

# Bottom-Up Approach to Stock Selection Using AIQ Reports

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With TradingExpert's group/sector capabilities, much of the focus is on top-down strategies which were discussed in Section III. TradingExpert also provides a powerful bottom-up approach to stock selection. With a bottom-up strategy, analysis begins with individual stocks and moves to their industry groups and sectors.

## Building a User List of fundamentally attractive stocks

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AIQ users who combine fundamental information with technical analysis often use a bottom-up approach. Stocks are first selected using fundamental values and then TradingExpert is used to time the buy and sell points. Some AIQ users prefer to trade only top rated Value Line stocks or stocks highlighted in *Investor's Business Daily*, using AIQ for timing. With this approach, a User List containing fundamentally attractive stocks is first created and then AIQ's reports are run on this list.

### Note

There is no limit to the number of User Lists you can create.

As you will learn, the User List is a powerful feature of AIQ TradingExpert Pro. Moreover, building a User List from any of the tickers in your data base is a simple task. For instructions on how to create a simple one-level list in *Data Manager*, see *Other User Created Lists* in Chapter II of your User Manual. Once a list is created, viewing a chart of any ticker in that list becomes simply a matter of clicking on the ticker's name in the Explore Window of *Charts*.

## How to explore a User List of stocks

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After creating a User List of stocks you are interested in, you can easily view charts of tickers in the list using TradingExpert's Explore Window.

*To use the Explore Window, do the following:*

1. Open the *Charts* application.
2. In the List Box near the right end of the toolbar, select the name of the User List that you have created and want to explore. The name of this list must appear in the List Box.
3. Press the **Enter** key. The Control Panel listing technical indicators on the right side of the *Charts* screen will be replaced with the Explore Window. The Explore Window will display your User List just as it was created in *Data Manager*. The name that you assigned to the User List will appear at the top of the window with

the tickers listed below in alphabetical order.

4. To view any ticker in this list, simply click on its ticker symbol in the Explore Window. Hold down the **Ctrl** key to select multiple tickers to view. You can easily and quickly view all the tickers in your User List.

## How to run reports on a User List

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After building a User List of fundamentally attractive stocks, you can run the AIQ reports on the list to look for technically attractive conditions for timing entry points.

*To run reports on your User List, do the following:*

1. Open the **Reports** application.
2. With the right mouse button, click on **Stock Reports** in the left pane of the Reports window. The *Global Properties* dialog box which appears is used to set criteria for reports. Click the tab labeled **Daily Selection Criteria**.
5. In the top section, click the arrow on the text box next to the first item, *Stock*. The name of your User List should appear. Click on the name, and the User List will be displayed in the text box.
6. Click **OK**.
7. Finally, generate reports as outlined in First Steps, Section I of this Guide.



*Daily Selection Criteria tab of the Global Properties dialog box*

## Using AIQ reports to flag stocks of interest

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Although some AIQ users prefer to run reports only on User Lists of selected stocks, other users prefer to run the reports on their entire data base of stocks.

A vast array of pre-built reports are furnished with TradingExpert Pro including reports that filter your data base to find stocks with AIQ buy and sell signals, strong relative strength, high volume, increasing Money Flow, and positive/negative divergences. If a pre-built report does not exist for a particular screening technique, bottom-up investors can use the Expert Design Studio to create their own report.

Whichever stock reports they prefer, bottom-up investors use TradingExpert to filter a list of stocks or a large stock data base and flag those stocks that deserve special attention. In-depth analysis is then performed on the flagged stocks, and finally analysis is performed on the industry groups of these stocks.

## Bottom-up approach example using Weighted Action List

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Let's look at a bottom-up approach example using the Weighted Action List. A buy signal for the overall market was registered on January 12, 1998, which was a good time to purchase stocks. (To see this Expert Rating, display the AIQ Market Timing Chart (DJIA) for that day.) Shown is a Weighted Action List report run on that day. This report lists those stocks with recent Expert Rating buy and sell signals that have been confirmed by the Price Phase Indicator.

The stocks with buy signals are listed in the order of their Positive Volume indicators (highest values at the top). Conversely, stocks with sell signals are listed in the order of their Negative Volume indicators. In our example, the top-rated upside stock from a data base of the S&P 500 stocks is Dayton Hudson Corp. (DH). Our analysis starts here.

With the Weighted Action List displayed on your screen, you can double click on the **DH** ticker symbol and its chart will appear (as shown). Since the stock appears on the Weighted Action List, we know that sometime in the last ten days DH registered a buy signal that is confirmed by the Price Phase Indicator (the indicator has turned in the direction of the signal). In our example, DH registered a 98 up signal on December 30, 1997.

*Weighted Action List report for 1/12/98*

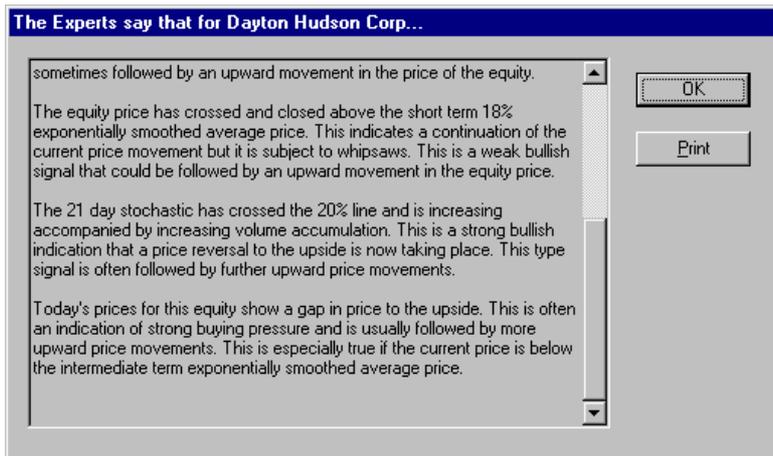
Ticker	Stock	Wt	ER	Price
DH	Dayton Hudson Corp	99	98	34 1/32
DELL	Dell Computers	94	99	43 1/2
BMET	Biomat Inc	80	92	26 1/8
DAL	Delta Air Lines Inc	76	100	118 5/8
FJ	Fort James Corp	75	100	36 5/8
LUV	Southwest Airlines	74	92	25
AMR	Amer Corp	61	92	64 25/32
X	USX-U S Stl	59	95	30 3/8
ABT	Abbott Labs	54	98	34 25/32
THC	National Med Ester...	49	98	33 3/8
MEA	Mead Corp	44	95	28 1/32
CAG	Conagra Inc	43	98	32 1/32
BDK	Black & Decker Corp	40	92	43 1/4

**Note**

To see a full screen of price and indicator plots, as seen in this chart of DH, press the **F10** key.



*Chart of Dayton Hudson Corp. (DH)*



*Rules that "fired" for DH up signal*

By clicking the **ER** button on the toolbar of the DH chart, you can see reasons for the buy signal. On the day of the signal, six rules fired. The last three rules are shown in the figure displayed. By plotting the indicators mentioned, one can learn from these rules. Volume Accumulation Percentage for DH was increasing (see the chart). STJM's Stochastic gave a recent buy signal as it fell below and then rose above the lower horizontal line.



*Chart of Retail (General Merchandise)*

The final step in our bottom-up stock selection process is to make sure the stock is in an attractive industry group. With the chart of DH displayed, first check that the SP500 (for the S&P 500 Group/Sector List) is displayed in the List box (if not, click the arrow on the List box and select **SP500**). Then, click the **Explore up arrow** on the toolbar to see a chart of the stock's industry group.

Shown is DH's industry group, Retail (General Merchandise). We see that the group's Money Flow indicator was weak in November and December but in early 1998 Money Flow was advancing at the same time that the stock was drifting sideways.

A check of the weekly chart of the Retail (General Merchandise) group shows that the group was clearly in an uptrend. Weekly charts give a better picture of the overall trend for the group. (To switch from a daily to weekly chart (or vice versa), click the **W/D** button on the toolbar.) This tells us that the other stocks in the group are performing well and the group is in favor.

In our example, the top rated stock on the Weighted Action List has passed our criteria. This isn't always the case. It may be that you don't like the chart pattern or the indicator readings of the stock. Or, the stock's industry group may not be attractive. When that happens, move to the next stock on the Weighted Action List and perform the same type of analysis.

## Other screening reports

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Different types of investors have different styles of analysis. Some are short-term traders while others prefer to buy into trends. TradingExpert for Windows provides a series of screening reports that fit the needs of both styles of investing.

Reports that may be used to screen your stock data base and develop lists of technically attractive stocks include:

- Accumulation/Distribution
- Moving Average Crossover (Upside and Downside)
- New Highs/New Lows
- Price Change (Upside and Downside)
- Price Gap
- Price/Volume Divergence
- Relative Strength (Strong and Weak)
- Trendline Breakout
- Volume Spikes
- Volume Trend

By experimenting with these reports, you can develop your own style of bottom-up investing.

### **Reminder...**

Detailed information about all TradingExpert reports can be found in your User Manual.