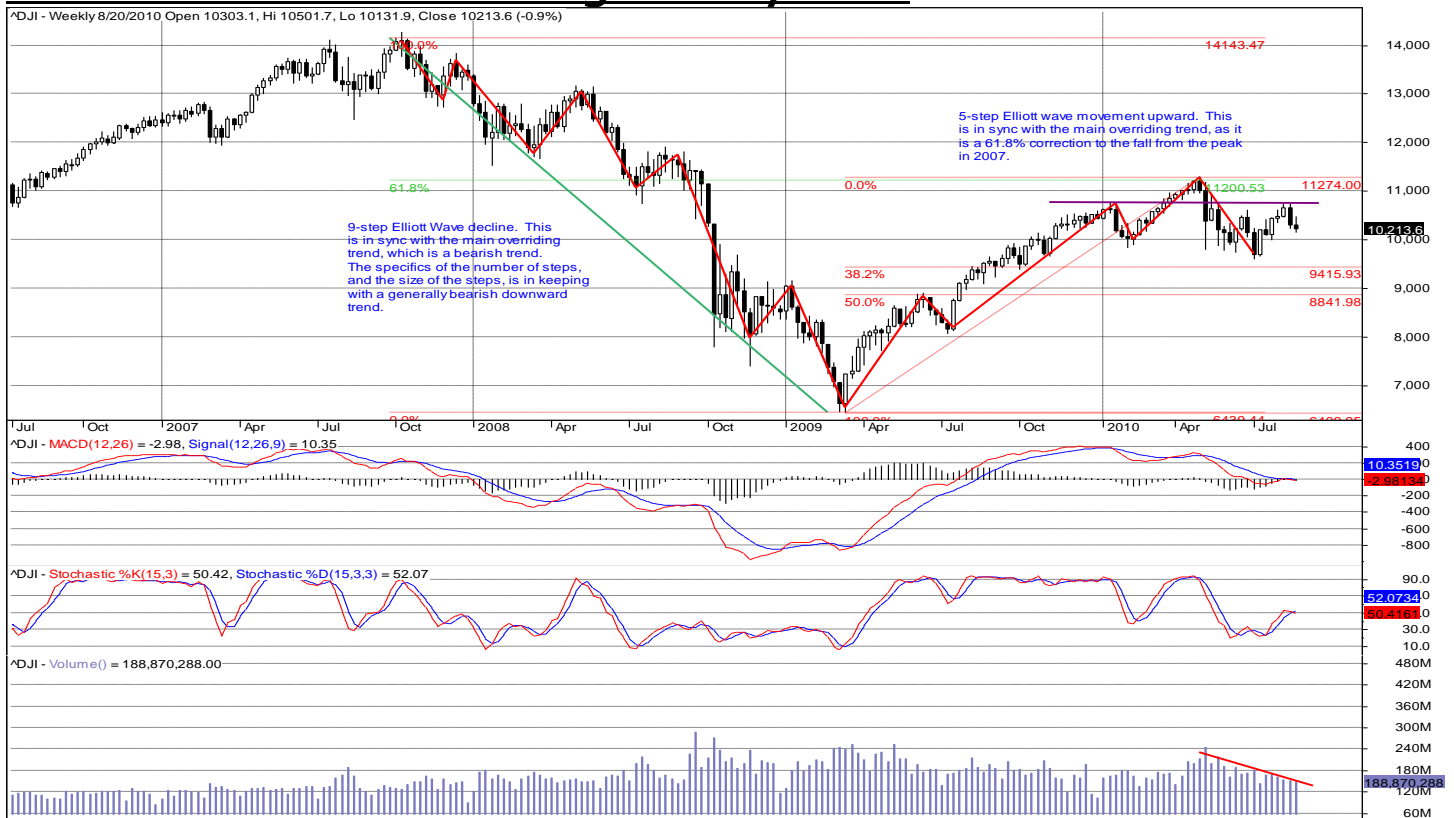


# On The Mark Investing

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## Broad Market Trend using Weekly Data



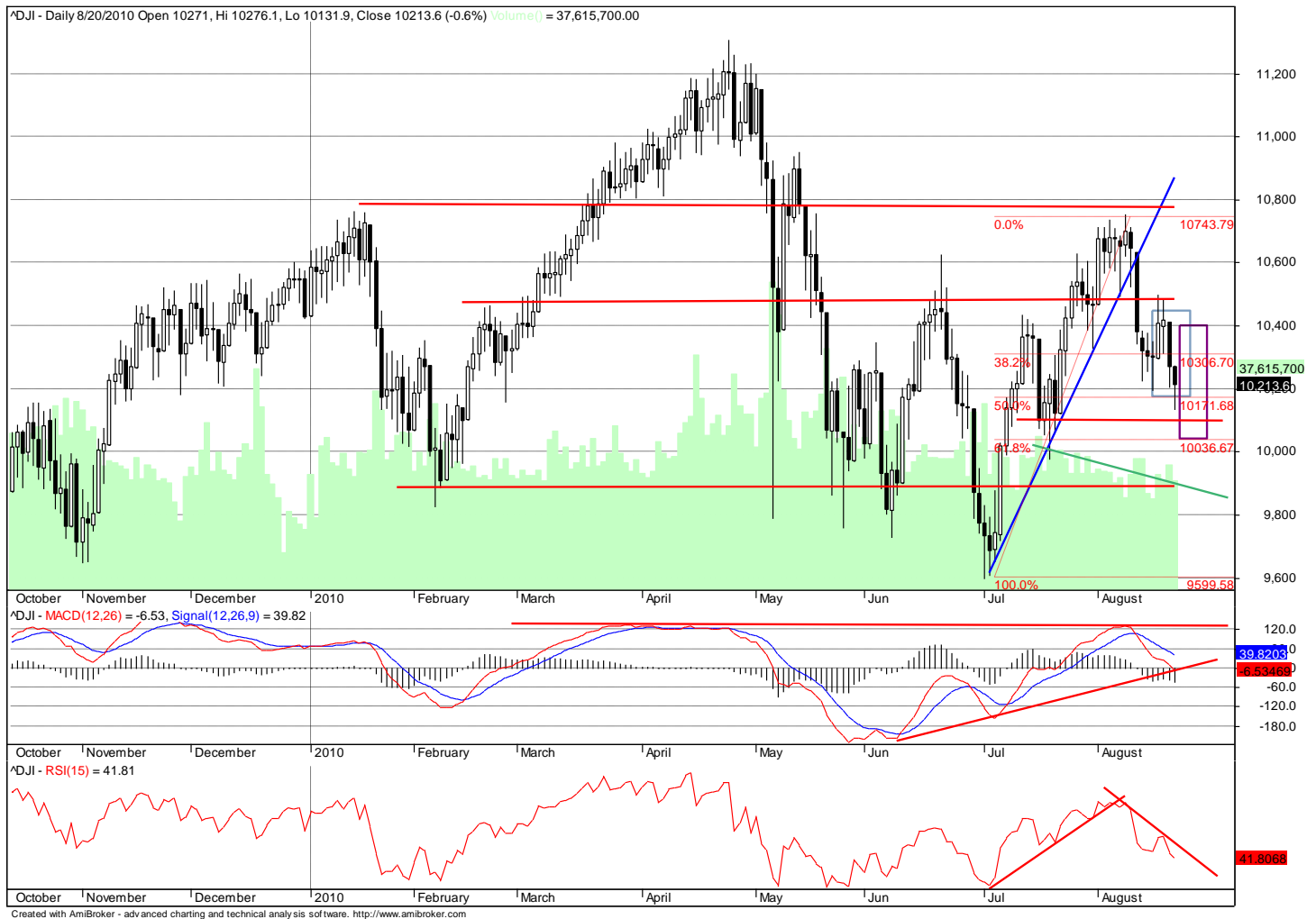
The Dow Jones Industrial Average (^DJI) lost 0.9% last week, finishing at 10,213.

Four weeks ago I noted “From a broad market perspective the movement is sideways. There are opportunities within that, as will be discussed in the Near-Term analysis below. But in the Broad we are still in a sideways market.” For the past three weeks the PURPLE 10750 line offered resistance as expected.

I will repeat the values to watch from four weeks ago --- they are still relevant:

- If the market rises and stays above 10750 for several days then you can assume that the downward market is cancelled, this is a sideways move, and we’ll be waiting for the next step up or down.
- The next step in that instance is 11263. If the market passes that point, we can assume that the sideways market is cancelled, and that we are in another period of uptrend in the market. A likely extension of the Elliott wave to a 7<sup>th</sup> leg up.
- If however the market drops down below 9632, we could expect a continued fall as this would be the third leg of an Elliott down or correction wave.

# Near-Term Market Trend using Daily data



Last week I noted: “The story here is Volume.” And also “...we should continue to expect weakness in the near term, as both the MACD and Relative Strength lines have dropped below their signal lines.” Last week played out as was expected, as the market moved in a lackluster, sideways direction on diminishing volume. Price drifted slowly sideways with a downward bias.

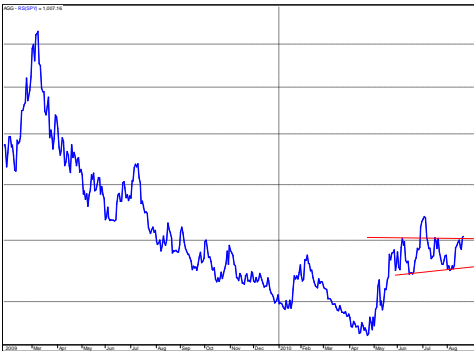
Volume continues to be light, only picking up during stiff sell-offs. MACD and RSI as noted above are below their signal/trend lines and do not look to challenge the current sideways/down trend.

I listed a rather wide PURPLE rectangle of possible activity this week. For a variety of technical reasons (Fibonacci, MACD against the trend, Elliott Wave) it is likely that 10171 (just a 0.4% drop from here) may be a short term bottom, with the index then drifting back up to 10400. If on the other hand the DJI falls persistently below 10171, then the 10036 level will be important. If you hear that the market “dropped below 10000” it means something this time and it is not just hyperbole. At that point I’d be looking for the index to drop all the way to 9599.

If you are investing in this market, monitor your entry and exit points tightly. With the volume this light, big swings in price can happen quickly.

# 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) reversed course two weeks ago and strengthened relative to the market dip. There is concern of a “double-dip” market drop given current economic weakness. Bonds are once again appearing as a shelter.



Real Estate (ICF) continues strong relative to the market on the whole. But in a weak market there is risk in the Real Estate play at this time.



Gold (GLD) moved up significantly with the whiff of concern over a potential double-dip in the market. When Bonds and Gold both move strongly relative to the market, you can see the investor worry playing out in the numbers.



Dollar (UUP) moved sharply upward relative to the market. A stronger dollar will have the effect of lowering earnings for US companies. This renewed strength is consistent with the present weakness in the market.

## ETF Hedge Fund – Description

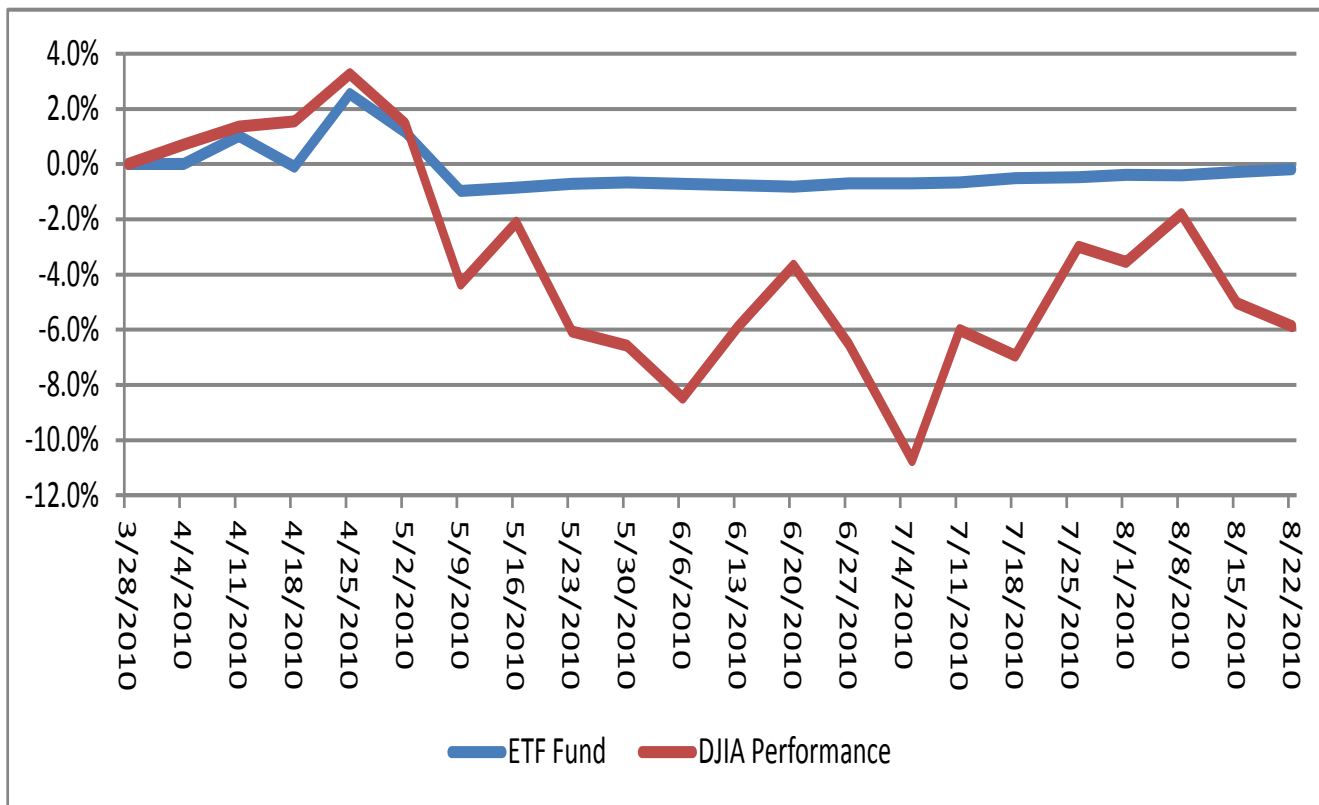
The ETF Hedge Fund consists of a set of loosely-correlated ETFs (Exchange Traded Funds). It is aimed at the conservative investor who is looking to preserve capital, avoid major market downturns, and ride market upturns. Trading occurs no frequently than weekly, and the ETF Hedge Fund has a bias toward 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 -0.18% before dividends. The DJIA is down -5.87% 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 3 months, we are positioned to retain our gains as the inevitable corrections occur.

Were dividend income to be included in the overall results, 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	The BUY/SELL notes below are from mechanical models and used as a reference. Please see notes directly below this table for further clarification and direction.			Price	Current Position Stop Loss	New Position Stop Losses	
	Long-Term	Med- Term	Short Term		SELL	BUY	SELL
SPY (S&P 500 ETF)	SELL (Jun 30) (103.22)	SELL (May 20) (107.54)	SELL (Aug 13) (108.31)	\$107.53			
AGG (Bond ETF)	BUY (Apr 30) (104.89)	BUY (Apr 29) (104.44)	BUY (Apr 15) (104.26)	\$108.30	\$107.29	\$104.75	\$104.00
ICF (REIT ETF)	BUY (Jul 7) (55.30)	SELL (Jul 2) (53.66)	SELL (Aug 13) (59.12)	\$58.98			
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	BUY (Aug 3) (115.99)	\$119.97	\$115.52		
UUP (Dollar ETF)	BUY (Jul 14) (24.25)	SELL (Jul 14) (24.30)	BUY (Aug 12) (24.01)	\$24.13			
DOG (S&P Inverse)	SELL (Jun '09) (66.50)	BUY (Aug 20) (51.16)	SELL (Jul '09) (64.27)	\$51.16			
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	\$106.60	\$105.36	\$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 or sideways trend. So as an intermediate-term investor 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 is probably set for sideways movement. It is probably safe to trade at this point as a short-term, day-to-day proposition, but it is unclear that an intermediate-duration trend is underway. So I am not recommending GLD for intermediate-term trading.
- 5) The US Dollar is in a technical correction cycle and is not good BUY at this point.

Remember to set the stop loss as indicated.

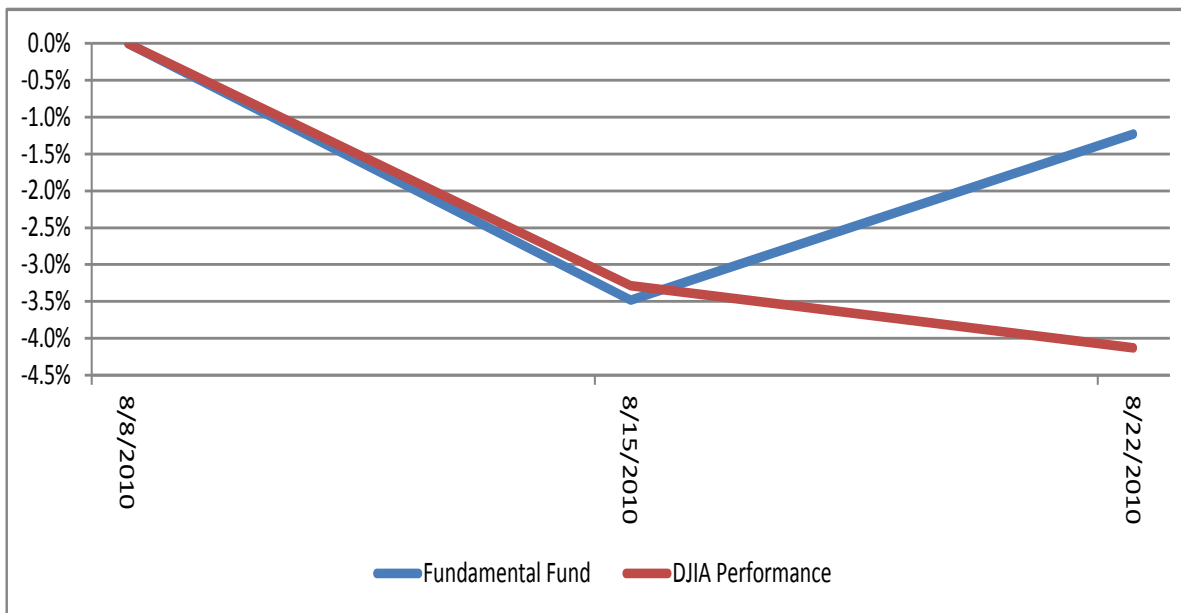
## Miley Fundamental Fund – Description

The Miley Fundamental Fund consists of value-based stocks that have been picked by Dan Miley, who is an experienced trader that specializes in a Fundamental Approach that has been outlined in past newsletters. These stocks will then be married up with a Technical timing component, resulting in a set of recommendations that attempt to marry the best of fundamental investing with technical timing.

The Miley Fundamental Fund is designed for Intermediate Term investors that are prepared to wait a bit for good value plays to be realized by the market. This is not designed to be day-traded.

## Miley Fundamental Fund – Performance

The Fundamental Fund is down -1.23% before dividends. The DJIA is down -4.13% in the same period.



The Fundamental Fund is designed to achieve greater returns than market over an intermediate period of time. We will need a period of time to determine its success.

Assumptions in the above chart:

- 1) You followed all BUY/SELL/STOP LOSS instructions for the securities since August 8, 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

## Miley Fundamental Fund – Security Detail

	The BUY/SELL notes below are from mechanical models and used as a reference. Please see notes directly below this table for further clarification and direction.				Current Position Stop Loss	
Security	Long-Term	Med- Term	Short Term	Price	SELL	Recommendation
Providence Service (PRSC)	BUY (Jul 1) (13.34)	SELL (Jun 30) (14.00)	BUY (Jul 22) (13.68)	\$13.87	12.47	BUY.
First Cash Financial (FCFS)	BUY (Jul 31) (18.79)	BUY (Jun 5) (16.82)	SELL (Aug 12) (23.70)	\$23.92	22.36	HOLD. Do not add to position.
Apple (AAPL)	BUY (Jul 20) (251.89)	SELL (Jul 19) (245.58)	BUY (Aug 11) (250.19)	249.64		SELL. You were stopped out on 8/11.
Ensign Group (ENSG)	BUY (Jun 30) (16.52)	BUY (Jul 30) (18.00)	BUY (Aug 4) (18.44)	\$18.16	\$16.69	BUY.
Almost Family (AFAM)	SELL (Jul 1) (35.01)	SELL (Jul 1) (35.01)	BUY (Jul 23) (24.98)	\$25.59	\$23.01	BUY.
InterDigital (IDCC)	BUY (May 10) (26.81)	SELL (Apr 29) (27.49)	BUY (Aug 6) (26.90)	\$26.61	\$25.34	HOLD.

The Miley Fundamental Fund is value-based, and as a result you have to allow more market volatility in order to give the market time to react to the full value of the stock. You will note that some of the stop loss positions are a bit wider than in the ETF Hedge Fund.

On Fundamentals alone, all stocks in this fund are a good value. However only those stocks with a New Position Buy and a New Position recommended Stop Loss are at BUY status this week. Whether you invest, and how much you invest, should be based on your ability to be comfortable with the underlying risk of a wider stop loss position as well as most recent performance. Make sure you implement a stop loss on all purchases.

## 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)	\$107.53	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	\$108.30	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 Investing Suggestions

None.

## The Final Word

None this week.

## 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, I hold a number of positions in this newsletter.

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.