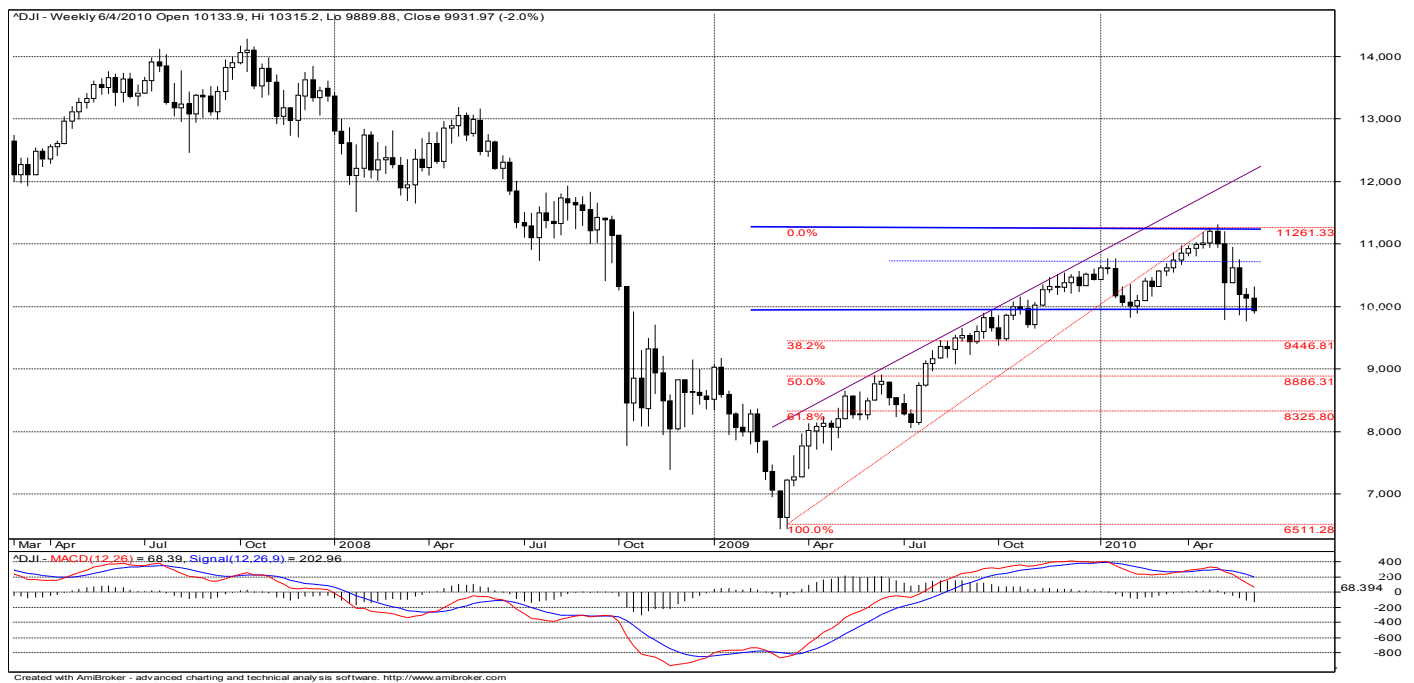


5-STEP INVESTING

By Mark Bates, Certified Financial Technician by the International Federation of Technical Analysts.
Email: MarkJBates@bellsouth.net

Step 1 – Broad Market Trend

Primary Trend: Upward. Started March 6, 2009 at 6626.
Intermediate Trend: Downward. Started June 4, 2010 at 9931.



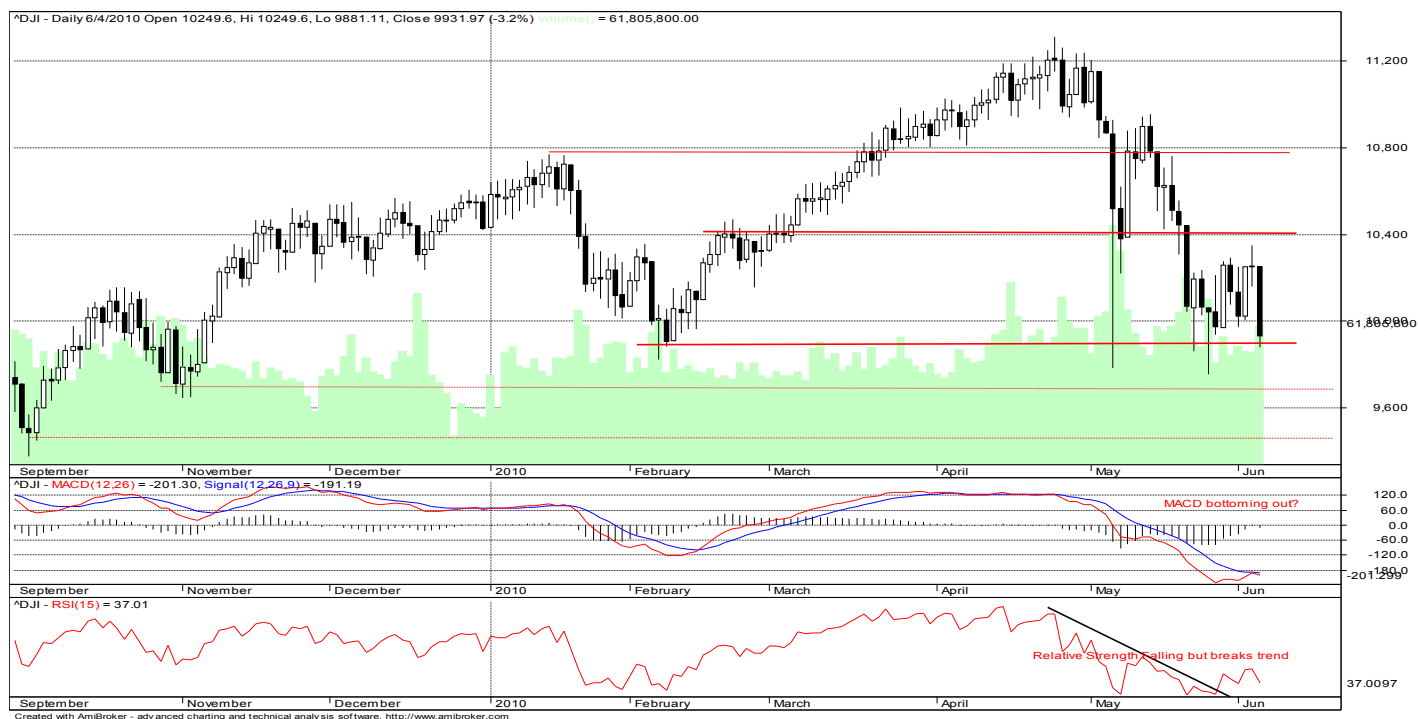
The Dow Jones Industrial Average (^DJI) lost 2.0% last week, finishing at 9,932.

Last week I said, “So for the time being, as long as the the ^DJI does not drop and stay below 10000 or above 11283, we are going to assume that it is going to move sideways for a while”. On Friday the market closed below 10000. If the market drops below 10000 and stays there for 3+ days, one can assume that it is heading downward a bit more, and we would look at resistance around 9446, which is the 38% Fib retracement line indicated on the chart above.

You can see from the above MACD graph that the red line continues to run below the blue signal line, which if you look historically also has been an indicator of weakness and a further drop in value. Certainly every indication at this point technically is that the market is heading downward a bit more.

Step 2 - Near Term Market Trend

Intermediate Trend. Downward. Started June 4, 2010 at 9931.
Short Term Trend. Downward. Started May 6, 2010 at 10520.



Last week I remarked, "The short term trend in this market is down, and as an intermediate investor you don't want to fight the general trend. There have been recent days (May 27) where the market has gone up nearly 3% in one day, and you may ask yourself why you are not fully invested in this market. But as a conservative, intermediate-term investor, you would be advised to keep your powder dry until the sideways trend resolves itself."

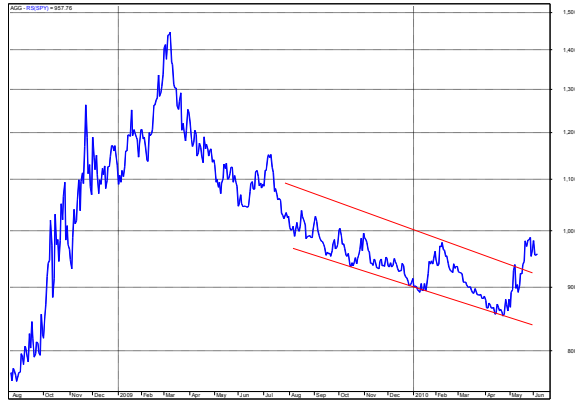
On a daily basis we continue to see tremendous volatility. This past week was no exception. After all of this volatility in the past 2 weeks, it still appears like a short-term sideways movement. Bulls battling the Bears.

An intermediate-term investor is generally a trend follower. The broader trend in this market is downward, and the near term trend is sideways. A dangerous market --- worth sitting out for the moment to see what happens.

Step 3 – Asset Classes

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) are neutral to stocks in the short term, and stronger in the intermediate term. They are likely a bit overpriced in the short term.



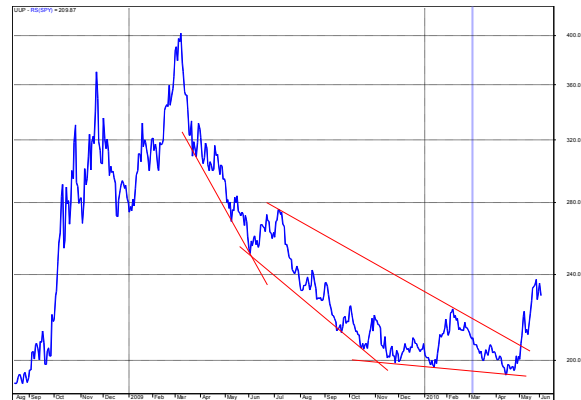
Real Estate (ICF) continues to outperform relative to the S&P 500. But be careful, as real estate as a whole is down relative to where it started the year.



Gold (GLD) continues to be strong relative to the overall market in the short term and intermediate term. This confirms a weakening of the overall market and a movement of monies to the safety of GLD.



Dollar (UUP) With the troubles of the Euro and general instability in world markets, the Dollar has strengthened, just as we began to see some weeks ago.



Step 4 – Current Portfolios

ETF Hedge Fund

Three comments from last week are generally still true:

- 1) 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.
- 2) 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.
- 3) Gold and the US Dollar are both strong but are also expensive at this point and due for a technical correction.

The US Dollar (UUP) is however now a BUY per all three elements of the mechanical models. Historically, an upward movement in the dollar depresses stock prices. Given the weakness in the market, and the overall political situation with the Euro and with North Korea, the dollar is continuing to strengthen. Remember to set the stop loss as indicated.

Security	Long-Term	Med- Term	Short Term	Price	Current Position	New Position	
					Stop Loss	BUY	SELL
SPY (S&P 500 ETF)	BUY (May 21) (109.11)	SELL (May 20) (107.54)	SELL (June) (106.82)	\$106.82	SELL		
AGG (Bond ETF)	BUY (Apr 30) (104.89)	BUY (Apr 29) (104.44)	BUY (Apr 15) (104.26)	\$105.67	\$104.78	\$104.00	\$103.50
ICF (REIT ETF)	BUY (May 21) (56.95)	BUY (May 14) (60.03)	SELL (May 20) (55.13)	\$54.85			
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	SELL (May 21) (115.22)	\$119.19			
UUP (Dollar ETF)	BUY (May 28) (25.34)	BUY (Dec 18) (23.01)	BUY (June 4) (25.77)	\$25.77	\$24.91	MKT	\$24.91
DOG (S&P Inverse)	SELL (June 30) (66.50)	BUY (May 7) (50.63)	SELL (July 16) (64.27)	\$53.36	\$50.14		
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	\$104.18	\$103.73	\$103.40	\$102.75

Recommended Weights for Portfolios

	Conservative	Aggressive
S&P 500	0%	0%
Bonds/Cash	88%	88%
Real Estate	0%	0%
Gold	0%	0%
UUP (US Dollar)	12%	12%

Step 4 – Current Portfolios

401K Mutual Fund Portfolios

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)	\$106.82	You should be out of equity funds for the time being.
Bond Mutual Funds (AGG as a proxy)	(May 16) BUY per recommended weight below	\$105.67	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	

Recommended Weights for Portfolios

	Conservative	Aggressive
Equity	0%	0%
Bond	100%	100%
Money Market	0%	0%

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.

Step 5 – New Ideas

None this week.

The Final Word

Stocks for Economic Rough Times, From Dan Miley.

Did the recent job news start you thinking that the economy is still in a rough patch? If it did (and even if it didn't), I have a couple of stocks for you to consider. The first stock, First Cash Financial Services (FCFS), popped up on my stock screener this week. To refresh your memory, here are my stock screen criteria:

1. Schwab Rating A or B.
2. Five Year Revenue Growth greater than or equal to 15%.
3. Five Year Earnings per share (EPS) growth greater than or equal to 15%.
4. Estimated Five Year EPS growth greater than or equal to 15%.
5. Return on Equity (ROE) greater than 15%.

FCFS especially caught my eye as a stock for rough economic times since it primarily operates stores that lend money on pledged personal property of individuals in the US and Mexico - in other words, a pawn broker. These types of stores do well in rough times as folks are forced to pledge assets to make ends meet. And FCFS is certainly doing more than just making ends meet for its shareholders; its key stats are:

1. Schwab Rating = A
2. Five Year Revenue Growth = 15.27%
3. Five Year EPS Growth = 17.93%
4. Estimated Five Year EPS Growth = 17.67%
5. ROE = 22.11%

Trading at just around \$21 with an intrinsic value of \$55, I think it certainly qualifies a stock to consider for those seeking growth at reasonable price, as well as a safe haven during bleak economic times.

Another stock to consider during tough economic times is Dollar Tree Stores (DLTR). DLTR doesn't quite meet my exact screen criteria but I still think it is definitely a stock to consider. As its name implies, DLTR sells discounted merchandise with a base price of \$ 1.00. Again, folks struggling to pay their bills are likely to turn to Dollar Tree stores to save money on essentials. Some key stats for DLTR are:

1. Schwab Rating = B
2. Five Year Revenue Growth = 10.85%
3. Five Year EPS Growth = 17.49%
4. Estimated Five Year EPS Growth = 14.03%
5. ROE = 25.15%

As you can see from the above, DLTR doesn't quite meet my exact criteria, but I think we can waive some of them considering the current economic times. Selling at about 61 dollars a share with an intrinsic value of about 90 dollars, I think that this stock is much of a bargain as its merchandise. Finally, as I mentioned in an earlier note, stock picking is somewhat of art as well as a science, so some "bending" of the rules can be beneficial.

Before I close, I would like you to also consider selling covered calls on some of your stock picks. Our editor, Mark, can give you more details on options, but basically a selling a covered call is a strategy for someone who is moderately bullish on a stock but is a bit dubious about its short term prospects and also wants some current income to make up for those doubts. For example, let's assume you buy 500 shares of DLTR at \$61.00 but you want to generate some immediate income as well as have some loss protection. You could sell 5 August covered calls with a strike price of \$65.00 and receive about \$ 1000 (assuming \$2 per contract) in return. If DLTR goes above \$65 by the August expiration, someone will likely buy your stock from under you, but you will still have the \$1000 premium you received for selling the calls. But if DLTR stays flat or falls, the option will expire worthless and you can keep your stock as well as the premium. Option trading is not for everyone but selling covered calls or buying protective puts are conservative ways to give your portfolio some degree of insurance. But please read the documentation on option trading and ask questions before trading them.

So, I hope that you at least consider the above stocks for your portfolio, as I think that nimble stock picks, coupled with conservative option trading, will make up for the latest dismal performance of all of the major stock indices.

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.

Legal:

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

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.