AIQ
Trading Strategies

User Guide

The Style Index Rotation Strategy

The MAPS System

The Best of Times Worst of Times Trading Strategy

The Efficient Stocks Strategy

CONTENTS

Introduction

If you have not already done so install the AIQ TradingExpert Pro Software and Strategies CD included with your package. To do the install follow the instructions in the New User Guide Installation & Tutorials.

This guide in intended to introduce you to the trading strategies sent with TradingExpert Pro. There are many strategies available to suit all types of trading styles. To introduce you to the many strategies available, AIQ has focused on four strategies that are used by traders and professional money managers. These strategies are clearly outlined in this guide including what the strategy trades, how to get started easily and quickly using this strategy and, where available, results on how effective the strategy is.

The four strategies come with a wealth of supporting material and articles that are installed with the software and placed in a folder called *Trading Strategies*. This folder can be found by going to *Start, Programs, TradingExpert Pro, Trading Strategies*. Each of the four featured strategies can be accessed by clicking the appropriate icon.

We suggest you read through this guide and try out these strategies using the historical data provided.

In addition to these four strategies, AIQ has many other strategies included with the TradingExpert Pro software. Most are accessible through our trading system design tool, Expert Design Studio (EDS). To see some of these strategies, click *Start, Programs, TradingExpert Pro, Expert Design Studio*. From the menu of EDS, click on *File, Open, Look in, browse to the folder /wintes32/EDS Strategies*. You will see a series of folders that you can open and view the strategies listed. Clicking on a strategy opens it in EDS where a clear explanation of the strategy will appear. An explanation and example of many of these strategies is available at *http://www.aiqsystems.com/EDSStrategies.htm*

Style Index Rotation Strategy

What is the Style Index Rotation Strategy?

Instead of being locked into one trading style, it is best to employ a strategy that has the flexibility to rotate to the best performing market segment. That's what our Style Index strategy is all about.

The Style Index strategy trades securities that track various market indexes. These "style" indexes include large-cap growth, large-cap value, small-cap growth, small-cap value, and so forth. While mutual fund families like the ProFunds have funds that track these indexes, the best vehicle for trading style indexes is exchange traded funds (ETFs), the fastest growing financial product in the United States.

Why trade Exchange Traded Funds?

First launched in the early 1990's, ETFs are securities that combine elements of index funds, but do so with a twist. Like index funds, ETFs are pools of securities that track specific market indexes at a very low cost. Like stocks, ETFs are traded on major U.S. exchanges and can be bought and sold anytime during normal trading hours.

Trading style indexes allows investors to gain well-diversified exposure to a specific area of the market. Since an ETF holds a basket of stocks, one bad performer should have only a minimal effect on the price of the ETF.

Those who want to employ this strategy may be concerned with liquidity in the ETFs. With ETFs, volume does not define their liquidity. Unlike a stock or a closed-end mutual fund, the number of shares in the market is not fixed. If the demand for a given ETF outstrips supply at any point, an ETF specialist can create new ones from a basket of the underlying securities in that fund. When a large transaction is placed, shares can be created or redeemed to meet demand. Studies show a high, but not exact, correlation between the benchmark indexes and the ETFs. Limit order should be placed on low volume ETFs as bid-to-ask spreads can be wide.

What does the strategy do?

The strategy utilizes a straight forward mechanical buy/sell methodology.

1) The AIQ Relative Strength-Short Term report is run on the ETFs in your database.
2) Buy the first two ETFs in the report with an equal amount of capital.
3) Two weeks later run the report again.
4) If the current holdings were rated as one of the three best in the report, then there were no trades. If a holding has fallen in the Relative Strength report to where it was no longer in the top three, then it should be sold and the highest rated ETF was purchased.

How do I get started using the Style Index Rotation Strategy?

Click on *Start, Programs, TradingExpert Pro, Trading Strategies, Style Index.*

The AIQ Reports will launch. The reports are already configured to run on the ETFs installed with your TradingExpert Pro.

To generate the AIQ Relative Strength-Short Term reports for ETFs:
 - Click on *AIQ Reports, Stock Reports, Relative Strength – Strong, Short Term.*
 - From the reports menu, click on *Generate, Selected Reports*. To familiarize yourself with the report, select an historical date to generate. AIQ has installed plenty of historical data for the ETFs.

The top two ETFs in the report would then be purchased with an equal amount of capital. In this case IJT and MDY. The report would then be run every two weeks and positions adjusted accordingly. If the current holdings were rated as one of the three best in the report, then there were no trades. If a holding had fallen in the Relative Strength report to where it was no longer in the top three, it should be sold and the highest rated ETF was purchased.

STYLE INDEX
by David Vomund
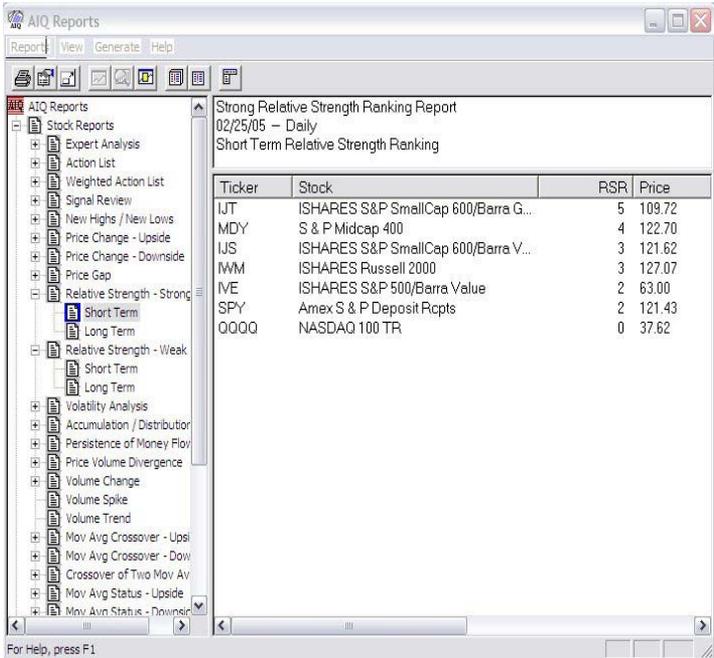
Figure 1 shows a generated report for 02/25/05.

What do I do if there is one or no ETFs in the report?

As the funds rotate there may be occasions when the Relative Strength Strong - Short Term Report has only one or no candidates. In this instance, you will need to look at the Relative Strength Weak - Short Term Report. The bottom two ETFs in the Weak report combined with the top ETFs from the Strong report are combined to determine if you need to adjust your position. In the example Figure 2 below the three ETFs would be MDY, IJT and SPY.

Style Index Rotation Strategy

6
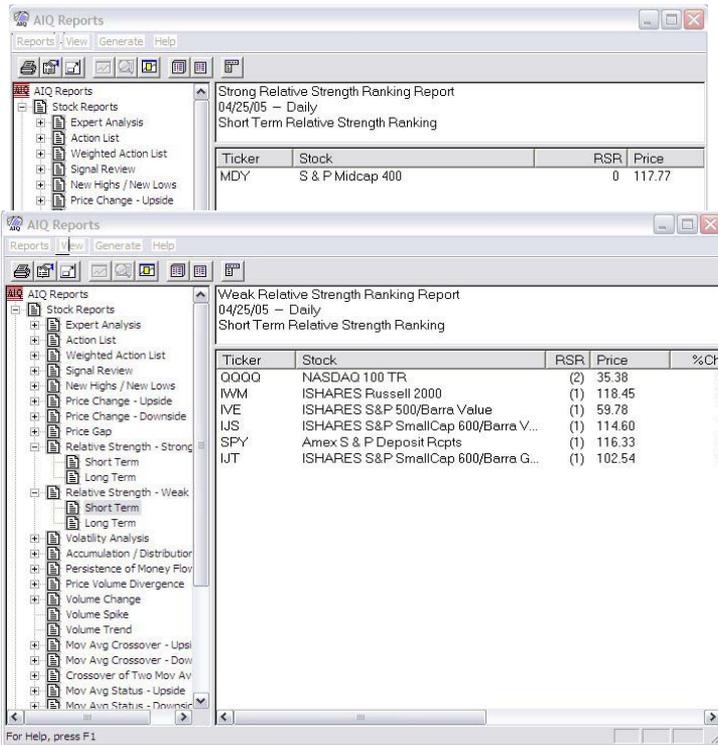
Figure 2: Relative Strength Strong - Short Term and Relative Strength Weak - Short Term Reports

NOTE: The reports used in this strategy are generated every night automatically after you update your AIQ database.

Reviewing candidates in AIQ Charts

To review the candidates in AIQ Charts, double click on the ETF symbol within the report and the chart will launch. Alternatively you can build a list of all the ETFs in the report and review them in AIQ Charts by clicking the Build Report List icon.

Style Index Trading Vehicles

Ticker		ETF	Benchmark Index
IVE		iShares Large-Cap Value	S&P 500 /Barra Value
QQQQ		Nasdaq 100 Tracking	Nasdaq 100
SPY		S&P 500 SPDR	S&P 500
MDY		MidCap SPDR	S&P 400 MidCap
IJS		iShares Small-Cap Value	S&P 600 SmallCap/ BARRA Value
IJT		iShares Small-Cap Growth	S&P 600 SmallCap/ BARRA Growth
IWM		iShares Small-Cap Index	Russell 2000
IVW	*	iShares S&P 500 Growth	Large-Cap Growth
IJJ	*	S&P 400 Value	Mid-Cap Value
IJK	*	S&P 400 Growth	Mid-Cap Growth

* added to the strategy as of January 2006

As with any investment strategy, past performance does not guarantee future results.

How effective is the strategy?

Since price history on ETFs is limited, it is not possible to run a backtest and develop a model that covers both bull and bear markets. Most ETFs began trading in 2000. Therefore, a backtest of a trading system cannot be run using ETF trades but must instead be run on the benchmark indexes that the ETFs track.

Here is an example. Before the Nasdaq 100 ETF (QQQ) was traded, this backtest purchased the Nasdaq 100 index. Before the Dow Diamond was traded, the backtest bought the Dow Jones Industrial Average. Before the iShares Small-Cap Russell 2000 was traded, the backtest bought the Russell 2000 index.

The strategy is designed to rotate to the segments of the market that have the best performance. During the bullish years, returns were led by the strength of the Nasdaq 100 (QQQ) holding. During the bearish years, the portfolio outperformed because it exited the QQQ and rotated to a position in Small-Cap Value (IJS). Small-cap stocks actually rose in value during 2001. Over the 6 1/2 year time period, the Style Index portfolio strategy rose 146% while the S&P 500 and Nasdaq Composite rose about 30%.

Style Index Rotation Strategy

The year-by-year results are found in **Table 1**. The strategy outperformed the S&P 500 index every calendar year and it held its value during the 2000 through 2001 bear market years. It wasn't until the third quarter of 2002 that all style indexes fell in value, accounting for the 2002 loss. An investor should not expect the strategy to rise in value during a falling market. Keep in mind that this is a backtest so it does not represent actual returns. The purpose of the backtest was to create and gain confidence in a strategy that can be used to trade ETFs which track style indexes.

Table 1. Yearly Results (%)

Year	Style Index Portfolio	S&P 500 Index
1998	39.28	28.58
1999	50.01	21.04
2000	-3.10	-9.10
2001	2.10	-11.89
2002	-18.11	-22.10
2003	42.93	28.69
2004	12.08	9.4
2005	2.34	3.0

About David Vomund

David Vomund is editor of AIQ's **Opening Bell** newsletter, and publisher of VISalert.com. Through his investment advisory firm, Vomund employs The Style Index Strategy on client portfolios (www.ETFportfolios.net). He was published in **Active Trader, Technical Analysis of Stocks & Commodities**, and was a contributing author of **Computerized Trading - Maximizing Day Trading and Overnight Profits.**

As with any investment strategy, past performance does not guarantee future results. To view a full transcript of this back test double click the **David Vomund's Style Index test icon** in the Trading Strategies folder (requires Adobe Acrobat Reader available at http://www.adobe.com/products/acrobat/readermain.html).

Style Index Rotation Strategy

<u>M</u>oving <u>A</u>verage <u>P</u>ullback <u>S</u>trategy

What is the MAPS Strategy?

Pullback systems have been popular for a long time and are based on the observation that trends tend to continue, and pullbacks in the trend offer a defined risk entry. Pullback systems based on up trends generally work best in a bullish market environment, and should usually be avoided in a bearish market. Pullback systems based on down trending stocks generally work best in bearish markets and should be avoided in bullish markets.

What is MAPS designed to trade?

The strategy was designed to trade stocks both short and long over a short term holding period.

What does the strategy do?

Long Version of MAPS

The MAPS technique requires specific setup conditions to be met on the first day and specific trigger conditions the following day. Running the EDS scan in the evening finds stocks meeting the setup conditions. During the next trading session the trader can watch for the price and volume conditions of the trigger to be met. This is usually done by setting price triggers in AIQ or myTrack software.

MAPS Setup Conditions:

1) The stock must be in an uptrend.
2) The stock must not have fallen below the 30 day simple moving average in any of the past 30 trading sessions.
3) The stock has pulled back to within 1.5% of the 30 day simple moving average.
4) The average daily volume of the stock must be at least 300,000 shares.

The MAPS System

MAPS Trigger Conditions:

1) If the setup conditions were met after the close today, then look for the trigger conditions tomorrow.
2) The high on the day after the setup conditions are met must be above the previous day's high.
3) The volume on the trigger day must be above the average volume.

When a valid MAPS setup occurred yesterday, and a valid trigger occurs today, then the MAPS system buys at the opening tomorrow and holds for three days then closes the position. Traders should always use a protective stop to protect from large losses.

Example of the Long Version of MAPS

See the example of a MAPS stock in Figure 1 below. You can find EXBD by running the basic MAPS scan on June 23, 2004. EXBD had been above the 30-day average (shown in red) for at least 30 days and then pulled back to within 1.5% of the 30-day average on June 23. The following day, EXBD triggered by moving above the previous day's high of $54.88. Five days later, it hit a high of more than $58.

Figure 1 shows an initial scan on 6/23/04. The stock price of EXBD pulled back to the 30-day moving average, after which it moved up more than $3.

Short Version of MAPS (SMAPS)

The short version of the MAPS technique requires specific setup conditions to be met on day one, and specific trigger conditions to be met the following day. Running the EDS scan MAPullbackShort in the evening finds stocks meeting the setup conditions. During the next trading session the trader can watch for the price and volume conditions of the trigger to be met. This is usually done by setting price triggers in AIQ or myTrack software.

SMAPS Setup Conditions:

1) The stock must be in a down-trend.
2) The stock must not have risen above the 30 day simple moving average in any of the past 30 trading sessions.
3) The stock has pulled up to within 1.5% of the 30 day simple moving average.
4) The average daily volume of the stock must be at least 300,000 shares.

SMAPS Trigger Conditions:

1) If the setup conditions were met after the close today, then look for the trigger conditions tomorrow.
2) The low on the day after the setup conditions are met must be below the previous day's low.
3) The volume on the trigger day must be above the average volume.

When a valid SMAPS setup occurred yesterday, and a valid trigger occurs today, then the SMAPS system buys at the opening tomorrow and holds for two days then closes the position. Shorts often move faster than longs, so the holding time is shorter. Traders should consider protective stops to help guard against significant losses. Shorting may carry significant risk and should only be considered by experienced traders.

MAPS

The MAPS System

How do I get started using the MAPS Strategy?

Long Version of MAPS

Click on ***Start, Programs, TradingExpert Pro, TradingExpert Strategies, MAPS.***
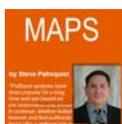
The AIQ Expert Design Studio will launch. You should see a screen similar to Figure 2 on the next page. Click on the Rule Library tab to view all the coding required for this strategy. The MAPS strategy is fully configured to run on the stocks installed in your TradingExpert Pro database.

There are two elements to the MAPS strategy, the MAPS Setup Conditions and the MAPS Trigger Conditions.

MAPS Setup Conditions

In Figure 2, the tab Labeled ***MAPullback*** is where the stocks that meet the MAPS Setup Conditions will appear when this strategy is run.

To familiarize yourself with the MAPS strategy, AIQ has installed plenty of historical data for stocks. To try this Setup Condition on an historical date:

- Click on the ***Down Arrow***, adjacent to the ***Report Date*** on the toolbar. Select any historical data from the calendar.
- From the menu, click ***Report, Run All.*** The system will scan all your stocks and return all those that meet the MAPS Setup Conditions in the ***MAPullback*** tab.
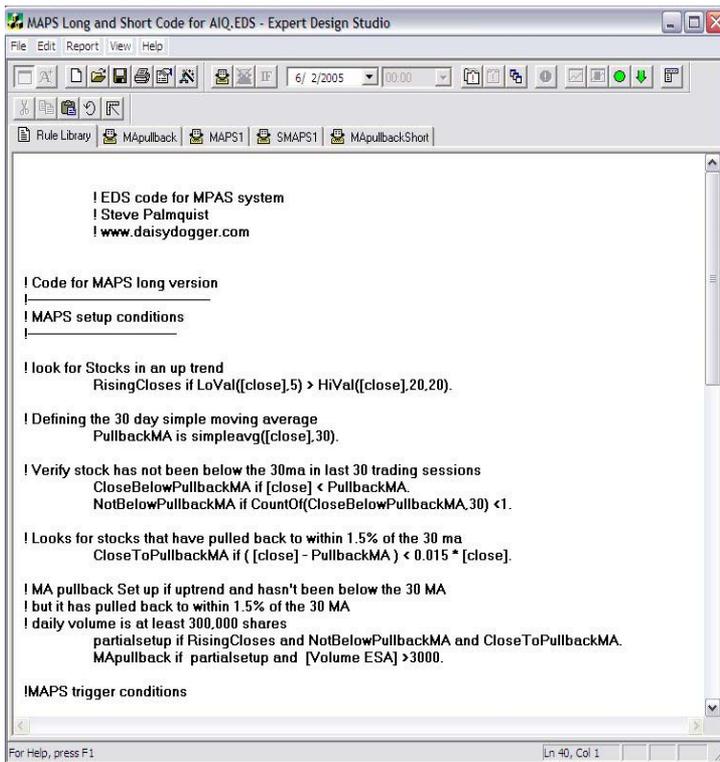
The MAPS System

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MAPS Long and Short Code for AIQ.EDS - Expert Design Studio

File   Edit   Report   View   Help

Rule Library | MApullback | MAPS1 | SMAPS1 | MApullbackShort |

        ! EDS code for MPAS system
        ! Steve Palmquist
        ! www.daisydogger.com

! Code for MAPS long version

! MAPS setup conditions

! look for Stocks in an up trend
        RisingCloses if LoVal([close],5) > HiVal([close],20,20).

! Defining the 30 day simple moving average
        PullbackMA is simpleavg([close],30).

! Verify stock has not been below the 30ma in last 30 trading sessions
        CloseBelowPullbackMA if [close] < PullbackMA.
        NotBelowPullbackMA if CountOf(CloseBelowPullbackMA,30) <1.

! Looks for stocks that have pulled back to within 1.5% of the 30 ma
        CloseToPullbackMA if ( [close] - PullbackMA ) < 0.015 * [close].

! MA pullback Set up if uptrend and hasn't been below the 30 MA
! but it has pulled back to within 1.5% of the 30 MA
! daily volume is at least 300,000 shares
        partialsetup if RisingCloses and NotBelowPullbackMA and CloseToPullbackMA.
        MApullback if partialsetup and [Volume ESA] >3000.

!MAPS trigger conditions

For Help, press F1                                          Ln 40, Col 1
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Figure 2 shows the MAPS strategy displayed when launching the MAPS icon.

MAPS Trigger Conditions:

In Figure 2, the tab Labeled *MAPS1* is where the stocks that meet the Long MAPS Trigger Conditions will appear, when this strategy is run.

NOTE: The stocks that display in the *MAPS1* tab are the stocks that met the Long MAPS Setup Conditions yesterday and have now met the Long Trigger Conditions today. The stocks are then purchased, at the open, the next day.

Short Version of MAPS

The Short Version of MAPS is contained in the same Expert Design Studio file as the Long Version. The stocks that display in the tab *SMAPS1,* in Figure 2, are the stocks that met the Short MAPS Setup Conditions yesterday and have now met the
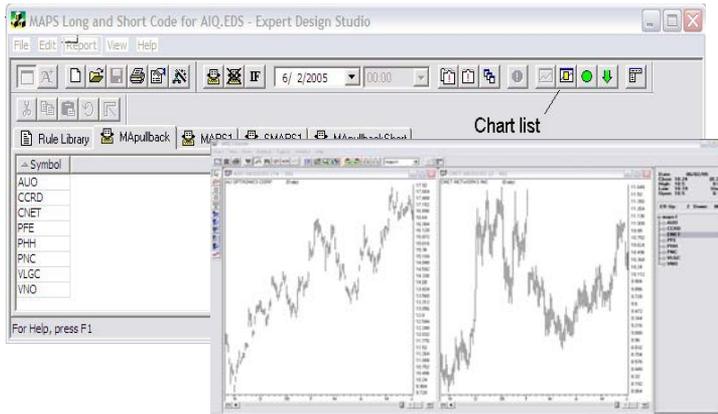
The MAPS System

Short Trigger Conditions today. The stocks are then sold short the next day.

Figure 3 shows Long MAPS strategy candidate CNET from June 2, 2005 displayed with 30 day moving average.

Reviewing candidates in AIQ Charts

To review the candidates in AIQ Charts, double click on the ticker symbol within any of the MAPS tabs and the chart will launch. Alternatively you can build a list of all the stocks in the tab and review them in AIQ Charts by clicking the Chart List icon.

The MAPS System

15

How do I run this strategy automatically every night?

Add this strategy to your AIQ Data Retrieval:
 - Click on *Start, Programs, TradingExpert Pro, Data Retrieval.*
 - Select the *EDS Post Processing* tab.
 - Select *Add*, and browse in the *Look in: box for /wintes32/ EDS Strategies/MAPS/MAPS Long and Short Code for AIQ.EDS.*
- Click *Exit.* The strategy will run every night after your download.

About Steve Palmquist

Steve Palmquist is a full-time trader and publisher of daisydogger.com. Steve uses AIQ's Expert Design Studio to find interesting trading ideas and strategies. He has shared trading techniques and systems at seminars across the country; including the Traders Expo, and AIQ seminars. He has published articles in *Stocks & Commodities, Active Trader, The Opening Bell*, and *Working Money.*

How effective is the strategy?

During the bullish market period of 03/14/03 to 01/23/04, MAPS yielded interesting results as shown in the table below. MAPS back-testing showed 62% winning trades during this period with the average winner gaining 3% and the average losing trade losing 2%. More information on this strategy can be found in your TradingExpert Strategies folder. As with any investment strategy, past performance does not guarantee future results.

MAPS1		Winners	Losers	Neutral
		==========	==========	==========
Number of trades in test:	277	173	100	4
Average periods per trade:	4.65	4.77	4.43	5.00
Maximum Profit/Loss:		14.14%	(9.08)%	
Average Drawdown:	(1.15)%	(0.38)%	(2.51)%	
Average Profit/Loss:	1.12%	3.01%	(2.12)%	
Average SPX Profit/Loss:	0.63%	1.04%	(0.06)%	
Probability:		62.45%	36.10%	
Average Annual ROI:	87.64%	230.46%	(174.38)%	
Annual SPX (Buy & Hold):	48.15%			
Reward/Risk Ratio:	2.46			
Start test date:	03/12/03			
End test date:	01/23/04			

Detailed back test information for the Long and Short version MAPS is available by double clicking the **MAPS Scan test icon** in your Trading Strategies folder (requires Adobe Acrobat Reader available at http://www.adobe.com/products/acrobat/readermain.html).

The MAPS System

The Best of Times, Worst of Times Trading Strategy

What is the Best of Times, Worst of Times Strategy?

The strategy is designed to take advantage of industry group rotation employing both strong and weak group analysis. The Best of Times involves buying stocks from groups that are already moving up. The Worst of Times involves buying stocks from groups that have declined over a longer period of time, and are then set to reemerge as leading performers.

What is the Best of Times, Worst of Times Strategy designed to trade?

The strategy was designed to trade stocks for a longer term holding period.

What does the strategy do?

There has been much debate about whether it is better to buy weak stocks or strong stocks. The theory behind buying weak stocks is that you have the opportunity to "buy low and (hopefully) sell high." The theory behind buying strong stocks is one of momentum – an object in motion is most likely to continue in that motion. This is also true with industry groups – however, not to the same degree. While a given company may go out of business for any number of reasons, it is a much more rare occurrence for an entire industry group to decline in price and never rebound.

Generally speaking, there is a pattern which is not uncommon for industry group price performance. At some point, the fundamentals for a given industry go south and eventually so do the stocks in that industry group. This can go on for any period of time, but usually does not last much longer than about two years. Once the majority of the decline is over, the group may then experience a period of basing action for up to a year (actually, the longer the better). Once this long decline and

Best of Times, Worst of Times

basing period is over, it is not uncommon for a group to then reemerge as a leading performer.

So which is better? Buying "weak" industry groups or "strong" industry groups? Jay Kaeppel's research has led him to the Best of Times, Worst of Times that utilizes both strategies rather than attempting to choose one or the other.

The Best of Times, Worst of Times Strategy involves buying and holding 10 industry groups at a time - 5 weak and 5 strong. The strategy is run after the close on the last day of trading each quarter and the portfolio is readjusted at the close on the next trading day (i.e., the first trading day of each quarter).

The ideal way to trade these groups is through the use of "folios". Folios, also known as stock baskets, offer many benefits to traders, particularly those who want to tailor a portfolio to benchmark a certain industry or sector. Buying a stock basket allows a trader to invest the same amount of money in each of a number of different stocks by purchasing fractional shares of each. Using a regular broker, position sizing can be achieved by allocating equal cash amounts for each position and calculating the number of shares.

To buy "weak" groups, look for the worst performing groups over a 500-day period, then wait 12 months before buying those groups. To buy "strong" groups, look for the best performing groups over the latest 240-day period and then buy those groups."

How can I buy 10 industry groups at one time?

AIQ has configured the reports to use a unique group/sector structure called *listjk.* All the groups in this structure contain 5 or less stocks. Each group is highly correlated to the stocks contained within it. The structure was modified by Jay Kaeppel from AIQ's highly correlated Group/Sector Pyramid structure.

Best of Times, Worst of Times

How do I get started using The Best of Times, Worst of Times?

Click on *Start, Programs, TradingExpert Pro, Trading Strategies, Best of Times, Worst of Times.*

The AIQ Reports will launch. The reports are already configured to run on the data installed in your TradingExpert Pro database and on the group/sector structure *listjk*. The reports used in this strategy are already configured with the correct parameters and are as follows:

Group Reports Price Change - Upside Long Term
Group Reports Price Change - Downside Long Term

Rules for Buying Strong Industry Groups

We are looking for the groups that are performing the best right now. To buy "strong" groups, look for the best performing groups over the latest 240-day period and then buy those groups. The mechanics for buying strong industry groups are as follows:

After the last trading day of each quarter:

- Click on *AIQ Reports, Group Reports, Price Change – Upside, Long Term.*
- From the reports menu, click on *Generate, Selected Reports* and set the date to the last trading day of the quarter just ended (i.e., on 12/31/03 set the date to 12/31/03).

Buy the stocks in the top five groups, giving equal weight to each group, and then repeat this process at the end of the next quarter.

NOTE: The Group/Sector structure used as a default in this strategy may contain less than 5 stocks in certain groups. The priority is to make sure that each group is given an equal weighting of cash when purchasing stocks.
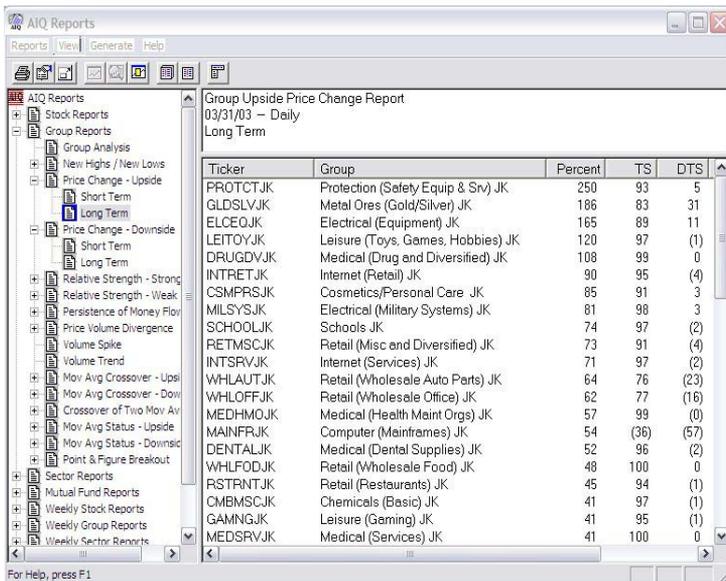
Figure 1 shows Group Reports, Price Change – Upside, Long Term generated on 03/31/03. The top 5 groups are the candidates.

Viewing the stocks in each candidate group

Double click on the first group in the report and the chart of the group will be displayed in the *AIQ Charts* application. Make sure the list selection pull-down box shows *listjk.* Press the enter key and the control panel on the right will display the stocks within the group. These are the stock candidates to consider. Repeat this process for each of the five top groups in the report.

Best of Times, Worst of Times

21

Change the list to listjk

enter key changes the control panel from barometer view to group/sector list view

The four stocks to be purchased in the Metal ores (Gold/Silver) JK group

Figure 2 shows how the group is displayed in AIQ Charts with the component stocks visible in the Control Panel on the left.

NOTE: Clicking and holding down your left hand mouse button, hilighting the stocks in the group and then releasing the button, displays all the stocks from the group at one time.

Rules for Buying Weak Industry Groups

We are looking for groups that have experienced prolonged declines and have also had some time to consolidate and build a base for an upswing in price. To buy "weak" groups, look for the worst performing groups over a 500-day period – then wait 12 months before buying those groups. The mechanics for buying weak industry groups are as follows:

After the last trading day of each quarter:

- Click on *AIQ Reports, Group Reports, Price Change – Downside, Long Term.*
- From the reports menu, click on *Generate, Selected Reports* and set the date
to the last trading day of the quarter ended one year ago (i.e., on 12/31/03 set the date to 12/31/02).

Buy the stocks in the top five groups, giving equal weight to each group, and then repeat this process at the end of the next quarter.

NOTE: The Group/Sector structure used as a default in this strategy may contain less than 5 stocks in certain groups. The priority is to make sure that each group is given an equal weighting of cash when purchasing stocks.

Figure 3 shows Group Reports, Price Change – Downside, Long Term generated on 03/31/02. The top 5 groups are the candidates.

Viewing the stocks in each candidate group

Double click on the first group in the report and the chart of the group will be displayed in the *AIQ Charts* application. Make sure the list selection pull-down box shows *listjk.* Press the enter key and the control panel on the right will display the stocks within the group. These are the stock candidates to consider. Repeat this process for each of the five top groups in the report.

Detailed information on the best of Times, Worst of Times Strategy is available by double clicking the ***Best of Times, Worst of Times Opening Bell icon*** in your Trading Strategies folder (requires Adobe Acrobat Reader available at http://www.adobe.com/products/acrobat/readermain.html). Trade by trade details are also available by double clicking the ***weakstrong icon*** (requires Microsoft Excel to view). As with any investment strategy, past performance does not guarantee future results.

About Jay Kaeppel

Jay Kaeppel is Director of Research at Essex Trading Co., Ltd. and an active commodity trading advisor (CTA). He is the author of ***"The Option Traders Guide to Probability, Volatility and Timing"*** (Wiley, August 2002), "***The Four Biggest Mistakes in Option Trading"*** (Traders Library, 1998), and ***"The Four Biggest Mistakes in Futures Trading"***.

How effective is the strategy?

Jay has tested this strategy with several different industry group structures including the AIQ Industry Group Pyramid, his own stripped down version of the AIQ Industry Group Pyramid, surrogate groups for each of the Fidelity Select Sector funds, industry groups set up for trading as single-stock futures by OneChicago, and the Fidelity Select Sector funds themselves using the AIQ Mutual Fund Reports rather than the Group Reports. Several patterns clearly emerge. In every case, the "strong" groups outperformed the "weak" groups between 1993 and 2003.

However, on a year-by-year basis there was no predictable pattern (looking at rolling 12-month returns for all of these tests, "strong" groups outperformed 57% of the time, "weak" groups outperformed about 43% of the time). Additionally, the standard deviation of annual returns for "weak" groups was significantly less (generally 40 to 50% lower) than that of "strong" groups. In other words, while the "strong" groups generated the higher gross returns, the "weak" groups generated higher risk adjusted returns.

Best of Times, Worst of Times

This trade-off in performance is another reason why it makes more sense to combine these two strategies and thus get the best of both worlds – high long-term returns from strong groups and dependable annual returns from weak groups. Table 1 shows the annual returns.

Table 1 - Annual Returns

Year	Weak % +/-	Strong % +/-	Both % +/-	SPX % +/-	Both vsSPX
1993	71.4	90.9	83.3	7.6	75.7
1994	13.9	31.8	22.8	(1.4)	24.2
1995	86.5	119.6	102.9	35.2	67.7
1996	19.4	61.2	39.6	18.7	20.8
1997	30.3	37.0	33.6	32.3	1.3
1998	18.3	134.0	71.5	26.0	45.5
1999	88.0	272.6	173.3	18.5	154.8
2000	32.4	32.9	34.2	(11.8)	46.0
2001	49.1	83.9	67.6	(10.0)	77.6
2002	40.6	(4.0)	18.4	(21.3)	39.7
2003	106.8	45.0	74.0	22.3	56.3
2004	1.3	32.8	16.8	9.0	7.8
2005	0	27.9	14.0	10.3	3.7

Updated through 09/30/2005

Best of Times, Worst of Times

The Efficient Stocks Strategy

What is the Efficient Stocks Strategy?

Efficient stocks are stocks that are moving up without a lot of volatility in a steady and consistent manner. The Strategy looks at the change in price over four different time periods and then divides that change in price by the average true range over the same periods. The average of the four different efficiencies gives you the best overall efficiency.

What does the strategy do?

The strategy looks at the change in price over four different periods, 20, 45, 90 and 180 days. The change in price is then divided by the average true range over the same periods.

Average true range looks for the largest absolute value of these three relationships:

- today's range (high - low)
- difference between yesterday's close and today's high
- difference between yesterday's close and today's low

The best overall efficiency is obtained by averaging the four different efficiencies.

What is the Efficient Stocks Strategy designed to trade?

The strategy was designed to trade stocks long over a short and long term holding period.

How do I get started using the Efficient Stocks Strategy?

Click on *Start, Programs, TradingExpert Pro, Trading Strategies, Efficient Stocks.*

The AIQ Expert Design Studio will launch. You should see a screen similar to Figure 1 on the next page. Click on the Rule Library tab to view all the coding required for this strategy. The Efficient Stocks Strategy is fully configured to run on the stocks installed in your TradingExpert Pro database.
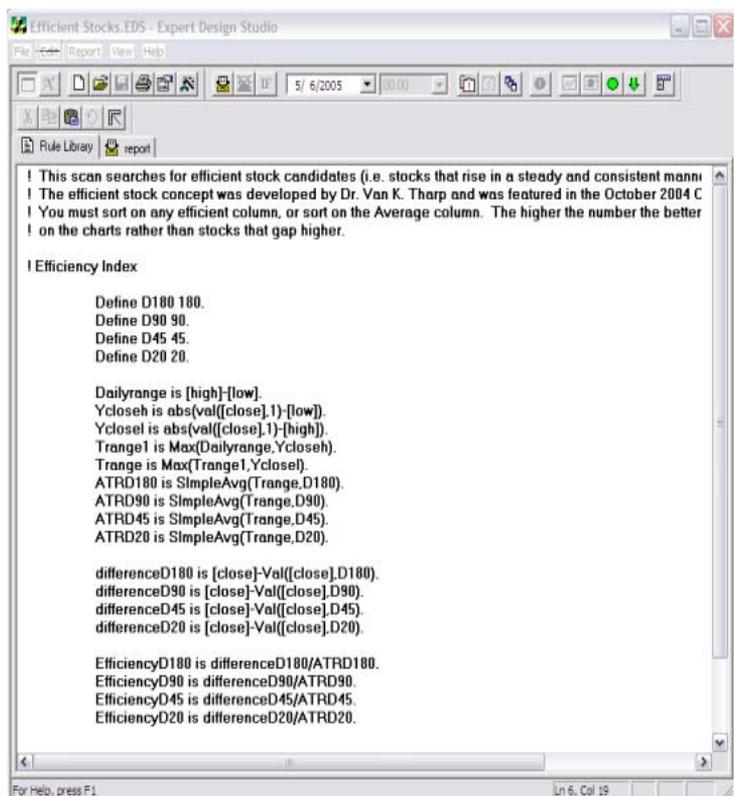
Figure 1 shows the Efficient Stocks Strategy displayed when launching the Efficient Stocks icon.

In Figure 2 on the following page, the tab Labeled *Report* is where the stocks that meet the Efficient Stocks rules will appear when this strategy is run.

To familiarize yourself with the strategy, AIQ has installed plenty of historical data for stocks. To run this Setup Condition on an historical date:

 - Click on the *Down Arrow* adjacent to the *Report Date* on the toolbar. Select any historical date from the calendar.

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- From the menu, click *Report, Run All.* The system will scan all of your stocks and return all those that meet the Efficient Stocks Strategy conditions in the *Report* tab.

Click on the column labeled *Average* (shown in Figure 2) to sort the stocks from highest to lowest efficiency. Stocks with the highest efficiency are considered the best candidates.

Symbol	close	EfficiencyD180	EfficiencyD20	EfficiencyD45	EfficiencyD90	Average
TOY	25.72	29.70	-0.55	10.33	18.43	14.48
NMG-A	94.80	29.08	0.92	10.50	14.13	13.66
ELBO	56.94	23.04	8.92	10.24	10.50	13.17
UGI	51.99	25.71	4.86	7.57	13.78	12.98
ACDO	45.28	24.53	-0.13	3.54	22.89	12.70
AYE	25.01	24.96	4.76	9.25	10.95	12.48
HCA	54.88	24.07	-0.04	6.19	18.28	12.13
UHS	58.32	17.28	5.03	9.52	14.54	11.59
RCI	46.00	20.13	5.90	7.84	12.11	11.49
LDG	37.00	22.69	1.00	8.40	13.77	11.46
CPY	17.21	17.47	6.00	6.94	15.29	11.43
HNI	51.50	19.33	4.36	9.98	11.80	11.37
ITRI	36.55	21.47	3.38	7.68	12.73	11.31
CCRD	16.57	17.70	-0.52	14.22	13.52	11.23
GAP	16.91	24.19	0.58	8.03	12.04	11.21
SDS	33.80	21.11	-1.74	13.99	11.43	11.20
FTO	43.18	24.36	0.55	5.41	13.11	10.86
EFX	34.71	18.42	4.49	6.24	11.50	10.16
TRI	49.27	20.99	-1.48	5.31	14.24	9.77
IAAI	28.22	21.41	2.17	1.85	11.88	9.33
CYH	36.04	19.45	0.51	4.48	12.26	9.18
ASF	17.93	15.39	4.10	7.75	9.24	9.12
SRDX	39.73	18.14	5.88	5.43	6.89	9.09
BMHC	55.87	19.87	3.79	3.08	9.18	8.98
GR	41.71	16.29	2.82	4.82	11.72	8.91
HSY	64.80	20.37	3.90	0.79	10.04	8.77
TXU	79.34	27.14	-1.99	1.02	8.71	8.72
CI	96.98	19.71	2.89	3.67	8.53	8.70
CK	15.23	21.72	1.90	3.39	7.78	8.69
BLUD	33.20	21.07	2.56	2.18	8.85	8.66
SWN	67.95	18.64	4.11	3.54	7.94	8.56
MHS	51.82	22.10	-0.89	3.50	9.42	8.53
EOG	49.75	19.37	1.43	2.24	10.37	8.35
VAS	22.70	18.89	4.02	3.82	6.46	8.30
AET	76.99	22.39	0.89	1.13	8.71	8.28
TALX	25.56	14.77	4.71	4.32	8.68	8.12
HCC	38.73	15.55	4.68	0.73	11.43	8.10

Figure 2 shows the Efficient Stocks Strategy Report tab with the four Efficiency columns and the Efficiency Average column.

Reviewing candidates in AIQ Charts

To review the candidates in AIQ Charts, double click on the ticker symbol within the Report tab and the chart will launch. Alternatively, you can build a list of top stocks in the tab and review them in AIQ Charts (shown in Figure 3 on the following page):

- click on the first stock symbol in the tab
- hold down your shift key and click on last symbol you wish to display
- click on the Chart List icon.

More information on this strategy can be found in your TradingExpert Strategies folder. As with any investment strategy, past performance does not guarantee future results.
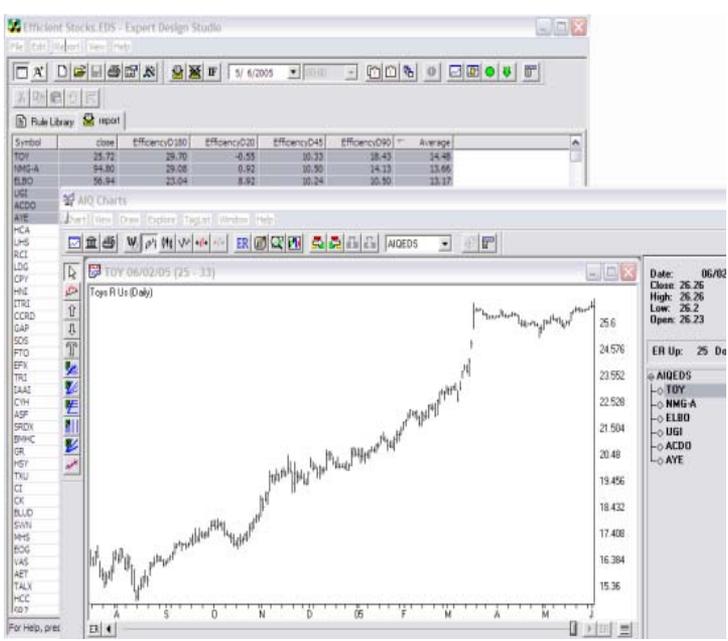

Figure 3 shows the Efficient Stocks Strategy using the Chart List function.

Stocks with the highest numbers are usually the most efficient. Sometimes stocks trade at $6 a share for a month then gap up to $10, remaining at this level. These stocks can gain a high efficiency ranking but should be discarded.

How do I run this strategy automatically every night?

Add this strategy to your AIQ Data Retrieval:
- Click on *Start, Programs, TradingExpert Pro, Data Retrieval.*
- Select the *EDS Post Processing* tab.

- Select **Add**, and browse in the **Look in: box for /wintes32/ EDS Strategies/Efficiency/Efficient Stocks.EDS.**
- Click **Exit.** The strategy will run every night after your download.

About Dr. Van K. Tharp

Dr. Tharp was featured in the original *Market Wizards* book, writing on the subject of trading psychology. Worldwide, he has helped traders to maximize their trading potential. Dr. Tharp is the author of three acclaimed books published by McGrawHill: New York Times best-sellers, **Safe Strategies for Financial Freedom; Trade Your Way to Financial Freedom; and Financial Freedom Through Electronic**

The Efficient Stocks Strategy

Additional Strategies with your AIQ TradingExpert Pro

There are additional trading strategies available in TradingExpert Pro. Each strategy opens in AIQ EDS by clicking *File, Open*, and browsing in the *Look in* for */wintes32/EDS Strategies*. Each file includes a description of the strategy together with an example ticker. This is a selection of the top strategies following the results of testing the pre-built EDS rules using an S&P 1500 database. A fixed 22-business day holding period was used. The testing time period was 1/1/99 to 12/31/04.

File Name	Rule	ROI
Miscellaneous/Opening Bell Strategies/ Denning VCR	GoLong	80.43
Miscellaneous/Opening Bell Strategies/ December	allworks	66.63
Technical Indicator Strategies/Strategies using Candlesticks /Candlestick - Tri Star Doji	TriStarDoji	59.19
Price and Volume Based Strategies/ Price up 20% on 2x avg volume	Up20	53.50
Price and Volume Based Strategies/ Close within a % range of close	Close60to70	52.70
Miscellaneous/Opening Bell Strategies /November	allworks	48.38
Shorter term strategies/ Hit and Run Trading - Jeff Cooper/ Boomer Short	BoomerShort	46.51
Miscellaneous/Opening Bell Strategies/ Jun99obm	allworks	46.37
Swing Trading Strategies/ Street Smarts - Linda B Raschke Turtle Soup plus one	TSPO_BT	42.99

AIQ Systems does not endorse or recommend any trading strategy discussed in this manual. Past performance, whether through actual trading or indicated by historical tests of strategies, is no guarantee of future performance or success. Trading involves risk and is generally not appropriate for someone of limited capital, limited investment or trading experience.