

Point & Figure Analysis

A Disciplined Approach to Investing in the Stock Market

*The Company fundamentals looks great. All the analysts love it.
So why is the stock going down?*

Fundamental Analysis vs. Technical Analysis

What is Fundamental Analysis?

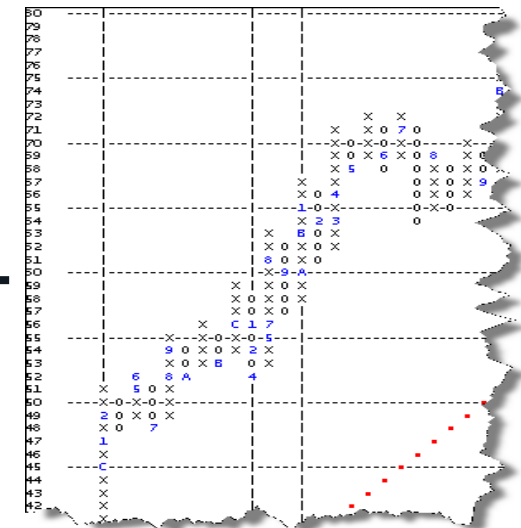
1. What to Buy
2. Company Management
3. Earnings Quality
4. Price/Earnings Ratio
5. Product Acceptance

What is Technical Analysis?

1. When to Buy
2. Trend Analysis
3. Relative Strength
4. Momentum
5. When to Sell

Income Statement (millions of euros)				
	31.12.2004	31.12.2003	Change	% chg
Revenues from sales and services	3,021.3	2,841.2	180.1	
Changes in inventories	0.3	0.1	0.2	20%
Capitalization of internal development/construction costs	10.4	10.8	-0.4	-3%
Total revenues	3,032.0	2,852.1	179.9	6%
Cost of goods and external services	-1,251.0	-1,156.9	-94.1	8%
Personnel costs	-922.2	-888.2	-34.0	2%
Total operating costs	-2,273.2	-2,045.1	-228.1	11%
Gross Operating Margin	758.8	807.0	-48.2	-6%
Amortisation of programmes	-430.4	-407.0	-23.4	5%
Depreciation	-176.1	-173.9	-2.2	1%
Other income (expense), net	-62.8	-47.1	-15.7	33%
Operating profit/(loss)	89.5	179.0	-89.5	-50%
Financial income, net	-7.5	-12.1	4.6	-40%
Value adjustments to financial assets	1.0	-1.7	2.7	-158%
Profit/(loss) before extraordinary items	83.0	164.2	-81.2	-49%
Extraordinary income (expense), net	2.1	14.2	-12.1	-85%
Profit/(loss) before taxes	85.1	178.4	-93.3	-52%
Income taxes for the year	-2.9	-96.5	93.6	-97%
Net profit (loss) for the year	82.2	81.9	0.3	
Of which minority interests	-0.2	-0.4	0.2	

Balance Sheet (millions of euros)				
	31.12.2004	31.12.2003	Change	% chg
Non-current assets	1,585.6	1,632.2	-46.6	-3%
Working capital	-473.4	-534.1	60.7	-1%
Staff severance pay	-384.8	-362.8	-22.0	
Capital employed, net	727.4	735.3	-7.9	-1%
Equity	851.1	769.0	82.1	10%
Net debt (net liquidity)	-123.7	-33.7	-90.0	26%

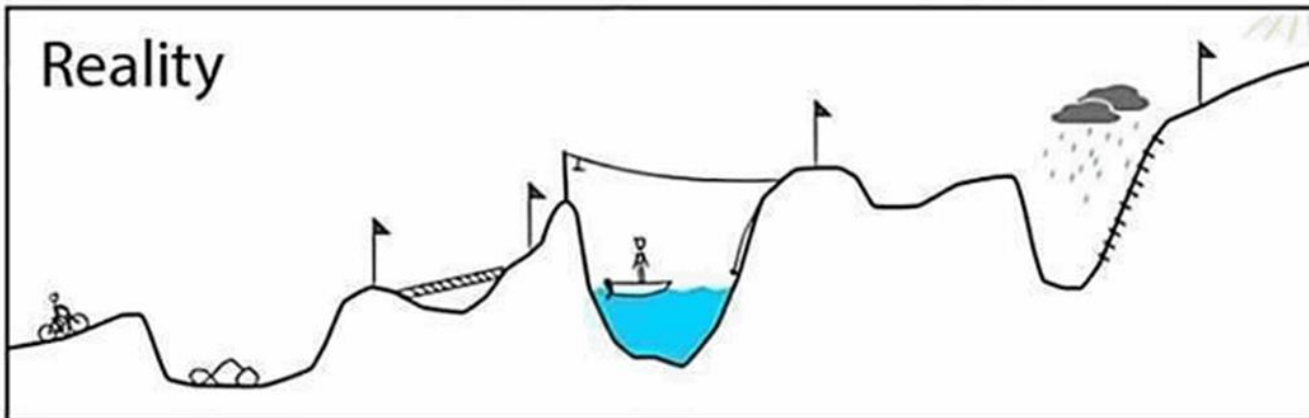


Long-Term Investing

Your plan



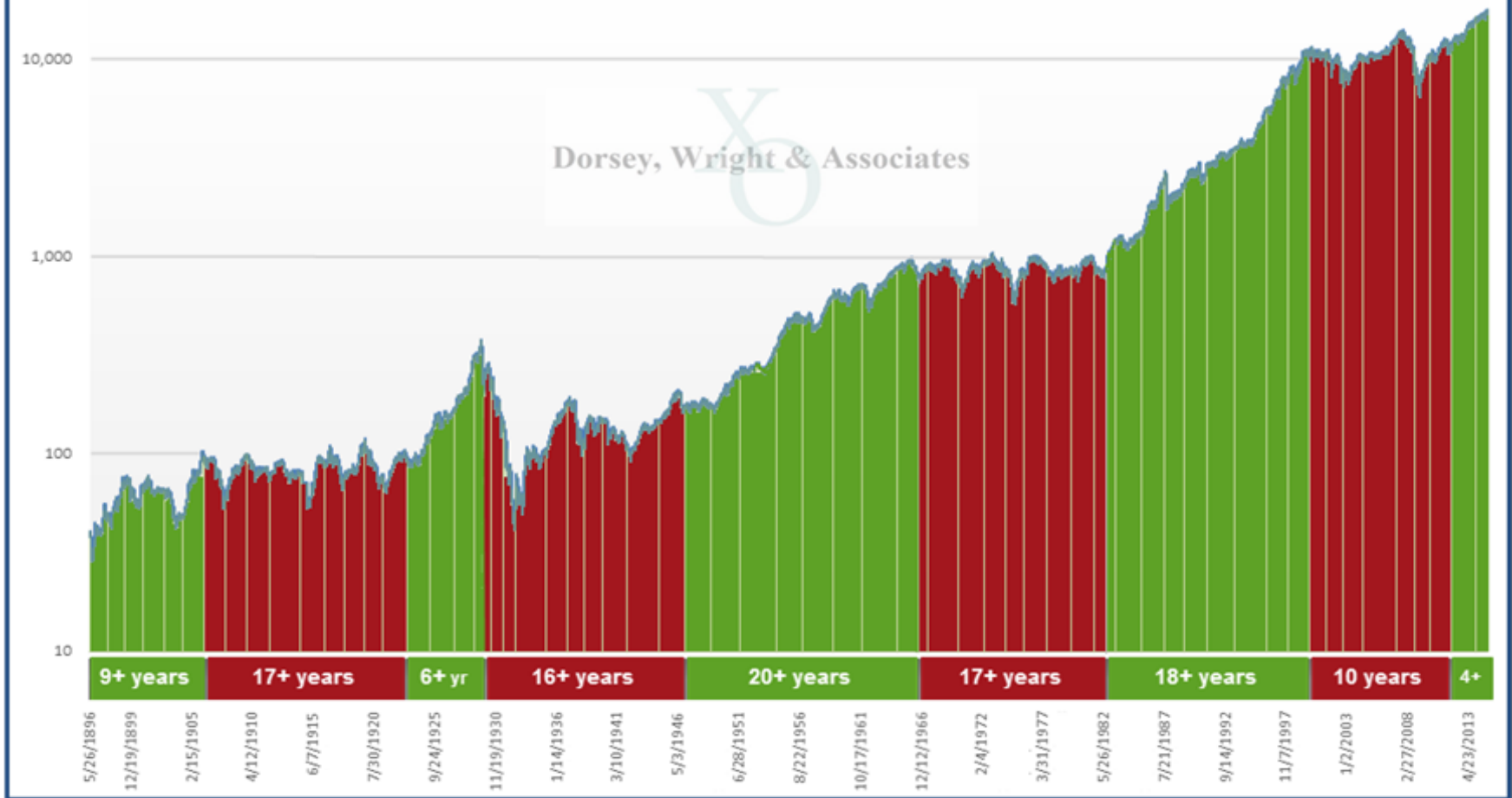
Reality



Source: twitter account @ThinkingIP

Structural Markets of the Dow Jones Industrial Average

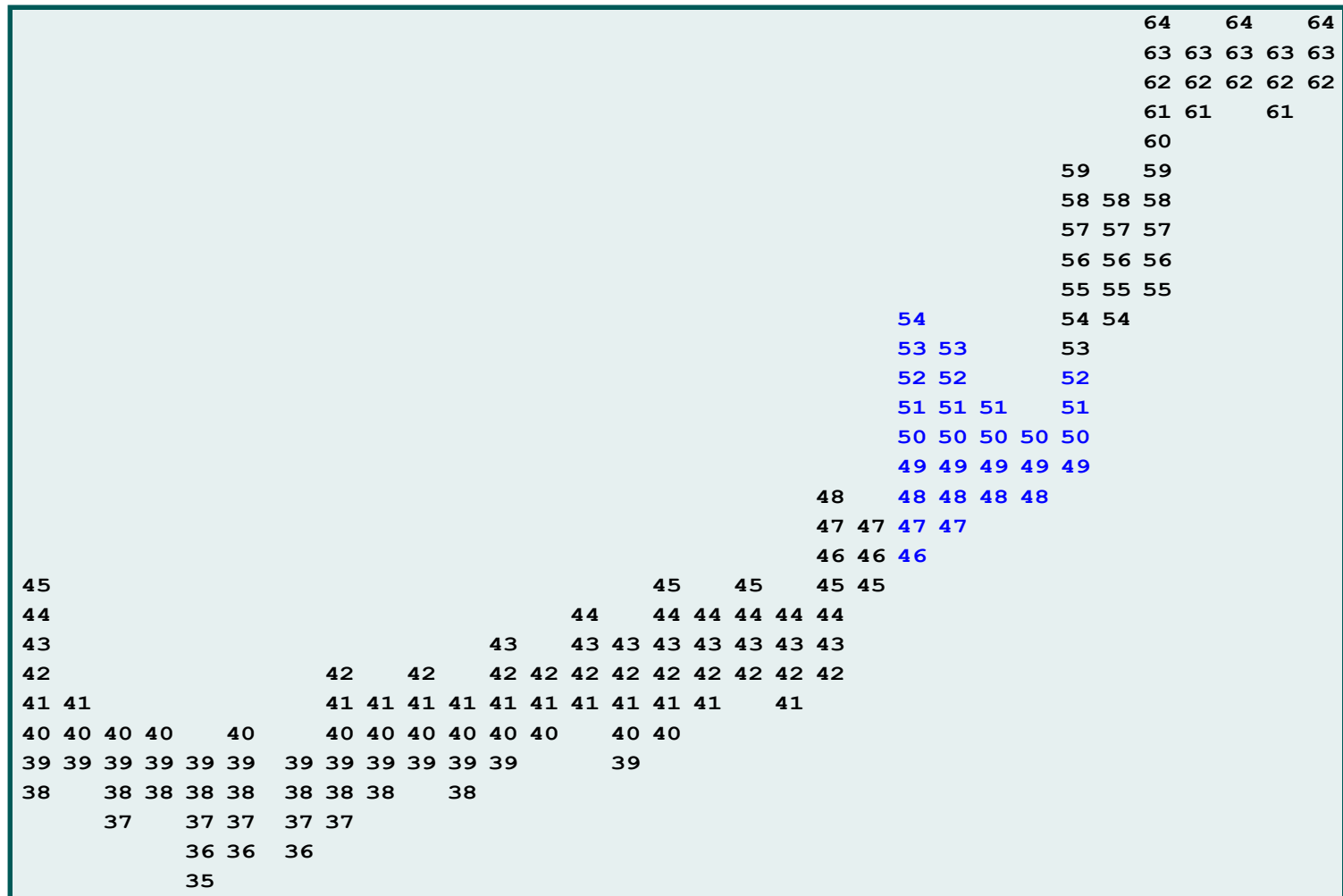
May 1896 through December 2014



- We all understand the basic forces of supply and demand.
- The same forces that affect prices in the supermarket also affect prices in the stock market.
- Stocks, sectors, and asset classes move in and out of favor just like produce in the supermarket.

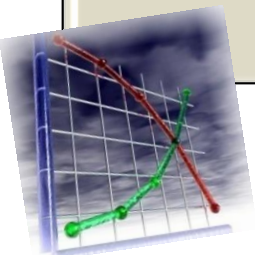


ORIGINAL POINT & FIGURE CHART

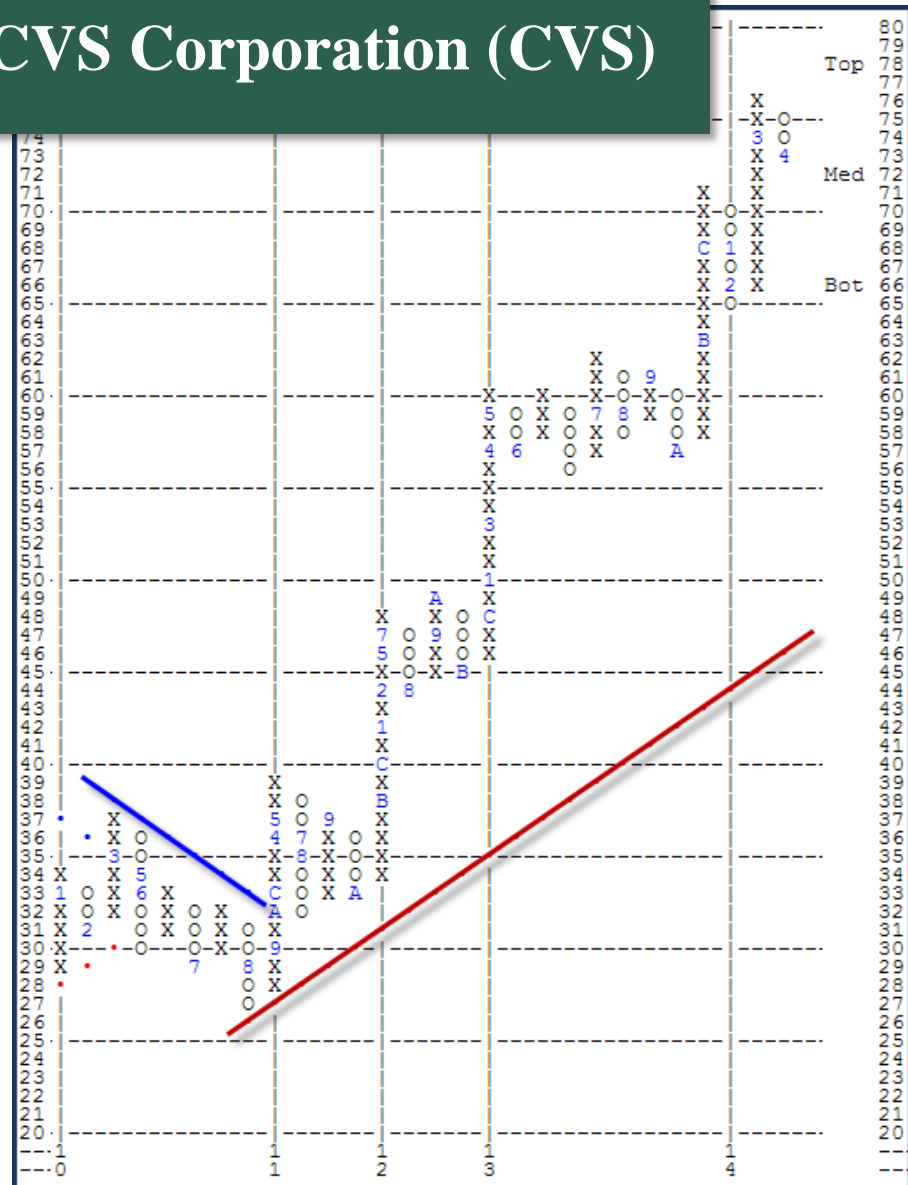


Point & Figure Basics

- X's = Price is rising
- O's = Price is falling
- Alternate columns of X's and O's
- Minimum of 3 X's or O's in a column
- Time = First action in month use number (1 for January, etc.)
- Use daily high & low for charting price action



CVS Corporation (CVS)



Measuring Supply & Demand

Double Top

One column of X's exceeds
a previous column of X's.

39		O				
38		O				
37		O				
36		O				
35		O			X	
34		O	X		X	
33		O	X	O	X	
32		O	X	O	X	
31		O		O		
30						

Double Bottom

One column of O's exceeds
a previous column of O's.

39						
38		X		X		
37		X	O	X	O	
36		X	O	X	O	
35		X	O		O	
34		X			O	
33		X				
32		X				
31		X				
30		X				

Supply or Demand?

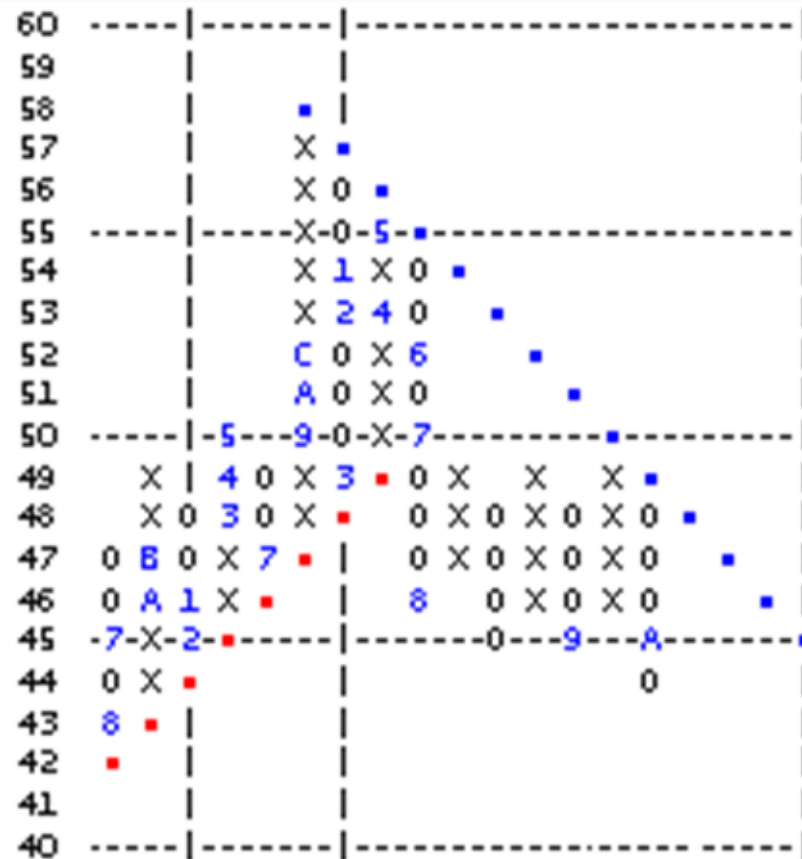


Chart Source: www.dorseywright.com

Citigroup (C)

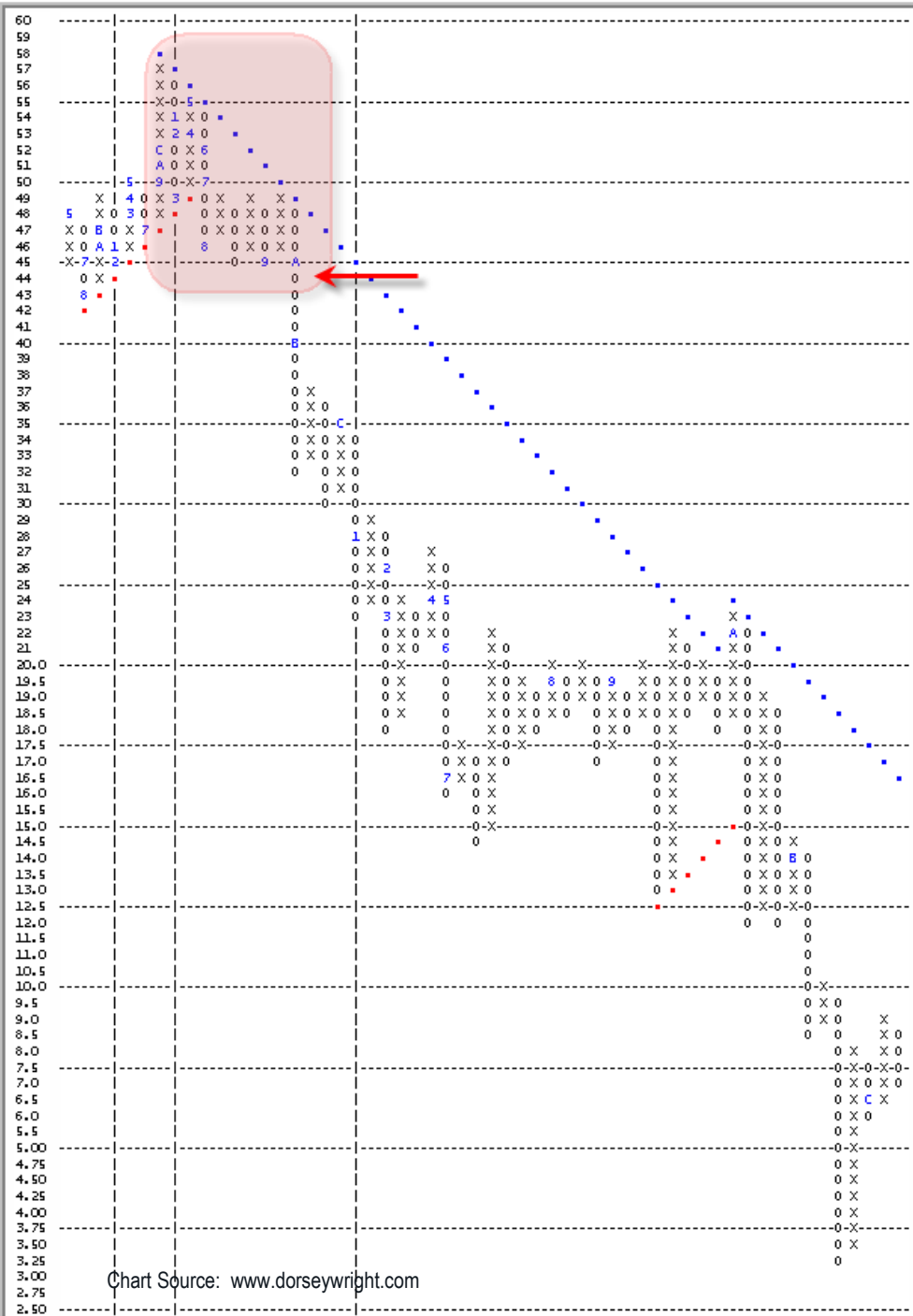
Did the fundamental analysts learn from the 2000-2002 Technology Bubble?

The following is a quote from the February 9th New York Times article, “Why Analysts Keep Telling Investors to Buy”

“At the top of the market, they urged investors to buy or hold onto stocks about 95 percent of the time. When stocks stumbled, they stayed optimistic. Even in November, when credit froze, the economy stalled and financial markets tumbled to their lowest levels in a decade, analysts as a group rarely said sell.”

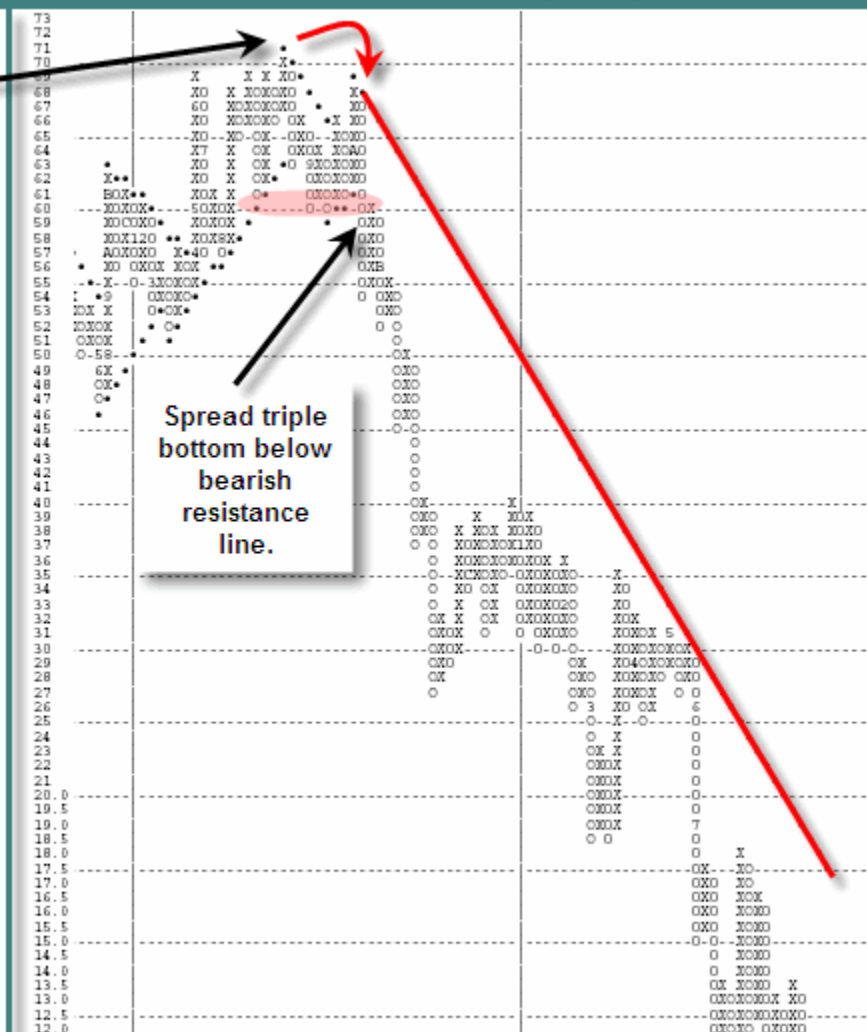
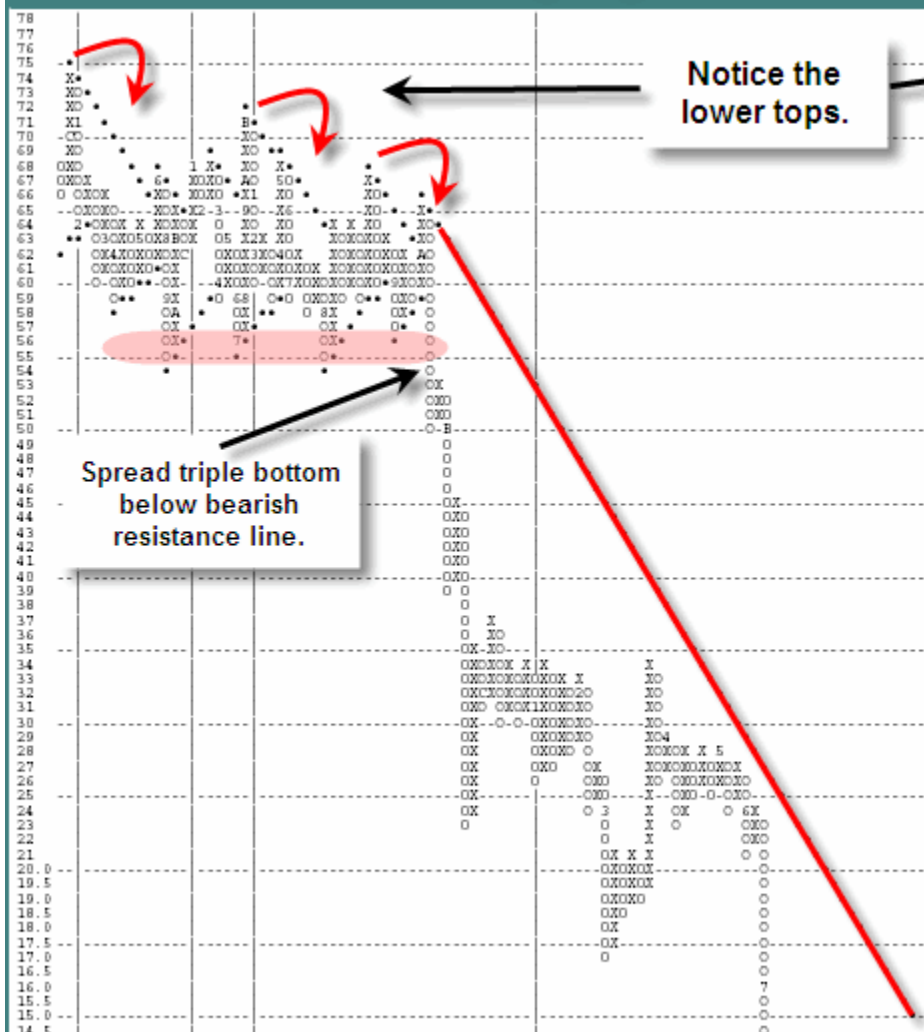
The example above is presented for illustrative purposes only and does not represent a past buy or sell recommendation

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Freddie Mac (FRE)

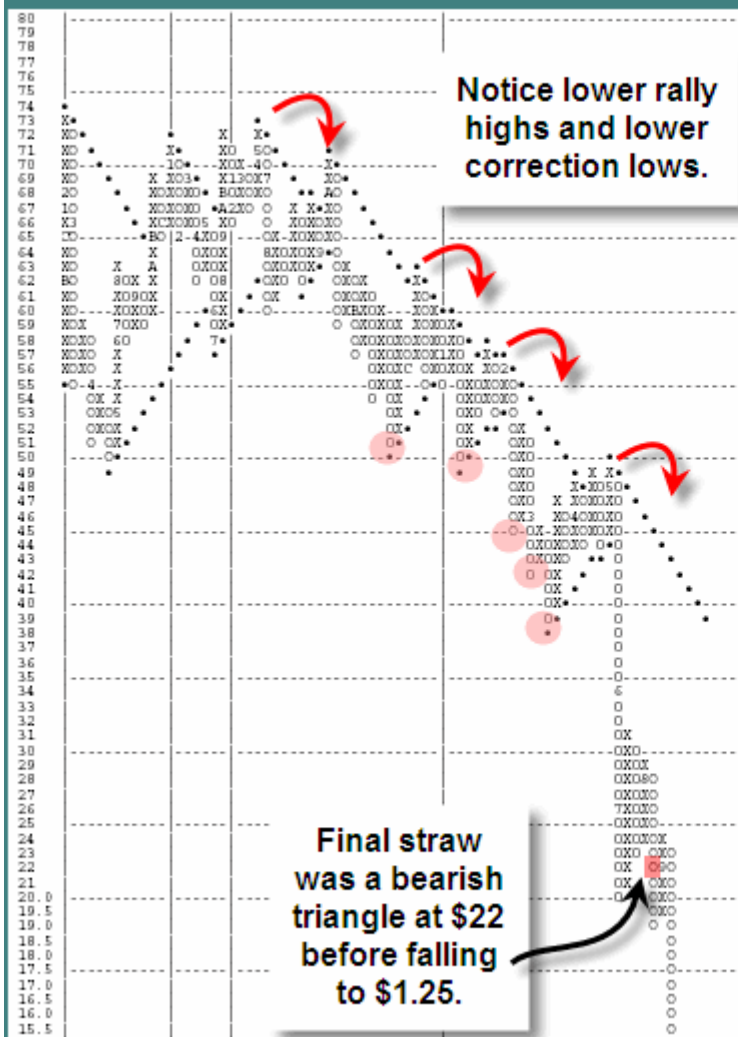
Fannie Mae (FNM)



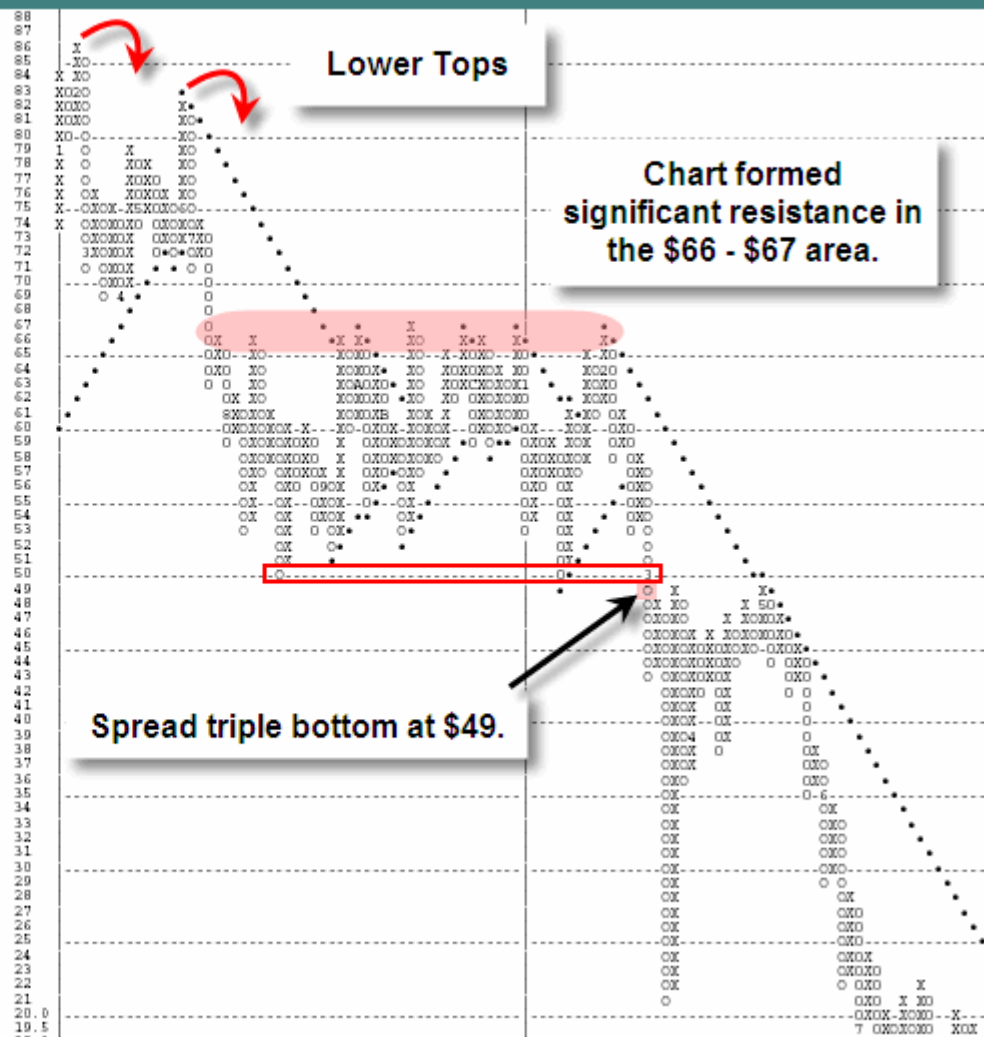
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Chart Source: www.dorseywright.com

American International Groups (AIG)



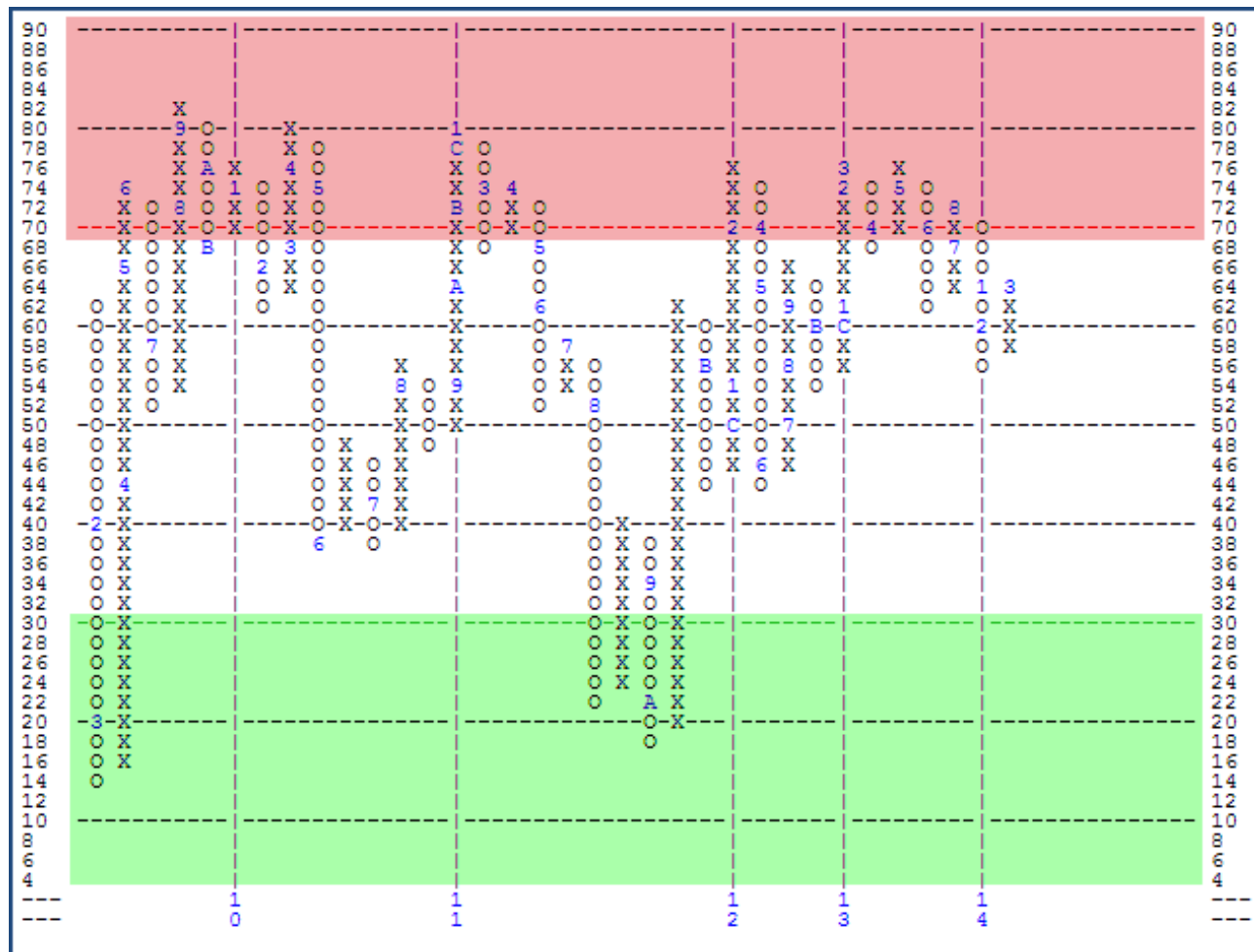
Lehman Brothers Holding (LEHMQ)



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NYSE Bullish Percent

- X's = Offense – Wealth Accumulation
- O's = Defense – Wealth Preservation
- Two Lines of Demarcation: 30% and 70%
- Measures Risk in the Market
- Does not have to move in tandem with the S&P 500 or the Dow Jones.



Relative Strength Calculation

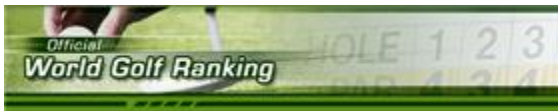
- All major sports have a ranking system. The Point & Figure Relative Strength tool is the ranking system we use for Stocks, ETF's.
- Daily Calculation:

$$\frac{\text{Stock}}{\text{Index}} \times 100 = \text{Relative Strength Reading}$$

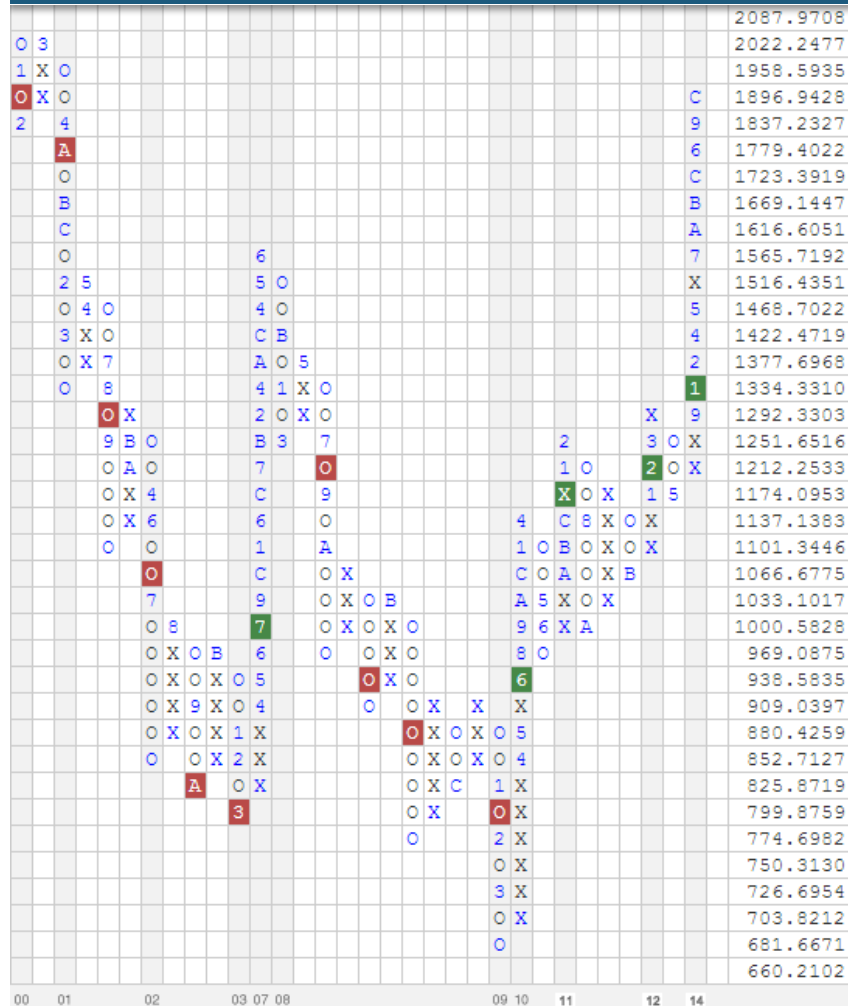
- This reading is plotted on a Point & Figure chart which then tells us whether we can expect that stock or ETF to outperform or underperform the base index.



Rank	Player	Pt.s Avg.
1	Tiger Woods, USA	11.48
2	Adam Scott, AUS	9.42
3	Henrik Stenson, SWE	9.06
4	Justin Rose, ENG	7.03
5	Phil Mickelson, USA	6.93
6	Rory McIlroy, NIR	6.35
7	Zach Johnson, USA	6.24
8	Matt Kuchar, USA	6.20
9	Steve Stricker, USA	5.61
10	Sergio Garcia, ESP	5.23



S&P 500 Index (SPX) vs. Barclays Aggregate Bond Index (AGG)



When RS Chart is on a buy signal, it suggests outperformance by the numerator (i.e. SPX).

Start Date	End Date	Signal	SPX	AGG
11/22/00	7/31/03	Sell	- 25.11%	23.16%
7/31/03	7/15/08	Buy	22.68%	1.84%
7/15/08	6/5/09	Sell	- 22.62%	- 0.69%
6/5/09	12/31/14	Buy	119.01%	10.04%

Buy and hold SPX: 55.70%
Buy and Hold AGG: 37.07%
Switching: 228.62%

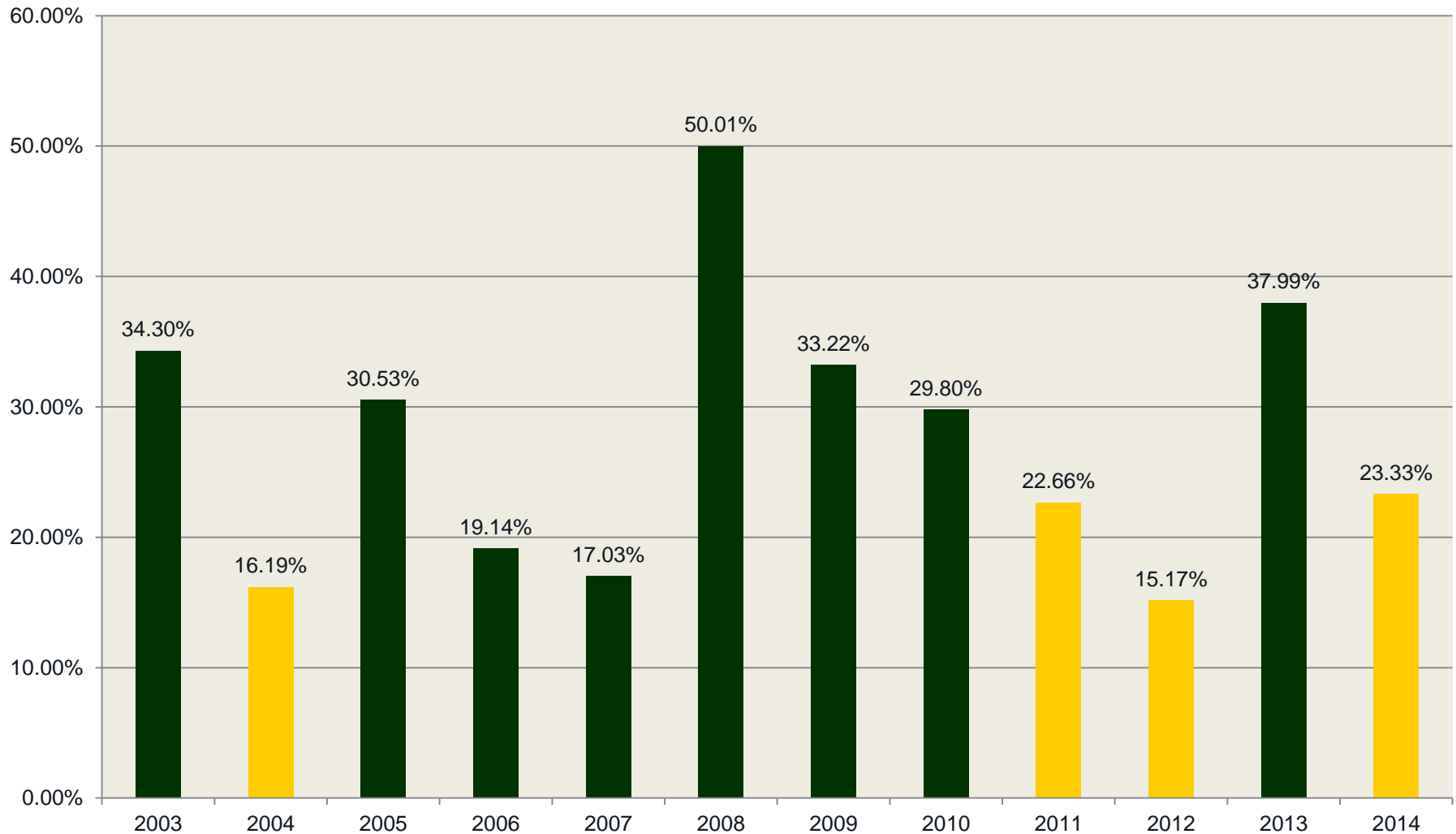
RS Signal: **Buy = Outperformance of SPX to Bonds**
Sell = Underperformance of SPX to Bonds

**Performance of the switching strategy is the result of back-testing. Back-tested performance results have certain limitations. Such results do not represent the impact of material economic and market factors might have on an investment advisor's decision making process if the advisor were actually managing client money. Back-testing performance also differs from actual performance because it is achieved through retroactive application of a model investment methodology designed with the benefit of hindsight.*

The performance numbers above are pure price returns, based on the applicable index not inclusive of dividends, fees, or other expenses. Past performance not indicative of future results. Potential for profits accompanied by possibility of loss

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Performance Differential Among Asset Classes: 1990 – 2014

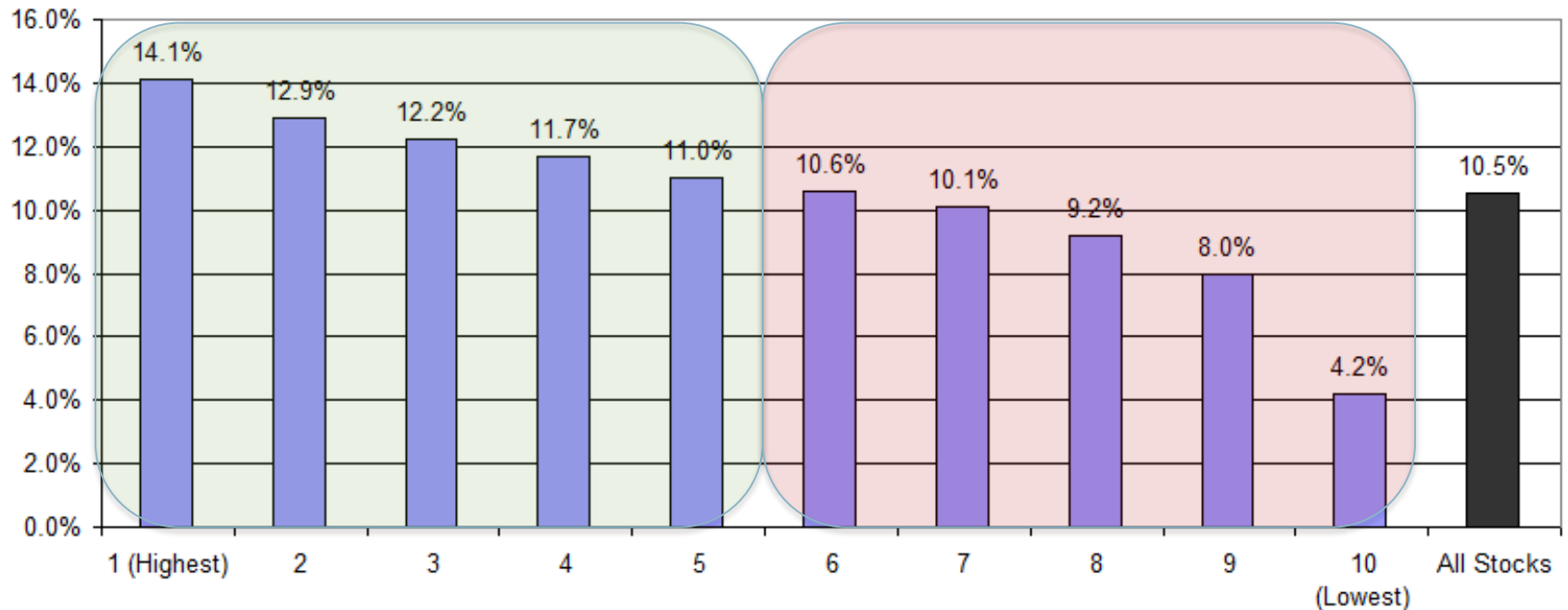


US Stocks = S&P 500 Index
Int'l Stocks = MSCI EAFE Index
Foreign Currency = Dorsey, Wright Foreign Currency Index
Commodities = Continuous Commodity Index
Money Market = 13 Week T-Bill Total Return
Fixed Income = Barclays Total Return Aggregate Bond Index

The differential numbers above are based on the price returns of the applicable non-investable index. Indexes do not include fees or transaction costs. Potential for profits is accompanied by possibility of loss. Past performance is not indicative of future results.

Why Relative Strength?

Average Annual Compound Return by Decile, 6 month momentum



Source: What Works On Wall Street, 4th edition

Based on data compiled by James O'Shaughnessy and published in, "What Works on Wall Street". Study period encompassed market data from 1926 to 2009, and the chart above shows that stocks with better 6-mo. momentum (i.e. good relative strength) generally continued to outperformed both the broad equity market, and weaker performance buckets.

The relative strength strategy is NOT a guarantee. There may be times where all investments and strategies are unfavorable and depreciate in value. Relative Strength is a measure of price momentum based on historical price activity. Relative Strength is not predictive and there is no assurance that forecasts based on relative strength can be relied upon.

Relative Strength Research

Exhibit 1: The Performance of Momentum, Value, Growth & the S&P 500 since the 1930s

Summary of Index Performance by Decade	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s	1930- Present
CAGR									
French High Momentum	2.3%	12.9%	23.3%	14.1%	10.3%	18.6%	23.1%	0.6%	13.1%
French Value	-5.8%	17.2%	22.3%	10.7%	12.3%	20.4%	14.3%	4.0%	11.6%
French Growth	1.6%	7.4%	17.5%	8.0%	3.4%	15.8%	20.0%	-1.3%	8.9%
S&P 500	-0.5%	9.0%	19.3%	7.8%	5.9%	17.6%	18.2%	-0.9%	9.4%
Sharpe Ratio									
French High Momentum	0.21	0.73	1.49	0.71	0.29	0.53	1.13	-0.05	0.55
French Value	0.15	0.88	1.23	0.51	0.38	0.75	0.73	0.16	0.41
French Growth	0.19	0.53	1.27	0.35	-0.08	0.42	0.98	-0.17	0.36
S&P 500	0.15	0.59	1.38	0.35	0.04	0.54	0.96	-0.15	0.37

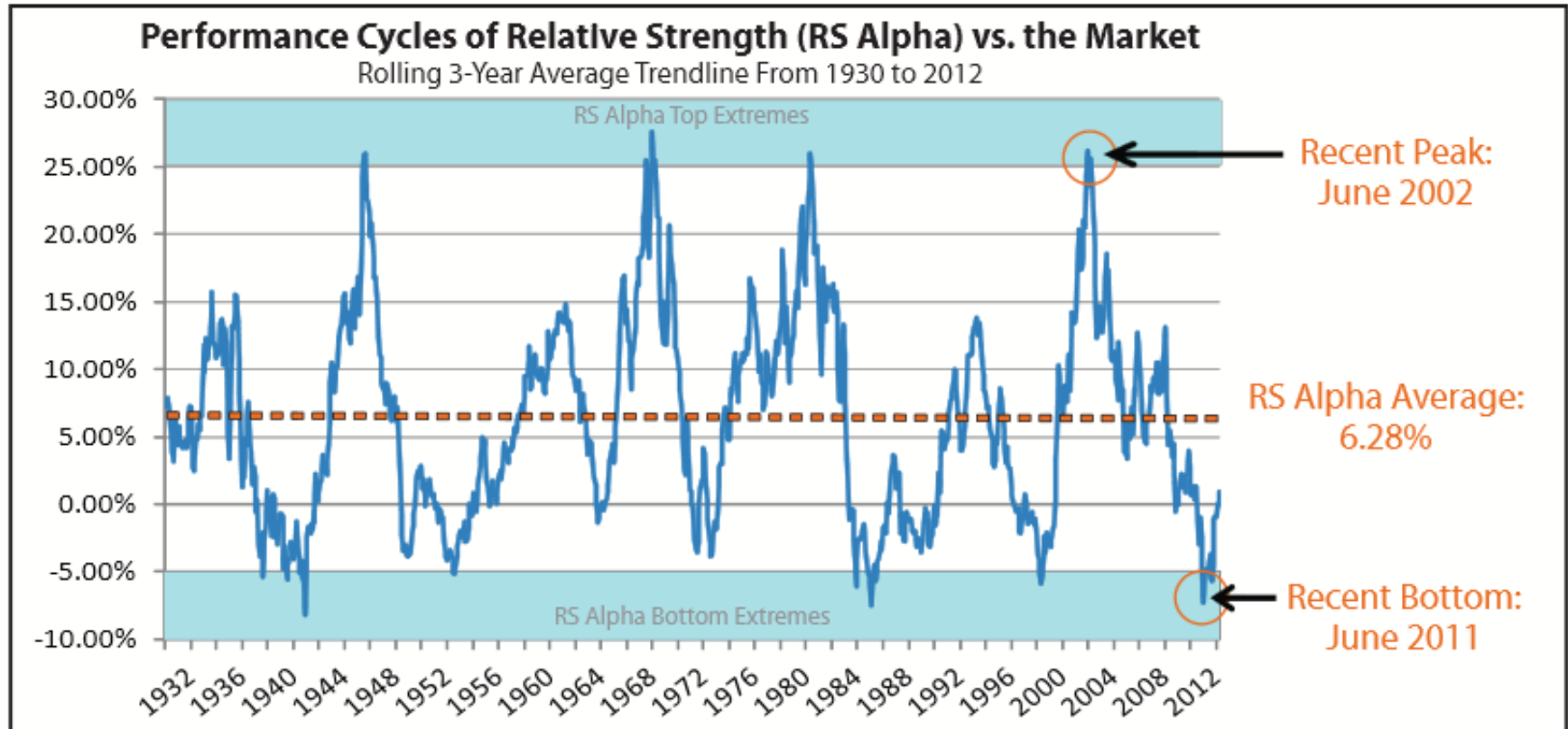
Source: RBC Capital Markets Research, Dr. Kenneth R. French

High momentum (aka high relative strength) stocks have been proven to outperform Value, Blend, and Growth strategies over time.

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A Time for RS Strategies



Performance displayed represents past performance, which is no guarantee of future results. Index performance assumes reinvestment of dividend, but does not include fees. Indexes are generally not available for direct investment. Relative Strength (RS Alpha) is represented by the 3-year rolling average performance for a long-term RS model versus the market (S&P 500 Index). Source: Standard & Poor's, calculated by Arrow.

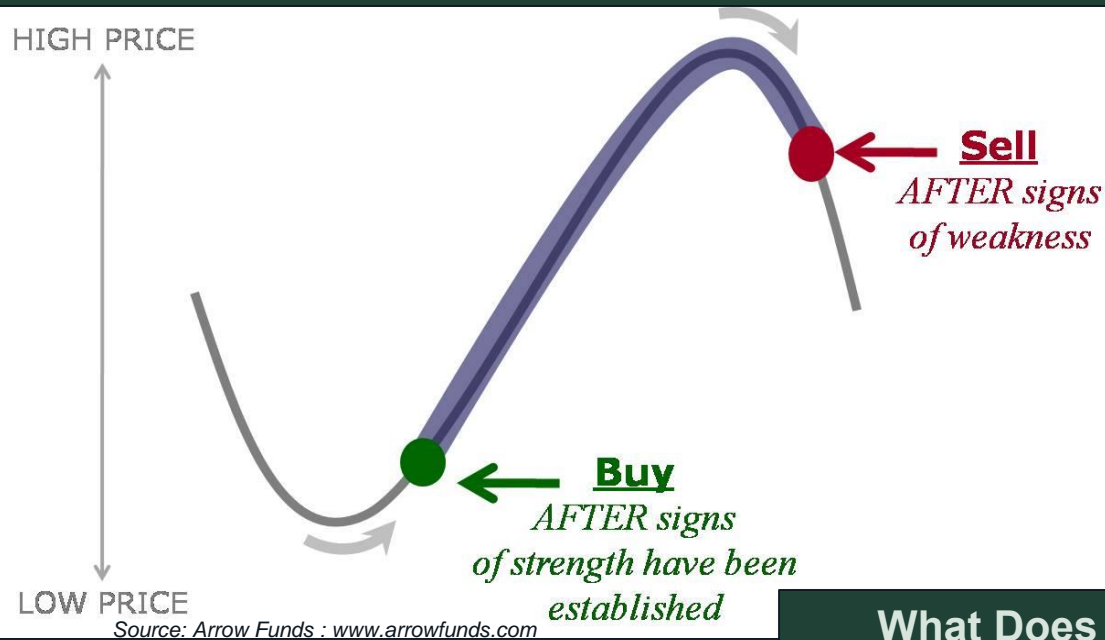
Source: http://www.arrowfunds.com/files/DDF/Arrow_Insights_RS_Turns.pdf

Magazine Covers

August – December 2011



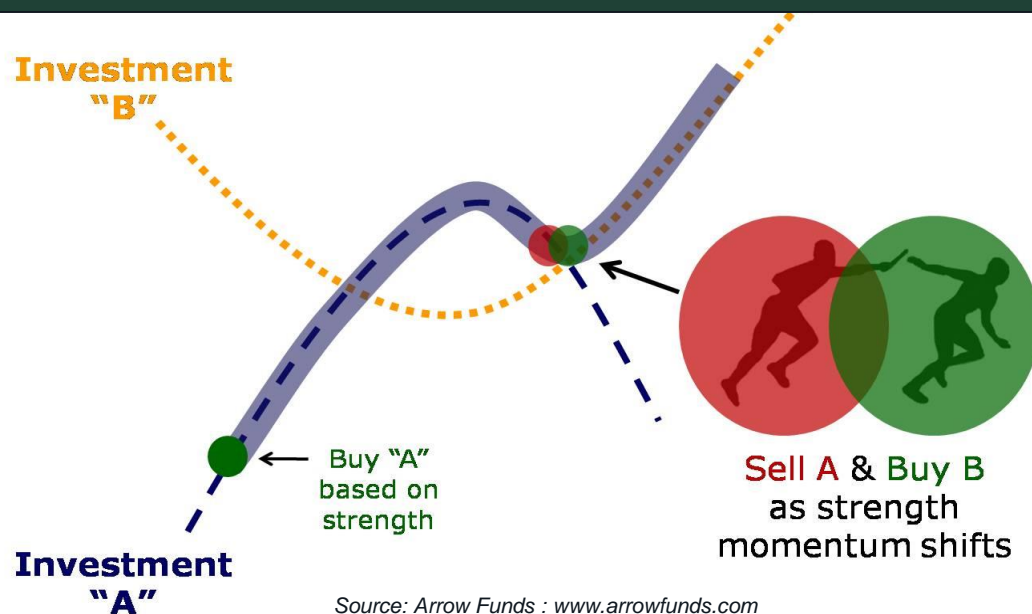
Big Picture Concepts: What is “Trend Following”?



Lesson:
Four “trends” can be better than one.



What Does “Trend Adaptation” Look Like?



Track & Field

400 meter World Record

Michael Johnson

43.18 seconds

4x100 meter World Record

Team Jamaica

36.84 seconds

Dynamic Asset Level Investing (D.A.L.I.)

The Dynamic Asset Level Investing (DALI) evaluates the supply and demand forces of asset classes, and ranks them from strongest to weakest based on their relative strength score.

US Equities

Int'l Equities

Commodities

Fixed
Income

Foreign
Currencies

Cash

Step One:

Create Inventory



Step Two:

Relative Strength Analysis



Step Three:

Rank Each Asset Class



Optional

(Step Four)

Check RS vs. Cash & Trend

Current D.A.L.I. Process



Determine Allocation to each Asset Class through Relative Strength Analysis

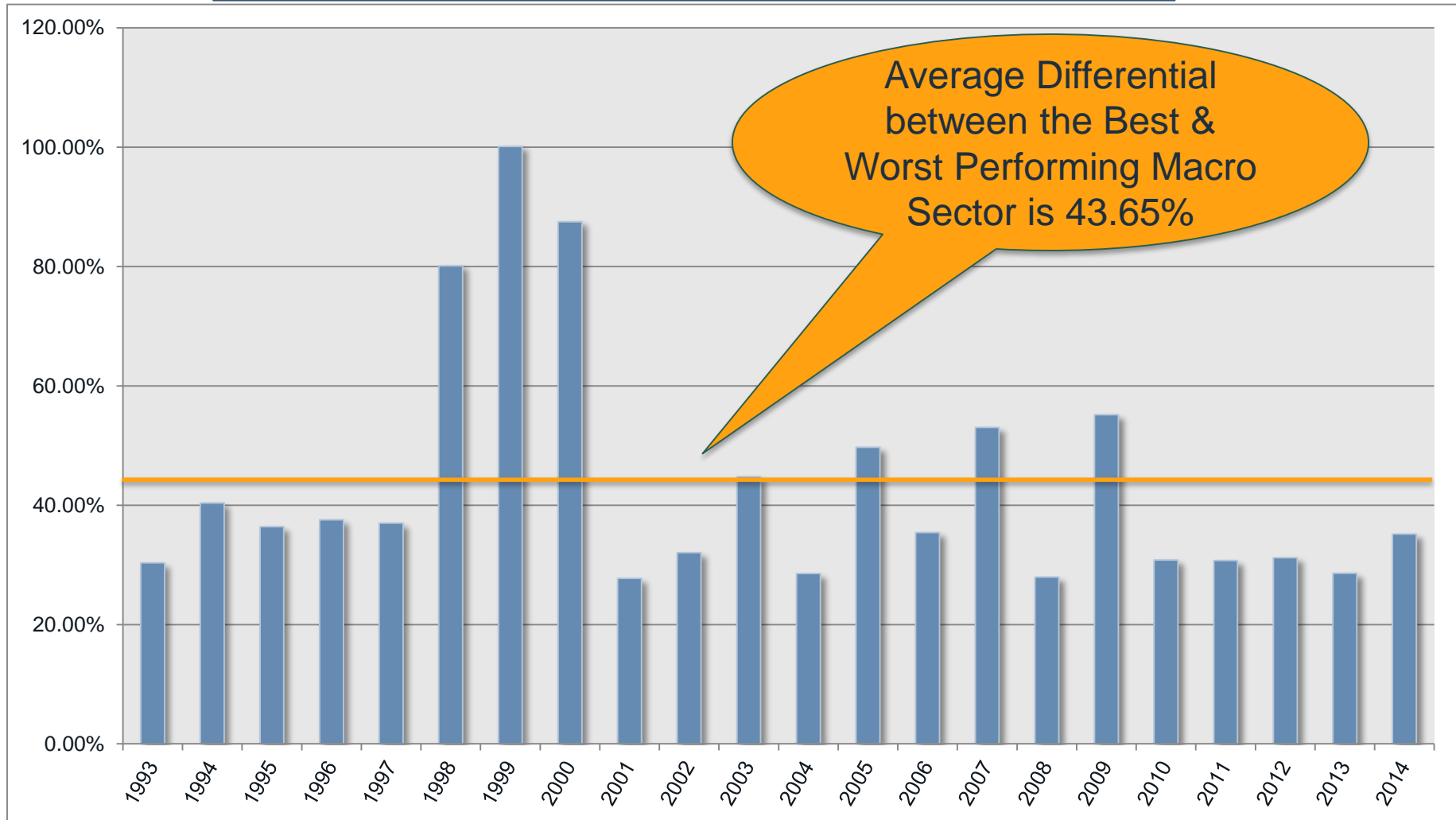


Asset Class <small>Last rank change</small>	Domestic Equities 10/24/2011 1	Fixed Income 12/16/2014 2	International Equities 12/16/2014 3	Cash 12/11/2014 4	Currencies 12/11/2014 5	Commodities 09/08/2014 6
Buy Signals/ Flex Pct /	337 31.3%	215 20.0%	192 17.8%	161 15.0%	106 9.9%	65 6.0%
Tally History						
Cash Pct. Rank	 0.00	 33.33	 40.00	N/A	 58.33	 93.55
Trend Factor	 2.1436	 1.4935	 0.9138	N/A	 0.2289	 0.1919
Bogey Check Cash	PASS	PASS	FAIL	N/A	FAIL	FAIL
Bogey Options:	<input type="text" value="Cash"/> <input type="button" value="Change Bogey"/>					



As of 03/10/2015

Dow Jones Macro Sectors: 1993 – 2014



All Performance numbers are based on the performance of non-investable indexes. Investors cannot invest directly in an index. Indexes have no fees. Examples presented on this slide are for illustrative purposes only and do not represent past or present recommendations. Past performance not indicative of future results. Potential for profits accompanied by possibility of loss.

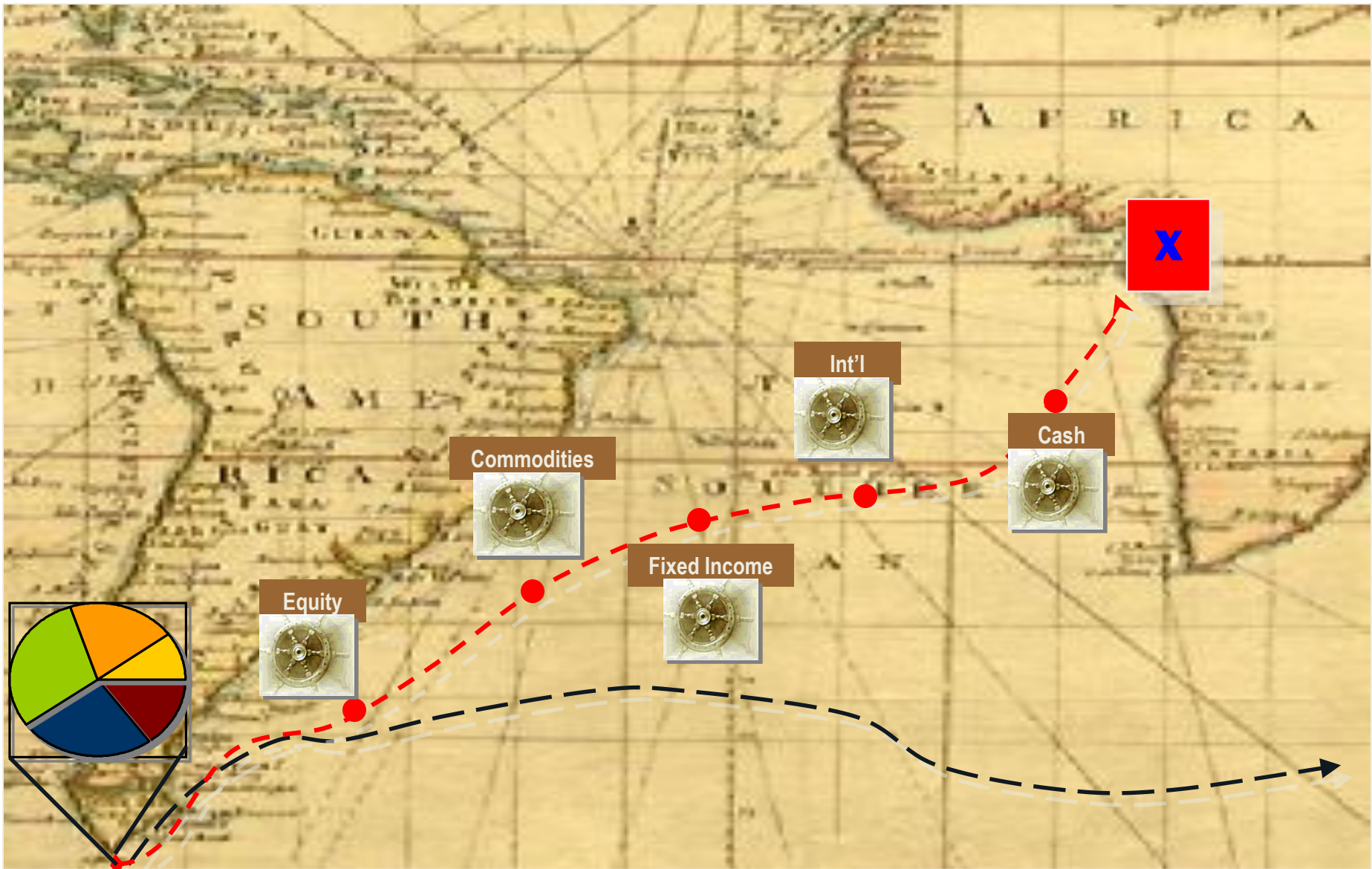
Sector Impact

Year End	Buy & Hold Strategy	Perfect Market Timing	Buying the Best Performing Sector	Buying the Worst Performing Sector
Beginning Value	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
1993	\$ 10,706	\$ 11,301	\$ 12,303	\$ 9,270
1994	\$ 10,541	\$ 13,216	\$ 15,093	\$ 7,628
1995	\$ 14,136	\$ 17,819	\$ 22,892	\$ 8,792
1996	\$ 17,001	\$ 22,950	\$ 31,094	\$ 8,640
1997	\$ 22,272	\$ 34,509	\$ 45,475	\$ 9,439
1998	\$ 28,212	\$ 52,768	\$ 77,263	\$ 8,475
1999	\$ 33,721	\$ 71,535	\$ 141,700	\$ 7,058
2000	\$ 30,302	\$ 85,553	\$ 213,286	\$ 4,448
2001	\$ 26,350	\$ 105,651	\$ 211,537	\$ 3,178
2002	\$ 20,193	\$ 126,390	\$ 197,237	\$ 1,944
2003	\$ 25,520	\$ 169,100	\$ 320,590	\$ 2,290
2004	\$ 27,815	\$ 197,273	\$ 416,574	\$ 2,321
2005	\$ 28,650	\$ 223,567	\$ 549,920	\$ 1,910
2006	\$ 32,551	\$ 262,177	\$ 665,348	\$ 1,634
2007	\$ 33,700	\$ 307,965	\$ 884,979	\$ 1,307
2008	\$ 20,731	\$ 332,608	\$ 670,106	\$ 624
2009	\$ 25,593	\$ 514,724	\$ 1,090,866	\$ 672
2010	\$ 28,864	\$ 730,276	\$ 1,412,126	\$ 663
2011	\$ 28,863	\$ 885,518	\$ 1,614,060	\$ 554
2012	\$ 32,733	\$ 1,101,234	\$ 2,080,201	\$ 541
2013	\$ 42,422	\$ 1,495,760	\$ 2,900,840	\$ 600
2014	\$ 47,254	\$ 1,789,197	\$ 3,593,270	\$ 532
Avg. Annualized Return	7.31%	26.59%	30.66%	-12.48%

Source: Market Performance based on S&P 500; Sector performance based upon Dow Jones sectors

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Reaching Your Destination



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