**PVG Asset Management**
LOSS AVERSE INVESTING

# Market in a Minute

**December 9, 2014**

Index Performance

| Index | Price | Last Week | YTD |
|---|---|---|---|
| Dow Jones 30 | 17959 | 0.7% | 8.3% |
| S&P 500 | 2075 | 0.4% | 12.3% |
| NASDAQ | 4781 | -0.2% | 14.5% |
| Russell 2000 | 1182 | 0.8% | 1.6% |
| Russell 2000 Growth | 708 | 0.9% | 2.9% |
| Russell 2000 Value | 1497 | 0.7% | 0.4% |
| Russell 1000 Growth | 970 | -0.2% | 12.3% |
| Russell 1000 Value | 1213 | 0.9% | 13.8% |
| Shanghai SE Index | 3133 | 11.5% | 41.5% |
| SPDR Gold Shares | 114.43 | 2.1% | -1.5% |
| GS Crude Oil Total Return | 15.77 | -2.7% | -31.8% |
| Powershares US $ Index | 23.71 | 1.0% | 10.2% |
| Ishares EAFE Index | 63.96 | 0.0% | -4.7% |
| iShares Barclays 20+ Yr Treasury Bond | 121.09 | -1.1% | 18.9% |

Source: Bloomberg & MSN, Returns are appreciation only.

S&P Sector Performance

| Index | Price | Last Week | YTD |
|---|---|---|---|
| Information Technology | 701 | -0.5% | 19.7% |
| Consumer Disc. | 566 | -0.4% | 6.8% |
| Consumer Staples | 501 | -1.0% | 13.3% |
| Health Care | 817 | 1.7% | 27.3% |
| Financials | 334 | 1.8% | 13.3% |
| Industrials | 490 | 0.5% | 8.4% |

## A Word on the Market by Pat Adams, CFA

The market last week was up slightly, but it felt heavy to us. Of the 10 major sectors of the market, 5 were down last week. Healthcare continued to defy gravity, and the banks were up, anticipating some relief with the expectation that interest rates were headed higher. The Employment report was very strong, which should give the Federal Reserve cover to be clearer in their road map to raise interest rates in 2015. The advancing stocks versus declining stocks last week was negative with 1,478 advancing and 1,786 declining. The Russell 2000 has been badly lagging the S&P 500, rightfully so in our opinion, due to valuation issues. Technically, it is not good when the troops do not follow the generals, and markets generally are vulnerable as the breadth deteriorates. The market is starting to act much like it did in September prior to the correction.

When the average stock is down, like it was last week, yet the market itself is up, it is difficult for active managers to outperform their benchmarks. In addition, it makes risk management more difficult as market hedges are generally outperforming respective portfolios. These divergences generally do not last long.

One of the things that surprises us is how quickly oil prices have fallen by 40%, while at the same time the dollar has risen by about 12%. These sorts of price movements can cause some serious issues if you are on the wrong side. For instance, as we mentioned last week, Russia is likely feeling the impact. Our point is very liquid markets like oil can fall very quickly in value with just a minor amount (2% or so) of supply demand imbalance. When the stock or bond market re-

| | | | |
|---|---|---|---|
| Energy | 592 | 1.2% | -9.2% |
| Telecommunications | 156 | -3.3% | 0.5% |
| Utilities | 232 | -0.3% | 20.0% |
| Materials | 312 | 1.2% | 6.9% |
| Source: Bloomberg website, Returns are appreciation only. | | | |

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|---|---|---|---|
| Interest Rates | | | |
| Fed Fund | 0.25 | 5-Year | 1.69 |
| 3-Month | 0.02 | 10-Year | 2.31 |
| 6-Month | 0.08 | 30-Year | 2.97 |
| 2-Year | 0.65 | | |
| Source: Bloomberg.com | | | |

Economic Events This Week

| **Date** | **Event** | **Forecast** | **Previous** |
|---|---|---|---|
| **9-Dec** | Wholesale Inventories | 0.2% | 0.3% |
| **11-Dec** | Initial Claims | 295K | 297K |
| **11-Dec** | Retail Sales | 0.4% | 0.3% |
| **11-Dec** | Retail Sales ex-auto | 0.2% | 0.3% |
| **11-Dec** | Business Inventories | 0.2% | 0.3% |
| **12-Dec** | PPI | -0.1% | 0.2% |
| **12-Dec** | Core PPI | 0.1% | 0.4% |
| **12-Dec** | Michigan Sentiment | 89.5 | 88.8 |
| Source: Briefing.com | | | |

Economic Events Last Week

| Date | Event |
|---|---|
| **1-Dec** | The ISM Index for Nov. came in at 58.7 which was in line with |

prices for higher interest rates or less Federal Reserve liquidity injections it could happen very quickly.

Speaking of imbalances, there is an interesting article in Barron's on page 42 about China, which paints a very negative view that we share. http://online.barrons.com/articles/anne-stevenson-yang-why-xi-jinpings-troubles-and-chinas-could-get-worse-1417846773

There is speculation today that the Germans are not budging on their objection to quantitative easing by the ECB wanting to buy back sovereign debt. Draghi is apparently frustrated, and is considering stepping down as the head of the ECB to run for President of Italy. This would surely be a blow for confidence.

The market is back to being vulnerable to a correction again, in the short term, much like in September. The 200-day moving average for the S&P 500 is about 6.5% lower than current levels, which would be an important level to monitor for a long term directional change for the market.

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|---|---|
| | consensus forecasts |
| **2-Dec** | Construction Spending for Oct. rose 1.1% which was ahead of estimates of 0.6% |
| **2-Dec** | Auto Sales for Nov. came in at 6.1M units compared to 5.9M units in the prior period |
| **3-Dec** | Productivity-Rev. for Q3 was up 2.3% vs. expectations of 2.4% |
| **4-Dec** | Initial Claims for the period of 11/29 came in at 297K compared to forecasts of 295K |
| **5-Dec** | Nonfarm Payrolls for Nov. were 321K which was much higher than expectations of 230K |
| **5-Dec** | Unemployment Rate for Nov. was 5.8% which was in line with estimates |
| **5-Dec** | Hourly Earnings for Nov. increased 0.4% vs. forecasts of 0.2% |
| **5-Dec** | Chicago PMI for Nov. came in at 60.8 vs. forecasts of 63.0 |
| **5-Dec** | Factory Orders for Oct. dropped -0.7% compared to estimates of 0.2% |
| Source: Briefing.com | |

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