Nvestment strategy report for investment analysis class

Finance

Investment Strategy Report With the current economic recession and high unemployment figures affecting much of the United s finance has become a prominent area of concern. While for much of the 1990s the American economy experienced an economic boom – some might say a bubble – current financial trends are highly bearish. As such the importance of developing an effective investment strategy is made more prominent. A great number of strategic approaches have been proposed. One notable strategy has entirely neglected fundamental analysis for an approach that rests squarely on technical considerations. This essay examines John J. Murphy’s ‘ Technical Analysis of the Financial Markets’ in terms of a number of investigative criteria. Murphy’s ‘ Technical Analysis of the Financial Markets’ entirely implements technical analysis as an investment tool. As such, this strategic approach to investment is not for all investors. Such technical analysis requires the investor be vigilant in their investing, so that individuals or institutions such as pension plans may not be in favor of the high involvement criteria of this approach. In terms of return goals, the very nature of this theory is such that it seeks to beat the market. While other investment strategies attempt to accrue gains through long-term investment approaches, this approach seeks to develop means of identifying market trends as a means of achieving above average gains. As such an investor implementing this approach should be willing to accept a higher level of risk than the typical investment approach, risk higher than the typical market. Generally it’s understood that this method of technical analysis is a short-term investment approach as the investor seeks to capitalize on specific market moves in the short-term as a means of gaining immediate profits.

Still, Murphy notes there are some long-term elements to his strategy. Still, what Murphy considers ‘ long-term’ relative to other investment approaches is highly relative; he notes, “ on the monthly chart, a new monthly high followed by a close below the previous month’s close often represents a significant turning point” (Murphy, p. 185). With long-term in this sense being a number of months. As such individuals with a need for quick access to cash would be more willing to adopt this approach than an individual with a need for fixed-income. In terms of asset allocation, the strategy does not indicate a specific breakdown of assets. In these regards, this approach is less interested functioning as a comprehensive approach to portfolio management and more as an aspect of speculative investment. As such assets across all areas can be implemented, with stocks the most prominent, as long as technical patterns can be applied to their movement trends through a top-down investment approach. As such there is no specific category of securities this strategy recommends, but rather it encourages the consideration of chart trends; this way all sectors and securities are equally viable. The main security selection process then is entirely macroeconomic, with the underlining theory being that, “(1) Market actions discounts everything; (2) Price moves in trends; (3) History repeats itself” (Murphy, pg. 4). The theory identifies mispriced securities through analyzing charting trends. One such trend is the stochastic method. In this approach a line is drawn below past periods of decline and rally. When the stock rises below this line the stock is considered undervalued. It’s believed that the stock will only take a matter of days or weeks to regain its lost value. If I were to implement this strategy there are a number of concerns and approaches I would have. One such concern is the risk associated with such short-term trading. As such I would choose blue chip stocks, such that if I lose out on my speculative trending I would have the opportunity to recoup my investment through switching to a long-term approach. As volatility is a necessary component of this approach I would focus predominantly on stocks, but might also consider currency exchange, and more volatile precious metals such as silver. The strategy doesn't claim to meat a specific benchmark criteria, but is instead reliant on investor discipline and acumen. Still, it's recognized that this strategy is a high-risk approach relative to most indexes. In conclusion, this essay has examined the investment approach in John J. Murphy's Technical Analysis of the Financial Markets'. Considering whether I would recommend this investment strategy, I would be highly cautious in-doing so. With the occurrence of algorithmic trading and efficient markets such technical approaches to market trending are becoming increasingly less predictable. Still, for the vigilant and experienced investor it seems highly possible that such a model could produce steady gains.

References Murphy, John J. Technical Analysis of the Financial Markets. New York: Templeton Press. 2001.