PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

May 1, 2018

Index Performance: As of April 27, 2018			
Index	**Price**	**Last Week**	**YTD**
Dow Jones 30	24311	-0.6%	-1.7%
S&P 500	2670	0.0%	-0.1%
NASDAQ	7120	-0.4%	3.1%
Russell 2000	7684	-0.5%	1.7%
Russell 2000 Growth	6867	-1.1%	3.3%
Russell 2000 Value	11584	0.2%	0.0%
Russell 1000 Growth	1334	-0.2%	2.4%
Russell 1000 Value	1527	0.1%	-1.6%
Shanghai SE Index	3228	0.3%	-6.8%
SPDR Gold Shares	125.50	-0.9%	1.5%
GS Crude Oil Total Return	7.61	0.0%	16.4%
Powershares US $ Index	24.03	1.3%	0.0%
Ishares EAFE Index	70.97	-0.1%	0.9%
iShares Barclays 20+ Yr Treasury Bond	118.89	0.4%	-6.3%
Utilities Select Sector ETF	51.71	2.8%	-1.8%
Vanguard REIT ETF	76.39	3.1%	-7.9%
iShares Mortgage Real Estate	42.76	1.8%	-5.4%
Wells Fargo BDC	19.49	0.4%	-6.1%
Alerian MLP ETF	10.09	0.4%	-6.5%
iShares Global Telecom	58.81	1.0%	-2.8%
Source: Bloomberg & Yahoo.com, Returns are appreciation only.			

S&P Sector Performance			
Index	**Price**	**Last Week**	**YTD**
Information Technology	1148	-0.6%	3.8%
Consumer Disc.	828	1.1%	5.5%

A Word on the Market by Pat Adams, CFA

Last week, the earnings reports for the first quarter were very strong, some much better than expected, but yet again really good reports did not equate to strong stock performance. In particular, Caterpillar had a great quarter, but informed investors that the first quarter would be the “high-water mark for the year”. Obviously, this did not sit well, as you can see from the chart below. The stock jumped from $152 to over $160, then when the company made this statement during their earnings call with investors, the stock plunged to close in the low $140’s. The issue the market is having is the fundamentals are just not going to get any better in terms of the rate of change. In other words, earnings may continue to grow, but are going to grow at a slower rate. Our concern is next year, earnings may be growing at a snails pace versus 20% this year. The market seems to view this year as peak earnings.

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To help explain this, we have been following the Purchasing Managers Survey for over 3 decades now. The PMI is a survey of manufacturing purchasing managers. It is a rate of change index. When above 50 the economy is expanding and below 50 contracting. When the index is around 60 it generally cannot get any better and the economy begins to grow slower and the index contracts toward 50. When the index is around 40 the economy is generally in a severe recession and cannot get any worse. A rule of thumb is to sell the market at 60 and buy when the index is 40. Below is a chart of the PMI. The PMI will likely begin to deflate as

Consumer Staples	520	0.5%	-11.4%
Health Care	966	1.8%	1.1%
Financials	460	-0.7%	-0.9%
Industrials	616	-3.1%	-3.5%
Energy	545	0.6%	2.1%
Telecommunications	152	1.5%	-8.3%
Utilities	262	2.8%	-2.0%
Materials	361	-2.1%	-4.6%
Source: Bloomberg website, Returns are appreciation only.			

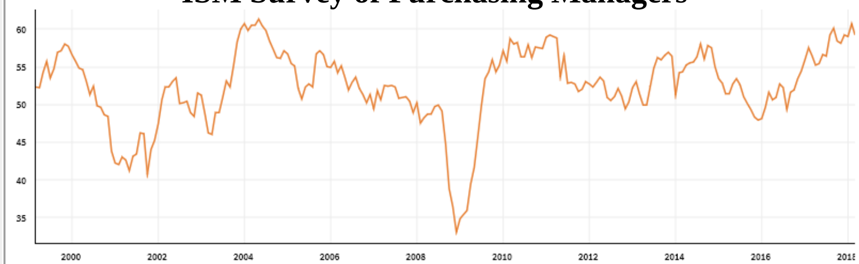
Interest Rates			
Fed Fund	1.625	5-Year	2.80
3-Month	1.82	10-Year	2.96
6-Month	2.02	30-Year	3.13
2-Year	2.49		
Source: Bloomberg.com			

Economic Events This Week			
30-Apr	Personal Income	0.4%	0.3%
30-Apr	Personal Spending	0.4%	0.0%
30-Apr	Chicago PMI	58.0	57.4
1-May	ISM Index	58.5	59.3
1-May	Construction Spending	NA	0.1%
2-May	FOMC Rate Decision	1.625 %	1.625 %
3-May	Productivity-Prel.	0.8%	0.0%
3-May	Initial Claims	220K	209K
3-May	Factory Orders	1.2%	1.2%
4-May	Nonfarm Payrolls	190K	103K
4-May	Nonfarm Private Payrolls	193K	102K
4-May	Unemployment Rate	4.0%	4.1%
Source: Briefing.com			

Economic Events Last Week	
Date	Event

we go through this year. We believe the stock market is struggling as the general trend in the economy, on a rate of change basis is going to slow, and the market looking forward is now discounting slower growth in the future. The PMI is released the first of every month, we expect the PMI to tick down when reported on Tuesday morning.

ISM Survey of Purchasing Managers



There are a number of things to watch out for this week, Apple reports after the close on Tuesday, the Federal Reserve meets, and lastly the U.S. will announce which countries get a free pass on the steel and aluminum tariffs. AAPL guidance will likely be a problem as demand for their new phone has been less than expected and the semiconductor sector has been very weak down about -14% from its recent high. AAPL is down about 11% from its recent high. The market has anticipated a weak quarter for AAPL, so the stock may not have a big negative move, especially with its cash position. The Fed is not expected to raise rates at this meeting but could say that inflation is now tracking in line with their expectations, so the market may read into this negatively.

Finally, on the tariffs, whenever there is an announcement it does not matter what is said, the market takes it negatively.

As everyone that may even occasionally read our weekly views knows, we believe that value stocks are compelling relative to growth, i.e. technology, as tech is so inflated as a weighting within the S&P 500. There is an article on the front cover of Barron's that echoes our views.

By the way, it has been a long time since we had so many quality stocks trading below their 5-year low P/E multiples. A couple that we really like is AT&T (T) on this recent dip, and Disney (DIS), wow their movies are really strong this year. AT&T will begin to make a big push on 5G, the next generation of cell phone technology. 5G increases the speed over 4G by 1000x. The requirement is that fiber is needed, where AT&T is well positioned. Disney is the content king, and the stock is very depressed as cord cutting has pressured margins in the media industry. We believe Disney is very well positioned with their parks, studios, and new on-line service that will compete with Netflix. As families have more discretionary income they attend the Disney parks, movies...etc. Below is the P/E of AT&T and Disney versus the market since 2008. AT&T has not traded at this valuation since the lows of the 2008 bear market and Disney which deserves a

23-Apr	Existing Home Sales for Mar. came in at 5.60M which was slightly ahead of expectations of 5.57M
24-Apr	New Home Sales for Mar. were reported at 694K which was higher than estimates of 631K
24-Apr	Consumer Confidence for Apr. was 128.7 vs. expectations of 126.1
26-Apr	Durable Orders for Mar. was up 2.6% which was higher vs. forecasts of 1.9%
26-Apr	Durable Goods ex-transportation for Mar. was flat compared to estimates of 0.6%
26-Apr	Initial Claims for the week of 4/21 were 209K which was lighther than expectations of 225K
27-Apr	GDP-Adv. for Q1 came in at 2.3% compared to forecasts of 2.1%
27-Apr	The Chain Deflator-Adv. for Q1 was reported at 2.0% vs. estimates of 2.2%
27-Apr	The Michigan Sentiment-Final for Apr. came in at 98.8 vs. consensus forecasts of 98.0
Source: Briefing.com	

premium valuation versus the market, and always has, is now at a significant discount to the S&P 500.

Title	HI	LO	MD	CU	SD	ED
AT&T Inc (T)	15.19	8.78	12.86	9.54	04-30-2008	04-27-2018
S&P 500 Composite Market (SPSM)	19.06	10.59	14.45	16.80	04-30-2008	04-27-2018

P/E - F12M (T)

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Median	10.23	11.88	11.25	11.90	13.56	13.61	13.07	12.92	13.51	13.03	10.31
High	12.17	12.45	11.78	12.99	15.19	14.59	13.47	13.96	14.73	14.14	10.87
Low	8.78	10.96	10.27	11.40	12.45	12.90	11.96	11.87	12.37	11.33	9.54
End	9.92	12.45	11.78	12.36	13.30	13.24	13.08	12.07	14.25	13.06	9.54

Title	HI	LO	MD	CU	SD	ED
Disney Walt (DIS)	21.70	8.89	15.37	13.70	04-30-2008	04-27-2018
S&P 500 Composite Market (SPSM)	19.06	10.59	14.45	16.80	04-30-2008	04-27-2018

P/E - F12M (DIS)

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Median	12.95	13.49	14.83	13.41	13.99	16.61	18.94	20.15	16.27	16.69	14.15
High	14.14	16.46	16.90	15.66	14.89	18.75	19.50	21.70	17.02	17.89	16.43
Low	10.32	8.89	13.80	10.37	12.77	15.12	17.54	18.16	15.24	15.23	13.70
End	10.41	16.46	14.92	12.45	14.10	18.75	19.50	18.16	16.98	17.07	13.70

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