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# Timer Digest

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**John McClure**

**EquiTrend**

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Featured  
Advisor

## EquiTrend

Perhaps the single most influential investment lesson for John M. McClure, President & C.E.O. and founding shareholder of Equitrend, Inc. and ProfitScore Capital Management, Inc. came out of a meeting with a banker in the early 1990s. The banker had a stack of papers about three feet high detailing every aspect of the credit worthiness of the client in question on his desk but when asked for a decision, the banker instead referred to his computer screen for the answer. It told him that the client was a very good risk. The decision had taken just seconds and caused McClure to sit up and pay close attention.

The banker was referring to something called the credit score algorithm developed by the Fair Isaac Corporation. It was the formula that examined all available variables about how people paid their bills that lenders relied upon to assess creditworthiness. The score it produced was used to make final decisions in lending billions of dollars across the country every day.

If an algorithmic approach worked in lending billions of dollars for the most conservative corporations in the world, why not use a similar approach for the markets? The experience produced a major paradigm shift for McClure, eventually it led to the formation of his proprietary Equitrend.com market timing system, and in the process completely revolutionized the way he looked at investing.

His career had begun a number of years before when, armed with a Bachelors Degree in Marketing from Tennessee Technological University and a Masters in Business Administration from the University of Tennessee, he entered the business world as an analyst for an S&P500 company. By that time McClure had discovered a passion for the markets and early on had had the good fortune to make a sizable investment in a penny stock that soared above \$30 in a few months netting him a cool six-figure profit. While extremely rewarding at the time, it saddled him with a false sense of confidence. Over the next few years, he was to lose what amounted to "the cost of more than a few tuitions at Harvard Business School" and in the process gain an education that

money alone couldn't buy.

In 1995, Mr. McClure began working as a consultant for a technology company servicing the financial industry, mostly banks. The company developed and sold programs that helped lenders better assess commercial credit risk. During this tenure, he gained a much better understanding of how credit scoring worked and began to experiment with an algorithmic approach to investing. McClure's goal was to create an equally effective formula to evaluate the market's ability to produce profits.

He was all-too aware of the three principle problems with moving average or traditional index-based trading systems commonly used in the industry. First, they lag the market too much to be of any use when markets are choppy. Second, they keep investors in buying mode longer than prudent after markets have begun declining. Lastly, and a fact not fully appreciated by the majority of market players, they miss significant gains when markets come 'out of the hole' as a new uptrend begins.

By that point, McClure had also learned that approximately 65% of a single stock's direction in a bull market and 90% in a bear market was controlled by the direction of the overall market. Rather than focus on individual stocks, it was far more important to look at the ability of the overall market to move up or down.

What evolved was a multi-faceted algorithm that looks at the strength of the overall market as determined by a complex set of variables. It was in effect a market environmental indicator that had a number of aspects or phases.

In a nutshell, his system is based on a series of filters that determine the proper level of aggressiveness based on the type of market. A scoring mechanism issues the buy and sell signals. It keeps him in the market as long as possible during strong trends and gets him out only when the trend is done. It then becomes more sensitive and faster reacting when markets enter a trading range or 'slop and chop' zone. Equally as important, it anticipates major market reversals getting him in early to profit 'out of the hole' when the market

reverses course, for it is at these times that exceptional short-term returns are generated.

As part of the process, McClure examines the average annual compound rate of return, which he divides by the maximum peak-to-valley drawdown over the period under examination. For example, if the annualized rate of return is 21% and the largest drawdown 7%, he gets a ratio of 3:1. The ratio helps him accurately evaluate risk in the current market environment and act accordingly.

McClure's business has grown from that of sub-advisor managing money for other firms to directly managing money himself. He still manages approximately \$100 million in sub-advisory capacity and directly manages \$30 million in separately managed accounts and in a multi-strategy long/short equity hedge fund. McClure sees himself as a risk manager first and foremost who just happens to be managing money.

As well as generating long and short signals when conditions change, Equitrend.com produces weekly and monthly client newsletters that identify and explain crucial fundamental and technical factors governing markets.

Mr. McClure is the Vice President of the National Association of Active Investment Managers ("NAAIM"), a trade association of 175 registered investment advisory firms who employ absolute return investment strategies. He is also an affiliate member of the Market Technicians Association.

Timer Digest has been monitoring EquiTrend since June 2004, and it currently ranks number 5 in the Top Ten, see page 2.

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