

## COLT 45

### A Cherry Picking Enhancement to the Vector Vest Search: “S&P 500 – Stop Ascending”

By Kevin C. Moore

March 19, 2013

In a response to the Vector Vest (VV) “Cherry Picking Challenge”, I would like to submit the following enhancement to the highly successful VV search – “S&P 500 – Stop Ascending” (Search). It is an enhancement that I have been using, with very good results, ever since VV came out with the Midas Touch graph a while back.

Although the Midas Touch was intended in help us gauge the strength of the gold market by graphing the HUI, I have experimented with it by applying it to all stocks. As you will see on the Excel spreadsheet that is linked to this report, by adding my “Colt 45” feature to the VV Search, results can be significantly improved.

I call the enhancement the “Colt 45” because the name helps me remember what the feature is all about. That is, the “**C**haracter **O**f **L**ine **T**rends” (COLT). The “45” comes from a three-line graph setup roughly resulting in 45 degree angles. To work, the graph does not have to result in exact 45 degree angles, but that image tends to drive home the point of why the feature works. That is, the feature tends to work when all three lines on the Midas Touch graph are all heading from the lower left to the upper right. For illustration, please refer to the chart below:



To test the Colt 45 theory, I applied its principles to the last three Confirmed Up markets, including the one that is still going on as of March 15, 2013. *(Note – until I refine my “sell” criteria, my backtesting assumes that I buy the Colt 45 stocks on the first day of a Confirmed Up market call and sell all positions on the first day of a Confirmed Down market call.)* As you will see, it clearly outperforms the overall market, as quantified by the VV composite and/or the SPY ETF. It also outperforms what would have been the cumulative effect of the Top 5 stocks picked by the VV Search mentioned above, for the three test periods.

The basic premise of Colt 45 is as follows. One can take a list of stock picks, say from the VV Search, and go through the list and cherry pick to find a more profitable selection of stocks by first filtering the list through a quick graphic analysis. For this step, I use the Midas Touch graph layout provided by VV.

What I do, is call up the Search, display the “Top 100” stock candidates, select “Graph All” from the menu, select the “Midas Touch” layout, select the “3 month” timeframe, and quickly click through the graphs until I find the first five stocks that meet my predetermined “Character Of Line Trends (COLT)”. I then buy those five stocks versus the Top 5 originally suggested by the initial Search.

So what gives the line trends the “character” that I am looking for? Five things:

1. The market must be in a Confirmed Up call.
2. The 10-day Price Stop trend line must be above the Price Stop’s 65-day trend line.
3. The 40-day RT trend line must be above the “1.00” VV index line.
4. The 40-day RT trend line must be at its **highest** value that it has been in the last three months. (Refer to the Colt 45 chart on page one.)
5. The latest reading on the graph, for both the Stop Price’s 10-day and 65-day trend lines, must also be higher than the rest of the line for that particular moving average. In other words, to qualify, the trend lines must be moving upward from the lower left to the upper right.

At first, the line trend rules may appear to be a lot to think about. But once one gets going with it, it becomes a no-brainer. This is especially true, if one locks in their mind, the image of the three 45 degree lines peaking at the upper right of the graph. In fact, when I am looking for a cherry to pick, I can click through 100 graphs in less than five minutes, *(Here is a practical tip: As you click through the graphs, only focus on the RT line. If it is not “peaked out” on the right side, just click through to the next one. Until I hit a stock that meets the “RT peak rule” I do not have to consider the rest of the character rules. When I do see a peaked RT line, I slow down for a*

*second and see if the other trend criteria are met. If so, I plot its symbol and move on until I get five picks.)*

So why does the Colt 45 system seem to work? I do not know, of course, but I would guess that it adds a bit of a “momentum” attribute to the stock pick. I have learned that “ascending” sorts tend to pick stocks that need a bit of time to blossom, versus the typical “descending” sorts. The ascending sorts may not pick as many “quick-hitters” as descending sorts do, but they oftentimes lead us to buy at lower prices than the “hot” stocks picked by descending sorts. I am assuming that the stocks usually picked by the “Stop Asc” Sort finds stocks that are good enough to be in the S&P 500, but are somewhat downtrodden. By adding the Colt 45 feature, one can find those stocks that are beginning to quietly gather momentum under the radar screen.

The best way to learn the new feature is to see it in action on a real backtest. So I will list the steps required to test the feature using real data from the current Confirmed Up market that began December 18, 2012.

1. From the UniSearch tab, select the Search: SFS S&P 500 – Stop Asc.
2. Change the search date to December 18, 2012 and run the search.
3. From the search’s upper tab, select “Graph All.” Be sure to first change the setting to “Display Top 100”.
4. On the task bar of the first chart that comes up, select the “3 Month” timeline.
5. A graph of that stock’s last three months will appear. Since we are trying to simulate what we would have been looking for back on December 18, 2012, it is important that we override the current 3-month graph with a graph that begins on September 18, 2012 and ends on December 18, 2012. These dates can be changed by clicking on the Date panel at the bottom of the graph. This would have been the relevant 90-day period we would have used to see if a stock possessed the characteristics of a Colt 45 stock.
6. From the Graph Layout panel, select the “Midas Touch” layout. This graph removes all the noise and busyness of most graphs and creates a smooth 3-line chart.
7. Put the cursor on the down button on the far right slide bar on the graph and click through the graphs. Remember to, at first, just focus on the RT line. When you see a

potential Colt 45 candidate, slow down, look up and see if the other two lines have the characteristics that you are looking for. If so, note the symbol. If not, keep clicking through.

Note – Since the Colt 45 rules are somewhat restrictive, one may not find the five symbols that they are looking for in the first 100 stocks picked by the original Search. If five stocks cannot be picked that day, wait until the next day and repeat the process until you have the number of picks that you are looking for. In fact, in the backtest we are re-creating here, only four symbols were found on December 18, 2012. None were found on the 19<sup>th</sup> or 20<sup>th</sup>, and the last one, **TSN**, was found on the December 21 search.

Speaking of **TSN**, when one clicks on it on the December 18<sup>th</sup> test, they will find that **TSN** doesn't quite qualify because the right side of the 65-day line is still just below its left-hand side. However, on the 21<sup>st</sup>, TSN did finally qualify and became our 5<sup>th</sup> pick. (Note - It turned out to be a good pick, too, as it went on to gain over 25% in 84 days, or 110% on an annualized basis.)

8. In this particular backtest, the first symbol that qualified as a Colt 45 stock was **LUV**. The next three symbols that qualified to be selected turned out to be **F**, **YHOO**, and **HRB**.

As you will see on the Excel spreadsheet that is linked to this report, just since December 18, 2012, the five Colt 45 stocks have gone on to generate an annualized 96% return versus a 54% annualized return on the Top 5 stocks picked by the normal Search.

Using a weighted moving average over the three test periods of the backtest, the Colt 45 picks turned \$100,000 into \$526,931. The normal Search turned \$100,000 into \$264,714. The "S&P 500 – Stop Ascending" Search already produces amazing market-beating results. However, it appears that by applying a little bit more time and attention and filtering the Search picks through the Colt 45 system, even greater returns are possible.

Respectfully submitted,

Kevin C. Moore  
Midland, Texas  
March 19, 2013

P.S. After I finished writing this narrative today, I was curious to see which stocks, if any, I would have picked today using the Colt 45 method. As it turned out, 14 of the Top 50 in the Stop Asc Sort, would have qualified. I look forward to further backtesting the Colt 45 method in times like this current market. That is, a market that has been in a sustained Confirmed Up call for months. Will the Colt 45 method be as effective in the mid-stage and late-stage of the call as it apparently is during the beginning stage? Will good momentum stock picks be so numerous then, that the hidden gem stocks found by Colt 45 do not stand out, etc.?

Remember back on December 18, 2012, the first day of the latest Confirmed Up market call. I had to click through over 3 days' Top 100 in the Sort, to find five Colt 45 stocks. Compare that situation to the 14 out of the Top 50 picks that would have qualified in today's Sort.

Hopefully, the method will work well all the time, we will see. At least we know, at a minimum, that the Colt 45 method works well at the beginning of a Confirmed Up market call, like it did in each of the three backtest periods.

Kevin C. Moore

Backtest Results for a New Cherry Picking Strategy - "COLT 45" vs "S&P 500 - Stop Asc"

Test Strategy Over the Last Three Confirmed Up Markets

March 18, 2013

1. CURRENT CONFIRMED UP MARKET (12/18/12 through 03/15/13):

Date	Symbol	Stock Price		Gain (Loss)				VVC ARR%	SPY ARR%	S&P 500 Stop - Asc ARR%
		12/18/12	03/15/13	\$	%	Days	ARR%			
12/18/12	LUV	\$ 10.50	\$ 12.38	\$ 1.88	17.90%	87	75.12%			
12/18/12	F	\$ 11.67	\$ 13.45	\$ 1.78	15.25%	87	63.99%			
12/18/12	YHOO	\$ 19.62	\$ 22.07	\$ 2.45	12.49%	87	52.39%			
12/18/12	HRB	\$ 19.19	\$ 27.51	\$ 8.32	43.36%	87	181.90%			
12/21/12	TSN	\$ 19.47	\$ 24.41	\$ 4.94	25.37%	84	110.25%			
<b>Average</b>					<b><u>22.87%</u></b>	<b><u>86</u></b>	<b><u>96.73%</u></b>	<b><u>32.03%</u></b>	<b><u>30.19%</u></b>	<b><u>53.66%</u></b>

2. PRIOR CONFIRMED UP MARKET (08/06/12 through 10/22/12):

Date	Symbol	Stock Price		Gain (Loss)				VVC ARR%	SPY ARR%	S&P 500 Stop - Asc ARR%
		08/06/12	10/22/12	\$	%	Days	ARR%			
08/06/12	S	\$ 4.34	\$ 5.68	\$ 1.34	30.88%	77	146.36%			
08/06/12	PHM	\$ 11.49	\$ 17.79	\$ 6.30	54.83%	77	259.91%			
08/06/12	DHI	\$ 17.48	\$ 21.43	\$ 3.95	22.60%	77	107.12%			
08/06/12	GE	\$ 20.97	\$ 21.70	\$ 0.73	3.48%	77	16.50%			
08/06/12	NWSA	\$ 23.60	\$ 24.73	\$ 1.13	4.79%	77	22.70%			
<b>Average</b>					<b><u>23.31%</u></b>	<b><u>77</u></b>	<b><u>110.52%</u></b>	<b><u>13.89%</u></b>	<b><u>12.87%</u></b>	<b><u>16.55%</u></b>

3. TWO PRIOR CONFIRMED UP MARKETS AGO (01/03/12 through 04/10/12):

Date	Symbol	Stock Price		Gain (Loss)				VVC ARR%	SPY ARR%	S&P 500 Stop - Asc ARR%
		01/03/12	04/10/12	\$	%	Days	ARR%			
01/03/12	DHI	\$ 12.98	\$ 14.05	\$ 1.07	8.24%	98	30.70%			
01/03/12	LEN	\$ 19.89	\$ 24.50	\$ 4.61	23.18%	98	86.32%			
01/04/12	PFE	\$ 21.77	\$ 21.99	\$ 0.22	1.01%	97	3.80%			
01/09/12	FITB	\$ 13.42	\$ 13.90	\$ 0.48	3.58%	92	14.19%			
01/13/12	NWSA	\$ 18.61	\$ 18.66	\$ 0.05	0.27%	88	1.11%			
<b>Average</b>					<b><u>7.26%</u></b>	<b><u>95</u></b>	<b><u>27.23%</u></b>	<b><u>18.40%</u></b>	<b><u>24.55%</u></b>	<b><u>47.81%</u></b>

