



Market in a Minute

January 21, 2019

Index Performance: As of January 17, 2020

Index	Price	Last Week	YTD
Dow Jones 30	29348	1.8%	3.3%
S&P 500	3,329.62	2.0%	1.5%
NASDAQ	9,388.94	2.3%	2.5%
Russell 2000	8,598.59	2.5%	-0.8%
Russell 2000 Growth	8,012.27	3.0%	0.3%
Russell 2000 Value	12,389.32	2.1%	-1.3%
Russell 1000 Growth	1,835.46	2.3%	1.3%
Russell 1000 Value	1,826.16	1.7%	0.1%
Shanghai SE Index	3207.98	3207.98	3.0%
SPDR Gold Shares	146.58	146.58	-0.2%
GS Crude Oil Total Return	6.71	6.71	0.4%
Powershares US \$ Index	26.32	26.32	0.4%
Ishares EAFE Index	70.38	70.38	1.3%
iShares Barclays 20+ Yr Treasury Bond	138.02	138.02	0.6%
Utilities Select Sector ETF	66.76	66.76	3.7%
Vanguard REIT ETF	94.72	94.72	2.6%
iShares Mortgage Real Estate	45.76	45.76	1.7%
Wells Fargo BDC	20.3	20.3	0.9%

A Word on the Market

by Pat Adams, CFA

Over the last several weeks, we have reviewed several valuation methodologies for the market, and all of the tradition valuations has the market being expensive or extremely expensive. The only valuation which has the market being attractively valued is relative to the very low level of interest rates. The graph below shows the earnings yield of S&P 500 in red(earnings yield is the inverse of the price to earnings ratio or P/E of the market) versus the yield of the 10-Year Treasury yield. The current spread between the earnings yield and the treasury yield is currently about 3.5%. This is significant. It is our belief that stock valuations only track interest rates to a certain level and then stops, otherwise the negative yields in Europe would drive stock valuations to extraordinary high levels. The major risk to the market is if rates start to go back up, as they did in the 4th quarter of 2018, when the stock market fell about -19%.

Speaking of negative rates, the amount of bonds worldwide with negative yields is down to \$11 trillion from a high of \$18 trillion, but still a very significant amount of money. You can look back to the yields in 2000, which were compelling versus the earnings yield. If 2000 bonds were attractively valued relative to stocks, now stocks are attractively valued relative to bonds, but stocks are expensive.

There is a term called **TINA**, (There Is No Alternative to stocks), because bond valuations or yields are ridiculously low, it has forced a massive amount of money into stocks, actually mostly only into growth stocks. What will clearly kill off this very old bear market is rising interest rates on long-term bonds. If the economy starts to accelerate, and it appears it is starting, we will likely get a significant rotation out of growth stcoks and into value stocks. When interest rates rise to a level where it starts to choke off the economy, then a recession and bear market will follow. A valuation correction was really what drove the bear market in 2000-2002 or a roughly -50% correction.

Alerian MLP ETF	8.84	8.84	1.5%
iShares Global Telecom	64.21	64.21	1.8%
ETFMG Alternative Harvest ETF	18.75	18.75	14.1%
BitCoin Investment Trust	10.07	10.07	4.9%

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

S&P Sector Performance: As of January 17, 2020

Index	Price	Last Week	YTD
Information Technology	1,705.75	2.2%	2.8%
Consumer Disc.	1,005.68	0.4%	1.1%
Consumer Staples	656.56	0.6%	-0.3%
Health Care	1,217.69	1.5%	1.2%
Financials	515.28	-0.2%	-0.1%
Industrials	711.83	-0.2%	1.8%
Energy	448.77	-1.1%	0.0%
Communications Services	191.1	2.0%	3.0%
Utilities	339.11	0.8%	0.1%
Materials	383.98	-0.3%	-2.7%
Real Estate	245.7	0.3%	0.1%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

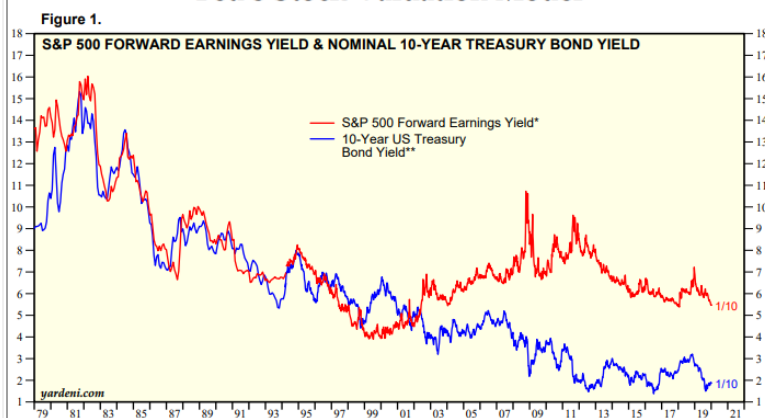
Fed Fund	1.54%	5-Year	1.63
3-Month	1.56	10-Year	1.84
6-Month	1.57	30-Year	2.29
2-Year	1.58		

Source: Bloomberg.com

Economic Events This Week

21-Jan	WEF Annual Meetings		
22-Jan	WEF Annual Meetings		

-2002 or a roughly -50% correction.
Fed's Stock Valuation Model



Lastly, in terms of the technicals of the overall market, it is significantly overbought and due for a significant pullback. The market is hitting our price objective confirming a melt-up, or a point where the market seems to have or is having a final and ending last move in the market for this cycle. Our technical algorithm is positive and keeps us invested until the market breaks its upward trend.

What is happening in new drug and medical device development has been truly incredible, and investors in emerging companies are reaping huge rewards. We don't see this trend changing for quite a while. The Trump Administration has sparked this trend while the science has been brewing for some time. It is now much easier to get drugs approved by the FDA. We are entering a **golden age for investing in new emerging healthcare companies**. The science is very exciting, as an example, being able to treat diseases by altering the patient's DNA. There are numerous health issues being solved, like the opioid epidemic with alternative treatments. The rate of drug approvals has increased significantly as can be seen below. Please see the chart below of a stock we mentioned a few months ago as something we thought had promise as an example, Applied Therapeutics (APLT). PVG has created a composite of emerging public companies for investors to get exposure to these types of investments. Our track record managing a private pool has been quite impressive. The valuations in the healthcare sector are generally still very reasonable and believe money should move from other sectors into these emerging companies.

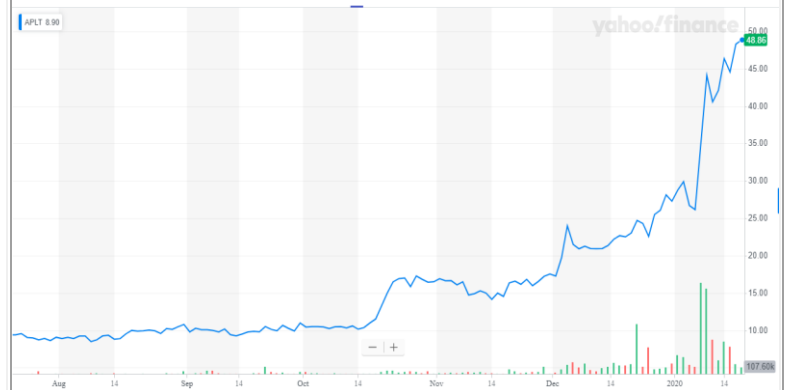
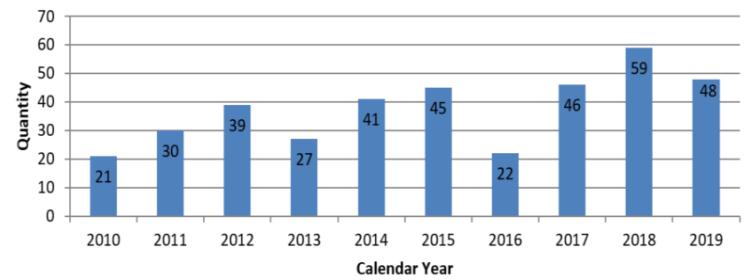
23-Jan	WEF Annual Meetings		
24-Jan	Crude Oil Inventories	-2.5%	
24-Jan	Flash Manufacturing Numbers	52.6	52.4
Source:	Briefing.com		

Economic Events Last Week

Date

14-Jan	CPI rises in 2019 at fastest pace in eight years 2.3% increase in the cost of living
15-Jan	Producer price index rises just 1.3% in 2019 vs. 2.6% gain in 2018
16-Jan	jobless claims fall 5th straight week to 204,000
16-Jan	U.S. retail sales increase 0.3% in
Source:	Initial jobless claims declined by 8K to 211K in the week ended Nov. 2
Source:	Briefing.com

CDER's Novel Drug Approvals



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.

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