

Finding Stocks With Major Bases

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

Ignat's Law

**“Never sell a dull
market short.”**

**Old Wall Street
aphorism**

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

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The best way to identify future stock market winners is to search for stocks that are emerging from a major base. Investing the portfolio in this type of stock usually leads to returns that are greater than the market.

In the Market Dynamics service there is a screen that is designed to allow the investor to focus on stocks that are emerging from a broad base. This list of stocks is sent out daily with the daily updates. It can be viewed by clicking on the “Lists” dropdown menu at the top of the main charting screen. In the dropdown menu, click on Part 3 and select “stocks with major bases.”

This screen requires a stock to show a triple top buy signal along with a broad horizontal pattern of movement, back and forth, on the relative strength chart. The broad horizontal pattern is the base of accumulation. As long as the stock remains in the basing pattern it is impossible to know whether the stock is being accumulated or not. The upside breakout from the base confirms that accumulation was indeed taking place.

A broad base is usually viewed by speculators as a pattern of dullness and the lack of excitement causes these traders to avoid the stock. This suggests that the preponderance of the buying is being done by long-term investors who understand the value of the business. Long-term investors represent strong holders in the stock and this is the basis of accumulation. The wider the base, the greater the proportion of stock held by strong

holders.

These patterns of accumulation have been observed in stock price data for many years. It seems to be a process that is often repeated in the stock market. It represent the transition phase from distribution during the previous downtrend to accumulation that leads to a subsequent upward move.

The Market Dynamics screen is an effective way for the portfolio manager to focus on stocks with the potential to be future winners. The screen usually lists 5% or fewer of the stocks in the database, depending on market conditions. The list changes over time as new patterns of accumulation emerge. The long-term charts for the stocks on the bases list can be reviewed quickly and easily. The stock charts with a very strong pattern on the charts can be printed out and saved for further fundamental analysis.

The leading nature of stock price movements will develop a major base well ahead of the actual business developments that lead to a better overall financial performance by the company. This process is not mysterious at all and should be well understood by all Market Dynamics users.

There are no guarantees that the up trend that follows the base of accumulation will follow through and generate excess returns for the investor. The investor must follow the stock with the long-term point and figure charts to ensure that the stock is working out as expected. It is a significant advantage to buy stocks emerging major bases because the base represents buying at that level and it should provide support for the stock should the overall fall into a correction. Performance studies indicate that this type of stock usually generates favorable rates of return relative to the market.

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