

# AIQ

# Opening Bell<sup>®</sup> Monthly

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The *Opening Bell Monthly* is a publication of AIQ Incorporated  
David Vomund, Chief Analyst  
P.O. Box 7530  
Incline Village, Nevada 89452

## INTERNATIONAL INVESTING

### TIME TO LOOK OVERSEAS FOR OPPORTUNITIES

By David Vomund

In 1995, international investors were wishing they had stayed at home. The average international mutual fund rose only 9.4%. The news was worse for the emerging market arena. The average emerging market fund fell 4.5%. This drop coming after a year when many emerging market funds fell close to 20%.

Many analysts say it's best to stay close to home. Not so fast. Underperformance can create opportunities. With our market at new all time highs and other markets at two year lows, it may be time to use TradingExpert to help identify the best opportunities.

Even those who subscribe to the random walk theory believe in international investing. The reason — diversification. These markets do not move lockstep with our market so by holding a combination of U.S. and international investments, portfolio volatility is reduced. John Templeton, the granddad

of international investing, helped his shareholders avoid the 1972-74 collapse in the U.S. because he moved most of his fund's assets into Canadian and Japanese stocks.

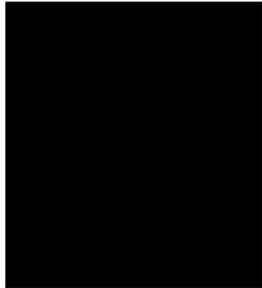
While international investing will help diversify your portfolio, keep in mind that investing overseas carries more risk than staying at home. With emerging

markets, certainly, there is political risk. For example, South Africa is doing very well now but Nelson Mandela is up there in age and he has no clear successor. A struggle for power

among different factions can cripple the South African market.

There is also currency risk. The stocks in international markets may rise but your investments can move lower if the dollar increases in value. The foreign currency will transfer into fewer dollars.

There are various types of overseas investments. One type is the American Depository Receipt (ADR). ADRs are



DAVID VOMUND

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*"...by holding a combination of U.S. and international investments, portfolio volatility is reduced."*

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*International Investing continued on page 2*

INTERNATIONAL INVESTING *continued* . . .

## International Closed-End Funds

Data as of 01/15/96

Table 1

Ticker	Fund Name	Premium/ Discount	Ticker	Fund Name	Premium/ Discount
AF	Argentina	8.1	LDF	Latin Amer Disc.	-3.8
APB	Asia Pacific	4.6	LAQ	Latin Amer Eq	-2.3
OST	Austria	-18.4	LLF	Latin Amer Growth	-5.9
BZF	Brazil	9.4	LAM	Latin Amer Inv.	-1.5
BZL	Brazilian Equity	0.0	MF	Malaysia	3.4
CH	Chile	-5.7	MXF	Mexico	-8.1
CHN	China	15.0	MXE	Mexico Equity & Inc.	-7.0
CRF	Czech Republic	6.2	AFF	Morgan St Africa	-23.5
MEF	Emerging Mexico	-6.5	APF	Morgan St Asia	-4.9
EF	Europe	-9.6	IIF	Morgan St India	17.9
FAK	Fidelity Ad Korea	-3.2	NSA	New South Africa	-22.9
ISL	First Isreal	-7.6	PKF	Pakistan Inv.	-12.8
FPF	First Philippine	-15.6	PGF	Portugal	-10.5
FRF	France Growth	-11.6	ROC	ROC Taiwan	16.1
GTD	GT Devel Mkts	-9.4	SHF	Schroder Asian	-3.4
GTF	GT Gr Europe	-13.0	SAF	Scudder New Asia	8.1
GER	Germany Fund	-17.0	NEF	Scudder New Europe	-13.2
FRG	Germany, Emer	-21.0	SGF	Singapore	5.2
GF	Germany, New	-20.3	SOA	Southern Africa	-22.5
GCH	Greater China	7.1	SNF	Spain	-13.0
GSP	Growth Fd Spain	-14.5	SWZ	Swiss Helvetica	-12.2
IFN	India Fund	12.6	TWN	Taiwan	22.8
IF	Indonesia	27.0	TYW	Taiwan Equity	10.3
IRL	Irish Inv.	-11.0	TCH	Templeton China	-1.2
ITA	Italy	-12.8	TRF	Templeton Russia	12.0
JEQ	Japan Equity	25.8	TTF	Thai	-1.9
JOF	Japan OTC Equity	14.6	TC	Thai Capital	0.8
KF	Korea	12.6	TKF	Turkish Inv.	17.2
KEF	Korea Equity	1.6	UKM	United Kingdom	-17.2
KIF	Korean Inv.	-0.2			

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Opening Bell Monthly  
G.R. Barbor, Editor  
P.O. Box 7530  
Incline Village, NV 89452

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bought and sold in dollars and trade in the U.S. But they represent indirect ownership of a foreign firm. While their name carries the word "American," the securities reflect the fortunes of the foreign currency.

One of the most popular ADRs is Mexico's phone company, Telefonos De Mexico (TMX). Also available are Telefonica De Argentina (TAR), Telefonica De Espana (TEF), and Telex-Chile (TL).

The most popular means of investing overseas is through international mutual funds. Unfortunately, regular open-end funds do not have volume so half of the available indica-

tors cannot be used. Closed-end mutual funds, however, do have volume and all the tools available in TradingExpert can be used, including Expert Ratings. Let's take a closer look at closed-end mutual funds.

A closed-end mutual fund is a fund that has a fixed number of shares and is traded on an organized exchange similar to a stock. Because there is a fixed number of shares, a closed-end fund can sell at a premium or at a discount to its net asset value (net asset value, or NAV, is the value of the fund's holdings divided by shares outstanding).

If the share price is above the net

INTERNATIONAL INVESTING *continued* . . .

asset value, the fund is sold at a "premium." The fund is sold at a "discount" when its share price is below its net asset value.

If a fund is sold at a 16% discount, then someone who buys its shares only pays 84 cents for a dollar's worth of securities. Fund discounts and premiums are listed each week in the "Closed-End Funds" section of *Barron's*.

Some closed-end funds are sold at discounts because of the capital gains on their securities. Capital gains received from trading securities are passed on to the shareholders. For this reason, funds that hold securities that have substantially appreciated usually sell at discounts.

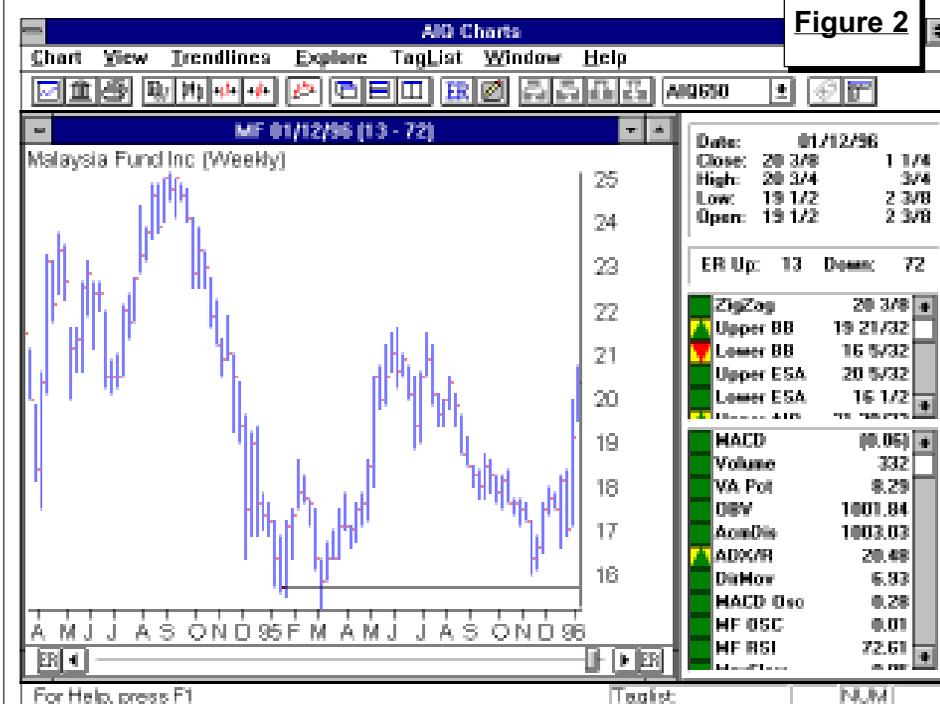
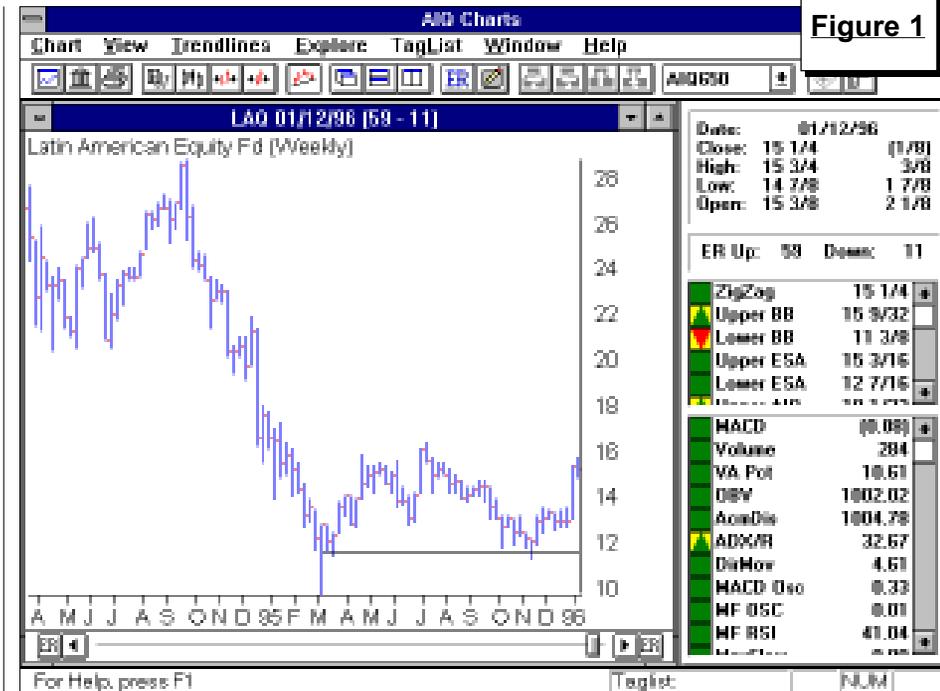
Extremely out-of-line discounts and premiums don't last. They regress to where the fund's NAV is close to the fund's market price (investors who bought the Korea fund at a 150% premium can regrettably testify to this).

The premium or discount of closed-end funds often reflect Wall Street's attitude toward international investing. When most funds sell at a premium, everyone is jumping on the international bandwagon and a top is near. The opposite is true when the funds sell at a discount.

We've assembled a table of many of the international closed-end funds along with their premiums/discounts as of January 15 (Table 1). Some of these funds trade on light volume, and indicator readings and Expert Ratings on daily charts lose validity. We've highlighted in blue type those funds that trade with sufficient volume.

With TradingExpert for Windows, you can build a list of these international funds so they can be easily explored on charts (see page 78 in the User Manual).

Figure 1 and Figure 2 show a common theme of many emerging market funds — they are near long-term support. Displayed are weekly charts of the Latin America Equity Fund (LAQ) and the Malaysia Fund



(MF). A few weeks ago, these two funds were trading near their all-time low prices. I first spotted them when they showed higher than average volume on days just before the Christmas holiday (volume is typically light just before a holiday).

The next test for these funds is whether they can better their 1995 high prices, which has typically occurred in

the summer months. We'll be watching. ■

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

## TOOLS OF THE TRADE

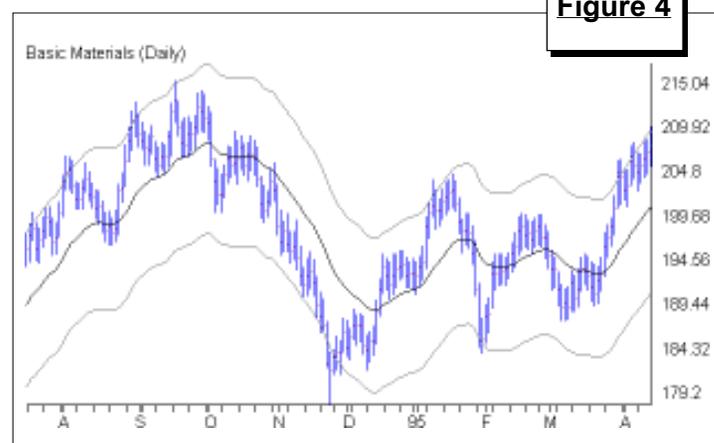
## POINT & FIGURE CHARTING, IV "PUTTING IT ALL TOGETHER"

By David Vomund

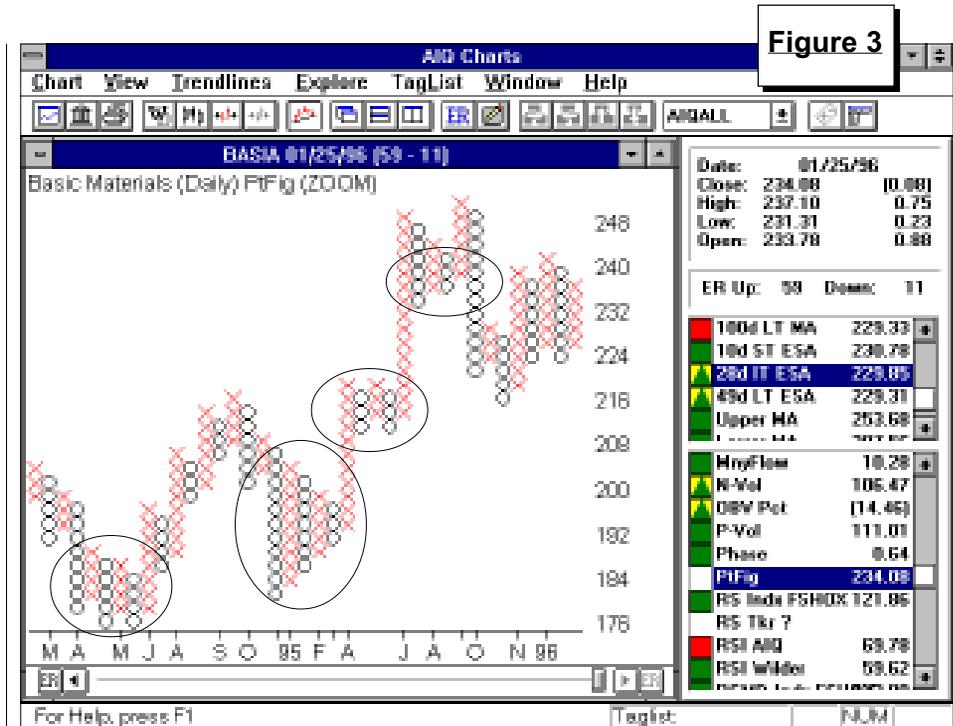
In our series of articles on the Point & Figure charting technique, we've explored the benefits of this charting method by examining how to spot support and resistance levels and chart patterns. We found that chart patterns and support and resistance levels are easier to spot in Point & Figure charts because small price movements are not plotted. It is now time to put our analysis together by spotting multiple patterns in individual stocks.

The best way to learn the Point & Figure technique is to explore a large list of stocks and look for the patterns covered in previous *Opening Bell* articles. You will find that almost every stock will contain at least one of the patterns we've discussed. When you can spot them historically, you will better be able to identify the patterns as they are developing.

**Figure 3** shows the Basic Materials industry group. Remember, the most basic Point & Figure technique is simply to buy when a column of Xs moves higher than a previous column of Xs, and sell when a column of Os moves lower than a previous column of Os. This technique worked very well with the Basic Materials group.



**Figure 4**



**Figure 3**

Starting in 1994, the chart shows that the group was on a sell until the summer rally. The next sell was around September and the group remained on a sell until April of 1995. The buy that then appeared carried the group to new highs. Another sell was signaled in the fall and the group is currently on an October buy signal.

As we stated in the previous articles, you can better identify which signals will likely be more powerful by learning some pattern recognition. Basic Materials contains several of the patterns that were highlighted in earlier articles. The first pattern that can be seen is the Triple

Top buy signal registered in mid-1994 (see first circle in Figure 3). The second top in this pattern is one box shorter than the previous top but this does not make the pattern invalid.

The next identifiable pattern is the Symmetrical Triangle, seen in early 1995 (second circle in Figure 3). During the formation of this pattern, each rally falls short of the previous rally and each decline reaches a higher low than the previous decline. The buy signal occurs when the group breaks above the pattern.

To best demonstrate how chart patterns are more easily identified using Point & Figure, we charted Basic Materials using traditional bar charts for the period of the Symmetrical Triangle (**Figure 4**). Can you spot the same pattern using the bar charts?

After the Symmetrical Triangle appeared, the Basic Materials group rallied into the spring of 1995 at which time there was a period of consolidation. As the group consolidated, a

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TOOLS OF THE TRADE *continued* . . .

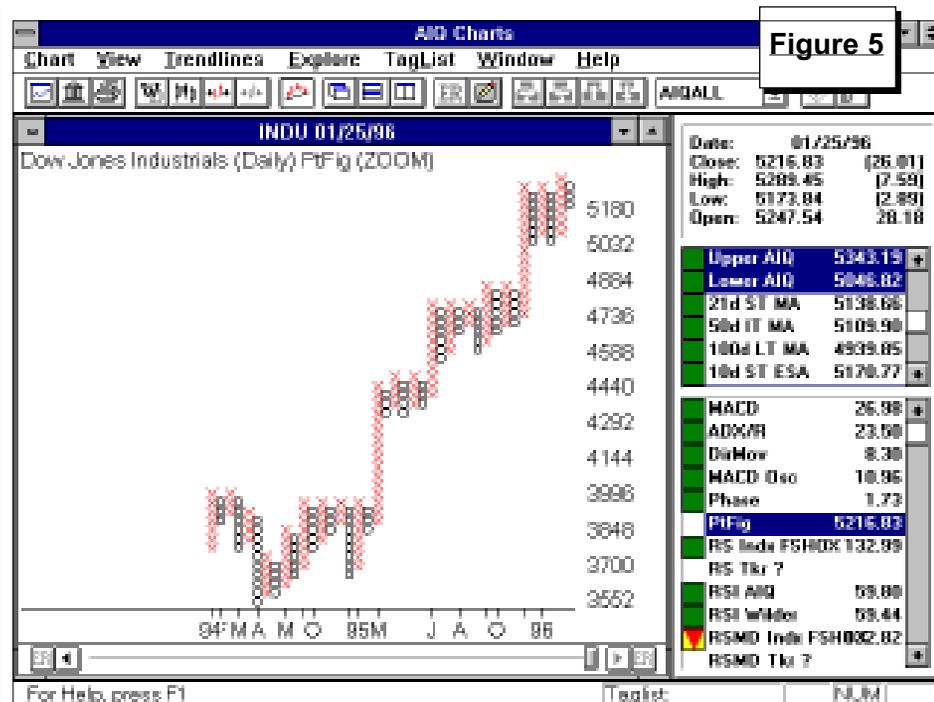
textbook Triple Top buy signal was formed (see third circle in Figure 3).

Finally, a Triple Bottom sell signal came in the summer of 1995 (fourth circle, Figure 3). Like the first Triple Top buy signal, the second column of Os came one short of its previous column. This does not make the pattern invalid.

Another example is displayed in **Figure 5**, a chart of the Dow Jones Industrial Average. There are several easy to identify resistance levels. Notice the periods where the rallies all end at the same level. The early 1995 buy signal came when the Dow broke above a level that acted as resistance on four previous rally attempts.

Again, I encourage those of you who want to learn the technique of Point & Figure charting to explore through a list of stocks trying to identify patterns as we have done here.

TradingExpert for Windows is AIQ's first software product to include Point & Figure charting. As is always the case for first versions, there is room for improvement. Future versions of TradingExpert will allow you to draw trendlines and to save settings for individual stocks. Currently, the default box size is "8," which works fine for most stocks. However, it is too large a number for low priced stocks and too small for high priced stocks.



Our current software does allow different settings for stocks, groups, or indexes. While a box size of "8" is good for most stocks, the box size should be changed for groups and indexes. Depending on how far back your data goes, industry group prices are usually in the \$300 to \$500 range. I've found that a box size setting of 20 works well for many groups. For indexes, you should determine which index you will be using the most and set the box size accordingly. I found a box size setting of 300 to work well for

the Dow, 30 for the S&P 500, and 75 for the Nasdaq Composite (Note: the actual box size is one/eighth the box size setting).

The Point & Figure charting technique is not designed to eliminate traditional bar charting. Each charting method has its advantages. I hope that through this series of four articles you will be able to take advantage of the Point & Figure technique in your analysis. ■

## MARKET REVIEW

**T**here is one market timing signal to report this month. AIQ's market timing model registered a 95 up signal on January 16, just days after the market low.

Looking at the US score (unconfirmed signals) on the Market Log, you could see that the market environment was improving as this signal neared. On the Friday before the buy signal, the US score showed that 90% of the stocks that were registering unconfirmed signals were on the buy side. This number increased to 92% when the market

buy signal was registered (this is on a database of the S&P 500 stocks).

One reason behind the buy signal is that the Stochastic rose above the 20 line. The Stochastic rarely gives buy signals for securities that are in nice uptrends, but when it does it is typically very effective.

Despite the weakness early in the year, the market was still in a clear uptrend. Connecting a trendline to the market lows dating back to December '94, the Dow was well above the trendline and the S&P 500 fell right to

the trendline. As of this writing (01/30/96), the S&P 500 has rallied 3 1/2% from the time of the buy signal.

Some people believe January is a good barometer for what the market will do for the remainder of the year. If that is the case, gold will finally wake after a long hibernation. The Gold Mining group is the best performer along with securities in emerging markets. We have also experienced greater market volatility. ■

## WINDOWS COMMENTARY

## SECTOR CORRELATION USING MATCHMAKER FOR WINDOWS

By Steve Hill

STEVE HILL

In this series of *Opening Bell Monthly* articles, I have discussed how to use MatchMaker correlations to better organize a group/sector structure. I have used the AIQ 1500 as an example and, in last month's issue, placed correlated stocks into groups. This month, I will take you through the process of organizing the groups into correlated sectors.

The current status of correlating the AIQ 1500 group/sector structure is as follows:

- 1) All groups contain correlated stocks only.
- 2) Uncorrelated stocks remain unassigned.
- 3) Groups with no correlated stocks have been deleted from the structure.
- 4) Remaining groups are still

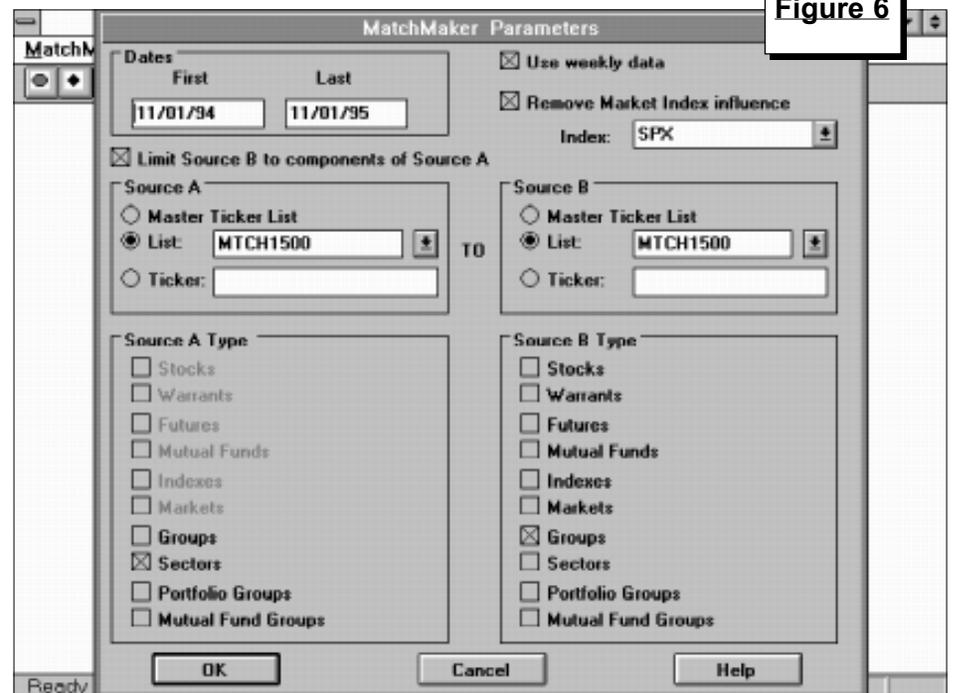


Figure 6

assigned to their original AIQ 1500 sectors.

5) The AIQ 1500 sectors are computed using just the correlated groups.

6) Groups within a given AIQ 1500 sector are not correlated to each other.

For the final phase of the correlation process, I first ran the MatchMaker strategy shown in **Figure 6**. Notice that the option *Limit Source B to components of Source A* is selected. This option limits the correlation to groups that are components of a given sector. Results of the correlation are seen in **Figure 7**.

Before removing any uncorrelated groups from the AIQ 1500 sectors, I had to create a new sector where I could insert them intact. I named this new sector UNCORR. Groups with correlations below the 500 level were removed from their current sectors and inserted in this UNCORR sector. Unlike the correlation at the group level, sectors removed from the structure cannot be inserted into a different list without the sectors losing their "children." However, they can be inserted back into the same list and still retain their "children." This process must be completed without exiting the *Data Manager*.

	corr.	Source B	description
BM-X	787	A115	Paper & Paper Products
CNC-X	728	A102	Metal Ores-Misc
CYC-X	724	A138	Steel-Specialty Alloys
ENE-X	716	A137	Steel-Producers
FIN-X	713	A103	Metal Ores-Non Ferrous
IND-X	691	A028	Chemicals-Specialty
TEC-X	608	A027	Chemicals-Plastic
UTV-X	531	A026	Chemicals-Basic
	373	A101	Metal Ores-Gold

Figure 7

WINDOWS COMMENTARY *continued* . .

**NOTE:** When reinserting tickers into the list in a new location, the message in **Figure 8** appears. This message is misleading. Simply click the **Yes** button whenever you see it.

After moving all uncorrelated groups to the new sector, the AIQ 1500 group\sector structure was recomputed, and MatchMaker was used to correlate all sectors against all groups. This achieved two things. First, the newly correlated sectors were checked to ensure that the remaining assigned groups still correlated. Second, any of the uncorrelated groups that were placed within the UNCRR sector were compared against these newly correlated sectors. Through this process, I found six groups in the UNCRR sector that correlated well with other sectors. These groups were moved into the appropriate sectors in the same manner as before.

Finally, I was left with 70 groups in the UNCRR sector. I recomputed this sector and ran MatchMaker to correlate all groups within UNCRR to their sector. Because the sector was skewed by the large number of uncorrelated groups, only two groups within UNCRR showed good correlation to the sector.

Therefore, I formed a new sector composed of only the most highly correlated groups from the UNCRR sector. This new sector, which I called MISCELL, initially contained the top six groups (six highest correlations regardless of correlation level). This sector was then computed, and the groups with low correlation removed. The process of running MatchMaker on a Miscellaneous sector composed of six fairly well correlated groups resulted in five groups with good correlation (**Figure 9**).

To double check my work, I ran MatchMaker to correlate all groups in the new AIQ 1500 list to their parent sectors. Resulting correlated sectors contained nearly 70 groups. However, there were 56 groups that did not correlate well to any of the AIQ 1500 sectors. ■

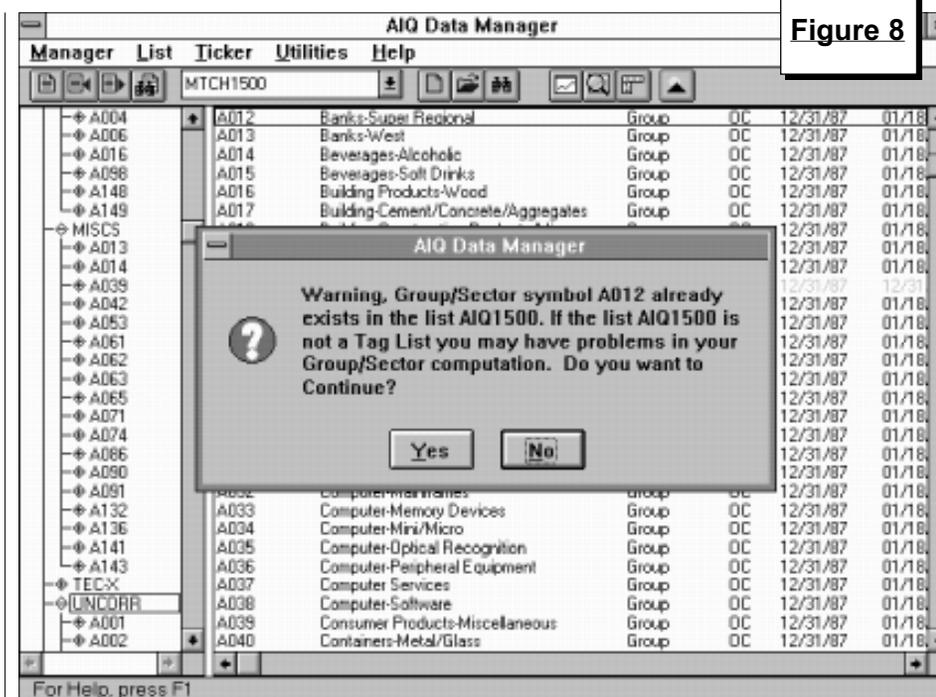


Figure 8



Figure 9

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## MARKET ANALYSIS

## TESTING AIQ'S MARKET TIMING ON THE RUSSELL 2000

By David Vomund

In last month's article "A Secret Revealed," we tested AIQ's market timing model on the Nasdaq Composite using breadth and volume figures on the Nasdaq. The results were better than expected but still had room for improvement. In the 1991 to 1994 period, trading the Nasdaq Composite based on the Expert Ratings was very successful but performance figures for 1995 alone were unimpressive since we held cash during part of the strong market advance.

As promised, we ran the same test on the Russell 2000 index using Nasdaq breadth. We'll briefly highlight the performance figures in this article.

As a quick review, in the Windows version of TradingExpert you can run AIQ's market timing model on any index using breadth and volume from either the NYSE, Nasdaq, or AMEX. The default symbol for the Nasdaq market is OCEXCH. The default

Table 2

Entry Date	Exit Date	Russell % Change
01/02/92	03/06/92	9.80
04/14/92	05/14/92	-0.67
05/18/92	08/11/92	-2.34
09/01/92	09/25/92	0.88
10/16/92	03/22/93	17.88
03/31/93	04/02/93	-1.95
04/13/93	06/08/93	1.80
06/21/93	07/27/93	2.99
07/28/93	09/08/93	2.97
04/25/94	05/06/94	0.93
05/18/94	06/20/94	0.12
07/07/94	08/05/94	1.02
10/10/94	03/07/95	0.65
06/30/95	07/19/95	1.21
07/25/95	08/02/95	1.06
10/31/95	11/07/95	1.76
11/09/95	11/14/95	-0.80

symbol for the AMEX is AMEXCH.

To run the market timing model on the Russell 2000 using Nasdaq breadth and volume, we first added the Russell

2000 to our database (symbol RUT for most data vendors). We then created a ticker which will have the Russell 2000 with Nasdaq breadth. To do this, go to *Data Manager*, click on the **Ticker** menu command, and choose **New** from the drop-down menu. In the text box, type **RUTEXCH**. Click on **Market** for the *Type*, then click **OK**. For *Description*, type **Russell 2000 with OTC breadth**. For *Market Breadth* and *Price* choices, select **OTCDATA** and **RUT**. Click **OK**.

Similar to using the market timing model on the Nasdaq Composite, the results from testing the model on the Russell 2000 are lukewarm. 1992 and 1994 were good years but performance in 1995 fell sharply since we were on the sidelines during much of the market's advance. Actual trading results are shown in **Table 2**.

From our study, we can see that the market timing model works best when used on the Dow with NYSE breadth and volume. That's not too surprising because this is the data that was used in formulating the model. Running the model on the Nasdaq Composite is of interest, however, and can be used as a confirmation of the regular AIQ market timing Expert Ratings. ■

### 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
Safeway Inc.	SWY	2:1	02/02/96	First Tenn Nat.	FTEN	2:1	02/19/96
Global Inds	GIX	2:1	02/02/96	Pentair	PNTA	2:1	02/19/96
CMG Info Svcs.	CMGI	2:1	02/05/96	Cisco Sys.	CSCO	2:1	02/19/96
NFO Research	NFOR	3:2	02/06/96	ABR Info Svcs	ABRX	3:2	02/20/96
Graco Inc.	GGG	3:2	02/08/96	Madison G&E	MDSN	3:2	02/21/96
Freemont General	FMT	3:2	02/08/96	Claire's Stores	CLE	3:2	02/22/96
HFS Inc.	HFS	2:1	02/15/96	Checkpoint Systems	CKP	2:1	02/23/96
Cavalier Homes	CAV	3:2	02/16/96	Career Horizons	CARH	2:1	02/23/96
MBNA Corp.	KRB	3:2	02/19/96	Advantage Bancorp	AADV	5:4	02/26/96

#### Trading Suspended:

The Learning Company (LRNG)	West One Bancorp (WEST)	First Fidelity Bancorp (FFB)
Kemper Corp (KEM)	Standard Brands Paint (SBP)	Anacomp Inc. (AAC)
Surgical Care Affil. (SCA)	Pittson Services (PZS)	Amfed Financial (AMFF)
EP Technologies (EPTK)	Earth Technology (ETCO)	