

# 5-STEP INVESTING

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## Step 1 – Broad Market Trend

Primary Trend: Upward. Started March 6, 2009 at 6626.  
Intermediate Trend: Upward. Started February 12, 2010 at 10012.

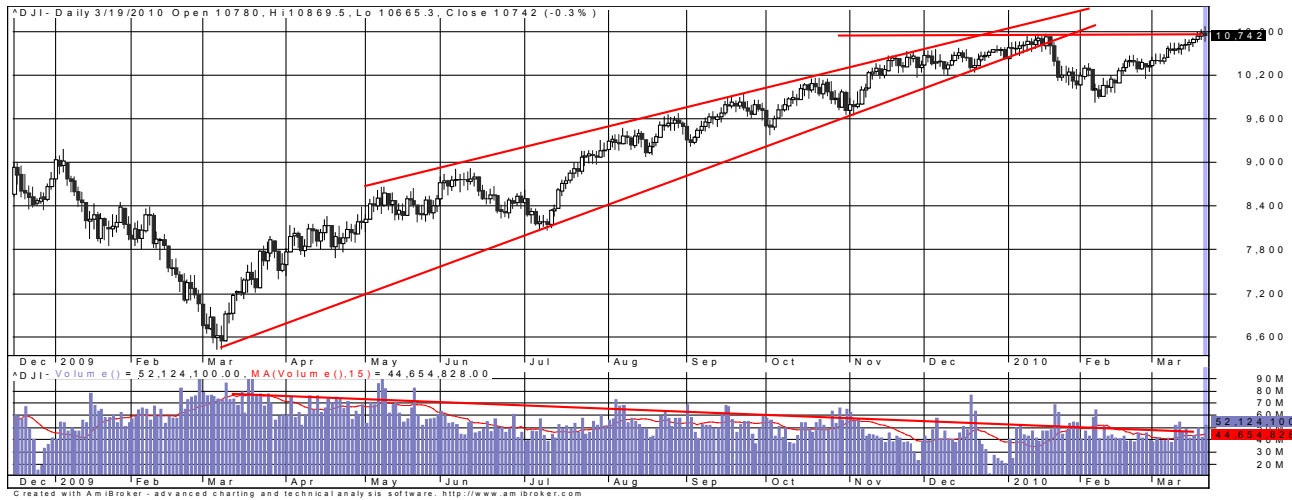


The broad market as measured by the Dow Jones Industrial Average (^DJI) has not materially signaled its intentions - it is in fact at a decision point. To summarize prior points made in the above graphic of weekly closing prices over the past 9+ years:

- 1) The fact that the market is at the 10785 line indicated in orange is significant. As you can see historically, 10785 has been a point of support/resistance many times in the past.
- 2) Elliott wave theory would indicate that if this is the beginning of another big upward push in the market, we might see another uninterrupted leg up to a level of around 12250, which is not noted on the chart. Conversely, an inability of the market to extend well past its mid-January high of 10763 may indicate that we are simply in the 2<sup>nd</sup> leg of a 3 leg lateral correction, which at best means the market will move sideways and at worst it is the beginning of a downward correction in the market below the 9908 level seen in early February.
- 3) One might expect the upswing that started in 2009 to end at a 50% Fibonacci retracement level of 10368. Since the trend kept on going, the next significant retracement hurdle of 61.8% is 11288. But rather than move ahead to 11288, the market retraced, went below the 10368 level, and has once again crawled back above it.
- 4) The MACD crossovers are looking more and more relevant. Historically a peaking crossover seems to indicate a change in market trend, as occurred in 2004 and 2007. Once again for only the 3<sup>rd</sup> time since 2001 we are at that point. The inability of the market to drive a new leg upward is similar to what happened in 2007 before the downward bear market began.

## Step 2 – Near Term Market Trend

Intermediate Trend. Upward. Started February 8, 2010 at 10195.  
Short Term Trend. Upward. Started March 1, 2010 at 10337.



Echoing the above comments in the broader trend, near term activity has been weak since January when the intermediate trend broke. As you can see by the number of red trend lines, the point in January at which the trend reversed was significant, and the inability of price to stay within the channels or cross materially above the 10798 horizontal line is significant. Additionally one can see that volume has fallen over the period of the rise in the price. Tellingly, during the January correction volume increased substantially relative to prior periods. Volume tends to increase with price in the direction of the prevailing trend, which would indicate that this recent rise in price sans volume does not have the strength to continue well beyond the red resistance lines noted above.

Nevertheless, the market has plowed steadily upward on lighter volume since early February. The prudent thing to do is to recognize that we are in an uptrend but be aware that a reversal could be forthcoming and set the stop loss levels tight and accordingly.

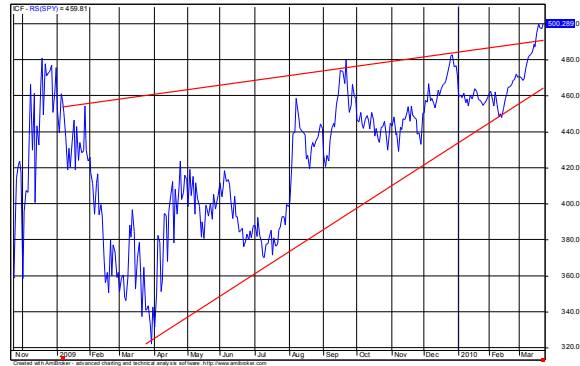
## Step 3 – Asset Classes

Charts 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 underperform relative to the S&P 500. It should be underweight in your portfolio. No sign of need to shift to this safer asset class.



Real Estate (ICF) continues to outperform relative to the S&P 500. It should be overweight in your portfolio.



Gold (GLD) is weakening a bit relative to the S&P 500. It should be underweight in your portfolio. Confirms that there is no need to shift to GLD for safety.



## Step 4 – Current Portfolios

### ETF Hedge Fund

There is no indication that you should prepare to hedge for a downside intermediate term correction yet, although in the near term a short pullback in prices is to be expected after the present run-up. While there are questions regarding the length and duration of the existing uptrend, there is no reason to disregard the model recommendations at this point. When securities hit the stop loss the monies should go into cash until the next weekly investment cycle. Remember to update your stop loss levels every week.

Security	Weight	Long-Term	Medium Term	Short Term	Price	Stop Loss
SPY (S&P5 ETF)	Overweight	BUY (Jan 22)	BUY (Mar 10)	BUY (Feb 11)	115.97	111.71
AGG (Bond ETF)	Underweight	BUY (Dec 28)	BUY (Mar 12)	BUY (Feb 23)	104.75	103.89
ICF (REIT ETF)	Overweight	BUY (Jan 25)	BUY (Mar 4)	BUY (Feb 16)	57.69	54.70
GLD (Gold ETF)	At weight	BUY (Feb 1)	SELL (Jan 29)	SELL (Mar 19)	108.28	105.37

#### Current Recommended weights for portfolios:

Conservative: Bonds 30%; S&P 50%; Real Estate 15%; Gold 5%

Aggressive: Bonds 5%; S&P 45%; Real Estate 35%; Gold 15%

#### Base weights for portfolios:

Conservative: Bonds 50%; S&P 30%; Real Estate 10%; Gold 10%

Aggressive: Bonds 25%; S&P 25%; Real Estate 25%; Gold 25%

### 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.

### Rules for 401K Portfolios

- 1) 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.
- 2) Apply the Medium Term recommendations above to these two fund options by using the Bonds recommendation for the Bond fund, and the sum of the S&P, Real Estate, and Gold recommendation for the Equity fund.
- 3) Remember that most 401K options have limitations on the frequency with which you can trade the funds or other fund-specific limitations.
- 4) Avoid using the “target date” funds, as they remain invested in the market at a 65-80% level regardless of market trend.

## Step 5 – New Ideas

Underway.

### The Final Word

This week's final word comes from Balbino Vazquez, a friend with a macro- and techno-economic viewpoint of the market that you may find interesting.