The Q4 2011 Mark(et) Rush Report

By

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Preface

Once again, it is once again time for my quarterly market review, where I examine world events and attempt to understand their implications on the markets. This is my time to reflect on current events, portfolio performance, and event scenarios, and their subsequent implication on world equity markets and my investment strategies.

As you read through this review, even if you don't agree with my thoughts or analysis, please take the time to think about your financial choices and ways to improve your returns. *It is my goal in life to have my money working for me instead of me working for my money*.

Please email me with your thoughts, questions, and insights on the opinions that I present. The purpose of my effort is to stimulate a dialogue around current events and their impact on the markets.

Regards,

Mark Rush
http://traderwasteland.wordpress.com/

Please read this important notice

Disclaimers

As you read this document keep in mind that I do not have any special insights into the markets nor do I have any type of training in any kind of investments. I am not a financial advisor nor do I have a degree in economics or finance. Remember these facts as you read and ponder my *unprofessional opinions*.

This document should not be construed as investment advice; *you* and your financial advisor are responsible for making your investment decisions. The purpose if this document is for *me* to "think out loud" and stimulate thoughts regarding my investment ideas for my portfolio. I am asking you for your feedback about my thoughts, strategies and conclusions.

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I am an *amateur* investor and this document is a *hobby* for me. Any thoughts and concepts should be treated as such. Please consult a professional financial advisor before you make any investment decisions regarding your investment ideas, goals, and strategies. Continue reading this document at your own risk…

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In plain English, I am NOT giving you investment, tax, or legal advice.

Introduction

Happy 2012,

I suspect it will be another volatile year in the investment world. In my view, the world economy seems to be solidifying but the big fly in the ointment is once again Europe. A collapse of the EU will likely send the world economy reeling back into another recession that could trump the collapse of 2008. The race is on between the world economy healing itself and Europe dragging us down with it. I would prefer to just let the European sovereign defaults occur and get it over with instead of paralyzing the world capital markets that are fixated with an inevitable EU default.

On another note, after 6+ years of this report I have decided to change the name of "The Mark(et) Rush Review" to the "Mark(et) Rush Report". This report started out as an old school email with a backward looking bias and has developed over the years into much more of a forward looking blog. I have been calling it the "Report" for a few years now and I thought I would officially change the name to keep up with the evolution of this manuscript.

In other news, you can follow my intra-quarter thoughts on Trader Wasteland and now also on Twitter under the name "MarketRush". My New Year's resolution is to attempt to update these communications methods at least weekly and always when I change my investments or views.

Good luck,

-Mark
redgroup2@yahoo.com

You can follow my latest thoughts with my updates on

http://traderwasteland.wordpress.com/
http://twitter.com/MarketRush

Chapter 1
Considerations

Real Probability of Systemic Risk from Europe

Europe is the biggest reason that I am apprehensive of being in the market and not fully invested right now. The sooner Europe defaults the sooner the world can get on with it. Southern Europe is "running out of other people's money" and the biggest problem with socialism is that it is never "we need to sacrifice to help people" it is always "those people over there need to sacrifice to help these people over here" and everyone else except the one talking is "those people" (check this out the next time you are at a cocktail party). Greece has run out of other people's money and specifically there are short on "those people over there". One way or another, no matter how you package it, Southern European debt needs to go into default. No matter how hard every socialist wants to will the debt problem out of existence, they are unable close their eyes, click their heels, and will trillions of Euro of debt out of existence.

You could theoretically muster the resources to stop a default at a great burden to their neighbors but I suspect that it will only delay the inevitable. You cannot effectively bail out Southern Europe because once they are given a lifeline they will simply start to borrow and spend again. The socialists are ironically addicted to capital and like any addict they will do or say (think) anything to get their fix. Southern Europe's standard of living has been subsidized with other people's standard of living and now they must pay the price so the rest of the world don't need to.

There are only two ways out of the dilemma; an explicit default or a stealth default. I seriously doubt Europe has the intestinal fortitude to admit that the Euro Zone was a bad idea, so the only solution is denial; therefore they will eventually execute the stealth default. The easiest way to implement a stealth default is to simply have the European Central Bank (ECB) print money. In the old day before the Euro countries could simply devalue their own currency but now since there is a single currency individual countries have no control over the printing presses. I suspect that Europe will come to the precipice and right before they go over the edge (a collapse of the Euro Zone) they will finally "monetize the debt" and print their woes away.

We have already seen the beginning the stealth default on Dec 21st 2011 when the ECB "injected liquidity into the system" by providing over $628 billion of loans to over 500 banks for a three year term. Printing trillions more Euros is only a matter of time.

My investment thesis presumes that this issue will tend to go to the back burner until sometime midyear when it will come to culmination again and then the world markets will begin drop in unison. I suspect that the ECB will come in and save the day with its printing presses and this will cause Gold to rise and the Euro will drop principally (under a $1.15) with all stock globally dropping anywhere from 10-30%. Fear not for those of us with cash, this will be a buying opportunity! After the "event", assuming it doesn't collapse the world banking system, the debt slate will be clear and we will have reset the world credit markets and growth and investment can once again start with a clean slate.

Weakness or soft landing in China and India

The Chinese and India stock market has gotten punished this year (I am heavily invested in these areas) and I expect a recovery this late this year. If Europe starts to fall apart (Italian debt goes over 10%) these markets will get will get hit harder than most (high beta). After Europe, this is what I will be watching this year.

Stock Market Cycles

The market tends to better this time of year. I don't fully understand the phycology of the markets but the January effect seems to be well established and markets tend to go up through April. I plan to follow this plan and be more aggressive for the next 3-5 months.

I believe the US stock market will outperform most markets this year.

Productivity gains

I think a lot of people are overlooking the productivity gains corporations have gained in the last few years. This is contributing to superior earning in many large corporations. The world governments should look to most how the S&P 500 is managing their balance sheet in the past few years, it is impressive. Never forget that fewer people are now making more stuff. Even with high unemployment GDP is larger than it has ever been.

Election cycle

Normally I try to avoid politics as much as possible in this report except its impact on investments but I believe that this year's elections will be key in the direction the US economic policies in the coming decade. Currently the election is too close to call because I suspect the US economy will be stronger later this year and this will benefit the current administration. I suspect that the Republican will control the House and Senate.

If Obama was smart he would kick Biden off the ticket and have Hillary become the VP. If Romney was smart he would have Chris Christy become his running mate. I do believe that if Obama is defeated that this will be a positive to the US stock market.

For disclosure sakes you should know that I identify myself as Libertarian and not really enthralled with Romney but will likely lean in his direction. To be honest I'm not really leaning toward Romney as much as running from the anti-capitalist policies of the current administration. I find Ron Paul's ideas intriguing but would never support him since I feel that he is unelectable in the general election due to the current level of federally sponsored patronage (regardless of party in power). Everyone loves a good party as long as they don't need to clean up the mess the next day with a hangover. I am not attending the party and refuse to clean up afterwards.

Tax code

I don't know of any major tax changes this year but at the beginning of 2013 the "Bush tax cuts" expire again and the Obama care tax goes into effect. The maximum rate on long term capital gains will rise to 23.8 percent, and the top rate on dividends and short term gains will soar to 39.6 percent, this will be a significant increase over today's 15 percent rate top rate. I don't see how that can be good for the market.

This effect will likely make companies and investors shy away from dividends, long term stock buyback will be the preferred way to return capital to the shareholder after 2013. Assuming that nothing changes this will be bad for high yield stocks (non-REIT and non-MLP) stocks.

Long Term Macroeconomic Trends

It is that time of the year when I talk about the long-term macro changes that will be in effect for the next 5-15 years. It is hard to pick stock that will be up this year or next but I wanted to spend a few minutes reviewing some obvious long term trends.

One of the shorter term trends is the propensity for Central banks in the US and soon to be followed by Europe to print money. This tends to push of the price of raw materials, stocks, real estate, food, precious metals and energy. It tends to devalue bonds, fixed debt, annuities', mortgages, cash, and all forms of fixes income. Long-term owning a home is a one way to own something physical that will go up with inflation and simultaneously be short fixed debt. The value of the house "should" rise over the next 5-10 years while the inflation adjusted net present value of the fixed loan should decrease.

Longer term we cannot overlook the wealth effect that is going on globally. Three billion or so poor people are moving up the wealth latter and their diets are shifting to higher quality protein and upscale brands are increasing in sales. Farming and its derivatives will benefits in the upcoming decades along with aspirational items.

People with more disposable incomes will want more cars and general use more energy. Oil use and energy infrastructure will continue to grow for remainder of the decade. These people are going to also want newer and larger houses therefore lumber, copper, and all the other raw materials will be benefiting over the next couple of decades.

Worldwide but specifically in rich western countries and Japan the populations are becoming older and anything to do with healthcare will be outperforming the long term averages.

I believe in long-term raw materials, food, energy, and health care are strong foundation to my investment thesis.

Chapter 2
Fundamental and Technical Indicators

Economic Projections

It is time to review world events applying my "opinion" based on absolutely nothing other than my limited understanding of how the world works. Headline predictions are made at the beginning of the year and may have changed materially since then.

US Economic Indicators (my view)

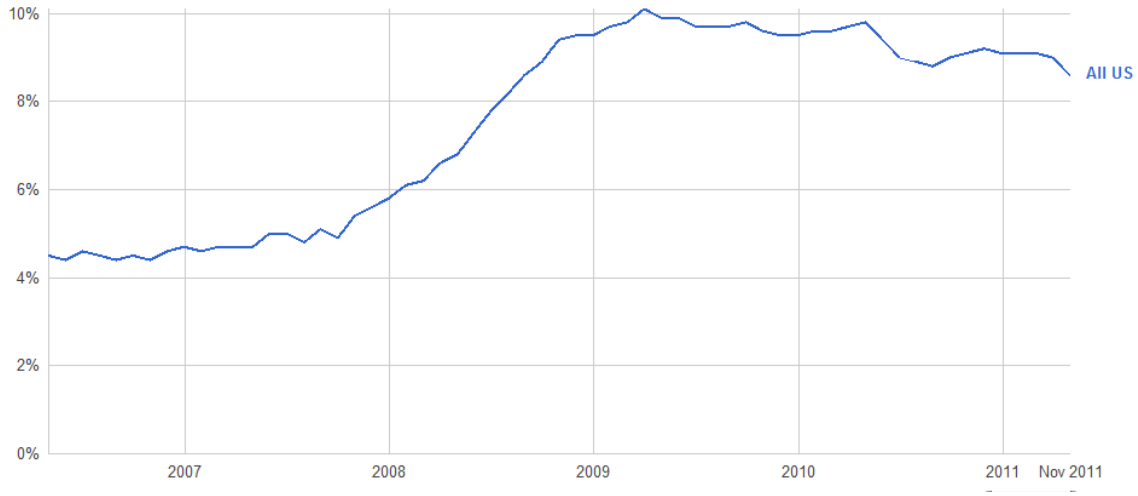
US Gross National Product (GDP) Growth > +2.5 % for 2012
US Gross National Product (GDP) Growth > +2.5 % for 2011 (Wrong: 1.8%)

The economic indicators are better since October's report; I put the chance of a US recession near 20% and think a recession in Europe is all but a foregone conclusion. I expect the market to start off stronger in 2012 reverse itself midyear and then end on a stronger note this time next year. The caveat is Europe and China. Any kind of unanticipated crisis in Europe or hard landing in China will invalidate my assumptions.

The economy seems to be stabilizing

Unemployment of falls to < 7.5% by the end of 2012
Unemployment of falls to < 9.0% by the end of 2011 (Correct: 8.6%)

Unemployment is high and will remain above 5% for at least 3 more years. The economy needs to retool itself before the unemployment rate will fall.

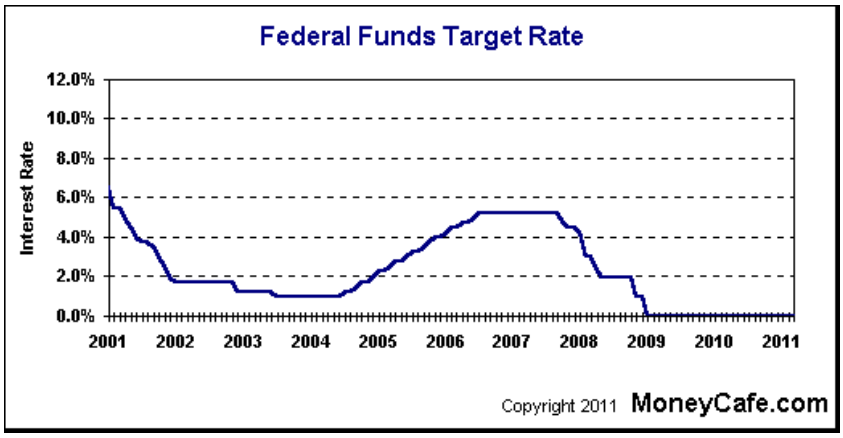


The latest number (November) was 8.6%

Unemployment is very high

Federal Reserve keeps interest rates steady in 2012
Federal Reserve raises interest rates 2011 (Wrong: still at near zero)

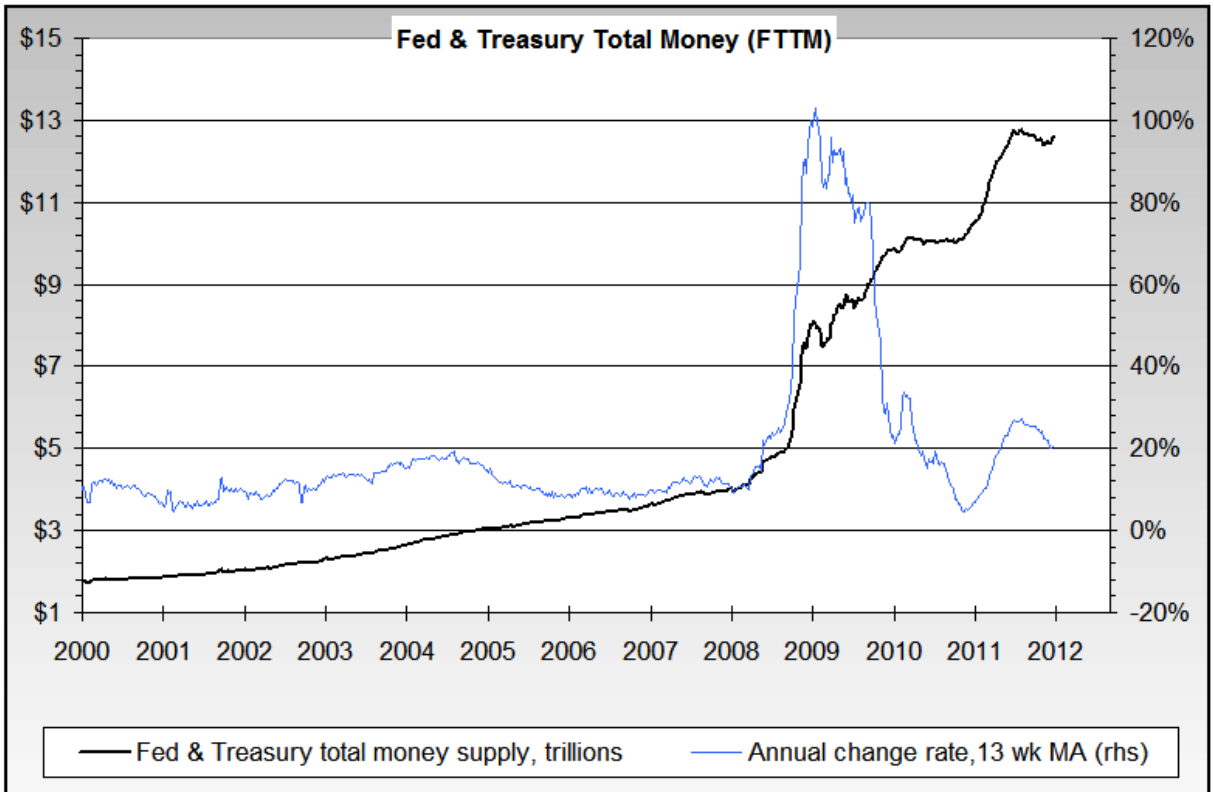
The Fed has stated it will keep rates low until at least mid-2013.



Low rates are good for the market…

Inflation > 3.5% in 2012
Inflation > 2.5% in 2011 (Correct: Est rate 3.17%)

The money supply continues to grow (black line)… The FTTM money supply has gone from $2T in 2000 to almost $13T today with a 600% increase. Gold has gone from ~$300/oz in 2000 to a recent high of $1800+/oz recently, a 600% increase. Coincidence?



Currently we are not experiencing inflation but there is a slight bias of inflation

Return of spending by US consumer in 2011 (mixed: upper income yes)

Foreclosures will be higher than historical for the next 2-3 years; consumer spending will take years to recover with much of the spending financed via fictitious housing values.

This indicator remains weak but stable

S&P 500 index >1425 at the end of 2012
S&P 500 index hits 1415 in 2011 (Wrong 1,257.6)

Corporations were financially stronger coming out of this downturn (except financial institutions) compared to other recessions.

The S&P 500 has stabilized of late
Stable Real Estate prices (ave home >150k) in 2012
Stable (+5%) Real Estate prices in 2011 (wrong)

The 30 year mortgage rate is at 4.10%. I expect as rates to remain low for at least 12 more months. Real estate will probably never be cheaper and rates will never be lower. Home "affordability" is currently extremely high as long as you can get a loan.

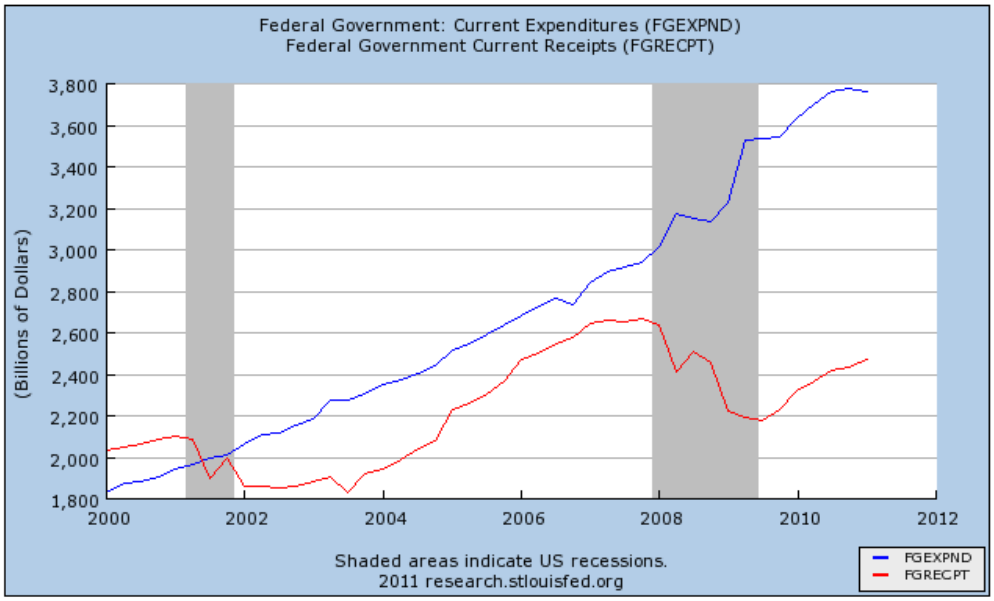
30 Year Mortgage Rates

National average home price

Housing prices are stabilizing; interest rates are low

<$1.10 Trillion Dollars budget deficit for FY 2012 (US FY ends in Oct)
>$1.65 Trillion Dollars budget deficit for FY 2011 (wrong: $1.3T)

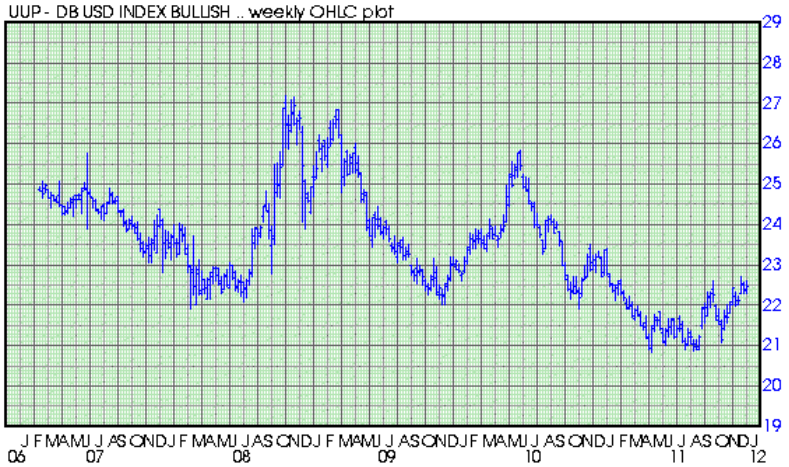
This massive taxing, borrowing, and spending will eventually have a catastrophic impact on interest rates, inflation, value of the dollar, and standards of living for everyone. The US is *borrowing* ~$5,500 per person in the US this year ($22,000 per year per family of four). Total spending will be around $3.7 Trillion or $12,000/per person in the US.



I believe thoughtless government overspending is harmful in the long run

International value of the US dollar declining >35% between 2007-2012

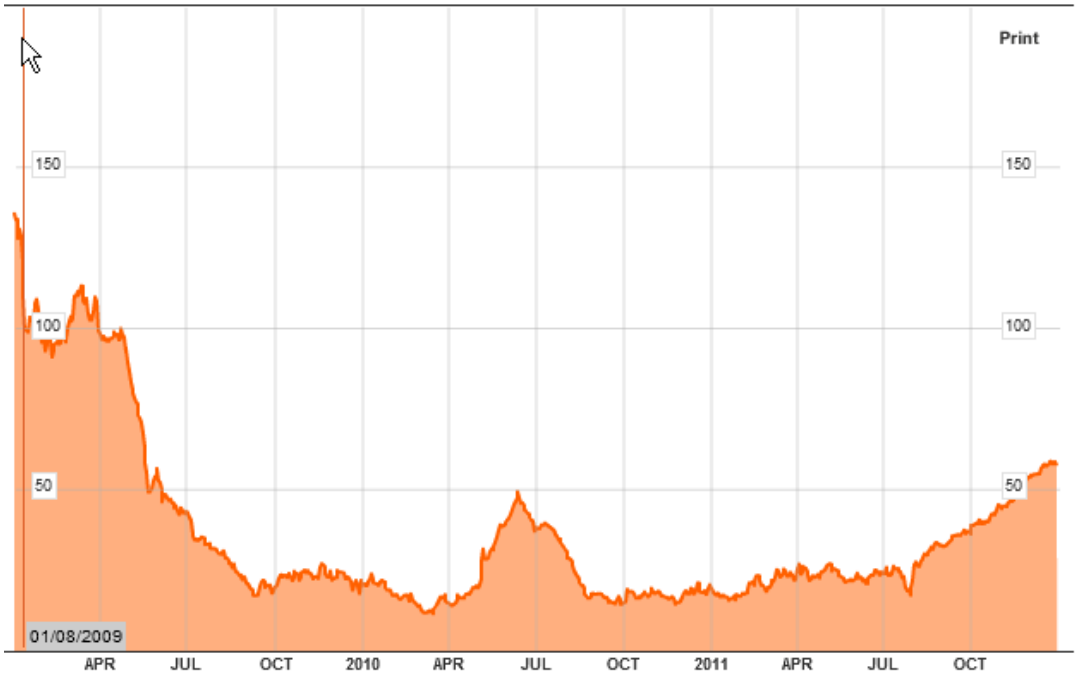
I made this prediction starting in 2007 when the dollar index was around 25. It needs to hit 16.5 by the end of 2012. It is currently down 12% from the 2007 levels. It is down nearly 20% from the post crisis highs. One problem with this prediction is that I did it against other currencies that are also falling in value.



Long term bad for cash and bonds; Good for stock investments and commodities

Major Liquidity event in 2012
Improved Liquidity in 2011 (Wrong: TED spread increased, liquidity decreased)

The chart shows the TED (Treasury Euro-Dollar) spread. This shows the premium that banks must pay over Treasuries. This is kind of like a fear index for the credit market.



This indicator is weakening (going up is more fear) due to the Greek debt crisis

Technical Indicators

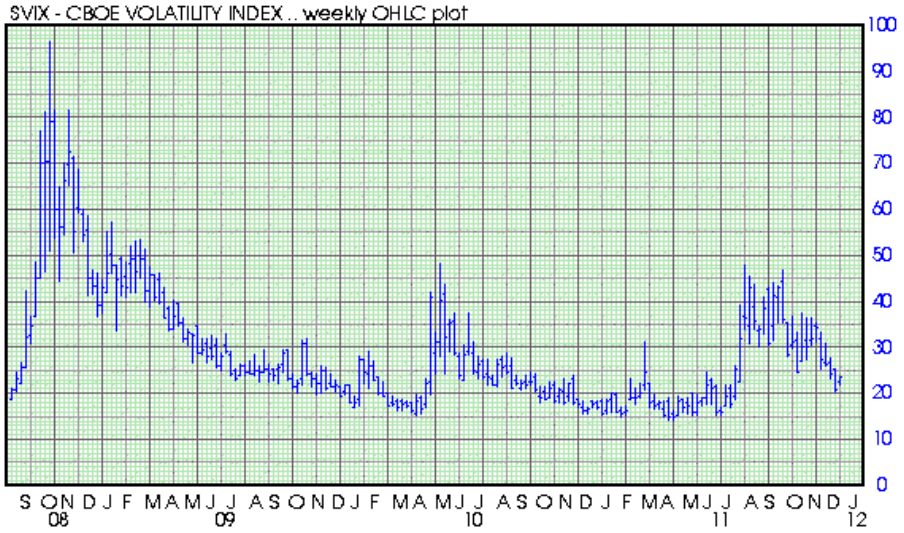
Technical analysis is the attempt to forecast the future direction of prices through the study of past market data. I use Barchart (http://www.barchart.com/) to come up with a final "objective" opinion of an investment. Its primary ability (flaw) is that it tries to predict the future by interpolating from the past performance. One phrase does come to mind, "Past performance is not an indication of future results".

Model Portfolio and other technical indicators (+100% = strong buy; -100% = strong sell)

US Stock	7/8/11	9/30/11	12/31/11	Link
SPY	+32%	-88%	+64%	http://www.barchart.com/opinions/etf/SPY
QQQQ	+40%	-64%	-24%	http://www.barchart.com/opinions/etf/QQQ
IWM	+32%	-88%	+64%	http://www.barchart.com/opinions/etf/IWM
International				
EFA	-72%	-72%	-48%	http://www.barchart.com/opinions/etf/EFA
EEM	-32%	-96%	-72%	http://www.barchart.com/opinions/etf/EEM

Bonds	7/8/11	9/30/11	12/31/11	Link
TLT	+48%	+96%	+80%	http://www.barchart.com/opinions/etf/TLT
SHY	+64%	-16%	-32%	http://www.barchart.com/opinions/etf/SHY
Gold/Oil/Dollar Index/Euro/Yen				
GLD	+96%	-40%	-96%	http://www.barchart.com/opinions/etf/GLD
USO	-48%	-96%	+72%	http://www.barchart.com/opinions/etf/USO
UUP	+48%	+80%	+72%	http://www.barchart.com/opinions/etf/UUP
FXE	-72%	-96%	-96%	http://www.barchart.com/opinions/etf/FXE
FXY	+48%	+8%	+40%	http://www.barchart.com/opinions/etf/FXY
Volatility Index				
VIX index	-24%	+80%	-72%	http://www.barchart.com/opinions/stocks/$VIX

Volatility increases in 2012
Volatility Chart (market fear index)



The Volatility index (VIX) can be thought of as the US stock market fear indicator and the lower it is the lower the fear in the market. This indicator is one of the more valuable tools to evaluate what implied risk is in the market at any given point in time. It is showing that fear in the market has fallen since the last report but may potentially go higher on any European event.

The VIX (S&P 500 volatility) is relativity low in terms of the past few months. The market may be telling us one of two things; first it could telling us the stock market is primed to go up or it is just be a temporary year end reprieve in the volatility. In either case it may be a good time to buy some volatility by buying more options for the portfolio. When volatility is high (expensive) I like to sell out of the money Call options when volatility is low (cheap) I like to buy Put options. In this case it may be a good time to buy some downside insurance by buying Put options (or calls on the VIX).

Technical summary…

The stock market technical indicators have improved some since last quarter with mild strength in US stocks but dismal rating for European and Emerging markets. Longer-term bonds are doing well due to operations twist implemented (attempted to reduce long term interest rates) by the Federal Reserve. Euro is weak while safe haven currencies (USD and Yen) are strong. Oil is still strong while gold is the weakest I have seen it in some time. The VIX is falling.

These things are telling me that we should have a strong start to 2012 in the US stock market. VIX is low, energy strong, selling of gold are all signs of smart money getting ready to move into stocks, in other words "risk on"

"Risk On"

My predictions for 2011 failed miserably this for 2011 with me only getting 3 out of 8 correct. I foolishly believed that European problems were behind us at the end of last year. I was wrong and my predictions and portfolio paid the price. This year I believe that we will have more problems out of Europe but we should have a better year in 2012. It is not because the problems will be solved but European problems will just become the new "norm" and more of Europe is already reflected in stock prices. The market will get bored with these problems if not become too complacent as it has with oil prices and turmoil in the Middle East. Hopefully I have a better record this year.

Chapter 3
Value Stocks

Here is a quick list of the some stocks that I follow that I think are cheap. The ones in green my preferred and the ones in red may be riskier. I also show the expected yield in ’12, it’s expected earning in ’12 verses its current stock price (i.e. return on investment), and for those who prefer P/E ratios I have included those also. With 10 year Treasuries at 1.96% I find these a better place to invest.

Stock	Symbol	Yeild	Est. '12 Return on Investment (E/P)	'12 P/E
Apple	AAPL	0.00%	9.6%	10.43
Amgen	AMGN	2.20%	9.1%	10.98
Best Buy	BBY	2.70%	**16.1%**	6.23
Bristol-Myers Squibb	BMY	**3.90%**	6.6%	15.23
BP	BP	**3.90%**	**15.2%**	6.56
Caterpillar	CAT	2.00%	10.0%	10.03
Chevron	CVX	3.00%	**12.2%**	8.18
Freeport McMoran	FCX	2.70%	**12.8%**	7.81
Google	GOOG	0.00%	6.8%	14.7
Goldman Sachs	GS	1.50%	**14.2%**	7.04
ING	ING	0.00%	**25.1%**	3.98
Intel	INTC	3.50%	9.8%	10.19
Johnson & Johnson	JNJ	3.50%	8.0%	12.54
Altria	MO	**5.50%**	7.4%	13.54
Merck	MRK	**4.50%**	10.2%	9.84
Microsoft	MSFT	3.10%	11.7%	8.57
Arcelor Mittal	MT	3.50%	**12.9%**	7.74
Annaly Capital	NLY	**14.30%**	**14.3%**	6.97
Pfizer	PFE	**3.70%**	10.7%	9.37
Procter & Gamble	PG	3.10%	6.8%	14.63
Transocean	RIG	**8.20%**	8.3%	12.07
Rio Tinto	RIO	2.20%	**18.5%**	5.41
Royal Bank of Canada	RY	**4.20%**	9.9%	10.07
Total S.A.	TOT	**5.40%**	**13.7%**	7.30

This list got smaller this quarter due to the rally. Just because I missed the bottom doesn’t mean these are not still compelling values.

Chapter 4
The Plan

Every trader reserves the right to make a more intelligent decision today than he made yesterday. - Sheldon Natenberg

Considerations

European sovereign debt – Potential cascading debt crisis
China – Soft landing?
Market Seasonality – bullish
Election cycle – unknown potentially bullish
Tax changes at the end of 2012 – downward pressure especially on high dividend stocks

Economy

The economy is weak but stable and is likely to remain weak but stable through 2012. I would expect unemployment to start falling in mid-2012. I don't expect to make real progress this year with the Euro zone being the big wild card. Also I am keeping my eye on China…

Inflation

I only expect modest price rises for the next 6 months with acceleration of inflation at the end of the year. Inflation based investments may be a good thing to roll into this summer. This would be gold, stocks, real estate, and commodities.

Europe

Things in Europe still look weak and will remain so for the foreseeable future. I will tend avoid any new investments in Europe for the foreseeable future. If we have a big collapse in Europe I will swoop in with my cash reserves and go bargain shopping.

The Dollar and US Bonds

I do not own any US bonds because rates are too low and going to stay there for the foreseeable future. I do not understand why anyone would invest in this, although I have to admit those who have over the past couple of year have been rewarded handsomely.

If you twisted my arm and forced me to buy bonds I would only consider TIPS

Muni bonds

The yields here are higher than US Treasuries and tax free. I could understand why someone would buy *selected* muni bonds that have a low potential for default. I currently have no need for tax free income so I will not be looking in this area.

I still believe that high dividend stocks are still a better bet than muni's until 2013 when dividends get taxed at the normal income rate. Muni bonds may make a comeback in the 4th quarter of this year when the Bush tax cuts expire. I will not invest in Muni bonds due to my current distain for any type of fixed income.

I do not own any muni bonds nor will I purchase any.

Corporate Bonds

Corporate bonds have a higher yield than Government bonds but I am still shying away from all "fixed" income assets. Something I am had been considered is buying corporate bonds and selling (shorting) Treasuries. This would offer some protection from inflation and likely to yield a decent return under most circumstances.

I don't own corporate bonds and unlikely to purchase any in the near future. If forced to buy bonds this is where I would go.

Financial stocks

Tempting in the short run! I may be tempted to nibble on a few names this year if the economy continues to recover but will be quick to take gains before the next round of European debt worries.

I have been buying a few lottery tickets here and there for the uber long-term. I still own a couple of European bank stocks (LYG and BCS) from 4 years ago and I did recently buy some shares in the Bank of Ireland (IRE) as a long term lottery ticket. I am pondering buying more BCS and/or selling my LYG to buy more BCS for more or less the same reasons. I am considering buying call options on the XLF (financial ETF) as a speculative play. This strategy yields a high risk/reward with limited losses and high potential gain. This would be offset by buying calls on the VIX that should go up if the market falters.

Financial stocks are not investments, they are lottery tickets.

Oil/Energy

Am I going to buy oil stocks and ride it to the end of time? NO! My thoughts are a big break with conventional wisdom but I believe oil will be *much cheaper* by the end of the decade. Why am I investing in oil then? Over the next several years I am convinced it will be going up and most likely reach $150/bbl in the next 2-5 years based on new demand from the emerging markets and limited world production. I will likely walk away from oil after 2016.

You may be asking "what is going to change in next 5 years?" For the next few years oil will be driven by demand and monetary policy (money printing) but what a lot of people are missing is the new drilling and exploration technology that are currently dominating the natural gas production. The world price for natural gas is running around ***four+ times higher*** than here in the US! This is due to our advanced drilling technology (hydraulic fracturing) and these technologies are migrating from natural gas into oil production. As this occurs this will put significant pressure on the price of crude oil but it will many years to ramp up this production and proper government encouragement.

This may sound like hocus pocus but it is possible for the North America to become energy independent by the year 2020. In the past 10 years we have gone from being a natural gas importer to now building projects to export natural gas. Oil could be next! My research project for the next few months will be looking for small companies that will benefit exponential over rest of the decade…

I like oil for next 5 years. I bought options in BP last year to get a leveraged exposure to BP. I will make money if BP stays above $40 at the end of the year. I don't think BP is the safest or best way to play oil but the high dividend (cheaper call options) but its low P/E intrigued me. I also like Chevron with its low P/E and high dividend but do not own any yet. I also own Suncor (SU) and a significant call option position an uber speculative play on offshore African oil named Hyperdynamics (HDY). I also own Transocean (RIG) via options.

Domestic Stocks

Many US stocks are cheap right now but not as good as they were in October…

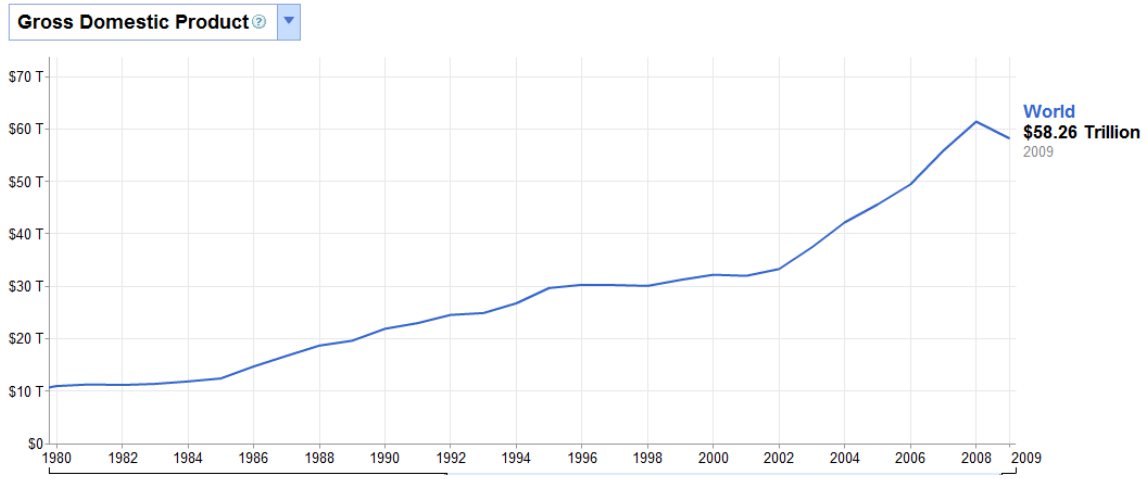
I own some Apple (AAPL) when it looked cheap, I bought shares at $385 and sold the Jan '13 $500 calls for $25 to help reduce my cost to $360/share, to passively benefit from the volatility in this stock, and to reduce daily gains and losses in this investment. I am hoping the stock runs this year and probably won't own it after this year. Too many hot cell phone companies have been destroyed over the years that I just want to make a few bucks on this and walk away. The history is Palm, Motorola, Nokia, Research in Motion, and suspect that someday Apple will be added to this this but hopefully not until after 2012.

Chinese and Emerging markets

I am still a believer that these markets will drive the world economy over the next 50 years. I will be investing there based upon these beliefs. I have been waiting for a major pullback to buy China and other investments. The market has pulled back and I now own option in the China ETF (FXI)… I also own IIF and VNM. I will be looking at Emerging Markets ETF (EEM) and looking for the courage to pull the trigger.

What drives me to invest with so many terrible things on the horizon? I have talked about globalization and how its make the world richer… I think this chart best illustrates my point. In a single generation world GDP has gone from $10T to our currently depressed $62T. It has nearly doubled in the past 10 years alone including the crisis…

World GDP



Options

Volatility seems to be relatively cheap but could get cheaper. I looked at my portfolio and had a few out of the money call options and I attempted to buy some of them back and I will be looking to buy some "protection" by layering in purchases of some put options on the S&P 500 ETF (SPY) and potentially buy some call options on the VIX.

Cash and its proxies

Until Europe is solved the dollar will probably remain stronger so cash may not be the worst place to keep some money. I am keeping about a third of my cash in Australian dollars (FXA) due to its high yield ~4+%. The $AU is very volatile and takes some stomach to be in but the monthly checks are very nice.

I like the Canadian dollar (FXC) better than the $US and its more stable than the $AU but it has almost no yield. I am considering the Royal Bank of Canada (RY) as a potential proxy for the Canadian currency due to its high yield and lower risk. It has a yield of 4.2% in Canadian dollars.

I own $US via cash and $AU via (FXA)

Gold/Platinum

I believe that gold is in the process of forming a bubble but the bubble is just beginning. My experience is that things to tend to go on much longer than I expect so with this mind my target $2200/oz in the next 12 months. The recent pullback may be a buying opportunity or it may be a bear trap… but platinum is a metal that I like for now.

Platinum is about 30 times scarcer than gold and has many important industrial uses (your car's catalytic converter being one) but right now gold is selling at a ~$150/oz discount to gold, gold being more expensive than platinum has rarely happened (see the nice chart). Typically platinum (blue on chart) is around ~$250 premium to gold (gold on chart) and as much as $1000 over gold. Could this become more of a discount? Yes, but if I were to buy more precious metals now, I would buy platinum and not gold.

I own gold coins and options on the gold ETF (GLD). I believe in the long term platinum is a much better investment now with gold being a premium to the much rarer and useful platinum.

<u>Summary of Mark(et) Economic Indicators</u>

GDP Growth – We may have hit a rough patch ~20% chance of another US recession
Unemployment – Unemployment is very high
Federal Reserve Bias – Low rates are good for the market…
Inflation – Currently we are not experiencing inflation
Consumer Spending – This indicator is stable but tilted to the upper class
Corporate profits – Estimates for next year are falling due in part to Europe
Real Estate Market – Housing prices are stabilizing; interest rates are low
Budget Deficit – Improving?
Dollar – somewhat stable/Stonger
Volatility Index – Low
Technical Indicators – Risk on
Liquidity – Deteriorating again due to Europe…

So… What is the Plan?

I tend to follow the motto of "sell in May and go away", last October I started to reduce my cash buy purchasing stocks. My plan is to "pick off" stocks over the next few weeks and then sell my portfolio May or if Italy or Spain start to come undone.

Currently my major holdings, in no particular order, are Apple (AAPL), China ETF (FXI), India Investment Fund (IIF), BP (BP), Hyperdynamics (HDY), Suncor (SU) Transocean (RIG), Knightsbridge Tankers (VLCCF), Annaly Capital Management (NLY), Hospitality Properties Trust (HPT), US Gold Corp. (UXG), Gold (GLD), Australian dollars (FXA), but I am still over ~55% in cash and that is not including FXA.

I am woefully underinvested! I have too much exposure to oil!

My first step is to get 50% of my cash in Australian dollar EFT (FXA) or in Royal Bank of Canada (RY). Then I need to step up to the plate and buy emerging markets (EEM), including Brazil (EWZ), Australian ETF (EWA) to add to the stuff I already have purchased. I should attempt to get down to 25% cash including my Australian dollars (FXA) positions.

Next I need some exposure to drugs or healthcare. I need to look at the Health Care Select Sector ETF (XLV) such as the XLV and/or the Nasdaq Biotechnology ETF (IBB).

Third, I want to buy iShares Russell 2000 Index (IWM) for I believe small caps will outperform this year even with them being down 5% last year.

Fourth, reduce my exposure to oil by buying back my BP $30 put. I will sell my Suncor (SU) and replace it with a Master Limited Partnership in my IRA rollover.

Next I need to find a small company to invest in that will be making inroad in oil hydraulic fracturing for a long term investment and some suppliers in this field (PDS?). Also on this theme I need to find a farming based ETF or REIT.

I also want to buy China Mobile (CHM) with its strong growth and 3.8% dividend.

And lastly, I need to buy some protection (insurance) on the portfolio since the VIX is low. I can buy puts the S&P 500 (SPY) or just buy call options on the VIX (VXX).

I clearly have things to do… I have been remiss for the past 6 weeks with the holidays and vacations as the market has gone up and will now bite the bullet and buy at higher prices. I just hope that Europe doesn't blow up before this summer when I plan to sell.

I expect a decent recovery to be in place for 2013 and the stock market should be ahead of the actually recover. I also expect this year to be very volatile if not more so. It will require active management (trading) it will probably be a good idea to sell when the market goes up and have money ready to buy when it goes low. Italian yields (<8%) and China GDP numbers are key number to watch this year. I expect a low of 1050 and a high of 1500 on the S&P 500 this year…

Chapter 5
Mark's Model ETF Portfolio

Asset reallocation

General profile for a several diversified portfolios

	Risk Adverse	Balanced	Growth	Aggressive
US Large Cap:	20%	30%	40%	30%
US Small Cap:	10%	10%	20%	30%
International:	10%	20%	30%	40%
Fixed Income:	50%	35%	10%	0%
Cash:	10%	5%	0%	0%

US Large Cap:
SPDR S&P Depository Receipts (SPY) 33%
NASDAQ 100 Trust Shares (QQQQ) 33%
Vanguard Value VIPERs (VTV) 33%

US Small Cap:
iShares Russell 2000 Index (IWM) 100%

International:
iShares MSCI "EAFA" Europe, Australia and Far East Index Fund (EFA) 50%
iShares MSCI Emerging Markets Index (EEM) 50%

Fixed Income (Bonds):
iShares Lehman 20+ Year Treasury Bond (TLT) 25%
iShares Lehman 7-10 Year Treasury Bond (IEF) 25%
iShares Lehman Aggregate Bond (AGG) 25%
iShares GS $ InvesTop Corp Bond (LQD) 25%

Cash:
iShares Lehman 1-3 Year Treasury bond (SHY) 100%

Year to Date Returns

Name	Symbol	12/31/10 Price	12/31/11 Price	YTD Gain % w/o Div	YTD Gain % w/ Div
SPDR S&P Depository Receipts	SPY	$125.75	$125.50	-0.20%	1.85%
NASDAQ 100 Trust Shares	QQQ	$54.46	$55.83	2.52%	3.46%
DIAMONDS Trust	DIA	$115.63	$121.85	5.38%	7.49%
Vanguard Value VIPERs	VTV	$53.33	$52.49	-1.58%	1.06%
iShares Russell 2000 Index	IWM	$78.24	$73.75	-5.74%	-4.74%
iShares MSCI "EAFA"	EFA	$58.22	$49.53	-14.93%	-11.99%
iShares MSCI Emerging Markets	EEM	$47.64	$37.94	-20.36%	-18.66%
iShares Lehman 20+ Year Treasury	TLT	$94.12	$121.25	28.82%	33.07%
iShares Lehman 7-10 Year Treasury	IEF	$93.82	$105.57	12.52%	15.39%
iShares Lehman Aggregate Bond	AGG	$105.75	$110.25	4.26%	7.56%
iShares GS $ InvesTop Corp	LQD	$108.44	$113.76	4.91%	9.51%
iShares Lehman 1-3 Year Treasury	SHY	$83.98	$84.50	0.62%	1.43%

Results for the various "autopilot" portfolios

	Risk Adverse	Balanced	Growth	Aggressive
'11 Return	7.02%	3.30%	-2.52%	-6.51%
'10 Return	11.17%	12.45%	15.53%	16.91%
'09 Return	11.14%	19.65%	31.48%	36.54%
'08 Return	-8.18%	-18.66%	-33.90%	-39.60%
'07 Return	7.82%	9.40%	10.04%	10.45%
'06 Return	9.72%	13.63%	19.09%	21.83%
'05 Return	5.49%	7.55%	9.73%	11.77%
Total return since inception	44.87%	42.45%	28.80%	22.68%

The risk adverse fund clearly outperformed this year due mostly to the price increase in the longer term US Bonds (up 30+%). US based stocks struggled to stay even while foreign/emerging markets failed.

I still believe in 2013 years the Aggressive portfolio will have outperformed the Risk Adverse portfolio but I am not confident that will occur in 2012.

Chapter 6
Final Thoughts

The Good

- Interest rates are low
- Asia's economic growth is stable but potentially weakening
- World GDP is projected to be positive in 2012
- New innovations and new efficiencies are creating new real wealth daily
- US company's balance sheets are strong, stock market valuations are good

The Bad

- High US unemployment
- Higher taxes in 2013 on capital/production
- Housing crisis not over; large segment of population with mortgages and no jobs
- Borrowing and spending is not the cure for too much borrowing and spending
- 2012 S&P earnings estimates are falling
- We seemed to hit a soft patch in the economy

The Ugly

- The European sovereign debt spiral is in play
- *Exploding* US budget deficit/national debt due to increased spending
- We may be seeing the beginnings of a US Government debt spiral
- California and other state/local governments debt situation/retirement liabilities
- The US Social Security time bomb
- World governance that doesn't understand basic economics of wealth creation

Final thoughts:

Cross your fingers that the world economy doesn't unravel this year… If it doesn't current market valuations are compelling!

This is the conclusion of my report; I hope to get the next report out on April 2nd, 2012 and I try to entertain you with my new thoughts and reflections. Please send any questions, comments or topic ideas for future issues to me. GOOD LUCK!!!

Regards,

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