No-Load Mutual Fund Selections & Timing Newsletter
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8/19/11  about 2:30pm cst

Dear Subscriber,

For continuity, I'm going to pick this up from where I left off the last emailed Hotline report on 8/8.  And then again review the three main areas I'm watching.

"So, looking ahead, my expectation is this.  The market is beginning to look "cheap" again.  The Dow Industrials' PE ratio is about 13.  Given the low bond yields, and the level of current corporate earnings, it should be trading at 30,000.  But the fear is that those earnings won't be maintained going forward.  Nonetheless, there should be a bounce shortly from these oversold conditions.  I will look to raise more cash on that bounce.  After that bounce, the market should come back down to test the lows.  At that point, we will need for fear sentiment to increase, but technicals to improve, and the news to improve."

The market bounced from there on 8/8 to 8/15.  This was shorter in duration and shallower in "bounce" than anticipated, so, I didn't raise more cash on the "bounce".  We are now into the "test the lows" portion.  What's the background now?

News
The leading economic indicators came out 8/18 (yesterday) and are still trending up, signalling expansion over the next 6-9 months.  Slow, uneven expansion to be sure, but not contraction.

Here's a link (if it comes out okay)
http://www.conference-board.org/data/bcicountry.cfm?cid=1

Other news remains poor.  Problems in Europe and problems in Washington.  Domestic fiscal support for recovery is not there.  The Federal Reserve, however, has signalled its intent to keep rates low another couple years.  This information is the most important support for the markets.  With a 2% 10-year Treasury yield and given current DJ Industrials' earnings, the market should trade near 40,000 (current 10,800) to bring the two yield comparisons to parity.  Also, mortgage debt is available at 4.2%.  Some cash flow is "cheap" compared to borrowing cost to buy it.  But, the big issue is whether that cash flow will be maintained or fall in a recession like it did in 2007-8.  That is the fear battle.

Technicals
Right this moment, the market is showing a short-term positive in that the Transports have taken out the 8/8 lows, but other indexes have not. But this may easily change, if the market continues to sell off here. As well, the number of new lows spiked to 1345 on 8/8, but are now below 250. These are potential positives.

Sentiment
The VIX (fear) index has jumped. But other sentiment indicators remain mixed at best. Too much hope it seems.

So, it's really become a mixed bag of indicators here. Saw-tooth comes to mind where the market rallies and sells off without much conviction direction either way.

PORTFOLIOs
No portfolio changes. Sit tight for now, but watching for either negatives (raise more cash) or positives (get more invested).

TIMING
I'll make a timing change on the long-term stock forecast from bullish to neutral.

Stocks Intermediate-term neutral. Long-term neutral from bullish
Bonds Neutral
Gold Neutral (There's one thing about gold, which is it is hard to put a value on it. There's no dividend or cash flow on bullion. But there is on gold miners. This may be why even though bullion is jumping, gold miner stocks/indexes, like XAU, aren't. In fact, talk about divergences. XAU peaked in 12/10 and has gone sideways since, but bullion itself has climbed another $400/oz since then. Also, would a country actually make gold its currency? Doubtful. So, ride it while you can, but keep in mind the negative divergence with the miners/producers and an eye on those margin requirements. If they raise them, gold will sell off. That's the pattern. In the meantime, it is driven by fear demand.)

Thank you,

Steve McKee
Editor