

Relational Overlays

IC-Investor has an excellent relational overlay facility. This is ideal for gauging the strength and movement of one market against another. This can give us critical details to both the strength and weakness of stocks and Indexes relating to other markets.

The relative movement of an underlying instrument is significant; Oil stocks respond to Oil, Gold stocks respond to gold etc. Consequently we can see a strong correlation with the current oil price (COM-OIL) and Woodside Petroleum (WPL) or Iron ore (COM-IRON) and BHP Bilton (BHP). These overlays are highly effective in explaining the current movements of a large number of our stocks. Interestingly, it is also very useful when we see a divergence between the stock and the underlying commodity which is indicative of a change in sentiment in the stock with the potential of profit. This has been seen in Beach Petroleum (BPT) and its divergence from Oil (COM-OIL) that was indicative that Beach had something else going on.

To create a relational overlay:

You select the initial instrument you wish to overlay against some market. In the first example we will choose gold. We load (F3) the com-gold.eod and open the daily Gold chart.

We right-click anywhere in the chart and the sub-menu will appear.

We select the 7th item down "Store this Chart".

We then open the chart we wish to compare in this first example Kingsgate (KCN) daily.

We then right-click anywhere in the chart and select the 8th item "Overlay comparative".

The chart will then appear with Kingsgate as the primary chart and gold as a watermark chart underlying Kingsgate. The Moves are matched and relative to each other so we get a very visual sense of the timing and strength of each market.



We can see that both Kingsgate and the gold price move relative to each other. Traditionally Kingsgate has been resistant to falls in the gold price but of recent times gold is performing at a higher level than the Kingsgate share price. This is indicative of weaker consumer sentiment in Kingsgate.

Weekly/Monthly Overlays

We can also do weekly and monthly overlays for long-term comparisons.

We can load up the comparison chart in weekly or monthly format and the overlay it against a weekly or monthly chart (the same time frame). In this example we will load a weekly chart of 150 weeks of Nikkei 225 Index (Os-nikkei.eod). We will then overlay it on 150 weeks of Australia Top 200 Index (XJO.eod).



I have kept the Australia 200 Chart as a candle stick chart to give some colour definition. We can see that through 2012 and early 2013 the Australian Index was much stronger but at the end of 2014 we can see the Japanese index has caught up and is potentially stronger now on changes in Japanese economic strategies.

Summary

The relational overlay gives you a visual cue of strengths and weaknesses of an underlying instrument against a current instrument. IC-Investor will match up the basic charts to show similar moves over a similar time frame. Whilst this is not a precise measurement of movement – it is a very simple method to evaluate an instruments movement to see if there is a correlation between it and the underlying instrument that it is compared to.