

# Stock Selections & Timing

## Watercourse Way Holdings, LLC

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August 22, 2011 (data through previous Friday's close)  
Volume 2  
Issue 17

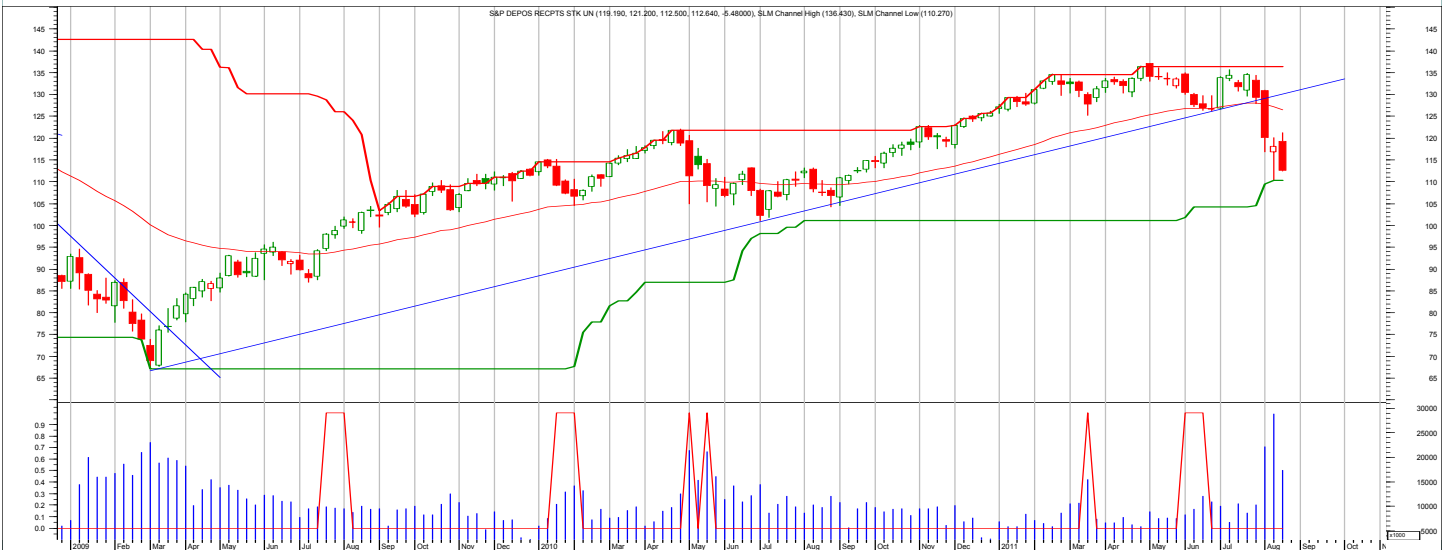
## Testing the Low

The stock market has sold off severely the last few weeks on fears of a recession, sovereign debt implosions, and stalemate in Washington (no more fiscal support to the expansion). Has the market corrected enough to start another rally or is there more room to go on the downside?

As I've been talking about the last month or so, I've been focusing on three items, news, technicals, and sentiment. Prior to the sell off, all three turned negative. The news was coming in much worse than expected with downgrades left and right on GDP forecasts. The market technicals turned from "in gear"

to the first negative divergence since the bull market bottom in March, 2009. Investor sentiment entered the correction complacent and essentially remained complacent for nearly the whole way down. That is the background, what are the three saying now?

*(Continued on bottom left on page 4)*



The chart is the weekly S&P 500 with an 40-week moving average and other objects.

## SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	6.6%	20.6%	-5.0%	-5.5%	-7.6%	-0.8%
Dow30 Portfolio	-2.9%	6.2%	-6.5%	-9.4%	-8.4%	-1.4%
Wilshire 5000	-11.7%	5.2%	-17.3%	-16.7%	-17.5%	-5.1%
Dow Industrials	-6.6%	5.9%	-12.7%	-13.5%	-14.7%	-4.0%

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# Stock Portfolio

ACTION FOR			PORTFOLIO DETAILS				Value as of date:				8/19/2011			
Action			Action	# of	Action		Closing	Start	Ending	# of	Current	Percent of		
Dates	Action	Symbol	Price	Shares	Value	Symbol	Stop	Yield	Price	Price	Shares	Value	Total	
13-Jun	sell	ECGI	>2	3,204										
30-Jun	sold	ECGI	2.02	3,204	6,462	ANIK					1,800		about 10%	
17-Jun	sell	MRVL	13.210	300	3,953	GENC			7.73	7.35	1,478	10,863.30	9.1%	
21-Jun	sell	GAIN	7.33	1,500	10,985	SILU			1.41	1.58	7,092	11,205.36	9.4%	
21-Jun	buy	PSEC	10.15	1,200	12,190	WTT			0.87	0.81	16,000	12,960.00	10.8%	
11-Jul	sell	SNDK	41.77	100	4,167	PSEC		12.0%	10.15	8.07	1,200	9,684.00	8.1%	
11-Jul	sell	CSCO	15.43	300	4,619	MCGC		9.3%	6.44	4.11	2,000	8,220.00	6.9%	
11-Jul	sell	CLCT	15.550	800	12,430	O		5.4%	32.28	32.04	150	4,806.00	4.0%	
25-Jul	buy	SNDK	43.88	150	6,592	SNDK	32.00		43.88	32.50	150	4,875.00	4.1%	
22-Aug	buy	ANIK		1,800										
						Dividends					945.44	0.8%		
						Money Market					1.00	56,239	56,239.00	46.9%
						Total Valuation=						119,798.10	100.0%	

## REVIEW since last issue

8/22 Will purchase a new position. Please note the new sell stop on SNDK.

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](mailto:smckee@investmentst.com) if you didn't.

	2010	ytd 2011
Stock Portfolio	12.5%	6.6
W5000	15.5%	-11.7

# Dow 30 Portfolio

ACTION FOR						PORTFOLIO DETAILS				Value as of date: 8/19/2011				
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	105.00		120.07	107.91	300	32,373.00	31.1%	
						DIA	105.00				650		about 68%	
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									
22-Aug	buy	DIA												
						Money Market					1.00	71,723	71,723.00	68.9%
												Total Valuation=	104,096.00	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

- 8/22 Time to buy on the successful (so far) short-term test of the recent lows. But please note the sell stop.
- 8/8 All of the positions with stop losses were stopped out.
- 7/25 No changes.
- 7/11 Time to raise some cash.

# Feature Company



ANIK (Anika Therapeutics) develops, manufactures, and commercializes therapeutic products for tissue protection, healing, and repair. Annual sales are about \$50 million. The market cap is \$82 million. It trades at about 15x earnings on an unadjusted basis, but at about 6x on an adjusted for a number of items basis, making it cheap and a takeover target for a strategic acquirer.

Accumulate up to \$6.50

## PORTFOLIO UPDATES

WTT reported solid earnings and is still cheap. Continue to accumulate.

SILU is starting to pay a dividend.

GENC reported better than expected earnings. It is valued at less than net cash in the bank, providing the business for free. Continue to accumulate.

*(Continued from page 1)*

The news is essentially the same; it is negative. Jobs, housing, manufacturing are all weak. But we know the market is a discounting mechanism. It went down as a reaction, as an expectation adjustment. The real questions are whether the bad news is now discounted or is there more bad news to come? The only way to understand the answer is to look at the market's reaction to the news. If the news comes in bad still, what is the reaction? Generally speaking, if there is no sell off, then it is discounted.

On a technical basis, some positives are showing up. The number of new lows spiked to plus 1200 on 8/8, but is now

around 250. Additionally, the DJ Industrials is holding above its 8/8 low, even though the DJ Transports have moved below it. Those are positive divergences.

Investor sentiment is definitely less complacent than before, but extremes of fear are not yet evident. The VIX index has spiked above 40, which as a contrarian sentiment indicator is positive. The percentage of bullish advisors has dropped and is close to a major contrarian signal.

So, having said all that, my thinking is that the market is now oversold enough and showing some positives to warrant a short-term rally of 5-15% over the next 1-3 weeks. After that, I expect it would then retest the lows again.

We will see what the news, technicals, and sentiment are at that stage.

So, I am buying some here for that rally with tight stops in case the news isn't yet discounted. If it does rally, however, I will still expect to take profits fairly soon (short term, days to weeks). This is to say that on a long-term basis (months to years), I believe the bull market from March, 2009 has turned into a sideways market at best. If, however, it is in fact a bear market we are in, then the lows of 8/8 will easily be taken out as we head toward the March, 2009 lows.

# 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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