

Zoning

How to use the zoning feature in Toolkit to produce a superior SSG

All NAIC investors should understand and use the zoning feature in the SSG. Zoning tells us whether the current price of the stock is in the Buy, Hold or Sell range.

Zoning also gives us a ratio [or comparison] of our risk and reward. The ratio, often called the “Upside/Downside Ratio,” measures the reward, should we buy at the present price and sell at the forecasted high price, to the risk of buying at the current price and selling at the forecasted low price.

NAIC recommends that this ratio be 3:1 or higher. Theoretically, the higher the better, however, U/D ratios in double digits should be regarded as suspect. Look for ratios to be from 3 ~ 8.

We often use a percentage zoning range for beginning investors of 33/33/33. This is shown on Page 3, Chart 1, left side. We recommend that all who are not beginners use the zoning range of 25/50/25, shown on Page 3, Chart 1, right side. You can configure your Toolkit software to use this advanced zoning technique by following the directions on the bottom of page 2.

A problem with the 33/33/33 zoning range procedure is that you can end up with a Buy recommendation and have an U/D ratio as small as 2:1. This begs the question, “Why is the SSG recommending a Buy if the U/D is only 2:1?” See Page 4, Chart 2. If the current price is \$28, the 33/33/33 zoning [on the left side] shows \$28 to be in the Buy zone, yet with an U/D ratio of only 2:1.

Using the 25/50/25 zoning ranges, the U/D is still only 2:1, but now a current price of \$28 is in the hold zone. The current price would have to be \$24 [or lower] to be in the Buy zone. At \$24, the U/D is 3:1.

Chart 3 on Page 5 shows a zoning range of 25/50/25 where the current price is \$43.25, the forecasted high price is \$117.80 and the forecasted low price is \$32.00.

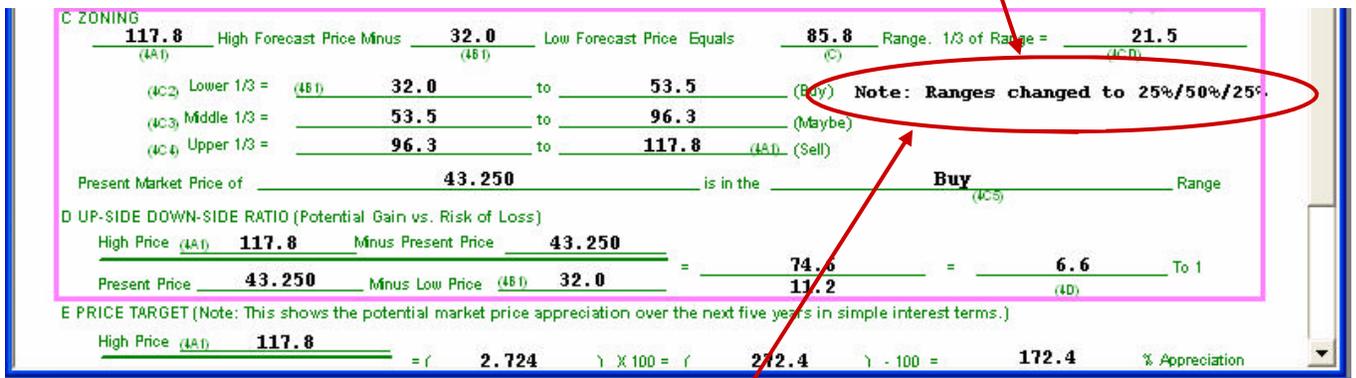
Zoning

Zoning is a way of finding out

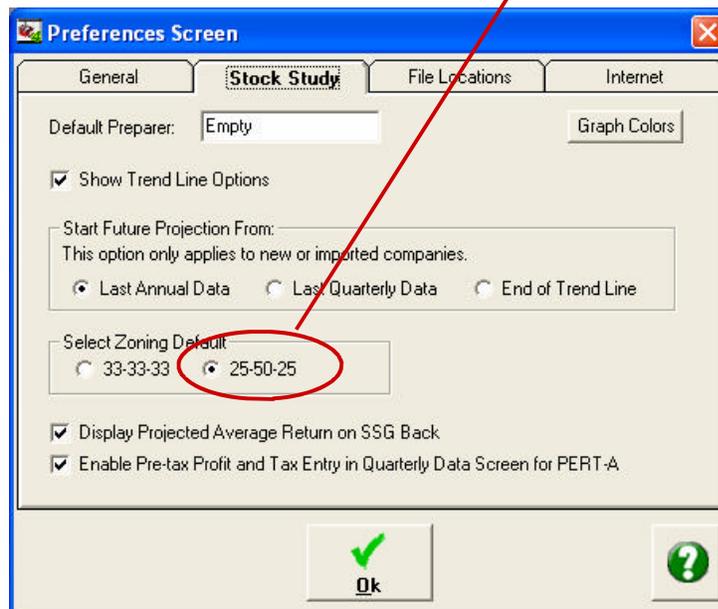
If the current price is in the buy, hold or sell range.

How our upside reward compares to our downside risk.

Advanced users should use the 25%/50%/25% ranges; not the 33%/33%/33% ranges



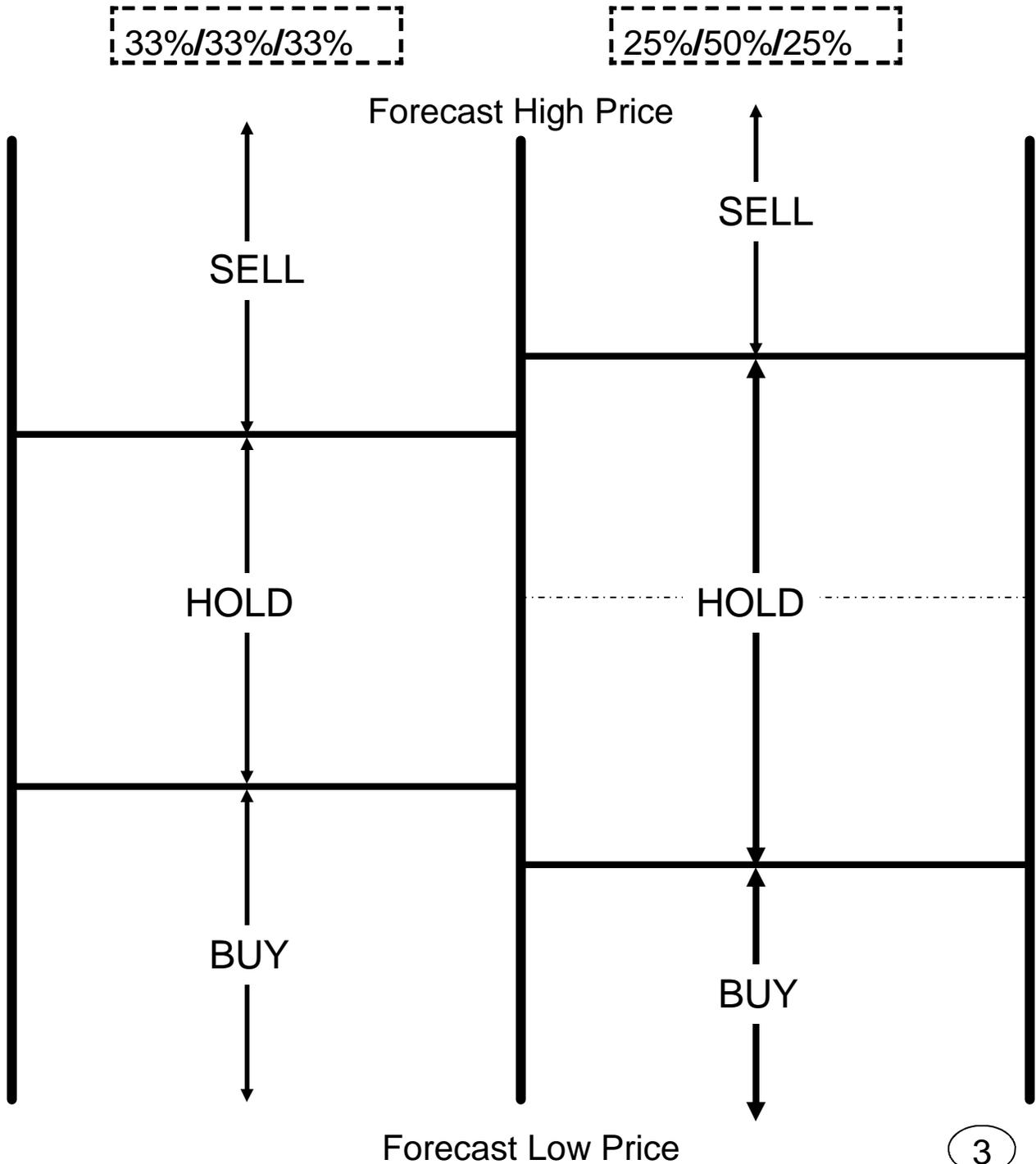
On the overhead tool bar, click on Options and then Preferences



Zoning

Chart 1

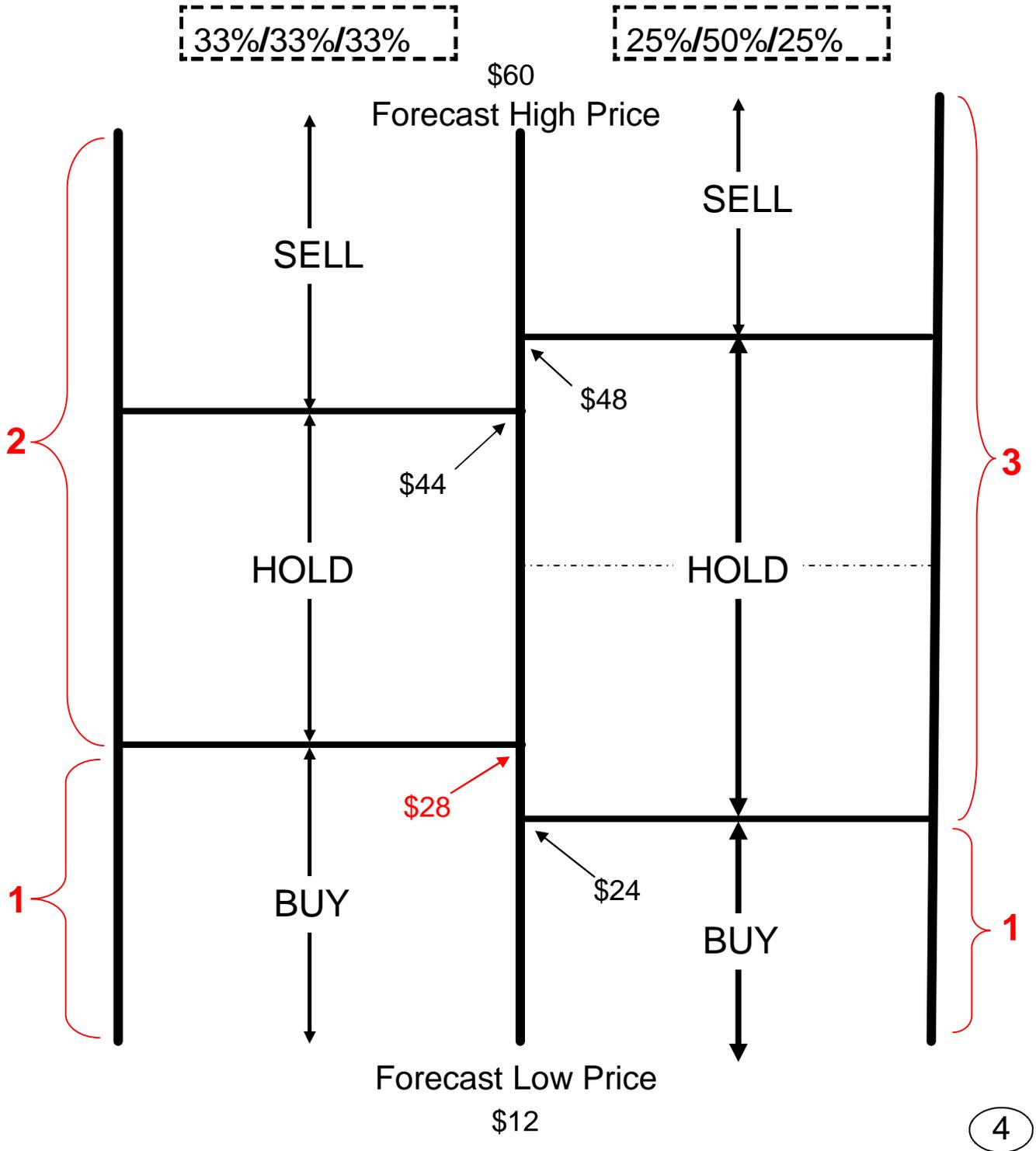
The Reward/Risk Ratio, aka
The Upside/Downside Ratio



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Chart 2

The Reward/Risk Ratio, aka
The Upside/Downside Ratio



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Chart 3

Ranges: 25%/50%/25%



In the graphs above, the ranges have been changed to 25%/50%/25%. This serves two purposes:

- Makes it more difficult for a price to be in the “Buy” range
- Eliminates the problem associated with the 33/33/33 ranges whereby one can have a “Buy” and also have an upside/downside ratio of less than 3:1.

This is the recommended method; it is more realistic.