

A Systematic Search For Good Stocks To Buy

**Portfolios heavy
with
under-
performing
stocks almost
never
outperform the
market.**

Ignat's Law

**Ben Graham was
right when he
characterized the
stock market as a
"voting machine." It
is very important to
measure how the votes
are being cast.**

A collection of recent newsletters is available on the web site.

Please visit my web site
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Good portfolio managers seem to share a common trait. They have developed a systematic way to find good stock investments. This seems to be a function of experience rather than financial theory. I don't believe many academics would believe this attribute of good portfolio managers is important.

I learned a long time ago that the best stocks to buy and hold were those that were emerging to the upside from a major base. A major base is a broad horizontal movement on the Market Dynamics relative performance, point and figure charts, A broad base should be at least 12 columns wide and show an upside breakout.. The base is evidence that other investors are willing to step-in and buy and this provides support in the event of market weakness. The upside breakout from the major base confirms that the stock is being accumulated. Those are both very positive indications about the future performance of the stock

This discipline should focus on the recent performance of the stock. Stocks that have been up and running for a long time carry considerable downside risk in the event the market turns down. The support provided by the base is a critical part of risk control.

Many investors are willing to buy stocks that have gone down and may still be going down. The base on the charts shows the investor that the stock has stopped going down. This is the critical first

step in a major trend change from down to up. The base is proof that the stock has passed from the weak hands of investors who hold the stock at a loss and has been accumulated by strong holders that will soon show profits on their investment. The broad base is required to make a significant change from weak hands to strong holders.

The Market Dynamics service provides two methods for finding stocks emerging from major bases; (1) the daily screen of stocks with major bases, and (2). the monthly reviews of the S&P 500, the S&P 400 and the S&P 600 looking for stocks emerging from a major base. These screens are very systematic and are an ongoing feature of the Market Dynamics chart service. The major bases screen can be accessed using the LISTS drop-down menu on the main charting screen and selecting Part 3. The review of the three major S&P sectors is more subjective but nonetheless effective. Under normal market conditions only about 10% to 15% of the stocks in each sector will be selected.

The Market Dynamics recommended list is drawn from stocks turning up from a major base. The historic performance of the recommended lists has been very good with only one year that did not outperform the S&P 500 out of the last ten years. This excess performance is too significant to ignore. Modern portfolio theory and the Efficient Market Hypothesis indicate that this shouldn't happen but the record speaks for itself.

The approach is systematic and it has proven effective over the long-term. These screens should be the primary tools in the portfolio managers toolkit.
W. Clay Allen CFA