

No-Load Mutual Fund Selections & Timing Newsletter

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8/8/11 about 6:50pm cst

Dear Subscriber,

So, there's good news and bad news. The good news is gasoline prices are dropping. The bad news is you don't need a car anymore.

The market seems to be pricing in the end of the world all of a sudden. The background to the selloff is a convergence of poor technicals and fundamentals colliding. So let's briefly review and see where we're at. As you know, I've been watching basically three things, the news, the technicals, and sentiment.

News

We're all aware of S&P's downgrade of the US last Friday night. Was their fairly quick downgrade their reply to the government's investigation of S&P's part in the financial debacle? Ironically, that downgraded US debt is soaring in value as yields fall. Falling yields makes earnings cheaper. They have a point, however, that the government hasn't actually cut spending, it only shaved expected spending, which means deficits and the debt are still forecasted to rise.

At the same time, the economy has slowed. GDP growth forecasts have been lowered. But the leading economic indicators are still trending up, signalling expansion.

Technicals

Technically, the divergence I noted has led to the market correcting, but further than anticipated, below previous support areas at the June and March lows. I had raised some cash, but when it goes down sharply like this, it all goes down. Margin calls are going out. But, it is oversold now and at support. Next support level is down about 2%. The number of new lows has spiked to over 1,000, which is associated with lows.

Sentiment

Fear has clearly increased. The VIX index finally spiked. A couple of other sentiment indicators also finally moved into fear territory, which as contrary indicators is very positive.

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.

PORTFOLIOS

No portfolio changes.

TIMING

No timing changes.

Stocks Intermediate-term neutral. Long-term bullish (though questions are getting raised)

Bonds Neutral

Gold Neutral

Thank you,

Steve McKee

Editor