

Stock Selections & Timing

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Positive Feedback Loops

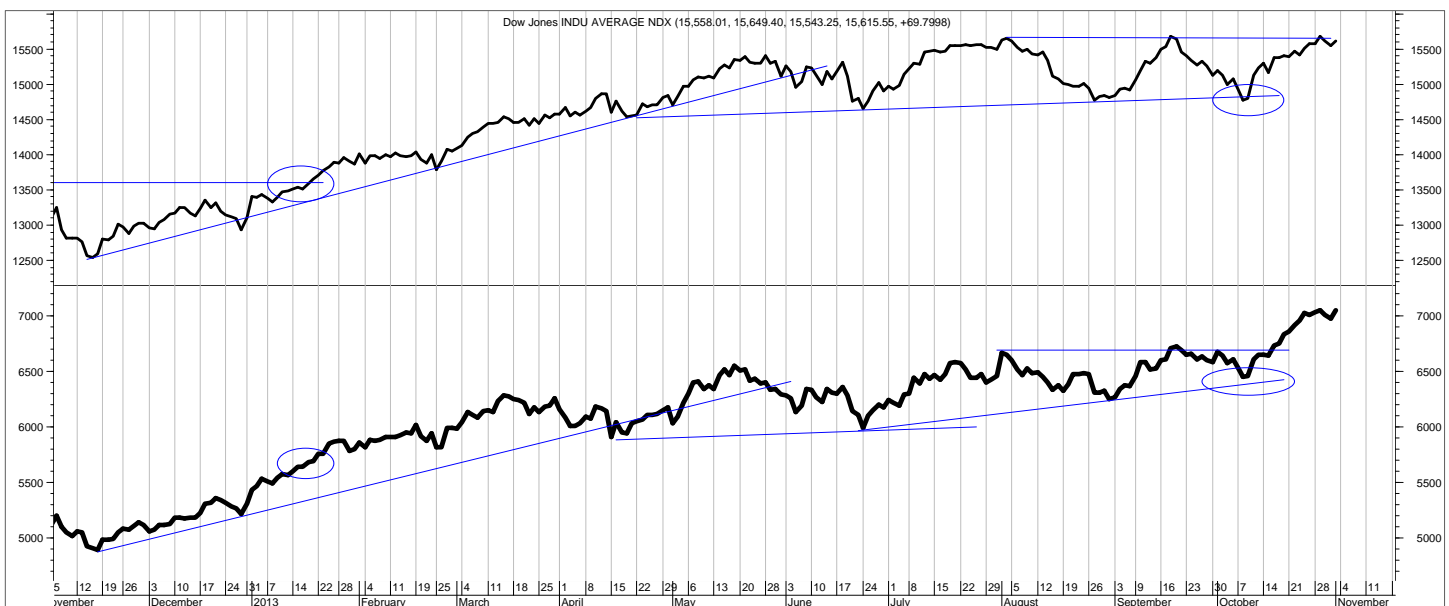
After inching higher all last week, the Dow Industrials finally managed to make it to record highs and join the Transports in their ascent. Right now, from a technical point of view, things are back in gear.

But there is more to the market's main trend than technical readings alone. There is sentiment and there are fundamentals to consider. Plus there is the Federal Reserve's impact.

Sentiment is a contrary indicator. When investors are too

bullish, the reading is bearish. And vice-versa. Readings are made by noting both the percentage of bears or bulls. Currently, investor sentiment is far too bullish based on a number of separate readings. For exam-

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This is the daily chart of the Dow Industrials (upper) and Dow Transports (lower).

SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	15.8%	15.3%	7.2%	4.3%	0.5%	-1.9%
Dow30 Portfolio	5.8%	4.6%	-2.5%	0.0%	0.0%	0.0%
Index						
S&P 500 TR	26.2%	25.8%	9.1%	2.9%	4.2%	0.1%
Dow Industrials	20.7%	19.3%	4.3%	-0.3%	3.6%	0.3%

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Stock Portfolio

ACTION FOR						PORTFOLIO DETAILS						Value as of date: 11/1/2013		
Action Dates	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing stop as of 6/9	Yield at buy	Buy Limit	Start Price	End Price	# of Shares	Current Value	Percent of Total
23-Sep	sell	WTT	1.89	2,000	3,770	GENC			8.00	7.56	9.16	2,278	20,866.48	12.6%
23-Sep	sell	MCC	13.48	1,000	13,470	WTT			1.00	0.87	1.81	4,500	8,145.00	4.9%
30-Sep	sell	WTT	2.01	1,000	2,000	OPLK			13.00	12.84	15.98	600	9,588.00	5.8%
14-Oct	raise buy limit on MVC (NAV is \$17.56)													
14-Oct	sell	MCGC	5.16	1,500	7,730	MCGC			4.80					
4-Nov	buy	MCGC	<4.80	3,300		NGPC	8.7%		7.15	7.04	7.47	2,000	14,940.00	9.0%
						MVC	3.8%		14.50	12.71	13.79	1,200	16,548.00	10.0%
						GAIN	8.0%		7.55	7.48	7.08	1,000	7,080.00	4.3%
						IRET	7.85	6.3%	8.50	8.35	8.59	950	8,160.50	4.9%
						O	38.00	5.5%	41.00	39.96	41.77	200	8,354.00	5.0%
Above in green shows end price still below buy limit.														
Shown below is watch list for potential purchase at or below buy limit.														
Dividends												8,023.90	4.8%	
Money Market												1.00 64,031	64,031.00 38.6%	
Total Valuation=												165,736.88	100.0%	

REVIEW since last issue

11/4 OPLK tumbled on weaker than expected earnings. I will watch for rebounds. Reenter MCGC as its numbers have come in on target. NAV is \$5.10 and they will purchase stock on the open market.

10/28 No changes. O tumbled on the news of a secondary offering, but has rebounded.

10/21 No changes.

10/14 I've raised the buy limit on MVC in reaction to its positive news. GAIN raised its monthly dividend from 0.05 to 0.06. I'll take some gains on MCGC in reaction to the first page article.

10/7 MVC announced it is selling its largest portfolio holding. The dividend may "materially" change, the company said. As of 7/31/13, it's NAV was \$17.36. Stock is still priced at nearly a 25% discount.

9/30 WTT rallied back and we will take further profits.

9/23 MCC is trading above its NAV (net asset value). It pays an excellent dividend, but time to look for an exit. WTT rallied back up and time to take more profits there.

	2010	2011	2012	ytd 2013	Incptn
Stock Portfolio	12.3%	21.4	5.0	15.8	65.7
S&P 500 TR	15.0%	1.9	14.1	26.2	68.8

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: 11/1/2013						
Action Date	Action	Symbol	Action Price	# of Shares	Action Value	Symbol	Closing Stop as of 6/9	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total
24-Jun	sell	AA	7.79	1,500	11,675								0.0%
24-Jun	sell	BAC	12.30	900	11,060								0.0%
24-Jun	sell	INTC	23.58	519	12,228								0.0%
25-Jun	sell	MRK	46.23	265	12,241								0.0%
TO BE ADDED, IF ABOVE SELL STOP													
TO BE ADDED, IF BELOW BUY LIMIT													
Money Market									1.00	108,999		108,998.88	100.0%
Total Valuation=												108,998.88	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

11/4 When things are working, a change is required. I am in the process of testing a new trading strategy for the Dow 30 Portfolio.

10/28 No changes.

Feature Company (none)

Finding “cheap” stocks is getting harder and harder. No new recommendations for now.

(Continued from page 1)

ple, the percentage of bears at AAII (American Association of Individual Investors) is near 21%. These things are bearish.

For their part, fundamentals could be broken into readings from two camps. Value and growth.

The growth component is bullish, the economy is growing at a moderate pace. There is no recession on the horizon. Leading economic indicators are still trending higher.

From a value perspective, however, the relationship of fundamentals to the stock market is bearish. As mentioned last week, the CAPE (10 year inflation adjusted PE ratio) is in overvalued territory. Another fundamental indicator is the Q-ratio. It measures the market's price in

comparison to its replacement cost. It too is overvalued. As well, earnings have rolled over; comparisons are dropping. All of these things are bearish.

And now to look at the Fed policy. It remains a bullish force. It will keep interest rates low at least through 2015. As for tapering its bond purchases, expectations of this are slowly diminishing. Fed policies remain bullish, albeit within a weak economy.

So, all of these things continue to paint a mixed picture within a positive feedback loop.

The market is bullishly trending higher, which turns investors bullish, but that is bearish. As it continues upward, it is now overvalued from a fundamental view, but growth remains intact. The Fed continues to support it with low interest rates and quanti-

tative easing (bond buying).

So, goes the feedback loop. A higher market results in a higher market because there are no viable alternatives to earn a decent return, even though it is fundamentally overvalued.

At some point, the market pops from overconfidence and overvaluation.

Please see the individual portfolio pages for any updates and 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 S&P 500 TR (total return) includes dividend reinvestment.

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