

5-STEP INVESTING

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Step 1 – Broad Market Trend

Primary Trend: Upward. Started March 6, 2009 at 6626.
Intermediate Trend: Upward. Started February 12, 2010 at 10012.

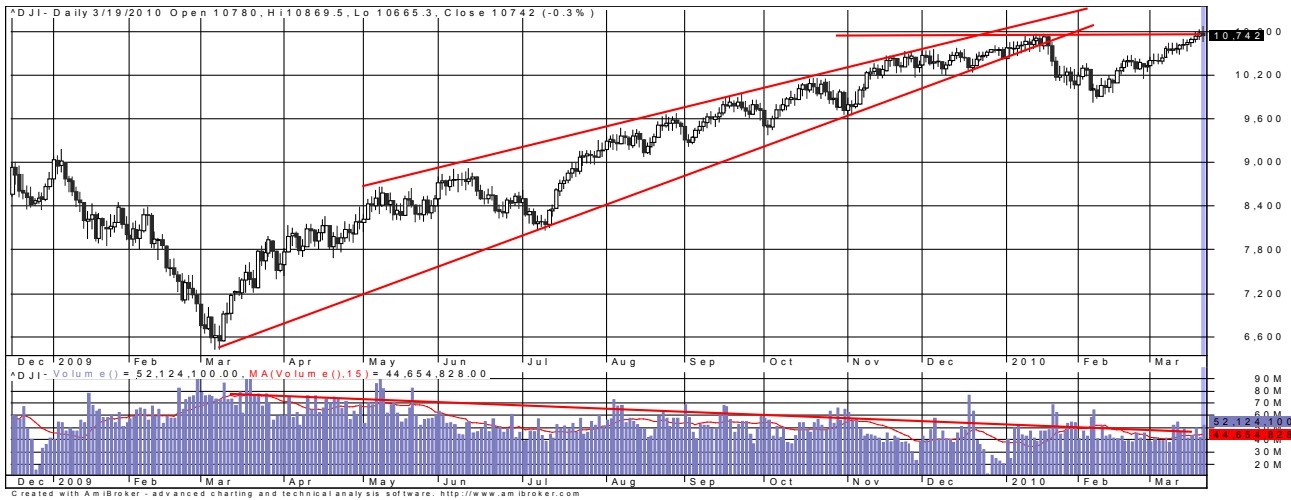


The broad market as measured by the Dow Jones Industrial Average (^DJI) has not materially signaled its intentions - it is in fact at a decision point. To summarize prior points made in the above graphic of weekly closing prices over the past 9+ years:

- 1) The fact that the market is at the Orange 10785 market is significant. As you can see historically, 10785 has been a point of support/resistance many times in the past.
- 2) Elliott wave theory would indicate that if this is the beginning of another big upward push in the market, we might see another uninterrupted leg up to 12250. Conversely, an inability of the market to extend well past its mid-January high of 10763 may indicate that we are simply in the 2nd leg of a 3 leg lateral correction, which at best means the market will move sideways and at worst it is the beginning of a downward correction in the market.
- 3) One might expect the upswing that started in 2009 to end at a 50% Fibonacci retracement level of 10368. Since the trend kept on going, the next significant point is 11288. But rather than move ahead to 11288, the market retraced, went below the 10368 level, and has once again crawled back above it.
- 4) The MACD crossovers are looking more and more relevant. Historically a peaking crossover seems to indicate a change in market trend, as occurred in 2004 and 2007. Once again for only the 3rd time since 2001 we are at that point. The inability of the market to drive a new leg upward is similar to what happened in 2007 before the downward bear market began.

Step 2 – Near Term Market Trend

Intermediate Trend. Upward. Started February 8, 2010 at 10195.
Short Term Trend. Upward. Started March 1, 2010 at 10337.



Echoing the above comments in the broader trend, near term activity has been weak since January when the intermediate trend broke. As you can see by the number of red trend lines, the point in January at which the trend reversed was significant, and the inability of price to stay within the channels or cross above the 10798 horizontal line is significant. Additionally one can see that volume has fallen over the period of the rise in the price. Tellingly, during the January correction volume increased substantially relative to prior periods. Volume tends to increase with price in the direction of the prevailing trend, which would indicate that this recent rise in price sans volume does not have the strength to continue beyond the red resistance lines noted above.

Step 3 – Asset Classes

Charts are not the price of the security. They are the ratio of the price of certain ETFs to the value of the Dow Jones Industrial Average.

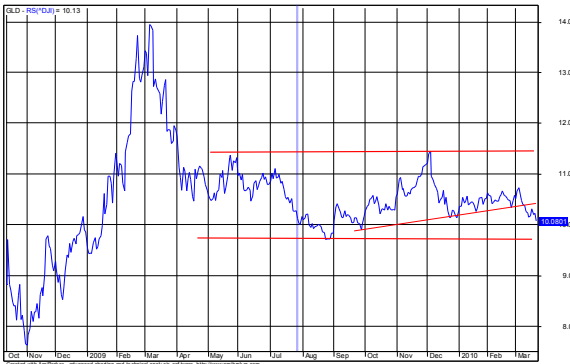
Bonds (AGG) continue to underperform relative to the DJI. It should be underweight in your portfolio. No sign of need to shift to this safer asset class.



Real Estate (ICF) continues to outperform relative to the DJI. It should be overweight in your portfolio.



Gold (GLD) is performing similar to the DJI. It should be regular-weight in your portfolio. Confirms that there is no need to shift to GLD for safety.



Step 4 – Current Portfolios

ETF Hedge Fund

There is no indication that you should prepare to hedge for a downside intermediate term correction yet, although in the near term a short pullback in prices is to be expected after the present run-up. When securities hit the stop loss the monies should go into cash until the next weekly investment cycle.

Security	Weight	Long-Term	Medium Term	Short Term	Price	Stop Loss
SPY (S&P5 ETF)	Overweight	BUY (Jan 22)	BUY (Mar 10)	BUY (Feb 11)	115.97	111.71
AGG (Bond ETF)	Underweight	BUY (Dec 28)	BUY (Mar 12)	BUY (Feb 23)	104.75	103.89
ICF (REIT ETF)	Overweight	BUY (Jan 25)	BUY (Mar 4)	BUY (Feb 16)	57.69	54.70
GLD (Gold ETF)	At weight	BUY (Feb 1)	SELL (Jan 29)	SELL (Mar 19)	108.28	105.37

Current Recommended weights for portfolios:

Conservative: Bonds 30%; S&P 50%; Real Estate 10%; Gold 10%

Aggressive: Bonds 5%; S&P 35%; Real Estate 35%; Gold 25%

Base weights for portfolios:

Conservative: Bonds 50%; S&P 30%; Real Estate 10%; Gold 10%

Aggressive: Bonds 25%; S&P 25%; Real Estate 25%; Gold 25%

401K Portfolios

Long term savings portfolios should generally follow the conservative recommendations above. This generally does not imply using the target date funds, as they remain invested in the market at a 65-80% level regardless of market trend.

Step 5 – New Ideas

Underway.

The Final Word

This week's final word comes from Balbino Vazquez, a friend with a macro- and techno-economic viewpoint of the market that you may find interesting.