

# Stock Selections & Timing

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Volume 5  
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## Green Light, Red Light

**T**he stock market continues its chug higher and higher with nary a correction. Nearly all of the indexes like the SPY and Dow Jones Industrials and Transportations are at highs, while the one primary index

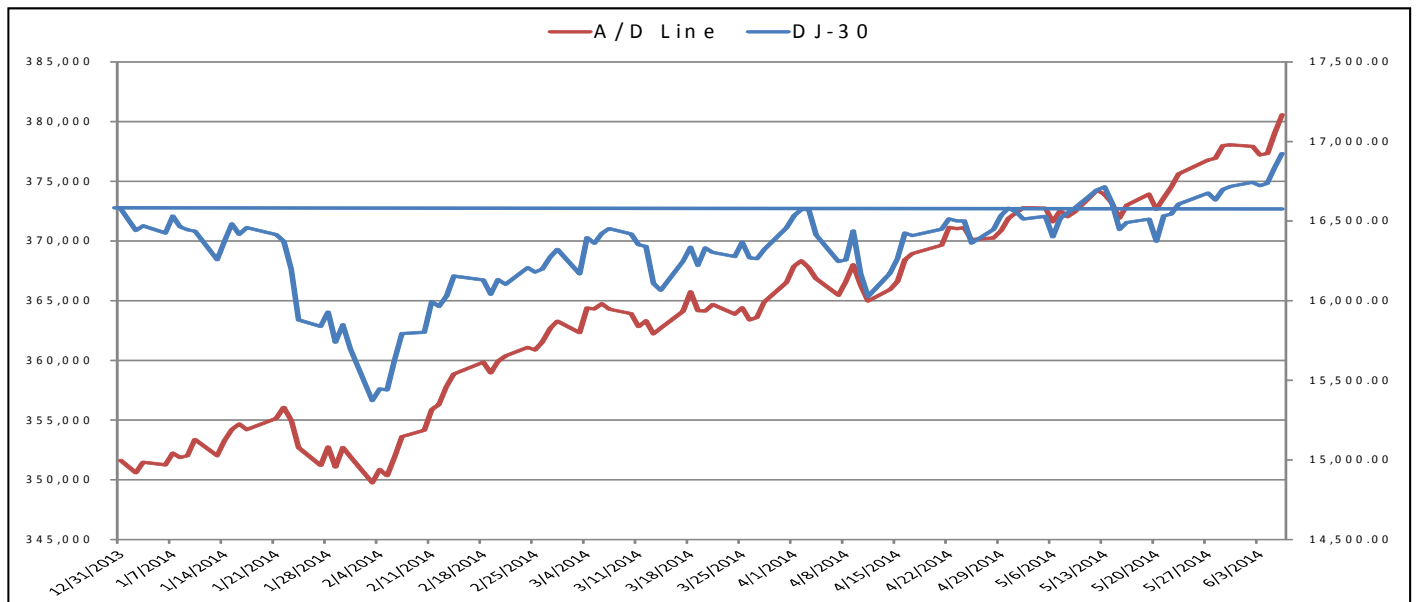
(IWM-Russell 2000, small caps) is trying mightily to join its bigger brethren.

And why not? The economy continues its expansion, creating jobs and generating corporate profits. The leading economic indicators suggest further

growth at least through 2014. The recession indicator at FRED (shown before in a weekly letter) is no where near suggesting a possible slowdown in the months ahead.

Meanwhile interest rates

*(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	-0.4%	9.6%	-0.5%	-2.4%	0.5%	-0.2%
Dow30 Portfolio	1.7%	-2.4%	1.7%	1.1%	0.9%	0.2%
<b>Index</b>						
S&P 500 TR	6.3%	20.4%	8.6%	3.8%	3.9%	1.3%
Dow Industrials	2.7%	11.0%	5.6%	2.9%	2.1%	1.2%

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# Stock Portfolio

ACTION FOR			PORTFOLIO DETAILS				Value as of date:		6/6/2014					
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	10.09	1,978	19,958.02	11.9%
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									
						MCGC		10.8%	3.00	4.79	3.48	3,300	11,484.00	6.8%
5-May	sell	GOOD	17.62	500	8,800									0.0%
						MVC		3.8%	12.00	12.71	12.40	1,400	17,360.00	10.3%
2-Jun	sell	GENC	10.23	300	3,059									0.0%
														0.0%
														0.0%
														0.0%
						TAXI		6.9%	14.00	13.22	13.53	1,250	16,912.50	10.1%
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 92,330	92,330.00 54.9%	
Total Valuation=												168,256.40	100.0%	

## REVIEW since last issue

6/9 No new positions, as the market climbs higher. Bargains I find are none and zip.

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	-0.4
S&P 500 TR	15.0%	1.9	14.1	28.7	6.3

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: 6/6/2014	
Action Date	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop as of 6/9	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total
5-May	buy	UNH	75.23	70	5,276								0.0%
						CVX	122.50		122.55	124.19	45	5,588.55	5.0%
19-May	buy	HD	76.68	72	5,531	UNH			75.23	79.93	70	5,595.10	5.0%
19-May	buy	JPM	53.90	103	5,562	HD	80.30		76.68	80.64	72	5,806.08	5.2%
19-May	buy	WMT	76.63	72	5,527	JPM	56.25		53.90	56.97	103	5,867.91	5.3%
													0.0%
20-May	sell	WMT	75.69	72	5,440	INTC			26.20	27.35	210	5,743.50	5.2%
20-May	buy	PG	80.23	68	5,466								
27-May	buy	INTC	26.20	210	5,512	TO BE ADDED DURING WEEK, IF "Closing" ABOVE:							
			bought below	buy limit									
3-Jun	buy	CVX	122.55	45	5,525								
3-Jun	sell	PG	79.93	68	5,425								
9-Jun	sell	UNH		70		TO BE ADDED, IF BELOW: BUY LIMIT							
9-Jun	sell	INTC		210									
						Money Market				1.00	82,250	82,249.70	74.2%
												Total Valuation=	110,850.84 100.0%

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

6/9 Make the buys and sells as noted above. Also raised the sell stops.

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)*

remain low, providing little competition for the investor dollar. To be sure, the Federal Reserve is tapering its buy program, but the markets have taken the news in stride. It knows that by October QE will be a thing of the past. The only new question here is when will they raise short-term rates?

If you read my Special Report on Bonds, then we know one key will be continued falling government spending, and rising tax revenue. These streams coupled with the aforementioned stronger economy and the stage is set for Federal Debt as a percentage of GDP to continue falling, as it has

the past quarter or two.

If that ratio trend continues, then the Fed will have the all-clear to very slowly raise rates in 2015.

So, does the stock market have an all-clear signal into 2015?

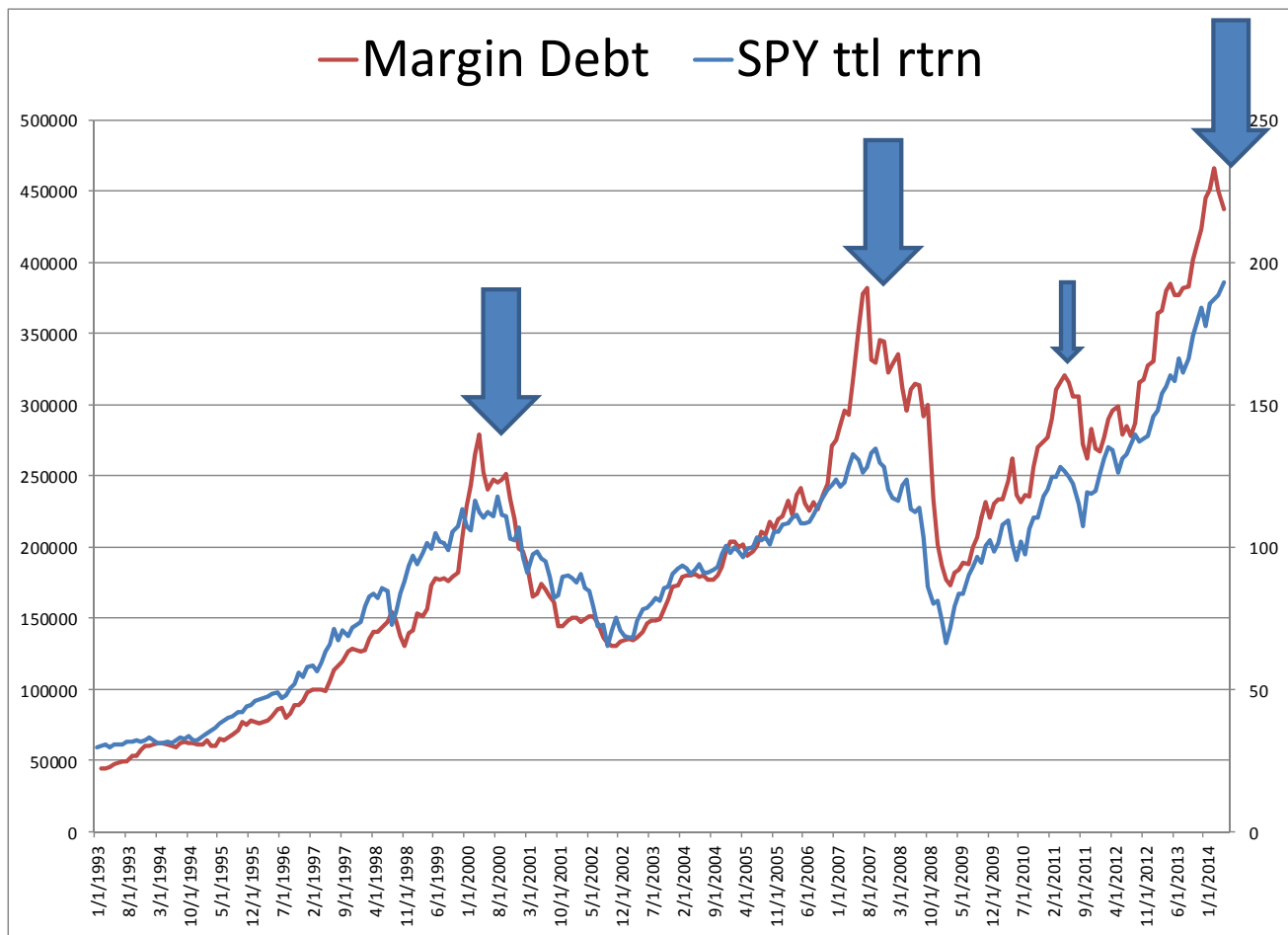
The main issues remain the market's overvaluations based on a number of levels like PE, book to price, and replacement cost. As well, last week's NYSE margin debt chart is a big concern, signaling a possible top in the next 0-8 weeks (if past correlations apply to today's market).

In sum, the market is moving higher. The trends up are in place. No major divergences

have formed. These things provide a green light. The red light is overpowered for now.

See the portfolio pages for any changes.

## SPY and NYSE Margin Debt (reiteration)



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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