



## Technical Talk

### Relative Strength – Use it to your Advantage

If I told you I was a fast runner, that alone may not mean much. Relative to Usain Bolt, I'm probably pretty slow (I'll give him some credit for all those Olympic Medals). Compared to my youngest daughter, I am very fast in her eyes. Actually, she is very fast for her age "relatively speaking." This term can be a big help when seeking the right investments to purchase for your portfolio. Known as "Relative Strength," it represents measuring the performance of one security's price performance to another. On a chart, a line will show this ratio. If the line is moving up, the first security in the ratio is outperforming the second security of the ratio over the time frame being viewed. By understanding how one investment has performed compared to another option you may be considering, you can often make a better informed decision about which may be the right choice for your portfolio.

#### How we view it...

At Econ Wealth Management, we use our Sector Rotation Process to help guide our overall investment strategy when building portfolios within our many Programs we offer to our clients. This process is one of many techniques that is aided by Relative Strength analysis. It can help provide which areas of the economy are performing and which are not. The sectors in the lead often tell what part of the economic cycle we are in and what may be the upcoming sectors to strengthen and weaken. Whenever we need to see where the actual money is flowing, we use Relative Strength analysis to determine which asset classes would be appropriate for a tactical overweight or underweight decision. If equities are performing well, is Large Cap the place to be? Or would Mid or Small Cap equities be doing better relative to the blue chip stocks? How does International or Emerging Markets compare to US-based equities? If we are considering specific securities, is a Home Depot vs a Lowes comparison necessary in order to see which has the advantage of better Relative Strength? Addressing these questions is often a simple chart comparison that can go a long way toward improving investment decisions.

#### An Example from Technical Analysis



Technical Talk provides further information on topics of interest presented to our Advisors from our clients and comes published by the EWM Asset Management team to help our clients understand what is important to how we manage their portfolio. References to technical analysis serves as the foundation in this series of educational updates. Please consider meeting with a member of our Wealth Planning Team to provide you a personal review of your current assets and financial plan. Our Technical Topics segments are intended for education purposes only and are not a recommendation, solicitation or offer to buy or sell securities. Only a well-designed plan personalized to your goals and needs should be considered when making an investment decision.

#### Why this Matters?

Many investors believe that investing in a lower-priced security or the one that has performed the worst over a given time will be the one to buy. Often it is viewed as cheaper or a good value. In my experience, that is not the best way to view making investments for a portfolio. That strategy of buying low often means selling lower and is based on hope. Newton's Law suggests something will stay in motion until acted upon by another force. With investing, Relative Strength uses this theory and can potentially provide an advantage. The key is the need to watch when that force acts upon an investment and what you do with the investment when it does.

This example shows a Relative Strength comparison between the US (represented by the Dow Jones Industrial Average) and the International Index (represented by the MSEAFE Index). The rising trend line drawn in green shows a generally increasing ratio over the past year. The arrow shows an area of a thrust higher over the recent period shown. This suggests that the US market has been outperforming the International market on a relative basis over the past year. There was a notable period from July into October which this was not the case. Until the trend line is violated, we can say US equities have been stronger.

Past performance may not be indicative of future results. No current or prospective client should assume that the future performance of any specific investment, investment strategy (including investments and/or investment strategies recommended by the adviser), will be equal to past performance levels.

Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio. The information presented herein is intended for educational purposes only, and is in no way intended to be interpreted as investment advice. In considering the information presented, readers should consult their own professional advisers, as there is no substitute for personalized investment or tax advice.

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