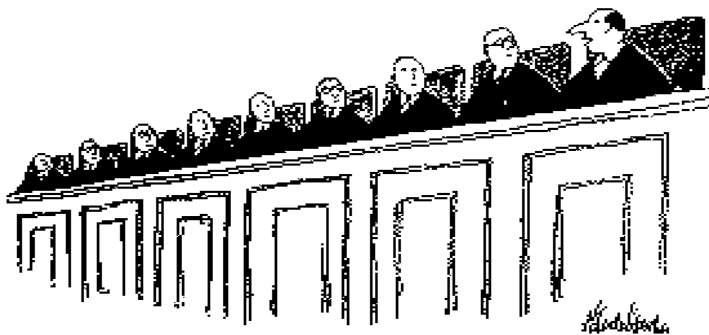


Devoted to information and portfolio strategies for the high relative strength asset class

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.

Feature: Thought Process



"Well heck! If all you smart cookies agree, who am I to dissent?"

The New Yorker Magazine © 1972

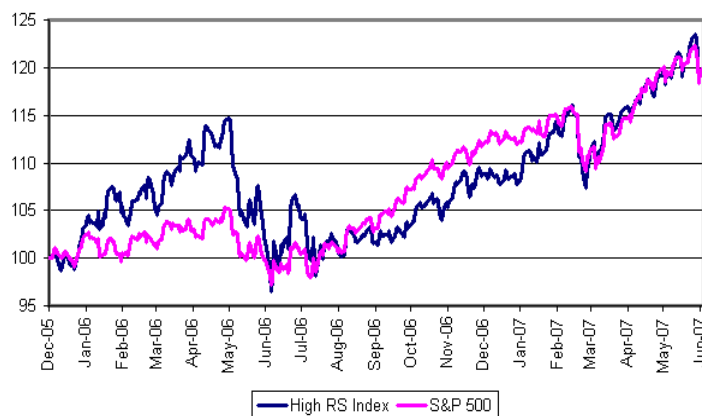
The academic community tells us that daily price changes are random and that the study of the stock's performance history is worthless. However, the field of behavioral finance is beginning to understand the psychology behind why stock prices are not random.

It has long been observed that the stock market goes through repeated cycles of herding behavior where investors all want to buy the same stocks. Psychologists tell us that social proof is an automatic behavior response that has a large impact on determining human behavior. Social proof says that the more people that are engaged in a particular behavior, the greater the proof that the behavior is correct. The need for proof increases under conditions that are highly uncertain such as the stock market. The result of that herding behavior is price trends that **often last for years**. Relative strength is a disciplined method of identifying the most dynamic of those trends.

High RS Asset Class:

High RS stocks, as an asset class, often move independently of broad indexes. Recent performance through 6/11/07:

High RS Index vs. S&P 500 Index



"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 6/11/07

Sector Performance

S&P 500 GICS Sector	12 Month	6 Month	1 Month
Telecommunications	39.12%	16.31%	2.70%
Energy	32.80%	13.22%	4.60%
Materials	30.98%	12.93%	0.60%
Information Technology	24.73%	6.01%	-0.04%
Utilities	22.79%	7.85%	-6.20%
Consumer Discretionary	18.74%	2.57%	-0.02%
Health Care	17.91%	7.80%	-1.22%
Industrials	16.64%	9.57%	1.39%
Consumer Staples	15.73%	5.56%	1.22%
Financials	14.18%	2.59%	-1.17%

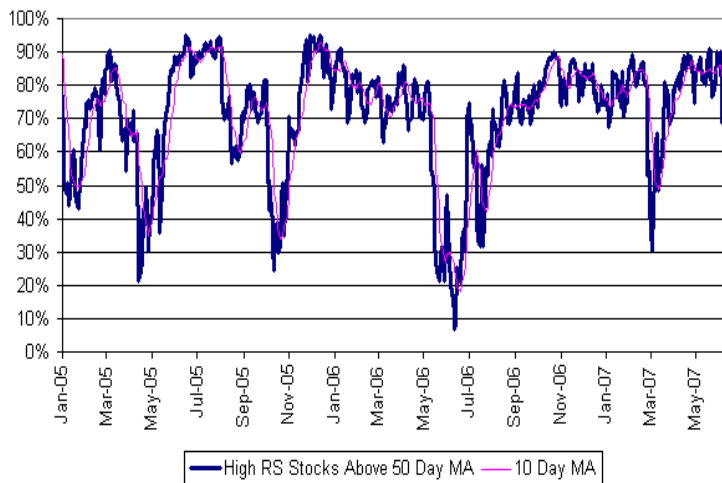
Performance by Capitalization

S&P Large-Cap	20.75%	6.68%	0.29%
S&P Mid-Cap	20.72%	9.98%	0.82%
S&P Small-Cap	17.87%	6.90%	0.24%

High RS Diffusion Index

A large percentage of stocks with high relative strength continue to trade above their 50 Day Moving Average. As of 6/11/07

Dorsey Wright High RS Diffusion Index



RS Spread

The chart below is the spread between 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. When investors are confident in market leadership, they continue to buy into strength and sell into weakness. When investors are risk averse, they tend to sell into strength and buy into weakness. As of 6/11/07.

Relative Strength Spread



The Spread has shown gradual improvement since late 2006.

Inflation



A simple way to see the affects of inflation is to look at postage stamps and the bills you attach them to. In 1983, it cost you 20¢ to mail in your monthly payment. In 2007, it costs you 41¢. The increase in postage alone is 105% percent (3% annualized). Add to that how much more you are now sending to the electric company, the cable company, and so on, and you see the affects of inflation. What will these things cost in the year 2020? Certainly much more than they do today. That's why your money needs to grow just to break even.

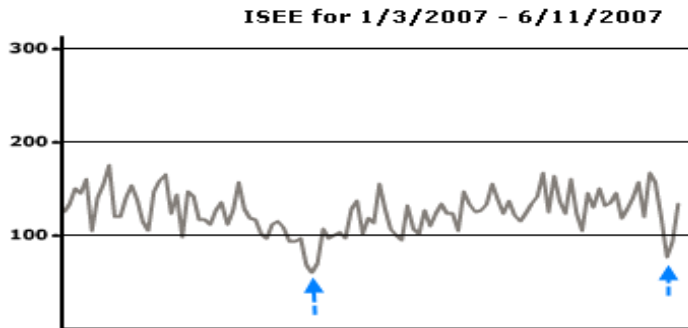
To further see the effects of inflation, consider the following national food price increases as reported by the U.S. Department of Labor, Bureau of Labor Statistics

National average prices	April 2007	April 2002	April 1997
White bread (pound)	\$1.20	\$1.00	\$.86
Ground beef (pound)	\$2.25	\$1.78	\$1.38
Bacon (pound)	\$3.50	\$3.26	\$2.66
Whole chicken (pound)	\$1.12	\$1.11	\$1.00
Eggs (dozen)	\$1.62	\$1.05	\$1.08
Milk (gallon)	\$3.14	\$2.78	\$2.61
Butter (pound)	\$2.86	\$3.20	\$2.18

Over time, common stock is the best way to combat the effects of inflation. Research by Jeremy Siegel, Ph.D., shows that over the past 204 years stock investors have earned an average of 6.8 percent per year after inflation. That return comes from a strategy of buying and holding. Our research and experience shows that a relative strength strategy can provide substantially higher returns than buy and hold over time, making it an even more effective method of combating inflation.

Sentiment: On the Analyst's Couch

The put/call ratio (in this case the call/put ratio) is a contrary indicator. When market participants are fearful, it is bullish for stock prices. The low of the year for this indicator was in March, but a relatively low reading was recently seen earlier this month.



Calculating the ISEE

ISEE is computed by dividing opening long call options bought by customers by opening long put options bought by customers.

$$\frac{\text{Long Calls (Opening Position)}}{\text{Long Puts (Opening Position)}} \times 100 = \text{ISEE}$$

Other RS Sources

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

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

Earnings Growth, P/Es and Relative Price Strength, Robert A. Levy and Speros L. Kripotos, Financial Analysts Journal, 1967

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

Momentum Strategies, Louis K.C. Chan, Narasimhan Jegadeesh, and Josef Lakonishok, Journal of Finance, 1996.

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<http://tinyurl.com/35f8ch>
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- Fund of ETFs Leads Way for Moderate Allocation, *Arrow Funds*, Feb 21, 2007
<http://tinyurl.com/2j56ow>

General

- Can Relative Strength Be Used in Portfolio Management?, *Technical Analysis of Stock & Commodities*, Aug 2005
<http://tinyurl.com/38ooq3>
- Systematic Relative Strength Investment, *The Wall Street Transcript*, Jan 29, 2007
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To Request Info

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