

# Stock Selections & Timing

## Watercourse Way Holdings, LLC

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June 23, 2014 (data through previous Friday's close)  
Volume 5  
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## Called

Given the duration of this bull market whose bottom was way back in March, 2009, it is really remarkable that it remains "in gear" to the upside. See the chart below that shows the Dow Industrials and

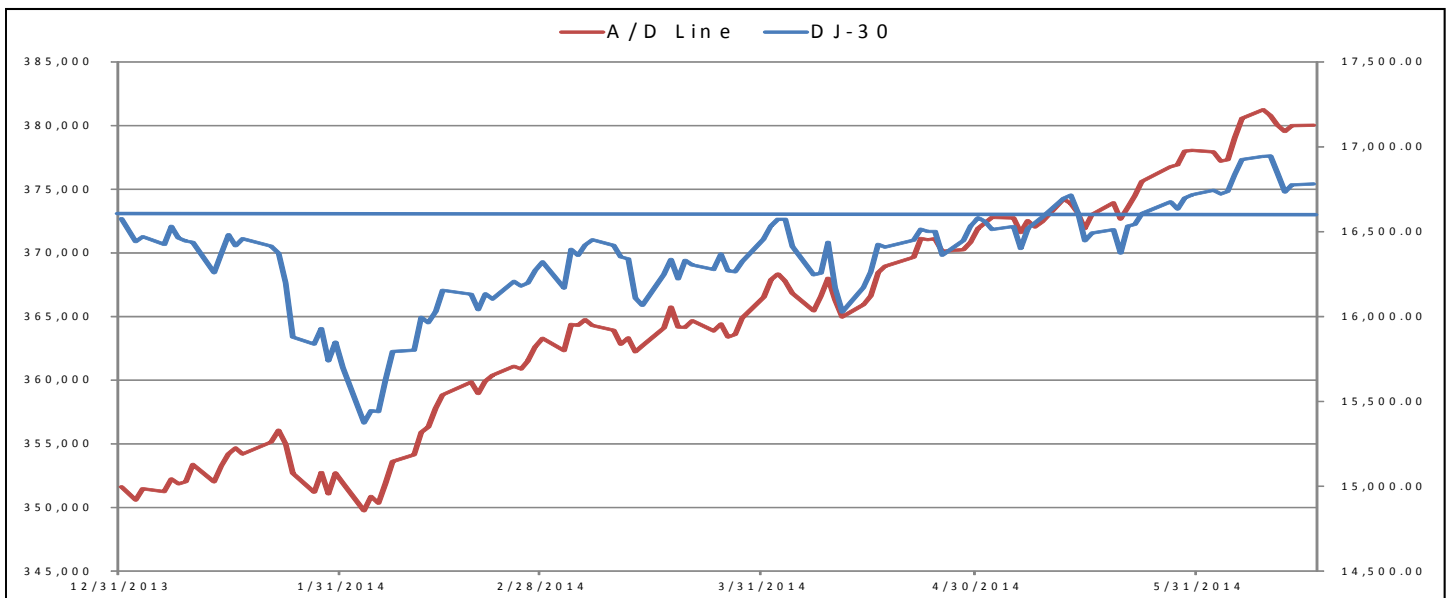
the NYSE advance/decline line both making new highs.

Five years is a long time for a cyclical bull market to last, but there was a fairly significant correction of near 20% in 2011. So, if we measure the bull from there, it is "only" three years

old. Statistically, however, either way we measure it, it is getting long in the tooth. It simply lasts until it ends.

But these have been extraordinary times with Quantitative Easing. What is surprising

*(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%	10.5%	-0.4%	-1.7%	0.2%	-0.5%
Dow30 Portfolio	2.1%	1.0%	2.1%	1.4%	1.0%	0.3%
Index						
S&P 500 TR	6.6%	24.5%	7.9%	5.3%	3.0%	0.9%
Dow Industrials	2.8%	14.5%	4.5%	4.0%	2.1%	1.0%

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# Stock Portfolio

ACTION FOR			PORTFOLIO DETAILS				Value as of date:		6/20/2014					
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	11.10	1,978	21,955.80	13.0%
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	3.54	3,300	11,682.00	6.9%
						MVC		3.8%	12.00	12.71	12.36	1,400	17,304.00	10.3%
2-Jun	sell	GENC	10.23	300	3,059									0.0%
														0.0%
16-Jun	sell	GENC	>11	300										0.0%
						TAXI		6.9%	14.00	13.22	11.84	1,250	14,800.00	8.8%
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=												168,283.68	100.0%	

## REVIEW since last issue

6/23 No changes.

6/16 No changes.

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	6.6

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: 6/20/2014								
Action Date	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop as of 6/23	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	CVX			122.55	132.36	45	5,956.20	5.4%	
19-May	buy	JPM	53.90	103	5,562								0.0%	
19-May	buy	WMT	76.63	72	5,527	JPM	57.25		53.90	57.56	103	5,928.68	5.3%	
20-May	sell	WMT	75.69	72	5,440								0.0%	
20-May	buy	PG	80.23	68	5,466								0.0%	
27-May	buy	INTC	26.20	210	5,512	TO BE ADDED DURING WEEK, IF "Closing" ABOVE:								
			bought below	buy limit		BA	128.00			132.20	42			
3-Jun	buy	CVX	122.55	45	5,525	WMT	74.90			75.40	73			
3-Jun	sell	PG	79.93	68	5,425	TO BE ADDED, IF BELOW: BUY LIMIT								
9-Jun	sell	UNH	79.76	70	5,573									
9-Jun	sell	INTC	27.91	210	5,851									
11-Jun	sell	HD	79.81	72	5,736									
23-Jun	sell	CVX		45										
						Money Market			1.00		99,410	99,409.70	89.3%	
												Total Valuation=	111,294.58	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

6/23 Take profits in CVX as noted above. Monitor the two potential buys if they close above their trigger prices this week.

6/16 No changes.

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)*

is we all know the Fed is winding down the program and it should conclude by October, if not before.

I say before because the economy really is improving, unemployment is down, and inflation is picking up. The new question now is whether the Fed overplayed its hand. Like in Texas Hold 'Em, playing three of a kind like it was a full house.

The Fed was "all in". I suspect 2014 and 2015 will end up to be very interesting years. Volatility has come way down since that last significant correction in 2011. It may start to pick up.

In the meantime, indicators

remain in gear and trends remain up. The main worry is the not well known NYSE margin debt indicator that is shown again on page 5 with an update.

As mentioned there, I revisited the data and found that after the margin debt peak, the trigger before the more severe sell off was an initial 5% decline. Once that decline is met, margin calls go out. Rather than being an oversold buying opportunity, it ends up being more of a forced selling area that induces more selling that leads to the waterfall type declines.

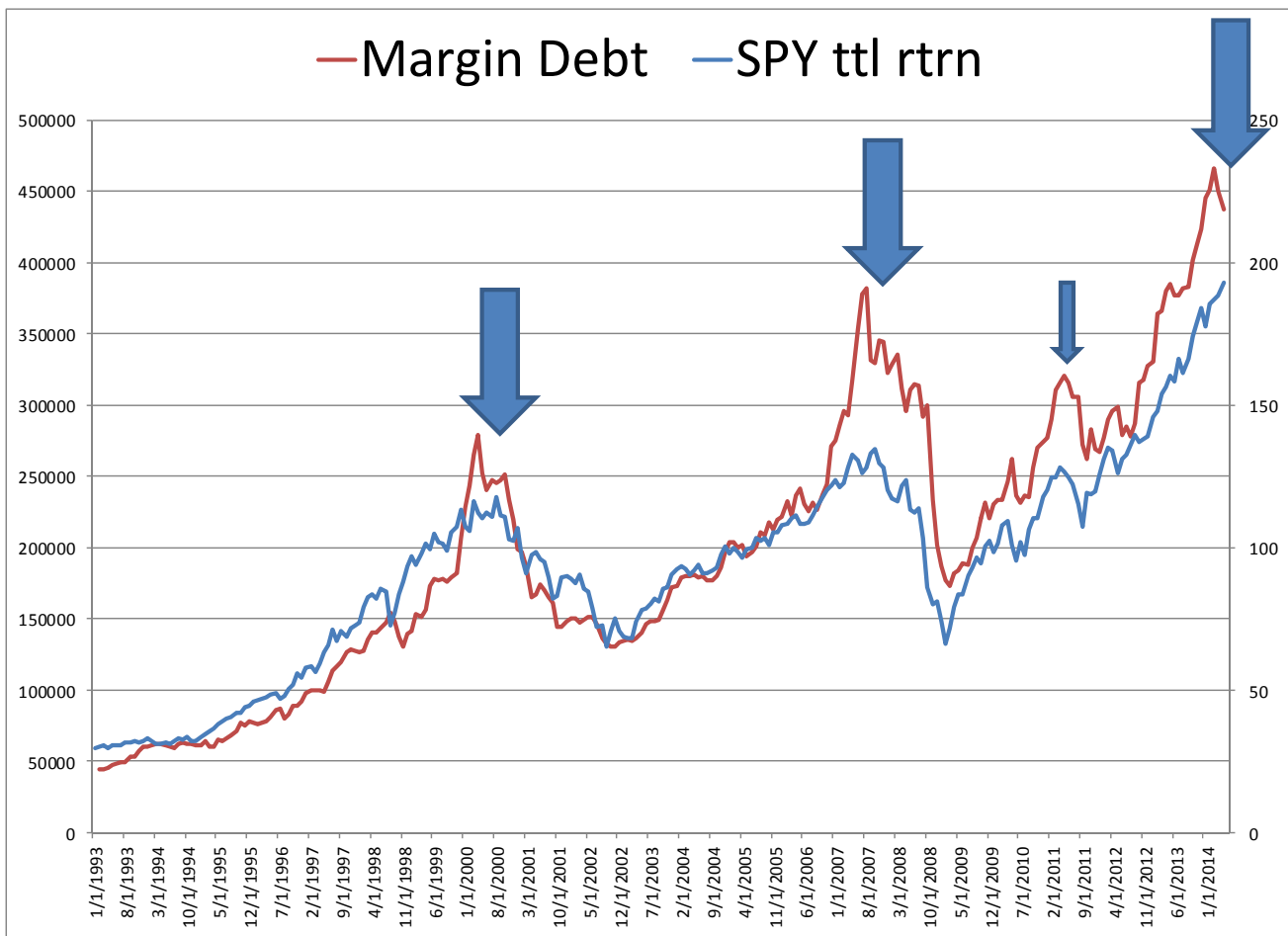
Previously I mentioned that today's potential market top was about 0-8 weeks away, but this

was 2 weeks earlier, so we are now 0-6 weeks out or by the end of July, assuming past measures fit today's market.

So, it will all be interesting in the months ahead. We'll be, of course, vigilant to monitor these things.

See the portfolio pages for any changes.

# SPY and NYSE Margin Debt (reiteration)



EDIT TO ADD: I went back and looked a third time at the two previous tops. For both, the trigger of the subsequent severe sell off was 5%. So if SPY closes 5% lower than its recent peak at 196.5 (below 186.7), odds are that won't be a buying opportunity.

Last week edit: A member asked about depth of loss and duration to bottom of the previous two signals. The first bear lasted 16 months and lost 51%. The second bear lasted 25 months and lost 45%. So IF the market follows the previous averages and peaks this month, the bottom would fall somewhere between 10/15 and 7/16 with the Dow Industrials around 8,400 (current about 16,800).

Previous week comment: 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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