

# In Interesting Study In Randomness

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

**Ignat's Law**

**Long-term charts of a stock's performance should be used to observe the performance trend for the stock.**

**The trend may be unpredictable, but at least, the investor will know when the trend changes direction in a meaningful way.**

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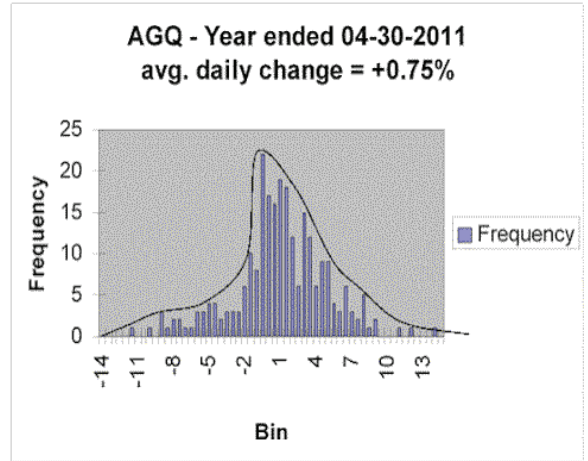
The histogram of the daily per cent changes in price for AGQ over the past year is shown in the top chart. A freehand curve has been drawn on the histogram to highlight the bell-shaped nature of the histogram. The distribution appears to be skewed to the positive side since there are many more tall bars to the right of the mean than there are bars to the left of the mean. The bell-shaped curve of the distribution is a strong indication that the past year's per cent changes for AGQ were generated by a random process.

The process was random but the lower chart shows a relative strength chart for AGQ. The last year's performance is shown roughly to the right of column 7. This relative performance chart shows a strong and persistent up trend for the past year. In fact, this Proshares Ultra Silver 3X ETF showed a very large percentage gain over the past year.

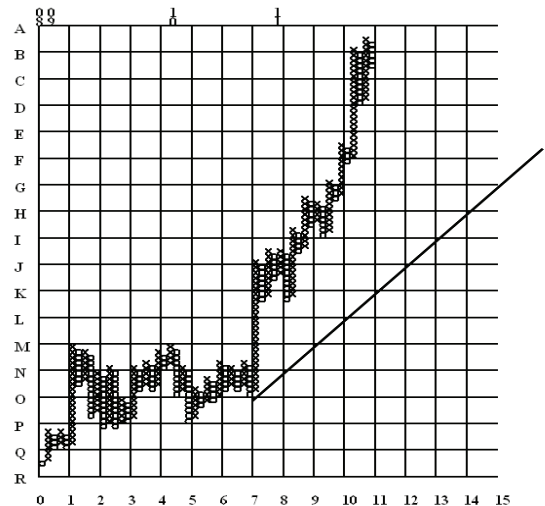
This example strongly indicates that a stock can be random and also show a strong up trend over a period as long as one year. The fact is that randomness does not preclude the existence of a strong trend, either up or down as shown by this example.

The random walk hypothesis would have us believe that trends do not exist for very long because the stock market is random. This seems to be a glaring error in modern theories of finance as shown by this example.

The random walk model does not even come close to explaining the behavior of AGQ over the past year. If fact, the existence of a strong trend



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PROSHARES ULTRA SILVER 04/29/2011 358.96 AGQ



within a random time series is very common for stock market data over periods as long as one year or more..

The randomness shown by the data still means that the trend is unpredictable. However, even an unpredictable trend can be observed in order to determine when the trend changes direction. A long term chart of a stock's relative performance is a powerful tool to observe the stock's performance trend. And most importantly, the investor will be able to observe when it changes direction in a meaningful way. It is fundamental that long-term trend changes offer the potential for stock market profits. W. Clay Allen CFA