



# No-Load Mutual Fund Selections & Timing Newsletter

Striving to provide you with the most return and the least risk.

Date: March, 2006 (pricing data through 2/28/06)

Publisher: Watercourse Way Holdings, LLC

Volume: 24 Number: 3

InvestmentST.com

Editor: Stephen L. McKee

## Top 5% Funds By C

C measures the risk (V) adjusted relative performance between fund and market (CS).

Fund	Symbol	Style	C
Midast	MIDSX	EG	30.6
Janus Overseas	JAOSX	EW	29.3
Price Latin America	PRLAX	EWR	29.2
Price Japan	PRJPX	EWR	29.0
Fidelity Japan	FJPNX	EWR	28.7
Fidelity Latin America	FLATX	EWR	28.6
Artisan Intl SmCap	ARTJX	EW	28.1
Harbor International	HAINX	EW	27.9
Fidelity Pacific Basin	FPBFX	EWR	27.2
Price International Discovery	PRIDX	EW	27.0
Harbor International Growth	HAIGX	EW	26.9
Crdt Suisse Japan	WPJGX	EWR	26.8
US Gbl Invst World PMtl	UNWFX	EG	26.5
Tweedy Browne Global Value	TBGVX	EW	26.5
Vanguard Pacific Index	VPACX	EWR	26.1
Artisan International	ARTIX	EW	26.1
Accessor Intrntl Eqty	AINX	EW	25.9
US Gbl Invst US Gold	USERX	EG	25.9
Oakmark Intrntl Small Cap	OAKEX	EW	25.8
Oakmark International	OAKIX	EW	25.7
Fidelity Emrg Mkt	FEMKX	EW	25.6
Price Gbl Stk	PRGSX	EW	25.3
Legg Mason Intl Eqty	LMGEX	EW	25.3
Alpine Intl Real Estate	EGLRX	ERE	25.2
Tocqueville Intl Valu	TIVFX	EW	25.2
Vanguard Intl Expl	VINEX	EW	25.1
AmSouth Intl Eqty	IIEIX	EW	25.1
USAA Pr Mtls	USAGX	EG	25.0
Loomis Sayles Value	LSGIX	EG	25.0
SSG Emrg Mkt	SSEMEX	EWR	24.9
Managers International Equity	MGITX	EW	24.9
Commonwealth Japan	CNJFX	EWR	24.9
William Blair International Growth	WBIGX	EW	24.9
Permanent Port Versatile Bond	PRVBX	BF	34.8
Permanent Portfolio T-Bill	PRTBX	BS	24.7
Wells Fargo UltrShrt FI	STADX	BS	23.1
Fidelity New Markets Income	FNMIX	BW	21.3
Loomis Sayles Bond	LSBRX	BF	21.3
Payden Emrg MrkBd	PYEMX	BW	20.7
Wells Fargo Shrt HiYld	STHFX	BH	19.7
Wells Fargo Short term Bond	SSTBX	BS	16.6

## Trends Change

The top 5% of the funds we track list, shown to your left, remains dominated by funds invested in foreign markets and precious metals. Japan, Latin America specifically, and the emerging markets generally have been trending solidly higher. (If you also access this newsletter on the internet at investmentst.com, you can see the charts of some of these funds on page 10.)

Back in the Nineties, in the fab five hundred days, the list was dominated by large cap growth funds. It was tough to beat the S&P 500 in that decade. Five years later, practically anything has beaten its returns. So goes the way of fads, bubbles, and bursts. What looked invincible turns out to have straw doors.

The top 5% list then evolved from large cap to small cap value. Then about two years ago, the internationals came on strong; and remain the dominant niche for the time being.

This is all to point out not to get too carried away by the past 12 months returns from some of these funds. They won't grow to the moon; they won't continue to expand forever. Things will evolve.

That said, however, Japan is evidently finally coming out of its deflation doldrums. They may actually have to raise interest rates from 0% to 1%. Rents are increasing and consumers are spending. Nonetheless, the lesson of the period should be well learned. It was a very long time to leave capital invested in their market from its peak in 1989 to what finally turned out to be the ultimate bottom set back in 2003 for their index. Even today, after a near doubling off the bottom, they are still some 32% below their peak. This should serve as a lesson for those still invested in index funds. Not only have they lost capital directly, they lost opportunity capital by failing to take advantage of other opportunities.

Right now, the trends still appear intact. Pullbacks would be normal and could serve as entry points, as long as the major up trend lines are violated.

## TABLE OF CONTENTS

Top 5% of NLMFS&T	Page 1
Fund Data	Page 2-4
Interest Rates	Page 5
MAAP Model Portfolios	Pages 5-6
Timing & Allocation	Page 7
Scoreboard	Page 8



## AROUND THE CAMPFIRE

In what amounts to catching the CEO of Ford driving a Camry, H&R Block has had to restate their earnings because of tax errors. They miscalculated their state taxes to the tune of \$32 million dollars. Anyone got a sharp pencil?







# Interest Rates and Bond Prices

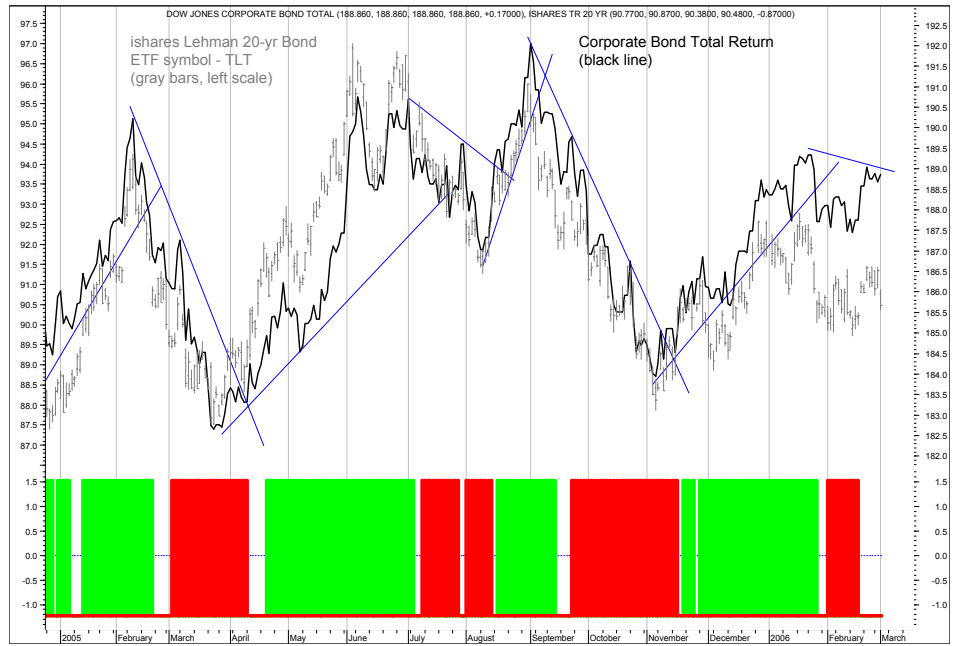
The bond market timing model remains bearish.

This model basically follows the trends of the market using technical factors. But they are reflecting some unnerving fundamental points.

The economy is coming in a bit better than expected, but the main problem is inflation appears to be rising and accelerating.

So the market had been expecting the Federal Reserve to raise rates at most two more times, but now the sense is they may continue to raise into the summer.

At some point, the inverted yield curve will slow the economy and it will be time to buy. Just not yet.



The SLM Bond Market Timing Model shown above is an intermediate to long-term (months to years) forecasting tool of the direction of bond prices and yields, which move inversely. If you see this as a PDF file off the internet, the green bars are buy/hold, the red bars are sell/avoid signals. White spaces indicate that the previous signal is still in effect. If you see this as a printed version, the dark bars indicate red, the lighter bars indicate green.

# MAAP Income Portfolio

The Income Portfolio is 100% in cash for the time being.

MONTHLY ACTIVITY			MONTH ENDING: 2/28/2006			MONTH END VALUATIONS						
INCOME, selected & timed, style and asset allocated (bond, balanced, cash)												
Activity Date	Activity	Fund	Action Price	Number of Shares	Action Value	Symbol	Fund Style	Fund	Ending NAV	Number of Shares	Current Value	Percent of Total
												0%
						MM	Money Market		1.00	203,785.9200	203,786	100%
						MM	Margin Loan		-1.00	-	-	0%
Total Valuation=										203,786	100%	



# Market Timing and Asset Allocation

## S&P 500 The Big Picture

Thought I'd step back and take a look at the big picture this month. The chart is the weekly S&P 500 from the summer of 1999 through February, 2006.

What's interesting is the similarity between the times in and after the two boxes. The first plunge of

the bear is marked in the first box. The bear finally ended 23 months later. The second box is the first bull surge. It lasted the same amount of time as the bear box. Since then, it too has been 23 months.

Be cautious.



### MARKET and FUND COMMENTS

**STOCKS:** Should be turning over to bearish.

**GOLD:** Neutral.

**BONDS:** Bearish.

US Gov. fiscal policy, neutral.

Corporate actions (buy backs, mergers), bullish.

Economy, from bullish to bearish in 4-6 quarters

Inflation, bearish as it accelerates upward.

Oil prices, neutral.

Investor sentiment, bearish (too complacent, very low fund cash).

Federal Reserve policy, bearish (tightening).

Market valuation, bearish.

Exogenous events: Terrorism risk, bearish; hedge fund risk, bearish; unwinding of Japan carry trade, neutral.

The weight of the evidence is turning from sideways to downward.

Stock market valuations are high and climbing, given rising rates worldwide (US, Japan, Europe).

### SLM TIMING MODELS

**LCITT**, modified 1/96, 3/97, 9/98.

Large cap stock intermediate-term, signals lasting weeks to months.

**LC Long-term**, modified 11/95

Large cap stock long-term, lasting months to years. Under reconstruction.

**SCITT**, introduced 3/03

Small cap stock intermediate-term, signals lasting weeks to months.

**GOLD**, shown bi monthly.

**BONDS**, page 5

First three are under a rework for 2006, emphasizing timing on funds directly. Signals last months to years.

# Performance Scoreboard

INDEXES, FUND STYLES & MAAP PORTFOLIOS	% RETURNS FROM THE PAST X MONTHS THRU 2/28/06					V Vol- atility	INDEX CLOSE		PERFORMANCE IN:					
	X= 12	9	6	3	1				2005	2004	2003	2002	2001	2000
Wilshire 5000	8.92	9.62	5.77	3.20	-0.24	2.1	12922.30	-	8.24	10.85	29.44	-22.08	-12.06	-11.41
Dow Jones Industrials	2.11	5.02	4.88	1.74	1.8	2.2	10993.40	-	-0.61	3.15	25.32	-16.76	-7.10	-6.18
Standard & Poors 500	6.40	7.48	4.94	2.50	0.05	1.9	1280.66	-	3.00	8.99	26.38	-23.37	-13.04	-10.14
Russell 2000 (small cap)	15.23	18.47	9.62	7.88	-0.35	3.6	730.64	-	3.32	17.00	45.37	-2158	103	-4.20
Dow Jones World Index	13.31	17.02	11.02	7.30	-0.35	2.5	244.93	-	9.41	14.43	33.42	-20.73	-16.58	-15.89
Gold/Silver Index (XAU)	34.74	54.57	39.24	16.35	-13.52	8.9	133.35	-	28.87	4.65	19.89	25.57	128	-5.94
Dow Jones Ttl Bond	1.27	0.67	-1.33	1.38	0.31	1.0	188.69	-	1.40	3.99	2.20	11.96	6.77	13.40
Small Cap Growth	15.27	17.30	9.62	6.68	-0.34	3.3	Columns 2 through 6 are the average returns and Column 7 is the average V (Volatility) for all funds in each fund style. Usually, the larger the V, the greater the risk.  For more information about these model portfolios, please see pages five and six.		2.63	11.74	39.43	-21.96	-6.21	0.96
Mid Cap Growth	15.63	15.44	9.26	5.49	-0.12	2.8			8.38	12.96	33.65	-21.89	-11.03	-0.38
Large Cap Growth	11.56	11.21	7.16	3.16	-0.51	2.3			5.75	13.34	27.54	-21.75	-13.19	-3.69
Value Company	9.57	9.69	6.36	3.92	0.33	2.1			3.66	11.26	27.18	-15.61	2.30	9.99
Contrary	5.35	5.07	4.09	1.97	0.77	2.0			5.78	3.11	0.47	9.99	2.83	13.54
World Growth	5.40	5.07	4.15	1.95	0.77	2.1			13.07	17.11	34.67	-15.76	-19.89	-12.70
Growth & Income	9.79	10.05	6.46	3.66	0.37	2.1			4.23	10.24	23.46	-18.22	-7.76	0.03
Long-term Corp Income	10.17	6.47	5.17	2.93	1.61	1.6			10.32	8.43	8.64	6.73	2.45	11.68
High Yield Income	6.55	6.83	4.29	2.79	1.07	1.2			5.76	6.63	16.24	-7.55	-4.73	-12.68
International Income	8.38	6.26	5.02	2.69	1.29	1.4			7.40	9.07	11.56	10.56	1.48	0.18
MAAP Aggrsv Grth	10.76	11.59	8.10	5.63	-0.62	1.1			7.20	0.57	15.03	-4.93	1.42	1.78
MAAP Growth	5.09	5.91	3.89	3.32	-0.15	0.6			3.50	1.53	11.56	-1.22	0.75	2.64
MAAP Balanced	3.37	5.14	3.07	2.93	-0.03	0.7			2.01	5.88	12.57	0.09	-0.56	0.37
MAAP Income	-1.12	1.07	1.08	0.82	0.21	0.3			-1.86	1.90	7.05	1.75	4.59	2.37
MAAP Income (ended)									-0.99	0.62	5.16	2.05	1.40	4.38

Funds and MAAP portfolio data include dividend reinvestment and fees (2% annual for MAAP). Market data does not include dividends, except for T-Bond Index.

## Managed Asset Allocation Program (MAAP)

**Fund Selection.** We conduct a three-step selection process on more than 900 funds. Firstly, we separate funds into their primary investment style, Equity, Bond, Hybrid, and then subdivide into small, large, value, etc.. Secondly, we rank the funds by recent performance relative to their peer group (CS). Thirdly, we consider their historical risk, as measured by their volatility (V).

**Portfolio Allocation.** We follow a straightforward approach to allocation: Overweight the portfolio to the investment style that is performing the strongest out of the three (stocks, bonds, cash) major asset classes.

**Diversification.** We diversify by fund company, investment style, and asset class. The funds themselves normally reduce specific company risk, so that the main investment risks are the market and then the industry.

**MAAP.** Our Managed Asset Allocation Program brings our proprietary fund selection and market timing models together. We EVOLVE, buying from the top 5%, holding as long as the fund is in the top 20%. If it drops below 4 comets, we evolve, selling that fund and buying from the top 5% again. We overlay market timing on this fund selection evolution. The results are five portfolios shown on pages 5 and 6. See Scoreboard above for comparative performances.

**Watercourse Way Holdings, LLC** publishes and owns *No-Load Mutual Fund Selections & Timing Newsletter* monthly. It is normally posted to InvestmentSt.com or mailed by the fifth business day of the month. Fund data is as of the previous month's end. This Newsletter is intended solely for the use by individuals and not by institutional investors. Information is presented without regard to your personal situation. For additional information on this Newsletter, please call 1-800-800-6563.

**Email SMcKee@InvestmentST.com with any questions or comments.**

**To subscribe,** please call 1-800-800-6563 or write 100 N. Central Expressway, Suite 1112, Richardson, TX 75080-5328. Subscriptions are \$180.00 per 12 issues (12 months) or \$350.00 per 24 issues (two years). Subscriptions also include an emailed hotline update and special bonus reports. Subscriptions may be tax deductible. Subscribers who reside outside of the United States must add \$36.00 for postage and special handling per each 12 issues.

Nothing in this Newsletter should be construed as an offer to buy or sell any securities. The information herein is assembled from sources who are believed reliable, but the accuracy of data or advice cannot be guaranteed. Past performance does not guarantee future performance. No chart, strategy or tactic guarantees gains or losses. No assurances can be given that objectives will be met. The company, its officers, staff and clients may or may not invest in the funds and/or in the proportions shown in this Newsletter. All investments involve risk of loss. Read a fund's prospectus carefully before investing.

**To reprint** selected material, provide full credit, including name, address, phone number, and web site InvestmentST.com.

Copyright, ©, 1984-2004, Watercourse Way Holdings, LLC. All rights reserved.



## SAMPLE FUND EVOLUTION SELECTING AND TIMING

This is to show a sample evolution of the newly combined fund selecting and fund timing strategies working together. It is not indicative of actual results or picks. The funds were chosen because they show the strategies in action.

The selecting strategy is to buy from the top 5% and hold as long as the fund remains in the top 20% (5% and next 15%) of the funds we track. The timing strategy shows precise buy and sell points based only on the fund. The green is hold, the red is sell/avoid. The green spike is buy. No color indicates that the previous signal is still in effect.

I pick up the process with the first valid buy signal in September, 2004. The fund selecting model showed MNEFX in the top 5% at the time. The timing model also gave a buy signal, as shown by the dark green spike, the inverted V on the top chart.

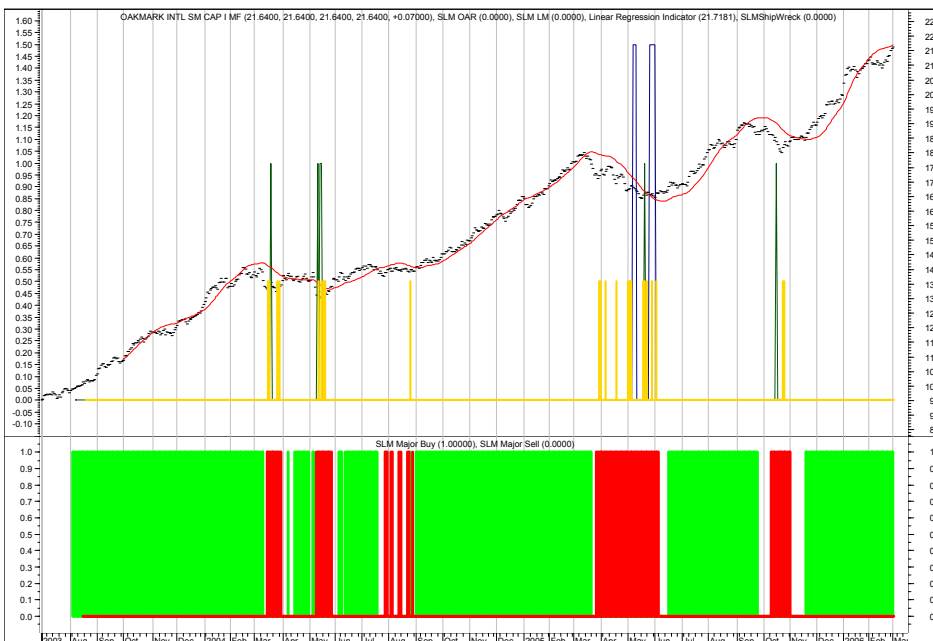
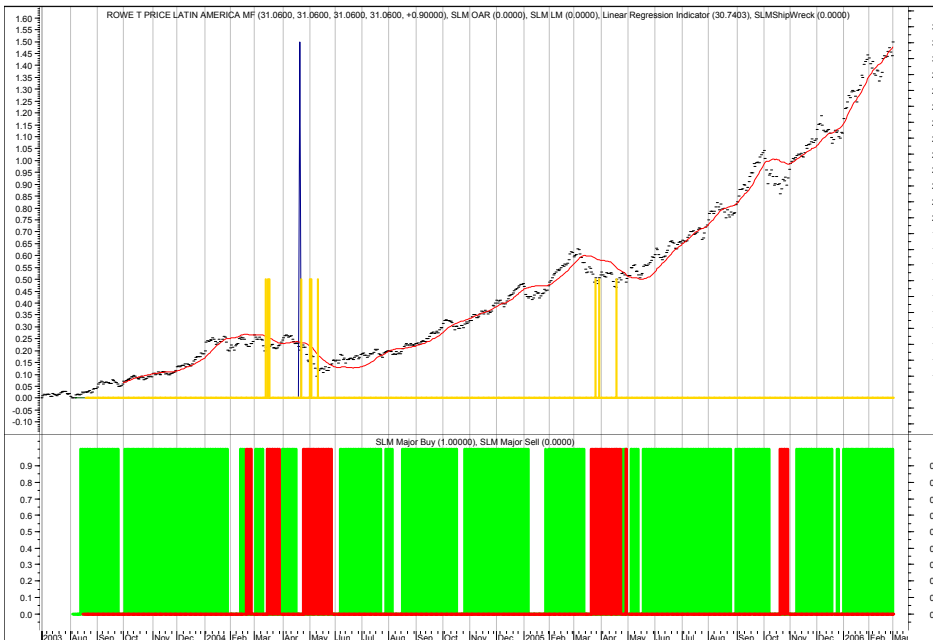
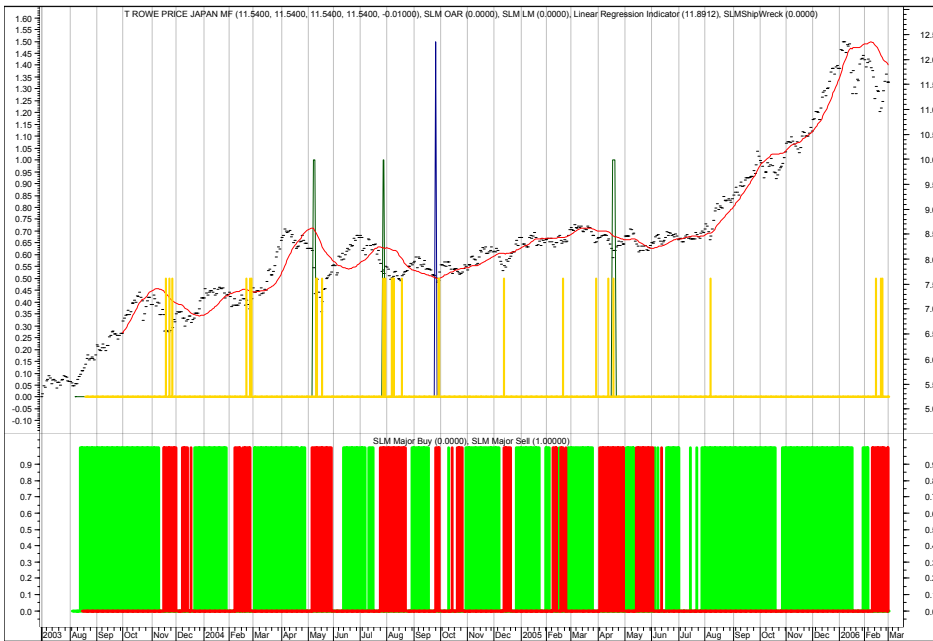
The fund dropped out of the top 20% at the end of January 2005. Even though the timing model remained bullish, the fund was sold. It would not have been rebought in July 2005 with the timing model buy because the fund was not in the top 5% at the time of the buy signal. It could have been bought in May.

The second chart shows its replacement. There was a buy spike and the fund was in the top 5%. Three months later it dropped out of the top 20% and was sold.

The third chart shows the replacement fund for the reinvestment. It was selected because it was in the top 5% and there was a timing model buy signal. The fund is still in the top 5%.

The end result is a gain of about 37% over the last 13 months. The Wilshire 5000 was up roughly 15% over the same period.





The charts show the daily closes of various funds in the top 5% of the funds we track.

The chart may also show up to three indicators on the price area. These buy signals may be shown as either blue, gold, or green spikes. These are contrary indicators.

On the bottom part of the chart are trend-following indicators. Green is bullish. Red is bearish.

The strategy is to select from the top 5% of the funds we monitor and hold as long as they're in the top 20%. If they fall out of the top 20% because of this selection strategy, sell. Alternatively, if the fund gets a timing sell signal, sell. Replace with funds from the top 5%.