



The financial landscape has been changed forever by the widespread acceptance of the Internet. Understanding the driving principles for this new economy of the twenty-first century is a must. The invention and subsequent development of the Internet has brought new companies to trade, extended trading hours, introduced trading online, and made worldwide information instantly available. The one thing that hasn't changed is supply and demand. The same concepts that have affected the prices of produce in the supermarket for decades, affect the change of stock prices on Wall Street.

Tom will help you develop a game plan for understanding the imbalances between supply and demand in stock prices. Tom will discuss market risk, sector rotation, and individual stock selection, all using Point & Figure methodology. His straightforward, enthusiastic, and always entertaining presentation will leave you with strategies for successfully managing risk in the stock market for the twenty-first century.

Tom Dorsey is President and co-founder of Dorsey, Wright & Associates (DWA), an independent, privately owned registered investment advisory firm. DWA provides professional management of equity portfolios for investors and investment research services for numerous broker-dealers and large institutions around the world. DWA was founded with the express purpose of providing quality equity analysis and options strategy to member firms and institutions.

Tom has a degree in business administration and one in economics, both from Virginia Commonwealth University. He frequently hosts technical analysis seminars and gives speeches around the world, and holds the Distinguished Speaker Award from the Wharton School of Finance Securities Industry Association. His published works include two books: *Point & Figure Charting: The Essential Applications for Forecasting and Tracking Prices* (John Wiley & Sons) and *Thriving as a Stockbroker in the 21st Century* (Bloomberg Press), as well as articles for *The Wall Street Journal*, *Barrons*, *Fortune*, *Bloomberg Personal*, *Futures*, and *Stocks & Commodities*. A regular monthly guest on CNBC's "Taking Stock" and the Bloomberg radio and television stations, he has also appeared on "The Today Show."

A GAME PLAN FOR INVESTING IN THE 21ST CENTURY

Using Point and Figure
Charting to Understand
and Identify Market Supply
/Demand Imbalances

COVERING: STOCKS AND
MONEY MANAGEMENT

DORSEY



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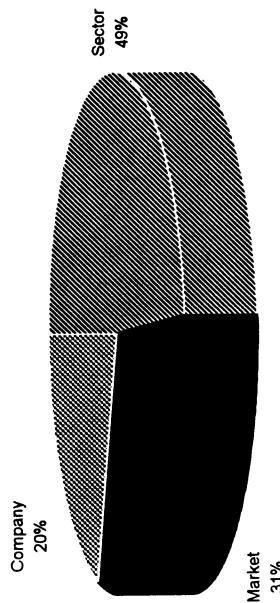
WHY analysts get it WONG



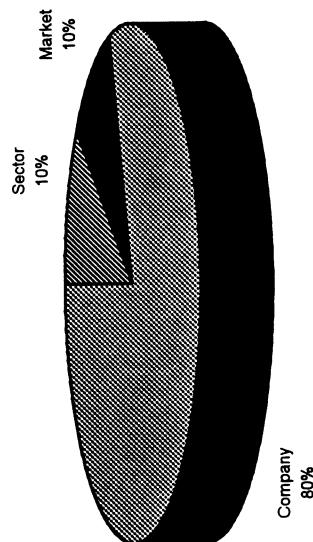
INVESTMENT THEMES

"The New Science of Investing"

Causes of Price Movement



Typical Resource Allocation



Bloomberg Annual Survey

“Think twice before deciding that Wall Street’s stock picks will help you beat the market. Less than a third of the 633 analyst tracked by Bloomberg Business News in its second annual survey of US stock recommendations did better than the S&P 500....”

Steve Einhorn, director of equity research at Goldman Sachs, said “if the market goes down, that’s not their call. Their call is ‘What’s the best stock in my group?’ and in my opinion their advice is good.”

Barron's June 22, 1998

"Street Fighting: One Manager's Strategies For Beating The Pros" An Interview with Peter Siris

Q. How else can a little guy get a leg up?

A. "Well, I used to completely disregard charts because I'm a fundamental investor. But over the years as I look back over the stocks I've owned that have done well -- as well as the mistakes I've made -- I've realized that the charts very often would have shown me great opportunities to buy and sell, if I had looked at them passionately. What's more, when I've ignored what the charts had to tell, I've usually been wrong. As a fundamental investor, I've come to understand that what the charts are saying sometimes is that other people know more than I do about a stock; its movement isn't just a question of momentum. If you look at charts of stocks like an Oxford Health Plans -- or almost any of the others that have catered 50% in a day -- in almost all cases, in the three or four weeks before they got killed, you could see them topping out and starting down. The charts, essentially, are the early-warning systems of what the professionals are doing, telling you the direction in which they're getting ready to make a major move. It's like an army getting ready to turn. Ironically, when an individual sees those patterns developing, he can often move faster than the professional because he has much less money to move around. So one thing I say is, "Never fight the tape." If a stock is getting crushed, I don't want to stand in front of it. I wait to buy until I see a stock bottom and look like it's starting to move up. I wait to sell until I see a stock top out. That's again, something an individual can do, but a professional can't, because the professional has to put much more money to work. The other thing I say is, "Connect the Dots."

FIRST P&F CHARTS

*

60 *

59 59 *

58 58 * 58

What does this

57 57 57 57 57

formation, enclosed

56 56 56 56 56

by the red '*', look like?

55 55 55 55 55

A triangle. You have

54 54 54 54 *

just read your first chart;

53 53 53 53 53 *

it's that easy!

52 52 52 52 52 *

51 51 51 51

50 50

STATISTICAL PROBABILITIES

BULL MARKET RESULTS

Formation	Profitable	Avg. Gain	Time
Double Top	80.3%	38.7%	11.5 months
Triple Top	87.9	28.7	6.8 months
Spread Triple Top	85.7	22.9	7.7 months
Bullish Triangle	71.4	30.9	5.4 months
Bearish Signal Reversed	92.0	23.2	2.5 months
Combinations	79.5	36.0	8.0 months

Average Bull Market Results:

Profitability	Gain	Time
83.7%	29.5%	7.2 months

BEAR MARKET RESULTS

Formation	Profitable	Avg. Gain	Time
Double Bottom	82.1%	22.7%	4.7 months
Triple Bottom	93.5	23.0	3.4 months
Spread Triple Bottom	86.5	24.9	4.6 months
Bearish Triangle	87.5	33.3	2.5 months
Bullish Signal Reversed	88.6	21.9	4.9 months
Combinations	83.3	22.9	3.4 months

Average Bear Market Results:

Profitability	Gain	Time
86.9%	24.89.5%	3.9 months

DOUBLE TOP & DOUBLE BOTTOM

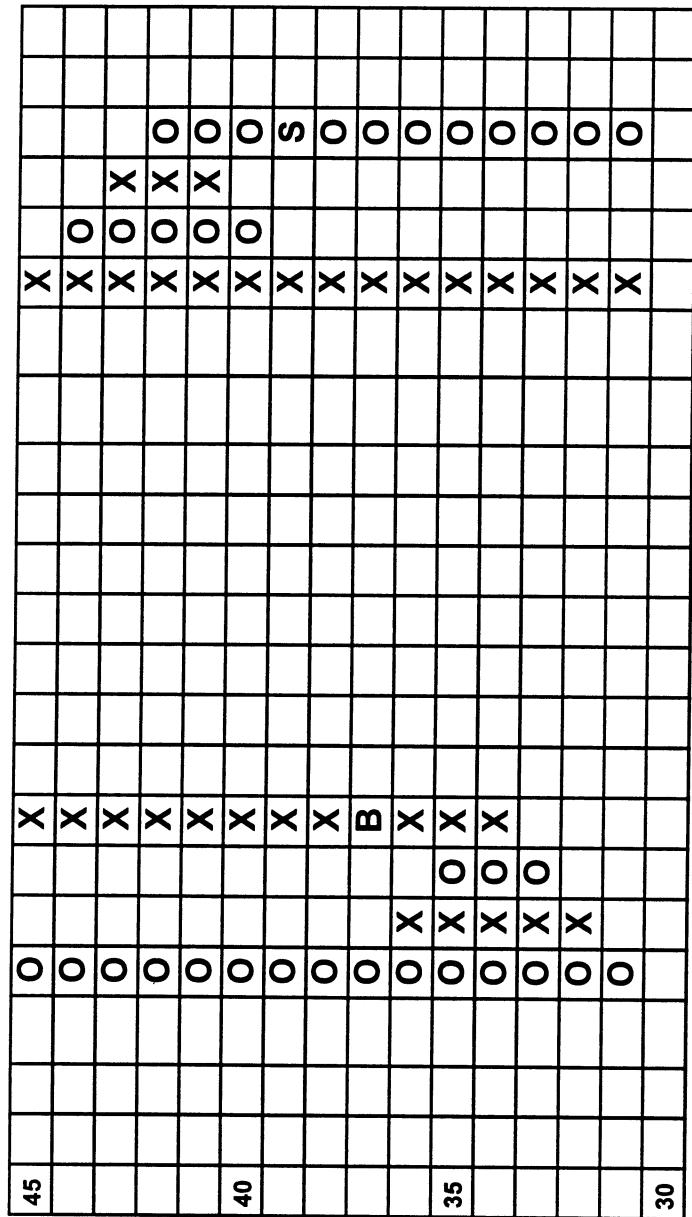
Double Top

An X (up) column exceeds the previous X (up) column. The simplest of all buy signals.

Double Bottom

An O (down) column exceeds the previous O (down) column. The simplest of all sell signals.

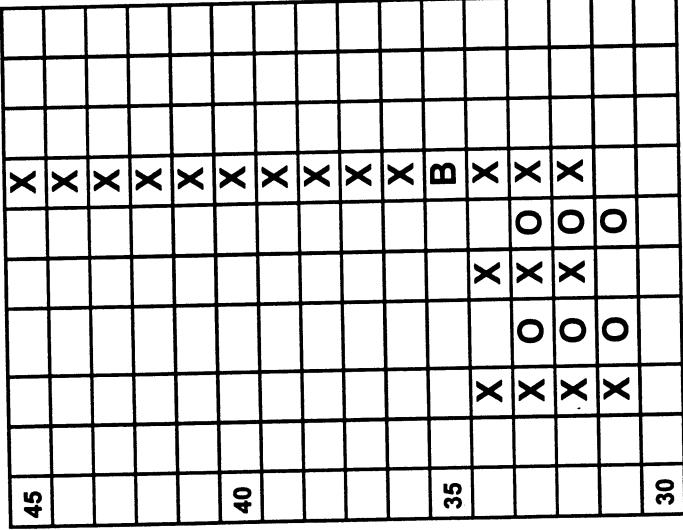
BULLISH & BEARISH SIGNAL



TRIPLE TOP & TRIPLE BOTTOM

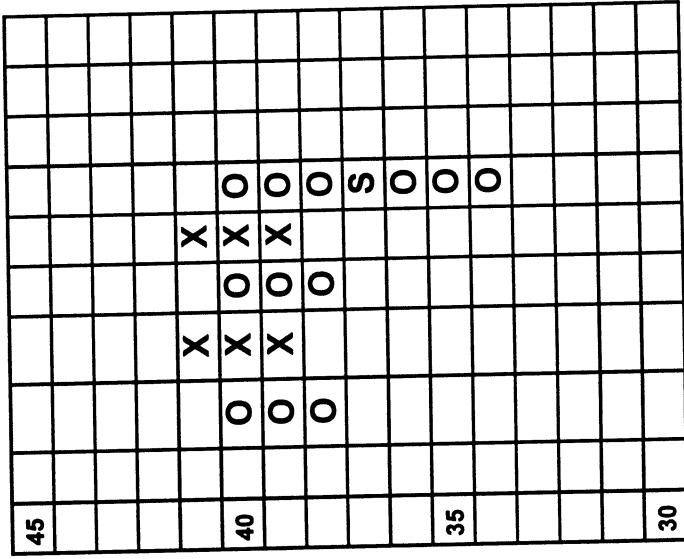
Triple Top

An X column exceeds two previous columns, or levels of resistance.

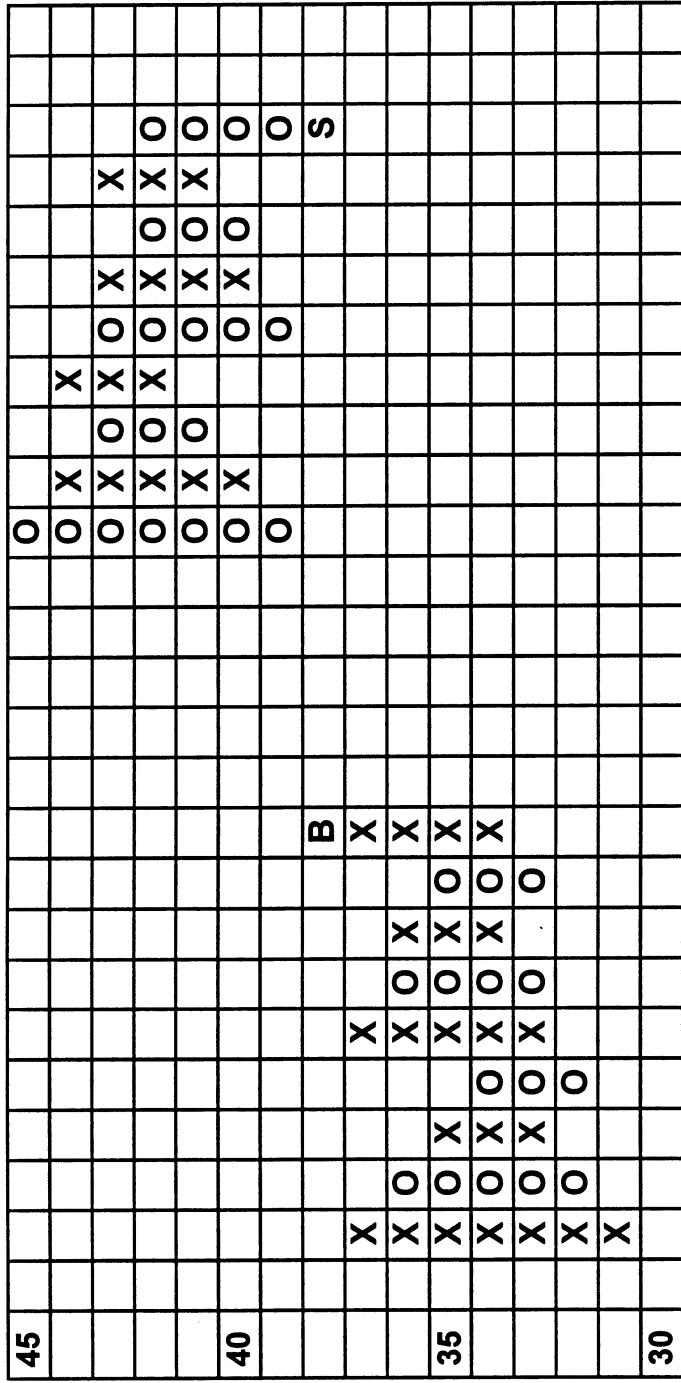


Triple Bottom

An O column exceeds two previous columns, or levels of support.



SPREAD TRIPLE TOP & TRIPLE BOTTOM



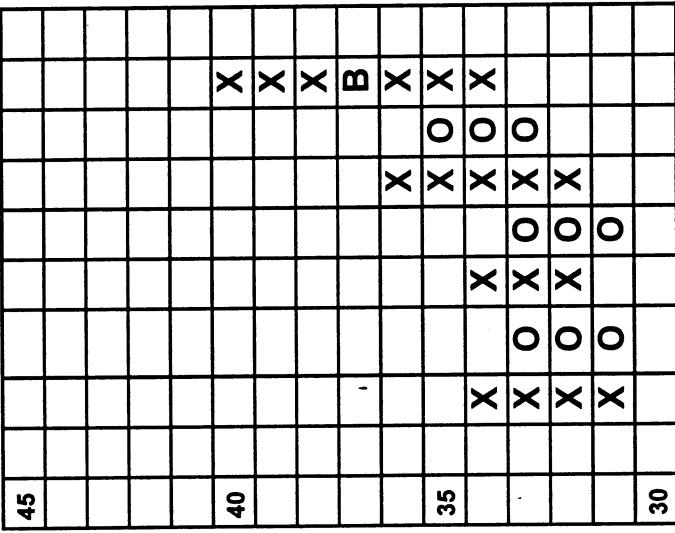
Stock A

Stock B

BULLISH & BEARISH CATAPULT

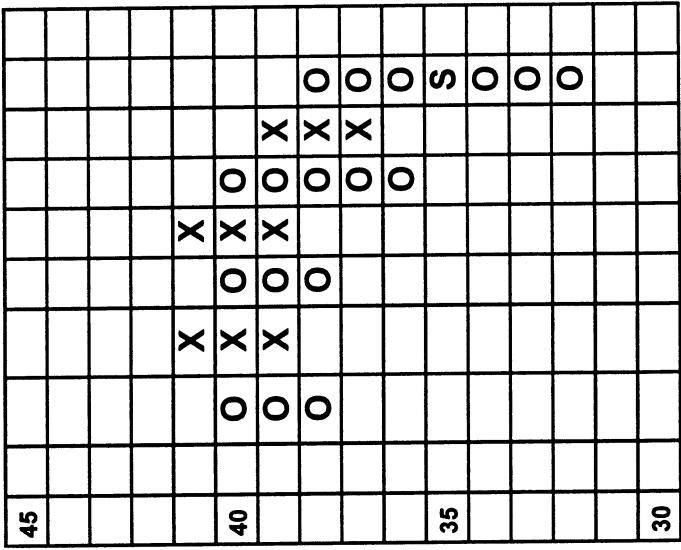
Bullish Catapult

Combination of triple top buy signal
followed by a double top buy signal.



Bearish Catapult

Combination of the triple bottom
sell signal followed by a double bottom
sell signal.

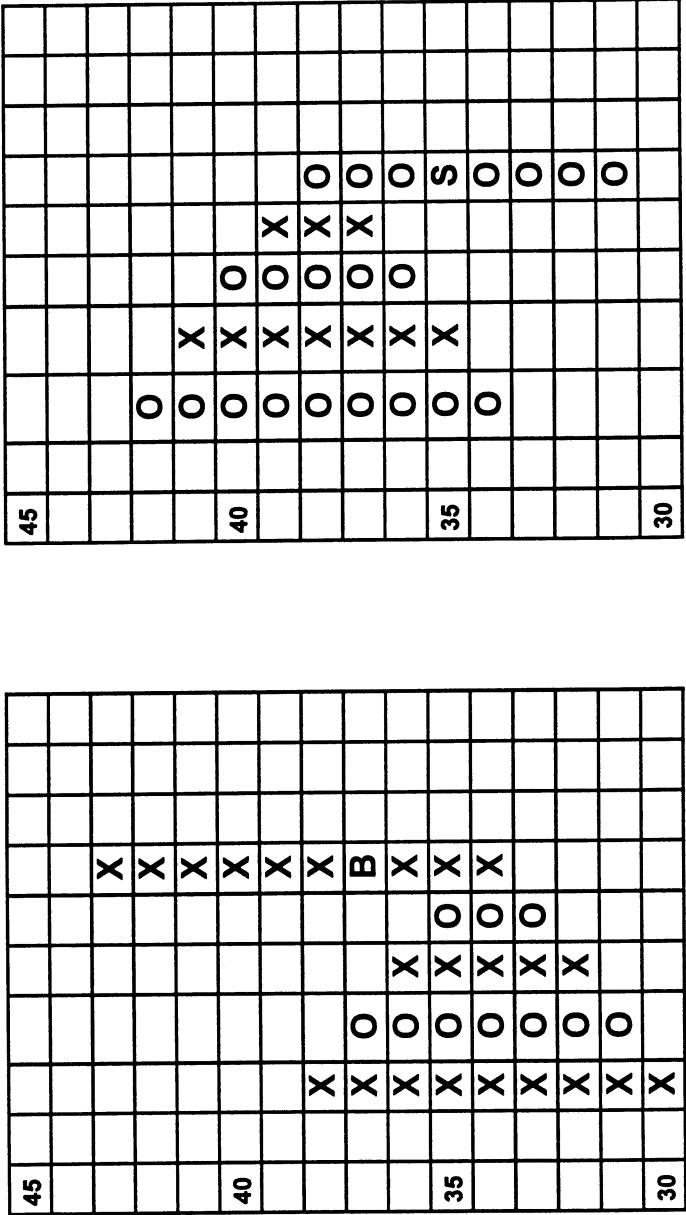


BULLISH & BEARISH TRIANGLE

Bullish Triangle

Bearish Triangle

Series of lower tops and higher bottoms to form what actually looks like a triangle pattern. When the double top is broken, a bullish triangle pattern is completed. When the double bottom is broken, a bearish triangle pattern is completed. The formation must be 5 columns wide to qualify. Breakouts from triangle typically result in quick, explosive moves.



SHAKEOUT PATTERN

Shakeout

Stock makes two tops, then breaks a double bottom. This rids the stock of weak holders. Can buy on the three box reversal up. The breakout is completed when the triple top is broken

BULLISH & BEARISH SIGNAL REVERSAL

Bearish Signal Reversal Bullish Signal Reversal

Series of lower tops and bottoms. The pattern is quickly "reversed" when the stock breaks the double top. The breakout must occur without accumulation. Must be 7 columns wide.

Series of higher tops and bottoms. The pattern is quickly "reversed" when the stock breaks the double bottom. The breakout must occur without accumulation. Must be 7 columns wide.

BULLISH SUPPORT LINE

- Serves as a guide for the uptrend of a stock. This is I-95 North
- Has a habit of acting like a brick wall. Stocks will often come right down to the bullish support line and then bounce off.
- To draw the support line you must first have a buy signal off the bottom. Go to the lowest column of O's and begin drawing a line up at a 45 degree angle. The angle will always be a 45 degrees.
- Bar charts connect prices for a trend line. The trend line on a Point & Figure chart is always at a 45 degree angle.
- Once a stock is well above the long term bullish support line, short term trend lines can be drawn.
- The trend line must be violated and not just touched.

BEARISH RESISTANCE LINE

- Exact opposite of the bullish support line. It serves as a guide for the downtrend of a stock. This is I-95 South.
- Has a habit of acting like a brick wall. Stocks will often rally right up to the bearish resistance line and then bounce off.
- To draw the resistance line you must first have a sell signal from the top. Go to the highest column of X's and begin drawing a line down at a 45 degree angle or a 135 degree angle.
- Once a stock is well below the bearish resistance line, short term resistance lines can be broken.
- The bearish resistance line must be violated and not just touched in order to turn the trend positive.

RELATIVE STRENGTH

- Our job is to out perform the market so we must be in those stocks which are outperforming the market. We determine this by looking at relative strength.
- Signals last two years on average but can last much longer. For instance, MCD has had positive relative strength since 1978.

RELATIVE STRENGTH

- Stock Price/Dow \times 1000 = RS Reading
- RS Reading is plotted on a point & figure chart. A double top signals a positive relative strength reading and a double bottom signals a negative relative strength reading.
- Positive relative strength doesn't mean the stock has to go up and vice versa.

RELATIVE STRENGTH

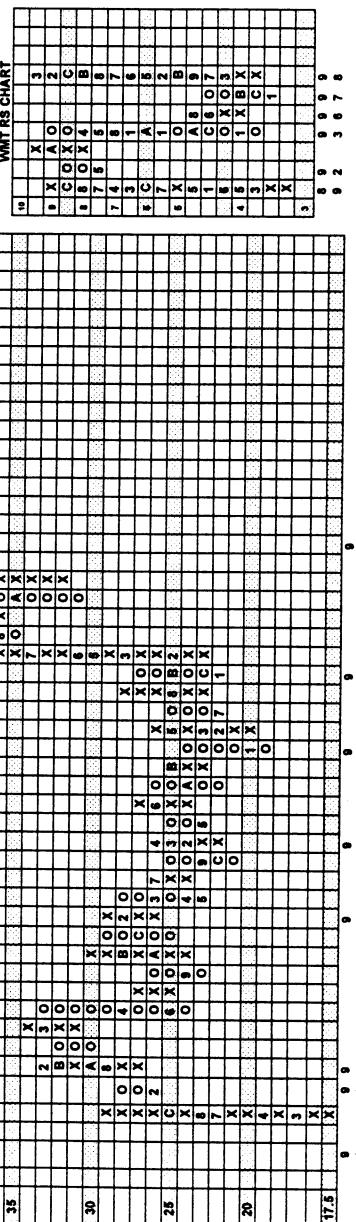
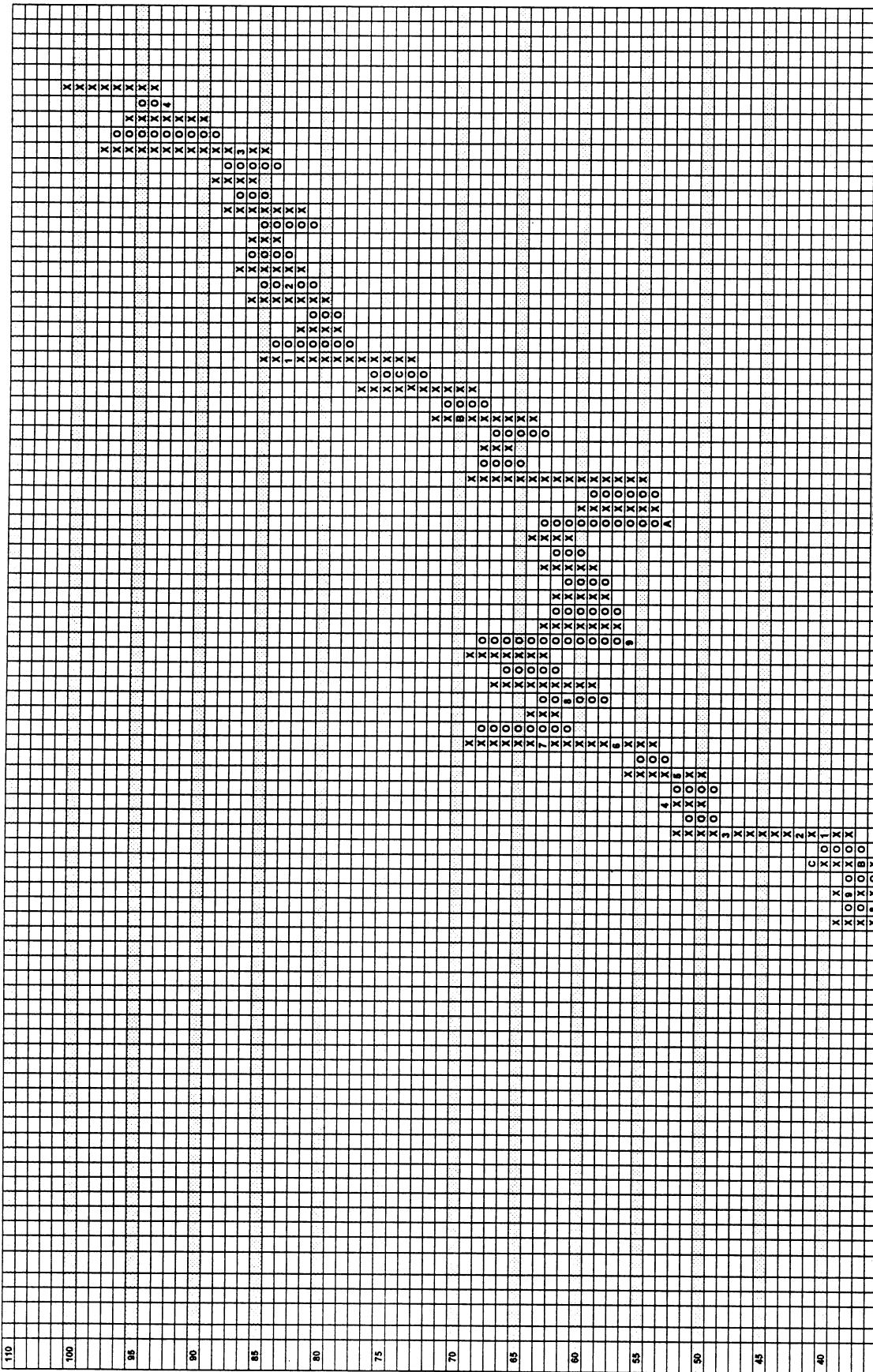
- Stock Px/Dow \times 1000 = RS Reading

- For example:

XYZ Corp: $81/9000 \times 1000 = 9.0$

XYZ Corp: $74/8000 \times 1000 = 9.25$

- While the stock price has fallen and the market has fallen, the relative strength calculation has actually moved higher. This means the stock is performing better relative to the market.



Boston Chicken (BOST)

5

15

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1

1

1

30

1

1

20

118

17

1

14

15

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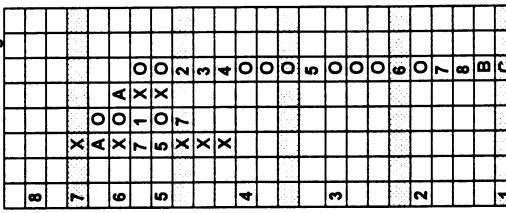
1

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6

3

BOST Relative Strength Chart

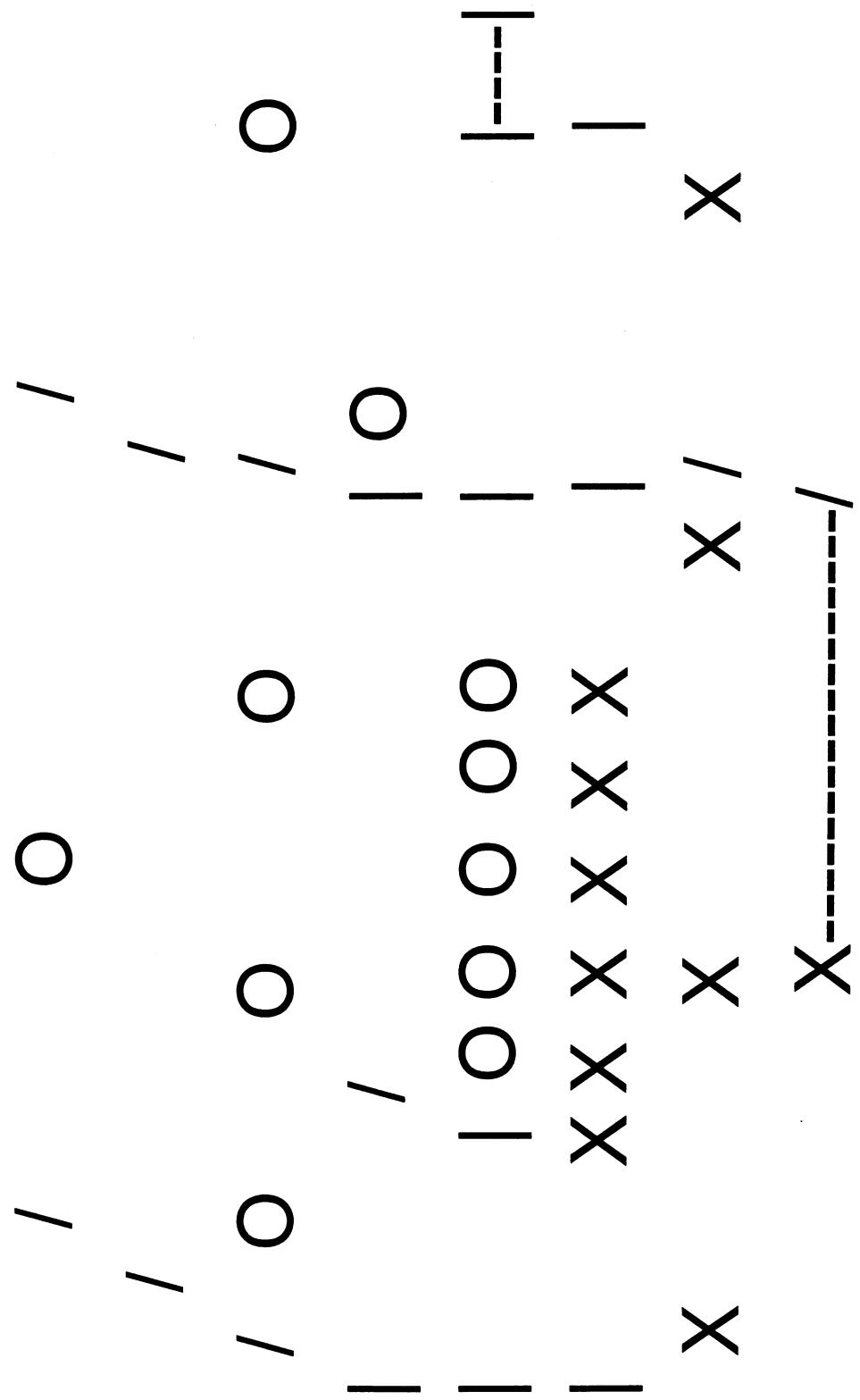


Stock Continues down to \$1 by August 1998

6

20

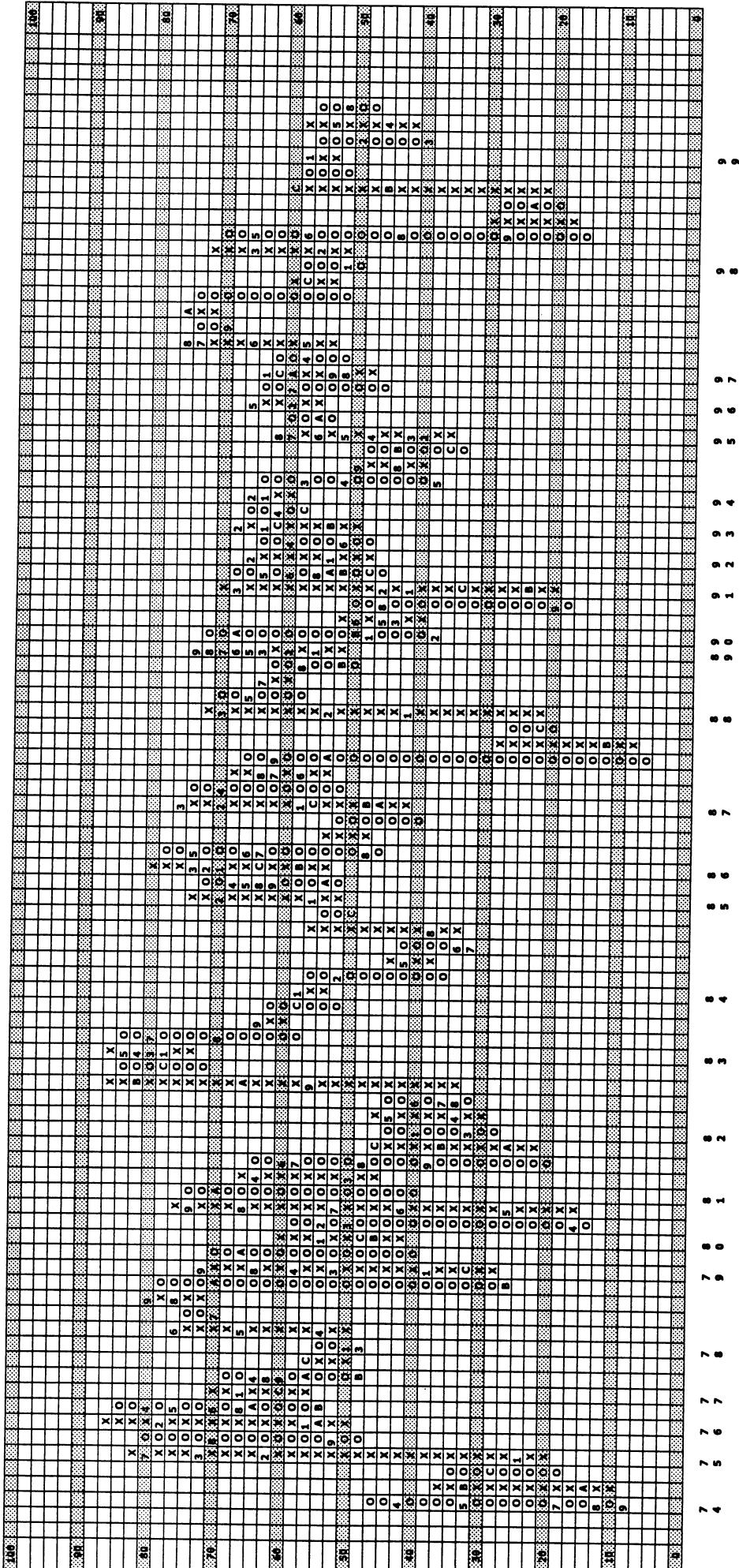
GAME PLAN



NYSE BULLISH PERCENT

- The concept began in the 1940's but it wasn't until 1955 that A.W. Cohen actually created the NYSE Bullish Percent.
- Our primary indicator; the Main Coach. It tells us whether to have the offensive or defensive team on the field. X's mean offensive and O's mean defense.
- This indicator tells you has the ball. Remember that 80% of their risk in any stock is the market and the sector, however, most people spend 80% of their time on stock selection.
- The more you learn about this indicator the more confidence you will have in your day to day operations in the market.
- There are two lines of demarcation -- 30% and 70%.

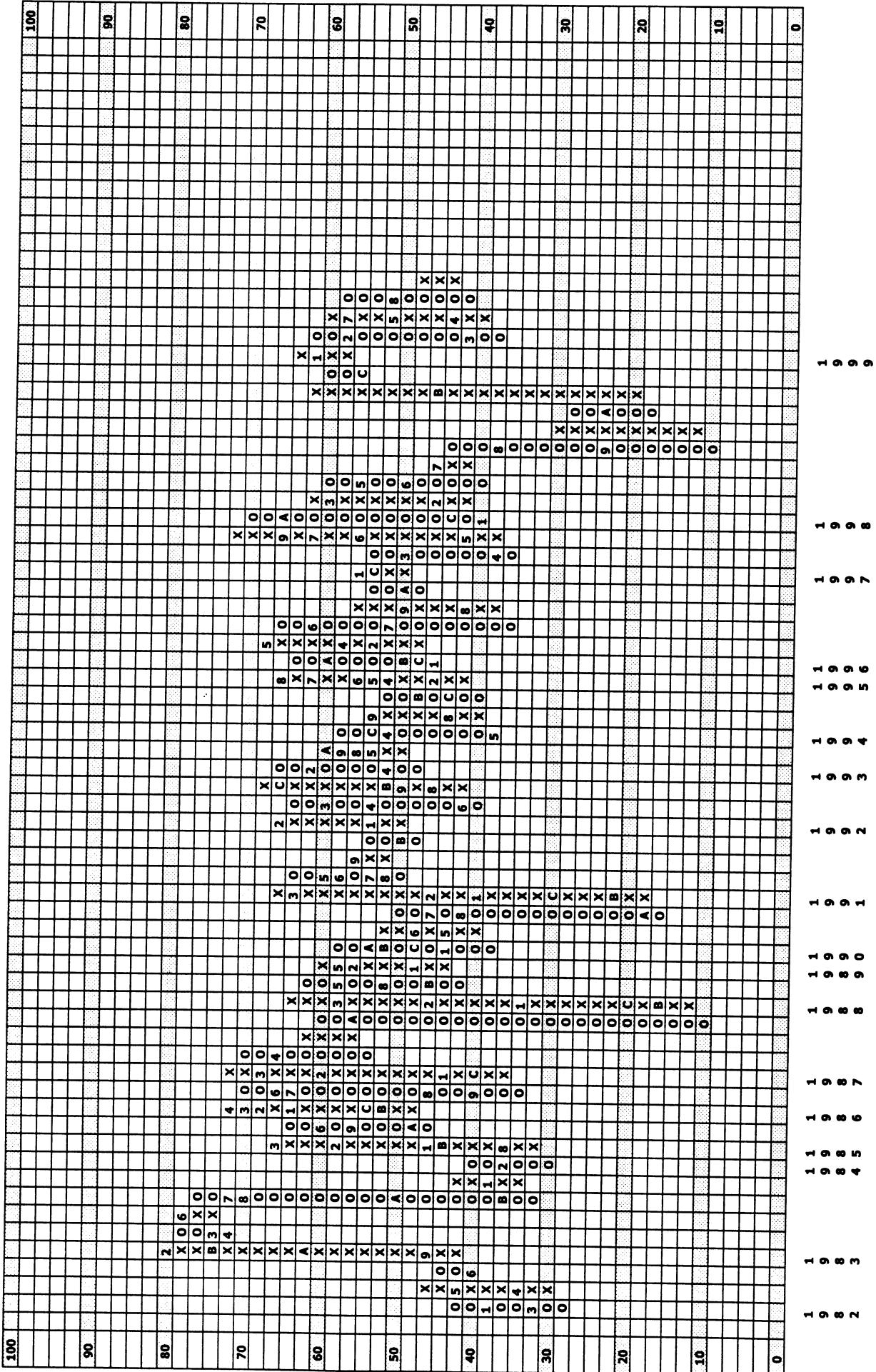
NYSE Bullish Percent



OTC BULLISH PERCENT

- This indicator works just like the NYSE Bullish Percent except it covers the OTC issues
- Excellent guide to use in determining risk level of smaller companies
- The same six risk levels apply
- The overbought level begins at 70% and the oversold level begins at 30%

OTC Bullish Percent Index



OPTIONABLE BULLISH PERCENT

- Comprised of all of those stocks which trade options.
There are more than 2500 stocks in this index.
- This indicator works just like the NYSE Bullish Percent except it is a shorter term indicator.
- Often changes in the Optionable Bullish Percent will be followed by a change in the NYSE Bullish Percent.
- The same six risk levels apply
- The overbought level begins at 70% and the oversold level begins at 30%.

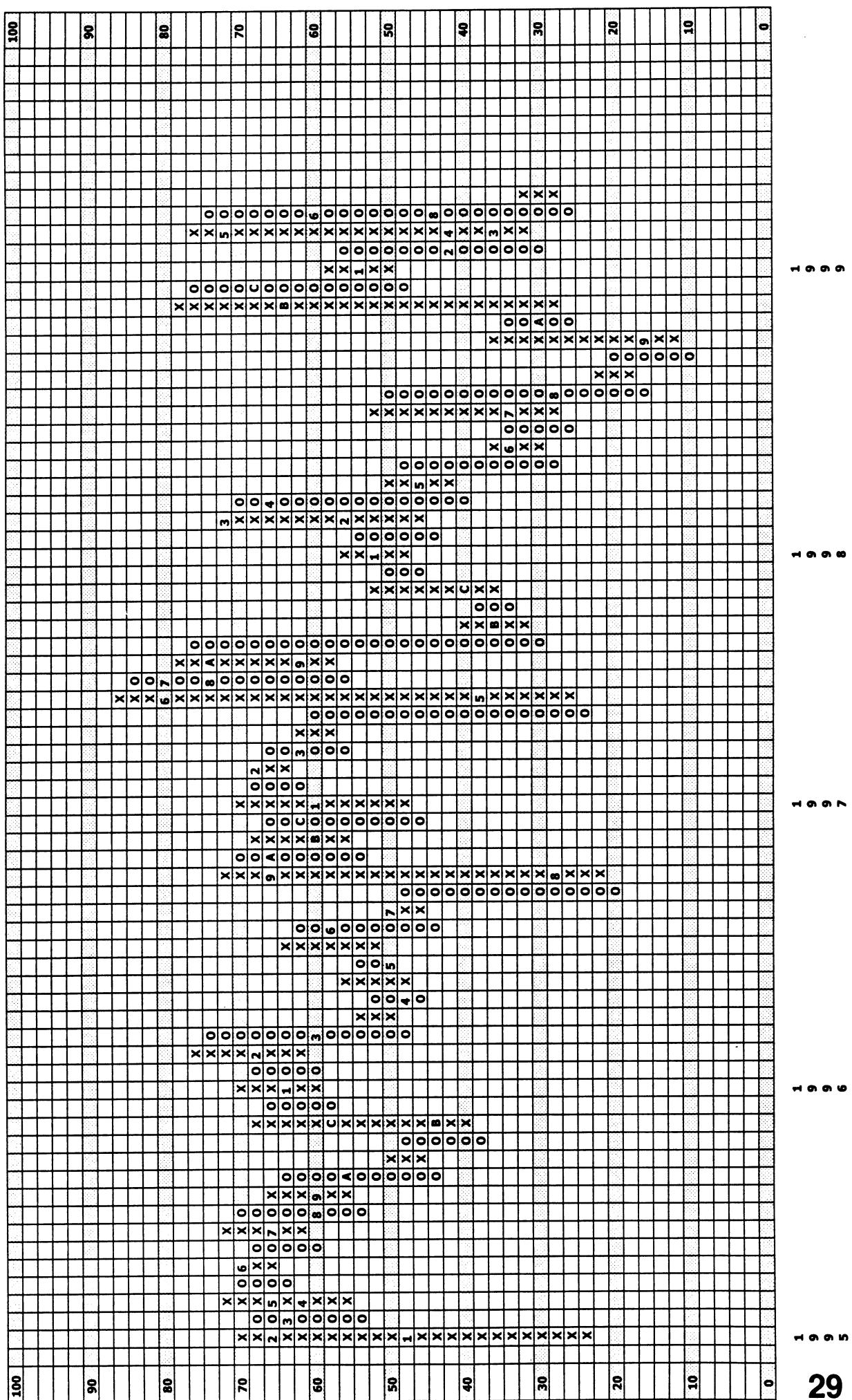
Optional Bullish Percent



PERCENT OF STOCKS ABOVE THEIR 10 WEEK MOVING AVERAGE

- One of our main short term indicators
- Simply the percent of stocks on the NYSE which are above their ten week moving averages
- Buy signals can also occur when a column of X's exceeds a previous column of X's.
- Sell signals occur when the index goes above 70% and then reverses down below 70% or when a column of O's exceeds a previous column of O's
- The short term picture is important because it can spill over into the long term picture.

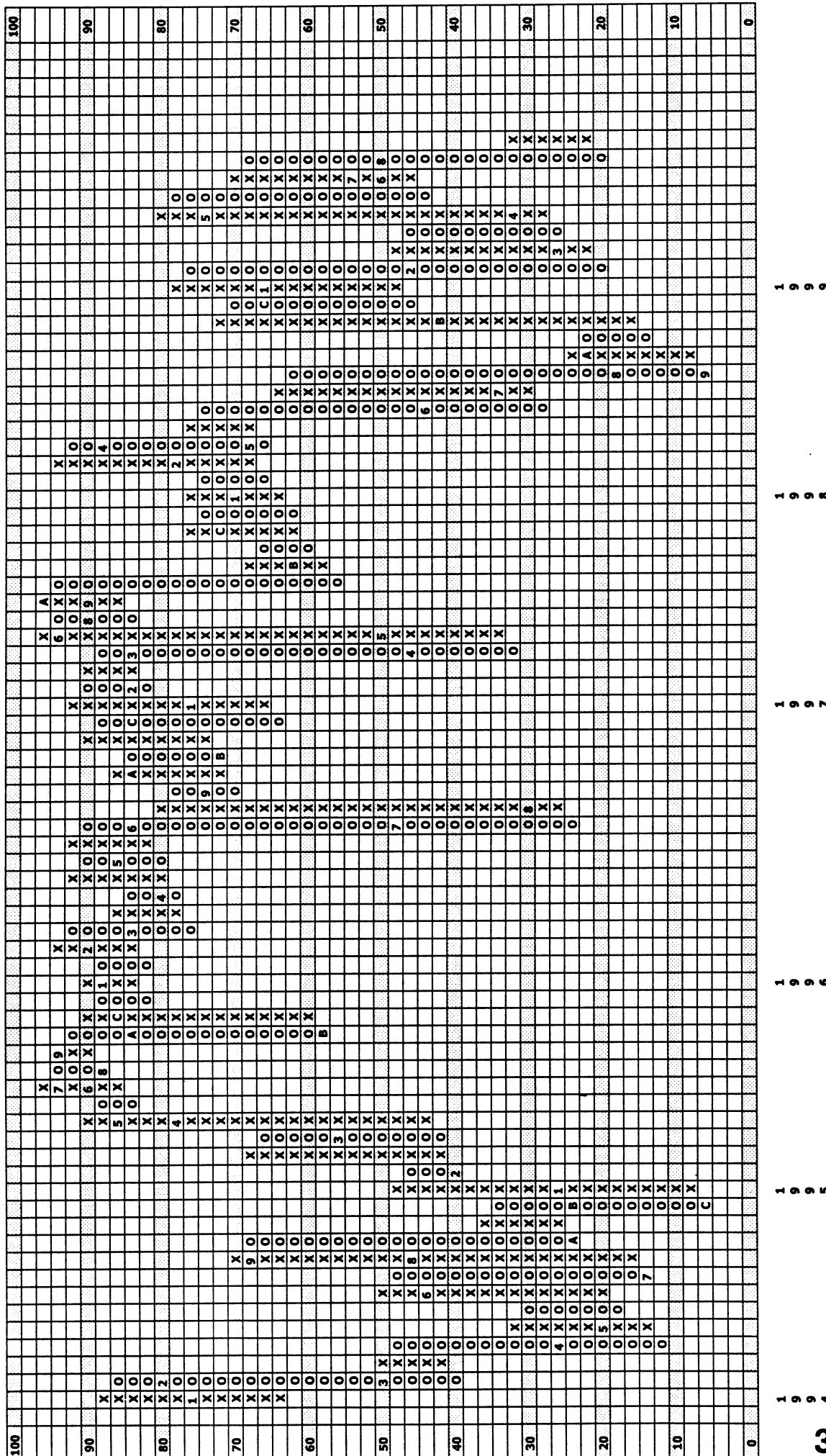
NYSE Percent of Stocks Above Their 10 Week Moving Average



NYSE HIGH-LOW INDEX

- One of the main short term indicators
- This index is calculated by taking the number of new highs and dividing by the number of new highs plus new lows. This is then keep on a ten day moving average and then plotted on a point and figure chart.
- Buy signals come when the index falls to or below 30% and then reverses up or a column of X's exceeds a previous column of X's.
- Sell signals come when the index goes above 70% and then reverses down below 70% or a column of O's exceeds a previous column of O's.
- Used in conjunction with the Percent of Stocks Above Their 10 Week Moving Average.

NYSE High-Low Index

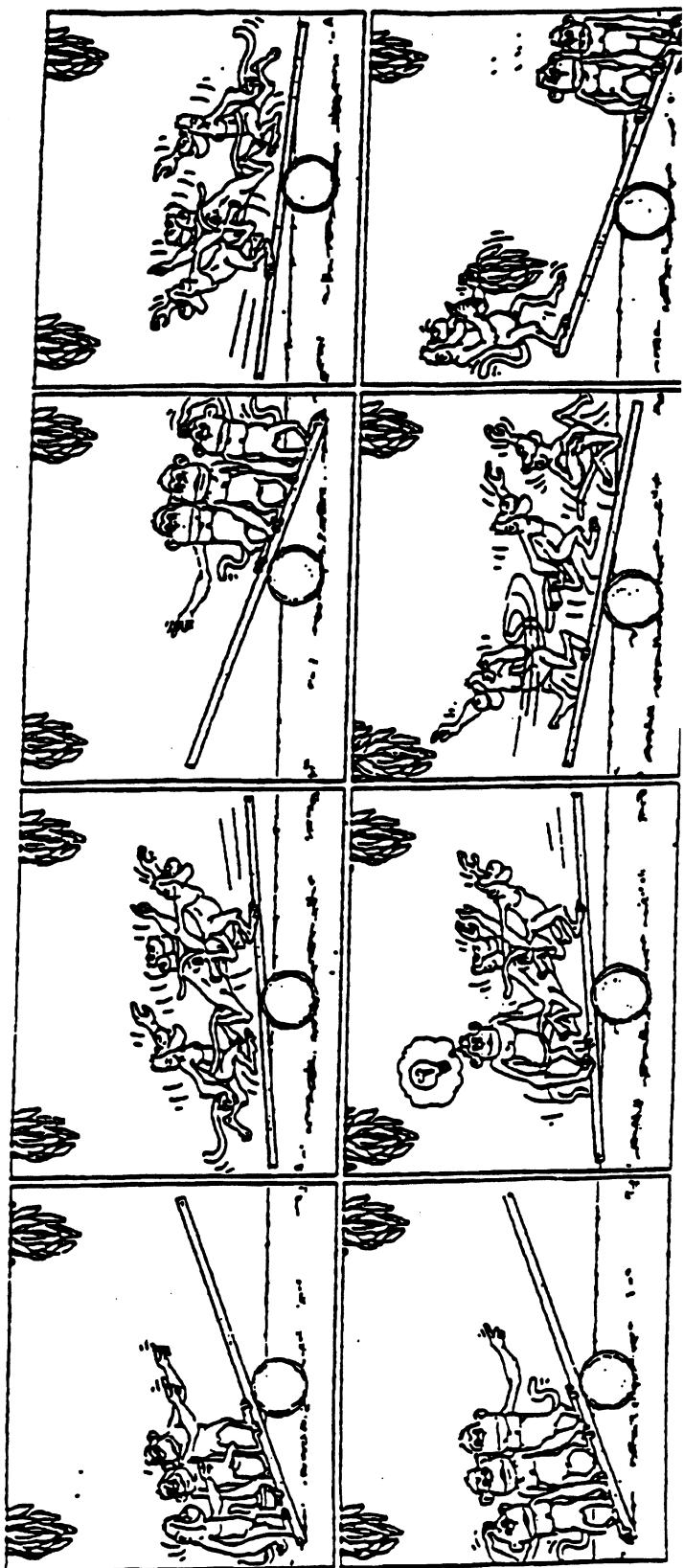


DOW JONES 20 BOND AVERAGE

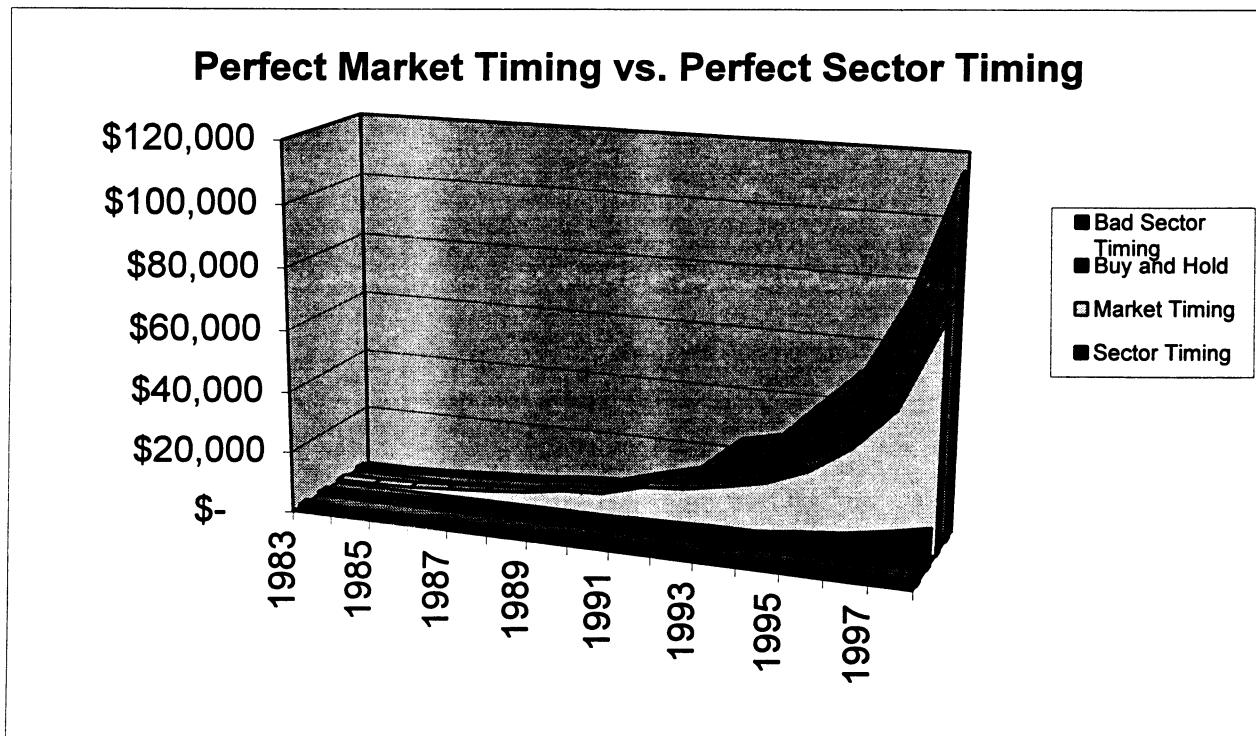
- Comprised of 10 industrial and 10 public utility bonds traded on the New York Exchange.
- Each box represents .20 and three boxes, or .60, are needed for a reversal on the chart.
- Moves on this chart are typically long term and we look at buy and sell signals as well as high pole and low pole warnings.

Dow Jones 20 Bond Average

SECTOR ROTATION



CDA/Weisenberger Study



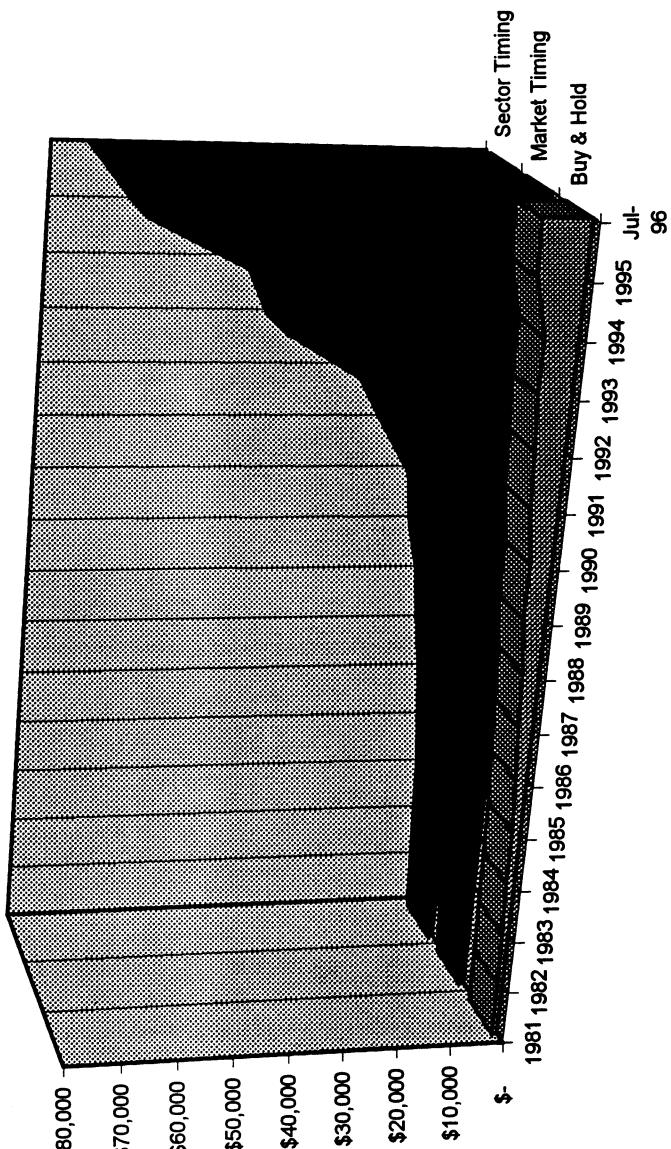
Buy & Hold: Bought the S&P 500 and held through the good times and the bad times

Market Timing: Took money out of the S&P before there was a down month and put it back in just before a positive month.

Sector Timing: Bought the best performing sector at the beginning of the year.

Year	Buy & Hold	Market Timing	Sector Timing	Bad Sector Timing	Top Sector	Bottom Sector
1983	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	N/A	N/A
1984	\$ 1,063	\$ 1,170	\$ 1,196	\$ 707	Utilities	Precious Metals
1985	\$ 1,400	\$ 1,408	\$ 1,685	\$ 651	Health Care	Precious Metals
1986	\$ 1,661	\$ 2,348	\$ 2,294	\$ 701	Precious Metals	Technology/Comm
1987	\$ 1,748	\$ 3,290	\$ 3,148	\$ 621	Precious Metals	Financial Services
1988	\$ 2,039	\$ 4,413	\$ 3,752	\$ 507	Financial Services	Precious Metals
1989	\$ 2,685	\$ 6,368	\$ 5,175	\$ 633	Health Care	Financial Services
1990	\$ 2,602	\$ 7,152	\$ 5,923	\$ 483	Health Care	Precious Metals
1991	\$ 3,394	\$ 10,835	\$ 9,772	\$ 465	Health Care	Precious Metals
1992	\$ 3,653	\$ 11,817	\$ 13,229	\$ 390	Financial Services	Precious Metals
1993	\$ 4,021	\$ 14,298	\$ 24,340	\$ 402	Precious Metals	Health Care
1994	\$ 4,074	\$ 16,934	\$ 27,276	\$ 355	Technology/Comm	Precious Metals
1995	\$ 5,605	\$ 22,300	\$ 40,174	\$ 364	Health Care	Precious Metals
1996	\$ 6,892	\$ 31,141	\$ 52,566	\$ 390	Energy/Nat'l Res.	Precious Metals
1997	\$ 9,191	\$ 44,600	\$ 77,386	\$ 227	Financial Services	Precious Metals
1998	\$ 11,817	\$ 73,373	\$ 115,006	\$ 172	Technology/Comm	Energy/Nat'l Res

Perfect Market Timing vs. Perfect Sector Timing



	1981	Jul-96
Buy & Hold	\$ 1,000	\$ 8,873
Market Timing	\$ 1,000	\$ 30,836
Sector Timing	\$ 1,000	\$ 73,677

Study conducted by CDA/Wiesenberger

SECTOR BELL CURVES

March 11th 1987

Dow Industrials in the 2350 area and making all-time highs.

WALL				
GAS				
TEXT				
TELE				
TRAN				
UTIL	OSRV	INSU		
STEL	OILS	HEAL		
RETL	FOOD	ELEC	PREC	
METL	AUTO	COMP	MEDI	
REST	BANK	LEIS	AERO	BUIL
				CHEM

10% 30% 50% 70% 90%

September 2nd 1987

STEL			
GAS		RETL	
TEXT		TRAN	
REST	WALL	OSRV	MEDI
OILS	TEXT	BANK	FOOD
LEIS	METL	AUTO	HEAL
ELEC	FRST	COMP	INSU
BIOT		AERO	PREC
			CHEM

10% 30% 50% 70% 90%

October 28th 1987

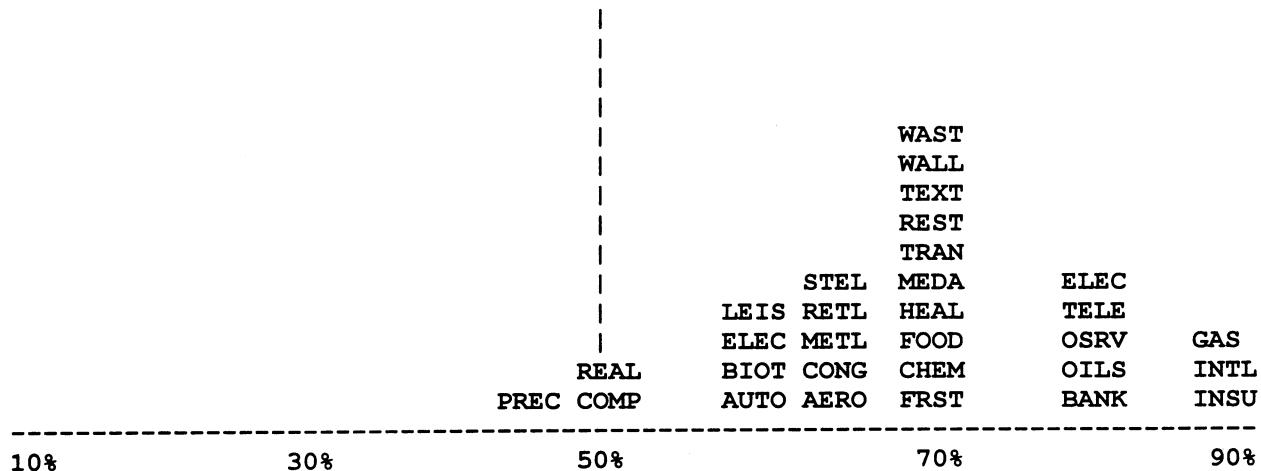
GAS				
UTIL				
TELE				
STEL				
REST				
OILS				
WALL	METL			
TEXT	MEDI			
RETL	LEIS			
TRAN	FOOD			
PREC	COMP			
INSU	CHEM			
HEAL	BIOT			
BUIL	AUTO	OSRV		
BANK	AERO	ELEC		

The Dow has now declined sharply and fallen about 1000 points from its August high. Many of these sectors are at lows and ready to reverse up. The Bullish Percent hits 6% and then reverses up in early November.

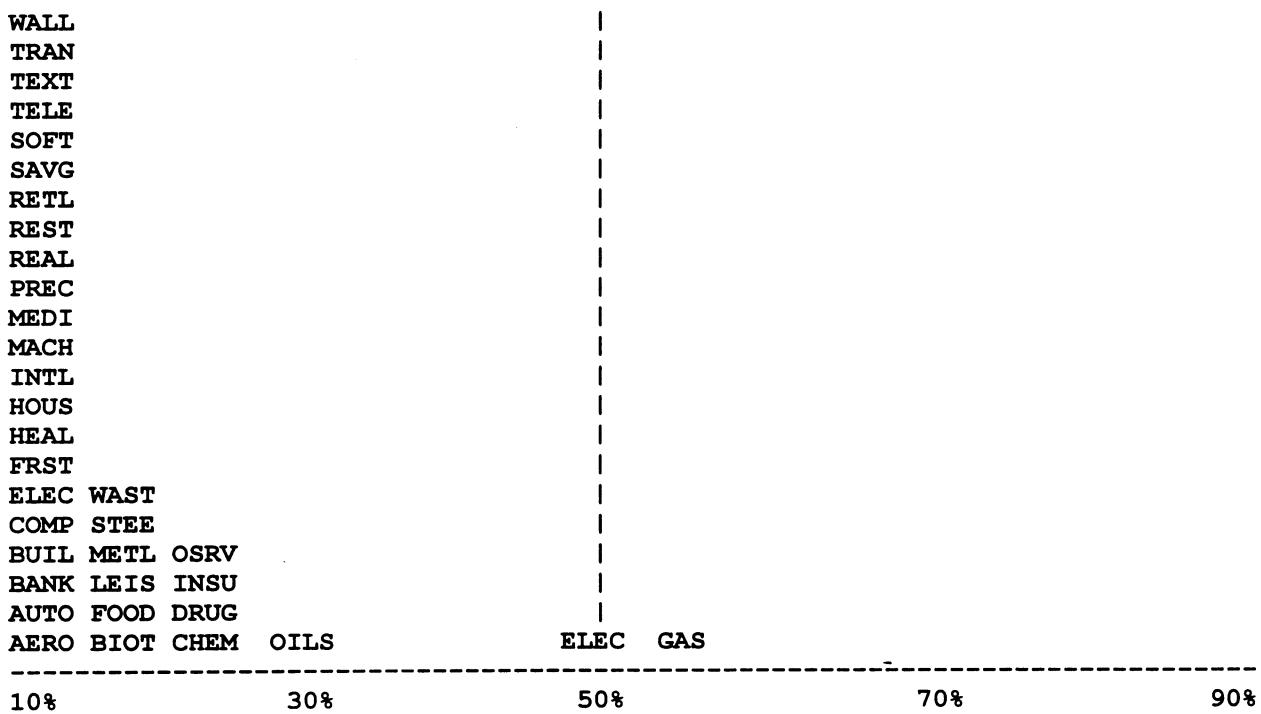
10% 30% 50% 70% 90%

SECTOR BELL CURVES

October 11th 1989

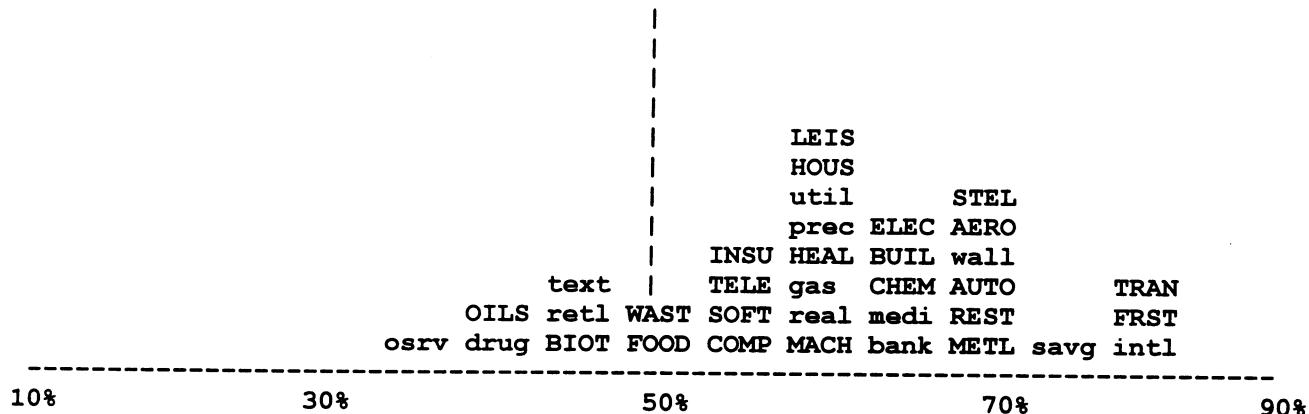


October 17th 1990

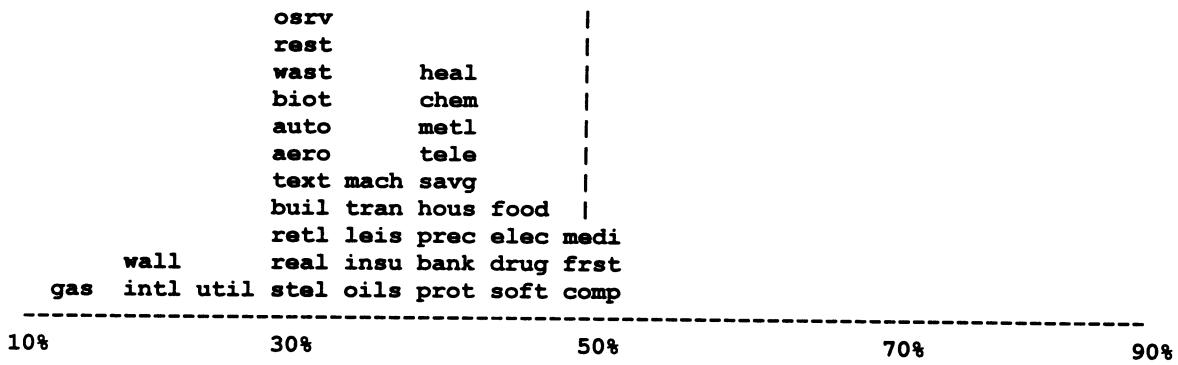


SECTOR BELL CURVES

February 2nd 1994



December 28th 1994



SECTOR BULLISH PERCENT BELL CURVE

April 22, 1998

10% 30%

50%

70%

90%

September 9, 1998

tran	
stel	
text	
SEMI	
rest	
metl	
leis	
heal	
finl	
elec	
prot	
COMP	TELE
chem	DRUG
busi	retl
biom	mach
bank	hous
aero	game
oils	SOFT
latn	buil
PREC	auto food
frst	wast insu
OSRV	wall real
asia	savg medi gas
	EURO

108

30%

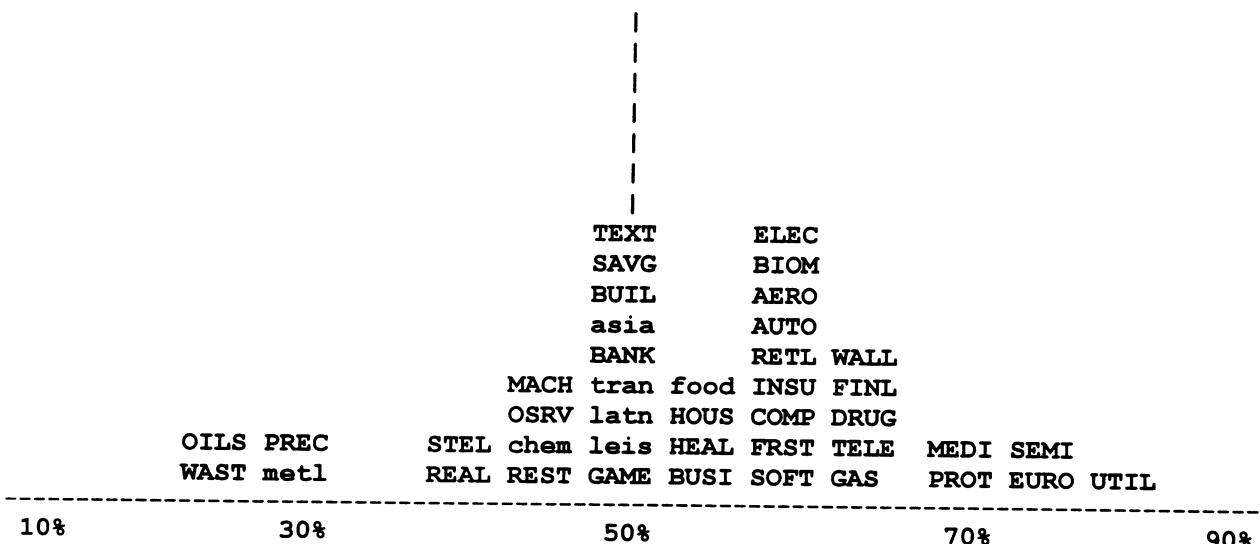
50%

70%

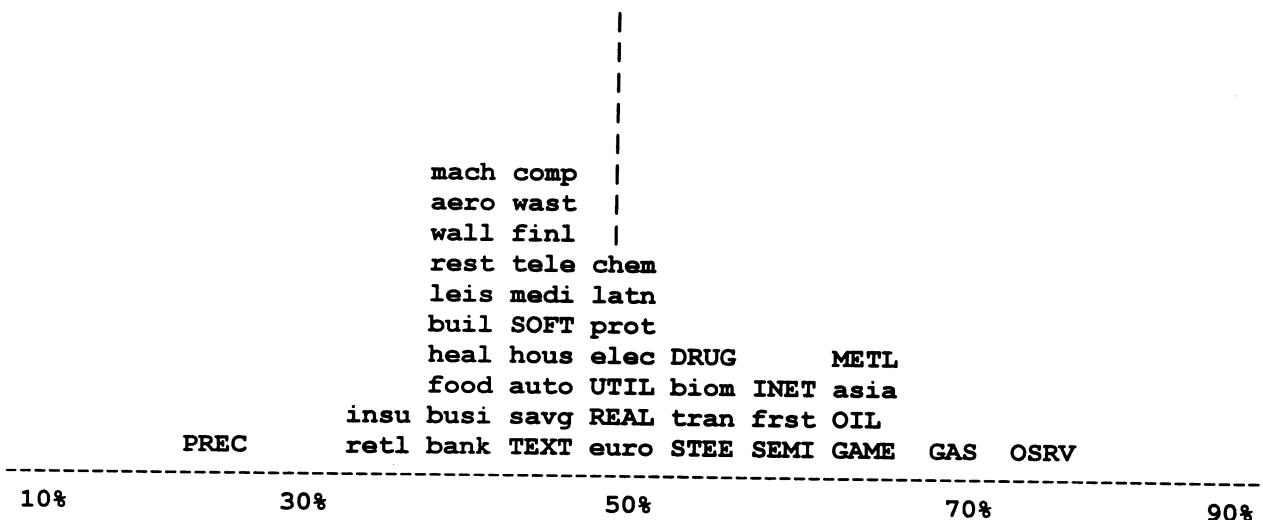
90%

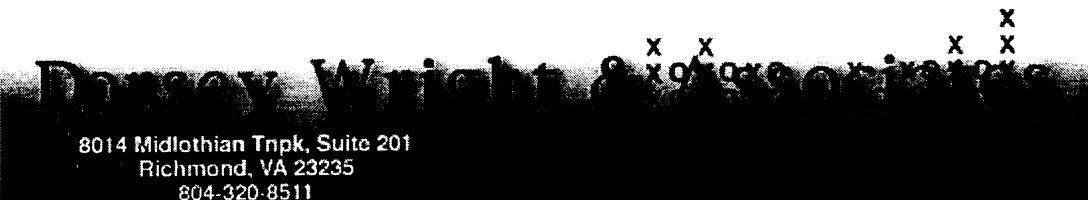
SECTOR BULLISH PERCENT BELL CURVE

January 13, 1999



August 25, 1999

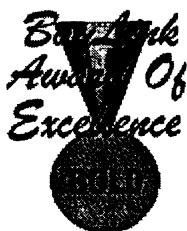




Friday, August 27, 1999

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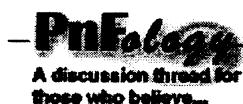
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