

# Strategic Investing

Fred Richards

AAII – Las Vegas

November 11, 2011

# Disclaimer

The content of this presentation is for the edification of the audience and has not been endorsed, nor approved of, by any of the persons, companies, nor websites mentioned herein, or during the course of this presentation.

The author and/or speaker has attempted to verify all information but does not take any responsibility for any action which a member of any audience (both in person or in a subsequent venue) makes of the information which is presented herein.

Results obtained in prior years are no guarantee of results either this year or in the future.

**You and you alone are responsible for any decisions you make based upon the information obtained during the course of this presentation.**

Fred Richards.

# Acknowledgements

- We gratefully acknowledge the data provided by various sources in this presentation and have identified on each chart the source from which the charts were obtained.
- Special thanks to Market News International and Haver Analytics.
- Current Agriculture data courtesy of ProFarmer.com.

# What's your investment goal?



15-09805R8 [RF] © www.visualphoto8.com

# Are you elephant hunting?





## **OR are you seeking bugs and fleas?**

The answer determines your long-run investment success

# The confusion inspired by hope!



# Strategic Investing's Mission Statement

- Focus on stocks with increasing revenues and profits.
- Seek Competitive walls or “Moats”
- Is the company an innovator?
- Where do you rank the Management?
- Do they have a meaningful stake in the company?



# Success requires understanding:

- Major trends in economics that can affect markets
- Asset allocation timing strategies
- Political realities
- Demographics
- The concept of momentum in trading
- The requirement for due diligence before investing
- The need for a disciplined approach to stocks
- An appreciation for innovation that will affect the future

# Does it have potential?

- Radio/TV/Radar/Sonar
- Transportation
- Medicine/Fitness/Geriatrics/Long term care
- Productivity – Xerox – Wal-Mart - Amazon
- Food – McDonald’s
- **Biotech – Nanotechnology – Fusion power**

**There's always  
Opportunity!**

# Brief History of Dad's & Mine

- Richards Electro Fence
- Aluminum strips for windows
- Various types of electronic switches
- Carter Phone / ATT / Western Electric
- Rolling suitcases
- ECM devices including Radar Correlator
- Interchangeable locking cylinders
- Ving<sup>©</sup> Card ... mechanical or electronic

Visicalc vs. Lotus 123 vs. Excel

# **INNOVATION OR ADAPTATION**

Fred Richards

# **ECONOMIC INDICATORS AND MARKET OVERVIEW**

November 11, 2011

© Strategic Investing

14

# Friday close 11/8/2011

## Investor's Business Daily® Summary

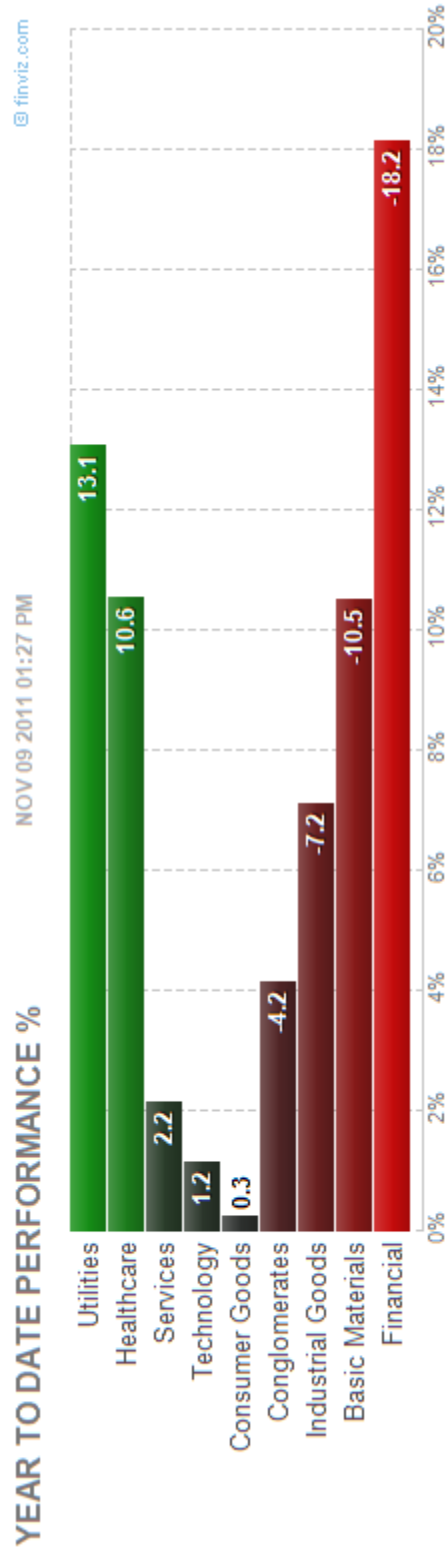
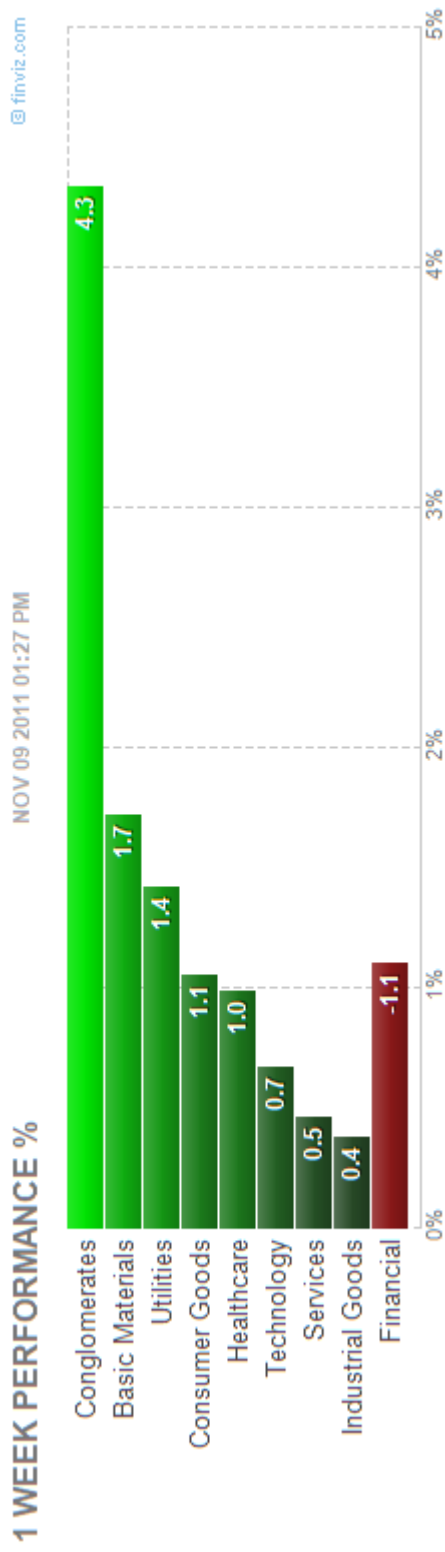
Market Summary 11/8/2011		Daily Last Price Change	%	YTD %
AMEX Comp	2,339.89	28.02	1.2%	6.0%
DJIA	12,170.18	101.79	0.8%	5.1%
HUI	604.61	4.80	-0.8%	5.5%
Nasdaq 100	2,400.01	28.97	1.2%	8.2%
Nasdaq Comp	2,727.49	32.24	1.2%	2.8%
NYSE Comp	7,671.91	81.48	1.1%	-3.7%
Russell 2000	755.27	10.16	1.4%	-3.6%
S&P 400	906.84	8.63	1.0%	0.0%
S&P 500	1,275.92	14.80	1.2%	1.5%
S&P 600	416.33	5.57	1.4%	0.1%

Strategic Investing Daily Market Summary 11/8/2011			
Today's Action	Accumulation/Distribution		STI
Up in higher volume	Index ratings	NASDAQ	B
		S&P 500	C-
		NYSE	C-
Market in Confirmed Uptrend			
FT Day	10/12/2011	Distribution Days	
		Your Weekly Review	
	Close	%	# of Stocks
NASDAQ	2,727.49	2.8%	4
S&P 500	1,275.92	1.5%	3
DJIA	12,170.18	5.1%	2
NYSE	7,671.91	-3.7%	343
			188
			11/7/2011
			343

Data © 2011 Investor's Business Daily and Strategic Investing.

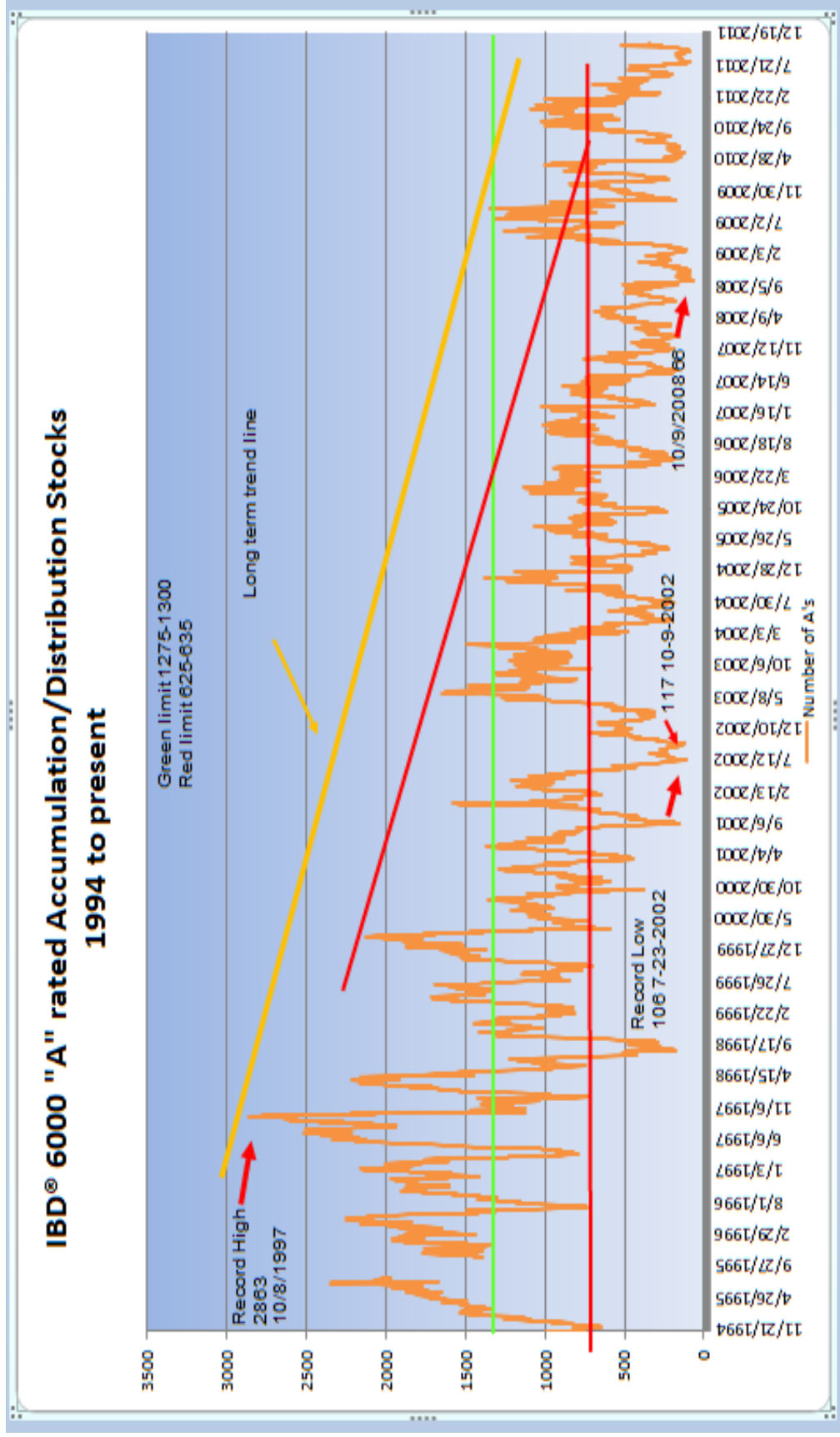
# Market in Confirmed Uptrend

## IBD® Current Outlook



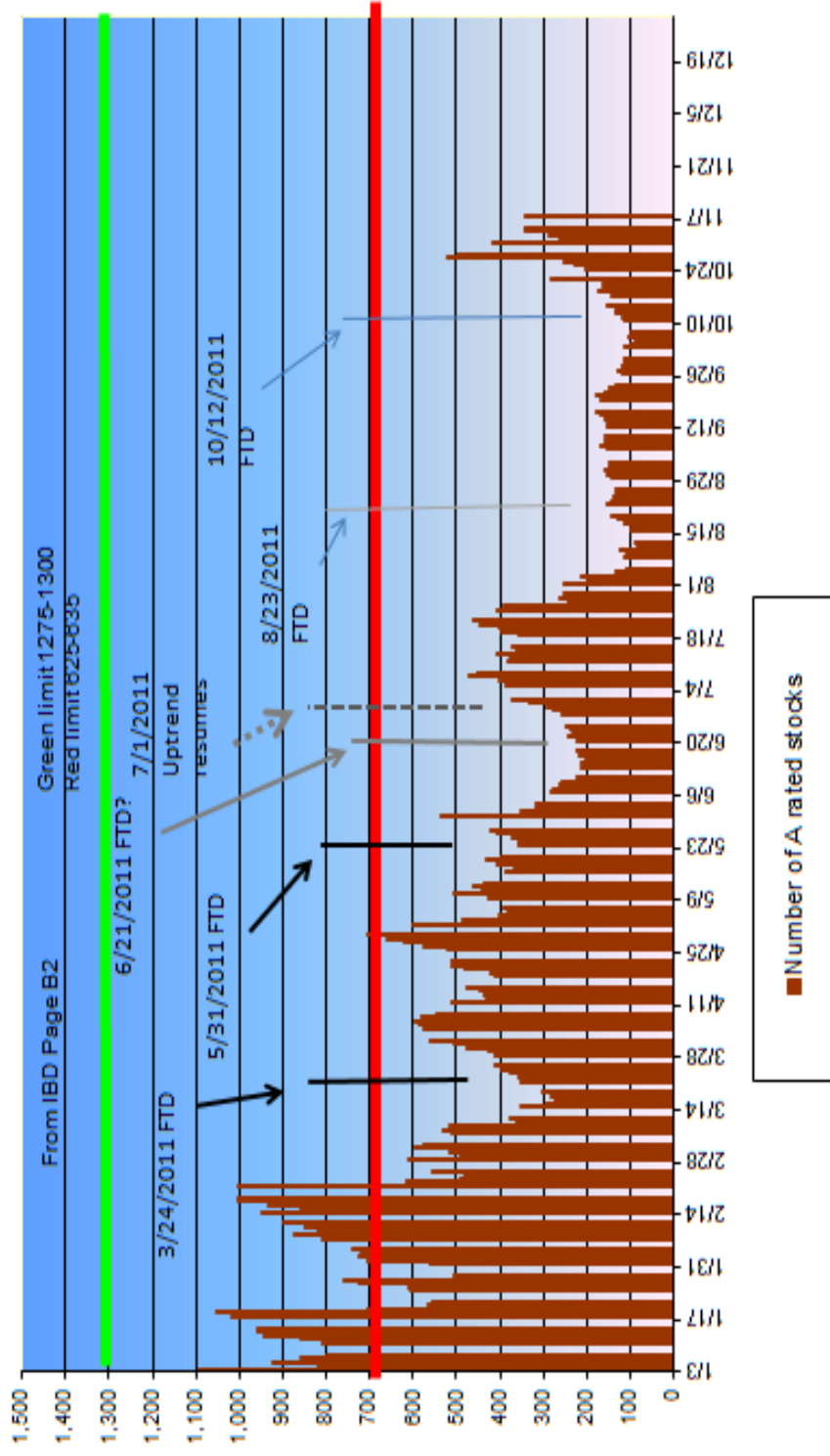


# Accumulation/Distribution



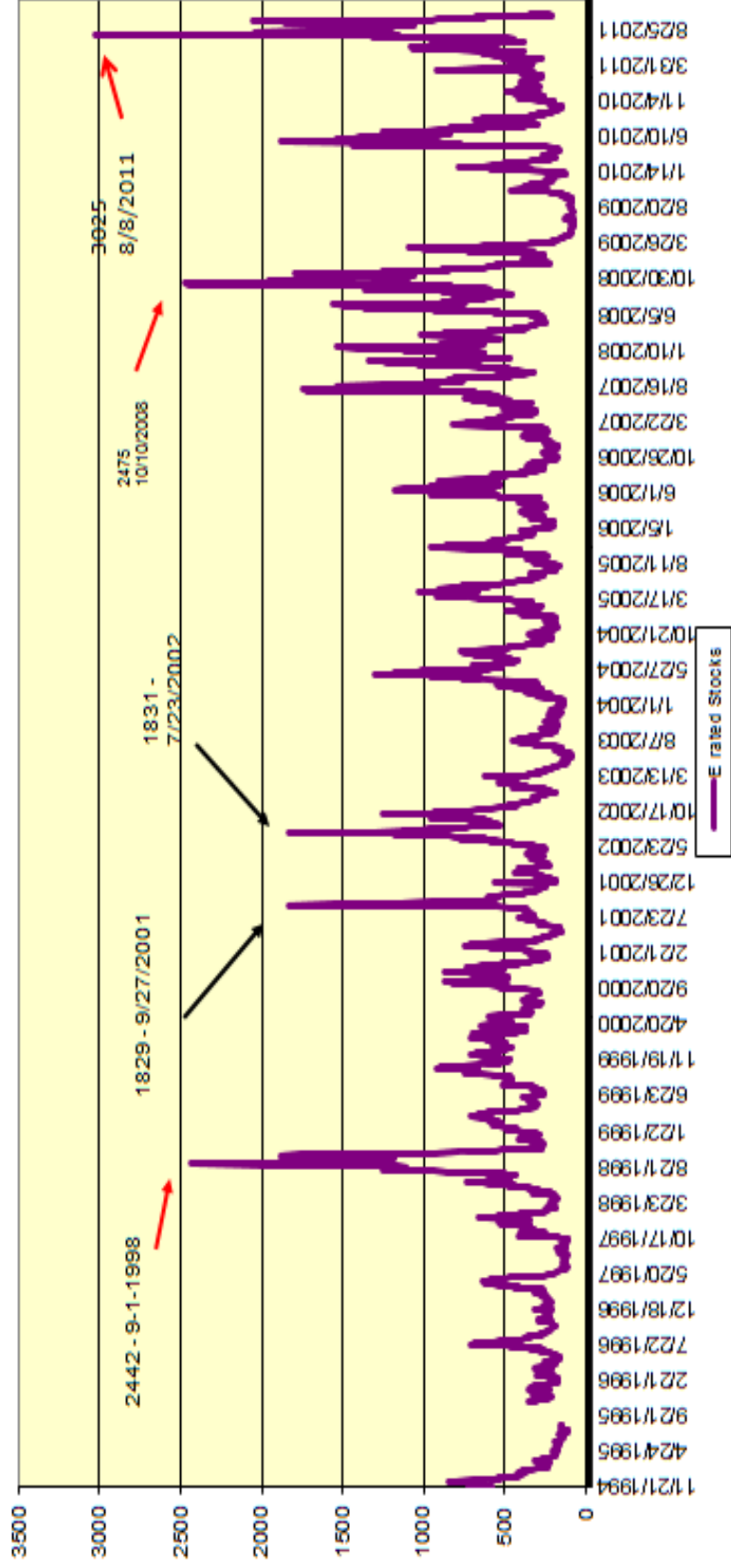
# Institutional Buying - 2011

**IBD® 6000 "A" rated Accumulation/Distribution Stocks for 2011**

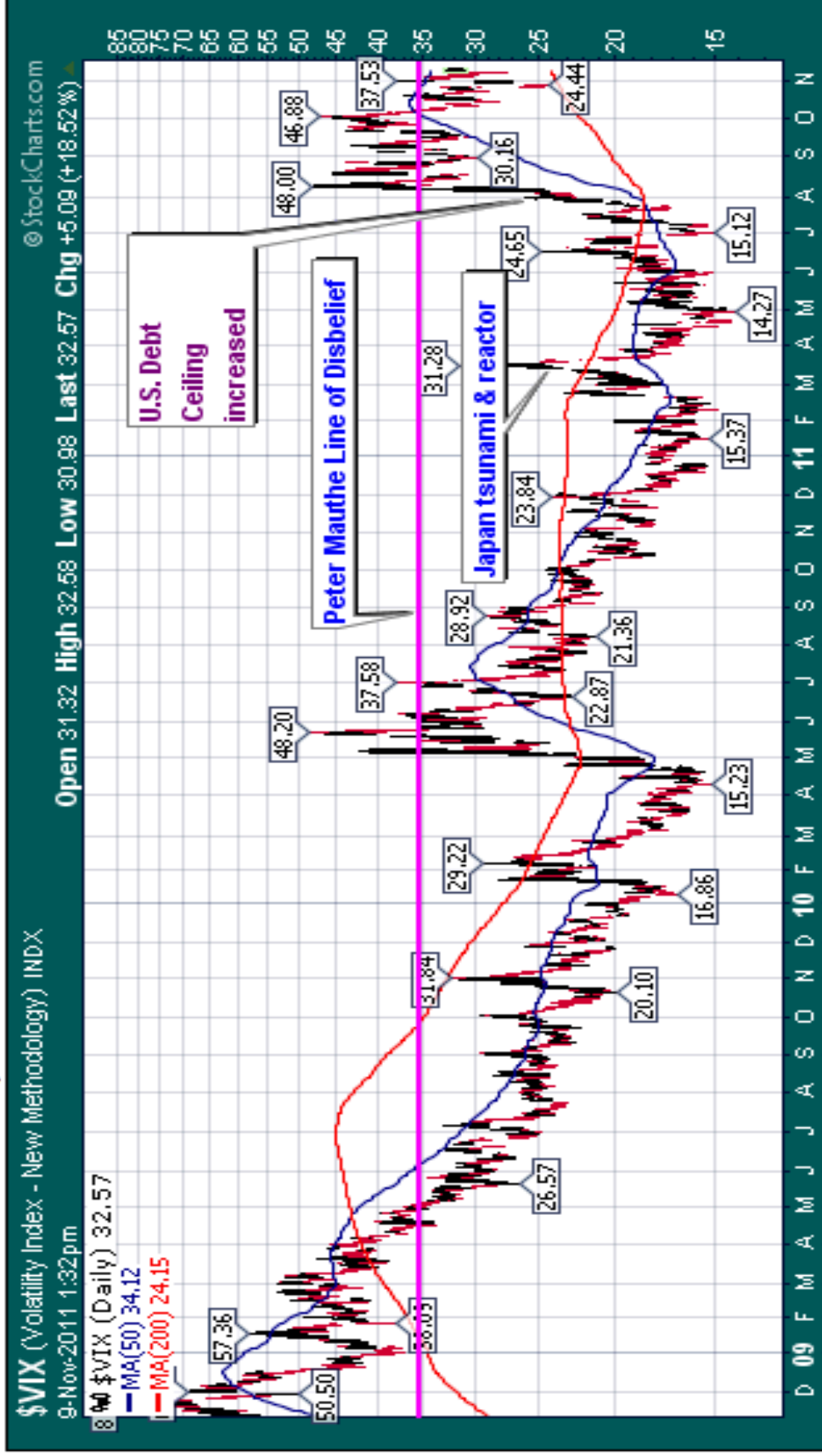


# The Big Boys Attitude about the Economy

Number of E rated Stocks in IBD 6000



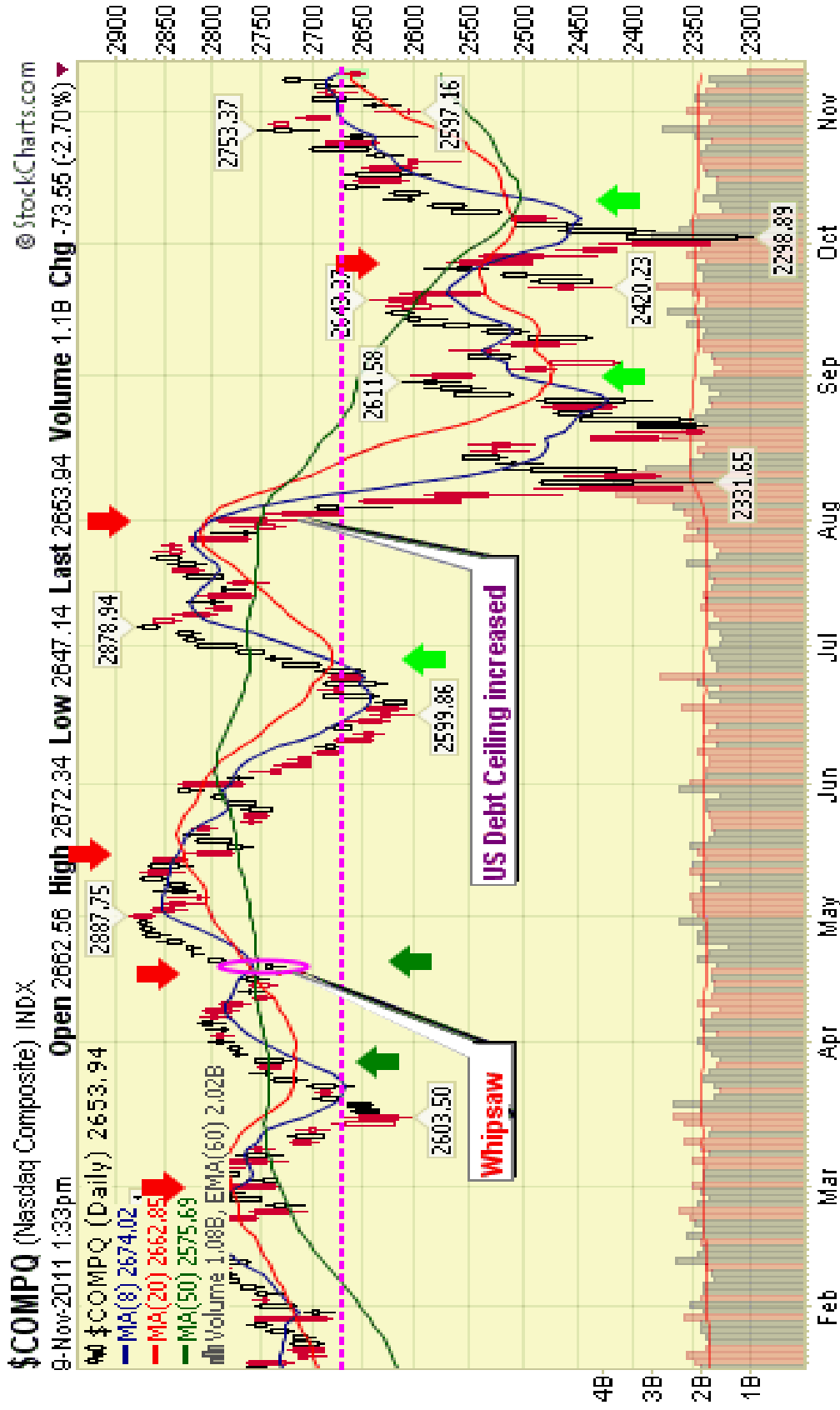
# Volatility remains high



# Simple Timing Indicators (STI)



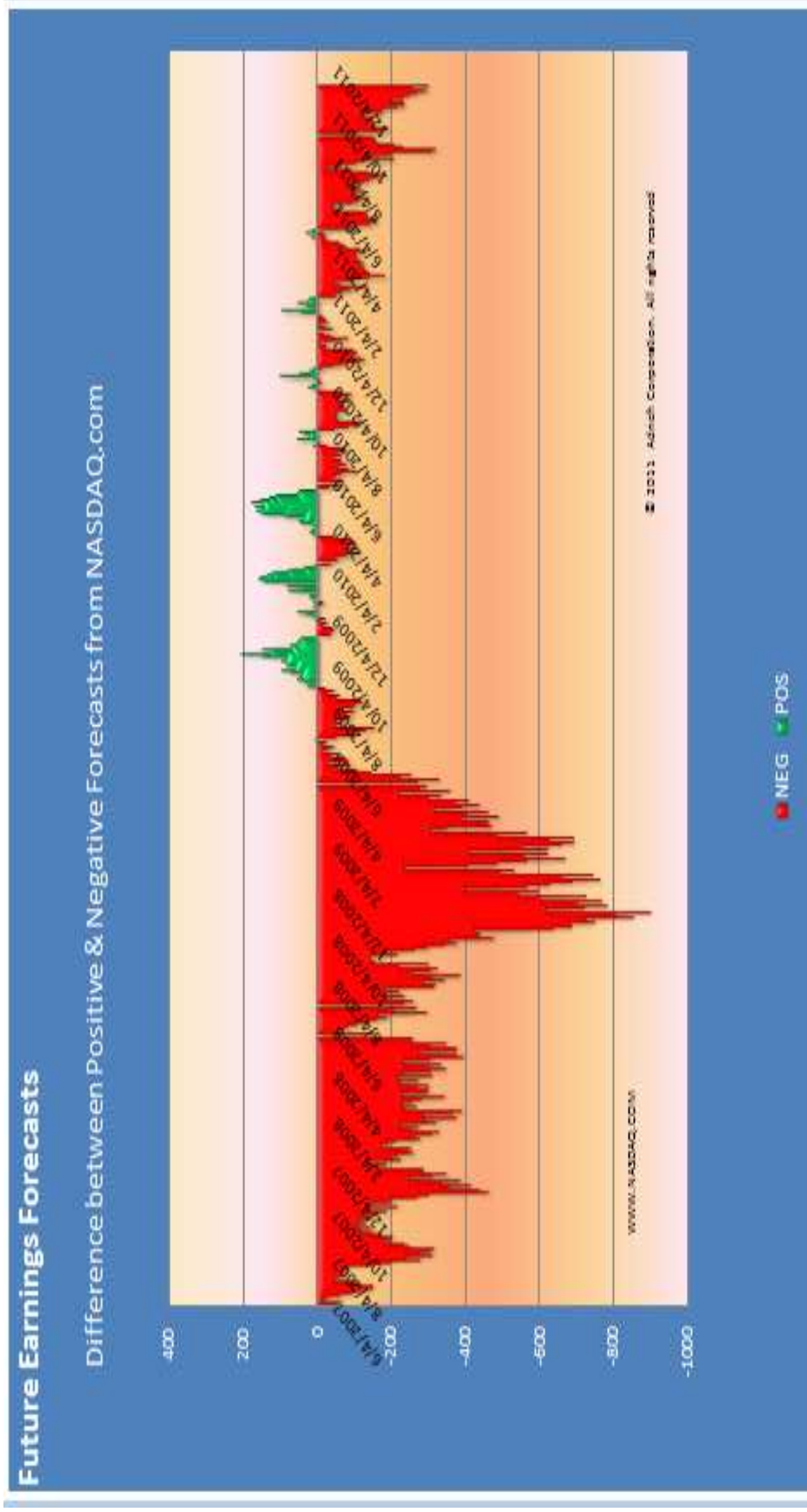
# NASDAQ



# S&P 500



# Future earnings forecasts via NASDAQ

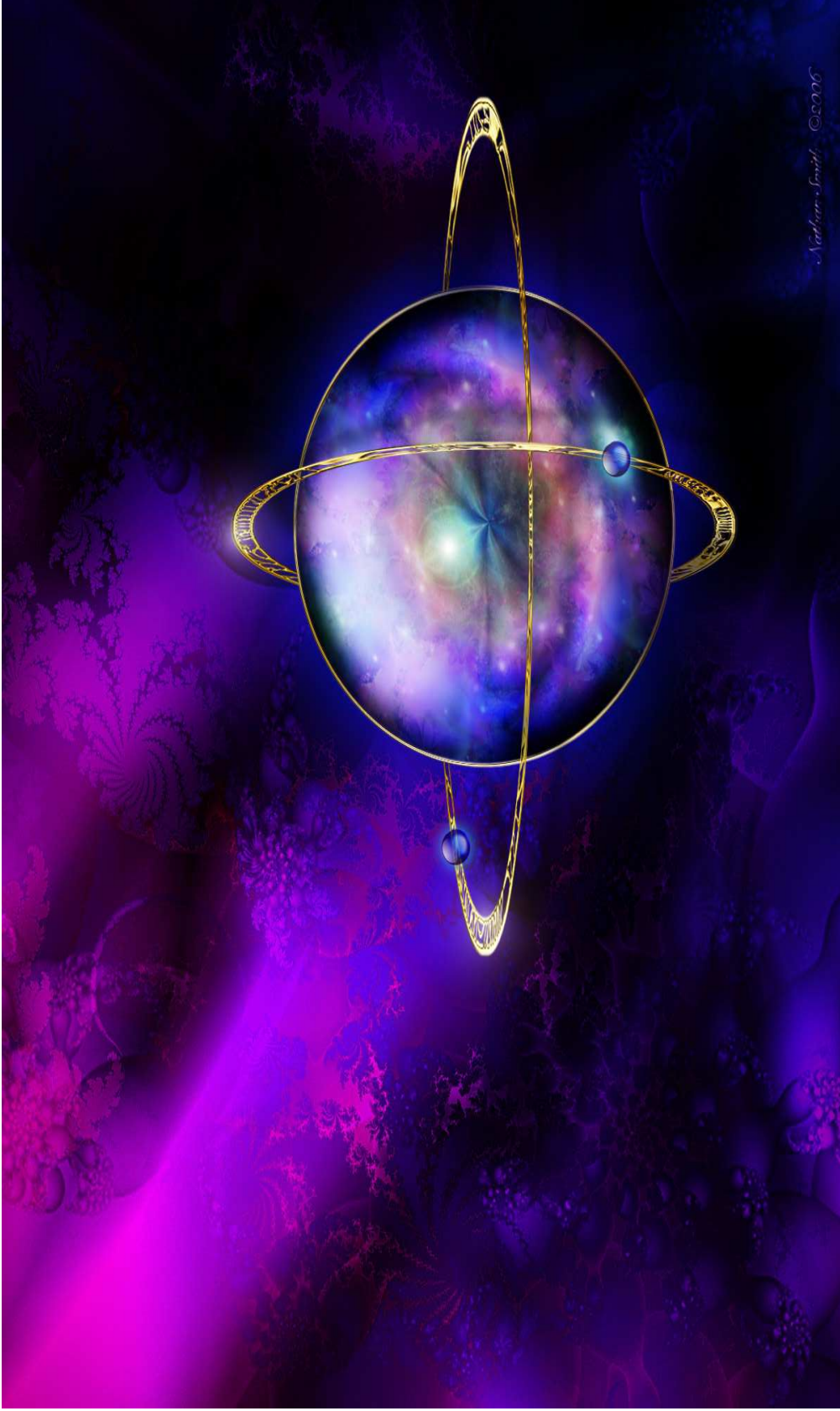




# Words of Wisdom from Harvard

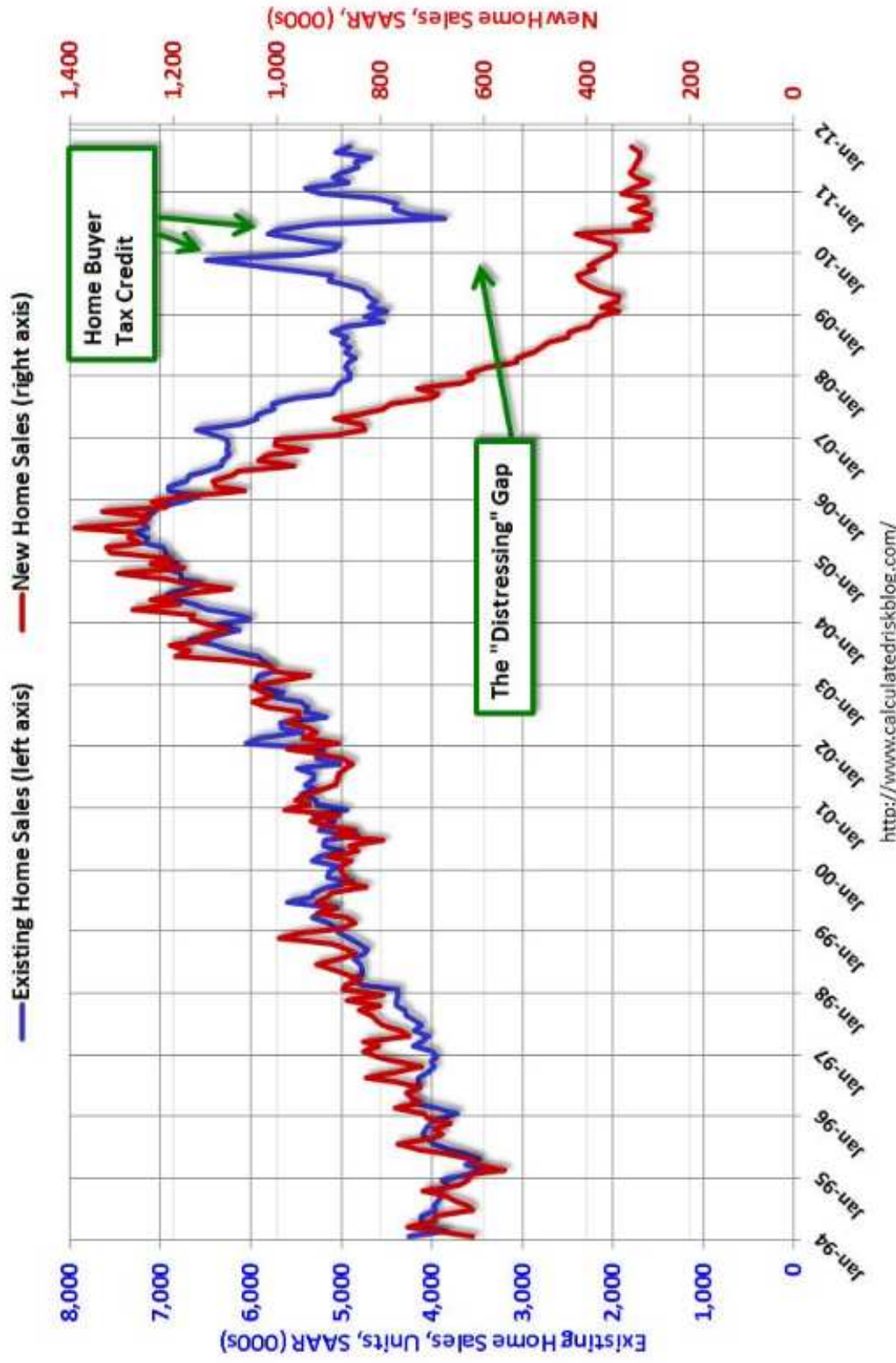
- You can not believe anything you read in the
- New York Times
- and
- The Wall Street Journal
- (MSNBC, CNN, CNBC and others)
- **They all lie!**
  - William A Sahlman, Professor and Associate Dean, HBS, May 2011, in Dallas

# Seeing reality

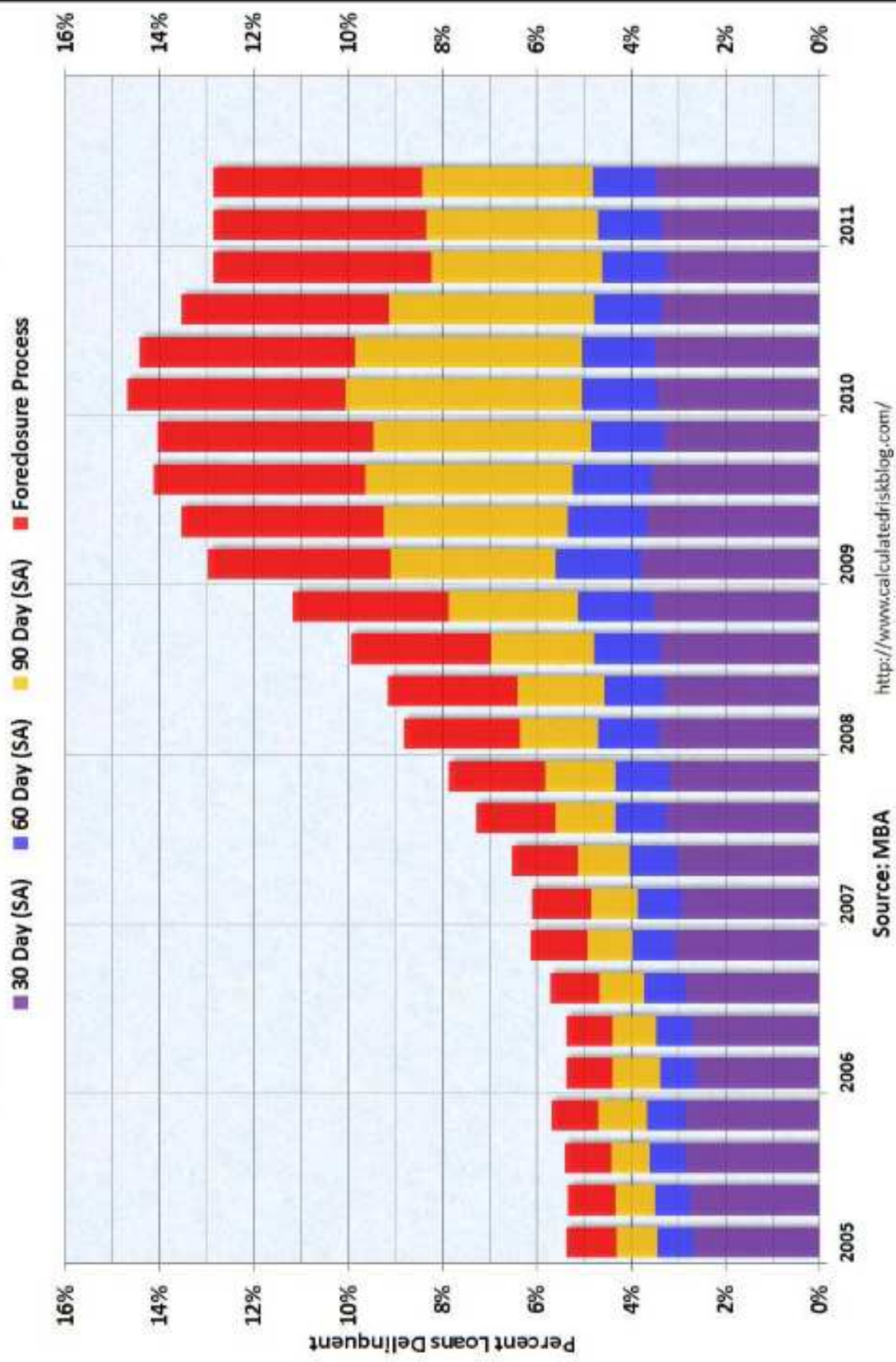


# The Economy

### New and Existing Home Sales, Sept 2011



### Mortgage Delinquencies and Foreclosures by Period Past Due, All Loans

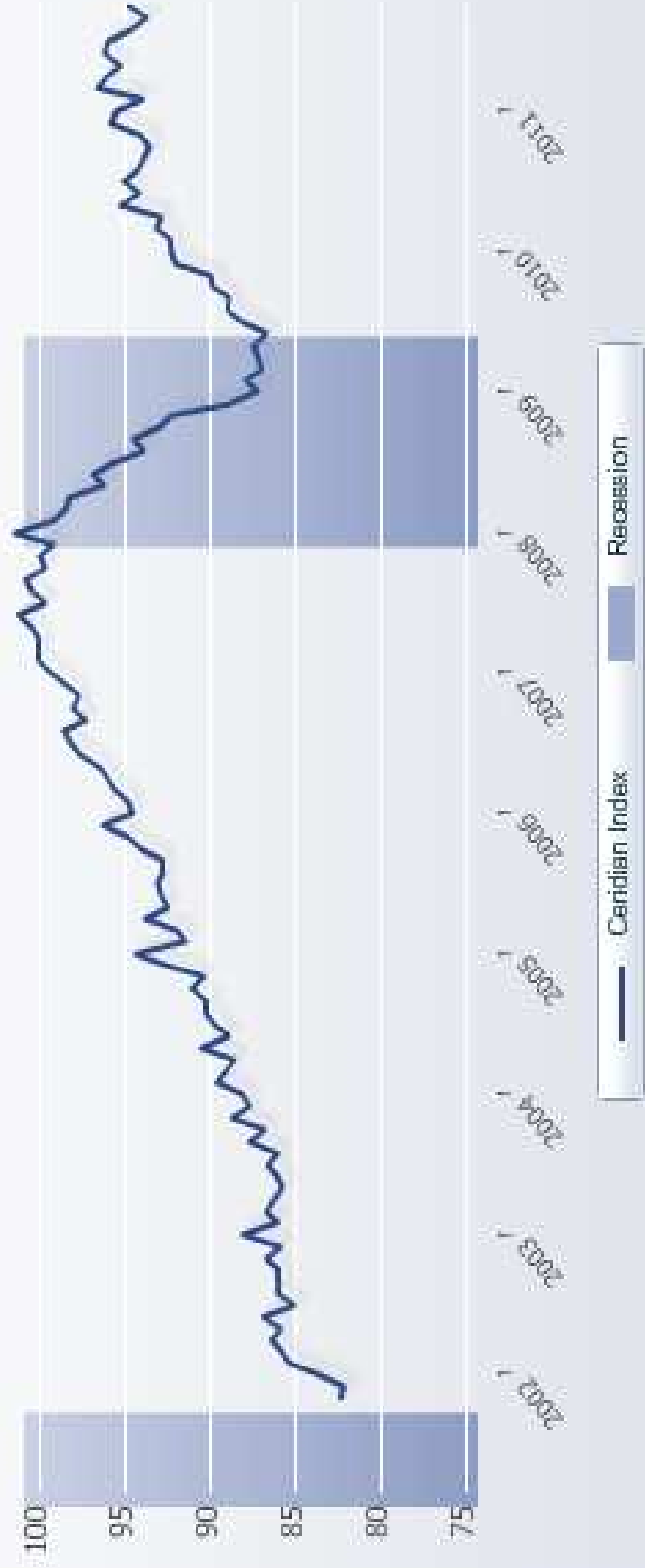


Source: MBA  
<http://www.calculatedriskblog.com/>

# Up after 3 months of decline

## Ceridian-UCLA Pulse of Commerce Index

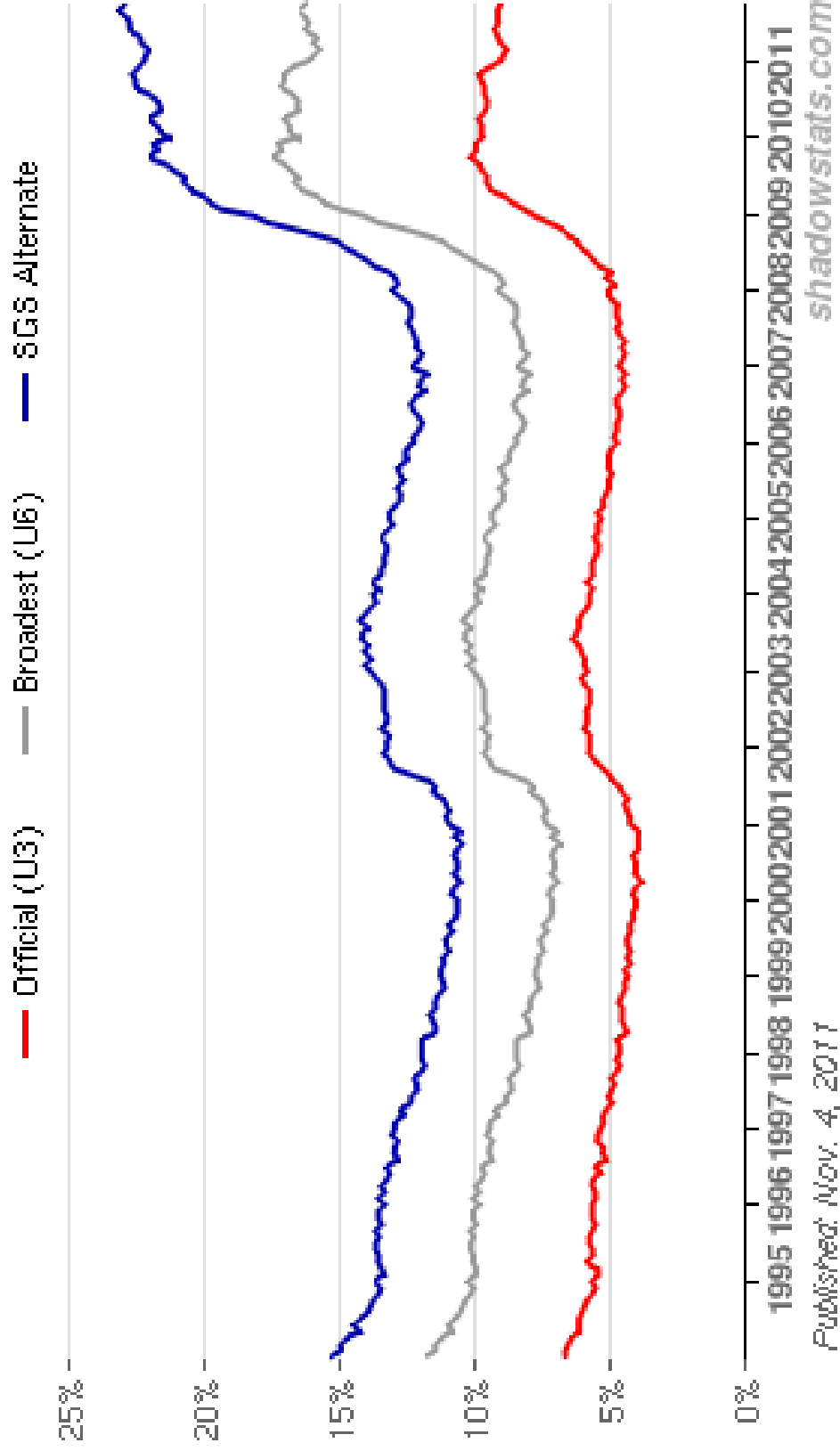
Compare to Industrial Production  6 Mo 1 Y 5 Y 10 Y



\*All data is seasonally adjusted

# Unemployment Rate - Official (U-3 & U-6) vs SGS Alternate

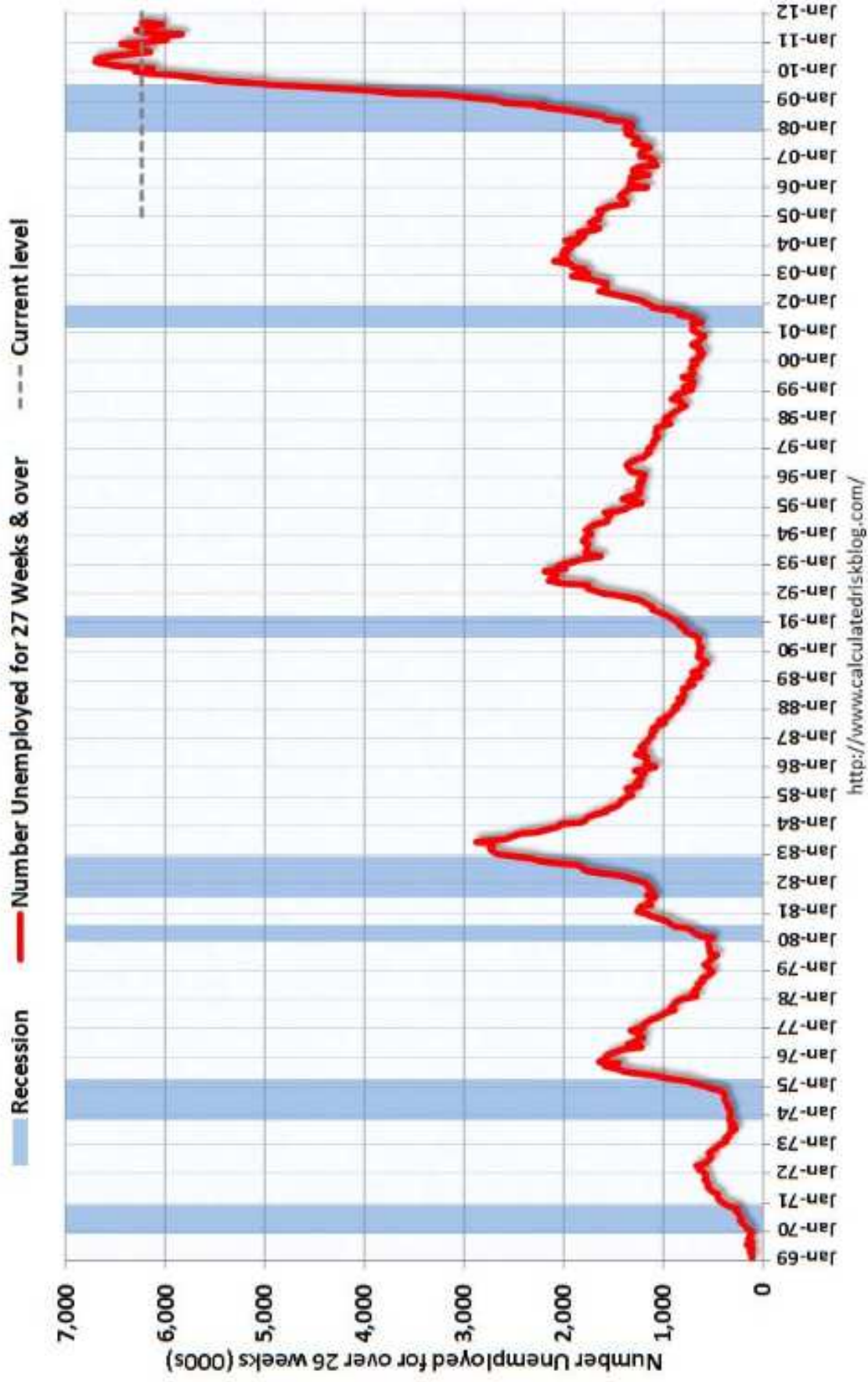
Monthly SA. Through Oct. 2011 (SGS, BLS)



Published Nov. 4, 2011

shadowstats.com

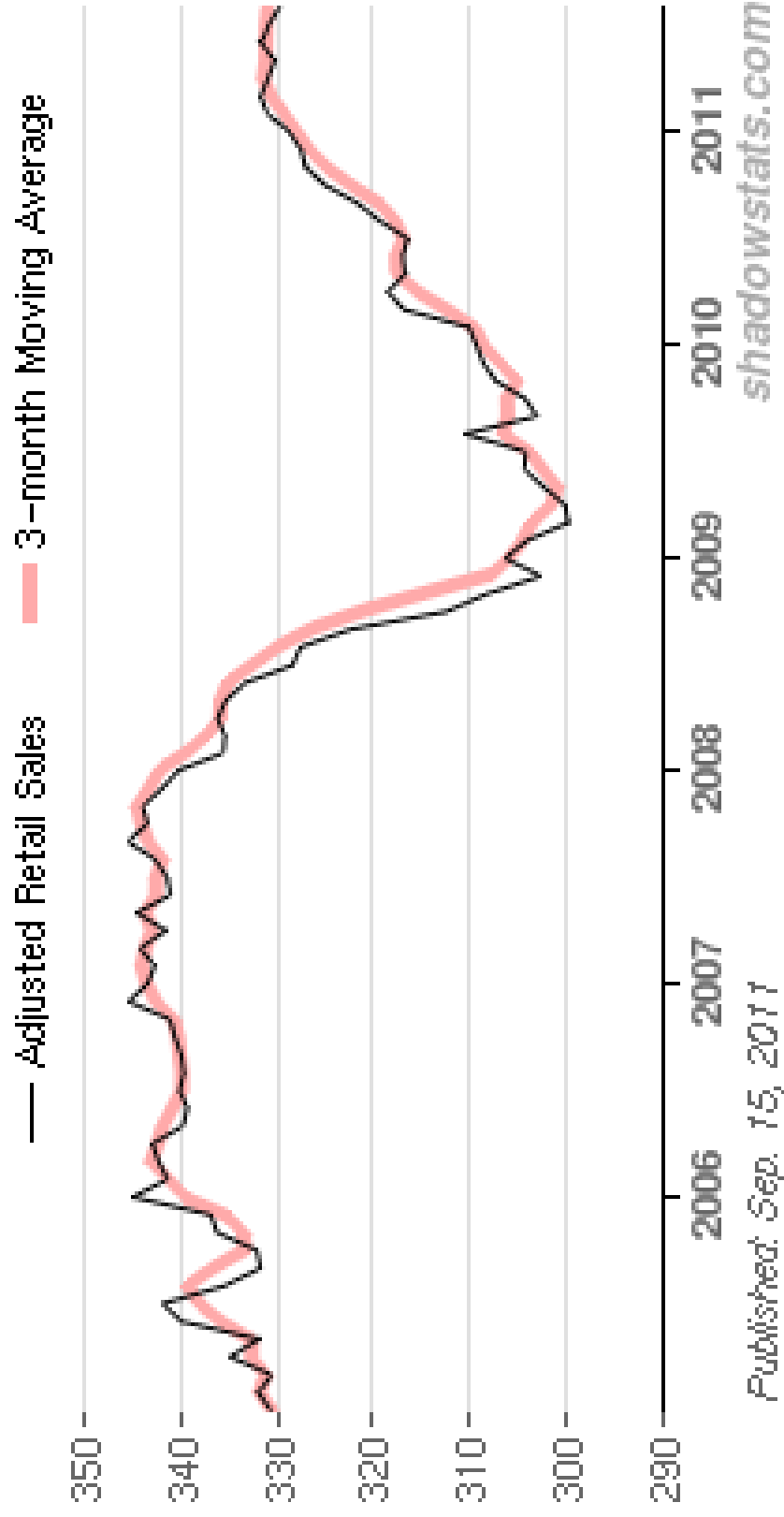
# Unemployed for Over 26 Weeks



<http://www.calculatedriskblog.com/>

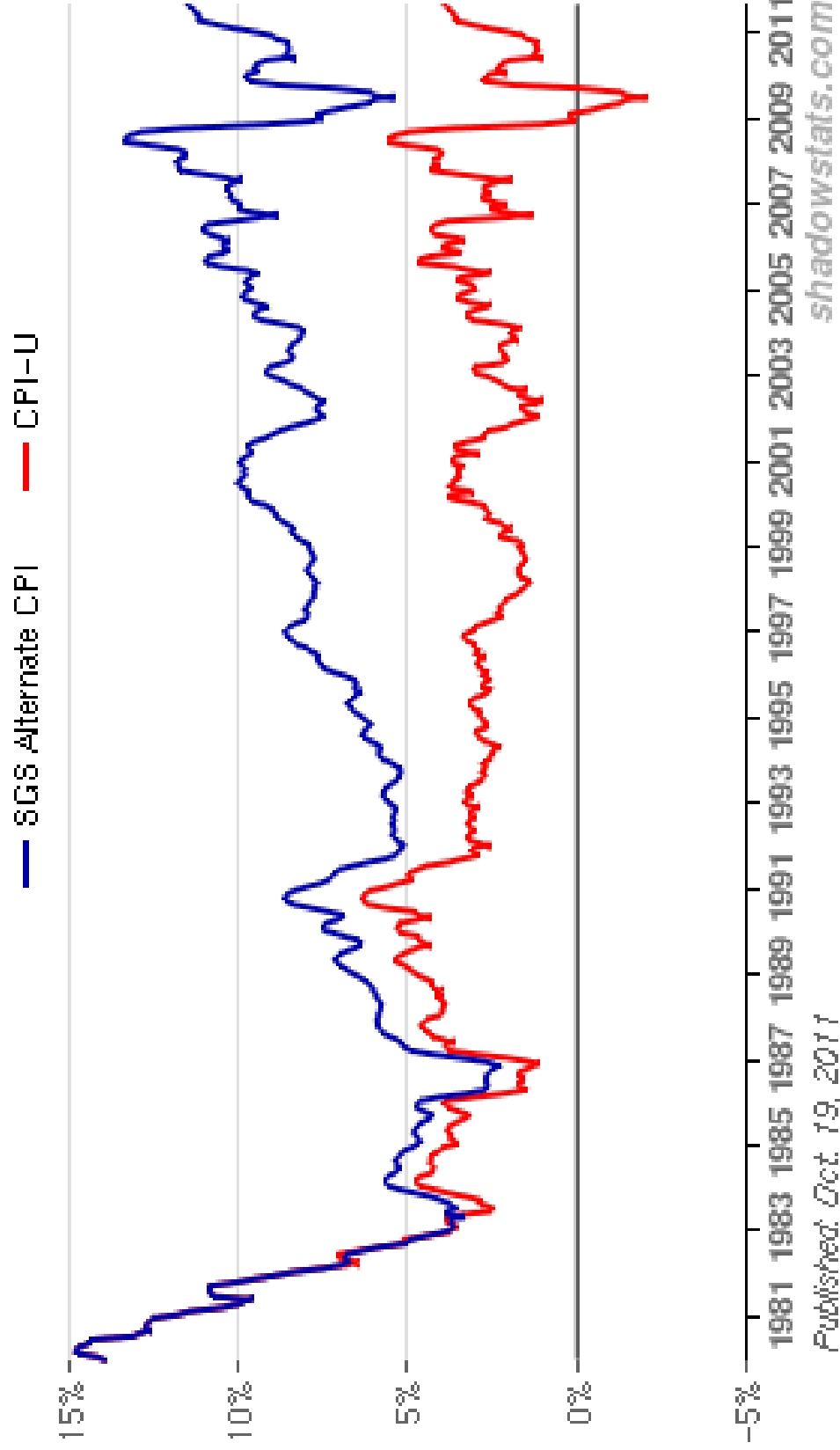


## ***Inflation-Adjusted Retail Sales (Monthly Level)*** Through Aug. 2011. Seasonally Adjusted. (SGS, Census, BLS)



# Annual Consumer Inflation - CPI vs SGS Alternate

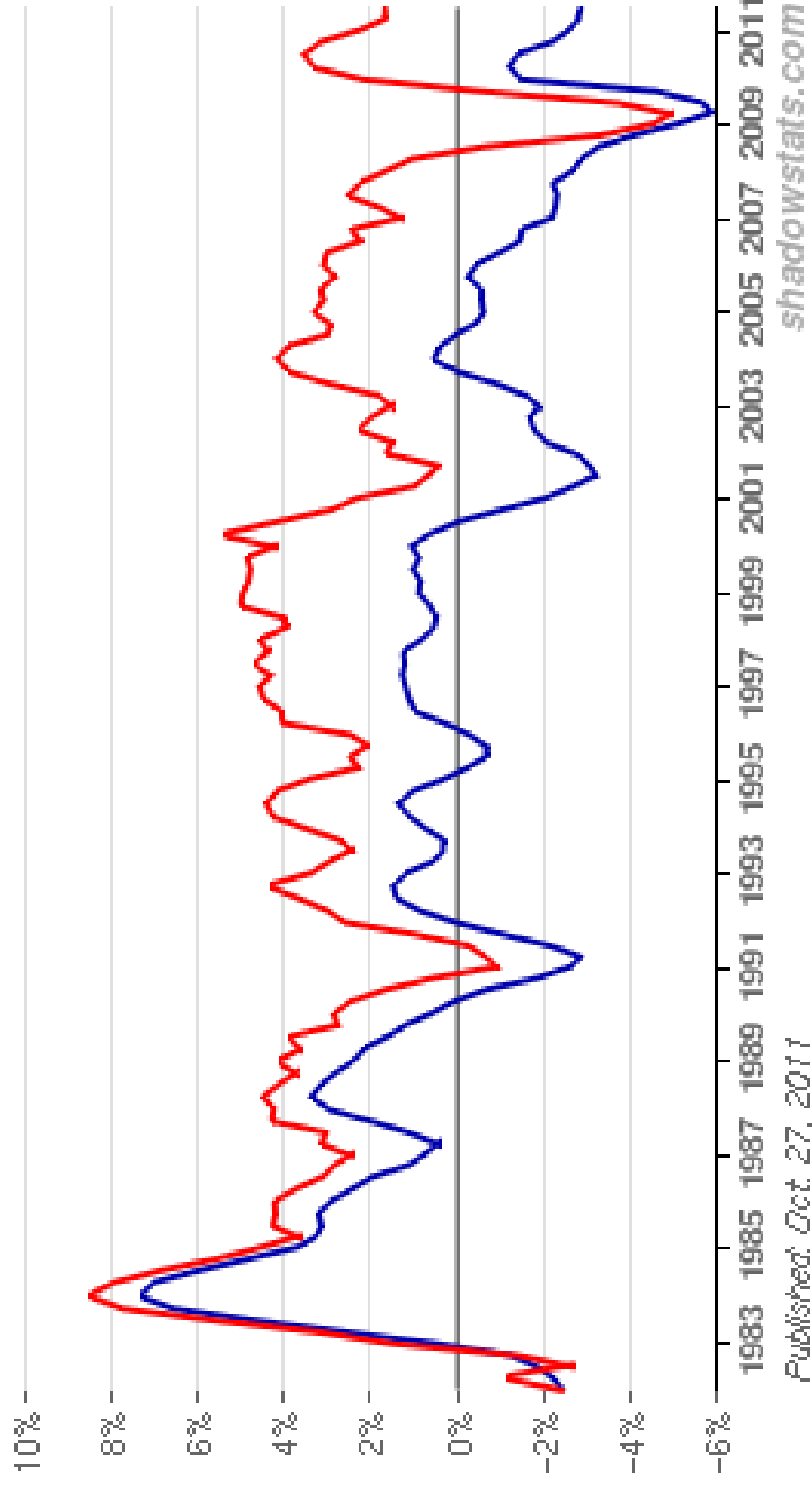
Year to Year Change. Through Sep. 2011. (BLS, SGS)



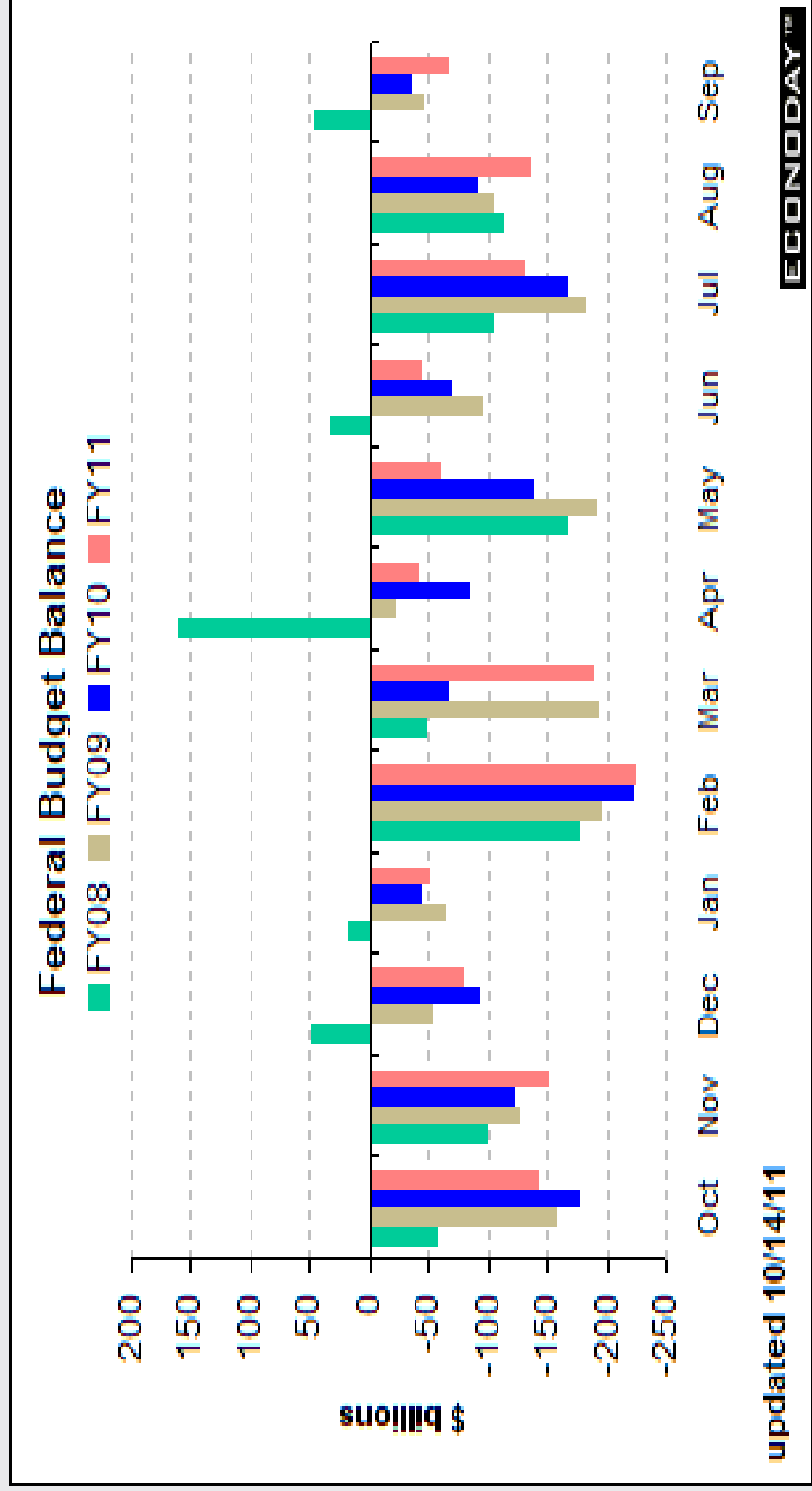
# GDP Annual Growth - Official vs SGS

Annual Change through 2011q3 (SGS, BEA)

— Official (BEA)    — SGS Alternate

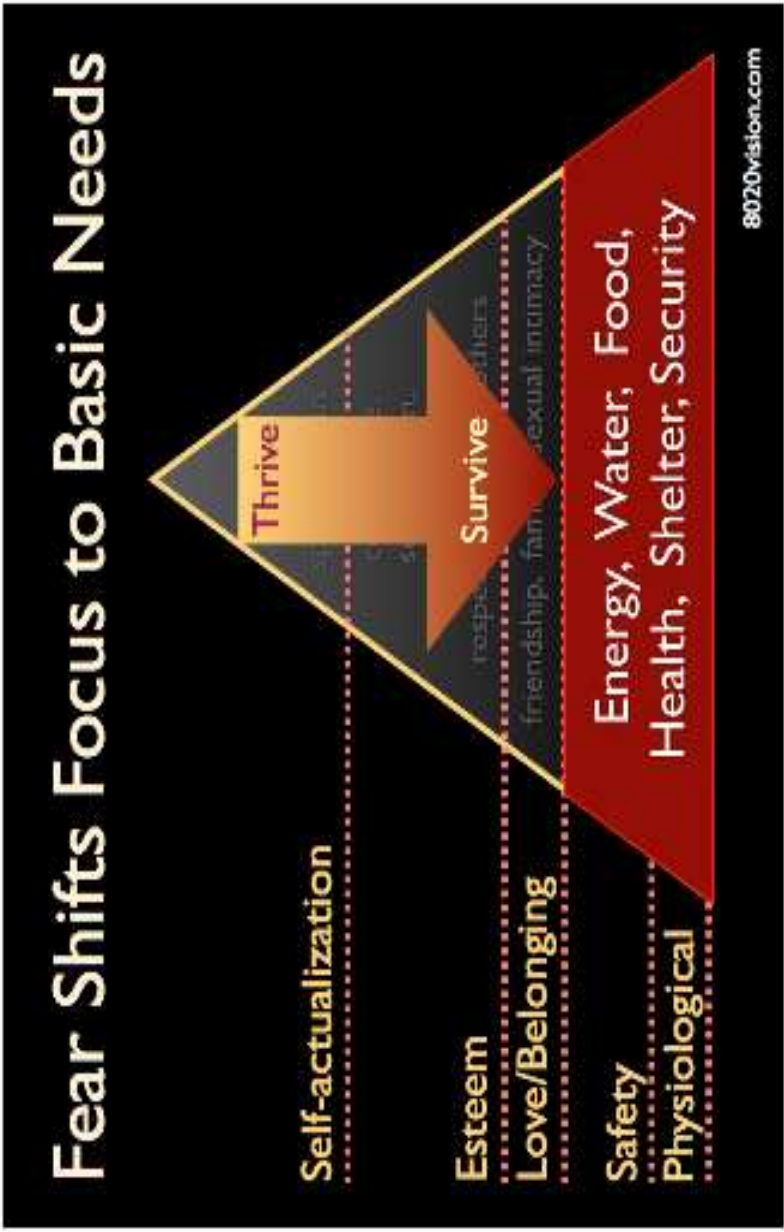


# Only \$1.299 Trillion ... what's GAAP?



Data Source: *Harver Analytics*

# DELEVERAGING





**COMPASSFX™**  
we know what traders want

# Economy of European Union

To be included in the European Union, member countries had to fulfill certain criteria established by the 1992 Maastricht Treaty:

1. **Inflation** - No more than 1.5% points higher than the average of the three best performing (lowest inflation) member states of the EU.
2. **Government debt** - The ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year.
3. **Annual Government deficit** - The ratio of the annual government deficit to GDP must not exceed 3% at the end of the preceding fiscal year.
4. **Interest Rates** - The nominal long-term interest rate must not be more than 2% points higher than in the three lowest inflation member states.

# Economy of European Union

EU Member	Debt to GDP	Deficit to GDP	Inflation	Unemploymt.
<b>EU Criteria</b>	<b>60%</b>	<b>-3%</b>	<b>1.5</b>	<b>---</b>
Portugal	93.0	-9.1	1.4	12.3
Italy	119.0	-4.6	1.6	7.9
Ireland	96.2	-32.4	-1.6	14.6
Greece	142.8	-10.5	4.7	16.7
Spain	60.1	-9.2	2.0	21.2
France	81.7	-7	1.7	9.9
Germany	83.2	-3.3	1.2	6.0
<b>European Union</b>	<b>80</b>	<b>-6.4</b>	<b>2.1</b>	<b>9.5</b>

# Sovereign Debt Crisis

## Sovereign Debt Default?

Kyle Bass of Hayman Capital Mgmt.:

*"I believe that Germany and the balance of the Eurocrats will attempt to default Greece. Greece will therefore be forced to go back to the drachma at some point in the near future.*

*After Greece and the next peripheral country begin to hard default, Germany will exit the European Union and recapitalize their own banks. The majority of the German people think that they would be better off never having formed the euro in the first place. Two thirds do not think that they have any obligation to bail out members of the EU. The market's hopes rest upon Germany and the ECB going 'all-in' at some point in the future. I don't think that is likely at all.*

*With a cluster of sovereign defaults...the organizers and members of the EU are desperate and have nowhere to turn."*<sup>24</sup>



# Sovereign Debt Crisis

## *Sovereign Debt Default?*

John Taylor, CEO and founder of FX Concepts, the world's largest currency hedge fund with \$8.5 billion under management:

*"The euro will end the year at \$1.20 before falling to parity with the dollar as the currency union struggles through a sovereign debt crisis."*

*"I would be surprised to see the euro hold above \$1 through this crisis. It's not over. The banks are going to be in trouble when Europe goes into a recession next year."*

*"The 17-nation currency needs to be reorganized amid a failure to continuously coordinate policy. The dollar will strengthen as the U.S. economy falls into a recession and as banks become more reluctant to lend, driving investors to the greenback as a refuge."\**

# Deleveraging and its effects



November 11, 2011



© Strategic Investing

42

**Purchasing Power  
is the only thing  
That counts!**

# \$GOLD (Gold - Spot Price (EOD)) CME

© StockCharts.com

25-Oct-2011

Op 1654.10

Hi 1710.70

Lo 1644.60

Cl 1706.50

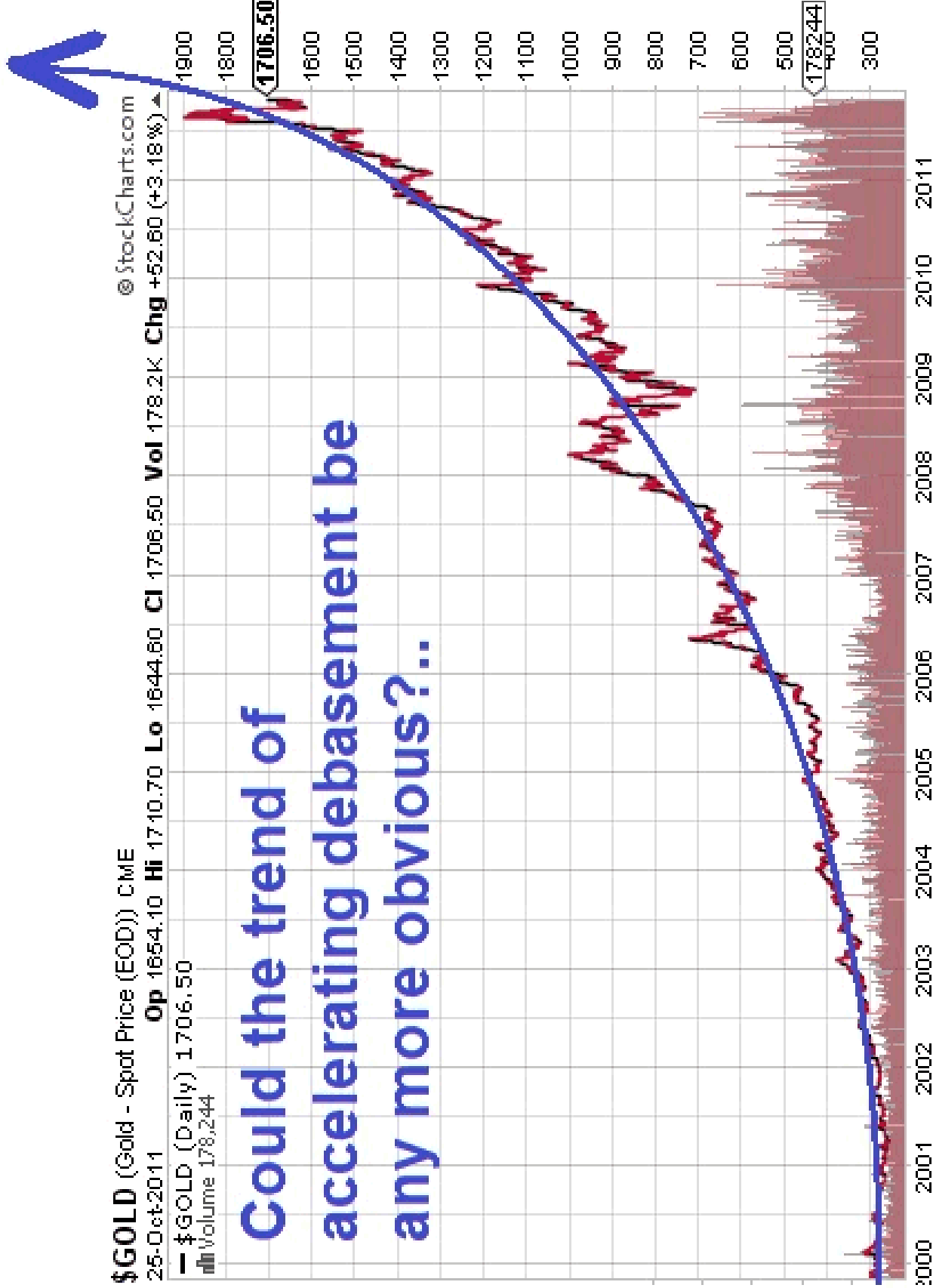
Vol 178.2k

Chg +52.60 (+3.18%) ▲

— \$GOLD (Daily) 1706.50

▒ Volume 178,244

Could the trend of accelerating debasement be any more obvious?..

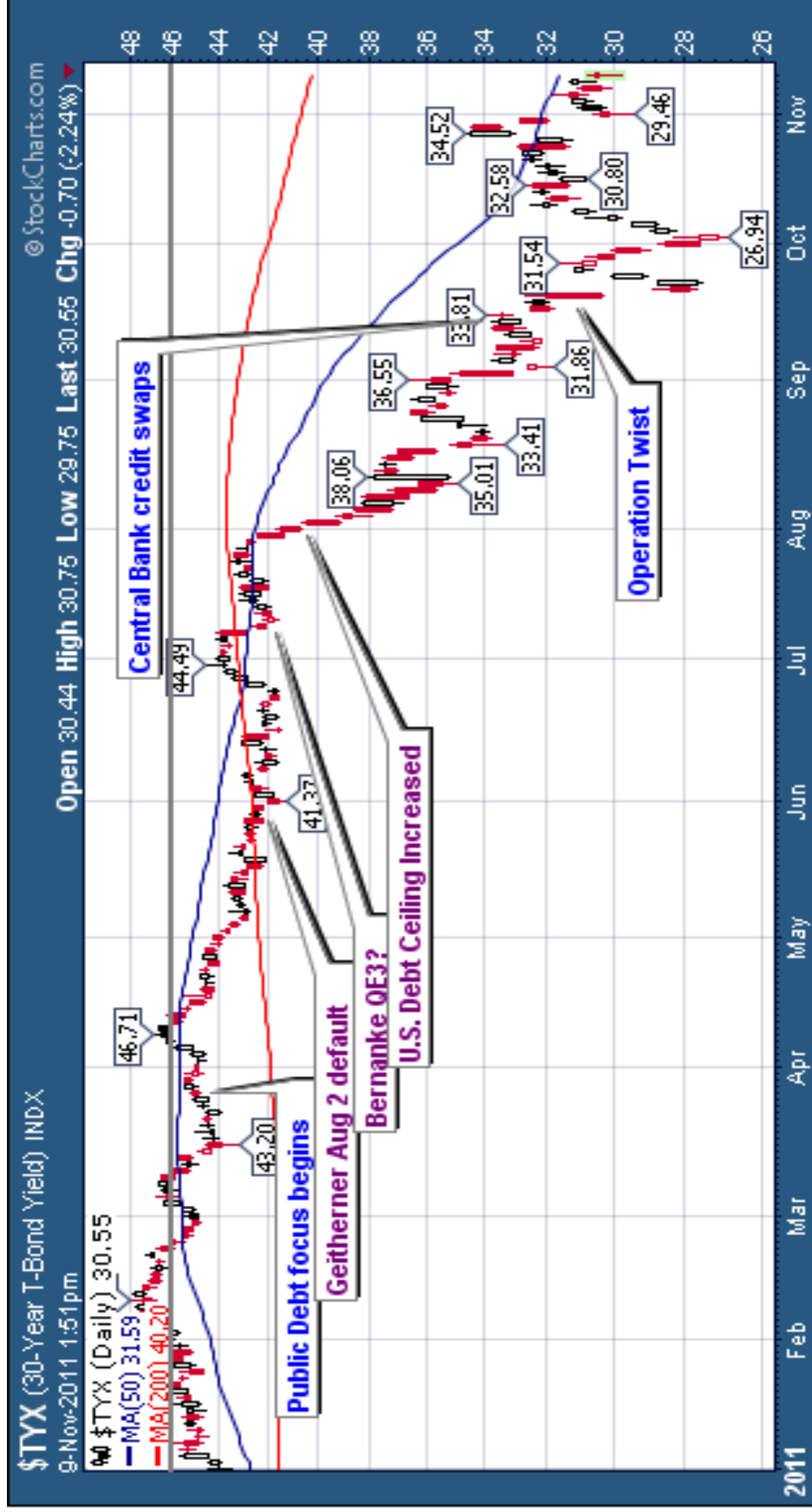


# Bonds & Interest Rates

# 10 year US Treasury



# 30 Year Treasury



# Stocks

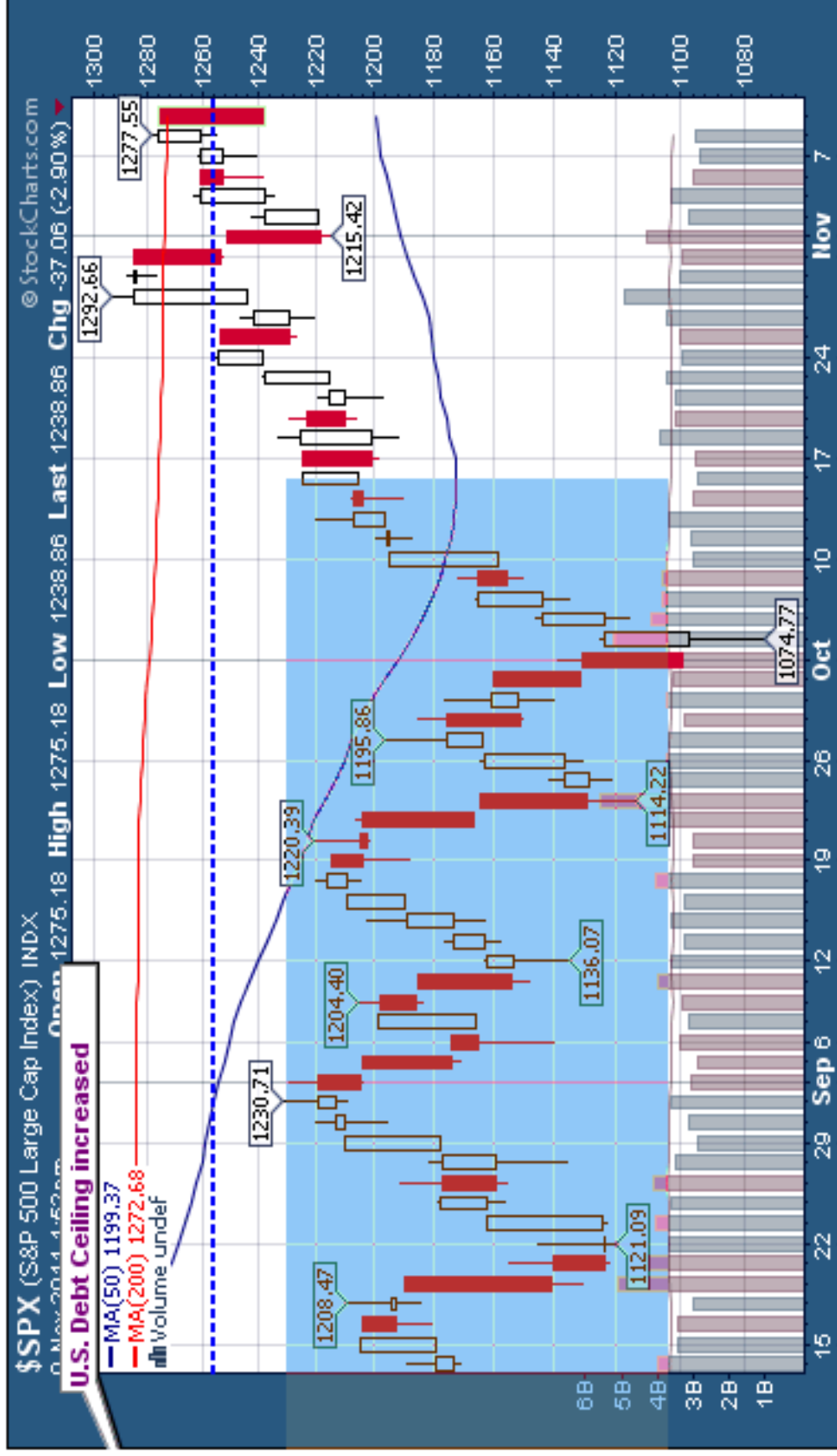




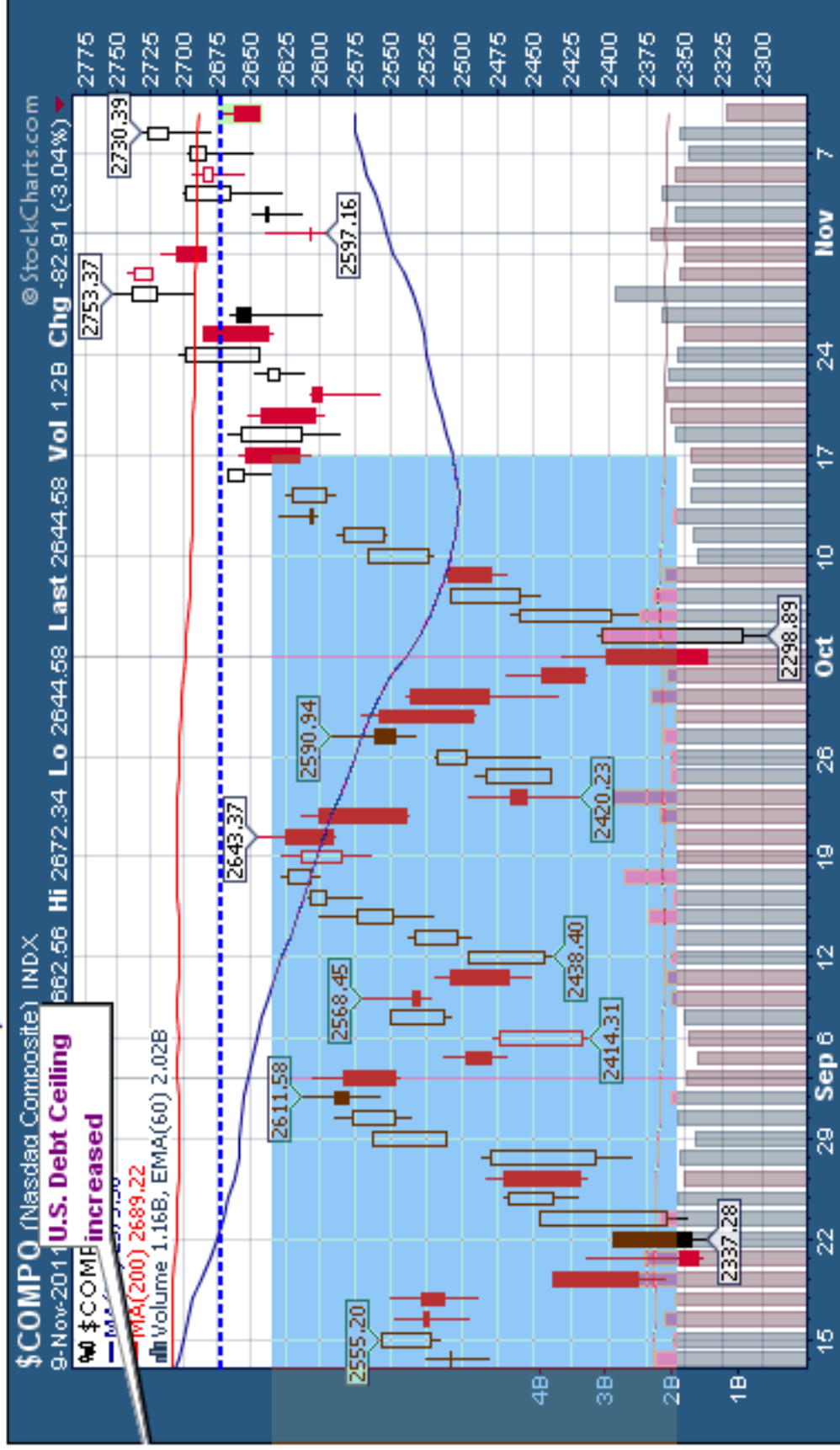
November 11, 2011

© Strategic Investing

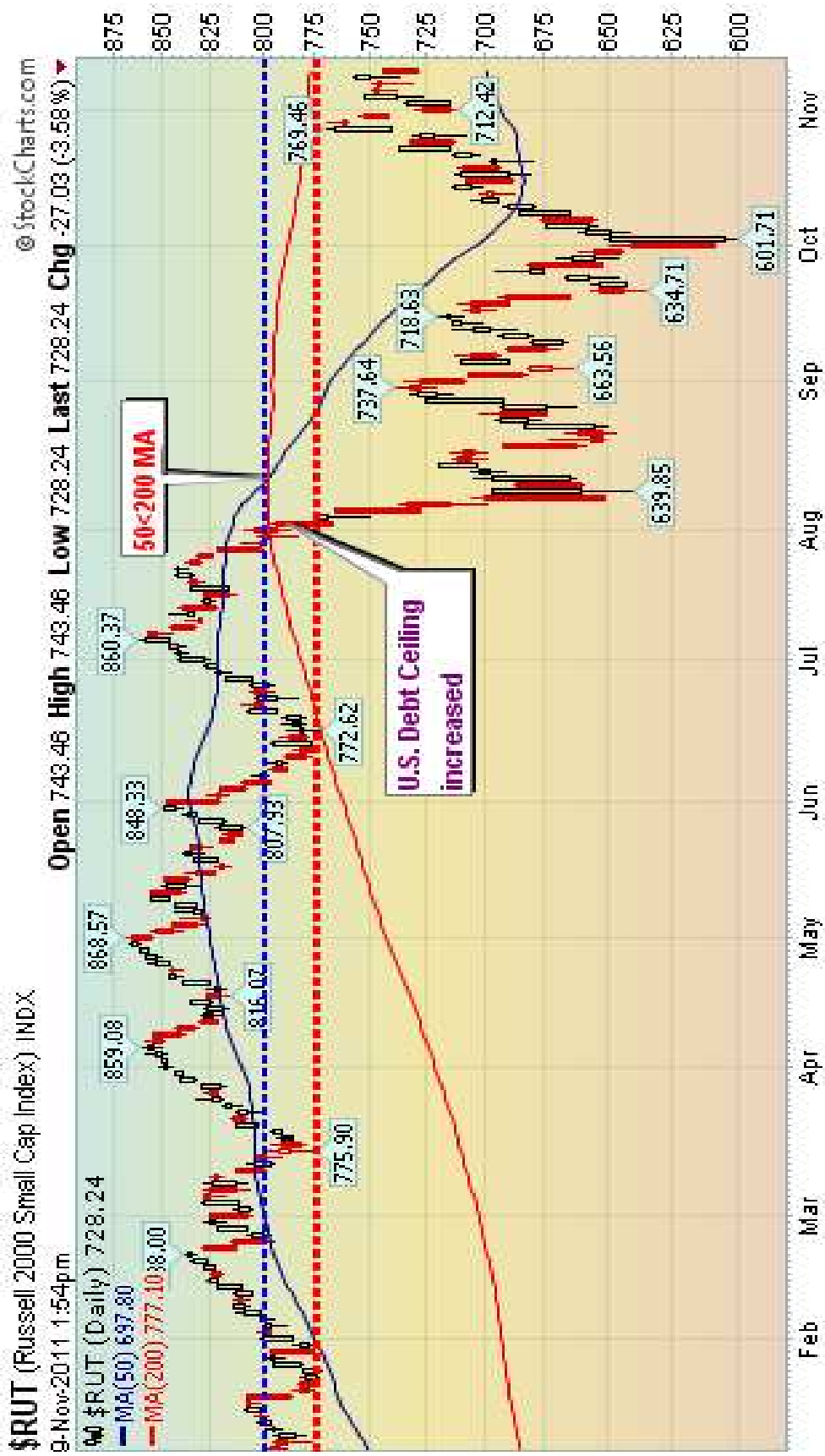
# S&P 500



# NASDAQ Composite

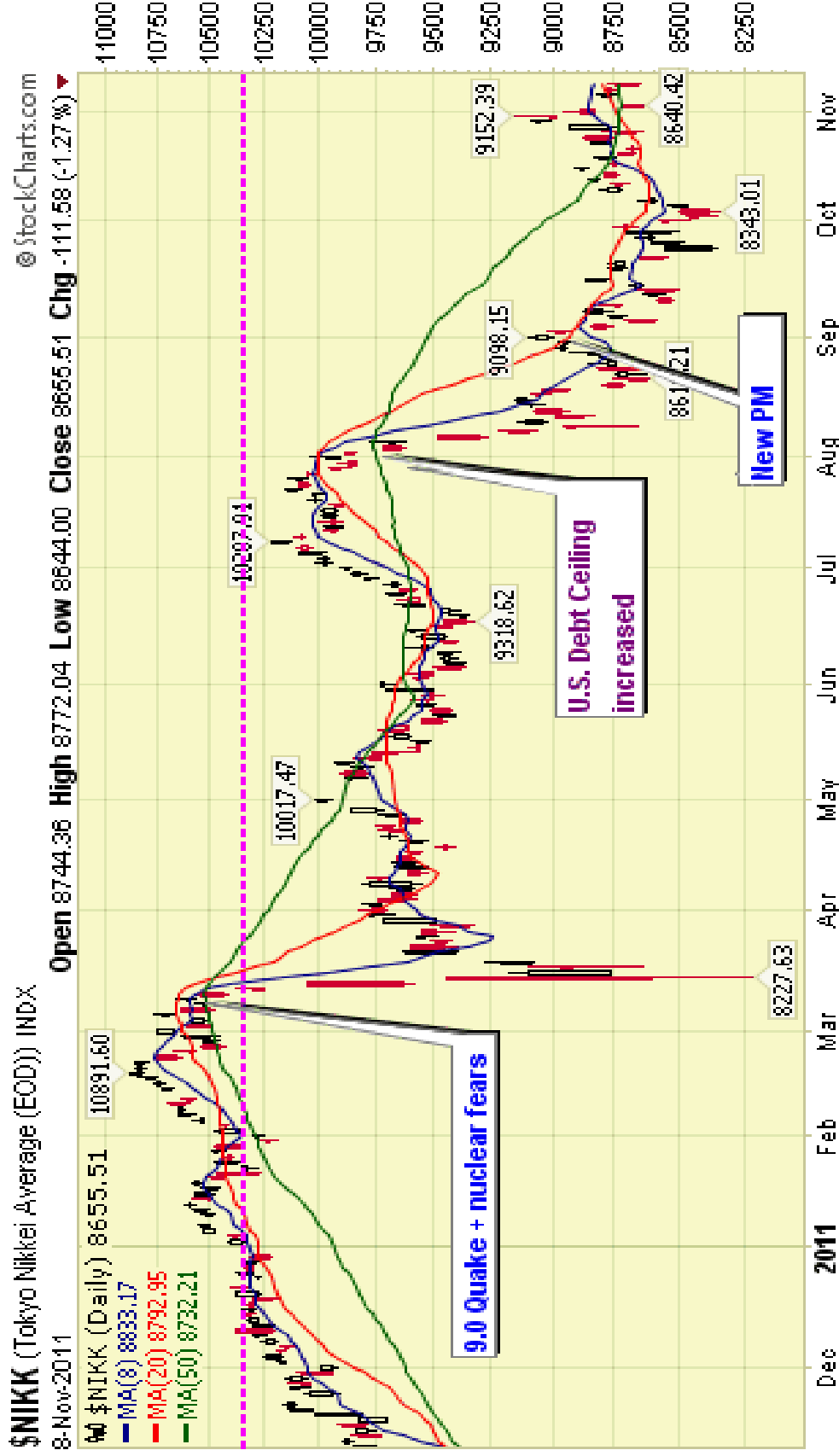


# Russell 2000

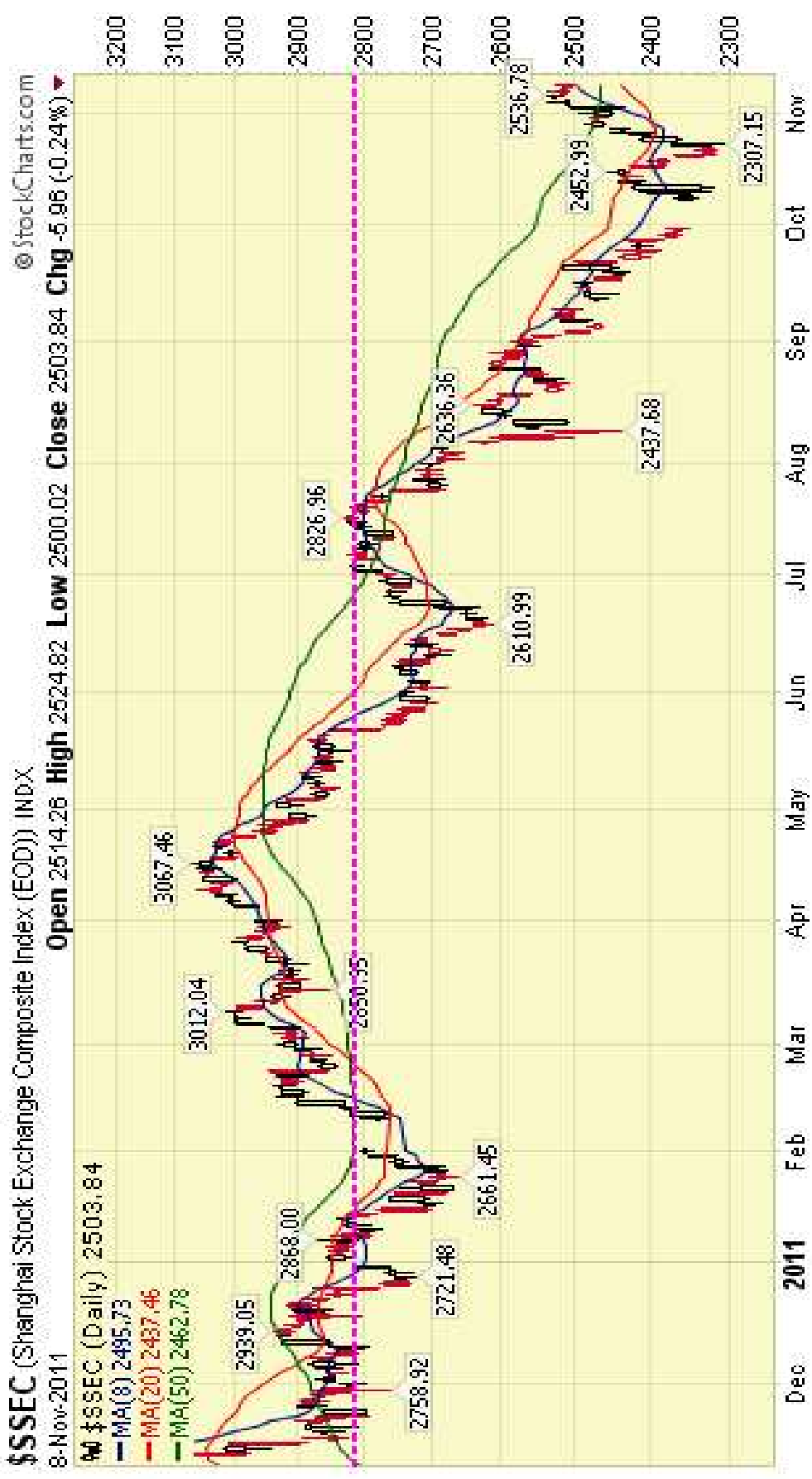


# Foreign Markets

# Japan



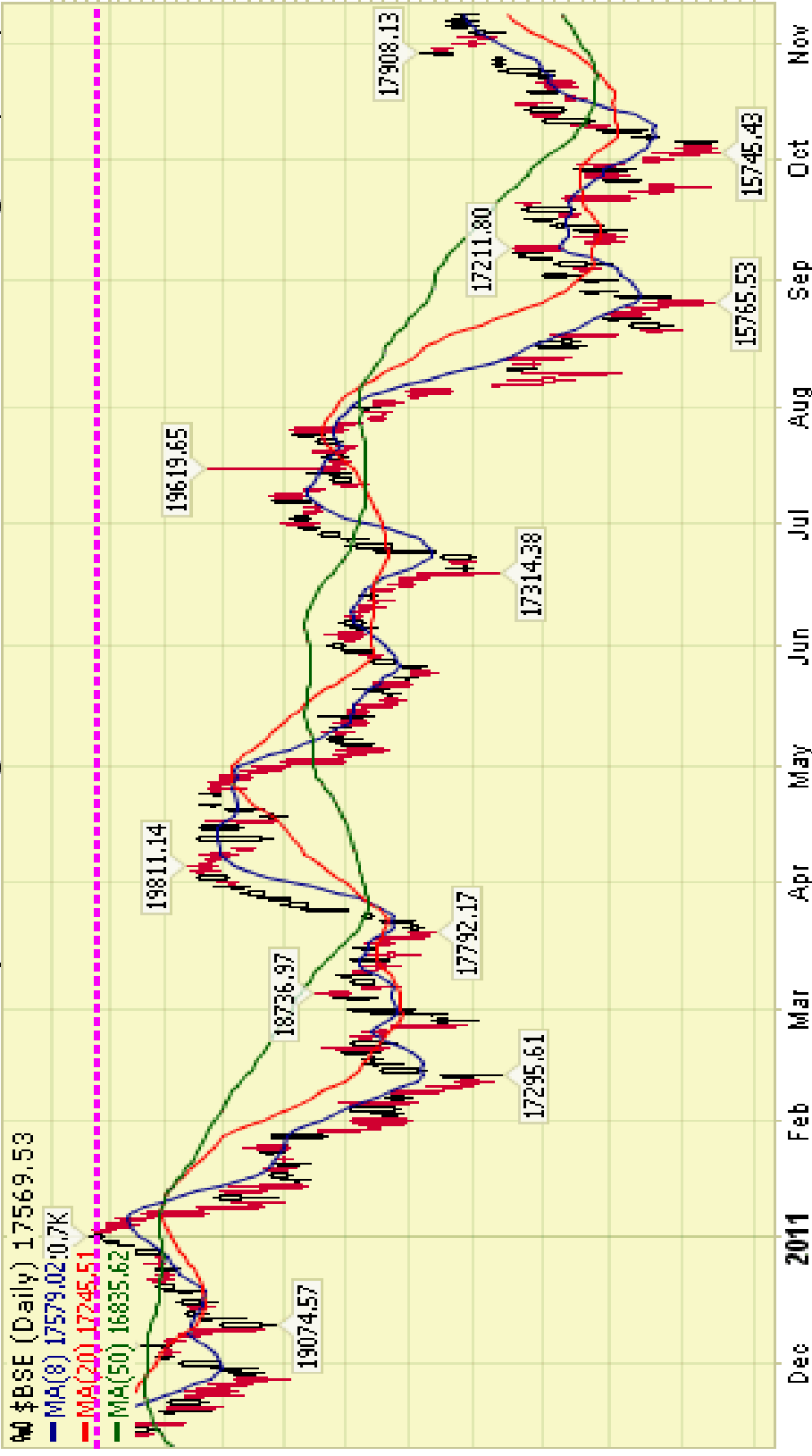
# Shanghai Composite



# India

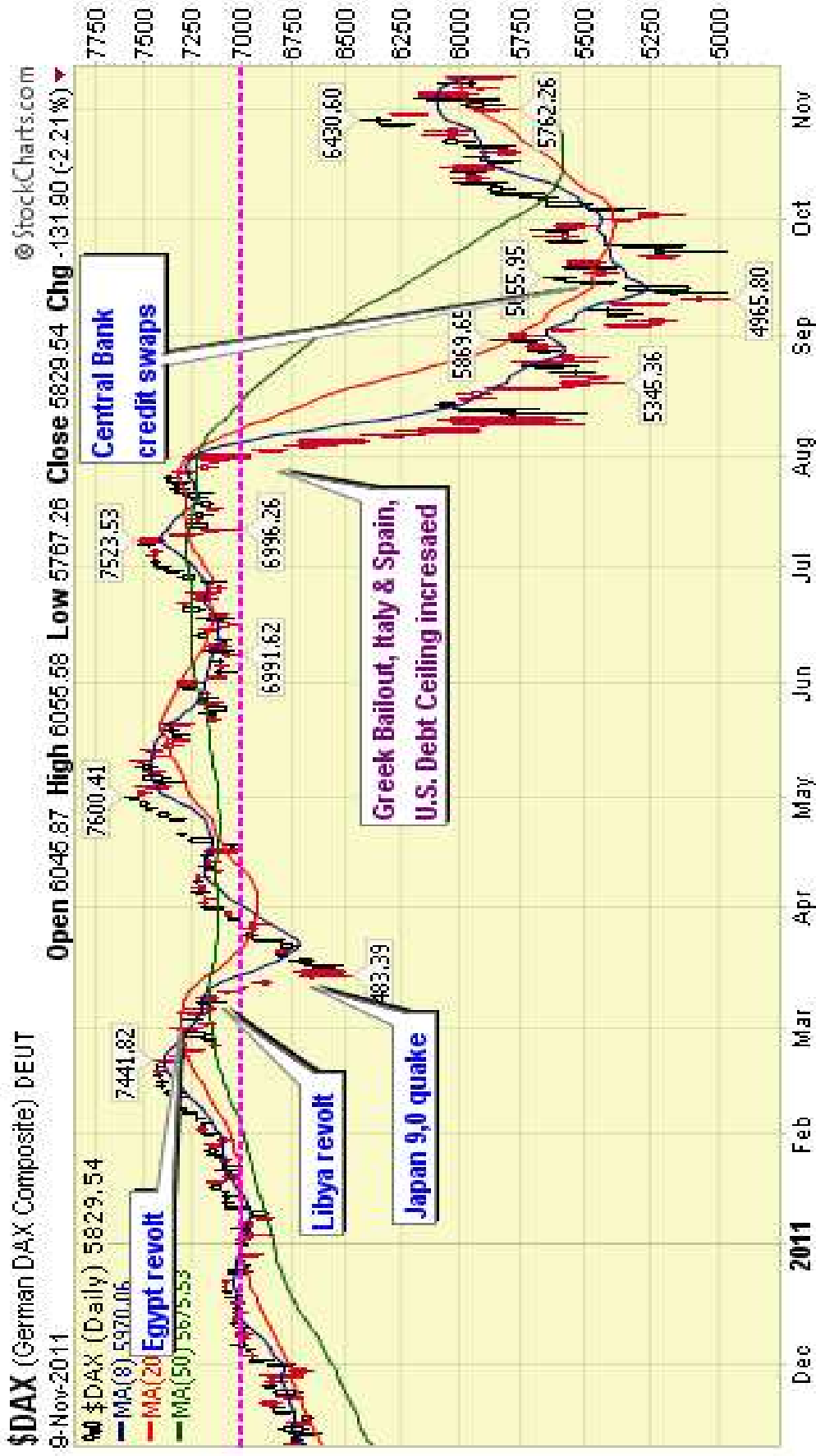
**\$BSE (India Bombay Stock Exchange 30 Sensex Index (EOD))** INDEX

8-Nov-2011 **Open** 17593.67 **High** 17632.23 **Low** 17455.22 **Close** 17569.53 **Chg** +6.92 (+0.04%) ▲

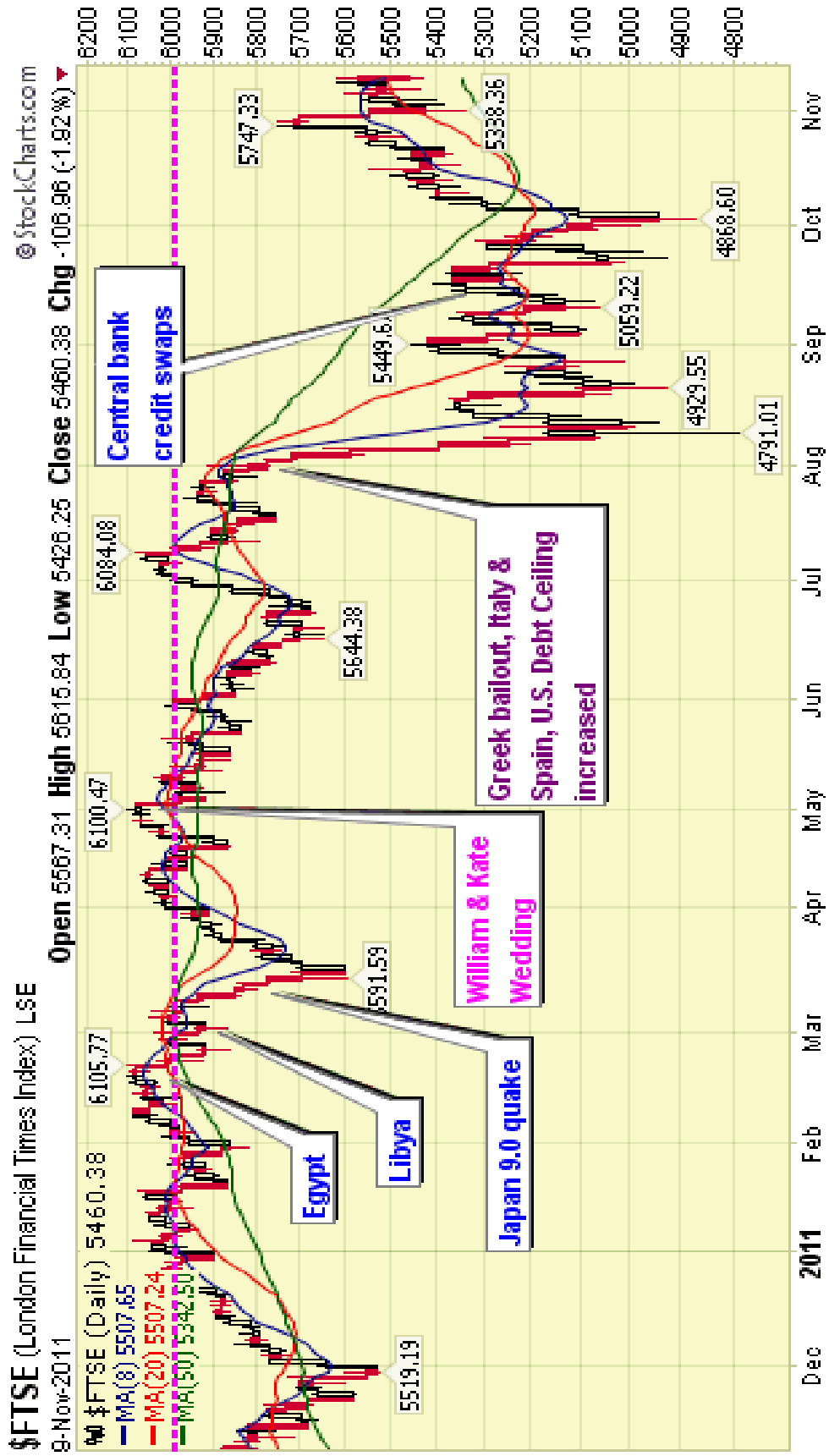




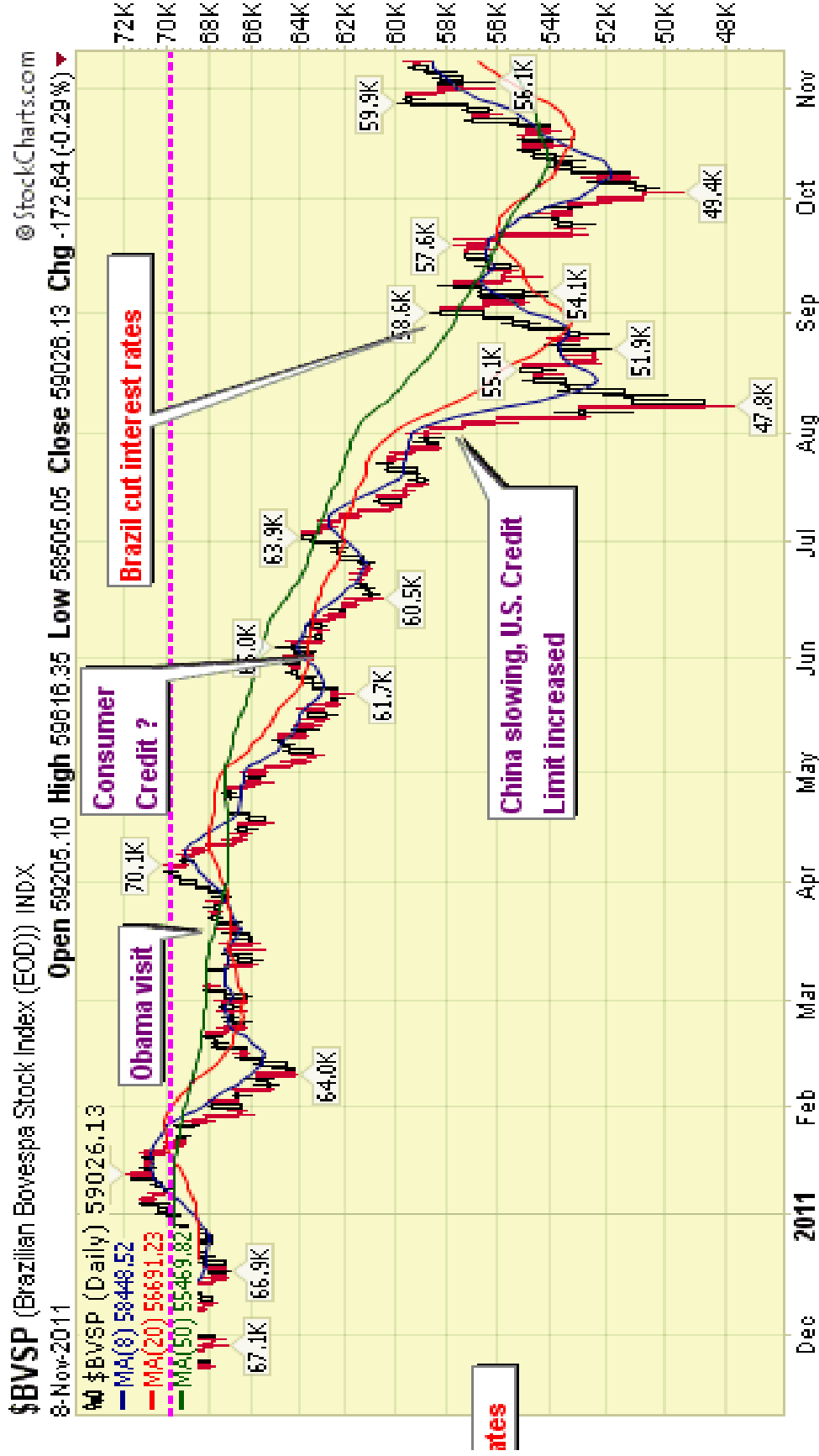
# German DAX



# London calling



# Brazil

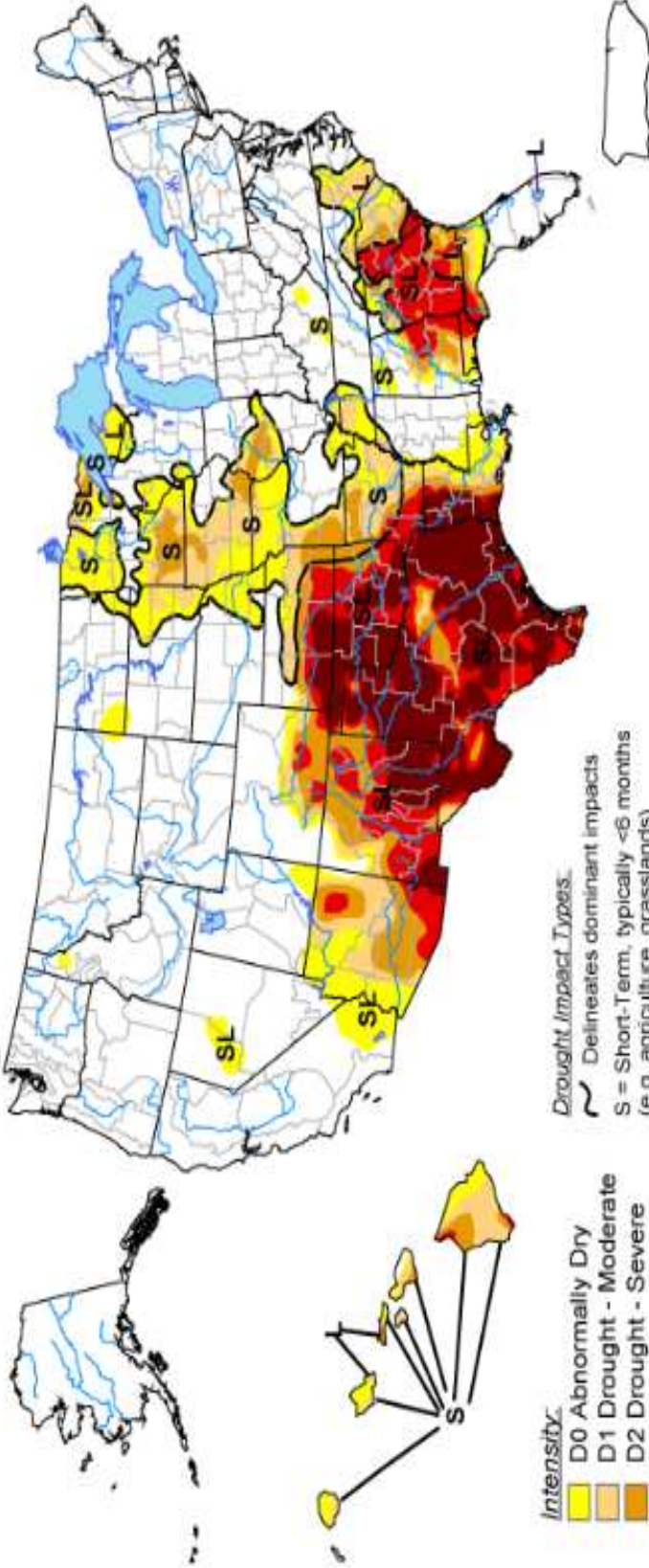


# Commodities

# Major Problem Brewing for 2012 Crops

## U.S. Drought Monitor

October 18, 2011  
Valid 8 a.m. EDT



### Intensity

- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://droughtmonitor.unl.edu/>

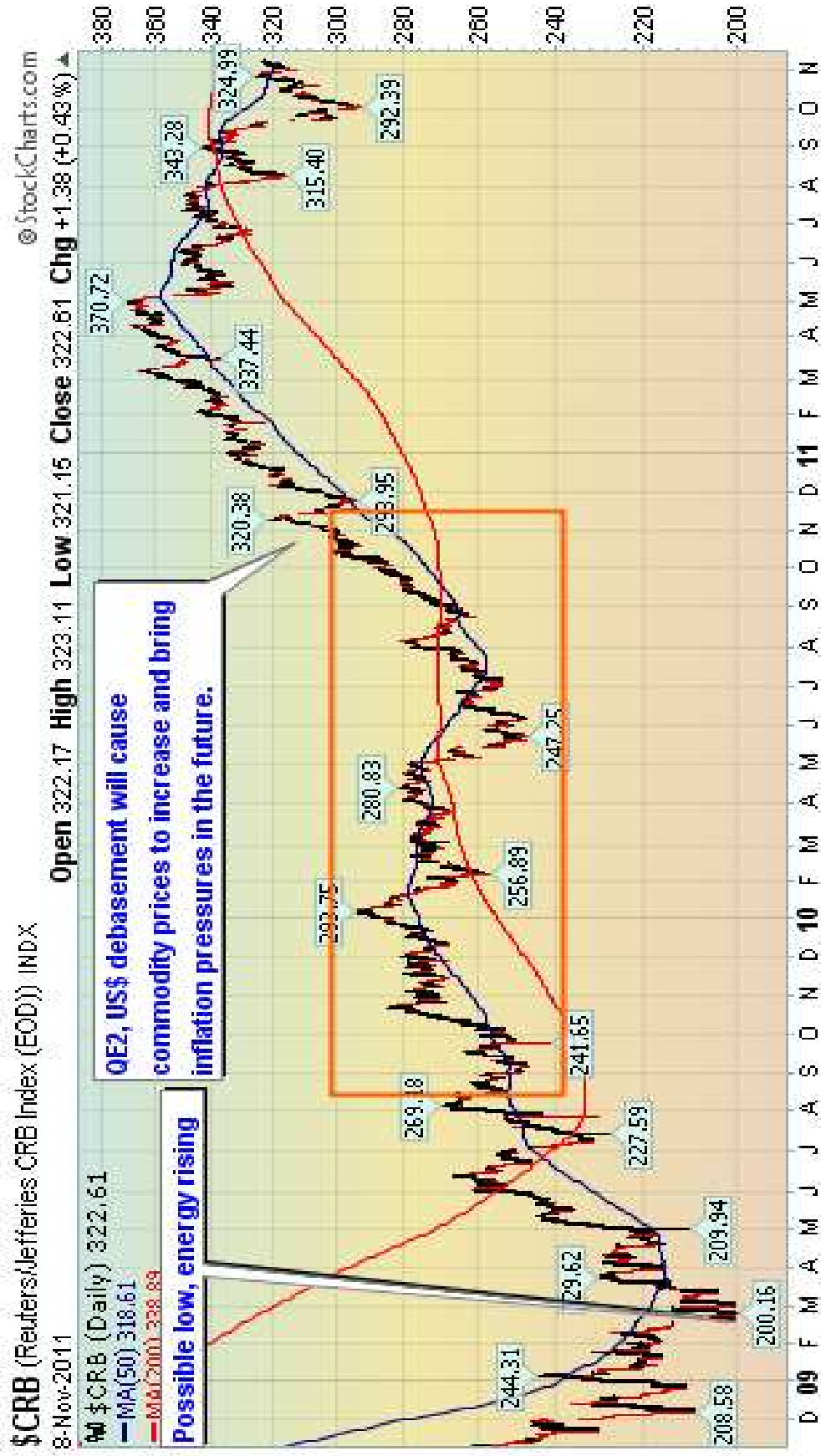
### Drought Impact Types

- Delineates dominant impacts
- S = Short-Term, typically <6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically >6 months (e.g. hydrology, ecology)



Released Thursday, October 20, 2011  
Author: David Miskus, NOAA/NWS/NCEP/CPC

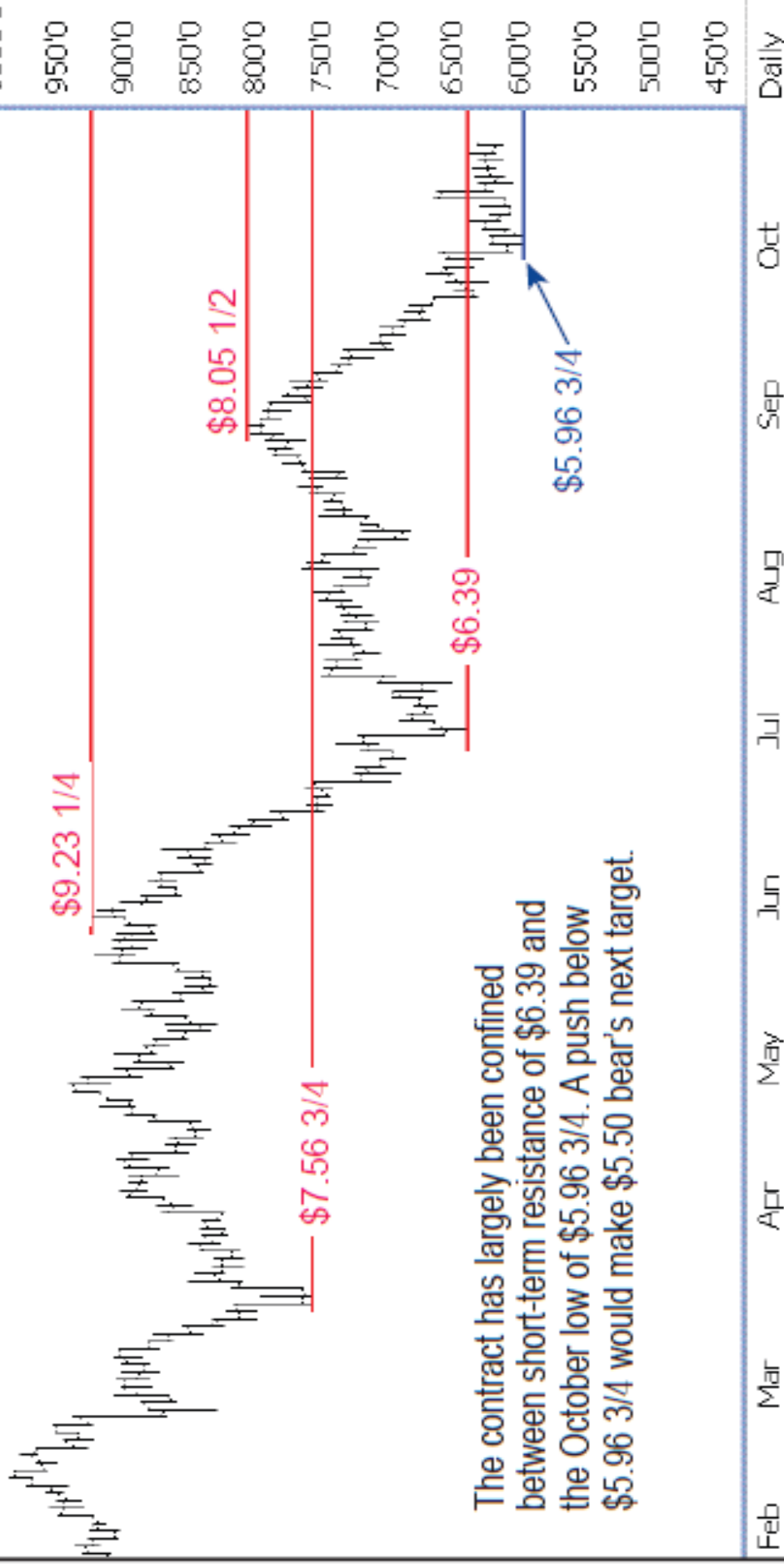
# The CRB index



## Daily Chicago December Wheat

*Trend is down.*

The contract needs several closes above \$6.39 to trigger an extended corrective bounce. Next tough resistance is the March low of \$7.56 3/4.

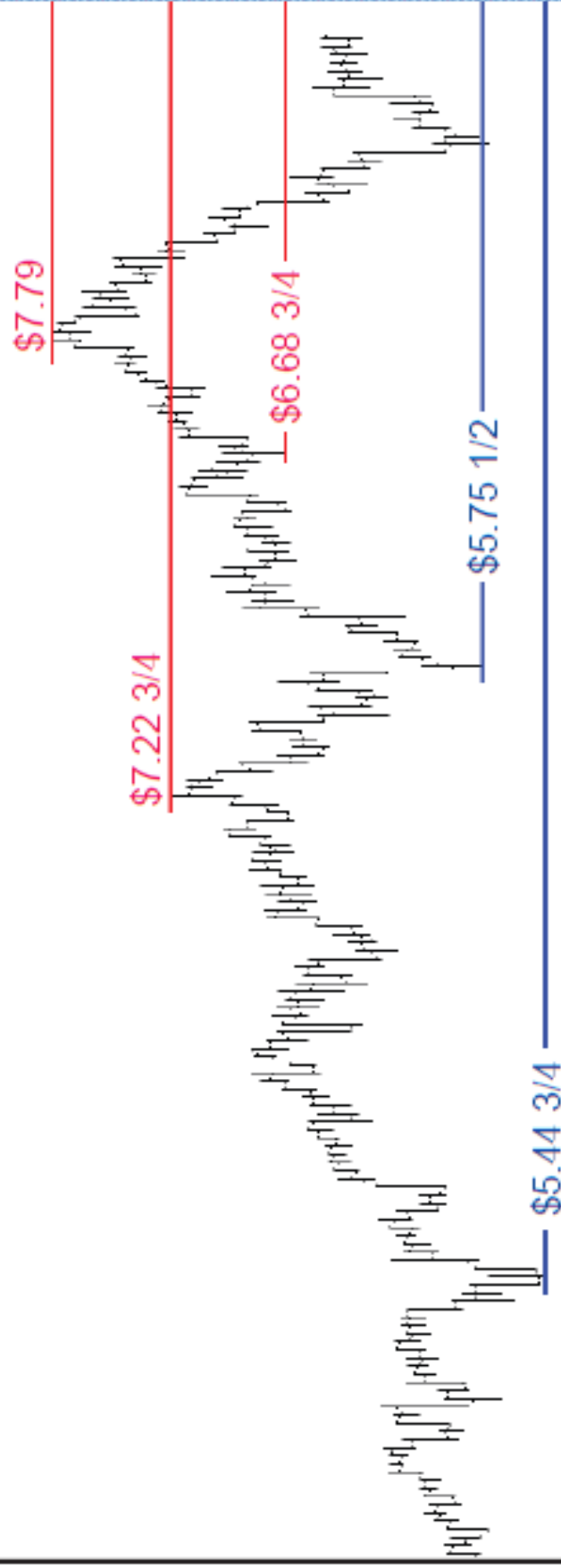


The contract has largely been confined between short-term resistance of \$6.39 and the October low of \$5.96 3/4. A push below \$5.96 3/4 would make \$5.50 bear's next target.

## Daily December Corn

*Short-term trend is turning up.*

The contract has consolidated around \$6.40 and needs to return above \$6.68 3/4 to build upward momentum. Tough resistance stands at \$7.22 3/4 and at the contract high of \$7.79.



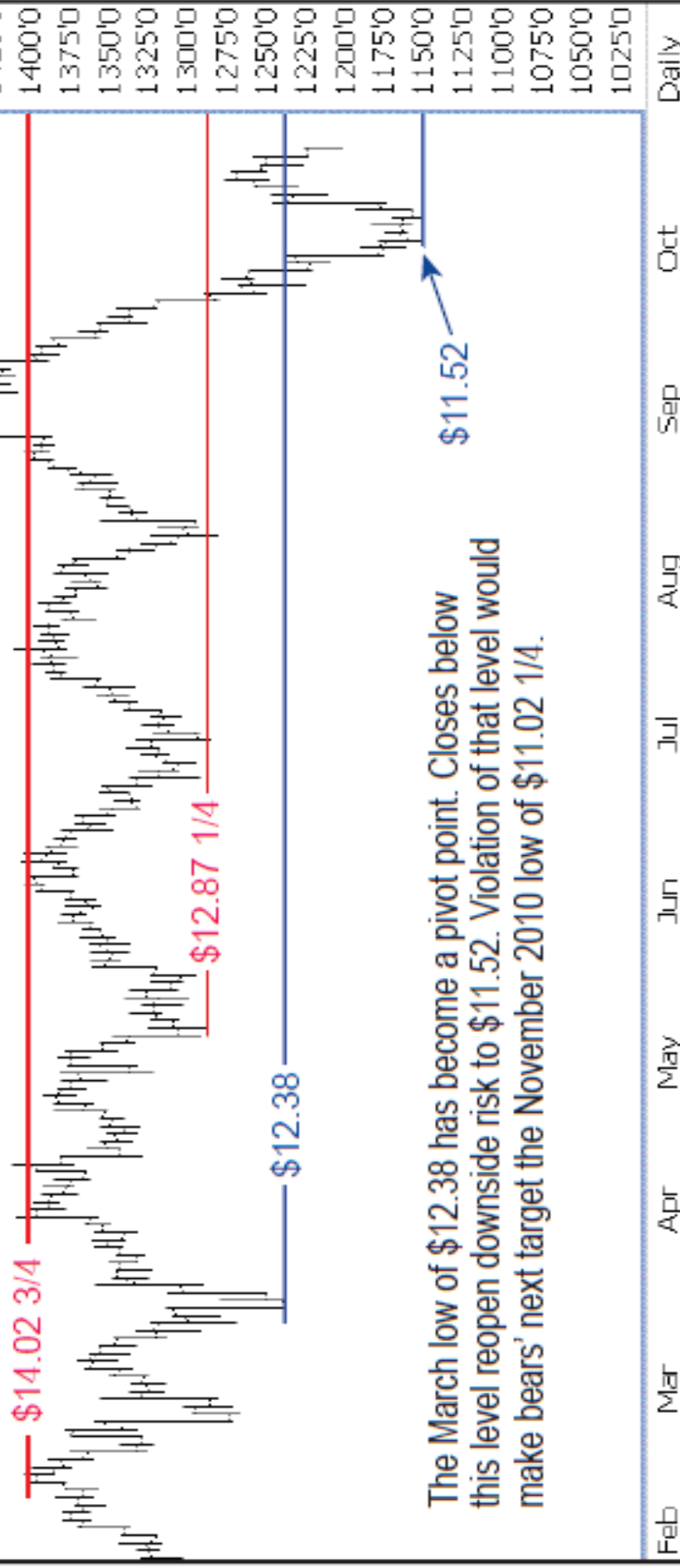
The July low at \$5.75 1/2 is strong support. Violation of this support would make the March low at \$5.44 3/4 key support.



## Daily November Soybeans

*Short-term trend is choppy.*

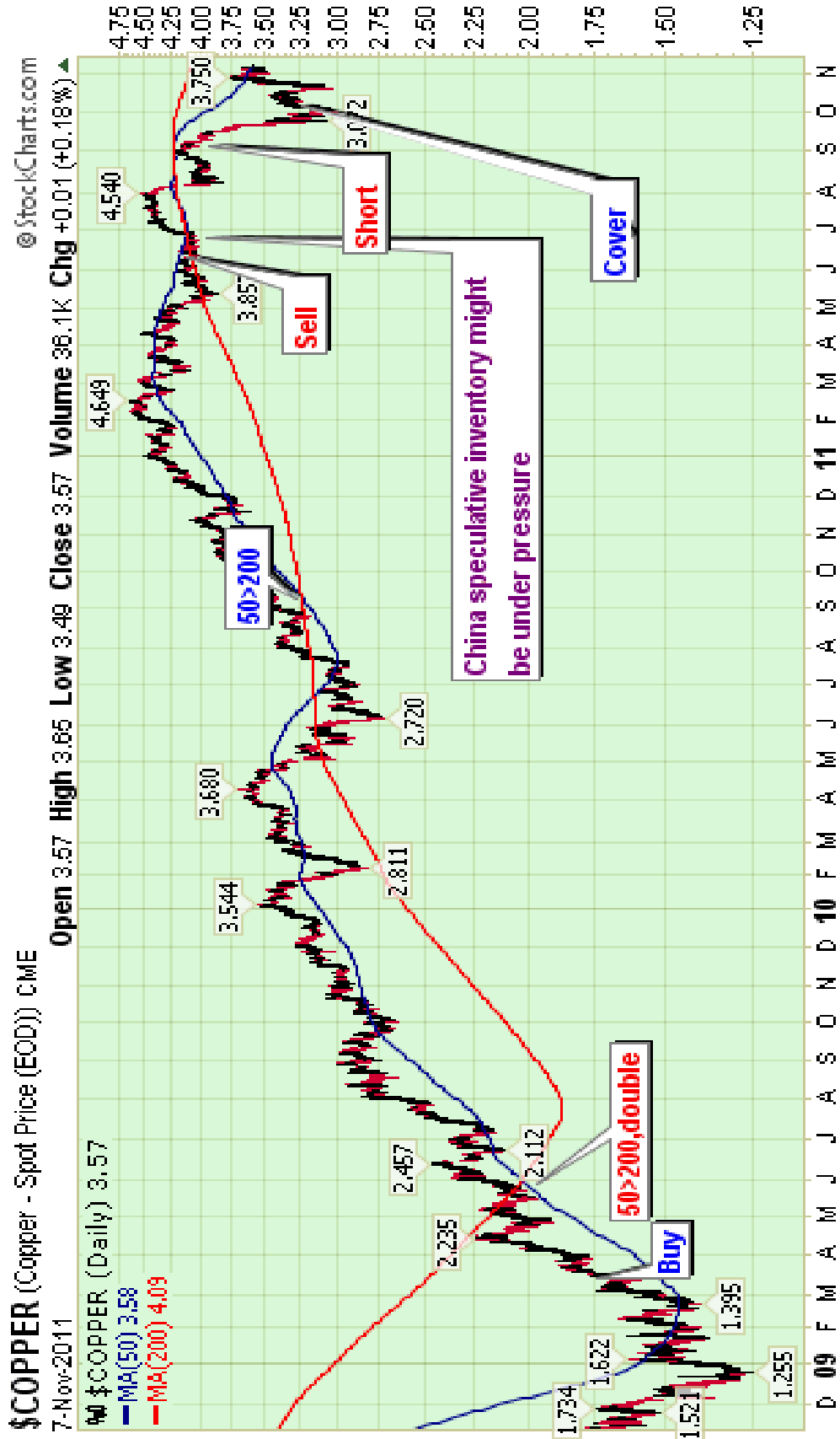
Bulls need closes above \$12.72 — the 38% retracement of the price plunge — to confirm a low and begin working higher. A return above \$12.87 1/4 would make bulls' next target the psychological \$13.00 level.



The March low of \$12.38 has become a pivot point. Closes below this level reopen downside risk to \$11.52. Violation of that level would make bears' next target the November 2010 low of \$11.02 1/4.



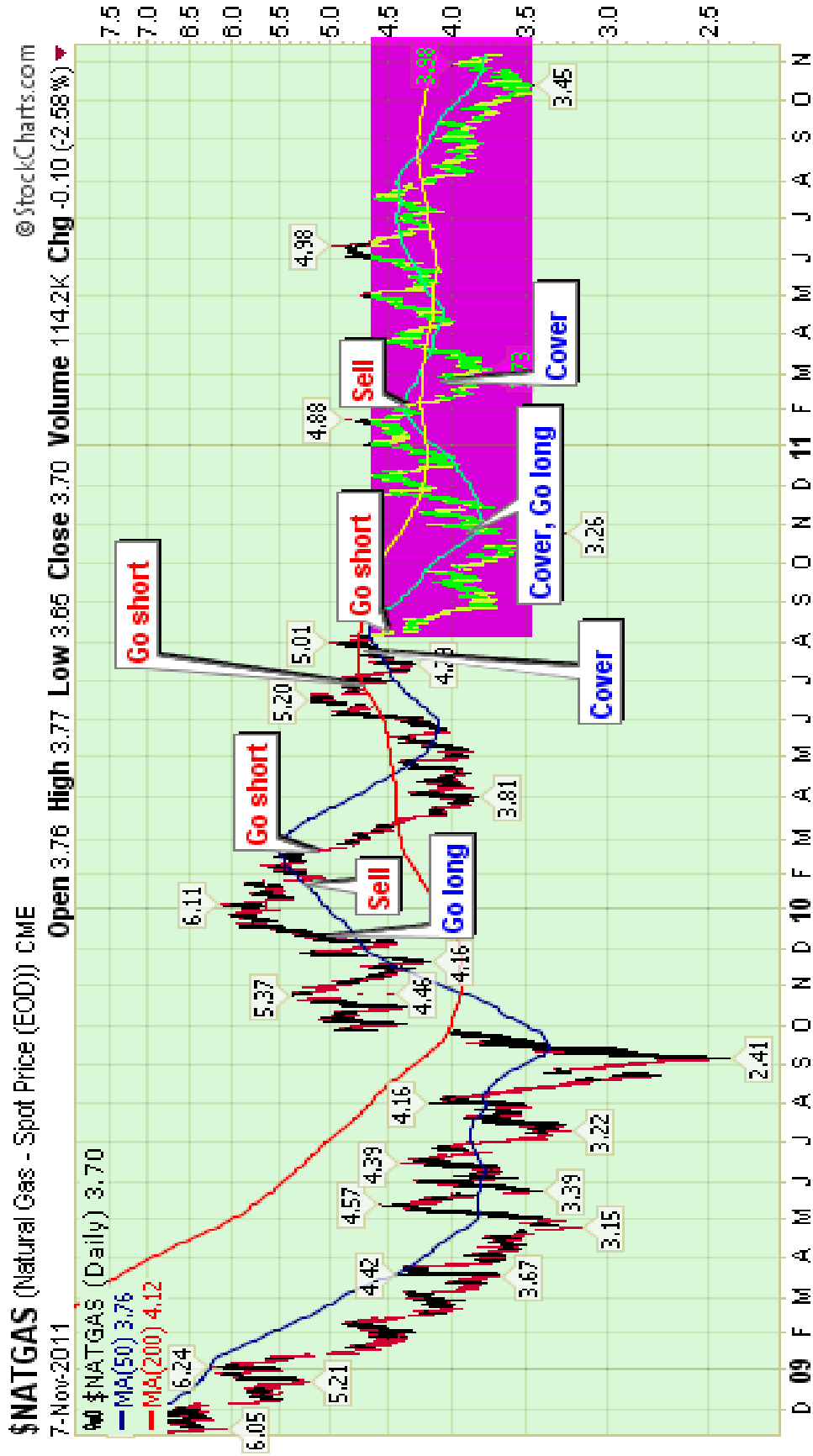
# Copper



# Crude Oil



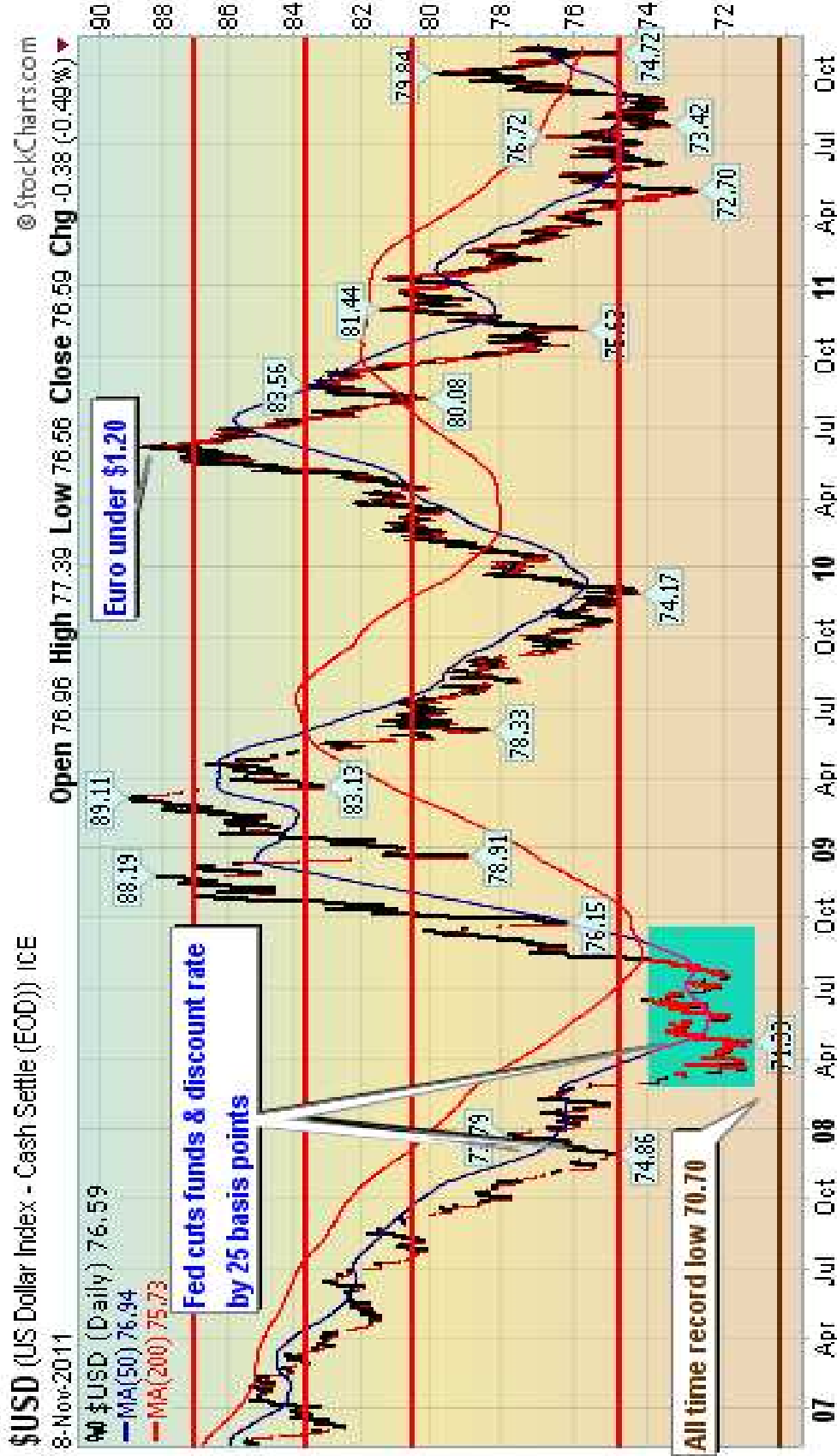
# Natural Gas . . . And Winter is coming!



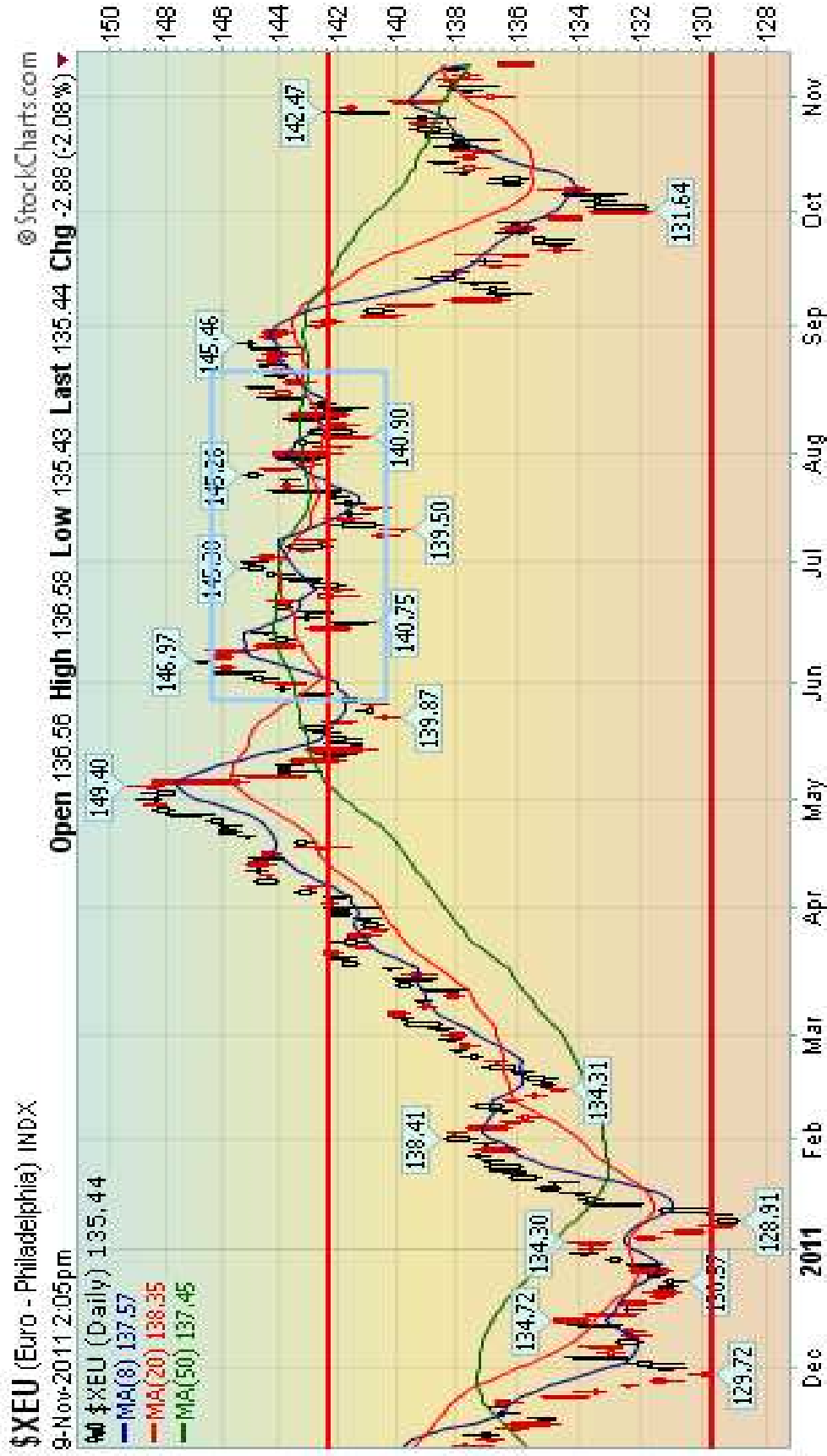
# Medium of Exchange



# The US Dollar Index

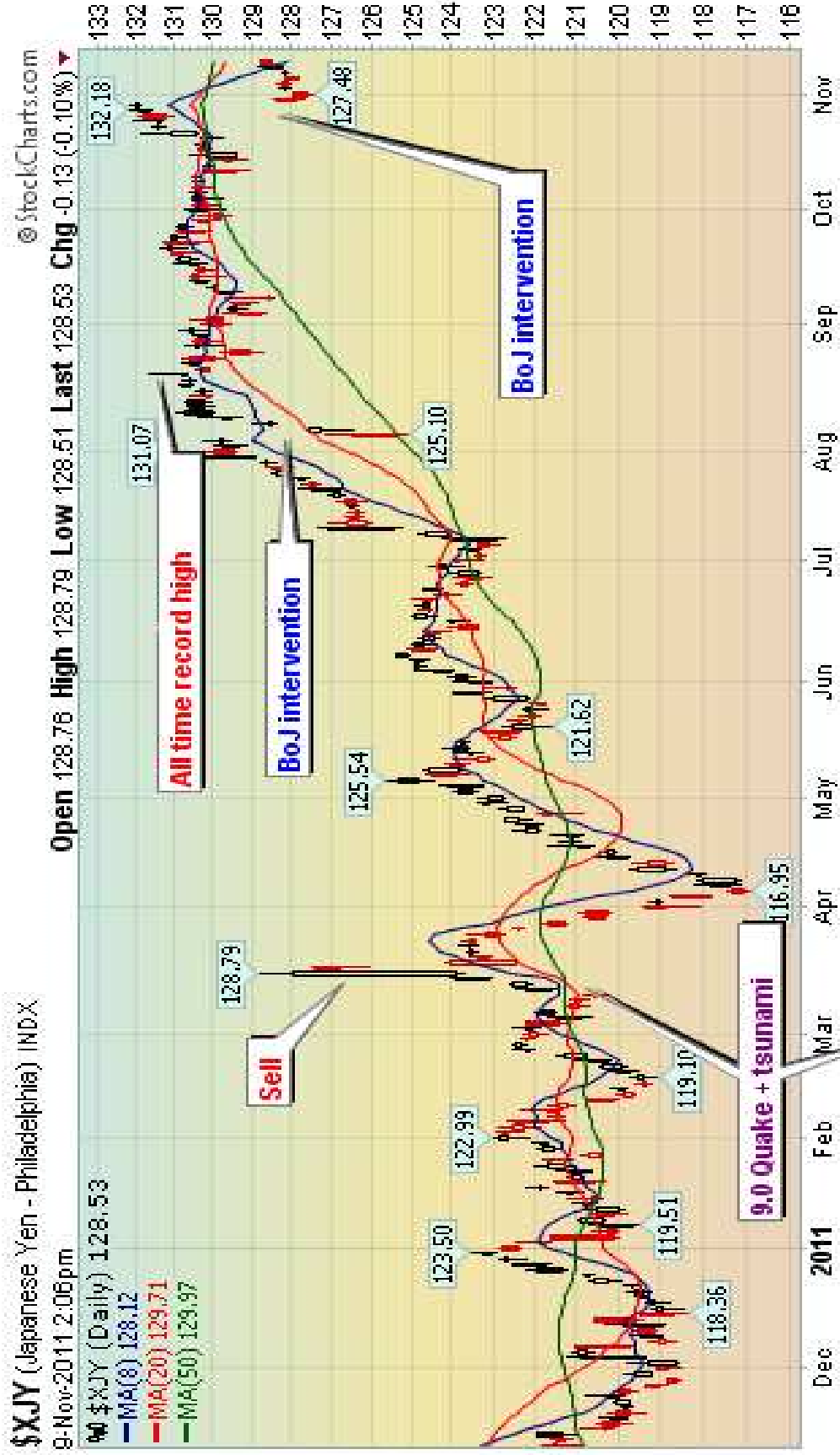


# Euro

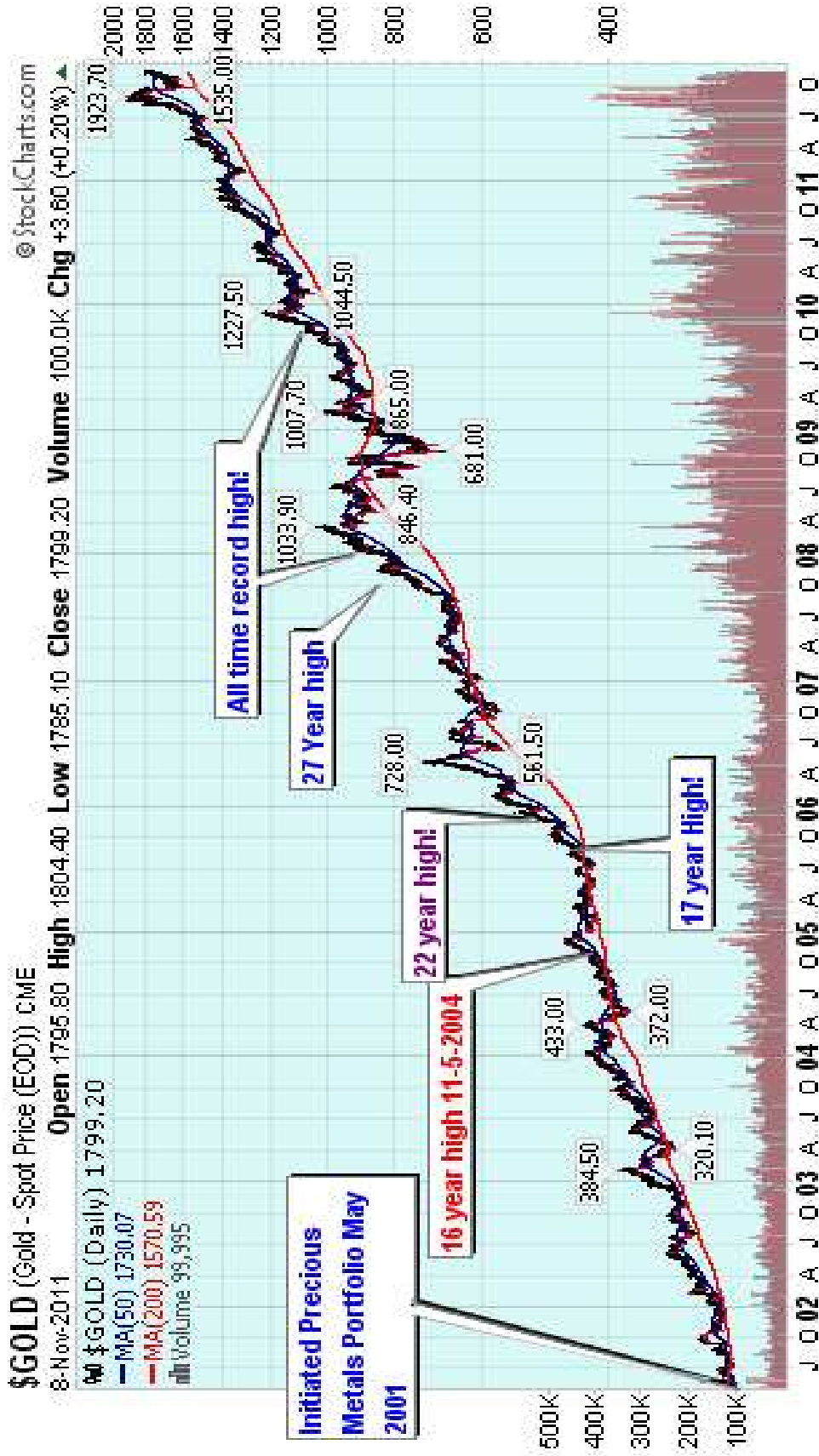




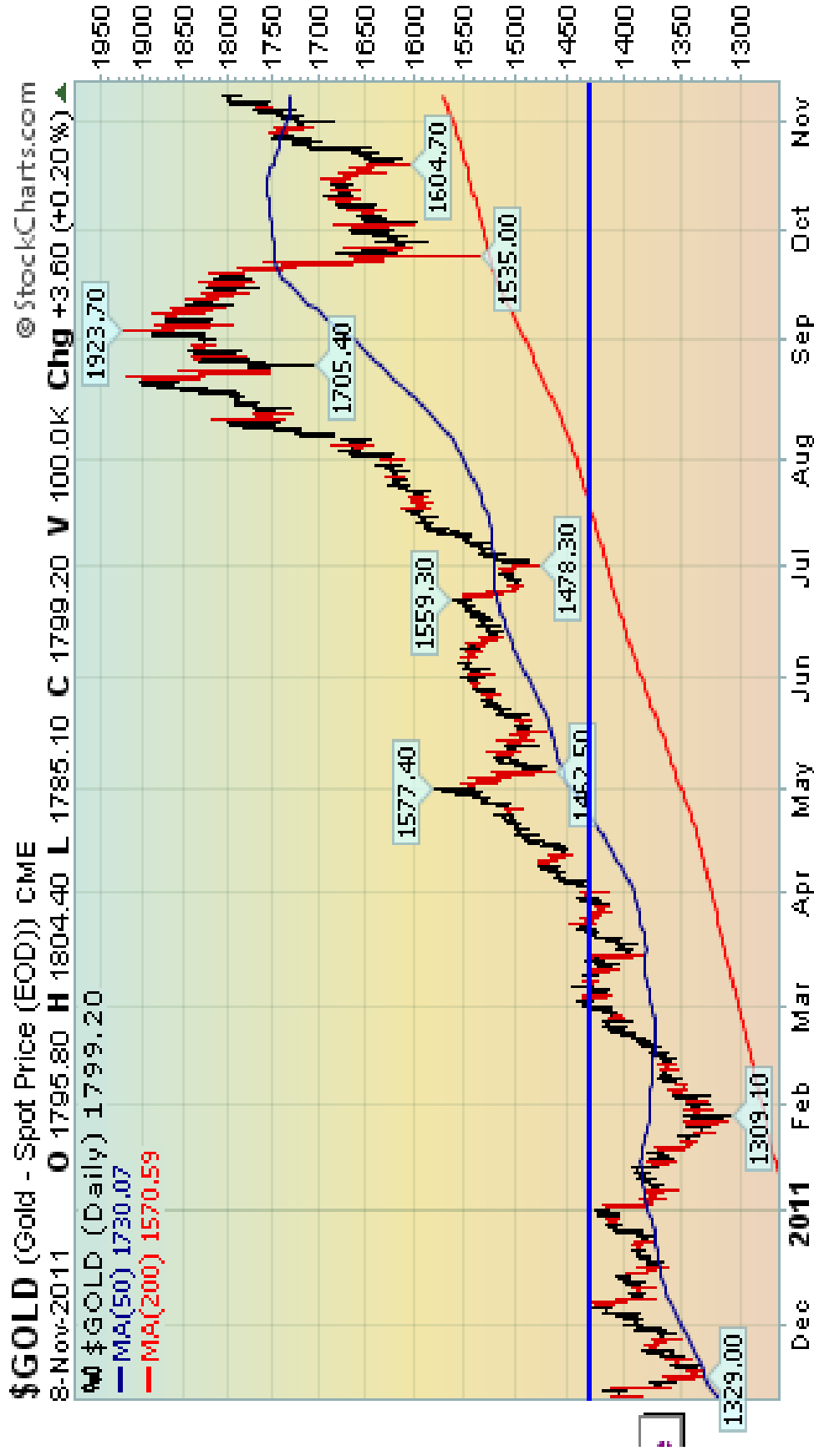
# Yen



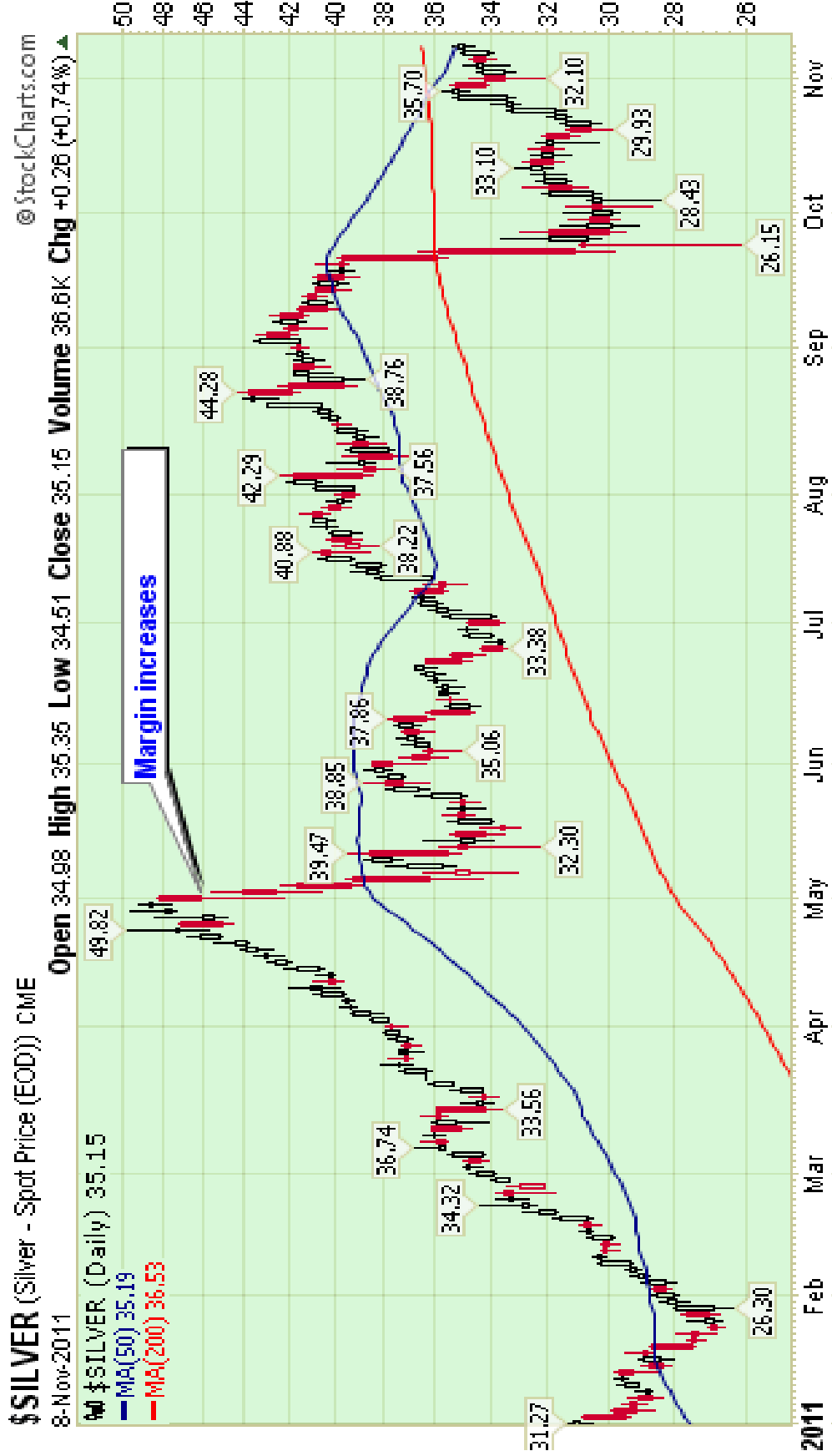
# Gold



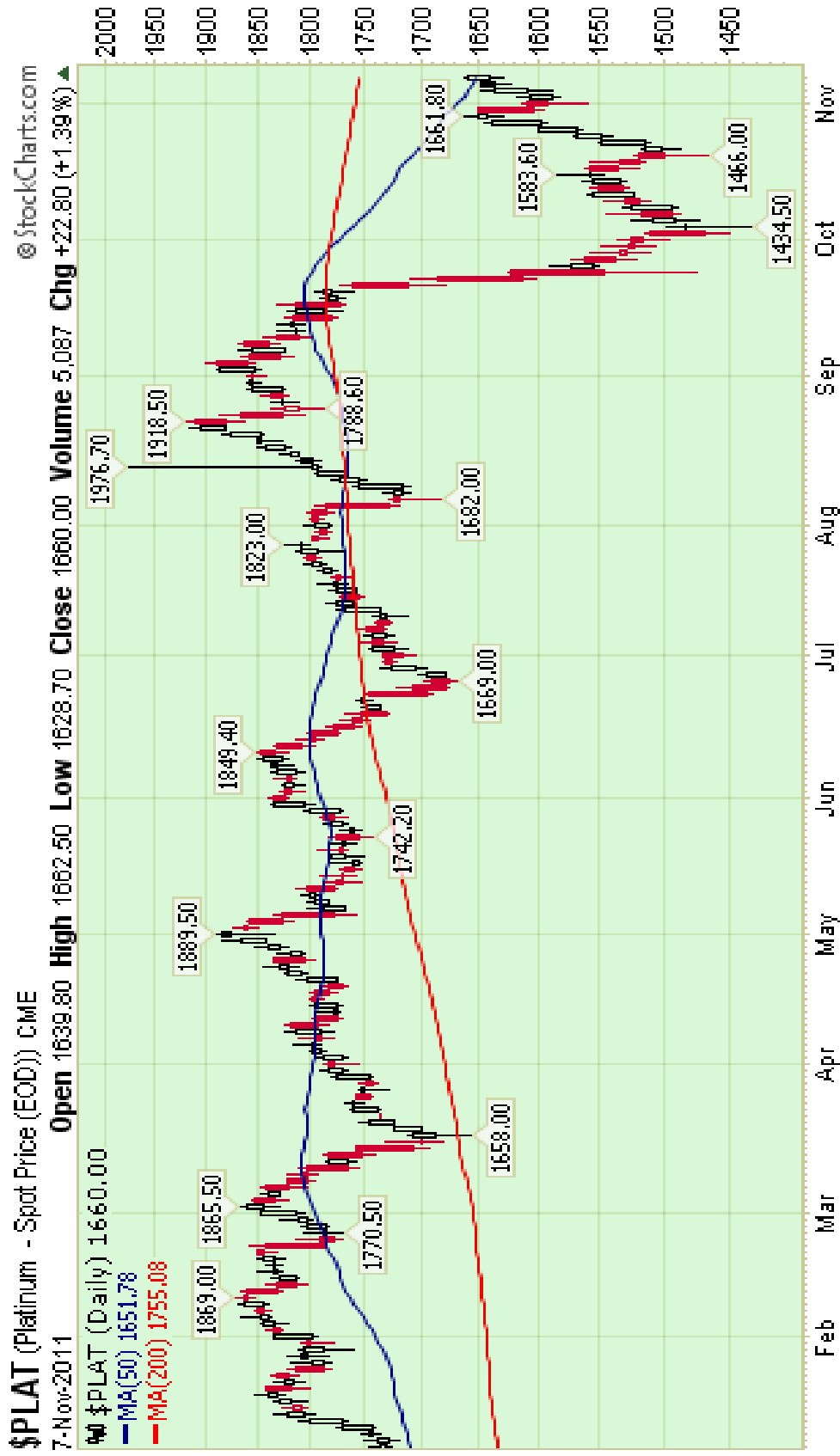
# Recent Gold Action



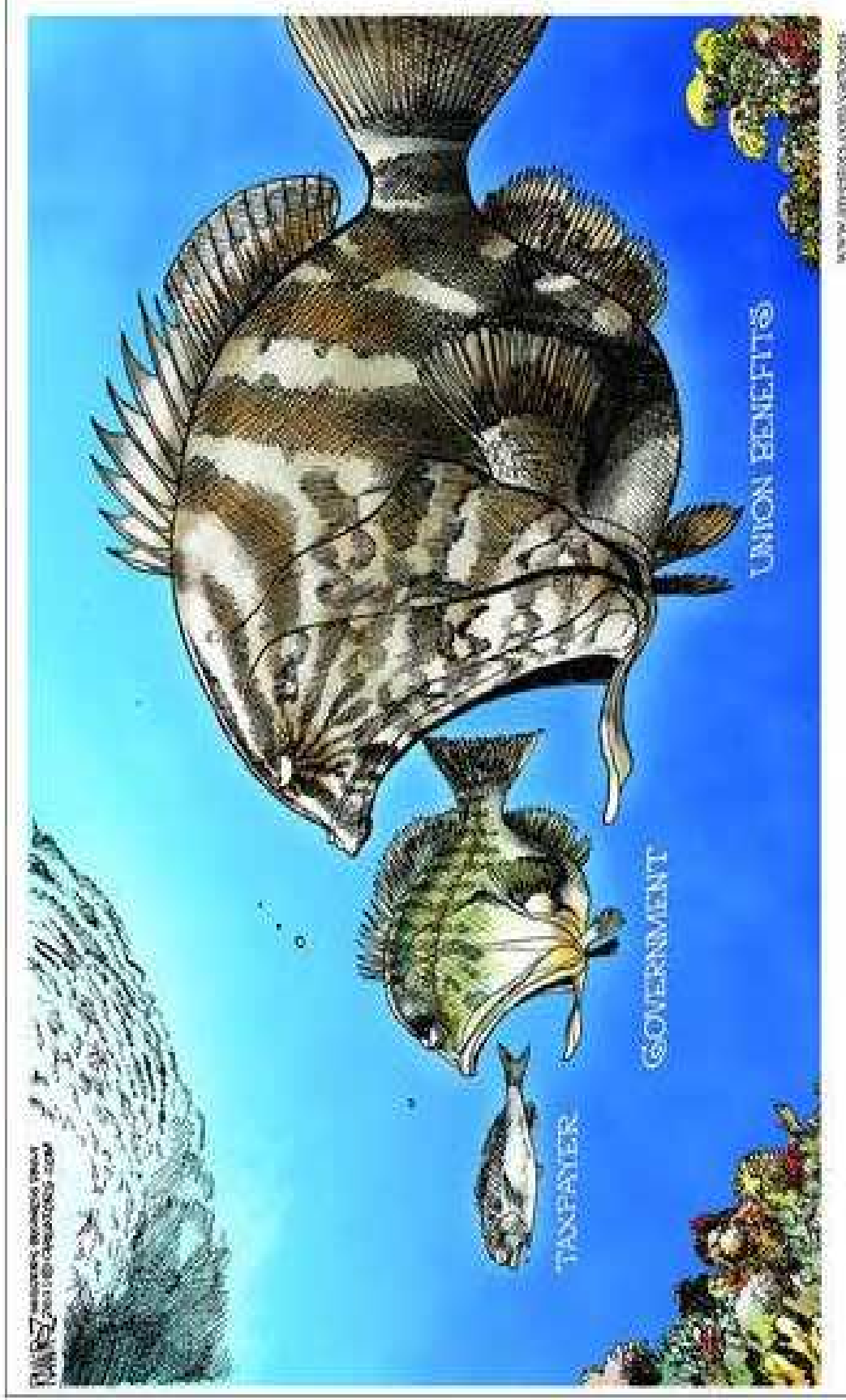
# Silver



# Platinum



# The real world!



**Your goal  
should be to  
capture  
the major portion  
of a move!**

# Strategic Investing Filters

## Conservative

- Acc/Dist = A
- EPS  $\geq 90$
- RS  $\geq 90$
- EPS + RS  $\geq 190$
- Composite Rating  $\geq 90$
- Price  $\geq \$6$
- Volume  $> 100,000$
- Top 50 Industry Groups

## Aggressive

- Acc/Dist  $\geq B$
- EPS  $\geq 85$
- RS  $\geq 85$
- EPS + RS  $\geq 180$
- Composite Rating  $\geq 80$
- Price  $\geq \$10$
- Volume  $> 1,000,000$
- Top 100 Industry Groups



# Which way are you looking?



**Any Questions ...**  
**Good hunting ...**  
**Are you looking for elephants?**

