

**Making Investment Decisions
by
Analyzing the Mosaic of Market Activity**

Note: This is a brief excerpt from a longer report which discusses investment strategy in more detail.

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1. Introduction

- With a well-designed research process and good procedures for managing data, we can reach valuable investment conclusions regarding asset allocation, sector weights, and stock selection.
- The fundamentals of the economy, as well as the fundamentals of stocks, are the foundation of investment strategy.
- In addition, it is important to study the market itself. My research shows that a technical analysis component, or a technical overlay, adds tremendous value to the investment process, and helps us to make good decisions in a forward-looking way. An example is shown below.

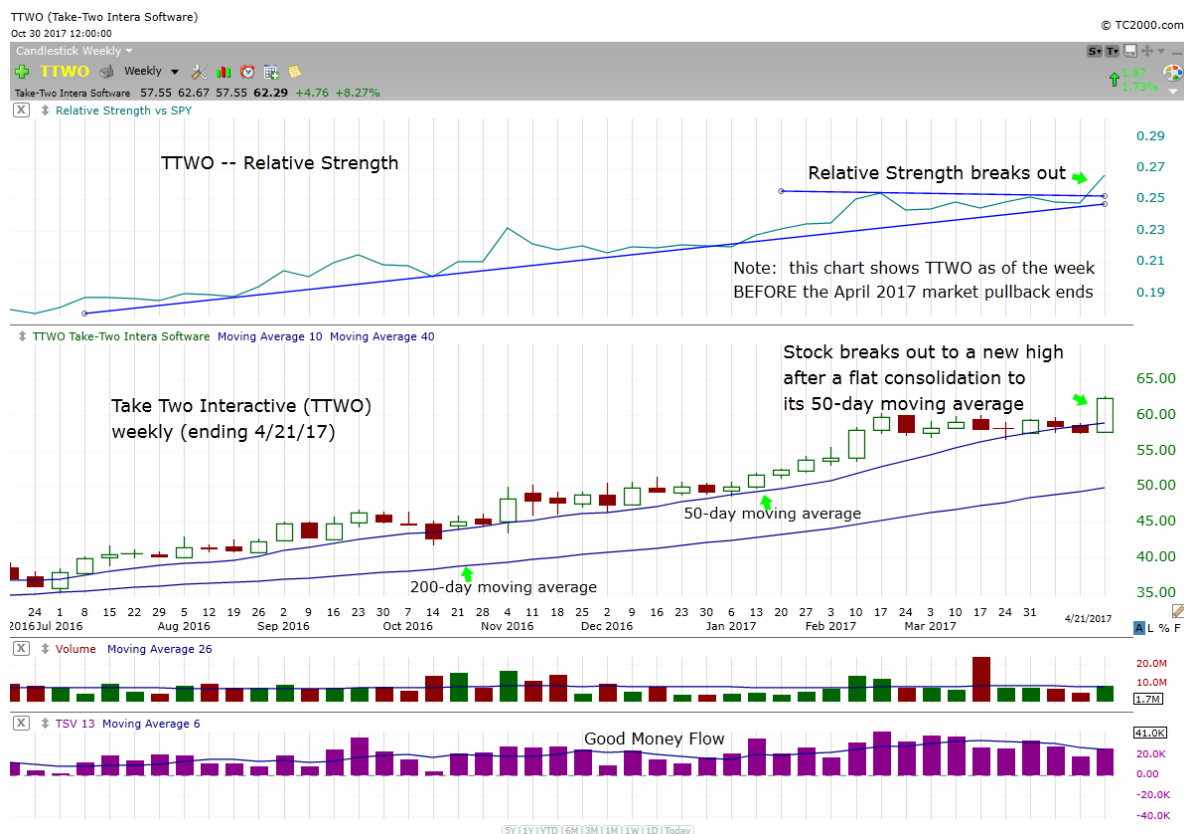
2. Summary of Benefits – Why This Approach is Valuable to an Investment Manager

- The research process discussed in this report can help an investment firm make good investment decisions and create good investment performance, thereby gaining new clients.
- This process helps to cut through the information overload.
- On a weekly basis, it can provide a team of portfolio managers with a complete review of the markets, along with investment conclusions for managing client portfolios:
 - Any changes that should be made to **asset allocation.**
 - Any changes that should be made to **sector weights.**
 - **Specific stocks and ETFs** that should be bought or sold.

3. Example of Creating Good Performance:

- An example of a winning stock is shown in the following chart. Take Two Interactive (TTWO), an electronic gaming stock, formed a technical “Buy” signal when it broke out to a new high in April 2017.

Figure 1 Take Two Interactive (TTWO) Weekly Chart – formed a “BUY” signal as of 4/21/17

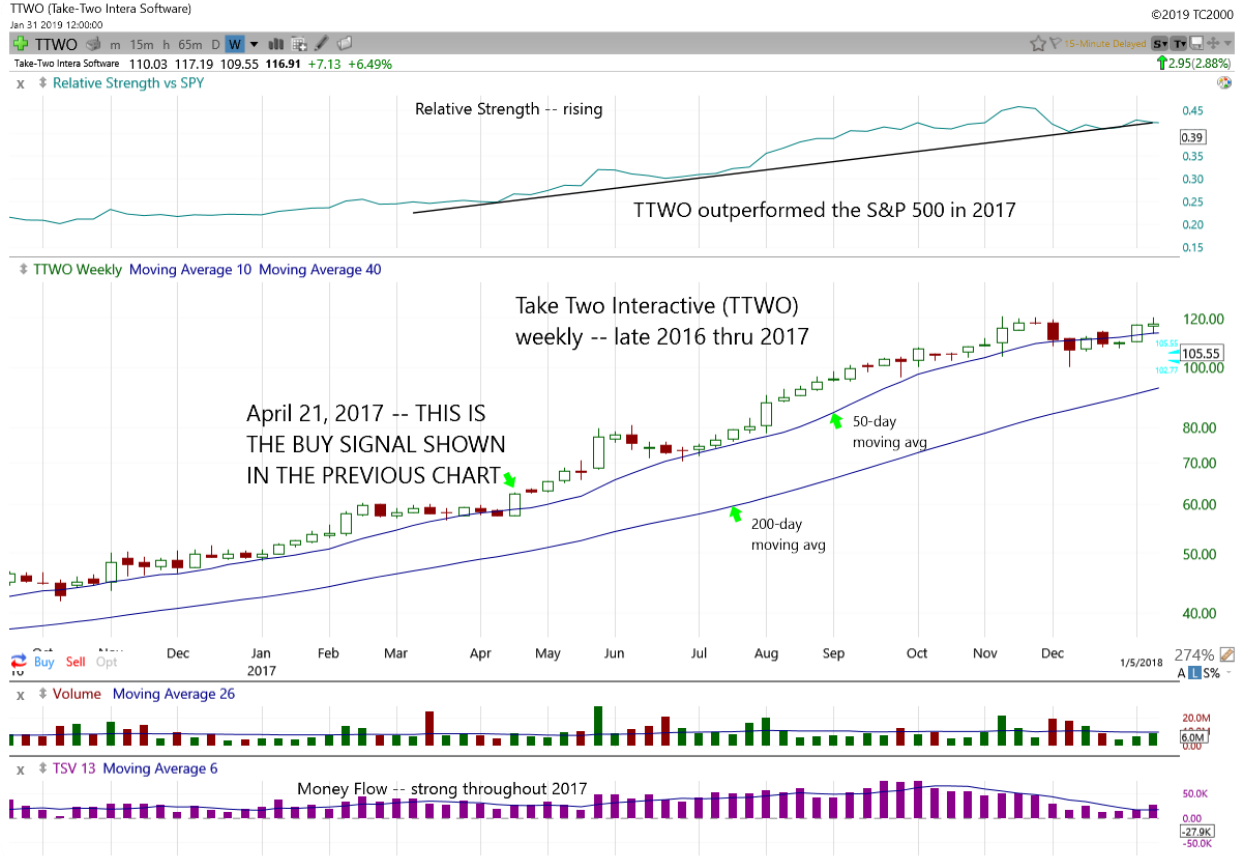


This was an ideal stock to buy at the time, but not just because of the chart. This was a situation in which all the pieces of the puzzle were aligned:

- 1) **Overall market conditions** – the S&P 500 had just completed a 2-month pullback.
 - 2) **Good sector** – the technology sector had good relative strength.
 - 3) **Good industry group** – other stocks in the electronic gaming group were also acting well.
 - 4) **Good technical position** – the stock formed a flat base and then broke out to a new high. This was a bullish signal, especially because the relative strength line also hit a new high.
 - 5) **Good fundamentals** – the stock had a bullish rating based on fundamental data, and its most recent earnings report had a large positive earnings surprise.
- Note: Aligning these five elements does not simply mean that the market, the sector, the industry group, and the stock are all “going up” at the same time. If that were the case, the stock would probably be overbought.

- It is a matter of finding stocks with good fundamentals and then coordinating the positions of the market, the sector and the stock. This is a complex process which is discussed in more detail in the full version of this report.
- As seen in Figure 2, after the April 2017 buy signal shown above in Figure 1, TTWO outperformed the S&P 500 by a wide margin. From the end of April 2017 to year-end 2017, the stock rose from \$63 to \$110, for a gain of 75%, compared to 12% for the S&P 500.

Figure 2 Take Two Interactive (TTWO) -- Performance after April 2017 “Buy” signal



- **Even a few strong stocks like this can have a big impact on investment performance.** In a 30 stock portfolio, if 28 stocks have gains of 12% each and just two stocks have gains of 75%, the overall portfolio will have a gain of 16.2%, outperforming the S&P 500 by 4.2%.
- Thus the ability to identify situations like this can be much more valuable than endlessly discussing the economy in an effort to predict the market, or relying on equity quant systems that rank stocks on a scale of 1 – 100.
- For more information, please visit www.straussresearch.com.