Financial Research, Education & Data

Volume 4, Issue 11
December 2012
Charts as of 11/30/12

The FRED Report – Monthly Review

Research Piece for December: The "Bucket List" Portfolio

Positive	Negative	Neutral	Highlight
↑	↓	↔	Change

THE FRED REPORT
4514 Chamblee-Dunwoody Rd, Suite 112
Dunwoody, GA 30338
Phone: (404) 875-FRED
e-mail: fred@thefredreport.com
See us at: www.thefredreport.com

Summary of Monthly Piece

ASSET CLASSES:

STOCKS:

Rating the three Market Principles:
As readers know, we break the stock market down into three basic market principles: (a) Sentiment, (b) Internal Momentum, and (c) External Momentum. I will review these here.

Sentiment: *We use two indicators to measure sentiment. These are options activity and certain sentiment polls. For options, we use total CBOE volume and take the figure directly from the CBOE website. For our sentiment poll numbers, we prefer using % bears from Investors Intelligence. We use only the % bear's number because, in our opinion, the bears almost always take action. It is rare to find a complacent bear. Sentiment is what we call a "Condition Indicator". By this we mean it has nothing to do with timing trades – rather it is part of the overall mosaic of market activity.*

Our current reading of the sentiment indicators is NEUTRAL. Sentiment indicators appear little changed over the last few weeks, but a good bit has happened under the surface. The Put/Call indicator is negative, as it has fallen sharply into sell territory on the recent snap-back rally. The pattern on this indicator suggests complacency and bullishness. Investor's Intelligence % Bears Readings gave a buy signal in September 2011 and is flat to slightly up (26% from 25%), a neutral to positive reading. % Bears may have some distortions due to Hurricane Sandy, and the put/call pattern is really concerning, so this principle is ALMOST negative. Often when sentiment is in this configuration, we have a "bobbing cork" kind of market correction, and this is what we expect.

Internal Momentum: *We use several Breadth indicators to measure internal momentum. We publish three indicators in this Monthly Review: the McClellan Oscillator, an Indicator of New Highs on the NYSE vs. New Lows, and our own breadth oscillator – called **Fred's Breadth Oscillator**, or FBO. The McClellan gives great trading signals, while the last two are also "Condition Indicators".*

Our current reading of the internal momentum indicators is NEUTRAL. The weekly or intermediate FBO is flat and is still an up pattern. The daily FBO has bounced off oversold but remains a negative pattern. The New Highs/New Lows indicator has weakened, and recent readings have come down hard, a concern. The McClellan Oscillator rallied sharply to overbought, but without participation from the daily FBO this is likely to be retraced. Breadth tools suggest the recent correction, although coming close to our 130 – 133 objective, may have more time to run. Caution flags remain out!

External Momentum: *We use several price indicators to measure this, and these are primarily tactical indicators. We use the 5 and 20 period moving averages, and a simple crossover to determine trend. We use Stochastics, another standard indicator, to measure overbought/oversold levels, or as we prefer to consider them, areas of risk and reward. The one criticism of Stochastics is that they are too sensitive, so we also have our own Price Oscillator we publish, called **Fred's Price Oscillator, or the FPO**.*

Summary of Monthly Piece…..continued

Our current reading of the External Momentum indicators is NEUTRAL. Short -term Stochastics have moved to overbought and weeklies are oversold. Short-term moving averages have gone negative on some indexes, a caution flag. The daily FPO rallied sharply, is overbought, and has a negative pattern. The weekly FPO has resolved the oversold condition and is now at “0”. Intermediate trends remain up, but appear weak, and indicators suggest more corrective behavior may lie ahead even though we are close to our downside objectives of 130 – 133.

CONCLUSION: Stocks have corrected this fall, moving close to our downside objectives, but the market indicators have not improved enough to suggest the correction is over. A “bobbing cork” kind of market may result, with a final low in the 130 area on SPY in mid-2013. As part of this we could see a bit more sector rotation than we have seen over the last few years – so stay nimble!

FIXED INCOME:

TLT has rallied to our objectives of 127.50 or so. Accumulation models are positive, and unless TLT declines below 118 there could be a further, albeit choppy, rally. LQD remains our favorite bond area for income investors – and has started to move inverse to TLT. LQD continues to look more attractive on an intermediate basis, but may weaken short-term. We advocate looking at preferreds as well, after a dip this fall. International bonds are now neutral. Municipals have also rallied, but are not as overbought as treasuries. We expect more rally in treasuries which should lead to an excellent selling opportunity in 2013.

COMMODITIES:

Integral to our longer term strategic view of the markets is that we have entered an era of commodity inflation. Recent volatility has implied the markets are anticipating a recession, or at least slowing. GLD declined sharply to test 162 support, and then rallied sharply. Our 4-month target for gold remains $1840/oz or 184 on GLD, whichever occurs first. Accumulation models remain favorable. Oil has improved recently but was weaker than is usual in the summer months. A seasonal advance should occur, but it might be weaker than we would ordinarily expect. Agricultural commodities have pulled back, as summer strength gives way to November weakness. DBA now looks less attractive than PAGG or MOO. The DBC commodity index ETF held 27 area support, and could rally short-term – and the base could resolve in a strong up move in 2013.

INTERNATIONAL:

International markets still look weaker short-term than the U.S. market. Both emerging and developed markets have been volatile, and both look weaker than the U.S. EEM and EFA could start to outperform in 2013, but are likely to continue weak for the balance of 2012. The FXY failed at the breakdown at 126, and is trading lower as forecast, which benefits Japanese equities. The dollar is on support and could rally a bit this fall, as FXE weakens slightly. Weakness in FXY may cause a dollar rally even if FXE is stable. FXY is oversold enough for a sharp short-term rally – we would be careful on the short side of this market for now.

SECTORS:

We have one over weight: XLP (Staples). Our under weight is XLB (Materials). XLV (Healthcare) has made all-time highs, and is still stronger than the markets. Materials, and their favorite cousin Industrials, both look weak. XLB has a weak chart and the worst looking accumulation model as well. XLE should do well this winter, but the move is starting off slow and we would use risk management – there may be issues here. Our biggest concern when looking at the sectors is that virtually all of the economically sensitive sectors have been weaker since May, and that this confirms weak action in EEM (Emerging Markets), the Transportations, and other economically sensitive indicators. Right now, we expect weakness into the first part of 2013, and strength at the end. 2013 could be a great year for sector rotation.

Market Review: Price Charts – SPY – SP 500 ETF

<u>The SPY corrected as forecast, and is now testing resistance:</u> The summer rally was a weaker than average summer rally, but not by much. The short-term stochastic is overbought once again, and short-term buy signals have led to lower highs, suggesting more corrective behavior could follow this short-term rally. We maintain a defensive outlook for now, at least on a trading basis, but note this is an uptrend (and therefore a satisfactory market for investors) as long as SPY remains above 128 – 130, which could be tested and should hold.

Market Review: Price Charts – MDY – MidCap SPDRS ETF

The MDY has traded at all-time highs: Mid-caps made all-time highs in 2011 and 2012, suggesting a longer-term bullish trend. Accumulation models continue to weaken, suggesting this corrective behavior could continue through the first part of 2013, however. Short-term chart is near resistance, and a break of the 170 area would be a concern. The intermediate pattern is weakening, but still positive, and we expect small and mid-cap stocks to be leaders in the second half of 2013.

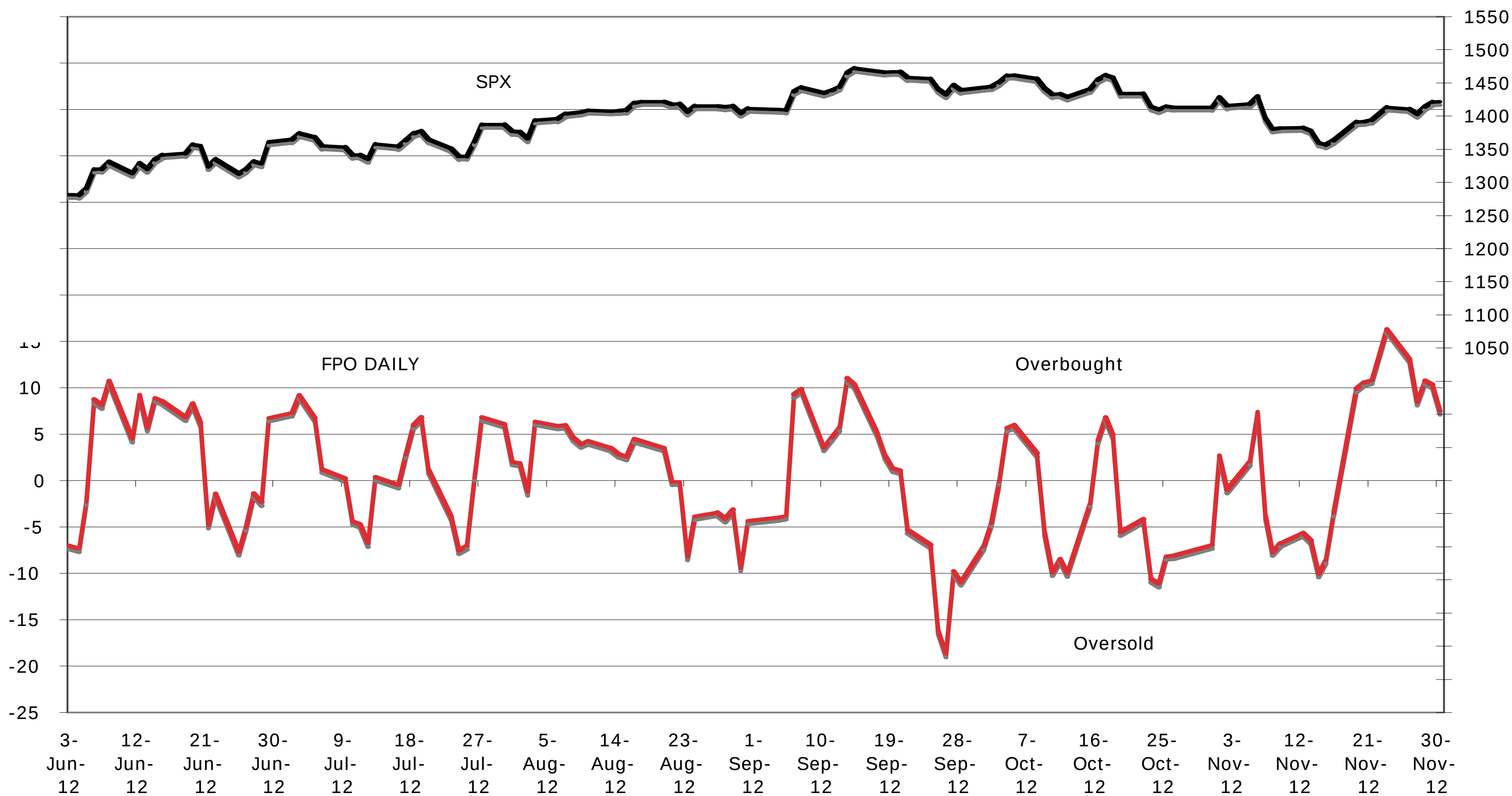
Market Review: Price Charts – IJR – IShares S&P SmallCap 600 Index ETF

<u>The Small Cap ETF made all-time highs in September, and has corrected:</u> Small Cap stocks made all time highs in 2011 and 2012, and this suggests the unemployment rate should start to fall once again in the second half of 2013. Short-term this index has weakened but as long as support in the 70 - area holds this is a constructive intermediate picture. As with other indexes, the short-term stochastic is overbought, suggesting this fall correction has not yet run its course, but we expect this to be a leader in 2013.

Market Review: Price Charts – IYT – Transportation

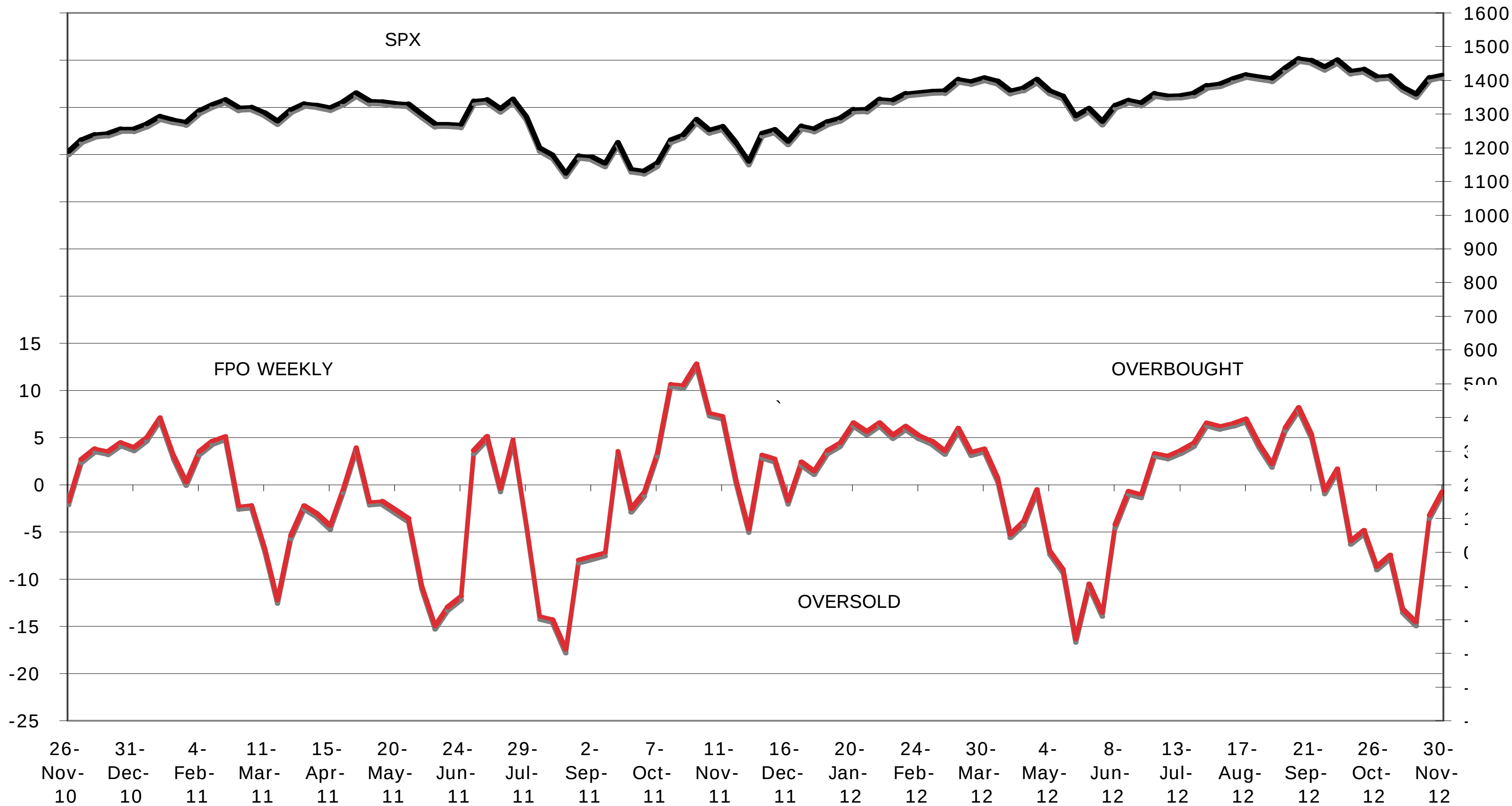
<u>The IYT is choppy, trading above and below the 90 area support, but the overall pattern continues to weaken</u>: Long time readers will recall that this index is our favorite measure of economic strength. Neither the summer rally nor the QE3 announcement has improved IYT relative to other market indexes, and the overall picture continues to suggest economic concerns. A move below the 85 area would suggest further correction. We caution advisors that this is an inconclusive pattern – while it looks like downside resolution is more likely, this could resolve either way, but the recent lower low is a concern.

Market Review: Price Charts – Daily – Fred's Price Oscillator



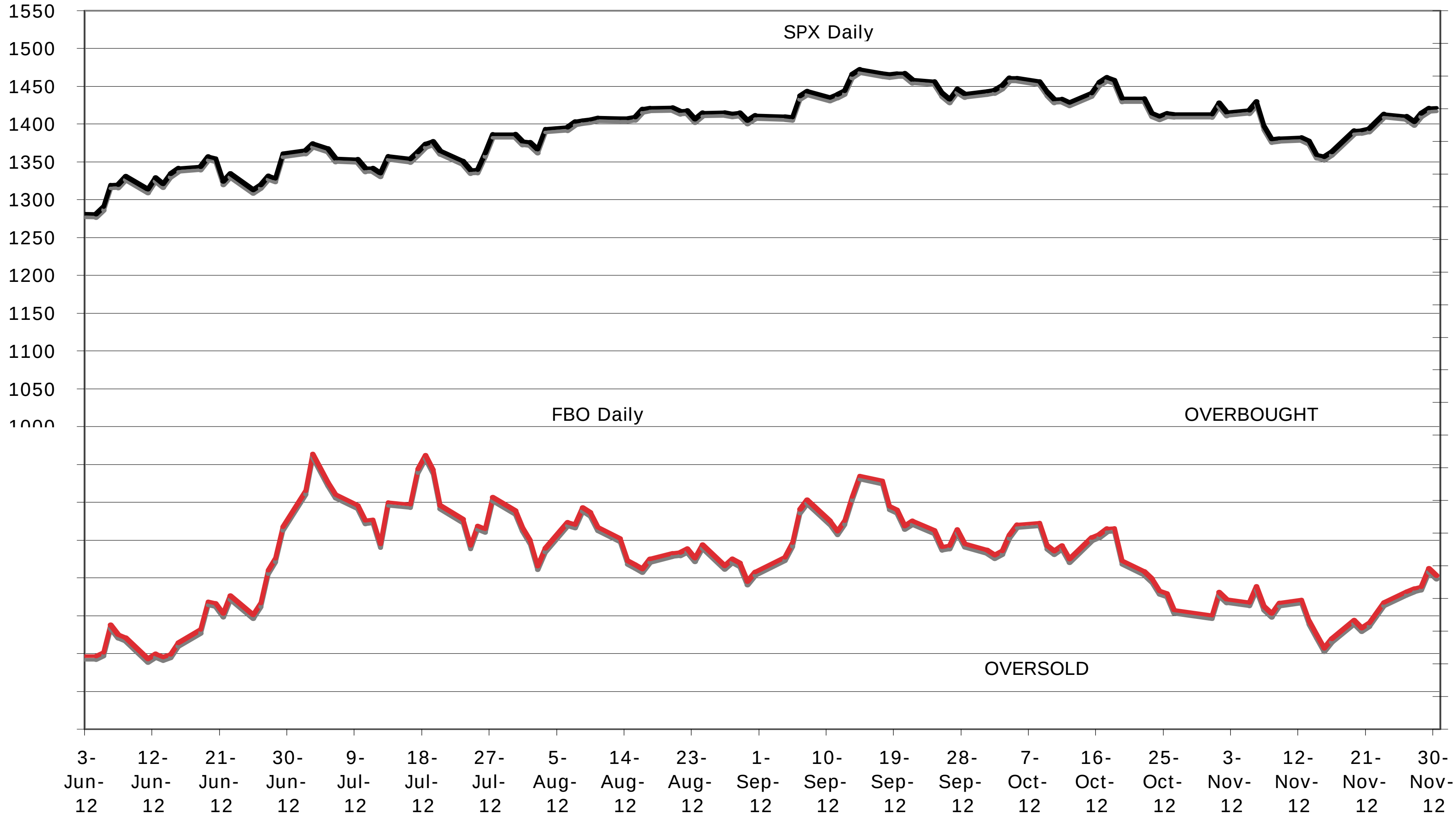
The daily FPO is now overbought and in slightly negative configuration: The FPOD has rallied from an oversold reading, suggesting more consolidation/correction, and the short-term stochastic is overbought. Intermediate indicators are either in sell modes or weak, suggesting concerns about more correction this fall correction are warranted. These indicators tend to confirm our view that the next few months could be difficult, before an intermediate rally in the second part of 2013.

Market Review: Price Charts – Weekly – Fred's Price Oscillator



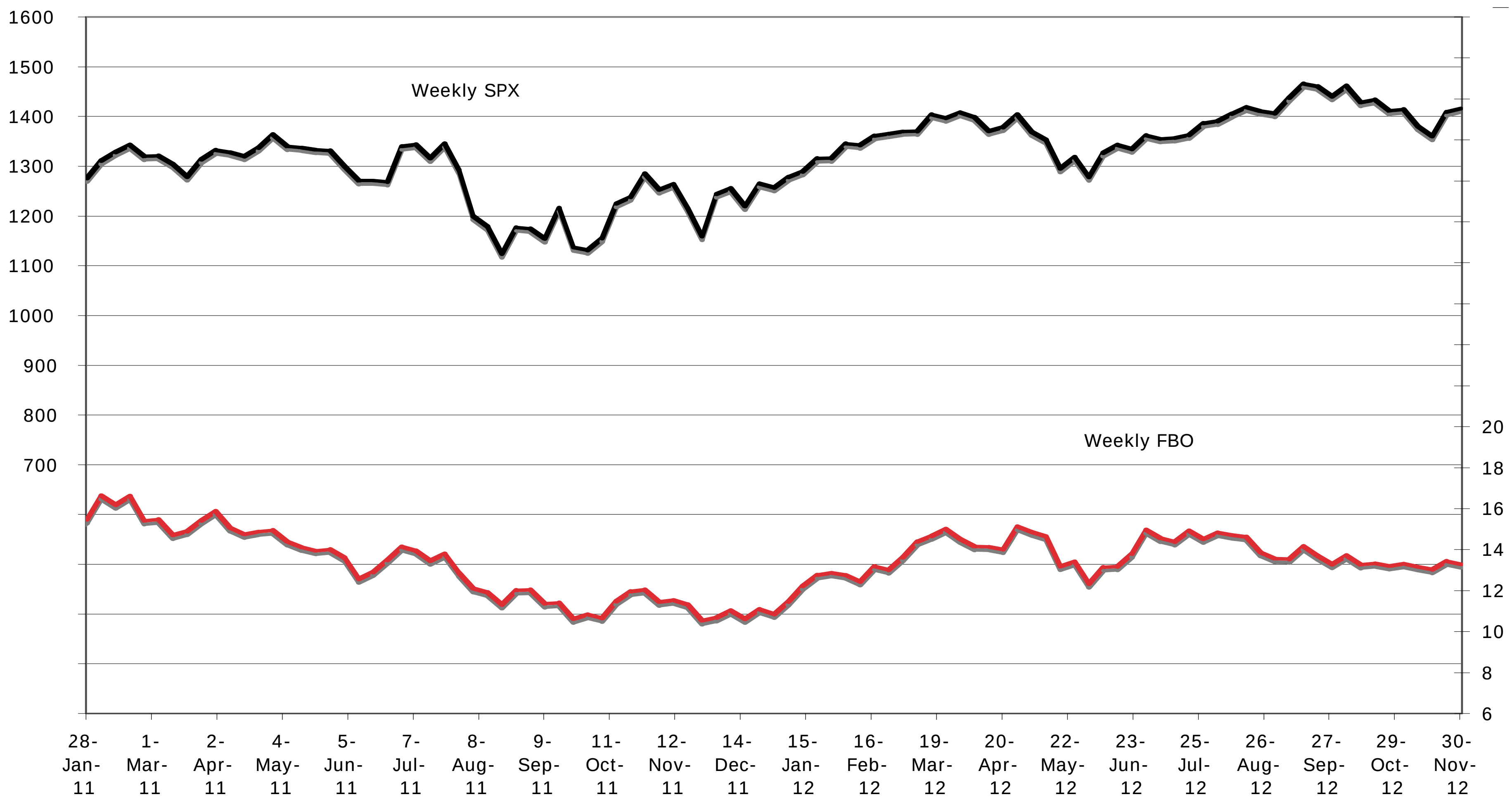
<u>The Weekly FPO has moved up into the neutral zone:</u> This indicator has improved to neutral from oversold. The pattern of waning momentum continued, and remains a concern. The configuration of this indicator does not preclude further advance short-term, but overall the pattern is cause for concern.

Market Review: Internal Momentum – Daily Fred's Breadth Oscillator



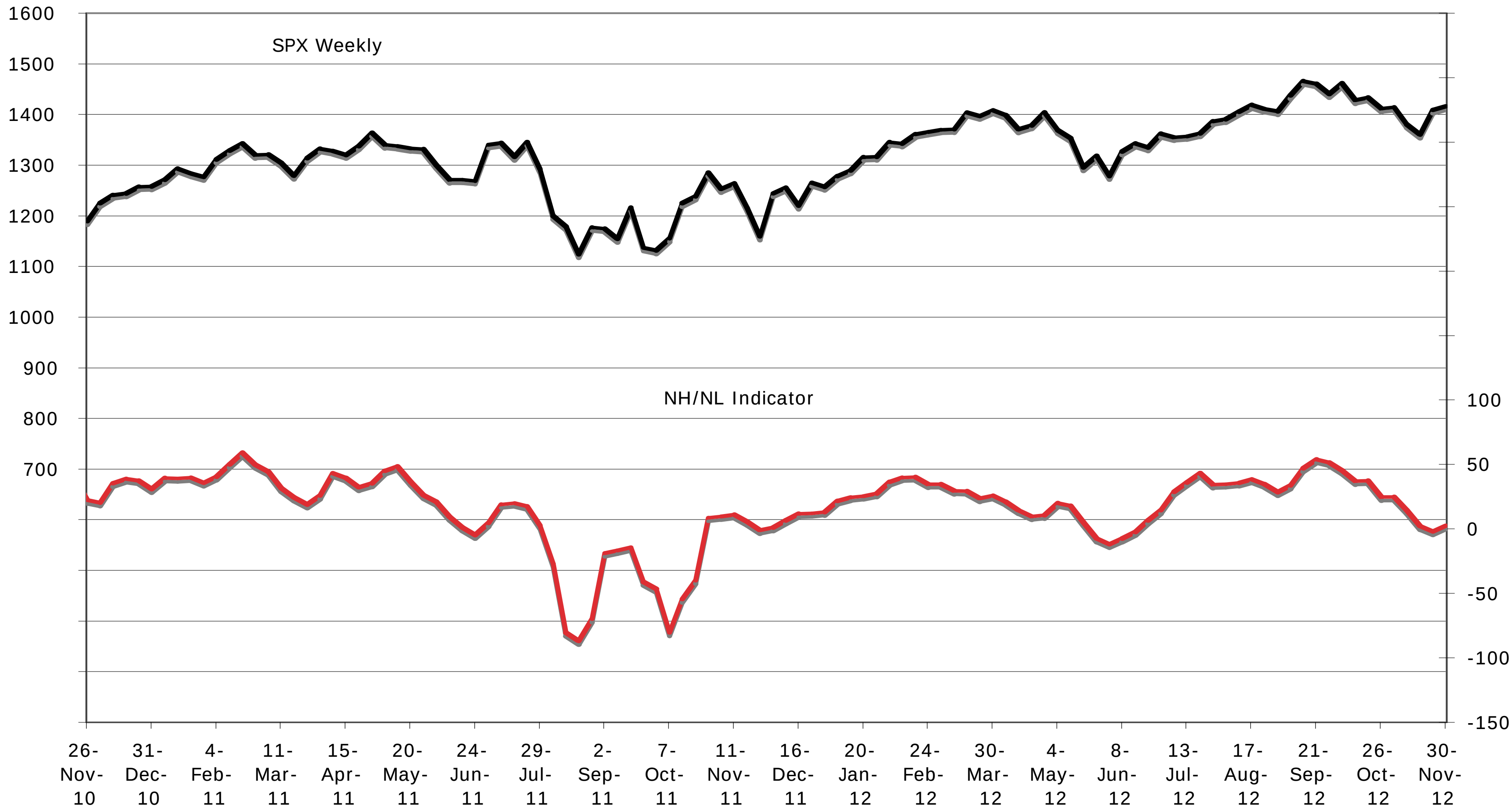
<u>The short-term FBO weakened substantially in October and November</u>: When viewed in conjunction with the McClellan Oscillator, this indicator shows declining breadth momentum. This suggests more corrective behavior is possible. In order for equities to improve short-term, we would need to see a breadth surge as measured by this indicator.

Market Review: Internal Momentum – Weekly Fred's Breadth Oscillator



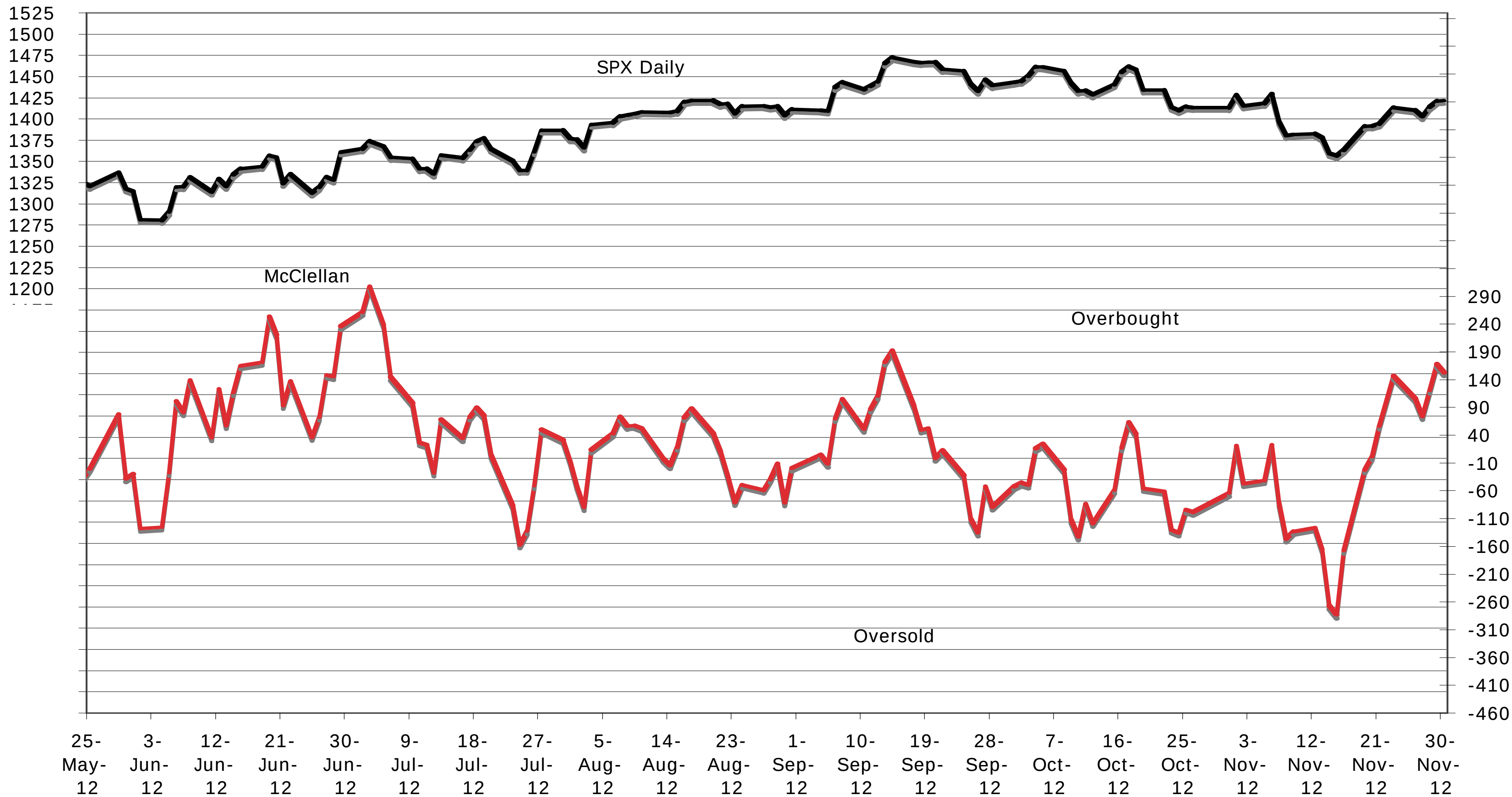
<u>The Intermediate FBO has continued to slowly weaken</u>: This indicator continues to weaken but still has patterns that are consistent with bull, and not bear, markets – for equities to look stronger another intermediate breadth surge is needed. Breadth forecast the recent correction and has not rebounded much on the "snap back" rally. More choppy/corrective "bobbing cork" action is likely given the condition of most breadth indicators, especially when viewed in conjunction with sentiment (see p. 14, 15 of this report).

Market Review: Internal Momentum – Fred's New Highs/New Lows Indicator



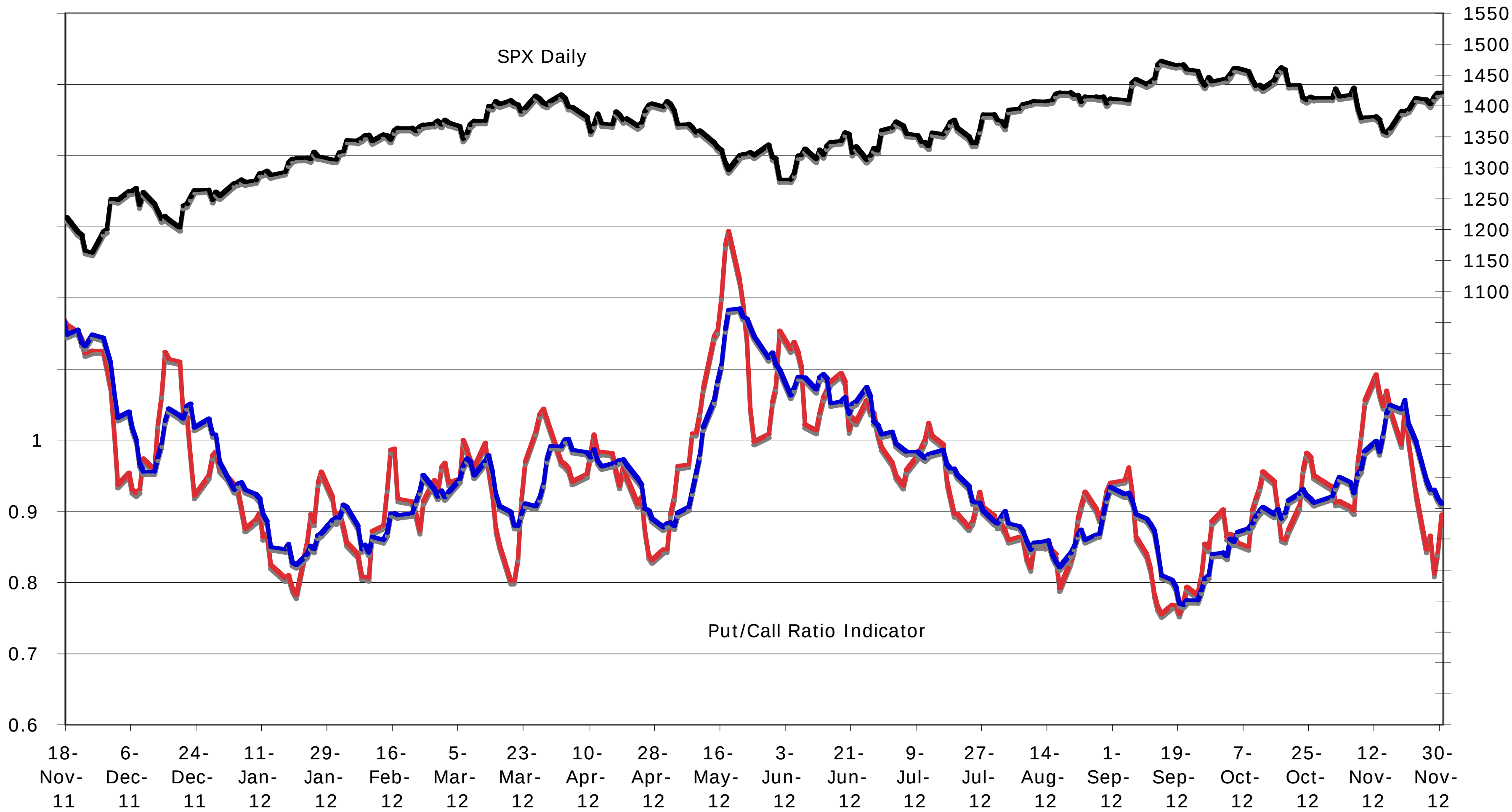
<u>New Highs/New Lows has weakened dramatically since last month's report</u>: This tool measures the difference between the amount of new highs and new lows on the NYSE. The summer months showed a pattern of weakness and October/November accelerated that trend. This indicator often peaks and troughs early but the pattern since September has weakened enough to rate this negative. New lows have contracted slightly over the last three weeks, but new highs are falling off sharply.

Market Review: Internal Momentum – McClellan Oscillator



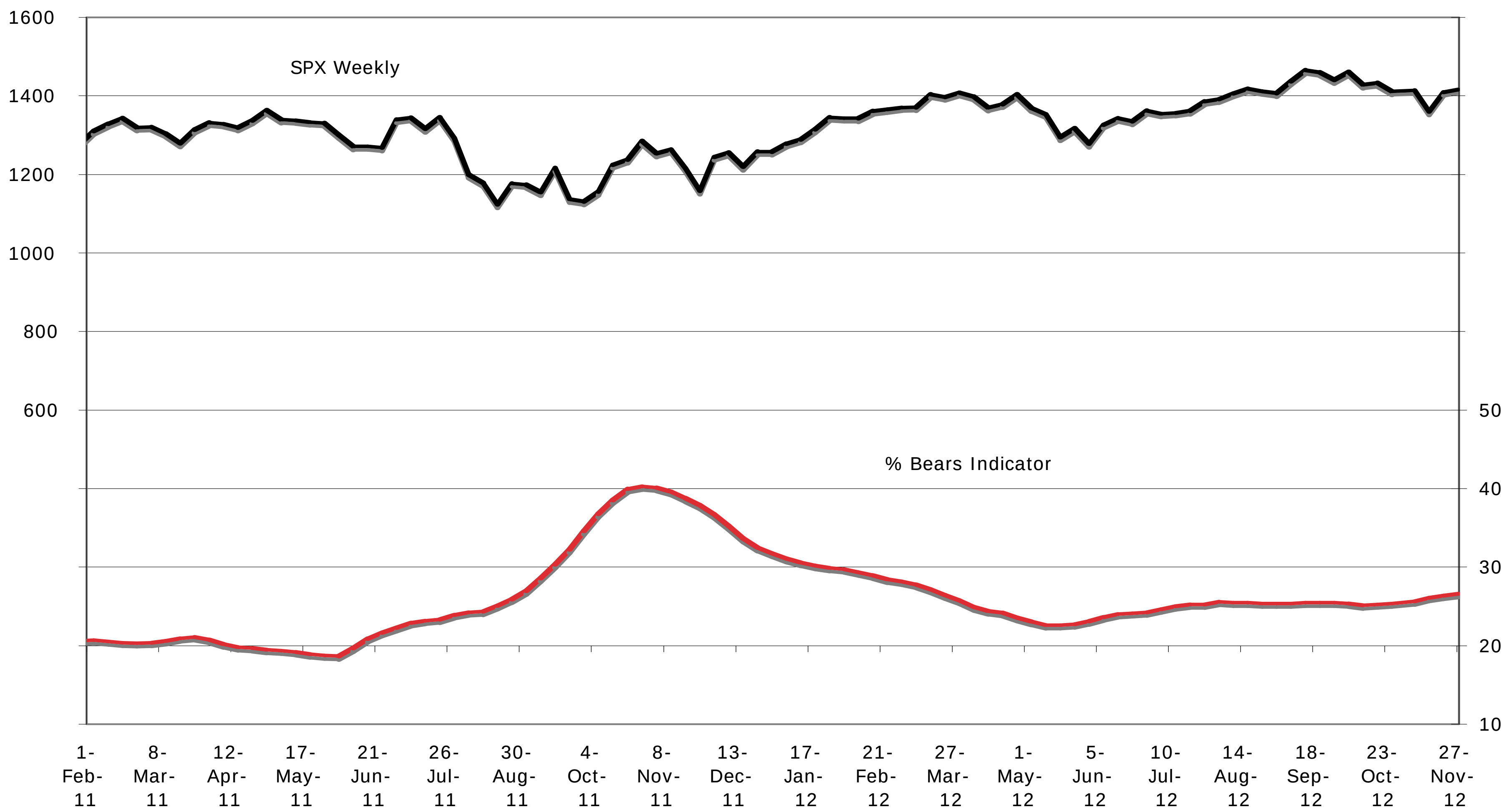
The McClellan Oscillator is slightly overbought: The McClellan Oscillator is one of our favorite short-term timing tools. The recent short-term advance has resulted in a slightly overbought McClellan, and a short-term pullback again seems possible. Breadth as measured by the daily FBO (p.10) has continued to weaken over the last few weeks, suggesting that breadth is narrowing more. These sorts of readings suggest more market weakness, but this is actually an inconclusive chart at this time.

Market Review: Sentiment – Put/Call Ratio



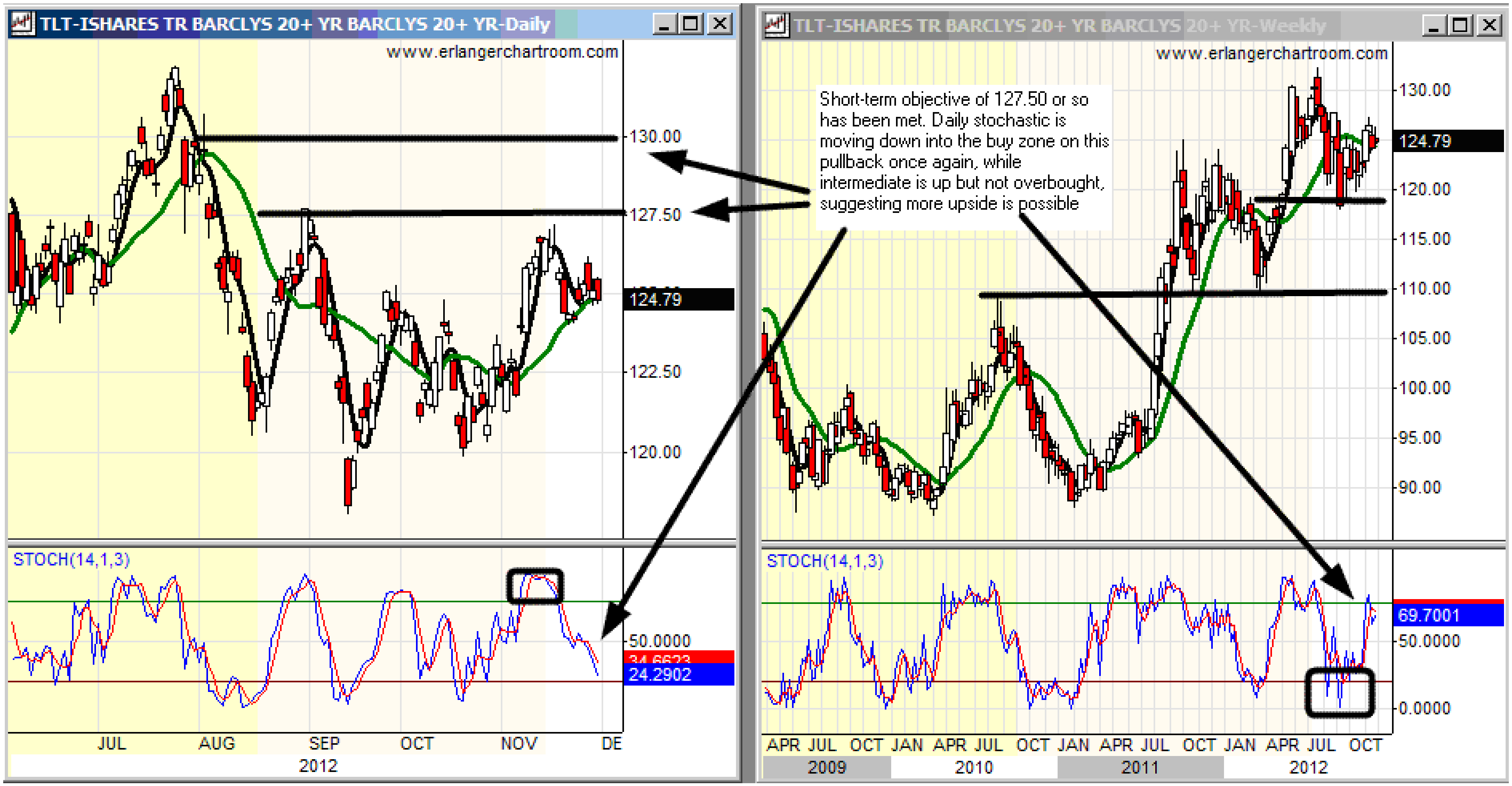
<u>The Put/Call ratio is weak given recent market action</u>: Sentiment indicators are "condition" indicators for us and not timing tools. Put/Call is more of a short-term indicator. In September, this indicator moved into sell territory and rebounded to overbought in November. The recent drop here in November is a concern as it indicates complacency as the market has corrected from the highs. Overall, this indicator continues to suggest complacency, and we rate it negative.

Market Review: Sentiment – Investors Intelligence % Bears Indicator (moving averages)



Investor's Intelligence %Bears indicator has flattened out: In addition, **we note that due to Hurricane Sandy there are several weeks where no polling took place.** The current reading is 26%, virtually unchanged since the last report, and continues as flat as we have ever seen this indicator over time. The contrast with put/call is interesting – that indicator is short-term, while this is intermediate-term in nature. When combined with other indicators, sentiment suggests a "bobbing cork" kind of market, with a sharp drop at the end of this corrective phase.

Other Markets: Bonds – TLT – iShares Barclays 20+ Year Treasury Bond

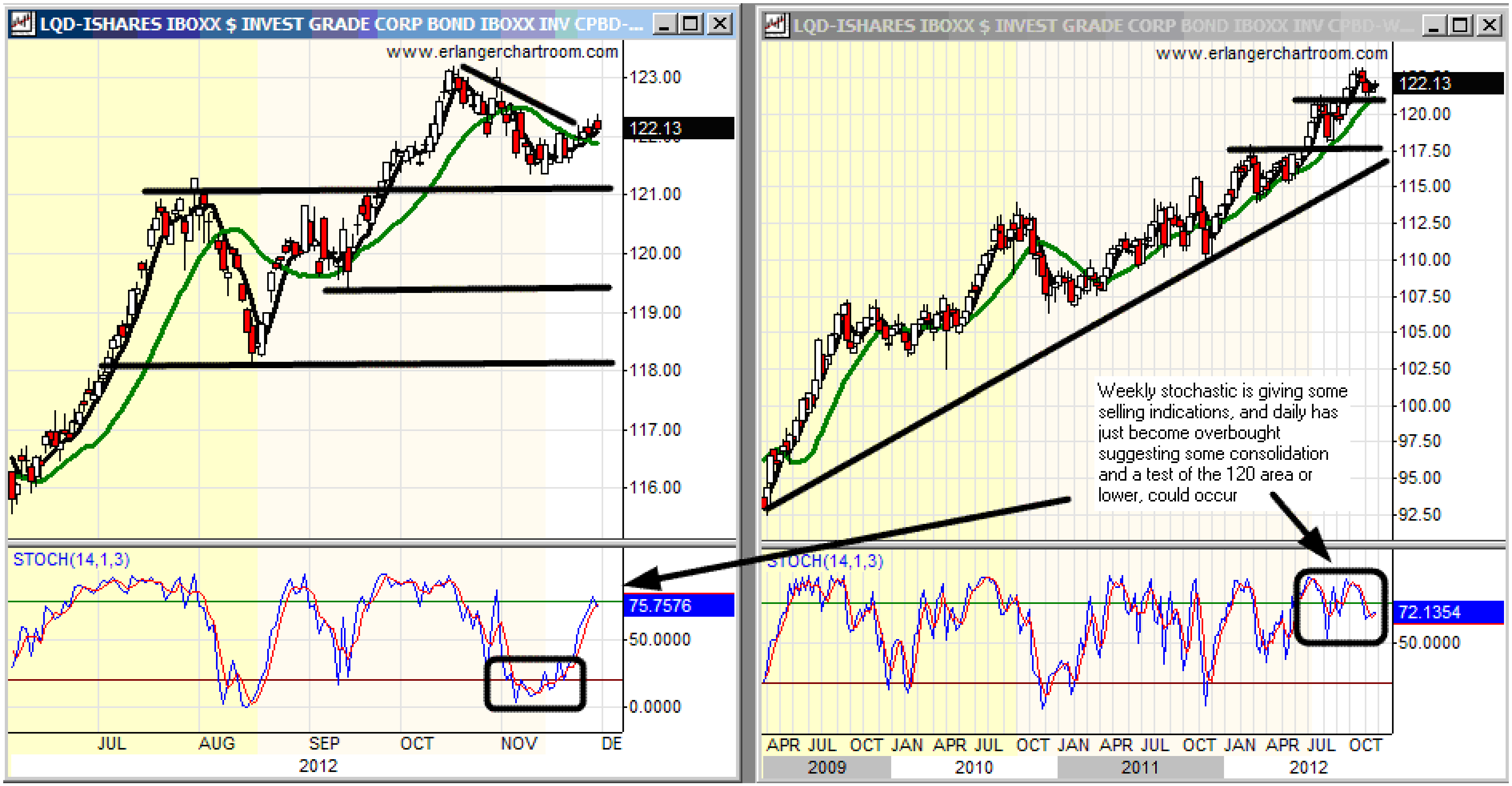


<u>The TLT has tested the 127.50 area trading objective</u>: The TLT held 118 area major support, and has rallied to trading targets in the 127 area. Monthly indicators have improved, and look like they have more to go on the upside before a new monthly sell signal. TLT has remained above 120, so the short-term is up, and the intermediate trend remains positive as long as TLT remains above 118. We continue to expect TLT to advance over the next few months, but caution advisors this could be the last significant advance for a while.

Other Markets: Bonds – BWX – SPDR Barclays Capital Intl Treasury Bond

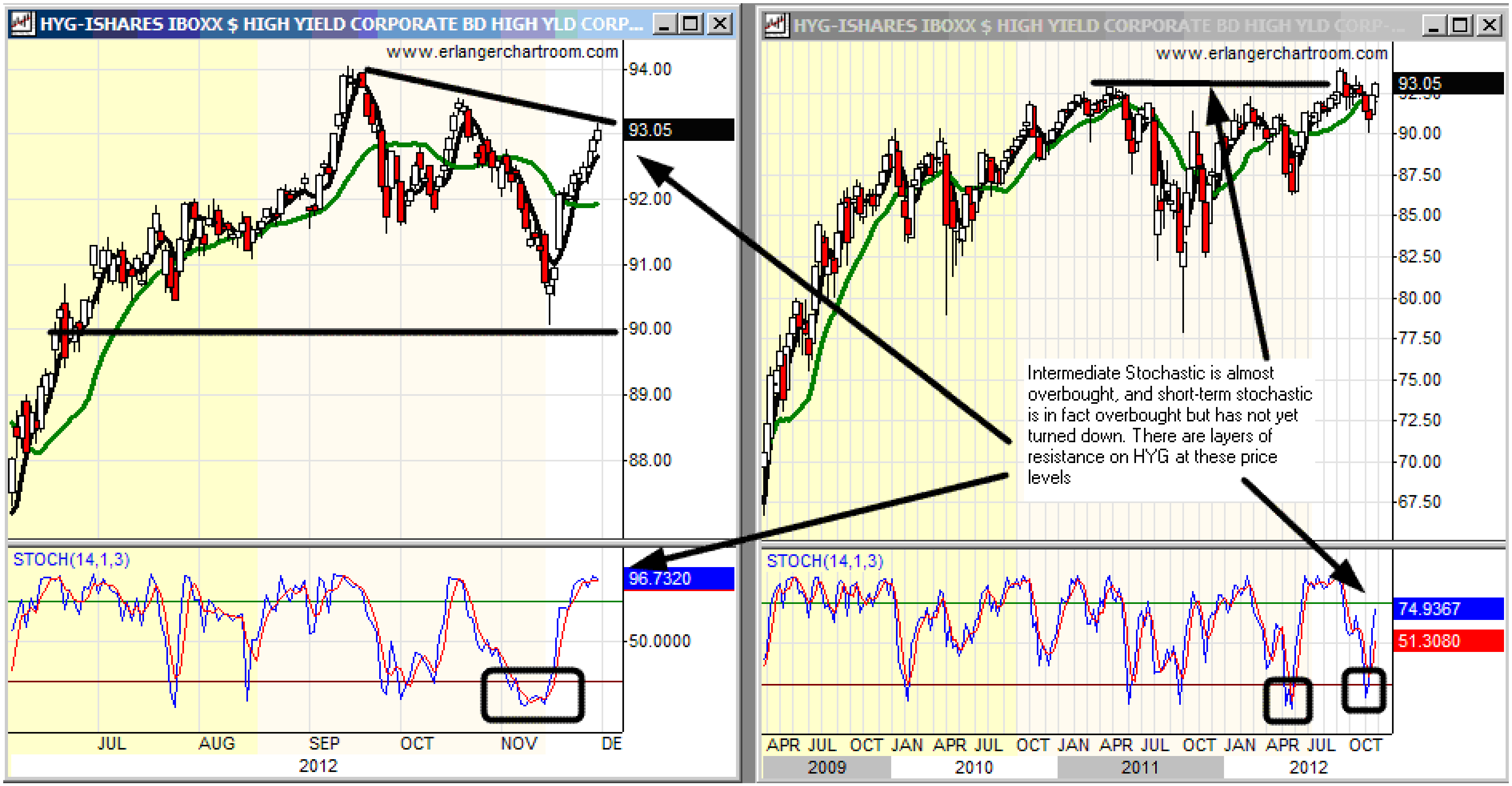
<u>The BWX has given some selling indications</u>: Currently this ETF is volatile and changes in the Euro impact price. The intermediate-term chart remains positive as the 57 area support has held, but a break of this on extreme Euro weakness would be a concern. BWX is acting a bit weaker than expected – we thought a test of 62 – 63 should occur on this last buy signal. Now this appears overbought, suggesting a 57 to 61 range may hold into yearend 2012.

Other Markets: Bonds – LQD – iShares iBoxx $ Invest Grade Corp Bond



The Corporate Bond ETF is long-term up, but has tested upside objectives: LQD remains intermediate-term up and has been our preferred bond investment over the last year. The recent advance in LQD has exceeded short-term price objectives, but this chart still has more potential than TLT intermediate-term. Short-term, however, this may consolidate while TLT continues to rally. If this is the case, there will likely be a strong buying opportunity in LQD in 2013. Traders should consider selling some LQD now, and adding it back after a correction.

Other Markets: Bonds – HYG – iShares iBoxx $ High Yield Corp Bond



<u>The High Yield Bond ETF continues to move with stocks and not bonds</u>: HYG has weakened a bit short-term, and is lagging bonds intermediate-term. HYG will do substantially worse than TLT and LQD in the event of economic slowing. This has started to weaken, and the failure to exceed the September highs suggests the trend could be turning down intermediate-term. Should the economy weaken, PHB (not shown) will likely outperform HYG and JNK, suggesting a potential swap.

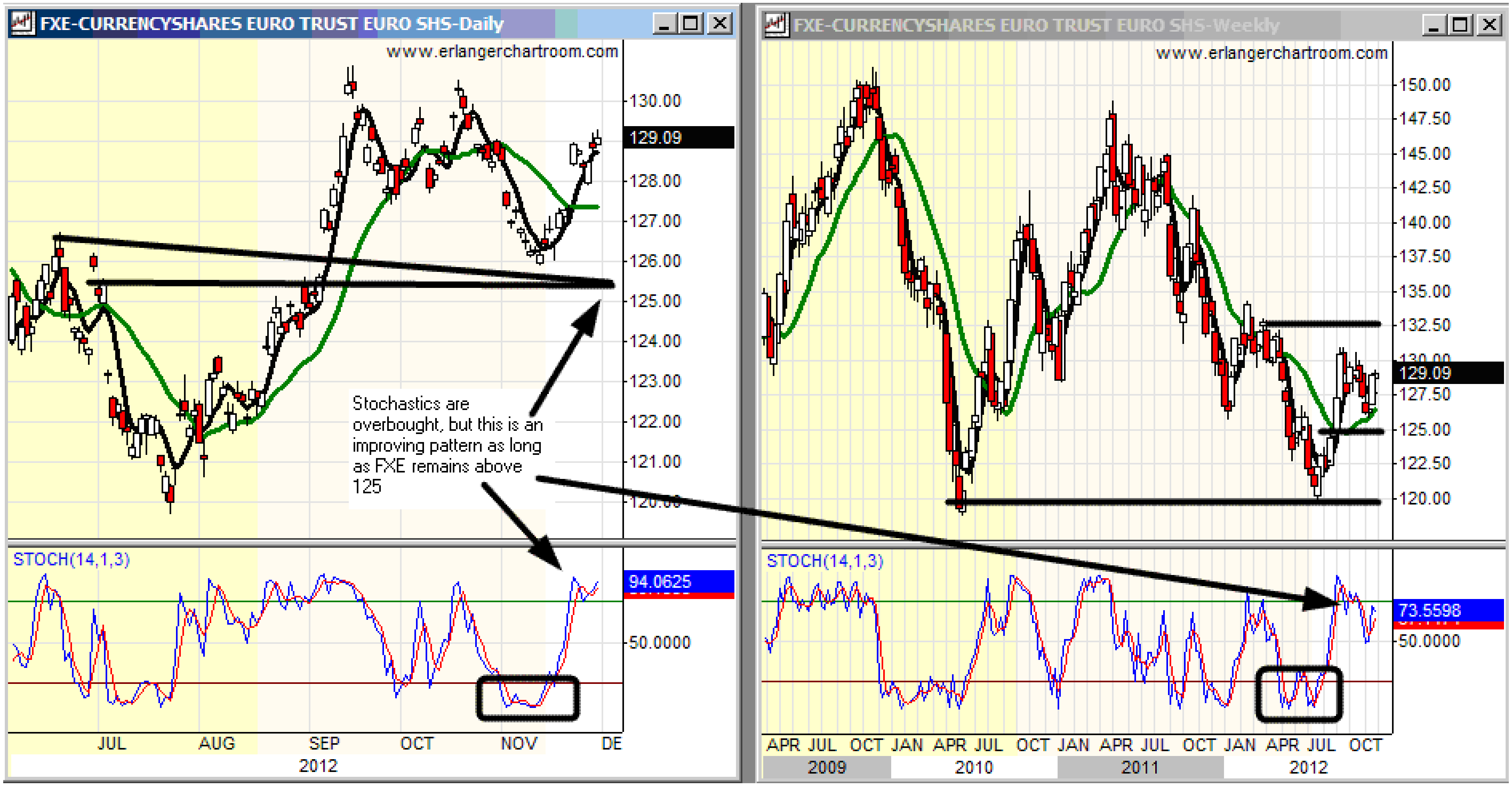
Other Markets: International – EEM – iShares: MSCI Emerging Markets

<u>The EEM continues to have a risky intermediate pattern:</u> The short-term pattern continues to improve. We note that if this were trading in line with the US it would be comfortably above the 45 resistance. Furthermore, a move below 35 could complete a topping pattern which could lead to a test of the mid 20's. We continue to have concerns, but individual components are improving. This pattern remains vulnerable unless it moves above 45, but EEM's accumulation model continues to improve, suggesting upside resolution of this pattern could occur in 2013.

Other Markets: International – EFA – iShares: MSCI EAFE Index

<u>The EFA continues to under-perform the US and is trading at short-term resistance</u>: This ETF continues to underperform the U.S. EFA has looked weaker than SPY in 2012. However, European indexes have been improving slowly since May. Short-term, a break of 51 would be a concern. However this chart is improving and these markets could be strong in 2013. Accumulation models continue to improve. Our favorite individual component is still EWL (Switzerland – not shown). We favor upside resolution of this pattern.

Other Markets: Currencies – FXE – CurrencyShares Euro Trust

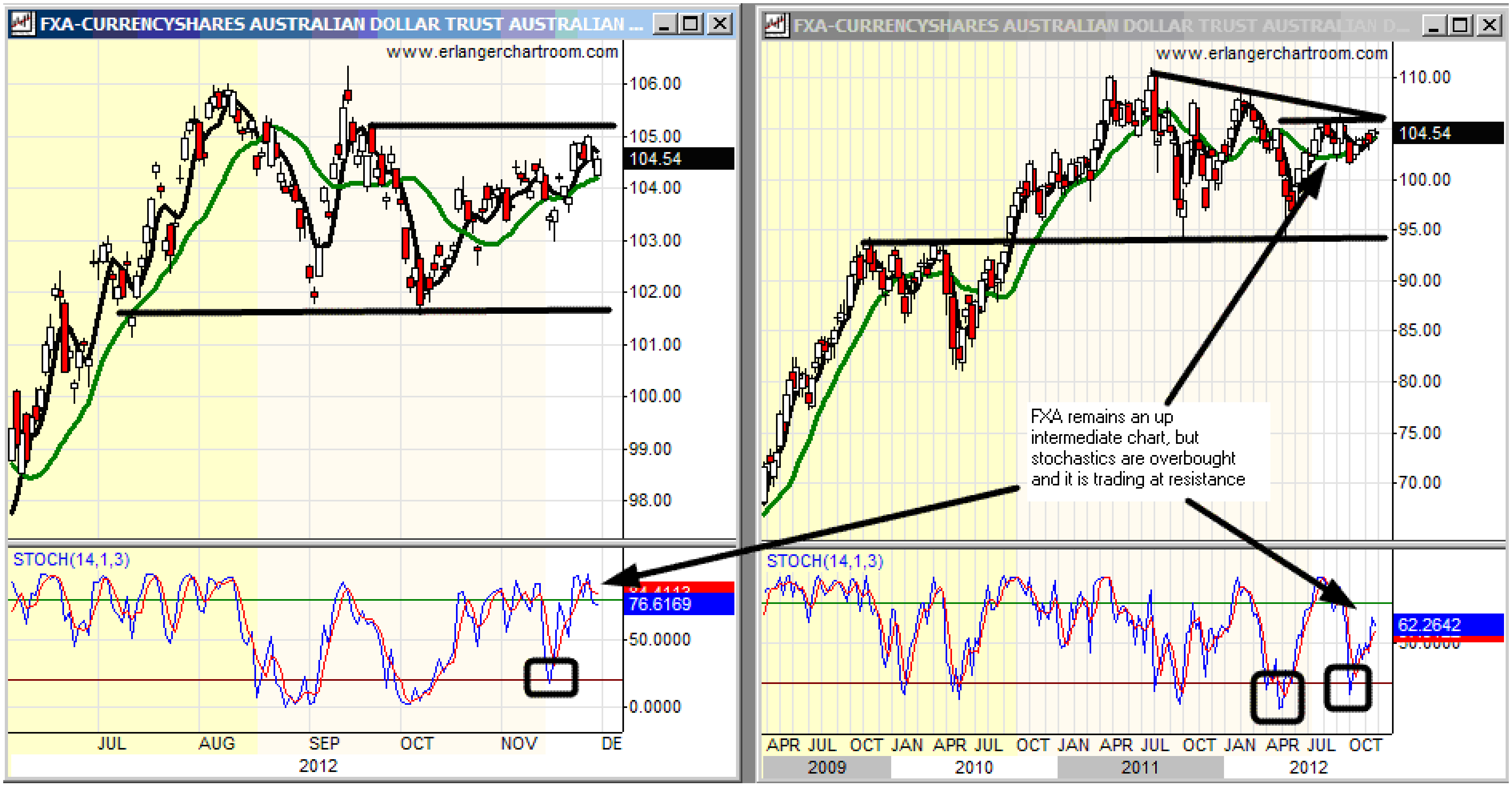


The Euro ETF is failing in the 130 resistance area: The FXE has tested support, and given a "divergence bottom" signal, which suggests a rally, followed by lower price lows and higher lows in momentum. Resistance has been tested, and has held so far. A test of the 126 area looks likely, and should this break a test of long-term support at 120 seems likely. Should FXE break below 120 a test of the 114 area is possible and this could impact world equity markets unfavorably.

Other Markets: Currencies – FXY – CurrencyShares Japanese Yen Trust

<u>The Japanese Yen ETF broke down and has failed on the retest of 126 resistance</u>: FXY rallied to test the 126 – 127 area resistance and has failed. This market is below our first downside objective of 120 and could test 117.50. This is likely to be good for Japanese equities, and contribute to dollar strength intermediate-term, even if FXE weakens. A break of 115 could target 105, and this is possible. Short-term traders note that a sharp, quick rally could occur here, before FXY breaks down, which would lead to a drop in the dollar as well (see p.25).

Other Markets: Currencies – FXA – CurrencyShares Australian Dollar Trust

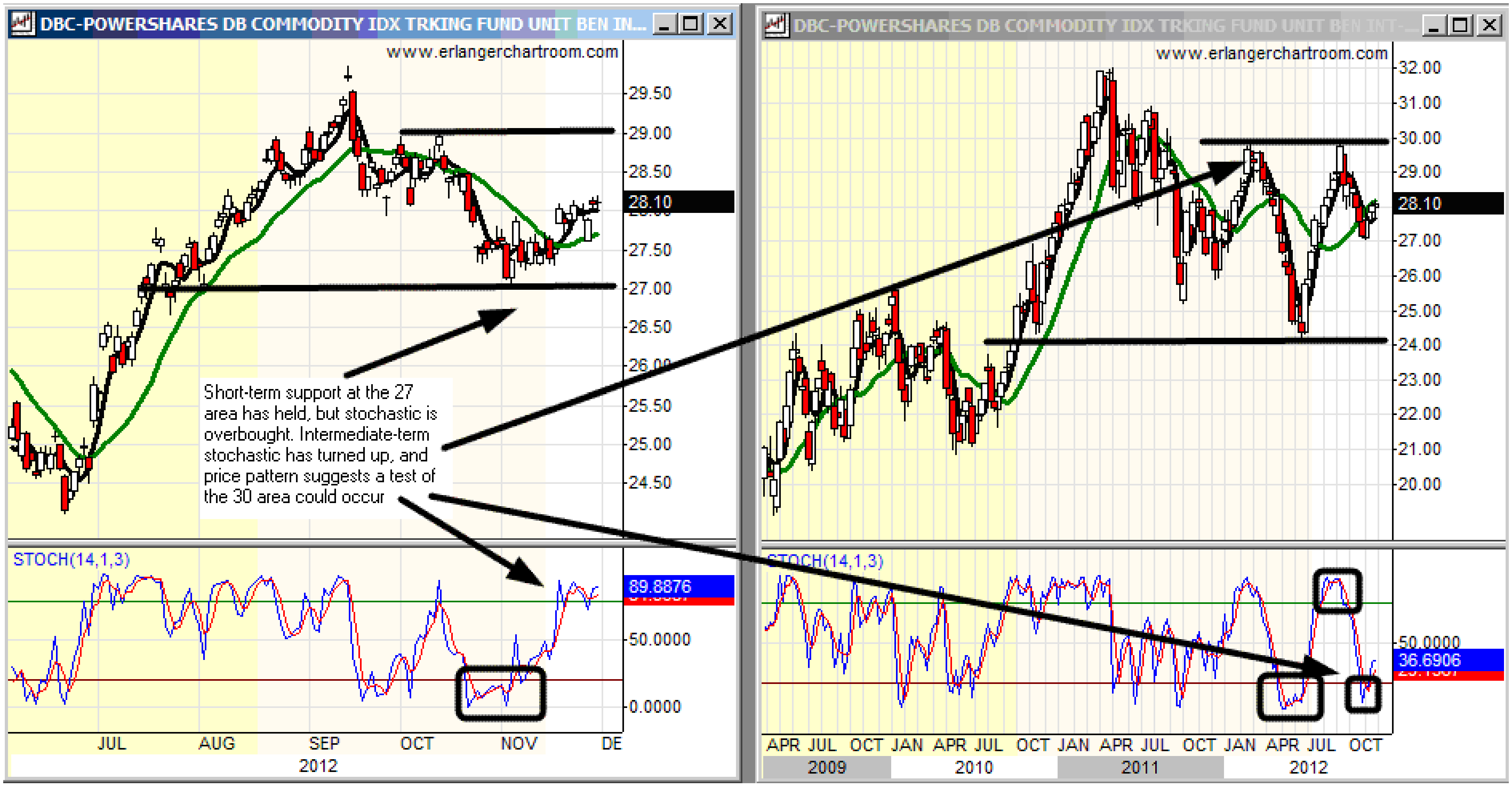


<u>The Aussie Dollar has rallied to test 105 area resistance:</u> This currency is part of one of our longer-term themes, which is that commodity inflation is alive and well. This currency trades with gold and our 5-month price objective for gold is 184 on GLD (see p.27). FXA has held support at 95 even as gold has tested, and held support. Gold is consolidating short-term, but it is not at all clear how long this will last. Short-term support is now 102.00, as drawn, and a move above the 106 area would target the 110 area highs, or possibly higher. This is an intermediate wedge formation, suggesting a large move is coming, but continued consolidation is likely for now.

Other Markets: Currencies – DXY – US Dollar Index

<u>The Dollar achieved our 83.50 intermediate objective, and held long-term support in the 79 area</u>: The dollar index has started the short-term rally suggested last month. We still have long-term objectives of 85 - 86, which should be met in 2013. Short-term Indicators are oversold once again and price is holding 80, and weekly stochastic is still up, suggesting further rally is possible. Accumulation models remain stronger than price action, a plus. We note 81 – 82 area a short-term resistance, as drawn. A sharp drop could occur on Yen weakness (p. 23).

Other Markets: Commodities – DBC – PowerShares DB Commodity Index



<u>The DBC commodity index has failed at intermediate resistance as drawn:</u> There are layers of resistance in the 30 area (our previous short-term objective) and this has held. Many of the components of DBC have moved into seasonal lows, and DBC could rally towards 30 once again. Last month, we indicated a pullback that holds the 27.50 to 27 area was expected and this has occurred. The recent consolidation has held the 27 – 26 area and looks to have set up a fall advance in DBC. NOTE: DBC also has a very favorable monthly chart.

Other Markets: Commodities – GLD – SPDR Gold Shares

<u>The Gold Market continues to consolidate:</u> Last month, we indicated that Gold remains one of our favorite long-term investments, and as long as GLD remains above 162 it has formed a bottom intermediate-term. Current consolidation is reasonably strong, but one more sharp drop is not out of the question. Continued consolidation in this area is likely, and if this occurs as the weekly stochastic continues to move down to 20 or so, our 4-month objective of 184 remains achievable. Add to GLD when the weekly stochastic gives buying indications.

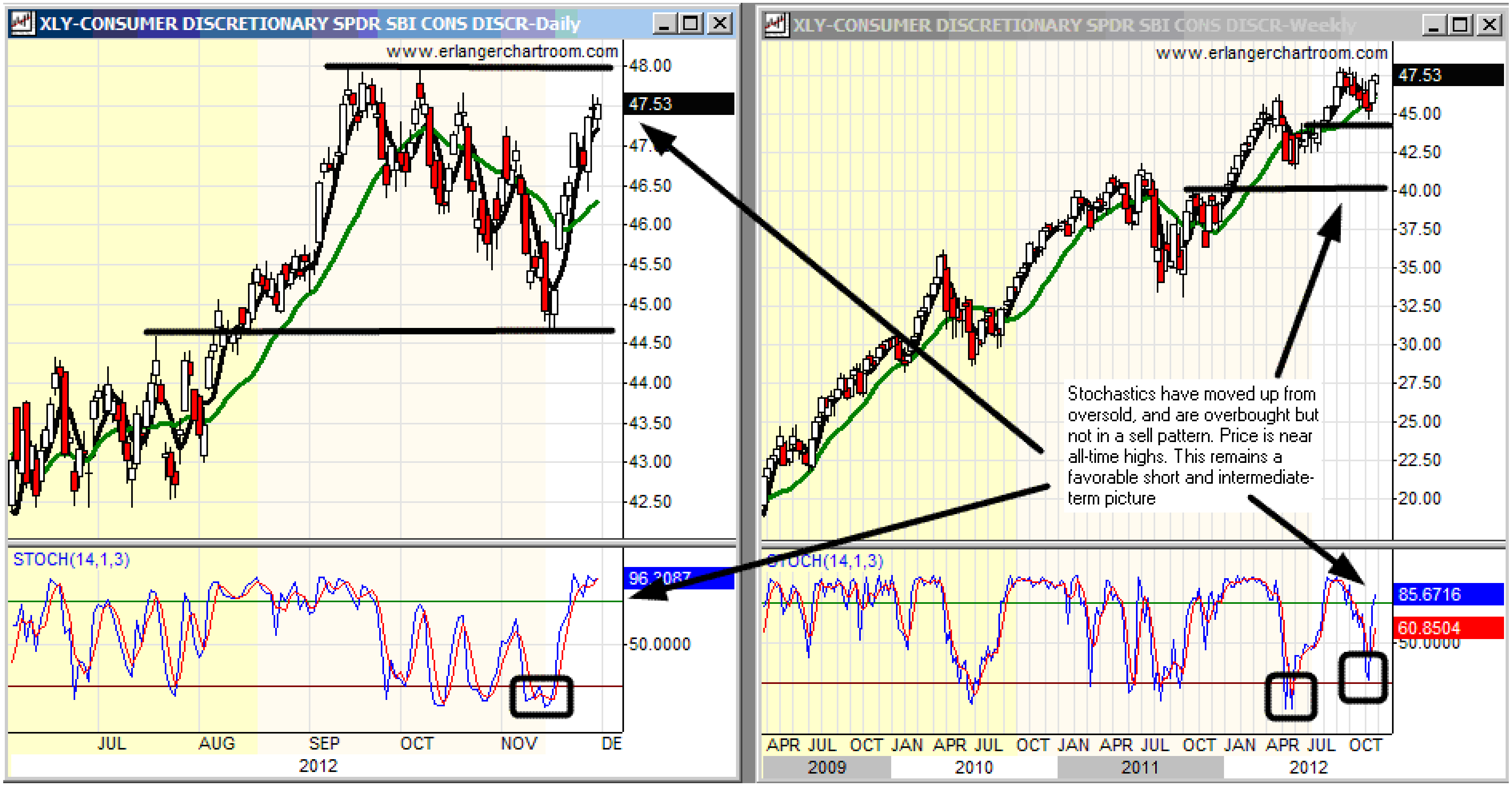
Other Markets: Commodities – USO – United States Oil

<u>Crude Oil has favorable seasonality and weekly stochastic is turning up:</u> Oil had a seasonal rally from June through August, but it was been weaker in 2012. Price failed at 36 area resistance and has fallen sharply. Favorable seasonality has produced weaker rallies this year, so some caution is indicated. The next favorable seasonality is now through (surprise!) the winter months. Weekly stochastic is moving up above 20, supporting a seasonal rally, but it may be weaker this year. Use risk management, but a test of 35 or so looks likely.

Other Markets: Commodities – UNG – United States Natural Gas

The UNG has both intermediate and short-term bottoming signs: We note here that **there have been issues surrounding the viability of the UNG due to contango.** We use it here simply because many advisors have no other way to get quotes on Natural Gas and suggest readers check with their compliance departments regarding this. UNG has tested and exceeded our short-term target of 22 or so, a strong bottoming sign. We would look to buy on a pullback that gets the weekly stochastic to the 20 area.

ETF Sector Charts: Consumer Discretionary (XLY)

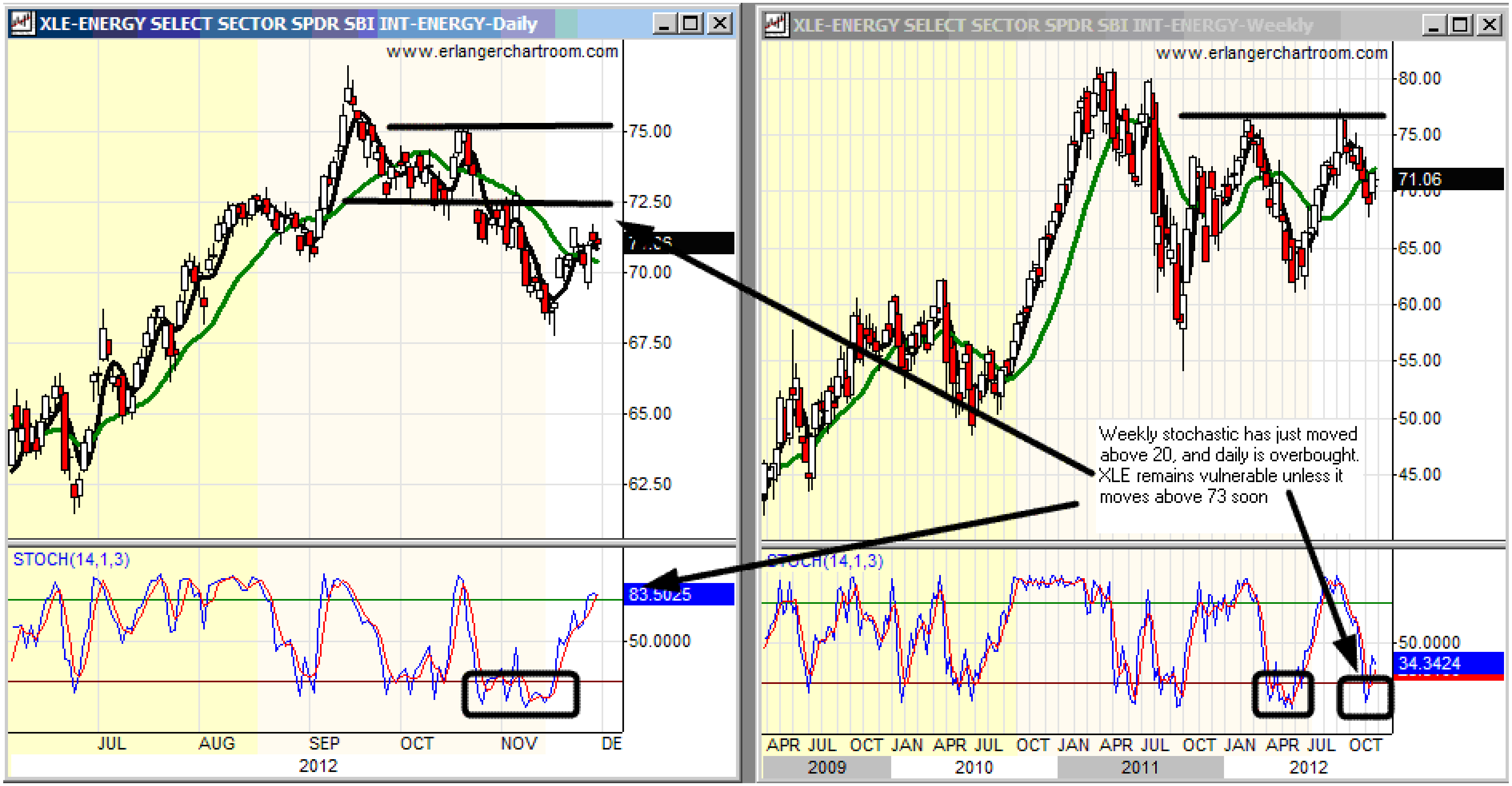


<u>Consumer Discretionary had been one of our top sectors since January of 2009, and has performed well in the recent correction:</u> This sector remains long-term positive, and has improved since August. Accumulation models on XLY weakened dramatically early in 2012, but are improving now, and stocks in this sector remain positive. Should economic indicators worsen, this sector could weaken significantly. A break of 45, then 42, as drawn, would be cause for concern. Recent test of 45 area support has been successful. We expect this to be a leading sector in 2013, but it may still be early to buy it now. EQUAL WEIGHT

ETF Sector Charts: Consumer Staples (XLP)

Consumer Staples is our favorite defensive sector, has acted strong in the recent correction: As long as the 33 - 32 area holds, this is a strong picture. The market correction we have forecast for this fall may not be over. The market could exhibit more "bobbing cork" behavior. The stocks in this sector remain positive, and if there are more issues in Europe over the next few months this sector could see strong capital inflows. We continue to expect to swap this for XLY sometime in 2013, but it still seems early now. OVERWEIGHT

ETF Sector Charts: Energy (XLE)



<u>The XLE rallied, and just hit our 75 area price objective before correcting, but is now in a seasonal buy mode:</u> Energy stocks have entered their main seasonally favorable period. Both USO and oil stocks look weaker than they should at this time of year. Note that the weekly stochastics have barely moved above 20 on both USO and XLE (see p.28), and this is a concern. We would expect to see these do better at this time of year. A seasonal rally should retest or exceed the 75 resistance, but unless XLE moves above 72.50 to 73 soon this is a vulnerable picture. EQUAL WEIGHT

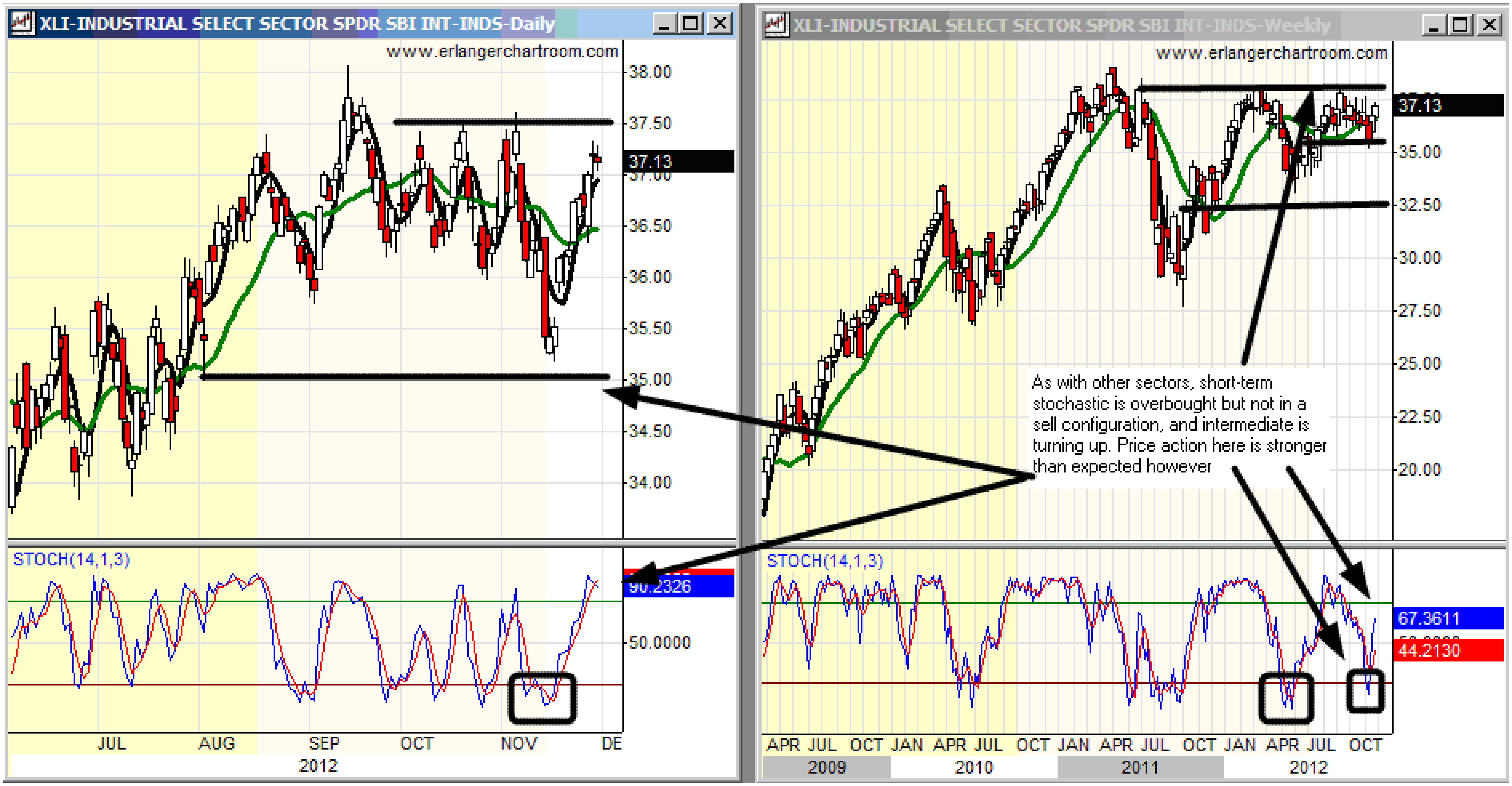
ETF Sector Charts: Financials (XLF)

<u>Financials have held short-term support at 51, but remain intermediate-term weak:</u> Intermediate-term this ETF remains weak relative to other sectors. We moved to an equal weight in the January 2012 Sector Review, and are still more aggressive here than most strategists. More basing action is probably needed before this becomes an "overweight". Accumulation models continue to suggest this could be a leading sector in 2013. Ancillary groups such as housing stocks continue to improve, as we have forecast. The forecast correction is underway, and XLF could lead as this correction ends (we are not certain it is over!). EQUAL WEIGHT

ETF Sector Charts: Health Care (XLV)

<u>**Health Care continues to trade well but has been weaker on this rebound rally than XLP and XLY:**</u> XLV is outperforming the SPY and has traded at all-time highs. Our accumulation model is weakening a bit, and the forecast correction is under way. As forecast, XLV traded at all-time highs after the Supreme Court ruling. We did well with this sector, but downgraded it to an equal weighting in the August Sector Review to take some profits. We suggested advisors do this slowly, and this selling should be complete by now. This is a defensive sector and could weaken in 2013. For now is remains a strong equal weight, albeit with recent signs of weakness. EQUAL WEIGHT

ETF Sector Charts: Industrial (XLI)



Industrials have corrected less than other sectors so far this fall: Our accumulation model has continued to weaken, however. This sector has been forecasting economic weakness. XLI remains a weak equal weight unless it moves above the 38 area soon. The fall weakness we forecast is underway and this could continue, in a choppy way, into early part of 2013. Below 36, then 35 would suggest more weakness is underway. XLI is acting better than expected, and could do well in the second half of 2013. EQUAL WEIGHT

ETF Sector Charts: Materials (XLB)

XLB has weakened this fall: This sector is economically sensitive and has been suggesting a slowing economy for several months. This sector continues to look worse than any of the economically sensitive sectors, with lower highs than 2011. While there was some improvement - both in the price chart and our accumulation model - in September, we remain concerned and so far this is weakening as the market corrects, and was weaker than most of the other sectors, except for utilities. UNDERWEIGHT

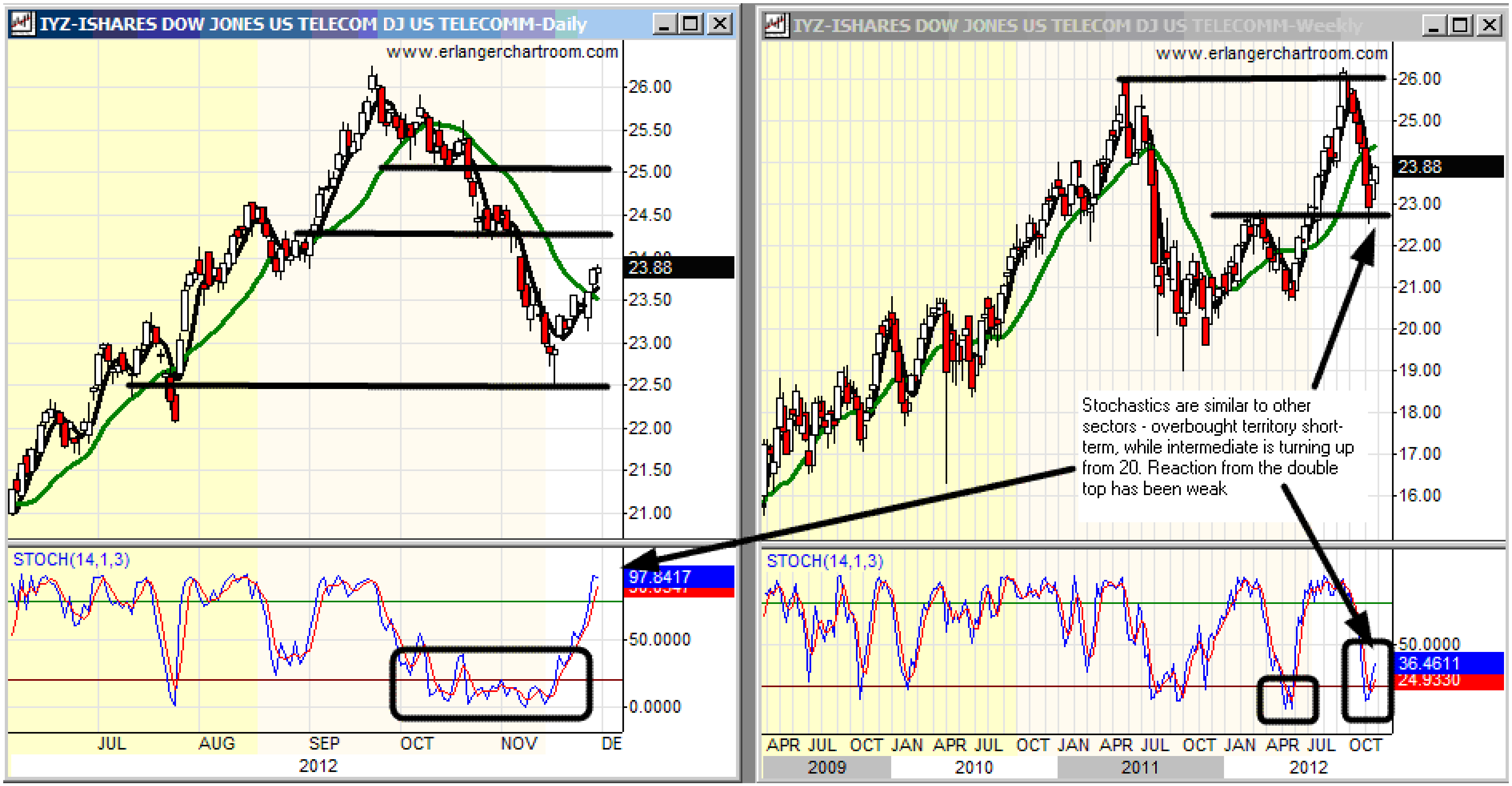
ETF Sector Charts: Utilities (XLU)

Utilities have weakened more than most other sectors, and a break of 32.50 would be a problem: The 2008 breakdown point resistance is at 37.50, and was finally exceeded although XLU is below this once again. While this has been a strong sector over the last two years, longer-term this has been weak, as evidenced by the fact that the 2008 breakdown area was retested for the first time in 2012. Strong sectors exceeded this area in 2010 or 2011. Caution is indicated. EQUAL WEIGHT

ETF Sector Charts: Technology (IYW)

<u>Technology has broken down intermediate-term, and short-term as well:</u> This was one of the strongest sectors long-term but recent weakness has been dramatic and IYW has failed at the double top noted in October's Sector Review. The short-term break below 72.50 suggested the 65 area, which has been tested. Leadership stocks in this sector are having difficulties, and this could position Tech for further weakness through the balance of 2012. This is everyone's favorite so there could be big problems if the market corrects further. EQUAL WEIGHT

ETF Sector Charts: Telecom (IYZ)



<u>Telecom also has a double top in place:</u> The recent correction eliminated the entire "summer rally" gain for IYZ. This is normally a defensive sector and has stocks with good yields. We have noted a move in the markets from "income and safety" and toward "income plus growth potential", and IYZ benefits under these conditions, while XLU does not. If the economy slows into 2013, this sector may outperform. So far, IYZ is better than XLU and we expect this to continue in 2013. EQUAL WEIGHT

Research Piece: The "Bucket List" Portfolio

In this piece we will introduce our "Bucket List" portfolio. This portfolio is designed to take the overall sections of *The FRED Report* weekly report and list some ideas advisors can use by category. We will have 5 categories:

1. Stocks
2. Fixed Income
3. Commodities
4. International
5. Chart of Interest or Areas of Interest

In the chart of interest section we normally provide a quick review of something interesting. The portfolio model will translate Chart of Interest into an "Areas of Interest" section, which we can use to add weight to one of the other sections, or cash equivalents or something new and different. We will have a maximum of 25 units in this portfolio, allocating 5 units to each category. In the event that we do not have five separate and discrete units in a section, we will take that cash and add it equally to the remainder in that section.

We will launch this portfolio with the following positions:

Bucket # 1: Stocks (5 Units)	
PRFZ	PowerShares FTSE RAFI US 1500 Small-Mid
SPY	SPDR S&P 500
MDY	SPDR S&P MidCap 400
SPLV	PowerShares S&P 500 Low Volatility
IYZ	iShares Dow Jones US Telecom

Bucket #2: Fixed Income (5 Units)	
BKLN	PowerShares Senior Loan Port
LQD	iShares iBoxx $ Invest Grade Corp Bond
TIP	iShares Barclays TIPS Bond
PGX	PowerShares Preferred
PCY	PowerShares Emerging Mkts Sovereign Debt

Bucket # 3: cOMMODITIES (5 Units)	
DBC	PowerShares DB Commodity Index Tracking
IAU	iShares Gold Trust
UHN	United States Diesel-Heating Oil
JJC	iPath DJ-UBS Copper TR Sub-Idx ETN
NIB	iPath DJ-UBS Cocoa TR Sub-Idx ETN

Bucket # 4: International (5 Units)	
EWL	iShares MSCI Switzerland Index
EWH	iShares MSCI Hong Kong Index
EWW	iShares MSCI Mexico Investable Mkt Idx
GXG	Global X FTSE Colombia 20 ETF
PIN	PowerShares India

Bucket # 5: Areas of Interest (5 Units)	
BKLN	PowerShares Senior Loan Port
FXI	iShares FTSE China 25 Index Fund
FXF	CurrencyShares Swiss Franc Trust
VXUS	Vanguard Total Intl Stock Idx ETF
EWJ	iShares MSCI Japan Index

We wanted to get the Bucket List out before the end of the year, but do caution advisors that there could be a period high sector rotation next year, and so we would not over commit to any one area of the markets.

Below is a listing and definition of various proprietary and non-proprietary technical indicators we rely on during our analysis of the markets:

Moving Averages:

Moving averages are one of the building blocks of Technical Analysis, and there are almost as many ways to use this indicator as there are technicians.

At the FRED report we teach and use a dual moving average crossover system to determine trend. Our favorites are the 5 period and 20 period moving averages. We consider the trend to be up if the 5 is above the 20, and down if below it.

Stochastics:

The Stochastic Oscillator is one of the commonly used momentum oscillators and is standard on charting programs. There are two lines on the chart below, %K and %D.

%K is the faster of the two lines, and represents a mathematical formula that *measures where the current close is in relation to the trading range of the last "X" periods of time*. We use a 14 period look-back, so in plain English %K says where the current close is in the trading range of the last 14 days, expressed as a %.

At the FRED report we use it somewhat differently than is commonly taught. The standard way to use the indicator is to register a buy signal when it moves below, and then above, 20 (the lowest 20% of closing prices in the last 14 days). A sell signal is when the indicator moves above, and then below 80 (the highest 80% of closes over the last 14 days).

The other line, %D, is a 3 period moving average of %K. We have found that the Stochastic is sensitive, so we advocate taking signals only in the direction of the trend. When looking at the standard FRED report chart, this would mean taking buy signals when the 5 is above the 20, and sell signals when the 5 is below the 20, but using a different technique to exit positions. The reason for this is the Stochastic is quite sensitive, and can give early indications, especially in new trends. It also can get "stuck" in the direction of trends, which connotes strength and not weakness. Another, preferred interpretation is to use the indicator to measure risk. An example: buy in an uptrend, not when the stochastic is at 90% but rather wait until it falls below 50%, This way, even if a stock, commodity, or ETF does not give one of the "classic" signals, you can still use the indicator to assess risk, and leg into positions.

Fred's Price Oscillator (FPO):

This is an oscillator that I invented, using a combination of high, low and closing prices. Unlike the Stochastic, which is really sensitive, this indicator is designed to be less sensitive. Other than that it is, of course, proprietary, so we do not disclose much about the construction of the indicator. One of the characteristics of the tool is that when the Oscillator moves below/above -15/15 the market often creates a divergence. For those of you who do not know that term it means that price will make a new low/high and the oscillator will not confirm it. That is usually the sign of a turn. On really sharp strong market moves, a couple of these divergences can occur. We use weekly data in our examples for you, as we have that data going back to the 1970's on the SPX, and farther on the Dow Industrials, which work the same way. We would note that we keep FPO's on the commodities, but rarely publish these, as most subscribers are interested in stocks. Like most oscillators it is most useful at bottoms, so our examples show bottoms. We can, and will, show some analysis of tops as they occur.

Fred's Breadth Oscillator (FBO):

This is an Oscillator that I invented. Unlike the McClellan Oscillator, which is sensitive and gives a lot of signals, this tool is more of a trend following indicator. It is proprietary to the FRED report, so we do not disclose much about the construction of the tool. It generally moves between 12 and 18. Moves below 12 or above 18 imply a divergence bottom or top is coming with fairly high probability. This tool works best at extremes, and patterns can be significant. It also gives clearer signals at bottoms than tops, although when tops are perceived to be occurring we will publish these charts, appropriately annotated. The FBO is only useful on the stock market, where advance/decline data is published.

The FRED Report – Got FRED?

The FRED Report is a unique independent research service designed primarily for Financial Advisor Teams and small institutions. There are four levels of service built in layers, described below.

The Newsletter Service, our basic service, consists of the basic reports. These are:

- –The Weekly Report, six pages discussing Stocks, Bonds, Commodities, International, and a Chart of Interest, published Monday morning.
- –A Midweek Update, which is generally two pages, updating the weekly report, published Wednesday.
- –The Monthly Review, which is a comprehensive review of all of the markets we cover, plus a research piece. It is generally forty pages.
- –FRED Alerts, or quick updates, in fast market conditions.

COST: $30/Month or $360/year, payable by credit card, or check for annual only.

The Conference Call Service consists of the Newsletter service PLUS:

- –A Thursday morning conference call where advisors and managers from all over the world participate. This is a live call where stocks are discussed, and all questions are answered in real time. A replay is available.
- –A comprehensive Sector Review where the 10 GICS Sectors are discussed and stocks in each sector discussed.
- –There is some idea generation with equities and ETFs.
- –There is limited consultation via phone and email also attached to this service.

COST: $80/month or $768/year, payable via credit card, or check for annual only. Depending on workload, we reserve the right to limit subscriptions to a certain manageable number.

The Institutional Level: Consists of Newsletter and Conference call services PLUS:

- –A chart analysis of the portfolio once per month,
- –A conference call for your institution,
- –Consultation via phone and email.

We will limit subscriptions to a certain manageable number: COST: $300/month.

The Premium Level: Consists of the Institutional level PLUS:

- –Unlimited access and consultation – we even work weekends! We will limit this to 10 clients. We take this level of client only if the work interests us.

COST: $1,000/month. Quarterly billing and soft dollar payment can be arranged for Institutional and Premium Levels of Service.

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