

JCG—Randomness And Trends In Stock Price Data

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

Randomness says the future of the trend is unpredictable but strong up trends and strong down trends are regularly observed in random stock price data. Randomness does not preclude the existence of a trend in stock price data.

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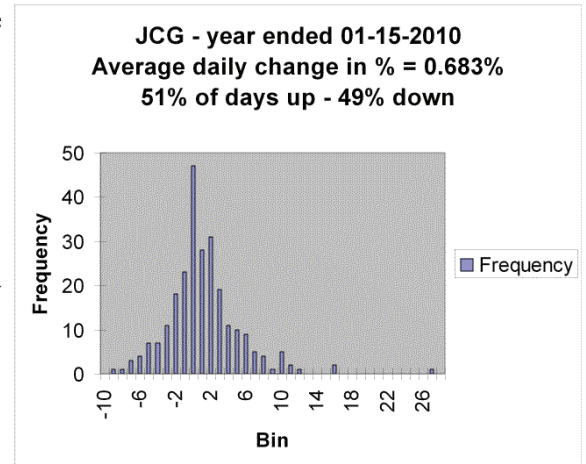
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The histogram of the daily percent price changes for JCG over the past year is shown on the right. It conforms to the general shape of a normal or bell shaped curve. Histograms of daily percent price changes are almost always in the general shape of a bell shaped curve. This implies, but does not prove, that a random process created those price changes.

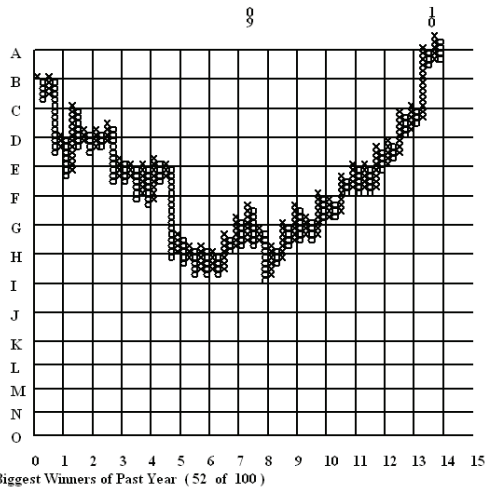
During the period under study, JCG went up over 200% even though the process was random in nature. The long-term point and figure chart shows the relative performance of JCG since the low at the start of 2009. It is interesting to note that a persistent up trend could develop in the output of a random process. This demonstrates that trends can exist in random data. Somehow the idea has developed that because the market for stocks is random, that trends don't exist. Nothing could be further from the truth.

Another interesting fact about the JCG data is that 51% of the days were up and 49% were down. That is very close to flipping a coin. The trend is revealed by the fact that the up days gained 3.48% on average while the down days lost considerably less at -2.27% on average. The average daily gain turned out to be +0.683%. The buyers were evidently more willing to pay up to buy the stock and the sellers did not have to forfeit as much when they sold.

The long-term investor needs to measure the difference between the up days and the down days. This



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Biggest Winners of Past Year (52 of 100)

difference shows up as a trend on the long-term chart of the stocks relative performance. Randomness says nothing about the existence of a trend. Randomness does indicate, however, that the future of the trend is unpredictable. The trend can be observed and measured but it cannot be predicted. The trend needs to be observed continuously so that the investor will know when the trend changes direction.

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