PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

September 12, 2017

Index Performance: As of Sep. 8, 2017			
Index	**Price**	**Last Week**	**YTD**
Dow Jones 30	21798	-0.9%	10.3%
S&P 500	2461	-0.6%	9.9%
NASDAQ	6360	-1.2%	18.2%
Russell 2000	6854	-1.0%	4.0%
Russell 2000 Growth	6016	-0.7%	10.6%
Russell 2000 Value	10535	-1.3%	-2.0%
Russell 1000 Growth	1189	-0.4%	18.8%
Russell 1000 Value	1423	-0.9%	4.3%
Shanghai SE Index	3524	-0.4%	8.4%
SPDR Gold Shares	127.97	1.5%	16.8%
GS Crude Oil Total Return	4.93	0.6%	-22.1%
Powershares US $ Index	23.70	-1.6%	-10.4%
Ishares EAFE Index	67.51	0.8%	16.9%
iShares Barclays 20+ Yr Treasury Bond	129.00	1.8%	8.3%
Utilities Select Sector ETF	55.36	1.0%	14.0%
Vanguard REIT ETF	84.93	0.7%	2.9%
iShares Mortgage Real Estate	46.53	-1.5%	10.6%
Wells Fargo BDC	21.19	-0.8%	-6.6%
Alerian MLP ETF	11.11	-1.3%	-11.8%
iShares Global Telecom	58.88	-2.0%	0.3%
Source: Bloomberg & Yahoo.com, Returns are appreciation only.			

S&P Sector Performance			
Index	**Price**	**Last Week**	**YTD**
Information Technology	1001	-1.1%	23.9%
Consumer Disc.	708	-1.1%	9.3%
Consumer Staples	565	0.1%	6.2%

A Word on the Market by Pat Adams, CFA

The market reacted positively to a few things on Monday, and broke the lower lows and lower high trend for the S&P 500. It has swung so much the market is in a mini-break out, we would focus on 2500 on the S&P 500 to confirm and now 2478 as a short term support, which is the old high.The hurricane was not as bad as expected, N. Korea did not act foolish by firing off another missile over the weekend, and President Trump made a deal on the debt limit to push it out for 3 more months. The S&P 500 broke out to new highs based on these positive short term events, please see the chart below.

S&P 500 ETF (**SPY**)

The internals of the market are still weak, but perhaps this will improve with the value stocks that are very oversold. The internals of the market that have been the weakest have been value stocks and yield oriented stocks. The market has not corrected more than 3% in 10 months, which is the second longest streak in history. This is truly an incredible streak when you look at it in detail. This is not something that is sustainable and markets do have volatility. In 1966, the market went 4 months without a 3% decline, and then ended a secular bull market with a 22% decline. In 1996 the market went 8 months without a 3% decline, but this market had another 4 years of positive returns with a large pullback in 1998, follwed by a severe bear market starting in 2000. We believe the 1966 period makes more sense as a comparable period. The market desparately needs to rotate to value stocks from growth to see any material upside. You can see from the chart below that value has

Health Care	952	1.5%	19.4%
Financials	399	-2.8%	3.1%
Industrials	580	-0.6%	7.7%
Energy	471	1.3%	-15.0%
Telecommunications	150	-4.5%	-15.2%
Utilities	279	0.9%	13.0%
Materials	343	-1.1%	9.9%
Source: Bloomberg website, Returns are appreciation only.			
Interest Rates			
Fed Fund	1.25	5-Year	1.71
3-Month	1.05	10-Year	2.14
6-Month	1.16	30-Year	2.75
2-Year	1.32		
Source: Bloomberg.com			
Economic Events This Week			
13-Sep	PPI	0.4%	-0.1%
13-Sep	Core PPI	0.2%	-0.1%
14-Sep	CPI	0.3%	0.1%
14-Sep	Core CPI	0.2%	0.1%
14-Sep	Initial Claims	310K	298K
15-Sep	Retail Sales	0.1%	0.6%
15-Sep	Retail Sales ex-auto	0.5%	0.5%
15-Sep	Industrial Production	0.2%	0.2%
15-Sep	Capacity Utilization	76.8%	76.7%
15-Sep	Business Inventories	0.2%	0.5%
15-Sep	Michigan Sentiment-Prelim	95.5	96.8
Source: Briefing.com			
Economic Events Last Week			
Date	Event		
5-Sep	Factory Orders for Jul. were down -3.3% vs. estimates of -3.2%		
7-Sep	Productivity-Rev. for Q2 came in at 1.5% which was slightly higher than expectations of 1.2%		

significantly underperformed this year, and in fact, has underperformed for 10 years.

Year to date Growth (green) versus Value (blue)

The underperformance has been related to energy, financials, and recently a flight to quality for income producing securities. We believe the energy supply demand picture is coming into balance and this sector looks poised for a rebound. Financials have underperformed this year from a very strong last year and are setting up for another run as interest rates move up. The 10 Year U.S. Treasury has moved down from 2.62% at the high of the year to currently 2.06% (bonds performed well, yield oriented stocks performed poorly). We actually think some sort of cut in taxes, and an infrastucture bill is likely this year as the republicians will be shamed into getting something done. This will likely push the 10 year back at least to the old highs. The market will favor the yield oriented stocks above the bond market (10 Year U.S. Treasury) and will see this sector of value do better as well.

The market is now going to focus on the September 20th Federal Reserve meeting when they should announce the plan as to how they are going to let their balance sheet shrink from all the QE purchases. We are hearing chatter that this may be a 2018 event, if so the market should move higher.

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7-Sep	Initial Claims for the week of 9/2 were reported at 298K compared to consensus forecasts of 239K
8-Sep	Wholesale Inventories for Jul. rose 0.6% vs. estimates of 0.4%
Source: Briefing.com	

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