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FINANCIAL MANAGEMENT



## Reading The Tea Leaves...

Many of you who have known me for years are well aware of my focus on analyzing the fundamentals of each investment before making a recommendation. I scour the company's financials, management, competitive positioning, markets and business prospects before giving you the nod on making the investment.

So a few of you may be a little surprised as you read on, because the pragmatist in me wants you to also be aware of the increasing influence of Technical Analysis on market movements.

### “Charting”

Technical analysis, also known as charting, basically attempts to analyze the past to predict the future. Specifically, technical analysts apply statistics to past data on stock price changes, interest rates, trading volume and a host of other market and economic variables, to identify patterns that might predict the future direction of a particular stock or the market as a whole.

In times past, investors would choose either one of these two schools of thought - fundamental analysis or technical analysis – and fervently defend one while trashing the other.

### Best of Both

However, today, even fundamental investors like myself realize that individual stock or broad market moves are significantly affected by technical traders. Therefore, it is only prudent that we study *both* approaches to improve our returns. While fundamental analysis tells us what the **right**

**price** is, technical analysis tells us what the **right time** is to buy – both very important factors in generating investment returns.

The technical service I use recently wrote a commentary on the big question on everyone's mind – Are stocks currently in a real, sustainable bull market rally OR is this all a big fake-out and merely a bear market rally enticing investors in before a horrifying drop?

The excerpt I've included below is a little technical, but worry not; I will explain it along the way.

“Secular (*read* long-term) bears point to the October 2007 S&P 500 peak of about 1,550 which failed to break above its March 2000 high, also around 1,550. Further, BEARS argue that the March 2009 low was considerably below the October 2002 low, creating an overall negative bias to the S&P 500 over almost a decade, and thus a secular BEAR market.

And, since the S&P 500 is currently well below its 2007 high, the bears believe a secular BEAR market is still in place, with markets destined to fall below their March 2009 lows in the near future.”

Okay... enough technical speak to give you a sense of what it's all about.

Our service uses its own technical analysis to rebut secular bears (I'll spare you the details) and instead makes the case for an ongoing secular BULL market, predicting that the broad market will continue to rise.

Now, only hindsight will tell us who was right, AND clearly there are strongly opposing views on the future of the markets, but I am **definitely in the Bull camp due to improvements in economic fundamentals and a positive technical picture at this time.**

So my advice to you is; do not throw caution to the wind. Balance, or hedge, your portfolio so that it yins if the market yang's. Keep a portion of your money in fixed income investments not tied to stocks. But make sure you have some proportion of stocks in your portfolio. Remember to always play it safe, educate yourself on the markets or find an advisor who can help you successfully navigate today's tricky investment environment.