

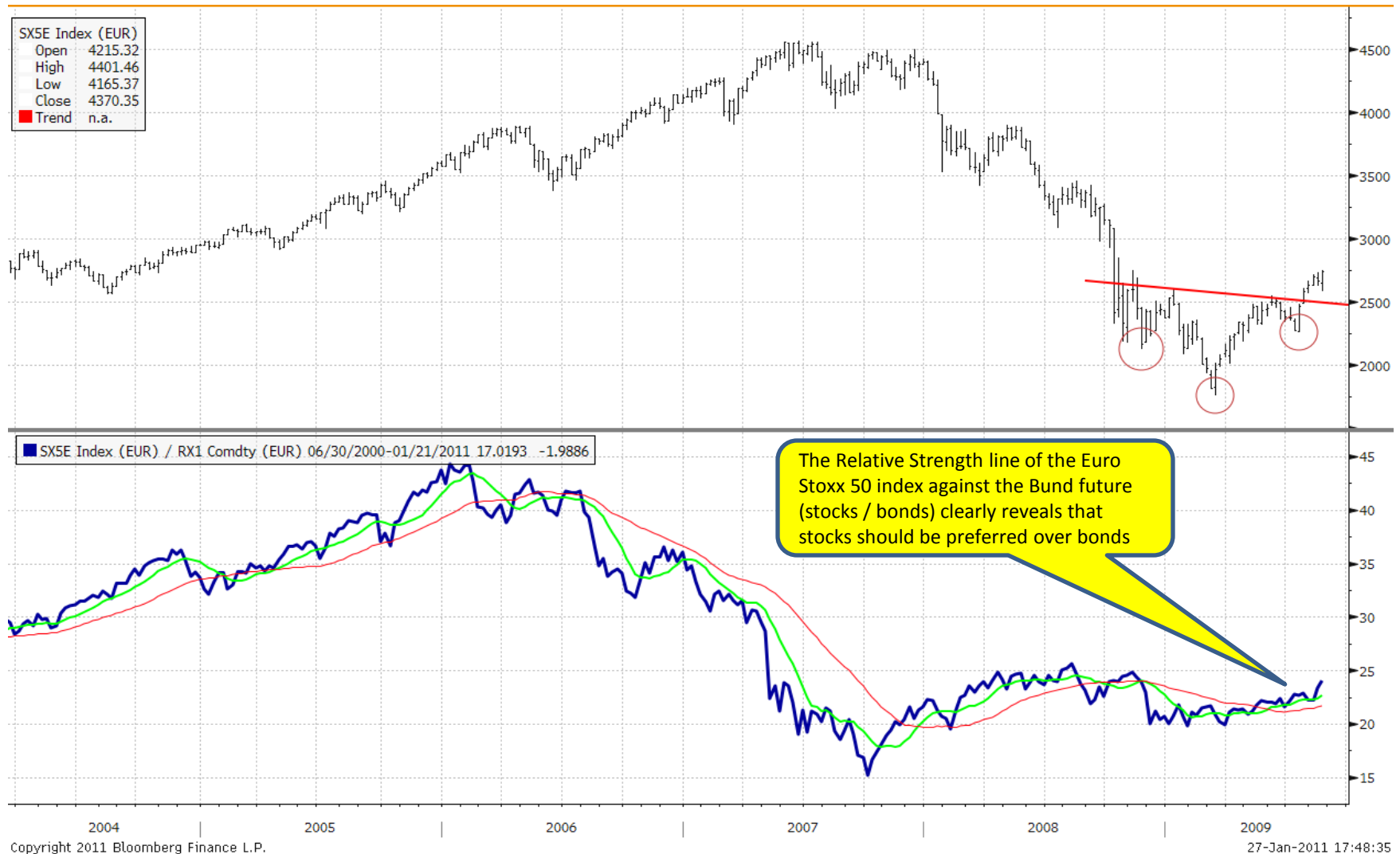
**RRG <GO>**

## **Relative Rotation Graphs**

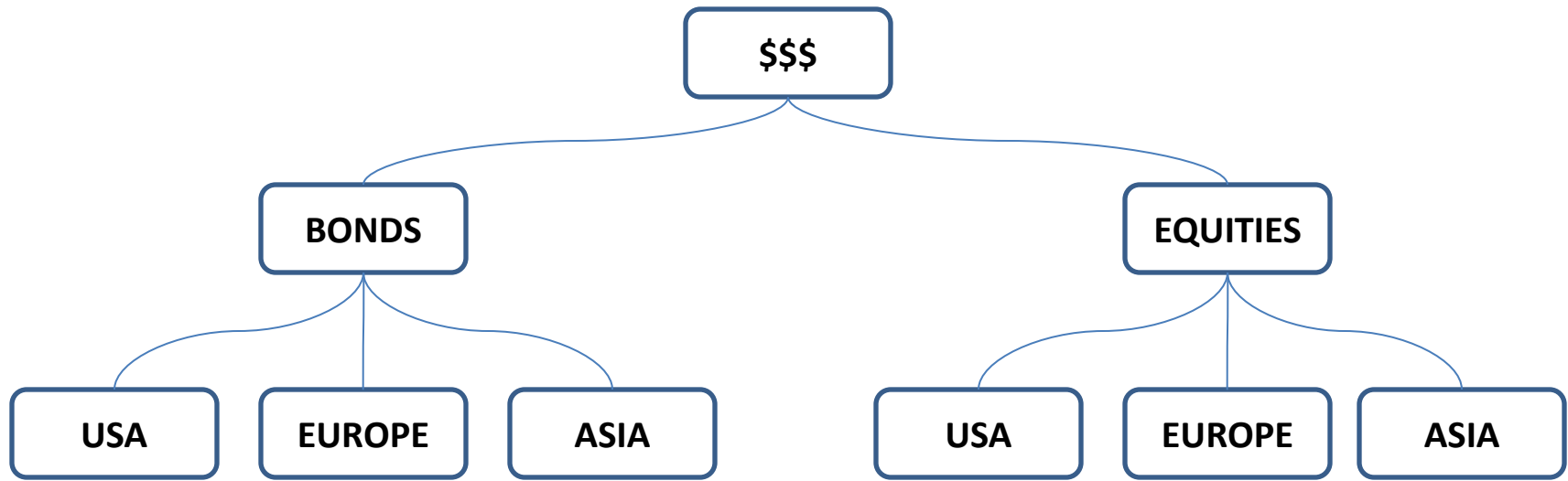
*Julius de Kempenaer*

- The problem with single security graphs is that the only answer you will get is to invest or not to invest in that one security.
- To view things in a broader context is more difficult.
- In our technicians toolbox there is one single technique that helps you to make choices, distinguish between 2 securities.
  - **Relative Strength**

# Euro stoxx 50 vs bund future



- Stock/bond question can (easily) be answered using RS
- Next step down the pyramid / decision tree



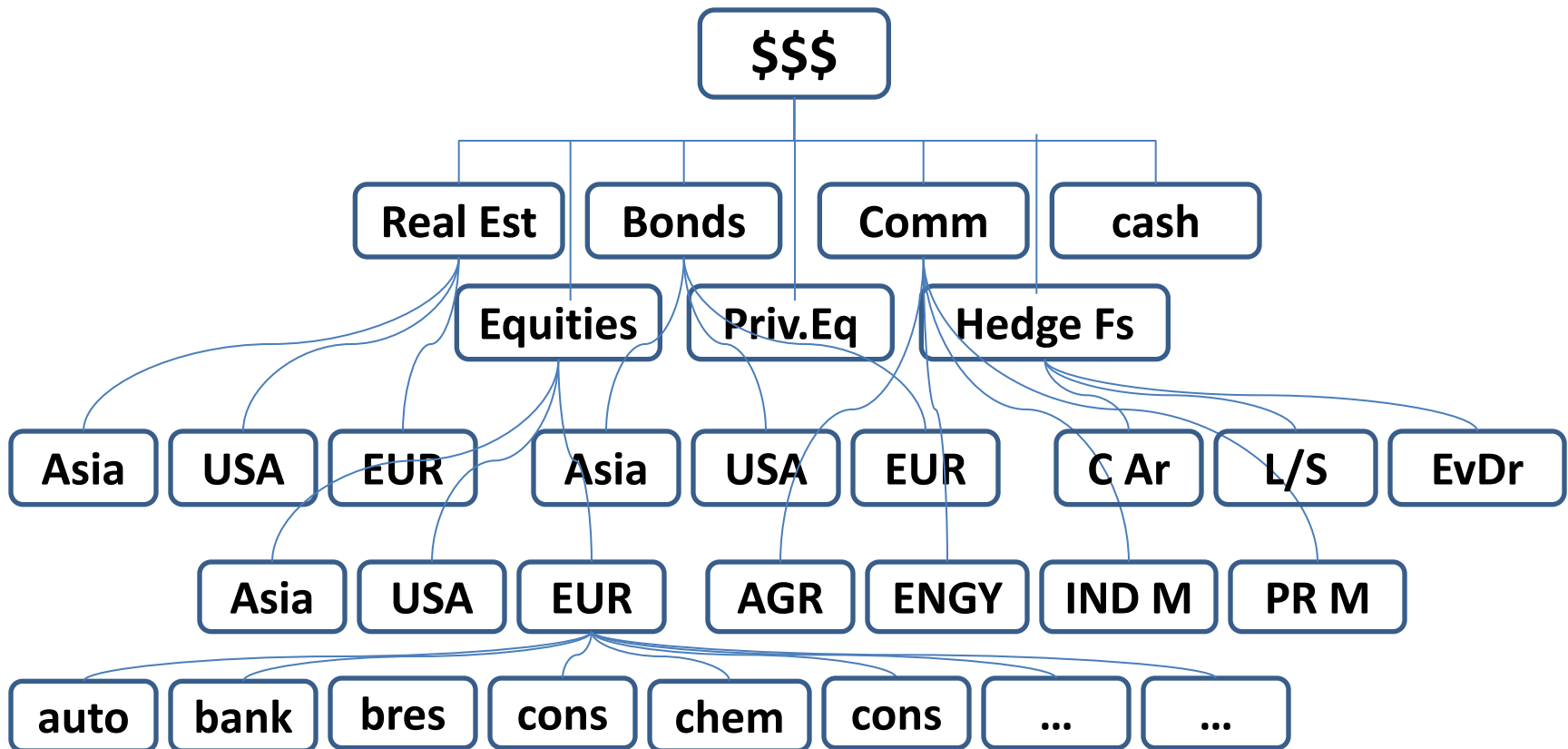
$3 \times 3 = 9 - 3 = 6 / 2 = 3$  choices

3 we can handle by looking at 3 RS graphs

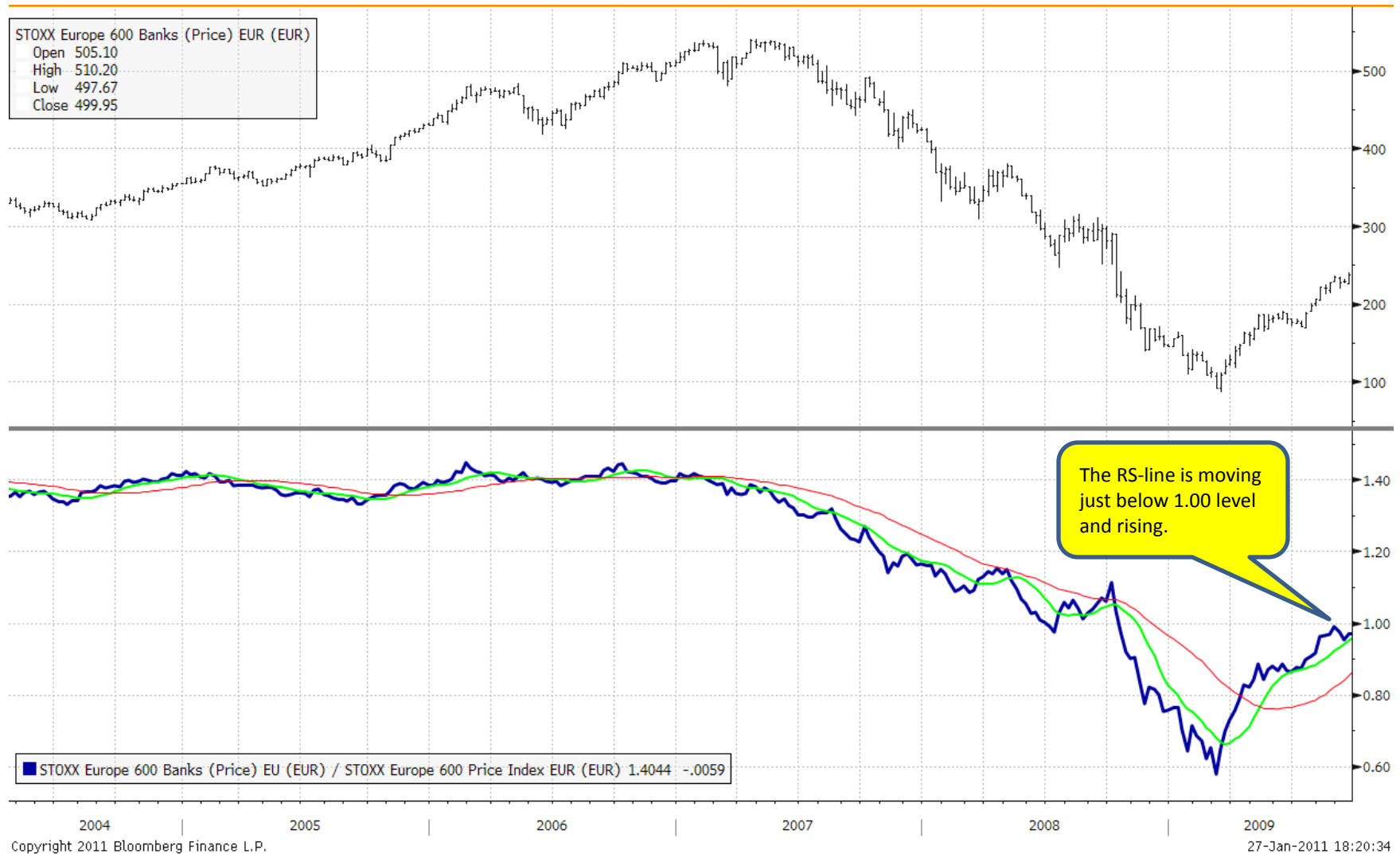


- In the Asset Class equities next step could be to look at sectors.
- In europe 19 Stoxx sectors
- In US for example 10 GICS L1 sectors or 24 GICS L2 industry groups etc.
- $19 \times 19 = 361 - 19 = 342 / 2 = 171$
- $10 \times 10 = 100 - 10 = 90 / 2 = 45$
- $24 \times 24 = 576 - 24 = 552 / 2 = 276$
- Now that's more of a challenge

- For the professional portfolio manager the decision tree and the associated number of choices can become very complex, very rapidly.

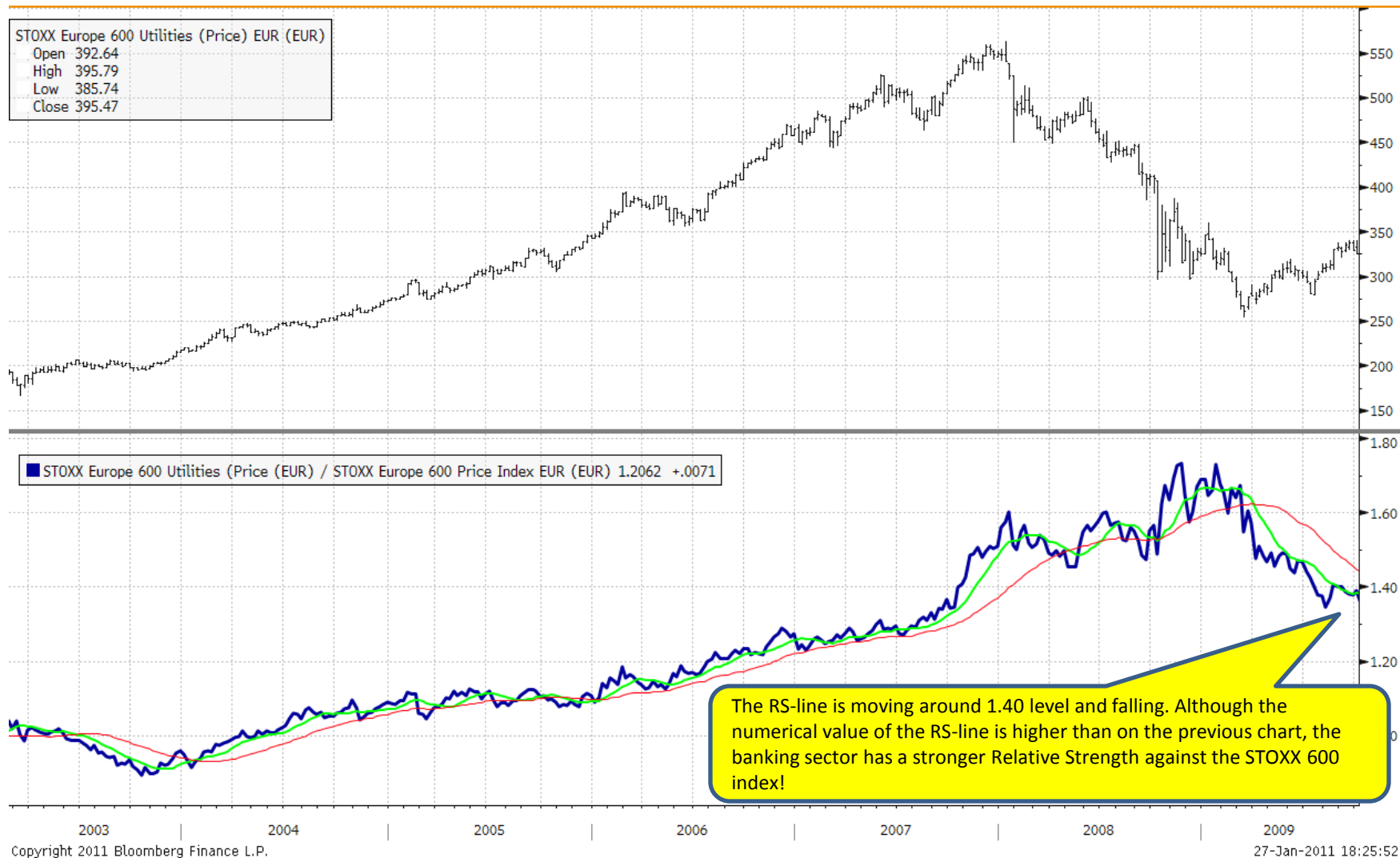


# Sector comparison: Banks vs. STOXX 600





# Sector comparison : Utilities vs. STOXX 600



- The individual RS lines once again give pretty good clue about individual comparisons vs benchmark
- The RS lines answer “good” or “bad”
- They do not answer “how good” or “how bad”
- Or “best” and “worst”
- Raw RS values (sec A/sec B) are like apples and oranges they cannot be compared
- Taking the relative positions of all elements in a universe into account in a uniform way enables “ranking”
  - JdK RS-Ratio does exactly that

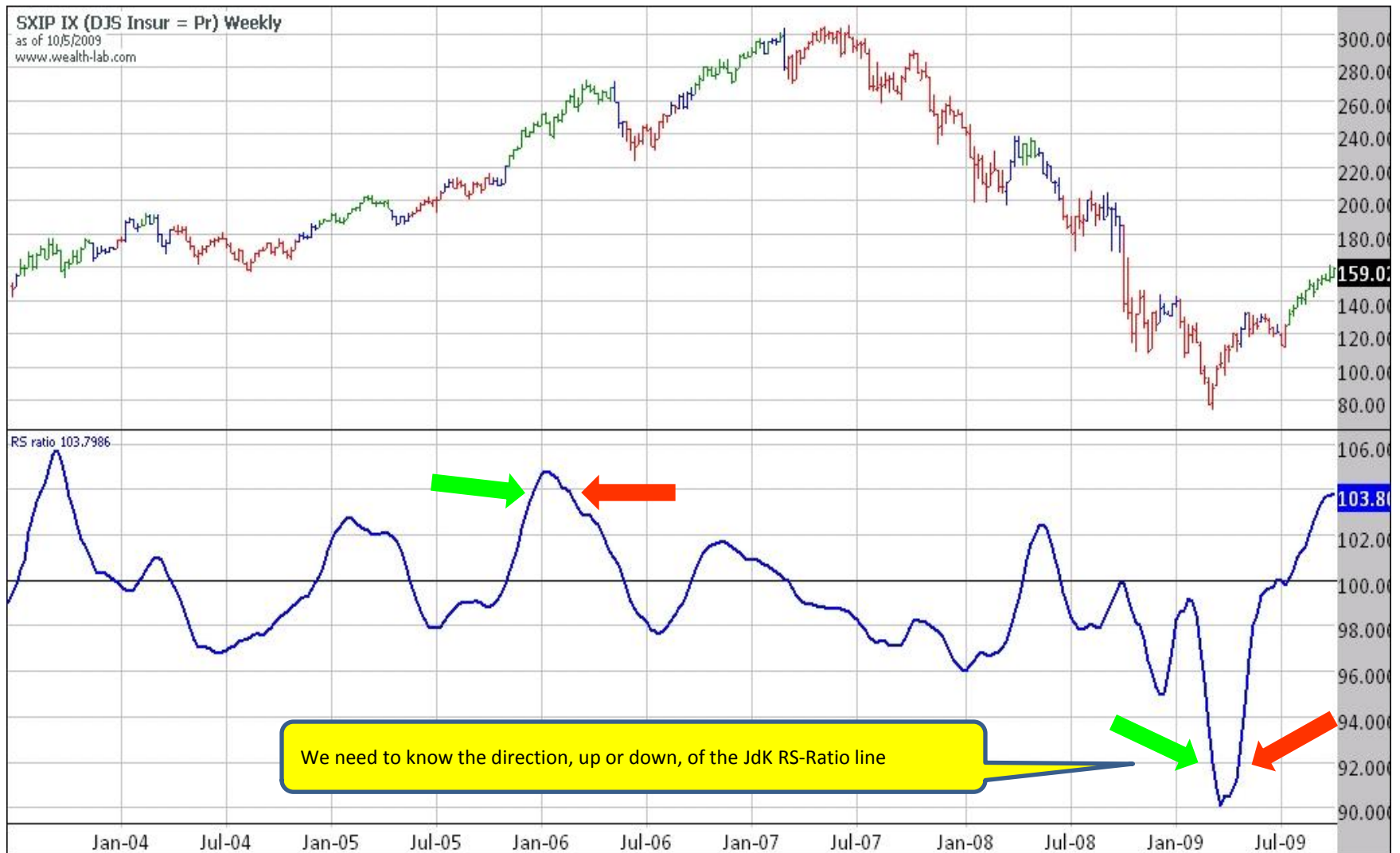
		Last Price	JdK RS-Ratio
<b>BANK</b>	SX7P	229.96	111.98
<b>BRES</b>	SXPP	420.63	104.52
<b>INSU</b>	SXIP	152.18	103.05
<b>REAL</b>	EPRA	1252.95	102.49
<b>FISV</b>	SXFP	233.43	101.27
<b>CONS</b>	SXOP	264.67	101.05
<b>INDU</b>	SXNP	235.86	100.79
<b>AUTO</b>	SXAP	232.89	99.99
<b>PHHG</b>	SXQP	301.71	99.98
<b>FBEV</b>	SX3P	265.72	98.93
<b>CHEM</b>	SX4P	392.91	98.01
<b>RETL</b>	SXRP	228.83	97.94
<b>TECH</b>	SX8P	193.98	96.44
<b>HTHC</b>	SXDP	333.28	96.30
<b>TELE</b>	SXKP	250.63	95.68
<b>UTSP</b>	SX6P	335.22	94.26
<b>OILG</b>	SXEP	312.95	94.19
<b>MEDA</b>	SXMP	148.39	93.66
<b>TRLS</b>	SXTP	107.56	92.97

- STOXX sectors (19) ranked by RS-Ratio vs STOXX 600
- High values are “good”
- Low values are “bad”
- How does this look over time?

# Retail with RS-Ratio vs STOXX 600



# Insurance with RS-Ratio vs STOXX 600



# Retail with RS-Ratio vs. STOXX 600 + trigger

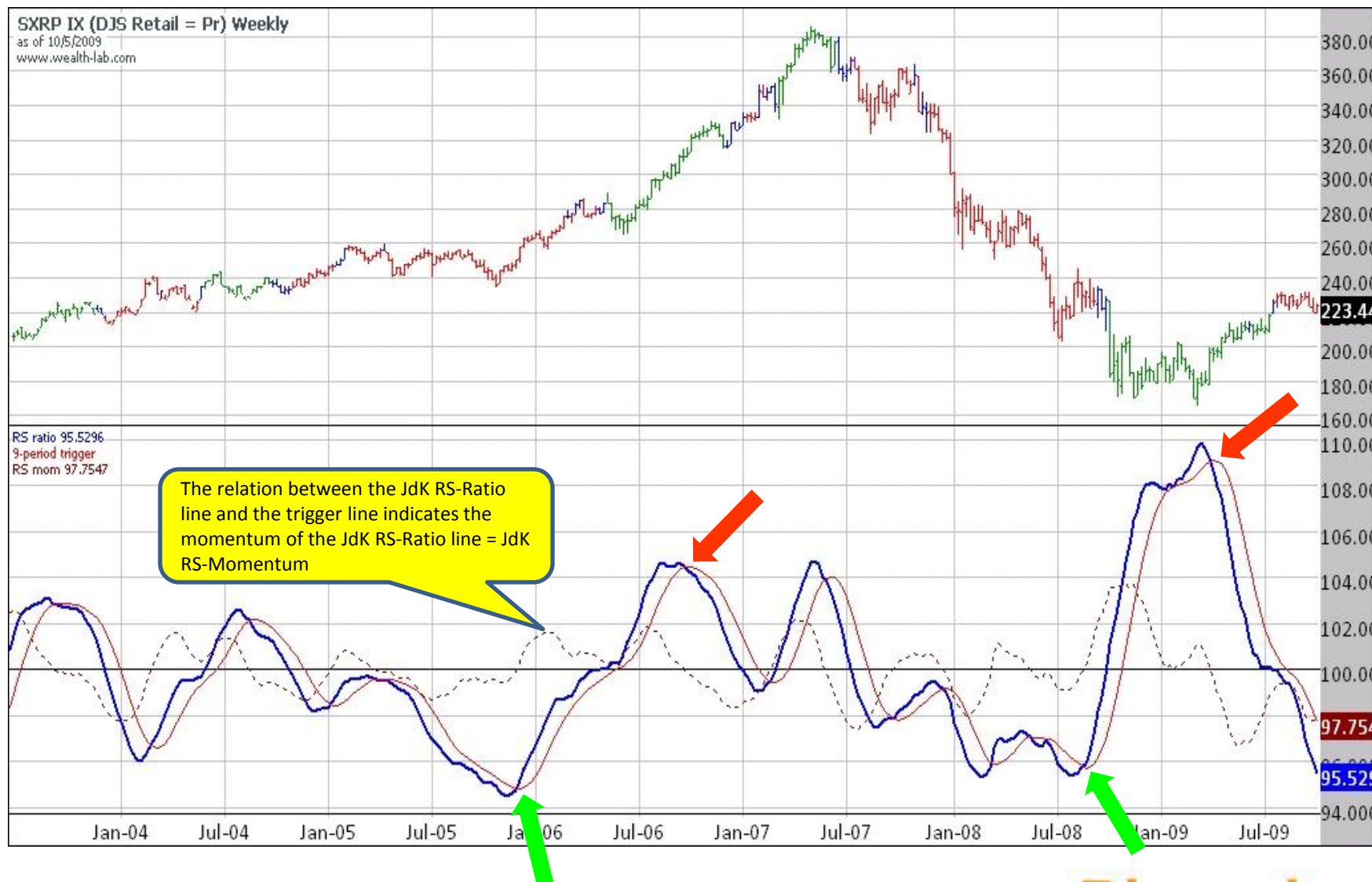




# Insurance with RS-Ratio vs. STOXX 600 + trigger



# Insurance with RS-Ratio vs. STOXX 600 + trigger + RS-Mom.





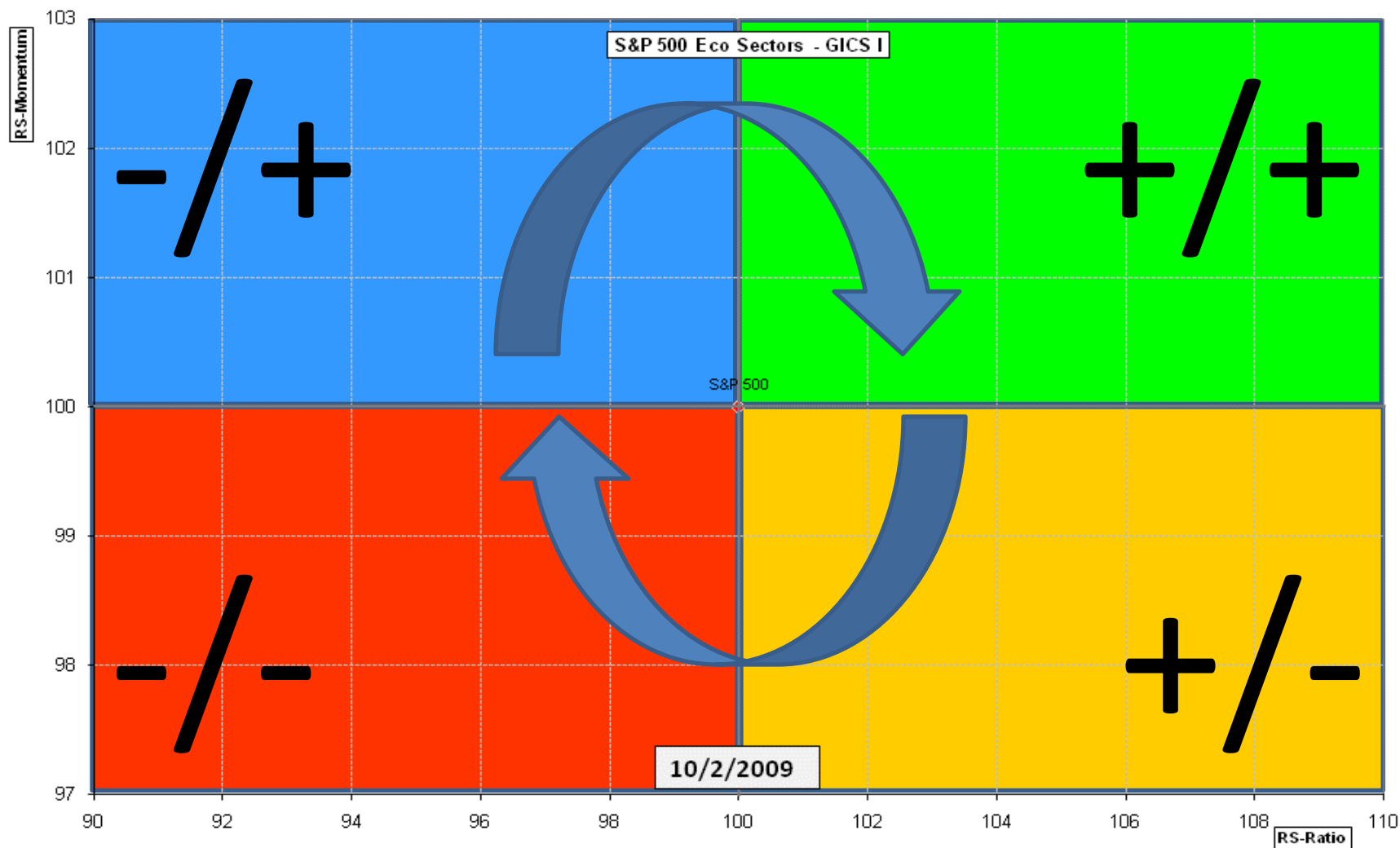
# SXIP IX (DJS Insur = Pr) Weekly

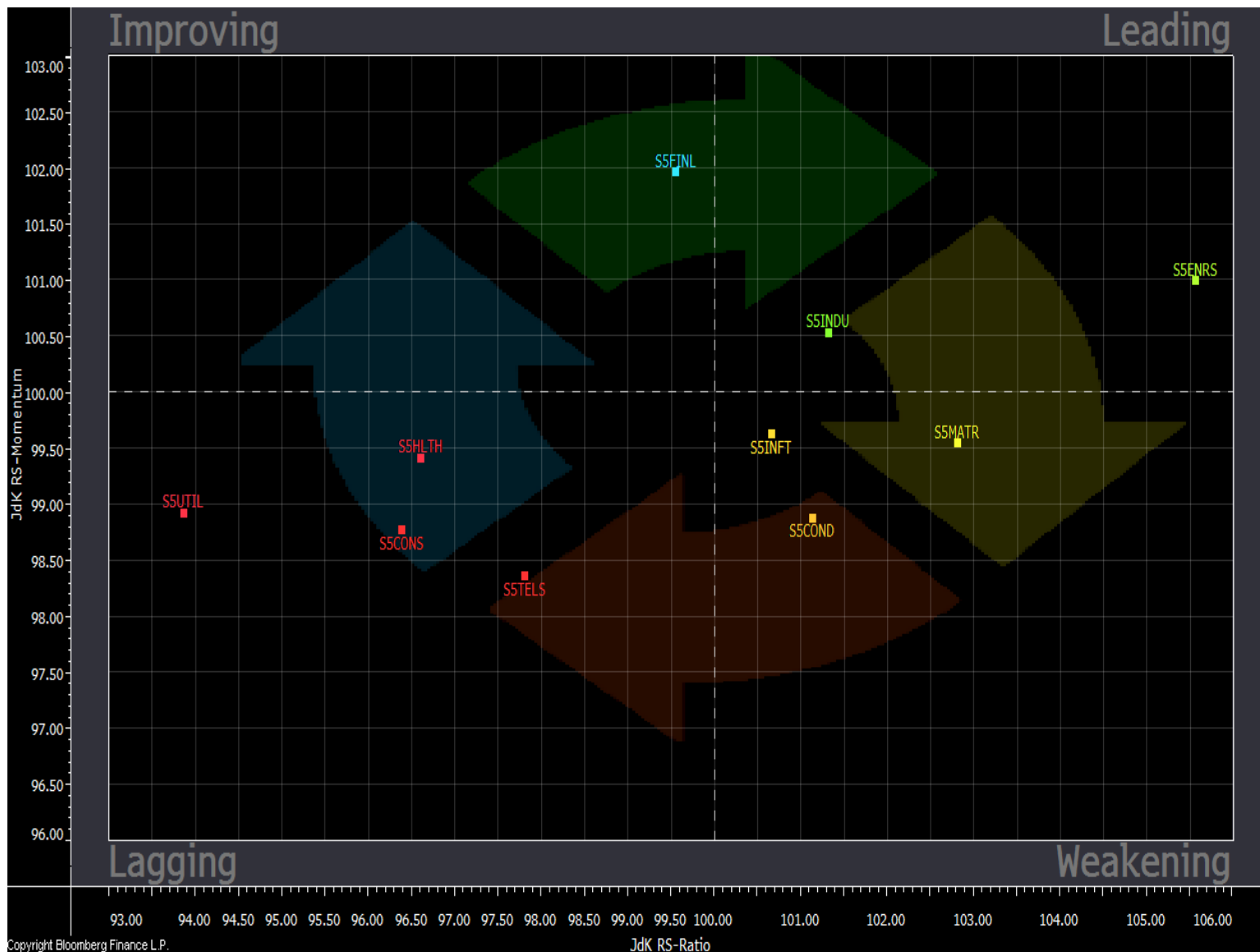
as of 10/5/2009  
www.wealth-lab.com



- We have a lot of information now
- And we can compare the information across the universe
- But we still have to flip thru charts to get an idea about what's going on in the universe as a whole
- Add another professional PM's problem :
  - This week is “technology” week
- Wouldn't it be nice if we could put all this information together in one screen / graph ?

# RELATIVE-ROTATION graph ©





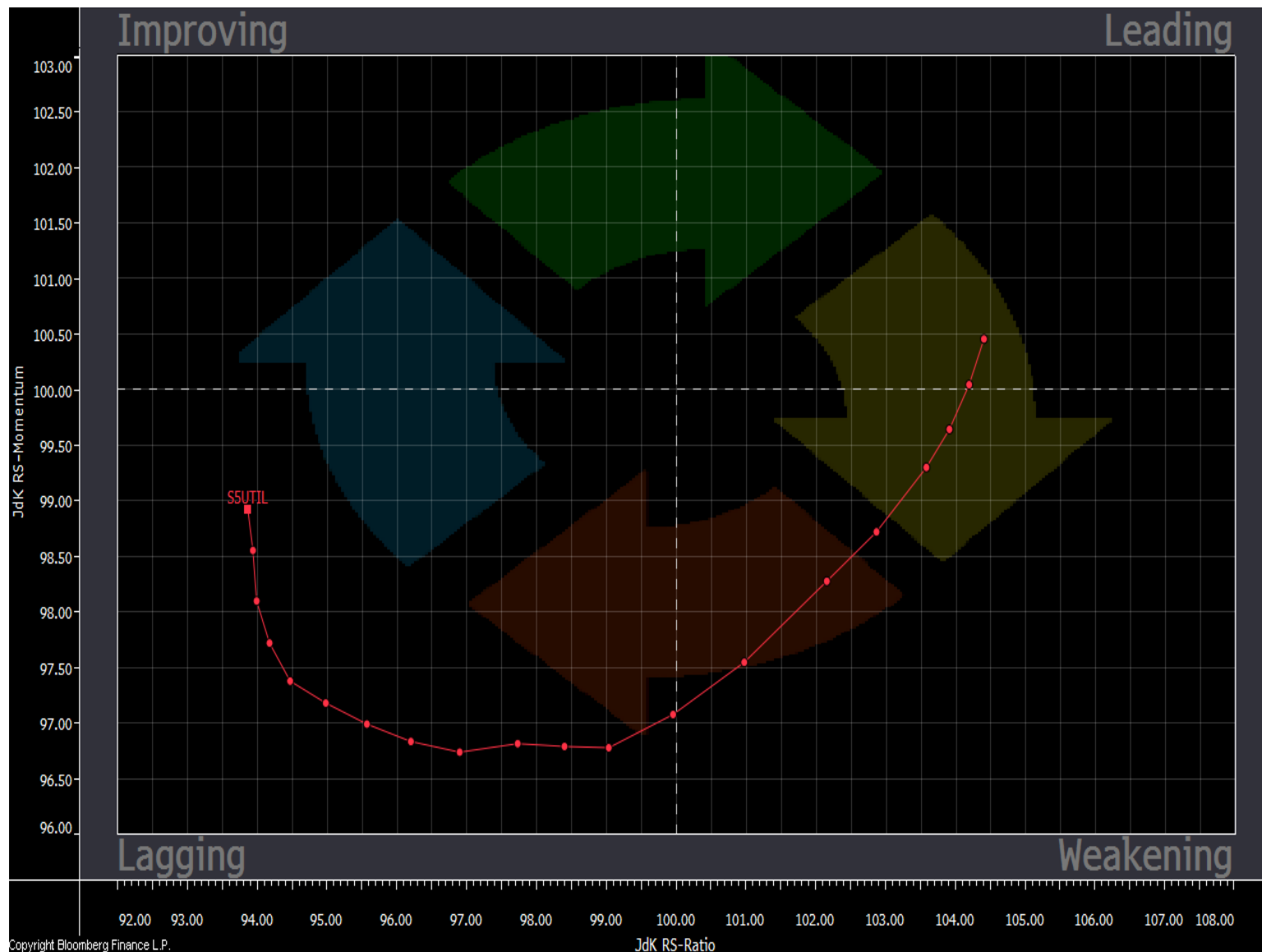
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## RS-ROTATION © graphs / charts:

- Visualize the relative positions of the elements in a universe in a unique way
- Not a trading system per se but a valuable tool to monitor what's going on in a universe
- Shows that markets actually “rotate”
- Markets did that 100 years ago, 50 years ago, last year and they still do it at this very moment
- History is repeating itself! And it does that in circles...
- With this tool we can actually see it happening and possible make better informed choices.
- Hopefully make the PM's life a little easier!!

# Thank You....

Julius de Kempenaer

Talergroup Asset Management Ltd.

Claude Debussylaan 46  
Vinoly Tower 21<sup>st</sup> floor  
1082 MD Amsterdam

Centre Plaza, Suite 1B  
2 Horse Barrack Lane  
Gibraltar

[dekempenaer@talergroup.com](mailto:dekempenaer@talergroup.com)

[www.talergroup.com](http://www.talergroup.com)

[www.tamresearch.com](http://www.tamresearch.com)

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