No-Load Mutual Fund Selections & Timing Newsletter
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9/13/12 Thursday about 8:45pm cst for action to take tomorrow (Friday)

Dear Subscriber,

It has been an interesting couple of weeks to say the least. Fiscal fundamentals around the globe appear to have slightly worsened, but the central banks' monetary stimulus has ratcheted up, especially today with the Fed's extension of low rates and decision to buy more mortgage-backed securities. Stocks have reacted upward, even with the domestic fiscal cliff looming. In the Fed's press conference, when Bernanke mentioned that the Fed has no tools against the economic impact from the fiscal cliff (spending cuts and tax raises that are scheduled to hit automatically on 1/1/13), the market dropped in short order from plus 250 to plus 180. It finished up 206. It reminds me of Keynes who long ago compared stocks to a beauty contest in which your job isn't to pick what you think is the prettiest, but to pick what you think the others will pick.

So, while monetary easing helps in the short run for some assets, the real question about the sustainability of the recovery is still to be answered. The cliff is there and is yet to be addressed. Nimbleness, as a tool, is required.

Having said all that, I think it clear the Fed is now overtly targeting what has been the key driver (consumers and homes) in other recoveries. This recession and recovery has been different from previous ones, in that housing led the recession, but hasn't led the recovery. Bringing mortgage rates down even further will help to make homes more affordable, stabilize prices, and create ancillary demand (for new stoves, flooring, etc). Job creation, of course, would help even more. And that remains, rather than low inflation, the driving mandate.

PORTFOLIOs
While I dislike chasing the stock market, I will be watching for entry points, keeping the fiscal cliff in the forefront of worry.

As mentioned in this month's Newsletter about the Income Portfolio, it is time to move out of a couple bond positions and into a couple of others.

In the Income Portfolio, sell all of PLW and TLH. This will raise about $60,000 (about 25% of the total). Buy $20,000 into PONDX (Pimco Income). And buy $40,000 into MBB (this is a 4-comet mortgage backed ETF); the reason for using an ETF is for flexibility for timing purposes (don't have to worry about short-term redemption charges).

TIMING
Stocks Intermediate-term neutral. Long-term neutral, from bearish (all the liquidity should help to prop up stocks, unless the fiscal cliff turns out to be sharper than expected).
Bonds Bullish
Gold Bullish, from neutral. A weak dollar and inflation appear fairly certain for the months ahead.

CORRECTIONS
Three Janus fund names were "tied" to the wrong symbol. JGVAX is Janus Perkins Glbl Value, JORNX is Janus Glbl Select, and JAOSX is Janus Overseas. As usual, the symbol is what matters, not the name.

Thank you,

Steve McKee
Editor