How to choose the right stock?

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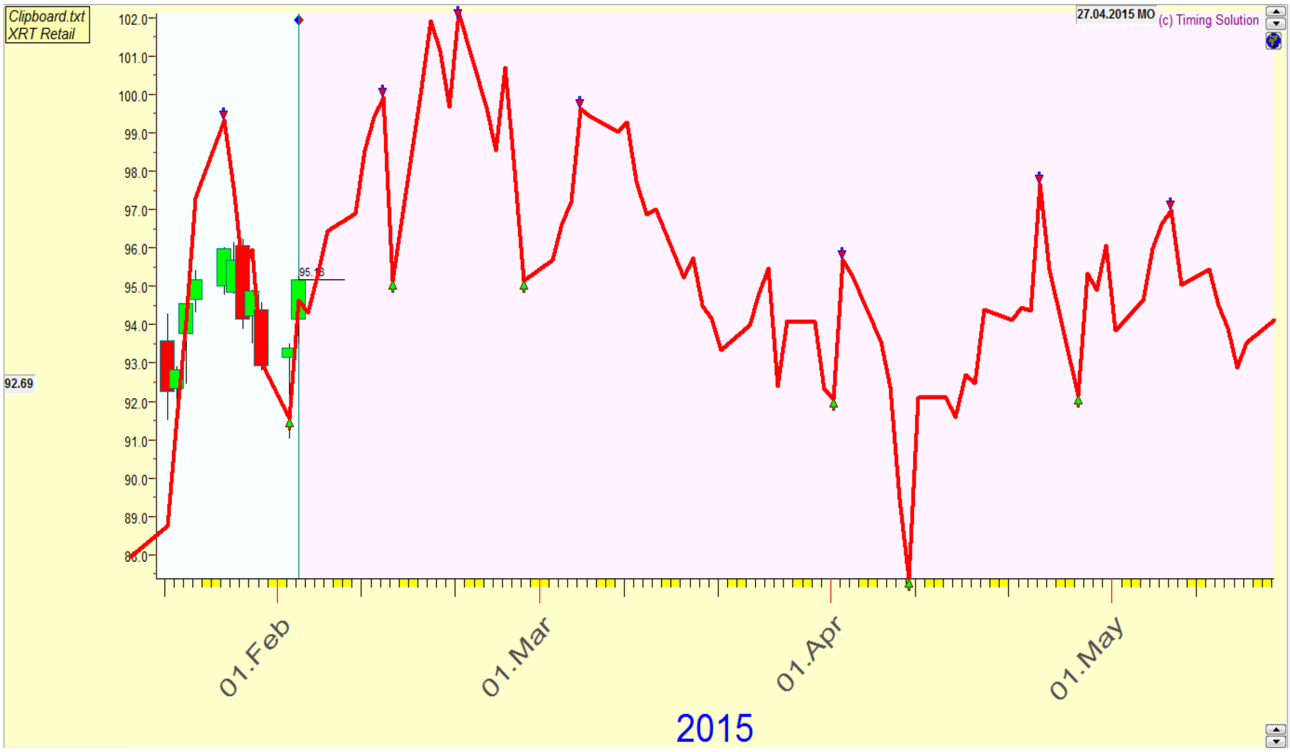
Anyone who starts trading the markets soon realizes it is all about timing and choosing the right stock or market sector. To help in this process the following shows an example of how to analyze and pick indexes, stocks, exchange traded funds (ETFs) etc for trading. Technical analysis and financial astrology are all about finding the best entry and exit points of a trade and which market is poised to rally. It will be an ongoing theme in the future and we start by showing one way to identify a market sector that is likely to start rising in value. Naturally, it is only a part of the investment process. Questions such as does the trade meet your risk parameters, what is the risk/reward ratio, how liquid is the market etc also need to be considered. Here we confine ourselves to the central issue of finding oversold and/or undervalued sectors from which to choose a stock or fund. The challenge is becoming greater because of the overwhelming number of shares listed on stock exchanges nowadays. The sector analysis module for US stocks that will be discussed below, contains 16,000 listings alone and the number of ETFs has likewise grown to several thousand in the last decade. To analyze and pick winning stocks from this huge plethora of investments is beyond the time most traders have, so it is only possible to focus on certain key sectors within the investment universe. Since all major stock markets undergo corrections from time to time we will also analyze markets which may be in counter cyclical trends such as commodities and currencies.

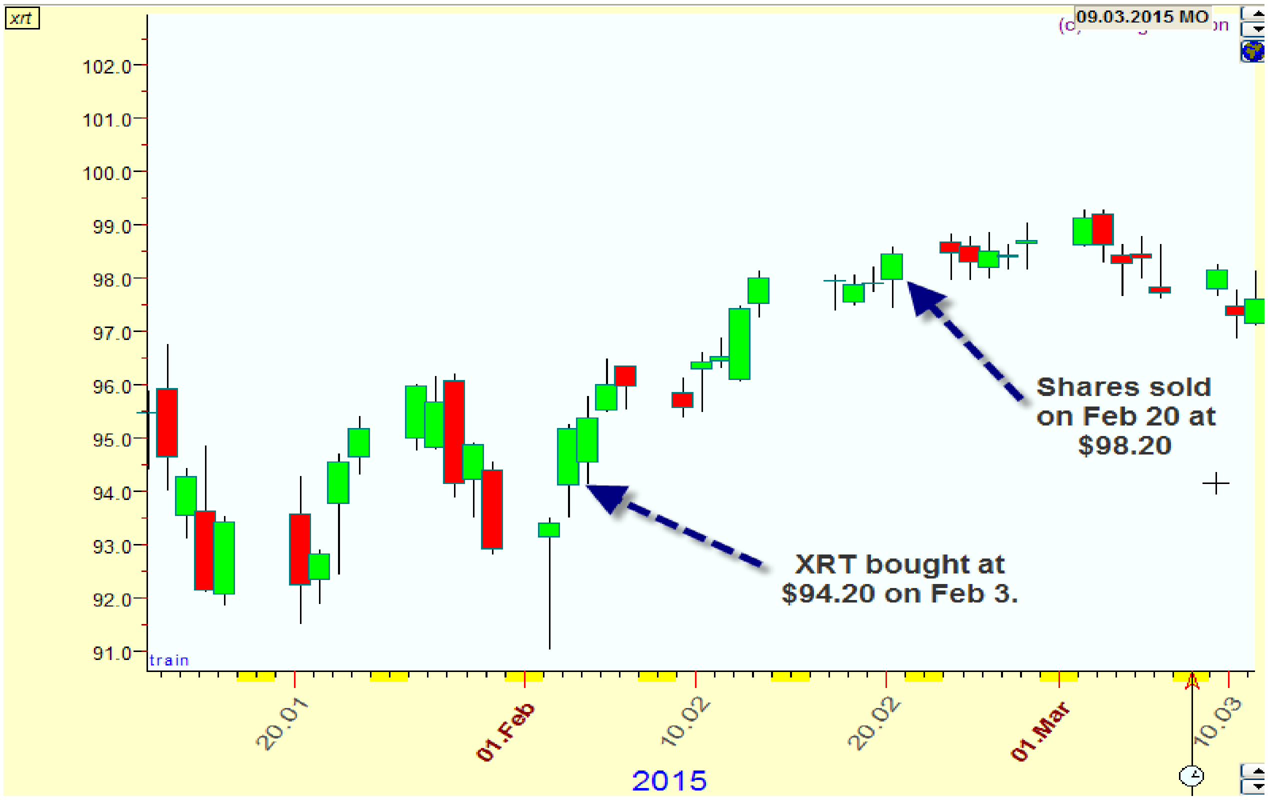
To help in the process of deciding what financial instrument to choose for trading, Timing Solution software program recently introduced a technology to select stocks based on market sector cyclical analysis. The technology can be applied to any sector, such as stock industry groups, stock indexes, ETFs or foreign exchange. It greatly enhances the possibility to identify sectors that are likely to rally based on seasonal trends. One may then choose suitable stocks to trade from the relevant sector.

There is a tendency for shares to decline after Christmas, however, the charts below, made on January 15, 2015, show two industries which appear to buck the trend namely Consumer goods: sporting good industry which tends to go up from January 15 until the end of February. In 71% cases the price within this period went up.
Consumer goods: Textile - Apparel clothing industry tends to go up from the end of January until the mid of February, in 64.5% cases the price went up.

Thus, by using seasonal diagrams it is possible to choose the most promising industry and then to select a suitable stock from the group. To save time some may simply wish to buy an ETF that invests in the relevant sector. As part of the analysis we check if the Annual cycle correlates with the seasonal trend for the ETF and especially whether the neural network modeling projects a similar upward trend based on other astro harmonic aspects. The projection for the SPDR S&P Retail ETF (XRT) does indicate a strong uptrend until about February 20:



With the strong indication that the retail sector is likely to rally in February, the trade was entered when the trading system gave a buy signal on February 3:



The profit was $4 per share for the trading period equal to about about 70 percent annualized gain. Considering that the Beta of ETFs tend to be lower that many stocks it is a respectable return.

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