994, the Os fell to \$40 on five occasions but found buyers each time. To see other examples of easily spotted horizontal support and resistance levels, look at charts of Parker Hannifin (PH), SBC Communications (SBC), and Fruit of

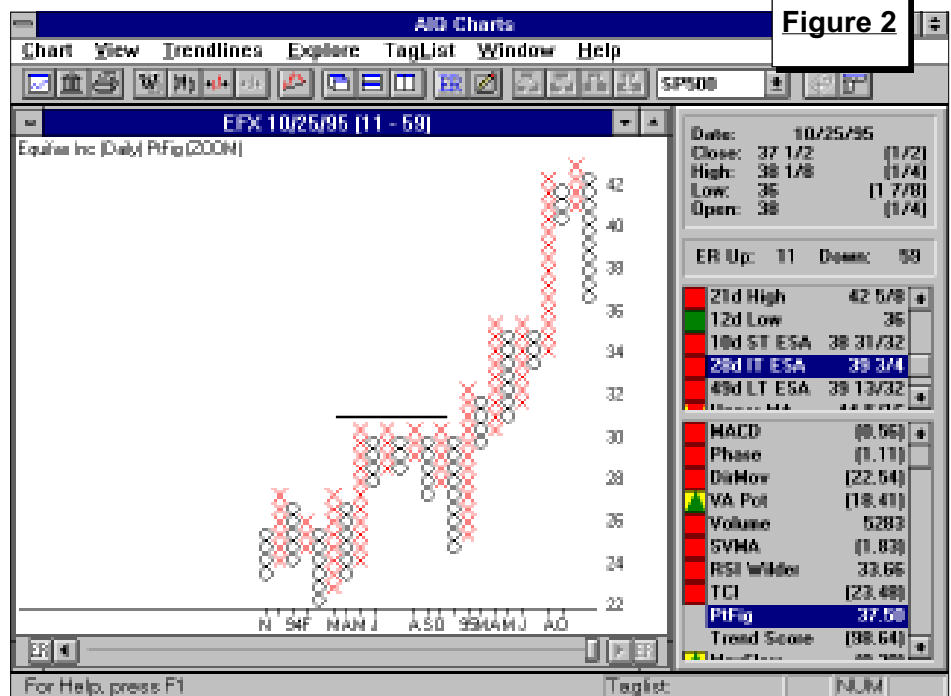


Figure 2

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TOOLS OF THE TRADE *continued . . .*

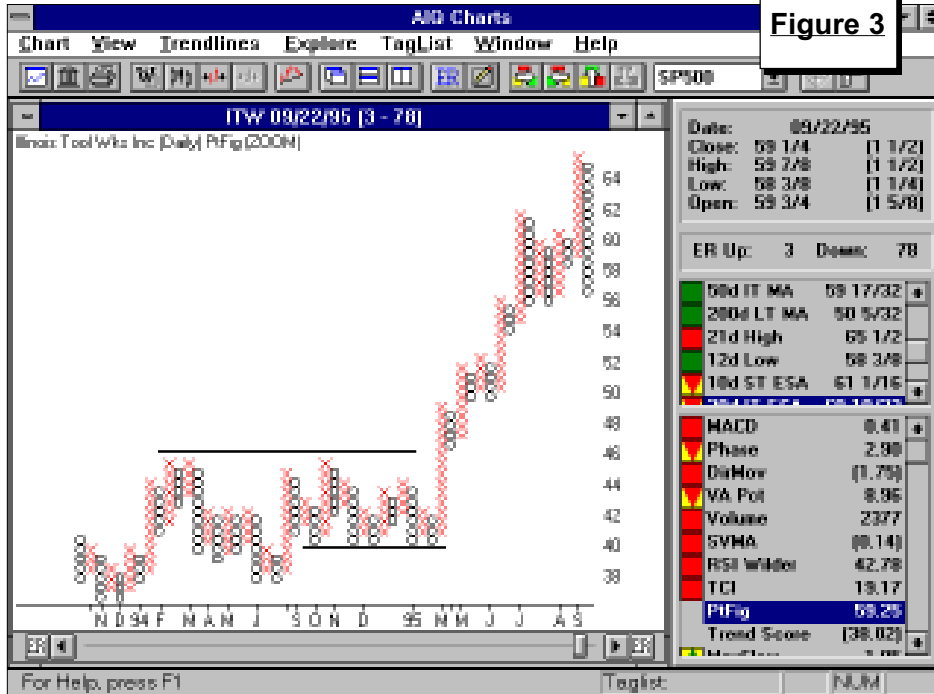


Figure 3

the Loom (FTL).

Horizontal support and resistance levels are most easily spotted because the Xs and Os tend to end at the same level. Support or resistance levels can also be upward or downward sloping. In **Figure 4**, there is an upward sloping level of support. Notice that from March to August each column of Os is one level higher than the previous

column of Os. This 45 degree support level is considered a classic pattern in Point and Figure analysis.

We can see from these examples how easy it is to spot levels of support and resistance using Point and Figure analysis. Next month, we'll highlight bullish and bearish chart patterns. ■

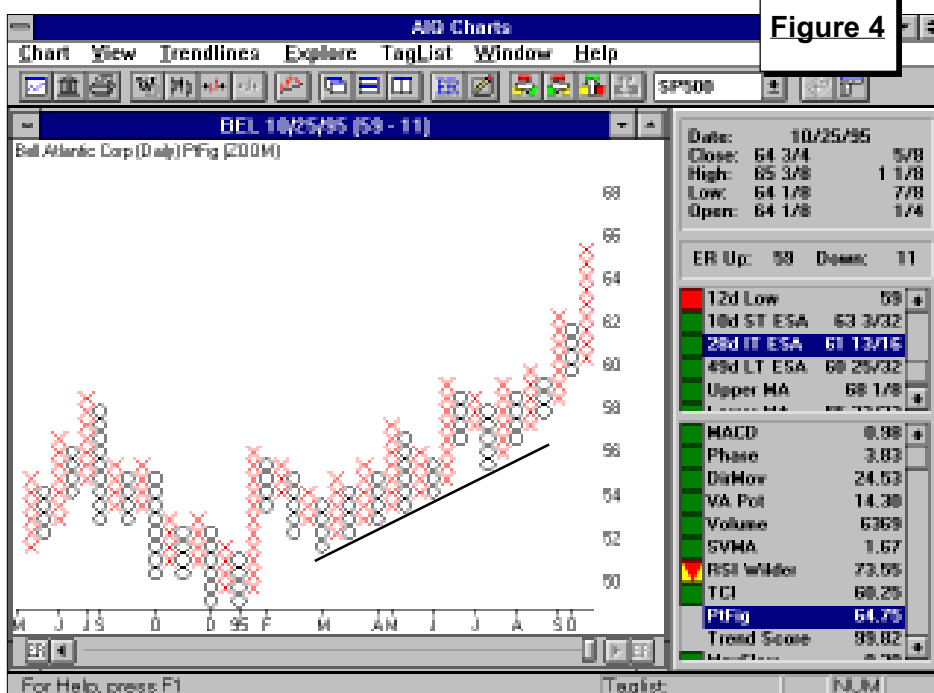


Figure 4

MARKET REVIEW

October was an active month for the market and for AIQ's timing signals. The consolidation seen during the month led to several market timing signals.

Using data from Dial/Data, market timing sell signals were registered on October 2 and October 3. Consecutive signals are more powerful when they are registered for different reasons. With these signals, some of the rules fired were for similar reasons and some were for different reasons. Large company stocks barely fell but the broader markets corrected. The S&P 500 only fell 1.5% but the NASDAQ composite corrected 7.5%.

A 99 up signal was then registered on October 12. This looked to be a powerful signal because at that time the percentage of stocks with buy signals was in the high range. The Dow and S&P 500 rallied to new highs but the broader market failed to show much strength. Only a quarter of the Fidelity sector funds saw new highs during the week that the Dow made its new high.

Partially as a result of the lack of participation in the broader markets, a 99 down signal was registered on October 19, the day the Dow reached a new all-time high. The S&P 500 proceeded to correct only 2.4% but the Russell 2000, a measure of small company activity, corrected almost 7%.

As of the end of October, the Dow and S&P 500 have regained most of their losses but the broader market averages and the Advance Decline Line are near their lows. As we pointed out last month, the ADX/ADXR is falling and pointing to a trendless market. ■

D.V.

PRICE VOLUME DIVERGENCE REPORT, II

TEST OF PRICE VS. 100% ON-BALANCE VOLUME

By David Vomund

Last month, we backtested the Price Volume Divergence report from TradingExpert for Windows, going back to 1991. The divergence report looks for situations where the price action of the On-Balance Volume or Money Flow indicators diverge from the stock's price action. In our study we used TradingExpert's default settings, which place an equal weight on the two indicators. Our study found the stocks showing positive divergences outperformed the stocks showing negative divergences by an average of one percent per month.

This month, we ran a similar study on the same set of stocks using different criteria. Rather than using a combination of On-Balance Volume and Money Flow, we ran the study using just the On-Balance Volume (OBV) indicator. The settings for the report can be changed in the Reports application of TradingExpert by opening the *Setting* menu and clicking *Report Criteria* and then *Daily Stock Criteria*. Next, highlight the *Price Volume Divergence* report and change the weightings to 100% OBV, 0% Money Flow.

To briefly review our study, the Price Volume Divergence report was run the first day of each month (the last business day of the prior month was used if the market was not open on the first day of the month). The top five ranked stocks were bought and held for the remainder of the month, at which time a new report was run. The database used is the 500 stocks in a recent S&P 500 structure.

Results of this test are summarized in **Table 1** and **Table 2**. Detailed results are shown in **Table 3** and **Table 4** (pages 5 and 6).

Table 1

Summary of Results Positive Divergence Stocks

Average percentage return per month

	100% OBV	50%OBV/50% MF
1991	4.04	3.93
1992	1.51	1.82
1993	0.51	1.95
1994	1.47	0.95
1995	3.83	3.87

Average monthly return for years 1991 - 1995

100% OBV Weighting	=	2.16%
Equal Weighting	=	2.41%

In Tables 3 & 4, the percentage change in the S&P 500 index for each month is listed along with the average change for the five stocks. Finally, the ticker symbols of the five top-ranked stocks are listed.

The S&P 500's monthly performance is listed as a reference point for the market's activity. As was discussed last month, it may not be proper to directly compare the performance of

AIQ Reports continued on page 7

Table 2

Summary of Results Negative Divergence Stocks

Average percentage return per month

	100% OBV	50%OBV/50% MF
1991	0.68	2.02
1992	0.93	0.65
1993	2.08	1.94
1994	1.01	-0.03
1995	2.77	2.83

Average monthly return for years 1991 - 1995

100% OBV Weighting	=	1.40%
Equal Weighting	=	1.39%

Table 3

Positive Divergences

		S&P 500 Index (%)	Top Five Stocks (%)	Stocks Held
1991	January	3.88	18.38	CPQ KO AMD PEP DIS
	February	7.99	7.13	MOB TX GPU PZS CBS
	March	0.22	1.70	ABS TXU UK EK SHW
	April	2.42	2.48	MU MO F MRK AMH
	May	2.51	7.82	MU FNM PCCW GE AMD
	June	-3.06	-6.08	MRO CHV TXN ABS MRN
	July	2.43	4.20	LOR LPX MER S MSFT
	August	2.15	2.52	TWX CU USW CG AA
	September	-1.58	-5.67	S CCI USHC KBK T
	October	0.54	-0.97	RD UK ALD BEV G
	November	-4.11	-1.61	INTC LOW MCD IBM MA
	December	11.16	18.58	WMT LOW AMGN XON S
1992	January	-1.99	11.23	PCCW ENS UIS GLW HP
	February	0.96	4.19	F KO AMD CPQ IBM
	March	-2.05	-3.88	INTC HD HOU NWL MMM
	April	2.05	-0.79	GM MO BLY CA LOW
	May	1.16	4.78	KRB USHC BMY UNH UTX
	June	-1.05	-1.72	KEY FNM DD KM BOAT
	July	2.74	2.90	F MAS HM MOT AL
	August	-1.92	-2.28	GE AAPL STO LIZ DAL
	September	0.05	-5.19	FTU ONE WFC TWX MD
	October	0.57	-0.44	INTC BFI UIS MYG BHI
	November	2.89	2.11	SO UNH NYN XON I
	December	1.14	7.25	TEN CPQ MTC CHRS DNB
1993	January	1.56	6.78	NSM CHV TCOMA PAC AIG
	February	-0.12	-11.79	AMAT ABT HPH PCCW WLA
	March	1.88	3.33	GM MSFT CSCO UK WMX
	April	-2.25	-1.28	AXP T MDT UNH H
	May	3.10	3.80	ORCL S NOVL F GIDL
	June	-1.06	5.24	PDG GM ABS WX JNJ
	July	-0.19	-3.13	HD HAL AN MMM AZA
	August	3.35	1.87	SUNW CMB NSM MCIC FNM
	September	-0.40	0.36	MCIC TXU BMET USHC MOT
	October	1.70	-2.18	GE NSM AIG BEL HWP
	November	-1.54	2.36	AMAT UST PCCW PNC CPL
	December	0.99	0.71	UN ABX DNB DIGI BR
1994	January	2.82	8.79	MDT LTD FNM VO CCB
	February	-3.17	-2.91	KM TXU GTE PG BEL
	March	-4.02	-4.50	MER DOW PAC RD LOR
	April	1.17	-4.94	SUNW INTC DE JNJ KO
	May	1.47	10.00	S NOBE CA IR CTB
	June	-2.49	-0.41	GM HM WMT CHV NOBE
	July	3.32	6.63	AAPL MCIC LOW S BA
	August	2.63	1.48	TX EK CMB NWL ENE
	September	-2.21	-0.68	MOT SO SLE KMB GPU
	October	1.23	2.97	AMAT MST LUV MYG MMM
	November	-4.16	-5.04	OAT COL CMY AET DDS
	December	2.31	6.24	IBM HWP SUNW HRB HD
1995	January	2.40	5.39	WMT XON AIT ETR TOY
	February	3.24	11.76	GE CHA MU AN AVP
	March	3.10	3.73	NOVL FLT MO GTE SUNW
	April	2.70	0.58	PEP HD GTE MCD ORCL
	May	3.74	0.36	AMD MCIC DIS AMR AGREA
	June	2.11	-0.39	T AGREA XRX THC LTD
	July	2.73	5.63	ABX THC HM ADM JR
	August	0.75	3.62	WMT C ORCL CMCSK PNC

Table 4

Negative Divergences

		S&P 500 Index (%)	Top Five Stocks (%)	Stocks Held
1991	January	3.88	3.69	JNJ PG MMM GIS FRE
	February	7.99	6.34	DGN PG XON DDS BT
	March	0.22	3.87	ABT UNH MMM UCL DI
	April	2.42	1.64	INTC MSFT MRO KM TOY
	May	2.51	11.22	MO MCIC SUNW CAT KO
	June	-3.06	-11.21	MRO CHV TXN ABS MRN
	July	2.43	5.94	KO TOY CFL USHC BMY
	August	2.15	0.15	CCI WMT TCOMA NLC CHRS
	September	-1.58	-15.49	GM AMAT PEPE GE FTU
	October	0.54	0.64	MCIC CSCSK UPJ BA
	November	-4.11	-1.14	MSFT S AMD INGR WX
	December	11.16	2.54	PEP WMX UEP AMAT HON
1992	January	-1.99	10.75	NOVL USHC SLB Z BKB
	February	0.96	4.28	BAC CCI ABX BHI PE
	March	-2.05	-11.55	ORCL MRK MU GE GLW
	April	2.05	-2.88	S NOVL WAG ENE TCOMA
	May	1.16	4.17	INTC ENE KO AT MO
	June	-1.05	-5.29	MRK WMT WMX JNJ ADM
	July	2.74	5.66	MSFT CSCSK NOVL UIS MRK
	August	-1.92	-2.96	INTC S BA T GT
	September	0.05	0.01	CHA MER HAL CGP CYM
	October	0.57	2.35	MSFT FTU DD ED CBS
	November	2.89	4.24	BSX THC LLY MDT NOBE
	December	1.14	2.42	MSFT CHV IP CS MA
1993	January	1.56	7.57	SUNW ORCL F RYAN MA
	February	-0.12	-0.35	INTC TXN CMB HD SGP
	March	1.88	3.23	WMT MCIC CCI FLT MU
	April	-2.25	-2.52	MOT LTD SNC CHRS BMY
	May	3.10	6.07	TEN MOT JNJ MAT AL
	June	-1.06	-1.89	RD SPP CMB MCD CHV
	July	-0.19	1.34	CSCO SFX YELL NYN PEP
	August	3.35	6.71	LTD XON TXN HAS SLB
	September	-0.40	7.16	ORCL CCI DD S MD
	October	1.70	1.14	RD WMT WB AMAT DE
	November	-1.54	-5.21	DIS T CC MOT UNH
	December	0.99	1.68	PEP AMGN G AMAT HPH
1994	January	2.82	8.07	NKE AS TCOMA IP AGREA
	February	-3.17	-2.26	MCIC GE MER WX AN
	March	-4.02	-5.90	CMCSK UTX MOT TOY MAT
	April	1.17	1.61	MTC FTL PEP RAD WFC
	May	1.47	2.83	MCIC DD COL UCL T
	June	-2.49	-2.78	MO NOVL MRK MU TWX
	July	3.32	0.97	F CSCSK DDS CBS USW
	August	2.63	4.60	PEP S ACAD PH AMD
	September	-2.21	-2.45	NOVL CPQ SUNW LTD GM
	October	1.23	6.55	MOT ORCL T CAT LLY
	November	-4.16	-3.22	KO MO AAPL ORCL IBM
	December	2.31	4.11	MU MOU CHL SCE CHV
1995	January	2.40	4.01	AGREA MMM USS IBM GIS
	February	3.24	1.44	MAT FTU AMB TDM UPJ
	March	3.10	1.14	BAC IP ABT MCD UPJ
	April	2.70	7.88	MSFT IBM LDW-B AXP CCI
	May	3.74	1.13	ATI SNA COL ORX AIG
	June	2.11	6.02	DRI AMGN KO CAT IP
	July	2.73	-0.03	AMD CAT MII LMT MRO
	August	0.75	0.56	LMT WX AMGN NOBE CIN

AIQ REPORTS *continued* . . .

the five stocks selected from the report to the S&P 500. This is because we used a database made up of the current S&P 500 list of stocks for all years and, due to the continually changing nature of the S&P 500 list, the current list is somewhat different from the stocks in the list a few years ago.

Summary statistics from our study are shown in **Table 1** and **Table 2**. Listed are the results from last month's study, which used an equal weighting of the OBV and Money Flow indicators, and this month's test, which used only the OBV indicator.

Looking at the positive divergence results in Table 1, we see results deteriorated slightly when using the OBV indicator alone. On average, the stocks selected when using all the weight on the OBV indicator underperformed the stocks selected using both indicators by an average of 0.25% per month.

The overall results of the stocks showing negative divergences using the OBV indicator were virtually identical to a selection of stocks based on both OBV and Money Flow.

For *Opening Bell* articles, we would prefer to run tests and report dramatic findings. Unfortunately, not every test has dramatic findings. This is one of them. The results of this test were surprisingly similar to last month's study. We now know results only slightly deteriorate when using the OBV indicator alone. People who favor the OBV indicator should find this test of particular interest.

We'll conclude our study of the Price Volume Divergence report next month with a test using 100% weight on the Money Flow indicator. ■

David Vomund is publisher of two advisories for stock and sector fund investing available by mail or fax. For a free sample of the advisories, phone 702-831-1544.

STOCK DATA MAINTENANCE

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

Stock	Ticker	Split/Div.	Approx. Date
Computer Telephone	CPTL	2:1	11/07/95
BellSouth Corp	BLS	2:1	11/09/95
Heinz HJ	HNZ	3:2	11/10/95
United Stationers	USTR	2:1	11/10/95
SunAmerica	SAI	3:2	11/13/95
Right Mgmt. Consultant	RMCI	3:2	11/13/95
BMC Industries	BMC	2:1	11/14/95
Hinsdale Fin'l	HNFC	5:4	11/14/95
Marcus Corp.	MCS	3:2	11/15/95
Picture Tel	PCTL	2:1	11/15/95
Argent Bank	ARGT	2:1	11/16/95
Mens Warehouse	SUIT	3:2	11/16/95
St. Jude Medical	STJM	3:2	11/17/95
Ken Cole Production	KCP	2:1	11/18/95
Flowers Ind.	FLO	3:2	11/20/95
BancorpSouth Inc.	BOMS	2:1	11/21/95
GaSonics Int'l	GSNX	3:2	11/21/95
PHP Healthcare	PPH	2:1	11/21/95
Vivra Inc.	V	3:2	11/24/95
Bay Networks Inc.	BNET	3:2	11/27/95
Family Bancorp	FMLY	3:2	11/28/95
Progress Software	PRGS	2:1	11/28/95
Winn Dixie Stores	WIN	2:1	12/01/95
TCF Financial	TCB	2:1	12/01/95
City Holding	CHCO	10%	12/01/95
Clear Channel Commun.	CCU	2:1	12/01/95
Lowes Corp.	LOW	2:1	12/04/95
Starbucks Corp.	SBUX	2:1	12/04/95

Ticker Changes:

American Publishing (AMPC) to Hollinger Int'l (HOLI)
 Sierra Tucson Co (STSN) to Next Health (NEXT)
 Valujet Airlines (VJET) to Valuejet Inc. (VJETD)

Trading Suspended:

Broadway Stores (BWY)
 Recognition Int'l (REC)
 Chipcom Corp (CHPM)

WINDOWS COMMENTARY

MATCHMAKER FOR WINDOWS

By Steve Hill

To test the new MatchMaker for Windows, I decided to remake my Group\Sector structure. I used the AIQ 1500 structure as the starting basis rather than the less comprehensive AIQ pyramid structure. My purpose was to try and obtain a larger number of correlated groups for my database of nearly 2000 stocks. In DOS, this endeavor would have taken an inordinate amount of time. In Windows, however, things are far quicker and easier.

Before undertaking this project, I laid out what I was attempting to accomplish and how I was going to achieve it. The procedure I followed for the group correlation is outlined in this article.

1. Check Ticker Data

In *Data Manager*, select **Utilities**, then **Check Ticker Data**. Make sure all the Tasks on the right are selected. Click **OK**. This function will fix some data errors and report others in your *System Messages*. Check the messages and correct any errors in your data before proceeding with any Matchmaking.

2. Run MatchMaker

Select **Strategies**, then

Group\Sector Strategies, then **Check Stocks**. From the *Check Stocks in Groups* dialog box, choose **Correlate All Stocks in List to their Parent Groups** and select the AIQ 1500 list and click **OK** (see **Figure 5**).

The report produced lists each individual group with the correlation of each stock within the group to its parent group index. (**Figure 6**).

3. Remove stocks with low correlations from their groups

The quick way to remove stocks that do not correlate (coefficients less than 500) is as follows: On the MatchMaker report, click on the first stock that does not correlate and it will be highlighted, then hold down the **CTRL** key on your keyboard and drag your mouse down until all the required symbols are highlighted (**Figure 6**). Next, click the **Data Manager** button and the *Data Manager* is launched with these stocks highlighted. To quickly locate the group these symbols belong to, click the **Locate in List**

binoculars on the toolbar. The group will be displayed in the Group\Sector list in the list window on the left. To remove the selected stocks, scroll to the top of the Master List and begin paging down until you see the first highlighted stock. Click and highlight this symbol

within its group in the List window, and then click the **Remove from List** toolbar button. Repeat for all the stocks highlighted in the Master List.

To return to MatchMaker press **ALT-TAB** or click on the **MatchMaker** icon on the *Data Manager* Toolbar. Repeat these steps for all groups.

Note: If you find a group with only one correlated stock (>500), it might be wise to completely remove that group from the structure.

4. Recompute the AIQ 1500 groups and sectors

This will recompute the groups based on the correlated stocks only.

5. Rerun MatchMaker

Run the correlation again for all stocks in the AIQ 1500 list to make sure all groups contain stocks that correlate to their groups (coefficients >500). This correlation matches stocks against a group index derived from correlated tickers only. This process will likely uncover a few tickers that are not correlated and need to be removed.

What we are left with is over 130 correlated groups and a pool of stocks that are not correlated. The next step is to correlate all the unassigned stocks to the newly correlated groups. This task requires a little more work.

Next month we will attempt to place the stocks that are not yet classified into industry groups. ■

