

# Stock Selections & Timing

## Watercourse Way Holdings, LLC

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December 16, 2013 (data through previous Friday's close)  
Volume 4  
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## Pricing Sideways

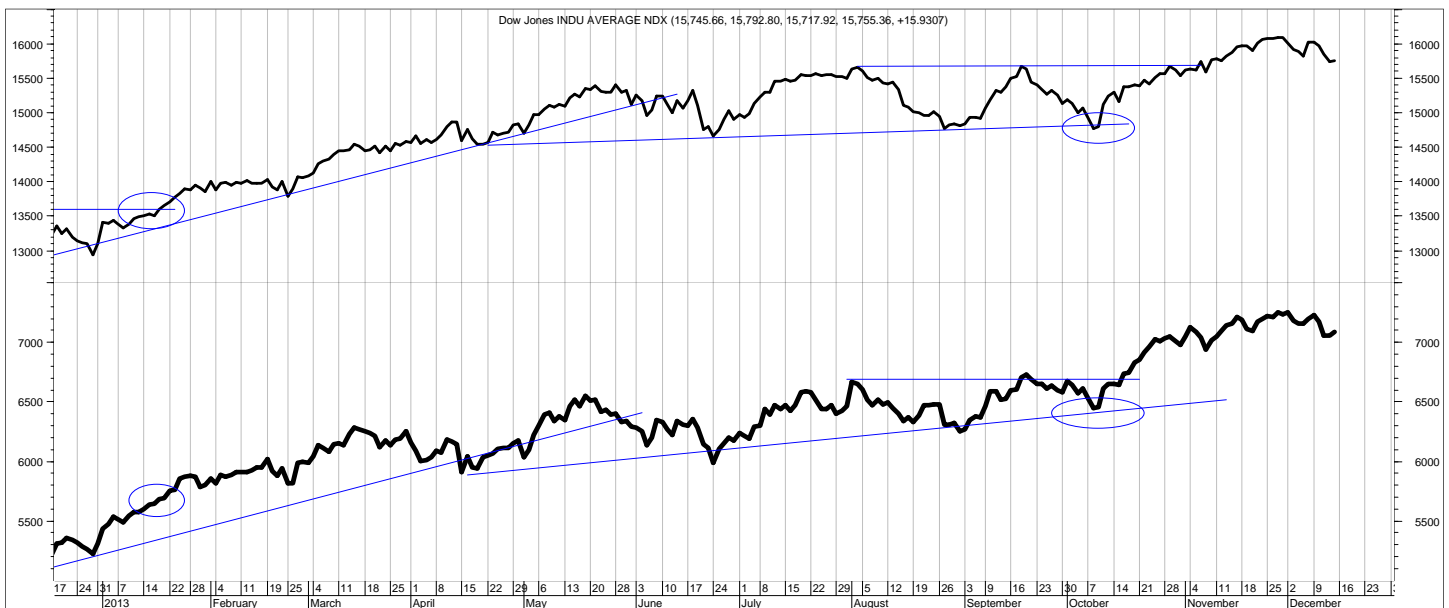
There was more stronger than expected economic news reported today in the form of industrial production rising 1.1%. Estimates were for a 0.6% increase. Combined with other recent strong economic news, the Fed may

begin to taper. Just not quite yet, but probably waiting until quarter one. I doubt Bernanke and company will make a last second change to its policies weeks before he is replaced. Why risk a blemish to his record of solid recovery since March

2009, as stocks would probably take a tank on taper news?

As the Fed has made clear, however, tapering is not the same thing as raising short-term rates. Tapering is suspending their purchase of long-term

*(Continued on bottom left on page 4)*



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	17.3%	17.6%	9.8%	3.5%	1.0%	-0.8%
Dow30 Portfolio	5.8%	4.3%	-3.7%	0.0%	0.0%	0.0%
<b>Index</b>						
S&P 500 TR	27.7%	26.7%	9.1%	5.1%	-1.1%	-1.6%
Dow Industrials	23.1%	21.3%	5.7%	3.6%	-0.2%	-0.6%

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# Stock Portfolio

ACTION FOR		PORTFOLIO DETAILS					Value as of date:		12/13/2013					
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	9.35	2,278	21,299.30	12.7%	
23-Sep	sell	MCC	13.48	1,000	13,470	WTT		1.00	0.87	2.14	4,500	9,630.00	5.7%	
30-Sep	sell	WTT	2.01	1,000	2,000	OPLK		13.00	12.84	17.14	600	10,284.00	6.1%	
14-Oct	raise buy limit on MVC (NAV is \$17.56)													
14-Oct	sell	MCGC	5.16	1,500	7,730	MCGC	10.8%	4.80	4.79	4.45	3,300	14,685.00	8.7%	
4-Nov	buy	MCGC	4.79	3,300	15,817	NGPC	8.7%	7.15	7.04	7.56	2,000	15,120.00	9.0%	
						MVC	3.8%	14.50	12.71	13.95	1,200	16,740.00	10.0%	
25-Nov	sell	GAIN	7.47	1,000	7,460	IRET	7.85	6.3%	8.50	8.35	8.69	950	8,255.50	4.9%
25-Nov	buy	O	38.28	100	3,838	O	38.00	5.5%	41.00	39.96	38.05	300	11,415.00	6.8%
10-Dec	sell	WTT	>2.4	1,000		Above in green shows end price still below buy limit. Shown below is watch list for potential purchase at or below buy limit.								
Dividends											8,586.97	5.1%		
Money Market											1.00	51,836	51,836.00	30.9%
Total Valuation=											167,851.77	100.0%		

## REVIEW since last issue

12/16 No changes. MVC announced its deal fell through. So stock down today. But they have other indications of interest.

12/9 No changes. The Rule of '72 says an investment will double in X number of years given a Y rate of change (all other things being equal). With a yield of 9%, a stock should double in 8 years.

12/2 No changes. Only one recommended stock is still below its buy limit.

11/25 No changes.

11/18 No changes.

11/11 No changes.

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.

	2010	2011	2012	ytd 2013	Incptn
Stock Portfolio	12.3%	21.4	5.0	17.3	67.9
S&P 500 TR	15.0%	1.9	14.1	27.7	70.7

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: 12/13/2013						
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

- 12/9 Work is progressing on the new timing model for the Dow 30 stocks.
- 12/2 No changes.
- 11/25 No changes.
- 11/18 No changes.
- 11/11 Added "NOT" to last week's comment. No other changes.

## No new recommendations

No new recommendations.

*(Continued from page 1)*

bonds. So, the yield curve would probably steepen in the months ahead.

The only time they would raise short-term rates is if inflation increased above 2% and unemployment fell below 6.5%. The latter may happen sooner than the former. Unemployment in the latest reporting period fell to 7%, which was also a stronger than expected report.

All of this begs the question about the tapering impact on stocks. I think it clear the market is already pricing in strong growth given the current PE is at 20. It is also clear that higher long-term rates will provide some competition for the investor dol-

lar.

At the same time, there is no recession in sight, which is one normal trigger for a stock selloff.

So, perhaps wide swings could be expected in 2014 and 2015. This would be similar to the period from 1978 through 1982, where stocks essentially went broadly sideways, while the economy continued to strengthen. This would reduce the overvalued market, as the economy caught up to the market expectations and set the stage for further advances in the years ahead.

So, right now the market is priced to perfection. Take away the Fed support in the form of tapering and the market should take a sharp decline and then

begin moving sideways. There's no economic reason (recession) to think it might plunge 50%, but simply the reality of its overvaluation.

We'll know more this week. If something substantial happens, I may send an emailed hotline report.

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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