PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

February 13, 2018

Index Performance: As of February 9, 2018			
Index	**Price**	**Last Week**	**YTD**
Dow Jones 30	24191	-5.2%	-2.1%
S&P 500	2620	-5.2%	-2.0%
NASDAQ	6874	-5.1%	-0.4%
Russell 2000	7276	-4.5%	-3.7%
Russell 2000 Growth	6460	-4.7%	-2.8%
Russell 2000 Value	11046	-4.2%	-4.7%
Russell 1000 Growth	1296	-4.9%	-0.5%
Russell 1000 Value	1497	-5.3%	-3.5%
Shanghai SE Index	3278	-9.6%	-5.3%
SPDR Gold Shares	124.74	-1.3%	0.9%
GS Crude Oil Total Return	6.43	-11.8%	-1.7%
Powershares US $ Index	23.62	1.5%	-1.7%
Ishares EAFE Index	68.59	-5.5%	-2.4%
iShares Barclays 20+ Yr Treasury Bond	117.94	-1.4%	-7.0%
Utilities Select Sector ETF	48.56	-2.6%	-7.8%
Vanguard REIT ETF	74.13	-3.9%	-10.7%
iShares Mortgage Real Estate	40.83	-1.8%	-9.7%
Wells Fargo BDC	19.25	-2.3%	-7.3%
Alerian MLP ETF	10.49	-6.1%	-2.8%
iShares Global Telecom	57.51	-5.3%	-5.0%

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

S&P Sector Performance			
Index	**Price**	**Last Week**	**YTD**
Information Technology	1103	-4.4%	-0.3%
Consumer Disc.	802	-4.6%	2.2%
Consumer Staples	553	-5.1%	-5.9%

A Word on the Market by Pat Adams, CFA

The S&P 500 fell from the most recent high in January to the intra-day low last Friday just under -12%, down to the 200-day moving average before bouncing a little over 5% in total through Monday. We would expect a series of lower highs to develop over the next several months. The market will need to find a support level or rather hold the low on Friday, which was roughly 2535.

We believe the volatility last week was a warning that more volatility is coming. It is obvious that investors need to get a plan for this coming volatility in both stocks and bonds.

So, what is all the fuss about? There are two major concerns, valuations of equities and rising interest rates. In terms of valuation, the S&P 500 is still above 20x earnings on a trailing 12-month basis. On a forward 12-month basis, valuations are still high, but less worrisome at 17.4x. If the market can start to look at 2019 earnings, then the valuation concern goes away as long as interest rates stay low.

The bond market has some issues to overcome. Inflation and GDP growth are both picking up. The Trump plan is to achieve 3% real GDP growth. In terms of inflation, it had consistently been below 2% with Obama, and with Trump we believe it will be consistently above 2%, perhaps much higher. Wage inflation is starting to pick up and is concerning to bond investors. On Tuesday, the CPI is reported, and on Wednesday the PPI. We believe both reports will be higher than what the market will like in the 3%-4% annual rate.

The Budget Deficit will be $500 to $600 billion higher in 2018, and the Fed will soon be at an annual rate of $600 billion rolling off their balance sheet. The result will be as much as $1.2 trillion in new bond supply hitting the market on an annual basis, which is called “crowding out.” We do not see any other way than for interest rates to be going up, and potentially considerably. This fear is to some degree already in the higher dividend paying stocks, for now.

Health Care	949	-5.6%	-0.8%
Financials	459	-5.8%	-1.1%
Industrials	621	-5.4%	-2.7%
Energy	491	-8.5%	-7.9%
Telecommunications	155	-5.7%	-6.5%
Utilities	246	-2.8%	-7.9%
Materials	366	-3.4%	-3.4%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	1.375	5-Year	2.52
3-Month	1.55	10-Year	2.83
6-Month	1.73	30-Year	3.14
2-Year	2.05		

Source: Bloomberg.com

Economic Events This Week

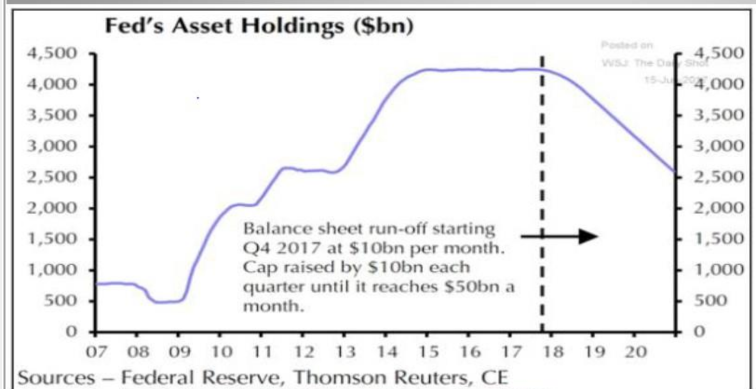
14-Feb	CPI	0.4%	0.1%
14-Feb	Core CPI	0.2%	0.3%
14-Feb	Retail Sales	0.2%	0.4%
14-Feb	Retail Sales ex-auto	0.4%	0.4%
14-Feb	Business Inventories	0.3%	0.4%
15-Feb	Initial Claims	227K	221K
15-Feb	PPI	0.4%	-0.1%
15-Feb	Core PPI	0.2%	-0.1%
15-Feb	Philadelphia Fed	22.0	22.2
15-Feb	Industrial Production	0.2%	0.9%
15-Feb	Capacity Utilization	78.0%	77.9%
16-Feb	Housing Starts	1240K	1192K
16-Feb	Building Permits	1300K	1302K
16-Feb	Michigan Consumer Sentiment	95.5	95.7

Source: Briefing.com

Economic Events Last Week

Date	Event
8-Feb	Initial Claims for the week od 2/3 were reported at 221K which was lower than forecasts of 234K

Below is a graph of the Federal Reserve's balance sheet and the plan to reduce their balance sheet from \$4.5 trillion to \$2.5 trillion. The bottom chart is the Federal Reserve balance sheet with the S&P 500 overlaid; obviously there is a high correlation.



Two things to watch is 3% on the 10-year Treasury note, currently 2.86%, above 3.0% and we believe the market will panic, and as we mentioned previously 2535 on the S&P 500. Get a Plan!

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

8-Feb	Wholesale Inventories for Dec. came in at 0.4% compared to estimates of 0.2%
Source: Briefing.com	

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