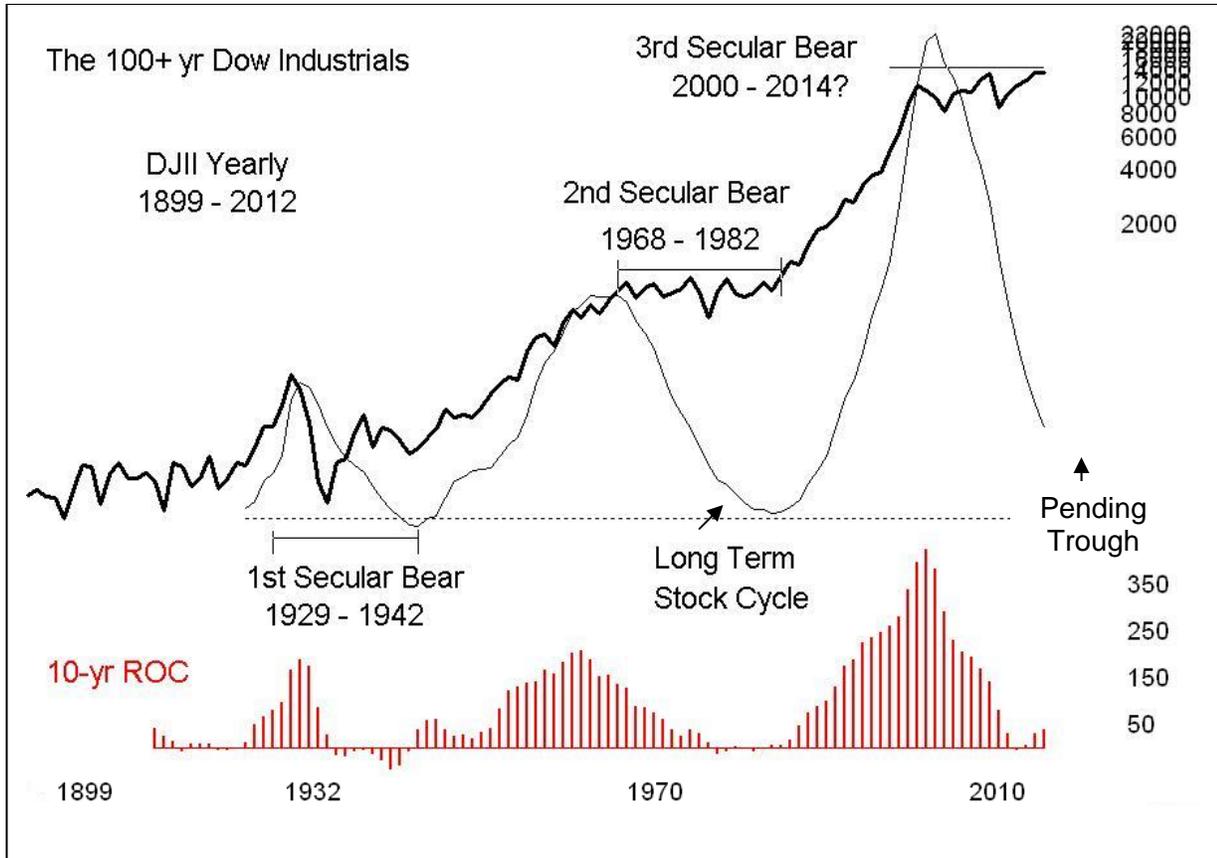


Interim Update October 19, 2012 GT1384 TSX Comp 12416 DJII 13344

The very long term analysis of the oldest continual stock groups in the world – the Dow Jones Industrial Average



Very long term cyclic analysis displays important cyclic troughs in 1942 and 1982 along with a pending trough somewhere during the 2013–2014 time period. The pending cyclic trough would effectively end the current 2000-2014 secular bear and introduce a long secular bull such as investors enjoyed during the 1942-1968 and 1982-2000 advances.

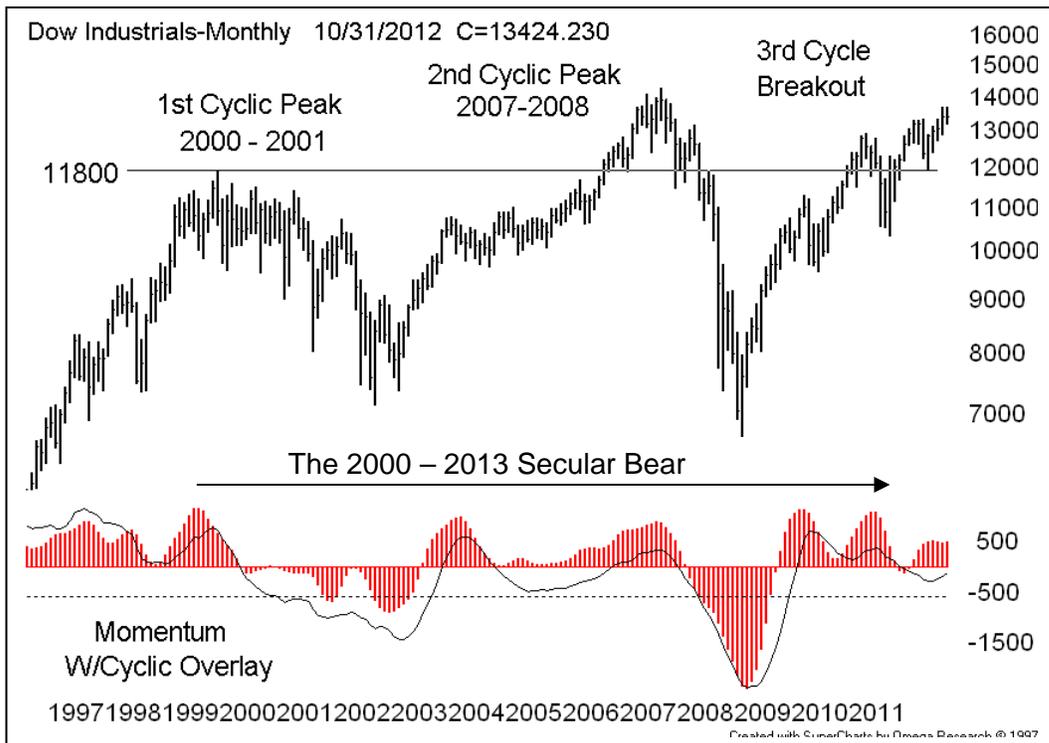
The Dow Jones Industrial Average (DJII) is one of the oldest continual stock groups in the modern investing world. Actually the Dow Jones Transportation Average is the oldest (1884). The DJII was founded by Charles Dow in 1896 and represented the dollar average of 12 stocks from leading American industries.

The original group of 12 stocks ultimately chosen to form the Dow Jones Industrial Average did not contain any railroad stocks, but purely industrial stocks. Of these, only General Electric currently remains part of that index.

Back in 1896, all Charles Dow needed was a pencil and paper to compute the industrial average. He simply added up the prices of the twelve stocks and then divided by 12. In 1923, the task of working the numbers fell to Arthur "Pop" Harris, who had been hired in 1908 at the age of 22. – some thanks to Wikipedia on this

Today the Dow is among the most closely watched U.S. benchmark indices tracking targeted stock market activity. Although Charles Dow initially compiled the index to gauge the performance of the industrial sector within the American economy the evolution of the modern multinational corporation has now made the Dow a global economic barometer.

Components of the Dow (there are 30) trade on both the NASDAQ OMX and the NYSE Euronext, two of the largest stock market companies.



As we conclude the 2000 – 2013 secular bear we sort the Dow Components by monthly momentum change at September 30, 2012. There is upside opportunity in the Stationary Bottoming sectors and the Advancing sectors. The Stationary Topping names represent only one-third of the components and there are only three Declining names.

Monthly 2nd Dimension Company	First Derivative	Sep '12 Rank	Second Derivative	1-Month Change	Trend
Bank of America Corporation	BAC	33.08	20.73	20.73	Advancing
JPMorgan Chase & Co.	JPM	19.03	11.87	11.87	Advancing
Alcoa, Inc.	AA	-14.54	6.67	6.67	Stationary Bottoming
General Electric Company	GE	34.34	4.99	4.99	Advancing
Procter & Gamble Co.	PG	4.86	3.75	3.75	Advancing
Chevron Corporation	CVX	12.83	2.24	2.24	Advancing
3M Co.	MMM	19.44	2.03	2.03	Advancing
AT&T, Inc.	T	29.35	1.64	1.64	Advancing
Johnson & Johnson	JNJ	6.63	1.27	1.27	Advancing
Walt Disney Co.	DIS	50.20	1.15	1.15	Advancing
Microsoft Corporation	MSFT	17.33	0.97	0.97	Advancing
Pfizer Inc.	PFE	27.89	0.88	0.88	Advancing
The Coca-Cola Company	KO	13.98	0.62	0.62	Advancing
American Express Company	AXP	20.69	0.42	0.42	Advancing
E. I. du Pont de Nemours	DD	11.06	0.19	0.19	Advancing
United Technologies Corp.	UTX	3.47	0.17	0.17	Advancing
Merck & Co. Inc.	MRK	28.67	0.01	0.01	Advancing
McDonald's Corp.	MCD	-1.94	-0.61	-0.61	Declining
Exxon Mobil Corporation	XOM	15.02	-0.64	-0.64	Stationary Topping
Verizon Communications Inc.	VZ	19.89	-0.68	-0.68	Stationary Topping
International Business Machines	IBM	9.32	-1.14	-1.14	Stationary Topping
The Home Depot, Inc.	HD	57.10	-1.60	-1.60	Stationary Topping
The Travelers Companies, Inc.	TRV	20.28	-1.73	-1.73	Stationary Topping
Caterpillar Inc.	CAT	-2.57	-1.80	-1.80	Declining
Wal-Mart Stores Inc.	WMT	32.23	-1.91	-1.91	Stationary Topping
Cisco Systems, Inc.	CSCO	2.74	-2.39	-2.39	Stationary Topping
The Boeing Company	BA	10.68	-3.25	-3.25	Stationary Topping
UnitedHealth Group Incorporated	UNH	12.15	-3.53	-3.53	Stationary Topping
Hewlett-Packard Company	HPQ	-31.43	-5.41	-5.41	Declining
Intel Corporation	INTC	4.21	-13.81	-13.81	Stationary Topping

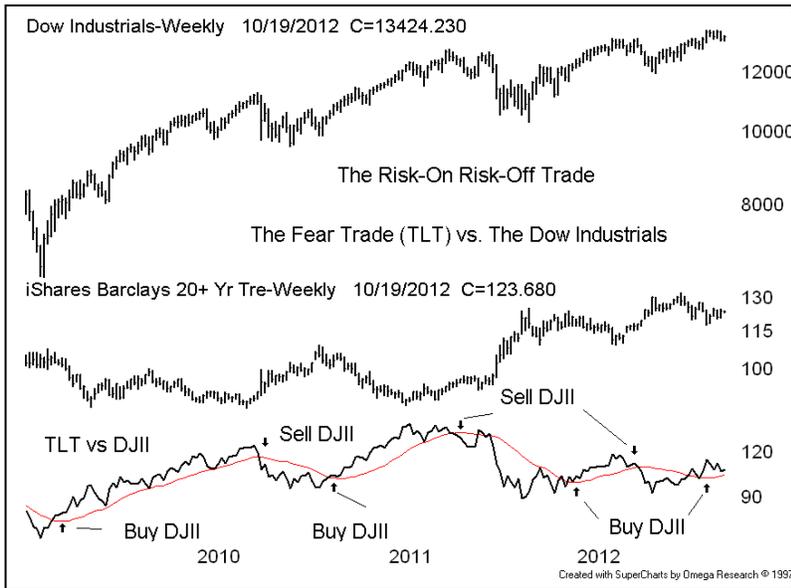
Still a healthy group

The ultimate laggard is Alcoa Inc. ranked Stationary Bottoming

Over one-half of the 30-components are still advancing

One-third of the 30-components are topping

There are only three components that are declining

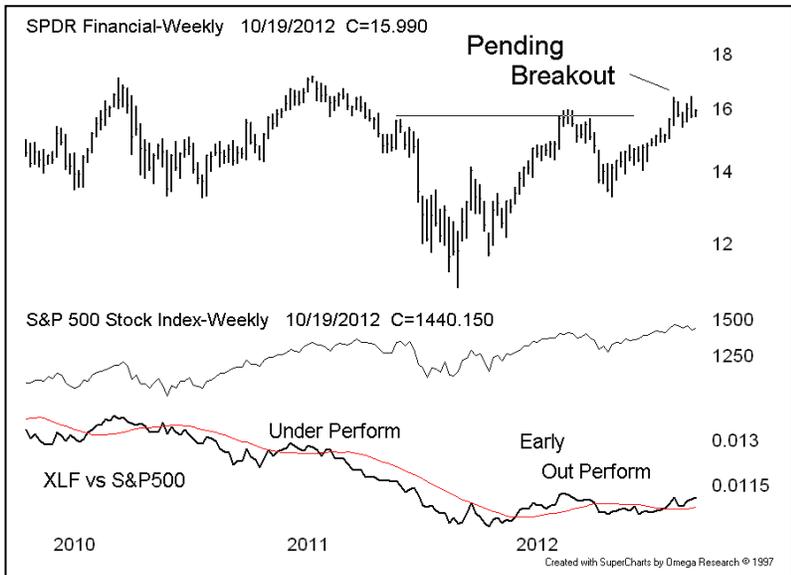


The Risk-on Risk-off Conditions

There seems to be an inverse relationship between a broad economy sensitive index and U.S. T-bond prices.

The **Dow vs. TLT chart top left** is a relative weekly spread between the Dow Industrials and the 10-yr US T-bond price with the lower plot that of a relative spread. The spread displayed is a simple plot1/plot2 spread with a 20 week smoothing line.

Currently we have an own-the-Dow condition



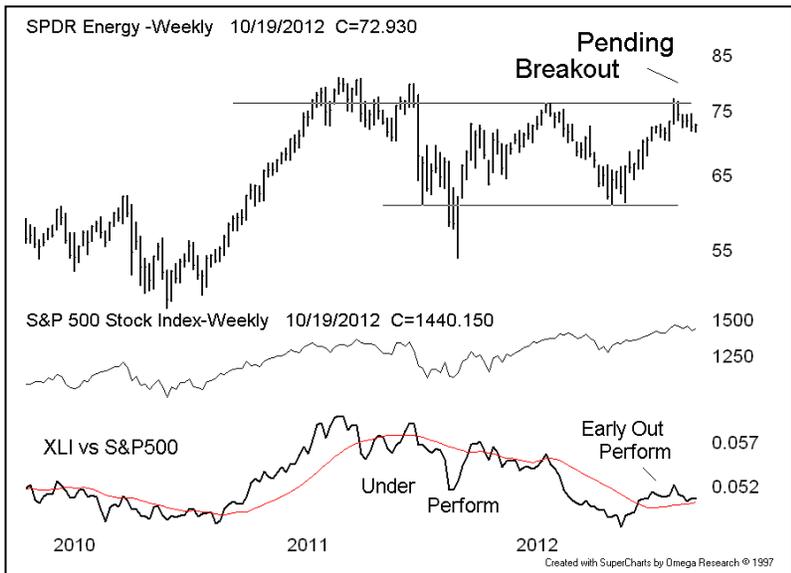
The **Financial Select Sector SPDR (XLF)** has returned to early relative outperform vs. the S&P500 index.

See chart left

This is bullish for the broader markets because no bull market can operate without leadership or participation from the financial sector

The top 5 Holdings

Company	Symbol
Wells Fargo & Company	WFC
Berkshire Hathaway Inc	BRK.B
JP Morgan Chase & Co.	JPM
Citigroup, Inc.	C
Bank of America Corp	BAC



The **Energy Select Sector SPDR (XLE)** has returned to early relative outperform vs. the S&P500 index.

This ia also bullish for the broader stock indices.

See chart left

Top 5 Holdings

Company	Symbol
Exxon Mobil Corporation	XOM
Chevron Corporation	CVX
Schlumberger N.V.	SLB
Occidental Petroleum	OXY
ConocoPhillips	COP

The Lumber argument – a U.S. housing recovery and a Tsunami in Japan

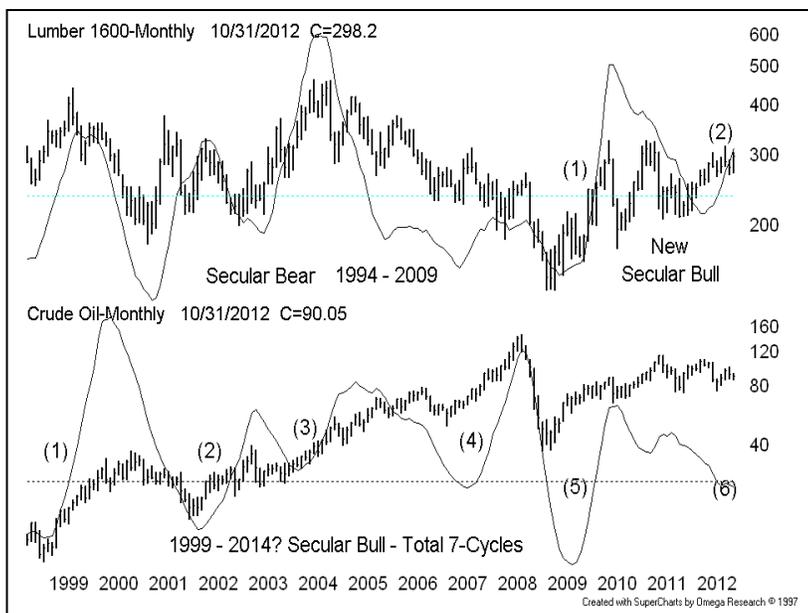
Last week lumber futures rose the maximum permitted by the Chicago Mercantile Exchange as a jump in U.S. housing starts revived prospects for construction materials. Builders in August broke ground on 598,000 homes at an annual rate, up 10.5 percent from July and the most since April, the Commerce Department said. Economists forecast a 550,000 pace. Building permits, an indicator of future activity, rose from a record low. Lumber futures are up 27 percent since touching an eight-month low in June.

This is a clip from thestreet.com: "There's something to be said for looking outside the box in terms of considering including asset classes in your portfolio. **Timber**, a positive in portfolio construction, has **historically had low correlations with more traditional asset classes**, is another outside-the-box item. As an asset class timber has outperformed the S&P 500 over a bevy of time periods, and several challenging market environments, typically with a lower level of risk than equities."

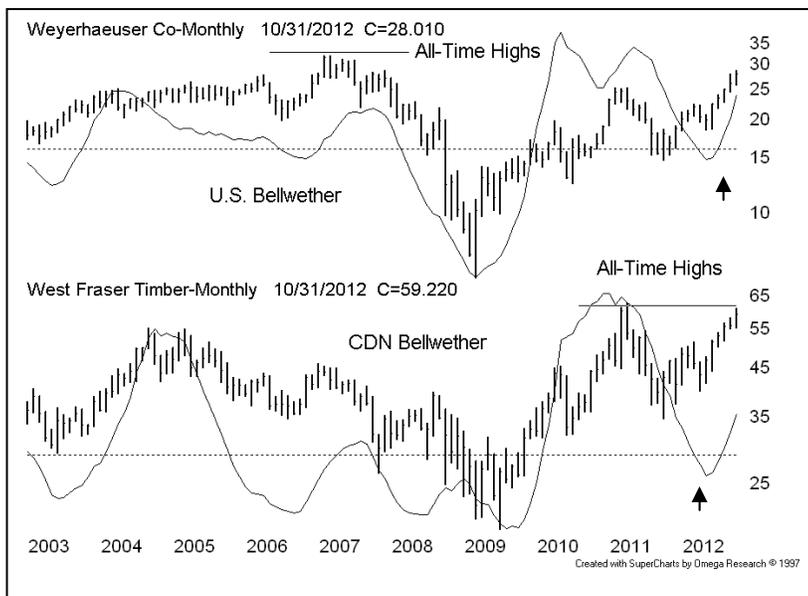
In 2008, for instance, while the S&P 500 fell 38%, the value of timberland rose 9.5%. There's also plenty of evidence to suggest that timber is a good hedge against inflation

Based on our work Lumber is likely to be **The Next Big Thing** or a very long term investment theme which, when discovered early with reward a patient investor with buy-and-hold returns that will out perform the broader stock indices.

Some past next big things: The Nifty Fifty 1960's – 1970's, The Technology or new economy boom of 1980's – 1990's and the current Commodities boom of 2001 to 2014 +.



Lumber is now cyclically identical to crude in 2001



The Next Big thing

Aside from buying lumber futures we can enjoy the "next big thing" by owning names in the lumber space like Acadian Timber Corp. (ADN) Ainsworth Lumber Co. Ltd. (ANS), International Forest Products Limited (IFP.A), West Fraser Timber Co. Ltd. (WFT), Canfor Corporation (CFP) and Norbord Inc. (NBD), all posting recent new 52-week highs.

In the U.S. Weyerhaeuser Co. (WY), Rayonier Inc. (RYN) and SPDR S&P Homebuilders (XHB) all posting recent new 52-week highs

U.S. bellwether **Weyerhaeuser (NYSE:WY)** hit a new 52-week high last Wednesday as it is currently trading at \$28.08, above its previous 52-week high of \$28.05 with 1.6 million shares traded as of 10:15 a.m. ET. Average volume has been 4.4 million shares over the past 30 days.

Canadian bellwether **West Fraser Timber Co. Ltd. (WFT)** is just approaching all-time highs

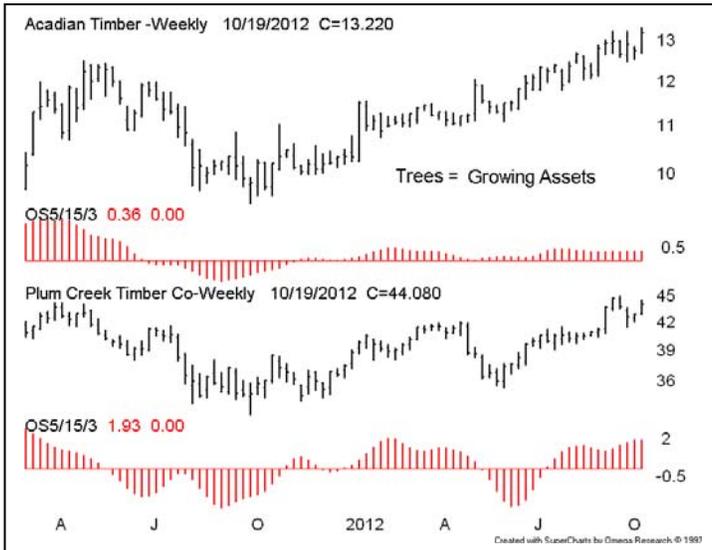
See chart left



Note the youthful cyclic troughs

Not displayed is **the S&P Global Timber & Forestry Index Fund (WOOD)**:

This ETF measures the performance of firms all over the world that have their hands in the forestry and timber business. The fund has about \$170 million in assets and trades hands just under 20,000 units each day.



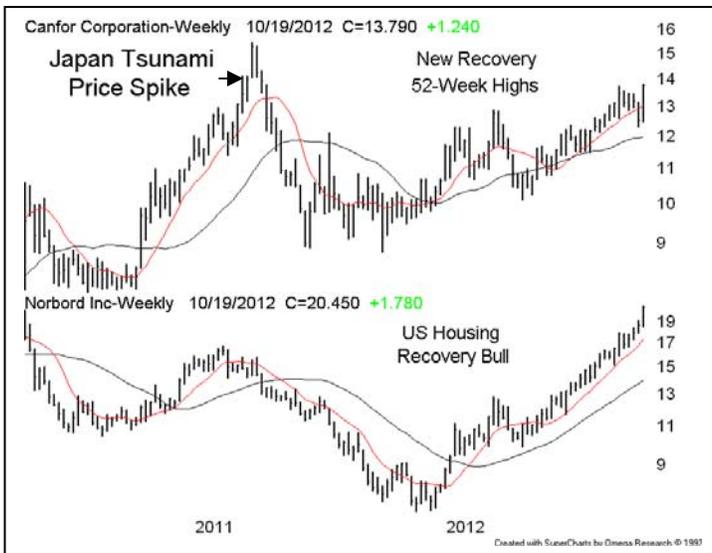
Unlike gold, base metals, crude and potash, forests are not a depleting asset.

As an asset class timber can be an important component in a portfolio

Acadian Timber Corp (ADN), supplies primary forest products in eastern Canada and the northeastern United States. It offers softwood and hardwood sawlogs, pulpwood, and biomass by-products. The company owns and manages approximately 764,000 acres of freehold timberlands in New Brunswick and approximately 310,000 acres of freehold timberlands in Maine; and provides management services relating to approximately 1.3 million acres of Crown licensed timberlands

Plum Creek Timber (PCL) is the largest private landholder in the U.S., and the first ever publicly held timber REIT. The company owns 6.6 million acres in 19 states, with the largest concentrations of property in Montana, Maine, Michigan, Arkansas, Mississippi, Georgia, and Florida

See chart top left



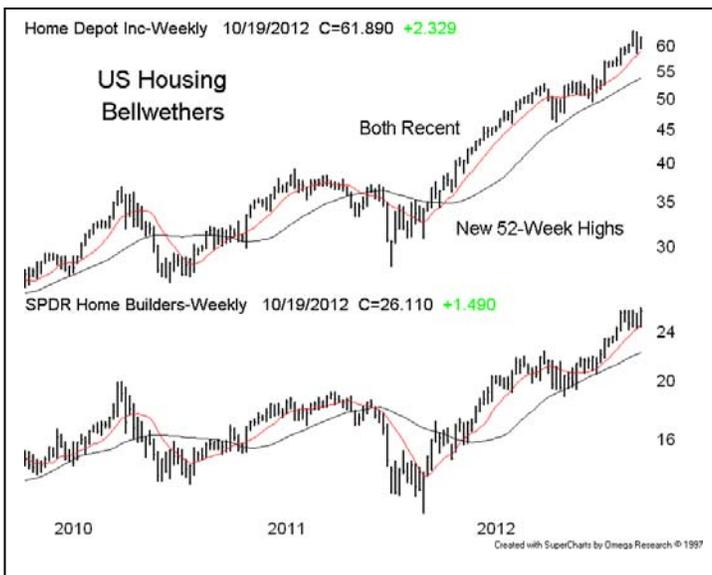
Canfor Corporation (CFP), together with its subsidiaries, engages in the manufacture and sale of forest products primarily in Canada, Asia, the United States, and Europe. The company is involved in logging operations; and manufacture and sale of softwood lumber, oriented strand boards, remanufactured lumber products, and specialized wood products

Norbord Inc.(NBD), together with its subsidiaries, engages in the manufacture, sale, marketing, and distribution of wood-based panels in North America and Europe. It provides oriented strand board, medium density fiberboard, particleboard, and related value-added products for use in the construction of new homes, and renovation and repair of existing structures

See chart center left

Two U.S. bellwether Home Depot and the SPDR Home Builders ETF run up to new 52-week highs

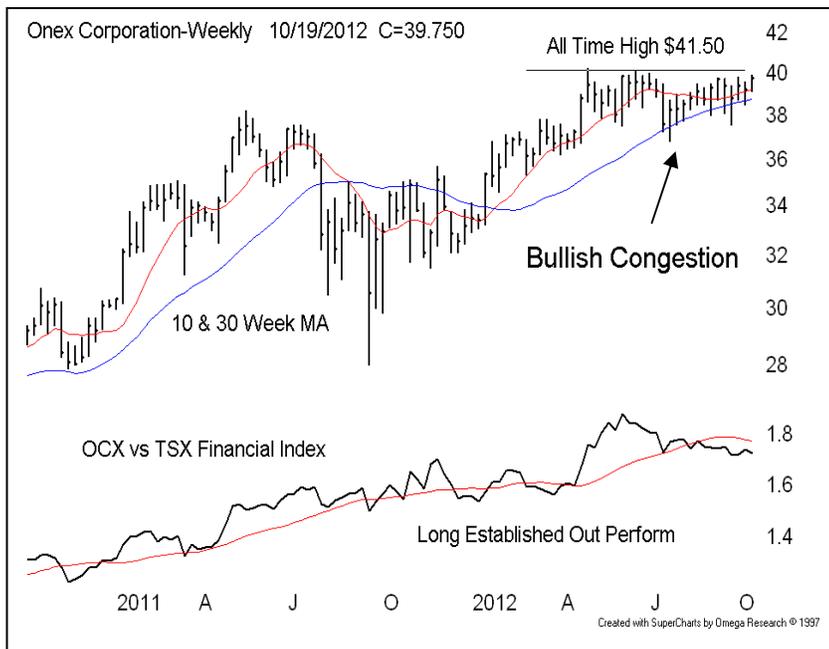
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The new Q3 Selections Equal Money - July 20, 2012 GT1379
Aggressive Strategy – The selections are a hold through November, 2012

Q3 2012 Selections Equal Money		20-Jul-12	19-Oct-12	Net	
TSX Materials					
Canfor Corporation	CFP	\$12.22	\$13.79	12.8%	Food exposure was avoided for now due to the potential crop failure in the U.S.
TSX Diversified Metals & Mining					
BMO TSX E/W Global Base Metals	ZMT	\$11.50	\$12.85	11.7%	Corn & soybean futures recently traded at an all-time high in Chicago.
TSX Consumer Discretionary					
Linamar Corporation	LNR	\$21.99	\$20.89	-5.0%	Canfor (CFP) is an over-looked proxy for the lumber space.
TSX Industrials (retained)					
The BMO Dow Jones Industrial	ZDJ	\$22.01	\$22.89	4.0%	The direct beneficiaries of higher asset prices would be Canfor, the BMO TSX E/W Global Base Metals ETF, Horizons BetaPro Gold Bull Plus and ShawCor
ShawCor Ltd	SCL.A	\$35.94	\$43.46	20.9%	
TSX Utilities / TSX Financial					
Manulife Financial Corporation	MFC	\$11.04	\$12.34	11.8%	We get some Industrial exposure through Linamar and the BMO Dow Jones Industrial ETF
ONEX Corporation (New) *	OCX	\$39.75	\$39.75	0.0%	
Global					
Horizons BetaPro Global Gold	HGU	\$6.82	\$9.59	40.6%	New – ONEX See comments below
BMO Nasdaq 100 Equity Index	ZQQ	\$20.23	\$20.70	2.3%	
TSX Comp Index		11623	12416	11.0%	
				6.8%	

New! – * Acquire ONEX Corporation (OCX) October 19 \$39.75



Financial Component - ONEX

Onex Corporation is a private equity firm that makes investments in large-cap, mid-cap, and small-cap market and distressed companies..ONEX seeks to invest in electronics manufacturing services, **aerospace**, healthcare, retail, industrials, customer care services, metal services, building products, commercial and investment banking, financial services, commercial and multi-unit residential real estate.

ONEX satisfies our need for some exposure to aerospace.

Following 20+ weeks of bullish congestion OCX looks to break to all-time highs

See chart left

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