PVG Asset Management
LOSS AVERSE INVESTING

Market in a Minute

September 24, 2019

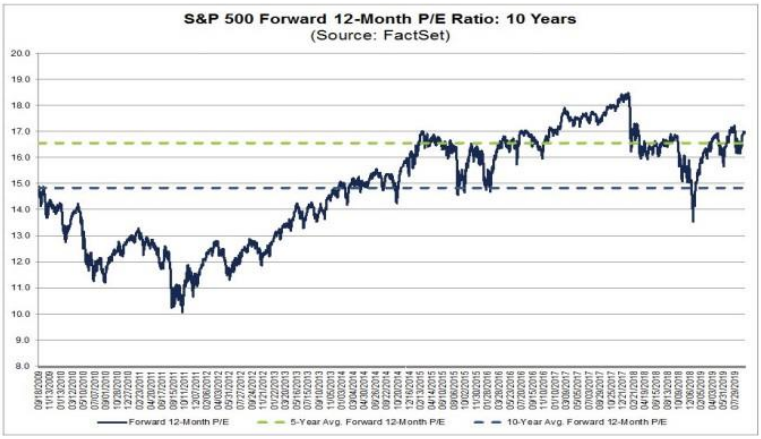
Index Performance: As of September 20, 2019

Index	Price	Last Week	YTD
Dow Jones 30	26935.07	-1.0%	15.5%
S&P 500	2992.07	-0.5%	19.4%
NASDAQ	8117.67	-0.7%	22.3%
Russell 2000	7852.45	-1.1%	16.8%
Russell 2000 Growth	7189.2	-0.8%	19.3%
Russell 2000 Value	11525.32	-1.5%	14.2%
Russell 1000 Growth	1594.33	-0.3%	24.3%
Russell 1000 Value	1682.2	-0.6%	18.2%
Shanghai SE Index	3149.62	-0.8%	20.6%
SPDR Gold Shares	142.95	2.0%	17.9%
GS Crude Oil Total Return	6.48	8.0%	35.3%
Powershares US $ Index	26.83	0.4%	5.4%
Ishares EAFE Index	65.56	-0.5%	11.5%
iShares Barclays 20+ Yr Treasury Bond	141.89	3.9%	16.8%
Utilities Select Sector ETF	63.87	1.5%	20.7%
Vanguard REIT ETF	93.45	2.0%	25.3%
iShares Mortgage Real Estate	42.84	1.6%	7.3%
Wells Fargo BDC	20.24	0.9%	14.4%
Alerian MLP ETF	9.44	0.7%	8.1%
iShares Global Telecom	58.42	-1.0%	16.4%

A Word on the Market by Pat Adams, CFA

When forecasting the market's movements, it is so much easier to do it over the longer-term. One of things we stressed in our "Road Map" white paper on asset allocation from July is the last 10-years will look completely different than the next 10-years. Interest rates in the U.S. and globally are likely around a low and cannot go much lower with $17 trillion of bonds with negative yields. The bond market has no value, very little return potential in the U.S. 10-Year Treasury, as an example.

The stock market is more attractive than the bond market but has more inherent risk and needs to be managed. The long-term standard deviation for the S&P 500 is 19.7%, and the mean return is about 11%. We believe the returns over the next 10 years will be much lower than the last 10 years and the long-term average. As you can see from the chart below the returns during this bull market, like all bull markets, was driven by a recovery in P/E multiples from the collapse during the bear market of 2007-2009. Remember the market fell over -50% from the high in 2007 to the low in 2009. The P/E multiple expanded from a low of 10x to a high of over 18, to the current 12-month forward earnings valuation of 17x. That P/E expansion was a significant part of the return of the last 10 years. As we look forward 10 years, or even 5 years, we would be inclined to strongly believe that P/E ratios are likely to be flat to down, and if up, only modestly.



ETFMG Alternative Harvest ETF	23.19	-8.0%	-7.0%
BitCoin Investment Trust	12.8	1.7%	223.2%

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

S&P Sector Performance: As of September 20, 2019			
Index	**Price**	**Last Week**	**YTD**
Information Technology	1410.34	-0.8%	29.5%
Consumer Disc.	948.16	-2.2%	21.4%
Consumer Staples	618.9	-8.6%	18.6%
Health Care	1066.2	1.0%	6.6%
Financials	466.96	-1.0%	17.9%
Industrials	656.39	-1.5%	21.1%
Energy	452.25	1.0%	6.6%
Communications Services	170.66	-1.0%	22.9%
Utilities	324.08	2.2%	20.7%
Materials	366.12	-0.9%	15.7%
Real Estate	242.82	2.1%	26.3%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates			
Fed Fund	1.75-2.00	5-Year	1.59
3-Month	1.94	10-Year	1.72
6-Month	1.93	30-Year	2.16
2-Year	1.68		

Source: Bloomberg.com

Economic Events This Week			
23-Sept	Flash Manufacturing PMI	50.3	50.3
24-Sept	CB Consumer Confidence	134.1	135.1
25-Sept	New Home Sales	652K	635K
26-Sept	Final GDP q/q	2.0%	2.0%

The stock market is very dependent on economic growth, which is expected to be about 2.1% globally over the long-term, which gets you to earnings growth in the 5%-7% range. With a standard deviation of 19.7% for the stock market, earnings growing at 7%, and pressure on P/E valuations a buy and hold approach (which did so well during the last 10 years) will likely underperform a tactical approach, or a higher dividend yielding portfolio. This is the case for tactical outperforming as it can avoid large declines of the market and capture the upside of the market after these declines occur. The higher dividend approach is to get the expected return of the market just by the dividend alone and to collect some appreciation.

Below please see our chart comparing the previously longest bull market in history during the 1990s (blue) with the current longest bull market in history that started in 2009 (black). In our opinion, the risks over the next couple of years is skewed clearly to the downside.

The Federal Reserve cut rates by .25% last week as expected, and in our opinion, will likely cut for a third and final time this year in October or December when they next meet. The range of the Federal Funds rate is now 1.75%-2.00% (we don't like the range; it is very odd). The next cut will bring the Fed Funds rate to below the 10-Year Treasury. This is great news! James Bullard is the guy on the Fed that is very pragmatic, neither a dove or a hawk, we think Bullard directionally strongly influences the tone at the Fed. We would expect the Fed to incorporate some form of new Quantitative Easing at the next meeting (QE Light). Please see Bullard comments attached.

https://www.stlouisfed.org/on-the-economy/2019/september/bullard-explains-recent-fomc-dissent

On China, we remain very skeptical that anything is going to happen, but more serious talks are scheduled in October. If the Fed continues to cut rates, the market may remain in a positive mode, but the stock market will unlikely increase much until this China overhang is resolved.

27-Sept	Core Durable Goods Orders m/m	0.2%	-0.4%
27-Sept	Personal Spending m/m	0.3%	0.6%
27-Sept	Core PCE Price Index m/m	0.2%	0.2%
27-Sept	Durable Goods Orders m/m	-1.1%	2.0%
27-Sept	Revised UoM Consumer Sentiment	92.0	92.0

Source: Briefing.com

Economic Events Last Week

Date	Event
18-Sept	Building permits rose 8% to an annual pace of 1.42M from 1.32M in July
18-Sept	Housing starts increased to an annual rate of 1.36M in August, up from 1.22Min July
18-Sept	Fed lowers interest rate by a quarter-point
19-Sept	Initial jobless claims rose 2K to 208K in the seven days ended Sept. 14
19-Sept	Philly fed manufacturing index fell to 12.0 in September from 16.8 in August

Source: Briefing.com

In the short-term, the market is working off an overbought condition, and needs to hold the 2963 level on the S&P 500, currently 2994.

If you would like to learn more about our Tactical strategies, Higher Dividend Yielding strategies, or award-winning Value strategy please give us a call or send and email to schedule a call.

Please let us know if you would like to discuss.
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