

Hurd on the Street

The Everyday Battle Between Buyers and Sellers

It is an extreme understatement to say that the financial world has gotten complex. As recently as the 1980s, the issuance of high yield bonds was arcane. Today, one can purchase an option that pays if volatility spikes or if the temperature gets too hot. One can even buy digital coins, which, like physical coins, originate in a mine, though one in which the miners don't carry picks and shovels.

Even the process of valuing traditional assets, like equities or bonds, has grown in complexity. The sophistication that goes into some quant models makes rocket science look like hopscotch, and big institutional money managers—the ones that *really* drive prices—employ armies of doctors, engineers and accountants.

Amidst growing complexity, an elementary truth of stocks that has not, and never will, change, is that the price of a stock depends on its supply and demand. Revenue growth or the launch of an innovative new product are both catalysts that may drive a stock higher. But, much like how a falling tree makes no sound if no one is around to hear it, so too does a stock price fail to rise if no one recognizes the improvement.

Luckily, market participants do recognize improvements, and stock prices quickly reflect changes in the collective opinion. Prices rise as intelligent buyers see something they like and leap in, and fall when intelligent sellers see something they don't like and bail out.

By looking for recognizable patterns in price and volume data, we believe we can leverage the vast knowledge of large and well-connected firms.

For us, trying to outsmart the collective brilliance and breadth of the market would be like stepping into the ring with Apollo Creed. Only, unlike Rocky, I don't like our chances.

When the battle lines are drawn and both buyers and sellers appear equally likely to emerge as victorious, we don't choose which side to support. Both have far greater knowledge and access to information than we do. Instead, we prefer to stand back, observe trends, and identify sectors



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and stocks for which bulls appear to be winning the battle.

For this reason, we like to refer to technical analysis as the graphical depiction of the everyday battle between intelligent buyers and sellers.

Practically speaking, we look for recognizable patterns in price and volume data. By viewing where a price is going, and how much conviction is behind it—measured by the volume of shares—we believe we can leverage the vast knowledge of large and well-connected firms.

By reviewing over 1,000 chart patterns at the beginning of each week, we identify early on which sectors and individual stocks the bulls appear to be gaining the upper hand, and we position our portfolio accordingly.

There are countless patterns that we look for. One example is a stock trading in a tight range, but with an uptick in volume. This suggests that the battle has intensified—that buyers are pressuring prices upward but facing strong resistance in the other direction. Like a game of tug-of-war, once one side bails, a tremendous amount of force is now unopposed, and it can cause extreme up or down moves in stock prices.

Over time, we believe that correctly identifying and joining the battle leaders will continue to help us in our quest to own the best growth stocks in the best growth sectors of the economy.

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