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Industry Group Trading System

The 'Best of Times, Worst of Times' Trading Strategy

By Jay Kaeppel

Editor's not: This article first appeared in the January, 2004, *Opening Bell.* Annual return figures have been updated. Mr. Kaeppel will be the keynote speaker at AIQ's fall seminar to held at Lake Tahoe on October 9, 10, and 11.

There has been much debate about whether it is better to buy weak stocks or strong stocks. The theory behind buying weak stocks is that you have the opportunity to "buy low and (hopefully) sell high." The theory behind buying strong stocks is one of momentum – an object in motion is most likely to continue in that motion (at least for a while). Most research strongly suggests that if you had to choose, when buying individual stocks you are better off buying stocks making new highs rather than new lows.

This is also true with industry groups – however, not to the same degree. While a given company may go out of business for any number of reasons, it is a much more rare occurrence for an entire industry group to decline in price and never rebound (although it can happen – the horse and buggy industry has yet to recover from the Model T). Thus, it makes sense to buy an industry group that has experienced a sharp decline. The problem with this approach is, how do you know if you are "buying low" or simply trying to "catch a falling safe?"

Jay Kaeppel, independent trader and author

Weak Industry Groups

Generally speaking, there is a pattern which is not uncommon for industry group price performance. At some point, the fundamentals for a given industry go south and eventually so do the stocks in that industry group. This can go on for any period of time, but usually does not last much longer than about two years. Once the majority of the decline is over, the group may then experience a period of basing action for up to a year (actually, the longer the better). Once this long decline and basing period is over, it is not uncommon for a group to then reemerge as a leading performer.

"So which is better? Buying "weak" industry groups or "strong" industry groups? My research indicates that the best approach might be to utilize both strategies rather than attempting to choose one or the other."

In other words, once the industry has been "wrung out" and the fundamentals (which usually change over a long period of time) swing back to the upside, the industry group as a whole is ripe for an advance in price. In a moment, we will look at a simple method that attempts to take advantage of this phenomenon.

Strong Industry Groups

Regarding strong industry groups, a number of studies indicate that simply buying the strongest performers and holding on as long as they are trending higher is a crude but highly effective (although at times frightening) strategy in and of itself. My sector fund trading system published in the July 2000 *Opening Bell*, along with David Vomund's work from last October and December, shows that the returns from buying into strength can be quite high.

Combining the Two Methods

So which is better? Buying "weak" industry groups or "strong" industry groups? My research indicates that the best approach might be to utilize both strategies rather than attempting to choose one or the other.

As in almost all cases involving investment "styles" (large-cap vs. small-cap, growth vs. value, stocks vs. bonds, etc.) the one thing we can count on is that one style will outperform for a while and then the other style will take over as the leader. In this case, rather than trying to determine which "style" is performing better at any point in time, we simply utilize both styles at all times. We will give details next.

The "Best of Times, Worst of Times" System

The overall portfolio involves buying and holding 10 industry groups at a time - 5 weak and 5 strong. For the purposes of testing, the reports are run after the close on the last day of trading each quarter and the portfolio is readjusted at the close on the next trading day (i.e., the first trading day of each quarter). The ideal way to trade these groups is through the use of "folios," also known as "stock baskets" (information on folios can be found in the Editor's Notes at the end of this article).

The starting point was the AIQ Industry Group Pyramid which I named ListMM. Because I want to trade 10 industry groups in a single folio and because the broker that I use (FolioFN) limits a given folio to 50 stocks, I stripped down AIQ ListMM so that each group contains no more than five stocks. I called this revised list "ListJK."

ListJK is not better or worse than ListMM; it is simply a little easier to trade all of the stocks in a given group at one time. The primary considerations in selecting the stocks to keep in each group were: 1) the stock could be traded as part of a folio at *www.foliofn.com*, and 2) the correlation of the stock to the original AIQ Industry Group.

"To buy "weak" groups, look for the worst performing groups over a 500-day period – then wait 12 months before buying those groups...To buy "strong" groups, look for the best performing groups over the latest 240-day period and then buy those groups."

Rules for Buying Weak Industry Groups

What we are looking for are groups that have experienced prolonged declines and have also had some time to consolidate and build a base for an upswing in price. To buy "weak" groups, look for the worst performing groups over a 500-day period – then wait 12 months before buying those groups.

AIQ Opening Bell Newsletter

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The mechanics for buying weak industry groups are as follows:

After the last trading day of each quarter:

1. In AIQ Reports – click on *Group Reports*

2. On the menu at top select *Reports – Global Properties*

3. Set the *Group/Sector Report* list as the list you want to use

4. Select the *Price Change - Downside – Long-Term Report*

5. Right click on that report, and set the *Price Change – Long-Term Constant* to 500 days

6. On the menu select *Generate – Selected Reports* and set the date to the last trading day of the quarter ended one year ago (i.e., on 12/31/03 set the date to 12/31/02).

Buy the stocks in the top five groups, giving equal weight to each group, and then repeat this process at the end of the next quarter.

Rules for Buying Strong Industry Groups

What we are looking for here are the groups that are performing the best right now. To buy "strong" groups, look for the best performing groups over the latest 240-day period and then buy those groups.

The mechanics for buying strong industry groups are as follows:

After the last trading day of each quarter:

1. In AIQ Reports – click on *Group Reports*

2. On the menu at top select *Reports – Global Properties*

3. Set the *Group/Sector Report* list as the list you want to use

4. Select the *Price Change - Upside – Long-Term Report*

5. Right click on that report, and set the *Price Change – Long-Term Constant* to 240 days

6. On the menu select *Generate – Selected Reports* and set the date to the last trading day of the quarter just ended (i.e., on 12/31/03 set the date to 12/31/03).

Buy the stocks in the top five groups, giving equal weight to each group, and then repeat this process at the end of the next quarter.

Results

I have run this test with several different industry group structures including the AIQ Industry Group Pyramid, my own stripped down version of the AIQ Industry Group Pyramid, surrogate groups for each of the Fidelity Select Sector funds, industry groups set up for trading as single-stock futures by OneChicago, and the Fidelity Select Sector funds themselves using the AIQ Mutual Fund Reports rather than the Group Reports. Several patterns clearly emerge.

In every case, the "strong" groups outperformed the "weak" groups between 1993 and 2003. However, on a year-by-year basis there was no predictable pattern (looking at rolling 12-month returns for all of these tests, "strong" groups outperformed 57% of the time, "weak" groups outperformed about 43% of the time). Additionally, the standard deviation of annual returns for "weak" groups was significantly less (generally 40 to 50% lower) than that of "strong" groups.

"While the "strong" groups generated the higher gross returns, the "weak" groups generated higher risk-adjusted returns. This trade-off in performance is another reason why it makes more sense to combine these two strategies..."

Table 1 - Annual Returns

Year	Weak % +/-	Strong % +/-	Both % +/-	SPX % +/-	Both vsSPX
1993	71.4	90.9	83.3	7.6	75.7
1994	13.9	31.8	22.8	(1.4)	24.2
1995	86.5	119.6	102.9	35.2	67.7
1996	19.4	61.2	39.6	18.7	20.8
1997	30.3	37.0	33.6	32.3	1.3
1998	18.3	134.0	71.5	26.0	45.5
1999	88.0	272.6	173.3	18.5	154.8
2000	32.4	32.9	34.2	(11.8)	46.0
2001	49.1	83.9	67.6	(10.0)	77.6
2002	40.6	(4.0)	18.4	(21.3)	39.7
2003	106.8	45.0	74.0	22.3	56.3
2004	1.3	32.8	16.8	9.0	7.8
2005*	0	27.9	14.0	10.3	3.7

Updated Through 9/30/05

Table 2 – Quarterly and Rolling 12-Month Returns

		Qrtly Weak	Qrtly Strong	Qrtly Both	Qrtly SPX	Weak $1,000	Strong $1,000	Both $1,000	SPX $1,000	Rolling 12 mo. %+/- Weak	Rolling 12 mo. %+/- Strong	Rolling 12 mo. %+/- Both	Rolling 12 mo. %+/- SPX
12/31/92	3/31/93	25.4	10.5	18.0	3.4	1254	1105	1180	1034				
3/31/93	6/30/93	7.6	27.7	17.7	(0.3)	1350	1412	1388	1031				
6/30/93	9/30/93	19.8	46.7	33.3	2.7	1617	2071	1850	1059				
9/30/93	12/31/93	6.0	(7.8)	(0.9)	0.9	1714	1909	1833	1069	71.4	90.9	83.3	6.9
12/31/93	3/31/94	3.6	(2.3)	0.7	(5.7)	1776	1865	1845	1008	41.6	68.7	56.4	(2.5)
3/31/94	6/30/94	(1.0)	1.1	0.1	1.7	1758	1885	1846	1025	30.3	33.6	33.0	(0.6)
6/30/94	9/30/94	19.5	30.9	25.2	3.5	2102	2468	2311	1061	30.0	19.2	25.0	0.1
9/30/94	12/31/94	(7.1)	1.9	(2.6)	(0.6)	1952	2515	2251	1055	13.9	31.8	22.8	(1.4)
12/31/94	3/31/95	9.8	16.1	13.0	9.3	2143	2921	2543	1153	20.7	56.7	37.9	14.3
3/31/95	6/30/95	14.7	30.0	22.4	9.0	2459	3798	3112	1257	39.8	101.4	68.6	22.6
6/30/95	9/30/95	35.9	35.6	35.8	6.3	3342	5149	4225	1336	59.0	108.6	82.8	26.0
9/30/95	12/31/95	8.9	7.3	8.1	6.7	3641	5524	4567	1426	86.5	119.6	102.9	35.2
12/31/95	3/31/96	5.5	19.7	12.6	5.3	3841	6610	5142	1502	79.2	126.3	102.2	30.3
3/31/96	6/30/96	1.2	20.7	10.9	3.4	3886	7978	5704	1552	58.1	110.1	83.3	23.5
6/30/96	9/30/96	4.9	2.4	3.6	2.0	4076	8166	5910	1583	22.0	58.6	39.9	18.5
9/30/96	12/31/96	6.6	9.1	7.8	7.0	4347	8905	6374	1693	19.4	61.2	39.6	18.7
12/31/96	3/31/97	(0.5)	(0.3)	(0.4)	3.1	4327	8876	6349	1745	12.7	34.3	23.5	16.2
3/31/97	6/30/97	24.7	23.1	23.9	17.3	5394	10927	7866	2047	38.8	37.0	37.9	31.8
6/30/97	9/30/97	20.0	22.4	21.2	7.2	6474	13375	9534	2194	58.8	63.8	61.3	38.7
9/30/97	12/31/97	(12.5)	(8.8)	(10.7)	2.1	5664	12196	8517	2240	30.3	37.0	33.6	32.3
12/31/97	3/31/98	21.1	19.9	20.5	13.7	6858	14621	10262	2545	58.5	64.7	61.6	45.9
3/31/98	6/30/98	2.2	15.8	9.0	3.6	7010	16934	11187	2638	30.0	55.0	42.2	28.9
6/30/98	9/30/98	(23.3)	(15.0)	(19.2)	(14.1)	5374	14390	9042	2266	(17.0)	7.6	(5.2)	3.2
9/30/98	12/31/98	24.7	98.3	61.5	24.5	6704	28539	14605	2821	18.3	134.0	71.5	26.0
12/31/98	3/31/99	11.9	61.3	36.6	5.3	7501	46029	19949	2971	9.4	214.8	94.4	16.7
3/31/99	6/30/99	30.2	32.9	31.6	6.7	9770	61155	26244	3172	39.4	261.1	134.6	20.2
6/30/99	9/30/99	10.7	5.5	8.1	(7.1)	10816	64514	28370	2946	101.3	348.3	213.8	30.1
9/30/99	12/31/99	16.5	64.8	40.7	13.4	12604	106334	39910	3342	88.0	272.6	173.3	18.5
12/31/99	3/31/00	41.0	21.9	31.4	3.5	17772	129581	52454	3459	136.9	181.5	162.9	16.4
3/31/00	6/30/00	(0.2)	26.4	13.1	(2.4)	17731	163801	59320	3375	81.5	167.8	126.0	6.4
6/30/00	9/30/00	(2.1)	1.3	(0.4)	(2.3)	17353	165891	59067	3299	60.4	157.1	108.2	12.0
9/30/00	12/31/00	(3.8)	(14.8)	(9.3)	(10.7)	16693	141268	53560	2947	32.4	32.9	34.2	(11.8)
12/31/00	3/31/01	3.3	(14.7)	(5.7)	(10.7)	17240	120561	50512	2632	(3.0)	(7.0)	(3.7)	(23.9)
3/31/01	6/30/01	17.9	40.9	29.4	7.9	20329	169863	65365	2841	14.7	3.7	10.2	(15.8)
6/30/01	9/30/01	(7.9)	5.9	(1.0)	(16.0)	18728	179881	64719	2385	7.9	8.4	9.6	(27.7)
9/30/01	12/31/01	32.9	44.5	38.7	11.2	24894	259848	89759	2652	49.1	83.9	67.6	(10.0)
12/31/01	3/31/02	16.6	16.6	16.6	(0.7)	29026	302892	104641	2633	68.4	151.2	107.2	0.1
3/31/02	6/30/02	(13.6)	(18.2)	(15.9)	(15.5)	25066	247784	87984	2225	23.3	45.9	34.6	(21.7)
6/30/02	9/30/02	(9.7)	(4.4)	(7.1)	(12.5)	22638	236808	81773	1948	20.9	31.6	26.4	(18.4)
9/30/02	12/31/02	54.6	5.3	30.0	7.2	35003	249350	106273	2088	40.6	(4.0)	18.4	(21.3)
12/31/02	3/31/03	(1.3)	(13.7)	(7.5)	(5.6)	34550	215114	98289	1972	19.0	(29.0)	(6.1)	(25.1)
3/31/03	6/30/03	36.3	19.8	28.1	14.4	47107	257803	125903	2256	87.9	4.0	43.1	1.4
6/30/03	9/30/03	30.9	22.7	26.8	4.0	61670	316344	159660	2347	172.4	33.6	95.2	20.5
9/30/03	12/9/03	15.8	15.0	15.4	4.1	71414	363748	184248	2443	104.0	45.8	73.3	17.0
	% P/L	10.7	16.3	13.5	2.3				% P/L	43.1	85.8	63.0	9.2
	Stdev	16.2	23.9	17.7	8.9				Stdev	31.9	83.9	50.7	19.9
	PL/SD	66.3	68.2	76.5	26.3				PL/SD	135.0	102.2	124.5	46.4

Updated through 12/9/03.

In other words, while the "strong" groups generated the higher gross returns, the "weak" groups generated higher risk-adjusted returns. This trade-off in performance is another reason why it makes more sense to combine these two strategies and thus get the best of both worlds – high long-term returns from strong groups and dependable annual returns from weak groups.

Table 1 (on page 3) shows the yearly returns for the strong groups, the weak groups, and the overall portfolio. Notice in Table 1 that the portfolio outperformed the market each year. Notice also that the strong groups performed best when the market was very strong such as in 1998 and 1999. The weak groups performed well once the market weakened. In 2001, the weak groups gained 49% and in 2002 they gained 40%. Year 2003 represents the weak groups' best year. **Table 2** details the quarterly and rolling 12-month percentage returns.

Editor's Notes:

Folios, also known as stock baskets, are recent vehicles that offer many benefits to traders, particularly those who want to tailor a portfolio to benchmark a certain industry or sector. Buying a stock basket allows a trader to invest the same amount of money in each of a number of different stocks by purchasing fractional shares of each.

For example, if a trader wanted to invest $10,000 in domestic automakers, buying a stock basket would allow him to invest exactly $3,333.33 in Delphi Automotive, Ford, and GM. With Delphi Automotive, Ford, and GM trading at $9, $12.11 and $42.88 a share respectively, a trader would buy 370.37 shares of Delphi, 275.254 shares of Ford and 77.736 shares of GM. For more information, visit *www.foliofn.com*.

If you would like to download an updated version of Jay Kaeppel's industry group structure, then visit *www.aiqsystems.com*. Under Products, click *Data*, *AIQ List Files*, then *LISTJK*.

You can read Jay Kaeppel's weekly column titled *Kaeppel's Corner* at www.Optionetics.com."

S&P 500 Changes

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

Embarq Co. (EQ) replaces Applied Micro Circuits (AMCC). EQ is added to the Integrated Telecommunication Services (TELEPHON) group.

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Basics of ETF's

First Things to Know About 'Fast Growing' Exchange-Traded Funds

By David Vomund

Editor: This is the first of an extended series of articles on exchange-traded fund trading strategies. This introductory article explains how ETFs work.

Exchange-traded tunds (ETFs) have exploded in popularity. Outside of Wall Street, however, few people know what they are. That is changing. In time, ETFs will be as commonly known to people as mutual funds are.

ETFs were introduced in the United States in 1993 with the advent of the Standard & Poor's Depository Receipt, commonly known as S&P 500 Spyder (SPY). ETFs didn't become well known, however, until the late 1990s when the very popular Nasdaq 100 ETF (QQQQ) was introduced. Investors have quickly learned that ETFs provide a convenient way to gain market exposure to a domestic sector, a foreign market, or a commodity with one single transaction.

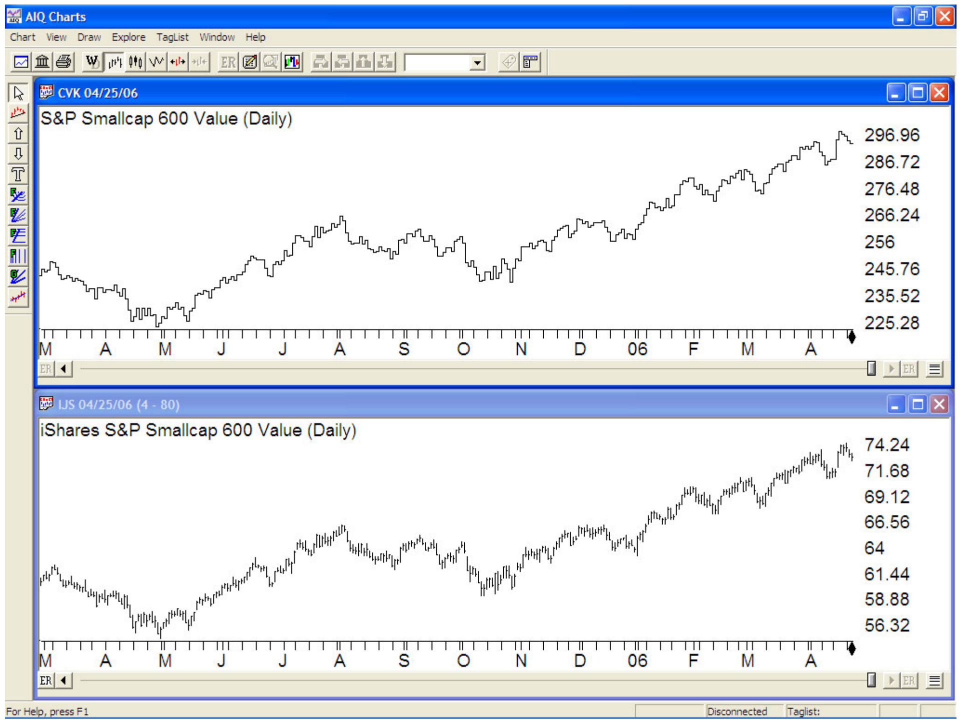

Figure 1. Comparison of S&P Small-Cap 600 Value Index (upper chart) and the iShares S&P 600 Value ETF (lower chart). Comparison shows how closely the ETF tracks the index.

> ***"ETFs have become the fastest growing financial product in the United States. By the end of 2005, there were about 200 ETFs with assets of around $300 billion."***

As a result, ETFs have become the fastest growing financial product in the United States. By the end of 2005, there were about 200 ETFs with assets of around $300 billion.

ETFs are securities that combine elements of index funds, but do so with a twist. Like index funds, ETFs are pools of securities that track specific market indexes at a very low cost. Like stocks, ETFs are traded on major U.S. stock exchanges and can be bought and sold anytime during normal trading hours. Buy and sell orders are placed with any brokerage firm. Many of the execution tactics suitable for stocks can also be applied to ETFs, from stop and limit orders to margin buying. They can be shorted and often have options listed on them.

Diversification

Similar to index mutual funds, most ETFs represent ownership in an underlying portfolio of securities that tracks a specific market index. That index may cover an entire market, or slices of the market broken down by capitalization, sector, style, country, etc. So today's investor can buy an entire market segment, including international markets, with one trade.

ETFs track very closely to their underlying market index. **Figure 1** shows the S&P Small-Cap 600 Value Index. Below that is the iShares S&P 600 Value ETF that tracks the above index. Notice that their price movement shows a nearly perfect correlation. That is to be expected. If they were to deviate, arbitrageurs would enter to profit from the discrepancy.

Owning a basket of securities is

much more comfortable than owning a few individual stocks. With ETFs, you don't have to worry that your stock holding will gap down 20% after an unexpected profit warning is issued. Because of their diversification, the price movement in ETFs is more predictable than in individual stocks.

The strategies that will be outlined in upcoming articles are tactical in nature, where they benefit from the diversification of an individual ETF but reduce overall portfolio diversification by overweighting specific market segments.

Costs

When it comes to running an investment fund, there will always be costs. These costs can include analyst fees, marketing costs, and administrative costs. Generally, index funds are cheaper to manage than actively managed funds. Since most ETFs are index funds, their expenses are generally well below those of actively managed mutual funds. Even when you compare similar products, ETF expenses are generally lower. For example, the Vanguard Index 500 has a very low expense ratio of 0.18% of assets, but the iShares S&P 500 ETF is cheaper still, with an expense ratio of 0.09%.

"Owning a basket of securities is much more comfortable than owning a few individual stocks. With ETFs, you don't have to worry that your stock holding will gap down 20% after issuing an unexpected profit warning."

The biggest cost advantage of ETFs over traditional index mutual funds is in back-end expenses. Index mutual funds have to maintain the individual account balances and mail statements, and must have a staff ready to open and close accounts. With ETFs, these expenses are eliminated, making funds cheaper to manage.

To be fair, there may be an overriding reason to be with Vanguard or any other mutual fund family. For example, if you invest small sums at regular intervals then mutual funds are more appropriate. Because ETFs trade like stocks, investors pay a brokerage commission each time they buy or sell, making them expensive for people who add regularly to their investments. Mutual funds are also able to re-invest quarterly dividends, an advantage for those who buy-and-hold.

"Like index funds, ETFs are pools of securities that track specific market indexes at a very low cost. Like stocks, ETFs are traded on major U.S. stock exchanges and can be bought and sold anytime during normal trading hours."

Taxes

ETFs are typically more tax efficient than mutual funds. Mutual funds sometimes have to sell holdings to meet the need of redemptions. That triggers a capital gain distribution for all fund shareholders. Anyone who bought a mutual fund in early December and ended up paying taxes on other people's gains knows that's no fun!

With ETFs, shares are bought and sold on the open market so if one investor cashes out it doesn't affect others. The after-hours trading scandal in mutual funds doesn't apply to ETFs.

Liquidity

Before assessing liquidity we need to understand what liquidity is and why the lack of it is a bad thing. A liquid investment is one that can quickly be bought and sold at its fair market value. Individual purchases and sales of the security should not affect its price. Liquidity is generally measured by the number of shares traded per day.

Thinly traded securities are considered illiquid. As a result, they have high spreads (the difference between the bid and the ask prices), which adversely affects the execution cost. Trading illiquid investments can be expensive.

Since ETFs trade like stocks, it's reasonable to assume their liquidity should be judged in the same manner as stocks. That's a common misconception about ETFs, even among Wall Street professionals.

Unlike stocks, the number of shares in an ETF is not fixed. That is, if the demand for a given ETF outstrips supply at any point, then a specialist may simply create new shares from a basket of the underlying securities in that fund. Shares are created or redeemed to meet demand. Therefore the liquidity of an ETF is not only defined by its volume, but also by the liquidity of its holdings. So you might see an international emerging market ETF with a lot of volume that is actually less liquid than a domestic large-cap value ETF.

If an ETF and a stock both have 30,000 shares traded on a particular day, the ETF will typically be more liquid. That is, your order is much less likely to move the price. In a few cases, more than half of the total volume in an ETF on a particular day is a result of one of my block orders. Expecting that it would take a long time to get a fair execution, I've been pleasantly surprised to get immediate execution at the market price.

For the typical investor, this should be comforting. It doesn't mean, however, that shares are created or redeemed for your order. This process is typically done for institutional investors that trade 50,000 shares or more. The party on the other side of most ETF transactions is a market maker or another investor. For most retail orders, a market order is sufficient. The bid-to-ask spreads in ETFs tend to be narrow and cover a large number of shares.

With that said, buying or selling ETFs with high daily volume is more attractive than trading ETFs with low volume. Unfortunately, many ETFs don't trade very much. Active traders should stick with the ETFs like the S&P 500 SPDR (SPY), Nasdaq 100 (QQQQ) or Russell 2000 (IWM), all of which have high volume and narrow spreads.

When you place an order for a low volume ETF, don't use a market order. Instead, place a limit order between the bid and the ask price. Unless it is a fast moving market, you'll almost always get a quick execution.

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

MARKET REVIEW

From the May high to the May low, the S&P 500 corrected 5.2%. By the end of May, the index recovered only 1% of those losses. For the entire month, the S&P 500 fell 3.1%. That understated the weakness in the broader market. The Nasdaq Composite lost 6.2% and the Russell 2000 fell 5.7%. Worse yet were the overseas emerging market countries. The iShares Emerging Markets ETF (EEM) lost 11%.

These losses lead to the question on which will happen first—a new S&P 500 yearly high or a 10% correction? The bulls point out that a weekly S&P 500 chart still has a pattern of higher highs and higher lows. In addition, the market was so oversold that the weekly Stochastic nearly hit oversold.

The bears point out that the decline was unusually strong, showing the entire environment has changed. The declines were more severe than the advances and a normal 10% correction is long overdue.

Looking at the industry sectors, we see the extent of the selling. Only Consumer Products and Utilities had gains in May, and they only rose about 1%. The remaining groups fell in May, led by Precious Metals down 12%, Electronics down 9%, Defense & Aerospace down 7%, and Energy Services down 6%.

STOCK DATA MAINTENANCE

The following table shows stock splits and other changes:

Stock	Ticker	Split	Approx. Date
KLA Tencor	KLAC	3:2	06/02/06
Gardner Denver	GDI	2:1	06/02/06
Celadon Group	CLDN	3:2	06/02/06
Andersons Inc.	ANDE	2:1	06/02/06
Berry Petroleum	BRY	2:1	06/05/06
Kerr McGee	KMG	2:1	06/05/06

Stock	Ticker	Split	Approx. Date
UIL Holdings	UIL	5:3	06/07/06
Expeditors Int'l-WA	EXPD	2:1	06/12/06
MDU Resources	MDU	3:2	06/13/06
Cleveland Cliffs	CLF	2:1	06/16/06
Frontier Oil	FTO	2:1	06/19/06
Helmerich & Payne	HP	2:1	06/27/06

Trading Suspended:
Chile Food (CH), Guidant Co. (GDT), iVillage Inc. (IVIL), Pixar (PIXR), Sports Authority (TSA), Tommy Hilfiger (TOM)

Name Changes:
Amerada Hess (AHC) to HES Corp. (HES)
Bay View Capital (BVC) to Great Lakes Bancorp (GLK)
Cooper Cameron (CAM) to Cameron Int'l (CAM)
Outback Steakhouse (OSI) to OSI Restaurant Partners Inc. (OSI)

AIQ's 17th Annual Lake Tahoe Seminar

October 9 - 11, 2006 Harveys Resort & Casino, South Lake Tahoe

Jay Kaeppel

This year's keynote speaker

Author and Trading System Developer

The Best of Times, Worst of Times Trading Strategy

Best known to AIQ users as the developer of the Pure Momentum, The Best of Times, Worst of Times and The Efficient Momentum Systems, Jay has also authored several books on trading, including "***The Four Biggest Mistakes in Option Trading***", "***The Four Biggest Mistakes in Futures Trading***" and "***The Option Trader's Guide to Probability, Volatility and Timing***". Investors can read his weekly column, "Kaeppel's Corner" at www.optionetics.com.

We are also pleased to welcome **Dale Wheatley**, a full-time professional trader, who has achieved financial independence and **Tom Hardin,** who oversees all portfolio management and investment activity for Canterbury Investment Management. We also welcome back **Steve Palmquist**, founder of Daisydogger.com.

Tuesday's sessions will conclude with a moderated **Traders Forum Q & A session.** Written and oral questions from attendees will be submitted to our guest speakers.

This year's 17th Annual AIQ Lake Tahoe Seminar at Harveys Resort and Casino promises two-and-a-half days of intensive sessions with eight guest speakers.

Every morning begins with an AIQ-hosted breakfast. Sessions begin at 8:30 each day and run through to 5:00 pm (12:30 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.

Prices remain unchanged for the third straight year. Including meals, cost is **only $795 per person.** Sign-up early as seats sellout fast.

2005 Steve Palmquist Presentation

"All of the good information taken back home and all of the help I was given by the AIQ staff during the sessions. I have written some strategies already and am doing a lot of backtesting. The seminar was a big help."

Guest speakers Dale Wheatley, Steve Palmquist, Tom Hardin and Rich Denning are all AIQ users. There will also be sessions by our regular AIQ presenters David Vomund, AIQ's Chief Analyst and Steve Hill, AIQ's CEO.

AIQ

AIQ Systems
PO Drawer 7530
Incline Village
NV 89452
www.aiqsystems.com

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

Visit the AIQ Store http://aiqsystems.com/store/page2.html

Speaker Profiles

David Vomund
Chief Analyst
AIQ Systems

David Vomund is editor of AIQ's ***Opening Bell*** newsletter, and publisher of ***VISalert.com***. His market timing performance in ***VIS Alert*** ranks one of the ten best in the country by Timer Digest for the 10-year time period ending December 31, 2005. David is President of ***Vomund Investment Services*** and ***ETFportfolios.net***. He is a frequent speaker at events throughout the U.S.

Stephen Hill is CEO of AIQ Systems. For the past 14 years he has been involved in all aspects of AIQ Systems, from support and sales to programming and education. Steve is a frequent speaker at events in the U.S. and Europe, talking on subjects as diverse as ***Portfolio Simulation Techniques***, ***Advanced Chart Pattern Analysis*** and ***Trading System Design***.

Stephen Hill
CEO
AIQ Systems

Steve Palmquist
Founder
Daisydogger.com

Steve Palmquist is a full time trader with 20 years of market experience who puts his own money to work in the market every day. Steve has shared trading techniques and systems at seminars across the country; presented at the ***Traders Expo***, and published articles in ***Stocks & Commodities***, ***Traders-Journal***, ***The Opening Bell***, and ***Working Money***. Seven years ago he left the rat race of corporate life to use his market experience and trade full time. Steve is the founder of www.daisydogger.com which provides trading tips and techniques.

Dale Wheatley
Professional Trader

Dale Wheatley is a full-time professional trader and AIQ user, who has achieved financial independence. He exclusively trades an MACDI based strategy for a living. He has taught this strategy to hundreds of people, all over the world, but does training sessions by invitation only.

Tom Hardin is Chief Investment Officer and oversees all portfolio management and investment activity for ***Canterbury Investment Management***. Tom has more than 29 years of investment and portfolio management experience.

After earning a bachelor's degree in business from Skidmore College in Saratoga Springs, New York, Tom received his certification in portfolio management from the renowned University of Chicago Graduate School of Business. Before founding Canterbury, Tom served as Senior Vice President and Senior Portfolio Management Director of Smith Barney's Portfolio Management Group. Tom earned his Chartered Market Technician (CMT) designation in 1997 and has been an AIQ user since 1991.

Tom has written ***Never Too Old to Rock and Roll: Life After 50—The Best Years Yet*** and the soon-to-be-released book ***Investor Revolution.***

Tom Hardin
Chief Investment Officer,
Canterbury Investment Mgmt.

Monday October 9th, 2006

For the first session attendees may choose from

FOREX Trading Strategies

or

Getting Started Right with AIQ

All attendees are together for the rest of the seminar.

FOREX Trading Strategies

by Steve Hill, CEO, AIQ Systems

In this session discover the power of trading the FOREX and the effectiveness of technical and fundamental factors in determining entry points. Both end of day and real-time trading will be discussed.

Getting Started Right with AIQ

by David Vomund, Chief Analyst, AIQ Systems

New users will learn methods of using the software which will help save time and reduce the learning curve. Charting, Reports, and Data Manager will be covered.

Effective Swing Trading Techniques

by Steve Palmquist, Founder, daisydogger.com

In this session Steve will show one of the swing trading tools in his traders tool box, and the research and analysis behind it. Steve has developed a number of swing trading systems using AIQ's Expert Design Studio. Steve uses EDS to analyze how each of his tools performs in different market conditions, which allows him to select the best ones to use in the current market.

Managing Risk Through Portfolio Management

by Tom Hardin, Canterbury Investment Mgmt.

Tom will discuss the fundamentals of portfolio management and modern portfolio theory. This includes using technical analysis and AIQ to create efficient portfolios and new technology used in measuring risk.

Trading Model Creation

by David Vomund, Chief Analyst, AIQ Systems

In this interactive session David will create and test an entry system using the Expert Design Studio. The system will be tested and various sell strategies will be applied. Capitalization rules will then be applied using the Portfolio Simulator.

Tuesday October 10th, 2006

Trading Tips and Techniques

by Steve Palmquist, Founder, daisydogger.com

In this session Steve shares trading tips and techniques based on 20 years of market experience. Some of the techniques that Steve uses everyday in his trading include; The importance of volume analysis in trading and how to use it. Patterns and micro pattern techniques, what to look for and how to profit from them. Trade management techniques, now that you have entered a trade, what next? Market environments, know when to hold 'em, know when to fold 'em, and know when to walk away.

Unique AIQ Features

by David Vomund, Chief Analyst, AIQ Systems

David Vomund will demonstrate the features that give us the trading edge over the competition. The new Breadth Analyzer will be included in the demonstration.

Charts Don't Lie

by Dale Wheatley

Dale has developed a powerful price pattern strategy to look for high probability trades. This pattern works in every market and every timeframe, including stocks, futures and FOREX. He will explain how to recognize this pattern and how to time your entries into positions.

Traders Panel

Panel members; David Vomund, Steve Palmquist, Dale Wheatley, Rich Denning and Tom Hardin

All attendees will have an opportunity to ask questions of our traders panel. Written questions can be submitted to the moderator during the seminar. These questions will be interspersed with oral questions taken from the audience. Moderated by Steve Hill.

Evening Buffet Dinner

hosted by AIQ Systems

At the conclusion of the Traders Panel, AIQ will be offering cocktails and hor d'oeuvres followed by a buffet dinner for all attendees. Additional guests and significant others may attend at a cost of $58 per person.

Testimonials

"The seminar was great. I was impressed with the quality of the workshop. It has inspired me to delve into my AIQ software and to make even better use of it. I also learned a great deal, discovered new ideas, and new applications. I liked the fact that the speakers were helpful and available."

"Palmquist was great! A nice combination of good systems and good methodology clearly presented in an engaging manner"

"David Vomund. Very knowledgeable, very good speaker, extremely practical advice-a great asset to AIQ!!"




Testimonials

"I have attended many, many seminars - in past years, mostly software seminars since that has been my business."

"None of my past seminars came close to matching the experience at AIQ. Everyone was so gracious. The speakers were a powerhouse!!!"

"If my trading cannot improve from the wealth of wisdom and technique in that seminar then I would be in trouble. However, I really feel that this seminar brought me to the next level in learning trading."

"The attendees are a very diverse and high level trading group. The attendees add so much to the seminar."

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Wednesday October 11th, 2006

What's New with AIQ

by Steve Hill, CEO, AIQ Systems

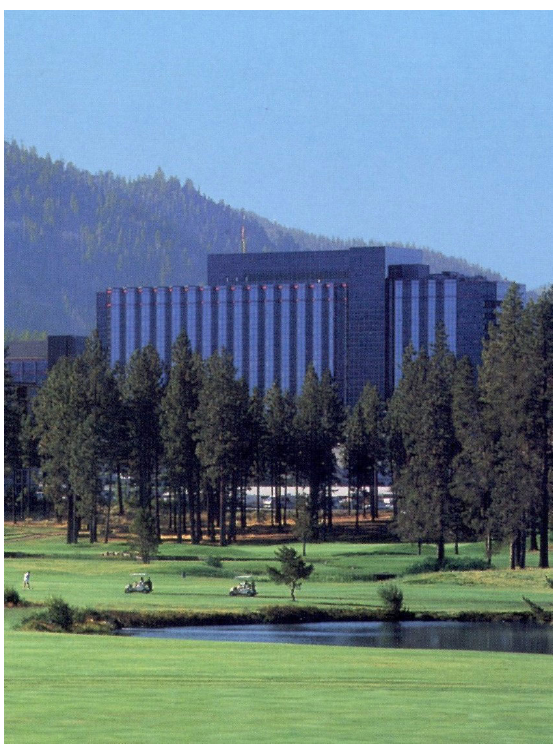
Attendees have a chance to relax as Steve will use this session to show what's new in the AIQ flagship platform TradingExpert Pro, plus a chance for a sneak preview of what AIQ is working on for future releases.

A Systematic Approach to Trading

by Jay Kaeppel

In this extended session, Jay Kaeppel of Optionetics, will explain the benefits of a systematic approach to trading and will detail a variety of his favorite trading systems he has developed over the years. These systems will run the gamut from seasonal trading, to trend-following, to sentiment, to technical, and will span from long-term to short-term in nature and will be useful to anyone trading stocks, mutual funds, futures or options.

Seminar ends at noon



$795 includes

- AIQ-hosted breakfast all three days
- AIQ-hosted lunch Monday and Tuesday
- AIQ-hosted buffet dinner Tuesday evening
- Full seminar notebook for all sessions
- Wireless internet access in seminar area
- Real-time computer lab
- AIQ staff on hand to answer questions

Harveys Resort, South Lake Tahoe

AIQ and Harveys have made special arrangements for attendees with guest rooms in the prestige Lakeview Tower for **$99 a night Sunday - Thursday, $179 a night Friday and Saturday.** To take advantage of these special rooms, call Harveys at **1-800-455-4770.** Group code when booking rooms is **S10AIQ**.

To reserve your seat please call

1-800-332-2999 x115

Space is limited, call now

Cancellation policy

Cancellation fee $100 after 08/15/2005
There are no refunds.

Visit the AIQ Store http://aiqsystems.com/store/page2.html

“Learn the secrets of successful traders and investors from a 20-year trading veteran”

Join David Vomund for “Market Truths” a 90-minute live web seminar — June 9 at 4:30 EST.

Discount price: $89 (for a limited time only)

David Vomund is ranked one of the top ten market timers over the last ten years by Timers Digest. Drawing on his 20 years experience as an analyst, investor and money manager, David will reveal the Market Truths that can help you succeed in today’s markets.

Here’s what previous attendees of David Vomund’s web seminars have to say:

”David Vomund...Very knowledgeable, very good speaker, extremely practical advice—a great asset to AIQ.”

”Thank you for a professional seminar filled with great information. It was truly a valuable experience.”

Discover the secrets of trading in today’s competitive trading markets

LEARN **The truth behind what you hear and see on CNBC -** insight into what business news is really about.

LEARN **How to protect your profits.** From simple percentage stops to trailing stops to trading system stops, **find out what works.**

LEARN **Which trendlines were the most important in recent times**

LEARN **That you don’t have to trade all the time.** When your systems are firing, trade them. When they don’t fire, don’t force them.

LEARN **What to really look for in relative strength.**

LEARN **Which moving average really defines the up trend and down trend in many stocks.**

LEARN **The secret of which way the markets really trend** from a trader’s perspective.

UNCOVER **The market conditions that are the best for trading.**

LEARN **Which types of stocks take the biggest hits** when the markets go down.

LEARN **The factors that traders must consider before they start trading.**

LEARN **Truths of evaluating trading systems,** what works and doesn’t.

(Continued on page 14)

DISCOVER **What it takes to be a serious trader** and why trading should be treated as a business.

LEARN **What drawdowns mean to your trading system** and to your faith in your trading a system.

LEARN **A successful strategy that performs during bull and bear markets.**

These important lessons will also be included in Vomund's 90-minute web seminar

DISCOVER **The pitfalls in system trading** and what you need to do to gain faith in your trading system.

DISCOVER **A surprising insight into one of the most commonly used stopping techniques.**

UNCOVER **What you need to maintain a daily trading log** in order to successfully evaluate your trading.

LEARN The truth about which technical indicators really work. **Discover the "crystal ball" indicator.**

DISCOVER ***T*****he truth about market timing—does it really work?**

LEARN **Market segment rotation -** find out how different segments of the market come into and out of favor.

This highly informative session will be broadcast on June 9 at 4:30 pm EST, after the market has closed.

Sign up now and take advantage of a special discount price of $89. Normally AIQ seminars cost $169 or higher.

Prices won't remain at this level so click here now to reserve your place

We promise you won't be disappointed or we'll refund your money.