Tuesday, December 23, 2014

INVESTMENT ADVISORY RECOMMENDATION

PLEASE NOTE THE RECOMMENDED CHANGES AT THE END OF THIS ADVISORY, AND RSVP YOUR DESIRE TO MAKE THESE CHANGES.

Looking forward into the year 2015, it is appropriate to make a couple of recommendations for target levels of the S&P Index and for changes in some of our investments that require specific attention - versus changes made during periodic reviews of your portfolios.

In early September, the forecast for a stock market retracement, based upon Elliott Wave analysis, targeted the S&P 500 Index at a value of 1843.96. As it turned out, this was where the market found a bottom in Mid October, after a pretty sharp downside move.

My sense is that we are likely to see a high in the S&P Index at about 2213 sometime in the coming few months, but probably early in the 1st Quarter, 2015 (of course, predicting market points is not rocket science; there are not decimal points in these calculations, and that means "around this number"). This target high should be a very long term high (5+ years) for the stock market, and some kind of market price retracement is highly probable. The most reasonable target for the bottom of the next downside move (using today's available data) indicates a price level in the 1622 area.

That being said, market fundamentals would seem to indicate that a long term consolidation period is in order, instead of a sharp downside market reset. Frankly, I think that once we reach our target of 2213 in the S&P Index, we are in for a rather long sideways move that establishes perhaps a 300-400 point range downward from the high. Expect this to last for many months, well into year 2016. Such a scenario would indicate there will be opportunities to invest additional money into equities for our investment portfolios, at reasonably good prices, if we are patient investors.

There may well be a serious setback after reaching the 2213 S&P Index price level. Be prepared to exit all equities should the long term trend in the market change to the downside. As long as the market trend and the economy remain positive (upward) we can add to our equity positions on market setbacks. There are just too many variables to consider. Predicting market changes is very speculative. Thus, remaining flexible, and focusing on preservation of capital, are going to be the standards for the coming year.... and as always, I guess....

<u>RECOMMENDED INVESTMENT CHANGES:</u>

It is time to drop three mutual fund managers from our portfolios and replace them with the S&P Index ETF, symbol SPY. For now, the US Market is likely to be the best place for a global investor to put money. To facilitate these changes, we recommend that the Index ETF be used until such time as this forecast changes, and Europe, Asia, and the emerging markets begin to gain economic momentum. The three mutual fund managers that are recommended for liquidation are the Franklin Mutual Fund (symbol TESIX), the Permanent Portfolio Fund (symbol PRPFX - a gold, silver and Swiss Franc investment), and the International fund Harbor International (symbol HIINX). It is recommended that all investment money held in these three mutual fund managers be rolled into the S&P Index ETF (symbol SPY). Since our ultimate goal is to outperform this Index - and also, since it is very difficult in today's market to accomplish this goal as a fund manager - it makes sense for the short term to just use the Index ETF as the investment of choice.

My preference in investments is to find active managers who are creatively successful outperforming their peers, and also the S&P Index. Since the US economy is the "sweet spot" in the global market, today, the S&P Index ETF becomes a reasonable choice of investments, versus other managers who are unable to outperform either their peers or this Index.

HAVE A WONDERFUL HOLIDAY PERIOD. OUR BEST WISHES GO OUT TO ALL OF YOU FOR THE COMING YEAR.

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