

The Ideal Time To Buy A Stock

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

Ignat's Law

**“Focus is the antidote
for distraction.”**

Unknown

**The purpose of the
monthly Market
Dynamics S&P Bases
Reports is to focus
attention on stocks
with the proven
potential for high
investment returns.**

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There is a recurring pattern in the stock market that identifies stocks with significant excess performance potential. The pattern is based on a significant period of horizontal price movement called a base. Many major winners in the stock market begin their upward move from a broad base of accumulation. Successful portfolio managers seem to have a well-developed knack for finding stocks with this pattern.

The formation of the base usually occurs after a major bear market in the stock. In essence, the stock price stops going down and begins to move sideways. Many short-term, speculative traders tend to avoid this type of stock because the price action is perceived to be dull. However, something very important is taking place behind the scenes.

The stock starts to be accumulated by long-term investors who understand the long-term value of the business and are willing to wait for that value to be recognized. The speculative traders who got burned by the stock's bear move eventually sell, take their loss and move on to a more exciting stock. The dullness that develops during the basing period has a lot to do with the type of investors who are willing to buy the stock and wait. Only when the proportion of the stock's holders becomes dominated by long-term investors does it indicate that the stock is ripe for a period of excess returns.

The dullness during the basing pattern indicates that it will take a long time, months or even

years to complete a major base. There is little incentive in prematurely rushing into a stock that is still in the basing region.

When the stock is ready to go up the relative performance will start to show a pattern of higher highs and higher lows. This signifies the upward breakout from the base and it is the ideal time to buy the stock. Experience shows that this pattern is recurring and it qualifies the stock as a long-term investment.

Many investors review a large number of stock charts to find the stocks that are emerging from a major base. To facilitate this activity, the Market Dynamics system includes monthly reports on the stocks trending up from a major base on the S&P 500, the S&P400 and the S&P 600. The S&P Bases reports are prepared and emailed to users around the tenth of each month.

These reports help to narrow the list of potential candidates for purchase. Experience shows that only about 20% of the stocks in a sector will qualify as trending up from a major base. It focuses attention on stocks that are showing movement away from the average of the distribution of returns and are starting to move out into the “fat tail” on the positive side of the distribution.

This has proven to be great way to select good stocks for long-term investing. The short-term speculators will come back into the stock after it is definitely moving up and a level of excitement surrounds the market for the stock. It is remarkable that this relatively simple process is repeated over and over in the stock market. The search for a major base and an upside breakout is about the best way to identify good stocks for long-term investing.

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