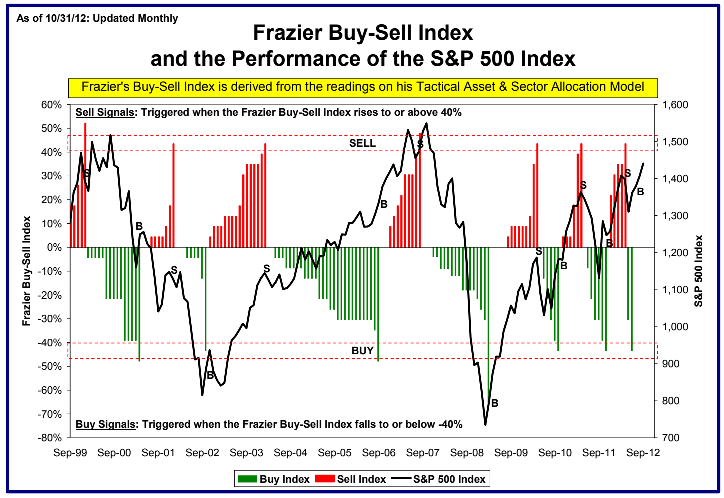
Frazier's Perspective

Monthly Newsletter

Volume 1 | Edition 7 | November 4, 2012

The Worst is Over – Expect Steady Growth during the Months Ahead



As I mentioned in the September edition of my monthly newsletter, I had expected stock prices, in general, as measured by the world's major stock market indices, to trend lower from then and the November 6 U.S. elections.

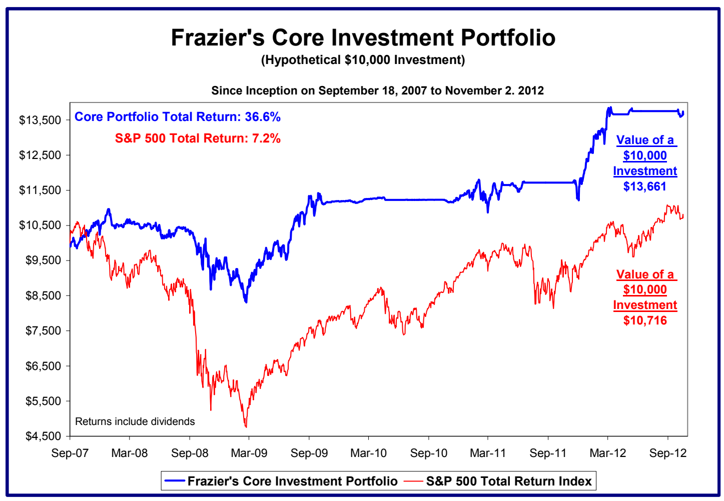
However, my research has continued to indicate that stocks will rally sharply, and to continue to trend higher during the coming year, if Mitt Romney is elected as the next U.S. President.

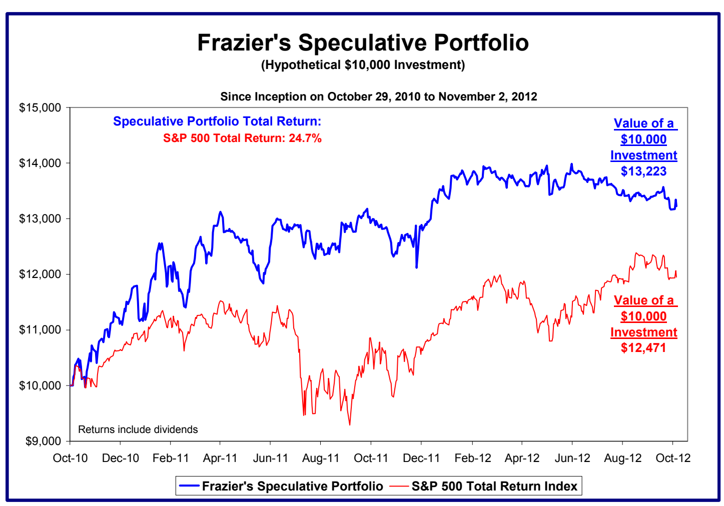
That expectation is based on the following:

(1) The types of economic proposals that Mitt Romney has made (i.e. lowering tax rates for households and businesses, and reducing the number of regulations that businesses face), have, historically, led to substantial increases in the pace of economic growth.

(2) Economic statistics from around the globe indicate that most countries are operating currently in either the trough or recovery phase of the economic cycle and that economic conditions in both developed countries and the major emerging economies of Brazil, China, and India will improve considerably during the year ahead.

(3) The readings on my Tactical Asset & Sector Allocation Model indicate that the pace of worldwide economic growth will improve considerably during the year ahead.





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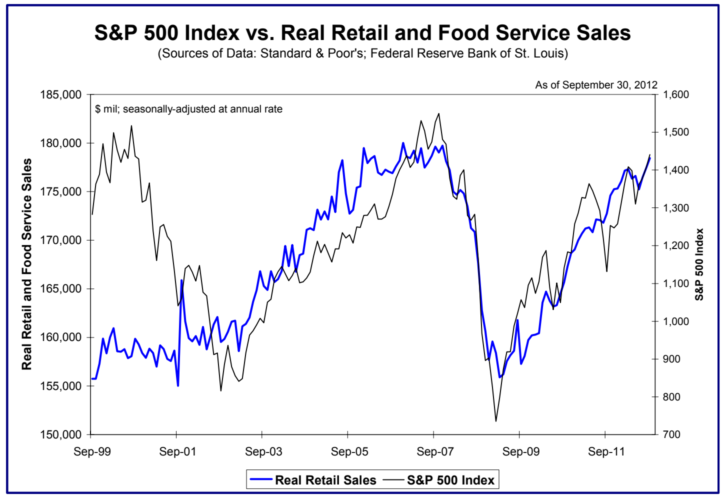
(4) Stock market participants tend to bid up stock price approximately six months to nine months prior to substantial improvements in economic conditions.

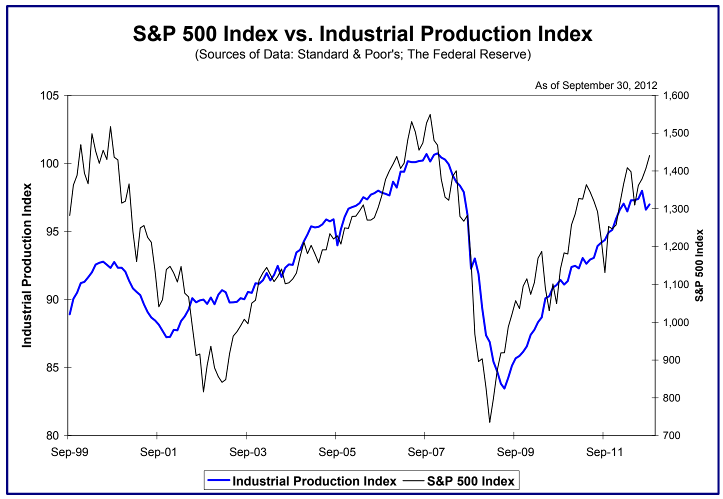
The U.S. Economy

Coincident and Leading Indicators

As you can see from the charts displayed to the right, and on page 3 of this report, the U.S. economy appears to already be on the mend.

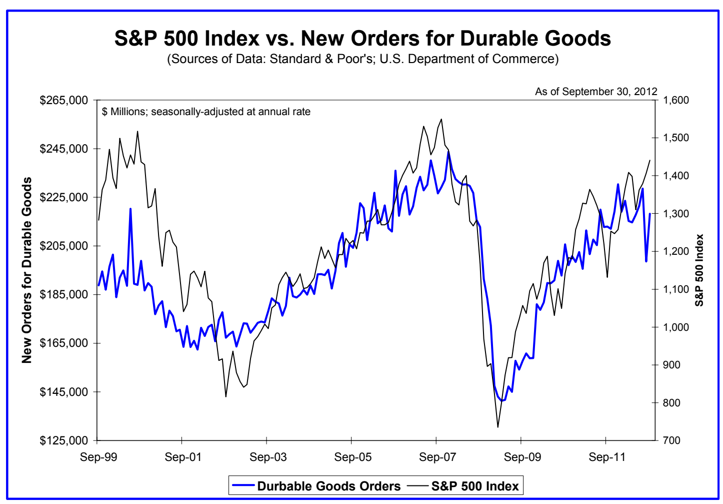
For example, sales at U.S. retail outlets rose sharply over the past three months and production at U.S. factories, mines and utilities resumed its upward trajectory during September after faltering during August. Those developments are very significant because retail sales and industrial production are two very reliable coincident economic indicators, meaning that the readings on those indicators tend to move in the same direction as the overall economy, and to change direction at about the same time that the macro economy improves or deteriorates.





Meanwhile, orders for durable goods (i.e. household furniture, automobiles, and business equipment) rebounded substantially during September, indicating that U.S. households expect the economy to improve during the months ahead.

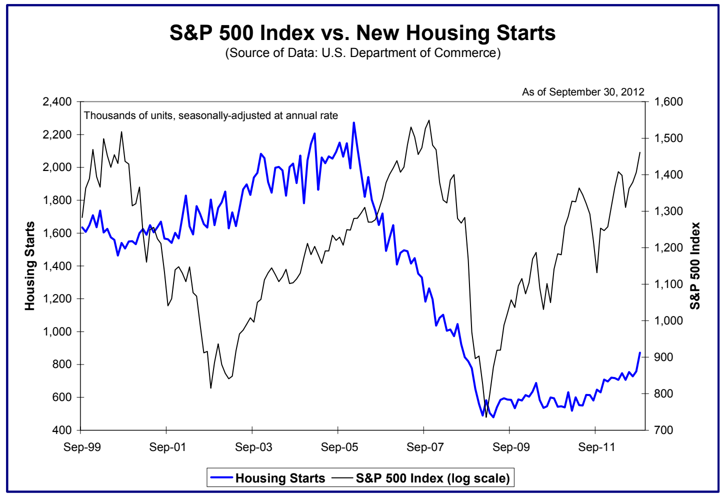
Separately, executives at U.S. manufacturing facilities seem to think that the pace of economic growth in both the United States and in other regions of the world will increase during the months ahead, with those executives stating in recent surveys that they plan to ramp up production at their facilities during the next couple of months.



Of utmost importance, recent statistics reveal clearly that the big downturn in the U.S. housing market that began during late-2005 has ended, and that conditions in the housing market will likely improve substantially during the year ahead.

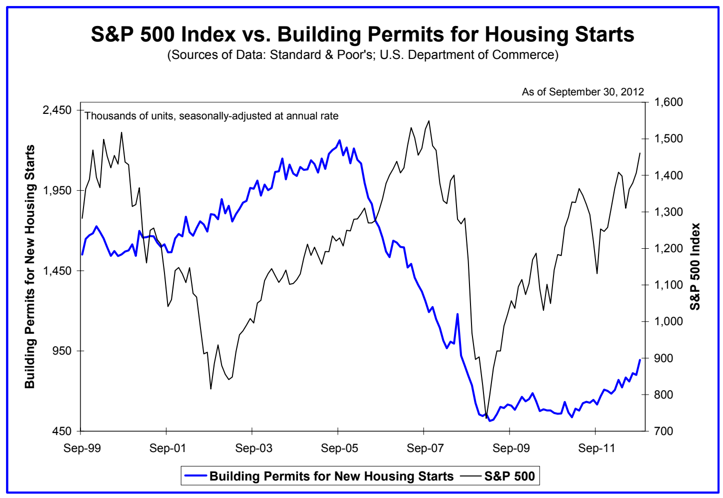
For example, the construction of new homes, which has, historically, been a very reliable leading indicator for future sales of both new and existing homes, as well as for the overall economy, trended higher over the past 16 months and spiked considerably higher during September. Building permits for the construction of new homes also rose sharply during September, indicating that new housing starts continued to increase during October; (see the first two charts on the following page.

The fact that inventories of homes for sale are at the lowest levels since at least 1963, when the U.S. Department of Commerce began collecting data on home sales, and that inventories of homes are at ridiculously low levels in relation to the size of the U.S. population, also bodes well for both the near- and longer-term direction of the housing market and the overall economy.



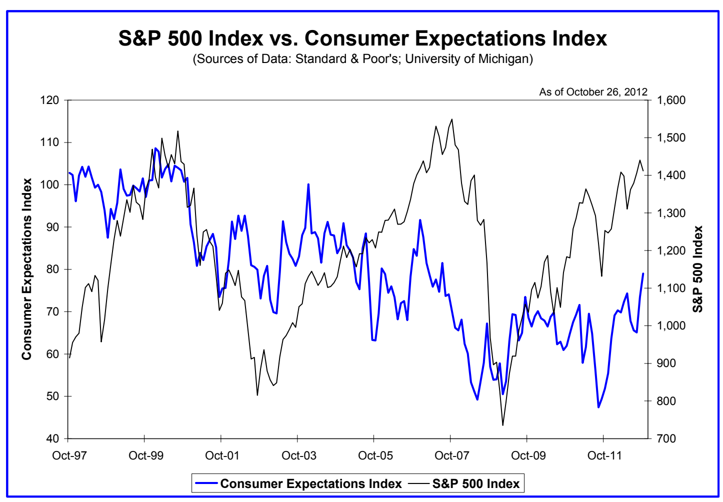
The recent improvements in the housing market seem to have had a positive impact on the economic outlook for most Americans, with the University of Michigan announcing on October 26 that its Consumer Expectations Index rose during October to the highest level since July 2007.

That's a very positive development because (1) Americans tend to increase their spending when they expect economic conditions to improve and (2) the total output of goods and services in the United States – gross domestic product ("GDP") – tends to rise when households increase their spending on various types of goods and services.



The Employment Situation

Although the employment situation in the United States remained weak over the past several months, I would expect conditions in the employment market to improve substantially during the year ahead in the event that Mitt Romney were elected as the next U.S. President. That's because history suggests that if Romney is elected, and the reductions in tax rates and regulatory measures that he's proposed are implemented, that U.S. businesses will expand their operations and invest in new business equipment, computer software applications and manufacturing facilities. Any such investments would likely be accompanied by increases in those business' labor forces.



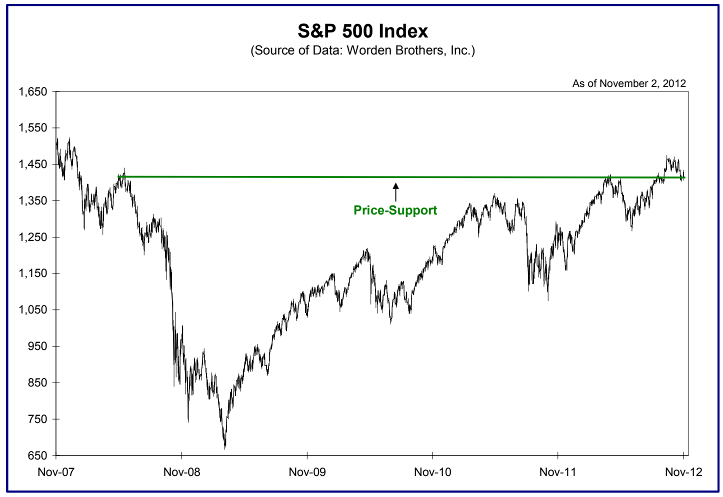
Foreign Economies

In addition to the improvements in the U.S. economy mentioned above, recent economic statistic from Europe, China and Brazil indicate that economic conditions will improve and that the pace of economic growth in those regions of the world will increase during s 2013. For example, executives at European banks said during each of the past two months that they expect economic conditions in the Eurozone to improve over the next six months, while executives at European manufacturing plants said that they think economic activity in the manufacturing sector of the Eurozone economy will improve over the next few months. Manufacturing executives at Brazil and Chinese industrial facilities made similar comments during each of the past two months.

Meanwhile, sales at retail outlets in Brazil rose sharply during August while retail sales at Chinese stores rose sharply during September, the latest months for which that data is available for those countries.

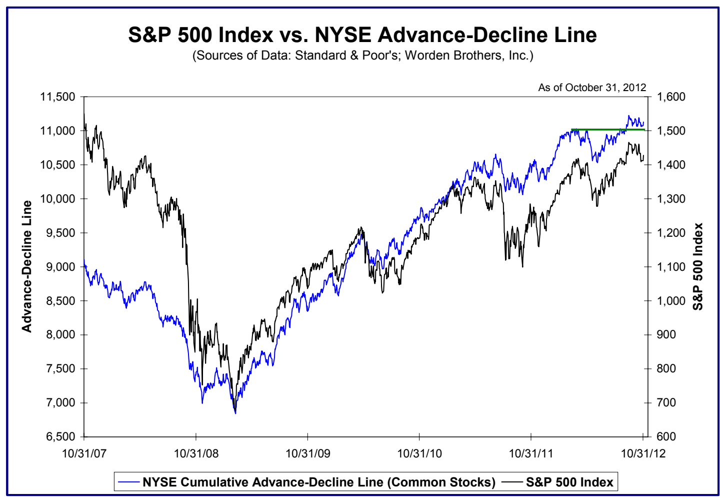
Q3 Earnings and the Trading Action in the U.S. Stock Market

Although the major U.S. stock market indices pulled back considerably during the week ended October 26 in response to some big declines in the third-quarter revenues and earnings of a few, large U.S. companies that generate a substantial portion of their revenues from abroad, my research indicates that the Q3 2012 financial operating results of U.S. companies were not nearly as bad as the general media led investors to believe.



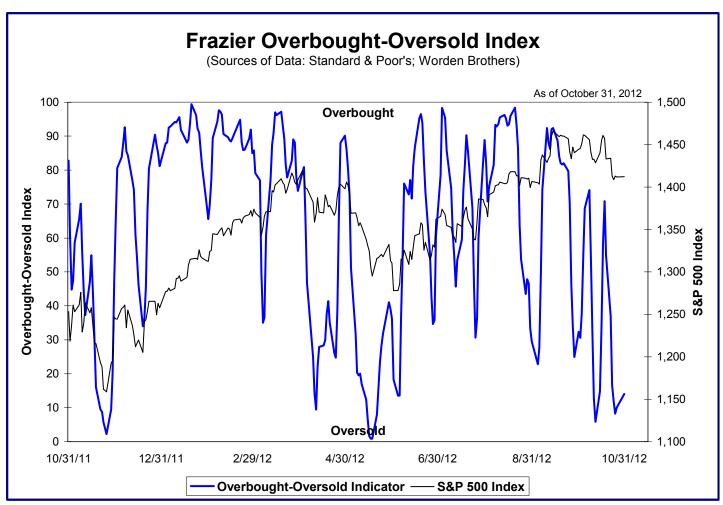
For example, I found from reviewing the Q3 earnings releases of 222 publicly-traded U.S. companies, which were selected from all ten of the U.S.'s major economic sectors, that revenues at 60% of those companies rose during the quarter ended September 30 of this year, as compared to the same quarter a year ago.

More importantly, my research indicates that the revenues and earnings at U.S. companies, in the aggregate, will trend higher during the coming year after faltering a bit during the quarter just ended.



Meanwhile, the recent trading action in the U.S. stock market suggests that most stock market participants who are currently active in the markets think, like me, that stock prices, in general, have likely bottomed for this phase of the economic cycle.

For example, the S&P 500 Index held near a key price-support level last week and again this past Wednesday – when the U.S. financial markets re-opened for trading after being closed on October 29 and 30 due to Hurricane Sandy – and that index rallied sharply last Thursday. Although the S&P 500 gave up Thursday's gains on the following day, it still held above a key price-support level. Stock market indices for Europe, Japan, Brazil, China, and India also held near some key price-support levels.



Of equal significance, the NYSE cumulative Advance-Decline Line pulled back very modestly, and also held above a key price-support level, during the recent decline in the major U.S. stock market indices.

With price-momentum statistics for the S&P 500, as well as for Brazil's, China's and Europe's major stock market indices, indicating that stocks fell over the past few days to substantial oversold levels, I would expect stocks to rally sharply during the coming weeks if Mitt Romney is elected as the next U.S. President.

Model Portfolios

Core Investment Portfolio

My Core Investment Portfolio has continued to outperform the S&P 500 Total Return Index since the last edition of my monthly newsletter, with the value of that portfolio falling only 0.7% from September 29 to November 2, while the S&P 500 Total Return Index declined 1.7% during that same period.

Although all of the ETFs that I recommended for purchase on October 16 pulled back a bit over the past two weeks, I'm confident that those ETFs will rebound by the end of this month. In the event that Mitt Romney were elected as the next U.S. President, I would expect those ETFs to rally sharply during the coming week and to continue to trend higher throughout the remainder of this year. In contrast, if Barrack Obama is re-elected, I would expect those ETFs to trade in a narrow sideways pattern over the next few weeks.

Regardless of who's elected as President, I expect stock prices in general, and the ETFs that compose my model portfolio, to trend higher during the coming year, with my research indicating that worldwide economic conditions will improve considerably and that the pace of economic in most regions of the world will accelerate during 2013.

In light of the fact that stocks of financial, industrial, technology and small-capitalization growth companies – the types of stocks held by the ETFs that compose my model portfolio – tend to outperform stocks of companies that operate in most other economic sectors during economic expansion, I feel that my Core Investment Portfolio is well positioned for the type of economic environment that I envision for the coming year.

Therefore, I advise you to continue to hold all of those ETFs. If Romney wins the Presidential election this coming Tuesday, I'll likely advise you to add to those ETFs.

As of November 2, 2012 **Inception Date: September 18, 2007**

Frazier's Core Investment Portfolio

Security Name	Ticker Symbol	Initial Entry Date	Avg. Entry Price	Dividends	Current Price	% of Port.	Total Return	Current Advice
SPDR S&P Retail ETF	XRT	10/16/12	62.86	0.00	62.8	10%	-0.1%	Hold
iShares Trust Dow Jones U.S. Industrial Sector Index Fund	IYJ	10/16/12	71.21	0.00	71.13	10%	-0.1%	Hold
SPDR S&P Bank ETF	KBE	10/16/12	23.83	0.00	23.68	10%	-0.6%	Hold
Vanguard Small-Cap Growth ETF	VBK	10/16/12	87.67	0.00	86	10%	-1.9%	Hold
Select Sector SPDR-Technology	XLK	10/16/12	30.14	0.00	28.96	10%	-3.9%	Hold
Cash (Money Market Securities)						50%		
Total Returns		**2007 ***	**2008**	**2009**	**2010**	**2011**	**YTD**	**Since Inception**
Core Investment Portfolio		**5.8%**	**-10.6%**	**18.4%**	**1.4%**	**3.7%**	**16.2%**	**36.6%**
S&P 500 Total Return Index		0.0%	-37.0%	26.5%	15.1%	2.1%	14.5%	7.2%

* Year 2007 performance results are for the period from the inception of Frazier's Core Investment Portfolio on September 18, 2007 to December 31, 2007. (Note: From September 18, 2007 to January 24, 2012, Frazier's Core Investment Portfolio was known as The ETF Strategist's Conservative Portfolio

Frazier's 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).

Model Portfolios

Speculative Portfolio

My Speculative Portfolio has continued to under-perform the S&P 500 Total Return Index by a wide margin during 2012, with that portfolio returning a mere 3.4% from December 31, 2011 to November 2 of this year, while the S&P 500 Total Return Index returned 14.5% during that same period.

That lackluster performance is attributable, primarily, to the poor performance of several of my recommended small-cap holdings, including iGATE Corp. (IGTE), HomeAway (AWAY), Jiayuan.com International (DATE), MakeMyTrip (MMYT), and Travelzoo (TZOO), as well as the recent performance of Entropic Communications, Tempur-Pedic (TPX), and Ubiqui Networks (UBNT).

Although I'm obviously never pleased to experience a big drop in any given holding, I'm confident that most, if not all, of my recommended small-cap stocks will rebound sharply during the coming year. That's because my research indicates that economic conditions and the pace of economic growth in most regions of the world will improve considerably during 2013, and because of the following: (1) The revenues and earnings of the types of companies mentioned above tend to expand substantially during economic expansions, and (2) the stocks of those companies have beta coefficients that are substantially greater than 1, meaning that those stocks tend to rise more than the major stock market indices during stock market upturns.

In addition, I expect my other recommended stocks, which also have high beta coefficients, to move considerably higher during the coming year.

I especially like the prospects for **Ford (F), Caterpillar (CAT)**, **IPGP Photonics (IPGP)**, and **Tempur-Pedic (TPX)**, whose financial operating performance and stock performance tends to be highly correlated with the United States' pace of economic growth, and **MercadoLibre (MELI)**, **Focus Media (FMCN)**, and **MakeMyTrip (MMYT)**, whose operating and stock performance tends to be highly correlated with the pace of economic growth in Brazil, China, and India, respectively.

As a reminder, MercadoLibre operates the largest online trading platform in Latin America, at www.mercadolibre.com. Like e-commerce powerhouse eBay, the company's platform allows businesses and individuals to conduct sales and purchases on its web sites in either a fixed-price or auction-based format.

Focus Media is a Chinese advertising company that manages a commercial display network of approximately 130,000 flat-panel television displays in high-traffic areas, such as in the lobbies of commercial office buildings, in more than 90 cities across China -- including Beijing, Shanghai, Guangzhou, and Shenzhen.

MakeMyTrip is the largest online travel agency in India. Through the company's website, at www.makemytrip.com, travelers can book airfare through all major airlines operating to and from India, reserve rooms at more than 4,000 hotels both within and outside of the country, and purchase rail and bus tickets through domestic operators.

I also like the prospects for **HomeAway (AWAY)** and **Travelzoo (TZOO)**, which provide online vacation-rental and travel services, respectively, and **Jiayuan.com International (DATE)**, a Chinese online dating site.

Separately, I expect my recommended holdings in the following technology stocks to perform well during the coming year, as my research indicates that those companies will continue to grow their revenues and earnings at fast rates: **Silicon Motion Technology (SIMO)**, **Brightcove (BCOV)**, **SolarWinds (SWI)**, and **Entropic Communications (ENTR)**.

Meanwhile, I expect gold prices to continue to trend lower, with my research indicating that inflation rates in the U.S. will remain low and that the U.S. dollar will continue to trend higher in comparison to most other major world currencies. Such an outcome would bode well for my recommended holding in **PowerShares DB Gold Short ETN (DGZ)**, which is structured to move in the opposite direction of futures contracts on gold bullion.

As of November 2, 2012 **Inception Date: October 29, 2010**

Frazier's Speculative Portfolio

Security Name	Ticker Symbol	Initial Entry Date	Avg. Entry Price	Dividends	Current Price	% of Port. *	Total Return	Current Advice
Ford	F	11/17/11	$10.31	$0.15	$11.17	3%	9.8%	Hold
Caterpillar	CAT	10/16/12	$83.48	$0.00	$85.79	3%	2.8%	Hold
Focus Media	FMCN	11/16/11	$24.48	$0.00	$24.91	2%	1.8%	Buy
IPG Photonics	IPGP	10/16/12	$56.01	$0.00	$54.98	3%	-1.8%	Buy
MercadoLibre	MELI	09/06/12	$82.21	$0.00	$78.92	3%	-4.0%	Buy
SodaStream International	SODA	10/16/12	$38.20	$0.00	$36.49	3%	-4.5%	Buy
Silicon Motion Technology	SIMO	10/16/12	$14.38	$0.00	$13.65	3%	-5.1%	Hold
Brightcove	BCOV	10/16/12	$12.17	$0.00	$11.54	3%	-5.2%	Hold
SolarWinds	SWI	10/16/12	$53.88	$0.00	$50.61	3%	-6.1%	Hold
PowerShares DB Gold Short ETF	DGZ	05/11/11	$13.13	$0.00	$11.78	30%	-10.3%	Buy
Entropic Communications	ENTR	10/16/12	$5.76	$0.00	$4.73	3%	-17.9%	Buy
Tempur-Pedic International	TPX	10/16/12	$33.04	$0.00	$27.04	3%	-18.2%	Buy
iGATE Corp.	IGTE	10/19/10	$20.32	$0.15	$15.88	3%	-21.1%	Buy
HomeAway	AWAY	10/06/11	$34.21	$0.00	$22.97	4%	-32.9%	Buy
Jiayuan.com International	DATE	11/16/11	$8.85	$0.00	$5.61	3%	-36.6%	Buy
Ubiquiti Networks	UBNT	05/21/12	$19.08	$0.00	$11.59	3%	-39.3%	Hold
MakeMyTrip	MMYT	11/11/11	$27.92	$0.00	$16.12	3%	-42.3%	Buy
Travelzoo	TZOO	08/09/11	$33.06	$0.00	$18.14	4%	-45.1%	Buy
Cash (Money Market Securities)						28%		

Comparative Returns	2010**	2011	YTD	Since Inception
The Frazier Speculative Portfolio	**10.9%**	**15.3%**	**3.4%**	**32.2%**
S&P 500 Total Return Index	6.7%	2.1%	14.5%	24.7%

* 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 Frazier's Recommended Speculative Portfolio on October 29, 2010 to December 31, 2010.

Added to the following securities on 11/22/11: 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.

Frazier's Speculative Portfolio is structured for persons who are seeking to profit from short-term developments in the financial markets and/or who are seeking to speculate on the longer-term appreciation potential of cyclical stocks and small-cap, growth stocks. While the goal of this portfolio is to outperform broadly diversified investment portfolios by a wide margin over complete market cycles, we urge only those persons who already have a core investment portfolio to follow Frazier's Speculative Portfolio recommendations.

- continued below -

Latest Developments and Near-term Outlook

David N. Frazier

The latest economic statistics for the United States seem to support the forecasts that I've made in this report, with the majority of those statistics indicating that economic conditions in the United States will improve and that the pace of U.S. economic growth will increase during the months ahead.

For example, the U.S. Department of Commerce announced on October 29 that the rate of increase in personal consumption expenditures rose for the third consecutive month during September, as the after-tax personal incomes of American households continued to increase. That's a very significant development because personal spending accounts for approximately 70% of the total output of goods and services – gross domestic product – in the United States. Hence, in the event that personal incomes and personal spending were to continue to rise, the pace of economic growth in the U.S. would likely accelerate.

Separately, the Conference Board announced on October 30 that the assessment of U.S. households regarding current economic conditions, and their outlook for the economy for the next six months, improved considerably during October, with that economic research firm's Consumer Confidence Index rising during October to the highest level since February 2008. That's also a significant development because U.S. households tend to increase their spending when their assessment of economic conditions improve.

Meanwhile, the U.S. Department of Commerce reported on November 1 that sales of automobiles rose for the second consecutive month during September, rising 13.6% compared to the same month a year ago.

Lastly, the Institute of Supply Management announced last Thursday that its purchasing managers' index for the manufacturing sector of the U.S. economy – a very reliable leading economic indicator – rose for the second month in a row during October, indicating that economic conditions in the manufacturing sector will continue to improve over the next couple of months.

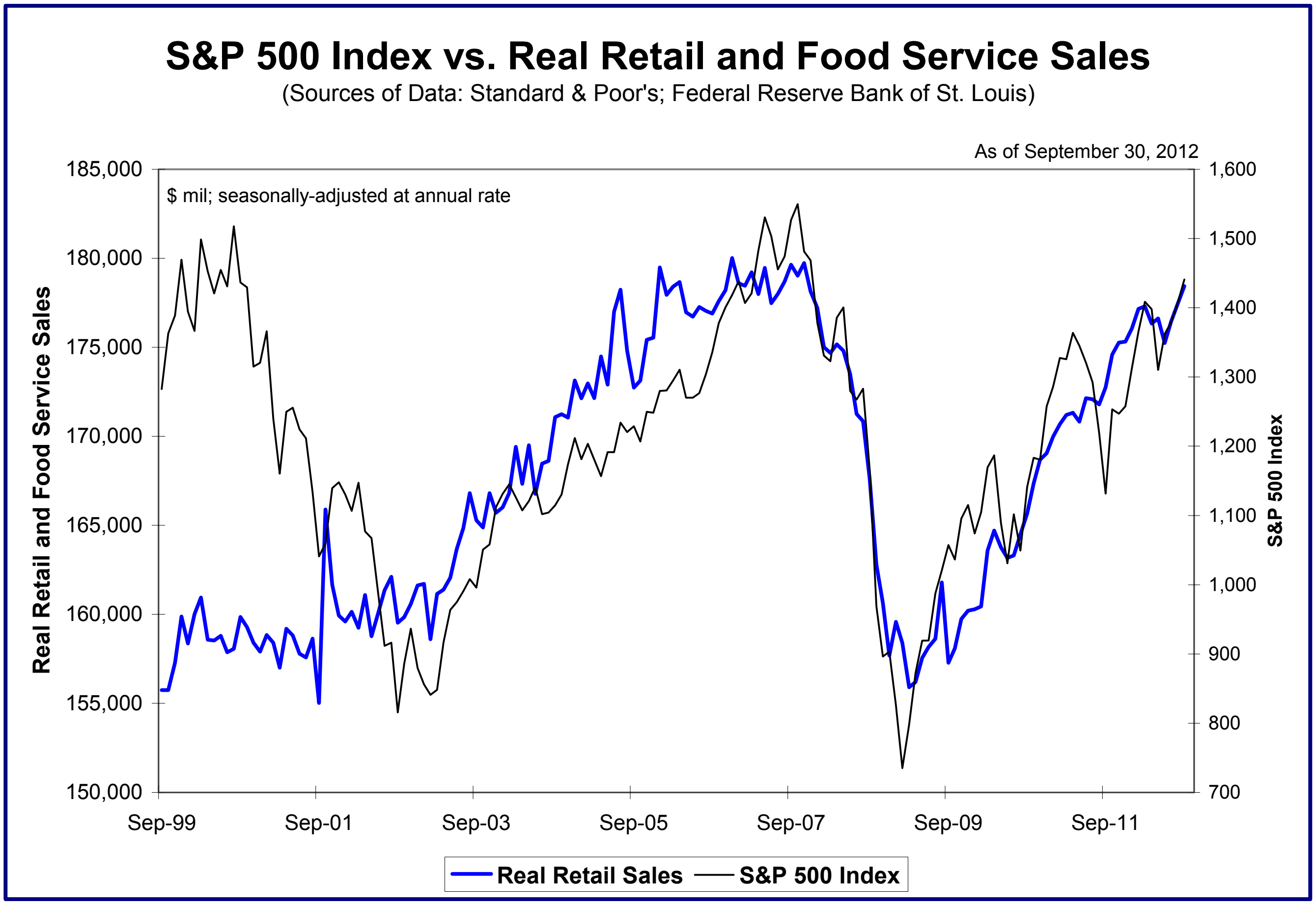
Although reports issued last week from the Conference Board and from Challenger, Gray, & Christmas, a global outplacement firm, indicate that the employment situation in the United States will remain week during the months ahead, my research suggests that the employment situation will improve considerably if Mitt Romney is elected as the next U.S. President.

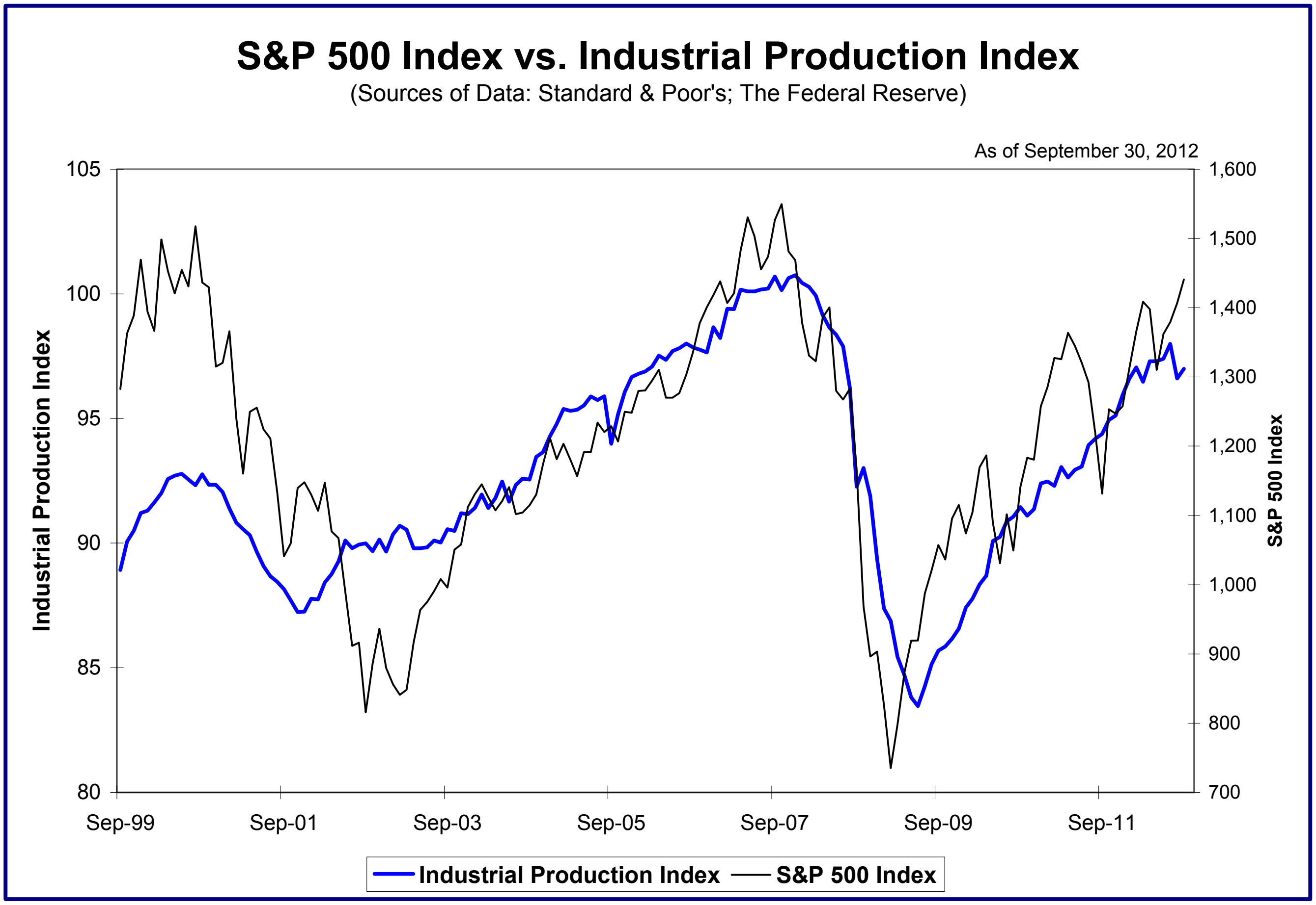
In closing, please note that in the event that Romney were to win the election, I would likely advise those of you who follow my Core Investment Portfolio to add to your positions in my recommended ETFs and for those of you who follow my Speculative Portfolio to add to several of the stocks that compose that model portfolio. Therefore, I urge you to check your email this coming Wednesday for a potential Trade Alert.

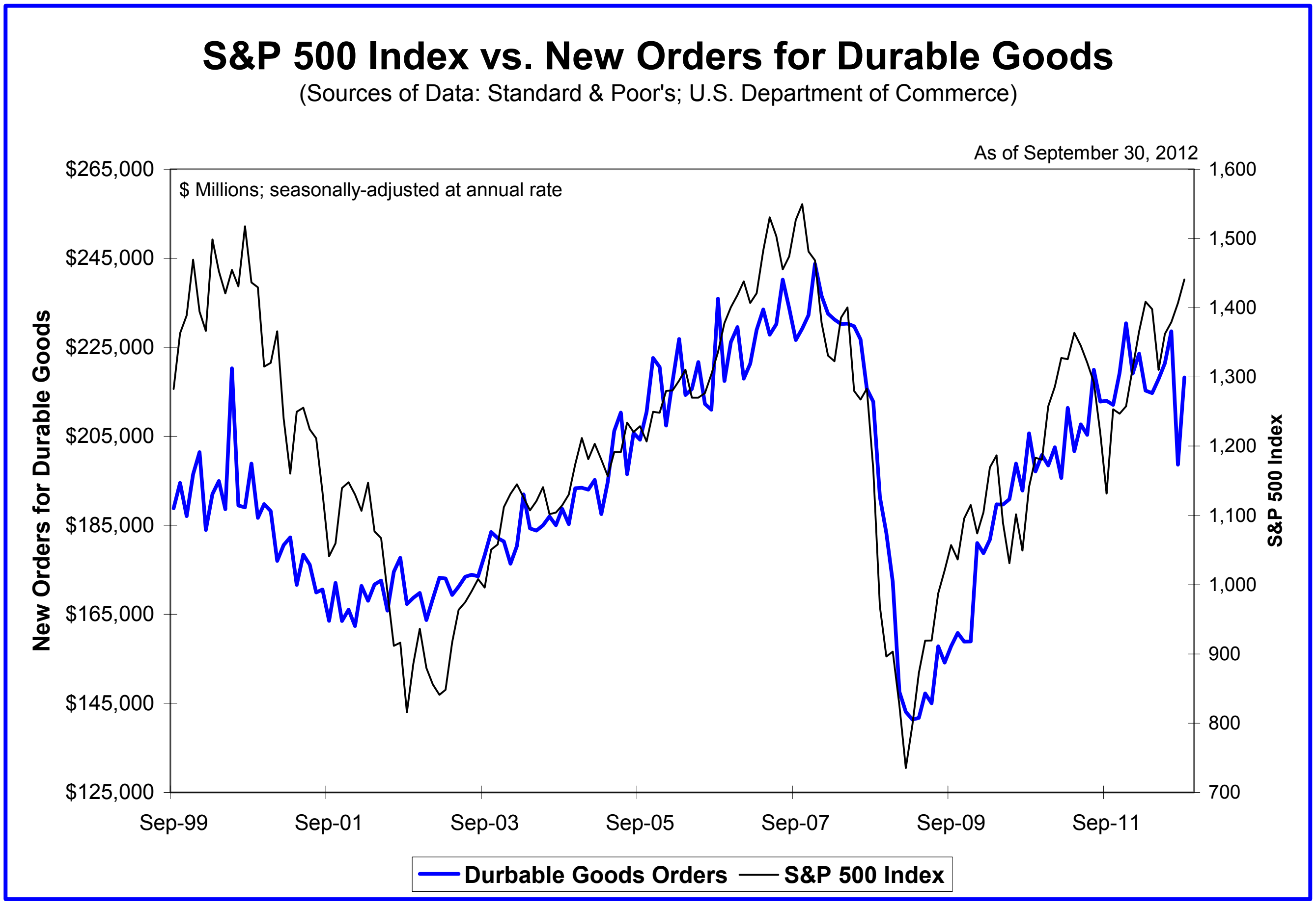
Published by: David N. Frazier 195 Soriano Drive Jupiter, Florida 33458

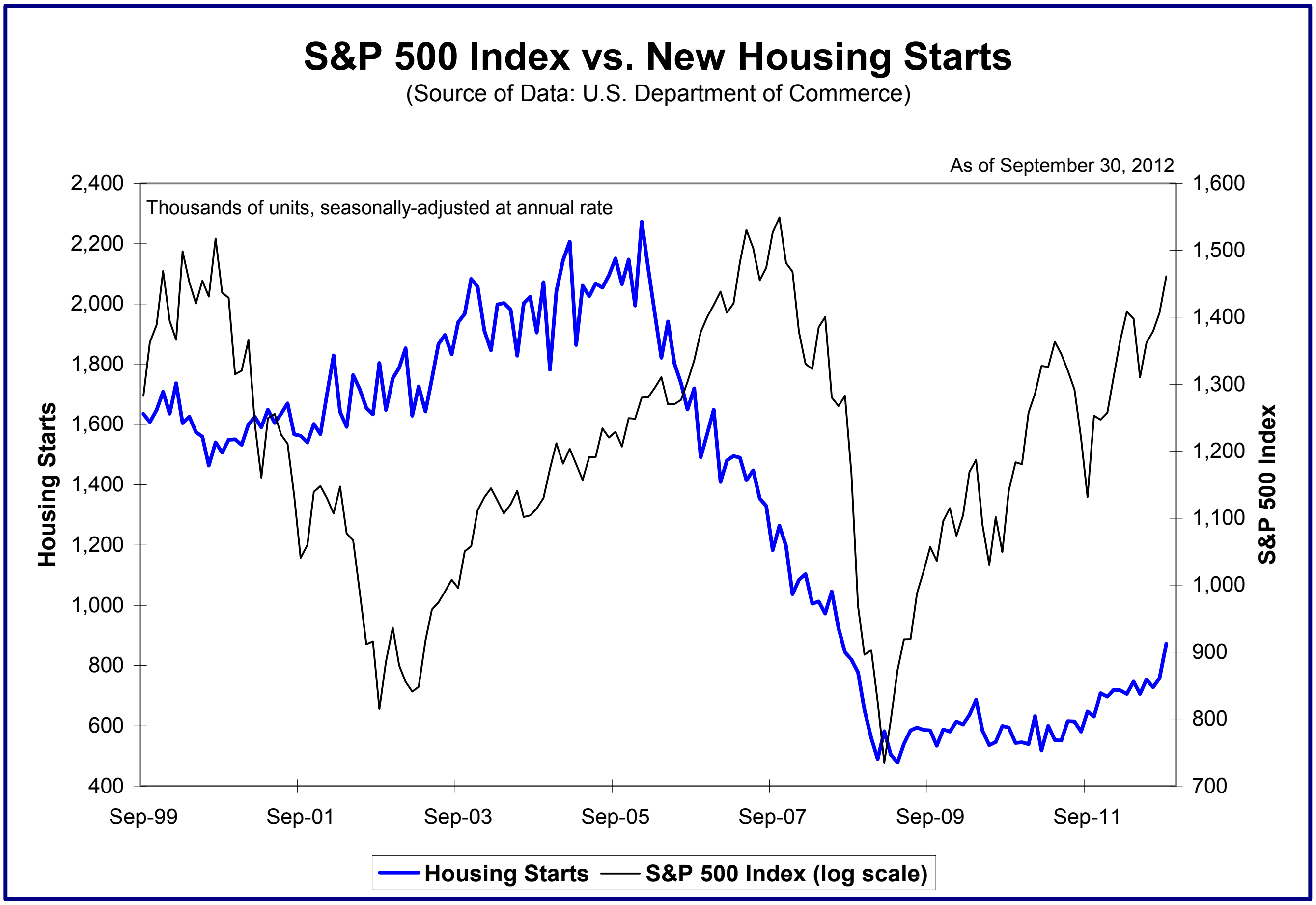
Appendix

Large Versions of Charts in this Report

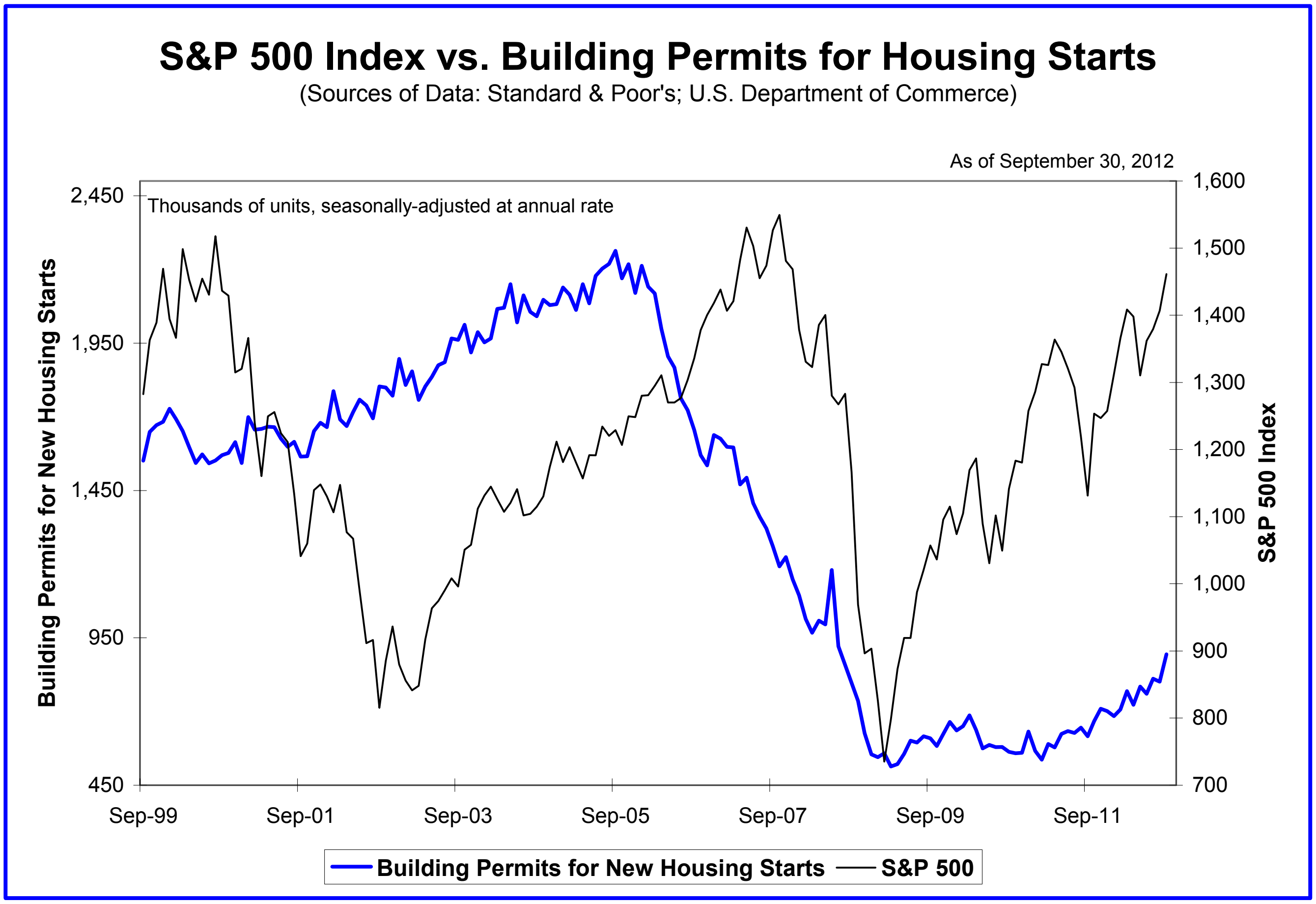



S&P 500 Index vs. Industrial Production Index
(Sources of Data: Standard & Poor's; The Federal Reserve)
As of September 30, 2012
Industrial Production Index
S&P 500 Index
105
100
95
90
85
80
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
Sep-99
Sep-01
Sep-03
Sep-05
Sep-07
Sep-09
Sep-11
Industrial Production Index
S&P 500 Index

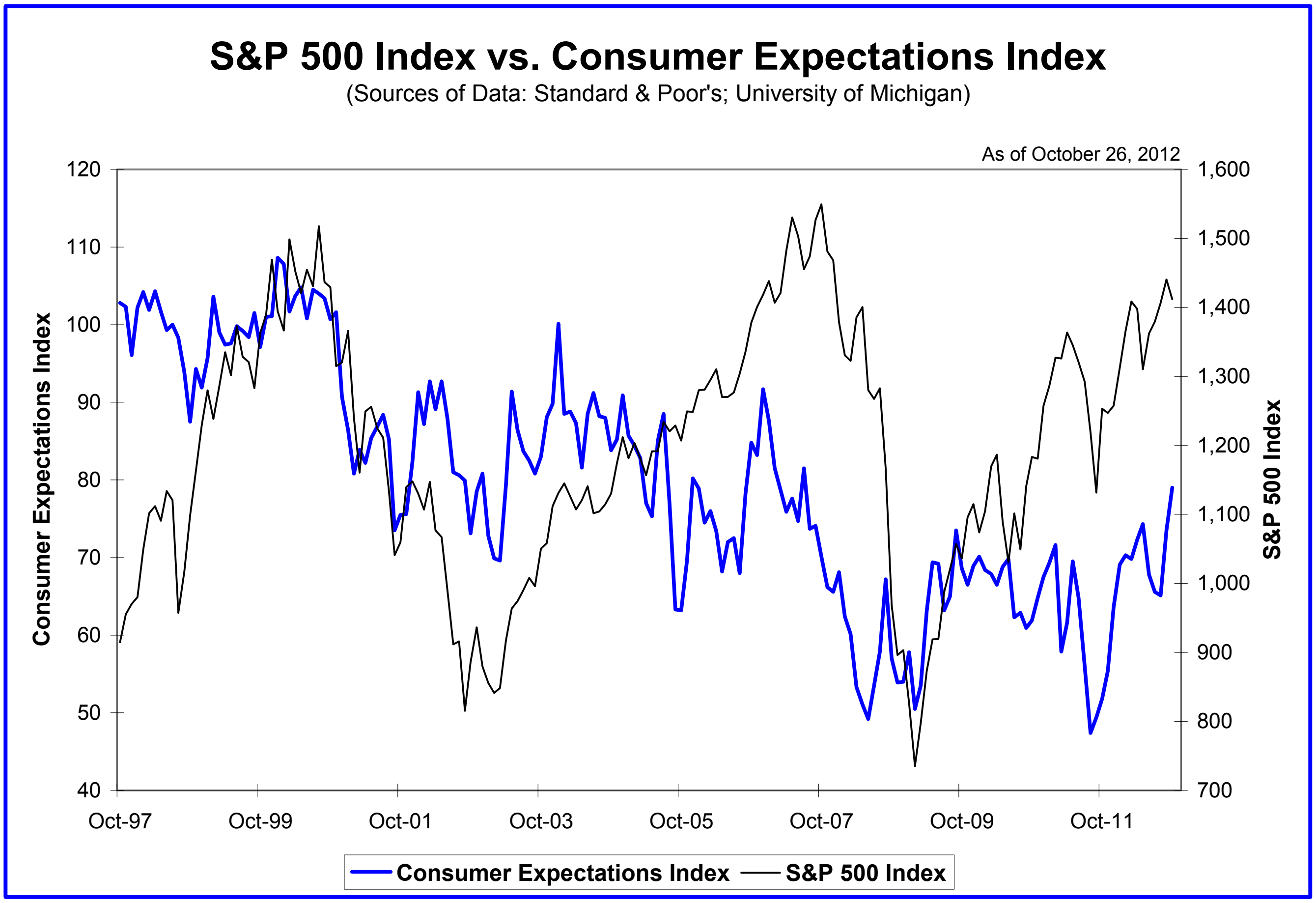

S&P 500 Index vs. New Orders for Durable Goods
(Sources of Data: Standard & Poor's; U.S. Department of Commerce)
As of September 30, 2012
$ Millions; seasonally-adjusted at annual rate
New Orders for Durable Goods
S&P 500 Index
$265,000
$245,000
$225,000
$205,000
$185,000
$165,000
$145,000
$125,000
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
Sep-99
Sep-01
Sep-03
Sep-05
Sep-07
Sep-09
Sep-11
Durable Goods Orders
S&P 500 Index



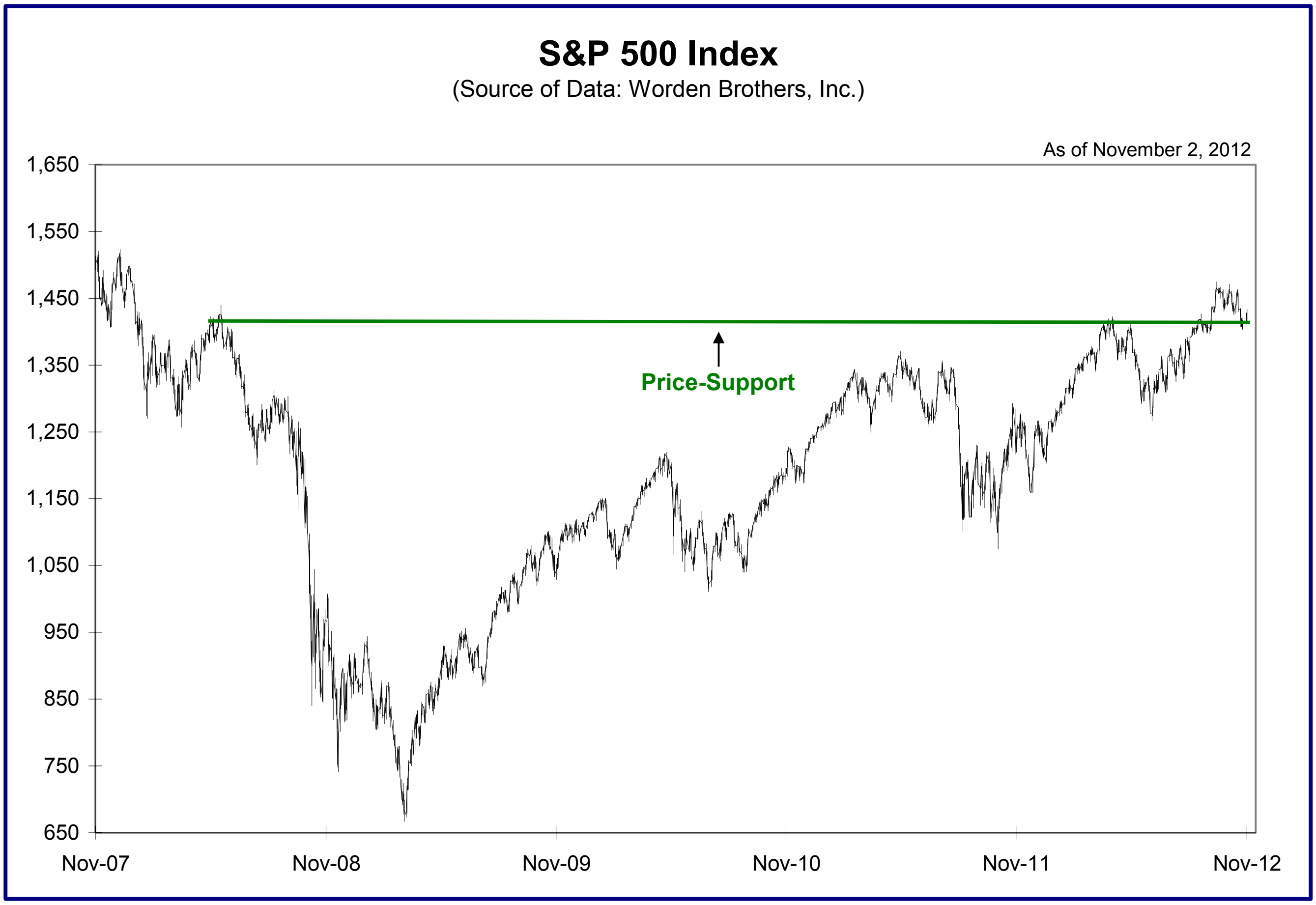
S&P 500 Index vs. New Housing Starts
(Source of Data: U.S. Department of Commerce)
As of September 30, 2012
Thousands of units, seasonally-adjusted at annual rate
Housing Starts
S&P 500 Index
2,400
2,200
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
Sep-99
Sep-01
Sep-03
Sep-05
Sep-07
Sep-09
Sep-11
Housing Starts
S&P 500 Index (log scale)

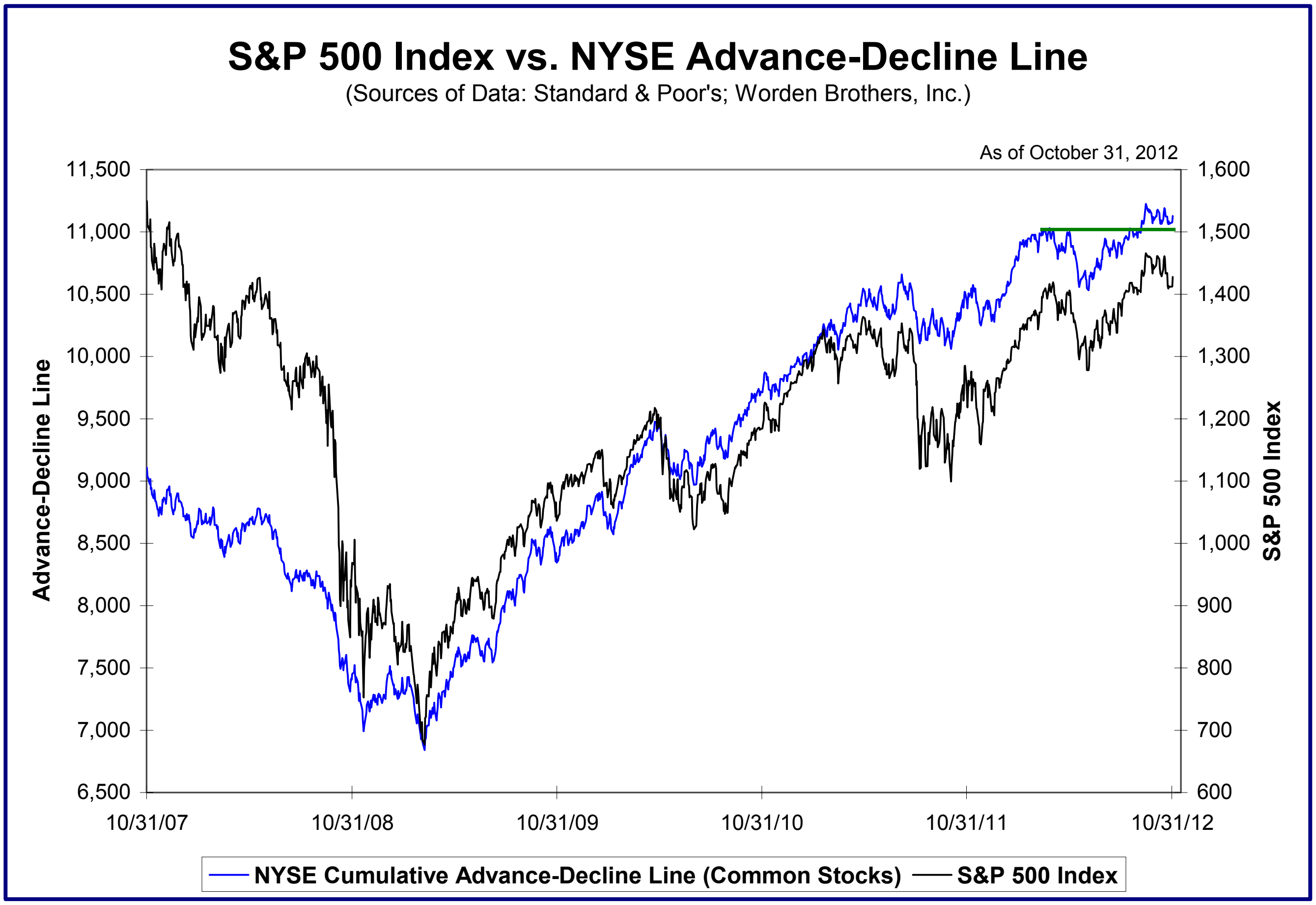


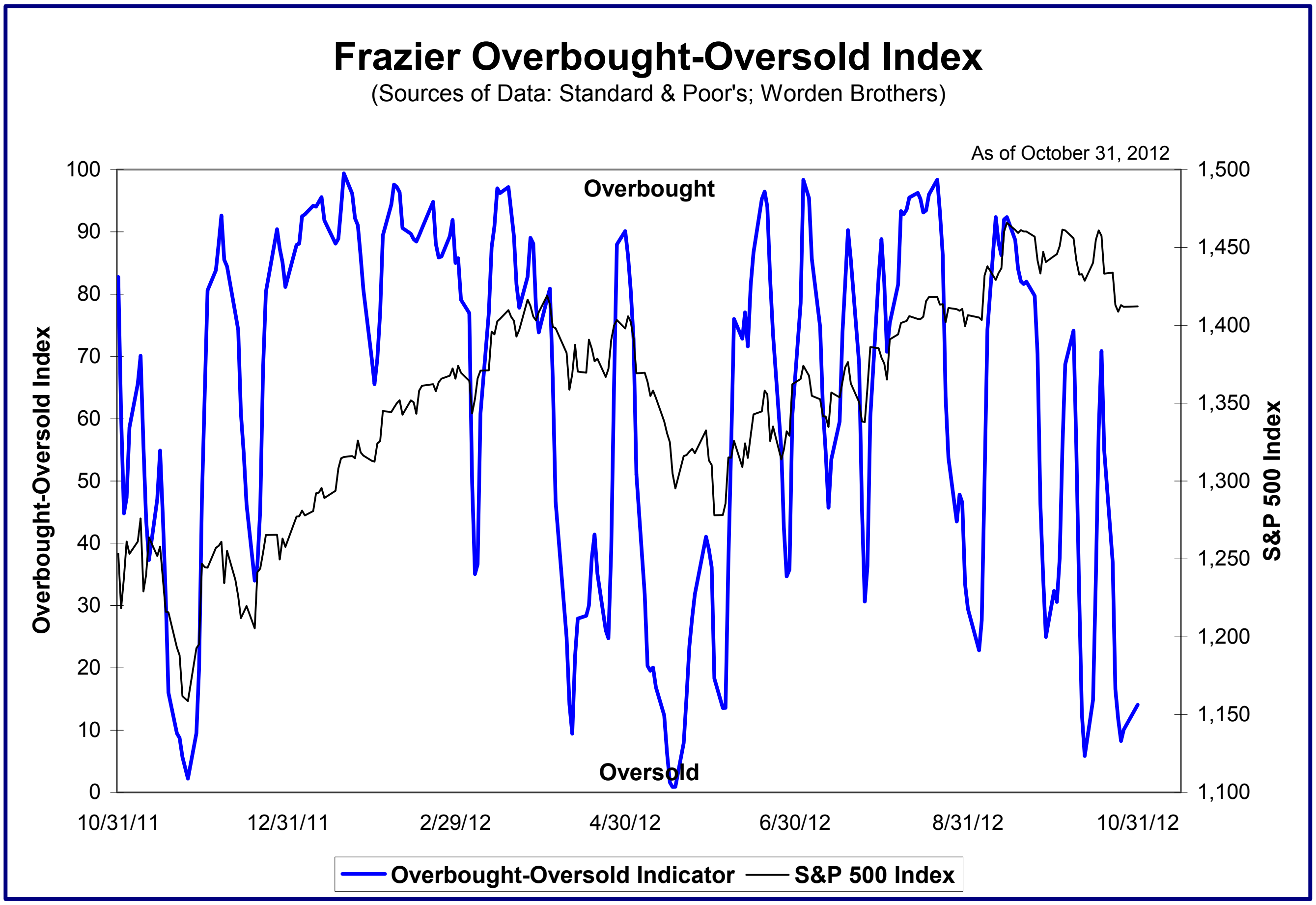
S&P 500 Index vs. Building Permits for Housing Starts
(Sources of Data: Standard & Poor's; U.S. Department of Commerce)
As of September 30, 2012
Thousands of units, seasonally-adjusted at annual rate
Building Permits for New Housing Starts
S&P 500 Index
2,450
1,950
1,450
950
450
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
Sep-99
Sep-01
Sep-03
Sep-05
Sep-07
Sep-09
Sep-11
Building Permits for New Housing Starts
S&P 500



S&P 500 Index vs. Consumer Expectations Index
(Sources of Data: Standard & Poor's; University of Michigan)
As of October 26, 2012
Consumer Expectations Index
S&P 500 Index
120
110
100
90
80
70
60
50
40
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
Oct-97
Oct-99
Oct-01
Oct-03
Oct-05
Oct-07
Oct-09
Oct-11
Consumer Expectations Index
S&P 500 Index


S&P 500 Index
(Source of Data: Worden Brothers, Inc.)
As of November 2, 2012
Price-Support
1,650
1,550
1,450
1,350
1,250
1,150
1,050
950
850
750
650
Nov-07
Nov-08
Nov-09
Nov-10
Nov-11
Nov-12


S&P 500 Index vs. NYSE Advance-Decline Line
(Sources of Data: Standard & Poor's; Worden Brothers, Inc.)
As of October 31, 2012
Advance-Decline Line
11,500
11,000
10,500
10,000
9,500
9,000
8,500
8,000
7,500
7,000
6,500
S&P 500 Index
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
10/31/07
10/31/08
10/31/09
10/31/10
10/31/11
10/31/12
NYSE Cumulative Advance-Decline Line (Common Stocks)
S&P 500 Index


Frazier Overbought-Oversold Index
(Sources of Data: Standard & Poor's; Worden Brothers)
As of October 31, 2012
Overbought
Oversold
Overbought-Oversold Index
S&P 500 Index
100
90
80
70
60
50
40
30
20
10
0
1,500
1,450
1,400
1,350
1,300
1,250
1,200
1,150
1,100
10/31/11
12/31/11
2/29/12
4/30/12
6/30/12
8/31/12
10/31/12
Overbought-Oversold Indicator
S&P 500 Index

