The Three-Legged Stool of Investment Strategy

by *Asbury Research*

At Asbury Research, we rely on a core investment methodology we call **"The Three-Legged Stool."** This framework serves as the foundation for how we build and manage investment strategies, identify special opportunities, and construct ETF model portfolios. Although it was originally developed with ETFs in mind, it can also be applied effectively to individual stock selection.

The three legs of this investment stool are:

1. **Price Trend**
2. **Relative Performance**
3. **Asset Flows**

What sets this method apart is its emphasis on **confirmation across multiple indicators**. Rather than relying on a single signal, we combine all three components to provide a stronger, more comprehensive data-driven case for entering or exiting a position. Each leg adds a layer of conviction, helping us reduce false signals and stay aligned with more robust and sustainable market trends.

Why Moving Averages Matter

Each of the three legs of our investment "stool" is evaluated through **multiple timeframes** using moving averages, which help us align our analysis with an investor's time horizon—whether short-, intermediate-, or long-term. Most investors are familiar with the concept of moving averages, but we find it helpful to clarify both **what they are** and **what they are not**.

A **simple moving average** is just that: the average of prices over a specified number of periods, such as 21, 50, or 200 days. There's no inherent magic in a moving average—it is a backward looking tool, not a crystal ball. Its true value lies in how widely it is used. The more investors that use and believe in a particular average, the more likely it becomes a self-fulfilling reference point in the market.

It's important not to anthropomorphize moving averages. They don't "tell" you anything—they simply **provide context**. They help identify the presence and direction of a trend, as well as potential changes to that trend. Withinoure Three-Legged Stool, moving averages define both the time horizon of the investment and signal trend reversals across price, performance, and flows.

Leg 1: Price Trend

Price, or more specifically **price trend**, is the first and most fundamental leg. At its core, price is a reflection of supply and demand. While opinions differ on the efficiency of markets, we view price as the most immediate and democratic form of market intelligence.

At Asbury Research, we believe that "**the market is the smartest guy in the room**." If price is trending upward, it signals growing demand and a market that favors that asset. It also creates the **momentum** necessary for further appreciation. However, price alone is not sufficient. With the rise of algorithmic trading, prices can be pushed temporarily in one direction, creating misleading trends. This can leave investors riding a rollercoaster of short-term volatility, particularly as price dances above and below its moving average. That's why we need the other two legs of the stool to validate what the price is saying.

Leg 2: Relative Performance

Every investment carries an implicit **opportunity cost**—the cost of not owning something better. This concept is especially important in a world where capital is mobile and alternatives are abundant.

That's where **relative performance** comes in.

We typically measure this by comparing an ETF or stock to a benchmark—most commonly the S&P 500. This is done by dividing the price of the asset by the price of the benchmark, creating a ratio that tells us whether the asset is **outperforming or underperforming**. If the ratio is trending upward, the asset is appreciating faster than the benchmark. If it's trending downward, the asset is lagging. The key is that **relative performance provides a frame of reference**: it doesn't just tell us whether something is going up—it tells us whether it's going up *more* than the market.

Used by itself, relative performance is helpful but not definitive. But when aligned with a positive price trend, it gives us a powerful combination: assets that are trending up *and* outperforming their peers.

This concept can also be layered. For example, when selecting stocks within an outperforming ETF, you can look for individual names that are outperforming their specific sector. This way, you're not just beating the market—you're also selecting the strongest stocks within the strongest sectors.

Leg 3: Asset Flows

If price tells us if an asset is trending and relative performance tells us how it compares to its peers, then **asset flows** tell us the level of **conviction** by investors *with skin in the game* that the price of the asset will continue moving higher.

Asset flows—as it pertains to ETFs—reflect the movement of capital into or out of a fund. We view this as investors and institutions "voting with their feet". In a world of zero-commission trading and algorithmic execution, watching where the money is actually going is one of the best ways to gauge investor conviction. Unlike volume, which measures day to day *urgency to buy*, **expanding asset inflows** suggest that investors are willing to hold positions overnight, and to accept the event risk that goes along with it, because they believe *the opportunity risk in not holding the position overnight* is greater.

When combined with positive price trend and relative strength, asset flows act as the **glue** that holds the three-legged stool together. They confirm that the asset isn't just rising in price and outperforming peers, but has bullish investor conviction behind it, -- which can create a virtuous cycle of continued buying pressure.

How We Use It

The Three-Legged Stool serves as the foundation of our **daily filters and model construction**.

After selecting your time horizon and setting appropriate moving averages, you can use the method to screen for ETFs (or stocks) that meet all three criteria:

- Positive price trend
- Outperformance relative to the benchmark
- Increasing asset flows

These are the conditions we look for in a "high-conviction" idea.

But there are limits. This approach doesn't tell us **how long** a trend will last. A signal could appear at the beginning of a new move or the end of an old, established one. That's why at Asbury Research, we run these filters **every day**. We want to be among the first to recognize when a new opportunity is emerging. Moreover, by constantly scanning for alignment across price, relative performance, and asset flows, we stay grounded in *what the market is actually doing*—not what we think it *should* be doing. And that's what the Three-Legged Stool is all about: **a disciplined, data-driven framework for navigating a complex and ever-changing market**.

About Asbury Research

We launched Asbury Research in January 2005 to provide data-driven independent investment research and actionable trading strategies to professional money managers. In 2015, we responded to many years of requests with a research product specifically designed for individual investors.

Asbury Research believes the market itself is the ultimate clearinghouse for all the collective knowledge and wisdom of its participants, people and businesses that have real money at stake, and thus is **<u>the</u> most comprehensive, objective, and dynamic evaluator of all publicly known and unknown**

market factors that can affect your portfolio.

We analyze what the market "thinks" via a comprehensive arsenal of quantitative and technical metrics, and our own proprietary models, which are collectively more intuitive and forward-looking than the typical Wall Street approach. **These metrics and models help us keep our clients one step ahead of the market's next move.**

We don't make money by selling or promoting any particular investment offering or fund. **We get paid solely on our ability to correctly analyze current market conditions, and then identifying the best investment strategies to take advantage of them.**

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