

On The Mark Investing

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Broad Market Trend using Weekly Data



The Dow Jones Industrial Average (^DJI) gained 2.4% last week, finishing at 10,860.

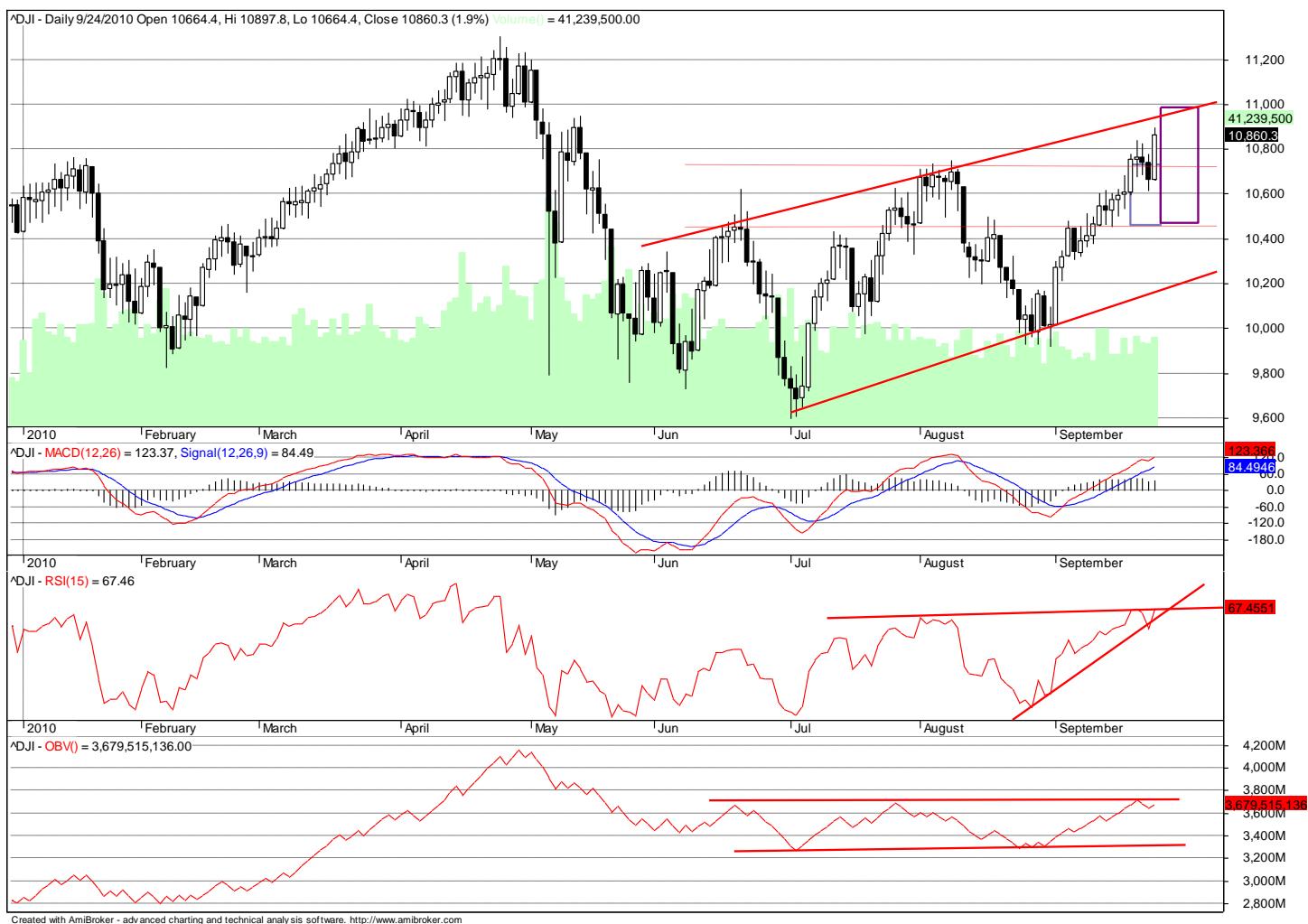
In each of the last two weeks I've noted: "The market is still in a trading range, bounded on the bottom by 10000 and on the top at 10700... Until the market breaks conclusively out of this 700 point range, it is just a ranging market. The volume has not picked up to any degree, so the odds at this point of follow through above 10700 are very low."

The market is now up 4 weeks in a row, this time up 2.4% over last week. By breaking the 10700 ceiling, this market has now expanded its "range" from 10000 up to 11300.

Price is king --- 10860 means that this market is making a "higher high" than the last high in early August. Higher highs are consistent with a bullish trend, and indicate underlying strength. The stochastic is still strong. All of this is the case for additional equity investment.

But interestingly that case has not been compelling to the vast majority of investors with money. The volume of trading has not picked up materially. Volume is still well below the 15 week moving average, which itself is falling. If the economic news ("Recession ended earlier in the year"), coupled with unemployment, housing and political news, is not enough to generate real investing interest in the market, then realistically how high do you think that the market will go before correcting back downward? I still don't see evidence of accelerant in this market.

Near-Term Market Trend using Daily data



The market again performed better than I expected last week, for the second week in a row. As I noted last week, “If volume picks up and the market clears 10700 then there is something of importance happening.” Well, half of that statement happened, anyway.

We are in what is called a “rising channel”. You can see from the above that performance since mid-June can be captured in the two RED channel lines. Markets that are just moving listlessly sideways are also in a channel, but that is a horizontal channel. This rising channel is interesting --- it can give you some indication of your risk when you invest. You want to buy at the bottom of the channel and sell at the top. If the price pierces the upper channel, that is a strong sign of bullishness.

What I believe will happen is that the market will touch the top of this channel in the next 5 days (no higher than 11000) and then conform with the channel and move downward. The PURPLE rectangle above is rather wide, but it is because the next week is a difficult call. This upward movement has been on very little volume movement, which makes it very suspect. Will this rally rattle itself above 11000 on little volume and stay weak, will it crash through 11000 like a tiger on roaring volume, or will the market retrench back toward 10400 consistent with the channel that it is now in? Those are the questions. We will take a small equity position with a tight stop loss this week in the ETF Hedge Fund respecting the fact that this could be the beginning of a solid upward trend. But it isn’t solid yet.

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 weakened relative to the overall market. It appears to be time to shift from bonds into an equity position.



Real Estate (ICF) is showing an unusual weakness relative to the overall market. This bears watching over the next week or so to see if it becomes conclusive.



Gold (GLD) has been the subject of lots of talk in the press this past week. It continues to be strong relative to the market.



Dollar (UUP) strength has collapsed relative to the market. This is consistent with a rising market and a stronger Gold as well.

ETF Hedge Fund – Description

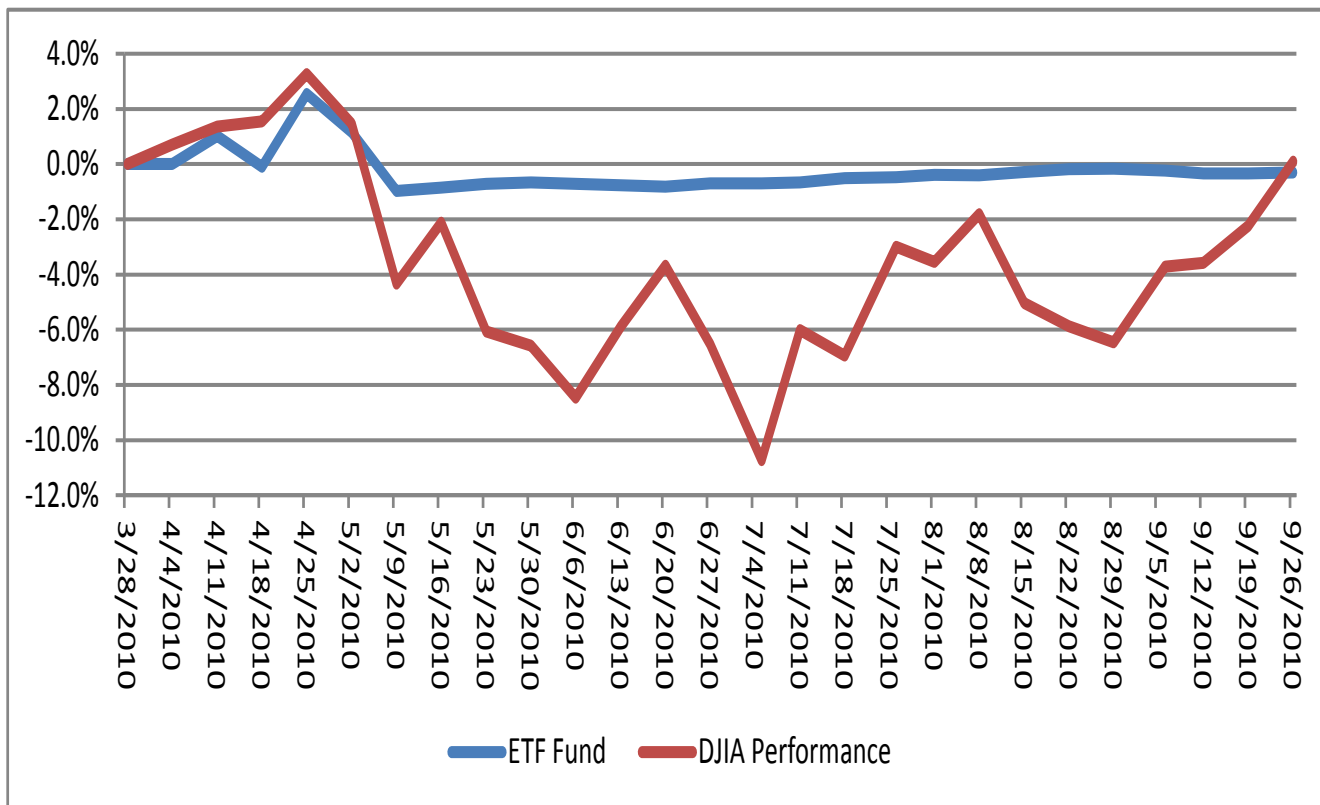
The ETF Hedge Fund consists of a set of loosely-correlated ETFs (Exchange Traded Funds). It is aimed at the conservative investor who is looking to preserve capital, avoid major market downturns, and ride market upturns. Trading occurs no frequently than weekly, and the ETF Hedge Fund has a bias toward 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 -0.31% before dividends. The DJIA is up 0.09% in the same period.



This past 4 week rise in the market has benefited performance of the DJIA against our fund. We will begin a shift into equities consistent with the market trend, but practice overall caution in our stop loss values.

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)	BUY (Sep 17) (112.49)	BUY (Sep 3) (110.89)	\$114.82	108.40	114.91	110.90
AGG (Bond ETF)	BUY (Sep 13) (107.74)	SELL (Sep 10) (107.50)	BUY (Sep 21) (108.39)	\$108.14	107.26	108.50	107.40
ICF (REIT ETF)	BUY (Jul 7) (55.30)	BUY (Sep 10) (62.34)	SELL (Sep 23) (61.13)	\$62.77	\$59.77		
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	BUY (Aug 3) (115.99)	\$126.69	\$122.21	127.01	122.21
UUP (Dollar ETF)	SELL (Aug 2) (23.52)	SELL (Jul 14) (24.30)	SELL (Sep 2) (23.91)	\$22.97			
DOG (S&P Inverse)	SELL (Jun '09) (66.50)	SELL (Sep 13) (49.34)	SELL (Sep 13) (49.34)	\$47.89			
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	\$106.70	\$105.86		

Note these comments:

At this point the ETF Hedge Fund is in all cash. We will invest as follows:

- 6% of available funds in SPY at the noted BUY and SELL limits
- 3% of available funds in AGG at the noted BUY and SELL limits
- 3% of available funds in GLD at the noted BUY and SELL limits

This is consistent with the theory that we invest no more than 12% of available funds in any one week. Our hypothesis is as follows:

- If the market continues its uptrend, SPY will benefit. AGG will likely drop slightly. GLD will probably stay upward to flat. We will profit.
- If the market moves sideways, SPY will be flat, AGG will be flat to up slightly, and GLD will probably be flat to up slightly. We will profit.
- If the market moves downwards, SPY will drop but AGG and GLD will likely be up and we should be flat to profit.

Keep the SPY stop loss tight as noted above.

A note on GLD: it would appear that we are late to the game on GLD. In retrospect it made sense to stay in GLD at some percentage as a hedge. It is fairly expensive at this point but the stop loss above is tight and offers downside protection yet allowing you to participate in the uptick that is in part a product of the last few weeks Fed meetings.

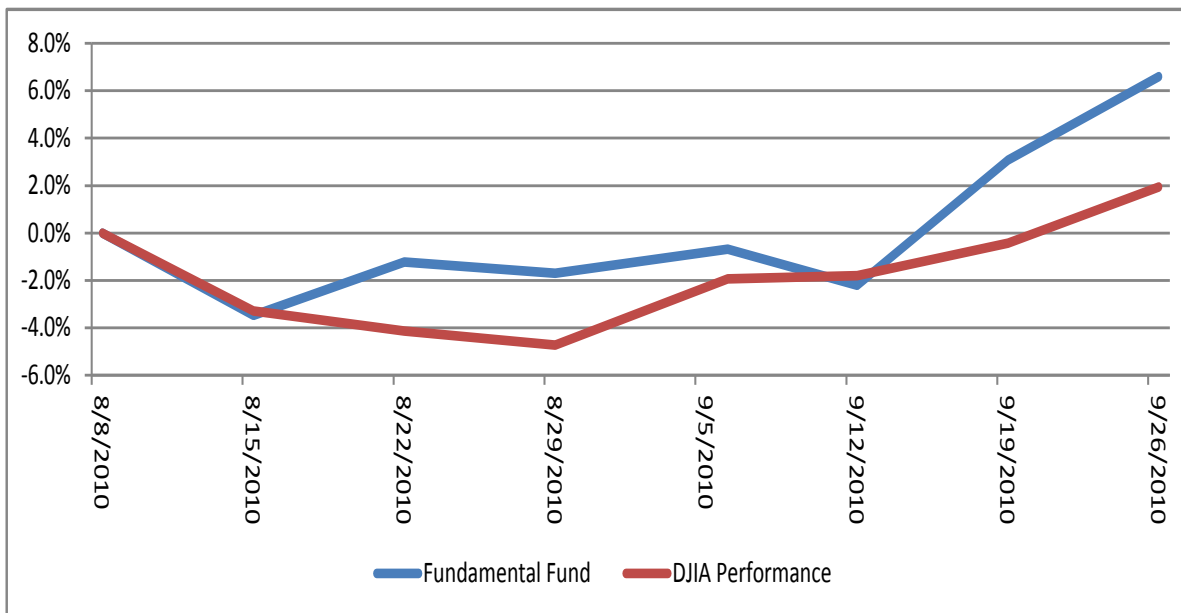
Miley Fundamental Fund – Description

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 up 6.6% before dividends. The DJIA is up 1.9% 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 (Sep 14) (14.33)	\$15.04	12.63	BUY.
First Cash Financial (FCFS)	BUY (Jul 31) (18.79)	BUY (Jun 5) (16.82)	BUY (Sep 3) (25.73)	\$26.43	23.60	BUY.
Apple (AAPL)	BUY (Jul 20) (251.89)	BUY (Sep 17) (275.37)	BUY (Sep 3) (258.77)	292.32	271.45	BUY.
Ensign Group (ENSG)	SELL (Jun 30) (16.52)	SELL (Aug 30) (16.68)	SELL (Sep 22) (17.42)	\$17.80	\$16.69	HOLD.
Almost Family (AFAM)	SELL (Jul 1) (35.01)	BUY (Sep 17) (28.92)	BUY (Jul 23) (24.98)	\$30.74	\$26.80	BUY.
InterDigital (IDCC)	BUY (Aug 24) (25.30)	BUY (Sep 24) (28.63)	BUY (Sep 3) (25.96)	\$28.63	26.22	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)	(Sep 26) BUY (\$114.82)	\$114.82	Put 6% of your cash capital into the mutual fund that most imitates the S&P 500 or general market
Bond Mutual Funds (AGG as a proxy)	(Sep 26) BUY 108.14	\$108.14	Put 6% of your cash capital into the mutual fund that most imitates an intermediate bond fund
Money Market		N/A	

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 Model – “High Expectation”

I will soon be releasing a new model, the “High Expectation” model, under a separate mailing. This is the result of 9 months of work. It is designed as a fairly low-trade, conservative strategy that consistently beats the market. In fact when compared using the stocks in the NASDAQ 100 since 1991 the High Expectation model beats Buy-And-Hold in the aggregate as well as on an annual basis every single year but two, and in those two years it was still a winning strategy.

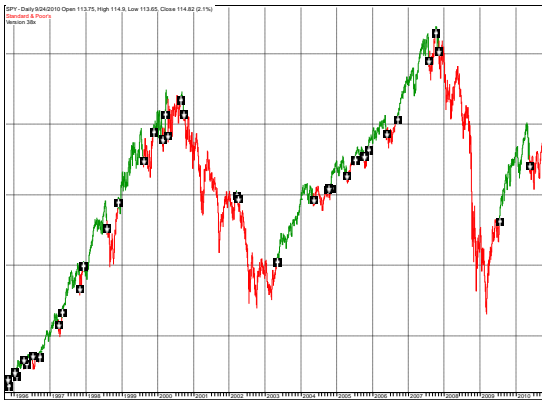
The “High Expectation” model is named after its underlying theory around Expectation analysis. It is designed to maximize the following:

$$((\text{profit on each winning trade}) \times (\text{winning \%})) - ((\text{loss on each losing trade}) \times (\text{losing \%}))$$

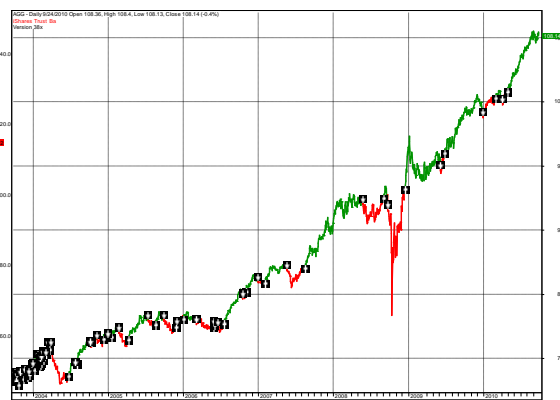
Additionally, this model has built in money management, so the recommended amount of the investment will be mathematically designed to optimize the overall result, using gaming theory that is very common with institutional investors.

High Expectation model results can be depicted graphically, such as the graphs below in the period 2002 - Present. Periods where the High Expectation Model is invested are in GREEN, and where it is not invested are in RED. Samples are noted below:

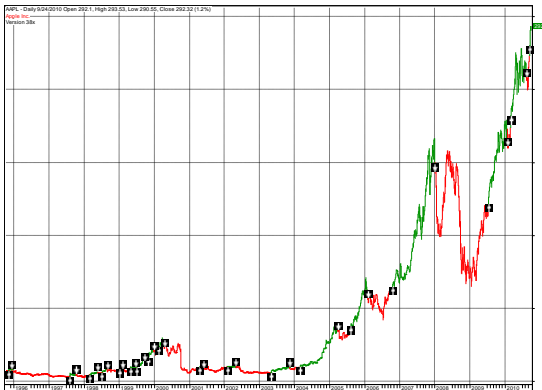
SPY



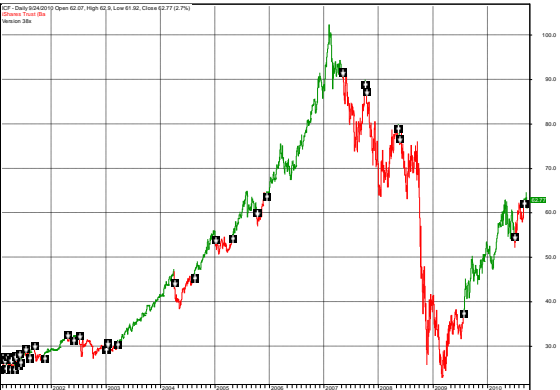
AGG



AAPL



ICF



As I noted earlier, the information on this model will be coming soon under a separate mailing.

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.