

Stock Selections & Timing

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The Slope of Hope

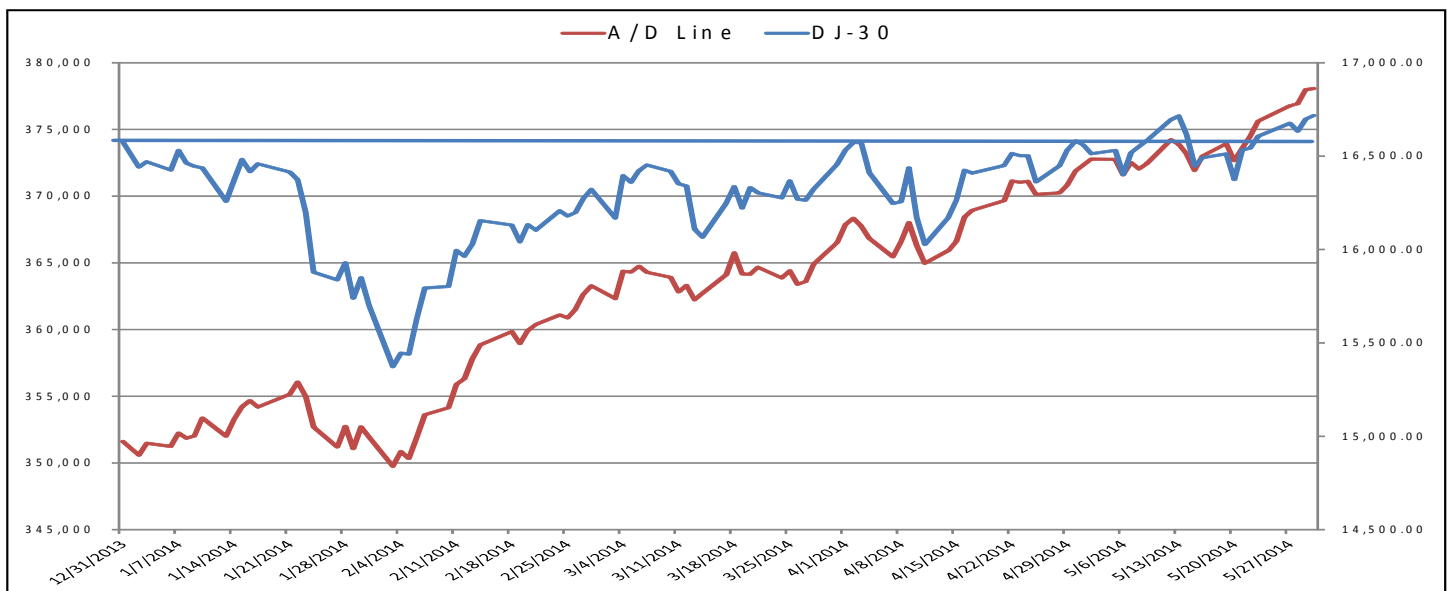
On the way to the bank this weekend, I got to thinking about this bull market. People are counting their gains. Forgetting the 50% decline of a few years back. Thinking of retirement again. Projecting

more gains. Climbing that wall of worry I spoke about last week. Well, here's one more thing to add to the camel's back.

I arrived back home and downloaded the latest NYSE margin debt numbers. As most know, I gave a couple of work-

shops and spoke on a panel in Las Vegas about a month back. One thing I pointed out was the good news and bad news scenario about margin debt. The bad news I said is it is at record new highs. The good news is

(Continued on bottom left on page 4)



This is a daily chart of the Dow Jones Industrial Average (blue, left scale) and NYSE advance/decline line (red, right scale).

SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	-0.9%	8.4%	-2.0%	-4.6%	-1.2%	-0.3%
Dow30 Portfolio	1.5%	-1.9%	1.5%	1.0%	1.0%	0.4%
Index						
S&P 500 TR	4.9%	19.8%	7.1%	3.4%	2.5%	1.3%
Dow Industrials	1.5%	10.6%	3.8%	2.4%	1.2%	0.7%

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Stock Portfolio

ACTION FOR			PORTFOLIO DETAILS				Value as of date:		5/30/2014					
Action Dates	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing stop as of 1/20	Yield at buy	Buy Limit	Start Price	End Price	# of Shares	Current Value	Percent of Total
31-Mar	buy	MVC	13.55	200	2,720	GENC			9.75	7.56	10.17	2,278	23,167.26	13.8%
this would be about 2% of total portfolio														
31-Mar	buy	TAXI	13.21	650	8,597									
this would be about 5% of total portfolio														
7-Apr	sell	PKY	18.19	500	9,085									
5-May	sell	GOOD	17.62	500	8,800	MCGC		10.8%	3.00	4.79	3.41	3,300	11,253.00	6.7%
						MVC		3.8%	14.50	12.71	12.77	1,400	17,878.00	10.7%
2-Jun	sell	GENC	>10.15	300										0.0%
														0.0%
														0.0%
						TAXI		6.9%	14.00	13.22	12.51	1,250	15,637.50	9.3%
Above in green shows end price still below buy limit.														
Shown below is watch list for potential purchase at or below buy limit.														
Dividends												10,211.88	6.1%	
Money Market												1.00 89,271	89,271.00 53.3%	
Total Valuation=												167,418.64	100.0%	

REVIEW since last issue

6/2 Time to take some profits, reducing risk, in GENC as noted above.

5/26 No changes.

5/19 No changes.

5/12 GENC took a hit with lower than expected quarterly sales. The company, however, remains profitable and still has about \$9.47/share net cash. MCGC is crawling back. TAXI is driving higher.

5/5 Will take some profits in GOOD. It is at the top of its trading range. I will watch for a pullback.

4/28 No changes.

4/21 MCGC announced further losses and the stock is down again. It is still undervalued however, so I will sit tight.

	2010	2011	2012	2013	ytd 2014
Stock Portfolio	12.3%	21.4	5.0	15.8	-0.9
S&P 500 TR	15.0%	1.9	14.1	28.7	4.9

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: 5/30/2014		
Action Date	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop as of 6/2	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total	
5-May	buy	UNH	75.23	70	5,276								0.0%	
19-May	buy	HD	76.68	72	5,531	UNH	78.00		75.23	79.60	70	5,572.00	5.0%	
19-May	buy	JPM	53.90	103	5,562	HD	80.00		76.68	80.20	72	5,774.40	5.2%	
19-May	buy	WMT	76.63	72	5,527	JPM	53.00		53.90	55.68	103	5,735.04	5.2%	
20-May	sell	WMT	75.69	72	5,440	PG	80.00		80.23	80.65	68	5,484.20	5.0%	
20-May	buy	PG	80.23	68	5,466	INTC	27.10		26.20	27.35	210	5,743.50	5.2%	
27-May	buy	INTC	26.20	210	5,512	TO BE ADDED DURING WEEK, IF "Closing" ABOVE:								
			bought below buy limit			CVX	121.00				122.50	45		about 5%
						TO BE ADDED, IF BELOW: BUY LIMIT								
						Money Market					1.00	82,350	82,349.70	74.4%
						Total Valuation=							110,658.84	100.0%

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

6/2 Make the potential buy as noted above. Note also the raised sell stops to preserve gains.

5/26 —

5/19 With the pullback, a few setups have materialized as noted above. These triggers are good for this week only.

5/12 No changes. Will need a pullback for possible new position buying to be set up.

5/5 Buy the position above, if at quarter to the close it is above its buy stop. If purchased, then monitor the sell stop.

New recommendations

None this week.

(Continued from page 1)

that it is at record new highs.

What I mean, I pointed out, was at the previous two tops in 2000 and 2007, the NYSE margin debt actually peaked at new highs and then declined before the market peaked. It acted like a leading indicator of the two ensuing 50% bear market losses.

I said since it is at a new high, at the time, you don't need to worry yet. Watch for it to decline first. Then start to worry.

Well, the last two readings (March and April) have declined from their peak set in February 2014. See the chart on (new) page 5.

As you will see, debt turned down prior to the market peak, leading it by 2 and 4 months. (To

make the reading more timely, I move the margin debt data forward 1 month.)

This current two-month decline is thus informing us of the next potential final stock market top. We may be there now.

How far might the next bear unfold? If we are still in the secular bear market, then anywhere from down 40% to down 60%. If it is a cyclical bear, then down 20% to 30%.

To be sure, this indicator, like other valuation measures, does not mark the precise top. Who knows, NYSE margin debt could even reverse course and record new highs next month. Doubtful, but possible.

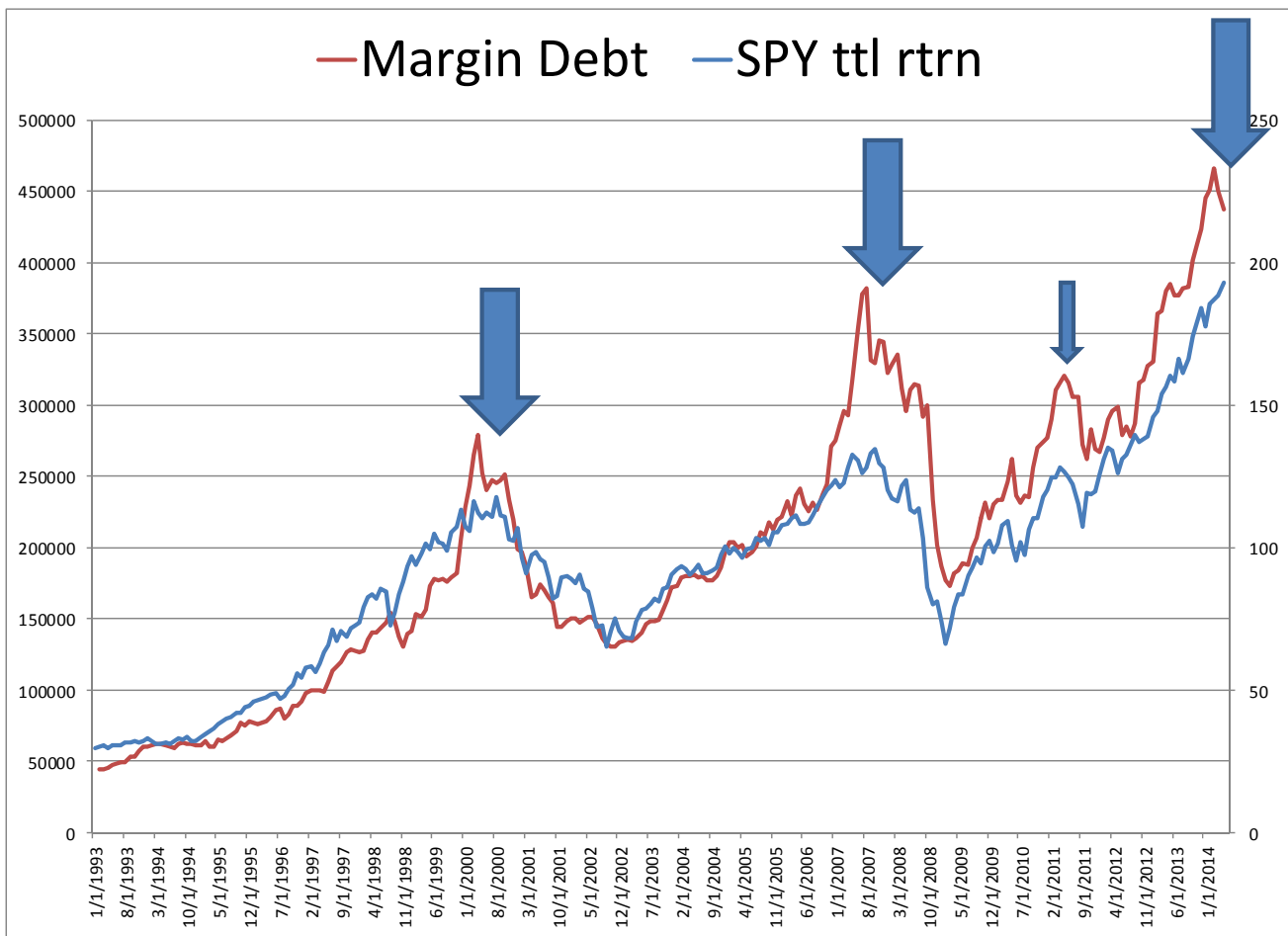
If it doesn't, however, we should already be prepared for a

major decline to start in the next 0-8 weeks, assuming a similar 2-4 month turn. The reason is when the market declines, out go margin calls and thus forced selling.

Having said all of that, I want to emphasize that a market decline does not necessarily have to be accompanied with a recession. In fact, I don't expect a recession to unfold in 2014 or 2015. This scenario of continued economic strength, even as the market declines, may be met with the opposite of the wall of worry, as the market declines on the slope of hope.

See the portfolio pages for any changes.

SPY and NYSE Margin Debt



The chart shows the total return (dividends included) of SPY (the S&P 500 etf) (blue line, right scale) and NYSE margin debt (red line, left scale) from 1/29/1993 through 5/31/2014. I shift the margin debt data forward by one month.

As you can see, the two series are closely correlated. But the point is to show that at the two previous major peaks in 2000 and 2007 (large blue down arrows) that preceded 50% losses in SPY, the debt series peaked from 2 to 4 months ahead of the market's peak.

The smaller down arrow marks a coincident peak in 2011 when the market plunged near 20% but did recover. Again, the major peaks were preceded by reductions in margin debt. This is similar to what is happening now. NYSE margin debt peaked in March 2014 (again I shift the data forward one month to make it more timely). The stock market as measured by SPY has continued to climb during April and May.

So, we are now 2 months from the NYSE margin debt peak and entering month 3 with June. If past parameters hold, we are either peaking now or will peak by

7/31. The move thereafter would be another 50% decline.

The reason for this is maintenance. An account with margin debt must maintain enough equity to offset any market decline. If the equity is not enough, then the account must sell to raise cash (or the holder must add cash).

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 (12/31/11), 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 S&P 500 TR (total return) includes dividend reinvestment.

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