BLI
BLUE LINE INVESTING

Follow the BLUE LINE…

The enclosed article series provides a glimpse into the investment philosophy and concepts we use with BLUE LINE Investing. Read on to learn how our process monitors investments from different time perspectives, manages risk, and attempts to profit from both rising and falling stock prices.

Advisory Services Offered Through Gordon Asset Management, LLC, A Registered Investment Adviser.
1007 Slater Road, Suite 200, Durham, North Carolina 27703 (866) 216-1920
Raleigh Office (919) 782-7619

Blue Line Investing, Article 1 of 12

Age-Based Investing:
Logical or Illogical?

Have you ever been told that based on your age you should make certain investment decisions? For instance, if you are younger, have you been told you should take as much risk as you can since you have a long time before you need to use that money? Or, if you are older, have you been told you should take less risk since you don't have time to recover from a stock market decline? If you have personally experienced this during your lifetime, we believe you should ask yourself if you believe that is logical or illogical advice?

History has shown that stock markets typically go through 3 *primary* trends at different points in time, and these trends can last from several quarters to multiple years. The trends are typically called Positive, Neutral (or Consolidating), and Negative. An example of a Positive primary trend would be the U.S. stock market from the mid to late 1990's where prices rose steadily for about 5 years. An example of a Neutral/Consolidating primary trend would be the U.S. stock market from the mid 1960's through the early 1980's where the stock market failed to make new highs for over 15 years. And an example of a Negative primary trend would be the U.S. stock market from 2000 into early 2003 where prices primarily declined for over 3 years.

Consider, for instance, the stock market rally during the late 1990's. If you were older, and someone recommended in 1995 you take less risk because of your age, you may have missed out on additional profits by being too conservative when the stock market was suggesting higher prices may be forthcoming. And this could have been at a time in your life when you had amassed a good sum of money during your working lifetime. Likewise, consider the stock market decline in the early 2000's. If you were younger should you have participated in the losses just because of the logic “*you can afford to*” or “*time is on your side?*” We believe the answer should be a resounding “*No*!”

Since the stock market does not revolve around us as individuals, then why should we make investment decisions as if it did? We believe considering another option could be advantageous: centering investment decisions around a process that focuses on one constant – the stock market itself - and whether it is perceived as either attractive or unattractive for investment based on the 3 primary trends.

In our next article we will begin to explore what we believe could be a better way to approach investing, especially from the context of TIME.

Blue Line Investing, Article 2 of 12

Redefining TIME in the Investment Decision Making Process

The saying goes that when you are younger, say 25, that you should take as much risk as you can since you can afford to. But doesn’t this age typically coincide with having a smaller amount of financial resources? So if you have $10,000 to invest and earn a 10% profit, you make $1,000. Not bad. But the saying also goes that when you are older, say 60, you should take less risk, since you can’t afford to suffer a big loss. But doesn’t this age typically coincide with a larger amount of financial resources? So if you have $1,000,000 to invest and earn that same 10% profit, you make $100,000. That’s substantial. So how can these seemingly backwards concepts be turned right-side up?

In our previous article titled “*Age-Based Investing: Logical or Illogical?*” we raised the question of whether investment decisions should be made based on one particular factor of time, specifically your age? We suggested the focus be redirected at the main constant that matters most regardless of your age, specifically, the stock market itself (or any other publicly traded investment), and how attractive or unattractive it may appear for investment at any moment in time. If the stock market appears to be in a topping process, should your age be a factor of consideration? If the stock market appears to be in a bottoming process, likewise, should your age be a factor of consideration? If you are a profit-seeking investor, shouldn't your only concern be taking risk when you expect to be rewarded for taking that risk?

But how can this be accomplished? After all, no one can time the market, right? But aren't you able to observe trends? And don't trends form over days, and weeks and months? One of the tools that can be used to monitor trends is technical analysis. And one of the tenants of technical analysis is to look for repetitive price patterns in attempt to anticipate a possible future outcome based on past price patterns.

By utilizing technical analysis, time is effectively redefined from being your age to being how you view an investment from 3 different perspectives; specifically, a Daily perspective, a Weekly perspective, and a Monthly perspective. In our next 3 articles we will provide an example of each perspective, beginning with Daily.

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Chart courtesy of StockCharts.com

TIME from the Daily Perspective

If you are familiar with the game of chess, the winner tends to be the player who thinks several moves ahead. Since you can't read your opponent's mind, you always have to modify your next planned moves as your opponent moves in order to remain ahead. This article, along with the two that follow hereafter, will provide examples of this concept using Daily, Weekly, and Monthly perspectives of the U.S. stock market.

The Daily chart (pictured above) can help an investor in 2 primary ways. First, it provides the opportunity to evaluate the short-term primary trend of an investment which helps evaluate the risk of owning it. If the trend is positive, prices will predominately remain above the blue line and rise for an extended period. If the trend is neutral, prices will predominately oscillate above and below the blue line without making any significant advancement. And if the trend is negative, prices will typically remain below the blue line and decline for an extended period.

Second, it provides the opportunity to observe technical formations that can coincide with potential changes in these trends. For instance, while it is positive that prices in the chart above of the S&P 500 Index rallied back above the blue line earlier this calendar year, and has so far been able to remain above the blue line, a technical formation recently formed called a "Head and Shoulders." This formation, identified above with “LS” as the left shoulder, “H” as the Head, and “RS” as the right shoulder, warned that prices might correct in the short-term. Sometimes this formation results in a short-term price correction (as it did in 2011), and sometimes it can warn of a major stock market top (as it did in 1929).

So how can these short-term technical formations help you with your investment decisions? First, if you are considering adding new money to your investments, wouldn't you rather do so after prices decline rather than right before? Second, if you are already fully invested, wouldn't you prefer to have the choice of placing some protective hedges in your portfolio if the market may be warning of a pending correction? Third, for the aggressive investor, wouldn't you like the opportunity of making some investments on the short side of the stock market in attempt to profit from the correction? These concepts will be discussed further in future articles.

In our next article we will explore the Weekly perspective.

Note:
The S&P 500 Index is the Standard & Poor’s Composite Index of 500 stocks and is one of the most commonly followed equity indices. The volatility (beta) of an account may be greater or less than the index. It is not possible to invest directly in this index.

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Chart courtesy of StockCharts.com

TIME from the Weekly Perspective

In our previous article we explored some of the benefits of using Daily charts to view how attractive or unattractive the S&P 500 Index (S&P) may appear in the short-term. In this article we will explore what can be observed when looking at the same investment in the intermediate-term from the Weekly perspective.

When viewing a Weekly chart there are 2 things to keep in mind. First, it represents a broader picture of what may be happening with an investment, at least from a technical perspective. Second, the rate of change is slower, so even if you believe a technical formation is in the process of forming you must be patient for the market to bring it to completion. You should not make investment decisions based on what you *think* is going to happen - you must wait until the market *confirms* it is happening.

In the previous article, we identified the Head and Shoulders (H&S) technical formation and how that typically suggests a change in trend to the downside. When looking at the Weekly chart above, we want to look for evidence that supports or invalidates how significant that H&S formation may be. Specifically, could it be warning of a major price top or just a short-term price correction?

The chart above represents the past 2 years of price behavior of the S&P. The blue dashed line labeled “Support” identifies where buyers have overwhelmed sellers and prices have “bounced” at that price level. The red dashed line labeled “Resistance” identifies where sellers have overwhelmed buyers and prices have “turned down” at that price level – until recently. In early July there was a “Breakout” through resistance. The next expectation was for the market to "Test" the breakout. So interestingly enough, when the market formed the Head-and-Shoulders it turned down and effectively "tested" the breakout around the 2,125 price level. That's the good news. The potentially bad news is the market has not rallied strongly to the upside.

So how can observing this help you with your investment decisions? First, as we wrote in our previous article, if you are looking to make new purchases you may want to wait to observe if the "test" is confirmed. If so, it might provide you with a greater level of confidence that your decision to take risk may be rewarded – at least in the short-term. Second, if you are currently fully invested and price breaks down through the 2,100 price level, you may consider adding some protective hedges in attempt to help protect against what could become further price decline. Finally, aggressive investors could attempt to profit from any price decline by using Inverse Exchange-Traded Funds or other similar types of investments.

In our next article we will explore the S&P from the longer-term or Monthly perspective.

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Chart courtesy of StockCharts.com

TIME from the Monthly Perspective

In our previous two articles we learned how observing the short and intermediate-term time periods can provide helpful clues as we attempt to identify the primary trend of an investment from a technical perspective. In this article we will explore what can be observed when looking at the same investment in the long-term from the Monthly perspective.

When viewing a Monthly chart there are 2 things we like to keep in mind. First, the rate of change is very slow, so relying on this perspective in isolation could prove detrimental. For example, the charts above represent almost 3 years of price activity and each vertical line in the first chart represents one entire month of price variation for the investment. Second, we have found this perspective can be helpful as a witness to assist in identifying the underlying primary trend within the Daily and Weekly perspectives.

As a quick recap, in our Daily article, we identified a Head-and-Shoulders formation that suggested a potential change in trend before the S&P turned down after the recent breakout. In our Weekly article, we identified what appeared to be a successful "test" of the breakout. So what additional information can we observe from the Monthly chart above? We can observe a potential *divergence*. A divergence usually occurs when the price of an investment (the left-hand side of the chart above) and the price momentum of the same investment (the right-hand side of the chart above) are going in opposite directions. In other words, they diverge. We have found that price momentum tends to lead price, such that the price of an investment should be rising along with price momentum. While it is possible for price to rise as price momentum is consolidating (as it may be doing above), we believe it is important that price momentum remains above the zero bound.

The chart above is of the S&P 500 Index (S&P). It formed a temporary "price top" back in early 2015 (labeled "1a"). After a corrective phase, prices rallied to a new high during this calendar year (labeled "2a"). But while prices have been rising higher, you can observe that it has been with declining price momentum. Price momentum peaked during 2015 (labeled "1b") and now, even with the markets making all-time highs, continues moving lower (labeled "2b"). So what could this suggest?

The divergence could be warning of a correction that may occur soon, or within the coming weeks or months. If so, we believe close attention should be paid to the Daily and Weekly charts, along with other investment witnesses, in attempt to implement proactive investment decisions in advance. Alternatively, if prices rally sharply over the coming weeks and months, the divergence may be negated altogether. Again, since Monthly charts develop over long periods of time, an investor shouldn't draw any concrete conclusions from this particular divergence in isolation in our opinion.

Now that we have identified how to use 3 different perspectives for viewing any publicly-traded investment, in our next article we will explore the concept of using *witnesses*.

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Investment Witnesses

When playing poker it can be advantageous if you can learn the "tell" of your opponent. A *tell* is defined by Wikipedia as "*a change in a player's behavior or demeanor that is claimed by some to give clues to that player's assessment of their hand. A player gains an advantage if they observe and understand the meaning of another player's tell, particularly if the tell is unconscious and reliable.*" We believe the stock market has its own tell, but how can its reliability be determined? We believe the answer is to look at witnesses!

When money moves in the stock market it typically flows out of one sector and into another. These changes in the bid and ask price for an investment are what causes prices to rise and fall over time. For instance, historically, when stocks have a price correction, symbolized by more selling than buying, you may observe other sectors like bonds rising as they become the recipient of that money (at least in the short term). While these historical relationships are not absolutes, they help illustrate the concept.

In recent weeks we have observed the stock market from the Daily perspective, which suggested a negative outcome (at least in the short term). The resulting price correction led to a successful "test" of the price breakout which we observed when looking at the Weekly perspective (the intermediate term). With the successful test, we believed the market was suggesting a further rise in price. But the Monthly perspective (long term) seemed to suggest caution. So where else can we look for two or more witnesses in hope of correctly determining the potential reliability of the markets tell?

One witness may be observing the price action and behavior in other sectors, like U.S. Government Bonds. As mentioned above, when investors become concerned they typically seek safety. A second witness may be observing another type of investment within the same sector, like high-yield, or “junk” bonds. Since they behave more like the stock than bond market, their behavior may shed more light on expectations for the next potential move in the stock market. A third witness may be observing a volatility investment like the exchange-traded fund (ETF) VXX. After all, when knowledgeable investors begin to get nervous, they might buy put options and sell call options as a defensive strategy. Some of this behavior can be observed by monitoring the VXX ETF.

By monitoring all these witnesses in unison we are better able to evaluate the reliability of what we perceive to be the markets tell. It is important to keep in mind that when prices make dramatic moves in the stock market, it doesn’t typically happen in isolation and without advance notice. If you can learn to read the market’s tell, then we believe over time you are likely to make more profitable than unprofitable investment decisions.
In our next article we will revisit the concept of *diversification*.

Note:

The iPath® S&P 500 VIX Short-Term Futures™ ETNs (the “ETNs”) are designed to provide exposure to the S&P 500 Index VIX Short-Term Futures™ Index Total Return (the “Index”). The Index is designed to provide access to equity market volatility through CBOE Volatility Index® (the “VIX Index”) futures.

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Does Diversification Reduce Risk?

Stocks? Check. Bonds? Check. Real Estate? Check. Commodities? Check. “Don’t put all your eggs in one basket” as they say. You are likely familiar with this saying, and in theory we believe it is prudent advice. But when it comes to actual implementation, does it make sense? Presuming you are already familiar with the potential benefits of diversification, we believe the answer to the title of this article is yes – diversification *can* reduce investment risk – but at what cost?

Diversification can help reduce the risk to your investment portfolio depending on your asset allocation. Asset allocation is how you choose to invest your money among categories of investments like those listed above. Some categories are considered “risky” (such as stocks, real estate, and commodities) due to the potential volatility of their prices, while others are considered “risk free” (such as bonds and cash equivalents) because the volatility of their prices is more stable. It is this asset allocation decision that will likely have the largest impact on how much you reduce risk as you diversify your investment portfolio.

But therein lies one of the main costs of diversification – the more money that is allocated to “risk free” investments in attempt to reduce your risk, it will likely lower your expected rate of return over the long run. And further, the more you broadly diversify your investments within each of the categories listed above, the more likely you are to own investments that are in both rising *and* declining trends. It is those investments experiencing negative primary trends that detract from your total portfolio returns. So what can an investor do? Is there a way that can help to reduce risk without necessarily having to limit the potential return on your portfolio? We believe the answer is yes.

We have found that when a publicly-traded investment falls below its blue line by more than 5%, it may be the markets way of providing an early warning to investors. When this 5% warning happens, and if thereafter the investment's price goes through the next 2 steps of our sell discipline, then we believe there is a high probability that prices are now in a negative primary trend and will continue to fall further. At that point in time we believe the investment should be sold. We believe it is preferable to identify and own those investments that trend above their blue line while *avoiding* those that, at least at that moment in time, do not.

While we believe diversification can help reduce risk, we believe it is likely to lead to an average return over the long run. For investors striving to achieve an above-average return instead, we believe a *sell discipline* (not a *substitution* discipline) is required in your investment process. Our next article will distinguish this difference.

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SUBSTITUTE or SELL?

For as long as we can remember the investment industry has maintained a standard investment practice with how they apply active management to their client investment accounts. But we believe in recent years it appears the industry may be questioning how effective it is over the long run. This practice consists of *substituting* investments rather than *selling* investments. Understanding this difference can have a material impact on your rate of return over the long run, especially when the primary trend of the market changes from positive to negative.

We will use the game of soccer to illustrate the substitution strategy. During a game the players get tired. So when the coach makes a substitution he is effectively exchanging one player for another. After the substitution the number of players on the field remains the same. Compare this with how active management is conducted at many investment firms and financial institutions today. They, like coaches in the game of soccer, are making substitutions to investments. For instance, they remove the ABC Growth fund owned within their client investment portfolio to replace it with the XYZ Growth fund. Or, maybe they might become displeased with the performance results from the 123 Real Estate fund and substitute it for the 456 Real Estate fund. In effect, like the players on a soccer field, the substitution strategy keeps all money fully invested within the portfolio at all times regardless of whether the primary investment trend is positive or negative.

Continuing with our soccer analogy, during play one of the players might receive a red card from the referee, resulting in their ejection from the field. Should this happen there will be no substitution of players. The team loses that player and must continue the game playing one man down. While not a perfect analogy, we liken this to the idea of a sell rather than a substitution change. We believe improvements to clients' long-term rates of return can be made by making sell decisions rather than substitution changes. In other words, when the primary trend of the market is negative, then doesn't it seem logical to keep the proceeds from a sell decision in cash rather than reinvesting it immediately into another similar investment? Of course, this all depends on the primary trend of the market.

For instance, consider when stock markets were in primary negative trends, like 2000-2002 or 2008-2009 (which coincided with the broad market remaining below the blue line for the duration of the stock market decline). By substituting risk investments like stocks, the value of your investment portfolio is likely going to decline along with the stock market decline. But by taking the approach of making a sell decision and keeping the proceeds in cash you could afford yourself the opportunity to reinvest the proceeds at cheaper prices in the future after the primary negative trend is exhausted. After all, isn't the old adage, "Buy low, sell high?"

We believe that during a rising stock market a substitution strategy will work fine and likely result in financial gains for investors. But when markets change from positive to negative primary trends, the substitution process will likely result in losses, which could be material depending on the extent of the market downturn. We believe a successful investment process must have a *sell discipline* to reduce risk to the overall investment portfolio and this will be discussed further in our next article.

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Reducing Risk with a Sell Discipline

In our previous article we explored two different investment strategies. The first is based on remaining fully invested at all times and substituting investments within your investment portfolio. The second is based on being willing to keep portions of your portfolio in cash by making strategic sell decisions. Our experience has found the second strategy tends to be difficult for many investors to embrace. The usual reason is because they worry they will miss out on the upside by not remaining fully invested. And while this may be true part of the time, by remaining fully invested they are likely to capture all the downside when it occurs.

The late Richard Russell, author of Dow Theory Letters, always emphasized an important investment concept. He stressed that when bear markets occur, they tend to retrace one-third to two-thirds of the preceding stock market advance. In other words, without a sell discipline, your investments that can take years to accumulate, can be significantly impaired or lost within a matter of weeks or months. Consider 2008 as a case in point. Almost the entire price decline occurred from September 2008 through March 2009 – a mere six months. And in that time the entire stock market advance of the previous 5 years (2003 – 2007) was wiped out. What could have helped many investors was the use of a sell discipline. By using and relying on a sell discipline, your focus remains on your process, rather than your emotions. Process can help minimize your emotions and personal biases when making investment decisions. In addition to helping you with a sell decision, your process can also guide you with your purchase decisions as well.

CNBC recently published a portion of an interview on October 12, 2016 with Jim Cramer, the famed trader and the TV host of “Mad Money.” His comments echoed our philosophy and process relating to the benefit and use of a sell discipline. He says it better than we can so we are reposting an excerpt from the article below.

> *The biggest mistake Jim Cramer sees investors make is that many think they are supposed to be fully invested at all times. Heck, even some money managers have told him that they are supposed to have all their money in stocks. This is complete nonsense! Having cash on hand when a market correction occurs is the key to protecting a portfolio. Sometimes the market will stink, and there is nothing to do but just sit in cash. "In fact, one of the chief reasons that I outperformed pretty much every manager in the business during my 14-year run as a professional money manager is that there were substantial blocks of time when I was largely in cash," the " Mad Money " host said.*

We believe it is important for all investors to keep in mind that cash is an asset class, and the rules of investing don't only say "buy and hold." To outperform over the long run, we believe it is important to have a sell discipline as part of your investment process. To learn about ours, please review Our Process by visiting www.BlueLineInvesting.com/about-us/.

Sources:

Richard Russell, Dow Theory Letters, www.DowTheoryLetters.com

Stevenson, Abigal. "Cramer Reveals the No. 1 Reason He Outperformed the Market as a Money Manager." Yahoo Finance. CNBC, 12 Oct. 2016. Web. 27 Oct. 2016

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Why We Prefer Using ETFs

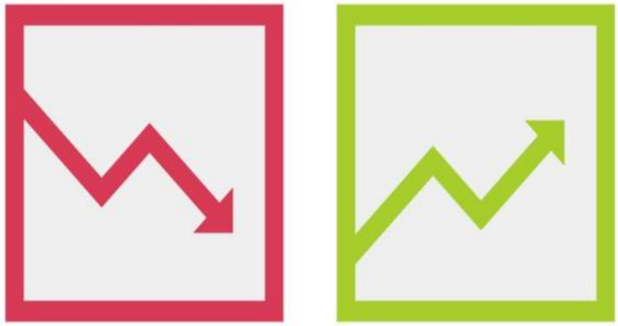
Individual stocks, stock mutual funds, stock exchange-traded funds (ETFs) – which one(s) are right for you? While we can not answer that question, we would like to share why we prefer using ETFs as our primary investment choice. In addition to how well ETFs conform to our Blue Line Investing process, additional benefits include diversification, marketability, and selectivity.

From a **diversification** standpoint we prefer *ETF's over individual stocks*. To be clear, this doesn't mean we don't or won't invest in individual stocks. It simply means we prefer to minimize the risk associated with investing in individual stocks. ETFs help us accomplish that by allowing us to invest in a diversified sector rather than invest in a few individual companies. For instance, share prices of medical device company Zimmer Biomet Holdings, Inc. (symbol ZBH) recently dropped over -20% in the past two weeks. In comparison, shares prices of the iShares U.S. Medical Device ETF (symbol IHI) dropped over -4% over the same time period. We prefer to capture most of the upside with less of the downside rather than attempt to capture all of the upside along with all of the downside.

From a **marketability** standpoint, we prefer *ETF's over mutual funds*. Consider for instance the Vanguard 500 Index mutual fund (Admiral Shares symbol VFIAX) compared to the Vanguard S&P 500 ETF (symbol VOO). At first glance these two investments appear the same. They both invest in the same 500 stocks that represent the S&P 500 Index, both own those 500 stocks in the same proportions, and both have the same annual underlying expenses. So in essence they are the same, right? No, they are not. The reason is their individual marketability. For instance, with all mutual funds, no matter when you place your buy or sell order during the trading day, you always receive the share price *at the close*. Since ETFs are marketable like individual stocks, whenever you place your buy or sell order during the trading day, you receive the price *at that moment in time*. Depending on the specific day of purchase and sale, and depending on the volatility of the market on those given days, you can realize a different return over the long run by investing the same amount of money in these two similar, yet different, investments.

From a **selectivity** standpoint, we again prefer *ETF's over mutual funds*. There are occasions when it can be advantageous to avoid certain sectors of the stock market, especially when a sector is experiencing a negative primary trend. This can be one of the drawbacks to investing in indexed investments over the long run that remain fully invested in all sectors. For instance, during the summer of 2014 the energy sector topped. By the time that sector reached the bottom in early 2016 it lost over -48%. So for passive investors who invested in an index-type investment, their return was impaired for the year by the negative performance from that one sector. Is there a way to avoid this? We believe there is. One possibility would be to reconstruct the S&P 500 Index by using sector ETFs in similar proportions. Then, when any sector violates your sell discipline just simply remove it from your investment portfolio. This could help lessen the negative impact to your investment portfolio from the price decline in that sector.

Depending on your investment philosophy and process you will likely use one or a combination of these investment choices. Now that we have explained why we prefer using ETFs, in our next article we will explore some of the potential benefits of selectively incorporating ***inverse*** ETFs in your investment portfolio.



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Attempting To Profit From Falling Prices

To many investors, inverse exchange-traded funds (ETFs) can be a dangerous investment. But for some investors, inverse ETFs can open a whole new world of opportunity. We will explore one such opportunity in this article. But before we do, let us explain what an inverse ETF is.

An inverse ETF is an exchange-traded fund that uses derivatives in attempt to profit from the decline that occurs in a different investment. In other words, when the price of a specific investment goes down, the price of the corresponding inverse ETF investment goes up (and vice versa). Inverse ETFs can be purchased for use in many different markets, including stocks, bonds, currencies, and commodities. In our previous article we discussed the negative primary trend the U.S. energy sector experienced from the summer of 2014 until early 2016. That sector dropped in price by over 48% from the top to the bottom. While this could have been unfortunate for many investors who owned investments within that sector, it may not have been unfortunate for every investor.

Those investors who moved money into an inverse ETF in the energy sector could have realized gains while others were suffering losses. For instance, suppose your investment process could help identify potential turning points in the primary trend of markets, or as in this case, the U.S. energy sector. As soon as your process suggested a change in primary trend, you would then be in a position to make a proactive choice. Assuming you are not a passive investor, your first choice might be to buy the inverse ETF in the energy sector in attempt to protect, or hedge, investments you want to continue to own in that sector. Your second choice might be to sell investments you own in the energy sector and look for new investments in other market sectors. A third choice might be to sell your investments in the energy sector and purchase an inverse ETF in the same sector. By doing so, it is possible that as the price of the energy sector declines, the price of your inverse ETF could rise. As one goes down, the other goes up. This is one way you could attempt to profit from falling prices.

To effectively use an inverse ETF as part of your investment strategy requires a thorough understanding of how they work and the potential risks their use entails. And while it is not the objective of this article to explain those risks in detail, we do want to comment on a few things we have learned from their use over the years. First, we believe you should set your expectations correctly. You are not likely going to profit from the entire decline in another investment when using an inverse ETF. We believe your goal should be to capture *a portion of the profit* that might be generated through the use of the inverse ETF. Second, avoid being greedy! In our view, this should be a temporary option to consider for your investment portfolio while you continue looking for other investments that are in positive primary trends. Third, we believe you should already have a target sell price before you make your initial investment in the inverse ETF. And finally, your time horizon for using such an investment in your investment portfolio should range from as little as a few days to a month or two *at the maximum*. This is not a buy and hold investment in our opinion.

We believe inverse ETFs can prove beneficial as an investment tool in your use. They can be used as a protective hedge during volatile and potentially uncertain market environments. Or, they can be used in attempt to profit during a negative primary trend, like the recession from 2000 – 2002. But no matter how you choose to use them, the one thing they will do is open your eyes to investment opportunities regardless of whether markets are rising or falling.

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Achieving Balance

The image above shows several stacked stones. Beginning with the foundation stone, each successive stone must remain stable and in balance in order to act as a foundation stone for the one to follow. In similar fashion, each of the articles in this series is like one of the stones above, with each establishing a principal and foundation for the one to follow.

Our first article laid the foundation stone, which questioned the logic of centering the investment decision on you (and your age) rather than the stock market itself. You may recall at one point in history man believed the earth was the center of the universe. And as foolish as that may seem today, we believe the same can be said of centering investment decisions on your age, an approach that requires *luck*. For instance, the investor who retired at age 65 in the early 1980's likely had a far different retirement experience compared to the investor who retired at age 65 in the late 1990's. One was lucky, while the other was not. After questioning this logic our second article proposed changing the focus of *time.* Rather than time being a factor of your age, why not view *time* as a perspective? Specifically, learn how to observe the stock market from different perspectives of *time* to conclude whether your choice to take risk at current prices could be rewarded or punished, regardless of your age? In our third, fourth, and fifth articles we provided illustrations from the *daily*, *weekly*, and *monthly* perspectives of *time* to explore this concept in real time.

Beginning with our sixth article we began to explore deeper concepts within our investment philosophy and process. We explained the idea of using "witnesses" to see if the market itself could provide clues, or "tells," of whether the current primary trend is expected to continue or if it might be in a state of change. In our seventh article we questioned if diversification by itself really helps to reduce risk? In our eighth article we explored a common practice in the investment industry where in some cases, active management has become a commodity. This common practice entails charging a fee to *substitute* investments, all the while remaining fully invested often without regard for the primary trend of the stock market. In our ninth article we explored how a sell discipline over the long run could help you minimize your losses during major stock market downturns. By doing so, it could put you in a position to buy again at lower prices in the future. In our tenth article we explained a few reasons for why we prefer using exchange-traded funds (ETFs) compared to most individual stocks and mutual funds. And in our last article, we introduced the concept for how to use *inverse* ETFs in attempt to protect your investment portfolio, or even potentially profit, during major stock market downturns.

While the future remains unknown, we expect it to mirror the past. Markets will rise and fall. Primary trends will change: from positive to negative; from negative to positive; and from positive to neutral. But regardless of the primary trend, we believe a disciplined, rules-based investment process can help achieve balance. Balance with your emotions. Balance with how you make investment decisions. Balance with how you search for investment opportunity. And balance in life. Thank you for reading this article series and please visit our website at www.BlueLineInvesting.com to learn more about our services and investment process.