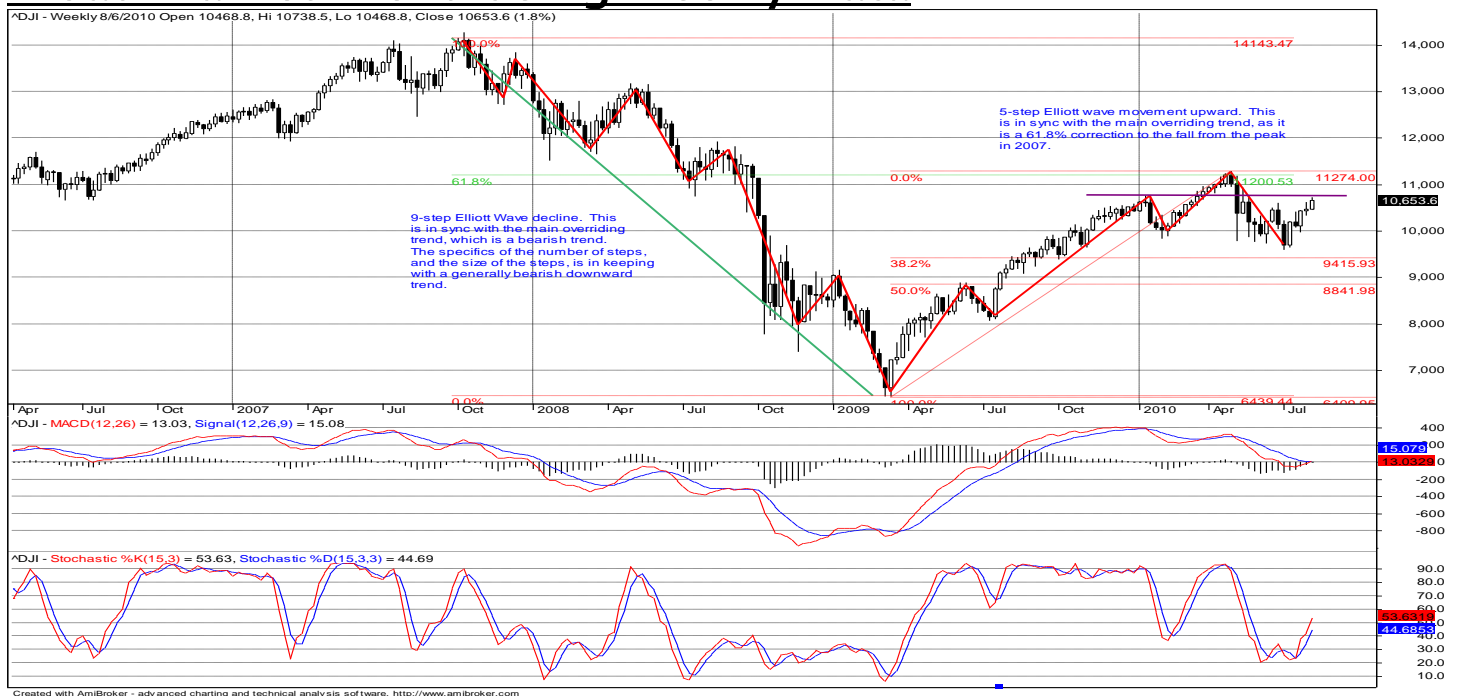


# On The Mark Investing

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## Broad Market Trend using Weekly Data



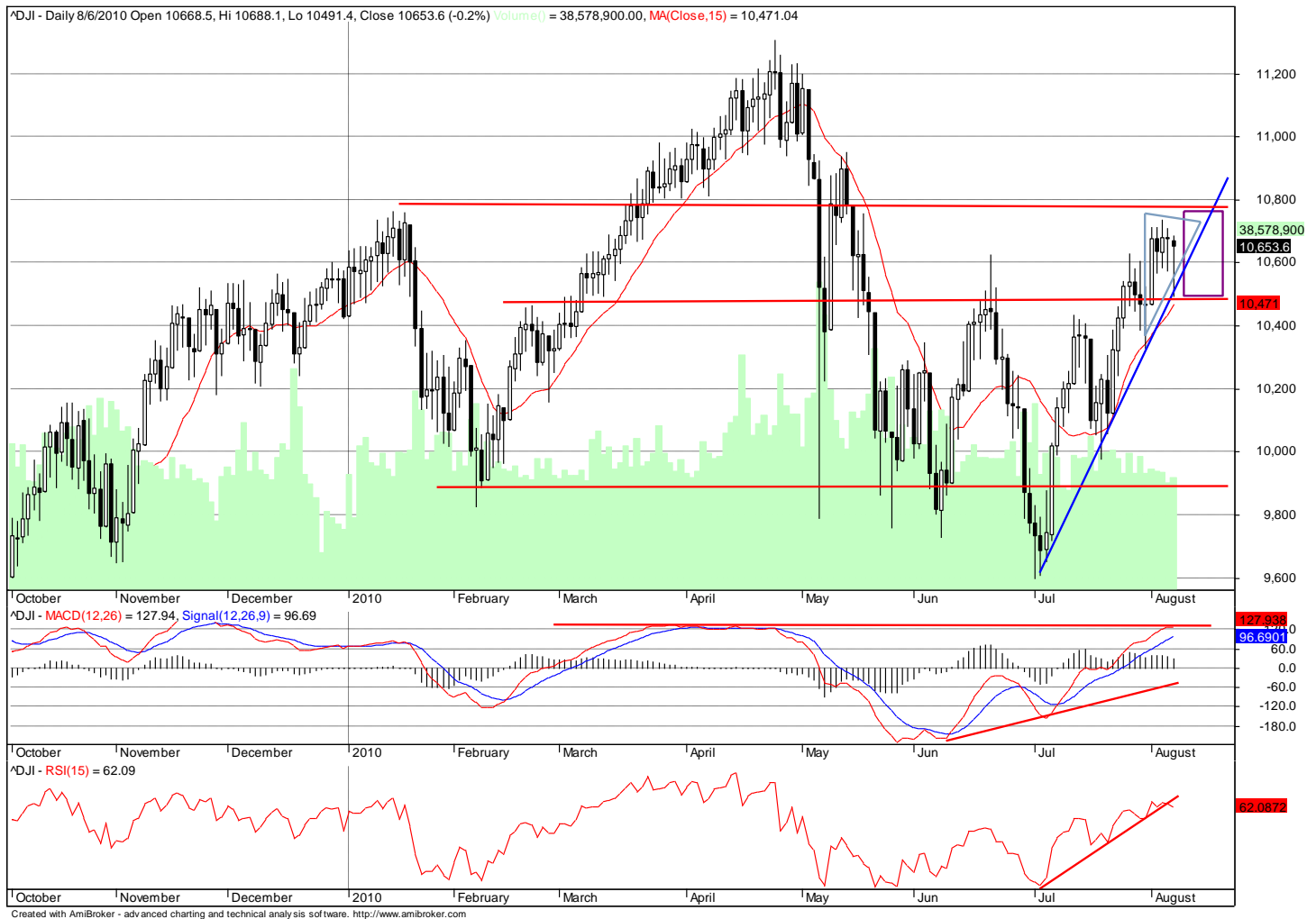
The Dow Jones Industrial Average (^DJI) gained 1.8% last week, finishing at 10,653.

Two weeks ago I noted "From a broad market perspective the movement is sideways. There are opportunities within that, as will be discussed in the Near-Term analysis below. But in the Broad we are still in a sideways market." Last week the PURPLE 10750 line offered resistance as expected.

I will repeat the values to watch from two weeks ago --- they are still relevant:

- If the market rises and stays above 10750 for several days then you can assume that the downward market is cancelled, this is a sideways move, and we'll be waiting for the next step up or down.
- The next step in that instance is 11263. If the market passes that point, we can assume that the sideways market is cancelled, and that we are in another period of uptrend in the market. A likely extension of the Elliott wave to a 7<sup>th</sup> leg up.
- If however the market drops down below 9632, we could expect a continued fall as this would be the third leg of an Elliott down or correction wave.

# Near-Term Market Trend using Daily data



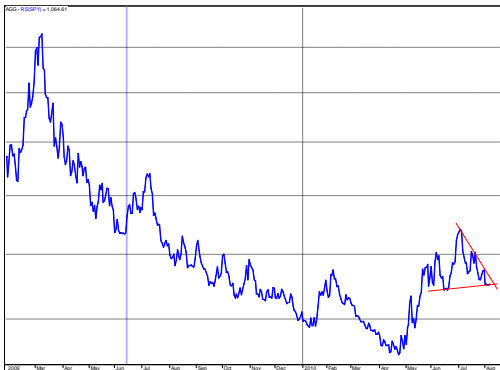
Last week I noted: “In the near term, all the technical signals above indicate mild continuing increase to the market. I have illustrated a PURPLE triangle to give you a sense of where the market might trend if it continues to rise this week.” The movement in the week was inside that triangle (now colored LIGHT BLUE). We saw an increase that respected the BLUE trend line as well as the two RED support and resistance lines.

The story here is Volume. From mid-July forward, even as the market has increased, volume has declined sequentially. This implies that there is not broad support for this rise in the market. My sense is that this is still, broadly, a sideways market, and the declining volume is a leading indicator of difficulty ahead for the market to rise measurably higher.

It is interesting that MACD is topping out at a historical high and that Relative Strength has pierced a trendline that started back in early July. But remember that Price is still the final determinant of direction, and it is still rising a bit. I have indicated the PURPLE likely trading range for the week, which in my opinion is sideways with the broader trend. If you are going to trade in this market, be careful and set your stops tight.

# Asset Class Behaviors

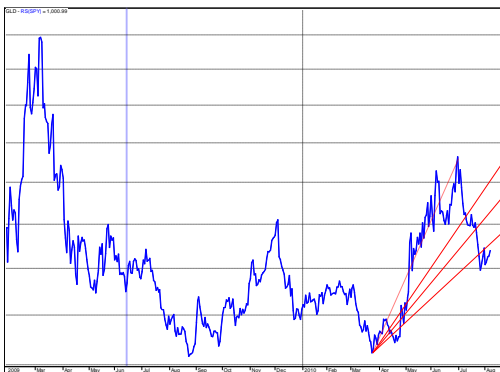
The charts below are not the price of the security. They are the ratio of the price of certain ETFs to the value of the SPY (S&P 500 ETF).



Bonds (AGG) continue to weaken relative to the overall market. This is ordinarily a good indicator, but with diminishing market volume you need to be careful --- this is not as strong a signal as one would want.



Real Estate (ICF) continues strong relative to the market on the whole.



Gold (GLD) has slowed against the market as I noted two weeks ago. Investors often rush to Gold in times of volatility - this is one more indication that emotions are down and the sideways market may continue for a while.



Dollar (UUP) was, last week, “weakening and heading into the apex of a descending triangle. That would imply a sharper downward breakout may lie ahead.” It is continuing to break downward. A weaker dollar improves the market for US goods and is preferred by the Federal Reserve at present.

## ETF Hedge Fund – Description

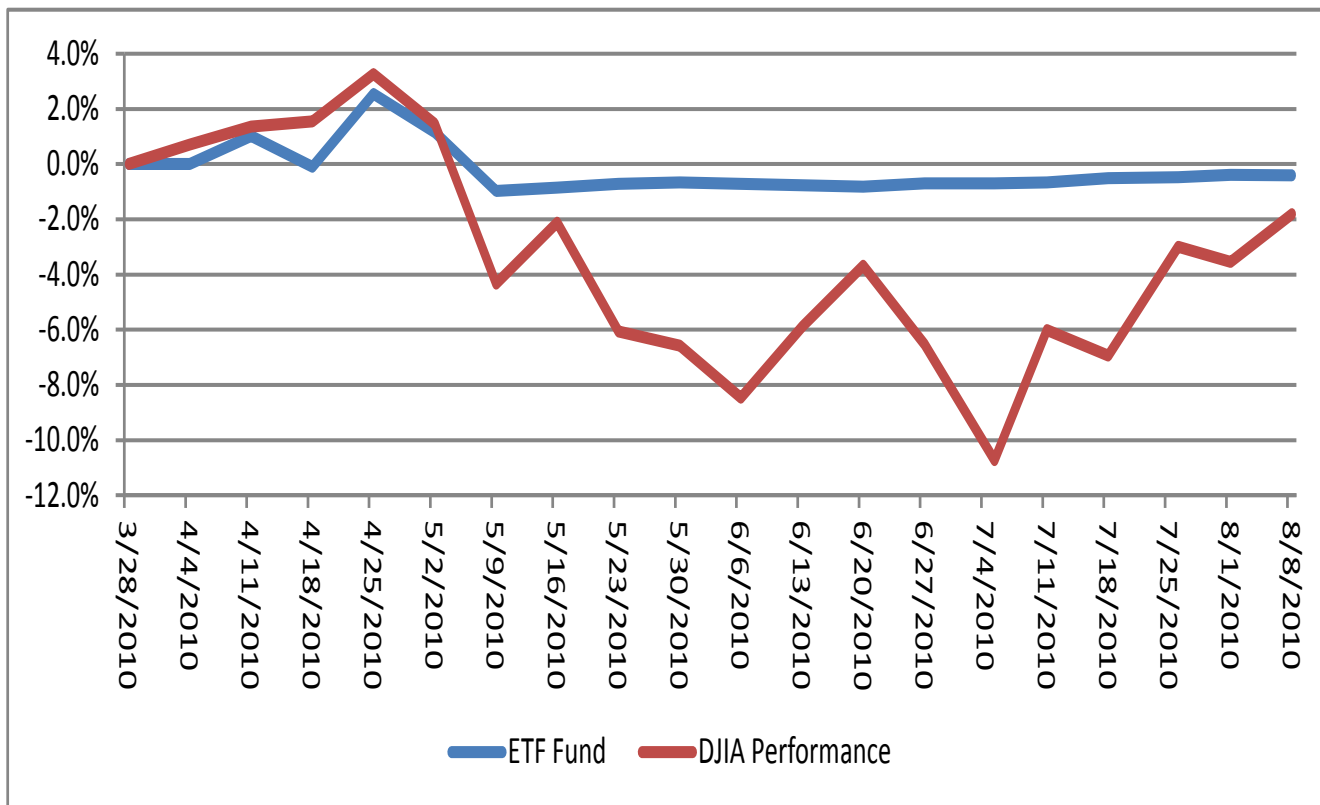
The ETF Hedge Fund consists of a set of loosely-correlated ETFs (Exchange Traded Funds). It is aimed at the conservative investor who is looking to preserve capital, avoid major market downturns, and ride market upturns. Trading occurs no frequently than weekly, and the ETF Hedge Fund has a bias toward 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 -0.4% before dividends. The DJIA is down -1.8% 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

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)	SELL (May 20) (107.54)	BUY (Jul 9) (107.96)	\$112.39			
AGG (Bond ETF)	BUY (Apr 30) (104.89)	BUY (Apr 29) (104.44)	BUY (Apr 15) (104.26)	\$107.63	\$106.73	\$104.75	\$104.00
ICF (REIT ETF)	BUY (Jul 7) (55.30)	SELL (Jul 2) (53.66)	BUY (Jul 13) (58.38)	\$61.31			
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	BUY (Aug 3) (115.99)	\$117.84	\$112.21		
UUP (Dollar ETF)	BUY (Jul 14) (24.25)	SELL (Jul 14) (24.30)	SELL (Jun 17) (24.95)	\$23.35			
DOG (S&P Inverse)	SELL (Jun '09) (66.50)	BUY (Jul 14) (50.80)	SELL (Jul '09) (64.27)	\$49.12			
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	\$105.23	\$104.74	\$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 is probably set for sideways movement. It is probably safe to trade at this point as a short-term, day-to-day proposition, but it is unclear that an intermediate-duration trend is underway. So I am not recommending GLD for intermediate-term trading.
- 5) The US Dollar is in a technical correction cycle and is not good BUY at this point.

Remember to set the stop loss as indicated.

## **Fundamental Fund – Description**

The 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 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.

## **Fundamental Fund – Performance**

Performance will be recorded from inception which is this week.

# Fundamental Fund – Security Detail

(The following note is from Dan Miley)

Greetings fellow investors! I have one new pick for you this week.

The stock I would like to highlight is InterDigital, Inc. (IDCC). IDCC designs and develops advanced digital wireless technologies for use in digital cellular and wireless IEEE 802-related products and networks. Its revenue growth over the last 5 years was 23%, EPS growth history was 319%, its ROE is 83%, and its estimated future 5 growth rate is 15%. The stock currently sells for about 27 dollars a share, but given its expected earnings and discounting a minimal amount of debt, its intrinsic value is north of 80 dollars a share. I don't expect the stock to reach those lofty levels immediately, but the stock is clearly undervalued at the moment and represents an attractive pick for those of us seeking growth at a reasonable price.

I still stand by my picks in PRSC, FCFS, AAPL, ENSG and AFAM. Please see previous editions of the newsletter for more information and especially remember there is a legal case pending on AFAM.

As always, the opinions expressed above are clearly my own, and you should do your research before investing in any security. And I would also advise sell covered calls or buying protective puts as a hedge.

Thanks for your interest, happy investing, and good luck!

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	New Position	
	Long-Term	Med- Term	Short Term		Stop Loss	BUY	SELL
Providence Service (PRSC)	BUY (Jul 1) (13.34)	SELL (Jun 30) (14.00)	BUY (Jul 22) (13.68)	\$14.89		Mkt	\$12.22
First Cash Financial (FCFS)	BUY (Jul 31) (18.79)	BUY (Jun 5) (16.82)	BUY (Jun 5) (16.82)	\$24.16		Mkt	\$21.25
Apple (AAPL)	BUY (Jul 20) (251.89)	SELL (Jul 19) (245.58)	BUY (Jul 22) (259.02)	260.09		Mkt	\$253.25
Ensign Group (ENSG)	BUY (Jun 30) (16.52)	BUY (Jul 30) (18.00)	BUY (Aug 4) (18.44)	\$18.24		Mkt	\$16.38
Almost Family (AFAM)	SELL (Jul 1) (35.01)	SELL (Jul 1) (35.01)	BUY (Jul 23) (24.98)	\$26.26		Mkt	\$23.01
InterDigital (IDCC)	BUY (May 10) (26.81)	SELL (Apr 29) (27.49)	BUY (Jul 9) (25.43)	\$26.85		Mkt	\$25.31

The 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. All stocks in this Fund are Value-based BUY at the present time. 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.

## Lowest Technical Risk - Long Term and Medium Term and Short Term BUY

First Cash Financial (FCFS)

Ensign Group (ENSG)

## Medium Technical Risk - Medium Term SELL / Short Term BUY

Providence Service (PRSC)

Apple (AAPL)

InterDigital (IDCC)

## High Technical Risk - Long Term and Medium Term SELL / Short Term BUY

Almost Family (AFAM)

## 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)	\$112.39	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	\$107.63	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**

Check out the Fundamental Fund above for new ideas this week.

## **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.