

A Second Opinion On Analyst's Investment Ratings

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

Ignat's Law

The chart from today's TPARC report indicates that this analyst's "buy recommendation" relates to a stock with only limited upside potential for investors at the present time.

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

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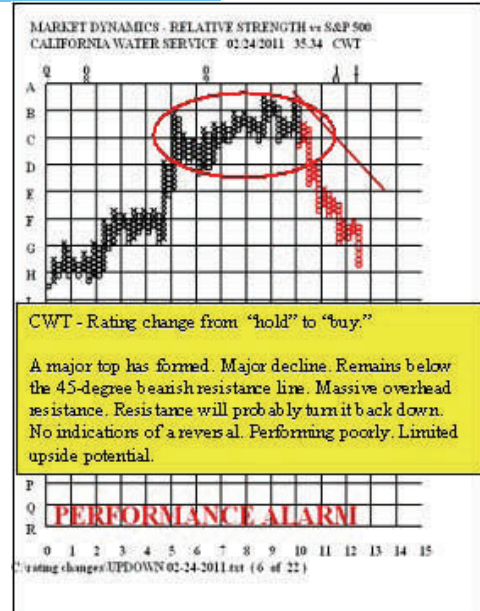
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A regular feature of Market Dynamics is the **TPARC** report that covers the long-term **T**echnical **P**erspectives on **A**nalyst's **R**ating **C**hanges. The report summarizes the technical trend condition on stocks with a change in an analyst's investment opinion. This report covers an average of between 16 and 20 stocks per day. The TPARC report has been a regular daily report from Market Dynamics for about the past five and a half years.

The report covers ratings of buy, sell and hold, although "buy" is the most frequent rating published by analysts. The high proportion of analyst's buy recommendations tends to confirm that the primary business of Wall Street is to distribute stock.

These rating may also be termed accumulate, outperform, under-perform, neutral, market outperform or sector outperform, etc. This list of analyst's rating changes is compiled and distributed daily on the Internet by "briefing.com" and these lists are available on the Wall Street Journal web site and on MSN. Market Dynamics does not publish the name of the firm making the investment rating change.

The **TPARC** report lists the analyst's rating at the top of the textbox. Also shown in the textbox, is the description of the long-term trend of relative performance as shown on the point and figure chart. The trend rating is described in a clear summary of the trend shown on the chart and it should leave little doubt as to whether the trend is up or down or limited by a trading range.



The analysis of a large number of relative performance PnF charts over the past decade confirms that the number of stocks with up trends, that suggest the purchase of the stock, represent only a small fraction of all stocks at any point in time. The proportion of stocks that show a true up trend on the **TPARC** report is usually no more than 10% of the stocks covered in the report.

The sample chart shown above relates to the analyst's buy recommendation and the definite downward trend of relative strength shown on the chart. A major top on the chart is enclosed in a red ellipse. The final comment is that the stock offers only "limited upside potential. This clearly indicates that this stock should not be bought at the present time. In a large number of cases it is best to ignore the analyst's buy rating on a stock.

Wall Street analysts create much of the buzz that circulates on Wall Street about individual stocks and it is instructive that much of this chatter is about stocks with only limited upside potential. The **TPARC** report provides a second opinion that may confirm or discredit the analyst's investment rating on the stock. W. Clay Allen CFA