

Stock Selections & Timing

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The Economy Will Matter

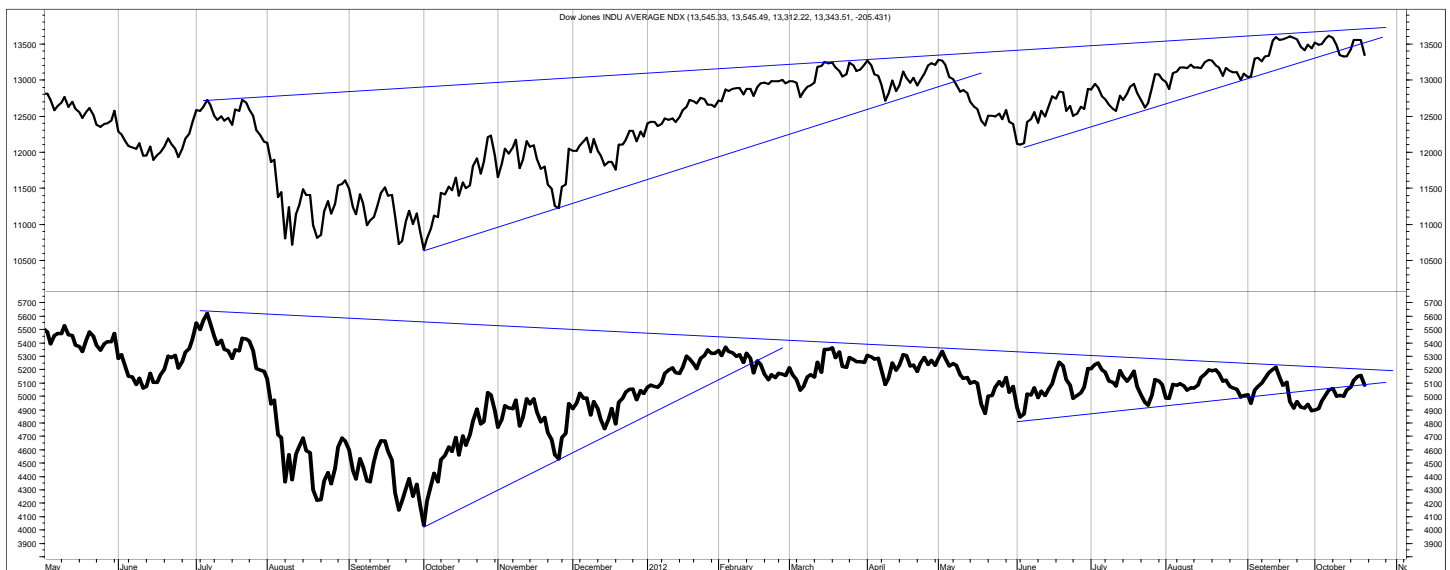
For all the pomp and circumstance of the past few month market rally, the Dow Transports are still lagging their counterpart the Dow Industrials. This is shown on the chart below.

The Transports are made up

of companies that, obviously, transport goods around the globe. It is a reflection of market, end user, demand. Less demand for coal, for example, means less box cars filled with coal. The fact that investors have not pushed up transporta-

tion prices is an indication of worry. Worry about a recession not only there, but here. Europe is already there. China has slowed. America's is apparently right around the corner in two months in the form of the Fiscal

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This is the daily chart of the Dow Industrials (top) and Transports (bottom).

SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	5.5%	14.4%	1.2%	1.3%	-1.9%	0.1%
Dow30 Portfolio	-1.7%	0.5%	-2.3%	0.0%	0.0%	0.0%
Wilshire 5000 TR	15.6%	17.9%	4.4%	5.5%	-1.9%	0.3%
Dow Industrials	9.2%	13.0%	2.4%	4.3%	-1.7%	0.1%

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Stock Portfolio

ACTION FOR			PORTFOLIO DETAILS				Value as of date:		10/19/2012						
Action Dates	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing stop as of 9/7	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	7.30	2,278	16,629.40	11.6%	
1-Aug	bought	OPLK	13.00	300	3,910	WTT			1.00	0.87	1.23	9,000	11,070.00	7.7%	
						OPLK			13.00	12.84	15.11	600	9,066.00	6.3%	
20-Aug	buy	NGPC	7.030	500	3,525	MCGC	12.9%		4.40	4.38	4.81	1,500	7,215.00	5.0%	
23-Aug	buy	MCGC	4.37	500	2,195	NGPC	8.7%		7.15	7.03	7.27	1,000	7,270.00	5.1%	
11-Sep	sold	TAXI	11.370	650	7,381	O	4.4%		41.50	40.76	40.94	180	7,369.20	5.1%	
1-Oct	buy	O	40.76	180	7,347	MVC	3.8%		13.00	12.80	12.53	600	7,518.00	5.2%	
1-Oct	buy	MVC	12.80	600	7,690	GAIN	8.0%		7.55	7.48	7.44	1,000	7,440.00	5.2%	
both positions will be roughly 5% of total portfolio						WATCH LIST FOR POTENTIAL PURCHASE AT OR BELOW BUY LIMIT NEW FROM 8/18/12									
15-Oct	buy	GAIN	7.48	1,000	7,490	none									
this will be about 5% of total portfolio															
Dividends												3,374.82	2.3%		
Money Market												1.00	66,917	66,917.00	46.5%
Total Valuation=												143,869.42	100.0%		

REVIEW since last issue

10/22 MVC raised its dividend this payout by 13%.

No other changes of note.

10/15 Buy the new position as noted above.

10/8 GENC has really fallen back, becoming cheaper and cheaper. Its market cap is priced below its net cash in the bank and it has a profitable business.

The buy limits shaded in light green above show where current prices are below buy limits.

10/1 Make the two new buys as noted above. They pay a decent dividend and appear relatively cheap.

9/24 No changes.

9/17 TAXI was stopped out. I continue to look for new bargains, but the market rally has made the pickings slim. The business development companies (MCGC, NGPC) have done well with their substantial and what appear to be secure yields.

	2010	2011	ytd 2012	Incptn	SD
Stock Portfolio	12.3%	21.4	5.5	43.9	16.4
W5000 TtlRtrn	17.7%	0.5	15.6	36.7	11.7

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: 10/19/2012								
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 (reiteration)

GAIN is another business development company, making equity and debt investments.

Its NAV is \$9.10 and market price is \$7.50. The stock yields 8%. The next ex-dividend date is 10/18/12 (you must buy before that date to receive the dividend). The company pays monthly at \$0.05 per share.

The company very recently issued new stock at \$7.45, which knocked the stock lower. Once this is digested, I expect the stock to rally back on up.



(Continued from page 1)

Cliff, if you believe the Congressional Budget Office projections that increased taxes and reduced spending will cut GDP into negative territory. Gee, if my expenses go up (higher taxes) and income goes down (lower sales), then, apart from dipping into savings, it certainly will hurt.

Another view of this economic slowdown is measured by the Baltic Exchange Dry Index. It reflects worldwide shipping demand. Its prices have returned to where they were at the bottom

of the financial implosion in 2008. They rebounded in 2009 into 2010, but have since steadily declined.

Mr. USA Market, however, is focusing on the Fed and its zero interest rate policy in place out to 2015. This policy has helped housing. But it is not too concerned with the overall economy in any meaningful way. Investors are pushing up the rest of the market in a hungry search for yield. The problem with this strategy is that the economy does matter. A recession will hurt

earnings, which in turn will hurt dividend prospects and prices.

I am, of course, also cognizant of these things as regards the portfolio holdings. The dividends are generous, but will they remain so? MVC, however, for one, just raised its quarterly dividend 13%.

So, while the rally has been there, it's within context of a looming recession that is being signaled by at least one part of the market.

Please see the specific portfolio pages for changes.

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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