Market Monitor

Version 2021-01

Written by Rob Bernstein

January 14, 2021

The *Market Monitor* newsletter is intended for individual investors with a desire to manage the conflicting goals of managing risk and earning a fair return by providing a unique perspective of general market conditions.

If you would like to learn how to make the most of the *Market Monitor* newsletter please watch the webinar I provided last year. Click here to watch recording. If you would like to download a copy of the presentation, click here.

A lot has changed since the last publication of the Market Monitor. Increases in coronavirus cases and deaths are being overlooked as investors focus on the distribution of a vaccine and expect an increase in business activity later this year. The Georgia Senate election results are now final and the Democratic Party will have control over the Senate with a 50/50 split and Vice President Kamala Harris breaking any ties. With a Democratic controlled Congress, the Biden administration is expected to provide additional stimulus to families, struggling businesses and state/local governments. There is also an expectation of a large ($2 Trillion) infrastructure plan to be introduced that many in Congress currently support.

These changes have shifted investors' focus from large-cap stocks, which outperformed last year, to small -cap stocks as smaller capitalized companies are expected to benefit the most from the recovering economy and additional government spending. Small-cap stocks are outperforming large-cap stocks for the first time in over two years. Interest rates are surging. The 10-Year Treasury Yield has moved up over 100% since early August and increasing government spending could continue to put upward pressure on interest rates. As a result, investors are moving out of US Treasuries and into sectors, such as banks and financial services, that are expected to benefit from a rising rate environment. Sector rotation, such as this, within a bull market rally is considered positive and can perpetuate the ongoing uptrend.

While the stock market is reacting positively to all these changes, there are some clouds on the horizon that are starting to build. First, if economic growth continues, the Fed may be forced to become less accommodative sooner than anticipated. Based on history, the stock market has tended to react negatively when the Fed is tightening monetary policy. In addition, there are some signs that the overall fundamental environment is starting to slow as reflected in the RGB Stock Market Scorecard on the following pages. While it is too early to react to these warning signs, it is important to take note and have your plan ready if the clouds do move in our direction.

Stock Market Environment
Stock Market Scorecard

The RGB Stock Market Scorecard is designed to provide a concise summary of the overall 'state of the market' based upon technical, fundamental and credit indicators. The technical indicators tell us how the market is performing over short-, intermediate- and long-term time frames. The fundamental models tell us how the market should be performing and the credit models act as a 'canary in the coal mine'. Using multiple indicators over multiple time frames provides a weight-of-the-evidence approach to understanding the market.

Indicator/Model	Current Signal	Indicator Rating	S&P 500 Historical Return
Primary Cycle Analysis:			
Secular Market Cycle		Bull Market	
Cyclical Market Cycle		Bull Market	
Trend Analysis:			
Short-Term Trend Rating	Buy	Positive	NA
Intermediate-Term Trend Rating	Buy	Positive	NA
Long-Term Trend Rating	Buy	Positive	9.4%
Momentum Analysis:			
Short-Term Momentum Model	Buy	Positive	27.2%
Intermediate-Term Momentum Model	Buy	Neutral	6.4%
Long-Term Momentum Model	Buy	Positive	15.4%
Fundamental Analysis:			
Economic Model	Hold	Neutral	3.8%
Earnings Model	Sell	Negative	0.7%
Monetary Model	Sell	Neutral	12.9%
Inflation Model	Hold	Neutral	6.3%
Valuation Model	Sell	Negative	-2.2%
Credit Conditions Analysis:			
Short-Term Credit Conditions Model	Buy	Positive	NA
Intermediate-Term Credit Conditions Model	Buy	Positive	NA
Long-Term Credit Conditions Model	Buy	Positive	NA
Overbought/Oversold Analysis:			
Short-Term Overbought/Oversold Signal	Hold	Neutral	NA
Intermediate-Term Overbought/Oversold Signal	Sell	Negative	-3.5%
Long-Term Overbought/Oversold Signal	Buy	Positive	NA
Investor Sentiment Analysis:			
Short-Term Sentiment Model	Sell	Negative	-7.4%
Intermediate-Term Sentiment Model	Hold	Neutral	13.0%
Long-Term Sentiment Model	Sell	Negative	-2.3%
		The Weight of the Evidence Average:	**6.13%**
		S&P 500 average gain/annum from 11/16/1979:	**9.08%**

The RGB Stock Market Scorecard is an educational tool designed to provide an assessment of current market conditions as of the date specified based on different market and trading indicators. For a description of each indicator and our source of data illustrated for the indicator, see the disclosures at the end of the document. Keep in mind that the signals and ratings should not be used in isolation and should be confirmed by other indicators and chart patterns. Signals and ratings are provided for general information purposes and are not intended as investment advice. The Current Signal is the signal generated by the specific indicator for the date specified to either buy, hold or sell securities designed to represent the market. The Indicator Rating provides values of positive, moderately positive, neutral or negative to provide an overall assessment based on the indicator value. Generally, positive ratings represent environments where the S&P 500 Index has historically provided above average returns and negative ratings represent environments where the S&P 500 Index has historically provided below average returns. The S&P 500 Historical Return represents the historical annualized return of the S&P 500 Composite Index while the indicator held the displayed rating. Past performance is no guarantee of future results.

Summary: The technical (trend and momentum) and credit conditions remain in good condition. However, the fundamental model continues to deteriorate with no positive readings this month. The overall stock market environment is becoming less certain.

Stock Market Environment
Primary Cycle Analysis

The stock market tends to move in cycles that tend to repeat over time and are generally associated with the overall business cycle.

- **Secular Market Cycle**—Secular (long-term) bull markets are defined by above average returns over an extended period of time. Secular bear markets are defined by long-term periods of flat or declining prices (i.e. below average returns). Secular cycles tend to last from 5 to 25 years.
- **Cyclical Market Cycle**—Cyclical bull and bear markets are shorter trends within the context of secular (long-term) trends. There can be several cyclical bull and bear markets within a secular bull/bear market. For purposes of this report we will define a cyclical bull market as a rise in the Dow Jones Industrial Average of 30% over 50 calendar days or a rise of 13% after 155 calendar days. A cyclical bear market is a 30% decline over 50 calendar days or a 13% decline after 145 days.

While we don't make investment decisions based on secular and cyclical cycles, it is helpful to evaluate current market conditions within context of the predominate trend.

Bull Market

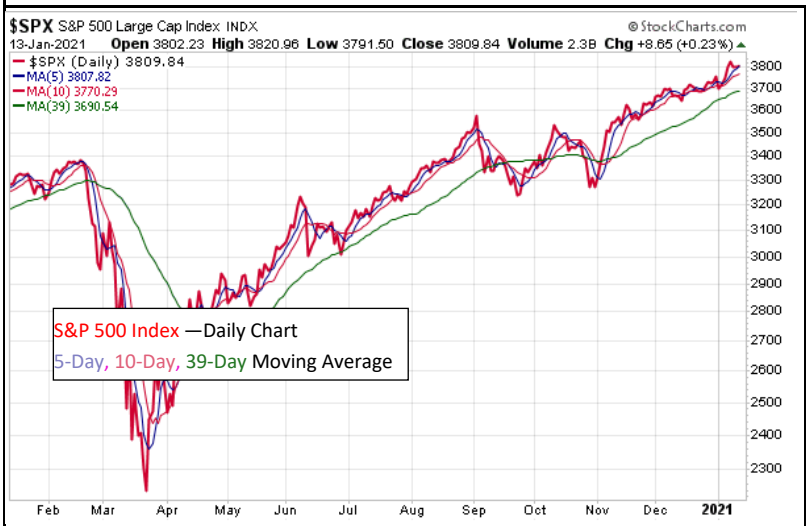
Secular Market Cycle: The long-term (secular) trend of the market is up.

Bull Market

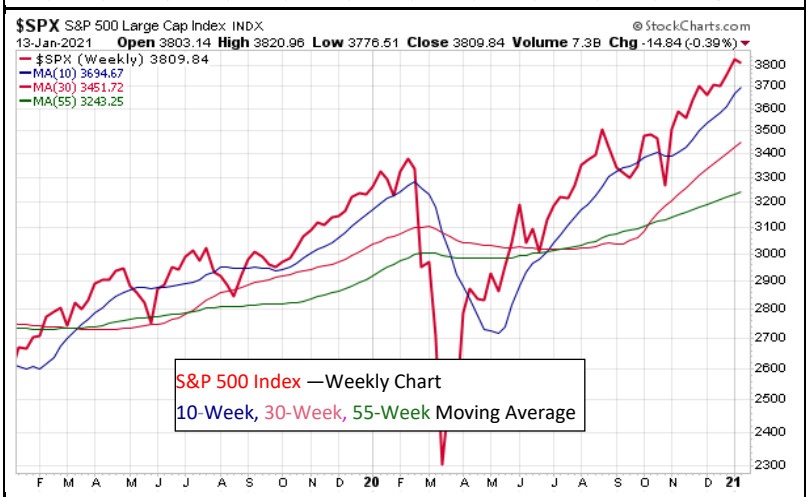
Cyclical Market Cycle: The cyclical bull market is unequivocally positive.

Stock Market Environment
Trend Analysis — One-Year Charts

Trend Analysis:	Signal	Indicator	Historical Return
Short-Term Trend Rating	Buy	Positive	NA
Intermediate-Term Trend Rating	Buy	Positive	NA
Long-Term Trend Rating	Buy	Positive	9.4%



Short-Term Trend: The S&P 500 closed above its 5-Day, 10-Day and 39-Day moving averages and all three moving averages are trending up. The moving averages have been in a steady uptrend for the last 2+ months indicating a fairly stable short-term uptrend.



Intermediate-Term Trend: The intermediate-term trend of the market is clearly up. The weekly chart of the S&P 500 Index remains comfortably above its 10-Week, 30-Week and 55-Week moving averages, which are all trending up.

Long-Term Trend: There has been no change to the long-term trend. The S&P 500 Index is trending above its rising 50-day and 200-day moving averages.

Stock Market Environment
Momentum / Fundamental Analysis

	Signal	Indicator	Historical Return
Momentum Analysis:			
Short-Term Momentum Model	Buy	Positive	27.2%
Intermediate-Term Momentum Model	Buy	Neutral	6.4%
Long-Term Momentum Model	Buy	Positive	15.4%

Overall momentum pulled back just a bit as the Intermediate-Term Momentum Model moved from 'positive' to 'neutral' this month. The number of sub-industry groups tracked by the Intermediate-Term Momentum Model remains relatively high with 75.2% of 157 sub-industry groups providing a positive reading. However, the rate of change of the model has started to decline and the historical return of the S&P 500 Index has dropped to 6.4% while the model is in this configuration. Both short-term and long-term momentum remain positive.

	Signal	Indicator	Historical Return
Fundamental Analysis:			
Economic Model	Hold	Neutral	3.8%
Earnings Model	Sell	Negative	0.7%
Monetary Model	Sell	Neutral	12.9%
Inflation Model	Hold	Neutral	6.3%
Valuation Model	Sell	Negative	-2.2%

The Fundamental Analysis section of the RGB Stock Market Scorecard has deteriorated significantly over the last month.

Economic Model: While the Economic Model maintained a 'neutral' reading, the underlying indicators that make up this model continue to deteriorate.

Earnings Model: The Earnings Model remains 'negative'. However, it is important to note that earnings growth is starting to improve. If the growth continues, we would expect the Earnings Model to improve over the next few quarters.

Monetary Model: The Monetary Model dropped from 'positive' last month to 'neutral' this month as the two proprietary Ned Davis Research indicators used in this model both deteriorated.

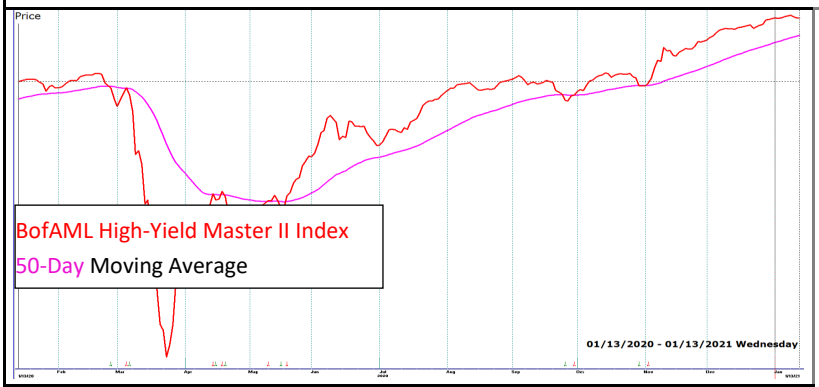
Inflation Model: The Inflation model, that measures the rate of change of commodity prices, the Consumer Price Index, producer prices and industrial production, ticked down to a 'neutral' reading from 'positive' last month.

Valuation Model: All of the valuation indicators used in the Valuation Model continue to deteriorate as stocks become more expensive. Some valuation indicators are approaching or exceeding levels last seen during the 2000 to 2003 Tech Bubble.

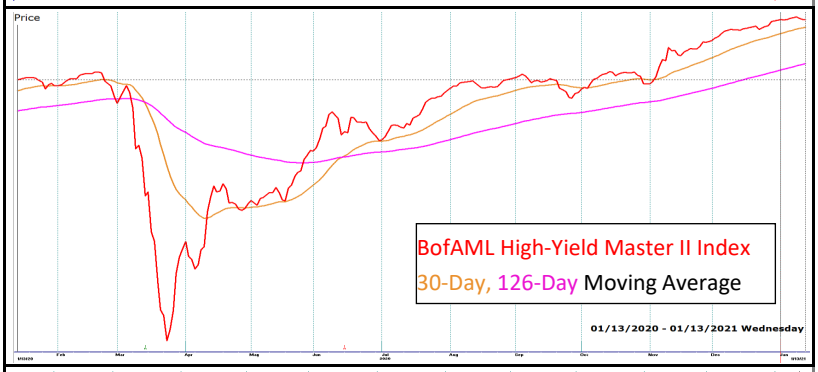
Stock Market Environment
Credit Conditions Analysis — One-Year Charts

Junk bonds are one of the best indicators of overall market sentiment. When risk rises, junk bond prices fall as investors demand a higher yield to compensate them for the additional risk (remember bond prices fall as yields rise). When risk subsides, junk bond yields tend to fall given more favorable market conditions (i.e. lower risk). Falling yields drive junk bond prices higher. As junk bonds generally trend in the same direction as stocks, following the trend of junk bonds provides a good overall indicator for the equity markets. Assessing junk bonds in conjunction with US Treasuries gives us a reasonable clue to the overall risk in the market.

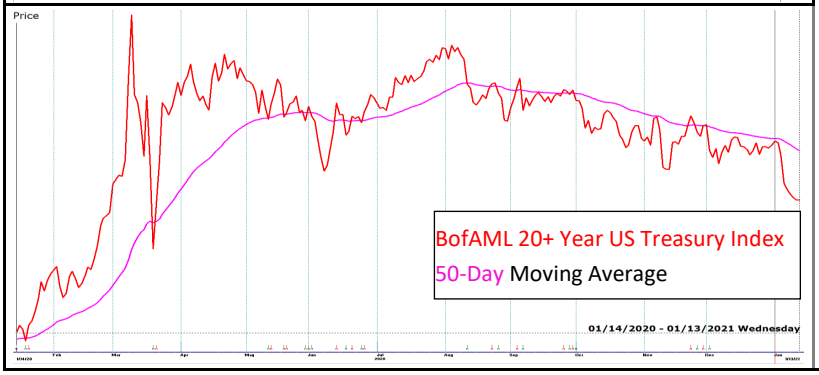
Credit Conditions Analysis:	Signal	Indicator	Historical Return
Short-Term Credit Conditions Model	Buy	Positive	NA
Intermediate-Term Credit Conditions Model	Buy	Positive	NA
Long-Term Credit Conditions Model	Buy	Positive	NA



Short-Term Credit Conditions: The BofAML High-Yield Master II Index (junk bond index) is in a low volatility uptrend and remains solidly above its 50-day moving average. This reflects a positive market environment where investors are willing to take on risk.



Intermediate-Term Credit Conditions: Intermediate-term credit conditions are also positive. The BofAML High-Yield Master II Index remains above its rising 30-Day and 126-Day moving averages.



Long-Term Treasury Prices: Reviewing US Treasury prices in conjunction with the junk bond indicator provides an indication as to the level of risk in the market. When US Treasury prices fall, as they are now, it is an indication that investors are fleeing the safety of US Treasuries in favor of riskier assets.

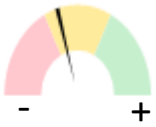
Summary: The short-term and intermediate-term credit conditions, based on the junk bond indicator, are undeniably positive. Long-term credit conditions (not shown) are also positive.

Stock Market Environment
Early Warning Model

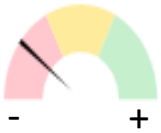
The Early Warning Model is designed to give investors an indication when the market has gone too far in one direction and whether it's ripe for a reversal in trend based on overbought / oversold and investor sentiment indicators. Like a rubber band that has been stretched too far, the market tends to snap back towards its mean when stretched too far in one direction. These are contrarian indicators. Historical data shows that the best stock market gains come when the market is oversold or investor sentiment becomes extremely negative. This is reflected by the gauges moving into the green. Conversely, when the market becomes overbought or investor sentiment becomes too bullish, historical data suggest the stock market is more likely to fall in the future and therefore represented by the gauges moving into the red.

Overbought / Oversold

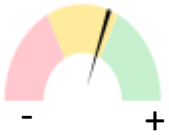
Short-term



Intermediate-term



Long-term

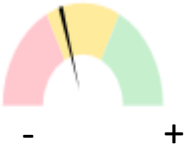


The stock market is overbought on both a short- and intermediate-term basis. While the stock market can remain overbought for a period of time, historical data suggests that the market is more likely to correct when the indicators are at this level.

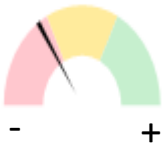
Investor Sentiment

Short-term

Intermediate-term



Long-term



Investors remain very bullish across all three time frames which indicates a higher probability of a correction in the future.

Summary

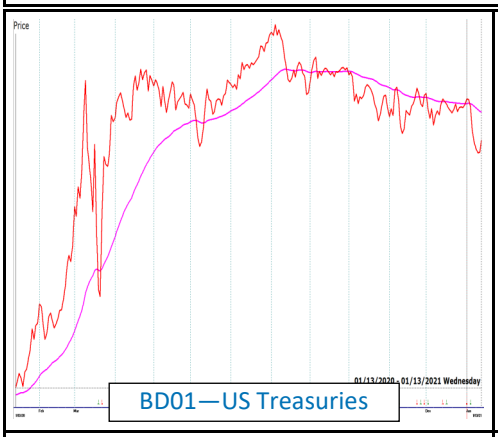
Mean Reversion Potential	Overbought
New Investment Rating	Hold

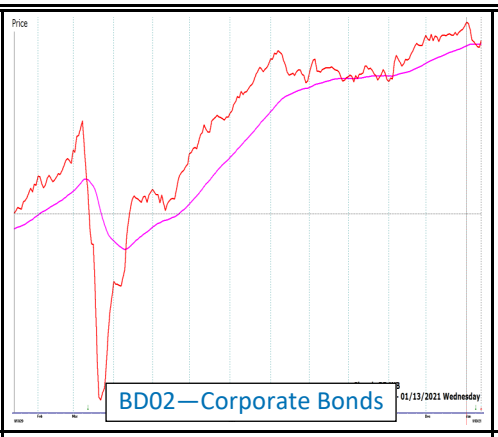
The early warning model is flashing a cautionary sign and the market currently has a higher probability of a downward mean reversion move.

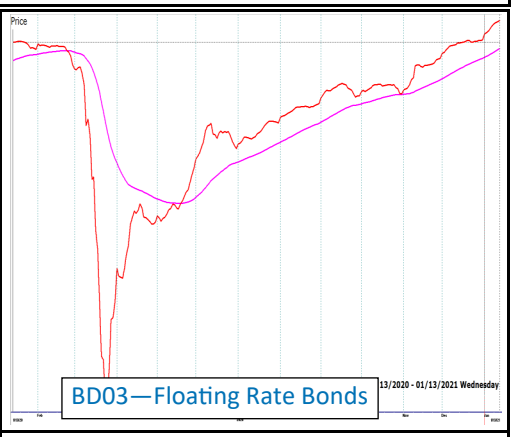
The Early Warning Model is a tool designed to provide an indication when the market has moved too far in one direction, which in our view, means the probability of a counter trend rally is above average. The Mean Reversion Potential, based on the trend reversal data displayed, is a belief that prices and returns tend to move towards their long term averages. The New Investment Rating, is a rating that we believe indicates whether current market conditions support new money being invested in the market. A negative/red reading indicates that the likelihood of prices moving down towards their mean is elevated in our view, while a positive/green reading indicates that the likelihood of a move up to the mean is elevated. These represent the opinions of Robert Bernstein and are not an investment recommendation. There is no guarantee the market will move in any one direction at any given time.

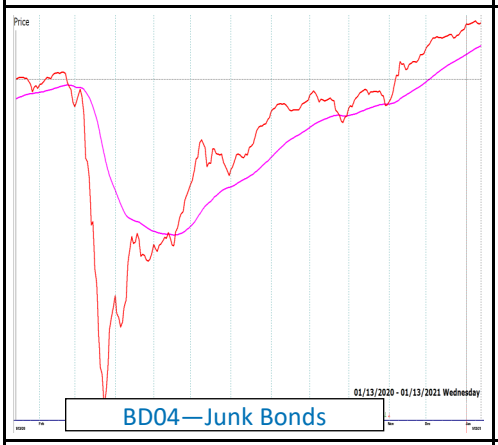
Bond / Income Environment
Overall Assessment

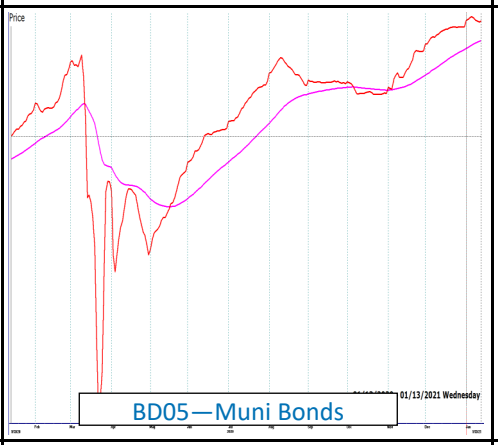
The following one-year charts represent 10 groups that encompass a large portion of the bond / income environment. Each group is an equally-weighted composition of representative mutual funds. Each group is plotted with its 50-Day moving average to help visualize the trend.

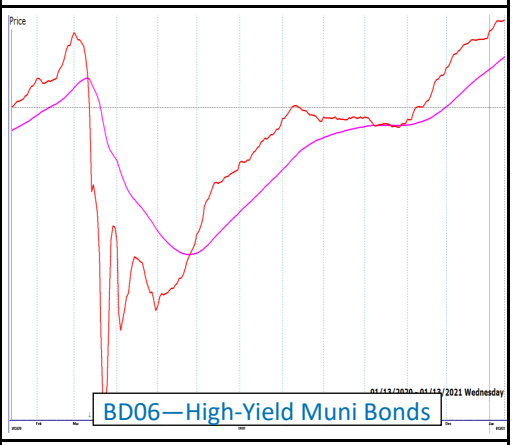


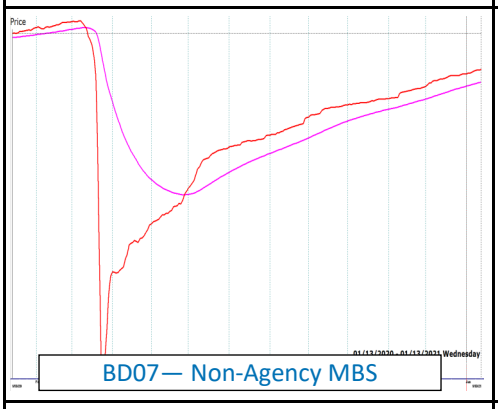


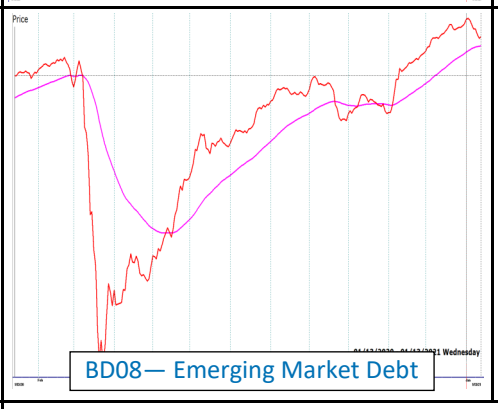


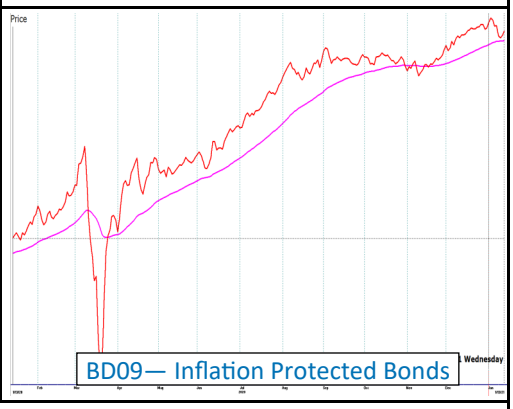


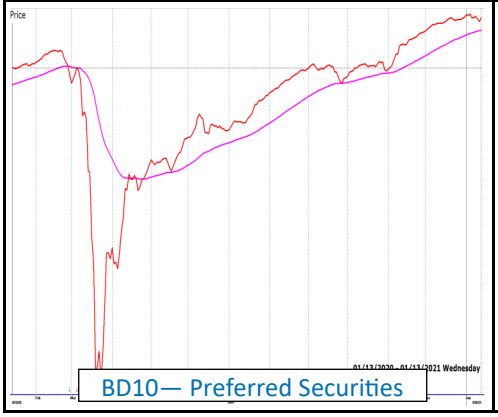












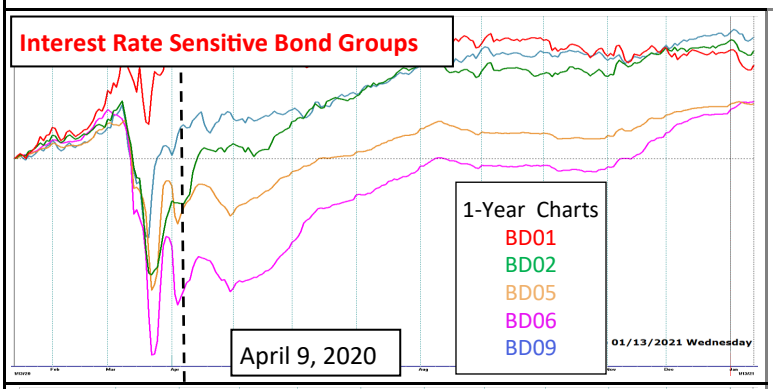
With the exception of US Treasuries (BD01), the low volatility groups we track in the Market Monitor are all in uptrends and above their 50-day moving average. A few of the groups, including Corporate Bonds (BD02), Emerging Market Debt (BD08) and Inflation Protected Bonds (BD09) have entered short-term down trends. These short-term downtrends are at least in part due to the recent rise in interest rates. The 10-Year US Treasury Yield (not shown) has moved from 0.93% to 1.1%, or 18%, this year alone and moved up over 100% since last early August.

Bond / Income Environment
Detailed Analysis

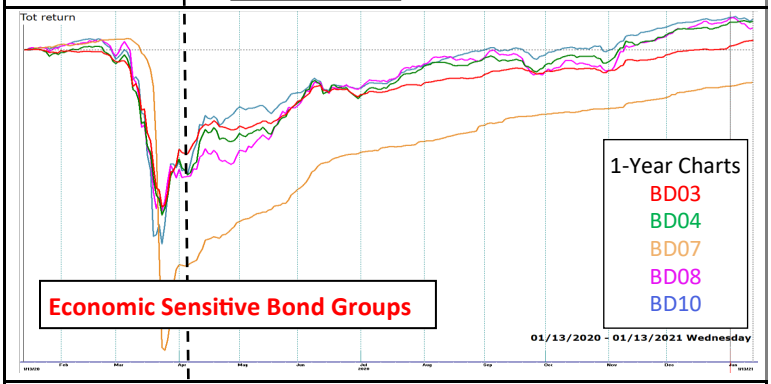
		Statistics for 4/9/20 - 1/13/21						YTD	One Year
Symbl	Description	Return	Annual Return	ULCER	UPI	MaxDrawDown	SD	Return	Return
BD07	Bond/Inc - Non-Agency MBS	28.96%	39.63%	0.02	1923.6	-0.24%	0.86%	0.60%	-4.71%
BD10	Bond/Inc - Preferred Securities	16.95%	22.82%	0.56	39.05	-1.79%	1.30%	-0.28%	4.69%
BD03	Bond/Inc - Floating Rate	14.27%	19.14%	0.47	38.35	-1.64%	0.88%	0.90%	1.44%
BD04	Bond/Inc - Junk	19.65%	26.55%	0.82	31.14	-2.65%	1.61%	0.08%	4.30%
BD06	Bond/Inc - High Yield Muni	13.06%	17.48%	0.67	24.77	-2.57%	0.69%	0.55%	4.32%
BD08	Bond/Inc - Emerging Market Debt	21.23%	28.74%	1.19	23.3	-3.59%	1.78%	-1.41%	3.29%
BD02	Bond/Inc - Corporate	9.45%	12.58%	0.63	18.44	-1.46%	0.93%	-0.79%	8.34%
BD09	Bond/Inc - Inflation Protected	6.36%	8.43%	0.47	15.81	-1.56%	0.90%	-0.37%	9.43%
BD05	Bond/Inc - Muni Bond	6.80%	9.02%	0.71	11.37	-2.32%	0.54%	-0.03%	4.15%
BD01	Bond/Inc - US Treasuries	-0.74%	-0.97%	1.61	-1.23	-3.51%	1.22%	-1.12%	7.19%

The bond / income groups listed above are comprised of equally weighted groups of mutual funds representing each group. You cannot invest directly into one of these bond / income groups.

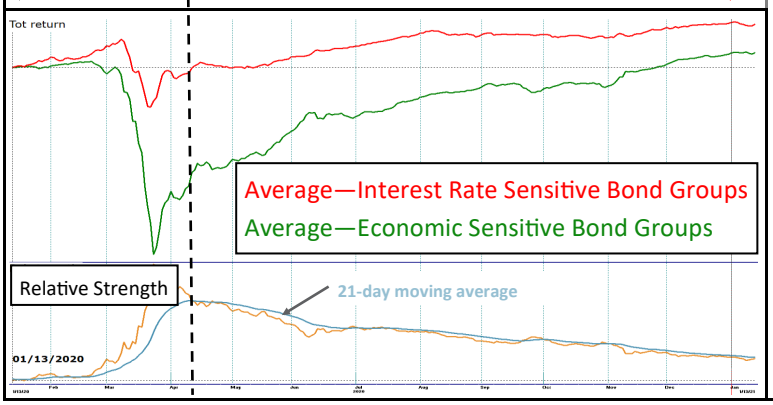
The bond / income groups are sorted by UPI (a measure of risk-adjusted return) for the time period 4/9/2020 through 1/13/2021. This provides some insight into which groups are providing the best risk-adjusted returns following the April 9, 2020 Fed announcement to purchase corporate bonds and corporate bond ETFs. The economic sensitive bond groups continue to dominate the top half of our ranked list.



The interest rate sensitive bond groups are trending sideways, with the exception of Municipal Bonds (BD05) and High Yield Municipal Bonds (BD06) which are benefiting from the anticipation of additional stimulus that might be available under the new administration.



The economic sensitive bond groups continue to trend up on low volatility. The best risk-adjusted returns are currently being provided by the Non-Agency MBS (BD07) and Floating Rate Bond (BD03) groups. If the economy continues to grow, I would expect these groups to continue to trend up, but maybe not at the same rate as was seen during the initial stages of the recovery last year.



The Average—Economic Sensitive Bond Groups (an equally weighted average of BD03, BD04, BD07, BD08 and BD10) continues to outperform the Average—Interest Rate Sensitive Bond Groups (an equally weighted average of BD01, BD02, BD05, BD06 and BD09) as can be seen by the declining relative strength chart displayed on the bottom half of the chart to the left.

Equity and Bond / Income Environments
Overall Assessment

Overall Assessment: The weight-of-the-evidence still favors of a fairly positive market environment for equities with three of the four categories continuing to provide positive (green) readings. The dramatic deterioration of the fundamental model, however, is something to monitor. This is not a time to be complacent but rather remain diligent and have a plan in place if (when) the market turns down. The economic sensitive bond groups remain in attractive, low volatility uptrends.

Dynamic Equity Allocation Guide: The Dynamic Equity Allocation Guide is based on a weight-of-the-evidence approach using the indicators described in the *Market Monitor*. It is designed as a guide of overall market exposure for the equity portion of your portfolio and not an investment recommendation. The guide is best used to confirm or adjust your overall exposure to the market based on your personal tolerance for risk and investment approach. It is not designed to be an investment timing tool. The overall equity allocation is down slightly this month at 78.3%. Previous readings are December 87.5%; November 85.8%; October 85.8%; September 70.6%, August 84.8%; and July: 70.6%.

Equity Allocation Models	Model Rating	% Equity Allocation
RGB Market Trend Model		25.0%
RGB Market Momentum Model		20.8%
RGB Fundamental Factors Model		7.5%
RGB Credit Conditions Model		25.0%
Model Equity Allocation:		78.3%

The Dynamic Equity Allocation Guide is designed to provide investors overall guidance as to an approximate level of equity market exposure that may be appropriate for consideration for the equity portion of their portfolio as of the date noted. This is not meant to be an investment recommendation nor investment advice for any specific individual. The guide is based on the indicators within the selected categories from the RGB Stock Market Scorecard. Each Scorecard indicator is given a weight based on its current Indicator Rating and then averaged with the other indicators in that group. Each group has an overall 25% weighting. There is no guarantee that the Overall Equity Allocation or any investment in the equity markets will provide positive returns.

Bond / Income Allocation

Continue to focus on the economic sensitive bond groups for the low volatility portion of your portfolio which continue to provide good risk-adjusted returns. The Non-Agency MBS (BD07) and Floating Rate Bonds (BD03) groups continue to look attractive. While the trends of some of the economic sensitive bond groups are starting to taper slightly, these groups will not be exposed to the same level of interest rate risk if rates continue to climb. Continue to set stops using an appropriate moving average, to limit downside exposure.

General Disclosure

This report expresses the opinions of Robert Bernstein and is provided by RGB Capital Group for general information purposes only. It does not constitute an offer to sell or a solicitation to buy a security and is not an offer to provide any specific investment advice. It has been prepared from data believed to be reliable, but no representation is being made as to its accuracy or completeness. While every effort is made to provide information free from errors, the data is obtained from third parties and, as a result, complete accuracy cannot be guaranteed. Past performance is not a guarantee of future performance. Investing in securities involves risk of loss that clients should be prepared to bear. It is not possible to invest directly in an index.

Description of Indicators

Secular Market Cycle—Secular (long-term) bull markets are defined by above average returns over an extended period of time. Secular bear markets are defined by long-term periods of flat or declining prices (i.e. below average returns). Secular cycles tend to last from 5 to 25 years. Source: www.StockCharts.com

Cyclical Market Cycle—Cyclical bull and bear markets are shorter trends within the context of secular (long-term) trend. There can be several cyclical bull and bear markets within a secular bull/bear market. NDR defines a cyclical bull market as a rise in the DJIA of 30% over 50 calendar days or a rise of 13% after 155 calendar days. A cyclical bear market is a 30% decline over 50 calendar days or a 13% decline after 145 days. Reversals of 30% of the Value Line Geometric Index also qualify. Source: www.StockCharts.com

Short-Term Trend Rating – An indicator designed to identify the status of the stock market's short-term (0-3 weeks) trend. The indicator compares the current price of S&P 500 relative to 5-day moving average, the relationship of the 5-day to the 10-day moving average, and the relationship of 10-day to 39-day moving average. Source: www.StockCharts.com

Intermediate-Term Trend Rating – An indicator designed to identify the status of the stock market's intermediate-term (3 weeks to 6 months) trend. The indicator compares the current weekly price of S&P 500 relative to the 10-week moving average, the relationship of the 10-week to the 30-week moving average, and the relationship of the 30-week and 55-week moving averages. Source: www.StockCharts.com

Long-Term Trend Rating – An indicator designed to identify the status of the stock market's longer-term (>6 months) trend. The indicator incorporates the 50-day moving average of the S&P 500 relative to the 200-day moving average. When the 50-day moving average is above 200-day moving average, the indicator is positive and vice versa. Source: Ned Davis Research

Short-Term Momentum Model – A trend and breadth confirm indicator. History shows the most reliable market moves tend to occur when the breadth indices are in gear with the major market averages. This indicator compares the price of an All-Cap Dollar-Weighted Equity Universe to its 25-day smoothing and its A/D Line relative to a 5-day smoothing. The indicator is positive when both are above their respective smoothings, negative when both are below, and neutral when one is above and one is below. Source: Ned Davis Research

Intermediate-Term Momentum Model – A proprietary diffusion index developed by Ned Davis Research. The indicator is designed to determine the technical health of the market's 157 sub-industry groups (GICS categorizes the market into 11 sectors, 20 industries, and 157 sub-industry groups). Technical health is determined by the direction of each sub-industry's long-term smoothing and the rate of change of the sub-industry's price index. The indicator is positive when more than 79% of the groups are technically healthy, neutral when 56% - 79% are technically healthy, and negative when less than 56% are technically healthy. Source: Ned Davis Research

Long-Term Momentum Model – A buy/sell approach applied to the industry group diffusion index. The indicator is positive when more than 56.5% of the sub-industry groups are technically healthy and negative when less than 45.5 are technically healthy. Source: Ned Davis Research

Economic Model: A proprietary model developed by Ned Davis Research. During the middle of bull and bear markets, understanding the overall health of the economy and how it impacts the stock market is one of the few truly logical aspects of the stock market. When the Economic Model sports a "positive" reading, history (beginning in 1965) shows that stocks enjoy returns in excess of 23.7% per year. Yet, when the Model's reading falls into the "negative" zone, the S&P has lost nearly -22.4% per year. However, it is vital to understand that there are times when good economic news is actually bad for stocks and vice versa. Thus, the Economic Model can help investors stay in tune with where we are in the overall economic cycle. Source: Ned Davis Research

Earnings Model: A proprietary model developed by Ned Davis Research designed to indicate the overall health of corporate earnings. The indicator is based on the slope of the smoothed S&P 500 earnings per share. The indicator turns bullish when the smoothed indicator rises by 1.5% or more from the previous bottom (companies become more profitable) and turns bearish when the indicator falls below 10% or more from the previous peak (companies become less profitable). Source: Ned Davis Research

Monetary Model: A combination of two proprietary monetary models developed by Ned Davis Research. Monetary Model 1 is comprised of 14 indicators and plotted as a composite. Monetary Model 2 is made up of eight monetary-related indicators including money supply, and the bond and commodities markets. Source: Ned Davis Research

Inflation Model: A proprietary model developed by Ned Davis Research designed to identify cyclical changes in the rate of inflation. The Model consists of 22 individual indicators primarily measuring various rates of change of such indicators as commodity prices, the Consumer Price Index (CPI), producer prices, and industrial production. Source: Ned Davis Research

Valuation Model: A composite of two proprietary monetary indicators/models developed by Ned Davis Research. The first valuation indicator reviews the S&P 500 Price-to-Earnings GAAP Ratio relative to normal, expensive, and bargain valuation zones. The second model is a composite of seven indicators designed to reflect stock market valuations based on how various valuation indicators compare to their latest 10-year historical ranges. The seven valuation indicators incorporate earnings yields, inflation, and interest rates. Source: Ned Davis Research

Short-Term Credit Conditions Model: Junk bonds are one of the best indicators of overall market sentiment. When risk rises, junk bond prices fall as investors demand a higher yield to compensate them for the additional risk (remember bond prices fall as yields rise). When risk subsides, junk bond yields tend to fall given more favorable market conditions (i.e. lower risk). Falling yields drive junk bond prices higher. On a short-term basis, junk bonds trending above their 50-day moving average is an indication of a healthy market environment. Source: www.fasttrack.net

Intermediate-Term Credit Conditions Model: Junk bonds are one of the best indicators of overall market sentiment. When risk rises, junk bond prices fall as investors demand a higher yield to compensate them for the additional risk (remember bond prices fall as yields rise). When risk subsides, junk bond yields tend to fall given more favorable market conditions (i.e. lower risk). Falling yields drive junk bond prices higher. Using a 30-day and 126-day moving average cross-over provides a good indication of the intermediate-term credit conditions. Source: www.fasttrack.net

Long-Term Credit Conditions Model: The Chicago Fed National Financial Conditions Credit Subindex indicates positive values when financial conditions are tighter than average, while negative values indicate financial conditions that are looser than average. Source: Federal Reserve Bank Chicago

Short-Term Overbought/Oversold Signal: An indicator utilizing stochastics of the S&P 500 daily chart. %K is set at 14. %D is set at 3. The indicator is positive when %K rises above the 20-level from below. The indicator is negative when %K moves below the 80-level from above. The indicator is neutral when %K moves either above 80 or below 20. Source: www.StockCharts.com

Intermediate-Term Overbought/Oversold Signal: A signal based on the 40-day RSI on the NYSE index. The indicator is positive when the RSI falls below the 40-level and then reverses. The indicator is negative when the RSI moves above 60 and then reverses. The indicator is neutral when the RIS moves into the 45.5-57.5 range. Source: Ned Davis Research

Long-Term Overbought/Oversold Signal: An indicator utilizing the VIX and Z-Score bands designed to identify turning points in the market after overbought/oversold conditions are present. Source: Ned Davis Research

Short-Term Sentiment Model: A proprietary sentiment model developed by Ned Davis Research. The model-of-models is comprised of 18 independent sentiment indicators designed to indicate when market sentiment has reached an extreme from a short-term perspective. Historical analysis indicates that the stock market's best gains come after an environment has become extremely negative from a sentiment standpoint. Conversely, when sentiment becomes extremely positive, market returns have been subpar. Source: Ned Davis Research

Intermediate-Term Sentiment Model: A proprietary sentiment model developed by Ned Davis Research designed for the intermediate-term time frame. This model-of-models includes seven different sentiment indicators including advisory sentiment, valuation, market breadth, and the indicators of the short-term sentiment model. Source: Ned Davis Research

Long-Term Sentiment Model: A proprietary sentiment model developed by Ned Davis Research designed for the long-term time frame. This model-of-models is comprised of six independent sentiment indicators designed to indicate when market sentiment has reached an extreme from a long-term perspective. Source: Ned Davis Research

Description of Indices

S&P 500 Composite Index: The Standard and Poors 500 Index (S&P 500) is a capitalization weighted index of 500 stocks representing all major domestic industry groups. Historical returns provided by Ned Davis Research.