

Stocks In Long-Term Trading Ranges

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

Ignat's Law

**At least 50% of all
stocks are in long-
term trading ranges at
all times.**

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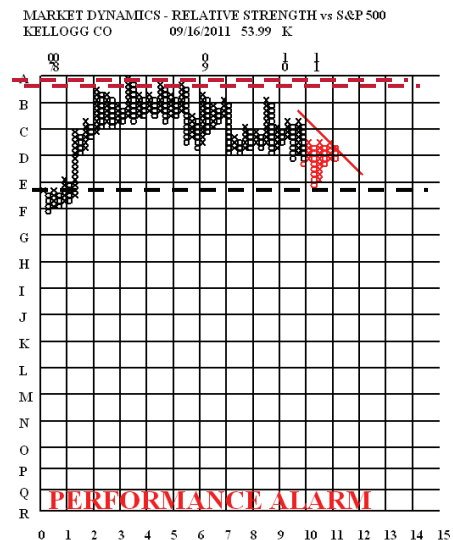
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Experience with long-term, point and figure charts of relative strength indicates that the majority of stocks are locked into long-term trading ranges at all times. This is especially true for many big cap stocks of more or less mature companies. About 50% of all stocks are moving within the boundaries of a long-term trading range, about 25% are moving in long-term downtrends and the remaining 25% are in long-term up trends.

The trading range is bounded on the upside by a zone of resistance and on the downside it is bounded by a zone of support. Portfolio managers should be willing to sell when the upper resistance zone is encountered and, conversely, to buy as the lower support zone is reached. Experience shows that many times the stock will fluctuate back and forth several times in the support zone at the lower boundary of the trading range so the portfolio manager should be in no hurry to rush into the stock at the support zone. It is best to let the stock prove that it has encountering support at the low end of the trading range.

Big cap managers should be especially cognizant of these trading ranges because they are so prevalent among big cap stocks. Moving in and out based on these trading ranges can greatly improve a big cap manager's investment performance. The example shown on the chart above shows the boundaries of the long-term trading range.

Many investors today concentrate on such short term charts



that the long-term trading ranges do not show up as well as they do on a long-term chart. In my opinion, the investor should review charts that cover at least four years of price history. There are often very good investment opportunities in long-term trading ranges but the portfolio manager must be willing to sell as the upper resistance zone is approached.

Relative strength ranking systems do not provide the insight that a long-term point and figure chart of relative strength produces and that is especially true for stocks in long-term trading ranges.

My experience with the daily TPARC reports suggests that Wall Street analysts are unaware of these trading ranges or they ignore them entirely. Portfolio managers need to be aware of these trading ranges to improve their performance. These trading ranges seem to limit the movements of many stocks regardless of the major trend of the stock market.

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