Improving on Buy and Hold: A Buy Signal

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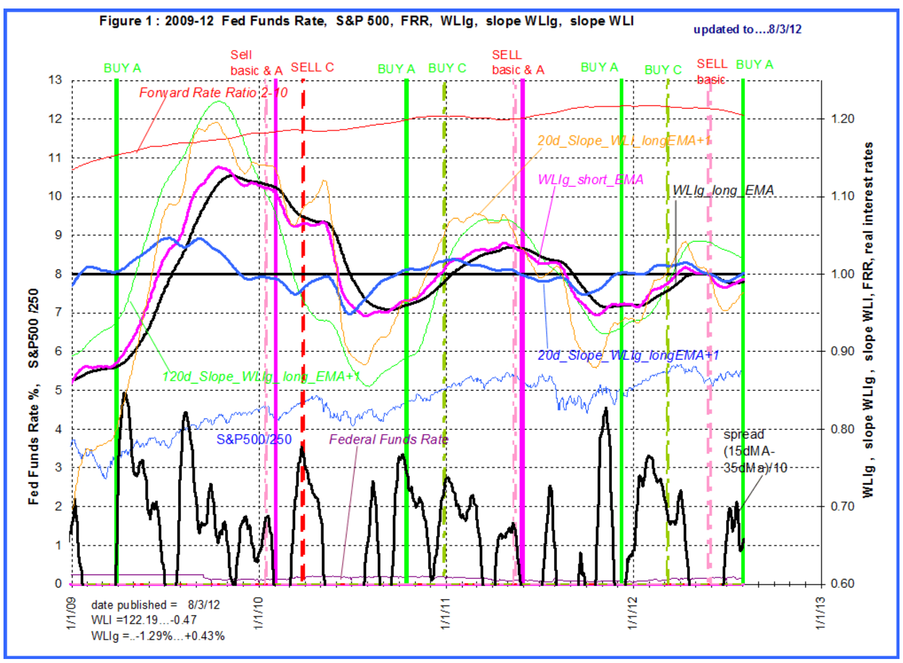
I have updated my model and **a type A buy signal** was generated on August 2, 2012 as shown in figure 1.

In my August 2010 article I advocated a market timing strategy, to sell or significantly reduce one's stock holdings in anticipation of a recession or slowdown of the economy and switch into cash or a low beta Treasury bond fund, and then reverse the process ahead of a recovery. I presented a model to determine the timing of the switch.

Since publication of the original article three previous signals were generated. A buy signal in October 2010, a sell signal in May 2011, and a buy signal in December 2011. All signals provided the expected results. The S&P 500 index gained about 13% from the date of the first buy signal to the date of the sell signal and then lost about 7% to the date of the December 2011 buy signal. Since the December buy signal the S&P is about 13% higher as of today.

At the end of May 2012 a basic sell signal was generated. No final sell signal was then subsequently generated, and now, the new buy-A signal has made this basic sell signal mute.



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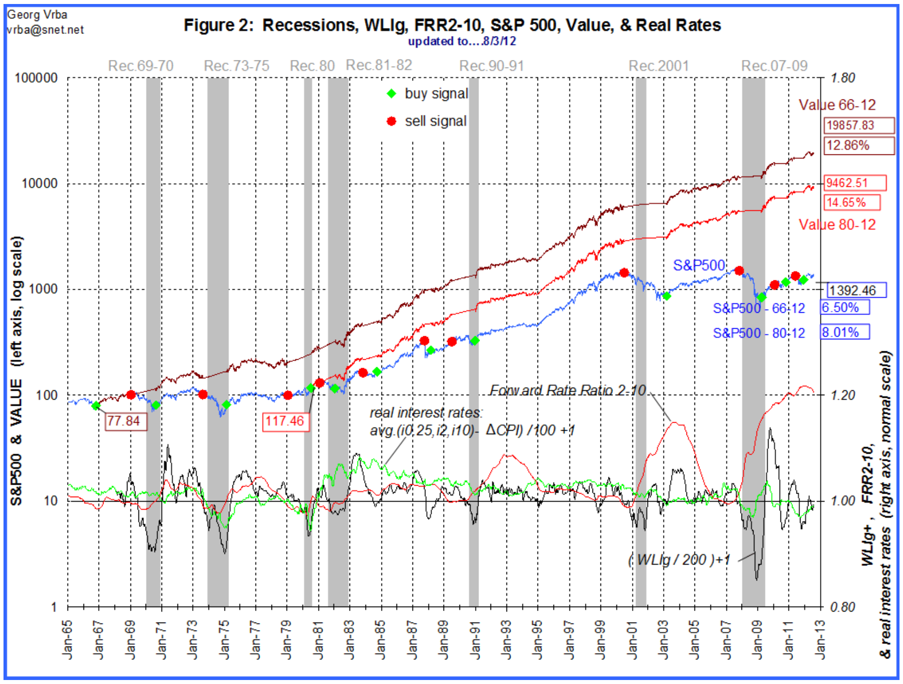
Figures 2 shows the returns for investments made at the value of the S&P in 1966 and 1980. Following the model's signals, one would have obtained about double the percentage average annual return than from a permanent investment in the S&P, and the value of one's investments now would, respectively, have been about 14 and 7 times higher than the S&P.



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Georg Vrba is a professional engineer who has been a consulting engineer for many years. In his opinion, mathematical models provide better guidance to market direction than financial "experts." He has developed financial models for the stock market, the bond market and the yield curve, all published in Advisor Perspectives. The models are updated weekly. If you are interested to receive theses updates at no cost send email request to vrba@snet.net.