

# On The Mark Investing

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## Broad Market Trend using Weekly Data



The Dow Jones Industrial Average (^DJI) gained 0.1% last week, finishing at 10,462.

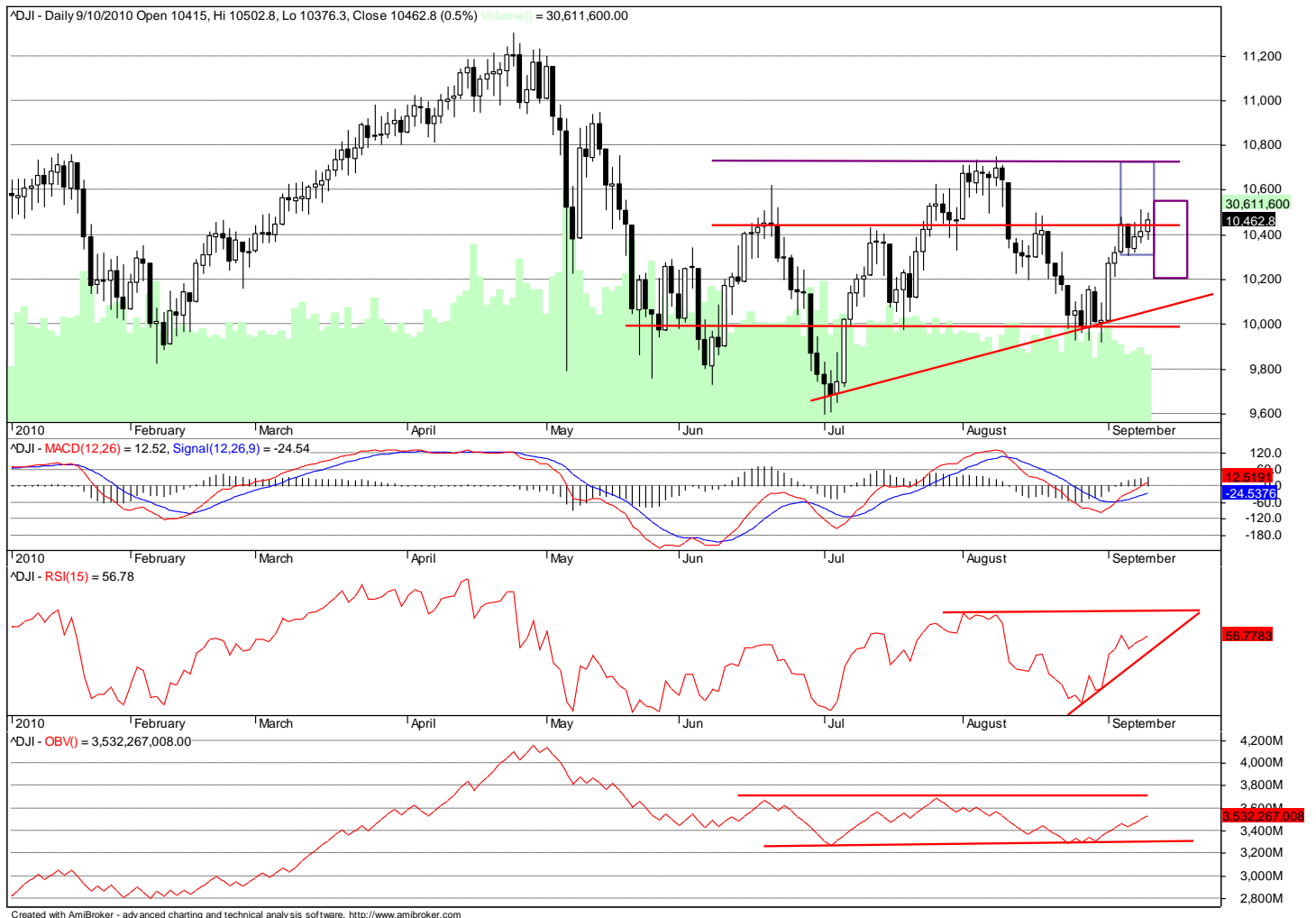
Last week's notes (actually, last Monday's notes), still apply and are repeated below.

"The market is still in a trading range, bounded on the bottom by 10000 and on the top by the PURPLE line at 10700.

A down market turns into an up market when all of the potential sellers are through selling. We have had a raft of bad economic and political news. The market has reacted with a malaise, drifting sideways-down but for the most part absorbing the news. We could be approaching a point where bad news doesn't move the market downward, but good news would start to move the market upward.

Until the market breaks conclusively out of this 700 point range, it is just a ranging market. The volume has not picked up to any degree, so the odds at this point of follow through above 10700 are very low."

# Near-Term Market Trend using Daily data

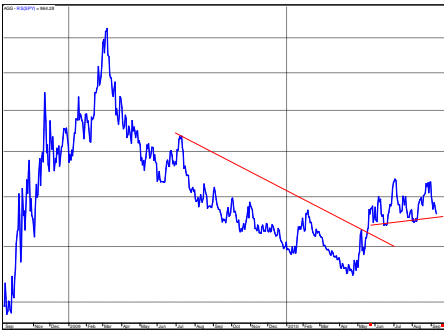


The market performed as expected last week and spent that time in the lower end of the expectation rectangle that I created.

There appears to be some remaining upward room to move in the RSI and OBV variables. I would not be shocked if we saw an increase in the DJI from its current 10462 up to touching 10600. But the fact that last week's small increase was accompanied by declining volume would tend to suggest that any uptrend will be short-lived. The current expectation has to be a sideways performance as indicated in the PURPLE rectangle above.

# 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 some near term weakening, but until this breaks the trend line I don't see reason to reduce the present position.



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



Gold (GLD), like Bonds, are retrenching slightly relative to the overall market. There is nothing to react to at this point unless the above trend line is penetrated.



Dollar (UUP) is also catching its breath after moving upward relative to the overall market. It is closing in on the trend line --- and a decision point on how it will behave relative to the market in the future.

## ETF Hedge Fund – Description

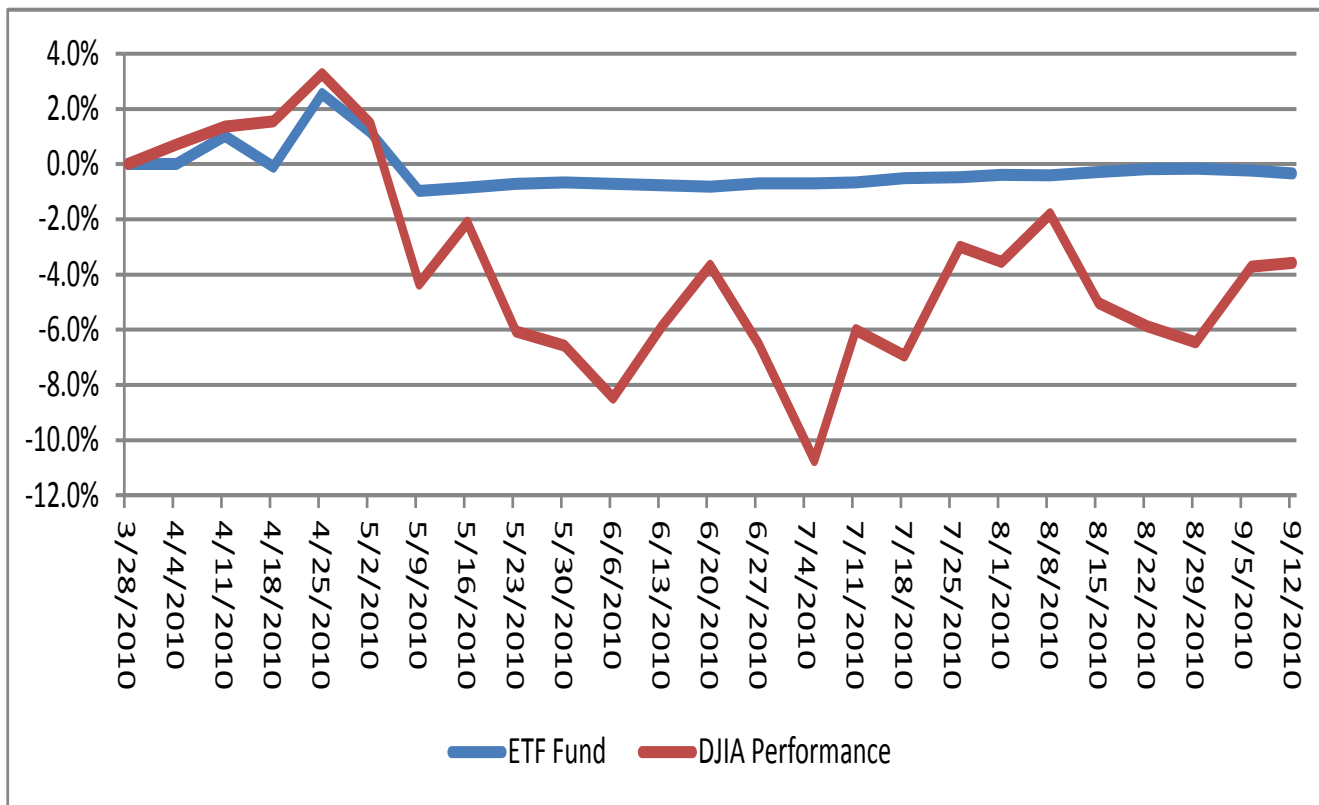
The ETF Hedge Fund consists of a set of loosely-correlated ETFs (Exchange Traded Funds). It is aimed at the conservative investor who is looking to preserve capital, avoid major market downturns, and ride market upturns. Trading occurs no frequently than weekly, and the ETF Hedge Fund has a bias toward 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 -0.33% before dividends. The DJIA is down -3.58% 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 4 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

	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	New Position Stop Losses	
Security	Long-Term	Med- Term	Short Term	Price	SELL	BUY	SELL
SPY (S&P 500 ETF)	SELL (Jun 30) (103.22)	SELL (May 20) (107.54)	BUY (Sep 3) (110.89)	\$111.48	104.75		
AGG (Bond ETF)	SELL (Sep 10) (107.50)	SELL (Sep 10) (107.50)	SELL (Sep 10) (107.50)	\$107.50			
ICF (REIT ETF)	BUY (Jul 7) (55.30)	BUY (Sep 10) (62.34)	BUY (Sep 1) (61.92)	\$62.34	\$57.97		
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	BUY (Aug 3) (115.99)	\$121.73	\$118.44		
UUP (Dollar ETF)	SELL (Aug 2) (23.52)	SELL (Jul 14) (24.30)	SELL (Sep 2) (23.91)	\$23.98			
DOG (S&P Inverse)	SELL (Jun '09) (66.50)	BUY (Aug 20) (51.16)	BUY (Aug 25) (51.95)	\$49.76			
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	\$106.44	\$105.85		

Note these comments:

Bond funds appear to be topping out. They have had quite a run, but we've been seeing relative strength weakness in AGG for some weeks now. Furthermore, any indication of inflation on the horizon, or a shift of monies into equities, would also weaken bond returns in a relative sense in the future. The models may be picking up on this. The stop loss was hit in AGG on Friday September 10, and it appears that MUB will likely soon be hit as well. You should have sold your AGG with the stop on Friday.

The broad market is in a sideways pattern, but it appears that a shift into equities may be forthcoming. What is confusing at this point is that both the SPY and the DOG are listed as BUY. That is not extraordinarily unusual in a sideways market with light volume, so we have to read past that. Until the market prices are willing to move in a trend direction, I remain unwilling to recommend that we follow the models into stocks one way or the other.

Sit in cash this week. Let's see if volume picks up and gives us some indication of future direction.

If you are trading GLD or ICF on a daily basis, you may be up a few percent but at this point I am still unwilling to make a longer term commitment.

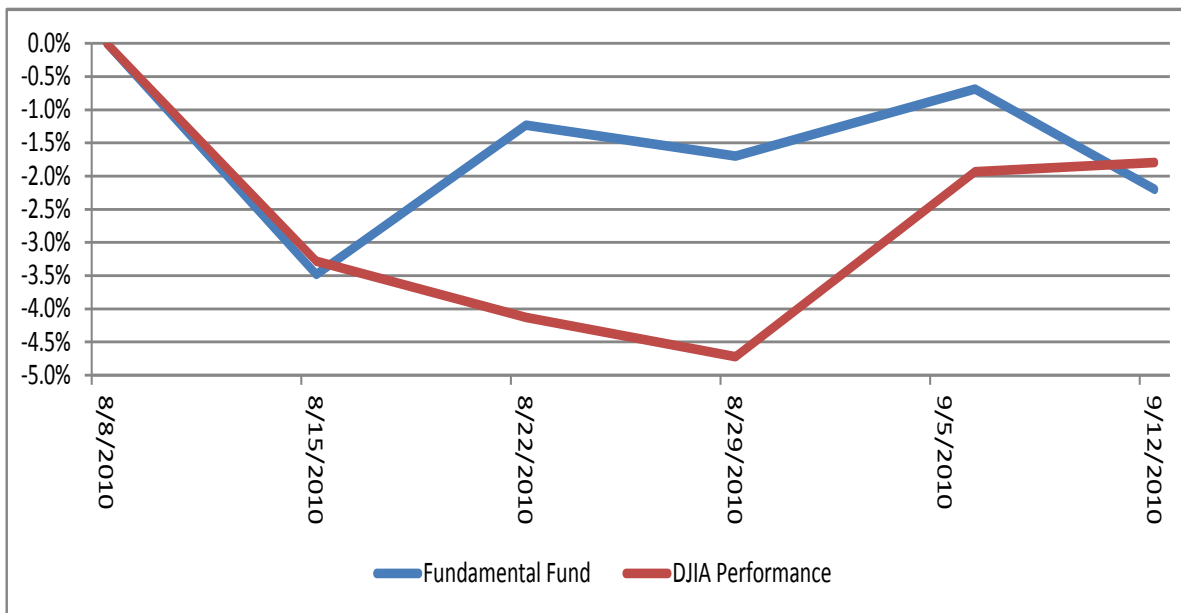
## Miley Fundamental Fund – Description

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 -2.2% before dividends. The DJIA is down -1.79% 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)	SELL (Sep 9) (13.75)	\$13.85	12.47	HOLD
First Cash Financial (FCFS)	BUY (Jul 31) (18.79)	BUY (Jun 5) (16.82)	BUY (Sep 3) (25.73)	\$24.51	23.02	BUY.
Apple (AAPL)	BUY (Jul 20) (251.89)	SELL (Jul 19) (245.58)	BUY (Sep 3) (258.77)	263.41	243.36	BUY.
Ensign Group (ENSG)	SELL (Jun 30) (16.52)	SELL (Aug 30) (16.68)	BUY (Sep 2) (18.00)	\$17.55	\$16.69	BUY.
Almost Family (AFAM)	SELL (Jul 1) (35.01)	SELL (Jul 1) (35.01)	BUY (Jul 23) (24.98)	\$26.25	\$23.01	BUY.
InterDigital (IDCC)	BUY (Aug 24) (25.30)	SELL (Aug 27) (25.19)	BUY (Sep 3) (25.96)	\$25.50		BUY.

Consistent with the belief that we are in a short-term uptrend in the broad market, the mechanized models are indicating BUY opportunities on a number of the securities in this fund.

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)	\$111.48	You should be out of equity funds until this lateral market resolves into a trend.
Bond Mutual Funds (AGG as a proxy)	(Sep 10) SELL and convert to cash at 107.53	\$107.50	Bonds appear to be topping out at this point.
Money Market		N/A	You should be mostly in cash at this point. The market may be moving towards equities for a push in the last quarter of the year.

### 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

## 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.