

## Upper Channel Boundary

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

**Ignat's Law**

**Relative strength trends do not go up forever and the portfolio manager needs to make an educated guess as to where the trend might reverse and turn down. Even so, an educated guess is better than throwing a dart!**

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In many cases, a new Upper Channel line can be drawn that is above the bullish support line and parallel to it. There are no hard and fast rules for the placement of the Upper Channel Boundary line. The position of the UCB is by trial and error but one rule is important. The UCB should be considered tentative unless the line touches the Xs on the point and figure chart in three places spread out across the chart. In the example, the UCB is touched by the point and figure chart in four places and this helps establish conviction that resistance will be encountered at that line in the future.

The UCB is an educated guess as to where a stock in an up trend might encounter resistance. The reliability of the estimate of resistance will be a matter of feel and guesswork. As the chart starts to feel the resistance at the UCB a sale is often warranted.

The UCB should be drawn upward to the right at a 45-degree angle from a prominent high point on the chart. What constitutes a prominent high point is a highly subjective determination. The chartist should use the 45-degree Bullish Support Line drawing button to position these lines. I often draw a collection of UCB lines to get a feel for how much upside potential a stock might experience.

Long-term trends on the point and figure charts of relative strength have to end and reverse someday. The portfolio manager should always be thinking about where the top and downward reversal might take place. This helps to anticipate a top on the

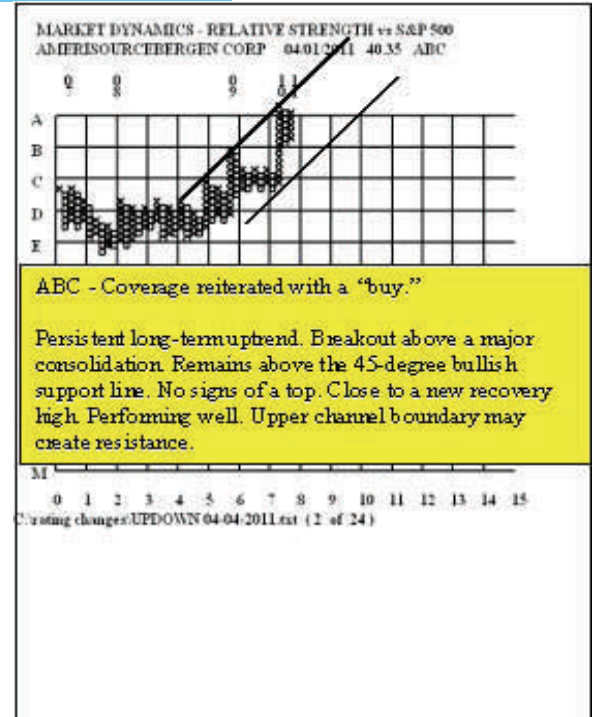


chart and prepares the portfolio manager to act when a top appears.

A very strong stock may breach the UCB several times before the top actually materializes. If this happens to a small cap, speculative stock it is usually best to sell as the UCB is approached from below. It is always possible that the ultimate top will form higher up but a sale into strength for this type of stock is usually a wise decision. Stocks that record a strong up trend and move up to the UCB are almost always overvalued anyway and should be sold to protect the portfolio.

Many times a stock will suffer a serious loss of upside momentum at or near the UCB and this usually proves to be a good time to exit the trade. We don't want to truncate a winning trade prematurely but we also need to be aware of the UCB. This may be a signal that other investors have started to pull-the-plug on the stock and that the supply/demand relationship for the stock is changing, negatively.

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