

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.

Going Green?

As can be seen by the Relative Strength Spread chart on the next page, the initial lift off the bear market low in March of 2009 led to a massive laggard rally in which the stocks that performed the very best in the second quarter of 2009 were the stocks with the worst relative strength (think bank stocks.) However, as 2009 wore on, the laggard rally began to dissipate and we began to see more stable leadership. More stable leadership is a good thing for relative strength strategies.

Trailing 12 month and year-to-day performance for a number of Dorsey Wright's single CUSIP strategies has been excellent, as shown in the table below.

Dorsey Wright Strategy	Trailing 12 Months	YTD through 5/12/10
PDP - PowerShares DWA Technical Leaders Portfolio	48.52%	13.27%
S&P 500	28.86%	5.07%
PIE PowerShares DWA Emerging Markets Technical Leaders	40.02%	1.90%
EEM iShares MSCI Emerging Markets Index	31.93%	-1.93%
PIZ PowerShares DWA Developed Markets Technical Leaders	32.16%	0.27%
EFA iShares MSCI EAFE Index Fund	16.41%	-5.70%
DWAFX Arrow DWA Balanced A	23.72%	6.83%
60/40 Equity/Bond Index	18.33%	3.76%
DWTFX Arrow DWA Tactical A	31.57%	5.47%
60/40 Equity/Bond Index	18.33%	3.76%

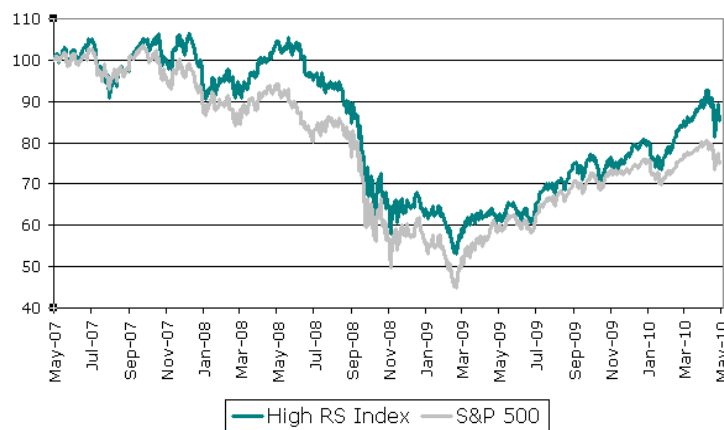
(Click to Enlarge)

To receive a prospectus for each of the PowerShares Technical Leaders Portfolios, click [here](#). To receive the prospectus for the Arrow DWA Balanced Fund and the Arrow DWA Tactical Fund, click [here](#). Past performance is no guarantee of future returns. Performance shown above is based on statistical sources believed to be accurate.

High RS Asset Class

High RS stocks, as an asset class, often move independently of broad indexes. Recent performance through 5/14/2010:

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 5/14/2010

Sector Performance

S&P 500 GICS Sector	12 Month	6 Month	1 Month
Consumer Discretionary	48%	14%	-5%
Industrials	42%	13%	-4%
Technology	39%	3%	-7%
Financials	30%	5%	-10%
Materials	23%	-1%	-9%
Consumer Staples	21%	2%	-3%
Health Care	17%	0%	-6%
Utilities	13%	2%	-1%
Energy	11%	-3%	-7%
Telecommunications	1%	-1%	-3%

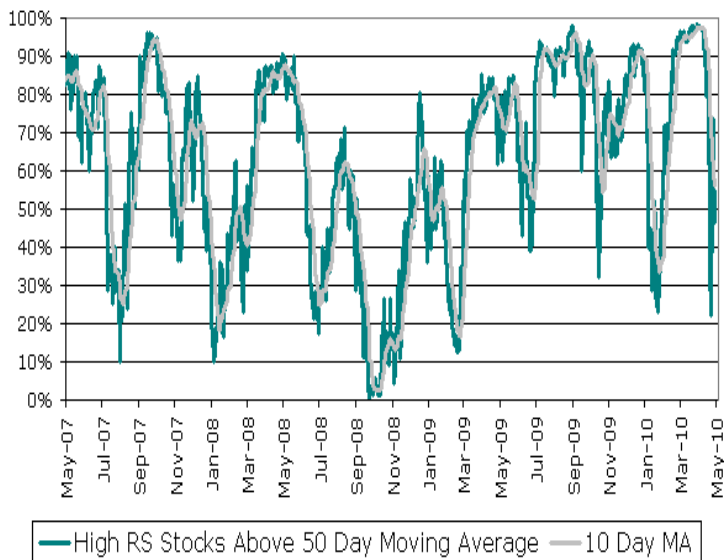
Capitalization Performance

S&P Small-Cap	46%	20%	-3%
S&P Mid-Cap	43%	13%	-5%
S&P Large-Cap	27%	4%	-6%

High RS Diffusion Index

As of 5/14/2010

High RS Diffusion Index

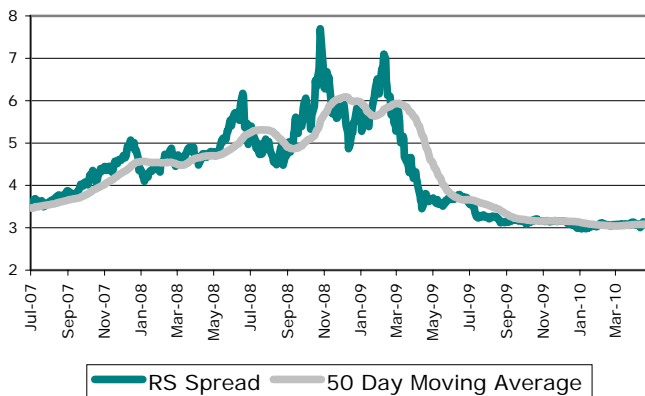


The 10-day moving average of this indicator is 56% and the one-day reading is 46% after reaching a single-day low of 22% on 5/7/10. Dips in this indicator have often provided good opportunities to add to relative strength strategies.

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 5/14/2010:

Relative Strength Spread

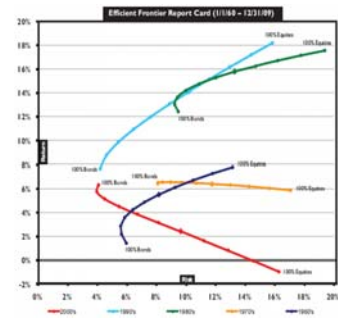


The sharp decline in the RS Spread during much of the first half of 2009 has transitioned into a flat spread, which may be setting the stage for a more favorable environment for RS investing.

All Over The Map

Strategic asset allocation has been the most prominent form of asset allocation for decades now. It is a lovely theory and makes for a slick presentation for a client. But, there's a problem with it. A very big problem. Strategic asset allocation models rely on historical inputs (returns, correlations, and variances) of different asset classes to generate an allocation that "maximizes the return for a given level of risk." Relying on historical statistical relationships, a strategic asset allocation model can propose just how much of a portfolio should be allocated to US equities, international equities, currencies, commodities, real estate, and fixed income. The most common method for generating the required inputs for a strategic asset allocation model is to use a long-term data set, say 50 or 75 years. This will give you a *stationary* data point for each of the inputs. Strategic asset allocation will work just fine, as long as the future **consistently** looks just like each of those stationary inputs. This might happen. It never has in the past, but it might...

The chart below might just be the single best way to explain the benefits of tactical asset allocation over strategic asset allocation.



(Click to Enlarge)

Source: [Arrow Funds](#)

These efficient frontiers of bonds and equities have been all over the map! Each decade was a little, or a lot, different. You can use 75 years worth of data to tell you about the **average** statistical relationship, but this may do you little good over the next 10 or 20 years. Financial professionals can click [here](#), and then click on 'Global Macro Presentation' to see an alternative approach to asset allocation.

Click [here](#) to visit [ArrowFunds.com](#) for a prospectus & disclosures. Click [here](#) for disclosures from [Dorsey Wright Money Management](#). Past performance is no guarantee of future results.

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 5/5/2010.

Asset Class	5/5/2010
Taxable Bond	7,764
Foreign Equity	988
Municipal Bonds	808
Hybrid	525
Domestic Equities	-2,235

Taxable Bonds continue to attract the majority of new mutual fund money, while domestic equities saw a sizable outflow in the week ending 5/5/10.

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)

- [Four Alpha-Seeking ETFs Crushing SPY, ETFdb](#), Apr 30, 2010
- [Under the Microscope: Powershares DWA Technical Leaders ETF](#), *Seeking Alpha*, Mar 31, 2010

Arrow DWA Balanced Fund (DWAFFX)

- [The Endowment Portfolio Rides Again](#), Mar 12, 2010

Arrow DWA Tactical Fund (DWTFFX)

- [Core-and-Satellite](#), May 3, 2010

Dorsey Wright Money Management

- [Bringing Real-World Testing To Relative Strength](#), Jan 2010
- [Relative Strength and Asset Class Rotation](#), Mar 2010

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