

# Stock Selections & Timing

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## New Bear Begins?

With the technical sell off to new lows as shown on the chart below and the fundamental economic deterioration, the question has to be asked whether a new bear market has begun or not? Let's look at the evidence.

**Sentiment.** Investor sentiment remains in neutral terri-

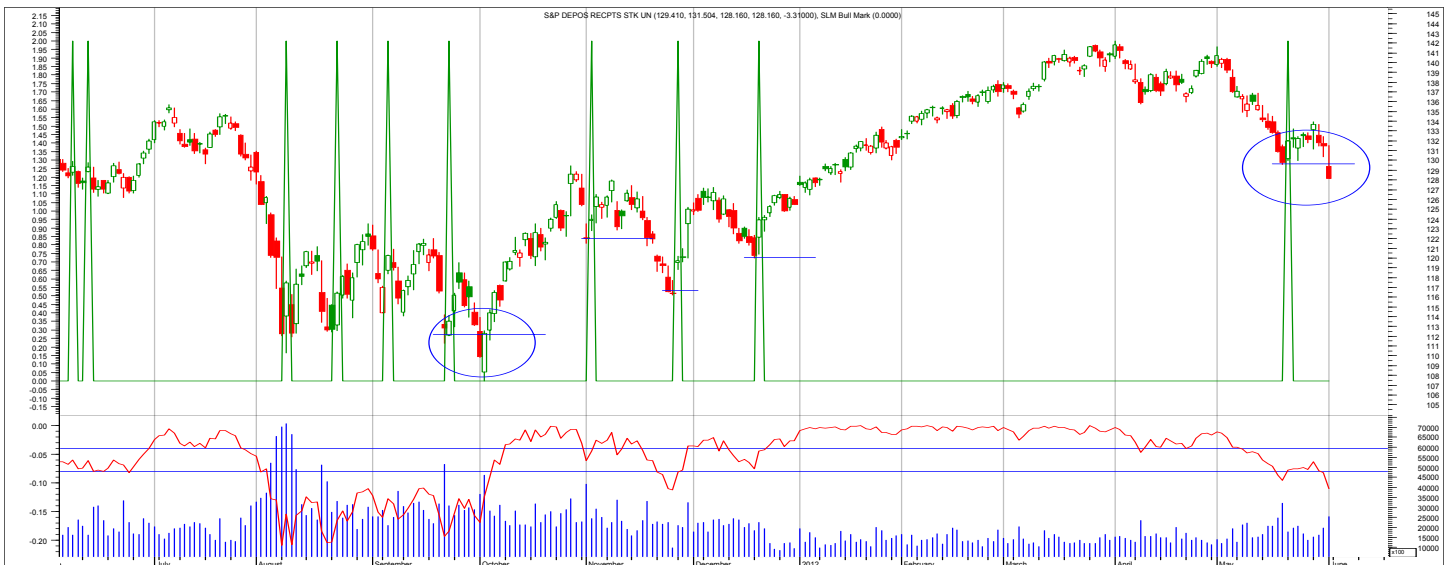
tory. It is neither too bullish or bearish. We can't say it is complacent, we can't say it is fearful. This indicator really is not much help.

**Market Action.** Both the Dow Industrials and Dow Transports (and other indexes) have moved below previous lows that were set up before the

negative divergence evolved. This is definitely a negative. It defines the bear market.

**Monetary Policy.** The latest Fed action, Operation Twist wherein it sells short-term bills and buys long-term notes and bonds, is set to expire at month's end. Unless it is ex-

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This is the daily chart of SPY (S&P 500 index). The green spikes show potential buying areas.

## SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	0.8%	5.7%	-0.5%	-3.4%	-3.1%	-1.8%
Dow30 Portfolio	-2.5%	-7.9%	-2.8%	-4.8%	-3.0%	-2.0%
Wilshire 5000 TR	2.6%	-1.0%	3.5%	-6.7%	-6.6%	-3.2%
Dow Industrials	-0.8%	-0.3%	0.8%	-6.6%	-7.1%	-3.3%

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# Stock Portfolio

ACTION FOR		PORTFOLIO DETAILS				Value as of date:		6/1/2012						
Action Dates	Action Symbol	Action Price	# of Shares	Action Value	Symbol	Closing stop as of 5/7	Yield at buy	Buy Limit	Start Price	End Price	# of Shares	Current Value	Percent of Total	
4-May	sell	MRVL	13.90	900	12,500									
7-May	sell	DRAD	2.30	1,500	3,440	GENC		8.00	7.53	6.76	2,078	14,047.28	10.2%	
			> 2.29			WTT		1.00	0.87	1.01	11,000	11,110.00	8.1%	
7-May	buy	WWE	8.91	500	4,465									
9-May	sell	PKY	10.860	700	7,592									
			>10.75											
16-May	sell	TAXI	9.950	650	6,458									
22-May	buy	TAXI	9.98	650	6,497	FULL	7.00	11.9%	8.00	7.69	7.15	900	6,435.00	4.7%
			about 5%										0.0%	
22-May	sell	USMO	12.570	1,000	12,560	TAXI	9.00	8.4%	10.00	9.98	10.33	650	6,714.50	4.9%
						WWE	7.50	5.4%	9.00	8.91	7.64	500	3,820.00	2.8%
Dividends											2,969.02	2.2%		
Money Market											1.00	92,334	92,334.00	67.2%
Total Valuation=											137,429.80	100.0%		

## REVIEW since last issue

6/4 No changes.

5/29 We were in and out of TAXI last week. Continue to hold. No new recommendations.

5/21 TAXI was hit as it offered new stock. I mentioned last week that it had shot up, I should have followed the intuition and got out. Other positions also sold off with the market.

5/14 GENC reported good earnings. USMO may have found a bottom with its good earnings too. TAXI shot up and is retracing, but I'll hold.

	2010	2011	ytd 2012	Incptn	SD
Stock Portfolio	12.3%	21.4	0.8	37.4	14.8
W5000 TtlRtrn	17.7%	0.5	2.6	21.3	10.6

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: 6/1/2012							
Action Date	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop as of 5/21	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total	
23-May	sell	AXP	55.99	200	11,188	AA	8.30							
1-Jun	sell	AA	8.29	1,300	10,767									
1-Jun	sell	KFT	37.57	300	11,261	DIS	42.00		44.25	44.38	250	11,095.00	10.7%	
1-Jun	sell	IBM	188.78	60	11,317	KFT	38.00							
1-Jun	sell	MCD	86.88	125	10,850	KO	73.00		74.37	73.23	150	10,984.50	10.6%	
						MRK	37.00		37.81	37.15	300	11,145.00	10.8%	
						IBM	190.00							
						MCD	88.00							
						Money Market					1.00	70,106	70,106.00	67.8%
												<b>Total Valuation=</b>	<b>103,330.50</b>	<b>100.0%</b>

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

6/4 The bounce came and went quickly. Stopped out of more positions.

5/29 Stopped out of one position. Continue to hold the others, expecting the market to bounce further.

5/21 There are a number of new buys for this portfolio to try to take advantage of the oversold condition that I expect will provide a short-term bounce.

# Feature Company

No new recommendations.

*(Continued from page 1)*

tended, this is a negative.

But 10-year Treasuries are already at historic lows around 1.5%. Given the weak job market, it is doubtful the Fed won't try to do something more. It will most likely continue its Operation Twist program. Meanwhile, it is committed to keeping short-term rates near zero at least through the end of 2014. Unfortunately, each program has had less and less of a positive impact. So, this is a mildly positive position, but one already discounted.

Economy. Clearly the EU is in a recession. China is slowing. Brazil is slowing. The US is slowing. However, the latter three are still in a growth phase,

just not as robust as it was. The fear is we will continue to slow down. Where's the demand?

Politics. There is great uncertainty as to who the next president will be and which party will dominate Congress. Believe it's called a lame duck. Major policy issues abound nonetheless. If the tax cuts expire and spending cuts retained, various studies have suggested this will automatically push the US also into recession next year. Given that the stock market looks ahead, we may already be seeing this anticipated. Obviously a recession hurts corporate profits, so a PE of 14x may easily become 21x in a slow-down. The market marks itself down to reflect that.

So, to answer the question whether a bear market has begun, the answer appears to be yes.

To be sure, like any other bear, or bull market for that matter, nothing moves in a straight line. There will be rallies and sell offs. But the main trend now appears to be down.

The secular bear dating from 2000 continues and appears to now be joined by the start of a cyclical bear market whose eventual bottom looks to be 2013-2014. A typical cyclical bear will decline roughly 40% peak to trough.

# 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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