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Huge Time Saver

Find Breakouts and Potential Breakouts Easily -- Using EDS and AIQ's New Chart Pattern Recognition Module

By David Vomund

In the May *Opening Bell* we introduced an exciting add-on feature for TradingExpert Pro called Chart Pattern Recognition. In that article we showed how trendlines are automatically drawn that highlight nearly 20 well-known chart patterns on the Russell 3000 stocks, most ETFs, and Forex securities. Both completed patterns (default is blue trendlines) and emerging patterns (default is green trendlines) are shown.

pleted patterns without having to manually scroll through hundreds of charts.

TradingExpert Pro version 9.0, which includes Chart Pattern Recognition capability, comes with two EDS files that are used to find breakouts and potential



DAVID VOMUND

breakouts. Let's take a look at these two files, beginning with completed patterns.

From AIQ's Quick Launch Menu, click Studio to enter EDS. Once in EDS, click *File, Open*, and highlight the *Chart Patterns__Completed* file. Click *Open*. To run the report, enter the appropriate date and from the

menu bar select *Report*, then *Run All*. The program will then scroll through each ticker in your database, searching for new breakouts. (Note: to run EDS on a list of stocks, click *File, Properties*, and select the appropriate list).

In **Figure 1** we see an EDS file that

"The Chart Pattern Recognition add-on to TradingExpert Pro is extremely innovative and gives users a trading edge over the competition...having the program list all the completed patterns/breakouts at the end of the day is a tremendous time saver."

In the May article, we said that Expert Design Studio (EDS) could be used to identify those stocks with completed patterns (i.e., price breakouts) at the end of each trading day. Obviously, this is a huge time saver as it allows us to find the com-

was run after the close on June 12. Near the top of the screen, there are several reports, beginning with Rule Library (to see the Rule Library report you may have to click the left arrow to move to the first folder).

In Figure 1 we have highlighted the “anybreakoutdn” report, which lists every stock that has fallen below its chart pattern. These stocks have bearish patterns. The “anybreakoutup” report shows the stocks that have broken out to the upside.

While the two reports mentioned above are the most important, the “anybreakout” report may be of interest as it lists every stock with a completed pattern, no matter what the pattern is. To see what pattern was completed, look for the column showing a “-1.00”. For example, in Figure 2, Brinker Int’l (EAT) has a “-1.00” under the Channel Down report. That means the stock fell below a downward sloping channel (Figure 3).

The EDS file has many reports since there is a report for each chart pattern. Please note that you can change the order of the reports by

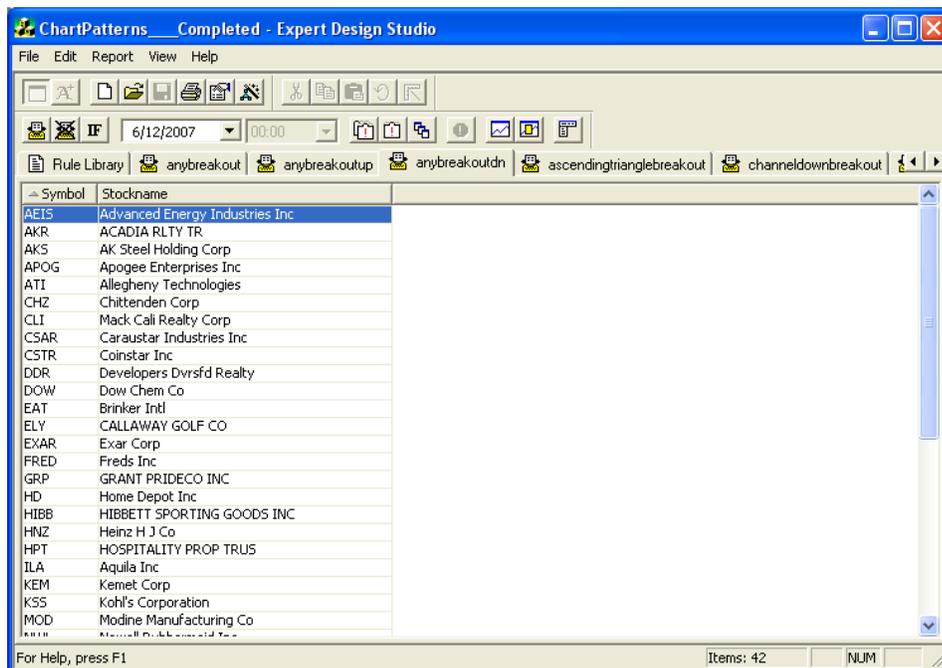


Figure 1. EDS report screen showing “anybreakoutdn” report for 6/12/07. Report lists stocks that closed below support trendlines for all chart patterns.

simply dragging them to the new location, or you can remove some of the reports and add them back at a later date if need be.

Thus far we have discussed the EDS file that shows completed patterns. The second file that comes with version 9.0 shows stocks with emerging patterns. An emerging

pattern is a pattern that is developing but is not complete because there is no breakout. Two things can happen to an emerging pattern: There is an eventual price breakout so the pattern becomes complete, or the price action violates the pattern so the emerging pattern status is removed.

To search for emerging pattern, open the *Chart Patterns_Emerging* file in EDS. As before, enter the appropriate date and select *Report* and *Run All*.

The first report, called “anyemerge” is the most important report as it lists all of the stocks with emerging price patterns. If you chart a stock with an emerging pattern, the pattern’s trendlines will appear in green.

When an EDS file lists stocks with emerging or a completed patterns, it is easy to chart the stocks. One method is to double-click the ticker symbol in EDS. A chart of the stock will appear. A better method is to click the *Chart List* icon. It will create a list of the stocks (called AIQEDS by default) and then will chart the first stock in the list. To see the other stocks, click the sideways

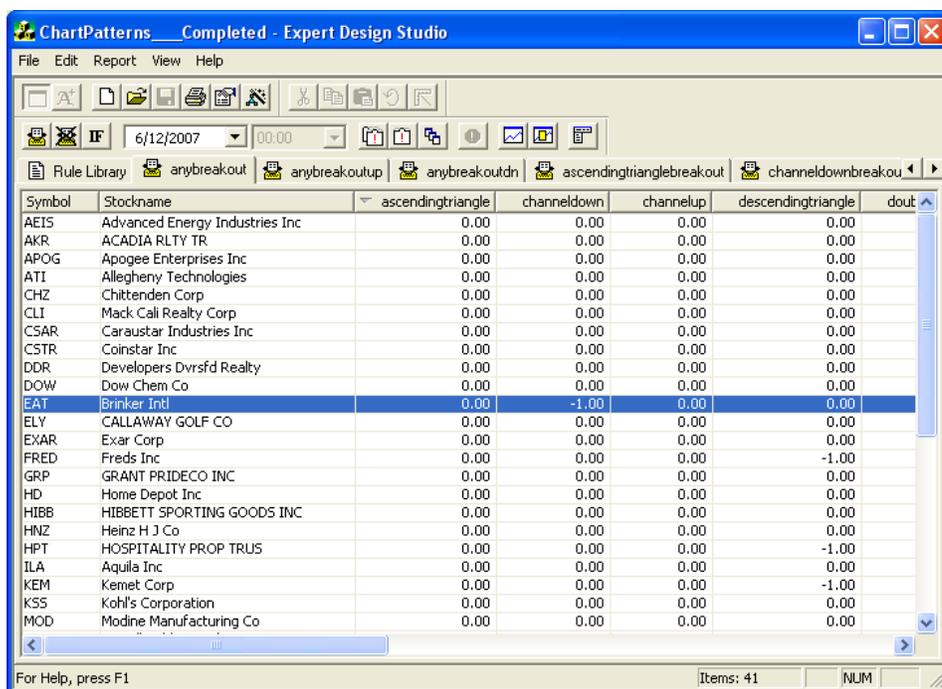


Figure 2. EDS report screen showing “anybreakout” report for 6/12/07. The -1.00 for highlighted stock (EAT) in “channeldown” column means stock closed below down sloping channel support.

arrow.

If you use the Chart Pattern Recognition feature, the two EDS files covered in this article will become very important and you will likely run them every day. With these files, you can easily set up TradingExpert to produce a list of chart pattern breakouts after each data download. Here's how.

From the Quick Launch Menu bar, select COMM as if you were going to retrieve data. At the AIQ Data Retrieval screen, select the EDS Post Processing folder. Select Add and highlight the two EDS files and click Open. Your screen will look like Figure 4. You should wait at least three hours after the market's close before you retrieve price data and chart patterns.

The Chart Pattern Recognition add-on to TradingExpert Pro is extremely innovative and gives users a trading edge over the competition. The feature is powerful and between the May *Opening Bell* and this issue, we've only scratched the surface. Still, anyone who uses the

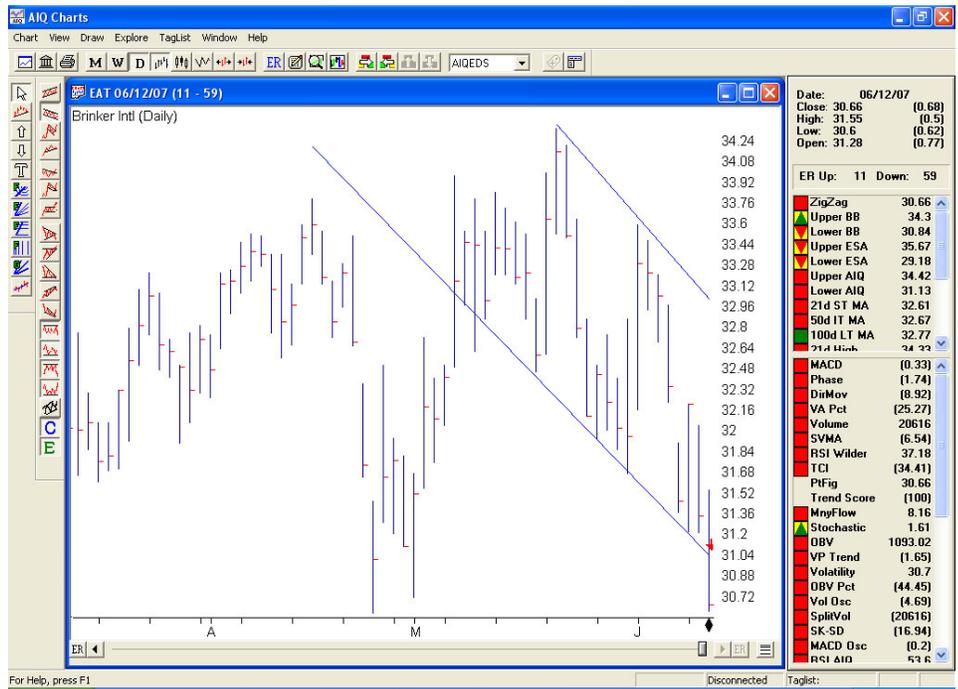


Figure 3. Daily chart of Brinker Int'l with Channel Down chart pattern drawn by AIQ's Chart Pattern Recognition module. On 6/12/07 EAT closed below the channel, a bearish indication.

feature should understand how to use the EDS files discussed in this article. Although they may look complicated, their application is very easy and having the program list all the competed patterns/breakouts at

the end of the day is a tremendous time saver.

AIQ's Chart Pattern Recognition is a \$20 per month add-on program. For information, call 800-332-2999 or visit www.aiqsystems.com/chartpatterns.htm.

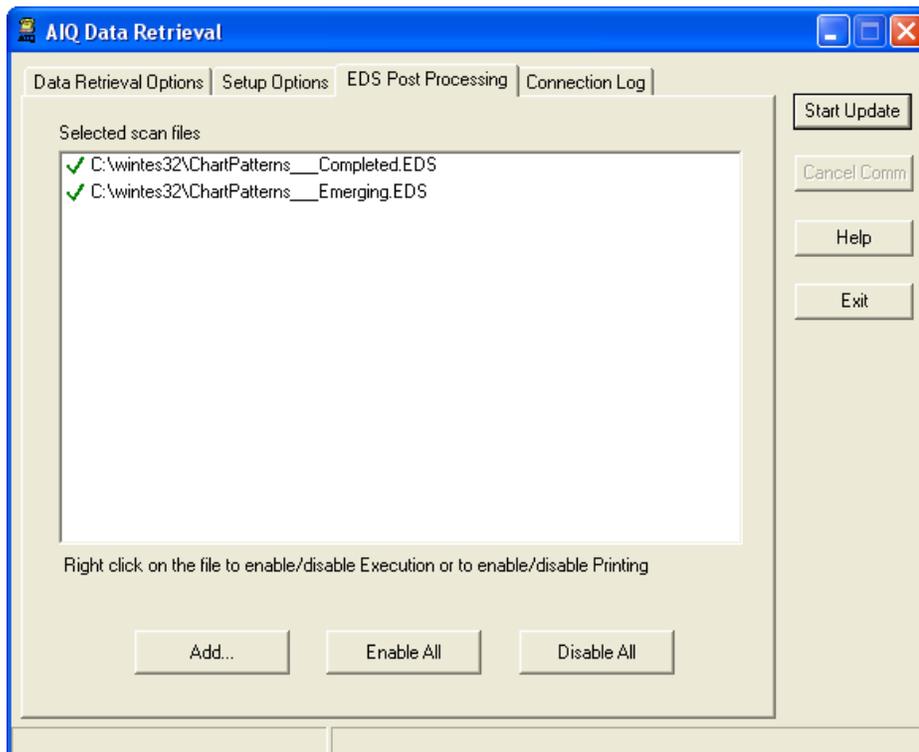


Figure 4. AIQ Data Retrieval screen with EDS Post Processing page displayed. The two chart pattern EDS scan files have been added to the main window by means of the Add function.

David Vomund publishes VIS Alert, a weekly investment newsletter. For a sample copy, go to www.visalert.com.

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You can also search for particular topics on this site

An Interview That Deserves Attention

Tap Into Insider Knowledge Using The 'Smart Money' Indicator -- On Balance Volume

The On Balance Volume (OBV) indicator was developed by Joseph Granville and is used to detect hidden accumulation or distribution. The theory behind this indicator assumes that there is "smart money" that is able to accumulate stocks at low prices and ride them higher. As "the general public" starts to accumulate a security, the smart money begins to sell. The general public does not realize this is happening because the distribution of smart money does not affect price. Once the smart money has sold, the security's price tops out and the general public then finds itself on the wrong side of price activity.

The OBV indicator works best for securities with a following that is a mix of large professional players and smaller uninformed investors. OBV attempts to measure insider knowledge, which may deal with the fundamental side of the stock. The smart money may not be Wall Street professionals, but rather the company's management. The OBV indicator allows technicians to tap into this "inside knowledge."

On Balance Volume is simply a running total of accumulation volume less distribution volume. If a stock closes higher than the previous day's closing, then the day's volume is said to be accumulation volume and the entire day's volume is added to the running total. If the stock closes lower on the day, then the day's volume is considered to be distribution and is subtracted from the running total.

With this in mind, it's best to buy an issue with evidence of accumulation (rising OBV) and sell

on signs of distribution (falling OBV). The indicator is useful in determining when a trend reversal is likely and when a trend will continue.

Most traders look for price divergences between the indicator and a stock's price. A bullish setup occurs when the OBV indicator is rising while a stock's price is falling. An example is ADC Telecommunications (ADCT) on June 5 (see **Figure 1**). This is an especially positive setup because the indicator is hitting new near-term highs while the stock is moving lower.

How does one find these divergences? TradingExpert Pro provides two sources that screen for positive and negative divergences. The first is in the Reports module. Within Reports, click the *Price Volume Divergence* report. By default, this report looks for divergences in both

"OBV attempts to measure insiders' knowledge...The smart money may not be Wall Street professionals, but rather the company's management. The OBV indicator allows technicians to tap into this 'inside knowledge'."

the OBV and Money Flow indicators over the last 15 days. Since we are interested strictly in OBV divergences, we'll set the report to only use the OBV indicator.

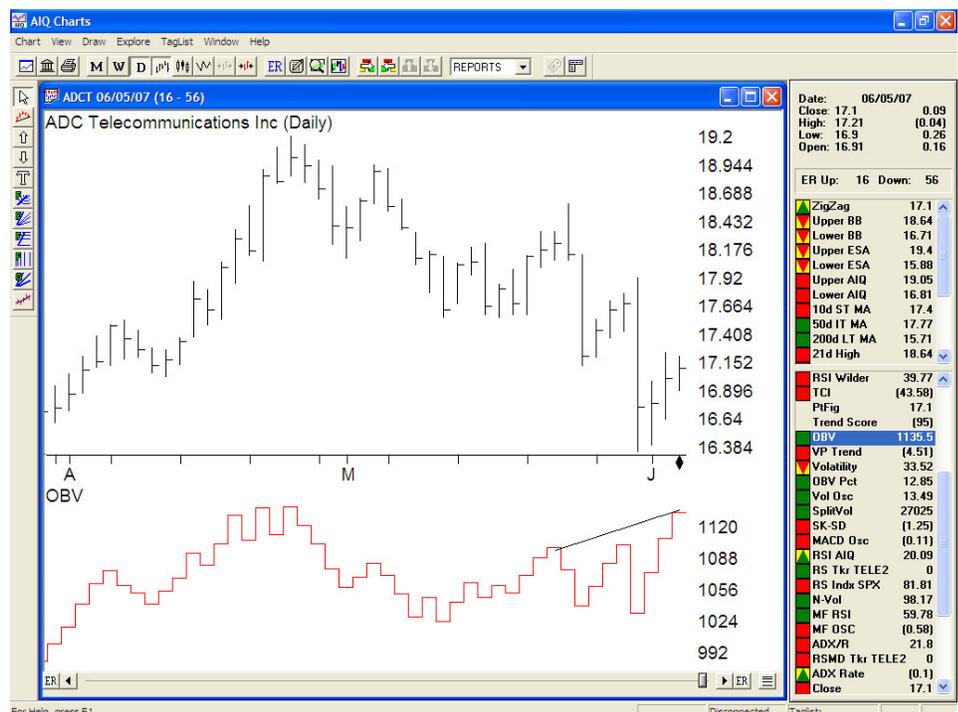


Figure 1. Daily chart of ADC Telecom with OBV indicator shown in lower window. Bullish setup occurred in late May/early June when price fell while OBV rose (trendline).

To accomplish this, click the *Price Volume Divergence* report and select *Reports* and then *Report Properties* from the menu bar. Set the weight for OBV to 100 and set the weight for Money Flow to zero and click OK (Figure 2). The report will then look for OBV divergences that have occurred over the last 15 days.

There is also a pre-built EDS file for OBV divergences. From the Quick Launch Menu, select *File* and *Open*. Within the Wintes folder, choose *EDS Strategies, Basic Indicator Strategies, and OBV*. Here you will find file choices that look for positive and negative divergences (i.e., OBV slope moving opposite direction as price slope). The default uses a 21-day divergence but some will prefer to reduce this number within the code.

The files within EDS also have choices for finding stocks where OBV is hitting a new high or a new low. This is appropriate for growth investors since they are not interested in turnaround situations. They buy strong stocks and hope to ride them higher. If a stock's OBV indicator is strong, it increases the

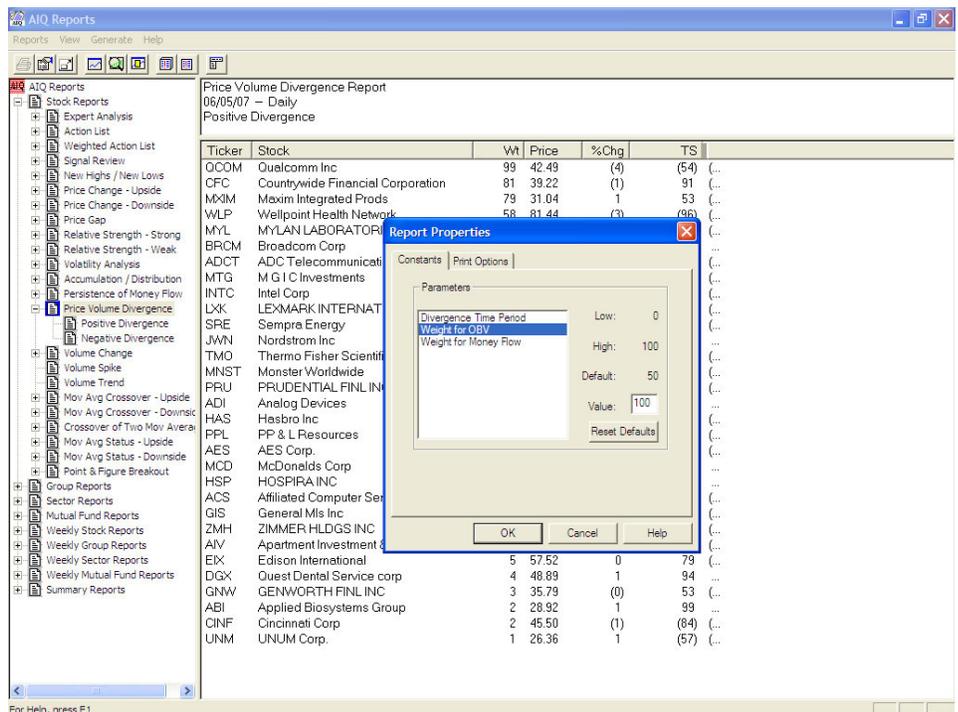


Figure 2. AIQ Price Volume Divergence report with Report Properties dialog box. To look for OBV divergences, use this box to set OBV weight to 100 and Money Flow to 0.

odds that the stock will continue to remain strong.

An example of an uptrending stock with an OBV indicator hitting a new 120-day high is found in Figure 3. Eastman Kodak (EK) rose above a multi-month high on June 5.

OBV confirmed the move as it was hitting new highs as well. This increases the odds that the stock will remain strong.

Whether OBV is used to find turnaround situations or attractive growth stocks, it is an indicator that deserves attention.

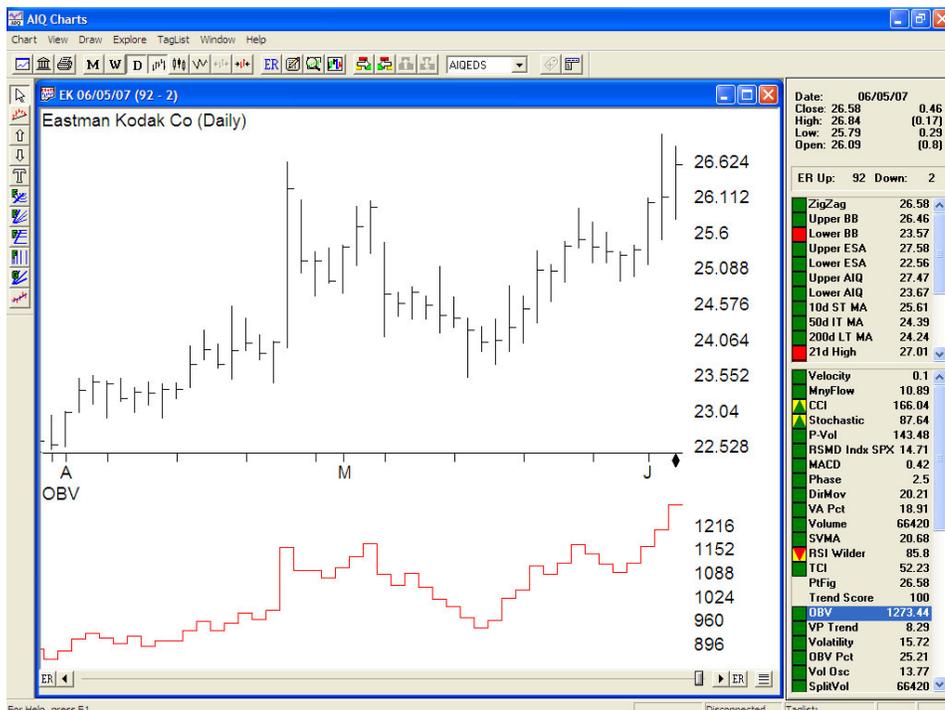


Figure 3. Daily chart of Eastman Kodak with OBV indicator in lower window. On 6/05/07 OBV reached new high as price also moved higher. Confirmation by OBV is bullish indication for stock.

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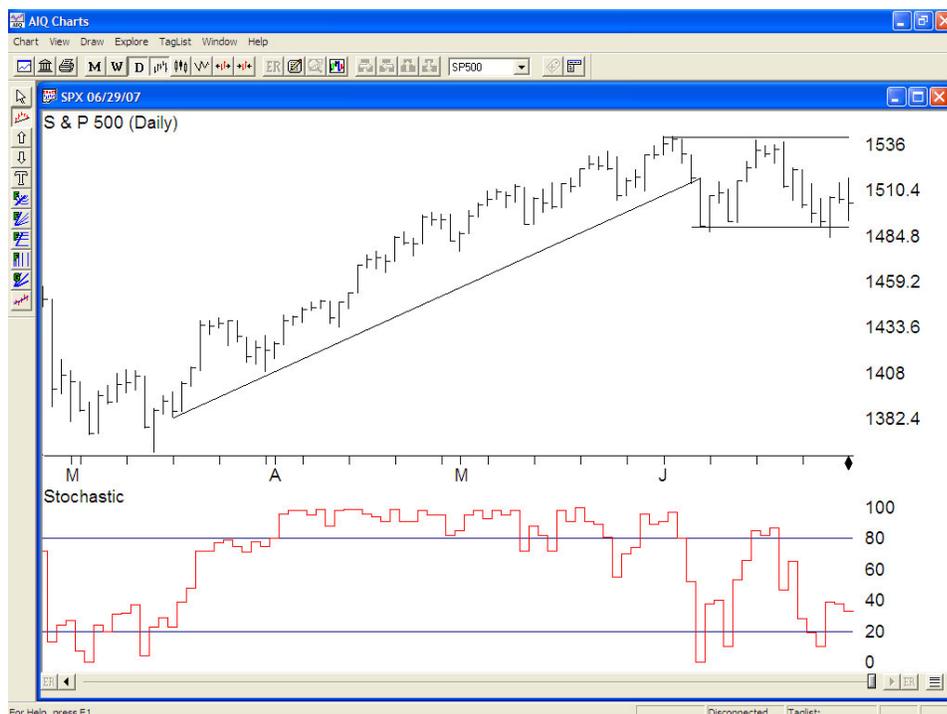
Market Review

Take a Good Look--the Market Is Not Soaring

From March through May the market experienced an unusually sharp rally. That rally ended in June when the S&P 500 fell below its steep upward-sloping trendline. Once the trendline was broken it was apparent the rally was over and that the market would either consolidate or move lower.

A consolidation low was formed on June 7. From that level, the S&P 500 rallied off its oversold level (81% of the S&P 500 stocks with unconfirmed AIQ signals were on the buy side) and reached its late May high. Resistance held and by June 25 the index was once again testing the bottom of the range. While the S&P 500 was testing the bottom of the range, the Nasdaq was outperforming and sat in the middle of its range. Since the Nasdaq often leads, that is a bullish sign.

The market had a good first half of the year, with the S&P 500 gaining 6.0%. Given all the media hype over the Dow's crossing 13,000 and the S&P 500 hitting a new all-time high, this year-to-date return is probably lower than what most people expect. The market is not soaring. The S&P 500, although near a record high



level, is virtually where it was more than seven years ago. Put another way, if you had invested in an S&P 500 index fund in March 2000, you would have no gain whatsoever, only plus years of dividends.

For the month of June, the S&P 500 lost 1.78%, the Nasdaq Compos-

ite was about unchanged, and the Russell 2000 dropped 1.6%.

The strongest sectors were Automobiles gaining 5%, Semiconductors gaining 3%, and Energy gaining 2%. The worst performing were Real Estate losing 11%, Utilities losing 6%, and Banks losing 4%.

S&P 500 Changes

Changes to the S&P 500 Index and Industry Groups:

MEMC Electronic Materials (WFR) replaces Kinder Morgan (KMI). WFR is added to the Equipment Semiconductor (EQUIPSEM) group.

Precision Castparts (PCP) replaces Medimmune Inc. (MEDI). PCP is added to the Aerospace Defense (AEROSPC) group.

STOCK DATA MAINTENANCE

The following table shows stock splits and other changes:

Stock Splits:

None

Trading Suspended:

British Airways (BAB), Claire's Stores (CLE), Comverse Technology (CMVT), Keane (KEA), Lone Star Technologies (LSS), Nortel Networks (NT), OSI Restaurant (OSI)

Name Changes:

Boston Life Sciences (BLSI) to Alseres Pharmaceuticals (ALSE)
 Federated Dept. Stores (FD) to Macy's (M)
 Harken Energy (HEC) to HKN (HKN)
 Pharmacopeia Drug Discovery (PCOP) to Pharmacopeia (PCOP)
 Prospect Energy (PSEC) to Prospect Capital (PSEC)
 Teekay Shipping (TK) to Teekay (TK)
 Wellsford Real Properties (WRP) to Reis (WRP)

AIQ's 18th Annual Lake Tahoe Seminar

October 1 - 3, 2007 Harveys Resort & Casino South Lake Tahoe, NV



Nelson Freeburg

This year's keynote speaker Nelson Freeburg Founder Formula Research

Nelson Freeburg is editor of FORMULA RESEARCH, a financial letter that develops systematic investment models for stocks and bonds. When he first came to the financial markets, Nelson was pursuing a Ph.D. in world politics at Columbia University. Wholly taken by the excitement and promise of trading, Nelson said good-bye to the academic life. Nelson began researching the markets full-time. Eventually he would build a financial database that reaches back to the last century--and from this, a library of advanced trading strategies. Today Nelson uses these timing models to advise institutional clients and manage his own investments.

Many investment professionals rely on Formula Research. Gerald Appel, John Bollinger, Paul Tudor Jones, John Murphy, Martin Pring, Linda Raschke, Larry Williams--all of these and other industry leaders employ his proprietary research.



11 sessions



Hosted reception



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BONUS live webinar session with Linda Bradford Raschke. Linda is President of LBRGroup, Inc., a registered CTA and money management

firm and president of LBR Asset Management, a CPO. She began her professional trading career in 1981 as a market maker in equity options.

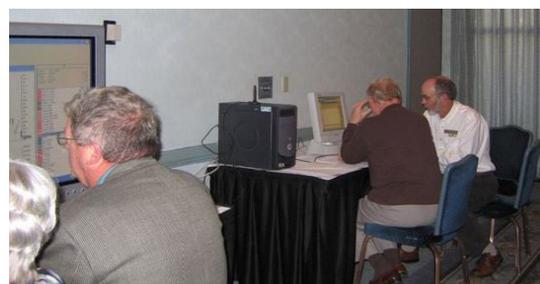
Also joining us this year will be **Martha Sipe**, CFA, a veteran of Wall St and president of mindingmatter.com, and **Bob Debnam**, founder of the ChartProfit service. We are also pleased to welcome back **Dale Wheatley**, founder of The Options Hunter service and **Steve Palmquist**, trader and founder of daisydogger.com. Our regular AIQ speakers **Steve Hill**, CEO and **David Vomund**, Chief Analyst round out the speaker line-up.

Every morning begins with an AIQ-hosted breakfast. Sessions begin at 8:30 each day and run through to 5:00 pm (12:00 on last day). Regular breaks during the day include an AIQ-hosted lunch on the first two days. Tuesday evening all attendees are invited to an AIQ catered buffet dinner.

Including meals, cost for all three days is **only \$895 per person**. Reserve your place now as seats sellout fast.

**Sign-up before July 31st
and pay only \$845.**

There will no Getting Started with AIQ track this year; instead we will be offering **one-on-one hands-on clinics** with senior AIQ staff. Appointment times will be accepted throughout the first two days of the seminar



Here's what last year's attendees had to say

"Tremendously valuable - the content and clarity of the presentations moved my trading education forward"

"This was an extremely useful session, advancing my understanding of several important chart patterns"

"Steve (Palmquist) actually told the group what works for him and what makes him a successful trader, outstanding."

Seats are limited CALL 1-800-332-2999 x115

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Presented by
Bob Debnam, founder Trendline
Steve Hill, CEO, AIQ Systems



Session One - Gann For Everyone

Gann doesn't have to be a mystery. Bob Debnam introduces some basic but powerful methods pioneered by W.D.Gann that any trader can use. In 1929, he predicted that the markets would probably continue to rally on speculation and hit new highs... until early April. In his publication, The Supply and Demand Letter, he provided daily financial forecasts focusing on both stocks and commodities. Gann also published several books - most notably "Truth", which was hailed by the Wall Street Journal as his best work. He then began releasing the techniques that he used to make these forecasts: the Gann studies.

Session Two - Using Chart Pattern Recognition as part of your trading arsenal

Chart patterns are obvious to some and not to others. Quantifying chart patterns in a meaningful manner is essential if they are to be part of your trading strategy. In this advanced session, Steve will reveal some of the findings of his ongoing 3 year study of chart patterns. You will discover the elements that are required for a chart pattern to be valid, including why a given pattern works or does not and how to trade it. Effectiveness rates and where to place exit targets will also be discussed. Patterns discussed include Head and Shoulders, Pennants, Flags and double tops and bottoms.

Session Three - Let's Get Sentimental

Bull Markets are born on pessimism, grow on scepticism, mature on optimism and die on euphoria. Sentiment rules the market. How to measure it, how to use it. Changes in market direction are not random. Figuring out how to gauge the market is where sentiment comes in. Whether it is commitment of traders or options sentiment, in this session Bob Debnam will share with some known and some lesser known methods to gauge a market. Bob will include some of his very own techniques that he has honed over 30 years of trading the markets.

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