PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

February 22, 2017

Index Performance: As of Feb. 17, 2017			
Index	**Price**	**Last Week**	**YTD**
Dow Jones 30	20624	1.7%	4.4%
S&P 500	2351	1.5%	5.0%
NASDAQ	5839	1.8%	8.5%
Russell 2000	6804	0.8%	3.3%
Russell 2000 Growth	5709	0.9%	5.0%
Russell 2000 Value	10931	0.7%	1.7%
Russell 1000 Growth	1072	1.5%	7.1%
Russell 1000 Value	1416	1.5%	3.8%
Shanghai SE Index	3353	0.2%	3.2%
SPDR Gold Shares	117.68	0.1%	7.4%
GS Crude Oil Total Return	6.12	-1.1%	-3.3%
Powershares US $ Index	26.08	0.2%	-1.4%
Ishares EAFE Index	60.50	0.6%	4.8%
iShares Barclays 20+ Yr Treasury Bond	120.32	-0.4%	1.0%
Utilities Select Sector ETF	49.57	0.6%	2.1%
Vanguard REIT ETF	83.77	0.0%	1.5%
iShares Mortgage Real Estate	44.33	1.0%	5.4%
Wells Fargo BDC	23.49	1.3%	3.5%
Alerian MLP ETF	12.98	-0.5%	3.0%
iShares Global Telecom	58.99	-0.2%	0.5%
Source: Bloomberg & MSN, Returns are appreciation only.			

S&P Sector Performance			
Index	**Price**	**Last Week**	**YTD**
Information Technology	881	1.8%	9.1%
Consumer Disc.	689	1.0%	6.4%
Consumer Staples	559	1.7%	5.1%

A Word on the Market by Pat Adams, CFA

The earnings reports continue to roll in from the 4th quarter. Right now the estimates have the 4th quarter up 3.4% year over year, about .4% better than expected. The earnings recession is officially over. From last week we mentioned GE as a barometer in terms of how much the currency (strong dollar) was going to hurt. GE reported in-line in terms of earnings, but revenues were -2% lower than expected, which has caused the stock to trade off slightly. GE is one of those companies that can move things around and make their earnings estimates even with disappointing revenues. The strong dollar is definitely a problem for international companies. We think the dollar, if it continues to rise, becomes a bigger and bigger issue as the Federal Reserve is behind the curve in raising interest rates. It sounds like the 15% rate for corporate tax rates is now moving to 20%. Still good, but if it ends up being 25% we would view it as a disappointment relative to where the other competing countries are and the higher wages in the U.S.

Our view is the market is highly valued and interest rates are set to rise. This is never a good thing for the markets. The chatter is a mid-year rate increase, followed by 1-2 more interest rate increases.

The market is still in an uptrend, with the 200 day moving average in an uptrend. However, the market has been flattish over the past 5 weeks. We believe the market has gotten way too bullish and it needs to consolidate the gains, which it is. The Consensus Bullish Sentiment is 75% bullish. That is a very high level which exposes the market to disappointment. Other technical measures that are concerning are the VIX ratio and the Put/Call ratio indicating the sentiment is very bullish. Extreme bullish sentiment is very bearish.

There is a lot of interesting economic data coming this week, housing, GDP, and Durable Goods Orders. If the economy comes in better than expected, it will move up the rate increase to maybe sometime in March. We are curious

Health Care	851	2.5%	6.7%
Financials	406	3.0%	5.0%
Industrials	566	1.7%	5.1%
Energy	523	-2.1%	-5.6%
Telecommunications	169	0.2%	-4.5%
Utilities	251	0.3%	1.6%
Materials	328	0.3%	5.1%
Source: Bloomberg website, Returns are appreciation only.			

Interest Rates			
Fed Fund	0.50	5-Year	1.92
3-Month	0.53	10-Year	2.42
6-Month	0.66	30-Year	3.03
2-Year	1.21		
Source: Bloomberg.com			

Economic Events This Week			
22-Feb	Existing Home Sales	5.57M	5.49M
23-Feb	Initial Claims	242K	239K
24-Feb	Michigan Sentiment	95.8	95.7
24-Feb	New Home Sales	566K	536K
Source: Briefing.com			

Economic Events Last Week	
Date	Event
14-Feb	PPI for Jan. was reported at 0.6% which was higher than estimates of 0.3%
14-Feb	Core PPI for Jan. came in at 0.4% vs. expectations of 0.2%
15-Feb	CPI for Jan. was reported at 0.6% vs. forecasts of 0.3%
15-Feb	Core CPI for Jan. came in at 0.3% compared to consensus estimates of 0.2%
15-Feb	Retail Sales for Jan. rose 0.4% vs. expectations of 0.1%
15-Feb	Retail Sales ex-auto for Jan. was up 0.8% which was better than forecasts of 0.4%
15-Feb	Capacity Utilization for Jan. came in at 75.3% compared to estimates of 75.5%

if housing is being impacted already by higher interest rates. We have been expecting the market to pullback in February, but that has not occurred. We wonder what piece of data don't we know at this point that would induce a continued strong rally. The WSJ had an article on Friday about a large mutual fund that uses derivatives to short the market and perhaps the unwinding of the short position was the catalyst for the February rally, seems like a stretch. We think it is very difficult to time the market, markets go up a lot more than they should and go down much more than they should. The bullish sentiment is off the chart with 75% bullish, this sort of extreme bullishness is unhealthy. We were the originator of this analogy, a quote in Barron's this weekend talks about the market age in human years is now 126 years old. We are about 8 years into this bull market, second longest in history behind the 1990s. The downside risk is very significant when it occurs. The trailing P/E multiple of the market is 20x non GAAP earnings. Below is a chart of the S&P 500 and the respective moving averages. You can see the market is 8.8% over the 200 Day Moving Average. We rarely ever see such a spread between the market price and the 200 Day MA unless the 200 day has been very depressed or the market is coming out of a bear market. Other periods of this type of excess over the 200 Day MA during all-time highs was in 1987, the mid 90's, 1999/2000, and 2007.

S&P 500 Index (blue) 20 Day MA (green) 50 Day MA (red) 200 Day MA (purple)

Last week was interesting with Kraft making a bid to acquire Unilever. The European blue chips are cheaper than the U.S. blue chips. The European markets are still in a bear market when currency is considered, still significantly off its high of 2014. This bid on Friday for Unilever caused several consumer staple stocks we like to sell off to valuations that are now attractive. Likely the stocks should have gone up and did on Monday. We believe we will see consolidation within the consumer staple sector.

15-Feb	Industrial Production for Jan. declined -0.3% vs. expectations of 0.0%
15-Feb	Business Inventories for Dec. rose 0.4% which was in line with estimates
16-Feb	Housing Starts for Jan. was reported at 1246K vs. expectations of 1220K
16-Feb	Building Permits for Jan. came in at 1285K compared to forecasts of 1230K
16-Feb	Initial Claims for the week of 2/11 were 239K vs. estimates of 245K
16-Feb	The Philadelphia Fed report for Feb. was 43.3 which was higher compared to expectations of 17.5
16-Feb	The Leading Indicators for Jan. came in at 0.6% vs. estimate of 0.5%
Source: Briefing.com	

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