

# On The Mark Investing

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## Broad Market Trend using Weekly Data

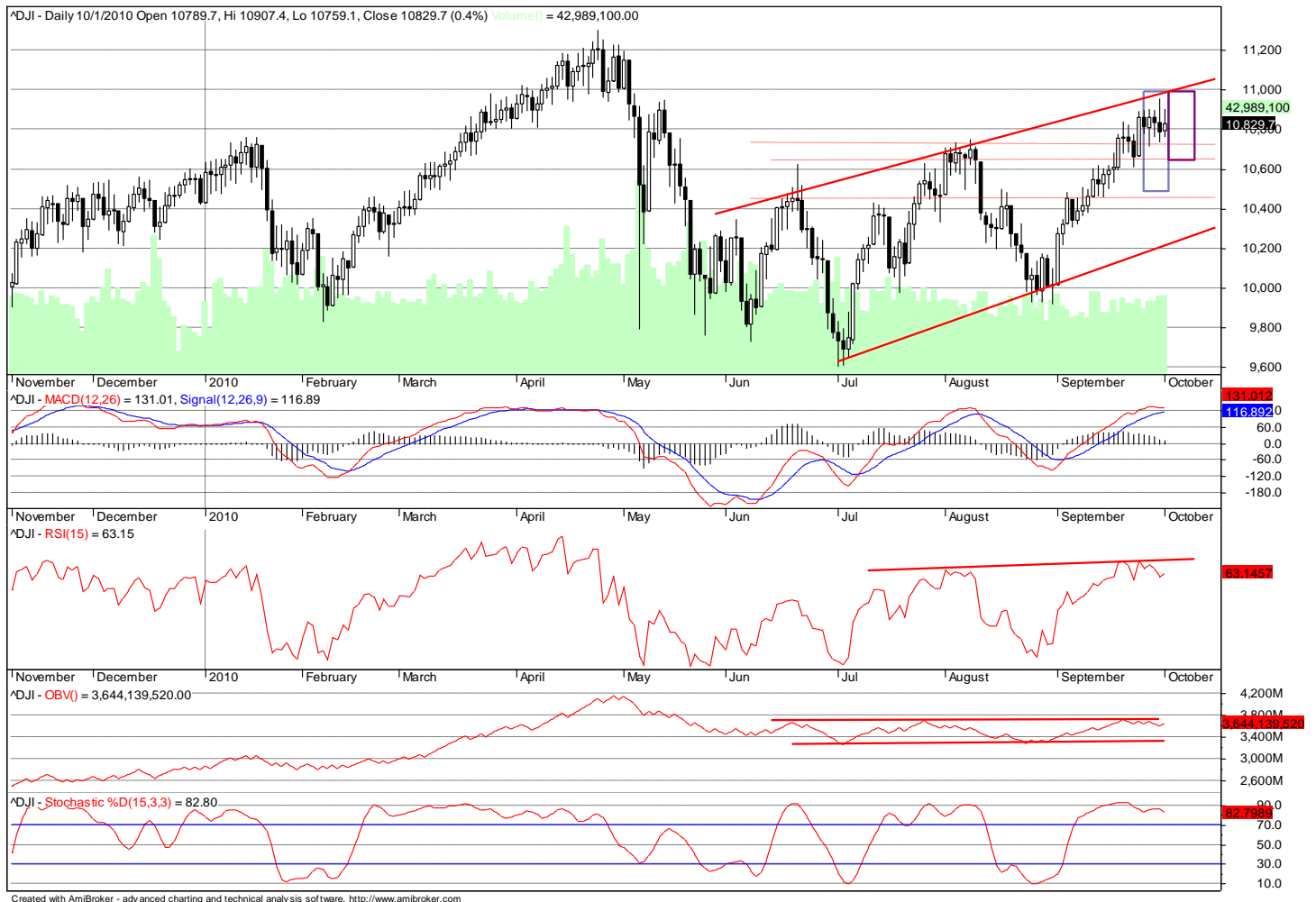


The Dow Jones Industrial Average (^DJI) lost 0.3% last week, finishing at 10,829.

Last week I noted “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.” Those notes still pertain to this, the broad view.

Earnings season starts soon, meaning that companies will begin releasing their 3<sup>rd</sup> quarter results. So there will likely be some slight volatility within this trading range as a result of that. But the lack of trading volume suggests that this is still a sideways market. It is not time to put a large amount of money to work, or to take a bunch of money off the table.

# Near-Term Market Trend using Daily data



The market performed as expected last week, fitting into the middle of the predicted range.

Technical indicators like those above (MACD, STOC, OBV) can run with high values over a sustained period of time once their highs are hit. Evidence of that is on the graph above, for the period of roughly March-May of this year. In a particularly trending period of price increase you would see that.

But what we have now is at best a weak sideways action. All three of the above technical indicators have been moving up and down within a range, like price. All three technical indicators are at the top of their present range and have not violated a trend line to go higher. RSI, a fourth indicator, is another example of that. My sense is that we are at a point where the market may drop a bit in the next week. However there are a number of technical points of support (shown above by the dotted red lines) that should prevent a large drop. So I see this coming week as largely sideways movement within a rather tight range of 10600 - 10900.

# 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) continues to show 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

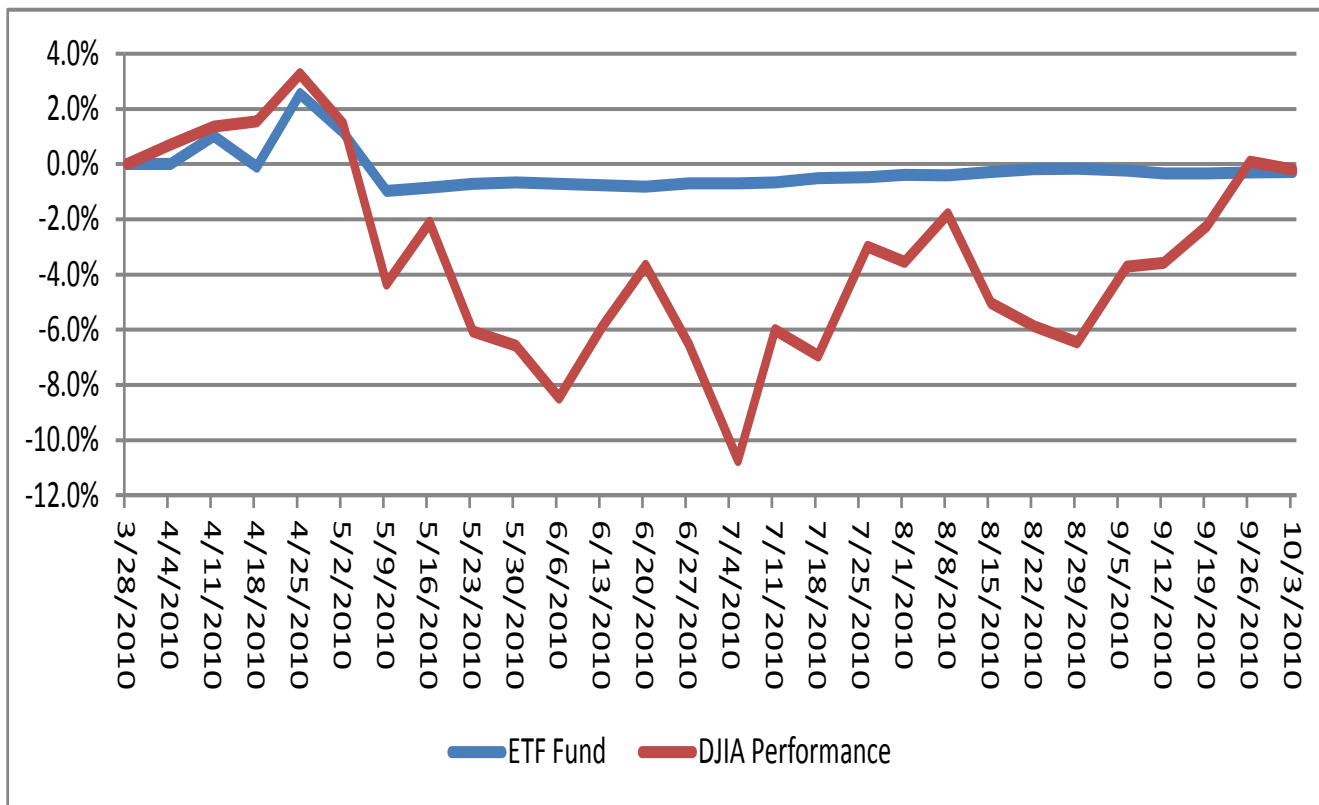
The ETF Hedge Fund consists of a set of loosely-correlated ETFs (Exchange Traded Funds). It is aimed at the conservative investor who is looking to preserve capital, avoid major market downturns, and ride market upturns. Trading occurs no frequently than weekly, and the ETF Hedge Fund has a bias toward 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 -0.28% before dividends. The DJIA is down -0.19% 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)	BUY (Sep 29) (114.47)	BUY (Sep 17) (112.49)	BUY (Sep 3) (110.89)	\$114.61	109.47	115.13	109.47
AGG (Bond ETF)	BUY (Sep 13) (107.74)	SELL (Sep 10) (107.50)	BUY (Sep 21) (108.39)	\$108.26	107.26	108.38	107.26
ICF (REIT ETF)	BUY (Jul 7) (55.30)	BUY (Sep 10) (62.34)	SELL (Sep 23) (61.13)	\$62.24	\$59.77		
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	BUY (Aug 3) (115.99)	\$128.91	\$124.29	129.08	124.29
UUP (Dollar ETF)	SELL (Aug 2) (23.52)	SELL (Jul 14) (24.30)	SELL (Sep 2) (23.91)	\$22.65			
DOG (S&P Inverse)	SELL (Jun '09) (66.50)	SELL (Sep 13) (49.34)	SELL (Sep 13) (49.34)	\$47.96			
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	\$106.37	\$105.86		

Note these comments:

At this point we will move the next 12% of available cash into investments, as follows:

- 6% of original available funds in SPY at the noted BUY and SELL limits
- 3% of original available funds in AGG at the noted BUY and SELL limits
- 3% of original 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 stop losses tight as noted above.

# 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 – This Week’s Note from Dan

Greetings, fellow investors, I hope that you had a happy, safe, and profitable summer. This week, I would like to add a few new picks for your consideration:

- 1. Syntel, Inc. (SYNT):** Syntel, Inc. is a provider of information technology and knowledge process outsourcing (KPO) services to Global 2000 companies. As most of you know, information technology is a vital, but expensive, necessity for most companies. One way to lessen that expense is thru an outsourcer like Syntel. Its revenue growth over the past 5 years was 18%, its EPS growth was 23%, its ROE is 35%, and its EPS for the next 5 years is expected to be 16%. Given those impressive expected growth and considering that the company has no long term debt, I think that this stock is seriously undervalued at about 48 dollars a share since its intrinsic value is about 81 dollars a share.
- 2. Health Spring (HS):** Health Spring, through its operating subsidiaries, operates managed care operations, primarily for Medicare recipients. The new health care law presents significant challenges to all, including the government. And managed care is one way to control costs for all concerned. Its revenue growth over the past 5 years was 35%, EPS growth history was 42%, its ROE is 19%, and expected earnings growth is about 17%. Using those numbers, and accounting for long term debt, I would value this stock at 42 dollars share. Considering that it is currently selling at only 25 dollars a share, I would certainly purchase this stock.
- 3. Catalyst Health Solutions (CHSI):** Catalyst Health Solutions operates as a pharmacy benefit management (PBM) company. Again, as with Health Spring, companies and the government are continually seeking ways to control costs. PBM’s help companies by administering prescription claims from employees and picking drug formularies (which regulate which drugs are allowed as well as requiring generic substitutes). Revenue growth was about 41%, EPS was 27%, ROE is 16%, and EPS long term growth is expected to be 21%. Currently selling at about 36, the stock is undervalued as its intrinsic value is about 64. Again, this is another stock to add to your portfolio for long term growth.
- 4. Dollar Tree (DLTR):** As previously profiled in one of my notes, DLTR doesn’t meet my exact criteria, but is certainly worth considering given the continued cost consciousness of the consumer. I would still be a buyer of this stock at \$48, given that its intrinsic value is about \$ 65.

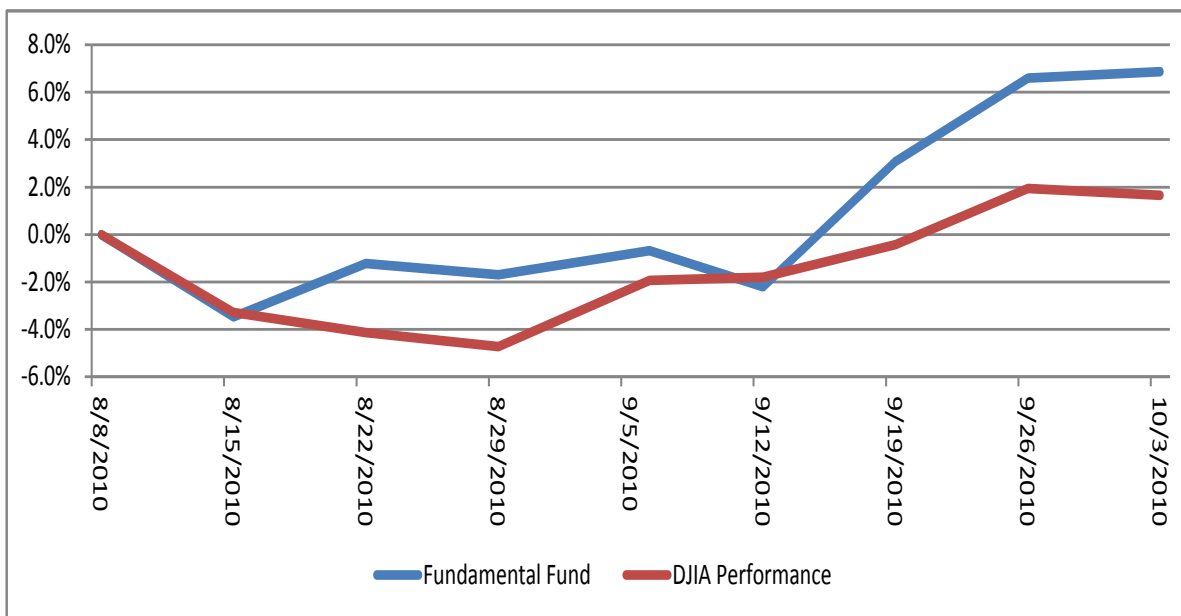
5. **Dolby Laboratories (DLB):** Dolby is a well-known innovator of sound processing technologies used by both consumers and the entertainment industry. Its revenue growth over the past 5 years stands at 20%, EPS growth was 37%, its ROE is 19%, and its expected 5 year growth rate is expected to be 16%. Given these long term prospects, and factoring in long term debt, I would value the stock at about \$63. The stock currently sells at about \$57, so I see some potential for limited gains at that price, and therefore would suggest waiting for a lower price before placing a large bet on this one.

I hope that you have found my suggestions helpful in building your portfolio. As always, I encourage you to do your reading and research and urge you to hedge your investments by selling covered calls or buying protective puts. This is especially important around earnings announcement times, as even the best analysts are sometimes surprised. In any event, good luck, and I will be back next week with more thoughts and suggestions.

**Disclosures:** I currently don't hold any positions in the above 5 stocks, but I may purchase and/or sell those stocks in the future. Of the initial 5 stocks in the Miley Fundamental Fund, I currently only hold AAPL and PRSC, but this is subject to changes in my investment philosophy as well as market conditions.

## Miley Fundamental Fund – Performance

The Fundamental Fund is up 6.9% before dividends. The DJIA is up 1.7% 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)	\$16.15	14.16	BUY at 16.92
First Cash Financial (FCFS)	BUY (Jul 31) (18.79)	BUY (Jun 5) (16.82)	BUY (Sep 3) (25.73)	\$27.17	25.13	BUY at 27.97
Apple (AAPL)	BUY (Jul 20) (251.89)	BUY (Sep 17) (275.37)	BUY (Sep 3) (258.77)	282.52	273.00	BUY at 286.59
Ensign Group (ENSG)	SELL (Jun 30) (16.52)	SELL (Aug 30) (16.68)	BUY (Sep 29) (17.86)	\$18.13	\$16.69	HOLD
Almost Family (AFAM)	SELL (Jul 1) (35.01)	BUY (Sep 17) (28.92)	BUY (Jul 23) (24.98)	\$29.73	\$27.25	BUY at 30.11
InterDigital (IDCC)	BUY (Aug 24) (25.30)	BUY (Sep 24) (28.63)	BUY (Sep 3) (25.96)	\$30.19	27.64	BUY at 30.34
Syntel (SYNT)	BUY (Jul 30) (41.20)	BUY (Jul 16) (35.68)	BUY (Sep 30) (44.50)	\$45.10	\$41.33	BUY at 45.33
Health Spring (HS)	BUY (Jul 29) (19.27)	BUY (Jul 29) (19.27)	BUY (Aug 27) (20.50)	\$25.84	\$23.81	BUY at 26.42
Catalyst (CHSI)	SELL (Sep 16) (37.48)	SELL (Sep 16) (37.48)	BUY (Oct 1) (36.00)	\$36.00	\$33.48	BUY at 36.34
Dollar Tree (DLTR)	BUY (Aug 18) (41.82)	BUY (Aug 20) (44.62)	BUY (Aug 20) (44.62)	\$48.48	\$46.10	BUY at 49.34
Dolby Labs (DLB)	BUY (Aug 11) (58.68)	SELL (May 20) (60.60)	SELL (Aug 30) (56.81)	\$57.48	\$55.32	HOLD.

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 another 6% of your initial 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 another 6% of your initial 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.

# 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.