# Using the ATH Projection Chart for Strategic Asset Allocation

By PNN Capital, https://ranty.net/hm/, Contact cto@pnncapitalus.com

For long-term investors and fund managers, the Options-based Projection Chart is a powerful sentiment gauge that provides a forward-looking view of market expectations. It helps answer strategic questions about portfolio weighting, risk management, and capital deployment. Here's how to integrate it into an investment framework:

1. **Confirming a Fundamental Thesis (Justifying Overweighting):**
   - **Scenario:** Your fundamental analysis identifies a stock as a strong long-term buy. You are considering increasing your portfolio's allocation to it (overweighting).
   - **Chart Signal:** You observe a strong, sustained uptrend in the **Combined Projection** line, with projections consistently pushing towards new all-time highs.
   - **Interpretation:** This indicates that the options market sentiment aligns with your fundamental view. The market is pricing in future growth and providing a "tailwind" for the stock.
   - **Allocation Decision:** This positive sentiment acts as a confirmation signal, providing the confidence to increase the stock's weight in the portfolio. It suggests that the path of least resistance is upwards in the short to medium term.

2. **Identifying Rotational Risk (Informing Trimming or Hedging):**
   - **Scenario:** You hold a large, profitable position in a stock. You are concerned about near-term risk or a potential market rotation.
   - **Chart Signal:** The **Combined Projection** line for your holding begins to flatten or trend downwards, even while the stock price is still high. The Put/Call ratio may also be creeping up.
   - **Interpretation:** This is a leading indicator that market sentiment is weakening. Traders are either losing conviction in further upside or are actively buying protection (puts).
   - **Allocation Decision:** This serves as a signal to review the position. You might decide to:
     - **Trim the Position:** Sell a portion of the holding to lock in profits and reduce its overall weight in the portfolio.
     - **Reallocate Capital:** Shift capital from this potentially peaking stock to another holding that shows stronger forward-looking sentiment.

3. **Screening for New Opportunities and Timing Entry Points:**
   - **Scenario:** You have a watchlist of fundamentally sound companies and are waiting for an opportune moment to initiate a new position.
   - **Chart Signal:** A stock on your watchlist, previously showing flat or negative sentiment, exhibits a sharp positive inflection in its **Combined Projection** line.

- o **Interpretation:** The market may be starting to recognize the stock's underlying value. This shift in sentiment can precede a significant price move.
- o **Allocation Decision:** This signal can help prioritize which stock on your watchlist to allocate new capital to first. It provides a data point for timing your entry, suggesting that momentum is beginning to build.

4. **Relative Strength Analysis within a Sector:**
   - o **Scenario:** You want to maintain a certain allocation to the tech sector but need to decide which stocks to favor.
   - o **Chart Signal:** Using the **"Portfolio ATHs by Options"** tab, you can quickly compare the "Days to Next ATH" and the strength of the projections across multiple tickers (e.g., NVDA vs. AAPL vs. MSFT).
   - o **Interpretation:** A stock with a much nearer and higher ATH projection demonstrates superior market sentiment and momentum compared to its peers.
   - o **Allocation Decision:** You can decide to overweight the stock with the strongest sentiment profile within the sector, while underweighting those with weaker or negative projections, without changing your total sector allocation.

## Key Considerations for Fund-Level Use:

- **Sentiment, Not Valuation:** This chart is a snapshot of market *sentiment*, not a measure of a company's intrinsic *value*. A strong projection should complement, never replace, rigorous fundamental analysis.

- **Time Horizon:** Options data is inherently short- to medium-term. Use it to inform tactical tilts and timing within a long-term strategic asset allocation framework.

- **A Tool for Risk Management:** Its greatest strength for a portfolio manager is as a risk management tool. It provides an early warning when the market's conviction in a high-flying stock begins to fade, allowing for proactive portfolio adjustments.