Two Modes for Using Fundamentals for TradingExpert Pro

In this Chapter

How will you use fundamentals?

How you use Fundamentals for TradingExpert Pro is an individual decision that is governed largely by the role you want fundamentals to play in your trading process. Most AIQ users, especially those committed to a top/down approach, will use fundamentals as a last step in their trading processes, simply to confirm their trading decisions. At the other extreme, dedicated fundamentalists might limit their data bases to small, highly targeted lists of stocks that are developed with Telescan's ProSearch screening software.

Regardless of your approach, Fundamentals for TradingExpert provides the means for you to effectively combine the two basic investment disciplines, fundamental and technical analysis.

Mode 1: Import fundamental data from a data service and use TradingExpert for analytics

The first approach is to specify and periodically update a fundamental strategy from which Fundamentals for TradingExpert computes a fundamental indicator called the AIQ overall Fundamental Rating. This fundamental indicator, which is a composite of any number of fundamental fields, is derived from data available from your regular data service (Dial/Data, Interactive Data, or Telescan) and is used much like you might use any other individual indicator — for screening or confirmation and usually as a final step in your analysis.

This mode requires the user to first select one of the predefined fundamental strategies that are supplied for each of the AIQ-compatible data services. (You may also create your own personal fundamental strategy from the fields available from your data service.) This strategy defines the fundamental data fields that will be downloaded.

AIQ users then periodically import fundamental data directly from their data service. (Once a week is recommended.)

• All three data services provide the same 24 fundamental data items (or fields) which are obtained from Market Guide, a major supplier of fundamental data.

• Dial/Data users also have the option of selecting from 47 additonal data items.

• Telescan offers any of the Telescan ProSearch data items as well as the 24 fundamental fields on the Market Guide list.

You may download fundamental data for your entire data base of stocks, for just those stocks in your group/sector list, for a specific sector or group, or for a selection of tickers.

The fundamental strategy also specifies which fundamental fields are ranked and which are combined into the overall Fundamental Rating. Keep in mind that weights are assigned to each field and are used to give some fields greater importance than others. You may also track (and rank) fields that are not included in your overall Fundamental Rating.

An example fundamental strategy is shown below. This strategy, which is the M-PROFM predefined Market Guide strategy, is designed to find profitable stocks which follow the market. It is composed of seven of the 24 Market Guide fields plus two additional fields (Dividend Yield and Dividend, indicated annual) which are included for information only since they are unranked and are not included in the overall Fundamental Rating.

Field	Rank Order	Weight
EPS % change (year ago)	Descending	25
Price/Earnings Ratio	Ascending	25
Current Ratio (last qtr)	Descending	10
Market Beta Up	Descending	5
Market Beta Down	Ascending	5
Price/Book Ratio	Ascending	15
Net profit margin % (TTM)	Descending	15
Dividend Yield		
Dividend, indicated annl		

Notice that the first two fields, Earnings per Share Percent Change (Year Ago) and Price/Earnings Ratio, are assigned nearly twice the importance of any of the other five. Because of the weights assigned, 50% of the total Fundamental Rating will be determined by just these two fields while the remaining five fields contribute the remaining 50%. For further information on how the AIQ Fundamental Rating is computed, see the Fundamentals Reference Guide.

Mode 2: Import Scan Files from Telescan

The second mode is a more proactive approach that is available only to Telescan/ProSearch subscribers. You first use Telescan's ProSearch screening software to identify stocks that meet your own specific fundamental investment criteria. Telescan's ProSearch software provides a wide variety of fields that can be used to screen their extensive data base of more than 14,000 total issues and more than 200 different indicators. With this approach, fundamental analysis is done by ProSearch using customized search strategies entered by the user.

Fundamentals for TradingExpert Pro then imports a file (called a Scan file) which contains the short ProSearch list of stocks (up to 200 total issues) and their fundamental data and stores this information in your AIQ TradingExpert Pro data base. AIQ is then used to determine timing for the buying and selling of these stocks.

Since the majority of the stocks in a Scan File may be stocks that you are not currently tracking, you will probably want to add stocks from this file to your AIQ data base. Fundamentals for TradingExpert Pro includes a feature which allows you to easily add stocks from the imported file and eliminates the chore of manually entering them into the Master Ticker List.

If you choose, you may create special lists of the stocks contained in your imported Scan Files. Scan File lists may be sorted in the original Scan File order or they may be sorted based on AIQ's overall Fundamental Rating.

Strategies for Using ProSearch

When building a search model, you first want to narrow the list of stocks to exclude stocks that are not willing to purchase. This is done with absolute screening. Absolute screening can also be used to limit the stocks in your analysis to specific industry groups or sectors.

Another good absolute screen is a volume screen. You might use this to eliminate stocks with volume too low for valid AIQ Expert Ratings. To accomplish this, you could create an absolute screen where only those stocks with average 30 day volume of at least 15,000 shares per day are examined. You may also not want to consider for purchase stocks priced below $10 and above $100 per share. With an absolute screen, you can limit your final screening (called relative screening) to only those stocks within your designated price range.

Once the absolute screens are in place, relative screens are then employed to rank the narrowed list of stocks based on your selected criteria. Each field that is used for a relative screen is assigned a weight. A weight of 100% is given to the more important fields and weights of less than 100% to those fields deemed less important.

An example fundamental model designed to find growth companies is shown below. Some of the more valuable fields included in this model are the 1-year earnings-per-share growth rate (high), the price-to-earnings ratio (low), and the 5-year sales growth rate (high). Another popular field is ERG which is similar to William O'Neil's CANSLIM stock selection system. This field is the sum of three rankings: earnings-per-share growth, price growth, and industry group strength.

The final model with both the absolute and relative screens:

Absolute Screens

Field	Min. Value	Max. Value
P/E Ratio	5	80
Stock Price	10	100
30-Day Average Volume	15	999999

Relative Screens

Field	High/Low	Weight
Earnings Growth 1-Yr	High	80%
P/E Ratio	Low	100%
Sales Growth	High	40%
ERG	High	80%