

**BEAT  
THE  
MARKET**

**INVEST BY  
KNOWING WHAT  
STOCKS TO  
BUY AND WHAT  
STOCKS TO SELL**

**CHARLES D. KIRKPATRICK II, CMT**

## ***Praise for *Invest by Knowing What Stocks to Buy and What Stocks to Sell****

“This is one of the best new investing books of the decade: succinct, practical, and timeless. Built on a foundation of 40 years of market wisdom, it combines technical analysis and portfolio construction that is supported by excellent research. It should be required reading for everyone from new investors to the most sophisticated hedge fund managers.”

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*To Robert A. Levy, a relative pioneer*



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**I**n this business you come across many people who help you in ways large and small. They are people not in the investment business and they are people familiar with some of the most complicated and intricate investment methods available. I learn from them all. To name them is impossible.

This book is the result of almost 30 years of intermittent research. I began with Bob Levy to whom this book is dedicated, and I will not stop until my end. In between, there have been numerous portfolio managers, analysts, traders, professors, software designers, statisticians, students, and just plain practical investors. I refer to a few, but not to the exclusion of the many who have helped, sometimes in unknown ways.

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## ABOUT THE AUTHOR

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**C**harles D. Kirkpatrick II, CMT is currently president of Kirkpatrick & Company, Inc., Kittery, Maine. This is a private corporation specializing in technical research that publishes the *Kirkpatrick Market Strategist* advisory newsletter.

In the recent past, Mr. Kirkpatrick has been a director of the Market Technicians Association—an association of professional analysts—and served on its Dow Award Committee, Education Committee, and as chairman of the Academic Liaison Committee. He was editor of the *Journal of Technical Analysis*—the official journal of technical analysis research—and an instructor in finance at the Fort Lewis College School of Business Administration in Durango, Colorado—one of only seven colleges (as opposed to universities) in the U.S. accredited by the Association to Advance Collegiate Schools of Business (AACSB). In 2007, with co-author, Professor Julie Dahlquist, he published a textbook on technical analysis: *Technical Analysis—The Complete Resource for Financial Market Technicians*—now used in university finance classes and the Market Technicians Association’s professional education programs.

In addition, Mr. Kirkpatrick has received awards from his peers. In 1993 and 2001 he received the Charles H. Dow Award—for excellence in technical research—and in 2008, he received the Market Technicians Association Annual Award—an award given once a year to someone for “Outstanding



Contributions to the Field of Technical Analysis.” He is a graduate of Phillips Exeter Academy, Harvard College, and the Wharton School of the University of Pennsylvania, and served as a decorated combat officer in the First Cavalry Division in Vietnam. He currently resides on an island in Maine with his wife, Ellie, and various domestic animals.

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# INTRODUCTION

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If you manage your own investments and want to understand what investing methods are worthwhile and what methods are best avoided, this book is for you. It is also for those who wish to manage their own investments but don't know how to do it. You will understand the problems and costs of professional management and the inconsistencies in traditional investment methods. You will explore three methods using different information to buy and to sell stocks. Most books on investment leave out what to do after you have bought stocks. I show you when they should be sold. The historic results of these methods, when melded together, have proven reliable in all kinds of markets over the past 30 years. I show you that the stock market is still the best investment vehicle, how and when to buy and sell individual stocks, when to be out of the market, and how to construct a working portfolio. Above all, I show you that it is impossible to predict markets or the economy, but it is still probable that you can make money. You must react to circumstances rather than predict outcomes. Using these methods, you will find that you can successfully invest for yourself.

My purpose is to show how you, by yourself, can outperform the stock market and reduce the risk of capital loss from poor decisions. You do not need to pay outrageous fees or be subjected to the incomprehensible and often incorrect theories or deceptive jargon that is thrown at you by brokers and money

managers trying to get your money under their management. However, if you prefer to use advisors in the allocation of your assets, please be critical of their past performance, the reasons and history of their advice, and the fee structure and hidden costs not only of your advisor, but also of the investments in which your assets are placed. These fees can act as a significant deterrent to your portfolio's performance.

The opinions contained in this book are from my 40 years experience as a research analyst, portfolio manager, stock market newsletter writer, block desk trader, institutional broker, technical analyst, and hedge fund manager. I have owned a brokerage firm and passed at one time or another the requirements for investment advisor, options specialist, registered representative, and options and financial principal. I am the coauthor of *Technical Analysis: The Complete Reference for Financial Market Technicians*, which is used in many colleges and universities for their investment courses and has become the primary textbook for the Certified Market Technician (CMT) designation by the Market Technicians Association. I am past editor of the *Journal of Technical Analysis* and a past board member of both the Market Technicians Association and the Market Technicians Association Educational Foundation. In addition, I am the only person (so far) to have twice won the annual Charles H. Dow award for research. In short, I have been around the financial and investment markets for a long time, and I have been exposed to just about every technique, method, theory, and sales pitch put forth in the past 40 years. My father was one of the most successful portfolio managers at Fidelity before Peter Lynch. I began the "game" when I was 14, occasionally working for him in following stocks for his trust accounts. I also graduated from Harvard (AB) and the Wharton School (MBA).