Market Dynamics

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Performance Management System

The 45-Degree Bearish Resistance Line

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

Ignat's Law

When a stock gets to be too cheap, it will stop going down! The transition from too cheap to a positive opportunity usually requires building a major base. The BRL keeps investors from premature buying of stocks that are cheap but still trending down.

A collection of recent newsletters is available on the web site.

Please visit my web site at
http://www.clayallen.com/

Market Dynamics
7325 S. Jackson St.
Centennial, Colorado
80122

Phone: 303-804-0507

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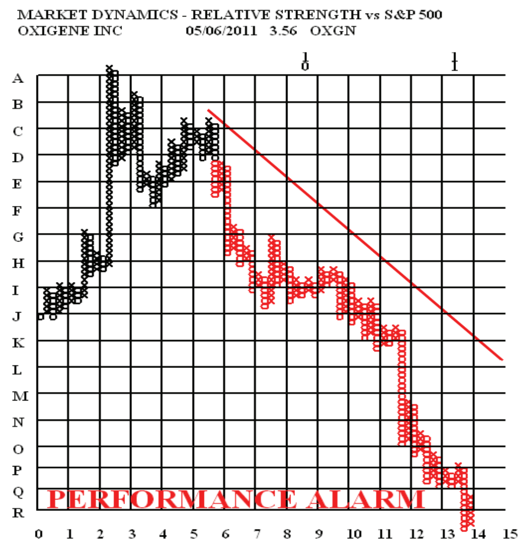
clayallen@msn.com

The 45-degree Bearish Resistance Line (BRL) is a very important tool in the Market Dynamics charting system. The BRL slopes downward to the right at an angle of 45 degrees and is drawn from a prominent high point on the relative strength plot on the chart. The BRL line defines a region on the chart that should be considered as unfavorable for the purchase of stocks. The BRL is a graphical indicator that tells investors that a stock is a bad risk due to a persistent downtrend. When it moves above the BRL it is then qualified for consideration as a long-term investment.

Many times a stock in a major, long-term downtrend will decline much faster than it went up. Many investors are tempted to buy stocks that are trending down because they believe the stock represent a bargain price, it is too cheap. The BRL forces the PnF investor to wait until the stock stops going down before it can be eligible for purchase. The stock may have stopped going down but it make take a long time building a base on the PnF chart It is best to wait until the stock moves sideways on the chart enough to build a major base. As it moves horizontally to the right it will eventually cross the BRL that is sloping downward from the previous peak in the price of the stock.

When the rs plot moves decisively above the BRL the stock is then eligible for consideration as a long-term investment. Waiting for the breakout above the BRL keeps the investor from making a premature investment that may otherwise be



judged as too cheap. Many times the basing process can take much longer than the bargain hunting investor expects and the BRL keeps the investor out of a stale and unproductive investment.

A stock that remains below the BRL must be classified as a poor investment with limited upside potential The BRL line helps a portfolio manager avoid stocks in persistent long-term downtrends and to focus on stocks with more upside potential. This helps the long-term investor to cut through the distracting information overload that most portfolio managers face every day. At any point in time, at least one third of all stocks will be trending down and remain below their BRL

Avoiding stocks with persistent downtrends below their BRL will significantly improve the investors "batting average." The BRL line is a simple but effective tool that helps the investor avoid wasting time and capital on stocks that are still going down.

In the example shown above, bargain hunters have lost money for a couple of years in the stock of OXGN and it shows no signs of a reversal at this time. The BRL line keeps investors from buying this type of stock.

W. Clay Allen CFA