

# Identifying S&P 1500 Stocks with Long-Term Market Relative Strength

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by Team  
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There are many benefits of using a rules-based approach using Relative Strength (RS), one of the main cornerstones of our research. Relative Strength, also known as Momentum, is a time-tested investment factor that permeates our work, allowing us to identify where both strength and weakness exists across securities, sectors, and asset classes using just one objective input - price. Relative Strength strategies focus on purchasing securities that have already demonstrated the ability to outperform a broad market benchmark or the other securities in the investment universe. We quantify the results of our RS calculations in many different forms: from single RS charts that compare one security to another, to complex RS matrices that aggregate the results of a thousand RS charts to rank an entire universe of securities. We also apply the RS concept to create comparisons that form the backbone of our DALI guidance tool. Of course, the ultimate goal of using RS is to put us in the best position to capture the large winning trades, while helping us to avoid the losers. Today, we will discuss the power of long-term market RS for individual stocks and provide a list of technically-sound S&P 1500 names that have maintained a market RS buy signal for at least ten years.

At the core of our RS analysis is the Point & Figure methodology. In the image below, we break down the four different RS signal combinations that can exist on a single RS chart. As seen below, the "best" or strongest RS signal is when the chart is on a buy signal and in a column of Xs, while the weakest signal combination is when the chart is on a sell signal and in a column of Os. Recall that the signal (buy or sell) is longer-term in nature, while the column (Xs or Os) represents a near-term RS occurrence. We apply this single RS comparison process most commonly to a stock versus a market benchmark such as the S&P 500 Equal Weight Index SPXEWI (market RS), a stock versus its DWA group index benchmark (peer RS), and in comparing one stock to another stock (the initial basis of our RS Matrix concept). Recall that market RS column, market RS signal, peer RS column, and peer RS signal are four out of the five data points examined in determining the technical attribute rating for any given stock, along with trend. RS is a critical component in evaluating the health of a given stock or security and therefore aids us in the decision-making process and trend evaluation.

## Point and Figure Patterns



The power of RS was further evidenced by John Lewis in an updated version of the white paper titled [Point and Figure Relative Strength Signals](#) [please link or provide reference]. This study shows that stocks on Point & Figure market RS buy signals, especially those in a column of Xs, have outperformed when compared against their respective market benchmarks. The paper examines four baskets of stocks: those on buy signals and in Xs; on buy signals and in Os; on sell signals and in Xs; and on sell signals and in Os. The results of the paper show that "the buy and in Xs basket performs much better than the S&P and the equal-weighted index of the eligible universe" and, "on a rolling 3-year basis, the buy and in Xs basket outperformed the S&P 500 Total Return Index 71% of the months, and it outperformed the equal-

weighted universe in 78% of the months." In short, when looking for stocks with the highest potential for future outperformance versus the broader market, we should focus on those names that are on market RS buy signals and, ideally, in a column of Xs.

### Cumulative Returns by Point and Figure Relative Strength Group



Source: Dorsey Wright

All Performance numbers are based on the back-tested performance of non-investable indexes. Investors cannot invest directly in an index. Indexes have no fees. Please see the final page for important disclosures regarding backtested performance. Examples presented herein 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.

To provide a list of actionable names while also stacking the odds of future outperformance in our favor, today we are going to use the Security Screener tool to generate a list of stocks that have shown superior long-term strength versus the broader market over the last decade. In order to filter those stocks that are technically-sound, we looked for names that have maintained a long-term market RS buy signal for at least ten years (520 weeks), have three or more attributes in their favor, are currently trading in an overall positive trend, and on a Point & Figure buy signal. Our screen resulted in a total of 20 stocks that met our specific criteria and are listed in the table below. Below the table, we have provided additional commentary for Danaher Corporation DHR, which has the longest-running market RS signal on the NDW Research Platform, dating back to June 9, 1993. To get a larger list of actionable results, simply decrease the number of RS Signal Date weeks.

#### Stock Screen Criteria:

- **Universe:** S&P 1500 (hold down CTRL key and click on S&P 500, S&P 600, and S&P 400)
- **Technical attribute:** 3, 4 & 5
- **Market RS signal=** Buy
- **RS Signal Date(weeks):** 520 to

S&P 1500 Stocks: Market RS Buy Signal > 10 Years						
SYMBOL	NAME	PRICE	TECH ATTRIB/SCORE	DWA SECTOR	OVERBOUGHT/OVERSOLD	RS SIGNAL DATE
AOS	A.O. Smith Corporation	52.16	4	Building	29%	(2008-09-17)
BR	Broadridge Financial Solutions Inc.	130.40	5	Business Products	-37%	(2009-02-03)
CMS	CMS Energy Corporation	61.34	4	Utilities/Electricity	-6%	(2005-02-14)

**· S&P 1500 Stocks:  
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SYMBOL	NAME	PRICE	TECH ATTRIB/SCORE	DWA SECTOR	OVERBOUGHT/OVERSOLD	RS SIGNAL DATE
COO	The Cooper Companies, Inc.	333.24	3	Healthcare	50%	(2009-03-30)
COST	Costco Wholesale Corporation	342.58	3	Retailing	10%	(2007-11-19)
DHR	Danaher Corporation	207.16	5	Healthcare	15%	(1993-06-09)
EL	Estee Lauder Companies	215.20	4	Retailing	24%	(2009-11-16)
EXR	Extra Space Storage Inc.	105.45	3	Real Estate	4%	(2009-08-20)
FISV	Fiserv, Inc.	102.13	3	Computers	13%	(2008-09-09)
HRL	Hormel Foods Corporation	48.84	3	Food Beverages/Soap	-44%	(2008-03-10)
IDXX	IDEXX Laboratories, Inc.	377.83	5	Healthcare	-1%	(2001-06-28)
IEX	IDEX Corporation	179.03	4	Machinery and Tools	19%	(2000-05-24)
LIN	Linde Plc	232.75	5	Chemicals	-53%	(2001-10-22)
MKC	McCormick & Company, Incorporated	191.57	5	Food Beverages/Soap	-35%	(2008-07-11)
MTD	Mettler-Toledo International Inc.	975.07	4	Electronics	20%	(2006-05-10)
NKE	NIKE, Inc.	124.23	4	Textiles/Apparel	92%	(2000-12-22)
ROL	Rollins, Inc.	53.65	5	Business Products	1%	(2002-06-26)
ROP	Roper Technologies Inc.	398.12	4	Machinery and Tools	-51%	(2001-04-24)
SBAC	SBA Communications Corporation	314.02	3	Telephone	14%	(2009-01-21)
SHW	The Sherwin-Williams Company	697.45	4	Building	40%	(2001-10-24)

**Danaher Corporation - Market RS Buy Signal Since June 9, 1993**DHR is a perfect 5 for 5'er that has been considered a high attribute stock (3 or higher) since December 2010. In March, DHR fell as low as \$122 during the COVID-19 sell-off however this healthcare stock has managed to recover and is now trading at all-time highs. In June, DHR moved to a buy signal and has since given four consecutive buy signals and sits just one box away from printing a fifth at \$212, confirming that demand is firmly in control. As mentioned above, DHR has maintained superior strength versus the broader market since June 9, 1993, when it gave a market RS buy signal versus the SPXEWI and is the longest-running market RS buy signal on the NDW Research Platform. Since moving to an RS buy signal, DHR is up 13,566.42%, significantly outperforming the SPX's return of 639.93% and the SPXEWI's return of 818.32%. New positions are welcome at current levels as DHR is just 15% overbought, putting it near relatively neutral territory in the middle of its 10-week trading band. From here, a move to \$212 would mark the stock's fifth consecutive buy signal and a new all-time high, while a move to \$192 would move the chart to a sell signal. Note earnings are expected on October 22.

Nasdaq Dorsey Wright offers investors a **free** trial of the NDW Research Platform, which provides turnkey research and analysis for securities selection, portfolio management and asset allocation. [Click here](#) for more information. For questions about the NDW strategies, [contact us here](#).

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