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HOW THE PROS DO IT

FEBRUARY 1, 2005

Follow the Numbers, Not Your Heart

Many naysayers claim the stock market can't be timed. But Jim Rohrbach has maintained a newsletter following for nearly three decades doing just that

There are two kinds of technical traders. Some look for signals on individual stocks, jumping from one stock to another, plotting to get in or out ahead of the crowd. Others are like Jim Rohrbach, founder and editor of the investment Web site [Investment Models](#), who employs technical indicators to go in and out of the stock market overall.

"The experts say that the stock market can't be timed," says Rohrbach. "They are wrong."

Buy-and-hold investors, who pay attention to fundamental data ranging from earnings growth and price-earning ratios to book value, always say market timing is a fool's game, doomed to failure. But *Stock Trader* has profiled other traders such as [Tony Carrión](#), and [Frank Minssieux](#) and [Serge Dacic](#), the creators of the Timing Cube system, all of whom excel at and rely on technical analysis.

BEATING BUY-AND-HOLD. Rohrbach launched his newsletter in 1978, selling it for \$250 a year. That's still the price. (He won't say how many subscribers he has.) Over the last 34 years, through the market-timing system he perfected, Rohrbach says he has done better in his investments than those who just bought and held the same investments.

Today, he uses index funds and exchange-traded funds, but when he started only a limited amount of no-load mutual funds were available. So, he judges his long-term results by how he did in those funds. In the Pennsylvania Mutual Fund ([PENNX](#)), he says he has earned returns of 21.6% -- vs. 14.6% for buy-and-hold investors in the fund. Plus, he has had only one negative year, 1974, he notes.

Rohrbach says he has racked up 16.1% average annual returns with the Nicholas Fund, with four negative years. Hulbert Interactive, which tracks newsletter results, started covering the

Name: James O. Rohrbach

Born Bethlehem, Pa., on Apr. 26, 1931

Education: Lehigh University, BS, marketing, 1959

Family: Married to Joyce Rohrbach. They have three sons and three grandchildren.

Current Work: He edits an online investment newsletter about market timing called [Investment Models](#).

Career Path: Rohrbach started as a AT&T management trainee shortly after college. He worked his way through various departments -- auditing, accounting, training, security, and finance. In 1964, he became interested in technical analysis while watching a colleague who was plotting stock-price charts.

Later in his AT&T career, he says he helped work out the plan for Ma Bell's breakup. All the while, however, his interest in the stock market was increasing. In 1978, he started his stock-investment newsletter, and then he retired from AT&T in 1984.

He moved to Florida to play golf, but kept on working on the newsletter, which became a Web site in 1996. He has been named a top market timer in various trading magazines.

Hobbies and Outside Interests: He and his wife like to go on month-long vacations, something he can do since his system requires only a few minutes a day. For their 50th wedding anniversary, they went on a 50-day vacation to Hawaii and on a South Pacific cruise. Mostly, however, he

Investment Models newsletter only last year, so the results aren't verified.

SECRET RECIPE. Rohrbach never worked on Wall Street. He started as a manager at AT&T, and one day in 1964, noticed that a colleague was plotting a stock chart on graph paper. Fascinated by what he was doing, Rohrbach asked questions. The colleague lent him a book on the topic. "That day I picked up the subject," Rohrbach says, "and have never been able to put it down."

enjoys reading and talking with subscribers about the market. "Whatever your favorite thing is," he says, "if you enjoy what you're doing, that's not work."

Recommended Reading: He considers Jon D. Markman's book, *Swing Trading: Power Strategies to Cut Risk and Boost Profits*, essential for new traders.

At first, he followed and invested in individual stocks, but he noticed that he was much better at predicting the overall market. For eight years, Rohrbach worked on a mathematical formula that would allow him to identify turning points in the market's trend. He takes the current price and the price trend, and then he applies lots of proprietary math.

He won't divulge what goes into his black-box formula. "I can't -- unless you give me the recipe for Hershey's Chocolate," he says. "It's my whole ballgame. If I gave it out, I'd go out of business."

NO BUBBLE BURST. He will, however, discuss how to use the results. His calculations produce a daily number he calls the RIX. Each day, the RIX converts the stock market action into numbers that represent the market's trend and indicate whether someone should invest or not. His signals are either bullish or bearish on the whole market, and he uses the buy or sell signal on whatever broad market investments he has planned.

Zero is the neutral score. The advice is to stand pat unless the RIX crosses a threshold. If the reading for the New York Stock Exchange gets to +12, he'll buy. When it goes down and hits -12, he'll sell. He has been taking between one and five round trips in and out of stocks each year since 1970.

Rohrbach has posted his [track record](#) on his Web site so people can see when he has been in and out of the market. He stayed out most of 2000, so he says he still had a positive 12.2% return that year. And by staying invested most of 2003 -- when many investors were skittish -- he scored 34% that year, Rohrbach says.

Consider how his results have stacked up compared to buy-and-hold investors in the Pennsylvania Mutual Fund. In 2004, Rohrbach says he earned 17.2% while buy-and-hold investors made 20.2%. The previous year, he says he made 34.9% while fund investors scored 40.3%. But in 2002, the fund lost 9.2% while Rohrbach says he gained 7.1%. Over the last decade, Pennsylvania Mutual has had an average annual return of 14.7%, but Rohrbach says he has gained 16.9% on average a year by trading in and out of the fund.

ANXIOUS INVESTORS. The daily numbers are a lot easier to figure now than when Rohrbach first started. In those days, he did the math manually, though he eventually graduated to a slide rule, followed by a pocket calculator. The only major change Rohrbach has made in the system came six years ago when he started tracking the Nasdaq. He performed tests and found that in the Nasdaq, he could use a tighter range -- +6 for buy and -6 for sell -- because once the market hits those triggers, it almost always goes much further.

Certainly, sticking to a system can be tough. Plenty of times Rohrbach's emotions told him the market was going one way while the number told him the opposite.

In recent days, he has been tested. The New York Stock Exchange index dipped to -10. Subscribers have been e-mailing him: Should we sell? However, he has told them to hang on until a clear signal is there. The signal, he says, has kept him out of the market during every major drop and invested during every major rise.

Sticking to his system gives him confidence. "I never listen to my emotions," he says. "I let the market tell me what to do."

By Carol Vinzant, Editor



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THE PROS' TIPS

FEBRUARY 1, 2005

The Zen of Market Timing

For Investment Models editor Jim Rohrbach, buying and selling in and out of the market requires discipline and not getting thrown off by sudden emotions

Keep It Simple. Don't try to pick stocks. Rather, just bet on the market's trend. Why bother investing in a single company, asks Jim Rohrbach, editor of *Investment Models*? Its stock can always get knocked down by something you don't know about -- dubious accounting, shoddy manufacturing, or supplier problems. If you make investment bets on the broad market, however, such company-by-company problems become far less significant.

Using a proprietary system, Rohrbach's online-advisory service makes such broader calls: Get in, get out, or stay put. He puts his ideas to work using no-load mutual funds, which keeps the costs down.

In 1970, when Rohrbach started investing using his theory, not nearly as many mutual funds were available. Index funds, which many believe are the most efficient way to bet on the broad market, weren't an option for retail investors until Vanguard started its own S&P 500-stock index fund in 1976. So initially, Rohrbach started in managed, no-load mutual funds.

Much has changed since then. Fund companies now discourage frequent traders and hit them with extra fees, so make sure the funds you choose allow you to go in and out at will. Some good choices are the Rydex, ProFunds, and Potomac Group funds, which all cater to active traders. Rohrbach now uses exchange-traded funds (examples are the Qubes (QQQ), which mimic the Nasdaq-100 Index Tracking Stock, and the Diamonds Trust Series I (DIA), which tracks the Dow Jones industrial average, though you'll pay regular commissions).

Frequent trading can be bad for your tax bill, of course. Since 1970, Rohrbach has traded in and out of the stock market at least once a year. So if using his theory, it's unlikely you'll be able to hold on for a year and qualify for the lower, long-term capital-gains rate. Therefore, it's

better to hold these investments in a tax-deferred retirement account.

Be Objective. Whatever investment system you follow, Rohrbach says to adopt a trading plan -- and stick to it. That plan should include: What signal do you want to see before you buy or sell? What investment vehicle are you going to use? How much are you going to buy or sell? And when the system finally provides a signal, he says, "don't think about it. Act on it."

To be successful, Rohrbach advises, overcome your emotions. "Emotions control the average investor," he says. People say they'll be objective, but often they're not. Traders often have a gut instinct about the market's direction and then seek out numbers that confirm their beliefs and ignore those that contradict them.

Bearish on Nasdaq, Almost Bearish on the New York Stock Exchange. Rohrbach's latest signals are extremely bearish on Nasdaq and on the cusp of a negative signal on the New York Stock Exchange index. On Jan. 4, his indicator, a daily number he calls the RIX, reached -6 for the Nasdaq. That's a sell signal, he says. Throughout January, the indicators continued to deteriorate. As of Jan. 25, the RIX was extremely negative: -26.6. In the last couple of years, it ranged from about -30 to 30.

Rohrbach says his NYSE index has gone in the past couple of years from -23.6 to positive 46.8. On Jan. 25, it was -10.2 -- close to a sell signal. But Rohrbach is sticking with his system. He won't sell till it touches -12. The system is designed to prevent false-positives, that is, selling when the market is not really turning downward. Occasionally, however, the opposite signal will go off in a couple of weeks: the NYSE RIX, for example, gave a sell signal on Aug. 1, 2003, but then switched to a buy on Aug. 18. Rohrbach never second-guesses -- he always acts on the signal.

By Carol Vinzant, Editor



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