

Stock Selections & Timing

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Driving QE3 to the Fiscal Cliff

Weakness is good and strength is bad. The Federal Reserve is watching economic indicators for hints of sustained recovery or weakness. The assumption is weakness will support another round of their quantitative easing programs (QE3). Strength, however, suggests they'll just

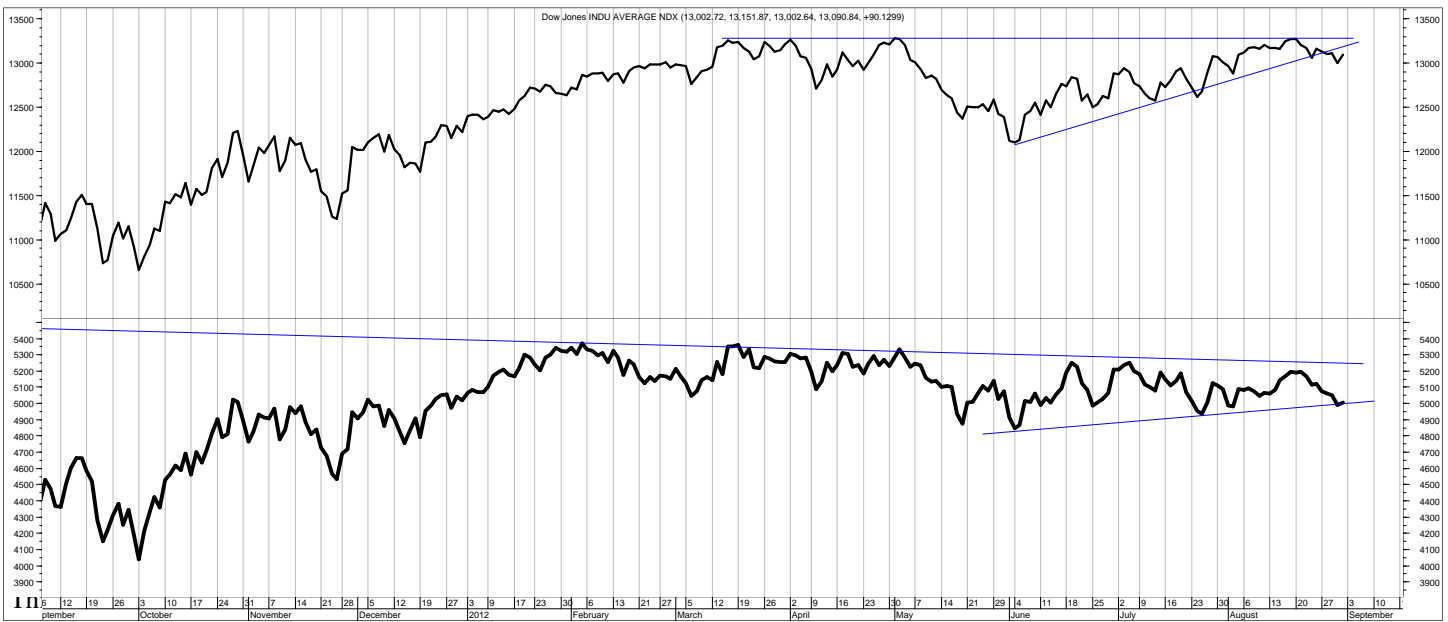
stand pat.

So, it seems an odd reaction with the market selling off today (Tuesday 9/4) when the ISM (Institute for Supply Management) report came in weaker than expected. For the third month in a row it declined and stands at 49.6. Readings below 50 indicate contraction.

Their new orders index also contracted to 47.1, which is also a third straight decline. New orders indicate future growth or weakness.

Given the ISM weakness, one might think it a stock market positive because it supports the idea that the Fed will initiate

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SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	7.3%	20.4%	2.8%	6.5%	2.2%	0.8%
Dow30 Portfolio	-1.7%	-3.4%	-3.9%	0.9%	0.0%	0.0%
Wilshire 5000 TR	13.1%	21.6%	2.9%	10.3%	1.7%	-0.2%
Dow Industrials	7.1%	16.5%	0.9%	8.0%	0.0%	-0.5%

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Stock Portfolio

ACTION FOR		PORTFOLIO DETAILS					Value as of date:		8/31/2012					
Action Dates	Action Symbol	Action Price	# of Shares	Action Value	Symbol	Closing stop as of 9/4	Yield at buy	Buy Limit	Start Price	End Price	# of Shares	Current Value	Percent of Total	
31-Jul	sold	WTT	1,230	1,000	1,220									
31-Jul	bought	MCGC	4.380	1,000	4,390									
1-Aug	bought	NGPC	7.030	500	3,525	GENC		8.00	7.56	7.64	2,278	17,403.92	11.9%	
1-Aug	bought	OPLK	13.00	300	3,910	WTT		1.00	0.87	1.33	9,000	11,970.00	8.2%	
						OPLK		13.00	12.84	16.07	600	9,642.00	6.6%	
20-Aug	buy	NGPC	7.030	500	3,525	MCGC	12.9%	4.40	4.38	4.65	1,500	6,975.00	4.8%	
23-Aug	buy	MCGC	4.37	500	2,195	NGPC	8.7%	7.15	7.03	7.47	1,000	7,470.00	5.1%	
						TAXI	11.30	8.4%	10.00	9.98	11.39	650	7,403.50	5.1%
WATCH LIST FOR POTENTIAL PURCHASE AT OR BELOW BUY LIMIT NEW FROM 8/18/12														
none														
Dividends												3,374.82	2.3%	
Money Market										1.00	82,063	82,063.00	56.1%	
Total Valuation=												146,302.24	100.0%	

REVIEW since last issue

9/4 Keep an eye on TAXI's stop.

8/27 The new buys were triggered last week. No new buy levels or recommendations. Note that I raised the stop level on TAXI.

8/20 GENC remains the cheapest stock out there that I'm aware of. OPLK jumped on their results. Please note the new buys on the Watch List.

8/13 The three stocks were picked up below their buy limits in the last two weeks. I remain fairly defensive given the picture of weakness in the stock market on both a fundamental and technical basis.

	2010	2011	ytd 2012	Incptn	SD
Stock Portfolio	12.3%	21.4	7.3	46.3	15.5
W5000 TtlRtrn	17.7%	0.5	13.1	33.8	10.9

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: 8/31/2012								
Action Date	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop as of 5/21	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total	
23-May	sell	AXP	55.99	200	11,188									
1-Jun	sell	AA	8.29	1,300	10,767									
1-Jun	sell	KFT	37.57	300	11,261									
1-Jun	sell	IBM	188.78	60	11,317									
1-Jun	sell	MCD	86.88	125	10,850									
11-Jun	sell	DIS	45.74	250	11,425									
11-Jun	sell	KO	74.55	150	11,173									
11-Jun	sell	MRK	38.51	300	11,543									
						Money Market					1.00	104,247	104,247.00	100.0%
												Total Valuation=	104,247.00	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

- 9/4 No changes. The selecting and timing model is undergoing changes.
- 8/20 No changes.
- 7/30 No changes.
- 7/23 No changes.
- 7/16 No changes.

Feature Company

No new recommendations.

There are numerous stocks to trade of course, but no new ones that show up really cheap.

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QE3. As mentioned last week, however, perhaps there is a growing sense of impotency on the part of the Fed. The old saying is you can't push on a string. Or to paraphrase another Fed governor, will lower rates motivate more home or car buyers who already aren't out there buying?

To be sure, lower rates have helped tremendously. Housing does appear to have stabilized. Prices have come down enough, joined with lower financing costs, so that rents are starting to cover costs.

But what more will QE3 do? Credit appears plentiful. Yet the broader economy is now weaken-

ing. Join this with the upcoming fiscal cliff uncertainty, and it would be a normal reaction to pull in the horns, to grow cautious. That, so far, is the reaction.

The stock market has never liked uncertainty and there is now a ton to go around, from the domestic reelection with its related tax and spending issues, to Europe's recession, and to China's slowdown.

Oddly in the face of this uncertainty, investors nonetheless have grown more bullish. Probably based on nothing more than the market has been trending up on the expectation of QE3. From a contrary point of view, this is a negative.

We may yet get QE3, but the real reading of that is not suggestive of expansion, but of weakness. So what if you can borrow at 1%, if no one is buying your product. A drop from say 6% to 3% is one thing, but will a further drop from 3% to 2% help?

At the same time, this obviously does nothing to address the upcoming fiscal political issues.

So, sure reduce rates further, but the real issues still linger.

See the individual pages for any specific, actionable recommendations.

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 Wilshire 5000 TR (total return) includes dividend reinvestment.

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