

Conservative Balanced Investment Portfolio

A Publication of Main Line Investors, Inc.

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Updated As of January 31st, 2007
By Robert D. McHugh, Ph.D.

The following is an update of our Conservative Balanced Portfolio. You can compare this with our initial start-up portfolio by pulling down the Guest Article on our Initial Portfolio dated October 11th, 2006. A list of transactions follows this portfolio inventory. We updated market values as of January 31st, 2007. The accounting is on a cash basis. Initially we started the portfolio in October heavy with cash, but we plan to put that cash to work over time, some of it more quickly than the rest. We sit with about 50 percent of our target allocation in Gold, and hold Treasury Bills and Notes in a laddered maturity structure. We have minor holdings in our Buy and Hold Equity portfolio. We plan to add continuously to the Buy and Hold Equity Portfolio using a Dollar Cost Averaging Strategy on a periodic basis. Our Market Timing segment of the portfolio includes a diversification of blue chips, techs, metals, and Mining Stocks. We also keep \$135,000 of cash in a Treasury Bill to pick up 150 basis points of yield. In October, we seized an opportunity to purchase 150 shares of GDX, an ETF that has high correlation to the HUI Amex Gold Bugs Index, for our Equity Market Timing Portfolio. It generated a nice 5.9 percent profit for us in two weeks, which we realized on November 1st. This purchase was based upon our key trend-finder new “buy” signals received for the HUI Amex Gold Bugs Index on October 13th. On December 14th, 2006, we purchased Call Options on the Dow Industrials, in the Speculative segment of our portfolio, and on January 3rd, 2007, sold those options at a 35 percent profit. Some basic theory on this conservative portfolio is presented at the end of this report. We update this report monthly, usually around the beginning of the month, with comments on decisions we make. We publish each day’s transactions in our daily newsletters. Early-in-the-day transactions are published in our Australia market report, which is usually posted intraday Eastern Standard time. Not all days will see transaction activity. Our aim is overall return, within the constraints of wealth preservation and liquidity. It must be relatively safe, offer strong returns potential, and liquidity, in most economic environments.

Conservative Balanced Investment Portfolio Model

Initial Portfolio Value \$500,000 10/1/2006

Updated as of January 31st, 2007

Category:

(Cash Basis Accounting)

A. Cash and Cash Equivalents (Unallocated):

Date <u>Acquired</u>	Cost Basis <u>Investment</u>	Value at <u>Maturity</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	Market <u>Value</u>
FDIC Insured Moneymarket	\$ 32,986.82	\$ 32,986.82			3.64%	\$ 32,986.82

B. Gold (Target Portfolio Allocation 10 Percent)

	<u>Cost Basis</u>	<u>Value at</u>	<u>Yield</u>
	<u>Investment</u>	<u>Maturity</u>	
<u>Cash</u>	<u>\$25,267.49</u>	<u>\$25,267.49</u>	<u>3.64%</u>
	<u>Date</u>	<u>Cost Basis</u>	<u>Market</u>
	<u>Acquired</u>	<u>Investment</u>	<u>Value</u>
		\$	\$
29 Ounces at 576.50	10/11/2006	16,718.50	19,079.10
13 Ounces at 628.20		\$	\$
11/10/2006	11/10/2006	<u>8,166.60</u>	8,552.70
Subtotal		<u>\$50,152.59</u>	<u>\$52,899.29</u>

C. U.S. Treasury Bills, Notes, and Bonds (Target Portfolio Allocation 40 Percent)

	<u>Date</u>	<u>Cost Basis</u>	<u>Value at</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Market</u>
	<u>Acquired</u>	<u>Investment</u>	<u>Maturity</u>				<u>Value</u>
Treasury Bills		\$ -	\$ -		0.000%		\$ -
Treasury Note		\$ -	\$ -		0.000%	0.000%	\$ -
		\$	\$				\$
Treasury Bills	1/4/2007	134,662.50	135,000.00	Feb-07	3.380%	4.930%	135,000.00
		\$	\$				\$
Treasury Note	10/11/2006	9,940.63	10,000.00	Mar-07	3.750%	5.050%	9,981.25
		\$	\$				\$
Treasury Note	10/11/2006	9,887.50	10,000.00	May-07	3.125%	5.040%	9,950.00
		\$	\$				\$
Treasury Note	10/11/2006	9,853.13	10,000.00	Aug-07	3.250%	5.030%	9,903.13
		\$	\$				\$
Treasury Note	10/11/2006	9,928.13	10,000.00	Oct-07	4.250%	4.960%	9,937.50
		\$	\$				\$
Treasury Note	10/11/2006	9,934.38	10,000.00	Dec-07	4.375%	4.930%	9,937.50
		\$	\$				\$
Treasury Note	10/11/2006	9,803.13	10,000.00	Feb-08	3.375%	4.890%	9,837.50
		\$	\$				\$
Treasury Note	10/11/2006	10,000.00	10,000.00	Apr-08	4.875%	4.860%	9,984.38
		\$	\$				\$
Treasury Note	10/11/2006	10,046.88	10,000.00	Jun-08	5.125%	4.830%	10,018.75
		\$	\$				\$
Treasury Note	10/11/2006	9,890.63	10,000.00	Aug-08	4.125%	4.750%	9,884.38
		\$	\$				\$
Treasury Note	10/11/2006	9,965.63	10,000.00	Sep-08	4.625%	4.810%	9,950.00
		\$	\$				\$
Treasury Note	10/11/2006	9,678.13	10,000.00	Jan-09	3.250%	4.770%	9,700.00
		\$	\$				\$
Treasury Note	10/11/2006	9,790.63	10,000.00	May-09	3.875%	4.730%	9,793.75
		\$	\$				\$
Treasury Note	10/11/2006	9,678.13	10,000.00	Aug-09	3.500%	4.720%	9,687.50
		\$	\$				\$
Treasury Note	10/11/2006	9,643.75	10,000.00	Dec-09	3.500%	4.710%	9,656.25
		\$	\$				\$
Treasury Note	10/11/2006	\$	\$	Mar-10	4.000%	4.710%	\$

		9,778.13	10,000.00				9,778.13
		\$	\$				\$
Treasury Note	10/11/2006	9,800.00	10,000.00	Aug-10	4.125%	4.700%	9,800.00
		\$	\$				\$
Treasury Note	10/11/2006	9,875.00	10,000.00	Dec-10	4.375%	4.700%	9,865.63
		\$	\$				\$
Treasury Note	11/2/2006	9,975.00	10,000.00	Feb-11	4.500%	4.560%	9,903.13
		\$	\$				\$
Treasury Note	1/4/2007	9,968.75	10,000.00	Aug-11	4.630%	4.560%	9,946.88
		\$	\$				\$
Subtotal Bill, Notes, & Bonds		322,100.00	325,000.00			4.86%	322,515.63

D. Stocks Buy and Hold Dollar Cost Averaging (Target Portfolio Allocation 10 Percent)

		<u>Cost Basis Investment</u>	<u>Value at Maturity</u>		<u>Yield</u>	<u>Market Value</u>
<u>Cash</u>		\$47,218	\$47,218		3.64%	
	<u>Date Acquired</u>	<u>Cost Basis Investment</u>	<u>Number of Shares</u>	<u>Price Per Share</u>		<u>Market Value</u>
<u>Dow Industrials ETF DIA</u>	10/11/2006	\$ 1,185.80	10	118.58		\$ 1,262.40
<u>S&P 500 ETF SPY</u>		\$ -				
<u>NASDAQ 100 ETF QQQQ</u>	10/11/2006	\$ 830.80	20	41.54		\$ 881.40
<u>Russell 2000 ETF IWM</u>		\$ -				
<u>HUI Amex Gold Bugs ETF GDX</u>	12/4/2006	\$ 1,050.00	25	42		\$ 990.00
Subtotal Buy & Hold Portfolio		\$50,284.40				\$50,351.60

E. Stocks Market Timing Long or Neutral (Target Portfolio Allocation 5 Percent)

	<u>Date Acquired</u>	<u>Cost Basis Investment</u>	<u>Value at Maturity</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Market Value</u>
<u>Cash</u>		\$4,804.19	\$4,804.19			3.64%	\$4,804.19
	<u>Date</u>	<u>Cost Basis</u>	<u>Number of</u>	<u>Price Per</u>			<u>Market</u>

	<u>Acquired</u>	<u>Investment</u>	<u>Shares</u>	<u>Share</u>	<u>Value</u>
<u>Dow Industrials ETF DIA</u>	12/14/2006	\$ 6,193.00	50	123.86	\$ 6,312.00
<u>S&P 500 ETF SPY</u>					
<u>NASDAQ 100 ETF QQQ</u>	12/14/2006	\$ 4,445.00	100	44.45	\$ 4,407.00
<u>Russell 2000 ETF IWM</u>					
<u>HUI Amex Gold Bugs ETF GDX</u>	12/4/2006	\$ 4,200.00	100	\$ 42.00	\$ 3,960.00
<u>Australia SPASX200</u>	12/14/2006	\$ 2,321.00	100	\$ 23.21	\$ 2,392.00
<u>SILVER ETF SLV</u>	11/29/2006	\$ 3,389.25	25	135.57	\$ 3,379.00
Subtotal Non-cash Holdings		\$ <u>20,548.25</u>			
Subtotal Market Timing Portfolio		<u>\$25,352.44</u>			<u>\$25,254.19</u>

F. Market Speculation -- Trader's Corner (Target Portfolio Allocation 5 Percent)

	<u>Date</u> <u>Acquired</u>	<u>Cost Basis</u> <u>Investment</u>	<u>Value at</u> <u>Maturity</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Yield</u>	<u>Market</u> <u>Value</u>
<u>Cash</u>		<u>\$25,839.98</u>	<u>\$25,840</u>			<u>3.64%</u>	<u>\$25,840</u>
<u>Options</u>	<u>Date</u> <u>Acquired</u>	<u>Cost Basis</u> <u>Investment</u>	<u>Price Per</u> <u>Contract</u>	<u>Expiration</u>	<u>Strike</u> <u>Price</u>	<u># of</u> <u>Contracts</u>	<u>Market</u> <u>Value</u>
			\$ -				
Subtotal Market Speculation Portfolio		<u>\$25,839.98</u>					<u>\$25,839.98</u>

Portfolio Summary:

Cash	\$ 32,986.82	\$ 32,986.82
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Gold	\$ 50,152.59	\$52,899.29
Treasuries	\$ 322,100.00	\$ 322,515.63
Stocks - Buy and Hold	\$50,284.40	\$50,351.60
Stocks - Market Timing	\$25,352.44	\$25,254.19
Speculative Holdings	<u>\$25,839.98</u>	\$25,840
Total	\$ <u>506,716.23</u>	\$ <u>509,847.51</u>

We have had many requests from subscribers to construct a conservative balanced portfolio model. We have also had many requests for wealth management of subscriber funds. Our plate is full, so we have had to pass, but we have come up with an idea that might have some appeal. One of the problems with publishing one conservative portfolio model is there is no such thing as a one size fits all portfolio, or portfolio strategy. However, what we have decided to do is run a paper portfolio for ourselves that includes several elements of a balanced portfolio, but leans conservative. It offers several segments with different objectives, diversification, liquidity, earnings, capital gains, and speculative profits, for educational purposes. If you are interested, read on as we discuss the theoretical makeup of this portfolio.

First, procedure. How this works is, we presented a start-up investment portfolio, as if we just inherited \$500,000, or picked up a windfall, on October 1st, 2006, and need to manage this money. Our aim is overall return, within the constraints of wealth preservation and liquidity. It must be relatively safe, offer strong returns potential, and liquidity, in most economic environments. We will be heavy cash at the onset, and then over time put the cash to work in a variety of ways. We publish all transactions as they are performed, even daily if we work the portfolio that hard, and periodically publish the latest portfolio inventory which can be compared with the original starting position, available in the Guest Articles section at www.technicalindicatorindex.com.

While this is fictitious, we use actual investments, actual pricing, and operate in real time as much as possible given this forum. It is not to be construed as trading advice, but rather is educational in nature, perhaps entertaining, and hopefully idea-generating and informative. Investment segment allocations can be altered based upon a person's risk appetite, investment experience, or financial position. It is not intended to be a financial plan, as that would include life insurance, real estate, estate and tax planning. This conservative balanced portfolio is just a piece of our financial plan pie, nothing more.

We will not get into tax planning vehicles too much, except maybe add some instruments that may be tax free either from state or federal taxes if we happen to like the risk/reward from time to time, but, total return will be computed on a tax equivalent basis. We will not deal with transaction costs to simplify the accounting, but understand every transaction has costs. Broker fees, etc... It is a plain and simple approach for idea generation in a real-time setting with real investments for our conservative leaning. Every investment advisor will have his or her own preferences in vehicles, strategies, etc... so don't be surprised by independent reviews that are critical. So be it. This is just one approach that we feel is of interest to a broad spectrum of subscribers. Everyone is different, and if you were to apply any of this portfolio management to your own unique circumstances, no doubt you'd tweak what we do to be

more suitable to your needs, which is great. Before you follow anything we do with our portfolio, we suggest you check first with your financial advisor.

Our portfolio management is dynamic, which should be interesting. There will be long-term strategies, which will forfeit returns now for higher returns later. We have portfolio segments that utilize our key trend-finder indicators, and we have segments that do not market-time, but are more buy and hold. We like cash. That won't excite everyone, but part of running a conservative portfolio is the wisdom to be prepared for future opportunities.

The following are six segments to our conservative balanced portfolio and some basic theory for each.

Segment A: Cash

The purpose of cash is for emergency liquidity and to be in a position to seize future opportunities. We will use primarily FDIC insured moneymarket funds. Return is a minor consideration here. Initially, we will have a large cash position, that will eventually be put to work.

Segment B: Gold

The purpose of holding gold is for protection against inflation, against a debasement of our currency, and as catastrophe insurance. We accumulate ounces of the metal in either coins or a Gold ETF. We'll use the daily spot prices for simplicity.

Segment C: U.S. Treasury Bills, Notes, and Bonds

Here we will see the guts of the portfolio. It will include a laddered selection of Maturities that will provide safe, risk-free, state tax-free income, a continuous flow of liquidity, and potential capital gains, probably about every three years which will improve long term total return. The ladder may resemble a barbell from time to time, depending upon the economy and the interest rate cycle. This strategy is laid out in detail in an article in our Guest Articles section called, "Up the Investment Ladder," from July 2004.

Segment D: Stocks — Buy and Hold

Here we will employ a Dollar Cost Averaging strategy for long-term capital gains. We may include some consideration of dividend yield as a component of decision making, but for the most part will trade index ETFs, not individual stocks. We are not stock picking here. We may select different sectors of the broad equity market if we favor one sector over another. Essentially, here we buy a minimum amount of dollars worth of stock each month, with the quantity of stock varying as prices do. This is a time-tested strategy that works best in either volatile markets or long-term rising markets. This conservative strategy has taken a hit from Plunge Protection Team Intervention, which aims to eliminate or minimize dips at a cost of hyperinflation, usually with the result of low volatility and lengthy sideways moves. The idea here is

that when prices drop, we get to buy more quantity for the same dollars in the short run, and that larger quantity grows exponentially in value at the next real bull market. It is basically what is going on with 401 (k) plans where the same amount is withdrawn from each pay and invested in the market. Dividend paying stocks fit here.

Segment E: Stocks — Market Timing

Now we move into a more aggressive strategy which is capital gains focused. Using our key trend-finder indicators, we add to long positions in stock index ETFs when key trend-finder indicators generate new “buy” signals, and increase cash (do not short) when either hitting a target profit objective, or when new “sell” signals are generated. We may not go to all cash when “sells” are given, but will increase cash.

Segment F: Market Speculation (Traders’ Corner)

This is essentially our Traders’ Corner program, where we will speculate in non-cash instruments such as stock index put or call options, where we can leverage our investment returns, but at high risk. We will use the full body of technical analysis covered in our newsletters to play with a very small percentage of our entire portfolio with an aim of generating large gains from time to time, by both going long (buying calls), and going short (buying puts). We will not write or sell uncovered options here, as this is a conservative portfolio and those are not conservative strategies. Writing covered calls can be considered acceptable for this segment, but is not going to be used for the sake of simplicity. Heavy reliance will be placed on the use of our key trend-finder indicators.

Initial target allocations are 40 percent Bills, Notes, and Bonds, 10 percent Gold, 10 percent stocks – Buy and Hold, 5 percent Market Timing, and 5 percent Speculation, with the remainder in cash. This allocation will likely change over time, depending upon where we see risks and opportunities.

Periodic updated inventories of this portfolio will be posted in a regularly revised Guest Article, in our Guest Articles section at www.technicalindicatorindex.com. We do not plan to clutter up our regular market analysis newsletters with this managed portfolio, however we will announce current transactions at the end of our newsletters. This initial start-up portfolio will be placed also in the Guest Articles section in a separate article for easy comparison.

We’d love to hear your feedback in the future as we manage the portfolio. Again, this is not trading advice, merely a fictitious game that will use real-time, real investment data to model a conservative balanced portfolio with the objective of safety, liquidity, and total return for most economic environments. Hope you enjoy.

***“Bring the whole tithe into the storehouse,
so that there may be food in My house,
and test Me now in this,” says the Lord of hosts,
“if I will not open for you the windows of heaven,
and pour out for you a blessing until it overflows,***

***then I will rebuke the devourer for you,
so that it may not destroy the fruits of the ground;
nor will your vine in the field cast its grapes,”
says the Lord of hosts.”***

Malachi 3:10, 11

Robert McHugh Ph.D. is President and CEO of Main Line Investors, Inc., a registered investment advisor in the Commonwealth of Pennsylvania, and can be reached at www.technicalindicatorindex.com. The statements, opinions, buy and sell signals, and analyses presented in this newsletter are provided as a general information and education service only. Opinions, estimates, buy and sell signals, and probabilities expressed herein constitute the judgment of the author as of the date indicated and are subject to change without notice. Nothing contained in this newsletter is intended to be, nor shall it be construed as, investment advice, nor is it to be relied upon in making any investment or other decision. Prior to making any investment decision, you are advised to consult with your broker, investment advisor or other appropriate tax or financial professional to determine the suitability of any investment. Neither Main Line Investors, Inc. nor Robert D. McHugh, Jr., Ph.D. Editor shall be responsible or have any liability for investment decisions based upon, or the results obtained from, the information provided. Copyright 2007, Main Line Investors, Inc. All Rights Reserved.