

The 45-degree Bullish Support Line

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

Ignat's Law

**“You cannot manage
what you do not
measure.”**

Dr. Peter Drucker

**Long-time
management guru
and author**

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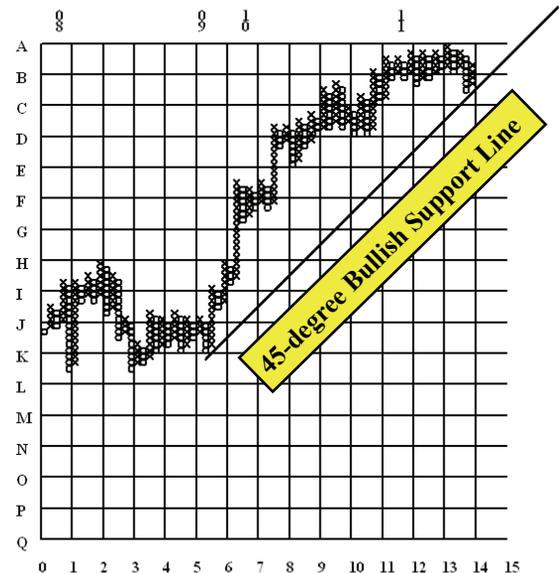
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As 3-box, point and figure stock charting evolved over the years, long-term investors came to appreciate the usefulness of the 45-degree Bullish Support Line (BSL). The line anticipated where the relative strength plot might find support but it also defined graphically the region of the chart that contained acceptable performance. Many investors came to believe that movement above the BSL was acceptable and movement below the BSL was unacceptable.

Long-term investors know that almost all stocks move up and down in intermediate trends and that many of the pullbacks in strong stocks are nothing to worry about, just a normal correction.. They needed a method to distinguish between a pullback that was a correction and a pullback that was more serious and might indicate a reversal of trend. The BSL provided a way to tell when the investor needed to pay careful attention to the stock's pullbacks because they might turn into a downtrend.

The long-term point and figure chart is usually drawn with a square grid. A 45-degree line, upward to the right, on such a grid will show a slope of one. One unit on the X-axis for each unit on the Y-axis. Since the X-axis measures reversals of trend on a PnF chart, each box in the X direction to the right can be considered a unit of volatility or risk because higher volatility stocks tend to have more intermediate reversals of trend. Therefore the X direction measures risk and the Y direction measures relative return on relative

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APPLE INC 04/21/2011 350.7 AAPL



strength PnF charts

This provided a ready made technique to measure a stock's performance. The stock must show one unit of relative performance for each unit of risk. This directly related risk and return on a single chart and that is the most important relationship a long-term investor has to deal with.

The rule that evolved was that as long as the relative strength plot remained above the BSL, the performance of the stock was considered acceptable. When the RS plot fell below the BSL, the performance was deemed unacceptable. This is a very useful way to measure a stock's relative performance. The BSL is not a tool for prediction as much as a tool to measure performance.

The performance of many portfolios is dragged down by the stocks with unacceptable performance. The BSL provides a very useful tool to identify the stocks with poor performance that are, therefore, candidates for selling.

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