

# The GLEASON REPORT

Market Timing for Investors  
Identify Turning Points in Asset Classes

February 2012

www.gleasonreport.com

## Status of the TGR Timing Models

 S&P500: IN	 NASDAQ: OUT	 US Tbond: OUT	 GOLD: IN
 Commodities: OUT	 BRAZIL: OUT	 CHINA: OUT	 Germany: OUT
 INDIA: OUT	 JAPAN: OUT	 UK: OUT	Model Buys S&P500 on 1/31.

### Inside This Issue .....

- Review of the asset classes
- The Case for Inflation amid Negative Interest Rates
- Are the Feds Preppers? Those FEMA camps are real!
- Low rates could last for over a decade. Savers are in big trouble.

This issue can be linked to at: [www.gleasonreport.com/emails/2012-02-tgr.pdf](http://www.gleasonreport.com/emails/2012-02-tgr.pdf)

**S&P500 at 1312 on 31 January 2012**

Year to Date Asset Class Returns		
Symbol	Asset Class	YTD Return
PCRIX	Commodities	5.2
VGSIX	REIT	5.9
VFINX	S&P500	4.5
VMFXX	Money Market	0.0
VBMFX	Bond Index	0.7
VGTSX	Intern'l Stocks	6.8
VISVX	Sm Cap Value	7.0
VBISX	Short Term Bond	0.5
GOLD	Gold	10.8
BWZ	Currency	3.3
	Balanced #1	3.6
	Balanced #2	2.2

**Note: The asset class returns now include the year to date performance of my book's two balanced portfolios.**

**Stocks**

My book's S&P500 timing model bought the index at January 31<sup>st</sup> at 1312. My proprietary model also is now in the market. Historically, there's an 80% chance my book's S&P500 model will make money. The model's few losing trades average less than a 5% loss. Why the big change since last month? Simple. The stock market went up for whatever reason. Because the model is momentum based, it buys. So, why is the market going up? I don't know but the action of the tape is more important than all the opinions of the experts.

I think the market could trend lower short term and bounce off the trend line base but that would only take it to about 1280. I'm not enthused about stocks but there's other forces at work that may sustain this rally for quite a while. The Fed has announced they won't raise short rates for three years. They also said directly that they will

be buying Treasury debt in the future; i.e. money printing. This means savers will be looted for at least three years with negative interest rates. It could go on for a decade for all we know. In addition, it should be clear that they will not let stock prices fall very much. That would destroy the insurance industry, pension systems, the banks and cause a derivatives storm. The whole system is dependent on asset prices going up and up they will go by whatever means possible. I think we are facing a stock market with some sort of implicit federal guarantee behind it. Sort of like an insurance company annuity where if you invest \$10k for some years they promise you'll get 4% per year.

How could this occur? The stock market is priced on corporate profits. It's presently selling at a PE of 12 based on forward earnings so it's not over priced using that metric. If inflation is pumped into the economy then nominal earnings and stock prices will be supported. Rather than a guarantee of the stock market's price, I think the government is guaranteeing inflation. The stock market already figured this out before Bernanke's announcement. So did the gold market.

The NASDAQ model remains out. It's price has been boosted by the action in Apple but not enough. We need a few more months of uptrend to confirm a model buy.

There's a lot of bad news coming out of Europe and predictions of a great crash in China. My models see upward lurches in the emerging markets and a buy signal in the US. Thus the models are running contrary to popular opinion. That's a positive because you'll never make money running with the pack.

In my book I discuss show how the models are not infallible. Sometimes they buy at a higher level than they last sold. That has happened this time. The book model sold the S&P500 in August of 2011 at 1160. It's buying back at

1312. The model was out of the market while the index dropped and then rose 13%. That's not money you lost but it is lost opportunity. As I state in my book, the objective of market timing is to make winning trades and avoid big losses. Beating the index is secondary but, historically, the models have done both. In exchange for its occasional miss, it does avoid market crashes and long bear markets. It alerts you to the new trend even when fear has you in a bear hug. For investors afraid to act in a world full of danger, that's not a terrible tradeoff.

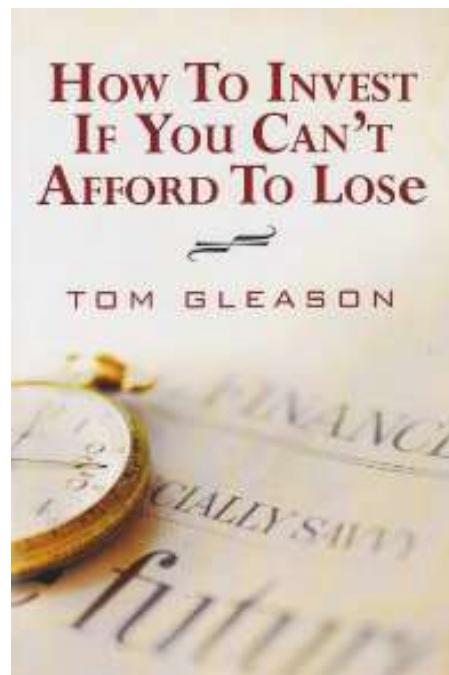
### **Bonds**

The Fed said they'll be buying bonds thus ensuring low rates paid out on the short and long end of the Treasury yield curve. China and Arab states used to be big buyers of US Treasury bonds. Threatening China's oil supplies from Iran and putting war ships in the South China Sea will not be helpful. With the 10 year bond about half of the "official" rate of inflation, what investor would buy these bonds? It makes no sense. I'll stay away.

### **Gold**

In December 2011, bullion went below 1560 and I received panicked emails from people. On December 14th I sent subscribers an alert and told them I was not selling gold.

*The price of gold has been down the last few days. This has led popular commentators to declare that a great deflation is upon us and dollar bills are safer than gold. Stocks prices are also falling and there's the proof they say of deflation. Readers of my new book know that gold and stocks are not correlated. The fact that both are falling together means little. ... Panic will cause volatility. Knowledge keeps panic at*



*bay. If you're worried that's fine but don't sell your gold just because of volatility. ... I estimate the fair value price of gold to be \$1700 ... The price can easily swing \$100 either way... When the credit deflation wolf is done with Europe it will come to America. Governments will respond with money printing and perhaps currency wars. ... I am not selling gold.*

In the December newsletter I said I'd be a confident buyer at \$1568. A month later gold is at \$1735. It's the best performing asset class so far in 2012 – up 10% in January. How did I know gold would rebound? I didn't know for sure. I did know that the market trend was up and the

historical preconditions for a gold decline were not in place. I did know what drove a gold bull market and it was clear to me nothing major had changed.

I would advise subscribers to examine their actions over the last month and learn from it. Did you sell gold in December and now regret it? You'll likely do the same thing when it happens the next time. Don't feel ashamed. Some big name commentators and newsletter writers also panicked. Now they're touting gold again like they're lack of conviction was never noticed. I noticed. Furthermore, I pay little attention to articles by people who profit from selling gold and silver - the bullion dealers will always be bullish with your money. There are some good people in the business but they're always trying to sell their product. It's good to discount their opinions.

The reason I wrote my book was to give my subscribers easy to use market timing methods and proven portfolio tools. Armed with this knowledge, they can avoid swings of panic and

euphoria and stay invested when others are pulling their hair out. They can buy when the majority are negative. I gave readers two gold timing models and a method to evaluate the fair value of gold. This knowledge kept me in bullion while the “experts” were jumping off a cliff. Emotion is a great motivator to action but, unless it’s arm-in-arm with knowledge, fear will destroy your future. We face difficult times over the next ten years. The opportunities for profit are huge in volatile markets but very few will be successful because of unchecked emotion.

I think gold will continue its advance year over year in 2012 on an average price basis. Gold is the counterweight to war, fear and inflation – the tools of our corrupt political class in a failing economic system. America is in a bad way. Add in oil depletion and no one should be without precious metals.

### Foreign Stock Markets & Commodities

My S&P500 model is IN the market. Is there any confirmation in the foreign markets? Not really. Brazil and China edged up but not enough to buy. England, Japan, Germany and India were down for the month. The foreign markets exited before America in 2011 and the US is back in first.

The commodity index (DBC) moved up 3.7% over last month but the model remains out.

### The Case for Inflation

President Obama’s State of the Union Speech offers plenty of evidence that deflation will never happen. He said nothing about cutting any agencies or reigning in bankers or cutting spending. It’s what he didn’t say that we must pay attention to. There was no talk of austerity measures or curtailing our state of constant war.



Nothing meaningful will ever be done to fix the country under Obama. It can’t be fixed because that would require a smaller federal government and austerity. Who would incur the austerity? The 16% of Americans on food stamps? Nope. The 60% of people over age 55 with no savings? Nope. The 50% of Americans classified as the working poor. Nope. Can’t cut the military or SS or anything. That leaves only the rich and the corporations. These two groups pay for the federal elections of the presidential contenders and Congress. In addition, the Republicans won’t allow more taxes. Even the Democrats state that taxes should be lowered on corporations.

The Democrats fully intend to spend and spend and use every means possible to keep things liquid. They will inflate! The Republicans are no better. Rather than discuss anything of substance within America, the GOP candidates try to outdo each other with war monger crazy talk. Newt Gingrich says he’ll build moon bases. The foolishness is surreal.

Meanwhile, both parties garner huge sums from super-PACS funded by corporations and big money guys. Your vote never mattered so little. In a nation frightened by job losses and tired of war and deceit, who speaks for the hard workers and the savers? Nobody. Instead, we get appeals to extremism and promises of freebies. Freeloaders and reloaders will elect the next Congress but big money will pay for it. Money printing and irresponsibility will be taken to the next level. My advice: step aside, stop voting and take care of your personal situation while you can. Invest with the trend. At home, prepare for social uncertainty.

We might be better off with celebrities Gary Busey and Lindsey Lohan as our nation’s Prez and VP. These two aren’t inclined to habitually lie to their

friends. At least you'd know where you stand. I just might write them in.

### Are the Feds Prepping?

Many good people work for the federal government. I think the US Postal Service does a great job. My lawyer friend says the federal judiciary is excellent compared to the spottiness he sees in state courts. Overall, the federal government hires quality people. But these good career people don't make the major policy decisions.

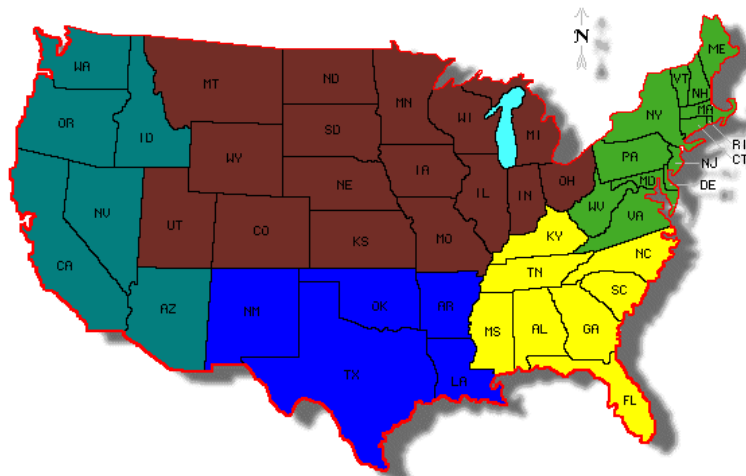
It took hard work to screw up a great country like America. The savers had to be cheated, the lazy given largess, the venal lots of power and the whole time the leadership had to look the other way. In today's world, only the most corrupt and connected get enough money from the corporate PACs and enough attention from NBC news to make it into the national winner's circle.

Instead of checks and balances to prevent corruption we have a system where D.C. candidates go through a system of filters to ensure they are corruptible. Only then are they worthy of consideration. The whole system runs on graft. That's why things are so out of whack.

The party leadership doles cash out to those willing to work against the people for the benefit of corporate interests. Obama is a champion at it. As the public anger rises he offers no ideas to take corporate money out of politics. He asks for permission to lie in response to FOIA requests. He's in the same league as Chris Dodd. The former Senator was directly responsible for

helping the bankers disassemble the banking rules and the 2008 crash resulted. Campaign finance cash clouded his morals. He leaves Congress and becomes the front man for the big Hollywood money that was trying to pass the SOPA legislation.

Corrupt is one thing but true malevolence is really scary. We saw it under Bush with Dick Cheney and Rumsfeld. Disagree with me if you want but these guys are war criminals. Our news media ignores the whole murderous conspiracy. Look at the price we're paying today for not investigating crimes by the political class. Now the president can order Americans murdered. Then Obama signs the NDAA act that allows the military to act as police and permits indefinite detention of American citizens for being "belligerent". I used to roll my eyes at stories of secret FEMA camps to be used for mass detention of US citizens. Until this month. They really are building camps in America in five zones with three to fifteen camps per state.



*The staffing requirements or cadre for FEMA personnel for these camps -- which are identified as being located in five (5) distinct regions throughout and within the borders of the USA, with camps located in each and every state -- was three to fifteen each. The size of these camps will vary around 5 acres per 1,000 inhabitants, though they will never be less than 3 acres for populations of 500 or fewer inhabitants within the camps' boundaries.*

*To sum up: the solicitation to bid for the staffing of FEMA camps within 72 hours is a curious proposition, since it appears to predict a calamity that will affect the entire nation*

*simultaneously --completely unlike a location-specific natural disaster.*

*This may be nothing more than a preparedness exercise by Homeland Security to see if anyone besides the military would be able to meet these stringent requirements for rapid deployment. However, what I found most striking was the "off limits" areas within each camp and staffing with "displaced persons" and the "Mission Support Work Area(s)," all undefined. As citizens, we need to know the exact purpose of these camps, given President Obama's propensity to bend our constitutional republic to his own purposes!*

Read more:

[http://www.americanthinker.com/2012/01/new\\_nationwide\\_fema\\_camps\\_should\\_raise\\_eyebrows.html#ixzz1kuQqfBZL](http://www.americanthinker.com/2012/01/new_nationwide_fema_camps_should_raise_eyebrows.html#ixzz1kuQqfBZL)

Let's summarize. They can kill anyone they want. They can imprison anyone they want with no access to a lawyer. They are building camps. All this is true. But why? It's probably because they expect social problems in the years ahead. Civil insurrection, an energy crisis, natural disaster, a collapsing economy – who knows the exact reason. They probably aren't even sure. Perhaps there is an insidious and real danger or maybe it's because of what happened in New Orleans after the flooding. Whatever it is, they do see possible systemic risks and are preparing for it. The point I'm trying to get across is your government is expecting trouble. No doubt you read other opinion sources besides The Gleason Report and know something screwy is going on and in a really organized way. I'm just saying ... don't laugh at people who are prepping.

Think about this. You likely spend around \$500 yearly for house insurance. Hundreds more for car insurance. You pay this money to protect yourself against uncertainty. For \$500 you could easily purchase a three month supply of staples like rice and beans plus some water barrels and other necessities. If something happens, you can

stay put while those who are unprepared will have to evacuate. Think about people in earthquake hit areas, flood disasters or on the fringes of other upheavals. Doesn't it make sense to prepare a bit and have some options? Those not able to stay in their homes might be housed with the masses.

Prepping isn't just about food and shelter. It's about preparing your investments too. The days of buy and hold forever are over. The Fed is intent on destroying the currency through inflation. They are signaling it loud and clear. You will lose money holding cash.

### **America is in the War Business**

As I've shown many times, our military is all over the Middle East. We're there to protect oil supplies and to get new oil. It's about maintaining a flow of energy onto the market to support the world economy. It's not about an energy grab that only benefits America. This process went into hyperdrive after 911. The world is deep drilling and fracking and even filtering the Canadian tar sands for bitumen. These are desperate measures and bottom of the barrel energy extraction methods. It can continue for quite a while and will but conventional oil will continue to rise in price. Nations that don't like America control a lot of oil. That's why the West is knocking them off.

The US mainstream media, in collusion with D.C., has fabricated a shopping list of make-believe enemies for us to hate and fear. Our tax money gets channeled into the war machine to protect us from bogeymen so the real agenda can be pursued. The public is generally clueless. Some politicians are true believers in this garbage and others are indifferent. The political parties leverage the public's ignorance for self advantage while the real work is handled by professionals. Perhaps we're all distracted by the carnival on capitol hill and it means little.

You could say that the Republicans believe and the Democrats deceive. Right wingers really believe the propaganda. Hate is like a thick fog that clouds reason. There's a lot of hate in the Republican party. They hate the poor, they hate Mexicans and blacks, Arabs, pregnant teen girls and the people who want to help them. Stand to defend the hatees and you're labeled a liberal; the catchall phrase for someone dismissive of their paranoia. The D.C. Republicans love war, corporate money and rich people. Admitadely, I'm painting the Rs with a broad brush but they're an angry lot. Now the Democrats are a different type of animal. They hate logic and financial reason and love government meddling. They like public money that passes through their fingers first before going to all those poor folks and Mexicans and blacks and any minority group they can concoct as another money conduit. They love corporate money and rich people too.

America is at war against the Arabs and the Iranians and soon the Chinese. We're at war against ourselves at home. D.C. is plundering the wealth of savers with negative interest rates. It's just something they have to do to bring back economic growth – so they say. In reality, nations can't grow without cheap energy and it will only get more expensive. Therefore, we will never grow our way out of debt. The Rs will murder and the Ds will loot until the whole rotten corrupt system collapses. Your job is to protect yourself. Don't blindly support this system because it's a distraction from taking constructive action. As these markets get more volatile, investors will have to be agile. You have to make money on the market swings because you can no longer make it by saving.

### **It's the Sun, Stupid!**

The Global Warming hoax goes on and on. Al Gore and the Europeans say rising temps are caused by man. Carbon dioxide is the culprit they say. Sure, burning carbon creates CO<sub>2</sub> but it's negligible relative to the sun's power. Of

course, Al and Goldman Sachs want to trade carbon credits and make megabillions.

I stand outside in the constant Arizona sunshine and get warm when all those photons hit my skin. Geez, do you think something about more or less photons hitting the earth could be the real reason for periodic climate change?

Now it seems the scientists are coming around to the obvious. They say temperatures haven't increased in fifteen years and a cold cycle may be upon us.

<http://www.dailymail.co.uk/sciencetech/article-2093264/Forget-global-warming--Cycle-25-need-worry-NASA-scientists-right-Thames-freezing-again.html>

Other scientists placed an ad in the Wall Street Journal and said global warming is bunk.

*The lack of warming for more than a decade—indeed, the smaller-than-predicted warming over the 22 years since the U.N.'s Intergovernmental Panel on Climate Change (IPCC) began issuing projections—suggests that computer models have greatly exaggerated how much warming additional CO<sub>2</sub> can cause,” they wrote. “Faced with this embarrassment, those promoting alarm have shifted their drumbeat from warming to weather extremes, to enable anything unusual that happens in our chaotic climate to be ascribed to CO<sub>2</sub>.”*

<http://news.yahoo.com/16-scientists-declare-no-compelling-scientific-argument-drastic-183255794.html>

I never believed Al's crazy story but a lot of people do. It just shows how repetition of a lie gets acceptance with enough TV time. Humans really are herd critters – even those who are well educated and should know better. The global warming thing is similar to how people are conditioned by the media to believe all sorts of foolishness. The War on Terror – please. Now, they're talking about attacking Iran and actually

said the Iranians were behind 911. It's all so tiresome and transparent.

### **Rates Could Stay Low for Many Years**

Carmen Reinhart the respected co-author of [This Time Is Different – Eight Centuries of Financial Folly](#) tells us that negative rates are not uncommon. It's what governments do when they get in trouble.

*In economic policy circles, holding interest rates below inflation to ease debt levels and limiting capital mobility is known as "financial repression," and it can go on for years, even decades.*

*"This is not something you choose to do because it's a great idea," said Carmen Reinhart, an economist and senior fellow at the Peterson Institute for International Economics. "It's something you do out of necessity."*

*Indebted governments around the world held down rates in the decades after World War II, eroding the value of their obligations, until the 1980s. With many industrialized economies again up to their necks in debt, governments are going beyond tools already employed, such as central bank purchases of debt.*

*Though controversial, financial repression has an impressive track record. Between 1945 and 1980, when inflation was higher than benchmark interest rates, the United States and Britain cut their debt on average by more than 3.0 percent annually, Reinhart's research showed.*

*"If you have negative rates for 10 years, that's a 30 percent debt reduction -- nothing to scoff at," she said, noting that rapid growth helped this process as well. <http://news.yahoo.com/insight-today-pays-owe-money-while-savers-suffer-174742432.html>*

Yes, rates could stay low for years. That assumes savers stick with the dollar and have no other

alternatives. Maybe they don't. The European nations are doing the same thing. Economic growth may not be available to bail us out if oil prices continue to rise but for now there's no crisis. Savers can move into gold (and some will) but I don't see that happening in a big way. Most people are comfortable with some stocks and certificates of deposit. Therefore, I conclude that most folks will slowly go broke unless they move into risk assets. That's the intent. The Fed is determined to liquify the financial system and boost asset prices by starving savers of any safe yield.

The stock market is not over-priced based on PE and forward earnings are indeed edging up after a brief dip. Guaranteed low rates and moderate PE valuations with rising earnings sets the stage in an election year for strong stock market support. The fiscal gamesmanship is not a healthy economic scenario and is the stuff bubbles are made of. Not just stocks but precious metals too.

My book's balanced portfolios are beating market timing over the last two years because they didn't sell. I can't predict the future but know that the old saying of "don't fight the Fed" is usually true.

Another option is to time the markets and try for capital gains. It has worked in the past and quite well over the last decade of crash years. No, this investing thing is not easy.

### **Q & A**

*I try to respond to all my emails but it's getting to be a big pile. I'll consolidate the questions below to answer as many issues as possible. Many of the questions come from readers of my book. The book has two sections. One is on passive portfolios and the other is about market timing. Yes, you can mix the two and use timing with a structured portfolio. It can be as simple as*

*buying or selling a portion of your S&P500 allocation. Since the Small Cap index has a lot of correlation with large cap stocks, you would do the same with that index too. International indexes are a bit different as are REITS. Let's look at the various questions readers have.*

**Q.** I read the latest version of your book over the holidays and quite enjoyed it. There were, however, a few things that I was unclear about.

1) Gold/Bond timing strategy: I think you make a lot of sense when you point out that these two assets are about as close as you can get to non (or inversely) correlated asset classes and that there are good structural reasons that they should be so. If I understand this correctly, applying this to the suggested model portfolios would frequently result in gold allocations of 40% or 60%. Wouldn't this significantly increase the volatility of these portfolios?

2) Any thoughts on timing REITs? They were the only portfolio asset class for which you did not discuss timing.

3) Moving Averages: I'm of two minds on this. First, I admit I frequently use MAs to time my entry and exits. Not so much because they are so good at determining when to buy and sell as because I am so bad at it when left to my own devices. How did you protect against a data-snooping bias; particularly in indexes like the NASDAQ and other markets with relatively few trades.

**A.** The gold and bond total dollar allocations are not the same. If a person decides to hold 20% in gold and 40% in bonds then when in gold your bond allocation should be in cash or short term bonds. I don't yet have a timing model for REITS because of too little data history. I'd be inclined to hold them rather than trade if the yield is above the corporate bond rate. Many timing models exhibit curve fitting. I think my book exhibits enough markets over a long enough time with sufficient consistency of performance to suggest "data snooping" or curve fitting isn't present.

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**Q.** Who Really Elects the President?

Restore Our Future: The pro-Romney Super PAC received \$1 million from hedge fund manager John Paulson and \$1 million from Bain Capital managing director Edward Conard, which was originally reported via a shell corporation.

Winning Our Future: The pro-Gingrich Super PAC received a \$5 million check from billionaire Sheldon Adelson.

Red White and Blue Fund: Wyoming billionaire Foster Friess gave half a million to the pro-Santorum Super PAC.

Priorities USA Action: This Super PAC favors President Obama. Dreamworks chairman Jeffrey Katzenberg contributed \$2 million and Fred Eychaner of Newsweb Corp. gave \$500,000.

**A.** We have the best government money can buy. None of the candidates care about you. They will lick the hand that feeds them.

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**Q.** I'm wondering if there's an easy way to remove the broker dealer counter party risk from accounts at financial institutions. Would just removing the margin feature on a brokerage account eliminate the broker's ability to short and rehypothecate the shares? Or is it more complicated than that? It seems this should be a very important topic for investors to consider on the heels of the MF Global debacle.

**A.** I was thinking the exact same thing. I called Vanguard and asked if there is counter party risk between them and their bank that could affect my money market fund. I was told no but there was hesitancy so I pressed the issue. The rep then said she really didn't know. Vanguard uses Wells Fargo for their banking. I explained the MF Global problem and was told somebody who knows something would contact me. As I expected, I never got a call.

So, is there counter party risk or risk from your mutual fund making a mistake that results in a money market fund being looted by their bank? I would have to say yes. I do believe most funds are conservative but if things blow up who knows what may happen. We both know that the whole system is a house of cards. Perhaps the safest thing is to keep as little as possible in a margin account (brokerage sweep account) and put the money into a treasury bill ETF with an ultra short duration. Here's a link to some etf products. <http://seekingalpha.com/article/30353-a-guide-to-u-s-government-bond-etfs>

As I've said several times in my newsletter, I believe the average American will be impoverished within five to ten years. Our government will be complicit. The MF Global looting should be a clanging bell not to blindly trust banks or brokerages and never, ever own paper gold except to speculate on the gold price.  
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**Q.** I think this fits with some of your thoughts on the Patriot Act. As soon as we all have to wear an RFID (radio frequency identifier) or put one in our cars, any anonymity for Americans essentially ends.

<http://www.rchelicopter.com/category/rc-helicopter-commercial-applications/rc-helicopter-military-police-applications/> (The article and video shows suitcased sized surveillance helicopters now offered to police departments).

**A.** Most Americans don't care about privacy. They post their entire lives on Facebook and broadcast their thoughts on Twitter. I never use those services. As for police drones flying over residential areas snapping pictures, you can bet on it. These guys will spend all day cruising for bikini girls in private back yards. When one crashes into a swimming pool, they'll rush the house and beat the crap out of someone. "Her boyfriend was handling and damaging police

property we were using for an investigation". You think that's unlikely?

*Two British tourists were barred from entering America after joking on Twitter that they were going to 'destroy America' and 'dig up Marilyn Monroe'. Leigh Van Bryan, 26, was handcuffed and kept under armed guard in a cell with Mexican drug dealers for 12 hours after landing in Los Angeles with pal Emily Bunting.*

*The Department of Homeland Security flagged him as a potential threat when he posted an excited tweet to his pals about his forthcoming trip to Hollywood which read: 'Free this week, for quick gossip/prep before I go and destroy America'.  
Read more:  
<http://www.dailymail.co.uk/news/article-2093796/British-tourists-arrested-America-terror-charges-Twitter-jokes.html#ixzz1kxsTIVsc>*

This is crazy but true. In Brit slang, the word Destroy in this context means to party hardy. They checked his luggage looking for shovels like he really meant he would dig up Monroe's body. Then he was deported. Read the UK article. These DHS cops troll twitter looking for an excuse to bust someone. Of course technology will be abused.

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**Q.** 1) In your book, where does gold fit in? When you're in gold, do the allocation percentages replace bonds (i.e. 45% or 60%)?

2) Where does the commodity play fit? I don't see a reference to any portfolio allocation.

3) Have I missed timing rules for int'l stocks (you broke a few individual markets out), small company value, and REIT?

4) You use 4% as your earned cash interest rate over time. Am I missing something obvious where I can get that cash rate today? I don't see anything over 1% for USD. Using foreign currencies, I can improve it. My assumption is that 4% is the average of interest rates over your testing period and that is not currently possible.

A. 1) I call the gold allocation "Core Gold". It isn't part of the portfolio but is a percentage of your assets set aside for hard times and never sold. That percent is whatever you feel is necessary. I don't state a % in the book because it will differ according to one's temperament. For some it's 10% and others hold more. It doesn't replace bonds but you can add to it when the gold model says to buy. Gold should be held as the physical metal or in an allocated fund (GTU or PHYS) in an IRA. No paper gold; i.e. no GLD. When out of bonds, the fixed income allocation goes into cash.

2) I don't advise holding commodity funds because they are subject to manipulation. Your gold allocation will have high correlation with commodities. If gold runs up in price and becomes a high % of your assets, then sell some off when the gold model goes negative. Don't sell all of it but just get back to your core %.

3) I don't have timing models for reits or SCV because the indexes haven't been around long enough. In general, when asset allocators buy the S&P500, they also buy SCV and International. They move together most of the time. For market timers, I suggest using the foreign market timing methods to time the foreign stock allocations. When Germany and England go IN buy the International index. When Brazil, China, India start trending IN, buy the Emerging Market index. Reits are tricky for timing. It's probably best to just hold them thru thick and thin since they do provide a yield.

4) I use the 4% rate in my book to prove the effectiveness of timing over the test period. Nothing near that rate is available today. Low short term interest rates tend to cause money to move into speculative assets including stocks. Low rates set the stage for big run-ups in asset prices and subsequent falls. If a person intends to use market timing, they are going to be opportunistic and not follow a rigid asset

allocation strategy. It's for a more aggressive investor willing to be nimble. At this time in history, I think that's the right approach. On the other hand, my balanced portfolios have been winners.

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Q. I am a part time trader as a hobby - fascinated by computer science and its application to the financial markets. The question I have is around actually doing this part time trading. It seems your overall directive is to put money into funds and make as few changes as possible while following long trends, which avoids transaction costs and tax. The question is, is it silly to be using money that could be invested into a timing model, for swing trading? Swing trading incurs costs, but it is possible to get around 5% a month after transaction costs, especially with riskier leveraged etfs. My numbers show that it is possible to make extra money as a small part of ones larger portfolio. I was curious to hear your thoughts, Tom.

In your book, one thing I wasn't clear on at the end is, are you using timing models with one of the two balanced portfolios, or are you highlighting that you could use a balanced portfolio if you weren't that interested or inclined for timing? The other thing that I wasn't clear on was how you put money into your portfolio over time. For example, assuming I just used a timing model with SPY in an IRA, each year I can add 5k to it. You mention not chasing a missed signal, so one would wait for the price to rise about the MA and then go long then. Would you expect to be linking this event with an injection of another 5k lump sum for the year, if that makes sense?

A. The question is, is it silly to be using money that could be invested into a timing model for swing trading or using technical analysis (TA)?

I think a person should experiment rather than accept the opinion of others. That's how

discoveries are made. I had read for years that successful market timing was impossible. Yet, my book proves it's quite possible. For example, many Wall Street types still use a 200 day moving average for market timing. It has at best a 50% success rate and usually much lower. Simple back-testing (experimentation) should prove to anyone that it's near useless but you hear people spouting this 200 day nonsense all the time. I knew it didn't work and found a better way. I have other models that surpass my published S&P500 timing model but they're too much work for the average investor. If you want to experiment with TA, prove to yourself that it really works.

I've never seen any research that proved to me that TA works with a high success rate. I doubt this path will bear fruit but I might be wrong. If it could work then something else must augment it to act as a confirming indicator. It could be another pattern or a completely different indicator. Chart patterns are visual and there one must be careful. The human brain has a highly developed area that does pattern matching and facial recognition. It will 'fit' visual images to a known pattern. Essentially, the TA chartist tries to translate human emotion into recognizable patterns on price charts. They see the chart (the market action) and the brain smooths it to make a fit that isn't actually there. I think some programming would be useful to define the boundaries of the pattern mathematically rather than using visual judgments.

A balanced portfolio can be used alone or with market timing. Money can be added to a passive balanced portfolio at any time. Averaging in forces a discipline on the investor. It's not necessary to do it this way but, over time, it will be successful. When using a timing model, it's best to invest or disinvest after a change in the timing signal. Jumping in midstream assumes the market will continue along the same trend. That's not what timing is about. I keep cash in reserve and wait patiently until a buy signal appears.

When a go-long signal appears, I invest. I don't see my cash reserves as dead money. It's opportunity money.

When developing an investment style, I think a person has to understand their own temperament; experiment and make some real world investments (bets). If one can't make the bet then there is a lack of confidence. Confidence takes time to develop. An investment idea or model has to be tested over a long time period - many years. I did those tests and documented them in my book. It's the trades that don't work that provided me with the key and pointed the direction for further research. Once a person has accumulated a chunk of capital and has invented or adopted a strategy, then it must be tested in the fire of experience. That's the only way one gains confidence.

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**Q.** I live in Canada. I have just finished your book and was wondering how to apply your timing model to the Toronto Stock Exchange TSX. I imagine that because of the heavier weight in commodities I can't use the same one you recommend for the S&P500. Any thoughts would be appreciated.

**A.** The timing methods won't work on the TSX. I tested it. You are correct about the heavy weighting of commodity stocks leading to an unbalanced Canadian index. TSX mirrors the commodity index with a bit more volatility. Both peaked at about the same time in April-May 2011. In January, the TSX was up 4% and the commodity index was up 3.7%.

<http://finance.yahoo.com/q/bc?t=1y&s=^GSPTS E&l=on&z=l&q=l&c=dbc>

A buy signal for the commodity index would be supportive of TSX and that's useful knowledge.

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**Q.** In a few recent newsletters you have mentioned that "America" will do relatively well

during the coming oil depletion, but you might want to drill down on that. I agree there are a lot of energy resources to which the US government will control access. Those companies with strong influence in Congress will be able to profitably exploit those resources. However, these energy resources are sold in a global marketplace and other US companies and consumers have no special access to them. (Obviously, the situation is different in China and Russia.)

Add to this problem, the Citizens United ruling which results in the public being unable to tell who is financing political campaigns, and I think the conclusion that "America will do well" is overly optimistic. However, energy firms with strong political influence in America will certainly do very well.

**A.** I agree with your analysis. I should have said America will do better than most other nations. The oil will be in this hemisphere but we'll have to pay up for it. If China will pay a lot more than that's where the oil will go. This may be why President Obama doesn't want to approve the Keystone Pipeline. It would take oil to the gulf coast and into the international market. That's why the WTI oil price is lower than the Brent price. Citizens United is another betrayal.

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**Q.** Thanks for your free report. Your information is extremely helpful and keeps investing simple in an otherwise complicated financial world. I purchased your book and wish to implement the balanced portfolio #2 as buy and hold positions with once per year rebalancing. I'm 55 years old and have a quick trigger finger to sell my holdings in a bear market and I think portfolio #2 will help me to stay the course.

Questions: Will you please provide me with ETF's to use with Portfolio #2? I would greatly appreciate it.

Last Question: Any thoughts on implementing your Balanced #2 portfolio for half of my portfolio and the Harry Browne Permanent Portfolio for the other half? Harry Browne's Portfolio has really been very protective and has performed well since the 1970's.

**A.** There's no set rule on what percent of your assets should be invested in a portfolio. You may want half in cash and the rest in my Balanced #2. The Permanent Portfolio (PRPFX) is another excellent choice for those concerned primarily with the preservation of capital. If you mix Browne's portfolio with mine your percent in each asset class will drift a bit. PRPFX holds more stock than Harry suggested but the fund manager weights the energy sector higher – an acceptable and wise modification, in my opinion.

Page 91 of my book discusses the Balanced #2. Page 86 shows the exact ETF products to use. Balanced Portfolio #2: SPY-10%, VBR-10%, BND-30%, VNQ-10%, VEU for international stocks-10%, Short term Bond (BSV)-30%

Other ETFs that mimic the Vanguard ones are just fine as substitutes.

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**Q.** 1) I held off getting back in for a few weeks due to the volatility in the market over the last year. I don't have a ton of options through my employers plan but have access to the following funds.... FCNTX, FLPSX, RYSEX, ODMAX

2) Hello. I read your book and am trying to consolidate your market timing models to your balanced portfolios. My confusion stems from balanced portfolio constituents that don't have corresponding timing models. For example, if your S&P500 models are in, do I add positions to the Small Cap Value as well? If your NASDAQ model goes in, what do I do to the balanced portfolio? If I go into the timing models fully, what allocation should I use?

3) Hi I recently read your excellent book on my kindle and I had a question about entry points. It's more of an academic question since most of your models are currently out but... Should you only buy when a model transitions to IN from OUT or can you buy at any point when the model is IN? When you measure your performance do you ever see how late purchases in the middle of an IN period would perform?

A. These funds like ODMAX have horrific expenses and load fees. If this was the only stuff my employer offered, I wouldn't even contribute to the plan. Yes, they may give you a 5% employer match but the load fee is 5.75%. Thanks for nothing. Personally, I'd skip the plan and open a Roth IRA.

The Nasdaq model doesn't align with my portfolios. Neither do the foreign market models except to break out the country trends. I included these in my book for people who are market timers and for non-Americans. I covered Small Cap Value in a question above.

In a passive balanced portfolio, you can invest anytime. I prefer adding money when the model changes to IN but that's me. Otherwise, I sit in cash or short term bonds. Investing late in a cycle means you might miss the lowest entry point. If a timing signal changes, you don't have to go all in or out. Maybe just move half of your allocation. But, you must have a plan of action or you'll be second guessing yourself all the time.

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Best Regards,  
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Tom Gleason has degrees in finance and information systems. He's worked as a bullion dealer, fraud investigator, real estate appraiser and financial analyst.

[Previous eletters for the past year can be viewed on the TGR website.](#)

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