

# Stock Selections & Timing

## Watercourse Way Holdings, LLC

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January 17, 2012 (data through previous Friday's close)

Volume 3

Issue 2

## Lightening

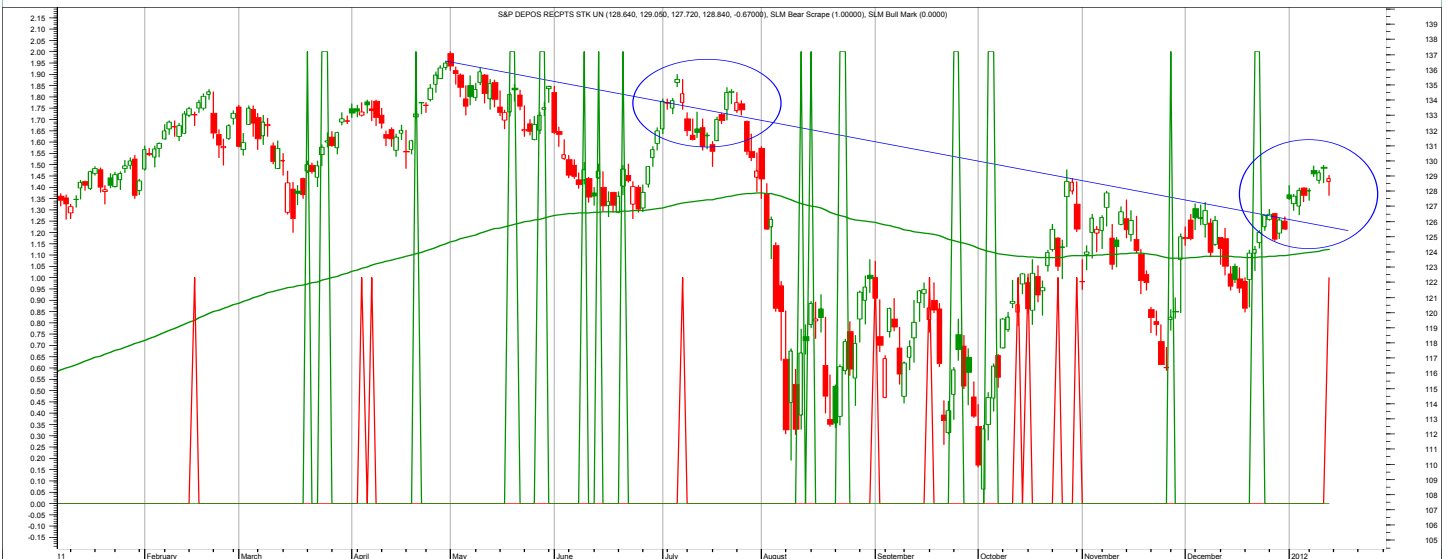
With the downgrade of various European sovereign debt over the weekend, has the air finally cleared? Given the market's reaction, apparently so. Perhaps a cut from AAA to AA+ is actually substantially better than what was feared was coming. It is just a lightning bug, not a

storm. Please see the Growth Portfolio for some specific trades.

The main driver to our equity market that has been somewhat ignored in all of this is it continues to muddle along in its growth trajectory. Not too hot and not too cold. In fact, job growth is improving. The un-

employment rate is declining. Moreover, the leading economic indicators keep moving north-east in an upward trend. This signals further expansion. The S&P 500 corporate earnings have reached record levels, surpassing where they were before the financial implosion in 2008.

*(Continued on bottom left on page 4)*



The chart is the DAILY S&P 500 with 200-day simple moving average. The green spikes are potential buy signals.

## SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	1.7%	18.8%	7.6%	11.6%	3.5%	0.0%
Dow30 Portfolio	1.4%	-1.0%	-4.7%	2.9%	1.1%	0.7%
Wilshire 5000 TR	2.8%	0.4%	-2.4%	6.5%	5.9%	1.2%
Dow Industrials	1.7%	5.4%	-0.5%	6.7%	4.7%	0.5%

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# Stock Portfolio

ACTION FOR		PORTFOLIO DETAILS					Value as of date:		1/13/2012					
Action Dates	Action Symbol	Action Price	# of Shares	Action Value	Symbol	Closing stop as of 1/13	Yield at buy	Start Price	Ending Price	# of Shares	Current Value	Percent of Total		
12-Dec	sell	ANIK	8.54	300	2,552	DRAD		1.90	2.01	1,500	3,015.00	2.2%		
19-Dec	sell	ANIK	>8.60	300		ANIK		5.89	9.31	600	5,586.00	4.0%		
19-Dec	sell	WTT	>1.10	2,000		GENC		7.53	6.80	2,078	14,130.40	10.2%		
						WTT		0.87	1.21	11,000	13,310.00	9.6%		
19-Dec	sell	ANIK	8.64	300	2,582									
19-Dec	sell	WTT	1.11	2,000	2,210									
						PSEC	12.0%	10.15	9.96	1,200	11,952.00	8.6%		
19-Dec	sell	MCGC	3.85	2,000	7,690									
23-Dec	sell	GLAD	>7.7	1,000										
23-Dec	sell	GLAD	7.71	1,000	7,700	MRVL	13.50	13.28	14.78	900	13,302.00	9.6%		
23-Dec	sell	ANIK	>8.95	600		ACAS	6.70	6.58	7.36	900	6,624.00	4.8%		
23-Dec	sell	ANIK	9.00	600	5,390									
3-Jan	buy	DRAD	<1.90	1,500	<3000									
			1.90	1,500	2,860									
Dividends											2,187.26	1.6%		
Money Market											1.00	68,569	68,569.00	49.4%
Total Valuation=											138,675.66	100.0%		

## REVIEW since last issue

1/17 No changes.

1/3 Reenter DRAD as noted above.

12/19 GENC reported flat earnings. Still trading below net cash. Monitor the trades as noted above.

12/5/ Subscribers should have received the emailed Hotline notifying you to buy MRVL and ACAS on 11/28 as mentioned above. Now, however, given the market's rally back to resistance area (previous tops), it is time to lighten up and take profits on a couple of positions as noted above. The prices are sell limits; for example, sell 300 shares of ANIK at \$8.40 or better. As well, WTT has gained so much as to require sells to bring it back in line; we don't want to be that over weighted in the stock.

11/21 Sell KCAP (too much uncertainty). Accumulate more GENC (valuation below net cash).

11/5 No portfolio changes. ANIK and WTT have both jumped noticeably the last few weeks and are above buy zones.

10/24 Buy MRVL and buy more GENC as noted above.

	2010	2011	ytd 2012	Incptn	SD
Stock Portfolio	12.3%	21.4	1.7	38.7	12.8
W5000 TR	17.7%	0.5	2.8	21.7	9.6

This shows the returns of previous years, year to date (ytd), and from inception (incptn). It also shows standard deviation (SD).

# Dow 30 Portfolio

ACTION FOR			PORTFOLIO DETAILS				Value as of date: 1/13/2012							
Action Date	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop as of 1/17	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total	
28-Nov	buy	DIA	114.84	500	57,430	DIA							0.0%	
8-Dec	sell	DIA	119.94	500	59,960									
			stopped out											
23-Dec	buy	AA	<9	1,300		AA	8.40		8.86	9.77	1,300	12,701.00	11.8%	
23-Dec	buy	AA	8.86	1,300	11,528	HPQ	24.00				400			
17-Jan	buy	HPQ		400	about 10%									
						Money Market					1.00	94,777	94,777.00	88.2%
												Total Valuation=	107,478.00	100.0%

Company	Symbol
Alcoa	AA
American Express	AXP
Boeing	BA
Bank of America	BAC
Catepillar	CAT
Cisco	CSCO
Chevron	CVX
DuPont	DD
Disney	DIS
GE	GE
Home Depot	HD
Hewlett Packard	HPQ
IBM	IBM
Intel	INTC
Johnson & Johnson	JNJ

Company	Symbol
JP Morgan	JPM
Kraft	KFT
Coca-Cola	KO
McDonalds	MCD
3M Company	MMM
Merck	MRK
Microsoft	MSFT
Pfizer	PFE
Proctor & Gamble	PG
ATT	T
Travelers	TRV
United Technologies	UTX
Verizon	VZ
Wal-Mart	WMT
Exxon Mobil	XOM

For this portfolio, we seek to outperform the Dow Industrials using proprietary timing and weighting formulas of the underlying thirty stocks of the Dow Industrials. We also will use the ETF that tracks the same. The symbol is DIA.

We monitor the underlying individual stocks for buys and sells in order to overweight the portfolio to what is expected to outperform and underweight the portfolio with what is expected to underperform.

## REVIEW since last issue

1/17 Buy HPQ as noted above.

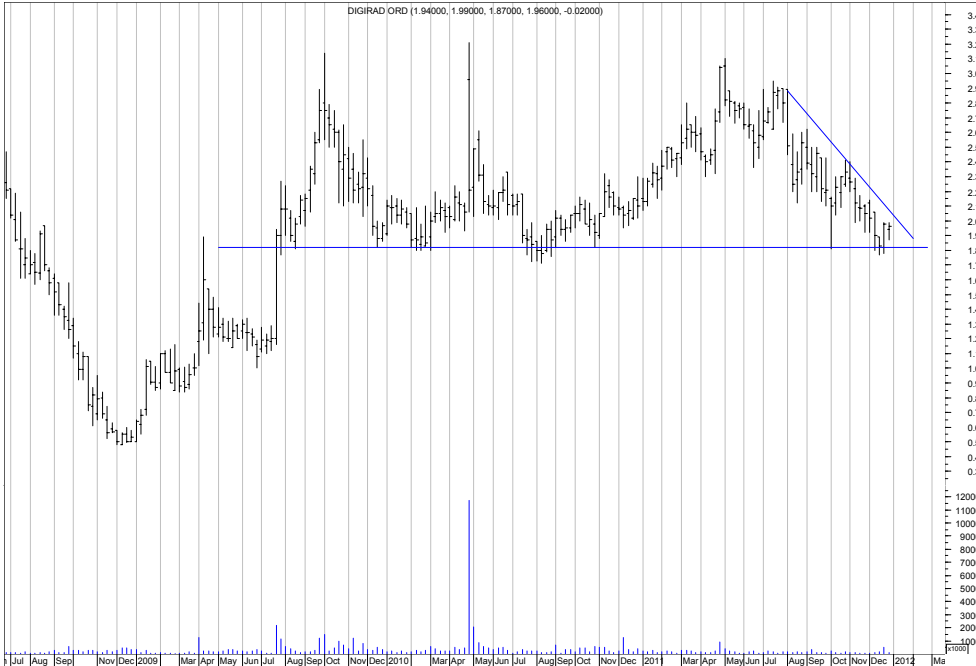
1/3 No changes.

12/19 No changes

12/5 Subscribers should have received the emailed Hotline to buy DIA on 11/28.

11/21 No changes.

# Feature Company



## REITERATION

Back into DRAD that has dropped to a good entry point as you can see on the weekly chart to the left.

Digirad Corp is in the medical imaging business with annual sales of about \$55 million. It runs near breakeven, but the company is cutting costs, trying to improve margins. The balance sheet is strong. Market cap is about \$35 million with net cash of about \$31 million. So for \$4 million we get a company with sales of about \$55 million running at breakeven. If they can improve operations, the stock should easily near \$3.00.

Accumulate below \$1.90.

*(Continued from page 1)*

But, as you can see from the chart on page 1 of the S&P 500, it is still below its 2007 peak. The PE ratio is about 13. The lowest it has been in about 20 years.

To top off the good news, the Fed is still committed to keeping interest rates as low as possible both at the long and short ends. This makes those aforementioned earnings very cheap on a relative basis.

So what is the bad news? Debt downgrades are just visible

headline reminders of a problem. It doesn't, however, solve the problem. It is still there. The problem of sovereign debt and how to repay it still exists. It hasn't gone away. And this applies to the US situation as well. There will be some combination of tax increases or spending cuts to deal with it.

So, if the problem has been recognized, though the solution still pushed out, we will try to enjoy the ride, if 2012 turns out to be a decent year, but as men-

tioned last week, it is 2013 that may turn out to be the big bear year. Yes, it's a lightning bug today, but there's still lightning on the horizon.

# Descriptions & Disclosures

## **PORTFOLIO DESCRIPTIONS (pages 2 and 3)**

Our guiding goal is to provide the most return with the least risk.

The two portfolios were started on 1/1/10 with \$100,000. Beginning in 2012, the official portfolio for measuring the newsletter performance is the Stock Portfolio only.

Portfolio changes will usually be made at the close on Monday (the day this eNewsletter is posted), or if a position is stopped out, the close that day, unless otherwise noted.

Portfolios are updated through the preceding Friday's close.

Stock dividends are paid in cash. Interest is assumed to be zero for the money market (cash) position. Commission costs to buy and sell are assumed to be \$10.00 per trade.

The Wilshire 5000 TR (total return) includes dividend reinvestment.

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