



July 21, 2008

### Market Timing Essentials

Its not just *when* you buy, but *what* you buy that counts for building your wealth. For the last two weeks I have been forecasting this Market break-out, concurrent with a plunge in oil, recommending Financials, Homebuilders, Airlines, Couriers, Small Cap and short Oil. Of these only small cap has been less than a stellar performer and therefore greatly reduced or eliminated in favor of higher weightings in the others asset classes. So it is Homebuilders, Financials, Airlines, and short Oil that comprise our core portfolio.

### Do the Smart Thing

This move is real and the origin of a major rally likely stretching to the 3<sup>rd</sup> Q of 2009. However, wave 1 complete, and wave 2 will likely give back 30-60% of the initial upside. The smart thing to do therefore, is to wait until the correction runs its course before committing any new capital. If you patiently wait for these moves, you will be getting in just before wave 3, typically the longest and strongest without losing 30-60% right out of the starting gate, and therefore compound your capital much faster. With the miracle of compounding, this strategy will yield at least ten times the return of the "crowd portfolio's" in just 3-4 years, that's the beauty of 80/20 investing! If you were insightful enough to get in near the bottom however, you should lock in your profits at or near the highs early next week and wait like the others.

### One in a Million

This kind of market timing, although simple, is by any means *easy*. According to Bob Prechter, who co-wrote the book on Elliott, only one in a thousand can do it well. With an aptitude for pattern recognition in the top 1/2 of 1%, buttressed by 18 years of Elliott Experience and 28 years in the market, you will not likely find one in a million to match my level of proficiency. As always the big picture is of utmost importance, but its the trading opportunities presented by the Bear Markets that compound capital the fastest. Exceptional Bear gives you the map and substantial comparative advantage. The rest is up to you. To sell, when everyone else is buying, and to buy back, when everyone else has given up hope, conflicts with our primitive instincts. The fact that human nature never changes, guarantees the repetition of the Elliott Wave Pattern in perpetuity. Elliott merely describes collective human sentiment and behavior, as it swings like a pendulum from extreme optimism, to extreme pessimism and back again. The crowd, like the Media's investment advice, is most successful when losing money.

### 80/20 Investing

When we research market sectors we look for the highest possible appreciation within a measurable level of risk. We're looking for the 10-20% of stocks, that will account for 80-90% of the market's performance as measured by the wider averages both long and short. Once a sector is identified we search for the most promising stocks within that sector. In that way we strive to consistently deliver outstanding performance. Rather than the Noah's Ark method, often mislabeled diversification, we narrow our focus to the best 10-20% of stocks, where the highest returns can be expected with a high degree of certainty. We adjust as we go, much like setting a nautical course, and adjusting continually to remain on target.

### The Difference between a Paid Subscription vs. the free version

Although the promotional version of the Exceptional Beat Market Letter published on our website is superior a product, it is limited to indices and therefore excludes some of the best opportunities. Between that version and the paid subscription there is a quantum leap in the value of information. Often the individual stocks move at a rate 2-3 times faster than the indices, which are weighted down by less attractive stocks.

In addition to better and wider choices, subscribers receive real-time alerts that make all the difference. Last Thursday we sold half of three Homebuilder stocks, with the intention of buying them back much cheaper. Yes they are eventually going going up much higher, but by scaling back and then buying back at a lower price we reduce our cost basis and risk substantially, while augmenting returns in an enviable fashion. Even a small profit of 15-20% several times adds up to real money.

### Charts

**Oil** will climb at least to 660 on the index or \$110 in **DIG** from Friday's close of 92.93, before continuing to drop. A **Diag >** indicates that after the Spike down, a swift dramatic reversal follows to at least where the **Diag >** began at **i**.

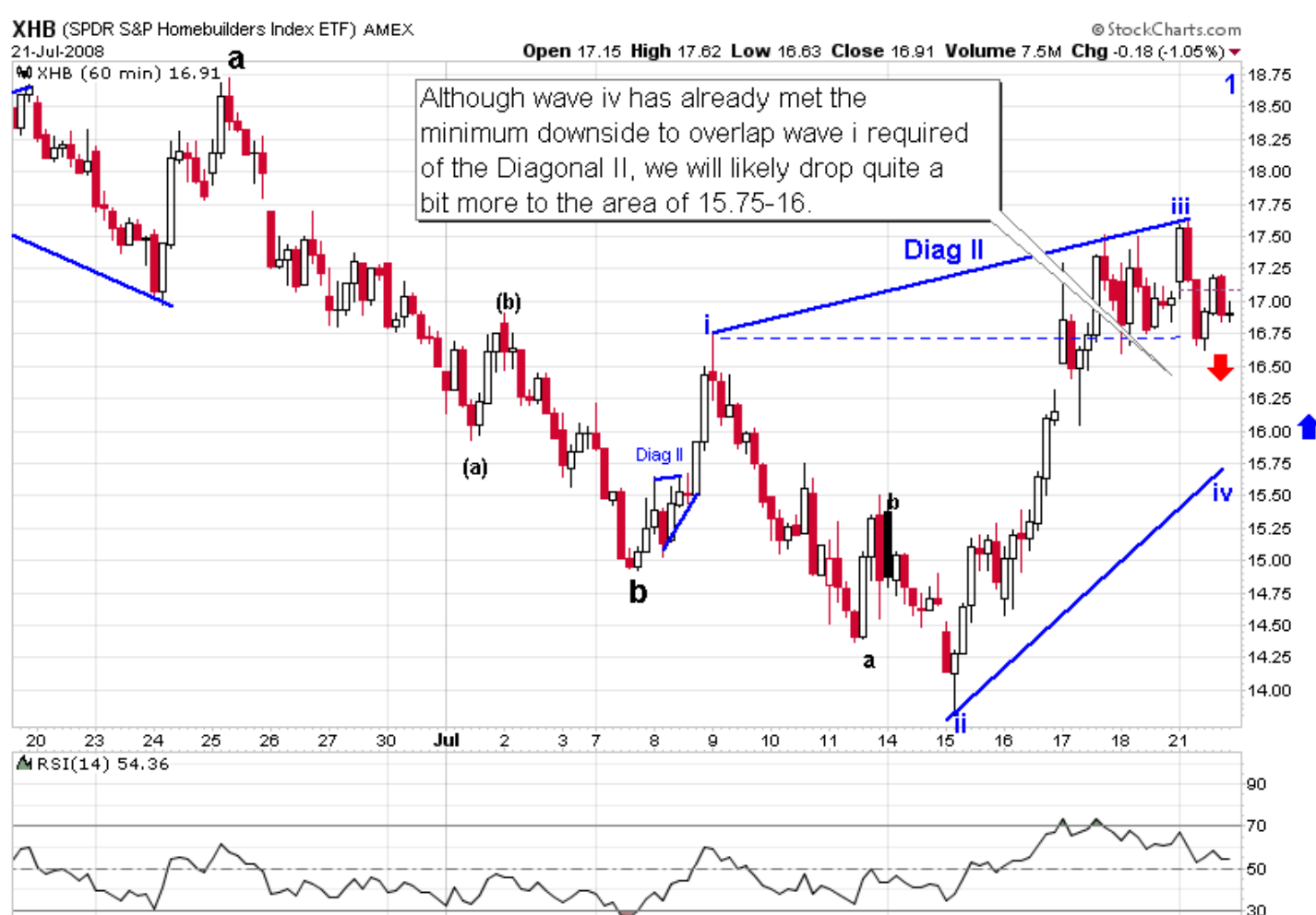


**Financials** – A **Diag II** indicates the beginning of a long move, blue indicates to the upside. When there are two or more of these, they compound the subsequent thrust to the upside. Next we see three Diagonal > in the long **wave IV** down. These indicate *dramatic and energetic reversal* to at least the area of 410 on the index or ~\$35 in UYG, where the first **Diag >** began. Once again when there are two or more of these the upside violence is compounded. However the first move is over and the inverse fund or cash is now more appropriate once more.



continued

**Homebuilders** – a Diagonal II (Diag II) indicates the beginning of a long move and therefore highly bullish.



**Airlines**- The airline index should drop at least 40% to the area of 15.75, although much more is possible. Just getting in at that level means 40% more to begin the next big move. In the meantime sentiment will again drop as the fundamentals appear similar to those at the bottom, many will consider the underlying trend to be down again, but other than in Diag II's the move does not carry to a new low.



The **Dow** will likely drop to the area of 11,050, regardless when the five waves down are complete we will buy it back, having locking our profits to compound all the faster.



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