

## The Market Dynamics Recommended List

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

**Ignat's Law**

**Stocks that under-perform the S&P 500 are dropped from the R-list. In that way the list is kept fresh and the portfolio can successfully adapt to changing market conditions. Stocks with good performance remain on the R-list as long as the performance remains strong.**

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

Please visit my web site at  
<http://www.clavallen.com/>

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

Phone: 303-804-0507

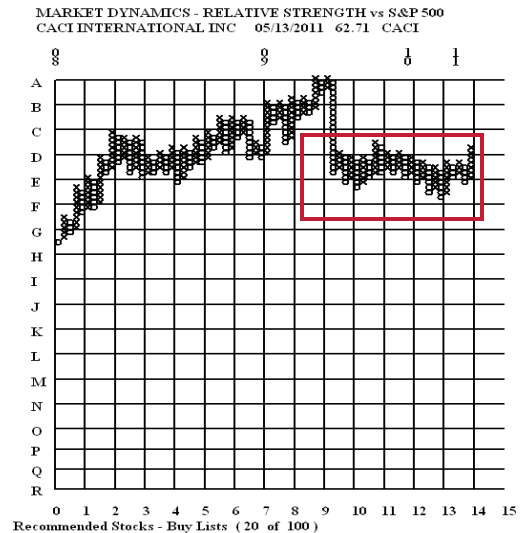
[clavallen@msn.com](mailto:clavallen@msn.com)

A long-term portfolio manager needs a constant flow of good buy ideas to keep the portfolio fresh and to adapt to new market conditions. The Market Dynamics list of recommended stocks (R-list) is designed to help the investment manager to identify those stocks with significant long-term investment potential.

The stocks on the R-list are drawn from the Market Dynamics database and they are selected on the basis of a broad base and an upside breakout. The major base is usually 15 or more columns wide and it may take over a year of sideways movement to complete the base. The basing action is proof that the stock has received support at those levels and that tends to limit downside risk in that stock. The upside breakout confirms that the base represents significant accumulation of stock by long-term investors.

The R-list ("buylists.txt") is included in the daily update files that are sent to Market Dynamics subscribers. The list is reviewed and updated at least monthly. A note on the email is designed to alert users to the additions and deletions to the R-list. The R-list consists of 100 stocks that show the major basing pattern and an upside breakout.

The user can access the R-list by clicking the "Lists" caption at the top of the main screen and then clicking on "Part 3" and selecting the "recommended stocks" item on the drop-down menu. The user can organize the stocks list box either by company name or by ticker symbol.



The name of the list and the list number are shown on the bottom of the chart. 7

The stocks on the R-list are selected because of their attractiveness as long-term investments. The performance of the buy list is calculated at least once a year and a summary report is sent to users. The historical performance of the R-list can be viewed at my web site at [http://www.clavallen.com/performance\\_tests.htm](http://www.clavallen.com/performance_tests.htm). The performance tests validate the long-term performance recorded by the stocks on the list and the list did better than the S&P 500 in all years except one and that shortfall was not material.

The technique of searching for buy ideas among stocks showing major bases has been used successfully over a long-period of time. Many subscribers investigate the stock's fundamentals to evaluate the stock's potential as a long-term investment in the portfolio.

In the business of investment management there are no "sure things." The R-list has been very successful in the identification of good stocks but the performance of each stock must be monitored to validate its position in the portfolio. W. Clay Allen CFA