

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.

Modus Operandi: Follow Price

From Michael Covel's "Trend Following:"

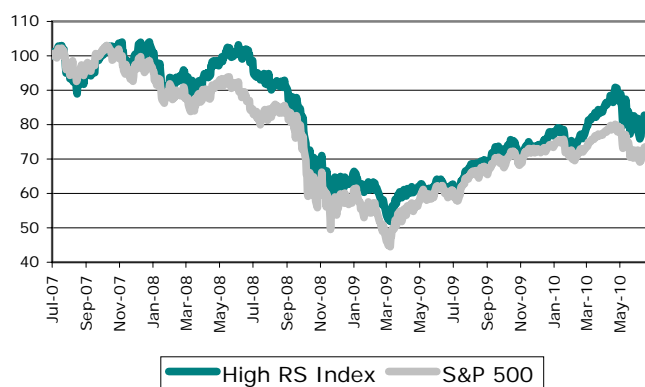
*Trend followers generate phenomenal returns because their decisions are ultimately based on one piece of core information: price. In an increasingly uncertain and, these days, downright unfriendly world, it is extremely efficient and effective if our decision-making is based on this single, simple reliable truth. The constant barrage of fundamental data, such as price-earnings ratios, crop reports, and economic studies, plays into traders' tendencies to make trading more complicated than it needs to be. Yet, factoring in every possible fundamental still does not tell a trader how much and when to buy, or how much and when to sell. It is not unusual for many traders to become familiar with and focus on only one market (usually in their own country) to the exclusion of all other global opportunities. Seeking to maintain the maximum degree of comfort, they follow this one familiar market's movements faithfully. If they specialize in stocks, they wouldn't dream of branching out into currencies or futures. How can a stock trader know anything about currencies? The idea that you could know enough about Cisco and soybeans to trade them both seems unfathomable to some. **But think about what cotton, crude oil, Cisco, Sun, GE, the U.S. dollar, the Australian dollar, soybeans, wheat, Microsoft, EMC, and Oracle all have in common: Price.***

Market prices are the objective data. You can compare and study prices and measure price movements, even if you know nothing about the markets themselves.

High RS Asset Class

High RS stocks, as an asset class, often move independently of broad indexes. Recent performance through 6/25/2010:

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

Sector Performance

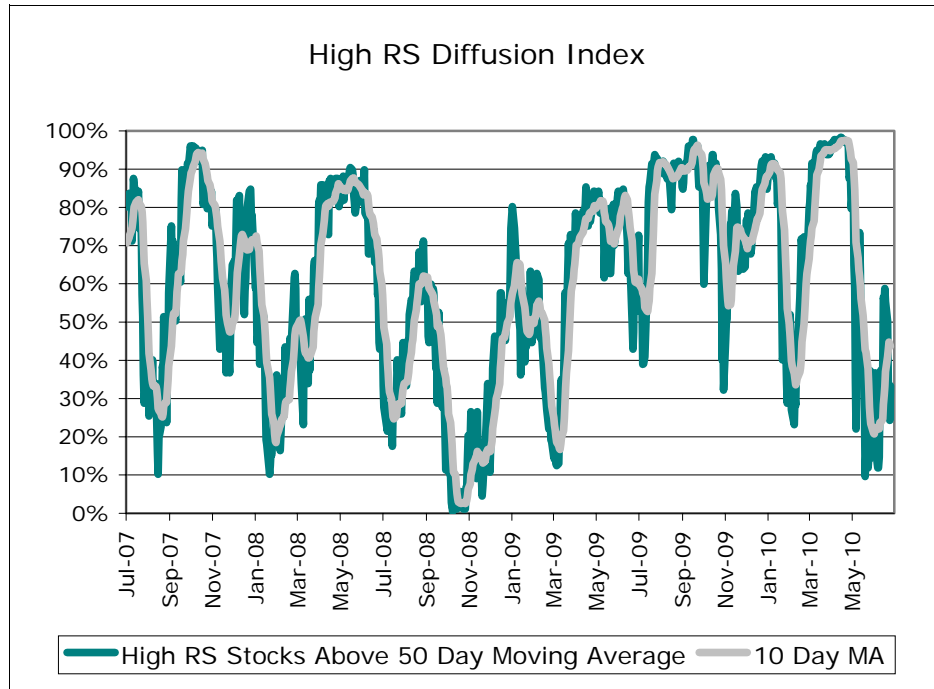
S&P 500 GICS Sector	12 Month	6 Month	1 Month
Consumer Discretionary	33%	2%	-3%
Industrials	30%	2%	0%
Financials	24%	1%	1%
Technology	21%	-7%	0%
Materials	18%	-9%	0%
Consumer Staples	11%	-4%	-1%
Health Care	9%	-8%	2%
Energy	5%	-10%	1%
Utilities	3%	-9%	3%
Telecommunications	-1%	-10%	2%

Capitalization Performance

S&P Capitalization	12 Month	6 Month	1 Month
S&P Mid-Cap	29%	1%	0%
S&P Small-Cap	29%	2%	0%
S&P Large-Cap	17%	-4%	0%

High RS Diffusion Index

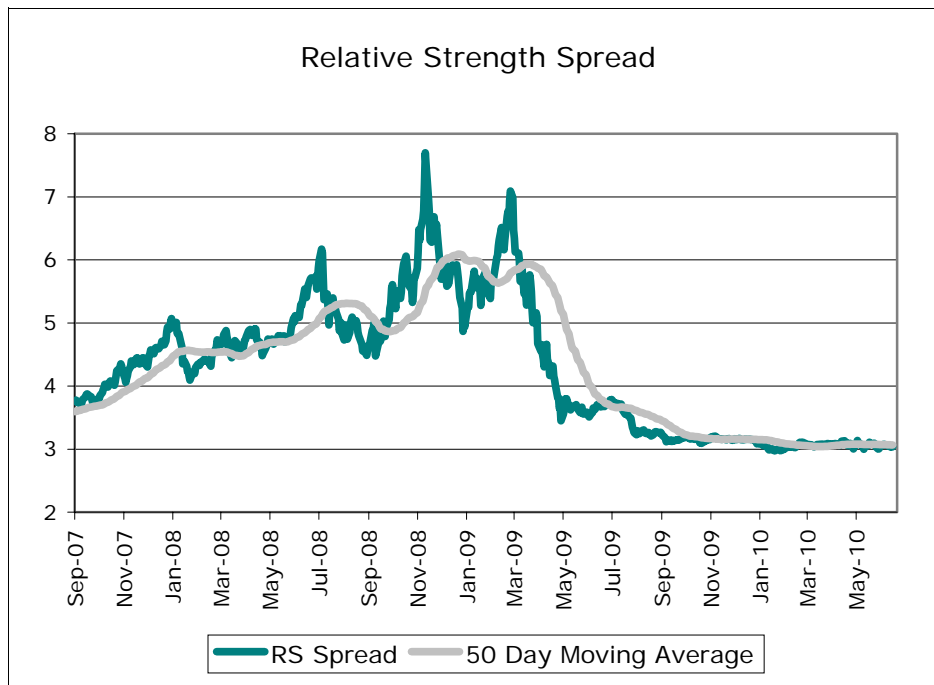
As of 6/25/2010



The 10-day moving average of this indicator is 44% and the one-day reading is 33% after reaching a single-day low of 10% on 5/20/10. 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 6/25/2010:



What is likely to follow this transitional phase of the Spread over the past year? I suspect that we are setting the stage for a very favorable environment for RS investing in the coming years.

Global Macro: Not Just For Breakfast Anymore

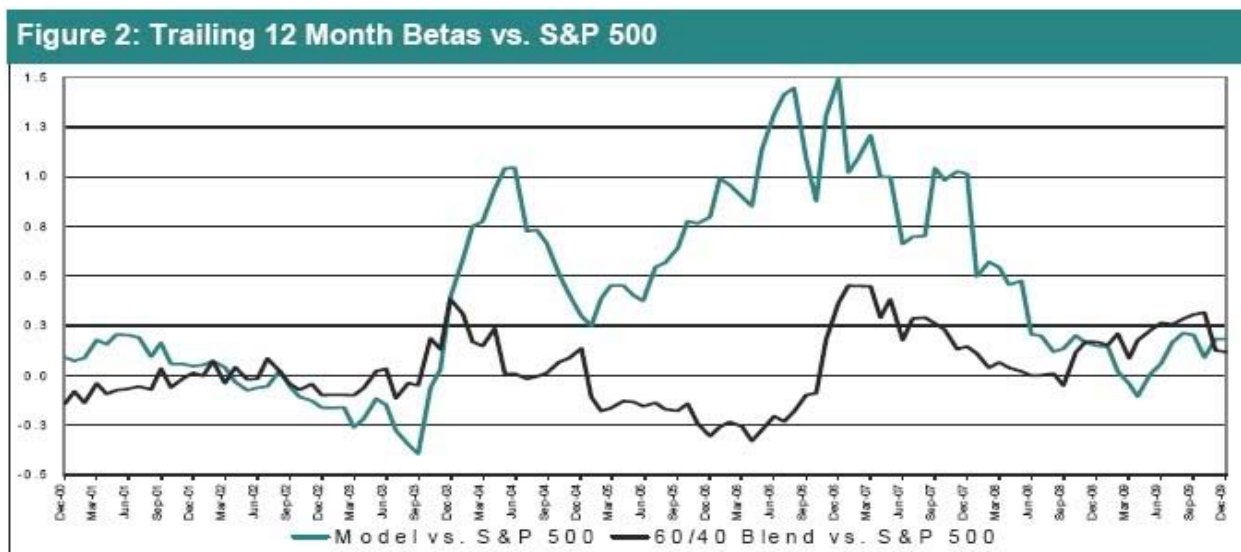
[Bloomberg Businessweek](#) has a nice article about how small investors are currently embracing hedge fund-like strategies. One of the most prominent hedge fund strategies is global macro, in which the manager has the freedom to forage among all kinds of global asset classes. At Dorsey, Wright we offer exposure to a global macro strategy through both a separate account (Global Macro) and a mutual fund (Arrow DWA Tactical Fund, DWTFX).

Retail investors are intrigued for a couple of reasons. After large losses in 2008, investors seem to be more willing to explore alternative asset classes and to experiment with a more tactical approach. There may also be some level of disenchantment with strategic asset allocation, which did not perform as expected during the last bear market.

According to the article, one of the significant attractions of hedge fund-like strategies is this:

Hedge funds as an asset class have a high correlation to equities during bull markets and a low correlation during bear markets...

This is certainly true of our global macro asset class rotation strategy using a systematic relative strength criterion. If you dig into our recent [white paper on asset class rotation](#), you can see how the portfolio beta ranges up and down in different environments.



[click on the image to enlarge it]

Source: [Dorsey, Wright Money Management](#)

The big shift in perspective, though, has to do with the level of allocation to tactical strategies. In the core-satellite approach, tactical or global macro approaches were typically considered as part of the satellite package and were given small capital allocations. That has changed rather dramatically. According to one fund manager interviewed in the article [my emphasis]:

*...while the tactical approach is labeled "alternative," it's not attracting the typical alternative-asset allocation of 3 percent to 5 percent. "More often, **[retail investors] are making this a core allocation**. We're getting a 35% core allocation typically because advisors don't think they're getting return expectations or risk [protection] out of traditional strategies."*

To obtain a fact sheet and prospectus for the Arrow DWA Tactical Fund (DWTFX), click [here](#) or call Jake Griffith at 301-260-0163.

Click [here](#) for disclosures. 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 6/16/2010. *Millions of dollars*

Asset Class	6/16/2010
Taxable Bonds	4,233
Hybrid	482
Municipal Bonds	242
Foreign Equities	-13
Domestic Equities	-1,824

Taxable bonds continue to be the asset class of choice among retail mutual fund investors.

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 Arrow DWA Balanced Fund](#), Jun 17, 2010

Arrow DWA Tactical Fund (DWTFFX)

- [The "All-in-One Fund" With a Twist](#), Jun 16, 2010

Dorsey Wright Money Management

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

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