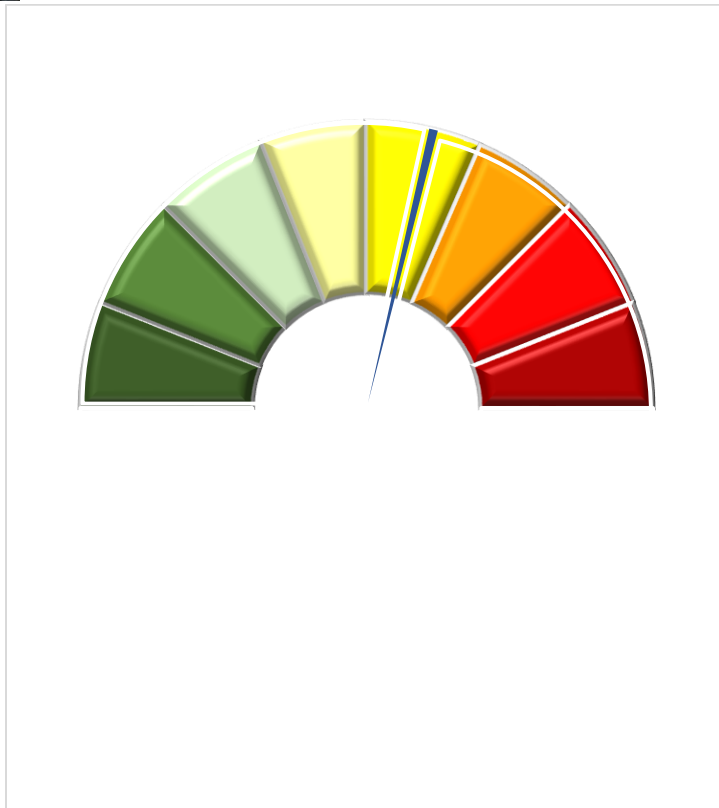




## Risks Hold Steady in Overbought Market

This week, the *Risk-O-Meter* remained on a “buy” signal. Several indicators saw their risks ease off, while a couple of indicators threw up red flags. This back and forth has been going on for several months. The net result is not much changed.



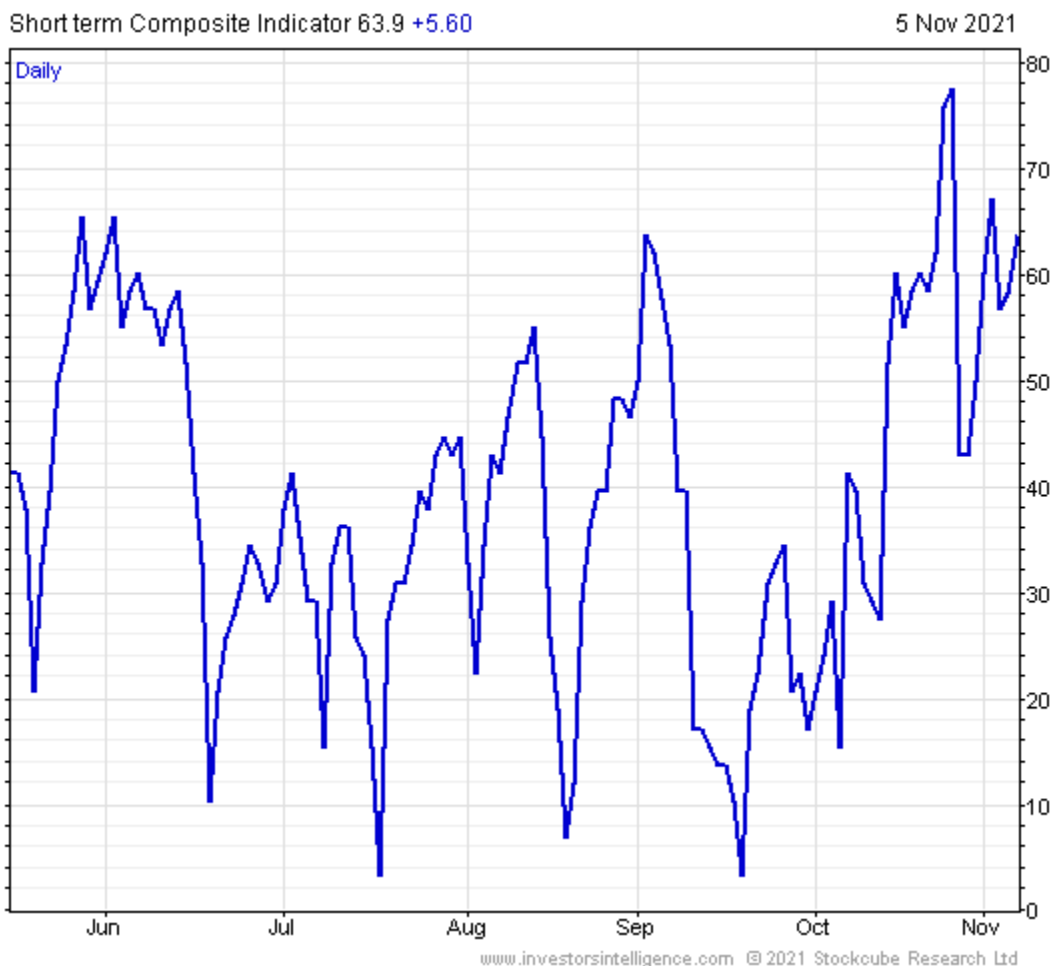
Despite the *Risk-O-Meter* remaining on a “buy” signal, the market is now very overbought. The strategies in this newsletter had big weeks, especially *Mega-Tech Trends*. If you’re long smaller stocks, it’s been a tremendous start to the month.

However, a cooling-off period would not surprise me. One of my favorite short-term indicators is the *Short-Term Composite Indicator* from *Investors Intelligence*. This indicator captures trends in several dozen short and intermediate timeframes.

The market often overshoots to the upside and downside and creates opportunities to buy up stocks during overly aggressive selling and cut risk when the market gets too greedy. Best of all, there’s no emotion in the calculation of the indicator.

As I have noted before, I think it’s much easier to spot bottoms because it’s more obvious (to me at least) when there’s not much left for investors or speculators to sell. From there, the market can only fall so much, and the risk/reward is favorable to buy some stock. On the other hand, it’s much harder to know how much more investors have to buy. Fear is easier to capitalize on than greed.

Right now, we are entering a greedy phase. Right now, the indicator is closing in on 6-month highs. Usually, this is not sustainable.



Compare that to mid-September when it was under five and represented a great buying opportunity. When the indicator gets that low, I buy aggressively. At the current reading of 64, it could go higher, but risks are elevated of a pullback.

It's a good time not to get too complacent.

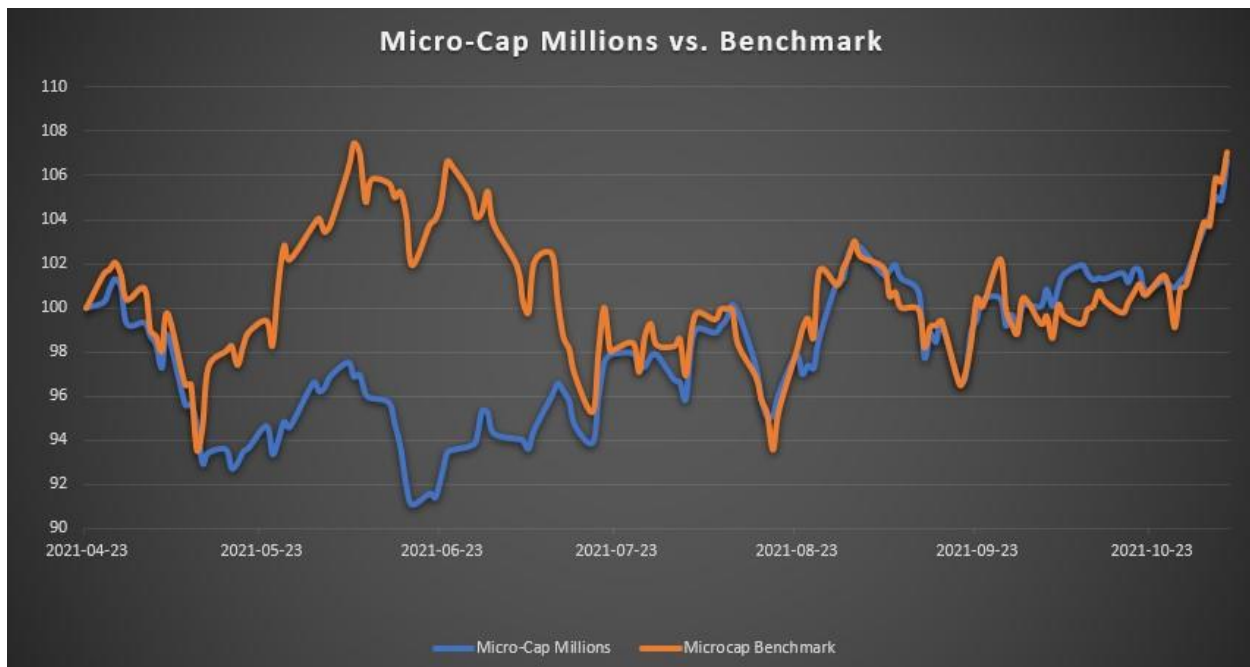
Happy trading!

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal tail extending to the right.

John

# Micro-Cap Millions

**There is one new trade in the strategy this week.** In addition, as the performance chart below shows, the strategy is starting to generate steam after a few months of poor performance followed up by getting back to even and now making new highs. Since June, the strategy has increased about 20% while the index is back to flat performance.



Here is the trade this week:

**Buy Fonar Corp. (NASDAQ: FONR)**

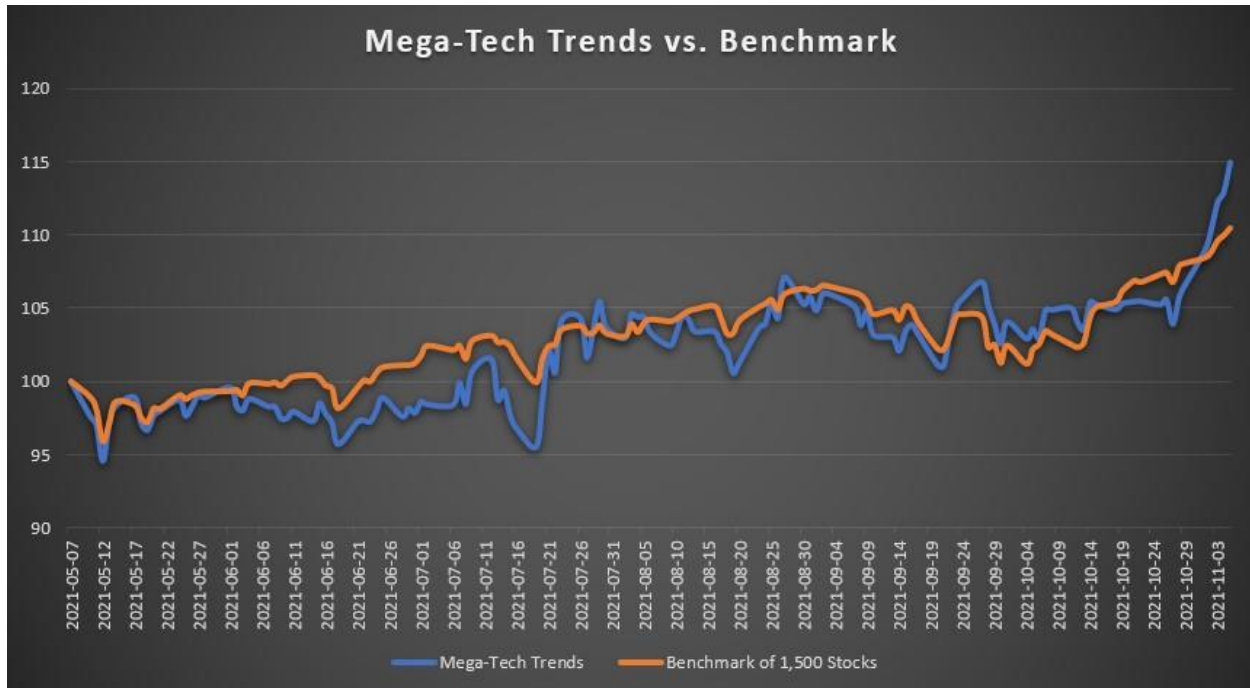
**Sell Town Square Media (NYSE: TSQ)**

Here is the current portfolio:

BBSI	Barrett Business Services, Inc.
EVC	Entravision Communications Corp.
FONR	Fonar Corp.
HSII	Heidrick and Struggles International, Inc.
IHC	Independence Holding Company
MNDO	MIND CTI Ltd.
NAII	Natural Alternatives International, Inc.
PCOM	Points International Ltd.
PMD	Psychemedics Corp.
SGA	Saga Communications

# Mega-Tech Trends

**This week there are two trades in the strategy.** The strategy has broken out to new highs after overcoming a down period at the start of this newsletter.



Here are the trades this week:

**Buy Forrester Research, Inc. (NASDAQ: FORR) and Merck Corp. (NYSE: MRK)**

**Sell AmerisourceBergen Corp. (NYSE: ABC) and Amphenol Corp. (NYSE: APH)**

Here is the current portfolio:

ACLS	Axcelis Technologies, Inc.
BDC	Belden, Inc.
CNXC	Concentrix Corp.
DFIN	Donnolley Financial Solutions, Inc.
FORR	Forrester Research, Inc
HSII	Heidrick and Struggles International, Inc.
LFUS	Littelfuse, Inc.
LH	Laboratory Corp of America, Inc.
MCK	Merck Corp.
PLAB	Photronics, Inc.

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