I.   Purpose – updated July 24, 2005

I've wanted to add or modify a couple of points in this document for some time, so if you've read this before, I'll highlight the changes that I'm making so that you can see the differences. Mostly, I've changed some minor philosophies on stocks after some observations. For starters, I no longer set a lower limit of $4 per share as this adds to the complexity of the daily maintenance, and keeps some nice growth stocks off the list arbitrarily. The oldest stocks on my list are now 111 days old, proving that some stocks simply make the list and continue to grow for months on end, putting, I hope, an end to the oft-used argument, "but aren't you afraid that right after it makes the list it will go down, I mean how long can a stock continue to go up before it gets tired or reverses?" Apparently, a pretty long time is the answer.

The purpose of this document is to present a method of finding and tracking stocks that have moved above their 50-day moving average, creating and maintaining a Watchlist of those stocks, and presenting a number of sorting and scanning methods for finding the best stocks in the Watchlists. The document is broken up into three major sections, System Preparation, Daily Maintenance, and Sorting Techniques.

II.   System Preparation

A.   PCF Preparation

We'll start by building the necessary PCFs.

1.   The 50 DMA Crossover PCF:

a.   Create a PCF and name it **!__50 DMA Crossover**. Naming the PCF by starting with an exclamation point will ensure that it is near the top of your personal PCFs. Copy the following PCF code to it, and then test the PCF. If you have any problems copying the code, enter it manually into the PCF.

(C > AVGC50) AND (C1 <= AVGC50.1)

b. What the PCF does: the first part of the PCF checks to see if today's close is higher than today's 50-day simple moving average. The second part, connected to the first by the AND statement, checks to see if yesterday's close was equal to, or less than the stock's 50-day moving average. If both conditions are TRUE, then the stock has moved up through its 50-day moving average today.

2. Note: 7/24/05 – this no longer seems necessary, a**nd as you'll not e later, I don't limit stocks to a minimum of $4 per share any more. If a stock is less than $4 and falls off the list quickly, no harm is done, but if it does continue to grow, catching it early makes good sense. Stocks that are above their 50-day moving average, but were less than $4 yesterday, and today, more than $4 PCF.**

a. Create a second PCF and name it **!_C> $4 & > 50 DMA, <$4 Yest**. Copy the following PCF code to it, and then test the PCF.

(C > 4) AND (C1 < 4) AND (C > AVGC50)

b. What the PCF does: since the lower price limit on my EasyScan is $4, this PCF allows me to catch stocks that are already above their 50-day moving average, but have just risen to over $4 or more per share.

3. **Above the 50 DMA PCF**

a. Create a third PCF and name it**: !_Above the 50 DMA** and copy the following PCF code to it:

C > AVGC50

A Few Thoughts on Finding Good Stocks

b.   What the PCF does: this PCF simply checks to see if today's price is above the 50-day moving average. We'll be using this PCF later on when we do maintenance of our WatchLists as a way of clearing out stocks that no longer bear watching.

B.   EasyScan Preparation

1.   **Note: 7/24/05 – changed this to be " Under $12 (formerly $4 - $12) Stocks crossing above their 50-day moving average**

a.   Create a new EasyScan and change the setting **WatchList: All Items In System** to **All Stocks**.

b.   Note: 7/24/05 – change the minimum value from "$4" to minimum as noted. Click **Add New Condition** and select from the **System** option, **Price Per Share.** Using the sliders, set the minimum **Value** to read "**Minimum**" (formerly exactly 4 or the next lower value less than 4 if 4 is not an option). Now use the slider at the top of the window to set the maximum **Value** to exactly 12, slightly above, if 12 is not an option. Click **OK** when you have the prices adjusted correctly.

c.   Note: 7/24/05 – Changed the name to reflect the actual price range as noted. Click **Add New Condition** again, then click on the *fx* **PCFs** icon, and select the PCF you created a little bit ago, **!_50 DMA Crossover**. Click **OK** and then click the save button. You'll be prompted to name your scan before you can save it. Name it **!Crossover Above the 50 DMA, Under $12**, (formerly **!_Crossover Above the 50 DMA, $4 - $12)** then click **OK** again to save it.

2.   **$12 - $52 Stocks crossing above their 50-day moving average**

a.   Create a second EasyScan just like the first, except for the price range. Change **WatchList: All Items In System** to **All Stocks**.

b.   Click **Add New Condition** and select from the **System** option, **Price Per Share**. Using the sliders, set the minimum **Value** to exactly 12 or the next lower value less that 12 if 12 is not an option. Now use the other slider at the top of the window to set the maximum **Value** to exactly 52 or whatever maximum **Value** you wish to specify. Click **OK** when you have the prices adjusted correctly.

c.   Click **Add New Condition** again, then click on the *fx* **PCFs** icon, and select the PCF you created a little bit ago, **!_50 DMA Crossover**. Click **OK** and then click the save button. You'll be prompted to name your scan before you can save it. Name it **!_Crossover Above the 50 DMA, $12 - $52** then click **OK** again to save it.

C. Watchlist Preparation

1. Note: 7/24/05 – changed the name to reflect the actual prices, as noted. Create the first Watchlist, and name it **!_Above the 50, Under $12 Price** (formerly **!_Above the 50, $04 to $12 Price)** and leave the default setting of **Blank** selected. Click **OK** and you'll be presented with a screen where can enter symbols. Click on **Cancel** and the screen will go away, and the Watchlist will be created.

2. Now set up the second Watchlist, naming it **!_Above the 50, $12 to $52 Price** and again accept the default setting of **Blank**, clicking the **Cancel** button when presented with the next screen, the click **OK** to create the second Watchlist.

III. Daily Maintenance

A. The Purpose

1. This system finds stocks that have moved up through their 50-day moving average, and those that have been above their 50-day moving average, but were selling for less than $4 yesterday, but have moved to over $4 today. Maintenance must be done daily. In addition, stocks that have dropped below their 50-day moving average will be removed from the list as part of daily maintenance.

2. Note: 7/24/05 - The significance of, and necessity for this process is often lost on first-time users. They assume that if you just check for stocks every once in a while that are above their 50-day moving average, the list will contain the same stocks, so why bother doing it daily? Two reasons: 1) doing this daily, over time, will tell you how long any individual stock has been on the list – over their 50-day moving average - a very valuable piece of information if you're looking for growth stocks, and, the PCFs as written only check for that day's crossovers, and 2) and this may be even more important, I've noticed that a lack of

discipline is the single most consistent reason that people fail to find and invest in good stocks, and going through this process on a daily basis is an excellent way to stay focused on why you're investing in the first place.

3. Worden normally has end-of-day price updated and corrected by 6:30 pm daily, so do updates after that time. Be sure to check the box labeled **Update Personal Criteria following download** on the update screen or your PCFs will not be updated! Once the update is completed, continue on with the daily maintenance that follows.

B. Maintenance Procedures

1. Note: 7/24/05 – changed to reflect the price range as noted. **The Under $12** (formerly $4 to $12) **stocks.**

    a. Click on the **Watchlist** pull-down, and click **UnFlag All in System**.

    b. Note: 7/24/05 – changed to reflect the name, as noted. In the Watchlist selection area (NOT the Watchlist pull-down), click on **Scans** and then click on !_Crossing the 50, Under $12 (formerly: **!_Crossing the 50, $04 - $12).**

    c. When the list of stocks appears, you may want to eliminate some stocks from the list such as closed-end funds, regional banks, drug stocks, or whatever you choose not to follow. This step is optional, but can take quite a bit of time. Since closed-end funds, for example almost certainly will never perform as well as the stocks we hope to uncover, aside from making the Watchlist larger, they do no harm. You may find over time that it simpler and faster just to copy all of the stocks from the scan to the Watchlist.

    d. Note: 7/24/05 – Changed to reflect the name change, as noted. Flag the stocks you want to transfer to your Watchlist. Once you've flagged all of the stocks you're interested in, click on the Watchlist pull-

down, slide the cursor to **Copy to Other List** and click on the **Flagged Symbols in WatchList** choice. When the WatchLists come up, click on the **!_Above the 50 DMA, Under $12 Price (formerly: !_Above the 50 DMA, $04 - $12 Price)** and click **OK**.

2. **Not: 7/24/05 – This whole section is now unnecessary and is being flagged as such. Do not do the steps here anymore. The stocks rising above $4 that were already above their 50-day moving average**

   a.   In the Watchlist selection area (NOT the Watchlist pull-down), select **System** and click on **All Stocks**.

   b.   When the list of stocks appears, in the **Sorted By** area, select **fx PCFs** and then select the **!_C > $4 & > 50 DMA, < $4 Yest** PCF.

   c.   You'll need to have **Sort Value** on one of your tabs to see the list of stocks labeled **True**. Usually, this is a small list that appears at the top of the list and **True** will show under **Sort Value**.

   d.   Click on the Watchlist pull-down and click **UnFlag All in System**. Then flag each of the stocks in the Watchlist that are **True**.

   e.   Click on the Watchlist pull-down, slide the cursor to **Copy to Other List** and click on the **Flagged Symbols in Watchlist** choice. When the Watchlists come up, click on the **!_Above the 50 DMA, $04 - $12 Price** and click **OK**.

3. **The stocks priced between $12 and $52 per share**

   a.   Click on the **Watchlist** pull-down, and click **UnFlag All in System**.

b.   In the Watchlist selection area (NOT the Watchlist pull-down), click on **Scans** and then click on **!_Crossing the 50, $12 - $52.**

c.   When the list of stocks appears, you may want to eliminate some stocks from the list such as closed-end funds, regional banks, drug stocks, or whatever you choose not to follow. This step is optional, but can take quite a bit of time. Since closed-end funds, for example almost certainly will never perform as well as the stocks we hope to uncover, aside from making the Watchlist larger, they do no harm. You may find over time that it simpler and faster just to copy all of the stocks from the scan to the Watchlist.

d.   Flag the stocks you want to transfer to your Watchlist. Once you've flagged all of the stocks you're interested in, click on the Watchlist pull-down, slide the cursor to **Copy to Other List** and click on the **Flagged Symbols in WatchList** choice. When the WatchLists come up, click on the **!_Above the 50 DMA, $12 - $52 Price** and click **OK**.

4.   **Pruning the dead wood, deleting stocks that have dropped below their 50-day moving average**

a.   Note: 7/24/05 – Changed to reflect the name change, as noted. In the Watchlist selection area (NOT the Watchlist pull-down), click on **Personal** and then click on **!_Above the 50 DMA, Under $12 Price (formerly: Price!_Above the 50 DMA, $04 - $12 Price).**

b.   You'll need to have **Sort Value** on one of your tabs to see the list of stocks that are labeled **True**. From **the Sorted by** pull-down, select the **!_Above the 50 DMA** PCF from the *fx* **PCFs** section.

c.   Under the **Sort Value** tab, those labeled **True** will be the stocks that are above their 50-day moving average, and they should sort to the top of the list.

d.   Scroll down the stock list until you get to the first stock that does not have **True** under the **Sort Value** column, and click on it.

e.   Click on the Watchlist pull-down menu at the top of the screen, slide the cursor over **Flag** and then click on the **All Below Active Symbol** menu entry.

f.   Click on the Watchlist pull-down menu at the top of the screen, slide the cursor over the **Remove Symbol(s)** entry, and then click on the **Flagged** menu entry.

g.   Follow the same procedure, steps a. through f. for removing stocks that have fallen below their 50-day moving average in the **!_Above the 50 DMA, $12 - $52 Price** Watchlist.

IV. Sorting Techniques

Here's where the fun starts! You've got a relatively short list of stocks that are all above their 50-day moving average, and the longer you've been maintaining your list, the higher the probability that the cream will be rising to the top, particularly in the Under $12 Watchlist (formerly: $4 to $12 Watchlist). Why? Because this is where those stocks that you suddenly notice have risen to $40 per share started when you look at the chart and think "I wish I'd bought that when it was only $8 last summer." While you may stumble over "the perfect stock" in your first week of compiling the Watchlist, the chances are much better that in about two to four weeks, you'll start noticing that some stocks are slowly pulling away from the pack. Those are the stocks you wan to buy and hold onto for a while!

I rely much less on the !_Momentum-1 PCF now than when this was originally written, but I've left it in anyway. The following are some suggestions for PCFs that you may find productive. I'm particularly fond of the combination of **!_52-Week High**, **!_Momentum-1** and **!_Above the 20, 50, 100 & 200**. When all three of those columns on a tab are **True**, the stock is usually a pretty good performer. The following are some PCFs that you may want to try on your own

A.   The **!_52-Week High** PCF

$$C >= MAXC255.1$$

1.   What the PCF does: the PCF determines whether or not the close was the 52-week high

B.   The **!_Momentum-1 PCF**

$$(C > AVGC5) \text{ AND } (AVGC5 > AVGC5.5) \text{ AND } (AVGC5.5 > AVGC5.10) \text{ AND } (AVGC5.10 > AVGC5.15) \text{ AND } (AVGC5.15 > AVGC5.20) \text{ AND } (AVGC5.20 > AVGC5.25)$$

1. What the PCF does: the PCF determines whether the stock's price has been above its 5-day moving average in each of the preceding five weeks.

C. The **!_Above the 20, 50, 100 & 200 PCF**

(C > AVGC20) AND (C > AVGC50) AND (C > AVGC100) AND (C > AVGC200)

1. What the PCF does: determines whether the stock's price is above the 20, 50, 100, and 200-day moving average.

D. The **!_Fan Pattern** PCF

(C > AVGC20) AND (AVGC20 > AVGC50) AND (AVGC50 > AVGC100) AND (AVGC100 > AVGC 200)

1. What the PCF does: finds those stocks where each of the moving averages is above the next-longer-term moving average that follows it. Simply put, for a stock to be growing an even rate, these averages must be ahead of one another.

2. The best way to use this PCF is to apply it to a tab and then use it to sort from the Under $12 Watchlist; those stocks for which this is true will climb to the top of the list and offer the best – not necessarily the fastest – steady growth rate.

E. The **!_% Above 200-Day Moving Average** PCF

(C / AVGC200 * 100) - 100

A Few Thoughts on Finding Good Stocks

1. What the PCF does: calculates the percentage of price above or below the 200-day moving average.

F. This is the custom indicator that I use to show a true/false indicator on a chart to indicate that a stock is within 15 days of a 52-week high.

(((C > MAXC255.1) OR (C1 > MAXC254.2) OR (C2 > MAXC253.3) OR (C3 > MAXC252.4) OR (C4 > MAXC251.5) OR (C5 > MAXC250.6) OR (C6 > MAXC249.7) OR (C7 > MAXC248.8) OR (C8 > MAXC247.9) OR (C9 > MAXC246.10) OR (C10 > MAXC245.11) OR (C11 > MAXC244.12) OR (C12 > MAXC243.13) OR (C13 > MAXC242.14) OR (C14 > MAXC241.15)) AND ((C > AVGC50) AND (AVGC50 > AVGC100) AND (AVGC100 > AVGC200))) * -1

G. It might just be a lot simpler to ask me to share a chart with this and the other indicators that I use when looking through my charts. Yes, there are a lot of charts to look at, and about once a week, I look through every single chart in the Under $12 Watchlist, sorted by the fan pattern, which usually reduces the list to a few hundred.

H. I like stocks with smooth uptrends, rather than choppy up and down movements. Volume is a minor consideration compared to growth (look at FRN for example), so I don't set a minimum limit, and I usually only buy a few hundred shares of any one company. I've observed that stocks with modest intraday price movements seem to grow steadiest, and I like to use the log scale on the charts to see what kind of growth has occurred over time in a stock. 4% usually indicates nice, steady growth, 10% is great when it can occur without a lot of corrections occurring, but mostly I'm looking for slow, steady growth.

I. I've had people ask whether this is a short-term or long-term trading system. You could use it either way, trading short-term and looking for stocks that have could go up a few percent in a week, but my personal experience in trading is that I've bought too many stocks, traded out of them for a quick gain and then looked at them a few weeks later only to realize that if I'd just hung on to them I would have made a lot more money than day-trading them. To each his own, and to each their own level of comfort in holding stocks for longer periods of time. Experiment until you find your own comfort level.

J. If I haven't mentioned it yet, I trade in the hundreds of shares per stock. I might own only 100 shares of a number of the stocks that I'm interested in and buy, and I will probably eventually have as many as 100 different company's shares in my account at any one time (right now I only own about 40 companies, but the number grows weekly). It's very hard to get hurt when you only own 100 or 200 shares of a company selling for less than $6 per share, and that company represents only about 2% or your total portfolio. Think about it, when you buy "cheap" growth stocks you do not have to have a huge bankroll to have nice monthly growth. In a margin account, you could own 100 shares of 100 companies at an average price of $6 per share and have a total investment of $30,000.

K. I've been asked, "What is the rate of return on these types of stocks?" By sticking to the rules I've outlined, 10% per month is not out of the ordinary, good markets or bad, in fact many of these stocks seem to do better on "bad market" days than good. Better adherence to the rules I've outlined for picking the better stocks will increase that return. I am actually in the process of writing some software to codify the rules, backtest them, and hopefully improve the method. It's a regular topic of discussion in Trading Technicals (we mostly use voice which is why the logs are so void of traffic) and we're all collectively adding to the body of knowledge in this area.

L. One final point. I know a lot of people have brokerage accounts where "every trade, no matter how many shares, is just $9.99." I use TradeStation where trades are based on a $.01, that's right, one penny per share traded. "But doesn't TradeStation cost $100 per month?" I'm often asked. Yes, but when I buy 100 shares of a stock, my break-even is two cents, and over a period of time I've found that $100 per month more than pays for itself in saved commissions. I've often noticed that people will buy 1,000 shares of a stock when 100 would be much more prudent, in an effort to minimize the per-share commission costs. Then the stock goes down by 10 cents, they sell, and where's the savings? They're already down $20 in commission costs, and don't want to sell because they'll then be down by $120, $20 on commission, $100 on the stock itself, and so they decide to hold on until the stock price comes back up and they can at least "break even." I on the other hand can sell it, lost $2 in commissions, $10 in the stock, and am only out $12. TradeStation doesn't cost, it saves, it's real-time, and I'd be happy to help anyone set it up or work with it.

M. Don't be penny-wise and pound-foolish. TradeStation, by the way is "essentially" my broker (I think they use Brown), but all my trades are through TradeStation, placed within TradeStation, and tracked within TradeStation, and the *REAL* broker is irrelevant. If you really feel the need to trade a lot of stock, TradeStation commissions are on a sliding scale and steadily decrease the more shares per trade until they equilibrate out at – about what you'd pay a discount broker. If you really trade a LOT of stock, TradeStation eliminates their monthly fees entirely. Why most people stick with brokerages is beyond me, especially when I see so many people trade way too many shares of any one stock in order to "reduce the commission on a per-share basis."

I hope this document helps you to find some interesting stocks. You can contact me either on TCNet as Paul1307, or email me directly at psutton@nc.rr.com if you have any questions or comments.

Paul

Just a quck "how to" for getting these lists into Worden.

IF YOU HAVE eXCEL:

1) open Excel

2) go to file, then open, then select the file, either the 4 to 12.tx or 12 to 52.txt file.

3) Excel will try to import them. Just take the defaults until you get to "finish."

4) Select the top stock, and holding the shift key down, select all stocks int he list.

5) Right click the list, and select "copy"

6) Open up notepad, and paste the list to notepad. Check for "junk" non-english characters, etc. and clean them out.

7) Save the file as "imp1.txt" or whatever name suits you, and close notepad

7) Open a new watchlist in Worden; call it imp1, or whatever you want. Select "import from file" for the stock list and select the imp1.txt file (or whatever you named it)

8) Once everything has been imported, select the "Watchlist" pulldown in TC, and click on "copy to other list"

9) Select the !_Above the 50 DMA, $4 - $12 Price watchlist, and close the window.

10) Don't sort anything yet!!!!!

11) Further instructions follow the following in the "Common things to do" section

IF YOU DON'T HAVE EXCEL

1) You're going to have to do a lot of manual labor. make a copy of the 4 to 12.text file.

2) Working with the copy, you'll have to manually remove all the data on this text document that is not stock symbols until your list is just the stock symbols.

3) When you get the list cleaned up, follow the following instructions like everyone else.

COMMON THINGS TO DO:

1) You're may want to modify the date that the stocks were added to your watchlist. While this isn't critical, it will add meaning to the annualized returns column in the watchlist reports.

2) Since the stocks should still be in the order in which I added them to my watchlist, you should be able to cross-reference the list I sent you and the

stocks in the list, put check marks next to them by date, and modify the date added from the watchlist pulldown.

Your list should then look like mine.

I've added a couple of more sorts and a couple of more tips for using this list since I originally wrote the document. This whole process is a "works in progress" and, I hope, will always be so, with improvements in sorting, etc. added as we find them.

Under the "Sorted by:" portion of TC there are a series of tabs. I now have two tabs configured as follows:

Tab 1:   "Symbol"   "Vol Avg 10-day"   "!_C > 20, 50, 100 & 200 DMA"   "!_AVGC20 > AVGC20.20"   "!_C > 50 DMA"   "!_% Above 50-Day Moving Average"   "Tracking Days in List"

Tab 2:   "Symbol"   "!_% Above 20-Day Moving Average"   "!_% Above 50-Day Moving Average"   "!_% Above 100-Day Moving Average"   "!_% Above 200-Day Moving Average"   "!_Momentum-1"

The PCFs for each of these follows:

!_C > 20, 50, 100 & 200 DMA   (C > AVGC20) AND (C > AVGC50) AND (C > AVGC100) AND (C > AVGC200)

!_AVGC20 > AVGC20.20   AVGC20 > AVGC20.20

!_C > 50 DMA   C > AVGC50

!_% Above 50-Day Moving Average   (C / AVGC50 * 100) - 100

Tracking Days in List   (provided by Worden)

!_% Above 20-Day Moving Average   (C / AVGC20 * 100) - 100

!_% Above 50-Day Moving Average   (C / AVGC50 * 100) - 100

!_% Above 100-Day Moving Average   (C / AVGC100 * 100) - 100

!_% Above 200-Day Moving Average   (C / AVGC200 * 100) - 100

!_Momentum-1   (C > AVGC5) AND (AVGC5 > AVGC5.5) AND (AVGC5.5 > AVGC5.10) AND (AVGC5.10 > AVGC5.15) AND (AVGC5.15 > AVGC5.20) AND (AVGC5.20 > AVGC5.25)

!_Momentum-2   (AVGC10 > AVGC10.10) AND (AVGC10.10 > AVGC10.20) AND (AVGC10.20 > AVGC10.30) AND (AVGC10.30 > AVGC10.40)

If you keep the names the same as I have named them, it will make it easier to talk about them, and easier for me to help you fix them should they get messed up.

Good Hunting!

Paul