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TraderDoc						Marioboza

Sector Sorting - by Marioboza

[8/30/2004 8:16:23 PM] by w2jc

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Marioboza has developed an interesting way of looking at SECTORS and their strengths, and comparing them to each other. It works well with stocks and indexes, too. He described it in an on-line session on 5/14/2004.

I have taken the logs for that discussion and added some step-by-step setup instructions, with screen shots etc, to make it easier for you to create the PCFs, setup the watchlist, and understand what it shows.

The report, in PDF format, is attached to this page --

-- jim, w2jc

[sorry to all those who had commented on the previous posting of this Report, but it got accidentally deleted this evening.]

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Sector Sorting and Stock Selection

[5/14/2004 10:44:48 AM] by Mariobozu (embellished by Jim w2jc)

this version is made with white charts, for printing.
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The "top down" approach to trading looks for agreement in three important areas of market action. Firstly, we start with the overall market, and we assess trend strength, direction, and stage (accumulation/distribution). Strength refers to the strength of the trend, the performance over a given period of time. Secondly, we look for the strongest sectors in the market (for long positions). Thirdly we find the strongest stock (with the best fundamentals) in the sector. With this method, we go from general to specific, finding the best stock which we suspect can move the first, fastest, and farthest.

This report will focus on the area of sector analysis. Sector analysis with TCNet is done by studying the Media General Industry Averages (MGIA). The MGIA's are represented by Groups and Subgroups. It is easier to sort the MGIA's if you make a watchlist of only the subgroups. To do this, you exclude all the MGIA's with numbers ending with a zero, except conglomerates (has no subgroup). Start by copying the MGIA list to a new list you'll call, Clean Universe of Industries (or something like that). Then, go through the list and flag the ones you want to exclude, and remove them from the watchlist.

Now, how do we sort them? One thing to keep in mind is that a sector which has made a significant price gain for the year, may have already run its course. We don't want to buy tops! So simply sorting by price % change isn't the only answer. Ultimately, you will have to look at the charts to see whether the subgroup is trending strongly, consolidating, or is ready to fall. When you view your MGIA subgroup charts, I think about them in this way:

- Strong performance, weak, ready to fall (ignore)
- Strong performance, strong, pattern should continue higher (interested)
- Weak performance, strong, starting new trend (consider buying pullback from initial breakout)

This would be opposite for finding weakness for shorting.

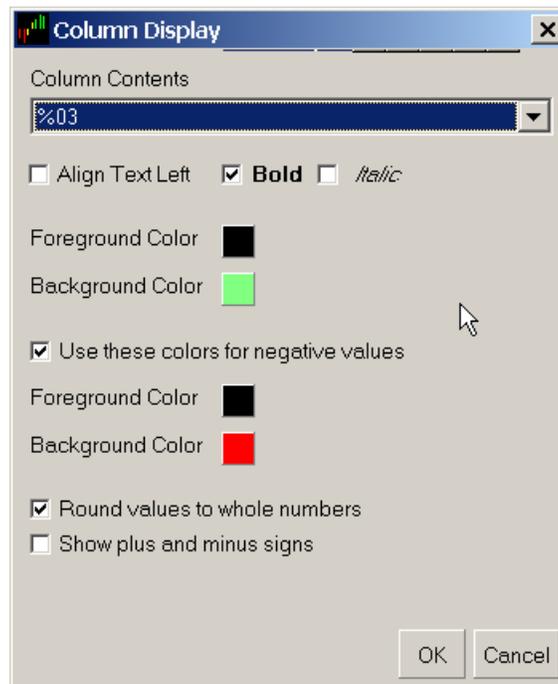
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One of the limitations with sorting your subgroups by a simple price percent change over a given time period, is it doesn't provide much perspective, only the timeframe you're studying. One way to "visualize" the strength and movement of subgroups over time is to set up a special tab showing performance of subgroups over a span of time periods.

I set up 11 columns in one of the watch list tabs. After one column for the subgroup symbol, I am left with 10 columns representing price percent change for 3, 10, 21, 31, 42, 52, 63, 84, 116, 126 days. TCNet ranks price percent change in a "rank" from 1-99. So I make 10 different PCFs where I can see an actual %, rather than a rank.

If you decide to do this, call your PCFs "%10," "%21," etc. That way, you can read the heading of the column when you have several close together. Squeeze your columns close so you can still see a decent-sized chart. Color you background green, with red for negative values. Also, choose rounding off of numbers. Decimals are not necessary.

Saroj says: Hint: set Tab2 up with the colors, etc. as Mario suggests. Then add a column to the right for each of the others. They will "inherit" the settings of Tab2.



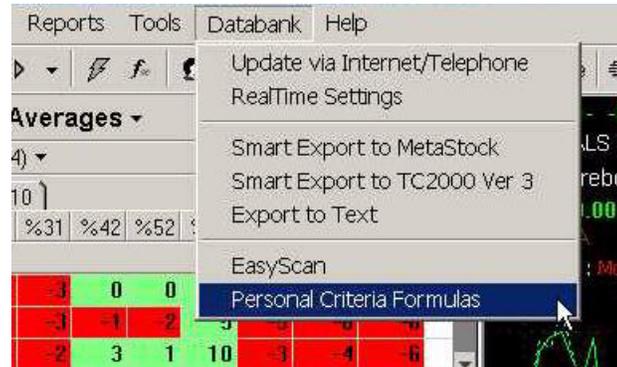
Be sure to calculate your pcfs first.

Sector Sorting and Stock Selection

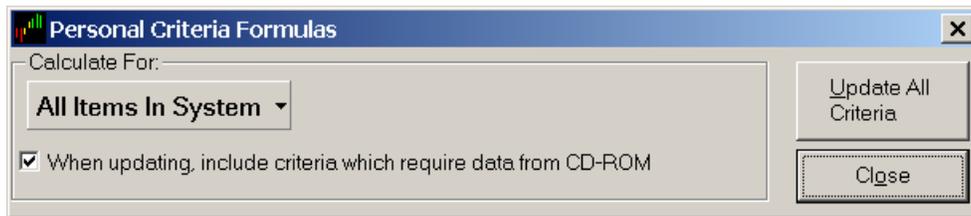
Otherwise they won't be available to insert into tabs.

Once you have created all your ten new PCFs, update them right away with the following steps:

Click on Databank / Personal Criteria Formulas



You will then get the 'update menu' for the PCFs.



Be sure the little white box at the lower left of the window has a check-mark showing in it (it's important the first time you set up a PCF that it gets calculated with historical data).

Also, make sure the "Calculate For:" tab says "All Items In System" -- (it should normally be left with that setting, but some folks have had problems because it was set to something else).

Now click the "Update All Criteria" button.
(This update will actually calculate ONLY the new PCFs)

Next time you run the PCF Update, un-check the lower left box.

The PCF for "%21" is $(C - C21) / C21 * 100$. Change the values for other periods.

Remember, by clicking on "ABC..." tab, you change the watchlist sort from top down to bottom up (for shorting).

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Now, when you sort for price % change 10 day, you can see a cross section of performance with actual price % changes. Furthermore, you get a visual picture of the sectors by the pattern of green and red boxes. For a given subgroup, if all the columns are green, except the %10(red), then you might be seeing the early stages of a downtrend. If all are red, but the %10 turns green, you may be catching a new uptrend. You can use any numbers you like for the columns, or set it up differently, but the general idea is the same.

File WatchList Chart Template Reports Tools Databank Help											
New Jump Back Forward Profile Clubs Alerts											
All Media General Industry Averages											
Sorted by: %03 (08/18/2004)											zyx.. ↓
1	2	3	4	5	6	7	8	9	10		
Symbol	%03	%10	%21	%31	%42	%52	%63	%84	%116	%126	
Company Name											
MG734	4	1	-2	-6	-4	1	7	-1	-9	-6	
Grocery Stores											
MG528	4	0	-6	-1	-5	1	4	7	11	10	
Medical Practitioners											
MG311	4	1	-4	-10	-8	-10	-6	-14	-16	-16	
Appliances											
MG820	4	-1	-3	-5	-9	-6	-4	-11	-10	-13	
-Computer Software & Services-											
MG420	4	2	1	-1	-1	0	3	-4	-10	-9	
-Financial Services-											
MG448	4	5	2	6	7	15	18	17	10	8	
Mortgage Investment											
MG763	4	0	-3	-3	-2	-1	3	-8	-7	-8	
Personal Service											
MG111	4	-1	-1	-1	-2	1	5	-4	-5	-5	
Chemicals - Major Diversified											
MG131	4	2	4	13	19	22	28	9	2	5	
Steel & Iron											
MG512	4	1	-2	-8	-10	-9	-7	-13	-14	-13	
Drug Manufacturers-Other											
MG762	4	0	3	6	6	11	14	6	6	4	
Rental & Leasing Services											
MG744	4	-8	-16	-25	-24	-24	-24	-26	-27	-22	
Music & Video Stores											
MG442	4	0	0	1	4	5	10	6	-5	-1	
Reit-Office											
MG526	4	0	-3	-2	-2	-2	2	12	12	14	
Medical Laboratories & Researc											

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Some notes by w2jc:

Notice that MG131 is green all the way across ... wow, what a sector !!

If we click, in the watchlist, on the MG131 line
the chart for MG131 will display in the main chart area.



and we see that since May 2004, the Steel & Iron sector
has been climbing steadily.

All you have to do is click on the % change heading in the column,
and the list re-sorts for a different timeframes. Sort by % change 10
day, and you can compare the recent movers to their long-term
performance. Then click on %126, now you can see the best

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performers over 6 months, and what their recent performance has been in the other columns. You get the idea.

As an example, MG344 is all green, except that the 10-day price change is "0." Also, there is a nice progression of price percent change, from 33% to 11% to 3% to 0%. This indicates that the stock was trending, not in a choppy pattern. The "0" is close enough to negative for me. Is this subgroup (sector) ready to fall? Looking at the chart, I see a daily double top. The sector has been going sideways for about 3 weeks. So the visual representation and the chart are telling me the same thing.

You can also notice which sectors are in the middle of a downtrend. About half of the columns will be red (most recent), half will be green (older). Right now, MG712 (Resorts & Casinos) are red %10-42, and green %52-126. As I look at the chart, the sector has dropped below its 50 day moving average after forming a double top in April. This sector has been outperforming since the second quarter of 2003. I'll be looking for a rebound up and see if it's worth shorting. But I would no longer be interested in a long position for any of the stocks in this sector.

Now when you find a sector you like, just jump to the sub-industry components, and you can do the same with the individual stocks. Look at the red/green patterns. See what's moved across different timeframes. Quickly find the top performer. Sort by different time frames quickly.

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So now let's take a look at the SUB-INDUSTRIES in the Steel & Iron sector....

In the chart area, at the upper left, click on the sub-industry name "METALS & MINING - Steel & Iron"

You should get a drop-down menu. At the bottom of that menu, click on the selection that says "Change WatchList to Sub-Industry Components"



This will give you a watchlist with the tickers of all the stocks that are in the sub-industry we want to see.

Steel & Iron ▾											
Sorted by: Ticker Symbol (08/17/04) ▾											abc.. 1
Symbol	%03	%10	%21	%31	%42	%52	%63	%84	%116	%126	
AKS	3	-7	-16	17	34	27	52	-1	8	20	
ATI	4	-7	-4	0	21	39	83	53	35	39	
CGA	2	-4	2	8	22	28	51	8	-4	-7	
CLF	1	-3	16	18	26	38	64	10	0	17	
CMC	8	-6	-8	3	-2	10	29	12	7	9	
CRS	8	-3	21	20	27	32	52	31	19	16	
FRD	10	-2	-14	6	23	37	40	49	59	36	
GGB	0	10	22	31	44	55	87	43	44	55	
HSVLY	0	-4	21	27	34	31	42	1	23	31	
IMY	-2	-9	-5	5	8	12	22	23	17	8	
INMT	4	-2	-2	-18	-14	-16	-15	-19	-31	-29	
IPS	9	2	2	8	18	28	40	24	31	28	
ISG	3	-3	-4	4	7	5	14	-18	-29	-17	
IST	3	34	64	75	94	104	139	130	196	217	
MG131	3	1	3	12	19	19	34	7	1	3	
MTLM	-3	-15	-16	-19	-11	2	21	-10	-23	-21	

I find this approach helps me get a better handle on where the strength is in the stock. Is there strength ahead, or only behind? Is

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the subgroup starting a new trend, or ending an old one? It also helps identify pullbacks in a strong uptrend, which would be mostly green boxes, and 1 or 2 "recent" red boxes.

You'll be amazed once you start looking at sectors first. You can find the strong sectors quickly, then find the strong stocks quickly, and you've already put your next trade in a lower risk category. When you identify the subgroup with the stocks, you'll see why the stock has been doing well (the whole sector has been on fire). Well, that's about it. Have fun.

Mario