

Picture this...

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There was a moment in the mid-1980s when the growing demand for financial futures was such that the Chicago futures market couldn't build the open-outcry trading areas fast enough to meet the required for trading space. The three-month Eurodollar deposit contract was particularly popular. A crush of brokers clerks and traders would balance precariously on the raised trading rostrums around the trading pit. Sometimes, as exciting news broke a 'fast market' was triggered and clerks ran to buttress their brokers to stop them falling. Occasionally a trading surge would push twenty or thirty traders and brokers off the podium into a heap of flailing bodies. The crushed and injured would be stretchered away, still shouting and signalling their orders.

For some, these scenes perfectly exemplified the mindless chaos of the market.

But others around the pit would be more relaxed. They simply looked up and watched the electronic board that flashed up price movements. As they noted changes so they would calmly update the price sequence on tiny hand-held cards.

They were chartists. Chartists rationalise markets that might otherwise seems chaotic by identifying patterns and trends of price movement. They translate the market noise (literal and figurative) into intelligible graphic constructs. Price charts in one form or another have a long and well-documented history from ancient Japan to the present day.

Chartists reason that if a pattern or trend can be identified early enough then the analyst can anticipate future market movements. And so, a profitable trading or investing opportunity will have arisen. For example, early recognition and definition of a trend offers two opportunities: first the pursuit of that trend while it lasts; second, the earliest possible notice of the failure of that trend.

Tacit is dedicated to investing in a globally diversified way to take advantage of growing economies and in the best-placed companies to benefit from that growth. How can charting contribute to such an enterprise – the dispassionate identification of enduringly profitable companies – surely a perfect example of the exercise of coolly rational oversight? A far cry from the open futures pits of Chicago!

Indeed, Benjamin Graham explicitly warned against chartists in his rightly famous bible of investing 'The Intelligent Investor' in 1949. But Benjamin Graham was not an international investor, and his bias towards fundamental factors lead to a rather narrow vision of the methods and uses of charts.

Charts can help investors define market conditions and so help in the timing of decision-making. Charts used in such a fashion are less about what to invest in and more about when to invest (or retreat).

For example, Tacit's international portfolios held by our largely British client-base must take a view on the likely direction of Sterling against a great number of currencies. Given the wide fluctuation of Sterling in recent years, guarding against adverse currency moves is an integral part of our investment framework. Careful analysis of Sterling's historic price action reveals important psychological levels that, if broken, can lead to rapid moves and so to a sharp revaluation of our overseas investments. The notion of the 'correct' value of Sterling to which it will converge has long evaded rational analysis.

Economic indicators, unpredictable political events and company news all have a significant impact on market prices. In this way charts can provide another valuable insight for even the most methodical of investment methods.

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