

Newsletter 05 - Sep12th 2002

Another fairly quick update I'm afraid, existing customers will understand that I've been a bit busy lately. As these newsletters do get read, and for some people are probably their main means of checking the program out, here's the plan.

I'm going to start with an overview of the past month or so of development, Pfscan2, and where it's all going in the very near future. Next up will be to look at a subject dear to my heart, I'll use the UK market this time around to look at some of the tools Pfscan2 introduced - a fairly quick 'top down' look at the FT350. US users will be able to feed their own favoured sectors and indices in, and get similar results from doing the same sort of thing. Finally the plan is to indulge in general chit chat as ever.

Ok, so onto part one: Development - August to October 2002

Pfscan VB was reviewed in Technical Analysis of Stocks and Commodities, Aug 2002 edition, by Dennis Peterson - Dennis did a nice review, and has remained an email 'penpal' since... he's obviously a very nice guy, and I appreciate all he did to raise the program's profile. On the back of this review a small sales boost was seen, which is still trickling through. The coding for Pfscan2 was started around Easter, planning to run two programs alongside each other - Pfscan VB and Pfscan Plus, but keeping two versions of the same code in synch, where one copy had extras built in, got tiresome - it was an artificial split really, so I decided to develop the 'Plus' until it could replace the VB version altogether.

'Plus' became Pfscan 2, and the original plan had involved a VB selling at \$50, the Plus at rather more.... But Pfscan 2 was completed in August and the recent review was for the \$50 VB version - call me an old cynic, but I'd be mighty suspicious if I reviewed a program then saw the price double! To make it a bit more fair I decided to take a hit on profits and run the new program at VB's price for 5 or 6 weeks, the real price of \$100 will be charged from the end of September onwards... I figure that's fair, and anyone buying during September is getting a nice discount.

Continuing existing policy I automatically upgraded all registered users - some of whom are still registered for the version 2, and will remain updated, having shown enough faith a year back to pay a whole \$20 for the first ever version.... Loyalty cuts both ways, I will be only too happy to continue supporting and upgrading the first batch of customers in this way - if it weren't for their encouragement Pfscan2 would not be here today. I hope you guys are making a few bob, and still like the program!

The new version was tested before release, but a few problems have become evident in the first month - not surprisingly really, as general release introduces a wider range of systems and user abilities etc and so the crashes are bound to increase once it goes public... the main problems were highlighted in a users email recently, they included a problem with the new security code which would zero the trial days left counter, a problem when the 'prefs' file (saving settings etc) messed up saving the address of the data folder - causing the load routine to go off in a sulk, and some problems that are still affecting one or two (only a couple, thankfully) which seem to be related to other programs overwriting Pfscan files. Most users seem to be fine, a few have problems,

only 3 or 4 seem to fall into the 'not yet sorted' category... most cried for help are solved by deleting prefs.txt these days.

Pfscan 2 added a fair amount of new items to play with - notable amongst these were the automatic analysis, and the new reversal systems. V2.26 is currently being tested, release looks to be set for this weekend, and it adds the 'percent of Ten' indicator to the Bullish percent screen... I'll demo this later in this newsletter.

The new filters centred on four reversal signals, and MA crossovers. Now everyone, I suspect, is familiar with an MA crossover - a bullish cross sees the short MA cross up through the medium, or the medium through the long, and downhill crosses for bear crossovers. I was originally taught that BOTH MA 's had to be moving up for a bull cross, and down for a bear... some writers seem to disagree, after all a short MA turning up and climbing through a dropping medium one is indicating a change from down to uptrend. I stuck with the first version I learned - this shows an uptrend that is accelerating, and will also find an uptrend that has started after a sideways move - I think these are good things to spot, rather than highlighting what may be a short term zig zag with MAs.

Reversals - I like these <g> The Parabolic SAR system was a devil to program, but as soon as I had it running I really liked it. It works by checking for a trend, and tests to see if the background systems (ADX, DI,DM are calculated but not charted directly) confirm a trend is present, and that it is heading the direction the P-SAR wants to signal. As well as adding P-SAR 'stop' dots over/below the price bars it generates up/down signals when the trade looks good, and it provides the info for the coloured 'trend strip' at screentop that says the chart is trending up/down or not at all. Key reversal days, Island reversals, P-SAR reversals and Bollinger band rebounds can now be scanned for. The Bollinger band reversal is something I devised to scan for shares that touch a Bollinger sideband, then change direction - the idea is for the rebound to carry the price back to the other band.... Like any other detection these can work out or not, but I quite like them and reckon they signal short term moves quite reasonably.

These are short term signals of course, in the main, it seemed to me that it wouldn't hurt to include other TA options - if only for cross reference. You can, obviously, use these as detection systems, but an equally valid use would be to improve timing - one of my favourite subjects - I ALWAYS check the barchart after finding what looks like a good P&F signal... when the signal looks worth trading, I want to buy as the upward move kicks in - not two weeks later, nor, preferably, a month too soon!

Another new item was the 'analysis' button... You click it and a window opens up, telling you all about the share - what the P&F looks like, what the indicators are saying, is it a short or a long trade, might resistance limit the profit, are any short term signals showing.... This could, I suppose, be used as an automatic system, but it's meant to be used as a sort of aid in TA work...not to replace it. So you look at the share, analyse it, THEN check the auto analysis to see if you missed anything important! It tries hard to give a balanced view - if it says the share looks like a short then it'll use the short gain forecast, not the long one, to tell you the likely return. It'll try to check if anything is contradictory - does the MF say buy and the MACD say sell?

Overall I think it does a fair job - indicators aren't just read, ie 'RSI 40 climbing that's okay then' - the indicators are checked over a period, and the 'shape' roughly assessed, to see if the current climb is perhaps just a small upmove in a long fall.... It isn't perfect perhaps, but it isn't that bad either. Even I was surprised, when first running it, how sensible it seemed!

We'll see this soon in the FT350 run through a bit later on.

New to V2.26 is the 'Percent of Ten' (%10) ... this charts like the Bullish Percentage (BP), but is a much shorter term indicator. Like the BP it is used to look at a sector or market, and it works by finding the percentage of stocks that are trading above their 10 week MA. So, if you think about it, a share closing above its 50 day (10 week) MA is one that has been rising quite recently, to climb above its 'average' price for the past 2.5 months, yes? So a share that is quite recently improving. So, if the total number of shares doing this is rising, then the market must be seeing prices being driven higher by demand... that's really all there is to it. Demand is increasing over the market as a whole - end of story. It's quite short term, it changes quickly, and the same 30/70 levels signal mood changes as for the BP.... The phase info reads a little differently, the best %10 signals are really the 'alert' signals from the BP, whilst 'bull confirmed' seen on the BP is pretty good, the same formation of X's on %10 is less fantastic.

Now, analyse has been added to the BP/%10... there's a button there to swap BP/%10 (toggling one to the other) and analyse quickly draws both to ensure the latest data info is used... then you get a 'market' analysis - the short term trend is assessed from the % of Ten indicator, the longer term from the Bullish percentage, and the two are then compared.

A completely bullish market would see the short term %10 and the BP both climbing, completely bearish would be both falling. A market that had been falling for some time, but was just now turning bullish, would be showing bear long term, bull short term - ie bearish BP phase, bullish %10 phase. A rally that was losing steam would be bearish short term (%10) and probably still bullish or neutral long term (BP).

Section 2: Making huge sums of money:

(I like simple plans)

So here's the plan... load your sector or market into Pfscan, run the analysis on the market, check %10 and BP and decide which way the market is going.

Now pick stocks going that way and ignore those that aren't.

Stocks do a couple of things - one is that they go along with other stocks in their sector.... Look at US stocks AAPL, DELL, YHOO, CSCO.... You know, you can almost overlay them on each other sometimes, one turns up and all the others follow it. Now DELL and Apple, as I see it, are direct competitors, so common sense says they'll move opposite to each other... well go take a look, now tell me Fundamentals make sense <g> Shares move regardless of what the books say over and over again, so rather than pick good shares, why not pick good sectors?

UK users lose out here a bit (not as badly as Koreans etc do, some markets consist of the local bus company and a guy selling old 'Saint' novels from a van) but many UK sectors are too small to BP sensibly.... Really you want at least 100 shares, high 60's at the very least. That's why I'm charting the FT350 here - to find good sectors I prefer to load the indices as if they were stocks, and just P&F them looking for 'buy' signals... we'll try that another time eh?

So, we'll BP/% 10 the FT350 and pick a few stocks perhaps.... Using the analysis etc as we go.

1 - Data. I'm exporting from Sharescope, I saved the FT350 as FT350.prn (good name eh?), and the FT350 index as NMX.prn. I exported a little over a year of share data.

2 - Fire up Pfscan, load FT350.prn, and analyse the BP/%10.... Time for a picture!

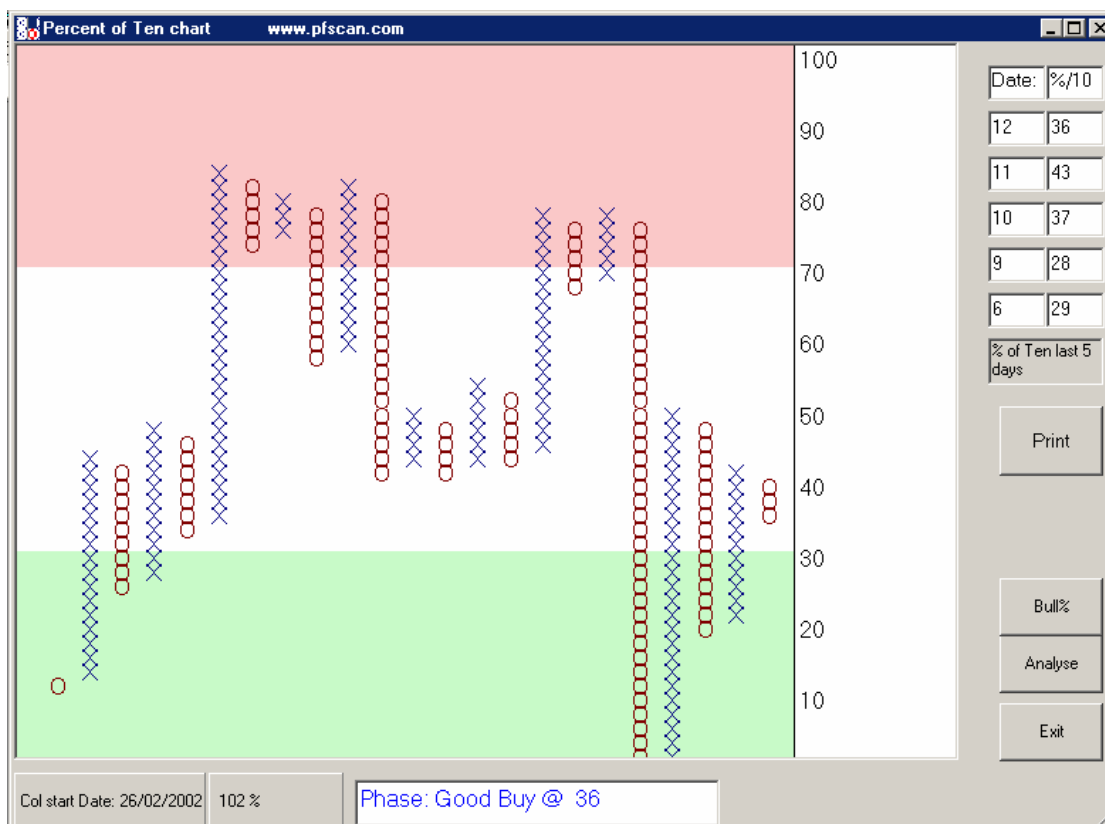


fig 1 - Percent of Ten Indicator, FT350, 12 Sep 2002

Now here is a perfect example of why you ought to check things yourself... 'Good Buy' on a new column of O's???? You see the next last column? That line of X's climbed up through the 30 level and that's the buy signal - the last column is O's, signalling a temporary hold really - and it's all down to today's drop (look at the boxes, 43% yesterday dropped to 36% today). Short term is really a 'hold' signal... yesterday it was bullish, it isn't bullish today! (This is going to really mess this example up, isn't it <g>)

Okay, what does the BP show us then?

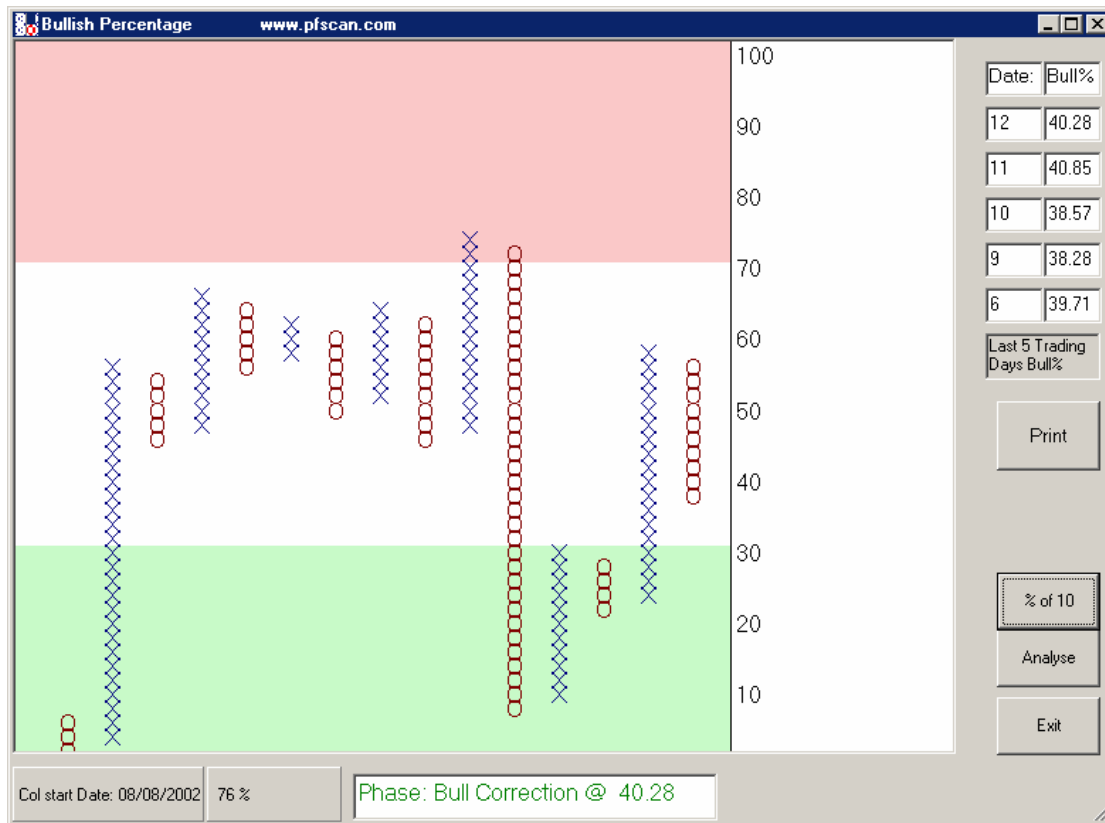


fig 2 - Bullish Percentage indicator, FT350, 12 Sep 02

Okay, here's the medium to long term indicator - a neutral green 'Bull Correction' - ie also signalling a 'hold' during a bull move. Personally I read these two together as bearish, this looks - to me - to be a stalled rally, the bull signals all fired, the market climbed, and today it came to a grinding halt.

Let's read the analysis anyway, eh?

Cutting the info from the window it reads:-

 Bullish Percentage is currently showing a phase of Bull Correction at a reading of 40.28

Percent of Ten is currently showing a phase of Strong Buy reading 36

The BP has corrected, this is possibly just taking a break before resuming the climb. Undecided market currently - wait and see. BP is quite low, and whilst it might continue down this current move - so far - is not classified as a serious reversal at this point. Short moves look unlikely.

% of Ten is currently giving a 'Best Buy' signal (ie go long) for the short term by climbing through 30.

This is a longer term 'hold' signal - a short term correction in the longer term bear trend is probably underway, a short term 'Buy' should be fine.

Now personally I disagree here, because the %ten has not fallen enough as yet to signal a reversal of trend... I think it will do over the next couple of days personally, so this should be a good test of the system!

Realistically it's a close call, so let's proceed - yesterday I would have said this analysis was spot on, today I'm less sure - so, we want a short term buy then!

Okay, so let's scan for buys on P&F, I'll load the NMX index, scanning for all P&F buys, RS bull, at least 10% profit....

35 shares pop out, the very first one (ABP) looks just right for what I'm trying to show... in fact I'm tempted to buy it!

Right, P&F chart first....

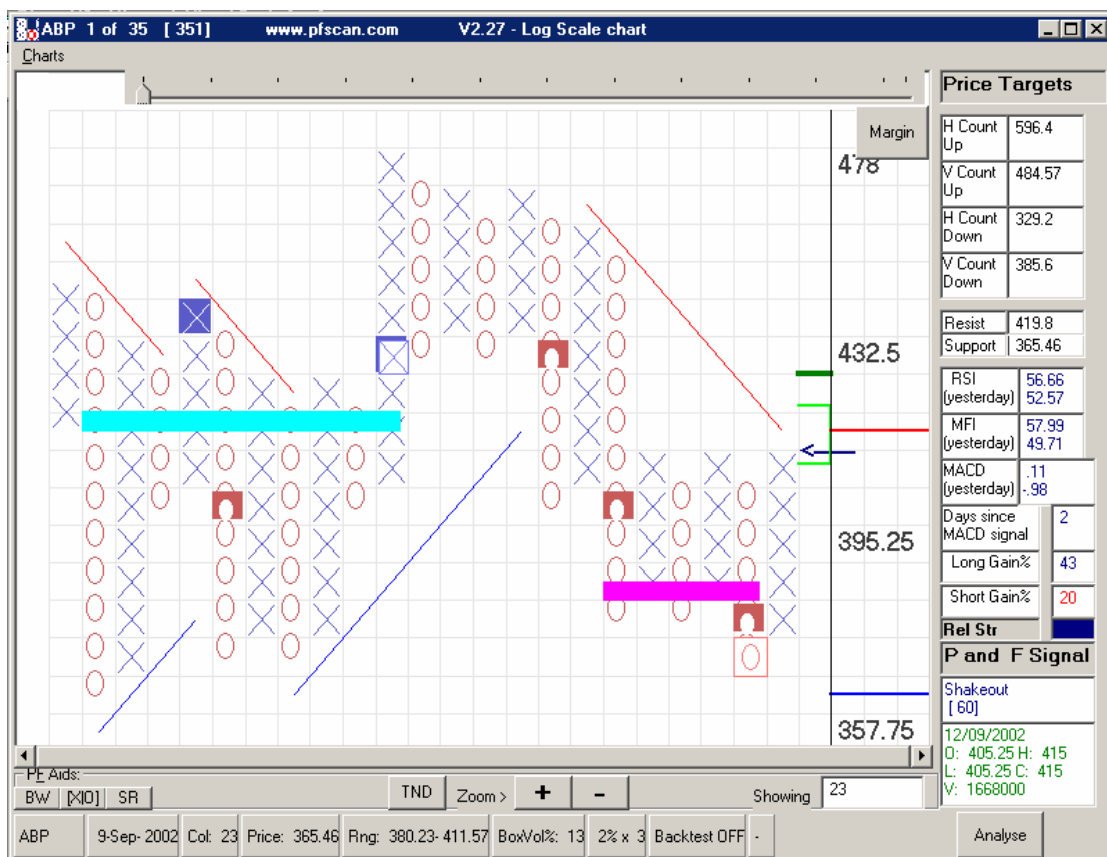


fig 3 - ABP Point & Figure chart

A Shakeout some time ago, but we're now at a triple top - one more box for a triple top breakout signal, the ← shows the close is right at the top of the column. Indicators are nice - blue (rising), not oversold, MACD crossed up through the signal 2 days back, we're bang on the resistance line now (one more box to break it) and the suggested target price of 596.4 is a whopping 43% away.

Let's check indicators then...

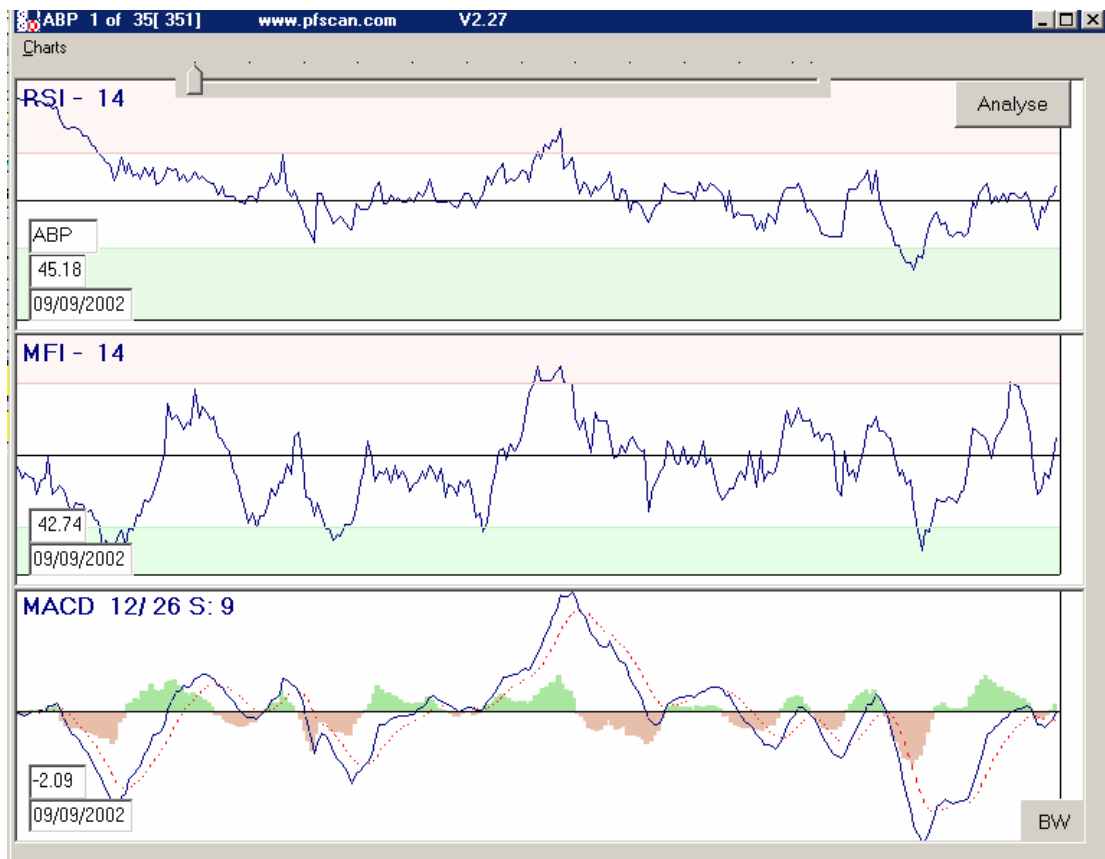


fig 4 - ABP 12 Sep 02 Indicators

And they're all climbing, MACD histogram is bullish, bullish MACD cross, overall RSI and MF both look like they're climbing.. the MF you could just about make a triangle from the last two dips and the last top

How about the barchart then....



fig 5 - ABP 12 Sep 02 Barchart

I added P-SAR info and Bollinger bands. We see a Bullish Key reversal about 8 days back, no trend band showing as yet, P-SAR stops show that signal reversed to a 'buy' 2 days back, and the bars are climbing towards the upper B.band which is off the screen top.

Let's see then, I make that all quite bullish really, although the barchart makes me think it's already seen a fair change already... that big single bar shows a pretty hefty one day solid climb for ABP - I always worry that days like this have too big an effect on the charts for some time to come.

What about the analysis option then? Here's what that system had to say...

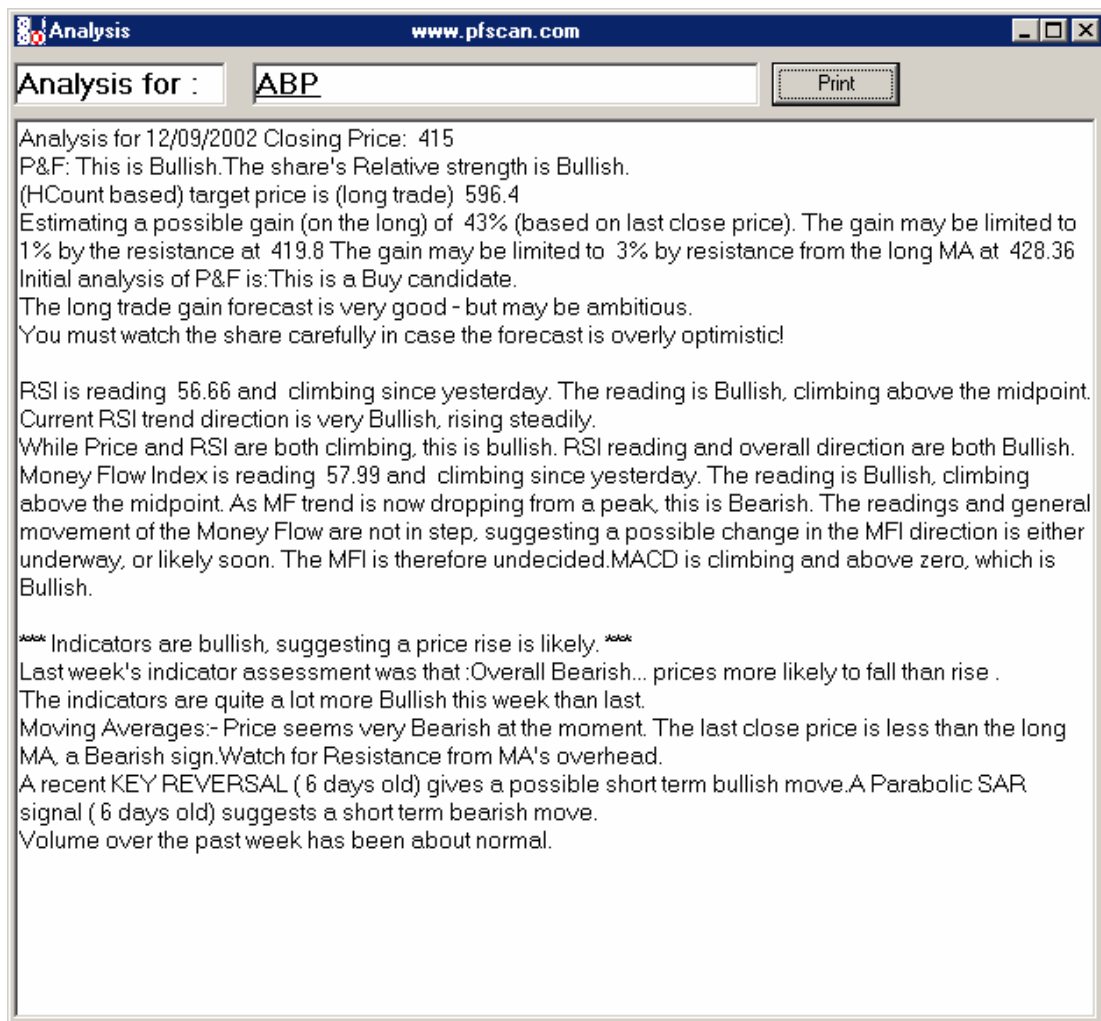


fig 6 - ABP 12 Sep 02 Analysis

Well then - mainly Bull signals there... overall I'd say that matched my own take on ABP quite well, I'm a little more bullish on the MF that Pfscan, and the program spotted the 200MA I'd overlooked....

Being computer generated the text gets a bit repetitive, there aren't that many ways to say 'bullish' after all, but it's readable and sensible.... I think the analysis options add an extra dimension to the analysis by helping ensure things aren't missed. I'm very pleased the way it has turned out.

I'm actually going to ignore the rest - that first candidate was just the demo I needed! Maybe a 'short term' scan next time... am I tempted by ABP? Yes... but I don't think the market is going up, and there is little point going long in a falling market... so ABP is on my 'keep an eye on it' list, but I won't be buying it tomorrow.

The future and assorted bits

Once everything is stable, and all users seem to be getting on okay, the current plan is to take a break from programming. The website is in dire need of a revamp, and I'm in dire need of more time to do some trading for myself. Mid October will see the family in Spain for 2 weeks again, telephone installation might take a backseat, my wife is

the great property dealer and is planning to 'trade up' our current place out there (it's very small, and we really want a bit more room). Hopefully that'll be 2 weeks off for me, and I'll be trying hard to slow down a bit before then. The Global-Investor bookshop on the site was good, I've developed a few contacts over the year and each one tends to give you a small 'in' of some sort - I'm happy to add the bookshop as these are the people I've bought off for a couple of years, I was telling you all to shop there a year ago... BEFORE I got paid to do so! Their stock is impressive, it's run by people like Steven Eckett (the guy who writes the online investing column in Investor's Chron) and - best of all - the books arrive darn quick! As a sidenote I've been offered things like discounts on specific titles - so if we all agree we want a certain book we can have a few bob off it ... I've got a few already anyhow, but at \$70 for Murphy (for example) every little helps. I'll certainly be considering adding a P&F manual into any package I end up producing... sadly for the bookshop it'll be more likely to be one I've written <g>

Has anyone tried the 'Active Trader' magazine? You can download a free back issue as a PDF from <http://www.activetradermag.com/> ... they're out in US and Germany apparently, what odds Shares and IC get a bit of TA competition?

Okay, the next big theme is to improve managing positions... and this will really take a LONG time to figure out, because the figures will constantly change! If the system said buy ABC at 200, but you waited until 210, then follow up messages would be no use if they were based on buying at 200 after all.... So this side of the program will probably take ages to figure out. Most likely is yet another book to add to the manual, intro, and 'trading with' volumes.... Set the ideas out on paper there, then gradually decide how to code them up. One user recently forecast PfsScan Pro and Lite would appear, \$99 for the Lite, \$250 the Pro, and I'm not sure that he isn't better at seeing the future than I've been so far <g> So remember this - the earlier in my list of registered users, the more you get! (To be honest I try to make sure you get plenty anyway).

Helen Quenet (TMF member, runs the CTS board) has arranged a January meeting - she ran one in July, I couldn't make that one so I'm going to the one in Birmingham on Jan 11th. For my sins I get to drive 500 miles after work Friday, stagger out of bed 7 ish Saturday, then lurch over to the meeting to deliver two PfsScan workshop thingies during the day.

The plan is to stick my laptop up, hopefully plugged into my TFT screen and a real mouse, and show what it'll do... if anyone reading this is going then I'm open to requests for content, and I'll try to make sure I'm free for chats over a beer with anyone who wants to find out for real if I have two heads. I'm also hoping to learn a few new tricks from the other poor devils that Helen will doubtless 'Joe' for a lecture - I hope these meetings are going to be quite regular events, investing is a rather solitary hobby!

Right, that's me off to bed... as ever, email davejb@pfscan.com and visitors to the forum on the site are always welcome!