

AIQ

Opening Bell[®]

Monthly

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VOL. 3 ISSUE 9

SEPTEMBER 1994

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is a publication of
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PUTTING IT ALL TOGETHER

SECTOR FUND SWITCHING YIELDS 17% RETURN — NOT BAD FOR A 'ROBOT'

By Dr. J.D. Smith

Imagine yourself retired, sailing your boat in the middle of the Caribbean — and bearing down at you at 20 knots is Hurricane Beelzebub, packing 120-knot winds and 40 foot waves. At the same time, AIQ issues a sell signal. At a time like this, you've got to be DOFPICing your boat, rather than DOFPICing your investment portfolio. So what are you going to do?

One alternative, of course, is to have a very good money manager back home. A second alternative, and one that I have been testing for about a year, is automatic trading using sector funds as my investment instrument. Automatic, or system trading, is not a new concept. For years, it has been applied in futures trading, but always on a short-term basis. What we need for this situation is a longer term investment instrument, but one that is also conservative with low volatility to the downside. I think that Fidelity Select Funds fill this need.

The Fidelity Select Funds are well managed and as a result have very low downside volatility. This is important when capital preservation is a primary objective of one's trading process. In

addition, the Fidelity Select Funds are sector oriented, and by analyzing sector rotation within the market we can trade those funds whose sectors have the strongest rotation.

Another reason to use sector funds as an investment instrument rather than stocks has to do with the increased probabilities of positive price movement that are the result of managed funds. One of the best descriptions that I have seen of this phenomenon occurred in a conversation between Gil Blake, a money manager from Massachusetts who is one of *The New Market Wizards*, and Jack Schwager, author of *The New Market Wizards*. (Jack Schwager, by the way, will be at our March AIQ seminar in Orlando). The conversation I refer to appears in Schwager's book, and is as follows:

Schwager: "Why do you believe the sectors proved so tradable?"

Blake: "That's my favorite question. Not just because I think I may have an answer, but also because I have not encountered the mathematical explanation elsewhere."

"In researching the price behavior of individual stocks, I have found that significant daily price changes (with relative strength)

DR. J.D. SMITH

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PUTTING IT ALL TOGETHER *continued* . . .

have about a 55 percent chance of being followed by a similar directional move on the following day. After allowing for commissions and bid/ask spreads, this is not a sufficient probability edge to be tradable.

"Now, as an analogy, assume you have a stack of coins, and each has a 55 percent chance of landing on heads. If you toss a single coin, the odds of getting heads are 55 percent. If you toss nine coins, the odds of getting more heads than tails go up to 62 percent. And if you toss ninety-nine coins, the odds of getting more heads than tails go up to about 75 percent. It's a function of the binomial probability distribution.

"Similarly, assume you have ninety-nine chemical stocks, which on average are up 1 or 2 percent today, while the broad market is flat. In the very short run, this homogeneous group of stocks tends to behave like a school of fish. While the odds of a single chemical stock being up tomorrow may be 55 percent, the odds for the entire chemical group are much closer to 75 percent."

The Fidelity Select Funds, which I have been using in my testing, are 35 mutual funds geared to specific industrial sectors. There is a 36th fund, the Fidelity Select Money Market Fund, which is used for parking cash when switching in and out of the sector funds. If the market is bearish, I automatically go to cash. When the market is bullish, I switch between sectors as they rotate over time.

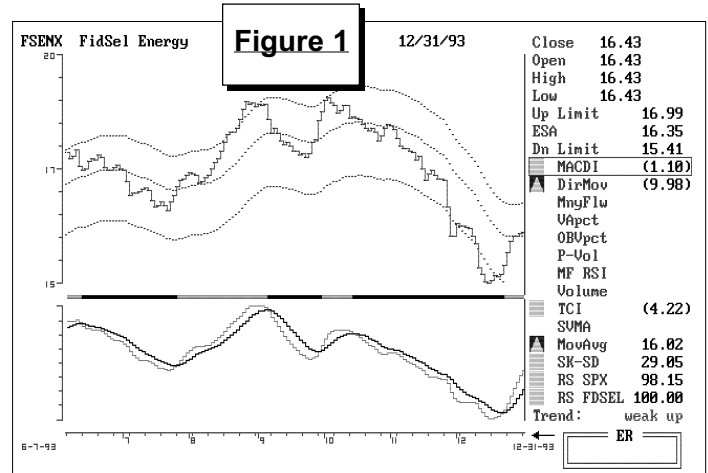
The cost of trading these funds is mainly the initial load. You pay a 3% load the first time you go into a select fund and then can switch between select funds and the Select Money Market Fund as often as you wish without any additional load. If you transfer within 29 days of taking a position, there is a 3/4 of 1% transfer fee. This can add up if you often exit early. After holding a fund for 30 days, you pay only a \$15.00 transfer fee.

An example select fund is shown in **Figure 1**, the Fidelity Select Energy Fund. Two things are relevant here. First, the smoothness of the price line reveals that once a trend starts it tends

to continue — confirming Gil Blake's observations on the relative probabilities of funds vs. stocks. Second, observe the open spaces on the indicator column in the right window of the chart. Because we do not know the volume associated with mutual funds nor the high and low pricing during the trading day, many of the indicators that we have grown to depend upon within AIQ TradingExpert are not available. All we have is the Net Asset Value (NAV) at the close each day. For meaningful technical analysis, we need more data.

One way to obtain more information is to use AIQ's MatchMaker software to build a surrogate group of stocks that closely follows the price behavior of the mutual fund. This building of surrogate groups has been covered several times by David Vomund and myself in this newsletter, but here is a quick review:

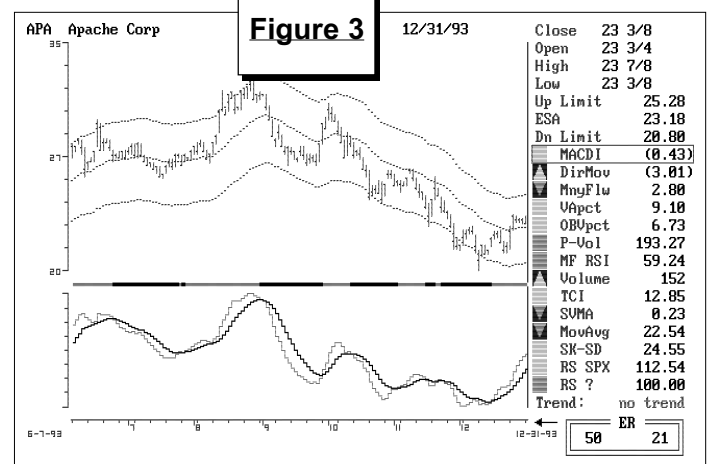
The MatchMaker program is a mathematical process that determines the correlation between each stock in the data base and the mutual fund in question. These correlations are used



Weekly MatchMaker Analysis - All Stocks in Group (01/02/93 - 01/01/94)

Coef Stock	vs FSENZ	Coef Stock	vs FSENZ
796 APA	Apache Corp		
761 APC	Anadarko Petroleum Co		
751 UCL	Unocal Corp		
734 CHV	Chevron		
733 NBR	Nabors Inds		
732 P	Phillips Petroleum Co		
723 SGO	Seagull Energy Corp		
716 AHC	Amerada Hess Corp		
707 TX	Texaco, Inc		
702 BHI	Baker Hughes		
695 ORX	Oryx Energy Co		
640 SNT	Sonat Inc		
628 ARC	Atlantic Richfield		
603 MOB	Mobil Corporation		
599 LLX	Louisiana Land & Expl		
564 MXS	Maxus Energy Corp		
561 KMG	Kerr Mcgee Corp		
553 CNG	Cons'd Natural Gas		
531 CG	Columbia Gas System		

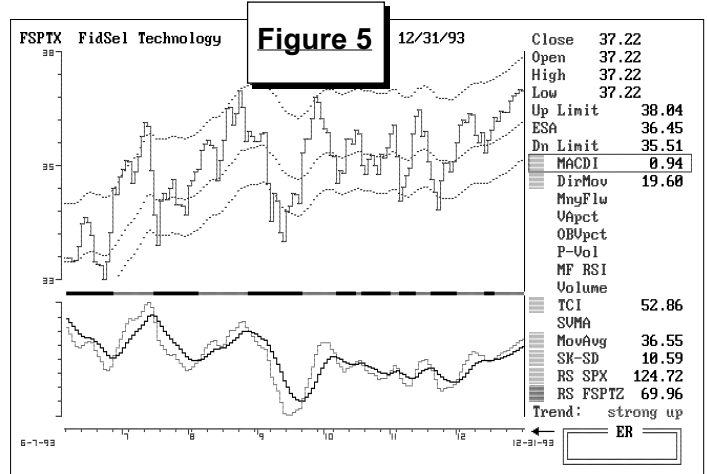
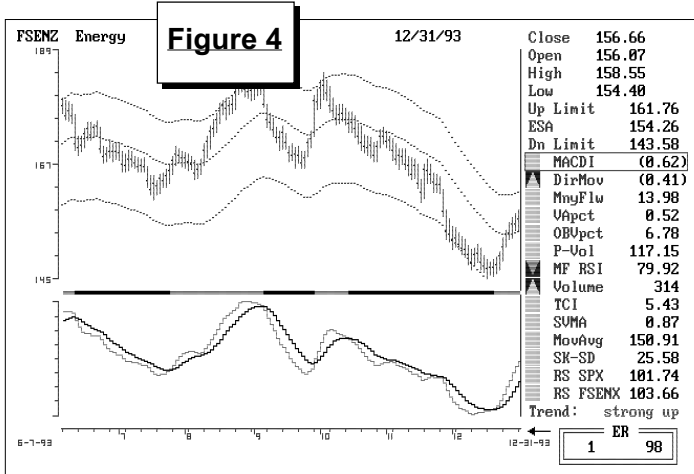
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to construct the surrogate group, which simply combines the ten stocks with the strongest correlations. **Figure 2** shows the results from a MatchMaker analysis that compared the Fidelity Select Energy Fund against all the stocks in my data base.

To give you an example of how well MatchMaker analysis works, let's

PUTTING IT ALL TOGETHER *continued* . . .



examine the top stock on the list, Apache Corp. Apache has a rank correlation coefficient of 796 out of a possible 1,000. (This value can range from plus 1,000, a perfect match between price behavior of the stock and the mutual fund, to minus 1000, a value that I have never seen but one that indicates a perfect inverse relationship between the stock and the mutual fund).

Figure 3 is a price plot for Apache for the same period of time as the Fidelity Select Energy Fund in Figure 1. You can see that the price plots for Apache (with its high rank correlation coefficient value of 796) and the Fidelity fund are very similar.

The surrogate group for the Fidelity Select Energy Fund is shown in Figure 4. Notice the close similarity of the price movement between the surrogate energy group (Figure 4) and the mutual fund itself (Figure 1). In

fact, the correlation coefficient between these two is 881, which indicates a very good fit.

This process of building a surrogate group using MatchMaker also works for highly volatile funds, such as the one shown in Figure 5, the Fidelity Select Technology Fund. You can see that over time price action is very volatile but there is not much of a trend in place (which in itself is worth knowing). Figure 6 is the MatchMaker analysis for the Technology fund, and the corresponding surrogate group is shown in Figure 7. Again, notice the closeness of price movement between the surrogate group (which has a rank correlation coefficient of 820) and the Fidelity fund itself.

Trading Process Rules

With information from the surrogate groups of each of the Fidelity select funds, I can now develop an automatic trading process. Since this is

to be an automatic process, it must be comprised of an absolute set of rules without ambiguity, so that the computer can decide for me when to exit a fund and exactly which fund to enter on the next step.

My automatic trading process must have market timing capability so that I can establish rules that tell me when to exit a position and whether or not I will reapply the proceeds into another select fund or deposit them in the Select Money Market Fund and wait for the market to turn bullish again.

In addition, my process needs rules for selecting which specific fund to invest in, a rule for determining the portfolio size (which determines the size of the investment in each fund), and rules for exiting positions.

A further question concerns the extra expense of an early exit from a

Putting It All Together continued on page 4

Weekly MatchMaker Analysis - All Stocks in Group (01/02/93 - 01/01/94)

Coef Stock	vs FSPTZ	Coef Stock	vs FSPTZ
688 SNPX	Synoptics Communicati		
680 BGEN	Biogen Inc		
660 CHPM	Chipcom		
641 IUX	Iuax Corp		
639 CYE	Cheyenne Software		
634 CS	Cabletron Systems		
623 COMS	3COM Corp		
604 PMTC	Parametric Tech Corp		
572 BCR	Bard Inc (C R)		
563 CSCO	Cisco Systems		
558 REC	Recognition Equipment		
540 ECILF	E C I Telecom Ltd		
526 APCC	American Power Conver		
523 NNCXF	Newbridge Networks Co		
461 CTX	Centex Corp		
459 WLA	Warner Lambert Co		
426 BAX	Baxter Travenol Labs		
420 LEN	Lennar Corp		
413 MDT	Medtronic		

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Figure 6

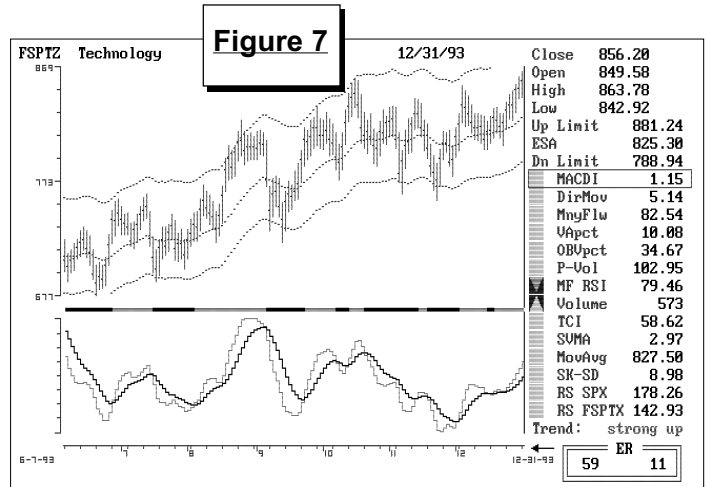


Figure 7

select fund, and whether such exits should be allowed.

Testing the Process

The next step in the development of my automatic process was to run some tests using real data. The first test was based on the following rules:

- My market timing rule stipulated that 30% of the surrogate groups had to be bullish.
- A group was determined to be bullish when the MACDI difference line (Price Phase line) was above the MACDI signal line, and Directional Movement Index (DMI) was increasing. The combined use of these two indicators eliminates the whipsaws often found in using each separately.
- For MACDI, I used TradingExpert default smoothing constants (12, 25 and 9 days).
- For DMI, I used the smoothing constant of 21-days.
- Choice of the specific fund to invest in was limited to bullish groups and was based on the Directional Movement Index (DMI) of the surrogate group. The fund with the highest rate of DMI increase was automatically selected.
- My portfolio size was fixed at 10 positions, and I did not allow early exits.
- For exiting, I used three different rules. The first exit rule, an indicator rule, occurred when the MACDI difference line (Price Phase line) crossed the MACDI signal line to the downside and DMI was decreasing. The second exit rule protected 96% of my original principal – if I took a position and then proceeded to lose,

when the loss was 4% I would exit. The third was a profit protection rule - after 10% profit was achieved from the fund, my automatic trading system would protect 90% of those profits.

An example of this first test of my automatic trading process is shown in **Figure 8**, which shows the surrogate group for the Fidelity Select Energy Fund. The date shown is the date the position was entered (July 26, 1993). The MACDI crossover occurred that day, and Directional Movement was increasing for the previous five days. DMI (DirMov) is still not positive, but is increasing. (The rule states that a group is bullish as long as DMI is increasing and MACDI has crossed over.) Also, a position could be taken here because of the rapid increase in the DMI.

The exit for this position occurred on September 7, 1993 (**Figure 9**). There is a MACDI crossover to the downside and at the same time DMI has been decreasing. The result from this trade was a 9% profit in six weeks.

My first test of this automatic fund switching process was limited to the year 1993. The rules were applied in a strictly mechanical fashion, with no judgment or interpretation at all. The

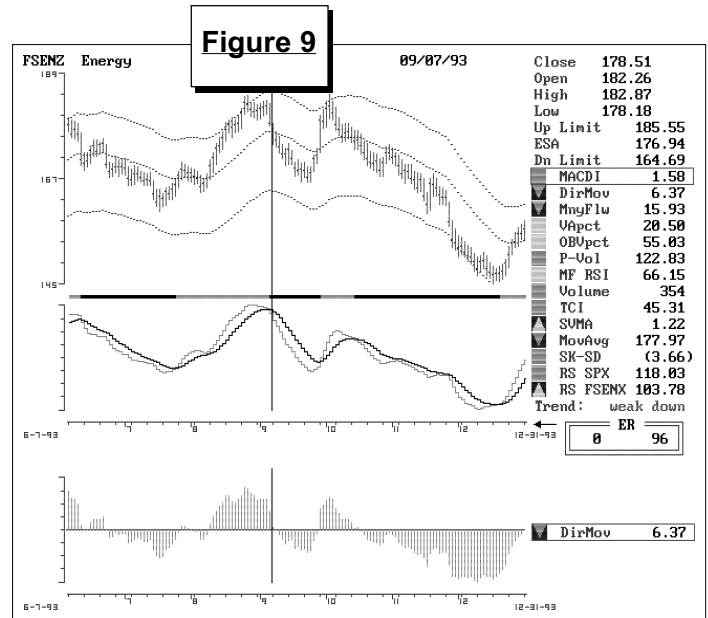
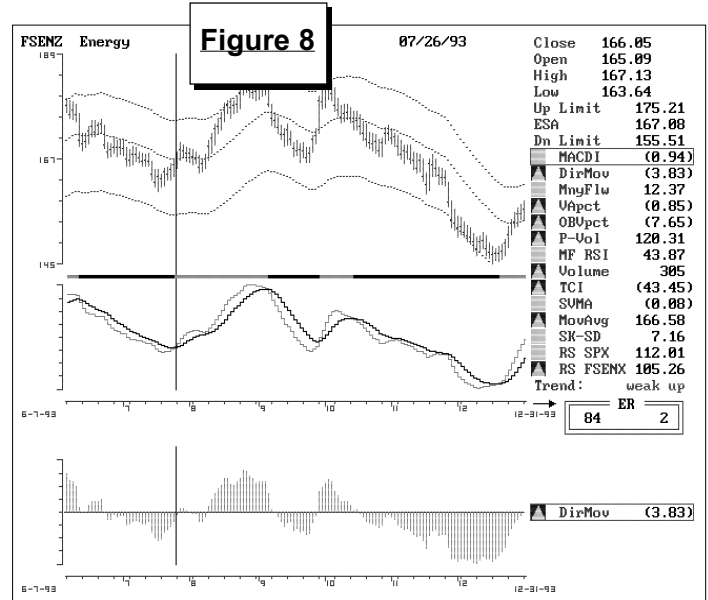


Table 1

**Initial Test Results
Year 1993**

Probability of a Winning Trade	0.70
Avg. Return on Winning Trades	10.8%
Avg. Loss on Losing Trades	5.1%
Avg. Days in a Trade	60
Simulated Return	26.1%

results are shown in **Table 1**. 70% of my 34 trades were profitable. The average profit on a winning trade was over 10%, and the average loss on a losing trade was just over 5%. The average period of time for a trade was 60 days. The total return was 26% which compares to 7.1% for the S&P 500 Index.

From these initial results, it was clear that the concept was worth pursuing further. I next applied the process to 1990, and realized very quickly that one of the rules – no early exits – was self defeating. The year 1990 being a bearish year resulted in a

Table 2

Results Test 1 MACDI & DMI Indicator Rule		
	S&P 500	Fund Switching
1990	-6.6	6.0
1991	26.3	19.3
1992	4.5	8.6
1993	7.1	22.4
Average	7.8	14.1

number of situations where it was cheaper to exit within the early 30 day period, paying the 3/4 of 1%, than to stick with a position in a down market.

With this one rule change (early exits allowed), I then proceeded to test the four year period (1990 through 1993). The results are shown in **Table 2**. The overall results for the four years is that my automatic trading process resulted in a 14.1% return while the S&P 500 had an average return of 7.8%.

In the one bearish year, 1990, the S&P 500 lost 6.6% while my automatic trading process gained 6%. The gain was primarily interest from cash in the Money Market Fund as the system was in cash for the majority of the year.

1991 was a big year for the S&P 500 (up 26.3%) whereas my automatic trading process was able to gain only 19.3%, but for a hands-off automatic process, that is not too bad.

In 1992, my trading process doubled the S&P return and in 1993 it tripled the S&P, due to a very volatile sector rotation.

Improving the Process

I then began a series of 15 tests wherein various parameters of the process were changed, one at a time, to determine if any improvement could be made. Results from the 15 tests are shown in **Table 3**. Note that I began the series of tests (Test #1) with the same rules as those used to generate the results shown in **Table 2**.

For the first ten tests, I used the MACDI and DMI indicators for entry and exit rules. I then ran five tests using the DMI and Volume Accumula-

tion Percentage (VApct) indicators for the entry and exit rules.

The first three tests involved changing the principal and profit protection %'s and letting the Profit Manager determine when to exit the positions. Test No. 1 gave the best return because of the low downside volatility inherent in the mutual funds themselves. This meant that a much tighter, more conservative set of protection parameters could be used than would be feasible under most stock trading situations.

I also found, and it stands to reason, that the higher I made the profit protection %, the far less important were the indicators as exit rules. In other words, with the 10% trigger on profit and 90% profit protection %, as used in Test No. 1, the indicators DMI and MACDI only triggered twice in the four years of testing. The Profit Manager rule was the earliest to cause an exit.

The fourth test compared weekly

vs. daily analysis using the same parameters as used in Test 1. However, the rules were evaluated only on Friday after the close and thus all the executions were made on Monday at the close. The result was significantly less return (9.2%) than the daily analysis.

I then ran a series of three tests (5 through 7) evaluating alternative values for the MACDI smoothing constants. Test 5 used the MACDI constants recommended by Gerald Appel for buying and selling rules in the stock market and the results were not bad — 13.8 vs. 14.1. In Test 6, I tried the long term smoothing constants used for groups within TradingExpert and, as you can see, the results dropped considerably. I then retested, in Test 7, the default smoothing constants in TradingExpert, 12-25-9. They gave the best results.

The next series of tests (8 through

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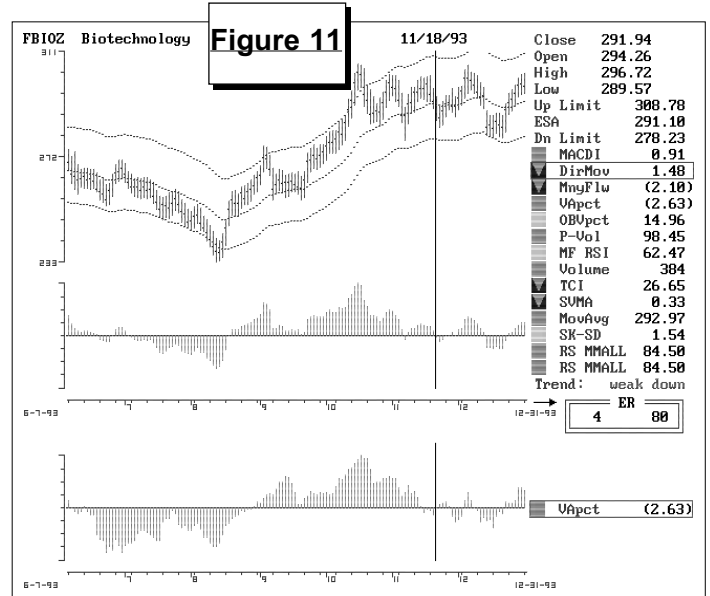
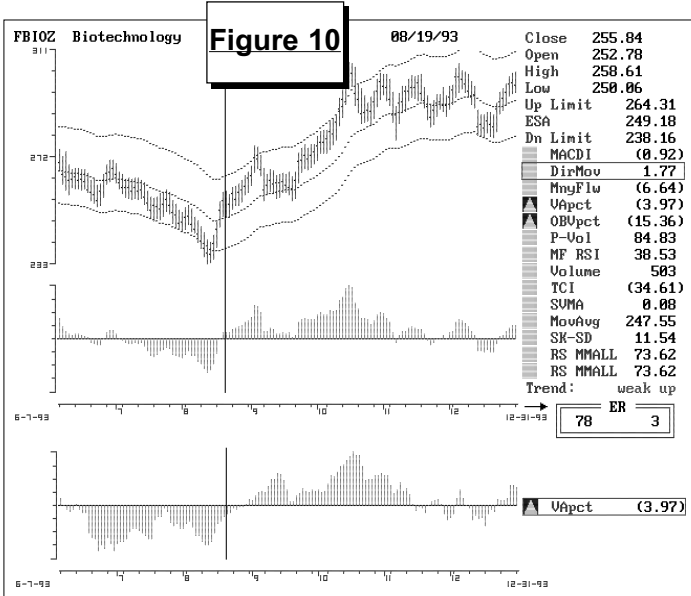
Table 3

Parameter Modification Test Results Years 1990 through 1993

Test	Indicators	Parameter Modified	Avg. Return
1	MACDI & DMI	* 96, 90, 10 Profit Protect	14.1
2	MACDI & DMI	90, 50, 15 Profit Protect	14.1
3	MACDI & DMI	95, 75, 10 Profit Protect	12.2
4	MACDI & DMI	Weekly Analysis	9.2
5	MACDI & DMI	MACDI 6-19-6 Buy, 13-20-9 Sell	13.8
6	MACDI & DMI	MACDI 25-50-39 Buy & Sell	12.8
7	MACDI & DMI	* MACDI 12-25-9 Buy & Sell	14.1
8	MACDI & DMI	30% Market Timing Rule	14.1
9	MACDI & DMI	40% Market Timing Rule	13.5
10	MACDI & DMI	* 50% Market Timing Rule	15.3
11	DMI & VApct	30% Market Timing Rule	16.0
12	DMI & VApct	40% Market Timing Rule	15.6
13	DMI & VApct	* 50% Market Timing Rule	17.0
14	DMI & VApct	* Max. 10 Positions in Portfolio	17.0
15	DMI & VApct	Max. 5 Positions in Portfolio	16.1

* Final Parameter

PUTTING IT ALL TOGETHER *continued* . . .



10) evaluated various market timing rules. Test 8 required 30% of the groups to be bullish before money was placed into mutual funds. That gave a result of 14.1%. I then tried 40% and 50% market timing rules. The 40% rule dropped the average return over the four years to 13.5%. However, the 50% market timing rule increased the average annual return to 15.3%.

The next three tests were designed to see if there were any other indicators that might give a better return than the MACDI/DMI combination. The first I tried was the DMI/VApct combination. This allowed both a price indicator (DMI) and a volume indicator (VApct) to be combined into this automatic trading process. For these indicators, a bullish group is one where both DMI and VApct are increasing. For a fund to qualify for

selection, the DMI must not only be increasing but have turned positive. The specific fund was picked based on the surrogate group with the strongest increase in DMI. The exit rule was DMI decreasing and VApct decreasing and negative.

Examples of these entries and exits are shown in **Figures 10 and 11**. Entry into the Biotechnology Fund was based on the Biotechnology surrogate group shown in Figure 10. On August 19, DMI turned positive and is increasing, and VApct is increasing although not yet positive (the rule does not stipulate that it be positive, only increasing).

Exit occurred on November 18 — VApct was decreasing and had turned negative, and the DMI was decreasing. The result from this trade would have been a 13.4% return in three months.

Using the DMI/VApct indicators as part of my decision process, I proceeded to retest the market timing rule — testing the 30%, 40%, and 50% bullish rules for Tests 11, 12, and 13. The results matched the results in Test 10, but with a higher percent return of 17.0.

In the final test, I compared the results of having 10 positions in the portfolio with five positions in the portfolio (Tests 14 & 15). The lower

number resulted in a lower return of 16.1%. So I chose to remain with 10 positions in my portfolio.

Final Process Rules

At the end of the testing, my automatic trading process stands as follows:

- DMI and VApct are the entry/exit indicators. A group is available for selection as an entry position when DMI is both positive as well as increasing and VApct is also increasing. For exiting, DMI is decreasing and VApct is decreasing and negative.
- Profit Manager exiting: 96% principal protection, and a 90% profit protection after a 10% trigger.
- 21-day smoothing constant for DMI, and a 21-day VApct.
- For market timing, 50% of the surrogate groups must be in a bullish mode before entering a new position.
- A group is bullish when both its DMI and VApct are increasing
- Maximum of 10 positions are allowed in the portfolio.

The results of my automatic trading process based on these rules are shown in **Table 4**. My automatic trading process always beats the S&P, usually by at least twice. The average return for the four years 1990-1993 is 17%. Not bad for a robot.

Table 4

Final Test Results		
DMI & VApct Indicator Rule		
	S&P 500	Fund Switching
1990	-6.6	5.1
1991	26.3	36.7
1992	4.5	11.8
1993	7.1	14.5
Average	7.8	17.0

GROUP OF THE MONTH

GROUP 2837A, MEDICAL SUPPLIES

BY DAVID VOMUND

The Medical Supplies industry group has recently been one of the hottest groups. Not surprisingly, this comes at a time that health care reform is falling apart. To create this industry group, we used AIQ's MatchMaker program to test the correlation of medical supply stocks to the industry group index. Only those stocks that had a high correlation were kept. The resulting group has four stocks: (ABT) Abbott Labs, (BAX) Baxter Int'l, (BCR) Bard CR Inc., and (JNJ) Johnson & Johnson.

Let's use TradingExpert's Daily Group Report to see the early signs that pointed toward strength in this group. Since AIQ's Expert Ratings

give counter-trend readings (a buy signal is often registered when the security reaches a near-term low), the earliest indication of a group making a major low is when a large number of stocks within that group give buy signals. This is what happened to the Medical Supplies group in early August. Figure 12 shows the Medical Supplies group on August 2. The Expert Rating on this group didn't give a buy signal before the August

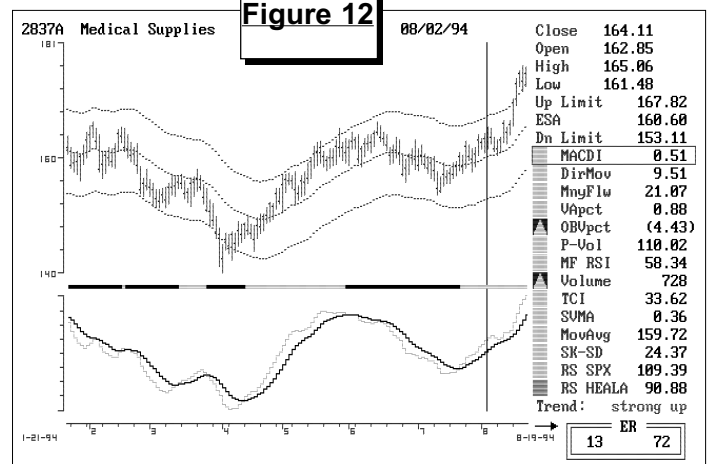


Figure 12

Figure 13

AIQ TradingExpert											
Daily Group Analysis Report for 08/02/94											
ER GE 90 10 Days since Expert Rating											
Score	90+ 10-	Delta	76+ 24-	Ave Delta	18+ 9-						
Symbol	T Name	TS	DTS	num	er	up%	dn%	mdo	dmi	mfo	
7222A	G Consumer Services	84	2	2	42 37	0 100	50	50	50	50	
4700A	G Air Freight & Couriers	83	(13)	3	20 36	33 66	66	33	66		
6025A	G Banks, Southern	82	(10)	6	50 21	33 33	100	83	50		
3700A	G Transportation Equipment	82	33	3	70 6	33 33	66	66	66		
3716A	G Automobile, Parts	80	30	3	50 21	0 33	66	66	66		
3711A	G Automobile, Manufacturing	79	33	3	59 11	0 66	100	100	100		
2913A	G Oil, Integrated Majors	77	(6)	7	4 72	14 71	57	85	28		
8911A	G Heavy Construction	75	17	4	50 21	25 50	75	75	75		
6599A	G Home Construction	68	13	4	59 11	25 0	75	75	50		
2949A	G Building Materials	67	121	3	77 4	33 66	66	66	66		
3334A	G Aluminum	67	6	4	7 67	0 75	25	50	50		
2805A	G Chemicals, Commodity	66	5	3	14 53	33 66	33	33	66		
2837A	G Medical Supplies	63	22	4	13 72	75 25	75	75	75		
1042A	G Metals, Precious	62	(33)	7	4 87	14 28	0	0	0		
7370A	G Software & Processing	62	100	5	84 2	80 0	80	100	100		
3570A	G Industrial, Technology	61	8	3	50 21	33 66	100	66	33		
2841A	G Household Products (Durable)	57	14	2	7 67	50 0	50	100	50		

Press PgUp or PgDn to view, P to print, G to generate report, or ESC to exit.

rally, but the majority of stocks within the group gave buy signals. Figure 13 shows the Daily Group Report on the same date. The Up% column shows that 75% of the stocks within the group had given recent buy signals (the Software & Processing group also had a high figure).

measure of the industry group's technical indicators. A large positive Delta Trend Score means the group's indicators are gaining strength. On August 3, the Delta Trend Score reading for Medical Supplies was higher than those displayed by most other groups (see Figure 14).

Finally, when the group has formed its bottom and is in a nice uptrend its Trend Score reading will place it near the top of the ranking. On August 15, Medical Supplies had a Trend Score of 100 and was the top ranked group. A similar process can then be used to determine when a strong group will begin to weaken. ■

Once a group shows its first signs of strength, it often has a large Delta Trend Score reading. Delta Trend Score measures the change in Trend Score from the previous day. In effect, it is a momentum

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Figure 14

AIQ TradingExpert											
Daily Group Analysis Report for 08/03/94											
ER GE 90 10 Days since Expert Rating											
Score	91+ 9-	Delta	70+ 27-	Ave Delta	13+ 14-						
Symbol	T Name	TS	DTS	num	er	up%	dn%	mdo	dmi	mfo	
7222A	G Consumer Services	99	14	2	59 11	0 100	50	50	50		
6024A	G Banks, Eastern	99	0	9	59 11	22 22	100	88	77		
9095A	G Miscellaneous Group #6	98	3	14	67 7	50 28	57	64	64		
3711A	G Automobile, Manufacturing	98	19	3	50 21	0 33	100	33	66		
3610A	G Electrical Components	98	(2)	4	17 50	25 50	50	50	25		
6332A	G Insurance, Property & Casua	98	(1)	7	59 11	28 14	42	14	28		
4491A	G Marine Transportation	98	5	2	13 72	50 0	100	100	50		
2949A	G Building Materials	97	30	3	70 6	33 66	66	100	66		
3140A	G Footwear	97	1	3	42 37	33 66	33	100	0		
4810A	G Telephone Systems	96	1	6	13 72	50 33	100	100	50		
2111A	G Tobacco	96	0	4	7 67	0 0	25	25	50		
6023A	G Banks, Central	95	0	7	13 72	28 28	85	57	28		
2837A	G Medical Supplies	90	27	4	13 72	50 25	75	75	75		
2710A	G Media, Publishing	90	3	4	50 21	0 50	50	75	50		
2838A	G Advanced Medical Devices	89	1	5	1 94	20 40	60	60	40		
6599A	G Home Construction	89	21	4	59 11	25 0	75	100	75		
7370A	G Software & Processing	88	26	5	34 34	80 0	80	80	80		

Press PgUp or PgDn to view, P to print, G to generate report, or ESC to exit.

STOCK DATA MAINTENANCE

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

Stock	Ticker	Split/Div.	Date
Regal-Beloit	RBC	2:1	08/15/94
TSI Inc.	TSII	3:2	08/18/94
Cabot Corp	CBT	2:1	08/18/94
Kennametal Inc	KMT	2:1	08/23/94
Vanguard Cellular	VCELA	3:2	08/25/94
Heritage Fed Bancshares	HFBS	4:3	08/29/94
Robert Half Int'l	RHI	4:3	08/29/94
Precision Castparts	PCP	3:2	08/29/94
Gartner Group	GART	2:1	08/29/94
Fin'l Trust Corp	FITC	4:3	08/30/94
Three Com	COMS	2:1	09/01/94
Boston Chicken	BOST	2:1	09/01/94
Myers Industries	MYE	5:4	09/01/94
Newell Co.	NWL	2:1	09/02/94
Caterpillar	CAT	2:1	09/06/94
Keane Inc.	KEA	3:2	09/08/94
Bell Bancorp	BELL	2:1	09/09/94
BMC Industries	BMC	2:1	09/09/94
Cabletron Systems	CS	2.5:1	09/12/94
Prestek Inc.	PRST	5:4	09/12/94
Paxar Corp	PXR	5:4	09/12/94
Safeguard Sci.	SFE	2:1	09/15/94
Comm Intertech	TEC	3:2	09/16/94
Matlack Systems	MLK	3:2	09/16/94
Rollins Truck Leasing	RLC	3:2	09/16/94
Tetra Tech	WATR	5:4	09/19/94
Technitrol Inc.	TNL	3:1	09/19/94
Milgray Elec.	MGRY	2:1	09/26/94
Harley Davidson	HDI	2:1	09/26/94

Trading Suspended:

(CPER) Consolidated Papers
(WTXT) Wheatley TXT Corp

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
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MARKET REVIEW

By David Vomund

Market movements are hard to explain to someone new to investments. One normally thinks that good earnings and a strong economy are good for stocks. Not so. The automobile stocks recorded record earnings but Wall Street was not impressed. Lately, stocks fall when the economy shows strength because people fear higher rates.

The market tested the upper end of the recent trading range in early August but began to fall shortly afterward. On August 5, a 98 sell signal was registered on the market. The Price Phase indicator confirmed the sell signal but we did not see a high percentage of stocks giving confirmed sell signals.

As of this writing, the Dow is still in a trading range but, on August 16, the S&P 500 broke out of its range. The chart pattern of the S&P 500 is bullish but On Balance Volume and Money Flow are weaker than the overall market.

The small company indexes have moved higher since the sell signal and have finally started to outperform the large company indexes. The Relative Strength indicator of the Russell 2000 versus the S&P 500 is above its signal line on the daily chart and moving higher (i.e., greater strength in the Russell 2000). The weekly reading of this indicator shows the relative strength line is moving higher for the first time in a month but is still below the signal line.

As of this writing, the top ranked sectors are technology, health, and financial services. The lowest ranked sectors are energy related. ■

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 702-831-4444.