

WELCOME!

BUSINESS CYCLES, MARKET CYCLES, AND STOCK SECTORS

George Dagnino, PhD

The Peter Dag Portfolio

www.peterdag.com

peterdag.blogspot.com

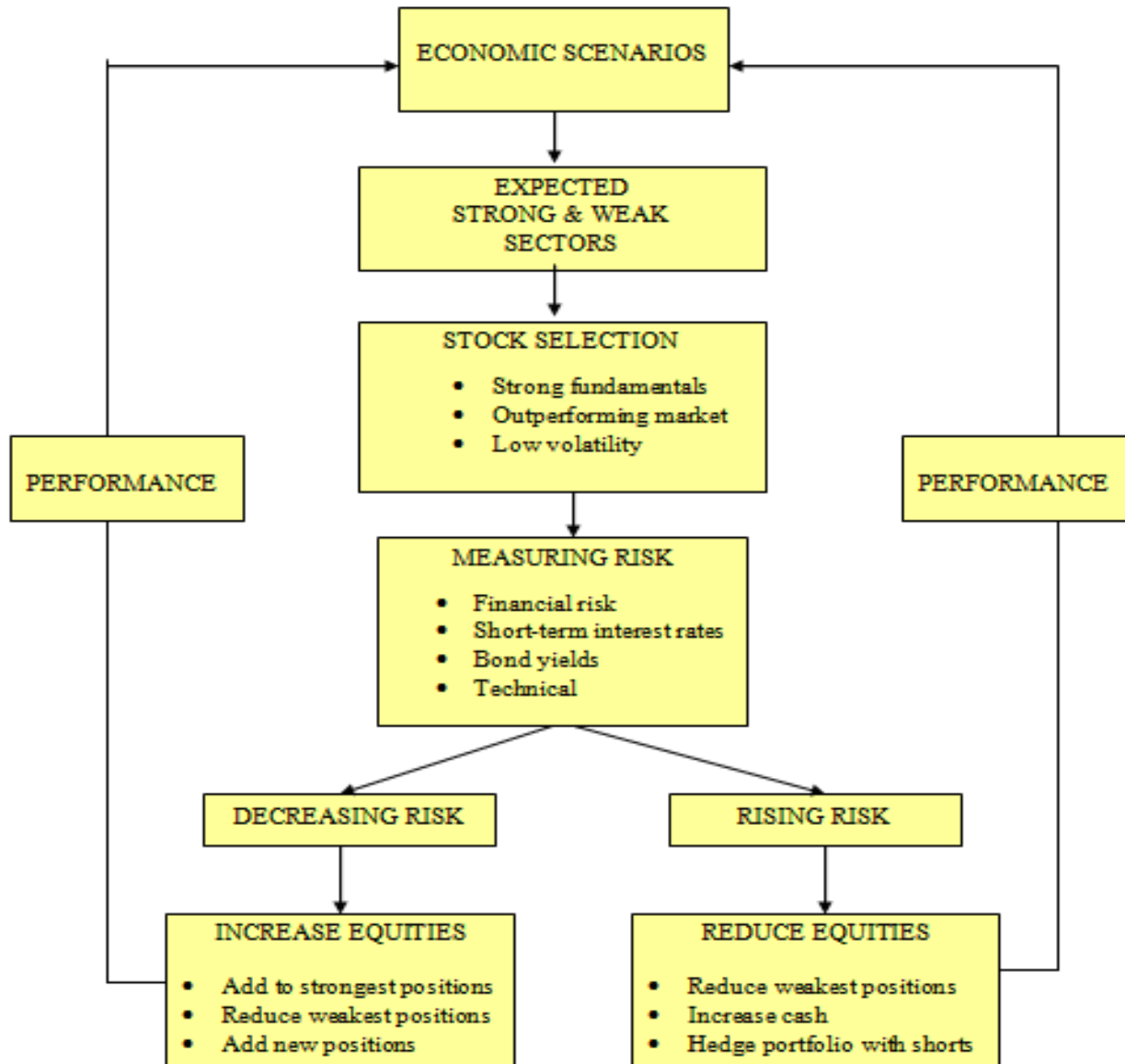
THE PETER DAG PORTFOLIO

- **TWICE A MONTH - 17 PAGES**
- **THE GLOBAL BUSINESS CYCLE**
(once a month)
- **THE US ECONOMY**
(once a month)
- **MARKET UPDATE**

OUTLINE

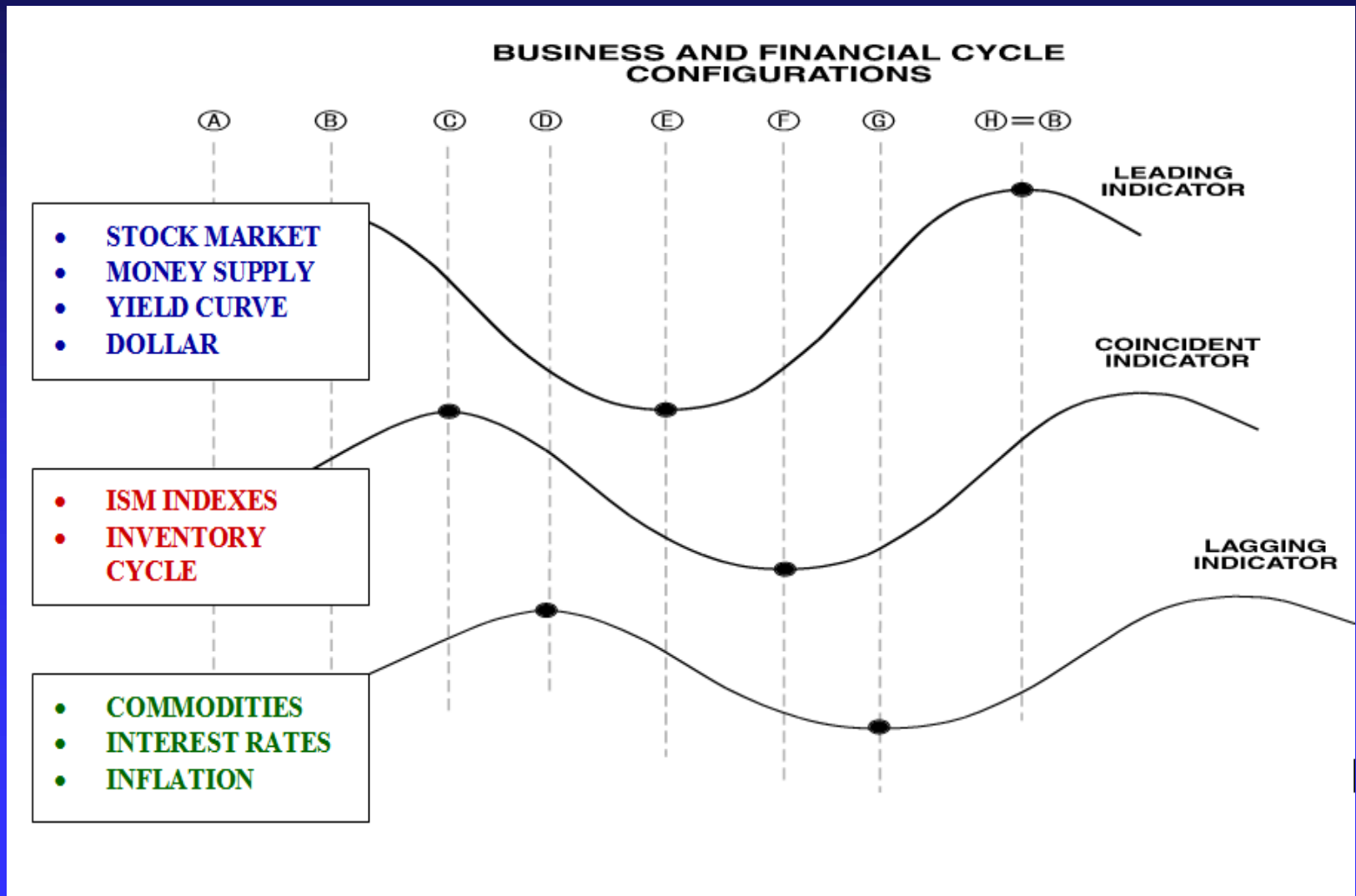
- BUSINESS CYCLE
- OUTLOOK
- THE MARKETS (COMMODITIES, BONDS, SECTORS FOR A STRONG AND WEAK ECONOMY)
- STOCK SELECTION
- TIMING DECISIONS
- ETFs AND MUTUAL FUNDS
- RISK AND PORTFOLIO MGT

INVESTMENT PROCESS





BUSINESS CYCLE



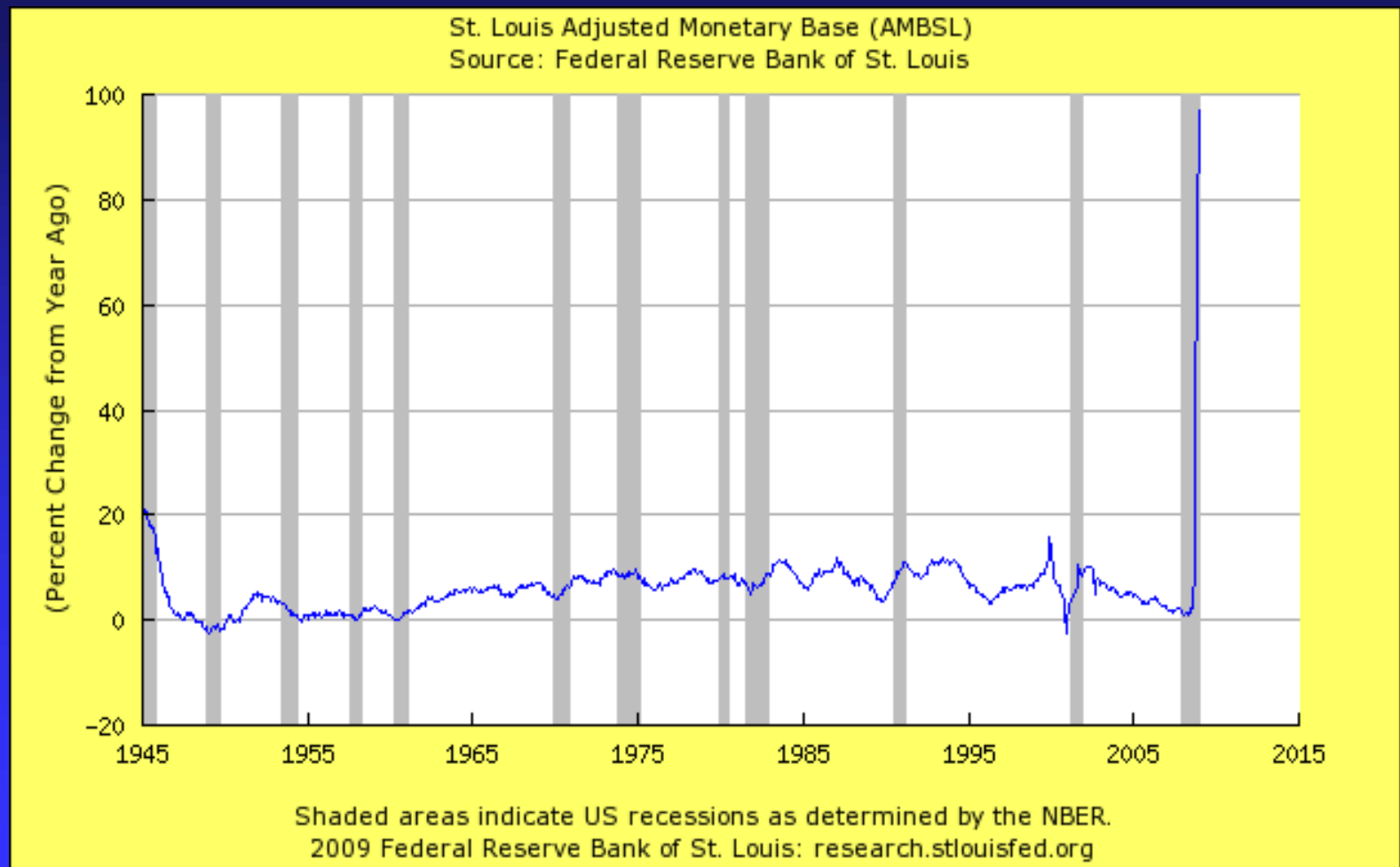
OUTLOOK

BUSINESS CYCLE

LEADING INDICATORS

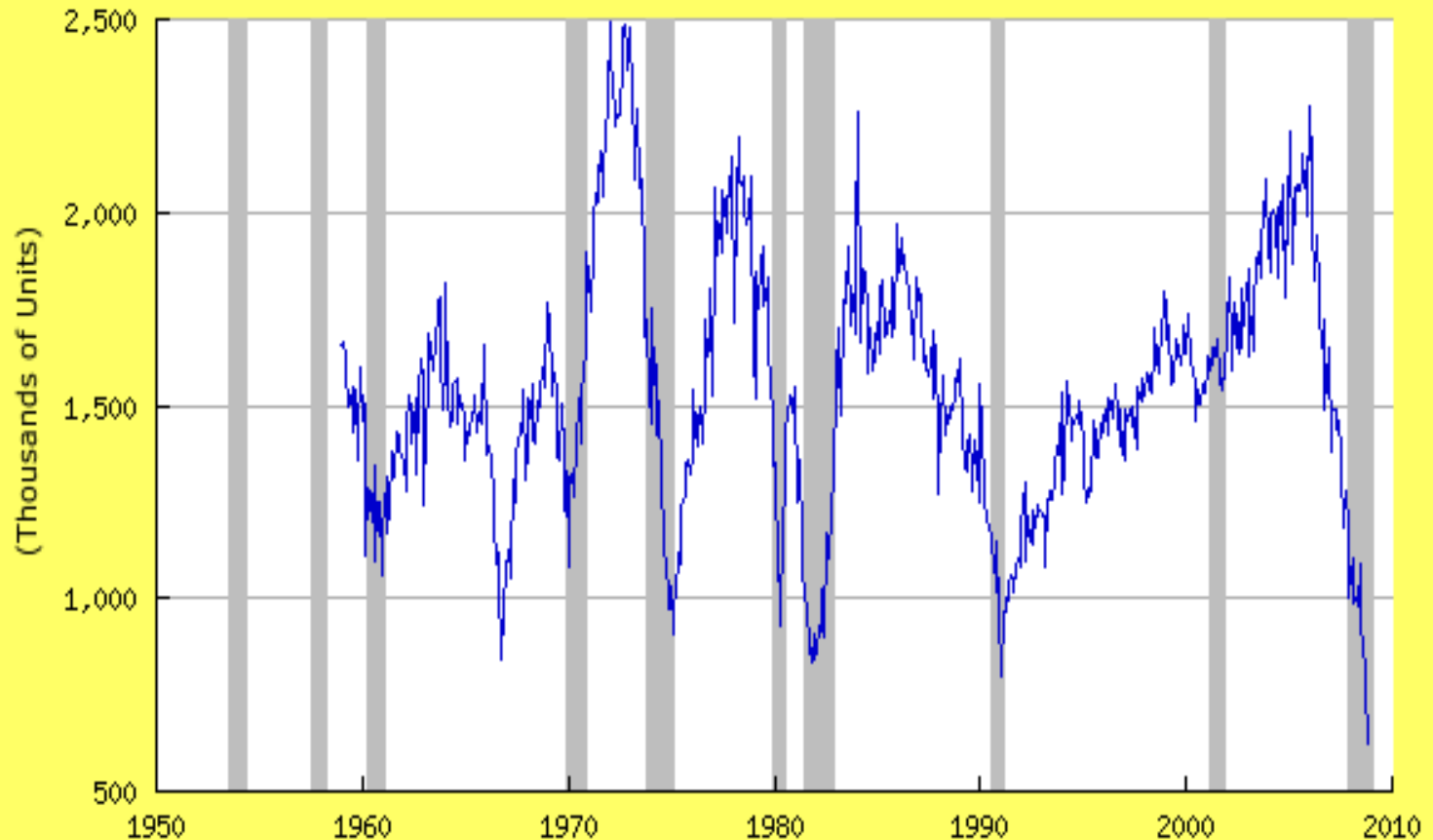
- **MONETARY BASE**
- **HOUSING STARTS**
- **PROFITS**
- **ORDERS**

MONETARY BASE



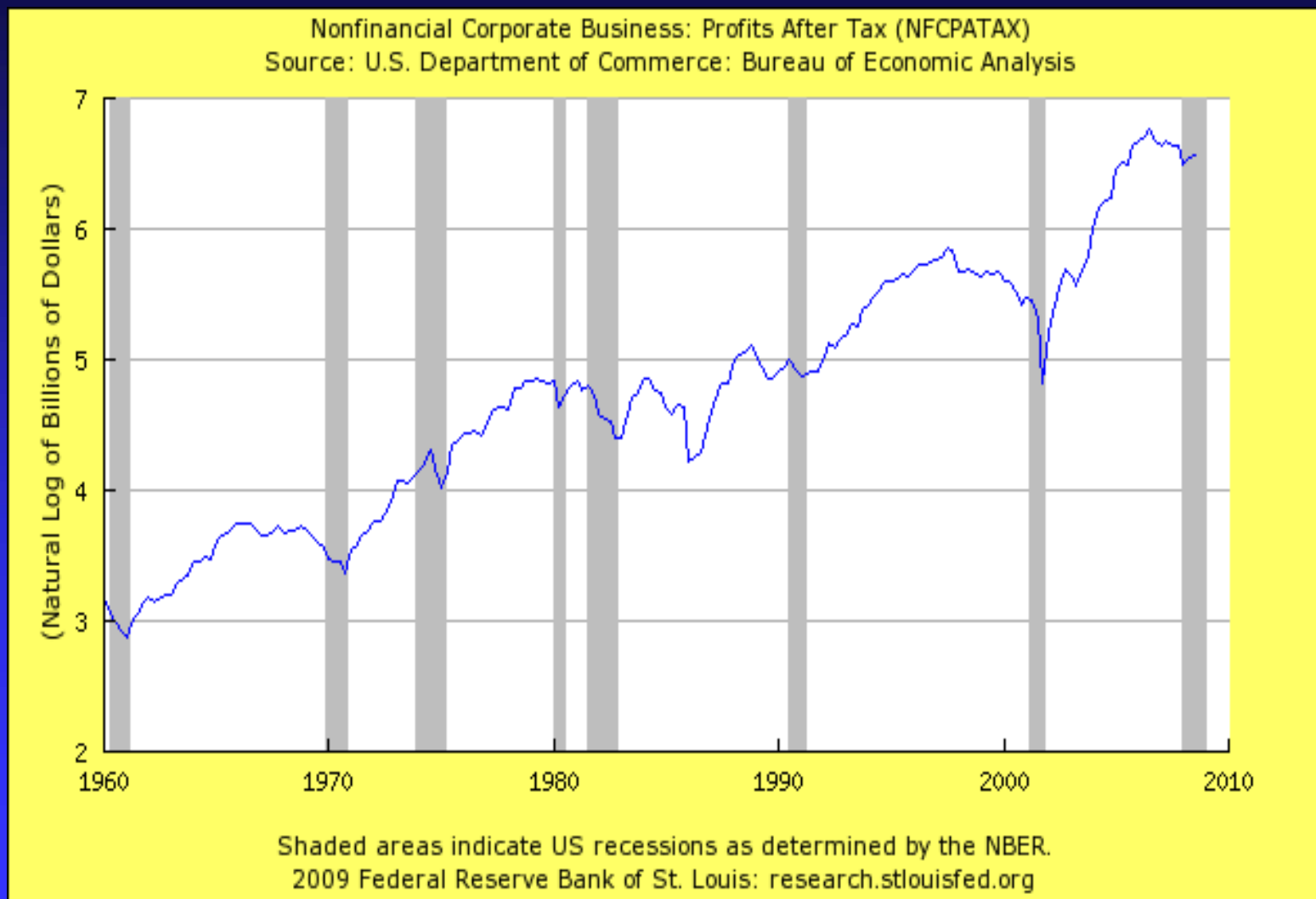
HOUSING STARTS

Housing Starts: Total: New Privately Owned Housing Units Started (HOUST)
Source: U.S. Department of Commerce: Census Bureau



Shaded areas indicate US recessions as determined by the NBER.
2009 Federal Reserve Bank of St. Louis: research.stlouisfed.org

PROFITS



OUTLOOK

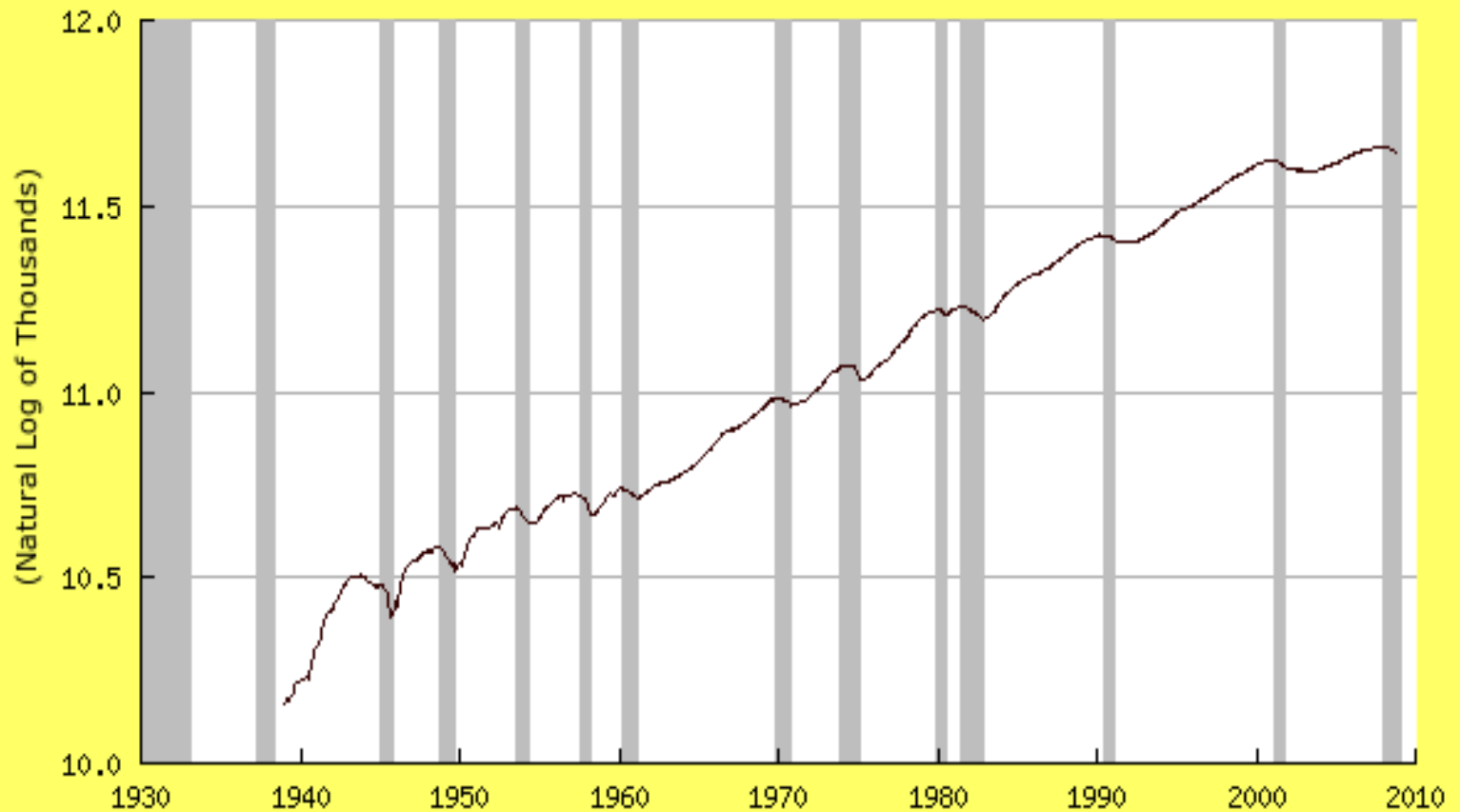
BUSINESS CYCLE

COINCIDENT INDICATORS

- **EMPLOYMENT**
- **PRODUCTION**
- **INCOME**
- **SALES**

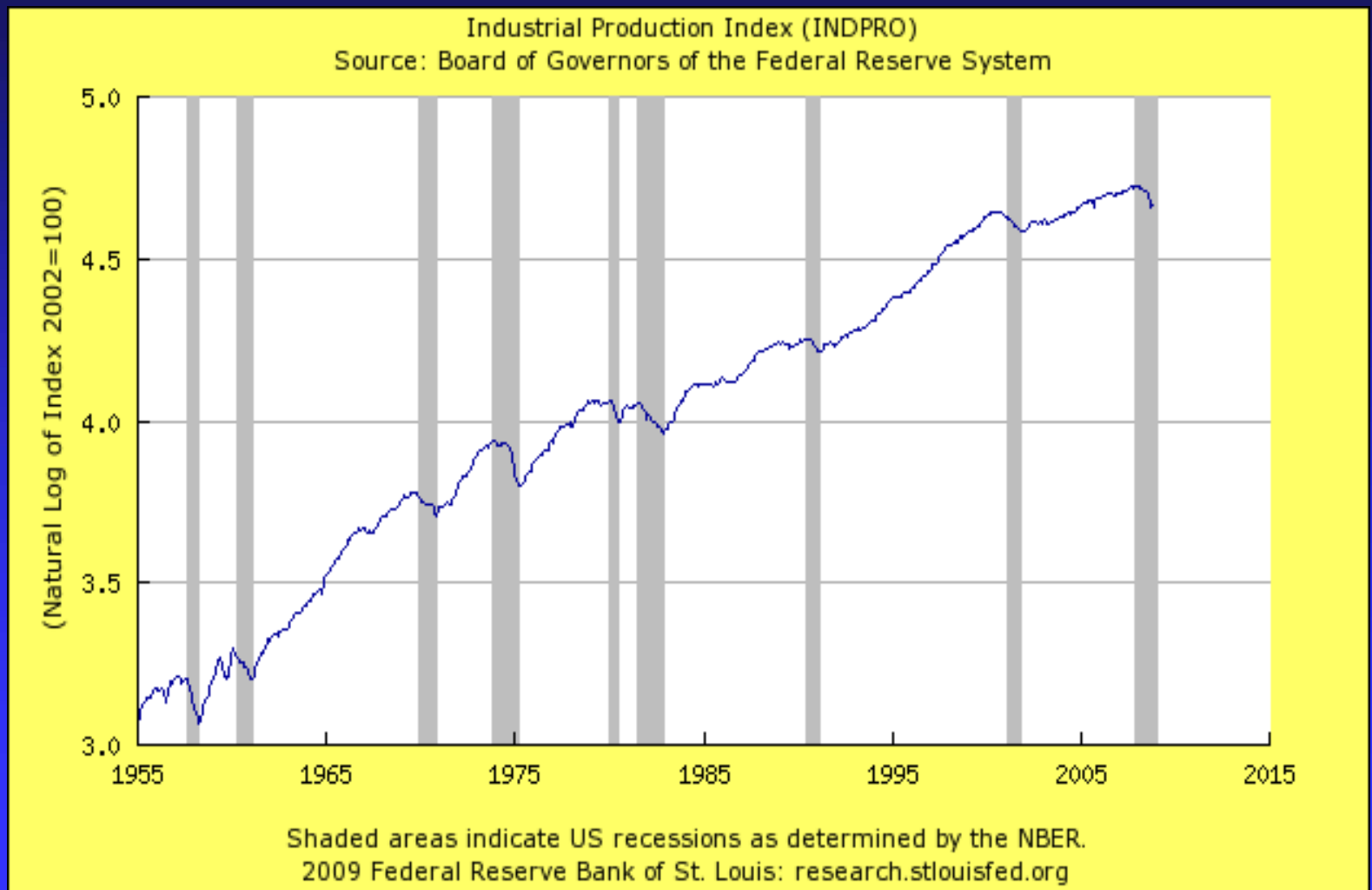
EMPLOYMENT

All Employees: Total Private Industries (USPRIV)
Source: U.S. Department of Labor: Bureau of Labor Statistics



Shaded areas indicate US recessions as determined by the NBER.
2009 Federal Reserve Bank of St. Louis: research.stlouisfed.org

INDUSTRIAL PRODUCTION



**SO FAR IT LOOKS LIKE A
GOOD OLD FASHION
BUSINESS CYCLE WITH
COINCIDENT FOLLOWING
THE LEADING**

**THE LEADING WILL RISE
AFTER
THE LAGGING INDICATORS
DECLINE**

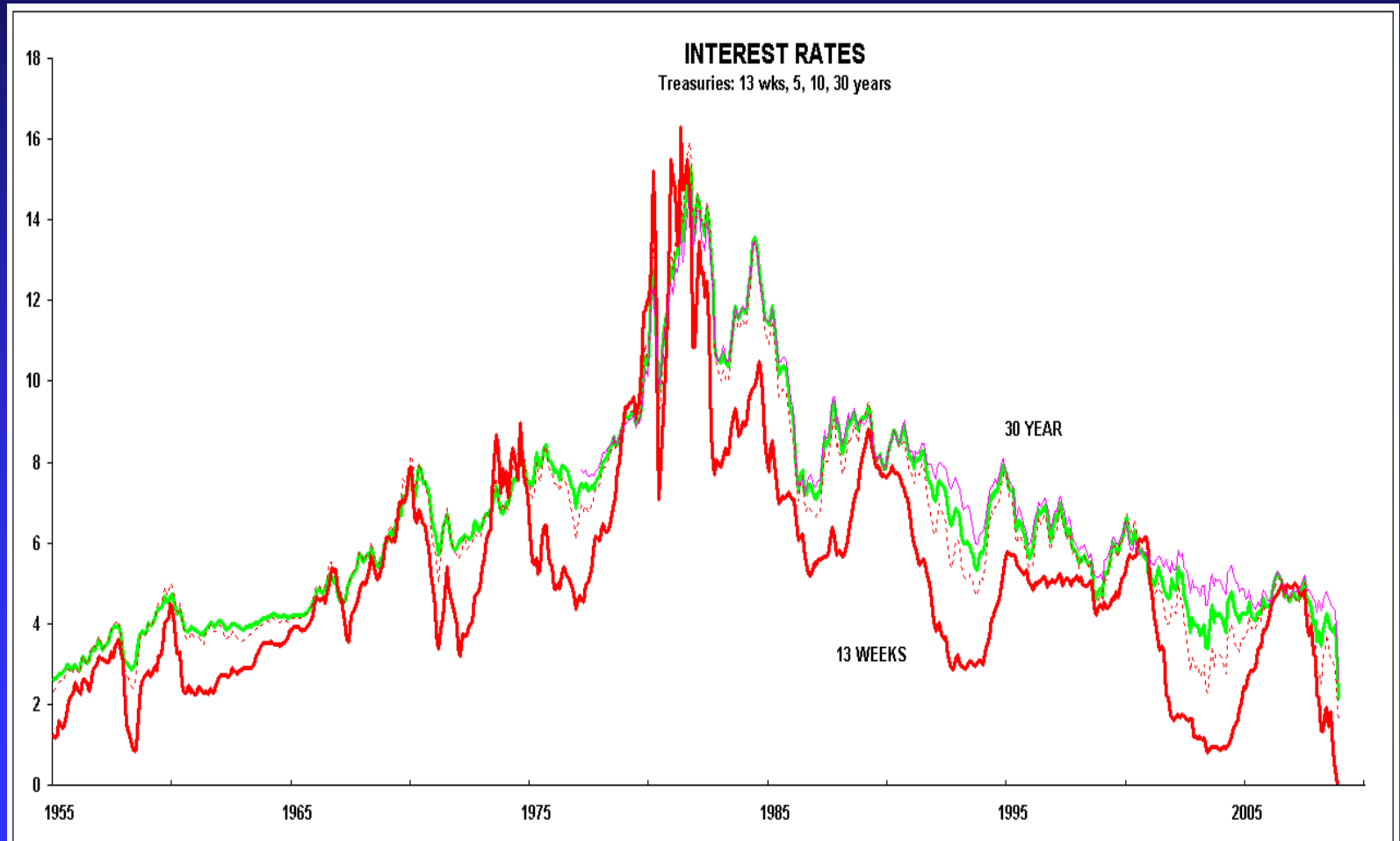
OUTLOOK

BUSINESS CYCLE

LAGGING INDICATORS

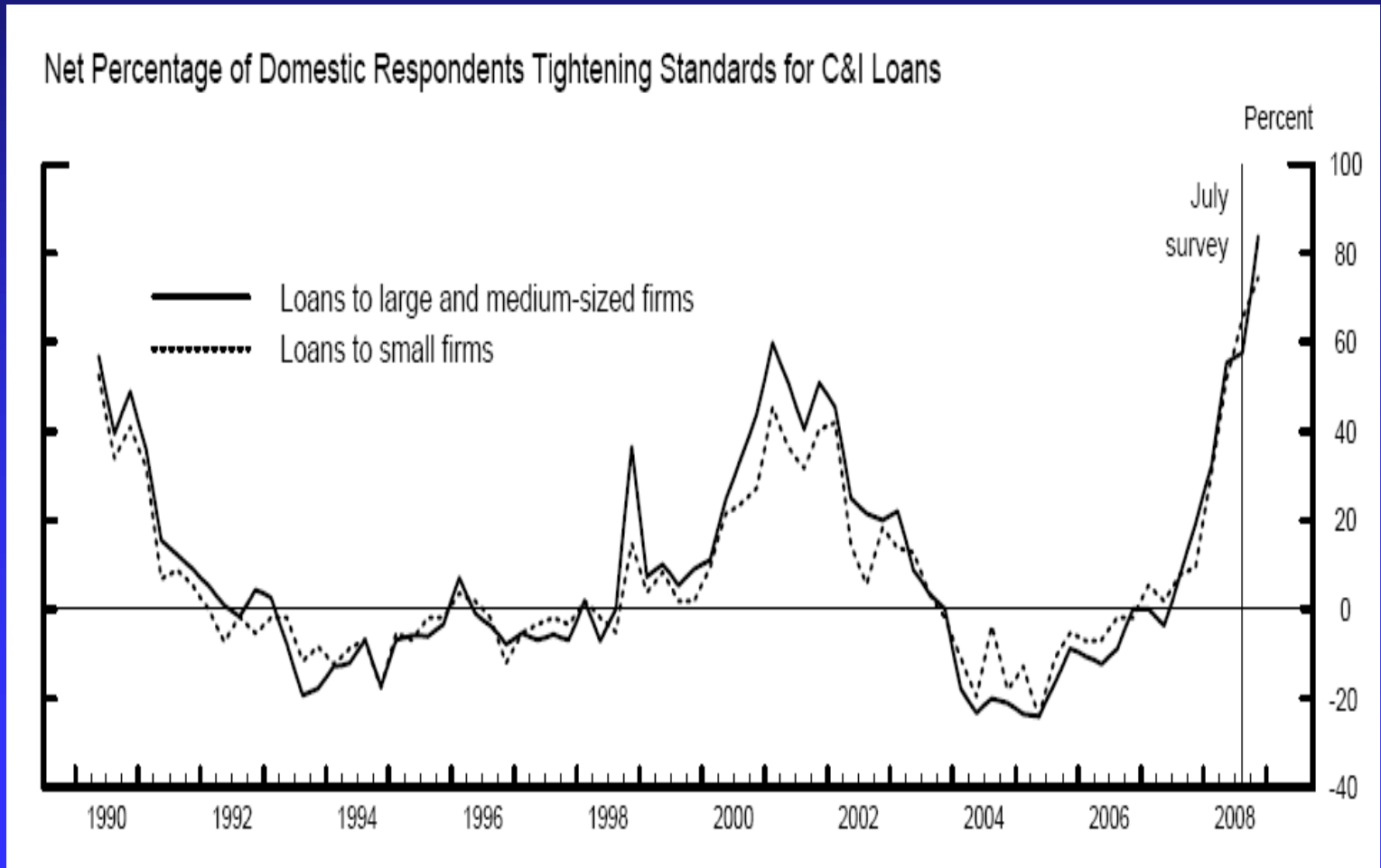
- **INTEREST RATES**
- **LENDING OFFICERS**
- **FINANCIAL RISK**
- **UNIT LABOR COSTS**
- **INFLATION**
- **COMMODITIES**

USA FEVER CHART



CREDIT CYCLE

(NOTE THE 1992, 2002 RECESSIONS AND BEGINNING OF BULL MARKETS)



**TIGHTENING CREDIT
CONDITIONS HAPPEN WHEN
THE ECONOMY OVERHEATS
AND INTEREST RATES RISE.**

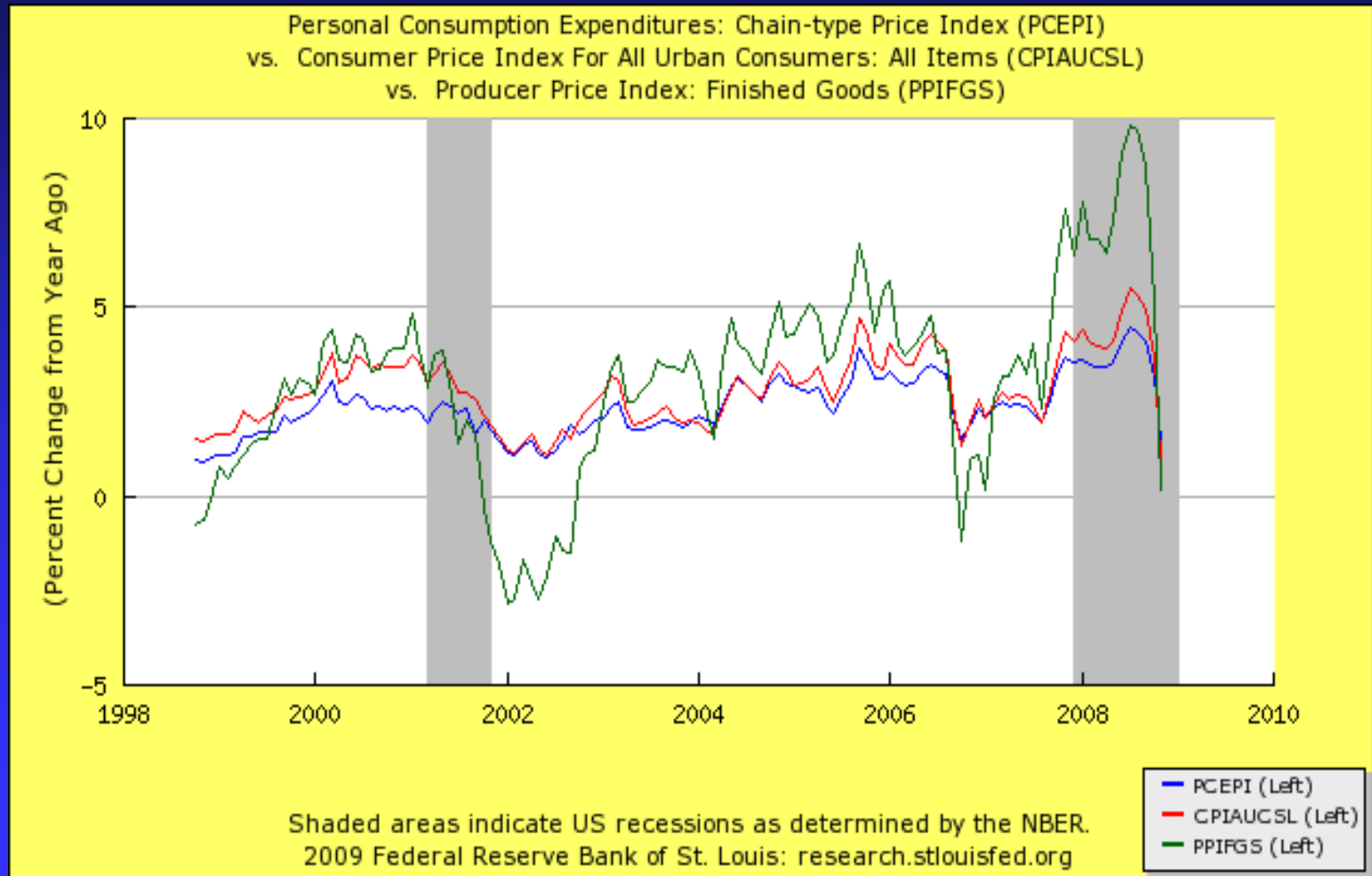
**NOW CREDIT IS BEING
TIGHTENED AS THE ECONOMY
SLOWS DOWN. WHY?**

**LENDERS DO NOT TRUST THE
BORROWERS AS FINANCIAL
INSTITUTIONS FAIL.**

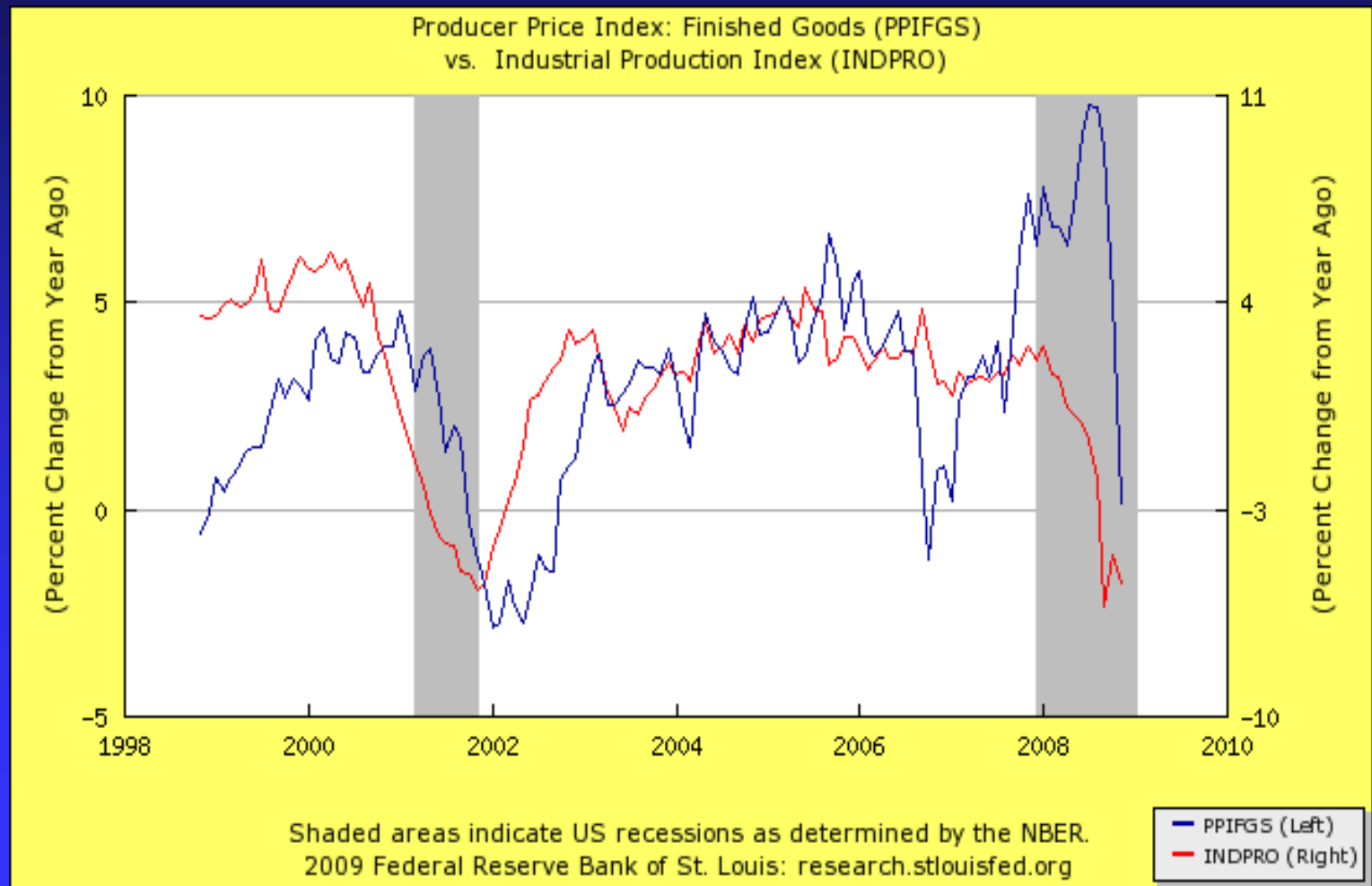
FINANCIAL RISK SOARING



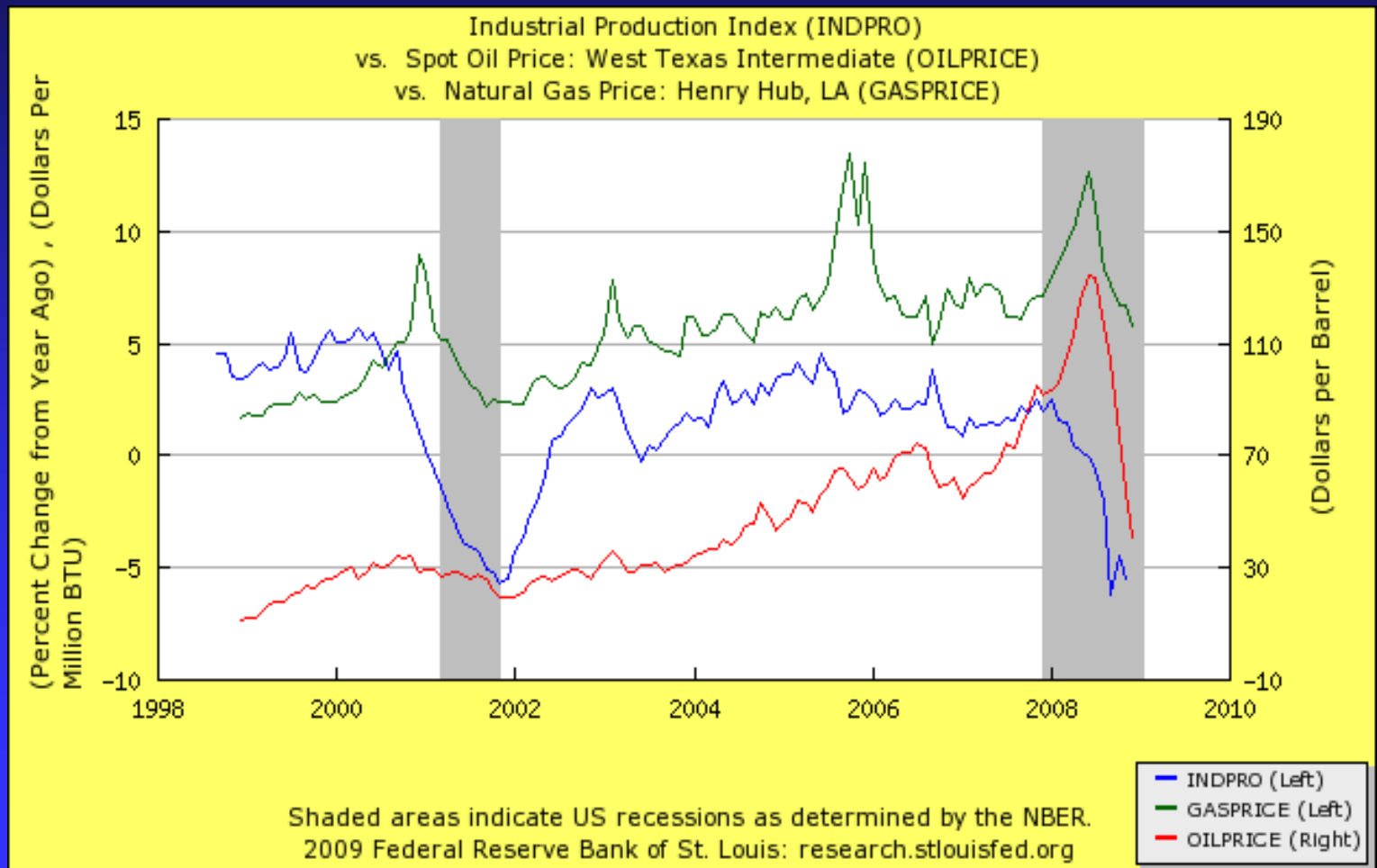
INFLATION DECLINING GOOD NEWS



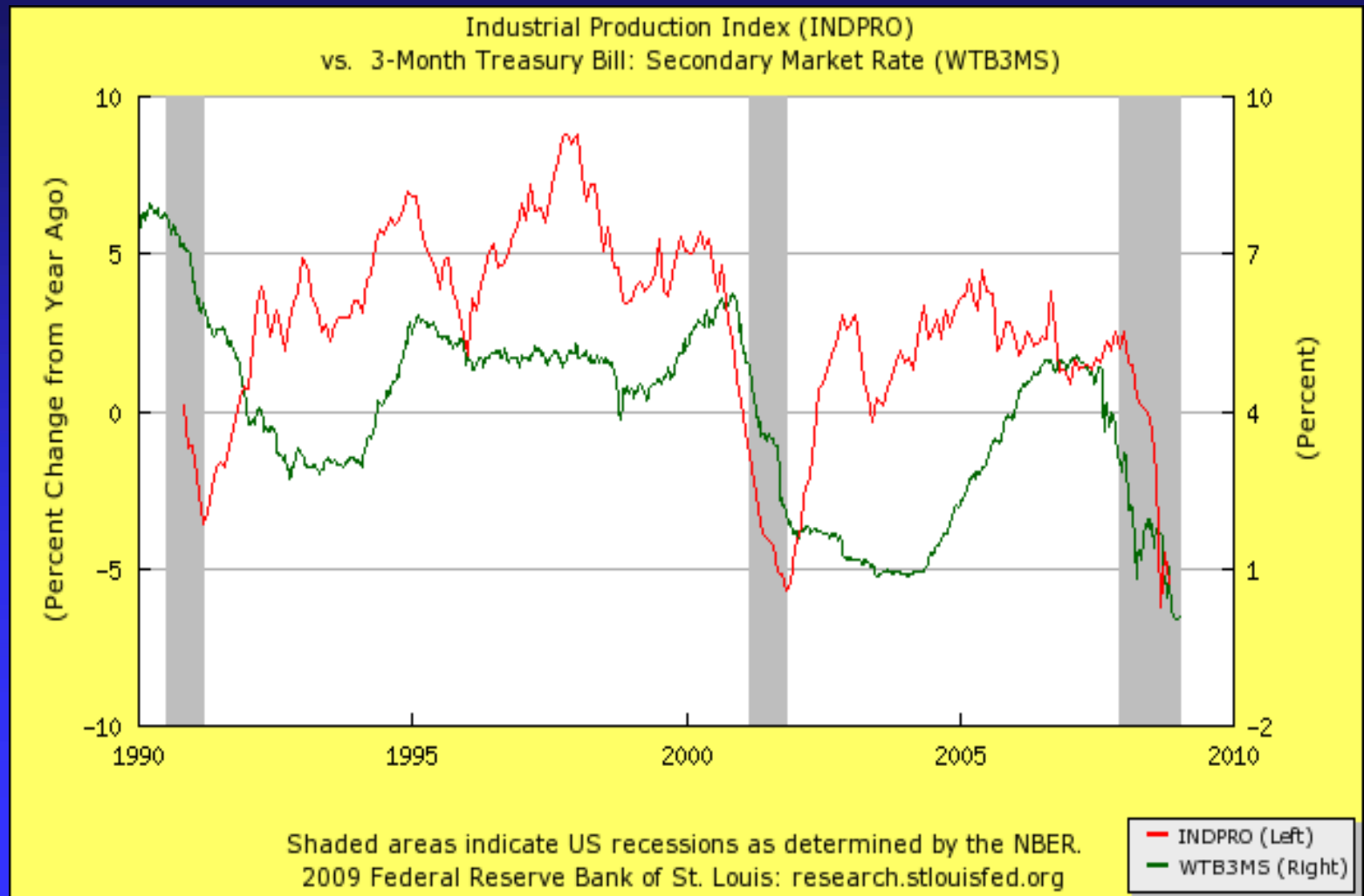
INFLATION FOLLOWS



COMMODITIES FOLLOW

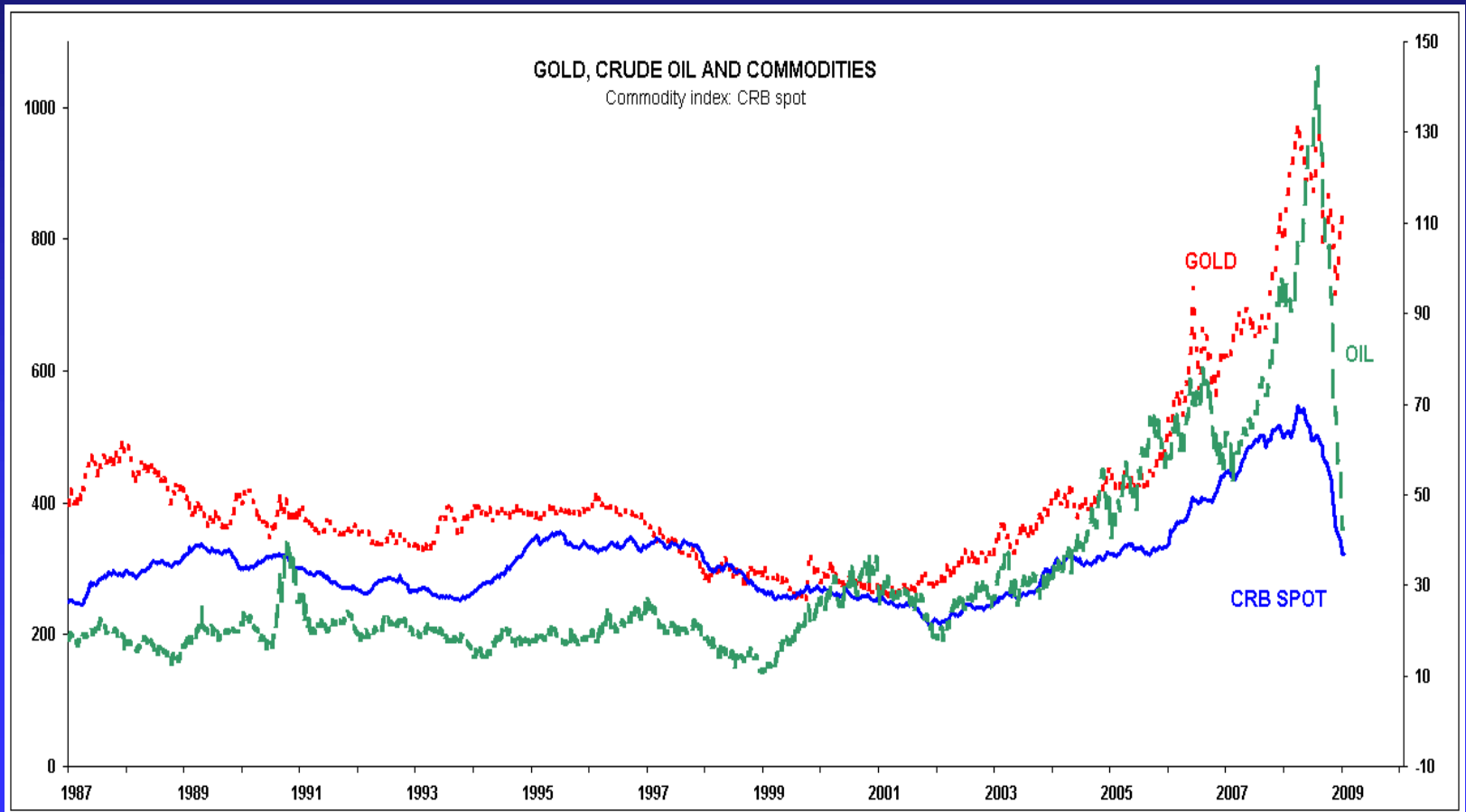


INTEREST RATES FOLLOW

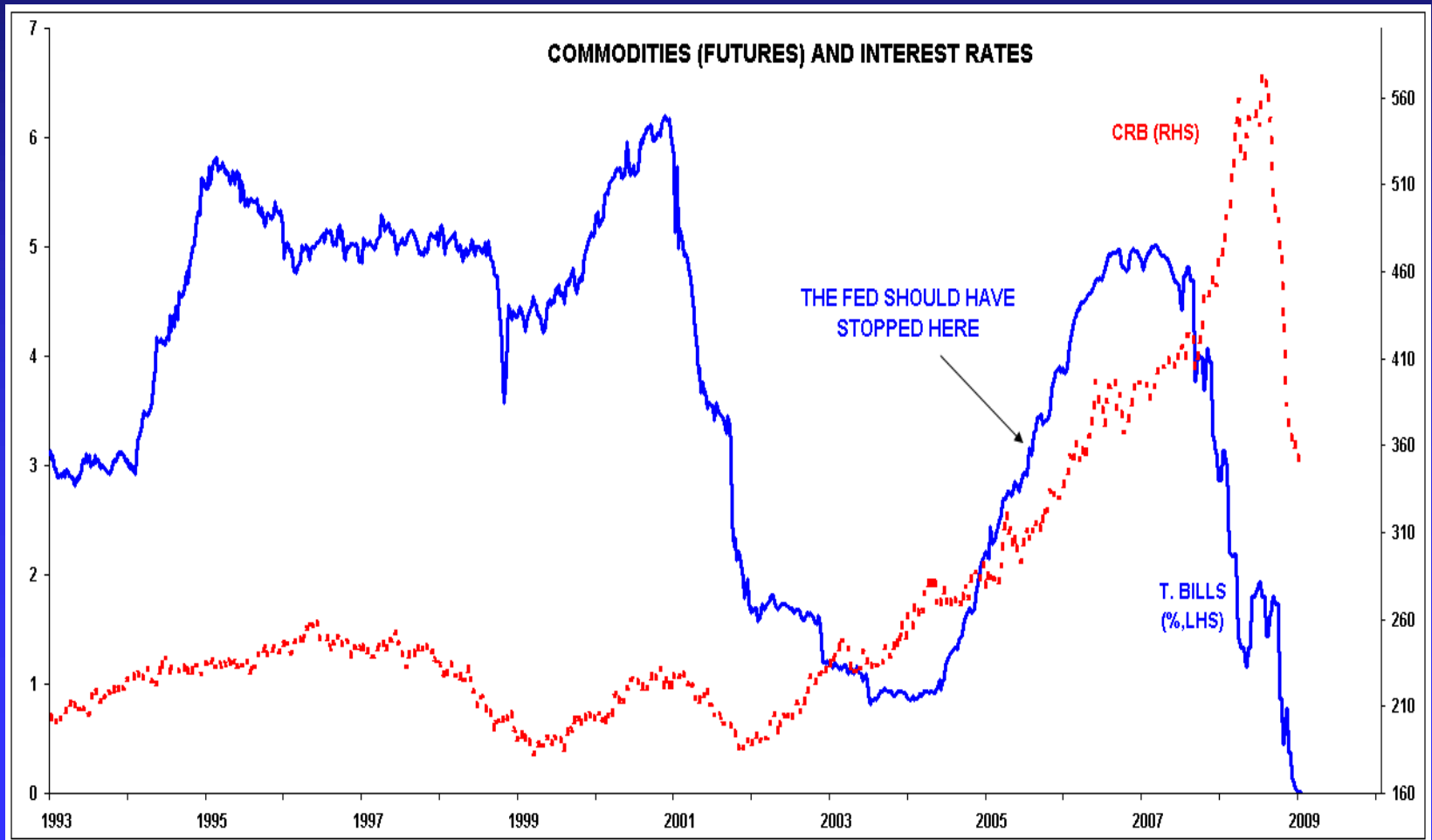


THE MARKETS

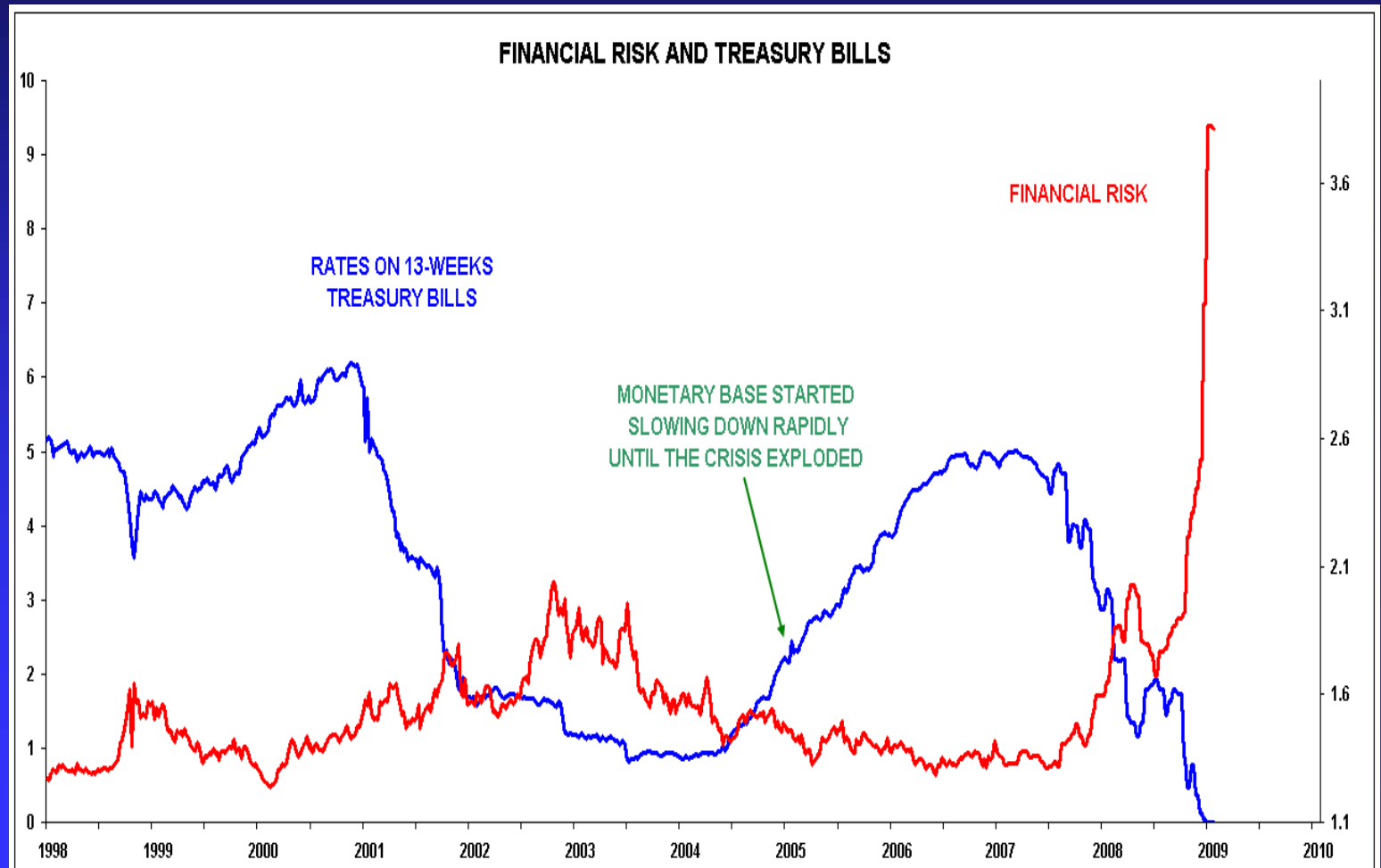
ALL COMMODITIES HAVE THE SAME CYCLICAL TURNING POINTS



COMMODITIES & THE FED HAVE THE SAME CYCLICAL TURNING POINTS



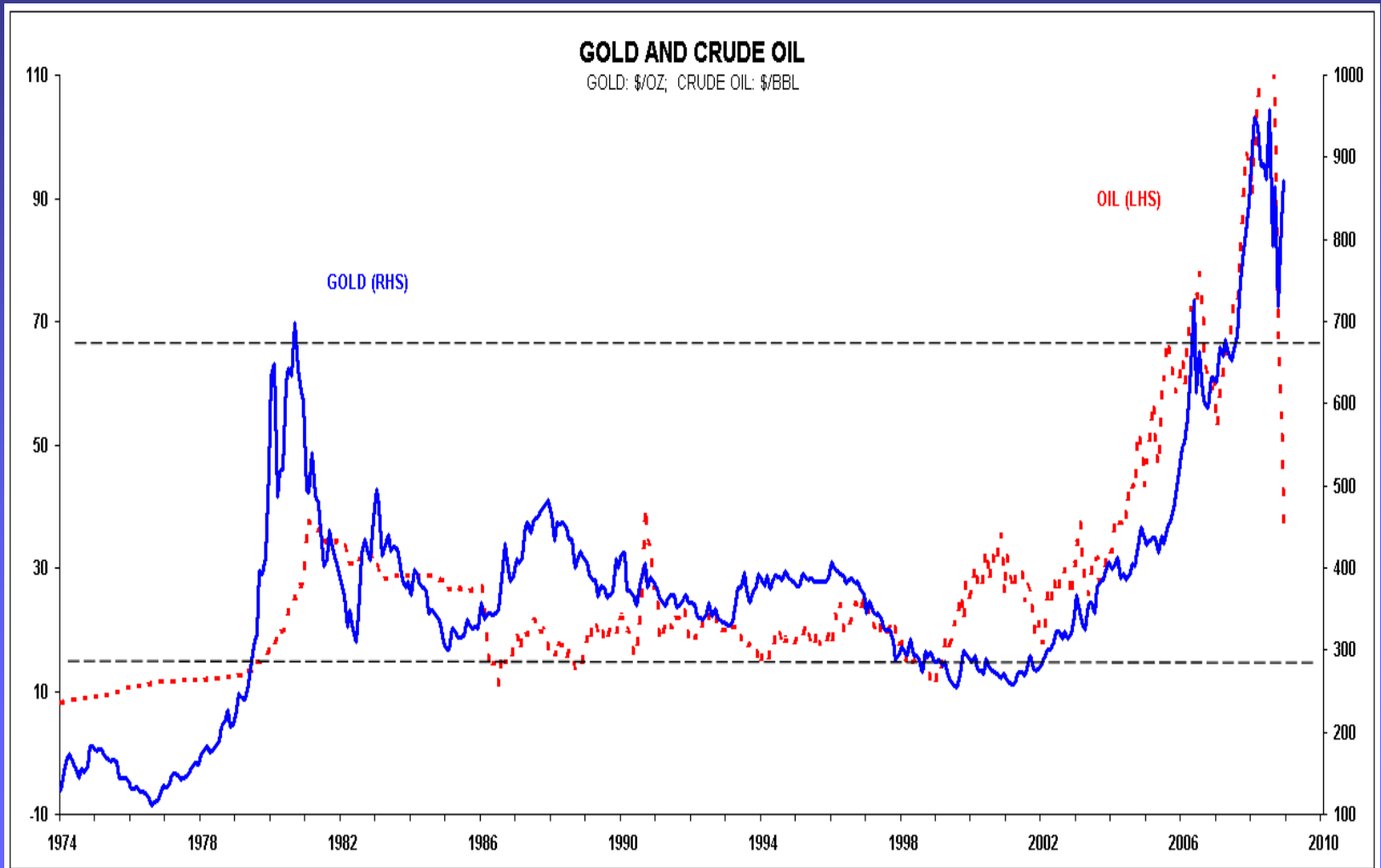
THE FED AND FINANCIAL RISK



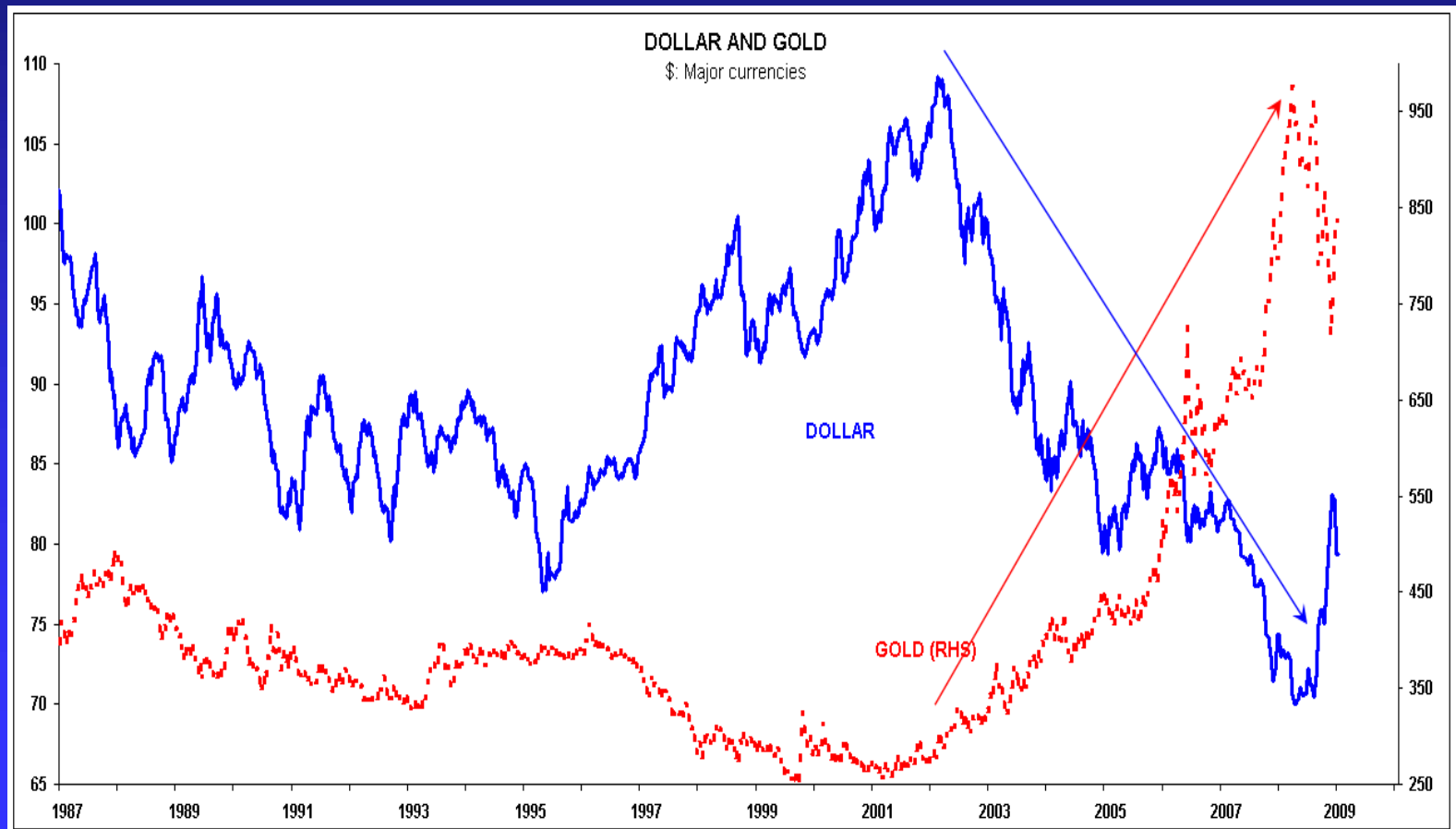
THE FED AND FINANCIAL BUBBLES

- **AGGRESSIVE EASING IN 1998 WAS FOLLOWED BY THE TECH BUBBLE**
- **AGGRESSIVE EASING IN 2002-2004 WAS FOLLOWED BY THE HOUSING/COMMODITY BUBBLES**
- **AGGRESSIVE TIGHTENING IN 2005-2006 CAUSED THE HOUSING BUBBLE TO IMplode AND SUBPRIME DEBACLE**

MAN-MADE (FED) COMMODITY BUBBLES



DOLLAR, COMMODITIES, GOLD, AND PURCHASING POWER



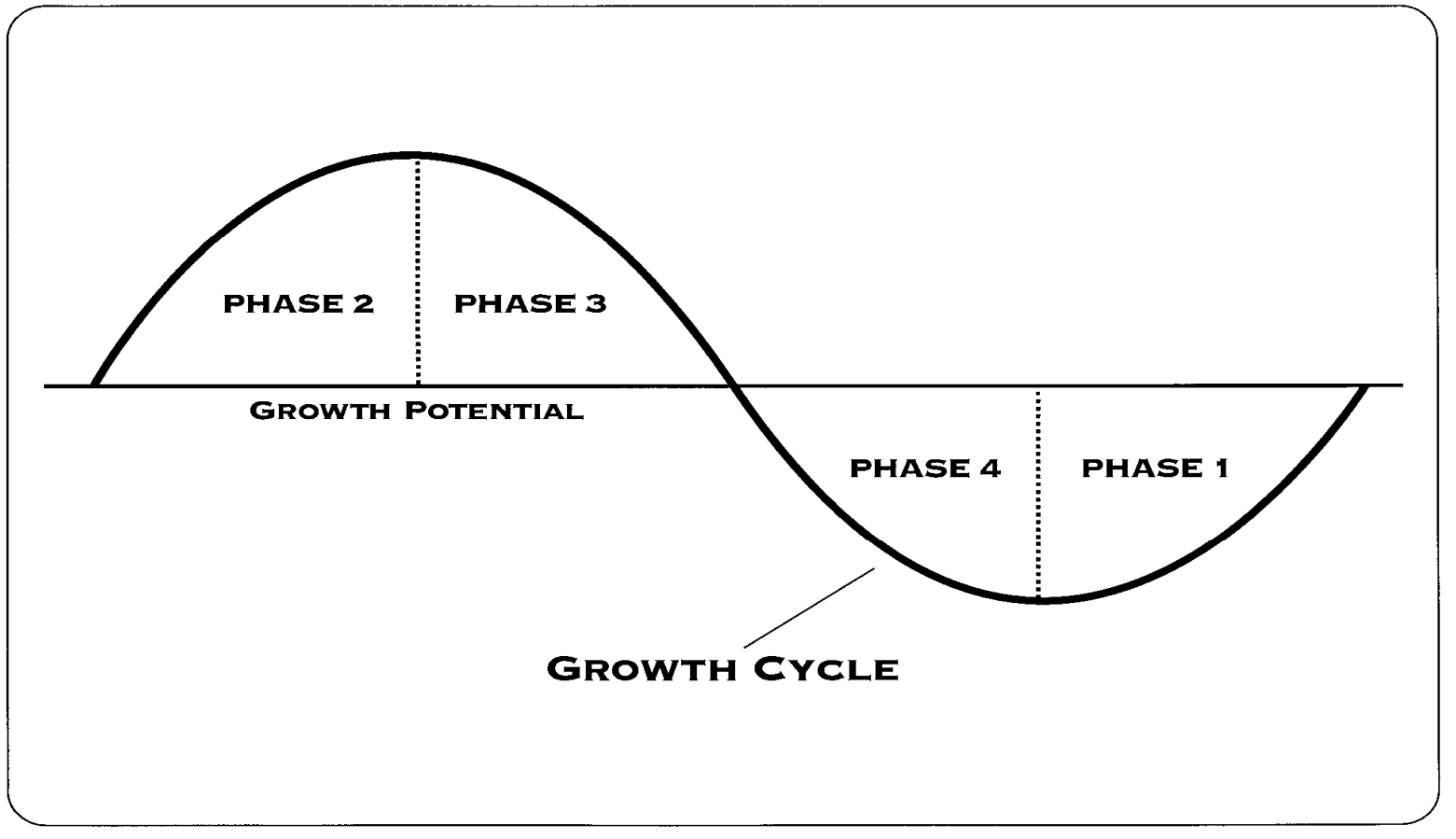
INFLATION, COMMODITIES, AND SHORT-TERM INTEREST RATES

- **INFLATION, COMMODITIES, AND SHORT-TERM INTEREST RATES HAVE THE SAME TURNING POINTS**
- **THEY FOLLOW THE DOWNTURN OF THE ECONOMY**
- **THEY ANTICIPATE THE UPTURN OF THE ECONOMY**

STOCK SELECTION

SELECTION OF ASSETS DEPENDS ON GROWTH

BUSINESS CYCLE



LIST STRONG SECTORS

SECTORS FOR A STRONG ECONOMY AND BEATING THE S&P 500

- **METALS AND MINING**
- **ENERGY**
- **ELECTRONICS**
- **INTERNET**
- **COMPUTER SOFTWARE & SERVICES**
- **CONGLOMERATES**
- **TELECOM**

SECTORS FOR A WEAK ECONOMY AND BEATING THE S&P 500

- **TOBACCO**
- **HEALTH SERVICES**
- **INSURANCE**
- **BANKS, REGIONALS, S&L**
- **FINANCIAL SERVICES**
- **REAL ESTATE/REITs/TRUSTS**
- **AEROSPACE & DEFENSE**

**IF YOU KNOW
WHY YOU BUY**

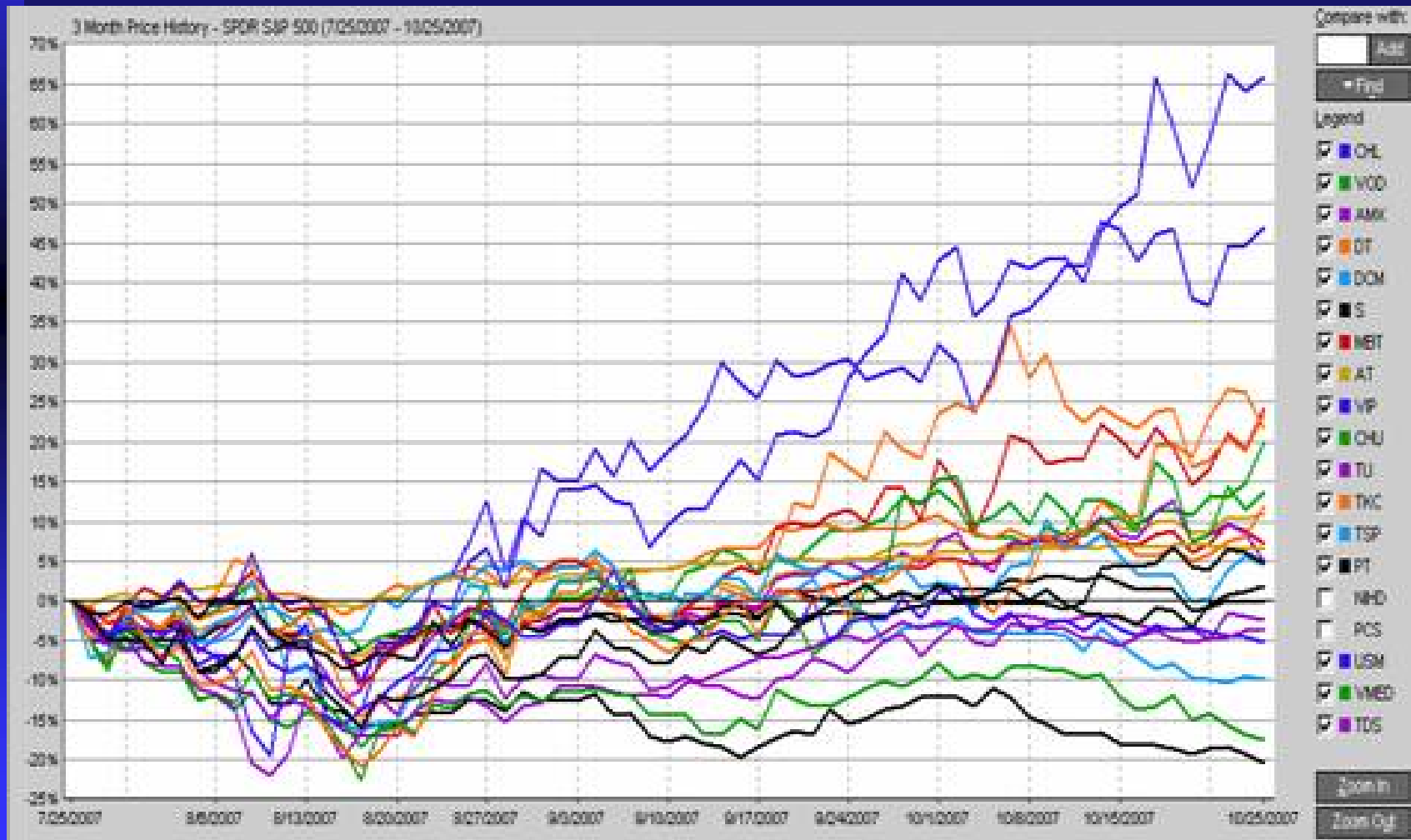
**YOU ALSO KNOW
WHEN TO SELL**

SELECT STOCKS

STOCK SELECTION

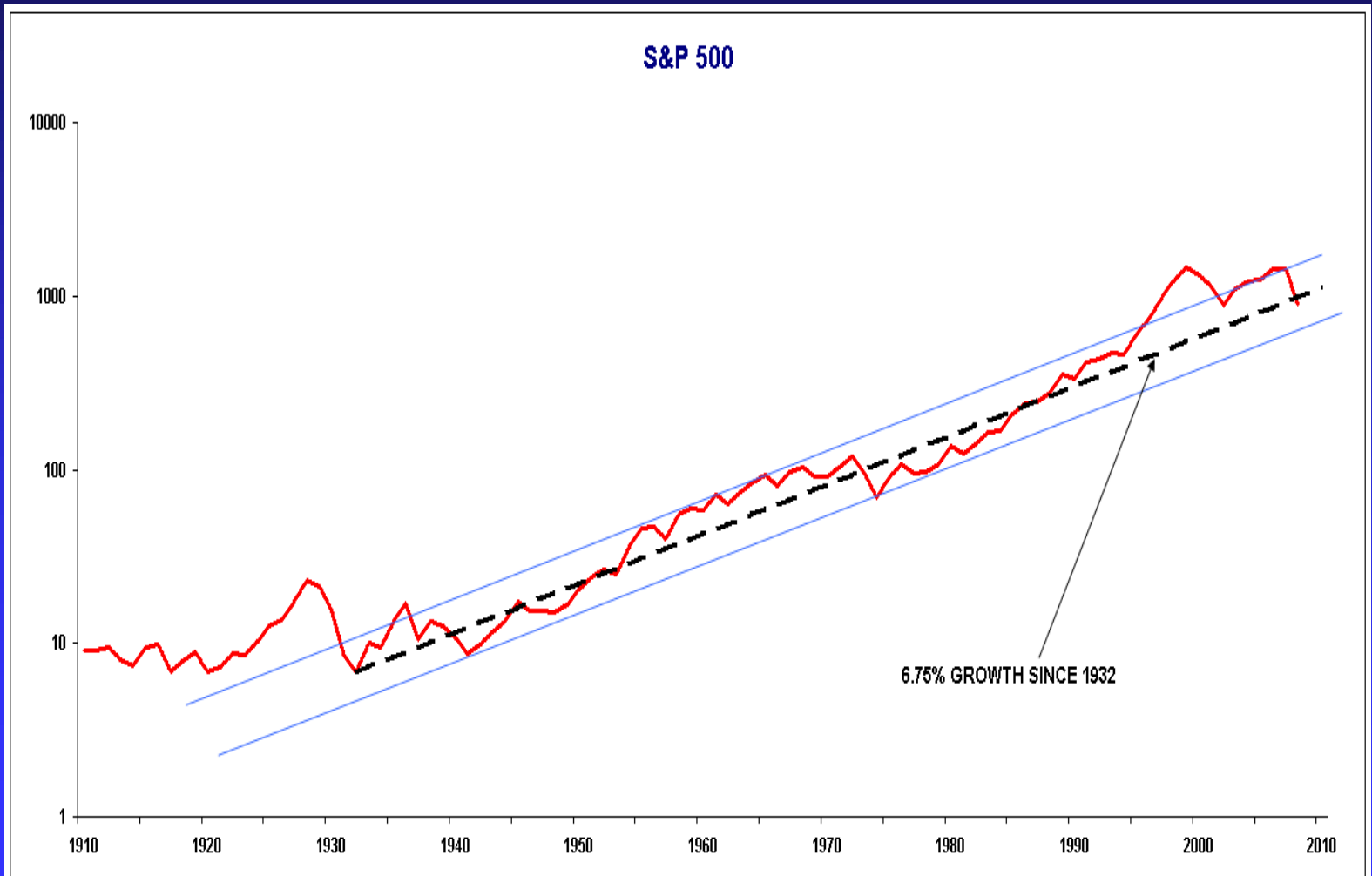
- **USE FAN CHARTS TO CHECK PERFORMANCE OF STOCKS**
- **CHOOSE STOCKS WITH LOWEST VOLATILITY AND BEST PERFORMANCE**
- **PERFORM FINANCIAL ANALYSIS (WWW.PETERDAG.COM)**

EXAMPLE OF FAN CHART: WIRELESS COMMUNICATION

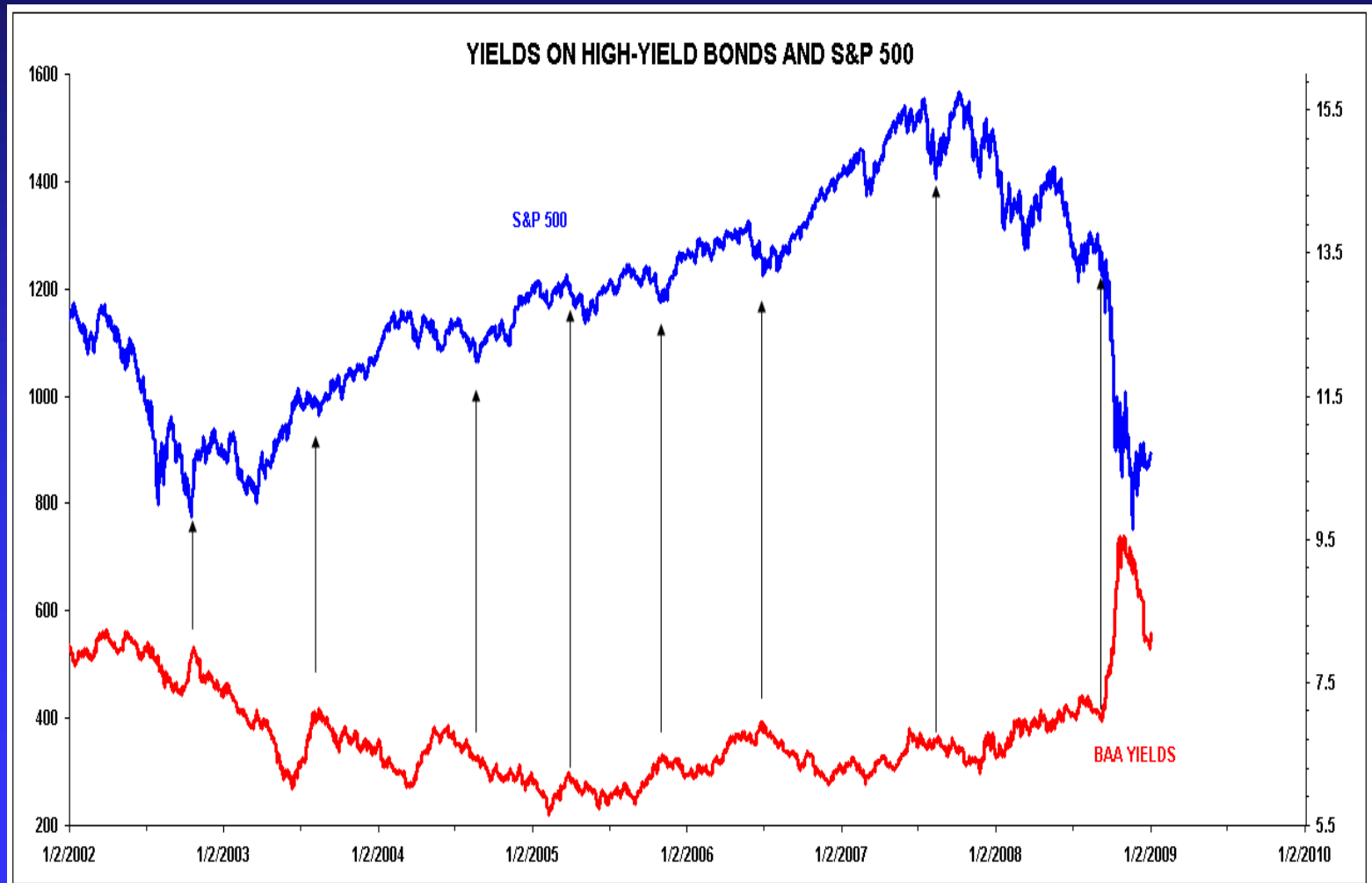


MEASURING RISK

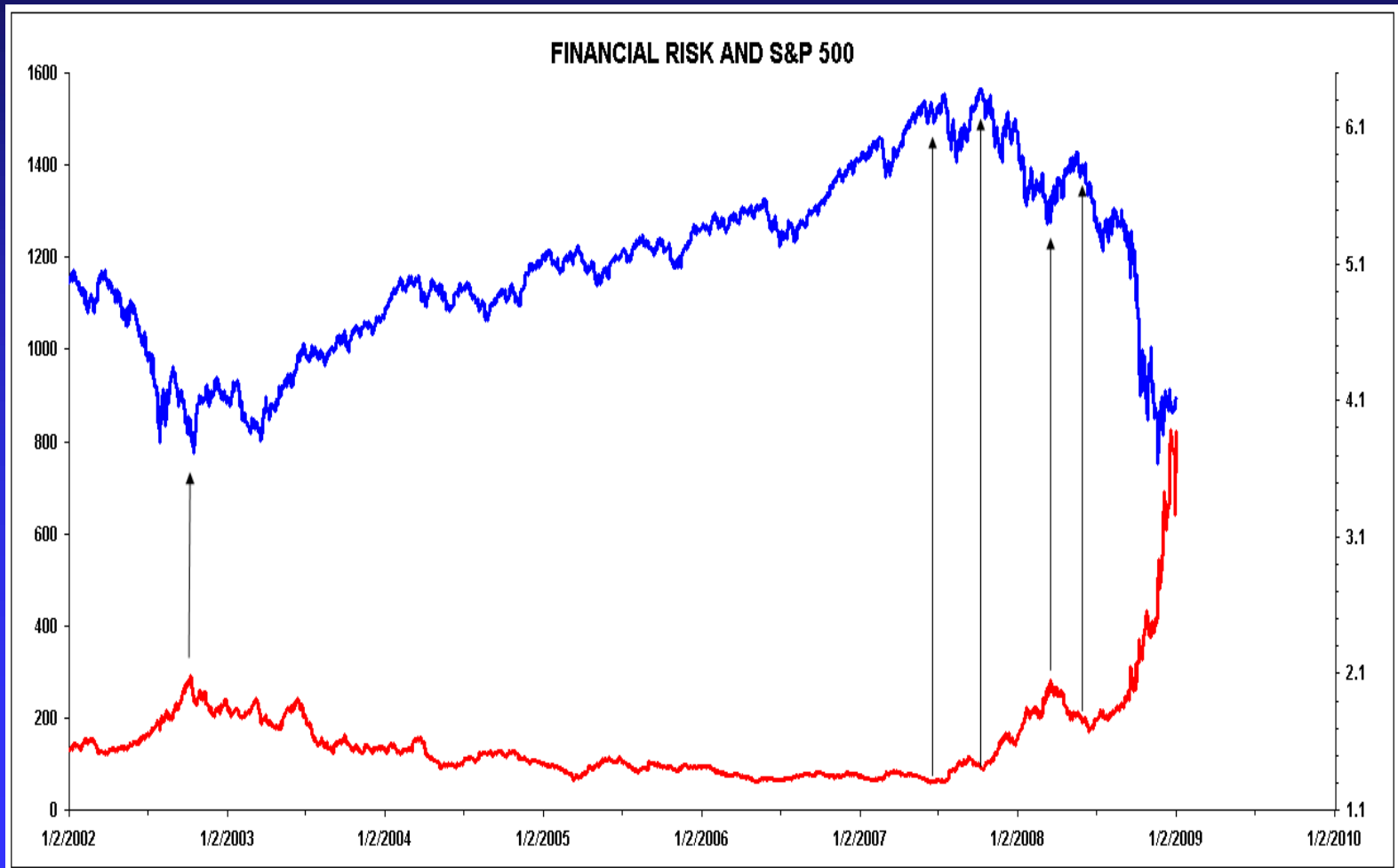
STOCK PRICES AND THE NEED FOR TIMING



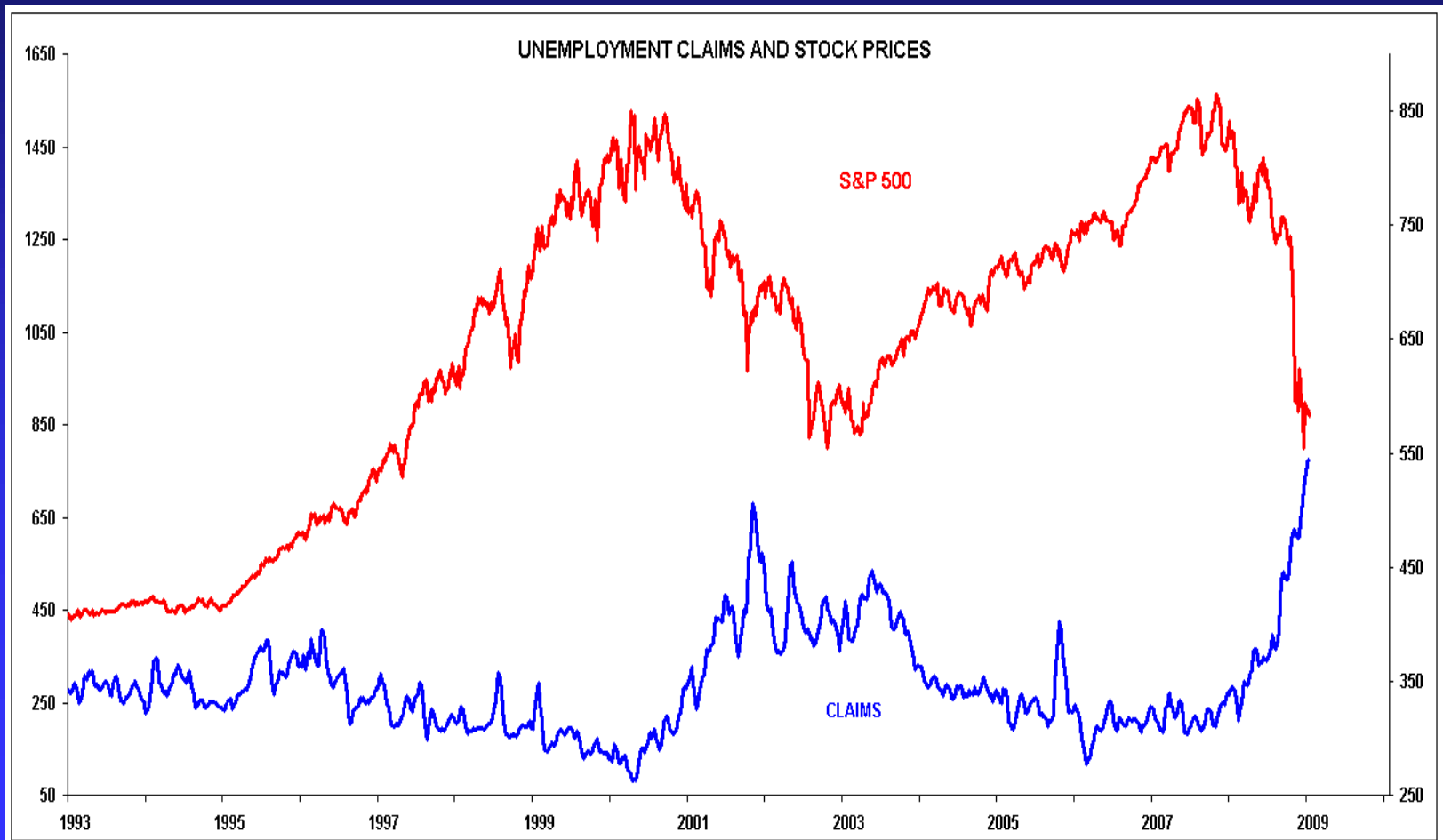
BOND YIELDS AND STOCK PRICES



FINANCIAL RISK AND STOCK PRICES



UNEMPLOYMENT CLAIMS AND STOCK PRICES



TECHNICAL ANALYSIS

- **OVERBOUGHT/OVERSOLD INDICATORS**
- **TRADING VOLUME**
- **SENTIMENT INDICATORS**
- **MOVING AVERAGES**
- **DIRECTIONAL INDICATORS**

OVERBOUGHT/OVERSOLD INDICATORS

- **THEY STAY OVERSOLD FOR A LONG TIME AND OVERBOUGHT FOR A SHORT TIME IN BEAR MARKETS**
- **THEY STAY OVERSOLD FOR A SHORT TIME AND OVERBOUGHT FOR A LONG TIME IN BULL MARKETS**

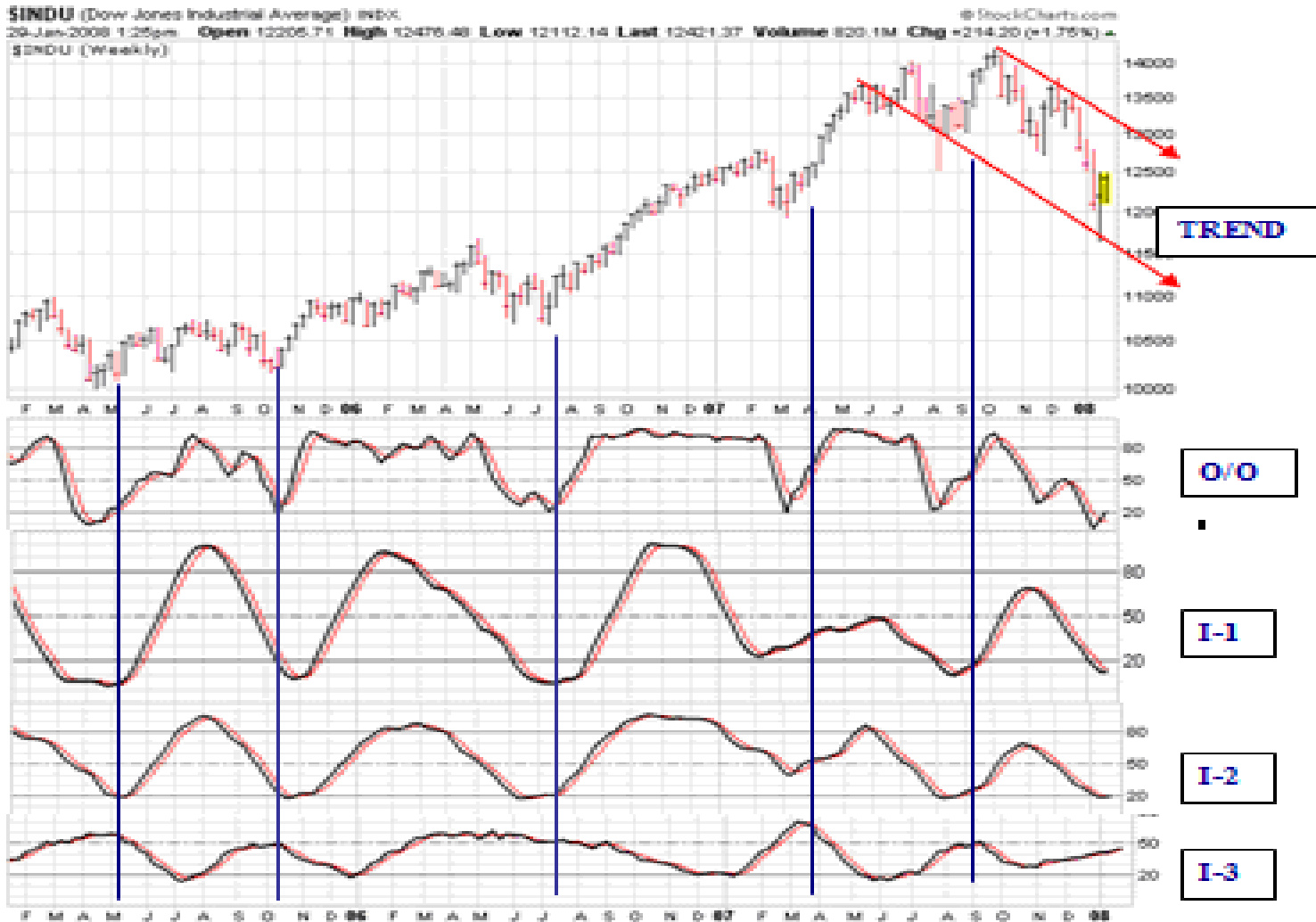
VOLUME PATTERNS

- **BEARISH:** STRONG VOLUME FOLLOWING A STRONG RISE
- **BULLISH:** STRONG VOLUME FOLLOWING A SHARP DECLINE

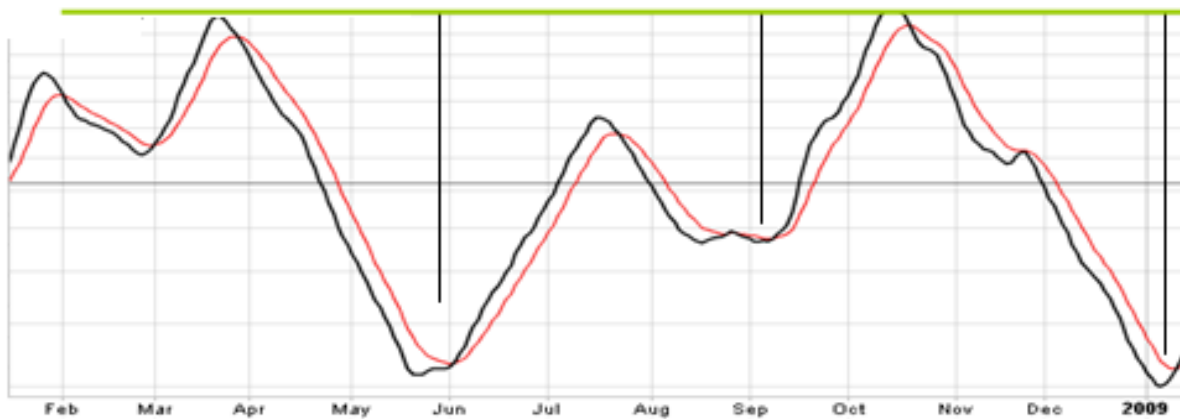
SENTIMENT INDICATORS

**SAME PROBLEMS AS
OVERBOUGHT/OVERSOLD
INDICATORS**

DIRECTIONAL INDICATORS



DIRECTIONAL INDICATORS

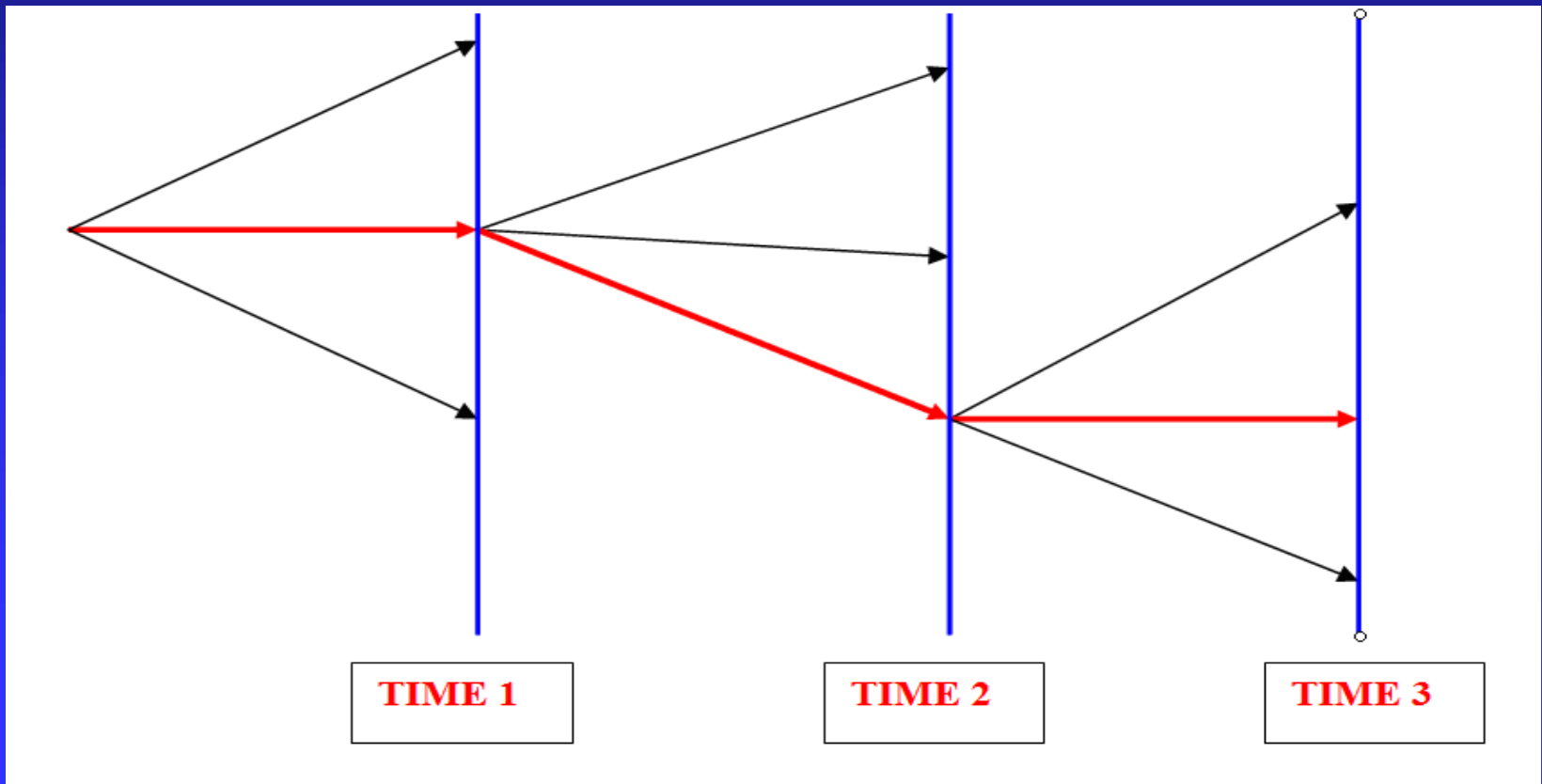


The market bottoms when this indicator reaches this level

STRATEGY

GAMES THEORY AND INVESTMENT STRATEGY

(ADJUST MIX STRONG/WEAK ECONOMY SECTORS AS NEW INFORMATION BECOMES AVAILABLE)



HEDGING IN A DOWN MARKET

- **SELL POOR PERFORMING STOCKS & USE CASH TO HEDGE PROFITS AND REDUCE VOLATILITY**
- **FOR EVERY \$ OF SH-DOG-PSQ YOU HEDGE \$1 DOLLAR OF LONG POSITIONS**
- **ONLY STRONG STOCKS ARE NOW EXPOSED TO MARKET DECLINES**

FEEDBACK

BASED ON

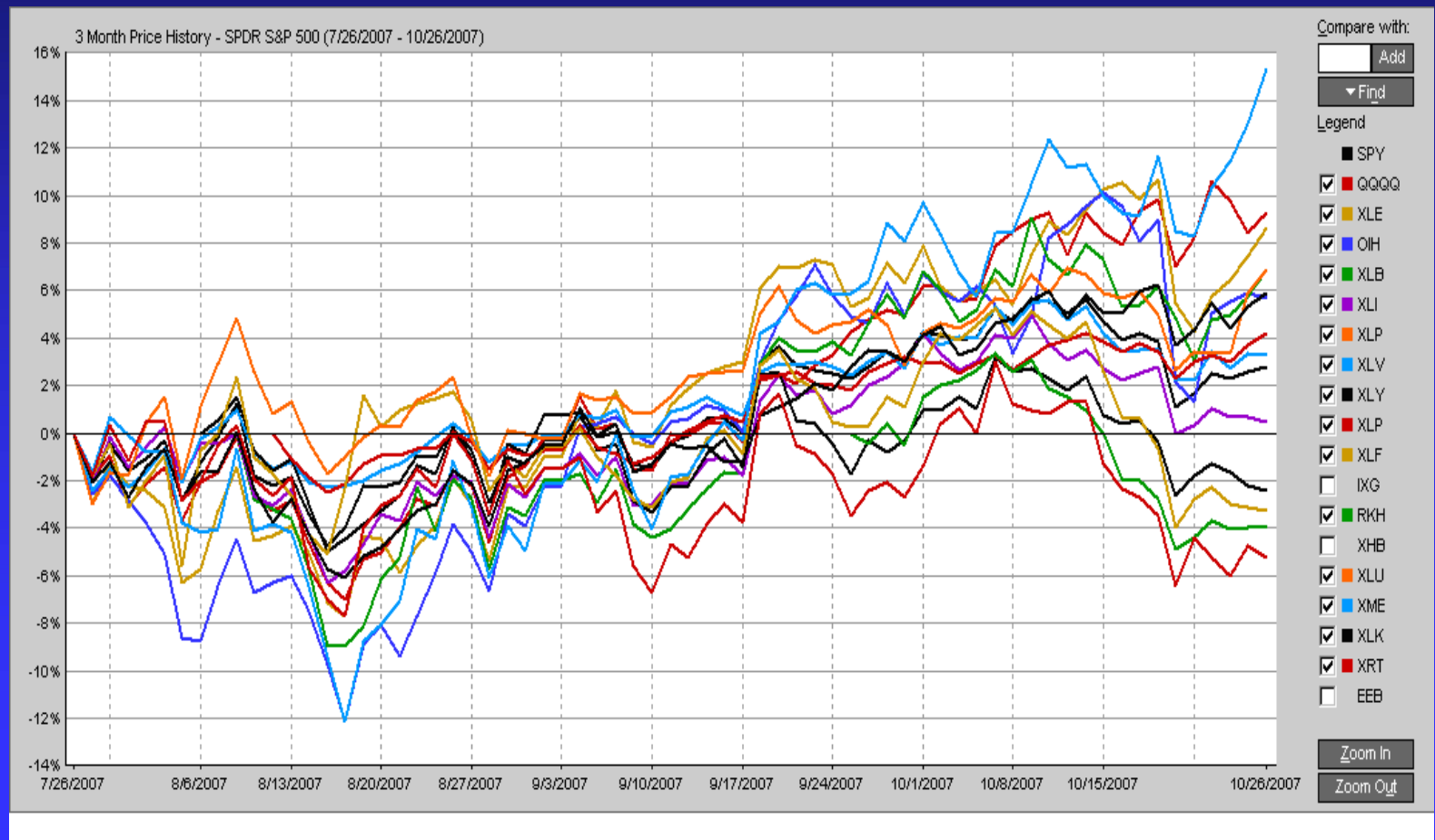
PERFORMANCE

USE FAN CHART TO ISOLATE WEAKEST STOCKS



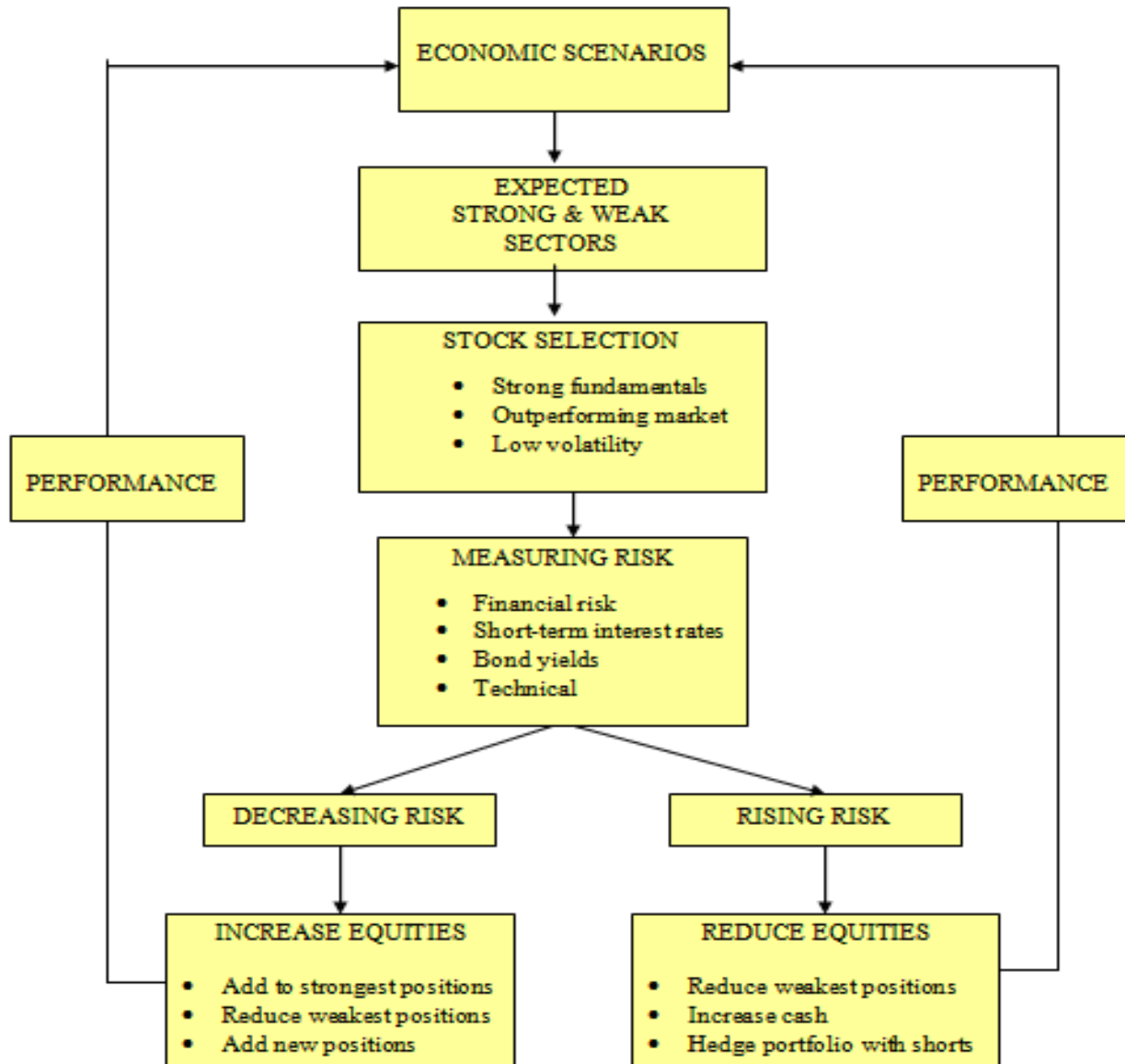
**ETFs
&
MUTUAL FUNDS**

SELECT THE STRONGEST ETFs & MUTUAL FUNDS USING FAN CHART



**RISK MANAGEMENT
&
PERFORMANCE**

INVESTMENT PROCESS



CONCLUDING THOUGHTS

- **SHORT LIST OF STOCKS ... 10-15 max**
- **DIVERSIFICATION ... waste of money & time**
- **LONG-TERM INVESTING ... illusion**
- **NEED TIMING MODEL ... a must**
- **THE BUSINESS CYCLE ... WORKS**
- **MOMENTUM ... WORKS**
- **AVOID FALLING KNIVES ... bad strategy**
- **HEDGE YOUR PORTFOLIO ... use SH, DOG, PSQ**
- **USE INVESTMENT PROCESS ... a must**
- **IF YOU LEAVE THE TABLE ... can't win**
- **TOO COMPLICATED? ... buy CDs**

THANK YOU!