Volume #31 Issue #2 15 July 2017

THE BOLLINGER BAND LETTER

"The Committee continues to expect that the evolution of the economy will warrant gradual increases in the federal funds rate over time to achieve and maintain maximum employment and stable prices. That expectation is based on our view that the federal funds rate remains somewhat below its neutral level--that is, the level of the federal funds rate that is neither expansionary nor contractionary and keeps the economy operating on an even keel. Because the neutral rate is currently quite low by historical standards, the federal funds rate would not have to rise all that much further to get to a neutral policy stance. But because we also anticipate that the factors that are currently holding down the neutral rate will diminish somewhat over time, additional gradual rate hikes are likely to be appropriate over the next few years to sustain the economic expansion and return inflation to our 2 percent goal. Even so, the Committee continues to anticipate that the longer-run neutral level of the federal funds rate is likely to remain below levels that prevailed in previous decades." Janet Yellen prepared statement to Congress 12 July 2017

Sell in May…

The old saw goes "Sell in May and go away." and that was good advice for many, many years. But like the Steve Miller lyric, "Time keeps slippin', slippin', slippin', into the future.", that advice keeps on slippin' into the future. A more descriptive, but much less catchy, way of stating the original might have been: "Lighten up or hedge into the end of the second quarter." But time keeps slippin', so today the operative idea is to consider fielding some defense into the end of the third quarter. The converse used to be to buy the September lows, but that too has been slippin' into the future, and today the best idea is to look to buy the fourth quarter lows. Of course this pattern doesn't repeat perfectly, but it rhymes or echoes in most years so it is well worth paying attention to.

That annual pattern is a reflection of the best time of the year to own stocks, which in turn is the result of a complex set of cash flows having to do with taxes, pension contributions, fiscal-year ends, quarterly reporting, portfolio accounting, window dressing, and so on. In other words, powerful non-market forces. In my opinion most seasonality is rooted in such factors. It is obviously very hard to quantify and forecast such complex systems. However, it is much easier to observe the net effect as reflected in the price structure, which is precisely what we do. The point is to watch carefully, wait for the pattern to set up and start to work (confirm) and then execute.

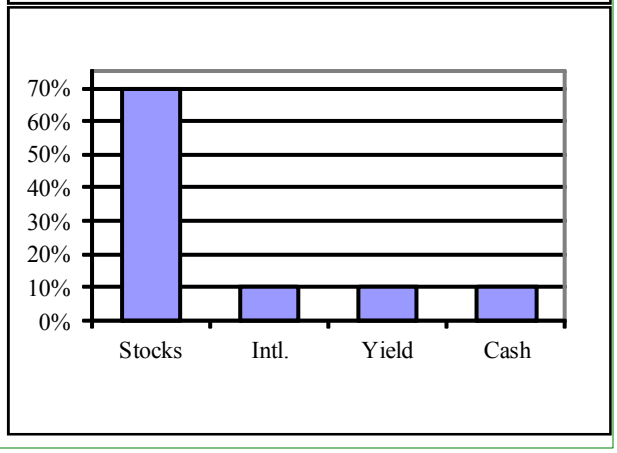
The Stock Market

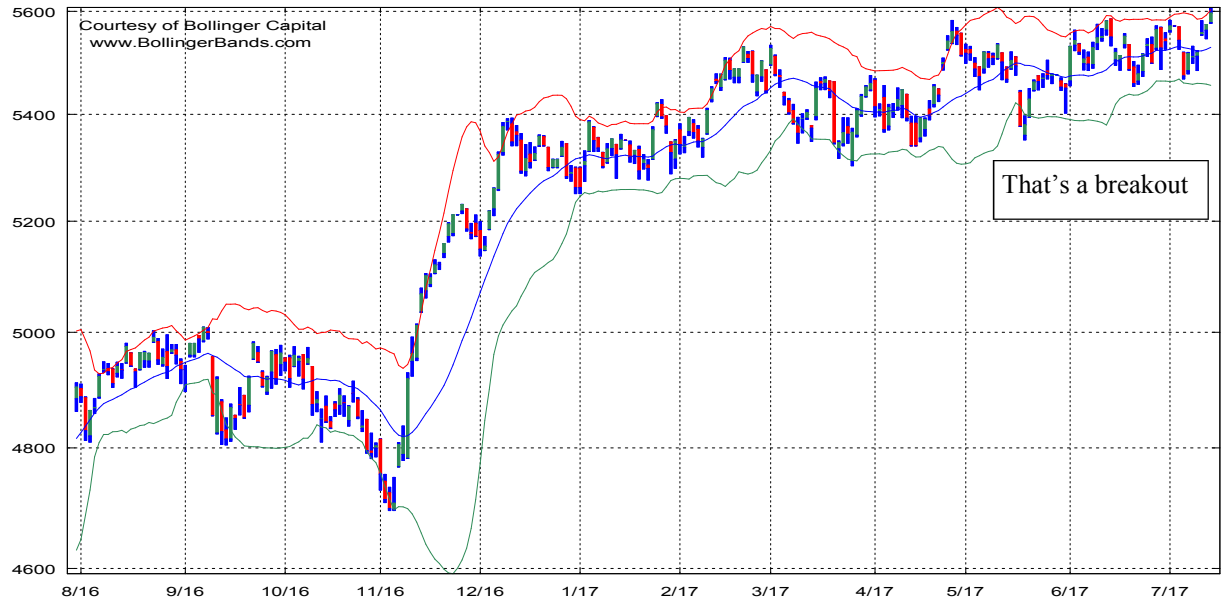
We have been in an era of rising interest rates for almost two years now, with the majority of the gains coming in short-term rates over the past nine months. Short-term rates are now at their highest levels since 2008. While intermediate- and longer-term rates have been lagging, they have bottomed out, formed bases, and are trying to turn higher. Recall that as yields rise, bond prices and the prices of all normal interest-rate sensitive assets go down. Therein lies an interesting story...

I bring this up in the stock-market section as there are many, many interest-rate sensitive issues on the NYSE; everything from preferred stocks, to closed-end bond funds, to muni funds, to income-oriented ETFs/ETNs and that is just the start of the list. One would expect substantial price pressure on those issues in a rising interest-rate environment, price pressure that should show up in broad-market data like advancing and declining issues and new 52-week lows. The story lies in the fact that we aren't seeing a deteriorating advance-decline line and 52-week new lows are quiescent.

Perhaps a lack of 52-week lows is understandable, as the

Asset Allocations

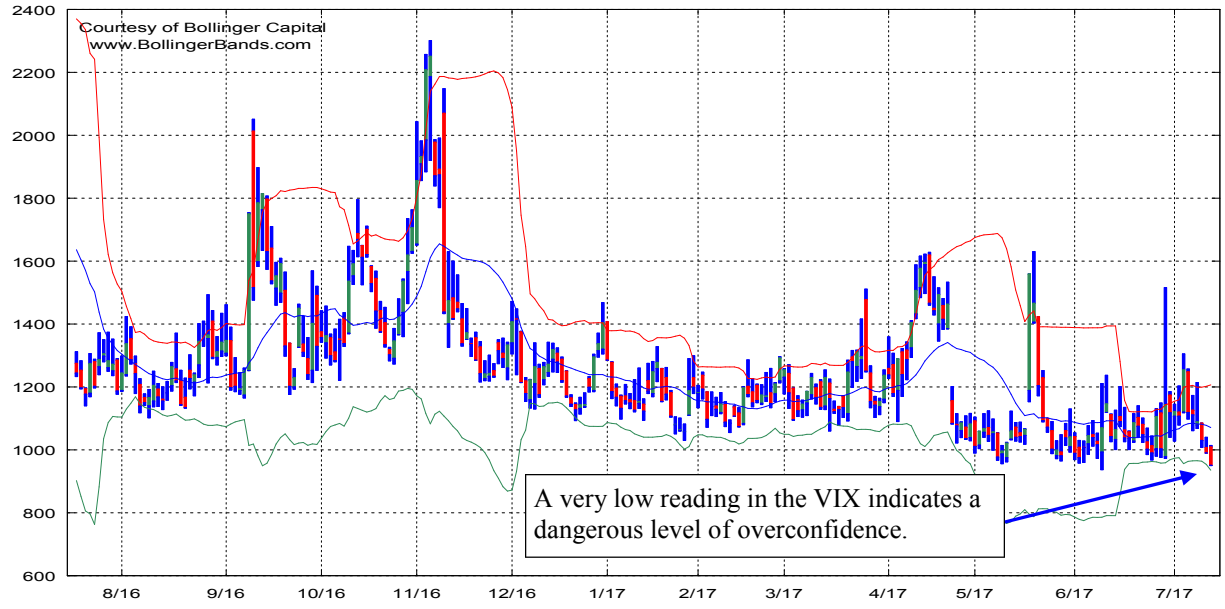




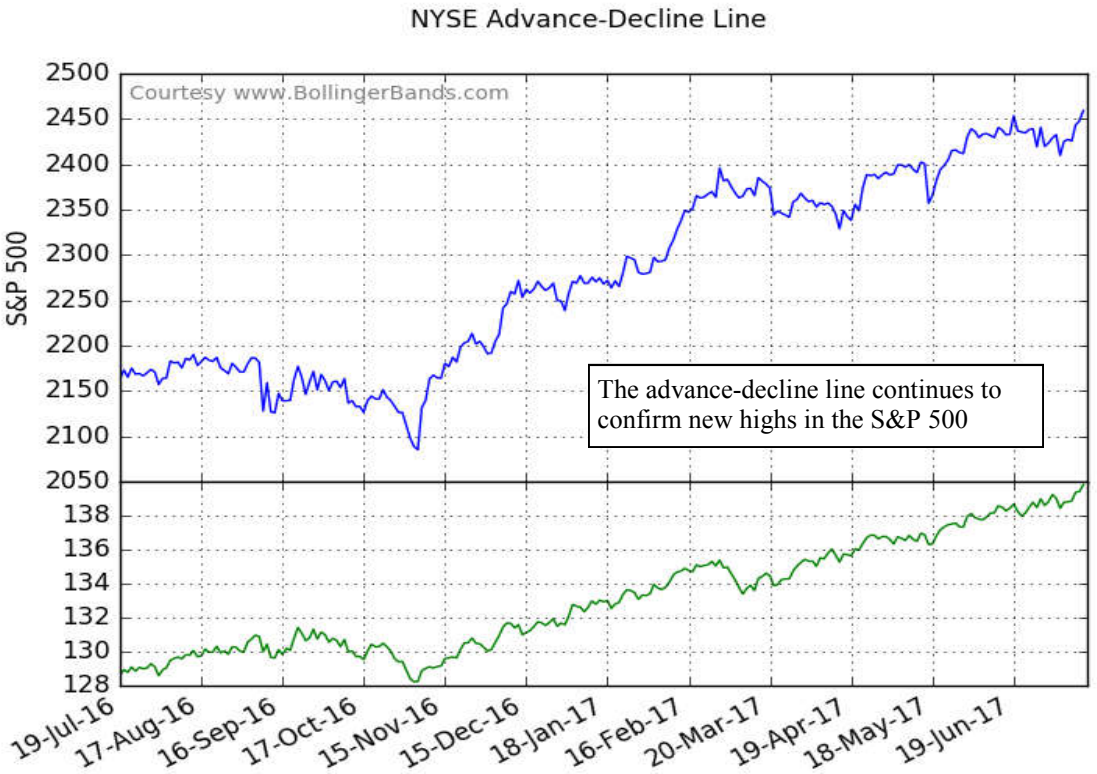
Value Line Arithmetic — One Year

rises in intermediate- and long-term rates that would cause real price damage aren't really underway yet. All that longer-term rates have done so far is halt the secular decline in rates that originated in 1982 and build multi-year base formations. (Weekly charts of IRX, FVX, TNX and TYX are on pages 12 and 13.) Even so, the rising rates environment means that this important sector cannot possibly be contributing to positive breath data; instead this sector has been a drag on the breadth data. In light of that, it is very interesting that the NYSE advance-decline line continues to make a series of new highs despite the interest-rate drag. That suggests to me that the stock market is actually stronger (perhaps much stronger) than people think that it is.

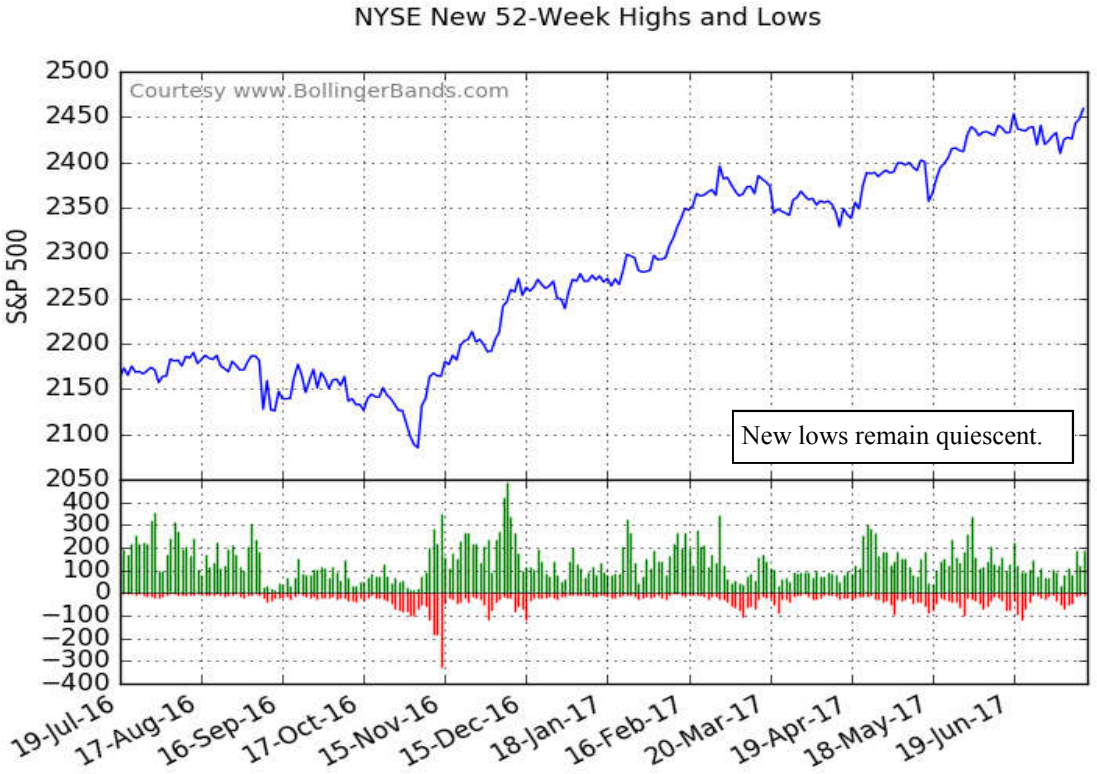
In this phase of market activity, which we regard as a rotational correction, the daily lists of NYSE and NASDAQ new 52-week highs and lows can be very informative. If we are to breakdown, which doesn't seem like the most likely course, we should start to see new lows expand before the decline. On the other hand, when we rally the new leadership will start to show up in the news highs lists, but this can be a dangerous idea. After a big decline the stocks that start to bounce are not



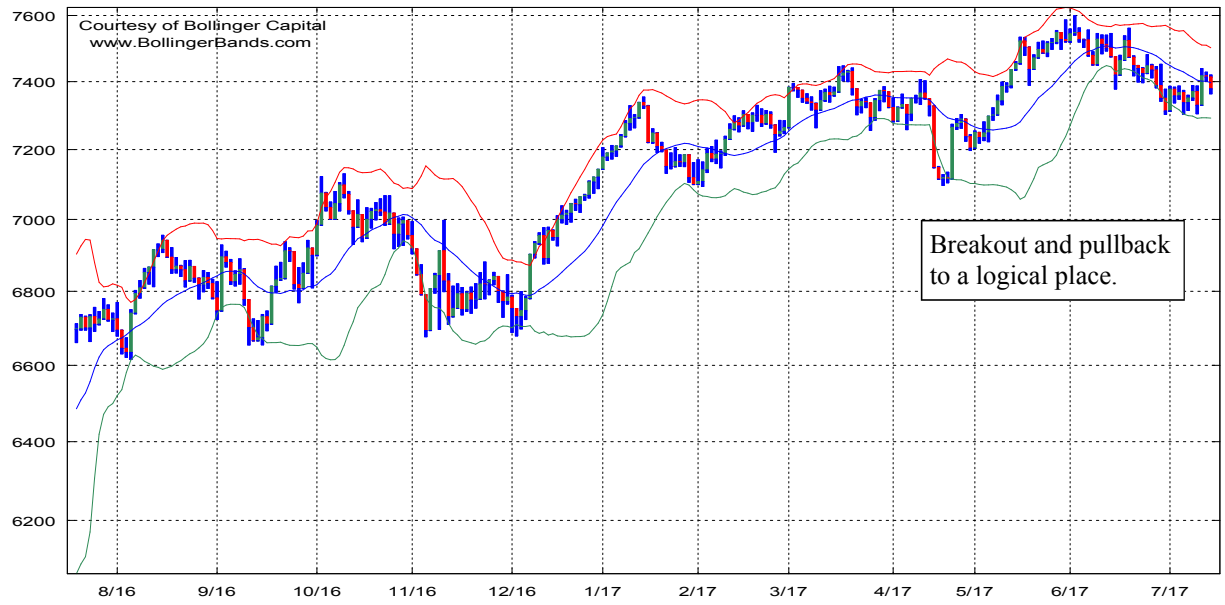
The Volatility Index — VIX — One Year



S&P 500 and NYSE Advance - Decline Line — Daily — One Year



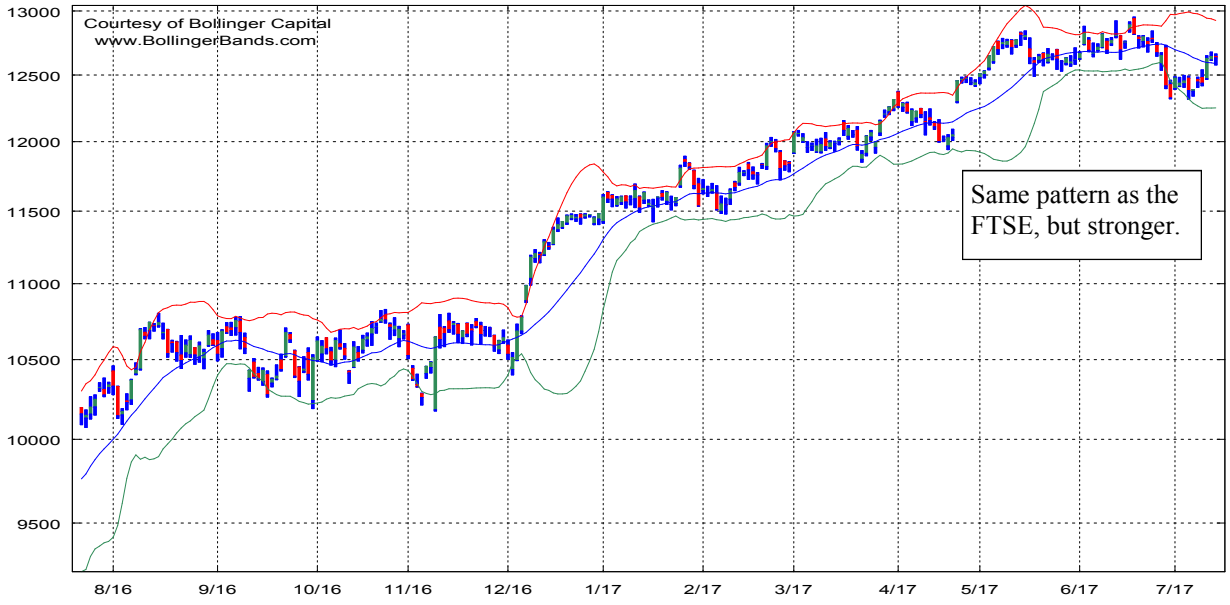
S&P 500 and NYSE New Highs / New Lows Histogram — Daily — One Year



FTSE 100 — Daily—One Year

the stocks that you want to own over the long haul. They are usually just severely over-sold bouncers and the real new leadership begins to show up as the new market phase gets going in earnest. Not convinced that this is a 'rotational' correction? Consider Tesla, a very important market leader, off 20% with barely any broad market impact. That isn't money coming out of the market, that's money moving around in the market. I have always liked rotational corrections as they create opportunity. The typical scenario is that frustration increases as the correction goes along, setting the stage for a contrarian opportunity. There are some rotational corrections that drive everyone mad; first they build up frustration, then they shift into a price correction that leaves everyone wrong footed. Mr. Market at his contrarian best!

Note: For some reason that I have never sussed out, the advance-decline data for the NASDAQ is not even remotely as reliable or useful as that for the NYSE. While the 52-week highs and lows lists are equally useful for both exchanges, the NASDAQ advance–decline data just doesn't cut it for our purposes. I have seen it speculated that this has something to do with market making



DAX — Daily — One Year

activities, but I am not entirely comfortable with that analysis.

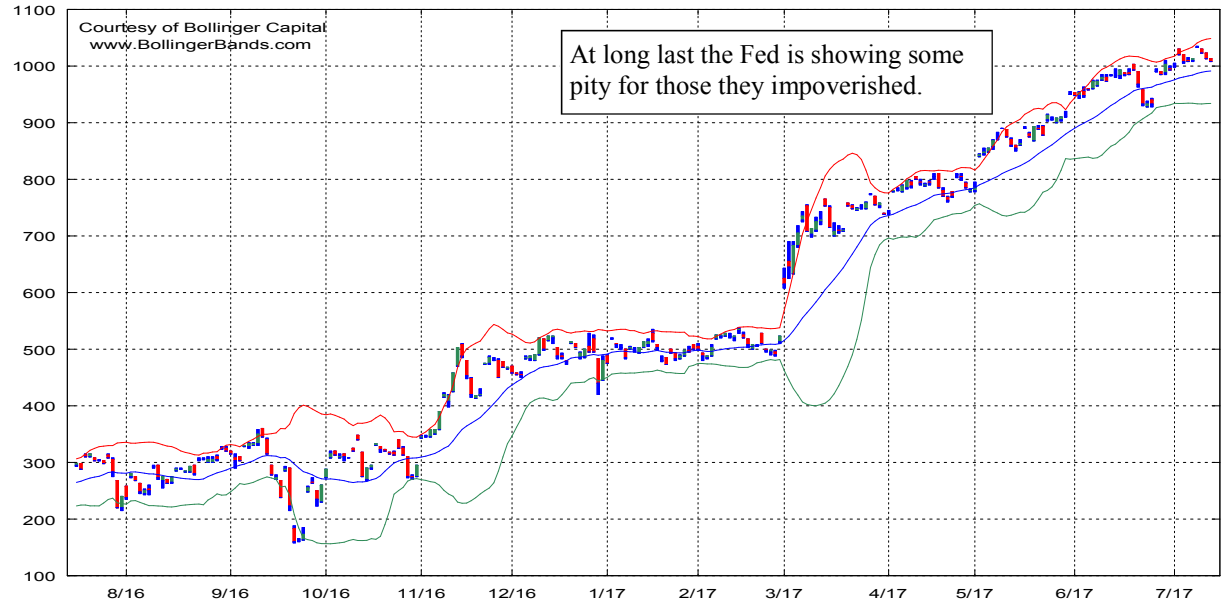
I suspect that this rotation is going to lead to a renewed emphasis on the more economically sensitive issues, group and sectors. I think the reason for the stall is the inability of the Republicans to pull together and execute their promised economic-renewal strategy. There was a lot of hope after the election that the low growth numbers of the last eight years might finally be put behind us, but little has been accomplished. Oh, some regulatory burdens have been reduced, but a lot more could be done. I am appalled by Republican intransigence in the face of a clear mandate and, like many others, am beginning to wonder if they can get beyond their quagmire and get something positive done for the economy. If this continues to play out as it has been, the Democrats will make gains in the next round of congressional elections and Washington will become completely gridlocked. There is a small window here for Republicans to prove that they are good guys, but they are showing absolutely no inclination to do so. So it looks like the 'swamp' will remain the swamp and the market will not like that unless it feels that private initiative can pick up the slack, which is still a possibility.* Perhaps this economic disappointment is the set-up for the fourth quarter lows.

The bottom line is that our outlook for stocks remains positive and will remain so until we see some signs of internal deterioration. We are involved in a classic "Wall of worry" rally with no real evidence of a market top on the table. Participation has been broad, so there aren't many laggards for bargain hunters to chase. That adds to the frustration of those under-invested and under-performing; this market just isn't giving them a break. Now, with the rotational correction resolving to the upside we think that there will be a lot of money chasing this rally.

*My daughter is very involved in what is known as social enterprise, for-profit companies that have not only a profit motive, but a complimentary social goal as well. For example, a shoe company that rolls back some of its profits into cobbling the poor. The idea is to do both economic and social good. There are lots of these companies today and even organizations to support them like the Social Enterprise Alliance. Perhaps some of these companies can serve as models for what unhindered private enterprise might do given the correct inducements. That suggests that there are many avenues that Washington could explore, avenues that could easily be lit by consensus.

Market Timing Charts

Having shut down our various websites to further concentrate on trading and portfolio management, I have come to realize that there are some things that I miss. GroupPower was probably the most useful asset that I have not yet been able to replace and I do miss the market-timing charts from MarketTechnician.com. However, all is not lost. I am in the process of replacing a good piece of the MarketTechnician functionality via a weekly chart package that is now part of your subscrip-



13-Week Interest Rate Index — IRX

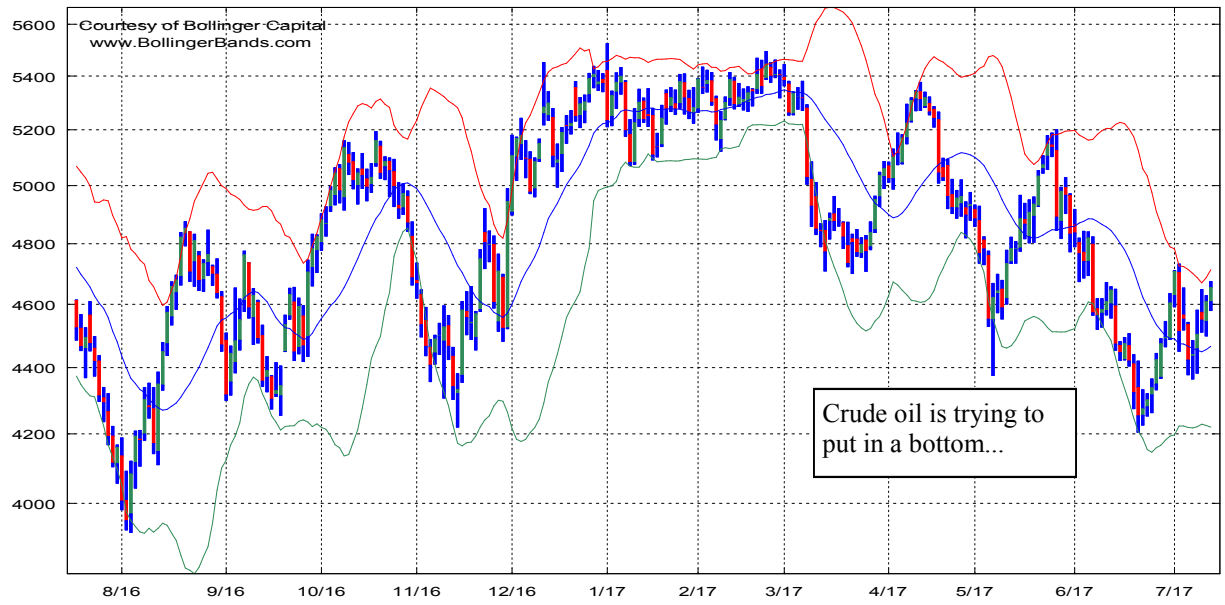
Gold Bullion Futures — GC — One Year

tion to this letter. I plan to publish this chart book each Saturday. All of the charts use daily data. There are currently 12 charts in the package, though I plan to add several more over the coming months. The package just presents charts, not analysis; commentary will appear in this letter and via the hotlines as appropriate. The following is a review of what charts are in the package at present.

The first two charts are the S&P 500 with Bollinger Bands. Chart one has %b in the indicator clip and chart two has BandWidth. These charts are useful for diagnosing tops and bottoms as well as locating Squeezes, which mark the beginnings of trends, and Bulges, which mark the ends of trends.

Charts three and four feature the S&P 500 and NYSE data on advancing and declining issues. Chart three has the advance-decline line in the indicator panel, and chart four has the 21-day advance-decline oscillator. The a-d line is the most basic and valuable measure of the internal strength of the market, while the a-d oscillator is a shorter-term, more sensitive view of the same realm.

Silver Bullion Futures — SI — One Year



Crude Oil Futures — CL — One Year

Chart five is similar to chart four, but uses NYSE up and down volume to create the oscillator instead of advances and declines. Together charts four and five comprise the core of an old market-timing system and these charts will be modified soon to make this approach more complete and useful.

Chart six has the ratio of the Value Line Geometric Average to the S&P 500 in the indicator panel below the S&P 500. When this line is rising the emphasis is on smaller stocks, when it is falling the emphasis is on the large-cap favorites.

Chart seven features a different type of indicator presentation using data from the NYSE for stocks making new 52-week highs and lows. The green lines above zero are the number of stocks making new highs, the red lines below zero are the number of stocks making new lows. This is very important timing data. For example, one of the most important warnings of a market top is an expansion of new lows while the market continues higher or consolidates at a high level.

Oil Service Stocks — OSX — One Year

Chart eight presents Abe Cohen's High Low Index in the indicator clip. The light blue line is the raw data, new highs / (new highs + new lows), and the red line is the indicator, a 10-day exponential smoothing of the raw data. The High Low Index was one of the first broad-market indicators and has been around for a long time. More recently Harold Parker and Mike Moody found this indicator to be very useful as an overlay for their relative-strength research.

Chart nine features Norm Fosback's High Low Logic Index. This indicator is not intuitively easy to grasp for many people. It is a smoothing of the lesser of the number of issues making new highs or new lows each day. High readings in HLLI mean that large numbers of stocks are simultaneously making new highs and new lows. In other words, the market is churning or 'out of gear', which is an indicator of a potential change in trend.

Chart ten displays my favorite supply-demand indicator, David Bostian's Intraday Intensity. Here it is presented as a 21-day oscillator normalized by dividing by total volume. This indicator was designed to track the actions of institutional investors as they accumulate or distribute stocks.

Chart eleven features a great overbought / over sold indicator, the Arms Index, which is also known as the trading index or TRIN. This indicator portrays the balance between advancing and declining issues and up and down volume and is most useful at its extremes where all the volume has been concentrated in the advancers or decliners. I feature a 10-day version using the 'open' calculation where each of the the components are averaged before the indicator is calculated.

Chart twelve depicts the Volatility Index, VIX, which has become known as Wall Street's Fear Gauge and is a prime driver of market action these days. High levels indicate panic, low levels, complacency.

In the immediate future I plan to add the Hindenburg Omen, The Titanic Syndrome, and change up the index mix. If you have thoughts/suggestions as to how to improve this market-timing report please drop me a line at BBands@BollingerBands.com.

Mike Moody dropped me a note about this chart package; what caught his attention was the mix of forecast time frames. Some of the indicators are known to be effective forecasting short-term moves, while some were designed to forecast longer-term moves. That mix was deliberate on my part. What I wanted was to portray an overall outlook for the market that contained both short- and longer-term components, so one might be able to deduce something like this: 'short-term weakness within the context of longer-term strength' The idea here is to have a slim package of charts that will be easy to review. The act of simply flipping through them each week should alert the user to the state of the market. This chart package is part of your subscription, but since the commentary separate from the charts feel free to redistribute it if you like.

Commodity ETF — DBC — One Year

Interest Rates

Short-term interest rates have finally risen to more than one percent. While that is not very high in the long-term sense, it does provides some solace to those who rely on relatively safe short-term instruments like CDs for their incomes. One of the great crimes of recent decades is the impoverishment of the retired, many of whom have had to cannibalize their capital to stay afloat.

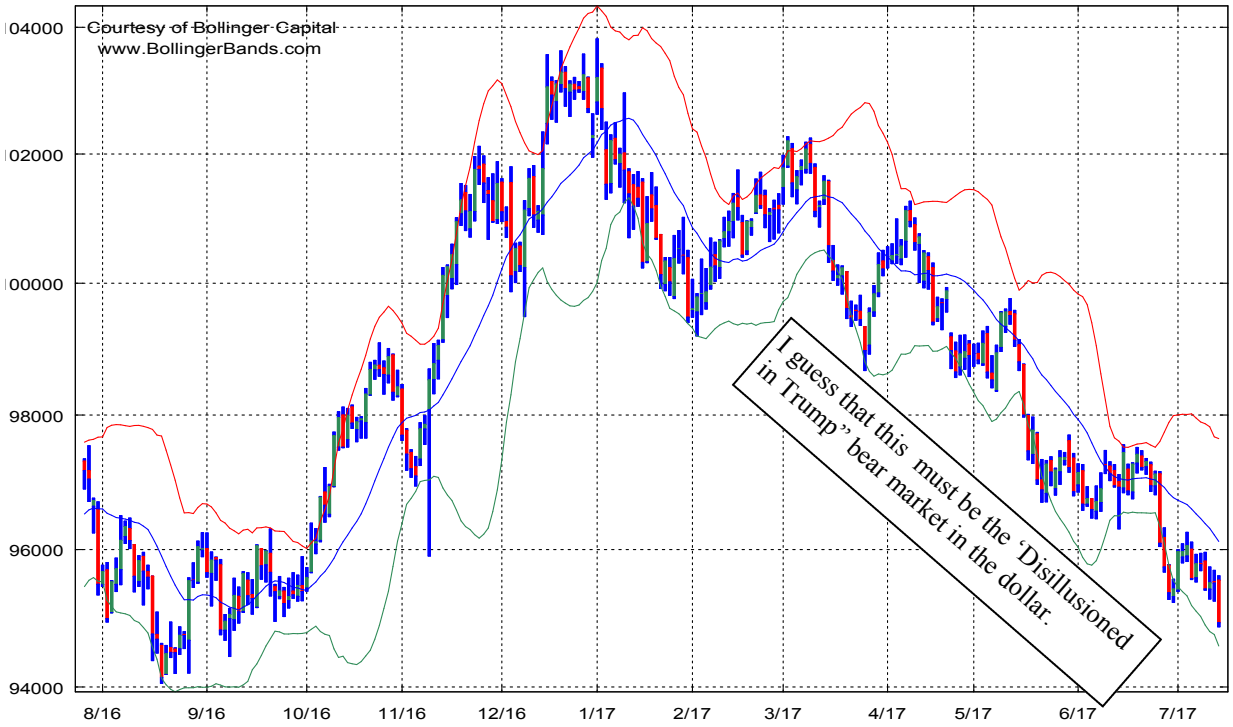
One thing that the current administration could do that would dramatically improve the economic outlook is to defang the Fed. The statement at the head of this letter clearly shows that the Open Market Committee (what an ironic name) of the Federal Reserve Board doesn't have a clue and are making it up as they go along. No one knows what the neutral level is for Fed Funds except Mr. Market. As for the two percent inflation goal, that's a number that has been picked out of a hat. At best the proper inflation level is dynamic and the proper dynamic level is a perfectly unknowable number. If the Fed had an iota of modesty, they would simply step back from the markets and let the equilibrium levels assert themselves rather than trying to guess at what they are. Then we would actually know what is going on and rational policy decisions might be possible. Chair Yellen's term expires in February, that'd be a perfect opportunity to pivot toward free markets and a new, shiny, hands-off Fed.

But don't we need regulation? No we do not. The democratic/capitalist system is messy by nature and efforts to tame that messiness simply deprive us of its benefits without providing any replacement benefits. The greater the level of freedom, the better the long-term results. Will there be problems? Certainly. Will we be better off? Absolutely!

View from the Beach

The witch hunt that is being conducted against Trump et al will do no one any good. It impedes economic progress. It rends the social fabric of our country. It destroys our confidence in our institutions. It brings the reputation of everyone concerned into ill-repute. It impoverishes us all. In my opinion Trump and the Republicans won the election fair and square and it is time to let them govern. There will be more elections, and elections are the proper way to change our system.

The obstructionism, of which both parties are equally guilty, is "An yll wynde that blowth no man to good…" There is so much that could be agreed upon, so much that could be done, so much that needs to be done, so much that would benefit all. So, to paraphrase the Bard: If you can't govern rationally by consensus "A plague o' both your houses!"



US Dollar Index — DX — One Year

Speaking Engagements

The San Francisco Money Show
San Francisco, CA, August 26, 2017
The Practical Application of Bollinger Bands
https://www.moneyshow.com/events/conferences/the-moneyshow/moneyshow-san-francisco/?scode=043014

IFTA 2017
Milan, Italy October 13-15, 2017
http://www.ifta-conferences.org/

Tesla—TSLA — One Year

ETF Portfolios	Symbol	Date	Purchase	Current	Dividends	Return	Rank
		Selected	Price	Price			
Style							(# in 21)
Core Growth	IUSG	4/24/2017	46.87	49.27	0.00	5.12%	2
Russell 1000 Growth	IWF	2/10/2017	111.06	121.37	0.76	9.97%	3
Russell 1000	IWB	1/27/2017	126.69	136.59	1.19	8.76%	4
International							(# in 24)
Austria	EWO	1/20/2017	17.26	21.92	0.31	28.81%	1
Spain	EWP	4/7/2017	29.85	33.60	0.31	13.60%	12
Netherlands	EWN	5/6/2017	28.91	29.80	0.35	4.32%	4
Sector							(# in 27)
Gobal Healthcare	IXJ	7/3/2017	109.22	109.91	0.00	0.64%	2
Software	IGV	4/17/2017	125.88	141.51	0.00	12.42%	5
Global Financials	IXG	7/3/2017	63.86	64.55	0.00	1.09%	1

ETF Portfolio Holdings

Portfolio

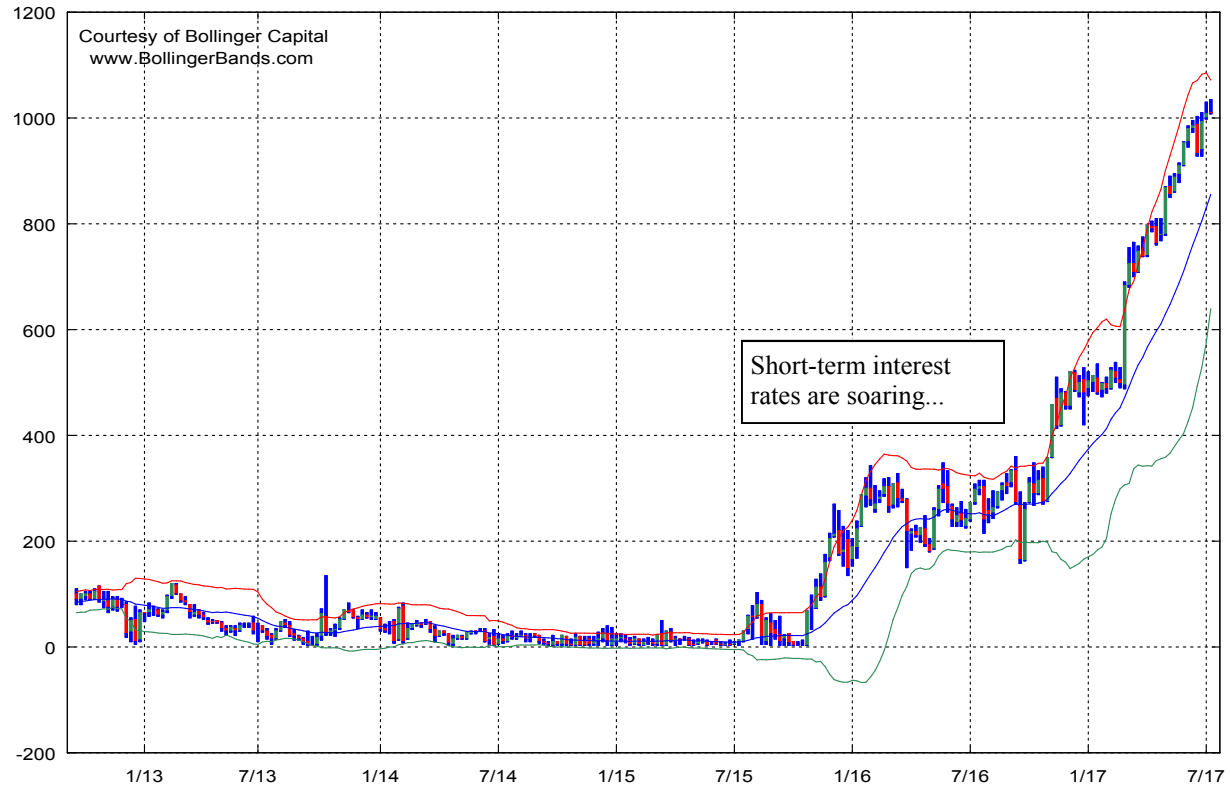
Slot	Name	Symbol	Entry Date	Entry Price	Current Price	Divid.	Total Return	Mental Stop	Action
Core Portfolio - US Equities									
1	S&P 500	SPY	10/19/15	203.20	245.56	7.97	24.8%	224.00	Hold
2	Russell 2000	IWM	11/02/15	118.21	141.73	3.35	22.7%	132.00	Hold
3	S&P MidCap	MDY	04/18/16	267.64	321.19	4.47	21.7%	300.00	Hold
4	Finance	XLF	10/08/16	19.75	24.92	0.29	27.6%	22.00	Hold
5	Russell 1000 (Equal)	EQAL	12/05/16	26.81	28.76	0.28	8.3%	27.00	Hold
6	Healthcare ETF	IYH	01/14/17	147.28	167.93	0.44	14.3%	148.00	Hold
7	Global Telecomm ETI	IXP	01/14/17	60.09	58.65	1.03	-0.7%	56.50	Hold/Add
8	S&P Small Cap	IJR	03/17/17	69.35	70.73	0.22	2.3%	65.50	Hold
9	S&P 500 Growth	IVW	03/17/17	131.81	139.88	0.15	6.2%	124.00	Add
10	Royal Dutch A	RDS.A	05/26/17	54.63	53.75	0.94	0.1%	49.50	Hold/Add
Core Portfolio - International									
1	Japan	EWJ	12/14/12	44.99	53.63	1.41	22.4%		Hold/Add
2	World	VEU	10/19/15	45.53	51.27	2.02	17.0%		Hold/Add
3	Int'l Property ETF	WPS	05/26/17	37.43	37.28	0.39	0.6%		Hold/Add
Core Portfolio - Yield									
1	Barclays High Yield	JNK	02/20/09	29.17	37.19	21.55	101.4%		Hold
2	iShares High Yield	HYG	02/20/09	69.98	88.53	43.14	88.2%		Hold
3	PS Finan. Preferred	PGF	03/13/09	8.35	19.03	10.00	247.7%		Hold
Core Portfolio - Speculation									
1	VIX Inverse	XIV	10/06/15	27.29	88.19	-	223.2%		Add

Portfolio Notes: As of this issue I have deleted "The Investing Environment" section. Tabular data simply isn't in demand anymore and I feel that its replacement, our new market-timing chart package, will do a much better job of giving a feel for what is going on. If there is any aspect of it that you miss please let me know and I will see what we can do to accommodate. BBands@BollingerBands.com I'd have thought that we would make a couple of portfolio changes between issues, but the opportunities never set up right. As the rally unfolds, we will be looking for opportunities in the emerging leadership. Still working on an update for the Value Line Plan. And also working on a new component list for the ETF portfolios. Our outlook for stocks remains positive and it is quite possible that global stocks will outperform US stocks for a while. As a consequence I have marked our International holdings 'hold'/add'. For risk takers, XIV can always be added to on pullbacks. Large-cap stocks are maintaining a bit of an advantage, as is growth.

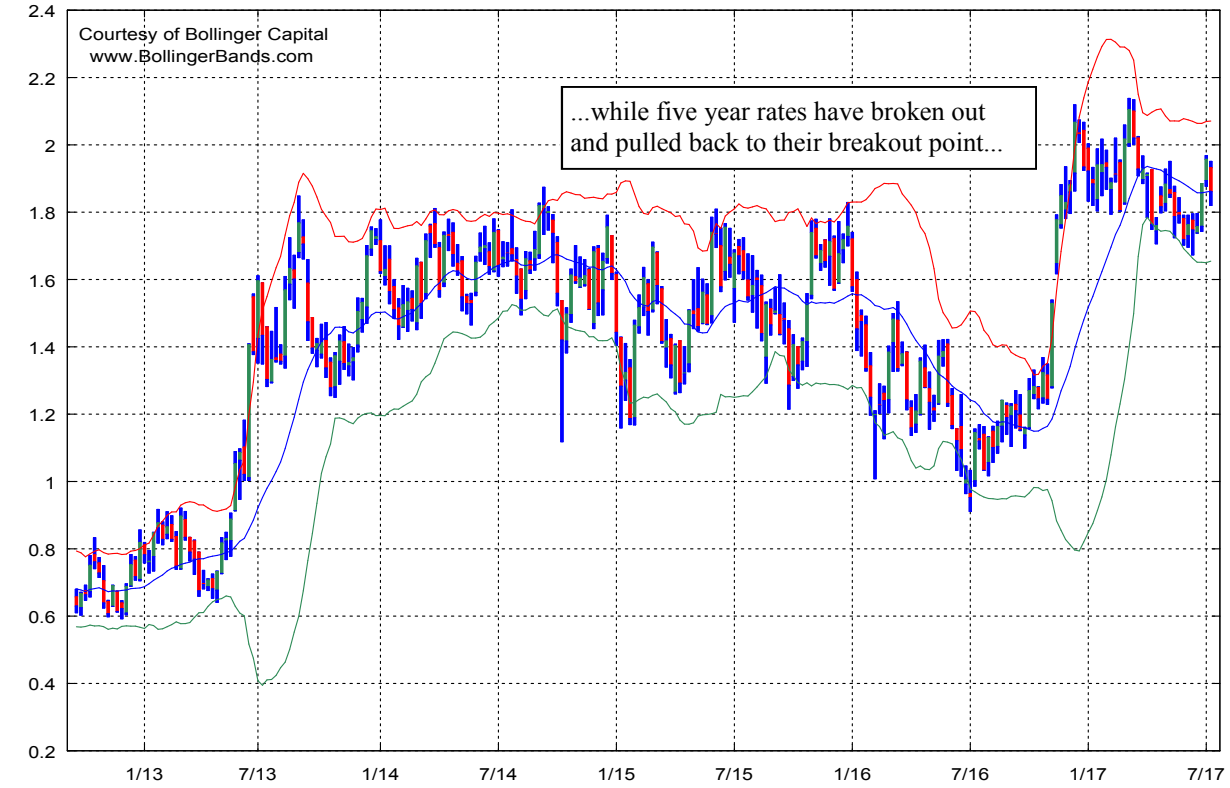
There are no changes to the ETF portfolios this week. The Value Line Plan is in the market with a Friday sell stop of 514.81. The value Line Geometric Average stands at 527.44.

A personal note: More wagging, less barking!

John Bollinger's Bollinger Band Letter is published monthly by Bollinger Capital Management, Inc., P.O. Box 3358, Manhattan Beach, CA 90266.; Phone: (310)798-8855 Website: www.BollingerBands.com E-mail: BBands@BollingerBands.com Subscription rates: $39/month, $419 a year This newsletter contains information obtained from sources we fully believe to be reliable; however we do not guarantee accuracy. Although opinions expressed herein are based on sound judgment and research, no warranty is given or implied as to their true reliability. The responsibility for decisions made from information contained in this newsletter lies solely with the individual making those decisions. It should not be assumed that recommendations made in the future will be as profitable or equal the performance of the securities in this list. Officers of Bollinger Capital Management, Inc. may at times have positions in securities mentioned.

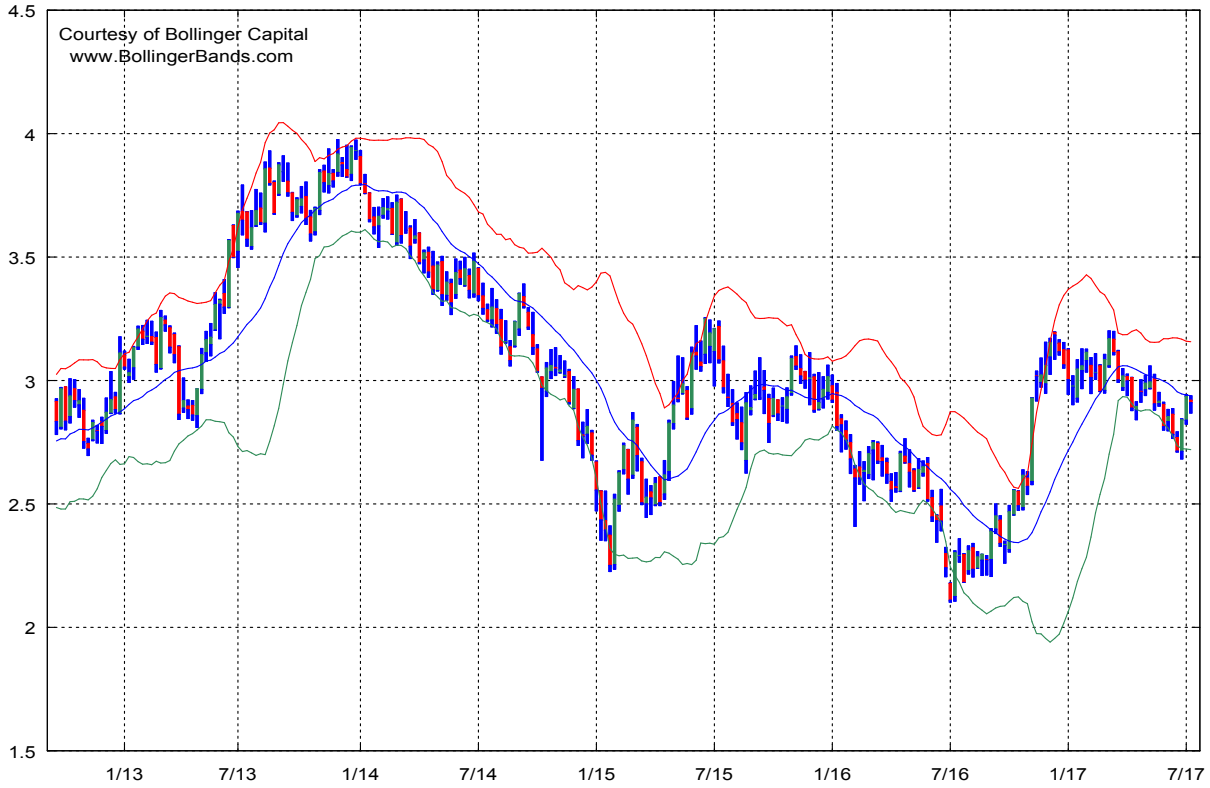


13-Week Interest Rate Index — Weekly — Five Years



Five Year Interest Rate Index — Weekly — Five Years

10-Year Interest Rate Index — Weekly — Five Years



30-Year Interest Rate Index — Weekly — Five Years