“Pound for Pound”

By Roger Balser

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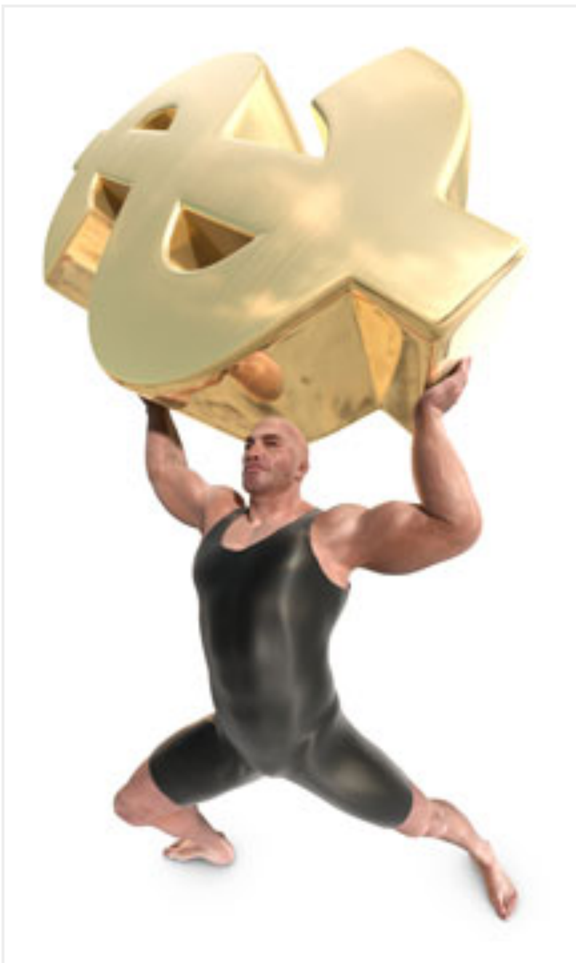
money talks

Comparing the Relative Strength of Humans, Horses and Your Investments



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Have you ever heard the expression that describes an athlete as “pound-for-pound” the strongest, referring to the relative strength of that individual? This comparison phrase is what coaches use to measure strength levels for athletes of varying body weights.

For example, a large athlete may be able to lift a much larger amount of weight than a smaller athlete. However, the smaller athlete may be lifting more weight relative to his or her body weight than his larger counterpart. To help a coach figure this out, the “pound for pound” calculation helps to divide the lifting total by the athlete’s total body weight, resulting in a number that is easily comparable to other athletes regardless of their size.

Put simply, if an athlete weighing 250 lbs dead-lifts 525 lbs, and another athlete weighing 160 lbs dead-lifts 400 lbs, the heavier athlete’s relative strength would calculate at 2.1, while the lighter athlete’s relative strength would equal 2.5. In this case, the lighter athlete is lifting more weight relative to his or her body weight than the larger athlete, even though he or she is able to lift 125 more pounds. In order for the larger athlete to achieve a relative strength total equal to that of the lighter athlete, he or she would have to dead-lift 625 lbs!

So strength is relative.

At Balser Wealth Management, LLC, we track and monitor more than 1,500 Exchange Traded Funds (ETF’s) on a similar relative strength basis. I use this ranking system to help pinpoint specific asset classes and sectors that are possibly set to “outperform.”

Another way to look at relative strength as it relates to investing is to think about a horse race. When the race starts, all the horses bolt from the gate at precisely the same point on the track (let’s think of this as January 1st of every year, in terms of your investments). As the race develops one horse will pull out into the lead while the others will all chase after it. If you only look at the lead horse, you’ll miss all the action in the chase pack and most likely will miss out on the eventual winner. We all love to see a horse come from the back of the pack and win at the finish line (or December 31st of each year).

It’s easy to imagine a horse race and how it’s a dynamic event with many moving parts. Wagering on a horse race requires you to pick a horse you think will come in first, second or third. You’re equipped with the odds on each horse and your payout is determined by how much risk you’re willing to wager on a specific horse. The betting window closes, the gates open, and “they’re off!” The worst feeling in the world may be watching your horse start out in the lead and fade to last place in the final turn while the nag that started out the slowest managed to work its way through the field with little fanfare to win by a nose.

What if you could cancel your bet on the first choice and place that bet on the horse making its way up through the field — while the race is being run?

Congratulations, you’ve just made a relative strength calculation. As the race unfolded you made calculations, or a series of observations, in which you tracked each entrant and identified the horse that was outperforming the rest of the pack. This tracking and monitoring technique, when used in the investment world, will ensure that you don’t miss out on potential winners that may be buried in the pack.

So, knowing this, I’ll quit using the horse race analogy and refrain from using the terms “bet” or “betting.” ‘Cause, remember, betting and investing are two different animals.

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