

>: A Profitable System

Thursday, November 15, 2007 / Chris Rowe

Big Day Today!

It's the day of the launch of "CRISS", the investing and trading course that, after a year of researching our competitors, I spent over six months creating so that you can learn my system/approach. It's why I've been profitable on about 80% of my trades since launching *The Tycoon Report* in 2004, and about 90% of my trades recommended to members of *The Trend Riders* since April, which is when I started writing the CRISS book.

This is not a promotion. It's basically just a picture that I wanted to paint for you while I'm crossing the proverbial finish line and collapsing. "YO, ADRIENNE (Katie)! I DID IT!"

The Importance of a System

No matter what your comfort level is, what your investing time horizon is, or whether you are a momentum trader or value investor, it's incredibly important to have *some kind of* system (CRISS or otherwise).

One of our *Tycoon Report* readers, [John Micheline](#), who used to invest for a living, submitted a pretty good article yesterday titled "[The Right Time to Buy Countrywide Financial Corp. \(CFC\)](#)".

(You should check it out.) Now many people would disagree with buying this stock, myself included. And that's probably why the stock is down 75% from its 52-week high.

MY reason for not buying the stock is simply that *my system* wouldn't allow it. It doesn't fit into *my* specific approach. But my approach to investing would also keep me from buying most of what the world's wealthiest, and most successful investor, Warren Buffett, buys, as well. That doesn't mean that you can't make handsome profits with Warren Buffett's or John Micheline's approach or system. It just doesn't fit into my program. And I wouldn't even buy a stock that didn't fit with my system if Warren Buffett himself whispered into my ear telling me he is accumulating it quietly (although I *would* try to convince him to adopt me).

When people disagreed with [John Micheline](#),

I noticed that nobody backed their arguments up with any facts or knowledge of the situation other than what they had heard in the news, while John made an argument based on facts. He seems to have a system for investing, and unfortunately, that's better than what most people have. In fact, the reason that most individual investors lose money in the market is that they invest based on what they hear in the news (whether they realize it or not), which is backwards.

You have GOT to have a system and a set of rules that you stick to. Otherwise, you could be all over the map, which is a recipe for expensive mistakes.

Anyway, while I can't teach you my "Internal Strength System" in *The Tycoon Report*, I will tell you why we chose the name and give you a very quick peek at only part of my approach. Keep in mind that "CRISS" is a 10-hour DVD course with a book of over 500 pages. (Don't worry - lots of pictures.) Below is a small, bite-sized article that you might still profit from.

In the meantime, folks, you should continue posting articles to The Tycoon Report website because other readers comment on them and because these articles tend to get picked up and republished by major league news and information services (like when Tycoon Report Reader [Ethan Roberts' article](#) was recently featured by Reuters). You could have more than 100,000 people reading what you write!

Why We Named it "Chris Rowe's Internal Strength System"

The words ?Internal? and ?Strength? are a very large part of how the system works, and my marketing department thought it was important to add my name to the title so people understand that it's what I use to make decisions. The next thing I knew, we had an acronym that made me cringe. But here we are.

"Internal"

The ?internal market?, also known as the ?breadth? of the market, is basically the study of the number of advancing stocks versus the number of declining stocks. So if a larger number of stocks are advancing, and a smaller number of stocks are declining, the ?internal market? is ?up? or ?strong? or ?positive?. Focusing on the internal market gets me bearish at market tops and bullish at market bottoms. Ask any member of *The Trend Rider* if I've called just about every top and bottom this year almost perfectly. More importantly, I acted on this knowledge, and so did they.

The ?external markets? are what just about everyone focuses on. They're the S&P500, the NASDAQ, the NYSE and the Dow-30. The importance

of constantly focusing on the market ?internals? cannot be overstated. In short, it?s what?really happeningin the stock market.

In a nutshell: If four out of five stocks are trading up, and you throw a dart and buy whatever stock that dart landed on, there?s an 80% chance that you would make money. But the fact is that even if four out of five stocks are trading higher, it?s possible that the ?external markets? can move lower.

The ?external markets? are ?weighted indices?. Different stocks in the Dow-30, S&P500, NASDAQ and NYSE have a different amount of influence on the direction of each index.

As of the time of this writing, Exxon Mobil, which has the highest valuation out of any stock in the stock market, has a 3.7% weighting in the S&P 500. The smallest 100 companies on the S&P500, on the other hand, have a cumulative weighting of 2.75%.

So if the smallest 100 companies in the S&P 500 move up by 10%, and on the same day, Exxon Mobil moved down by 10% while all other stocks in the S&P 500 did not move higher or lower, the S&P 500 index would actually move lower.

If you didn?t get that, or if you think you may have misunderstood, then go ahead and re-read the last paragraph because it wasn?t a typo.

- 100 stocks up 10%
- 1 stock down 10%
- The S&P 500 would movlower
- People who don?t focus on internals/breadth believe that "the market" declined.

This isn?t some earth-shattering news that nobody knows about. Many investors know this but don?t use it to their advantage. The fact is that the internal market tends to LEAD the external market.

What that means is that the internal market changes direction before the external market does. In a market that trends higher, you would usually see the external market as well as the internal market moving higher. But toward the end of that uptrend (like May - July of 2007), before the external market turns around and starts moving lower, the internal market tends to turn around and move lower. What a simple warning sign that was, huh, Trend Riders?

Market tops and market bottoms are where the biggest, most costly mistakes are made. They also present the biggest opportunities. So focusing on internals, and looking for divergences between the internals and externals, is essential when investing and trading.

There are a few extremely helpful internal indicators that I use such as different "Bullish Percent Indices". There are five others that I believe that anyone should stay focused on. These indicators tell the true story of what's happening in the market currently, they give perspective on the level of risk that the market holds, and they give us warning signs *before* major "market" moves happen. Nobody should trade without focusing on them.

"Strength"

The strength part of "CRISS" focuses on where the most strength and the most weakness in the stock market is found. I personally like to profit whether the market is moving up or down, which is why I like to identify both strength and weakness. In short, I like to fight the easy battles. When I profit from downside moves, I feel like a [schoolyard bully](#) beating up on the weakest kid. (Okay, bad analogy. I can see some people's eye twitching as they get flashbacks of having to give up the lunch money to a kid named "The Gooch".)

Anyway, I take bullish positions in the stocks with positive relative strength, and I take bearish positions in the stocks with negative relative strength.

Positive Relative Strength: When a security outperforms the market over a significant time frame.

Stock market moves up by 10%, while XYZ stock moves more than 10% higher.

Stock market moves down 10%, while XYZ stock either *moves up*, or moves less than 10% lower.

Negative Relative Strength: When a security underperforms the market over a significant time frame.

Stock market moves up by 10%, while XYZ stock either *moves down* or moves less than 10% higher.

Stock market moves down 10%, while XYZ stock moves more than 10% lower.

Anyway, that barely scratches the surface of my system, bu I hope that whatever it is (CRISS or no CRISS), YOU have a system. If you don't, then it's time to stop trading and start reading because you, or someone else, worked too hard to get the money that you have for you to be investing or

trading it without a system.

?Profit from the Trend?

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