

Stock Selections & Timing

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Divergences Worsen

There are two opposite approaches to technical investing; one is to use trends and the other is to use divergences. Each has advantages and disadvantages.

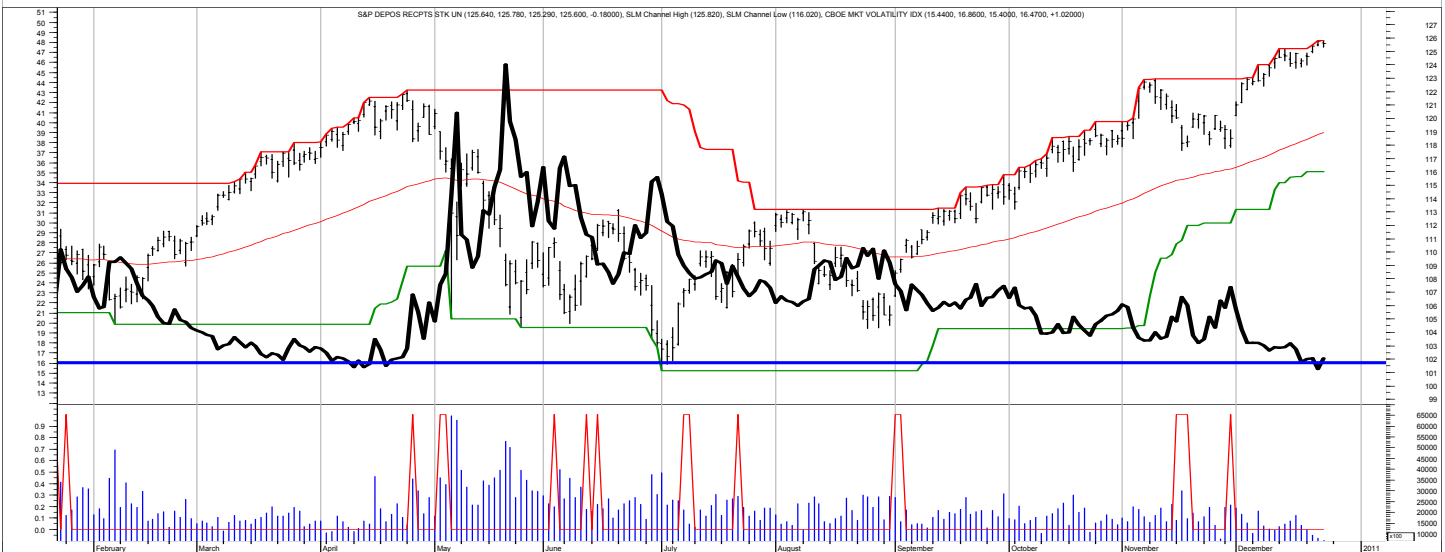
The trouble with trend following is the propensity for whipsaws, getting in and out frequently in a short period of time. And you miss a substan-

tial part of the gain when buying and selling, waiting for the moving average trend to change up or down.

The trouble with divergences is that the market may continue in its direction for an unknown duration. If you sold, you're still out as it marches higher. If you bought, you're in as it falls further.

To the current situation, I've raised some cash, but the market is moving higher. As it does so, however, the underlying problems that suggested to sell in the first place are getting worse. Take the VIX index as an example. It is now trading below 16. The sell signal was previously marked at 19. The

(Continued on bottom left on page 4)



The chart is the daily S&P 500 with an 80-day moving average and other objects.

SCOREBOARD

Model	YTD	52-week	26-week	13-week	4-week	1-week
Stock Portfolio	12.5%		8.8%	10.8%	-0.3%	0.6%
Dow30 Portfolio	7.2%		10.0%	3.4%	2.7%	0.3%
Wilshire 5000	15.5%		18.0%	10.8%	5.7%	1.0%
Dow Industrials	11.0%		14.1%	6.6%	4.3%	0.7%

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Stock Portfolio

ACTION FOR						PORTFOLIO DETAILS				Value as of date: 12/24/2010				
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	
6/14 -	buy	QCC	1.41	7,092	10,010									
		name change to SILU												
5-Aug	buy	TAXI	7.11	1,406	10,000	DRAD			1.95	2.15	6,128	13,175.20	11.7%	
23-Aug	buy	ANH	6.86	1,449	9,952	ECGI			0.98	0.87	10,204	8,877.48	7.9%	
25-Aug	stop	ANH	6.72	1,449	9,747	GENC			7.73	7.02	1,478	10,375.56	9.2%	
1-Nov	buy	DRAD	1.95	1,000	1,960	SILU			1.41	1.77	7,092	12,552.84	11.2%	
						TAXI		8.6%	7.11	8.25	1,406	11,599.50	10.3%	
15-Nov	buy	GENC	7.18	200	1,446	CLCT		9.1%	14.20	13.97	800	11,176.00	9.9%	
		buy up to \$7.25												
29-Nov	sell	TIII	2.20	7,813	17,199									
			\$2.10 or better											
29-Nov	buy	OXPS	17.20	300	5,170									
			up to											
7-Dec	sell	OXPS	\$20.82	300	6,256									
13-Dec	buy	CLCT	\$14.30	800	11,450									
			up to											
27-Dec	buy	ECGI	up to .95	2,000										
						Money Market					1.00	44,730	44,730.00	39.8%
												<u>Total Valuation=</u>	<u>112,486.58</u>	<u>100.0%</u>

REVIEW since last issue

12/27/10 ECGI reported good news. The stock is dirt cheap still, trading below 50% of its net cash. It should at least be trading at \$1.50. Increase the holdings back to roughly 10% of the total portfolio.

12/13/10 I traded OXPS, gaining about 20% on the trade.

The other positions may be subject to tax-loss selling. I expect them all to climb in 2011.

11/29/10 TIII jumped further and is up about 75% from purchase price on good earnings. But it looks way ahead of itself. I will sell the full position.

As well, buy the feature company as noted above and on page 4.

11/15/10 DRAD is up about 20% since 11/1.

11/1/10 DRAD reported earnings on 10/28/10. The past news was pretty well expected, but the company seems fairly optimistic for 2011. Time to buy more. Buy another 1000 shares up to a limit price of \$2.00/share.

11/15/10 GENC is still undervalued. I will buy more as noted above.

11/15/10 TIII reported great earnings today and jumped 26%.

Dow 30 Portfolio

ACTION FOR						PORTFOLIO DETAILS				Value as of date: 12/24/2010			
Action Date	Action	Symbol	Price	# of Shares	Action Value	Symbol	Closing Stop	Description	Start Price	Ending Price	# of Shares	Current Value	Percent of Total
3-May	sell	CVX	82.83	43	3,562	DIA			103.83	115.73	385.52	44,616.23	41.6%
3-May	buy	VZ	29.29	50	1,475								
3-May	buy	PFE	16.91	60	1,025								
3-May	buy	AA	13.15	231	3,048								
						PFE			17.86	17.61	227	3,997.47	3.7%
2-Aug	sell	T	26.69	120	3,213								
2-Aug	sell	VZ	29.56	155	4,592	XOM			65.11	73.20	46	3,367.20	3.1%
2-Aug	buy	BAC	14.44	200	2,898	BAC			14.44	13.06	200	2,612.00	2.4%
2-Aug	buy	JNJ	58.72	50	2,946								
4-Oct	sell	DIA	107.57	385.52	41,480								
29-Nov	sell	AA	13.29	231	3,080								
29-Nov	sell	JNJ	61.91	50	3,106								
						Money Market			1.00		52,651	52,651.00	49.1%
									Total Valuation=			107,243.90	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

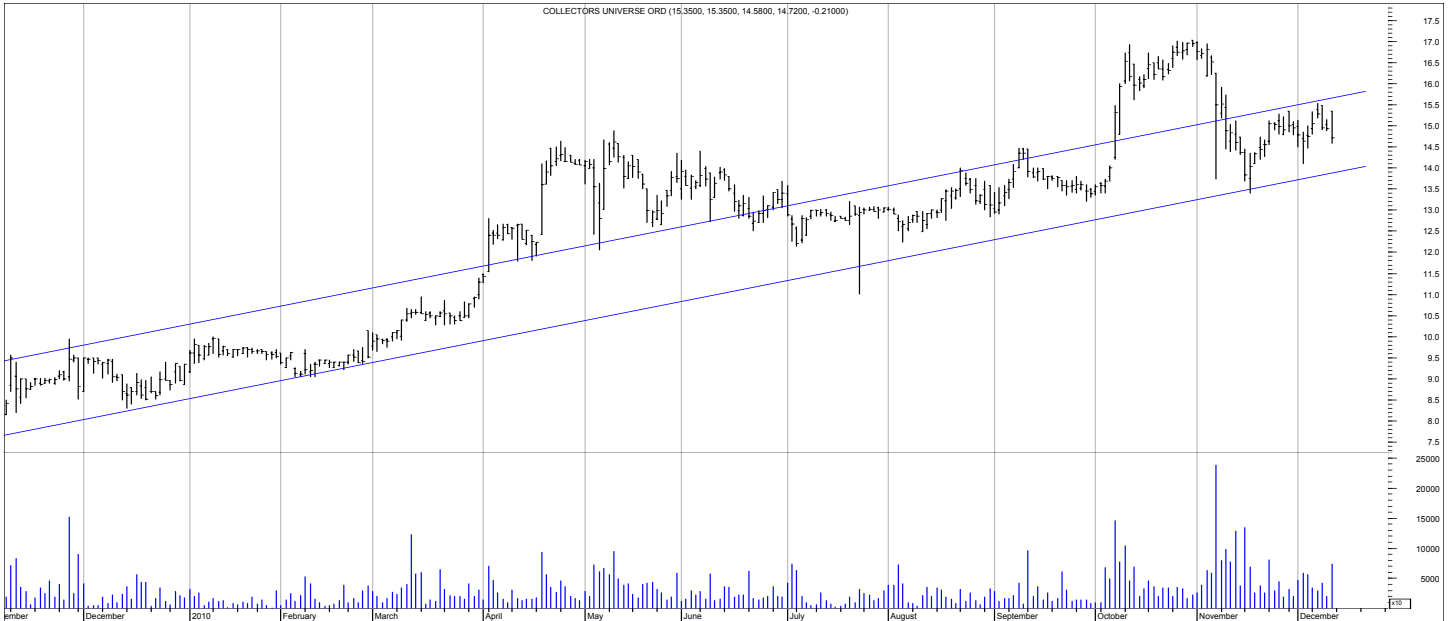
For this portfolio, we seek to outperform the Dow Industrials using proprietary timing and weighting formulas of the underlying thirty stocks of the Dow Industrials. We also will use the ETF that tracks the same. The symbol is DIA.

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

No changes. The expected pullback has yet to occur.

Feature Company



FROM TWO WEEKS AGO. NO NEW RECOMMENDATIONS AT THIS TIME. I AM EXPECTING A MARKET CORRECTION.

Collectors Universe, Inc. (CLCT)

This is an interesting company in a niche industry. It provides

authentication and grading services to dealers and collectors of coins, cards, stamps, autographs, and other memorabilia.

It trades at 7x past 12 month earnings and yields 9.05%. It has a market cap of \$112 million.

This company should continue to benefit from the rise in hard

assets as the economy continues to muddle along.

(Continued from page 1)

point is that the market has moved higher, but the foundation has weakened. It becomes a question of when, not if, it will sell off. Complacency is rampant among investors. This is a sign of a top, not a bottom.

So, perhaps at this stage the main driver that is holding up the market is year end window dressing. Time will tell.

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 either at the close on Monday (the day this eNewsletter is posted), unless otherwise noted.

Portfolios are updated through the preceding Friday's close.

Dividends are paid in cash. Interest is zero for the money market (cash) position.

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