PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

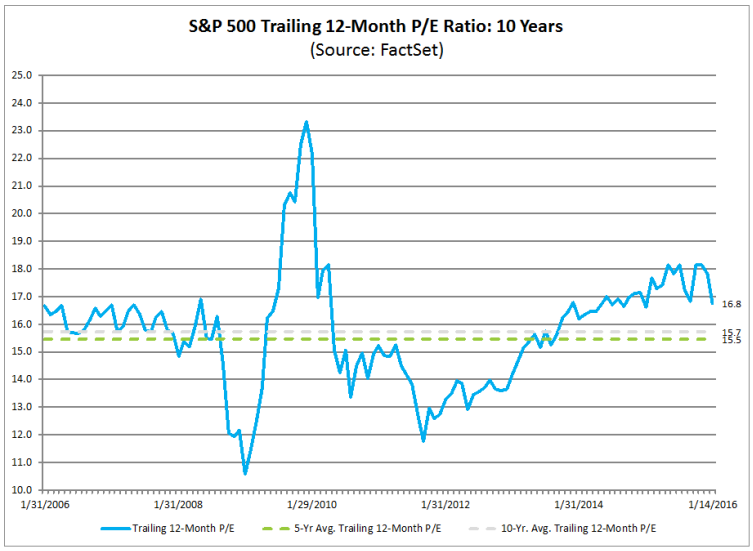
January 19, 2016

Index Performance: As of January 15, 2016			
Index	**Price**	**Last Week**	**YTD**
Dow Jones 30	15988	-2.2%	-8.2 %
S&P 500	1880	-2.2%	-8.0%
NASDAQ	4488	-3.3%	-10.4%
Russell 2000	1008	-3.7%	-12.3%
Russell 2000 Growth	622	-3.6%	-12.1%
Russell 2000 Value	1236	-3.7%	-10.5%
Russell 1000 Growth	916	-2.5%	-8.4%
Russell 1000 Value	1069	-2.3%	-8.1%
Shanghai SE Index	3036	-9.0%	-18.0%
SPDR Gold Shares	104.08	-1.5%	2.6%
GS Crude Oil Total Return	5.61	-1.1%	-10.0%
Powershares US $ Index	25.69	0.5%	0.2%
Ishares EAFE Index	53.26	-3.0%	-9.3%
iShares Barclays 20+ Yr Treasury Bond	125.75	1.9%	4.3%
Utilities Select Sector ETF	43.41	0.7%	0.3%
Vanguard REIT ETF	75.57	-2.4%	-5.2%
iShares Mortgage Real Estate	8.78	-7.3%	-8.2%
Wells Fargo BDC	17.93	-9.2%	-11.6%
Alerian MLP ETF	9.81	-10.7%	-18.6%
iShares Global Telecom	55.05	-1.6%	-4.8%
Source: Bloomberg & MSN, Returns are appreciation only.			

S&P Sector Performance			
Index	**Price**	**Last Week**	**YTD**
Information Technology	656	-2.1%	-9.0%
Consumer Disc.	568	-2.9%	-8.6%
Consumer Staples	496	-1.5%	-4.4%

A Word on the Market by Pat Adams, CFA

Last week, we wrote that we were in a bear market. The market is off to its worst start ever, down 8% in the first two weeks. Not all the indices are down over 20% yet, but the average stock is off well over -20%. The Russell 2000 is down -22% and the Dow Jones Transportation Average is off -27.4% from their highs. The S&P 500 is only down -12%, but clearly headed lower as the markets normalize. Let us explain, the market hit a high of 2134 for the S&P 500 during May of 2015. The S&P 500 has been correcting for 8 months now. But other sectors started correcting since May of 2013 when the Fed mentioned they would start tapering their quantitative easing. QE ended in October 2014 but started in a big way in 2012. Over this time, earnings grew at 23%, but the S&P 500 was up about 61%, so 38% was from P/E expansion over this period. The Fed pumped up the market an extra 38%, so how does it get unwound or normalize? The average P/E multiple for the market over the past 10 years has been around 15x trailing earnings, and in a range of around 11-18x normalized earnings. Around 14.5x seems like a reasonable level to be fairly valued.



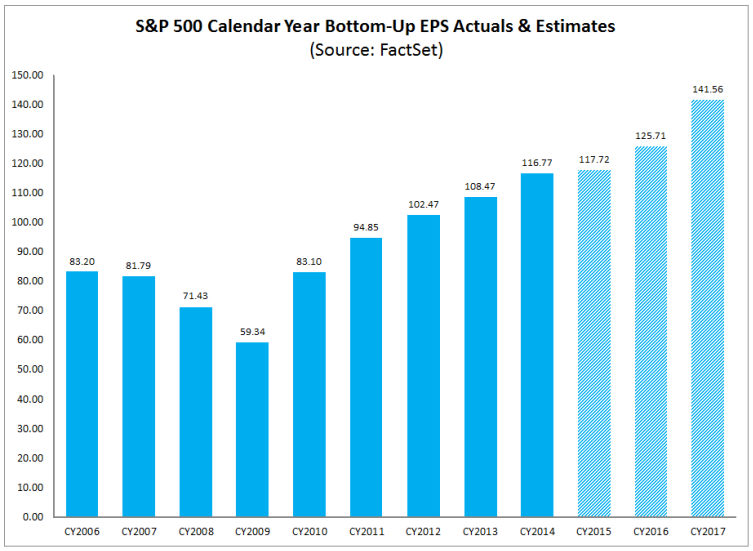
Health Care	773	-1.7%	-7.2%
Financials	289	-3.0%	-10.3%
Industrials	425	-2.1%	-8.4%
Energy	409	-2.1%	-8.8%
Telecommunications	145	-0.2%	-3.1%
Utilities	221	0.7%	0.3%
Materials	241	-4.4%	-11.9%
Source: Bloomberg website, Returns are appreciation only.			

Interest Rates			
Fed Fund	0.50	5-Year	1.46
3-Month	0.24	10-Year	2.03
6-Month	0.37	30-Year	2.81
2-Year	0.85		
Source: Bloomberg.com			

Economic Events This Week			
Date	**Event**	**Forecast**	**Previous**
20-Jan	CPI	0.0%	0.0%
20-Jan	Core CPI	0.2%	0.2%
20-Jan	Housing Starts	1197K	1173K
20-Jan	Building Permits	1200K	1289K
21-Jan	Initial Claims	280K	284K
21-Jan	Philadelphia Fed	-4.0	-5.9
22-Jan	Existing Home Sales	5.12M	4.76M
22-Jan	Leading Indicators	-0.1%	0.4%
Source: Briefing.com			

Economic Events Last Week	
Date	Event
14-Jan	Initial Claims for the week of 1/9 were reported at 284K vs. compared to expectations of 282K
15-Jan	Retail Sales for Dec. was down -0.1% which was worse than estimates of 0.2%
15-Jan	Retail Sales ex-auto for Dec. was -0.1% vs. forecasts of 0.2%
15-Jan	PPI for Dec. was down -0.2% which was in line with estimates

Below is the chart for historical earnings and current expectations for earnings for the S&P 500. We have been extremely skeptical of expected earnings as they are always too high. Using trailing valuations of 15.5x trailing earnings gets us a valuation around 1810 for the S&P 500. That seems like an appropriate level, but markets are never rational and do what is expected of them. A multiple of 13x gets us 1520 on the S&P 500 which takes out the high in 2007 of 1575. So to normalize valuations from the excessive Federal Reserve policy gets the market in a range of 1520-1810. This is a drop of around 4% to 19% from current levels or a -16% to -31% drop from the high to the low. This seems about right. We do not see a bounce back immediately, but a grind to feel more like a flat market. Something needs to reenergize the global economy, but it is not evident what that will be. At this point, we would expect flat earnings for the next couple of years. The consensus is way too high, again.



In the short term, the markets are very oversold. Oversold and negative sentiment can last a while in a bear market. The sentiment is very negative, with only 17.9% bullish according to AAII, and the historical low is 12%. We should see a rally, followed by another decline. This year will likely be negative for the market, unless something unusual happens. There is only so much the Fed can do. Some things to watch are oil, China, and earnings reports. Last week, CSX said their business was consistent with prior recessions. There are a lot of reports coming out this week. Apple reports on the 26th, which seems like an eternity at this point, but that should not be pretty. The market seems to be anticipating a negative report from

15-Jan	Core PPI for Dec. was 0.1% vs. expectations of 0.0%
15-Jan	Industrial Production for Dec. was down -0.4% compared to forecasts of -0.2%
15-Jan	Capacity Utilization for Dec. came in at 76.5% vs. expectations of 76.9%
15-Jan	The Michigan Sentiment for Jan. was reported at 93.3 vs. forecasts of 92.0
15-Jan	Business Inventories for Nov. was down -0.2% compared to estimates of -0.1%
Source: Briefing.com	

AAPL. If they have a negative outlook and same for China it will set the stage for a lower low for the markets.

Please visit our website for more information.
www.pvgassetmanagement.com

Phone: (800) 777-0818
Email: Information@pvgasset.com
Web: www.pvgassetmanagement.com