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PUTTING IT ALL TOGETHER

TIME TO RESTART

By Dr. J.D. Smith

Editor's Note: AIQ founder and chief scientist Dr. J. D. Smith has returned from a six-month sabbatical. AIQ Systems, founded by Dr. Smith in 1986, was sold in October of 1994 to Global Market Information, Inc. of New York.

The only thing bad about a six month sabbatical is that it comes to an end. During our

six months away from Lake Tahoe, we launched and commissioned our new boat, completed our maiden voyage from Texas across the Gulf of Mexico to Florida, sailed to

the Keys, and the market gained 18.6%. Timing is everything.

Actually, the charts show a rather boring period while we were gone. The markets simply went up — no cycles, no waves, no retracements. What fun is that? But now it is time for me to get back into the game. My question to myself is how to restart my trading activities.

After six months of reading and

reflection, there is little I would change in my overall trading process. I still believe in the necessity of a trading process, trading tools, and a proper trading attitude.

My trading attitude continues to be DOFPIC — discipline, organization, focus, patience, independence, and confidence. What I needed to know when I got back was whether I still had these attitudes.

My trading tool now is AIQ's new TradingExpert for Windows. Therefore, my trading process has to change to reflect this new tool. My trading process also has to change somewhat because my trading objectives are now different. Both trading tools and objectives have a large impact on the trading process.

Where to start? Where I always start — objectives, goals, and resources. As always, my objectives are capital preservation and to pay expenses and make a profit. After selling AIQ, my liquid



DR. J.D. SMITH

"My trading tool now is AIQ's new TradingExpert for Windows. Therefore, my trading process has to change to reflect this new tool."

PUTTING IT ALL TOGETHER *continued* . . .

resources have increased, but on the other hand at this stage of my life I don't want to start another company. That means that capital appreciation outside of the market is limited for me. The result is more trading resources but increased importance of capital preservation. I now also have more time to trade. Taking all into consideration, the major phases of my trading process have not changed, but details will.

As to my trading attitudes... discipline is no problem. I am pretty good at that. Organization — some changes are needed here to reflect the new flexibility in TradingExpert for Windows. Focus — because of my trading objectives, I think there will be more focus on mutual funds and a little less on stocks. Patience — I will certainly wait until I once again have a feel for the waves and currents of the market before I jump in. Independence — I have not subscribed to any newspapers since I returned. No *Wall Street Journal*, no *Investor's Business Daily*, and no quote machine. All I have is daily high, low, close, and volume and I have always said that's enough. Confidence — none. I will paper trade until I regain confidence. How long will it take? We'll see.

Now to consider my new trading tool, TradingExpert for Windows. At first, I was uncomfortable with this

new system. I spent ten years using TES and its older cousins in DOS. My expert system knowledge base and inference engine are from the DOS product, but I had little to do with the software technology for WINTES, the Windows version of TradingExpert. Also, the DOS version had a number of handy features that I used that are now missing. In addition, I was comfortable with the DOS screen — it was familiar to me and I could read it with ease. But, I gave the new WINTES a shot.

What has impressed me the most is the flexibility built into AIQ's new TradingExpert for Windows. The system can be configured exactly to fit my trading process, and I can modify my process logs to facilitate easy and fast completion of my daily trading process.

Figure 1 is a screen of the new Indicator Library from WINTES. To get this screen, I simply press the command buttons for *Chart/Settings/Indicator Library/Charting*. Not only can I now select the particular indicators that I want displayed, but I can control the order in which they appear on my charts.

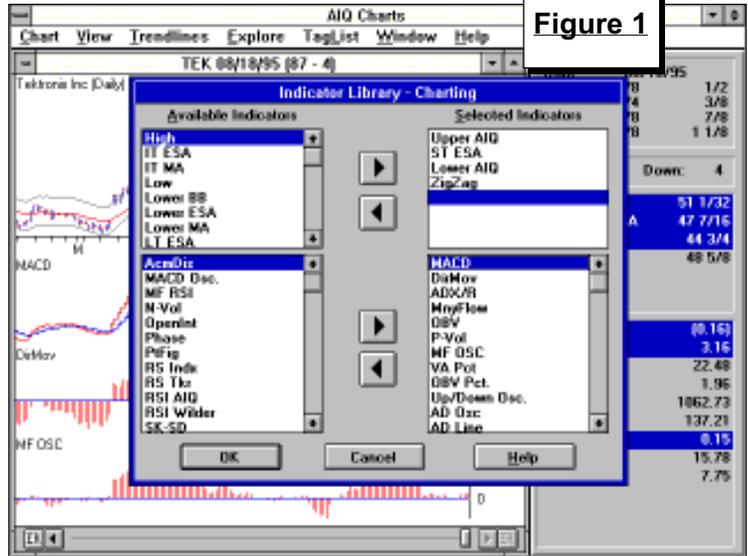


Figure 1

that the order of the indicators that I selected, which are displayed in the lower right list box in **Figure 1**, is the same as the order of the indicators on my manual Market Log shown in **Figure 2**.

In review, I introduced the Market Log three years ago for the duo purpose of determining market direction and building a list of technically attractive stocks to draw from when looking for new positions. Although the Market Log has been computerized, I still strongly believe that the active participation derived from filling out a manual Log by hand is very important and I continue to fill out my log by hand. I configured TradingExpert for

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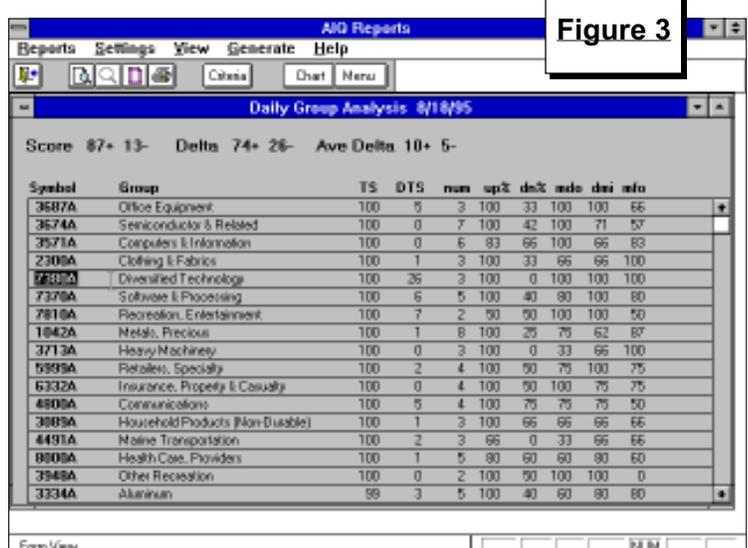


Figure 3

Notice

Positive Volume Accumulation (VA Pct) to supply the impetus for an upward price movement.

Drawing trendlines in WINTES is very easy. You can see in **Figure 4** that in this particular case there is a good initial stop just below recent lows.

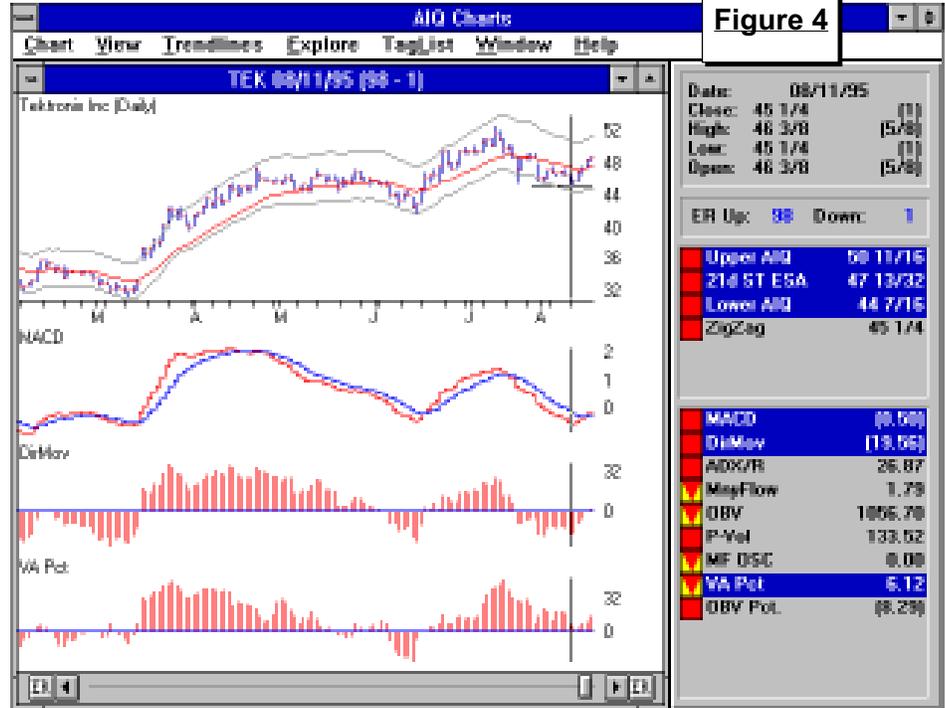
Because of the additional capabilities of the new TradingExpert for Windows, I made some modifications to my manual Market Log (**Figure 2**). As I noted earlier, I added the Price/Volume Divergence Report (pvd) to my daily check list, as well as the Trendline Breakout Report (tlb). If a stock on the Price/Volume Divergence Report is already moving, I will add the ticker to the Long or Short List that I continuously keep. Otherwise, I will put trendlines on the price plots of the stocks on the report and wait for breakouts. The system's Trendline Breakout Report will tell me when that occurs.

MARKET indicators on my modified log (**Figure 2**) are evaluated for direction the same as the previous Market Log: up, sideways or down (u s d) with + or - columns used to note up or down movement for two weeks or more. Marking X's in the appropriate fields of this section gives a good picture of what the indicators are revealing about the market.

(Note: Detailed explanations of Dr. Smith's Market Log were published in a series of four Opening Bell Monthly articles, August through November, 1993.)

The indicator evaluation of the sectors in AIQ's Group/Sector Pyramid (AIQI) uses my favorite indicators, the same indicators shown in the indicator panel in **Figure 4**. These indicators are:

- MACD
- DirMov (Directional Movement Index),
- ADX/R (Average Directional Movement)
- MnyFlow (Money Flow)
- OBV (On-Balance Volume),
- P-Vol (Positive Volume),
- MF Osc (Money Flow Oscillator)
- VA Pct (Volume Accumulation Percentage)



- OBV Pct (On-Balance Volume Percentage)

The columns in this AIQI section are organized so that the left side represents bullish evaluations, and the right side bearish evaluations. When I have completed marking X's in the appropriate columns, the picture that results clearly shows the status of the sectors. As I fill out the log each market day, I follow each sector as it gains and loses favor within the overall market.

The three center columns of the AIQI matrix [u s d] are used to evaluate the MACD indicator. The direction of the MACD is either up (u)p, (s)ideways, or (d)own.

Directional Movement is used to measure Trend (t), where the t on the left side is bullish and the t on the right side is bearish. The ADX indicator is used to determine the strength of the trend.

Money Flow (m) is evaluated as an average of Money Flow, On-Balance Volume, and Positive Volume. Again, a bullish reading is marked on the left and a bearish reading on the right.

Demand or supply (d or s) is evaluated as an average of Money Flow

Oscillator, Volume Accumulation Percentage, and On Balance Volume Percentage.

Below the Prognostication area is a box used to keep a tally on my trading account with data taken directly from the new Profit Manager of TradingExpert for Windows. Below this is the section for top-down evaluation of stocks, starting with the sector, the group, and then the stock itself. The indicator evaluation for stocks is the same as for the sectors above.

Once again, the importance of a manual Market Log was reinforced to me as I attempted to restart my trading. The active participation and detailed evaluation of the indicators rapidly brought the ebb and flow of the market into perspective. The old habits returned. It didn't take very long. The new tools, a modified organized trading process, good attitude — and very rapidly the confidence to trade. I'm back. ■

Dr. Smith encourages AIQ users to create their own Market Logs to suit individual trading styles. However, you may obtain a full size copy of Dr. Smith's new Market Log by calling AIQ, 702-831-2999.

BACK TO BASICS

USING MARKET TIMING SIGNALS AND INDICATOR READINGS FOR BETTER TRADING

By David Vomund

DAVID VOMUND

As a trader, it is important to constantly be aware of the market's direction and to be alert to a change in that direction. AIQ's market timing Expert Ratings are of vital importance in anticipating changes in market direction. The Expert Rating signals can be very effective, especially if you learn to confirm the signals with indicator readings and chart formations.

It is also important to be aware of which type of stocks, large or small, are outperforming. TradingExpert's Relative Strength analysis capabilities can be useful in determining this.

The TradingExpert for Windows market timing chart is launched by clicking the **Market** icon (on the Quick Launch Menu or Charts toolbar). By default, charts of the Dow Jones Industrial Average, S&P 500 Index, and NY Composite appear. The chart of the Dow with NYSE Volume and Breadth is the AIQ market timing chart, the chart that displays the market Expert Ratings.

AIQ's market timing model compares the Dow, a narrow measure of market activity, to the activity in the broad market. Broader market activity is measured by the market breadth figures for all the stocks on the New York Stock Exchange along with the number of stocks reaching new highs and new lows. Typically, an Expert Rating down signal is registered when the Dow is showing strength but the broader market numbers are lagging significantly. The opposite is true for a buy signal.

To see the Expert Rating for the overall market, the Dow chart must be

the active chart. To make a chart active, click with your mouse anywhere on the chart. To increase the size of the Dow chart, double click on its title bar.

The Expert Rating (ER) for the date charted is found in the upper section of the panel on the right, just above the technical indicators. You can scan for ER signals greater than 95 by clicking the left or right **ER** button on the scroll bar at the bottom of the chart screen. To change the minimum Expert Rating value to scan for, click **Chart** on the menu bar, select **Settings**, and then select **ER Scan Criteria**.

Expert Rating signals can be early. To lower the risk of acting on a signal before the market actually changes direction, many users employ a confirmation technique. The Price Phase indicator is the indicator used most often for confirmation. A buy signal on the market is not confirmed until the Price Phase indicator increases from one day to the next. Phase is a

fast confirmation technique. For those who want to trade less often, a slower technique such as the MACD crossover can be employed. For results of testing the various confirmation techniques, see the *Opening Bell Monthly*, June 95.

AIQ's Expert Rating signals are very effective but incorporating your own interpretation of indicator readings and chart formations can improve the effectiveness of the signals and will also help you to determine the market's health on days when there are no buy or sell signals. One method is to use trendlines to help determine support and resistance levels. **Figure 5** is a chart of the S&P 500 with a support trendline. Buying historically increases when the market is near this trendline.

After deciding whether the market is bullish or bearish, it is helpful to determine if small company stocks are leading large company stocks or vice versa. You can then concentrate your investments in the area that is most attractive. The Relative Strength

Back to Basics continued on page 8



WINDOWS COMMENTARY

HELPFUL TIPS: TRADING EXPERT FOR WINDOWS

By Steve Hill

STEVE HILL

Many TradingExpert for Windows users are becoming increasingly proficient in configuring and organizing the new program to suit their needs. This article discusses some of the areas where the program can be better utilized. Also included is a short discussion of the newly released Windows 95 and the impact this new version of Windows will have on TES for Windows.

Browsing the Master Ticker List

While this feature is not automatically available in TradingExpert for Windows, there are a couple of approaches that can be adopted to make browsing the Master List easier. The first approach utilizes the feature which allows you to launch a Chart

directly from the *Data Manager* by highlighting a given stock and then clicking on the *Chart Ticker* toolbar button. The *Charts* application will immediately open and display a chart of the highlighted stock. To see a chart of the next stock in the Master List, press the ALT and TAB keys together which will return you to *Data Manager*. Highlight the next stock and

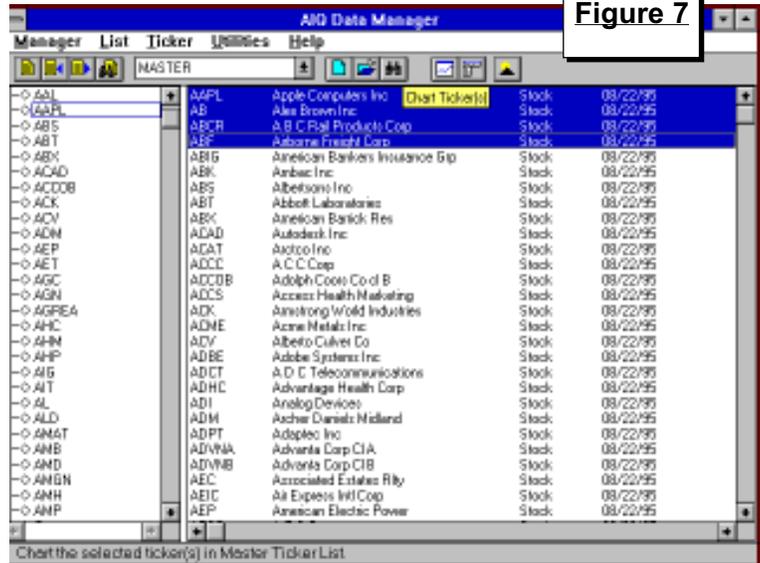


Figure 7

click on the *Chart Ticker* toolbar button to repeat the process.

If you wish to chart more than one Ticker from the *Data Manager*, hold down your CTRL key and with this key depressed click and highlight the stocks you wish to chart (up to a maximum of 12). Again, click on the *Chart Ticker* toolbar button. All the highlighted tickers will be charted (Figures 7 and 8). To delete the Control Panel and expand the charts, press the F10 function key.

A second method for browsing charts, is to create a list containing all of the tickers in the Master List. This can be accomplished fairly quickly by the following method:

1. In *Data Manager*, select *New* from the List menu, and create a new list.

2. Next, highlight a group of tickers so that you can move them into your new list. We previously discussed how to use the CTRL key and the mouse to highlight multiple tickers. While this method could be used to highlight a

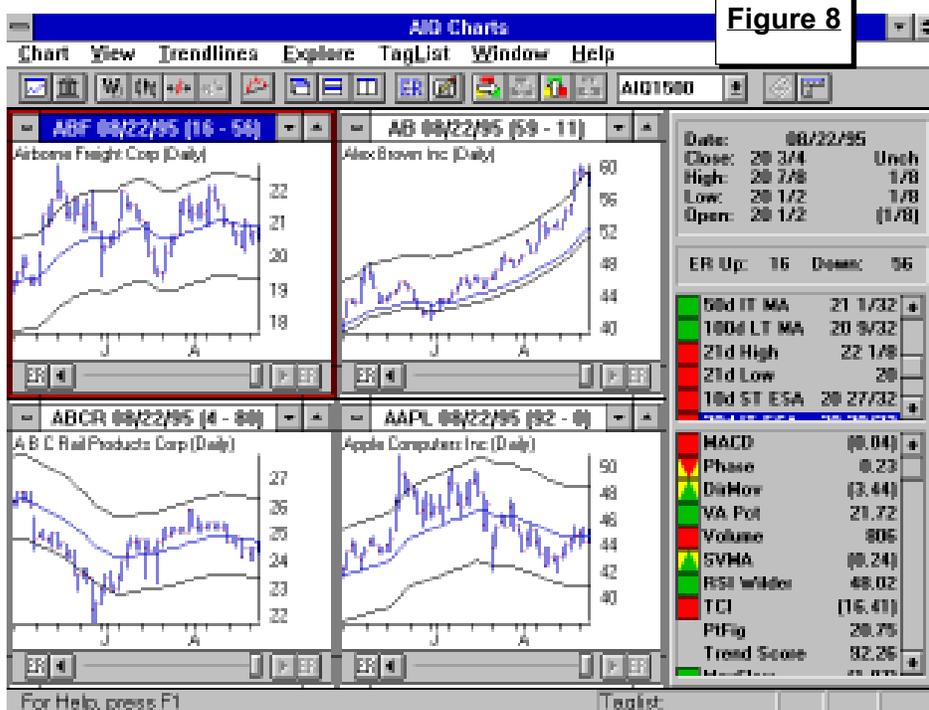


Figure 8

WINDOWS COMMENTARY *continued . . .*

large number of tickers, it would be time consuming to do so. There is a quicker way to highlight whole blocks of tickers (up to 120 tickers at a time).

a) Click on the first symbol in your Master List.

b) Press your PGDN key on your keyboard twice, the screen will move down in the Master List.

c) Hold down the SHIFT key and click on the last ticker displayed on the screen. All the Tickers from the first ticker highlighted to the last ticker selected will be 'blocked' (**Figure 9**).

3. From the List menu, select *Insert Ticker(s)*. The dialog box that appears will confirm that you wish to add the highlighted tickers into this list.

4. Click *OK* and these tickers will be added to the list.

5. Repeat this process for the next block of tickers in the Master List.

Note: Before inserting the second and subsequent blocks of tickers, make sure that the list root is highlighted in the List Window. (For example, in **Figure 9**, the root name MASTER must be highlighted each time).

With this list selected in the



Figure 10

Explore List area within *Charts*, you will be able to explore the Master Ticker List at will by simply clicking on the Explore arrows or selecting tickers from the Explore window (**Figure 10**).

Windows 95 and WINTES

Windows 95 is here. During

the beta testing of TradingExpert for Windows and since its release, the program has been tested on the new Microsoft Windows platform. The only documented problem under Windows 95 occurs in exiting the *Reports* application. An error message is captured by Windows 95 which reports an illegal operation. This error has no effect on WINTES operations in Windows 95 (at the current time we believe the error is a Microsoft Access issue).

The only other issue likely to affect AIQ after installing Windows 95 is registration. If you receive a Corrupted Registration error, it may be necessary to reinstall TradingExpert for Windows using the *Custom Install and Install Program Files Only*. You will then require a new key number. ■

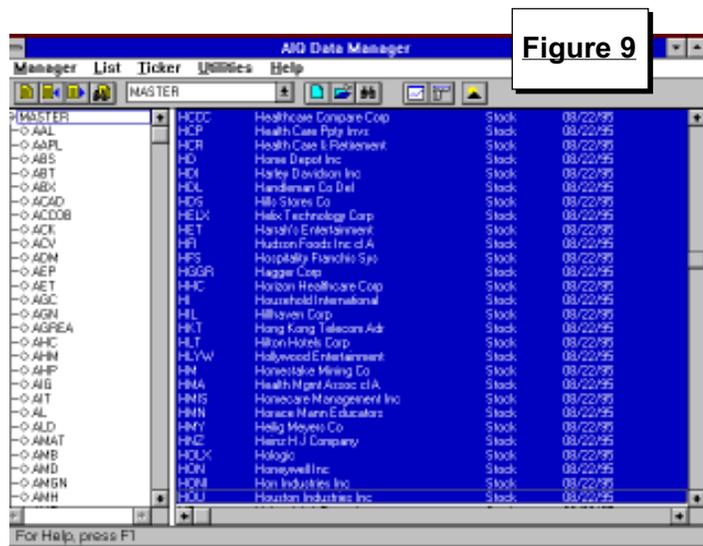


Figure 9

MARKET REVIEW

By David Vomund

There were no market timing buy or sell signals since last month's newsletter (as of August 24, 1995). The Dow is now below our July 19 sell signal but that is the only major average that is lower. We've seen an important shift toward an outperformance in small company stocks. As of this writing, the Dow is 3.2% below its all-time high but the Russell 2000 is only 0.4% below its all-time high. This is very different than the first half of

the year when the large-cap stocks led the way. During the first half of the year, only 14% of all equity funds outperformed the S&P 500. With the broader markets outperforming, it will become easier to outperform the market.

Last month, we suggested the market may be entering a trading range. The signs of a trading range still exist. The market timing model is on a sell signal but there are more stocks giving buy signals than sell signals.

Also, the ADX/ADXR indicator continues to fall, pointing to a trendless market.

In a case of "buy the rumor and sell the fact," Microsoft released its Windows 95 to much fanfare but technology stocks fell. Technology stocks are the focus of the press but the financial related groups have advanced nicely and currently dominate the top of the Daily Group Analysis report. ■

BACK TO BASICS *continued . . .*

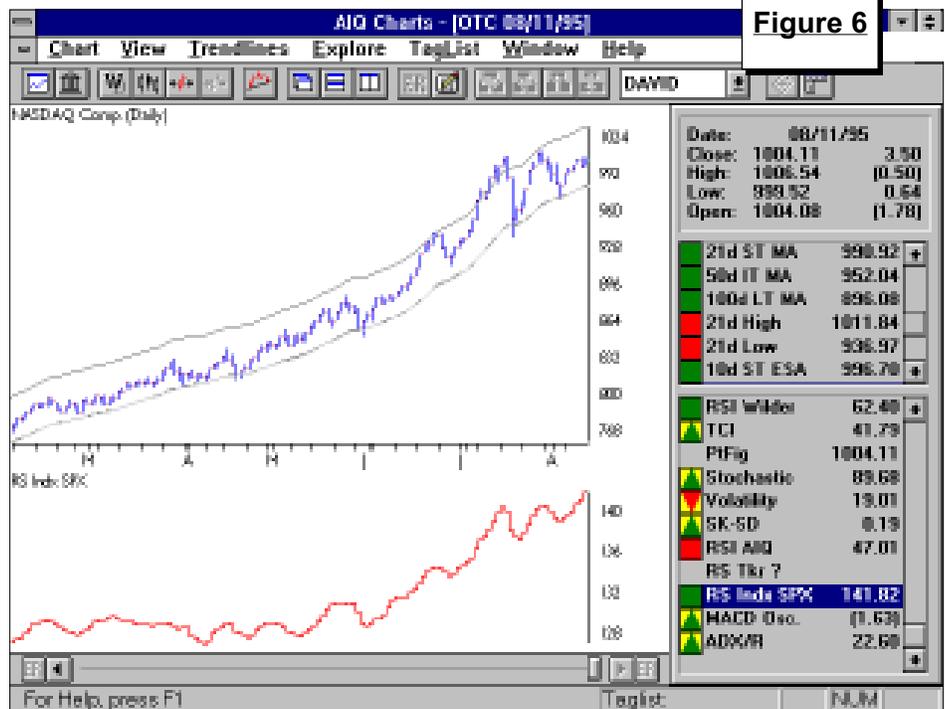
indicator is useful in determining whether small or large company stocks are outperforming.

Figure 6 shows the NASDAQ Composite along with the Relative Strength indicator which measures the NASDAQ vs. the S&P 500. When the Relative Strength indicator is rising, the NASDAQ Composite is outperforming the S&P 500, implying that small company stocks are outperforming large company stocks.

When the Relative Strength indicator is falling, the NASDAQ is underperforming the S&P 500, implying that large company stocks are outperforming.

You can easily duplicate the chart shown in Figure 6. In the Charts application, enter the symbol **OTC**, for the NASDAQ Composite. The S&P 500 Index (SPX) is the default Relative Strength indicator. Simply click the **RS Indx SPX** indicator on the Control Panel of the OTC chart, and you will display a chart similar to Figure 6.

Note: If the NASDAQ Composite is not in your data base, add the OTC



symbol to your Master Ticker List (designating the Type as Index), then download data from any of the AIQ-supported data services.

By incorporating market timing in

your trading and being aware of whether small or large company stocks are outperforming, you can lower your portfolio risk while increasing the return. ■

STOCK DATA MAINTENANCE

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

Stock	Ticker	Split/Div.	Approx. Date	Stock	Ticker	Split/Div.	Approx. Date
Trend-Lines Inc.	TRND	3:2	09/05/95	Int'l Paper	IP	2:1	09/18/95
Schwab Charles	SCH	2:1	09/05/95	Dover Corp	DOV	2:1	09/18/95
Linear Tech	LLTC	2:1	09/05/95	Schultz SavO	SAVO	2:1	09/18/95
Computer Assoc.	CA	3:2	09/06/95	Carpenter Tech.	CRS	2:1	09/18/95
Pioneer Std. Elect.	PIOS	3:2	09/07/95	Archer Daniels Mid.	ADM	5%	09/19/95
Baldor Elec.	BEZ	3:2	09/07/95	Vicor Inc.	VICR	2:1	09/19/95
Davidson & Assoc.	DAVD	2:1	09/07/95	Atria Software	ATSW	2:1	09/19/95
IIVI Inc.	IIVI	2:1	09/07/95	ACX Tech.	ACXT	2:1	09/19/95
Advance Ross	AROS	2:1	09/11/95	Money Store	MONE	3:2	09/22/95
U S Robotics	USRX	2:1	09/11/95	U S Life	USH	3:2	09/25/95
Synopsys Inc.	SNPS	2:1	09/11/95	KLA Instruments	KLAC	2:1	10/02/95
Paxar Corp	PXR	5:4	09/12/95	Mueller Industries	MLI	2:1	10/02/95
Logicon Inc.	LGN	2:1	09/14/95	LCI Int'l	LCI	2:1	10/02/95
Waterhouse Inv.	WHO	5:4	09/15/95	Phoenix Res.	PHN	2:1	10/02/95

Trading Suspended:

Club Med (CMI)
Diagnostek Inc. (DXK)

Ticker Changes:

JM Peters (JMP) to Capital Pacific Holdings (CPH)
Gundle Environmental (GUN) to Gundle SLT Environmental (GUN)
VeriFone (VFIC) to Verifone Inc. (VFI)