

Devoted to information and portfolio strategies for the high relative strength asset class

Relative Strength measures...

the price performance of a stock versus a market average or universe of stocks. A stock's relative strength can improve if it rises more than the market in an uptrend, or goes down less than the market in a downtrend.

Thought Process

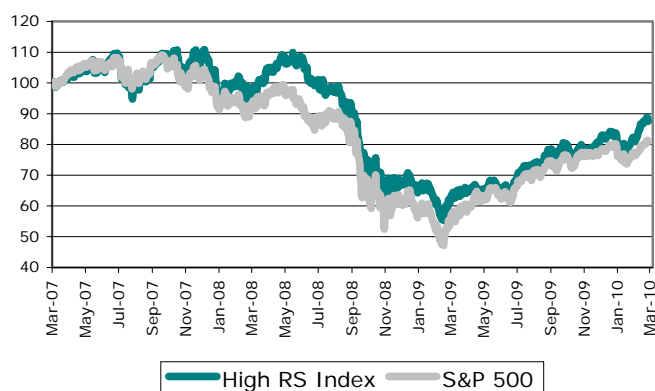


Just as the cassette tape replaced the 8-track, only to be replaced in turn by the compact disc, itself being undercut by MP3 player, portfolios also must deal with the implications of creative destruction. Economic innovation is a constant process whereby the old leaders are replaced by the new. Given this reality, how much sense does it make to buy-and-hold? Relative strength is ideally suited to keep a portfolio fresh with the companies that are economically relevant.

High RS Asset Class

High RS stocks, as an asset class, often move independently of broad indexes. Recent performance through 3/19/2010:

High RS Index vs. S&P 500



"High RS Index" is a proprietary Dorsey, Wright Index composed of stocks that meet a high level of relative strength. The volatility of this index may be different than any product managed by Dorsey, Wright. The "High RS Index" does not represent the results of actual trading. Clients may have investment results different than the results portrayed in this index.

Sector & Capitalization Snapshot

As of 3/19/2010

Sector Performance

S&P 500 GICS Sector	12 Month	6 Month	1 Month
Financials	82%	4%	9%
Industrials	71%	13%	7%
Consumer Discretionary	71%	16%	7%
Technology	59%	11%	5%
Materials	54%	4%	3%
Health Care	37%	12%	3%
Consumer Staples	34%	9%	2%
Energy	22%	3%	1%
Utilities	17%	1%	1%
Telecommunications	5%	1%	5%

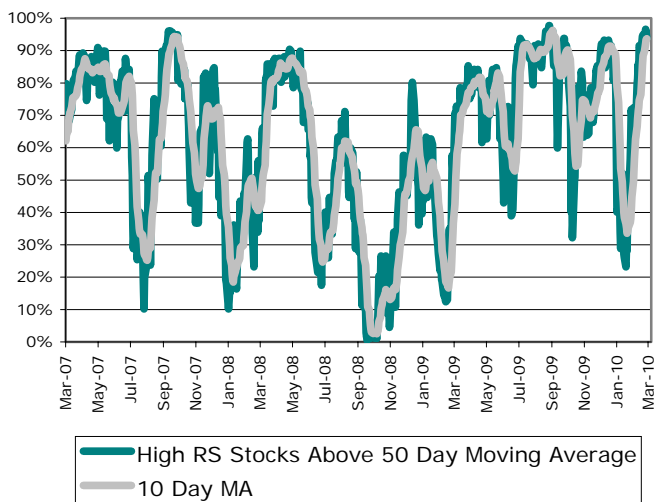
Capitalization Performance

S&P Small-Cap	66%	11%	7%
S&P Mid-Cap	63%	12%	6%
S&P Large-Cap	47%	9%	4%

High RS Diffusion Index

As of 3/19/2010

High RS Diffusion Index

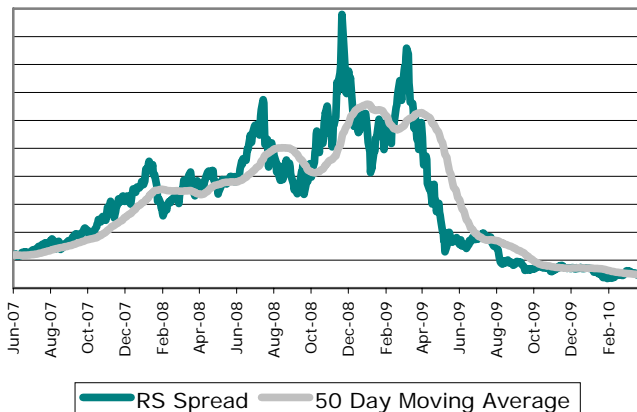


The 10-day moving average of this indicator is 94% and the one-day reading is also 94%. This oscillator has shown the tendency to remain overbought for extended periods of time, while oversold measures tend to be much more abrupt.

RS Spread

The chart below is the spread between the relative strength leaders and relative strength laggards (universe of mid and large cap stocks). When the chart is rising, relative strength leaders are performing better than relative strength laggards. As of 3/19/2010:

Relative Strength Spread



The sharp decline in the RS Spread for much of the last 12 months has moderated considerably in recent months, and may well be setting the stage for a more favorable RS environment.

Relative Strength is Everywhere

CXO Advisory recently published [another study](#) on momentum (otherwise known as relative strength) and style rotation. Not surprisingly, their conclusion was:

In summary, a simple style momentum strategy implemented with ETFs may perform well compared to the overall stock market and individual style ETFs.

Since we have been using style funds in some of our relative strength strategies for years, we could have told you the same thing, but it is always nice to have some validation by a completely independent party.

Relative strength is an incredibly adaptable method. We've demonstrated in our own white papers (see below) that it works nicely with stocks and asset classes. It works for industry rotation and style rotation. There is lots of third-party validation as well, whether from CXO Advisory here, other practitioners, or academics.

One of the things I particularly like about relative strength is that it can deal with a disparate basket of assets, which is considerably more difficult with other proven return factors like deep value. Value is not too tricky when comparing two similar assets, like two stocks. If you want to get more sophisticated, you can even build a complicated model to determine if stocks are cheaper than bonds. But how easy is it to determine whether crude oil, Apple Computer, or emerging market debt is cheapest? The assets and the metrics typically used to value them are not universal. With relative strength--no problem. It's not difficult to determine which is the strongest asset and it can be done on an apples-to-apples basis.

To read more about how relative strength can be applied to both stocks and asset classes, see our white papers below:

[Bringing Real-World Testing to Relative Strength](#)
Released January 2010

[Relative Strength and Asset Class Rotation](#)
Released March 2010

Fund Flows

The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). Flow estimates are derived from data collected covering more than 95 percent of industry assets and are adjusted to represent industry totals. The table below is ranked in descending order based on flows for the week ending 3/10/2010.

Asset Class	3/10/2010
Taxable Bond	7,627
Foreign Equity	2,114
Domestic Equity	1,414
Municipal Bond	1,224
Hybrid	1,072

Taxable bonds continued to attract the biggest portion of new money in the week ending 3/10.

Other RS Sources

Relative Strength investing has a long history of well-documented testing. Some of the best known resources in the area are:

Brush, John S. "Eight Relative Strength Models Compared." Journal of Portfolio Management (1986).

Berger, Israel, Moskowitz. "The Case for Momentum Investing." AQR Capital Management. 2009.

Jegadeesh and Titman. "Returns to Buying Winners and Selling Losers." Journal of Finance (1993).

O'Shaughnessy, James P. What Works on Wall Street. McGraw Hill, 1997.

Media Center

Powershares DWA Technical Leaders ETFs (PDP, PIE, and PIZ)

- [Ten Myths About ETF Investing](#), *ETFdb*, Nov 25, 2009

Arrow DWA Balanced Fund (DWAFFX)

- [DWAFFX Reaches New Milestone](#), Aug 13, 2009

Arrow DWA Tactical Fund (DWTFX)

- [DWTFX: Good Marks After 3 Months](#), Nov 4, 2009

Dorsey Wright Money Management

- [Bringing Real-World Testing To Relative Strength](#), Jan 2010

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To Request Info

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