

# AIQ

# Opening Bell

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Bob Debnam is a resident of the United Kingdom and AIQ's UK distributor. He became interested in the stock market in the 1980s and found himself gravitating towards technical analysis. He was fascinated by charting as a method of analysing stocks but frustrated by the lack of educational material in the UK at the time.

Bob explains, "In 1988 I went to New York and spent a lot of time in libraries and bookshops looking for anything I could find on the subject of technical analysis. I then went to Kansas to attend a Gann seminar. While I was there, somebody introduced me to a charting package that was light years from anything we had at home. I saw an opportunity and within a couple months my company, Trendline, became the first distributor of US technical analysis software in the UK."

Bob became AIQ's representative in the UK in 1996. He has been teaching technical analysis since 1992. For information on his company, visit [www.chartprofit.com](http://www.chartprofit.com).

## Opening Bell Interview with Bob Debnam

### Technical Analysis Pro Shares His Expert Techniques For Using AIQ TradingExpert

**D**avid Vomund interviews AIQ's United Kingdom representative Bob Debnam, a technical analysis professional and experienced user of TradingExpert Pro.

**Vomund:** *Can you tell us how someone from England found out about AIQ?*

**Debnam:** Actually, I knew AIQ's Steve Hill from way back but I also remember reading the reviews of TradingExpert Pro in *Technical Analysis of Stocks &*

*Commodities* magazine in the mid-nineties. It looked like a very interesting program that might give me tools I wasn't getting in the charting package that I was using at the time. That proved to be the case and I took on the UK distributorship very soon after getting my hands

on the AIQ program.

**Vomund:** *Is stock trading in the UK as popular as it is in the U.S.?*

**Debnam:** We're getting there. Over the last few years, CFD (contract for difference) trading and spread betting have become incredibly popular over here. These new vehicles also

**"AIQ's Expert Design Studio (EDS) lets me test just about any trading idea I can dream up. It also lets me compare the results of the back test against an index traded at the same time, which helps to strip out the market influence. I think that's a great idea."**

allow private traders to go short as easily as going long, which is a big step forward.

**Vomund:** *Are you strictly a mechanical trader or do you include judgement in your analysis?*

**Debnam:** I'm definitely not a mechanical trader but I do a lot

## In This Issue

Market Review ..... 6

Data Maintenance ..... 6

S&P 500 Changes ..... 6

Take advantage of AIQ's one-day trading seminar with Steve Palmquist and David Vomund -- March 20 in California ..... 7

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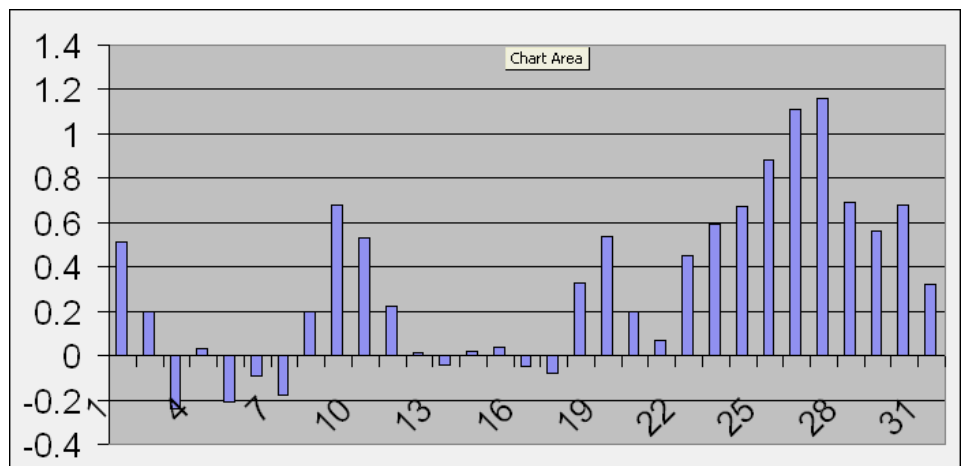
## AIQ Opening Bell Newsletter

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**Figure 1.** Bars represent nine-year average of profit resulting from buying FTSE 100 index and holding for five days. The 31 bars show profitability of buying on each day of an average month.

of back testing. AIQ's Expert Design Studio (EDS) lets me test just about any trading idea I can dream up. It also lets me compare the results of the back test against an index traded at the same time, which helps to strip out the market influence. I think that's a great idea. So I use EDS just for trying out ideas rather than designing mechanical systems. I think it is almost impossible for the average private trader to trade mechanically. It certainly is for me.

The most successful systems are trend following and by nature a good trend-following system tends to have a small number of winners. Maybe three or four out of ten. These systems may ultimately make a lot of money but there's almost certainly going to be a long string of consecutive losing trades in there somewhere. If you are going to be fair to your system you have to take every trade and most traders will run out of money or patience when they hit a row of losers. You have to be realistic.

But as I mentioned, I use EDS a lot. You have to test an idea before using it and that's what I do. Lots of

techniques you read about just don't stand up when tested. Then again, some do.

**Vomund:** Can you give us an example?

**Debnam:** You have probably read many times that there is a comparatively bullish period at the end of each month. It's a pattern that's often been noted. EDS can test

**"I think one of the great things about TradingExpert Pro is the Relative Strength analysis and the way you can globally assign Relative Strength symbols directly to stock tickers. This makes back testing, scanning, and charting Relative Strength relationships very easy to do."**

this. If today is the first calendar day of the month, buy all the stocks in a list. Hold for five days and then sell. Repeat for the second day of the month and for every day of the month. Then paste the EDS average profit/loss results into Excel. For the FTSE 100 stocks over the last nine years the average profitability for each day looks like the chart in **Figure 1.**

So, on average the idea proves out. Best time to buy stocks for a five-day hold is towards the end of

the month. The results look very similar for U.S. stocks. This is the simplest idea in the world to test. But EDS can test just about anything so there is no excuse not to do it if you're an AIQ user.

**Vomund:** *You have been the UK distributor for AIQ for several years now. What features do you use most yourself and what do you encourage your customers to use?*

**Debnam:** I think one of the great things about TradingExpert Pro is the Relative Strength analysis and the way you can globally assign Relative Strength symbols directly to stock tickers.

This makes back testing, scanning, and charting Relative Strength relationships very easy to do. I've noticed that other programs make this a laborious process or they omit it altogether.

**Vomund:** *Can you show us an example of how you use this feature?*

**Debnam:** Let me show you something I've developed recently for myself and for my customers for use in AIQ Charts. **Figure 2** is a chart of Antofagasta (ANTO@L).

You will notice that there is an indicator at the bottom of my Control Panel called ParentST. This is a custom indicator written in EDS. It can only return the numbers 1 or -1 so it doesn't look very interesting if



**Figure 2.** Daily chart of Antofagasta. On 09/15/04, as stock is breaking out of cup and handle pattern, ParentST (bottom of Control Panel) reads 1, indicating stock outperforming Allshare index.

you chart it. But the numbers are important to me so I like to see them there. I'll explain what the numbers mean and then give you the code.

Specifically, AIQ calculates the numbers for me as follows. First of all it finds the ticker symbol for the associated group that the stock is in. The group is then divided by the FTSE Allshare Index (ASX@L) to give us a Relative Strength ratio. A 6-day Moving Average of this ratio is then calculated. If the Relative Strength number is above the moving average I get a "1" returned in the control panel. If it is below the moving average I get a "(1)". I use 6

days in the calculation but any number of days can be used.

A ParentST reading of "1" tells me that the Parent of Antofagasta, i.e., its associated group, has been outperforming the UK Allshare Index in the short term (ST

stands for short term which is my preferred time frame). I like to know that a stock I'm interested in buying is in a relatively strong group. If it isn't, then maybe I'll look for a stock that is.

This is useful information to me and having it right next to my stock chart like this is very convenient. It means I don't have to chart the group separately to get what I need. In fact, I have the information right there without even having to know what group the stock is in.

You can see that in mid September the stock was breaking out of a cup and handle type pattern. As the breakout occurs I can quickly check the Control Panel to see that the related group is strong compared to its index. This would be a plus factor in the buy decision process for the stock.

The EDS code to get you to ParentST is listed in the box at the lower left. ParentST can then be imported into AIQ Charts as a custom indicator. You can change the Moving Average period to any number you wish.

This is just an example of an idea I believe AIQ users could use very creatively. You could, for instance, have your favorite trading systems

### EDS Code for computing ParentST

```

one is 1.
minusone is -1.
zero is 0.
rsindx is [RS Indx].
ParentRSindx is TickerUDF(RSTicker(),rsindx).
ParentRSindxav6 is SimpleAvg(ParentRSindx,6).
ParentSTok if ParentRSindx > ParentRSindxav6.
ParentSTnotok if ParentRSindx < ParentRSindxav6.
ParentSTpos is IFF(ParentSTok,one,zero).
ParentSTneg is IFF(ParentSTnotok,minusone,zero).
ParentST is ParentSTpos + ParentSTneg.
    
```

firing in the Control Panel or expert systems returning meaningful numbers for you.

[*Editors Note:* For information on indicator creation, please read AIQ's User Reference Manual and the November 1999 *Opening Bell* at <http://www.aiqsystems.com/november1999.pdf>.]

**Vomund:** *Looks like you've done the same thing for market timing.*

**Debnam:** Yes. I have custom indicators called UK Market and US Market in the Control Panel as well. Once again, a "1" is a short-term positive indication. A "(1)" is negative and here a zero may also appear which would be a neutral reading.

This may seem very simplistic but the numbers fire from a combination of rules I have written in EDS. I don't disclose the rules but they are based entirely on a combination of AIQ market breadth indicators.

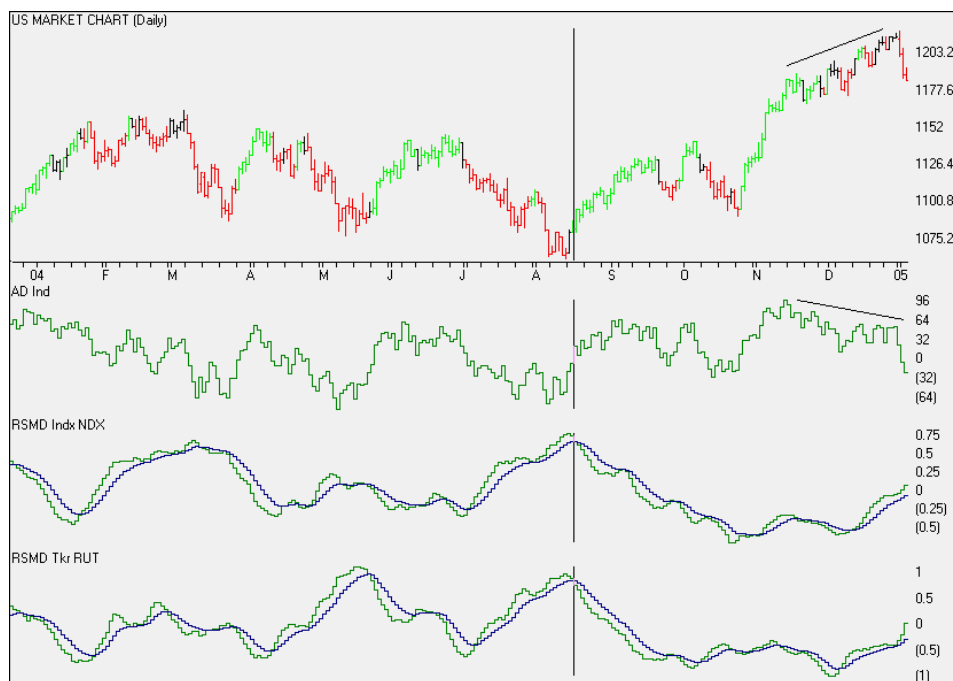
**Vomund:** *As far as market timing goes, do you check anything else?*

**Debnam:** Yes. Every few days I check some other indicators on my market timing charts. Here's my U.S. market timing chart to illustrate (**Figure 3**).

I built this chart using SPX as the price ticker and the SP500 stocks for the breadth file. I use AIQ's Breadth Builder to calculate these numbers. I find this combination gives me better results than using the downloadable NYSE full breadth numbers.

[*Editors Note:* For information on AIQ's Breadth Builder, please read AIQ's User Reference Manual and the October 2001 *Opening Bell* at <http://www.aiqsystems.com/october2001.pdf>.]

The Color Study that you see on the price bars is based on the same rules that I use for the market indicators in the Control Panel. Except here we see green, red, and black bars instead of 1, (1) and 0. If the bars are green, then the Color



**Figure 3.** Debnam's US Market Chart. S&P 500 price bars are colored to indicate positive or negative breadth. Three indicators are AD (used to confirm price action) and two RSMD's that compare S&P 500 to the Nasdaq 100 and the Russel 2000.

Study is telling me that in the short term my market breadth readings are positive. All my Color Studies show green bars for positive and red bars for negative.

[*Editors Note:* For information on Color Studies, please read AIQ's User Reference Manual as well as the May 2001 *Opening Bell* at <http://www.aiqsystems.com/may2001.pdf>.]

I also check out the following indicators.

First, I use AIQ's breadth oscillator AD Ind. This is excellent as an early warning signal when it fails to confirm price action. In Figure 3, notice how the AD Ind did not confirm the new highs on the price chart in December. This often happens just before a setback. In the same way, a positive divergence will often precede the bottom of a correction.

I also like to see how the SP500 is

performing relative to other indices. For the ticker SPX I set the Relative Strength index symbol to NDX (Nasdaq 100) and the Relative Strength ticker symbol to RUT (Russell 2000). You can do this very quickly in Data Manager. This is another great feature of AIQ. I want

***"There is a lot of color on my charts. It used to be that I was forever clicking in and out of indicator plots. Now, by using Color Studies I don't have to do that. The aim is to get all my analysis done on one chart and do it quickly without switching indicators on and off."***

to chart the relative performance of SPX against these two tickers because I believe that these indices tend to lead the SP500.

So I use the indicators RSMD Indx NDX and RSMD Tkr RUT on this chart as counter indicators. If SPX is rallying I prefer to see these indicators in a downtrend. That

means the NDX and the RUT are leading the market higher. Notice how they crossed their moving averages to the downside in mid-August just after the market made its low. That's usually good for continuation. Also note how they rallied with SPX in December, that's usually bad for continuation.

**Vomund:** *Getting back to the stock chart, would you expand on the Color Studies and Custom Indicators we see there and how you interpret them?*

**Debnam:** Yes there is a lot of color on my charts. It used to be that I was forever clicking in and out of indicator plots. Now, by using Color Studies I don't have to do that. The aim is to get all my analysis done on one chart and do it quickly without switching indicators on and off. With AIQ Custom Indicators and Color Studies you can achieve this.

In TradingExpert Pro you can display Color Studies on indicators as well as the price chart itself. This enables you to cram an awful lot of information onto a single chart that's still comfortable to view. This is especially useful when you are clicking through lots of charts in an AIQ Taglist.

On the price bars themselves I display a Color Study based on three separate rules that measure short-term momentum. The rules are as follows:

1. The MACD indicator must be above its signal line. This shows short-term price momentum is up.
2. The Relative Strength line of the stock (compared to an index) is in a short-term uptrend.
3. The short-term volume characteristics of the stock are positive according to my criteria.

Price momentum, relative strength, and volume are three key concepts in technical analysis. If I can find stocks showing strength in all three of these areas, then these would be the stocks most likely to move higher.

So I have it set up that when all three rules fire the price bars become green. If the above conditions are reversed and all three of the negative rules fire then the bars become red.

**Vomund:** *What about the other Color Studies shown here?*

**Debnam:** As I mentioned, it's also possible to display Color Studies on indicators. However, if you do this it's important to remember that the Color Study is giving you different information to the indicator itself. In other words, keep the two things separate in your mind. It's easy to forget this.

For instance, on the chart of Antofagasta (Figure 2) I have displayed a Color Study called PSAR on the indicator Price Osc.

This Color Study tells me if the Parabolic SAR indicator is positive (green) or negative (red). This information has nothing whatsoever to do with the indicator itself. They just occupy the same space on the chart for convenience.

Price Osc is in fact the AIQ Velocity indicator displayed as a histogram. I prefer to display the indicators as histograms as they show up the Color Study more clearly than a line display.

I find Velocity just about the best indicator for confirming price action and for non-confirmation when it diverges. I use Parabolic SAR as a trend indicator and a trade trigger. So if Price Osc + PSAR is above zero and green then that's a good indication that the stock is going higher.

Vol Osc is the AIQ VA Pct indicator and VAD (Volume Accumulation/Distribution) is a Color Study based on the AIQ Persistence of Money Flow report.

Finally, I use the SK (smoothed stochastic) with lines drawn at 80 (overbought) and 20 (oversold). I prefer to see this indicator moving in the direction that I am looking to trade in without it being at one of the extreme levels.

**Vomund:** *There's a lot going on there.*

**Debnam:** Yes, there's a huge amount of information available here, the equivalent of about eight indicators which should be enough for anyone. But it still looks like a comfortable chart to work with. With practice, you are able to assess a chart really quickly.

***“Price momentum, relative strength, and volume are three key concepts in technical analysis. If I can find stocks showing strength in all three of these areas, then these would be the stocks most likely to move higher. So I have it set up that when all three rules fire the price bars become green.”***

And it's obvious when everything lines up. I'm looking for stocks in strong groups breaking out of chart patterns or coming off support with 1's in the control panel and positive, green indicators.

**Vomund:** *Thanks for sharing your techniques with us.*

More examples of charts and how to interpret them can be seen at Bob Debnam's website [www.chartprofit.com/aqchartexamples.htm](http://www.chartprofit.com/aqchartexamples.htm). Bob can be reached at: [bobdebnam@aiqsystems.co.uk](mailto:bobdebnam@aiqsystems.co.uk)

Users may download the ParentST Expert Design Studio code and the Color Studies Expert Design Studio code by going to [www.aiqsystems.com](http://www.aiqsystems.com), click *Educational Products* and then *Opening Bell*.

# Market Review: Trading Range Continues

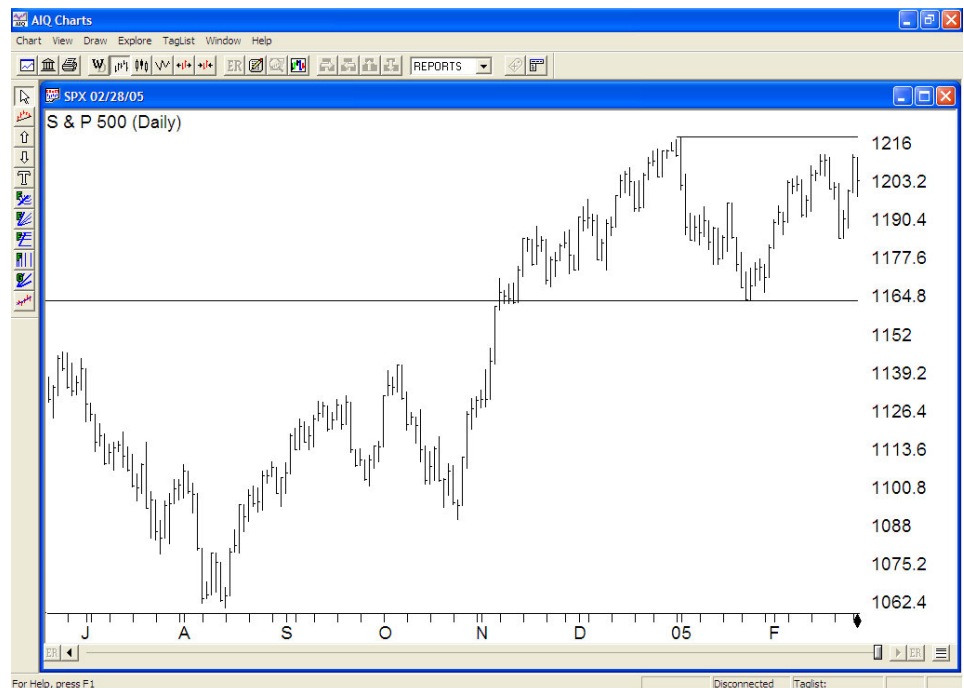
In February the market drifted in the trading range that it established in January. For the month, the S&P 500 rose 1.9% while the Nasdaq Composite fell 0.5%.

Most industry groups had modest advances in February but the big winner was Energy. Energy rose 19% and Energy Services rose 13%.

**Figure 1** shows that the high point for the year was established on this year's first trading day. The S&P 500 corrected for the first half of January, formed a low, and then rallied. That low came on a very important support level. The January low coincided with the 2004 trading range high. Currently, the S&P 500 is in a trading range where 1163 represents the lower end of the range and 1218 represents the upper end of the range.

Meanwhile the Nasdaq has lagged and is also in a narrow trading range. The Nasdaq has resistance at 2107, a level the Nasdaq reached on January 18, January 19, and February 15. Year 2008 represents the lower end of the trading range.

While the S&P 500 is near the upper end of its trading range, it isn't likely that it will break out and stage a strong rally without the participation of the Nasdaq growth stocks. Past research shows more difficult market environments occur when the Nasdaq lags the S&P 500. For more information on that study, refer to the April 2001 *Opening Bell* which can be found at <http://www.aiqsystems.com/april2001.pdf>.



**Figure 1.** Daily chart of the S&P 500 Index. Index reached a high of 1218 on 01/02/05, then declined to the 1163 support level, and is currently trading within this range.

## STOCK DATA MAINTENANCE

The following table shows stock splits and other changes:

Stock	Ticker	Split	Approx. Date
EOG Resources	EOG	2:1	03/02/05
PFF Bancorp	PFB	3:2	03/04/05
Penn Nat'l Gaming	PENN	2:1	03/08/05
American Eagle Outfitter	AEOS	2:1	03/08/05
Marine Products	MPX	3:2	03/11/05
RPC Inc.	RES	3:2	03/11/05
Rollins Inc.	ROL	3:2	03/11/05
Aetna Inc.	AET	2:1	03/14/05
Energy Transfer	ETP	2:1	03/16/05
XTO Energy	XTO	4:3	03/16/05
D.R. Horton	DHI	4:3	03/17/05
Bright Horizon Family	BFAM	2:1	03/21/05
Coldwater Creek	CWTR	3:2	03/21/05
Beazer Homes	BZH	3:1	03/23/05

### Trading Suspended:

Del Labs (DLI), Hollywood Entertainment (HLYW)  
Tower Automotive (TWR)

### Name Changes:

Adolph Coors (RKY) to Molson Coors Brewing (TAP)  
Indonesian Satellite Group (IIT) to Indosat ADS (IIT)  
Media Services Group (MSGI) to MSGI Security Solutions (MSGI)

### S&P 500 Changes

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

Molson Coors Brewing (TAP) to Adolph Coors (RKY). TAP is added to the Brewers (BREWERS) group.

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### Over 70 attendees participated in AIQ user Steve Palmquist's seminar at the 2nd Annual Las Vegas Traders Expo Sunday November 21, 2004

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Steve Palmquist

Steve Palmquist is a full-time trader with nearly 20 years of experience. He is the founder of [www.daisydogger.com](http://www.daisydogger.com), which provides free market analysis, trading tips, and educational material. Steve is also publisher of the Timely Trades Letter available through the web site. Steve was a featured speaker at [AIQ's October Lake Tahoe Seminar](#).

### David Vomund is AIQ's Chief Analyst, AIQ Opening Bell monthly editor, VISalert.com publisher and experienced money manager and market timer

David has earned a reputation as one of the country's top market timers. He teaches his analysis techniques to hundreds of individual and professional investors each year. David has been published in Stocks & Commodities and Active Trader magazines, and was a contributing author to Computerized Trading.



David Vomund

David Vomund, the chief analyst at AIQ, graduated from the University of California at Davis with a degree in Economics and California State University at Hayward with an MBA in Finance. He worked four years at Target Inc. as a market analyst before joining AIQ Systems as chief analyst in 1991. At AIQ, he published a daily fax service for institutional investors. He currently authors their highly acclaimed Opening Bell educational newsletter. Vomund's analysis and forecasts have appeared in Stocks & Commodities, Los Angeles Times, USA Today, and Barron's.

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