

AIQ

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Feature

"Yes Virginia, I am a trader!"
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PUTTING IT ALL TOGETHER

BROKER'S "BEST OF ALL WORLDS" TRADING APPROACH

By Grace Barbor
Opening Bell Editor

In this new Opening Bell feature, top traders explain how they use AIQ.

Professional trader Robert J. Shull's trading approach incorporates "the best of all worlds." He picks stocks from fundamental lists that are outperforming the market, and uses technical indicators to get in and out of these fundamentally strong stocks.

Shull's No. 1 source of trading ideas comes from an approach he has developed using the group analysis capabilities of TradingExpert. He forms groups of fundamentally-recommended stocks from newsletters, model portfolios, and analysts' recommendations. He compares these groups on the AIQ Ticker Plots, monitoring their performance to determine which lists are performing best. He then takes additions

that are made to the top performing lists and forms a group of stocks to technically monitor. In addition to following an analyst's additions to a list, Shull takes note of withdrawals. If he has a position in a stock that is withdrawn, he monitors it technically for exiting.

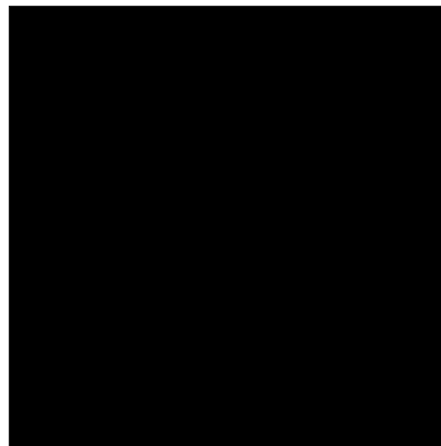
This approach, Shull says, has been very effective. "I am incorporating the best

of fundamental research with AIQ technical timing and the results are very successful."

As a broker, Shull has access to many newsletters and model portfolios, as well as Prudential's internal fundamental research. He says the individual investor can use this process to follow lists from favorite analysts or newsletters (which

can be found in most libraries). Shull finds Prudential's Single Best Idea List to be one of his primary sources of investment ideas.

Although he follows the Investor's Business Daily industry groups, he says he has the greatest success from groups he



ROBERT J. SHULL
PRUDENTIAL SECURITIES, SANTA BARBARA, CA

has generated himself. He uses groups in a variety of ways. For instance, he gathers stocks from his data base that receive high Expert Ratings (he checks the Weighted Action List Daily) and groups them by type — such as growth or value type stocks — then compares these groups on Ticker Plots to get a feel as to whether the market is moving toward growth, or toward value.

Shull also builds a number of Tag Lists to monitor daily. For example, he forms a list of stocks that are receiving multiple high Expert Ratings but are not yet confirmed by the technical indicators. (He finds that stocks with a number of high Expert Ratings are stocks that really move.)

Shull, who closely watches volume, uses a software program called Volscans that interfaces with AIQ. This software scans the AIQ data base and looks for up or down volume spikes and heavy up or down volume trends and creates a Tag List for TradingExpert. The Tag List is used to find stocks with increasing price and increasing volume with strong technical indicators for long positions, or stocks with decreasing price and increasing volume with weakening indicators for possible short positions.

He also gets investment ideas each day from *Investor's Business Daily's* Companies In A Leading Industry, adding to his data base the top-rated stocks that have adequate volume.

He believes that for TradingExpert to perform best, it's important to have a clean data base. "I have several data bases, continually moving stocks that are getting low on volume, or that have an excessive spread between bid and ask, out of my active trading data base into one of the others. Such stocks in the data base will create inaccurate ratings in your reports." Shull employs as interns students from UCSB to help him keep his data base clean. He has 1500 stocks in his trading data base.

From his groups of fundamentally strong stocks, Shull uses 10 key technical indicators to confirm Expert Rating signals and time his entries. Not all of

Shull: Places high in National Investment Challenge

Robert J. Shull, vice president and portfolio manager with Prudential Securities in Santa Barbara, CA, ranked 14th out of 250 brokers and portfolio managers in the Professional Division of the National Investment Challenge for the 90-day period of February 1 through April 30, 1994. His performance for the quarter was +7.1%, an annualized rate of +31.57%. The Dow during this quarter was -7.45%, an annualized rate of -32.1%. Shull stayed fully invested during the contest, and stays mostly invested as a portfolio manager. When the market is weak, such as the quarter during the contest, Shull uses very tight stops.

Shull has used technical analysis to trade the market for 38 years, and has used AIQ for the past five years. A professional trader since 1986, Shull has many clients who, on his recommendation, use AIQ TradingExpert. Shull leads the AIQ User Group in Santa Barbara and conducts all-day seminars for clients on trading with AIQ so that they can have a better understanding of his trading methods.

Many of the accounts he manages (his accounts include companies and profit-sharing plans as well as individuals) are on a wrap fee basis — the client pays a fee and individual commissions are not charged. The benefit of this type of account, says Shull, is that the client is not hesitant about getting in and out of positions, and tighter stops can be used. Shull believes that "if investors were not so concerned about commission costs and used tighter stops, they would get better overall performance."

Throughout the years, Shull purchased most of the technical trading packages, but has found that AIQ suits his trading style best. He runs TradingExpert on a Pentium 586 laptop with 40 MB RAM and a 540 MB hard drive. He believes that the new high-performance portables are ideal for investment software such as TradingExpert.

Robert Shull can be contacted by calling 800-326-3686.

the 10 indicators have to be on the right side, Shull says, "but I like to see confirmation from a majority of them." To exit positions, he uses trendline stops and percentage stops, and will also exit on technical weakness or nonconfirming volume.

The indicators Shull uses are:

- MACDI crossing to the upside for a buy or to the downside for an exit. "On a short-term trade, I will even accept the green line moving up."
- Directional Movement (DirMov) positive to enter or negative to exit.
- A good Money Flow pattern.
- Volume Accumulation (VApct) showing strength or weakness.
- A strong Positive Volume (P-Vol).
- Two favorite indicators are the Trading Channel Index (TCI) and Split Volume Moving Average

(SVMA). He likes to see a "good spurt up" in the TCI for an entry and vice versa for an exit. And he likes to see the SVMA in a 45-degree upward movement for entries — the longer the duration the more comfortable he feels.

- Shull watches for nonconfirmation of price action by Volume, Accumulation/Distribution (Acm/Dis), and On Balance Volume (OBV). "For a buy, I like to find the OBV and Acm/Dis lines in a strong up pattern while price is staying steady or still decreasing. These are strong indicators to me."
- The 21-Day Stochastic is another important indicator. He uses it in the classic way of catching stocks when the stochastic rises above the 20% line, and exiting when the stochastic falls below the 80% line.

AIQ TRADERS SHARE THEIR TECHNIQUES *continued . . .*

Shull also pays attention to the Trading Bands – watching for a stock whose price range breaks out of either the top band (to sell) or bottom band (to buy).

When he makes a decision to buy or sell a stock, Shull trades intraday, using TradingExpert's Data Maintenance function. He manually enters the current price activity and factors in a volume figure (e.g., if into the market 3 hours and 15 minutes, he increases the volume 200%, or if into the market 1 and 1/2 hours, he increases the volume 433%). He then can look at the current day stock chart for an entry or exit. (As a broker, Shull has price and volume data instantly available. The individual investor can use Selected Ticker to update intraday and adjust the volume.)

"If I am looking for confirmation – for an upturn on MACDI or the Stochastic to cross the 20% line – I spot it happening during the active market and do not have to wait for the evening update for confirmation. I find entry and exit confirmation during the active market to be very effective. When you start to get movement in a stock, sometimes just a half point or an additional few thousand shares of volume is enough to give confirmation. And I can make my trade without having to wait for an end of day update when the price may not be as attractive."

Following are several trades made this year by Shull, with his comments on entries and exits.

(CB) Chubb Corp. (Figure 1)

I entered Chubb on March 28 at an intraday price of 70 7/8. There was a 95 up Expert Rating on March 25. You can see that Acn/Dis was not confirming the downward price movement. (OBV, not shown, was also nonconfirming.) VApct had turned positive, and I liked the SVMA going up at a 45-degree incline. Stochastic moved above the 20% line – that's when I took my position. I exited Chubb at 82 5/8 on June 1. There was a 96 down ER on Chubb (May 31), which caught my eye. TCI and SVMA turned down, and the Stochastic dropped below the 80% line. The Stochastic is one of my favorite exit indicators.

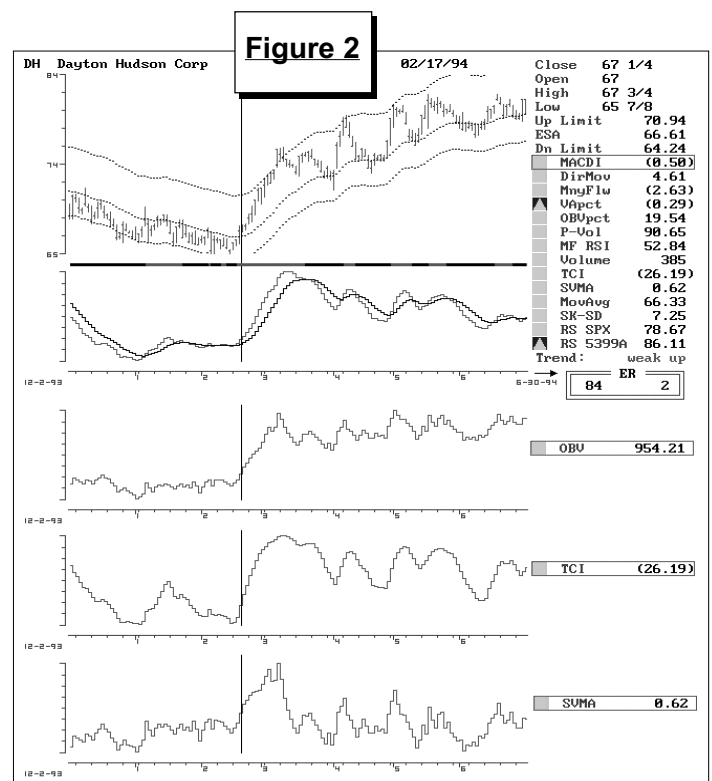
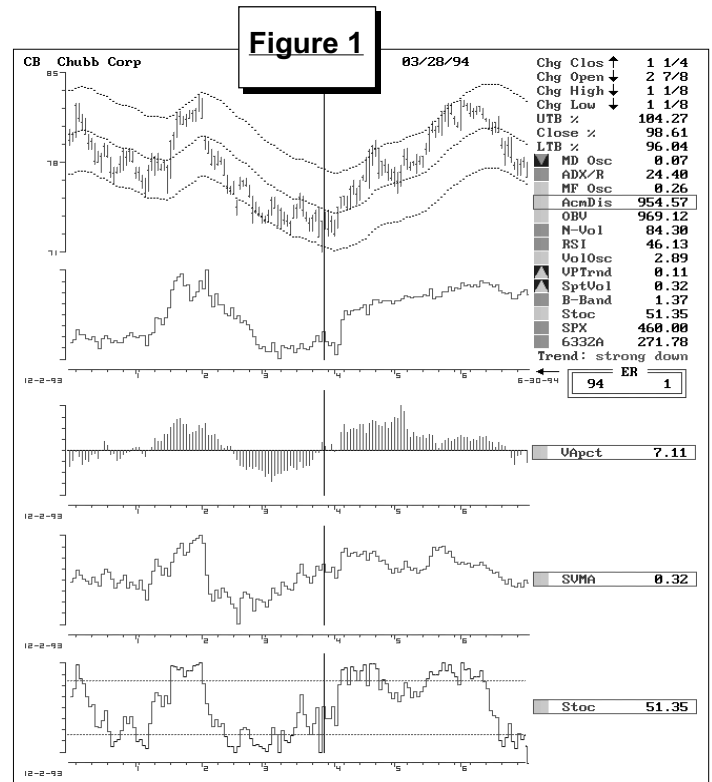
Note: I consider down Expert Ratings warnings, but I don't get out on them. In addition to trendline breaks and percentage stops, I monitor my groups of analysts' recommendations. For example, if Prudential removes a stock from the SBI List, it means the fundamentals are going down. My advice is that when you follow an analyst or newsletter writer, and a stock comes off a list, put it on a Watch List and start monitoring it closely. When the indicators also start to go down, that's the time to exit.

(DH) Dayton Hudson Corp. (Figure 2)

This was a stock I traded in the National Investment Challenge. I purchased DH on February 17 at an intraday price of 66 1/4, after the ER buy rating of 97 (on February 3). The barometer was totally green. MACDI crossed up. OBV was up as well as TCI and SVMA. I especially like a steeply increasing TCI. In addition (not shown), it was the first day

that DirMov turned up, Money Flow was looking real good, P-Vol was coming up, and the Stochastic had crossed the 20% line. I sold Dayton Hudson on May 25 at 79 7/8. There was a heavy downside ER (97 on May 9) and I started to closely monitor the stock. I exited the day the green crossed

AIQ Users Share Their Techniques *continued on page 4*



the white on the MACDI. TCI and SVMA had turned down, and the Stochastic had just moved below the 80% line.

(UJB) UJB Financial (Figure 3)

I bought UJB on January 6 at an intraday 24 1/4. The stock had two high Expert Ratings – 98 up on December 23 and 99 up on December 28. A lot of my indicators were on the right side. Money Flow was swinging up. Notice the nonconfirming OBV (Acm/Dis, not shown, also is nonconfirming) – these nonconfirmations turned me on to UJB. I particularly liked the incline of TCI and SVMA. In addition (not shown), DirMov turned positive and the Stochastic bounced up above the 20% line. I exited UJB on March 28 at 27 1/2. On that day, the DirMov dropped to the zero line, VApct turned negative, TCI had turned down for a couple of days, SVMA had turned down, and the Stochastic fell below the 80% band.

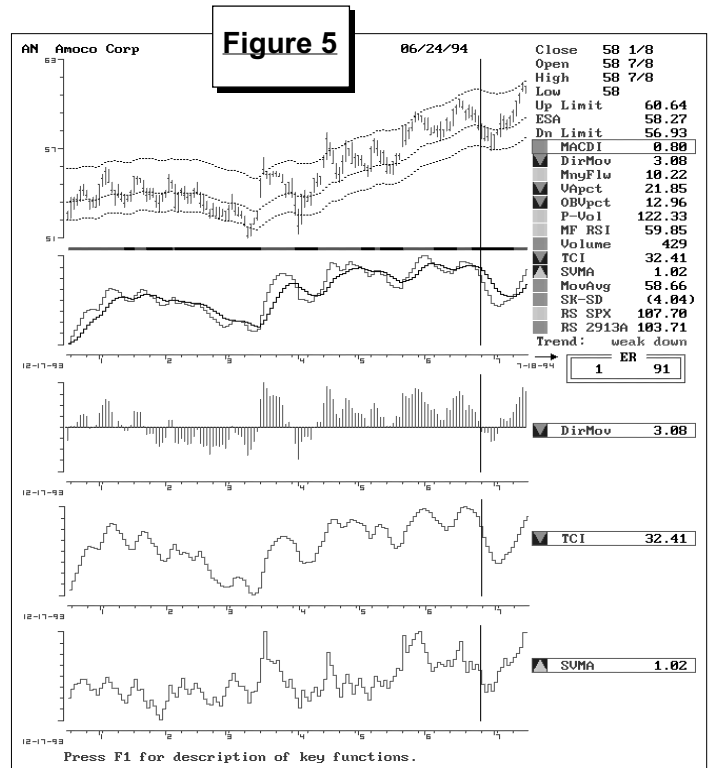
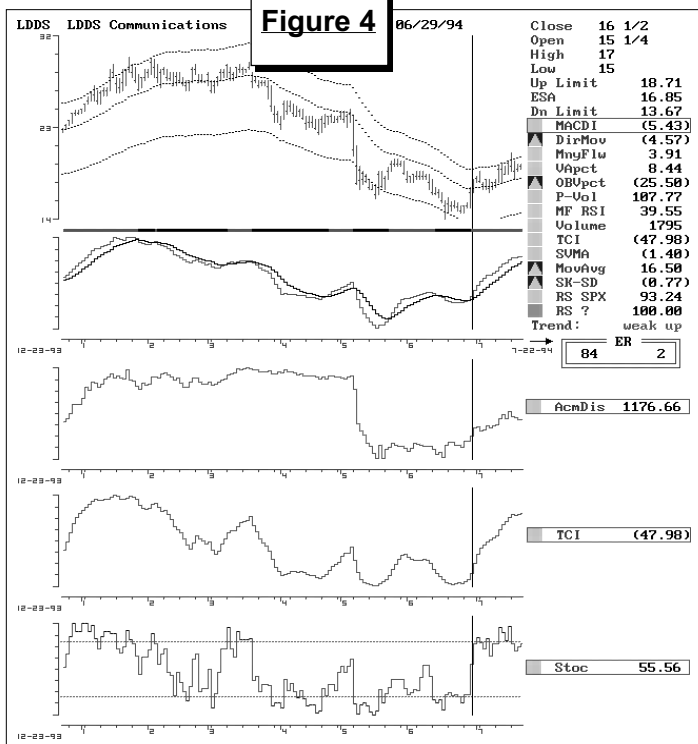
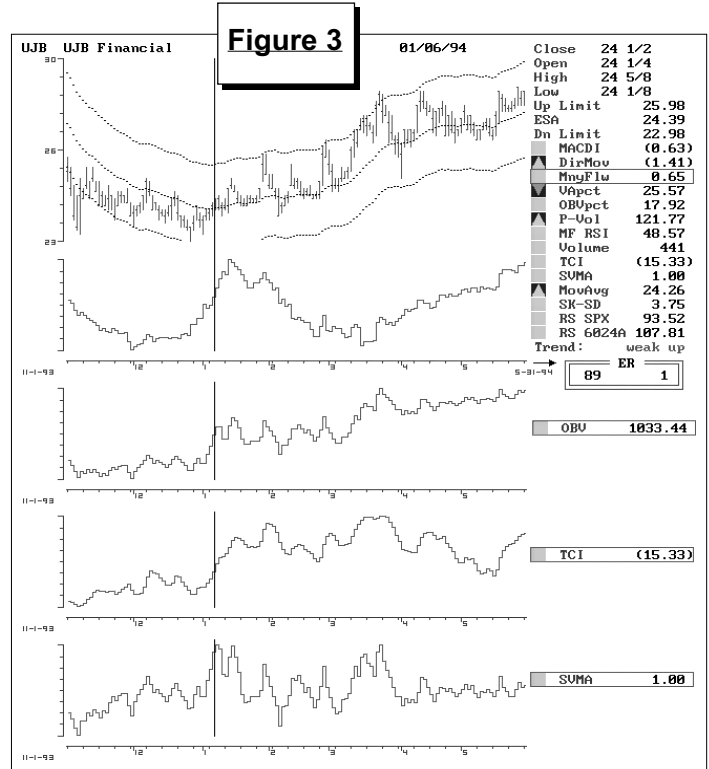
(LDDS) LDDS Communications (Figure 4)

LDDS is one of my recent buys – I'm still long in it (at this writing July 22). I read an article about LDDS, and it had two high ER's, 100 on June 16 and 98 on June 21. I purchased LDDS intraday at 15 3/8 on June 29. MACDI was crossing that day, Acm/Dis was showing a nonconfirmation, and TCI was beginning to move. Important, the Stochastic crossed above the 20% line. In addition (not shown), VApct had turned positive and SVMA was moving up.

(AN) Amoco Corp. (Figure 5)

(Amoco figure shows the exit date.) The oil sector was showing strength, and I wanted to pick a position for some of my clients. My entry was on April 11, following a 99 up on April 5. I entered intraday at 54. MACDI crossed up,

DirMov turned positive, VApct and OBV both became positive for the first time, TCI looked good, and the Stochastic rose above the 20% line. I exited Amoco at 58 on June 24. (Wish I was still in it.) But (see Figure 5) MACDI had crossed down, DirMov was heading down, and TCI and SVMA were turning down. Also (not shown), Money Flow was turning down and the Stochastic fell below 80% band. ■



GROUP/SECTOR ANALYSIS

MULTIPLE GROUP STRUCTURES

We learn a lot about the needs of AIQ users at our seminars, and one of the things that we have found is that many people would like to be able to use multiple group structures. For example, some people want to use a modified Investor's Business Daily structure for bottom-up investing and the AIQ Pyramid for top-down investing. Others may want to use one of the industry group structures that comes with the program, but they also want to create surrogate mutual fund groups.

If you would like to use multiple group structures but are not sure how it is done, you will be happy to learn that it is easily possible to use more than one group structure with the same stock data base. However, organizing and running groups this way does require a good knowledge of the AIQ software and DOS. If you are computer proficient and are interested in multiple structures, read on.

The easiest way to maintain two group structures is to install both structures in one group directory. When you run the group report, all the industry groups will appear together. Some of the stocks will be in two sets of groups but that's OK. The problem with this method is that the group report gets very long and it's hard to distinguish which industry groups belong to which structure.

A better method is to install the group structures under different subdirectories. The default industry group path is \TES\GRPDATA. Even though you install the second group structure in a different directory, both group structures can be updated from your stock data base and you can get a separate group report for each structure simply by switching the active group data path.

A function of the TradingExpert program that you may be unfamiliar with is System Parameters, which is

found on the Control Parameters submenu. One of the items on the System Parameters screen is the Group/Sector Data Path which likely points to \TES\GRPDATA. This data path specifies where your industry group files are stored.

Let's say that you have installed the modified Investor's Business Daily structure and you now want to install a second group structure. The first step is to make a new directory for your new group files. In System Parameters, change the group data path to the path name for the new group files, such as \TES\GRPTWO. A message will appear saying this path does not exist, do you want to create this path? Answer **yes**. Once this is done, the GRPTWO directory is active.

If you want to create your own groups, you can move to Group/Sector List under File Maintenance and begin forming the groups. If you want to install a second structure, such as the AIQ Pyramid, make sure the group data path points to \TES\GRPTWO (that is where the files will be placed), exit to DOS, and use the Pyramid installation guide.

If you are installing the S&P 500 or Investor's Business Daily groups, insert TradingExpert's program disk #1 and type A:install. Choose *Selected File Installation*, then *Install Selected Data Files*, then *Install Group Files Only*. Choose the desired industry group structure and exit the installation. Move to Compute Group/Sector Indices under File Maintenance and compute the new groups.

Once you have installed multiple groups, you will become very familiar with the System Parameters screen. You will use this screen each time you change the active group/sector path (in our example you would be switching between \TES\GRPDATA and \TES\TWO).

When the market closes and the

price data is updated, you will need to compute one group structure, change the data path to the second group structure, and compute the second set of industry groups. When the Group/Sector Report is run, it will use the groups that are active under the System Parameters screen. To get the report for the second structure, change the group/sector data path and re-run the report.

The only disadvantage of having two structures comes when you use AIQ's Browse feature. When a stock is displayed on the Ticker Plot screen, pressing the "*" key moves you up the pyramid to the stock's industry group. However, you must first identify which of your industry group structures that you want to use for this one aspect of the Browse feature. (The "/" key, which moves you down the pyramid, will work for both structures.) First choose which structure you want to use for this purpose (i.e., the groups you will move up to when the "*" key is pressed) and make that structure your active path in System Parameters. Next, select the Set RS Indicators function under File Maintenance. Enter the Master Group/Sector symbol for the structure you have chosen and answer **yes** to all the questions. The browse feature will work as long as the proper group structure is active. ■

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STOCK ANALYSIS

YES VIRGINIA, I AM A TRADER!

By David Vomund

DAVID VOMUND

Different markets environments favor different trading methods. Long time readers of the *Opening Bell* know that I typically combine fundamental and technical analysis to pick small company growth stocks which I hold on average for four to six months. In our current market environment, this hasn't been the strategy of choice. Consider some of the price action - Cheyenne Software is off 67% from its highs, Cisco System has fallen 51%, and Claires Stores is off 50%. Those are only the stocks that start with the letter "C". The market environment has changed and so has my style of picking portfolio selections.

The October 1993 through January 1994 issues of the *Opening Bell* detail my growth stock investing strategy. Because I have confidence in this strategy, it is still being used for part of my stock selections. Recent selections are Omnicom (OMC) and Clear Channel Communications (CCU) which may be detailed in a future *Opening Bell*. Using a mechanical 15% stop-loss and an 85% profit protect, my average stock position selected with this strategy has lost 1.4% this year. This is acceptable considering the weakness of the market but it's not making any money. Until conditions change, my technician's hat is on and I'm becoming a trader. Part of my portfolio holds longer term investments but I will also use shorter term trading positions to take advantage of market volatility.

As a short term trader, shorting is just as acceptable as going long a stock.

In a trading market, shorting stocks while maintaining other long positions reduces portfolio risk by adding diversification. Briefly, short sales are accomplished by borrowing stock certificates for use in the initial trade, then repaying the loan with certificates obtained in a later trade. Obviously, you want the share price to fall during this time period.

Let's look at two examples of stocks that were established for a short

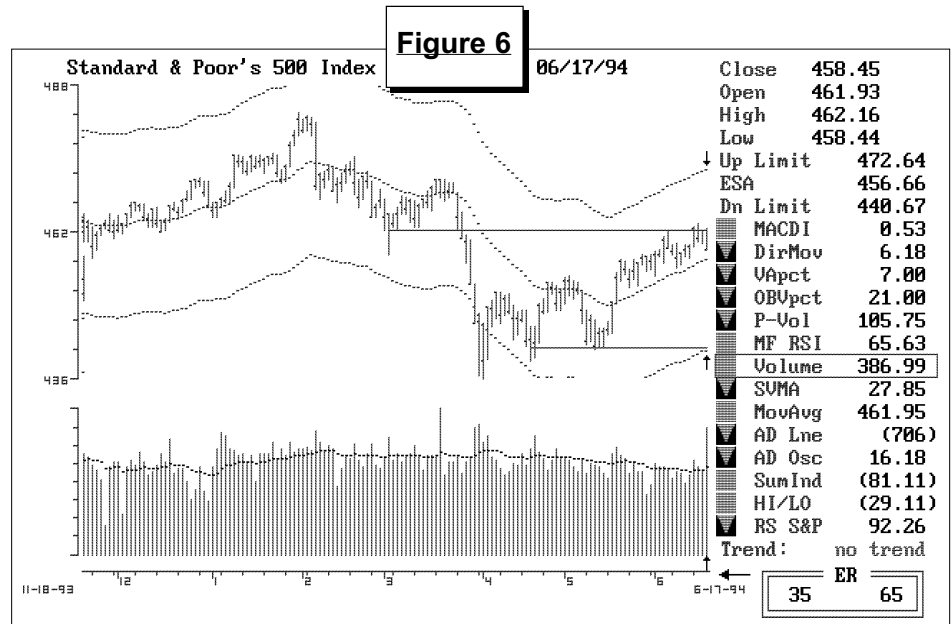
signal at that time but there was reason to be cautious. **Figure 6** shows the S&P 500, which was right at a horizontal resistance trendline drawn from the early March lows (as of this writing, this resistance trendline is still valid).

On June 17, the market had an outside reversal day (discussed in the June 1994 *Opening Bell*). Adding a short position to my portfolio which had only long positions worked as protection from a possible downward move. I chose to short AGE as seen in **Figure 7**. AGE appeared on my Weighted Action List and the brokerage industry group was also showing weakness. Of the brokerage stocks, AGE showed the most distribution. Notice AGE on June 17 was higher than its June 9 low but both Money Flow and On Balance Volume were below their June 9 lows.

Money Flow was so weak that it was almost in new low ground. The downside target for AGE was the lows seen in mid April and early May. AGE was closed out two weeks later for a 4% profit.

"Part of my portfolio holds longer term investments but I will also use shorter term trading positions to take advantage of market volatility."

term trade. Both stocks are short positions but the same type of analysis holds true for the long side. The first example is a short position in A.G. Edwards (AGE) on June 17. AIQ's market timing model was still on a buy



STOCK ANALYSIS *continued* . . .

The second example is Raytheon Company (RTN) as seen in **Figure 8**. Fidelity's Defense & Aerospace surrogate group was near the top of the Daily Group Report for several weeks. In mid-June, it fell fast in the ranking. RTN gave a sell signal on June 24 and was showing extreme distribution. Notice the stock was well off its early May lows and both Money Flow and On Balance Volume were below their May lows. This position was held for about two weeks and a small loss was seen partially due to a terrible fill from the order. Short positions can not be entered on a down tick and this stock unfortunately gaped down on the next day's opening and then moved higher.

I'm most comfortable investing in growth stocks that are held for several months, but when market conditions change, my strategy also changes. Unfortunately, I gave back my gains from the second half of 1993 before becoming convinced that it's a trading market. We'll see a friendly market environment again, probably when the average investor decides equity investing is not for him. The best market environments come after weakness - just look at 1991. I'll be ready to ride stocks higher when the market improves. In the meantime, my trader's hat is on. ■

David Vomund is publisher of two advisories for stock and sector fund investing available by fax or mail. For a free sample of the advisories, phone 702-831-1544.

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Figure 7

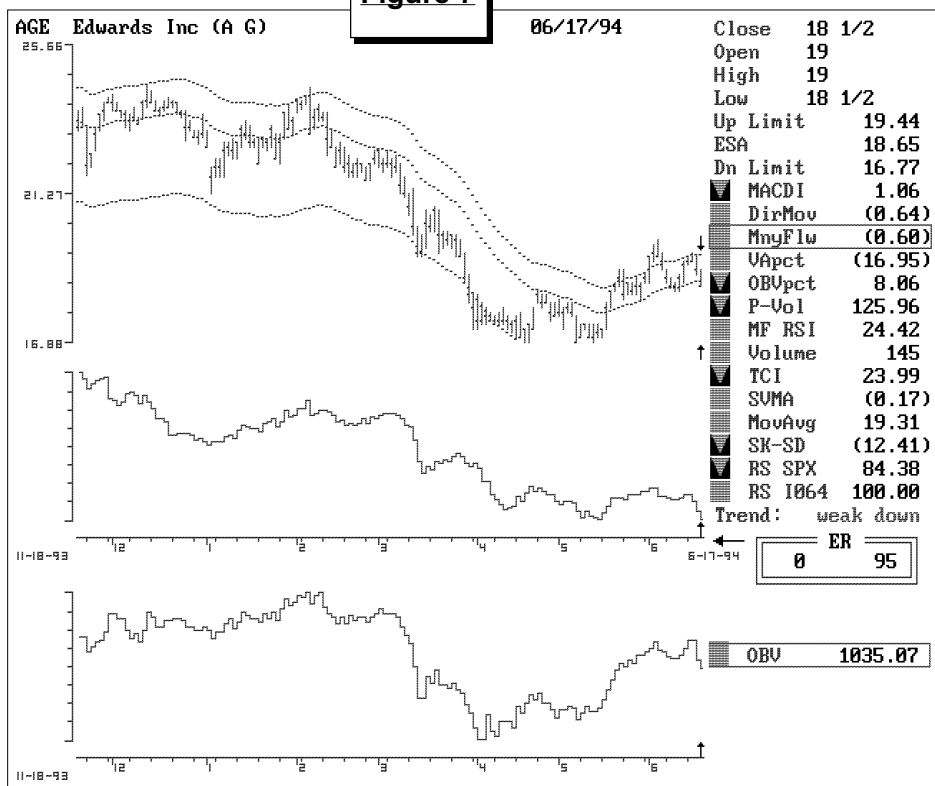
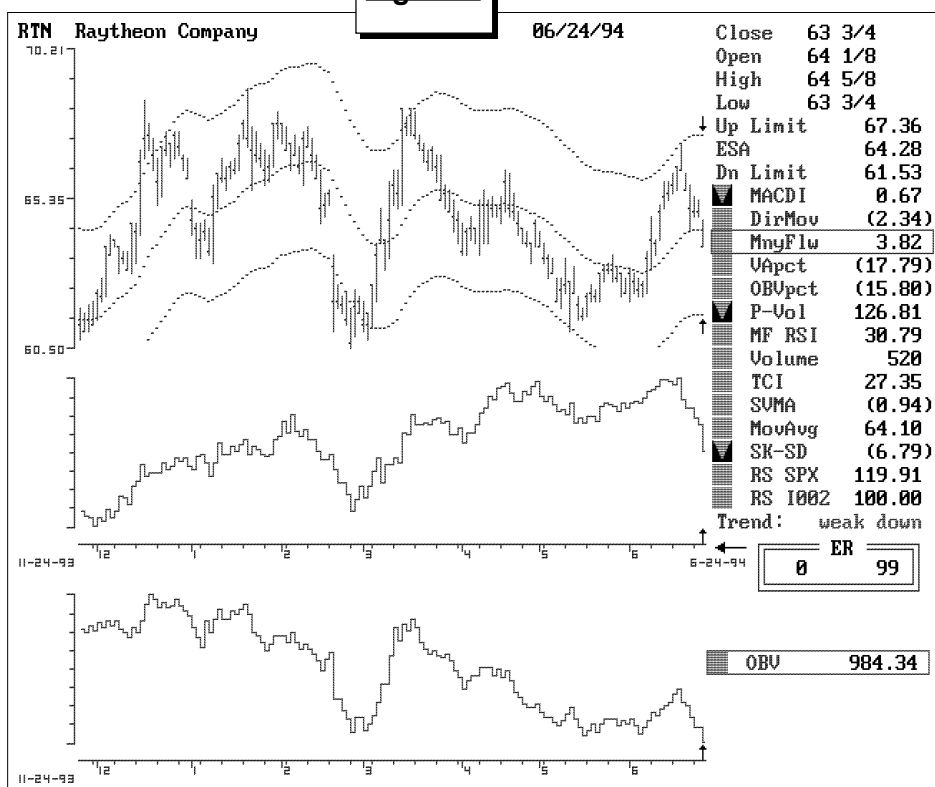


Figure 8



STOCK DATA MAINTENANCE

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

Stock	Ticker	Split/Div.	Date
Hollywood Ent.	HLYW	3:2	07/27/94
Material Sciences	MSC	3:2	07/29/94
AG Services Amer	AGSV	2:1	08/01/94
Goodmark Foods	GDMK	2:1	08/02/94
Coventry Corp	CVTY	2:1	08/04/94
Mid Atlantic Med	MAMS	2:1	08/08/94
General Instruments	GIC	2:1	08/09/94
High Plains Corp	HIPC	3:2	08/11/94
Gelman Sciences	GSC	3:2	08/15/94
Gymboree Corp	GYMB	2:1	08/24/94
Scott & Strong Finc'l	SCOT	6:5	08/29/94

Name Changes:

Carter Hawley Hale (CHH)	to	Broadway Stores Inc. (BWH)
Sunshine Mining (SSC)	to	Sunshine Mining & Refining (SSC)
Health & Rehab (HRP)	to	Health & Retirement Properties (HRP)

Trading Suspended:

(HSRS) HS Resources	(INBC) Independence Bancorp Inc.
(KDON) Kaydon Corp	(AOG) American Oil & Gas
(QUAD) Quadrex Corp	(BSH) Bush Industries
(TKCR) TakeCare Inc.	(SEC) Sterling Electronics

MUTUAL FUND INVESTING

NEW FUND FAMILY FOR MARKET TRADERS

By David Vomund

Most people agree that one of the best features of the AIQ software is its market Expert Ratings. As of July 15, *Timer Digest* ranks my newsletters for stock and sector fund investing, which depend on AIQ's market timing model, in the top five of all the newsletters tracked for the past year. Now there is a way for mutual fund investors to take full advantage of AIQ's market timing model.

An *Opening Bell* subscriber led me to a new mutual fund family that is designed for market traders. The fund family is Rydex (800-820-0888). Their Nova fund tracks the S&P 500 index but has a beta greater than the S&P 500 index. Better yet, their Ursa fund is inversely correlated to the S&P 500. When the market drops, the Ursa fund increases. You can trade both sides of the market in an easy format.

By investing in the Nova fund on an AIQ market buy signal and then purchasing the Ursa fund on an AIQ sell signal, an investor would be up 5% in the first half of this year. This compares to a 4.7% loss from a buy-and-hold strategy. This demonstrates that mutual fund investors can now make money even in downtrending markets.

The Rydex funds have unlimited switching, no exchange fees, and no sales charge. The only disadvantage is that the minimum investment is \$10,000 and, like other funds, transactions are placed only at the end of the business day. ■

MARKET REVIEW

We are past the midway point of the year and this is the first year since 1984 that large and small-caps alike, as measured by the Dow and Russell 2000, have posted back-to-back quarterly losses. The Dow is masking the weakness of the overall market. In the first half of the year, just 345 of the 2,346 equity funds followed by Lipper (less than 15%) have positive returns. An even greater number, 376, have suffered January to June losses of 10% or more. Through July 15, the Dow is less than a point below its '93 close but the S&P 500 has fallen 2.6% and the Nasdaq Composite has fallen 8%. The generals are holding ground but the troops are in retreat.

AIQ registered a 100 market sell signal on June 20. This came at a time when the Weighted Action List showed that 82% of the stocks with confirmed signals were on the sell side (using the AIQ Pyramid data base). This came on a day that the Dow fell 35 points. Similar to AIQ's sell on March 24, the signal seemed late at the time but in hindsight was a great signal. By the end of the week, the market had fallen to the lower end of its trading range and the Advance/Decline Line closed at a new yearly low.

Buy signals were registered on June 27 and July 5. It wasn't until July 6 that the indicators began to confirm the buy signals and we once again began to see a high percentage of stocks giving confirmed buy signals. By July 7, 90% of the stocks with confirmed buy/sell signals were on the buy side. As of this writing, the market is about two thirds of the way to the resistance trendline of 463 on the S&P 500 as seen in **Figure 6**, page 6. ■

D.V.