


PVG Asset Management

Market in a Minute

Week of November 17, 2014

Index Performance				
Index	Price	Last Week	YTD	<p>Continuing with the theme of slow to negative global growth worldwide, Japan reported on Sunday that their economy has entered into a recession, falling -1.6% in the third quarter following a -7.1% drop in the second quarter. Japan has been aggressively printing money and causing their currency to fall incredibly. Please see the chart below. In the last two years, the Yen has fallen by over 30%. This does make their export driven economy much more competitive relative to U.S. companies and especially Chinese made products.</p> <p>2-Year Chart of FXE (Japanese Yen ETF)-by Yahoo Finance</p> 
Dow Jones 30	17635	0.3%	6.4%	
S&P 500	2040	0.4%	10.4%	
NASDAQ	4689	1.2%	12.3%	
Russell 2000	1174	0.0%	0.9%	
Russell 2000 Growth	698	0.3%	1.4%	
Russell 2000 Value	1497	-0.2%	0.4%	
Russell 1000 Growth	955	-5.9%	10.6%	
Russell 1000 Value	1191	0.1%	11.7%	
Shanghai SE Index	2596	2.5%	17.2%	
SPDR Gold Shares	114.47	1.3%	-1.4%	
GS Crude Oil Total Return	18.49	-3.6%	-20.0%	
Powershares US \$ Index	23.25	-0.1%	8.0%	
Ishares EAFE Index	63.36	0.8%	-5.6%	
iShares Barclays 20+ Yr Treasury Bond	119.49	-0.2%	17.3%	
Source: Bloomberg & MSN, Returns are appreciation only.				
S&P Sector Performance				
Index	Price	Last Week	YTD	<p>There is an article in the Journal of Portfolio Management by Focardi and Fabozzi, "Can We Predict Stock</p>
Information Technology	687	1.8%	17.4%	

Consumer Disc.	549	1.8%	3.6%
Consumer Staples	492	0.1%	11.1%
Health Care	777	0.3%	21.0%
Financials	324	-0.4%	9.8%
Industrials	484	0.2%	6.9%
Energy	630	-2.0%	-3.3%
Telecommunications	165	2.3%	5.9%
Utilities	227	-3.0%	17.7%
Materials	309	1.2%	6.1%

Source: Bloomberg website, Returns are appreciation only.

Interest Rates

Fed Fund	0.25	5-Year	1.62
3-Month	0.02	10-Year	2.32
6-Month	0.07	30-Year	3.04
2-Year	0.54		

Source: Bloomberg.com

Economic Events This Week

Date	Event	Forecast	Previous
17-Nov	Industrial Production	0.2%	1.0%
17-Nov	Capacity Utilization	79.3%	79.3%
18-Nov	PPI	-0.2%	-0.1%
18-Nov	Core PPI	0.1%	0.0%
19-Nov	Housing Starts	1025K	1017K
19-Nov	Building	1040K	1031K

Market Crashes?". It is an interesting article that states the obvious to us, but it brings out some points that are backed up overtime by some very esteemed economists. The article is a good reality check. This is a great think piece that every investor should understand, and give some consideration. It states that the Efficient Market Theory does not work well in practice, as it depends on the ability to determine the distribution of cash flows and discount rates in the infinite future.

Consequently, it also makes predicting bubbles using traditional analysis flawed. To the point, they suggest bubbles can be characterized or identified by a price path that diverges exponentially from the price path of the reference economy, meaning there is a high correlation of stock price advances and the economy's price advance, and when there is a significant decoupling there is likely a bubble. Their theory is when bubbles form in financial assets there is an excessively large inflow of money.

They postulate that human behavior is the driving factor in the formation of bubbles as investors rush to invest in overvalued securities---typical in a momentum market due to the availability of money in search of investment opportunities, the herd

	Permits		
20-Nov	Initial Claims	285K	290K
20-Nov	CPI	-0.1%	0.1%
20-Nov	Core CPI	0.1%	0.1%
20-Nov	Existing Home Sales	5.17M	5.17M
20-Nov	Philadelphia Fed	18.0	20.7
20-Nov	Leading Indicators	0.6%	0.8%

Source: Briefing.com

Economic Events Last Week

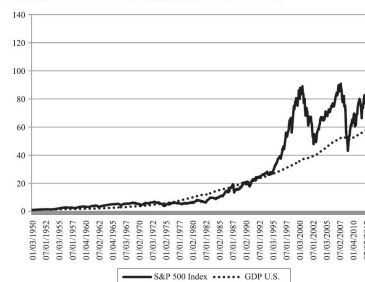
Date	Event
12-Nov	Wholesale Inventories for Sep. rose 0.3% vs. expectations of 0.2%
13-Nov	Initial Claims for the week of 11/8 came in at 290K, slightly higher than estimates of 281K
14-Nov	Retail Sales for Oct. rose 0.3% which was in line with forecasts
14-Nov	Retail Sales ex-auto for Oct. was 0.3% vs. estimates of 0.2%
14-Nov	The Michigan Sentiment for Nov. came in at 89.4 which was higher than expectations of 87.5
14-Nov	Business Inventories for Sep. was reported at 0.3% vs. forecasts of 0.2%

Source: Briefing.com

mentality.

To summarize, bubbles and market crashes occur when financial assets grow much more rapidly than the economy. This excessive growth in the value of financial assets is due to excessive money flowing into financial markets. Below is a chart in the article that makes a case for their theory. We have used the economy relative to the entire stock market as a long term indicator not just the S&P 500. Last thought on this, can you think of a period ever in history, when the Federal Reserve created such a massive amount of money? When price discovery occurs, will it happen all at once, or will it be a much slower methodical process? Bubbles generally bust faster than you can react.

Comparison of the Evolution of the S&P 500 Index and Nominal U.S. GDP



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