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MarketShadows

this issue

Event Horizons P.1
Charting the Universe P.3
Glimpse of the Future P.5

> *"Gambling: The sure way of getting nothing for something."*
>
> *Wilson Mizner*

Event Horizon

"You're nuts to Average Down"

By Paul Price

Averaging down on your holdings means buying more of a stock that has already declined in price since you selected it to go up. A quick search of internet investment advice turns up dozens of stories with headlines like these…

Conventional wisdom says that the very fact that a stock went down means your investment theory must have been wrong. How silly is that idea? For me, if I liked it at $40 I'm going to love it at $30 unless something changed radically, and permanently, for the worse. Still, I put my idea to an impartial screen to see if I was simply deluding myself.

I went back and checked the 2012 highs and subsequent 2012 lows for all thirty Dow Jones Industrial stocks. Then I noted what they've done since hitting those lows (through Mar. 15, 2013).

There were some obvious takeaways once my chart was completed.

During the year, 100% of the DJIA companies traded below their annual peaks. The intra-year declines ranged from as little as 5.8% (JNJ) to as great as 62.2% (HPQ). 30 out of 30 closed last week above their 2012 nadirs.

The biggest recovery came in last year's biggest dog (HPQ). Other large percentage rebounds occurred in lower quality BAC, old-tech companies (CSCO & IBM) and the controversial bank JPM. While those stocks were 'falling knives,' the old adages about never averaging down were certainly quoted numerous times. Adhering to that advice was a hedge against prosperity.

The DJ Industrials are all substantial companies even if a few are not what they used to be. None of them were likely to disappear anytime soon. The best opportunities for making good money came in buying the shares that had gone down the most. Many of the more conservative stocks didn't fall as hard, nor did they rebound as well as the worst-thought-of names.

No matter which Dow stocks you picked when they were down-and-out, you'd be sitting on paper gains right now. Zero percent of the 'avoid at all cost' stocks are lower now than they were at their 2012 bottoms.

Ignoring the doom and gloom crowd, and buying what was cheap, worked much better than sticking with currently popular names.

The next time you hear someone telling people to avoid averaging down refer them back to this article. Facts trump platitudes every time.

Averaging Down: Not Crazy at All

Ticker	2012 High	Later 2012 Low	% Decline	3/15/13 Close	% Recovery
AA	$10.90	$8.50	22.0%	$8.63	1.5%
AXP	$61.42	$53.02	13.7%	$66.09	24.7%
BA	$77.83	$66.82	11.0%	$86.43	29.3%
BAC	$10.10	$6.72	33.5%	$12.58	87.2%
CAT	$116.95	$78.25	33.1%	$88.83	13.5%
CSCO	$21.30	$14.96	29.8%	$21.92	46.5%
CVX	$118.53	$100.66	14.7%	$119.68	15.1%
DD	$53.98	$41.67	22.8%	$49.90	19.8%
DIS	$53.15	$46.53	12.5%	$57.58	23.9%
GE	$21.00	$18.02	14.2%	$23.42	30.0%
HD	$65.23	$60.21	7.7%	$69.05	14.7%
HPQ	$30.00	$11.35	62.2%	$22.18	95.4%
IBM	$210.69	$181.85	13.7%	$214.92	33.1%
INTC	$29.27	$19.23	34.3%	$21.38	11.2%
JNJ	$72.74	$68.51	5.8%	$79.19	15.6%
JPM	$46.49	$30.83	33.7%	$50.02	62.2%
KO	$40.67	$35.58	12.5%	$38.83	9.1%
MCD	$102.22	$83.31	18.5%	$99.67	19.6%
MMM	$95.46	$86.74	9.1%	106.40	22.7%
MRK	$48.00	$40.02	16.6%	$44.09	10.2%
MSFT	$32.95	$26.26	20.3%	$28.04	6.8%
PFE	$26.09	$23.55	9.7%	$28.02	19.0%
PG	$70.99	$66.83	6.1%	$76.34	14.2%
T	$38.58	$32.71	15.2%	$36.43	11.4%
TRV	$74.70	$67.77	9.3%	$82.28	21.4%
UNH	$60.75	$50.32	17.2%	$54.73	8.8%
UTX	$87.50	$70.91	19.2%	$93.28	31.5%
VZ	$48.77	$40.51	16.9%	$48.02	18.5%
WMT	$77.60	$67.37	13.2%	$72.50	7.6%
XOM	$93.67	$84.70	9.6%	$89.37	5.5%
Data Source: Yahoo Finance			All Prices are Split-Adjusted		
Decline and Recovery Percentages *Exclude* Dividends					

Disclosure: *MarketShadow* writers may own stocks discussed in this section and may buy or sell these stocks at will, with no notice, in the future. Click on this link for the Market Shadow's Virtual Portfolio.

Virtual Value Portfolio Update – March 17, 2013

By Paul Price

The DJIA winning streak stopped after 10 trading days. Market Shadows' hot hand continues.

Our model Virtual Value Portfolio, (initiated on Oct. 26, 2012), finished last week at a new all-time high.

Our $100,000 original stake has grown to $116,175.09 including dividends for a 16.2% total return in less than five months. That equals 41.6% annualized. Our benchmark, the S&P 500, rose 11.6% including dividends for a 29.8% annualized rate over that same time period. **Market Shadows now has a 39.3% outperformance ratio!**

We booked a nice profit on one holding last week while adding one new name. Cummins (CMI) was sold for a 27.4% gain plus dividends. We bought shares of Quest Diagnostics (DGX) for the first time. DGX offers a decent yield, solid upside and a low risk profile.

Our cash position has grown to $11,018 as we've sold a bit more than we've added over the past couple of weeks.

All four of the stocks which we averaged down on since inception (Coach, Calamos Asset Management, Express Scripts and Potash) are starting to move up again. You can see a detailed view concerning the wisdom of buying more of stocks which go down elsewhere in this issue. (Hint – I'm a fan averaging down.)

Note:

Paul Price sees less bargains than he did several months ago. However, he still likes Express Scripts (ESRX), Quest Diagnostics (DGX), Lab Corp. (LH), Coach Inc. (COH) and Calamos Asset Management Inc. (CLMS) at current prices.

Patient investors may find better bargains if this toppy market sells off - which wouldn't surprise us. We've built our cash position up a little bit for this reason.

For immediate updates on buys and sells from the Virtual Value Portfolio and the Selling Put Portfolio, visit us here.

(Click on charts to enlarge)

Charting the Universe

A Market of Stocks

Courtesy of David Grandey of All About Trends

With Friday's rally, the indexes remain overbought, closer to resistance than support.

While the overall market looks extended, it's a market of stocks and we look for both long and short opportunities.

On Friday (3/22), we initiated a short sell trade in Apple Inc. AAPL is overbought and flirting with its 50-day moving average and downtrend line — a move made on light volume. Often, when a stock is locked in a downtrend, it will return to the scene of the crime to retest its low. AAPL hasn't retested yet.

We shorted 20 shares of AAPL at $461.30.

We also added a new name to the LONG watch list: JIVE.

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(Click on charts to enlarge)

JIVE is in a confirmed uptrend (shown by the green lines) that is pulling back to support at the 50-day moving average with additional support shown by the blue lines and the bottom of the uptrend channel. This is what we call a Pullback Off Highs pattern — the only pattern we need to know to buy leading stocks in confirmed uptrends at low risk entry points.

A break above the pink line triggers a long-side trade.

To learn more, sign up for our free, no obligation 15-day trial.

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Virtual Put Selling Portfolio

When we sell a put, we are agreeing to buy 100 shares of a particular (underlying) stock at a set price (strike price) through a set expiration date, if the owner (buyer) of the option asks us to.

"Premium" is the term that describes the per share price that we received upon the sale of the put. Because each put contract represents 100 shares of stock, the actual dollars received would be 100 times the premium per share.

Once we've sold a put, our best case scenario occurs if the underlying stock closes at or above the strike price on the option's expiration date. In this case, the obligation to buy gets extinguished, and the premium we collected is 100% profit.

If the underlying stock closes below the strike price at expiration, the put would be exercised. If we did nothing, we would own 100 shares per contract at a net cost of the strike price minus the per share premium initially received. That amount is the "break-even" price.

Why sell a put?

- Sale of put premium generates immediate income
- 'If Put' prices are lower than market prices at the trade's inception because the premium for selling the put is retained by the seller – i.e., there's a discount on the shares.
- Due to the discount, put writers have a built-in 'margin of safety' that an outright stock purchase doesn't provide.

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Virtual Put Sellling Portfolio : Sheet1

Company	Ticker	Stock Price on Trade Date	Trade Date	Expiration Date	Strike Price	Premium Received	Breakeven Price at Exp.*	Current Stock Price
Express Scripts	ESRX	$54.67	1/9/2013	Jan. 2014	$60.00	$8.70	$51.30	$57.93
Kohl's Corp.	KSS	$41.87	1/9/2013	Jan. 2014	$45.00	$7.00	$38.00	$46.32
Lab Corp	LH	$87.26	1/9/2013	May 2013	$87.50	$4.00	$83.50	$88.25
Mosaic Co.	MOS	$59.36	1/9/2013	Jan. 2014	$60.00	$7.50	$52.50	$59.71
Tiffany & Co.	TIF	$59.58	1/11/2013	Jan. 2014	$60.00	$7.85	$52.15	$69.23
Quest Diagnostics	DGX	$58.37	1/30/2013	Aug. 2013	$60.00	$4.30	$55.70	$56.56
Life Time Fitness	LTM	$42.36	2/20/2013	Aug. 2013	$45.00	$5.60	$39.40	$42.84
Caterpillar Inc.	CAT	$91.45	2/22/2013	Jan. 2014	$100.00	$14.60	$85.40	$87.48
Life Technologies	LIFE	$58.19	2/25/2013	Jan. 2014	$55.00	$4.00	$51.00	$63.99
Schlumberger	SLB	$73.08	3/19/2013	Jan. 2014	$75.00	$8.40	$66.60	$74.37
Oracle	ORCL	$31.75	3/22/2013	Jan. 2014	$35.00	$4.70	$30.30	$31.98
Cummins	CMI	$113.45	3/22/2013	Jan. 2014	$110.00	$11.00	$99.00	$113.50

Quotes may be delayed up to 20 minutes. Information is provided 'as is' and solely for informational purposes, not for trading purposes or advice. Disclaimer

(Click on charts to enlarge)

Glimpse of the Future

Liquidity Sufficient to Keep Bid In Treasuries AND Prevent Stock Selloff

Courtesy of Lee Adler of the Wall Street Examiner

The haircut to be administered to bank depositors in Cyprus, not yet finalized as of this writing, has again tilted the playing field to drive foreign capital into the US Treasury market, which should prevent an upside breakout and send yields lower in the short run. The 1.85 to 2.10 range should remain intact for a while.

Trends for next week:

Treasury supply will be heavy this week, while support from the Fed is reduced at the end of the month. This would normally unsettle the market a bit. **But much of the $100 billion in Fed pumping from mid month may still be available for deployment. That could keep bids under both Treasuries and stocks.**

Foreign central bank (FCB) buying (US Treasuries) is in the weak side of its short term buying cycle but renewed fears over the European financial crisis are likely sending more private foreign capital flooding into the US Treasury market, and more Fed cash will be on the way, so **weak FCB buying should not be enough to slow the markets.**

Public buying remained a bullish factor for bonds. Panic in Europe would add to that.

Recent strength in withholding taxes are resulting in a windfall for the government. Withholding tax collections for the 2 week period ended March 21 were up 11.5% over the corresponding period of 2012. That compares with a gain of 9.2% a week ago. *This suggests that some sectors of the economy are much stronger than anybody realizes and may be overheating. Tax collections remain well above what can be attributed to the tax increase alone.*

The sequester could reduce Treasury supply by a small amount, which would be a bullish factor for both Treasuries and stocks. **With less Treasury supply, more Fed QE cash would be available for stock and commodity speculation.**

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