PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

February 6, 2018

Index Performance: As of February 2, 2018			
Index	**Price**	**Last Week**	**YTD**
Dow Jones 30	25521	-4.1%	3.2%
S&P 500	2762	-3.9%	3.3%
NASDAQ	7241	-3.5%	4.9%
Russell 2000	7616	-3.8%	0.8%
Russell 2000 Growth	6780	-3.7%	2.0%
Russell 2000 Value	11530	-3.8%	-0.5%
Russell 1000 Growth	1362	-3.7%	4.6%
Russell 1000 Value	1581	-3.8%	1.9%
Shanghai SE Index	3626	-2.7%	4.7%
SPDR Gold Shares	126.39	-1.3%	2.2%
GS Crude Oil Total Return	7.29	-2.0%	11.5%
Powershares US $ Index	23.27	0.1%	-3.2%
Ishares EAFE Index	72.55	-3.6%	3.2%
iShares Barclays 20+ Yr Treasury Bond	119.58	-3.2%	-5.7%
Utilities Select Sector ETF	49.88	-2.3%	-5.3%
Vanguard REIT ETF	77.11	-3.3%	-7.1%
iShares Mortgage Real Estate	41.56	-4.6%	-8.1%
Wells Fargo BDC	19.70	-3.5%	-5.1%
Alerian MLP ETF	11.17	-5.6%	3.5%
iShares Global Telecom	60.71	-2.9%	0.3%

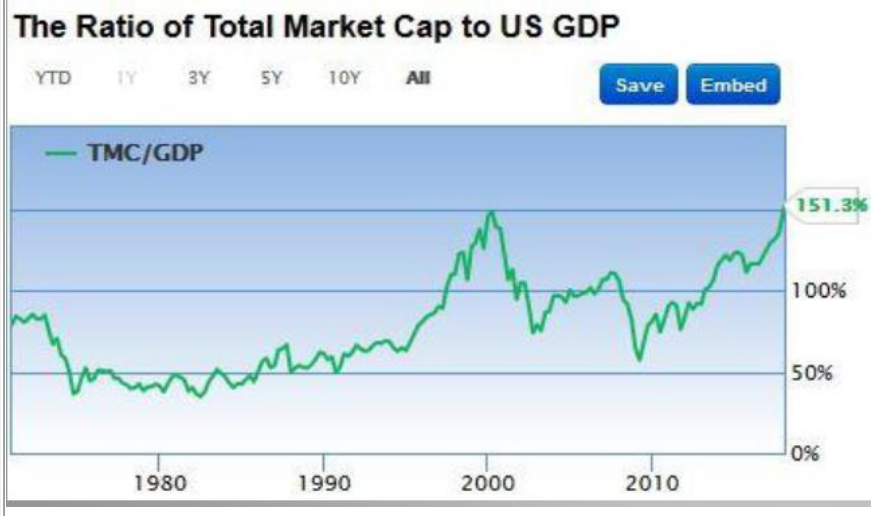
Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance			
Index	**Price**	**Last Week**	**YTD**
Information Technology	1154	-4.1%	4.4%
Consumer Disc.	841	-3.1%	7.1%
Consumer Staples	582	-3.8%	-0.8%

A Word on the Market by Pat Adams, CFA

The S&P 500 fell over 6% over the last two days. Obviously, we believe this was well overdue. The action in the market is a bear market type of trading action. Major stocks are acting horrible. As an example, Exxon Mobil fell over 12% in these two days. The momentum stocks held up well on Friday and most of Monday and then got pounded as well. This is typical bear market action. We would expect the FANG stocks to go lower, they are still so overvalued. When the market has been valued above 20 times trailing earning after a multiple year upward move there has always been a bear market. The S&P 500 got to 21.9x in January and is now 20.2x trailing earnings. The S&P 500 was up about 7% at its high in January and is now down -1.5% year to date.

We would like to share a few charts with you that you will find consistent in our market outlook piece. The first chart shows you the market capitalization of the entire stock market relative to the economy. As you can see, the stock market is very richly valued relative to GDP. It is as high as it was at the peak of the year 2000, wow. We look at this chart all the time and are still amazed. When the employment numbers were released last week the market started to think about wage inflation and its impact on stock valuations.



Below is the Shiller P/E on the stock market, which is the second highest P/E multiple relative to other cycles or peaks. The multiple is above the 1929 crash but below the peak of 2000. We like the

Health Care	1006	-5.1%	5.2%
Financials	487	-2.8%	5.0%
Industrials	657	-3.3%	2.9%
Energy	536	-6.4%	0.6%
Telecommunications	165	-1.3%	-0.8%
Utilities	253	-2.3%	-5.3%
Materials	379	-5.6%	0.0%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates			
Fed Fund	1.375	5-Year	2.58
3-Month	1.48	10-Year	2.84
6-Month	1.65	30-Year	3.08
2-Year	2.15		

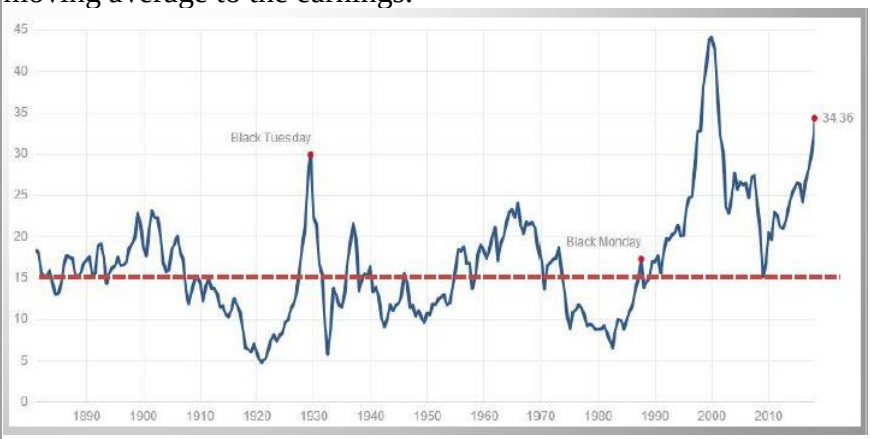
Source: Bloomberg.com

Economic Events This Week			
8-Feb	Initial Claims	234K	230K
8-Feb	Wholesale Inventories	0.2%	0.8%

Source: Briefing.com

Economic Events Last Week	
Date	Event
29-Jan	Personal Income for Dec. rose 0.4% which was in line with expectations
29-Jan	Personal Spendig for Dec. was up 0.4% which was slightly lower than estimates of 0.5%
30-Jan	Consumer Confidence for Jan. came in at 125.4 compared to forecasts of 124.0
30-Jan	Chicago PMI for Jan. was reported at 65.7 which was higher than estimates of 61.0
31-Jan	The FOMC left the rate unchanged at 1.375% as expected

Shiller P/E as it takes the noise out of the earnings trend applying a moving average to the earnings.



Is the market correcting a parabolic move or is it correcting a cyclical overvaluation due to a shift in Federal Reserve policy? A move down to the 200-day moving average, or around -4% more downside, would correct the short-term parabolic move. To correct a cyclical overvaluation due to a shift in Federal Reserve policy would potentially bring the S&P 500 down to around 2100 on the S&P 500, or about -20% lower from these levels gets the market to a solid support level, which is about 14x forward earnings. Given the bond market acted better on Monday when stocks were cratering, suggests that the 200-day moving average should hold. The key for the stock market, in our opinion, is the bond market, so keeping the rate on the 10-year Treasury below 3.0% is necessary, currently 2.71% down from 2.87%.

Some of the yield stocks have gotten very cheap in the last two days especially as the yield in the bond market dropped.
Final note, we encourage investors to substitute long only strategies with strategies that can protect against bear markets. It is very timely to be defensive. What do you have to lose? Potentially a lot!

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

1-Feb	Initial Claims for the week of 1/27 were reported at 230K vs. forecasts of 238K
1-Feb	Productivity-Prel. for Q4 was -0.1% which was lower than estimates of 1.0%
1-Feb	The ISM Index for Jan. came in at 59.1 compared to expectations of 58.5
1-Feb	Construction Spending for Dec. rose 0.7% compared to forecasts of 0.3%
2-Feb	Nonfarm Payrolls for Jan. were reported at 200K which was higher than estimates of 180K
2-Feb	Nonfarm Private Payrolls for Jan. came in at 196K which was higher vs. forecasts of 175K
2-Feb	Unemployment Rate for Jan. was 4.1% which was in line with expectations
2-Feb	Factory Orders for Dec. rose 1.7% which was higher compared to estimates of 1.3%
2-Feb	The Michigan Consumer Sentiment for Jan. was reported at 95.7 compared to expectations of 95.0
Source: Briefing.com	

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