

Price Relative

The Price Relative compares the performance of one security against that of another. It is often used to compare the performance of a particular stock to a market index, usually the S&P 500. Because the goal of many portfolio managers is to outperform the S&P 500, they are usually interested in the strongest stocks. The price relative offers a straightforward and accurate portrayal of a stock's performance relative to the market.

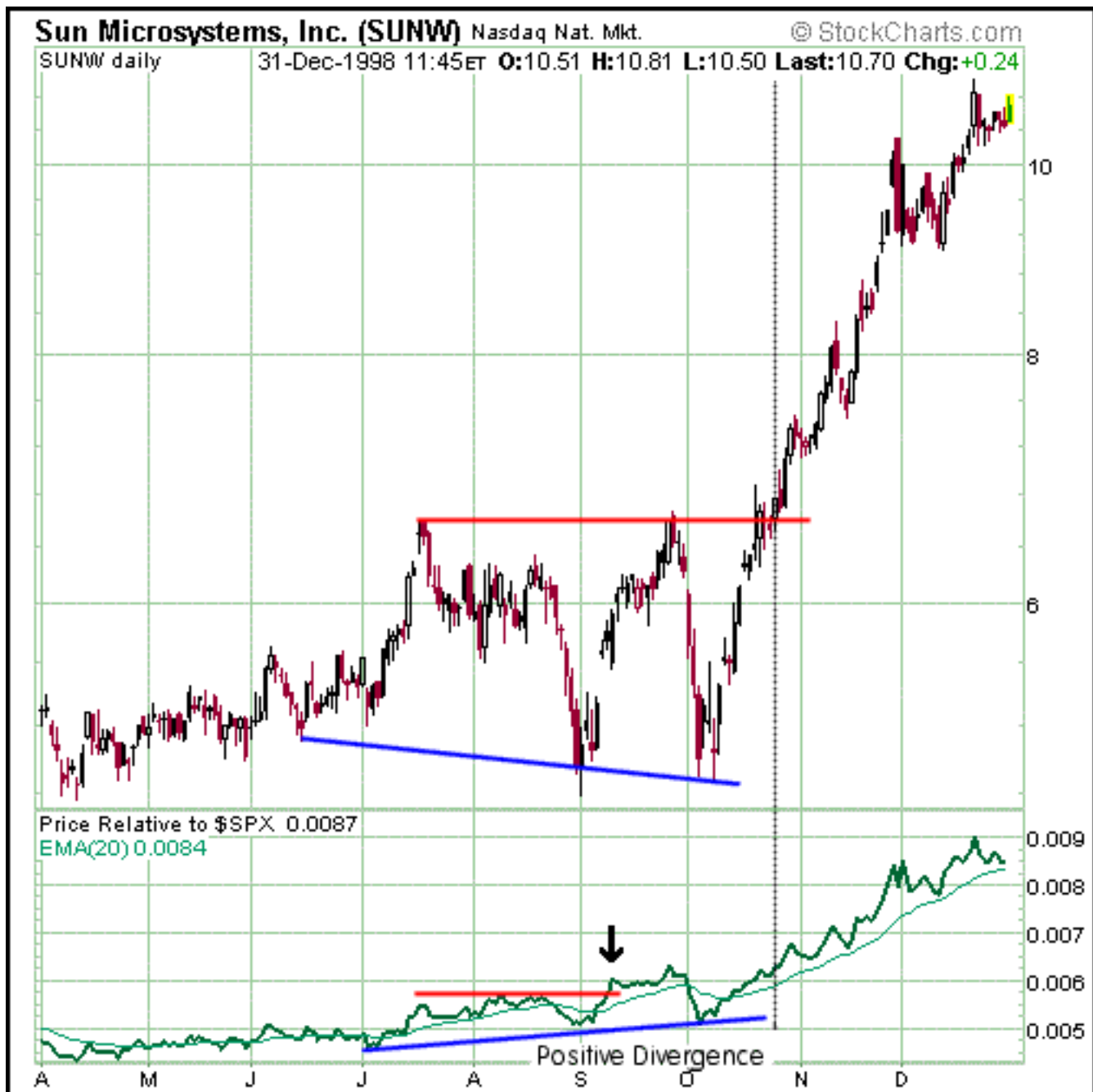
The price relative is calculated by dividing the security's price by the value of the S&P 500. If WMT were trading at 60 and the S&P 500 were 1400, then the price relative would be $60/1400$, which equals .0428. Should WMT advance to 70 and the S&P 500 to 1450, the price relative would be .0482 ($70/1450$). The advance from .0428 to .0482 shows the WMT is stronger than the S&P 500. This number is then plotted along the Y-axis to form a line chart. The price relative can be calculated on a daily, weekly or monthly basis; closing prices are normally used.

Traditional technical analysis techniques can be used to analyze the plot of the price relative. [Support](#), [resistance](#), [trendlines](#), [moving averages](#) and pattern analysis can all be applied. Some analysts even apply indicators to the price relative in an attempt to identify changes.



([Click here](#) to see a live example of Price Relative)

In the WMT chart, we can see that the price relative peaked on 16-Dec (red line), about two weeks earlier than the stock. A series of lower highs ensued, and short-term support was broken in mid-January. A few days later, the price relative broke its trendline extending up from early August (blue line). The support and trendline breaks in the stock occurred later than those in the price relative. A sharp decline in the stock was foreshadowed by weakness in the price relative.



In the 1998 chart for SUNW, the price relative recorded a higher low in August and a new reaction high in September (black arrow). This created a positive divergence and signaled that SUNW was much stronger than the overall market. When the October-1998 rally kicked in, SUNW was one of the top performers over the next 17 months.

Rotation among sectors and stocks plays a big part in today's market. By applying the price relative to industry groups and stocks, traders and investors can identify pockets of relative strength and relative weakness. As with most indicators and analysis techniques, the price relative is just one tool and should be used in conjunction with other aspects of technical analysis.

Sharp Charts and the Price Relative

Indicator Windows: [About Indicators](#) [Glossary](#)

Above ▼	Price Relative ▼	\$SP)		
Below ▼	Price Relative ▼	GE		
Below ▼	-- None -- ▼			

Update Chart

The price relative for SharpCharts can displayed above or below the price plot of the underlying security. The first box to the right can be used to change the symbol -- any security can be entered here. For example, if the underlying security was the Amex Oil Index (\$XOI) and you wanted to plot a price relative against West Texas Intermediate Crude (\$WTIC), then \$WTIC would be entered into the box. An advancing price relative would indicate that \$XOI was outperforming \$WTIC and a declining price relative would show underperformance relative to \$WTIC.

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