

Stock Selections & Timing

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Testing the Low Again

The investment question and answer of whether we are still in a long-term bull market or have entered a bear market is becoming less clear. I have been leaning to the belief that we are still within a long-term (months to years) bull market and that the current pullback will evolve into

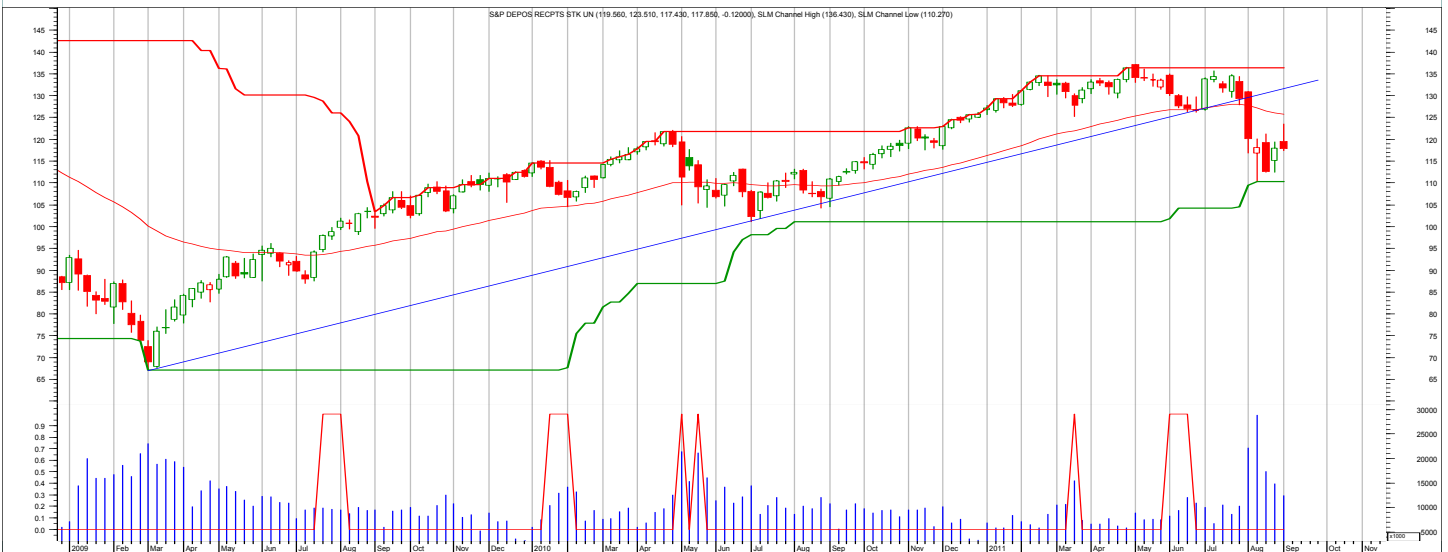
another decent rally that brings us at least close to previous recovery highs set in early April (DJ Industrials) or early July (DJ Transports). Technical and fundamental questions, however, are rising faster than weeds in Spring.

The reason for even trying to answer this question is it in-

fluences a number of things. One, how to place stops, loose or tight. Two, whether to buy dips or sell rallies. Three, how aggressive to buy and short. So, let's look further into the market's situation.

On a technical basis, the weekly chart on page one gives

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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	8.2%	21.7%	-4.6%	-6.5%	1.7%	-0.7%
Dow30 Portfolio	0.6%	7.5%	-2.5%	-3.9%	1.9%	-0.5%
Wilshire 5000	-7.6%	7.8%	-12.0%	-11.6%	-2.2%	-0.2%
Dow Industrials	-2.9%	7.6%	-7.6%	-7.5%	-1.8%	-0.4%

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Stock Portfolio

ACTION FOR			PORTFOLIO DETAILS				Value as of date: 9/2/2011						
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	ANIK			5.89	5.81	1,800	10,458.00	8.6%
17-Jun	sell	MRVL	13.210	300	3,953	GENC			7.73	7.33	1,478	10,833.74	8.9%
21-Jun	sell	GAIN	7.33	1,500	10,985	SILU			1.41	1.61	7,092	11,418.12	9.4%
21-Jun	buy	PSEC	10.15	1,200	12,190	WTT			0.87	0.81	16,000	12,960.00	10.7%
11-Jul	sell	SNDK	41.77	100	4,167	PSEC		12.0%	10.15	8.25	1,200	9,900.00	8.1%
11-Jul	sell	CSCO	15.43	300	4,619	MCGC		9.3%	6.44	4.53	2,000	9,060.00	7.5%
11-Jul	sell	CLCT	15.550	800	12,430	O		5.4%	32.28	33.31	150	4,996.50	4.1%
25-Jul	buy	SNDK	43.88	150	6,592	SNDK	32.00		43.88	34.76	150	5,214.00	4.3%
22-Aug	buy	ANIK	5.89	1,800	10,612								
						Dividends						1,088.39	0.9%
						Money Market			1.00		45,627	45,627.00	37.5%
						Total Valuation=						121,555.75	100.0%

REVIEW since last issue

9/6 No changes.

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.

	2010	ytd 2011	incptn
Stock Portfolio	12.5%	8.2	21.6
W5000	15.5%	-7.6	6.8

Dow 30 Portfolio

ACTION FOR						PORTFOLIO DETAILS				Value as of date: 9/2/2011				
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	110.00		120.07	112.16	300	33,648.00	31.2%	
13-Jun	buy	BAC	10.97	500	5,495	DIA	110.00		108.30	112.16	650	72,904.00	67.6%	
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	108.30	650	70,405									
						Money Market					1.00	1,318	1,318.00	1.2%
												Total Valuation=	107,870.00	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

9/6 Note the sell stops.

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



REPEAT RECOMMENDATION

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

GENC is about the cheapest stock out there, trading around \$7.50 with net cash of about \$8.40 and a profitable business with annual sales of \$70 million. If infrastructure is supported by Washington, this company should benefit.

Financial stocks like MCGC, PSEC, and O are unloved. They are a solid contrarian play with excellent dividends.

(Continued from page 1)

us a pretty good picture of the answer. The long-term up trend line dating from March 2009 is clearly broken to the down side and so far the rally back to it has been weak and appears ready to pullback to test August lows. This suggests that previous support at the March and June 2011 lows will turn into resistance. Those lows were previous buying areas, but with a break below them in terms of duration and depth, they will turn into selling areas on any bounces.

Fundamentally, Europe is still grappling with its sovereign debt issues and so is the US. Fiscal policy, one of the two main traditional market supports, is restrictive given the need to cut spending and raise taxes. This is

negative.

In addition, the pace of US recovery has stalled. Job growth was nonexistent last month. GDP forecasts are coming down.

On the other hand, is there any good news in all of this? The other main market support of Fed policy remains very accommodative. 10-year Treasuries yield 2% versus an earnings yield near 7% on the S&P 500, which is the highest it's been in 20 years, though in 1982 it bottomed at 14%. Sentiment is still at best a mixed bag, but leans toward a contrary bullishness (the number of bears is increasing). As well, the leading economic indicators are still trending up, forecasting economic expansion for the next six to nine months out. Historically we know that the fourth

year of the Presidential cycle tends to be positive. Speaking of presidents, President Obama may help with his speech Thursday about jobs.

So, while there are some shorter term issues to deal with that will contribute to further volatility, the longer term still appears supportive. The market simply has to discount (sell off) or account for the overwhelming big picture, shorter-term questions of sovereign debt and how best to deal with it.

The answer to, my expectation about, the question about whether we are in a long-term bull or bear market is we are most likely in a sideways market whose boundaries are possibly around 10,000 to 12,000 on the Dow Industrials.

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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