

Stock Selections & Timing

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Volume 2
Issue 10

In Gear

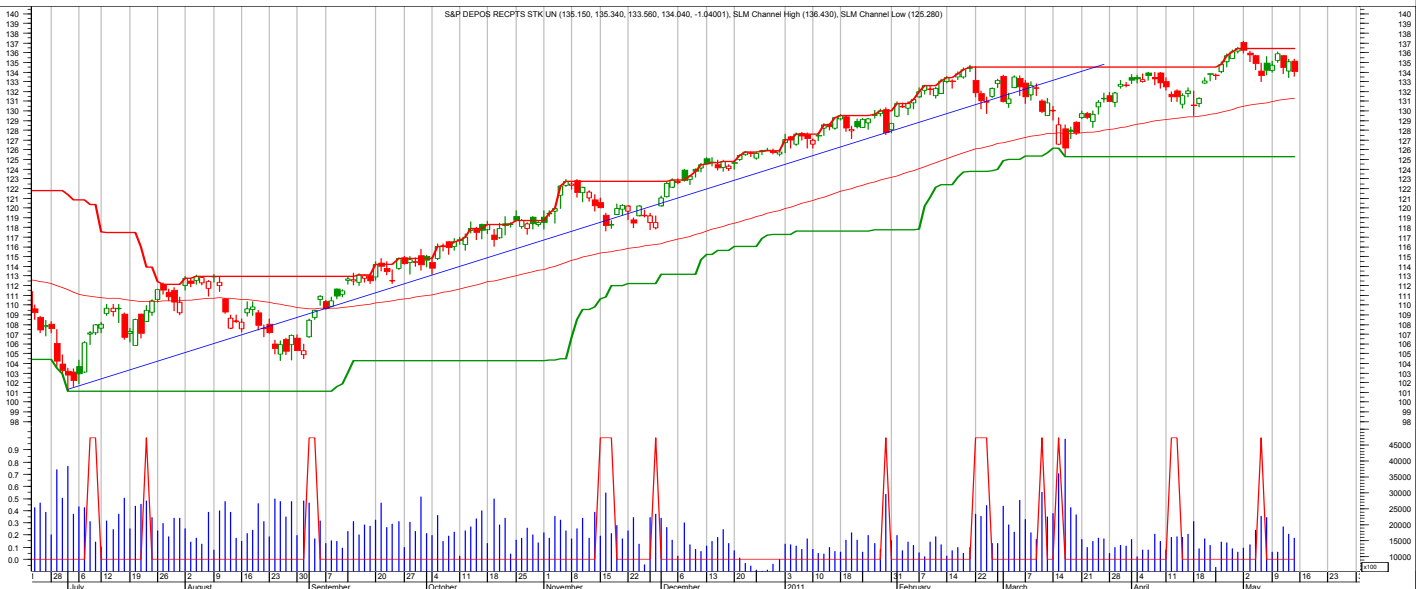
I've been talking about the markets being either "in gear" or "out of gear" as stocks continue to rally to recovery highs. This matters because it this pattern marks the transition period from bull to bear or from bear to bull where divergences, either positive in a bear to bull shift or negative in a bull to bear shift,

occur. So, watching for these divergences can provide some warning that things are about to, or are, changing.

Basically, we define a bull market as one where we find a series of higher highs and higher lows. This may be clearly seen on the chart below. (To be sure, it is not always so

easy.) A bear market is the opposite, we find a series of lower lows and lower highs. As mentioned, it is the transition period between the two types of markets from bull to bear or from bear to bull where we find those divergences and use them as warnings.

(Continued on bottom left on page 4)



The chart is the daily S&P 500 with an 80-day moving average and other objects.

SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	14.2%	20.8%	22.2%	1.9%	1.5%	-1.2%
Dow30 Portfolio	7.4%	12.8%	9.2%	3.9%	2.1%	0.0%
Wilshire 5000	6.4%	19.1%	12.3%	0.7%	1.3%	-0.1%
Dow Industrials	8.8%	18.6%	12.5%	2.6%	2.1%	-1.0%

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Stock Portfolio

ACTION FOR			PORTFOLIO DETAILS			Value as of date: 5/13/2011								
Action Dates	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop	Yield	Start Price	Ending Price	# of Shares	Current Value	Percent of Total	
7-Feb	sell	TAXI	7.99	1,406	11,224	DRAD								
22-Feb	sell	ADC	25.70	200	5,130	ECGI			0.97	1.69	9,704	16,399.76	12.8%	
22-Feb	sell	ECGI	> 1.8	2,500		GENC			7.73	7.91	1,478	11,690.98	9.1%	
						SILU			1.41	1.75	7,092	12,411.00	9.7%	
						WTT			0.88	0.83	13,000	10,790.00	8.4%	
24-Feb	sold	ECGI	1.82	200	354									
7-Mar	sold	ECGI	1.82	2,300	4,176	CLCT		9.1%	14.20	15.00	800	12,000.00	9.4%	
						GAIN		6.4%	7.49	7.29	1,500	10,935.00	8.5%	
21-Mar	buy	GAIN	7.49	1,500	11,245	MCGC		9.3%	6.44	6.40	2,000	12,800.00	10.0%	
4-Apr	buy	SNDK	46.60	100	4,670				46.60	46.49	100	4,649.00	3.6%	
4-Apr	buy	CSCO	17.06	300	5,128	CSCO			17.06	16.88	300	5,064.00	3.9%	
4-Apr	buy	MRVL	15.53	300	4,669	MRVL			15.53	14.60	300	4,380.00	3.4%	
2-May	buy	WTT	0.88	13,000	11,450									
2-May	buy	MCGC	6.44	2,000	12,890									
2-May	sell	DRAD	2.96	6,128	18,129									
27-May	div	CLCT	0.325											
						Money Market					1.00	27,211	27,211.00	21.2%
									Total Valuation=			128,330.74	100.0%	

REVIEW since last issue

5/16/11 CLCT is exdiv, so we'll collect the dividend as noted.

5/2/11 Take actions as noted above.

4/18/11 No changes.

4/4/11 GAIN was bought. Buy SNDK, CSCO, and MRVL.

3/11/11 Buy GAIN at less than \$7.50 per share as noted above.

3/9/11 Took profits on the open sell position on ECGI as it moved above my sell limit of \$1.80.

2/22/11 Will take profits by selling immediately one portfolio company ADC and ECGI, if it rallies past the minimum sell price.

ADC receives 20% of its revenues from bankrupt Borders. Sell it.

2/7/11 ECGI reported good 4th quarter earnings and jumped on the news. Fair value is still projected north of \$2.00/share. It is still trading below net cash and investments.

I will take profits in TAXI. Taxi medallions have had one of the best returns over time, but two issues are arising. One NY city may allow certain livery cabs to pick up passengers. This will hurt TAXI revenue and value. As well, medallion values hit record highs, but like other bubble types, the underlying cash flows do not support the prices paid. Instead, people are buying on expected capital gains, on expectations that the past rises will continue forever; some call this the greater fool theory of investing.

	2010
Stock Portfolio	12.5
W5000	15.5

Dow 30 Portfolio

ACTION FOR			PORTFOLIO DETAILS				Value as of date: 5/13/2011						
Action Date	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total
21-Mar	buy	CSCO	17.39	300	5,207	DIA			120.07	125.96	300.00	37,788.00	32.8%
21-Mar	buy	HPQ	41.76	130	5,419								
21-Mar	buy	JNJ	58.83	90	5,285	CAT	99.00						
21-Mar	buy	MCD	73.76	70	5,153	CSCO			17.39	16.88	300	5,064.00	4.4%
21-Mar	buy	MSFT	25.33	200	5,056	HPQ			41.76	40.41	130	5,253.30	4.6%
21-Mar	buy	T	28.26	200	5,642	JNJ	66.00		58.83	66.62	90	5,995.80	5.2%
21-Mar	buy	WMT	51.92	100	5,182	MCD			73.76	80.74	70	5,651.80	4.9%
21-Mar	buy	DIA	120.07	300	36,011	MRK			33.40	37.08	200	7,416.00	6.4%
						MSFT			25.33	25.03	200	5,006.00	4.3%
2-May	sell	T	31.21	200	6,232								
2-May	sell	XOM	86.97	46	3,991	VZ			35.24	37.26	100	3,726.00	3.2%
16-May	sell	VZ		100		WMT			51.92	55.72	100	5,572.00	4.8%
16-May	buy	CAT		50									
16-May	buy	DIS		100									
						Money Market			1.00		33,738	33,738.00	29.3%
									Total Valuation=			115,210.90	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

5/16/11 The tech issues haven't rallied as expected, but are rolling over. Will monitor. Make the trades as noted above in the box left.

5/2/11 Take profits in a couple of positions that have rallied back to the top of their channels.

4/18/11 No changes.

4/4/11 No changes.

Feature Company



5/16/11 I've updated the chart and verbiage on this recommendation from two weeks ago. Continue to accumulate.

5/2/11 Wireless Telecom Group (WTT) is a company undergoing some change. It has sold underperforming assets and re-

tained its stronger ones.

WTT has 25 million shares out and at a price of \$0.83, its market cap \$21M.

It sold a division and has \$13 million in the bank. No debt, except for a mortgage on a leased-out facility. The mortgage is \$2.7M and the lessee has

an option to buy the property at \$3.5M through 8/1/12.

We could buy the whole company for \$8M and get a focused, profitable business with growing sales of \$24M, generating operating profits of about \$1M.

Buy below \$0.90.

(Continued from page 1)

As such, if the market had not returned to "in gear", we would be looking for a final top in this period for the current bull market that began back in March, 2009.

But, since the market is back "in gear", even though it may correct further from here, the final top is yet to be seen; it is still expected in the future. At least in 30 years of investing, I haven't seen a bear market unfold without negative divergences first showing up. There are no guarantees when it comes to investing of course.

This same scenario, where

the market was "in gear", yet had a noticeable correction happened back in April, 2010 through June, 2010. It was a fairly steep correction, but going into it, the markets were "in gear". So, it could and did correct, but the strategy remained that the market should still hit recovery highs.

At the time, the Dow Industrials had dropped about 1600 points or 14%. Many were calling for a bear market at the time. The recovery was in question and double dip recession was still in the forefront of economist thinking. The financial crisis had not been fully resolved and unemployment was above 10%. It was

still perilous times and the market was reacting.

But, going into that reaction, the market had been "in gear". I expected another rally, not a new bear market.

So, in today's market, we find the same situation. Things are "in gear", but corrections will occur. They should still be used to accumulate stocks.

It is on the next rally that we will again watch for any negative divergences to occur that will provide us with a warning. Others may be giddy with rallying gladness, but it would be time to take some money off the table.

Descriptions & Disclosures

PORTFOLIO DESCRIPTIONS (pages 2 and 3)

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

The portfolios were started on 1/1/10 with \$100,000.

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.

Dividends are paid in cash. Interest is assumed to be zero for the money market (cash) position.

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