

How To Find The Potential Winners In The Stock Market

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

Ignat's Law

**Wall Street may or
may not be the street
of dreams, but it is
certainly the street of
distractions. A wise
man some time ago
coined the phrase
that "focus is the
antidote for
distraction." The
screen of stocks
emerging from major
bases provides that
focus.**

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Experience over a long period of time indicates that the best stocks usually are the stocks that are emerging from a major base. Stocks that have traced out a major base usually offer the best chance to outperform the market on a long-term basis. Why is this true?

A stock in a major base is usually avoided by short-term speculators because the back and forth, sideways movement of the stock price is a characteristic of a dull stock. Stock market speculation runs on excitement and dullness is not what attracts short-term speculators to a stock. Short-term traders are usually focused on the volatility of the stock and the rising price trend. They don't want to tie up their trading capital in a dull stock that never moves.

This suggests that the investors who are willing to buy a dull stock are investors who know quite a bit about the company's business and they are willing to wait for the price of the shares to move up. Over time, the buyers of the stock are long-term investors who are probably knowledgeable about the company and are successful investors. This indicates that while the horizontal price movements are recorded while the base is forming on the chart, the stock is moving into the hands of strong holders of the stock. This is very important because the strong holders won't be willing to sell on a minor advance.

It may be months or years while the base develops and the stock is being transferred to long-term investors. This sets the stage for the

bullish price move to develop when business conditions improve for the company.

At some point in time, the basing price movements will be completed and a bullish trend will emerge. The increased activity in the stock will then attract additional buyers of the stock. The financial media will give the stock more attention and coverage as they explain the rising stock price.

A long-term point and figure chart will start to show a pattern of higher highs and higher lows. It takes time for the perception of dullness to be replaced with a more favorable appraisal of the trend. As the trend evolves, the relative strength will improve and more and more traders and investors will be drawn to the stock. The whole process may take several months or even years as the more bullish opinion begins to gain acceptance.

The best way to find these potential winners is by looking for a major base on the long-term point and figure charts. The Market Dynamics charting service includes a list of stocks showing a major base and a long-term buy signal. This screen is run daily and the list is sent out with the daily updates. Users of Market Dynamics can access this list of stocks by clicking on the "lists" dropdown menu at the top of the main charting page. Go to part 3 and click on the item "stocks with major bases" and the list will be loaded into the Market Dynamics system and the charts can then be viewed, printed out or saved.

Over many years of experience, in all sorts of changing market conditions, the stocks with the best potential performance will appear in this list. It should also be noted that the chart will usually lead the recognition of the improving fundamentals at the company. Stocks that appear on this list are usually only a small proportion of the stock universe. This allows the portfolio manager to focus on those stocks for further analysis.

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