Market Monitor

Version 2021-04

Written by Rob Bernstein

April 8, 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.

I am publishing the RGB Market Monitor a week early this month due to schedule constraints next week. My family and I are heading off on a spring break vacation...a trip that was originally planned for last April. This may be the last spring break as a family as our oldest daughter is off to the University of Washington in the fall. The Market Monitor will return to the regular schedule next month (written on the second Wednesday of the month and published the following morning).

My thoughts on the current stock market environment:

- A successful vaccine roll out combined with declines in COVID cases and deaths is leading to a reopening of the American economy, perhaps sooner than many expected. This will certainly have a positive impact on corporate profits.
- A strong jobs report last week confirmed the reopening theme. The report exceeded economist's expectations and gains were seen across all the major sectors. 916K jobs were added and previous months reports were revised upward. The unemployment rate fell to 6% (from 6.2%).
- A $1.9T Covid relief bill was signed by President Biden on March 11, 2021. This equates to approximately 27% of the US gross domestic product (per www.taxfoundation.org). This type of liquidity tends to find its way into the stock market like previous relief bills have done over the last year. The US has now provided $6T in total economic relief during the coronavirus pandemic (per www.taxfoundation.org). That is a lot of liquidity and likely why the stock market continues to notch out all time highs.
- The market has become hooked to this type of liquidity and more may be on the way. The Biden Administration is proposing a $2.25T infrastructure bill and has proposed to increase taxes to pay for it. The market likes additional spending but doesn't like higher taxes, so we will have to wait and see how this plays out.
- All this stimulus is driving interest rates higher as investors fear higher inflation in the future. While interest rates have risen significantly since August 2020, rates have stabilized recently and remain near pre-pandemic lows.
- Stock market valuations are high and by some measures are higher now than they have been over the last 40 years. This I believe is a result of the massive liquidity pumped into the financial system. Higher valuations could put a damper on future stock market returns.

I believe that we will see a robust economy as a result of the successful vaccine rollout, pent up consumer demand, free money delivered to American citizens and huge spending. However, I am concerned about the long-term impacts of the current situation which are not known. What happens when the government stops providing liquidity to the market? Or interest rates rise significantly due to inflation? While everything looks great now, I am concerned about the future. I don't know when the party will end but this euphoric environment will not last forever. Continue to focus on risk management as it will likely be required at some time in the future.

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	9.5%
Momentum Analysis:			
Short-Term Momentum Model	Buy	Positive	27.2%
Intermediate-Term Momentum Model	Hold	Neutral	6.8%
Long-Term Momentum Model	Buy	Positive	15.5%
Fundamental Analysis:			
Economic Model	Hold	Neutral	13.3%
Earnings Model	Sell	Negative	4.5%
Monetary Model	Sell	Neutral	12.8%
Inflation Model	Sell	Neutral	-4.9%
Valuation Model	Sell	Negative	-1.8%
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	-2.2%
Long-Term Overbought/Oversold Signal	Sell	Negative	NA
Investor Sentiment Analysis:			
Short-Term Sentiment Model	Sell	Negative	-8.0%
Intermediate-Term Sentiment Model	Hold	Neutral	13.7%
Long-Term Sentiment Model	Sell	Negative	-1.5%
		The Weight of the Evidence Average:	**6.53%**
		S&P 500 average gain/annum from 11/16/1979:	**9.13%**

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 Stock Market Scorecard remains fairly consistent with last month's report with the exception of a deterioration of the Overbought/Oversold and Investor Sentiment Analysis. The scorecard suggests a relatively positive technical environment but investors should exercise caution as the fundamentals have not improved and the market is a bit extended.

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. The current secular bull market started in March 2009.

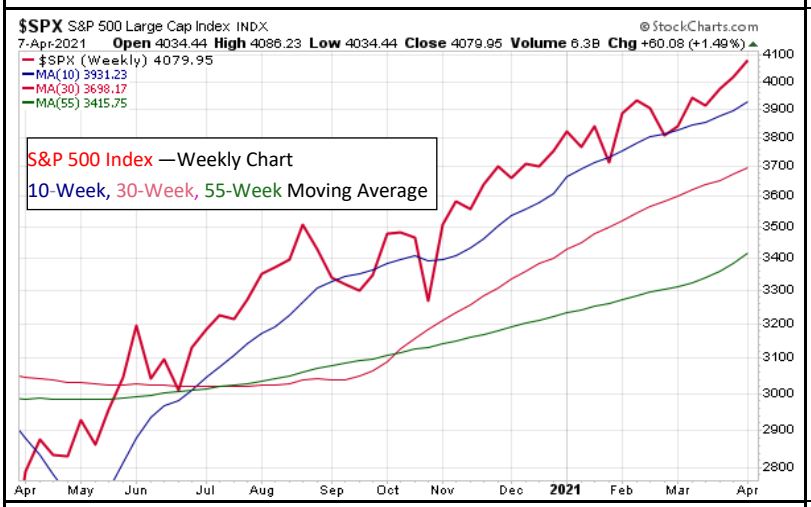
Bull Market

Cyclical Market Cycle: The cyclical bull market that started after the pandemic induced selloff, remains positive and continues to reach new all-time highs.

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	9.5%

Short-Term Trend: The short-term trend (0 to 3 weeks) of the market is positive. The S&P 500 Index is trending above all three moving averages and the moving averages are trending up.



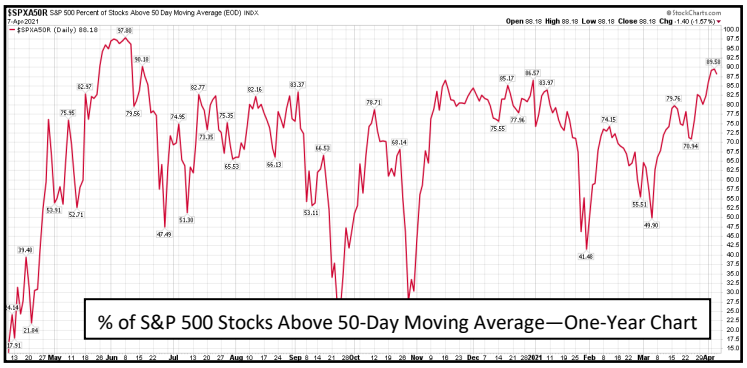
Intermediate-Term Trend: The intermediate-term trend (3 weeks to 6 months) is clearly up. The weekly chart of the S&P 500 Index has remained at or above its 10-Week moving average for the last five months. All three moving averages are in well-defined uptrends.

Long-Term Trend: The long-term trend of the market remains up with the S&P 500 Index trending above its 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	Hold	Neutral	6.8%
Long-Term Momentum Model	Buy	Positive	15.5%

There has been very little change in the momentum of the market across all three time frames. A primary input into our intermediate and long-term momentum models, the percentage of sub-industry groups considered technically healthy, remained consistent at 66% (according to Ned Davis Research) suggesting that there reasonable participation in the stock market advance.



Other breadth metrics are more rosy and show broad participation in the stock market. The percentage of S&P 500 stocks above their 50-day moving average is just under 90%. The percentage of stocks above their 200-day moving average is even higher at 95% and that reading is the highest level in the last ten years shown. This is an indication of market strength but can also be considered a market that is stretched to the upside.

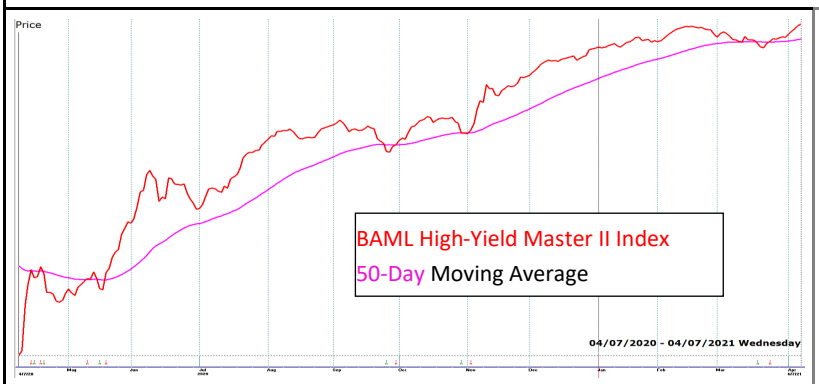
	Signal	Indicator	Historical Return
Fundamental Analysis:			
Economic Model	Hold	Neutral	13.3%
Earnings Model	Sell	Negative	4.5%
Monetary Model	Sell	Neutral	12.8%
Inflation Model	Sell	Neutral	-4.9%
Valuation Model	Sell	Negative	-1.8%

There have been few changes to the fundamental analysis section of the Stock Market Scorecard. With the exception of the Valuation Model, the fundamental models are showing signs of stabilizing and in the case of the Earnings Model, there are some signs of improvement. Some of the indicators that make up the Valuation Model are reaching extremes not seen before. Higher valuations generally correlate to lower stock market returns in the future.

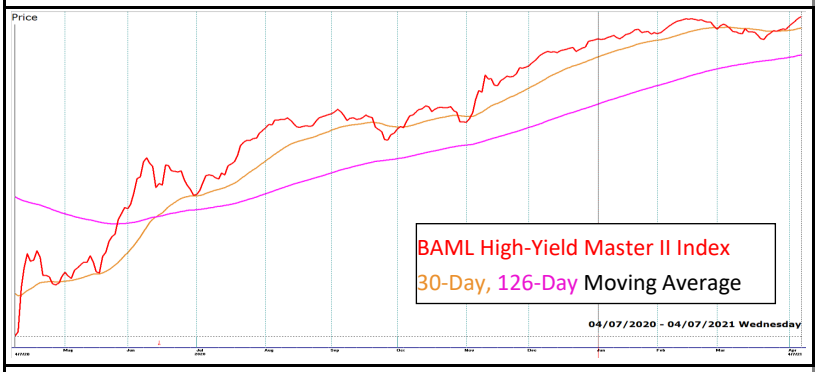
Stock Market Environment
Credit Conditions Analysis — One-Year Charts

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.

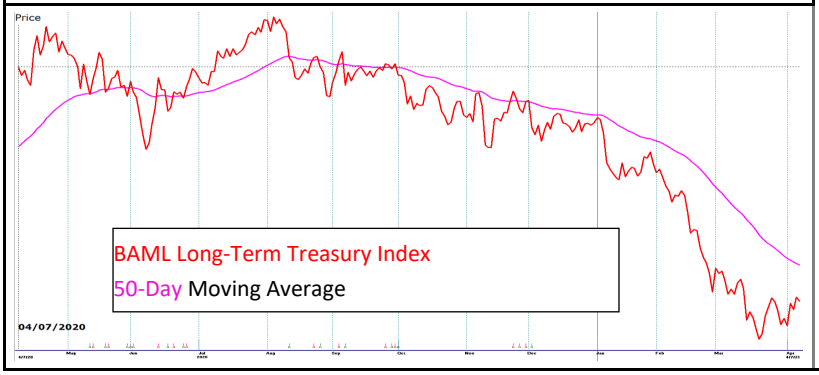
Credit Conditions Analysis:	Signal	Indicator	Historical Return
Short-Term Credit Conditions Model	Buy	Positive	NA
Intermediate-Term Credit Conditions Model	Buy	Positive	NA
Long-Term Credit Conditions Model	Buy	Positive	NA



Short-Term Credit Conditions: The BAML High-Yield Master II Index (junk bond index) moved down and dipped below its 50-day moving average last month but soon recovered. Junk bonds are now trending up above their 50-day moving average indicating a positive market environment.



Intermediate-Term Credit Conditions: On an intermediate-term basis, the BAML High-Yield Master II Index remains above its rising 30-Day and 126-Day moving averages indicating a positive market environment.



Long-Term Treasuries: The brief decline in junk bonds was caused by the rapid increase in US Treasury yields. Those rising yields caused US Treasury prices to decline as can been seen in the chart. The decline MAY be over as US Treasuries are in a short-term uptrend. If that is the case, it would be positive for overall credit conditions.

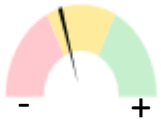
Summary: Short-term credit conditions declined between mid-February and mid-March but have improved over the last two weeks. Intermediate– and long-term credit conditions (not shown) also remain positive.

Stock Market Environment
Early Warning Model

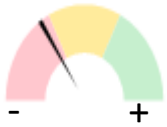
The Early Warning Model is designed to give investors an indication when the market has gone too far in one direction and whether it's ripe for a reversal in trend based on overbought / oversold and investor sentiment indicators. Like a rubber band that has been stretched too far, the market tends to 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

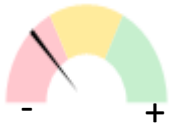
Short-term



Intermediate-term



Long-term

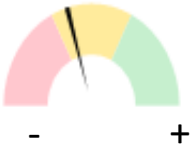


The stock market has become stretched and is indicating an overbought market. This doesn't mean that the market will decline, but rather the odds of a mean reversion move have increased.

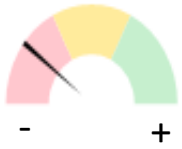
Investor Sentiment

Short-term

Intermediate-term



Long-term



Investor sentiment has also moved into the red indicating that investors are becoming more bullish. Historical data suggests that when investors become bullish, the stock market tends to go the other way.

Summary

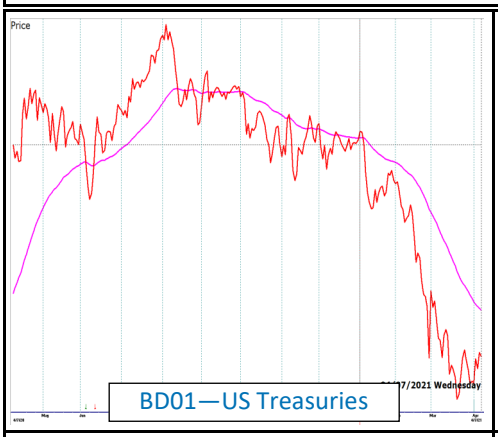
Mean Reversion Potential	High
New Investment Rating	Hold

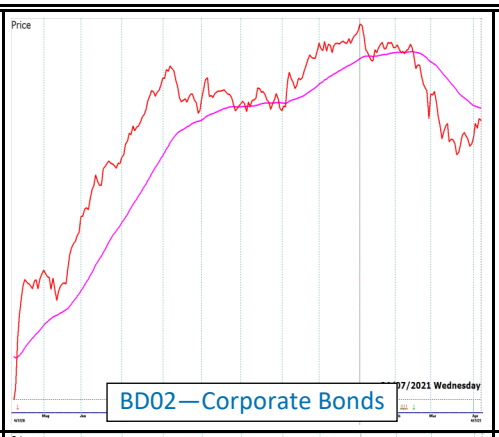
The Early Warning Model is indicating a higher probability of a mean reversion move. Of course, there is no guarantee that this will happen as the market can remain overbought for an extended period of time.

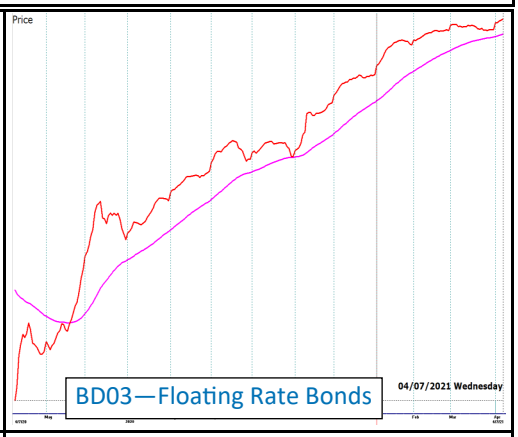
The Early Warning Model is a tool designed to provide an indication when the market has moved too far in one direction, which in our view, means the probability of a counter trend rally is above average. The Mean Reversion Potential, based on the trend reversal data displayed, is a belief that prices 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.

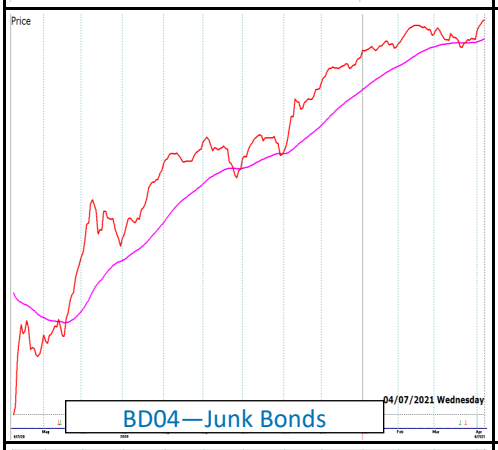
Bond / Income Environment
Overall Assessment

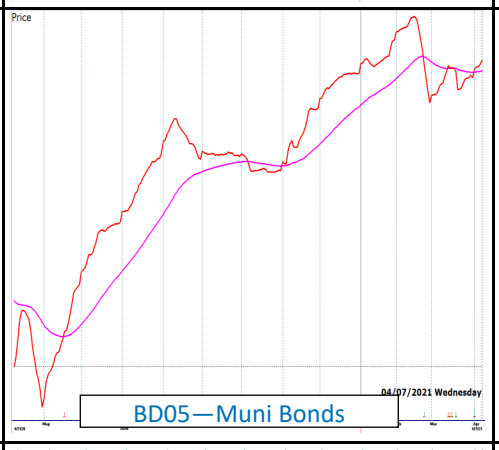
The following one-year charts represent 10 groups that encompass a large portion of the bond / income environment. Each group is an equally-weighted composition of representative mutual funds. Each group is plotted with its 50-Day moving average to help visualize the trend.

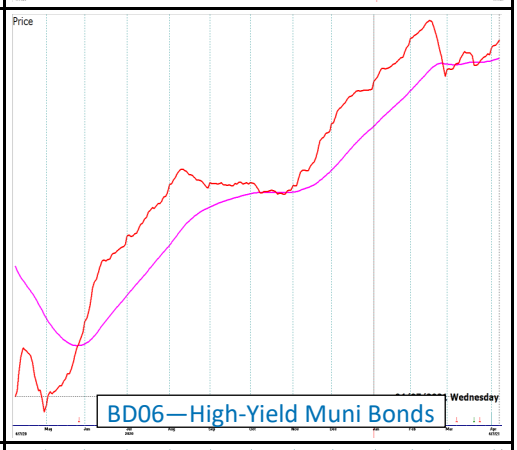


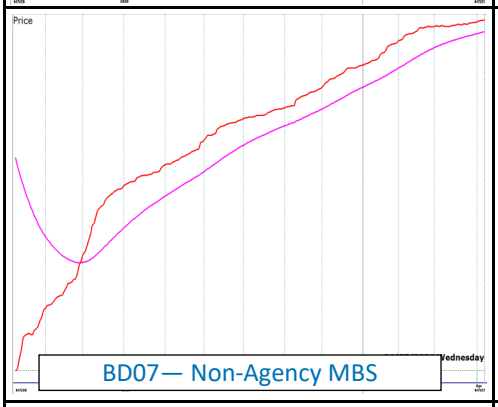


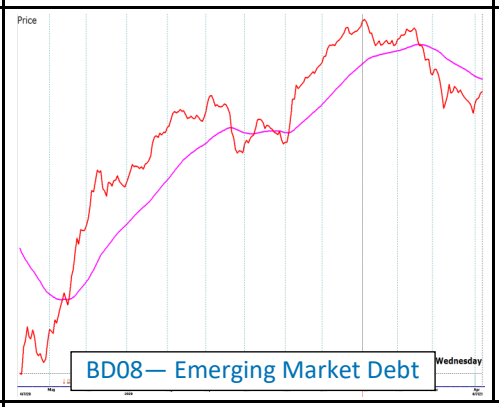


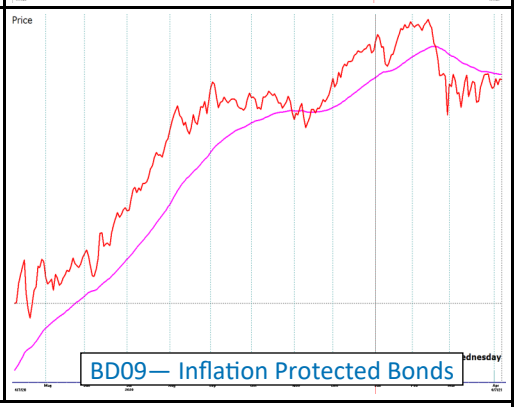


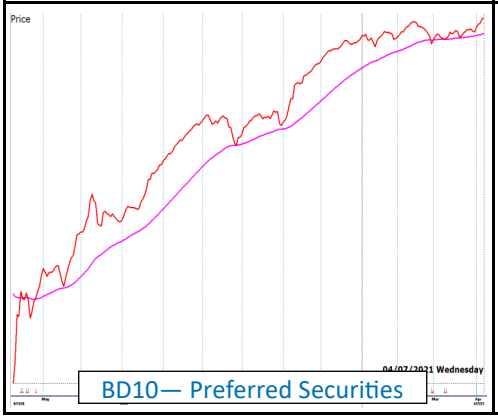












The rapid increase in interest rates this year, caused many bonds, especially interest rate sensitive bonds, to decline. The rise in interest rates had a lesser impact on the economic sensitive bonds as many of these groups declined but held at or near their 50-day moving averages. The recent stabilization in rates has provided support for all bond groups and all are in at least short-term uptrends.

Bond / Income Environment
Detailed Analysis

When evaluating different segments of the bond / income market, I like to assess the groups over multiple time frames. This provides an opportunity to see how they performed under different market environments. In this weeks analysis, I have included the ranking of the groups for two time periods. The first time period is from 7/31/2020 through 12/31/2020 which is when interest rates started to rise after falling to generational lows in the summer of 2020. The second time period is from 12/31/2020 through 4/7/2021 which represents the period of time in which interest rates accelerated to the upside. Each chart is sorted by UPI, a measure of risk-adjusted return.

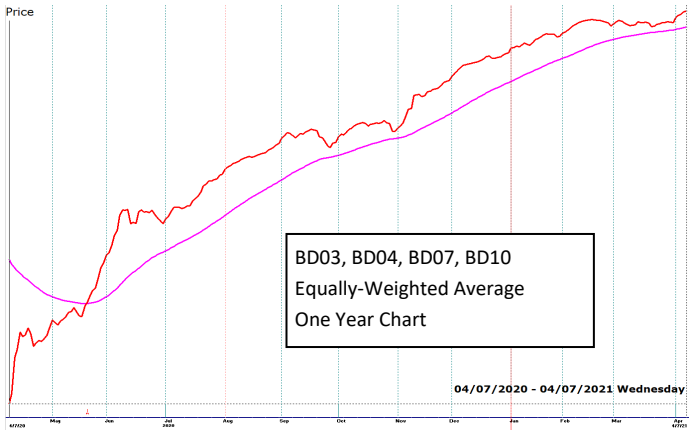
		Statistics for 7/31/2021 - 3/10/2021						YTD	One Year
Symbl	Description	Return	Annual Return	ULCER	UPI	MaxDrawDown	SD	Return	Return
BD07	Bond/Inc - Non-Agency MBS	7.92%	19.86%	0	11827.02	-0.02%	0.36%	3.53%	30.76%
BD03	Bond/Inc - Floating Rate	5.60%	13.82%	0.24	54.55	-0.89%	0.62%	2.02%	17.87%
BD10	Bond/Inc - Preferred Securities	7.38%	18.44%	0.4	43.36	-1.70%	0.86%	1.00%	23.21%
BD04	Bond/Inc - Junk	6.76%	16.84%	0.64	24.93	-2.34%	1.14%	1.76%	25.76%
BD06	Bond/Inc - High Yield Muni	4.29%	10.50%	0.52	18.32	-1.02%	0.47%	1.68%	15.61%
BD08	Bond/Inc - Emerging Market Debt	6.96%	17.36%	1.45	11.25	-3.59%	1.41%	-4.37%	19.60%
BD09	Bond/Inc - Inflation Protected	2.41%	5.81%	0.5	9.71	-1.23%	0.75%	-1.03%	6.22%
BD05	Bond/Inc - Muni Bond	1.88%	4.52%	0.74	4.77	-1.28%	0.39%	0.09%	7.68%
BD02	Bond/Inc - Corporate	1.69%	4.05%	0.79	3.86	-1.46%	0.85%	-2.96%	9.12%
BD01	Bond/Inc - US Treasuries	-1.86%	-4.35%	1.89	-2.83	-2.99%	1.11%	-4.29%	-4.04%

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.

As interest rates rose economically sensitive bonds (i.e. BD03, BD04, BD07 and BD10) provided positive returns on very low volatility and are all at the top of the ranked list above. Interest rate sensitive bonds (i.e. BD01, BD02, BD05 and BD09) had relatively low or negative returns for the period.

		Statistics for 12/31/20 - 4/7/21						YTD	One Year
Symbl	Description	Return	Annual Return	ULCER	UPI	MaxDrawDown	SD	Return	Return
BD07	Bond/Inc - Non-Agency MBS	3.53%	14.39%	0.03	517.78	-0.10%	0.34%	3.53%	30.76%
BD03	Bond/Inc - Floating Rate	2.02%	8.08%	0.1	73.9	-0.26%	0.32%	2.02%	17.87%
BD04	Bond/Inc - Junk	1.76%	7.01%	0.49	12.38	-1.26%	0.71%	1.76%	25.76%
BD10	Bond/Inc - Preferred Securities	1.00%	3.95%	0.51	5.75	-1.25%	0.72%	1.00%	23.21%
BD06	Bond/Inc - High Yield Muni	1.68%	6.69%	1.1	5.19	-2.24%	0.72%	1.68%	15.61%
BD05	Bond/Inc - Muni Bond	0.09%	0.34%	1.07	-0.62	-2.06%	0.62%	0.09%	7.68%
BD09	Bond/Inc - Inflation Protected	-1.03%	-3.92%	1.3	-3.79	-2.55%	1.24%	-1.03%	6.22%
BD02	Bond/Inc - Corporate	-2.96%	-11.01%	2.3	-5.22	-3.99%	1.15%	-2.96%	9.12%
BD08	Bond/Inc - Emerging Market Debt	-4.37%	-15.90%	3.2	-5.28	-5.76%	1.54%	-4.37%	19.60%
BD01	Bond/Inc - US Treasuries	-4.29%	-15.62%	3.12	-5.32	-5.07%	1.50%	-4.29%	-4.04%

As interest rates accelerated in 2021, the same four groups (BD03, BD04, BD07 and BD10) once again occupy the top of the UPI ranked list. While the annualized rate of return for these groups slowed, the returns were still positive. Compare this with the negative returns of the bottom four groups (BD01, BD02, BD08 and BD09).



The chart to the left is an equally-weighted portfolio of the top four groups (BD03, BD04, BD07 and BD10). It has been trending up above its 50-day moving average since May 2020 and has provided extremely strong risk-adjusted returns. From the time it crossed its moving average, this hypothetical portfolio is up over 17% (~ 20% annualized) on extremely low volatility. The maximum drawdown was approximately 1%. Returns have slowed in 2021, but continue to provide positive returns (2.1% year-to-date; 8.3% annualized). As rates have stabilized over the last week, the trend has started to accelerate.

Equity and Bond / Income Environments
Overall Assessment

Overall Assessment: The weight of the evidence continues to tilt in favor of a positive stock market environment. However, the Early Warning Model is raising a caution flag as the market has become over extended. Most of the economically sensitive bond groups have held up well in the face of rapidly rising bond yields and should perform well as bond yields stabilize.

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 at 78.3%. Previous readings are March 74.2%; February 79.8%; January 78.3%; December 87.5%; November 85.8%; and October 85.8%.

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

The economically sensitive bond groups (BD03, BD04, BD07 and BD10) highlighted on page 9 continue to provide some excellent risk adjusted returns. If you were stopped out during March when these funds pulled back, consider similar funds from a different fund family if you need to purchase again. With bond yields pulling back from recent highs, these groups should continue to provide good risk-adjusted returns and are generally appropriate for investors who want to avoid the volatility of the stock market. However, set stops to limit losses if the market should turn down as this uptrend will not last forever.

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

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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.