





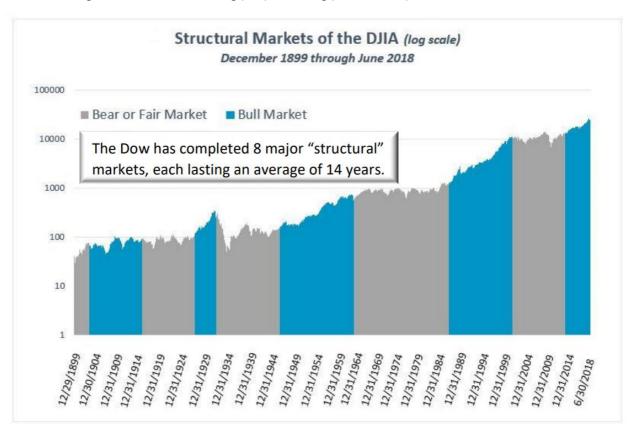
Fundamental analysis focuses only on what stocks to buy; learn why technical analysis helps you determine when.

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Fundamental Analysis is Not Enough

The Dow Jones Industrial Average's historical performance since 1896 indicates that the US stock market undergoes extended periods of upward trends as well as extended periods of stagnation or decline. This pattern has repeated itself eight times over the past century, with each cycle lasting an average of 14 years.

Suppose an individual starts accumulating significant wealth to invest at age 40 and has a life expectancy of 85 years; they are likely to experience three of these cycles during their investment horizon. Therefore, having effective strategies that work in both rising (bull) and falling (bear or "fair") markets is crucial.



The Point & Figure methodology has been a successful approach to markets since the late 1800s. It was initially developed by Charles Dow, who was a fundamentalist and the original editor of the Wall Street Journal. Despite his fundamentalist approach, Dow recognized the importance of recording price movements and comprehending the supply and demand dynamics in investments.

Over the past century, the Point & Figure methodology has evolved, but its fundamental principles remain a structured and rational way to record the supply and demand relationship in any investment.

As consumers and investors, we are familiar with the concepts of supply and demand, which are taught in introductory economics courses and experienced in our daily lives. For instance, we know that tomatoes taste better, have a longer shelf life and are cheaper when they are in season and abundant.

What some investors are slow to understand is that the same forces that influence prices in supermarkets also affect prices in financial markets. In any free market, if there are more buyers than sellers willing to sell, prices will rise. Conversely, if there are more sellers than buyers willing to buy, prices will fall. By systematically charting price movements, we can determine who is prevailing in the supply-demand tug of war. And by being able to evaluate market changes, we can become more responsive to bullish and bearish periods.

Put more simply: if supply and demand drive the price of all goods and services in our economy, why would it be any different in the stock market?

Broaden Your Scope

Investing is often associated with buying stocks, but in the past fifteen years, the accessibility of other asset classes that were previously limited to institutional investors has expanded to a wider audience. This has allowed for a more diverse range of investment options beyond US stocks, such as international stocks, commodities, currencies, fixed income, and cash alternatives.

This increased flexibility in investment choices can prove advantageous when US equities are not performing well.

The accompanying "quilt" chart illustrates how asset classes rotate in and out of favor, similar to the seasonal availability of produce at a supermarket. No single asset class has consistently outperformed others over the last fifteen years; US equities, commodities, fixed income, and cash alternatives have each taken turns at the top spot. Investors should adjust their portfolio strategy, similar to a chef adapting their menu to use the freshest produce, to capitalize on the current "season" of the asset class market.

			22	D FOO	Secto	r Dorf	orman	00			
			30	XP JUU	Secio	I Pello	Ullian	CE			
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	1H '18
ENRS	CONS	INFT	REAL	UTIL	FINL	COND	REAL	COND	ENRS	INFT	COND
34.4%	-15.4%	61.7%	32.3%	19.9%	28.8%	43.1%	30.2%	10.1%	27.4%	38.8%	11.5%
	HLTH -22.8%		COND 27.7%	CONS 14.0%	COND 23.9%	HLTH 41.5%	UTIL 29.0%	HLTH 6.9%	TELS 23.5%	MATR 23.8%	INFT 10.9%
UTIL	UTIL	COND	INDU	HLTH	REAL	INDU	HLTH	CONS	FINL	COND	ENRS
19.4%	-29.0%	41.3%	26.7%	12.7%	19.7%	40.7%	25.3%	6.6%	22.8%	23.0%	6.8%
INFT	TELS	REAL		REAL	TELS	FINL	INFT	INFT	INDU	FINL	S&P
16.3%	-30.5%	27.1%		11.4%	18.3%	35.6%	20.1%	5.9%	18.9%	22.2%	2.7%
CONS	COND	S&P	ENRS	TELS	HLTH	S&P	CONS	REAL		HLTH	HLTH
14.2%	-33.5%	26.5%	20.5%	6.3%	17.9%	32.4%	16.0%	4.7%		22.1%	1.8%
INDU	ENRS	INDU	TELS	COND	S&P	INFT	FINL	TELS	UTIL	S&P	REAL
12.0%	-34.9%	20.9%	19.0%	6.1%	16.0%	28.4%	15.2%	3.4%	16.3%	21.8%	0.8%
TELS	S&P	HLTH	S&P	ENRS	INDU	CONS	S&P	S&P	INFT	INDU	UTIL
11.9%	-37.0%	19.7%	15.1%	4.7%	15.4%	26.1%	13.7%	1.4%	13.9%	21.0%	0.3%
HLTH	INDU	FINL	CONS	INFT	MATR		INDU	FINL	S&P	CONS	MATR
7.2%	-39.9%	17.2%	14.1%	2.4%	15.0%		9.8%	-1.5%	12.0%	13.5%	-3.1%
S&P	REAL	CONS	FINL	S&P	INFT	ENRS	COND	INDU	COND	UTIL	FINL
5.5%	-42.3%	14.9%	12.1%	2.1%	14.8%	25.1%	9.7%	-2.5%	6.0%	12.1%	-4.1%
COND	INFT	ENRS	INFT	INDU	CONS	UTIL	MATR	UTIL	CONS	REAL	INDU
-13.2%	-43.1%	13.8%	10.2%	-0.6%	10.8%	13.2%	6.9%	-4.8%	5.4%	10.9%	-4.7%
REAL		UTIL	UTIL	MATR	ENRS	TELS	TELS	MATR	REAL	ENRS	TELS
-17.9%		11.9%	5.5%	-9.6%	4.6%	11.5%	3.0%	-8.4%	3.4%	-1.0%	-8.4%
FINL	FINL	TELS	HLTH	FINL	UTIL	REAL	ENRS	ENRS	HLTH	TELS	CONS
-18.6%	-55.3%	8.9%	2.9%	-17.1%	1.3%	1.6%	-7.8%	-21.1%	-2.7%	-1.3%	-8.6%
				Quilt by Nov	vel Investor. All	data are as of (6/30/18.				
COND – Consumer Discretionary				HLTH – Health Care				REAL – Real Estate			
CONS – Consumer Staples				INDU – Industrials				TELS – Telecommunication Services			
ENRS – Energy				INFT – Information Technology				UTIL – Utilities			
FINL - Financials				MATR – Materials				S&P – S&P 500 Index			

Tactical Portfolio Research

Granite Wealth Management employs research and evaluation techniques to make tactical decisions. We specialize in Point & Figure charting, which analyzes the supply and demand forces of asset classes and ranks them based on relative strength (RS). This ranking system is akin to how sports teams are ranked based on their performance against opponents.

The more games, matches, or races won, the higher the team's ranking. In the investment markets, a similar approach can be taken. Every day, the performance of one asset class is compared to another to determine which is stronger or weaker. The Tactical Portfolio Research strategy of GWM is comprised of four steps and is used to rank asset classes from strongest to weakest.

Step 1:

A roster is established for each asset class. For instance, in the international equity space, all areas of the world are represented from Europe to Latin America to Canada to Australia and Asia-Pacific. The process of determining the roster is essential so that no one segment within an asset class has too great of an influence.

Step 2:

A relative strength (RS) calculation is compiled for each member of the roster versus every other member of the evaluation set. In essence, a very large armwrestling tournament is held. After all individual calculations are computed and charted on a Point & Figure basis, each member now has its number of RS "wins."

Step 3:

The total number of "wins" for each individual member of the asset class is added together to get a composite score for the entire asset class. The asset classes are then ranked from 1 to 6. The asset classes ranked are as follows:

Domestic Equities International Equities Commodities Foreign Currencies Fixed Income Cash

Step 4:

The top two asset classes are eligible to be deemed Emphasized in the Tactical Portfolio Research strategy.

Optional Step 5:

The top two asset classes are compared to Cash on a Point & Figure relative strength basis. If Cash is stronger, Cash takes its spot as Emphasized. Cash is the only asset class that can occupy both of the Emphasized Asset dass spots.

Each day, thousands of calculations are done to support the Tactical Portfolio Research and determine which asset classes have emerged as the leaders according to this methodology. As the asset classes fluctuate in strength, emphasized asset classes in the strategy will also change, reflecting current market trends.

Implementation

Asset allocation is a strategy that involves assigning specific percentages of a portfolio to different asset types, which are periodically rebalanced to target percentages. The purpose of asset allocation is to reduce risk by diversifying exposure across several asset classes. A tactical approach to asset allocation uses concepts like GWM's Tactical Portfolio Research to determine the weighting of each asset class, which will fluctuate depending on trends in the market.

Granite Wealth's tactical asset allocation process emphasizes four asset classes: Domestic Equities, International Equities, Commodities, and Currencies, with a 15% weighting each. The remaining 40% is split between the two asset classes favored in TPR. If equities show the strongest relative strength, then 35% will be in Domestic Equities and 35% in International Equities. When Cash Alternatives are the strongest, the portfolio can hold 40% in Cash Alternatives, and the equity allocation will be reduced to 30%.

Granite Wealth Management believes that tactical asset allocation provides a systematic and disciplined way to overweight asset classes when they are in favor on a relative strength basis. The relative strength strategy is also used to determine the strongest sectors within the emphasized asset class. Skewing the portfolio towards those sectors performing the best can provide significant benefits, but it is essential to avoid jumping in at the top, which is why professional help is crucial.

Conclusion

In short, proper technical analysis can improve portfolio performance. The best way to see how is to have such rigor applied to your holdings, which is why we offer a free portfolio review.

Contact us to set a time for your own free personal portfolio review – a \$900 value! We will run your holdings through our screens and give you added input on the stocks in your account.

If our process resonates with you, perhaps there's a chance we can be of service longer-term. Regardless, you'll get a portfolio review unlike any you've probably had in the past, giving you that much more insight into how to approach your next steps in the stock market.

Plus, we'll send you a copy of Morgan Housel's terrific book, the Psychology of Money, as a thank you!

What do you have to lose? Schedule your technical analysis portfolio review call today.