

*Feature*

Examining the Nasdaq Selloff -- Analysis Techniques to Identify Nasdaq Top ..... 7

*Sections*

Data Maintenance ..... 6  
 Market Review ..... 6  
 S&P 500 Changes ..... 6

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

**EXPERT DESIGN STUDIO**

## TESTING SHORT-TERM EFFECTIVENESS OF PRE-BUILT RULES – WHICH ARE THE MOST AND LEAST EFFECTIVE?

By David Vomund

Many software packages allow you to create individual screening techniques. When we created TradingExpert Pro's Expert Design Studio module, our goal was to simplify the process. In that regard, we created over 200 pre-built screening formulas or rules. Last June we tested all the pre-built rules, all of which are included in the AIQ TradingExpert Pro package, using a holding period of approximately two months. We have updated the study using a fixed 10-day holding period and the results are the subject of this article.

Most of the pre-built rules in the Expert Design Studio (EDS) package are based on the action of a specific indicator. For each indicator, several rules were created to represent most of the indicator's technically significant actions. The easy availability of these pre-built rules

allows users to create individual trading systems by a simple cut & paste procedure.

With so many pre-built rules, which are the most effective? We

answered that last June, using trailing

DAVID VOMUND

***“Using (the most effective) rule, the average stock trade gains 3.73% compared to an average S&P 500 trade of 1.66. The annual ROI is 95.15%.”***

stops. That information was useful for those who have a holding period of a few months. But which rules are the most effective for short-term trading? To answer that

question, we used a 10-day holding period and tested 220 of the pre-built rules to determine which are the most and least effective rules for picking winning stocks. Running 220 tests is obviously time consuming and we expect few, if any, users have actually completed similar tests.

We didn't want low priced or low volume stocks to inadvertently affect results, so we ran each test on a database that consists only of S&P 500 and Nasdaq 100 stocks (about 550 stocks in total).

The sell strategy used was a fixed 10-day holding period. In other words, each stock was sold 10 days after it was purchased — whether or not the stock was rallying or falling. Commission and slippage are not factored in. The majority of the pre-built rule formulas are designed for short-term trades so this test is very appropriate for the majority of the rules.

The testing period used was January 2, 1997 to January 31, 2000. This is a good testing period because it includes the weakness in late 1997 and in the fall of 1998. Nearly all the rules fired well over 1000 trades so the results are very valid.

Due to space limitations, we are not able to list the results for all the rules. Because of the importance of this time consuming test, we will list as many results as possible.

**Table 1** is a listing of the 40 best performing rules, sorted on their annual ROI statistics. To help identify the pre-built rules listed in the table, we have included which folders they

reside in and the name of each rule. For simplification, the rules are grouped into primary and secondary categories and placed into file folders accordingly.

To find a pre-built rule, go to *Expert Design Studio* in TradingExpert. Select *File*, then *Open*, and within the Wintes32 directory double-click the *EDS Strategies* folder. This accesses a list of Primary Folders, which are the names shown in the first column of Table 1. The second column of Table 1 lists the Secondary Folders within the Primary Folders, and the third column

***"The testing period used was January 2, 1997 to January 31, 2000...it includes the weakness in late 1997 and in the fall of 1998. Nearly all the rules fired well over 1000 trades so the results are very valid."***

lists the Rule Name (name is a contraction of the name of the file in which rule resides).

To display the actual rule formula, highlight the related rule file and click *Open*. The rule will be displayed in the Rule Library page (Rule Library tab) of the EDS window.

Also listed in Table 1 is the average profit from each trade along with a comparison of what would have happened if you simply purchased the S&P 500. The table is sorted in the last column, which is the Annual Return on Investment.

The most effective rule found in this study is the same rule that proved to be the most effective when we ran our testes using trailing stops. Surprisingly, this rule isn't even based on an indicator. It simply looks for stocks that have experienced a sizable correction. The file that contains this rule is in the Price Based folder, which is within the Basic Indicator Strategy folder. The file name is *Close Within a % Range of Close Days Back*.

This rule simply looks for stocks that have corrected between 30% to 40% off their highs sometime between 10 days back to 40 days back. Using this rule, the average stock trade gains 3.73% compared to an average S&P 500 trade of 1.66%. The annual ROI is 95.15%. There were 1563 trades.

The next two most effective rules each deal with exponentially smoothed moving averages (ESA's). The ESAupperDN rule looks for stocks that have crossed from above to below the upper ESA. In other words, you are buying a strong stock on a pull-back.

Conversely, the next rule, ESAlowerUP looks for stocks that have crossed from below to above the lower ESA. One of these rules buys stocks on strength and one buys stocks on weakness, but both are effective and both rules produced over 3000 trades.

The next rule in order of effectiveness, RSIWILDER, looks

for situations where the color barometer shows a green up arrow on the RSI Wilder indicator. That happens when the indicator falls from above the 30 level to below the 30 level. In other words, this rule is fired when the indicator first moves to oversold territory.

The fifth most effective bullish rule is a candlestick chart pattern called Dark-Cloud. This is actually a bearish pattern but because of the way it is programmed in TradingExpert, the rule turns out to be quite bullish.

As programmed, the rule requires the difference between the previous day's open and close to be at least \$2. On the current day, the stock must open higher than its previous day's high but then the stock falls and closes lower. The difference between the open and closing price on the current day must be at least \$1.2. Candlestick purists would say this finds some Dark-Cloud patterns but it also finds stocks that don't quite

*Expert Design Studio continued on page 4*

#### PLEASE SEND CORRESPONDENCE TO:

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

AIQ Opening Bell Monthly 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.

For subscription information, phone 1-800-332-2999 or 1-775-831-2999.

© 1992-2000, AIQ Systems

**Table 1****Highest ROI Trades**

The following lists the results of testing most of the pre-built EDS rules using a stock database of the S&P 500 and the Nasdaq 100 stocks with a sell strategy of a fixed 10-day holding period. The testing period was 01/02/97 to 01/31/00.

Primary Folder	Secondary Folder	Rule Name	Trading Avg. Profit/Loss (%)	S&P 500 Avg. Profit/Loss (%)	Annual ROI
Basic Indicator	Price Based	Allworks	3.73	1.66	95.15
Basic Indicator	ESA	ESAupperDN	2.40	0.98	61.21
Basic Indicator	ESA	ESAlowerUP	1.67	1.28	43.11
Barometer	Green Up	RSIWILDER	1.62	1.16	41.33
Basic Indicator	Candlesticks	Darkcloud	1.57	0.61	40.41
Hit & Run	GilligansIsland	ShortBuy	1.56	0.81	39.69
Basic Indicator	RSI Wilder	RSIunder30	1.53	1.09	39.13
Hit & Run		LizardSell	1.52	1.04	38.80
Basic Indicator	Candlesticks	3Crows	1.52	1.07	38.68
Basic Indicator	CCI	CCI dn	1.52	0.79	38.50
Barometer	Green Up	RSIAIQ	1.43	1.29	36.41
Basic Indicator	RSI Wilder	RSI dn CUT70	1.42	0.77	36.19
OBM Strategies		Aprilobm allworks	1.38	1.24	35.48
AIQ Reports		Voltrend	1.38	0.93	35.31
Basic Indicator	RSI AIQ	RSIAIQunder30	1.37	1.25	34.92
Basic Indicator	VA Pct	VAPCTsell	1.37	0.93	34.84
Basic Indicator	Candlesticks	Engulfbearish	1.33	0.86	33.82
Basic Indicator	RSI AIQ	RSIAIQ dn CUT70	1.33	0.84	33.76
Basic Indicator	AIQ Trading Bands	Upper Band AIQupperDN	1.30	1.03	33.20
Basic Indicator	Money Flow	MFnewLO	1.27	0.93	32.87
ER Strategies	Expert Rating Strat.	ER16and56	1.27	1.29	32.61
Basic Indicator	SK - SD	SKSDcrossDN	1.28	0.97	32.57
Basic Indicator	MACDI	MACDXDOWN	1.27	1.01	32.30
Combination Basic Indicator		Adx_rsi BUY	1.27	1.16	32.23
Hit & Run		GilligansIslandBuy	1.24	1.27	31.91
Hit & Run		ExpansionPivotsShort	1.25	1.22	31.83
Street Smarts		MACDXEXIT	1.24	0.95	31.56
Basic Indicator	Candlesticks	Blkclasi Closingbozu	1.23	0.93	31.30
Basic Indicator	AccmDis	AcmDisLONon	1.22	1.04	31.02
Basic Indicator	SVMA	SVMAdivDN	1.21	0.88	30.56
Basic Indicator	Money Flow RSI	MFRSIunder20	1.19	0.90	30.51
Basic Indicator	Stochastic	Stochasticsell	1.19	0.90	30.18
Basic Indicator	SK - SD	SD slope dn	1.17	0.79	29.84
Basic Indicator	RSI AIQ	RSIAIQover70	1.17	0.79	29.67
Hit & Run		WhoopsShort	1.16	1.01	29.63
Basic Indicator	Simple Moving Avg.	ITMApriceDN	1.15	1.01	29.30
Basic Indicator	Trend	TrendChangeDown	1.15	0.96	29.29
Basic Indicator	Candlesticks	Blkmarub Mar	1.15	1.01	29.12
Basic Indicator	ADX	ADXRATEup	1.14	0.89	28.96
Basic Indicator	OBV	OBVloNON	1.13	1.01	28.87

qualify as well. The 660 trades this rule produced was well below the other top-rated rules.

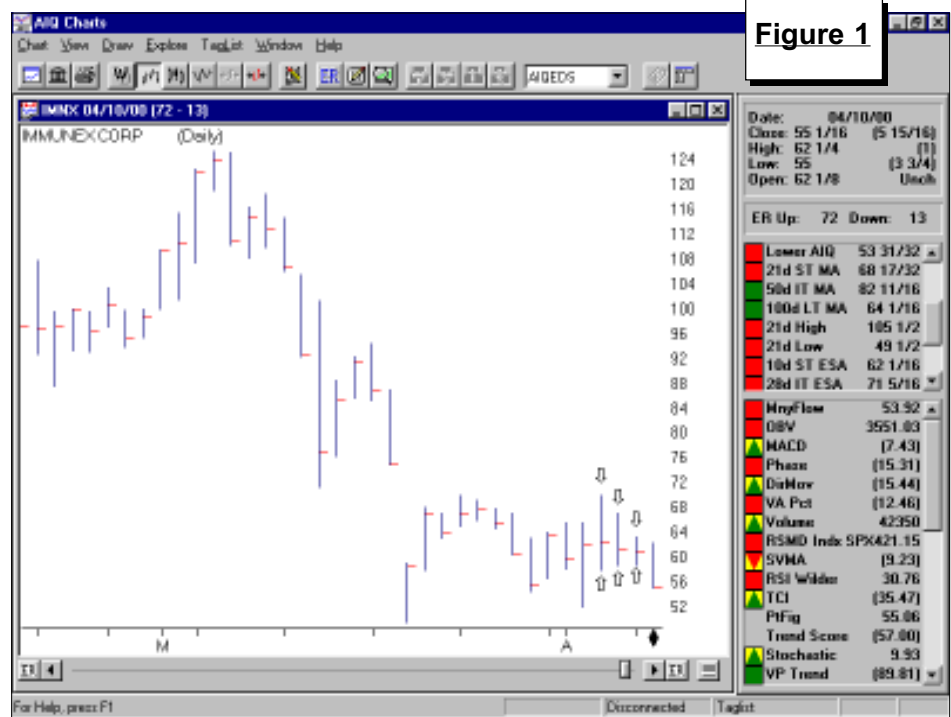
The sixth most effective bullish rule, GilligansIslandShortBuy, is also a pattern that was designed to be bearish. From the *Hit and Run* book by Jeff Cooper, the stock must gap open to a two-month high, must close at or in the lower 50% of its daily range, and must close equal to or under its opening price.

According to *Hit and Run*, you only act when the stock moves  $1/8$  below the low. At this time, this cannot be accomplished in EDS so AIQ programmed a rule that says the stock is not acted on until the stock closes  $1/8$  below the low price of the actual pattern. For short-term traders, that can make a difference. Used properly in *Hit and Run* this may be an effective bearish rule. Used as programmed in TradingExpert, this is a bullish rule that highly outperforms the market. (Note: we are working on a TradingExpert Pro upgrade which will allow users to enter stocks as used in *Hit and Run*).

The seventh rule simply states that the stock's RSI Wilder indicator must be below 30. This implies the stock is oversold and has bullish implications.

The eighth rule, Lizard Sell, is taken from *Hit and Run*. According to this rule, on day 1 the stock must be at a 10-day high. In addition, on that day the opening price and closing price must be in the bottom 25% of their daily range. In TradingExpert, we don't act on the rule until day 2 when the stock closes  $1/8$  below the low price on day 1. Similar to the Gilligan's Island rule, TradingExpert can't use the same entry point as recommended in *Hit and Run*.

The ninth rule searches for Three Black Crows, a candlestick charting pattern. Candlestick purists will say this pattern looks for three straight days where the closing price for the stock is less than the opening price (i.e. three black candlesticks). In



addition, the stock must be in a mature advance and each of the opening prices should be higher than the previous day's closing prices. The AIQ EDS rule is simplified and is essentially looking for stocks with three straight black candlesticks. For interest, I tried modifying the rule to make it more closely resemble the actual candlestick pattern but the backtest only became more bullish!

The tenth rule looks for cases where the CCI crosses below 100.

**Table 2** lists the least effective of the pre-built rules. Those that appear at the top of the table are the worst performers. This is an important table because the worst performing rules for long trades will likely be good routines for short trades. In creating a short-selling model, try using the rules that appear at the top of Table 2.

The single worst rule for buying stocks long is appropriately a bearish rule — the Boomer Short. This rule was highlighted in *Hit and Run* by Jeff Cooper. It looks for trending stocks that have temporarily stalled. For three straight days, a qualifying stock's high and low price must be contained within the prior day's high

and low price.

An example of a stock that qualifies for this technique is Immunex (IMNX), found in **Figure 1**. For three days, IMNX's price data was contained within the previous day's movement (see arrows). On April 10, IMNX closed more than  $1/8$  below the previous day's low which completes the pattern. In our testing, our purchase price is the next day's opening price. In *Hit and Run* the signal comes mid-day on April 10 when the stock moves  $1/8$  below the previous day's low.

Out of the 220 rules tested, the Boomer Short is the only one that lost money by purchasing stocks long, which means it is an effective short-selling rule. There weren't many trades, however. There were 309 trades in the three years of testing.

The second rule in Table 2 looks for the candlestick Belt-Hold pattern. This rule looks for stocks that open on the daily low price, close in the upper quarter of the daily range, and are in short-term downtrends. This pattern greatly underperformed the market and produced 1728 trades.

*Expert Design Studio continued on page 6*

Table 2

## Lowest ROI Trades

The following lists the results of testing most of the pre-built EDS rules using a stock database of the S&P 500 and the Nasdaq 100 stocks with a sell strategy of a fixed 10-day holding period. The testing period was 01/02/97 to 01/31/00.

Primary Folder	Secondary Folder	Rule Name	Trading Avg. Profit/Loss (%)	S&P 500 Avg. Profit/Loss (%)	Annual ROI
Hit & Run		BoomerShort	-0.33	0.59	-8.44
Basic Indicator	Candlesticks	Belthold	0.11	0.73	2.76
ChartPatternStrat.		Low	0.33	0.75	8.44
Basic Indicator	Candlesticks	White	0.44	0.72	11.11
Basic Indicator	SK-SD	SKSDcrossUPslope	0.46	0.77	11.72
Basic Indicator	Simple Mas	LTMApriceUP	0.49	0.93	12.46
Basic Indicator	RSIAIQ	RSIAQupCUT30	0.55	1.15	13.87
Basic Indicator	Candlesticks	ThreeSoldiers	0.57	0.91	14.37
Basic Indicator	VAPct	VAPCT>0/90% last 120days Buy	0.57	0.79	14.47
AIQ Reports	Price Gap Down	GapDown	0.58	0.91	14.64
Street Smarts		Rangcon Buytick	0.59	0.84	15.02
Basic Indicator	Candlesticks	Engulfbullish	0.62	0.68	15.71
Basic Indicator	Money Flow	MFnewHI	0.65	0.75	16.54
Basic Indicator	RSI Wilder	RSIover70	0.67	0.70	16.98
Barometer	Green Up	ACMDISingreen	0.68	0.75	17.20
Barometer	Green Up	MONEYFLOW	0.68	0.75	17.26
Basic Indicator	RSI Wilder	RSIupCUT30	0.67	0.98	17.29
Basic Indicator	Simple Moving Avg.	STMAcrossLTMA	0.69	0.98	17.51
Basic Indicator	Stochastic	Stochasticbuy	0.69	0.83	17.57
Basic Indicator	AccmDis	ACMDISupPRICEdn	0.70	0.85	17.84
AIQ Reports		fivedayCROSS	0.71	0.99	18.05
Basic Indicator	Simple Moving Avg.	MovingAverage	0.71	0.96	18.06
Barometer	Green Up	RSIWILDER	0.73	0.74	18.36
Barometer	Green Up	STOCHASTIC	0.72	0.74	18.38
Barometer	Green Up	OBVPCT	0.73	0.81	18.46
Basic Indicator	SK-SD	SKSDcrossUP	0.73	0.78	18.47
Barometer	Green Up	SVMA	0.73	0.75	18.48
Basic Indicator	CCI	CCIcovershort	0.73	0.95	18.69
Barometer	Green Up	MACD	0.75	0.78	19.08
AIQ Reports		ISwtactSTOCKup	0.75	0.76	19.11
Barometer	Green Up	PVOL	0.75	0.82	19.15
Hit & Run		ExpansionPivotsBuy	0.76	0.81	19.16
Barometer		MFOSC	0.76	0.75	19.32
Basic Indicator	Candlesticks	Dragonflydoji	0.77	0.83	19.48
Barometer	Green Up	VAPCT	0.77	0.76	19.52
Street Smarts		Isgoodturtle	0.77	0.86	19.66
Barometer	Green Up	PHASE	0.77	0.78	19.67
Hit & Run		SteppinginFrontofSize	0.78	0.65	19.92
Barometer	Green Up	VP TREND	0.80	0.74	20.20
Basic Indicator	OBV	OBVnewHI	0.80	0.76	20.20

EXPERT DESIGN STUDIO *continued* . . .

The third most bearish rule deals with a double-bottom pattern. Price patterns are very hard to program in AIQ. There are two EDS rules which attempt to pick stocks forming double-bottom patterns, and the one in Table 2 is the first of the two rules. It may not always pick stocks with actual double-bottom patterns but it does pick stocks that severely underperform.

The stocks this rule picks have experienced significant corrections so this demonstrates that it is not always profitable to buy stocks that have experienced large corrections. This rule had 1829 trades.

The fourth most bearish rule is a candlestick chart pattern called the Marubozu. AIQ's pre-built rule is actually a White Marubozu, which means that the opening price equals the low price and the closing price equals the high price. This pattern is supposed to be bullish but a test

reveals very poor results. For interest, we backtested the Black Marubozu pattern (i.e. open equals high and close equals low). This is supposed to be a bearish pattern and indeed the stocks do underperform but the results show the stocks performed better than the White Marubozu. There were 5462 trades.

The fifth worst rule states that the SK indicator rises above the SD indicator while the slope of the SD indicator is up.

Similar to what we found last June, there are many cases where rules that were supposed to be bearish proved to be bullish and cases where rules that were supposed to be bullish proved to be bearish. In some cases, this is because AIQ has programmed a modified version of an actual strategy. In other cases, we have shown that technical analysis does not always work as expected. Given a choice, I'd rather trade based on empirical

evidence rather than simple theory.

Our testing has uncovered some unexpectedly effective and ineffective rules.

The results from these tests will be extremely beneficial in creating future EDS models. When creating a short-term bullish model, combine some of the rules listed in Table 1. When creating a short-term bearish model, combine some of the rules listed in Table 2. ■

*Contributing to this article: Laurie Liessmann and Nancy Torok.*

**S&P 500 Changes**

Altera Corp. (ALTR) replaces Atlantic Richfield (ARC). ALTR is added to the Electronics-Semiconductors (EQUIPSEM) group.

**STOCK DATA MAINTENANCE**

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

Stock	Ticker	Split/Div.	Approx. Date
Micron Technology	MU	2:1	05/02/00
General Electric	GE	3:1	05/08/00
Cysive Inc.	CYSV	2:1	05/09/00
Nortel Networks	NT	2:1	05/09/00
Three-FiveSystems	TFS	3:2	05/15/00
Suncor Energy	SU	2:1	05/16/00
Cadence DesignSystems	CDN	2:1	05/18/00
Ruby Tuesday	RI	2:1	05/22/00
Paychex Inc.	PAYX	3:2	05/23/00
Dollar General	DG	5:4	05/23/00
eBay Inc.	EBAY	2:1	05/25/00
Rogers Corp.	ROG	2:1	05/29/00

**Trading Suspended:**

Atlantic Richfield (ARC), ETEC Systems (ETEC)  
Sterling Software (SSW), Sterling Commerce (SE)  
U.S. Foodservice (UFS)

**Name/Ticker Changes:**

None

**MARKET REVIEW**

The S&P 500 held up very well during the growth stock correction until April 14, when the index fell a whopping 83 points. This selloff triggered a 100 sell signal by AIQ's market timing model. Obviously, the market was very oversold and the sell signal didn't last long. The market immediately rallied and on April 20 the timing model switched back to a bullish mode. A 97 buy signal was registered on April 20. Both of these signals were confirmed by the Phase indicator the day of the signal.

During April, traditional value sectors did well while the growth groups lost ground. The best performing sectors were Defense, gaining 18%, Consumer Goods, up 16%, and Health, up 14%. The worst groups were Computers, down 9%, and Communications, which lost 7%. ■

**New Version Available**

TradingExpert Pro 5.1 is available to download free off the Internet. To see a list of the new features or to download the upgrade, open AIQ's Main Menu and select Help from the menu bar. Choose Technical Support, then Product Updates. This will automatically launch the web page where TradingExpert Pro 5.1 can be downloaded.

## ANATOMY OF A TOP

# HISTORY REPEATS ITSELF -- IT'S IMPORTANT TO EXAMINE RECENT NASDAQ SELLOFF

By David Vomund

In March and April, the Nasdaq Composite experienced one of its largest corrections in its history. From its March 10 closing high price to the low on April 14, the Nasdaq fell 34%. It is important to closely examine this time period because history often repeats itself. In this article, we will examine what analysis techniques proved to be successful in identifying the rotation out of the Nasdaq growth stocks. In addition, we will examine what to look for in calling the low in the Nasdaq.

Making judgment calls is always easy in hindsight. As we review how the technical indicators called the market top, please keep in mind that we are showing what worked well while ignoring what didn't work. Predicting the Nasdaq selloff is a lot easier in hindsight than it was at the time of the selloff.

**Figure 2** charts the Nasdaq Composite with its Relative Strength (RSMD SPX) indicator. When the RSMD SPX is rising, the Nasdaq Composite is outperforming the S&P 500. When it is falling, the Nasdaq

Composite is underperforming the S&P 500.

One of the first signs of rotation out of the Nasdaq technology stocks was a precipitous fall in the RSMD SPX indicator. Beginning in mid-March, this indicator fell below its signal line and continued to fall at an extremely fast rate. At that time, I remember checking to see if there was bad data because the indicator's rapid decline was so unusual.

It is beneficial to look at the weekly RSMD SPX indicator in addition to the daily indicator. The weekly indicator gives a longer-term picture and has fewer whipsaws. The weekly RSMD SPX indicator (not shown) had been moving higher since September 1999. After pointing toward an outperforming Nasdaq for six months, the indicator changed direction and fell for two straight weeks in late March.

Just because the relative strength began to favor the S&P 500 over the Nasdaq didn't mean the Nasdaq Composite had to fall. It could have signaled a rising S&P 500 instead of a falling Nasdaq. Even so, this change is important. Growth investors

outperforms.

The relative strength indicator signaled rotation out of the Nasdaq in mid-March but it wasn't until March 30 that we saw the first sign of technical damage. In Figure 2, the Nasdaq Composite has a support trendline drawn from the October 1999 point. This trendline, using a log-scale chart, acted as support on three occasions (October 1999, January 2000, and March 2000) but the Nasdaq broke below the trendline on March 30. Many analysts promised a Nasdaq rally because of end-of-the-quarter window dressing. That didn't happen.

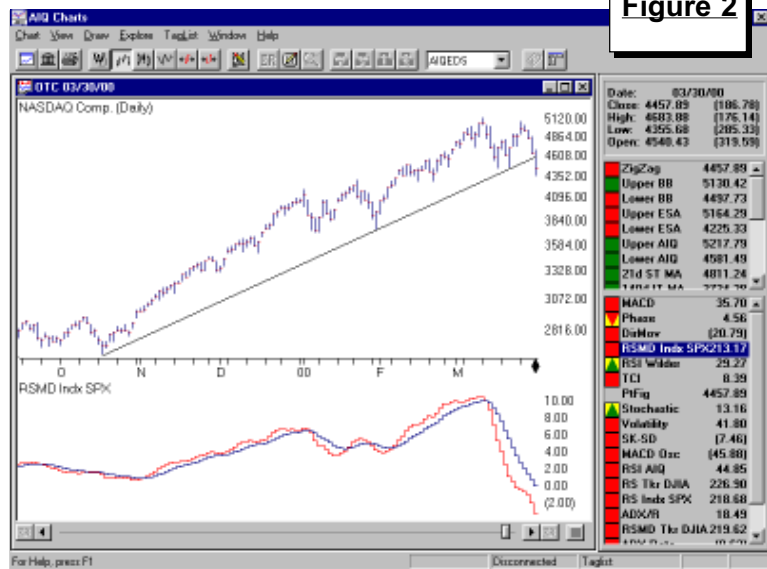
In the May 1999 *Opening Bell* we described an advanced technique which uses TradingExpert to create a market for the Nasdaq 100 index (NDX). With this model, we plot the NDX index and then TradingExpert calculates breadth and volume based on the 100 stocks that comprise the index.

With the NDX market created, we ran AIQ's regular market timing model on the Nasdaq 100 index. Using a list of the stocks that were in the Nasdaq 100 index on December 31, 1999, this model registered a sell signal on March 29.

One reason the Nasdaq 100 model switched to a sell was deteriorating market breadth. In **Figure 3** we see that the Advance Decline Line on the Nasdaq 100 index was moving higher along with the index from the October 1999 low until February 2000. In February and March, however, the Advance Decline Line was flat even though the Nasdaq 100 continued its rapid rate of advance. A deteriorating Advance Decline Line typically accompanies most market tops.

Now that the Nasdaq has corrected, what can be used to call the

typically do well when the Nasdaq is outperforming but often struggle when the S&P 500 is outperforming. Value investors, on the other hand, prefer time periods when the S&P 500



Anatomy of a Top continued on page 8

ANATOMY OF A TOP *continued* . . .

bottom? Picking market bottoms is difficult because you generally have to rely on oversold indicators to tell you when the decline has gone too far. **Figure 4** is a chart of the Nasdaq market (OCEXCH) that comes with TradingExpert. Using ticker OCEXCH, we have plotted the TRIN indicator on the Nasdaq Composite.

TRIN is a good bottom-picking indicator. The higher the indicator, the more bullish the outlook. On April 14, this indicator moved higher than the level it saw at the October 1998 market low. That didn't mean that the Nasdaq had bottomed but it did imply the Nasdaq would experience at least a bounce from its oversold condition.

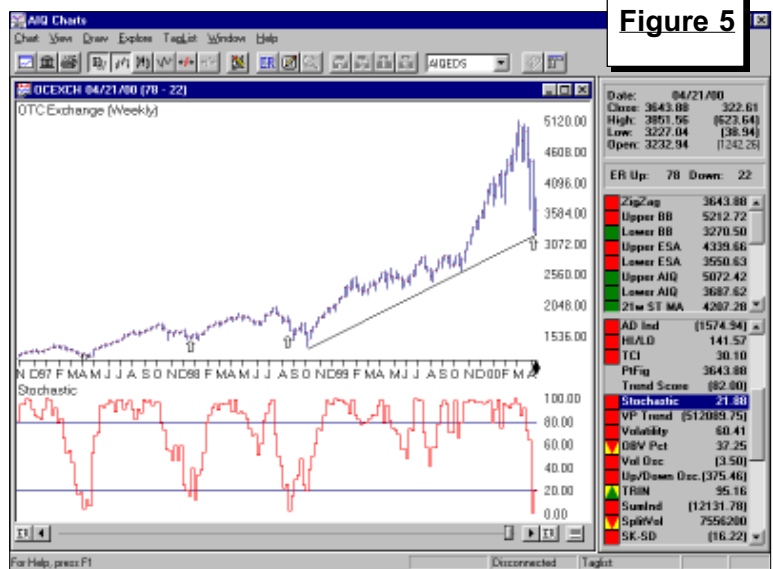
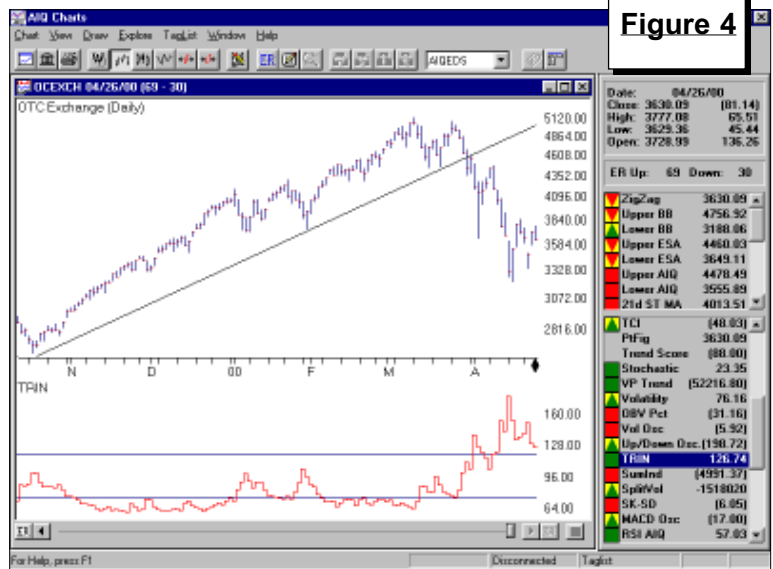
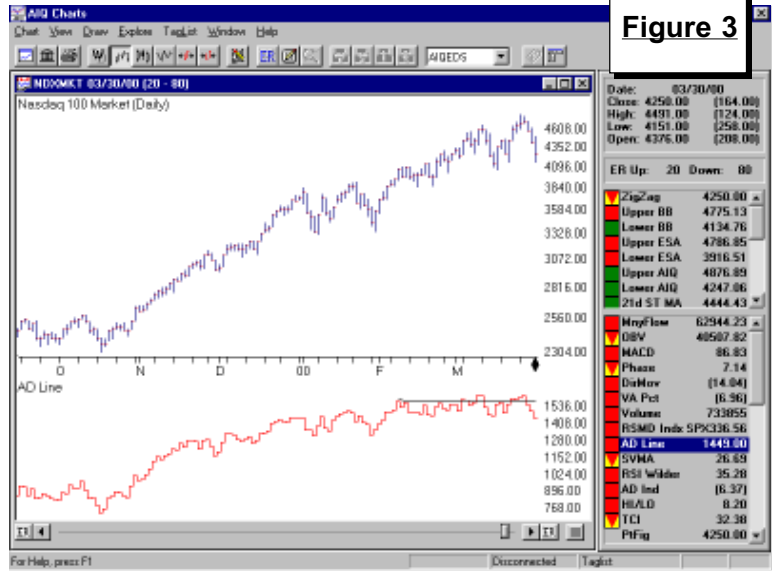
A more bullish indicator was the weekly Stochastic indicator. The weekly Stochastic rarely moves to oversold territory but when it does its track record for picking long-term buying opportunities is very good (see arrows in **Figure 5**). Looking back in history, we see that the first weekly Stochastic buy signal can come a little early. After a decline, it can be the second Stochastic buy signal, which comes within weeks of the first buy signal, that picks the low.

Identifying support levels on the Nasdaq can help to determine where the decline may end. After a sharp decline, you'll have to plot a lot of data in order to find a long-term trendline that is still below the market's price. By connecting the October 1998 low with the October 1999 low in the Nasdaq, there is a support trendline that the market tested in mid-April (Figure 5). The April test was the third time that the trendline was touched so the trendline was legitimate support.

Using oversold indicators and support levels are ways of anticipating a low. Once the Nasdaq rallies, use the same analysis techniques used to call a market top. That is, look for the RSMD SPX to turn upward, especially on a weekly chart, and look for resistance trendlines to be broken.

A lot can be learned by looking at major market tops and bottoms because history does repeat itself. By studying the recent Nasdaq selloff along with other topping periods, you will discover other useful indicators in addition to those we mentioned. ■

*David Vomund publishes VIS Alert, a weekly investment newsletter. For a sample copy of the newsletter, go to [www.visalert.com](http://www.visalert.com) or call (775) 831-7033.*



**AIQ 2000 Lake Tahoe Seminar**

Hyatt Regency Hotel, Incline Village, Nevada  
Thursday thru Saturday, October 5, 6, & 7

For Reservations or more information, call  
**800-332-2999**