

THE PLAIN DEALER

A primer for would-be timers

Aggressive traders should be familiar with known strategies

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Think you're ready to time the market?

Buy some sleeping pills.

"A lot of investors get aggressive, start losing money and won't be able to sleep," said Gary Harloff, president of Harloff Capital Management Inc. in North Olmsted.

Most investments last for years, not months or weeks. But investors who "time the market" and buy stocks and mutual funds for short-term payoffs say beginners can use some basic rules to guide them - as long as they can handle the risk.

Regular market timers said investors should begin by reviewing the 200-day moving average, which is the average price of a stock over the last 200 days.

Harloff said that if a stock is above the moving average, then it's usually in an up-trend. If it's below the average, it is going down.

Typically, people who use the moving average buy the stock when it is just above the average.

Harry Adams, president of Cleveland Computerized Investing group, which invests in stocks on a month-to-month basis, said the moving average can apply to a stock, specific industry or index.

Adams' group regularly examines industries based on that measure. Right now, Adams said the banking and petroleum industries

are both doing very well.

Adams and Harloff said that after mastering the 200-day average, many investors will incorporate other moving averages. Some will also use a 100-, 85- or 50-day moving average to gauge their stocks (more-conservative investors will use averages over the course of fewer days).

But some investors warn that the 200-day moving average is never good enough and insist on shorter averages. Harloff, for example, rejects the moving average in favor of his own, more complex system.

Les Masonson, author of "All About Market Timing" (McGraw-Hill, 2003), said a 200-day span is too long a period full of old information to provide an accurate picture of the current market. He insists on an average of 66 to 123 days.

History is as instructive as any moving average, Masonson said. He invests for a six-month period between November and May based on data from the Stock Trader's Almanac, which Masonson said every investor should use.

"I never look at stocks," Masonson said. "They are too dangerous for people. There's no need to pick stocks when you have mutual funds. People should have a diversified mix of index and exchange-traded funds."

Harloff said three mutual fund families - Potomac, Rydex and ProFunds - allow frequent, regular trades throughout the year. Other mutual funds offer a limited number of trades annually (often with fees attached).

No matter what moving average you use, Adams suggests aggressive traders get acquainted with another concept: "stop-loss."

Members of the Cleveland Computerized Investing group have started aggressively selling stock when it hits a certain price. Typically, they bail out if a stock dips below its 200-day moving average before the group's next monthly meeting.

Adams said the group is considering assigning different stop-loss moving averages for different industries and specific stocks. His organization is studying how the group would have fared in previous investments if it had used a stop-loss philosophy with a 200-day moving average.

So far, he has learned that "we would have saved ourselves a bit of money if we had done the simple thing of getting out of a stock when it crossed below the 200-day moving average."

Many investors suggest using a software program to help calculate a stock or market's potential. Harloff, who manages mutual funds solely using market timing, uses a series of trade-secret mathematical formulas and computerized calculations to determine which

stocks to buy and when.

Adams recommends a free program at StockCharts.com, found under its Sharp Charts section. The site also has a free "market carpets" section that lets visitors review different industries' performances.

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