The CJ Investment Newsletter

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# *So Much Things to Say**

## Purpose

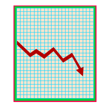
The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as strategies to implement within them. Essentially, it reflects what I'm actually doing with my clients.

These letters are not sent "cold." Either I know you or someone you know gave me your name. Yes, this letter *is* a sales tool. It communicates how I apply my investment strategies, so that you can decide, without any sales pressure, if my thinking is compatible with how you want your money invested. If you're not already a client, I would like to discuss your *becoming* a client. Please call me for more information.

However, that's not its only purpose. Even if you never become a client, if you want this information, I want you to have it – for a while, anyway. My hope is that providing this information and teaching you what I think is important when investing may help you. Please contact me if you have any questions or comments. I'd love to hear your reaction to my letter.

The CJ Growth Strategy (back page) has been an ongoing aggressive growth model portfolio since 1/98. Its results continue to be tracked herein.

## Quick Look

| Market | Next Expected Move |
|---|---|
| ? |  |

- All my favorite market analysts are still saying we're close to a top. We discuss some of the market and economic forces involved.
- A new tactic for client accounts will be discussed.
- I'm still in the process of migrating client accounts from PSB to SSG. If I haven't contacted you already, please accept my apologies and know I'll be contacting you soon!

### So Much Things to Say*

Doesn't it just figure that the first substantive *CJ Newsletter* I write after creating Trend Capital Management, LLC (TCM or Trend) there are so many subjects out there impacting our investing, economy and freedom that it's been nearly impossible for me to decide what to focus on in this letter.

Which brings up its own question: Should I write a more expansive CJ Newsletter, when appropriate, in the future? For over 12 years now, I've kept the format to 4 pages and the primary monthly text to around 1350 words. The primary reason for this was my respecting the value of my readers' time.

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**** From "So Much Things to Say," Bob Marley and the Wailers, "Exodus," 1977***
**If you like Reggae, it doesn't get any better than "Exodus." Classic Album.**

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Adding two more pages would almost double the amount of verbiage I could write. (Just what I need – more to do.) It would also almost double the amount of time needed to read my letter when the additional two pages were added.

In the past, I've dealt with this by writing a separate article that would be included with the CJ Newsletter when I felt the need to write a separate article on the topic. That's not a bad strategy, but it's not able to cope with a situation like this month's.

Without using any more space on this issue, I'm asking you, my clients and readers, to share your thoughts on this issue. Should I expand the CJ Newsletter occasionally to incorporate more information? Or, should the letter continue to be limited to 4 pages, knowing some issues may not get the coverage they deserve? Please call or email me and weigh in on this. Thanks.

**The Chicken Little Problem**

Almost everyone I read that I respect feels that the markets are topping out and that the improvements in the economy are not likely to remain in place. The "steroids" the federal government have put into the economy (free money, mortgage support, industry bailouts, the 2009 porkulous plan, *etc*.) are not policies that can be maintained over the long term. Much like taking prednisone or testosterone, such policies can do a great deal of good in the short run, but destroy the body from within over the long term.

These policies, plus what I believe is a classic example of Marshallian "K" theory (below), have helped create a rally I really didn't think the market was capable of last March. I predicted on Fox Business Network on Good Friday, 2009 that the market had already run up too far and that it was likely to top out relatively shortly. Wow. Talk about being wrong. The DJI was at about 8,000 then. 3,000 points later, I look like "Chicken Little" saying the sky was about to fall.

The funny thing is, I still feel that way. And, so does Richard Russell, John Mauldin, and Robert Prechter and his brilliant staff at Elliott Wave International (EWI). Should you listen to those folks and to me? Of the three, only the EWI folks actually predicted the rally would go this far.

Richard Russell is acknowledged as the greatest living Dow Theorist and a case could be easily made that he is the greatest of all time. He's also quite familiar with many other forms of technical analysis, including Elliott Wave.

Decades ago, however, Russell stopped focusing on Elliott Wave and turned that over to Robert Prechter, arguably the greatest Elliott Wave theorist of all time, maybe even exceeding Elliott himself. All he did was co-write the definitive book on the theory, <u>Elliott Wave Principle</u>, 1978. Prechter also spoke at the 2010 Legends of Trading Forum in Chicago in April. He was put into the Traders' Library Traders Hall of Fame in 2003.

Mauldin has been extolled in the *CJ Newsletter* for years. The man can assimilate and make sense of more information than anyone else I've ever read makes, short of von Mises, Rothbard and Hayek. His free newsletter, "*Thoughts from the Frontline*," should be declared a national treasure, in my opinion.

That's why I read those guys.

None is very optimistic going out 4 – 6 years. Their immediate (2 quarters or so) outlook is that the market will top and turn down. None completely discounts the market taking out the 3/9/2009 low, although the EWI folks are the most adamant that it will happen.

One final note: I haven't talked much about Elliott Wave in the *CJ Newsletter* in the past because, quite frankly, I haven't figured out how to use it properly on my own. I am beginning to study Elliott Wave more frequently in the hopes that I can acquire a working knowledge of how to use it predicatively. Meanwhile, given their track records, I read and trust the folks at EWI do understand how to apply Elliott Wave theory.

I understand Dow Theory, although I have no pretentions as to my skills versus many others, especially Russell. I believe I have a solid, not spectacular, theoretical understanding of economics and monetary theory as the Austrian school proscribes them. Finally, my self-designed technical analysis combination, the *CJC Indicator*, is a strong tool and it has helped me make some profitable decisions in the past.

My own work agrees with Russell, Mauldin and EWI, especially in the longer term. Obviously, my spring 2009 call was wrong. But, Russell has a saying: "Beware the good analyst that's been wrong for a while; he/she is about to make a great call. Beware the analyst that's been right for a while; they're about to be wrong." (Paraphrased)

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## Asset Allocation Percentages
## *CJ* Current Suggested Ranges

**Dow Theory Market Phase:** **BEAR**
**Appropriate Current Allocation:** **DEFENSIVE**

| **Asset Class** | **Conser-vative** | **Aggres-sive** |
|---|---|---|
| Money Market Funds | 70-10% | 55- 5% |
| *Long Positions:* | | |
| Bonds & Bond Funds | 30-60% | 40-60% |
| RD Stocks | 0-10% | 0-10% |
| Growth Stocks | 0% | 0% |
| Gold Equities/Funds | 0-20% | 10-30% |
| Bear Market Funds | 0- 10% | 5-20% |
| *Aggressive Positions:* | | |
| Shorts and/or Options | 0% | 0- 5% |

*Notes:*
Income generating portfolios may not conform to the above guidelines. If income is the primary purpose of a portfolio, income needs are met *first*, then other allocations are made.

Up to 50% of bond/bond fund positions should be in international (non-US) bonds. I expect such bonds will provide higher interest paid on the face due to the additional *perceived* risk of foreign bonds, as well as providing hedging gains if the dollar declines against foreign currencies due to Fed monetary policies.

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Let's hope I'm a "good analyst" in Russell's eyes.

One last word before moving on: Marshallian "K" (Appendix K) theory says that if the money supply exceeds that which the economy "needs" in order to transact its basic business transactions, the excess will flow into the investment markets, artificially inflating the value of investment assets, including real estate.

While I'm unconvinced about Marshall's (late 1800's) primary teachings involving equilibrium in economics, his "K" theory seems reasonable and, more importantly, to work consistently and can often explain circumstances otherwise unexplainable. Why else would the financial, real estate and commodities markets have rallied so greatly in the face of poor, and deteriorating, economic data? The Fed has provided so much "excess" money that the investment markets have rallied with no real underlying economic improvement. "A rising monetary tide lifts all boats."

### A New Tactic for the New Business Model

I'm still reviewing and assessing the implications of my new business model. For new readers, TCM was created to allow me to migrate from retail brokerage to a fee-based, discretionary model. In the retail model, transaction friction (commissions, ticket charges, etc.) needed to be considered whenever an investment move was being contemplated. Effectively, if I bought and sold a regular position (around $5,000 for a $50,000 account) within seconds of each other, the client would lose around 4-5% through transaction friction, depending upon the security's price. Since I now pay transaction fees, I can do a little better job of "cash" management.

Imagine in the previous system my desire to be in a significant "cash" position because of market risk and because I had not found securities meeting my current criteria for investment yet. This was not a problem when overnight funds were paying 6+% prior to Greenspan lowering the funds rate in the early 2000's, a policy that Bernanke has continued. Current overnight/STMM rates are 0.25%/year – basically, nothing, not even keeping up with inflation (if there is any – a topic for later).

To "park" cash in a security paying a meaningful interest or dividend rate, I would have to calculate the transaction friction (costs), both in and out, and compare them against the interest earned *vis-à-vis* the "riskless" overnight funds/STMM's. This would provide me with a number of months for holding the cash generating security that would be required to "cover" the transaction costs before any actual profit could be made by the client on the security. Most often, this would be a period of months that was too long to be acceptable to "park" the cash there. The commission environment would effectively preclude "parking" cash in significant cash generators awaiting other investment opportunities.

No longer. I will begin investing some overnight/STMM "cash" in securities with higher interest/dividend returns and are "relatively safe." Please note that there is NO such thing as a "safe" investment. With transaction friction removed, "cash" can be "parked" in "relatively safe" securities, especially ETF's that pay a significant percentage return until other significant opportunities can be found.

Please remember to let me know what you think of expanding the size of the *CJ* when conditions warrant. Thanks! See you next month!