

GMCR—A Study In Randomness

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

Ignat's Law

Randomness does not mean trendless.

The mean of the distribution of daily per cent price changes for a stock can be strongly positive or strongly negative. A non-zero mean implies a trend has been at work.

We can throw out the Random Walk

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Please visit my web site at

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The chart on the upper right shows a major bullish up trend relative to the S&P500 over the past several years. During the past year the stock averaged a gain of +0.53% per day and this generated a total gain for the year ended 08-05-2011 of approximately 130%. The chart shows clearly that the stock was in a strong up trend during the past year.

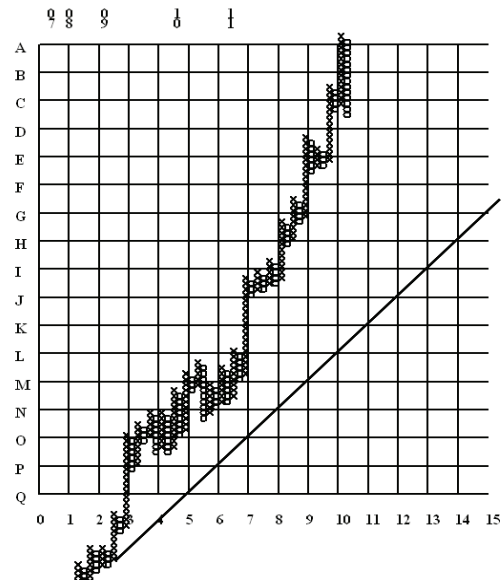
The chart on the lower right is a histogram of the daily per cent price changes over the past year. A normal bell shaped curve can be seen on this chart. This bell shaped curve implies that the daily per cent price changes were generated by a random process.

The preparation of the histogram in Excel provided a statistic that indicates that the daily per cent price changes were heavily skewed to the positive. It is very interesting that 51.4% of the days were up and 48.6% of the days were down. That's just about what you would expect from flipping a fair coin.

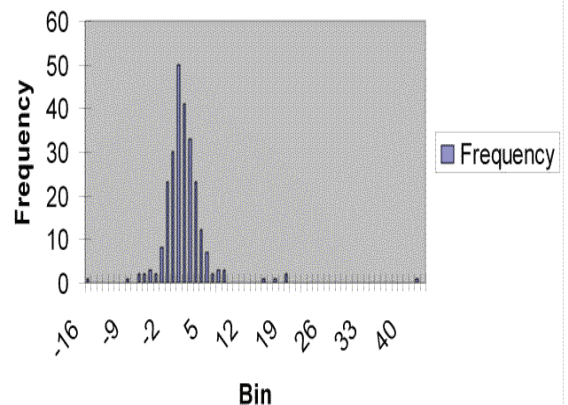
These two charts clearly indicate a random process at work and yet there was a strong up trend. Randomness does not mean trendless. The distribution of daily per cent changes indicated that the mean was strongly positive and yet it was still random. The statistics show that the up days were much stronger than the down days.

There is little doubt that trends exist in the stock market, both up and down. The academic community aggressively indoctrinates students into a belief that trends don't

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
GREEN MOUNTAIN COFFEE ROA 08/05/2011 95.99 GMCR



**GRMC - daily per cent changes
as of 08-05-2011 - avg = +0.53%
51.4% days up - 48.6% days down**



exist because the stock market is random. This is just plain wrong.

The best way to track stock trends is with a long-term, point and figure chart of relative strength. How else will an investor know when the stock's trend has changed.

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