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The *Opening Bell Monthly* is a publication of AIQ Incorporated  
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**TOOLS OF THE TRADE**

## POINT & FIGURE CHARTING, II BUY AND SELL SIGNALS

By David Vomund

Last month, we introduced the Point & Figure charting method and concentrated on finding support and resistance levels. We saw that unlike bar charts, Point & Figure charts are only concerned with price. Time is not a factor so on days when there is only a small fluctuation in price, the Point & Figure chart may not need to be updated.

With Point & Figure charting, Xs represent increasing price action and Os represent decreasing price action. When the stock is increasing, Xs are plotted where each X

represents a box size. The stock must fall by three times the box size before Os are plotted. For more details on chart construction, please refer to page 94 of the TradingExpert Technical Indicators Reference Manual.

In this article, we'll explore what constitutes a buy or sell signal and analyze specific chart patterns.

Buy and sell signals are easily seen

in Point & Figure charts. A buy signal is simply when one column of Xs moves

higher than the previous column of Xs. A sell signal occurs when a column of Os falls below a previous column of Os.

A hypothetical example of a buy signal is shown in **Figure 1**. The theory behind a buy signal is that the stock is able

to rise above an important resistance level (i.e., a price level where sellers have appeared when the stock reached this same level).

For an actual example of buy

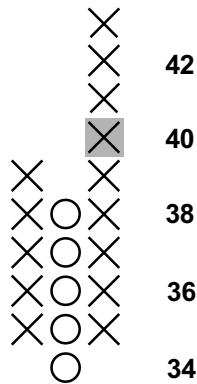
and sell signals using Point & Figure, see **Figure 2**. On this chart, General Motors gave its first sell signal in about March of 1994 when the Os fell below the previous column of Os (see arrow). From that time until early 1995, we did not see a case where Xs rose above the previous column of Xs (i.e. the stock's short term rallies did not rise above their previous rally levels). It wasn't until April 1995 when a column of Xs finally rose above the previous



DAVID VOMUND

*"Using Point & Figure techniques, it is easy to spot whether a stock is on a buy or sell signal."*

**Figure 1**



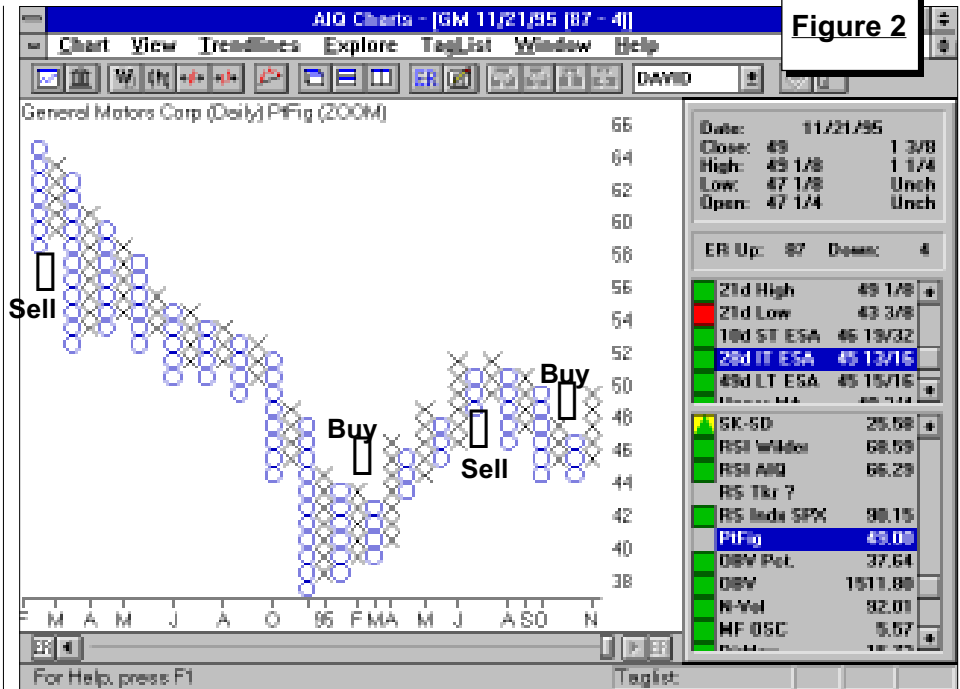
*Double Top Formation*

column of Xs (see arrow).

Another sell was registered in the summer and a more recent buy signal came in November.

With the use of Point & Figure techniques, it is easy to spot whether a stock is on a buy or sell signal. These buy and sell signals work best when stocks are in strong trends. With Point & Figure, we see that a buy signal is never registered when a stock is at or near its lows. It comes when a stock "breaks out" above resistance.

We can now spot buy and sell signals but how do we know which

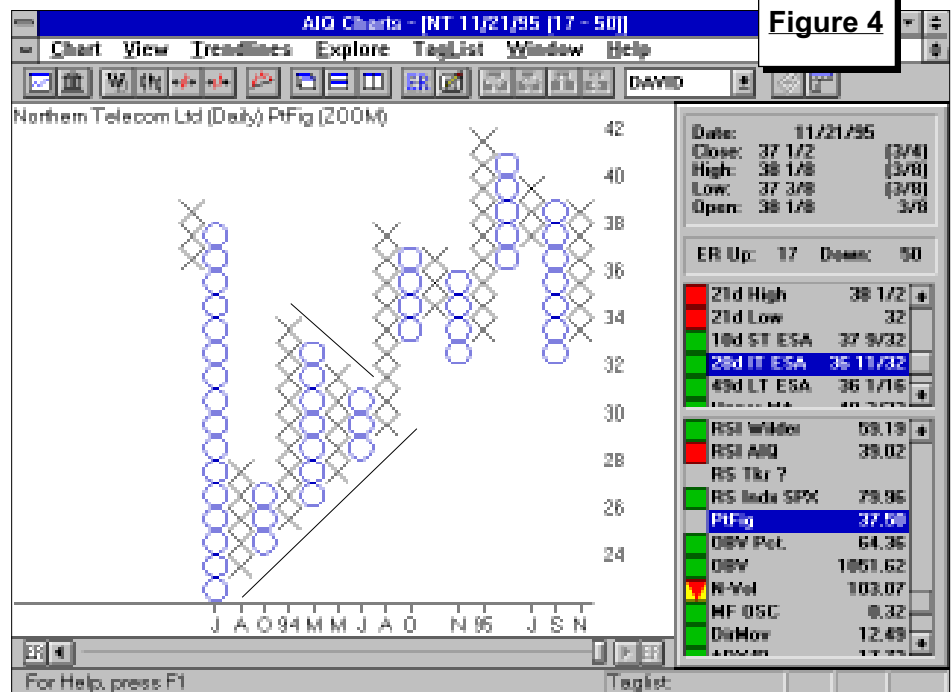


**Figure 2**

will be the best signals? There are patterns that can be identified which point toward the more significant buy and sell signals. The first pattern we'll explore is the symmetrical triangle, which is shown in **Figure 3**. In this formation, there is a pattern of lower highs and lower lows. Each column ends below the previous column of Xs and each column of Os ends above the previous column of Os. A buy is

registered when an X moves above the previous column of Xs or a sell occurs when the column of Os falls below the previous column of Os.

**Figure 4** shows a symmetrical triangle for Northern Telecom (NT). We've drawn trendlines to highlight this pattern. (At this time, TradingExpert does not include the capability to draw trendlines on Point



**Figure 4**

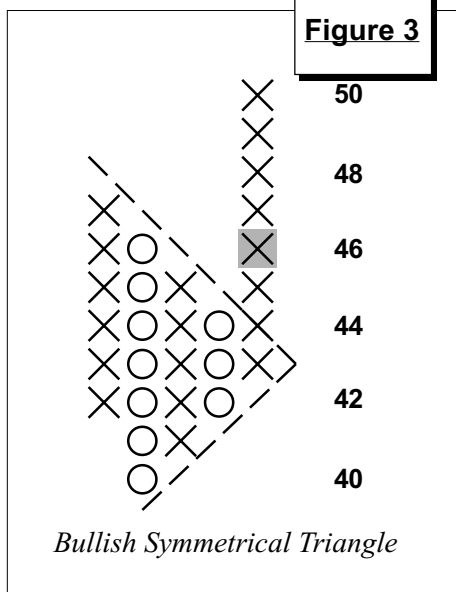
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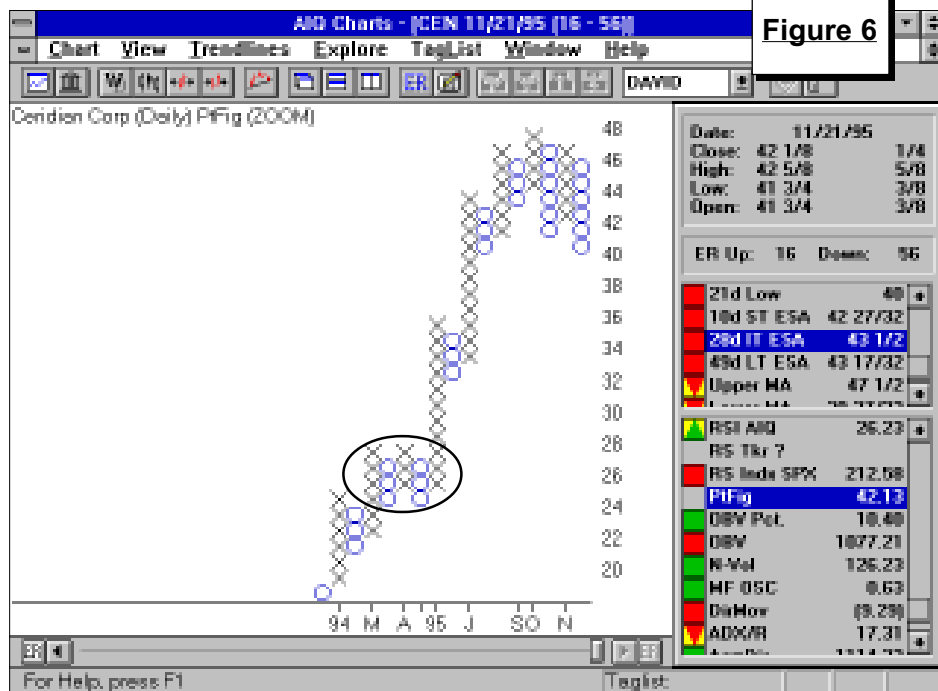
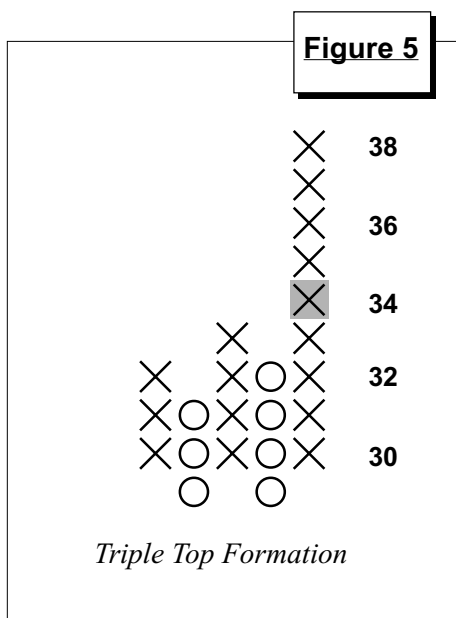
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& Figure charts). It's not until the summer of 1994 that the stock broke above the pattern and gave a buy signal. Compared to other patterns, this pattern infrequently appears.

A more common pattern is the triple top pattern (Figure 5). An actual example is seen in Figure 6, where the pattern is circled. For a triple top pattern to occur, the stock must enter a period of consolidation. Sellers appear when the stock rallies and buyers appear when the stock falls. The buy or sell is registered once the stock breaks out of the consolidation range. In Figure 6, the buy appeared when the

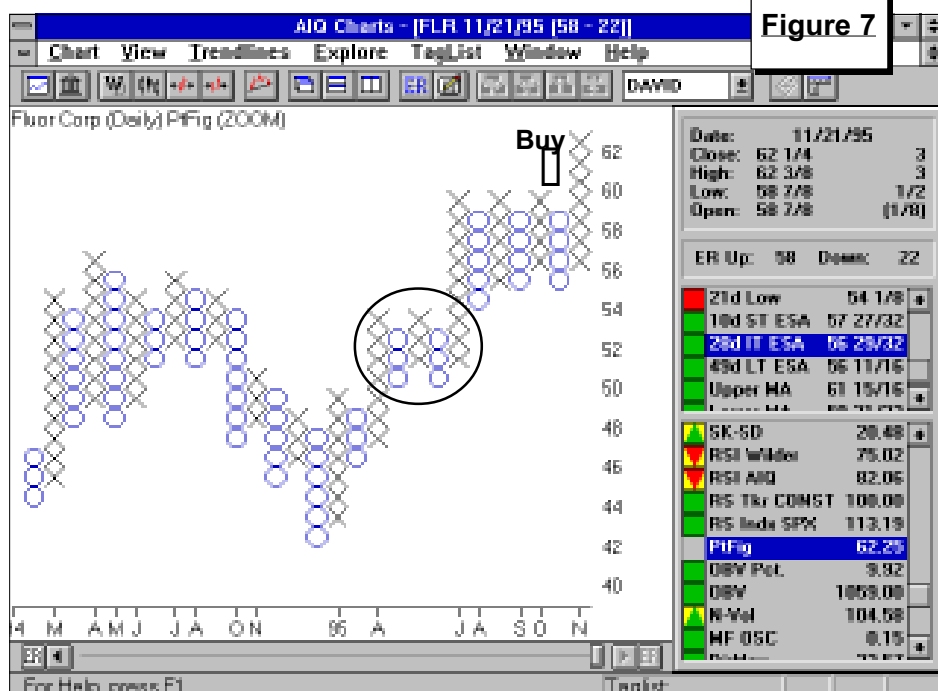


Xs moved above the prior column of Xs.

Another example is shown in Figure 7. Fluor entered a consolidation period in the spring of 1995. The first two columns of Xs stop at the same level as the columns of Os. The buy signal came as the stock rallied above the consolidation. More recently, we see a variation of the triple top pattern. Until November, the stock entered

another consolidation period. This time, however, the breakout came on the fourth column of Xs (see arrow). The more columns of Xs and Os before a breakout, the more powerful the resulting signal.

Next month, we'll analyze more patterns including the spread triple top and the bullish/bearish catapult. ■

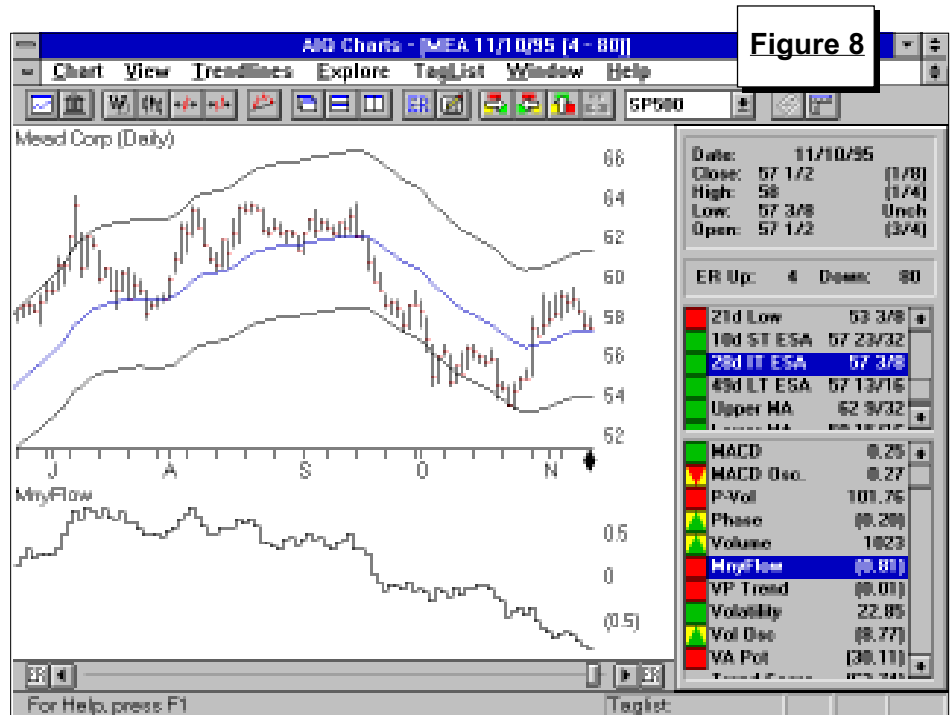


# PRICE VOLUME DIVERGENCE REPORT, III TEST OF PRICE VS. 100% MONEY FLOW

By David Vomund

Our exhaustive studies of the Price Volume Divergence report available in Trading-Expert for Windows have produced interesting findings. This report looks for situations where price action of the On-Balance Volume and Money Flow indicators diverge from the stock's price action. Previously, we performed a test going back to 1991 using the report's default settings which place equal weights on the two indicators. We then performed a test using just the On-Balance Volume indicator. This month, we conclude our studies by performing the same test on the same database of stocks using just the Money Flow indicator. The results are surprising.

For these tests, the Price Volume Divergence report is run the first day of each month (the last business day of the prior month is used if the market was not open on the first day of the month). The five top-ranked stocks are bought and held for the remainder of the month, at which time a new report is run. The database that we use contains the 500 stocks in a recent S&P 500 structure.



In this month's study, we ran the report using a setting that places all the weight on the Money Flow indicator. To change report settings, open the *Setting* menu, click *Report Criteria*, then *Daily Stock Criteria*. Next, highlight the *Price*

AIQ Reports continued on page 7

**Table 1**

### Summary of Results Positive Divergence Stocks

Average percentage return per month

	100% MF	100% OBV	50%OBV/50% MF
1991	4.23	4.04	3.93
1992	-0.04	1.51	1.82
1993	-0.54	0.51	1.95
1994	-0.40	1.47	0.95
1995	4.29	3.83	3.87

Average monthly return for years 1991 - 1995

100% Money Flow	=	1.31%
100% OBV	=	2.16%
Equal Weighting	=	2.41%

**Table 2**

### Summary of Results Negative Divergence Stocks

Average percentage return per month

	100% MF	100% OBV	50%OBV/50% MF
1991	1.79	0.68	2.02
1992	-0.77	0.93	0.65
1993	0.28	2.08	1.94
1994	-0.58	1.01	-0.03
1995	3.43	2.77	2.83

Average monthly return for years 1991 - 1995

100% Money Flow	=	0.65%
100% OBV	=	1.40%
Equal Weighting	=	1.39%

Table 3

## Positive Divergences

		S&P 500 Index (%)	Top Five Stocks (%)	Stocks Held
1991	January	3.88	15.42	FNB LLY XRX BG BEL
	February	7.99	10.48	PDG TX JOS SO MOB
	March	0.22	1.38	GP KRI BR EK TXU
	April	2.42	3.67	RLM MO ORX RD PET
	May	2.51	6.52	UN STJM INTC MES CMY
	June	-3.06	-3.02	ARC TX RD AUD MOB
	July	2.43	-1.79	CG IBM ITT DOW BA
	August	2.15	0.77	GM NAV RLM OAT BCR
	September	-1.58	0.32	ACAD T LDG INGR SIAL
	October	0.54	6.79	RD RYC CR SB BMY
	November	-4.11	-3.33	SMI STJM MO IBM AVP
	December	11.16	13.53	MTC TX USS BNI HDL
1992	January	-1.99	-2.21	DEC HAL BG NAE CHRS
	February	0.96	-2.71	ACAD NLC CNG CYR FRE
	March	-2.05	-5.37	INTC LIZ JNJ CRR MKG
	April	2.05	-1.61	HI BMY AMGN XON MMM
	May	1.16	3.06	CBE JNJ PHM USS MRK
	June	-1.05	-3.99	WFC AMR DE BAC MHP
	July	2.74	0.37	ROAD DOW WMX MTC AN
	August	-1.92	-0.78	NSC WFC CYR NT TCOMA
	September	0.05	-0.78	FNB FTU GIDL TNV NYT-A
	October	0.57	7.10	MRK FDX INTC MRN GM
	November	2.89	5.64	SMI XRX PAC WX RBK
	December	1.14	0.85	AMP ENE KO PBY TEK
1993	January	1.56	0.25	BMY WFC PFE GAP XON
	February	-0.12	-5.16	MOT BA MSFT TDM SFA
	March	1.88	-1.70	KMB XRX NKE AAPL LLY
	April	-2.25	-3.51	AXP CSX SIAL SUN SHN
	May	3.10	4.26	EK JOS TMK GIDL AMR
	June	-1.06	-3.66	BSET ZRN K UN CUM
	July	-0.19	2.96	SMI GD DAL VAT GIDL
	August	3.35	3.89	MSFT PNC VFC STI GIDL
	September	-0.40	-2.41	TXU NOVL TKR HON KEY
	October	1.70	0.68	DD JCI TMK GE DIS
	November	-1.54	-3.18	DOW ARC P MES CTB
	December	0.99	1.11	UN DNB SLB ITT HI
1994	January	2.82	5.87	ORCL GP GM R HD
	February	-3.17	-3.29	CBE INTC MSFT SFA BLL
	March	-4.02	-3.22	UN WMX N KWP ITT
	April	1.17	-7.28	DE YELL LTR JCI VAT
	May	1.47	-0.08	UNM ACAD X FTL FLR
	June	-2.49	1.07	RD PCAR UN CBS SIAL
	July	3.32	6.62	GIDL HRB AIG TX CHV
	August	2.63	1.21	LNC CMB UTX CA CB
	September	-2.21	0.18	DH TCOMA WMB GIS DI
	October	1.23	0.91	MST ROAD GPS DWD PCAR
	November	-4.16	-9.69	FON SNA OAT FLM BCC
	December	2.31	2.92	HRB UN DOW MO SWK
1995	January	2.40	5.45	MTC XON WMT GAP WMB
	February	3.24	3.81	TMC CPQ TAN DNB IBM
	March	3.10	1.10	HD GRN FLT HOU CB
	April	2.70	8.80	ORCL CLX TXN MD ANDW
	May	3.74	2.72	GLK RYC DOW DIS TIN
	June	2.11	5.22	LPX GE XRX DD HLT
	July	2.73	4.67	ARC RD WHR ROH SMI
	August	0.75	2.57	HWP FRE MO MOT AMAT

Table 4

## Negative Divergences

		S&P 500 Index (%)	Top Five Stocks (%)	Stocks Held
1991	January	3.88	11.00	RAL IP CI TNV STO
	February	7.99	11.74	WFC INGR RTN TA MMC
	March	0.22	-1.82	DEC STJM GIS XON MOT
	April	2.42	0.98	MSFT CPB BCR GE NOC
	May	2.51	1.32	T ARC WMX DEC BT
	June	-3.06	-3.95	NAV CB CSX PG AMB
	July	2.43	5.20	ALD XRX FNM CYM TIN
	August	2.15	1.08	DEC UN MO PEP BKB
	September	-1.58	-6.90	BAC KMB GE CRR HAL
	October	0.54	1.29	AHP UN XRX CTX UPJ
	November	-4.11	-4.35	UN GRA DL AMR NOC
	December	11.16	5.93	GLK SGI UEP BGE
1992	January	-1.99	1.92	AAPL OCF NOC XON ACV
	February	0.96	4.17	AAPL IP PHM PRD ACK
	March	-2.05	-5.05	PCAR AMR PCH YELL ROH
	April	2.05	2.48	WFC GAP TNB TRW CB
	May	1.16	1.64	I TX UNM SWK PG
	June	-1.05	-4.01	ARC HAL CCB LLX CL
	July	2.74	-0.71	FDX UN AHP AMR HRB
	August	-1.92	-3.28	BNI EK TNB RBK AMR
	September	0.05	-4.23	USS ROAD SUNW INGR DAL
	October	0.57	1.06	I CI DE SVU GWW
	November	2.89	0.09	WLA PHM BSX IPG TRW
	December	1.14	-3.33	IBM UN PD FLM GDW
1993	January	1.56	1.82	DH NUE EMR TNB AAPL
	February	-0.12	-0.88	INTC USS NAV IBM EK
	March	1.88	2.96	JPM WWY HRS KO FLT
	April	-2.25	-1.24	AMR LTR GWW MSFT SLB
	May	3.10	2.21	DEC SNA BCR AMGN IR
	June	-1.06	1.35	RD ROH NEM CA SNT
	July	-0.19	1.83	GM RDC RLM FNM PD
	August	3.35	0.03	NEM DAL VIA-B WFC BA
	September	-0.40	-0.04	TX BSET TWX MHP LTD
	October	1.70	1.27	RD GLK DWD DE WB
	November	-1.54	-5.63	CBS MHP DNB CTX DIS
	December	0.99	-0.32	IBM MSFT WFC ROAD KWP
1994	January	2.82	3.09	AIT BF-B MO AHP MRK
	February	-3.17	-2.66	DE C BT AA MOT
	March	-4.02	-5.16	CG GPS MOT CSC HSY
	April	1.17	4.11	KWP MTC AIG AN TRB
	May	1.47	0.45	RD MD DWD ECL DL
	June	-2.49	-4.99	C GRN RYC UCC PVN
	July	3.32	3.15	CBS MO EK CS F
	August	2.63	0.17	RD UNM UNP MOT CSX
	September	-2.21	-4.82	MSFT GM CBS JCP FDX
	October	1.23	2.42	ITT TEK CA I CAT
	November	-4.16	-1.73	MOB TX C CAT WWY
	December	2.31	-0.99	MOB AMGN C NOVL CLX
1995	January	2.40	-0.23	GD TRB CSX MMC HWP
	February	3.24	1.70	I T GRN USS UNP
	March	3.10	5.23	IBM SNC INTC KRI TX
	April	2.70	3.18	HLT IBM PD TDY AA
	May	3.74	3.25	C HPC AHP MO GM
	June	2.11	6.81	INTC CS TXN MOT LMT
	July	2.73	5.71	IBM MU MO SNA WFC
	August	0.75	1.80	CCB AMGN LMT CB UNH

AIQ REPORTS *continued* . . .

Volume Divergence report and change the weights to 100% Money Flow, 0% OBV.

For a stock to appear in the Positive Divergence section of the report, its price must have fallen over a 15-day period while the Money Flow indicator rose. Stocks that appear in the Negative Divergence section rose over a 15-day period while their Money Flow indicators fell.

An example of a stock that appeared as a Negative Divergence is Mead Corp (MEA), shown in **Figure 8** (page 4). Notice how the stock began to rally in late October while Money Flow continued to fall. Although the stock rallied, it tended to close near its daily lows, a sign of distribution.

Results of this month's test of the 100% Money Flow setting along with the results of our previous studies are found in **Table 1** and **Table 2**. Detailed results of the Money Flow test are found in **Table 3** and **Table 4**.

In Tables 3 & 4, the percentage change in the S&P 500 index for each month is listed along with the average change for the five top-ranked stocks. Finally, the ticker symbols of the five

top-ranked stocks are listed. The S&P 500's monthly performance is listed as a reference point for the market's activity. As we noted in the previous articles, it may not be proper to directly compare the performance of the five stocks selected from the report to the S&P 500. This is because we used a database made up of the current S&P 500 list of stocks for all years and, due to the continually changing nature of the S&P 500 list, the current list is somewhat different from the stocks in the list a few years ago.

### Results of Testing

Summary statistics for our three-part study are found in **Table 1** and **Table 2**. Notice that the results of this month's study are quite different from the results of our previous testing. Using a setting of 100% On-Balance Volume or using equal weights for both indicators produced fairly similar results. When using just the Money Flow indicator, however, the average return of the stocks fell.

Stocks in the Positive Divergence section using just the Money Flow indicator rose an average of 1.31% per month compared to a 2.41% return

when the report is run using equal weights for the Money Flow and On-Balance Volume indicators. This is a step in the wrong direction.

Looking at stocks with Negative Divergences, results are much more encouraging for the Money Flow indicator. Testing shows that when using 100% Money Flow, these stocks only rose 0.65% per month whereas when using equal weights for the two indicators, the Negative Divergence stocks rose an average of 1.4%. Hence, running the report using just the Money Flow indicator appears to be the better method for selecting stocks that will underperform.

These results tell us that the On-Balance Volume and Money Flow indicators should be given equal weighting in report settings when we are after long positions. When we are bearish and looking for short positions, a setting of 100% Money Flow is most appropriate. ■

*David Vomund is publisher of two advisories for stock and sector fund investing available by mail or fax. For a free sample of the advisories, phone 702-831-1544.*

### STOCK DATA MAINTENANCE

The following table shows past and future stock splits and large dividends:

Stock	Ticker	Split/Div.	Approx. Date	Stock	Ticker	Split/Div.	Approx. Date
Summit Technology	BEAM	3:2	11/04/95	Equifax Inc	EFX	2:1	11/18/95
Safeco Inc.	SAFC	2:1	11/04/95	Healthsource	HS	2:1	11/18/95
Atlanta Gas Light	ATG	2:1	11/04/95	Bethel Bancorp	BTHL	2:1	11/18/95
Money Store	MONE	5:2	11/04/95	Cognex Corp	CGNS	2:1	11/19/95
Bearings Inc.	BER	3:2	11/05/95	Donnkenny Inc.	DNKY	2:1	11/19/95
RPM Inc.	RPOW	5:4	11/11/95	Morgan Fin'l	MORG	2:1	11/19/95
BSB Bancorp	BSBN	3:2	11/11/95	C-Cube Microsys	CUBE	2:1	11/20/95
Houston Inds	HOU	2:1	11/11/95	Lilly (Eli)	LLY	2:1	11/21/95
Comdisco	CSO	3:2	11/11/95	Inter Regional Fin'l	IFG	3:2	11/21/95
Sun Microsystems	SUNW	2:1	11/12/95	CSX Corp	CSX	2:1	11/22/95
Premisys Comm	PRMS	2:1	11/13/95	Lunar Corp	LUNR	3:2	11/22/95
Clayton Homes	CMH	5:4	11/14/95	Westwood Corp	WNMP	10%	11/25/95
Regal Cinemas	REGL	3:2	11/14/95	Int'l Rectifier	IRF	2:1	11/25/95
Maxim Integrated	MXIM	2:1	11/14/95	Omnicom Group	OMC	2:1	11/28/95

#### Ticker Changes:

Pioneer Hi-Bred Int'l (PHYB) to Pioneer Hi-Bred Int'l (PHB)  
Rouse Company (ROUS) to Rouse Company (RSE)

#### Trading Suspended:

Cobra Industries (COI) Legent Corp (LGNT)  
Amer Maize Prod 'A' (AZEA) Devry Inc (DVRV)  
Amer Maize Prod 'B' (AZEB) Medicine Shop Int'l (MSII)

## WINDOWS COMMENTARY

## MATCHMAKER FOR WINDOWS

By Steve Hill

STEVE HILL

In the November issue of the *Opening Bell Monthly*, I tested the new MatchMaker for Windows by remaking my Group\Sector structure. I used the AIQ 1500 structure rather than the less comprehensive AIQ pyramid structure in order to obtain a larger number of correlated groups for my database of nearly 2000 stocks.

I ended up with over 130 correlated groups and a pool of stocks that did not correlate. Now, we will attempt to place the stocks that are not yet classified into industry groups. For this task, follow the procedure outlined below.

### 1. Print an Exception List

In *Data Manager*, select the AIQ 1500 list. From the **Manager** menu, click **Print** and select **Exception List**. This will print out all tickers in the Master List that do not belong to the newly correlated Group\Sector structure. Expect several pages of symbols.

### 2. Create a list of uncorrelated tickers

To quicken the process, build a list in *Data Manager* of all the stock tickers in the Exception List. (Remember, the Exception List also includes groups, sectors, mutual funds, etc. We are only interested in stocks). To create a new list, select **List** and **New** from the menu. Type in a name for the new list in the text box.

With the list created and selected in the List window, highlight the stocks from the Exception List in your Master List. When you have highlighted about 50 stocks, click the **Insert to List** toolbar button. Repeat the process until all the

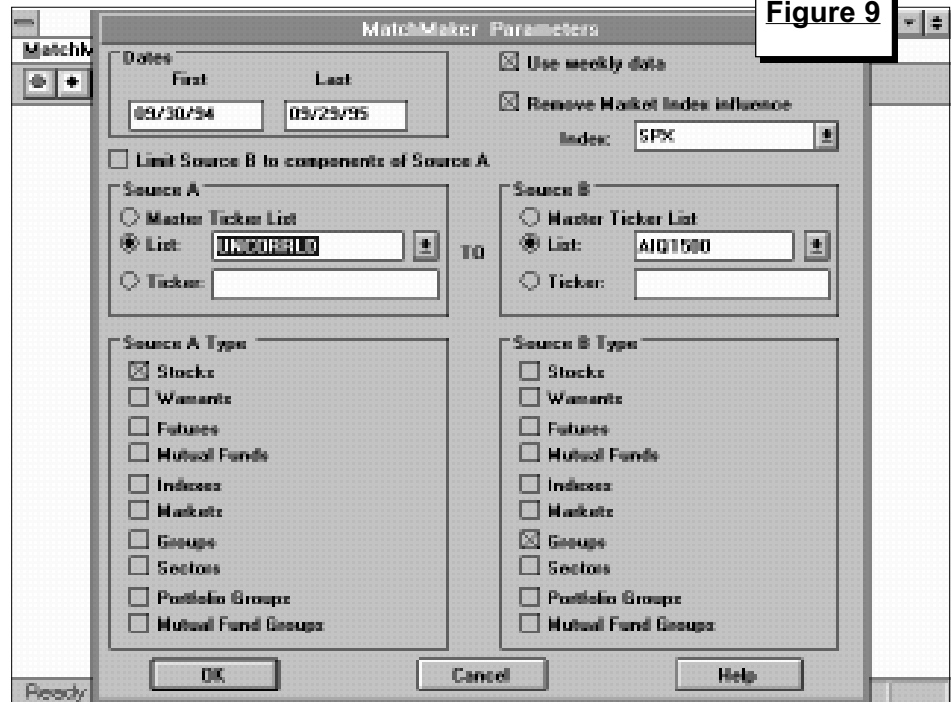


Figure 9

stocks from the Exception List are placed in the new list.

### 3. Correlate Exception List stocks to all groups

Using the **MatchMaker Parameters** function (black diamond icon), correlate all stocks in the list that was just created to all groups in the AIQ 1500 list (see **Figure 9**). This will produce a report for each stock in the Exception List against the AIQ 1500 groups. If a stock correlates well with a group, add

it to that group in *Data Manager*. If a stock correlates with more than one group, insert the stock into the group that is fundamentally closest.

After completing this process, recompute the groups and sectors using the **Compute Group/Sector Indices** function in *Data Manager*.

You now have a correlated group structure. Next month, I will cover sector correlation and some of the results of the correlation process. ■

## MARKET REVIEW

This was an active month for both the market and our market timing model. A series of sell signals were registered in early November. Sell signals came on 11/8, 11/10/, 11/14, and 11/15. These signals were not confirmed by the Phase indicator but we were already on a confirmed sell signal registered on October 19. Other than technology issues, the market did not decrease.

We are often asked if several signals in the same direction are more significant than one signal. The answer is definitely yes but it is more

powerful if the signals are fired for different reasons. In the case of the series of sell signals, most of the signals were fired because of a new high in the Dow at the same time as weak market breadth and a negative Up/Down Volume Osc.

A buy signal was then registered on November 16. The Dow and S&P 500 are hitting new highs but the broader markets continue to lag. With the S&P 500 at new highs, the Russell 2000 is still 4 1/2% off its highs. ■

D.V.