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From a Declaration of Principles Jointly Adopted by a Committee of the American Bar Association and a Committee of Publishers

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Figure 1-1. Risk Components of a Globally Diversified Portfolio

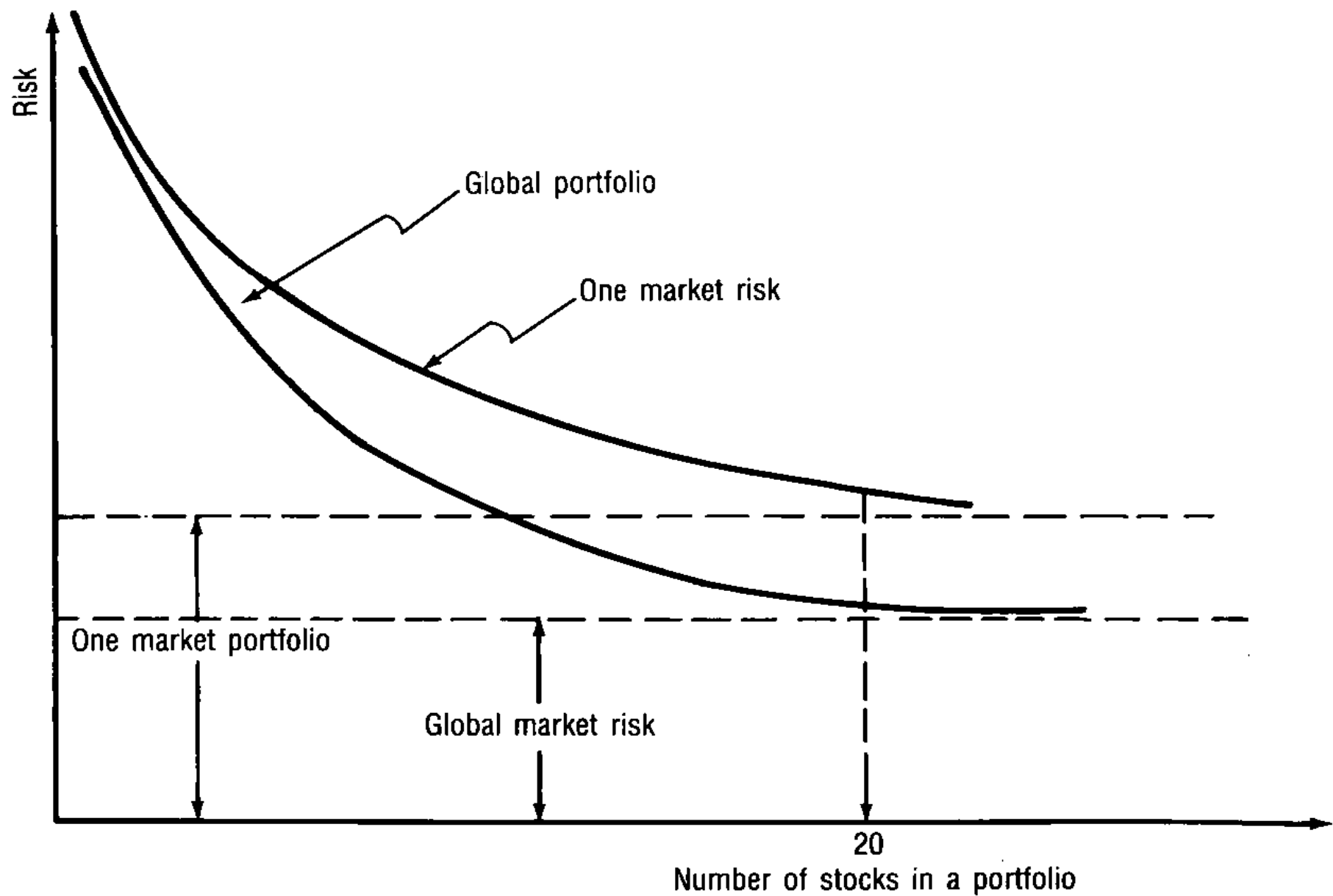


Figure 1-2. Systematic and Unsystematic Risk Components of a Portfolio

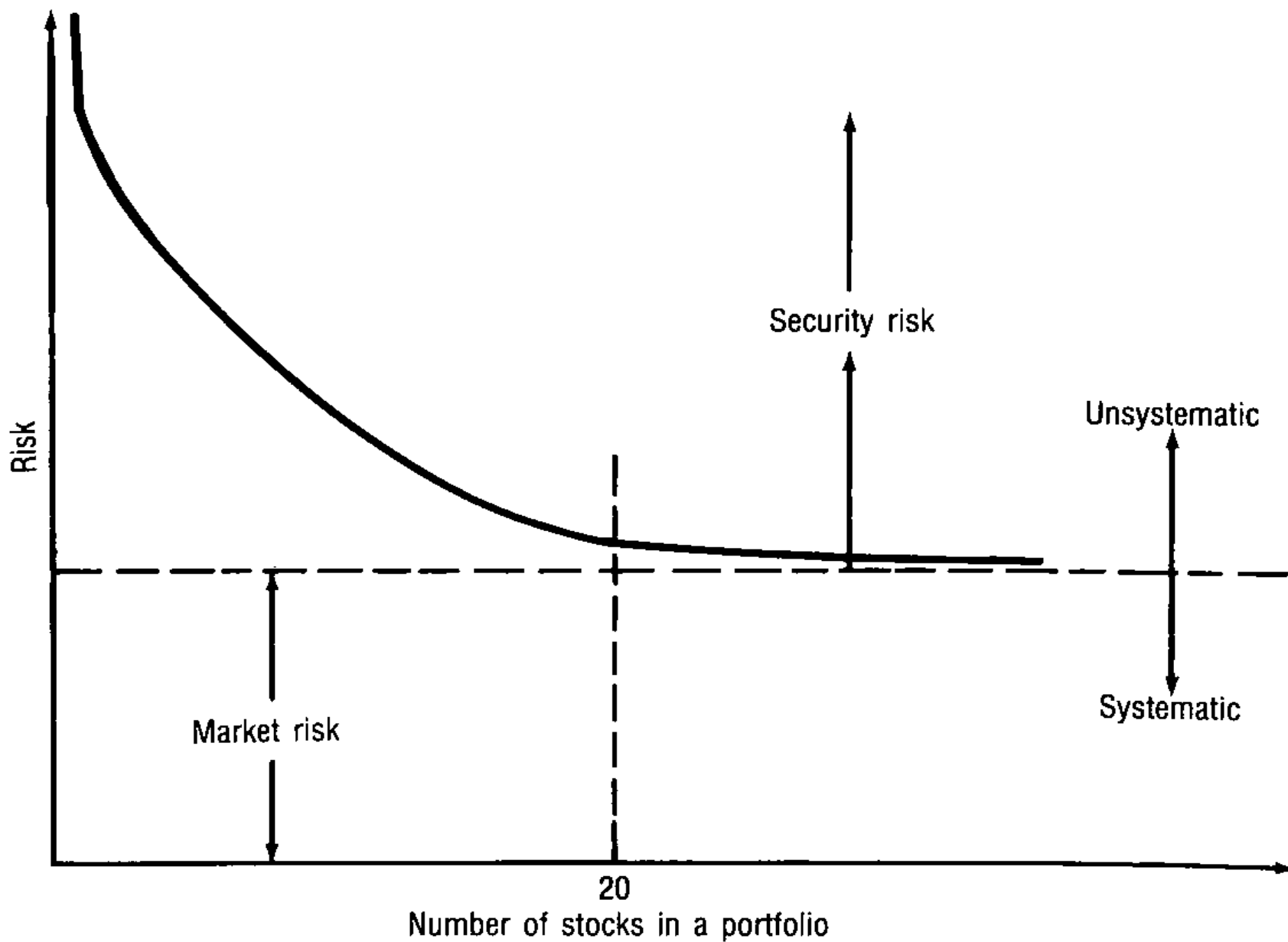
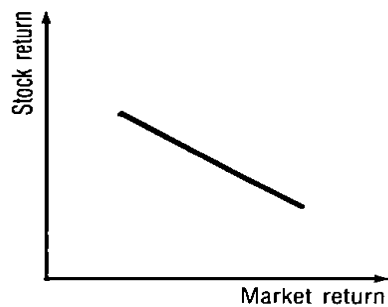
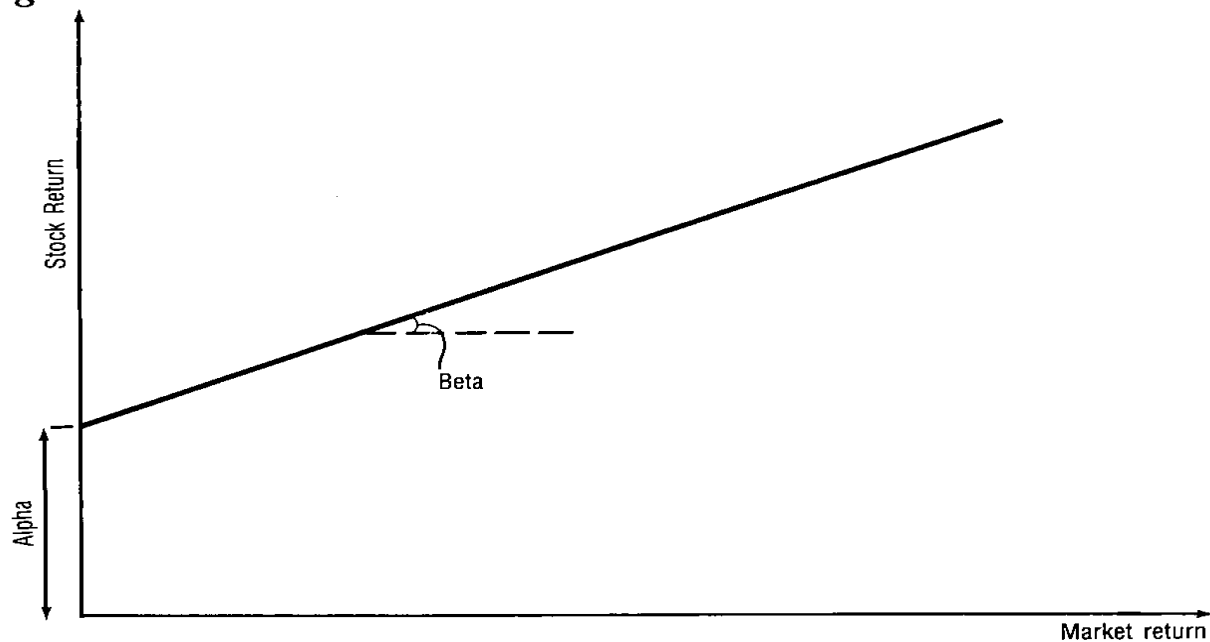
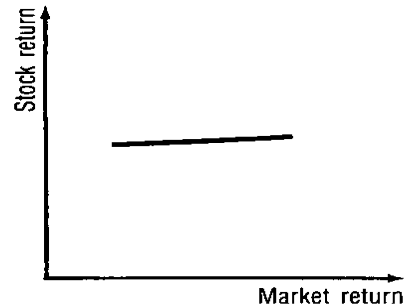


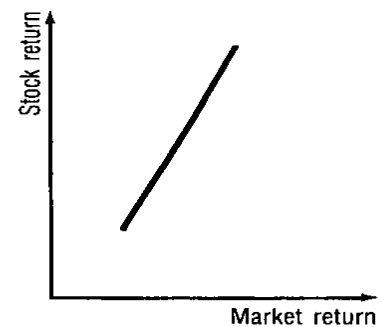
Figure 1-3. Stock versus Market Returns



Case 1
The stock underperforms the market. Beta is negative.



Case 2
The stock and the market have equal returns. Beta is zero indicating flat performance.



Case 3
The stock outperforms the market. Beta is positive.

Figure 1-4. Wang Laboratories and Compaq Monthly Charts and Examples of Steep Positive and Negative Slopes

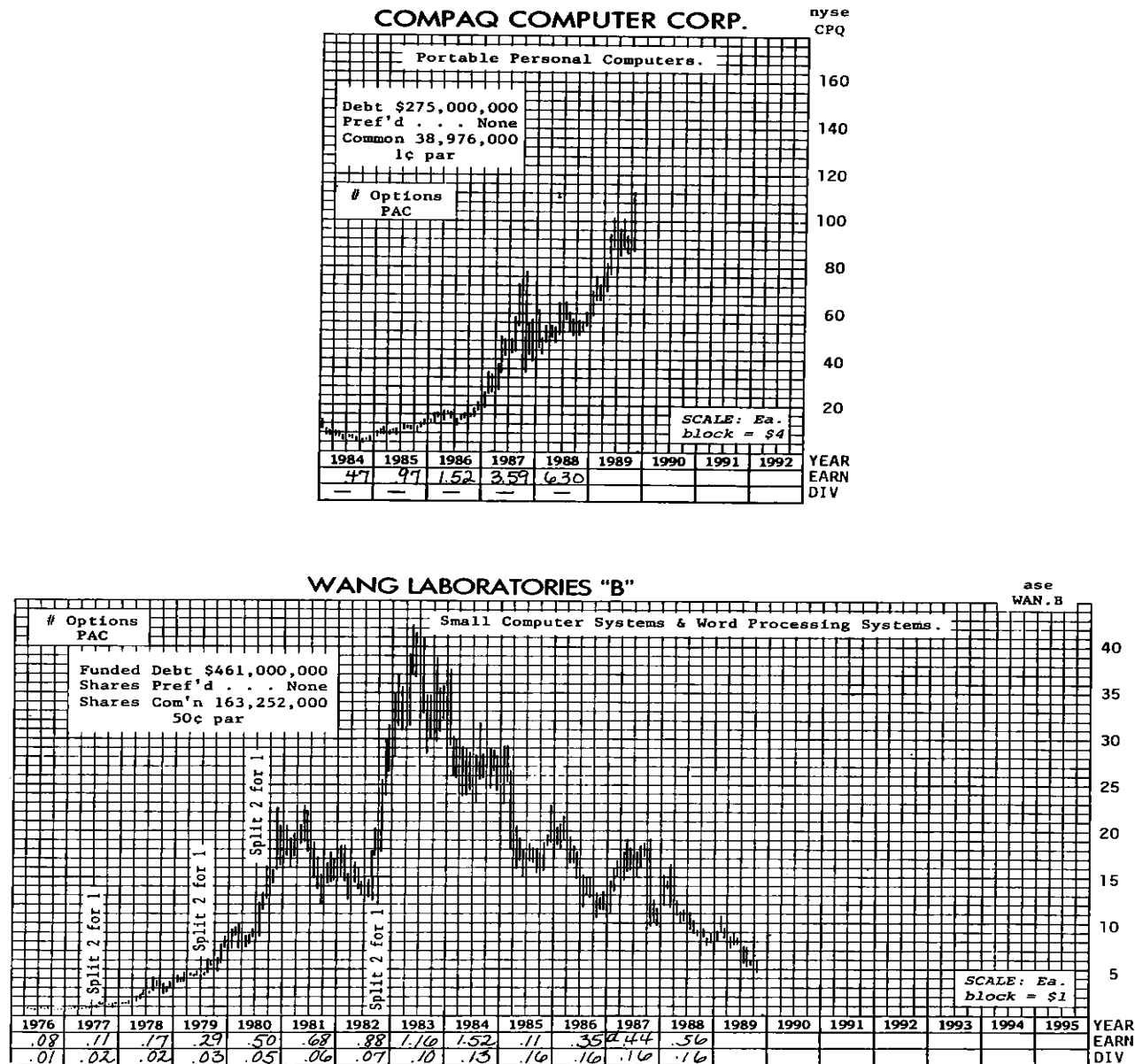


Figure 2-1. Industrial Production vs. the Stock Market

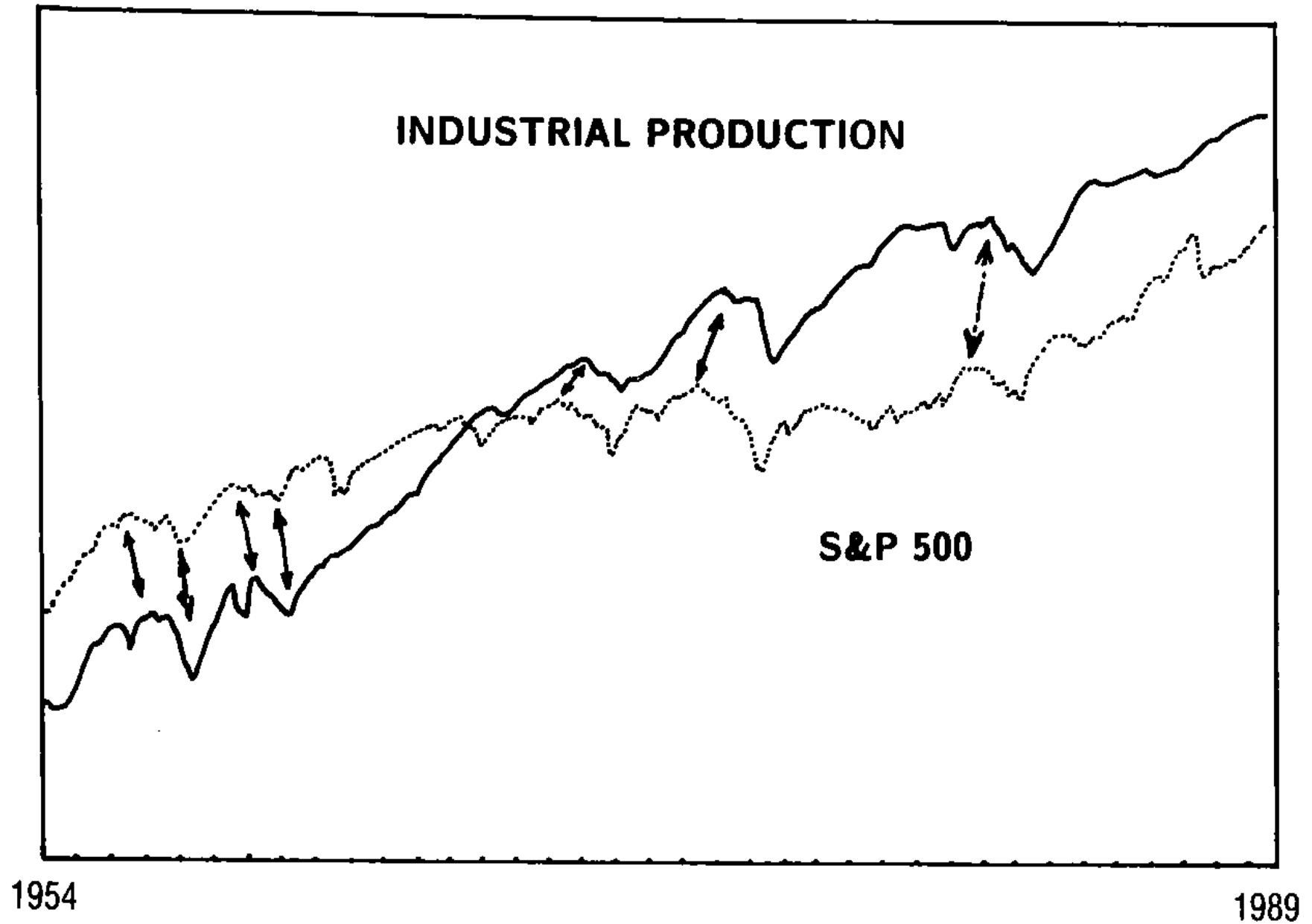


Figure 2-2. Some Stocks Outperform the Market While Others Underperform It

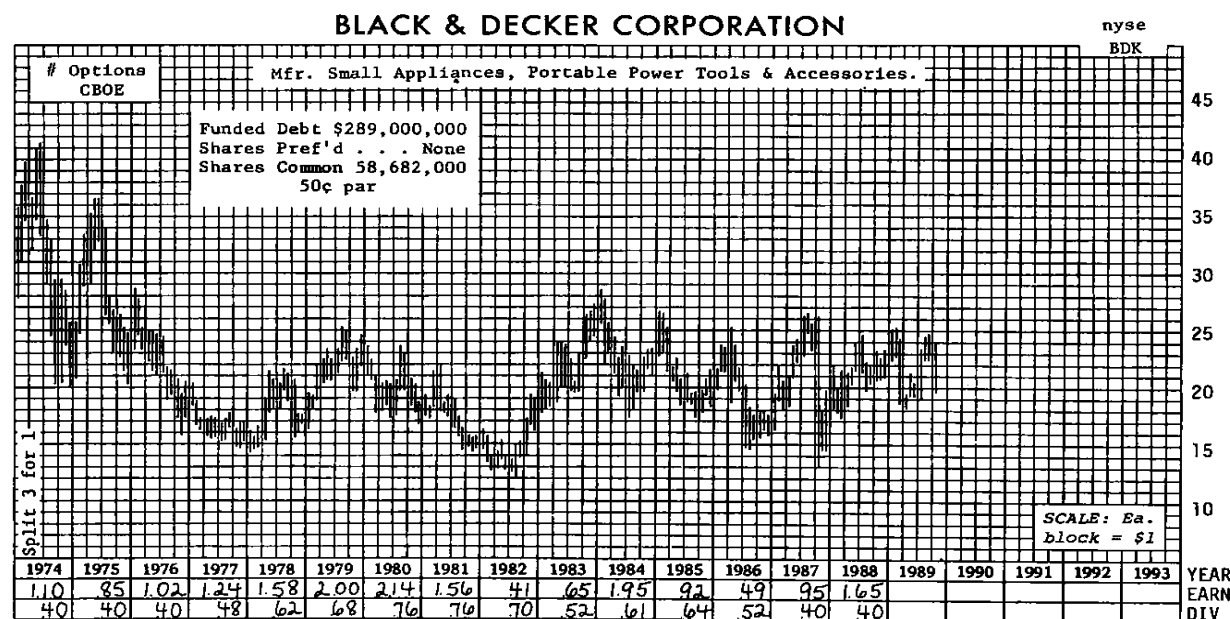
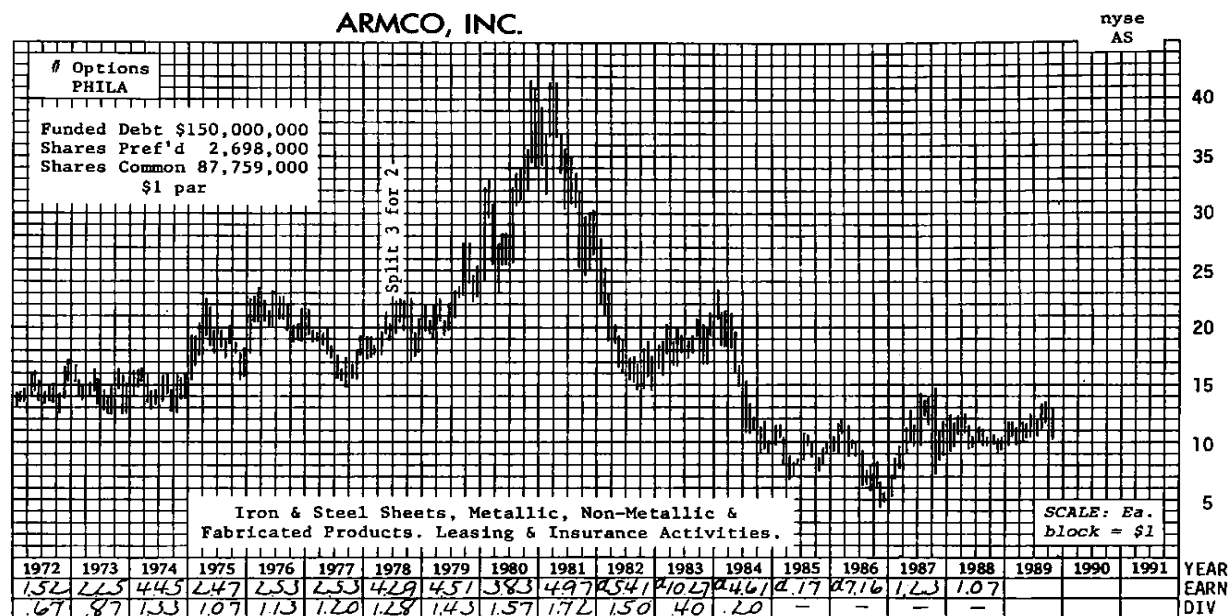


Figure 2-2. (continued)

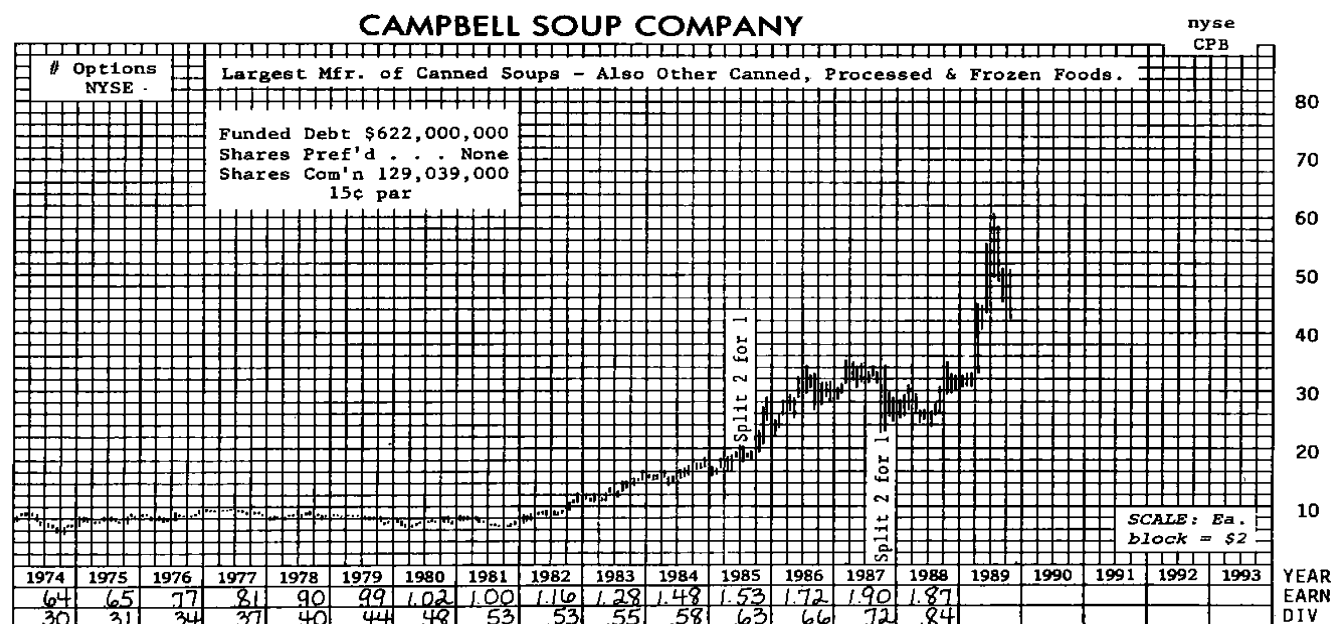
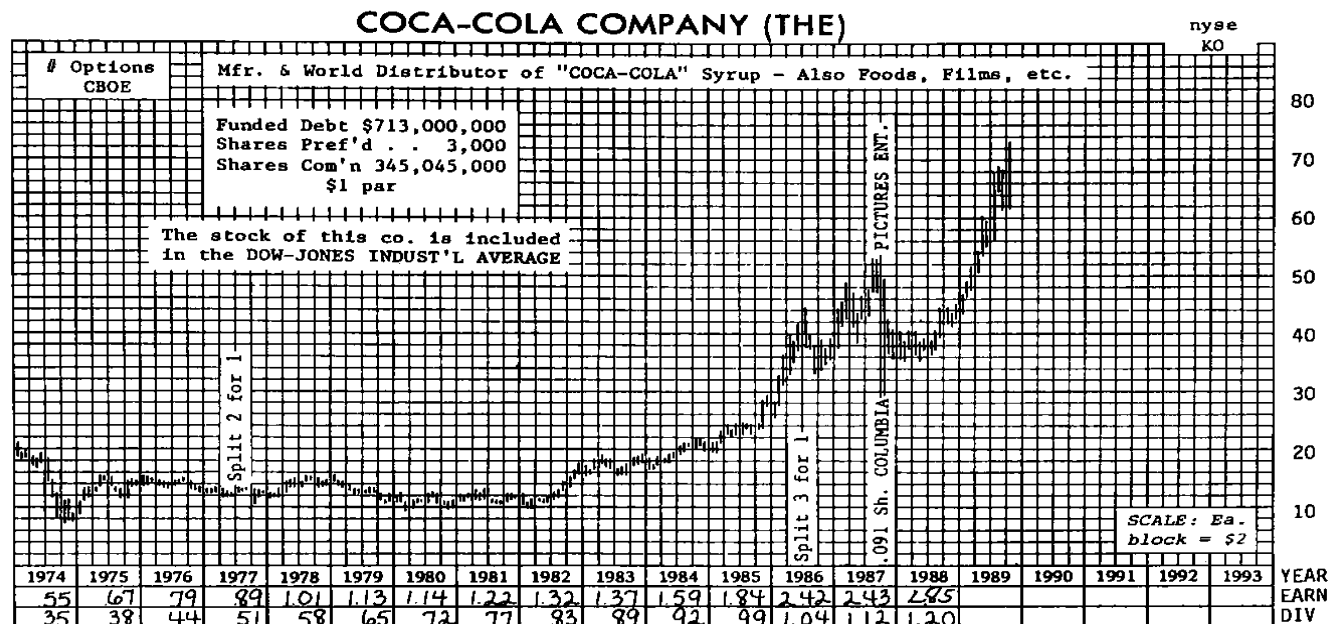


Figure 3-1. The Market Cycle

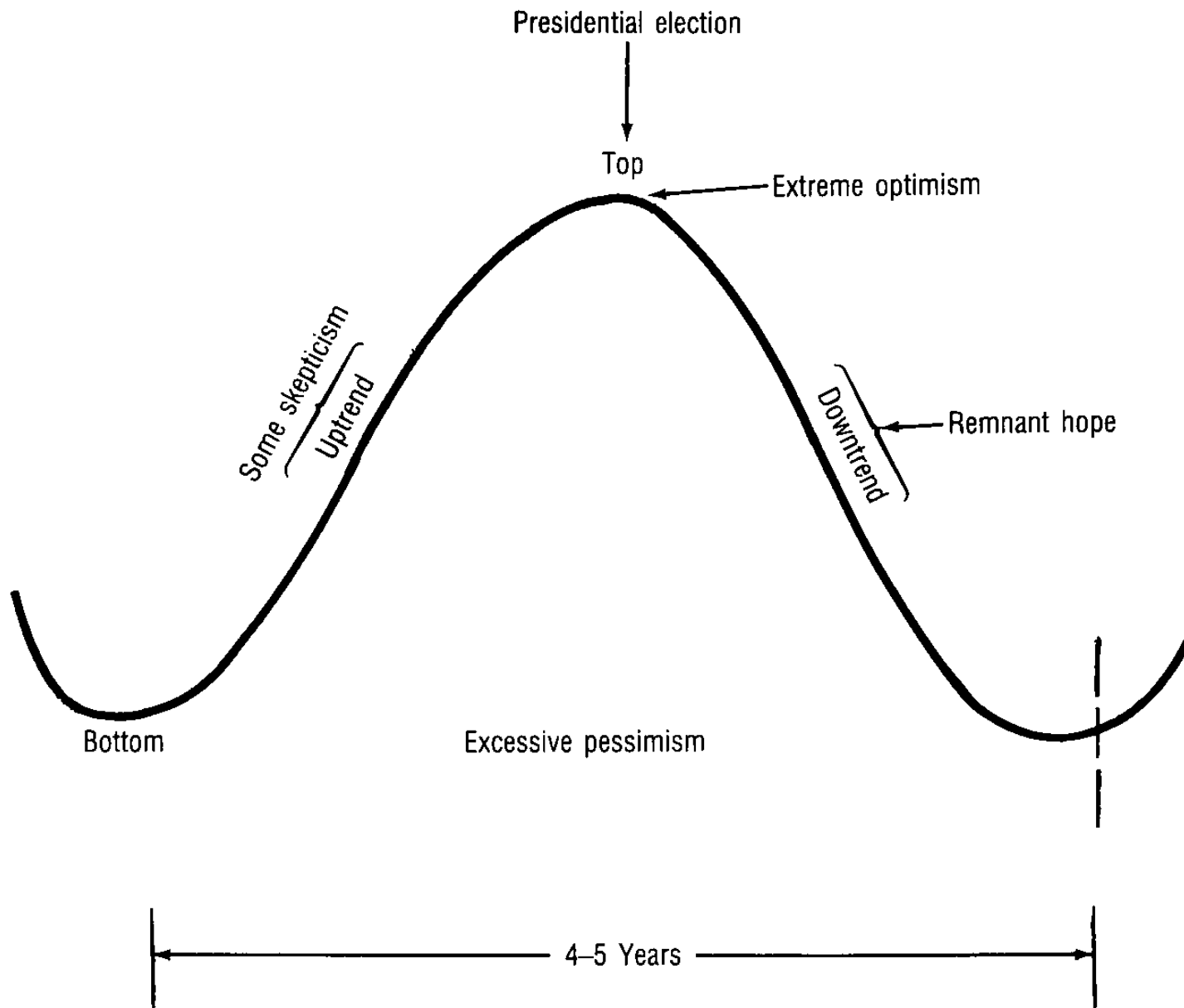


Figure 3-2. Decennial Patterns and Secular Trends

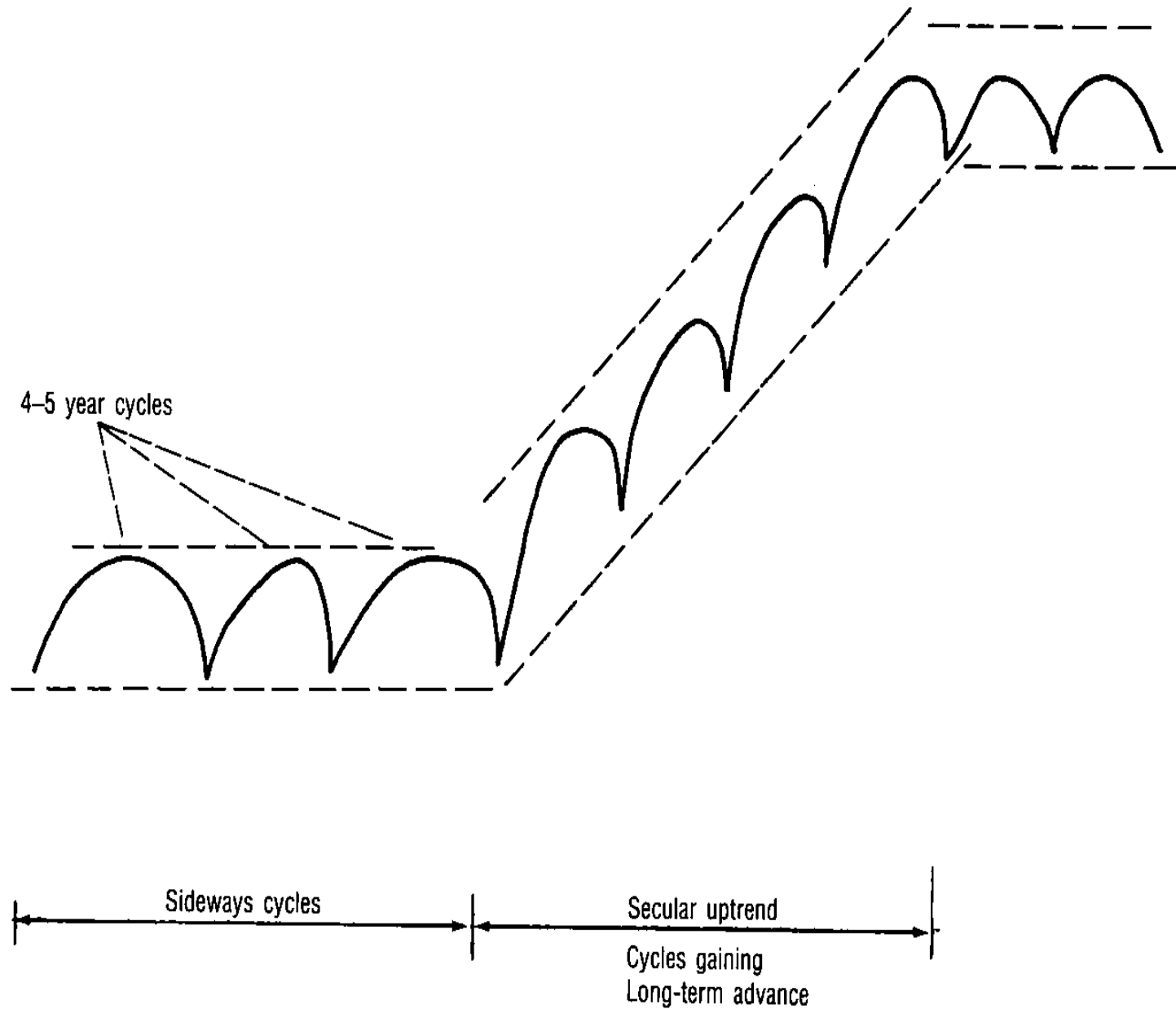


Figure 3-3. Dow Theory Concepts of Trend Analysis

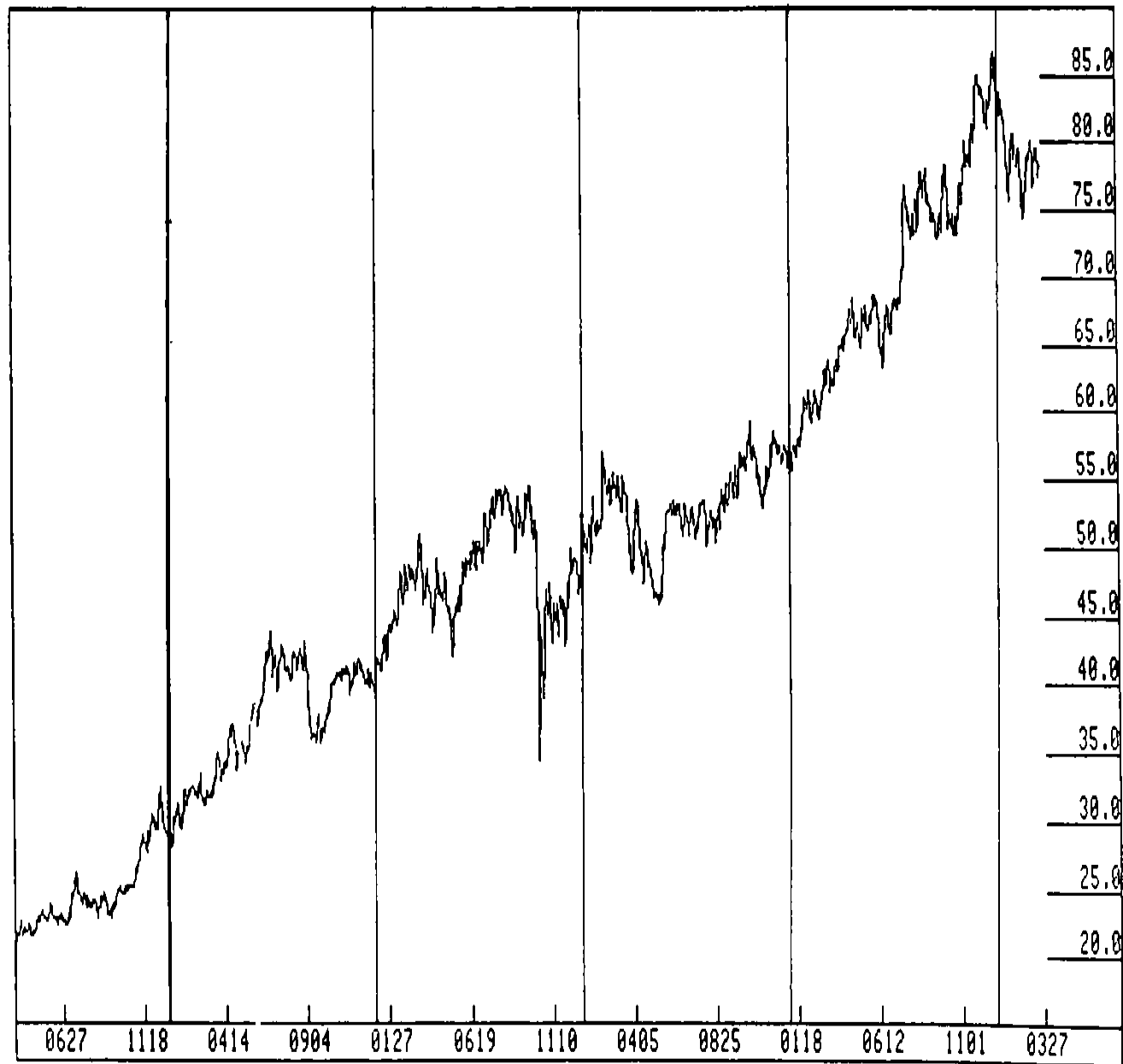


Figure 3-4. Dow Jones Industrial and Utilities Averages in 1987

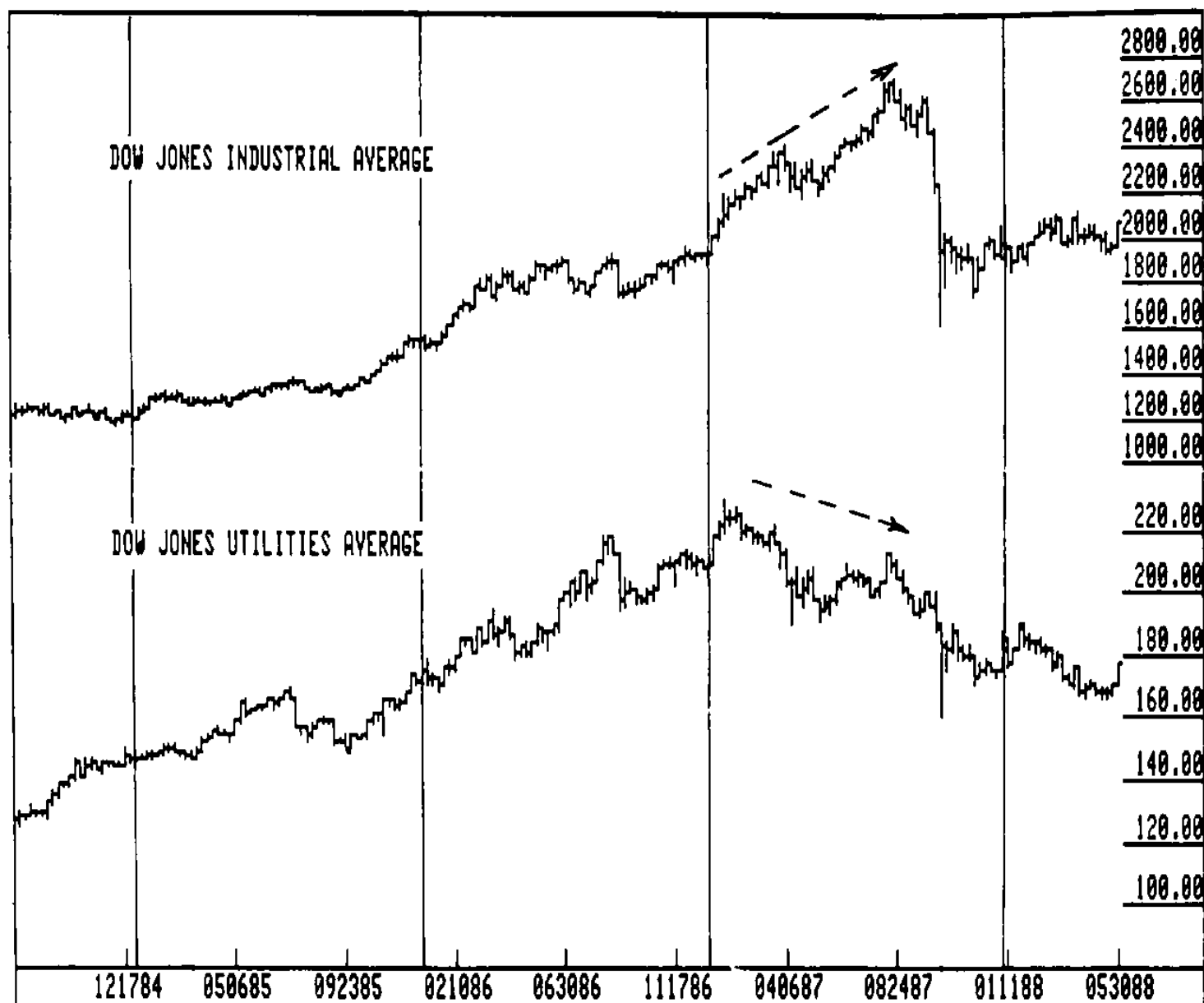


Figure 3-5. Major Market Averages and the Principle of Nonconfirmation

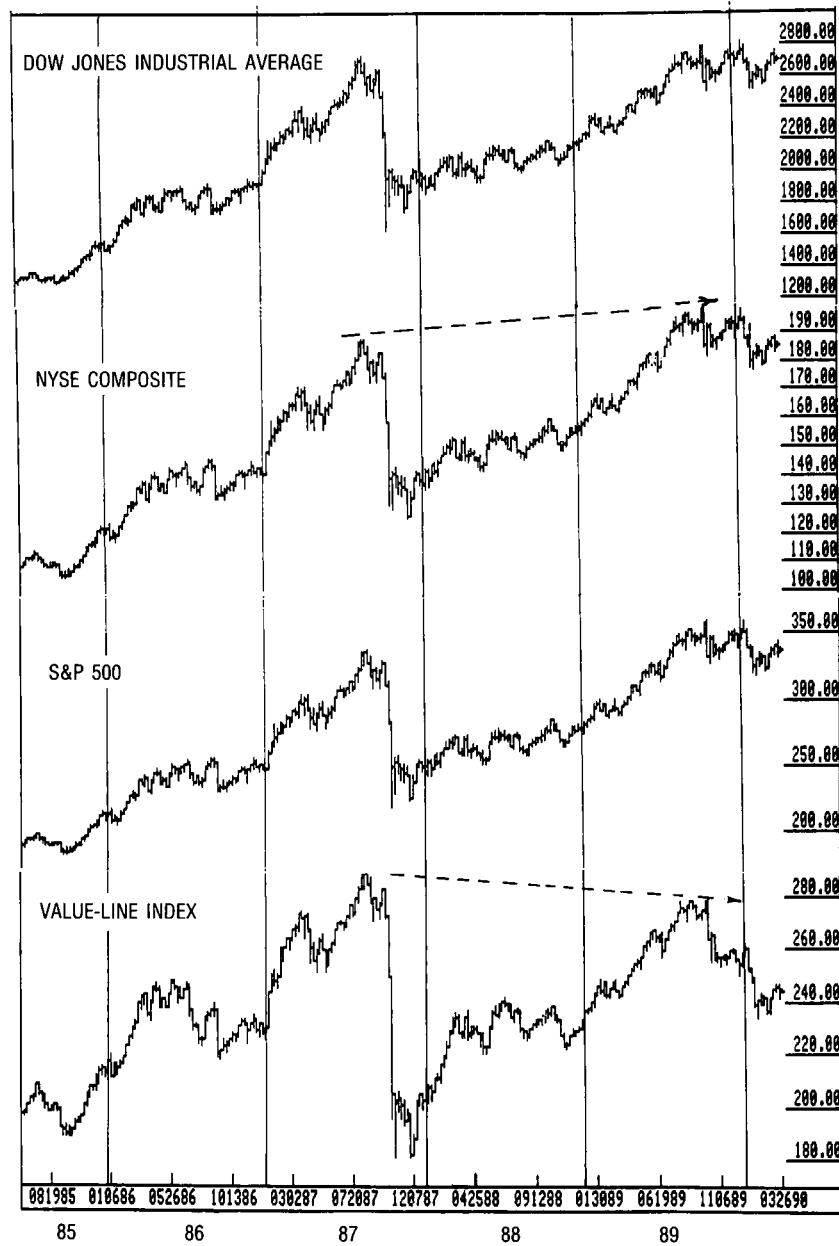


Figure 3-6. Dow Jones, Amex, Nasdaq and Value-Line

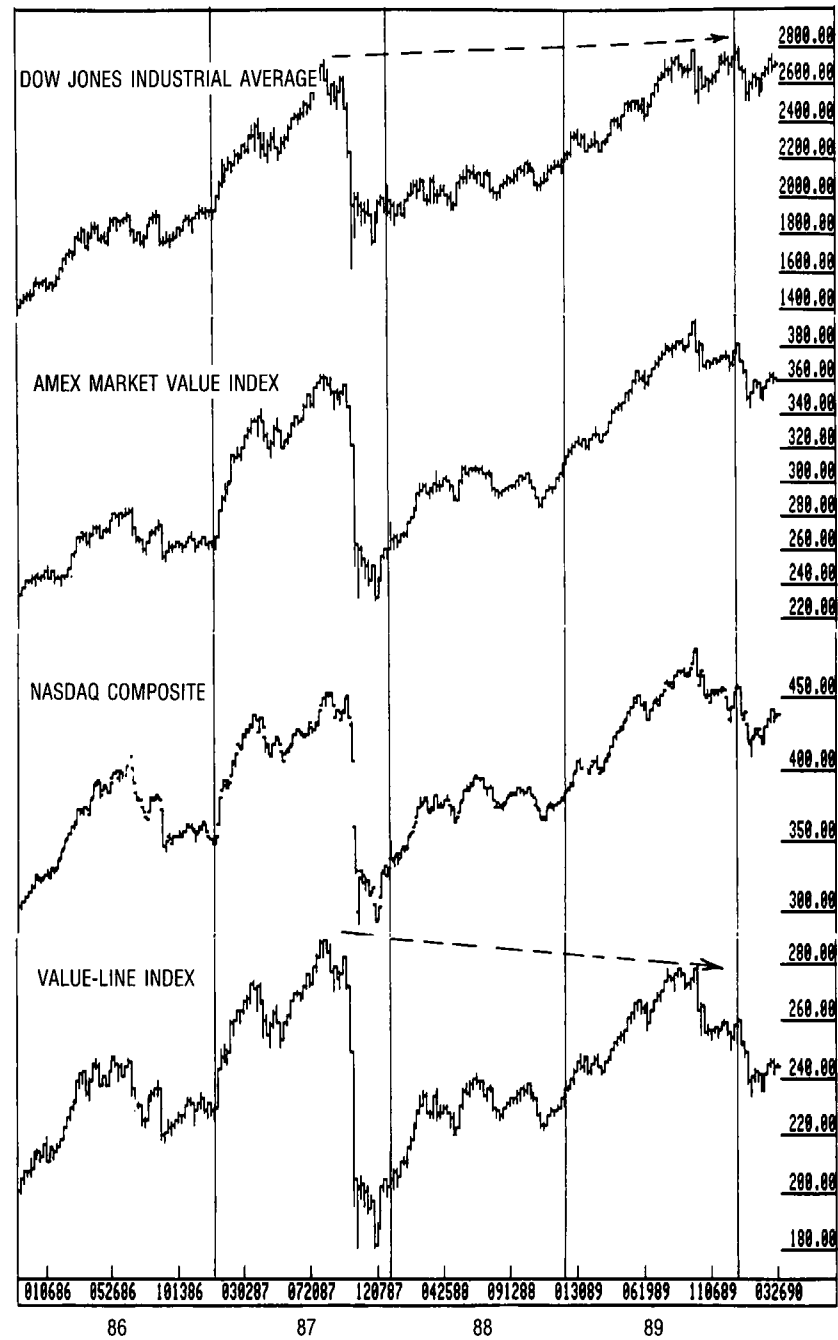


Figure 3-7. The CRB Index and Its Components

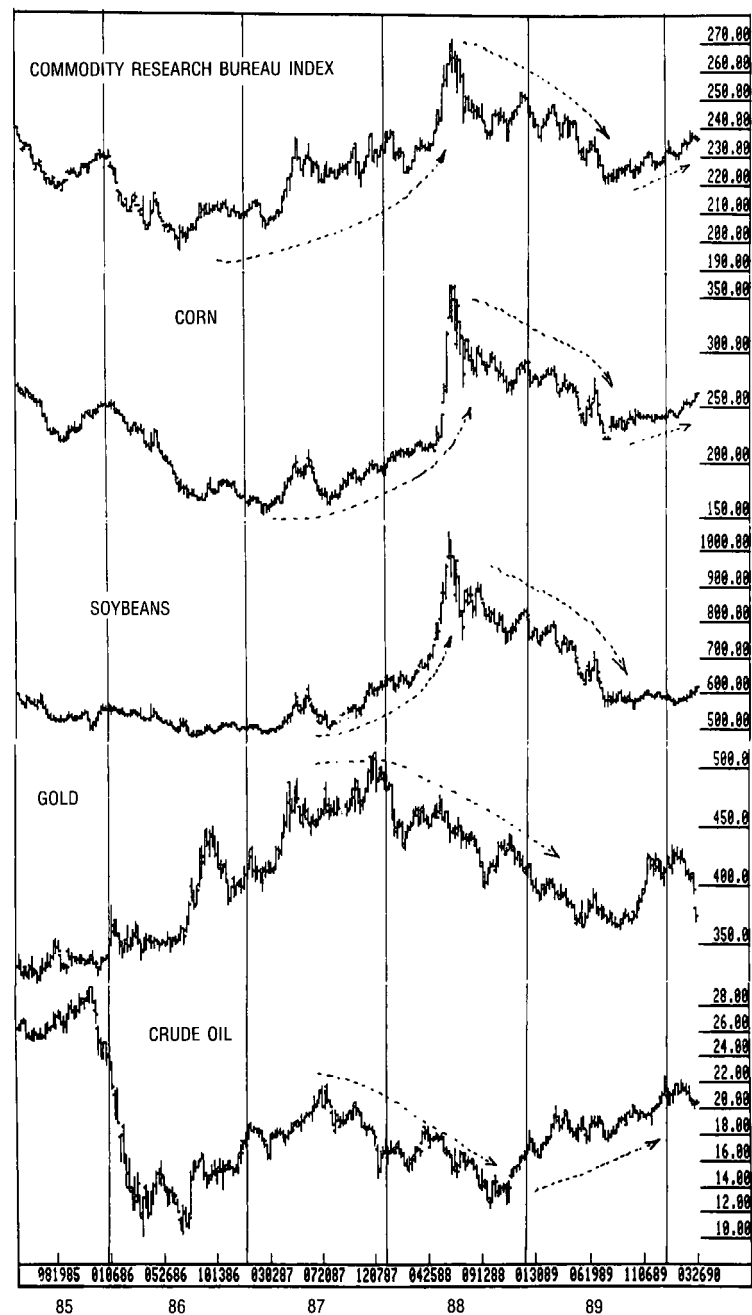


Figure 3-8. Relative Strength of the Dow to Value-Line

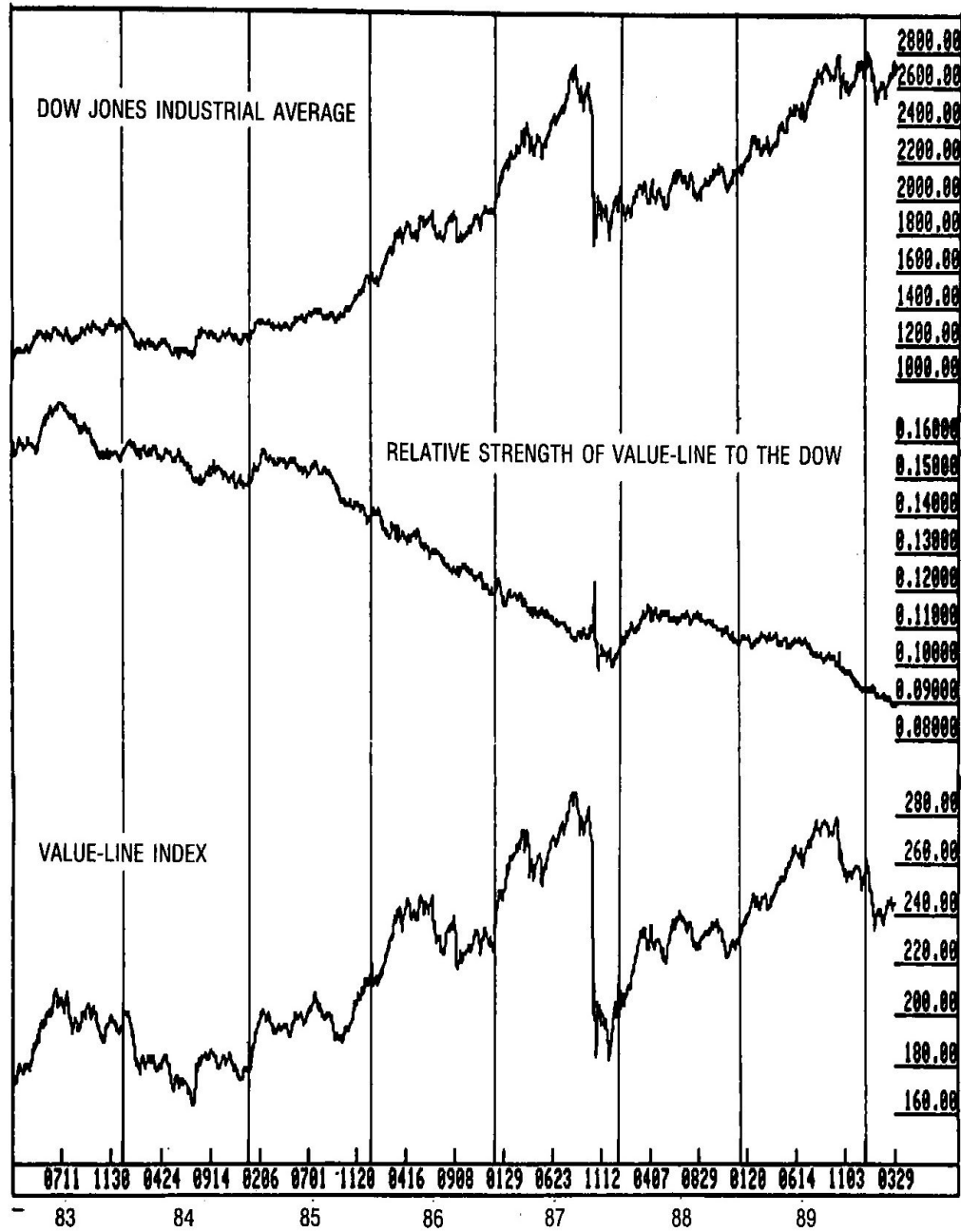


Figure 3-9. Relative Strength of Nikkei Dow Jones to Dow industrials

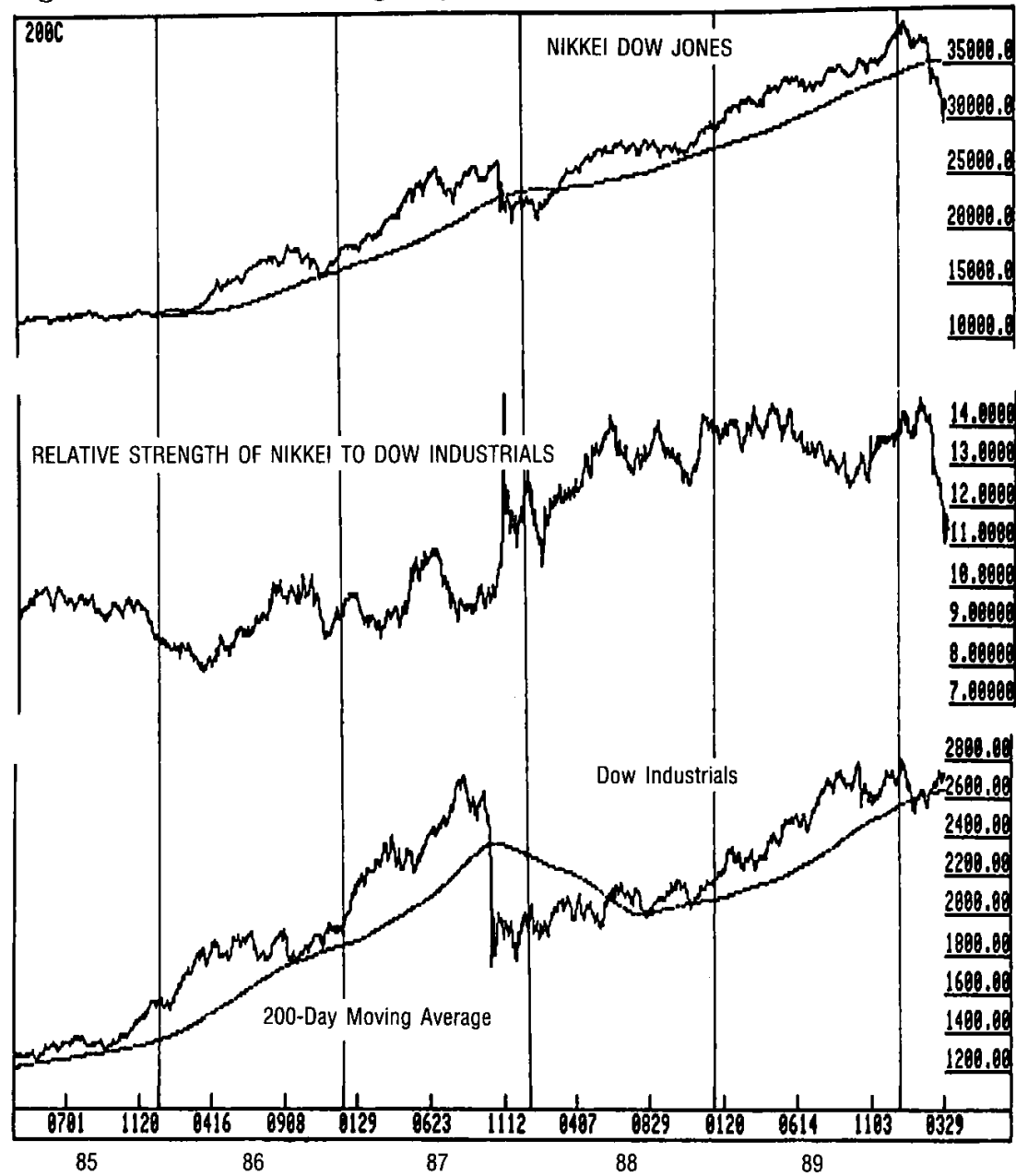


Figure 3-10. Gold, Treasury Bonds, and the Dow industrials

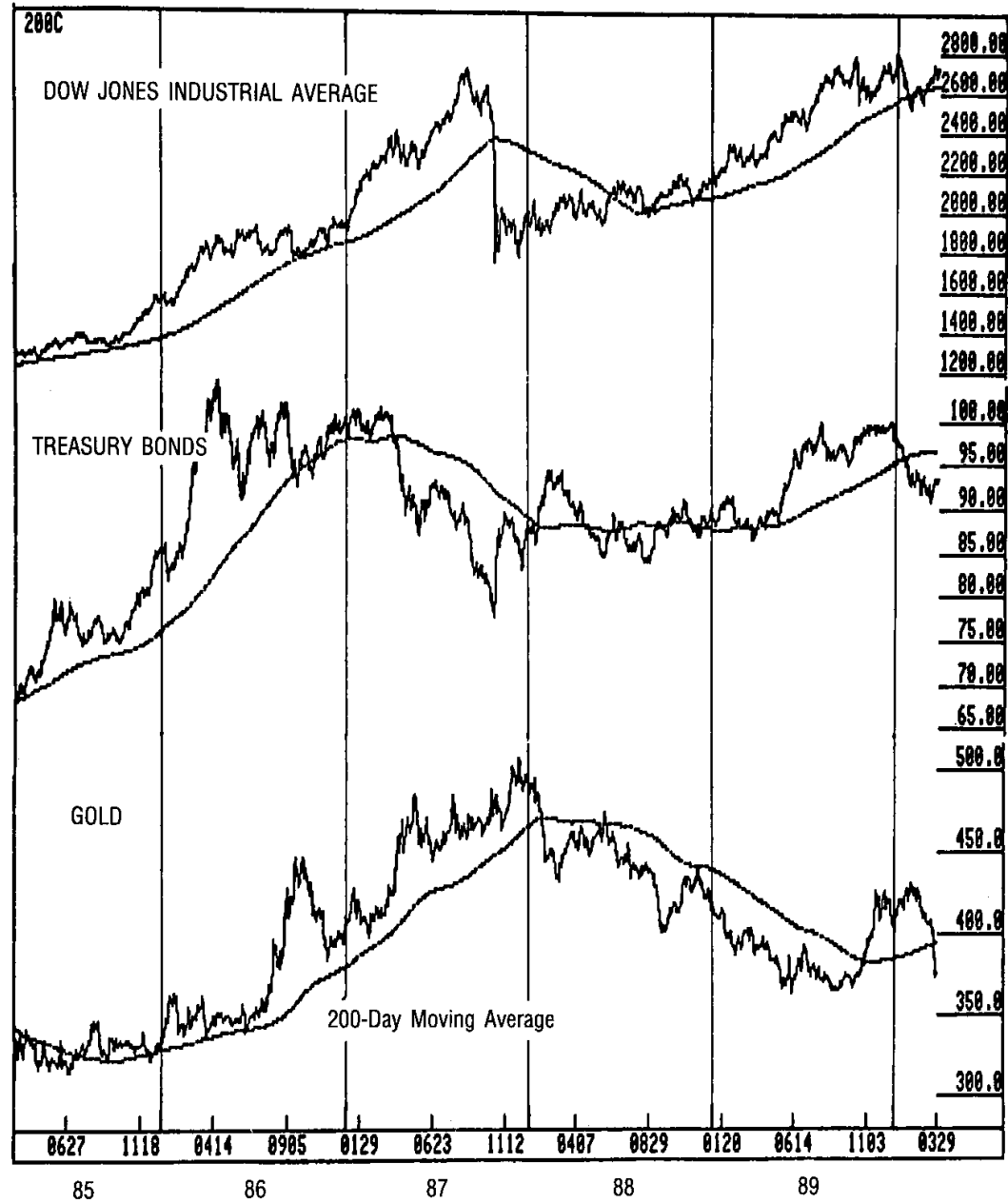


Figure 3-11. IBM vs. Dow Industrials and the Technology Index

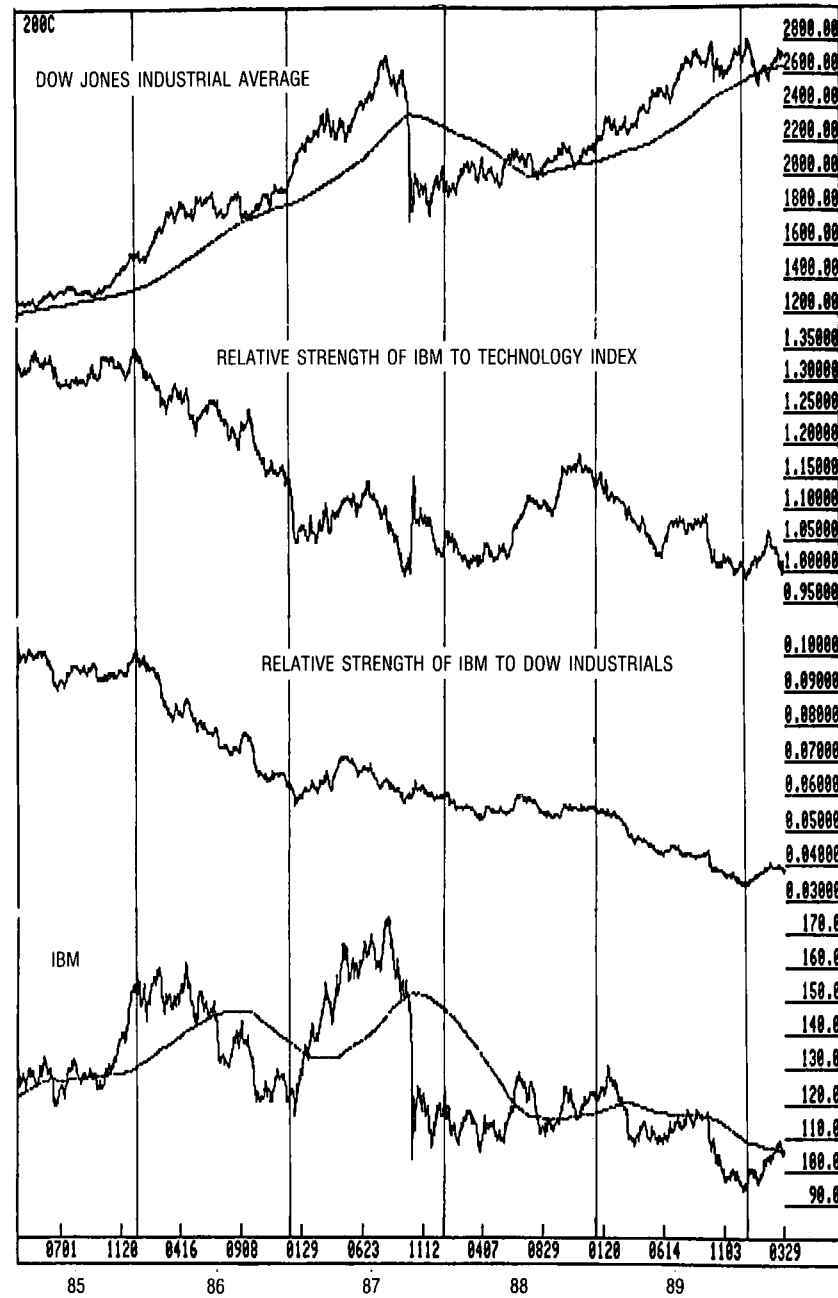


Figure 3–12. Examples of Up and Down and Neutral-Trend Lines and Channels

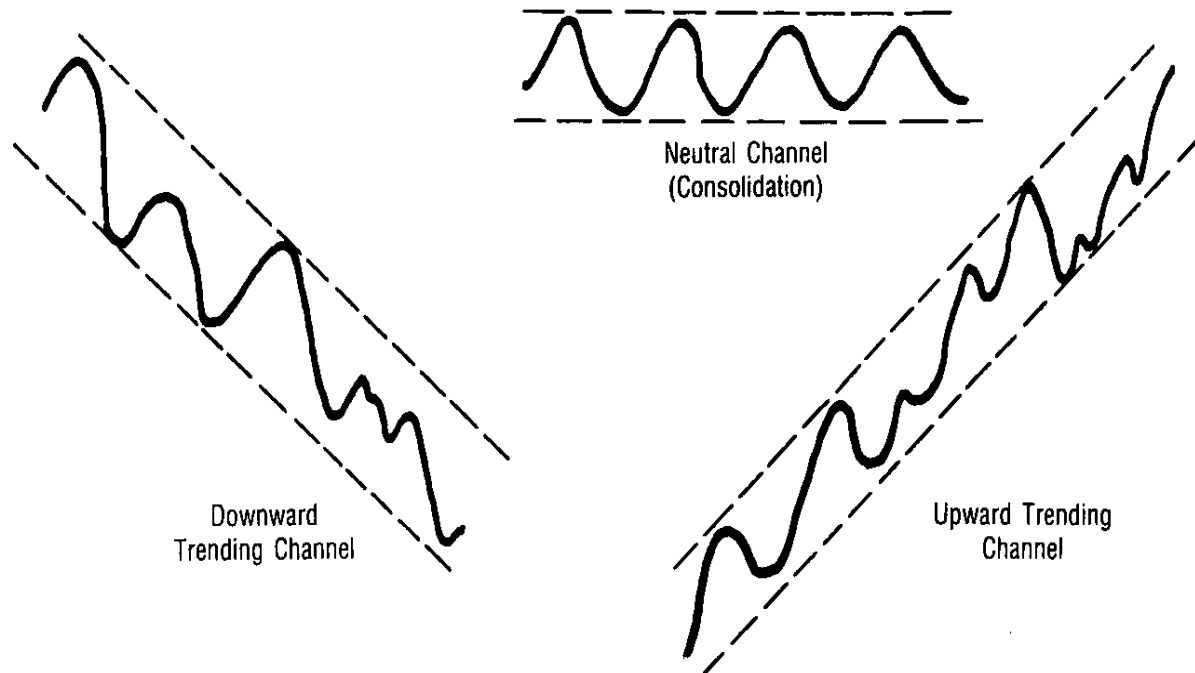


Figure 3-13. The 50- and 200-day Moving Average

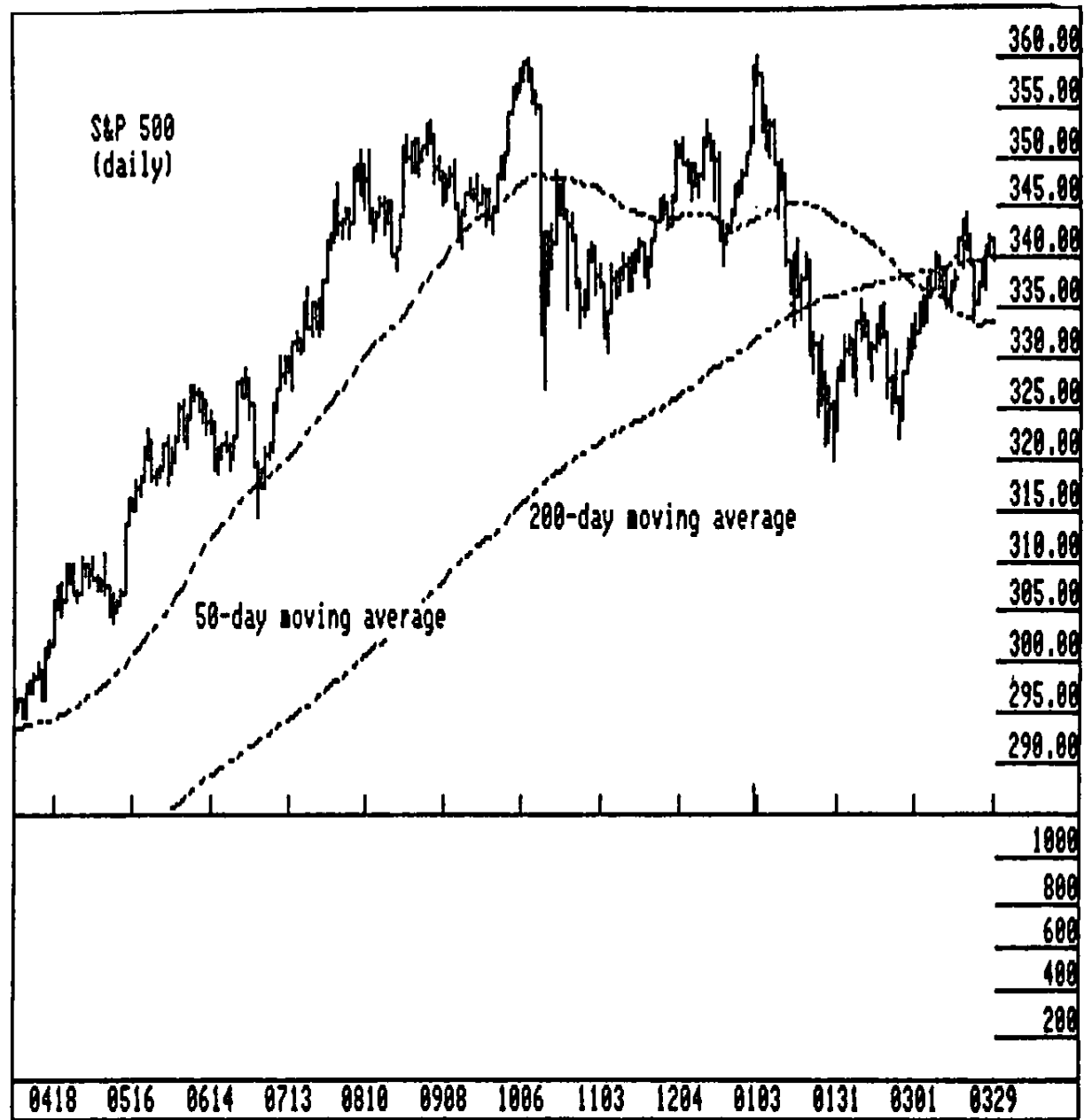


Figure 4-1. Spot market prices and unemployment

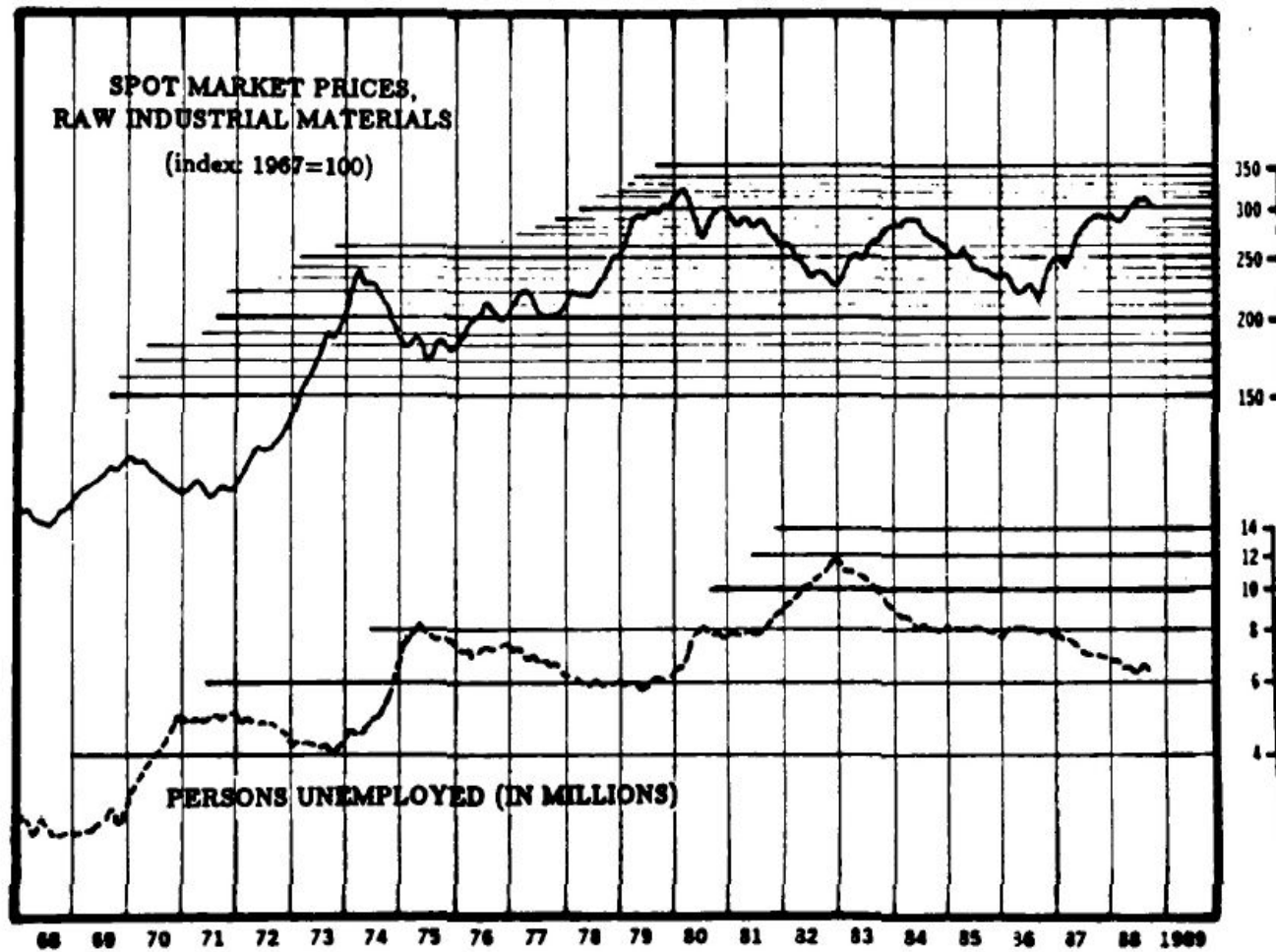


Figure 4-2. Federal Funds rate and stocks and bonds

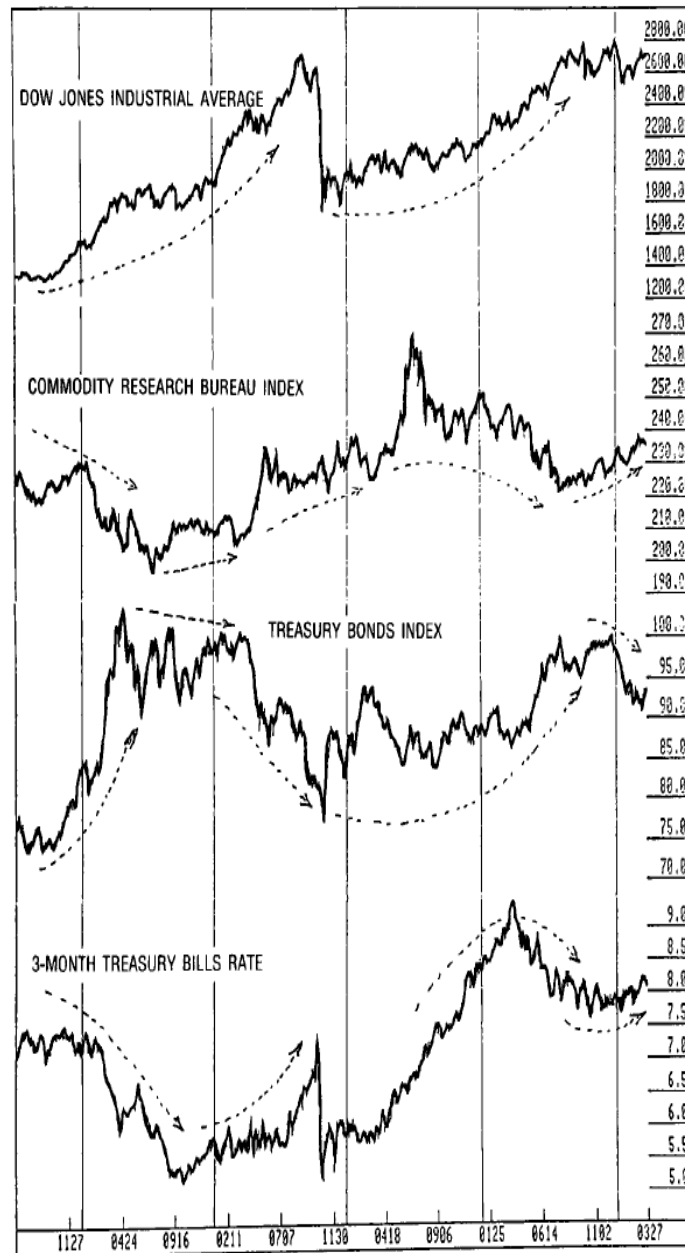


Figure 4-3. Spot market prices compared with interest rates.

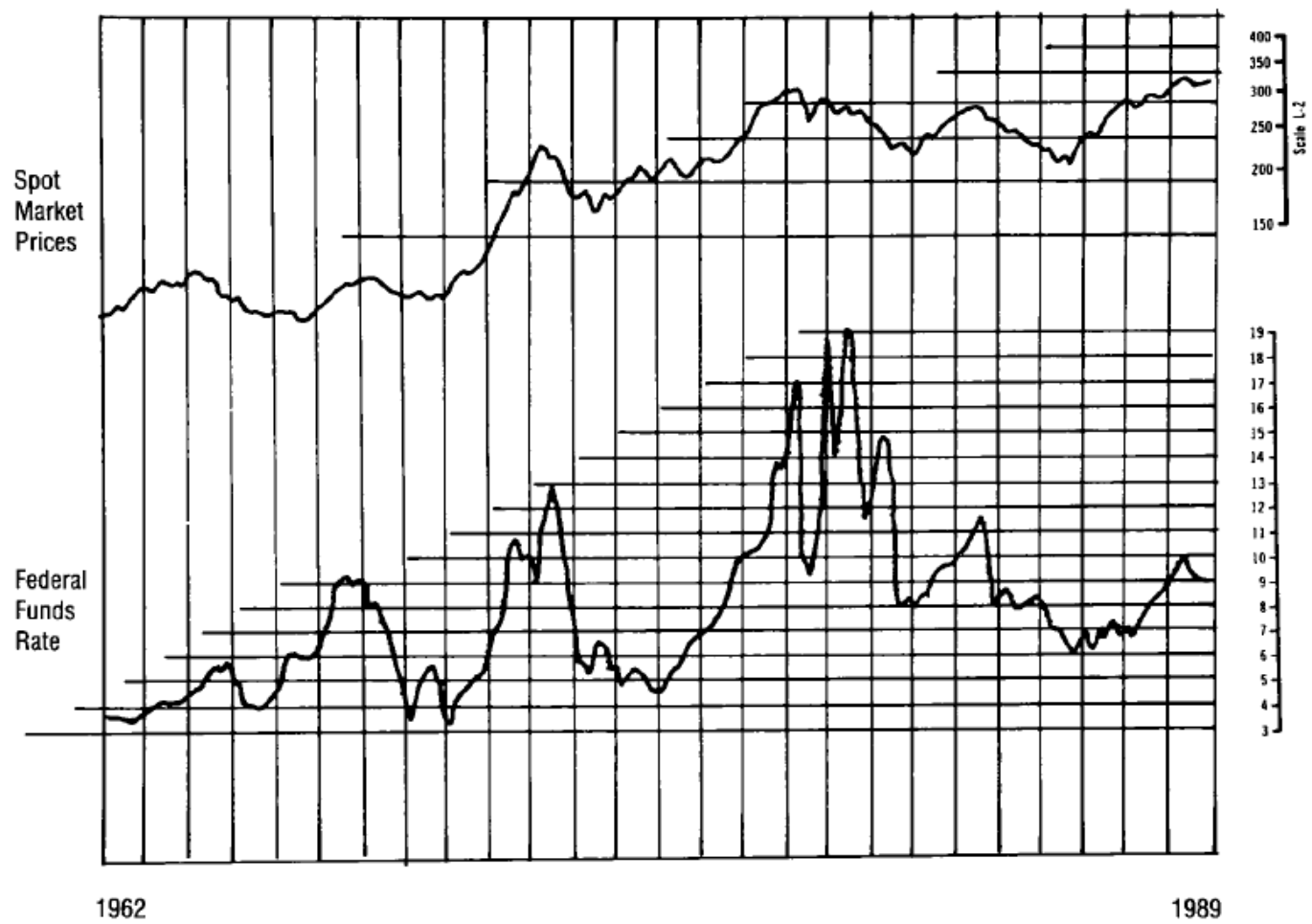


Figure 4-4. Federal Funds rate and industrial production.

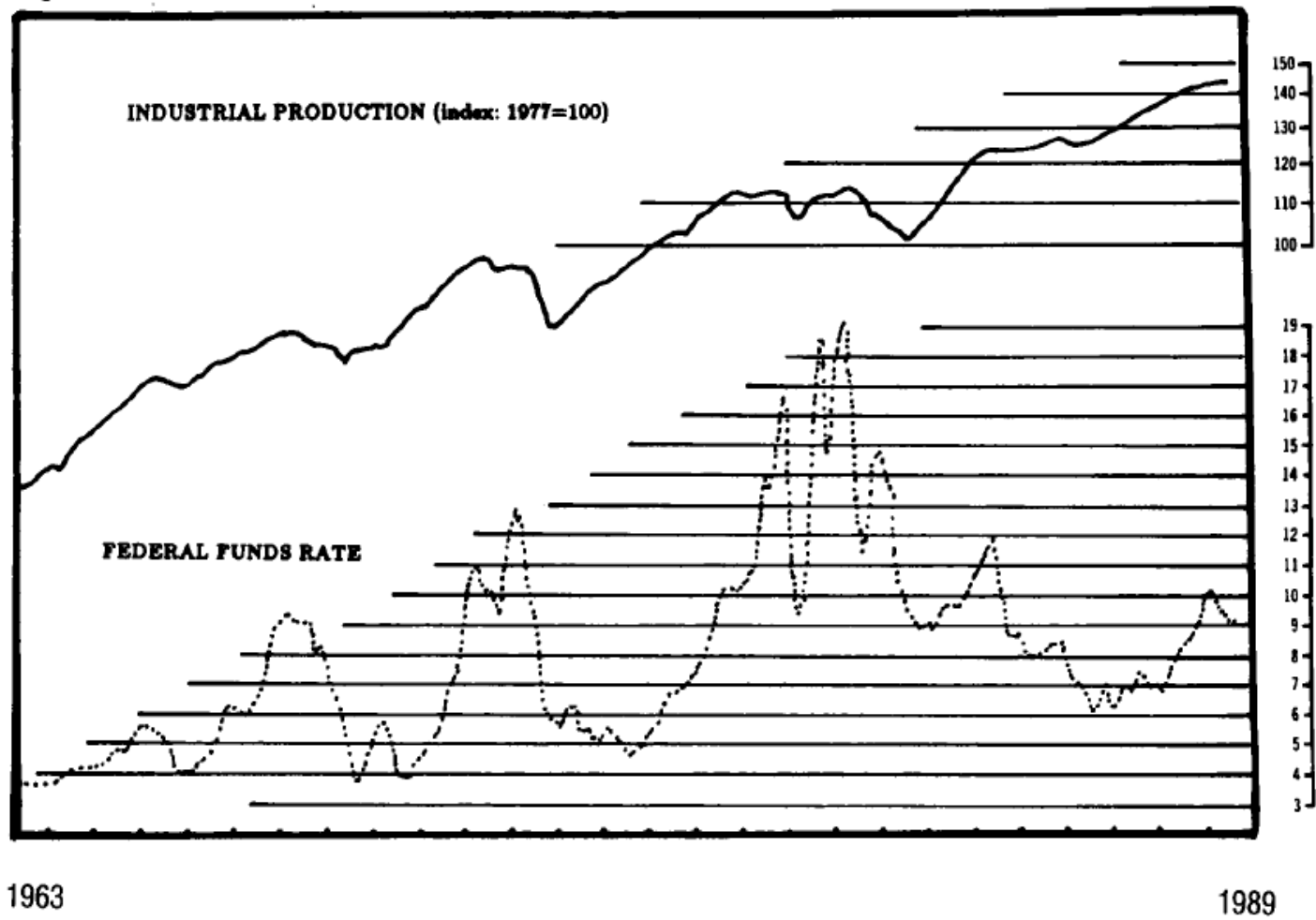


Figure 4-5. Interest rates and unemployment.

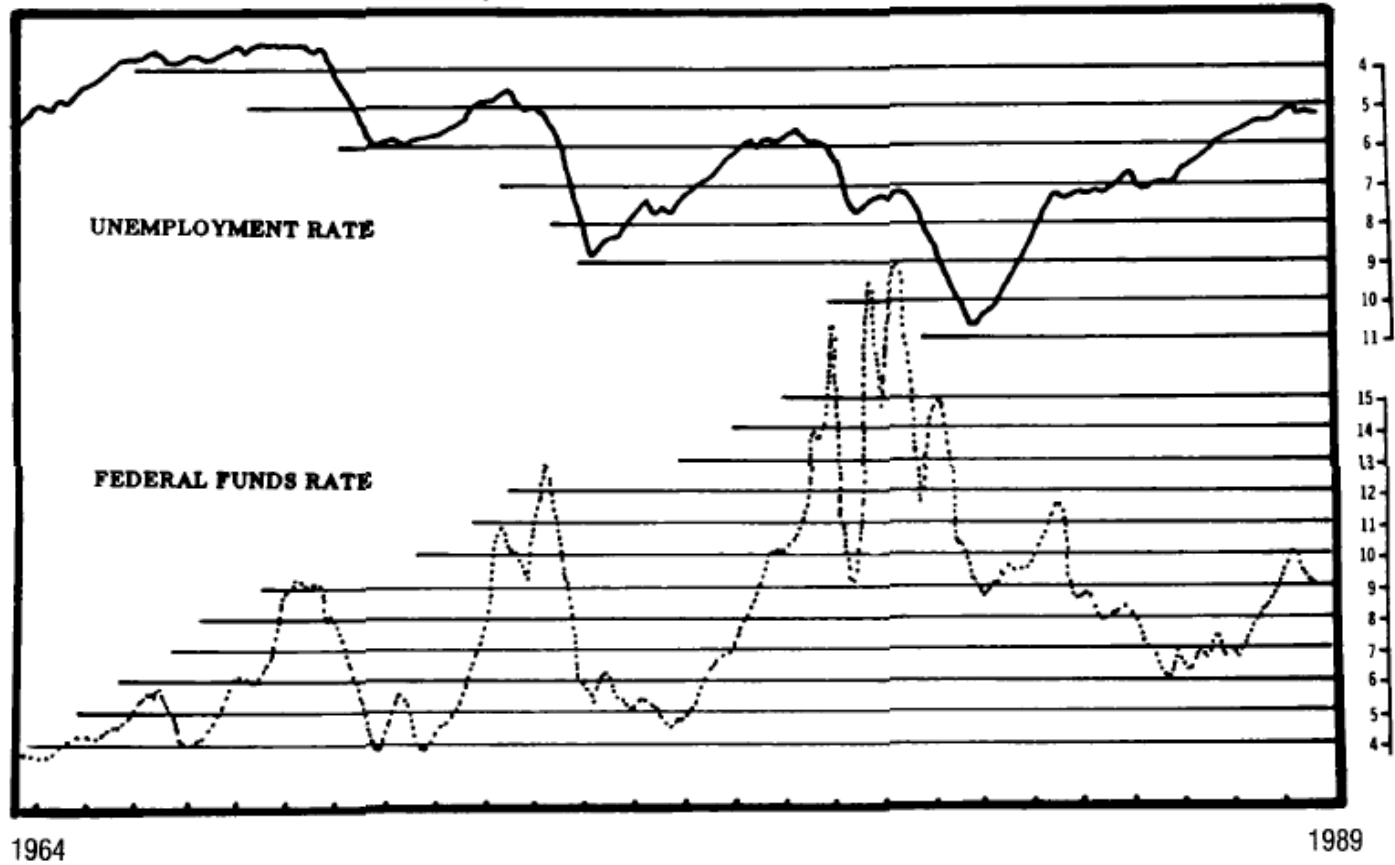


Figure 4-6. Three-month T-Bills and the S&P 500

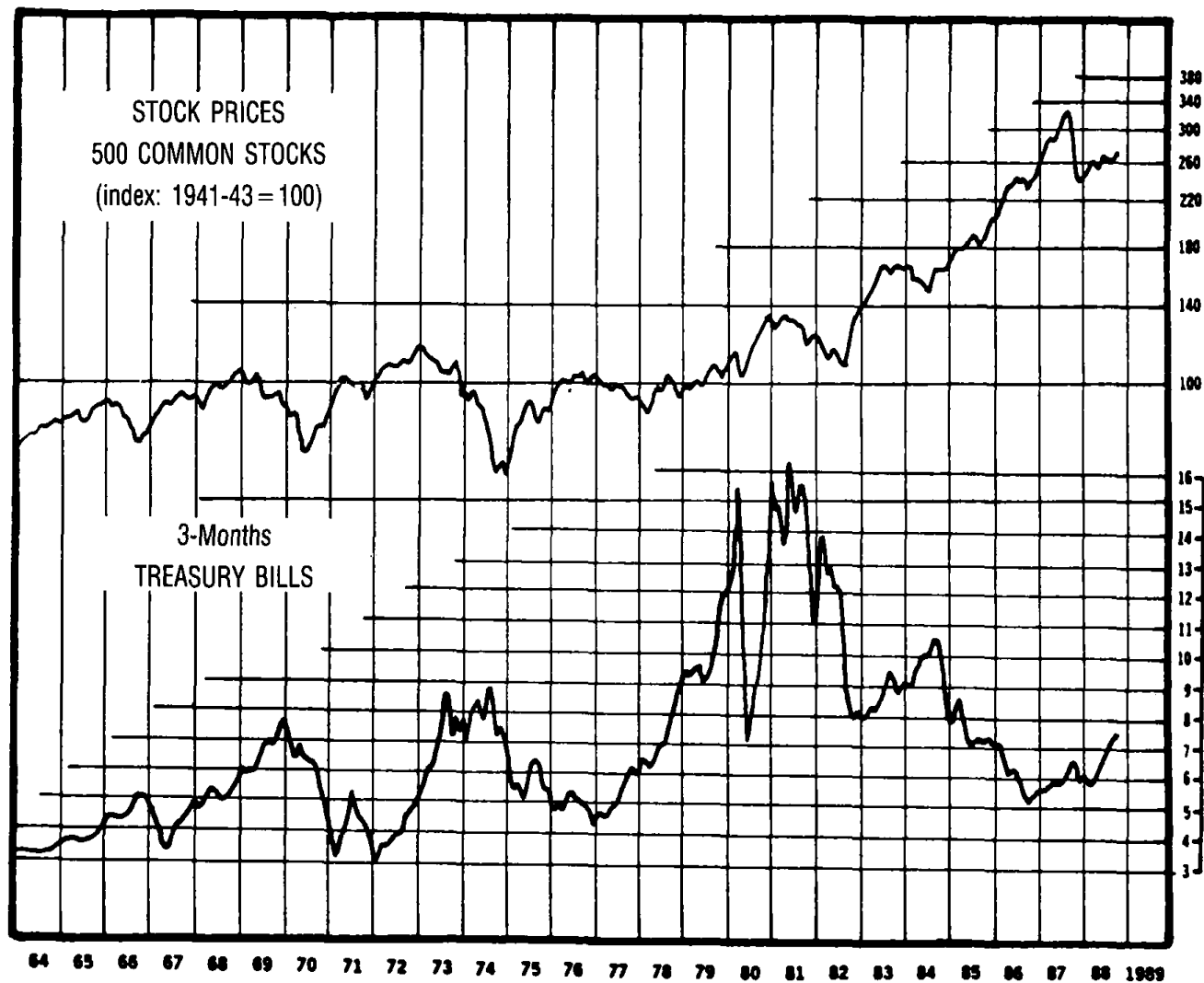


Figure 4-7. Housing permits compared with T-Bonds.

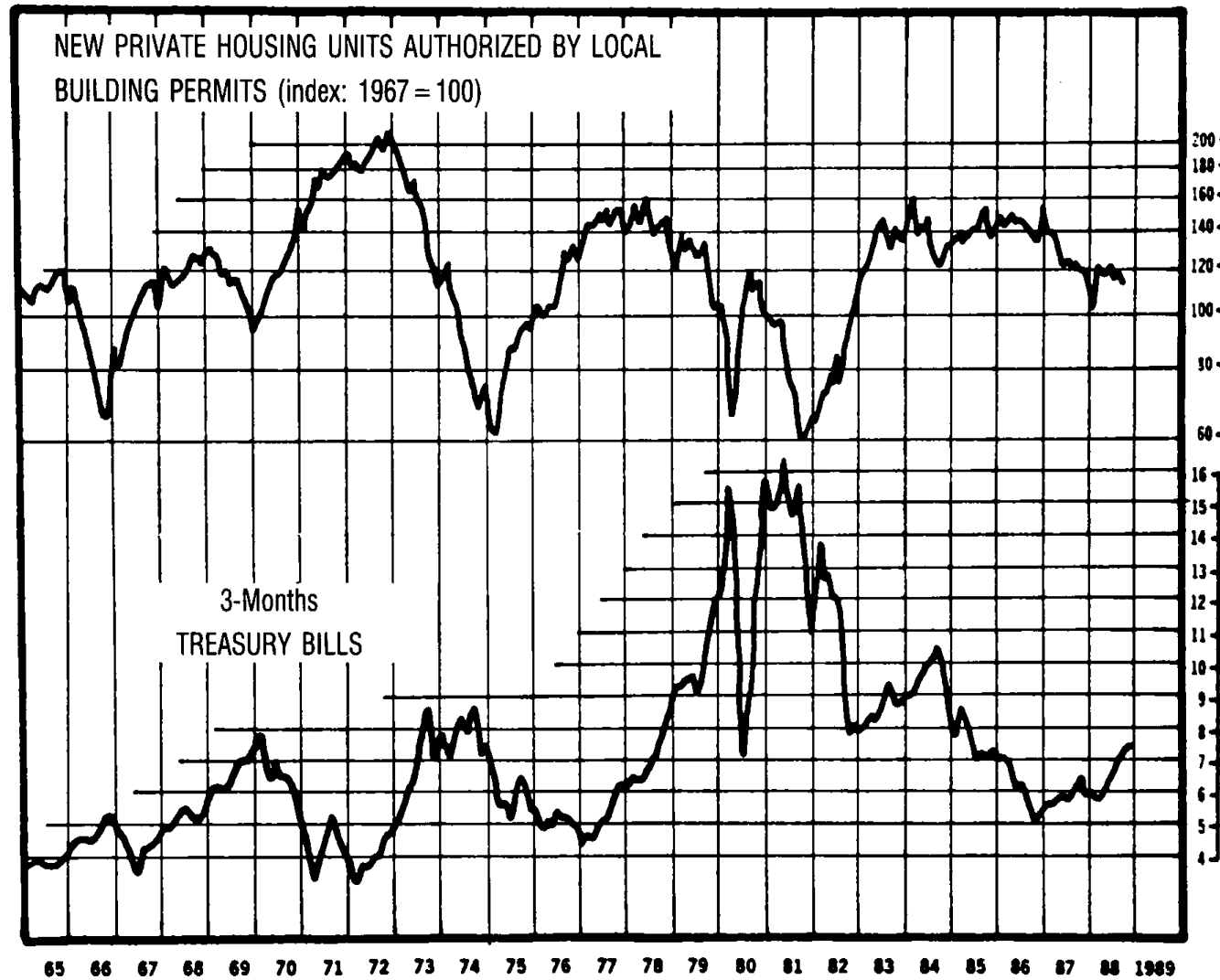


Figure 4-8. Capacity utilization compared with spot market prices.

INFLATIONARY PRESSURES

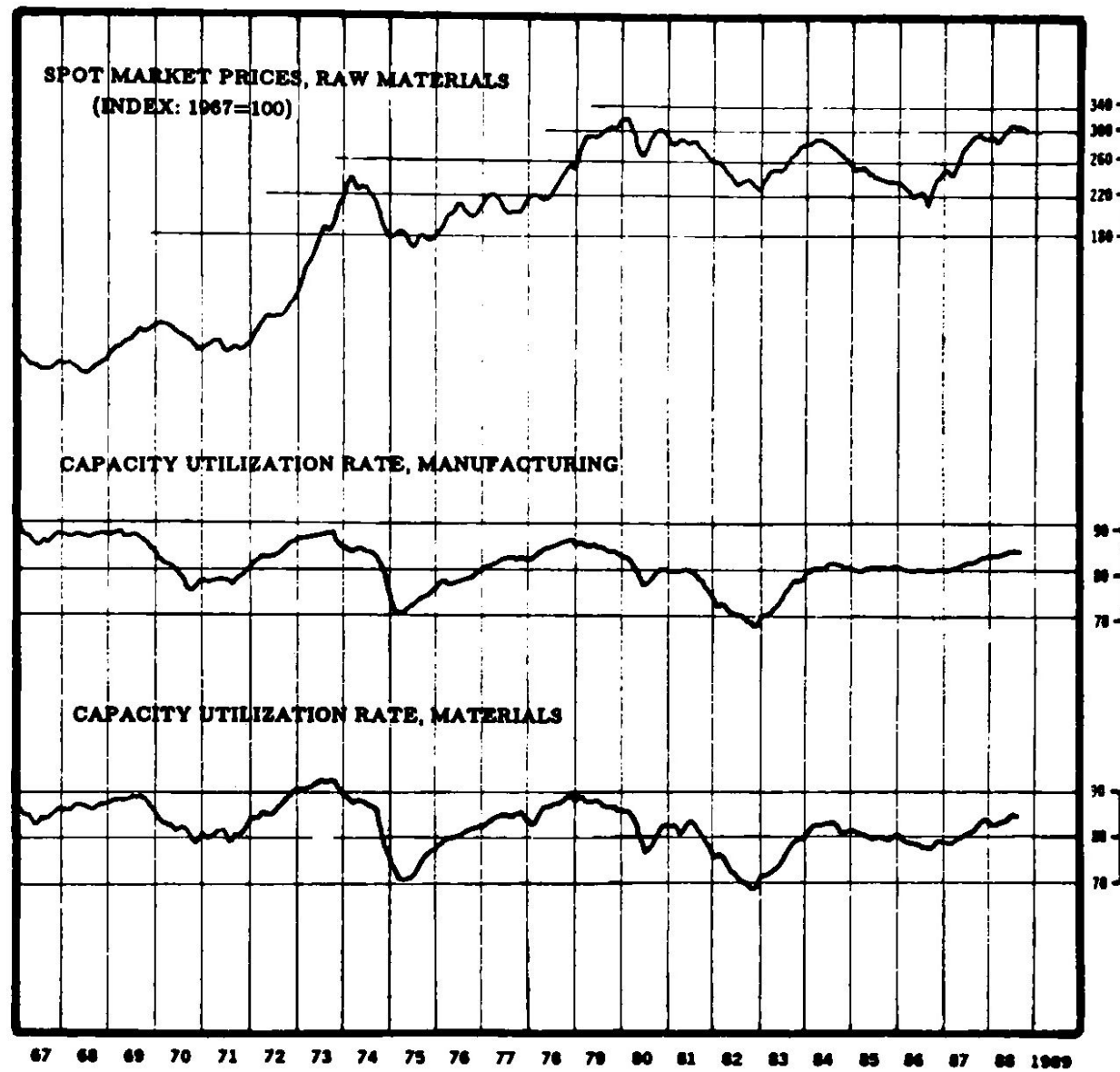


Figure 4-9. Unemployment and help-wanted advertising.

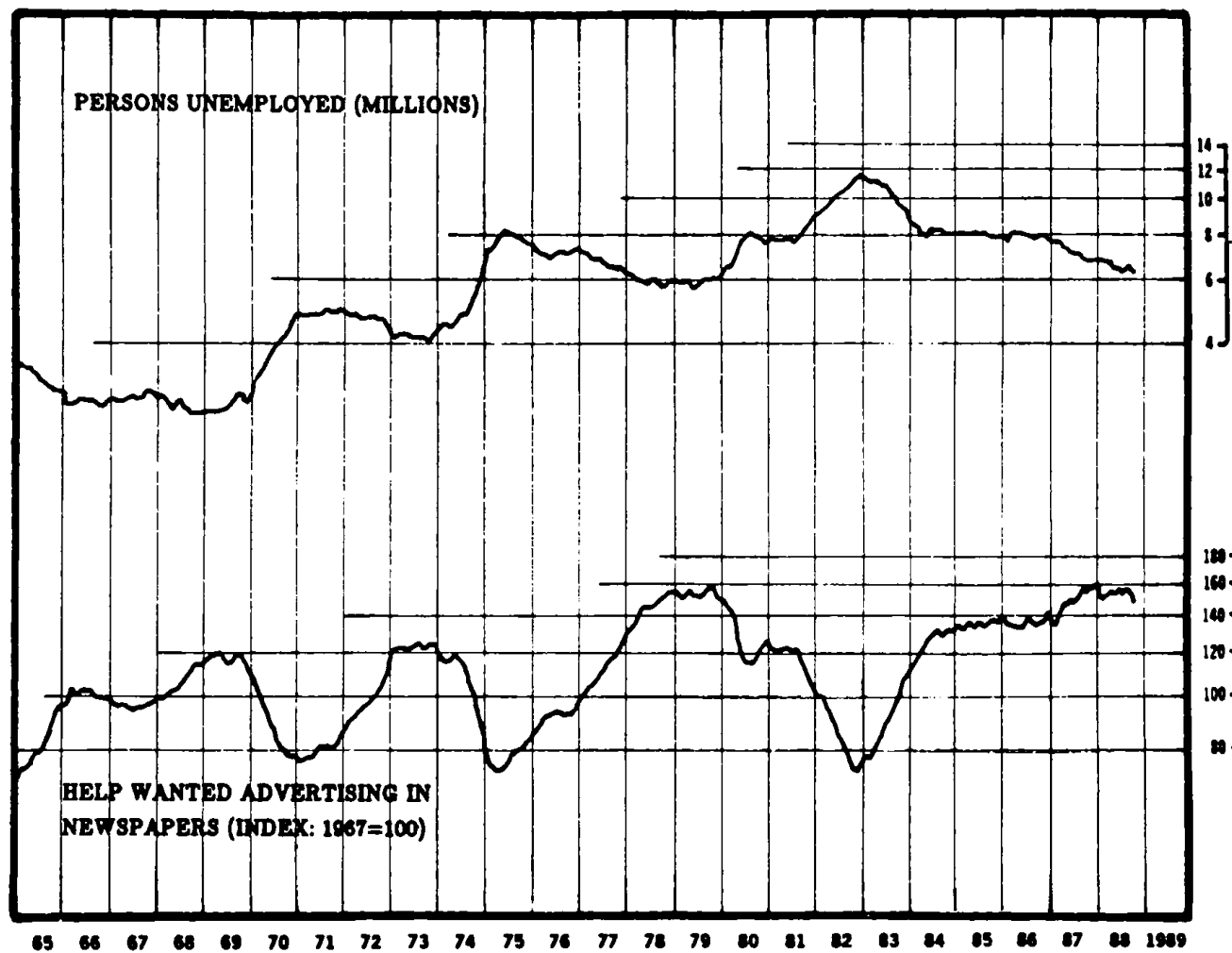


Figure 4-10. The percentage change of nominal GNP compared with the Federal Funds rate

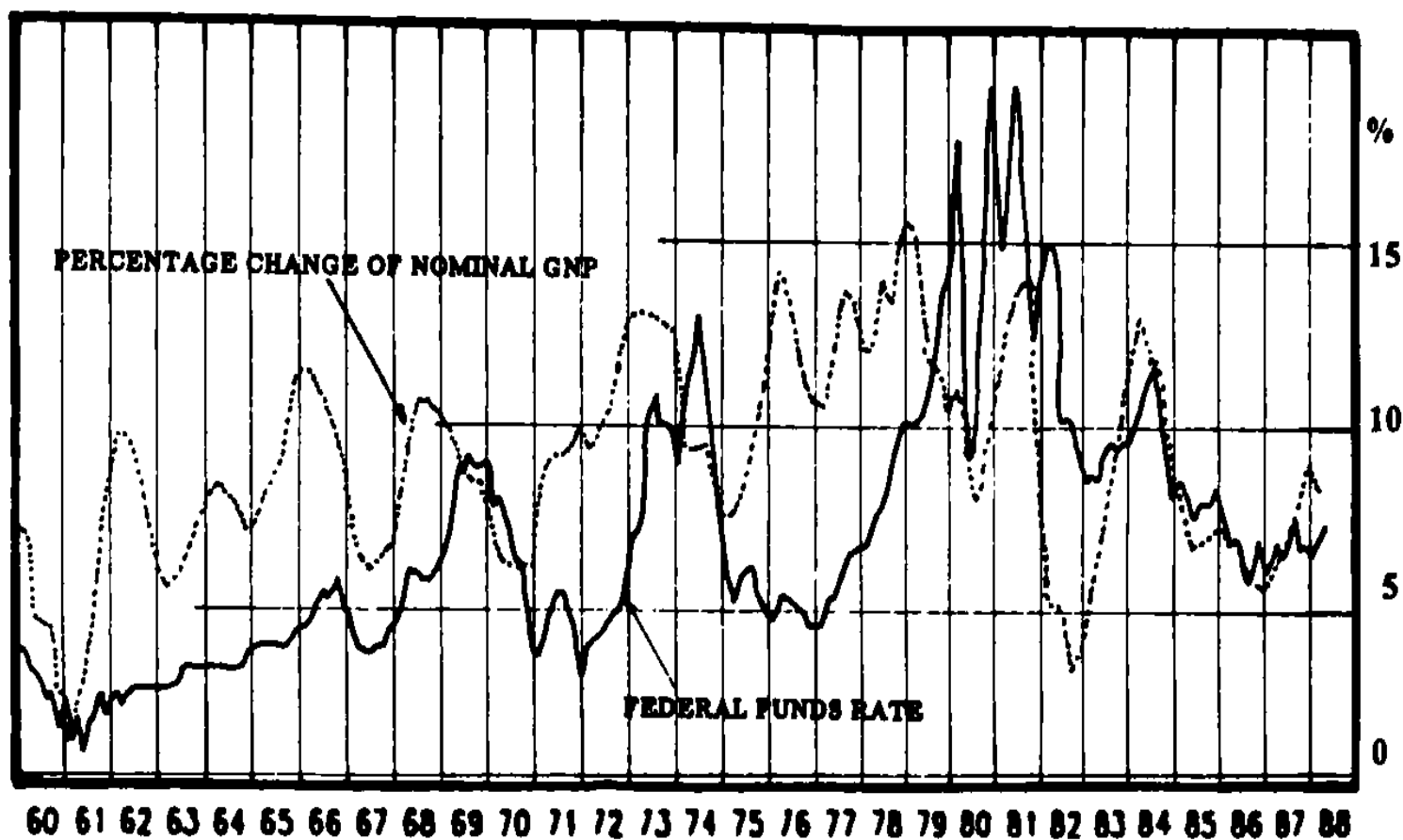


Figure 4-11. The S&P 500 and spot market prices.

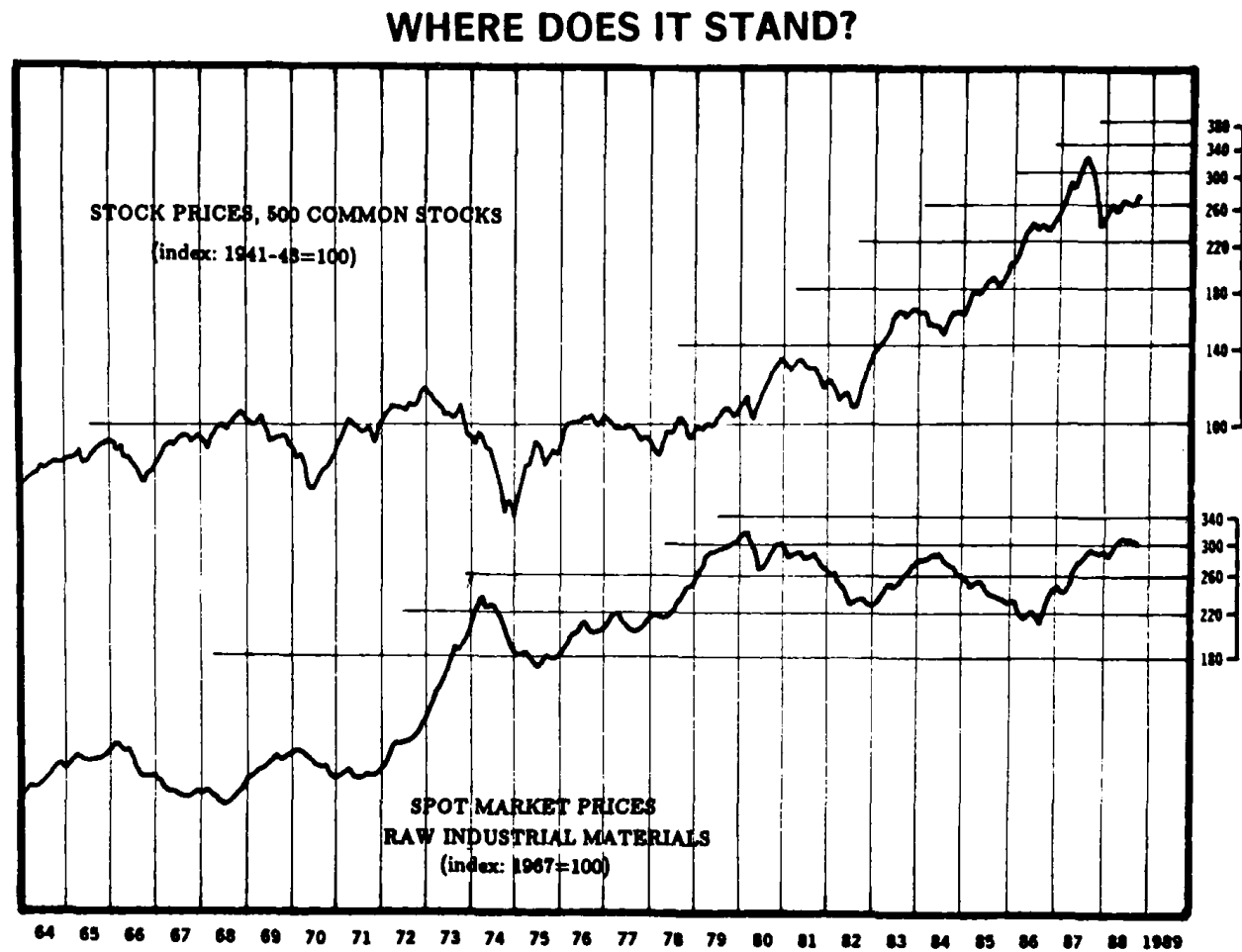


Figure 4-12. Unemployment and the S&P 500.

UNEMPLOYMENT ... A LAGGING INDICATOR

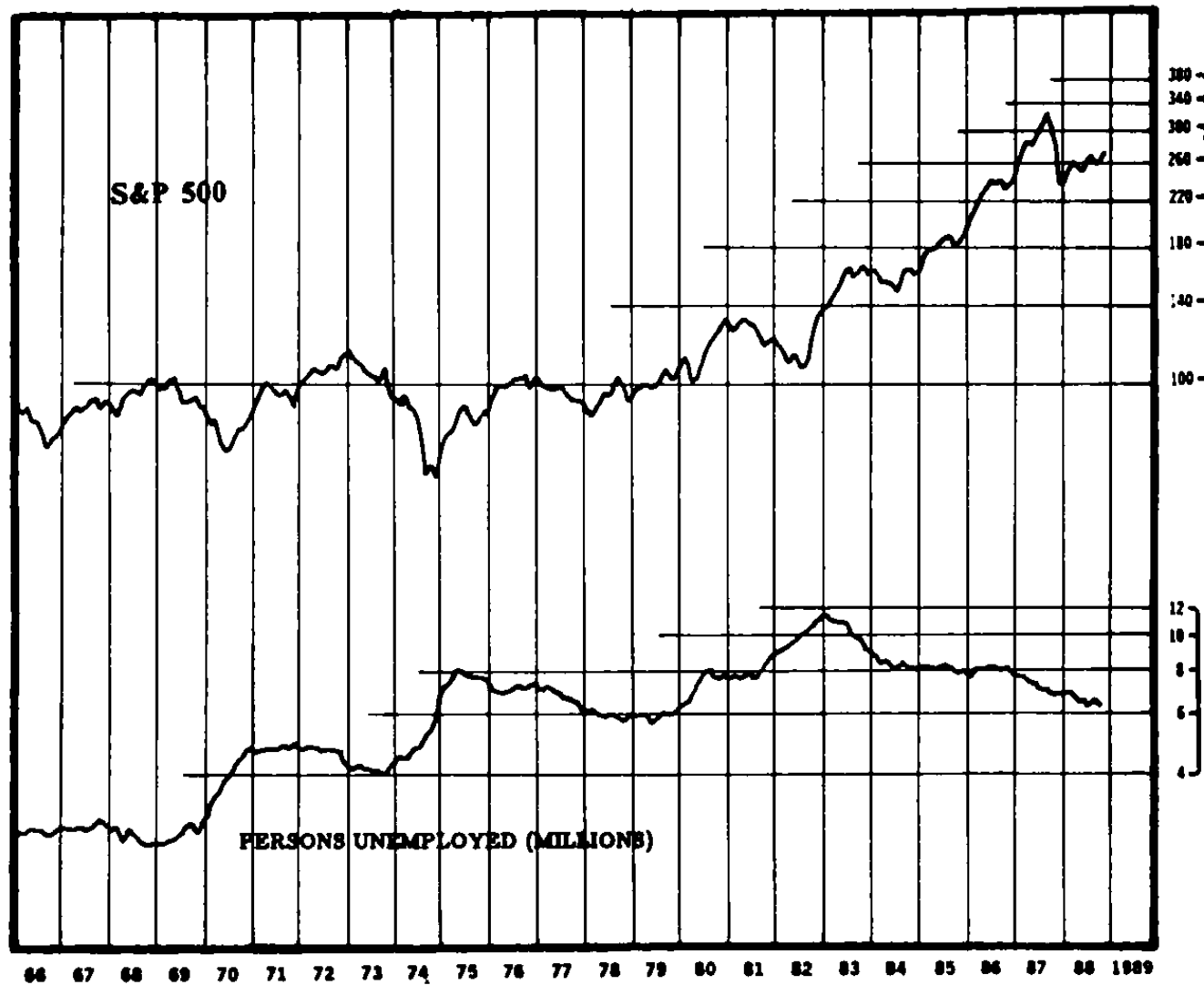


Figure 4-13. Consumer spending during the business cycle.

Real Personal Consumption Expenditures

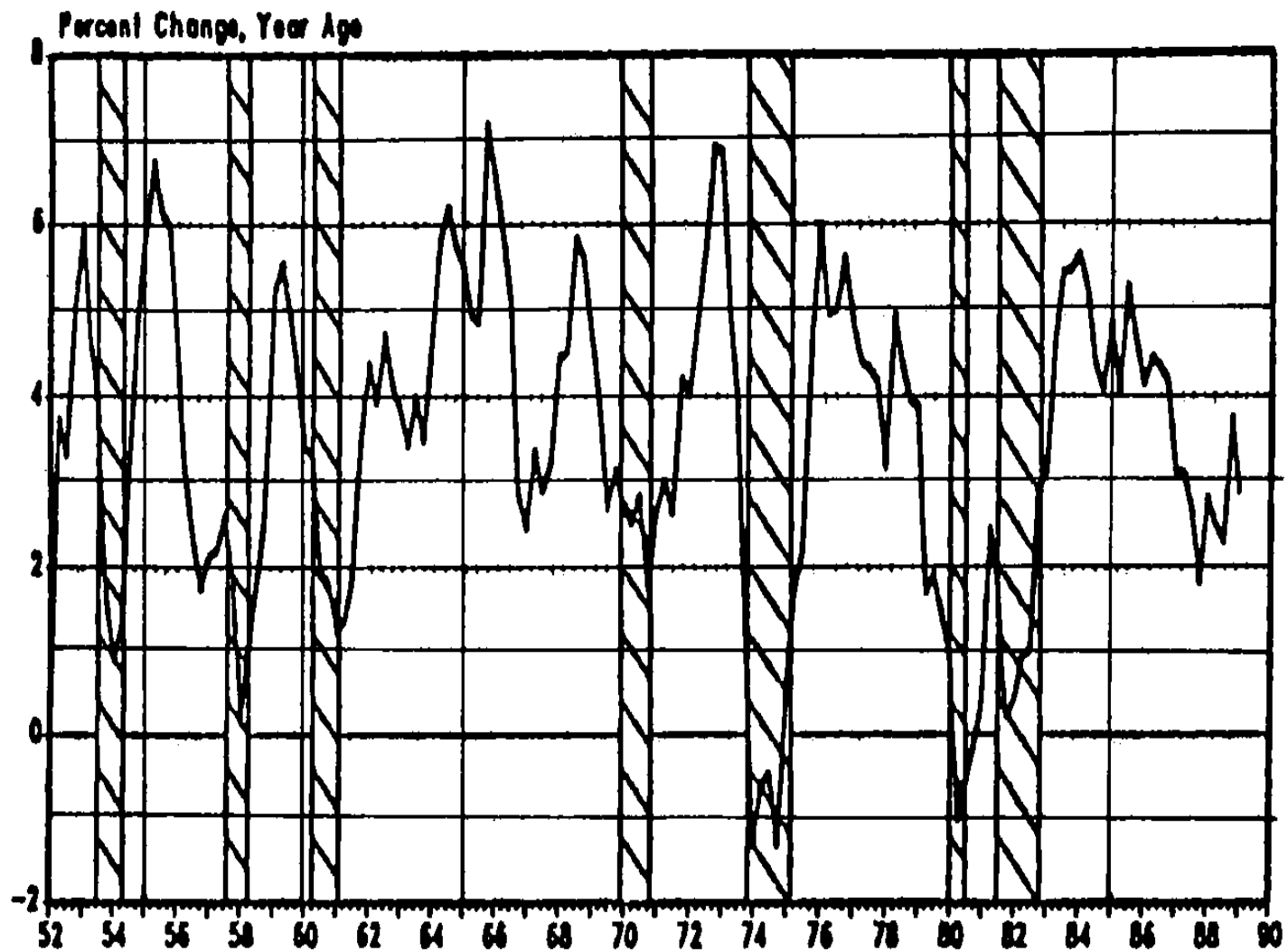


Figure 4-14. The consumer confidence index.

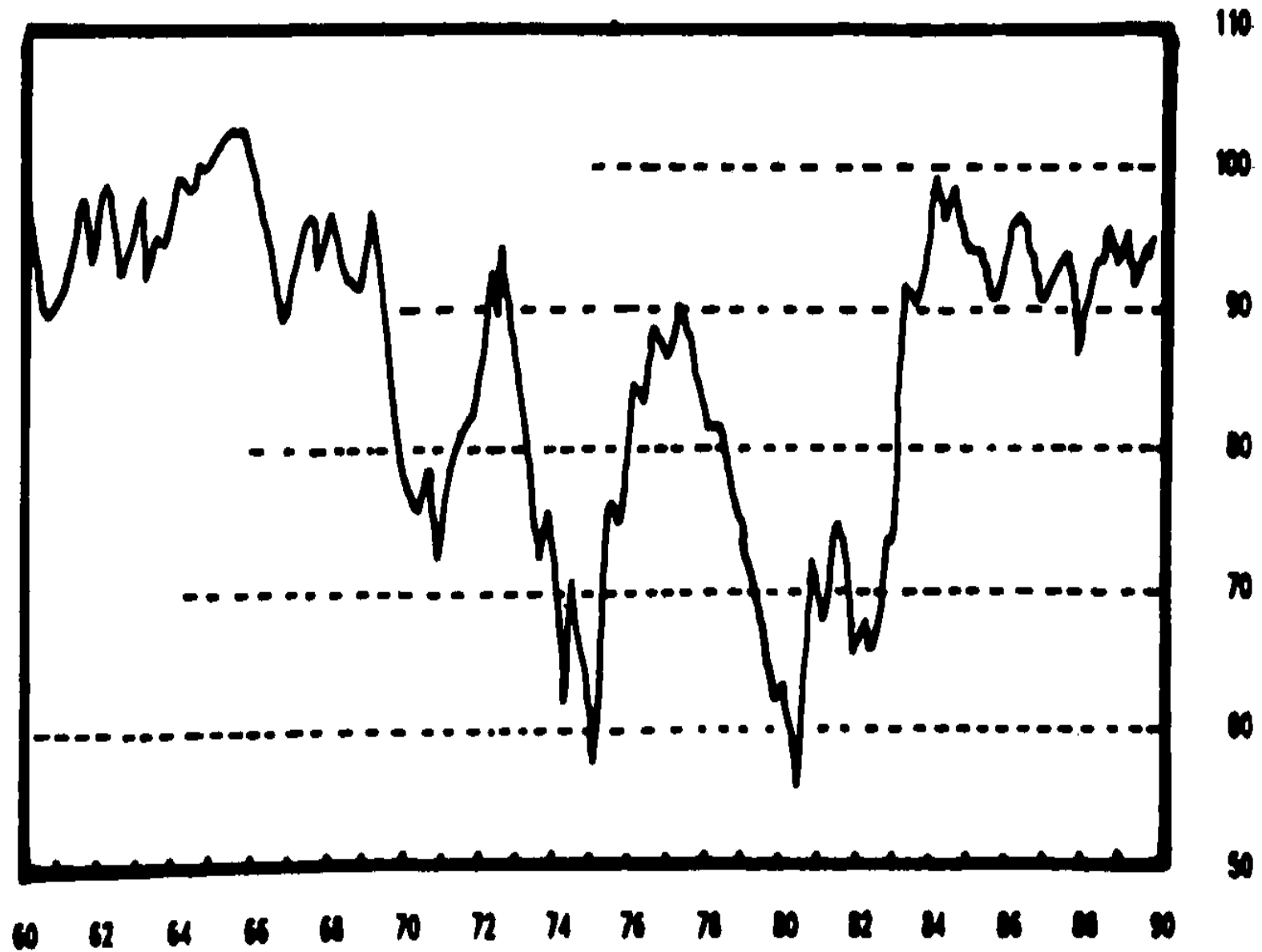


Figure 4-15. Capital spending on nonresidential fixed investments.

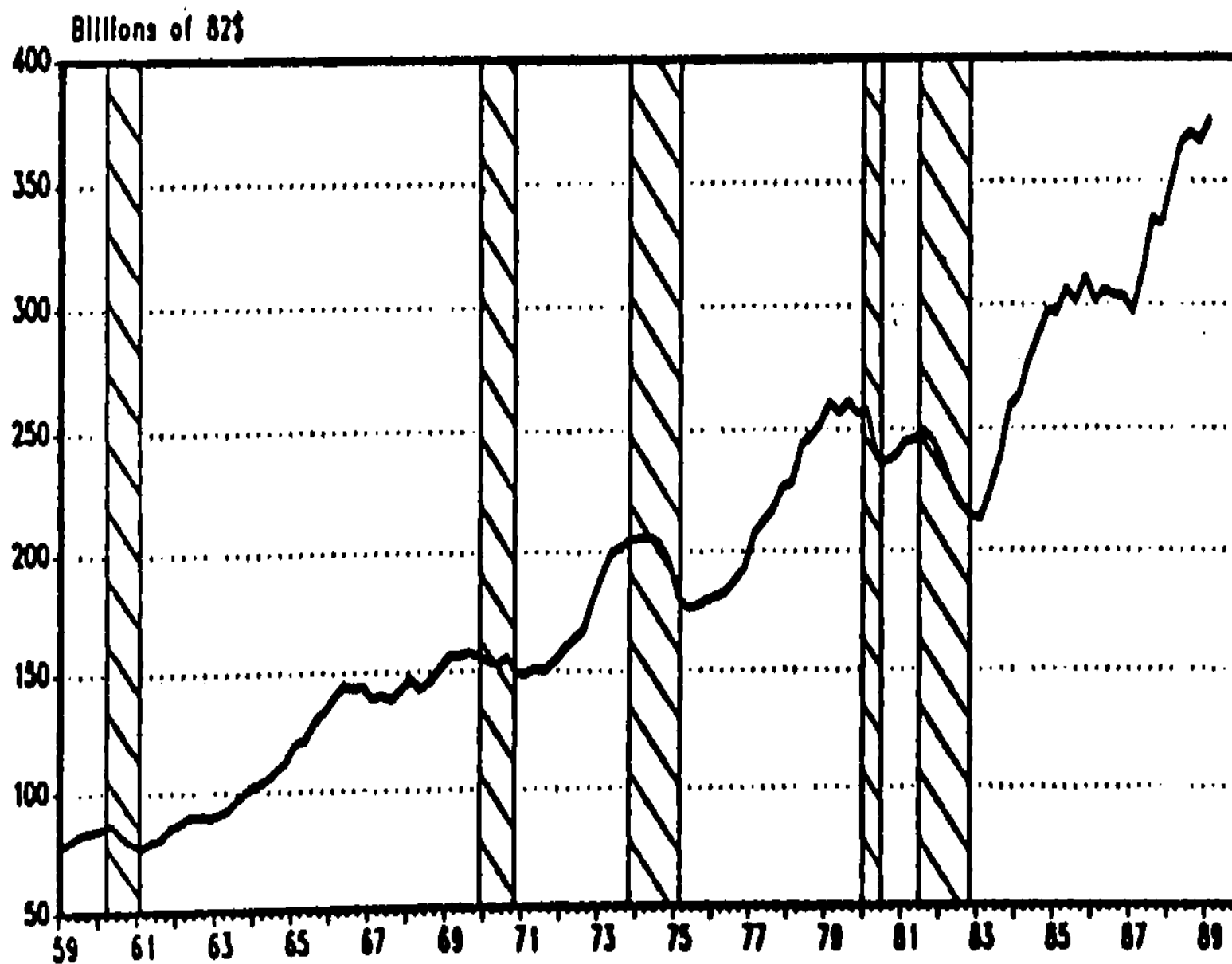


Figure 5-1. The S&P 500 compared with the average weekly hours of production.

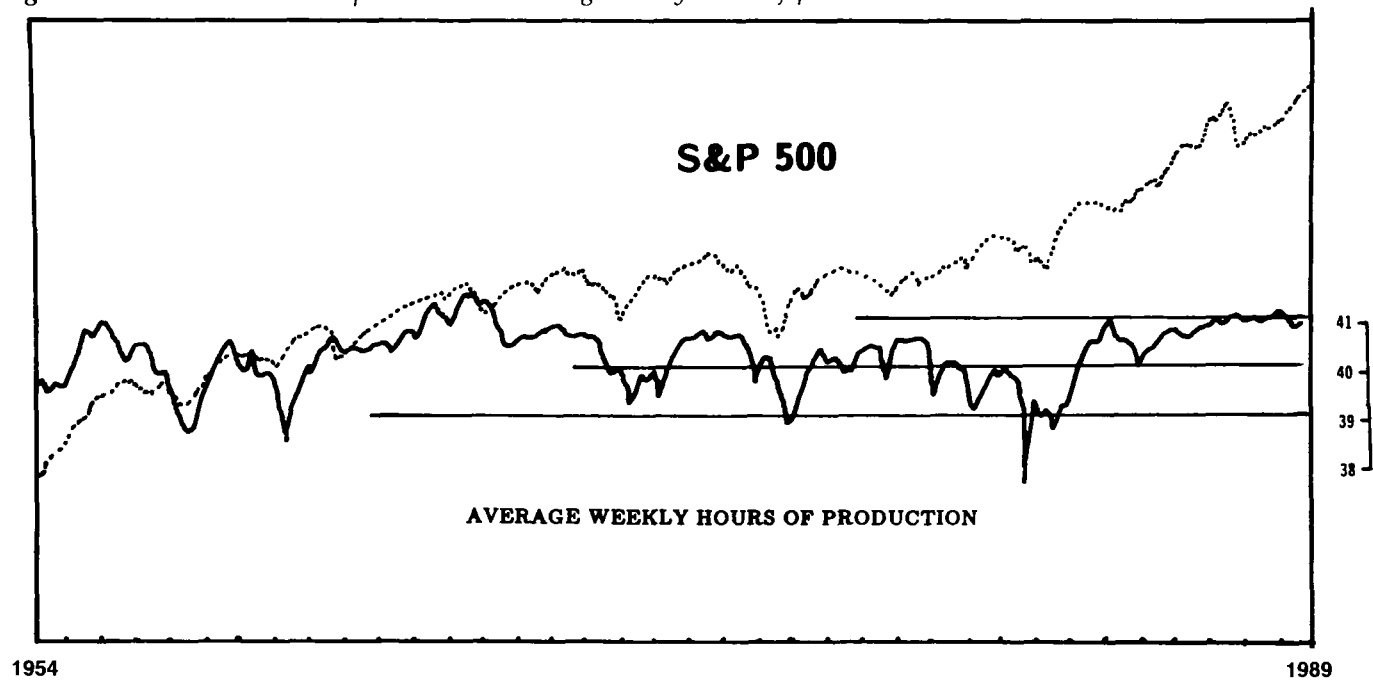


Figure 5-2. Initial claims for unemployment compared with the S&P 500.

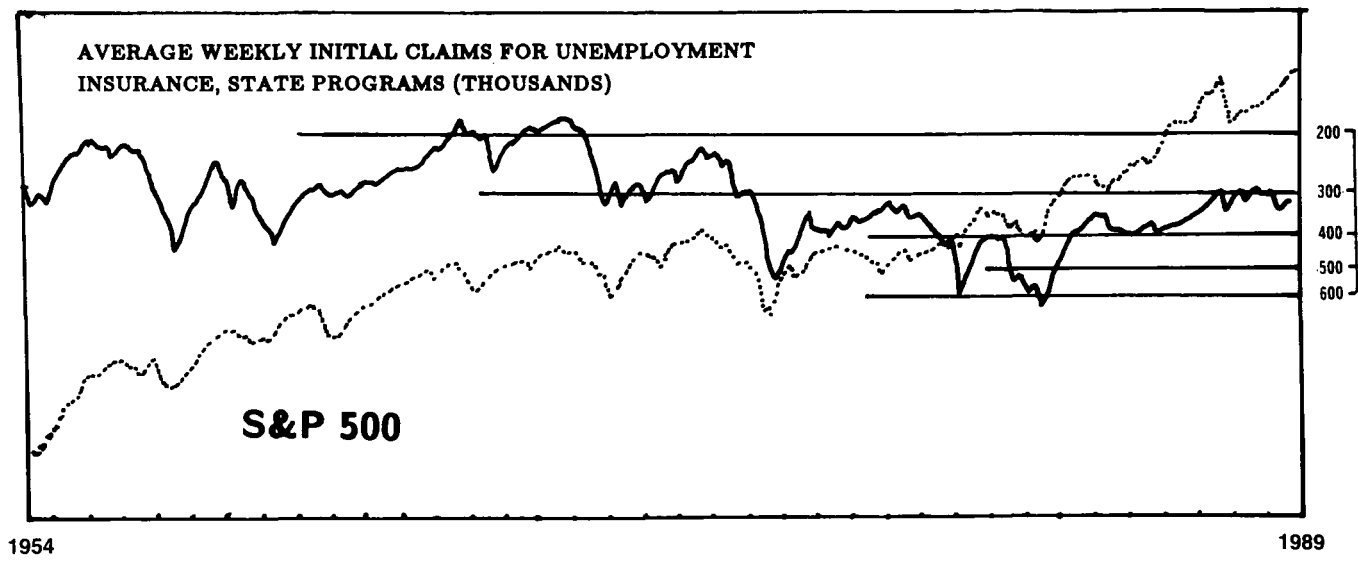


Figure 5-3. Manufacturer's new orders compared with the S&P 500.

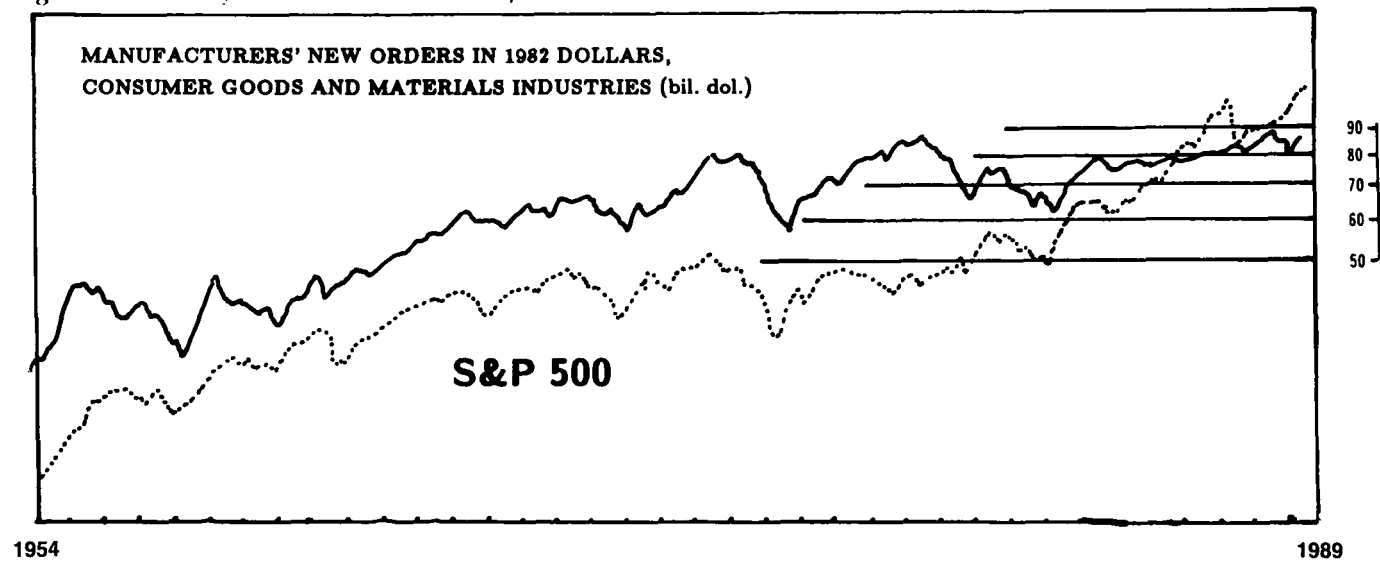


Figure 5-4. Vendor performance compared with the S&P 500.

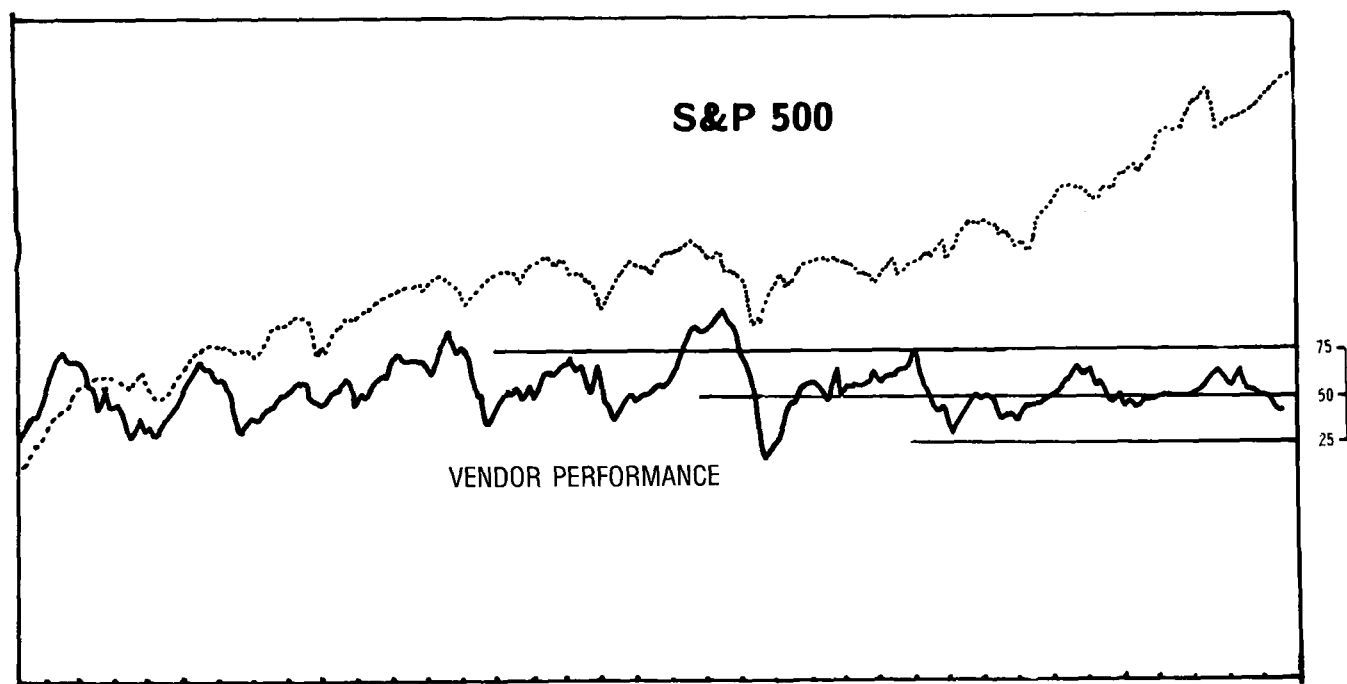


Figure 5-5. Contracts for plant and equipment compared with the S&P 500.

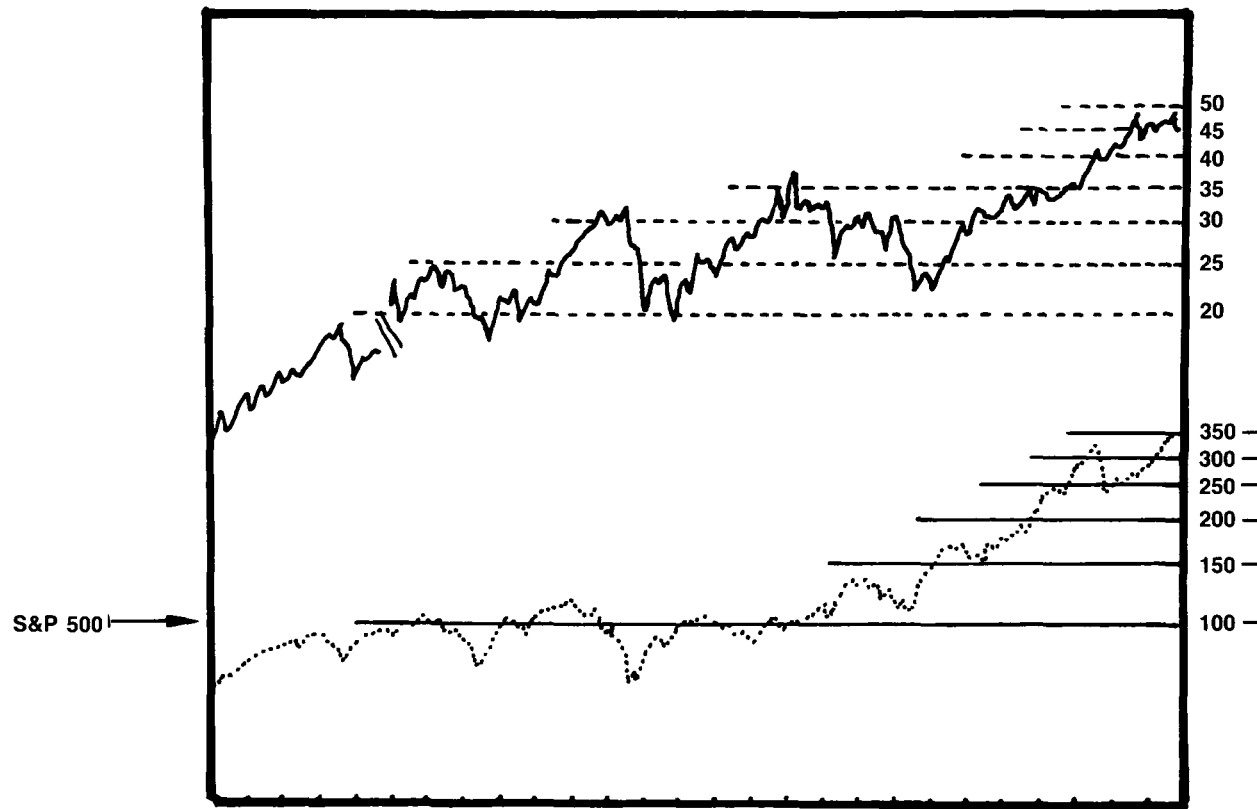


Figure 5-6. New housing permits and the S&P 500.

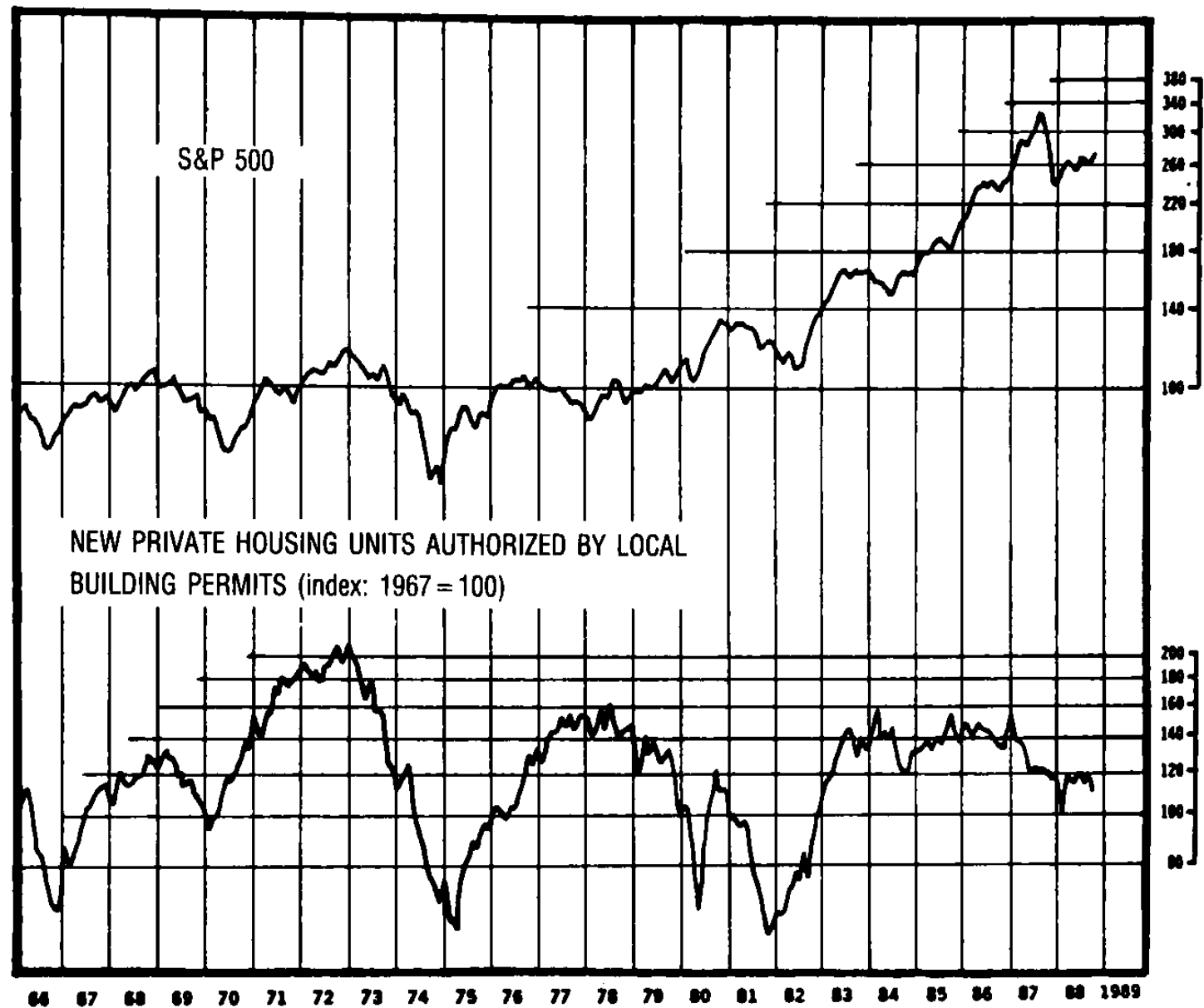


Figure 5-7. Changes in inventory compared with the S&P 500.

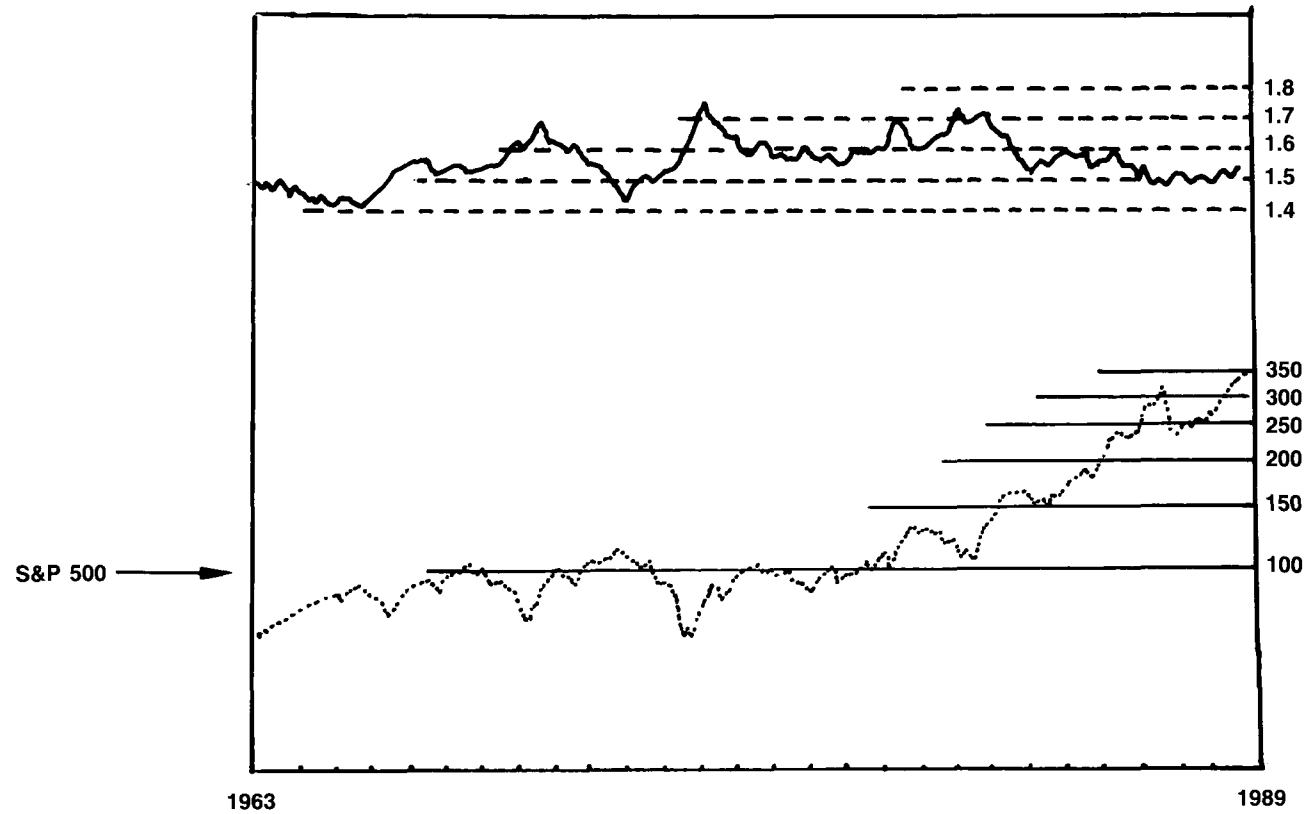


Figure 5-8. Spot market prices compared with the S&P 500.

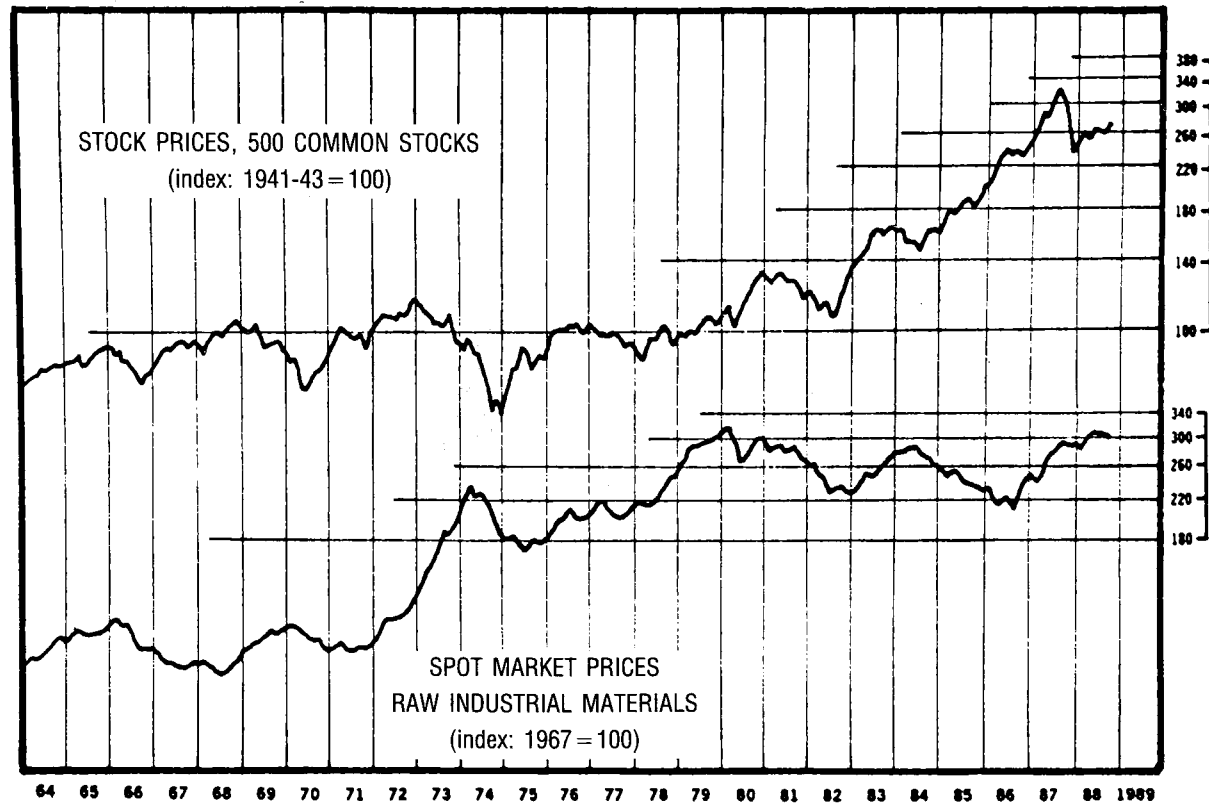


Figure 5-9. S&P 500 compared with corporate profits.

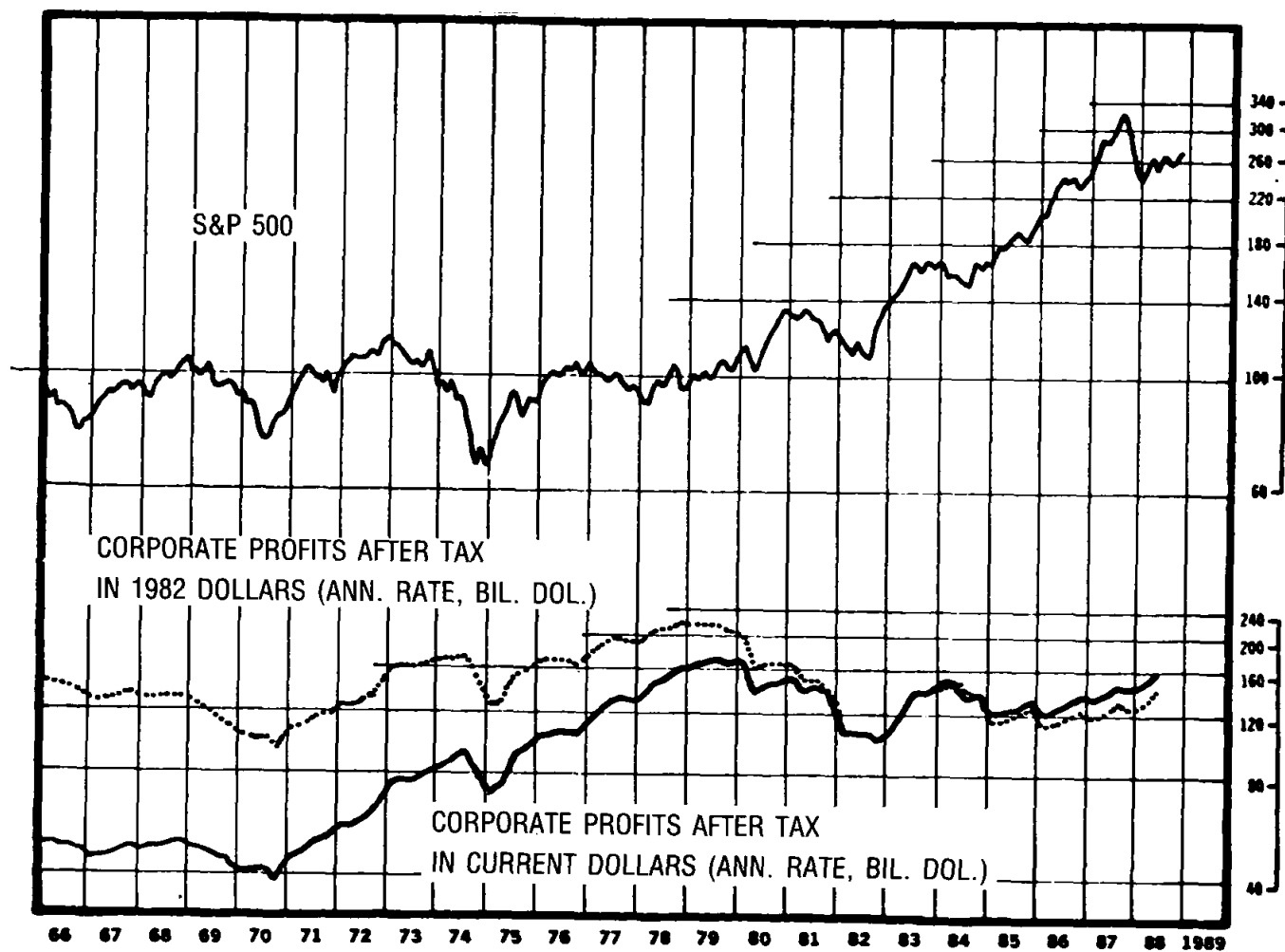


Figure 5-10. The money supply M2 compared with the S&P 500.

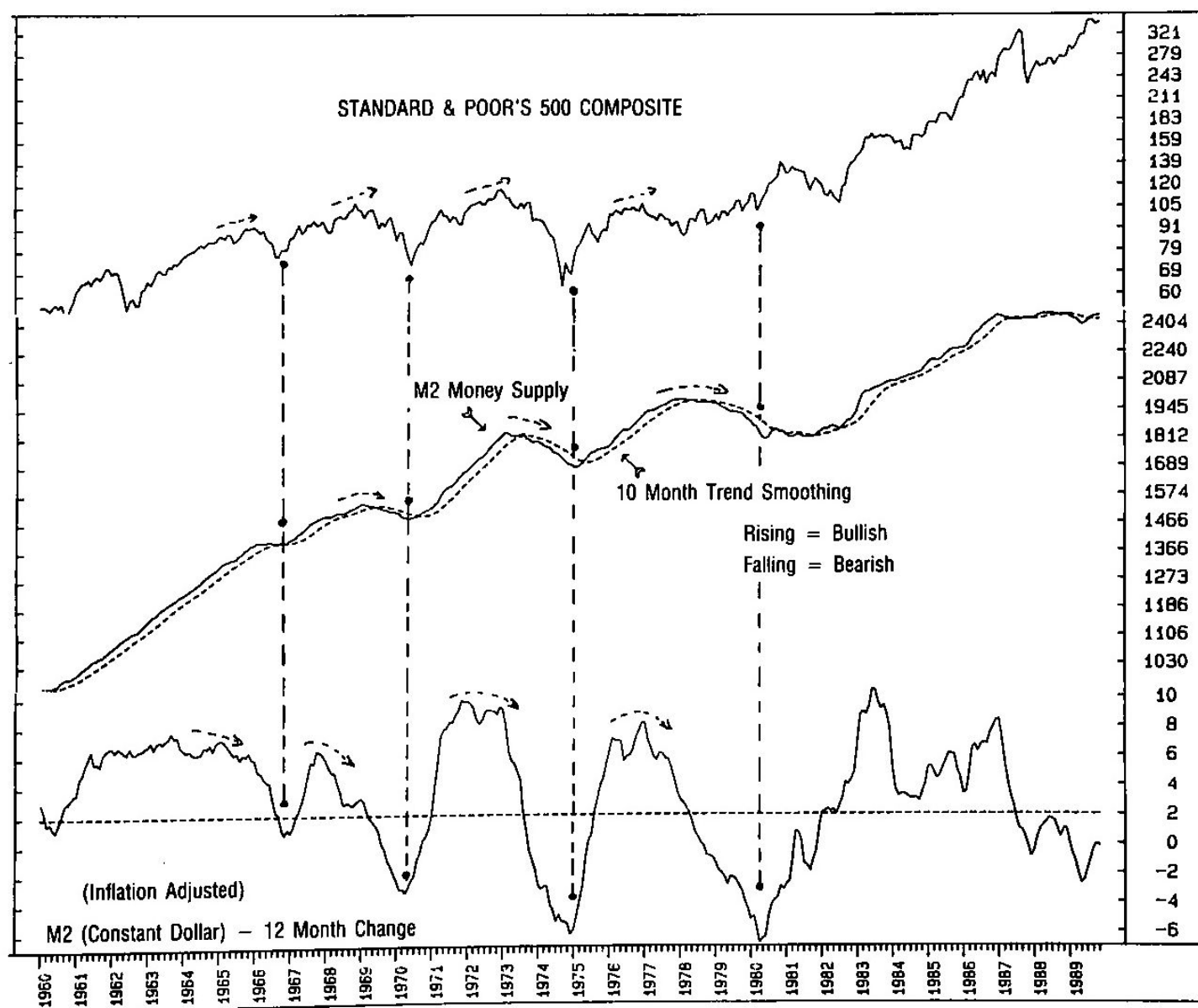


Figure 5-11. Index of consumers' expectations compared with the S&P 500.

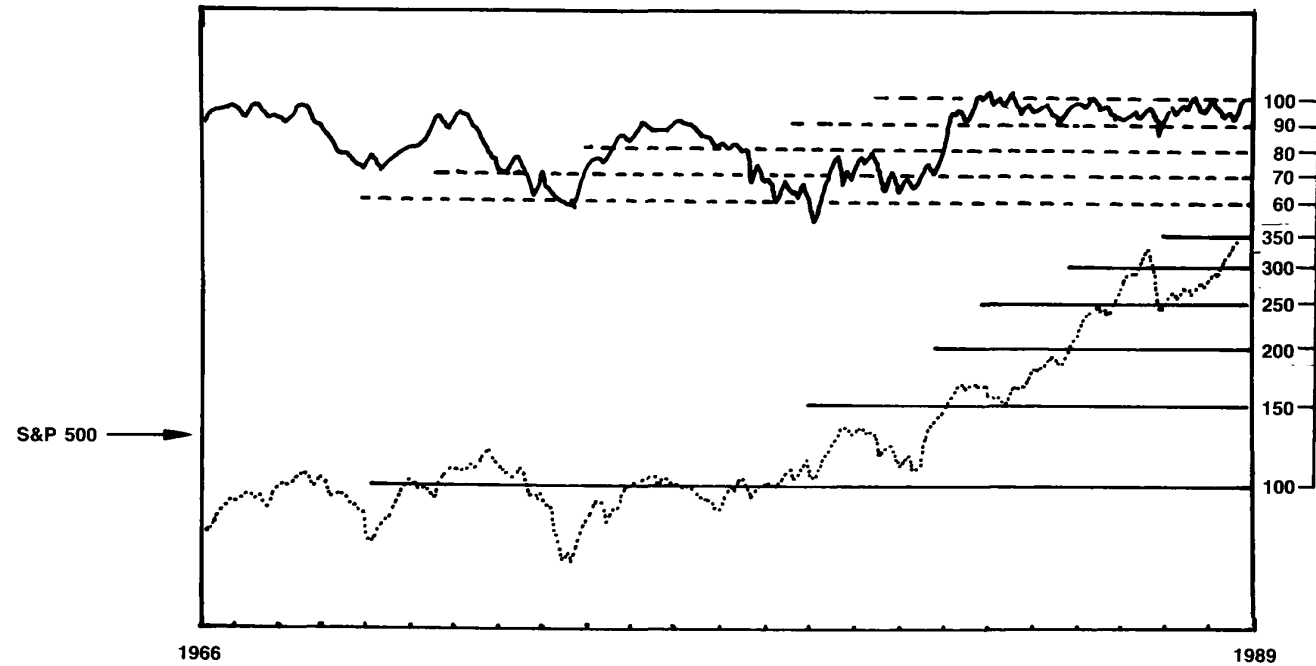


Figure 5-12. The leading indicators and industrial production.

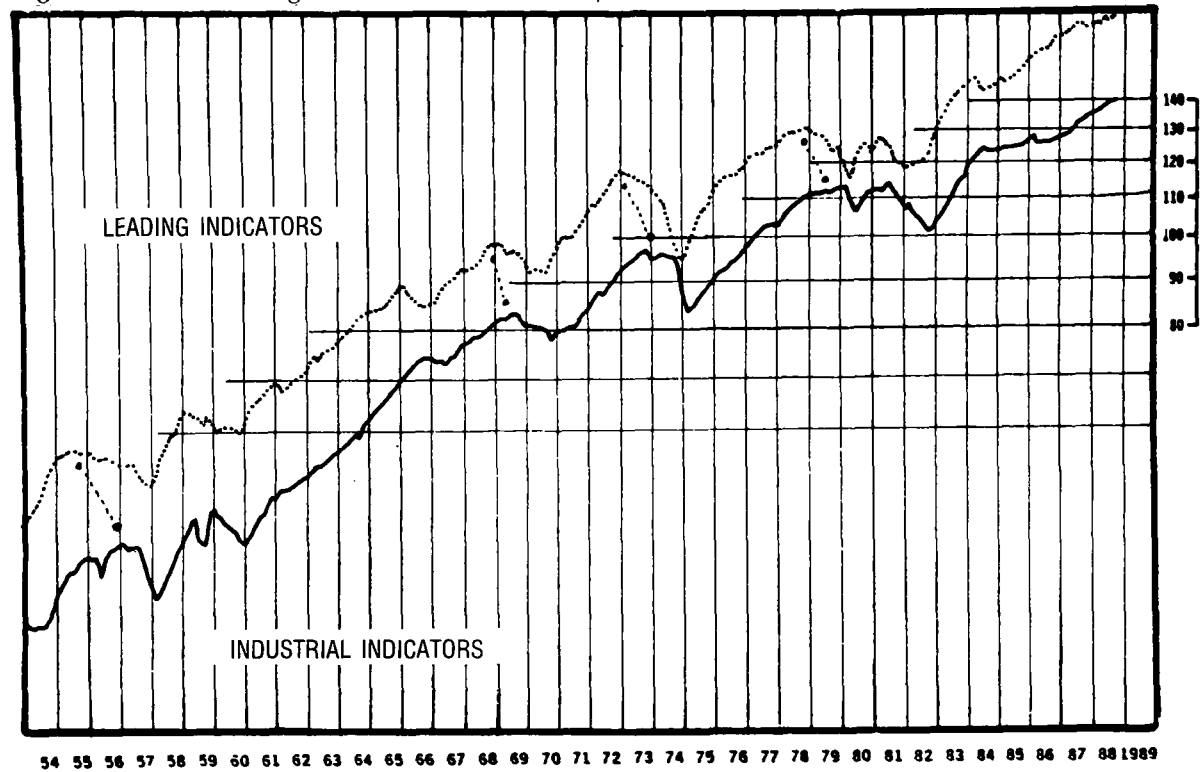


Figure 5-13. The coincident indicators compared with the S&P 500.

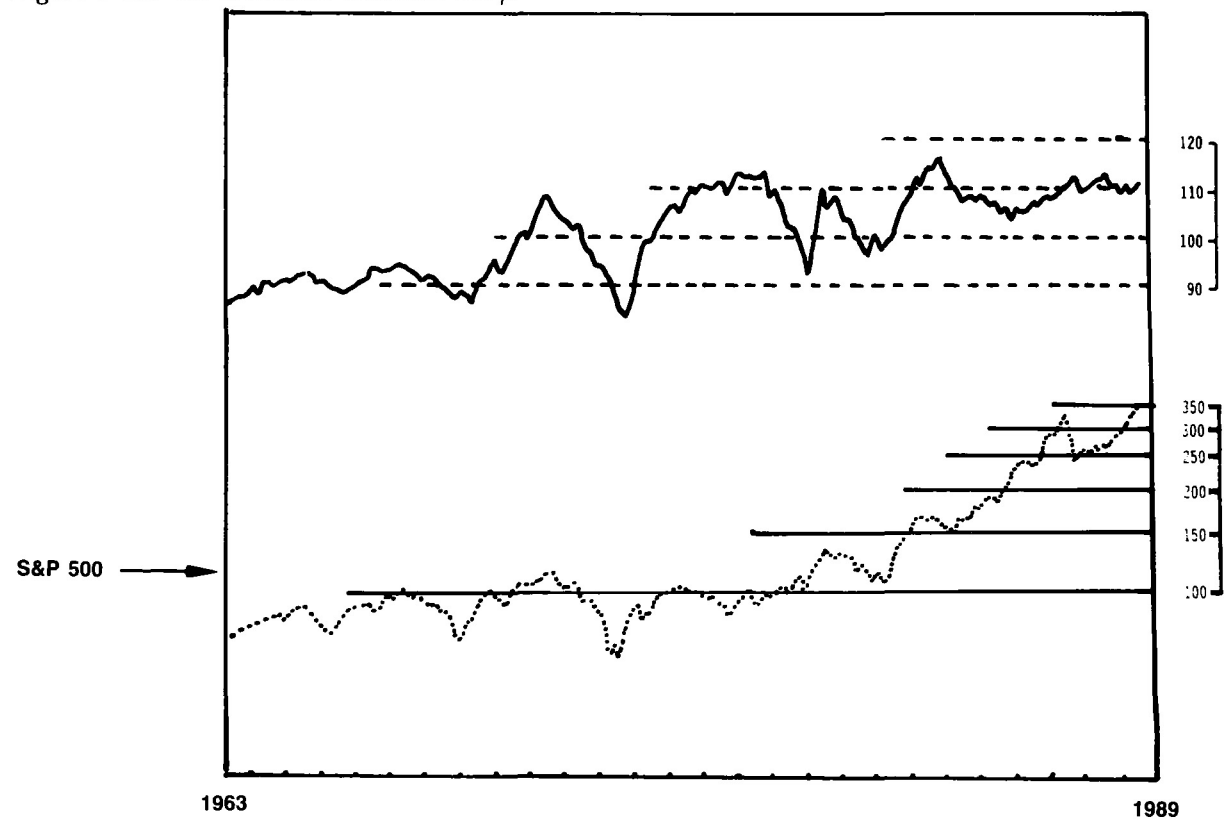


Figure 5-14. Industrial production compared with the S&P 500.

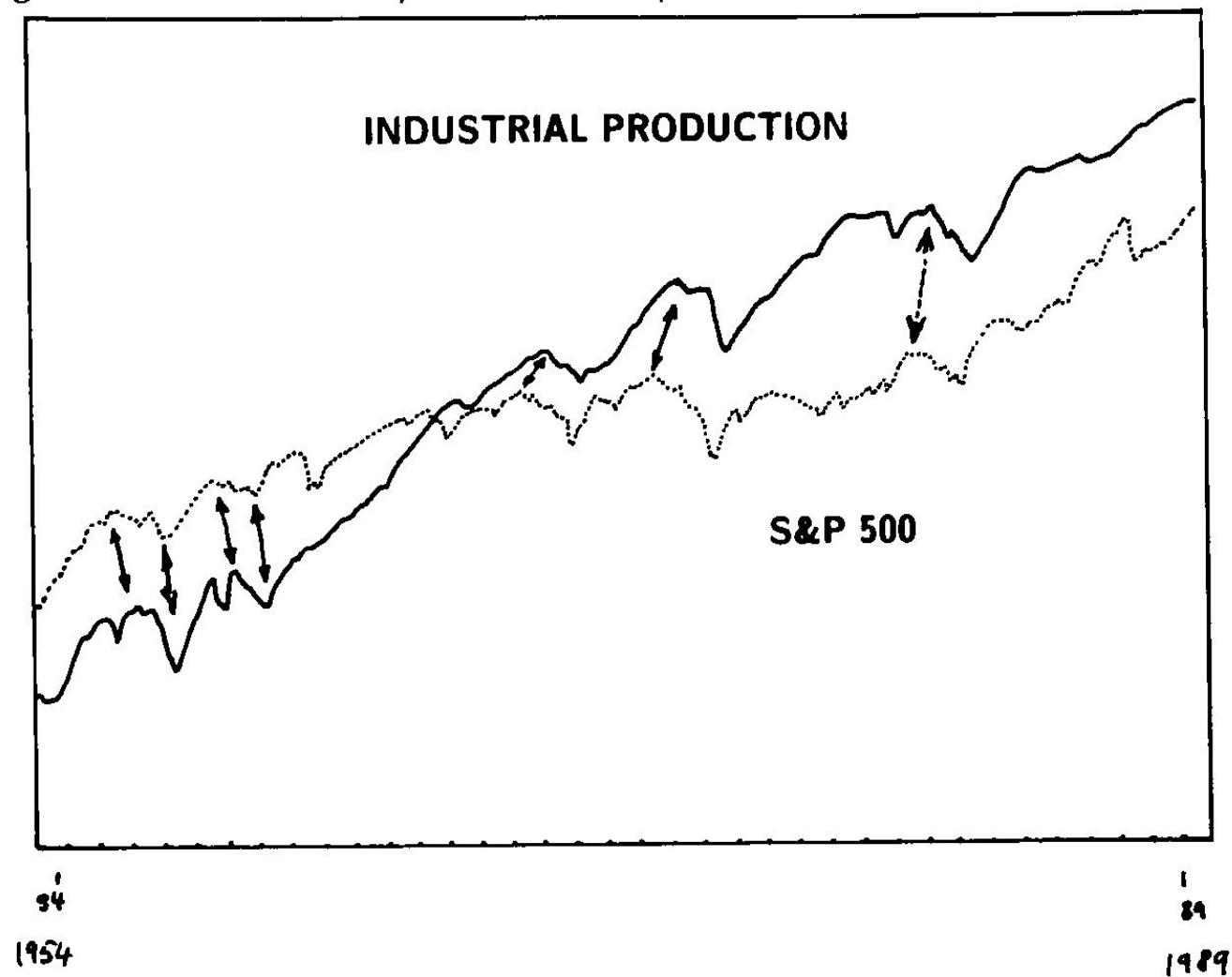


Figure 5-15. The index of lagging indicators compared to the S&P 500.

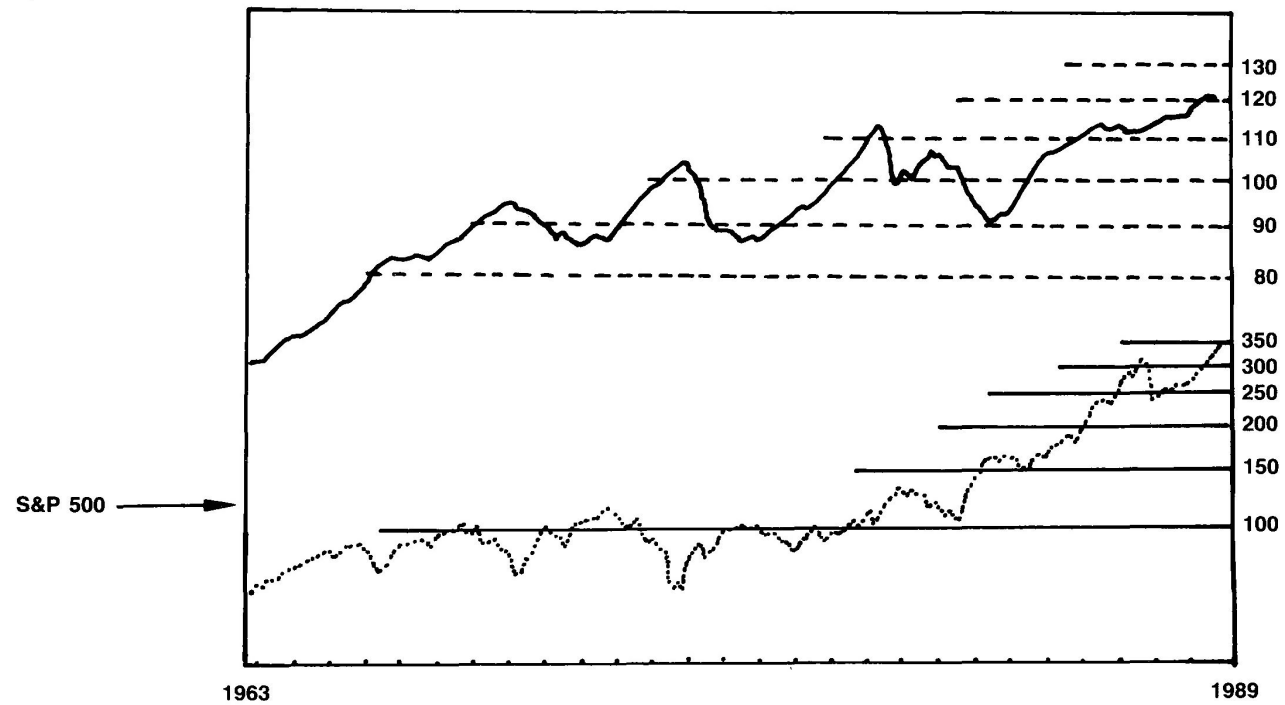
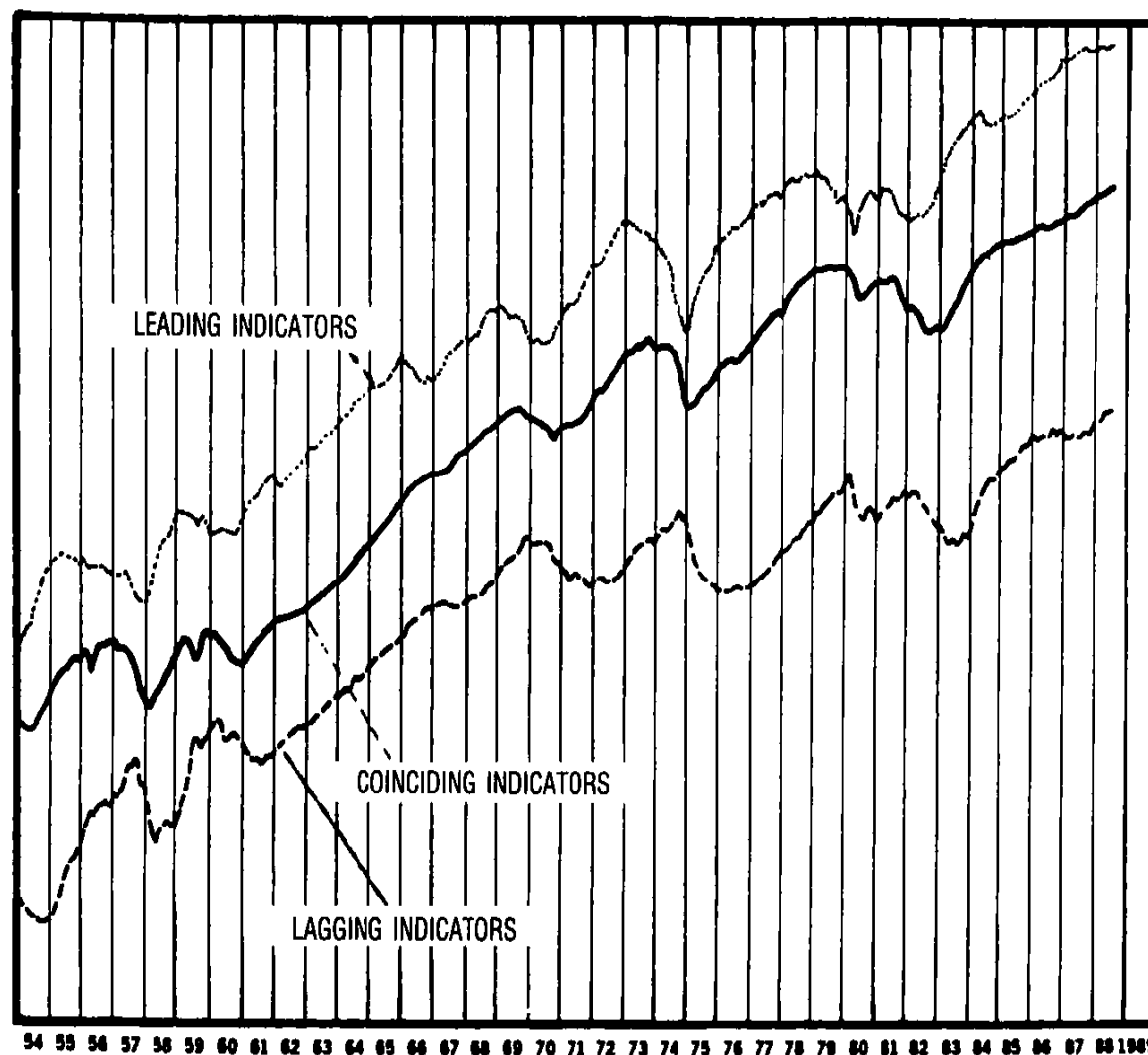


Figure 5-16. The leading, coincident, and lagging indicators.



- First week:
- ☐ Purchasing Managers Index
 - ☐ Construction Spending
 - ☐ Factory Orders
 - ☐ Domestic New Car Sales
 - ☐ Chain Stores Sales
 - ☐ Civilian Unemployment Rate
 - ☐ Payroll Employment
 - ☐ Average Hourly Earnings
- Second week:
- ☐ Consumer Installment Credit
 - ☐ Wholesale Inventory
 - ☐ Housing Completions
 - ☐ 10-Day Car Sales
 - ☐ Producer Price Index
 - ☐ Retail Sales
 - ☐ Industrial Production Index
 - ☐ Capacity Utilization
- Third week:
- ☐ Business Inventory
 - ☐ Merchandise Trade
 - ☐ Consumer Price Index
 - ☐ Housing Starts
- Fourth week:
- ☐ U.S. Treasury Balance
 - ☐ Durable Goods Orders
 - ☐ Employment Cost Index
 - ☐ 10-Day Car Sales
 - ☐ GNP

- ☐ Import Price Index
- ☐ Personal Income
- ☐ Personal Consumption Expenditures

Fifth week: ☐ Agricultural Prices

$$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$\frac{\text{Cash} + \text{marketable securities} + \text{Cash flow from operations}}{\text{current liabilities}}$$

$$\text{Gross profit margin} = \frac{\text{Gross Profit}}{\text{Net sales}}$$

$$\text{Operating profit margin} = \frac{\text{Earnings Before Income Taxes (EBIT)}}{\text{Net sales}}$$

EBIT = Net Sales – COGS – General Selling
and Administrative Expenses

Where COGS = cost of goods sold

$$\text{Net profit margin} = \frac{\text{Net Income}}{\text{Net Sales}}$$

$$\text{ROI} = \frac{\text{Net Profits after Taxes}}{\text{Total Assets}}$$

$$\text{ROE} = \frac{\text{Net profits after taxes}}{\text{Common equity}}$$

$$\text{TIE} = \frac{\text{EBIT}}{\text{Interest Expense}}$$

EBIT

Interest Expenses + Lease Payment

Figure 7-1. Drug industry average relative to its earnings.

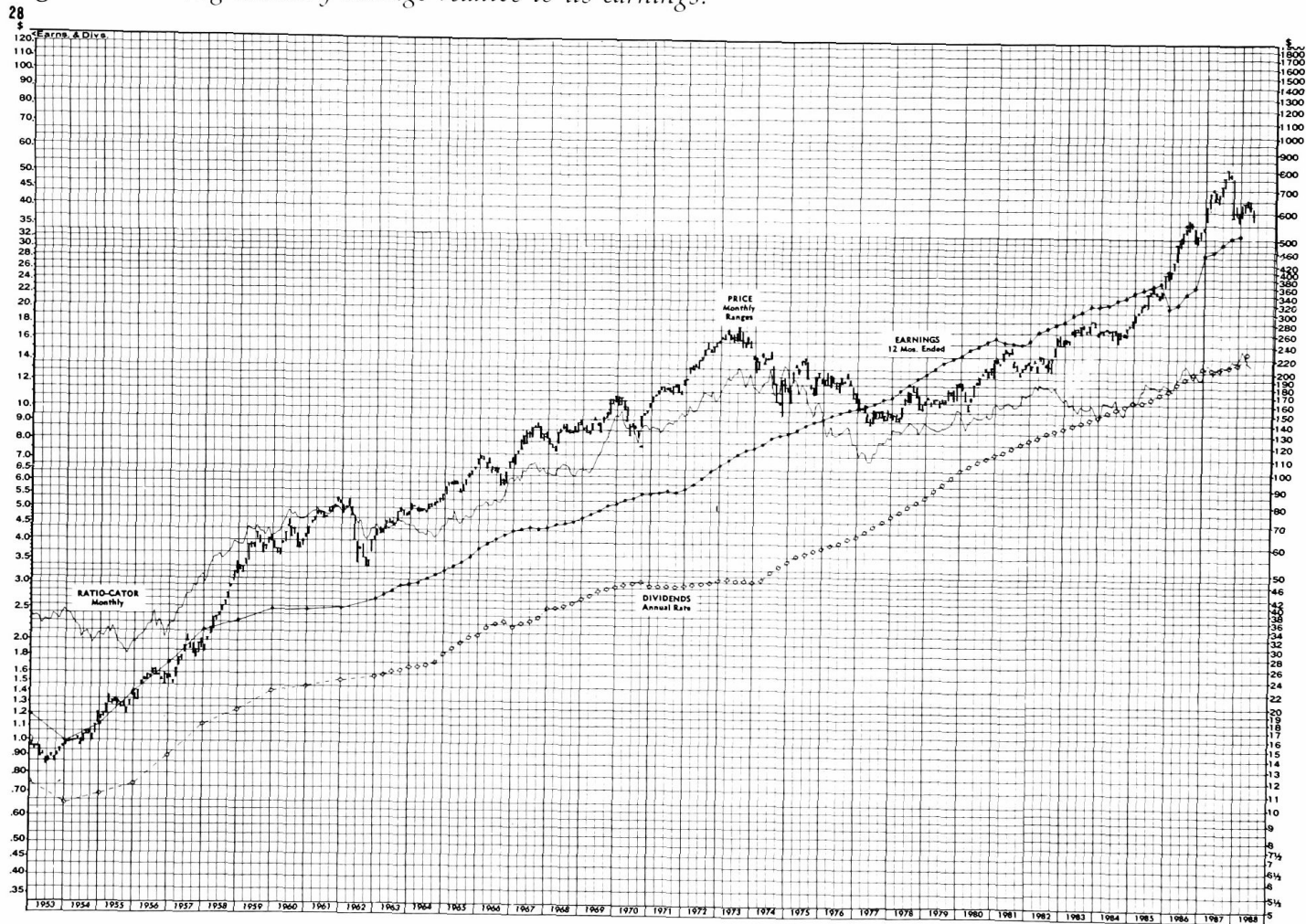


Figure 7-2. The foods group and its earnings curve over 35 years.

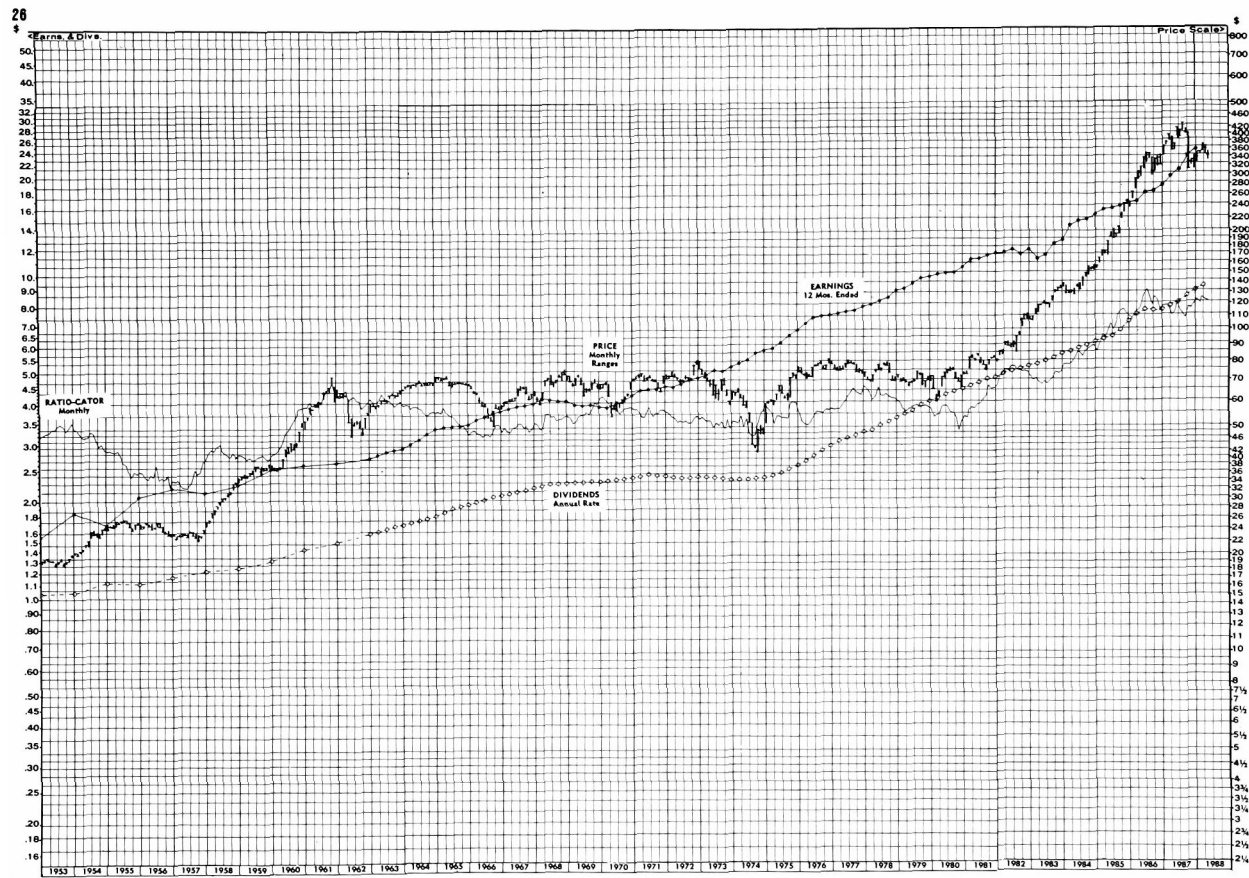


Figure 7-3. The autos group and its cyclical earnings.

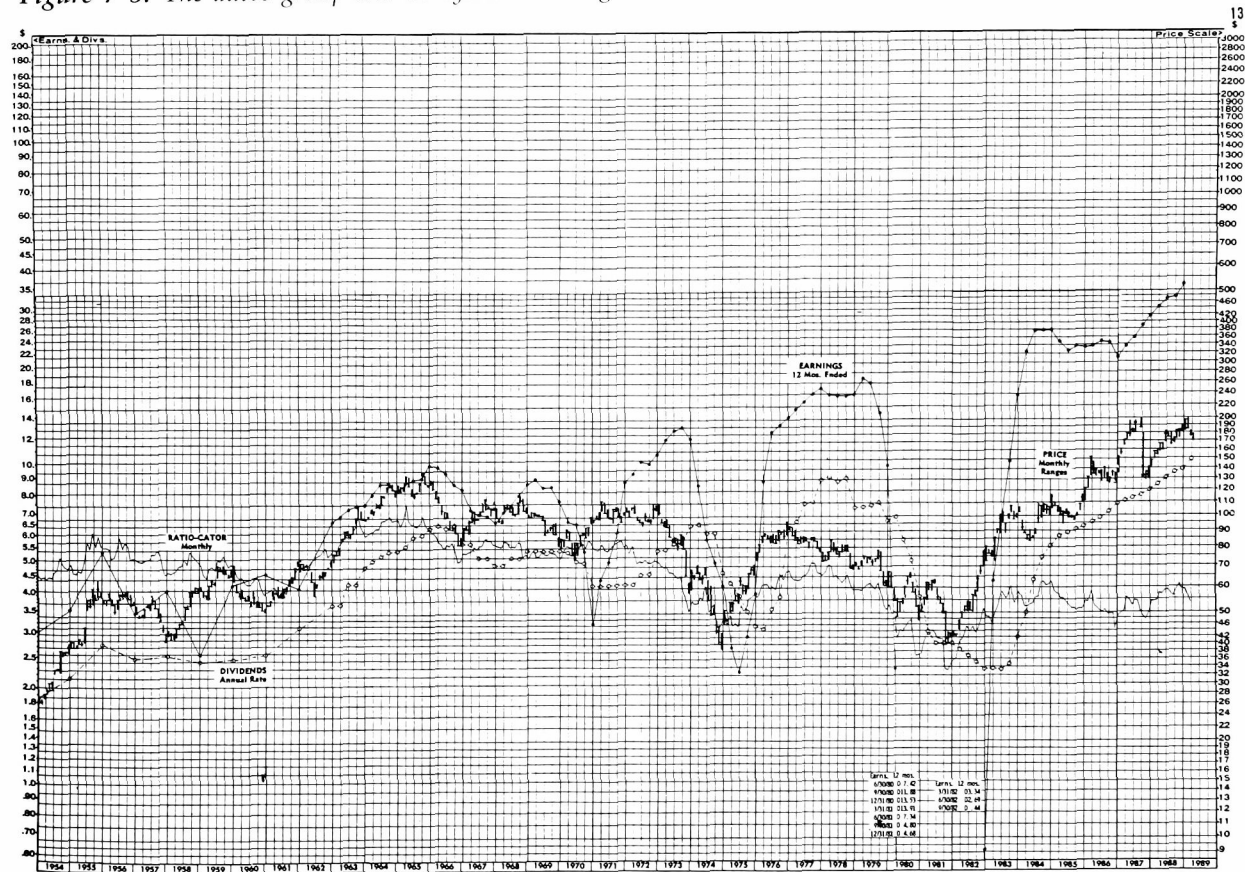


Figure 7-4. Banks' historical earnings over 35 years.

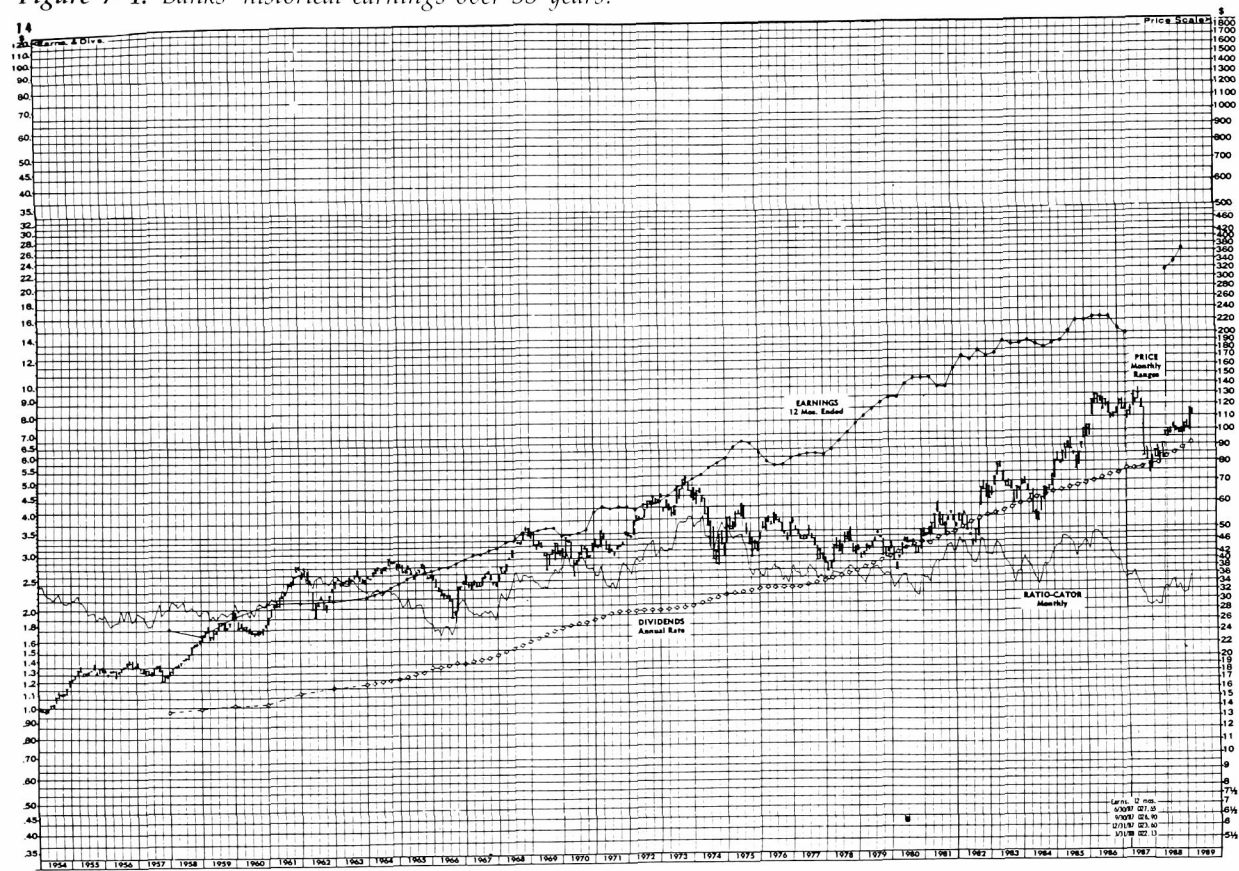


Figure 7-5. High-tech companies and long-term earnings.

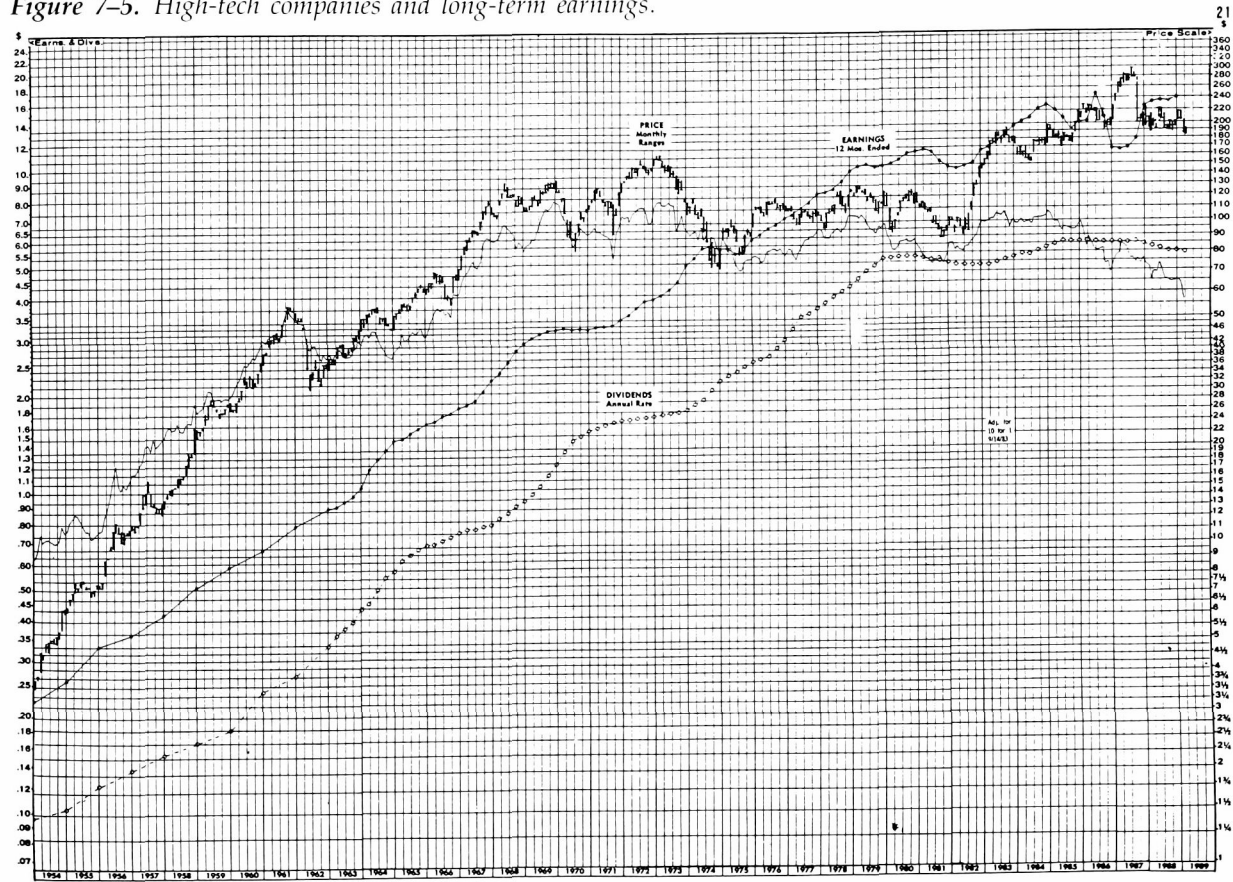


Figure 7-6. The aerospace group and defense expenditures.

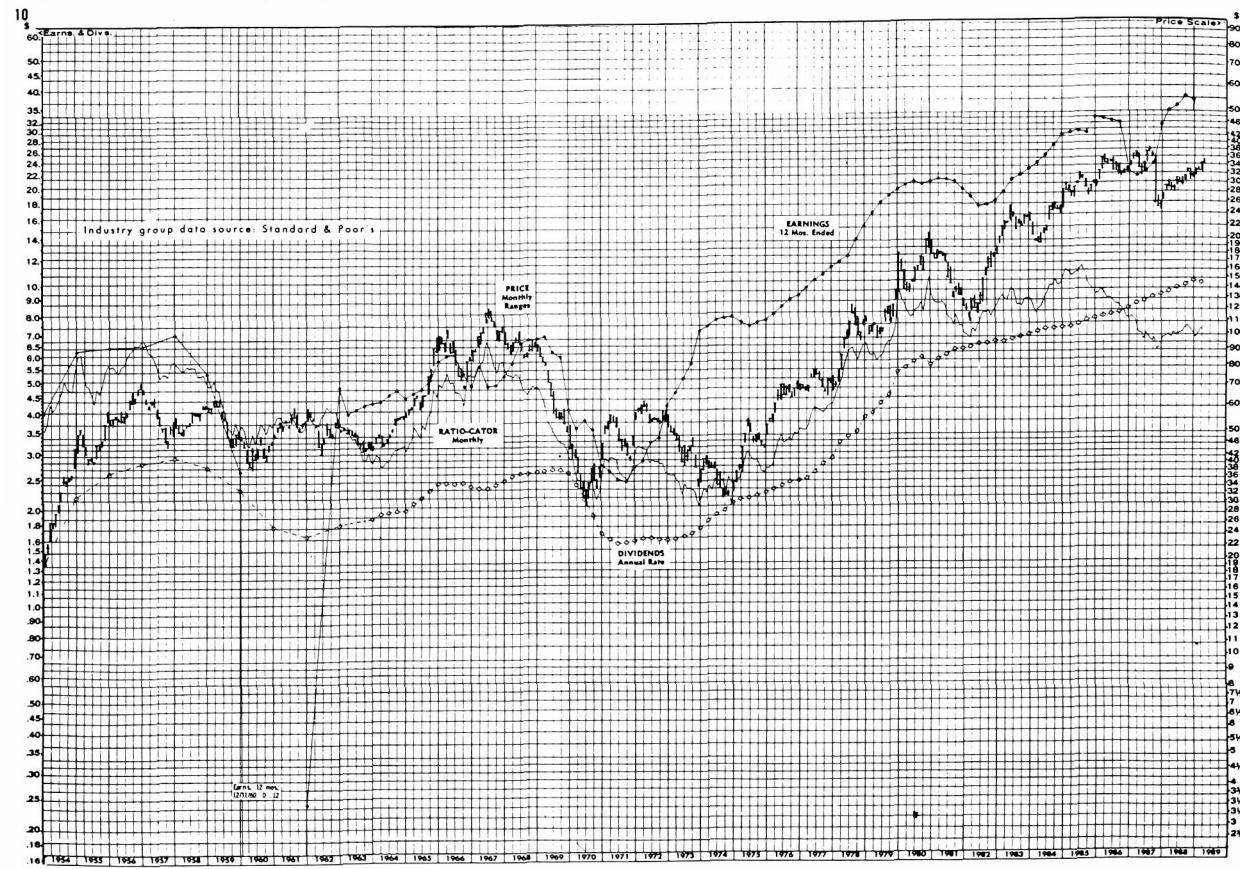


Figure 7-7. International and Domestic and Oil Services relative to Crude Oil Prices.

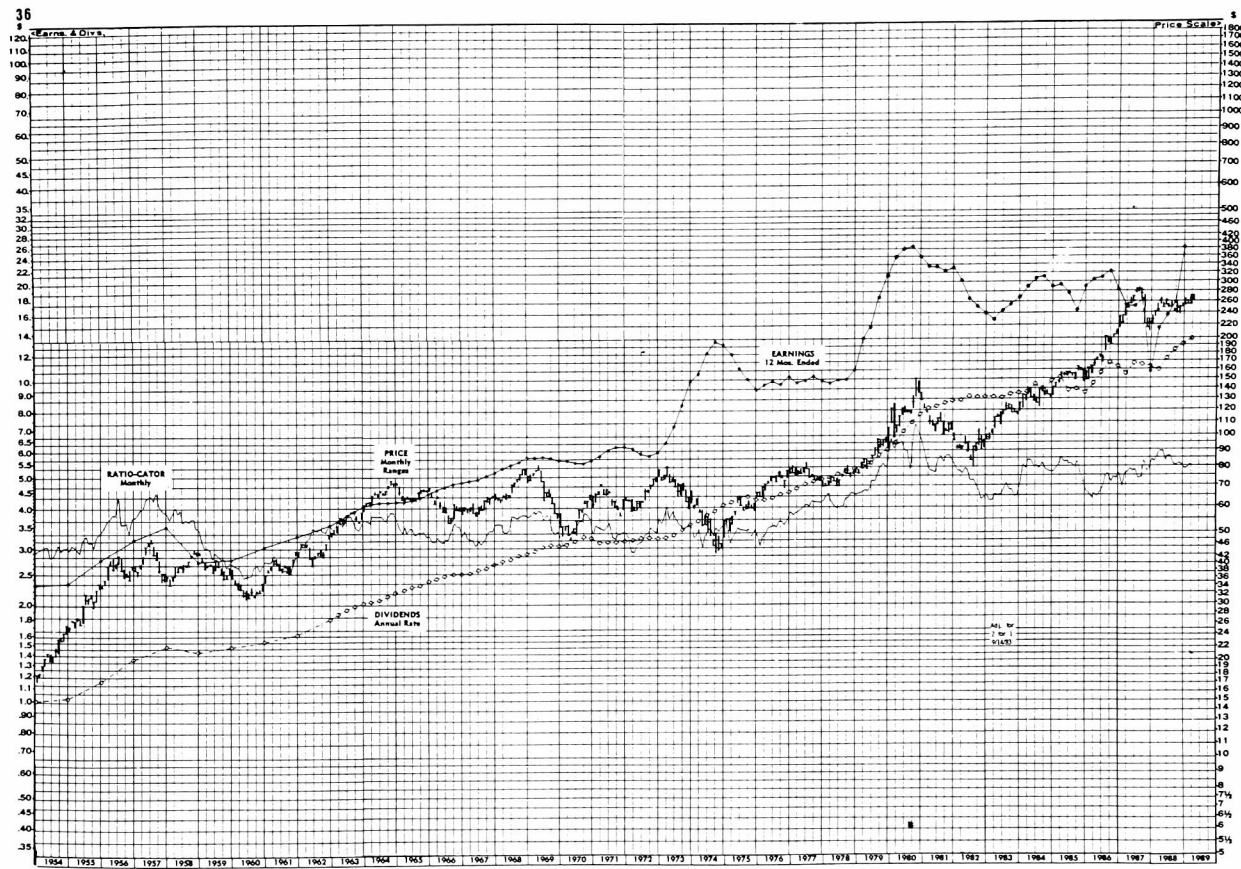


Figure 7-8. The chemicals groups' historic earnings.

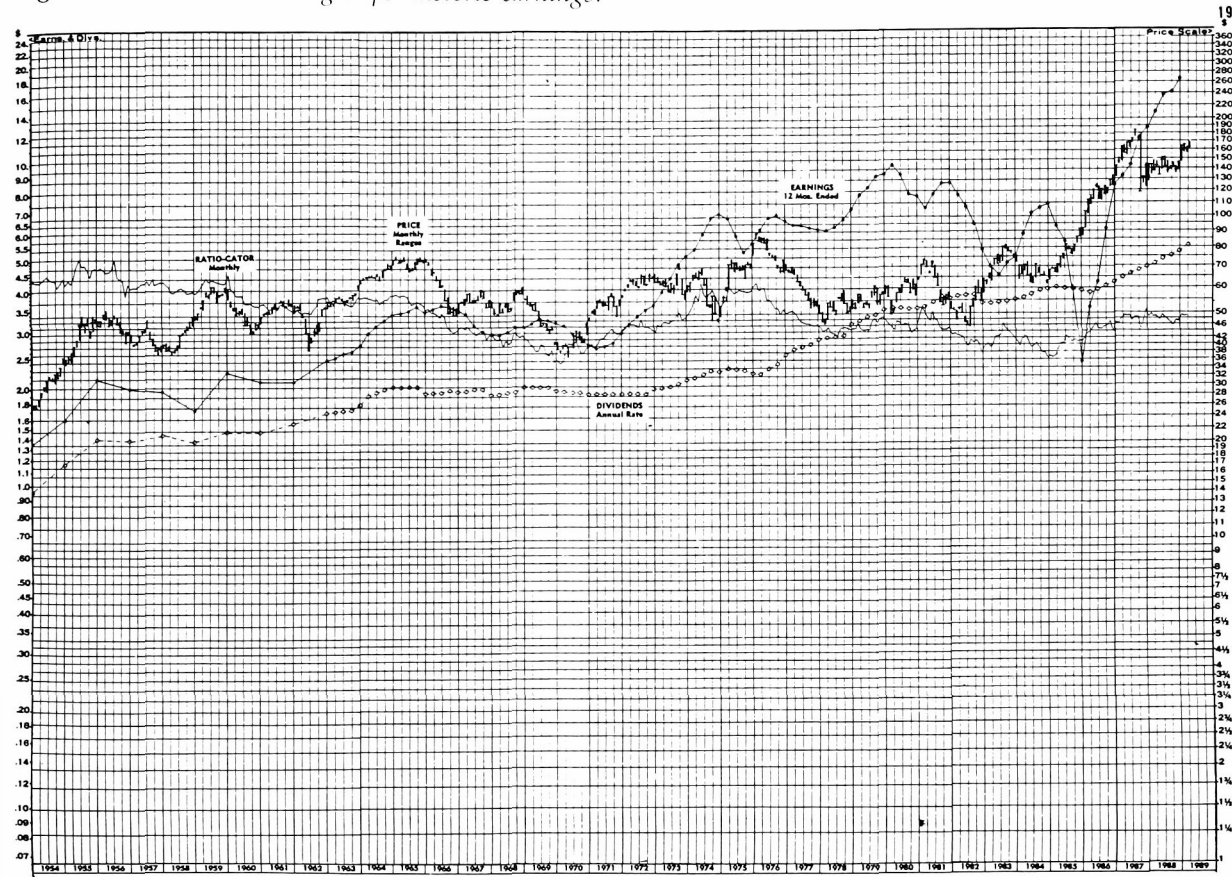


Figure 8-1. Monthly stock prices of Sara Lee Corp.

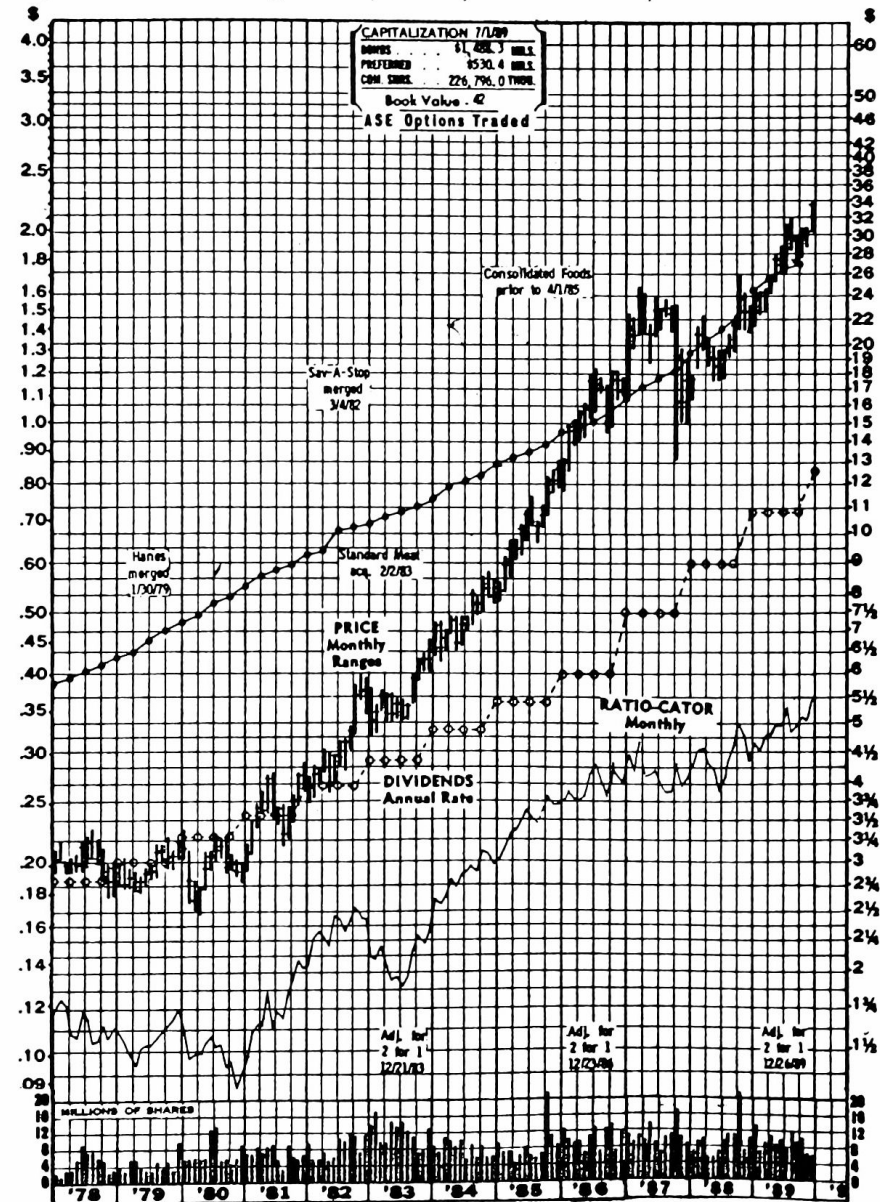


Figure 8-2. Merck monthly graph.

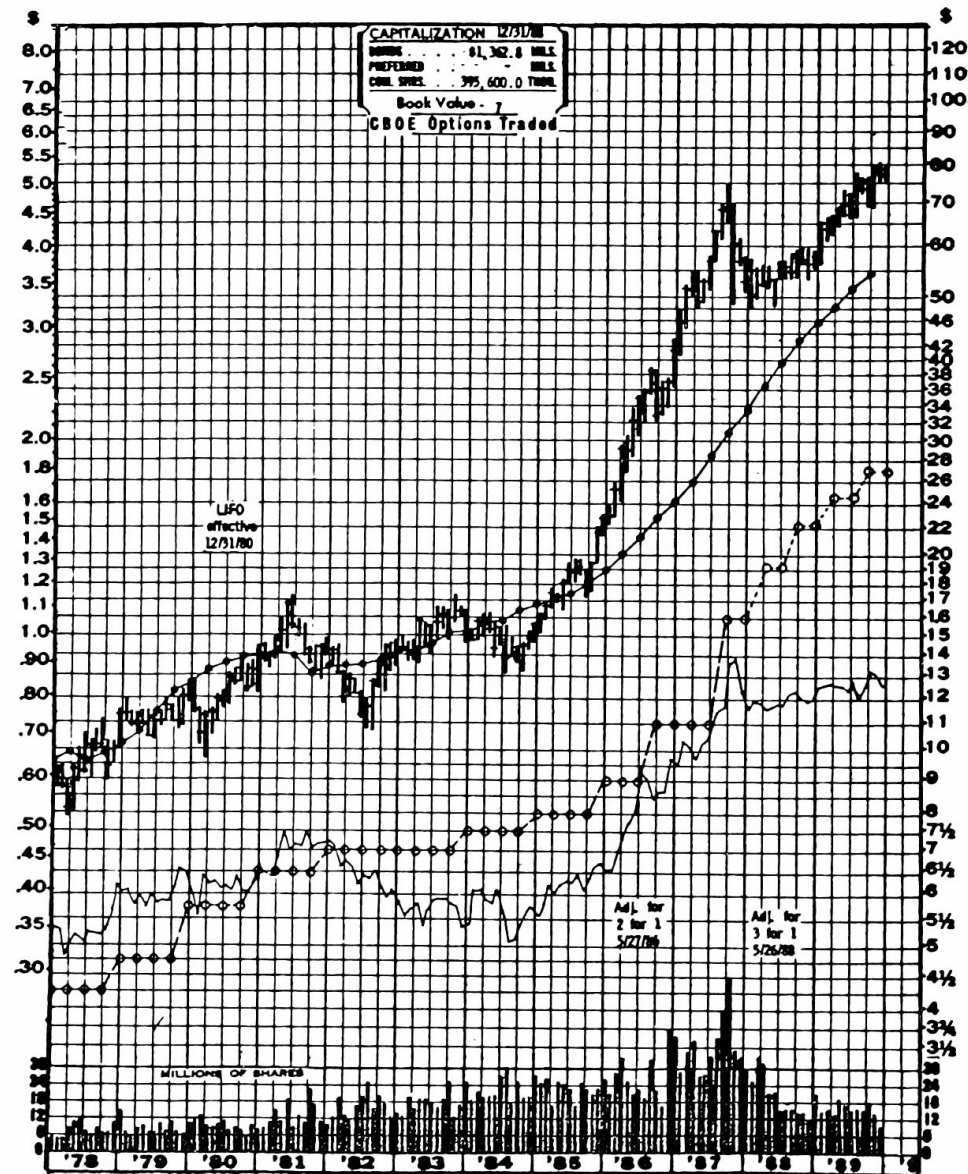


Figure 8-3. Valhi Inc., ups and downs.

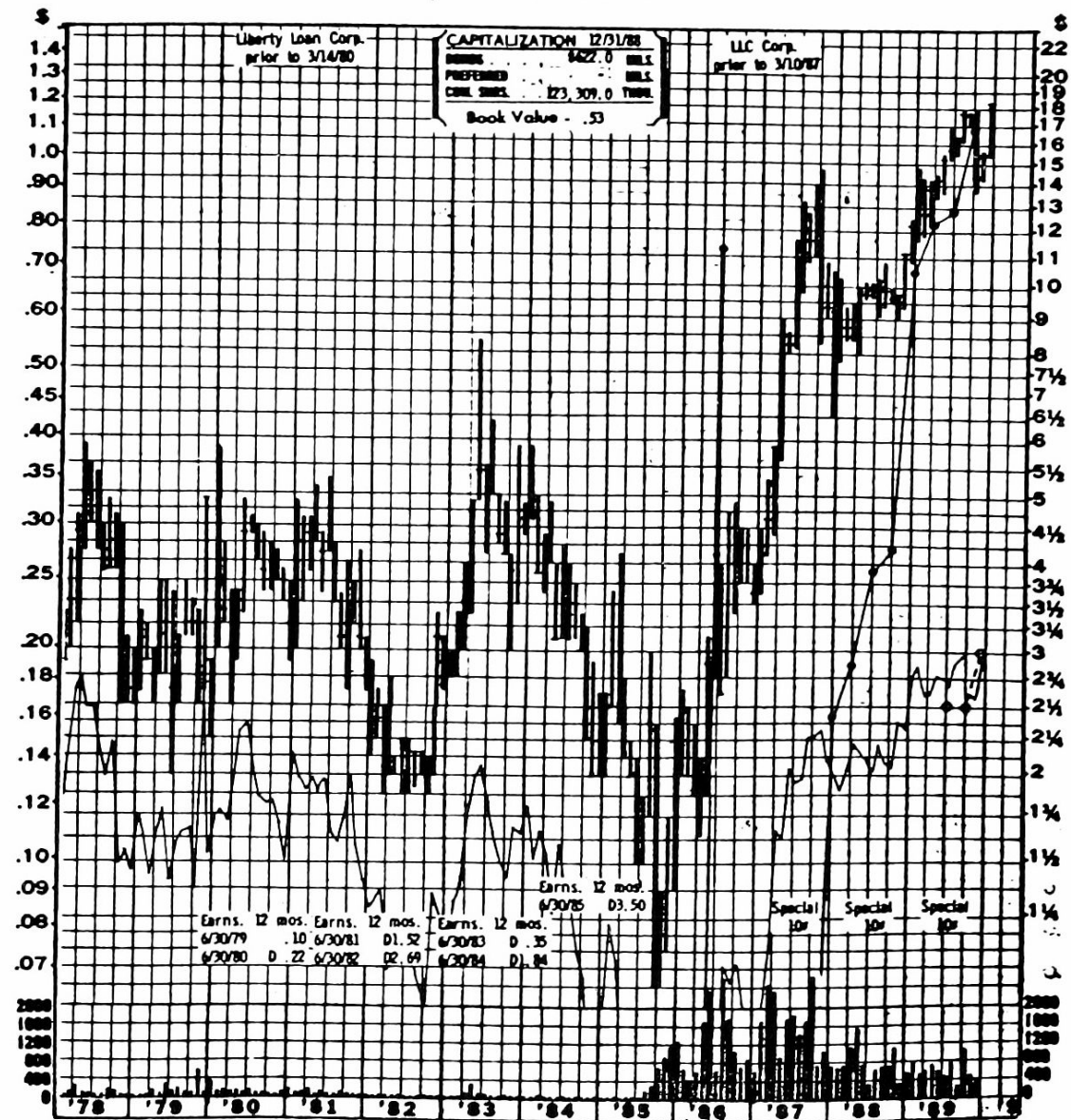


Figure 8-4. Automatic Data Processing and Ennis Business Forms.

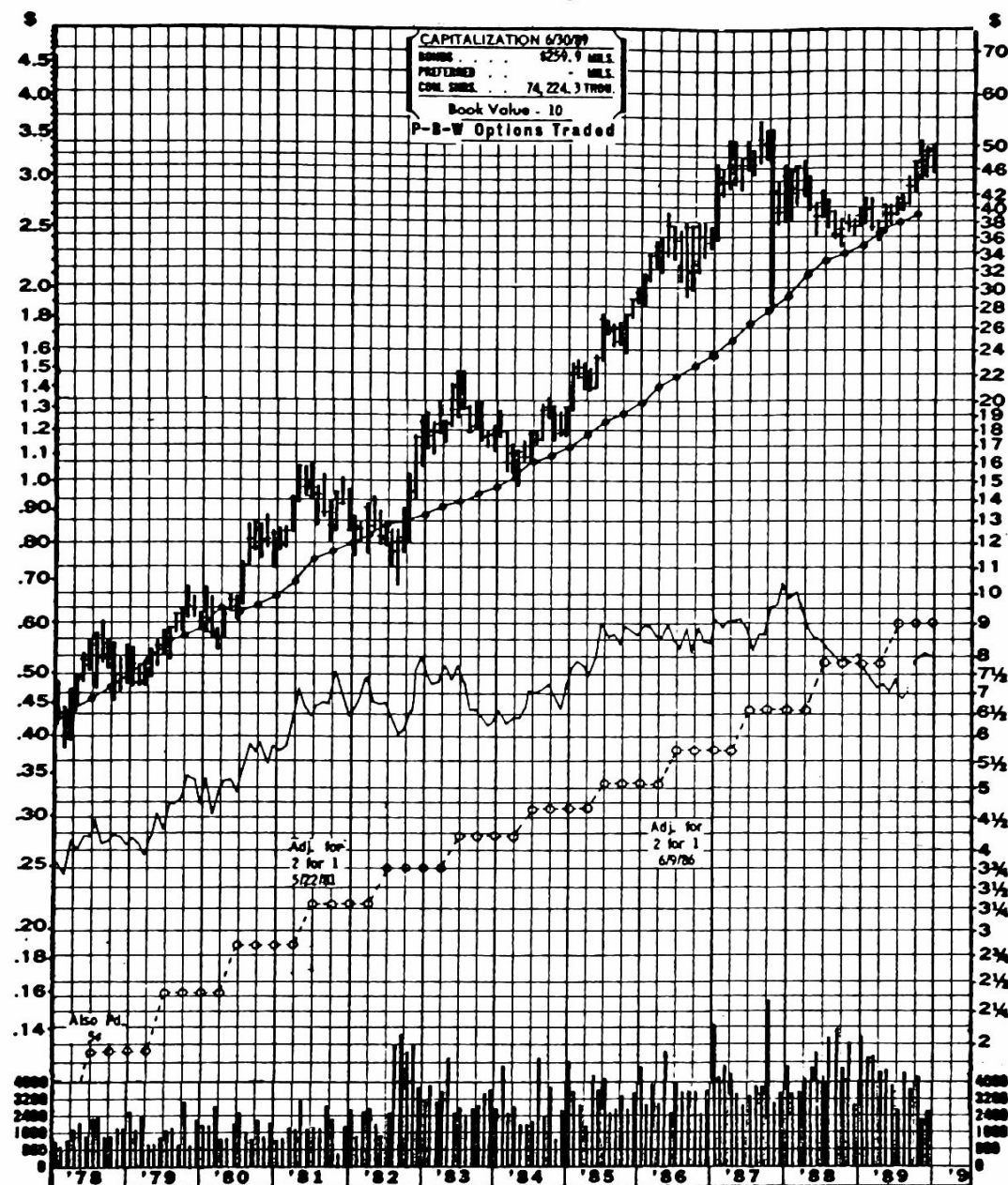


Figure 8-4. (continued)

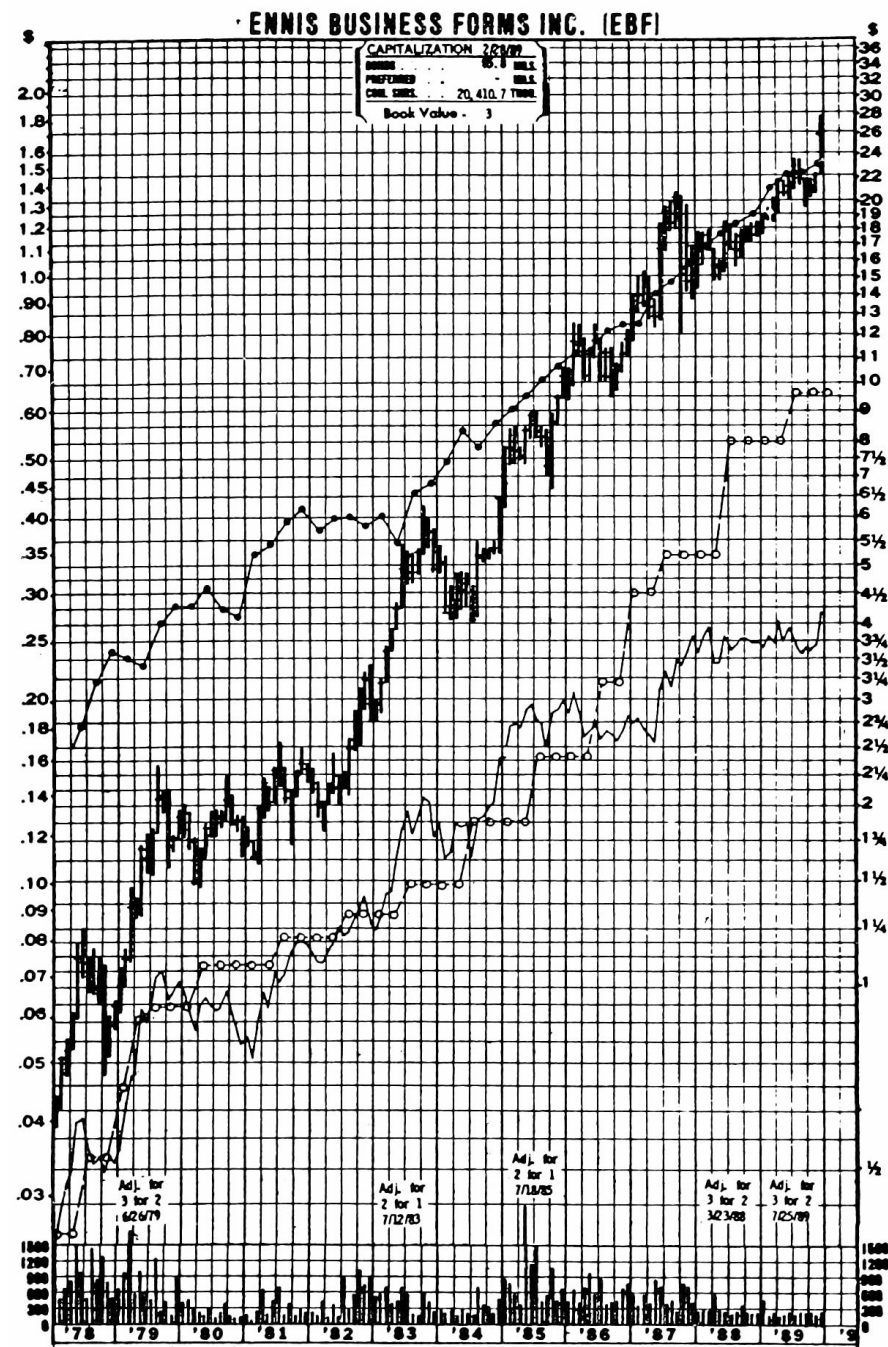


Figure 8-5. Bank of New England and Cray Research Inc., monthly graphs.

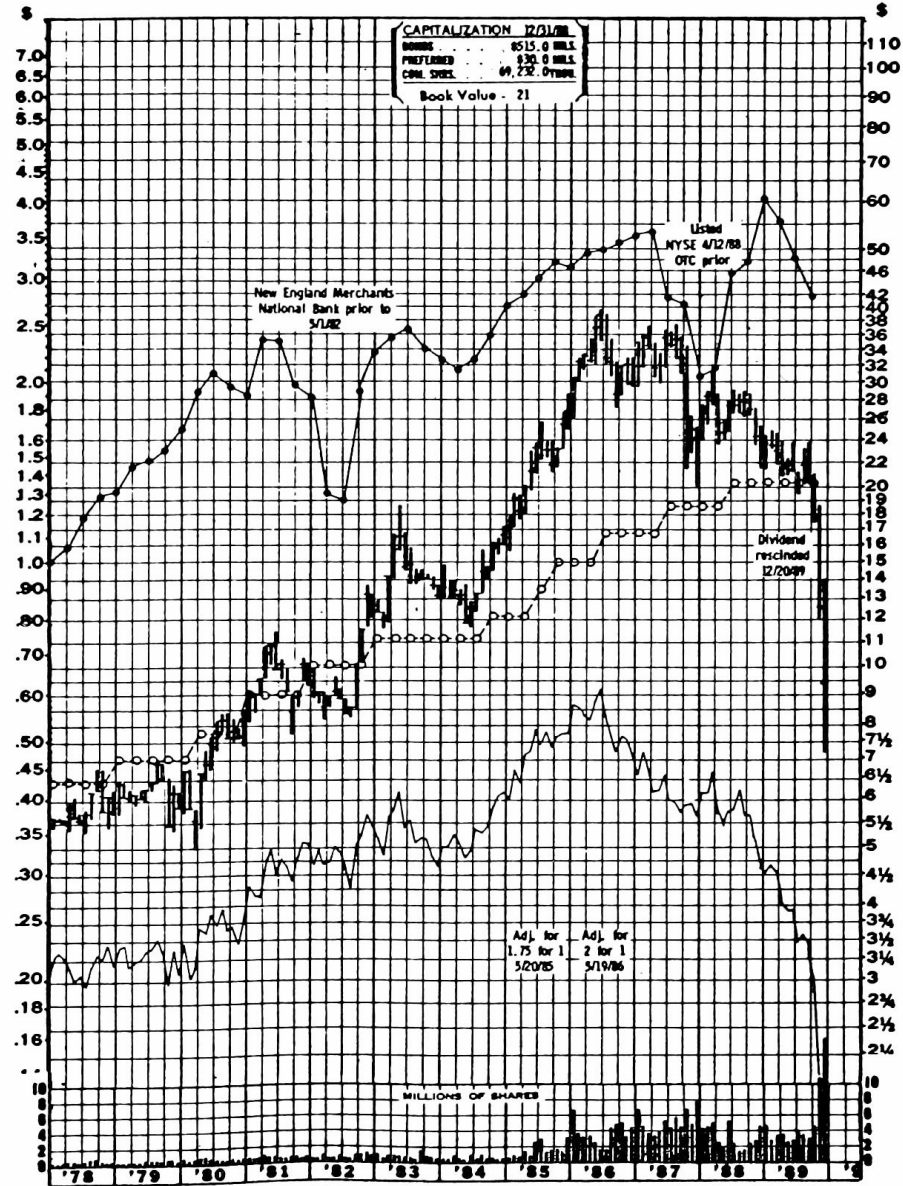


Figure 8-5. (continued)

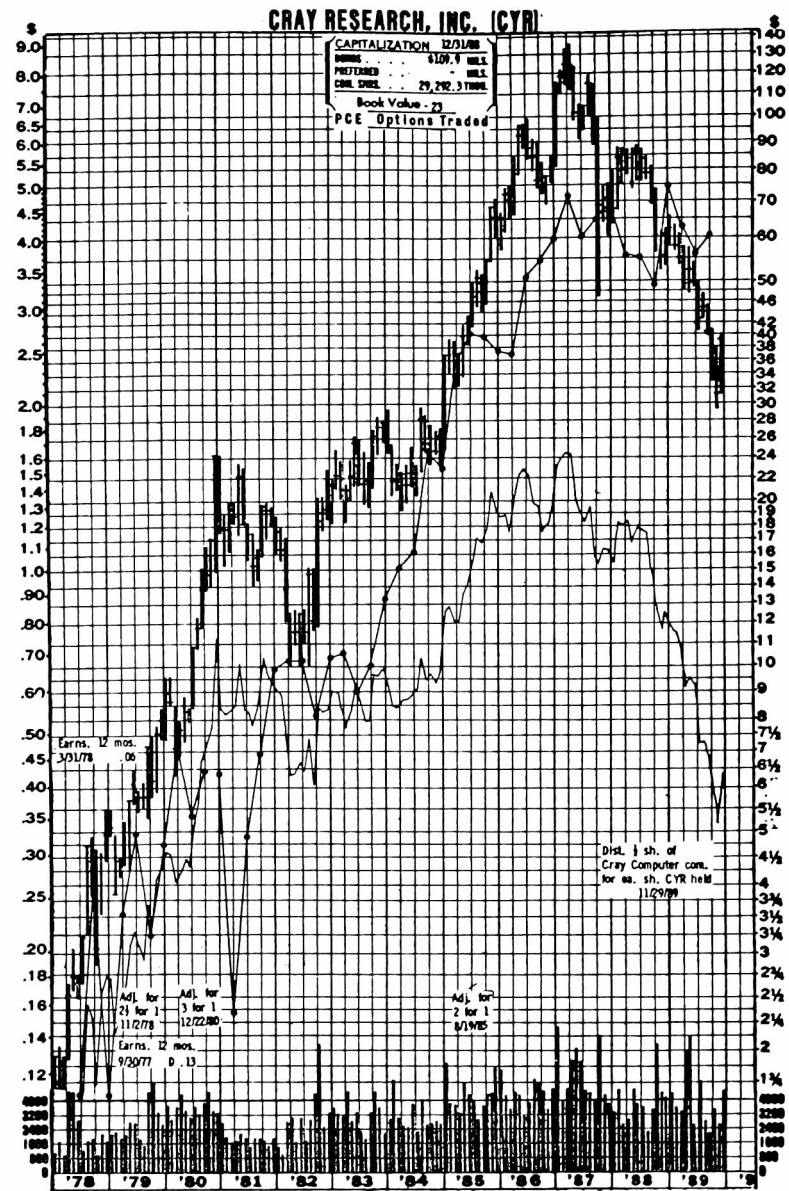


Figure 8-6. Walt Disney Productions.

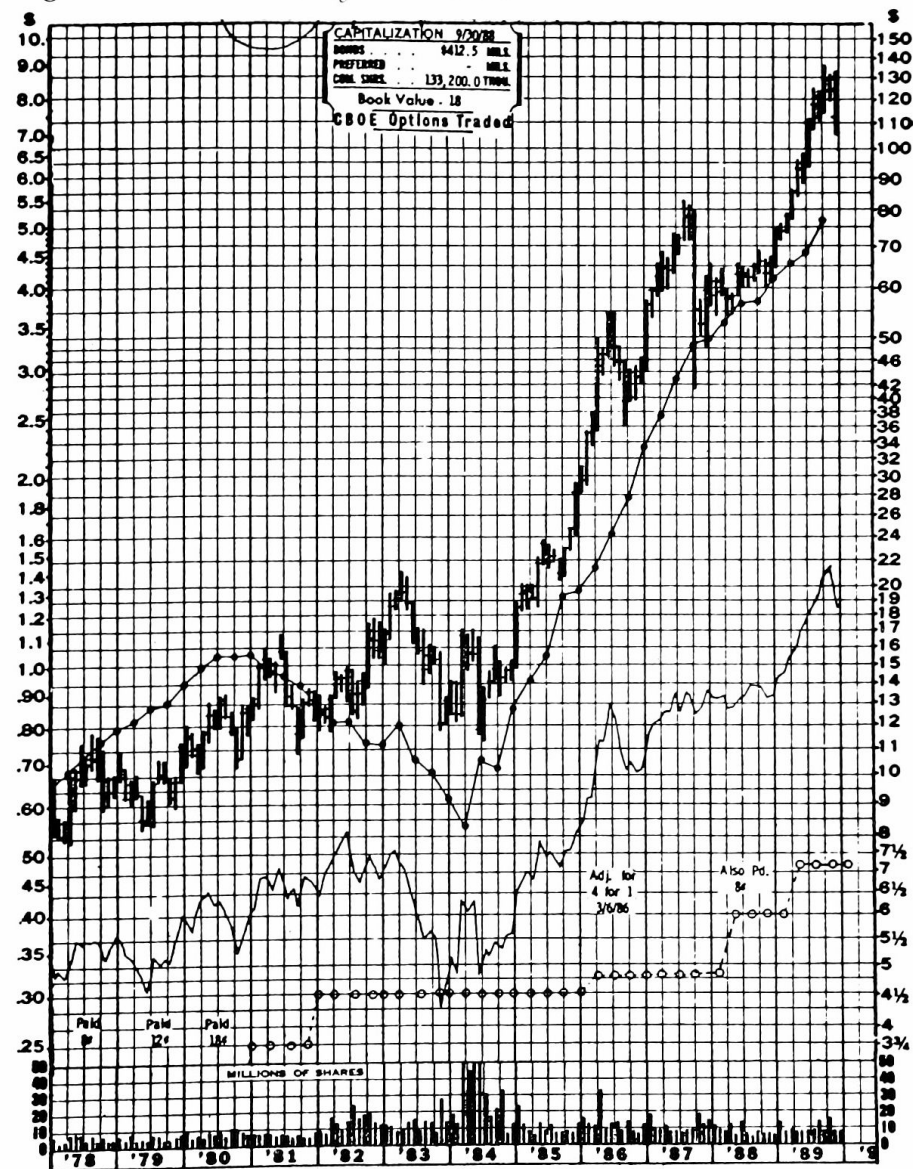


Figure 8-7. S&P composite versus its earnings.

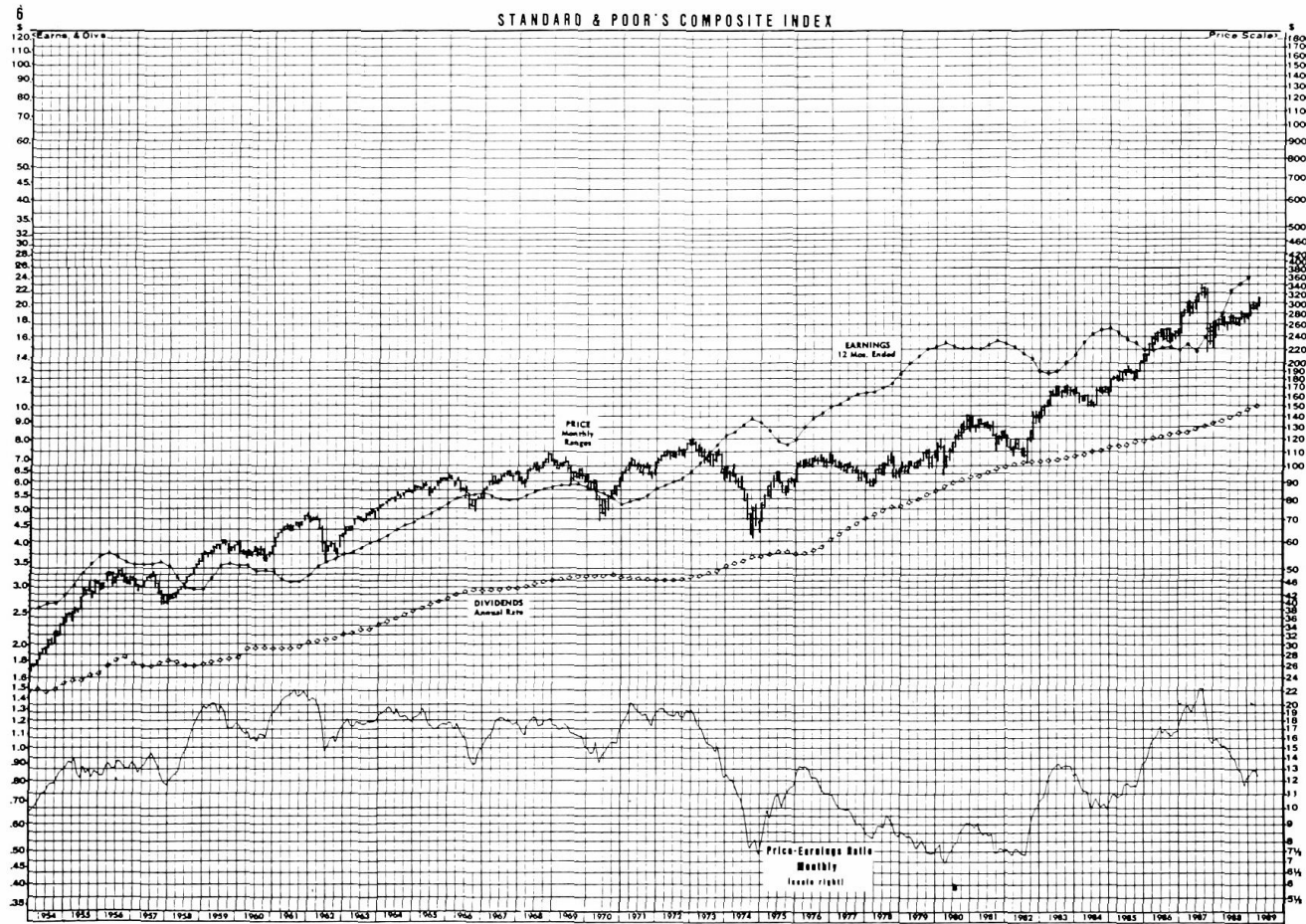
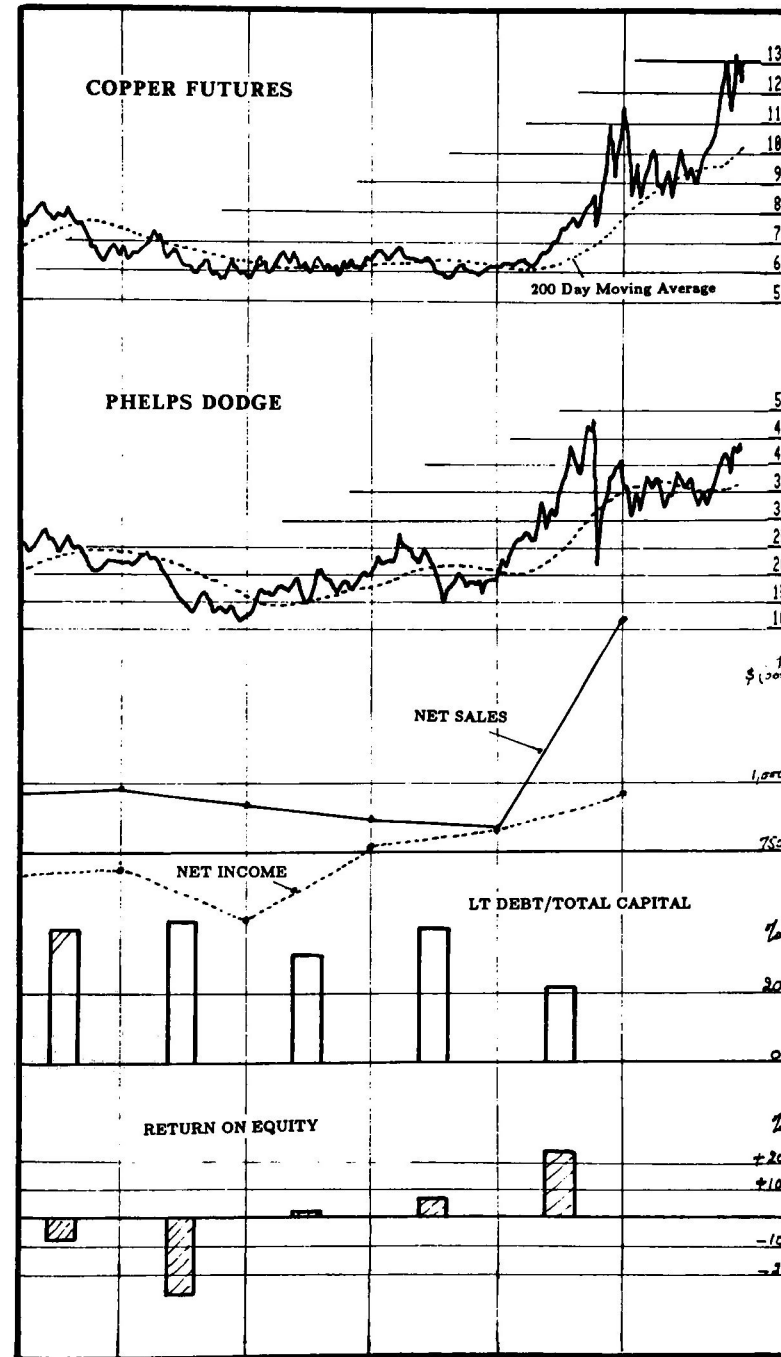


Figure 8-8. Copper, Phelps Dodge, and its fundamentals.



Intermarket Analysis and Investing

Figure 8-9. A "snapshot" of IBM and its financial ratios.

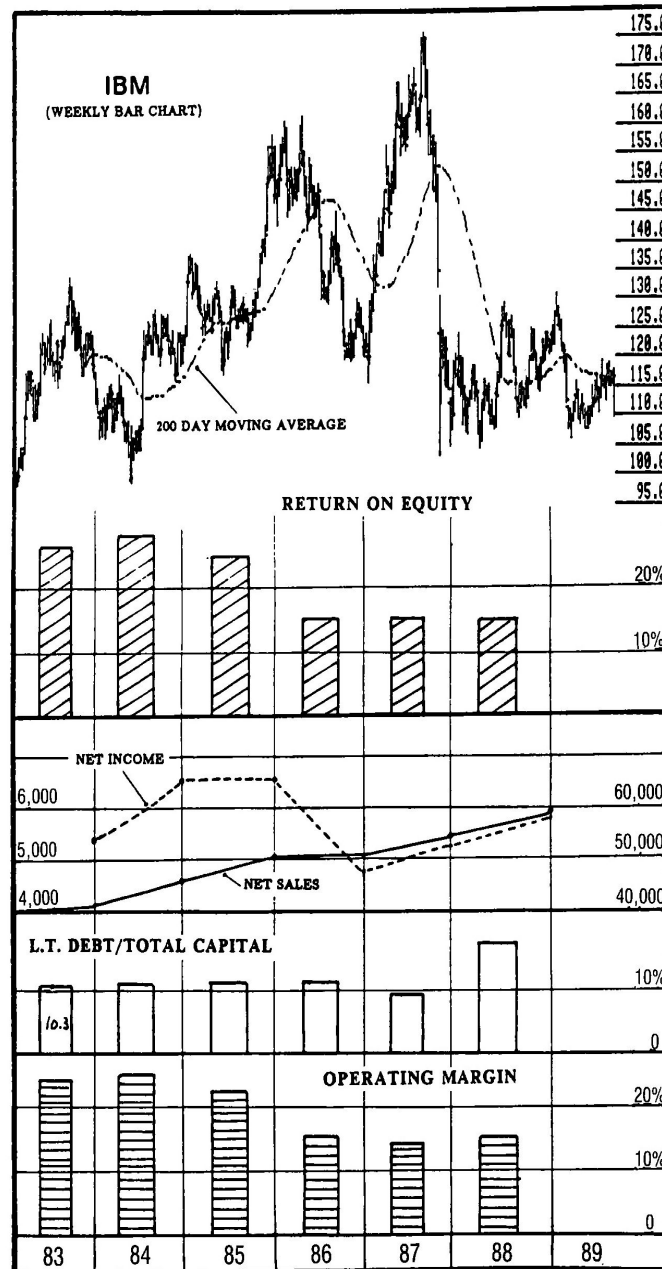


Figure 8-10. Compaq Computers and its fundamentals.

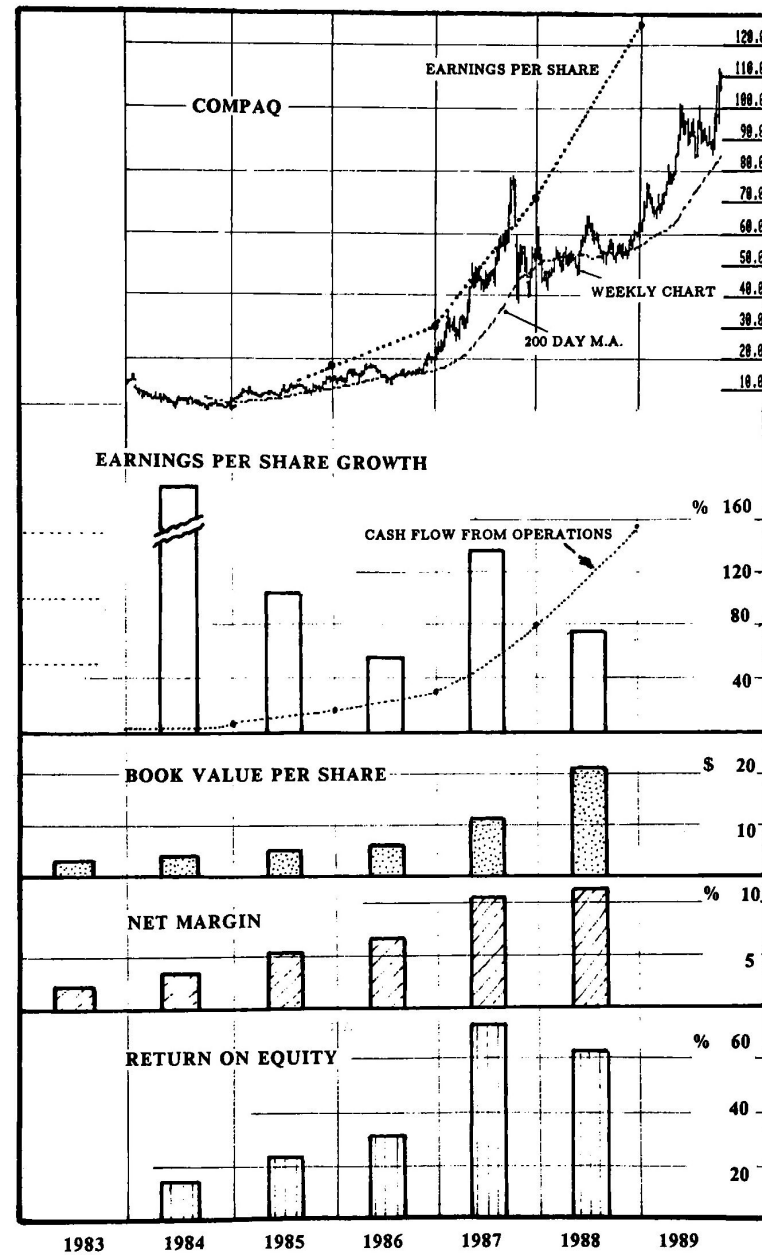


Figure 8-11. IBM versus Compaq.

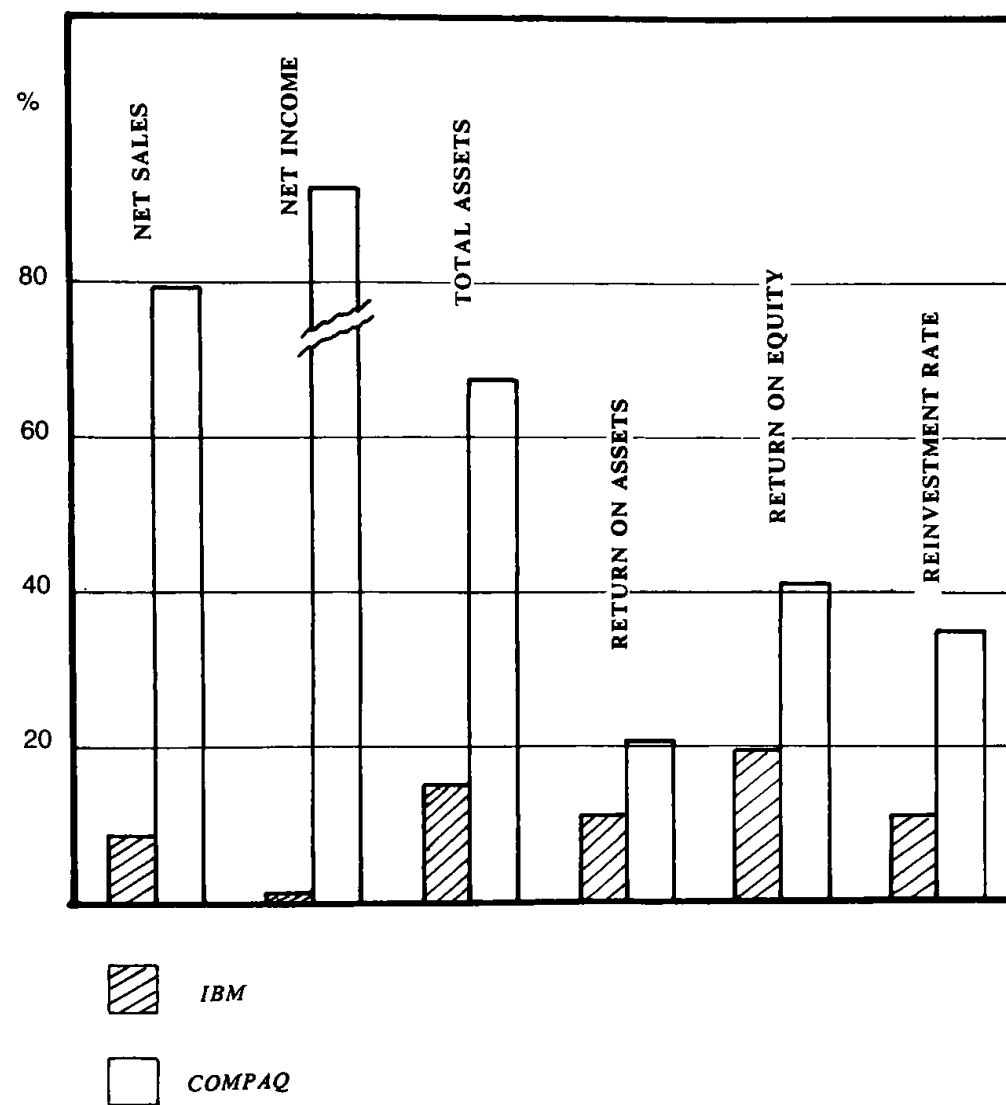


Figure 8-12. Compaq versus IBM, relative performance.

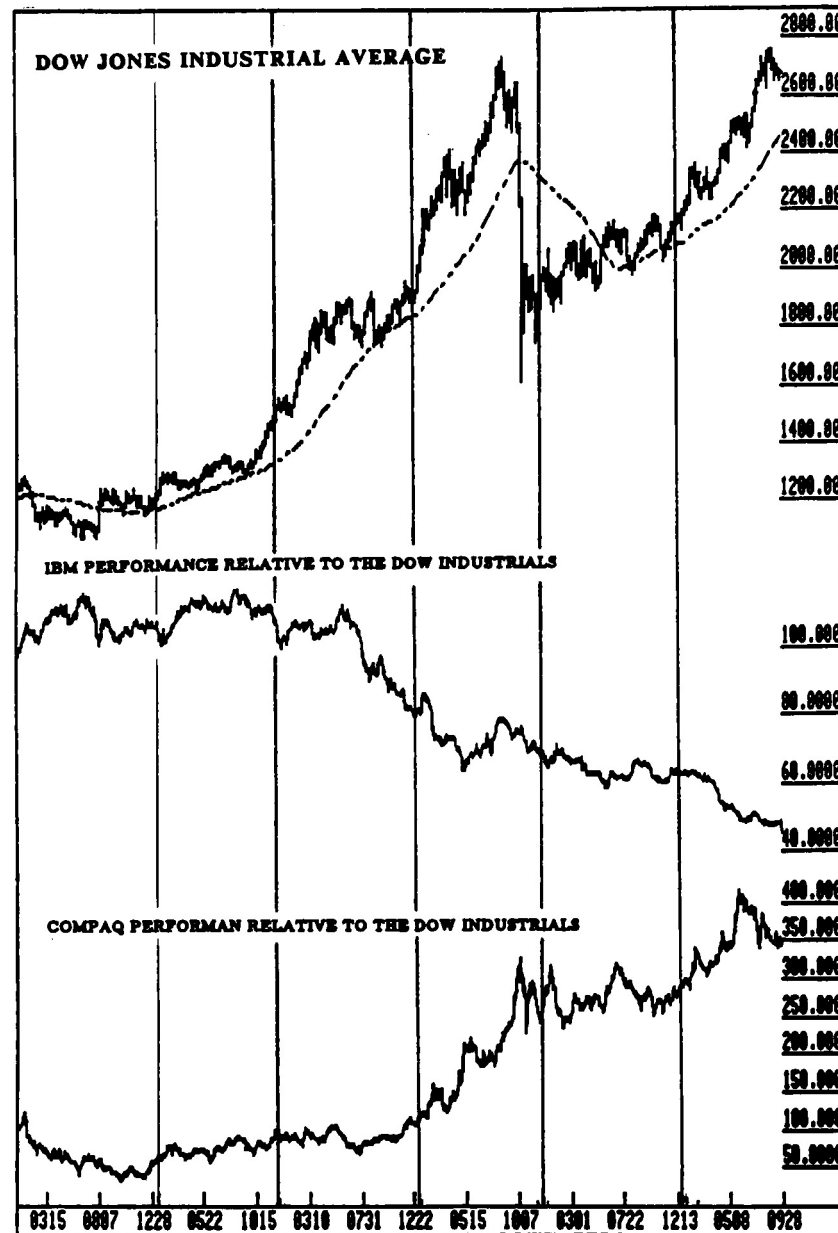


Figure 8-13. Relative performance of GM versus Ford and Honda, and the Dow.

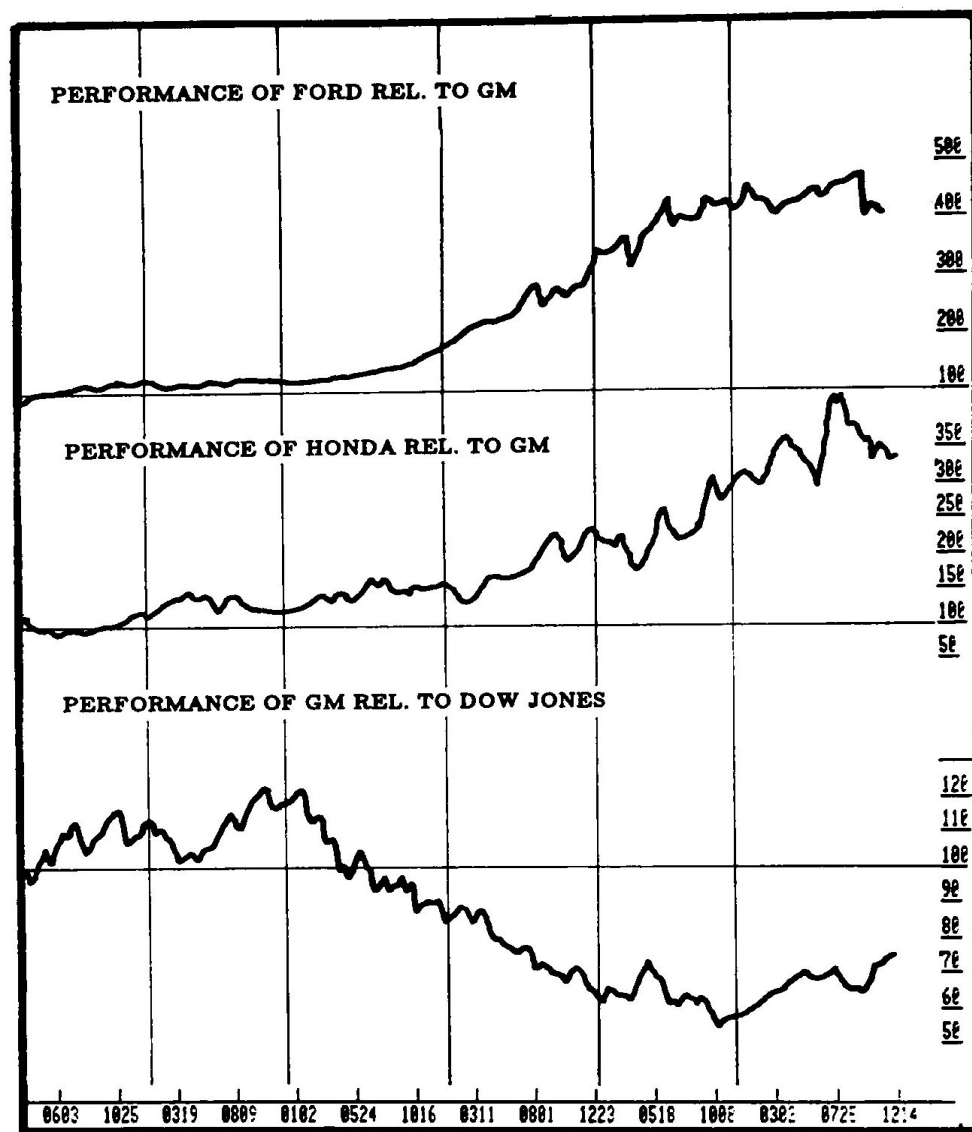


Figure 8-14. A broad comparison of the auto group.

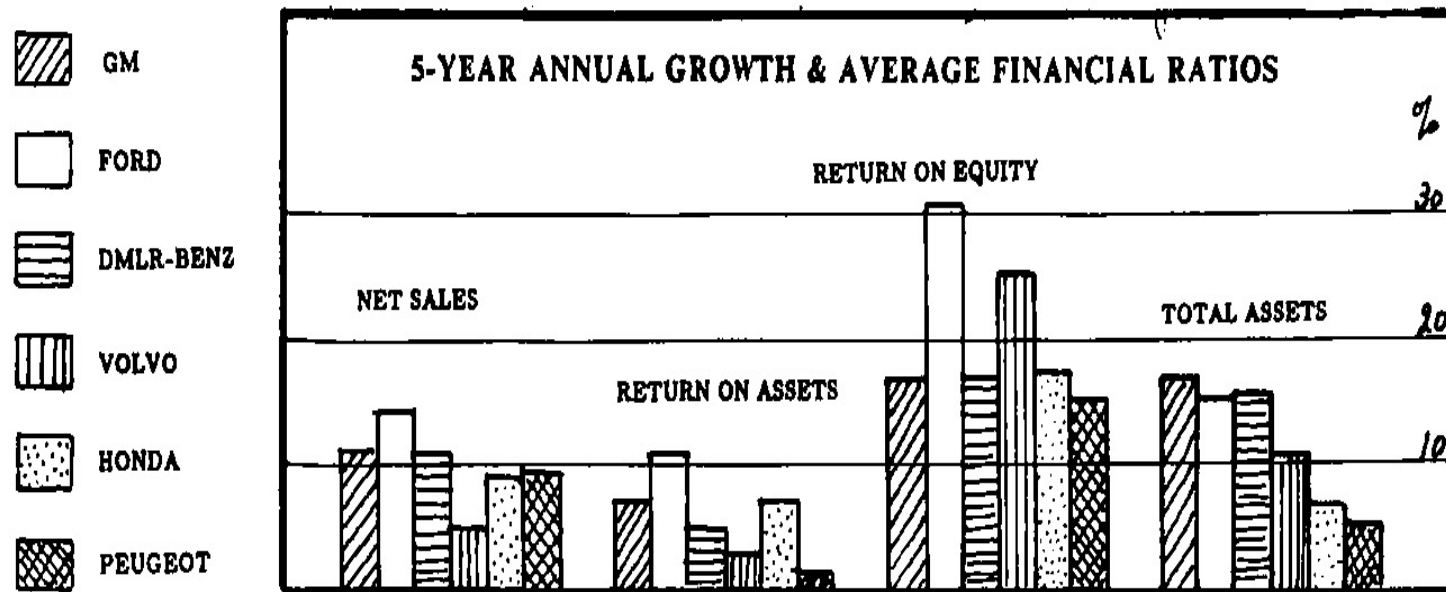


Figure 8-15. An illustration of a fundamental comparison of stocks in the drug group.

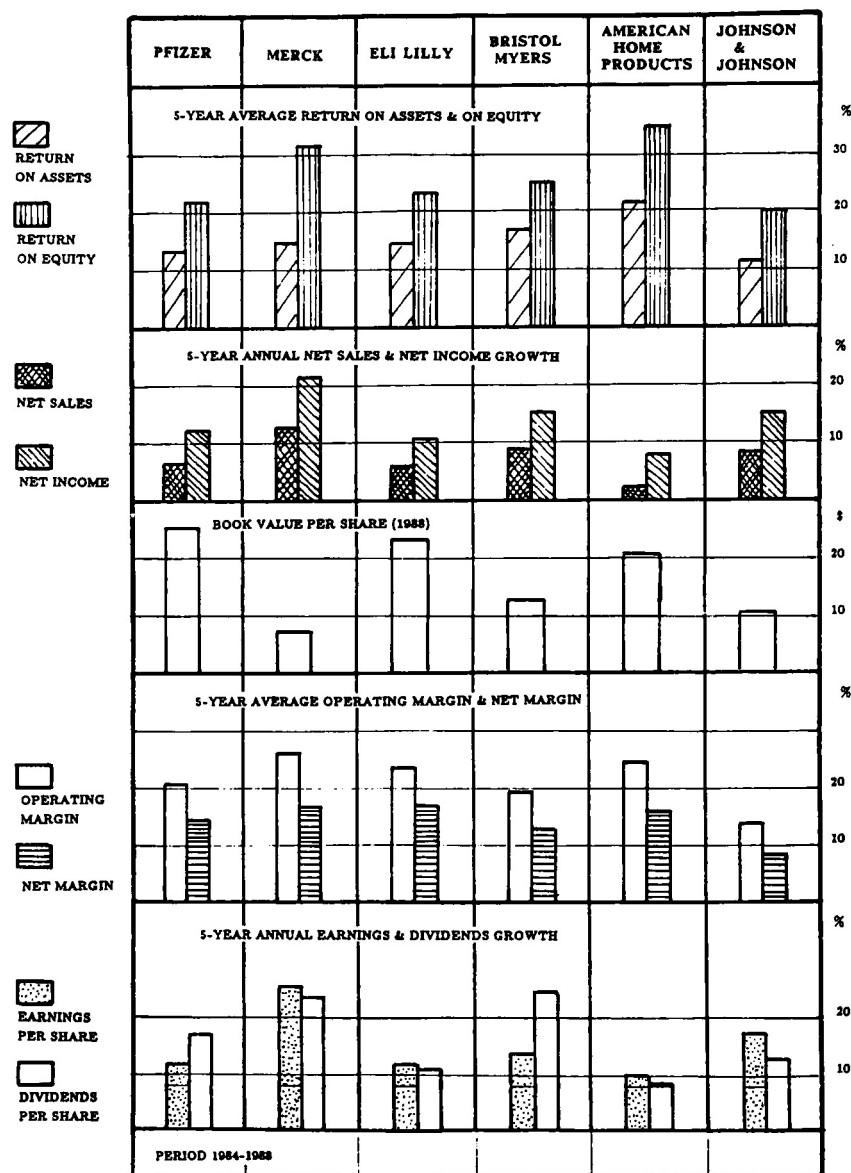


Figure 8-16. An inter-industry comparison of earnings growth and return on equity.

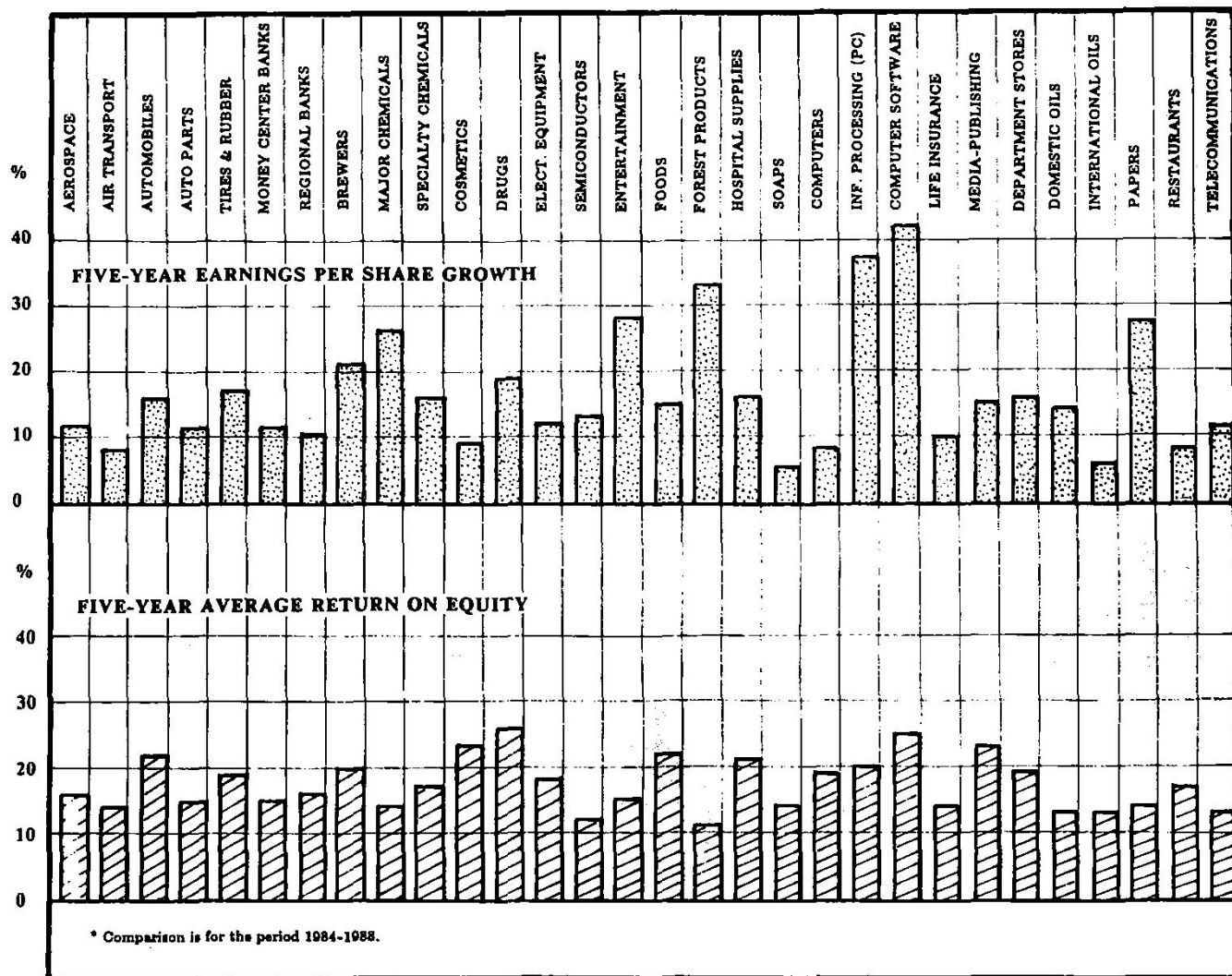


Figure 8-17. Debt profile of industry groups (1988).

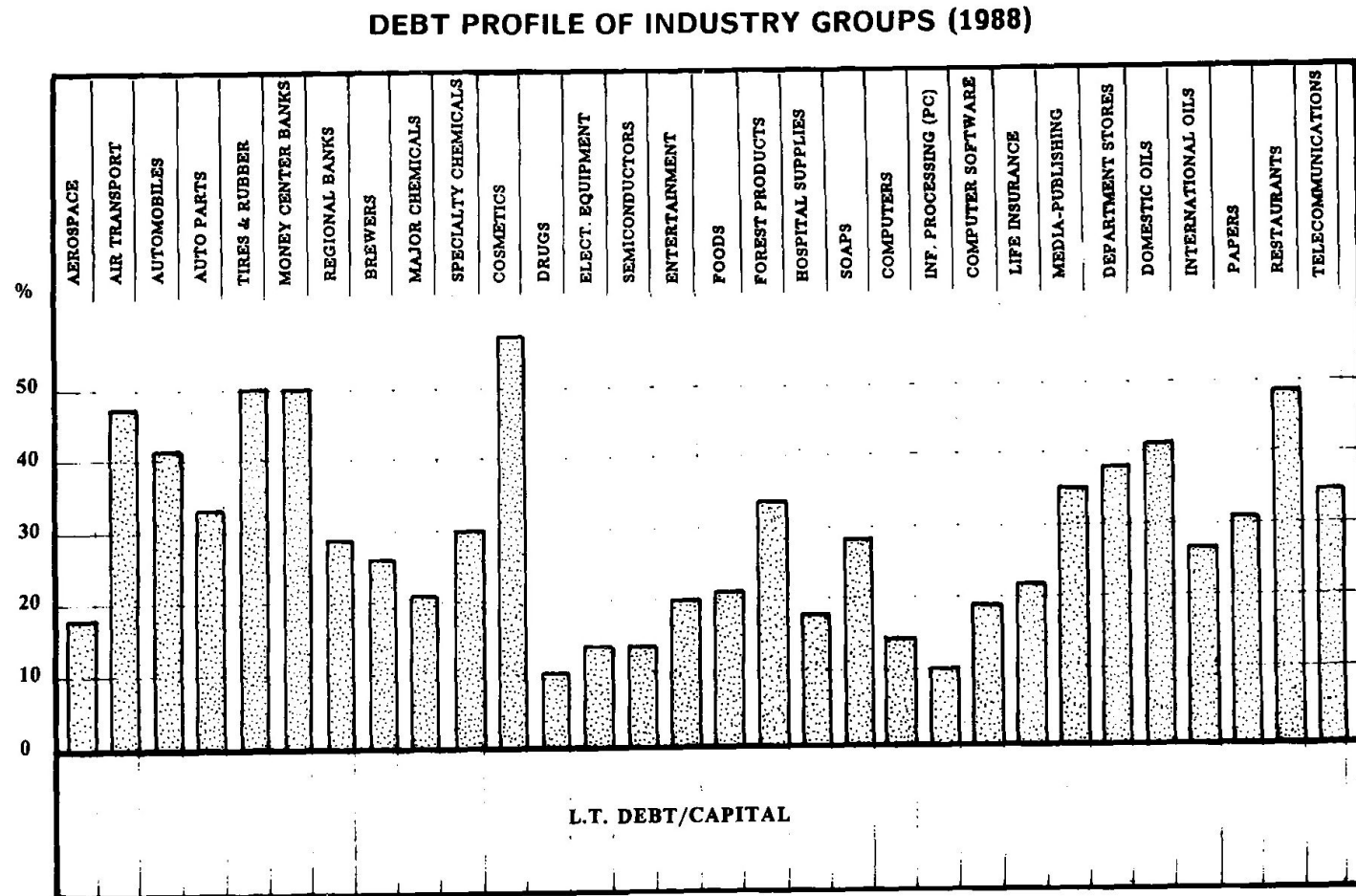


Figure 9-1. The oil services group versus the market.

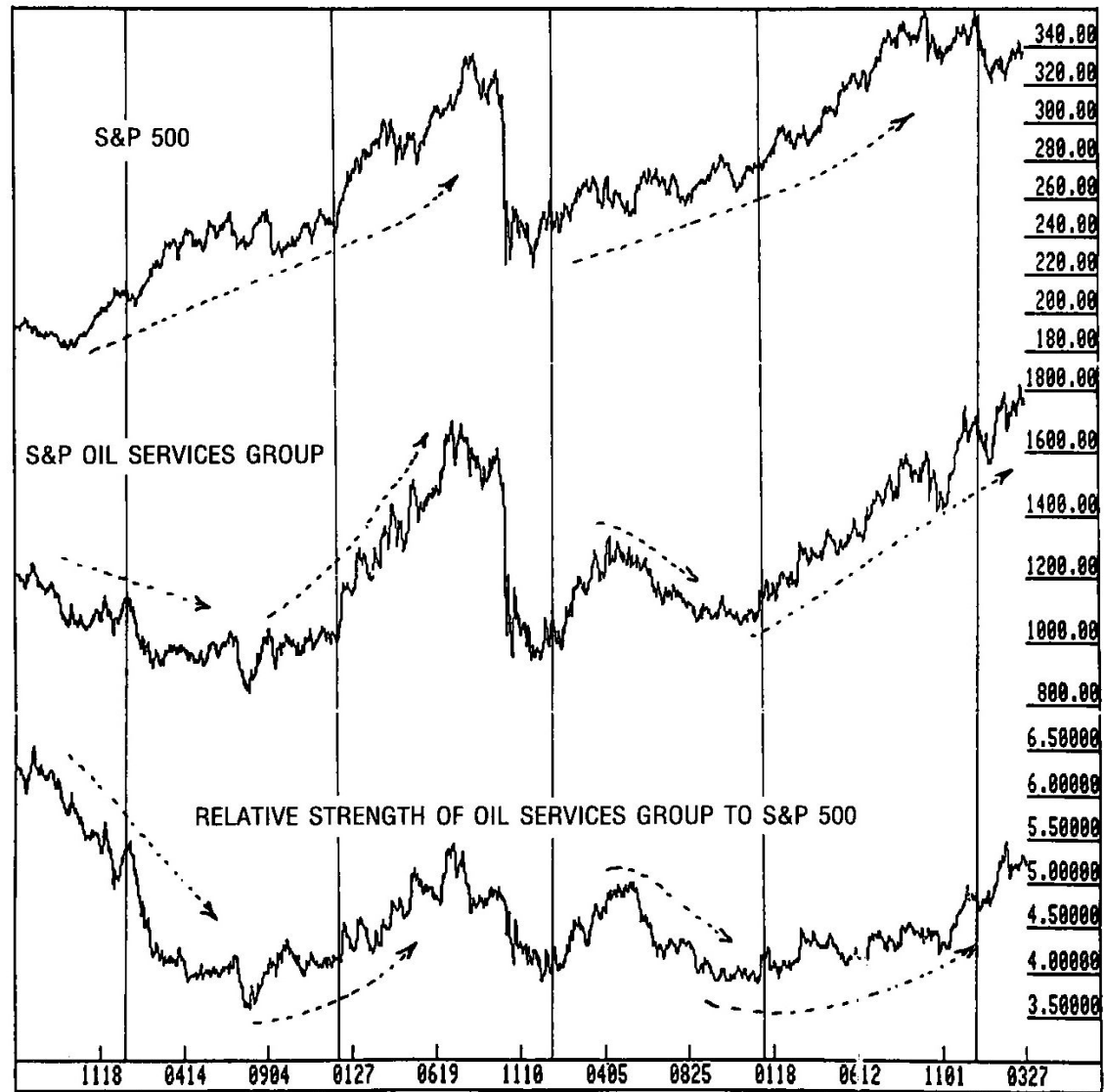


Figure 9-2. Advanced Micro Devices versus the market.

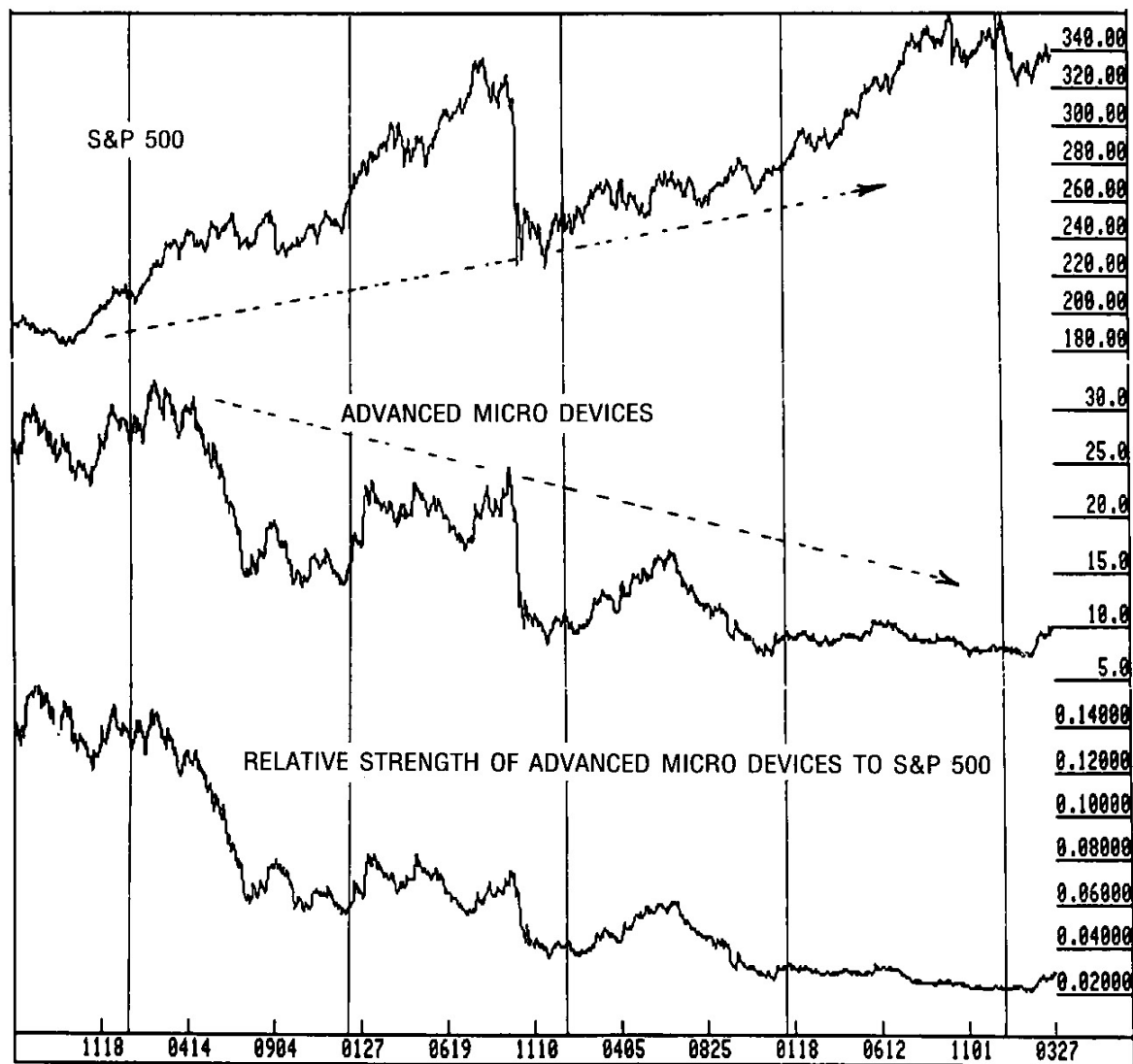


Figure 9-3. Stocks versus bonds.

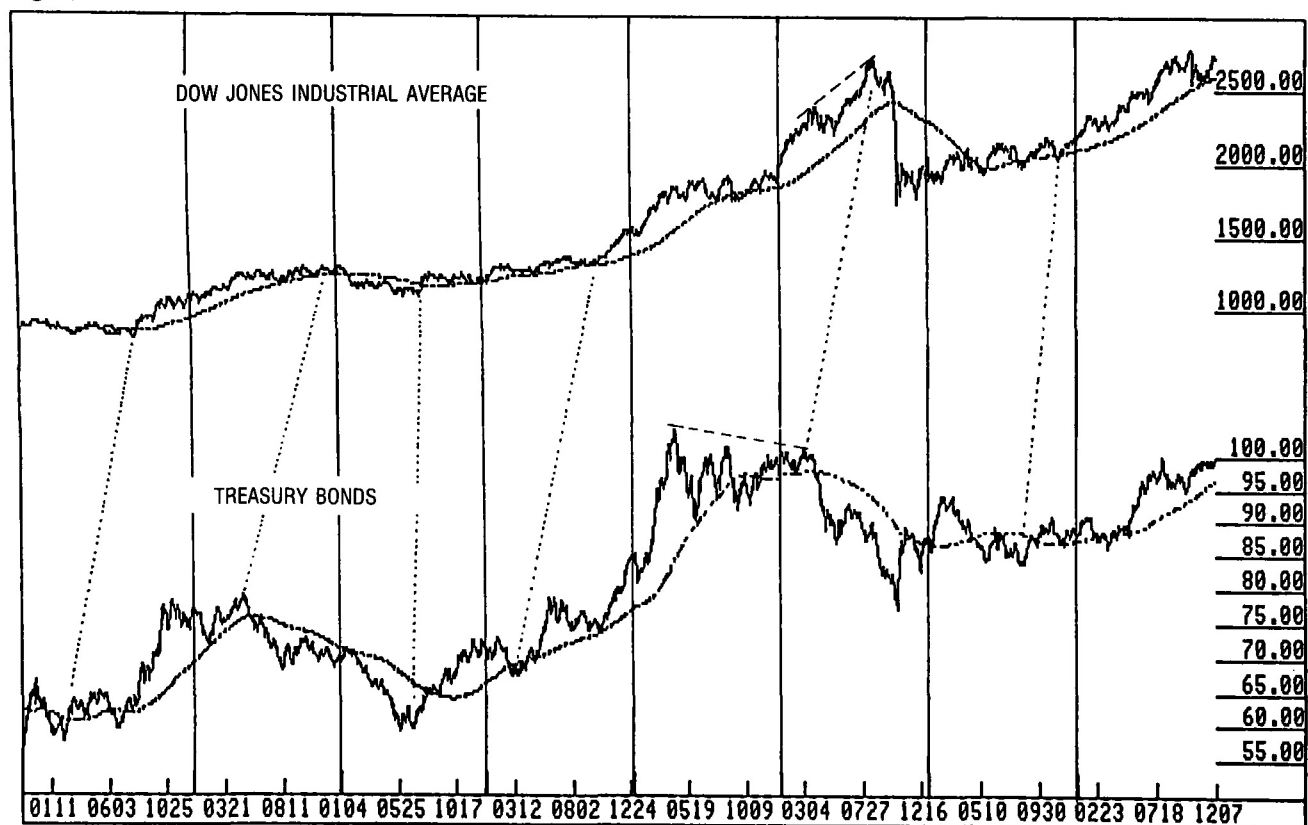


Figure 9-4. The CRB and bonds.

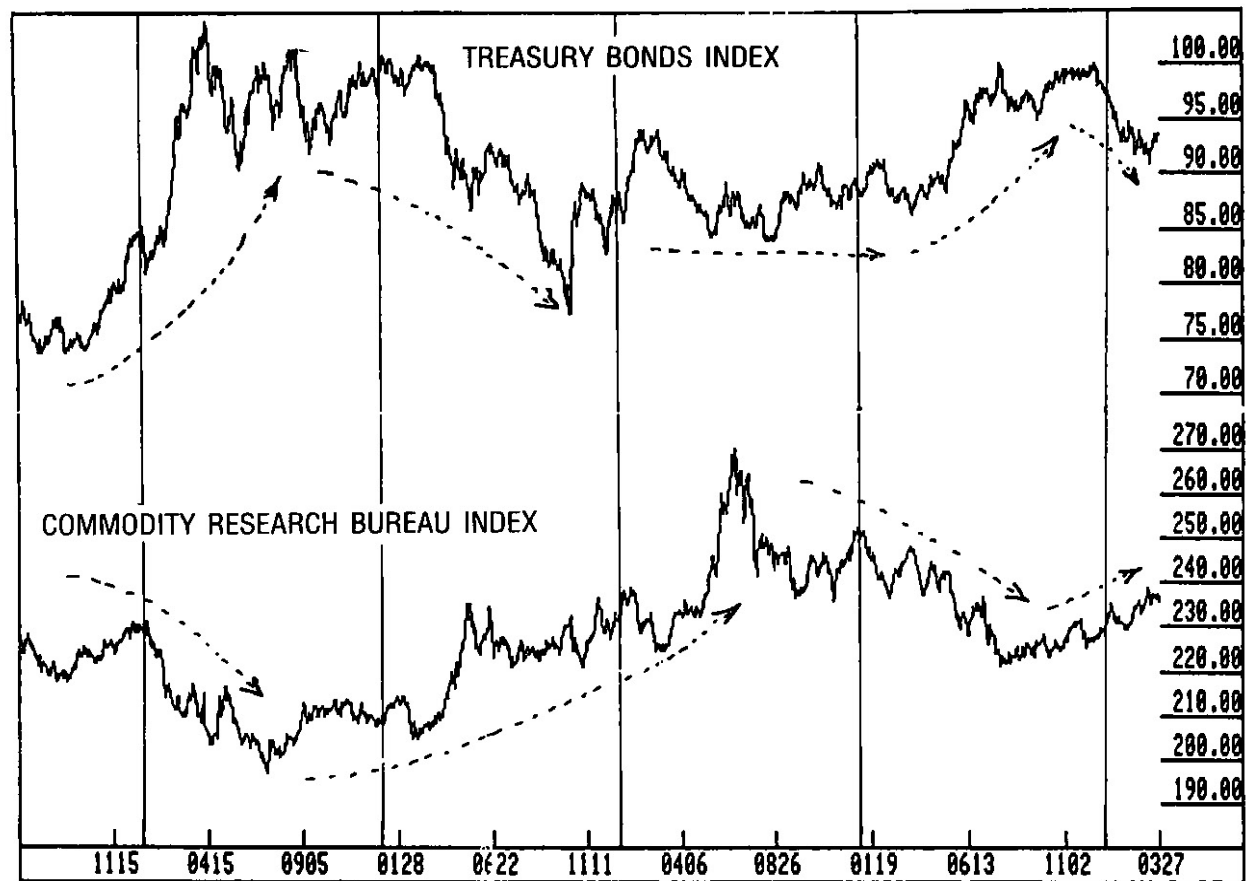


Figure 9-5. T-Bonds and Federal Funds Rates.

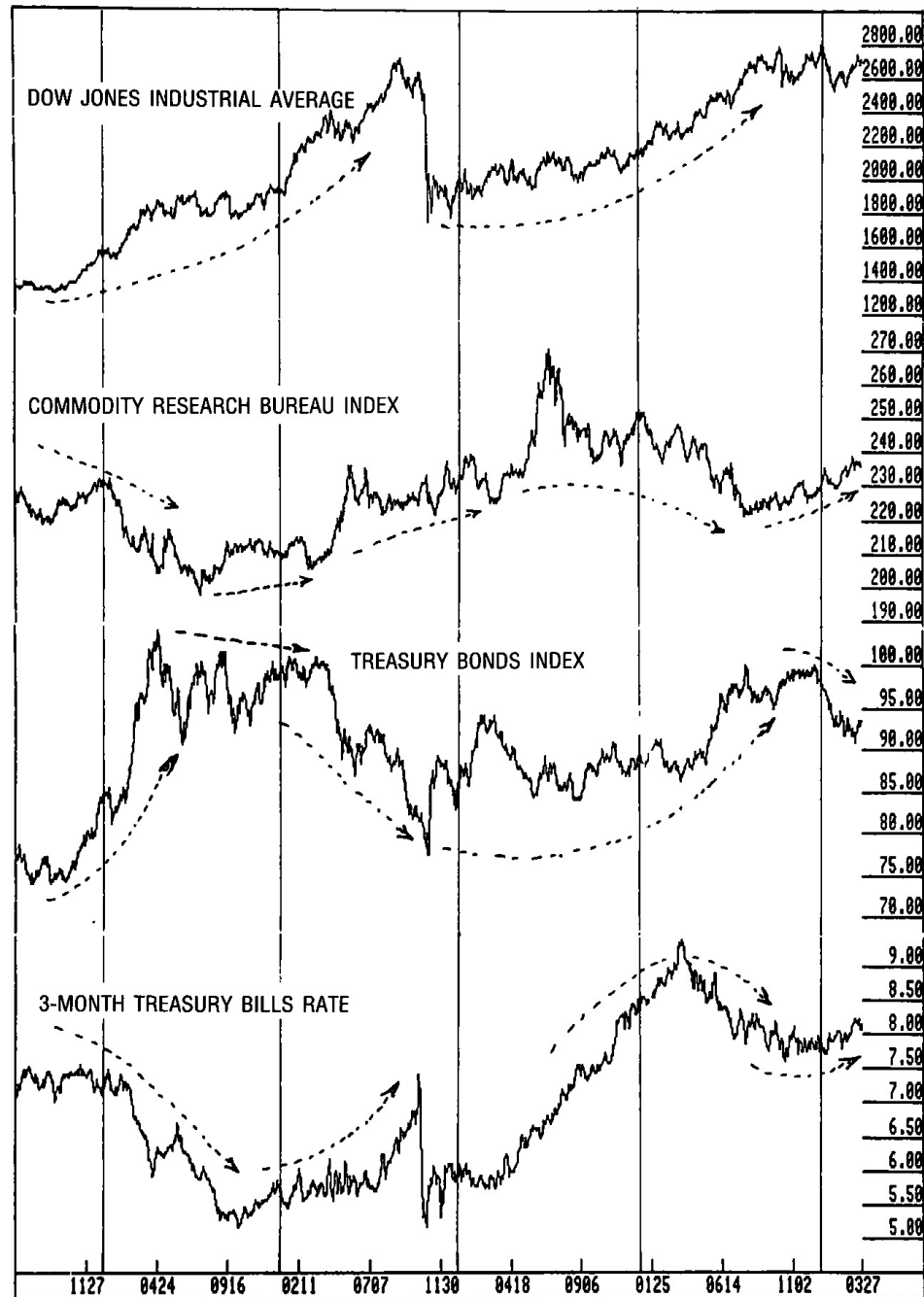


Figure 9-6. Bonds, Dow utilities, and Dow industrials.

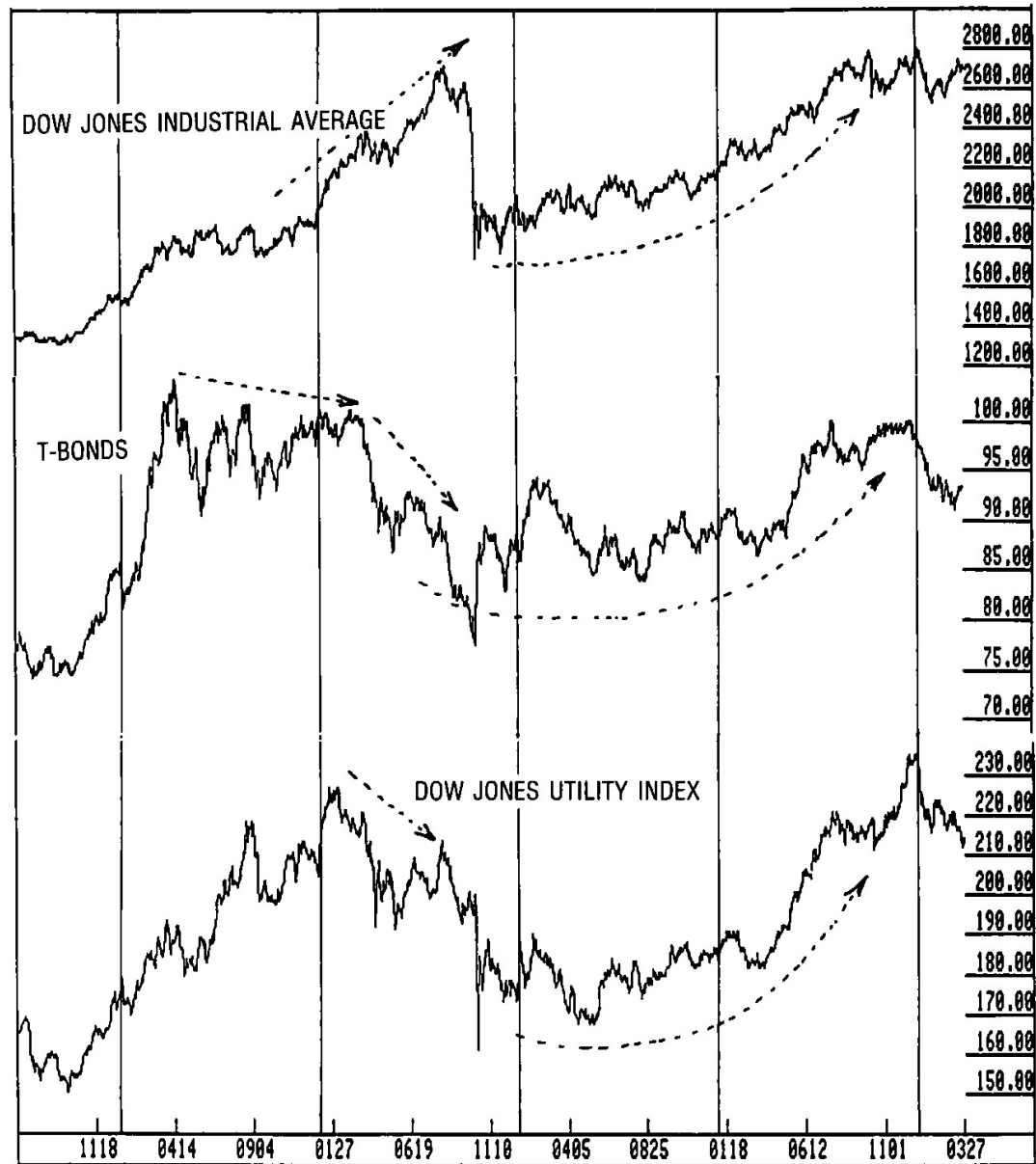


Figure 9-7. S&Ls, banks, homebuilding, and utilities versus the S&P 500.

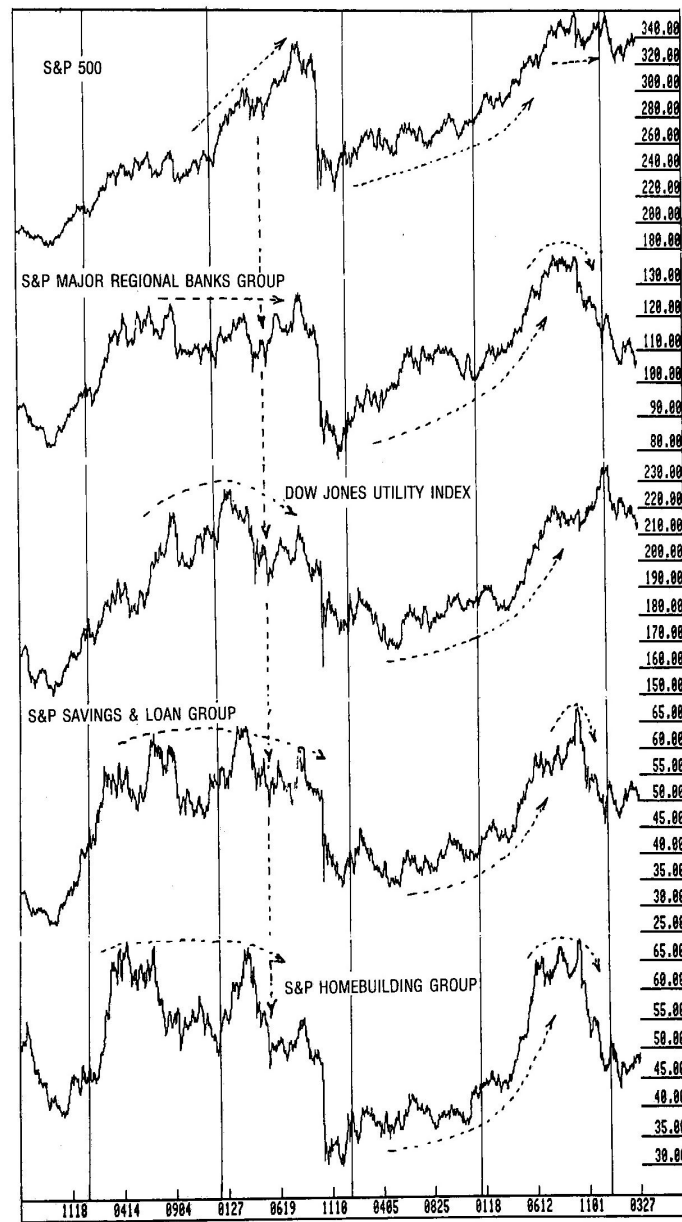


Figure 9-8. The Nikkei Dow Jones versus Honda, Matsushita, Sony, and Hitachi.

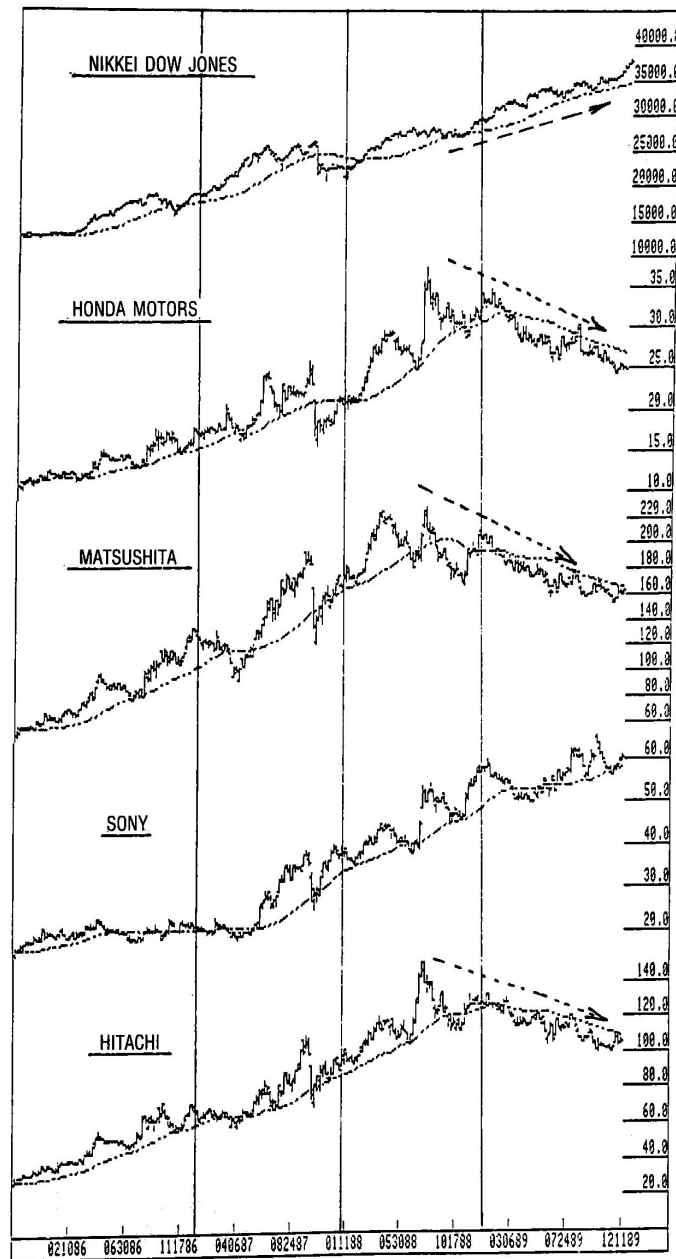


Figure 9-9. Nikkei, Financial Times, and Dow Industrial Indexes.

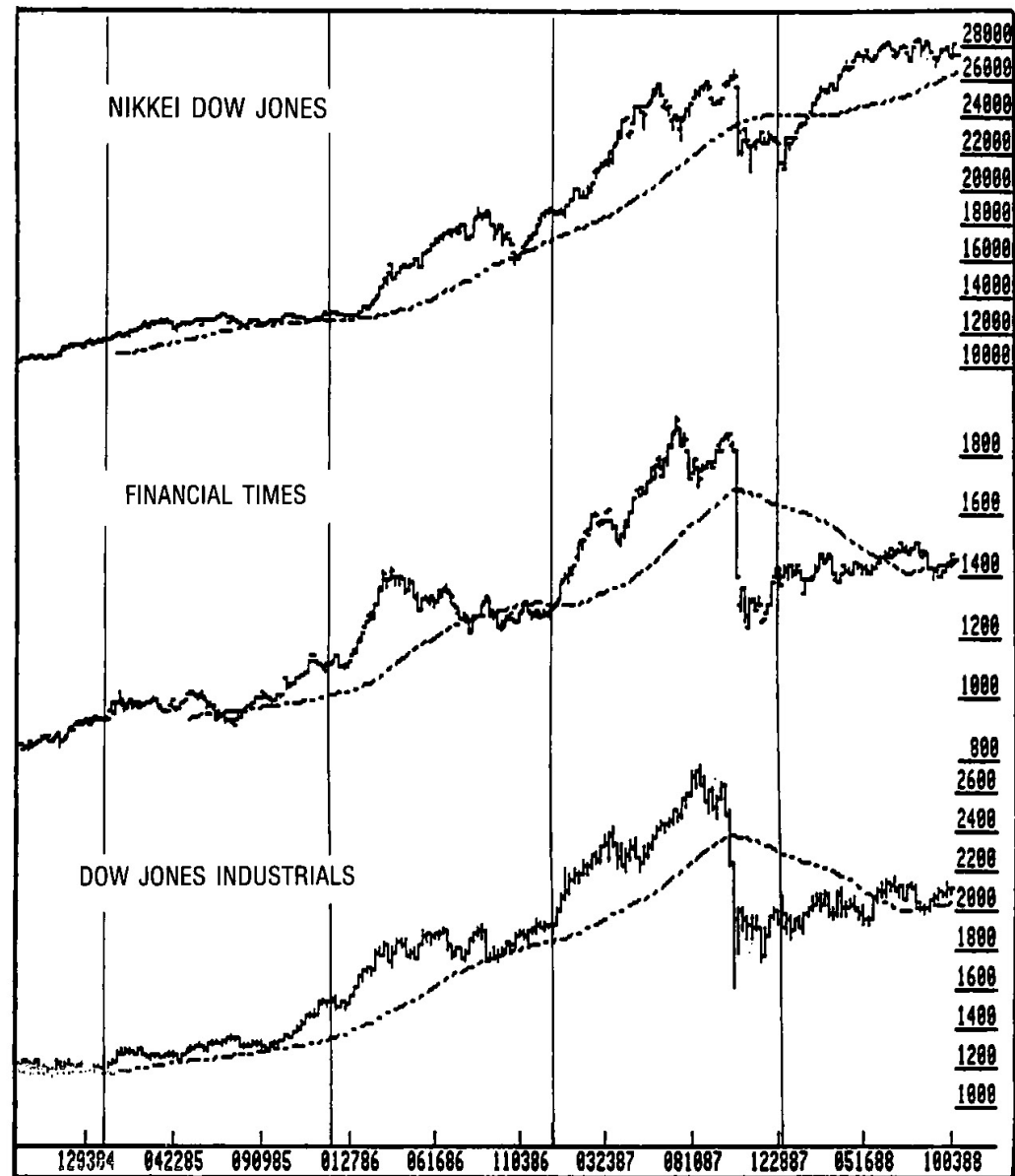


Figure 9-10. The Nasdaq composite average versus the Dow industrials.

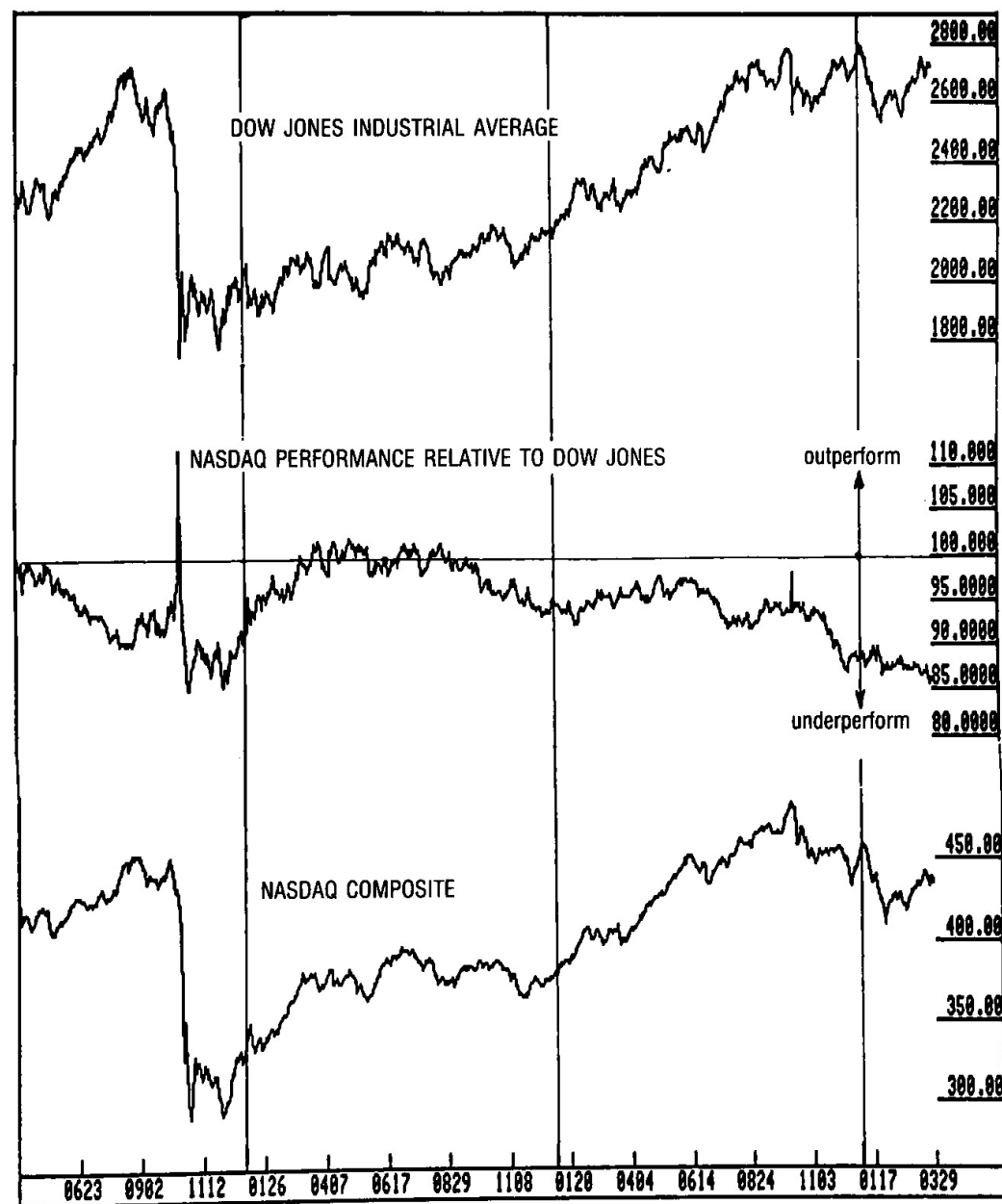


Figure 9-11. The performance of drug groups relative to the S&P 500.

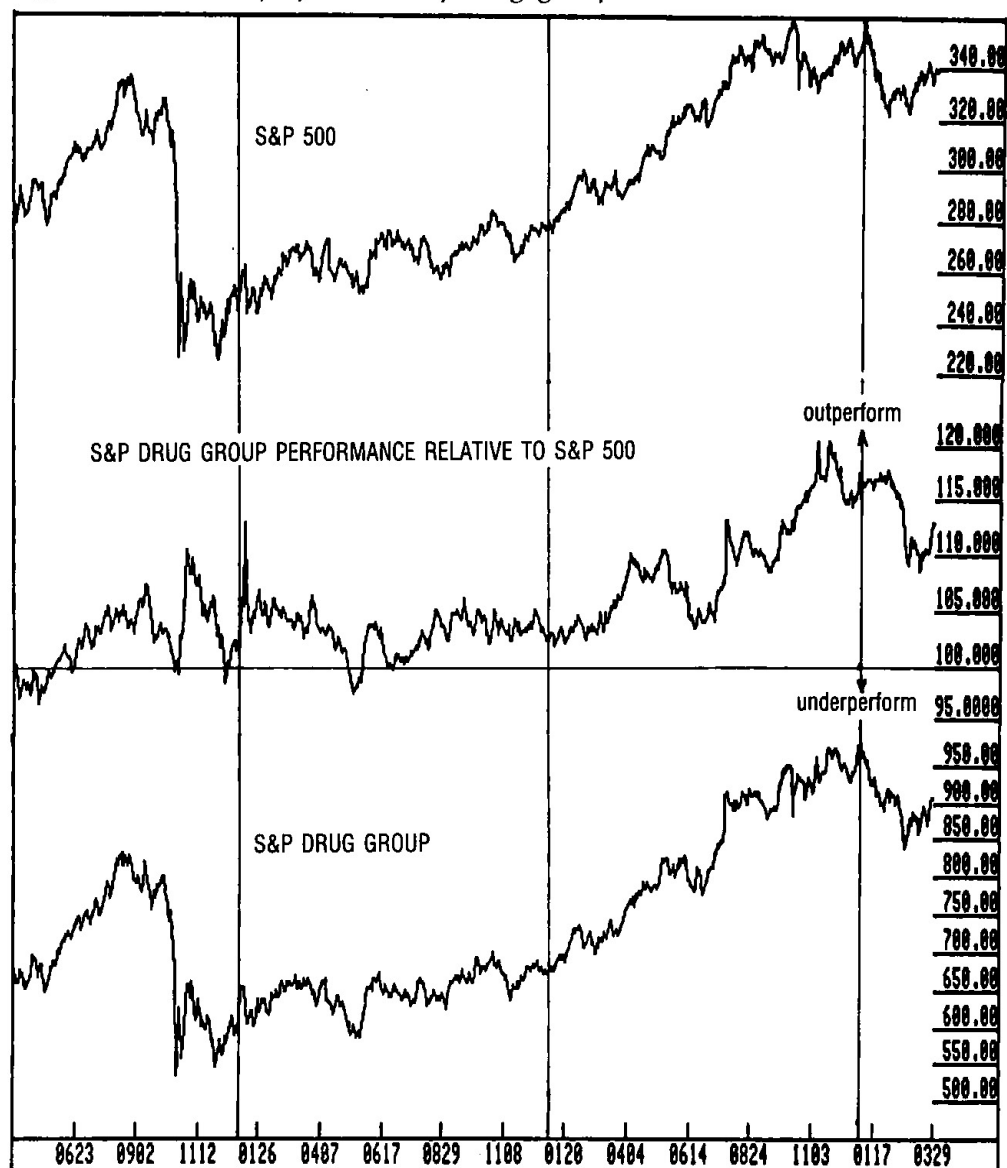


Figure 9-12. COMPAQ & IBM Relative to the Technology Index and the S&P 500.

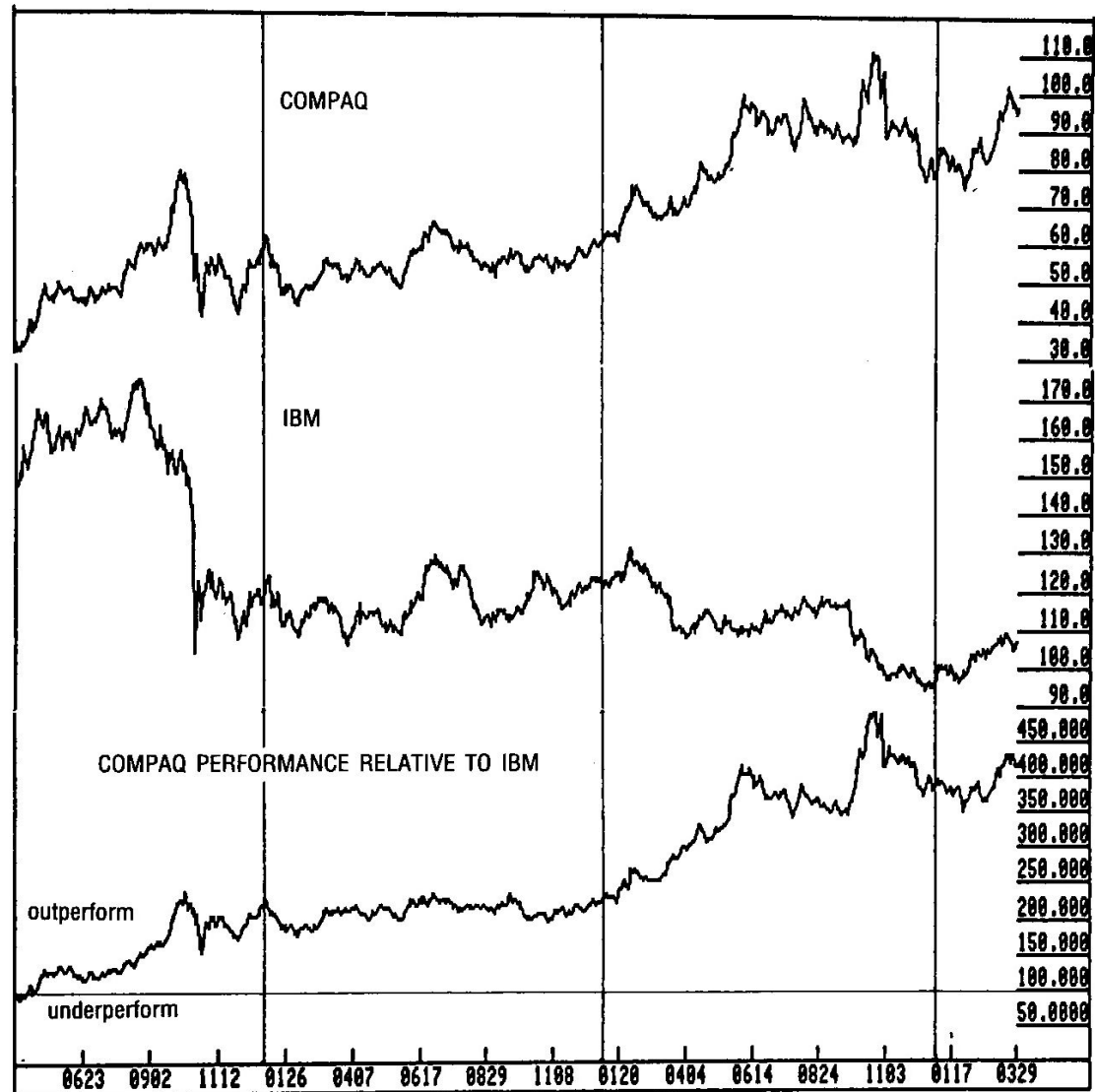


Figure 10–1. Stages of the business cycle relative to momentum.

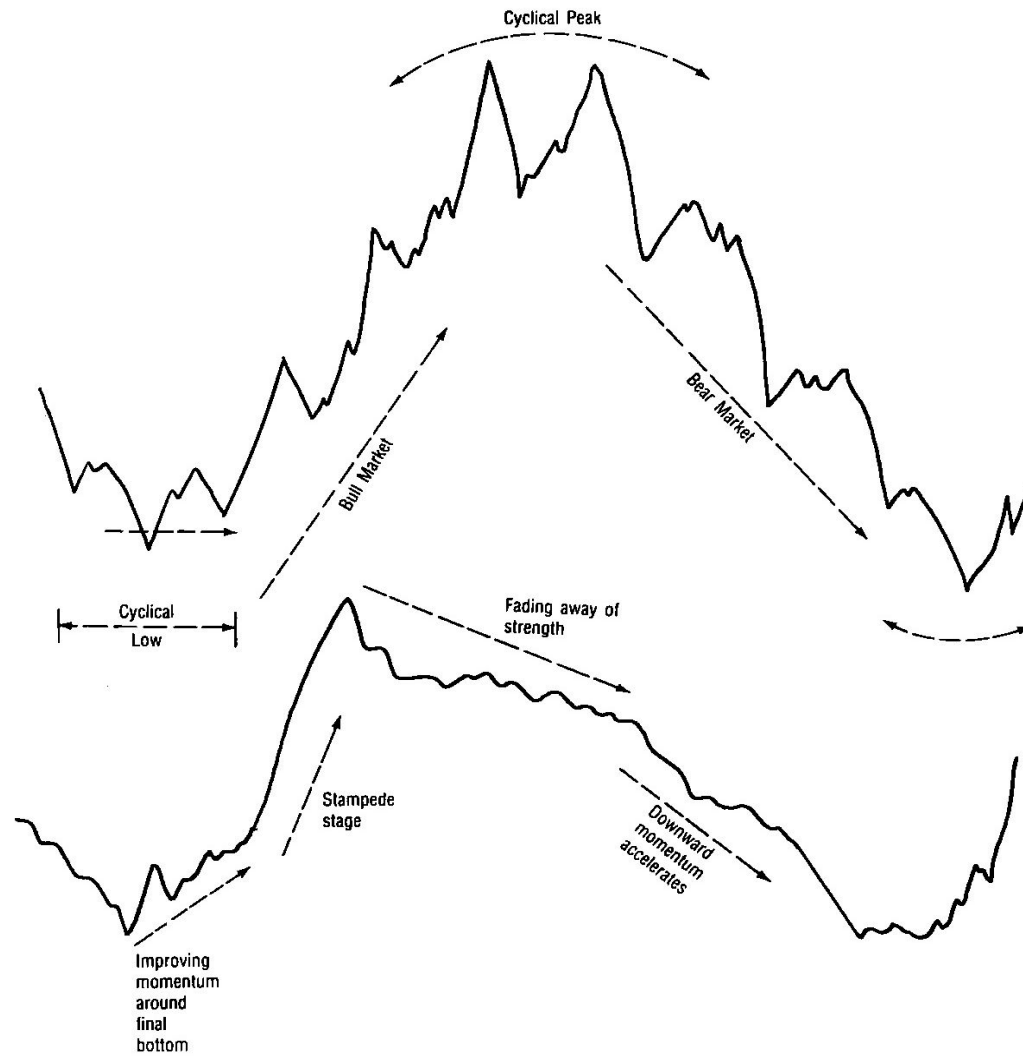
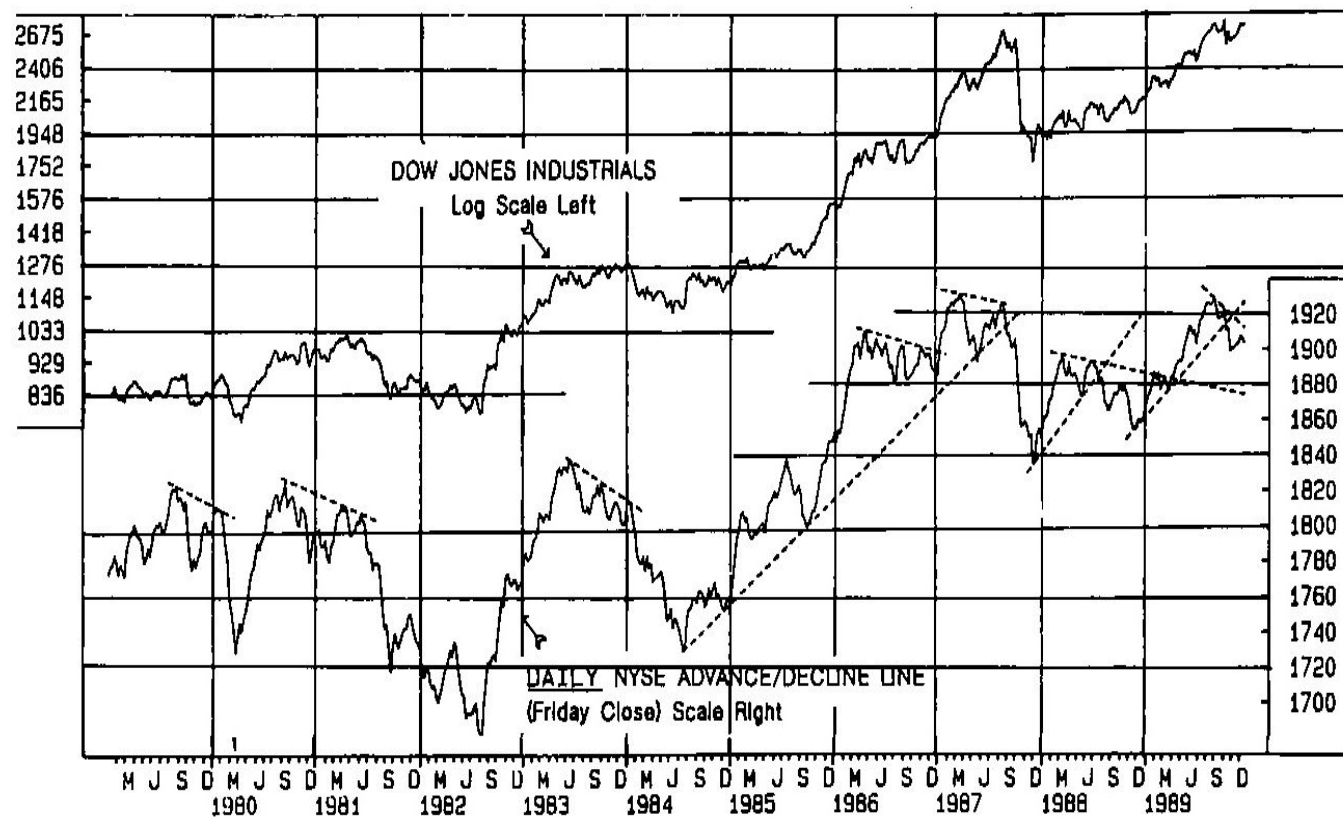


Figure 10-2. Market breadth relative to the Dow industrials.



$$\text{Annual Rate of Change} = \frac{X-Z}{Z}$$

where X = The value of the S&P 500 for a given month

Z = The value of the S&P 500 for the same month
a year ago

Figure 10-3. S&P 500 annual rate of change.

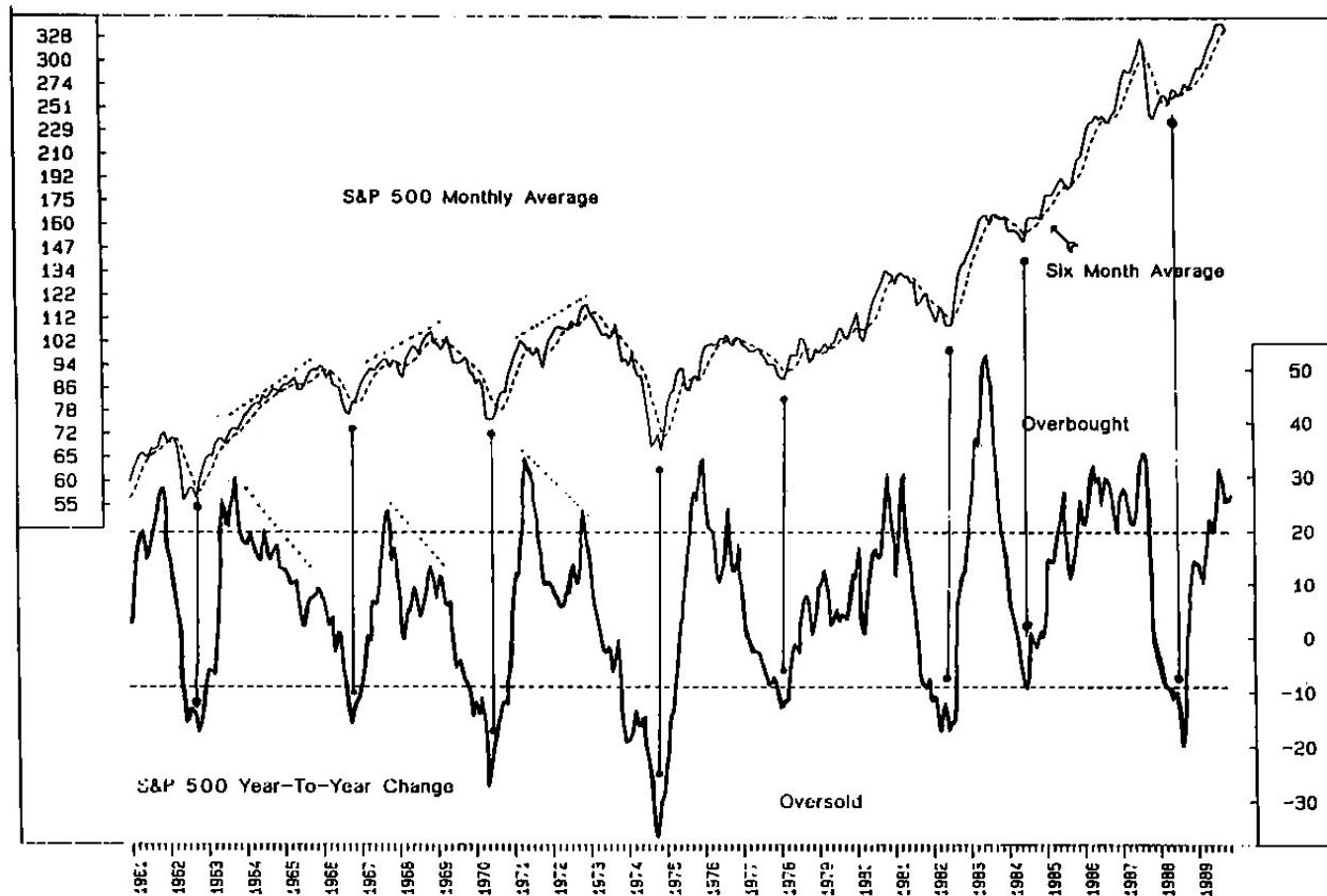


Figure 10-4. The S&P and the nine-month diffusion index.

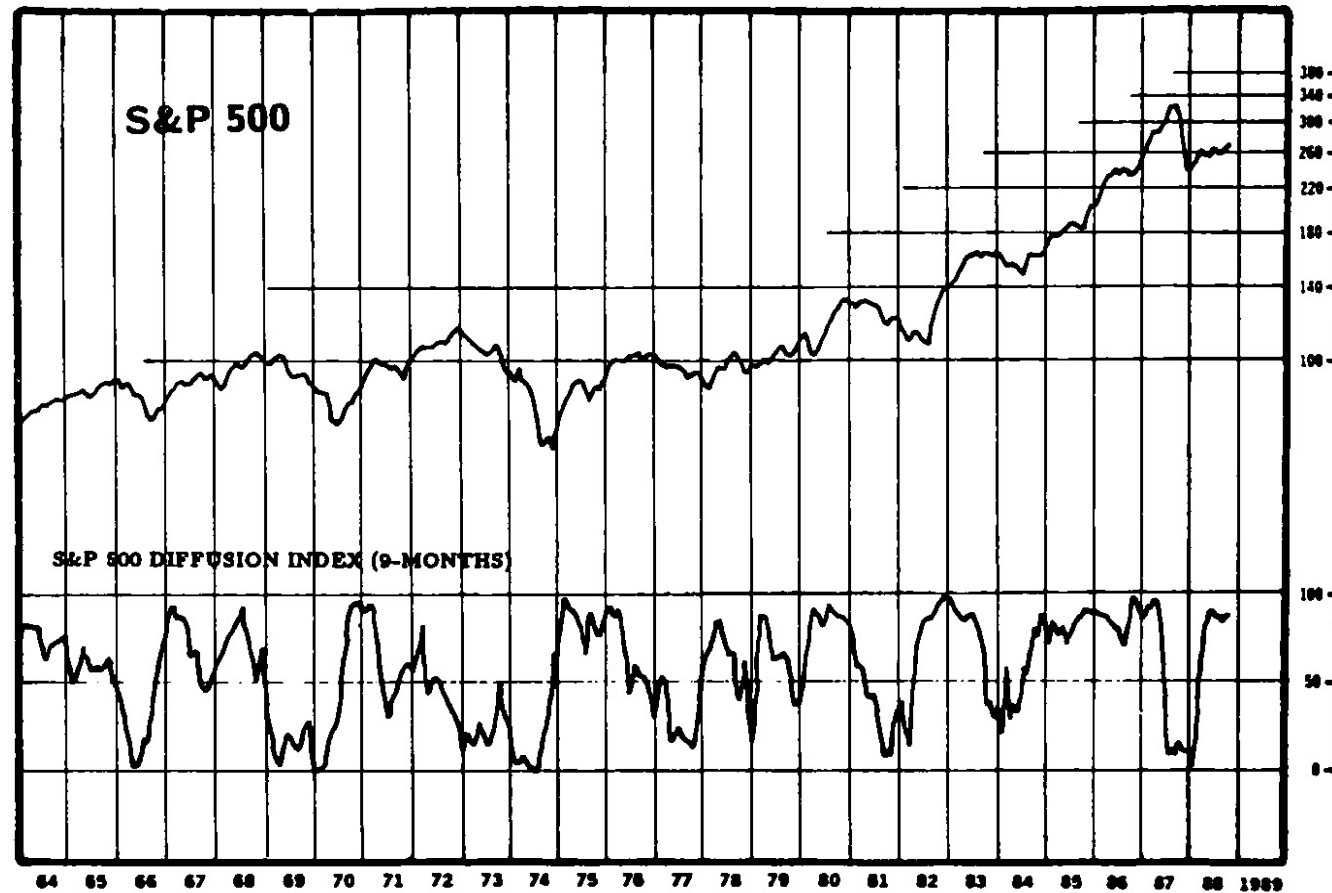


Figure 10-5. The 13-day rate of change relative to the NYSE composite.

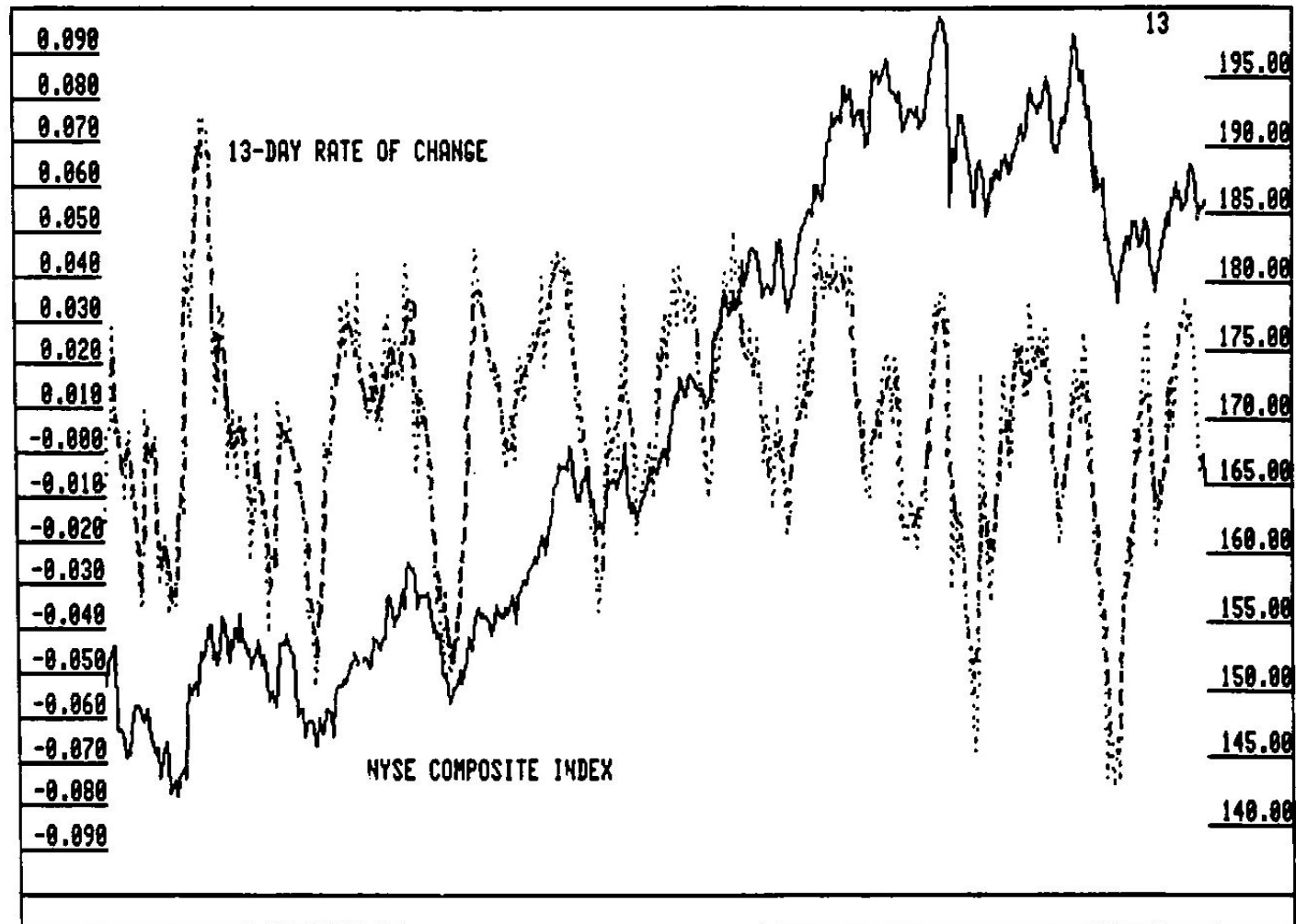


Figure 10-6. 30-Day rate of change relative to the NYSE composite.

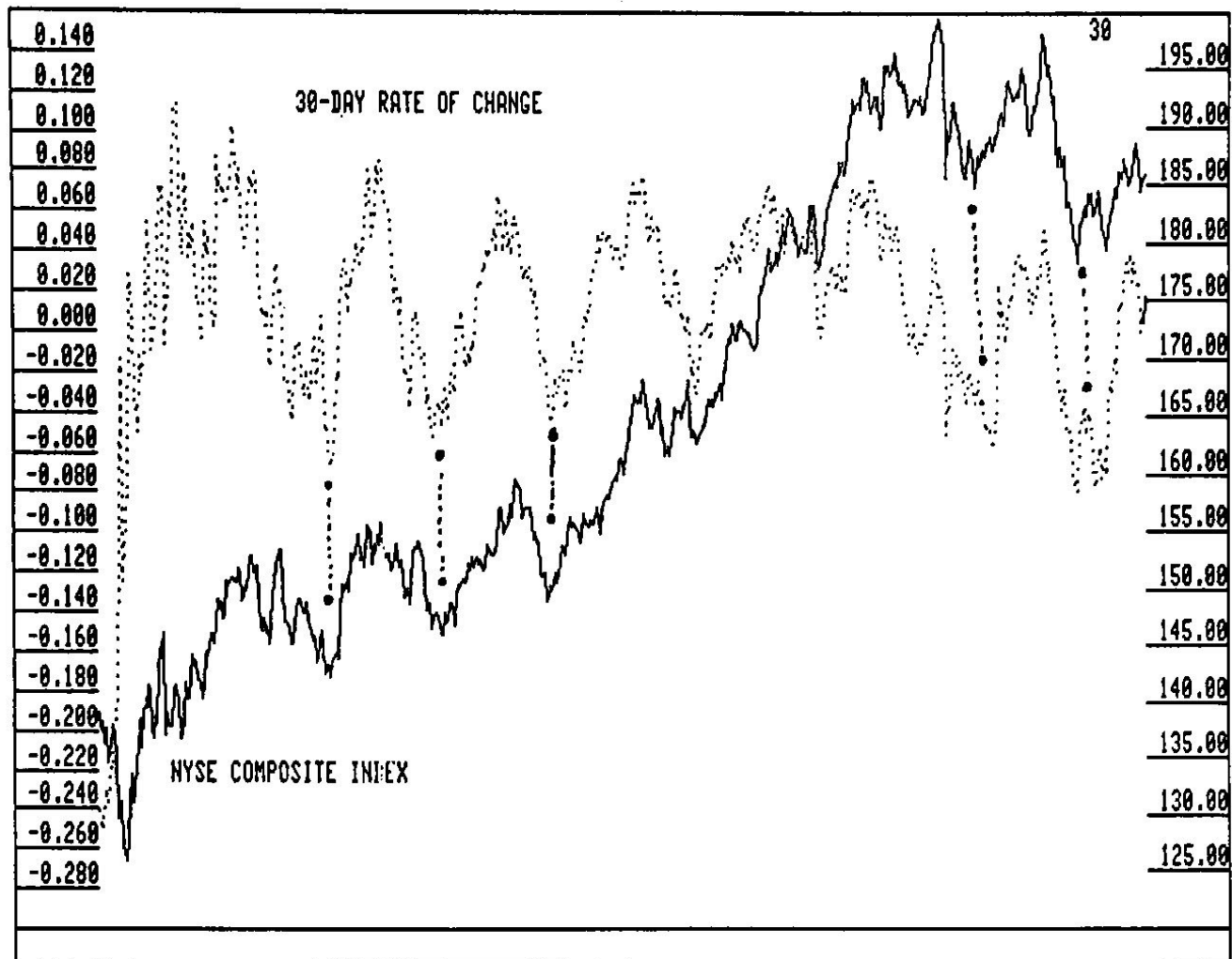
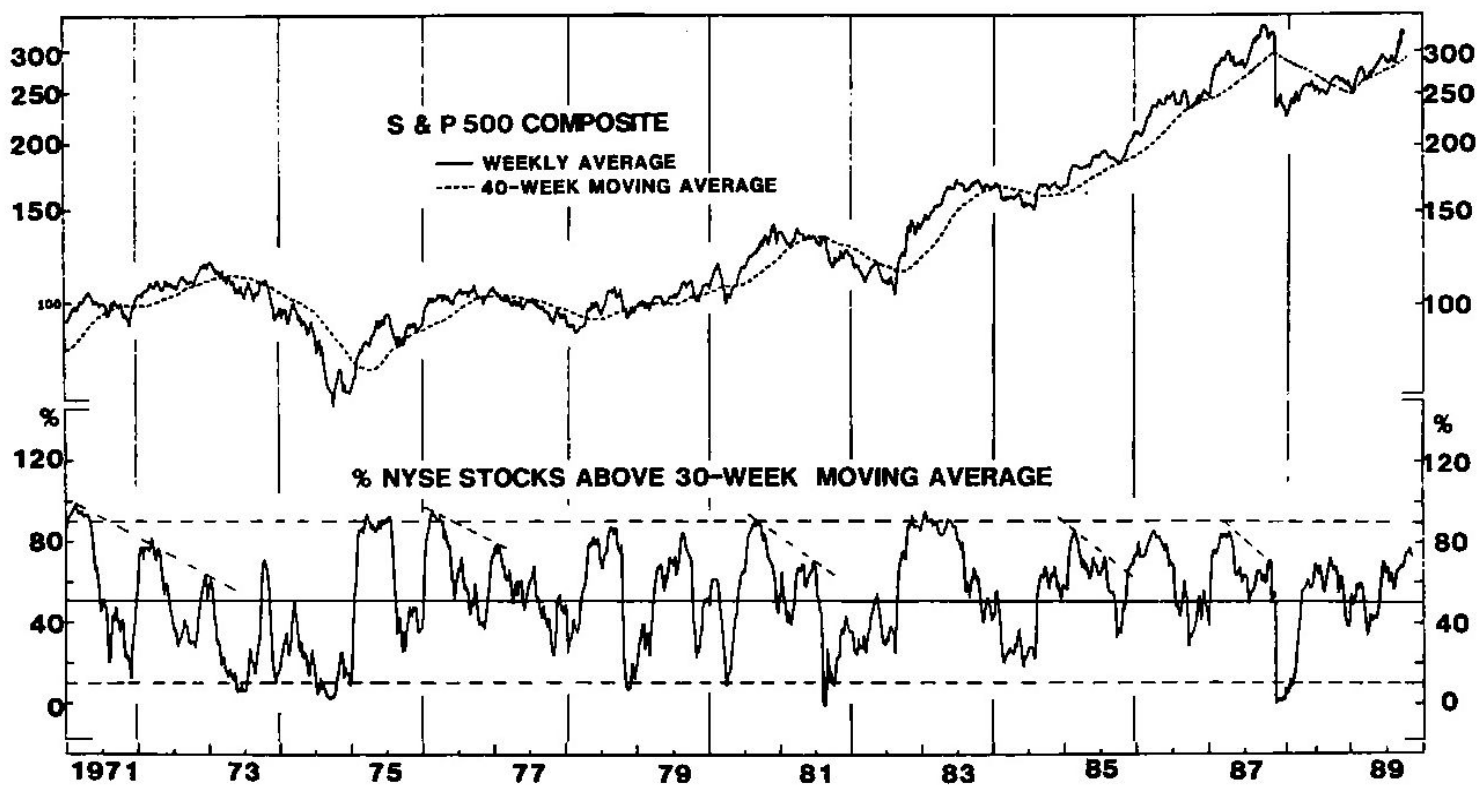


Figure 10-7. The percentage of stocks over 200-day moving average and the S&P 500.



$$(K) = \frac{\text{Last closing price} - \text{closing low of } x\text{-}\{\text{day or week}\} \text{ ago}}{x\text{-}\{\text{day or week high}\} - x\text{-}\{\text{day or week low}\}}$$

Figure 10-8. The 14-day stochastics of the S&P 500.

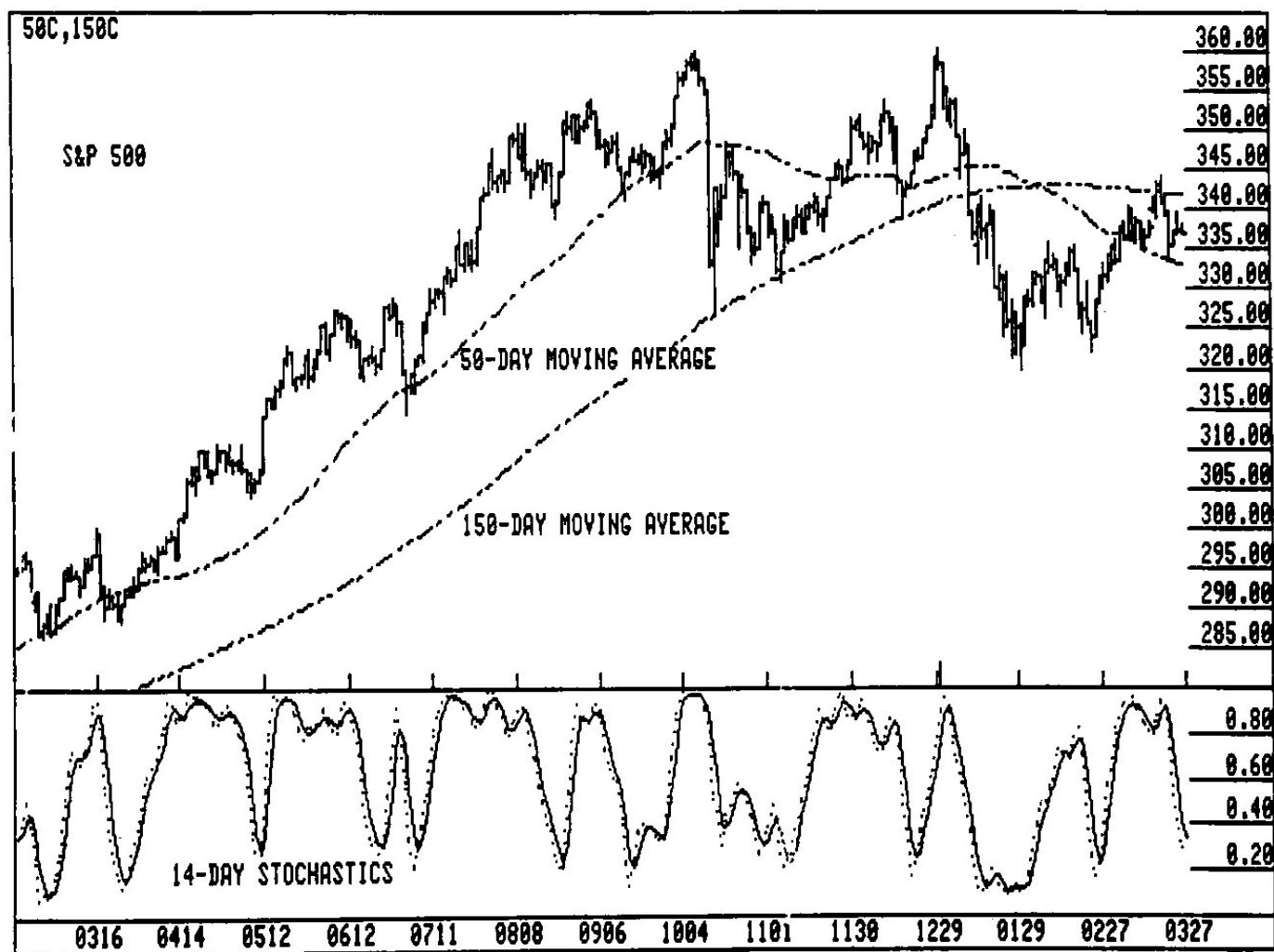


Figure 10-9. 14-day Stochastics of The Nikkei Dow Jones.

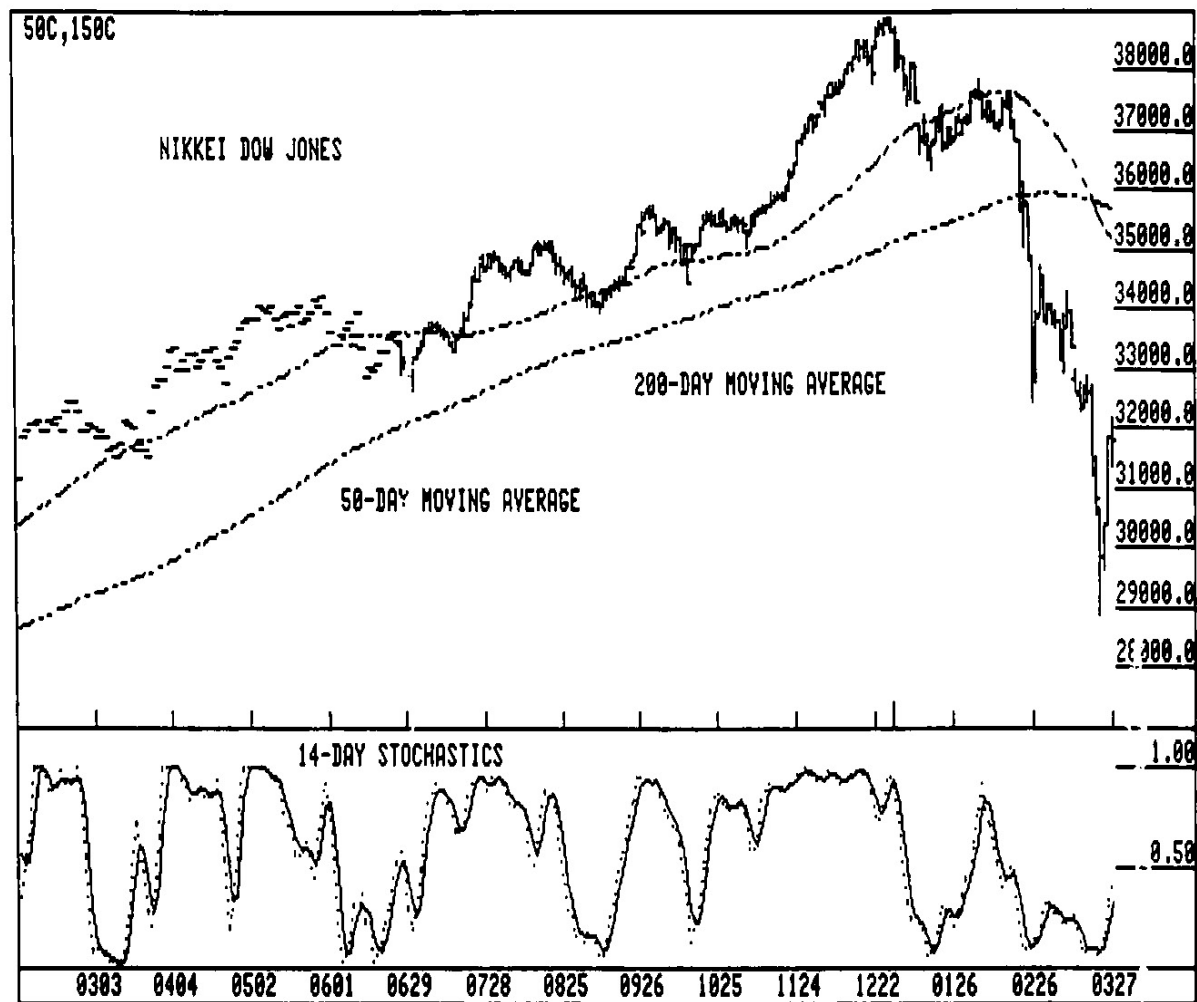


Figure 10-10. The 14-week stochastics of EXXON.

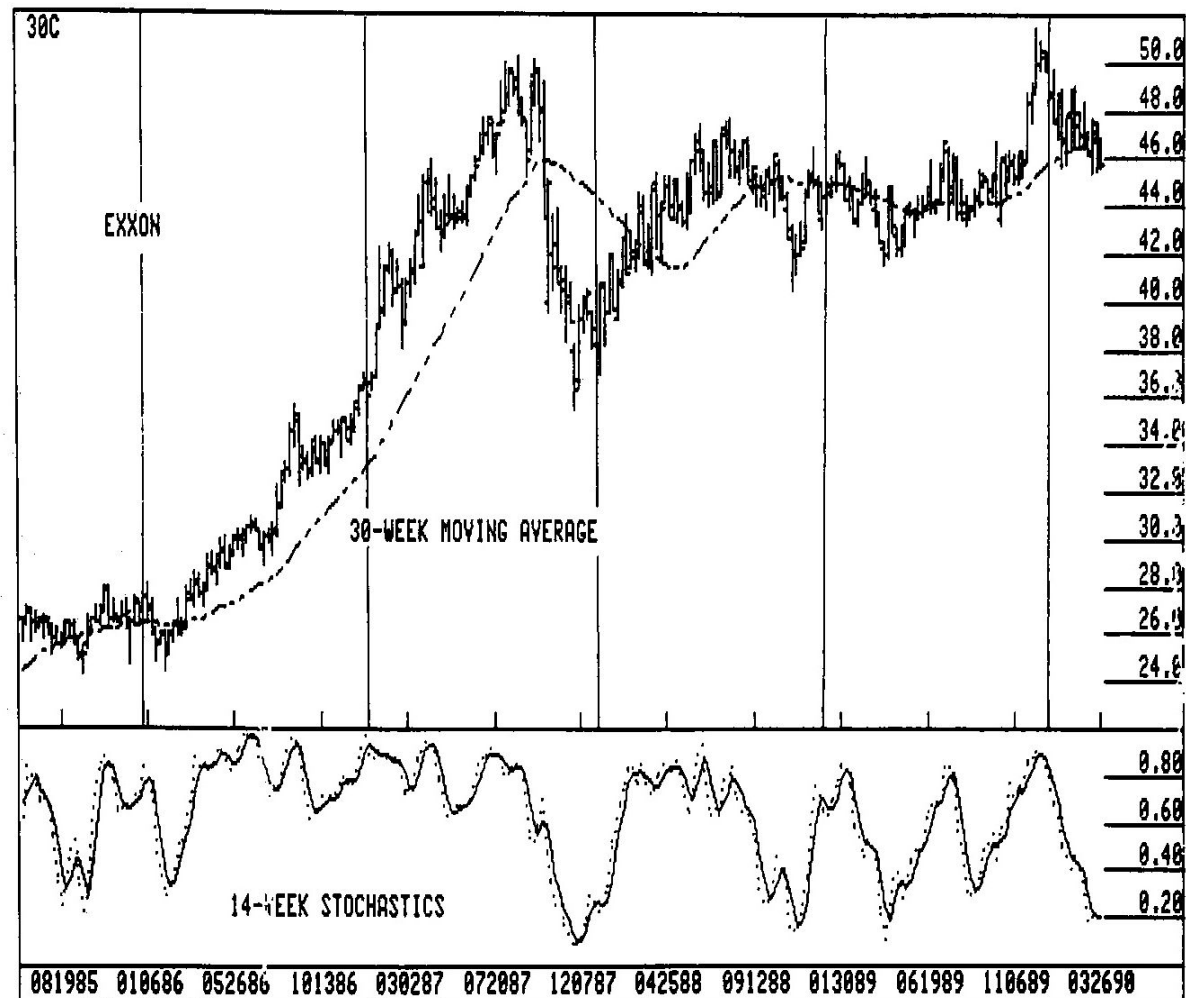
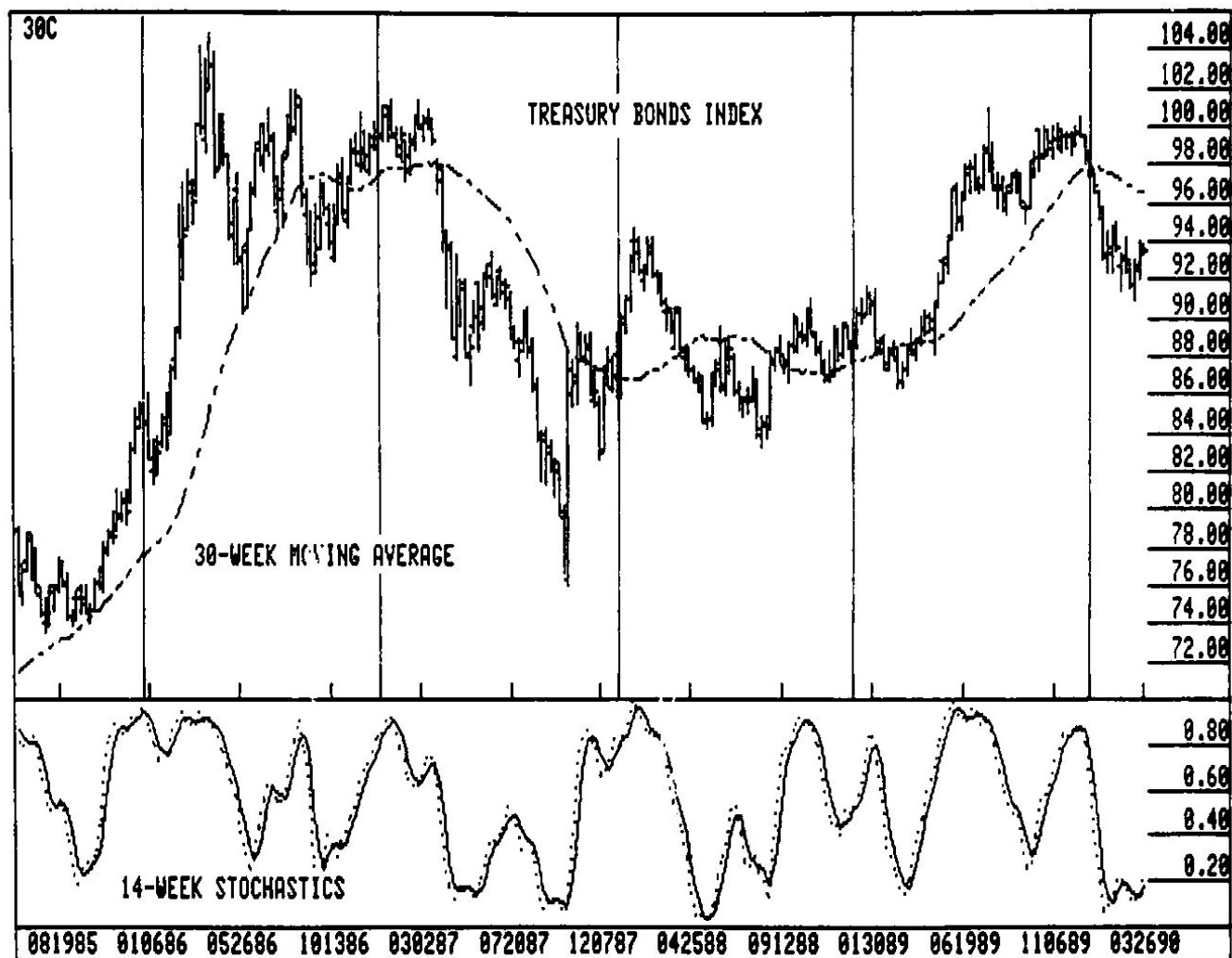


Figure 10-11. The 14-week stochastics of Treasury Bonds.



$$\text{RSI} = \frac{\text{amount of gains over the past (N) days}}{\text{amount of losses over the past (N) days}} \times 100$$

Figure 10-13. The Nikkei versus the 14-day RSI.

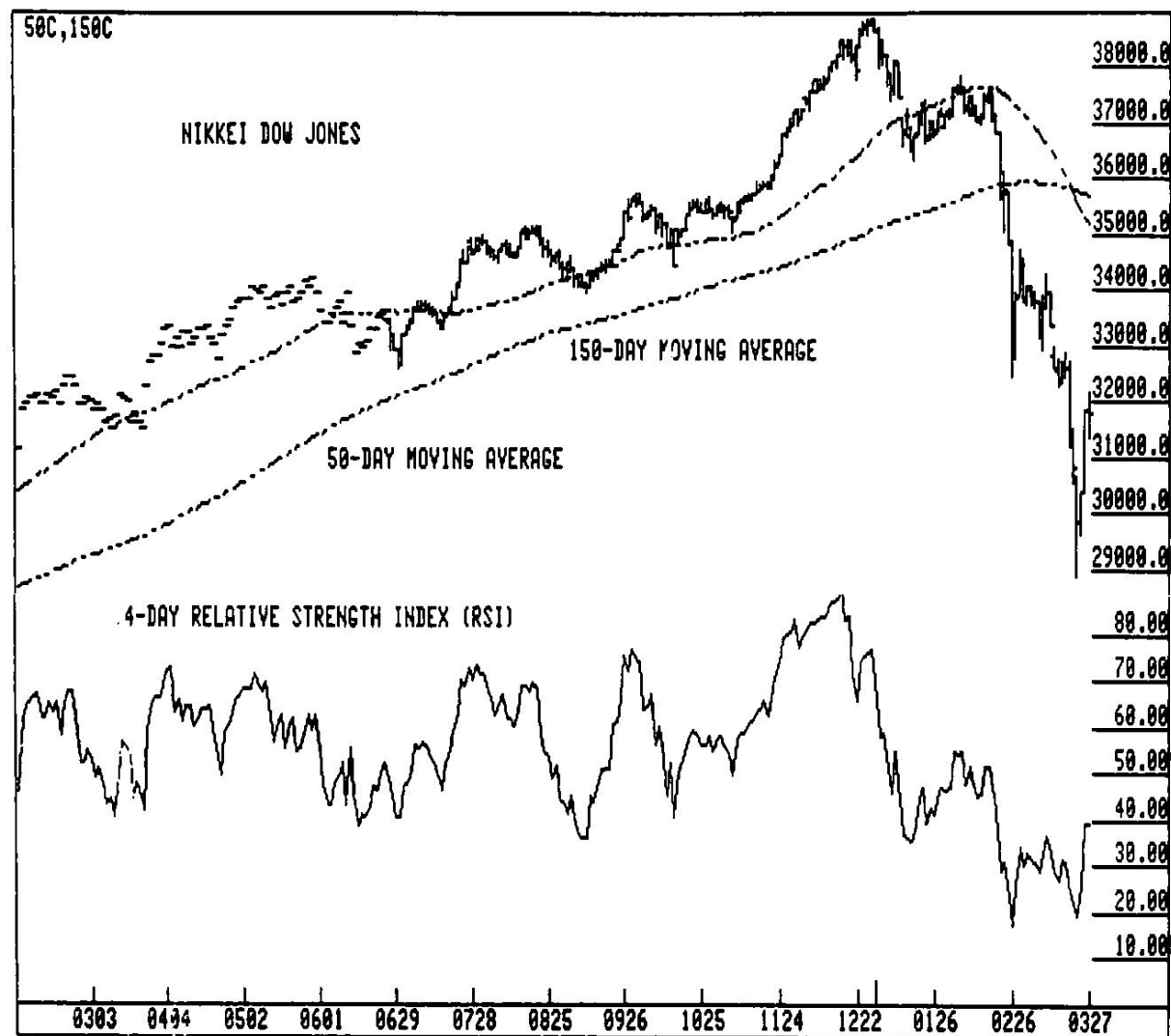


Figure 10-14. T Bond Index versus the 14-week RSI.

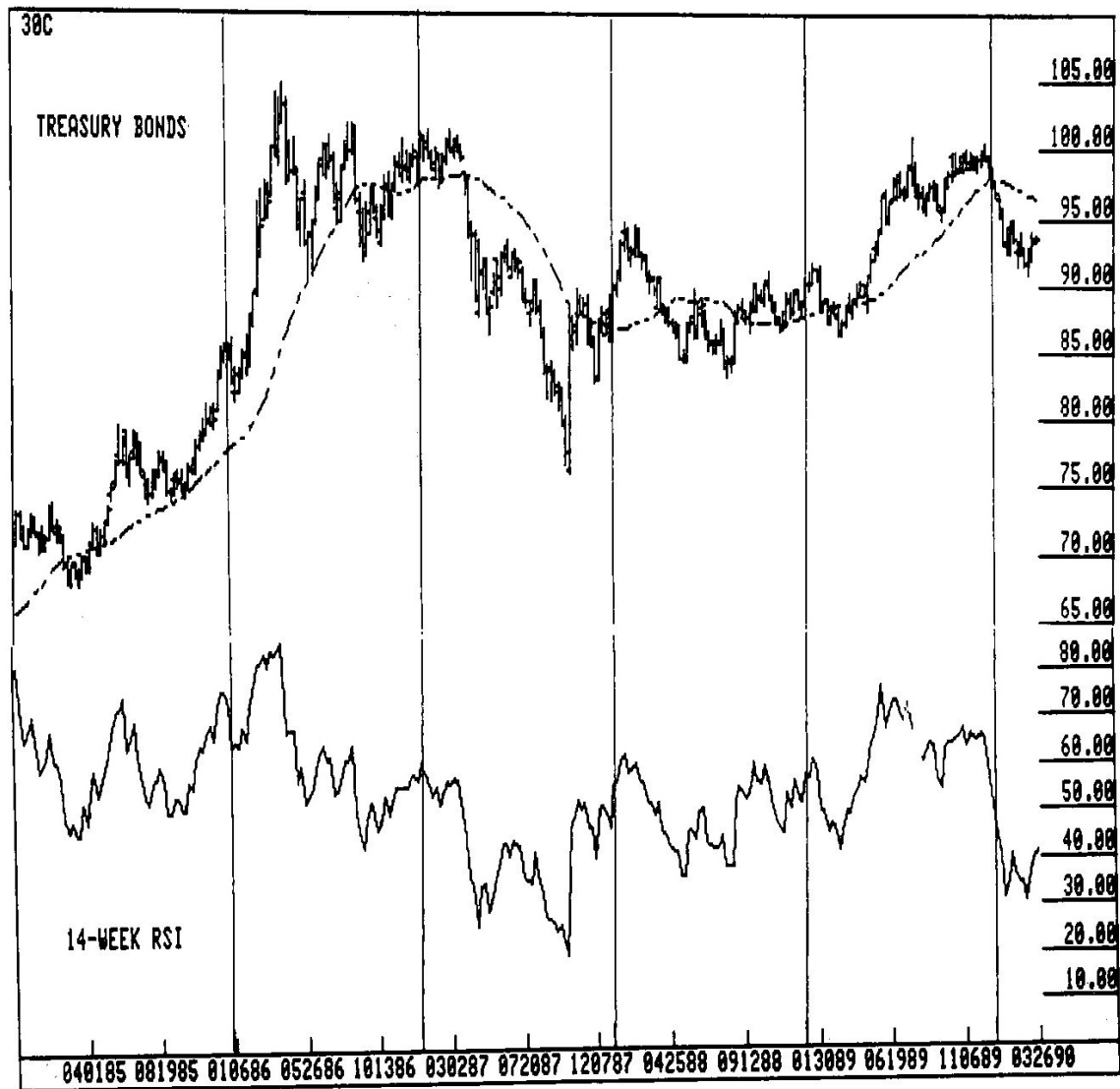


Figure 10–15. The daily Dow industrials relative to its 30-day moving average.

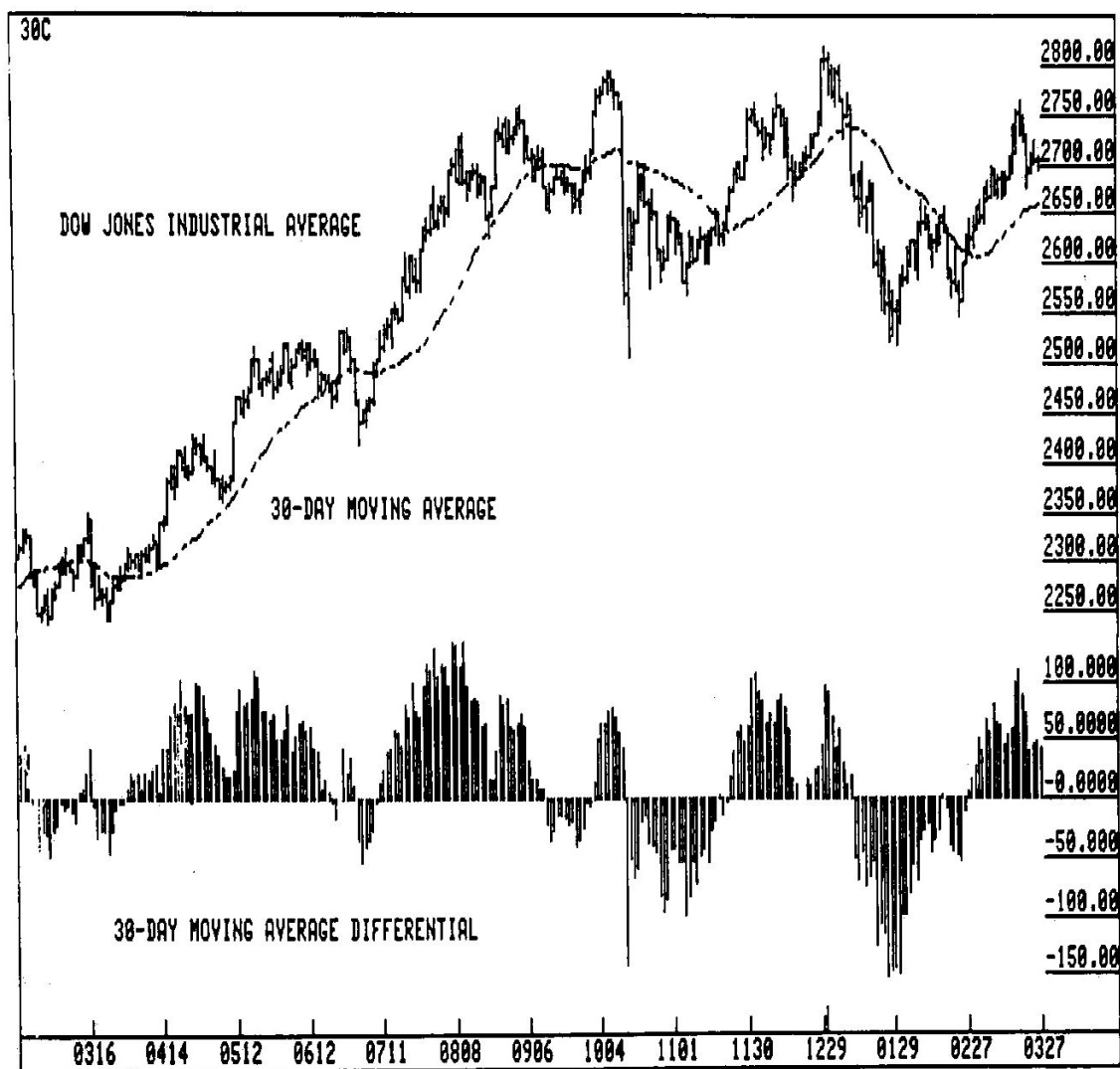


Figure 10-16. The daily Dow Jones industrials index relative to its 150-day moving average.

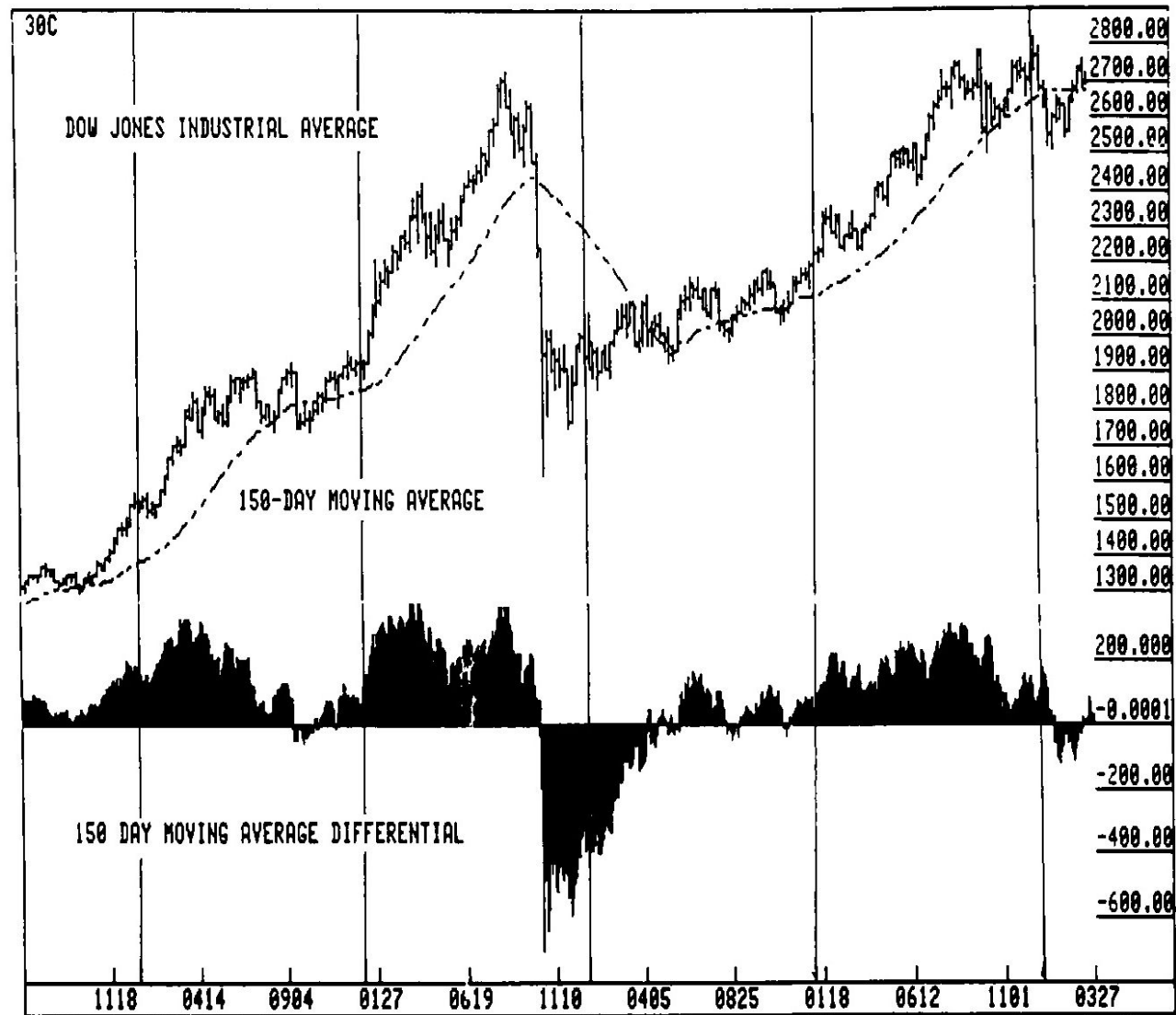


Figure 10-17. The 45 and 15-day moving average differentials applied to the market.

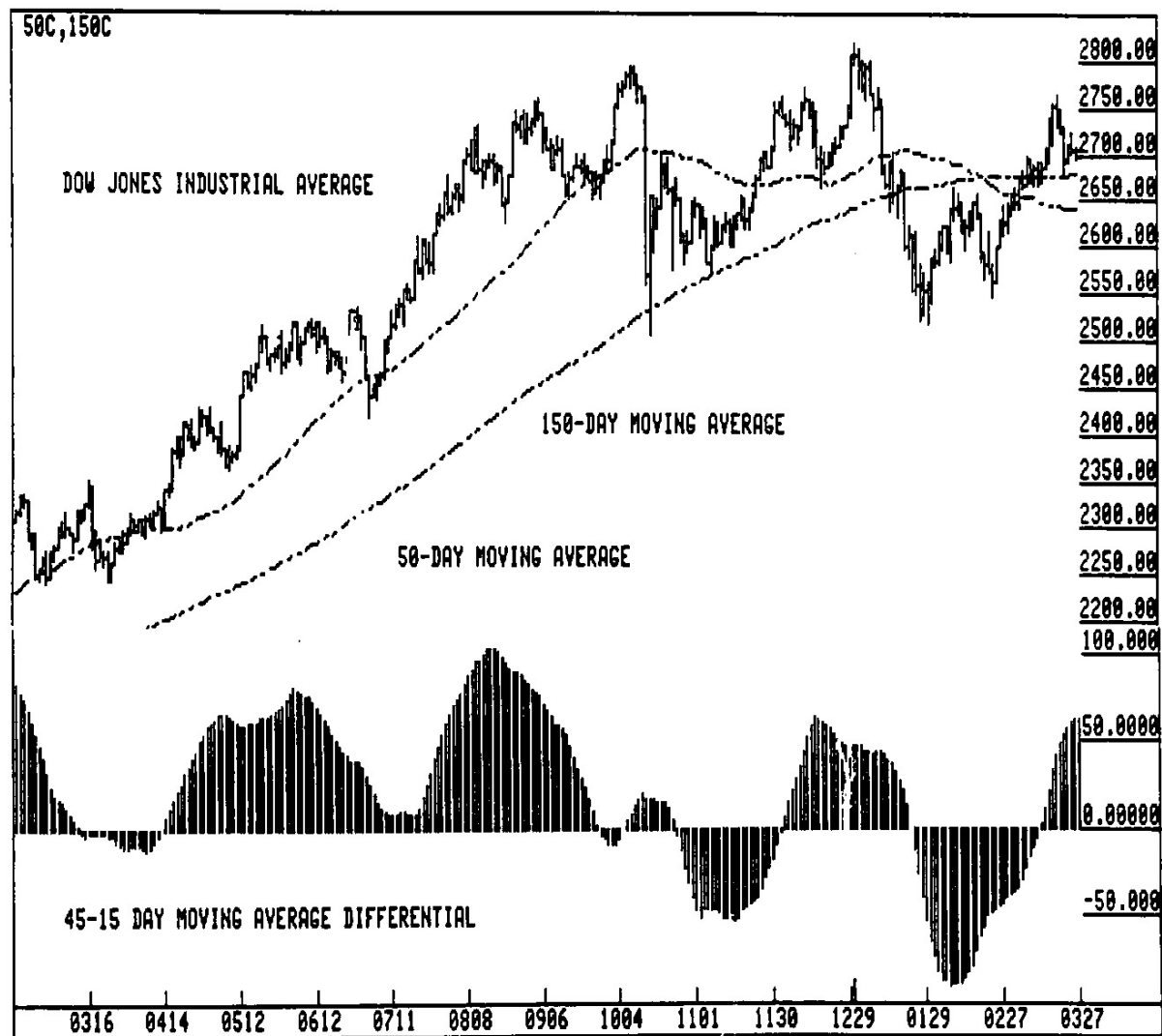


Figure 10-18. The Dow industrials index and the 150- and 50-day moving averages differential.

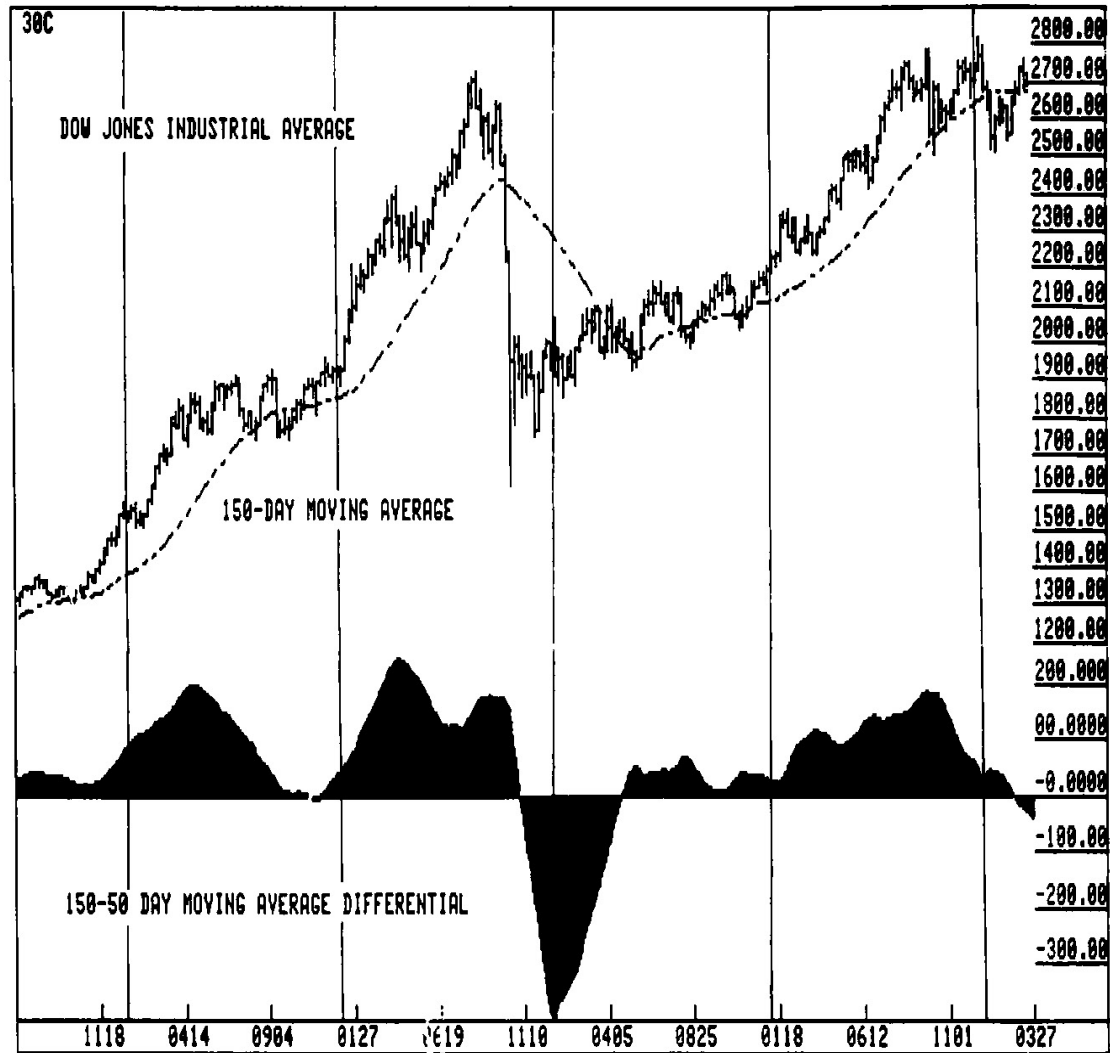


Figure 11-1. 3-months Treasury Bills and the Bond Market.

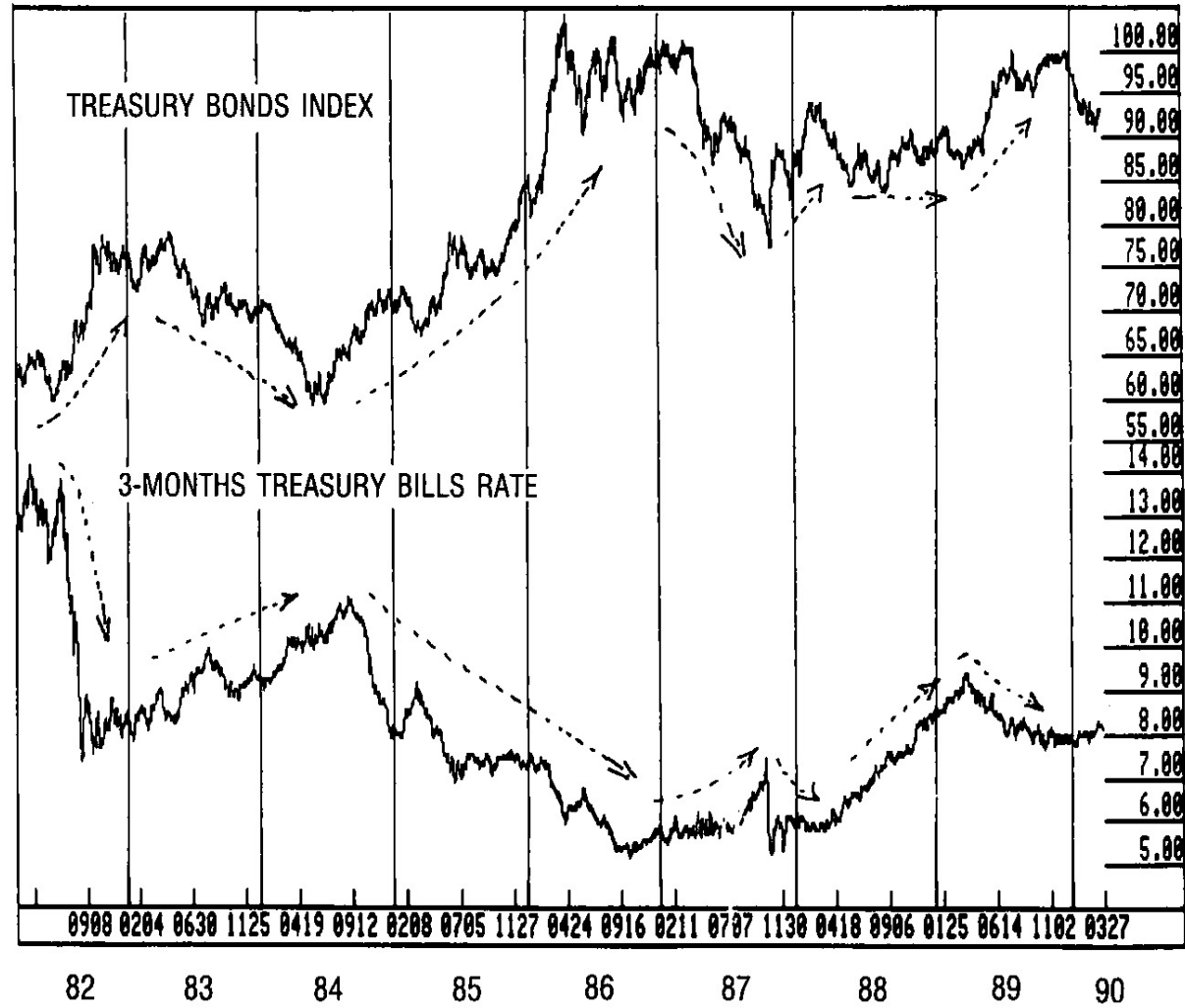


Figure 11-2. Crude oil versus bonds.

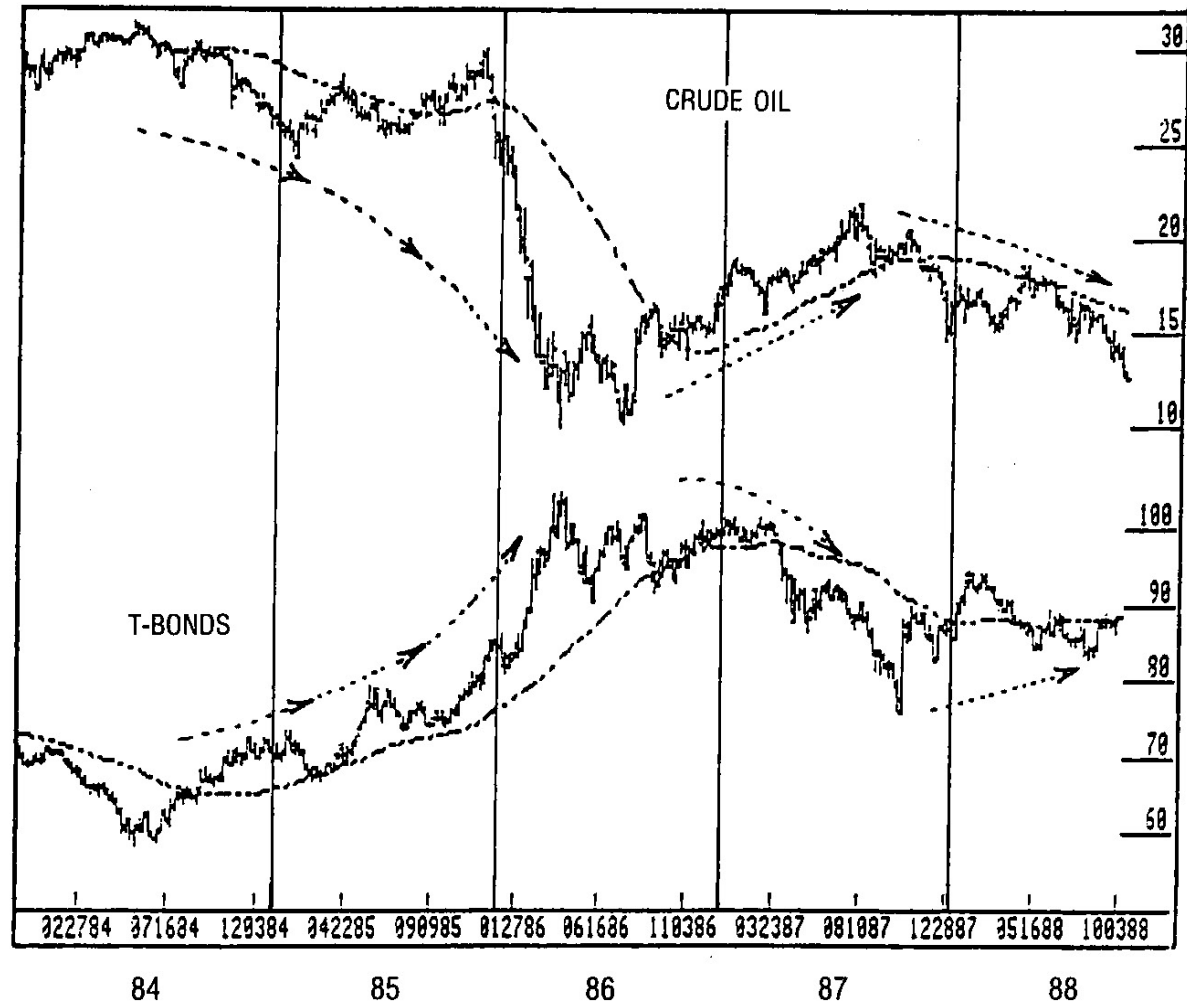


Figure 11-3. Crude Oil, Bonds, and the 3-Months Treasury Bills Rate.

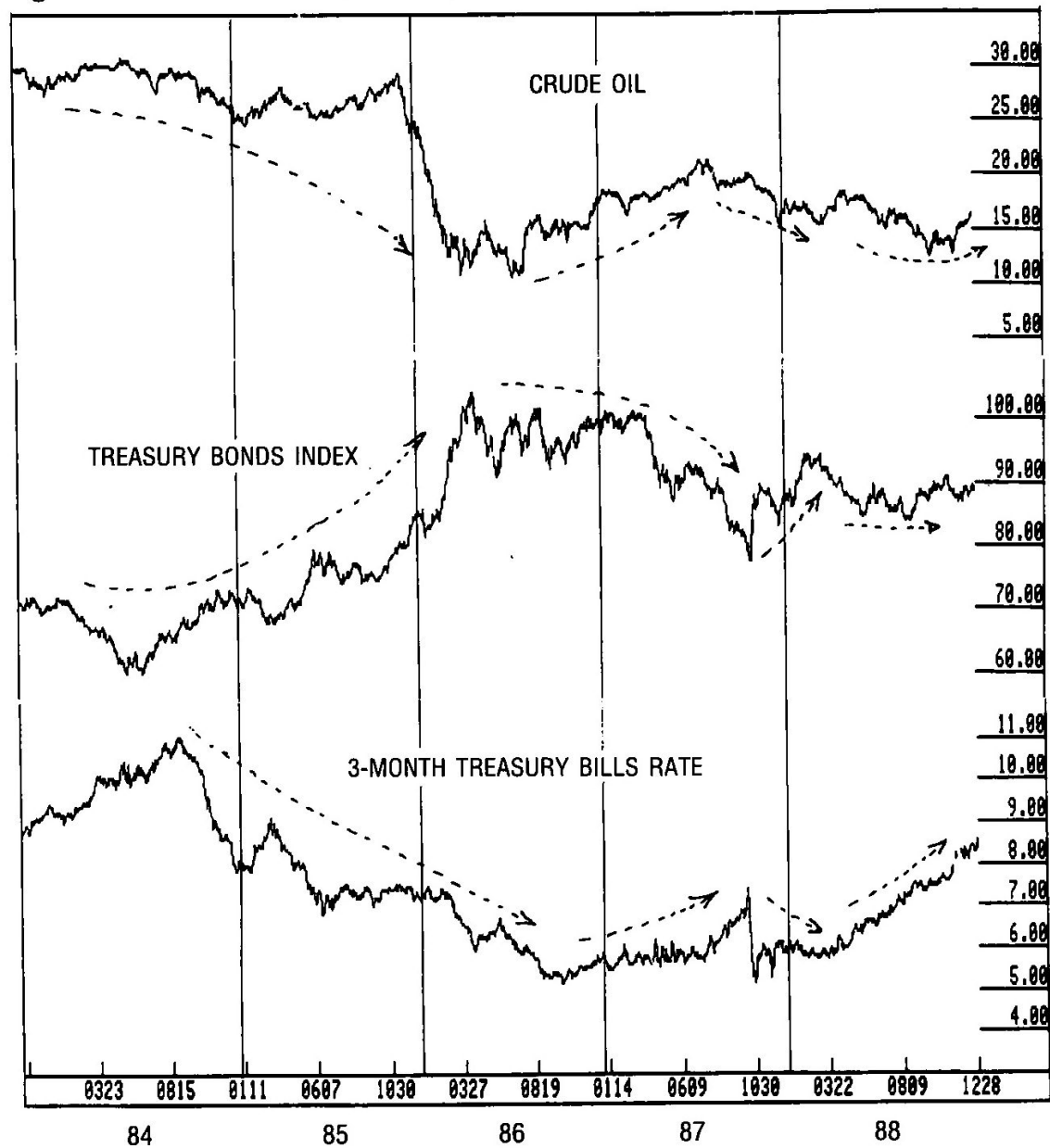


Figure 11-4. The CRB index and some of its components.

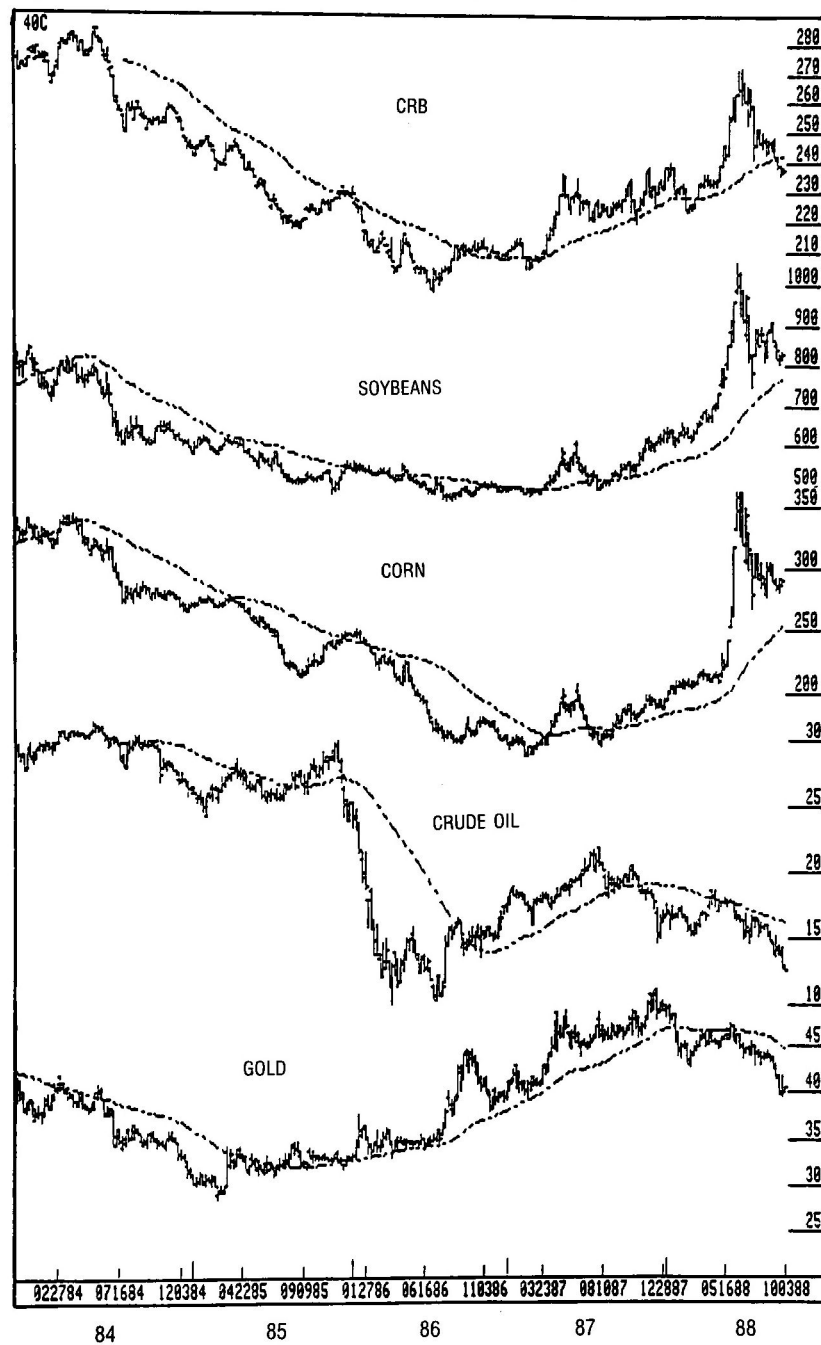


Figure 11-5. The CRB index and Bonds.

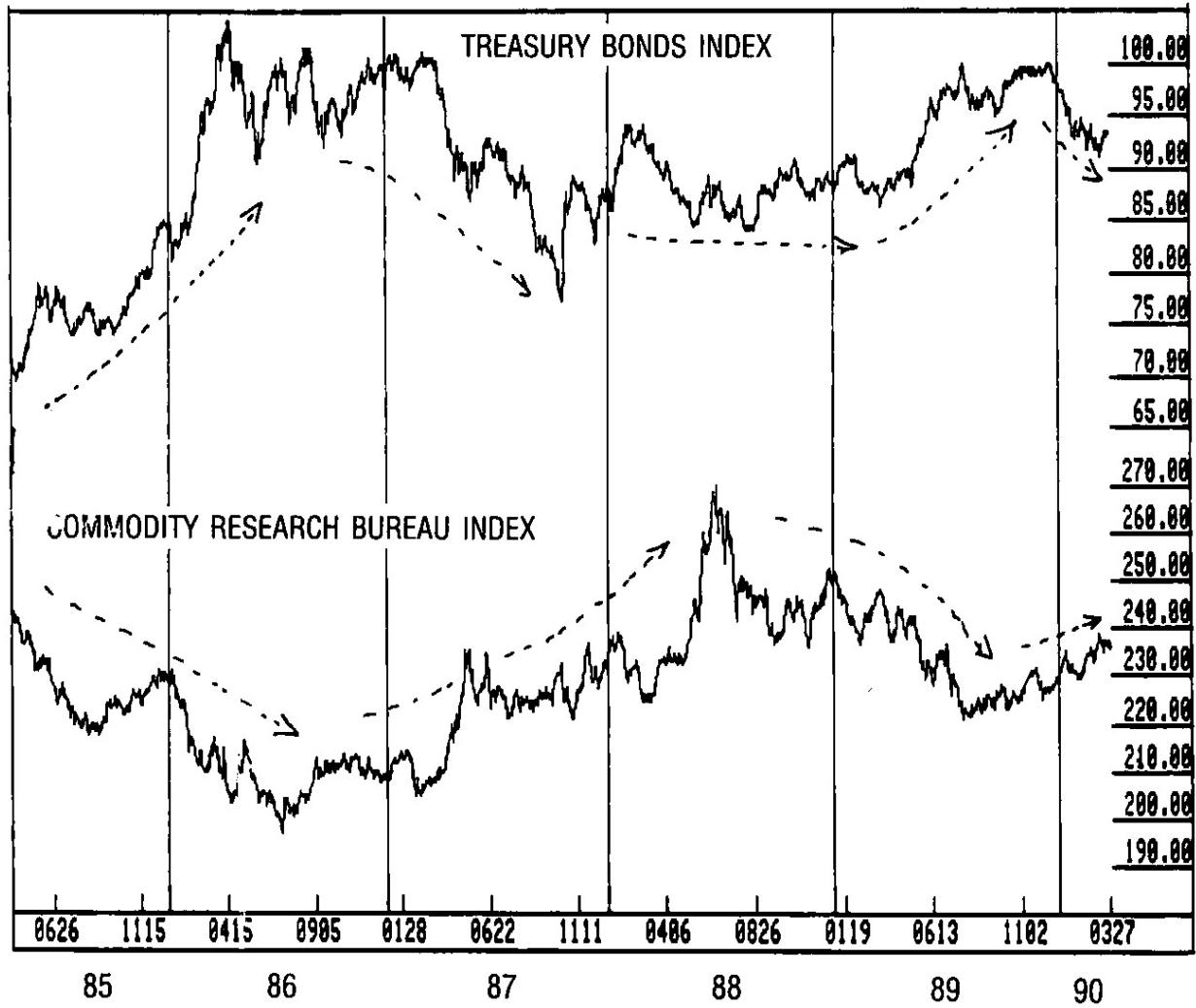


Figure 11-6. The CRB index and the Three-months T Bond.

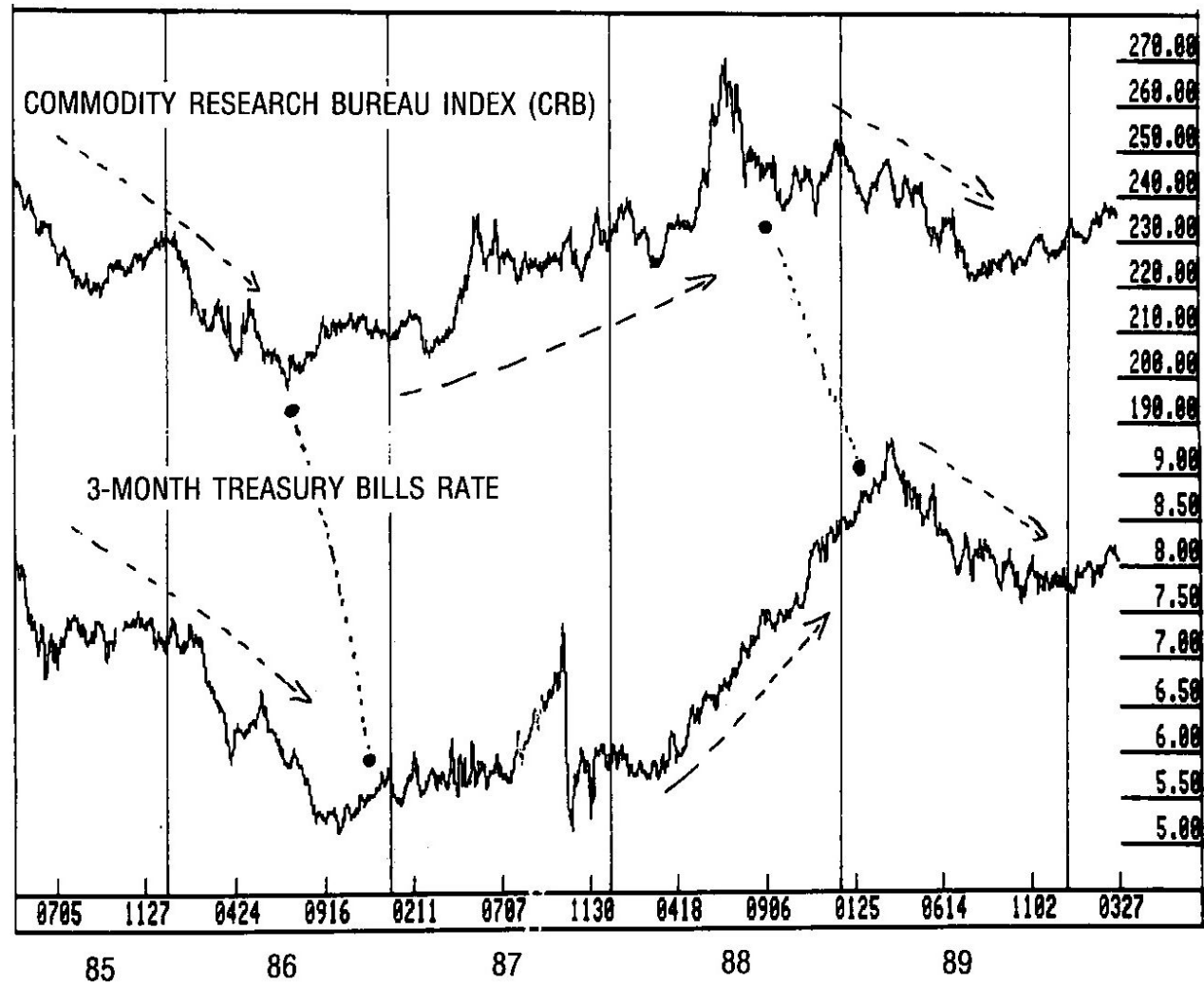


Figure 11-7. The CRB index, T Bonds, and crude oil.

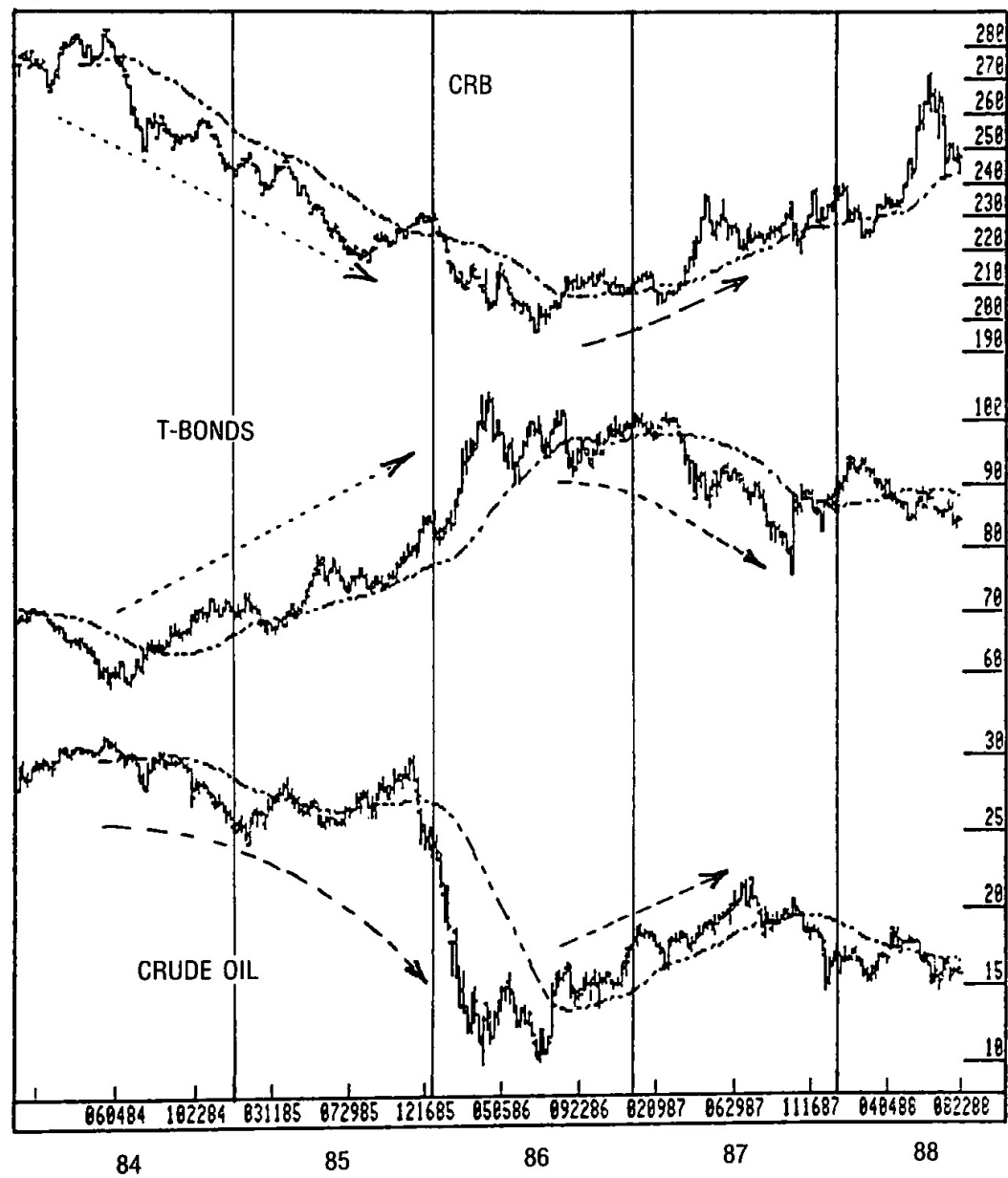


Figure 11-8. The CRB index, T Bonds and the Federal Funds rate.

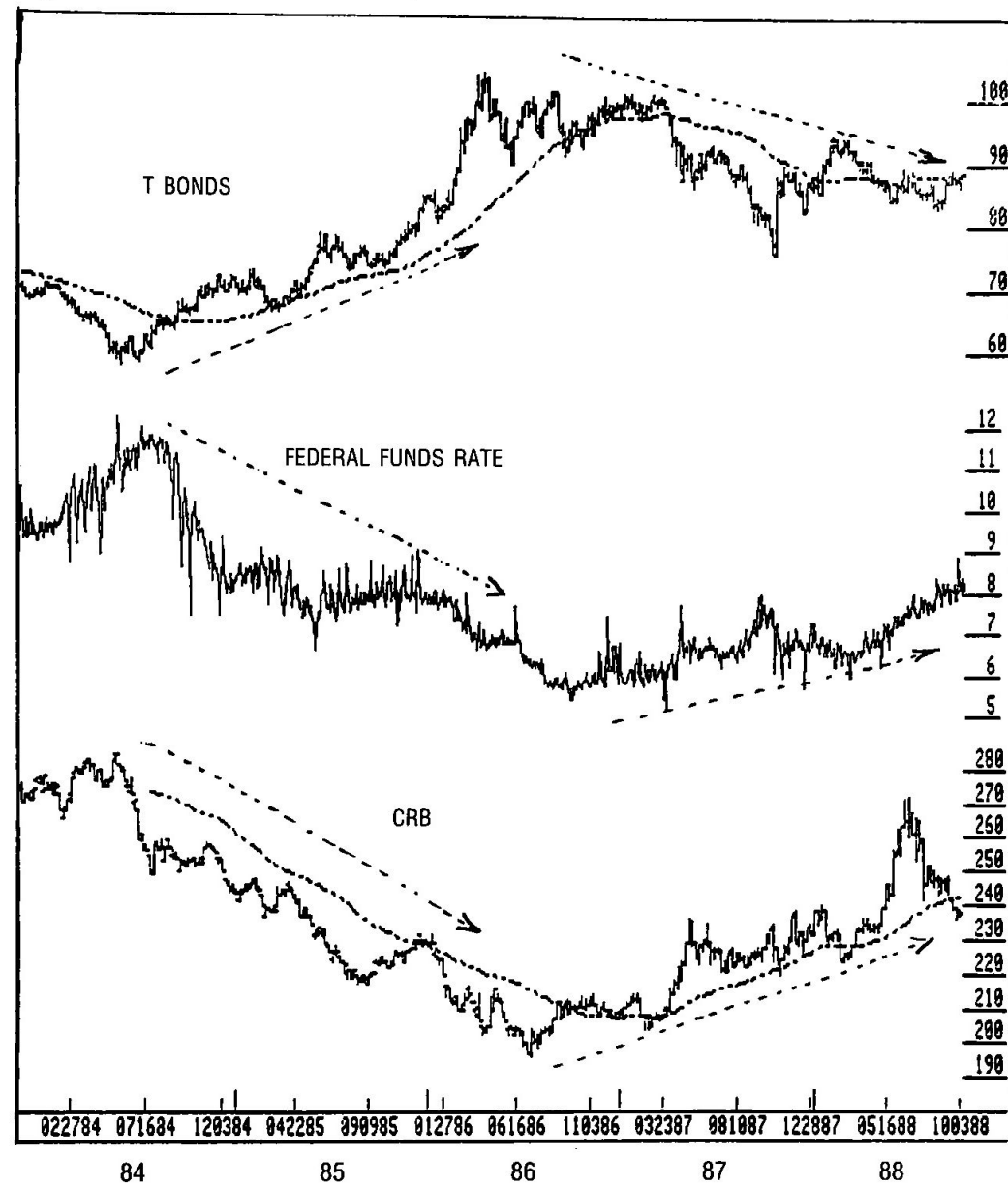


Figure 11-9. Dow utilities versus the Three-Months Treasury Bills Rate.

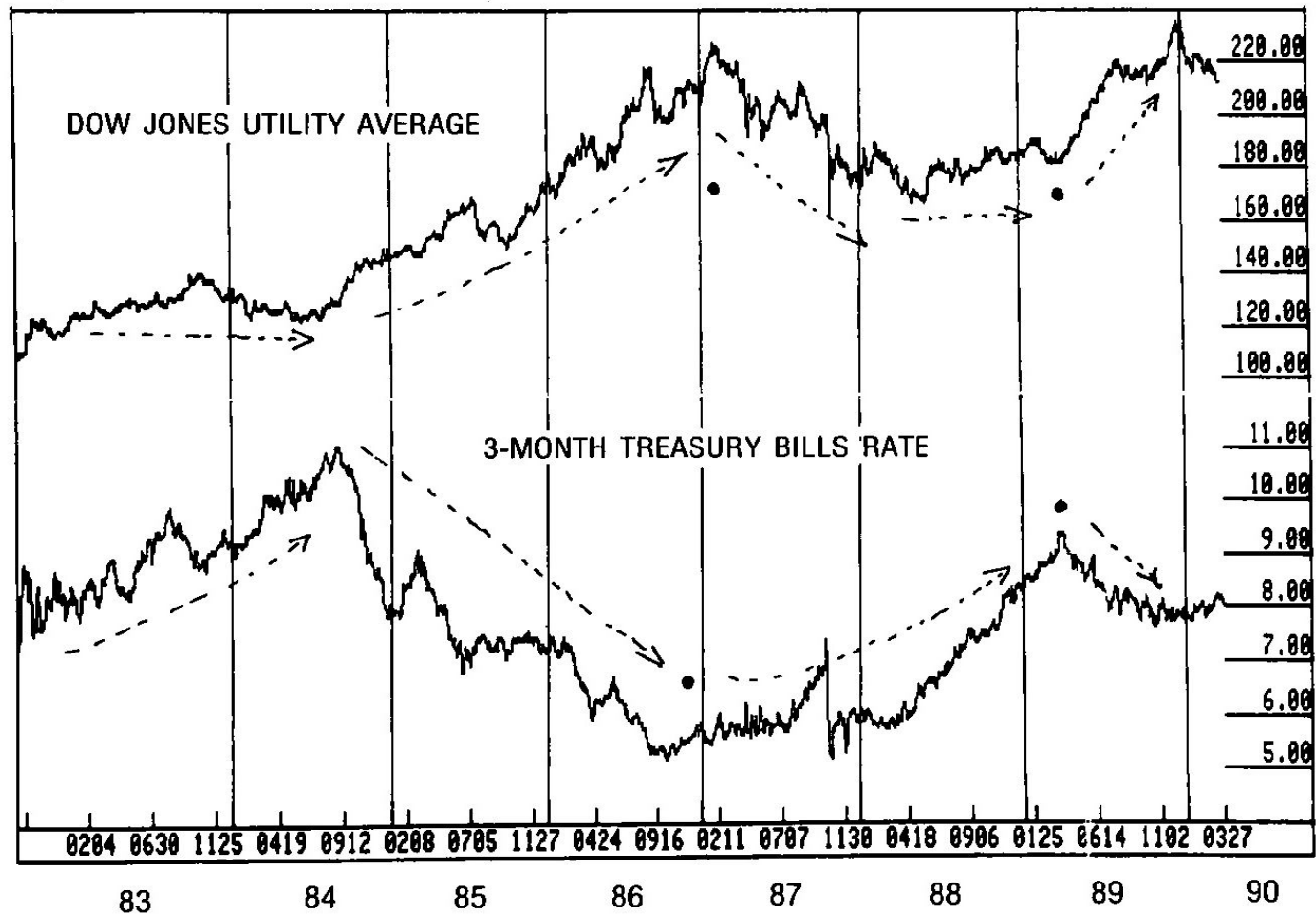


Figure 11-10. T Bonds versus the TED spread.

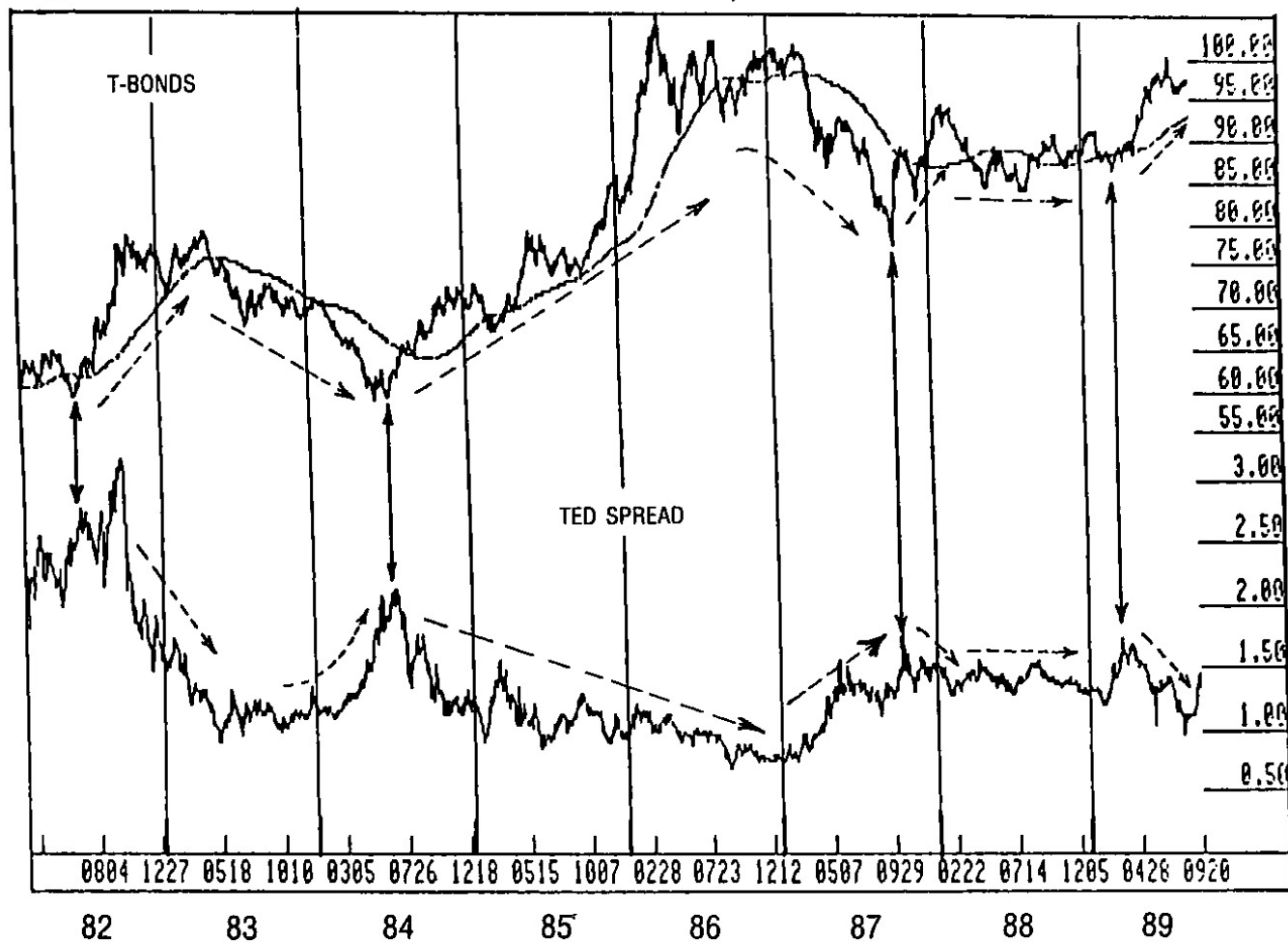


Figure 11-11. T-Bonds, the Ted spread, the Federal Funds rate and the Dow utilities index.

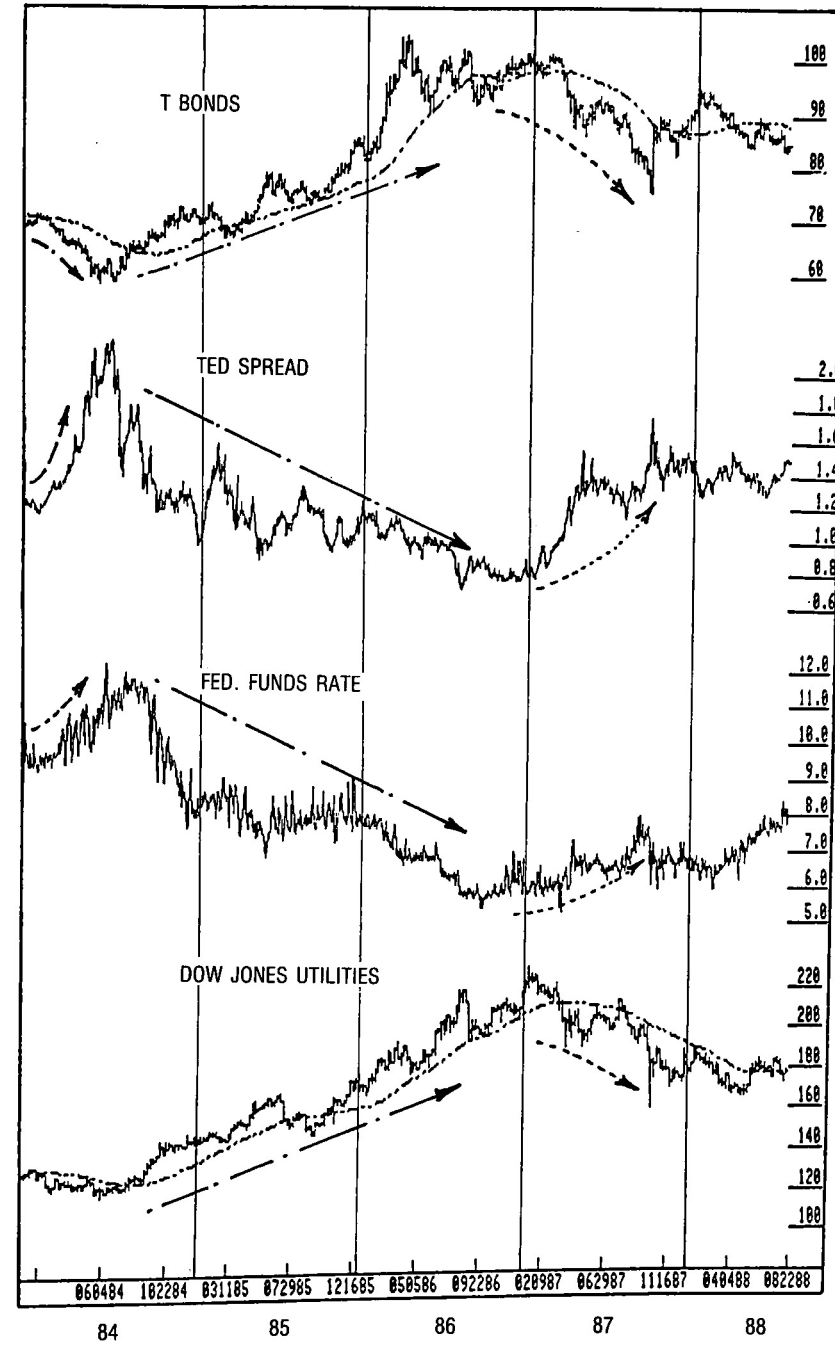


Figure 11-12. Gold and the Federal Funds rate.

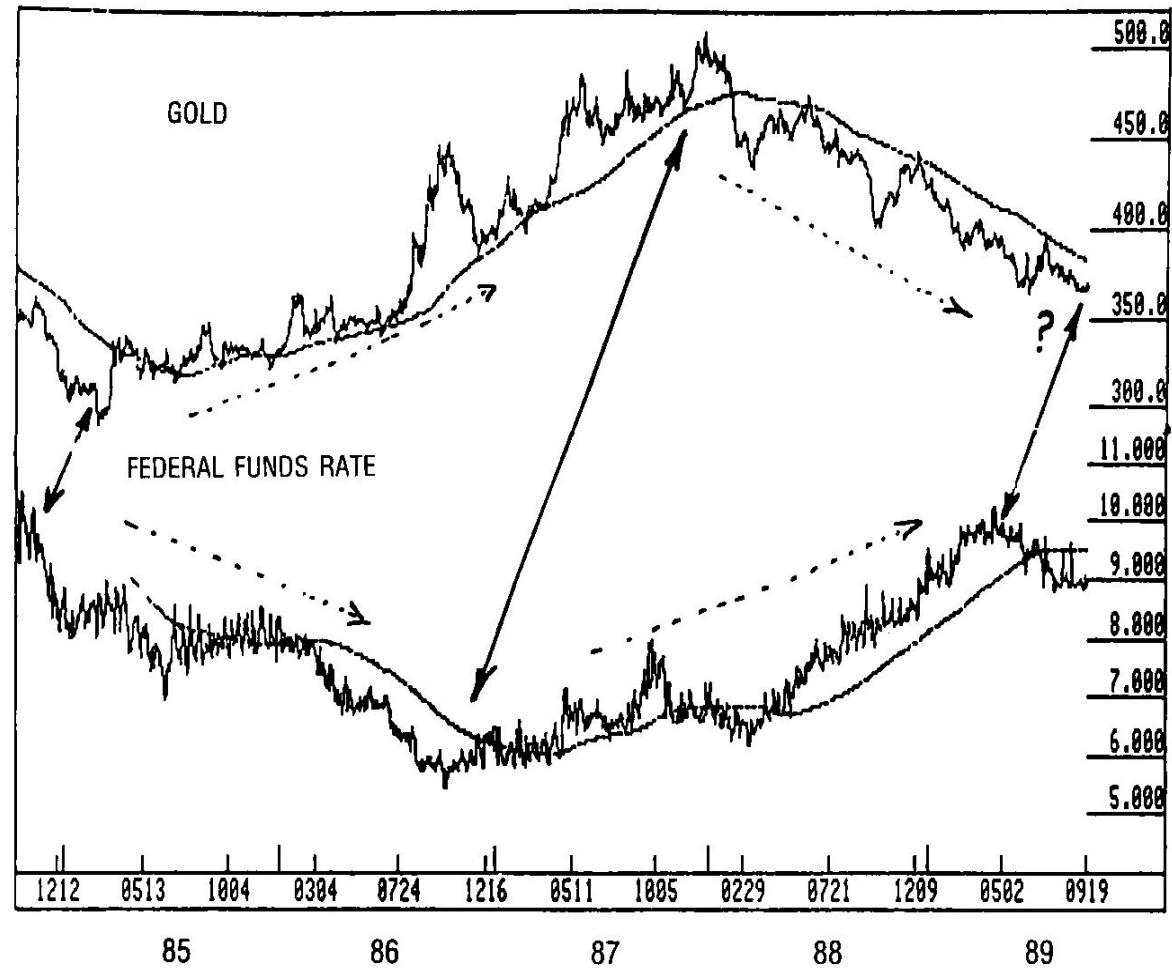


Figure 11-13. Crude oil versus domestic and international oil groups and the oil services group.

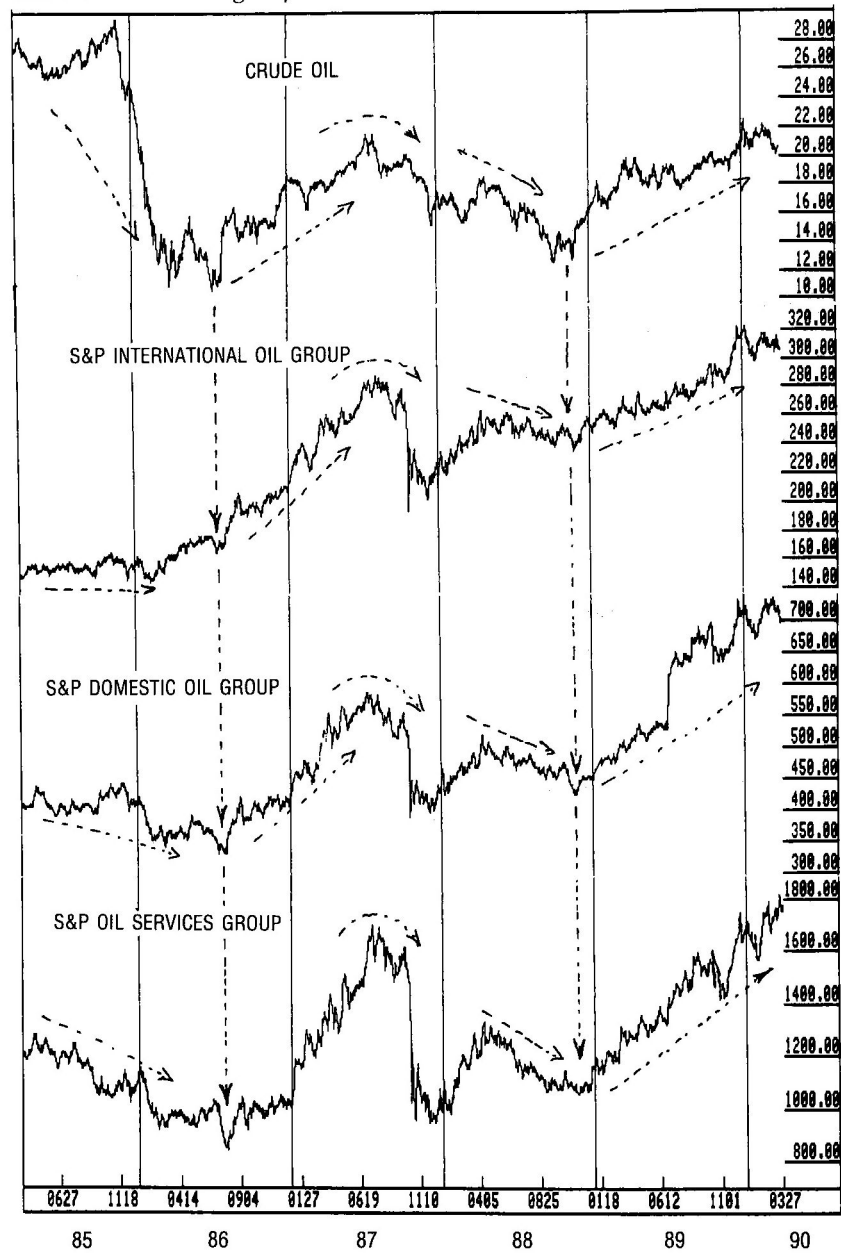


Figure 11-14. The dollar, chemicals, and drugs.



Figure 11-15. CRB raw industrials Spot index and four mining stocks.

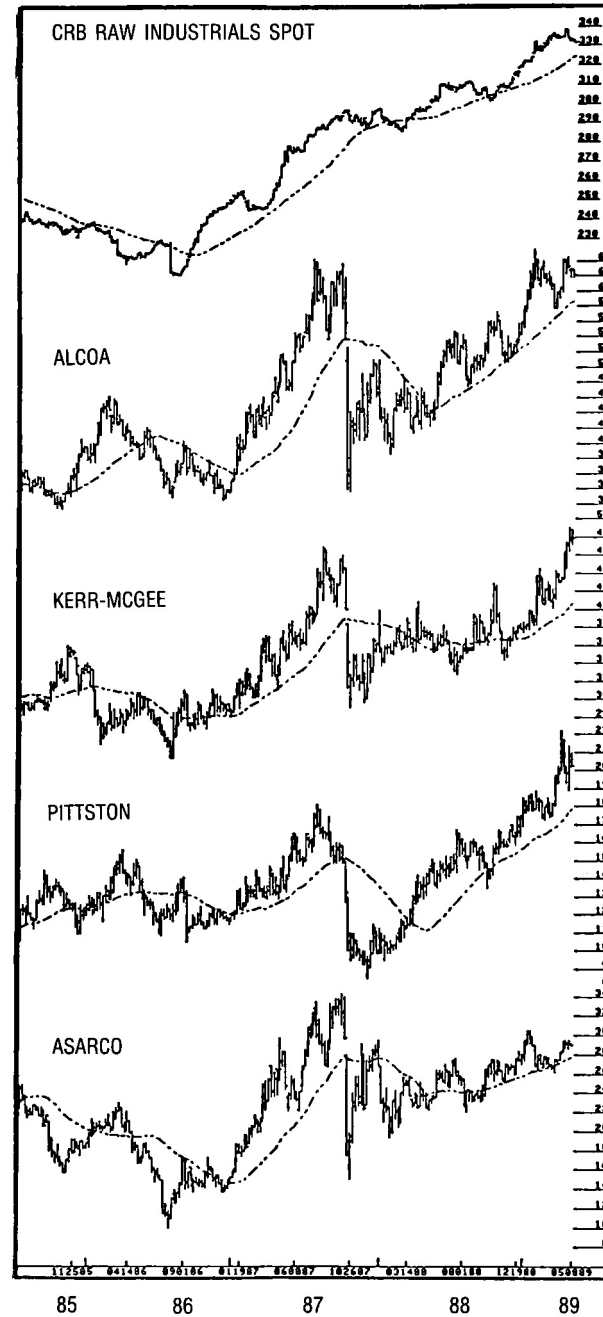


Figure 11-16. The Dow Transportation and its components.

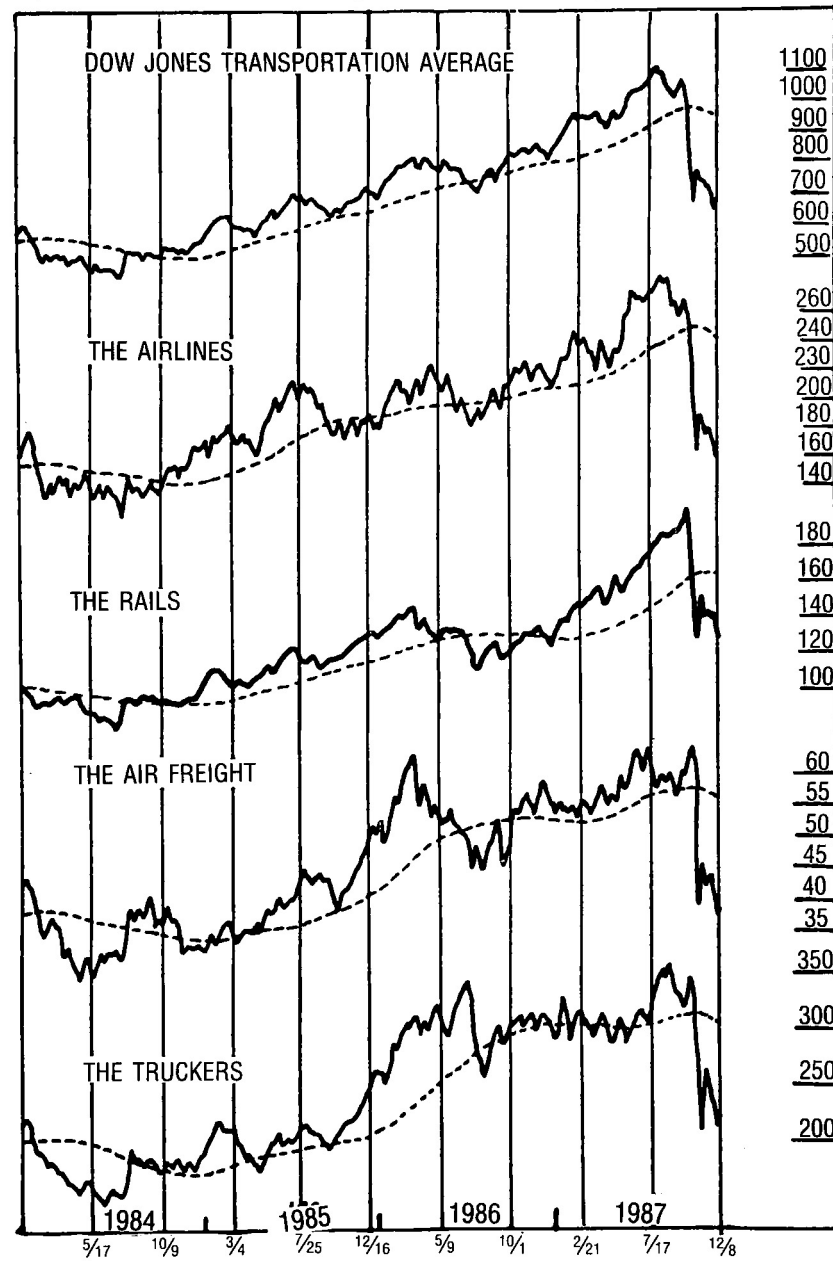


Figure 11-17. The Dollar Index versus the momentum indicators.

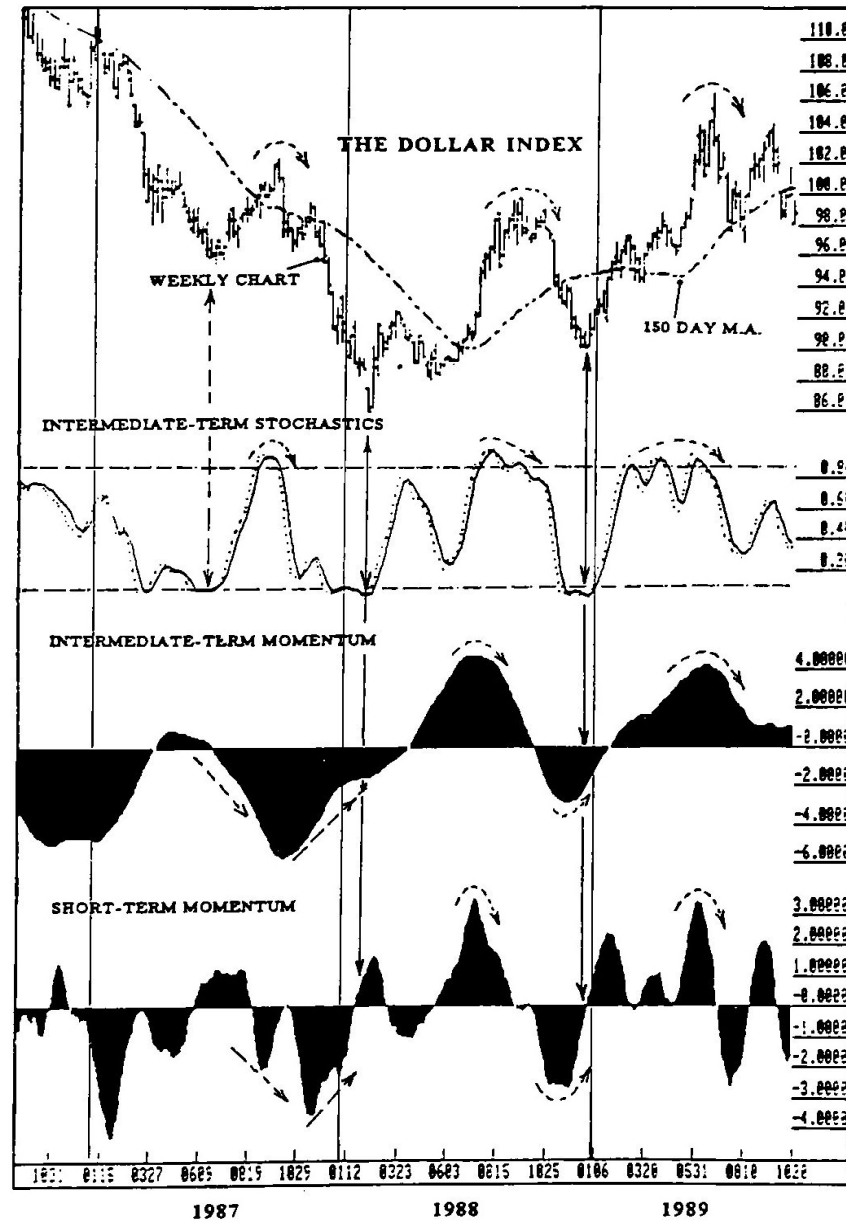


Figure 11-18. Bonds, rates, crude oil, stochastics and RSI.

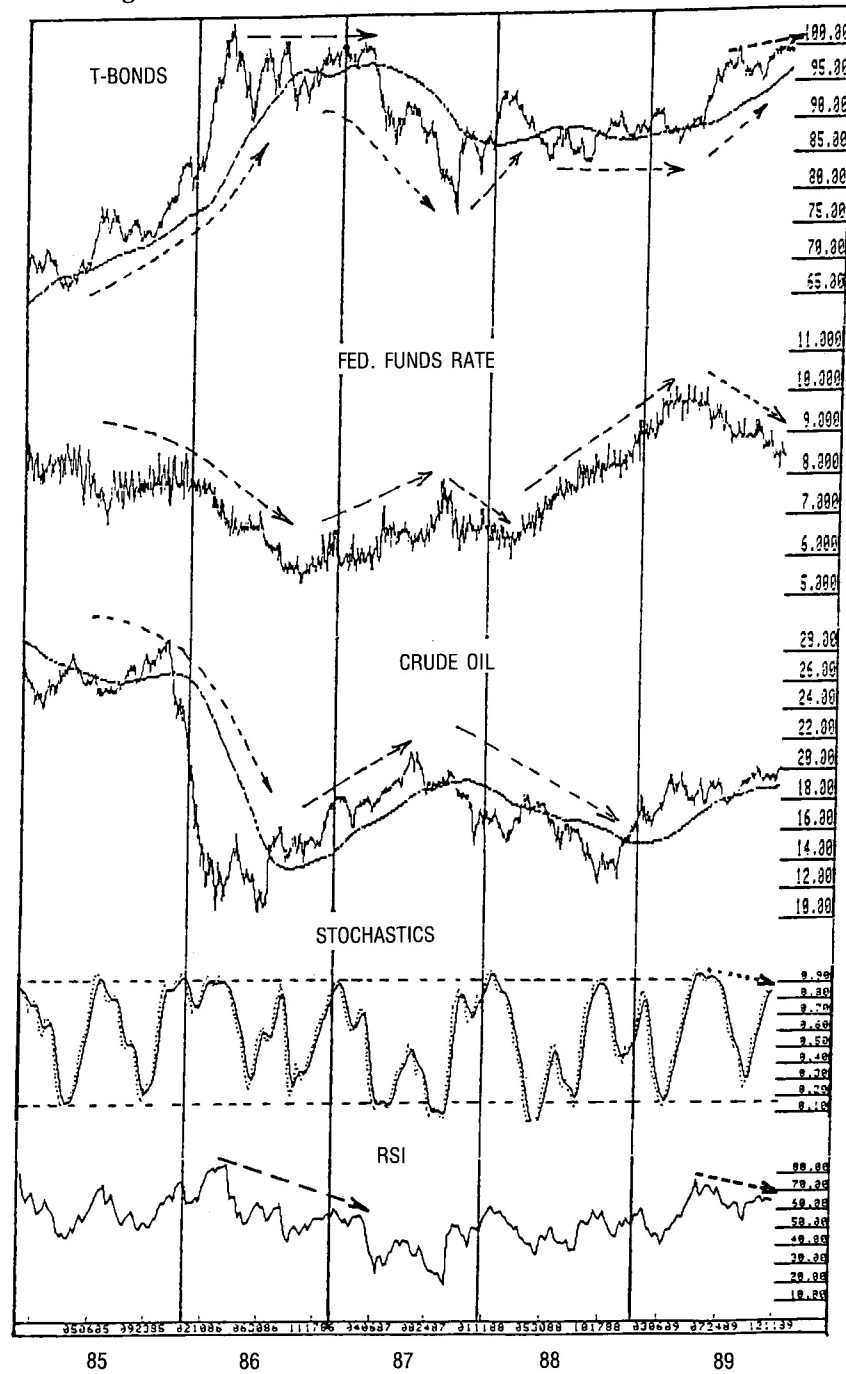


Figure 11-19. Bonds, home building, and forest products.

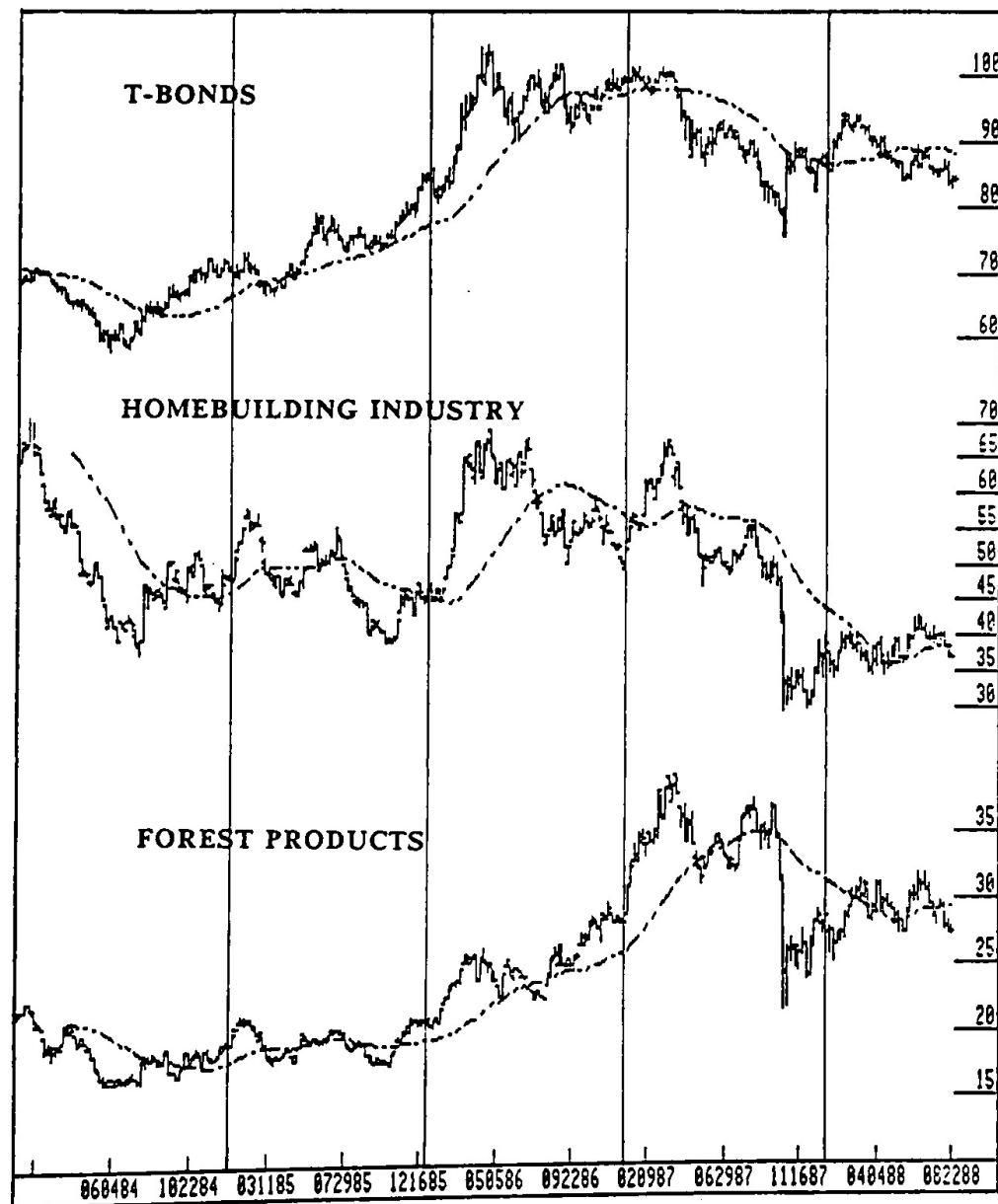


Figure 12-1. The economic cycle.

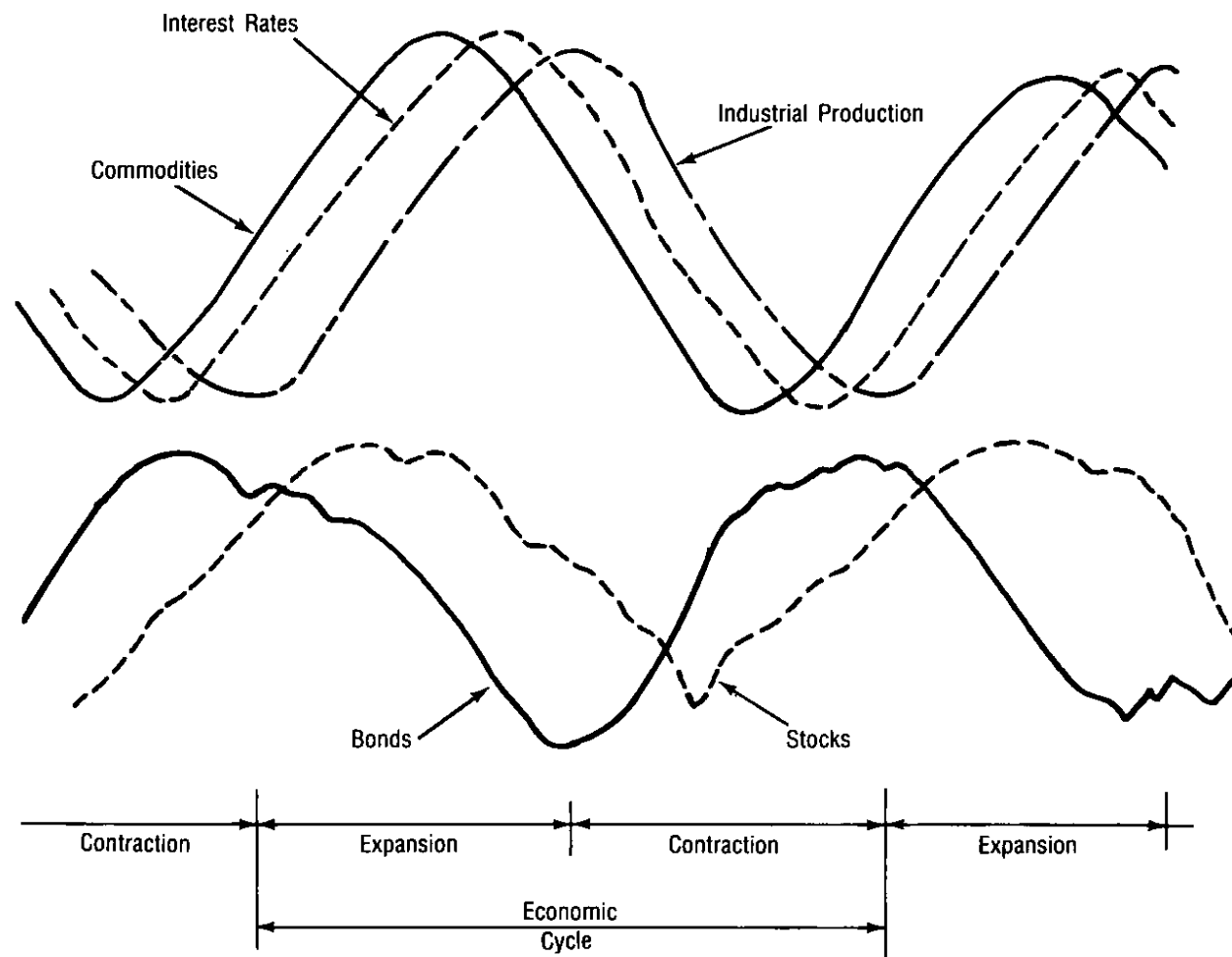


Figure 12-2. The diffusion index.

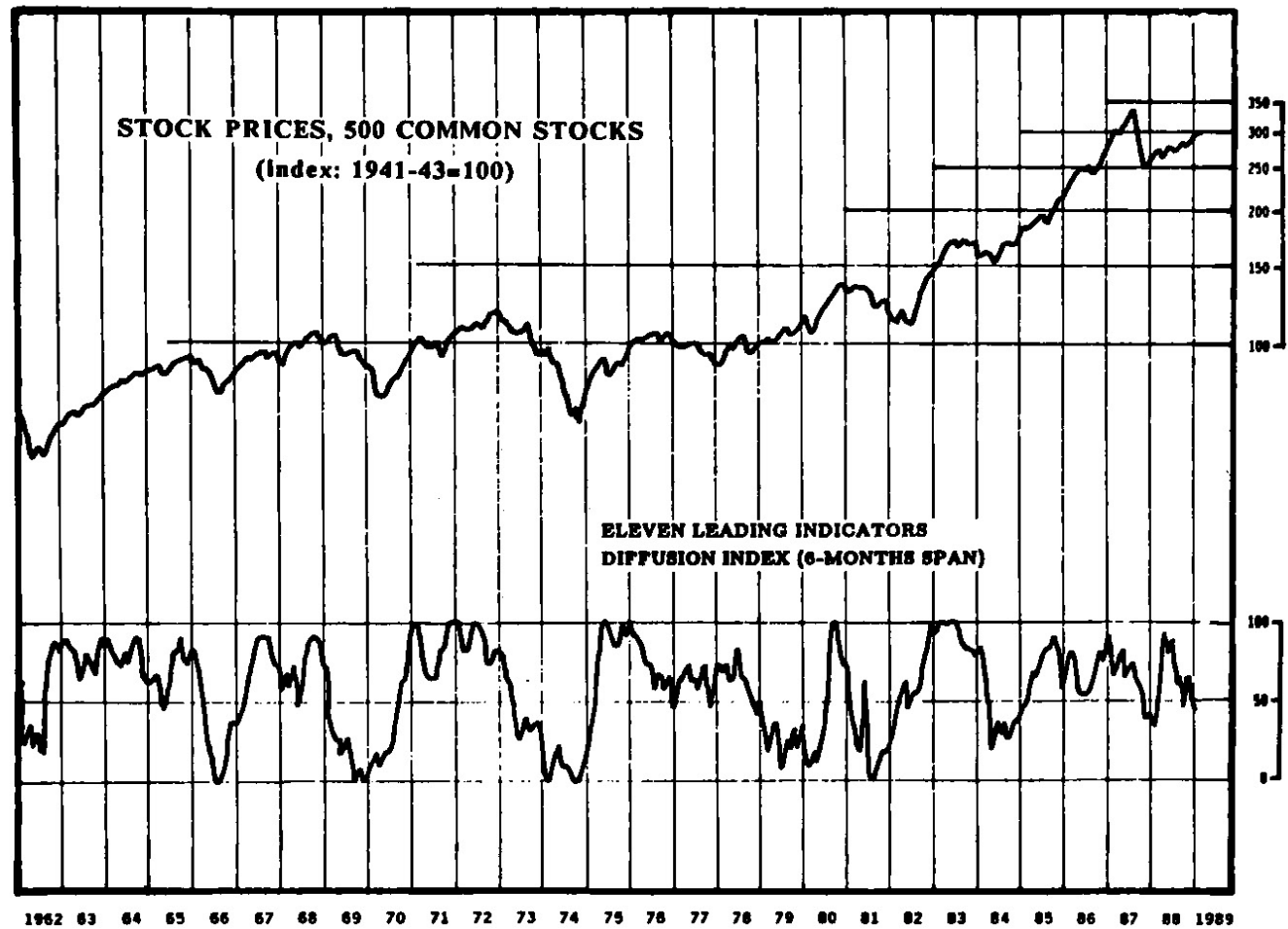


Figure 12-3. Interest rates relative to corporate interest burden.

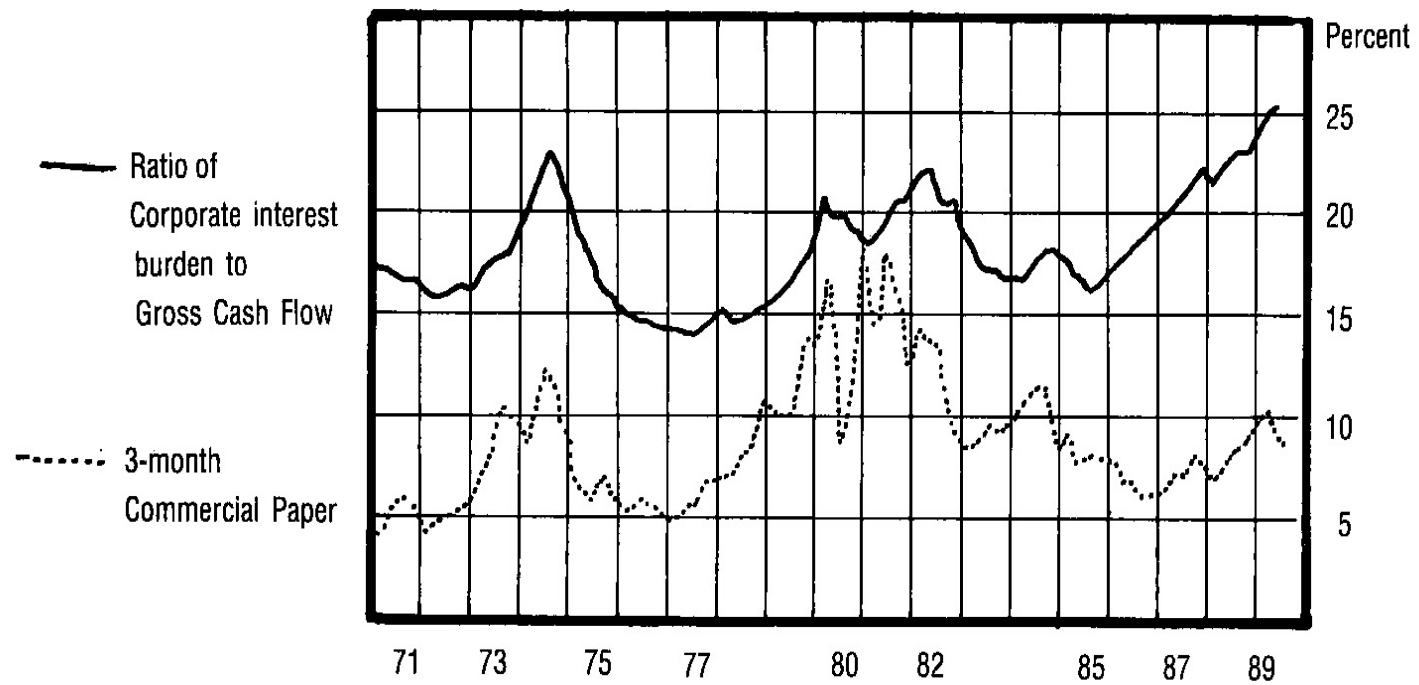


Figure 12-4. Interest burden and profit margins.

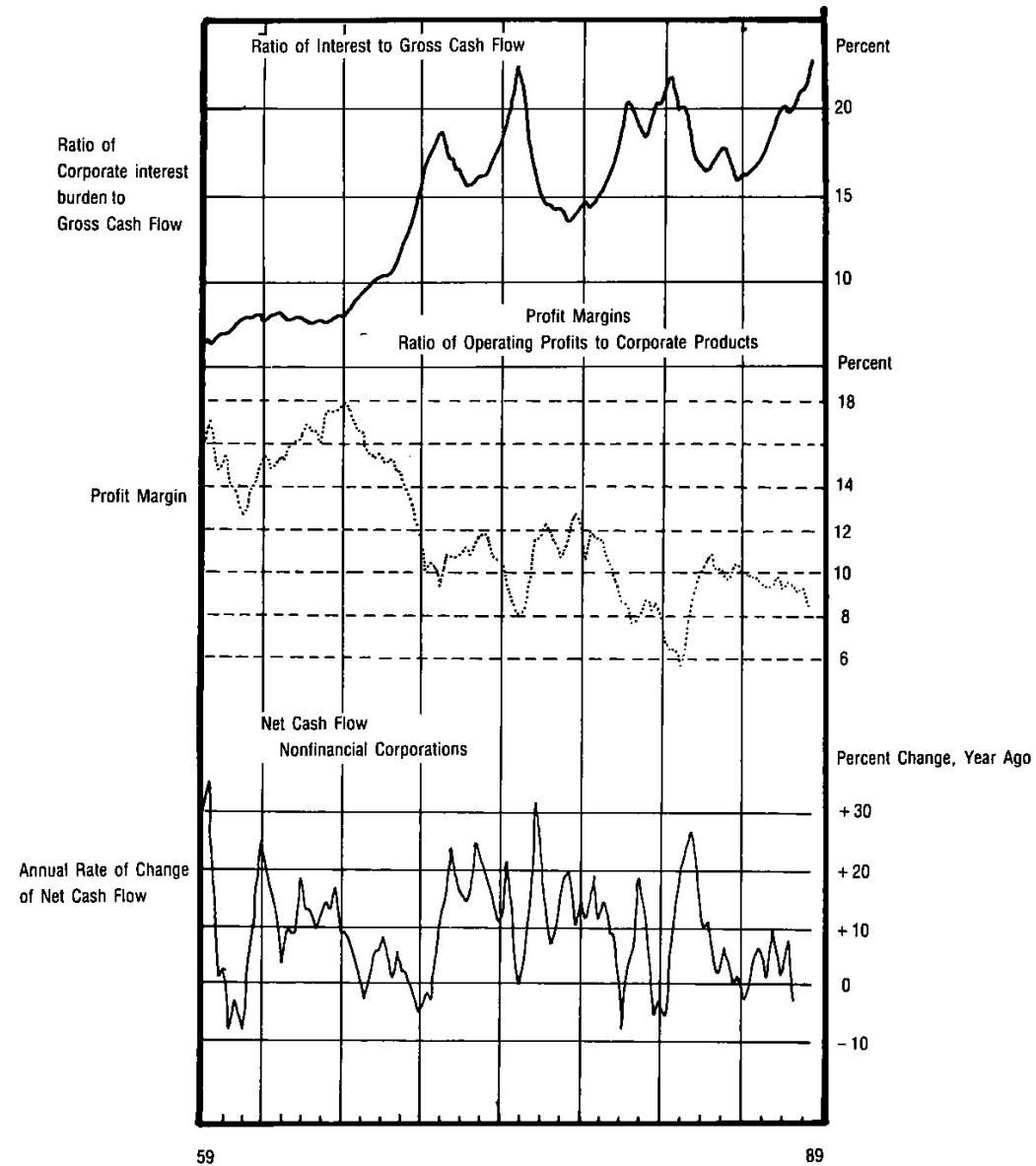


Figure 12–5. Consumption spending and savings rates during the business cycle.

