

Stock Selections & Timing

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Comparing Yields

The so-called Fed Model has been one of the best timing indicators in this bull market. It, like other timing tools, does not always nail bull and bear markets exactly, but so far, it has been one of the best in the cur-

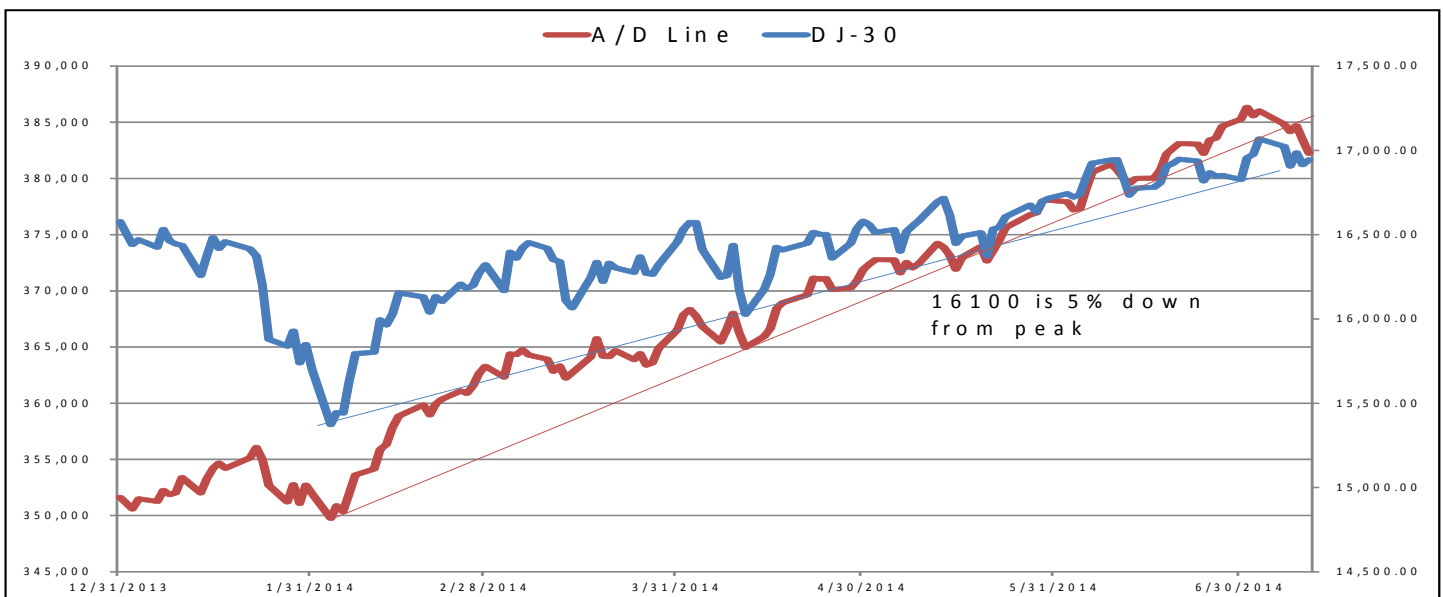
rent environment.

The Fed Model compares yields between stocks and bonds. Whichever one provides the most yield, that is the one to buy. To define this more accurately, it is the yield on 10-year Treasuries. And the yield on

stocks is not the dividend yield, but the one-year forward looking earnings yield, which is the inverse of the same PE ratio.

The Fed apparently uses the model, though not officially. It was mentioned in a speech

(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 | 1.3% | 9.5% | 1.2% | 1.2% | 1.1% | -0.7% |
| Dow30 Portfolio | 2.1% | 2.1% | 2.1% | 2.5% | 0.3% | 0.1% |
| Index | | | | | | |
| S&P 500 TR | 6.4% | 18.0% | 6.3% | 7.8% | 0.8% | -1.3% |
| Dow Industrials | 2.8% | 9.6% | 3.1% | 5.7% | 1.0% | -0.7% |

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Stock Portfolio

| ACTION FOR | | | PORTFOLIO DETAILS | | | | Value as of date: 7/11/2014 | | | | | | | |
|---|--------|--------|-------------------|-------------|--------------|--------|-----------------------------|--------------|-----------|-------------|-----------|-------------|-----------------|------------------|
| 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 | 11.32 | 1,678 | 18,994.96 | 11.1% |
| 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 | 3.97 | 3,300 | 13,101.00 | 7.7% |
| 5-May | sell | GOOD | 17.62 | 500 | 8,800 | | | | | | | | | 0.0% |
| | | | | | | MVC | | 3.8% | 12.00 | 12.71 | 12.95 | 1,400 | 18,130.00 | 10.6% |
| 2-Jun | sell | GENC | 10.23 | 300 | 3,059 | | | | | | | | | 0.0% |
| | | | | | | | | | | | | | | 0.0% |
| 16-Jun | sell | GENC | 11.10 | 300 | 3,320 | | | | | | | | | 0.0% |
| | | | | | | TAXI | | 6.9% | 14.00 | 13.22 | 11.52 | 1,250 | 14,400.00 | 8.4% |
| Above in green shows end price still below buy limit. | | | | | | | | | | | | | | |
| Shown below is watch list for potential purchase at or below buy limit. | | | | | | | | | | | | | | |
| Dividends | | | | | | | | | | | | 10,742.88 | 6.3% | |
| Money Market | | | | | | | | | | | | 1.00 95,650 | 95,650.00 55.9% | |
| Total Valuation= | | | | | | | | | | | | 171,018.84 | 100.0% | |

REVIEW since last issue

7/14 No changes.

7/7 No changes. Oversold bounces taking place.

6/30 No changes.

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.

| | 2010 | 2011 | 2012 | 2013 | ytd 2014 |
|-----------------|-------|------|------|------|----------|
| Stock Portfolio | 12.3% | 21.4 | 5.0 | 15.8 | 1.3 |
| S&P 500 TR | 15.0% | 1.9 | 14.1 | 28.7 | 6.4 |

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: 7/11/2014 | | | | | | | |
|-------------|--------|-------------------|--------------|-------------|--------------|--|-------------------------|-------------|-------------|--------------|-------------|------------------|-------------------|
| Action Date | Action | Symbol | Action Price | # of Shares | Action Value | Symbol | Closing Stop as of 7/14 | Description | Start Price | Ending Price | # of Shares | Current Value | Percent of Total |
| 3-Jun | buy | CVX | 122.55 | 45 | 5,525 | | | | | | | | 0.0% |
| 3-Jun | sell | PG | 79.93 | 68 | 5,425 | | | | | | | | 0.0% |
| 9-Jun | sell | UNH | 79.76 | 70 | 5,573 | | | | | | | | 0.0% |
| 9-Jun | sell | INTC | 27.91 | 210 | 5,851 | | | | | | | | 0.0% |
| 11-Jun | sell | HD | 79.81 | 72 | 5,736 | WMT | | | 75.79 | 76.82 | 73 | 5,607.86 | 5.0% |
| 23-Jun | sell | CVX | 132.98 | 45 | 5,974 | | | | | | | | |
| 23-Jun | buy | WMT | 75.79 | 73 | 5,543 | TO BE ADDED DURING WEEK, IF "Closing" ABOVE: | | | | | | | |
| | | | | | | BA | 127.00 | | | 128.00 | 43 | | |
| | | | | | | DD | 64.00 | | | 65.00 | 86 | | |
| 30-Jun | sell | JPM | 57.22 | 103 | 5,884 | GE | 26.00 | | | 26.50 | 210 | | |
| | | | | | | UTX | 113.00 | | | 114.00 | 49 | | |
| 14-Jul | sell | WMT | | 73 | | TO BE ADDED, IF BELOW: BUY LIMIT | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | Money Market | | | | 1.00 | 105,725 | 105,724.70 | 95.0% |
| | | | | | | | | | | | | Total Valuation= | 111,332.56 100.0% |

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

7/14 Note the potential buys and the sell above.

7/7 No changes. Will wait for the pullback.

6/30 Take profits in JPM as noted above.

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

New recommendations

None this week.

(Continued from page 1)

7/22/1997 and in speeches subsequently.

In a rational world, comparing the two series makes sense, but with the caveat that stocks are inherently more risky. The earnings yield for stocks should be greater than government bonds.

Today the 10-year Treasury yield is 2.6% and the earnings yield of the Dow Jones Industrials is 6.6% with a forward PE projection of about 15.2x. Hmm, on the face of it, without any further thought or risk comparison, which is the “better” investment?

For both yields to be “more” equivalent then, the DJI would

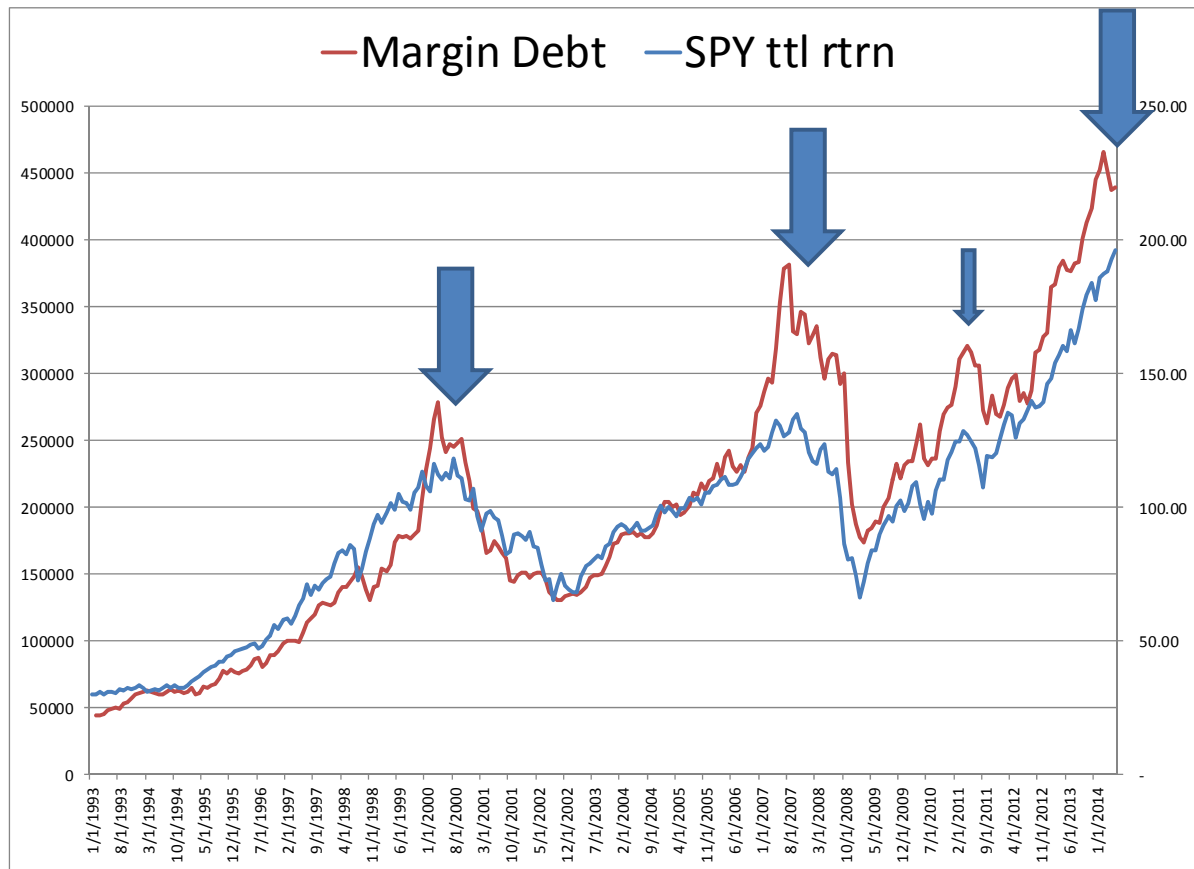
need to more than double from these levels, which would halve the earnings yield to 3.3%. This assumes earnings growth and Treasury yields remain flat.

So again, while the Fed model is not always spot on, it has consistently been signaling that the market is “cheap” compared to 10-year Treasury yields.

Like the margin debt chart, this timing factor is not part of the timing model, but operates in the back ground as something to be aware of and monitor.

See the portfolio pages for any changes.

SPY and NYSE Margin Debt (reiteration)



Last week edit: 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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