

# Stock Selections & Timing

## Watercourse Way Holdings, LLC

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July 21, 2014 (data through previous Friday's close)  
Volume 5  
Issue 29

## Working Together

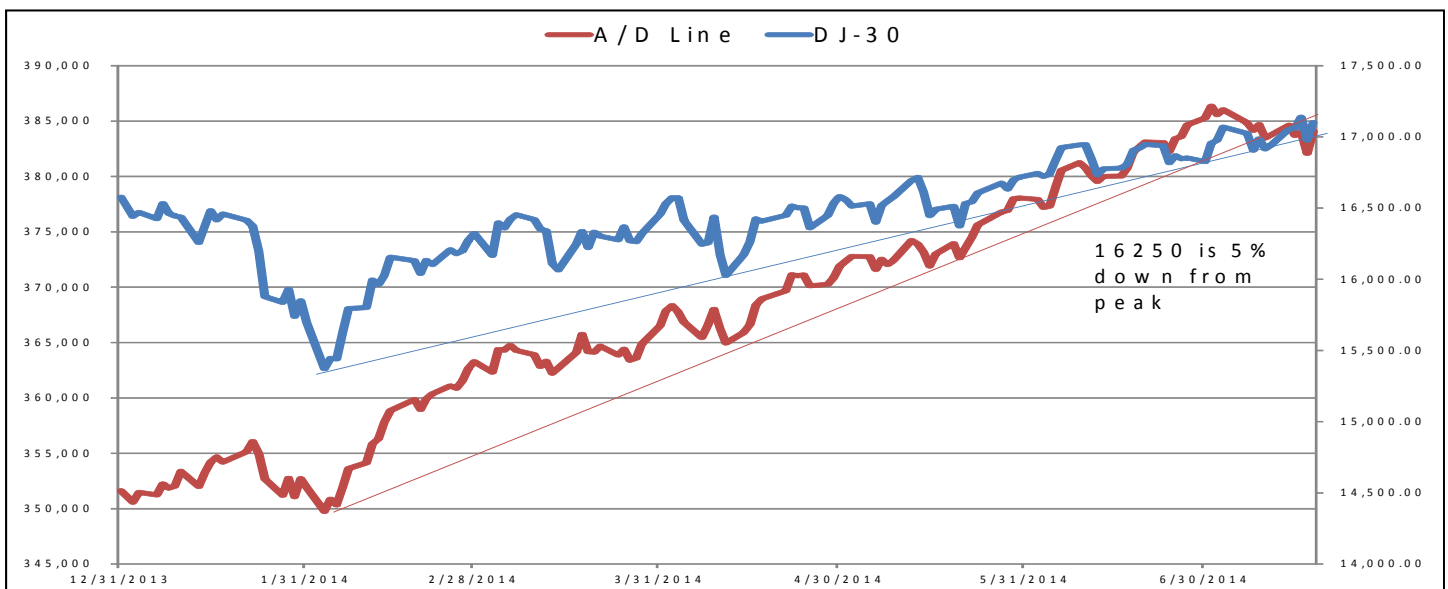
**W**ell, this is an interesting development. Has the advance/decline (A/D) line actually peaked on 7/1/14, while the Dow Industrials (DJI) made a new peak last Friday 7/18/14? If so, this does

set up a far more normal negative divergence of a harbinger of a top than we have been seeing the past couple of years.

What we have been seeing was the opposite. There would be strength in the A/D line and weakness in the Dow Industrials

for a period. And then the DJI would close the gap. The two series would get back "in gear". But historically, it is the A/D line that peaks before the DJI, which then sets up the negative divergence from which bear

*(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	1.1%	9.5%	0.1%	0.8%	1.5%	-0.1%
Dow30 Portfolio	1.8%	1.8%	1.8%	1.3%	-0.3%	-0.3%
Index						
S&P 500 TR	7.5%	18.1%	7.7%	6.1%	0.9%	1.0%
Dow Industrials	3.8%	10.0%	3.9%	4.2%	0.9%	0.9%

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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	11.25	1,678	18,877.50	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									
5-May	sell	GOOD	17.62	500	8,800	MCGC		10.8%	3.00	4.79	3.97	3,300	13,101.00	7.7%
2-Jun	sell	GENC	10.23	300	3,059	MVC		3.8%	12.00	12.71	12.89	1,400	18,046.00	10.6%
16-Jun	sell	GENC	11.10	300	3,320									0.0%
21-Jul	buy	NGPC	<7.25	2,000		TAXI		6.9%	14.00	13.22	11.49	1,250	14,362.50	8.4%
this will be about 8% of portfolio														
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 56.0%	
Total Valuation=												170,779.88	100.0%	

## REVIEW since last issue

7/21 Buy NGPC as noted above.

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.

	2010	2011	2012	2013	ytd 2014
Stock Portfolio	12.3%	21.4	5.0	15.8	1.1
S&P 500 TR	15.0%	1.9	14.1	28.7	7.5

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 7/21	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total
23-Jun	buy	WMT	75.79	73	5,543	DD	64.00		65.01	65.55	86	5,637.30	5.1%
30-Jun	sell	JPM	57.22	103	5,884	GE	26.00		26.66	26.46	210	5,556.60	5.0%
14-Jul	sell	WMT	76.55	73	5,578								0.0%
14-Jul	buy	BA	129.52	43	5,579								0.0%
17-Jul	sell	BA	125.88	43	5,403								0.0%
14-Jul	buy	DD	65.01	86	5,601	TO BE ADDED DURING WEEK, IF "Closing" ABOVE:							
14-Jul	buy	GE	26.66	210	5,609								
14-Jul	buy	UTX	114.88	49	5,639								
17-Jul	sell	UTX	112.77	49	5,516	TO BE ADDED, IF BELOW: BUY LIMIT							
Money Market									1.00		99,794	99,793.70	89.9%
									Total Valuation=			110,987.60	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

7/21 Whipsaws last week.

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

SEE PORTFOLIO

NGPC to buy

*(Continued from page 1)*

markets begin.

IF the A/D has peaked, then this does set up a similar negative divergence, which again, signals a potential top formation.

Like anything technical, however, it needs confirmation. This would happen if the DJI closes below 16,900 and the A/D line does not recover above its peak set 7/1.

In addition, with the new DJI peak from last week comes a re-figuring of the margin debt 5% trigger. This is now at DJI 16,250 (see the front page chart and page 5).

As mentioned in the past couple weeks, the last two market peaks set in 2000 and 2007 were

preceded by margin debt peaks and a confirming DJI decline of 5%. The market then declined about 50% from peak to trough.

The point here is that many are waiting for a pullback to buy, but that 5% pullback would be a type of sell signal, rather than a buy signal. If the market declines, then margin calls go out. They either put more cash or they are forced to sell. In turn forced selling would set up further forced selling. That is the issue with all the margin debt and market peaks.

So, it is interesting that the A/D line MAYBE has peaked, which coincides with the margin debt peaking. Again based on previous time frames from when

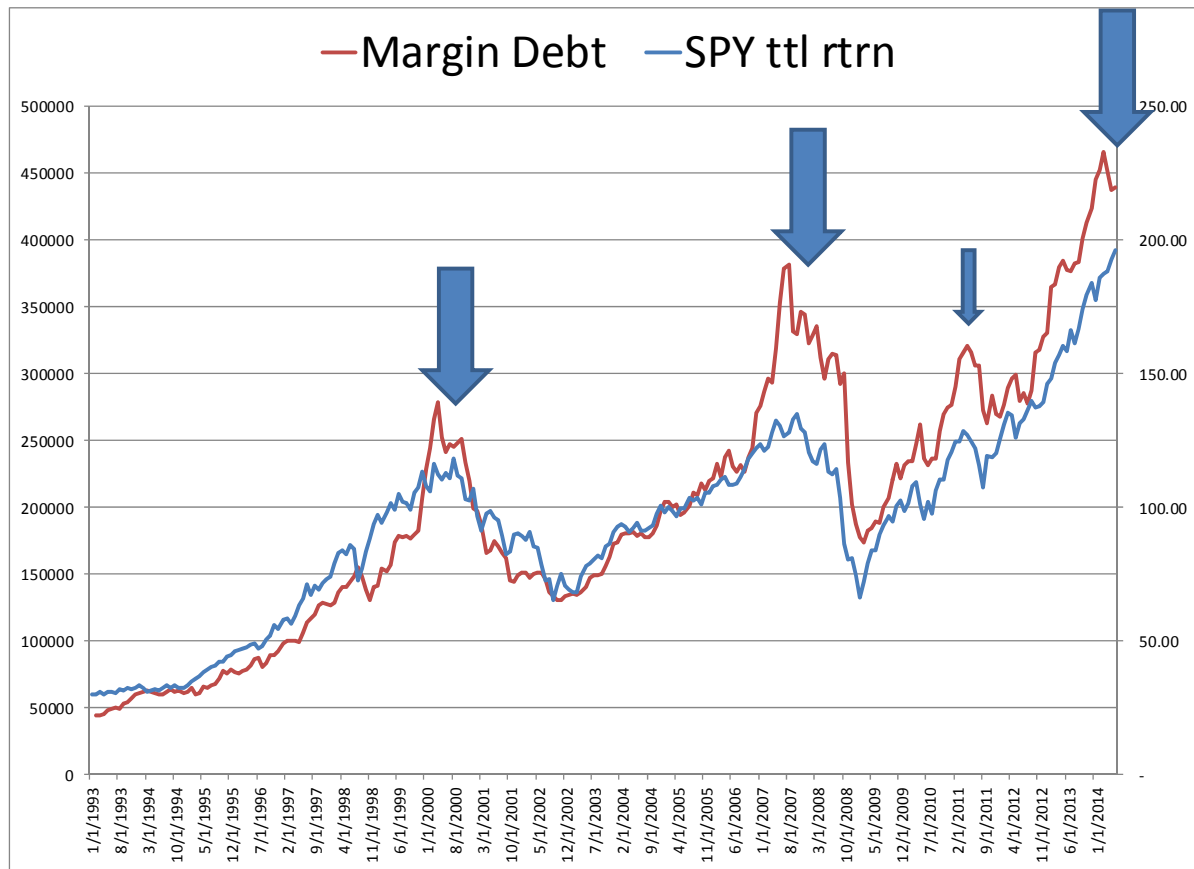
margin debt peaked to when the stock market peaked, July marks the final month, if the time frames are similar. The market thus should peak this month.

Lastly, one of the five inputs to the World Growth Model is negative. Another is close to turning negative. But it needs three of five to actually trigger a sell. We will see in the weeks ahead.

These are the types of things that confirm and work together to form tops.

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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