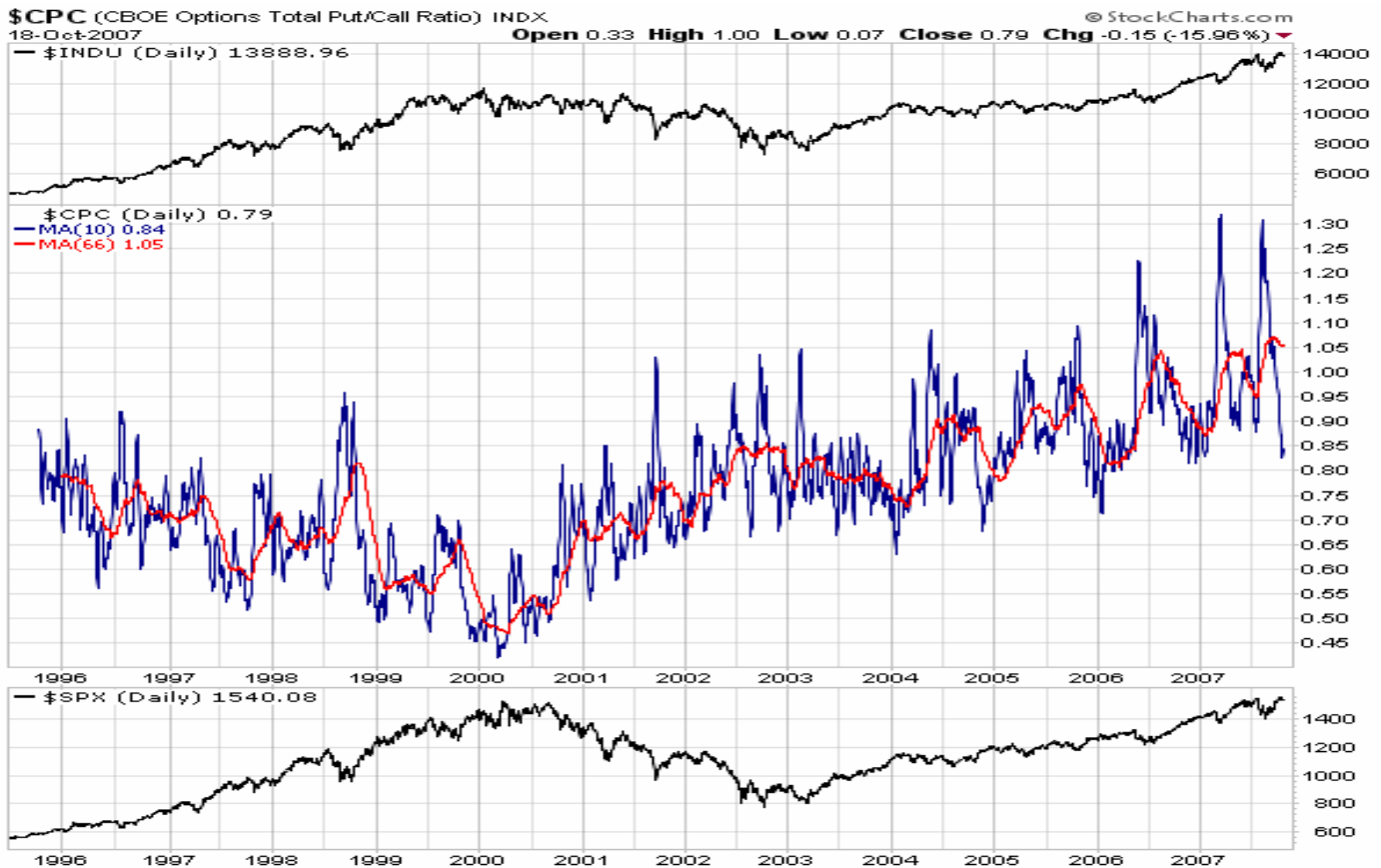


Kirk Lindstrom's November 2007 Investment Newsletter

10/18/07 Sentiment Update: Remember, typically I do not “approve” of trying to time the markets except for a very small part of our explore portfolio in an attempt to get better prices when asset allocation already says to buy or sell. This could change at an extreme.

My charts are not very good at “calling tops” so we were in “profit taking mode” and took profits as the markets worked higher into the summer as we waited for a correction. We got the correction, all five indicators said BUY, I added to my positions and now I have started to take profits again. Here is what these indicators (that do not carry the same weight/confidence) are telling me now:

- ISE (International Securities Exchange) Sentiment Index ==> **Neutral** (BUY last month)
- II-BBS: Investors' Intelligence Bull Bear survey ==> **Neutral** (take profits)– (Last month BUY)
- CBOE (Chicago Board Options Exchange) Put/Call Ratio (CPC) ==> **ST SELL** (last month BUY); VERY Bullish Long Term.
- VIX (CBOE Volatility Index) <http://www.cboe.com/data/mktstat.aspx> ==> **Neutral** (take profits)– (Last month BUY)
- 52-week moving average of the AAll bull/bear index ==> **Neutral** (take profits) (Last month Neutral)



The above chart shows the 10 day (2 week) and 66 day (3 month) moving average (MA) of the CBOE put/call ratio. The red 66-DMA curve best shows the very long-term sentiment, which is far more bearish today than when the markets peaked in 2000. The blue curve shows the shorter-term sentiment oscillator that I try to use for signaling good times to add or subtract shares around a core position after the shorter term swings in the red curve signals a change in sentiment.

Puts are options traders buy who think the market will go down. Likewise, calls are options they buy when they are bullish. This is a contrarian indicator so you want to be a seller when they are bullish and a buyer when they are bearish. Like many of my sentiment indicators, changes are more important to me than absolute levels. Currently, this indicator is back in “profit taking mode” but the overall level of bearishness is still very high compared to March 2000 that is good news for us bulls.

No sentiment indicator, or any indicator for that matter, is 100% reliable. I look at sentiment as head winds and tail winds. When sentiment is terrible, then it acts like a tail wind for your returns where you could see further declines, but long term, it is best to be buying when most others are selling. Likewise, if we see sentiment get too bullish, then I would consider lowering my portfolio asset allocation. It seldom pays to be buying stocks when EVERYONE is talking about stocks and how much money they are making at cocktail parties. Please send me email with stories when “water cooler” and “party talk” return to stories of big gains in stocks.

In addition, I am not really market timing but for a small portion of my explore portfolio. I am using market-timing indicators to tell me it is a good time to buy so I can add to positions when the market is down and thus help me overcome my fear. Likewise, when the market-timing indicators are saying to sell, they usually come when the markets are high where I want to be taking profits. The market timing indicators at market highs help me get over my greed and take profits. Now and then, I may make an asset allocation adjustment based on the Fed Model saying the market is over or under valued. Some call that market timing, but I have stayed pretty close to 70:30 equities-fixed for many years despite the Fed model.

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