



No-Load Mutual Fund Selections & Timing Newsletter

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

Date: September, 2006 (pricing data through 8/31/06)

Publisher: Watercourse Way Holdings, LLC

Volume: 24 Number: 9

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
AmCent Equity Income	TWEIX	EGI	26.7
Gateway Index Plus	GATEX	EC	26.3
Vanguard Wellesley Incm	VWINX	HB	26.3
Prudent Bear	BEARX	EC	26.2
USAA World Growth	USAWX	EW	25.2
Vanguard European Index	VEURX	EWR	25.1
Boston Prtn Lng/Shrt Eqty	BPLEX	EC	24.9
Merger Fund	MERFX	EC	24.8
Midas	MIDSX	EG	24.4
Third Ave REIT	TAREX	ERE	23.8
FBP Contrarian Balanced	FBPBX	HB	23.8
USAA International	USIFX	EW	23.8
Oakmark International	OAKIX	EW	23.7
Yacktman	YACKX	EV	23.6
Vanguard Equity Income	VEIPX	EGI	23.4
US Gbl Invst US Gold	USERX	EG	23.2
Dreyfus Appreciation	DGAGX	EA	22.8
Fidelity Utilities	FIUIX	EGI	22.5
Vanguard Health Care	VGHGX	EA	22.5
US Gbl Invst World PM tl	UNWFX	EG	21.9
AmCent Cap Value	ACTIX	EV	21.8
SSgA Intl Stock	SSAIX	EW	21.7
AmCent Lrg Co Value	ALVIX	ELC	21.7
AmCent Value	TWVLX	EV	21.6
Price REIT	TRREX	ERE	21.6
ABN AMRO Value	RVALX	EV	21.6
Vanguard Value Index	VIVAX	EV	21.5
Vanguard Wellington	VWELX	HB	21.5
Security Cap US Restate	SUSIX	ERE	21.4
Buffalo Balanced	BUFBX	HB	21.2
Oakmark Global	OAKGX	EW	21.2
Causeway Intl Val	CIVFX	EW	21.2
ABN AMRO Real Estate	ARFCX	ERE	21.1
Prudent Gbl Incm	PSAFX	BW	15.4
Loomis Sayles Bond	LSBRX	BF	14.5
Managers Bond	MGFIX	BF	14.0
Westcore Flex Incm	WTLTX	BL	11.6
Fidelity New Markets Income	FNMIX	BW	9.8
Fidelity Cap/Incm	FAGIX	BH	9.3
Fidelity High Incm	SPHIX	BH	7.2
USAA HIYld	USHYX	BH	6.5

Quarter's Change

As we end the third quarter this month and start the final quarter next month to 2006, I thought I'd review what's been working and what's not working and what's shifting.

On the what's been working side, internationals remain the clear winners. They still are greatly represented in the top 5% and dominate the next 15% of the funds we track. To be sure, they are not as dominant as they once were and we will need to be vigilant and quick to take profits if they begin to turn over and lag investment alternatives, dropping below the combined top 20%.

Some of the more speculative emerging market funds have had parabolic type growth rates, which many of you know signal terminal rises. They corrected (dropped) in June and July. Since then they've worked their way back up, but unless they recover to new highs, this rally may soon terminate. So a shift may be taking place with the international markets/funds.

The new area that is replacing the internationals is the income oriented funds, such as equity income, utilities, and balanced funds. These EGI and H

style funds are now showing up in the top 20% and front page list.

Another area just showing up are some of the value funds. With the resurgence of some of the income oriented funds, you find that it's typically large cap stocks with decent yields and lower valuations showing up in the fund's portfolio. Value tends to have some dividend component to their investment approach. They both appear.

Getting back to a potential shift, I suspect gold too may fall into this area. Gold funds have been showing up in the top 5% list fairly consistently. Gold has had a parabolic rise, however. It too corrected and rallied back up. Like the internationals this may be the final rally. Time will tell, but see the chart on page seven for more thoughts on the gold market.

So with the quarter's change, the fund landscape may also be changing from internationals to domestic income and value.

TABLE OF CONTENTS

Top 5% of NLMFST	Page 1
Fund Data	Page 2-4
MAAP Income	Page 5
MAAP Growth	Page 6
Timing & Allocation	Page 7
Scoreboard	Page 8



AROUND THE CAMPFIRE

For an investor, it's not the news that's important; it's the market's reaction to the news that's important. We're seeing this with oil and housing stocks lately. The news has been fabulous for oil and horrible for housing. But oil's been going down, while housing stocks are moving sideways. Exactly the opposite of what you might expect.

Interest Rates and Bond Prices

The Bond Model remains bullish, suggesting lower yields and higher prices ahead.

There's a couple of important and intertwined reasons for this bullish projection.

One is the bond yield inversion where short-term rates are higher than long-term rates. Two is the decline in the leading indicators over the last six months, falling 0.7% (a decline of 1% nearly always precedes a recession).

Putting those two factors together, I see the Fed as much more bearish on the economy and inflation than the measures of the future predict.

The two reasons are at the tipping point to nearly assuring a recession next year.



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 bond market is very overextended and is due for a pullback. At that time I may extend the maturities of the Income Portfolio's holdings.

MONTHLY ACTIVITY

MONTH ENDING: 8/31/2006

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
7-Aug	buy	Prudnt Gbl Incm	12.67	3,157.0639	40,000	STADX	Bond Shrt	Wfargo Ultra Shrt	9.12	4,437.9049	40,474	20%
						PSAFX	Bond World	Prudnt Gbl Incm	12.67	3,157.0639	40,000	19%
						MM	Money Market		100	125,743.9200	125,744	61%
						MM	Margin Loan		-100	-	-	0%
Total Valuation=											206,218	100%

MAAP Growth and Balanced Portfolios

MONTHLY ACTIVITY

MONTH ENDING: 8/31/2006

MONTH END VALUATIONS

AGGRESSIVE GROWTH, selected & timed, style allocated (stock, balanced, cash)

Activity Date	Activity	Fund	Action Price	Number of Shares	Action Value	Symbol	Style	Name	Ending NAV	Number of Shares	Current Value	Percent of Total
7-Aug	sell	PRIDX	44.97	215,9827	9,713							0%
7-Aug	sell	WWWFX	24.68	732,6007	18,081	MID SX	Gold	Midas	4.28	2,487,5622	10,647	3%
7-Aug	buy	VWINX	21.62	1,387,6041	30,000	VWINX	Hybrid	Vngrd Wellsly	21.92	1,387,6041	30,416	8%
11-Aug	sell	UNWPX	29.64	1,447,1803	42,894	JA OSX	Eqty Intrntl	Janus Overseas	38.96	562,5879	21,918	6%
						CIVVX	Eqty Intrntl	Causeway Intrntl	18.84	1,115,4490	21,015	6%
						FAIRX	Eqty LrgCap	Fairholme	27.74	737,4631	20,457	5%
						AAIPX	Eqty Intrntl	Amrcn Intrntl Eqty	23.53	916,5903	21,567	6%
						SSAIX	Eqty Intrntl	Ssga Intrntl Stk	12.88	1,696,6528	21,853	6%
						RYURX	Contrary	Rydex Ursa	8.18	5,679,0300	46,454	12%
							MM	Money Market	100	187,098,9100	187,099	49%
Total Valuation=											\$381,427	100%

GROWTH, selected & timed, style & asset allocated (stock, balanced, cash)

Activity Date	Activity	Fund	Action Price	Number of Shares	Action Value	Symbol	Style	Fund	Ending NAV	Number of Shares	Current Value	Percent of Total
7-Aug	sell	PRGSX	20.28	1,652,9555	33,522	VWINX	Hybrid	Vngrd Wellsly	21.92	1,850,1388	40,555	6%
7-Aug	sell	WWWFX	24.68	732,6007	18,081	TB GVX	EqtyWorld	TwdyBrwn Gbl Val	28.87	1,178,4102	34,021	5%
7-Aug	buy	VWINX	21.62	1,850,1388	40,000	JA OSX	Eqty Intrntl	Janus Overseas	38.96	562,5879	21,918	3%
11-Aug	sell	MID SX	4.03	5,076,1421	20,457	CIVVX	Eqty Intrntl	Causeway Intrntl	18.84	1,115,4490	21,015	3%
						FAIRX	Eqty LrgCap	Fairholme	27.74	737,4631	20,457	3%
						AAIPX	Eqty Intrntl	Amrcn Intrntl Eqty	23.53	916,5903	21,567	3%
						SSAIX	Eqty Intrntl	Ssga Intrntl Stk	12.88	1,696,6528	21,853	3%
						RYURX	EqtyContry	Rydex Ursa	8.18	5,679,0300	46,454	7%
							MM	Money Market	100	404,883,8500	404,884	64%
Total Valuation=											\$632,725	100%

BALANCED, selected & timed, style & asset allocated (stock, balanced, bond, cash)

Activity Date	Activity	Fund	Action Price	Number of Shares	Action Value	Symbol	Style	Fund	Ending NAV	Number of Shares	Current Value	Percent of Total
7-Aug	sell	PRGSX	20.28	1,377,4663	27,935	VWINX	Hybrid	Vngrd Wellsly	21.92	1,850,1388	40,555	7%
7-Aug	sell	WWWFX	24.68	732,6007	18,081	TB GVX	EqtyWorld	TwdyBrwn Gbl Val	28.87	982,0068	28,351	5%
7-Aug	buy	VWINX	21.62	1,850,1388	40,000	JA OSX	Eqty Intrntl	Janus Overseas	38.96	562,5879	21,918	4%
11-Aug	sell	MID SX	4.03	5,076,1421	20,457	CIVVX	Eqty Intrntl	Causeway Intrntl	18.84	1,115,4490	21,015	4%
						FAIRX	Eqty LrgCap	Fairholme	27.74	737,4631	20,457	4%
						AAIPX	Eqty Intrntl	Amrcn Intrntl Eqty	23.53	916,5903	21,567	4%
						SSAIX	Eqty Intrntl	Ssga Intrntl Stk	12.88	1,696,6528	21,853	4%
							MM	Money Market	100	366,112,4200	366,112	68%
Total Valuation=											\$541,829	100%

Took profits in gold; there's been too much optimism and the price wasn't reacting as positively as in the past, which is a bearish sign. Remaining positions are holding fairly steady.

All MAAP portfolio performance include an annual 2% management fee expense. All dividends are reinvested.

Market Timing and Asset Allocation

Gold and Silver Index (XAU)

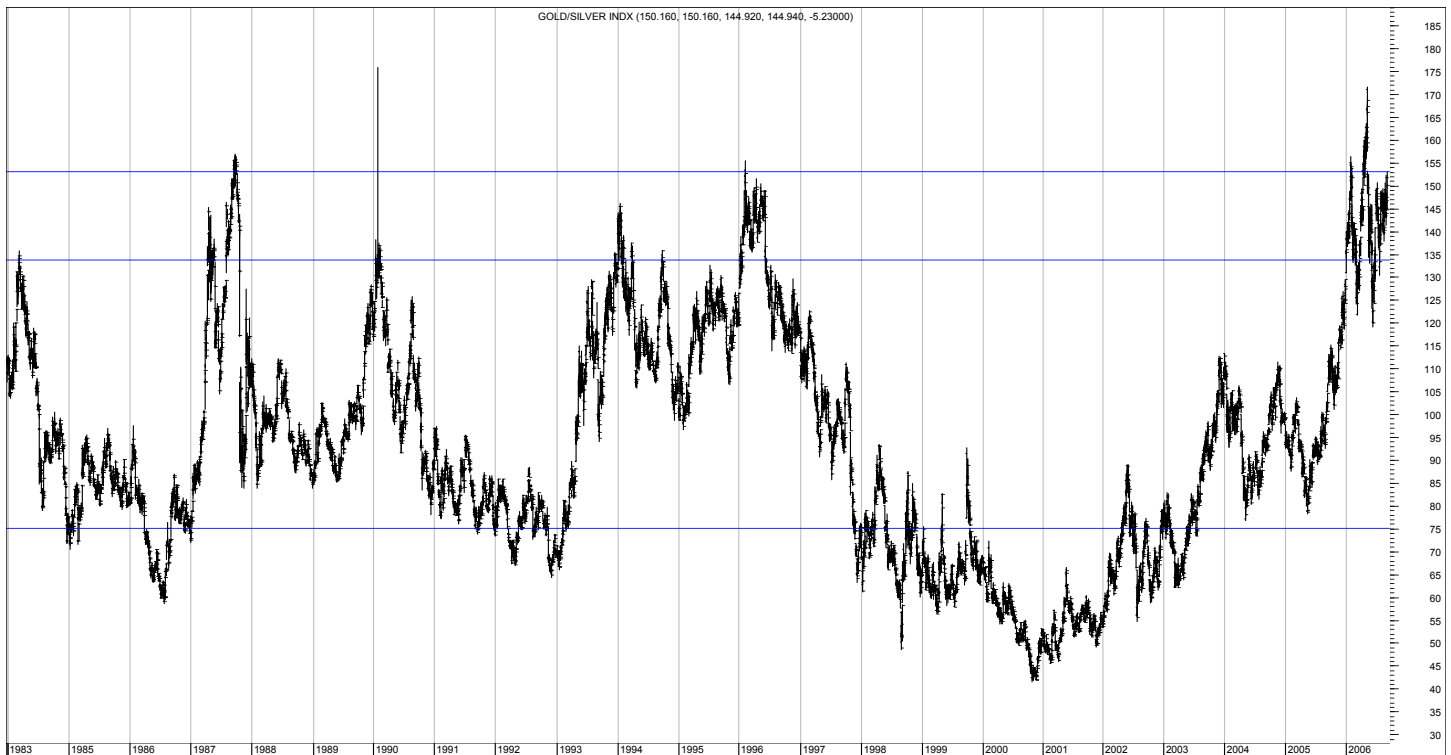
Not sure about you, but I don't think holding gold for the next surge is such a good bet.

The chart below shows the XAU over the last 25 years.

You can see when it's time to get bullish and time to get bearish. They're at the points when most

folks are acting just the opposite. People like to buy and sell with the herd, and folks make lots of money doing so. They also lose lots of money.

The upper bands show when to grow cautious, take profits, get scared, sell in greed. The lower band shows when to buy in fear and accumulate.



MARKET and FUND COMMENTS

STOCKS: Neutral, continued sideways trend.

GOLD: Bearish.

BONDS: Bullish.

US Gov. fiscal policy, neutral.

Corporate actions (buy backs, mergers), bullish.

Economy, from neutral to bearish by early 2007.

Inflation, bearish as it increases.

Oil prices, neutral.

Investor sentiment, neutral.

Federal Reserve policy, bearish (tightening).

Market valuation, bearish.

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

Stock market rallying as oil prices decline. It hasn't figured in yet the possibility of a recession next year.

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 8/31/06					V Vol- atility	INDEX CLOSE		PERFORMANCE IN:					
	X= 12	9	6	3	1				2005	2004	2003	2002	2001	2000
DJ Wilshire 5000	6.92	4.32	108	172	2.73	16	13062.50	-	8.24	10.85	29.44	-22.08	-12.06	-11.41
Dow Jones Industrials	8.58	5.32	3.53	191	175	16	11381.10	-	-0.61	3.15	25.32	-16.76	-7.10	-6.18
Standard & Poors 500	6.84	4.35	181	2.66	2.73	14	1303.82	-	3.00	8.99	26.38	-23.37	-13.04	-10.14
Russell 2000	8.10	6.38	-138	-0.07	2.85	3.1	720.53	-	3.32	17.00	45.37	-2158	103	-4.20
Dow Jones World Index	14.65	10.81	3.27	2.43	2.34	2.3	252.94	-	9.41	14.43	33.42	-20.73	-16.58	-15.89
Gold/Silver Index (XAU)	53.20	28.02	10.03	2.89	3.43	8.2	146.72	-	28.87	4.65	19.89	25.57	128	-5.94
Dow Jones Ttl Bond	-0.34	2.39	100	3.00	2.06	10	190.58	-	1.40	3.99	2.20	11.96	6.77	13.40
Small Cap	6.38	4.02	-2.83	-2.47	1.91	3.1	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.		2.63	11.74	39.43	-21.96	-6.21	0.96
Mid Cap	6.99	3.76	-1.95	-1.23	1.99	2.7			8.38	12.96	33.65	-21.89	-11.03	-0.38
Large Cap	4.84	1.9	-1.91	0.07	2.01	2.1			5.75	13.34	27.54	-21.75	-13.19	-3.69
Value	7.85	6.53	2.47	1.42	1.82	1.9			3.66	11.26	27.18	-15.61	2.30	9.99
Contrary	4.69	4.74	4.45	-0.26	-2.04	2.2			5.78	3.11	0.47	9.99	2.83	13.54
World Growth	4.68	4.69	4.54	-0.31	-2.18	2.3			13.07	17.11	34.67	-15.76	-19.89	-12.70
Growth/Income	7.33	5.07	1.41	1.80	1.87	1.9	4.23	10.24	23.46	-18.22	-7.76	0.03		
Bond Long	-2.10	2.15	-0.14	5.10	2.45	1.9	10.32	8.43	8.64	6.73	2.45	11.68		
Bond High Yield	3.70	4.39	154	0.92	0.73	0.8	5.76	6.63	16.24	-7.55	-4.73	-12.68		
Bond World	3.30	4.44	2.14	2.31	1.11	1.2	7.40	9.07	11.56	10.56	1.48	0.18		
MAAP Aggrsv Grth	13.21	10.62	4.72	150	0.70	1.4	For more information about these model portfolios, please see pages five and six.		7.20	0.57	15.03	-4.93	1.42	1.78
MAAP Growth	6.15	5.57	2.17	1.21	0.49	0.7			3.50	1.53	11.56	-1.22	0.75	2.64
MAAP Balanced	5.30	5.17	2.17	1.44	0.78	0.6			2.01	5.88	12.57	0.09	-0.56	0.37
MAAP Income	2.29	2.02	1.19	0.56	0.16	0.2			-1.86	1.90	7.05	1.75	4.59	2.37

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*. It is normally posted to InvestmentST.com and 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 to 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, ©, 1984-2006, 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.

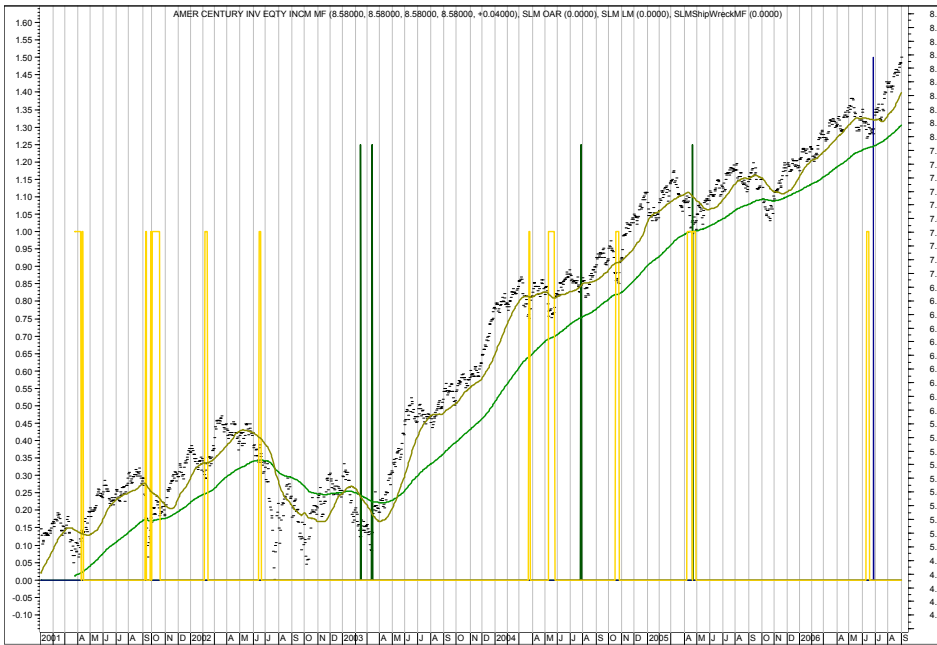
The fund dropped out of the top 20% at the end of January 2005. Even though the timing model remained bullish, the fund was sold. It would not have been rebought in July 2005 with the timing model buy because the fund was not in the top 5% at the time of the buy signal. It could have been bought in May.

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 top chart is 20th Century Equity Income Fund (TWEIX).

The middle chart is Vanguard Wellesly Income Fund (VWINX).

The bottom chart is the Prudent Bear Fund (BEARX).

