



Thank you for subscribing to my newsletter. I hope you will find the services I provide useful for your trading and investing needs. The information provided should be used as a support tool in your decision making. No stock picking service can provide guaranteed gains and any service offering 'easy riches' is hiding the downside risks associated with buying and selling stocks. Often these services define rewards from exits at absolute highs, shrouding the real-time exits associated with trading stocks. My exits are defined from pre-determined target prices and frequently reviewed protective stop prices. What you are buying is the research I do on a daily basis; it is not just a list of stock ideas, but the parameters necessary to define the risk and reward of any given trade and the total risk one should consider for the market as a whole. This is research I use when risking my own money.

Background:

As an introduction, I don't come from a Wall Street or business background. My interest in stocks started in high school when I won a stock picking competition, but it would be a 12 year wait before I was to return to the markets. During this time I walked the path of a science career. I completed my undergraduate degree in Zoology at Trinity College Dublin, Ireland in 1993 after specializing in medical parasitology before completing my Ph.D. in Nematology at a small university outside Dublin, called St. Patrick's College – now the National University of Ireland, Maynooth, in 1998. I then did a brief stint of work for Allied Irish Banks in their branch network and IT department before moving to Hawaii to manage a research grant on sustainable methods to control plant pests. It is in Hawaii where I currently reside and still conduct research on biological control methods, publishing in various peer-reviewed publications such as *Biocontrol*, *Nematology*, *Journal of Helminthology*, *Journal of Insect Pathology*, *Phytopathology*, and *Journal of Nematology*.

Poor finances during my college years had left me watching the 1990s market boom (and bust) from the sidelines, and it wasn't until 2000 when I started to take a more serious interest in the market and was able to rustle enough money to enter the market. It was also around this time I started to make an appearance on the internet and managed my own Yahoo™ message board which was used as a trade diary and 'store' for my research. Unfortunately, up until recently, my original posts were available for review – but now the board runs on without me as the format became too large and unwieldy to manage.

A huge contributing factor to my return to the stock market was the rapid development of and often freely available stock data on the internet. Prior to the availability of online stock information, investing decisions were often made on personal whims, the latest fad, or dated financial analysis. Unfortunately, my background hadn't trained me to read lengthy annual reports, and trying to get an edge while competing with the large research houses of financial institutions was not going to cut it for me. My interest in technical analysis started from browsing the investment section of the local bookstore. The first book I bought on the subject was "Getting Started in Technical Analysis" by Jack Schwager and it was my first insight into trend analysis and quantitative measures of supply and demand for markets and stocks. (However, I wouldn't recommend this book to someone looking for an introduction to Technical Analysis, instead go get a second hand copy of John Murphy's "Technical Analysis of the Financial Markets"). As a scientist, I much preferred the number crunching of technical analysis over the read-between-the-lines of financial report reading. But the real boon for me was the launch of Stockcharts.com™ in 1999. Its easy to use charting package, and the wide number of user options allowed me to practice what I was studying from the books.

I opened an online account at the start of 2001 and maintained a commentary and trade diary through my aforementioned Yahoo™ message board, entitled "Fallond invest history". The message board was a simplified trade and market commentary diary, which eventually attracted a small community before it got swamped by spammers. I followed this with a public list on Stockcharts.com™ (which is still available today, and is used to store my market indices charts and the free stock picks from Fallondpicks.com™; <http://stockcharts.com/def/servlet/Favorites.CServlet?obj=ID446477>). A rough period for my account from late 2003 into 2004 brought the need to beef up my research methods. I started the website in late 2004 as a collection point for my research, allowing me to store my notes online and act as a useful time stamp for monitoring historical returns. More importantly, by making the information public it made me accountable for my calls. Also in 2004, I joined the Market Technicians Association, and enrolled in their Chartered Market Technicians program (due to sit the level III exams in 2007). In 2005, I started my blog (<http://www.blog.fallondpicks.com/>) and Collective2™ portfolio (<http://www.collective2.com/cgi-perl/systems.mpl?session=2370883783326125918505180042&want=publicdetails&systemid=16054184&fromoutside=1&donealready=1>). The Collective2™ portfolio is a sample system using stocks featured in the newsletter and its performance is regularly updated on the blog. The Collective2™ portfolio can be subscribed through as a separate entity allowing subscribers to receive the trades in real-time. In 2006, I introduced the KIVA™ contribution program, allowing members to get some extra bang for their buck by diverting some of the subscription fee towards supporting small business across the world.

How does www.fallondpicks.com work?

There are two key aspects: [1] market commentary and [2] the stock pick list.

I focus on technical analysis for all of my stock research and commentary. I use a number of technical parameters:

- Price (the primary technical measure)
- Volume (key measure of supply and demand, and institutional activity)
- Moving averages (measure of trend direction)
- Moving Average Convergence/Divergence [**MACD**] (technical indicator derived from moving averages, measure of trend change)
- On-Balance-Volume [**OBV**] (derived from volume – trend measure of accumulation and distribution)
- Average Directional Indicator [**ADX**] (measure of trend strength)
- Stochastics (momentum measure).

I limit myself to these indicators as they cover all the bases with limited duplication (the only duplication I have comes in the use of the MACD and ADX, both of which are measures of trend). When selecting technical indicators the general rule is to limit their use to three: a trend measure, a volume measure, and a momentum measure. Listed are some example indicators one could use: [1] a measure of trend strength (e.g. MACD or ADX), [2] a measure of volume (On-balance-volume or Accumulation/Distribution, and [3] a measure of momentum (Stochastics or Relative Strength Index). Once you have the three indicators you don't need any more. . The key point is not to overuse indicators which tell the same story. Irrespective of the indicators selected, **price is always number one in terms of importance**, as all indicators are derivatives of price

In my market commentary I try to avoid the noise of news, in the broader scheme of things, as price changes are often rationalized after the fact and there is never a shortage of good, or bad, news to fill the story as one sees fit. However, when selecting stocks, I do like to check for fundamental (i.e. news) driven price moves, particularly changes associated on, or close after the release of earnings as these tend to favor long term moves which are best suited for the stock picking methods I use. But my individual stock selections are initially price driven and strongly focus on the aspect price relative to key moving averages, but changes in volume trading relative to average volume for the stock. I am 'cursed' from years of science writing, so my analysis may read as bland and point driven and for that I apologize. What I want to convey are the key areas of market and stock activity in as brief a format as I can do.

Where to start?

Before one can dip their toes into the market one needs to understand how to protect ones initial capital. Capital preservation is critical to trading and investing. There are numerous articles available on the web on how best to do this, and unfortunately, smaller accounts tend to suffer from higher risk exposure given the impact of commission costs

on returns. At the end of this introduction I have included an article featured on my blog comparing a traditional trading account to a dollar-cost-average account. Table 1 is a sample recommendation as to the number of stocks to be held in a portfolio depending on available capital. Beyond eight stocks it becomes increasingly difficult to monitor individual stocks, but as with anything always work with what you are comfortable with. For very small accounts (<\$5,000) it is imperative to employ strong money management as commission costs will be important cost factor, particularly if the account carries a large number of stocks (those \$20 round-trip trades quickly add up). For accounts of this size it may be better to start using a dollar-cost-average provider like Sogo Invest™, Sharebuilder™, or BuyandHold™, which have low commissions and allows one to build into positions. For example, in January 2005 I allocated \$250 a month, taken from my day job salary, into a BuyandHold™ account for investing (not trading) purposes. The account is currently worth \$9,700 (November 2006) and is comprised of two stocks. Unlike actively trading stocks, the dollar-cost-average system is a boring, buy it-and-keep it strategy. But boring is good, and dollar-cost-averaging is a boring way to make your money work for you. To increase its effectiveness of this strategy one should raise the contribution to the account every year (if you can afford it – I haven't done so yet).

Table 1: Number of recommended stocks per capital base as suggested by William O'Neill.

Starting capital	Number of stocks
Less than \$10,000	1
\$10,000-25,000	2
\$25,000-50,000	4
\$50,000-100,000	6
>\$100,000	8

When should I buy?

The first piece of information on the newsletter shows a suggested capital allocation according to three categories: Cash, Subscriber Picks, and Breakout Plays after which there is a graphic summary of Market Health.

	 CASH	 SUBSCRIBER PICKS	 BREAKOUT PLAYS	MARKET HEALTH
SUGGESTED CAPITAL ALLOTMENT PER 100 UNITS TO EACH CATEGORY	20	30 6% risk	50 9% risk	Bull

Capital allotment is based on 100 units. For example, for July 2006 I have recommended 20 units to cash, 30 units to Subscriber stocks and 50 units to Breakout stocks. The “Subscriber picks” are those only available to Subscribers. The “Breakout Plays” are those available for free at Fallondpicks.com. If you had a \$20,000 account you would have \$4,000 cash, \$6,000 in a Subscriber stock and \$10,000 in a Breakout stock. If you had less than \$10,000 you might have \$8,000 in a Breakout stock and \$2,000 in cash.

The **% risk** (drawn from 1,300+ stocks per group) is an average of downside risk after a position is entered. All stocks I feature include a price to sell if prices rise, and if they fall. The latter price, or “stop price”, is an essential part of money management. So in our example of a \$20,000 account there is an average risk of \$360 in the Subscriber stock and \$900 in the Breakout stock. Expressed another way, the overall risk on the account is 6.3% (\$1,260) of \$20,000, split to 2 stocks. The **% risk** is an average; to get the individual risk component for a given stock simply calculate the difference between the current stock price and my suggested stop price, then decide if this fits with your risk threshold. I provide many potential stocks to buy try to spread the risk from low (<5%) to high (>10%). Lower priced stocks will tend to be higher risk on a simple percentage basis and higher priced stocks less so; not that this reflects upon the risk associated with the actual stock itself, just the issues of price alone. The one thing to remember is if a loss is taken and your account falls eg. Your \$20,000 account falls to \$18,740 after both stocks are stopped out for a loss, then your next foray into the market would split as follows (based on the previous risk calculation): Cash @ 20% = \$3,768; Subscriber stock @ 30% = \$5,622; Breakout stock @ 50% = \$9,370.

The “Market Health” **is not a measure of market trend**, but is a suggestion as to what one should be doing in the market. A weak market is a “bullish market” – a market to buy when nobody else wants too and stocks are sold at discount. A strong market is a “bearish market” – sell into strength when there are many buyers willing to take your stock off you for a premium. This bull/bear logo is derived from my study of the following three indicators:





- Nasdaq Summation Index
- Nasdaq Bullish Percent Index
- Nasdaq Stocks Above 50-day Moving Average (MA).

At the end of this piece I have provided a blog article on how I use these indicators and also shown how you can use these indicators for yourself.

On the website (fallondpicks.com) I keep a summary of the performance of my picks according to the “Market Health” reading. This table can be found in the right-hand-margin of the site. Changes to “Market Health” are made at the start of the month and are represented on the website table as follows:

Bullish Market Health is represented by a green “B”, on a dark green background, and favors Breakout stocks.

Month-to-Month recommendations.				
Month	Avg % gain	Avg % loss	% profitable of closed trades	Avg % return per closed trade
Aug 05	17.26	8.59	35	+0.46
Sep 05	19.69	7.57	22	-1.51
Oct 05	19.74	5.69	31	+2.25
Nov 05	20.99	6.23	61	+9.90
Dec 05	17.79	4.75	50	+6.31
Jan 06	17.73	6.98	34	+1.44
Feb 06	14.70	7.53	40	+1.44
Mar 06	11.59	6.10	33	-0.31
Apr 06	10.40	6.85	5	-6.06
May 06	20.16	6.51	5	-5.10
Jun 06	8.64	9.23	11	-7.25
Jul 06	0.00	6.57	0	-6.57
Aug 06	0.00	0.00	0	-0.00

 Cash
 Gold Member selection
 Free Breakout selection
 Sell, move to cash

Bearish Market Health is first represented by a yellow “S”, on a red background, and favors Cash. A yellow “\$” on a blue background follows in subsequent months

A Neutral Market (treated as Net Bearish in Market Health) is represented by a yellow “G” on an orange background and favors Subscriber stocks (also known as “Gold Member” picks).

In the columns which follow is the average “% gain” and “% loss” for individual stocks for that month depending on whether Breakout, or Subscriber stocks, was favored The “% profitable of closed trades” is the win % for that month. The last column, “Avg return per closed trade” is the net return per trade for all winners

and losers combined.

Next up on the newsletter front page you will find a “Market Outlook”

SINGLE STOCK RECOMMENDATION	MARKET OUTLOOK (6 MONTH+)
	<p>July 16th: The bottom drags out even longer. Still believe bullish positions are favored over the next few months, although there has been some real damage done on the rally to date. Limit your capital risk to what you are comfortable with and ignore anything which doesn't fit your thresholds.</p>

The “market outlook” is an overall opinion of the situation, outside of my daily commentary on the markets and should be viewed as an influencing factor on my daily market commentary. On the left to this is a “Sector Watch” (changed from the “Single Stock Opinion”); sectors featured here I suspect will perform strongly over the coming 6-months. Stocks which feature in my stock pick list and also belong to one of these sectors deserve extra merit.

Finally, on the front page I provide a sample ETF market index trade (primarily for reference – it hasn't been too successful to date). The information includes the date of the trade. The “listed price” of the trade and a corresponding call or put price (buy at the ask price, sell at the bid price) for the same trade with the strike price listed underneath the price in “()”. The final column is a mutual fund trade using ULPIX (ultrabull) and URPIX (ultrabear).

May 31 st LONG	QQQQ	SPY	DIA	ULPIX
LISTED PRICE	38.82	127.51	111.73	58.24
JAN 08/ DEC 07/ JAN 08 (CALLS)	6.10 (\$38.00)	14.60 (\$125.00)	13.80 (\$108.00)	n/a

What should I buy?

Once you have your capital allotments calculated, next comes deciding what to buy. The stock pick list is split into two sections; Breakout plays 📈 and Subscriber plays 💰. The most important information for my suggested stocks is represented in table format and lists the “**Buy**”, “**Stop**”, “**Target**”, “**Support**”, “**Resistance**”, “**Risk:Reward**”, and “**IBD**”. The “**Buy**” price is the closing price of the stock for the previous day. **It is not necessarily the price at which a fill is guaranteed, but is the entry price I use to monitor all performance measures.** The one way to guarantee a fill is to use a market order. If you wish to use the exact price then a limit order should be used. If using a dollar-cost-averaging strategy then the initial buy price is less important, as a position is built up over time. The “**Stop**” is the protective price to sell the stock if the position goes against you.

As mentioned previously, the average risk for Breakout stocks 📈 is **9%** and for Subscriber stocks 💰 it is about **6%** based on the closing price listed. The actual risk will vary according to the actual fill price. The risk for individual plays can be calculated by dividing the difference between the “**Buy**” and “**Stop**” price with the “**Buy**” price. If you are risk averse it is best to avoid suggested stocks under \$10, or stocks with an opening risk greater than 6%. If there is a stock you like, but the risk is too great based on the initial calculation, consider using a Good-til-cancelled (GTC) buy order with a limit price appropriate for the level of acceptable risk you wish to take. For example, the opening risk for HMSY below, if bought at \$11.92, is 9.4% $([11.92-10.79]/11.92)$ which is steep. You may be prepared to risk 5% so you would set a GTC buy order for \$11.38 instead (a 5% risk to the stop price of \$10.79); an order which would have filled 10-days later (for this example).

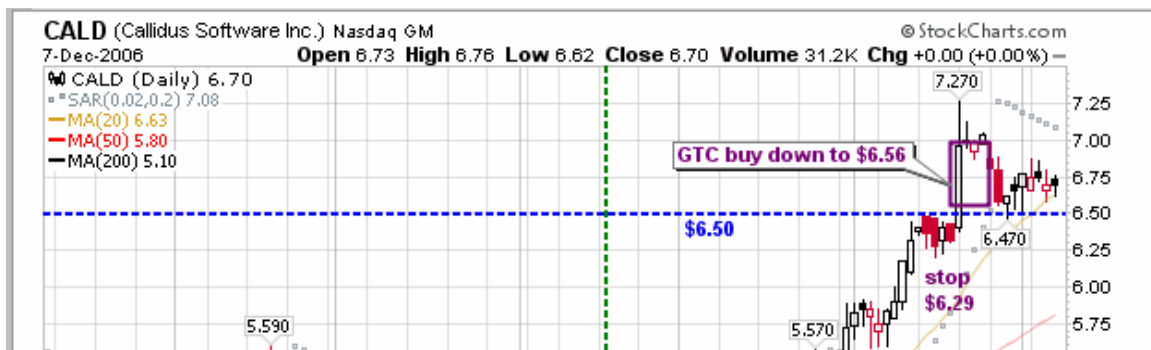


Stocks for August 2nd: The first pick, HMSY, originally featured as a free Breakout for June 26th. Tuesday's break of \$11.26 resistance came in the absence of company specific news, but is a good reason to raise the stop price from the original position. The point-n-figure chart holds to the target of \$24.50 from the March 29th double top breakout. Technicals remain bullish, although there is some potential concern with a new lower high in the MACD trigger line. The trend is your friend.

BUY	STOP	TARGET	SUPPORT	RESISTANCE	RISK:REWARD	IBD
11.92	10.79	19.21	11.26	13.38	6.5	A+



The Joe Soap market or limit orders are the simplest strategies to employ when buying a stock. An alternative strategy is to what I call “fishing for fills”. To do this you need to split the capital allotment for a single stock into two halves (e.g. in our earlier example when we are using \$6,000 to buy a stock, we would employ two lots of \$3,000). The first lot is entered either with a market order or a limit order set at the “Buy” price. The second lot is bought using a GTC order at a price 1% higher than my listed “Support” price. The advantage of this system is it adds a further level of downside protection, as the second share lot is bought at a lower price to the first. The disadvantage is if the stock takes off, the second order may never fill. Sometimes I will give the recommended range for a GTC buy order; you will see this as a purple box on the chart with the price range indicated in a text bar. In CALD example below, the suggested GTC buy order of \$6.56 would have filled four days after the stock was featured, also note how the stock has held my marked support of \$6.50. Again, the higher the GTC limit order is, the greater the chance of getting a fill on your order.



A key factor of breakouts is the need to confirm new support/former resistance; this is why it is common to see prices retrace back to the “Support” price listed in my information box – as was the case for CALD. Approximately 60% of my featured picks will go on to hit the “Support” price I list over subsequent days, many of these tests coming inside the first 4 weeks.









An alternative strategy to employ if you don’t want to “fish for fills” is to study stocks which I have featured previously. This information is readily available from the website and is illustrated as a yellow box in the right-hand-margin with a series of dated links. These links can be found in my Breakout and Gold Level Subscriber pages and go back over the last 12-months worth of stock picks. Each chart image features a link to a chart from Stockcharts.com™. The linked-chart does not feature annotations, but using the data available from both Stockcharts.com and my newsletter/web site, it is relatively easily process to calculate the associated risk according to my recommended stop price, and/or see which stocks have made it back to their “Support” price. My public Stockchart.com list holds a list of all free, in play, Breakout stocks with 15-minute delayed data (real-time data for Stockchart.com

subscribers). The link for the public list is as follows:
<http://stockcharts.com/def/servlet/Favorites.CServlet?obj=ID446477>.

Other information included in my tables is the “*Target*” price. If this price is reached I ‘close’ the trade and the play is considered a profitable trade. Likewise, if the “*Stop*” price is reached, the trade is ‘closed’ and it is considered a loss – but the “*Stop*” hit may be profitable if the stock has featured in previous instances and at lower prices. The “*Resistance*” price lists the nearest price point of what I would consider major resistance.

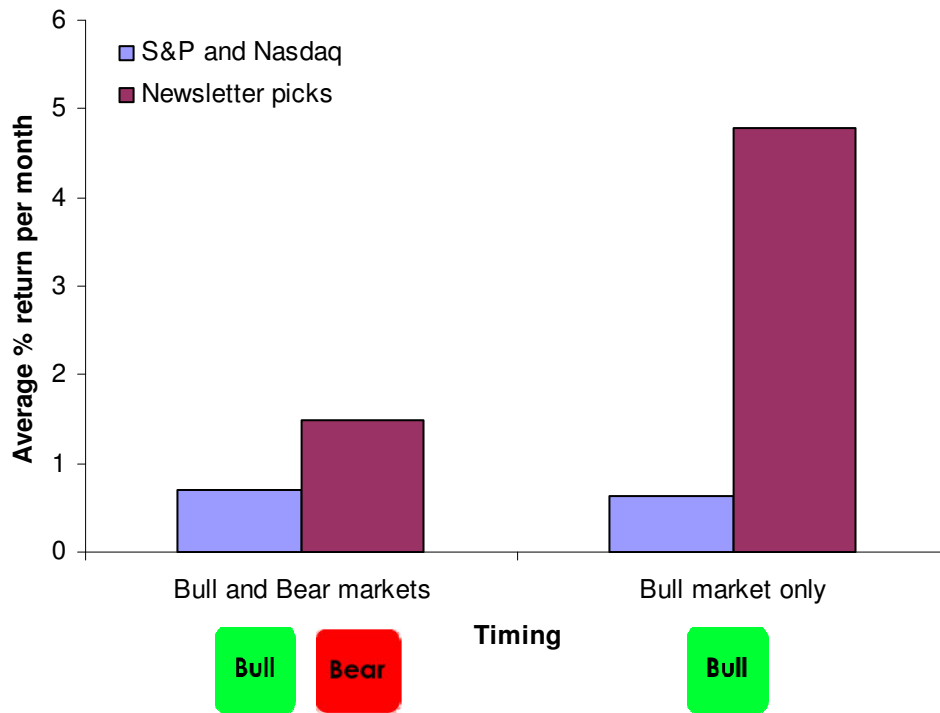
The “*Risk:Reward*” is the **best return for \$1 risk assuming the “*Target*” price is hit**. So a risk:reward of “4.3” suggests a \$1 risk has the potential to return \$4.3 based on the suggested “*Buy*”, “*Stop*” and “*Target price*”. The last point is important because less than 30% of my picks actually hit their target price, more likely to occur is a stop price hit, which may be enough to close the trade for a profit if it has featured previously at a lower price and is still considered active (Individual stocks may feature more than once, even if prior trades have been considered ‘closed’ – these additional trades are considered fresh trades and are not counted against earlier ‘closed’ trades).

The average closing profitable percentage of my picks is around 36% for my Free Breakout stocks on a 9% average risk (for the period April 2004 to December 2006), or 29% for my Subscriber picks – the paid for picks – with an average risk of 6% (for the period April 2004 to December 2006), therefore 64-71% of the stocks you will buy will be losing plays. This performance may not sound attractive but the plan is to cut losing stocks quickly and ride the winners; the average return per trade for **all** picks, winners and losers combined, is **+1.50% per month** (for the period April 2004 to December 2006) compared to an average return of **+0.70% per month** for the Nasdaq and S&P over the same period, this assumes an entry price at the listed “*Buy*” price and an exit at either the “*Stop*” or “*Target price*”.

How can one increase the percentage of winning plays? By following my  or  recommendation, one can limit the buying stocks to months which carry the  logo in the “*Market Health*” area of the newsletter first page, or as illustrated on my website or blog; buying stocks during these periods increases the percentage of profitable closes; the average % win during a  bullish month is 42% with an average return per trade, for winners and losers combined, of **+4.79% per month**, well above the base average of **+1.50% per month**. The caveat for these returns assumes a cash position during non  - months; usually there are 5-6 months per calendar year when I consider the market to be  bullish – so one should look for an **annual return of around 20-25%** by trading this mechanic. This highlights the importance of proper money management. Only risk small amounts of cash during  bear phases, but increase equity exposure during  bull phases.

“*IBD*” is the overall grade as given by the newspaper, *Investors Business Daily*. I use it as a quick check to the quality of the stock. An “*A*” ranked stock should outperform a “*C*” ranked stock. Often Subscriber stocks, drawn from an oversold scan, will carry a

poor *Investors Business Daily* ranking because of its perceived lack of value. The ranking is another tool, but shouldn't be the only factor considered when buying.



Finally, each stock listed includes a brief commentary which outlines important information, such as:

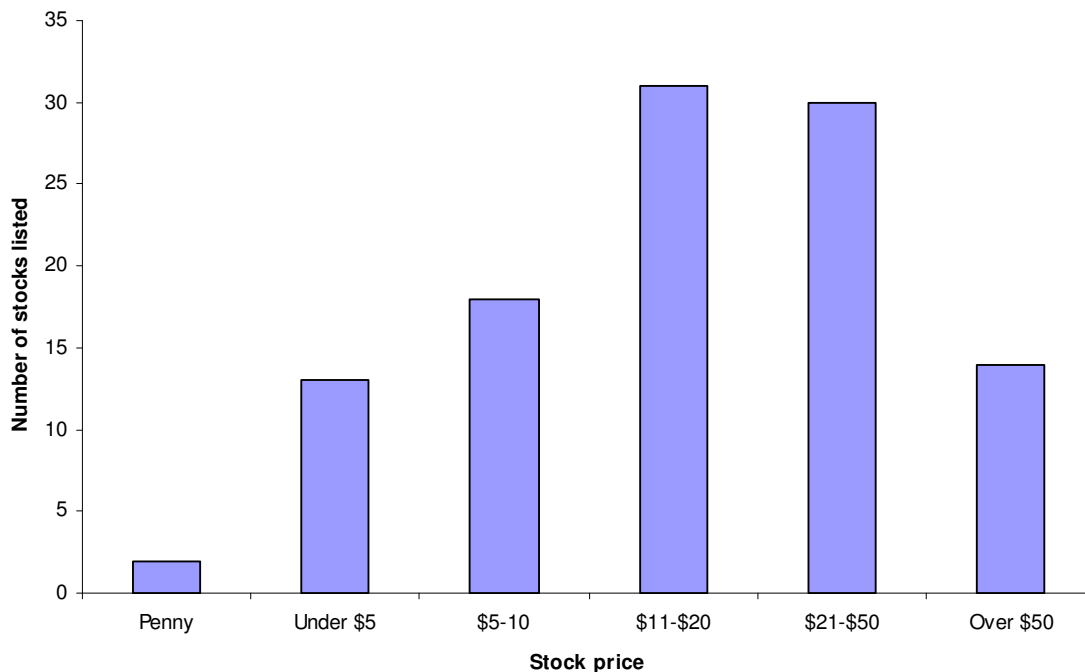
- Dividend yield
- Fundamental triggers (e.g. earnings, FDA approval etc...)
- Changes in the point-n-figure chart (a chart which uses price alone – it is an excellent source of support and resistance. This chart is available through clicking the chart image of any stock on my website linked to Stockcharts.com).
- New highs in technical indicators (Like price, indicators can 'breakout' or 'breakdown'. Some indicator breaks carry more weight than others, e.g. a breakout in on-balance-volume, particularly if price is stuck below resistance, is very bullish and can lead a price breakout).
- Indicator triggers (eg. MACD trigger 'buys', on-balance-volume crosses of its 20-day MA, crosses in +DI/-DI)
- Breaks of key moving averages (20-day, 50-day and 200-day MAs).
- Long term bullish "Golden Crosses" or bearish "Death Crosses"
- Swing trade opportunities as often illustrated by narrow range days and 'doji' candlesticks.
- Reversal candlesticks; eg 'hammers'; I strongly recommend Steve Nisons "Japanese Candlestick Charting" for detailed explanations and uses of these patterns.

What is the difference between the Free Breakout stocks and the Paid Subscriber stocks?

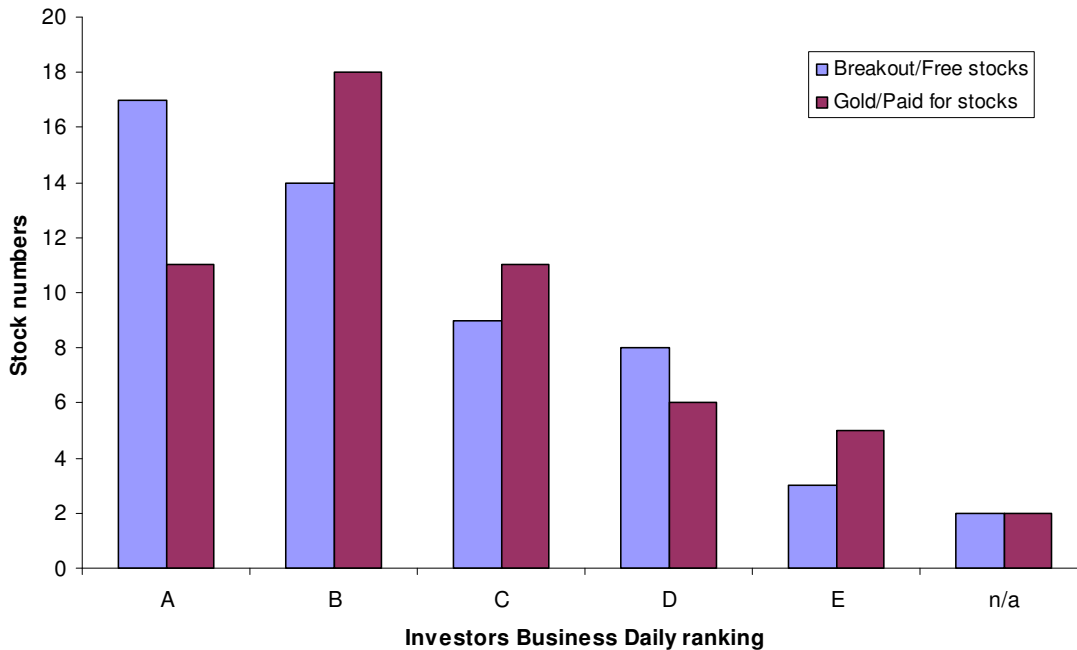
Stocks comprising Free Breakouts are drawn from a single stock scan and/or are stocks transferred from the Subscription service to the Free service. Stocks offered to Subscribers are drawn from a number of different stock screens and where possible, carry lower risk than the Free stock picks. It is my intention to have Subscriber picks outperform the Free picks, which both then outperform the market and my competitors.

Why so many stocks?

I feature between 3-6 stocks every day, irrespective of whether the market is strong or weak. **I do not expect everyone to buy every stock listed, nor do I recommend people try and do this.** If you follow my recommended capital allotments it is possible to be in the market, with low exposure, at a time when such activity may be deemed risky. Sometimes it is hard not to be in the market, particularly when paying for a service, but it is important to preserve capital and this is of paramount importance. My list provides a stream of ideas to use when the time is right for you to buy. If you see nothing of interest to you one day, then the next set of stocks for the following day might have something for you. The figure below illustrates the breakdown of stocks as listed by closing price for October 2006, it includes the free and paid-for stocks.



Similarly, if stock quality is important to you, below is a chart representing the overall *Investors Business Daily* ranking of the stocks provided for October 2006:



Please remember, my stock selection is made independent of fundamental factors. I look for fundamental drivers after selecting stocks by technical measures. If fundamental parameters are important to you then these would need to be confirmed using further due diligence.

Whatever you buy, due diligence is something which needs to be conducted at all points of the trade or investment. I monitor stocks on the basis of the “*Stop*” and “*Target*” price only. Stocks which are featured for a second, or third time (or more), may have new “*Stop*” and “*Target*” prices listed, but I am looking for broader moves (weeks to months). I don’t day trade my picks or micromanage on an intraday basis. I want to give trades room to reach their targets, micro-managing often knocks a position out just before it gets good. Setting your “Stops” and letting the market decide is the easiest way to take emotion out of the trade.

My personal holdings are never more than a few stocks. Even my Collective2 portfolio which uses a higher cost base than that which I have personally available to trade (not much money in science!), never has more than 8 stocks in it at any one time. But I have researched close to 3,000 stocks since I started my service. If the number of stocks are overwhelming you may prefer just to receive the trade signals from my Collective2 portfolio (a separate subscription) or just monitor the picks as they arise in my free service or blog.

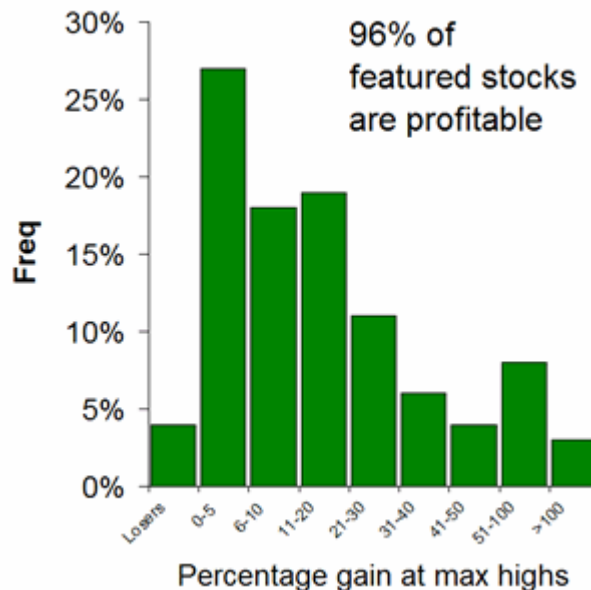
Performance parameters:

The stocks I list and their performance are based on a listed “**Stop**” and “**Target**” price. But what if you want to use your own target price? The next table outlines the performance of picks based on a fixed percentage return. The return is derived from the “**Buy**” price: eg. A stock listed as a “**Buy**” at \$5.00 using a 5% proposed gain, would be sold at \$5.25 **assuming a fill at the listed “Buy” price.**

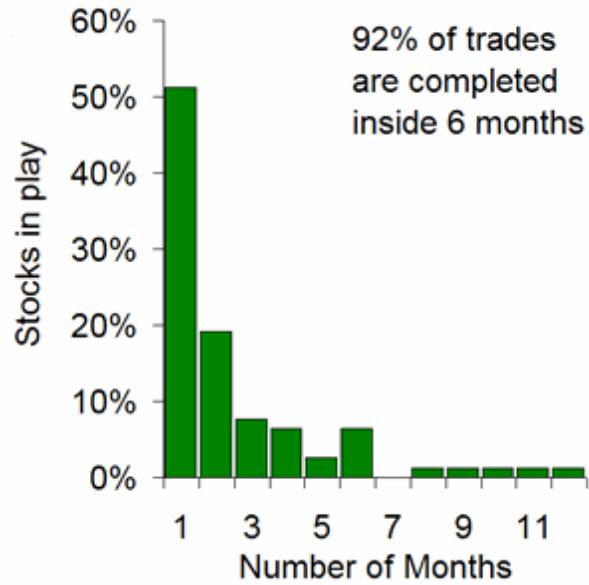
Proposed % gain	% Frequency	Net return per trade assuming a	
		5% risk	10% risk
5	68.7	0.94	0.15
10	50.9	1.32	0.09
20	31.9	1.49	-0.22
30	20.8	0.10	-1.88
50	10.2	-1.22	-3.46

A relatively high percentage (68%) climb at least 5%, the net return per trade assumes a stop price fixed at either 5% or 10% from the “**Buy**” and is independent of the “**Stop**” price I provide. The best returns were obtained using a 20% gain with a 5% stop loss; although one would need a relatively high risk tolerance given there was only a 32% win percentage.

Another way at looking at the performance of the newsletter picks is to look at the maximum gain made by a stock from the point of entry, i.e. the “**Buy**” price, and its exit price – either the “**Stop**” or “**Target**” price. Only 4% of stocks fail to make any profit from their listed “**Buy**” price.



Finally, the time frame for holding a stock is typically inside 6-months, with the vast bulk of trades closed by 3-months; although it must be added – winning trades are held longer than losing trades, but even with that, there should be room for two profitable cycles per year.



Moving further along the columns to rows “AH” on onwards, one will see a quick summary of the percentage return for each of the featured picks. Again, stocks highlighted in **green** are profitable trades and those in orange are losing trades. Columns “AL to AN” give the *Investors Business Daily* ranking for the stock. In column “AR” is the average **gain** or **loss** for winners and losers. The average of the two is given in **bold**, with the number of winning and losing stocks provided underneath. This is done for each month.

In the very first row you will see a percentage return highlighted in **green** or **red**. This figure is preceded by a number. The number represents the total number of winning and losing trades since the inception of my service. The percentage return which follows these figures is the average gain per trade for each of those winning and losing plays.

AH	AI	AJ	AK	AL	AM	AN	AO	AP	AQ	AR	AT	AU	AV	AX	AY	AZ
				IBD	IBD	IBD	Gain/Loss	Gain/Loss	Gain/Loss	0.286908078	Gain	412	19.74%	Loser	1024	-6.17%
10/13/06	BITS	KOF	WRLD	B-	B+	A-	17.93%	12.18%	-4.38%		17.93%	12.18%				
10/16/06	BSTE	ADM	TTI	C+	C	B+	-3.31%	-3.09%	-100.00%	C					-3.31%	-3.09%
10/17/06	HWL	GHPI	STEM	C	E	E	-2.66%	33.17%	-100.00%		33.17%				-2.66%	
10/18/06	ABX	IDT	GFI	B-	C-	D+	-2.69%	-100.00%	3.47%	D			3.47%		-2.69%	
10/19/06	PJC	TSYS	BPT	B+	C+	D+	-100.00%	-100.00%	-100.00%							
10/20/06	MTCT	ISIS	ADS	B	B-	A+	-7.29%	-7.01%	6.88%				6.88%			-7.01%
10/23/06	MVIS	OMCL	TPX	E	B+	B	-100.00%	-9.05%	-100.00%							-9.05%
10/24/06	BOH	WMT	HGA	B	A	B-	0.19%	-4.86%	-100.00%		0.19%					-4.86%
10/25/06	HWL	MSD	HUE	C	n/a	A+	-3.44%	-100.00%	-100.00%	2.80%					-3.44%	
10/27/06	BITS	CCBL	DSCM	B+	B-	D+	-0.76%	-8.45%	-7.81%	17					-0.76%	-8.45%
10/30/06	RDY	ERS	SFL	B+	C+	B	-100.00%	-100.00%	-100.00%	14						
10/31/06	ARJ	BIDU	BLK	A-	A	A+	-100.00%	-11.57%	-6.52%	45%						-11.57%
11/7/06	IGT	WMI	CKH	B+	B+	A+	-4.12%	-1.26%	-100.00%						-4.12%	-1.26%
11/8/06	VAS	KFI	PRGX	B+	B+	D+	-5.04%	-100.00%	-100.00%	38.08%					-5.04%	
11/9/06	CCK	IFF	XIPT	A	B+	C	-100.00%	-100.00%	-100.00%	-4.29%						
11/10/06	FMT	GROW	MGPI	D-	A+	B+	-100.00%	38.08%	-100.00%		38.08%					
11/13/06	KMA	SOV	PRFT	D	B-	A+	-2.44%	-100.00%	-4.09%	A					-2.44%	-4.09%
11/14/06	JOBS	APIS	LODT	B-	n/a	B+	-100.00%	-100.00%	-11.15%							-11.15%
11/15/06	MIIST	CUK	LENB	B	B	C-	-100.00%	-100.00%	-100.00%	B						
11/16/06	SVA	BPT	HELE	D+	C	B+	-5.42%	-100.00%	-5.13%						-5.42%	-5.13%
11/17/06	KOF	CSX	HVL	B+	B+	B	-0.85%	-4.27%	-100.00%	C					-0.85%	-4.27%
11/20/06	CGA	HSTC	TLEO	B	A+	B	-100.00%	-100.00%	-100.00%	0.76%						
11/21/06	IRS	REDF	TWTI	B	B-	C-	-100.00%	-100.00%	-100.00%	11						
11/22/06	ACTS	DE	JAS	C+	B+	C-	-100.00%	-100.00%	-100.00%	1						
11/23/06	ARRY	CMS	SHDA	B	A-	B+	-3.47%	-100.00%	-100.00%	8%					-3.47%	
12/1/06	CPB	CTSH	GFI	B-	A+	C+	-100.00%	-100.00%	-6.48%							-6.48%
12/4/06	ISLE	KWD	PKTR	B	B	A+	-100.00%	-100.00%	-100.00%	#DIV/0!						
12/5/06	CHOR	DLIA	TWW	B+	B	C	-6.91%	-100.00%	-100.00%	-6.70%					-6.91%	
12/6/06	EIX	MVIS	SOV	A-	E	B	-100.00%	-100.00%	-100.00%							
12/7/06	ILJI	OHIII	PLAB	C	C-	C+	-100.00%	-100.00%	-100.00%	A						
12/8/06	PRGX	ICOH	TMX	C+	A+	A	-100.00%	-100.00%	-100.00%							
12/11/06	C	TGA	PAIL	C	D+	D+	-100.00%	-100.00%	-100.00%	B						

Blog article: Stop placement

“If I am going to use the trailing stop for a certain trade. What percentage should I use? or there is another way of installing this feature? what is it?”

Placing stops is always a tricky subject. Much of it depends on the risk threshold of the individual, as it is the projected plan for the trade (short term hold, swing trade, long term/investment).

The bulk of my suggested trades fall into the intermediate/swing trade category; with failed plays often holding for less than a month (often weeks, or days); successful trades tend to close inside 6-months. I give a suggested initial stop price for stocks featured in my newsletter as illustrated in the table below (some of the most recent picks are available for free [here](#)):

Buy	Stop	Target	Support	Resistance	Risk:Reward	IBD
\$56.45	\$54.87	\$69.71	\$54.00	\$56.51	8.4	A+

In some cases, I will feature a stock more than once over this period. Stops are nearly always raised, and in some instances the target price is revised upward too. But what of the bulk of trades which fail to make the grade for a second (third, or fourth) time - how can one employ active stop protection?

When I was studying for my CMT level II exam, part of the course included the work of Phil Roth. Phil Roth talked about using ADX in conjunction with the Parabolic SAR. From what I can remember positions were entered when the parabolic SAR trigger was hit and ADX rose above 20. Positions were held in the direction of the trend as long as the $ADX > 20$; positions were exited on a cross of $+DI/-DI$, or if the parabolic SAR was hit when $ADX < 20$. This kept the position in a trending market, but exited it when the stock moved sideways. I keep ADX and parabolic SAR information on my charts, which can be viewed on my [public Stockchart list](#) (remember to 'Vote for the list!' at the bottom of the linked-page if you visit).

The chart for AAPL on the next page illustrates how this would work:



Another strategy is to use zig-zag retracement. This can be set at your desired risk threshold - but the more volatile the stock, the greater the chance for whipsaw on a retracement. In the below example I am using 8%, but you can GIGM provides a nail-biting ride at this broad range. So this strategy is not for everyone.



Another alternative would be to use slow stochastics to set stops. Again, there is flexibility to set the parameters one could use to define where stops are set. In the CRS example, I am using standard slow stochastics set at [14,3]. The aim is to place the stop at the reaction low associated with each 'buy' trigger in stochastics. A faster stochastic will mean a tighter stop - but it will also leave the trade more prone to whipsaw. I do include the slow stochastic setting [14,3] and a slower [39,1] on my charts, which people can use should they wish.



For investors, this system can work very well on a weekly chart, although it can be tricky picking out the 'buy' triggers when stochastics are overbought and deciding where the reaction lows are (I had to use the magnifying feature). Switching between a daily and weekly chart would help in this regard. The weekly chart for CRS illustrated this method nicely.



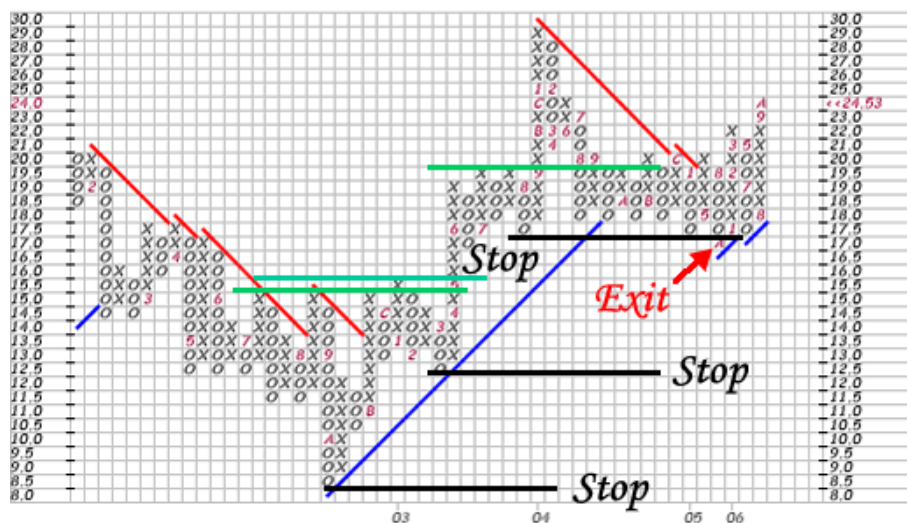
An alternative strategy is to set stops at the prior reaction low as the stock makes new reaction highs. I have used the weekly chart of Casual Male (CMRG) as an example. A series of white candlesticks is treated as a continuous move. A white candlestick followed by a red candlestick, which is above the previous white/red candlestick combo, is a new reaction high. Picking the prior reaction low can be tricky and hindsight made this easier to do than it would probably be in the heat of the moment (which is one reason weekly charts are better for this); for example - I could have placed "Low 3" around the \$7 mark, which in this instance, is a substantial percentage difference relative to where I had it at \$6. I am sure many will have different opinions as to where the reaction high/lows are in the example I have given - but it is just to show another method of setting stops.



Going back to my newsletter example; stops can be set 1% away from support, and if resistance is breached; 1% away from this.

Finally, the point-n-figure chart can provide very clean stop prices. Similar to using new reaction highs, one can trail a stop at each lowest price of a pattern breakout, or point-n-figure buy signal.

Cisco Systems, Inc. (CSCO) Nasdaq Global Select Mkt.
 13-Oct, 16:00 ET, daily, O: 24.40, H: 24.62, L: 24.36, C: 24.53, V: 35.4M, Chg: +0.08
P&F Pattern Double Top Breakout on 15-Sep-2006
 Traditional, 3 box reversal chart
 Bullish Price Obj. (Rev.): 32.5



Blog article: Low capital investing

There was an excellent piece written on [Move the Markets](#) (sourced from [Trader Mike](#)) on the risks of under capitalization and trading. Unfortunately, for many people who have day-to-day jobs (myself included), allocating large sums of money necessary to capitalize a trading account is simply impossible. Even for those individuals with money to fund trading accounts, capital restrictions in special accounts like ROTH/IRAs mean maximizing the benefits of these accounts requires special thought.

So how can one work the market with a small sum on money?

The following is a quick-and-dirty analysis on a couple of strategies available for low capital accounts. As [Move the Markets](#) highlighted, commissions are the biggest killer of small accounts. There are alternatives, such as zero commission brokerage firm [Zecco](#). But the consequence of this could be stripped down services(?) [I can't directly comment about the usability of Zecco]. Other alternatives include the dollar-cost-average services provided by [BUYandHOLD](#), [Sharebuilder](#), and more recently, [SogoInvest](#).

For the purposes of this article I am using examples of allocating **\$100**, **\$200**, **\$300** and **\$500** per month (or annual allocations of \$1,200, \$2,400, \$3,600 and \$6,000). The stock examples are taken from my [free service](#); the first pick for the first day of the respective months from November 1st 2005 to the end of October 31st 2006. Recommended stop and target prices provided are used, adjusted to account for dividends and splits as provided by Stockcharts.com historical data. I must add, the **spreadsheet calculations used are not perfect**, so allow for some wiggle room. Also, for the Ameritrade example I have rounded the shares bought to the nearest whole number, which adds an additional level of error.

First up we have the \$100 per month / \$1,200 capital allotment (Fig 1). Given the level of risk, the dollar-cost-average (DCA) return was disappointing at **+5.14%** compared to the returns if it had been left in the bank to earn 5.05% (using an HSBC e-savings account, **assuming the interest rate earned remained constant** for the year) with commissions (assuming a basic Sogoinvest account) accounting for **3.8%** of the return, but DCA did outperform saving using drip payments into a savings account (**+2.4%**). The regular Ameritrade account had a good year with a **+14.68%** return with commissions accounting for 7.11%.

Obviously, it helped having a good start with AAUK and had we started with a few more losers then the DCA account would have been hit harder because of the commission costs; compare the returns of the stop hits from DCA to that of the sample Ameritrade account: **-12.86%** vs **-7.70%**, **-9.94%** vs **-4.78%**, **-15.97%** vs **-11.05%**. Ouch!

Fig 1: \$100 monthly / \$1,200 annually

Stocks	Buy date	Stop	Open	DCA	Total	Invested	Profit/Loss
AAUK	Nov 1st	13.69	14.26	6.7927			
	Dec 1st		14.96	6.4883			
	Jan 1st		15.73	5.798			
	Feb 1st		16.58	5.2207			
	Mar 1st		17.36	5.4039			
	Apr 1st		18.26	5.039			
	May 1st		21.26	4.5626	39.305066		
	May 17th Exit		20.38		\$ 798.04	700	12.28%
MPW	June 1st	11.03	11.96	8.3048	8.3047945		
	June 14th Exit		11.03		\$ 88.60	100	-12.86%
REY	July 1st	29.65	31.01	3.1689	3.1688991		
	July 13th Exit		29.65		\$ 90.96	100	-9.94%
ALJ	Aug 1st	33.3	35.7	2.6796	2.679558		
	August 4th Exit		33.3		\$ 86.23	100	-15.97%
UTF	Sep 1st	21.61	22.92	4.3073			
	Oct 1st		23.13	4.3832	8.6904727		
	Oct 31st		23.49		\$ 201.14	200	0.57%
	\$3 commission		Total value		\$1,264.97	\$ 1,200.00	5.14%
	Total Commissions	\$ 48.00	Sogoinvest				3.79%
AAUK	Nov 1st		14.26	83	83		
	May 17th Exit		20.38		\$1,681.54	1200	28.64%
MPW	June 1st	11.03	11.96	143	143		
	June 14th Exit		11.03		\$1,567.29	1688	-7.70%
REY	July 1st	29.65	31.01	51	51		
	July 13th Exit		29.65		\$1,502.15	1574	-4.78%
ALJ	Aug 1st	33.3	35.7	41	41		
	August 4th Exit		33.3		\$1,355.30	1505	-11.05%
UTF	Sep 1st	21.61	22.92	60	60		
	Oct 31st		23.49		\$1,406.40	1366	2.87%
	\$10 commission		Total value		\$1,406.40	\$ 1,200.00	14.68%
	Total Commissions	\$ 100.00	Ameritrade				7.11%
Savings kept at an annual rate of 5.05% as offered by HSBC							
	Monthly contribution of \$100 per month				\$1,229.00	\$ 1,200.00	2.36%
	Start of the year contribution \$1200				\$2,528.29	\$ 1,200.00	52.54%

Doubling the amount invested to \$200 monthly or \$2,400 annually (Fig 2), sharply improved the DCA account as the higher base amount helped offset the commission costs from the losers. The **+7.14%** return was better than leaving the money sit in a high interest account and improved the return by **39%** over the \$100 monthly contribution.

Interestingly, the Ameritrade account didn't change too much, improving the return by only 14%.

Fig 2: \$200 monthly / \$2,400 annually

Stocks	Buy date	Stop	Open	DCA	Total	Invested	Profit/Loss
AAUK	Nov 1st	13.69	14.28	13.796			
	Dec 1st		14.96	13.177			
	Jan 1st		15.73	11.775			
	Feb 1st		16.58	10.603			
	Mar 1st		17.36	10.975			
	Apr 1st		18.26	10.234			
	May 1st		21.26	9.2662	79.825753		
	May 17th Exit		20.38		\$1,623.85	1400	13.79%
MPW	June 1st	11.03	11.53	16.866	16.866438		
	June 14th Exit		11.03		\$ 183.04	200	-9.27%
REY	July 1st	29.65	31.01	6.4358	6.4358053		
	July 13th Exit		29.65		\$ 187.82	200	-6.48%
ALJ	Aug 1st	33.3	35.7	5.442	5.441989		
	August 4th Exit		33.3		\$ 178.22	200	-12.22%
UTF	Sep 1st	21.61	22.42	8.7478			
	Oct 1st		22.13	8.9019	17.649723		
	Oct 31st		23.49		\$ 411.59	400	2.82%
	\$3 commission		Total value		\$2,584.52	\$ 2,400.00	7.14%
	Total Commissions	\$ 48.00	Sogoinvest				1.86%
AAUK	Nov 1st		14.28	167	167		
	May 17th Exit		20.38		\$3,393.46	2400	29.28%
MPW	June 1st	11.03	11.53	290	290		
	June 14th Exit		11.03		\$3,188.70	3401	-6.66%
REY	July 1st	29.65	31.01	103	103		
	July 13th Exit		29.65		\$3,043.95	3192	-4.86%
ALJ	Aug 1st	33.3	35.7	84	84		
	August 4th Exit		33.3		\$2,787.20	3072	-10.22%
UTF	Sep 1st	21.61	22.42	123	123		
	Oct 31st		23.49		\$2,886.27	2807	2.75%
	\$10 commission		Total value		\$2,886.27	\$ 2,400.00	16.85%
	Total Commissions	\$ 100.00	Ameritrade				3.46%
Savings kept at an annual rate of 5.05% as offered by HSBC							
	Monthly contribution of \$200 per month				\$2,459.00	\$ 2,400.00	2.40%
	Start of the year contribution \$2400				\$2,528.00	\$ 2,400.00	5.06%

Going to \$300 per month, or \$3,600 (Fig 3) annually didn't alter the picture too much. Given the 50% increase in contribution from \$200 per month the change in return for the

DCA was a measly **9.0%** and the regular account improved by **7%**. The slow down in the gain rate is attributed to the lower impact of commissions on the base returns; now amounting for less than 2.5%.

Fig 3: \$300 monthly / \$3,600 annually

Stocks	Buy date	Stop	Open	DCA	Total	Invested	Profit/Loss
AAUK	Nov 1st	13.69	14.29	20.798			
	Dec 1st		14.35	19.866			
	Jan 1st		16.73	17.753			
	Feb 1st		16.58	15.985			
	Mar 1st		17.95	16.546			
	Apr 1st		19.25	15.429			
	May 1st		21.26	13.97	120.34644		
	May 17th Exit		20.38		\$2,449.66	2100	14.27%
MPW	June 1st	11.03	11.69	25.428	25.428082		
	June 14th Exit		11.03		\$ 277.47	300	-8.12%
REY	July 1st	29.65	31.51	9.7027	9.7027115		
	July 13th Exit		29.65		\$ 284.69	300	-5.38%
ALJ	Aug 1st	33.3	36.2	8.2044	8.2044199		
	August 4th Exit		33.3		\$ 270.21	300	-11.03%
UTF	Sep 1st	21.61	22.52	13.188			
	Oct 1st		23.13	13.421	26.608973		
	Oct 31st		23.49		\$ 622.04	600	3.54%
	\$3 commission		Total value		\$3,904.07	\$ 3,600.00	7.79%
	Total Commissions	\$ 48.00	Sogoinvest				1.23%
AAUK	Nov 1st		14.29	251.4	251.40056		
	May 17th Exit		20.38		\$5,113.54	3600	29.60%
MPW	June 1st	11.03	11.69	436.95	436.94721		
	June 14th Exit		11.03		\$4,809.53	5113	-6.31%
REY	July 1st	29.65	31.51	156.8	156.79607		
	July 13th Exit		29.65		\$4,639.00	4809	-3.66%
ALJ	Aug 1st	33.3	36.2	127.87	127.87302		
	August 4th Exit		33.3		\$4,248.17	4639	-9.20%
UTF	Sep 1st	21.61	22.52	188.2	188.1959		
	Oct 31st		23.49		\$4,417.72	4248	3.84%
	\$10 commission		Total value		\$4,417.72	\$ 3,600.00	18.51%
	Total Commissions	\$ 100.00	Ameritrade				2.26%
Savings kept at an annual rate of 5.05% as offered by HSBC							
	Monthly contribution of \$300 per month				\$3,689.00	\$ 3,600.00	2.41%
	Start of the year contribution \$3600				\$3,792.00	\$ 3,600.00	5.06%

The final leap to \$500 per month, or \$6,000 annually (Fig 4) improved the DCA by **6.6%** and the Ameritrade account by **6.3%** over using \$300 per month, or \$3,600 annually.

Fig 3: \$500 monthly / \$6,000 annually

Stocks	Buy date	Stop	Open	DCA	Total	Invested	Profit/Loss
AAUK	Nov 1st	13.69	14.25	34.804			
	Dec 1st		14.25	33.244			
	Jan 1st		16.73	29.707			
	Feb 1st		16.52	26.749			
	Mar 1st		17.36	27.688			
	Apr 1st		19.25	25.818			
	May 1st		21.25	23.377	201.38781		
	May 17th Exit		20.38		\$4,101.28	3500	14.66%
MPW	June 1st	11.03	11.52	42.551	42.55137		
	June 14th Exit		11.03		\$ 466.34	500	-7.22%
REY	July 1st	29.65	31.53	16.237	16.236524		
	July 13th Exit		29.65		\$ 478.41	500	-4.51%
ALJ	Aug 1st	33.3	35.2	13.729	13.729282		
	August 4th Exit		33.3		\$ 454.19	500	-10.09%
UTF	Sep 1st	21.61	22.54	22.069			
	Oct 1st		23.13	22.458	44.527473		
	Oct 31st		23.49		\$1,042.95	1000	4.12%
	\$3 commission		Total value		\$6,543.17	\$ 6,000.00	8.30%
	Total Commissions	\$ 48.00	Sogoinvest				0.73%
AAUK	Nov 1st		14.25	419.47	419		
	May 17th Exit		20.38		\$8,529.22	6000	29.65%
MPW	June 1st	11.03	11.52	729.39	729		
	June 14th Exit		11.03		\$8,030.87	8529	-6.20%
REY	July 1st	29.65	31.53	262.03	262		
	July 13th Exit		29.65		\$7,758.30	8031	-3.51%
ALJ	Aug 1st	33.3	35.2	214.04	214		
	August 4th Exit		33.3		\$7,116.20	7758	-9.02%
UTF	Sep 1st	21.61	22.54	315.55	316		
	Oct 31st		23.49		\$7,419.84	7116	4.09%
	\$10 commission		Total value		\$7,419.84	\$ 6,000.00	19.14%
	Total Commissions	\$ 100.00	Ameritrade				1.35%
Savings kept at an annual rate of 5.05% as offered by HSBC							
	Monthly contribution of \$500 per month				\$6,148.00	\$ 6,000.00	2.41%
	Start of the year contribution \$6000				\$6,320.00	\$ 6,000.00	5.06%

Assuming the availability of high rate saving accounts and/or low risk yield plays it is

better to protect your capital in such instruments if you have around \$1000 available to work with. When commissions (depending on your brokerage company) account for 2% or less of your total capital you can consider investing in stocks. Compounding your returns through the use of a traditional trading account outguns the drip contribution method of dollar-cost-averaging, but leaves your outgoing capital exposed to early losses which become harder to recover from.

For those who work outside of the market for a living, dollar-cost-averaging is the way to go. You are less vulnerable to wipeouts and if you have a series of losing stocks your capital hit is less (but ensure you have a sufficient monthly contribution to offset the commission hit). This is only one example - one would need to repeat this using different stocks say if you were unfortunate to bank a series of losers.

The other point of the dollar-cost-average method which I have not accounted for is the benefit of buying more shares when the stock falls. Obviously, one would not want to buy a stock all the way down from \$\$s to pennies, but it would give you more leeway for stop placement - which could be looser than might otherwise have been used if all capital was allocated to a single trade; using support from a point-n-figure chart (the position of the lowest "O" relative to the time the initial dollar-cost-average purchase was made) would be a good place to look for a stop price in this regard. Alternatively, a 25% stop from the price used for the first purchase would give some leeway to acquire shares on the dip, but still limit the total capital loss given only small amounts of stock would have been purchased at the higher price. Why 25%? This tends to be the normal loss during a correction, anything beyond 25% suggests a more serious decline is to hand.

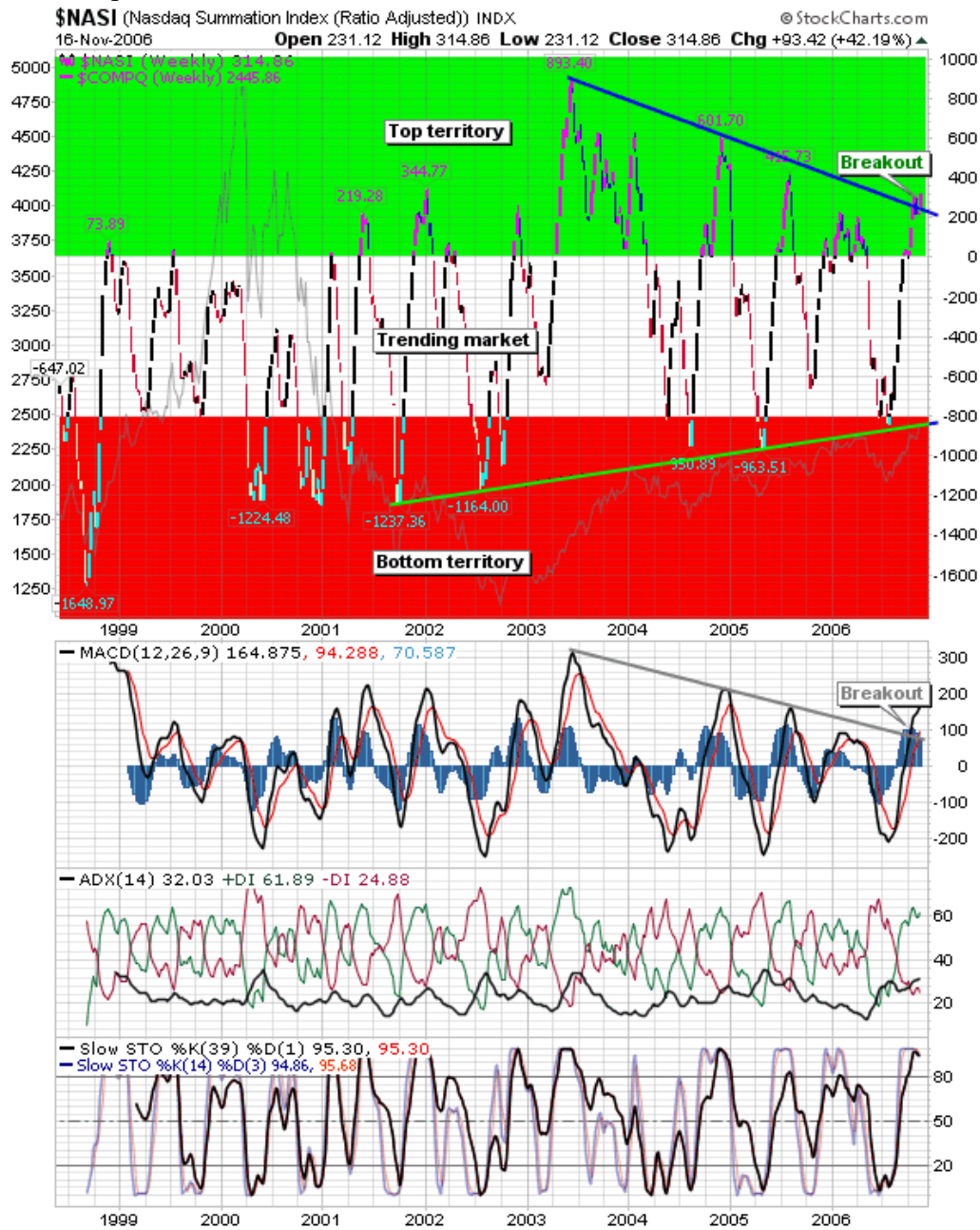
Blog article: Spotting Market Reversals

Finding the reversal points in the market is the \$64,000 question every trader and investor wants to know. But, more important is to know when to be aggressive, or when to be passive when calculating risk exposure to the market. Luckily, there are a number of tools available to help you identify the most likely point these reversals can occur and these can be found on my public Stockchart.com list.

I concentrate on Nasdaq market internals as the Nasdaq is more likely to lead an overall market reversal than using market internals of large cap indices. There are three Nasdaq internals I focus on: the Nasdaq Summation Index, the Nasdaq Bullish Percents, and the Number of Nasdaq Stocks above their 50-day MA.

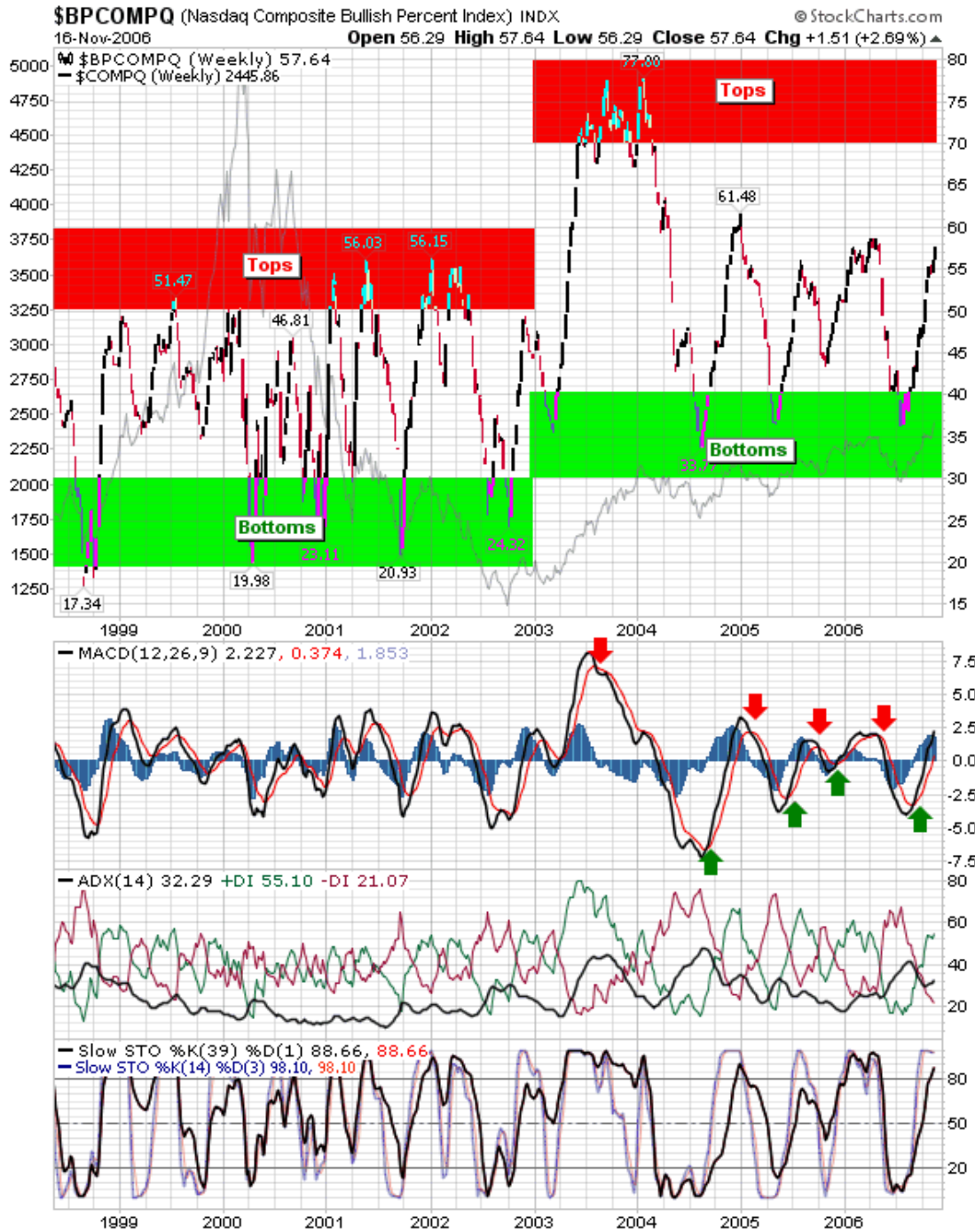
The Nasdaq Summation Index (Fig 1) is a great internal to mark reversals, particularly if a weekly time frame is used (I also use a 5-day EMA trigger line on a daily chart). It is not a perfect market internal as some will testify, but it is a valuable tool. At its simplest, tops occur when the internal reaches zero and above; bottoms occur when the internal reaches -800 and below. Between these extremes one should trade in the direction of the prevailing trend. The major weakness of the internal was made apparent back in 2000 when the Nasdaq Summation Index failed to climb to zero when the Nasdaq peaked at the rarified air of 5,000; whether one would have had the smarts to bail before then would have gone down to a mix of individual smarts and luck. One could include a caveat to sell on a loss of the most recent reaction low if waiting for the zero threshold was looking to risky. Divergences between the parent Nasdaq and the Summation Index are not uncommon and strengthen the case for a soon-to-be reversal; when the Nasdaq makes a higher high as the Summation Index makes a lower low – once the Summation Index breaks zero on the way down from such a sequence (assuming a bull market with the Summation index is well above zero) is usually when the Nasdaq takes a big step down.

Fig 1: Nasdaq Summation Index



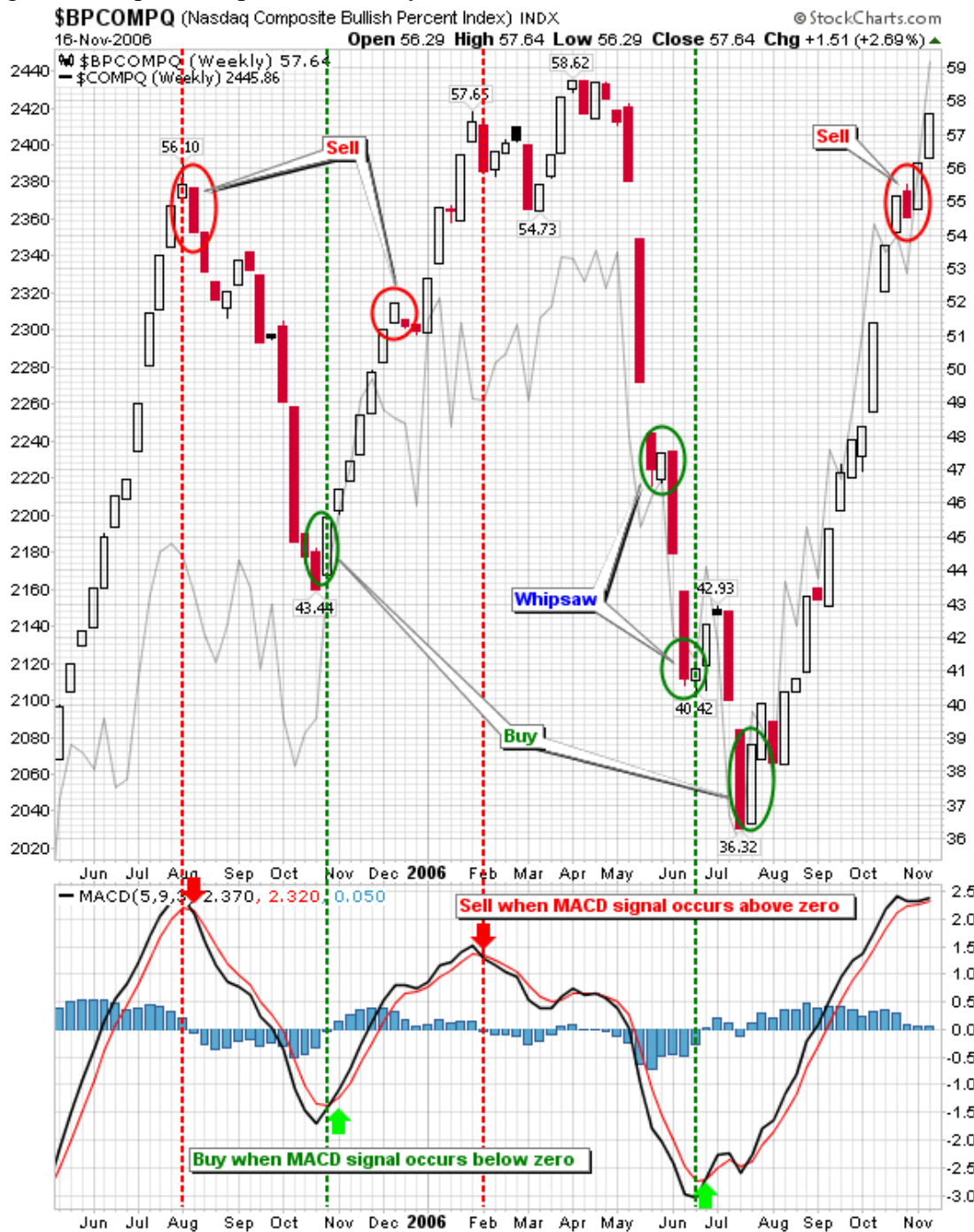
The next indicator I use is the Nasdaq Bullish percents (Fig 2). This indicator has had a mixed history; a whipsaw period from 2000 to 2002 has given way to a more “mellow” period of swings. Since 2002 there looks to have been a displacement of overbought/oversold zones; pre-2002, tops and bottoms came in the 50s and 20s respectively, post-2002, tops and bottoms now fall in the 30 and 70s range. Again, it is not a perfect indicator as reversals can occur before extremes are reached. The MACD may be used to confirm a signal, but its switch to a ‘buy’ or ‘sell’ lags the Nasdaq reversal, limiting its appeal. Changing the settings of the MACD to a tighter time frame [5,9,3] may help.

Fig 2: Nasdaq Bullish percents



The best way to prepare for reversals in the bullish percents is to look for a weekly change from up-to-down, or down-to-up, after a long period of gains or declines (Fig 3). Again, in May and June of 2006 this led to whipsaw signals, the most recent signal was given in October 2006 and was a 'sell'. Utilizing a faster MACD setting reduces the number of signals, taking out one of the whipsaw signals from May 2006 and the premature 'sell' signals in November 2005, not to mention the October 2006 signal.

Fig 3: Nasdaq Bullish percents weekly



The final market internal I use is the number of stocks over the 50-day MA (Fig 4). For the purposes of this article I am using the percentile range. Like any market internal it isn't perfect. Bottoms come in around 30% and below, tops occur at 60% and above. Where problems can occur was made apparent in early 2003; back then the indicator reached 60% relatively quickly while the Nasdaq lurked around 1,500, the market internal then whipped around in the 50 to 90 percentile range for the rest of the year as the Nasdaq climbed up to 2,100 – so clear signals were difficult to compute. One area it

can be helpful is in spotting divergences, such as the one which occurred in early 2006; will the current action around the 60 percentile lead to something similar?

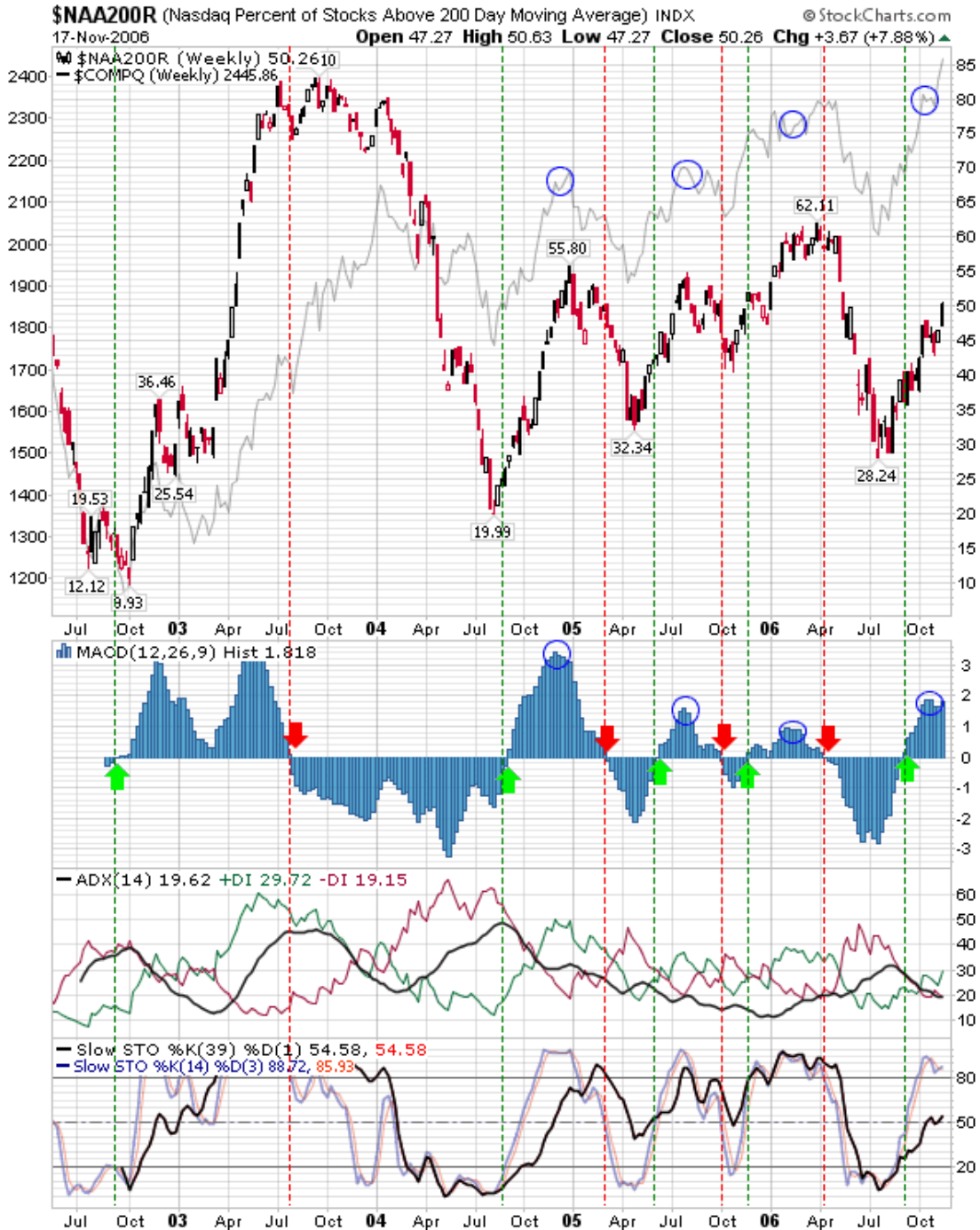
Fig 4: Number of stocks over the 50-day MA



An alternative market internal is the number of stocks above the 200-day MA (Fig 5). While it is more difficult to define the overbought/oversold range, it does hold up better to MACD histogram signals. The 'buy' signals hold up well, but a better 'sell' signal looks to occur once the histogram starts to rollover (the blue circles). But, 2003 was also

problematic for the market internal when the market peak came when the histogram made new lows!

Fig 5: Nasdaq Percent of Stocks above 200-day MA.



There are a number of other market internals which can be used, including the Nasdaq New Highs-New Lows (\$NAHL) and Nasdaq High-Low index (\$RHCOMPQ), but I find these internals too busy for my purposes.

When I summarize the information provided by these internals I present it as either a:



or



rating for the markets.

This rating can be found at the front page of my newsletter, or at the top of the page for my blog and website. I should add, I am not trying to call an absolute top or bottom for the markets as this is a pure crapshoot - and don't let anyone fool you otherwise (because every reversal needs technical confirmation, and these confirmations take time to complete). What I am looking for is the point in the trend when one should considering buying into weakness (Bull), or selling into strength (Bear).

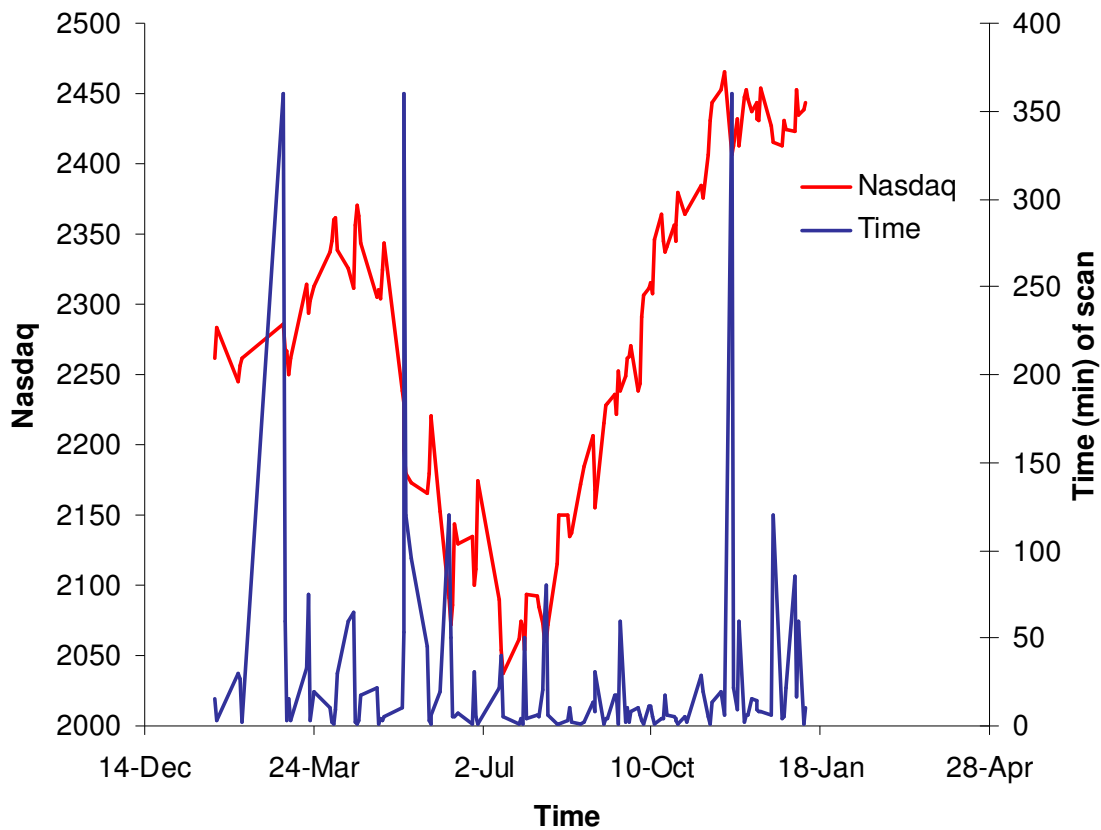
Blog article: Using the Real-Time counts from Trade Ideas

Instead of a list of stocks for today I am instead going to show you the previous years worth of data I have been collecting on the Trade Ideas scan real-time stock picker- using my "Base Scan" similar to the one available in the Trade Ideas widget in my right-hand margin of the blog. When I am looking at the market I am not just interested in the stocks which the scan suggests, but also the rate at which these stocks appear (an indication of the level of buying in the market). I use a sample size of 8 different stocks - for no other reason than that is this was the size I could fit 8 charts on my monitor without have to scroll :), but any number (preferably over 5 stocks) should suffice.

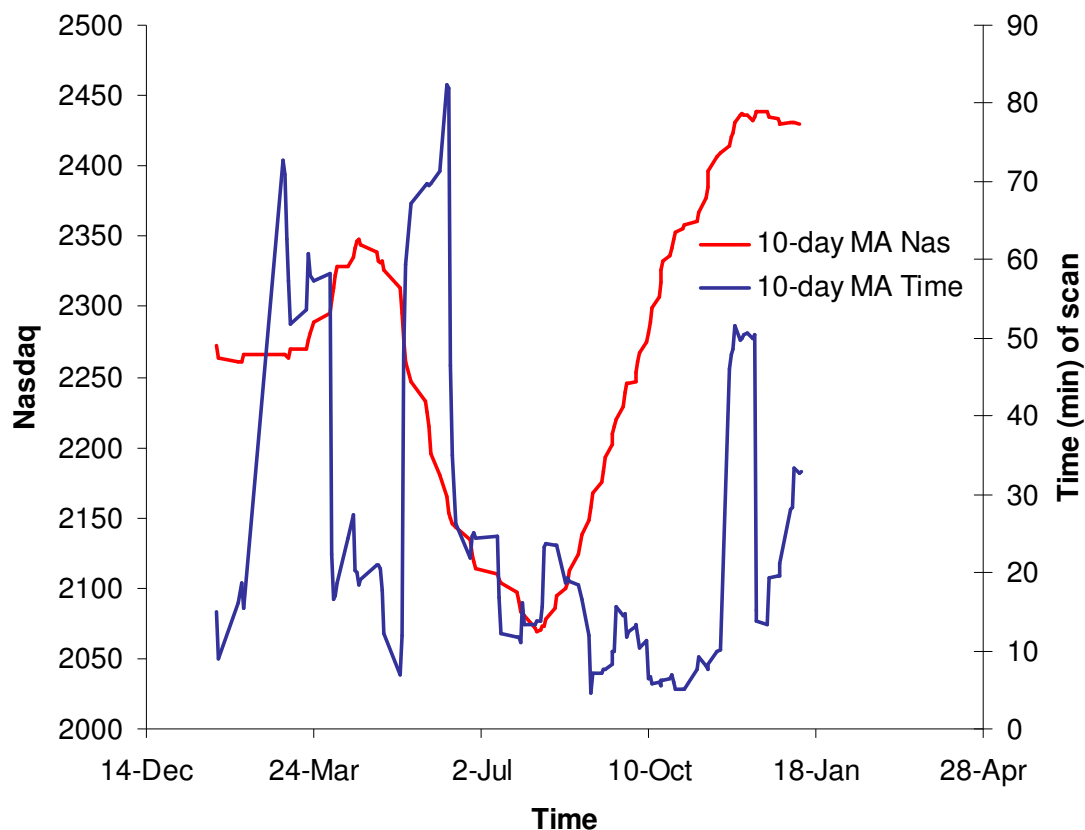
For the record, to get 8 different picks for Tuesday would have required 10 minutes.

I also took the closing value for the Nasdaq on those dates readings were taken and plotted that alongside the time required for the scan took to select 8 different stocks. When I talk of a top or bottom in the Nasdaq I am referring to this data and not the Nasdaq as a whole.

The first chart is the raw data and it is clear it is a little ragged. You will notice there are three spike days when it took the software the entire day to come up with 8 different stocks. When the market was moving upwards from July 14th to November 22nd, the scan bumped along to the extent that 72% of the 8 picks were selected in <10 minutes or under, with only 5% of those 8 picks requiring an hour or more (n=57 days). The average time to pick 8 stocks for this period was 11 minutes. Looking at the rate of buying from the market high on April 19th to the low of July 14th, the percentage of stocks selected in 10 minutes or under fell to 55% and 8 picks requiring an hour or more rose to 14%. The average time for this period was 36 minutes (n=29).



The second chart shows a 10-day MA for both the market and the time taken by the Trade Ideas scan to pick 8 stocks. Whether there is anything to this or not, but it was interesting to see a significant slow down in the rate of buying during February and March 2006 before the market peaked in April. This was followed by another slow down as the market declined during the late spring and early summer (no surprise there). The next slow down occurred in December 2006 - which may be nothing more than a reflection of holiday trading, but there is another more worrying spike taking shape in January 2007 which could spell trouble.



One other interesting aspect to the data was the period of June 14th to July 14th 2006. The Nasdaq continued to decline as traders fished for a bottom, but the Trade Ideas scan had started to show signs of life; for this period, 70% of the 8 stocks were selected in 10 minutes or under, and at no time did the 8 stocks require more than an hour (the slowest day was 40 minutes). The average time for this period was 12.2 minutes (n=10). So the Trade Ideas scan may give an inkling of a bottom based on the rate of individual stock buying in real-time, before the market actually completes its bottom - although the sample size in this case was small.

But hindsight is easy. How can we use this data in real time? I then looked at the performance of the scan between each of the all-day spikes of non-buying on the chart. The advantage of this analysis is one can start or finish the analysis based on the day the an all-day spike emerges, which in itself gives some inkling as to a shift from accumulation to distribution. Unfortunately, spikes don't emerge during bottoms to the same degree as (given the nature of the bottom) the market shifts to buying over selling.

So - when did these spikes emerge?

March 6th 2006

May 17th 2006

November 27th 2006

For the period of the March to the May spike (excluding the spike day) the Nasdaq traded flat: moving from 2,294 to 2,310. The percentage of stocks picked in 10 minutes or under was 58% and those requiring an hour or more came in at 15%. The average time to select 8 stocks for this period was 19.6 minutes (n=26).

For the period of the May to November spike the Nasdaq traded from 2,180 to 2,466 - but not before it took a dive to 2,037 in the process. The percentage of 8 stocks picked in 10 minutes or under was 67% and the percentage requiring an hour or more was 8%. The average time to pick 8 stocks was 15.9 minutes (n=76).

As we have yet to see a spike to contain the data from November I shall present the data to date: The Nasdaq has traded flat for the current period: moving from 2,413 in November to 2,443 today. The percentage of 8 stocks picked in 10 minutes or under was 57% and those needing an hour or more came in at 19%. The average time for this period is 23.3 minutes (n=21).

Based on the most recent data it would appear the *next* spike (which occurred in the previous 3 instances on a 2.4%, 1.7% and a 0.7% loss in the Nasdaq) could foreshadow the timing of next major correction (after the May spike the Nasdaq shed another 8%). When the market starts looking receptive to some accumulation will show up with some steady buying in the Trade Ideas scan as the Nasdaq works itself through its bottom. This buying will maintain itself up to the next spike which will mark the start of the next phase of distribution.

Based on the data from November 22nd, we are in a distribution phase. Although we have yet to see a binding spike to 'seal' the data. The other (big) caveat is this is all derived from two data blocks - whether this reflects a true pattern will be dependent on future data.

Stay tuned to my blog - I will publish the day I see one of these spikes occurs and take it from there. The best way to do this is to subscribe to my feed.