

Market Shadows



THIS WEEK

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Sea of Money

Dear Market Shadows Readers,

Due to our experimenting with a variety of newsletter platforms, we have not sent out a newsletter summary recently. However, new articles can quickly be found by visiting the [Market Shadows' website](#).

Signing up for an email subscription is the fastest way to receive notice of posts describing changes to the [Virtual Value Portfolio](#) and [Virtual Put Selling Portfolio](#). At the top left of the [Market Shadows' Home Page](#), there is a box for signing up for our email list.

For posts by Paul Price, including changes in the [Virtual Value Portfolio](#), please visit the [Value Investing Section](#). [Archived newsletter files are here](#). For previous newsletter articles, visit the [Newsletter Article Section](#) - it includes articles by Paul Price and Lee Adler. For updates by Lee Adler on the overall market environment, please visit the [Money Flow Section](#). Articles involving options, including Paul's moves in the [Virtual Put Selling Portfolio](#), are in the [Options Section](#), the [Value Investing Section](#), and the [Newsletter Article Section](#).

VIRTUAL PORTFOLIO UPDATES

[Virtual Value Portfolio](#)

Market Shadows' [Virtual Value Portfolio](#) has been enjoying the recent stock market rally. Our original \$100,000 had grown to \$118,295, as of May 5, 2013, approximately 6.5 months since the portfolio's inception on October 26, 2013.

And they're off...

	Oct. 26, 2012	May 4, 2013	% Total Return*	Annualized %
Market Shadows	\$100,000	\$118,295	18.29%	35.15%
S & P 500	\$100,000	\$115,510	15.51%	29.79%

* Total Returns include dividends

Data: Yahoo Finance

We bought shares in four different companies in April: [Agrium Inc. \(AGU\)](#), [Bunge Ltd. \(BG\)](#), [Caterpillar \(CAT\)](#), and [Dollar Tree \(DLTR\)](#).

On May 1, [we picked up shares](#) of oilfield service firm [Helmerich & Payne \(HP\)](#). By Friday, the HP shares had gained 7.6%.

We currently have \$4,743 in cash reserves which represents 4.0% of our total portfolio value. [The portfolio's positions and our strategy are presented in detail here.](#)

Virtual Put Selling Portfolio

We made our first close-out in the [Virtual Put Selling Portfolio](#) since it was started on January 9, 2013. After less than two months, we bought back the sold put on Life Technologies (LIFE). The stock had risen due to a friendly takeover by Thermo Fisher Scientific (TMO). We kept \$375 out of the \$400 premium and closed the position nine months before the expiration date.

We initiated three put sales during April (highlighted in chart below) - [Bunge \(BE\)](#), [IBM \(IBM\)](#), and [Agrium \(AGU\)](#). All three are trading above their

respective strike prices, which means we are not in present danger of the puts being exercised early.

The underlying stocks, [Bunge \(BE\)](#) and [IBM \(IBM\)](#), have made solid moves up. [Agrium \(AGU\)](#) is about 1.9% below its price when we sold the put, but it's higher than our break-even level. We still like the [virtual AGU put sale idea](#).

Our virtual Lab Corp (LH) May \$87.50 strike put is likely to expire worthless in two weeks. The shares closed at \$92.81 on Friday. If the stock stays above \$87.50, we will record a 100% profit on the \$400 premium received without needing to buy back the option. Our put selling strategy and list of previously sold puts are on the [Put-Selling Portfolio page](#).

EDUCATIONAL ARTICLE INDEX

Since beginning our [Virtual Portfolios](#), we have been bullish. Our [Virtual Value Portfolio](#) is long stocks, and our options plays are currently limited to selling puts. Selling a put implies a bullish outlook for the underlying stock. ([Put-Selling Portfolio page](#).)

Virtual Put Selling Portfolio - as of May 4, 2013

Closed Positions									
Company	Ticker	Stock Price on Trade Date	Trade Date	Expiration Date	Strike Price	Premium Received	Close-Out Cost	Net Profit or (Loss)	Close-Out Date
Life Technologies	LIFE	\$58.19	2/25/2013	Jan. 2014	\$55.00	\$400.00	\$25.00	\$375.00	4/15/2013

Open Positions									
Name	Ticker	Stock Price on Trade Date	Trade Date	Expiration Date	Strike Price	Premium Received per share	Breakeven Price at Exp.*	Current Stock Price	
Agrium	AGU	\$91.74	4/15/2013	Jan. 2014	\$90.00	\$7.80	\$82.20	\$90.01	
Bunge Ltd	BG	\$66.25	4/16/2013	Jan. 2014	\$70.00	\$7.40	\$62.60	\$71.13	
Caterpillar Inc.	CAT	\$91.45	2/22/2013	Jan. 2014	\$100.00	\$14.60	\$85.40	\$86.98	
Cummins Inc.	CMI	\$113.45	3/22/2013	Jan. 2014	\$110.00	\$11.00	\$99.00	\$110.60	
Deere & Company	DE	\$87.28	3/25/2013	Jan. 2014	\$87.50	\$8.15	\$79.35	\$90.54	
Quest Diagnostics Inc	DGX	\$58.37	1/30/2013	Aug. 2013	\$60.00	\$4.30	\$55.70	\$57.21	
Express Scripts Holding Company	ESRX	\$54.67	1/9/2013	Jan. 2014	\$60.00	\$8.70	\$51.30	\$61.56	
IBM Corporation	IBM	\$190.47	4/19/2013	Jan. 2014	\$190.00	\$13.80	\$176.20	\$204.51	
Kohl's Corporation	KSS	\$41.87	1/9/2013	Jan. 2014	\$45.00	\$7.00	\$38.00	\$48.31	
Laboratory Corp. of America Holdings	LH	\$87.26	1/9/2013	May 2013	\$87.50	\$4.00	\$83.50	\$92.81	
Life Time Fitness, Inc.	LTM	\$42.36	2/20/2013	Aug. 2013	\$45.00	\$5.60	\$39.40	\$47.48	
Mosaic Co	MOS	\$59.36	1/9/2013	Jan. 2014	\$60.00	\$7.50	\$52.50	\$60.83	
Oracle Corporation	ORCL	\$31.75	3/22/2013	Jan. 2014	\$35.00	\$4.70	\$30.30	\$33.38	
Schlumberger Limited.	SLB	\$73.08	3/19/2013	Jan. 2014	\$75.00	\$8.40	\$66.60	\$75.72	
Tiffany & Co.	TIF	\$59.58	1/11/2013	Jan. 2014	\$60.00	\$7.85	\$52.15	\$75.31	

Our bullishness is due to the plentiful supply of money in the financial system. Cash has [few options](#) for earning significant returns. [Whether stocks are cheap is besides the point](#). We have not been [hedging](#) by buying puts, shorting stocks, or writing covered calls.

Below is a list of articles describing Market Shadows' approach to investing in the stock market. These include many articles by Dr. Paul Price. He shares his methods of building a portfolio, thoughts on value investing, and his strategy for using options.

BUILDING A VALUE STOCK PORTFOLIO

[Building a Portfolio from the Ground Up – Part One](#). *Basic portfolio building rules.*

[Building a Portfolio from the Ground Up – Part Two](#). *Allocate wisely.*

[Make Money – Adopt a Dog](#). *“And the last shall be first.”*

[“You’re Nuts to Average Down.”](#) *Not true, but keep your position sizes under 5%.*

[In Love with TINA](#). *Why love stocks? Because There Is No Alternative.*

[Why We Diversify](#). *To avoid disaster.*

[The Trouble with Tech & the Dethroning of Darlings](#). *APPL is transitioning from Darling to value stock.*

[Whether stocks are cheap is besides the point](#). *Owning equities provides a chance to preserve value as paper money is marked down.*

[P/E 10 as a Valuation Gauge = Incomplete Information](#). *Price/Earnings ratios are not set in a vacuum.*

[Individual Investors Remain Perfect Contrary Indicators](#). *Buy only when you find good value for your money.*

[Unloved Stocks Rocked in 2012](#). *The requirement that shares exhibit technical strength prevents analysts from naming the best bargains as their top picks.*

[Never Met a Rich Pessimist: Interview with Dr. Paul Price](#). *Trying to predict the unpredictable is a fool's game.*

WHEN TO BUY STOCKS

[Frustrations and Rewards of Value Investing](#). *Buy the unpopular. Sell the beloved.*

[Equities not yet pricey enough to entice retail investors](#). *We're still bullish, but looking for values.*

[“You’re Nuts to Average Down.”](#) *A myth.*

[Make Money – Adopt a Dog](#). *The least loved equities often outperform.*

[Year-End: Investors were Penalized for Holding Cash](#). *Waiting for better prices proved costly.*

WHEN TO SELL STOCKS

[Sell Discipline](#) - *Have a plan. And don't ditch it at the last minute.*

[Call Me Maybe](#) - *Covered calls impose “sell-discipline.”*

SELLING PUTS

[Shares plus Covered Calls Vs. Selling Naked Puts?](#) *Selling a covered call (buying a stock and selling a call against it) versus selling a naked put.*

[Selling Puts on Value Companies - A New Virtual Portfolio](#) *Selling a put is a bullish position. It is similar to a below-market limit order to buy a stock.*

[Selling Puts on Value Companies \(Part Two\)](#).

COVERED CALLS

[Call Me Maybe](#). *Selling a call against a long position brings in income and imposes sell-discipline.*

[Covered Calls – The Hidden Risk for 2013 and Beyond](#). *It was not a good time to sell calls.*

[Shares plus Covered Calls Vs. Selling Naked Puts](#). *Selling a covered call versus selling a naked put.*

HEDGING & TIMING

[The High Cost of Hedging](#). *Why pay those high insurance premiums?*

[Year-End: Investors were Penalized for Holding Cash](#). *Waiting for better prices proved costly.*

[March Madness and Your Trading Decisions.](#)

Flipping your positions has more downside than you think.

INFLATION

[Washington's Biggest Lie.](#) *Yes, Virginia, there is price inflation.*

GOLD

[What have you done for me lately? Precious \(metals\) little.](#) *It's hard to quibble with having portion of overall net worth in something tangible.*

[All That Glitters...](#) *Avoiding being hit by falling gold bricks.*

[Hidden Dangers in Gold - Part One.](#) *When the guy loading wholesale beer knows the price of a gram of gold instantly, worry.*

[Hidden Dangers in Gold - Part Two.](#) *Gold is not a great hedge against inflation.*

[Gold's 'Highly Inflated' Track Record.](#) *Gold's track record is highly inflated.*

[Mettle Trumped Metal.](#) *Fundamental investing won.*

BEWARE OF WAFFLING MARKET GURUS
AND DON'T CHASE HEADLINES

[Schizophrenic 'Rear-View Mirror' Covers from Barrons.](#) *Invest based on fundamentals rather than whimsical backward-looking data.*

[You don't need a weatherman.](#) *Tune out the noise.*

[Always Question Assumptions.](#) *The rationale for a price goal may be built on quicksand.*

[Wall Street Cheats – Don't be fooled.](#) *We can all be market geniuses with the benefit of hindsight.*

[You only see what they want you to see.](#) *Selective advertising*

[Market Comments: Lots of Words, Little Meaning.](#) *The market always goes either up or down.*

[Individual Investors Remain Perfect Contrary Indicators.](#) *Train yourself to ignore the news.*

[Scare Tactics – Prepare Yourself to be Bombarded.](#) *Bad news sells.*

GLIMPSE INTO FUTURE

[Lee Adler of the Wall Street Examiner](#) reports that the Federal Government is “rolling in cash” due to higher-than-predicted tax collections and possibly reduced spending due to the sequester cuts. In [Wildly Bullish Liquidity Flows Should Benefit Stocks More Than Treasuries \(subscription required\)](#), Lee noted,

“Overall, the TBAC sees a net paydown of \$21 billion from now through the end of the second quarter. That's a far more bullish forecast than they had in February for this period when they were expecting that the Treasury would need to raise cash from net new supply of \$83 billion from now until the end of the quarter. That's a positive swing of \$104 billion from the last quarterly TBAC update until the one just released at the beginning of May.”

Thus, the Treasury's revised projection that it will pay off \$21 billion in net borrowing by the end of June resulted from higher than expected tax revenues and the much maligned sequester cuts. This is equivalent to a family being able to reduce their credit card's monthly balance by paying more to the bank in a given period than they incur in new charges.

Reduced federal borrowing will free up \$21 billion investor money that would have been soaked up by new T-bond issuance. A good part of that sum will likely find its way into the stock market, providing fuel for a stock market melt-up. This excess liquidity is bullish for stocks, as Lee Adler explains in the following excerpt from [The Irony Of The Fed's Manipulation – Professional Edition \(subscription required\)](#):

“The only change in today's FOMC statement was the addition of some words to the effect that the Fed would consider increasing quantitative easing (QE, colloquially known as ‘money printing’). Apparently its strategy of jawboning and manipulating commodity prices worked too well, so

now instead of threatening to end or taper QE, it now must resort to threatening to add to it to keep commodities from continuing the decline that the Fed seemed to want.

“It would seem that too little inflation is a worse fate than too much.

“Regardless of all the words, the policy remains the same. Print mass quantities of money and jam it into the accounts of the Primary Dealers every month. Today (May 1) there’s some profit taking as traders and algos digest weak economic data, but I’m sure that once they’ve had a chance to consider and recalibrate the implications of the Fed continuing to increase the size of the numerator that goes into the pricing equation, they’ll be back at the table shortly.

“The [composite liquidity indicator](#) rose last week, mostly from the Fed’s weekly Treasury purchases.

“Gains in most indicators were slight. April, the period of the strongest liquidity flows of the year from the massive paydowns of Treasury debt, has now ended. Liquidity will slack off a little in May as the Treasury returns to being a net borrower, but river of cash will continue until the Fed ends QE. The Bank of Japan’s (BoJ) massive new QE program will also add to US market liquidity.

“The biggest surges of cash come after the Fed settles its MBS purchases around mid month. That pattern will go on until the Fed ends this round of QE. News flow will cause stock and bond prices to continue to fluctuate around the liquidity trend. Buyers will get fatigue from time to time, as they did today. No doubt there will be more efforts to manipulate commodity prices, particularly gold and silver,

but now that the Fed sees that it may have been too successful in scaring speculators away from commodities, they’ll probably try to say stuff that gets them buying again. Fed policy is nothing if not ironic...

“Some of the money that the BoJ prints not only can but does move into US paper, whether Treasuries or stocks. It will show up in the Foreign Central Bank measure and in banking measures. There’s a strong correlation between the BoJ balance sheet and US stock prices, both over the long term, and in intermediate swings.”

“The correlation between the direction of stock prices and the size of these central bank balance sheets is remarkable.

“Fed Cash to Primary Dealers measures the flow of cash into Primary Dealer accounts from Fed securities purchases. This indicator has the heaviest weighting in the composite. The current growth under QE3/4 is the fastest in history. It will be bullish until the Fed ends QE. Stocks will stall or pull back from time to time, hemmed in by resistance and news flow, but the Fed’s cash will find its way into equities sooner or later.”

Get Lee’s regular, comprehensive updates by [trying WSE’s Professional Edition risk free for 30 days!](#)

