

5-STEP INVESTING

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

ETF Hedge Fund Performance – March 28, 2010 to Present

Security or Index	
Gold (GLD)	1.21%
Bond Fund (AGG)	0.85%
Tax Free Bond (MUB)	-0.20%
Equity ETF (SPY)	-1.60%
Real Estate (ICF)	-1.87%
US Dollar (UUP)	-3.45%
Dow Jones Industrial Avg	-3.69%

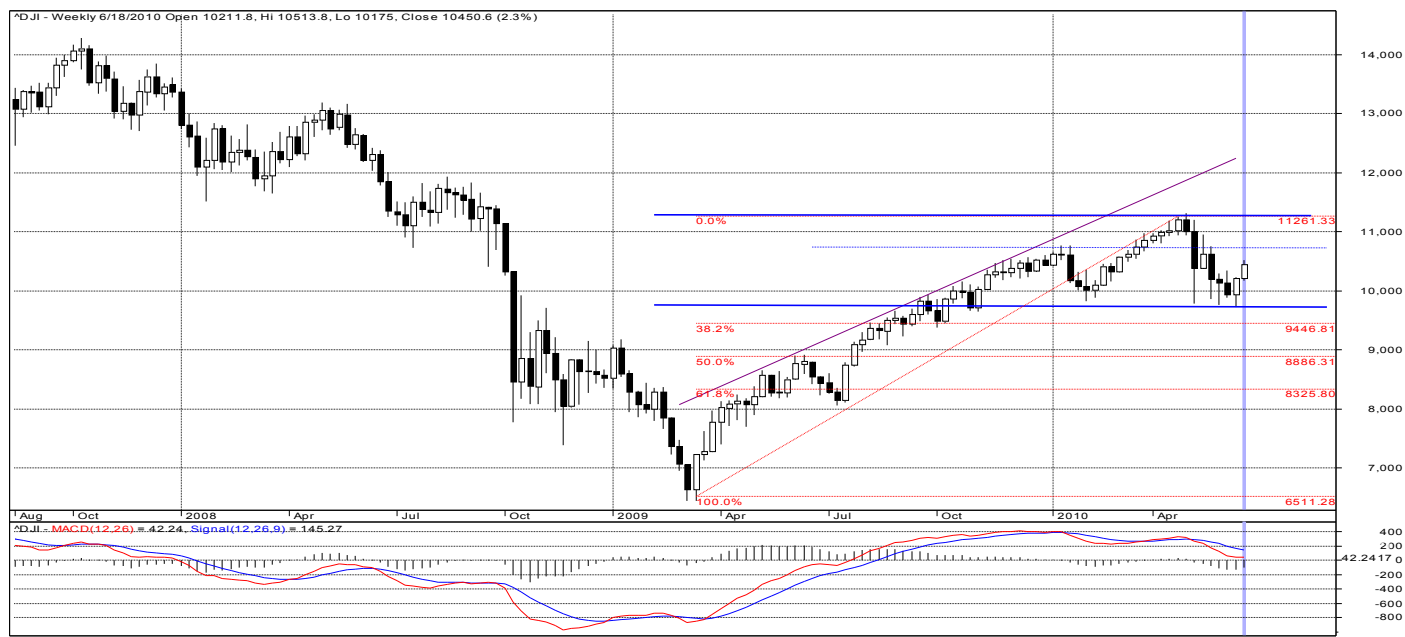
This is a brief look at individual security performance since the beginning of the ETF Hedge Fund. I was on vacation last week and will develop a market basket style tracking method that will include the recommended asset weights in the calculation, thus providing an overall measure.

The ETF Hedge Fund is designed as an Intermediate-term investing strategy for conservative investment. When it uses equities, you would expect to see losses capped using aggressive stop loss values, as indicated above.

Assumptions:

- 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

Step 1 – Broad Market Trend



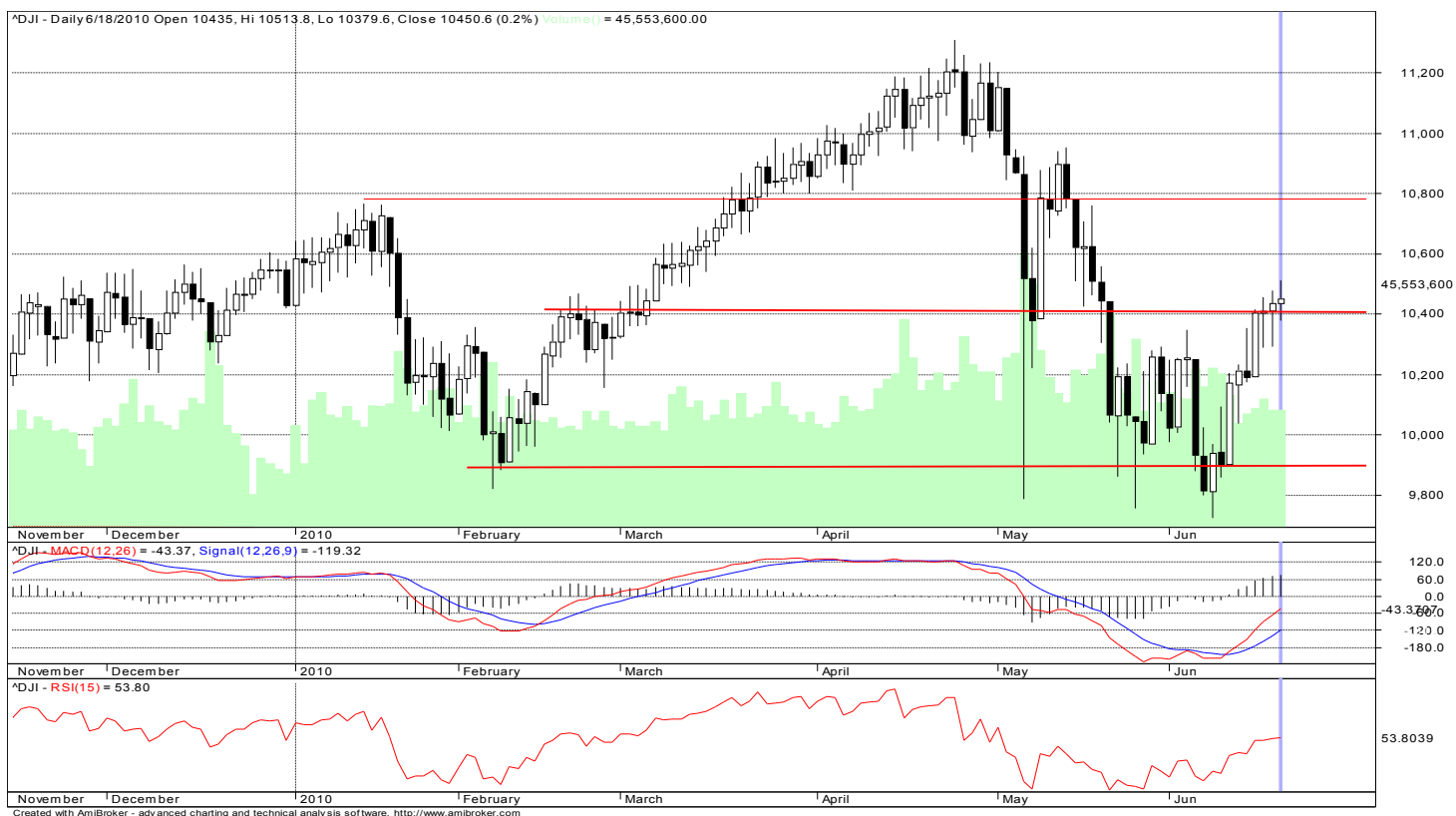
The Dow Jones Industrial Average (^DJI) gained 2.3% last week, finishing at 10,450.

Three weeks ago, when the market initially corrected, I said, “So for the time being, as long as the the ^DJI does not drop and stay below 10000 or above 11283, we are going to assume that it is going to move sideways for a while”. Two weeks ago, as the drop toward 10000 continued, I noted that “On Friday the market closed below 10000. If the market drops below 10000 and stays there for 3+ days, one can assume that it is heading downward a bit more, and we would look at resistance around 9446, which is the 38% Fib retracement line indicated on the chart above.”

The market stayed below 10000 for a total of 4 days (not 3), and over the past 2 weeks it has proceeded to run back up by about 5%. So 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. I would further refine the high point with the 10700 blue line above --- that is a near term point of resistance.

In the broad it is time to hold your powder dry. We can look for opportunities buying on the dips, and in the meantime hold fixed income securities that will pay you a return until this market once again becomes trending.

Step 2 - Near Term Market Trend



Two weeks ago I remarked, “On a daily basis we continue to see tremendous volatility. This past week was no exception. After all of this volatility in the past 2 weeks, it still appears like a short-term sideways movement. Bulls battling the Bears.”

There are a number of interesting short-term things happening, but most are not of interest to intermediate-term investors. As noted above, there is interest at the red line marking around 10700. On the MACD chart above the red line is above the blue and rising, indicating continuing upside strength. Relative strength is rising as well.

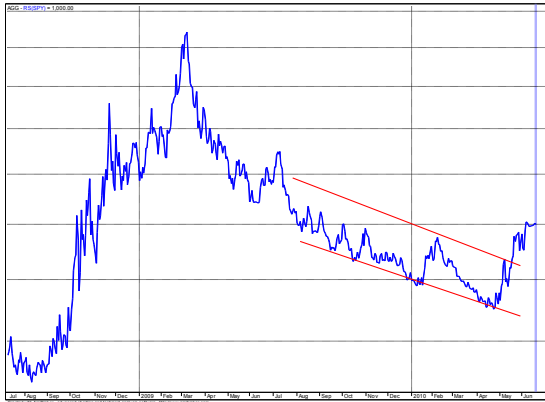
Over the past couple of days you see, on each day, a long vertical line with a small white box. In graphical terms that indicates that the market moved as high as the top of the line and as low as the bottom of the line. The box marks the beginning and ending points for the day. A white box indicates that the price went up for the day, and a black box means that it went down for the day. After some strong days earlier in the week, the past 2 days have indicated sellers and buyers at equilibrium --- the market taking a breath as it were.

Note the green volume indication on the above chart since the market bottomed out in early June. Market volume (in green) has been falling even as the index has been rising. That divergence would imply that this has not been a strong upward rally, and that some form of retrenchment (lateral or downward movement) is likely at hand. It confirms the broad operating assumption that this market is range-bound for the time being.

Step 3 – Asset Classes

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) are neutral to stocks in the short term, and stronger in the intermediate term. They are likely a bit overpriced in the short term.



Real Estate (ICF) continues to outperform relative to the S&P 500. But be careful, as real estate as a whole is down relative to where it started the year.



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.



Step 4 – Current Portfolios

ETF Hedge Fund

Three comments from last week are generally still true:

- 1) 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.
- 2) 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.
- 3) Gold and the US Dollar are both strong but are also expensive at this point and due for a technical correction.

Remember to set the stop loss as indicated.

					Current Position Stop Loss	New Position Stop Losses	
Security	Long-Term	Med- Term	Short Term	Price	SELL	BUY	SELL
SPY (S&P 500 ETF)	BUY (May 21) (109.11)	SELL (May 20) (107.54)	BUY (Jun 10) (109.15)	111.73			
AGG (Bond ETF)	BUY (Apr 30) (104.89)	BUY (Apr 29) (104.44)	BUY (Apr 15) (104.26)	\$106.05	\$104.98	\$104.50	\$104.00
ICF (REIT ETF)	BUY (May 21) (56.95)	BUY (May 14) (60.03)	BUY (Jun 11) (59.33)	\$60.67			
GLD (Gold ETF)	BUY (May 24) (116.84)	BUY (May 24) (116.84)	BUY (Jun 7) (121.49)	\$122.83			
UUP (Dollar ETF)	BUY (May 28) (25.34)	BUY (Dec 18) (23.01)	SELL (Jun 10) (25.38)	\$24.94			
DOG (S&P Inverse)	SELL (June 30) (66.50)	BUY (May 7) (50.63)	SELL (July 16) (64.27)	\$50.58			
MUB (Tax Advantaged Bond)	BUY (Mar 18) (103.49)	BUY (Mar 18) (103.49)	BUY (Apr 16) (103.48)	\$104.24	\$103.73	\$103.40	\$102.75

Recommended Weights for Intermediate-Term Portfolios

	Conservative	Aggressive
S&P 500	0%	0%
Bonds/Cash	100%	100%
Real Estate	0%	0%
Gold	0%	0%
UUP (US Dollar)	0%	0%

Step 4 – Current Portfolios

401K Mutual Fund Portfolios

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)	\$111.73	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	\$106.05	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	

Recommended Weights for Portfolios

	Conservative	Aggressive
Equity	0%	0%
Bond	100%	100%
Money Market	0%	0%

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.

Step 5 – New Ideas

None 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.

Legal:

First, among the positions that I hold positions are AGG, MUB, and UUP.

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.