

## Lex

by FT.com FT Administrator 

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### **Shifting suppositions support 'macro' market reality** 30 October 2008 02:56 PM

by Alan Rohrbach

Kudos to Tony Jackson for pointing out a couple of core principles that seem to get lost during extended bull markets ("Take care not to be misled in the search for the bottom", October 27.) They are not only relevant for the way forward, yet also instructive on how at least some recent losses might have been mitigated.

His first, "Fundamental analysis is an absorbing topic, but only occasionally relevant to market reality", is an avant-garde view. Coming from such an esteemed source, quite a few folks will also find it a bit shocking.

Yet, all forms of analysis have weaknesses. As Mr. Jackson establishes, it is a matter of whether suppositions are well founded. Amidst its weaknesses, one advantage of technical analysis is its inherent focus on price movement, and attendant risk management. That said, technical projections (an inferential form of suppositions) can be misguided as well. Best practice requires a fundamental 'rationale' for why any major projections might be realistic; classically known as 'macro' analysis.

Back to those important 'suppositions'. Proper application of any analysis requires an appreciation it can only suggest what the market is 'supposed' to be doing. It is then up to the analyst or investor to assess whether the analysis is succeeding or not; and take proper risk mitigation measures if not.

The second important principle is the degree to which a return to "fair value" rarely indicates a bottom from a previous over-extended rally. Well said. And all the more reason to look for the proof in the 'market reality' pudding through some form of non-correlated analytic confirmation.

Anything short of that sort of thorough, multi-disciplinary approach is akin to claiming you can beat others with one hand tied behind your back. That's fine until you miss, and are at the mercy of individuals using both.

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