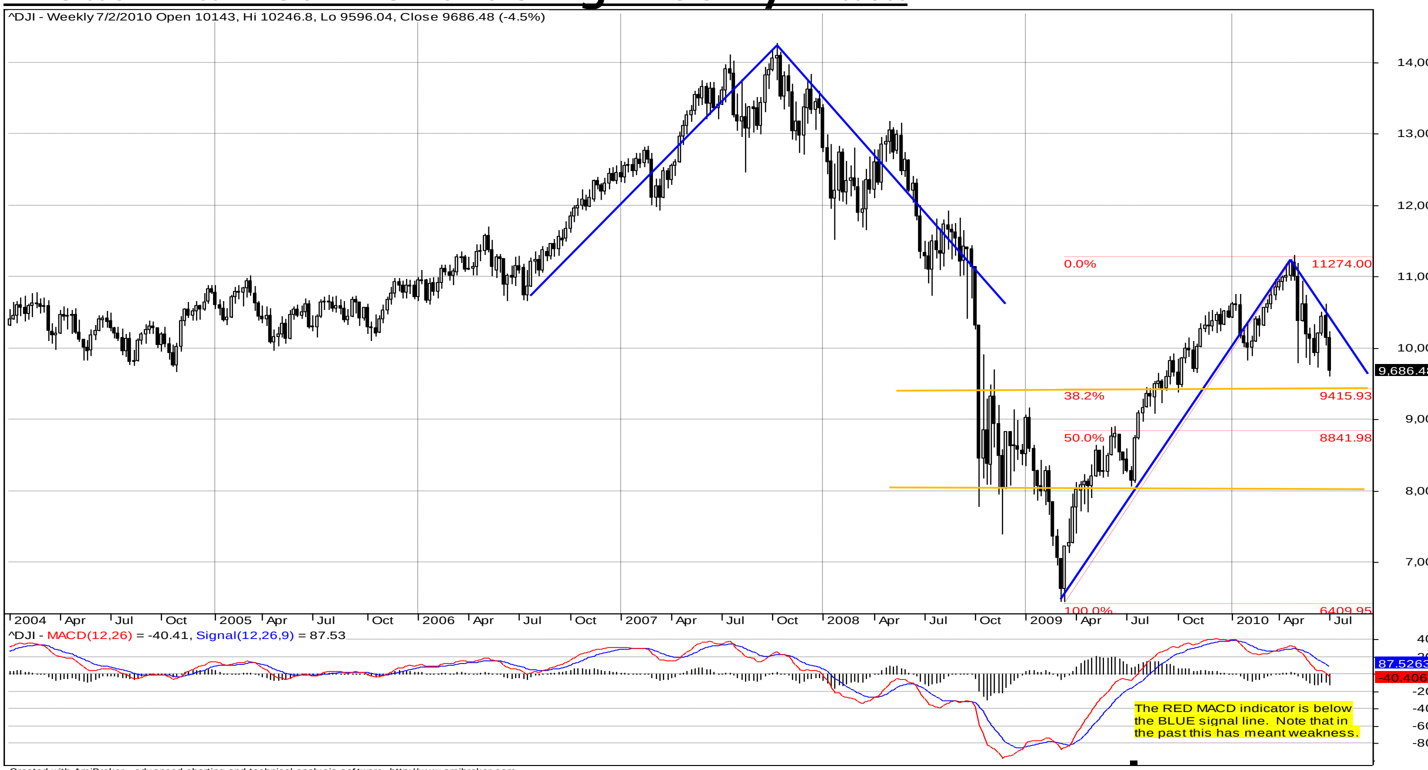
Monday July 5, 2010
Volume 2, Issue 26

On The Mark Investing

By Mark Bates, Certified Financial Technician by the International Federation of Technical Analysts
Email: MarkJBates@bellsouth.net

Broad Market Trend using Weekly Data



The Dow Jones Industrial Average (^DJI) lost 4.5% last week, finishing at 9,686.

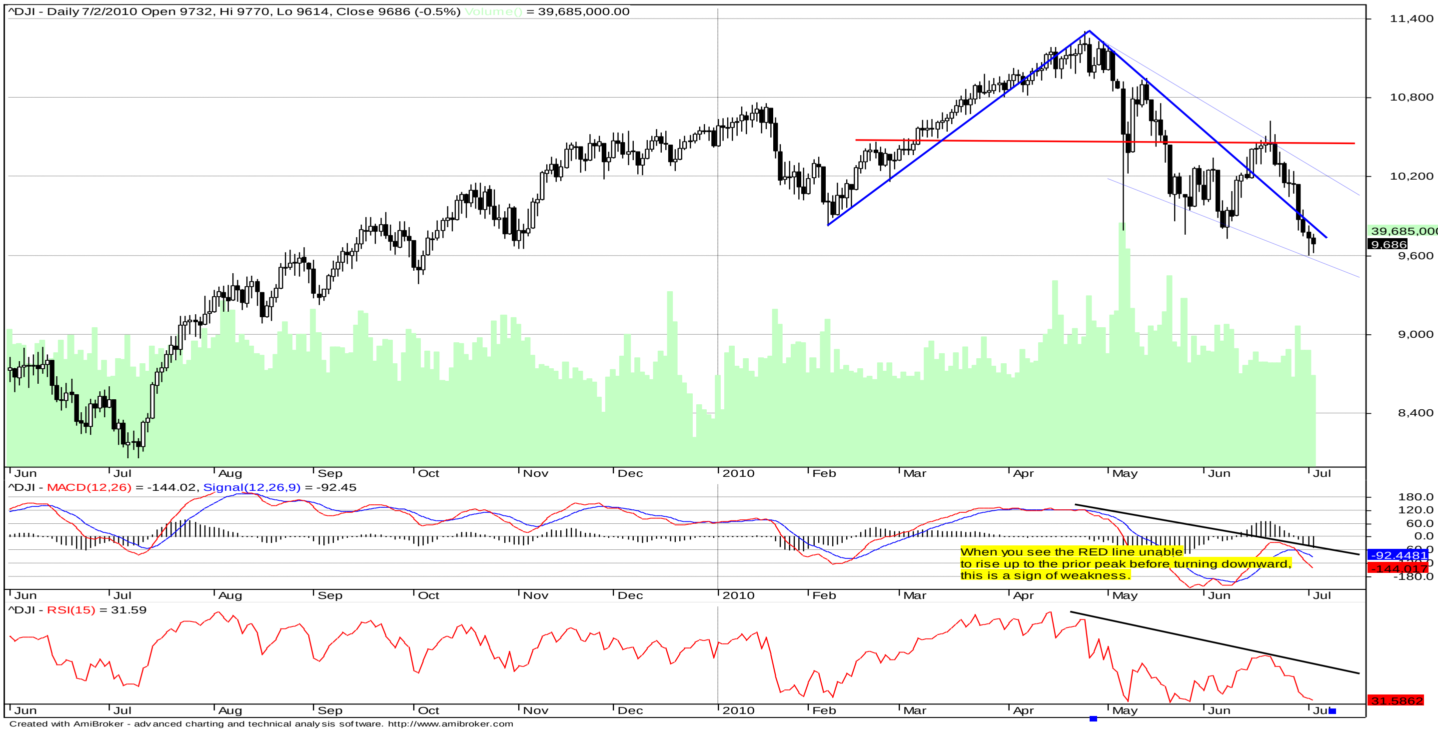
For multiple weeks now I have noted, much as I did last week, that "…the working assumption at this point is that we are in a sideways market, unless the ^DJI takes out the 11283 on the high side or the 10000 on the low side." Because this market fell below 10000 and stayed below 10000, there is enough weakness to suggest a downward trend. The question is "what next?". Here are a few suggestions.

1) Markets tend to correct at the same angle that the trended prior to the correction. Trends are particularly sustaining if they are around 45 degree angles. Note the BLUE lines above. The rise in the market from March 2009 to April 2010 should be accompanied by a correction at roughly the same angle. So 10300 is the likely point of resistance, a likely high point for the weeks ahead.
2) Markets tend to correct at Fibonacci percentages. A 38% correction of that March 2009 – April 2010 increase would place support at 9415. If the market falls below 9415, the next support would be at the 8841 50% Fib line.
3) Note the area between the two ORANGE lines --- the area between 8000 and 9400. There was a lot of transaction activity within this range in 4Q2009. This area represents a lot of imbedded support, meaning that if the market falls to 9400 it will have some difficulty plowing down through to 8000. Lots of people are holding securities bought in that time, and feel that securities are priced fairly in that price range. So there will be a market for those securities, and any fall will be muted.
4) Note that the MACD continues to show weakness. There is no indication of a reversal of the downward trend in

that graph.

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.

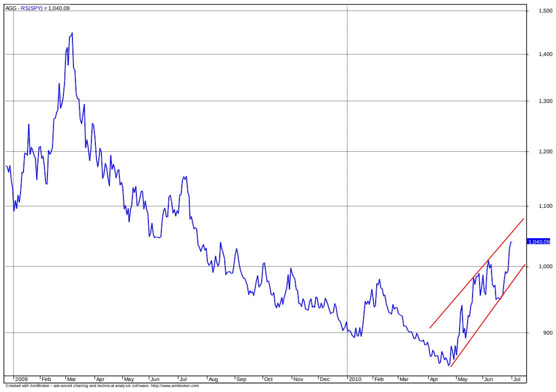
Near-Term Market Trend using Daily data



As noted above, we are in a broader down-trend market. Over the course of this week, it appears that the market may range slowly downward moving inside of the 9400 – 10000 range, as indicated by the two dotted lines above. The MACD and Relative Strength charts show continuing weakness, further substantiating the broader trend.

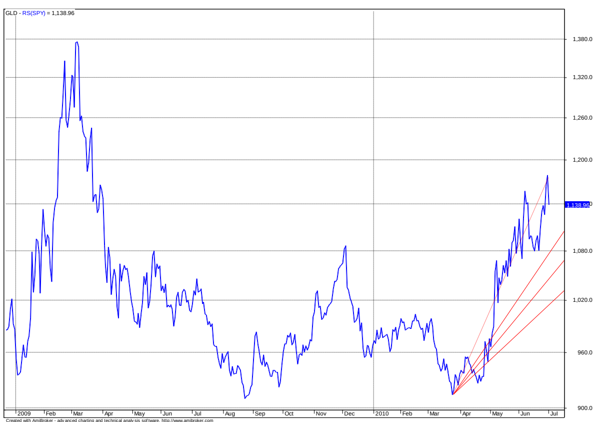
<u>Asset Class Behaviors</u>

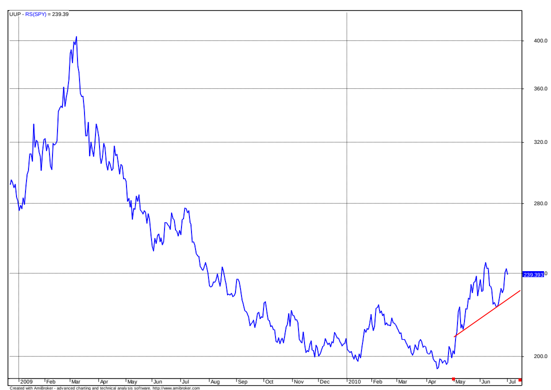
The charts below are <u>not</u> the price of the security. They are the ratio of the price of certain ETFs to the value of the SPY (S&P 500 ETF).



Bonds (AGG) have continuing strength against the broad market indicating a flight to safety.

Real Estate (ICF) continues to outperform slightly better than stocks, only meaning that it is still falling but just a bit slower in value than equities.





Gold (GLD) continues to be strong relative to the overall market in the short term and intermediate term. This confirms a weakening of the overall market and a movement of monies to the safety of GLD.

Dollar (UUP) With the troubles of the Euro and general instability in world markets, the Dollar has strengthened, just as we began to see some weeks ago.

ETF Hedge Fund – Description

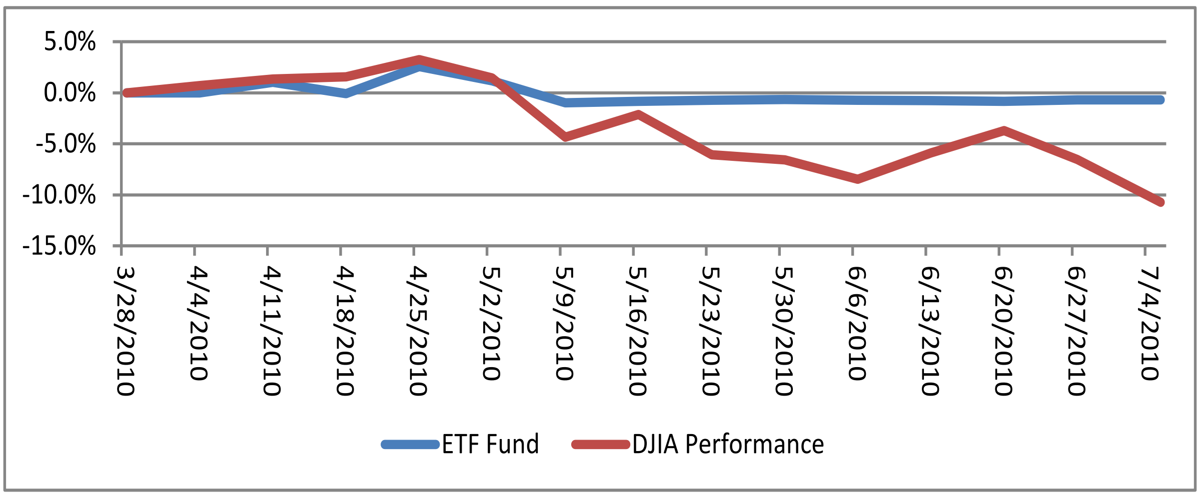
The ETF Hedge Fund consists of a set of loosely-correlated ETFs (Exchange Traded Funds). It is aimed at the conservative investor who is looking to preserve capital, avoid major market downturns, and ride market upturns. Trading occurs no frequently than weekly, and the ETF Hedge Fund has a bias toward 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 -0.7% before dividends. The DJIA is down -10.7% 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 2 months, we are positioned to retain our gains as the inevitable corrections occur.

Were dividend income to be included in the overall results, it is likely that 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

					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 (Jun 28) (107.53)	$102.20			
AGG (Bond ETF)	BUY (Apr 30) (104.89)	BUY (Apr 29) (104.44)	BUY (Apr 15) (104.26)	$106.73	$105.75	$104.50	$104.00
ICF (REIT ETF)	SELL (Jul 2) (53.66)	SELL (Jul 2) (53.66)	SELL (Jun 24) (56.64)	$53.66			
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	BUY (Jul 1) (117.04)	$118.49			
UUP (Dollar ETF)	BUY (Jun 18) (24.94)	BUY (Jun 18) (24.94)	SELL (Jun 17) (24.95)	$24.57			
DOG (S&P Inverse)	SELL (6/30/09) (66.50)	BUY (May 7) (50.63)	SELL (7/16/09) (64.27)	$54.48			
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	$103.93	$103.18	$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 trend. So 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)	$102.20	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 per recommended weight below	$106.73	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 Ideas

For more aggressive investors, I will have some news in the next week or so.

The Final Word

(Today's Final Word comes from the American Association of Individual Investors in a 2010 article about retirement planning. If you are not a member of AAII, consider joining. It is inexpensive at $29 annually and it is a good source of information about the broader aspects of investing, including estate planning, retirement, and money management.)

Retirement Planning: Myths and Misconceptions About Life in Retirement

By Michael E. Leonetti

"Some people spend more time planning a two-week vacation than they do retirement planning."
~ Anonymous

Retirement is a passage from one lifestyle to another. One way to think of the term "retire" is by placing a hyphen between the 'e' and the 't' and creating a new term—re-tire: To put on new treads.

Those who take the voyage seriously and do the right kind of retirement planning usually have a smoother trip and more fun.

Discussions with seasoned retirees indicate that there are many myths and misconceptions about retirement. Often you will hear these myths stated as fact. Here are some of the most common ones.

Retirement Planning Myth: The Female Exclusion

Some people, including women, continue to believe that only men retire. This misconception ignores the career women who have the same retirement adjustment problems that men have. Also, it falsely assumes that women not holding down 9-to-5 jobs cannot retire and therefore do not need retirement planning. This may stem from the old saying: "A man's work is from sun to sun, but a woman's work is never done." Homemakers often have a more difficult voyage than those who retire from a job. Women who have been homemakers all their lives need to insist on being a full partner when their spouses retire.

One reason the myth may continue is that women sometimes lose their spouses early. The transition of widowhood is so traumatic that it hides the equally important second passage that must be made.

Retirement Planning Myth: The Piece of Cake

Retirement should be the dessert that follows the full-course meal of earlier life. Maybe this is why pre-retirees view the transition as a piece of cake. Instead of thinking ahead to retirement, they make comments such as: "My retirement plan consists of putting all of my work problems in my briefcase and presenting them to my boss as a farewell present," or "Retirement is a pot of gold at the end of the rainbow. You don't have to plan for something that beautiful."

Many pre-retirees are so occupied with getting out of their career traps that they seem to care little about what happens when they leave their jobs and do little retirement planning. Despite the fact that they have planned other phases of their lives, they seem to feel retirement will take care of itself. The opposite is often true. For example, many retirees go back to work because they cannot handle leisure time. Learning to live in comfort and with style after retirement does not necessarily come easy.

Retirement Planning Myth: The "Honey, Do" List

The word has been out for years that some men put off retirement planning and retirement because they fear their wives will control their free time and the house. It will be, "Honey, do the dishes," "Honey, do the windows," and "Honey, take the dog to the vet." Normally, these individuals need not worry because most women don't want someone under foot, monitoring their activities and invading their space. One wife expressed it well: "The only time you will ever hear me use that 'Honey, do' expression is when I say, 'Honey, do something on your own, away from the house, so we can both have room to breathe.'" Spouses need the same autonomy after retirement that they did before.

Retirement Planning Myth: The Hobby Job

One individual tells the story of a man so concerned about retirement that he experimented with hobbies in advance. By the time he retired, he had run through his hobby possibilities and had to find something more substantial to occupy his time. The same thing can happen after retirement. Don't misunderstand, hobbies are a great idea. Those who can derive satisfaction from photography, gourmet cooking, stamp collecting, and so on are lucky. But hobbies must continue to be fun and interesting or they quickly become unsatisfying. Few people create a complete new lifestyle around hobbies. A few will be able to convert their favorite hobby into a small business or a lifetime artistic achievement, but most are not this fortunate.

Retirement Planning Myth: Retirement = Early Death

We have all known people who are not around long after their retirement parties. The unhappy scenario causes strange reactions—"It's too bad Joe didn't work longer," "The moment people retire they grow old," or "I'd still have Fred if he hadn't retired so early."

Retirement can be painful, but it is not lethal. It is a change not unlike those earlier in life. Most people who die shortly after retirement probably had health problems before they stopped working. Retirement had nothing to do with their demise.

The only connection between retirement and early death may be that some retirees fail to keep active. They relax to the point that their bodies self-destruct. They give up. They fail to stay in charge. There are many reasons for retiring early, and there are just as many for retiring later. But avoiding retirement planning and staying on the treadmill because you fear retirement will cause early death should not be one of them.

Retirement Planning Myth: Prior Success/Easy Passage

It is not difficult to see why this misconception persists. It stands to reason that those people who are successful before retirement should find retirement easier to cope with than those who did not do as well. Success breeds success; failure breeds failure. Translated, this means that corporate presidents should have an easier retirement than custodians; professional ball players should make smoother transitions than the vendors who sold hot dogs in the stadium; and nursing superintendents should adjust better than orderlies.

True?

Absolutely false! In fact, it often works the other way around. Those who earned high psychic rewards from their careers may have trouble finding replacements after retirement. It may be difficult to find a retirement role that provides enough ego satisfaction. All retirees can build a better lifestyle, but it helps if you truly take the time to think about retirement planning.

Retirement Planning Myth: The Paid-Up Dues

Some conscientious individuals who have worked hard all their lives feel that they are home free when they retire. They say, "I've done my bit for society; now it's society's turn" or "I paid my dues through church work for 30 years, now the church can take care of me."

This type of attitude does not make for a successful retirement plan — these people operate under the premise that you pay your dues during working years and then draw interest. A nice dream, but sadly, life doesn't work that way. In fact, happy retirees often pay more dues, not less. They contribute more to charitable organizations and communities than when they were working. Perhaps the most successful retirees are those who have an opportunity to repay society by sharing their talents.

Retirement Planning Myth: The Odd Job

If you ask friends who plan to retire in the next few years about their expectations, some will reply: "There are enough jobs around the house to keep me busy for at least 10 years."

Those well-meaning individuals, without knowing it, are using odd jobs as an excuse. They think about how satisfying it will be to catch up on all the little chores they have been avoiding. It usually takes only a few weeks to discover the truth. Having more time doesn't make a job any more fun to do. In fact, some retirees hate them so much they return to work for enough money to pay the plumber, gardener, and painter. All probably wish they had done more serious retirement planning.

Retirement Planning Myth: 'Sell a Little Real Estate'

Retirees are attracted to real estate like children to a candy store. You hear this expression over and over: "I'm working on my real estate license to supplement my retirement income by working a few hours a week. All I need to do is sell a few homes each year. Best of all it won't interfere with my leisure activities."

Those who know better find it difficult to keep quiet when hearing this dialogue. Professional realtors chuckle because they know they will not receive any serious competition from this quarter. At best, a part-time realtor will make very few sales. Selling real estate is not a part-time career; it is difficult and time consuming and should not be considered an aspect of your retirement plans. The professionals say you have to be in the field seriously or you should get out. Many retirees attempt real estate careers for awhile and then painfully lower their sights or give up. Few invest the time required to become successful.

Retirement Planning Myth: The 'Money Will Go Further'

Inflation should have exploded this myth years ago. Not so. You still hear: "Think of the money I'll save doing repairs myself," "We will buy less meat and improve our health," "My taxes will be lower," and "Senior discounts are everywhere." These thoughts should not be allowed to seep into your retirement planning mindset.

Although there are financial advantages after retirement, certain factors continue to be ignored. What about the problem of having more time to spend less money? What about increased expenses for home, car, and medical insurance? Utility bills? Unfortunately people don't have trial retirements to test how far their money will go. If they did, they would discover that retirement dollars do not stretch any further than pre-retirement ones, and there are usually fewer of them.

Retirement Planning Myth: Stay Busy

Keeping busy is a great idea after retirement, providing you are doing what you want to do. But if you keep busy simply to be busy, you are falling for the myth. Some people think that if they stay busy enough, their retirement problems will go away and they will be happy ever after. Others stay busy to anesthetize themselves against thoughts of aging or living alone.

These individuals seem willing to trade a life of potential contentment for a frenzied existence. Instead of slowing down to design a rewarding retirement plan, they spend time and energy on meaningless tasks. They visit the supermarket daily when once or twice a week would do. They accept social invitations knowing they will be bored. Worst off all, they stretch dull chores around the house. You get the feeling these retirees are avoiding retirement. Are they afraid to face a new, more mature identity? Has life been so disappointing that they dare not hope for anything better? Are they afraid to get off the treadmill and search for late-in-life happiness?

Retirement Planning Myth: The Big Time Misconception

Most retirees grossly underestimate the amount of time they will have on their hands following retirement. We live within a 24-hour time box. Yesterday is gone, tomorrow is pending, today is center stage. To be happy, both before and after retirement, we must deal effectively with each time block—every day.

Actually, time relates to our waking hours. Retirees often do not understand how large a block of time 16 hours is. You can fly to London from San Francisco and still have time for a stage play in 16 hours, or drive across two or three large states. During this time period, it is possible to play 18 holes of golf, take a good swim, have dinner with friends, go dancing, and still read a few chapters before bed.

Yet, if it is not filled with meaningful activities, 16 hours can be forever. Some retirees merely treasure their time while others take this treasure and convert it into excitement. Still others permit time to bore them to death.

What is the difference?

The answer may lie in effective retirement planning. Some retirees keep something planned to maintain their excitement and motivation. Others, with the same opportunity, have no special events to fill the time and stretch uninteresting tasks just to get through each day.

Summary

Both women and men have their own retirement considerations. Knowing the myths and misconceptions about retirement and retirement planning helps an individual avoid foolish, unnecessary mistakes.

One of the key challenges of retirement is knowing what to do with your time. Give careful consideration and planning to your future retirement years and avoid some of the myths that are still so prevalent.

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.