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VOLUME 61, PART 3

Mike Stathis'

INTELLIGENT INVESTOR

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INSIDE THIS ISSUE:

OPENING STATEMENT

Two months ago, we prompted readers to what we believed would be a period of potential downside in the stock market in coming weeks/months.

Although this potential downside was significant enough to mention, we did not feel it would be large. More important, we did not feel this potential sell off would cause the bull market to end. This was the key take away. Thus, our guidance was to use the sell off as a buying opportunity. But we did provide some recommendations for readers to utilize based on their own situation, such as selective selling or trimming of certain securities.

The only caveat that made this warning a bit different than those over the past year was that this time we preferred to wait to see by how much and under what circumstances this potential sell off materialized prior to reentering.

As it turned out, we nailed the initial selloff down to 16,000. This selloff represented our highest degree of confidence. We also mentioned that below 16,000 the market could fall to the 15,500 region but this would depend on a variety of variables. Since then the market has rallied off of the 16,000 support and has remained strong.

Fortunately, in the May issue we advised readers to get back into many of the securities that had sold off. This recommendation coincided with the approximate mid-point of the rally from 16,000.

We also stated that we would recommend reentering previously sold positions (generally speaking) only if you planned to make short or intermediate-term trades. This recommendation did not include the one security that has remained in a strong bearish trend (AEO) and was thus destined to continue to decline. We nonetheless provided trading guidance for this bearish security for risk averse investors.

As it turned out, our securities and market guidance from the April and May issues have been a huge success, as illustrated in this issue.

For some readers who opted NOT to reenter because they did not feel they would be making short to intermediate-term trades, we advised to wait for more downside in the May issue.

Many of the securities we cover in this publication did in fact decline ever since the May issue was released although some have not. Thus, irrespective of each reader's risk tolerance, activity level or anything else that remains impossible for us to factor into our analysis, we feel we provided some noteworthy guidance for a variety of different investor types.

Make no mistake. This is an extremely difficult task to accomplish because one must first be correct about the market sell off. One must also be correct about how the sell off will affect each security. One must then be able to design a level of precision for different scenarios. Obtaining such an analysis is unheard of from a publication, much less a monthly publication.

Keep in mind we also reminded readers of the need to reenter positions if in fact they sold and the market (or securities) moved against them. Fortunately, many of the securities in this publication (with rare exception) offered more downside and did not rally until heading lower, enabling less active investors to reenter their positions.

At the end of the day, regardless whether you are risk tolerant or risk averse, a very experienced or moderately experienced investor, readers should almost never exclusively utilize one component of our recommendations and apply it as an investment strategy to all securities because each security is different and each investor has different considerations to make.

In other words, if we discuss the strong possibility of a large market downturn, readers should not sell everything without a consideration of each security position. They must also adjust our guidance for their own risk profile, skill level, investment objectives and other factors that are impossible for us to know when designing our recommendations. There will always be additional variables for each reader to consider such as tax liability, risk tolerance, and so forth.

In the last issue we discussed our view that we felt the market would remain in a trading range for the time being (16,000 to 16,650). We stated that the Dow could make new highs, but we did not feel this would be a persistent trend for now due to the various layers of uncertainty that remain. A good part of this assumption was reliant upon what happened with China. In brief, the economic data from China has been modestly improving, but we do not feel China is out of the woods yet.

Thus far our market forecast has been very accurate even without considering some of the most influential variables. Once we factor in these variables, we feel the market forecasting and securities guidance provided in this publication has been extremely accurate. We hope you agree because that means we are all on the same page.

Everything else aside, it is important to remember that earnings remain strong and interest rates remain very low. Although recent earnings growth has been somewhat soft, this was largely expected as you will recall.

Based on current market strength, it appears that investors are brushing aside current weakness and looking to the second half of 2014 for higher earnings estimates. In addition, some modestly optimistic economic data from China has most likely added to the market strength.