

WELCOME!

BUSINESS CYCLES, MARKET CYCLES, AND STOCK SECTORS

George Dagnino, PhD

The Peter Dag Portfolio

www.peterdag.com

peterdag.blogspot.com

Peter Dag's **PERFORMANCE**

- **PICKS ('02-'06) +94.7%** +27.8% (S&P 500)
(S&P dividends excluded, Source: Hulbert)
- **Mutual funds + 19.0%** (S&P 500: 3.53%)
- **ETF + 24.9%**
- **TOP TEN TIMER** (*Timer Digest*)

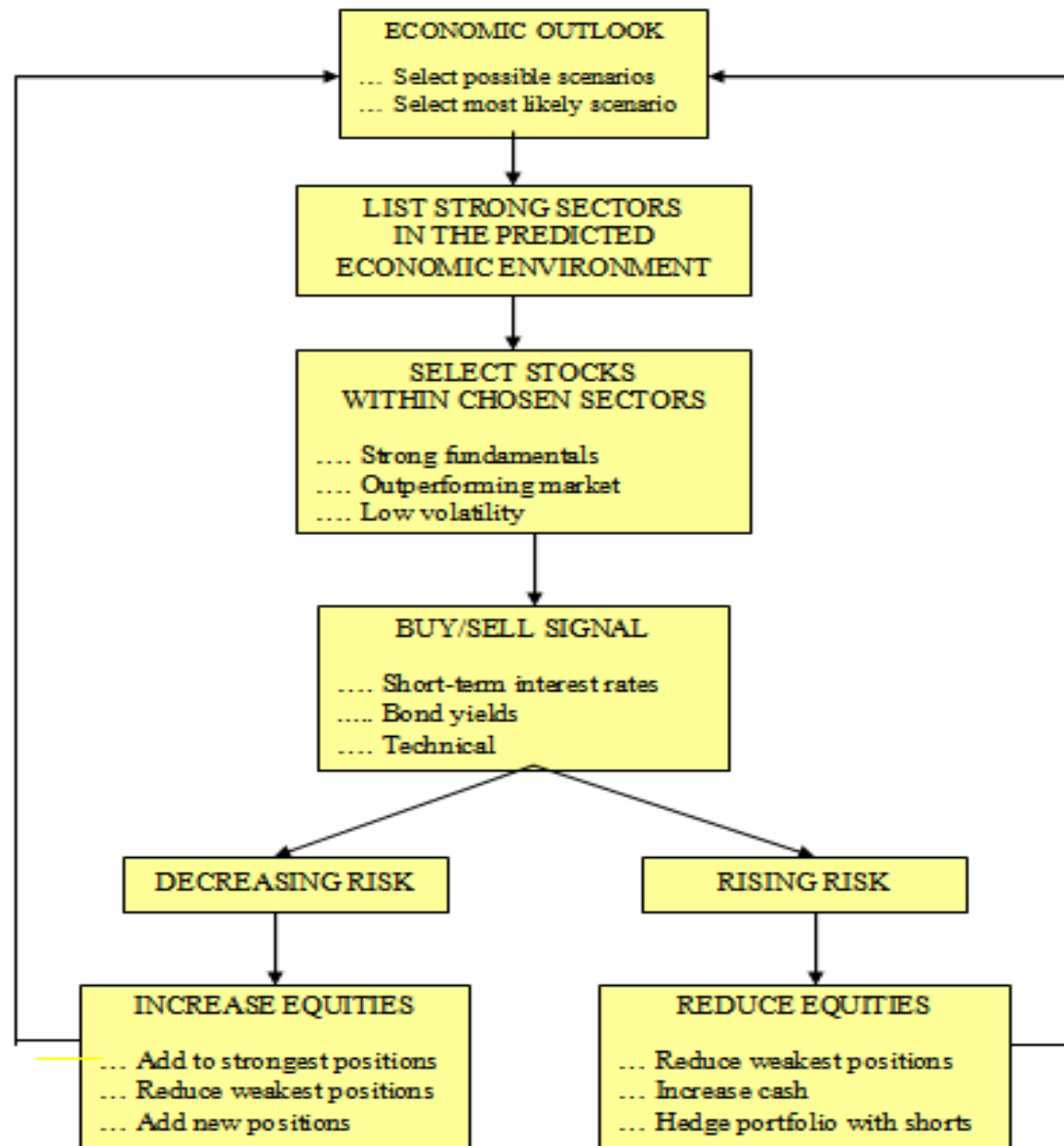
THE PETER DAG PORTFOLIO

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

OUTLINE

- BUSINESS CYCLE
- OUTLOOK
- SECTORS FOR A STRONG AND WEAK ECONOMY
- STOCK SELECTION
- TIMING DECISIONS
- ETFs AND MUTUAL FUNDS
- RISK AND PORTFOLIO MGT

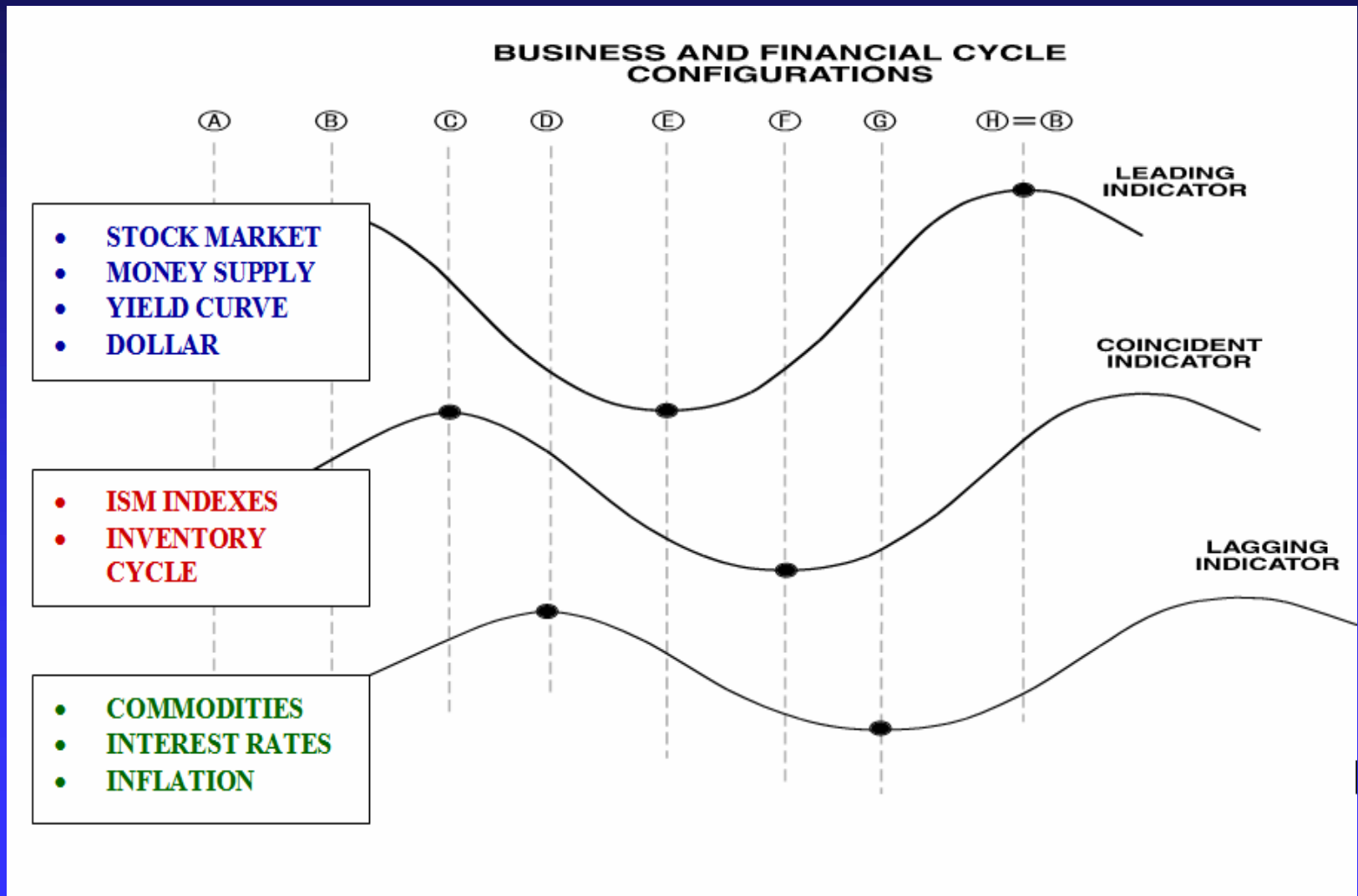
INVESTMENT PROCESS





ECONOMIC OUTLOOK

BUSINESS CYCLE

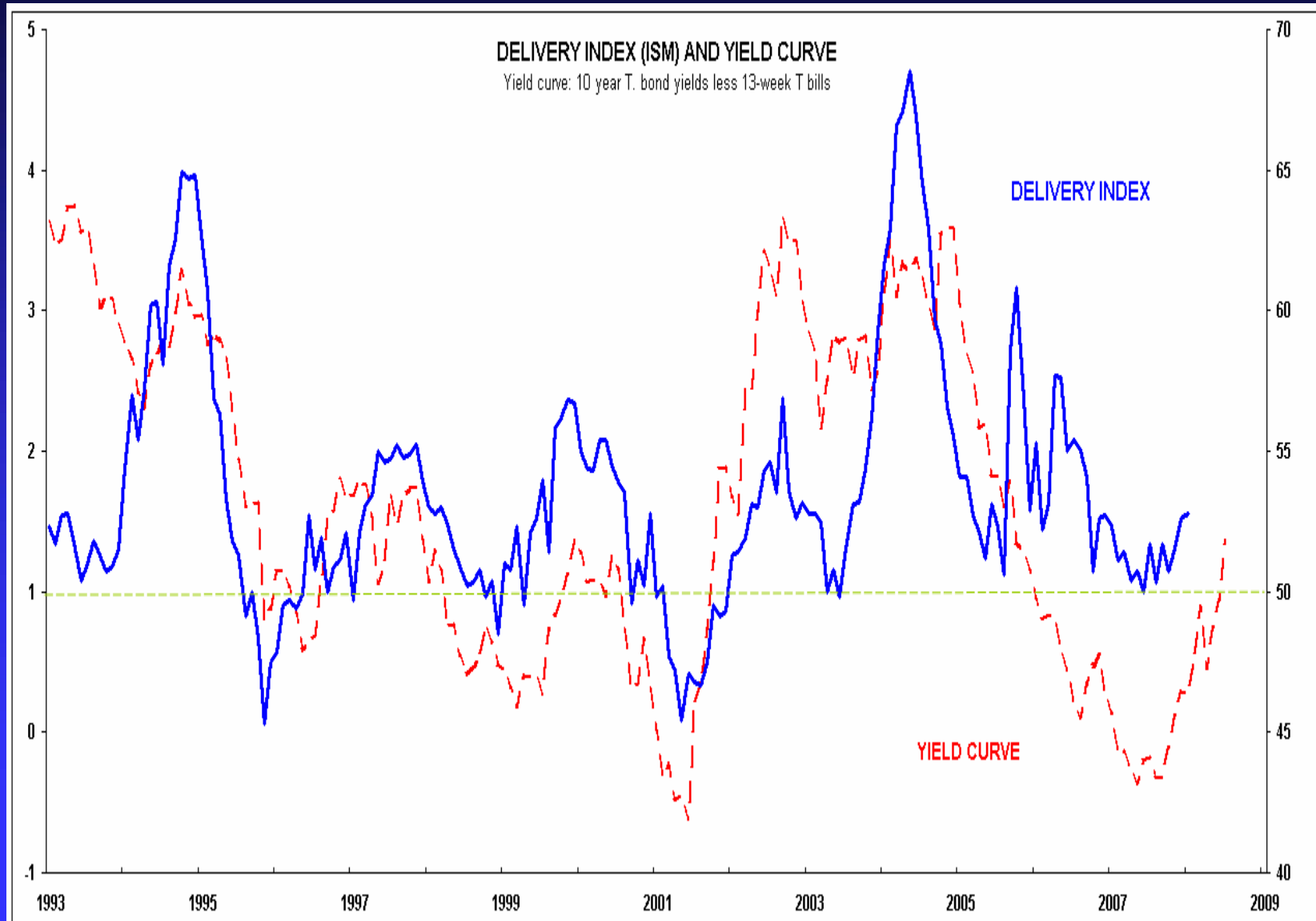


OUTLOOK

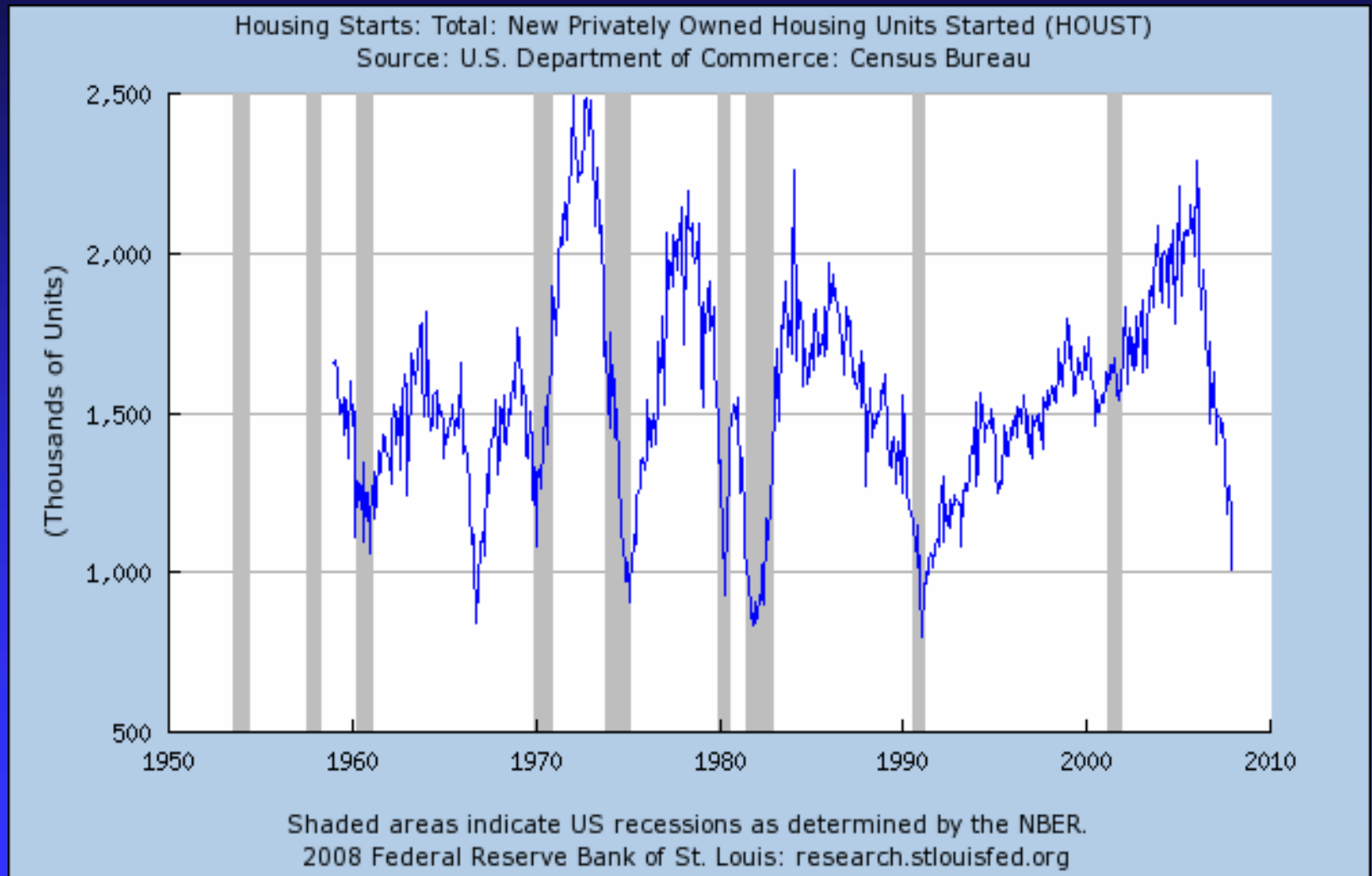
BUSINESS CYCLE

- **LEADING INDICATORS**
- **STOCK MARKET**
- **YIELD CURVE**
- **DOLLAR**
- **HOUSING**
- **ORDERS**
- **PROFITS**

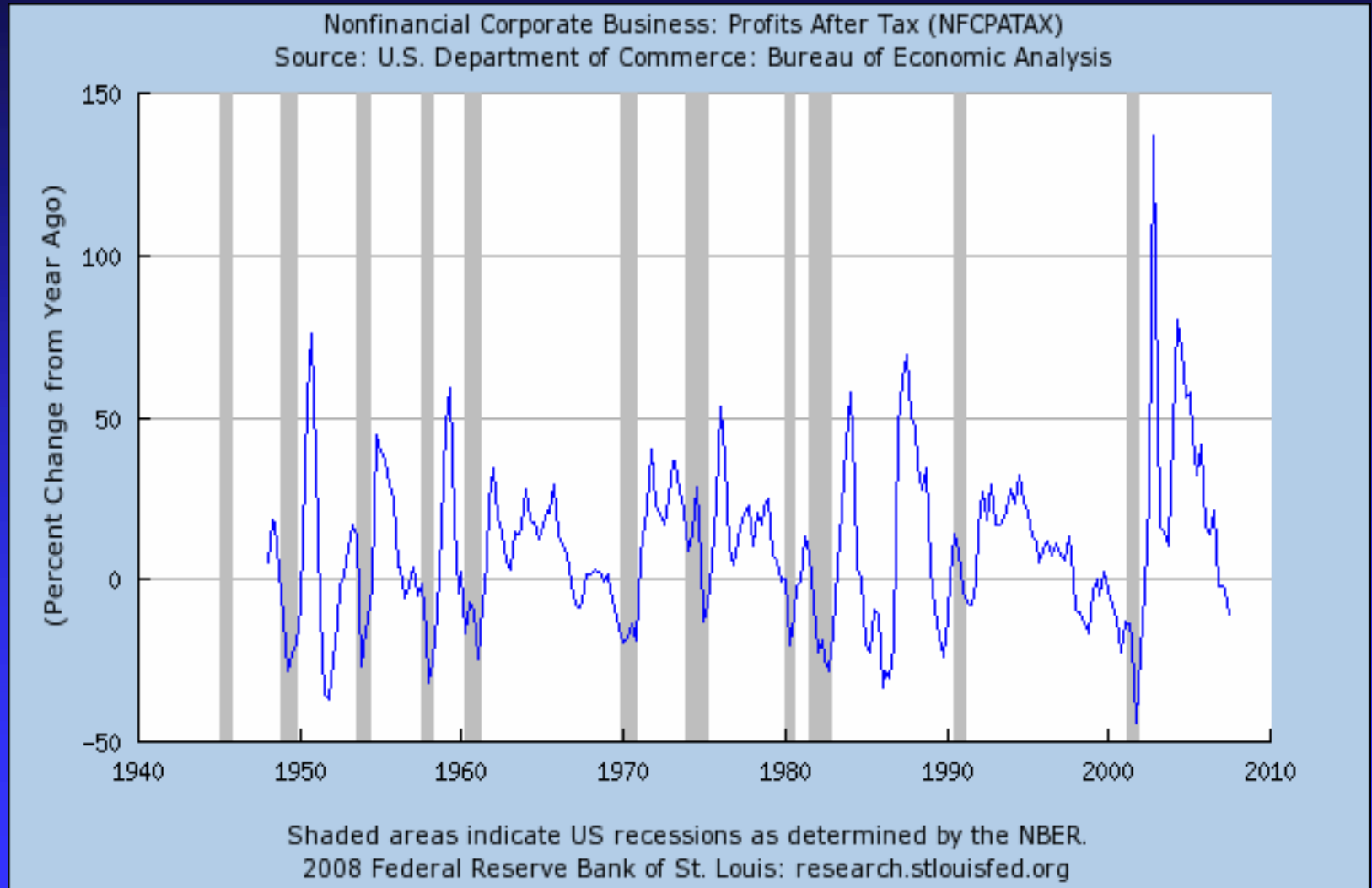
YIELD CURVE: BULLISH



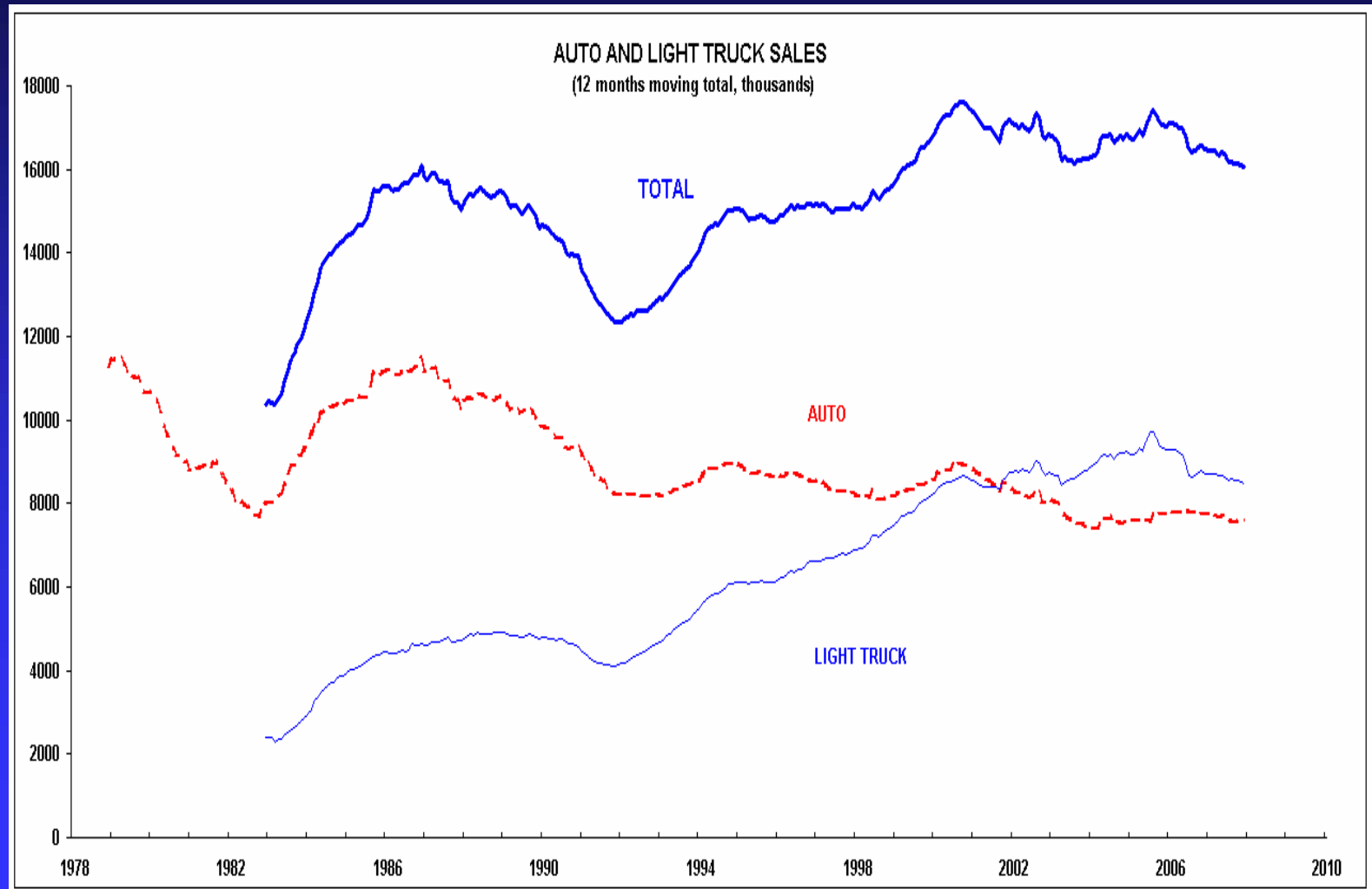
HOUSING



PROFITS



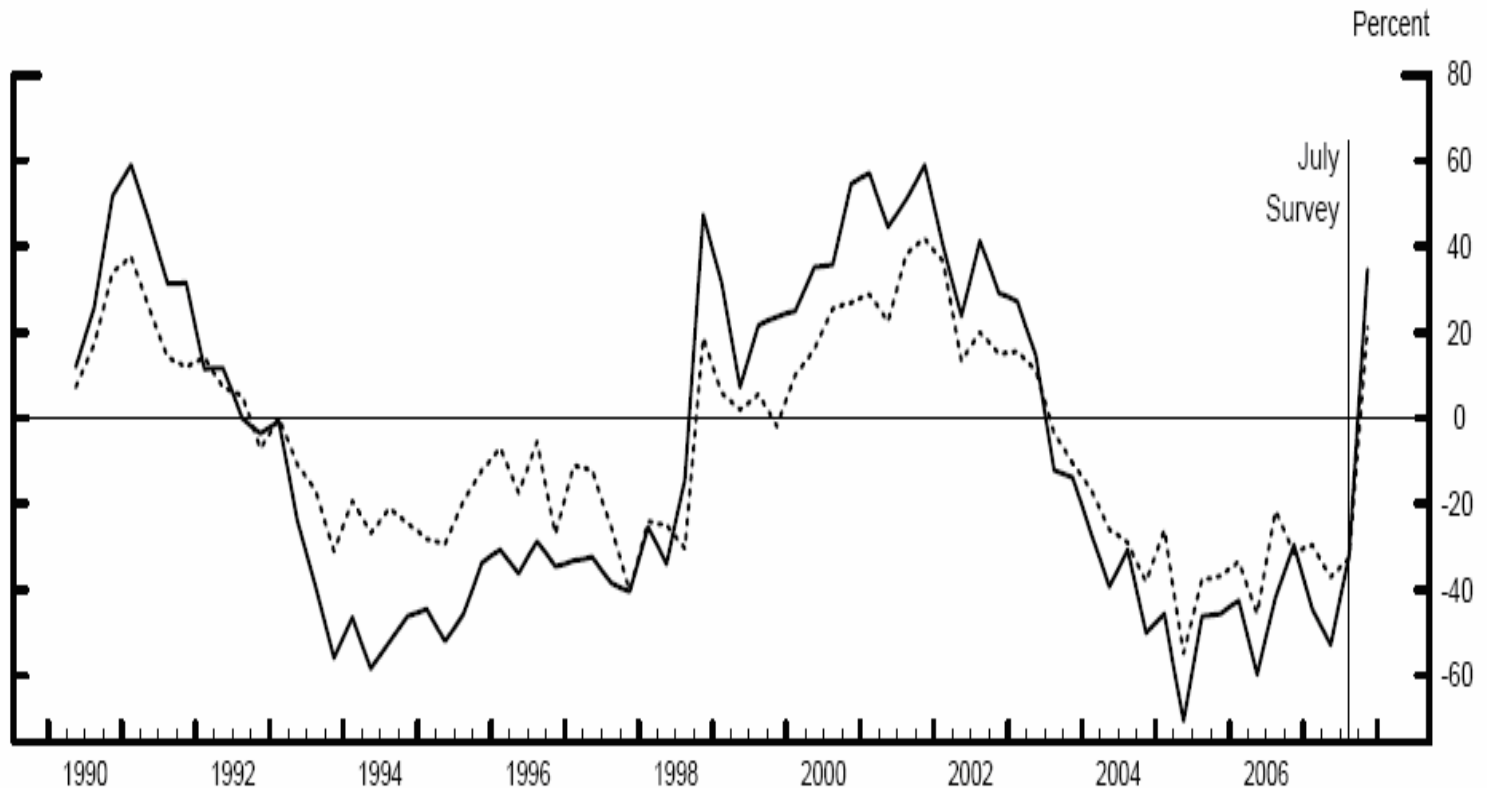
AUTO SECTOR



CREDIT CYCLE

(NOTE THE 1992, 2002 RECESSIONS)

Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Costs of Funds

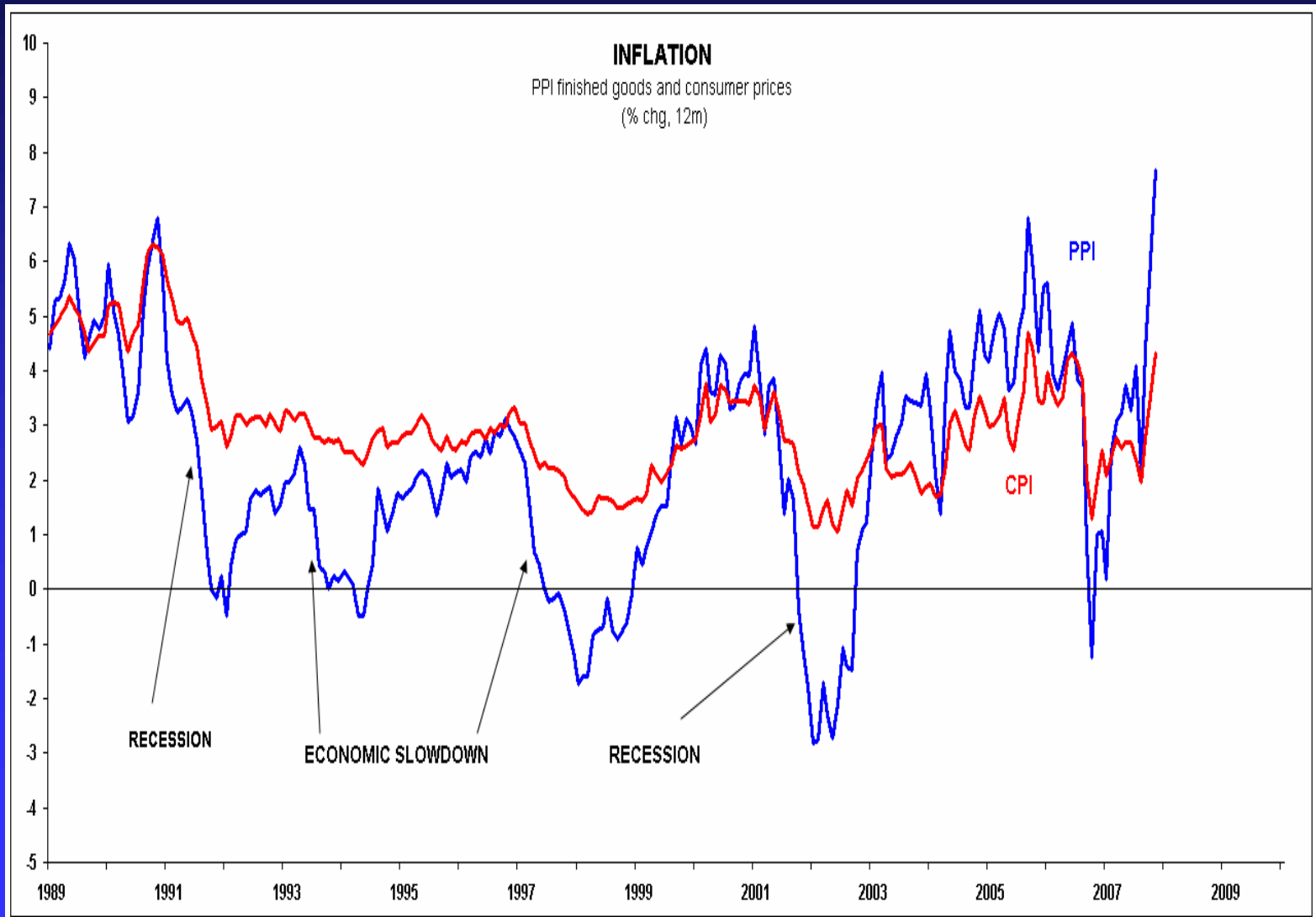


OUTLOOK

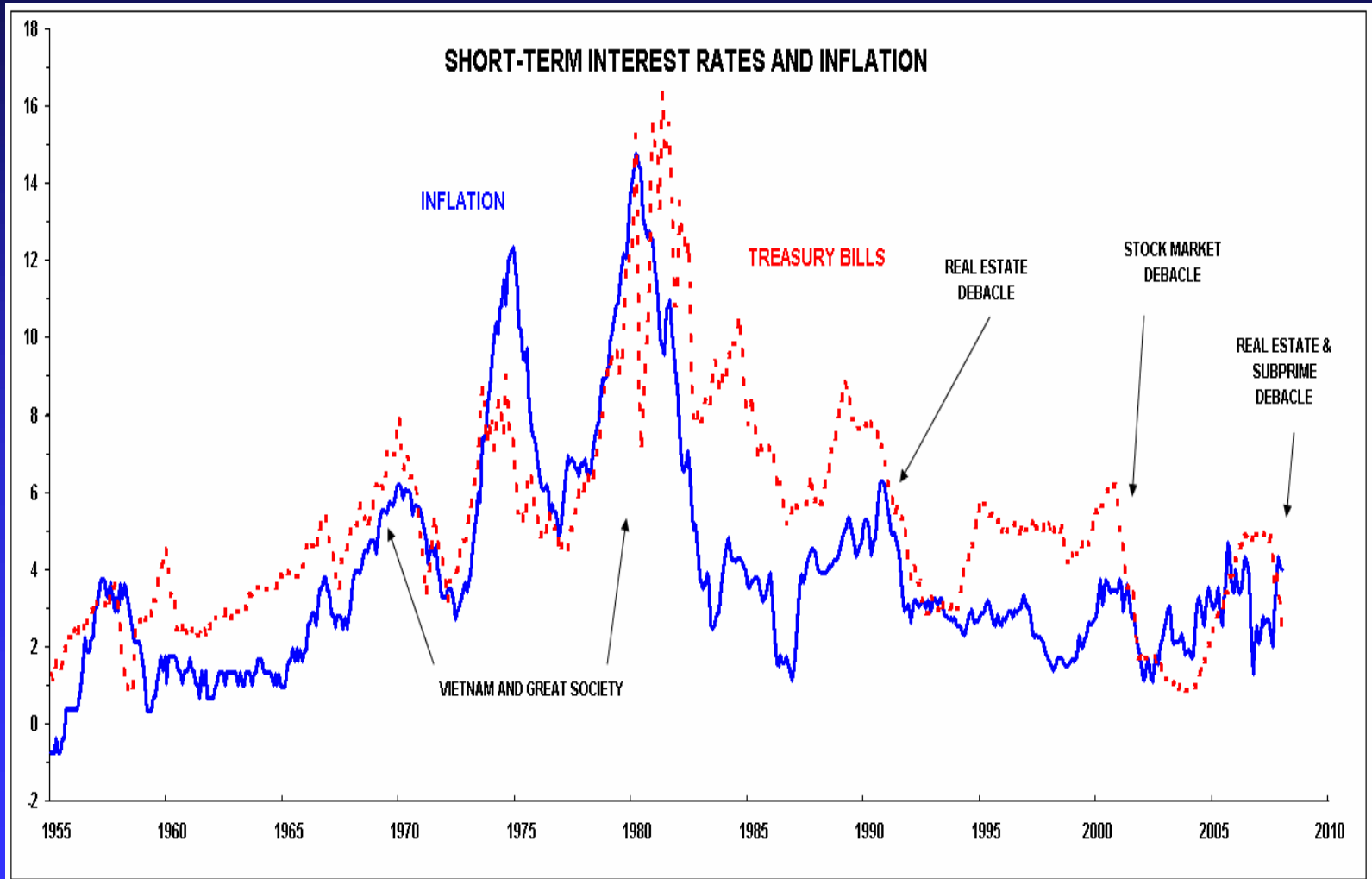
LAGGING INDICATORS

- **REAL INTEREST RATES**
- **COMMODITIES**
- **INFLATION**
- **INTEREST RATES**
- **BOND YIELDS**

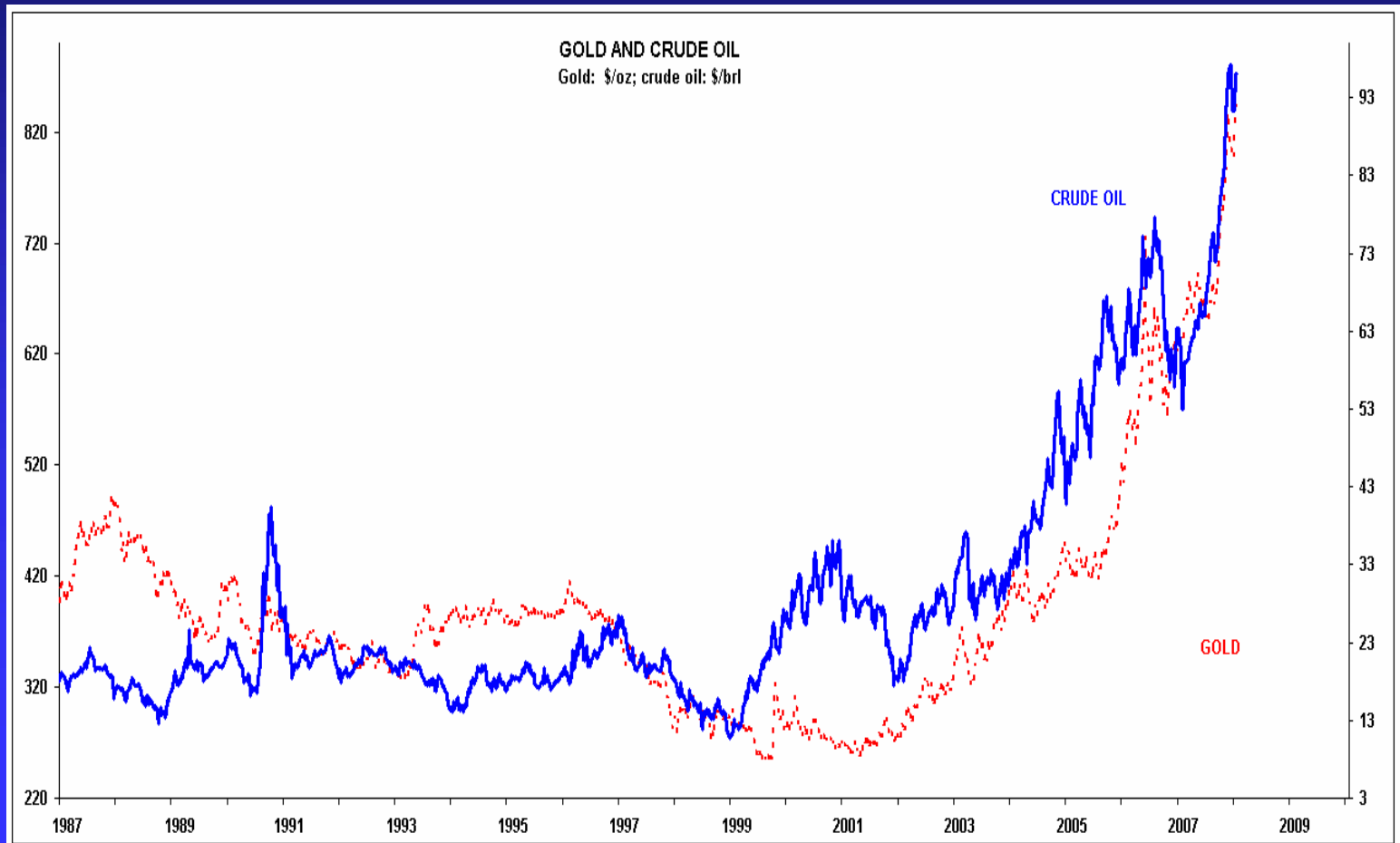
INFLATION: UP



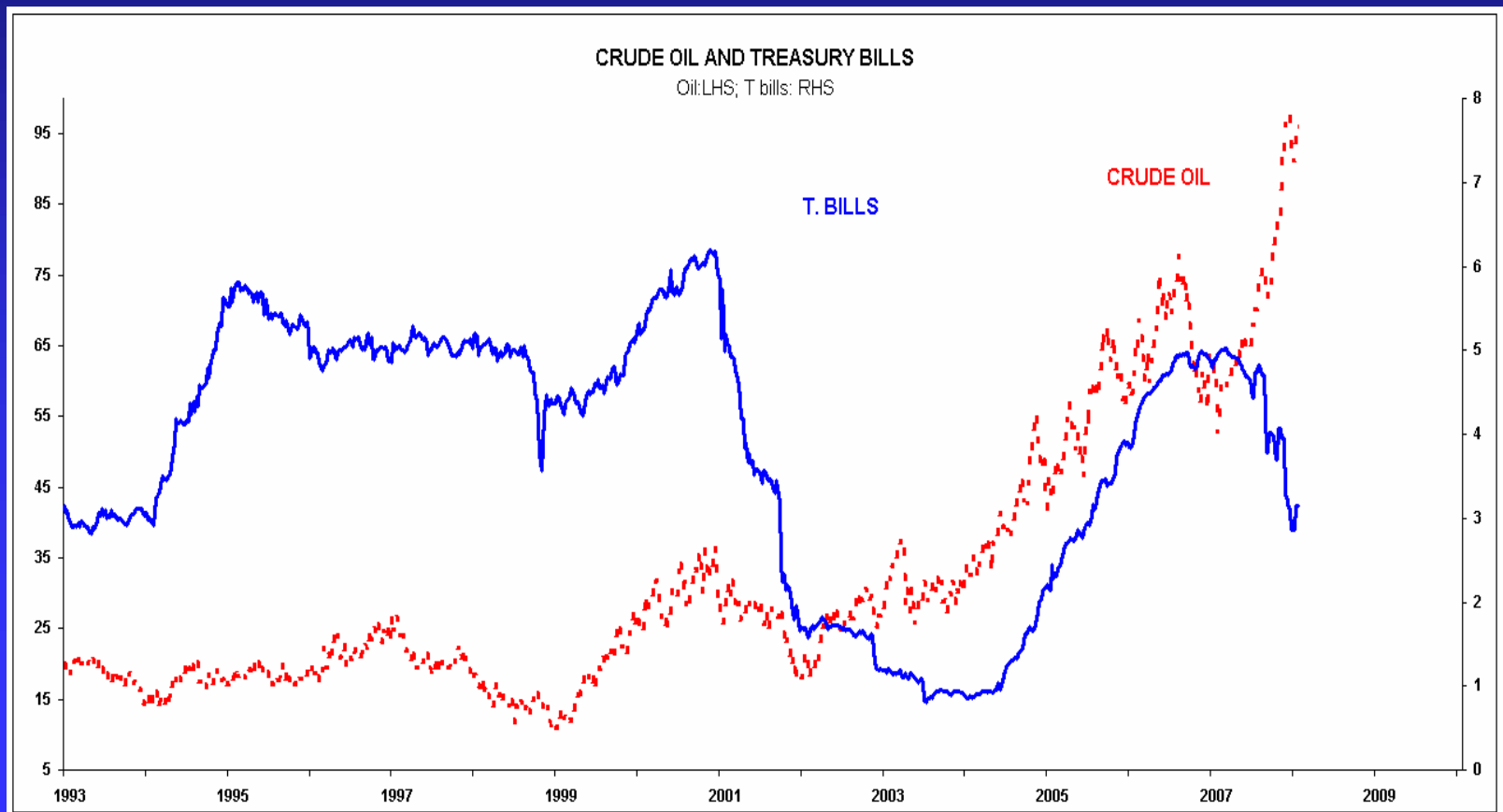
REAL INTEREST RATES



ALL COMMODITIES HAVE THE SAME CYCLICAL TURNING POINTS



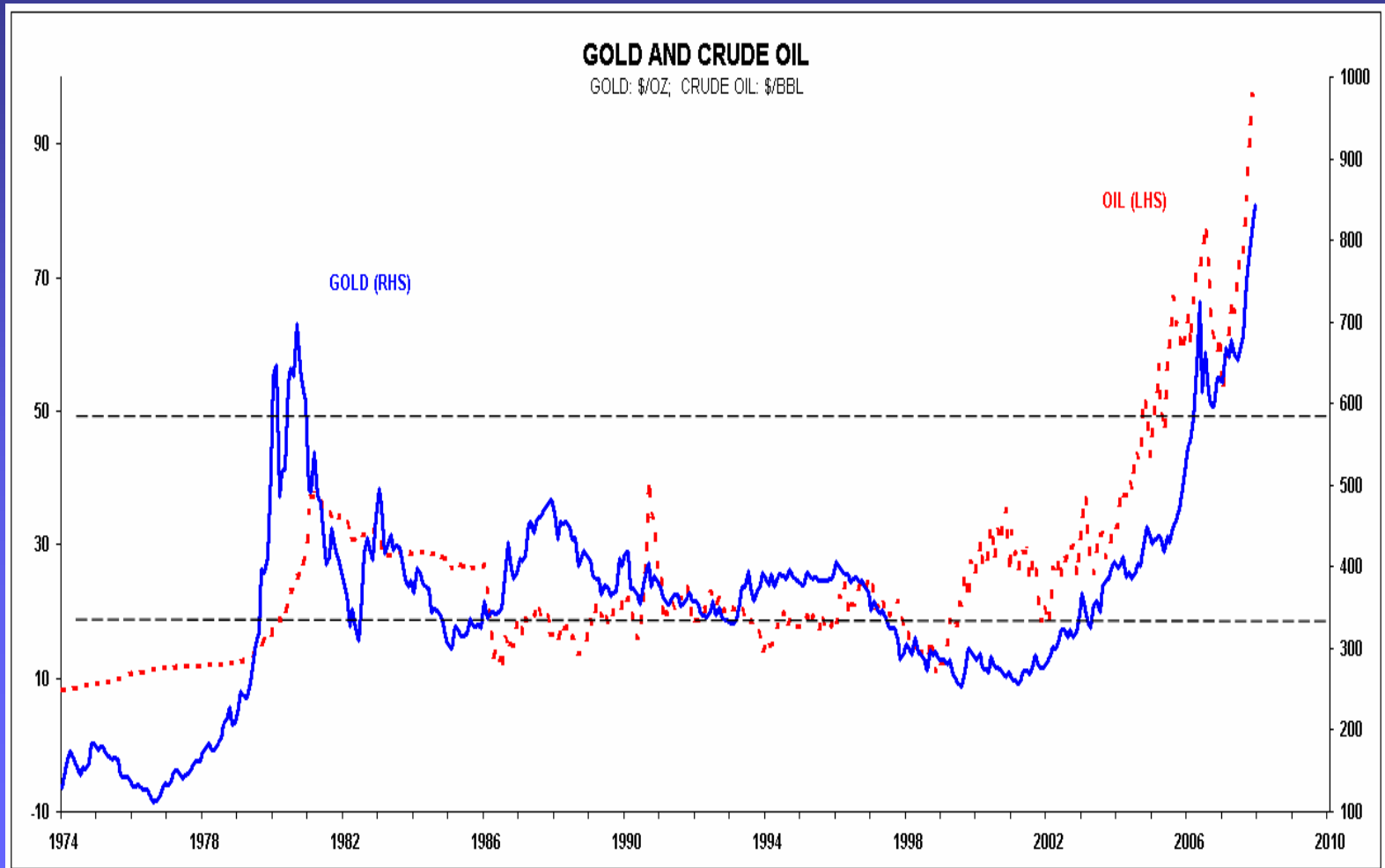
COMMODITIES & THE FED HAVE THE SAME CYCLICAL TURNING POINTS



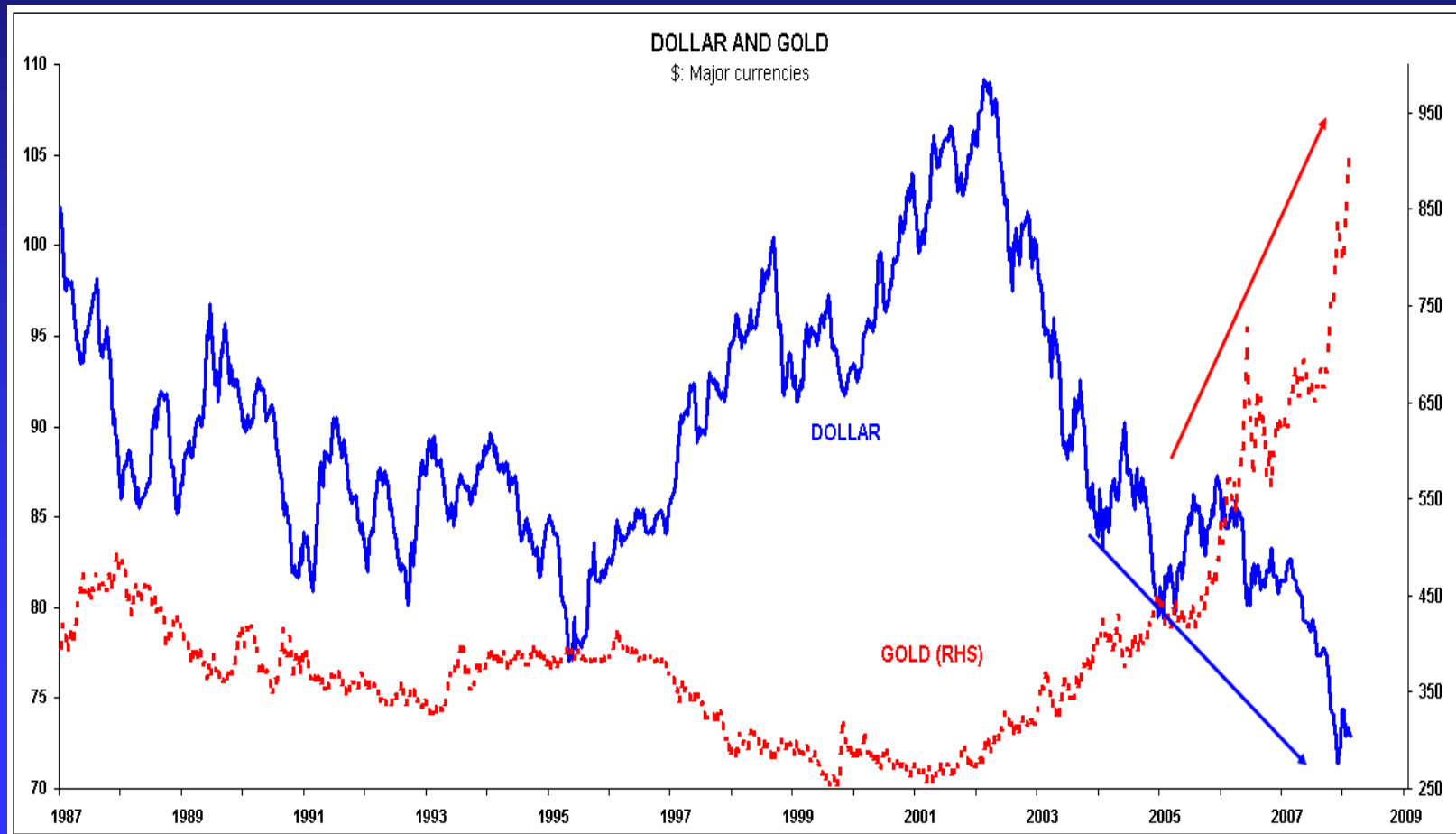
THE FED AND FINANCIAL BUBBLES

- **AGGRESSIVE EASING IN 1998 WAS FOLLOWED BY THE TECH BUBBLE**
- **AGGRESSIVE EASING IN 2002-2004 WAS FOLLOWED BY THE HOUSING/COMMODITY BUBBLES AND SUBPRIME DEBACLE**

MAN-MADE (FED) COMMODITY BUBBLES



DOLLAR, COMMODITIES, GOLD, AND PURCHASING POWER

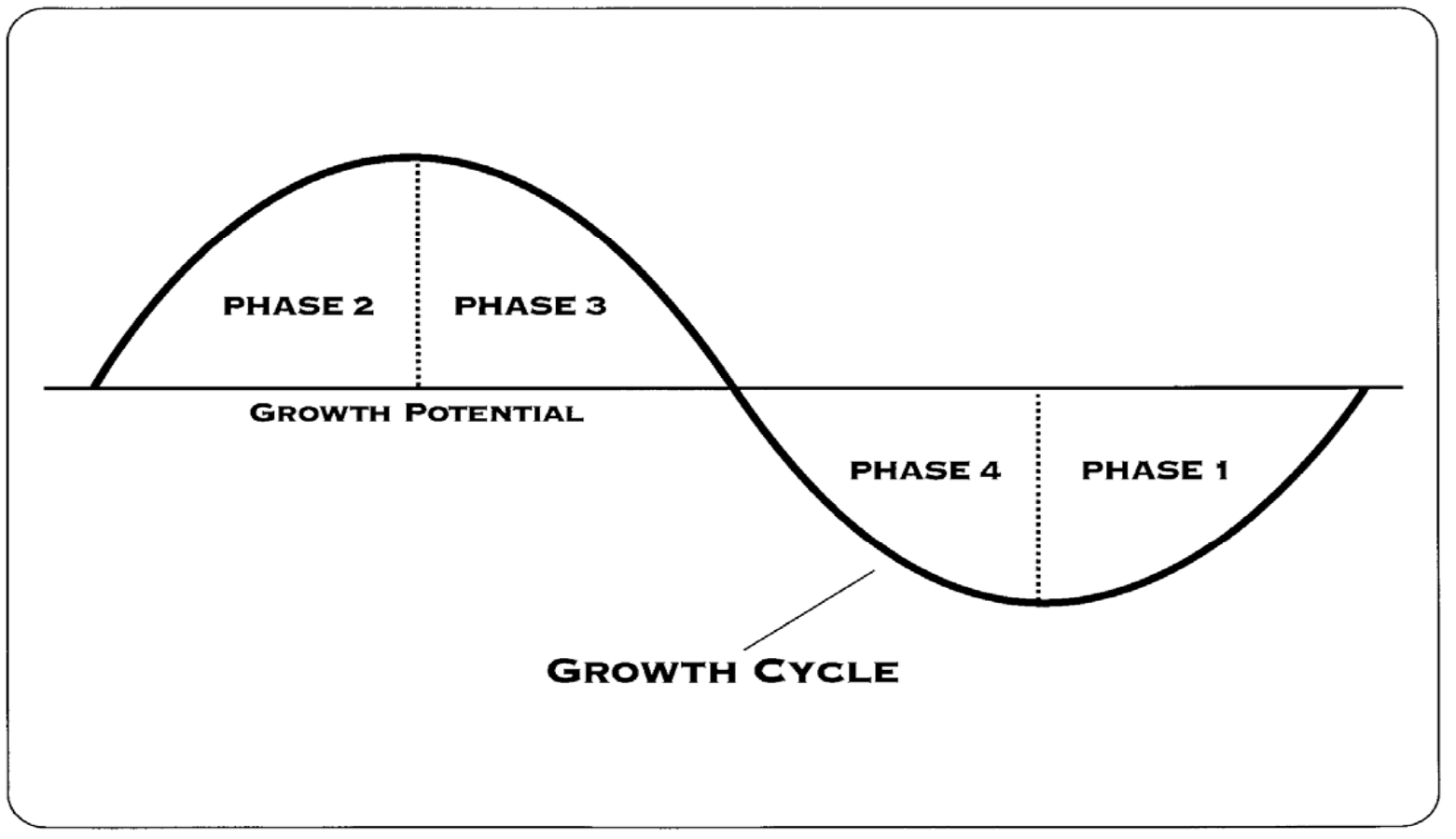


INFLATION, COMMODITIES, AND SHORT-TERM INTEREST RATES

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

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

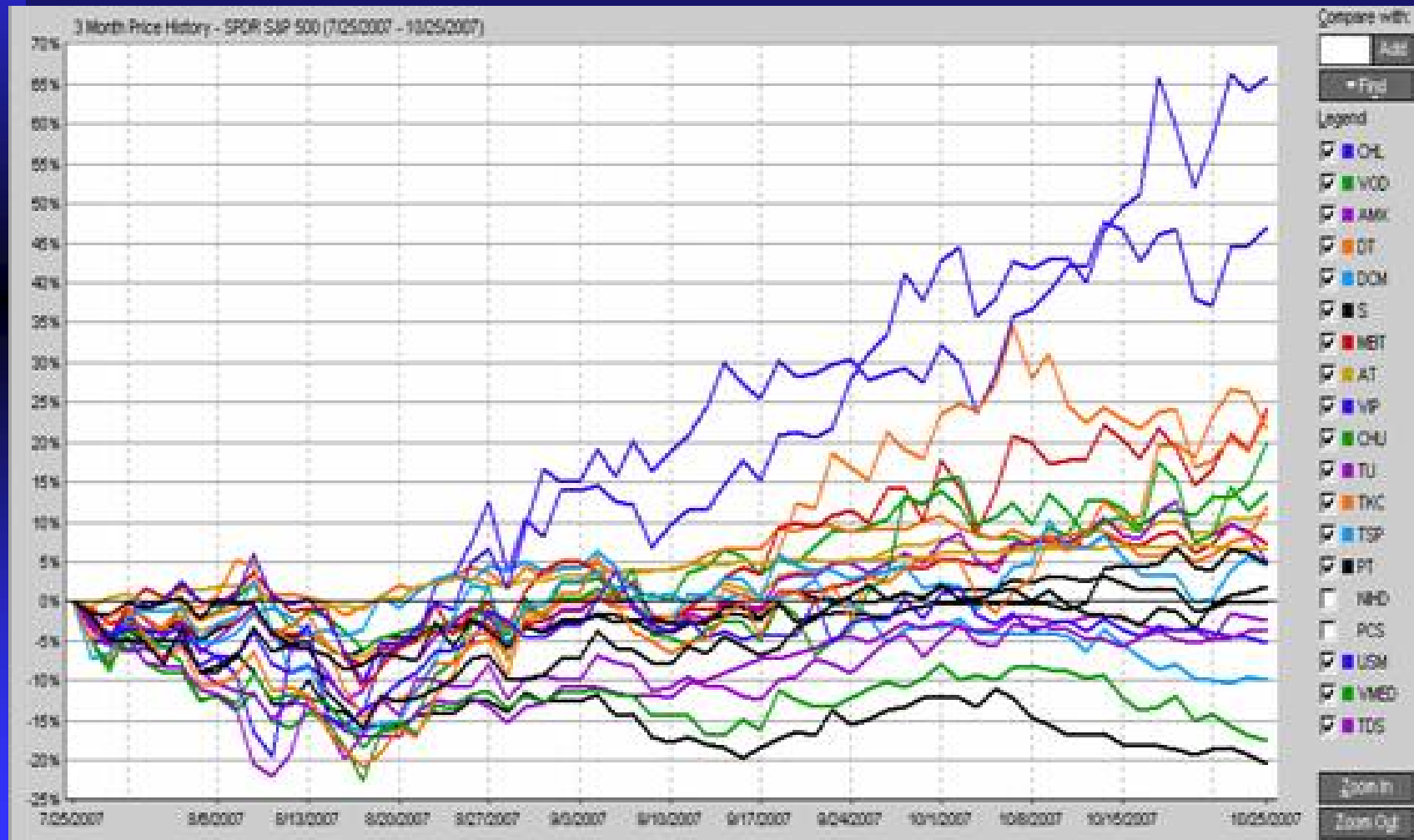
- **TOBACCO**
- **HEALTH SERVICES**
- **INSURANCE**
- **BANKS, REGIONALS, S&L**
- **FINANCIAL SERVICES**
- **REAL ESTATE/REITs/TRUSTS**
- **AEROSPACE & DEFENSE**

SELECT STOCKS

STOCK SELECTION

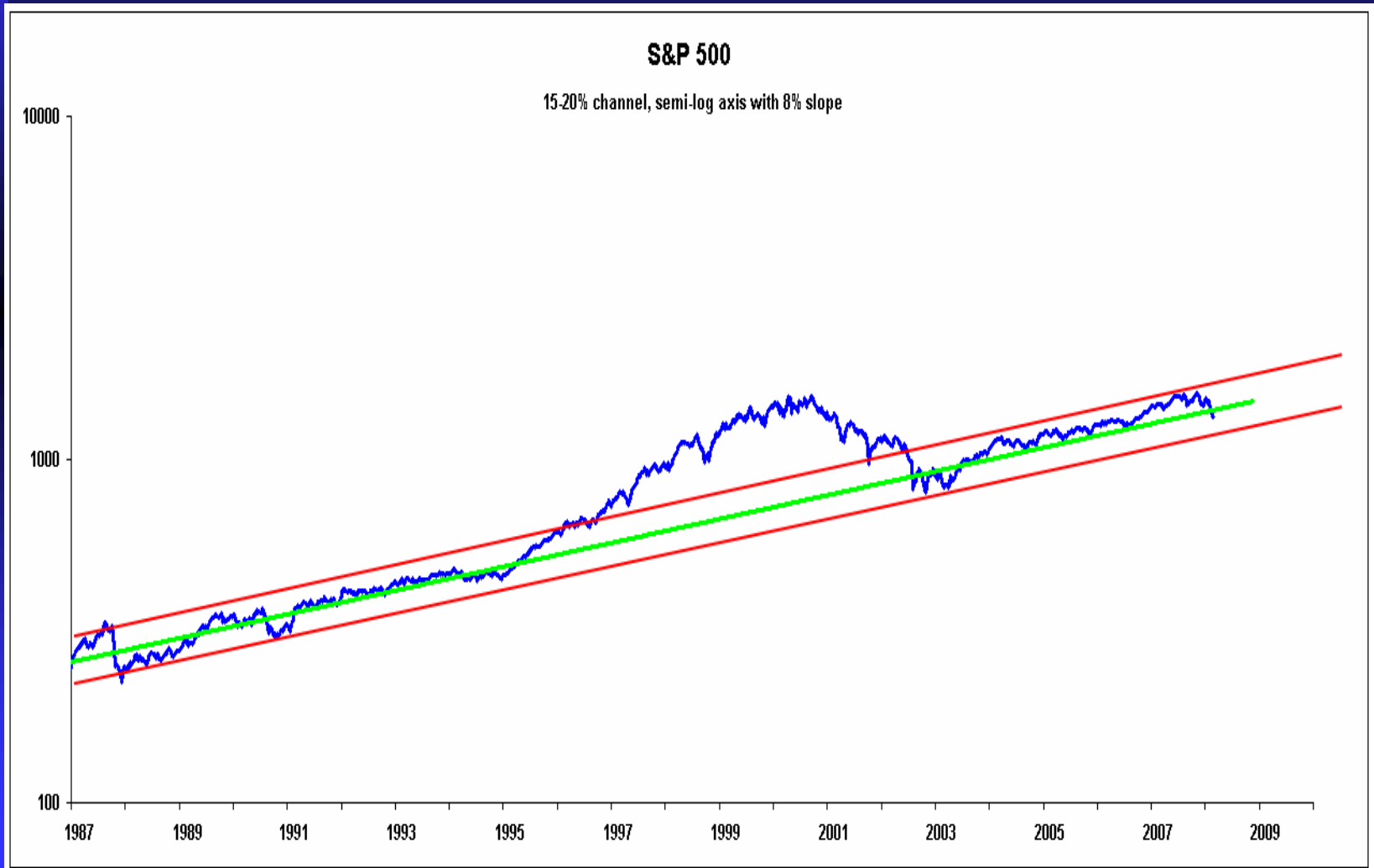
- **USE FAN CHARTS TO CHECK PERFORMANCE OF STOCKS**
- **CHOOSE STOCKS WITH LOWEST VOLATILITY AND BEST PERFORMANCE**
- **PERFORM FINANCIAL ANALYSIS (WWW.PETERDAG.COM)**

EXAMPLE OF FAN CHART: WIRELESS COMMUNICATION

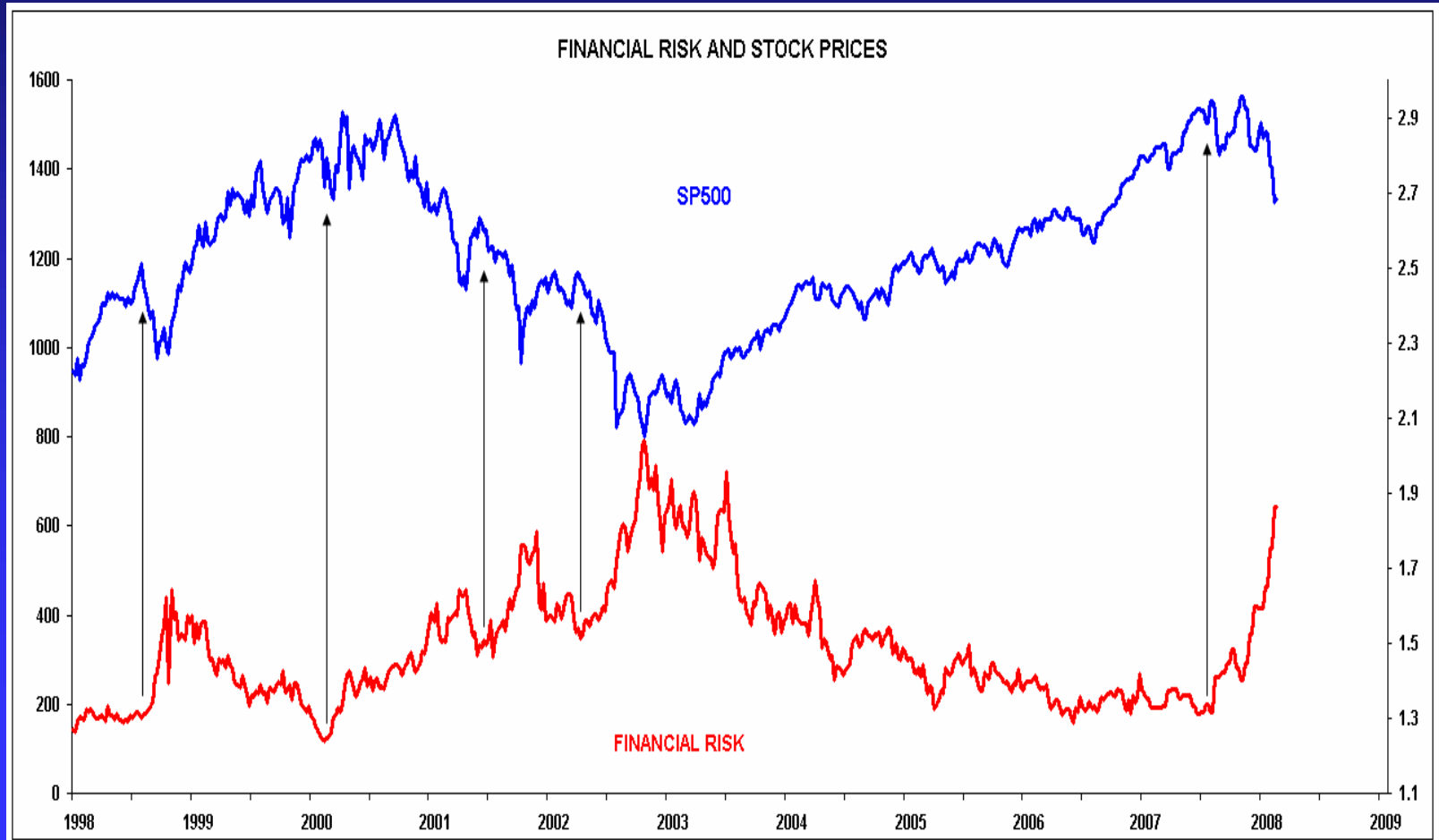


MEASURING RISK

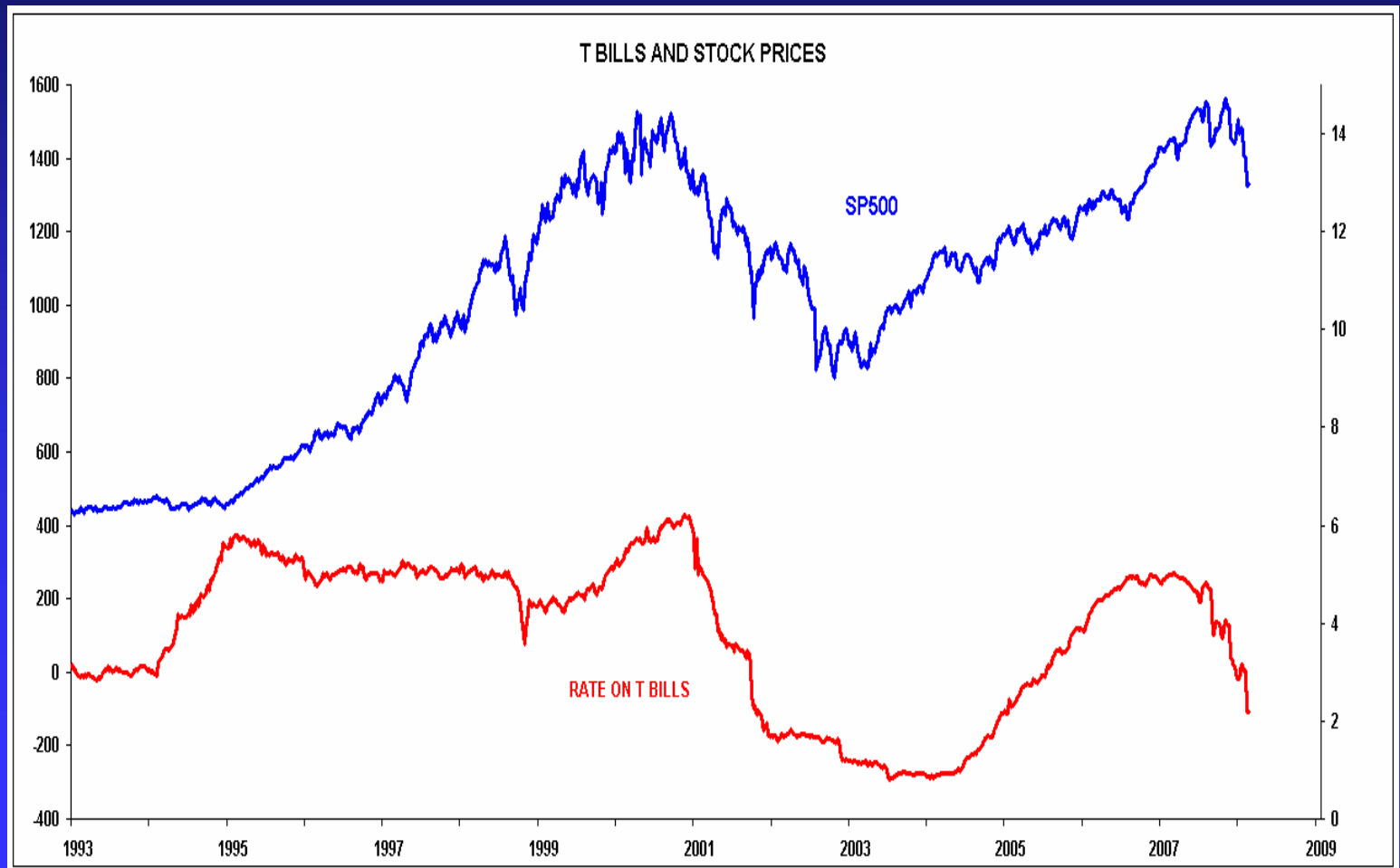
THE LONG-TERM TREND OF STOCK PRICES



FINANCIAL RISK AND STOCK PRICES



SHORT-TERM INTEREST RATES AND STOCK PRICES



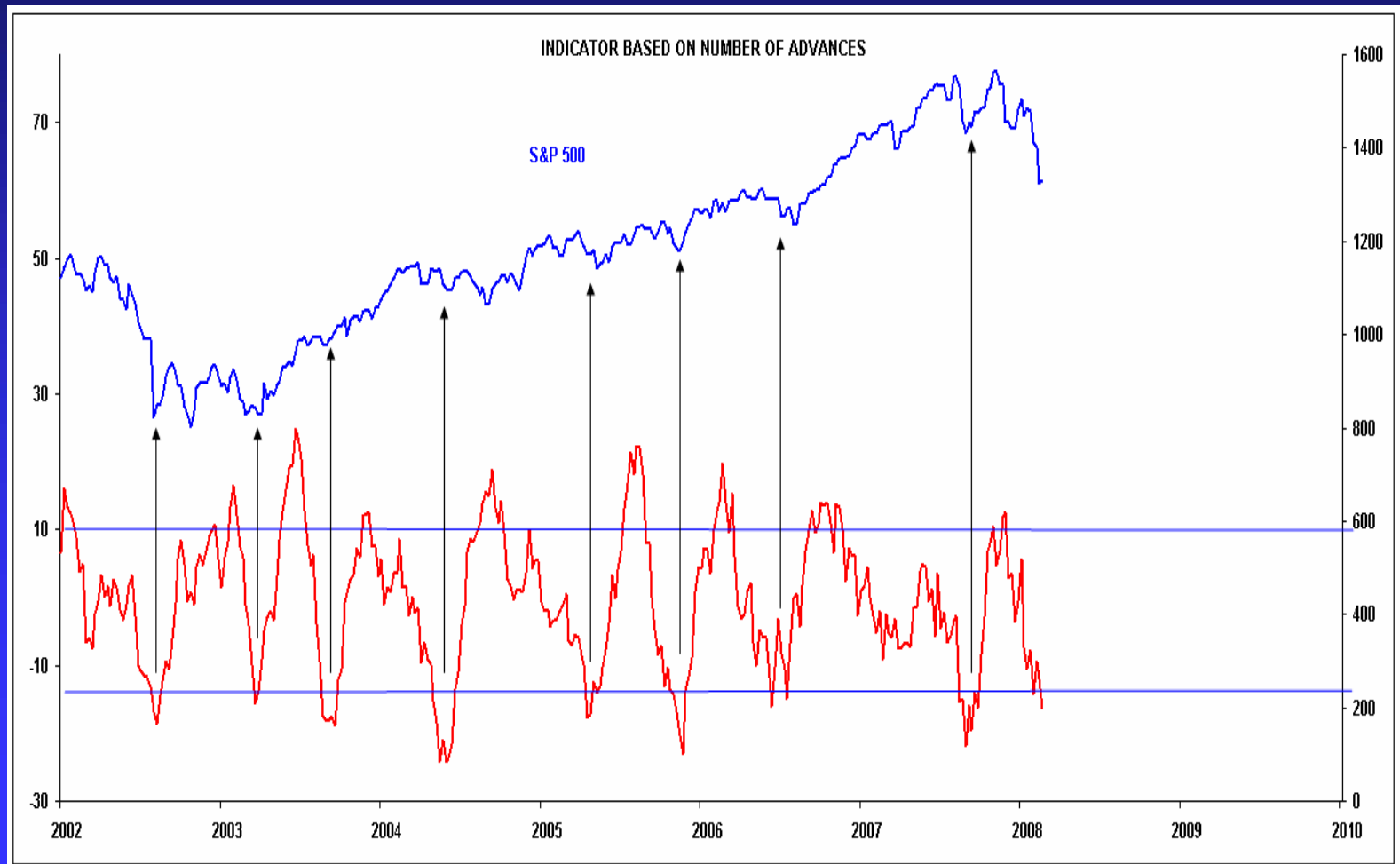
BOND YIELDS AND STOCK PRICES



TECHNICAL ANALYSIS

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

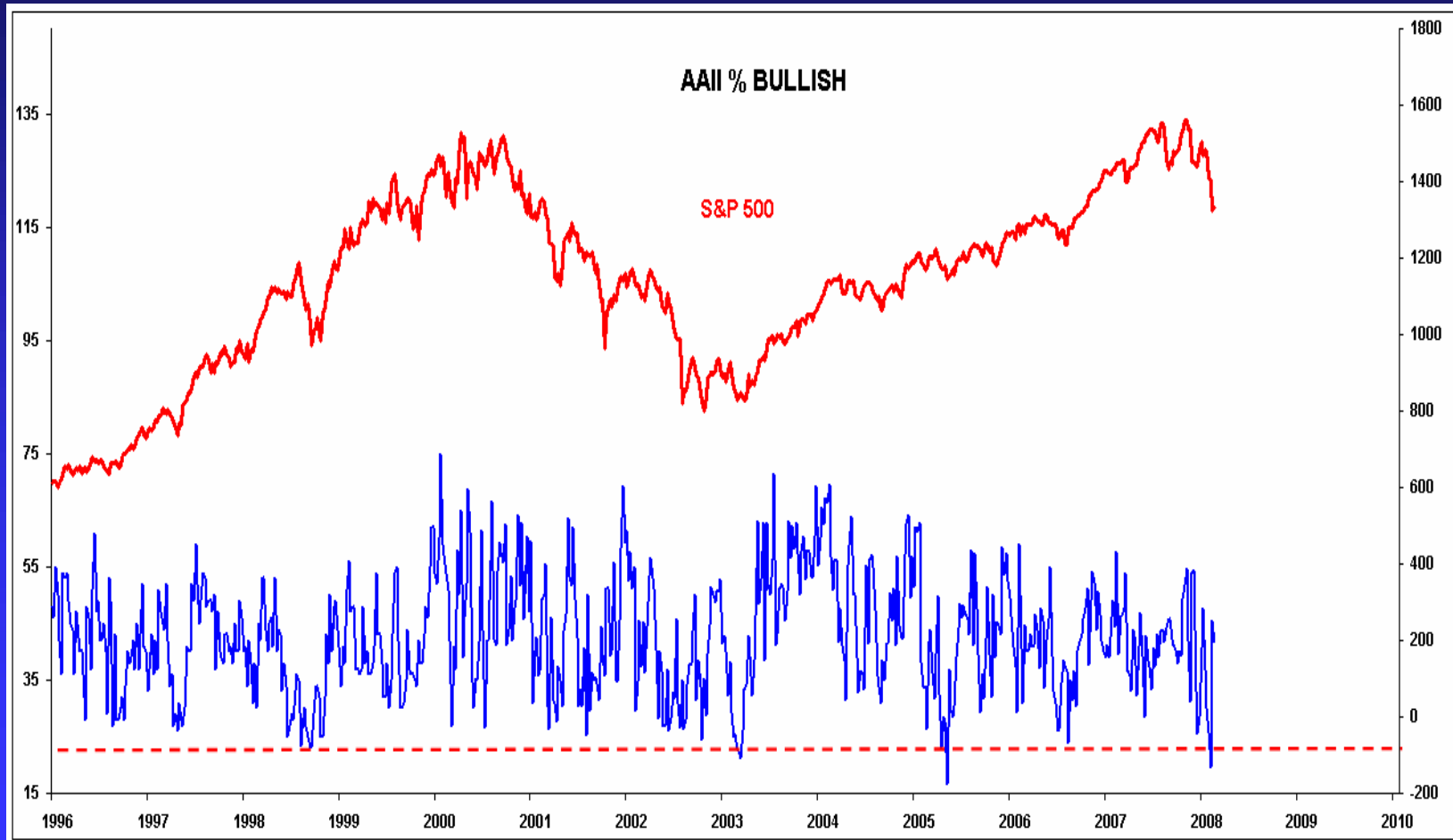
OVERBOUGHT/OVERSOLD INDICATORS



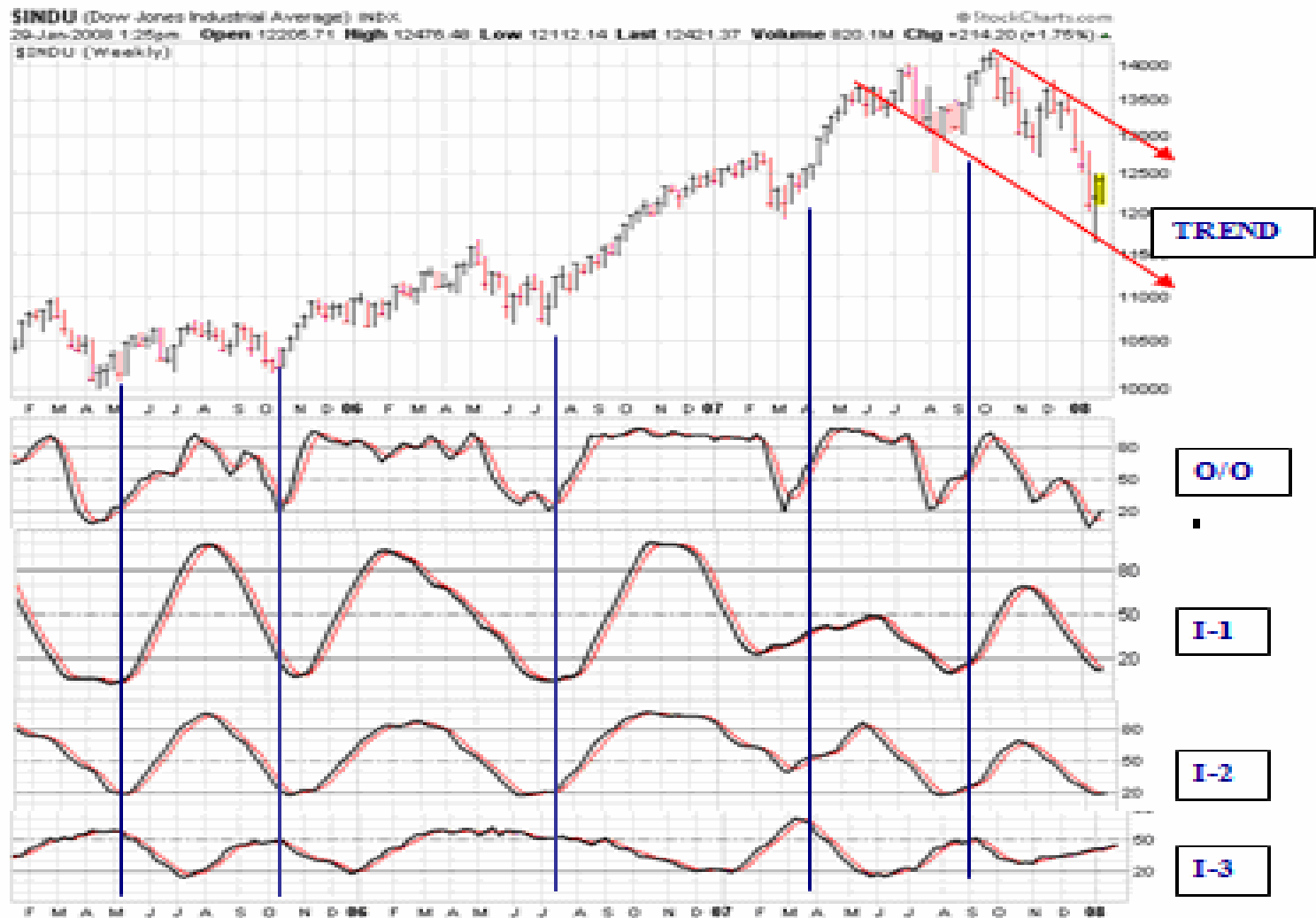
VOLUME PATTERNS

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

SENTIMENT INDICATORS



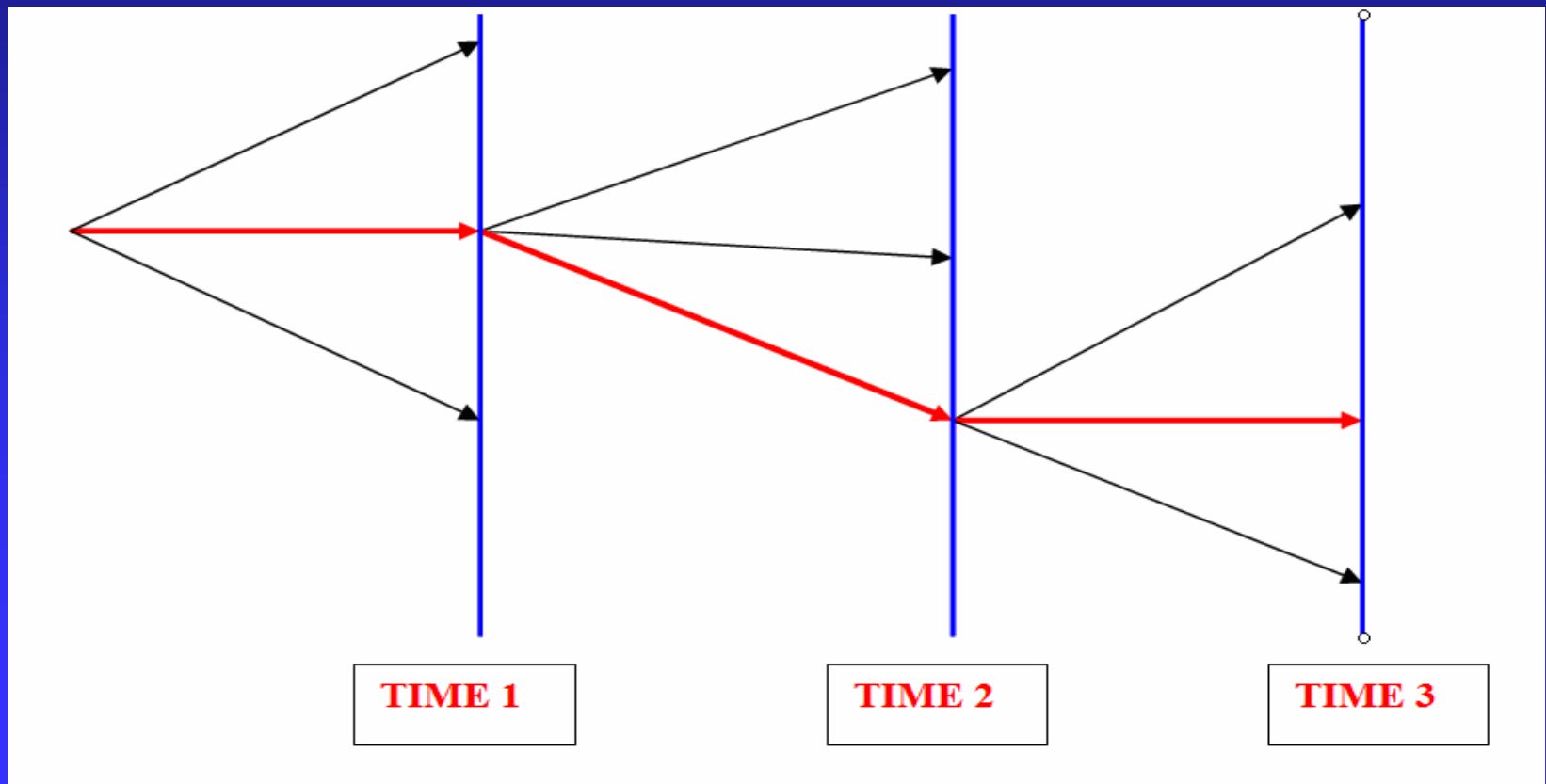
DIRECTIONAL INDICATORS



STRATEGY

GAMES THEORY AND INVESTMENT STRATEGY

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

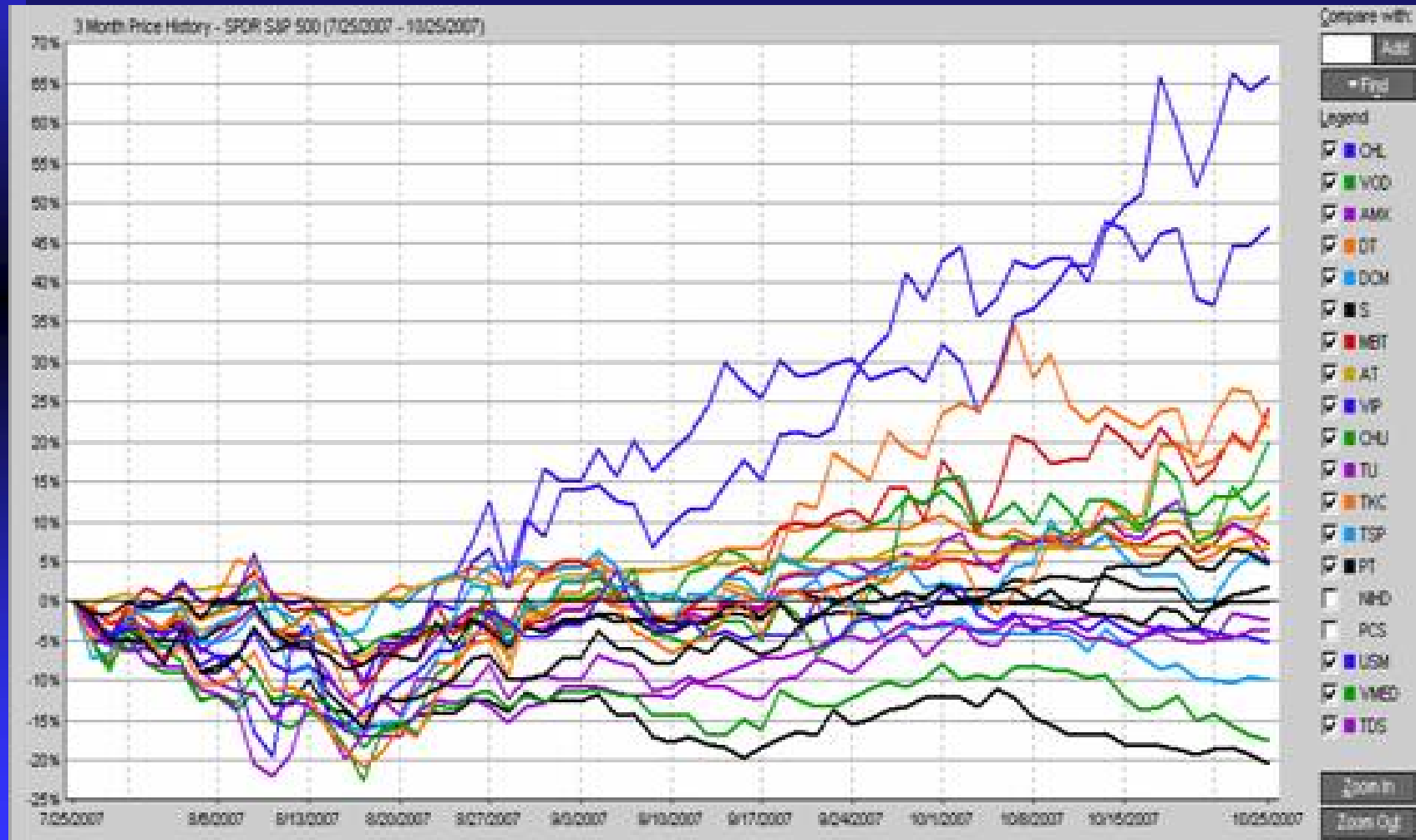


HEDGING IN A DOWN MARKET USING SH - SDS

- **SELL POOR PERFORMING STOCKS
USE CASH TO HEDGE PROFITS
AND REDUCE VOLATILITY**
- **FOR EVERY \$ OF SH -SDS YOU HEDGE \$1
OR \$2 DOLLARS OF LONG POSITIONS
ONLY STRONG STOCKS ARE NOW
EXPOSED TO MARKET DECLINES**

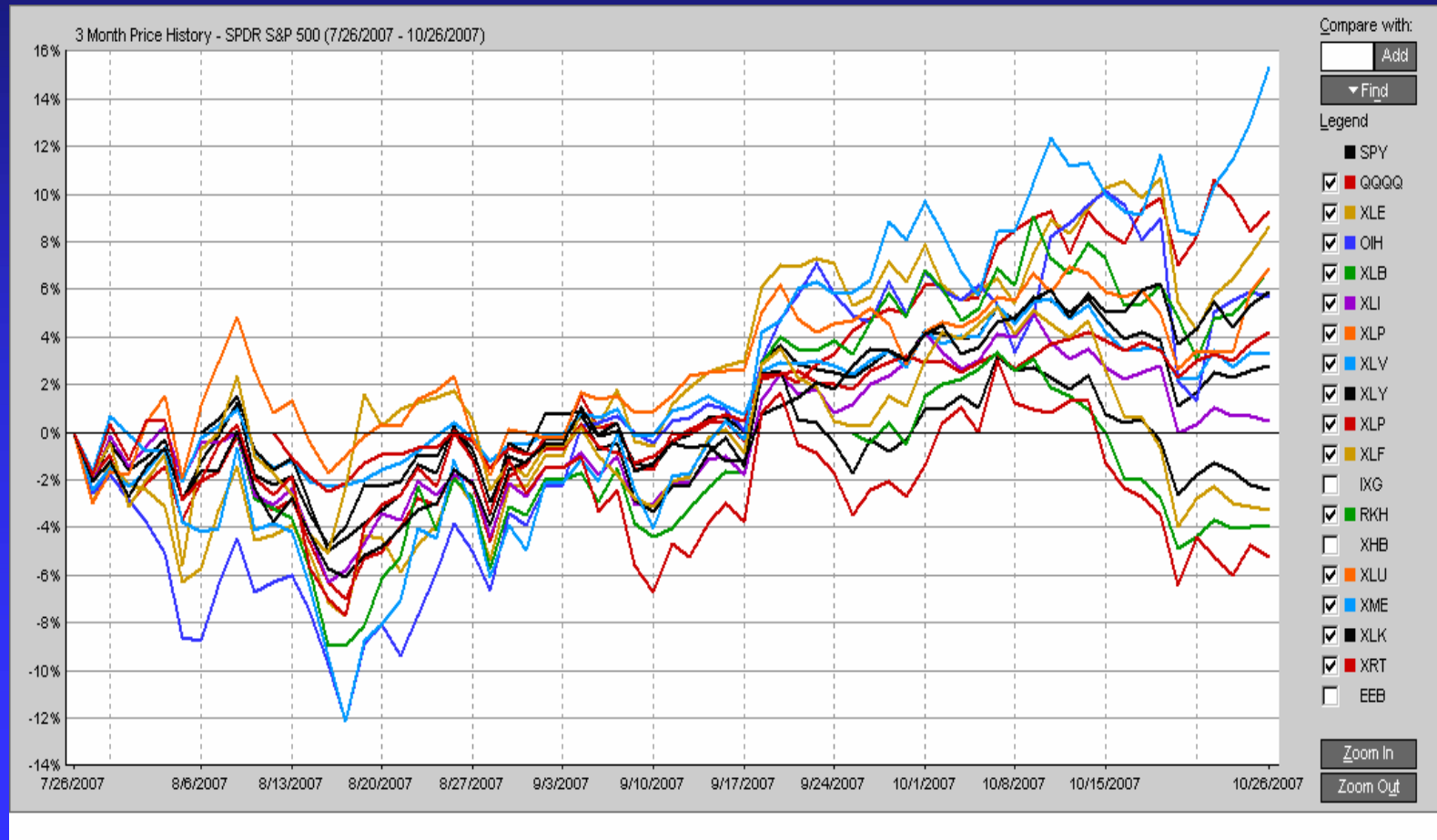
FEEDBACK BASED ON PERFORMANCE

USE FAN CHART TO ISOLATE WEAKEST STOCKS



ETFs & MUTUAL FUNDS

SELECT THE STRONGEST ETFs & MUTUAL FUNDS USING FAN CHART

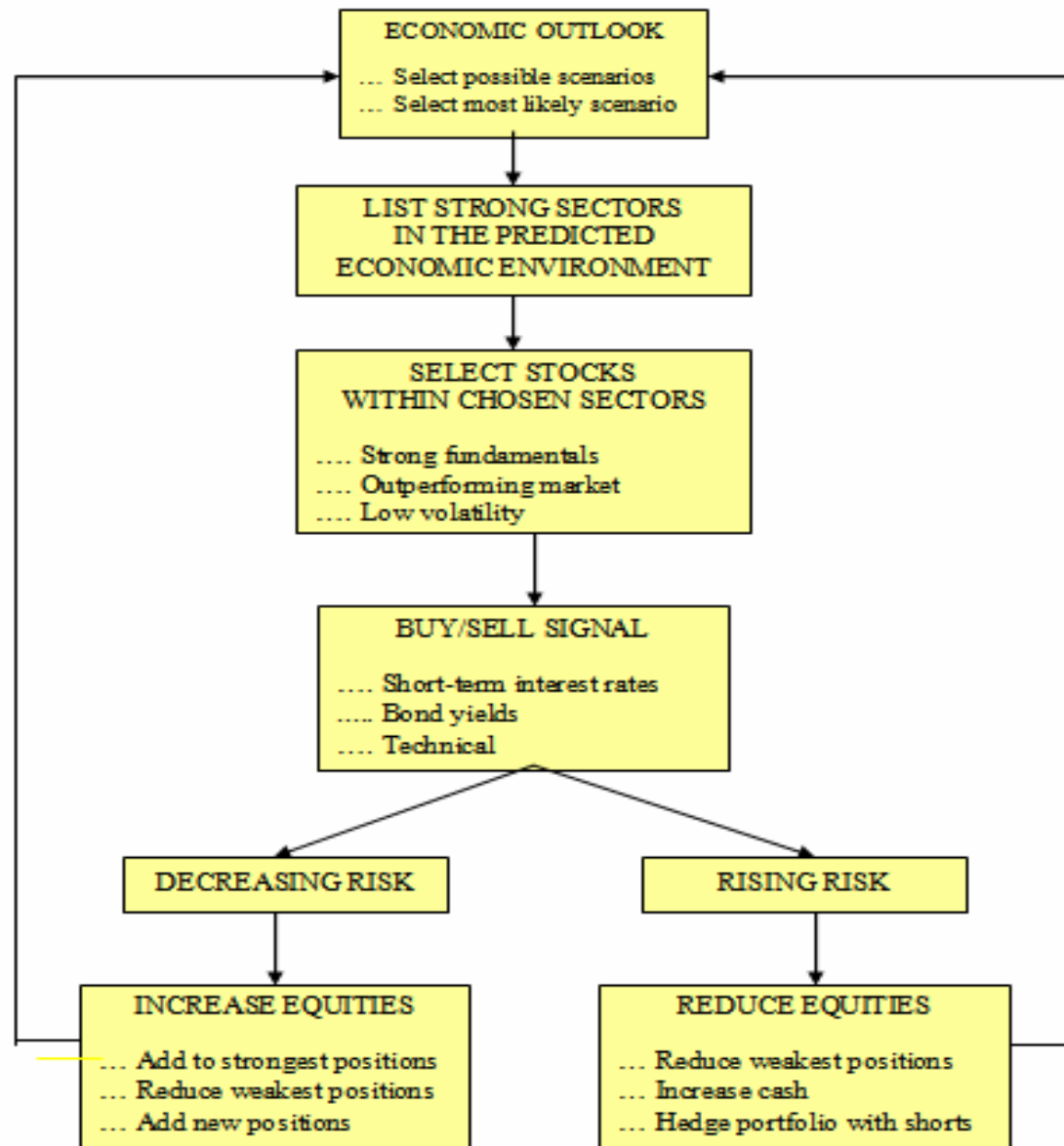


RISK MANAGEMENT & PERFORMANCE

RISK & PORTFOLIO MANAGEMENT

- **MAKE A FAN CHART OF STRONGEST STOCKS, ETF, OR MUTUAL FUNDS**
- **CHOOSE A PERIOD OF THREE MONTHS**
- **INVEST IN THE STRONGEST**
- **KEEP INCREASING INVESTMENT IN STRONGEST ONES**
- **REDUCE INVESTMENT IN THE WEAKEST ONES**
- **USE SECTOR ANALYSIS & VALUATION TO CONFIRM CHOICE**

INVESTMENT PROCESS



THANK YOU!