



Market in a Minute

January 1, 2019

Index Performance: As of December 31, 2019

Index	Price	Last Week	YTD
Dow Jones 30	28,413.97	-0.5%	0.9%
S&P 500	3,218.41	-0.3%	0.5%
NASDAQ	8950.72	-0.2%	0.9%
Russell 2000	8,454.81	-0.5%	-0.6%
Russell 2000 Growth	7,757.65	0.1%	-0.6%
Russell 2000 Value	1,930.45	-1.0%	-0.9%
Russell 1000 Growth	1,770.52	-0.2%	-0.5%
Russell 1000 Value	1,794.45	-0.2%	0.0%
Shanghai SE Index	3195.98	1.1%	1.1%
SPDR Gold Shares	142.9	2.1%	2.1%
GS Crude Oil Total Return	7.02	4.0%	4.0%
Powershares US \$ Index	25.97	0.5%	0.5%
Ishares EAFE Index	69.44	-0.2%	-0.2%
iShares Barclays 20+ Yr Treasury Bond	135.48	2.7%	2.7%
Utilities Select Sector ETF	64.62	-1.1%	-1.1%

A Word on the Market

By Pat Adams, CFA

We start a new year after a massive recovery in the markets in 2019, from a very large sell off during the 4th quarter of 2018. The net result is the market is up just 9.9% from the high in 2018 to the close of last Friday, but up 38% from the December 2018 low for the S&P 500. That is some severe volatility. We believe we will see more volatility this year. Just keep this in mind, if your portfolio did not decline much from the high in 2018 then the rebound needed is much less to produce the same return. That said, the equity markets are currently richly valued relative to historical valuations, but perhaps appropriately valued when you consider the low level of inflation and the level of interest rates. On an absolute basis, over the stock market's history, valuation is concerning. A valuation measure known as the Shiller P/E smooths the cyclicity of the P/E ratio. As you can see from the chart below the valuation is second only at the end of the bull market in 2000.

A measure of stock valuations called the Rule of 20, states that the stock market is fairly valued when the sum of the average price-earnings ratio and the rate of inflation is equal to 20. The S&P 500 valuation is roughly 18 x expected earnings and inflation is roughly 2%, but these cyclical factors can change. Inflation can rise and valuations would need to come down. We would expect to see higher inflation in 2020, so P/E ratios will be limited. This market needs to be treated very cautiously on continued strength.

The valuation problem in the market is centered around the top 30 companies, especially a smaller subset of growth stocks. The risk in the market is clearly in the momentum/growth stocks, but these are the stocks that can continue to work for now. When the market collapsed in 2000-2002 by over -50%, there were value managers, such as PVG, that had positive returns as growth severely declined and value stocks managed to have positive performance. The chart below, in our opinion, is obvious that equity risk needs to be managed. It has been our observation that retail investors who's

Vanguard REIT ETF	92.79	-0.6%	-0.6%
iShares Mortgage Real Estate	44.53	0.1%	0.1%
Wells Fargo BDC	20.44	0.5%	0.5%
Alerian MLP ETF	8.5	2.4%	2.4%
iShares Global Telecom	61.4	0.8%	0.8%
ETFMG Alternative Harvest ETF	17.12	-2.3%	-2.3%
BitCoin Investment Trust	8.19	4.9%	4.9%

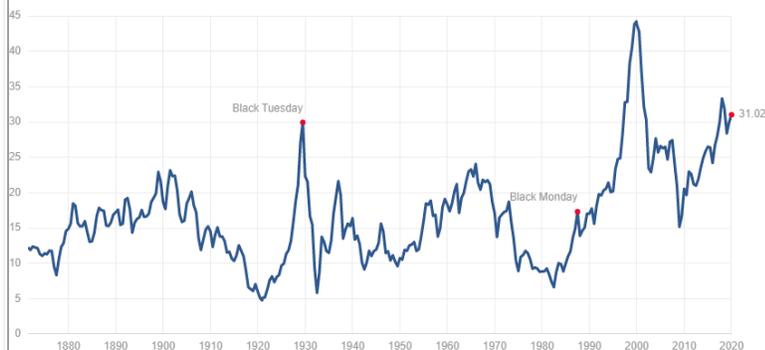
Source: Bloomberg & Yahoo.com, Returns are appreciation only.

S&P Sector Performance: As of December 31, 2019

Index	Price	Last Week	YTD
Information Technology	1,621.68	1,621.68	1,621.68
Consumer Disc.	990.5	990.5	990.5
Consumer Staples	640.55	640.55	640.55
Health Care	1,180.33	1,180.33	1,180.33
Financials	510.52	510.52	510.52
Industrials	699.23	699.23	699.23
Energy	458.77	458.77	458.77
Communications Services	183.01	183.01	183.01
Utilities	324.18	324.18	324.18
Materials	374.88	374.88	374.88
Real Estate	239.06	239.06	239.06

Source: Bloomberg website, Returns are appreciation only.

accounts are managed by unsophisticated T.D. Ameritrade types are doomed in a bear market.



Generally, at the end of many market cycles, or bull markets, commodity prices rise significantly. We believe there will be a general rising trend in inflation in 2020. As energy stocks have been a very poor performing sector and are now only roughly 4% of the S&P 500 weighting, generally closer to 10%, the energy stocks appear to be compelling given the recent events in the Middle East. The U.S./Iran confrontation has raised the overall risk in the markets and perhaps has put a bid in the price of oil. It is a little surprising that there was not a bigger negative reaction in the market.

You must really question what is going on in Iraq with the General of Iran, Soleimani, in Baghdad. It is difficult in understanding all the different factions. Below is a map of Shia and Sunni Muslims. Iran is “governed” by radical Shiite Arabs and Iraq has traditionally been governed by Sunnis, but the majority of the population are Shiite. ISIS are radical Sunnis. Obviously, no one likes ISIS. As a result, ISIS has been very bad for the Sunnis in Iraq. The Sunnis got displaced as the Kurds, Iraq, Iran, and the U.S. destroyed ISIS, which were occupying the area where the Sunnis inhabited. Now the Shias are in power in Baghdad...i.e. friends with Iran. That is why Soleimani was in Baghdad. This was very bad for stability in the Middle East.

To the point, the oil market is slightly over supplied, Iran was producing about 2 million barrels a day (no reliable data currently) and Iraq 4.7 million, of a total of about 95 million worldwide. If Iraq kicks the U.S. out of their country, then we would expect a significant negative impact on supply to occur and oil prices could move meaningfully higher. Oil stocks make sense to own and the Middle East concerns could make this sector a multiple year opportunity. We don't see much risk to owning energy stocks at this point in the cycle.

Interest Rates

Fed Fund	1.75	5-Year	1.59
3-Month	1.52	10-Year	1.80
6-Month	1.55	30-Year	2.26
2-Year	1.53		

Source: Bloomberg.com

Economic Events This Week

7-Jan	ISM Non-Manufacturing PMI	54.5	53.9
8-Jan	ADP Non-Farm Employment Change	160K	67K
10-Jan	Average Hourly Earnings m/m	0.3%	0.2%
10-Jan	Non-Farm Employment Change	150k	266K
10-Jan	Unemployment Rate	3.5%	3.5%

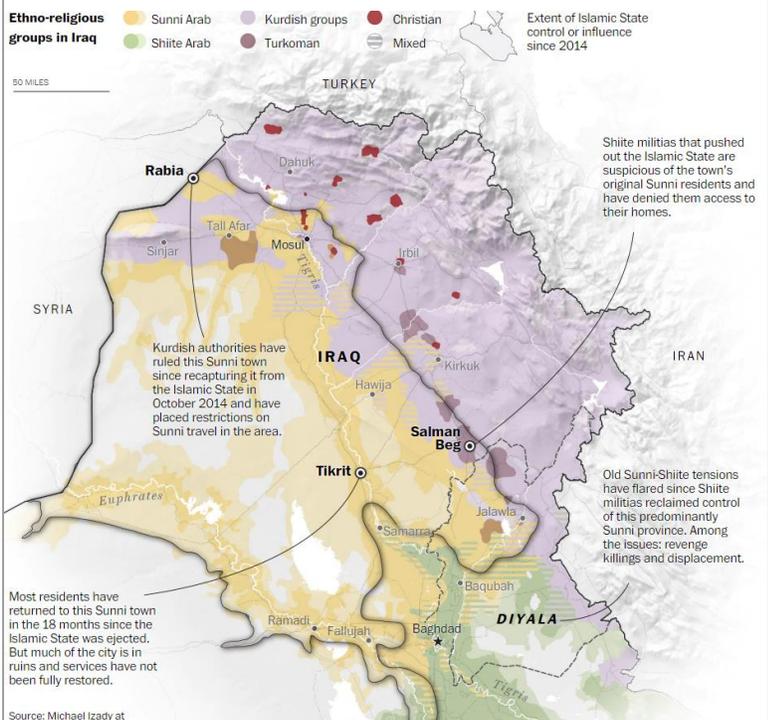
Source: Briefing.com

Economic Events Last Week

Date	Event
30-DEC	Chicago PMI still in contraction, but raises to 48.9
31-Dec	Consumer confidence higher at end of 2019, but growth slowing
3-Jan	U.S. Manufacturing slumps for 5 th straight month amid the China trade war
3-Jan	Fed still worried about inflation in light of weak global economy

Source: Briefing.com

The distribution of Shia & Sunni Muslims in the Middle East



If you would like to learn more about our “Loss Averse” strategies, our tactical strategies or our value strategies please call 303 874 7478 or email aadams@pvgasset.com and we will schedule a call with one of our portfolio managers.