

Stock Selections & Timing

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Keynes Has Left The Building

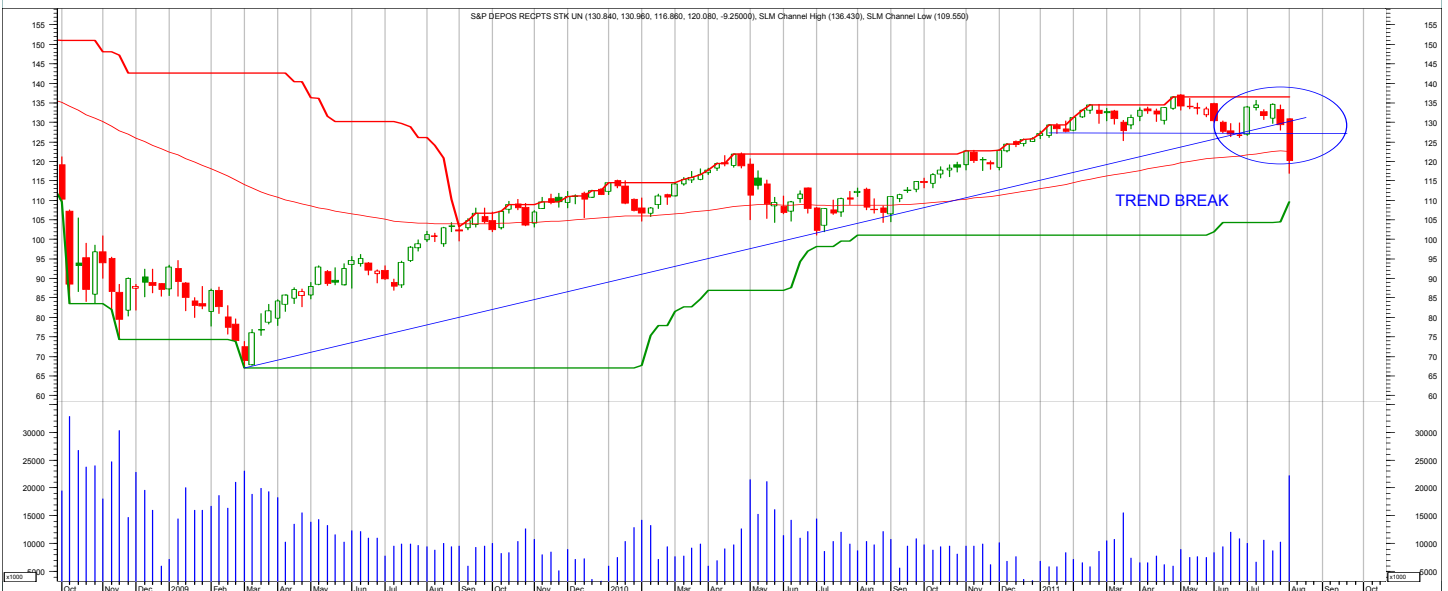
Buy on the rumor and sell on the news? When the debt ceiling was raised, we collectively breathed a sigh of relief that we would retain our AAA rating and can pay already agreed upon obligations. This breath has quickly turned into a gasp of what the heck? What is going

on with stocks and bonds? Standard & Poors rating service, while otherwise perennially late decided to throw caution to the winds and be early this time; they downgraded the US to AA+. Ridiculous is my estimation.

There is, however, something else in all this. Coinciding

with the debt and deficit discussion, we saw, but mainly ignored, a few economic reports that suggest the recovery, the expansion, is stalling. Already reported GDP was adjusted downward, while future GDP expectations were cut. The ISM manufacturing index is at a 2-

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The chart is the weekly S&P 500 with an 80-day moving average and other objects.

SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	6.4%	15.4%	-3.1%	-8.0%	-8.1%	-5.8%
Dow30 Portfolio	-1.3%	4.1%	-3.9%	-8.1%	-7.0%	-5.4%
Wilshire 5000	-5.5%	7.6%	-9.1%	-11.2%	-11.8%	-7.9%
Dow Industrials	-1.1%	7.4%	-5.1%	-10.1%	-9.6%	-5.7%

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Stock Portfolio

ACTION FOR			PORTFOLIO DETAILS			Value as of date: 8/5/2011									
Action Dates	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop	Yield	Start Price	Ending Price	# of Shares	Current Value	Percent of Total		
13-Jun	sell	ECGI	>2	3,204											
30-Jun	sold	ECGI	2.02	3,204	6,462										
17-Jun	sell	MRVL	13.210	300	3,953	GENC			7.73	7.51	1,478	11,099.78	9.3%		
						SILU			1.41	1.57	7,092	11,134.44	9.3%		
21-Jun	sell	GAIN	7.33	1,500	10,985	WTT			0.87	0.71	16,000	11,360.00	9.5%		
21-Jun	buy	PSEC	10.15	1,200	12,190										
11-Jul	sell	SNDK	41.77	100	4,167	PSEC		12.0%	10.15	8.35	1,200	10,020.00	8.4%		
11-Jul	sell	CSCO	15.43	300	4,619	MCGC		9.3%	6.44	4.16	2,000	8,320.00	7.0%		
11-Jul	sell	CLCT	15.550	800	12,430	O		5.4%	32.28	30.01	150	4,501.50	3.8%		
25-Jul	buy	SNDK	43.88	150	6,592	SNDK			43.88	39.18	150	5,877.00	4.9%		
											Dividends	945.44	0.8%		
											Money Market	1.00	56,239	56,239.00	47.1%
											Total Valuation=		119,497.16	100.0%	

REVIEW since last issue

8/8 The portfolio got hit in the market's downdraft. No changes now. Positions are basically cheap compared to their fundamentals.

7/25 Rebuy SNDK. Their earnings came out better than expected.

7/11 Given we are at an intermediate-term top, it is time to raise some cash and await a better entry point.

6/27 Subscribers should have received the emailed hotline report. Please let me know at smckee@investmentst.com if you didn't.

	2010	ytd 2011
Stock Portfolio	12.5%	6.4
W5000	15.5%	-5.5

Dow 30 Portfolio

ACTION FOR			PORTFOLIO DETAILS				Value as of date: 8/5/2011						
Action Date	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total
8-Jun	sell	CAT	98.04	50	4,892	DIA			120.07	113.90	300.00	34,170.00	32.3%
13-Jun	buy	BAC	10.97	500	5,495								
13-Jun	buy	JPM	41.67	150	6,261								
11-Jul	sell	CSCO	15.62	300	4,676								
11-Jul	sell	BAC	10.35	500	5,165								
11-Jul	sell	JPM	39.43	150	5,905								
11-Jul	sell	MSFT	26.63	200	5,316								
11-Jul	sell	HPQ	35.29	130	4,578								
2-Aug	sell	DIS	36.97	100	3,687								
27-Jul	sell	MCD	87.09	70	6,086								
28-Jul	sell	MRK	34.93	200	6,976								
28-Jul	sell	WMT	52.99	100	5,289								
						Money Market			1.00		71,723	71,723.00	67.7%
									Total Valuation=			105,893.00	100.0%

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

- 8/8 All of the positions with stop losses were stopped out.
- 7/25 No changes.
- 7/11 Time to raise some cash.
- 6/27 No changes.

Feature Company

None this week. Wait for bargains.

(Continued from page 1)

year low. Global PMI (purchasing managers) is also at a 2-year low. Consumer spending fell in June. Housing remains weak. The Fed's Beige book showed all districts were weak. All in all it looks as though not only has the domestic economy stalled, but also the international economy. And stall may be putting it nicely. Some believe we are already in a recession.

And as a taste of things budget battles to come, the FAA funding block had idled construction across the country. Additionally, upcoming cuts in defense and health will impact corporate profits and also jobs.

Investors seemed slow to realize that government spending and belt tightening are no different from anyone else. And just like consumers or businesses, re-

ducing debt means curtailing spending. Cut up the credit cards.

John Maynard Keynes once argued that for a country to get out of a recession, to increase aggregate demand, it required increased fiscal spending. It must borrow if need be and spend to build and rebuild. Right or wrong that has been the perception since coming out of the Great Depression and other recessions. This choice is now off the table. Government won't be spending, it will be cutting. Keynes has left the building.

Having said all that, we also know that at some point, the future gets discounted today. The bad news is factored in. Those who want to sell have sold. Bargains begin to appear. And investors again start to look beyond the valley. Are we there yet? It doesn't look like it. No positive

divergences between indexes have formed. The VIX index is leaping, showing signs of fear, but incredibly to me other sentiment measures remain in the complacent zone. The background economic news is poor.

About the only positive is the number of new lows. It is surging above 800, which is normally associated at least with oversold conditions.

So, investors are digesting, selling that is, news that is shaking some too rosy forecasts and assumptions. I'll look to be buying when the news improves, sentiment worsens (contrary), and technicals improve.

Descriptions & Disclosures

PORTFOLIO DESCRIPTIONS (pages 2 and 3)

Our guiding goal is to provide the most return with the least risk.

The portfolios were started on 1/1/10 with \$100,000.

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.

Dividends are paid in cash. Interest is assumed to be zero for the money market (cash) position.

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