

The Best Time To Buy A stock As A Long-Term Investment

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

Ignat's Law

**"It is, of course, not
impossible to sail
against the wind, but
it is swifter and surer
to sail with it."**

*Stock Market
Behavior*
by
Harvey Krow

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The best time to buy a stock as a long-term investment is after an extended period of dullness and then it starts to turn up into an up trend on the long-term charts. There are several reasons why this is so.

A period of dullness that shows up on a long-term point and figure chart of relative performance as a wide horizontal pattern of Xs and Os. The stock has been oscillating back and forth within a fairly narrow band and to many investors, its trading appears to be dull and trendless. This is a most important point because speculators are driven to deal in stock's whose price action is exciting. The question remains, Who is buying all the dull stock? The buyers of a dull stock are probably long-term investors who understand the long-term value of the business and who are willing to wait while that value is re-discovered by other investors.

A base on the charts is an indication that the stock is being bought for long-term investment and these buyers represent "strong holders" of the stock. Speculators, on the other hand, are often thought of as weak holders and they are willing to sell their stock on a modest advance. The long-term value-oriented investor will remain invested in the stock until its true value is being reflected in the price.

The best time to buy the stock is when the balance of supply and demand starts to shift in favor of demand. There are more buyers than sellers at that price and the stock starts to rise in price. When the upper

boundary of the basing pattern is exceeded, the investor can now believe that the buying during the period of basing was truly accumulation. This is the critical time to buy the stock, when it starts to emerge from a wide, horizontal basing pattern on the charts.

Stocks that fit this pattern are easy to identify and the investor should focus his attention on such issues. He will almost certainly be ahead of the average investor who needs to believe in a fundamental story about the stock. The emerging stock is only just beginning to feel the influence of a creditable buy story but there is still substantial uncertainty. The investor can be confident that as the up trend becomes more noticeable, believable reasons for the fundamental buy recommendation will become more widespread. A good "buy story" spreads among the general population of investors just as an infectious disease spreads among people. A good buy story becomes "contagious" and is spread from one investor to another.

The horizontal basing pattern is also evidence that buyers are willing to support the stock at those prices. This support for the price becomes an important element of risk control should the overall market experience a correction.

Market Dynamics includes a daily screen of stocks that are emerging from a major base (click on the "LISTS" dropdown menu and click on part 3). This has proven to be a very good source of long-term stock investment ideas. Some investors have trouble following this approach because the long-term buy story about the stock is still somewhat questionable and uncertain. At this point in time, it is highly likely that the average Wall Street analyst still rates the stocks as a "hold" or "under-perform." This is the best and most practical application of the theory of "contrary opinion."
W. Clay Allen CFA