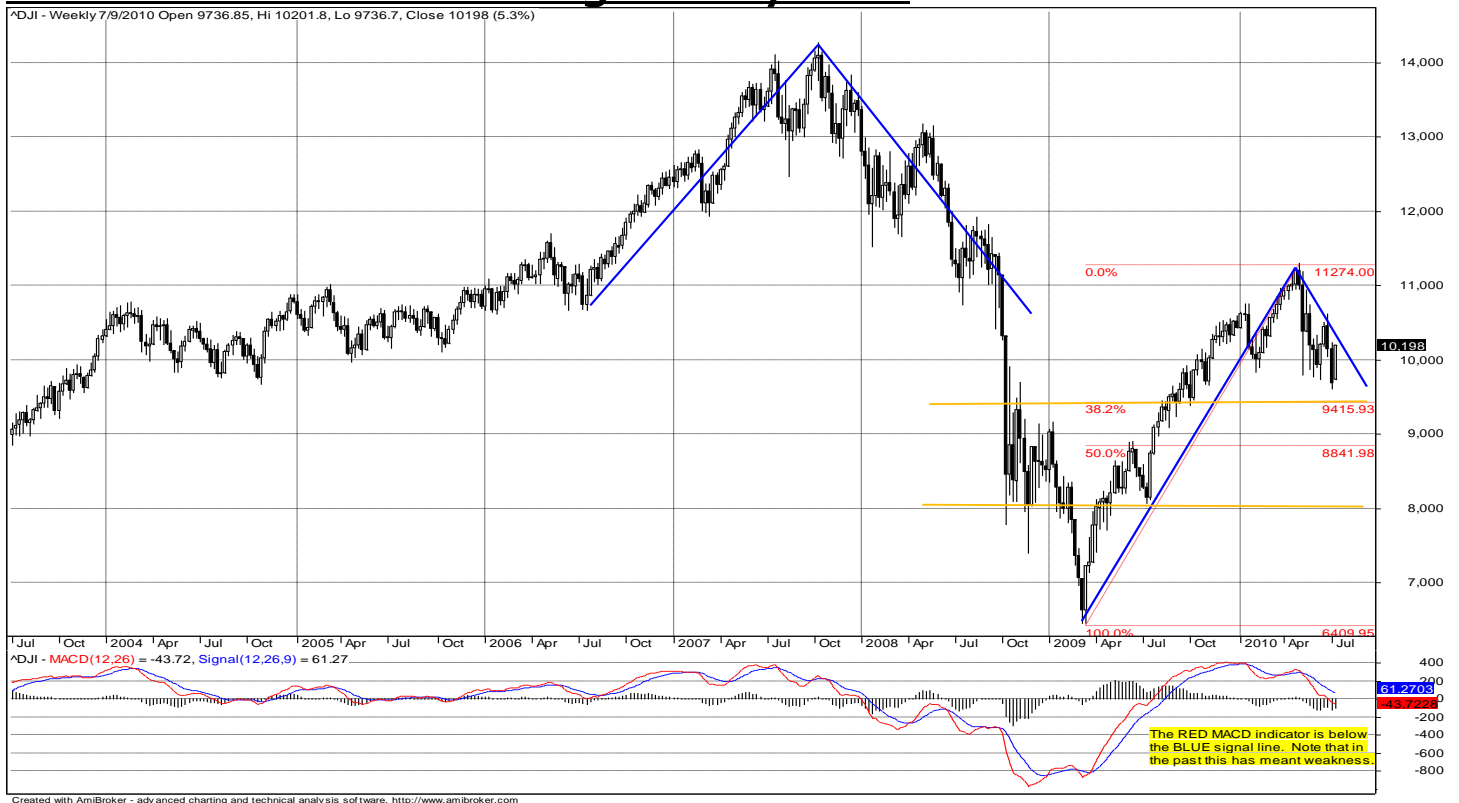


On The Mark Investing

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Broad Market Trend using Weekly Data



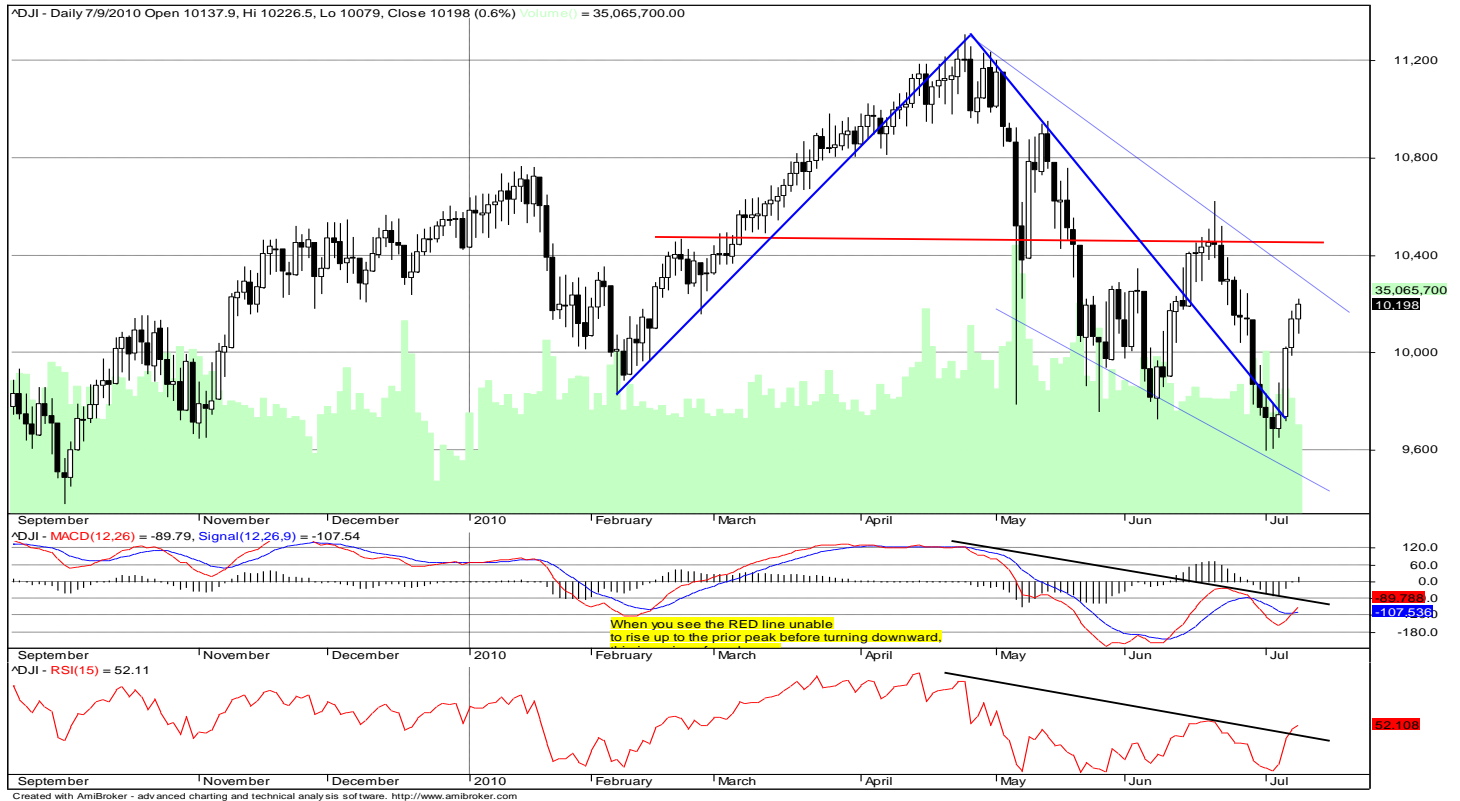
The Dow Jones Industrial Average (^DJI) gained 5.3% last week, finishing at 10,198.

Although the market went up 5.3% last week, it is still within current expectation of a slowly falling market toward a 9415 resistance point some time later in the summer. If the ending value next week significantly exceeds 10300 then I'll have to revise the theory of a slow drift downward. But from an intermediate horizon investing perspective, this is a sideways market at best and a downward drifting market otherwise.

I noted the following last week, and it is still the applicable theory in force:

“Technically, what is happening now is a natural correction to the increase in market price that occurred between March 2009 and April 2010. There are a number of accepted technical theories that indicate a correction downward to at least 9415 is necessary before this market can resume an upward trend. Per the BLUE lines above, this drop to 9415 should occur by late summer as the market continues to veer up and down.”

Near-Term Market Trend using Daily data

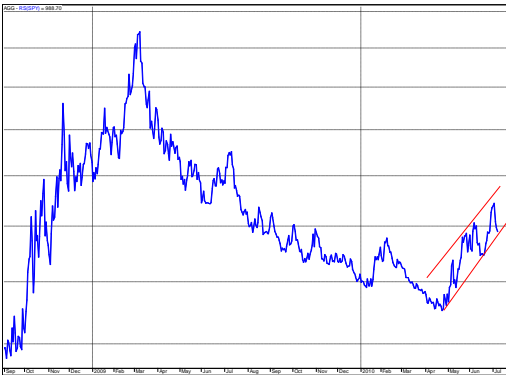


Volume as noted in green has fallen off in the last few days as the market has risen. This is a classic indication that there is not going to be enough buying interest to extend the trend, and given the Broad Market trend above it is reasonable to expect that the market will not materially exceed the dotted lines by the end of the week.

You will note that the MACD and Relative Strength lines are both showing near term strength. That is a function of the strong showing of the market in the past few days. But in this case Volume tends to lead Price, whereas the other indicators are lagging, so all in all it suggests that we'll get a short-term movement over the next few days between the two blue-dotted lines, or between 9400 and 10300.

Asset Class Behaviors

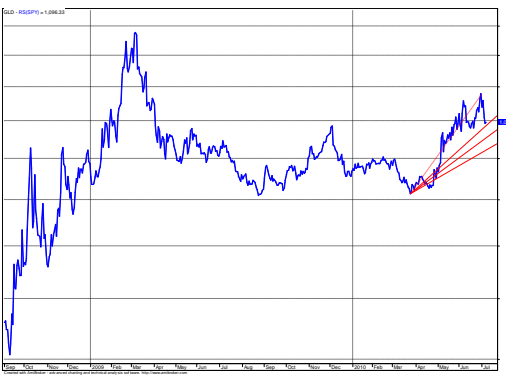
The charts below are not the price of the security. They are the ratio of the price of certain ETFs to the value of the SPY (S&P 500 ETF).



Bonds (AGG) have continuing strength against the broad market indicating a flight to safety.



Real Estate (ICF) continues to outperform slightly better than stocks, only meaning that it is still falling but just a bit slower in value than equities.



Gold (GLD) has slowed its unsustainable strength against the general market, but until it breaks the above 45 degree upward line it still a confirmation of a weakening of the overall market and a movement of monies to the safety of GLD.



Dollar (UUP) has moved laterally with the market over the very near term, and it is beginning to show weakness in the past few days. We will see over the next few weeks whether it is taking a break or whether this constitutes the breaking of a trend.

ETF Hedge Fund – Description

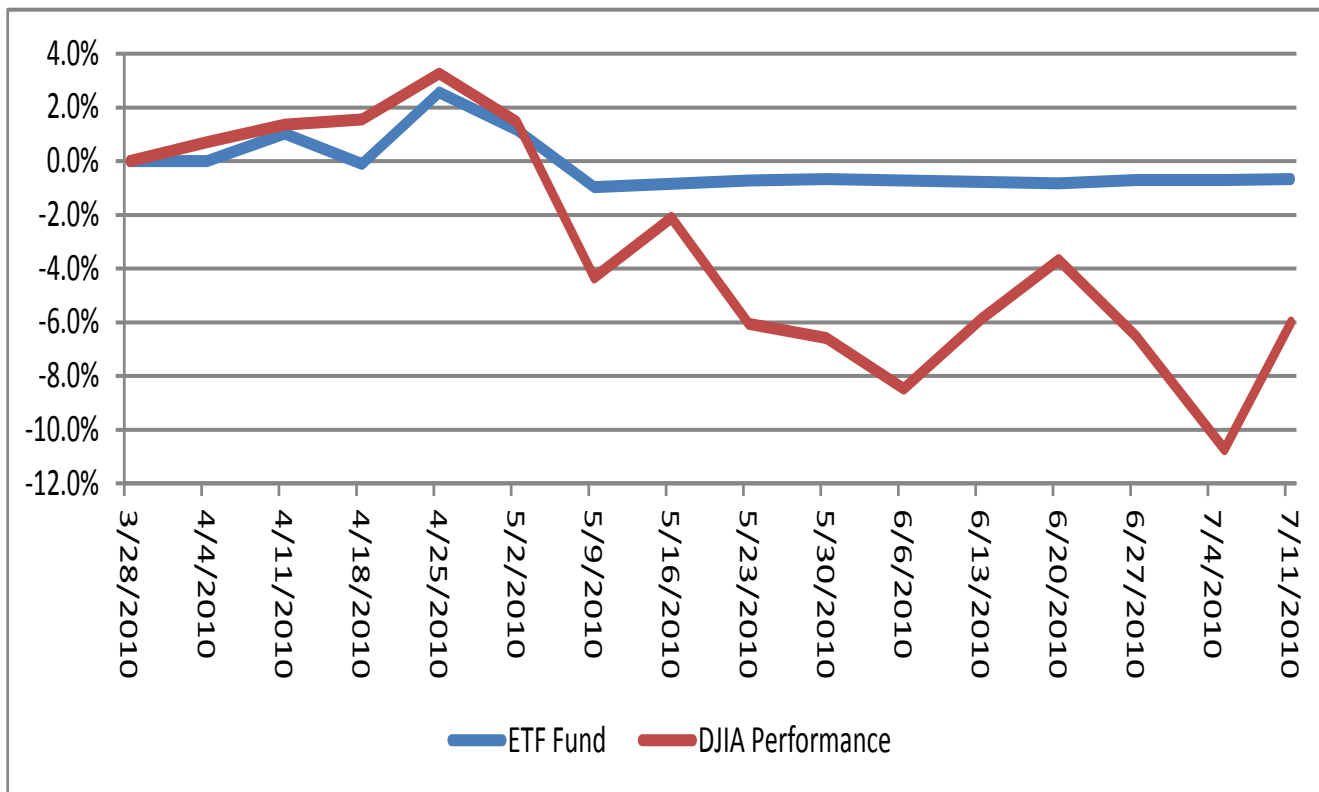
The ETF Hedge Fund consists of a set of loosely-correlated ETFs (Exchange Traded Funds). It is aimed at the conservative investor who is looking to preserve capital, avoid major market downturns, and ride market upturns. Trading occurs no frequently than weekly, and the ETF Hedge Fund has a bias toward conservative money management. ETFs can be bought just like stocks using Schwab, TD Ameritrade, Etrade, or any other electronic brokerage.

An ETF is a commonly traded security that represents a published proportion of underlying securities. For example, the ETF going by the ticker symbol “SPY” consists of a basket of stocks matching the proportion used in the S&P 500 index. ETFs have the advantage of being liquid, traded like stocks, and diversified like a mutual fund since they consist of so many underlying securities.

ETF Hedge Fund – Performance

Performance from inception, 03/28/2010 to Current

The ETF Hedge Fund is down -0.7% before dividends. The DJIA is down -6.0% in the same period.



You can see the moderating effect that properly using uncorrelated assets can have on overall return. Note that in the April timeframe, as the market was moving upward, we took advantage of the trend. In the last 2 months, we are positioned to retain our gains as the inevitable corrections occur.

Were dividend income to be included in the overall results, it is likely that the ETF Hedge Fund would be positive for the year.

Assumptions in the above chart:

- 1) You followed all BUY/SELL/STOP LOSS instructions for the security since March 28, 2010
- 2) Equal amounts were invested each time the security was purchased
- 3) All shares were sold at the time of the SELL order
- 4) No commission or transaction fees are included
- 5) No dividends or capital gain disbursements are included

ETF Hedge Fund – Security Detail

Security	Long-Term	Med- Term	Short Term	Price	Current Position Stop Loss	New Position Stop Losses	
					SELL	BUY	SELL
SPY (S&P 500 ETF)	SELL (Jun 30) (103.22)	SELL (May 20) (107.54)	BUY (Jul 9) (107.96)	\$107.96			
AGG (Bond ETF)	BUY (Apr 30) (104.89)	BUY (Apr 29) (104.44)	BUY (Apr 15) (104.26)	\$106.74	\$105.79	\$104.50	\$104.00
ICF (REIT ETF)	BUY (Jul 7) (55.30)	SELL (Jul 2) (53.66)	SELL (Jun 24) (56.64)	\$56.78			
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	BUY (Jul 1) (117.04)	\$118.36			
UUP (Dollar ETF)	BUY (Jun 18) (24.94)	BUY (Jun 18) (24.94)	SELL (Jun 17) (24.95)	\$24.44			
DOG (S&P Inverse)	SELL (Jun '09) (66.50)	BUY (May 7) (50.63)	SELL (Jul '09) (64.27)	\$51.61			
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	\$104.07	\$103.40	\$103.40	\$102.75

Three comments from last week are generally still true:

- 1) We only BUY when all three models are in sync and suggest BUY.
- 2) General equities (SPY, ICF, DOG) are not suggested by the models, and the market is in a general downward trend. So you should not be in equities.
- 3) Bond funds (AGG, MUB) have been bid up such that they are very expensive. You should wait to “buy on the dips” so to speak. So you will see that even though the models say they are BUY, you should wait until the price drops before adding to your holdings.
- 4) Gold and the US Dollar are both strong but are also expensive at this point and due for a technical correction. The technical models have begun to indicate this as short-term indicators are flashing SELL.

Remember to set the stop loss as indicated.

Mutual Fund Guidance

Security	Recommendation	Current Price of Proxy	Guidance
Equity Mutual Funds (SPY as a proxy)	(May 24) SELL when SPY was below 110 for 3 days. (\$107.71)	\$107.96	You should be out of equity funds until this lateral market resolves into a trend.
Bond Mutual Funds (AGG as a proxy)	(May 16) BUY per recommended weight below	\$106.74	Shift monies from Bond Mutual Funds to Money Market Funds when the price of AGG drops below \$103.80 for 3 days
Money Market	Do not hold cash	N/A	You should be in fully in bond mutual funds at this point.

Rules for 401K Mutual Fund Portfolios

Segment your 401K portfolio offerings into Equity, Bond, and Money Market. Most equity funds (Large Cap, Small Cap, International, Growth, Value) are very tightly correlated and should be considered as a single asset class. Of these, if you have an S&P Index fund, choose this as your Equity fund. Most bond funds (government, mortgage) are tightly correlated. Of these, if you have a government bond fund, choose this as your Bond fund. You typically will not have a Real Estate or Gold option for 401K portfolios.

New Offering – ETF Mechanized Fund – Philosophy

The ETF Mechanized Fund consists primarily of ETFs but may include other securities whose market capitalization is \$1 billion dollars and up. It is aimed at the conservative investor who is interested in allocating a portion of his holdings to a more aggressive investment strategy. It is anticipated that average hold periods will be in the 6 week to 6 month range, but investments will need to be reviewed daily.

When considering whether to implement the recommendations of the ETF Mechanized Fund, there are a number of performance and risk considerations for you to make. They are as follows:

1. **Winning Percentage:** you could reasonably expect that 50-64% of your trades will be winners. Losers will not be held very long. Winners will be held a reasonably long period of time.
2. **Maximum DrawDown Percentage:** this is a measure of how much the value of your holdings will drop from a high point. The more patient you are with drops in the value of your holdings, the more likely it is that you will see long term gains. The NASDAQ 100 dropped 43% and 32% in 2000 and 2008, and a total of 73% off of its high at one point over the past 20 years. This fund is presently backtesting a maximum 27% drawdown over that same 20 year period.
3. **Average Holding Period:** as noted above, we are looking at 6 week to 6 month average period. However, losses will be held on average only 17 days.
4. **Performance Over Various Periods:** you would expect that this fund would perform well over various periods of time in various markets. Since 2000, this strategy would beat the market 8 of the 10 years. In the two years that it did not beat the market, it missed in 2003 and 2009 when the NASDAQ grew 42% and 45% respectively, while the Fund performed about 8 percentage points less in each year due to its conservative philosophy.

ETF Mechanized Fund – How It Works

The ETF Mechanized Fund performs several thousand calculations daily per security to determine whether to enter and exit trades. For any security on any given day, the programming will choose an optimized combination of the following factors:

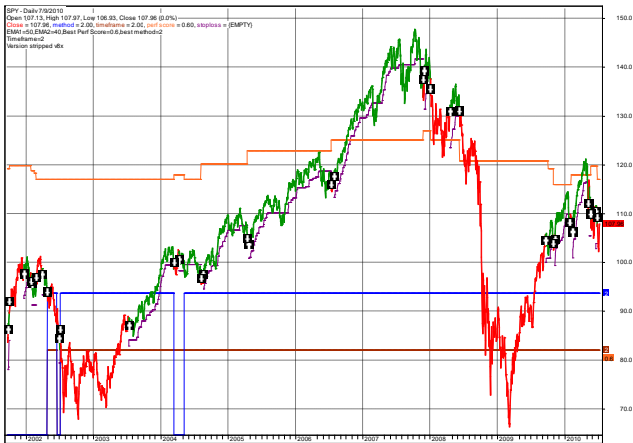
1. **Technical Strategy:** chooses among strategies including trend following, reversion to mean, and overbought/underbought
2. **Technical Strategy Parameters:** chooses the best parameter values (for example: length of moving averages)
3. **Sampling Period:** chooses the best combination of daily, weekly and monthly data
4. **Performance Standard:** optimizes winning percentage, gain, drawdown, average holding period

ETF Mechanized Fund – Daily Signals

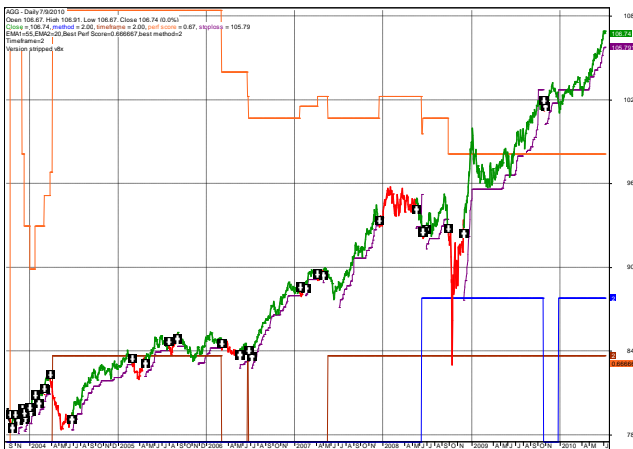
Daily BUY, SELL, StopLoss and other considerations for the ETF Mechanized Fund will be available daily after the market closes. I intend to make this available eventually through a website for mutual convenience. Until then I will send a daily email to those individuals who are specifically interested.

ETF Mechanized Fund - Examples

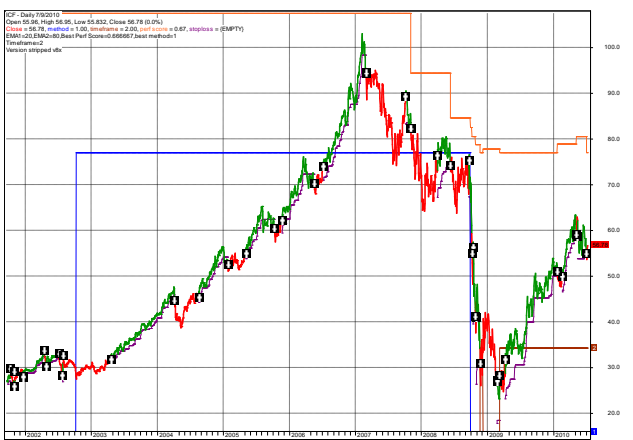
The following graphs are the result of applying the ETF Mechanized Fund logic to the securities involved in the ETF Hedge Fund. GREEN lines indicate periods where the security would be held --- RED lines indicate periods where the security would be sold.



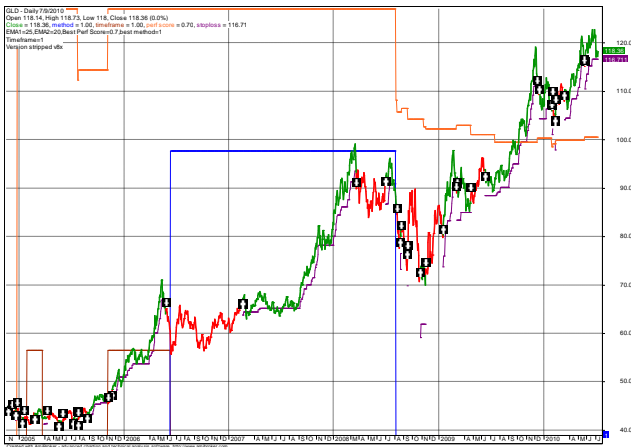
SPY - S&P 500 ETF Fund - captures uptrend and generally avoids drops



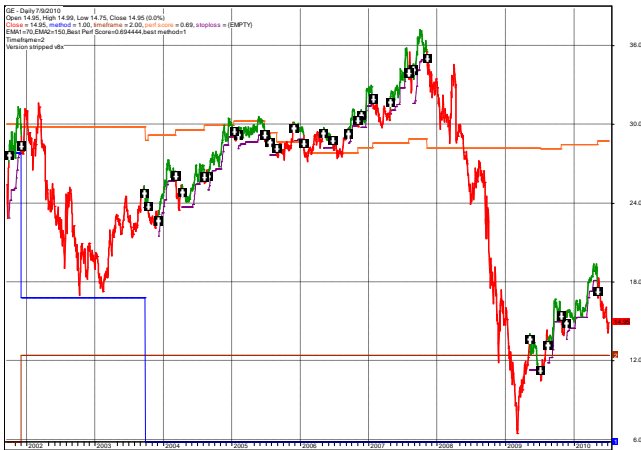
AGG - Intermediate Bond ETF - captures uptrend and conservatively avoids drops



ICF - Real Estate ETF - generally captures gains



GLD - Gold ETF - volatility is difficult for mechanized routines, but this tends to capture growth periods



GE - General Electric - model tends to capture uptrends and is out of the market on large downturns

The Final Word

If you are interested in beginning to get daily information on the ETF Mechanized Fund, drop me a line by email and I'll add you to the list. I'll begin sending information when I've put the finishing touches on the mechanical routines, which should be inside of the next 2 weeks. At that time I'll send you specific information on back-tested performance, caveats, etc.

Appendix – Important Details

Rules for Placing Trades

- 1) When you place a BUY order, you will also place an associated SELL order for the same security. This is designed to keep you free of constantly checking progress of the trade, and it is designed to build the discipline of always having a set of stops in place to control downside risk. This can be automated on TD Ameritrade by using what are referred to as “Conditional Orders”. On Schwab these are referred to as “Bracket Orders”. Lacking these automated tools, once you execute the BUY order you can go in the day after the BUY and manually place the protective stop.
- 2) All of your orders (BUY and SELL) will be done using Stop Market orders. That is, on a BUY order the market price must rise to a particular price before you BUY. This gives you initial confirmation that the market price is moving in the expected direction. On a SELL order the market price must fall to a particular price before you SELL.

Rules for Adding New Money to Existing Portfolios or Building from Scratch

- 1) Only add new monies to securities with BUY in Long-Term, Medium Term and Short Term. Otherwise, keep the money in a money market fund.
- 2) Do not increase the overall size of the portfolio more than 12% a week, in order to limit market risk.
- 3) Always enter the noted stop loss amount with each investment. Do not enter a purchase without an associated stop loss amount.

Things to be Aware Of....

First, among the positions that I hold positions are AGG and MUB, among other securities.

Second, the information contained herein is based on sources that I deem to be reliable but is neither all-inclusive nor guaranteed for accuracy by me and may be incomplete or condensed. The information and its opinions are subject to change without notice and are for general information only. Past performance is not a guide or guarantee of future performance. The information contained in this report may not be published, broadcast, rewritten or otherwise distributed without my consent. Pursuant to the provisions of Rule 206(4)-1 of the Investment Advisers Act of 1940, all readers are advised that they should not assume that all recommendations made in the future will equal that referred to in this material. Investing in securities involves risks, including the possibility of loss.