Frazier's Strategic Allocator

Avoid the big downturns and profit from the upturns

Trade Alert

December 26, 2014

CORE INVESTMENT PORTFOLIO

Action:	**Buy Vanguard Industrials ETF**
Ticker Symbol:	VIS
Buy Price:	At the Market
Allocation:	10% of the amount of your financial market assets that you plan to allocate to your mid- and/or long-term (12 months or longer) investment holdings.

Action:	**Buy Vanguard Materials ETF**
Ticker Symbol:	VAW
Buy 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 (12 months or longer) investment holdings.

Action:	**Buy 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 allocate to mid- and/or long-term (12 months or longer) investment holdings.

Action:	**Buy iShares U.S. Medical Devices ETF**
Ticker Symbol:	IHI
Buy 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 (12 months or longer) investment holdings.

- Continued Below -

INCOME PORTFOLIO

Action: **Buy Nuveen S&P 500 Buy-Write Income Fund**

Ticker Symbol: BXMX

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to allocate to income-generating investments.

Action: **Buy 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 allocate to income-generating investments.

Action: **Buy Health Care REIT, Inc.**

Ticker Symbol: HCN

Buy Price: At the Market

Allocation: 10% of the amount of your financial market assets that you plan to allocate to income-generating investments.

SPECULATIVE PORTFOLIO

Action: **Buy 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 allocate to mid- and/or long-term (12 months or longer) speculative investments.

SHORT-TERM TRADING PORTFOLIO

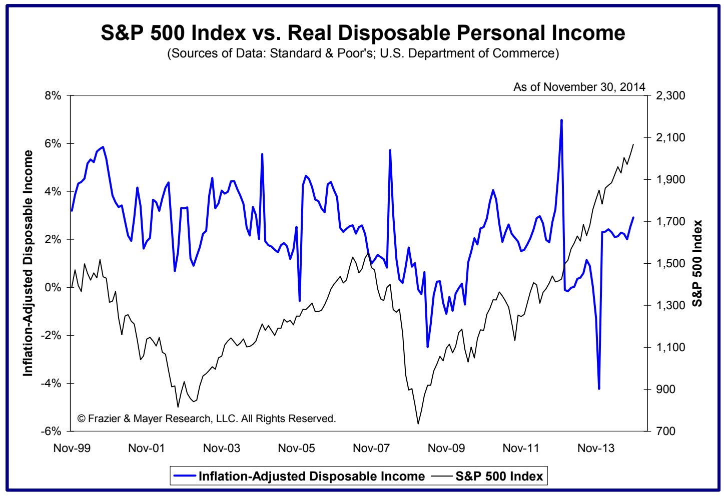
Take no action at this time.

- Continued Below -

Dear Member,

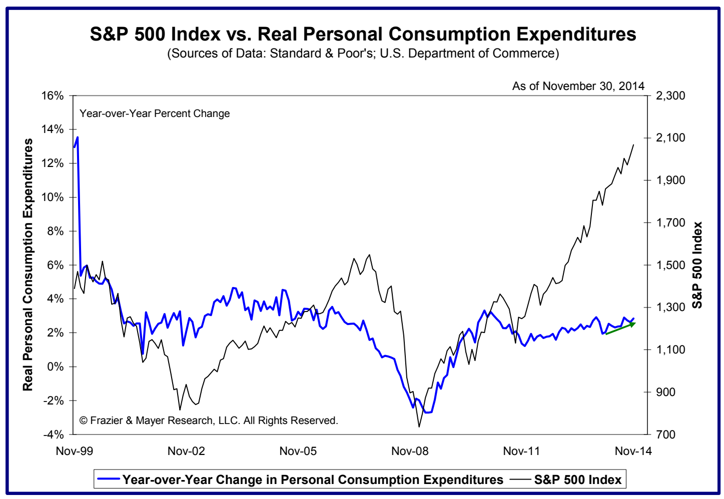
After advising you to allocate a large percentage of your financial market assets to cash-like investments over the past four months, my research indicates that the time has come to put more of your money to work in equity securities.

Although the readings on a few economic indicators that I monitor on a regular basis are still in negative territory, the most-recent readings on some key indicators have turned very positive. For example, the after-tax (disposable) incomes of American households rose considerably over the past two months according to data released on December 23 by the U.S. Department of Commerce.



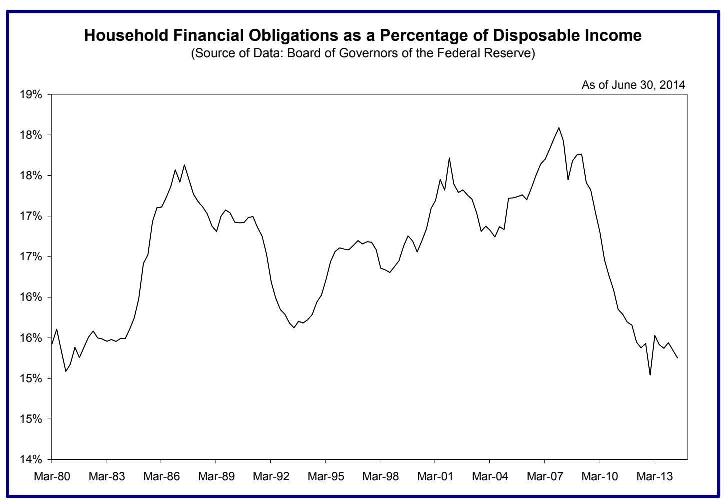
On that same day, the University of Michigan reported that the expectations of U.S. households regarding the direction of the U.S. economy for the next six months rose during December to their highest level since January 2007.

As a result of those developments, Americans increased their spending on various types of goods and services during November at the fast pace since June 2005.



With the employment situation in the United States improving considerably during November, and leading indicators for the employment market suggesting that the employment situation has improved further this month, there's a good chance that Americans will continue to increase their spending over the near-term. Any such development would bode well for the future direction of the U.S. economy. That's because personal spending accounts for approximately 68%-70% of the United State's total output of goods and services – of the U.S.'s gross domestic product ("GDP").

The fact that the net worth of U.S. households rose considerably over the past three years, increasing at an average year-over-year rate of 10.3% during the 12 months ended September 30, the latest month for which data is available, also bodes well for the future direction of household spending and the overall economy.



Meanwhile, the latest statistics from the Federal Reserve indicate that the financial obligations of U.S. households is near the lowest level since the early 1980s, which indicates that Americans are in a much stronger position than they were a few years ago to increase their spending.

Although economic activity in the U.S. housing market slowed during November, there's a good chance that activity in that important sector of the economy will improve during the months ahead in the event that the employment situation were to continue to improve.

Recent Trading Action in the U.S. Stock Market and Other Significant Developments

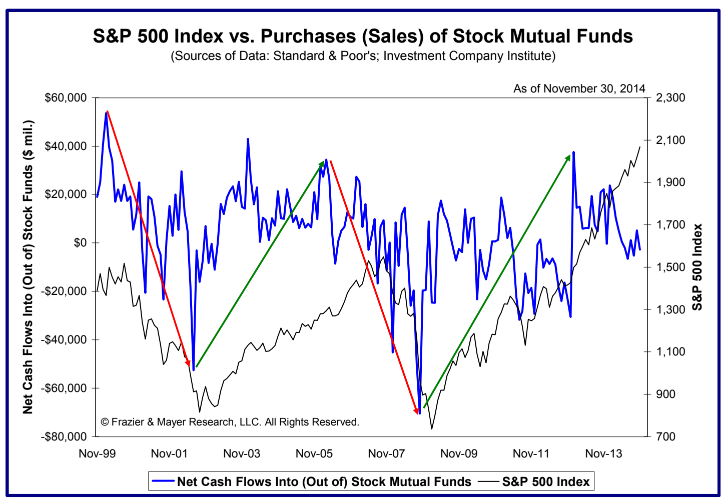
With both the Dow Jones Industrial Average and S&P 500 Index closing earlier this week at new all-time highs, some of you might be thinking that now is the wrong time to increase your stock holdings. Although I would understand such thinking, I encourage you to keep the following in mind: After closing at a previous all-time high during February 1994, the S&P 500 Index traded in a relatively narrow sideways range over the ensuing 12 months. Then, during March 1995 the S&P 500 resumed its December 1987 to February 1994 upturn, and its longest bull market ever, which didn’t end until March 2000.

Meanwhile, the net reading on my Tactical Asset & Sector Allocation Model (and associated Buy-Sell Index) reversed course over the past few weeks after registering a warning signal from August through November of this year. With a current reading of positive 15%, that model (and index) suggests that U.S. stock prices, in general, are nowhere close to peaking.

Separately, the fact that the Federal Reserve plans to keep short-term interest rates at low levels “for a considerable time following the end of its asset purchase program” that ended during October, and that yields on longer-term debt securities have trended lower since the beginning of 2014 augurs well for the direction of stocks over the next several months. That’s because the current value of any company’s future profits rises when interest rates fall, and because stock prices are ultimately determined by the level and direction of a company’s profits.

Secondly, the decline in long-term interest rates over the past 11 months makes dividend-paying stocks, which also offer the potential for capital gains, attractive to investors who rely upon dividends, interest and any such gains from their stock and bond holdings to pay for their daily living expenses. Hence, there’s a good likelihood that fixed-income investors will reduce their holdings of debt securities, and increase their holdings of equity securities, in the event that long-term interest rates were to remain near their current levels.

And, if mutual fund investors were to become more confident in the future direction of the U.S. economy and U.S. stock prices, there’s a good chance that stocks would rise substantially during the months ahead. That’s because while there’s not a perfect correlation between the direction of stocks and investments in stock mutual funds, stock prices tend to trend higher when cash flows into stock mutual funds increases for several months; (see the chart to the right).



So, while we missed out on an 8.8% gain in the S&P 500 total Return Index since August of this year, the fact that the S&P 500 closed earlier this week at a new all-time high is not a reason to continue to sit on the sidelines. Quite the contrary, the factors and developments mentioned in the sections above suggest that now is a time to allocate more of your financial market assets to equity securities.

However, with our short-term Overbought-Oversold Indicator closing on Wednesday in overbought territory, I advise those of you who follow our Core Investment Portfolio to allocate at this time only 40% of your financial market assets to equities by purchasing the ETFs outlined on page 1 of this Trade Alert. Meanwhile, I advise those of you who follow our Income Portfolio to increase your equity allocations from 20% to 50% of the assets that you typically allocate to fixed-income securities by purchasing the closed-end fund, ETF and healthcare REIT outlined on page 2. Lastly, I advise those of you who follow our Speculative Portfolio to increase the equity allocations that you dedicate to those types of securities by purchasing Silicon Motion Technology (SIMO) in accordance with the trade instructions outlined on page 2.

In the event that the major U.S. stock market indices were to pull back over the next few weeks, I would likely advise you to further increase your holdings to equity securities.

Core Investment Portfolio

In regard to my Core Investment Portfolio recommendations, my research indicates that the U.S. economy is currently operating in the mid-expansion phase of the economic cycle. In light of the fact that stocks of industrial and basic materials companies tend to perform best during that stage of the economic cycle, I expect **Vanguard Industrials ETF (VIS)** and **Vanguard Materials ETF (VAW)** to perform well during the months ahead.

Separately, my research indicates that stocks of consumer discretionary companies, like those that compose the **SPDR S&P Retail ETF (XRT)**, will respond favorably to the economic developments mentioned on page 2 of this Trade Alert.

Lastly, I expect stocks of medical device companies, like the ones held by **iShares U.S. Medical Devices ETF (IHI)**, to continue to perform well as a result of a likely repeal of a 2.3% excise tax that has been imposed on such companies since January 2013, as well as to the aging of the world's population.

Income Portfolio

Meanwhile, I expect **Nuveen S&P 500 Buy-Write Income Fund (BXMX)** to appreciate along with the S&P 500 and to continue to pay relatively large cash distributions that are generated from the fund's writing of options contracts. As of December 24, BXMX was paying an 8.19% annualized cash distribution.

For those of you who aren't familiar with BXMX, that closed-end fund seeks to substantially replicate price movements of a 75%/25% combination of the S&P 500 Index and the NASDAQ-100 Index, respectively, while selling (writing) S&P 500 and NASDAQ call options in the same 75%/25% ratio covering approximately 100% of the value of the fund's equity holdings.

In addition, I would expect the **Vanguard REIT ETF (VNQ)**, which holds real estate investment trusts ("REITS") that invest in industrial properties, office buildings, retail shopping centers, and apartment buildings to also continue to perform well in the event that my economic analysis were to turn out to be correct. VNQ's top-10 holdings, which account for approximately 40% of the ETF's total holdings, include Simon Property Group, the largest owner of shopping malls in the United States, Public Storage, one of the larger self-storage companies in the United States, and Prologis, an owner and developer of warehouses and distribution facilities for approximately 4,500 businesses.

The fund's other large holdings include Boston Properties, which invests in, develops, and manages approximately 160 office buildings in large U.S. cities; Vornado Realty Trust, which owns approximately 115 U.S. strip-malls and six regional shopping malls; and AvalonBay Communities, which owns and operates approximately 180 up-scale apartment communities in high barrier-to-entry markets such as Boston, Los Angeles, New York City, San Francisco, Seattle, and Washington, DC. As of December 24, VNQ was paying approximately a 3.27% normalized annual cash distribution.

I advise you to also buy **Health Care REIT, Inc. ETF (HCN)**, which holds 1,246 healthcare properties including senior living communities, medical office buildings, inpatient and outpatient medical centers and life science facilities. As of December 24, HCN was paying a 4.18% annualized dividend.

Speculative Portfolio

In regard to our Speculative Portfolio, there are several stocks that look interesting to me, but that appear at this time to be extended in price. Those stocks include **TASER International (TASR)**, in which our model portfolio already holds approximately a 4% position; **F5 Networks (FFIV)**, which develops and provides computer software used for network traffic management, access availability and application security; and

Buffalo Wild Wings (BWLD), which is an owner, operator and franchisor of sports-oriented restaurants that feature Buffalo, New York-style chicken wings tossed in one of the company's 16 secret sauces, ranging from Sweet BBQ to Blazin' hot BBQ, or five seasonings including Buffalo, Desert Heat, Chipotle BBQ, Lemon Pepper and Salt & Vinegar.

Another company whose stock looks interesting, but which I have not yet completed a thorough analysis, is **Packaging Corporation of America (PKG)**, which is one of the larger containerboard manufacturers in the United States, producing approximately 2.7 million tons of containerboard annually, most of which is converted into corrugated boxes.

In contrast to the stocks mentioned above, my research indicates that **Silicon Motion Technology (SIMO)** closed on December 24 at a favorable valuation. (Those of you who've been subscribers to our newsletter for quite some time might recall that we held SIMO earlier this year for a 62.6% gain from January 16 to July 23).

In addition to possessing all of the criteria that it did when I first advised our members to buy SIMO on January 16, the company's stock closed on December 24 at a price that was slightly below the price at which I recommended selling that stock on July 23.

As a reminder, Silicon Motion Technology is a Taiwan-based semiconductor company that designs and develops high-performance semiconductor applications for the multimedia consumer electronics market. The company sells NAND flash memory controllers for mobile storage devices and mobile communications devices. It also designs and sells solid-state drives ("SSDs") for desktop and laptop computers.

NAND flash memory is a type of non-volatile storage technology that does not require power to retain data. It has become the primary semiconductor technology for mass digital data storage. The benefits of NAND flash includes high data storage capacity at a low cost, fast data read and write access time, low operating power requirements, and shock resistance.

Flash memory controllers manage the data that's stored on flash memory cards, enabling those devices to communicate with computers and consumer electronic devices. For example, they enable USB flash drives to communicate with personal computers through USB ports. In addition, they enable solid-state drives ("SSDs") to store data on laptop computers.

The company's memory controllers are integral components of secure digital ("SD") cards, CompactFlash cards and similar media that are used in smartphones, tablet computers, digital cameras, MP3 players and video game consoles. Those controllers are also components of those tiny flash drives that you've probably used to transport your laptop and desktop computer files.

Silicon Motion Technology's controllers are used in more NAND flash memory products than controllers made by any other company – regardless of whether those products are produced by Intel, Micron, Samsung, SanDisk, SK Hynix, or Toshiba. (I encourage you to see the Trade Alert that I issued on January 15, 2014 for more information on SIMO).

Closing Comments

In closing, I urge you to keep in mind that our goal at Frazier & Mayer Research, LLC is to help you to avoid the big downturns and to profit from the major upturns in the financial markets. We strive to do that by advising our members to increase their investment allocations to cash-like investments during periods when a large number of economic and financial market indicators suggest that the risks associated with investing and speculating in the financial markets is high and to increase their allocations to equity securities when those risks appear to be low.

With the economic indicators that we monitor giving mixed signals from July to November of this year, I felt that the appropriate action for you to take during that period was to allocate a large portion of your assets to cash-like investments.

Now that a large number of the indicators that we follow have turned positive, and the trading action in the U.S. stock market has become more positive, the time appears to be right to begin to increase your exposure to equities.

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