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## AIQ's Powerful New Tool

# Real-Time Barometer Shows Short-Term Trend Changes for Your Favorite Indicators —at a Glance

By David Vomund

**A** new and powerful tool available in TradingExpert Pro version 7.4 is the Real-Time Barometer. Because it is unique to AIQ, it is included as one of the choices in AIQ's Quick Launch menu.

The Control Panel Barometer (Charts application) consists of a vertical column of colored squares, one for each of the indicators. Because of its simplicity, it gives a quick "snapshot" view of the status of these indicators for a specific security.

Whereas the Color Barometer on the Control Panel shows a snapshot view of all the indicators for one security, the Real-Time Color Barometer displays the status of a few indicators for several securities, and shows their change over time.

Instead of showing a single Color Barometer square for an indicator, a

row of five Barometer squares is displayed in each indicator column. These five squares show the Barometer state at five consecutive points in time. At a glance, you can see the short-term trend changes for your favorite indicators.



DAVID VOMUND

*“Whereas the Color Barometer on the Control Panel shows a snapshot view of all the indicators for one security, the Real-Time Color Barometer displays the status of a few indicators for several securities, and shows their change over time.”*

**Figure 1** shows how this works. This is a one-minute Barometer for the S&P 500 using the Direction Movement Index (DMI). The most current Barometer is the solid green box on the left

side. In the previous minute, the Barometer was a green up arrow. The solid red box on the extreme right is the Barometer reading from five minutes prior. Therefore we see that five minutes ago the DMI was moving lower. The indicator improved between two and four minutes ago, and most recently is moving higher.

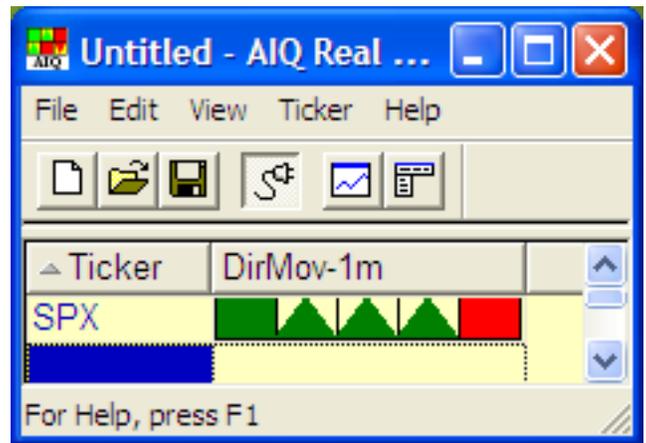
The Real-Time Barometer is not tied into the Control Panel Barometer. That is, each may use five-minute intervals but the intervals may not begin and end at the same time. For that reason, the Real-Time Barometer may temporarily have a different reading than the Control Panel Barometer.

The Real-Time Barometer is very flexible in its application. AIQ users will apply the application differently depending on each one's individual trading style. Users specify which securities to track, which indicators to display, and the time period used. The choice of indicators isn't limited to the ones AIQ has created. If you build your own custom indicator in Expert Design Studio, then the Barometer

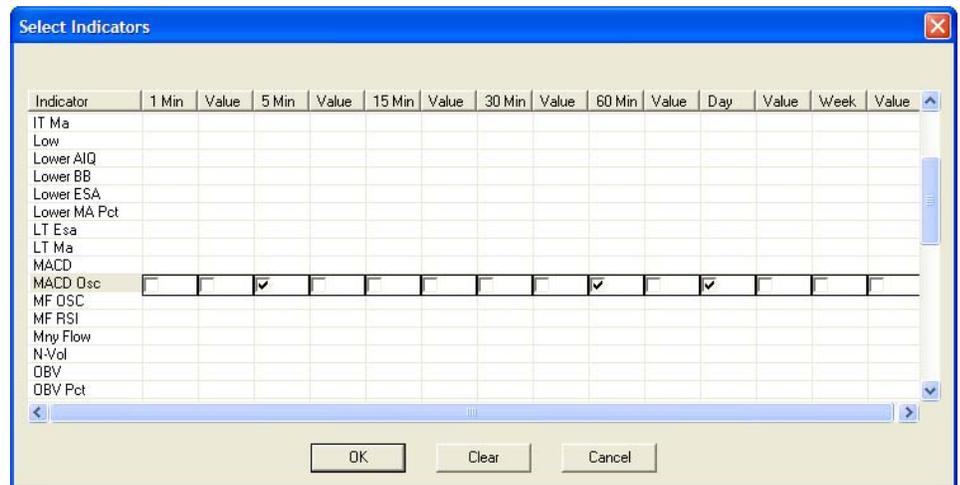
will work for your indicator as well.

Obviously, users should have access to myTrack real-time data in order to most effectively use the Real-Time Barometer. Those with the \$59/month delayed data plan can use the Barometer as well, however. With this plan, market indexes are updated real-time so the Real-Time Barometer can be used on indexes such as the Dow (INDU), S&P 500 (SPX), or Nasdaq Composite (COMPX).

To demonstrate how the Real-Time Barometer is used, we will



**Figure 1.** AIQ Real-Time Barometer for the S&P 500 index. Colored Barometer squares depict the status of the DirMov indicator for each of the last five one-minute periods. Most recent square is solid green at left.



**Figure 2.** Real-Time Barometer Select Indicators function. Dialog box is used to select the indicator/time period combinations that are displayed. Three time periods (5 min, 60 min, & Day) are selected.



**Figure 3.** AIQ Real-Time Barometer for several indexes and sectors. Colored Barometer squares depict the status of the MACD indicator for the three time periods selected in Fig. 2.

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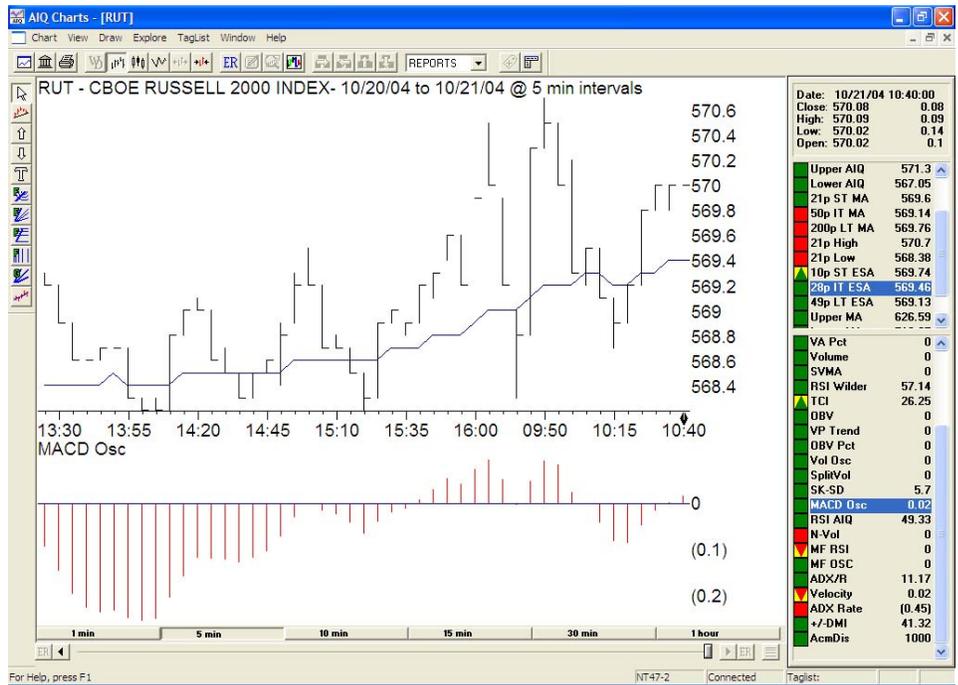
While the information in this newsletter is believed to be reliable, accuracy cannot be guaranteed. Past performance does not guarantee future results.

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determine market movement by tracking the major market averages as well as the market sectors. Although we could choose several indicators, our choice is the MACD Oscillator. This price-based indicator gives quicker readings than the MACD indicator because it is looking at the difference between two moving averages rather than waiting for crossovers. We'll track the indicator using three time periods: five-minutes, one-hour, and end-of-day.

To accomplish this, open AIQ's Quick Launch Menu and select the Barometer. Add tickers corresponding to market averages. In this example, we'll track the S&P 500 (SPX), the Russell 2000 (RUT), and the Nasdaq 100 ETF (QQQ). For the market sectors, we entered Select Sector Spyder Exchange Traded Funds (ETFs). Information on these ETFs can be found at [www.amex.com](http://www.amex.com) under Sector ETF Choices.

To add a column to the Barometer, right-click on any existing column header. For our second column, from the pop-up menu select *Insert Column* and choose *Description*. That will give a name to each ticker symbol in our first column. For the third column, we'll show the daily percentage change for each security so once again right-click on the column header,



**Figure 4.** Real-time 5-min. chart of Russell 2000 Index with MACD shown in lower window. Charted data coincides with Real-Time Barometer data shown in Fig. 3.

and from the menu choose *Insert Column* and then *% Change*.

Now we'll add the Barometers for the MACD Osc. indicator. Right click on a column header and choose *Insert Indicator Column*. A *Select Indicators* dialog

*“The Real-Time Barometer is very flexible in its application. AIQ users will apply the application differently depending on each person’s individual trading style...If you build your own custom indicator in Expert Design Studio, then the Barometer will work for your custom indicator as well.”*



**Figure 5.** AIQ Real-Time Barometer for same tickers and MACD time periods shown in Fig. 3. Barometer depicts status of the indicator approximately 40 min. later than Fig. 3.

box will appear with the available indicators. Highlight the MACD Osc. indicator and place a check market in the 5-minute, 60-minute, and Day box (see Figure 2). Click **OK**. Notice on the *Select Indicators* dialog box you can select the value of the indicators as well.

Our Barometer screen is complete (Figure 3). If your columns are out of order, simply drag titles to the appropriate location. You can add or delete rows by right clicking on one of the data items.

Examining Figure 3 more closely, we see that the SPX, RUT, and QQQ all had red Barometers

five-days ago. The indexes along with their MACD Osc. indicators were moving lower. Over the last two days, however, the RUT and QQQ improved as their Barometers moved to green up arrows. The S&P 500's Barometer remained red.

The MACD Osc. indicator was improving on the daily Barometer for the RUT so now we'll look at the hourly Barometers. Under the 60-minute section of Figure 3, we see green Barometers for all market indexes.

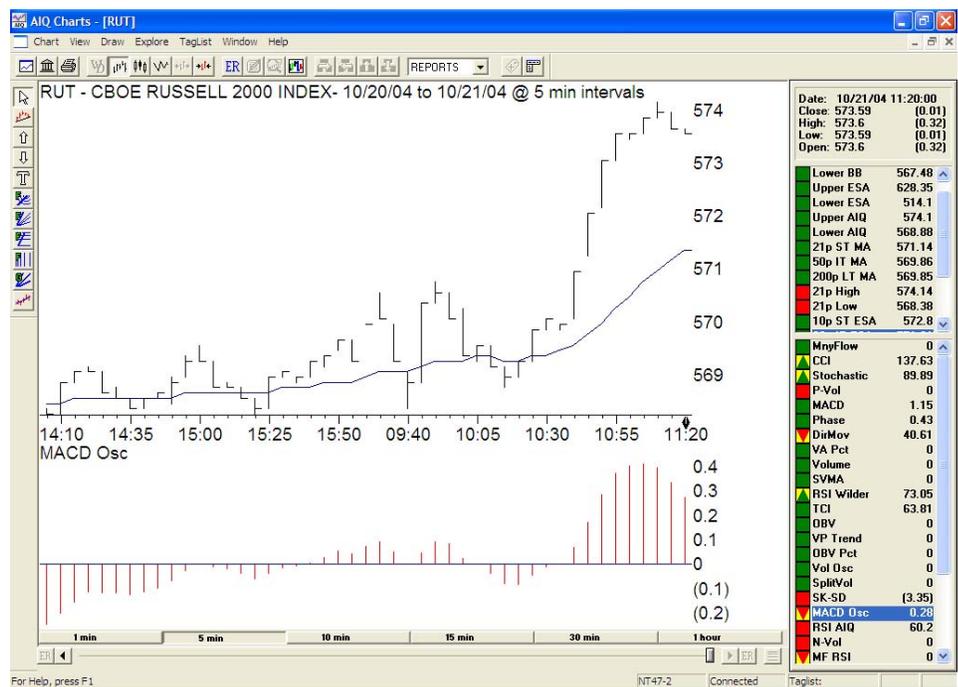
With the Barometers improving on the daily charts and already bullish on the hourly charts, we'll next look at the 5-minute Barometers. We don't want to buy high so it is best to enter when the 5-minute Barometers are just turning green.

In Figure 3, we see the Barometer was initially red for the market indexes but activity is improving. On the most recent Barometer, all indexes are green but the Russell 2000 shows the best strength.

To chart the Russell 2000, highlight its ticker and click the *Chart* icon. The chart is shown in **Figure 4**. Notice how shortly after the market opened, at around 9:50, there was weakness until 10:15. As the Russell 2000 rebounded, its MACD Osc. began moving higher. That's why the Russell 2000's 5-minute Barometer was initially red but then turned to green.

Looking at the sectors in Figure 3, it is interesting to see that the Financial (XLF), Technology (XLK), Consumer Staples (XLP), and Utilities (XLU) had yet to respond to the uptick in the indexes. They will.

The bullish Barometer correctly signaled an ensuing rally that lasted about 40 minutes. Day-trading positions could be held until the Barometer began to show weakness. That happened at 11:20 (**Figure 5**). In Figure 5, notice that



**Figure 6.** Real-time 5-min. chart of Russell 2000 Index with MACD shown in lower window. Charted data coincides with Real-Time Barometer data shown in Fig. 5. Notice index has begun to turn lower as predicted by the most recent Barometer readings.

the rally turned the 5-minute Barometers green for all the market indexes and all the sectors. Under the most recent data, however, the Barometers for all three market indexes and two sectors turned to red down arrows. This was a sign for short-term traders to lock in profits.

**Figure 6** shows a chart of the Russell 2000 at the time that it was sold. Our entry was at 10:40 and shortly after 11:00 the index lost its momentum. By 11:20 it was clear that the MACD Osc. was moving lower.

This is one example of how the Real-Time Barometer can be used to signal short-term market movement. In using the Barometer, I find it informative to look at how the Barometers change for all the market indexes. You can be more confident when a Barometer trend change is across the board. Properly configured, the Real-Time Barometer screen can reveal indicator behavior that often precedes short-term changes in trend.

## MARKET REVIEW

**T**he S&P 500 neared the top of a six-month trading range in early October but then sellers emerged. Mid-month, the index corrected nearly 5%. Just when it seemed the index would hit its yearly lows, buyers emerged.

There was volatility but by the end of the month the S&P 500 gained 1.4%. The Russell 2000, a measure of small-company stocks, had a similar gain. The best performer was the Nasdaq Composite, which increased 4.1%.

With the strength of the Nasdaq, one would expect technology groups to lead the market higher. Yes, they outperformed but the biggest winner in October was Transportation. Transportation gained 9%.

*MatchMaker Analysis*

# Determine Market Environment by Knowing Which Sectors Have Highest Correlation to the Market

By David Vomund

**W**ithin AIQ TradingExpert Pro, the MatchMaker module looks at the correlations between different securities, testing to see how closely the securities move in line with one another. Most people use MatchMaker to test the validity of their industry groups, keeping the stocks that show a high correlation with the industry group index and removing the stocks that show a low correlation to the industry group index.

In this article, we'll use

MatchMaker to examine which sectors show the highest correlation to the market during bullish environments.

Knowing which sectors have the highest correlation to the market during bullish periods is important. First, it can be used to help determine the market environment. When the highest correlating sectors perform well, then that is an indication of a healthy market. Conversely, when those sectors underperform, even when the market is advancing, then employ caution.

Second, it helps you determine

which sectors to hold in a portfolio. If you believe the market will advance, then you'll want to own the sectors that advance with the market.

For this study, we tested the correlation of each industry sector in the AIQ Group/Sector Pyramid against the Standard & Poor's 500 index. We used the Pyramid industry group structure because it has undergone a correlation screening to weed out low correlation stocks. It is the best structure to use if you run a top-down analysis.

For more information on this structure, refer to the article on

**Table 1. Correlations of Industry Sectors to the S & P 500 Index During Up Markets**

	12/09/94 to 05/24/96	07/26/96 to 02/14/97	04/11/97 to 08/01/97	01/09/98 to 07/17/98	10/09/98 to 07/16/99	03/07/03 to 03/05/04	Average
Banking	3	1	1	1	3	3	2
Finance	1	5	2	2	4	2	3
Insurance	7	2	7	4	5	5	5
Food	4	4	3	6	8	18	7
Building	10	7	8	3	11	10	8
Consumer	8	6	5	12	7	14	9
Media	5	13	14	10	2	11	9
Utility	13	3	4	5	15	16	9
Leisure	9	17	9	7	10	7	10
Retail	11	14	12	11	1	12	10
Automobile	17	9	13	18	9	1	11
Aerospace/Defense	2	8	11	14	20	15	12
Electronics	6	20	16	13	14	6	13
Transportation	15	16	6	17	13	13	13
Chemical	14	11	15	9	17	17	14
Computer	12	19	17	16	16	4	14
Internet	N/A	N/A	20	21	6	9	14
Medical	16	15	10	8	18	20	15
Telecommunications	18	18	21	15	12	8	15
Metals	20	12	18	19	19	19	18
Oil & Gas	19	10	19	20	21	21	18

page 7 in this issue.

To determine the most bullish market environments, we plotted the ZigZag indicator on the S&P 500 and looked for the best rallies. The bullish time periods examined in

sector from the most highly correlated (a ranking of 1) to the least correlated (a ranking of 21). The table is sorted in the last column, which is an average of all the rankings. Those sectors at the top of the table show the highest correlation to the S&P 500 during bullish environments while those near the bottom have the

lowest correlation, we see Oil & Gas and Metals. That doesn't come as a surprise since these tend to move with their underlying base commodity. The surprise is that Telecommunications, a high beta sector, is less dependent on market movement than most of the other sectors.

With this information we can make several conclusions. When you run AIQ's Sector Analysis report and see the financial sectors rise to the top, then that is a bullish sign for the market. When the market is advancing, the financial sectors should do well. Be cautious when they start to falter in a rising market.

Finally, during uncertain times it is best to hold Gold or Energy (or even Telecommunications) rather than a more traditional sector.

David Vomund publishes VIS Alert, a weekly investment newsletter. For a sample copy, go to [www.visalert.com](http://www.visalert.com).

***“Examining Table 1, we immediately see that financial related stocks show the strongest correlation to the market...When you run AIQ's Sector Analysis report and see the financial sectors rise to the top, then that is a bullish sign for the market.”***

our study are 12/09/94 to 05/24/96, 07/26/96 to 02/14/97, 04/11/97 to 08/01/97, 01/09/98 to 07/17/98, 10/09/98 to 07/16/99, 03/07/03 to 03/05/04. Weekly data is used for the correlation readings.

**Table 1** shows the results. For each time period, we ranked each

lowest correlation.

Examining Table 1, we immediately see that financial related stocks show the strongest correlation to the market. In fact, the top three sectors are all financial related.

Looking at the sectors with the

#### STOCK DATA MAINTENANCE

The following table shows stock splits and other changes:

Stock	Ticker	Split/Div.	Approx. Date	Stock	Ticker	Split/Div.	Approx. Date
Video Display	VIDE	2:1	11/02/04	Finish Line	FINL	2:1	11/18/04
Briggs & Stratton	BGG	2:1	11/10/04	Simpson Mfg.	SSD	2:1	11/19/04
Golden West Financial	GDW	2:1	11/11/04	St. Jude Medical	STJ	2:1	11/23/04
Devon Energy	DVN	2:1	11/16/04	MidSouth Bancorp	MSL	5:4	12/01/04
First Bancorp	FBNC	3:2	11/16/04	Ryland Group	RYL	2:1	12/01/04
North Fork Bancorp	NFB	3:2	11/16/04	Symantec Corp.	SYMC	2:1	12/01/04

#### Trading Suspended:

British Energy PLC (BGY), Cole National Corp (CNJ), Evergreen Resources (EVG), Falcon Products (FCP), Greenpoint Financial (GPT), Inet Technologies (INET), Interstate Bakeries (IBC), Prime Hospitality Corp (PDQ)

#### Name Changes:

AmNet Mortgage (INV) to AmNet Inc. (AMNT)  
Equidyne Corp (IJX) to Cathay Merchant Group (CMQ)  
Corvis Corp (CORV) to Broadwing Corp (BWNG)  
Modine Manuf (MODI) to Modine Manuf. Co. (MOD)

# Now Available! Updated Version of the Group Pyramid, AIQ's Industry Group Structure

**T**he AIQ Group Pyramid, an industry group structure that is classified on both a fundamental and technical basis, has been updated and the new version is now available.

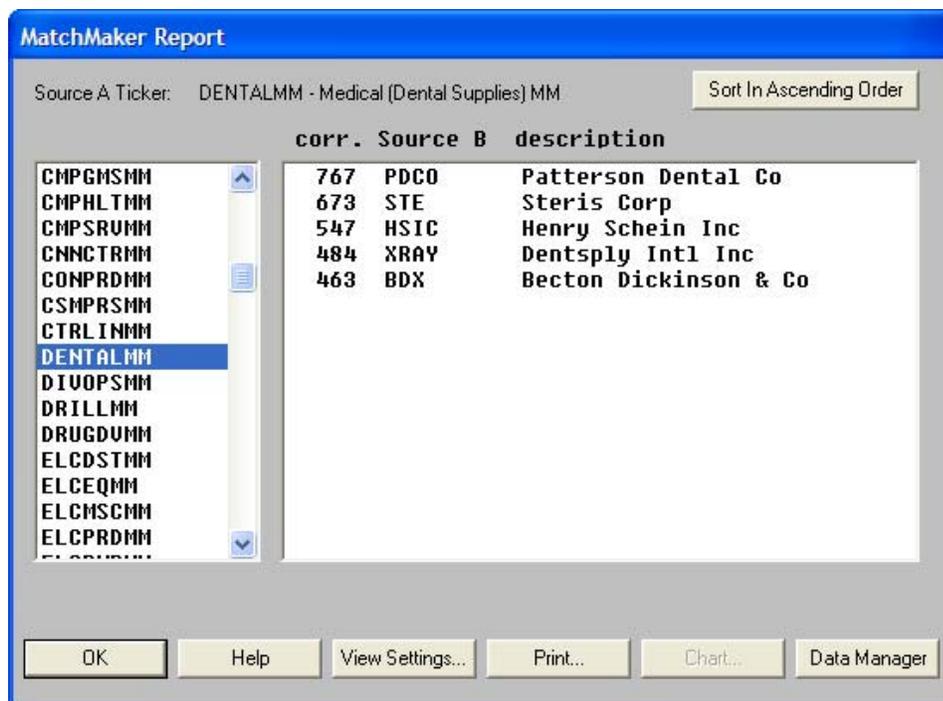
Most industry group structures are classified only on the basis of fundamentals – stocks with comparable products are placed into an industry group. AIQ has taken it a step further by performing a technical test to ensure that all the stocks in each group are behaving similarly with respect to price action.

The AIQ MatchMaker program is used to test the correlation of the stocks within an industry group to their industry group index. Only stocks with high correlations are kept in their respective groups.

To create the Pyramid structure, we began with the Dow Jones industry group structure and ran the MatchMaker program to test the correlations. Then, only those stocks that demonstrated a high correlation to their industry groups were kept.

We then compared each industry group to a database of 2000 stocks, looking for new stocks to add to the structure. Only those that fit on a technical and fundamental basis are added. The industry group index then becomes a better representation of the underlying stocks.

An example of a MatchMaker output for the Medical-Dental Supplies group along with its five stocks is found in **Figure 1**. The correlation values are shown to the left of the ticker symbols. A correlation of 1000 indicates perfect correlation. In past Pyramid structures we used a correlation cutoff of



**Figure 1.** MatchMaker Report screen showing results for the Medical-Dental Supplies Group. Correlation values for the five stocks in the group are listed in the window on the right side.

500, but we've lowered that level for this updated structure in order to have more stocks in the structure.

The AIQ Pyramid structure is primarily designed for investors who use a top-down approach and prefer mid and large company stocks. The structure has approximately 22 sectors which contain 160 industry groups. About 1300 stocks are classified (an average of 8 stocks per group).

The AIQ Group Pyramid structure sells for \$188. If you are a registered owner of a previous version of the Pyramid, you can purchase each updated version for \$44.

If you are interested in ordering the AIQ Group Pyramid or an updated version, call AIQ Sales at 800-332-2999.

## Your Questions Are Welcome!

Let us answer your questions about any of our articles, about using TradingExpert Pro, about anything pertaining to AIQ products. Also, let us know if there is a topic you would like to see covered in the *Opening Bell*.

We welcome your questions. Send them to [openingbell@aiqsystems.com](mailto:openingbell@aiqsystems.com).

## S&P 500 Changes

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

CIT Group (CIT) replaces AT&T Wireless (AWE). CIT is added to the Finance-Diversified (FINANCID) group.

**Don't forget to stop by the AIQ booth - #419**

You are cordially invited to join us at the 2<sup>nd</sup> Annual Las Vegas Traders Expo, which will be held November 18-21, 2004, at the Mandalay Bay Resort and Casino. As an AIQ client, you are entitled to free admission when you mention AIQ and priority code #003524.

At The Las Vegas Traders Expo, over 30 top traders and trading educators will share their wisdom and experience in over 100 free workshops, round table discussions, and Q&A sessions covering the trading, money management and analysis topics crucial to profiting in today's markets. The Expo will also feature a choice selection of optional intensive workshops (available for a fee).

Special features this year include:

- State-of-the-art interactive trading lab featuring live and simulated trading on individual terminals.
- Elite Trader's Chat Room *LIVE*
- Traders' Open Forum
- Live Trading Challenge
- and much more!

*Don't forget to stop by the AIQ booth - #419*

This year's stellar roster of speakers includes Linda Raschke, Larry Williams, Robert Miner, Joe DiNapoli, Larry McMillan, John Bollinger, Alexander Elder, Larry Pesavento, and many more. Whatever markets, instruments, and time frames you trade, regardless of your experience level, portfolio size, or risk posture, The Las Vegas Traders Expo will help you become a more skillful, knowledgeable, confident, and profitable trader.

Some of the topics to be presented include:

- New Concepts for Short-Term Trading Success from Market Wizard Linda Raschke
- Larry Williams Personal Patterns to Short-Term Profits
- 16 Sweet Spot Trading Industries for 2004
- Nail Market Turning Points Using Specific Advanced Fibonacci Techniques
- Binary Options: The Newest Innovation in Trading
- Trading the E-mini S&P and NASDAQ Stocks with Pattern Recognition Swing Trading
- Optimal Probability Beyond the 50% Outcome
- The Tax Guide for Traders

Just to name a few!

The Las Vegas Traders Expo WILL be booked up quickly, so call **800/970-4355** now or visit this Web page to make your reservations online today.

<http://www.tradersexpo.com/mainTE/main.asp?site=lvot04N&cid=default&sCode=003524>

Be sure to mention AIQ, and priority code #003524 for your FREE admission.

*Hope to see you there!*

Don't forget to stop by the AIQ booth - #419

## Two great opportunities to see TradingExpert Pro in action and for FREE

**Saturday, Nov. 20**

2:30 pm - 3:15 pm

**Dean Kasparian**, President, AIQ Systems

### **Perfecting Market Timing and Group/Sector Strategies**

Dean Kasparian will use AIQ's unique tools in TradingExpert Pro to focus on strategies for both timing the market and effective group/sector rotation.



Dean Kasparian

### **Speaker Biography**

Dean Kasparian is President of AIQ Systems and also Chief Technology Officer for the AIQ's TradingExpert Pro and OptionExpert. An experienced analyst, Dean has also been a market commentator for both radio and television. Dean is a frequent guest speaker at many trade shows, AAI and other investor meetings. Dean has been actively involved in all aspects of AIQ product development for the last 14 years.

**Sunday, Nov. 21**

2:15 pm - 3:45 pm

**Steve Palmquist**, Founder, DaisyDogger.com

### **Profitable Trading in Today's market**

Learn proven methods for improving your results in current market conditions from a full time trader who invests his own money and depends on a successful outcome. Learn how to find profitable set ups for up, down, and sideways markets. Know when to be in the market, when to stand aside, and how to trade difficult markets. Learn how to adjust holding times on market conditions. Learn to use Market Adaptive Techniques (MAT) for dealing with specific trading environments, and how to use that information to select setups and adjust holding timeframes. Specific trading patterns will be explained, along with the best approaches to using them in different market conditions. The results from extensive system back testing will be shared, as well as results from using these systems in the real world. Traders will receive tips and techniques on tools, and the trading process, based on nearly 20 years of market experience.



Steve palmquist

### **Speaker Biography**

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 will be a featured speaker at AIQ's October Lake Tahoe Seminar.