

Digital Investing

Stock movements are driven by many fundamental factors but by only one technical reason – because investors are buying or selling them. Ralph Parks, the manager of the Ralph Parks Cyclical Equity Fund (RPCEX), has developed a digital model for discerning the trading patterns and benefiting from the cyclical nature of the market. His goal – You have limited money & time – attempt to be in the strongest investment patterns you can find.

Q: What is your investment philosophy?

A: Our core belief is that you have limited time and limited money to invest, so we aim to be in the strongest stocks we can find. I developed a theory called ‘digitized investing’ back in 1992 with the idea that there has to be a pattern in the strongest stocks. Our strategy is entirely computerized, so we basically analyze 10,000 to 12,000 U.S. stocks every week.

When I first started, I was looking for the elements that compose emotion, or the pulses of confidence. It is related to the Quantum Theory of Max Planck, who found out that light came in pulses when everybody thought that it was a straight line. So I decided to look for the pulses of confidences in the charts and I’ve digitalized emotions by putting a number on the emotion.

Everything we do is based on performance. That’s our philosophy because performance is the only reason for hiring someone to do your investment work. The objective is to get the best return for all our clients.

Q: It is simple to understand but hard to achieve.

A: It is hard to achieve but we’ve been able to do it. We’ve gone back to 1970 to test our model and it works. We believe that in the stock market buying is

important, while selling is imperative. We’ve been able to find out how to digitalize the fear factor or the time when people want to get out of the market.

For example, on September 10, 2001, the day before the tragedy in New York, we sold 23% of our stocks because we could see it in the charts. I’m not a conspiracy theory person but there was so much volatility in the days before the event, that even though we had no idea what was happening, we knew we had to get out of the market.

Q: Could you explain the meaning of ‘cyclical’ in the fund’s name?

A: We chose this name because we look at the overall market to see when it’s time to be long and when it’s time to be short. That’s very different from long-short funds that are typically long and short simultaneously. We have developed a deductive way of looking at the big picture to decide when to be long or short.

I believe that this is the first cyclical equity fund in the US. There are cyclical sector funds but no cyclical market funds. We didn’t know that when we started; but the name describes what we do, always changing with the cycles of the economy.

Q: So you primarily look at the cyclical nature of the market and try to benefit from it. Is that correct?



RALPH PARKS President & C.E.O 35 years in financial services industry after a long career in banking. Sr. VP of Smith Barney for 13 years, previously with Merrill Lynch and Edward D. Jones. With special training on managing discretionary portfolios Ralph concentrates on managing a variety of investment portfolios for both pre- and post-retirement individual investors, businesses and corporations. He received an MBA in Finance from Michigan State University and has held numerous board positions. Series 7, 63 and 65, Life Accident and Health Insurance licenses held.



GINA GRIFFIO Executive Vice President & Portfolio Manager Gina Griffio is the Executive Vice President and Portfolio Manager of Ralph Parks Investment Group, LLC. Prior to accepting the position at Ralph Parks Investment Group, Ms. Griffio was a Portfolio Management Associate at Smith Barney from 1998-2005. She was previously the Assistant Bursar for the University of Rochester. Ms. Griffio has more than 8 years of investment industry experience and holds several securities licenses including Series 7, 63, 65. She has also earned Life Accident and Health Insurance licenses.

“Buying is important, while selling is imperative...”

A: Yes. The cycle has just turned in an upward pattern approximately nine weeks ago and we moved from being 60% in cash to buying strongly. Prior to that the market was displaying a sideways pattern and the formulas weren't pushing out many stocks. But now there's something happening and although I don't know what it is, I can tell you the equity market looks strong.

Q: Why do you believe that this is a better way to manage money?

A: To explain why we believe in this approach, I'll give you an example. If you're buying one hundred shares of Bristol Meyer, Gina's buying a hundred shares of Bristol Meyer, and I'm selling one hundred shares at the same time, the price should go up. If on the next day you sell Xerox, Gina sells Xerox, and I buy Xerox, the price should go down. That's what technical investing is.

Everything I do is watching price and volume. It has taken me years to develop the formulas. With technical investing there are many indicators and I have never relied on the books on technical investing. I don't want to do what everyone else is doing.

Overall, we are looking for the strongest stocks and we're trying to get rid of the randomness. We try to make sure that all of our stocks are going in the same direction. In the past, six out of ten stocks have been winners. We also find that the more diversification we have, the less risk we take. The diversification of equities falls among many sectors. So we're careful about not being concentrated in any one area.

The model just happens to work. We take losses but they're small. When the indicators come up, we don't try to rethink or question our decision, and it works. We stick with this disciplined approach. Our historical performance numbers speak for itself. The good thing about our strategy is that on the upside, we almost double the market, while on the downside we are lose less than the market.

Q: How do you select which stocks to buy after deciding whether to be long or short?

A: We rely on the inductive way or the bottom-up approach. We buy one stock at a time and the sector distribution is an outcome of that process. We never look at sectors when selecting stocks; we only look at individual stocks. The system that we have picks the stocks for us so there are no emotions. We let the program run and it picks where we need to buy and where we need to sell.

For example, we were in about 25% in the energy sector over the past two years, while today we are only in 2% of that sector. That's because three months ago the fear factors started to show up and we started to sell off the energy stocks when crude oil was still hitting new highs.

The reason behind that is the behavior of the investors, the people who own and move the stocks. We consider them to be our analysts. We just get into what people are buying and what people are selling.

Q: Would you override the system if it still points in the direction of energy, for example?

A: Definitely not as there is no judgment here. We have a strict disciplined approach. Following this strategy and not over-weighting portfolios in a sector has saved us a lot of grief and we have been able to make money too.

Q: Do you find any appealing stocks in the IPO market?

A: We don't look at a stock until it's

been around for six months. It has to have a good long pattern because there's a lot of volatility in the early stages of any company after its release.

Q: Are there certain guidelines that you follow in your research process?

A: Basically, we say our strategy is the slope, not in the hope. The stocks and the indicators have to be in that slope, yet we have limits on the downside and the upside, so we're not buying stocks with tremendous volatility. Our patterns are very tight and it's been designed that way. Trading Expert Pro is software from a company called AIQ Systems. This software is typically used for short term trading purposes but I have found ways to use this software to find long term investment patterns, so the formulas are very unique.

Once I developed these formulas, I kept on testing it with data back to 1970. If it didn't work, I'd go back and tweak it again, and test it again and again. I probably have tried over 1,000 formulas to get to model that we have now.

In our Monday meetings we look at the fundamental factors of the economy so that we know what's happening to retail sales, personal income, construction spending, etc. But we don't use that in our analysis of buying and selling stocks. We just built a fundamental picture of what's happening to the economy.

Q: What's your approach to portfolio construction?

A: Currently we're entirely in long positions and we'll stay that way until the indicators tell us to turn around. It's a multi-cap product, so from a diversification point of view, it covers the entire universe of the United States equities. A year ago we were mostly micro-cap stocks, while today we're almost 60% in large-cap stocks. It is the market that determines the construction of the portfolio, not us. This

is what people are buying and where their confidence and their money go.

Last year at this time we had about 150 to 170 stocks and right now we've got about 140 stocks. The turnover also depends on the economic cycle. From 1990 through 1998 the turnover was maybe 10% a year. Since 1998 through 2004 it was 100% a year, while right now it is about 50%.

Q: Do you measure yourself against any index?

A: We use both the S&P 500 and the Wilshire 5000 indices. If you compare the Dow Jones with its 30 stocks to the Wilshire 5000 index, over the last 20 years they are within 0.18% of one another. Those 30 stocks are a really good indicator of the market.

Q: Overall, you have instant and frequent communication with the market charts and you're leveraging to your benefit what the market is telling you through the charts. Is my understanding correct?

A: Yes, that's a great analogy. As a result of that strategy, we don't need analysts. We only rely on the way the formulas are structured. We digitize the market and that's all we're looking at. If the numbers say to be long, we're going that way. We're watching the way investors vote and they vote with their emotions or their confidence on the way up and fear or uncertainty on the way down. All I do is count confidence pulses or digitized pulses.

Q: So you're buying stocks, not companies?

A: Have you heard that a financial statement is a picture of management? I say that a chart is also a picture of management so we end up buying great companies. People find out what's happening before it actually hits the newspapers. We sold off most of our energy stocks about three months ago. When the obvious is upon you, it is too late. When we were buying all of the energy and utility stocks two and a half years ago, clients were asking us why we were doing that and

now they can see it's made a lot of money for them.


Usually it takes four to six months for the stocks we buy to perform. Investors have a way of knowing what stocks are going to work about four to six months in advance and that's what our model is based on.

Another example is that we have a lot of consumer discretionary stocks because people last year anticipated the growth in personal income and, respectively, in retail stocks. There are a lot of smart people around who do that kind of research. So we're watching the numbers and we can leverage it just by looking at the patterns of the chart. We end up buying companies that we've never heard of until we looked at the patterns. No one individual is smarter than all of us.

Q: What in the mindset of fundamental investing, or the 'buy and hold' strategy, doesn't appeal to you?

A: No one wants to lose money but I think that with the 'buy and hold' concept, you can really be hurt in the long run if you hold the stocks for too long. It's really tough to make sell decisions and that's where we have a very strong discipline.

Q: What kind of risks do you measure and how do you mitigate them? Is the price you pay a form of risk control?

A: Diversification is one way to minimize risk. Regarding the price, we usually won't buy any stocks under \$5. Every stock should have a minimum share volume traded per week. When it's time to sell, you need the volume to support it. Of these 10,000 to 12,000 stocks that we follow, right now only about 5,000 to 7,000 are in the volume area that we will consider buying. As I said earlier, buying is important but selling is imperative. If you don't know how to sell why buy in the first place. 

Ralph Parks Cyclical Equity Fund

Symbol	RPCEX
Website	www.rpigli.com
Address	Ralph Parks Investment Group, LLC 101 Sully's Trail, Bldg. 10 Pittsford, NY 14534
Tel. No.	585-248-5700
Inception	8/25/2006

PORTFOLIO	
Total Net Assets*	\$13.6
Avg Mkt Cap (\$ Weighted)	N/A
Average Price/Earnings Ratio	N/A
Average Price/Book Ratio	N/A
Turnover Ratio	N/A

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$1,000
Min Subsequent Investment	\$100
Min Initial IRA Investment	\$500

FEES AND EXPENSES	
Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee**	2.00%
Total Expense Ratio	4.15%

PORTFOLIO MANAGER	
Ralph Parks	9/7/2004
Gina Griffo	9/7/2004

*millions **for investments redeemed less than 90 days after purchase

Data through: 10/31/06

Source: Company Documents; Lipper

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