

I Haven't Used Point and Figure Charts For Over 40 years Because They Don't Work

*Performance
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Portfolios heavy with under-performing stocks almost never outperform the market. Ignat's Law

"In the stock market—the only constant is constant change" unknown

And

The tails are fat!

Financial engineering seems to be an impossible dream, dressed up in fancy mathematics. The losses from such an approach are already staggering.

[A](#) collection of recent newsletters is available on the web site.

Market Dynamics

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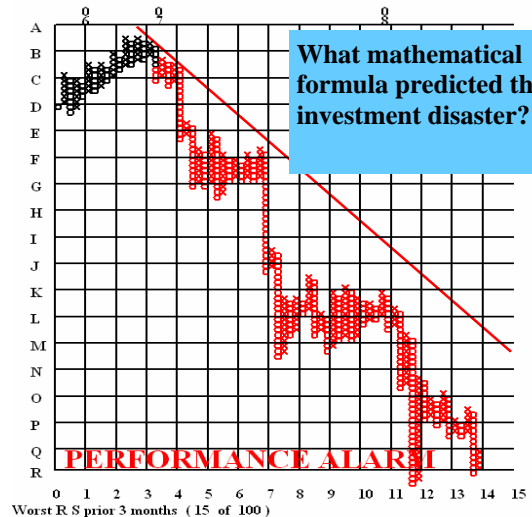
My academic friends tell me that charts can't work because the market is random. I use a technique of stock charting that effectively deals with the problem of randomness in stock price movements. I certainly would not have used these charts for the past 40 years if they didn't work.

The P&F charts of stock price movements eliminate the minor, random variations in stock price movements and let the major trends show through. When used to record relative performance these charts also remove the influence of the overall market and they focus on the price action that is specific to that stock. My work removes the random movements from a stock's price data and allows the investor to focus on the data that is meaningful and non-random.

Experience shows that persistent, long-term trends of price movements are commonly observed in stock price data. It is like a roulette wheel that comes up red 55% of the time. That is pretty close to a random coin toss and similar probabilities are often observed in real-world stock price data. Why bet on anything but red, especially if the payout for a red bet is substantially more than the less-frequent loss on a black bet.

Why use advanced mathematics and misleading statistics in an attempt to prove that the data that can be readily observed from a chart of stock price data is meaningless. It is not about whether we can predict future stock prices from historical stock prices, it is about whether the trend is up or down. The trend will continue in its established direction until it changes and the recognition of a trend change is what matters. When the trend changes direction we can decide to terminate our participation in that stock—It is not a prediction as much as it is a recognition that things have changed and the trend is

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no longer going our way.

It is a fundamental fact that stock prices do not obey mechanical, fixed, mathematical laws such as those that apply to physical objects in physics. It is silly to expect to discover such laws and mathematical relationships. The stock market reflects human behavior and is not bound by mathematical laws.

Philosophically, a deeper question should be addressed. If such mathematical laws that determine the fluctuations of stock prices could be discovered, it would be possible to eliminate uncertainty and to invest "risk free." Whoever could discover such laws would quickly win all the money in the universe. And that is a very unlikely outcome.

As Charles Schulz said some years ago, "the market functions because of change, not in spite of it." The relationships change and mathematical certitude is an impossibility. Investors have to adapt to change as best they can and believing in fixed mathematical relationships seems to be an obstacle to the process of adaptation.

The best guide to adaptation is a long-term point and figure chart that removes the randomness and lets the true trend show through. Ignore the charts at your peril!

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