

Relative Rotation Graphs
RRG <go>
A new tool to visualize
Relative Strength

MTA symposium May 2011

Julius de Kempnaer

This time it's different

-1987 black Monday

-1990 gorbby crash

-2000 .com bubble

-2008 credit crunch

This time it's different

Today's youth loves luxury. They are bad mannered, despise all authority, show no respect and talk when they should be working. The youngsters do not rise from their seats when elderly people enter, they go against their parents, chat in company, gobble down their food and tyrannize their teachers.

Socrates 400 bC

This time it's different



This time it's different



1934 chicago tribune

This time it's different

PRICES

THEN
UP HERE

STOCKS
BACK
AND BUYS
BULLISH
TURNS
TRADER
AND EVERY
OR TWO
IN A DAY
OR TWO
A POINT .
THEY RISE
THEN

FALL
A POINT
OR TWO
IN A
DAY OR
TWO AND
EVERY
TRADER
TURNS
BEARISH
ON THE
MARKET
AND
SELLS
STOCKS

DOWN HERE

History repeats itself !!!

It does make sense to look at history.....

You might learn something

Tomorrow is the most important thing in life. Comes into us at midnight very clean. It's perfect when it arrives and puts itself in our hands. It hopes we've learned something from yesterday.

Choice, From Wikipedia, the free encyclopedia

Choice consists of the [mental process](#) of [thinking](#) involved with the process of [judging](#) the merits of multiple [options](#) and [selecting](#) one of them for action. Some simple examples include deciding whether to get up in the morning or go back to sleep, or selecting a given route for a journey. More complex examples (often decisions that affect what a person thinks or their core beliefs) include choosing a lifestyle, religious affiliation, or political position.

Most people regard having choices as a good thing, though a severely limited or artificially restricted choice can lead to discomfort with choosing and possibly, an unsatisfactory outcome. In contrast, unlimited choice may lead to confusion, regret of the alternatives not taken, and indifference in an unstructured existence; and the illusion that choosing an object or a course leads necessarily to control of that object or course can cause [psychological](#) problems.

A difficult choice.....



Some choices are more difficult than others



A choice made by someone else.....

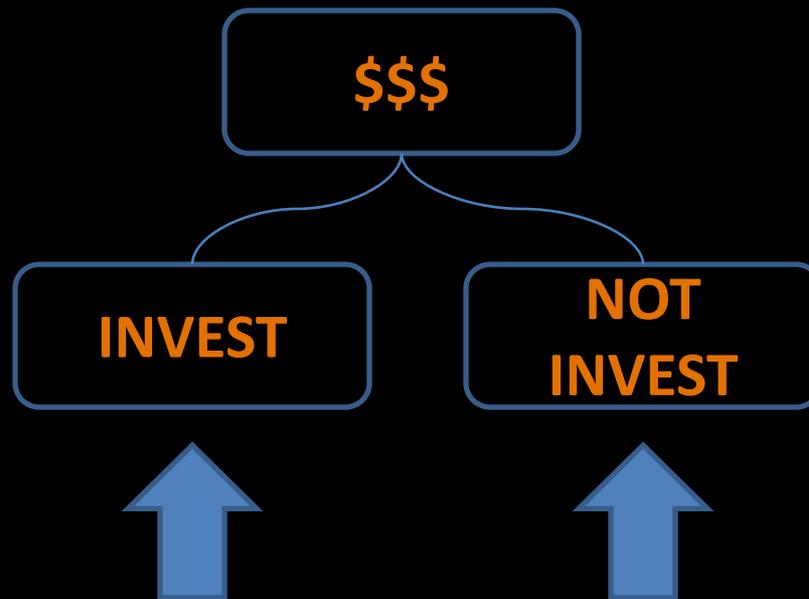


Their own choice



Investors face many, many choices!

- First big question to answer is to invest or not to invest ?
- For private investors it's a real choice



If the choice is TO INVEST
then the fun starts now

If the choice is NOT TO
INVEST the added value of
this presentation stops here

What if your business card looks like this:



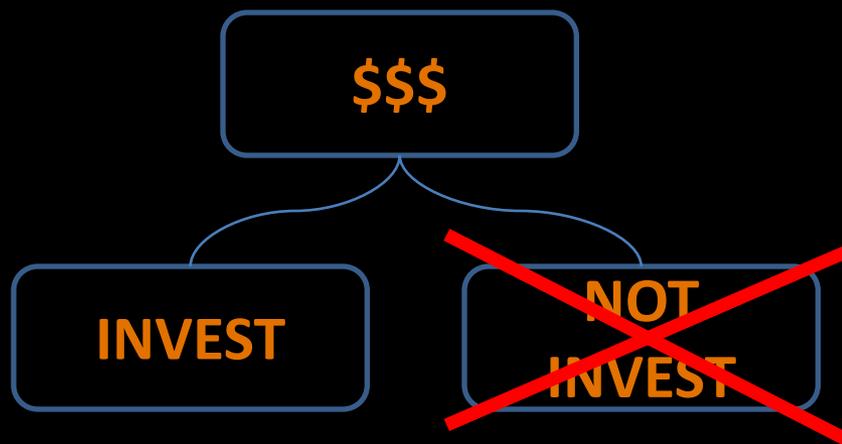
johnny goodtimes

Portfolio manager

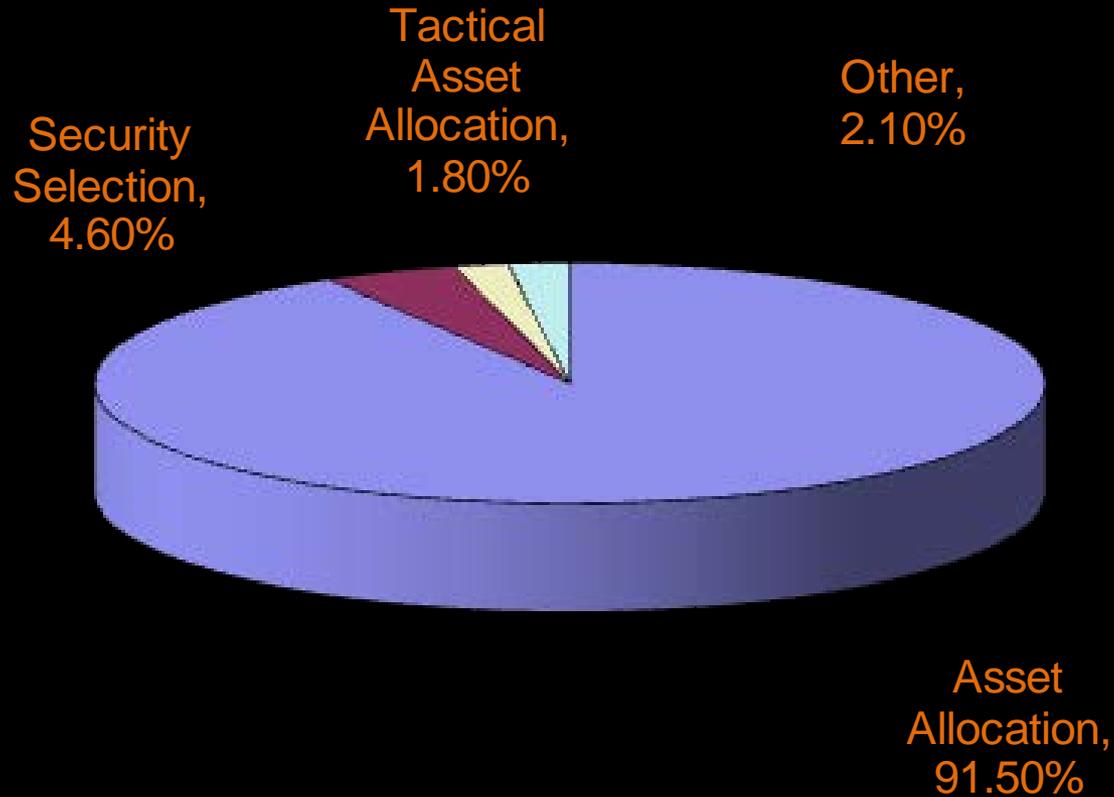
Mike Devine | 4.30.08

To invest or not to invest....?

- Pension fund or comparable institutions with long-term liabilities have no real choice.... they have to invest
- Serious risk of not being able to see the forest from the trees.
- Structured approach is needed

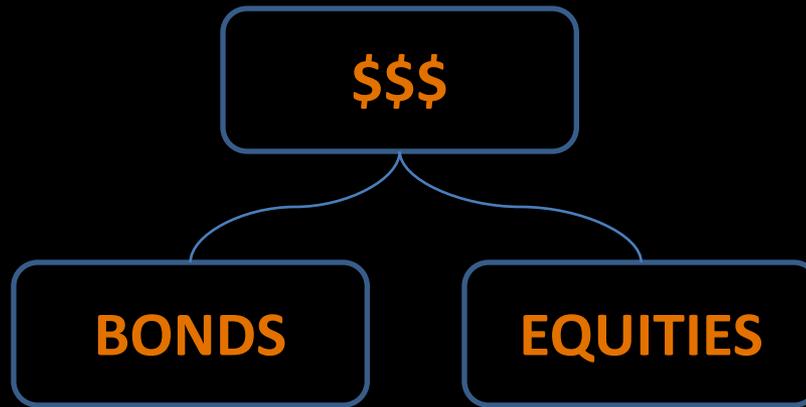


Where does your return come from?



Brinson, Hood and Beebower 1986

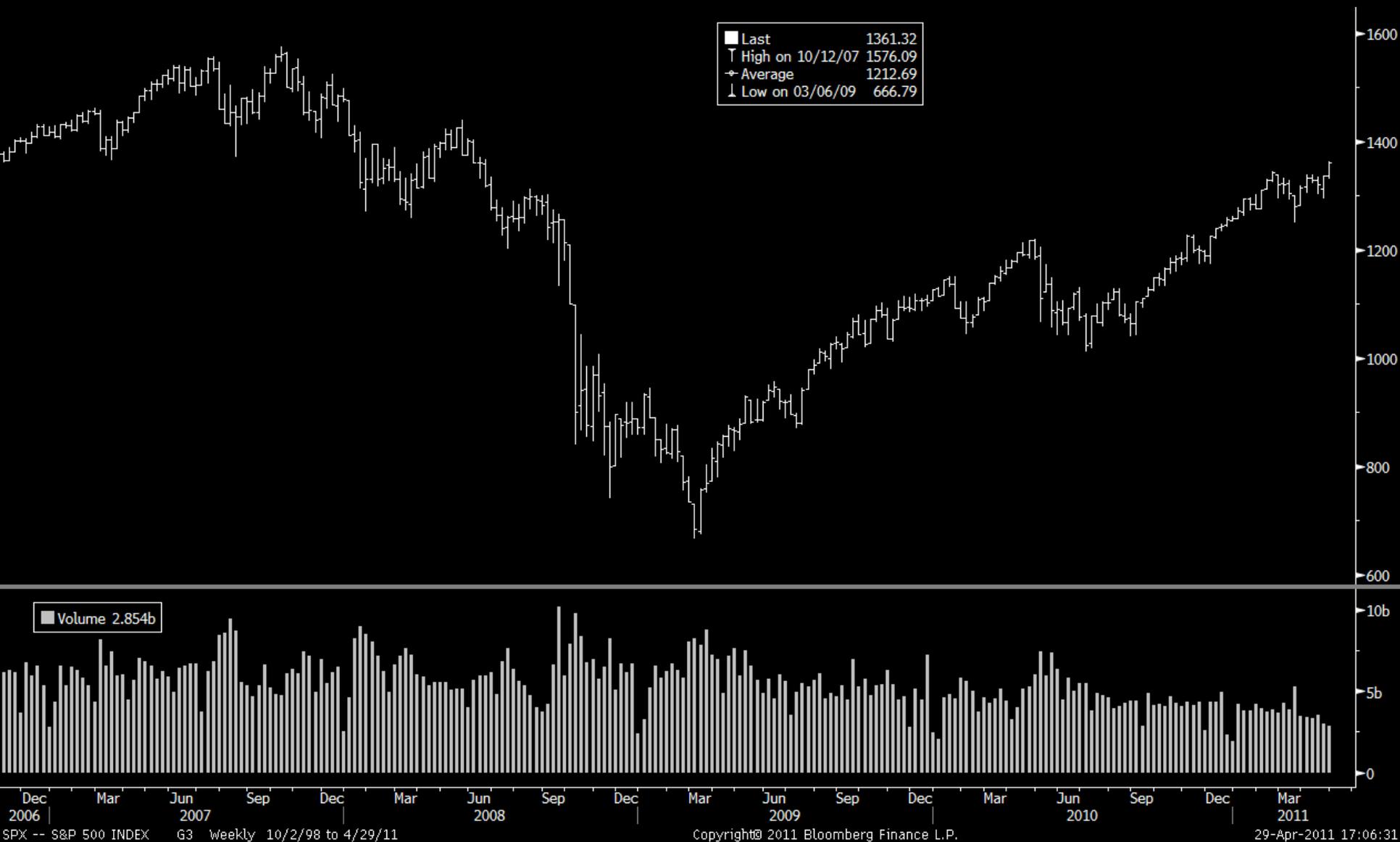
Simple Asset Allocation choice.



What do we (technicians) have in our toolbox?

- Graphs , many different graphs
- Ranging from very simple to very complex

Simple graph of S&P 500 index



Same S&P 500, a bit more complex.

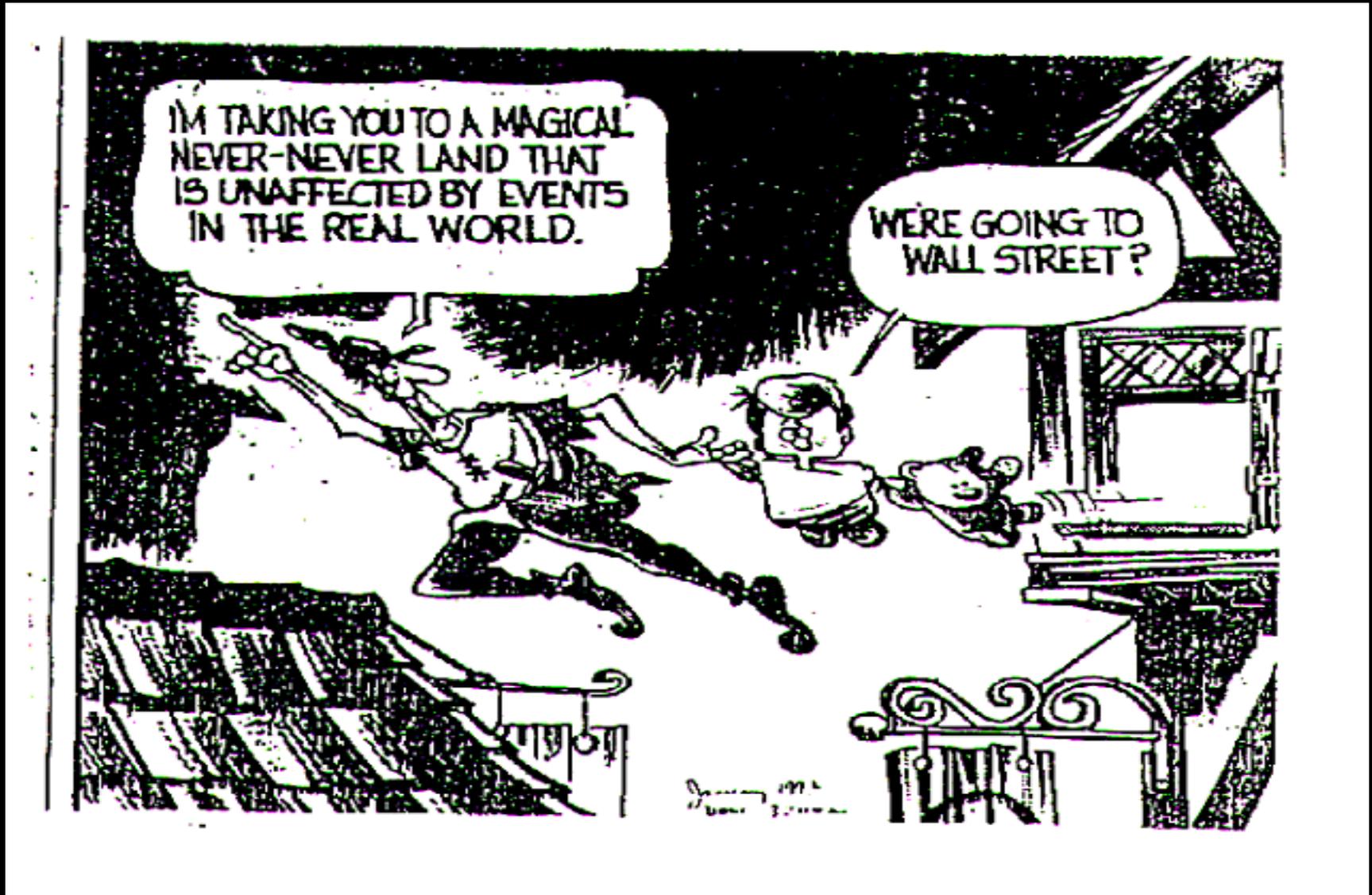


Copyright © 2011 Bloomberg Finance L.P.

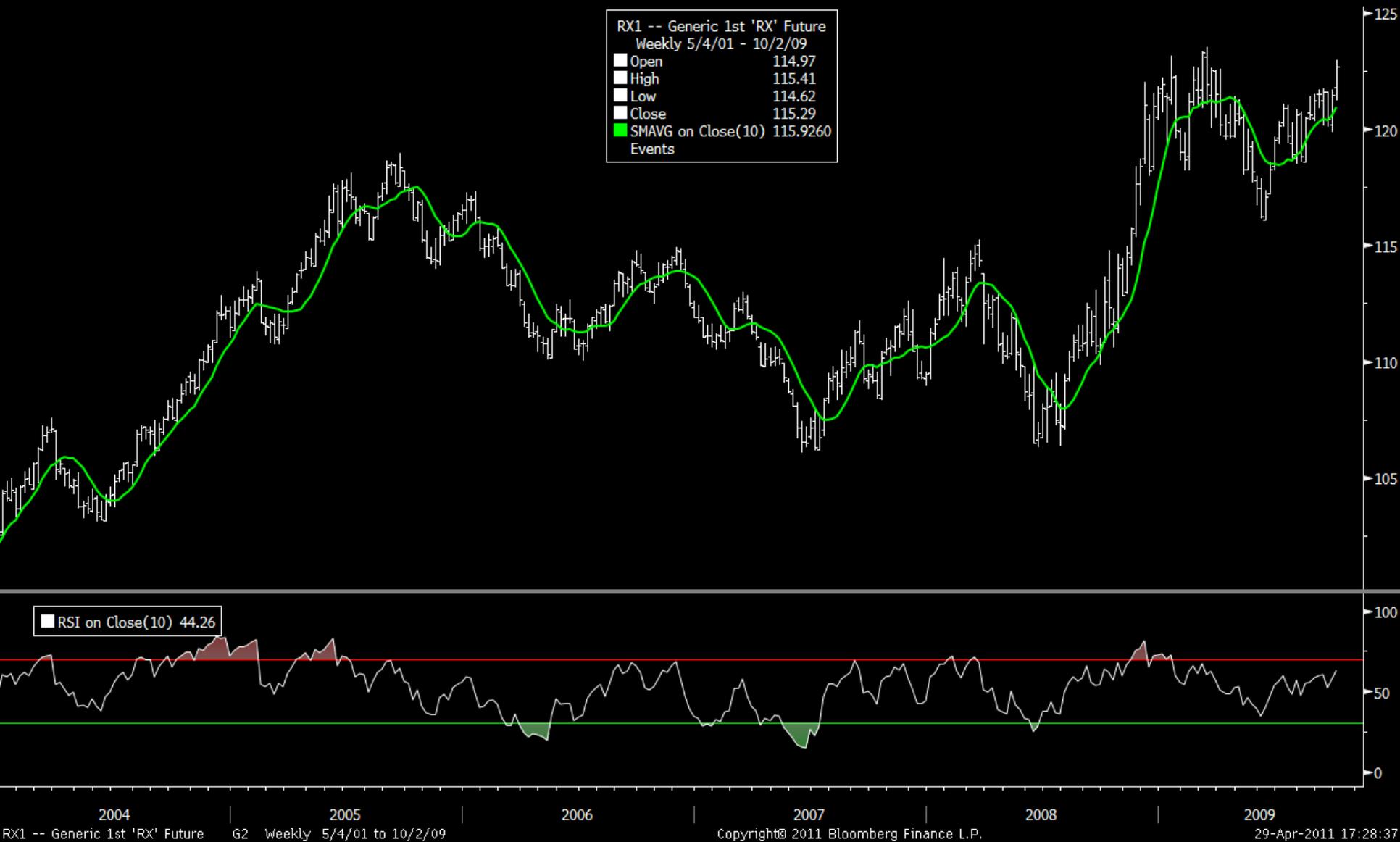
29-Apr-2011 17:11:50

KISS

KeeP It Simple Stupid!



German Bund Future



Euro STOXX 50 index



- 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.

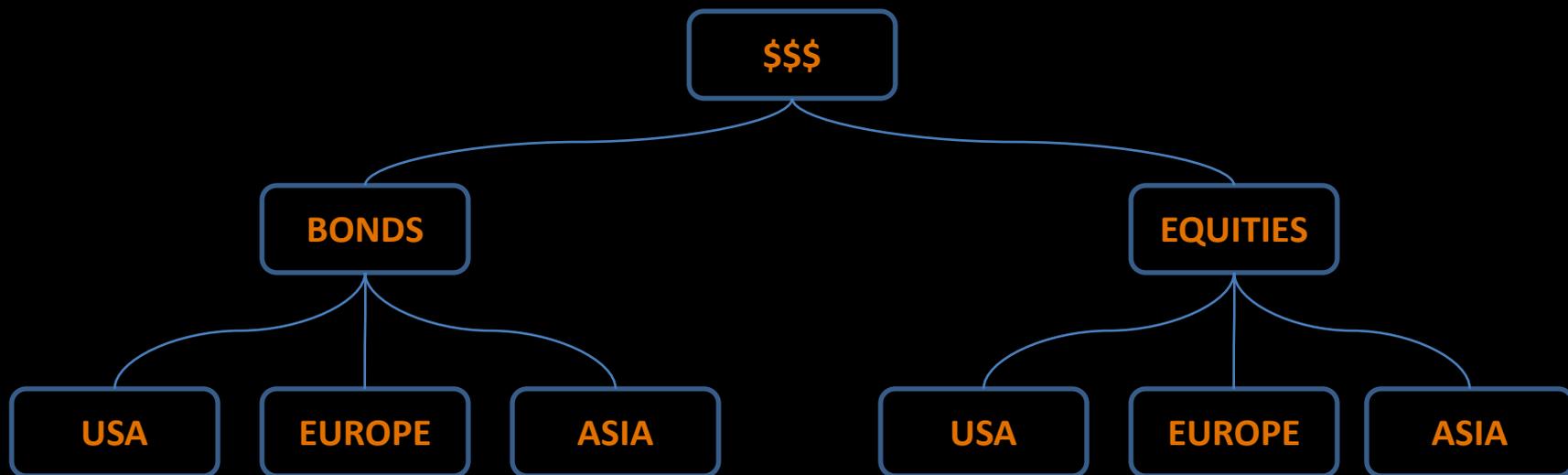
Everything is **Relative strength** is Everything

Euro STOXX 50 index vs. Bund future



Relative Strength

- 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

Relative Strength

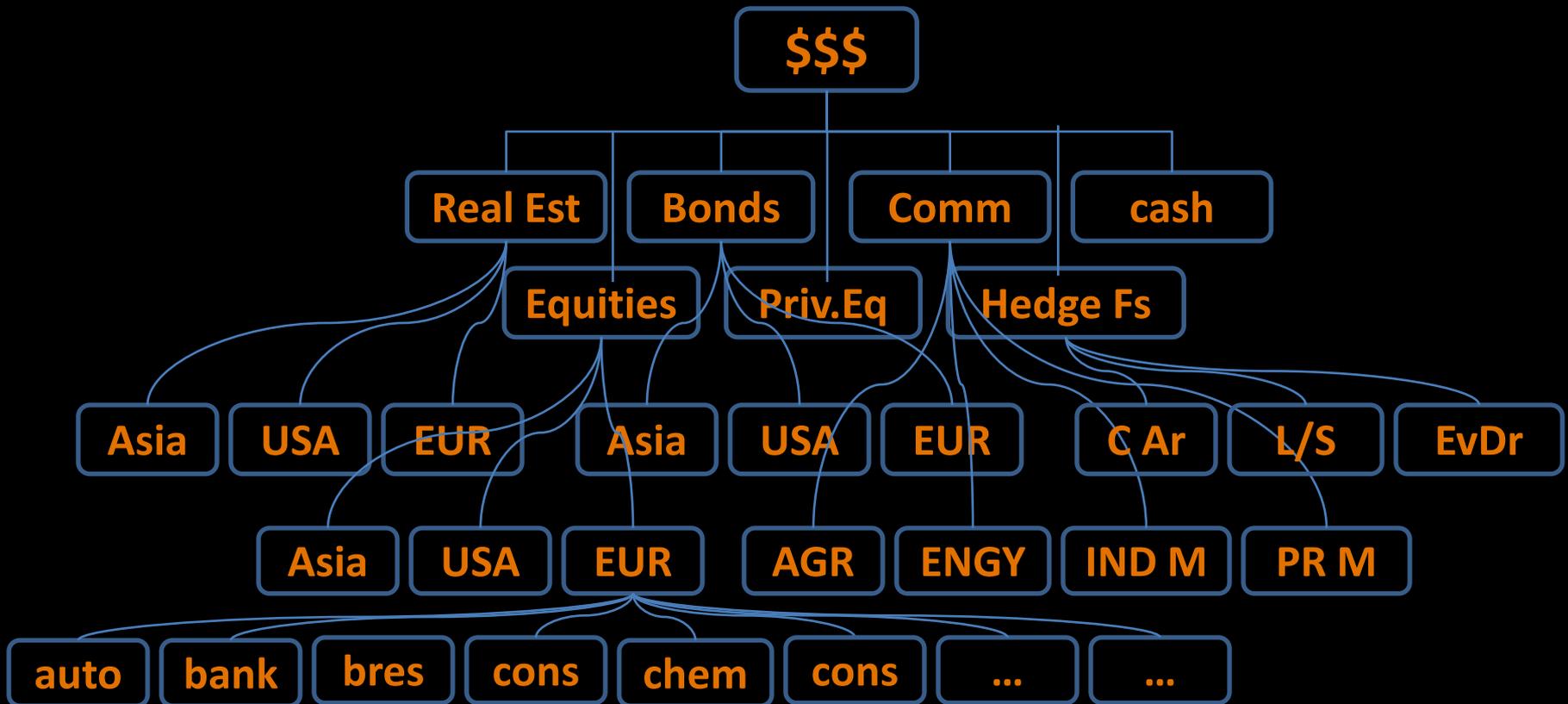
	A	B	C	D	E														
A	■																		
B		■																	
C			■																
D				■															
E					■														
F						■													
G							■												
								■											
									■										
										■									
											■								
												■							
													■						
														■					
															■				
																■			
																	■		
																		■	
																			■

Relative Strength

- In AC 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

Relative Strength

- Back to being Johnny Goodtimes
- And your decision tree looks something like this, you may need something else



Sector comparison : Banks vs. STOXX 600



Sector comparison: Utilities vs. STOXX 600



Copyright © 2011 Bloomberg Finance L.P.

29-Apr-2011 17:42:11

JdK RS-Ratio

- 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
- Normalizing the RS values enables “ranking”
 - JdK RS-Ratio

JdK RS-Ratio

	JdK RS-ratio
INSU	103.63
OILG	103.42
CONS	103.40
TECH	103.19
REAL	102.10
CHEM	101.64
IGSV	101.47
FISV	100.75
UTIL	99.74
TELE	99.29
MEDA	99.29
BRES	99.10
AUTO	98.94
FBEV	98.84
HTHC	98.48
BANK	98.22
PHHG	98.03
TRLS	95.75
RETL	95.48

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

Retail with JdK RS-Ratio vs. STOXX 600



Copyright © 2011 Bloomberg Finance L.P.

29-Apr-2011 17:53:42

Insurance with JdK RS-Ratio vs. STOXX 600



We need to know the "direction" +/- of JdK RS-ratio

Retail with JdK RS-Ratio vs. STOXX 600 + trigger line



Insurance with JdK RS-Ratio vs. STOXX 600 + trigger line



Retail with JdK RS-Ratio vs. STOXX 600 + JdK RS-momentum



Copyright© 2011 Bloomberg Finance L.P.

29-Apr-2011 21:21:52

Insurance with JdK RS-Ratio vs. STOXX 600 + JdK RS-Momentum



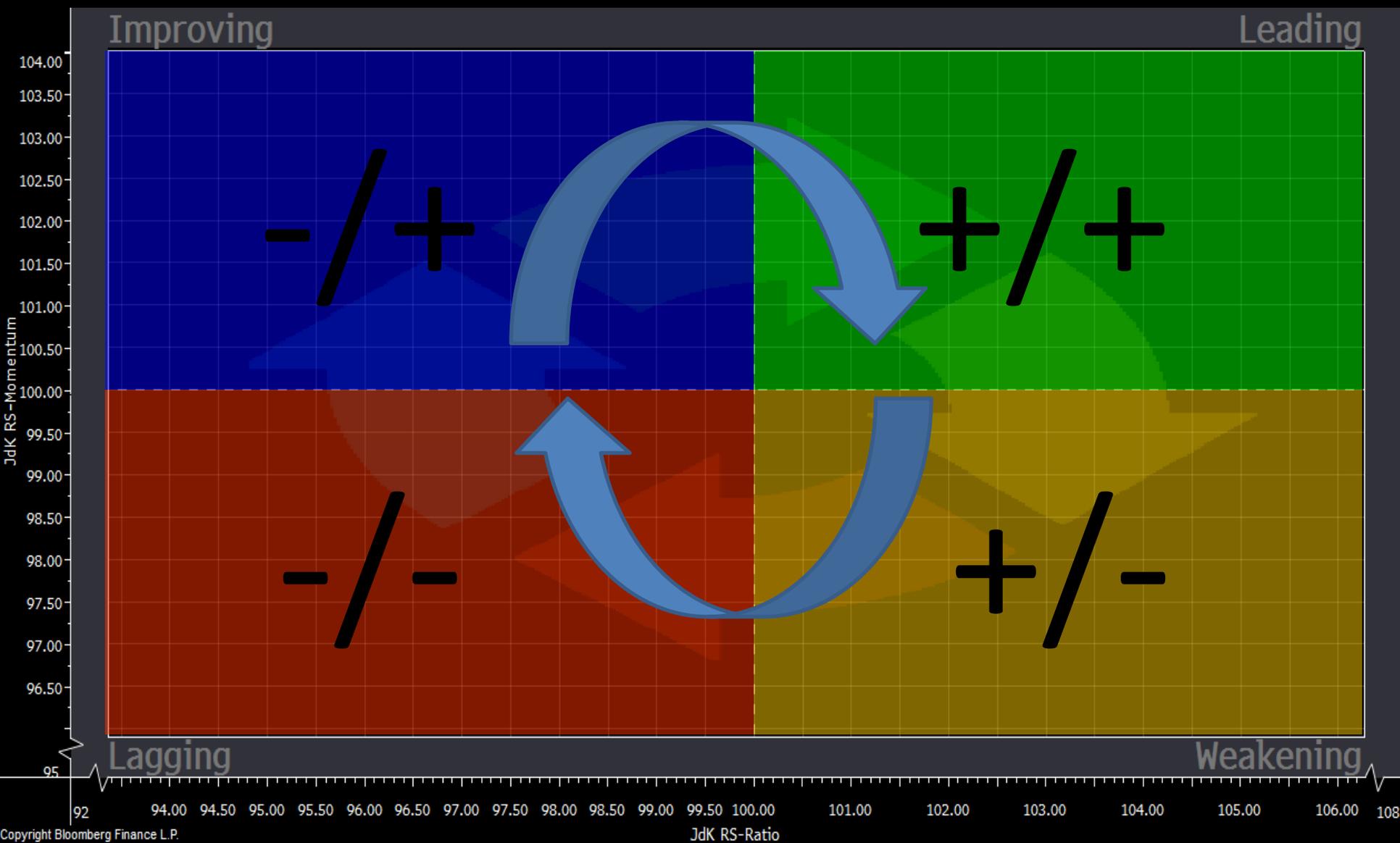
Copyright© 2011 Bloomberg Finance L.P.

29-Apr-2011 21:27:29

Putting it all together.

- We have a lot of information now; comparable across the universe
- The RS approach in general adds value to the investment process
- 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 Johnny Goodtimes 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 ©

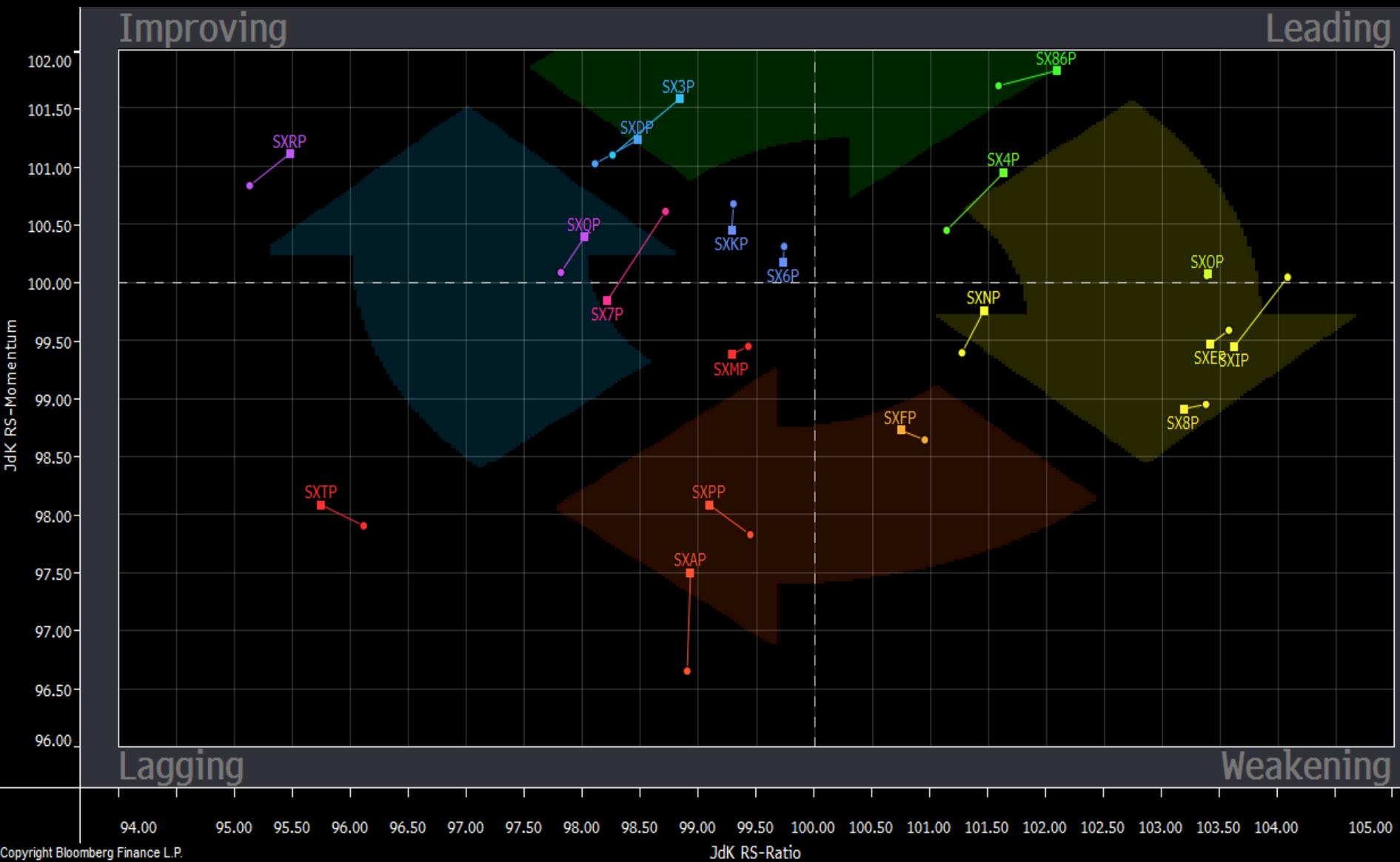


RELATIVE ROTATION GRAPH ©



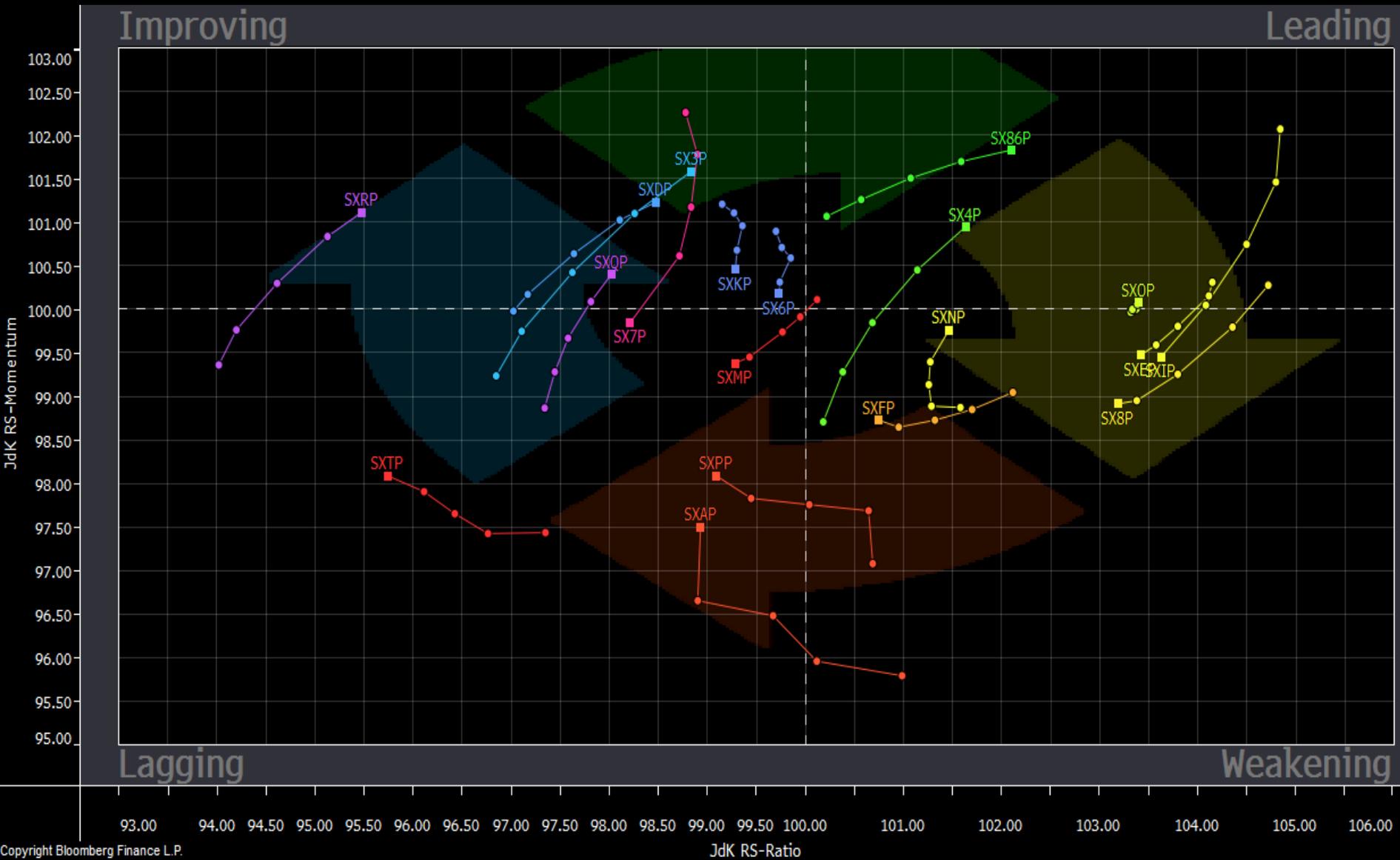
Copyright Bloomberg Finance L.P.

RELATIVE ROTATION GRAPH ©



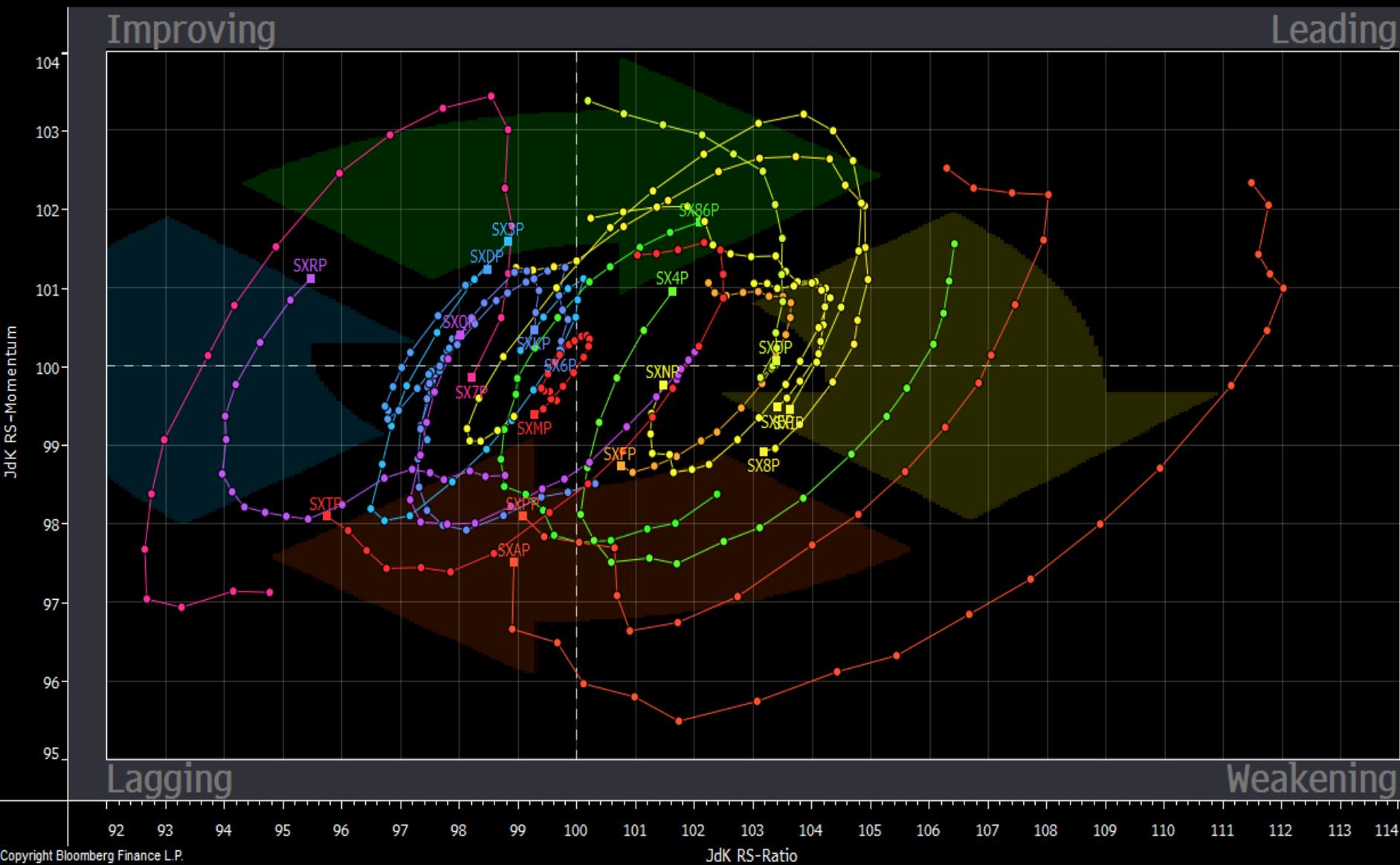
Copyright Bloomberg Finance L.P.

RELATIVE ROTATION GRAPH ©



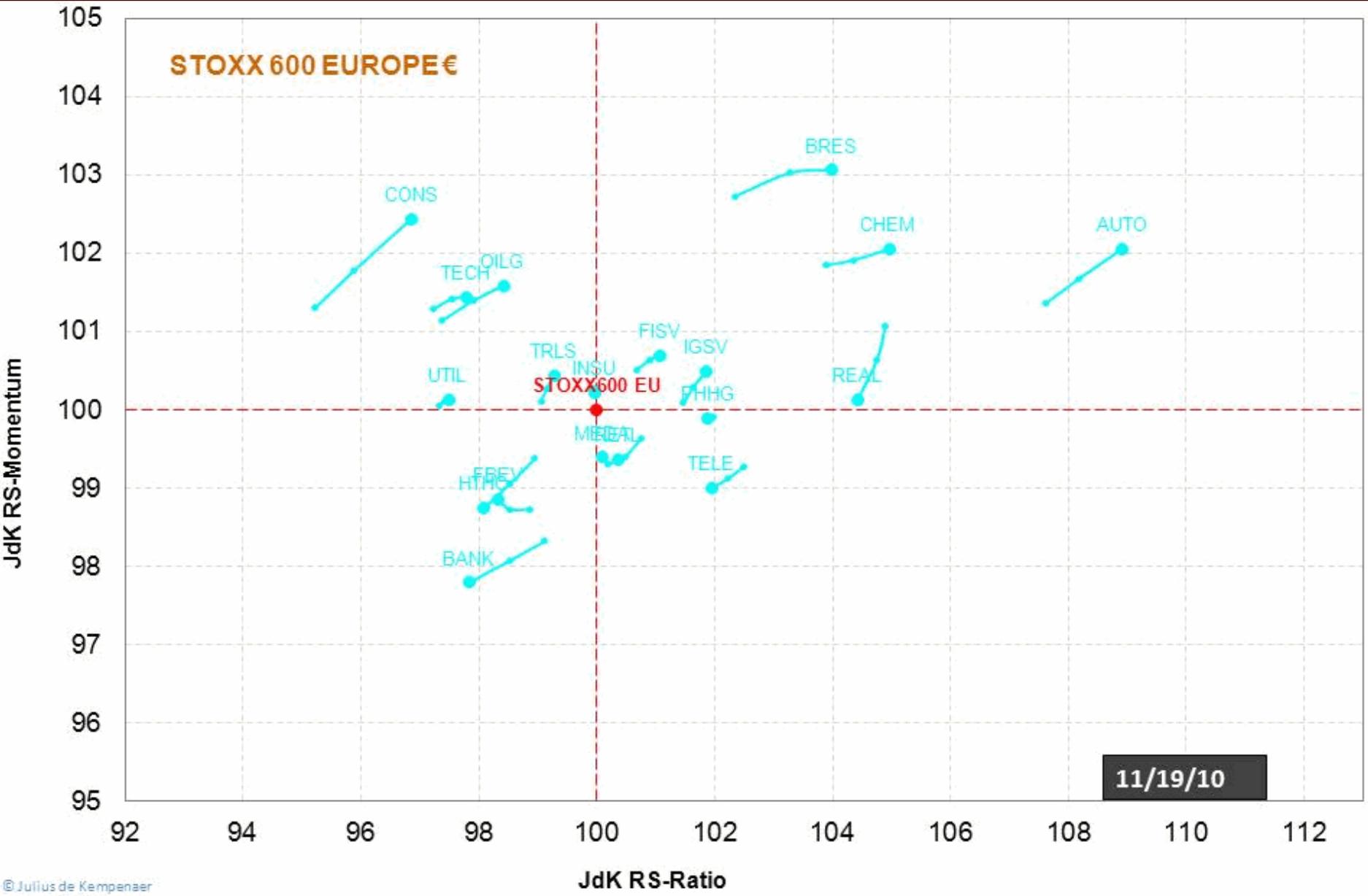
Copyright Bloomberg Finance L.P.

RELATIVE ROTATION GRAPH ©



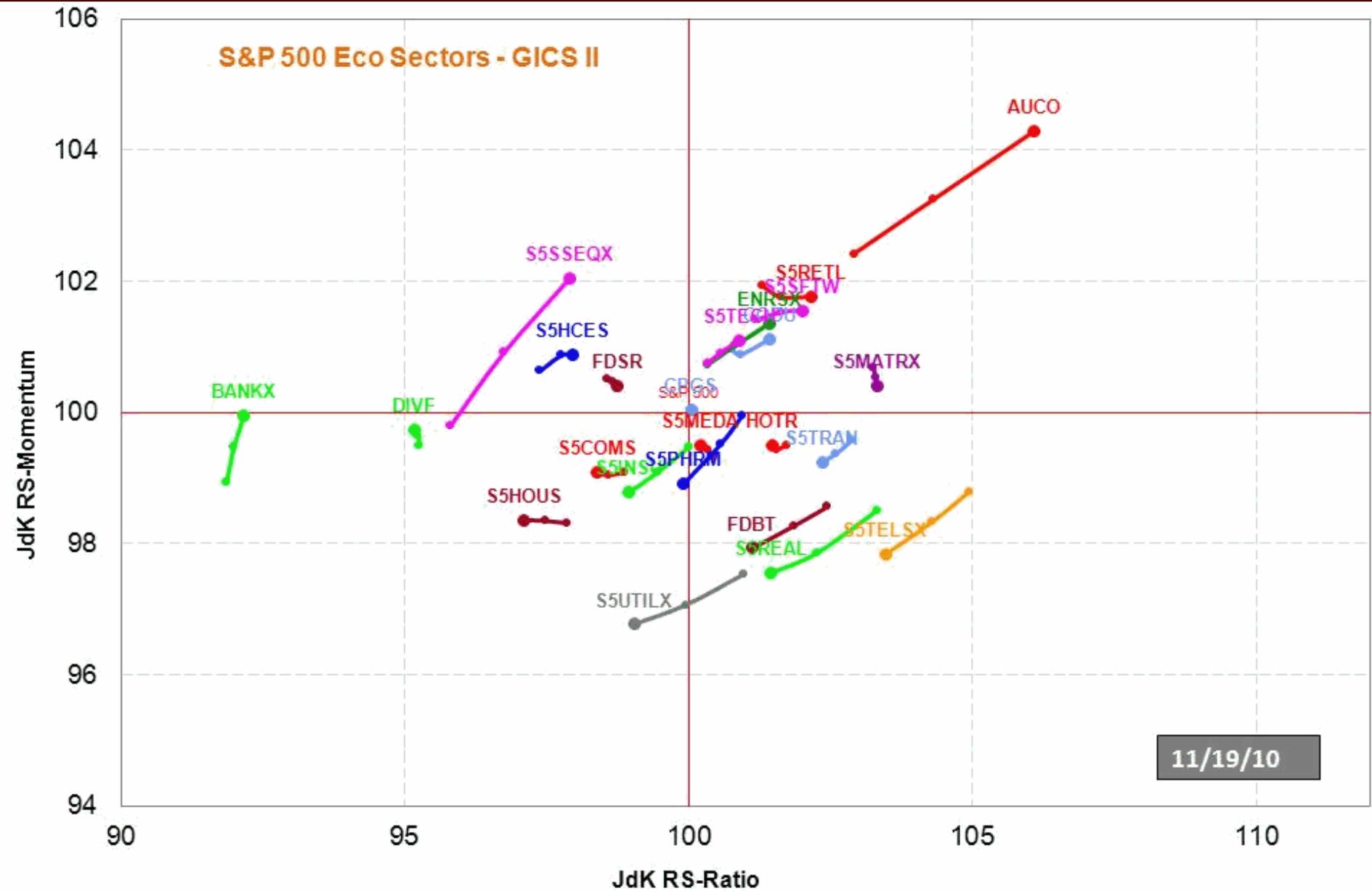
Copyright Bloomberg Finance L.P.

RRG : STOXX 600 Europe

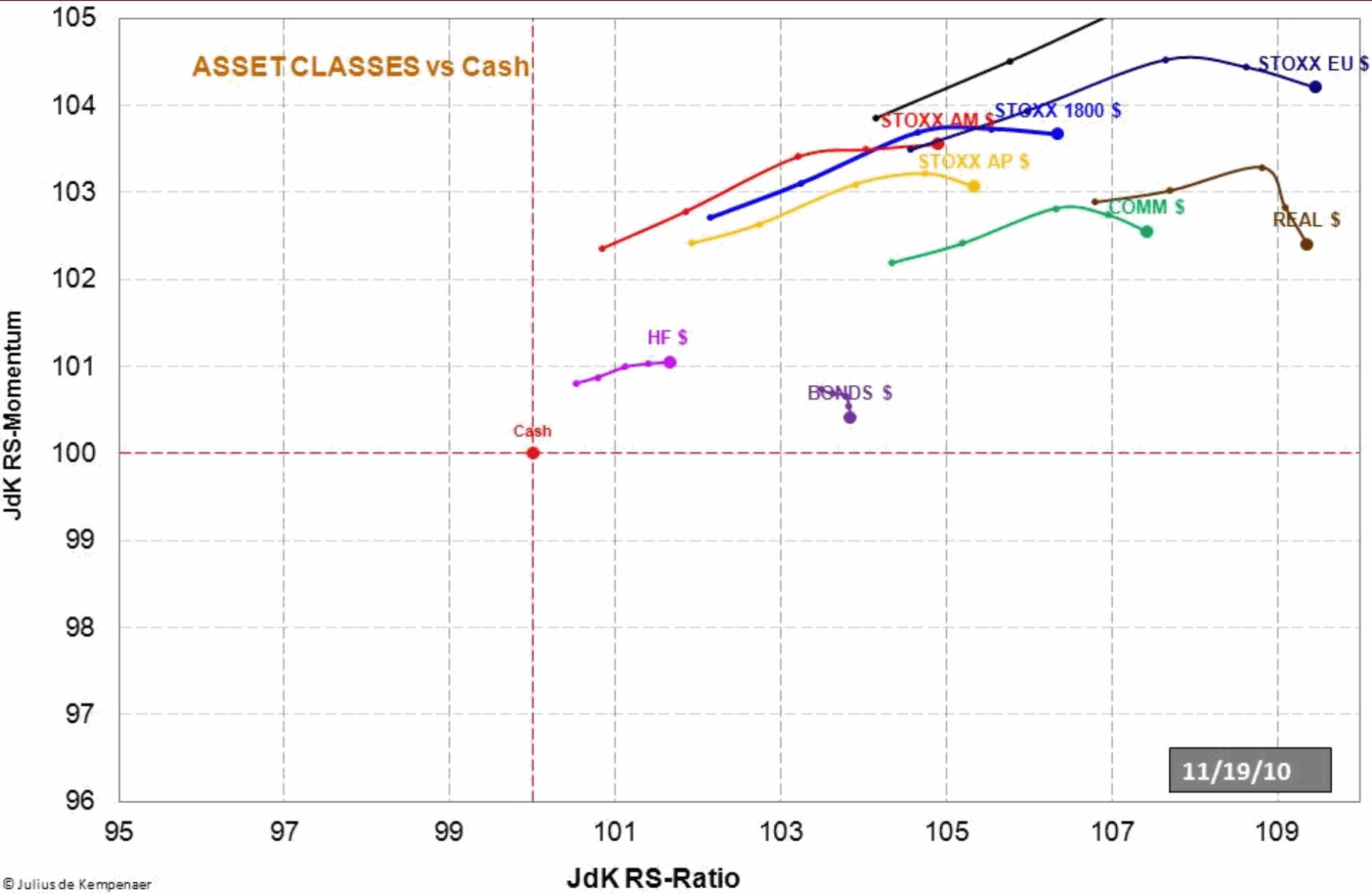


© Julius de Kempenaer

RRG : S&P 500 GICS Level II

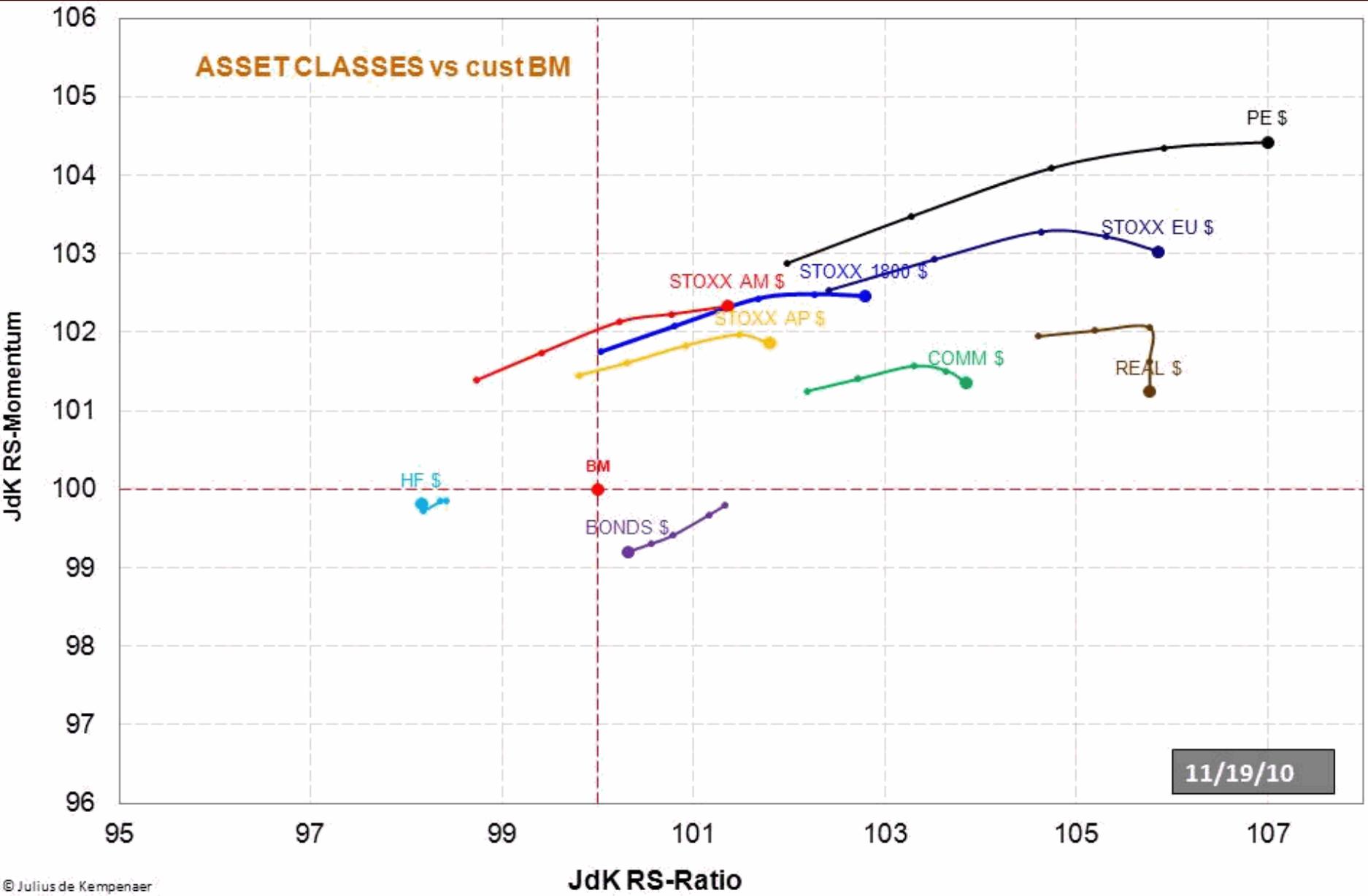


RRG : Asset Classes vs. Cash index

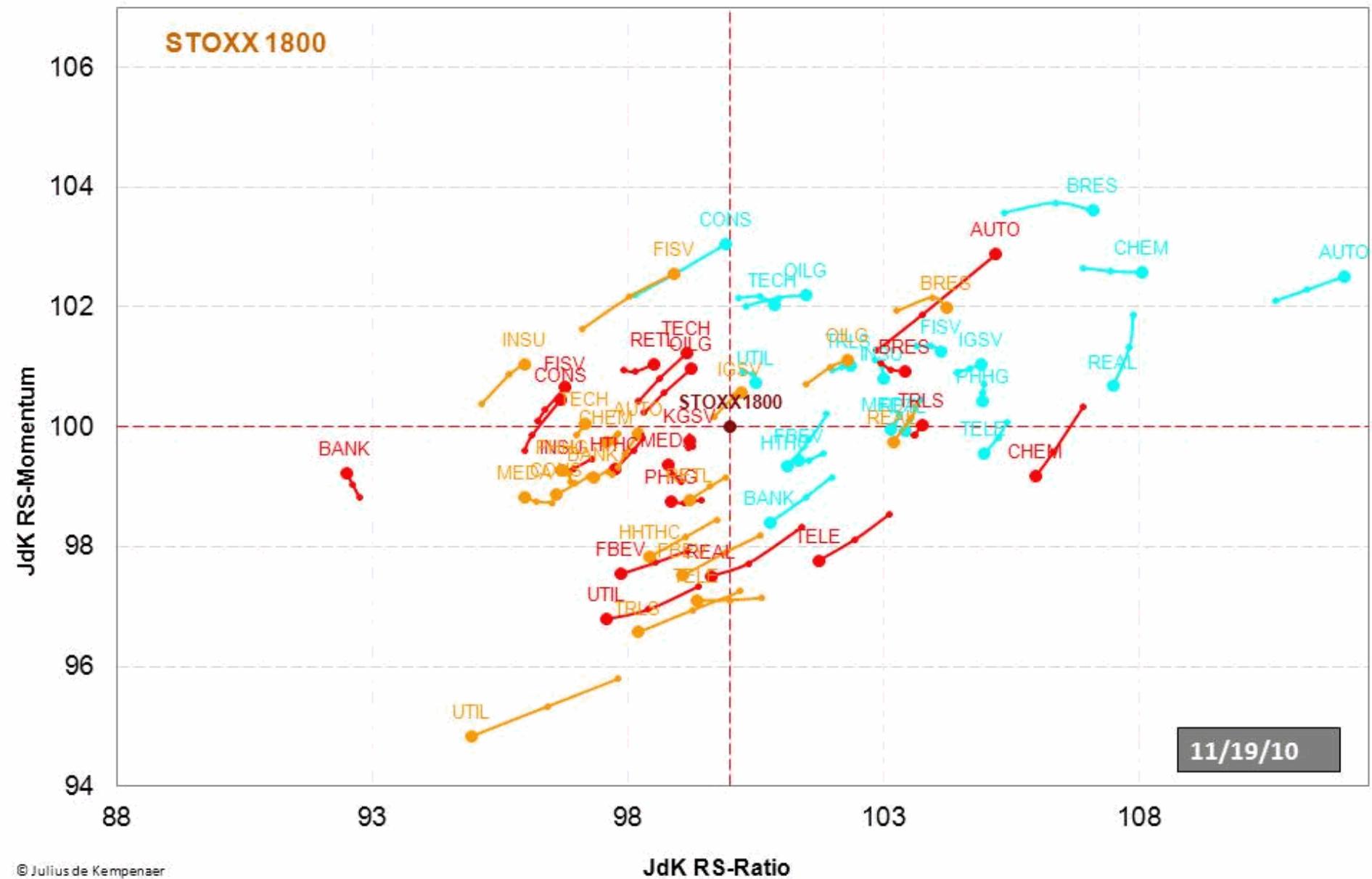


© Julius de Kempenaer

RRG : Asset Classes vs. Custom benchmark



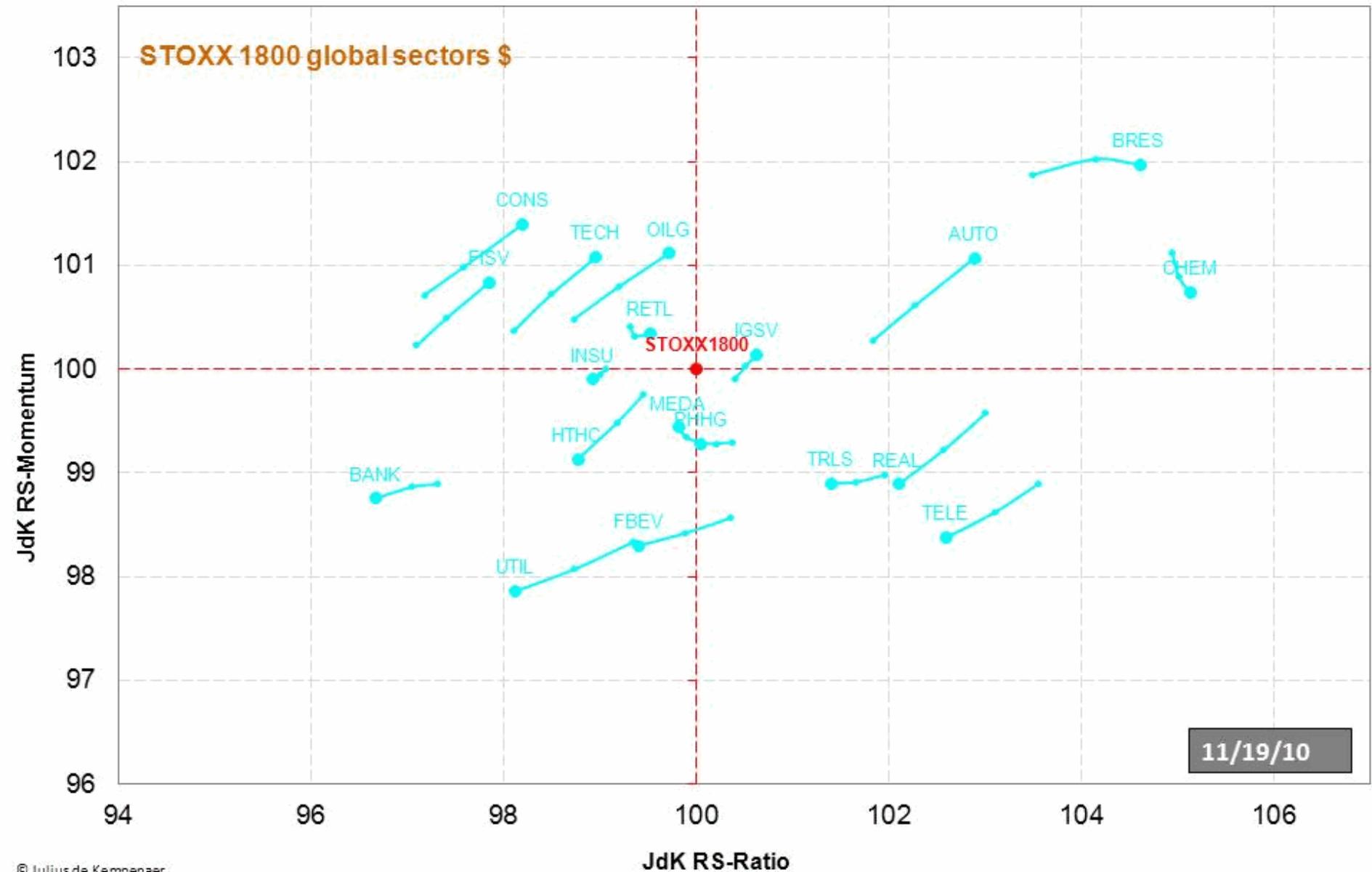
RRG : Regional sectors STOXX 1800



11/19/10

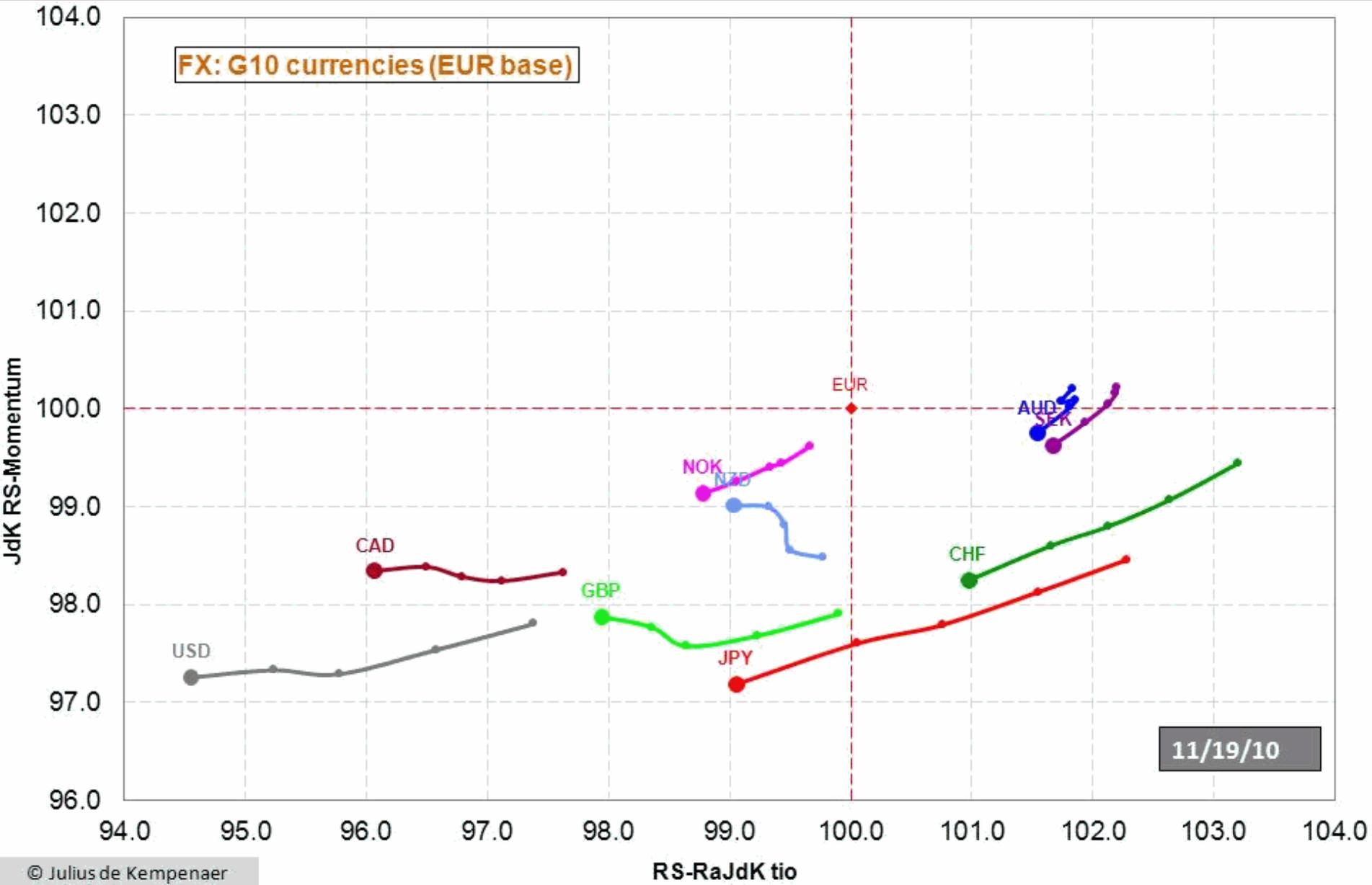
© Julius de Kempenaer

RRG : STOXX 1800 Global sectors



© Julius de Kempener

RRG : G10 Currencies vs EUR (base)



© Julius de Kempnaer

RELATIVE ROTATION GRAPHS:

- 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 Johnny Goodtimes' life a little easier!!

THANK YOU !

RRG = Really
Rockin' Graphs!

Julius de Kempnaer
Taler Asset Management Ltd.

dekempnaer@talergroup.com

MSG de kempnaer<GO>

www.TAMresearch.com

www.RelativeRotationGraphs.com (not active yet)

DISCLAIMER: The material contained herein is subject to change without notice and is provided for informational purposes only. It should not be construed as a solicitation or offer to buy or sell any securities or other financial instrument. We make no representation or warranty of any kind, either express or implied as to the accuracy, reliability, up-to-dateness or completeness of the information contained herein. Nothing contained herein constitutes investment, legal, tax or other advice nor is it to be relied on in any investment decision. You should obtain relevant and specific professional advice before making any investment decision. The value of investments may go up or down due to various factors including but not limited to changes in rates of foreign exchange and you may not get back the amount invested. Past performance is not necessarily a guide to the future. We disclaim any responsibility and liability whatsoever in this respect.

Taler Asset Management Ltd is authorized and regulated by the Financial Services Commission Gibraltar in the conduct of investment business.

Taler Investment Consulting BV is authorized and regulated by the AFM (Dutch regulator) in the conduct of investment advise.

Please note:

Personal use of the graphing techniques presented is allowed and encouraged, but the RRG Ltd. explicitly claims the intellectual property and copyright of these materials.

Use in commercial documents or making the graphs available in commercial software or systems or for any other commercial use is only permitted after written permission from RRG Ltd.