

## In This Issue

### The Trend is Your Friend

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## The Trend is Your Friend

My apologies for running silent the past few weeks. I was very ill but I am back to 100%. I am once again bright-eyed and bushy-tailed. Well, this gigantic deer I almost hit yesterday was.

About a month ago, I talked about some famous Wall Street sayings and sentiments. Given the market gyrations and my unexpected absence I thought that if I impart some big-picture pearls it might be useful.

For all you traders out there, you know that you don't want find yourself caught in a situation where you are on the opposite side of a trend with a given stock. Maybe you watch charts and money flows, short positions or other basic metrics. You are not alone.

There are a ton of sophisticated investors—and I am talking about pros that have spent significant sums of money developing algorithms that incorporate investing methodologies largely based on technical analysis and, to some degree, fundamental analysis.

These guys exclusively utilize quantitative analysis and we refer to them as "quant" guys. They use their algorithms and sophisticated trading systems to move stocks and markets. Unencumbered by the potential diversion of fundamental analysis or emotion, these investors are very active and either lead a trend in a given stock or industry, or ride the wave higher.

In a sense, the stock or industry moving higher after they get involved are almost a *fait accompli* since quantitative trends and signals are so similar that all of these types of investors create the herd mentality we so often hear discussed by media pundits.

When I was managing money, I designed a very successful investing strategy that had 20% of the overall strategy based upon technical analysis and certain metrics.

In volatile markets, when a stock one has an affinity for is declining for what appears to be no apparent reason, investors often step in and try to get a bargain. Pros would caution otherwise. It is NOT wise to engage in such a strategy. In fact the Street considers this is such a dangerous, risky strategy that it is referred to "stepping in front of a falling knife."

By either selling a portion or all of a position early or on the way down one can avoid big losses. In addition, by waiting until a stock "bases", or "consolidates", it can give one an opportunity to buy at a lower price, if fundamentals or technicals have not materially changed.

If you don't wait, and then buy after a stock starts to rise big time one day after the drops, you may be sorry again because it is more likely the stock will just decline again. This price movement is called a "dead cat bounce." (Apologies to all of you PETA supporters out there, but I didn't make it up. I always chuckle at it though. Does that make me a bad guy?)

In the overall trading world, there is another trend that investors should monitor. When one invests in microcap stocks, especially those that do not trade on NASDAQ or the AMEX, spreads, volumes, transparency, and information such as research coverage can sometimes be an issue.

That may change.

The OTC Pink Markets, known as the Pink Sheets, is making a major move upstream and investors need to be aware of this. A few months ago, the organization announced it is operating via 3 new market segments. The traditional Pink Sheets, which has about 5000 firms that do not regularly report information, the OTC QB, which has about 3800 firms that are dually listed on the OTCBB and have disclosure and reporting requirements, and the 100+ member OTCQX, which is 100% electronic and has higher disclosure standards.

Some of you may have noticed that some stocks that traded on the OTC Bulletin Board are now trading on the Pinks, or the OTCQB or OTCQX. With higher standards, a ton of money put into the electronic trading venue, the OTCQB and OTCQX are becoming a trading venue of choice.

This is a good thing, folks. With higher requirements and a better trading platform, fewer companies will be traded on the OTCBB and it may actually mean more and more firms make an ultimate move to the AMEX or NASDAQ easier over time.

Still, be wary of those non-reporting firms. Information is power, after all.

Now that I am back, we will not be resting on our laurels so be on the lookout for new coverage and updates on our current coverage.

Until next week....

### **Analyst: Robert Goldman**

Rob Goldman has 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

### **Analyst Certification**

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