

Stock Selections & Timing

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Good News and Bad News

The good news is the Dow Jones Industrial Average has made it back to a recovery high, moving last week above where it was last May, some 10 months ago. The bad news is the Dow Jones Transportation Index has not fully recovered; it is still lagging its previous high set last July.

These two time zones are shown on the chart below in the circles. The red horizontal bar traces the high points of the DJ Industrials over time.

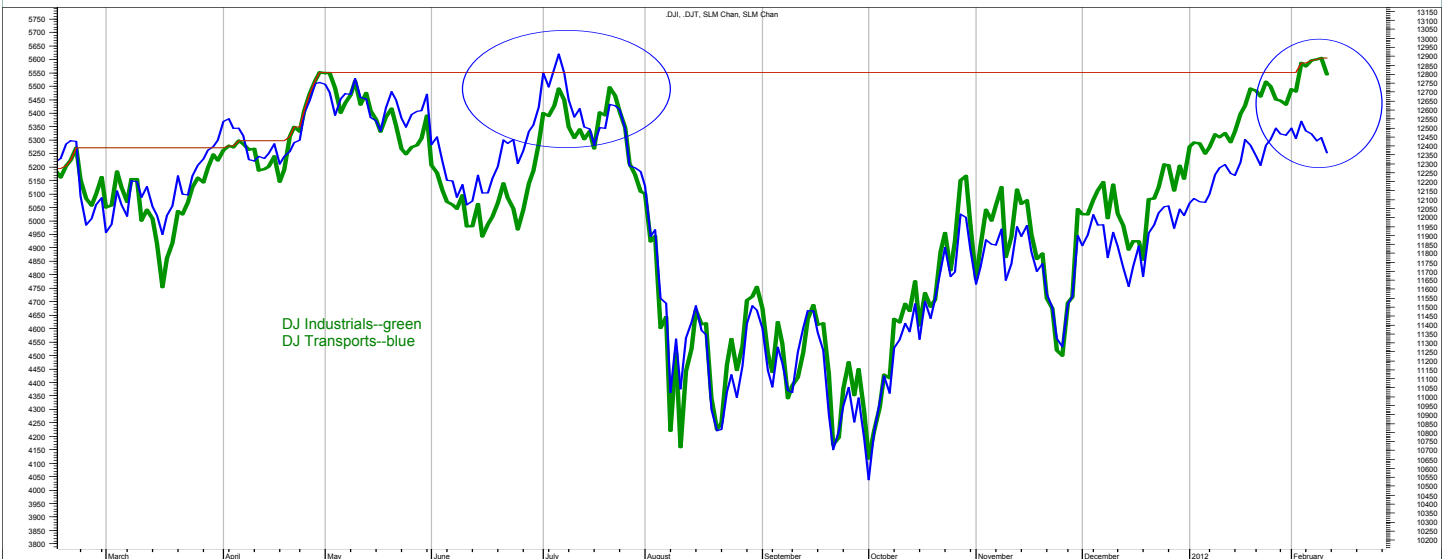
As you can see, this negative divergence between the two indexes last summer preceded the sharp August sell off. Divergences are signals that every-

thing is not quite as positive underneath the surface as it appears to be.

Last summer what finally showed up was the fundamental factors of a slowing economy, sovereign debt issues, and liquidity concerns.

Since then, some of those

(Continued on bottom left on page 4)



The daily chart above shows the DJ Industrials (green line, right scale) and DJ Transports (blue line, left scale).

SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	5.0%	13.7%	18.6%	8.1%	3.3%	-0.4%
Dow30 Portfolio	2.9%	-1.7%	3.3%	5.1%	1.5%	-0.7%
Wilshire 5000 TR	7.9%	2.5%	15.3%	7.4%	4.9%	-0.3%
Dow Industrials	4.8%	4.3%	13.6%	5.3%	3.1%	-0.5%

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Stock Portfolio

ACTION FOR		PORTFOLIO DETAILS					Value as of date:		2/13/2012					
Action Dates	Action Symbol	Action Price	# of Shares	Action Value	Symbol	Closing stop as of 1/30	Yield at buy	Start Price	Ending Price	# of Shares	Current Value	Percent of Total		
19-Dec	sell	MCGC	3.85	2,000	7,690	DRAD		1.90	1.99	1,500	2,985.00	2.1%		
23-Dec	sell	GLAD	>7.7	1,000		ANIK		5.89	10.63	600	6,378.00	4.5%		
23-Dec	sell	GLAD	7.71	1,000	7,700	GENC		7.53	7.11	2,078	14,774.58	10.3%		
23-Dec	sell	ANIK	>8.95	600		WTT		0.87	1.18	11,000	12,980.00	9.1%		
23-Dec	sell	ANIK	9.00	600	5,390	SIMG				1,500	-	0.0%		
3-Jan	buy	DRAD	<1.90	1,500	<3000									
			1.90	1,500	2,860	PSEC	12.0%	10.15	10.82	1,200	12,984.00	9.1%		
						FULL	11.9%	7.69	7.92	900	7,128.00	5.0%		
30-Jan	buy	FULL	<7.70	900										
			7.690	900	6,931	MRVL	15.00	13.28	15.77	900	14,193.00	9.9%		
13-Feb	sell	ANIK	>10.90	600		ACAS	8.40	6.58	8.69	900	7,821.00	5.5%		
13-Feb	buy	SIMG	<5.50	1,500	<6%									
13-Feb	buy	DRAD	<2.00											
Dividends											2,308.94	1.6%		
Money Market											1.00	61,638	61,638.00	43.0%
Total Valuation=											143,190.52	100.0%		

REVIEW since last issue

2/13 Take final profits from ANIK. Raise the buy level on DRAD to 2.00. Accumulate SIMG. See page 4 for some details.

1/30 Accumulate FULL below \$7.70. Please note the tight stop raises on MRVL and ACAS.

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).

	2010	2011	ytd 2012	Incptn	SD
Stock Portfolio	12.3%	21.4	5.0	43.2	13.4
W5000 TR	17.7%	0.5	7.9	27.6	9.7

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: 2/13/2012							
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	10.29	1,300	13,377.00	12.3%	
23-Dec	buy	AA	8.86	1,300	11,528	HPQ	24.00		26.45	28.70	400	11,480.00	10.5%	
17-Jan	buy	HPQ	26.45	400	10,590									
						Money Market					1.00	84,187	84,187.00	77.2%
												Total Valuation=	109,044.00	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

2/13 No changes.

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



Silicon Image (SIMG)

This company provides wireless and wired HD connection solutions. Revenues last year were \$221 million up from \$191 million the year before. The company is at roughly breakeven. But I expect this to improve over the next year.

The stock appears cheap according to our measurements and should be accumulated. The stock price appears to have discounted the economic slowdown. If any positive traction shows up, the stock will reflect this.

(Continued from page 1)

same issues continue to fester, but with the exception of a stronger domestic economy. Domestically, the unemployment rate continues to decline. Retail sales are stronger. Housing continues to scrape bottom (the good news here is simply it does not continue to deteriorate as it was doing from 2008 through 2011; the old no news is good news idea).

So, this negative divergence

bears watching. If it is not “erased” by the Transports moving higher fairly soon, then it is signaling some stock market weakness ahead.

On that weakness, that sell off, depending on how things unfold, we will either become more fully invested or continue to hold cash. It depends on the fundamental news. The uncertainty and potentially dramatic fallout from a Greece default continues

to enlarge the risk factor of stocks. The Fed, however, continues its easing program, which has been propping up stocks.

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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