

# Like a Great Pianist, Learn to Invest with Both “Hands”



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

**Granite Wealth Management, LLC**

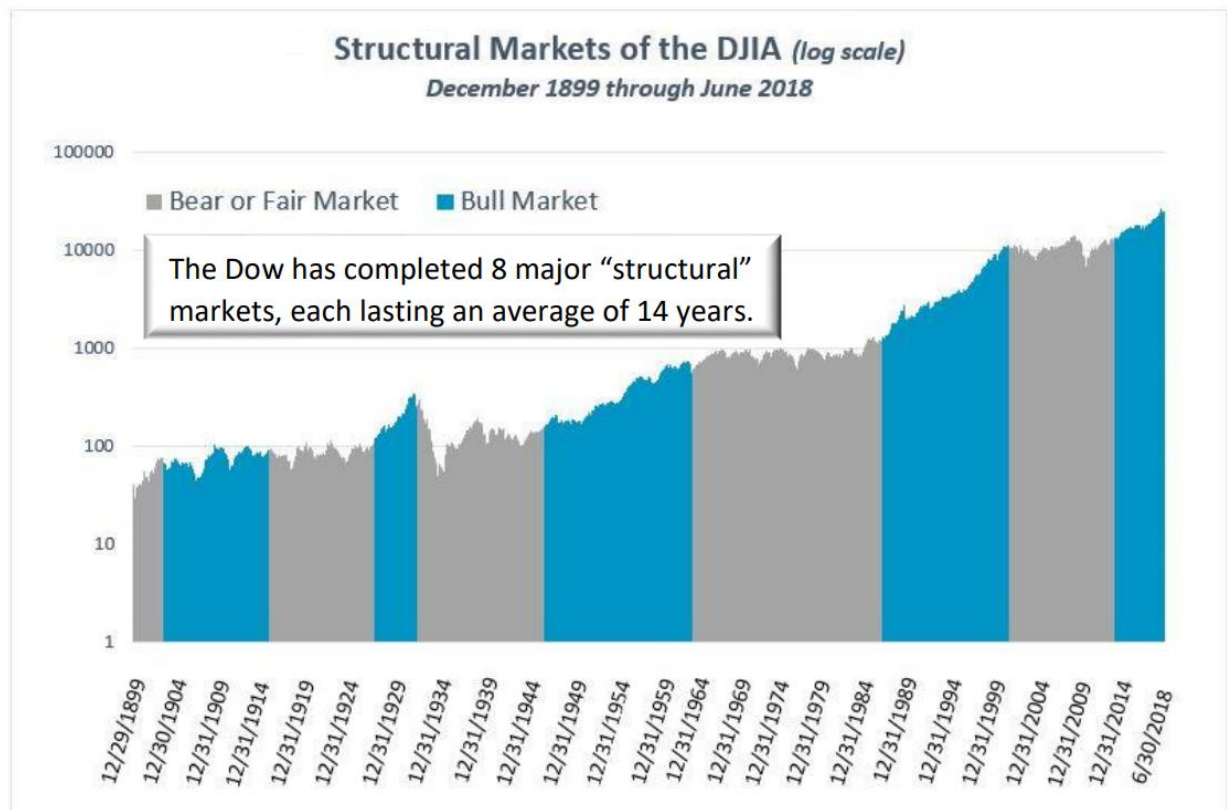
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## Fundamental Analysis is Not Enough

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.

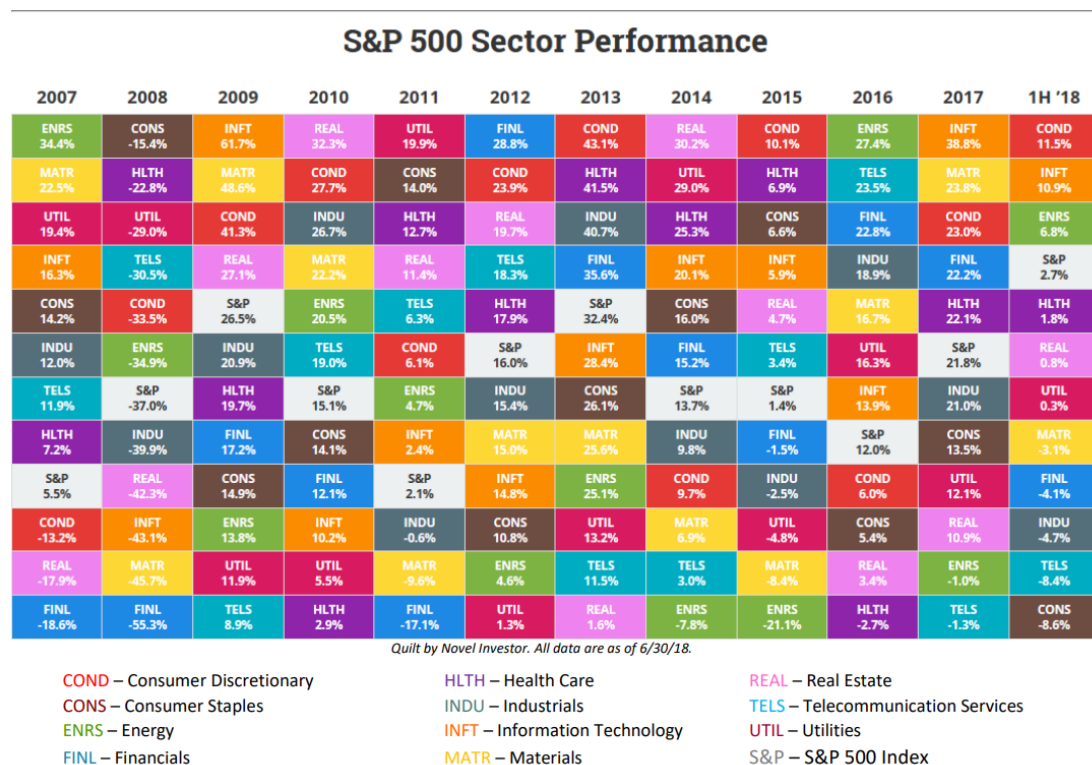
Put more simply: if supply and demand drive the price of all goods and services in our economy, why would it be any different in the stock market?

## 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.

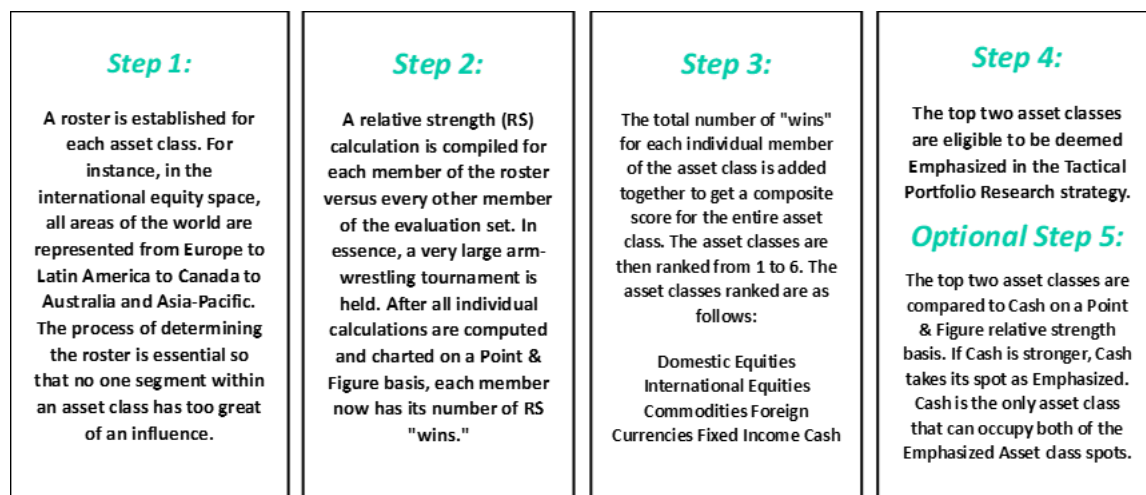
The accompanying "quilt" chart illustrates how asset classes rotate in and out of favor, similar to the seasonal availability of produce at a supermarket. No single asset class has consistently outperformed others over the last fifteen years; US equities, commodities, fixed income, and cash alternatives 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.



## 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.



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.