PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

November 8, 2016

Index Performance: As of Nov. 4, 2016			
Index	**Price**	**Last Week**	**YTD**
Dow Jones 30	17888	-1.5%	2.7%
S&P 500	2085	-1.9%	2.0%
NASDAQ	5046	-2.8%	0.8%
Russell 2000	1163	-2.0%	1.2%
Russell 2000 Growth	690	-2.3%	-2.4%
Russell 2000 Value	1483	-1.8%	7.4%
Russell 1000 Growth	1001	-2.1%	0.1%
Russell 1000 Value	1238	-1.6%	6.4%
Shanghai SE Index	3272	0.7%	-11.7%
SPDR Gold Shares	124.39	2.3%	22.6%
GS Crude Oil Total Return	5.29	-10.3%	-15.1%
Powershares US $ Index	25.06	-1.4%	-2.3%
Ishares EAFE Index	56.57	-2.1%	-3.7%
iShares Barclays 20+ Yr Treasury Bond	131.74	1.0%	9.3%
Utilities Select Sector ETF	47.95	-1.1%	10.8%
Vanguard REIT ETF	78.82	-2.0%	-1.1%
iShares Mortgage Real Estate	10.43	0.0%	9.1%
Wells Fargo BDC	20.63	-3.8%	1.7%
Alerian MLP ETF	11.86	-4.7%	-1.6%
iShares Global Telecom	57.58	-2.4%	-0.5%
Source: Bloomberg & MSN, Returns are appreciation only.			

S&P Sector Performance			
Index	**Price**	**Last Week**	**YTD**
Information Technology	778	-2.9%	7.8%
Consumer Disc.	609	-1.7%	-1.9%
Consumer Staples	529	-2.1%	2.0%

A Word on the Market by Pat Adams, CFA

The markets on Monday were up strongly, based on the FBI not moving forward with Clinton violating national security with her private email server. The betting lines have Clinton's chances of winning, according to the odds makers, seem like a sure thing. A $1.00 bet on Trump if he wins pays $4.50 which seems like an interesting bet, but perhaps a long shot. Voter turnout will be key for both candidates. We have no particular insight except the average voter is simply very angry, likely at both candidates. We strongly favor Trump's economic policies. If the corporate tax rate would be reduced under Trump from 35% to 15%, reported earnings would be over 30% higher, which would be rather remarkable and incredibly bullish. The polls still clearly favor Clinton as does the electoral map. The talking heads seem to think there is 5% to 10% downside to the markets if Trump wins. The election gets a negative out of the way but may cause other problems to emerge. The markets are being supported by the Fed, more on that later.

Stocks have been acting poorly, as if a bear market was beginning, some good earnings reports have been greeted with very negative downside, and bad earnings reports with absolute disaster. The shorter term moving averages on the market are in a downtrend. The 200-day moving average is about 2080 on the S&P 500 and the market has been flirting with that long-term trend. As you can see, the market bounced off the 200 DMA and now seems to be fighting with the 20 DMA as a short-term resistance.

S&P 500

Health Care	769	-1.8%	-7.7%
Financials	323	-1.6%	0.3%
Industrials	488	-1.1%	5.3%
Energy	500	-2.2%	11.4%
Telecommunications	154	-2.3%	2.9%
Utilities	243	-1.1%	10.5%
Materials	291	-0.6%	6.4%
Source: Bloomberg website, Returns are appreciation only.			
Interest Rates			
Fed Fund	0.50	5-Year	1.24
3-Month	0.38	10-Year	1.79
6-Month	0.52	30-Year	2.56
2-Year	0.80		
Source: Bloomberg.com			
Economic Events This Week			
9-Nov	Wholesale Inventories	0.2%	-0.2%
10-Nov	Initial Claims	262K	265K
11-Nov	Michigan Sentiment	87.9	87.2
Source: Briefing.com			

Economic Events Last Week	
Date	Event
31-Oct	Personal Income for Sep. rose 0.3% which was slightly below estimates of 0.4%
31-Oct	Personal Spending for Sep. was at 0.5% which was in line with expectations
31-Oct	The Chicago PMI for Oct. was reported at 50.6 compared to forecasts of 54.0
1-Nov	The ISM Index for Oct. came in at 51.9 which was slightly below estimates of 51.7
1-Nov	Construction Spending for Sep. declined -0.4% compared to forecasts of 0.5%
2-Nov	The FOMC Rate remained unchanged at 0.375% as expected
3-Nov	Initial Claims for the week of 10/29 came in at 265K which was slighly higher than expectations of 256K

The sentiment of the market is very negative or bearish. According to AAII, there are only 23.6% of investors that are bullish. Generally, this type of negative sentiment is bullish, unless there is a change in the trend of the market, i.e. breaking the 200-day moving average. Our sense is there is a lot of fast money betting on the short side. The market is very oversold, if a rally were to occur it could be very strongly fueled by short covering. It certainly appears the market is up on Monday on short covering as volume is very light and trading desks around the "Street" that we have checked are reported to be quiet. If the market cannot hold these important levels the sentiment will likely push stocks down significantly.

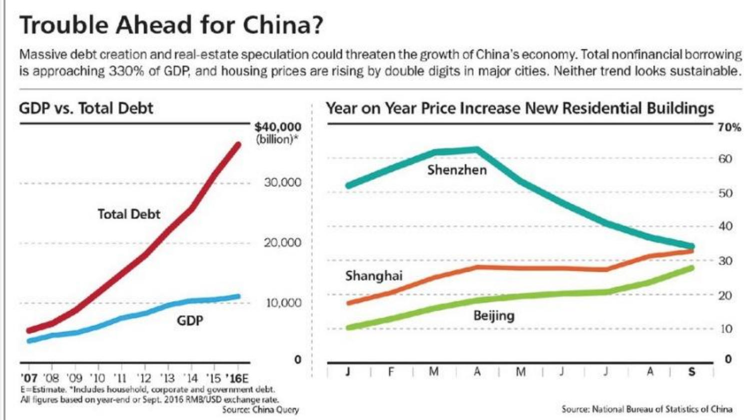
These are tricky markets as we are very late in the economic cycle, the economy has been very slow, the stock market's valuation is highly valued, and the bond market is in a bubble. The Federal Reserve seems destined to raise rates in December and potentially three more times in 2017. We cannot imagine three rate increases next year, but it gives you an idea of where the Fed would like to go to have some sort of firepower for the next recession. On Tuesday, the Chicago Fed President speaks, on Thursday the St. Louis Fed President speaks and on Friday the Vice Chairman, all about the economy and monetary policy; so many in the Fed speaking the same week cannot be good. Assuming a Clinton presidency, monetary policy will be critical in keeping stock prices elevated, the Fed cannot move too quickly under a slow growth low inflation economy.

Lastly, there is an insightful article in Barron's titled the "China Debt Bomb". Total debt vs GDP in China is approaching 330%, driven by massive speculation in real estate. The Chinese currency is down about 10% during the last 2 years. We have been saying the Chinese will likely need to devalue by 30% to 40% relative to the dollar to be consistent with the yen and euro. The market is not focused on this issue. The Chinese have been covering up bad debt

3-Nov	Productivity-Prel. for Q3 came in at 3.1% compared to estimates of 1.8%
3-Nov	Factory Orders for Sep. rose 0.3% vs. expectations of 0.2%
4-Nov	Nonfarm Payrollsfor Oct. came in at 161K which was lower than consensus forecasts of 175K
4-Nov	Hourly earnings for Oct. was up 0.4% compared to estimates of 0.3%
4-Nov	The Unemployment Rate for Oct. was reported at 4.9% which was in line with consensus forecasts

Source: Briefing.com

with more debt. http://www.barrons.com/articles/chinas-debt-addiction-could-lead-to-a-financial-crisis-1478322658



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