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Monthly Newsletter

Volume 1 | Edition 5 | August 17, 2012

Economic Outlook Remains Negative ... Substantial Stock Market Pullback Seems Imminent

Stocks in most regions of the world continued to trend higher over the past several weeks in spite of worsening economic developments.

However, the recent trading action in most stock markets around the globe indicates that stock prices, in general, will pull back considerably over the next few weeks.

In this edition of our Monthly Newsletter, I focus on the trading activity in the U.S. stock market, and I discuss the reasons that I expect stocks to move lower during the coming weeks.

I also review the readings on some key economic statistics.

In addition, I discuss some ways that you might be able to profit from a likely increase in stock market volatility over the next few weeks.

The Recent Trading Action in the U.S. Stock Market

As you know, I had expected stock prices in general, as measured by the S&P 500 Index, to trend lower over the past couple of months. Instead, they moved higher.

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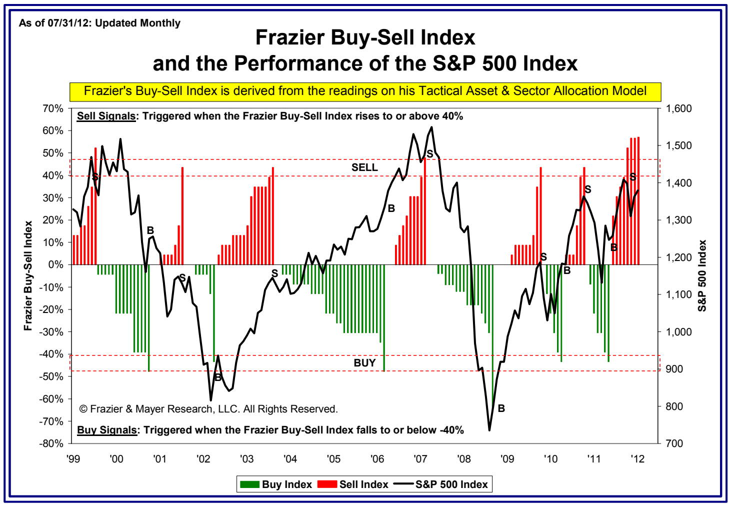

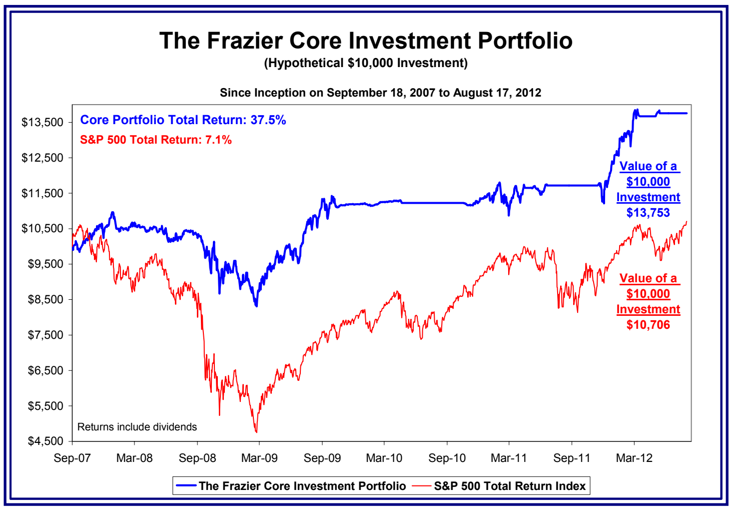

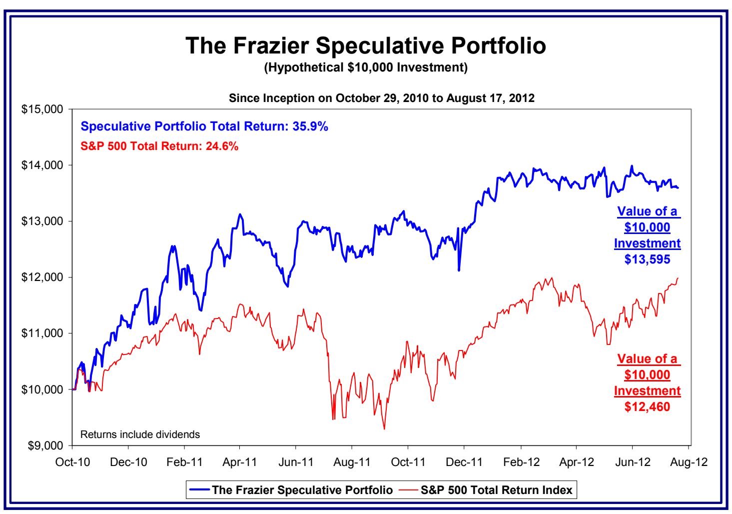

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The Recent Trading Action in the U.S. Stock Market

Although the rebound in stocks that began during June reveals that my stock market forecasts over the past couple of months turned out to be wrong, my research has continued to indicate that stocks are due for a substantial pullback

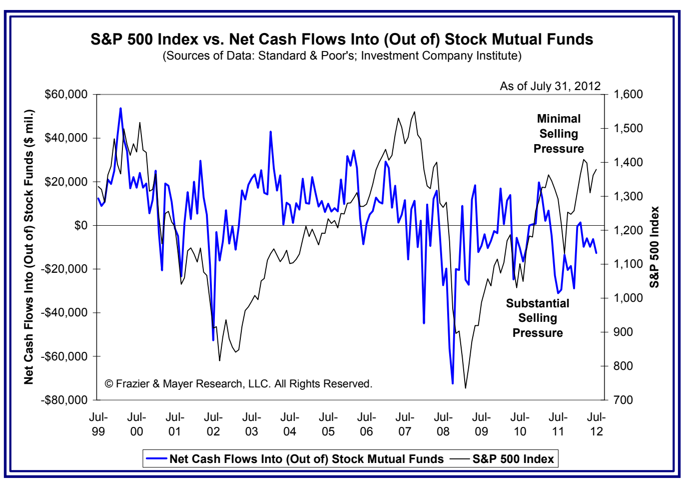
That research includes an in-depth review of the readings on some key economic statistics, as well as an analysis of the recent trading action in the financial markets.

In the section below, I discuss some important statistics regarding the recent trading activity in the U.S. stock market.

Little Selling Pressure

As I mentioned over the past few weeks in my Weekly Investment Commentaries, the recent rebound in stocks seems to have been accompanied by a small degree of selling pressure.

For example, statistics from the Investment Company Institute, which compiles data on thousands of mutual funds, reveal that persons who invest in stock mutual funds redeemed a small amount of money from those funds during the first six months of this year, as compared to the second half of 2011.

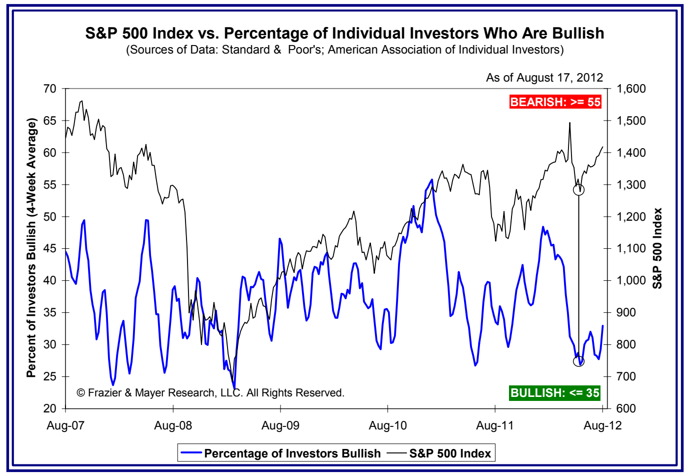


Hence, individual investors who were previously concerned about the future direction of stocks had likely already gotten out of the stock market prior to the rally that occurred from June 5 to August 17 of this year.

Statistics from the Association of Individual Investors ("AAII") seem to support that likelihood, with those statistics revealing that from April1 to May 31 of this year 70% of individual investors, on average, thought that stocks would either move lower or trade sideways during the ensuing months.

As a result of their stock market expectations, those investors likely sold many of their stock holdings during that period, placing substantial selling pressure on stock prices during April and May.

However, once that selling pressure dissipated, stocks began to rally during June, as you can see from the chart below.



Light Participation

Although stocks have rallied sharply since the first week of June, that rally was accompanied by light trading volume. Hence, fewer and fewer stock market participants were responsible for the rebound in stocks that occurred from June 5 to August 17.

Specifically, only 8.6 billion shares of stock traded on the NYSE during the first three weeks (13 trading days) of August, which compares to 8.9 billion shares during the first 13 trading days of July and 10.9 billion shares over the same period during June. (The trading volume on the NASDAQ and the Over-the-Counter Bulletin Board ["OTCBB"] market also declined considerably over the past few weeks).

As you can see from the chart on the following page, the trading volume over the past few months was very light compared to the volume of trading that occurred over the previous four years.

That light and declining trading volume reveals in that the demand for stocks has fallen considerably.

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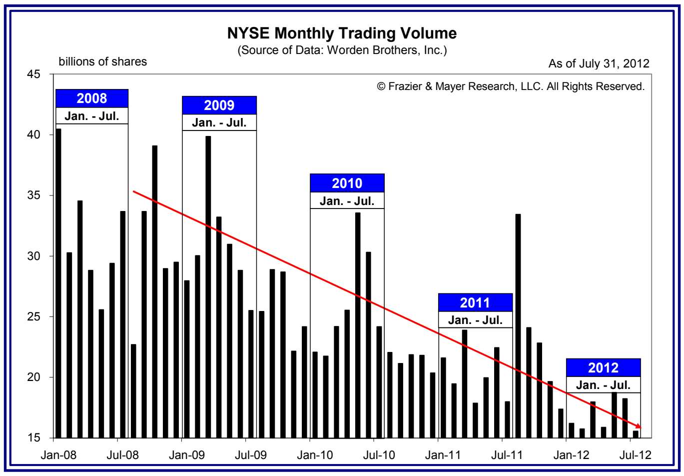
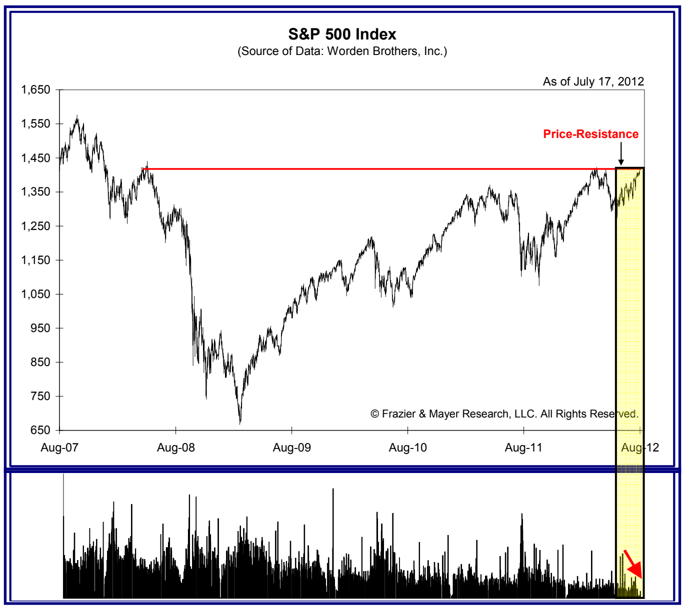


In light of the fact that the major U.S. stock market indices ran into some key price-resistance levels during the week ended August 17, I expect stock prices, in general, to begin to pull back during the week of August 20-24.

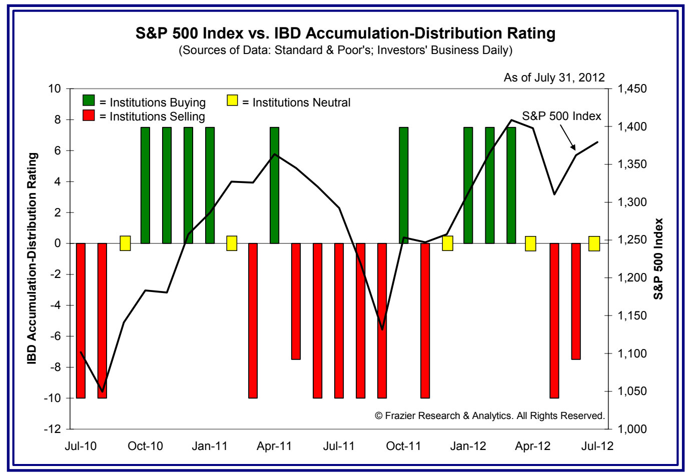


Institutional Investors Remain Concerned

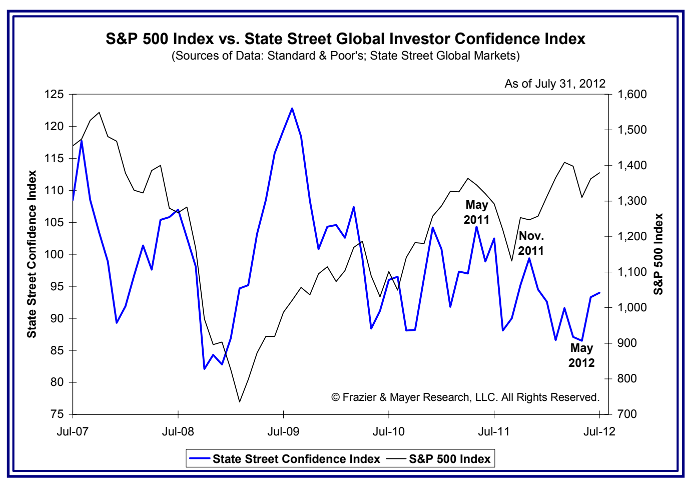
Meanwhile, the recent trading decisions and portfolio allocations implemented by institutional investors suggest that those stock market participants are also concerned about the near-term outlook for stocks.

For example, data published by Investor's Business Daily ("IBD") indicates that the stock market expectations of institutional investors were mixed during July, as IBD's accumulation-distribution rating for the S&P 500 Index improved modestly in comparison to the prior two months.

Specifically, the reading on IBD's accumulation-distribution rating, which indicates whether institutional investors were adding to or reducing their stock positions, rose to a grade of C during July after registering an E during May and a D during June. (Note: To create a chart of those readings, I assign the following numerals to those letter grades: (A = 10, B = 7.5, C = 0, D = -7.5, and E = -10).



Separately, research conducted by State Street Corporation, a major institutional investment management and research firm, reveals that the economic and investment expectations of institutional investors improved only modestly during July following a substantial decline in those expectations from November 2011 to May of this year.



Although State Street's Global Investor Confidence Index ("ICI") rose to 94 during July, from 93.0 during June, the reading on its North American ICI declined last month.

According to State Street's July press release regarding the recent positioning of worldwide investment portfolios and the readings on its investor confidence indices, "confidence among both North American and European investors ticked

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downwards [during July], while sentiment among Asian investors was slightly improved".

Harvard University professor Kenneth Froot, who co-developed State Street's Investor Confidence Index with Paul O'Connell of State Street Associates, commented on July's ICI readings, saying "The message being sent by institutional investors this month is one of caution ... [and] ... "the pick up in equity buying that we noted last month proved short-lived, and flows had turned negative by the end of our July sample."

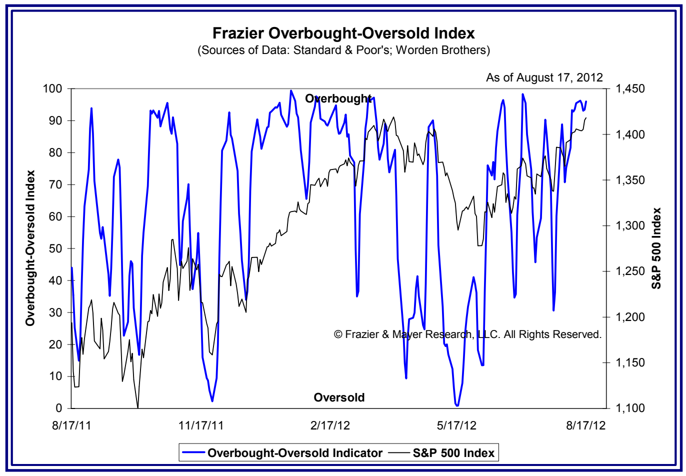
The fact that State Street's Investor Confidence Index improved only modestly over the past two months, and that it remained below at a level that indicates a lack of economic confidence among institutional investors, suggests that stocks will likely trade sideways, at best, over the next couple of months.

The State Street Investor Confidence Index ("ICI") measures the risk appetite of institutional investors, quantitatively, by analyzing the composition of those investors' portfolios and the actual buying and selling decisions of those investors. Readings above 100 on State Street's ICI indicate that institutional investors expect stock prices to trend higher for at least several months, while readings below 100 reveal that institutional investors think stocks will trend lower for several months.

Summary

As you can ascertain from the foregoing discussion, the recent trading action in the U.S. stock market indicates that stock prices, in general, are likely due fro a substantial pullback during thee weeks ahead.

Meanwhile, the most-recent reading on my Overbought-Oversold Index indicates that a pullback will likely begin within the next few days, with the reading on that Index rising to a substantial overbought level during the week ended August 17.



Therefore, I advise those of you who follow our Core Investment Portfolio recommendations to continue to allocate 100% of your financial market assets to money-market securities.

In addition, I advise those of you who follow our Speculative Portfolio recommendations to continue to allocate a portion of your assets to the two inverse-equity ETFs that I've recommended – to **ProShares Short S&P 500 ETF (SH)** and **ProShares UltraShort S&P 500 ETF (SDS)**.

Significant Economic Developments Around the Globe

In addition to the warning signs provided by the recent trading action in the U.S. stock market, the most-recent readings on numerous economic statistics form around the globe also suggests that stocks are due for a pullback.

For example, several leading economic statistics for the United States, Brazil and China indicate that the pace of economic growth in those regions will continue to slow during the next few months.

Meanwhile, the most-recent economic statistics out of Europe reveal that European households and businesses alike expect economic conditions there to worsen during the coming months.

In light of the fact that households and businesses tend to reduce their spending and investments when their economic expectations deteriorate, I expect the recessions that began in several European countries earlier this year to remain intact throughout the end of 2012.

Lastly, my research indicates that any monetary actions implemented by the U.S. Federal Reserve and central banks in other countries around the globe will fail to stimulate worldwide economic activity throughout the remainder of this year.

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Trading Activity Indicates that Stocks Have Bottomed

Although the factors and developments that I discussed in the sections above indicate that stocks are due for a substantial pullback, a few of those factors suggest that stocks prices in general, as measured by the world's major stock market indices, have likely bottomed for this phase of the economic cycle.

For example, the fact that individual investors withdrew massive amounts of money from stock mutual funds from January 2008 to December 2011, but that they redeemed a relatively small amount of money from those funds over the past seven months suggests that investors who were thinking about getting out of stocks have likely already done so.

In addition, statistics from the Association of Individual Investors indicate that from April 2 to May 31 of this year that individual investors, in the aggregate, sold a large portion, if not all, of their stock holdings that they were thinking about selling.

Separately, recent readings on the Chicago Board Options Exchange Volatility Index, which is often referred to as the fear index, indicate that stock market participants have been complacent about the deterioration in economic conditions around the world – that those investors, speculators and traders seem to think that stock prices will not be negatively impacted by the worsening economic environment.

The factors mentioned above indicate that persons who currently hold stocks in their portfolios, or who are currently active in the stock market, will not become overly worried in the event that stock prices were to pull back, and that they will therefore not exit the market in droves if stocks were to pull back during the coming weeks.

Meanwhile, my experience suggests that economic conditions in the United States will improve considerably during the year ahead if Mitt Romney is elected as the next U.S. president. That's because Romney and his running mate, Paul Ryan, support many of the same economic proposals that were proven to be effective in stimulating economic activity during the Coolidge, Kennedy, and Reagan presidencies. Those proposals include plans to (1) reduce government regulations that impede economic activity, (2) cut the federal debt and (3) lower both individual and corporate tax rates.

In light of the factors and developments mentioned above, there's a good chance that I will advise those of you who follow our Core Investment Portfolio recommendations to invest a portion of your money into the same ETFs that I advised you to sell on April 1 of this year if stocks do pull back and to then hold above some key price-support levels over the next few weeks. Those ETFs include **SPDR S&P Bank ETF (KBE)**, **Select Sector SPDR-Technology ETF (XLK)**, **Vanguard Small-Cap Growth ETF (VBK)**, and **iShares Trust Dow Jones U.S. Industrial Sector Index Fund (IYJ)**.

Additionally, there's a good chance that I will soon advise those of you who follow our Speculative Portfolio to buy a few small-cap, growth stocks that I've been monitoring. Those stocks include the following:

- **MercadoLibre (MELI):** The Ebay of South America, MercadoLibre provides an online trading service that enables individuals and businesses to electronically arrange the sale and purchase of items in more than 2,000 categories, including automobiles, vessels, and aircraft.

- **Mellanox Technologies (MLNX):** Mellanox designs semiconductors based on the InfiniBand data exchange standard, which regulates the way that network components, such as servers and data storage systems, communicate with each other. InfiniBand is intended to replace Ethernet and Fibre Channel networking standards.

- **Web.com (WWWW):** Web.com Group builds web sites and provides related services for small- and mid-sized businesses, mostly on a subscription basis. The company's eWorks! XL product offers initial site-design setup and online marketing and technical report services. Its SmartClicks service provides search engine optimization and local pay-per click advertising services. During late 2011, Web.com acquired Network Solutions, a domain-names registration firm.

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Model Portfolios

Core Investment Portfolio

In spite of the stock market rally that occurred over the past 11 weeks, our Core Investment Portfolio has still outperformed the S&P 500 Total Return Index since the beginning of this year. With my research indicating that stock prices, in general, will pull back sharply over the next few weeks, and 100% of our model portfolio currently allocated to money market securities, I expect that portfolio to gain further ground against the S&P 500 during the weeks ahead. If stocks were to pull back and to then stabilize near some key price-support levels, I would likely advise those of you who follow this portfolio to put some of your cash to work in the ETFs that I mentioned on the preceding page. The top-10 holdings of those ETFs are outlined below.

SPDR S&P Bank ETF (KBE)	
Security Name	**Allocation**
Regions Financial	2.9%
Keycorp	2.9%
Suntrust Banks	2.9%
Cit Group	2.8%
Fifth Third Bancorp	2.8%
Bank Of New York Mellon	2.8%
BB&T Corp	2.7%
Hudson City Bancorp	2.7%
JPMorgan Chase & Co	2.7%
US Bancorp	2.7%

Vanguard Small-Cap Growth ETF (VBK)	
Security Name	**Allocation**
BioMarin Pharmaceutical	0.6%
Royal Gold	0.6%
Ariba	0.6%
Onyx Pharmaceuticals	0.5%
Catalyst Health Solutions	0.5%
tw telecom	0.5%
Cooper Cos	0.5%
Wabtec Corp	0.5%
Lincoln Electric Holdings	0.4%
Solutia	0.4%

Select Sector SPDR-Technology ETF (XLK)	
Security Name	**Allocation**
Apple	20.0%
International Business Machines	7.7%
Microsoft	7.6%
At&T	7.2%
Google	5.7%
Oracle	4.2%
Verizon Communications	4.2%
Intel	3.7%
Qualcomm	3.6%
Cisco Systems	3.4%

iShares U.S. Industrial Sector ETF (IYJ)	
Security Name	**Allocation**
General Electric	12.2%
United Technologies	3.5%
3M Co	3.3%
Union Pacific	3.3%
United Parcel Service	3.0%
Caterpillar	2.9%
Boeing	2.7%
Honeywell	2.3%
Accenture PLC	2.1%
Emerson Electric	2.1%

As of August 17, 2012 **Inception Date: September 18, 2007**

The Frazier Core Investment Portfolio								
Security Name	**Ticker Symbol**	**Initial Entry Date**	**Avg. Entry Price**	**Dividends**	**Current Price**	**% of Port.**	**Total Return**	**Current Advice**
Cash (Money Market Securities)	n/a	04/02/12	n/a	n/a	n/a	100%	0%	Hold
Total Returns		**2007 ***	**2008**	**2009**	**2010**	**2011**	**YTD**	**Since Inception**
Core Investment Portfolio		**5.8%**	**-10.6%**	**18.4%**	**1.4%**	**3.7%**	**16.9%**	**37.5%**
S&P 500 Total Return Index		0.0%	-37.0%	26.5%	15.1%	2.1%	14.4%	7.1%

* Year 2007 performance results are for the period from the inception of the Core Portfolio on September 18, 2007 to December 31, 2007. (Note: The Frazier Core Investment Portfolio was known as The ETF Strategist Conservative Portfolio from 9/18/07 to 1/24/12.

Our Core Investment Portfolio is structured for persons whose primary goal is to protect the value of their principal, with a secondary goal of generating returns in excess of broadly diversified investment portfolios over complete market cycles, meaning from the beginning of one bull market to the beginning of another bull market (or from the beginning of one bear market to the beginning of another bear market).

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Model Portfolios

Speculative Portfolio

Our Speculative Portfolio gave up some its gains over the past ten weeks, with that portfolio losing 1.1% of its value from June 9 to August 17, while the S&P 500 (including dividends) rose 8.6% during that period.

With my research indicating that stock prices, in general, will move lower during the coming weeks, and 30% of our model portfolio composed of ETFs that are structured to move in the opposite direction of the S&P 500, I expect that portfolio to gain ground, on both a relative and an absolute performance basis, during the weeks ahead.

If stocks do pull back, and the major stock market indices hold near some key price-support levels, I'll likely advise you to buy a few of the stocks that I mentioned on page 5 of this report. However, for now I advise you time to continue to hold the securities outlined in the table below.

Although the majority of those securities have declined since the time that I recommended them for purchase, I'm confident that most, if not all, of those stocks and ETFs will generate gains within the next 12 months.

As of August 17, 2012 **Inception Date: October 29, 2010**

The Frazier Speculative Portfolio

Security Name	Ticker Symbol	Initial Entry Date	Avg. Entry Price	Dividends	Current Price	% of Port. *	Total Return	Current Advice
SodaStream International	SODA	11/11/11	$31.78	$0.00	$39.00	3%	22.7%	Hold
Entropic Communications	ENTR	11/16/11	$5.00	$0.00	$5.91	3%	18.2%	Hold
Focus Media	FMCN	11/16/11	$24.48	$0.00	$25.22	2%	3.0%	Hold
ProShares UltraShort S&P 500	SDS	08/13/12	$14.55	$0.00	$14.19	10%	-2.5%	Buy
ProShares Short S&P 500	SH	06/19/12	$36.82	$0.00	$34.79	20%	-5.5%	Buy
Ford	F	11/17/11	$10.31	$0.10	$9.63	3%	-5.6%	Hold
PowerShares DB Gold Short ETF	DGZ	05/11/11	$13.13	$0.00	$12.30	30%	-6.3%	Buy
iGATE Corp.	IGTE	10/19/10	$20.32	$0.15	$16.49	3%	-18.1%	Hold
HomeAway	AWAY	10/06/11	$34.21	$0.00	$25.00	4%	-26.9%	Hold
Travelzoo	TZOO	08/09/11	$33.06	$0.00	$23.41	4%	-29.2%	Hold
MakeMyTrip	MMYT	11/11/11	$27.92	$0.00	$16.93	3%	-39.4%	Hold
Jiayuan.com International	DATE	11/16/11	$8.85	$0.00	$4.05	3%	-54.2%	Hold
Ubiquiti Networks	UBNT	05/21/12	$19.08	$0.00	$8.65	3%	-54.7%	Hold
Cash (Money Market Securities)						19%		

Comparative Returns	2010**	2011	YTD	Since Inception
The Frazier Speculative Portfolio	**10.9%**	**15.3%**	**6.3%**	**35.9%**
S&P 500 Total Return Index	6.7%	2.1%	14.4%	24.6%

* A security's stated percentage of our model portfolio represents the percentage of the total value of our model portfolio that was allocated to the security on the date that the security was recommended for purchase. The stated cash percentage of our model portfolio represents the percentage of the total value of our model portfolio that was allocated to cash as of the date of this portfolio table.

** Year 2010 performance results are for the period from the inception of the Speculative Portfolio on October 29, 2010 to December 31, 2010.

Added to the following securities on 11/22/11: ENTR, SODA, F, DATE, and TZOO. Added to AWAY on 11/16/11. Added to DGZ on 5/26/11, 8/10/11, and 8/11/11.

Our Speculative Portfolio is structured for persons who are seeking to profit from short-term developments in the financial markets. While the goal of that portfolio is to substantially outperform broadly diversified investment portfolios over complete market cycles, we urge only those persons who already have a core investment portfolio to follow our Speculative Portfolio recommendations.

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Closing Comments


David N. Frazier
President

As you can ascertain by comparing my discussion in this edition of our Monthly Newsletter with the past three issues of our newsletter, we at Frazier & Mayer Research, LLC employ an integrative approach to investing in the financial markets and to rendering the type of financial advice that we provide to our members.

In addition to reviewing and analyzing worldwide economic developments, we monitor, on a regular basis, the daily trading action in the global financial markets. We also review and analyze the relative price-performance of stocks that compose different industries and economic sectors.

By adhering to that integrative approach, over the past ten years we've been able to avoid the big downturns in the financial markets and to participate in the majority of the upturns.

That approach has also enabled us to advise investors, speculators and traders of opportune times to get in and out of the stock market.

In regard to our current outlook for stocks, economic statistics from around the world continued to indicate over the past few weeks that economic conditions and the pace of economic growth in most regions of the world will worsen further during the coming months. However, as I discussed in the foregoing pages, the recent trading action in the U.S. stock market suggests that stock prices, in general, have likely bottomed.

Therefore, there's a good chance that I'll advise you to reposition your core investment holdings, and to add to your speculative holdings within the next few weeks.

Looking forward, I urge you to continue to be patient instead of taking any unnecessary risks in regard to the positioning of your financial market assets.

Thank you for subscribing to our newsletter advisory service.

We look forward to a long and prosperous relationship.

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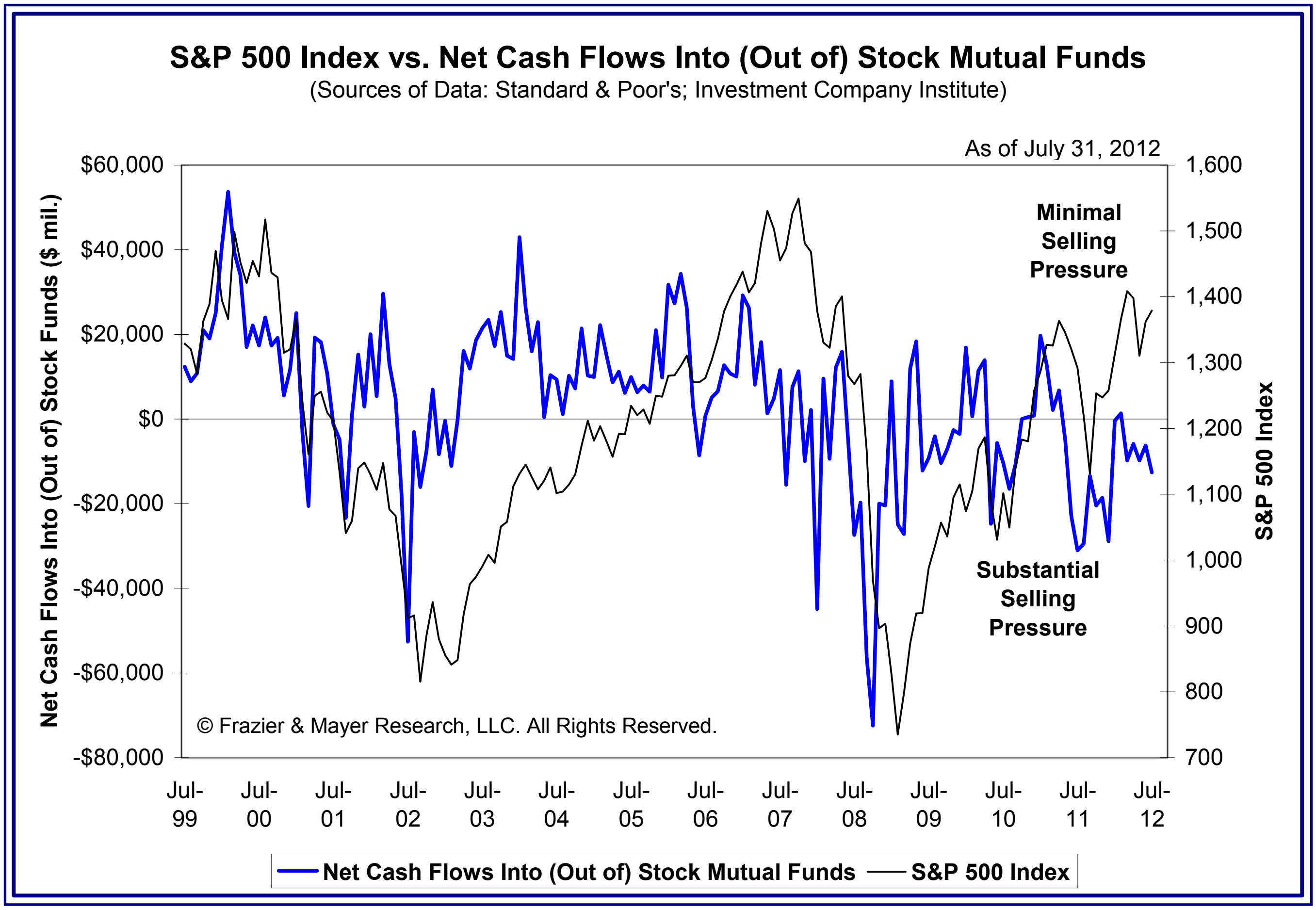
Appendix

Large Versions of Charts in this Report



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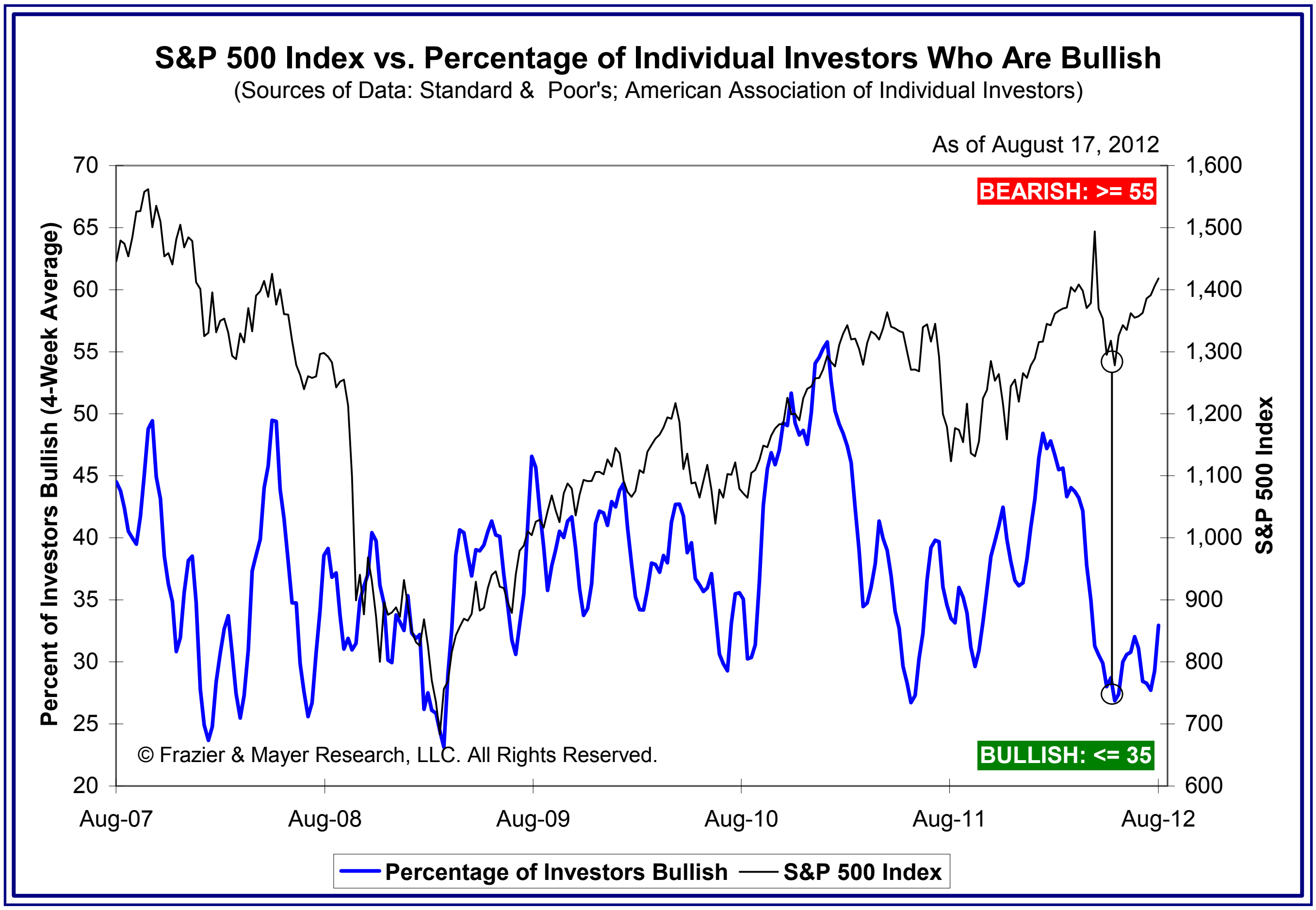

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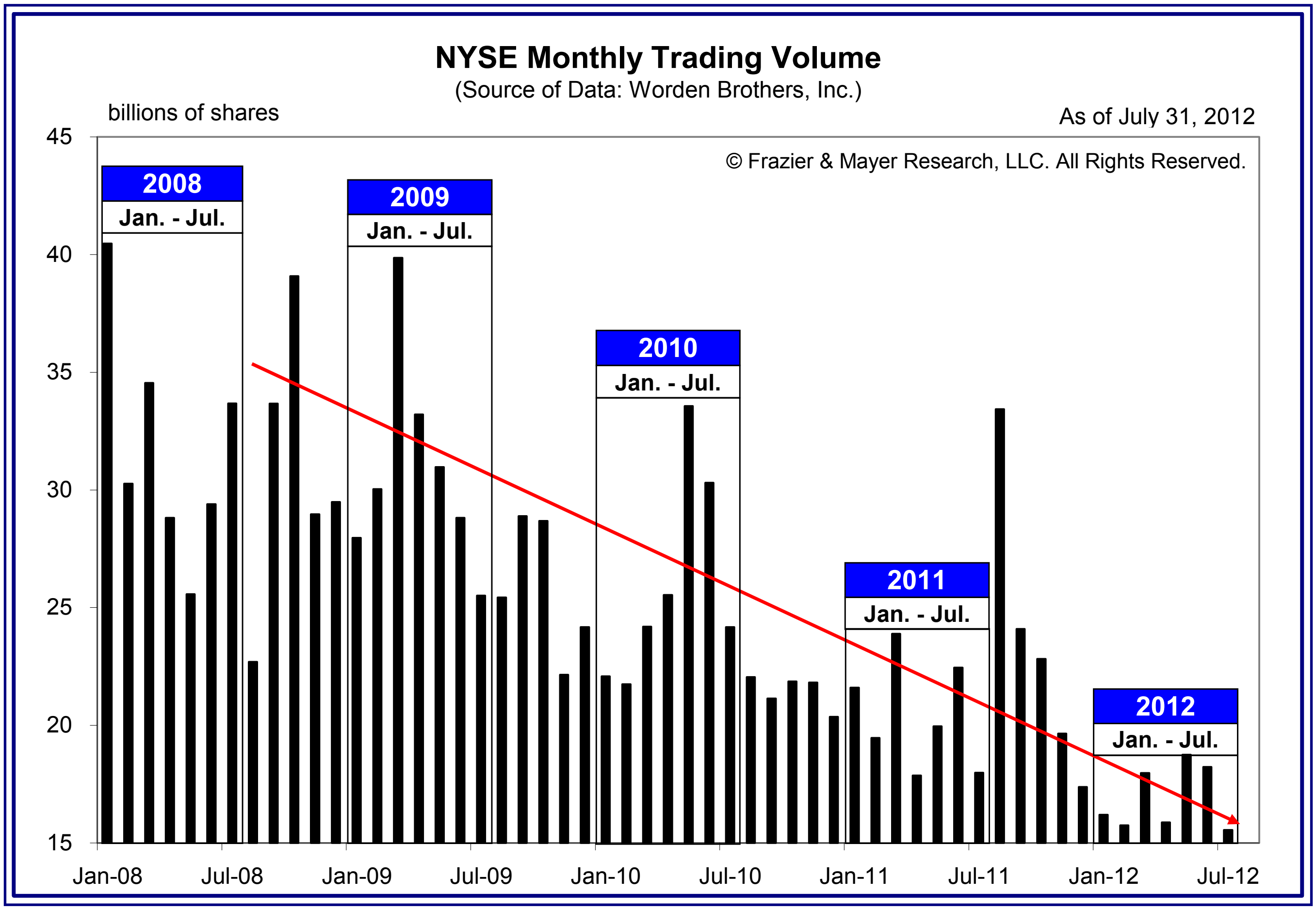

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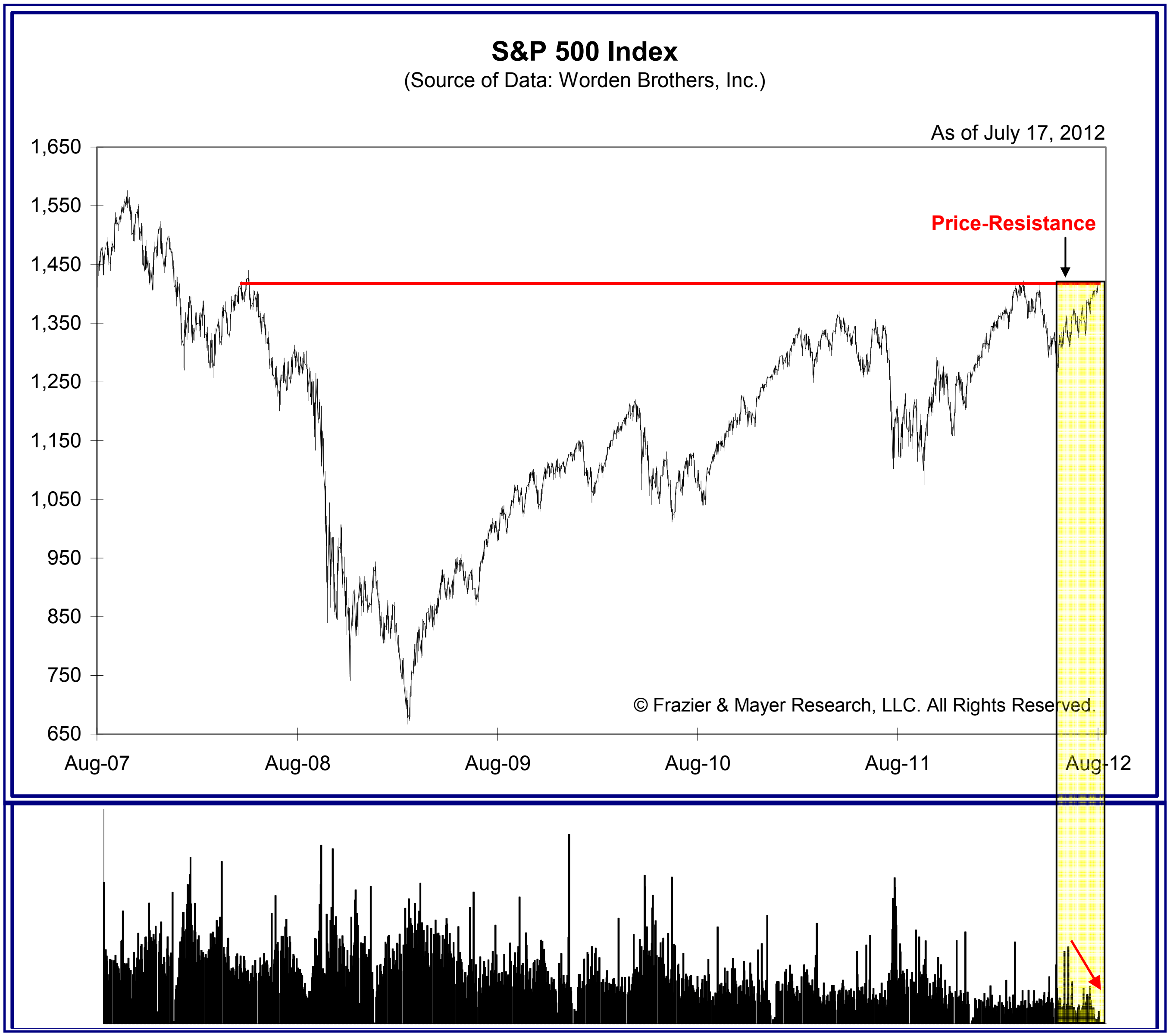

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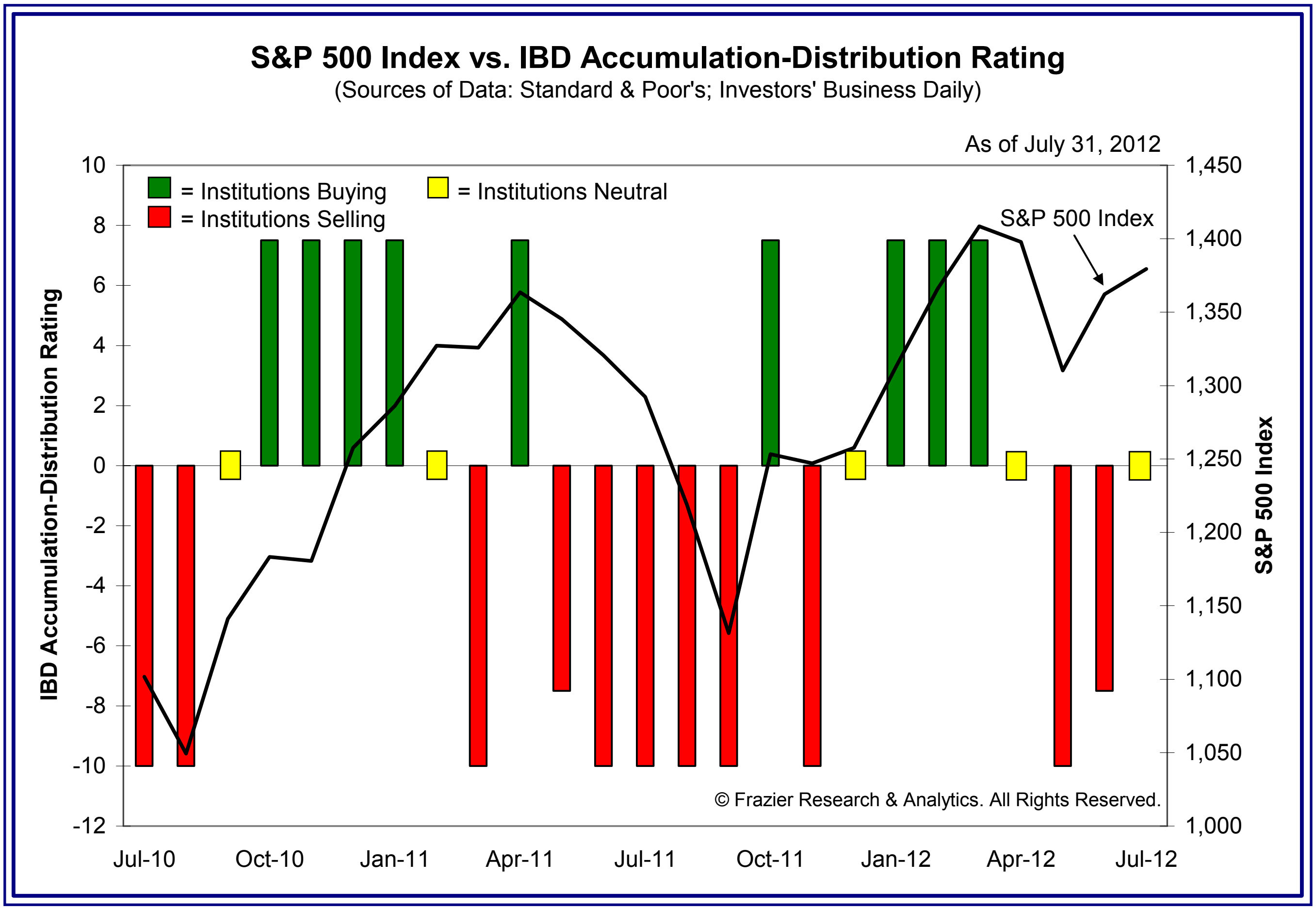

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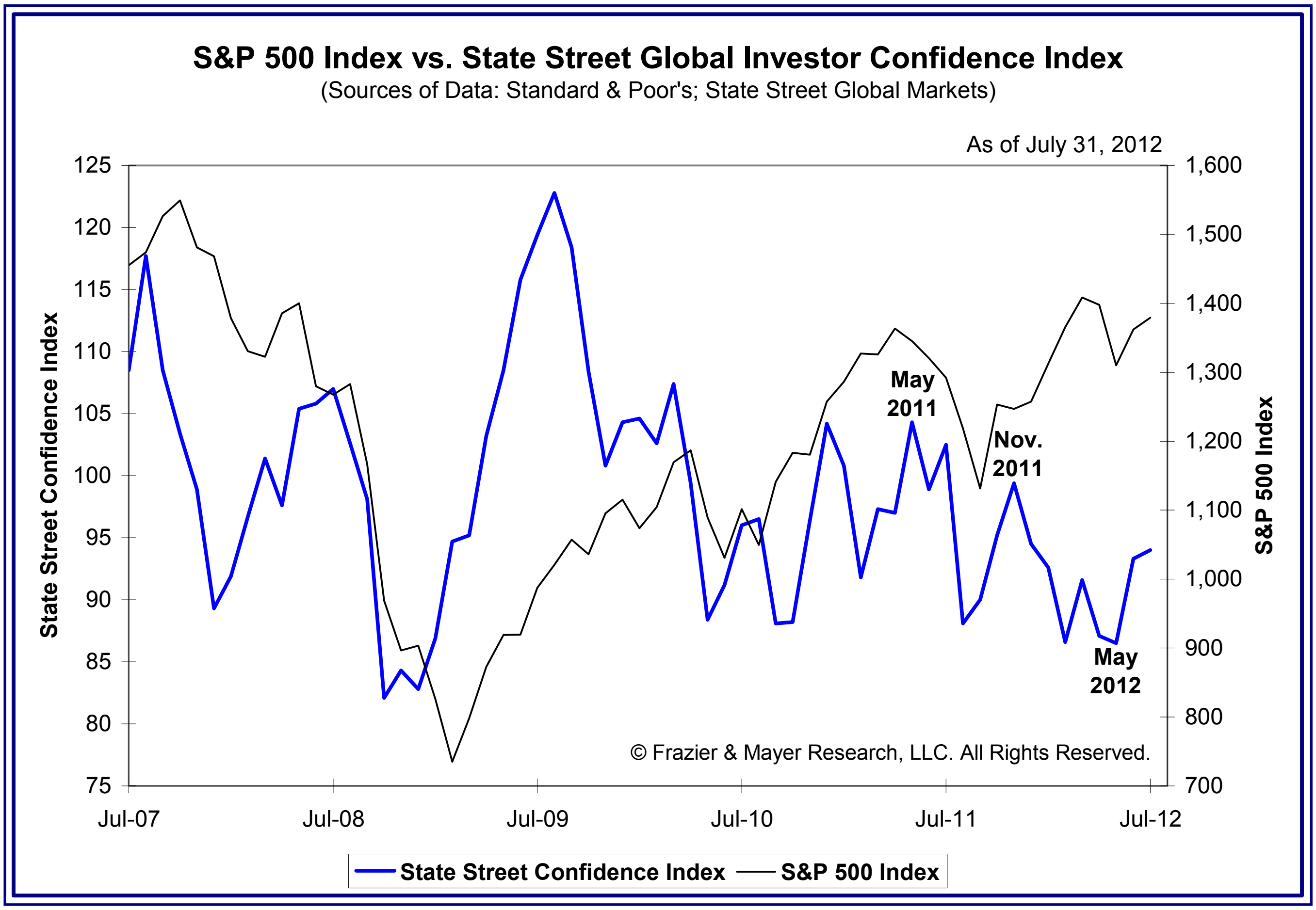

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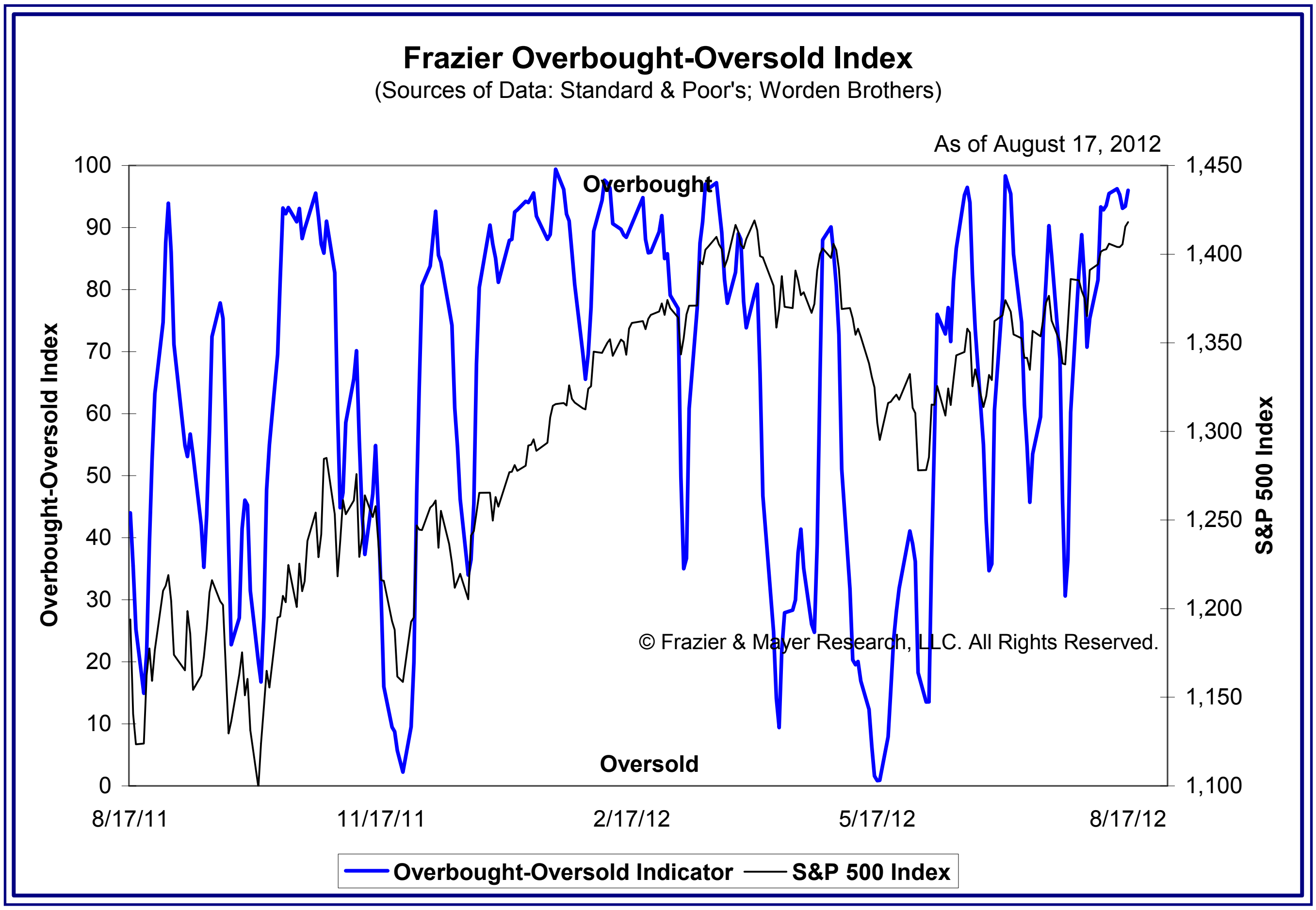

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