Frazier's Strategic Allocator

Avoid the big downturns and profit from the upturns

Trade Alert

December 18, 2013

SPECULATIVE PORTFOLIO

Action: **Sell ProShares Short S&P 500**
Ticker Symbol: SH
Buy Price: At the Market

Action: **Sell ProShares Short Financials**
Ticker Symbol: SEF
Buy Price: At the Market

Action: **Buy Yandex**
Ticker Symbol: YNDX
Sell Price: At the Market
Allocation: 5% of the amount of your financial market assets that you plan to use for speculation purposes.

Action: **Buy EPAM Systems**
Ticker Symbol: EPAM
Sell Price: At the Market
Allocation: 5% of the amount of your financial market assets that you plan to use for speculation purposes.

Action: **Buy Brightcove**
Ticker Symbol: BCOV
Sell Price: At the Market
Allocation: 5% of the amount of your financial market assets that you plan to use for speculation purposes.

- Continue Below -

SHORT-TERM TRADING PORTFOLIO

Action: **Buy Yandex**
Ticker Symbol: YNDX
Sell Price: At the Market
Allocation: 10% of the amount of your financial market assets that you plan to use for short-term trading purposes.

Action: **Buy EPAM Systems**
Ticker Symbol: EPAM
Sell Price: At the Market
Allocation: 10% of the amount of your financial market assets that you plan to use for short-term trading purposes.

Action: **Buy Brightcove**
Ticker Symbol: BCOV
Sell Price: At the Market
Allocation: 10% of the amount of your financial market assets that you plan to use for short-term trading purposes.

CORE INVESTMENT PORTFOLIO

Action: **Buy SPDR S&P Bank ETF**
Ticker Symbol: KBE
Sell Price: At the Market
Allocation: 10% of the amount of your financial market assets that you plan to allocate to mid- and/or long-term investment holdings.

Action: **Buy SPDR S&P Retail ETF**
Ticker Symbol: XRT
Sell Price: At the Market
Allocation: 10% of the amount of your financial market assets that you plan to allocate to mid- and/or long-term investment holdings.

Action: **Buy iShares Trust Dow Jones U.S. Industrial Sector Index Fund**
Ticker Symbol: IYJ
Sell Price: At the Market
Allocation: 10% of the amount of your financial market assets that you plan to allocate to mid- and/or long-term investment holdings.

Action: **Buy Vanguard Small-Cap Growth ETF**
Ticker Symbol: VBK
Sell Price: At the Market
Allocation: 10% of the amount of your financial market assets that you plan to allocate to mid- and/or long-term investment holdings.

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Dear Member,

As I'm sure you know, U.S. stocks rallied sharply today after the Federal Reserve announced that it will reduce its purchases of U.S. government securities during the months ahead but that it will continue to maintain lending rates near historically-low levels for the foreseeable future.

Specifically, the Fed said, "the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens."

The Fed went on to say, "The Committee also reaffirmed its expectation that the current exceptionally low target range for the federal funds rate of 0 to 1/4 percent will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent."

Of utmost importance, the Fed said that it will "maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6-1/2 percent."

Those comments indicate clearly that the Federal Reserve will do everything in its power to keep the U.S. economy growing.

Although my research indicates that the massive amounts of U.S. government securities that the Federal Reserve purchased over the past 12 months did little to stimulate the economy, those purchases have kept lending rates in the United States at extremely low levels, which has led to substantial improvements in the U.S. housing market.

Now that the employment situation is showing signs of improving, with a substantial number of jobs created in the relatively high-paying Professional and Business Services (17.2% of all newly-created jobs), Transportation and Warehousing (15%), Manufacturing (13.3%), Construction (8.4%) sectors during November, **I expect economic activity in the housing sector to continue to improve during the months ahead**. That would be a very significant development, if it were to occur, because the pace of economic growth in the United States has, historically, moved in the same direction as the housing market. Therefore, I expect stock prices, in general, to continue to move higher during the coming months.

Although the net reading on my Tactical Asset & Sector Allocation Model (and associated Buy-Sell Index) was in negative territory from May through October of this year, that reading turned neutral during November.

As a result of today's announcement from the Fed, and the fact that several of the components of my model turned positive over the past two weeks, that model is now flashing a "buy" signal.

Since 1969, whenever the reading on my model registered a "buy" signal, stocks rallied sharply over the ensuing months.

Because of the developments mentioned above, I advise those of you who follow my Speculative Portfolio to sell your positions in the inverse-equity ETFs that first recommended for purchase on October 29, 2013 – **ProShares Short S&P 500 (SH) and ProShares Short Financials (SEF)**.

While I'm never happy taking a loss, I learned many years ago that cutting losses quickly when certain key developments indicate that one was wrong about an investment makes a lot more sense than continuing to hold an investment that's losing money. Fortunately, those of you who followed my buy recommendations on SH and SEF should have incurred losses of no greater than 3% and 4.6%, respectively on those holdings.

Additionally, I advise those of you who follow my Speculative Portfolio to buy each of the following stocks in accordance with the trade instructions outlined above: **Yandex (YNDX)**, **EPAM Systems (EPAM)**, and **Brightcove (BCOV)**.

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For those of you who are relatively new to my newsletter service, the section below provides some general information on those stocks.

Yandex

Yandex, which is headquartered in The Netherlands for tax purposes, operates Russia's most popular Internet search engine. That search engine controls approximately 65% of Russia's search engine market.

Like America's search engine powerhouse, Google, Yandex generates almost all of its revenues from advertising. The company also offers other Internet services, including email (via its Yandex.Mail platform), Yandex.Maps, news aggregator Yandex.News, online payment system Yandex.Money, and e-tailer Yandex.Market. In addition to providing its services to the Russian Internet market, Yandex operates search engines in Belarus, Kazakhstan, and Ukraine.

EPAM Systems

EPAM Systems is a Russian IT outsourcing company that provides software development and other IT services to U.S. and European customers from development centers in Russia, Belarus, Hungary, Ukraine, Kazakhstan and Poland. The company also offers services in e-commerce support, data warehousing, customer relationship management, and application integration. More than half of the company's revenues are derived from sales in North America.

Brightcove (BCOV)

Brightcove offers a cloud-based platform for publishing and distributing digital videos over the Internet. Approximately 3,300 companies in more than 50 countries use the company's services to upload videos to their websites, including broadcasters such as A&E, Lifetime, Showtime, and Starz, and non-broadcasters such as Honda, The New York Times, and the U.S. Army. The company has offices in 10 countries. It generates approximately a third of its revenues from countries other than the United States.

Each of the companies outlined above grew their sales and earnings at fast rates over the past several quarters, and they appear to be in a position to continue to grow their revenues and earnings at a fast pace.

Those companies are very strong financially, and they appear to be trading at a bargain price relative to their projected revenues and earnings for the next few years.

Separately, I advise those of you who follow my Core Investment Portfolio to buy the ETFs outlined on page 2 in accordance with my trade instructions for those securities.

That recommendation is based, primarily, on the fact that my Tactical Asset & Sector Allocation Model (as associated Buy-Sell Index) has registered a "buy" signal, and because the U.S. economy appears to now be operating in the Expansion Phase of the economic cycle. Historically, the financial, consumer discretionary, and industrial sectors of the economy have tended to perform best during that phase of the economic cycle. Small-cap stocks also tend to perform well during the Expansion Phase.

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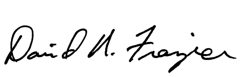

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