

Stocks With Undiscovered Investment Potential Are Always In The Minority

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

Ignat's Law

**Investors are
often surprised by
the fact that, at
any point in time,
only a very
limited minority
of all stocks offer
enough upside to
justify their
purchase.**

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Experience leads the investor to the conclusion that very few stocks offer undiscovered investment potential. Looking for major bases is the best way to identify stocks that offer significant upside potential. The long-term point and figure charts are a very effective tool to search for stocks that are emerging from a major base.

A broad base that covers horizontal movement across ten to twenty columns of the P&F chart, usually suggests that a base has formed. This can be interpreted as strong evidence that the stock has been under accumulation by long-term investors. The horizontal movement really indicates that investors are willing to buy the stock as the lower levels of the base are approached. This historic support for the stock also acts to limit the downside risk should the market experience an overall correction. The fact that the stock does not fall below the lower side of the base is a strong indication of good things to come.

The investor must wait until the stock breaks out above the upper boundary of the base. This upside breakout provides confirmation that accumulation has taken place and that investors are now being rewarded by buying the stock. This onset of an up trend implies that the majority of stock has been transferred into the hands of strong holders and that almost always precedes a significantly higher price in the future.

When a stock starts to be discovered, the potential of the developing situation will begin to

spread among a broader group of investors. During the accumulation phase, the buying is done primarily by insiders and investors who understand the inherent long-term value of the business and they recognize the potential for investment profits. As the stock moves up, the media and Wall Street analysts will faithfully supply investors with explanations for the rising price. The positive buzz about the stock will propagate among a wider population of investors. This produces a sort of "snowball effect" as the up trend becomes more and more contagious. This stock is now "on the move."

The accumulation phase can take months or even years to form. Until the upside breakout confirms the up trend, the investor must believe that the stock remains locked into a trading range and the investment potential is therefore limited. The investor should not waste his valuable time researching a stock with only limited upside potential.

A statistical analysis of a large number of stocks indicates that about 25% of all stocks are locked into persistent downtrends and offer little hope of a profit. Another 50% of all stocks will be locked into long-term trading ranges and, they too, offer limited upside potential. Another 25% of all stocks are showing persistent up trends but at least half of those stocks in up trends have already been discovered and the investor is faced with the situation of having to chase the stock higher, which can increase the downside risk. This leaves about 10% to 15% of all stocks that offer enough upside potential to justify doing the fundamental research to evaluate the upside potential.

By focusing on those stocks emerging from bases, the investor saves time and increases his chances of finding an outstanding stock investment that has not been discovered by investors already.
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