PVG Asset Management

LOSS AVERSE INVESTING

Market in a Minute

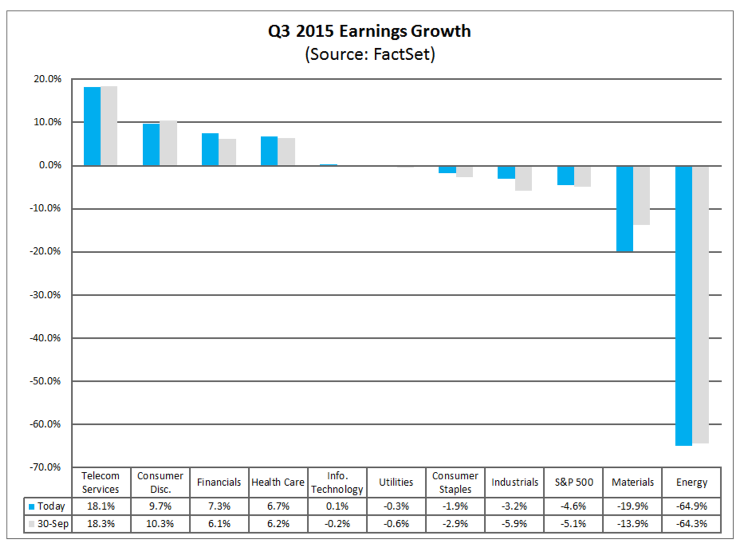
October 20, 2015

Index Performance: As of October 16, 2015			
Index	**Price**	**Last Week**	**YTD**
Dow Jones 30	17216	0.8%	-3.4%
S&P 500	2033	0.9%	-1.3%
NASDAQ	4887	1.2%	3.2%
Russell 2000	1162	-0.3%	-3.5%
Russell 2000 Growth	714	-0.1%	-1.1%
Russell 2000 Value	1431	-0.4%	-6.1%
Russell 1000 Growth	985	0.8%	2.5%
Russell 1000 Value	1171	0.8%	-3.2%
Shanghai SE Index	3577	7.3%	5.5%
SPDR Gold Shares	112.49	1.5%	-1.0%
GS Crude Oil Total Return	8.82	-5.2%	-29.7%
Powershares US $ Index	24.65	-0.3%	2.8%
Ishares EAFE Index	61.26	0.3%	0.7%
iShares Barclays 20+ Yr Treasury Bond	123.93	1.3%	-1.6%
Utilities Select Sector ETF	44.78	2.3%	-5.2%
Vanguard REIT ETF	80.01	1.3%	-1.2%
iShares Mortgage Real Estate	10.28	-1.0%	-12.2%
Wells Fargo BDC	20.26	-0.6%	-9.6%
Alerian MLP ETF	14.04	-0.7%	-18.5%
iShares Global Telecom	59.18	0.6%	-1.5%
Source: Bloomberg & MSN, Returns are appreciation only.			

S&P Sector Performance			
Index	**Price**	**Last Week**	**YTD**
Information Technology	705	1.2%	1.9%
Consumer Disc.	621	0.7%	8.5%
Consumer Staples	510	0.4%	2.1%

A Word on the Market by Pat Adams, CFA

We have a list of all companies reporting earnings, last week it was only 2.5 pages long and this week it is 10 pages. About 30% of the S&P 500 reports earnings this week. From last week, the banks were generally better than feared. The banks are being well managed in a tough regulatory and interest rate environment. The long term fundamentals of the banks are likely better than most sectors of the market. Intel, Xilinx, and Linear Technology reported earnings last week. INTC was better than expected, as we thought it would be, but still down year over year. XLNX and LLTC were both negative with revenues down about -13% and -8% year over year respectively. We were surprised to see Netflix miss expectations. Most believe only the energy sector has negative earnings, which is not the case. It is the majority of the market. As you can see from the chart below, Consumer Discretionary, Financials, and Health Care are positive, Telecom Services is positive due to some odd factors, the other six sectors of the market are either flat or down.



Earnings expectations are low, which has helped the market overlook the true ugliness of these reports. It is hard to justify a 16x forward P/E multiple for the market without some growth.

Health Care	806	1.9%	1.8%
Financials	317	1.3%	-4.8%
Industrials	457	-1.2%	-6.0%
Energy	510	0.7%	-13.1%
Telecommunications	146	1.9%	-4.0%
Utilities	228	2.3%	-5.2%
Materials	277	-0.1%	-9.3%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	0.25	5-Year	1.36
3-Month	0.01	10-Year	2.04
6-Month	0.07	30-Year	2.87
2-Year	0.61		

Source: Bloomberg.com

Economic Events This Week

Date	Event	Forecast	Previous
20-Oct	Housing Starts	1150K	1126K
20-Oct	Building Permits	1170K	1170K
22-Oct	Initial Claims	265K	255K
22-Oct	Existing Home Sales	5.39M	5.31M
22-Oct	Leading Indicators	-0.1%	0.1%

Source: Briefing.com

Economic Events Last Week

Date	Event
14-Oct	PPI for Sep. came in at -0.5% vs. estimates of -0.3%
14-Oct	Core PPI for Sep. was -0.3% compared to expectations of 0.1%
14-Oct	Retail Sales for Sep. 0.1% vs. consensus forecasts of 0.2%
14-Oct	Retail Sales ex-auto for Sep. was -0.3% which was lower than estimates of -0.1%
14-Oct	Business Inventories for Aug. was flat compared to expectations of 0.1%
15-Oct	Initial Claims for the week of 10/10 came in at 255K vs. forecasts of 269K
15-Oct	CPI for Sep. was -0.2% which was in

"I certainly don't want to peg this type of decline in orders to any one thing. It's really sort of weakness on several fronts. I mean, we know that the dollar is strong and that affects certain customers that are selling in dollars. We know that the drop in oil has affected the energy business. We've got weakness in Europe, whether it's due to Greece or other reasons, we're not sure, but Europe is weak and now we're hearing that China is declining. The U.S. economy, it contracted last quarter. I mean, we could say that things are better than last year but things are not great out there. And they haven't been great all year. And I almost think it is sort of like the culmination of a lot of different things. So, I'm just going to attribute it to the macroeconomic environment." –Linear Technology (Oct. 13)

China on Monday reported their economy was growing at 6.9%, which in reality is likely flat to negative.

During the last couple of years, value stocks have dramatically underperformed growth stocks. Value stocks are generally much more dependent on the economy, and this underperformance tends to happen at the end of a bull market. Many value stocks also tend to be nice income producers as well. As you can see around the middle of 2013 when the Federal Reserve first talked about raising interest rates Value has been dead, and Growth has gone up another 50%. We strongly believe this divergence is way too large and the lines will likely come together in some fashion. For the markets to have a sustainable move up, the value side of the market needs to pick up.

The Russell 3000 Growth vs Russell 3000 Value
10 Years
(Red is Growth, Blue is Value)

We hope this will help explain to investors why a large number of portfolios have not been tracking the averages. It is a function of where we are in the cycle rather than the value/income manager not being as good as your growth manager. Generally, when one style outperforms the other

	line with expectations
15-Oct	Core CPI for Sep. was 0.2% vs. estimates of 0.1%
15-Oct	The Philadelphia Fed for Oct. was -4.5 compared to forecasts of -2.5
16-Oct	The Industrial Production for Sep. was down -0.2% which was in line with expectations
16-Oct	Capacity Utilization for Sep. was at 77.5% vs. estimates of 77.4
16-Oct	The Michigan Sentiment for Oct. was 92.1 which was higher compared to forecasts of 88.4
Source: Briefing.com	

significantly, it is a good time to allocate away from the strategy that has been strong.

On a short term basis, the market is very overbought again, and is close to a resistance level at 2040 on the S&P 500. We are back to being more cautious

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