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On The Mark Investing

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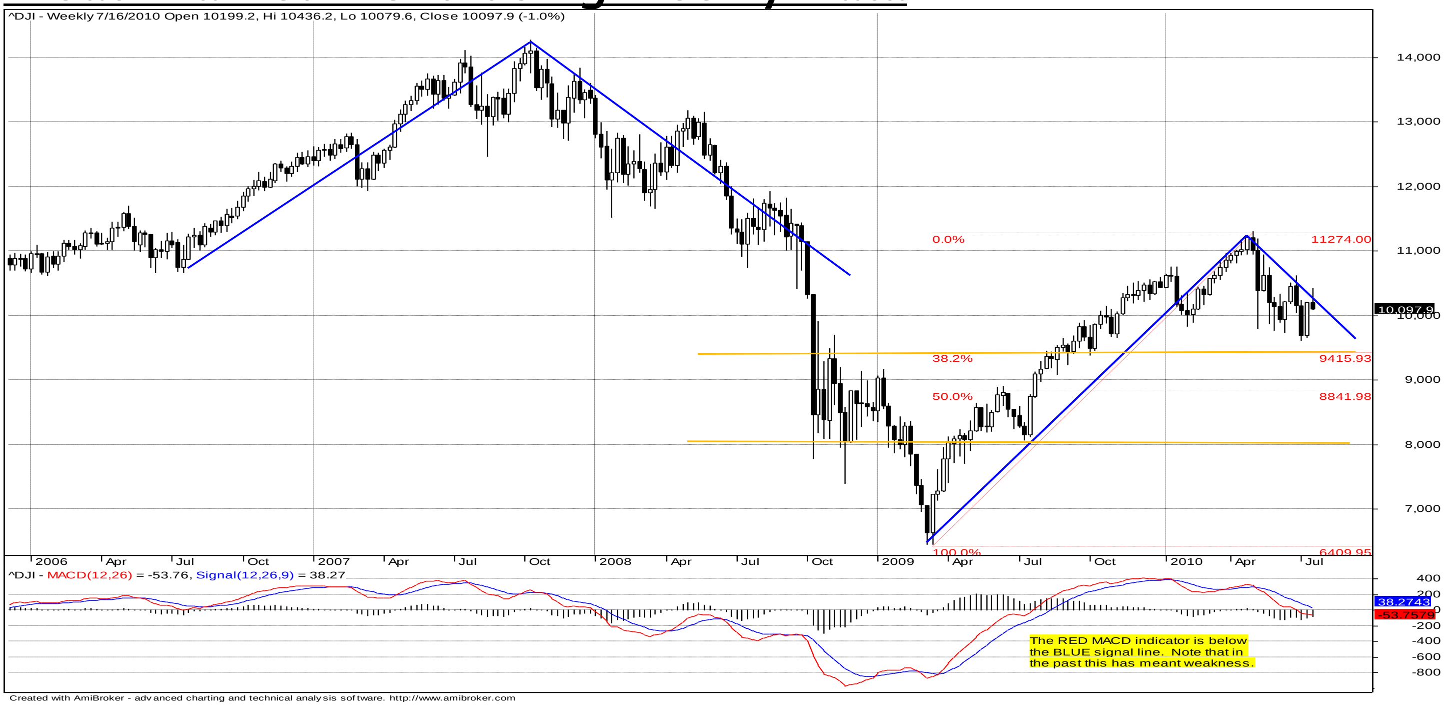
Broad Market Trend using Weekly Data



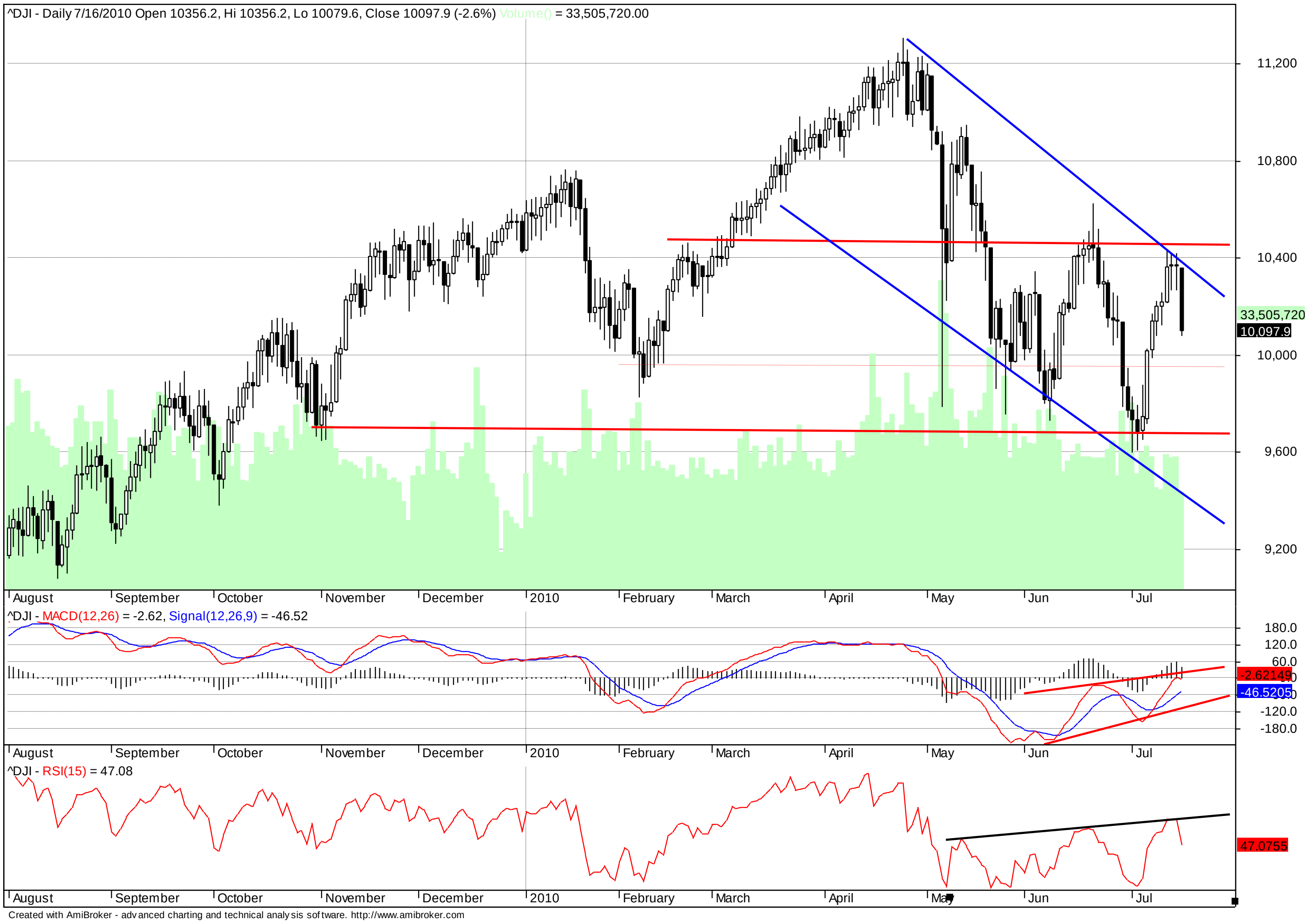
The Dow Jones Industrial Average (^DJI) lost 1.0% last week, finishing at 10,097.

Last week I noted "If the ending value next week significantly exceeds 10300 then I'll have to revise the theory of a slow drift downward. But from an intermediate horizon investing perspective, this is a sideways market at best and a downward drifting market otherwise." What we saw this week was resistance in the 10300 band and a weak close under 10100 on higher volume. This is in keeping with the theme of a weak market, moving sideways/down, unable to sustain any significant upward trend.

What I noted two weeks ago is still the applicable theory in force:

> "Technically, what is happening now is a natural correction to the increase in market price that occurred between March 2009 and April 2010. There are a number of accepted technical theories that indicate a correction downward to at least 9415 is necessary before this market can resume an upward trend. Per the BLUE lines above, this drop to 9415 should occur by late summer as the market continues to veer up and down."

Near-Term Market Trend using Daily data



Last week I noted:

> "You will note that the MACD and Relative Strength lines are both showing near term strength. That is a function of the strong showing of the market in the past few days. But in this case Volume tends to lead Price, whereas the other indicators are lagging, so all in all it suggests that we'll get a short-term movement over the next few days between the two blue-dotted lines, or between 9400 and 10300."

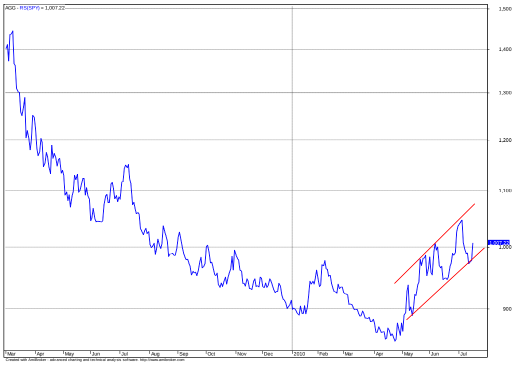
As noted in the Broad-Term view, the market did rise, respect the 10300 resistance line, and fall back, despite some positive earnings news.

Based on some tepid strength in the MACD (higher highs in the RED line), and tepid strength in the Relative Strength (higher highs), we will likely to see the market continue to gyrate during the earnings period that is upon us. The DJI is at 10097 presently. We should conservatively see sideways movement between the two RED lines above, therefore movement between 9700 and 10400. If the broader but slow downward trend persists, we'll see movement between 9400 and 10300.

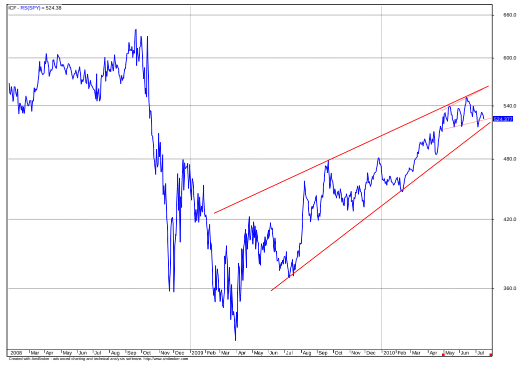
The takeaway here is that even with earnings upon us you should not be seeing a trend of any substance interesting to intermediate-term investors developing in the near term. Therefore, it is still recommended that you keep your powder dry and stay in fixed-income instruments.

<u>Asset Class Behaviors</u>

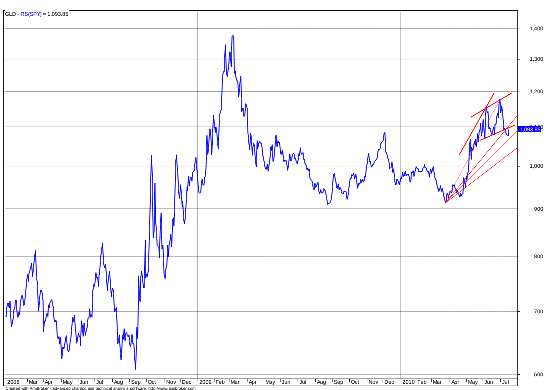
The charts below are <u>not</u> the price of the security. They are the ratio of the price of certain ETFs to the value of the SPY (S&P 500 ETF).



Bonds (AGG) have continuing strength against the broad market indicating a continued reluctance of investors to buy equities.



Real Estate (ICF) is showing, in the near term, a broadening pattern (see dotted lines) which is a sign of instability. It may be preparing to weaken materially relative to the market.



Gold (GLD) has continued to slow against the market. This is a confirming indication that the present market is in a sideways movement and investor concerns about the market in general have eased a bit.

Dollar (UUP) is moving closer the apex of a triangle formation. Typically this implies that move of some substance is forthcoming. Typically, a stronger dollar will reduce multi-nationals earnings, which in turn will cause a drop in the market.

ETF Hedge Fund – Description

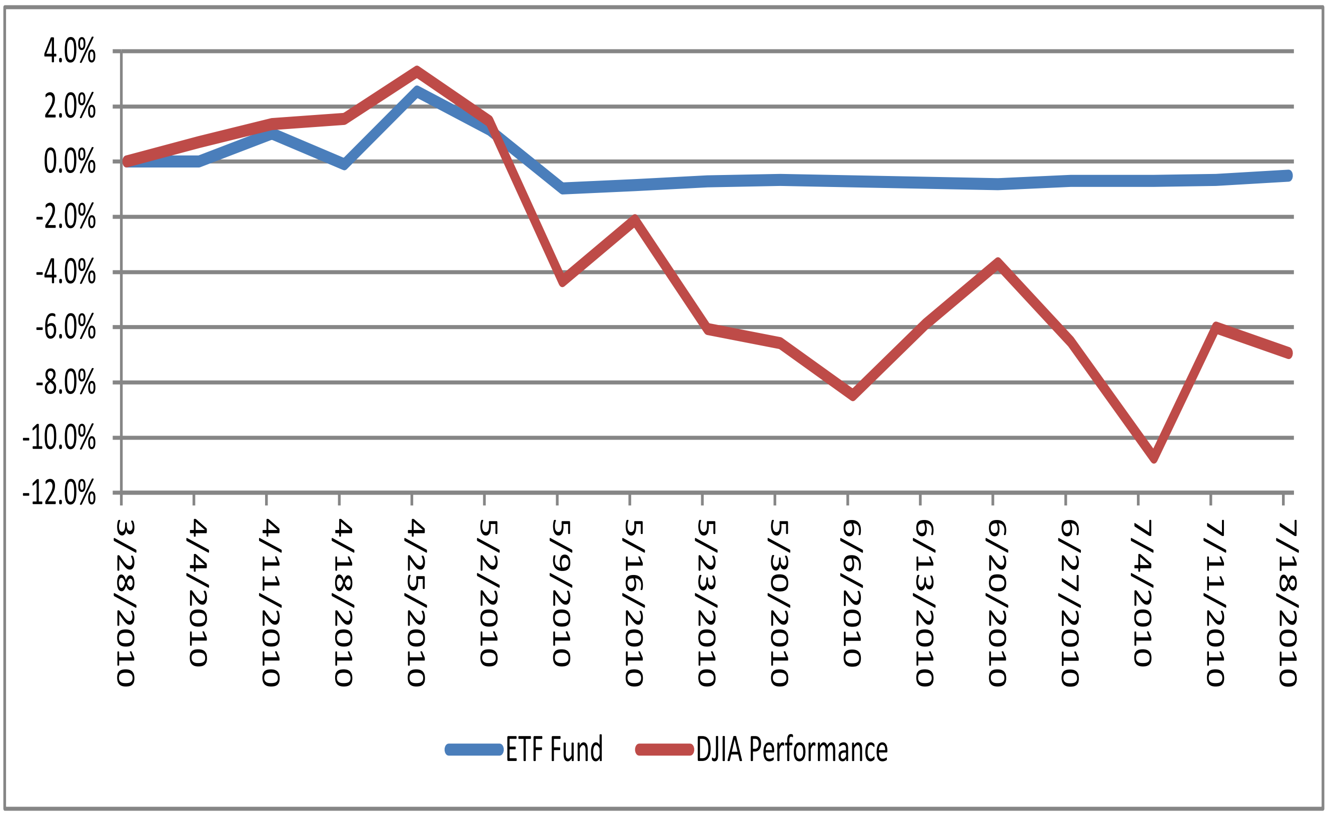
The ETF Hedge Fund consists of a set of loosely-correlated ETFs (Exchange Traded Funds). It is aimed at the conservative investor who is looking to preserve capital, avoid major market downturns, and ride market upturns. Trading occurs no frequently than weekly, and the ETF Hedge Fund has a bias toward conservative money management. ETFs can be bought just like stocks using Schwab, TDAmeritrade, 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 -0.5% before dividends. The DJIA is down -6.9% 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

	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 (Jul 9) (107.96)	$106.66			
AGG (Bond ETF)	BUY (Apr 30) (104.89)	BUY (Apr 29) (104.44)	BUY (Apr 15) (104.26)	$107.43	$106.18	$104.75	$104.00
ICF (REIT ETF)	BUY (Jul 7) (55.30)	SELL (Jul 2) (53.66)	BUY (Jul 13) (58.38)	$55.93			
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	SELL (Jul 1) (117.04)	$116.67			
UUP (Dollar ETF)	BUY (Jul 14) (24.25)	SELL (Jul 14) (24.30)	SELL (Jun 17) (24.95)	$24.01			
DOG (S&P Inverse)	SELL (Jun '09) (66.50)	BUY (Jul 14) (50.80)	SELL (Jul '09) (64.27)	$52.06			
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	$104.58	$103.69	$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 and the US Dollar are both strong but are also expensive at this point and due for a technical correction. The technical models have begun to indicate this as short-term indicators are flashing SELL.

Remember to set the stop loss as indicated.

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)	$106.66	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	$107.43	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 this week. However, as I noted last week, I will be distributing information on a new Mechanized Hedge Fund in the next few weeks.

The Final Word

The stock market spends as much as 60% of its time moving sideways. The remaining 40% of the time it is trending. It is important to remember that you do not have to be in the stock market all of the time. It is important to remember that if the market has a good day (say a 200+ point increase in the DJIA) but the overall, broad picture is a market that is going sideways, you can be fooled into thinking that you should jump in and invest.

If you are a short-term investor, trading daily, this volatility can be profitable. If however you are an intermediate-term investor, this sideways volatility is not productive and can lead to excessive capital gains taxes and frustration as you attempt to time the market with changes to your fund contributions and other broad moves.

If the broad market is moving sideways, be patient. There is a lot of cash sitting on the sidelines at present. It is likely that no material increase/decrease in the market will occur over the summer, as historically this does not occur. It is possible that the government may decide to spend some of the stimulus package later in the Summer or early Fall for political reasons, and that may have a positive impact on the unemployment rate, home buying, or retail spending. But until there is indication of sustained growth in the private sector, there will likely be no broad trend upward.

The market is considered to be 6 months ahead of the economy. When there is a clear path to economic growth, the market should rise and it will be clear to get in. But until then, stay conservative and manage your risk appropriately.

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, among the positions that I hold positions are AGG and MUB, among other securities.

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.