Take Your Profits?... *or Let 'em Run!*

An "Exit Strategy" based on Relative Strength Moving Averages (RSMA)

By Don Worden

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Introduction:

Thinking for Yourself

Accepting It... Learning It... Doing It... Practicing It.

The crux of TC2000 is the superb software, powerful yet more intuitive and simpler to use than any of the alternatives. And, of course, the "squeaky-clean" database knows no peer.

But we furnish more than just the tools. We do our best to teach our Users how to make use of these tools. First, there is The Daily Worden Report, which greets you with enthusiastic and perceptive commentaries the first time you log on each day. Second, there are the Daily Worden Notes, quickly jotted comments and impressions accompanying selected stock charts each day.

Users soon learn that these unique features amount to an ongoing education in technical analysis – including screening for winners, interpreting stock charts and setting up strategic and tactical approaches to trading and investing.

A theme and a purpose run through all of our educational material. Quite simply, it is this. We don't provide touts (although we, of course, provide hints – pointing out stocks that may be nearing buy points). Mainly, we teach Users how to use TC2000, sometimes in conjunction with other tools, to find winners for themselves. We don't give you fish to eat. We teach you how to fish, and that is something nobody can ever take away from you. We call it our "thinking for yourself" program.

The Daily Worden Report has evolved over several years. Responding to the expressed needs and desires of Users, we have increasingly focused on publishing questions, feedback and ideas from Users themselves.

For extraordinarily perspicacious essays from Users we bestow Knighthood, offering a symbolic place at our virtual Roundtable of Knights Who Think for Themselves. This growing elite corps of practicing technicians unselfishly submit the details of methods that have worked for them. In some cases inordinately large profits have been amassed. These Knights tell precisely how they did it, providing richly drawn examples with the names of actual stocks cited.

Users actually participate in our ongoing research to find step-by-step procedures for garnering maximal profits with minimal risks. In particular, two recent innovations originated in ideas for members of the Roundtable. One is RSMA, an "exit technique" based upon using Relative Strength Moving Averages. Another "exit technique" is based upon FXMA, a system of using moving averages of lines of "fixed return."

Our Fixed Return tools are also invaluable aids to setting standards of performance in individual portfolios. How do you like the idea of systematically demanding minimum returns from the market – returns as high as 100 percent, 200 percent, even 300 percent and sometimes higher? Yes, it is possible to set your own standards in the market and to follow logical procedures for making the returns you demand come true.

This Monograph focuses on the evolution of RSMA & FXMA in The Daily Worden Reports. In the back, we've illustrated two Worden Note examples which show you how to copy my personal indicator settings to build off for your own use.

Before you can implement all these tools and logical approaches, you must form the habit of thinking for yourself. This happens in four stages. First, you must ACCEPT the fact that investment and trading success is the direct result of thinking for yourself and that there is no way around it. Second, you must learn to reject your dependency on the opinions of others. This is how you LEARN to think for yourself. Third, you must go beyond just understanding the importance of thinking for yourself. You must DO it. Knowing what you should do is one thing. You must overcome lifelong dependencies on others for your thinking and actually DO it. Last, after you start thinking for yourself, you must PRACTICE it every day of your life. PRACTICE never makes perfect. Nothing makes perfect, but PRACTICE is the only way to maintain your winning attitudes and to expand your abilities and your confidence. TC2000's Daily Worden Report and the Daily Worden Notes are devoted to providing the practice you must have.

Enjoy—Don Worden

The Worden Report
(Thursday, February 3, 2000, 6:00 P.M.)

We Dub Thee – "Sir Jack"

It dawned on me as I was reading this new knight's email that none of the previous knights have focused much on the problem of when to take profits. It is the hardest part of strategy, and as I have recently said, it lends itself to automatic systems. Before you are in a stock, you can be picky and choosy. If it doesn't suit you in every way, if you feel the least bit of uncertainty, you can walk away and forget. Whether it goes up or down, it ceases to be a relevant question in your life. But if you are holding a position, you are forced to make a decision. Every day that you continue to hold it, every minute that you continue to hold it is based on a decision not to sell it. Was it Oscar Wilde who said "The coward dies a thousand deaths; the brave man dies but once." He was wrong. A man holding a stock – be he cowardly or brave – may find himself dying a thousand deaths. For many it is impossible to make a rational decision at the moment of action. The pressure is just too great. You can remove judgment from the point of decision by using automatic schemes. This User has a simple plan to solve such problems. As a result he sounds relaxed and cool. He has a valuable TIP to offer.

And so we are inducting Jack into the coveted hall of brave knights and presenting him with the traditional flask of Veuve Clicquot Ponsardin. This for demonstrating how to think for yourself.

To DW: I've enjoyed your users' comments the last few weeks, and can't control the desire to throw my two cents worth in, especially after reading the comments of "Sir Chart Eater" (PN).

I tend to agree with his thoughts on outside distractions except to use them as starting points to look at charts. However, I don't have the time or inclination to look at 200 charts a day, nor am I convinced that it is necessary. I have a WatchList of maybe 100 charts. I add or remove from that occasionally, based on somebody's recommendation. But within this list, there is always one or more buy candidates.

I think it is naive to think anyone can make 10% per day for any length of time, or 100% in three months. If that were attainable, we should all be rich.

I am not a day trader, nor am I a buy and hold investor. So I have come to depend primarily on the 10 day and 30 day moving averages [of price]. As long as that 10 day average stays above the 30 day average, I stick with the stock. I look at all the indicators, and like to see them pointing up, but I don't panic when they turn down, as long as the 10 day is above 30 day. CYLK is a good example. Most indicators headed down in Dec., but the 10 day moving average never crossed below the 30 day moving average. I'm glad I'm still in the stock.—Jack

When I first checked CYLK, I found the 10-day MA dropping through the 30-day MA in January. Which means I thought you were mistaken. But then I tried exponential MAs, and found it was just as you said. In fact, the 10-day MA has failed to fall through the 30-day MA since PW did a Note on it last July when it was at 5.97. Now it's above 16 and I can well imagine you are glad you are still in the stock. But there is no doubt that you have that simple little system of yours to thank. That and your ability to devise a method for yourself and to stick with it. That's called discipline. It was actually in early January that a lot of investors would have been whipsawed out of their positions. The stock nosed down from its December high above 14 to below 11 in January. Although MoneyStream and BOP remained positive, the price weakness would have scared many out of it, particularly when 18-day TSV lurched under the zero line. That's all it takes is one moment of fear or confusion to ruin a good position. Sure, those shaken out would have still doubled their money, but that wouldn't have been true in every case. And the big money is made by letting your profit run. But of course, you must have a sensible reason for hanging with it. A tangible rule, based on price itself, such as your MA technique, made the difference to you and could have made the difference to many others. The knights and the serfs salute you, Sir Jack. You have earned your bubbly. And you made it look so easy. Cheers!

So convinced am I that Users are hungry for a tangible exit system that I've decided to build one into most of my paperclip charts. I've been using some MAs not of price itself (but of the relative strength of price) which I had hesitated to introduce out of fear that it might seem too complicated. I haven't decided yet whether to use Sir Jack's easier-to-understand exit system or the RS exit system. If you don't have an exit system for taking profits, I suggest you use Sir Jack's. In any event I'll explain the RS system soon.—DW

Plunging Bond Rates Mean Soaring Bonds

By all odds, the important thing happening now is the extraordinary plunge in bond interest. A weakening stock market was necessary for this to happen. The stunning aspect of the changing character of bonds in relation to stocks is the rapidity and magnitude. Tech stocks are responding with great enthusiasm. You might check our Notes in the last few days on such notables as AMZN, ADBE and INTC.

The Worden Report
(Friday, February 4, 2000, 6:00 P.M.)

Introducing The "RS Exit Strategy"

In the wake of Sir Jack's email describing his MA exit system, I feel compelled to devote more attention to exit questions in my Notes. I believe that automatic systems are useful for exits, but nebulous tools for entry. Moving averages have been used to generate buy and sell signals as long as I can remember. Several books were written on the subject. The first that I can remember was written by Curtis Dahl, a pseudonym for a Purdue professor who had won awards as, you guessed it, a rocket scientist. An old friend, the late Michael Zahorchek, also wrote a book on buy and sell signals using multiple moving averages.

I have generally opted for other tools, mainly because of certain flaws inherent in the MA type strategies. They can be overcome, but you should know about them.

1.) Moving Average signals don't work well except in volatile stocks. They can also cause whipsaws in a volatile stock that runs into a prolonged sidewise movement or trading range.

2.) Moving Average signals always put you into a long on strength and take you out of a long on weakness. Which is to say, you have to pay up for a stock and give up some of your profit getting out.

The first flaw is most damaging when you are using MAs to generate both buy and sell signals. You can get caught in a lateral motion that bounces you in and out, in and out mercilessly. However, if you use MAs only as an exit strategy, the problem is much less damaging. But it still works far better in volatile instruments.

The second flaw is something you pretty much have to accept. Everything has its pros and cons. However, it was as an attempt to provide some degree of mitigation that we came up with the "Relative Strength Exit System." We have been working with 10-Day and 40-Day moving averages – not of price but of Relative Strength (related to either the DJ-30 or SP-500). This is probably the time to tell you about it.

Here is the rationale. Relative Strength can begin to wane while price is still rising. Therefore, it is possible for a 10-Day M

A of RS to drop through a 40-Day MA of RS while the price itself is still rising – thereby providing a Sell Signal that allows you to sell on strength. Unfortunately, this is the best of all worlds and it doesn't happen often. Nevertheless, this phenomenon can help you get out at a better price than if you were using an MA of the price alone.

And yes, the RS Exit Strategy can also sometimes keep you in when an MA of the price itself can't. If a stock is being pulled down with the market, the RS may show a subtle resistance to decline. This can be reflected subtly in an MA of RS, which may keep you in a strong stock more effectively than an MA of the price itself.

That's all there is to it. It's almost the same as using two MAs of price, but the underlying RS data adds a bit of quality to the results. Neither way is perfect. Neither are any of the alternatives, such as dragging loss-cut levels or, say, MACD (which can also be adapted for Exit Strategies). Trendlines can also be useful. But the RS Strategy is handier, since properly placing trendlines takes experience.

How do you set the RS Strategy up? In the top window put PRICE, RELATIVE STRENGTH, 10-DAY RELATIVE STRENGTH AND 40-DAY RELATIVE STRENGTH. (You may use different MAs if you wish, of course.) Now pay attention to this. Designate in the Dialogue Box that Relative Strength should be invisible. You don't want to clutter up your chart with something you aren't going to use and don't need to see. RS is there only to serve as the basis for calculating 10-Day and 40-Day RS. (Some of our Notes today will include this setup on the attached paperclip chart.)

Rules of the Strategy? If the 10-Day is above the 40-Day when you buy the stock, hold the stock until the 10-Day drops below the 40-Day. Otherwise set a loss-cut level at a set percentage below your entry price or just below the previous minor low, which ever suits you. Once the 10-Day moves above the 40-Day, hold until it falls below it. When it falls below it, sell promptly without regard to what the fundamentals may seem to be and without regard to whether the technical indicators are bullish or bearish.

Whatever you use will be your system – not ours. Improvise. For example, after you set your chart up, experiment with longer time frames. On a weekly chart, your RS MAs will be 50-Day and 200-Day. You could use the same rules, but tailor YOUR system to longer-term objectives. Or you could introduce other indicators into the rules. But don't make it too complicated. And make sure you have a reason for whatever you do.

One more thing. Don't make the mistake of thinking these automatic sell signals have anything to do with prediction. Strategy provides a way of money handling, a way of determining whether you can afford to take a further risk or to risk your profit under a certain set of conditions. —DW

HINT: Only If You Like It

This market is highly fragmented. Show us a strong tech stock and we'll show you a weak one. Show us a weak cyclical blue chip and we'll show you a strong one. The market as a unit is exerting minimal influence on its components. Which means if it looks like a winner and walks like a winner and talks like a winner, and you like it, buy it.

The Worden Report

(Monday, February 7, 2000, 6:00 P.M.)

Questions about the RSMA Strategy

I read with interest your exit strategy using Relative Strength and thought it would be a great way to identify potential shorts. In trying to develop a scan to find charts where the 10-day avg has crossed the 40-day, I can only find Wilder's RSI. Can Wilder's RSI be used as well?

This brings another question - if Wilder's RSI shows strength of the stock compared to itself, wouldn't it be a better indicator to use than Relative Strength which compares the stock's strength to the DJ 30?

Thanks for your help.—CD

I am afraid that your email embodies the basis for my worst fears about introducing this exit strategy. Let's hope I can do a better job of explaining it this time. RSMA is not meant to be a means of forecasting whether a stock will go up or down. It is a tactical means of helping you handle your money. For example, a fairly common exit strategy is to nail down your profit when it reaches 20 percent. It isn't a strategy I favor, but it is a strategy advocated and used by some very experienced people. Now, these people are not suggesting that any stock that advances 20 percent is a "short sale." They are merely saying that if YOU have a 20 percent profit – grab it and run. And don't look back. The RSMA Strategy is just one more way – a way we rather like – to be freed of the necessity to attempt to make a rational decision under fire.

As to your question about the RSI (the Relative Strength Index), I don't blame you for being confused. I cannot imagine why Wilder elected to call it an RS Index, when it has absolutely nothing at all to do with Relative Strength as we know in the stock market. NOTHING. It is possible that because Wilder is primarily a commodity analyst that he neglected to notice there is a long-established concept termed Relative Strength in the stock market. In the commodity markets there isn't much use for that concept. I am not contending that Wilder's RSI isn't a well-thought-out tool. As a lady, I'm sure you regard the station wagon as a well-thoughtout tool for running to the super market and taking the kids to school. But you wouldn't call it a helicopter or a motor cycle or a rubber life raft.

But alas, it is true there is no way to make a scan finding the RSMA crossovers. The support department is being bombarded with people wanting to do this. The good news is, though, there is no reason to. If you use it the way I intended it, your buying decisions will be based on something else. It is only for the stocks you already own that you need to watch the moving averages. That can't be so many that you need to a scan to monitor them – can it?

Good luck and thanks for being a good sport. The worst strategy is not to look for answers – and it is clear you're looking. Best regards, -DW

If the Stock Seems Friendly, Proposition It

Despite the ability of the Nasdaq Composite to continue climbing into new spheres, we continue to feel the overall market must be viewed as suspicious. In the case of the Dow, it is a clear-cut picture of an intermediate decline. On an individual stock basis, the market seems to lack the ability to exert significant power over the fates of the components. We would continue to judge stocks mainly on their own merits and not get overly involved in trying to forecast the market.

The Worden Report

(Thursday, February 10, 2000, 6:00 P.M.)

How to Worry Creatively

Dear Sirs,

I thank you for the recent comments in the daily notes. I immediately saw the beauty at the unveiling of this 'pearl' that you have so graciously bestowed upon us subscribers. Upon inspection of the RSMA one must see the obvious. Thank you for the tip.

Since you have so eloquently introduced this most wonderfully corroborative concept, I humbly ask: how then, would one stretch this idea onto the playing field of the NASDAQ?

My first question would then be: How could this be 'accurately' applied to the NASDAQ? Then I would ask: Would it be a fair contest to apply the other securities within the Composite to the relative strength of the QQQ? I question the "fairness" when comparing with "parity" other securities within the NASDAQ 100 against those securities within the NASDAQ Composite.

Well then, would it be more fair to compare the RS of the Composite to others within the Composite and leave out the 100? This boils down then to the Big Question that means the most to me. How could one build a "gauge" within Telechart Profiles that would be similar to this "RSMA stuff" used in the DOW but, be useful for those securities within the NASDAQ?

I see that you also have made RSMA comparisons using the DJ-30 and the SP-500. This is a less confusing logic upon which to infer where your thoughts are.

I am sorry to say that this whole concept that you have recently presented leads one to a whole new world of thought. Strategically, I believe this can be an extremely useful tool. I thank you for showing it to us. However, I am dubious of the predictive nature of this RSMA when predicting moves for securities within the NASDAQ, since these two markets (DJ-30 and COMPQX) have behaved so much like a two-headed dragon of late.

So, Sire -- when it comes to beating this "Millennium Dragon," I do believe that expanding upon the idea you have presented of late is sound. However, applying a 'two-headed' approach to the "two-headed dragon" might possibly be more effective when applied to the playing field that you are on, be it either the DJ-30 (head) or the COMPQX (other head).

I don't quite know how it would even begin to be "technically structured". To compare such "incomparable" things within the NASDAQ as have been applied within the DOW and the SP100 and SP500 seems a bit "wide". Even though my thoughts are of two separate things.

Respectfully submitted, as I humbly request your thoughts.—TF

Before reading one more paragraph of this answer, please bring up a daily chart of any stock, but not DJ-30. Set up the 10-Day/40-Day RSMA lines with DJ-30 as the RS reference. Look at a few stock charts and observe how the lines interact. Now jump to DJ-30 and study the chart.

What is missing on the DJ-30 chart? Quite simply, the RSMA lines you just set up have vanished. Spooky! How can this be? It is because these lines are depicting the Relative Strength of the Dow against itself. The Dow is neither stronger nor weaker than itself. The Relative Strength is always zero... day after day. A moving average of zero... whether it is 10-day or 40-day... is zero. And what does zero look like on a chart? You guessed it... invisible.

It is amazing how many people have asked this question? How can we adapt RSMA to the Nasdaq? The answer is that it doesn't need adapting. Relative strength is a comparison. You can compare anything to anything you please. As a basic reference, we look for something that – more or less – is representative of what we call "the stock market." The SP-500 or the DJ-30 fulfill this role very nicely and have been so used for decades. Trying to match averages used for RS reference with the stocks whose RS you are seeking strikes us as bizarre. You are systematically trying to nullify RS. You are rigging RS readings as close to zero as possible. Carrying the absurdity to the ultimate extreme, we get the example demonstrated above with a chart of the DJ-30. If you insist on comparing a Nasdaq stock to, say, QQQ or the Composite, you will find yourself being whipsawed out of stocks far more often than will make you happy.

The Nasdaq is not a foreign land. It's just another place to trade stocks. It's part of what all of us refer to every day – without apology – as "the stock market." You do not need permission to compare proud Nasdaq members MSFT and INTC to the Dow Jones Industrial Average. They both have dual citizenship. We have vast contrasts within any average or exchange. Consider within the Dow itself, INTC versus MO, MSFT versus EK, or MRK versus XOM. The reason you don't worry about these internal contrasts that exist throughout the stock market is that they are not brought to your attention.

Keep this in mind. RSMA isn't focused on the degree of volatility or relative strength in a stock. Its focus is on the CHANGE in relative strength. Each stock sets its own standard of how it performs relative to a common reference (such as the SP-500). It is when the stock is incapable of maintaining the standard it has set for itself that you are taken out of your position.

Do you worry about where to put your hands? Of course you don't. But if somebody were to cast you in an amateur play, you would suddenly wonder where to put your hands. When you are wearing a blue suit, do you insist on driving to work in a blue car? Best not to worry. But if you must, best to do it in creative style, as you have, TF. Best regards, DW.

Still Plenty of Good Charts

The dismal performance of the Dow isn't really mitigated by the incredible energy of the Nasdaq. But the fact remains that there are still plenty of good individual stock charts. These attracted our attention today: NETA, NSOL, GBLX.

The Worden Report

(Friday, February 11, 2000, 6:00 P.M.)

We Dub Thee Sir Devil

Once again we roll out the bubbly for a thoughtful User worthy of knighthood. He demonstrates here exactly the way we wish all Users would respond to the tips we offer. He is being admitted to the Roundtable forthwith and we are rushing his bottle of Veuve Clicquot Ponsardin.

Dear Don;

Having followed the RSMA brouhaha with bemused interest I feel compelled to log in and hopefully put this to a well-deserved rest. Being a card-carrying devil's advocate, my immediate reaction to the RSMA concept was "oh yeah? sez who?" So I decided to put it to the test. I would encourage everyone out there to "try this at home, kids".

1) Set up five screen tabs side by side, full screen, no indicators in middle or bottom window. Pull the chart window down as far as it will go so you get as large a chart screen as possible. Select bar charts.

2) In the indicator set-up box:

chart 1: 10/40 MA

chart 2: DJ-30; 10/40 RSMA

chart 3: SP-500; 10/40 RSMA

chart 4: RUA-X; 10/40 RSMA

chart 5: COMPQX; 10/40 RSMA

3) Set all screens to the same zoom. I used zoom three and then reset all to zoom six for comparison.

4) Select the ticker of choice. I used a few that have either outperformed or under performed the market for the past year or so: QCOM, MCD, AOL, MSFT, GE, BA, T

5) Toggle between the five screens for each ticker and note similarities and differences.

6) THINK--ABSORB--ANALYZE. Please remember, RSMA is only another tool in the box. No indicator is a sure-fire predictor.

Ambiguity is the rule, not the exception. No one ever said this trading thing was easy. Hopefully, the reason you are using TC2000 is that it encourages you to think--unlike some of the "canned" trading systems that other vendors offer. I must say that the day I see those little green up arrows and little red down arrows on a TC2000 chart display will be the day I cancel my subscription. The devil is in the details. You're a good hand, Don. Keep on keeping on.—Devil

While our Users are taking these devilish remarks to heart (that is while thinking, absorbing and analyzing) I suggest they notice that, in general, the "hotter" the reference average used, the later will come the crossovers on the buy-signal side and earlier on the sell-signal side. This applies to "hot" high-tech stocks as well as slow-burning smokestack stocks and greasy hamburger stocks. And incidentally, you can achieve adequate observations if you just set up one tab using either DJ-30 or SP-500 and the other using COMPQX. This is the lazy man's way, but I must admit that's what I did. One stock we would especially suggest looking at on these charts is INTC, which shows an interesting contrast.

I'll have to admit that I'm about to eat a little crow. Tinkering with various RS reference averages is obviously worthwhile. Our original purpose was merely as a disciplined exit strategy, but we find Users interested in it far beyond that. Of course, using RSMA as a forecasting tool increases the need for judgment and the exposure to error. There is one other point we wish to reiterate. It is difficult to see the point in holding some stocks to lower standards than others. The profits that go into banks don't know whether they came from Nasdaq stocks or stodgy blue chips. We are inclined – though we have to think about it some more—to say that, for aggressive investors and traders, COMPQX may be the pragmatic RS reference for all stocks, whether a YHOO or a MRK. Wherever this new field leads, you may be sure that the can of worms that has been opened will smell strongly of ambiguity and indecision. As our new knight, Sir Devil, says "No one ever said this trading thing was easy."—DW

The Dow is Still the Weakest Link

The Dow's decline is now approximately of the same percentage magnitude as that which bottomed last October. But this one shows no sign that it is about to bottom.

The Worden Report

(Monday, February 14, 2000, 6:00 P.M.)

We're All in This Together

Enjoyed your discussion of relative strength on Friday. After applying these signals to my trading of the last 90 days I would be embarrassed to reveal how much better I would have done using these exit signals. Many Thanks!

Now I have a request. As I have looked at charts with these signals it became clear that these same signals could indicate a profitable entry point with the 10 day crossing up through the 30 and both rising. How can I develop a scan and personal criteria to spot this condition? Help!

When I got the idea for RSMAs several months ago, I set up one tab devoted to it and decided to do some experimenting when I could get around to it. Well, you know how that goes. A little procrastination here and a little there adds up to some big-time goofing off. When Sir FED came up with his MAs for exiting, I thought it would be a good time to introduce the RSMA, which I knew to be an improvement over the conventional moving average signals that have been used in various forms for many decades. However, I hadn't explored the RSMAs enough to introduce them as a total system of buying and selling. And I had no idea to what an extent this basic idea would appeal to the imaginations of our Users. It would appear that the approach is easy to grasp and I can see now that RSMA will become a standard indicator and will probably be available from many sources eventually. My experience tells me that 20 years from now there will be at least a half dozen guys who will claim to have invented it.

In the meantime, we are all in this together, guys. We are going to develop this indicator together as a joint venture. This doesn't mean we're scrapping RSMA as an exit strategy. It is an effective exit strategy and just the ticket for many Users.

However, just as the above User suggests, it can be used for Entry Signals as well as exits. The technique also presents an exceedingly convenient way to judge the Relative Strength of individual issues—that is, as an indicator of the quality of underlying strength. Right now, for example, if you want to find stocks of outstanding strength—I mean exceptional strength—browse through your charts and flag only those that have 10-Day RSMAs that have remained constantly above their 40-Day RSMAs for several months. Make it, say, five or six months. AND THESE MUST BE BASED ON COMPQX RS REFERENCES. It doesn't matter whether the flagged stocks are themselves on the Nasdaq. For all we care, they can be electric utilities on the NYSE (not likely, though). The point is if you hold stocks to a common standard, you'll find something they have in common. Not where they trade—but how they trade.

So let's hear from you on your experiences with RSMA. Remember, we're all in this together.

Psst! Have You Noticed the Techies?

Today we saw a lot of subtle improvement in the tech sector - particularly Internets. The following are all powerhouses that seem to have it all: heavy buying support and world-class relative strength. ITWO, GBIX, VOCL, SILK, DIGX, ARTG, MRBA, IONA, LTNX, DCGI, IPIX.

The Worden Report

(Tuesday, February 15, 2000)

We Dub Thee -- Sir Example

Today we received four emails worthy of nomination for admission to Knighthood and a seat on the exalted "Think For Yourself Roundtable." If this keeps up, Worden Brothers, Inc., may be forced to purchase the exclusive American license to import the delicious Veuve Clicquot Ponsardin in order to insure a ready supply for our Knights.

This gallant cavalier brings us a generous bevy of well-chosen (and perhaps promising of profits to all in the fiefdom) examples. King Arthur himself examined each chart and concluded that Sir Example obviously knows how to look at a chart. A bottle of the bubbly stuff is as good as on the way. Cheers! -- Sir Example -- and welcome to the Table. But just remember, "Don't drink and trade."

Here are a few good examples of RSMA to flag "sound buy / exit / short sell" opportunities. ATML, IVX, CTV, MWY, TERA, SFE, TMD, DIS, FDX, JPM, VARL (just took 20% profits off the table since mid-Nov thanks to RSMA flag), GLG (just flagged a buy signal), CDE (I'm currently watching CDE for entry confirmation).

It's interesting to do some comparison between DJ-30 and COMPQX as the reference for SMA. (In particular look at SFE, JPM, IVX between the two references) I've used 10 day and 40 day exponential MA's. As with any 'system', you've got to understand it relative to the stocks you are applying it to, as well as the market cycle you are using it in. As they say, there is no 'Holy Grail' when it comes to systems or indicators, but this is a nice start... at least it should flag one's attention to start asking some questions.

As a System or trading strategy, I like what RSMA offers as an exit or short strategy signal. I still prefer watching the 20 day and 50 day MA crossover for an buy signal. This simply involves the 20 day MA crossing over a rising 50 day simple MA with confirming volume around the transition. A good example of this is TERA during the 1st week in December. Contrast this with the RSMA crossovers.—Joel

If you learn nothing else from Sir Example, please notice how he puts his own mark on anything he does. On the one hand he is attracted to RSMA as an exit strategy. On the other hand, he prefers 20 and 50-day MAs for buy signals. This individuality is the mark of a winner in the market. And by that I'll go so far as to say, I mean it is an invariable characteristic of a winner. There are no exceptions.

Another Good Day

We liked the way the market was shaping up yesterday and we like it today even better. Check out the Worden Notes on individual stocks, including those mentioned above by Sir Example.

The Worden Report
(Wednesday, February 16, 2000)

We Dub Thee - Sir Detail-Stickler

This new Knight of the “Think for Yourself Roundtable” is an elite technician—a veritable fountain of careful and subtle observations. Little escapes his attention. His description of his methods, offered here in prolific detail, is replete with rich examples. You can learn much from this Knight, but as always we believe you will profit more by emulating his attitude and individuality than the precise trading rules that work for him. Start by learning step by step how he does it. And then adapt his methods to something bearing your own stamp of individuality. A flask of our ceremonial Veuve Clicquot Ponsardin will soon be winging its way to this gallant cavalier, whom we welcome to the Table with gusto and good cheer.

Dear Don:

My congratulations to the Wordens for establishing the Roundtable of the Society of Thinking for Yourself. We can all learn an extended lesson from the members so Knighted that there are many ways to achieve success in aspects of life and if we use our own creative processes it is all the better.

It turns out my use of Relative Strength really goes back to your version 3.0 of TC2000 where it was offered as a tool to use and I did so for many years for mutual fund selections. I started using it to reference mutual funds as many market newsletters kept harping to buy an SP500 index fund as it will beat over 80% of the available funds. So I utilized the SP-500 (or a mutual fund proxy) R/S graph in version 3.0 figuring if I was to beat the Index then the fund R/S chart would indicate this. It worked great. Now with your version 4.0 it has become an easier tool to read and I have continued to use it now for stock selections as well as mutual funds, available in your Beta version of TC2000 for funds. Since I am kind of a support and resistance kind of investor as opposed to a moving average cross over kind of investor, I thought I would share how I have set up my relative strength screen tab. First I utilize a Zoom=5 for approximately a 90 day time period. I like this, as it is approximately how long I will hold a stock on the average. I do look at longer time periods during final stock selection, using weekly information to see if there is a potential wave of selling coming from previous buyers who may be waiting for a recovery to sell into. I try to avoid this case.

TOP CHART
Prices - Bar Chart
Moving Average - 10 bars - Exponential
Moving Average - 50 bars - Exponential
MoneyStream (This is best displayed on top of prices, I like it here)

MIDDLE CHART
Relative Strength: SP-500 (Choose your favorite index here)
Moving Average - 30 bars - Simple
Moving Average - 25 bars - Simple (MA of MA)
Envelope Channel - 30 bar - Simple

BOTTOM CHART
Volume Bars
Moving Average - 18 bars - Exponential
Moving Average - 90 bars - Simple
Time Segmented Volume - 18 bars - Exponential

On another similar chart on another tab, I place BOP in the Middle and the 10/40 moving average RS chart in the bottom. I will then switch back and forth between the two charts.

Now I use these as follows for a stock buy:

1) The 90 bar MA of volume must be increasing along with price. Volume is the fuel for stock appreciation and the 90-day MA surely shows this nicely.

2) The 18-day bar volume MA should be above the 90 day most of the time.

3) The SP500 R/S line should be rising and falling within with the 30-day bar envelope, or above the envelope. However once above the envelope, I am very cautious, as this is an indicator to me of a stock being overbought. Quite often a stock above the 30 bar envelope will correct soon.

4) MoneyStream must be near a new high.

5) There must be lots of green BOP (Sir Fed’s approach is excellent).

6) I like TSV not at a peak, but rising.

A most important point is that the moving averages of R/S must be smooth and rising. I call this orderly. Good examples of this can be seen in stocks such as CSCO, ORCL, NOK, MEDX, MLNM, ROBV, VRLK, CBST, SCLN, NERX, CYPH, CTIC, NERX, and MYGN. Some of these are now overbought, but the trend is definitely orderly. Now compare these to the well-known stocks of MSFT, GE, WMT, C, T, and SCH. In the case of the last stock mentioned, SCH, there is no way I can decipher if Schwab has any trend at all. I mentioned several lesser known companies above because they display a key tool to use in that their volume has wide swings to it and should be in harmony to both the R/S line and the price movement.

My approach for support/resistance levels to sell a stock can best be observed in the stock NUCO. After a nice 3X rise to about $17, the stock has now corrected significantly to $12. With the help of R/S support levels, I was able to move out of it relatively early in its correction. To establish a support level for the R/S line, I first look to see where the dips are --

just as in the case of price. If not overly obvious, as in this case, I then look at the volume bars and establish a support level near a low point in volume, and better yet between two high volume bars. Looking at NUCO a R/S support level was established in mid-January at about the $15-16 level. The SP-500 R/S support level was broken on Feb 2nd, indicating a sell at a little over $14 3/4. Whereas the RS moving average crossover did not create a sell condition until Feb 10th at about $1 lower. From what I have learned over the years, a moving average crossover system is easy to observe and execute, whereas the support and resistance level concept takes a little more effort to define. But it generally has better results for me.

Just a comment, but from my observation, for many stocks if I take the difference been the SP-500 Relative Strength line and its 30-bar simple moving average it has an uncanny similarity to the 18 bar TSV line. When the MA difference is negative quite often TSV is also negative and the peaks seem to line up too. Quite amazing since I assume TSV is volume related [editor's note, yes, it is] and RS is not at all.

Keep up the good work. Your TC2000 has made my investing so much easier and certainly more productive in terms of results.—DK

The Worden Report

(Friday, February 18, 2000)

We Dub Thee – Sir Groupie

This new Knight demonstrates the effectiveness of simplicity. His approach, revolving around industry groups, is something anybody can do if they will take the time. His ability to fend for himself and think independently shows through admirably in the way he solved "the case of the missing group." When he found that TC2000 didn't have the group he was interested in, he didn't write us an email whining about it. He didn't shut down his operation, telling himself he couldn't do it before we gave him a chart of the right group. He quietly found a way around the problem. I also like the way he uses off-beat moving averages – like 21 unit and 55 unit. Ha! Who else uses those parameters? (Nobody before now, anyway.) He will make a fine knight at the "Think for Yourself Roundtable." A flask of our ceremonial Veuve Clicquot Ponsardin will soon be cooling the throat of our newest gallant cavalier. (I wouldn't be surprised if this guy traded it in for a different brand.) We welcome him to the Table with a toast. "Happy Presidents Day, Sir Groupie."

Dear Don:

Like everyone I love your service. On the whole, your service has just the right type of tools packaged in just the right way. Also, I have enjoyed and learned a lot from you and the rest of the Knights. In the spirit of sharing, like everyone else so generously has, I would like to add to the general stock of knowledge.

EasyScan is a great tool that can quickly filter through a lot of companies to find a few great ones (or more correctly those few companies ready to make a great move). But in my selection process I like to add to one additional step that, regardless of your scan, helps put you in the right stock. I also double check each stock to make sure that it's in a strong group. There is nothing worse than to have one good apple spoiled by a rotten bunch.

Once a week I use the RSMA to find the strongest groups in the market. For example, it took me less than 2 minutes to determine that 4 groups out of the 88 Worden groups have a 21 period RSMA above the 55 period RSMA (using the NDX--X). It took me another 2 minutes to find that 22 groups out of the 88 are outperforming the SP-500. It's easy to see which groups are starting to get stronger and which groups are starting to break down. I only wish you had an index for the more detailed group WatchList under your Worden groups.

Let me share with you a recent success, so you can see what I mean. OSIP appeared on my BOP scan last Friday. OSIP is in the Health Service: Medical Laboratories and Research group. Since Worden doesn't have an index for this group I quickly scanned the detailed watch list below the Worden Group section and found that 26 of the 31 stocks in this group had a 21-period RSMA above the 55-period RSMA (using the SP-500). That's a pretty strong group. I bought OSIP on Monday at 14 1/4 and it closed today at 23 3/4. Of course, not all my trades perform so spectacularly but the group analysis has increased the hit rate. Thanks again for your great work.

Sincerely, Dave

A Confession

We would like nothing better than to see the Dow slice through 10,000 and glide down into the low 9000s. The 10,000 level has been a psychological juggernaut ever since the Dow approached it going up. It has beckoned as a sign of failure and dread ever since. A violation would shake up the street like a hundred jackhammers. Which is just what is needed. This would sober up some of the grinning faces on Main Street as well as Wall Street and perhaps restore the atmosphere of sanity that Alan G. is looking for. Once done, the market will be in a position to build for the next bull move. A bear market of the type we are rooting for is normal and healthy – and wards off some terrible heeby jeebies later.

But it is a split market, and we have some favorites for you to check out. LPWR, OSIS, MDCC, GIGI, FEI, OAKT.

The Worden Report

(Wednesday, February 23, 2000)

Ticker-Tape Parade in the Piedmont

Here in the Piedmont we are having a ticker-tape parade made up of little emails fluttering through the windows of Worden Brothers, Inc. They all say the same thing. When are we going to get a scan for RSMA?

A word of advice. Never make appointments when you are traveling by boat. You never know when you will get there. And don't ever expect a computer programmer worth his salt to meet a deadline. Some things in this world are even less predictable than the stock market.

Our programming department has priorities and there are some incredible innovations nearing completion. Then why not hire more programmers? We did, and the programming department still has priorities. There is no permanent cure for priorities. When the next version-update CD comes out in June, we believe there will be a way to devise a scan for RSMA.

In the meantime, lasses and lads, why not use a little ingenuity? A few minutes ago I sorted a list of all stocks carrying Worden Notes. I took a stock parameter: "Price Growth Rate – 1 Year." I listed them in descending order, with the highest price performers at the top. Did I get what I was looking for? Yes, how could I miss? The stocks that went up the most are the stocks with the highest Relative Strength. It's as simple as that.

I took a few minutes to look at charts of the top 25, 24 of which were in the 99th percentile of advancers. The last one was in the lowly 98th percentile. Among these 25 market pacers, I found 16 in which the 10-Day RSMA had held continually above the 40-Day for all of this year so far. – using COMPQX as the RS basis. That's a pretty strict standard. I found two downside crossovers, rendering exit signals. These were ADAP and MCOM. I found two that I thought looked like good buys in their current positions and wrote Worden Notes on them. These were JDSU and XICO.

In total, I'd say the whole process took me less than half an hour. All I looked at were 25 charts. Now that's not bad for finding two buys that I wasn't even looking for.

Using RSMA strictly as an exit strategy, what good is a scan? Surely, checking the charts of those few stocks you hold for negative crossovers isn't backbreaking work. When we do get a scan able to find RSMA crossovers, I can promise you I won't bother to use it. That doesn't mean we won't make it available when we can.

Imperfection and Prosperity

I would like to thank you for you informative daily notes and how you encourage us to think for ourselves. But...,why can't the note box be expanded to fit the whole screen. I am a fast reader, and I nearly have to scroll continuously, and of course then I get dizzy and must go lie down.

And today's examples seem to suggest using the RSMA's as an entry signal as well, or am I just unenlightened as of yet.

And I am confused about your suggestions about entering Vitesse and Sun, Vitesse has a lot of red BOP and Sun's BOP is mostly yellow. I see Money Stream is bullish in both, and OBV in Sun, but what else? Is Money Stream alone enough?

I realize you probably don't have enough time to answer all of the emails you receive, but I would appreciate it if you can answer, if not, c'est la vie.—Gary

P.S. In spite of my seeming ignorance, I have managed to make a return of about 50% since October. Thanks and continue with the great product at a great price.

I selected your email for publication, Gary, because of your question about BOP. "Is MoneyStream alone enough?" The answer is that we are lucky when everything is perfect. BOP can tip us off to big money accumulation, and that's fine. But the absence of concerted, big-money accumulation doesn't mean a stock can't go up. In both of these cases, MoneyStream was already at a new high. SUNW had shown the ability in the past to move exceedingly well without the help of BOP. Remember, we are always assessing a stock's personality. SUNW is a momentum stock starting up again. RSMA-COMPQX has turned strong, which helps. And as you point out, TSV is strong. We can do without BOP. In the case of VTSS, we have a stock showing a marked change of character for the better. I always pay attention to important character changes. Along with strong MoneyStream there is an auspicious crossover in RSMA-COMPQX. But hey, this is a speculation and some of this is gut feel. In both cases I cautioned using loss-cut points.

You seem a good-humored fellow. We don't want to use up the whole page for Notes, because then you wouldn't be able to see the charts. For your dizziness, I suggest trying to read a bit more slowly. It may take some practice. Try closing one eye, or reading in a mirror with your back to the screen. Best regards, -DW

Happiness Is Any Morsel of Compassion from Alan

Alan seemed to please the market today. The Dow posted a big-number gain, but in the context of a chart, it is still deep in the woods with an empty canteen. But it could rally further. The Nasdaq looks as if it is going to spring once again into new high ground. There is noshortage of strong stocks on an individual basis.

The Worden Report

(Thursday, February 24, 2000)

Our Golden Wisdom Award Goes to "The Pessimist"

Yes, we have a new award. It's for thoughtful Users who don't brandish the lances and spears of Knighthood but who demonstrate an unusual degree of wisdom. Hopefully some of this will rub off on all of us. The GW award includes, of course, the coveted bottle of Veuve Clicquot Ponsardin. Golden Wisdom recipients are regarded as the equals of Knights in every way.

As a Statistician, in the market since the mid-sixties, I would like to comment on the letters you disclose in your Reports.

To writer "TF" all I can say is not to get stressed out by what appears to be incompatibility or incomparability between Dow and Nasdaq stocks. Just remember that Nasdaq stocks can wake up one morning as Dow Stocks.

For Sir Devil and those you recently knighted into your Round Table, I have admiration and envy. I admire their dedication to research, to the study of minute details of equations, oscillators, indicators and moving averages, and their creativity in striving for new ways to profits. I envy their optimism in believing that everything will come out right. Don't they know that as soon as someone discovers the key to trading success...the Fates will change the locks?

You guessed it. I am a pessimist. I do not trust airplanes, but as a frequent flyer, for the lack of a personal parachute I carry travel insurance. I have used Worden Products for decades, and greatly appreciate all their inputs. To me TC2000 is the "Ultimate" tech tool. But I still do not trust it, nor do I trust my own judgment in using it. As a retired architect I have a natural feel for the Price charts that look profitable, but I do not trust it. But here I can have my personal parachute in the form of an exit system. The RSMA is an added safety measure to my parachute.

The best I can say for technical trading is that you need a general understanding of Price Charts, a general concept of how BOP, MS, TSV, RSMA, MACDs, etc can affect Price Charts. Believe that many (often most) of the trades reverse on you, and for that have your exit system ready from entry point until you cut your small losses or cash in your large profits.

I have not amassed millions trading "a la TC2000". But no complaints: It paid for my kids' colleges and Graduate Schools, provided my wife and I with room and board for years and a retirement fund to cope with the millennium. At 75 yrs, I also believe that the constant use of TC2000 nourishes the brain's neurons and keeps Alzheimers away! -M.Y.

Loyal Squire

A USER SUGGESTS:

Why not make a scan on price with the 10-day MA crossing over the 40-day MA -- say 5 days ago (or as many days ago as one likes)? Then see if the RS moving average crosses, within those 5 days, and bingo. If it doesn't, go to another stock. Some of them do, some don't. Here's the scan:

(AVGC10.6 < AVGC40.6 AND AVGC10.5 > AVGC40.5)

Simple? Maybe... Whaddaya think? Regards, Alan

A good practical idea, Alan. Not quite worthy of Knighthood, but you are certainly a worthy Squire. I'm sure many Users will find your scan useful.—DW

Something to Keep an Eye On

A small positive TSV divergence is forming in the Dow Jones Industrial Average. This suggests we are close to a rally of some kind. It doesn't mean we have reached the bottom of the Intermediate-term decline, although every big move starts with a small move, which in turn starts with a smaller move, which in turn starts with little more than a subtle change of expression. The best assumption is that the final bottom has not been reached, but there is no reason to be caught short in a hefty bounce. The Nasdaq continues to forge its way through the stratosphere, but we find the Russell 2000 (RUT-X) the most impressive index. The secondary market is truly on fire.

The Worden Report
(Friday, February 25, 2000)

We Dub Thee – Sir FX

Sir FX earned his Knighthood quite differently than any of the other Knights. He didn't describe any systems, his investment philosophy, the magnitude of the profits garnered, or what he did with the money. It's possible he's a street person. He just wrote us a terse note explaining an original idea. Let me say that over the years I have been sent thousands of ideas. Only once, before this, did I encounter a truly original and valuable idea for a technical tool. The innovator of that tool was David Bostian, who in short order became one of Wall Street's best known and respected technicians. I am not predicting a future that glorious for this Knight – although who knows? It is not exactly a technical indicator he has come up with. But he has come up with a provocative idea with which a variety of tools can be enhanced.

So impressed were we with this idea that we persuaded the Data Department – which has more than enough on the table – to prepare the special indexes needed on a high priority basis. We owe Martin D a special thanks for dropping everything and making it possible for us to implement this approach. We are declaring Sir FX champion of our latest jousting tournament (frankly, the only one to date). And yes, a bottle of Veuve Clicquot Ponsardin will soon be winging its way to him. Incidentally, a User whom we deem a Squire was good enough to send us the Web address where you can learn more about this noble juice, including picturesque views of the vineyard from whence it comes:

<<http://www.veuve-clicquot.fr/gb/menu.html>>

We hereby offer a toast, welcoming Sir FX to our Roundtable of Knights Who Think for Themselves. Cheers!

Just a comment on RSMA. I would suggest the ultimate comparison would be a fixed rate of return desired by the investor. Instead of a market index, the use of a 20% to 50% straight-line return would be the most advantageous way to use RSMA, because the underlying average would always be known. Trying to beat the average in a bear market would produce negative returns. Trying to beat a 30% return, for example, would always set the bar in the right direction. Of course, Worden would have to generate the percent return data to use as a baseline comparison. The concept of picking a fixed benchmark rather than a moving target has its appeal.—Gil

We have added the following Fixed Return Indexes to the database, covering 20 years: FX10, FX20, FX30, FX40, FX50. The following include 10-years of data: FX60, FX70, FX80, FX90. The following include 5-years of data: FX100, FX125, FX150, FX175, FX-200. The following include 3-years of data: FX250, FX300, FX350, FX400, FX450, FX500.

These are actual symbols for straight-line Rates of Return Indexes. For example, FX10 brings up a compounded Fixed Rate of Return of 10% annually. These Indexes are automatically updated by computer every day. As a matter of fact, they are actually updated intraday. Before I begin discussing how you can use these FX Indexes, I would like you to look at an example. Please bring up a chart of PG and bring up the chart attached to today's Note. (If you are reading this is retrospect, be sure to highlight the Note bearing the same date as this Report.) Don't forget to expand the paperclip chart to full-page size. Don't forget, when you start setting up FX analysis charts for yourself, that you MUST use logarithmic scales.

If you have looked at the PG chart, here is what you found. PG has averaged a 20% rate of ascent for a number of years. This is shown in the upper window where FX20 is used as the comparison symbol. This, we believe, is the way to begin tinkering with these new FX indexes. Use them as comparison symbols. You will have to try a number of symbols (each symbol representing a rate of return) until you find the one that fits the chart you are working with.

Which brings to mind that it looks as if this approach will be most useful for longer-term investing. Which is good. Because technical analysis doesn't offer as much to the longer-term investor as it does to the shorter-term player.

To start with, ask yourself what is the main thing FX has to offer. This is key to whether you will find it useful in your own program. What FX does is make it convenient for you to set a standard for what you DEMAND from your investments. If 30 percent is what you want, then don't fool around with stocks that historically offer less than that. And don't stay with a stock unless it continues to comply with your basic DEMAND.

You will find that RSMA FX20 recently gave an exit signal in PG. If you had set the standard at 30 percent (FX30) it would have taken you out of your long-term commitment in 1998.

I have set up a number of stocks with Notes and attached charts pertaining to FX. After PG, check KO. It ran at a hotter pace than PG for a number of years (FX30). It couldn't keep it up. The exit signal came in 1998. Check SUNW. It has averaged an incredible compounded 100 percent a year from 1994 to the present. However, based on FX90, RSMA kept you out for a long time. This is one of the tricks we'll have to learn to handle. One thing is the average rate of return. Another thing is a stock's ups and downs along the way. So your RSMA has to be designed to allow for a minimum acceptable rate that is lower than the average rate you are hoping to cash in on. Hey, what's this, a flaw? Of course, what did you expect? I never promised you a rose garden.

I'm new to this too, fellas. So start thinking. We need ideas. Have a nice weekend.—DW

This is What the Market is Supposed to Do

Below the October low and below 10,000. Just what is needed to spread some much-needed fear around— which makes good, smelly fertilizer— and to start setting the stage for the coming important bottom. That doesn't mean the bottom will occur tomorrow. It may be weeks or months, but it will come and when it does, it will be a good one. It is good to see the market acting coherently for a change.

The Worden Report

(Monday, February 28, 2000)

RSMA vs. FXMA

Over the weekend I had some time to tinker with FX. I realized early in the "thinking session" that we needed to get the terminology straight right from the start. Strictly speaking, RSMA and RSFXMA (Relative Strength Fixed Rate Moving Average) would be correct, but six characters are too many. So we'll use FXMA.

The next point I realized is that RSMA and FXMA are entirely different tools. It is important to understand that FXMA is not the next step in an evolution of improving tools. RSMA stands on its own and will probably be the most useful for most Users. The FX series and FXMA are entirely different tools.

To effectively use either RSMA or FXMA, or both, you must have a firm understanding of their respective advantages and disadvantages. Here are some of the observations I came up with over the weekend pertaining to FX and FXMA.

1) The unique advantage of RSMA is that it always has the potential of keeping you in a strong stock longer and taking you out of a weak stock earlier. This is because as a stock rises but begins to fall subtly behind the pace of the referenced index (such as the Dow), the shorter-term RSMA may actually turn down and pierce the longer-term average. Thus, an exit signal is rendered while the stock is actually still rising. Conversely, if a stock corrects in sympathy with a correction in the referenced index, the RSMA lines may hold steady or at least give ground grudgingly, thereby keeping you in. Which is to say, the RSMA concept is more forgiving during a correction, taking into account that it is normal for a stock to be dragged down somewhat during overall market weakness. These phenomena are the sole advantage RSMA offers over Price MA and over FXMA.

2) The disadvantage of FXMA is lack of flexibility. FXMA is referenced against a fixed target. Therefore, whether a stock is relatively strong or weak, when the price goes down the FXMA will find no cushion to help it stave off a crossing of the lines. The FX line used as a reference never "corrects." Which is to say it won't back off even a little. It climbs at the indicated pace relentlessly. Neither does FX offer an advantage in getting out earlier. Why then, would we bother with FX? To understand, you must understand the comparative disadvantage of RSMA.

3) The disadvantage of RSMA is that it may become TOO forgiving during overall market declines. After all, you are in there to make a profit. If your stock is in a nosedive and money is running down a rat hole, it is little consolation that your stock is displaying excellent Relative Strength "under the circumstances." Since most stocks are more volatile than the chosen RS reference, in actual practice, I believe this will seldom be a drawback of great consequence.

4) The advantage of FXMA is that it gives no quarter. You get the return you set up to get or you grab your money and hide out in the hills until things calm down.

In practice, here are some of the characteristics I encountered and some of the ideas I tinkered with.

1) FXMA is more demanding to work with. It can be difficult to determine what rate of return to use in an FXMA. If you are looking for an average return of 30 percent, you may have to set the minimum acceptable return at something like 15 percent. That is, you may have to use FX15 as your FXMA reference. Otherwise you will get an exit signal anytime the attained rate drops below 30% -- even though the weakness may be temporary.

2) FXMA is more apt to have whipsaw periods where the short-term line is repeatedly jumping above and below the senior line.

3) FXMA is more suited for long-term orientation, but it can be more useful for short-term stuff than I was expecting.

4) I found using RSMA and FXMA together as exit signals quite promising. I put each in a separate window. For an exit signal my rule was that both must render a signal. (No time limit on how far apart the signals can be.) Otherwise you stay in.

5) I use longer-term MAs when working with RSMAs and FXMAs together. There is no right or wrong in regard to such parameters.

6) There are some interesting possibilities of combining shorter-term RSMAs with longer-term FXMAs, but I have come up with few rules. However, here's one I like a lot. I set a hot long-term pace (something like 300 percent) in one of the windows. I sort a WatchList (could be all stocks in the system) Price Growth Rate. (You can experiment with 1yr, 2yr or 3yr – I used 1 year.) Look at charts of the top ones – the top 25 or 50 or something like that. This is not many charts to look at even for a poor chart reader, because all you are looking for is to see whether your short-term FXMA line is above the senior line. Remember, you set it to a hot 300%. So very quickly, you're going to have some stocks that are flying. Now as to a rule. You can restrict your buys only to the stocks that survive this test. These buys may be on earnings, on BOP, on the position of the stars. Whatever you use. But you don't buy anything that isn't flying at 300 percent or more.

Here is a summary of the Fixed Return Indexes. We left a couple out on Friday. Covering 20 years: FX5, FX10, FX15 FX20, FX25, FX30, FX40, FX50. The following include 10-years of data: FX60, FX70, FX80, FX90. The following include 5-years of data: FX100, FX125, FX150, FX175, FX-200. The following include 3-years of data: FX250, FX300, FX350, FX400, FX450, FX500.

The Positive TSV Divergence Sprung the Dow

On Thursday we said, "A small positive TSV divergence is forming in the Dow Jones Industrial Average. This suggests we are close to a rally of some kind. It doesn't mean we have reached the bottom of the Intermediate-term decline, although every big move starts with a small move, which in turn starts with a smaller move, which in turn starts with little more than a subtle change of expression. The best assumption is that the final bottom has not been reached, but there is no reason to be caught short in a hefty bounce." We see no reason to change that opinion for the moment.

The Worden Report
(Wednesday, March 1, 2000)

Misery Loves Company

Dear Worden Brothers,

I am still a neophyte trying to make sense from all the notes, guest inputs and my own divergent thinking. (Incidentally, some of the guest input sounds as though I am attending an Amway convention.) I have had fair success in trading utilizing the TC2000. However I have two stocks which I cannot figure out whether to drop or hold for the long term.

First "ODP" which I bought (only 2000 shares @$10) after your 1/7/00 note, but mainly on my own observation. If you look at the BOP it reflects moderate strength, however the RSMA doesn't provide me with any clues which way I should turn.

Secondly "VDNX", a stock I bought at $1 about 6 months ago (5000shares) and it has risen, despite the BOP being ultra weak, yet once again I don't know enough RSMA to either "freeze or run". Cashing in on a 100% return is not bad, but I turned loose on other stocks such as CSCO, MOT, SPYG, HWP and CIEN too soon. Not that I lost money, but I lost out on a lot of money in the process. I realize that you may not cover this type of stock, since it is highly speculative and below the magic $5 number, but I bought it because I am using their video editor and the company seemingly has turned the corner from "analog" to "digital".

Let me know what the lessons are.

Sincerely, PG

I chose your email for a number of reasons. First, it's not the kind of letter that we can ordinarily answer in detail. There aren't enough hours in the day to provide custom one-to-one advice on individual stocks. The tech-support people aren't trained to offer investment advice and it isn't included in the service we sell. It comes down to PW and me. Like anybody, we only do what we do. Although it could well be profitable, we don't take in laundry. We definitely don't do windows. We don't manage portfolios or provide individual guidance.

However, in a sense you "got lucky." Your letter was selected for publication. Since the purpose of my answer is to be helpful to many Users, instead of just you, I can justify the necessary time to look at the stocks that seem to be baffling you and attempt to be helpful.

Your email arrived on February 20, so we have to look at the charts with that in mind. Let's look at

ODP. The last Note I wrote, on Jan 7, said a broad base had formed, that we had a good TSV divergence and that it was worth watching. You then bought 2000 shares at 10. The base continued to build for another month or so and then ODP broke smartly to the upside, increasing more than 40 percent in the first half of February. You are now concerned that RSMA isn't feeding you clues as to which way to turn.

My question to you is, "Why do you think RSMA should be providing clues to the future?" I don't know what index you are using as an RS basis, but I assume it is not COMPQX, which is too hot an index for a stock like ODP. Something like DJ-30, SP-500 or MID--X would be appropriate. Assuming you are using one of these, RSMA has not given an exit signal. That's all it's for. It will tell you when to sell. In the meantime, no matter how lonesome you get to feel, no matter how great your urge for conversation, it will tell you nothing whatsoever. In the meantime you have a nice profit running, no reason to think it's all going to fall apart and you're acting like a nervous Nellie.

Going on to VDNX, it's deja vu all over again. You've doubled your money in about a month and now you're mad that RSMA isn't telling you whether to "freeze or run." If you are using RSMA, you should be able to see that it hasn't given an exit signal. You seem to comprehend that a 100 percent profit "isn't bad," but your ability to enjoy this thought is apparently savaged by the fact you failed to make killings in several other stocks and had to settle for middling profits.

I wish I could be helpful, but I don't think I can be. You are tormenting yourself and I realize you can't help this. You are obviously an intelligent person. But if you keep losing control when you are holding stocks, my suggestion would be to give it up and buy mutual funds. Life is too short for what you're putting yourself through. Further, you are not in any condition to make rational decisions. You are not always going to be as "lucky" as you are right now. There will be times when you'll find yourself in really difficult situations, when you're not ahead but behind. In your present frame of mind, you wouldn't be able to handle that.

It's clear from the emails I receive, electronic bushel baskets of them, that you are far from alone in what seems to me your psychological paralysis. I hope your plight offers a bit of solace to somebody else. Because misery loves company. Best regards, DW

Tech Stocks Continue to Score

Stocks remain the name of the game. This is a game where the players matter. Not the team. Not the coach. The field is packed with individual superstars.

The Worden Report
(Thursday, March 2, 2000)

We Dub Thee – Sir Laptop

We welcome to our Roundtable of Knights Who Think for Themselves this articulate cavalier who wrote a letter to his friends explaining his new-found technique for operating in the market. As you might guess, TC2000 plays a role in his conversion. For his success he has rewarded himself with a new Laptop computer. We in turn are rewarding him with the traditional Veuve Clicquot Ponsardin, well known as an elixir guarding against senility and treasured by all true knights far and wide. Let us all shout the ritualistic cry of welcome: "Cheers to thee – Sir Laptop."

Wordens, I am so impressed with all the new things I am learning from your software, notes and tips and knights, that I wrote the following to several friends: (The examples of SUNW and JDSU were for RSMA FX100, rather than FX500, which I have just started using.)

Dear Friends,

I want tell you about an investment experiment I did that boggles my (already boggled) mind. Please treat this as a weather report rather than a recommendation. Four weeks ago on Friday, Jan 28, I sold everything in one of my stock accounts (Brown & Co with $5 trades), and bought 8 stocks in the $5 - $13 price range for companies that traded several hundred thousand shares a day, had great chart patterns, and none of which I had ever heard of. After 4 weeks (19 trading days) I still own the 8 original stocks (I just put in an order to sell one at market open tomorrow) and added one $152 stock on margin, and the account is up 39.3%.

I always believed in buy-and-hold investing and was suspicious (ignorant) about using charts for buy and sell decisions. But the user e-mails posted daily on my Worden Brothers TC2000 downloads convinced me that some reasonable people were making good money with that software. In the past four weeks, new (even to the Worden Bros.) and exciting ideas about using the program's many charting calculations have been sent in and posted. I suppose it's the open spirit of the Internet at work. The program downloads price and volume data for 9,000 stocks as many times a day as one chooses, and offers a wide assortment of charting and screening options that one may select from. The Wordens bestow "knighthood" on those users whose e-mails demonstrate independent, think-for-yourself techniques for buy/sell decisions. It takes a while to get a feel for what's useful and what's not, but I now believe I have a real handle on charting strategies *that are much safer and more productive than either fundamental analysis or luck.*

As an example of one trading scheme: include on the log price chart for a real stock, a line showing the daily price of a model increasing at a fixed rate of 500%/year, and a linear regression line for the short term performance of the real stock. I select stocks where the slope of the regression line is greater than that of the model, meaning the stock is growing faster than 500%/year. Then I divide the stock prices by the model prices and take short (10 day) and long (40 day) moving averages of this ratio. I buy stocks where the 10-day is well above the 40 day, and sell when the 10-day crosses below the 40 day (meaning the price is no longer increasing by at least 500%/year).

I play with the time frame of the regression line and the moving averages, and the desired growth rate. Shorter time frames and higher growth rates trigger more trades, shorter runs and smaller drops in price. Longer time frames and lower growth rates give fewer trades, longer runs, and more delayed sell signals. For added safety, I can pick from stocks that have real earnings and a good reputation as leaders (such as the Fools rule breakers). It's amazing how many stocks are growing at greater than 500%/year over a period of several months. Sun Microsystems has been doing it since August and JDS Uniphase since 1998 without a sell signal. Right now the small cap biotech stocks are hot, but there are good charts in many groups. There are many other indicators on hand with TC2000 that I look at when deciding to buy. By symmetry, the system should work just as well with short sells, though I have yet to try.

True, the last week of the 4 week experiment accounted for only 1.8% of the 39.3% increase, and true that in these same 4 weeks some bio tech mutual funds have made more (Dresdner RCM: Biotech is up 44.9%), and true, 4 weeks is not much of a sample on which to bet the farm, but if this appeals to any of you with the time and inclination to try it, TC2000 costs about $300/year. It is a tool and not an advisory service. Daily tips and notes about specific charts are educational rather than advisory, and aimed at helping users learn to manipulate the charts & develop their own systems based on their available time, tastes, sleep patterns, etc. At $5/market order, commissions are negligible, and the tax penalty going from long-term capitol gains (20%) to short term capitol gains (28%)is only 11% of the gain. Of course, past results are NO GUARANTEE OF FUTURE PERFORMANCE.

For me, now that I have this portfolio to watch daily, I have ordered a portable (small cost compared to my 4 week gain) with the intention of taking it with me to Florida next month for daily downloads and buy/sell decisions. The Motley Fools have gotten short shrift from me since I went off on this new kick, but I am sure having fun with these charts and maybe even slowing the onset of senility.—MB

I have nothing to add except one note of caution. A number of you have written about using the linear regression lines in conjunction with FX lines (though none with the knightly detail offered by Sir Laptop). We liked the idea but have been hesitant to introduce it for fear that it could be misinterpreted as follows: When you place an FX line in the price window along with a regression line based on price, you are actually placing two separate identities there. That is, they are not intertwined. On the other hand, they share a common scale, so to speak. The danger is this. If the lines happen to cross, and they often do, it means nothing. NOTHING! This is pure coincidence stemming from where they happen to be placed. It is not some kind of a Signal (though, by sheer coincidence, it appears to work just often enough to attract impressionable and impulsive zealots). Here is what to look for. Which line is ascending the fastest (or descending the fastest)? This is very easy to eyeball. But it is only the direction and steepness of the slope that matters. To repeat: It is irrelevant whether the lines happen to cross.

In some of my Notes today, I show examples of using linear regression lines along with FX lines in the price windows. Check the indicator summaries on the paperclip charts for details.—DW

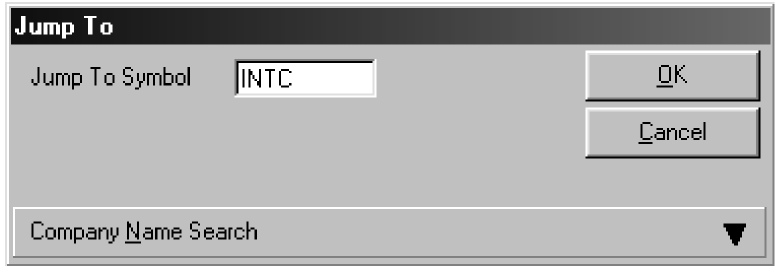
The Dow Should Work Higher Short-Term

We think the Dow rally has further to go. However, whether it is in the process of building a base before reverting to the major uptrend, or whether further lows lie ahead, the Dow will have to pull back before it gets beyond, say, 10,500. Some charts we found interesting today are T, MFNX, Q, ERICY.

Example #1: Intel, Corp. (INTC)

Copying an Indicator Tab with **Price Moving Averages**, **RSMA-DJ30**, & **RSMA-COMPQX** to **Tab #11.**

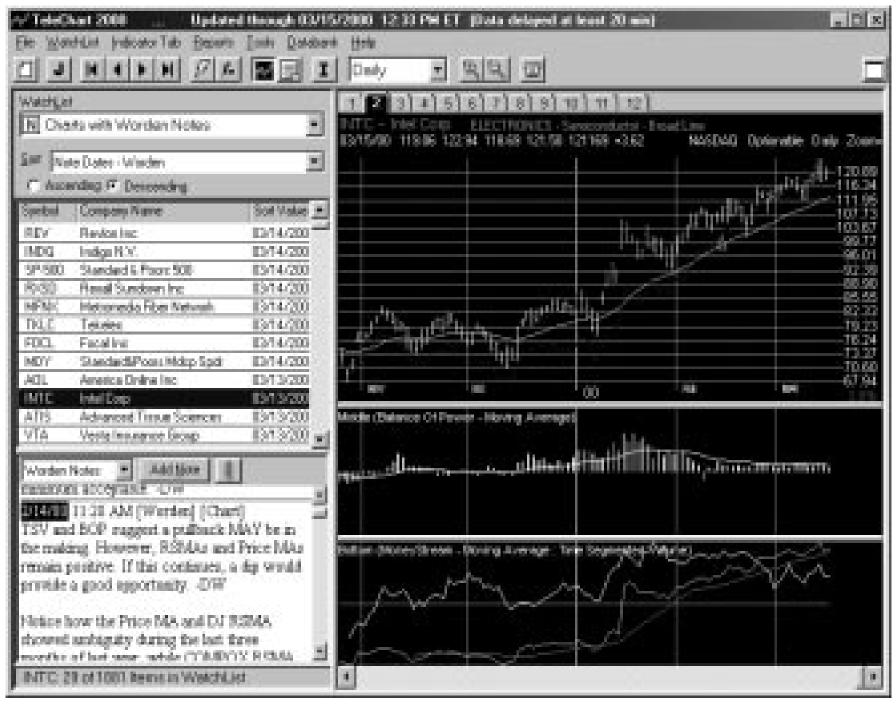
1) Jump to Intel, Corp., by pressing the letter **J** on your keyboard. Type in **INTC**, then press **OK**.



2) Click on the Worden Note from 2/14/2000 where Don Worden says "TSV and BOP suggest a pullback MAY be in the making. However, RSMAs and Price MAs remain positive. If this continues, a dip would provide a good opportunity."

3) Now click the **View Attached Chart** button just above the note... it's the button with the paperclip icon.

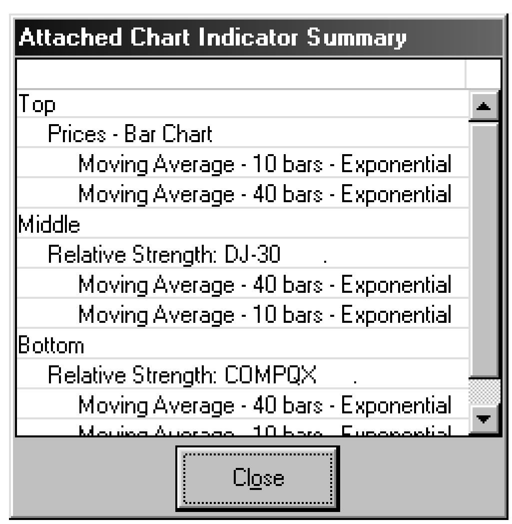
4) You're now looking at the exact chart Don was looking at when he wrote the note.

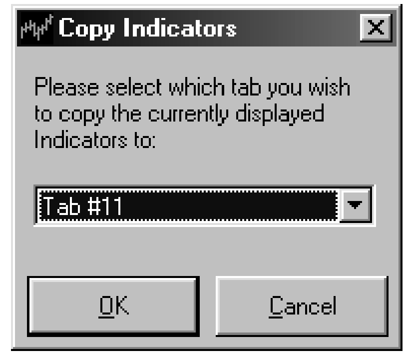


5) Click the **Indicator Summary** button at the bottom and you can see the exact indicators and parameters he's using on the chart. In the Top window with Price he has 10 and 40 bar exponential moving averages of Price. In the Middle window he has 10 and 40 bar RSMAs of the Dow Industrials (DJ-30). And in the Bottom window you see 10 and 40 bar RSMAs of the Nasdaq Composite Index (COMPQX).

6) These are the chart settings Don was using in his analysis that led to the comment in the note. If you want to apply this same analysis to your own charts, you can copy the indicator settings from the attached chart to one of your own indicator tabs.

7) Close the Indicator Summary window by clicking the **Close** button.





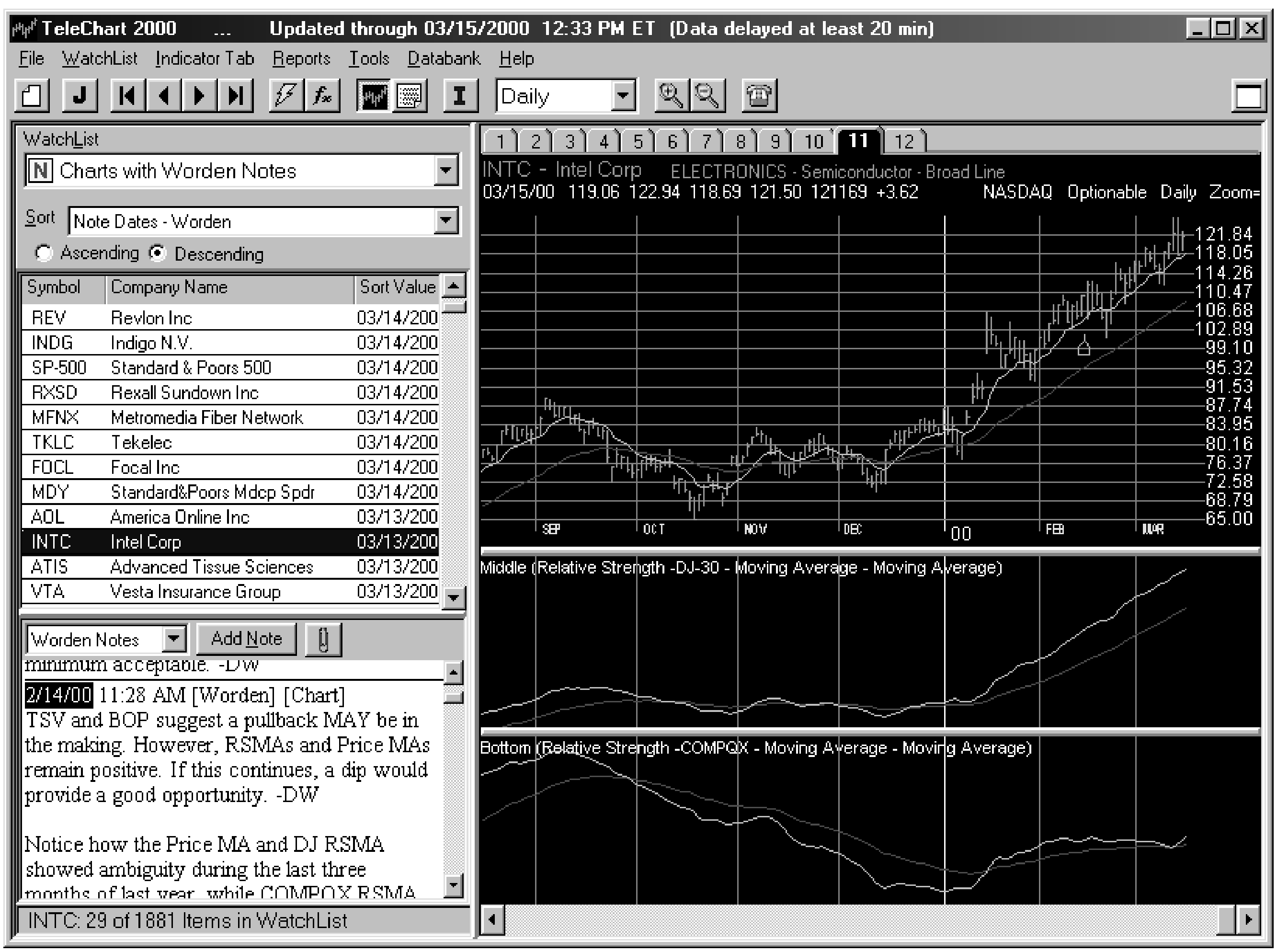
8) Click the **Copy to Tab** button at the bottom of the attached chart and you'll be asked which tab you'd like the indicator settings copied to. For our example here, let's select Tab #11. Click the pulldown list, scroll down to **Tab #11** and click to select it. Now click **OK**.

9) Anytime you copy indicators from an attached chart you'll see a cautionary note that you are about to overwrite any chart settings currently attached to the tab. Click **OK** to continue.

Tip: When TC2000 is installed for the first time, indicator tabs 1 through 10 already have indicators attached to them as examples of the indicators available in the program. Tabs 11 and 12 have been intentionally left blank. Unless you need 12 different configurations for your analysis, you may want to keep one or both of these tabs as experimentation tabs. This way, you can tinker with settings or copy them from other tabs without worrying about overwriting indicator setups that are working for you.

10) Now click OK to close the Attached Chart window.

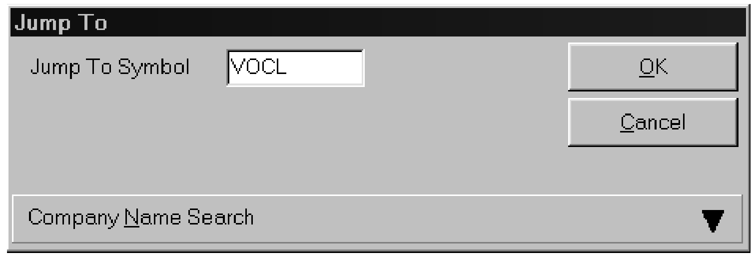
11) Let's take a look at our work by pressing function key 11 (**F11**) on your keyboard. We now have the same settings Don Worden used for his analysis saved to our Indicator Tab #11... in just a couple of mouse clicks instead of entering each indicator and its parameters one at a time.



Example #2: Vocaltec Communications (VOCL)

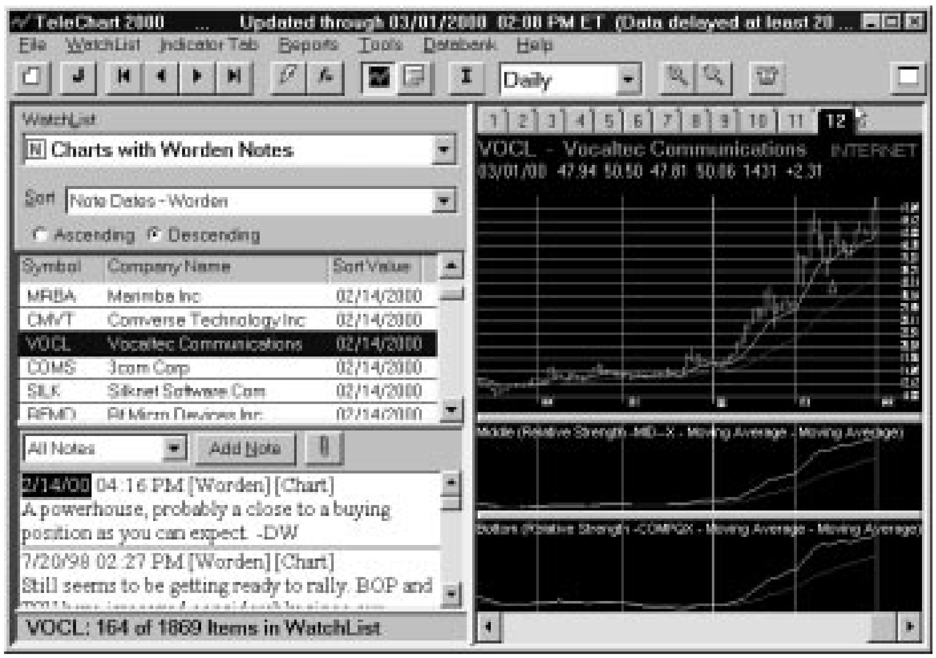
Copying an Indicator Tab with **Price Moving Averages**, **RSMA-MID-X**, & **RSMA-COMPQX** to **Tab #12.**

1) Jump to Vocaltec Communications by pressing the letter **J** on your keyboard, typing in **VOCL**, then pressing **OK**.



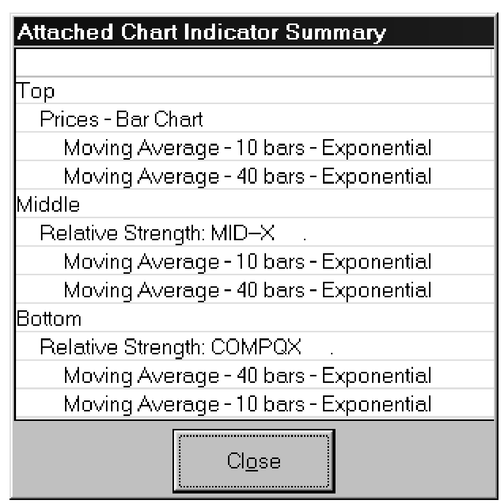
2) Click on the Worden Note from 2/14/2000 where Don Worden says that "A powerhouse, probably as close to a buying position as you can expect."

3) Now click the **View Attached Chart** button just above the note (the button with the paperclip icon).



4) You're now looking at the exact chart Don was looking at when he wrote the note.

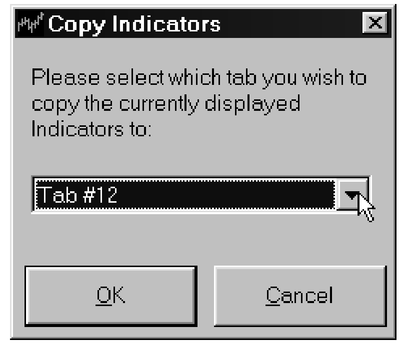
5) Click the **Indicator Summary** button at the bottom and you can see the exact indicators and parameters he's using on the chart. In the Top window with Price he has 10 and 40 bar exponential moving averages of Price. In the Middle window he has 10 and 40 bar RSMAs of the S&P Midcap 400 Index (MID-X). And in the Bottom window you see 10 and 40 bar RSMAs of the Nasdaq Composite Index (COMPQX).



6) These are the chart settings Don was using in his analysis that led to the comment in the note. If you want to apply this same analysis to your own charts, you can copy the indicator settings from the attached chart to one of your own indicator tabs.

7) Close the Indicator Summary window by clicking **Close**.

8) Click the **Copy to Tab** button at the bottom of the attached chart and you'll be asked which tab you'd like the indicator settings copied to. For our example here, let's select Tab #12. Click the pulldown list, scroll down to **Tab #12** and click to select it. Now click **OK**.



9) Anytime you copy indicators from an attached chart you'll see a cautionary note that you are about to overwrite any chart settings currently attached to the tab. Click **OK** to continue.

Tip: Remember, when TC2000 is installed for the first time, indicator tabs 1 through 10 already have indicators attached to them as examples of the indicators available in the program. Tabs 11 and 12 have been intentionally left blank. Unless you need 12 different configurations for your analysis, it may be a good idea to keep one or both of these tabs as experimentation tabs. This way, you can tinker with settings or copy them from other tabs without worrying about overwriting indicator setups that are working for you.

10) Now click **OK** to close the Attached Chart window.

11) Let's take a look at our work by pressing function key 12 (**F12**) on your keyboard. We now have the same settings Don was using for his analysis saved to our Indicator Tab #12. Now that you've practiced a couple times, you can use this shortcut over and over... to borrow indicator settings from any Worden Note with an attached chart.