Market Dynamics

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Performance Management System

Always Get A Second Opinion Before You Invest

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

Ignat's Law

The TPARC Report

Technical Perspectives on Analyst's Rating Changes

A second opinion provides a double check on analyst's investment ratings .

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

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

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In just a few days I will pass the sixth anniversary of my daily publication called the TPARC report. This reports provides second opinions on Wall Street analyst's ratings on stocks. One unexpected result is how few times the long-term stock chart confirms the analyst's buy rating on the stock. Another finding from this experience is how frequently the analyst downgrades a stock but the new rating on the stock is a "hold" versus a "sell." The experience with the TPARC report has confirmed that investors desperately need a second opinion to avoid problem stocks.

The six years of experience has produced a sizable archive of second opinions on stock's where a Wall Street Analyst has changed his rating on a stock. The report probably contained 15 second opinions per day each day of the year. Only a few days were missed during each year and I estimate that there have been a total of over 20,000 second opinions.

In many cases an investor who followed these second opinions would have avoided buying or holding a problem stock. Not buying problem stocks goes a long-way to producing better investment results. It is always better to avoid the problem stocks and dodge wasting time on losing stocks. Almost all of my institutional clients are pressed for time and any technique that saves time and improves results is very valuable, indeed.

Wall Street analysts seem to favor recommending the purchase of stocks in well established downtrends. Even in those cases where the analyst eventually proves to be correct in his buy rating the stock still records poor performance until the trend turns up. It is usually better not to buy the stock until the decline is complete and the trend turns up. When the trend turns up, the long-term chart will confirm the change in trend to the upside.

In my experience, the TPARC report will show a stock or two that are good purchase candidates every day. Thus the TPARC report will focus the investor's attention on good stocks and this improves the portfolio manager's stock selection hit ratio. It is common for several stocks in the same industry to turn up at the same time and this shows up clearly on the charts.

We live in an investment world that is dominated by short-term trading techniques and shorter term charts. .Many chart systems in use today cover such a short span of time that long-term trends do not show at all. Short-term traders are indeed "noise traders" and all the frenetic trading does not produce results that are superior to a long-term strategy that incorporates long-term point and figure charts of relative strength.

Long-term trends of relative performance, once in place, tend to persist for long periods of time. It is much better for the portfolio manager to avoid the short-term noise and invest with the long-term trend of performance. The experience with the TPARC report tends to confirm this basic belief in long-term investing. The infatuation with short charts leads many portfolio managers to overlook this proven tool.

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