Volume #30 Issue #2

16 July 2016

John Bollinger's CAPITAL GROWTH LETTER

"The market always tells you what to do. It tells you: Get in. Get out. Move your stop. Close out. Stay neutral. Wait for a better chance. All these things the market is continually impressing upon you, and you must get into the frame of mind where you are in reality taking your orders from the action of the market itself--from the tape" Richard D Wyckoff

Stocks

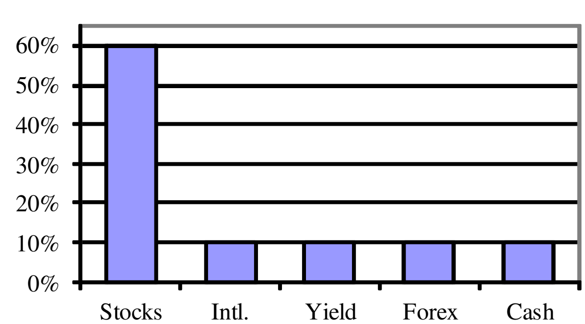
The old adage goes that Wall Street climbs a wall of worry and it has never been more apt as recent events demonstrate. Worry about stocks—if not outright bearishness—seems to dominate the minds of most stock-market participants, whether they be individuals or professionals and that seems especially true of newer investors who have faced hard times in the post Internet Bubble markets without having the enriching experience of the prior bull market.

A young man who lives across the street from me is very interested in stocks and is trading his errand money quite successfully. He is 14 and is bright and very motivated. His older brother can code a bit, so they are hard at work on making money in the market in a systematic manner. Why share that now? Because youngsters like him used to be common and these days they are as rare as hen's teeth. Not too far back I used to regularly get mail from young folks starting out; in recent history I recall only one contact. That is primarily a function of the type of market we have been through. Whether you date the peak from '98 as I do or 2000 as most others do, we have been in a long sideways market for 16 or more years. (That long-term consolidation was forecast here long ago.) And that sideways market has featured some fiercely bearish action. It is a completely different environment from the years that preceded it with ten percent plus annual gains, year in, year out, and an eight-year stretch without so much as a ten percent correction. Add in the roaring speculative bull market in Internet stocks and everyone was interested in stocks prior to 2000. Today we have the reverse; almost no one cares about the stock market. So when do you want to invest? When everybody is already at the party and drunk out of their minds? Or before the party starts?

The Investing Environment

Monetary	Model	Current
Fed Model	Neutral	
Yield Curve	Positive	1.09
Money Supply	Positive	6.9%
Sentiment	Model	Current
Net Bulls	Negative	27.8
Options	Positive	0.89
Valuation (S&P 500)	Last Signal	Current
Yield		2.15%
P/E Ratio		24.62
Current Trends	Short Term	Long Term
Stocks	Up	Up
Interest Rates	Down	Down
Energy	Flat	Up
Gold	Up	Up
Commodities	Up	Up
Dollar	UP	Flat

Asset Allocations



Smart Money or Why I like Volume Indicators

One of the oldest ideas in technical analysis is the idea of smart money. Many early technicians devoted themselves to tracking smart money, devising indicators and analytical systems designed to do so. Complementary ideas are supply and demand, accumulation and distribution. It was thought that smart money started to accumulate stocks before the rally unfolded and started to distribute them before the top was clear. Likewise smart money was a source of demand in bad times and a source of supply in good times. Most volume indicators were built with the idea of visualizing the actions of smart money and many overbought/oversold indicators were designed to pick out situations in which smart money might become active.

In the old days smart money was more easily identified. Recall Don Wordens's work in the 1960s that was totally focused on tracking smart money through transaction analysis. (His tick volume studies gave larger transactions more weight than smaller transactions and he created special series of just the largest transactions.) Smart money was usually old money with deeply experienced managers who knew what was up, or often bankers with successful franchises and deep stakes in their companies. Today smart money is harder to identify, but it is still there. We saw a particularly egregious example in the financial crisis when Goldman decide to 'get a little closer to home'; that is they sold off their holdings of very risky mortgage-backed securities all the while touting them to their customers. A marvelous trade for them and a horror for their customers.

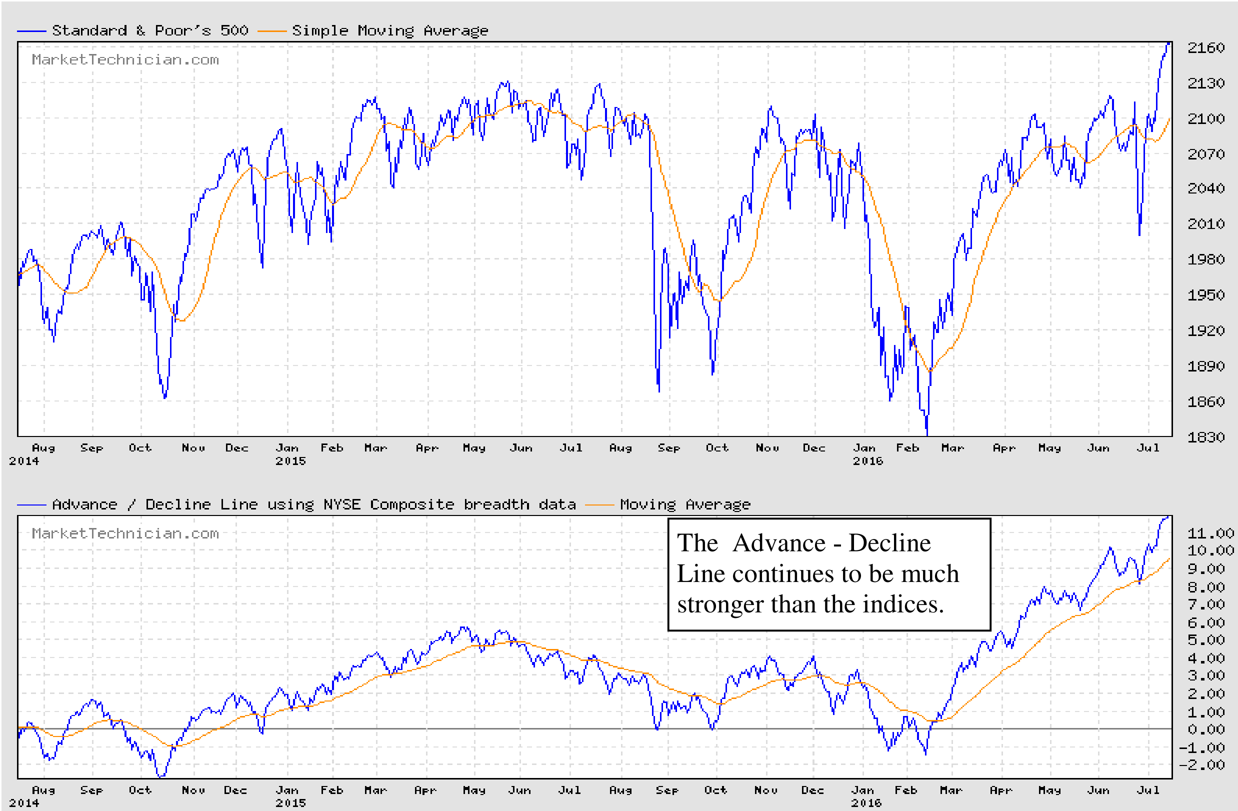
More Stocks

A month or more ago everyone was questioning (denying) the Advance - Decline Line, one of the most reliable market timing tools over time. It was breaking out to new highs and in a clear upward trend. The naysayers were arguing that the strength was from all the non-operating company securities traded on the exchange, which was all the more damning as it was true to a certain extent. New 52-week highs and lows were questioned in the same manner, as were the up and down volume statistics. It seemed that no bullish argument could hold under the onslaught of bearish opinion; it simply didn't matter what the indicators said, the market was going to hell in a hand basket and quickly if you please. Needless to say it didn't work out that way and the averages have arrived at new highs.

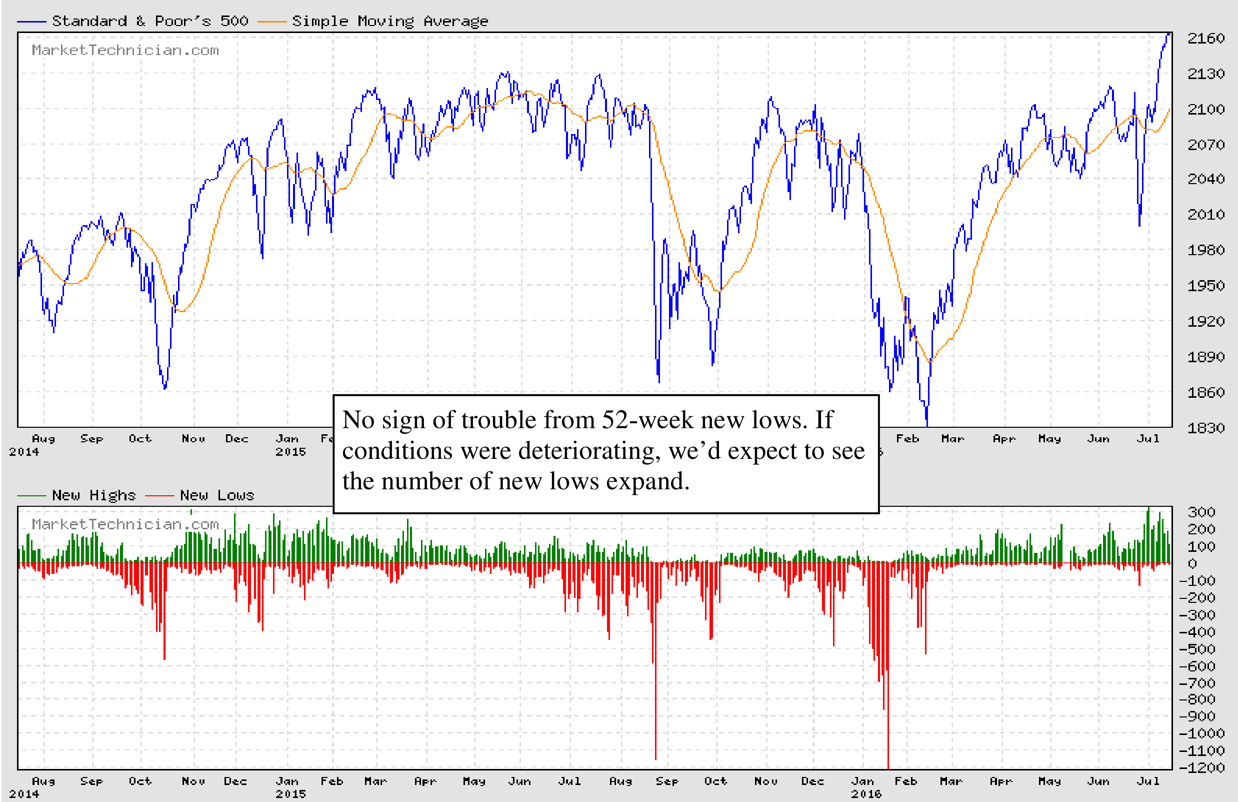
(One way you can be nearly certain that you are right is when no argument will sway the other side. When they are so set in their opinion that they are unshakable they are almost certainly wrong. It may take some time, but the pigeons almost always come home to roost.)

To tell the truth I am not wildly bullish, but I am constructive in my outlook for stocks. Why not more bullish? I don't see enough economic growth to support the stock market growth we have seen and continue to see. Simply put, I think that the stock market is getting ahead of itself. I don't want to be early in that regard, so I will wait for internal deterioration before turning negative.

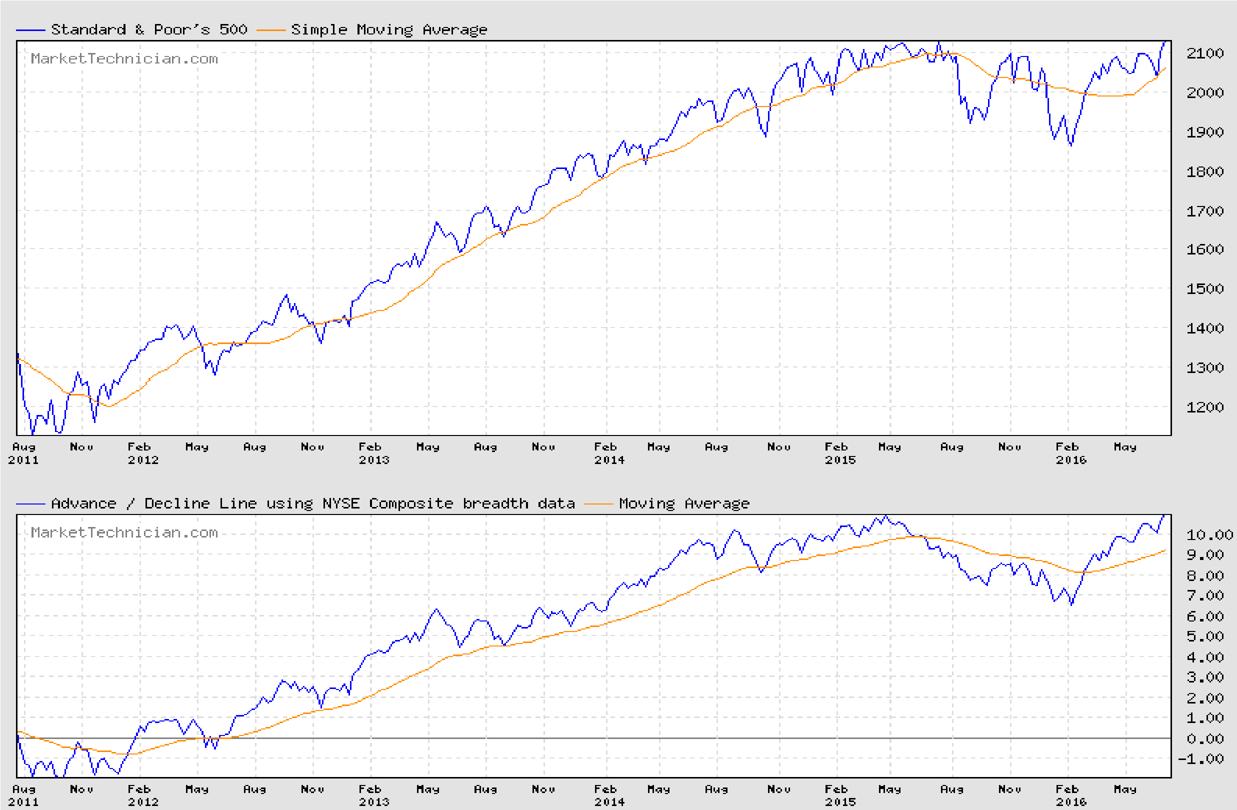
Value Line Arithmetic — One Year



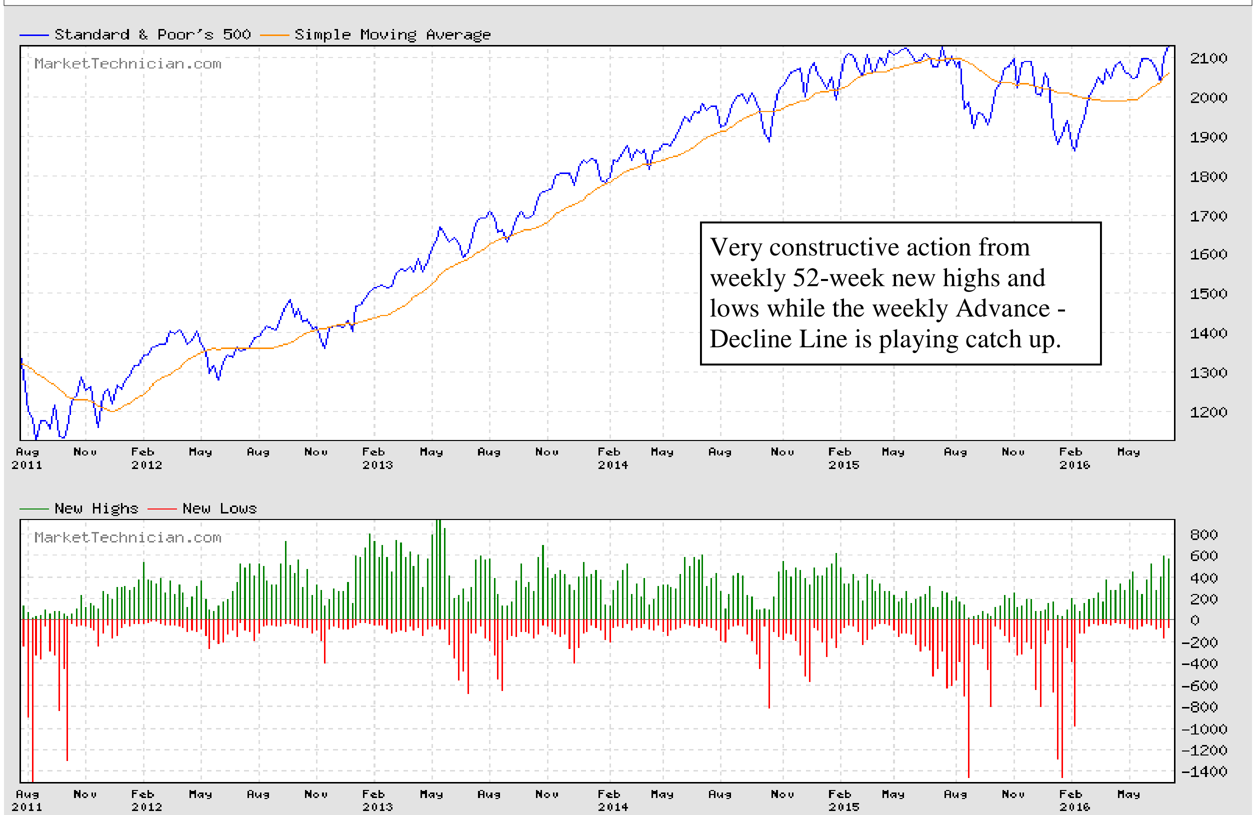
S&P 500 and NYSE Advance - Decline Line — Daily — Two Years



S&P 500 and NYSE New Highs / New Lows Histogram — Daily — Two Years



S&P 500 and NYSE Advance - Decline Line — Weekly — Five Years



S&P 500 and NYSE New Highs / New Lows Histogram — Weekly — Five Years

German Stocks — DAX — Daily

For now the internals are strong and the market is healthy so we will maintain our commitment.

Robinhood

Recently a new low-commission brokerage business has started up featuring a very low entry barrier and zero commissions. It is billing itself as "a stock brokerage built with the needs of a new generation in mind." Robinhood, as it styles itself, focuses on Millennials comfortable with trading through a phone app. At present they offer a very bare-bones app and service and are almost certainly unprofitable, perhaps massively so. They hope to address that problem by offering margin trading which will allow them to earn interest on margin balances. As the gray beards of the brokerage business will tell you over a martini at their favorite watering hole, the margin department is a source of risk as well as of income, which is why margin loan rates are generally what they are, high.

What Robinhood is trying to do is an uphill battle as Millennials are not much inclined to trade stocks, prefer-

Chinese Stocks — SHG — daily

ring to carry cash balances instead. There have been studies that show that they don't want to own real estate either, nor large ticket consumer items such a cars and dishwashers. This focus on the benefits of liquidity and fluidity would seem to stem from disruptions caused by the 2007/2008 financial crisis and the astonishing amount of (mostly school) debt they are carrying; debt that must have seemed OK before 2008 when their future earning capacity looked so bright. In the slow-growth environment that has prevailed since 2008 living and working has been hard for them, very hard in many cases. I am genuinely worried that we have lost an entire generation of investors and I suspect that Robinhood will discover that running a brokerage business is harder than they think, especially in the light of their target base being so gun shy.

If I had to hazard a guess I'd guess that Robinhood was hoping that payment for order flow was going to float their boat, but that business has gotten more mature—read thinner payouts—and as they are not self-clearing their clearing partner would want a piece—likely a major piece—of their order flow as well. In normal times interest on cash balances might have helped, but that avenue to revenue is closed in this zero-rate environment. All of which means that they are burning VC cash while fishing around for a viable business model. I'm sure that they feel all disruptive and entitled, but there are a lot of very smart people on the other side of the trade. From their website: "We're a team of digital natives with deep financial expertise, backed by some of the world's most notable investors."
https://www.robinhood.com/

GroupPower

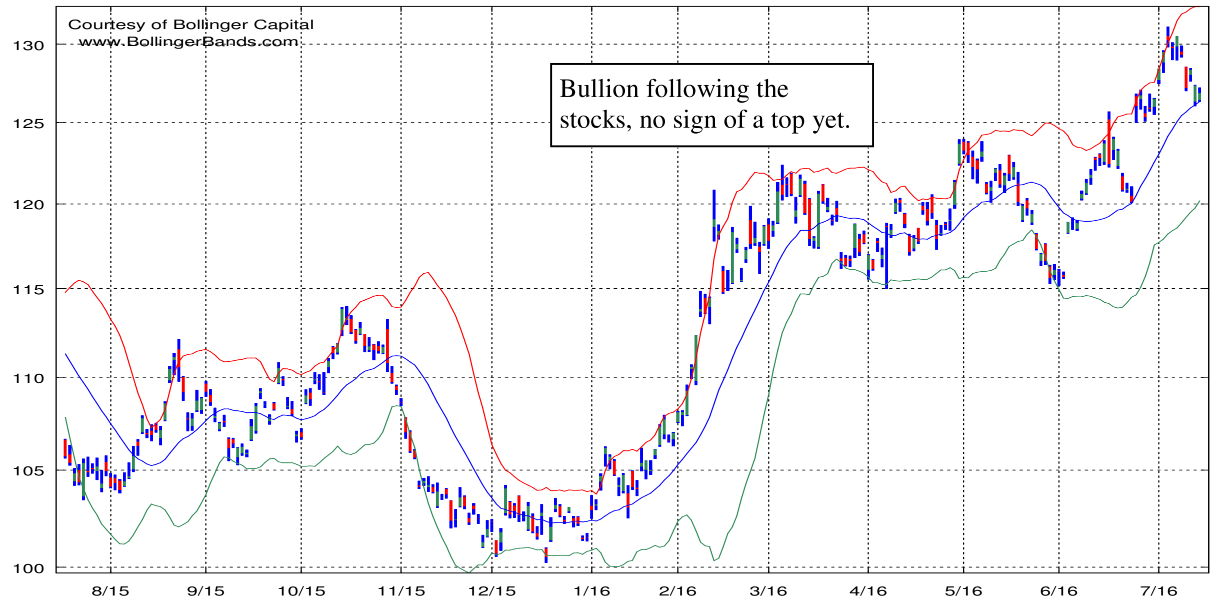
A reader notes that Standard and Poor's and Morgan Stanley (MSCI) are changing their industry group and market sector structure and wonders about the implications. As I haven't written about GroupPower for quite some time, that seems like the perfect invitation. What they are doing is promoting real estate, which had been an industry group in the financial sector, to be a sector in its own right. The exception is the mortgage REIT group, which will stay behind in the finance sector. This seems like a reasonable change, but it is a change that highlights the often intractable problems of designing and maintaining a market structure from the top down. "The new GICS structure, when implemented, will consist of 11 Sectors, 24 Industry Groups, 68 Industries and 157 Sub-Industries." An example of this four tiered structure may help to illustrate their approach:

Sector: 20 Industrials
Industry group: 2010 Capital Goods
Industry: 201040 Electrical Equipment
Sub Industry: 20104020 Heavy Electrical Equipment

The first two digits are the sector, the next two the industry group, the next two the industry and the final two the sub industry. In addition, the number of digits gives the level, six digits of an industry and so on, which is actually quite an elegant digital nomenclature.

I honestly do not expect much macro market impact from these sorts of proprietary market structure changes,

10-Year Interest Rates

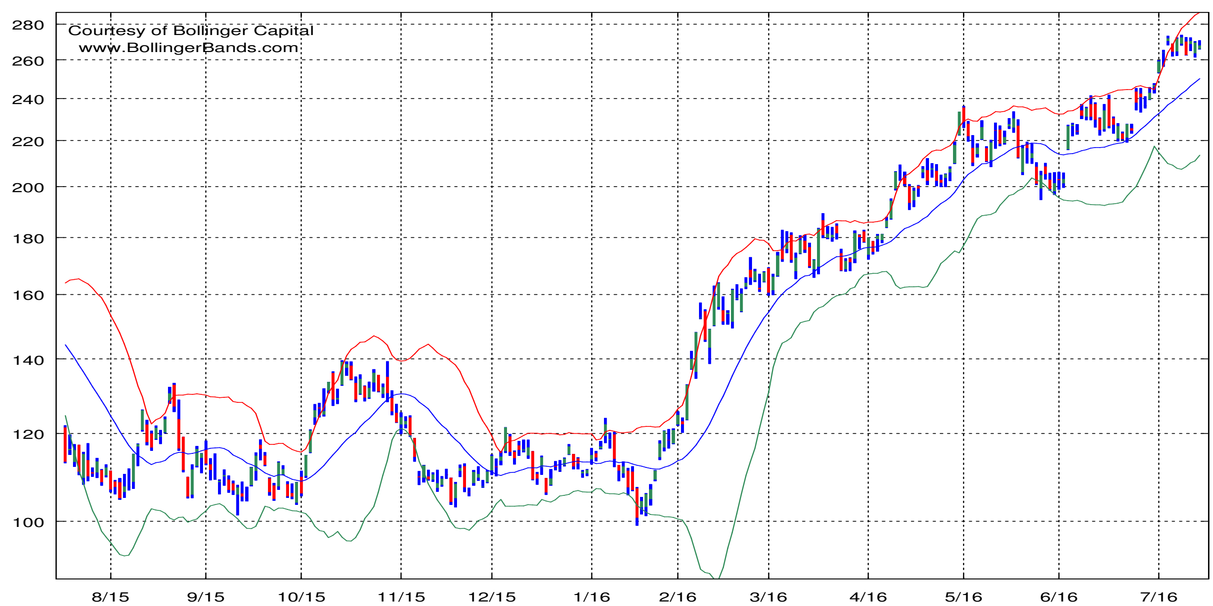


Gold ETF — GLD — One Year

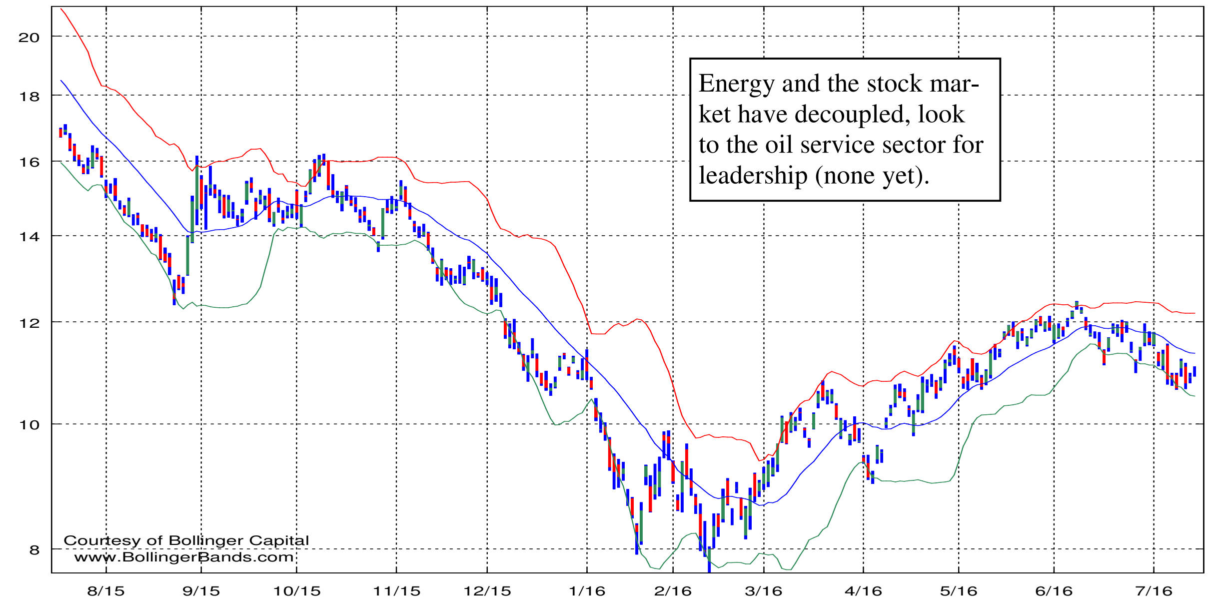
even though the GICS structure is very widely used. There may be some micro market impact as some ETFs and sector funds may be need to make changes. The changes may also entail some rebalancing in larger portfolios that are indexed using GICS as well. However, we do not expect the dislocations to be noticeable over the market as a whole.

We take a different approach to our industry-group and market-sector structure; we use a combination of a fundamental and market data rather than a top-down economic approach. S&P in its Global Industry Categorization System documentation specifically eschews the usage of market data in structuring its taxonomy.

> "At one extreme lies a purely statistical method. It is financial market-based and uses past returns. For each region, aggregations are formed on the basis of securities' correlations, building groups with high correlation within them and low correlation across them. The statistical approach has several drawbacks: the resulting aggregations often differ across regions; the method relies on historical data only; and, finally, it often yields illogical groups."



Gold Stock Index — HUI — One Year



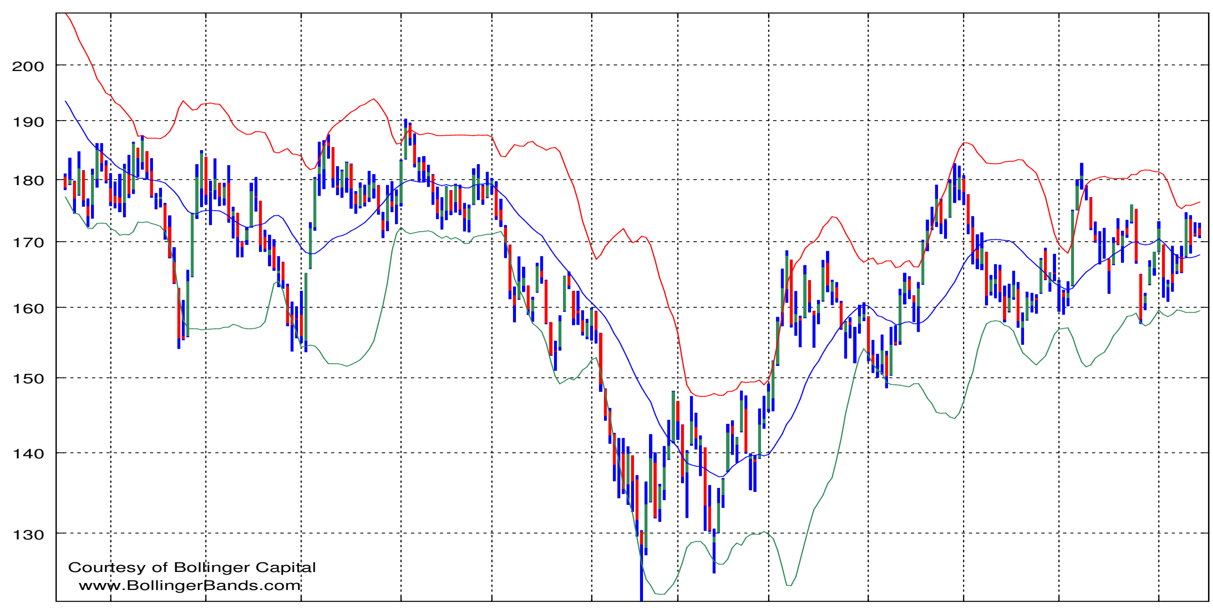
Crude Oil ETF — USO — One Year

We use Rational Analysis, a combination of fundamental and technical factors. For a stock to appear in a group it must trade like it is a member, otherwise it is held in a special non-correlated group in its most likely sector.

There is one other difference in our approach as well; we use equal-weighting throughout our structure, while S&P uses capitalization-weighting. Of course we have rather different goals; S&P is trying to push all tradable companies in a universal taxonomy for use by managers of very large pools of money. Our goal is to get the maximum flow of information through the structure for use by individuals and traders looking to time their purchases and sales, so our Rational Analysis approach plus equal weighting makes perfect sense for our work.

Brexit & Recommendations

I like to think that markets have the lowdown all the time, but they don't and I am willing to admit that occasionally they may be wrong, but not this time. I am re-



Oil Service — OSX — One Year

ferring to the FTSE 100, our favorite leading international stock-market index and the UK vote to leave the European Union, known as Brexit.

The UK is not the first country to leave the EU, Algeria left after winning its independence from France in 1962. Greenland was next leaving over a fishing dispute in 1985. It had long been thought that Greece would leave or be forced out amidst the post-2008 strains and unfounded rumors swirled about Italy, Spain and Portugal in the same period. More recently a Nordic country yet to be named has been discussed and in the immediate wake of the Brexit vote The Netherlands and France have been bandied about as exiters. All of which goes to say that the path forward will be interesting. I'd guess that if the political, regulatory and statutory load within the union isn't eased, the path forward may become very interesting; especially in the light of how well Britain does as it exits, and I have little doubt that they will do quite well.

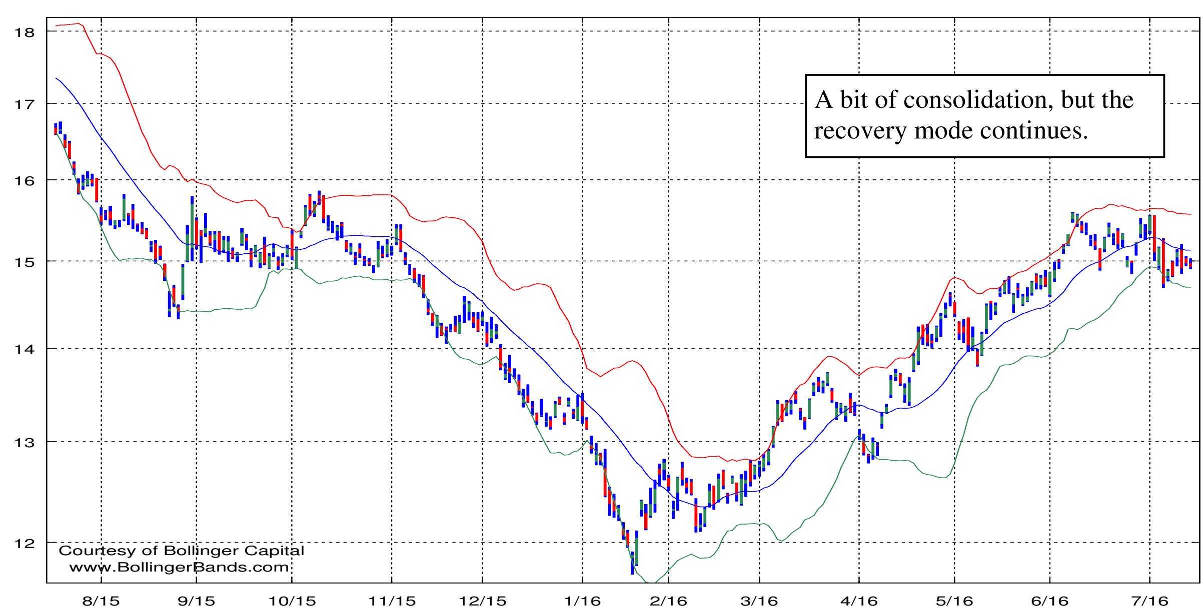
Take a look at a one year chart of the FTSE to see what the markets suggest about the outcome of Brexit. The FTSE fell 22% from June 2015 when the possibility of Brexit first started to become a reality through February 2016 when fear reached its peak and the referendum date was set. Since then the FTSE has been on a recovery path with the exception of the June/July correction when the fear mongers reached their shrillest pitch. A higher low was put in when Leave won and we've been in a strong recovery mode ever since, which is a sort of all clear signal for Britain. Annotated chart on page 14.

I have never seen a more overwhelming campaign than that against Brexit. For months on end the media was near dominated by dire reports of what would happen if Britain left. Nary a voice in support of independence was heard. Nobel scholars who hadn't seen the light of day in decades were unearthed. Yesteryear's pundits of all sorts and stripes were recruited and given a moment in the limelight if they were willing to bash Brexit. It was a classic full-court press and it was so effective that the government was so sure of winning that they never even bothered to make a plan for what to do if Brexit became a reality and so the government fell with the vote. Heard deep inside the halls of British governance: "Plan? Did you say plan? Do we have one? Do we need one? Do we want one?" (At the beginning of the foregoing quote the room was full. At the end? Empty.)

In the wake of Brexit we recommended eight securities in the next Monday Hotline, see the table on page 10. They are up an average of 9.2% since using the close of the 27th, the day of the recommendation and Wednesday's close. I would still recommend the purchase of last three, all British banks.

Bonds

In a recent article in the *LA Times* Business section I averred that the risk/reward relationship for bonds was terrible and that bonds should be avoided. I presented a wide-ranging supporting argument, but only a bit of it made it into the paper. You can see the article here: http://www.latimes.com/business/la-fi-brexit-bonds-20160629-snap-story.html



Commodity ETF — DBC — One Year

The most interesting bit is the quote from Schwab's Kathy Jones that was used to end the story:

"It's that [bonds are] ballast against volatility in higher-risk investments like stocks," Jones said. "Stocks can go down a lot and if you don't have something to balance that out, your portfolio swings can be huge."

That sort of thinking is going to cause investors a lot of pain at some point. It is true that the threat is not immediate, but that does not mean that it is not a threat. Let's start with a theoretical example, a ten year 5% bond held for one year. Here are the returns for holding the bond under three different interest rate scenarios. The modified duration of this bond is 7.8 which means that a one percent change in rates will change the price of the bond by approximately 7.8%

Symbol	Name	Entry	Last	% Gain
UKX	FTSE 100	5982.2	6680.69	11.7%
EWU	UK ETF	13.99	15.44	10.4%
JNK	High Yield ETF	34.31	38.14	11.2%
HYG	High Yield Corp ETF	81.67	85.63	4.8%
IYT	Transport ETF	127.15	142.36	12.0%
BCS	Barclays	6.76	7.78	15.1%
LYG	Lloyds Banking	2.78	2.99	7.6%
RBS	Royal Bank of Scotland	4.69	4.72	0.6%

Brexit Recommendation Table

Rates flat: 5% + no price change = 5%
Rates up 1%: 5% - 7.8% = -2.8%
Rates down 1%: 5% + 7.8% = 12.8%

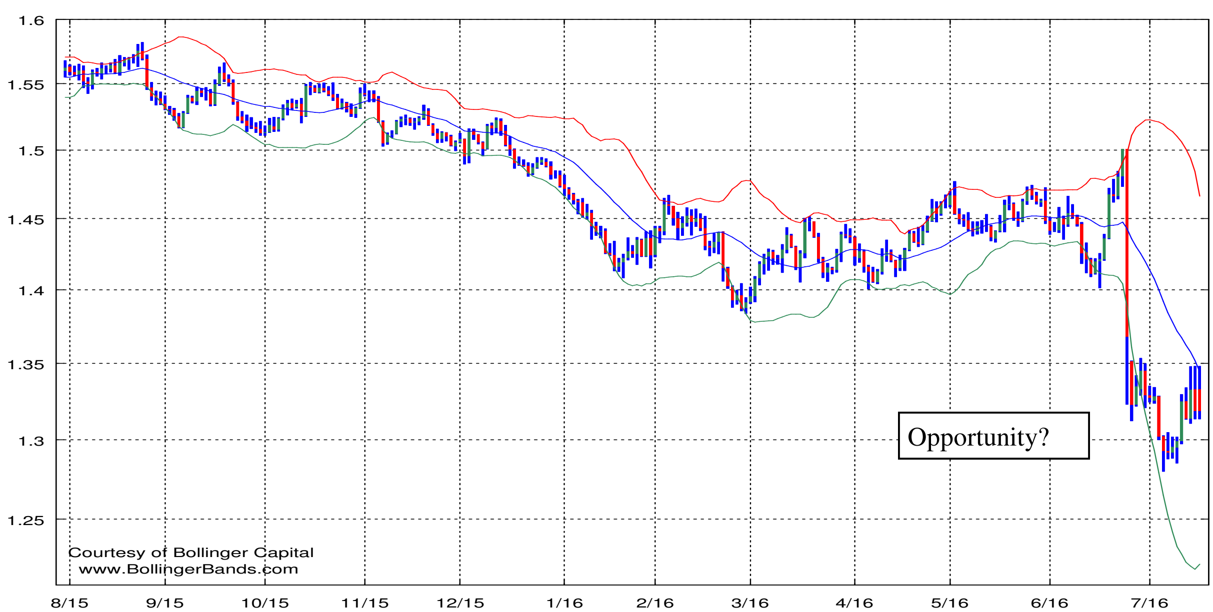
The range of -2.8% to + 12.8% is rather wider than most might imagine. Now let's contemplate the same scenario in today's market where the interest rate for the ten year is 1.5%, now the modified duration is 9.25% so the returns look like this.

Rates flat: 1.5% + no price change = 1.5%
Rates up 1%: 1.5% - 9.5% = -8%
Rates down 1%: 1.5% + 9.5% = 11%

That range, -8% to 11% is certainly wider that most investors would expect and is competitive with the sorts of volatility that equity investors expect. For example, with a VIX reading of 13, the current value as I write this, the market is expected to fall in a range of +/- 13% a year from now. That's a range of 26% versus the bond's range for a one percent change in rates of 19%. Not exactly the safe haven bonds are advertised as being.

A more realistic comparison is that a gain of three percent is more likely than a loss of one percent from these levels

Rates flat: 1.5% + no price change = 1.5%
Rates up 3%: 1.5% - 3 * 9.5% = -27%



British Pound — GBPUSD — One Year

GroupPower

Sector Ranks

Name	Momentum Short	Inter.	Long	$$ Flow
Basic Materials	3.22	3.29	3.23	60.8
Industry	1.92	1.59	1.58	72.8
Media	1.66	1.45	1.31	48.0
Telecommunications	1.56	1.41	1.24	78.4
Technology	1.50	1.40	1.38	68.8
Transportation	1.44	0.67	0.40	46.4
Financial	1.42	0.83	0.62	74.4
Business	1.35	1.07	0.93	64.0
Consumer Cyclical	1.30	0.82	0.41	60.0
International	1.27	0.78	0.55	67.2
Healthcare	1.25	1.25	1.10	70.4
NASDAQ Comp	1.14	0.92	0.73	N/A
Market ETFs	1.11	1.09	1.05	94.4
S&P 500	1.08	0.97	0.90	N/A
Consumer Noncyclical	0.97	1.14	1.20	70.4
Energy	0.77	1.28	1.28	74.4
Yield	0.68	1.18	1.36	95.2

GroupPower

These tables derived from John Bollinger's GroupPower, a daily analytical service. There are 15 market sectors, 203 industry groups and 5,460 stocks in the GroupPower structure. 2,428 stocks are categorized into industry groups, 3,032 are currently out of groups. The sectors and groups are formed using Rational Analysis, a combination of technical and fundamental tools. In order for a stock to be in a group it must exhibit both a business fit and statistical fit.

www.GroupPower.com

GP is also available from eSignal (800-SMARKET).

A guide to using GroupPower and a listing of the GroupPower structure is available to subscribers.

Short = Short-Term Front-Weighted Momentum, 22-day horizon.
Int = Intermediate-Term Front-Weighted Momentum, 62-day horizon.
Long = Long-Term Front-Weighted Momentum, 125-day horizon
-5, -10, -20 = 5,10 and 20 days ago.
$$ Flow = Money Flow Persistency. A measure of money flow designed to look out six months.

Statistics

Breadth

10-day Open Arms Index	0.94
10-day Open Adv / Dec	1.85
High-Low Index	98.57
High Low Logic Index	0.00

Percent Above Average

Percent above 10-day moving average	93.10
Percent above 50-day moving average	89.16
Percent above 200-day moving average	87.76

New Highs and Lows

13-week new highs	0
13-week new lows	0
26-week new highs	8
26-week new lows	0
52-week new highs	22
52-week new lows	1

Early Warnings

Positive Warnings	Negative Warnings
Containers Packaging	None
Banks Mid Atlantic	
Paper and Lumber	
eCommerce	
Banks Southwest	
Industrial Services	
Financial Services	
Coal	

Strongest — GroupPower Ranking — Weakest

Group Name	Momentum Short	Momentum Inter	Momentum Long	Money Flow	In/Out Gear
Coal	6.47	6.86	4.12	49.6	0.65
Industrial Services	6.10	4.55	3.40	65.6	0.86
Steel	5.10	5.16	5.34	71.2	0.76
Brazil	4.59	4.60	4.43	71.2	0.52
Precious Metals	3.83	5.70	6.90	84.8	0.48
Metals Non Ferrous	3.41	3.09	3.20	48.8	0.57
Metal Fabricators	3.36	2.57	2.34	68.8	0.49
Financial Services	3.30	2.55	2.03	62.4	0.82
Wireless Communications	3.01	3.00	2.73	77.6	0.74
Airlines	2.96	1.42	0.98	53.6	0.28
Title Surety Insurance	2.76	1.38	0.66	48.0	0.42
Mining Diversified	2.69	2.64	2.13	60.0	0.50
Footwear	2.63	2.54	1.80	56.0	0.81
Retail Transport	2.59	1.47	0.46	48.8	0.47
Chemicals Commodity	2.48	1.90	1.84	68.8	0.66
Banks Southwest	2.32	1.91	1.66	70.4	0.77
Security Prod Svcs	2.29	2.07	2.02	80.8	0.85
Publishing	2.28	2.22	2.13	88.8	0.87
Contract Elec Manu	2.28	1.81	1.66	81.6	0.67
Construction	2.28	2.28	2.28	80.8	0.92
Gaming Equipment	2.28	2.07	2.04	70.4	0.74
ETF Basic Materials	2.23	2.32	2.48	51.2	0.83
Railroads	2.22	1.56	1.14	72.8	0.61
Latin America	2.20	2.24	2.30	75.2	0.71
Drug Delivery System	2.15	1.54	0.79	52.0	0.50
Gas Producers	2.13	3.63	3.58	38.4	0.61
Korea	2.11	1.71	1.50	68.8	0.83
Banks Southeast	2.02	1.28	1.05	82.4	0.54
Recreation Products	2.01	1.31	0.61	66.4	0.44
Recreational Vehicles	1.99	2.08	1.80	70.4	0.89
Chemicals Specialty	1.96	1.78	1.85	64.8	0.84
IT Security	1.96	2.21	2.11	57.6	0.72
Newspapers	1.94	1.83	1.52	29.6	0.74
Personal Computers	1.92	1.40	0.98	62.4	0.79
REIT Lodging	1.90	2.02	1.52	72.0	0.54
eCommerce	1.89	1.75	1.71	72.0	0.86
Internet Consumers	1.88	2.09	1.85	73.6	0.80
Software Multimedia	1.88	1.85	1.90	85.6	0.80
Industrial Elec Equip	1.88	1.36	1.40	73.6	0.67
Educational Services	1.88	1.58	1.37	46.4	0.57
Israel	1.87	0.87	0.62	39.2	0.33
Internet Info Prov	1.86	2.38	2.65	76.0	0.62
ETF Emerging Markets	1.85	1.63	1.31	63.2	0.80
Semiconductor Equip	1.84	1.87	1.93	71.2	0.78
Personal Care	1.82	2.13	2.18	55.2	0.64
Semiconductor	1.80	1.62	1.53	63.2	0.78
Home Construction	1.80	1.90	1.58	66.4	0.89
Adv Medical Devices	1.78	2.23	2.07	60.0	0.78
Asset Management	1.73	0.65	0.22	67.2	0.29
Movies Studios	1.73	1.39	1.33	69.6	0.22
Advertising Marketing	1.72	1.67	1.29	65.6	0.56
Machinery Heavy	1.71	1.53	1.75	80.0	0.69

Group Name	Momentum Short	Momentum Inter	Momentum Long	Money Flow	In/Out Gear
Retail Electronics	0.77	-0.55	-1.48	38.4	-0.03
Retail Discount	0.76	1.28	1.44	88.8	0.66
Aerospace Defense	0.75	0.76	0.87	88.0	0.69
ETF International	0.74	0.41	0.29	84.8	0.52
REIT Health	0.72	1.41	1.67	83.2	0.41
Agricultural Machine	0.71	0.47	0.57	76.8	0.52
Retail Autoparts	0.71	1.00	1.13	96.8	0.64
Alcoholic Beverages	0.71	0.76	0.53	77.6	0.69
Mexico	0.71	0.19	0.18	66.4	0.20
Germany	0.70	-0.24	-0.50	72.8	0.05
Banks Major	0.70	-0.14	-0.41	53.6	0.09
Stock Funds	0.69	0.60	0.46	87.2	0.93
Soft Drinks	0.68	0.37	0.48	74.4	-0.14
Diverse Drugs	0.66	0.31	-0.37	11.2	0.57
Meat and Dairy	0.65	0.49	0.59	57.6	0.04
Hospitals	0.64	0.08	-0.28	60.8	0.19
Solar Energy	0.64	-0.80	-2.24	5.6	0.23
Spec Health Service	0.63	1.38	1.54	85.6	0.68
Holland	0.62	-0.70	-0.95	64.0	-0.02
Comps Services	0.55	0.83	1.69	68.8	0.72
Gas Companies	0.52	1.34	1.84	100.0	0.48
Hong Kong	0.52	-0.36	-0.64	50.4	-0.02
REIT Residential	0.48	0.92	1.02	77.6	0.33
ETF Europe	0.47	-0.26	-0.41	65.6	0.10
Cable Television	0.45	0.31	0.37	70.4	0.51
Switzerland	0.40	-0.44	-0.72	75.2	0.02
Water Companies	0.37	1.43	2.00	99.2	0.39
Health Care Plans	0.36	0.49	0.58	72.0	0.57
Energy Royalty Trusts	0.31	2.67	3.26	64.8	0.46
Reinsurance	0.30	0.15	0.17	88.8	0.49
Electric Utilities	0.30	0.83	1.18	100.0	0.46
Insurance Brokers	0.28	0.68	1.07	98.4	0.73
REIT Mortgage	0.24	0.59	0.74	77.6	0.44
Bond Funds	0.20	0.52	0.63	92.0	0.72
Biotech	0.20	-0.28	0.24	13.6	0.37
Casinos	0.19	0.22	0.41	74.4	0.51
Home Furnishings	0.18	-0.08	-0.41	50.4	0.32
Oil Services	0.16	-0.17	-0.41	43.2	0.11
France	0.12	-0.81	-1.34	44.0	0.07
Restaurants	0.12	0.11	0.13	70.4	0.59
ETF Energy	0.11	0.57	0.64	89.6	0.52
Oil Drilling	0.08	1.23	1.45	75.2	0.49
United Kingdom	0.04	-0.78	-0.97	76.0	0.03
Retail Drug	0.00	-0.35	-0.36	56.0	-0.39
Oil Tankers	-0.01	-0.73	-1.14	52.0	0.00
ETF Bonds	-0.04	0.22	0.30	53.6	0.34
Agricultures	-0.23	0.34	0.62	58.4	0.35
Comps Parts	-0.34	-1.18	-1.22	44.0	-0.09
Oil Producers	-0.43	-0.79	-1.13	15.2	0.06
Travel	-0.46	-1.18	-1.46	44.0	-0.13
Oil Refining	-0.80	-1.32	-1.46	61.6	-0.08

Sector Selector ETF Portfolios (Experimental)

Exp. ETF Portfolios	Symbol	Date Selected	Purchase Price	Current Price	Dividends	Return	Rank
Style							(# in 21)
S&P Mid-Cap Value	IJJ	3/4/2016	119.91	132.15	0.52	10.65%	9
Russell Mid-Cap Valu	IWS	4/11/2016	70.61	76.11	0.42	8.38%	2
S&P Mid-Cap	IJH	4/18/2016	147.36	154.05	0.61	4.95%	10
International							(# in 24)
Brazil	EWZ	6/24/2016	27.51	32.03	0.00	16.43%	2
Russia	RSX	4/8/2016	16.85	18.31	0.00	8.66%	7
Canada	EWC	5/16/2016	24.53	25.28	0.20	3.88%	10
Sector							(# in 27)
Consumer Goods	IYK	2/26/2016	106.32	117.92	1.30	12.14%	4
Utilties	XLU	7/1/2016	52.72	52.00	0.00	-1.36%	10
Gold	IAU	6/24/2016	12.77	12.82	0.00	0.39%	5

Portfolio

Slot	Name	Symbol	ET Rating Stock	GroupPower Group	ET Rating Group	Entry Date	Entry Price	Current Price	Divid.	Total Return	Mental Stop	Action
Core Portfolio - US Equities												
1	S&P 500	SPY	3	Large Cap	1	10/19/15	203.20	215.83	3.34	7.9%	202.00	Hold
2	Russell 2000	IWM	2	Small Cap	1	11/02/15	118.21	119.70	1.44	2.5%	107.00	Hold
3	Russell 1000 Growth	IWF	3	Large Cap	1	11/12/15	98.76	103.27	1.14	5.7%	96.50	Hold
4	S&P 500 Value	IVE	2	Large Cap	1	03/21/16	90.09	95.51	1.08	7.2%	89.00	Hold
5	British Petroleum	BP	2	Oil Major	2	03/21/16	31.43	36.56	0.60	18.2%	30.50	Hold
6	Royal Dutch	RDS-A	2	Oil Major	2	03/21/16	48.91	55.21	-	12.9%	47.00	Hold
7	S&P MidCap	MDY	2	MidCap	1	04/18/16	267.64	280.87	0.85	5.3%	257.00	Hold
Core Portfolio - International												
1	Japan	EWJ	3	Japan	2	12/14/12	9.45	11.88	0.48	30.9%		Hold
1	World	VEU	3	International ETF	2	10/19/15	45.53	43.92	0.87	-1.6%		Hold
Core Portfolio - Dollar Diversification												
1	Dollar Down ETF	UDN		Bear Yield		07/18/16	21.85	21.85	-	0.0%		Buy
Core Portfolio - Yield												
1	Barclays High Yield	JNK	3	High Yield	2	02/20/09	29.17	36.11	19.37	90.2%		Hold
2	iShares High Yield	HYG	2	High Yield	2	02/20/09	69.98	85.63	38.31	77.1%		Hold
3	PS Finan. Preferred	PGF	3	Yield	2	03/13/09	8.35	19.27	8.99	238.4%		Hold
Core Portfolio - Speculation												
1	VIX Inverse	XIV	2	Bull Market	1	10/06/15	27.29	29.47	-	8.0%		Add

Portfolio Notes: The stock market and crude oil have decoupled. Telecomm, Media, Industry and Basic Materials are the best looking market sectors. Small- and mid-cap stocks are leading the market higher, but growth versus value is a push. We'd really like to see some leadership from growth, but given the high level of valuations that may not be possible. We remain constructive on the US stock market, but given valuations, growth rates, seasonality and the fear of Fed action we are also cautious.

In the wake of Brexit we are switching from dollar long, UUP, to dollar short, UDN, as we expect the long-term devaluation of the dollar to reassert itself. XIV can and should be bought on pullbacks. If you need to put money to work do so in the mid- cap and small-cap areas, IJR and MDY are example ETFs. Long-term investors can consider positions in the British pound.

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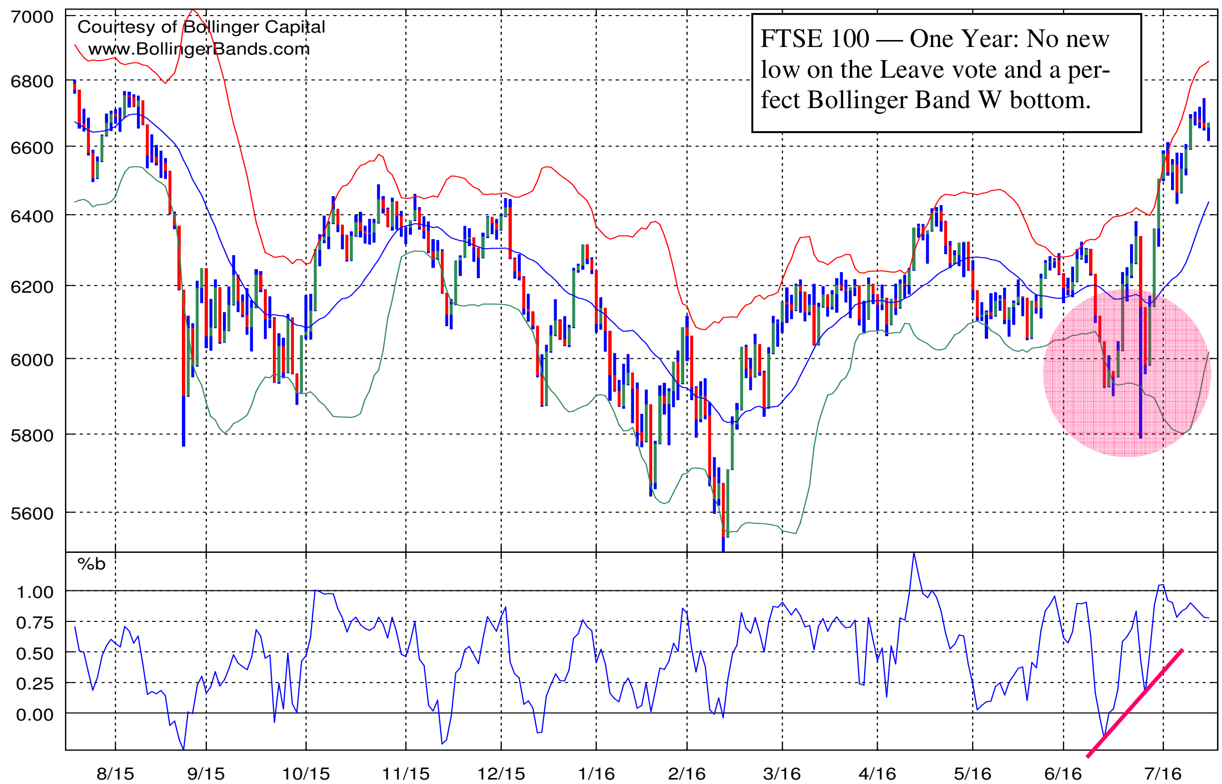
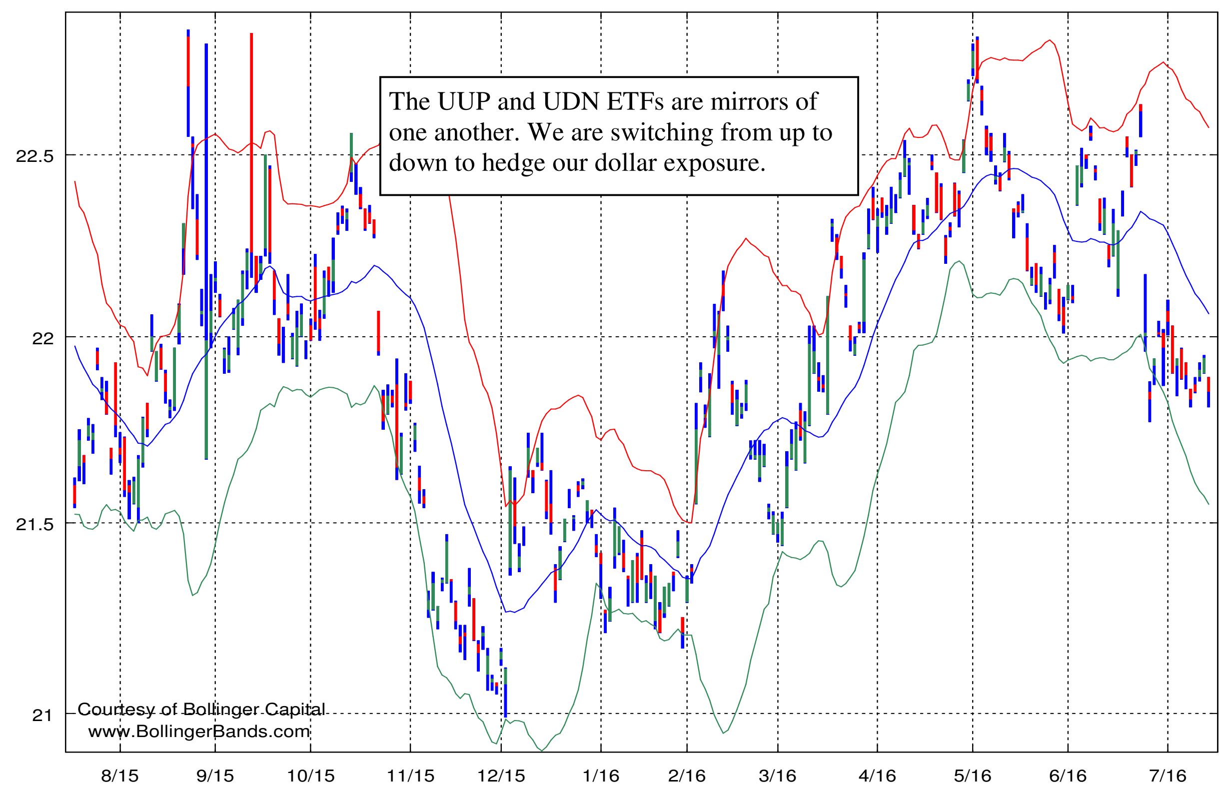


FTSE 100 — One Year



Dollar Down ETF — UDN — One Year

Rates down 1%: 1.5% + 9.5% = 11%

That's a 38% range from a 'safe-haven' investment for relatively minor changes in interest rates. Caveat emptor.

The VIX Bubble

I had meant to devote part of this issue to the bubble in VIX products which I regard as the next big market disaster in the making. I am out of time and space and want to treat the topic properly, so I will take it up in the August *Capital Growth Letter.* I don't think the matter is urgent in terms of timing, rather it is like an iceberg, a submerged danger that we have not yet encountered.

View from the Beach: The Mistakes We Make

Trading floor cynic: "There is more information in your failures than in your successes." Of course we all make mistakes, often the same ones again and again. It is as if we are hard-wired to make them. The behavioral finance folks, inspired by the pioneering work of Daniel Kahneman and Amos Tversky, have made careers out of exploring these mistakes. Recently in relation to the British pound's decline I noted that we should be alert for an intermediate- to long-term buying opportunity in the pound and at the same time, touching on a mistake I have made time and again, I noted that it was probably early.

If I have made the mistake of being early once, I have made it more times than I can recall. For me being early comes in several shades. First: Picking up "high quality" merchandise when it becomes severely oversold, but before the reality that the price decline reflected is evident. Think AIG in 2008. Second, being early in technical trade entry. I have nearly killed this one off by requiring a Sign of Strength or a Sign of Weakness as a confirmation for Bollinger Band setups. Third, getting on the wrong side of a trade by being early. Buying the breakout from a Squeeze is a perfect example of this. These days I prefer to wait for a Head Fake to develop, a setup up with better odds.

The point is that we all have limitations, the important thing is to know what they are so we can manage them. I have always had a strong contrarian streak; I am attracted to taking the other side of the trade. Humphrey Neill, the father of contrary opinion, suggested that there were three phases to contrary opinion, First, identify a very widely held belief. Second, wait for the belief to be wrong and finally look for some event that breaks the back of the crowd and makes the reversal of trend possible.

Reading Rack

There is a terrific five-part series ending in the August 2016 issue of *Technical Analysis of Stocks and Commodities* on Richard D. Wyckoff. The author is a young CMT by the name of Stella Osoba whom I am otherwise unfamiliar with. I am frankly surprised by the depth of her scholarship and research and highly recommend the article. Many people find it hard to get to know Wyckoff's work without committing to one of the courses. This series, which started in April, goes a long way to making Wyckoff accessible to the modern reader.

Computer Corner

I haven't made much progress in the interim on the trading visualization package discussed here in the last two issues. More on that next month as I start to prepare to present it at the IFTA conference in Sidney. See below.

Appearances

IFTA 2016, (International Federation of Technical Analysis)
October 21-23, 2016
Sydney, Australia
http://conference.ifta.org/2016/