

## Dorsey, Wright & Associates From the Analyst

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For Tuesday, August 16, 2011

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Today's From the Analyst will include the following:

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## Explaining the Bullish Percent



For followers of DWA and the Point & Figure methodology, education is a cornerstone. This includes educating both ourselves and our clients. With the NYSE Bullish Percent currently in the "green zone" for the first time in two years, undoubtedly, many of you will be talking about this particular indicator to clients and prospects. Today we wanted to focus on bringing you some ideas for how to explain this indicator as well as how recent events in the market have affected it.

Think about your favorite football team for a minute. If they played offense 100% of the time, they would be marginal at best. The same holds true when investing. There is a time to have the *offensive team* on the field, and a time to have the *defensive team* on the field. The problem that most investors have is they don't know what team should be on the field. When the offensive team is on the field, we focus on wealth accumulation strategies. When the defensive team is on the field, the focus is on wealth preservation. To determine which team is on the field, we use Bullish Percent indicators. Keep in mind, the Bullish Percent indicator simply makes up only a portion of our suite of market indicators as we also rely on the HILO, 30 Week, Ten Week, DALI, and relative strength to guide us. One reason we use the Bullish Percent is because it provides an indication of market participation while relative strength, for example, is used to help identify the potential magnitude of the market movement. Basically, the NYSE Bullish Percent offers guidance to the supply and demand relationship in the market. The more stocks producing buy signals, the more demand and participation we see entering the market.

### **Bullish Percent:**

The concept began in the 1940's but it wasn't until 1955 that A.W. Cohen actually created the NYSE Bullish Percent. We often refer to this indicator as our main coach for NYSE stocks. It tells us whether to have the offensive or defensive team on the field. X's mean offense and O's mean defense. This indicator tells you who has the ball. Based on a University of Chicago study 80% of the risk in any stock is based in the market and the sector. However, they found that most people spent 80% of their time on stock selection. The NYSE Bullish Percent provides the insight needed in determining the risk in the market. The more you learn about this indicator, the more confidence you will have in your day to day operations in the market.

If the overall market is not supporting higher prices, very few stocks you own, if any, will do well. In a football game, two sides operate on the field at any one time, offense and defense. The same forces act in the marketplace. There are times when the market is supporting higher prices. When the market is supporting higher prices, we can say that you have possession of the ball. You have the offensive team on the field. When you have the ball, your job is to take as much money away from the market as possible; this is the time you must try to score. During times when the market is not supporting higher prices, you have in essence lost the ball and must put the defensive team on the field. During such periods, the job of the market is to take as much money away from you as possible. Think for a moment about your favorite football team. How would they do if they operated only with the offensive team in every game? They might do well when they had possession of the ball, but when the opposing team had the ball, your team would be scored on at will. The net result is your season would be lackluster at best.

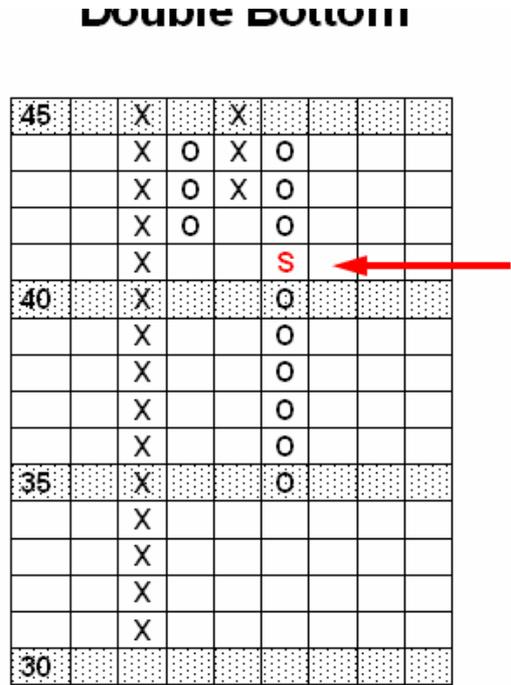
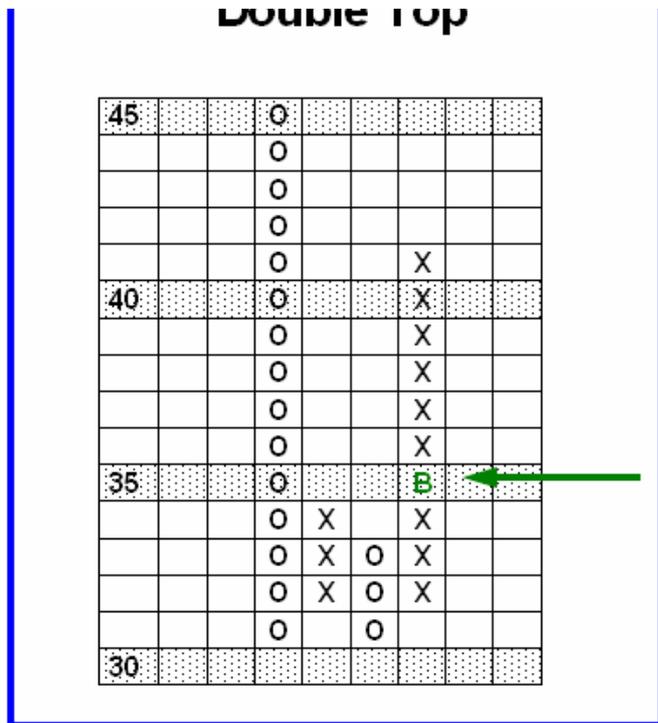
This is the problem most investors have: They don't know which team is on the field, much less where the game is being played. The NYSE Bullish Percent clearly signals when the environment is ripe for offense or defense.

The NYSE BP is simply a compilation of the percent of stocks that trade on the NYSE that are on Point and Figure buy signals. A new buy signal occurs when a column of X's exceeds the previous column of X's on the Point and Figure chart. If you simply thumbed through all the Point and Figure chart patterns of the stocks on the NYSE and counted the ones that were on buy signals, then divided by the total number of stocks evaluated, you would have the NYSE Bullish Percent reading. DWA calculates all of this in our database and displays the charts for you, however, it is important to know how they are calculated.

## Calculating A Bullish Percent

Double Top

Double Bottom



**Counted toward the BP reading**

Let's say for instance, there were 2,000 stocks on the NYSE and 1,000 of them were on Point and Figure buy signals. The Bullish Percent would be at 50% (1,000/2,000 = 50 percent). We use the same three-box reversal to shift columns in this index as we do in the normal Point and Figure chart. Each box constitutes 2 percent, and the vertical axis runs from 0 to 100 percent. It will take a 6% change in order to reverse this chart.

When the index is rising in a column of X's, more stocks are going on buy signals. Changes in the index can only come from first signals that are given by a stock, not subsequent signals. Let's say that XYZ stock bottoms out after declining and then gives that first buy signal off the bottom. That signal turns the stock from bearish to bullish. It is this first buy signal that is recorded. All subsequent buy signals are not counted.

The Bullish Percent concept is unique from most market indicators because it is a one stock - one vote indicator. The reason this is so important is that most people's portfolios are managed on an equal dollar weighted basis, much like a one stock - one vote. Therefore, the Bullish Percent index is a better indicator to manage risk than a capitalization weighted index like the S&P 500. In other words, you are getting an apples to apples comparison.

**Tenets of a Bullish Percent Chart:**

X's represent buy signals being given in the underlying members of the universe and the chart is rising. Demand is in control of the market and the Offensive team is on the field (wealth accumulation mode).

O's represent sell signals being given and the chart is falling. Supply is in control of the market and the Defensive team is on the field (wealth preservation mode).

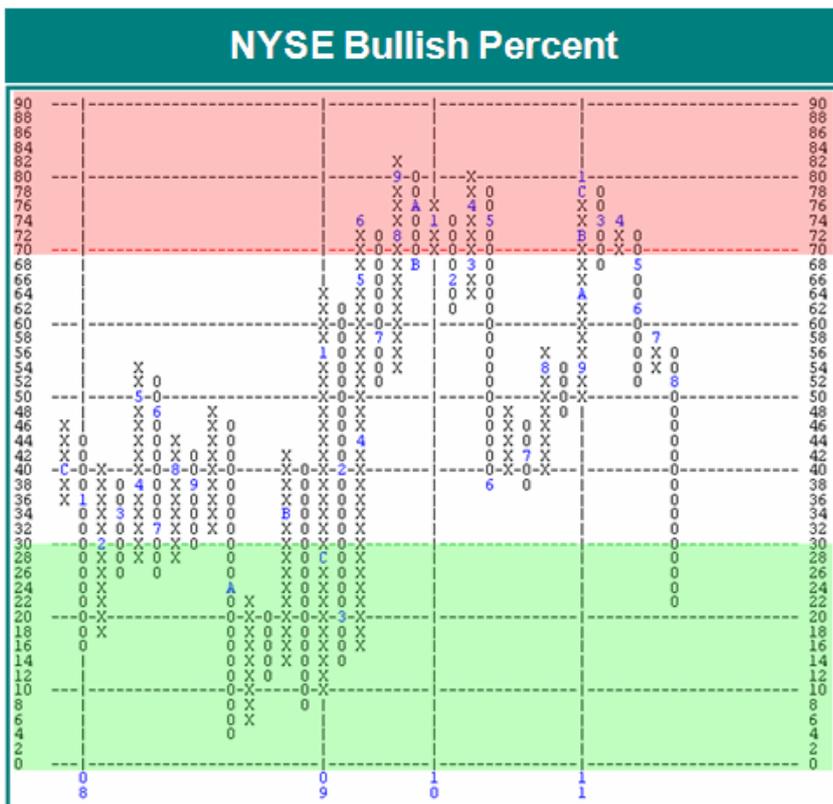
In addition to telling us what team is on the field, the Bullish Percent will tell us our field position. Levels near or above 70% can be considered higher risk as the availability of demand to continue to push the market higher is limited. Conversely, levels near or below the 30% can be considered lower risk as the availability of supply to continue to push the market lower is limited. Most of the time the truth lies somewhere in between these two levels.

Not only do we track the percentage of buy signals in the NYSE, we also maintain Bullish Percents for various US equity and international universes, as well as Mutual Funds. Since they track different stocks and regions, we will often see discrepancies between the indicators. For instance, the Optionable Bullish Percent [BPOPTI] reversed down in O's back in March 2011, and has stayed in O's ever since, unlike the BPNYSE or BPSPX. For a list of the major Bullish Percent charts, see the table below:

| Bullish Percents                      | Symbol | Description                                     |
|---------------------------------------|--------|---|
| <b>US Bullish Percents</b>            |        |   |
| NYSE Bullish Percent                  | BPNYSE | measures the % of NYSE stocks on buy signals    |
| Optionable Bullish Percent            | BPOPTI | measures the % optionable stocks on buy signals |
| OTC Bullish Percent                   | BPOTC  | measures the % of OTC stocks on buy signals     |
| AMEX Bullish Percent                  | BPAMEX | measure the % of stocks on buy signals on AMEX  |
| All Stocks Bullish Percent            | BPALL  | measure the % of All stocks on buy signals      |
| S&P 500 Bullish Percent               | BPSPX  | measures the % of S&P 500 stocks on buy signals |
| Average BP All Sectors                | BPAVG  | average of All Sectors BP readings              |
| <b>International Bullish Percents</b> |        |   |

|  |                 |   |
|--|-----------------|---|
| World Equities Bullish Percent                 | <b>BPWORLD</b>  | measures the % of world stocks on buy signals               |
| Canada BP                                      | <b>BPTSE</b>    | measures the % of TSE stocks on buy signals                 |
| Asia Region BP                                 | <b>BPASIA</b>   | measures the % of stocks in the Asia region on buy signals  |
| Europe BP                                      | <b>BPEURO</b>   | measures the % of stocks in the Euro region on buy signals  |
| Latin American BP                              | <b>BPLATIN</b>  | measures the % of stocks in Latin America on buy signals    |
| MidEast BP (must be in region to view BP)      | <b>BPALL</b>    | measures the % of stocks in the MidEast on buy signals      |
| <b>Equity Funds Bullish Percents</b>           |                 |   |
| Short Term Equity Funds Bullish Percent        | <b>BPMU0</b>    | measures the % of equity funds on short term buy signals    |
| Intermediate Term Equity Funds Bullish Percent | <b>BPMU0@2</b>  | measures the % of equity funds on intermediate buy signals  |
| Long Term Equity Funds Bullish Percent         | <b>BPMU0@3</b>  | measures the % of equity funds on long term buy signals     |
| <b>Multiple Buy Signals Bullish Percents</b>   |                 |   |
| Mult. BP Buy Signal for NYSE                   | <b>BPMBNYSE</b> | measures the % of NYSE stocks on multiple buy signals       |
| Mult. BP Buy Signal for Optionable Univ.       | <b>BPMBOPTI</b> | measures the % of optionable stocks on multiple buy signals |
| Mult. BP Buy Signal for OTC                    | <b>BPMBOTC</b>  | measures the % of OTC stocks on multiple buy signals        |

We currently find the NYSE Bullish Percent [BPNYSE] at 22%, so only 22% of stocks in the NYSE are on a buy signal. This marks the first time since March 2009 that the BPNYSE has been below 30%. In only a couple weeks, we saw the BPNYSE fall 34%. The initial reversal down into O's occurred in the middle of the playing field, also known as the "Yellow Zone". But as the selling pressure pushed it lower, the BPNYSE has now moved into the "Green Zone", albeit in a defensive posture. Any reversal up from here would take us back into an offensive posture while in low field position, and would suggest we are beginning to see greater participation in the market.



**What it is:**

- X's = Offense    O's = Defense
- 30% and 70% are the overbought and oversold territories
- Below 30% - approximately every 3-4 years
- Measure of participation in the market and thus risk in the market.
- A one stock = one vote indicator

**What it is NOT:**

- Does *not* measure where the major indices should go.
- Does *not* tell us the magnitude of movement
- Does *not* tell us how long we will be on offense or defense.

While we make every effort to be free of errors in the data on our site, it is derived from data from other sources. We believe these sources to be reliable but we cannot guarantee their accuracy.

