Chapter Twelve Exercises

1. Burton Crane, stock market columnist for *The New York Times* from 1937 to 1963, advised, "Buy stocks when they are making new highs and attracting attention, not when they are down at the bottom and nobody loves them." Is this advice more consistent with the momentum or reaction school?

2. In 1987, the director of economic analysis for the National Association of Realtors said,

   > If the rates for fixed-rate loans were to rise to the threshold level of 12% or above, as was the case in 1985, you'd see an extreme shift in behavior. The market buyer psychology would be altered and ARMs [adjustable rate mortgages] would storm back in alarming numbers.

   Would you interpret such home buyer behavior as a momentum or reaction approach to predicting interest rates?

3. Fidelity offers a variety of sector mutual funds, each investing in stocks in only one industry. An independent investment advisory service that specializes in selecting the most attractive of these Fidelity sector funds wrote:

   > Our switch rules are simple. Invest in that fund that has been the strongest over the last 39 weeks. Stay with that strongest fund until it falls a full dollar below its 39-week weighted moving average, or more than two funds outrank it by a dollar or more. Then switch to the new strongest fund.

   Would you say that this advisory service is a believer in momentum or reaction?

4. Technicians sometimes place a "buy stop order" to buy a stock now trading for, say, $26.50 at the market price if the price rises above $30. Why would they want to buy later at $30 when they could buy now at $26.50?

5. Believing that changes in the money supply have an effect on the stock market, Beryl Sprinkel found that, neglecting brokerage fees, the following strategy would have given an average capital gain of 6 percent a year between 1918 and 1964, while simply buying and holding would have yielded 5.5 percent a year:

   a. Keep track of the average monthly rate of growth of the seasonally adjusted money supply over the preceding six months.
   b. Buy stocks two months after a trough in this moving average.
   c. Sell stocks 15 months after a peak in this moving average.

   Why are you skeptical of this evidence?