

Frazier's Strategic Allocator

Avoid the big downturns and profit from the upturns



Trade Alert

March 31, 2014

Dear Member,

As I mentioned in yesterday's Weekly Market Commentary and Portfolio Update, I expect stock prices, in general, to rally sharply later this week in response to favorable economic developments and a lessening of investors' concerns about the possibility of Russia invading Ukraine.

Of utmost importance, my research indicates that substantially more jobs were created in the United States during March than during each of the previous three months. That same research indicates that the employment situation will continue to improve through at least the end of this year.

If that forecast turns out to be correct, I would expect the economic expectations U.S. households to improve considerably.

Any such improvements would likely lead Americans to increase their spending on various types of goods and services, and for a greater number of Americans to purchase a home, during the months ahead.

In light of the fact that household spending accounts for approximately 68% of the total output of goods and services in the United States, the pace of economic growth in the United States would likely increase during the coming months in the event that the employment situation were to improve.

Separately, my research indicates that there is an extremely low probability that Russia will invade Ukraine. The fact that Russian President Vladimir Putin has ordered a "partial withdrawal" of troops from the border with Ukraine, according to the BBC, seems to support that low probability of a Russian invasion, especially after considering that U.S. Secretary of State John Kerry told his Russian counterpart on Sunday that resolving the Russia-Ukraine crisis depended on Russia pulling back its troops from along Ukraine's border. The BBC also said that Putin and Germany's Chancellor, Angela Merkel, discussed additional steps this past weekend to stabilize the situation in Ukraine.

Because of the positive factors and developments mentioned above, and the fact that the net reading on my Tactical Asset & Sector Allocation Model is in positive territory, I expect the major U.S. stock market indices to break out to new all-time highs and for Russian stocks, in general, to rebound sharply within the next couple of weeks.

Therefore, I advise you to get fully invested in the equities market.

See pages 2-6 for my specific recommendations.

CORE INVESTMENT PORTFOLIO

Action: Add to SPDR S&P Bank ETF

Ticker Symbol: KBE

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for mid- or long-term (12 months or longer) investment purposes.

After this purchase, approximately 20% of our Core Investment Portfolio will be allocated to KBE.

Action: Add to SPDR S&P Retail ETF

Ticker Symbol: XRT

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for mid- or long-term (12 months or longer) investment purposes.

After this purchase, approximately 20% of our Core Investment Portfolio will be allocated to XRT.

Action: Add to Vanguard Small-Cap Growth ETF

Ticker Symbol: VBK

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for mid- or long-term (12 months or longer) investment purposes.

After this purchase, approximately 20% of our Core Investment Portfolio will be allocated to VBK.

Action: Add to iShares Trust Dow Jones U.S. Industrial Sector Index Fund

Ticker Symbol: IYJ

Buy Price: At the Market

Allocation: 5% of the amount of your financial market assets that you plan to use for mid- or long-term (12 months or longer) investment purposes.

After this purchase, approximately 15% of our Core Investment Portfolio will be allocated to IYJ.

INCOME PORTFOLIO

Action: Add to Nuveen Equity Premium Opportunity Fund

Ticker Symbol: JSN

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for income-generating purposes.

After this purchase, approximately 20% of our Income Portfolio will be allocated to JSN.

Action: Add to Nuveen Equity Premium Income Fund

Ticker Symbol: JPZ

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for income-generating purposes.

After this purchase, approximately 20% of our Income Portfolio will be allocated to JPZ.

Action: Add to Vanguard REIT ETF

Ticker Symbol: VNQ

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for income-generating purposes.

After this purchase, approximately 20% of our Income Portfolio will be allocated to VNQ.

SPECULATIVE PORTFOLIO

Action: **Buy J.C. Penney**

Ticker Symbol: JCP

Buy Price: At the Market

Allocation: 2% of the amount of your financial market assets that you plan to use for speculation purposes.

Brief Report: See pages 7-8 for a brief analysis of J.C. Penney.

Note: As of today's close, approximately 98% of our Speculative Portfolio was already allocated to securities. Therefore, we do not have any additional security recommendations at this time for our Speculative Portfolio.

SHORT-TERM TRADING PORTFOLIO

Action: Add to Ambarella

Ticker Symbol: AMBA

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for short-term trading purposes.

After this purchase, approximately 20% of our Short-term Trading Portfolio will be allocated to AMBA.

Action: Add to Yandex

Ticker Symbol: YNDX

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for short-term trading purposes.

After this purchase, approximately 20% of our Short-term Trading Portfolio will be allocated to YNDX.

Action: Add to Silicon Motion Technology

Ticker Symbol: SIMO

Buy Price: At the Market

Allocation: 5% of the amount of your financial market assets that you plan to use for short-term trading purposes.

After this purchase, approximately 10% of our Short-term Trading Portfolio will be allocated to SIMO.

Action: Buy TASER International

Ticker Symbol: TASR

Buy 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

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for short-term trading purposes.

- Continued Below -

Action: **Buy Jiayuan.com**

Ticker Symbol: DATE

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to use for short-term trading purposes.

J.C. Penney (JCP)

After replacing its prior CEO, Ron Johnson, on April 8, 2013, J.C. Penney (JCP) is finally showing signs of a potential turnaround.

For example, the company announced on February 4 that during the 2013 Christmas shopping season its same-store sales rose 3.1%, as compared to the same period during 2012. For its fiscal quarter ended February 1, 2014, the company reported that its same-store sales rose by 2.0%. That's the first time since the second quarter of 2011 that J.C. Penney has generated a positive quarterly sales result. In comparison, the company's same-store sales declined 31.7% during the same quarter a year ago.

Meanwhile, the company's online sales rose a whopping 26.3% for the quarter ended February 2, as compared to the same period during 2012.

Those sales gains are very significant because they were generated during a holiday shopping season that was characterized by huge discounts from all of the major U.S. retail store chains in an effort to lure shoppers into their stores.

Looking forward, the company announced on February 26 that it expects its same-store sales to increase 3%-5%, and for its gross profit margin to improve, during the quarter ending May 2, 2014. For the full fiscal year ending January 31, 2015, the company expects its same-store sales to rise by approximately 7.5% and for its gross profit margin to "improve significantly".

J.C. Penney's management team made similar positive statements during early 2013, saying they were "building a world-class organization that will be instrumental in delivering a revolutionary shopping experience that is unlike anything that exists in retail today ... [and that they would] ... create long-term shareholder value, as we become America's favorite store".

The company's management also stated during early 2013 that they expected the changes they were implementing to reduce the company's operating expenses to below 30% of its revenues.

Unfortunately the company's CEO at that time, Ron Johnson, and his team of personally-selected executives that he referred to as "the best internal and external talent in the industry", failed miserably in their efforts to accomplish those goals.

For example, J.C. Penney's income before taxes widened to a loss of \$1.9 billion for the fiscal year ended February 1, 2014, from a loss of \$1.5 billion during the prior year, on an 8.7% decline in the company's revenues. That's after the company's revenues declined by a whopping 24.8% during the fiscal year ended February 2, 2013 when Mr. Johnson was in charge of the company's operations.

Meanwhile, the company's operating expenses remained at 41.3% of its revenues for the fiscal year ended February 1, 2014 – nowhere near the less-than-30% level that Mr. Johnson had projected.

Fortunately, Mr. Johnson was replaced during mid-2013 with the company's previous CEO, Myron E. (Mike") Ullman, III, who served as J.S. Penney's CEO from 2004 to late 2011.

Unlike Mr. Johnson, who implemented numerous store initiatives that focused on up-scale shoppers during his disastrous 17-month tenure at J.C. Penney, Mr. Ullman is taking steps to reinstitute the company's previous heritage, since it was founded during 1902, of focusing on middle-income shoppers and offering a wide variety of private-label brands in its 1,100 stores across the United States.

And, while Mr. Johnson was paid more \$52 million during his brief tenure at the company, Mr. Ullman accepted a total compensation package of only \$1 million for the year ending December 31, 2013. That's substantially less than the amount of money that the vast majority of CEOs at large companies like J.C. Penney are paid.

While it's way too early to know whether or not Mr. Ullman will be successful in turning around J.C. Penney, he appears to be making some good progress.

Analysts at Citigroup appear to agree with my assessment, with that investment banking firm upgrading its rating on J.C. Penney to "buy" on March 12, from a previous "neutral" rating, on its expectations that the company will continue to deliver positive same-store sales growth by returning to the basics, eliminating "inappropriate merchandise" and focusing on private-label products for the middle-income shopper.

In light of the developments discussed above, and the fact that the company's stock closed today at a price-to-sales ratio of only 0.16-to-1, JCP appears to be a very compelling investment.

Therefore, I would advise those of you who follow our Speculative Portfolio recommendations to buy JCP in accordance with the trade instructions outlined on page 4.



David N. Frazier
President and Chief Market Strategist
Frazier & Mayer Research, LLC
dba TheMarketMonk.com

A handwritten signature in black ink that reads "David N. Frazier". The signature is written in a cursive, flowing style.

This report is published by Frazier & Mayer Research, LLC. This publication is intended solely for informational purposes and should not be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy, sell or trade in any securities herein named.

The information contained in this report has been obtained and compiled from sources deemed to be reliable. However, we do not guarantee the completeness, accuracy, and/or usefulness of that information. That information should be used as references only with your own discretion. The owner, publisher, and editors of this report are not responsible for any errors and/or omissions.

The content of this report should not be construed, under any circumstance, as an express or implied promise, guarantee, or implication that you will profit from or that any potential investment losses can or will be limited in any manner whatsoever. Any investment or trade recommendation made in this report is taken at your own risk for your own account.

Frazier & Mayer Research, LLC does not guarantee, and readers of this report should not assume, that the future performance of our investment and/or trade recommendations will equal the past performance of those recommendations.

The publisher of this report and/or its principals, officers, employees, associates, or affiliates may, at any time, invest in and trade the securities covered in this report.

Your are prohibited from copying or redistributing this report without obtaining express written permission from Frazier & Mayer Research, LLC.
