

# The ETF Strategist

Your Independent Guide to Profitable ETF Investing

Vol. 2, Issue 7 / JULY 2008

## Oil Prices Collapse We're Positioned Perfectly to Profit

Stocks have declined sharply over the past couple of months, with all of the major stock market indices falling below both their short-term (50-day) and long-term (200-day) moving averages as well as below some key price-support levels.

Yet, there have been few changes in the underlying economy or geopolitical environment since the beginning of May when stocks were in a broad up-trend.

The U.S. economy has continued to grow at a sluggish rate, but it has yet to enter a recession. Meanwhile, broad measures of inflation at the consumer level are virtually unchanged over the past six months and U.S. exports have continued to grow at a healthy rate.

So, what has caused the big directional shift in stocks during the past two months? Look no further than the recent spike in oil and gas prices.

From 2002 to 2007, persistent increases in the price of oil had little impact on the economy and equity prices. In contrast, the recent surge of crude oil prices above \$120 per barrel (and gasoline prices above \$4 a gallon) has led even the most bullish investors to throw in the towel on stocks.

The reasoning behind that decision is really quite simple: Most investors realize that consumers will significantly cut back on their spending if the price of crude oil stays substantially above \$120 a barrel for a prolonged period of time.

You see, relative to the prices of other goods and services, the price of oil was not terribly high when it traded below \$120 per barrel. But at \$140 a barrel, the price of crude oil is substantially higher than the prices of most other goods (in terms of consumers' relative expenditures).

Here's an example of the degree to which oil prices are outpacing the price increases of other goods: From the beginning of 1981 to the end of 2007, the price of crude oil rose 148 percent, while a broad basket of consumer goods and services (excluding petroleum products) rose 146 percent. Clearly, oil prices rose approximately in-line with the prices of other consumer goods during the 26-year period from 1981 to 2007.

But when you look at the surge in oil prices this year, you don't see the same jump in the prices of other goods. For example, crude oil prices increased 46 percent between January and June of this year, while the average price of other consumer goods rose just 1.5 percent.

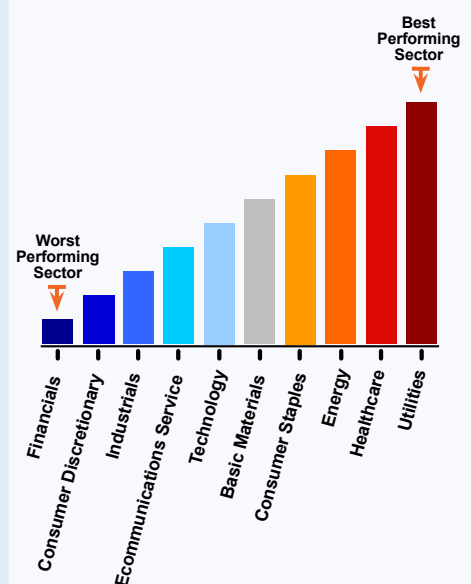
If oil prices remain near their current level of around \$140 per barrel or continue to rise, consumers will cut back heavily on spending during the

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### SECTOR MOMENTUM RANKINGS

(JULY 2008)



This chart shows the relative performance of the major economic sectors over the past month.

months ahead and business enterprises will significantly reduce their capital expenditures. If that occurs, corporate profits will likely fall sharply and stock prices will decline precipitously.

Let's now take a look at the causes of the recent surge in oil and gas prices, and why I expect oil prices to fall.

## Why Oil Prices Are Dropping

**Supply and Demand.** Many stock market pundits, money managers and financial journalists blame the recent surge in oil prices on supply shortages and an increasing demand for oil from China, India and other emerging economies.

Some of those so-called experts even claim that the supply of oil has not kept up with increases in demand. Yet, the chart to the right clearly illustrates that those claims are without merit.

As you can see in the chart, the worldwide supply of oil has not only risen significantly over the past 12 months, it has substantially outstripped the demand for oil since the beginning of this year. In fact, the supply of oil has continued to increase since January 2008, while the demand for oil has trended lower. As a result, the positive spread between the supply of, and demand for, oil has risen during each of the past six months.

So, if oil supply is keeping up with — even significantly outstripping — the demand for oil, what have been the

real culprits behind the more than \$40 increase in the price of crude oil since the beginning of 2008?

The answer is two-fold: (1) The falling value of the U.S. dollar and (2) an increasing amount of speculation in the petroleum markets.

However, those same causes for higher oil prices are what could lead to a significant pullback in the price of oil in the coming months.

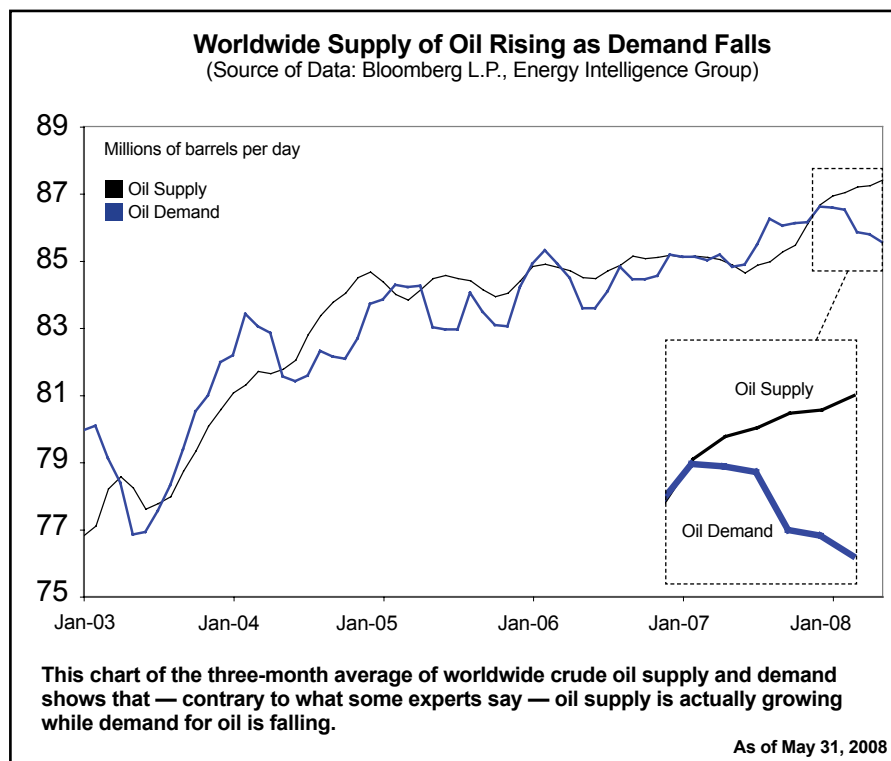
**The Dollar.** The Federal Reserve lowered its overnight bank borrowing rate seven times between September 2007 and April of this year — from 5.25 percent to 2 percent —

by purchasing large amounts of U.S. Treasury securities from private bond dealers.

As a result of the Fed's monetary actions, the exchange value of the U.S. dollar fell more than 11 percent against the euro during that period.

Although the dollar rallied somewhat against most other foreign currencies in May and early June, the dollar resumed its descent after the Fed announced on June 25 its decision

to leave the target Fed funds rate unchanged at 2 percent. Oil prices spiked significantly higher following the Fed's announcement, which came as no surprise given that oil is priced in U.S. dollars. In fact, the spot price of West Texas Intermediate Crude Oil rose to \$138.91 per barrel following the Fed's interest-rate decision, from \$133.92



DAVID FRAZIER

David Frazier's biggest motivator is to provide individual investors with the information to invest smartly and successfully in both bull and bear markets. David has over 20 years of investing experience at prestigious firms such as Dun & Bradstreet and TD Ameritrade, at a boutique private investment bank in Los Angeles, and at William O'Neil & Co., the publishers of Investor's Business Daily.

After being on the inside, David knows that Wall Street brokers are often looking out for their own commission checks, rather than looking out for their clients. With The ETF Strategist, David's number one goal is to provide unbiased, independent advice that makes individual investors — not Wall Street fat cats — handsome profits.

the day before the Fed's announcement.

The chart below clearly illustrates the effect of the declining dollar on oil prices — whenever the dollar has fallen sharply, the price of crude oil has risen.

However, I expect the dollar to rally sharply against the euro later this year. Inflationary pressures will force the Federal Reserve to raise short-term interest rates, and slowing economic growth in Europe will drive the European Central Bank (ECB) to cut short-term interest rates there.

**Speculators.** Oil speculators have also had an increasing impact on oil prices over the past few years and have partially been responsible for the recent surge in crude oil prices. Those speculators include both institutional and individual investors, as well as oil producers.

Institutional investors such as corporate and government pension funds, sovereign wealth funds, and university endowment funds have had the most profound effect on crude oil prices over the past couple of years, as they have behaved very differently than traditional speculators in the commodity futures markets.

Unlike traditional commodities speculators, who provide market liquidity by both buying and selling commodity futures contracts, institutional investors have tended to be only buyers of futures contracts. They have bought futures contracts on crude oil and continuously rolled over those positions to the point where institutional investors now account for a larger share of the outstanding futures contracts on crude oil than any other market participant.

Institutions have also been driving up the prices of petroleum products by speculating on ETFs that are heavily comprised of holdings in petroleum futures, such as oil, gasoline, and heating oil futures. Keep in mind that for every new share that a commodity ETF issues

to investors, that ETF must invest a portion of its assets in some additional amount of the associated commodity futures contract.

For example, if a billion dollars were invested during any given week in the United States Oil Fund (USO), which holds futures contracts on West Texas Intermediate Crude Oil, the fund would need to purchase a specific amount of oil futures contracts to account for the additional share issuances, without any regard for the price that it must pay for the futures contracts.

As you can see, the significant increases in petroleum prices over the past couple of years have created a vicious

cycle — as more and more investors have invested in energy ETFs, their purchases have caused petroleum prices to rise further, which in turn has fueled a new wave of investments in energy ETFs.

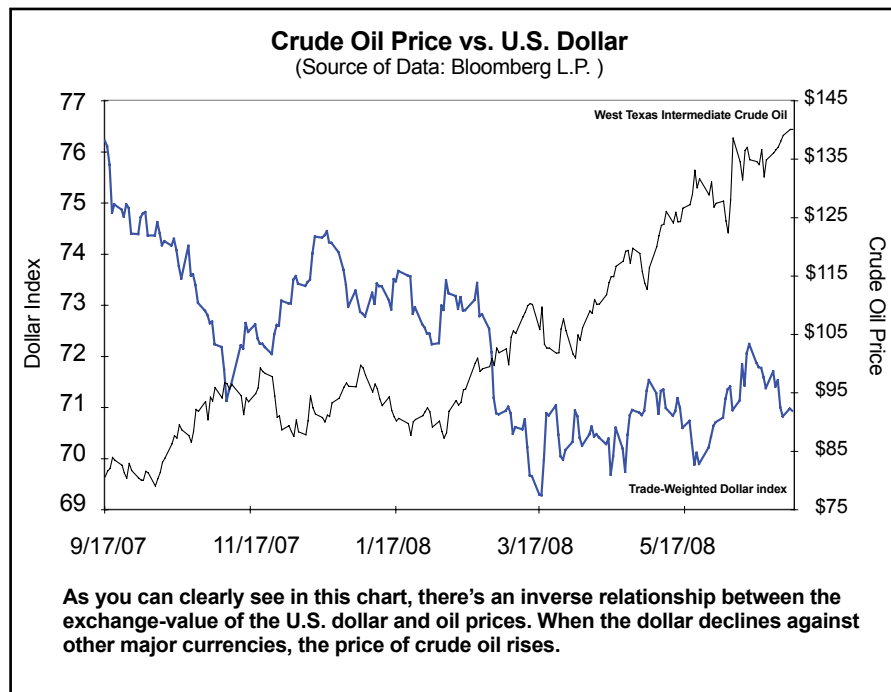
At the end of 2003, money invested in oil-related ETFs controlled approximately 184 million barrels of petroleum products through the oil futures market. As of March

31, that number had grown to 848 million barrels — a more than four-fold increase. But that same massive influx of cash could turn into an outflow as oil prices fall.

**Demand Destruction.** High oil prices have already caused a significant decline in oil consumption, as I pointed out in the chart of supply and demand on page 2. This phenomenon is known as demand destruction.

In the U.S., the consumption of motor gasoline fell in June by the largest percentage in five years, and recent reports from state and local governments indicate that an increasing number of consumers have increased their use of public transportation systems such as subways and other rail services to travel to and from work over the past couple of months.

Meanwhile, several airlines recently ceased operations, while numerous other airlines reduced flights. In addition, General Motors and Ford recently announced that they



will stop producing some of their truck and SUV lines due to historically high gas prices.

I also expect oil demand to fall worldwide. Government officials in China have already taken steps to curb demand for oil by lifting government subsidies and allowing the prices of gasoline, diesel and aviation fuel to rise by 8 percent. Meanwhile, officials in Malaysia, India and South Korea recently hinted that they may also reduce government subsidies of oil.

## How to Profit From the Oil Bust

Back in the early 1980s, when oil prices were spiking higher and higher each day, 30 oil tankers that were docked in New York Harbor refused to unload their supplies of crude oil in anticipation that their valuable cargo would appreciate even more. Instead, those oil tankers got a rude awakening.

Oil prices started to dip, and they panicked. The tankers started unloading the oil, dumping it on the markets and causing oil prices to plummet.

Today, PetroLogics Ltd., which tracks oil-carrying vessels, reports that Iran is storing up to 40 million barrels of its crude oil in 20 tankers docked in the Persian Gulf, up from ten tankers in May. In addition to using its own oil tankers, Iran began leasing tankers in the single-trip market last month to store additional supplies of crude oil.

Saudi Arabia's oil minister said that his country — the world's biggest oil producer — has no plans to significantly increase its production of crude oil because government officials there think that the country's oil is worth more in the ground. In other words, those officials think that Saudi Arabia will be able to charge significantly more for its oil in the not-too-distant future.

Will history repeat itself? The stars seem to be aligning that way. With the dollar showing signs of stabilizing and demand for oil cooling, the odds of a big drop in oil are becoming more likely.

In the 1980s, there wasn't a way for investors to directly profit from falling oil prices outside of the risky futures market. Fortunately for us, there are now energy ETFs.

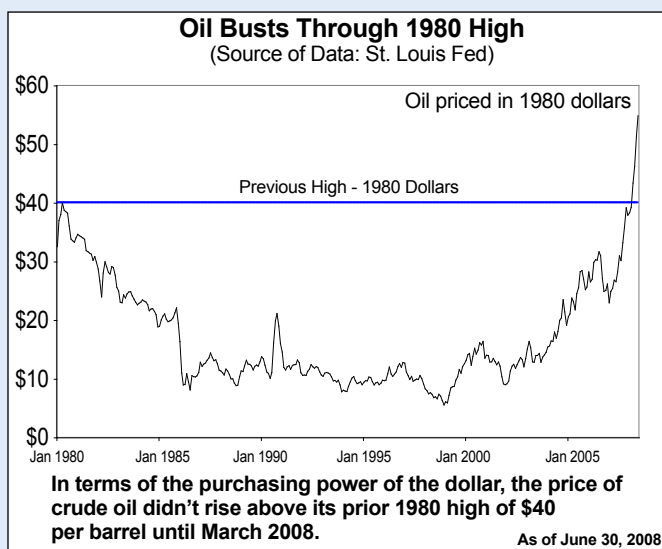
Barring a major hurricane in the Gulf of Mexico or the Atlantic, I expect crude oil futures to fall to around \$122 per barrel by the end of August and to \$110 a barrel by September and October.

If my forecast is correct, I expect our position in **ProShares Ultra Oil & Gas (DUG)** to advance sharply and to rise to around \$40 within the next few months. On the next page, I tell you more about DUG in the ETF Spotlight.

## The Tipping Point: Why \$120 Oil Sent Stocks Sliding

As most of you know, oil prices have been trending higher since early 2002. Yet, persistent increases in oil did not have an adverse effect on consumers, businesses, or stocks until May, when the price of crude oil surged significantly above \$120 per barrel. That's because oil prices, in terms of the purchasing power of the dollar, were relatively low until early May.

As you can see in the chart, March of this year was the first time ever that the price of oil, adjusted for inflation, penetrated its previous all-time high — set in 1980 — of \$40 a barrel. In other words, oil was trading below the equivalent of \$40 per barrel until March of this year.



However, just breaking through the 1980 high didn't necessarily hurt consumers and businesses. If you take into account the significant improvements that have been made in the fuel efficiency of automobiles and in the insulation of homes and office buildings over the past two decades, it makes sense that oil would have had to rise even higher than its 1980 high to really impact consumers and businesses.

And that is exactly what happened. As oil prices surged to an inflation-adjusted level of \$50 a barrel in May (\$120 in today's dollars), stocks began to fall sharply. Astute investors realized that consumers would cut back sharply on their spending if oil stayed above \$50 dollars per barrel in inflation-adjusted terms for an extended period of time. Investors also reasoned that corporate profits would soon fall significantly and that stocks would follow suit if oil remained above that level.

Now, with oil trading in the neighborhood of \$55 a barrel in 1980 dollars, those high prices are pinching consumers and businesses alike, and sending stocks much lower.

# ETF Spotlight

## ProShares Ultra Short Oil & Gas (DUG)

**Oil Futures: West Texas Intermediate Crude Oil**

(Source of Data: Bloomberg L.P.)



Crude oil futures surged more than 69 percent during the first half of 2008, rising from a low of \$86.11 on January 22, 2008 to a high of \$145.08 on July 11, 2008. My research indicates that that trend will reverse course during the second half of this year, and that the price of crude oil will fall to at least \$110 by October.

As of July 11, 2008

**ProShares Ultra Short Oil & Gas Fund (DUG)**

(Source of Data: Bloomberg L.P.)



If crude oil declines to \$110 per barrel, DUG will likely rise to around \$40.

As of July 11, 2008

As you can see in the chart to the left, crude oil prices rose sharply during the first half of 2008, as the exchange value of the U.S. dollar declined against other major currencies and speculators piled into the oil futures market.

With the dollar now showing signs of stabilizing against the euro and other currencies and the demand for crude oil declining, I expect oil prices to fall sharply during the next few weeks. I therefore expect **ProShares Ultra Short Oil & Gas (DUG)** to rally substantially between now and mid-August.

This week's comments by Federal Reserve Chairman Ben Bernanke about the demand destruction that high oil prices are having on the U.S. economy will likely add to the near-term pressure on petroleum prices. For example, in his testimony to Congress on July 15, Bernanke said that consumer spending is "likely to be restrained over coming quarters" and businesses are "likely to be cautious with their spending in the second half of the year," largely as a result of high oil prices.

I therefore expect an increasing number of investors to bail out of oil futures over the next couple of weeks.

As you can see in the second chart to the left, DUG has historically moved in the opposite direction of crude oil prices, declining approximately 60 percent since its inception on Feb. 1, 2007 through June 30 of this year, while West Texas Intermediate Crude Oil futures rose 140 percent. However, this oil and gas ETF bottomed during the third week of May and has trended higher over the past two weeks. I expect DUG to rise to around \$40 within the next couple of weeks.

# Join the Club

## Find 15% Returns or More

Dear ETF Strategist Reader,

It's not every day that you are invited to join a private club for free.

But to qualified investors and readers of ETF Strategist, we are doing just that.

If you are an accredited investor, you are one of America's wealthy elite. While you may not feel that way, statistics show that those with a net worth of \$1 million or more (excluding their homes) represent just 1 percent of the U.S. population.

And with \$2 million net worth, you are a member of an even more rarefied club.

However, everything is relative.

Here in Palm Beach, where I am penning this letter, those with a \$2 million net worth are not even a footnote in the social register. In this enclave, a \$10 million net worth allows you to have an enjoyable lifestyle. The true "jet set" — those who use private or chartered jets as one way of defining that cliché — will have a net worth of \$150 million or cash flow and income of close to \$10 million annually.

**Most "mini-millionaires" probably eschew private jets, and for practical purposes, own used cars for getting about town. You might even find them at a local Denny's restaurant. There is nothing wrong with this "Buffett-style" millionaire lifestyle — you will find such frugal living more typical of those who go on to mega wealth from humble beginnings than those who don't.**

Lifestyle issues aside, many regular millionaires want to join the mega rich.

What holds them back? One reason: the crowd. Many new millionaires worked hard to achieve success, and did so by leading successful professional lives, investing in stocks and mutual funds, profiting from real estate investments — using vehicles that are open to all.

But the mega rich invest differently from the masses. They use trust companies to preserve their wealth. The brokerage houses share hot IPO stocks with them. They play in hedge funds. They invest in private equity and real estate opportunities. There is a whole universe of such investments available to the mega rich. But where can you find out about these opportunities?

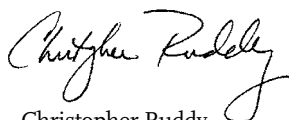
**There are limited information resources. For one thing, the wealthy don't like to talk about their investing failures (Who does?), so the learning you might get from shared and collected wisdom is often lacking.**

This is one of the reasons we at Newsmax have decided to publish "Private Opportunities" — a newsletter for accredited investors about the great opportunities — and risks — that await them in the world of private investing.

In fact, in the latest edition of Private Opportunities Club newsletter we detail a private investment where investors are reaping 15 percent to 20 percent annual returns with tax advantages.

So, if you are eligible and want to join this exclusive club to get our latest Private Opportunities Club newsletter, simply contact Aaron DeHoog at 1-888-471-8009 (561-686-1165 ext 1253) or email him at [aarond@newsmax.com](mailto:aarond@newsmax.com).

Thank you.



Christopher Ruddy  
Publisher  
CEO, Newsmax



Private Opportunities Club  
Your Window Into the World of Wealth

# Conservative Portfolio

Stocks have fallen sharply over the past couple of months. Yet, our Conservative Portfolio has remained in positive territory. The Conservative Portfolio returned 1.9 percent since its inception on Sept. 18, 2007 through July 11, while the S&P 500 fell 14.6 percent (including dividends) during that same period.

Although we slightly underperformed the major stock market indices in the second quarter of this year, our significant outperformance in each of the prior two quarters has enabled us to meet our objective of preserving investors' capital and outperforming the S&P 500 over longer periods.

Our holdings in ProShares Ultra Short S&P 500 (SDS) and ProShares Ultra Short Oil & Gas (DUG) are exhibiting encouraging behavior in the current market environment — our combined positions in SDS are up 7.1 percent and our combined positions in DUG are up 2.2 percent as of July 11. If stocks continue to trend lower and oil prices continue to fall, SDS and DUG will likely generate some big profits for us.

Meanwhile, ongoing increases in the worldwide demand for better food products bode well for our holding in the DB Agriculture Fund (DBA). Although DBA may temporarily pull back in-line with a decline in oil prices, the underlying factors that were largely responsible for the surge in oil prices between January and June of this year have had little impact on agricultural prices. Food prices have been largely unaffected by changes in the exchange value of the U.S. dollar and there's been only a modest degree of speculation in agriculture futures in comparison to the significant over-speculation rampant in crude oil futures.

iShares U.S. Dow Jones U.S. Medical Devices Index Fund (IHI) — Even with overall stocks taking a beating, IHI has held up quite well. Buy on dips to \$58.75.

ProShares Ultra Short S&P 500 (SDS) — My models indicate that stocks are in danger of falling sharply in the months ahead due to persistent inflationary pressures and a continuing slowdown in the U.S. economy. Recent surveys reveal that consumers have become very disenchanted in their outlook for the economy and that an increasing number of investors have become bearish about the near-term direction of stocks. For example, the University of Michigan's consumer expectations index fell to its lowest level in June since May 1980 (when oil prices rose to their previous all-time high) and the American Association of Individual Investors' weekly survey of investors fell last week to its lowest level since March of this year when stocks were in a tailspin. **Place a sell stop at \$67.25** in order to lock-in profits on SDS.

iShares Lehman Short Treasury Bond (SHV) — Continue to hold a portion of your ETF-designated capital in SHV to serve as a cushion against the possibility of a further decline in stock prices.

PowerShares DB Agriculture Fund (DBA) — See my comments on DBA on page 8. **Hold.**

ProShares Ultra Short Oil & Gas (DUG) — See my comments on DUG on pages 1 - 5. **Hold.**

S&P 500 Covered Call Fund Inc (BEP) — We sold BEP on July 14 because it no longer met my investment objective — BEP was recommended on April 18 as a way to generate income in a sideways market. However, we are no longer in a sideways market, and there are better places to put your ETF funds right now.

## CONSERVATIVE PORTFOLIO

As of 7/11/08

Recommendation	Ticker	% of Port.	Entry Date	Entry Price	Current Price	Div.	Total Return	Advice
iShares Dow Jones U.S. Medical Devices*	IHI	30%	03/20/08	55.78	57.42	0.00	0.6%	Buy on dips to \$58.75
ProShares Ultra Short S&P 500**	SDS	20%	06/20/08	63.75	71.06	0.15	7.1%	Place stop @ \$67.25
iShares Lehman Short Treasury Bond Fund	SHV	10%	02/04/08	110.07	110.03	1.01	0.9%	Hold
PowerShares DB Agriculture Fund	DBA	10%	04/10/08	39.69	40.38	0.00	1.7%	Hold
ProShares Ultra Short Oil & Gas***	DUG	10%	05/27/08	28.86	30.43	0.04	2.2%	Hold
Cash	n/a	20%	n/a	n/a	n/a	n/a	0.0%	Hold
<b>S&amp;P 500 Total Return Since 9/18/07: - 14.6%</b>				<b>Portfolio Return Since Inception: 1.9%</b>				

The Conservative Portfolio is designed for investors who are more interested in preserving their capital than in realizing the largest potential investment returns. While this portfolio seeks to outperform the S&P 500 during periods in which stock prices in general are rising and when they're declining, its major goal is to protect investors against losses while striving to earn a rate of return in excess of the overall market. All returns are dividend-adjusted. We issue only three investment ratings on our recommended ETFs. A Buy rating means that you should buy a fund up to our recommended maximum buy price. A Hold rating means that you should continue to hold a previously recommended ETF if you already own it, but that you should not add to it at this time. A Sell rating is self-explanatory. \* IHI: Added to this position on 4/11/08 and 6/09/08. \*\* SDS: Added to this position on 7/07/08. \*\*\* DUG: Added to this position on 7/08/08. Total return for IHI, SDS, and DUG reflects a weighted average of recommended purchases.

# Aggressive Portfolio

Our Aggressive Portfolio also took a bit of a hit in the second quarter of this year, underperforming the S&P 500 by 2.2 percentage points. However, we've continued to significantly outperform the S&P 500 since inception on Sept. 18, 2007. In fact, our Aggressive Portfolio beat the S&P 500 by 26 percentage points as of June 11, returning 11.6 percent. In comparison, the S&P 500 returned negative 14.6 percent during that same period.

Although our position in the **PowerShares Listed Private Equity Portfolio (PSP)** has continued to drag down our overall portfolio performance, our holdings in the **PowerShares DB Agriculture Fund (DBA)**, **ProShares Ultra Short S&P 500 (SDS)** and **ProShares Ultra Short Oil & Gas (DUG)** have enhanced our performance, adding 1.7 percent, 7.1 percent, and 2.2 percent to the bottom line.

**iShares Dow Jones U.S. Medical Devices Index Fund (IHI)** — IHI has held up exceedingly well in the turbulent investment environment that we've experienced over the past couple of months. Buy on dips to \$58.75.

With institutional investors beginning to rotate a significant portion of their holdings to defensive sectors of the market, such as the health care sector, I expect IHI to continue performing well relative to most other economic sectors during the weeks ahead.

More importantly, I expect the medical devices segment of the health care sector to outperform other industries in that sector due to the long-run growth prospects for providers of medical devices. Overall, we're up 0.6 percent on this position. **Hold**.

**PowerShares DB Agriculture Fund (DBA)** — As I've mentioned in past editions of *The ETF Strategist*, agriculture producers have been unable to produce

enough supplies of corn, soybeans, sugar, and wheat to keep up with the growing worldwide demand for those products.

Meanwhile, the falling exchange value of the U.S. dollar has virtually no impact on most agricultural products because the U.S. is by far the world's largest exporter of corn, soybeans and wheat. Therefore, the demand for those raw foodstuffs may actually increase if the dollar continues to fall.

On the other hand, a higher value for the dollar would likely fail to curb demand for most agricultural products, unless the value of the dollar was to rise dramatically. Investors have a tendency to throw the baby out with the bathwater, and all commodities could fall if oil takes a hit. But the fundamentals are still firmly in place for DBA to move higher in the months ahead, even if it suffers a temporary pullback along with oil prices. **Hold**.

**ProShares Ultra Short S&P 500 (SDS)** — See my comments on SDS on page 7. Lock-in profits on SDS by placing a sell stop at \$67.25.

**ProShares Ultra Short Oil & Gas (DUG)** — See my write-up on the oil and gas industry and DUG on page 5. **Hold**.

**PowerShares Listed Private Equity Portfolio (PSP)** — Although PSP is down considerably, along with all other financial sector ETFs, since I recommended it for purchase on May 9, I expect this ETF to be one of our top performers over the next two years. However, I advise you to get out of PSP at prices below \$15 to protect against any further near-term losses in this ETF. **Place a good-til-cancelled sell-stop order on PSP at \$15.**

## AGGRESSIVE PORTFOLIO

As of 7/11/08

Recommendation	Ticker	% of Port.	Entry Date	Entry Price	Current Price	Div.	Total Return	Advice
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PowerShares DB Agriculture Fund	DBA	20%	04/10/08	39.69	40.38	0.00	1.7%	Hold
ProShares Ultra Short Oil & Gas***	DUG	20%	05/27/08	28.86	30.43	0.04	2.2%	Hold
PowerShares Listed Private Equity Portfolio	PSP	10%	05/09/08	20.30	15.73	0.19	-21.6%	Place stop @ \$15.00
<b>S&amp;P 500 Total Return Since 9/18/07: - 14.6%</b>				<b>Portfolio Return Since Inception: 11.6%</b>				

The Aggressive Portfolio is designed for investors who are willing (and able) to sacrifice short-term volatility in an effort to significantly outperform a broadly diversified investment portfolio. All returns are dividend-adjusted. We issue only three investment ratings on our recommended ETFs. A Buy rating means that you should buy a fund up to our recommended maximum buy price. A Hold rating means that you should continue to hold a previously recommended ETF if you already own it, but that you should not add to it at this time. A Sell rating is self-explanatory. \* IHI: Added to this position on 4/11/08 and 6/09/08. \*\* SDS: Added to this position on 7/07/08. \*\*\* DUG: Added to this position on 7/08/08. Total return for IHI, SDS, and DUG reflects a weighted average of recommended purchases.

## Closing Thoughts

It's been an interesting investment environment over the past couple of months, with the Dow Jones Industrial Average rallying more than a hundred points on some days and then falling by the same on other days. Even some of the more veteran and proven money managers have had difficulty generating positive investment returns this year, as oil prices have skyrocketed and stocks have fallen sharply.

Although the current investment environment has definitely been challenging, our ETF recommendations have held up quite well since stocks began their latest downturn in mid-May. For example, the S&P 500 has fallen more than 13 percent since May 19, yet our Conservative Portfolio has declined a modest 3.4 percent and our Aggressive Portfolio has fallen only 3.1 percent.

The tumultuous investment environment that we've encountered the past few months exemplifies the importance of implementing a carefully crafted plan for appropriately positioning one's assets in the financial markets. That's why I've designed both our Conservative and Aggressive Portfolios to gain in value during the months ahead regardless of the direction of stocks overall. More specifically, I've allocated our recommended holdings to respond positively to a potentially sharp decline in equity prices over the coming months (i.e. our position in SDS), a likely rebound later this year in the securities of private equity funds (PSP), and to either a further surge or sudden drop in oil prices (DUG).

I've also positioned our portfolios to respond favorably to the long-term growth prospects for better food and health products (DBA and IHI).

### Actions to Take Now

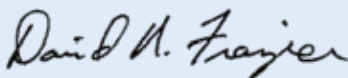
Action No. 1: Don't get emotional about the big daily swings in the financial markets or to overly focus on the short-term performance results of any of our individual ETF recommendations.

Action No. 2: Invest in all of the ETFs in either our Conservative or Aggressive Portfolio, but not in both of those portfolios.

Action No. 3: Adhere to my recommended maximum buy prices for our selected ETFs, and to allocate your holdings in them according to my recommended percentages.

Action No. 4: Check your email on a daily basis for any possible Action Alerts.

Until next time,



David N. Frazier

Editor

The ETF Strategist

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