No-Load Mutual Fund Selections & Timing Newsletter
P.O. Box 830396
Richardson, TX 75083-0396

972-680-2366
InvestmentST.com

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6/10/11   about 7:10 pm cst

Dear Subscriber,

It was a rough Friday today on top of a rough 6 weeks. The S&P 500 is down about 7% from its peak a mere 6 weeks ago. It's been down 5 of the previous 6 weeks. The small cap area has given up all of its gains of 2011.

Corrections are part of the investment world. The question, though, is will the correction turn into a bear market whereby it drops by more than 20%? Or is there a reason to think the correction over? Has it discounted the reason for the correction or is there more to come?

The economic news of late has come in slower than expected. GDP estimates have been lowered. But most of it may be tied out to the impact from the disasters in Japan. As such, we should again see a pickup, especially as the rebuild process takes shape in the months ahead. Still, sovereign debt issues (including the USA) still loom. And QE II will end, but the Federal Reserve will remain accommodative.

I'm still in the camp that we are in a correction within an ongoing bull market. Prior to this pullback the market was "in gear" to the upside. In 30 some years of investing and looking further back than that, that type of confirmation has never marked a top. There could be a first time, of course, but in the meantime, this seems to be the same situation as April-Aug 2010. A worrisome pullback within a bull market.

To be sure, the VIX index (fear index or volatility index) has not signaled panic yet, which means there may be more to the downside. Back in the summer of 2010, the number of new NYSE lows was spiking into the 130-170 range; we're at 108.   So, what would be normal is for the market to bounce from these oversold levels and then retest these lows. If the economic news improves at that time and if fear rises, we'd have a solid accumulate signal.

I will mention an interesting news point in that the Federal Reserve would like to raise the levels of core capital requirements for banks (may reduce lending), but that they may back off from that (a positive), and the Fed may want to okay bank dividend and buyback decisions. Some big name banks were down early and then reversed in the day. Sometimes its not the news per se, but the market's reaction to the news that is important. In this case, the affirmative may well be the answer to the question whether the news is discounted?

So, have all the reasons for the correction been discounted? It looks to me like we are nearing that level.

PORTFOLIOS

I will wait for a little more positive background news before accumulating again.

TIMING MODELS.

There are no changes to the timing models either.

Stocks long-term still bullish. Stocks intermediate-term still neutral.
Gold neutral.
Bonds still bullish.

Thank you,

Steve McKee
Editor