

Date - 6/13/2010

QUESTION: Dick, these are the stocks that I think would be a good buy especially if we have more of a drop. The Slow and Fast columns indicate where the "Current Stochastic" are and if they are flat, rising or falling and this is an absolute because the two lines might be different. The 34d and 215d columns are where the current price is in relation to the 34 & 215. The stock that is REALLY out of favor is MON (Monsanto). Let me know what you think. 100 shares of each would amount to \$54K. J

ANSWER: (NOTE: I have not included the stocks that are the subject of this question because this is proprietary to this investor. However, the management style reflected in the subject is quite valid for all investors.)

J - I don't think there is any rush. When you're back in town we can work through a plan - in the meantime it will give me time to look at each company more thoroughly. Generally, these are companies we know and that pay good dividends. The question is, are we ready to buy them? I looked at two or three of them, and all of them look like the S&P index. These companies are the market, and if the general market is going down, then these companies are also going down in price. The correlation with the index is about equal to one (Monsanto is different). If the average market return for the next several years is 2%, add to that the dividend yield (average 3% excluding MON), and you end up with an average yield of about 5%. This based on the assumptions we discussed recently about the prospects for the global economy. So, what are the chances that I am right about the economy long term? Probably not great. Do you want to ride these stocks and be tied to them? Do you want to take quick losses as the market potential 'craps out' (traumatic drop in prices)? At least you are getting a 3% yield from here, even if the market takes a 40% hit.

I think you have to treat these positions as trades and not as long term holds. It doesn't make sense for you to do otherwise. You can get an assured 5 - 6% yield from bonds; if you want minimal risk with a solid investment return, bonds are what you should be buying. If you want to strive for higher yields, using these stocks, you need to treat them as trading vehicles - take planned and quick losses until you benefit from the upward pricing of the market. Using stochastic is a decent trading method. By doing this, you can 'have your cake and eat it too'. Dick