

Late To The Party

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

Ignat's Law

The relative strength rank on a stock like VRUS may be very high (i.e.99) just as the stock is at its maximum momentum to the upside. The trend chart of relative strength is a much better tool for evaluating the future trend of the stock.

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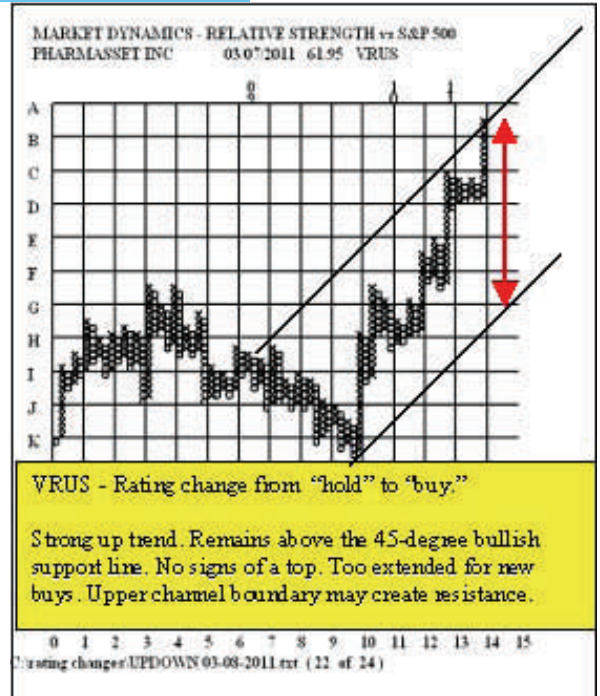
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The chart of VRUS is from the TPARC report of 03-07-2011. A casual examination reveals that the analyst's buy rating was issued long after the stock made its low and started an uptrend. We don't know for sure when the analyst rendered a rating of "hold" on VRUS, but we do know that the recommendation underestimated a strong up trend. VRUS has been one of the best acting stocks in the Market Dynamics database (almost 5000) stocks over the past two years.

An investor who purchases this stock because of a "buy" recommendation is buying a stock that is substantially elevated in price. The chart shows a strong up trending channel and the current position on the recent relative strength chart is now close to the upper trading boundary which can be expected to generate resistance to further upward price movement. The placement of the upper boundary of the upward sloping channel is highly subjective but it is useful as an estimator of the level where resistance can be expected to halt the up trend..

In this example, a vertical red arrow has been drawn on the chart to highlight the magnitude of the stretch above the lower 45-degree bullish support line. Numerous examples of relative performance charts from the past ten years suggests that 25 rows above the lower 45-degree bullish support line is where the up trend starts to lose momentum and may start building a top. This happens sufficiently often to suggest a workable decision rule that a stock should be sold into strength when the



current position on the relative strength chart approaches a stretch of 25 rows. It has often been said that "nothing grows to the sky" and that is certainly true for stocks. The distance required to travel back down to the bullish support line is a useful estimate of the risk in the stock.

The chart on VRUS suggests the need for investors to evaluate the trend and position of stocks that receive a rating upgrade from a Wall Street analyst. In this instance, the second opinion from the relative strength chart suggests that the analyst may be basing his opinion on nothing more than "following the crowd."

The second opinion derived from the relative strength, point and figure chart should confirm the analyst's opinion about the future movements of the stock. A failure to confirm the analyst's rating calls the investment opinion into doubt.
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