

The Big Picture

June 2013



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ISACO

OUR OPINION OF THE MARKET'S HEALTH:

HEALTHY

June 2013

The Big Picture



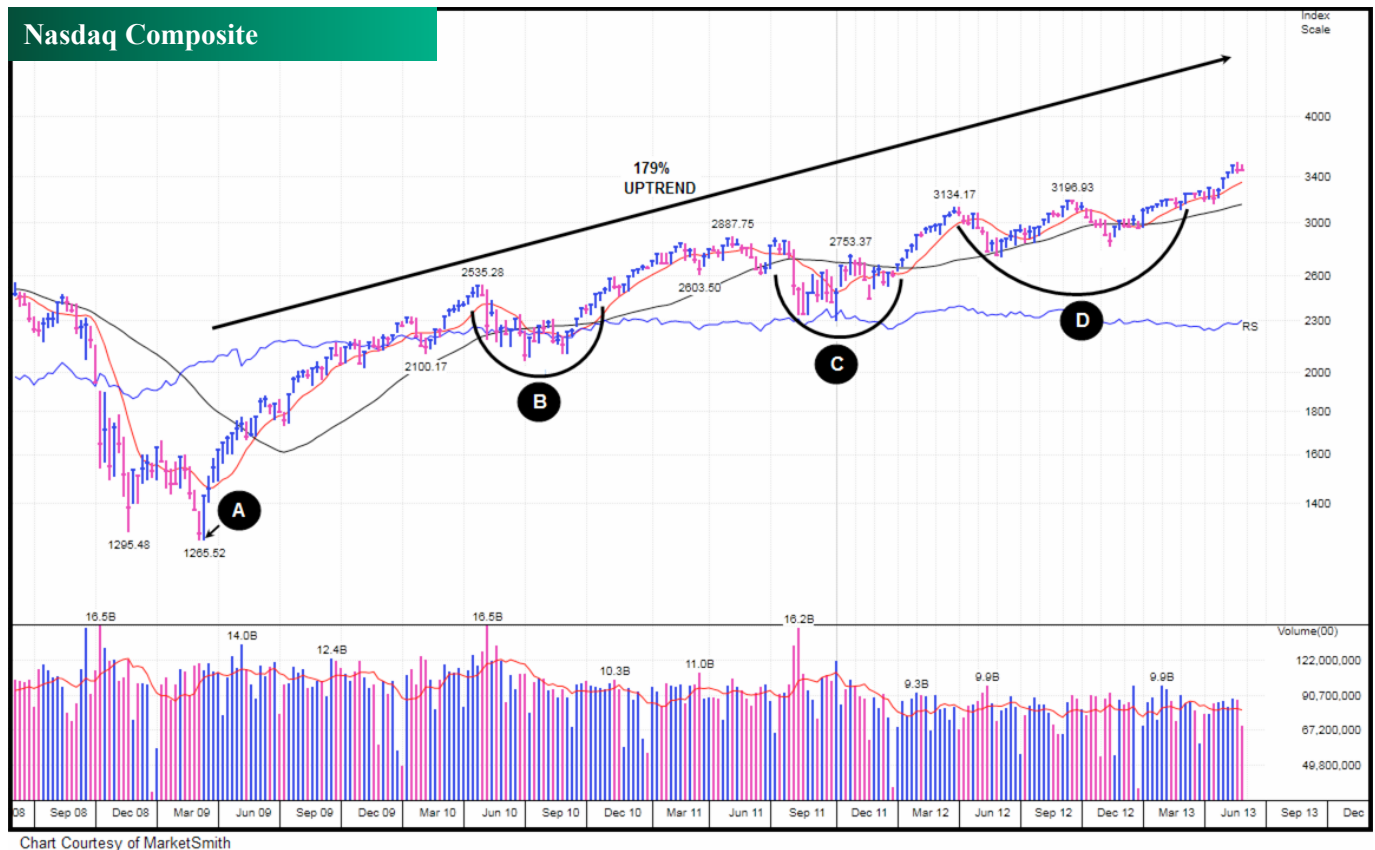
Stephen Sutherland.
ISACO's Chief Investment Strategist
and author of *Liquid Millionaire*.

May was a surprisingly strong month for the financial markets. The Nasdaq Composite surged 3.8% helping it to break through the 3400 barrier and net its seventh consecutive month of gains. The Dow, the S&P 500 and the Nasdaq haven't posted gains in May since 2009, the year this latest bull market began and the same year we posted a 56.4% return, our largest one year gain on record. Could this be a sign that 2013 is likely to be a strong year?

Why it's best to ignore the noise

Even though the markets are fairly close to their recent highs, the sentiment has been predominantly bearish. As you probably know, we tend to ignore the opinions of others and instead stick to the facts. We've found that it's always best to let the market tell you what's going on. How do you know if the market is acting right? One way is to look at the trading behaviour (price and volume activity) of institutional investors. The stock market is about six months forwards looking. Its daily activity is the consensus conclusion, showing whether institutional investors like or don't like what they see happening down the road.





It's best to try to get 'in sync'

The big players control approximately 75% of the market's future direction and so it's best to try to keep 'in sync' with them. If you don't, it feels like trying to swim against a strong current. When you don't get in sync, you often get hurt and that's why we like to see if the 800-pound gorilla investors are buying, because when they do it strengthens the market. However, if they are selling, it weakens it. The other thing we like to keep a close eye on is the behaviour of leading stocks.

If the market's best stocks are acting weaker than the general averages, it's negative. However, when leading stocks are outperforming the market, it's positive. It's simple really. When leading equities are underperforming, the market is more likely to head lower. On the other hand, if the market's premier stocks are outperforming, the market is likely to head higher.

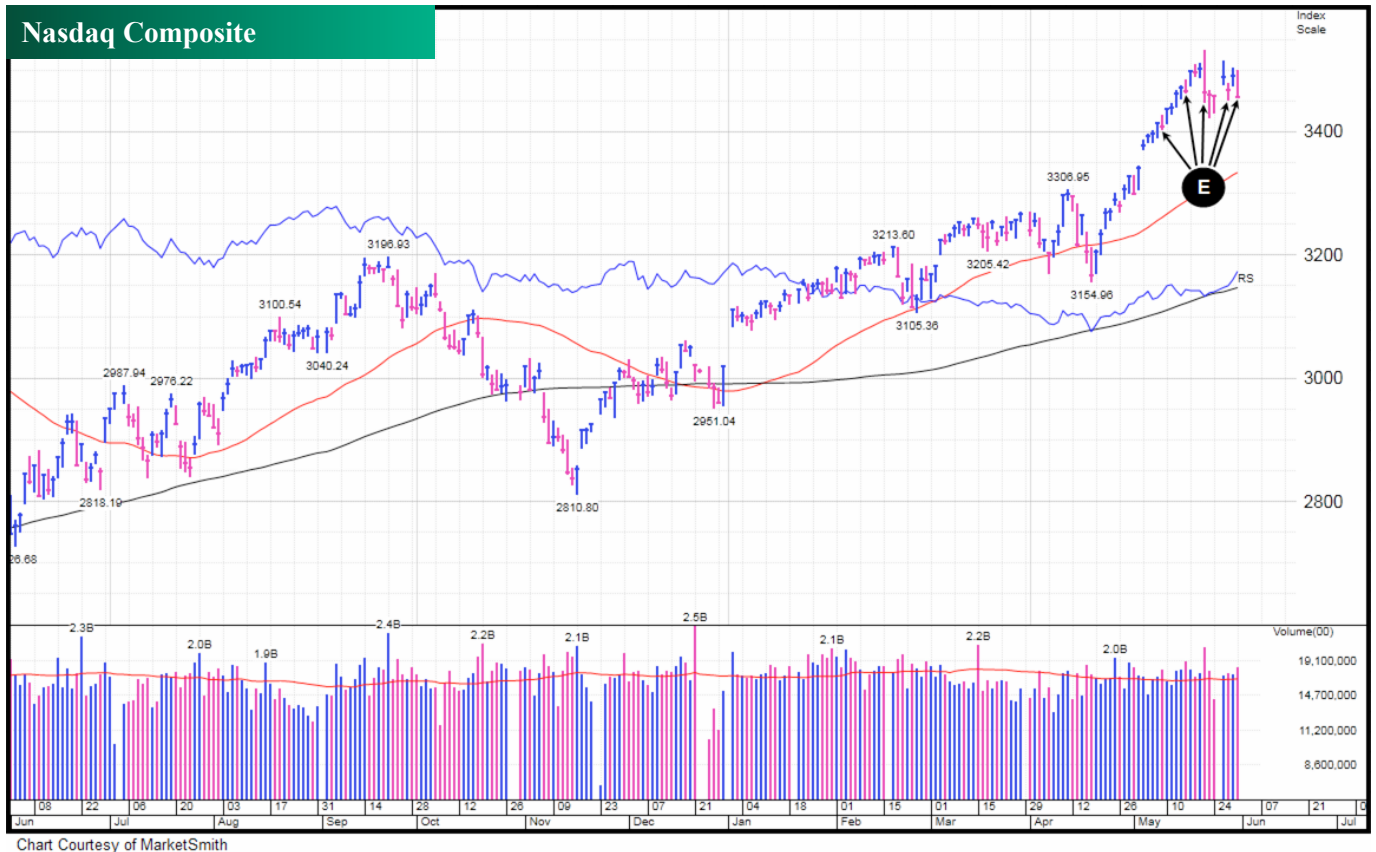
Bull market? Bear market? Where are we?

Many media sources suggest that the stock market is in a bear market cycle. However, you can't argue with facts. Take a look at this five year chart of the Nasdaq Composite and you'll see that the bull market that began in March 2009 (Point A) is four years old and for now remains intact. It's currently trading close to its 4 year highs.

Since the uptrend began, the Nasdaq has made an impressive 179% return. However, to make that gain it has had to experience three challenging corrections. The first (Point B) occurred from April to November 2010. The second (Point C) is a correction that started in May 2011 and ended in January 2012. The third (Point D), began in late March 2012 and finished 6th March 2013.



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Institutional investors sell into strength

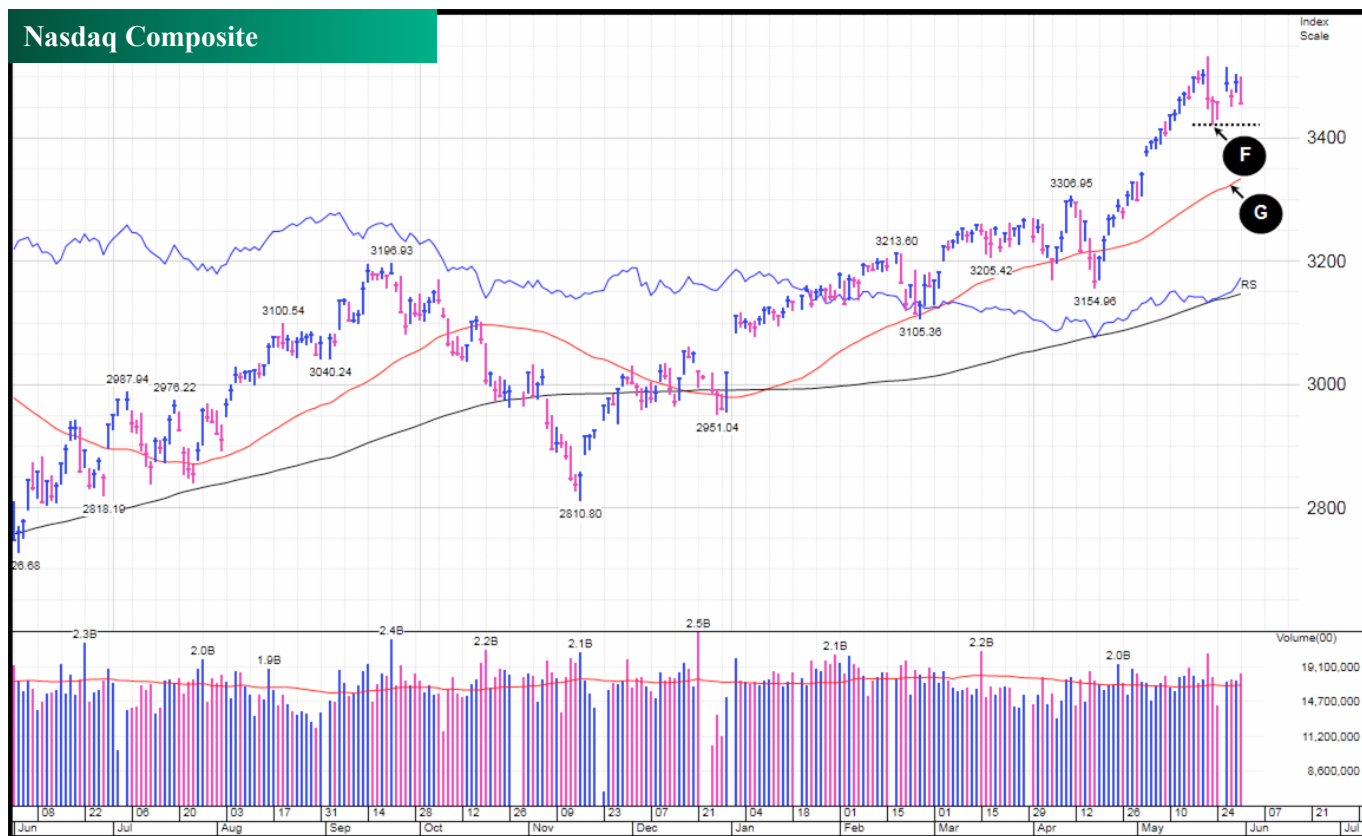
Even though the Nasdaq has jumped 3.8% for the month, it has experienced five days of institutional selling which weakens the market and makes it more prone to further falls. These distribution days occurred on May 9th, 16th, 22nd, 29th and 31st (Point E).

The Nasdaq currently has support at the 3420 level (Point F), however we would not be surprised if the index breaks below this level. We believe that from here the Nasdaq is more likely to come down to test its 50 day moving average (Point G).



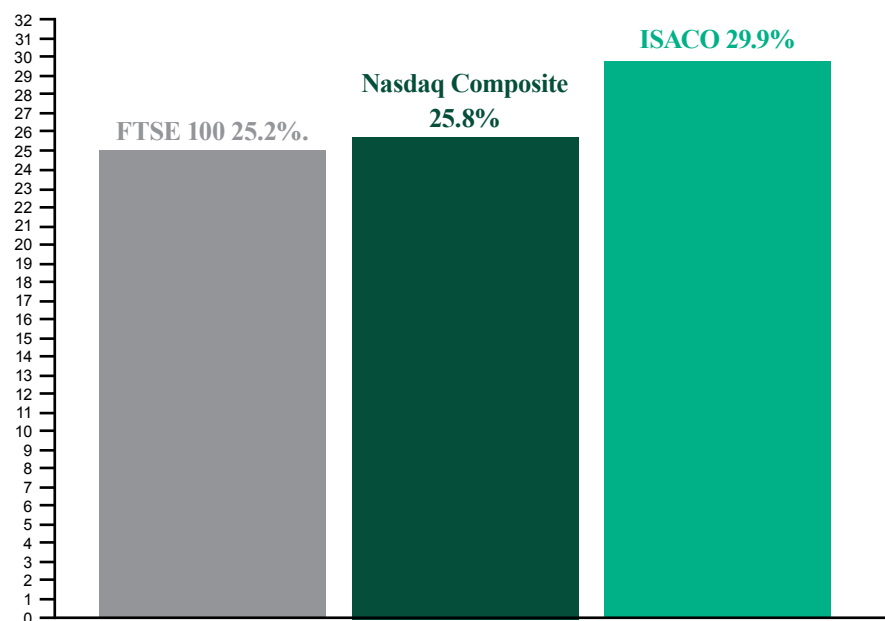
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12 months of strong performance

We don't always outperform the market but we are proud that over the last 12 months* we have beaten both the Nasdaq Composite and the FTSE 100. The bar chart below shows you that over the last year the FTSE 100 made a 25.2% gain, the Nasdaq 25.8% and we've returned 29.9%.



*June 1st 2012 – June 1st 2013.

ISACO investment performance verified by Independent Executives Ltd.

“

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Are you on LinkedIn?

ISACO's two founders would be delighted to connect with you on LinkedIn.

You can find our profiles below.



To link to Stephen Sutherland, [click here](#)



To link to Paul Sutherland, [click here](#)

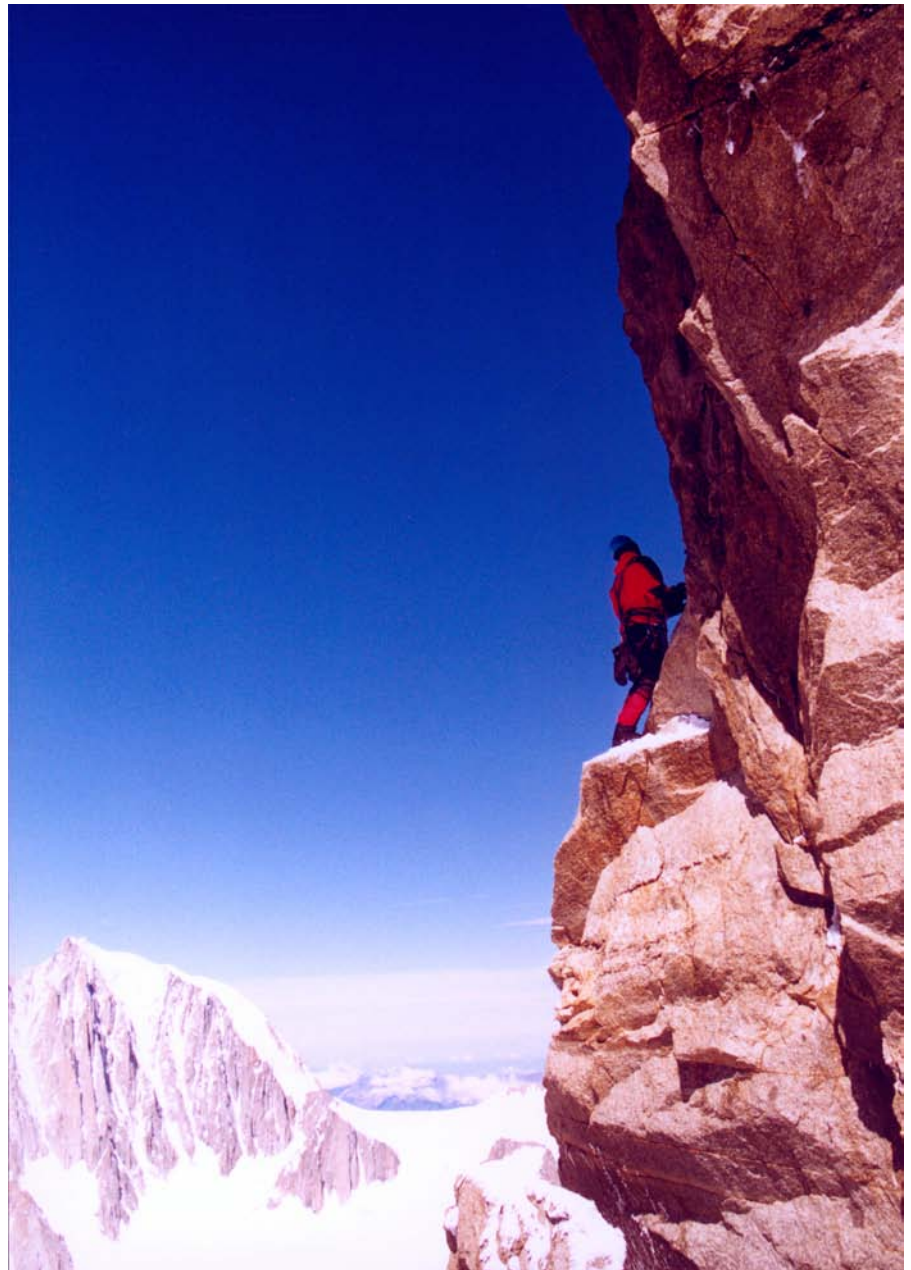
The reason behind our outperformance

Even though we've made plenty of mistakes over the last twelve months, such as buying the Russia fund and the India fund way too early, we've still managed to beat the market and in our book that's all that matters. The reason why we've accomplished this is mainly because of the decision to purchase two particular funds, which we invested in back in July 2012,

Fund A and Fund B. Let's look at them both now in more detail.

Fund A – 41.2% in 10 months

Fund A was purchased on 24th July 2012 at a price of 1.31 (Point H). Notice that we bought it after it had completed a bullish cup-with-handle formation (Point I). Also notice that just after buying it, it took off like a rocket and is currently trading at 1.85*, which means that so far we are sitting in a 41.2% profit.



Fund A



*Saturday 1st June 2013

Fund B – 37.2% in 10 months

Fund B was purchased on the same day (24th July 2012) as Fund A at a price of 3.41 (Point J). Notice once again that we bought it after it had completed its cup-with-handle formation (Point K). It is currently trading at 4.68*, which means that so far we are sitting in a 37.2% profit.



Fund B



*Saturday 1st June 2013

Analysing our three recent buys

On 12th March this year, we purchased Fund C and one month later we bought two more, Fund D and Fund E. Let's start our analysis by looking at our March buy, Fund C.

Fund C

This fund's performance since purchase has not been great (a gain of 0.8%). This is because of making the mistake of buying

it a little late. However, recently we've noticed that it's acting much better and weathering the general market correction extremely well. It caught our attention when we noticed big money going into the stocks this fund owns from 16th November 2012 to 28th January (Point L). Over this period it returned 18.7% in just 2 ½ months. It's worth noting that over the same time frame the powerful Nasdaq Composite returned 11%,

which demonstrates incredible outperformance from this fund. Ideally it should have been purchased at 250 on the 3rd March (Point M), however we bought it on the 12th March at 2.61. It then corrected 6.5% over the next 4 weeks (Point N) for four weeks and the correction officially ended 7th May. Even though its performance since purchase has been mediocre, we still like it.



“
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Fund D

Chart Courtesy of Morningstar

Fund D - 6.6% in 7 weeks

This powerful fund came into view after breaking out of a sideways base at 1.44 on 2nd January 2013 (Point O). It then moved up to 1.69 by the 11th March, resulting in a 17.3% return in just 13 weeks (Point P). Over the same time frame the powerful Nasdaq Composite returned 7.7%, which once again demonstrates incredible outperformance from this fund. It then carved a bullish sideways base and the ideal breakout point was 1.70, which occurred on 5th May (Point Q). However, we got in one month early at a more favourable price of 1.66 on the 9th April (Point R). This fund has acted extremely well since its breakout and so far we are impressed by its behaviour – returning 6.6% in just 7 weeks*.

*Saturday 1st June 2013



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Fund E



Chart Courtesy of Morningstar

Fund E

This fund popped up on our radars after breaking out of a saucer base at 56 on 20th December 2012 (Point S). It then moved up to 66 by 11th March, a 17.9% return in just less than 3 months (Point T). It then carved a bullish sideways base (Point U), with a breakout point of 67. This was the point where we bought in on April 9th (Point V) and from the breakout we saw a rapid 10% return (Point W) just before it topped out at the same time the Nikkei 225 reversed course.

Due to the Nikkei recently having a mini crash, this fund is now

correcting in line with the Japanese market and ideally it will find support at where we bought it (Point X). However, we are prepared for it to fall further due to it making a 42.3% six month return from November 14th 2012 to 20th May 2013. It has currently fallen 9.4% from its high*, but because it made 42.3% over the last six months it seems reasonable that it could easily fall to the 60 price level before finding a solid footing. If it did drop to the 60 price level, it would mean its total correction off its high would be about 20%, which also seems normal after a 42.3% gallop. This means we are prepared for sitting in a possible temporary loss of 10-11%. However,

if it dropped below 59 we would probably look at exiting.

*Saturday 1st June 2013

Our outlook: The next two years and beyond

For 2013–2014, we still expect to see the FTSE 100 make a return of 30–35% and our aim as always will be to beat it. Year to date the Footsie is up 11.6% and we are currently sitting on a return of 12.6%. Beyond the next two years, we believe we'll continue to experience solid performance from the equity markets, which means that if you are a long-term investor like us, and you stay in the game, the future is looking bright.



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Market Indexes

Index	Price Change for the Month	Volume Change for the Month	What this Means
NASDAQ	+3.82%	+10.9%	PROFESSIONAL ACCUMULATION
S&P 500	+2.08%	+6.3%	PROFESSIONAL ACCUMULATION
S&P 600	+4.23%	+2.8%	PROFESSIONAL ACCUMULATION
DJIA	+1.86%	+6.3%	PROFESSIONAL ACCUMULATION

Our Portfolio

The table below shows the funds we own:

Holdings	ISIN number	Assets %*
CLASSIFIED	CLASSIFIED	23.66%
CLASSIFIED	CLASSIFIED	23.49%
CLASSIFIED	CLASSIFIED	19.41%
CLASSIFIED	CLASSIFIED	18.88%
CLASSIFIED	CLASSIFIED	14.57%

*Assets % 1st June 2013

It's good to remind ourselves how intelligent investors play the market. During bull markets smart investors sit tight and remain fully invested. Our rule is to never exit a bull market even when we believe a correction is imminent. We only exit when we believe the bull market has finally

run its course. So even though the indexes will occasionally correct during a bull market, we will always sit tight.

If any words or phrases in today's edition seem unfamiliar or puzzling, discover their meaning.

“
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Our Opinion of the Market's Health

Based on our market analysis, the market appears healthy. Below is a brief summary of how the market acted each week for the month of April. As always, we will concentrate on the Nasdaq Composite (the market's leading index) and the S&P 600 (the market's second leading index), as their action carries much more weight than the S&P 500 and the Dow.

Week Commencing Monday 29th April

For the week the Nasdaq the market's leading index rose a healthy 3.03%. The S&P 600 the market's second leading index gained 2.34%.

The Nasdaq broke out of a bullish handle on above average weekly trade ([Point C](#)). Right now, the 600 looks like it's attempting a breakout move ([Point D](#)), which is being accompanied by heavy volume indicating institutional buying ([Point E](#)).

Week Commencing Monday 6th May

For the week the Nasdaq gained 1.71%. The S&P 600 rose 2.48%.

The Nasdaq extended its recent breakout and volume was above average, which tells you that institutional investors were buying ([Point C](#)). The 600 broke out of a high handle (albeit in tame volume) pattern helping it to chalk up a new all time high ([Point D](#)).

Week Commencing Monday 13th May

For the week the Nasdaq gained 1.82%. The S&P 600 rose 2.19%.

The Nasdaq made it four up weeks in a row helping to extend its recent breakout. Trade was above average, which tells you that institutional investors were buying ([Point E](#)). The 600 also extended its recent breakout helping it to chalk up yet another new all time high ([Point F](#)).

Week Commencing Monday 20th May

For the week the Nasdaq pulled back 1.14%. The S&P 600 lost 1.32%. The Nasdaq experienced a week of institutional selling, helping to break its four-week winning streak ([Point B](#)). Institutional selling weakens the market and makes it more prone to further drops. The S&P 600 also experienced institutional selling, however volume wasn't quite as intense but it was average, which does signify that the large professional investors were selling ([Point C](#)).

Week Commencing Monday 27th May

For the week the Nasdaq remained almost flat with a slight loss of 0.09%. The S&P 600 pulled back 0.22%. Although the losses on the Nasdaq ([Point D](#)) and 600 ([Point E](#)) do not sound that bad, both experienced bearish reversals which is not ideal. Volume does appear low but we must remember this week was a 4 day trading week with Monday being Memorial day.



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Summary

Here's a summary of this month's edition:

- The market is healthy.
- The current bull market is four years old and trading close to its 4 year highs.
- 12 month performance: FTSE 100 25.2%, Nasdaq 25.8% and ISACO 29.9%.
- Fund A – 41.2% in 10 months.
- Fund B – 37.2% in 10 months.
- Fund C – we still like it.
- Fund D is acting well and returned 6.6% in just 7 weeks.
- We believe Fund E may fall further before finding a solid floor.

Please note past performance should not be used as a guide to future performance, which is not guaranteed. Investing in funds should be considered a long-term investment. The value of the investment can go down as well as up and there is no guarantee that you will get back the amount you originally invested.

From all of us here at ISACO we hope you enjoy the month of June. ISACO would like you to know that if you are ever unsure about anything we have said or you have any suggestions to help us improve the overall service we provide, please get in touch as we'd love to talk to you and help you in any way we can.

We will always do our best to provide you with the information

and personal opinions to help you make the right decisions for your own individual circumstances.

Your friend,
Stephen Sutherland.



ISACO's Chief Investment
Strategist and author of
Liquid Millionaire.



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