AIQ Opening Bell®
Monthly

IN THIS ISSUE VOL. 3 ISSUE 10 OCTOBER 1994

Feature

Sections

The *Opening Bell Monthly* is a publication of
AIQ Incorporated
David Vomund, Chief Analyst
P.O. Box 7530
Incline Village, Nevada 89452

AIQ USERS SHARE THEIR TECHNIQUES

HOW TO WIN THE INVESTING GAME: "STACK THE DECK IN YOUR FAVOR"

By Grace Barbor
Opening Bell Editor

MIKE JEPSON
OPPENHEIMER & CO., HOUSTON, TX

Professional trader Mike Jepson has learned that the key to using TradingExpert successfully is "discipline".

"TradingExpert" he says, "is simply a tool. Unless you are disciplined and organized you are not going to win. The business of investing is very difficult. It's a mind game. All normal inclinations in human nature tend to lead us to do the wrong things in investing. That's why so many people don't do very well. You have to set all that aside. You have to have a consistent plan, and stick to it."

Jepson says he realized the significance of a disciplined process after attending his first AIQ seminar. "Dr. Smith's lectures really drove home the importance of a consistent and disciplined strategy. My performance has constantly improved since then."

Because of the nature of his clients, Jepson's trading horizon is long term. Experienced in pattern recognition, he uses TradingExpert's weekly charts to help find long-term positions.

"The clients I tend to attract are not the 'hot money folks' — people who want 50% next week. I try to find long stock positions with 6 to 12 month horizons. For clients who have substantial positions in a given stock, I will occasionally write covered calls."

"Everybody complains about commissions," he continues, "but the real killer is taxes. If your trade lasts 12 months or more, you're capped at 28% taxes. By trading too soon, you can jack your taxes up by nearly 40%."

Jepson, however, is not totally long term in today's market environment. "I do not try to force my long-term views in a

AIQ Users Share Their Techniques continued on page 2

AIQ USERS SHARE THEIR TECHNIQUES *continued . . .*

market like this where there might be a conflict. I want to preserve profits and I want to preserve capital, and long-term doesn't always work in this kind of market place."

Right now, he is 60% to 70% invested, depending on the individual. "Since February 1, when the market topped, it's been a mine field out there and I have not felt comfortable about being fully invested. However, in spite of all the gurus out there saying 'the end is near,' I personally think the end of this correction is near — I see a lot of opportunities that I like."

Although he says he is a technician first, Jepson thoroughly checks out a stock's fundamentals before taking a position. He uses TES (TradingExpert) to draw his attention to the group and to the security. He codes his firm's recommendations with two stars in his Master Ticker List. When a coded stock comes up with an expert signal, he knows that it's on Oppenheimer's buy list, and fundamentally regarded. Also, he can have conference calls about stocks not on the buy list with Oppenheimer research analysts, including chief market analyst Michael Metz.

Asked how he specifically uses TES to select stocks, Jepson replied: "I didn't try to reinvent the wheel. Dr. Smith has put together good basics in the seminars on how to use TES."

One of the "good basics" Jepson uses is confirmation of Expert Rating buy and sell signals with specific indicators — MACDI, Directional Movement Index, Money Flow, On Balance Volume Percentage, Volume Accumulation Percentage, and Positive Volume. For buys, Jepson prefers to find situations where these indicators have just crossed over to the positive side and are increasing. He says: "All six don't have to meet these conditions for confirmation. I will accept four out of six positive and increasing, but if the other two are negative they must be increasing and approaching the zero line."

Jepson follows the direct opposite of the above for confirmation of sell signals.

He also uses the Trading Channel Index (TCI) as a confirming indicator. "A simple rule, as your manual says, is to not trade against the direction of the TCI. TCI has saved me a number of times — I might be considering taking a position in something that I like, but when the TCI changes direction I put it on hold. For buys, I like to see a U formation with TCI in an upturn. Conversely, when you are trading at the upper band and the indicators are turning negative, and then TCI turns down — it's time to get out.

Jepson likes the top-down approach using group/sector rotation, and finds it especially effective in today's market. "The experts are arguing: is it a correction or is it a bear market? Who knows? What I do know, and this goes back to my economics background, is that when you see a group moving there is an underlying economic theme at work, a reason that all that money is going into that group. What I have learned is to not sit there — frozen like an animal in the headlights — waiting to understand why, because by the time I figure it out it may be too late."

He uses AIQ signals together with pattern recognition. For example, he likes to get into a stock with a defined saucer pattern — one that's basing out, turning, and coming up through the

Jepson: A Focused Approach to Running a Portfolio

Oppenheimer vice president Mike Jepson of Houston, TX, has been trading professionally since 1985. He was vice president/investments for another Houston brokerage firm until July of this year, making the switch to Oppenheimer for the opportunity to be included in the company's Omega program — a select number of brokers who qualify to manage money for a flat fee (the investor pays per year a flat percentage of the value of his assets).

Jepson explains: "Flat fee business improves client relationships because the portfolio manager and the client have the same objective: to increase account value. Flat fee business truly places me and my client on the same side of the table. The broker's incentive is for his client's assets to grow as much as possible."

Jepson realized early in his brokerage career that relying solely on analysts' recommendations and investment newsletters was not the answer to successful investing, and found he needed a more disciplined process. This led to his interest in technical analysis. One of the first books he studied, *Technical Analysis of Stock Trends* by Edwards and Magee, led him to become a serious follower of pattern recognition.

Jepson, who holds a BSBA in finance with a minor in economics, began to use AIQ technical timing software in 1991, upgrading to TradingExpert when it first appeared in 1992. He attended an AIQ seminar in Dallas that same year, and was introduced to Dr. Smith's DOFPIC concept, a focused method of running a portfolio that he has since followed.

Mike Jepson can be reached by phoning 1-713-650-2528.

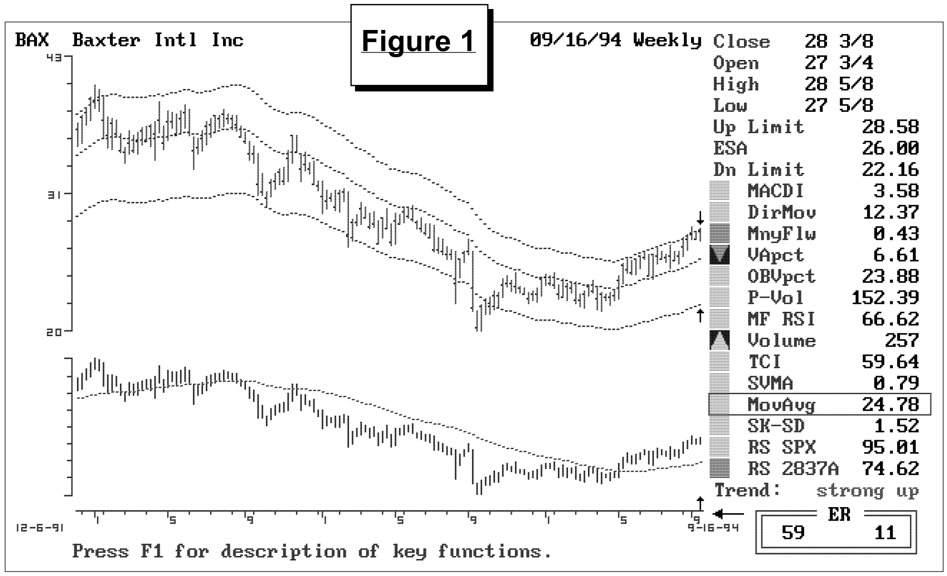
PLEASE SEND CORRESPONDENCE TO:

Opening Bell Monthly
G.R. Barbor, Editor
P.O. Box 7530
Incline Village, NV 89452

AIQ Opening Bell Monthly does not intend to make trading recommendations, nor do we publish, keep or claim any track records. It is designed as a serious tool to aid investors in their trading decisions through the use of AIQ software and an increased familiarity with technical indicators and trading strategies. AIQ reserves the right to use or edit submissions. Subscriptions: 12 issues for $175. 24 issues for $300.

Phone 1-800-332-2999 or 1-702-831-2999.

AIQ USERS SHARE THEIR TECHNIQUES *continued . . .*



200-day moving average (BAX, **Figure 1**). "If I have buy signals with confirming indicators along with a promising pattern, and the group and sector also look good — those are pretty powerful reasons to take a position."

Asked if all of the above has to be going his way, Jepson says:

"The concept of stacking the deck in my favor makes sense to me. When I went to AIQ's seminar in Tahoe, I didn't put a nickel in a slot machine and I didn't sit at a single table in the casino. I'm risk averse. I try to stack the deck in my favor, and they won't let me do that in a casino."

Jepson's trading process is as follows:

"I arrive in my office at 6:30 and the first thing I do every morning is print out the automated Market Log to see where the market is going. (Jepson follows the AIQ Group/Sector Pyramid.) Dr. Smith prefers that users fill out the log by hand to encourage active participation. I try to force myself to interact with the automated log by studying it and making notes. This takes less time, but it's still interacting.

"I make notes of considerable changes in the indexes, and circle up/down signal ratios, group scores, or delta scores showing significant numbers. This information gives me an indication of where the market is going, cuing me to first signs of breakdown or upturn."

"Then, I look at each sector, check those that I want to examine further, and circle with a red pen things that I think are important. For instance, some days there will be a significant number of negative DTS's (Delta Trend Scores) — that tells me that the odds are not good that we are going up. On the other hand, if we have sold off and all of a sudden I see a lot of high percentages in the UP% column together with considerable positive DTS's — that tells me the market is getting ready to turn."

Next, I check the Trendline Breakout Report — I draw trendlines on companies I am interested in as well as those I have taken positions in. Then I look at my current positions, quickly scrolling through the charts to see if there is anything I should be aware of, and checking the Profit Manager Stop Loss Report. I scan the Weighted Action List, and I take a quick look at the Group Report, looking for high Delta Trend Scores — if you see a Trend Score of 68 or 80 or something like that with a 119 for a DTS, you ought to look at that group."

"I can do all this in about half an hour. If I see anything that I would like to pursue when I have more time, I tag it in my Watch List. The longer you do all this, the more comfortable you get with it. You don't sit and ponder it for a long time. You begin to feel the ebb and flow of the market and what all the numbers mean. It just takes time."

An important part of Jepson's process is to do more extensive analysis on the weekend, when he has weekly data to work with. He looks for underlying trends that have the potential to continue for a while.

"Weekly data filters out the noise and the whipsaws and, for me, makes for more intelligent investing. I think there is an image that brokers want to jump in and out and need five or ten ideas a week. If I have one great idea a week, that is more than I can use. If you are going to do good business, you just don't have time to jump around."

Jepson follows Dr. Smith's rule of fully invested being 10 stocks. However, now with the flat fee program, he may take on more positions.

Jepson checks for signals on daily charts, and for patterns on weekly charts. "The Expert Rating signals will show up on the short-term daily data. Then, I look at the long-term weekly data to see if I've got something that I can use and want to pursue further."

"Right now, BAX, AHP, BMY, UPJ, and CAW all have nice bottoming saucer patterns on the weekly charts. It's now a matter of figuring out when to get in."

Figure 1 is a weekly chart displaying a long term saucer pattern for BAX (Baxter International) with the 200-day (40-week) moving average in the lower window. According to Jepson, the time to take a position in BAX would have been 05/06/94, when the 200-day moving average was crossed.

In addition to exiting on indicator-confirmed down signals (the same indicators used for confirmation of buys), either a trendline stop or a Profit Manager fixed stop will pull Jepson out of a position. He says, "The time to decide when to get out is before you get in...when you have a clear head and there's no emotion. I have found that if I ignore the exit criteria that I have set and give the position a little more room

AIQ Users Share Techniques continued on page 4

AIQ Users Share Their Techniques *continued . . .*

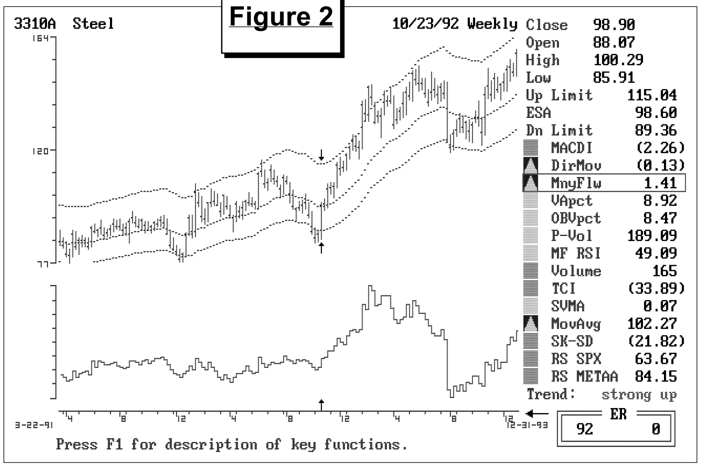


Figure 2

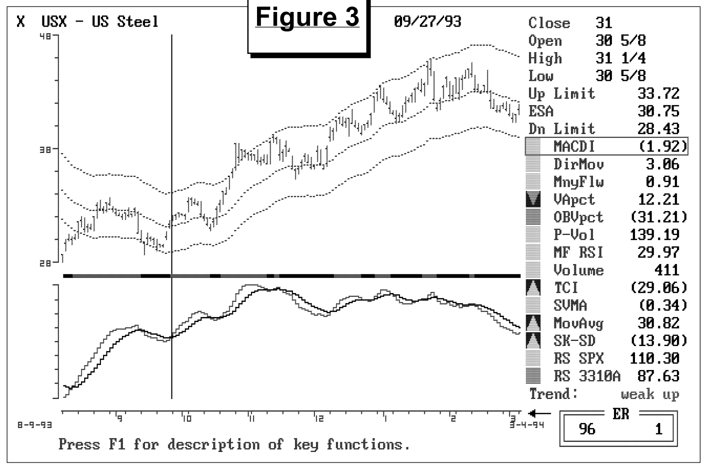


Figure 3

(time), I end up selling at a lower price or holding through a long consolidation pattern that ties up my money."

Jepson's Profit Manager percentages are: 90% principal protect, 70% profit protect, and 15% trigger. He checks the Stop Loss report every morning for flashing S's. Since Jepson sets up all his clients, and himself, with the same stocks and percentages, he follows only one portfolio.

Asked how he handles losses, Jepson replied: "We had 3 1/2 years of an up market, and a lot of people were spoiled. In a bull market, you win a lot. In a down market — I don't care what your system is — you will sustain losses. The trick to handling a loss is to eliminate ego, admit it very quickly, and stick with your discipline.

Following are recent trades Jepson has made, with his comments.

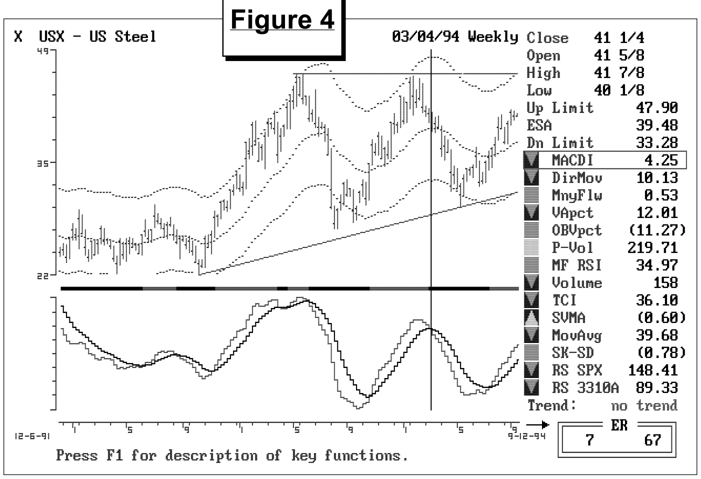


Figure 4

(X) USX - US Steel (Figures 2 - 5)

US Steel has been a trading ground for me. I have traded USX three times in two years.

I first took a position in USX in October of 1992. What first caught my eye was that several steel stocks had up signals on the Weighted Action List. I also noticed that the Steel group, 3310A, had a double bottom in December of 91 and October of 92 (weekly chart, **Figure 2**). On 10/20/92, there was a 95-0 Expert Rating on the group's daily chart.

I hit the slash key and scrolled through the long and short term charts of the various steel stocks and found that virtually every one exhibited favorable characteristics. The firm I was with at the time was not recommending steel stocks, so I checked with Value Line and found that US Steel was already profitable while the other steel stocks were on the verge of making money. With all my confirming indicators positive, I entered a position with USX on 10/28/92 at 26.

I sold on February 1 at 36 3/8, following a 2-96 Expert Rating which was given on 01/21/93. That was three months and 9 points too soon, and technically not a good trade. The stock had run up through the upper band, and it looked like the MACDI was getting ready to turn — but the fact is I didn't really have confirmation. I could have picked up another 9 points. I learned from this.

USX Trade #2

I got another chance in September of 1993. USX received consecutive 96-1 upside ratings on 09/24/93 and 09/27/93 (**Figure 3**), with confirming indicators. In addition, most of the other stocks in the Steel group had up signals.

The weekly chart for USX (**Figure 4**) shows an interesting pattern that also indicates that this is a good time to buy. In 1991 USX went through a long consolidation before breaking out. The stock then pulled down to a good support area around 27 3/8. Now I had an identifiable pattern to USX. In September of 1993, USX was at a support area.

The cards were stacked in my favor. I bought USX again at 31 5/8 on 09/29/93. On 03/04/94, I sold at 40 1/4. Prices had broken a five-month trendline, and MACDI had crossed to the downside on the weekly chart.

USX Trade #3

By May 1994, USX had fallen back to 30 1/4 — a 25% drop after I sold. USX gave another 96-1 buy signal on 05/13/94. I re-purchased on 06/06/94 at 34 1/4 (**Figure 5**).

The reason I did not take a position

AIQ USERS SHARE THEIR TECHNIQUES *continued . . .*

sooner (the indicators were all positive by 06/01) was simply because of the time that it took me to contact all of my clients and explain to them the rationale for recommending USX at this time. It sometimes took as long as an entire week to contact my list of clients. This is one of the reasons that I prefer Oppenheimer's Omega program. With this program, I have a discretionary agreement to manage an account as I see fit, without the necessity of getting client approval for each trade. Now I can enter orders in a much more timely manner and, when I need to get out in a hurry, I don't have to spend a week getting in touch with everybody.

I currently have three trendlines on USX. The two on the weekly chart (**Figure 4**) are a long-term trendline connecting the bottom of 10/02/92 with the bottom of 05/13/94 and a resistance line across the top at 46. The third is a short-term trendline on the daily chart connecting the low of 05/10/94 with the low of 06/24/94 (**Figure 5**).

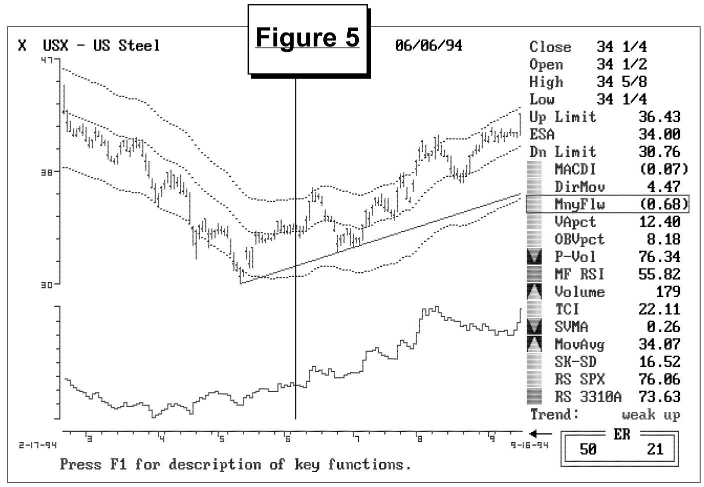
As of this interview (09/16/94), USX is at 42 5/8, a 24% gain in three months. At this point, I see no reason to get out. There are some weakening signs, but I have learned to wait for confirmation.

(HM) Homestake Mining (Figures 6 & 7)

When I purchased Homestake Mining in late August of 1994, using a top-down approach, the deck again was stacked in my favor.

The metals sectors on the Market Log looked strong, and the Precious Metals group, 1042A, was also showing signs of strength. I drew a long-term trendline on the group weekly chart, connecting the bottoms on 01/15/93 and 04/22/94. TES issued a long-term buy signal of 98-1 for Precious Metals on 04/22/94.

Figure 5



On the daily chart for Precious Metals (**Figure 6**), you can see that during the first half of July the group was flirting with my long-term trendline and finally broke down through it around the first of August. This turned out to be a false breakout, however, as the group quickly moved back above the trendline which again began acting like support. I have seen many false breakouts recently, so many that it looks to me like trading on breakouts in the classic manner is a good way to have your head blown off. In this market, I believe that you are better advised to trade when the price is coming off of support.

Whereas in the past buying breakouts has been a good strategy, I think that it has been so overdone that some traders are now using breakouts as opportunities to play a reversal move. I have noticed time and time again in the last few years where a support level is marginally broken — just enough to blow out the stops — and then the buying comes in and the stock goes roaring up. It may be that there are sophisticated folks out there who have buy orders placed just under trendline support levels. These people are our competition and we need to be aware that this may be happening.

On 08/18/94, Precious Metals received a 97-0 buy signal (**Figure 6**). In addition, up signals for gold stocks dominated the Weighted Action List. Homestake Mining (HM) stock received two buy signals, one on 08/19/94 and a second on 08/24/94, which is shown in Figure 7. When I purchased HM on 08/31/94 at 18 3/4, all my indicators were confirming the signals.

Currently, I have a support line on HM at 17 1/2 (**Figure 7**), and a Profit Manager stop. I don't have to worry about it. ■

Figure 6

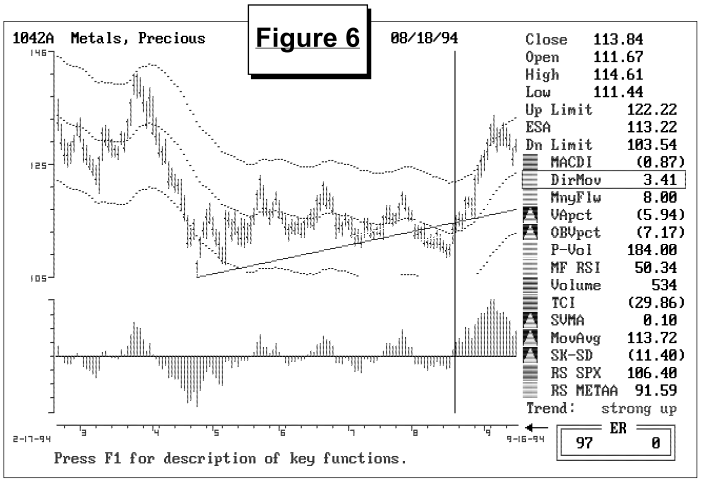
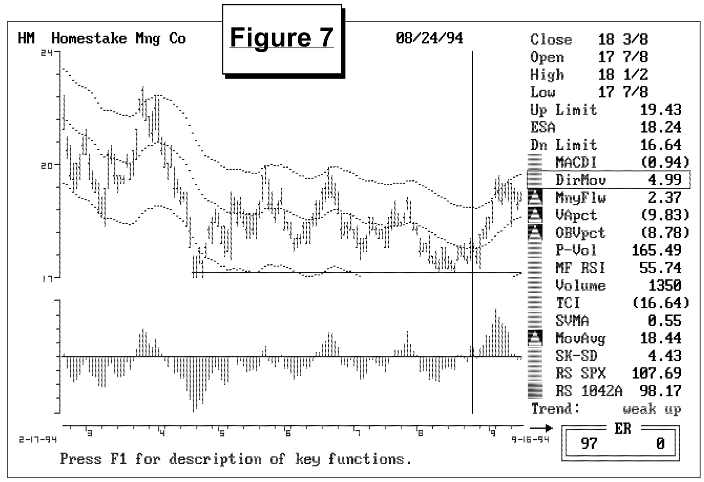


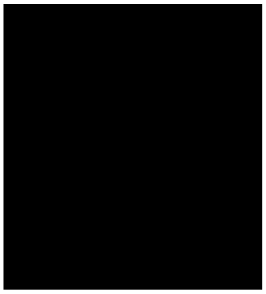
Figure 7



OPTION ANALYSIS

Strategies for Uncertain Times, Part I

By David Vomund



DAVID VOMUND

Whenever the stock market goes through a correction, it leaves investors with a great deal of uncertainty about its future direction. Active traders are unaffected since their positions cover both the long and short side and only last for a few days. For less active traders, this can be an unnerving time. Scheduling my "wake up" routine around the morning stock market report has never seemed so important (that's what we do on the West Coast). In uncertain times, many people simply choose to sit on the sidelines. These are usually the people who bought at the top and won't start thinking about buying again until the Dow tops 4000. Others keep investing but have a smaller portion of their portfolio in long stock positions. This and next month's article will explain option strategies for conservative investors who are interested in being able to sleep peacefully at night.

Trends don't last long in tough market environments. Many times, you purchase a stock that is attractive and then, much to your chagrin, the stock looks vulnerable a few days later. Or AIQ's market timing may have just registered a sell signal—and you know how accurate the signals have been this year. People are often reluctant to liquidate stocks shortly after they were purchased, especially if they believe in the stocks long term. Rather than churning your account, another solution is to buy protective puts. Protective puts work as an insurance policy against a downward move in the market. Long put options can alleviate your bearish fears.

Briefly, a put option gives the buyer the right to sell shares of a specific stock at a particular price during a set period of time. Since the put option is a right to sell, the maximum risk of the stock is predetermined by the purchase of the put.

Let's look at an example. Suppose an investor enjoyed the nice advance in Compaq and believes the company will continue to move higher. However, the short-term outlook for Compaq and for the market is less rosy. He doesn't want to sell the stock because he's not certain it will go down and, more importantly, he's not sure he'll buy back in before its advance continues. By buying protective put options, he can continue to hold the stock and enjoy profits if the advance continues but also has downside protection in case the stock moves significantly lower. Each option protects 100 shares of stock held so if he held 500 shares, he would buy 5 options.

"Protective puts work as an insurance policy against a downward move in the market. Long put options can alleviate your bearish fears."

With Compaq trading at 31 1/4, the October 28 3/8 put option is at $2. By purchasing these options, the investor can sell the shares at 28 3/8 regardless of how low the stock may decline during the life of the put options. If the stock advances, the stock can be sold at the higher price. There is limited downside risk with unlimited upside potential.

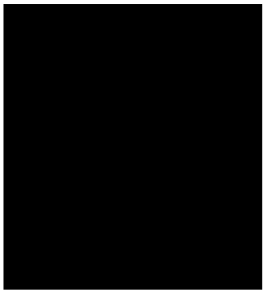
Everything has a price and the price of being protected against a loss while retaining upside potential is cost of the put option. In our example, the price of being protected is $1000 (2 x 100 x 5 options). The $2 price of the option represents 6% of the price of the stock. Therefore, the stock needs to rise about 6% just to break even. Let's look at the range of profitability:

- Stock greater than 33 1/4. Unlimited profit potential when the stock is over 33 1/4.
- Stock equal to 33 1/4. Break-even point from buying the $2 option.
- Stock equal to 31 1/4. $1000 lost as the option expires worthless.
- Stock less than 28 3/8. Loss remains the same as the stock moves lower. The maximum loss is limited to the premium paid for the put, plus any amount the purchase price of the stock may be above the strike price of the put.

We can see that a prudent investor only employs this strategy when the equity seems particularly vulnerable. The put option should also have at least 3 months of time remaining in order to allow the stock sufficient time to advance. When the option has less than 1 month remaining, its time value will fall fast so the investor may consider closing the put position or rolling over to a new month. Finally, consider options that are near-the-money. Far out-of-the-money options cost less but they also expose you to more downside risk. ■

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 .

PUTTING IT ALL TOGETHER



DR. J.D. SMITH

A Human or My 'Robot' — Who Would Be the Winner?

By Dr. J.D. Smith

Dr. Smith's "robot" system for sector fund switching, which he detailed in last month's *Opening Bell Monthly* (September 1994), has invoked a number of questions from readers. Dr. Smith answers some of the questions.

Question: If the situation were different and you were not (hypothetically) retired and sailing your boat in the middle of the Caribbean, would you employ this same trading strategy, or do you think that by using logs and "human intervention" the return would increase?

Dr. Smith: My preference is human decision making over mechanical trading. With select funds as the investment instrument, the human aspect is well represented by the fund managers, so I doubt that human decision making would add much in the way of returns. However, I don't think that mechanical trading in stocks would perform better than a human with a DOFPIC attitude, a good trading process, and (pardon me) AIQ decision support software.

Question: In creating surrogate groups, how many stocks do you need in your data base?

700 stocks with consistent volume and good price action should be sufficient. My sector fund system of 35 surrogate groups with 10 stocks in each group would require 350 stocks if there were no duplication of stocks among more than one group, but there is duplication. Two funds with strong cross correlations, such as Energy and Energy Service, will logically attract similar stocks from the data base.

Question: Many funds had a 17% annual return over this period. Why not buy and hold?

This is another one of those questions from the buy and hold society. My answer is, yes, Margaret, the earth is flat. (Oops, sorry, wrong society.)

During the four years of simulation trials, my select funds switching system returned 84%, which compares very favorably with 32% increase in the S&P 500. If an investor had bought all of the Fidelity Select Funds and held them for the full four years, his return would have been 60%. Better still would have been the return if an investor had picked the correct select fund to invest his money in. Hindsight shows us that the correct select fund was Home Finance, which returned a handsome 149% over the four-year period. That's assuming that the investor could pick the best fund. On the other hand, if a lesser fund was picked, such as Environmental Services, the return on investment would have been a negative 5% for the four-year period.

Buy and hold does not take advantage of market timing or industrial sector rotation, which we all know does in fact exist in today's markets. Select fund switching allows us to take advantage of both market direction and sector rotation.

Question: How has this strategy performed this year?

Simulations of the mechanical sector fund switching strategy from January 1 to August 1 showed a trading loss of 4.23%, compared to a loss in the S&P 500 of 1.16%.

Since August 2 — with my real money involved and not "play money" — the trading system has returned 2.4% compared to the S&P 500 at 1/2 of 1%. And the year isn't over yet.

Question: What is a better investment vehicle - stocks or sector funds?

The answer to this question, of course, depends upon the objectives and resources of the individual. My feeling is that if the time and inclination is there to actively trade, then stocks would be the better investment vehicle. Stocks provide the opportunity for larger gains, although they have the volatility that increases the risk associated with those gains. But by using a proper trading process, with proper controls, the risk can be managed.

If there were such an individual as I described in my September article, a person too busy running in front of a hurricane to actively manage his money, then I think that we have shown that sector fund switching with mechanical trading rules may be the superior investment vehicle. ■

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:

Product Manager,
AIQ Incorporated
P.O. Drawer 7530,
Incline Village, NV 89452

Fax (702) 831-6784

STOCK DATA MAINTENANCE

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

Stock	Ticker	Split/Div.	Date
Healthdyne Tech.	HDTC	4:3	09/15/94
Sports & Rec.	SPRC	3:2	09/26/94
Unitog Co	UTOG	3:2	09/26/94
Dolco Packaging	DPKG	3:2	09/30/94
Queens County Banc	QCSB	3:2	10/03/94
Medtronic	MDT	2:1	10/03/94
Aspen Bancshares	ASBK	5:4	10/04/94
Total System Svcs	TSS	2:1	10/04/94
Warnaco Group	WAC	2:1	10/04/94
Scientific-Atlanta	SFA	2:1	10/07/94
CBS Inc	CBS	5:1	10/11/94
Cobra Golf	CBRA	2:1	10/12/94
Exar Corp	EXAR	3:2	10/12/94
Workingmens Cap Hold	WCHI	2:1	10/17/94
Gorman-Rupp	GRC	3:2	10/28/94

Trading Suspended:

(JAVA) Mr. Coffee
(DRY) Dreyfus Corp
(CBK) Continental Bank
(GEB) Gerber Products
(ALDC) Aldus Corp
(GAFA) Gates/FA Dist.
(PION) Pioneer Financial

Name Changes:

Commonwealth Edison (CWE)	to	Unicom Corp (UCM)
Wisconsin Public Svs. (WPS)	to	WPS Resources (WPS)
Consolidated Paper (CPER)	to	Consolidated Paper (CDP)
Newbridge Networks (NNCXF)	to	Newbridge Networks (NN)

GROUP OF THE MONTH

GROUP 2805A, CHEMICALS-COMMODITY

BY DAVID VOMUND

Our highlighted group this month is one of the strongest of the year. The group is Chemicals-Commodity. Dow Jones classified nine stocks into their Chemicals-Commodity group. AIQ MatchMaker shows that among these stocks, those with the highest correlation to the industry group index are Dow Chemicals (DOW), DuPont De Nemours (DD), and Rohm & Haus (ROH). MatchMaker results are shown in the table at the right.

These three stocks comprise the Chemicals-Commodity group in the AIQ Pyramid. To update the AIQ Pyramid industry group structure, correlation studies are run every six months. Only those stocks that show a high correlation to their industry groups are kept. The next update to the AIQ Pyramid is in November. ■

GROUP 2805A

AIQ MatchMaker
Weekly Analysis
09/01/93 - 09/01/94

Coef.	Tic.	Stock
700	DOW	Dow Chemicals
629	DD	DuPont De Nemours
519	ROH	Rohm & Haas

MARKET REVIEW

The market is overreacting to economic data. Producer Prices were released on September 9 and stocks fell over 30 points. The next week, lower than expected Consumer Prices and high inventory levels decreased inflation fears and the market rallied sharply. By September 15, the Dow was less than 25 points away from its previous all-time high.

AIQ's market timing model performed admirably during this volatile market action. A 97 buy signal was registered on August 23. The next day the Dow rallied 70 points. Two supporting bullish arguments were mentioned in last month's Market Review. That is, the S&P 500 had clearly broken above its trading range and the fact that small-cap stocks were outperforming the large-cap stocks. It is typically easier to pick winning stocks when a small-cap index, like the Russell 2000, outperforms the S&P 500 because this means that more stocks will participate in the advance. Bullish enthusiasm was tempered as we were not seeing a high percentage of stocks giving confirmed sell signals. The 463 level on the S&P 500 supported the index in early March, acted as resistance in April through July, and is now once again a support level.

On August 19, five gold stocks all had high bullish ratings on the Weighted Action List. This was a good indication of future strength in the gold shares.

On September 9, the Dow fell over 30 points and declining issues led advancing issues by a three to one margin. It was easy to act on emotion on that day and become bearish. A more disciplined investor saw that most market averages simply fell to their 21 day exponentially smoothed moving averages. To AIQ's credit, a sell signal was not registered and the market rallied. ■. *D.V. 9/16/94*