

## Stocks In Long-Term Trading Ranges.

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

**Ignat's Law**

**Probably 50% to 60% of all stocks are in long-term trading ranges, almost all the time. These trading ranges exist without regard to the overall trend of the stock market. They can provide a very useful insight into the probable levels of future reversals of trend for a stock.**

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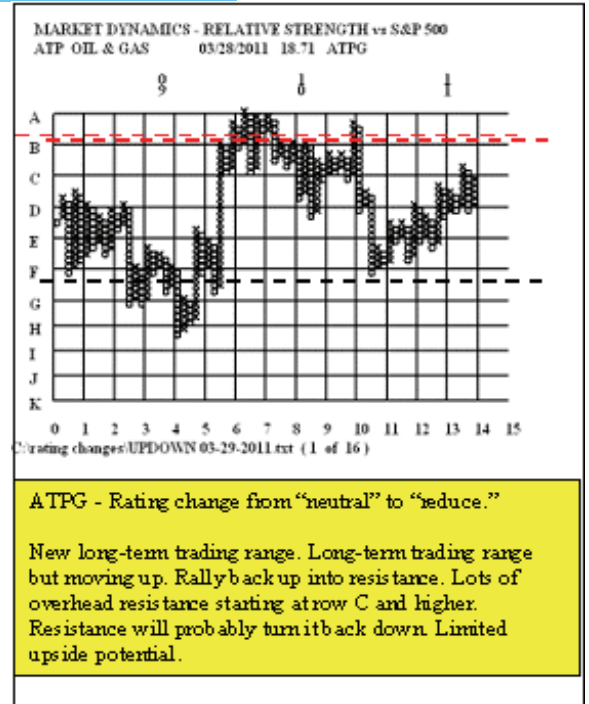
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Experience observing the charts of a large number of stocks over a long period of time suggests the very common occurrence of long-term trading ranges. Another conclusion derived from that observational experience, suggests that long-term trading ranges are more common among large-cap stocks. This also means that mid-cap and small cap stocks tend to experience more frequent long-term trend movements, both up and down.

The inspection of a stock's price history indicates the probable levels where an intermediate down trend may stop going down and find support. Conversely, the price history may also indicate the upside levels at which an intermediate up trend might run into resistance that could turn the trend back down.. This helps the long-term portfolio manager evaluate the potential risks and rewards from a stock as a long-term investment.

It seems that many investors and analysts are often completely unaware of a stock's historical trading range. Their ability to generate more accurate upside price targets is enhanced by the inspection of a stock's long-term trading range. Many investors and analysts like to buy stocks that are cheap and the analysis of the long-term support levels in a trading range can improve the performance of selections based on value. The failure to inspect a stock's long-term trading range probably reduces the analyst's long-term investment returns.

A long-term point and figure chart of a stock's relative strength is the best way to evaluate a historic



trading range. A four-year, long-term PnF chart covers a complete market cycle and this history provides good estimates of expected support and resistance levels for the stock in the future.

The long-term trading range can be influenced by many factors such as sponsorship for the stock, the nature of the business and the fluctuations in the company's fundamental performance. These various factors seem to have different weightings at different times, depending on market conditions. And yet, it is amazing how often these support and resistance levels lead to future reversals of trend.

Portfolio managers following a value discipline should find the examination of a stock's trading range to be most beneficial and worth the effort it takes to inspect the chart. It is almost as if the stock, while moving in a random and unpredictable way, remembers where it should change direction. The long-term trading range provides a very useful insight for many successful long-term, value oriented portfolio managers.

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