

PRODUCT REVIEW

Best Choice Software

BEST CHOICE SOFTWARE, INC.

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Product: End-of-day search and sort trading decision software for long-term investing, short-term swing trading, and seasonal trades for stocks, commodities and mutual funds.

Requirements: Vista/XP/2000 operating system, 1.8 GHZ Pentium or better processor, 17-inch or larger monitor with at least 800x600 resolutions, one GB of RAM, 1 GB or more for data, any web browser with DSL or cable modem at 100K, National Data or Dial Data data source.

Price: \$895 plus tax for three-month trial (data included); \$4,995 plus tax for full version with free upgrades for life. Data service subscription required.

by Barbara Star, PhD

Although luck may play a role, most trading is all about decision making — decisions about what to trade, when to trade, how to trade, and how much to risk. The better our decision making, the more likely our success.

Best Choice Software is an end-of-day program that offers many features to increase the probability of successful decision making in the selection and timing for trading stocks, commodities, and mutual funds for trading. What began in the 1980s as a personal trading aid for program developer Peter Hoyt evolved over the next several years to incorporate components that reflected the changes in market conditions. Now, Best Choice offers separate modules for long-term investing,

short-term swing trading, and cyclic seasonal trades, all available in one program.

A LICENSE TO TRADE

The program may be downloaded from a CD-ROM or directly from the Best Choice website. It will only run in a limited demo mode to evaluate the program's features. Once a user purchases the trial or full version, the company licenses the user's computer for all features. The licensing procedure utilizes the computer's internal identification as part of a security measure to prevent unauthorized usage. This means that any internal hardware changes that have not been reported to the company in advance will cause the program not to recognize the computer and temporarily revert to demo mode.

The user may license any or all of the following categories at no extra charge: US stocks, stocks from the Canadian exchange, stocks from the London exchange, futures, indexes, mutual funds, and an accounting component to keep track of trades and equity. Because all data is stored on the users' hard drive, the decision about which categories to select is often based not only on the

markets the user plans to trade, but the computer's hard drive capacity as well.

Depending on the data categories selected, traders may download via the Internet a database containing up to 10 years of end-of-day data for more than 7,900 US stocks, 30 years of commodities, 3,100 Canadian stocks plus thousands of mutual funds.

Ongoing stock data may be purchased by subscription either from National Data or from Dial Data. National Data provides price data for the major US stock exchanges, while Dial Data provides data for all stock exchanges, indexes, commodities, and mutual funds. Since the program uses earnings and many vendors do not offer downloadable earnings, these are the only sources of data. For this review I used National Data, so only stocks will be used as examples.

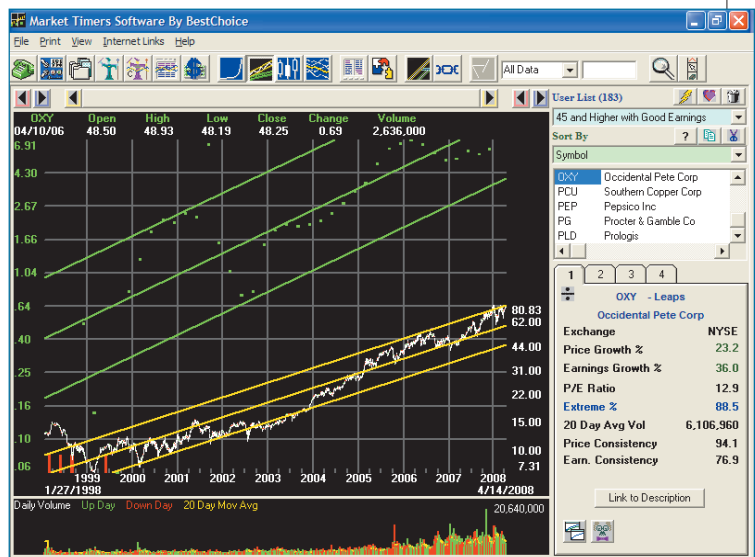
NAVIGATING THE PROGRAM

The program includes several videos that introduce users to the three main trading methods: the search and cycle wizards to create user lists of stocks or commodities that meet specific conditions, an option component, and program maintenance. In addition, I received several emails that provided program instructions along with two specific search strategies — one that focuses on long-term investing and another that is specifically for short-term trades.

The company also offers excellent program support to individuals via tele-

FIGURE 1: OCCIDENTAL PETROLEUM LONG-TERM GROWTH AND EARNINGS.

Both price and earnings are displayed proportionally to each other on one chart. The yellow channel lines show average price growth and volatility. The green channel lines show average earnings growth and volatility. Red vertical lines show quarterly earnings losses and the magenta dot above price in 2006 marks a stock split. Volume appears in the lower pane.



phone six days a week as well as periodic webinars to their user groups.

LONG-TERM INVESTING

Unlike traditional price charts, Best Choice software defaults to a long-term price and earnings chart that displays up to 10 years of data in the top panel and volume in the lower panel. (See Figure 1.) This was the first portion of the software that was developed and reflects the lessons governing good stock selection

representation of price growth rate and price volatility. The middle yellow line represents the average price. The slope of the middle line identifies the direction and rate of price growth. The upper and lower outer yellow lines convey information about price volatility. The wider the space between the upper and lower lines, the greater the volatility.

The outer lines, which contain about 80% of price, also serve as alert lines representing price extremes that iden-

and the earnings growth channels is produced totally by the software. User inputs are mainly confined to selecting various time frames that range from one month to several years. Many of the popular indicators are available from a selection list.

Legend: The text legend located under the symbol list on the righthand side of the chart shows the stock and the exchange on which it trades. A click on one of the tabs gives a brief description

of the company with more detailed information and current news available via a direct link to MSN Money Central. An icon at the bottom of the legend opens an analysis of the stock and assesses its current suitability for long-term investing.

The price growth percentage and earnings growth percentage information and also the price and earnings consistencies on the legend are especially important because they enable the user to compare similarities or discrepancies between price and earnings in those categories within the specific time frame chosen. These are essential considerations when selecting a stock.

An option component was added to enhance the long-term investing portion of the program. It features a unique option projection chart that shows price, earnings, puts, calls, and leaps all on the same screen. (See Figure 2.) The price and earnings lines are extrapolated into the future to estimate future price probability, assuming that the current growth patterns continue.

The options fan lines represent projections of in-the-money, at-the-money, and out-of-the-money options. The cyan lines represent *calls* and the magenta lines represent *puts*. Each dot is an expiration date. Cyan lines that fall well below the yellow average price growth channel suggest the opportunity for future profits from a call option.

Click on a built-in option chain to select any of five future expiration dates. In addition to the usual option categories such as the bid/ask price, intrinsic value and the greeks, it includes a column that shows the annualized premium. By com-

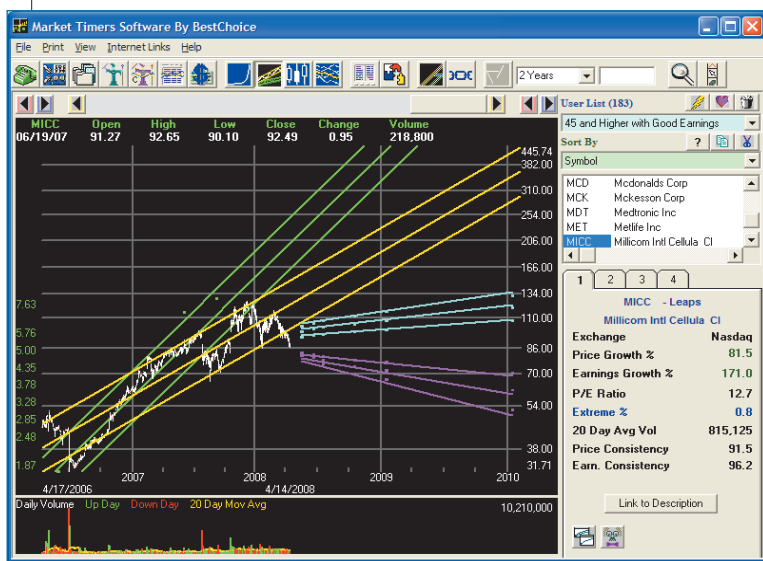


FIGURE 2: OPTION PROJECTION CHART. This chart projects price and earnings channels as well as the in-at and out-of-the-money put (magenta lines) and call (cyan lines) options into the future. An option chain that displays up to five expiration dates is also built into the program.

that Peter Hoyt learned in his youth from his father, an investment banker.

The underlying assumption is that rising earnings ultimately drive price. Price growth without a solid underpinning of earnings growth will at some point fail. By the same token, companies with a flat growth rate but with constantly rising earnings will probably see their prices rise in the future. The ideal stocks are those that display both good price and earnings growth.

In addition to plotting data on logarithmic scales, the program automatically adjusts the scales of the price and earnings so they are proportional to one another. It also places each within its own channel based on a proprietary formulation. The result is a screen that immediately provides a great deal of information about price and earnings growth and volatility.

Price: The white price bars move within a channel composed of three yellow lines that offer an instant visual

tify when price is relatively overpriced or underpriced. Prices below the lower lines are considered oversold and those above the upper line overbought in relation to the stocks' average growth rate. The extreme percentage reading in the text legend reveals where price is relative to the upper and lower alert bands.

Earnings: Annualized quarterly earnings are plotted as small green squares with its percentage growth scale shown on the left side of the chart. The short red vertical bars located in the lower left portion of the screen identify quarterly earnings losses.

The earnings move within a computer-generated channel of three green lines. The slope of the line shows the average annualized growth rate. The width between the upper and lower outer green lines identify earnings volatility. A rising earnings slope within relatively narrow outer lines signifies stable earnings growth.

The information on both the price

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paring the annualized premium of the cost paid for the option to the expected growth rate of the stock, the user is able to evaluate whether an option is too expensive relative to its cost.

SHORT-TERM SWING TRADING

The short-term swing trading component was developed in 1999 to accommodate changing market conditions that were identified by Hoyt's business partner, Sunny Decker. Growing mar-

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ket volatility led to an interest in capturing shorter-term price moves. Identified a directional bias to the downside on Gammon Gold. Based on its prior profit performance, the program rates the stock's reward to risk potential in terms of its average per trade profit relative to every dollar lost. Ratings, which are displayed at the bottom of the text legend box, fall within four categories that range from loser to excellent. A stock labeled "loser" has made less than one dollar for every dollar lost. A rating of excellent is reserved for

one is triggered, the other acts as a stop-loss. The software also computes both the dollar and the percentage risk that lies between the hash marks.

The short-term module contains exit-stop settings based on both dollar and percentage amounts. Once a trade is initiated, a white arrow points to the direction of the trade and the yellow box in the text legend will show the price at which to place a stop-loss. The box beneath that will show the profit on the current trade calculated as the difference between the entry price and the buy- or sell-stop.



FIGURE 3: SHORT-TERM SWING TRADE ON GAMMON GOLD. Automatic trendlines identify consolidating price and hash marks locate support resistance breakout points. The text legend tells the exact buy-stop and sell-stop entry prices. Monitor the trade with technical indicators such as the MACD and the CCI.

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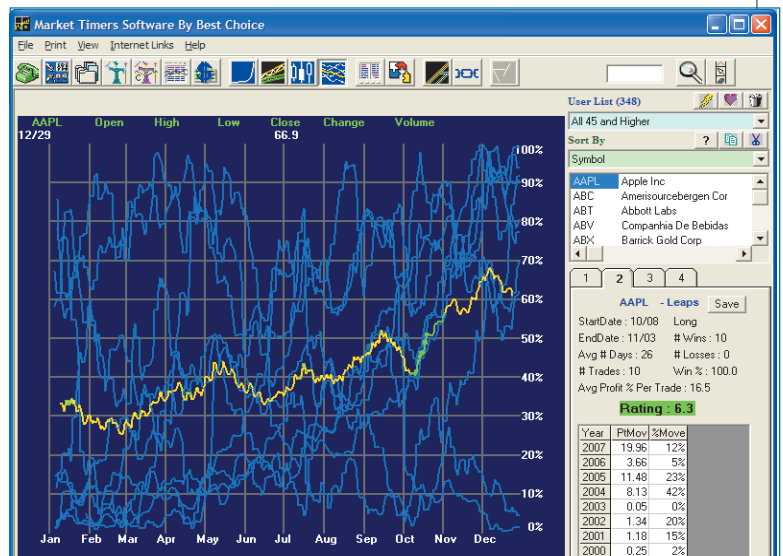
Users can monitor the trade with any of several popular technical indicators, check the bottom of the text legend box to see if the current day was an inside or outside range day or one that had gapped, or click on the current candle to see if it was part of a candlestick pattern. And by using the arrows located above the chart, it is possible to move backward and forward to see exactly what changes took place from day to day.

ket volatility led to an interest in capturing shorter-term price moves.

Unlike long-term investing, which works best with lower volatility stocks and steadily rising price and earnings growth, short-term trading works best with volatile stocks that have pronounced price swings.

The short-term swing module defaults to a three-month candlestick chart. (See Figure 3.) The user may select from three types of short-term strategies. The recommended method is a pivot breakout from low volatility. In that mode, the software can automatically create trendlines that identify price consolidations and display yellow hash marks at short-term support and resistance pivot points. If there is a directional bias to the breakout, a portion of the hash mark turns a different color. In Figure 3, Best Choice

FIGURE 4: SEASONAL CYCLE CHART. The cycle chart identifies average price tendencies and also specific entry and exit dates and directions of recurring seasonal trades. The squiggly lines in the background represent the price highs and lows of each prior year on which the yellow composite average line is based. A portion of the yellow line changed color in October when it found a seasonal cycle trade on the Apple stock.



stocks that average three dollars or more for every dollar lost.

Because it is not always possible to predict the breakout direction, the text boxes to the right display both a buy-stop and a sell-short stop-entry price when the program identifies a short-term trade. If

SEASONAL CYCLE TRADES

Recurring events, those that occur with great regularity at approximately the same time year after year, produce seasonal patterns. Seasonal events, such as the Santa Claus rally, are common in the stock indexes and some commodity mar-

kets. However, the seasonal cycle component in Best Choice, its most recent program addition, takes that a giant step further. It both locates and rates the seasonal cycle patterns found in stocks as well as futures and indexes.

How is this possible? According to the video tutorial, with up to 10 years of data per stock it was possible to divide each into one-year segments. With each segment, the yearly high was considered 100% and the yearly low was zero percent. Then each day's close could be rated as a percentage of the range of the year. A 10-year average of all those values can identify where on the percentage scale price might be on any given day. While not a guarantee, an event that takes place regularly increases the belief that it will continue to occur in the future.

On the seasonal cyclic chart of Apple Inc. in Figure 4, each of the curvy line squiggles in the background represents a specific one-year segment. The more lines on the screen, the greater the number of years of data available for analysis. The yellow line in the foreground is the composite average annual movement of the stocks based on all the individual yearly movements that are represented by each curvy line. The scale on the right shows where the average yellow line is in relation to the highs and lows of all previous years. Small green dots show when earnings were announced.

Knowing when during the year an individual stock or commodity price generally moves up or down is, by itself, helpful trading information, but the program goes beyond that. It identifies the direction and the exact entry and exit dates that are most likely to produce a profitable trade and, in the text legend box, displays both the dollar and percentage amount it has made or lost in each of the prior years.

Move the pointer horizontally across the page to find the best seasonal for that year or zoom in on any section of the yellow line to see if a seasonal cycle occurs in that time period. If you see something you like, just save it to a current or new cycle list.

Best Choice searches for stocks and

commodities that have good seasonal patterns, as not all do. The program arrives at a rating for each seasonal cycle by multiplying the percentage of success by the profit percentage and dividing that value by the number of days in the trade. Ratings above 4 are considered excellent and colored green, a rating of good is colored light blue, and pink or light red appears if the rating is poor. The color of the rating will appear as a highlight on the yellow line as well as in the text legend area.

Because ratings are based on the average profit or loss, one or two years of unusual price behavior can distort the results. A tab on the text legend brings up a list of the dollar and percentage profit or loss that has occurred during each prior year of the seasonal trade. With that information, the user can easily spot whether one good or bad year skewed the data or whether the seasonal works better during certain market conditions.

The chart of Apple identifies a 26-day period in the October–November time frame during which the stock has seen a profitable up move every year for the past 10 years (Figure 4). While not exactly a crystal ball into the future, upward movement 10 out of 10 years

\$8.13 in 2004, a far cry from the almost \$20 profit in 2007. (Thank you, iPod and iPhone.)

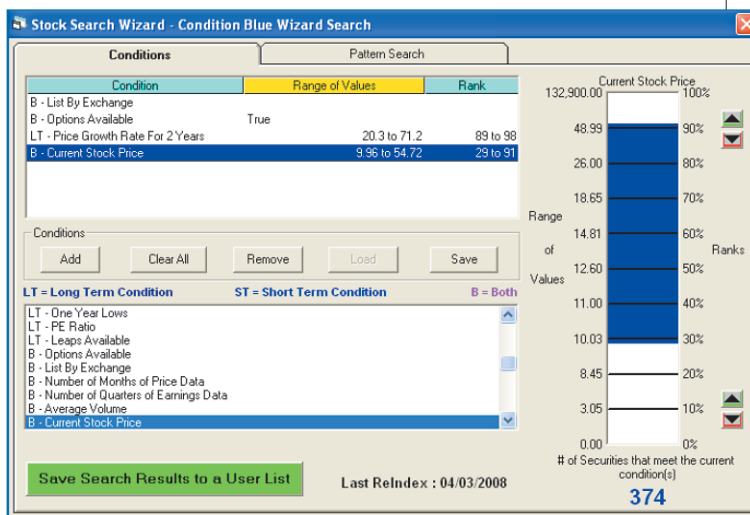
The seasonal cycle module offers no built-in stop-loss mechanism for the cycle trades. The training video suggests checking the built-in option chain for at- or out-of-the-money options to leverage price and minimize risk as an alternative to buying or short-selling the stock outright. It also advocates limiting risk even further by exiting the trade if the value of the option drops to 50% of the purchase price.

WIZARDRY

So how do you find the cream of the crop? The answer: Ask the wizards. Best Choice contains two search engines, called “wizards,” one for stock selection and the other for seasonal cycle trades. The wizards search the various databases to locate trading candidates that meet specific conditions and, once found, save them to user lists.

The program contains several built-in user lists that contain the symbols of stocks, futures, and mutual funds. However, to find those that would seem to have the highest probability of success for each trader's specific goals requires

FIGURE 5: BLUE SEARCH WIZARD. The blue wizard offers several long-term and short-term search conditions for use in locating stocks from the extensive database that meet user-defined criteria.



suggests a high probability that the time frame will be profitable, boosting trader confidence. However, it should not blind the user to the reality that a tendency is not a certainty and not all profits are created equal. As in the case of Apple, the profit was only five cents in 2003 and

customized user lists.

Blue wizard: The icon that displays a blue wizard creates the search conditions for stocks, commodities, and mutual funds. It contains 23 search conditions for long-term investing, 21 search criteria for short-term trading, and eight

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conditions that can apply to both long-term and short-term trades. The condition set can be saved to a separate list.

A vertical scale like the one seen in Figure 5 is displayed whenever the user selects a condition that requires a numeric range or percentage. The user can set and identify the parameters of the scale with the blue fill in color by moving the arrow keys from the bottom up and/or from the top down. Below the

ard. Reindexing prior to initiating a new search makes certain the wizard scans the most recent data. The process may take from 10 minutes to an hour, depending on computer speed and the size of the database. Short-term traders may need to reindex at least once a week, especially during volatile market conditions.

Pink cycle wizard: The cycle wizard eliminates the need for a time-consuming manual search. It will search any

user-defined parameters. As a seasonal trade is found, the cycle wizard separates them into the months they occur.

The wizard then stores its findings in a convenient summary of cycle trades that occur in each month. Click on the month to see a dropdown list that displays the symbol, the entry and exit dates of the long and short trades, the number of days in the trade, the percent of winning trades, and the average percent profit. Sort the dropdown list by date, rating, winning percent, or profit percent.

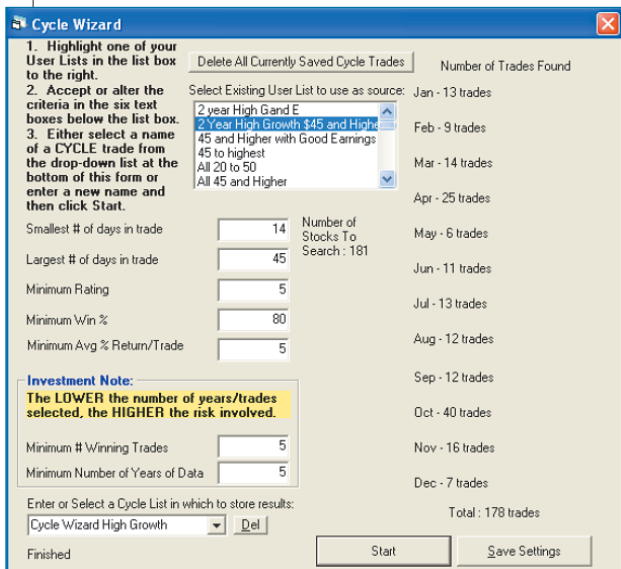


FIGURE 6: PINK CYCLE WIZARD.

The cycle wizard automatically scans the stocks in any list created by the blue search wizard to find repeating seasonal patterns based on user-defined parameters. In this case it found long and short cycles trades for high-growth stocks that made at least 5% profit during a specific time period for eight or more of the past 10 years. It then transferred those symbols to a summary list (not shown), according to the month in which they occur.

SUMMARY

From its price and earnings channels to its options projection chart to its seasonal cycle trades, Best Choice contains several innovative features not found in other software. These provide a window into the future that offers intriguing possibilities for trading opportunities. Certainly, the seasonal cycle trade component, with its ability to direct user focus to a relatively short-term trading period, lends itself to both option and equity trades and seems a natural for today's market conditions.

I was also impressed with the speed of the program. Charts popped up as fast as you could click on the symbol, movement from one program module to another was seamless, and the output from the wizards was fast enough to satisfy even a Harry Potter fan.

Aside from an occasional problem when I clicked on a chart in a way that created an error message and booted me out of the program, the software ran smoothly.

Traders who are looking for a program that assists with decision making by quickly identifying potentially profitable trading opportunities will find Best Choice Software a prime candidate.

Barbara Star is a frequent contributor to STOCKS & COMMODITIES. She trades part-time and provides individual instruction and consultation to those interested in the technical analysis of the financial markets. She can be reached at 818 224-4070 or by email at star4070@aol.com.



vertical scale, the program displays the number of securities within the database that meet those parameters.

Everything about this selection process is fast and easy. The software produces the information as quickly as you can

add the criteria. Type in a name for the results list and the stocks are saved instantaneously to the newly named list and added to the user list.

The stocks, commodities, or mutual funds within each user list can be sorted not only by their symbol, but by 17 other categories including volatility, price/earnings ratio, extreme percentage, and price or earnings consistency.

The program requires a periodic maintenance routine called "reindexing" in order for the wizard to maintain its accuracy. Daily downloading of price data or changes to the default program criteria cause the database to change but does not automatically update the wiz-

Traders looking for a program that assists with decision making will find Best Choice Software a prime candidate.

user list created by the blue wizard to locate all seasonal cycle trades. That makes it possible to find stocks, exchange traded funds (ETFs), mutual funds, futures, or indexes of interest and then use the cycle wizard to zero in on the best times throughout the year to trade them.

The user sets the cycle wizard parameters to the number of days in a trade, the minimum rating, the number and percent of winning trades, the average percent return per trade, the minimum number of years to check, and the minimum number of winning trades. (See Figure 6.) Then watch as the cycle wizard quickly scans each symbol in the user list to find all possible seasonal trades that meet the