Market Monitor

Version 2021-12

Written by Rob Bernstein

December 9, 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.

The stock market has experienced a small correction last month. Many of the headlines were highlighting the new Omicron variant of the COVID-19 virus as the catalyst. While the new variant appears more contagious, early indications are that it is less severe. If this turns out to be the case, government restrictions should be minimized and therefore the economic impact of this latest variant should be minimal.

I think the bigger driver of the downside volatility was a result of the Federal Reserve comments over the last few weeks. Fed governors have acknowledged that inflation might not be 'transitory' as they first thought. As a result they have indicated a desire to accelerate the tapering of their monthly bond purchases which would open the door to interest rates hikes sooner than originally thought.

Whatever the reason for the decline in the stock market, the S&P 500 Index was only down about 4% off its all time high during this recent decline and since then has had a stellar rebound recovering the majority of that decline. The other major stock market indices fell anywhere from about –4% to about –12% depending on the index. Not all the indices have recovered those declines at this point but the declines are consistent with other declines experienced throughout the last year. As such, the most recent decline appears to be nothing more than a small correction within an ongoing uptrend.

My assessment of the current market trends is summarized in the chart to the right. Large-cap and technology/growth stocks are in uptrends across all three time periods and close to all-time highs. The other indices are in short-term uptrends and intermediate-term trading ranges. A break to new highs for these indices would confirm that the uptrend is intact. Given that we are in a seasonably favorable time of the year for the stock market, I believe odds favor a continuation of the uptrend.

Index	Short	Intermediate	Long
S&P 500 Index	Up	Up	Up
S&P 400 Index	Up	Trading Range	Up
S&P 600 Index	Up	Trading Range	Up
Nasdaq Composite Index	Up	Up	Up
Nasdaq 100 Index	Up	Up	Up
NYSE Composite Index	Up	Trading Range	Up
Value Line Arithmetic Index	Up	Trading Range	Up
BAML High Yield Index	Up	Trading Range	Up

There has been an increase in the overall volatility of the bond / income groups outlined on pages 8 and 9 of this newsletter. These groups tend to be sensitive to the trend of interest rates which will be impacted by overall inflation and decisions by the Federal Reserve. The November CPI numbers will be announced this Friday and the last FMOC meeting of the year will be held next week. Both of these announcements could have an impact on the stock and bond markets.

The *Market Monitor* is provided 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. Past performance is not a guarantee of future performance. It is not possible to invest directly in an index. Subscribers of the newsletter must take into account their personal financial situation, including financial needs and tolerance for risk, when making investment decisions. Always reference a fund's prospectus before buying any mutual fund or ETF. Most data and charts are provided by FastTrack (www.fasttrack.net) or www.stockcharts.com. Questions about this newsletter can be addressed to Robert Bernstein at 858-367-5200 or rob@rgbcapitalgroup.com.

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	9.7%
Momentum Analysis:			
Short-Term Momentum Model	Hold	Neutral	15.5%
Intermediate-Term Momentum Model	Hold	Neutral	7.7%
Long-Term Momentum Model	Buy	Positive	15.6%
Fundamental Analysis:			
Economic Model	Hold	Neutral	4.7%
Earnings Model	Hold	Neutral	8.2%
Monetary Model	Buy	Neutral	17.1%
Inflation Model	Sell	Negative	-3.5%
Valuation Model	Sell	Negative	-1.3%
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	Buy	Positive	NA
Intermediate-Term Overbought/Oversold Signal	Hold	Neutral	10.3%
Long-Term Overbought/Oversold Signal	Buy	Neutral	NA
Investor Sentiment Analysis:			
Short-Term Sentiment Model	Buy	Positive	29.1%
Intermediate-Term Sentiment Model	Buy	Positive	31.2%
Long-Term Sentiment Model	Hold	Neutral	2.9%
The Weight of the Evidence Average:			**11.32%**
S&P 500 average gain/annum from 11/16/1979:			**9.32%**

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 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: With the recent rally in the stock market, we have seen improvement across the technical (trend and momentum), credit and early warning indicators. The fundamental section of the scorecard continues to flash some warning signs.

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Stock Market Environment
Primary Cycle Analysis

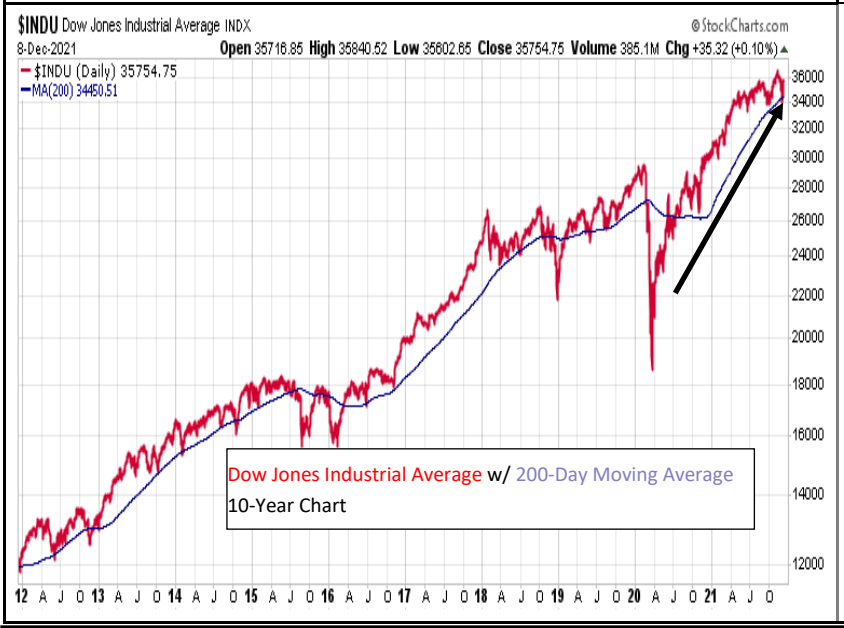
The stock market tends to move in cycles that tend to repeat over time and are generally associated with the overall business cycle.

- **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.



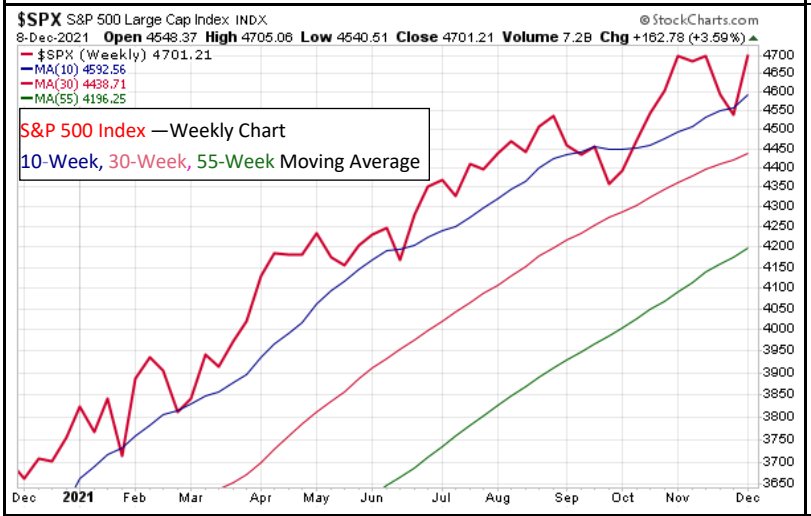
Bull Market

Cyclical Market Cycle: The Dow Jones Industrial Average declined a little over 6% last month, but that decline did not change the cyclical market trend which remains up.

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	9.7%

Short-Term Trend: The S&P 500 Index rebounded sharply after declining at the end of November. The bounce has put the index back into a short-term uptrend with the index above the 5-day, 10-day and 39-day moving averages.



Intermediate-Term Trend: The S&P 500 Index is in a stable, intermediate-term uptrend. The index remains above its 10-week, 30-week and 55-week moving averages which are all trending up.

Long-Term Trend: The long-term trend of the stock market remains positive. The recent decline in the S&P 500 Index is consistent with previous declines over the past year.

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Stock Market Environment
Momentum / Fundamental Analysis

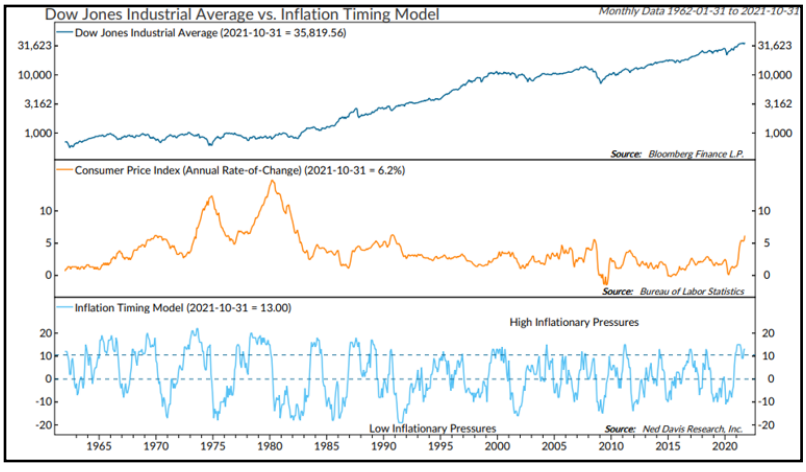
	Signal	Indicator	Historical Return
Momentum Analysis:			
Short-Term Momentum Model	Hold	Neutral	15.5%
Intermediate-Term Momentum Model	Hold	Neutral	7.7%
Long-Term Momentum Model	Buy	Positive	15.6%

History suggests that the most reliable market moves tend to occur when market breadth is in sync with the major market indices. While the markets have recovered a good portion of the November decline, the momentum models still have room for improvement. We are starting to see improvement (particularly in the short-term momentum) but I would have higher conviction in the current rally if the momentum models turned positive across all three time frames.

	Signal	Indicator	Historical Return
Fundamental Analysis:			
Economic Model	Hold	Neutral	4.7%
Earnings Model	Hold	Neutral	8.2%
Monetary Model	Buy	Neutral	17.1%
Inflation Model	Sell	Negative	-3.5%
Valuation Model	Sell	Negative	-1.3%

The Fundamental Analysis section of the Scorecard continues to post neutral to negative readings. This month I would like to focus on the Inflation Model as the growing inflationary pressures in the economy have the potential to put pressure on both the stock and bond markets.

The inflation timing model produced by Ned Davis Research is shown to the right. The Consumer Price Index (center panel) is indicating a 6.2% annualized rate of change. This is the largest year-over-year increase since the early 1990s. The timing model itself (bottom panel) is indicating high inflationary pressures. When the model is above 10, as it is now, the historical returns of the stock market have been negative. This is not to suggest that the market will turn negative, but is a cautionary sign. If inflation continues to march higher the Fed may need to be less accommodative which would dampen overall stock market growth. We will hear from the Fed next week as they conclude their final FMOC of the year.



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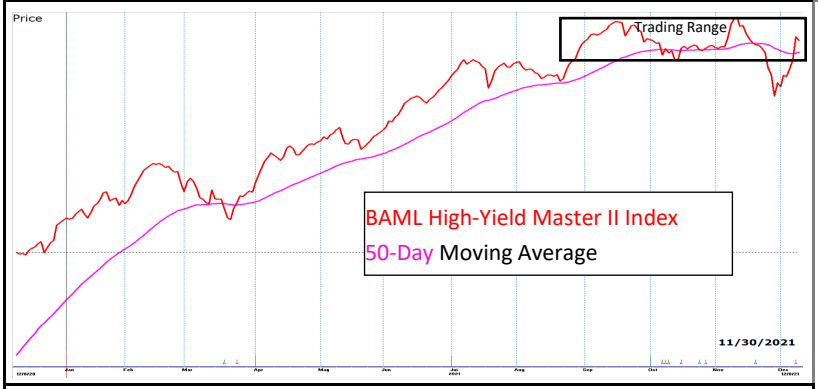
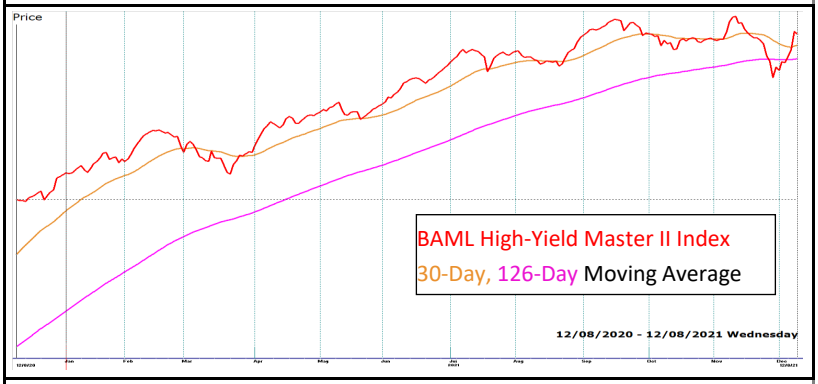
Stock Market Environment
Credit Conditions Analysis — One-Year Charts

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.

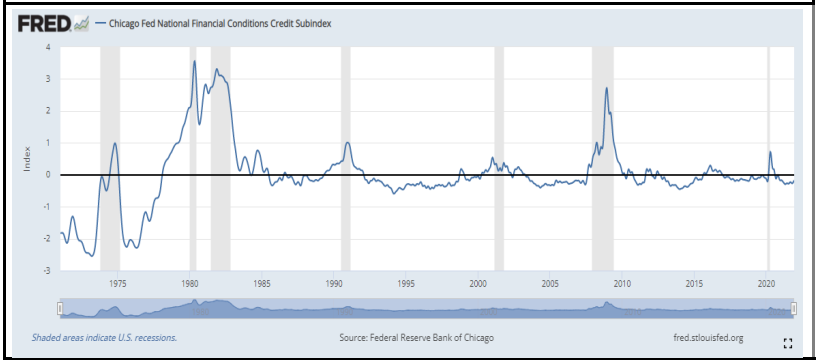
Credit Conditions Analysis:	Signal	Indicator	Historical Return
Short-Term Credit Conditions Model	Buy	Positive	NA
Intermediate-Term Credit Conditions Model	Buy	Positive	NA
Long-Term Credit Conditions Model	Buy	Positive	NA



Short-Term Credit Conditions: The junk bond indicator has moved back above its 50-day moving average indicating an overall healthy market environment. However, the trend remains range bound and a breakout to new highs would be a good indication that the recent uncertainty has passed.



Intermediate-Term Credit Conditions: The intermediate-term indicator remains positive as the 30-Day moving average never crossed below the 126-Day moving average.



Long-Term Credit Conditions: Long-term credit conditions remain favorable although there has been some tightening over the last month or so. A reading below zero indicates that credit conditions are loser than average.

Summary: Overall, credit conditions remain favorable across all three time frames.

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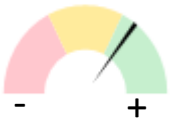
Stock Market Environment
Early Warning Model

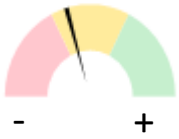
The Early Warning Model is designed to give investors an indication when the market has gone too far in one direction and whether it's ripe for a reversal in trend based on overbought / oversold and investor sentiment indicators. Like a rubber band that has been stretched too far, the market tends to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

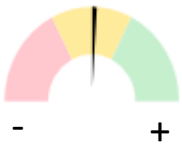
Short-term



Intermediate-term



Long-term

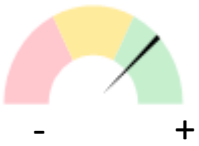


The market was overbought prior to the recent sell off so the recent decline was not all that surprising. That decline relieved the overbought condition, especially on a short-term basis. The indicators are now neutral to positive.

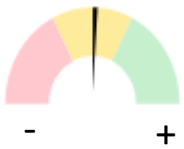
Investor Sentiment

Short-term

Intermediate-term



Long-term



Investor sentiment has deteriorated (indicated as a positive reading) which is generally a bullish indication for the markets.

Summary

Mean Reversion Potential	Neutral
New Investment Rating	Buy

The early warning indicators have improved dramatically. Often times the best market returns happen when the market is oversold and investors become extremely bearish. I think we are seeing a bit of that now.

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.

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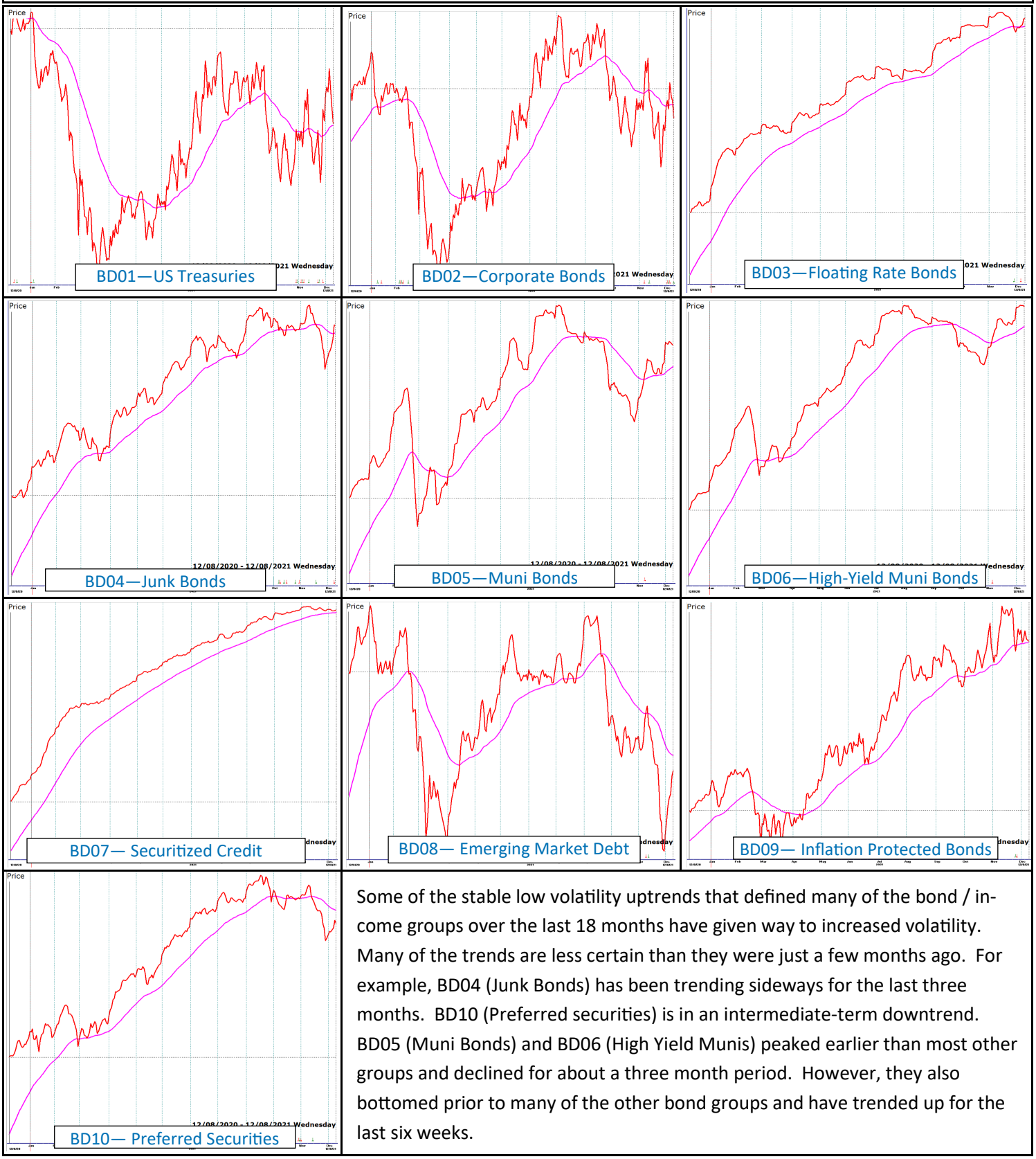
Bond / Income Environment
Overall Assessment

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.



Some of the stable low volatility uptrends that defined many of the bond / income groups over the last 18 months have given way to increased volatility. Many of the trends are less certain than they were just a few months ago. For example, BD04 (Junk Bonds) has been trending sideways for the last three months. BD10 (Preferred securities) is in an intermediate-term downtrend. BD05 (Muni Bonds) and BD06 (High Yield Munis) peaked earlier than most other groups and declined for about a three month period. However, they also bottomed prior to many of the other bond groups and have trended up for the last six weeks.

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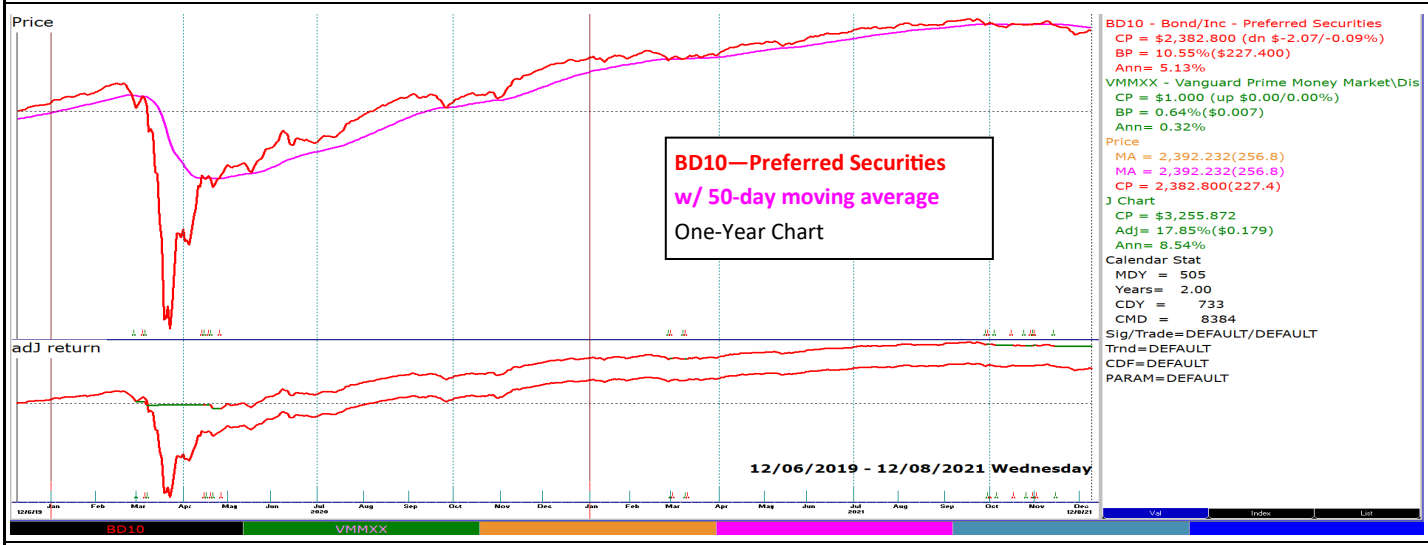
Bond / Income Environment
Detailed Analysis

I have ranked the bond / income groups by UPI, a measure of risk-adjusted return. Negative UPI values don't have much meaning so I have set all negative UPI values to zero and then sorted by Max Draw Down as a measure of downside risk. The ranking period is from 8/31/2021 to the present. This provides the risk and return statistics for the recent period when day-to-day volatility started to increase in many of the bond / income groups.

The statistics below, reflect the uncertainty in the market that we are experiencing. Many of the groups that had strong risk adjusted returns are moving sideways or trending down. This is generally a time to be patient and wait for a better opportunity to develop.

			Statistics for 8/31/21 - 12/8/21						YTD	One Year
Symbl	Description	FTCloud Family	Return	Annual Return	ULCER	UPI	MaxDrawDown	SD	Return	Return
BD07	Bond/Inc - Securitized Credit	N/A	0.60%	2.21%	0.07	17.57	-0.16%	0.16%	6.19%	7.21%
BD03	Bond/Inc - Floating Rate	Bank Loan	0.95%	3.51%	0.16	16	-0.56%	0.31%	4.91%	5.67%
BD09	Bond/Inc - Inflation Protected	Inflation-Protected	0.61%	2.25%	0.73	1.71	-1.45%	1.20%	4.80%	5.62%
BD06	Bond/Inc - High Yield Muni	High Yield Muni	0.34%	1.26%	0.74	0.35	-1.56%	0.51%	5.91%	6.92%
BD05	Bond/Inc - Muni Bond	Muni National	-0.20%	-0.74%	0.7	0	-1.35%	0.38%	1.80%	2.33%
BD10	Bond/Inc - Preferred Securities	Preferred Stock	-0.97%	-3.49%	0.88	0	-1.97%	0.58%	3.35%	4.17%
BD04	Bond/Inc - Junk	High Yield	-0.16%	-0.57%	0.77	0	-2.11%	0.78%	4.82%	5.84%
BD01	Bond/Inc - US Treasuries	Government	-0.82%	-2.95%	1.39	0	-2.40%	1.58%	-2.18%	-1.86%
BD02	Bond/Inc - Corporate	Corporate	-1.36%	-4.89%	1.4	0	-2.57%	1.23%	-1.20%	-0.54%
BD08	Bond/Inc - Emerging Market Debt	Emerging Markets	-3.53%	-12.29%	2.97	0	-5.54%	1.17%	-3.81%	-2.36%

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. It is important to assess performance over multiple time periods which Fasttrack users can accomplish using the FNU files that represent each group which are available for download on a daily basis at www.rgbcapitalgroup.com/scorecard. Refer to section 6 of the RGB FT Cloud Training Manual for details on how to accomplish this, if necessary. Manual is available here.



I thought this would be a good time to review the moving average timing techniques that we use to enter and exit low volatility investments. While there is no guarantee it will increase returns, this technique will protect your capital when the markets are weak. We will use the two-year chart of BD10 (Preferred Securities) above, as our example. The chart displays BD10 along with its 50-day moving average in the top panel. The lower panel displays two lines. A red line and a composite (red and green) line. The red line is simply a representation of BD10. The composite line shows the results of moving into BD10 when it is above its 50-day moving average and moving to a money market (VMMXX) when it drops below its 50-day moving average.

If you had used this technique during the pandemic decline, moving out of BD10 as the market declined would have protected your capital and provided an opportunity to get in at a lower point once the market bottomed. Notice how the composite line went flat while BD10 continued to decline. The total drawdown was limited to -3.0% vs. -26.3% if you held throughout the decline. Over the last few months, BD10 has started to decline again. The decline this time is very different from the decline during the pandemic. BD10 declined less than –1% before triggering a move to cash. At this point we don't know if the decline will continue or if the recent low will be the bottom. If the market bottoms here and moves back up, we can always get reinvested. Either way we know that we protected our capital from any life altering losses.

Lastly, a quick note about trading ranges. If you identify a low volatility holding that enters a trading range, wait until the trading range resolves itself before making your next move. For example, if you own the fund and the trading range breaks to the upside you will be in good position to benefit from a subsequent rally. If it breaks down below the bottom of the trading range, sell and move to cash. Similarly, if you are in cash, wait for the trading range to resolve itself to the upside before making a purchase.

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Equity and Bond / Income Environments
Overall Assessment

Overall Assessment: The equity markets appear to have put in a short-term bottom and are once again approaching the all-time highs set just last month. If that happens, the recent decline was an opportunity to buy the dip as has been the case throughout the last year. The bond / income groups are indicating a less certain environment. If the economically sensitive bond / income groups break to new all-time highs, it would be a positive indication for both the stock and economically sensitive bond / income groups.

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 74.2%. Previous readings are November 82.5%; October 47.5%; September 70.8%; August 78.3%; July 70.0%; and June 73.3%.

Equity Allocation Models	Model Rating	% Equity Allocation
RGB Market Trend Model		25.0%
RGB Market Momentum Model		16.7%
RGB Fundamental Factors Model		7.5%
RGB Credit Conditions Model		25.0%
Model Equity Allocation:		**74.2%**

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 bond / income groups are less certain but if the stock market continues to trend up, I suspect many of the economically sensitive bond / income groups to resume trending up. Protect your capital if the funds you own drop below your predetermined sell point, and hold proceeds in cash until a better opportunity presents itself.

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.