

In This Issue

Brooks McFeely, Fund Manager for the Brochet Capital Partners hedge fund, and Founder of MidnightTrader.com on Late Trading: A Practical Guide1

AIQ Industry Group Analysis and Creating Your Own Groups and Sectors4

S&P 500 Changes 5

Data Maintenance 5

Earnings Calendar5

Upcoming webinars 5

The Options Hunter 2-day seminar Feb 28 & 297

The Opening Bell Newsletter is a publication of AIQ Systems
P O Box 34764,
Reno NV, 89533

E-mail:
openingbell@aiqsystems.com

Late Trading: A Practical Guide

By Brooks McFeely
CEO, Midnighttrader.com

Brooks McFeely is widely regarded as one of the most knowledgeable sources on extended-hours trading and equity ECNs. He is Managing Partner and Fund Manager for Brochet Capital Partners, LP (Washington DC based Hedge Fund). He is also the founder of www.midnighttrader.com, a provider of subscription based extended-hours market analysis and news services for retail and institutional investors.

The Regulatory Advantage

The immense political and financial clout that the established securities exchanges and markets have in this country for preserving the status quo is nearly unparalleled. Indeed, though the Congress directed the SEC to create a national market system in 1975, it wasn't until late 1999 that retail traders were allowed equal access to pre-market and after-hours trading. For years, institutional investors and market professionals negotiated transactions among themselves in a very limited and exclusive version of the extended-hours market. Today's version is participant driven, more consolidated, reasonably liquid, transparent and inherently safer than regular session trading.

Despite mixed feelings expressed by exchange officials, specialists and



Brooks McFeely

professional market participants, in mid-1999 growing numbers of broker-dealers began providing their retail customers with the ability to have their orders directed to ECNs after the major markets closed. The trading rules, while different than those that govern regular session activity, provide both enhanced investor protections as well as some significant advantages.

From a protection standpoint, the differing participation rules relate mainly to order criteria. While both 'Market' and 'Limit' orders exist as common order types in regular session trading, 'Market' orders are not authorized in extended trading. In other words, it's a limit order

"While both 'Market' and 'Limit' orders exist as common order types in regular session trading, 'Market' orders are not authorized in extended trading."

only environment overnight. While it may appear that the elimination of market orders during the extended-hours would be a great disadvantage, it's quite the opposite. As seasoned traders know, market orders are typically used by unsophisticated retail investors, unnecessarily giving up significant price concessions to get small orders filled.

Listen up short sellers. Extended-hours trading rules provide a little know benefit and advantage not available during the 9:30 am - 4:00 pm EST day session. While regular session participants may only short stock in accordance with the "plus tick rule", after-hours executions are exempt from this rule which requires every short sale transaction be entered at a price that is higher than the price of the previous trade. The uptick rule was designed to prevent short sellers from adding to the downward momentum when the price of an asset is already experiencing sharp declines. Watch out below!

Despite the SEC's best efforts to over regulate individual investor participation in the capital markets,

AIQ Opening Bell Newsletter

P.O. Box 34764, Reno, NV 89533

AIQ Opening Bell does not intend to make trading recommendations, nor do we publish, keep or claim any track records. It is designed as a serious tool to aid investors in their trading decisions through the use of AIQ software and an increased familiarity with technical indicators and trading strategies. AIQ reserves the right to use or edit submissions.

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

© 1992-2008, AIQ Systems



Figure 1. Whole Foods Market, Inc (WFMI) in the after-hours and following day 5 minute bars.

transacting after the close and before the open of regular trading offers significant advantages with increased protection that should not be overlooked.

The Short Story After Hours

Fear is stronger than greed. When companies report weaker than expected quarterly earnings, a primary driver of extended trading, traders often waste no time in voting their collective displeasure. Typically, within seconds of an earnings release in the after-hours or pre-market, significant volume and price activity follow with dramatic results. Large and small cap stocks alike often move significantly higher or lower on tremendous after hours volume, typically equal to or greater than fifty percent of the issues average volume for an entire day.

Where is the opportunity? How can I possibly react within seconds of an earnings release or other news? Forget everything you've learned about reacting to news in regular session trading. Event driven trading

in the regular session is far more difficult and restrictive (on the short side) than in the after-hours. Regular session event trading requires a finger on the trigger at all times and the ability to compete with automated trading programs and algorithms. For even the most seasoned retail traders it's a losing game.

"While regular session participants may only short stock in accordance with the "plus tick rule", after-hours executions are exempt from this rule."

Despite the surge of trading and almost instantaneous institutionally driven repricing following significant news after the close, there remain opportunities for the retail trader which doesn't require rapid fire trading. Let's take a close look at a recent earnings event driven trading on Whole Foods Market, Inc. (WFMI) in the after-hours and following day (figure 1).

Whole Foods Market released disappointing earnings after the close on Wednesday, May 9, 2007. According to MidnightTrader.com,

WFMI dropped immediately following the news of an earnings and sales shortfall, plummeting from the regular 4 PM closing price of \$45.80 to just under \$43 or better than 6% within one minute. Using historical extended-hours trading data provided by MidnightTrader.com as a guide, there appeared to be even more room to the downside.

The last time WFMI reported a comparable earnings and sales shortfall was on the evening of July 31, 2006, when MidnightTrader.com reported that the issue tumbled 7.2% after hours. It slid further the next day, losing a whopping 11.7% by the closing bell on August 1st. Short sellers who took a position in the hours following the release that night stood to gain at least 4% within 24 hours. No need to trade within seconds or even minutes following the release, giving night traders with access to real-time after hours trading information plenty of time to digest the news and accumulate a short position.

An inspection of the 5 minute chart of WFMI (figure 1) reveals the orderly after hours and pre-market decline. Clearly, the shorting opportunity was easily available at anytime during the after-hours and early pre-market sessions. By the time the opening bell rang, the downside was already priced in. Too late for the rest of Wall Street to participate.

Liquidity you ask? Not a problem. WFMI recorded after hours volume that night of over 1.7 million shares, better than 50% of its average daily volume.

It's not only earnings moving stocks and creating short opportunities after hours. After the bell on the evening of Monday May 14th, Amgen (AMGN) fell steadily lower following reports that Medicare was considering limiting payments for Amgen and Johnson & Johnson's (JNJ) anemia drugs due to safety concerns. As shown in figure 2, AMGN gradually fell 3.5% from the



Figure 2. Amgen (AMGN)

4 PM price of \$56.15 to \$54.15 by the 8 PM close of after hours trading.

Opportunity Identification & Risk Management

While there are certainly tremendous short sale opportunities after hours, there are also risks. Not unlike any investment vehicle or regular session participation, short selling has risks equal to its rewards. Successful investing requires a stringent and methodical approach and dedication to risk management. In other words, opportunity selection and capital allocation coupled with a well defined exit strategy is essential for long term profitability.

Regarding opportunity selection, history and liquidity are the most significant characteristics of position selection. Access to comparable issue specific historical event reaction information is necessary in order to effectively predict future price movement. Without volume and associated liquidity conditions after hours price movements cannot easily be validated or sustained. In addition, since the extended-hours are totally participant driven, picking up a position of meaningful size would not be possible. Avoid stocks with limited or low volume/liquidity characteristics regardless of the news

or its reaction history.

Shorting after hours is another technique you can add to your trading toolbox. That is, if it fits with your risk tolerance and investing style. Short selling in the extended-hours provides a sizable opportunity with manageable risk. As with trading any instrument in any environment, understand the rules and get the market data tools necessary to support smart decision making. Enjoy the benefits of late trading but don't fall asleep at the wheel.

Brooks McFeely is widely regarded as one of the most knowledgeable sources on extended-hours trading and equity ECNs. He is Managing Partner and Fund Manager for Brochet Capital Partners, LP (Washington DC based Hedge Fund). He is also the founder of Midnight Trader, Inc., a provider of subscription based extended-hours market analysis and news services for retail and institutional investors.

Get a 14-day FREE trial of this powerful service, visit

<http://www.midnighttrader.com/visit.php?source=1&tag=AIQ>

AIQ Industry Group Analysis and Creating your Own Groups and Sectors

In addition to standard tools, AIQ TradingExpert Pro has some unique features that nearly every user would find beneficial. This is the second of a three-part series of articles covering features that every TradingExpert user should know how to use.

The first article in the series (December 2002) covered list management and its many benefits. In this article, we'll demonstrate the benefits of creating industry groups specific to your trading needs.

TradingExpert comes with two industry group structures, the Standard & Poor's structure and the AIQALL structure. The software also has the ability to create new industry group structures. Those who use standard analysis tools may think creating industry groups is unimportant, but we'll show that almost every user can benefit from AIQ's industry group tools.

People who perform a top-down

"People who perform a top-down analysis (sector to group to stock) find AIQ's group analysis capabilities very important...Most people, however, are bottom-up traders. The group analysis feature in TradingExpert Pro is important for bottom-up traders as well."

analysis obviously find AIQ's group analysis capabilities very important. These people first analyze industry sectors and groups and then pick stocks within the attractive groups. Most people, however, are bottom-up traders. They screen a broad da-

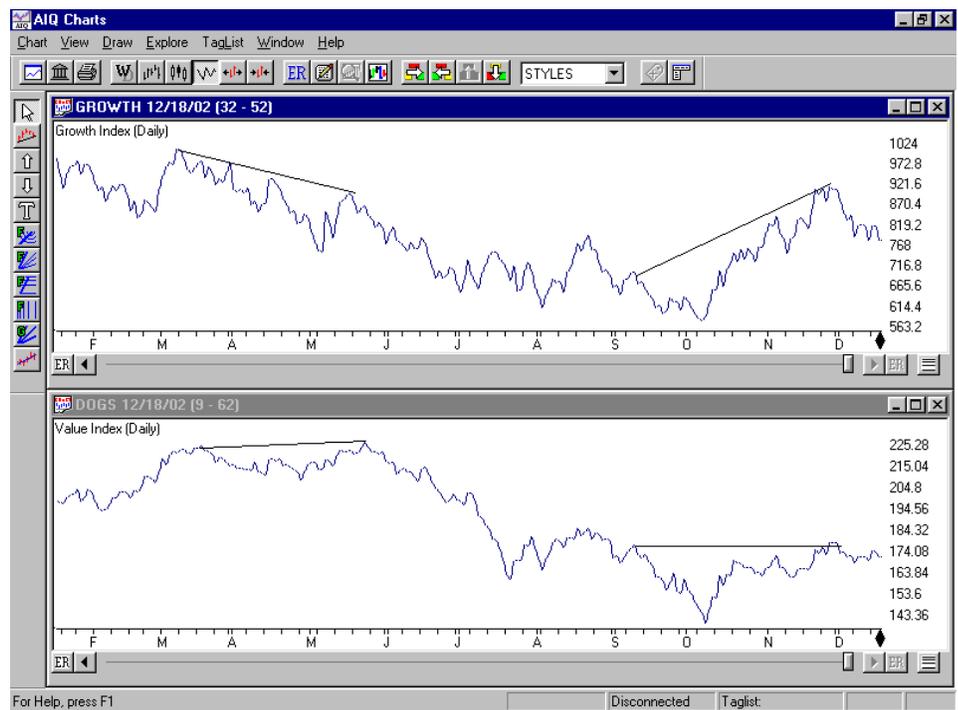


Figure 1. Daily charts of two indexes (Growth and Value) showing comparison of price activity. Trendlines indicate periods when performance of two groups differed significantly.

tabase of stocks trying to find attractive trades. The group analysis feature in TradingExpert Pro is important for bottom-up traders as well.

Let's look at an example that demonstrates the usefulness of AIQ's group analysis capability. When analyzing the market's health, almost everyone graphs the Dow, S&P 500, and the Nasdaq Composite. To get a bet-

ter feel of the market environment, one could further break down the market to growth and value components.

Figure 1 shows a Growth industry group and a Value industry group. Notice in March to May that the

Growth group lost value while at the same time the Value group moved slightly higher. In September to December, however, the Value group moved sideways but the Growth group moved sharply higher.

This Growth/Value group analysis can play an important role when evaluating the market's health. When value stocks outperform, then that implies that your analysis should emphasize low PE or high yielding securities. When growth stocks outperform, then that implies that high relative strength or technology stocks are in favor. Then again, when both groups head over, as they did in May to October, then the market's health is at its worst.

Some may say that you can do the same analysis by following market indexes that track growth and value stocks. That's true but by creating AIQ groups you can control which stocks comprise the index and you can

Continued on page 6

AIQ Webinars January 2008

February 13th**Analyzing Current Market Conditions, and Specific Trading Setups**Presenter - *Steve Palmquist, daisydogger.com*

Time 1:00 - 1:30pm EST cost FREE

<http://prowebinars.epopcentral.com/?join=W32>**February 18th****Learn Market clues and how to identify market movers with AIQ**Presenter - *jason Campbell, TheMoneyCharts.com*

Time 4:30pm EST cost FREE

<http://prowebinars.epopcentral.com/?join=J67>**February 19th****Successful Options Trading Strategy - The Options Hunter.**Presenter - *Dale Wheatley, The Options Hunter*

Time 7:00 - 8:00pm EST cost FREE

<http://prowebinars.epopcentral.com/?join=R53>**February 14th, 21st and 27th****Options Hunter Subscription Webinar Service**Presenter - *Dale Wheatley, The Options Hunter*

Time 7:00 - 8:00pm EST cost \$99/mo.

<http://www.theoptionshunter.com>**Note for Options Hunter subscribers:**

Options Hunter Subscription Webinar Service scheduled for February 28th will now be presented on Wednesday February 27th

STOCK DATA MAINTENANCE

FEBRUARY EARNINGS CALENDAR

The following table shows stock splits:

Stock	Ticker	Split	Approx. Date
Cummins	CMI	2:1	01/03/08
Graham Corp	GHM	5:4	01/03/08
Standard Parking	STAN	2:1	01/18/08
Foster Wheeler	FWLT	2:1	01/22/08
Medco Health Solutns	MHS	2:1	01/25/08
Bolt Technology	BOLT	3:2	01/31/08

S&P 500 Changes**Changes to the S&P 500 Index****Additions:** Cameron International (CAM)**Deletions:** Harrahs Entertainment (HET)

AIQ updates the S&P 500 groups and sectors on a regular basis, to find out more visit

<http://www.aiqsystems.com/lists.htm>

The following table shows some major stocks earnings dates

Stock	Ticker	Time	Date
Coca-Cola Ent.	CCE	Before Mkt	02/12/08
Credit Suisse	CS	Before Mkt	02/12/08
Schering-Plough	SGP	Before Mkt	02/12/08
Deere & Company	DE	not avail	02/13/08
Goodyear	GT	Before Mkt	02/14/08
UBS	UBS	Before Mkt	02/14/08
Hewlett Packard	HPQ	not avail	02/19/08
Wal-Mart	WMT	not avail	02/19/08
Garmin	GRMN	Before Mkt	02/20/08
Universal Health	UHS	After mkt	02/28/08

control which stocks comprise the index and you can see volume data calculated from the stocks in the index.

A similar analysis can be done on the stocks in your portfolio. By creating a group of the stocks your trading system selects, you can see when the system outperforms the market indexes and when the system struggles. It helps tell you when you want to be active in your trading and when you should sit on the sidelines.

Groups can also be created to track mutual funds. By creating industry groups based on the 10 largest stock holdings of the mutual funds, one can analyze these surrogate groups using both price and volume-based indicators. To create a surrogate mutual fund group, first build a list of the 10 stocks and then create an index for this group of tickers. (For detailed instructions on creating an industry group, see below.) Let's look at an example. The top

"Groups can also be created to track mutual funds. By creating industry groups based on the 10 largest stock holdings of the mutual funds, one can analyze these surrogate groups using both price and volume-based indicators."

graph in **Figure 2** is a surrogate group calculated from the 10 largest stock holdings for the Rydex Health Care mutual fund. The bottom graph shows the actual fund. Notice how similar the price movement of the actual fund is compared to the surrogate group.

With the surrogate group created, we have more tools to

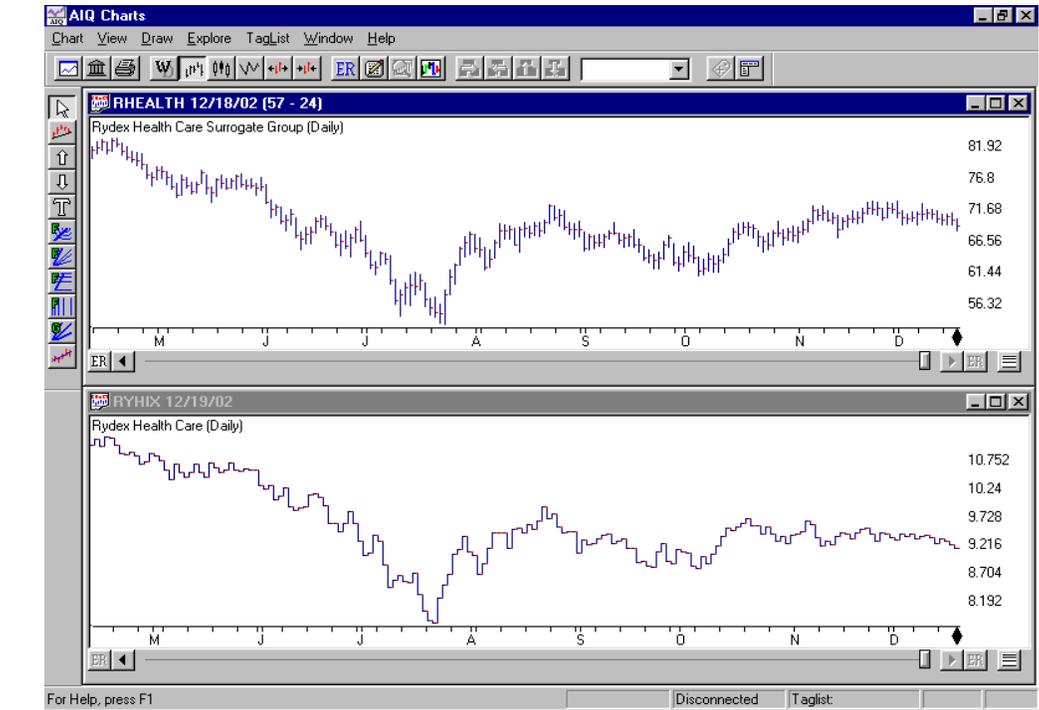


Figure 2. Daily charts of Rydex Health Care Fund (bottom) and a surrogate group created from the fund's 10 largest stock holdings (top). Comparison shows how closely the surrogate group tracks the actual fund.

help analyze the Health Care fund. Whereas mutual funds only have closing prices, surrogate groups have high, low, and closing prices. They also have volume data. With volume data, we have access to volume-based indicators such as Money Flow, On Balance Volume, and the Positive Volume Index.

Learning how to create a group structure is a useful process for all AIQ users. If you can successfully create a

structure, then you have mastered the Data Manager. Building an industry group is done with three easy steps.

Step 1. Create a list name. In the Data Manager, click *List* and then *New*. Enter a list name and click *OK*. For this exercise, we created a group structure that has a growth and value group as shown in Figure 1. We called our list "Styles."

Step 2. Create a group ticker. In

Data Manager, click *Ticker* and *New*. Enter a ticker for the new group. Make sure the ticker symbol isn't the same as an existing stock's symbol. Click *Group* and then *OK*. Drag the group name to the left side of the Data Manager and drop it on the list name.

Step 3. Enter the stock symbols that comprise the group. In the panel on left side of the Data Manager window, single-click on the group ticker symbol which appears just below the list name. With the ticker highlighted, click *List* and *Insert Tickers*. Enter the ticker symbols that you want in the group separated by semicolons.

The next time you download data, indices for the groups will automatically be calculated. You can also calculate the groups by going to the Data Manager and clicking *Utilities* and *Compute Group/Sector Indices*. Highlight the list name and click *OK*.

Whether you use the group feature to spot the rotation of industry groups or whether you use the feature to track the performance of a set of stocks, performing group analysis helps you to better understand the market.



The Options Hunter



Options Hunter Two-day Seminar

Presented by Dale Wheatley, The Options Hunter
PLUS Introduction to Options session with
Steve Hill, CEO AIQ Systems

February 28 & 29, 2008 Comfort Suites-Orlando Downtown, FL

Day One - In the morning, brush up on your options knowledge with a basics of options trading session with Steve Hill, CEO of AIQ Systems. The remainder of the first day you'll discover the power of Dale Wheatley's powerful option trading system and learn how to identify the unique setup pattern that can lead to huge winners trading options. Dale will also identify the strong patterns setting up and the best options to buy .

Day Two - Continuing with Dale's option trading system attendees will also have a unique opportunity to watch how the option picks from the first day unfold.

WHAT YOU'LL LEARN

- Why options offer you a great alternative investment
- Limited risk, but unlimited potential!
- The extraordinary power of compounding money
- Goal Setting to determine your starting point and your desired results
- Chart Analysis to determine the best patterns to achieve greatest % gains
- Classroom examples of how to locate trades using end of day charts
- The Power of group/Sector analysis
- Interactive participation from group so that everyone will know what to do when they get home
- When to buy Puts!
- When to buy Calls!
- How different markets can give us valuable insight into our own markets
- Finding the best chart patterns to allow us to leverage this valuable insight using option
- Why our risk becomes almost non-existent with the correct patterns and patience
- What Stocks and Other Instruments To Trade
- Risk Management How To Enter and Exit
- Your Checklist
- Keeping Records
- Workshop - Trade Examples and Chart Analysis
- Your Action Plan

**Subscribers to the Options Hunter service, take advantage of a special discount price
only \$1395 for this two-day event.**

**Call 1-800-332-2999 or visit <http://www.theoptionshunter.com/optionshunter2day.htm>
Not an Options Hunter subscriber? You can still attend this event for \$1595**