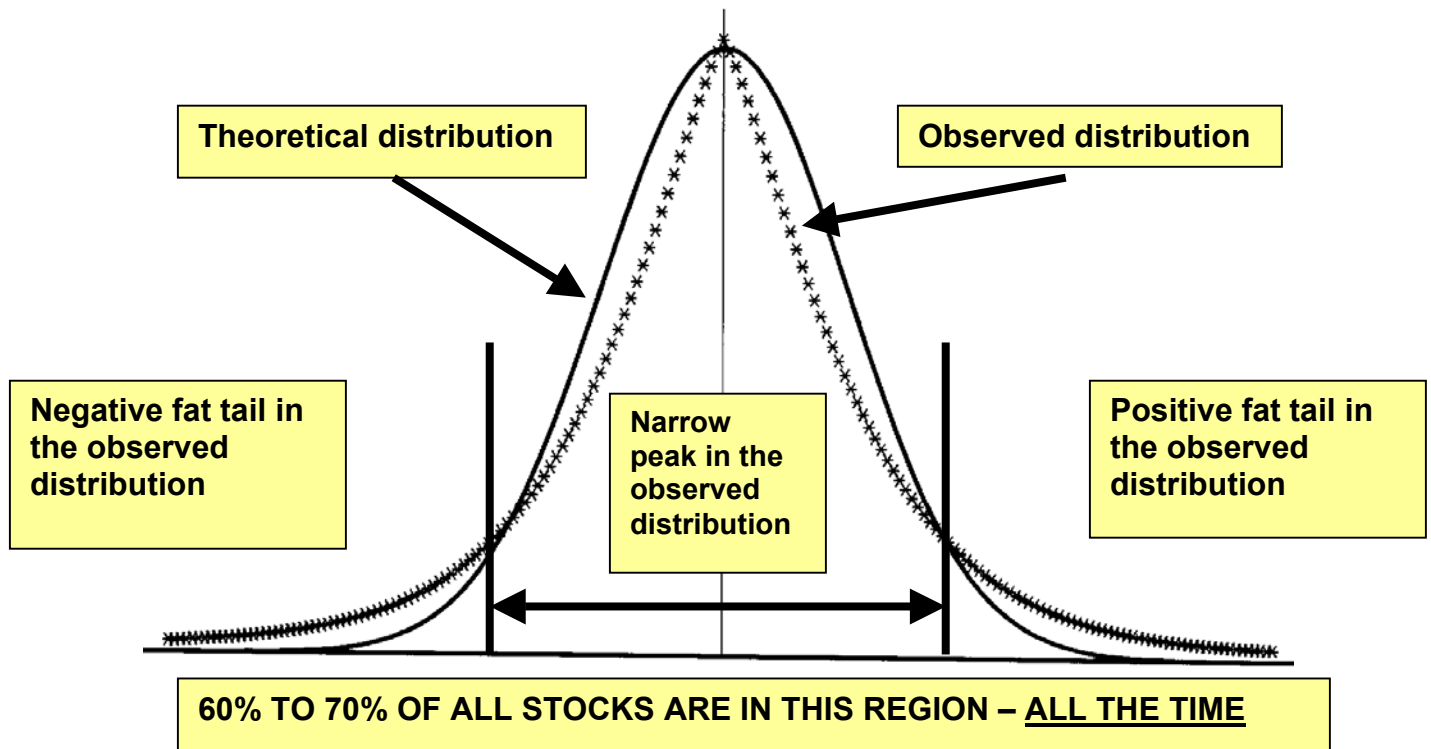


Managing stocks in long-term trading ranges – 60% to 70% of all stocks exhibit trading range patterns – even in a bull market.

Distribution of returns – Normal vs. Fat Tails

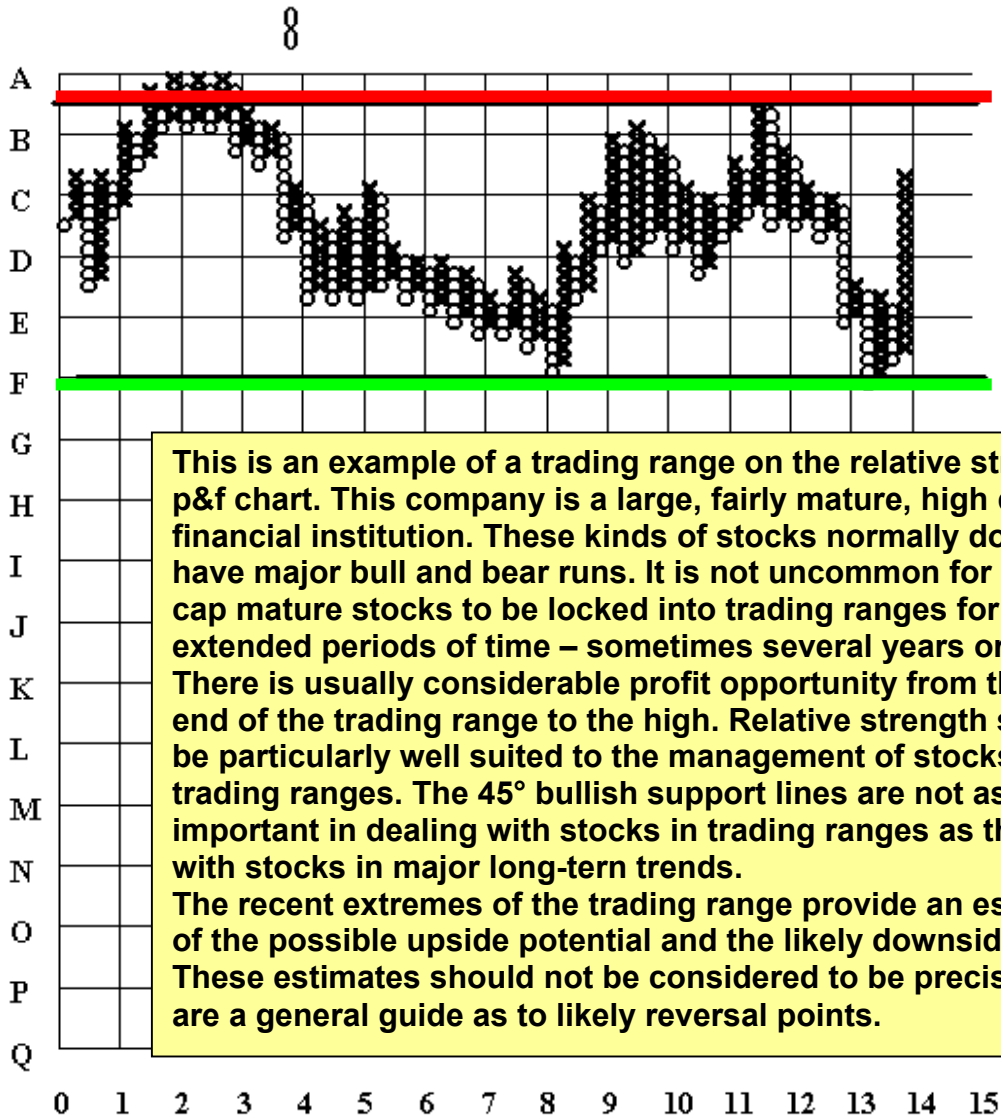


The central part of the distribution of returns holds about 60% to 70% of the population at any given time. This is also true for relative returns as measured by relative strength. These stocks do not move in major trends and more often than not they will exhibit a trading range pattern on the relative strength point and figure charts. The presentation used by Market Dynamics is long-term in perspective and four years of data are used to construct these charts. This becomes very important when assessing the extremes of historic trading ranges. Trading ranges reflect the repeated reversals of trends at about the same levels on the charts over time. The more frequently a level on the chart has proved to be a reversal level the more important that reversal level becomes. Trading ranges are a function of long-term support and resistance at work. Naturally the high reversal points offer an opportunity to sell and the low reversal points offer a chance to buy. If the trading range fails and a downside breakout occurs then the risk is limited to the level just below the failure point. By buying close to the trading range failure point the risk of the position is limited. By taking advantage of trading ranges the portfolio manager is able to sell into strength and to buy after weakness. Profits are captured at near maximums and retracement is avoided.

JPM - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500

J.P. MORGAN & CO INC 07/24/2000 135.06 JPM



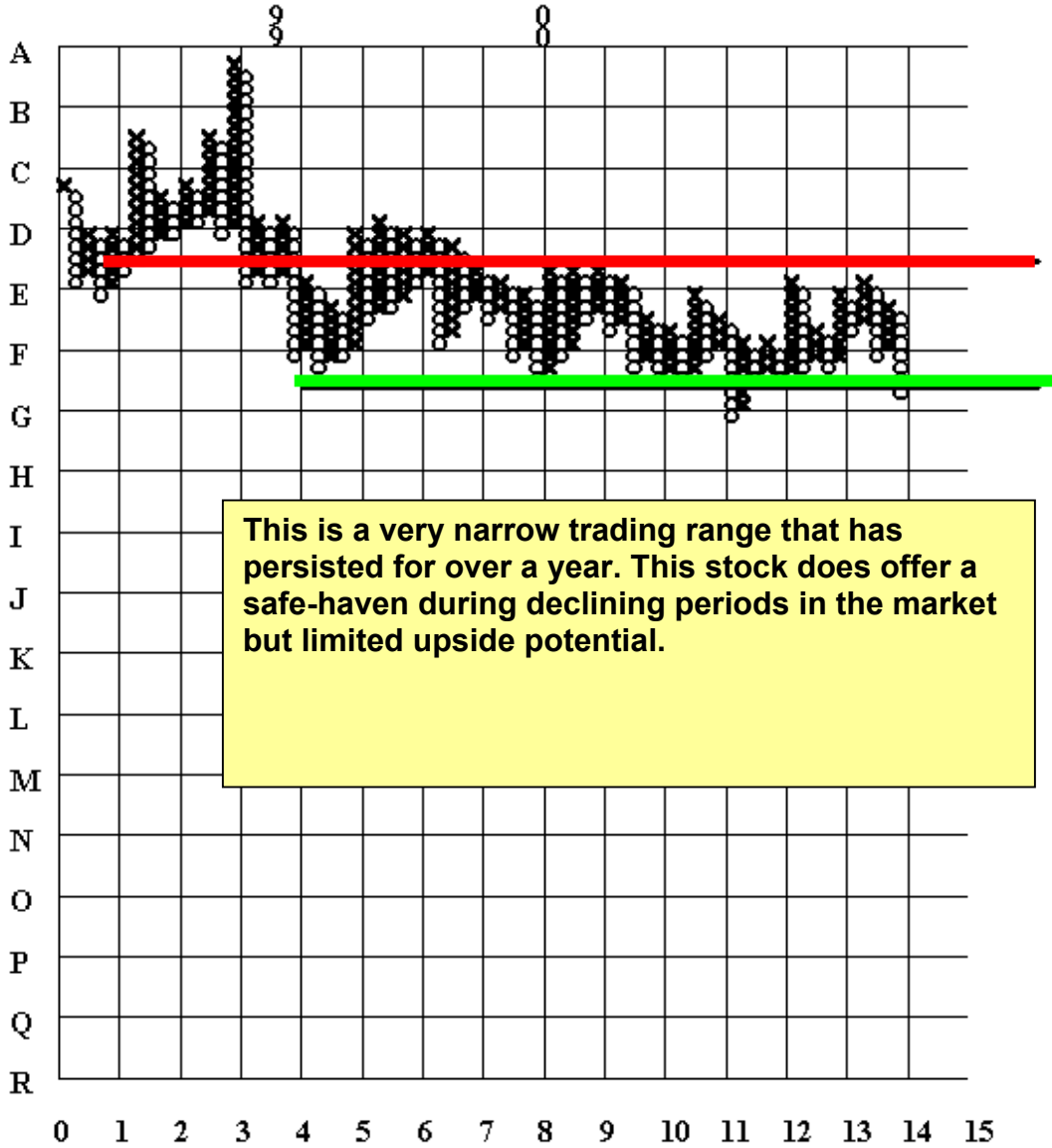
CPQ - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
COMPAQ COMPUTER CORP 07/24/2000 26.94 CPQ



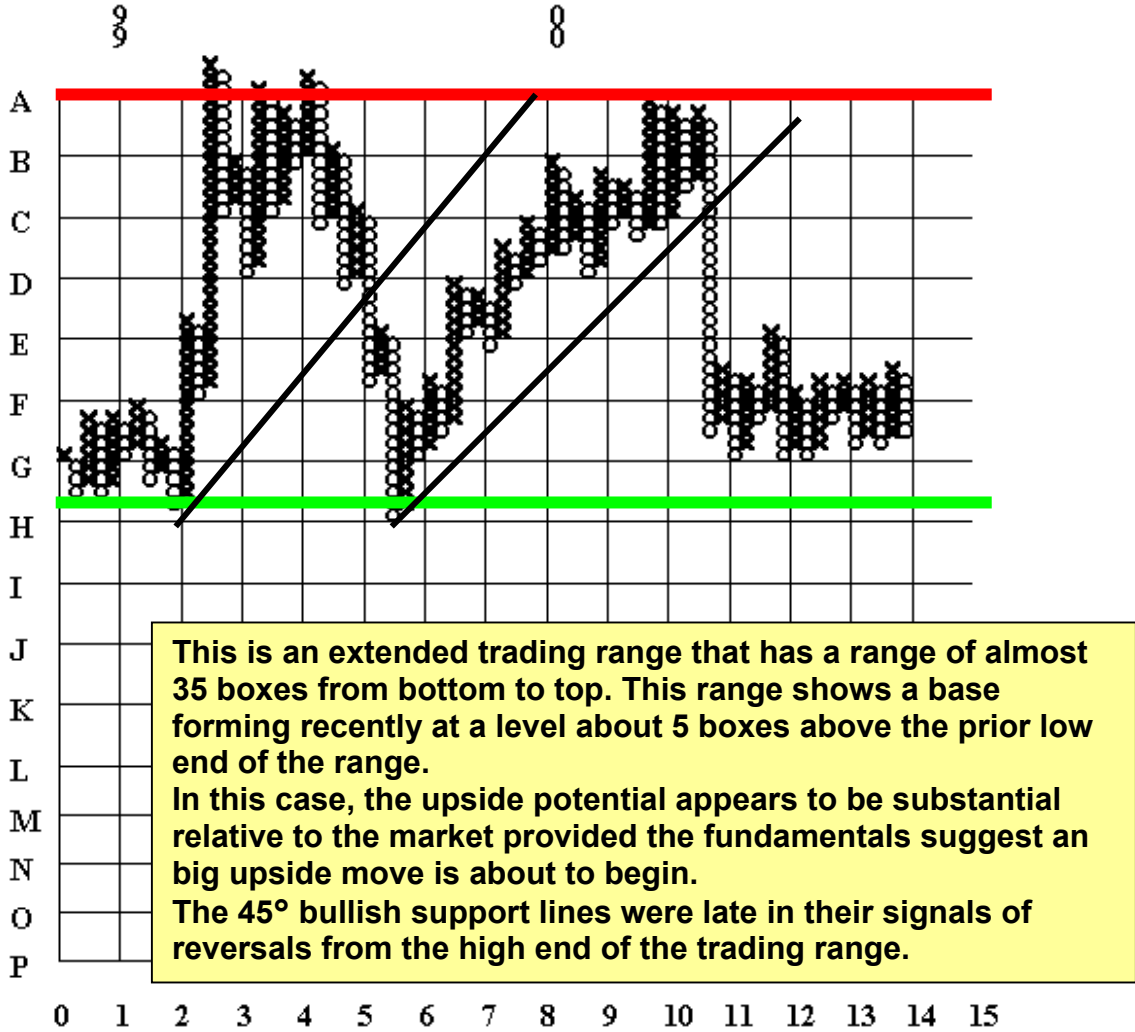
XOM - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
EXXON MOBIL CORPORATION 07/24/2000 77.25 XOM



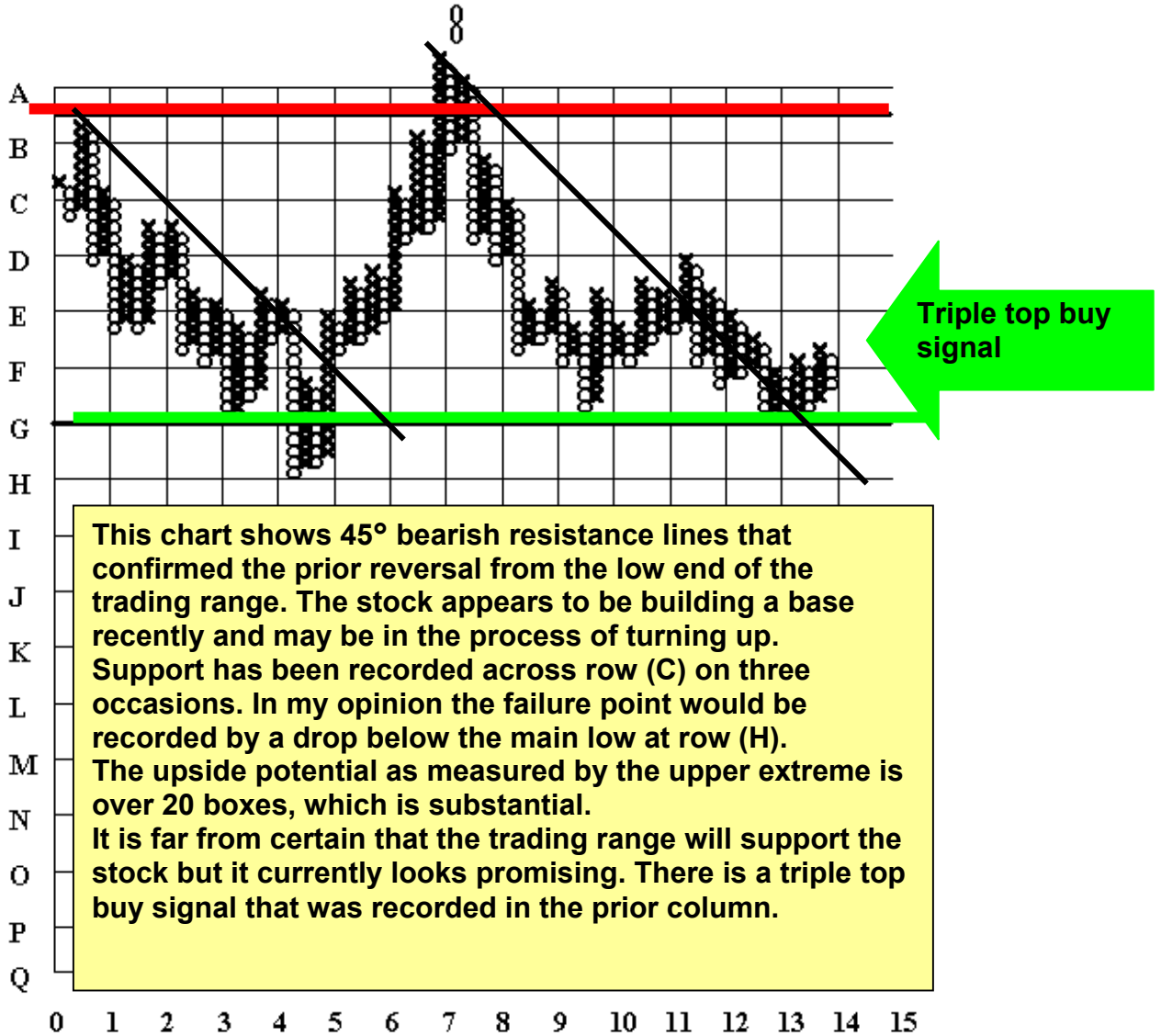
GBLX - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
 GLOBAL CROSSING LTD 07/24/2000 26.88 GBLX



AOL - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
 AMERICA ONLINE INC 07/24/2000 56.12 AOL



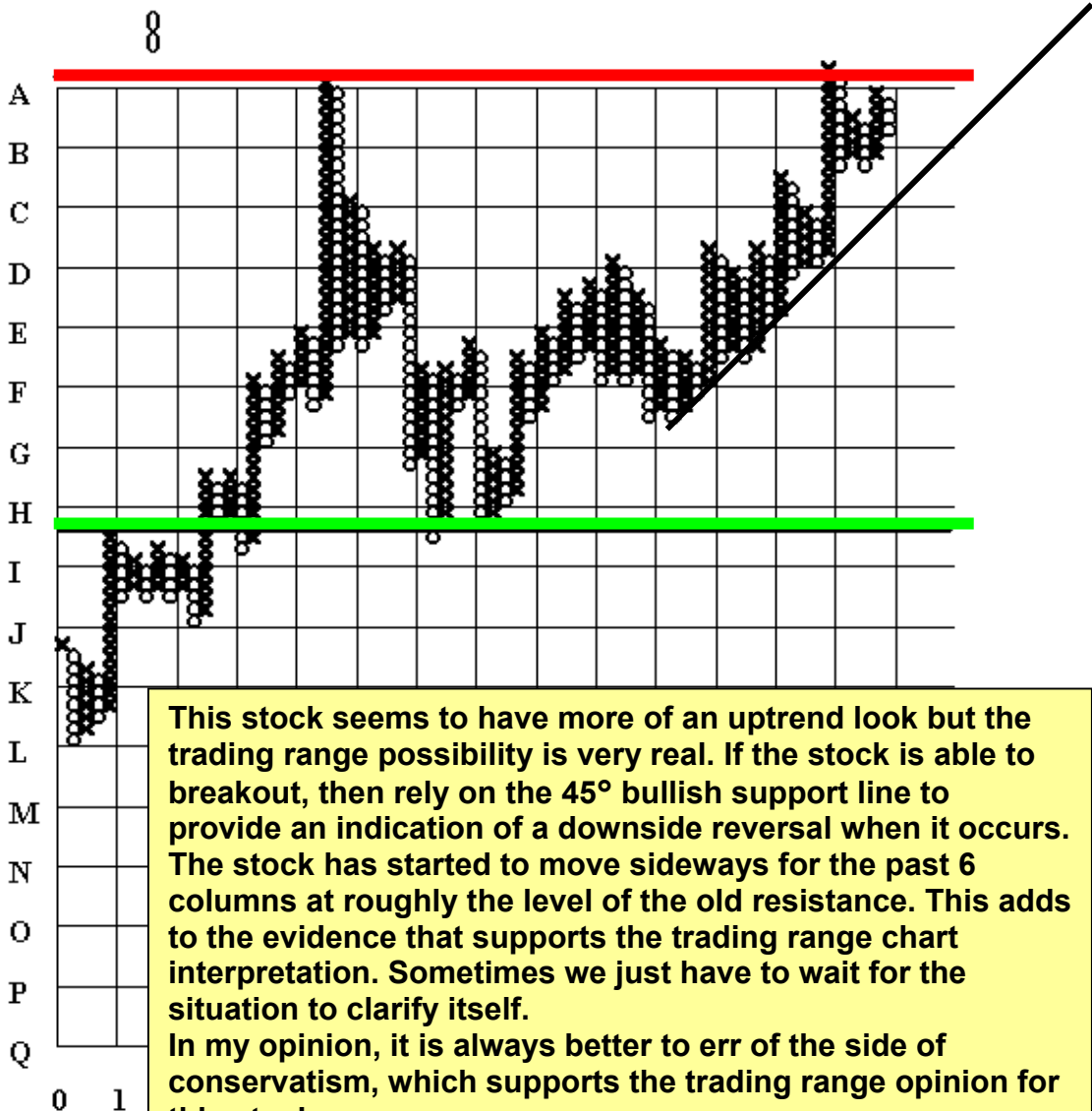
TYC - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
 TYCO INTERNAT LTD NEW 07/24/2000 55.75 TYC



RATL - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
 RATIONAL SOFTWARE 07/24/2000 103.38 RATL



This stock seems to have more of an uptrend look but the trading range possibility is very real. If the stock is able to breakout, then rely on the 45° bullish support line to provide an indication of a downside reversal when it occurs. The stock has started to move sideways for the past 6 columns at roughly the level of the old resistance. This adds to the evidence that supports the trading range chart interpretation. Sometimes we just have to wait for the situation to clarify itself.

In my opinion, it is always better to err of the side of conservatism, which supports the trading range opinion for this stock.

BBY - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
 BEST BUY CO INC 07/24/2000 74.19 BBY



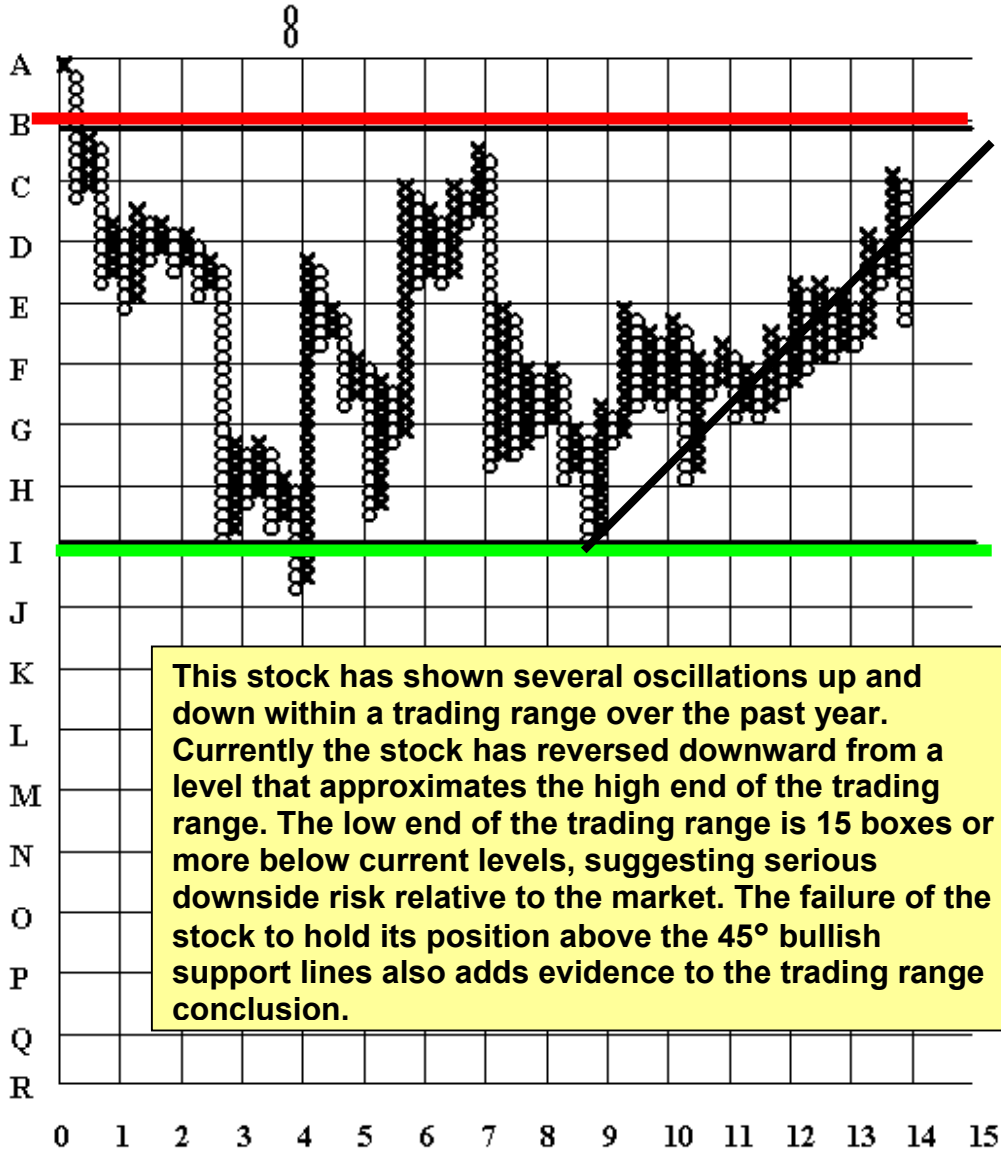
Earlier this year this stock made a minor breakout above the old highs of the trading range and then failed. The 45° bullish support line was broken after a top formed - roughly at the old trading range highs.

A recent move back into the upper regions of the trading range has developed. In my opinion this recent move should be given a low probability of a trading range breakout to the upside.

The number of columns that have reversed at roughly the row (B) level suggests serious resistance. These are the kinds of judgments that are often used to interpret a trading range and the likely movement within the trading range.

GILD - Trading Range

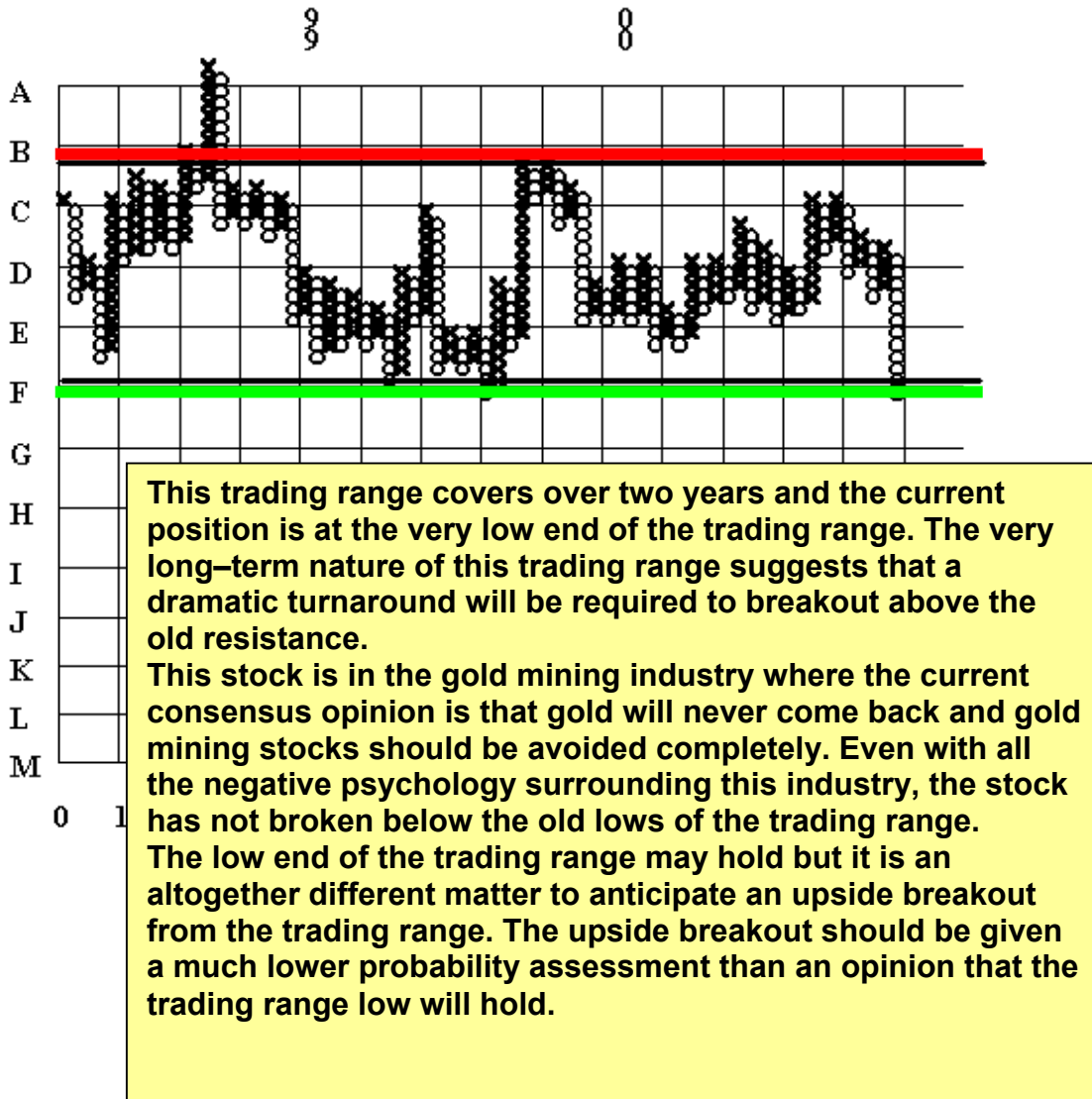
MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
GILEAD SCIENCES INC 07/24/2000 69.88 GILD



NEM - Trading Range

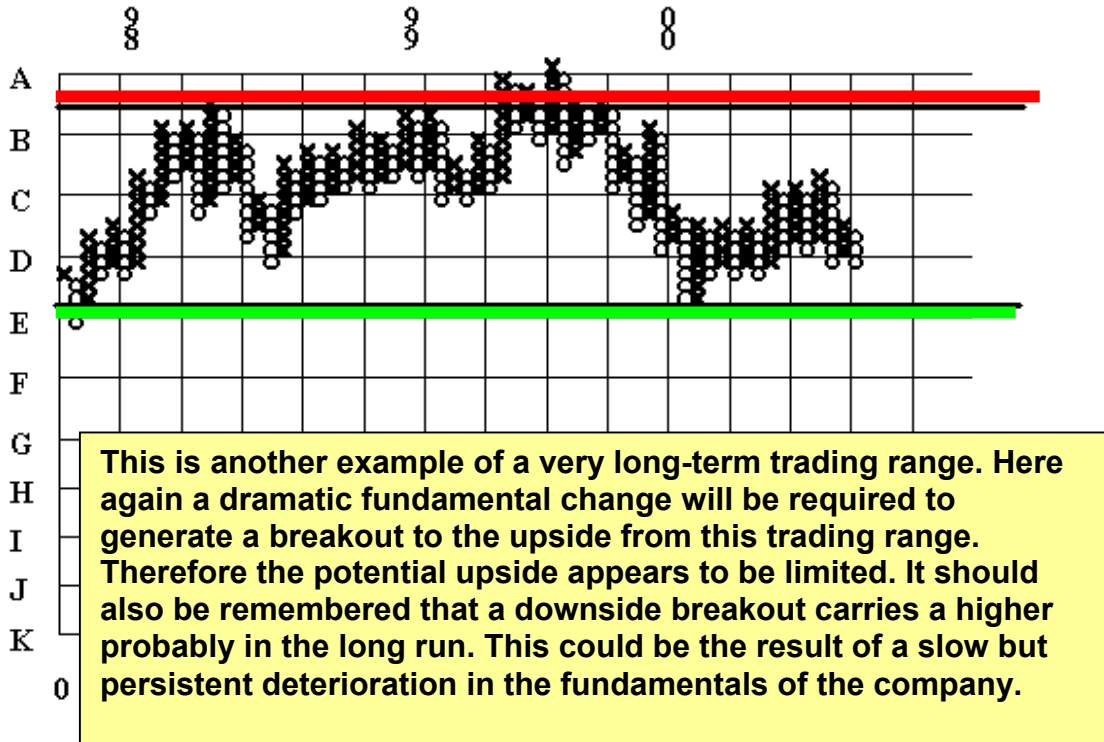
MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500

NEWMONT MINING CORP 07/24/2000 17.62 NEM



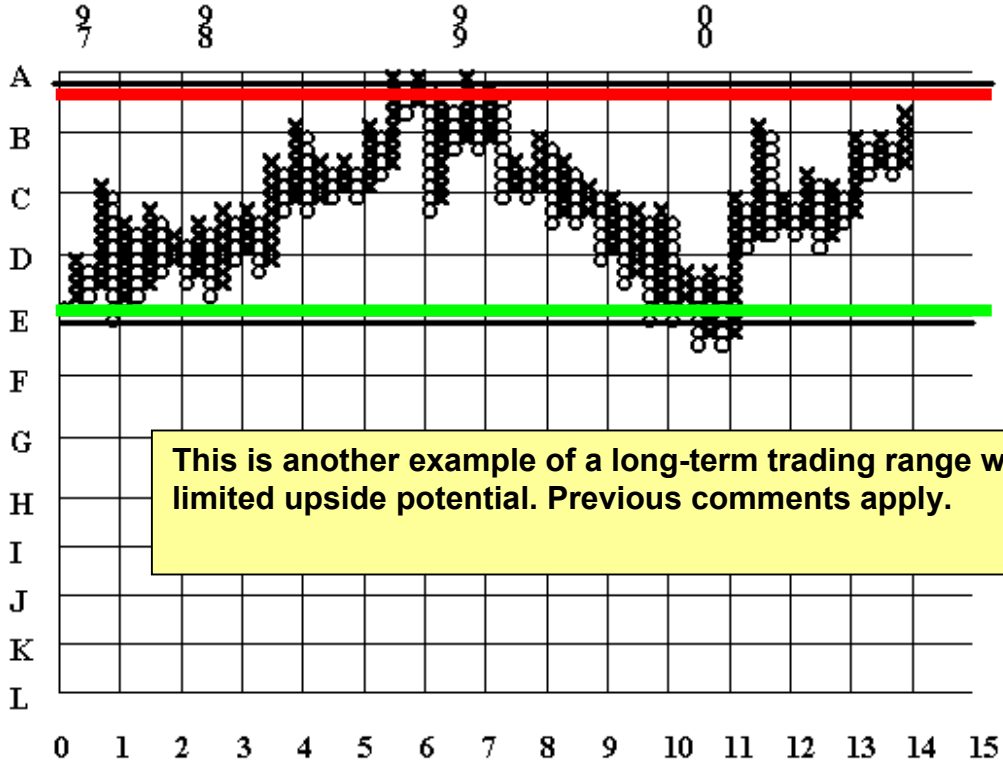
FDO - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
FAMILY DOLLAR STORES INC 07/24/2000 17.38 FDO



DV - Trading Range

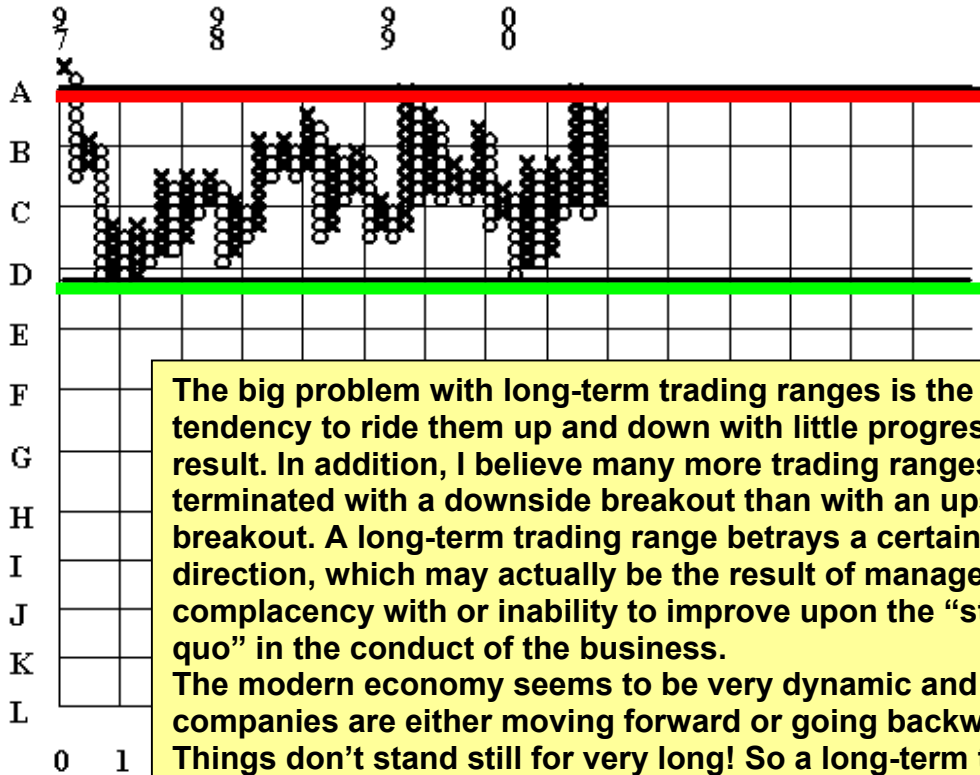
MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
DEVRY INC 07/24/2000 31.38 DV



EAT - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500

BRINKER INTERNATIONAL 07/24/2000 30.62 EAT



The big problem with long-term trading ranges is the tendency to ride them up and down with little progress as a result. In addition, I believe many more trading ranges are terminated with a downside breakout than with an upside breakout. A long-term trading range betrays a certain lack of direction, which may actually be the result of management complacency with or inability to improve upon the "status quo" in the conduct of the business.

The modern economy seems to be very dynamic and companies are either moving forward or going backward. Things don't stand still for very long! So a long-term trading range should not be considered as a positive by investors. Investors should take advantage of trading ranges and not get "locked" into them.

EL - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500

ESTEE LAUDER COS INC 07/24/2000 44.88 EL



EPG - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500

EL PASO ENERGY CORP 07/24/2000 49.5 EPG



MIL - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
 MILLIPORE CORP 07/24/2000 68.88 MIL



It appears that historic resistance has turned this stock down at almost exactly the same levels as in a prior trading range. The 45° bullish support line is currently providing support but the resistance seems to be formidable. The resistance that appeared is from levels that were recorded 2 or 3 years ago. This demonstrates the need for a chart presentation that covers several years of history.

PFE - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500

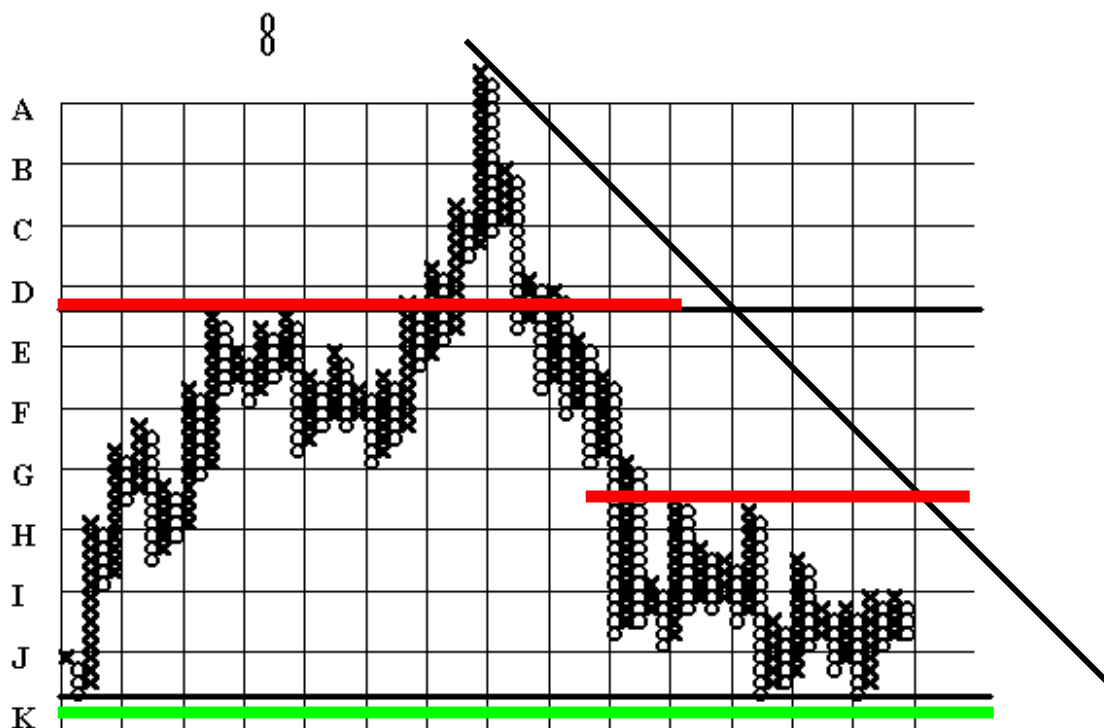
PFIZER INC 07/24/2000 47.56 PFE



The large number of long-term trading range examples that have been included in this tutorial is to make the point that dealing with long-term trading ranges is a major part of successful portfolio management. To repeat, 60% to 70% of all stocks are showing trading range patterns all the time. Unless your stock is in one of the extreme tails of the distribution, the stock is most likely to be experiencing a long-term trading range. Value managers and anyone trying to apply contrary opinion will be dealing with long-term trading ranges most of the time.

USIX - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
USINTERNETWORKING INC 07/24/2000 18.88 USIX



In my opinion, the most likely pattern to follow a major bear market move by a stock is a long-term trading range. It is also likely that the new trading range will develop at a much lower level than the prior bull market highs. It is also unrealistic to expect the stock to recycle quickly back to the old highs if the range is as broad as it is for this stock. The lower end of old resistance will set up a new ceiling that will limit the stocks ability to go up.

Investors seem to want to buy stocks that have gone down the most. This seems to ignore the probabilities that a new bull move in the stock is less likely than a long-term trading range. The distribution of returns in the stock market makes this conclusion inescapable.

A long-term trading range that is terminated by an upside breakout is usually what is meant by an upside breakout from a major base. During the formation of a major base (i.e. long-term trading range) the high priced stock with losses is sold by the weak holders and the stock goes into the hands of strong holders who are willing to buy for the long-term based on knowledge of the long-term fundamental value of the stock. This process takes a long time! The upside breakout is totally uncertain until it becomes a reality. The trading range may be a base or it may be a ledge and we can't tell "for sure" until the breakout occurs. In my experience, it is more likely that a trading range will turnout to be a ledge than a base and that it usually takes longer than you think.

DELL - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
 DELL COMPUTER CORP 07/24/2000 46.44 DELL



This is an example of a trading range that developed after a prolonged bullish trend. Will this trading range turn out to be a top or a base for another move up? We don't know and we can't know until the breakout occurs.

It is more likely to be a top than a base, in my opinion. The sideways movement through the 45° bullish support line seems to add to the evidence that it will be a top.

This trading range has been in place for so long that a downside breakout will trap many investors with high-priced stock, which is being held at a loss (i.e. weak holders). Weak holders are more inclined to sell and the downside price breakout from a top converts many investors into weak holders.

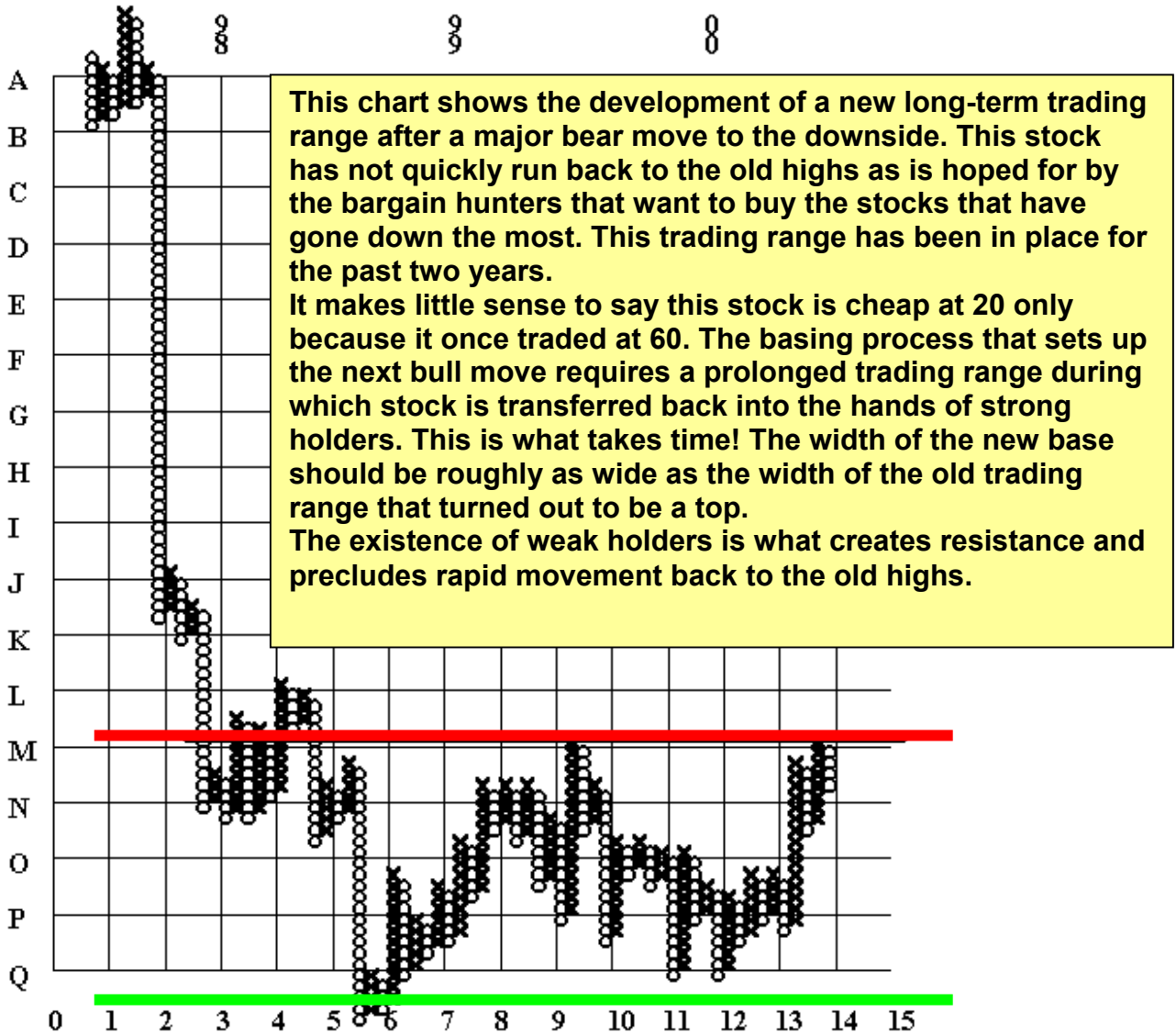
CMB - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
CHASE MANHATTAN CORP 07/24/2000 51.56 CMB



OXHP - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
 OXFORD HEALTH PLANS INC 07/24/2000 23.19 OXHP



GENZ - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
GENZYME CORP 07/24/2000 69.16 GENZ

8



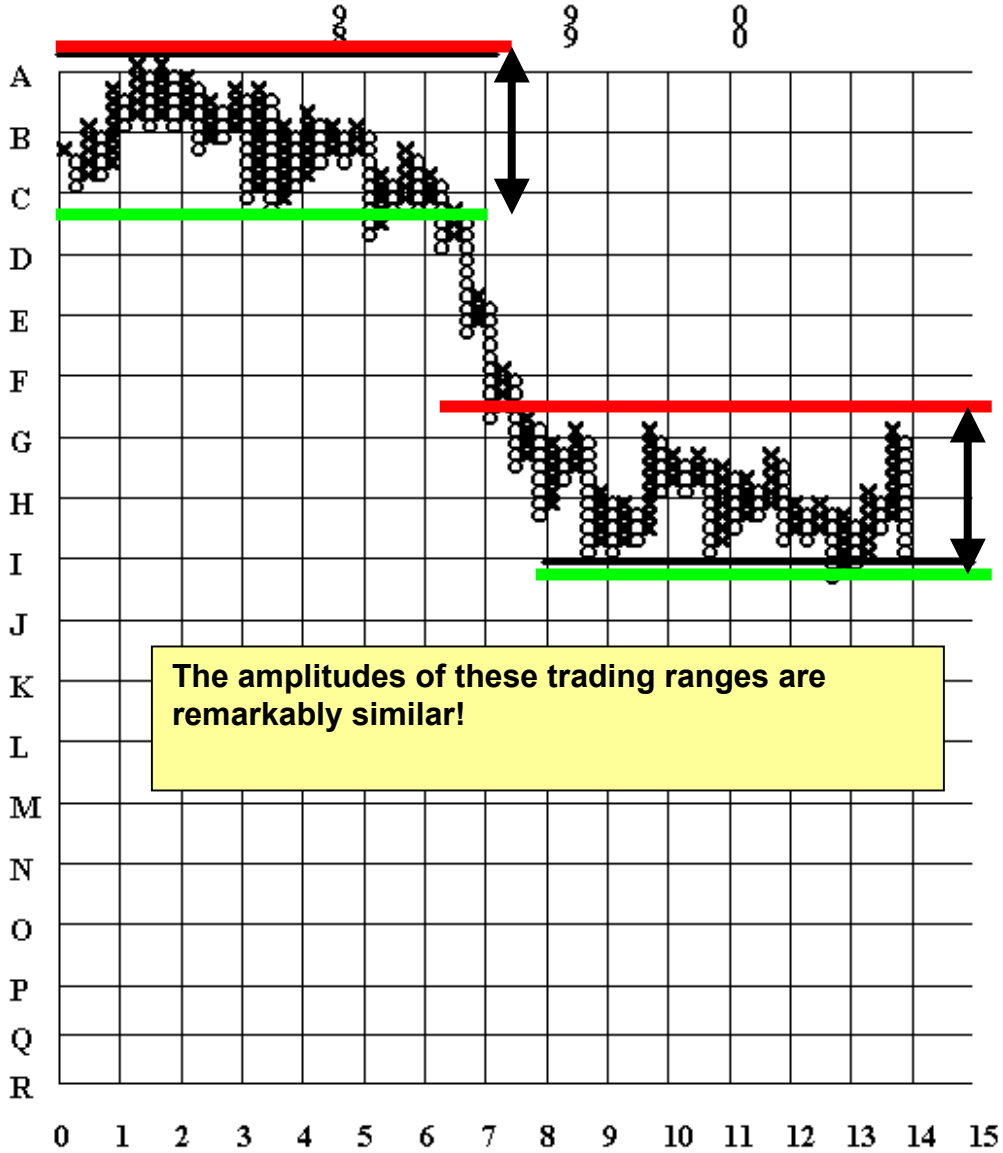
PG - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
 PROCTER & GAMBLE CO 07/24/2000 62 PG



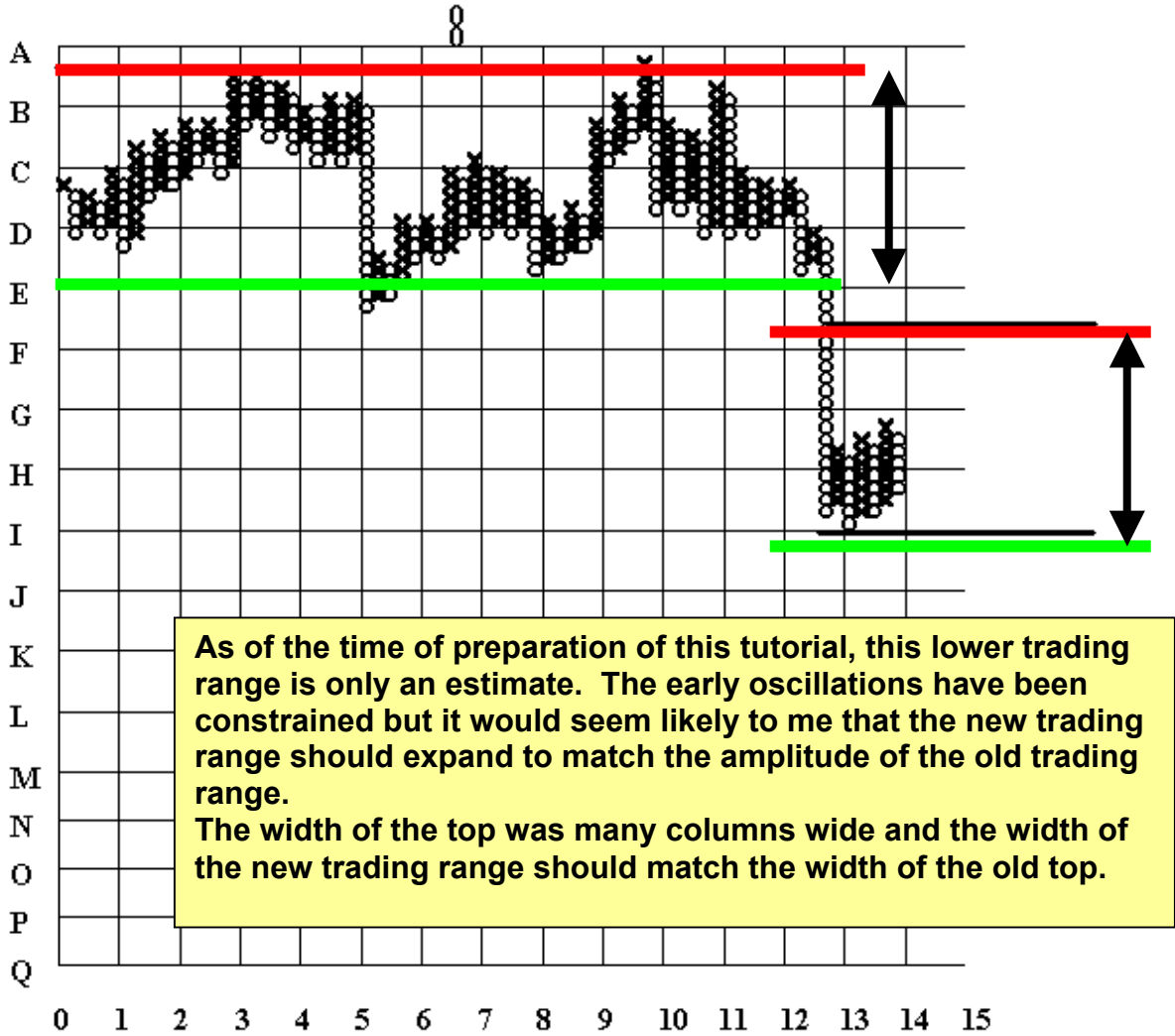
DE - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
DEERE & CO 07/24/2000 39.25 DE



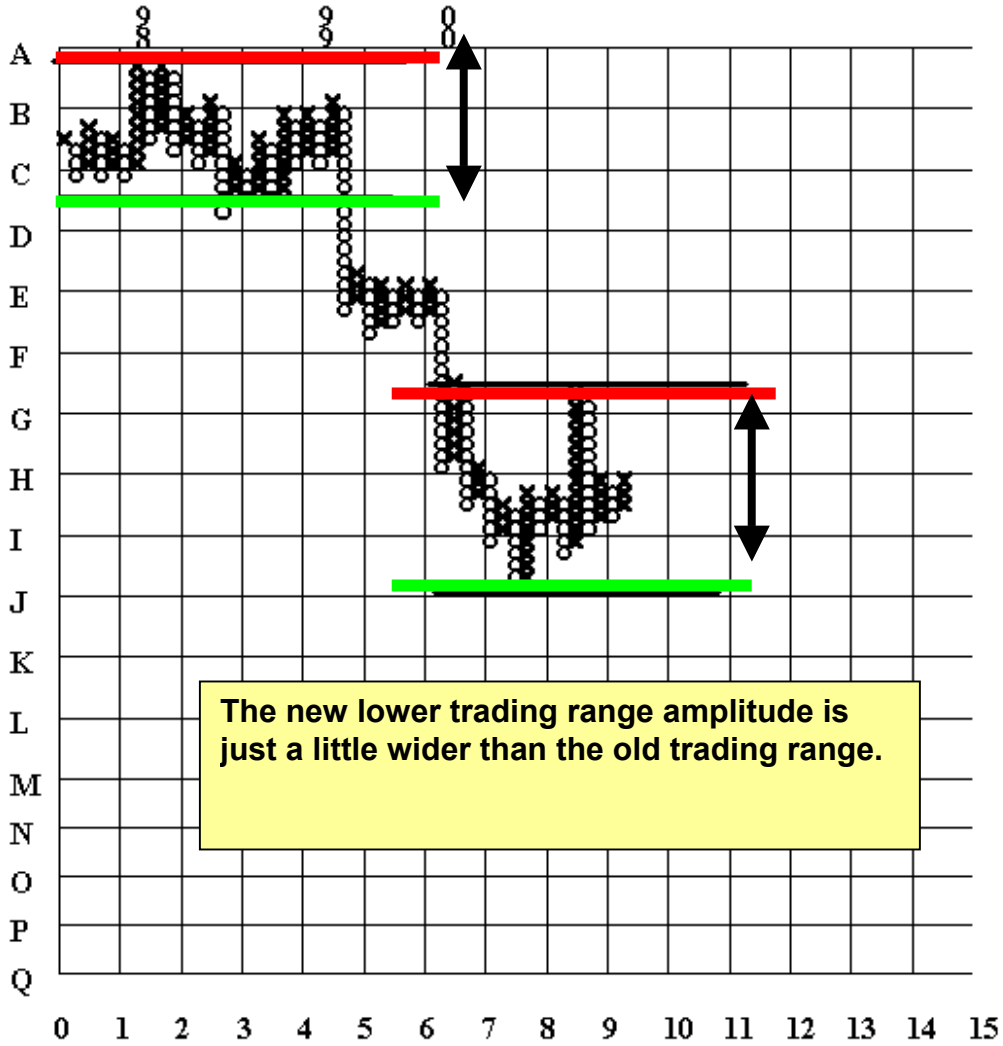
EFII - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
ELECTRONICS FOR IMAGING 07/24/2000 23.94 EFII



ALL - Trading Range

MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500
ALLSTATE CORPORATION 07/24/2000 24.69 ALL



TRADING RANGES – SUMMARY

Trading ranges are among the most important patterns in the analysis of relative strength in point and figure format. It is important to note how frequently trading ranges appear on these charts – i.e. 60% to 70% of all stocks are in trading ranges all the time.

Many times, trading ranges will persist for several years or more. The stocks of large cap, mature companies will often be in trading ranges for prolonged periods.

The amplitudes of trading ranges seem to repeat from one time period to the next.

Simple rule – buy at the lower extreme of the trading range and sell close to the high end of the trading range. The extremes are not precise – a box or two is close enough!

In my opinion, it is easier for trading ranges to breakout to the downside vs upside breakouts.

The very first step in the analysis of a chart of relative strength in point and figure format is the application of the principles of trading range analysis to the chart being reviewed.

Trading ranges should limit the desire to be a bargain hunter until a trading range is in evidence and reasonable estimates of the extremes of the trading range can be relied upon. The stock must be able to prove that it has stopped going down!

A trading range does not constitute a base until a meaningful upside breakout has taken place.

Trading ranges show up clearly on the long-term relative strength point and figure charts.

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