Market Monitor

Version 2020-11

Written by Rob Bernstein

November 12, 2020

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 take the time to watch a webinar I provided earlier this year. Click here to watch recording. If you would like to download a copy of the presentation, click here.

Some of the uncertainty weighing on the stock market over the last two months has now been lifted. All indications are pointing to a split government with the Democrats controlling the Executive Branch and the House, while the Republicans will maintain a majority in the Senate. This implies that it will be difficult to for the President to pass any significant legislation. The stock market likes this as it limits the uncertainty of the impact of any new legislation on the economy.

In addition, the recent announcement by Pfizer/BioNTech that they will soon seek FDA approval of their coronavirus vaccine that achieved a 90%+ efficacy rate during Phase 3 trials means that the economy can start looking forward to a return to a more normal economic environment. As the stock market tends to discount the future by looking forward 12 to 18 months, the stock market responded favorably as businesses that have been hit the hardest by the pandemic can now look towards more profitable days as the vaccine becomes more available in the first half of 2021.

Combining the above with an accommodative Federal Reserve provides a positive environment for stocks. The Federal Reserve has indicated that it is unlikely to start raising rates any time soon and will target an average inflation rate of 2% (as opposed to a 2% target) which allows the Fed to exceed the 2% inflation target for a period of time. This should have a positive impact on the economy as it allows the economy to run hot for a longer period of time before the Fed starts to reduce some of the accommodation they have provided.

The economic sensitive bond groups discussed on pages 8 and 9 of this newsletter will also benefit from this environment. As the economy grows, these groups tend to trend up along with stocks but on a fraction of the overall volatility. For investors concerned about day-to-day volatility, these groups represent opportunities for better risk-adjusted returns.

As we approach the end of the year, we are entering seasonably positive time of the year for stocks. This, along with the weight-of-the-evidence presented on the following pages of this newsletter, points to a potentially positive period for the stock market as we close out 2020.

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	9.3%
Momentum Analysis:			
Short-Term Momentum Model	Buy	Positive	27.0%
Intermediate-Term Momentum Model	Hold	Neutral	13.0%
Long-Term Momentum Model	Buy	Positive	15.2%
Fundamental Analysis:			
Economic Model	Buy	Positive	13.2%
Earnings Model	Sell	Negative	-0.5%
Monetary Model	Buy	Positive	7.3%
Inflation Model	Buy	Positive	12.9%
Valuation Model	Sell	Negative	-2.9%
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	Hold	Neutral	9.8%
Long-Term Overbought/Oversold Signal	Buy	Positive	NA
Investor Sentiment Analysis:			
Short-Term Sentiment Model	Sell	Negative	8.4%
Intermediate-Term Sentiment Model	Hold	Neutral	12.7%
Long-Term Sentiment Model	Hold	Neutral	1.2%
The Weight of the Evidence Average:			**9.74%**
S&P 500 average gain/annum from 11/16/1979:			**8.89%**

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: With some of the election uncertainty behind us, the stock market scorecard has quickly moved into a positive position with most of the technical, fundamental and credit condition indicators displaying a nice shade of green.

Stock Market Environment
Primary Cycle Analysis

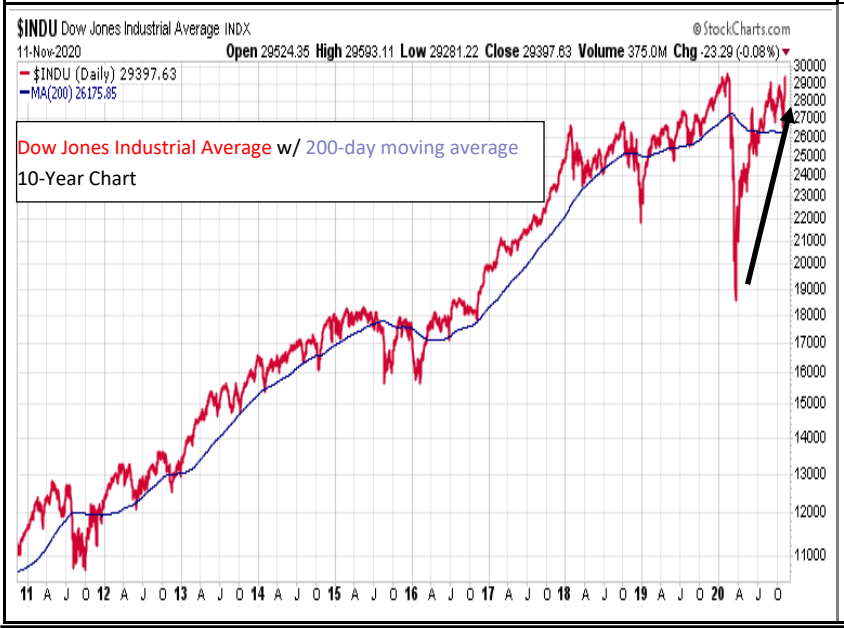
The stock market tends to move in cycles that tend to repeat over time and are generally associated with the overall business cycle.

- **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) market cycle remains bullish.

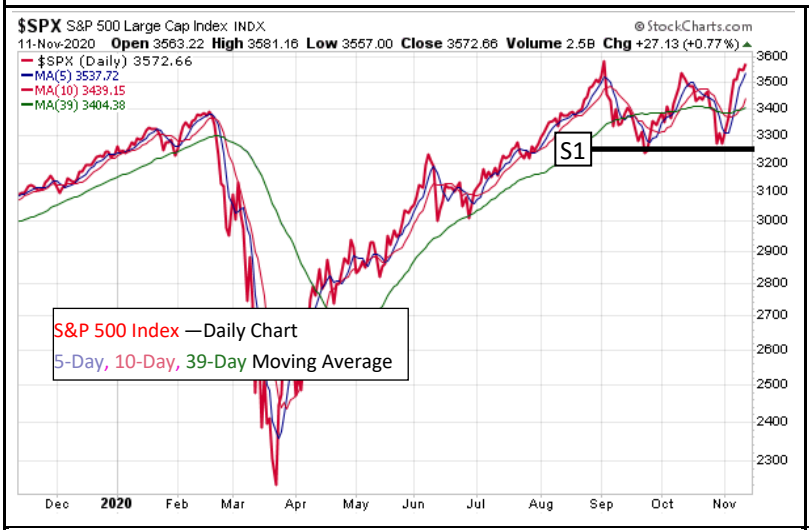


Bull Market

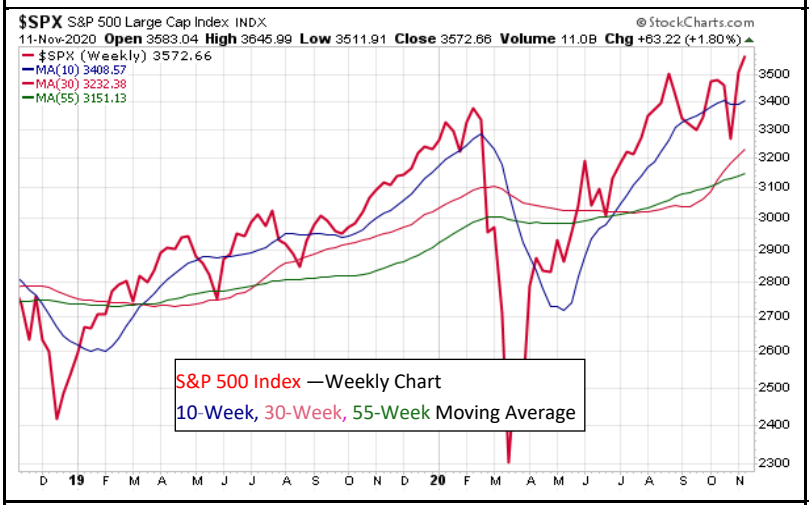
Cyclical Market Cycle: Despite increased volatility over the last two months, the cyclical (short-term) bull market that started on March 23, 2020 remains in tact.

Stock Market Environment
Trend Analysis — One-Year Charts

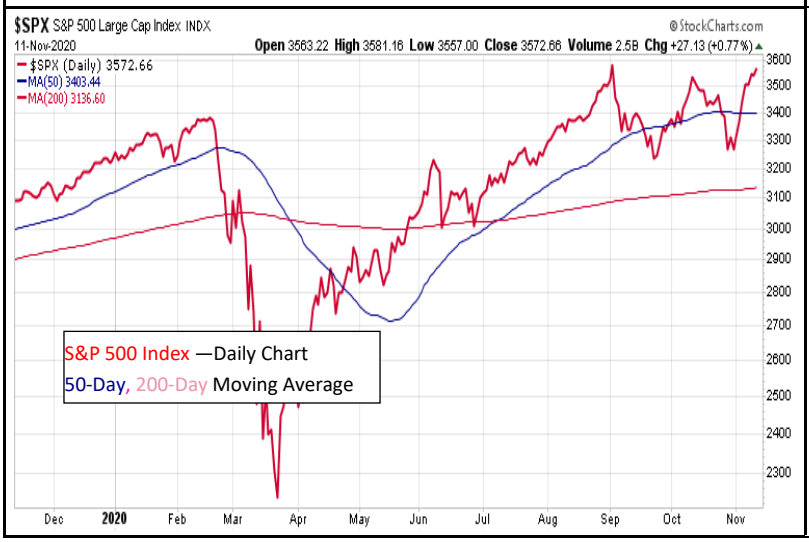
Trend Analysis:	Signal	Indicator	Historical Return
Short-Term Trend Rating	Buy	Positive	NA
Intermediate-Term Trend Rating	Buy	Positive	NA
Long-Term Trend Rating	Buy	Positive	9.3%



Short-Term Trend: The short-term decline in the S&P 500 Index during the month of October bounced off an important level of support (S1). The index is now trending up above its 5-Day, 10-Day and 39-Day moving averages. A breakout to new highs would be a positive development.



Intermediate-Term Trend: The weekly chart of the S&P 500 Index that we use to assess the intermediate-term trend of the market is positive. After whipsawing back and forth across its 10-Week moving average during the last few months, the index appears to be trending up again and is currently at an all-time high. The index is now comfortably above the 10-Week, 30-Week and 55-Week moving averages.



Long-Term Trend: The trading range environment of the S&P 500 Index during September and October did nothing to change the long-term trend of the index. The trend remains positive with the 50-day moving average trending above the 200-day moving average.

Stock Market Environment
Momentum / Fundamental Analysis

	Signal	Indicator	Historical Return
Momentum Analysis:			
Short-Term Momentum Model	Buy	Positive	27.0%
Intermediate-Term Momentum Model	Hold	Neutral	13.0%
Long-Term Momentum Model	Buy	Positive	15.2%

Short– and Long-term Momentum Models are positive. While the Intermediate-term Momentum Model is indicating a 'neutral' reading, the indicator is rising during the last six week period indicating that momentum is improving. The 13% annualized return while the Intermediate-term Momentum Model is in this configuration isn't too bad either. I consider overall momentum in the market as positive.

	Signal	Indicator	Historical Return
Fundamental Analysis:			
Economic Model	Buy	Positive	13.2%
Earnings Model	Sell	Negative	-0.5%
Monetary Model	Buy	Positive	7.3%
Inflation Model	Buy	Positive	12.9%
Valuation Model	Sell	Negative	-2.9%

Economic Model: While the overall Economic Indicator remains positive, the data supporting the model is starting to show some deterioration. If the deterioration in the economy persists, this indicator would quickly turn bearish. This is something we will want to keep an eye on over the coming months.

Earnings Model: The Earnings Model remains negative but we are starting to see some marginal improvement in earnings as companies recover from the pandemic induced shut downs. Of the four earnings indicators that comprise the Earnings Model, two have improved over the last month and two have declined. The prospects of a vaccine being made available should help improve the Earnings Model in 2021.

Monetary Model: The monetary environment remains positive.

Inflation Model: Inflation remains extremely low.

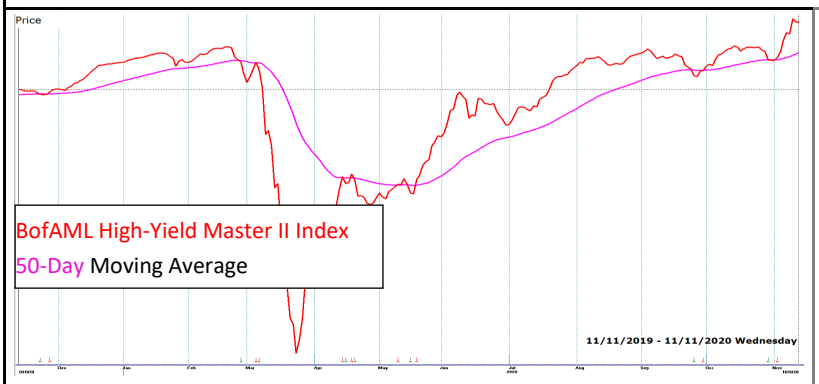
Valuation Model: The five indicators that are used to create the valuation model are all pointing to an overvalued market.

The weight-of-the evidence continues to point to a positive fundamental environment but the deterioration in the Economic model is a bit concerning.

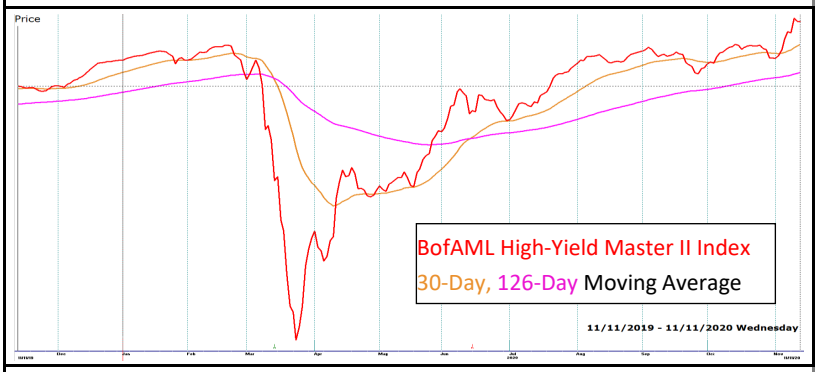
Stock Market Environment
Credit Conditions Analysis — One-Year Charts

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.

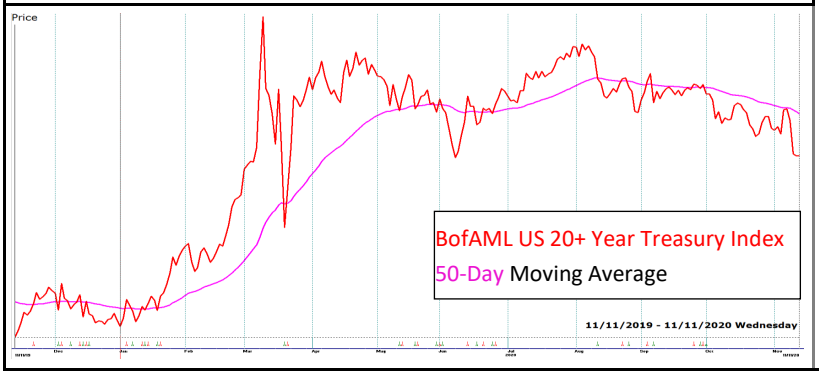
Credit Conditions Analysis:	Signal	Indicator	Historical Return
Short-Term Credit Conditions Model	Buy	Positive	NA
Intermediate-Term Credit Conditions Model	Buy	Positive	NA
Long-Term Credit Conditions Model	Buy	Positive	NA



Short-Term Credit Conditions: Junk bonds pulled back during September and October briefly touching its 50-day moving average on two occaisions. Since then, the BofAML High-Yield Master II Index has resumed trending up and sits near an all-time high. Short-term credit conditions remain positive.



Intermediate-Term Credit Conditions: Intermediate-term credit conditions remain positive with the 30-Day moving average comfortably above the 126-Day moving average. Both moving averages are trending up.



Long-Term Treasury Prices: When risk is elevated, investors flee to the safety of US Treasury Bonds driving treasury bond prices higher. That is clearly not happening in the current environment with treasury bond prices in an intermediate-term downtrend. This downtrend provides confirmation that the overall risk in the market remains low.

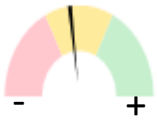
Summary: Credit conditions (including long-term credit conditions — not shown) remain positive across all time frames. The downtrend in treasury bond prices confirms the positive credit environment.

Stock Market Environment
Early Warning Model

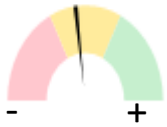
The Early Warning Model is designed to give investors an indication when the market has gone too far in one direction and whether it's ripe for a reversal in trend based on overbought / oversold and investor sentiment indicators. Like a rubber band that has been stretched too far, the market tends to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

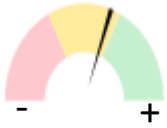
Short-term



Intermediate-term



Long-term

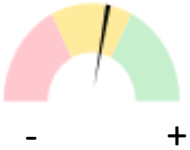


The overbought / oversold indicators are neutral across all three time frames.. The market is neither overbought nor oversold.

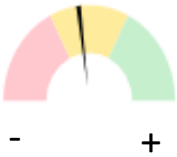
Investor Sentiment

Short-term

Intermediate-term



Long-term



Investor sentiment has deteriorated slightly since last month (i.e. investors are slightly more bullish now than they were one month ago).

Summary

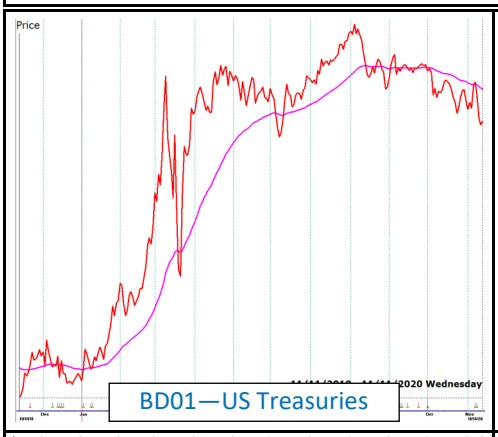
Mean Reversion Potential	Neutral
New Investment Rating	Buy

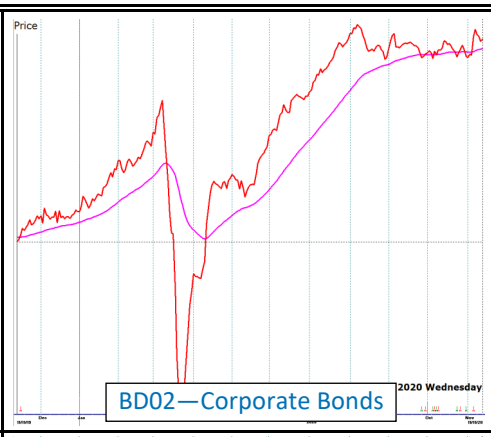
The Early Warning Model is neutral across all time frames implying that the stock market is likely to be driven by normal market forces and not by an over-bought or oversold condition.

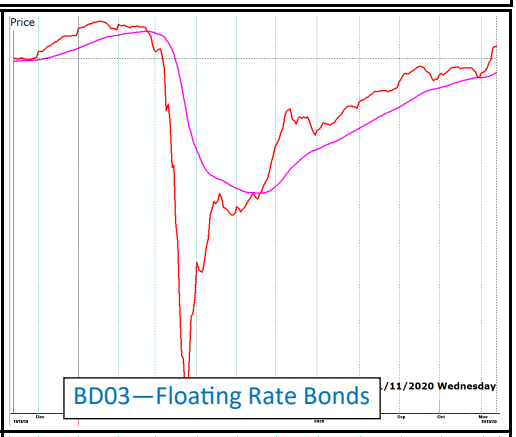
The Early Warning Model is a tool designed to provide an indication when the market has moved too far in one direction, which in our view, means the probability of a counter trend rally is above average. The Mean Reversion Potential, based on the trend reversal data displayed, is a belief that prices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

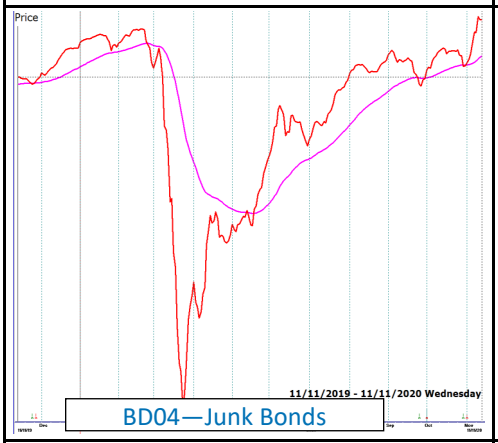
Bond / Income Environment
Overall Assessment

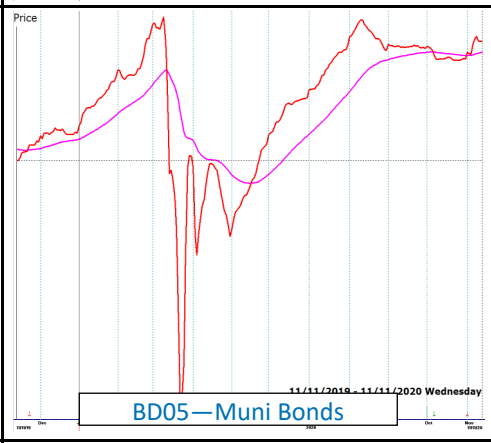
The following one-year charts represent 10 groups that encompass a large portion of the bond / income environment. Each group is an equally-weighted composition of representative mutual funds. Each group is plotted with its 50-Day moving average to help visualize the trend.

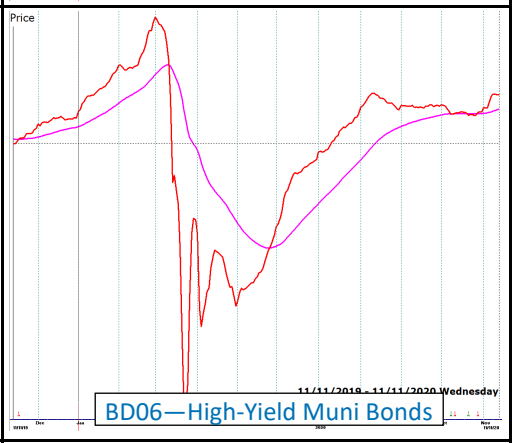


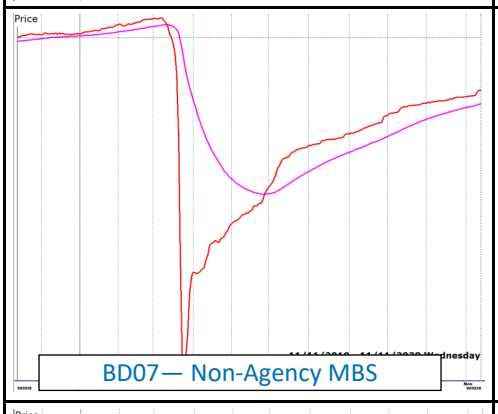


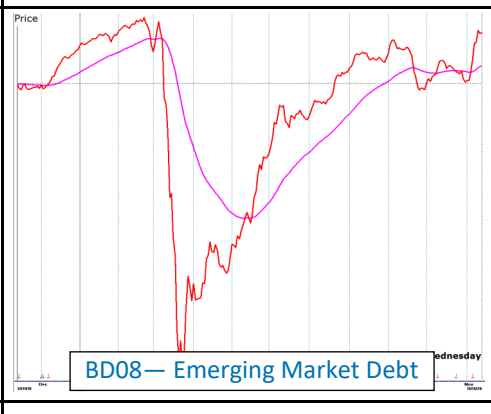


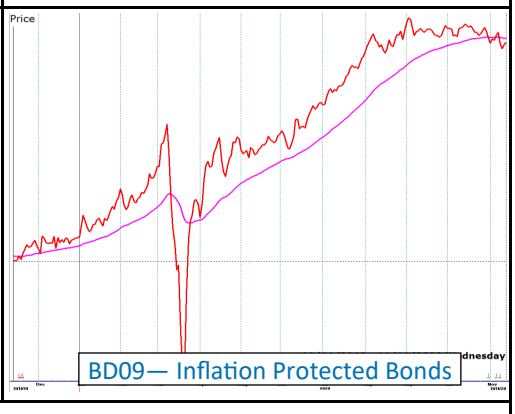


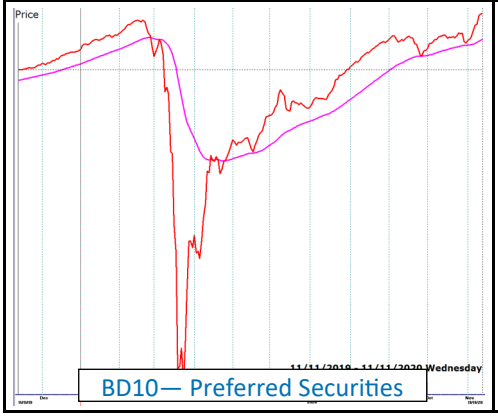












The interest rate sensitive bonds groups (BD01, BD02, BD05, BD06, BD09) have lagged the economic sensitive bond groups (BD03, BD04, BD07, BD08, BD10) which have started trending up again.

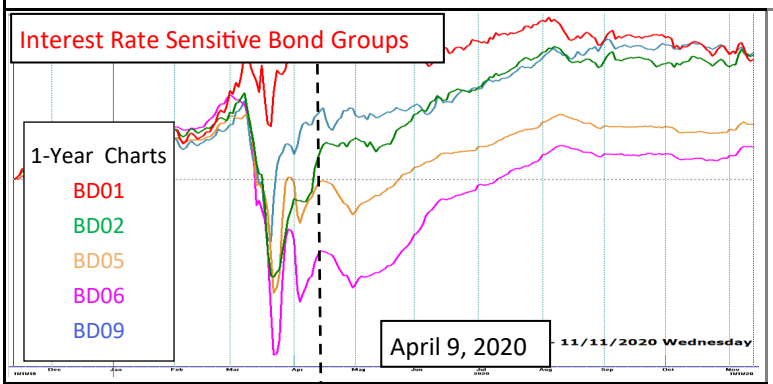
Note: I have updated BD07 (formerly called Mortgage Backed Securities) to now focus on "non-agency" mortgage backed securities (the group previously focused on "agency" or government-backed mortgage bonds). I believe the non-agency group is more conducive to investors seeking good risk adjusted returns.

Bond / Income Environment
Detailed Analysis

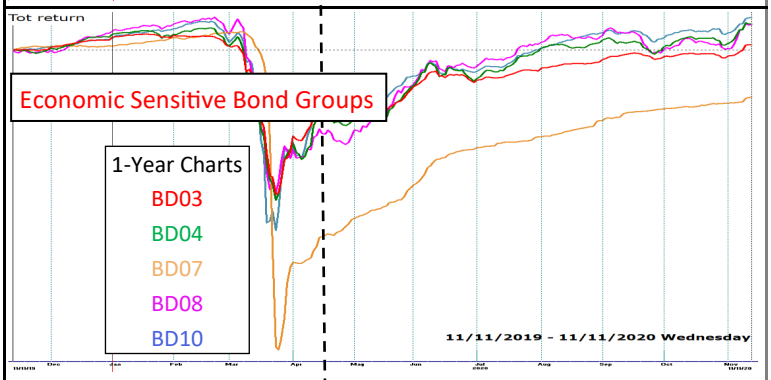
		Statistics for 4/9/20 - 11/11/20						YTD	One Year
Symbl	Description	Return	Annual Return	ULCER	UPI	MaxDrawDown	SD	Return	Return
BD07	Bond/Inc - Non-Agency MBS	25.10%	45.69%	0.02	1980.89	-0.24%	0.95%	-7.18%	-6.66%
BD10	Bond/Inc - Preferred Securities	14.17%	24.93%	0.63	38.25	-1.79%	1.43%	3.05%	4.82%
BD03	Bond/Inc - Floating Rate	11.00%	19.16%	0.53	33.98	-1.64%	0.97%	-1.12%	0.77%
BD04	Bond/Inc - Junk	16.01%	28.33%	0.92	29.56	-2.65%	1.79%	1.51%	3.86%
BD08	Bond/Inc - Emerging Market Debt	17.88%	31.84%	1.32	23.27	-3.59%	1.95%	0.92%	3.75%
BD02	Bond/Inc - Corporate	8.23%	14.21%	0.68	19.45	-1.46%	0.96%	7.62%	9.03%
BD06	Bond/Inc - High Yield Muni	8.40%	14.52%	0.75	17.95	-2.57%	0.74%	0.76%	2.30%
BD09	Bond/Inc - Inflation Protected	4.57%	7.79%	0.49	13.89	-1.56%	0.95%	8.12%	9.20%
BD05	Bond/Inc - Muni Bond	4.71%	8.05%	0.8	8.86	-2.32%	0.58%	2.76%	3.91%
BD01	Bond/Inc - US Treasuries	-0.45%	-0.76%	1.29	-1.37	-2.99%	1.25%	8.15%	8.71%

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.

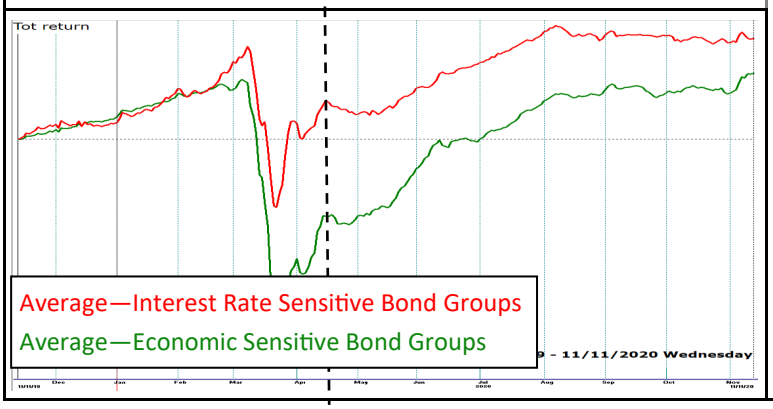
The bond / income groups are sorted by UPI (a measure of risk-adjusted return) for the time period 4/9/2020 through 11/11/2020. This provides some insight into which groups are providing the best risk-adjusted returns following the April 9 Fed announcement to purchase corporate bonds and corporate bond ETFs. It is not surprising that the five top ranked bond / income groups are the five economic sensitive groups, as these groups do best when the economic environment is recovering and stock market is doing well.



The US 10-Year Treasury Yield (not shown) moved from 0.55% on August 1 to 0.98% today. This is a 78% increase! The interest rate sensitive bond groups are directly impacted by this rise in rates and have generally drifted down since August 1st.



While the economic sensitive bond groups are effected by rising rates, they are more sensitive to overall economic conditions. While the rate of increase has slowed since the initial bounce off the March 23 lows, these groups are still trending up.



The two lines on this chart show the average of the Interest Rate Sensitive Bonds and the Economic Sensitive Bonds. Since August 1, the Interest Rate Sensitive group has returned –0.44% while the Economic Sensitive group has returned +1.77%. If the stock market continues to climb higher, the economic sensitive groups will likely continue to trend up.

Equity and Bond / Income Environments
Overall Assessment

Overall Assessment: The overall stock market environment remains healthy and the weight-of-the-evidence presented in the Stock Market Scorecard indicates a generally positive market environment. Some of the uncertainties that have impacted recent market performance have now been lifted as the election is now behind us and the recent announcement by Pfizer/BioNTech indicates a vaccine may start being delivered by end of this year. If the stock market remains in an uptrend, the economic sensitive bond groups should continue to trend higher.

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 remained unchanged at 85.8% this month. Previous readings are October 85.8%; September 70.6%, August 84.8%; July: 70.6%; June: 70.6%; and May: 56.7%.

Equity Allocation Models	Model Rating	% Equity Allocation
RGB Market Trend Model		25.0%
RGB Market Momentum Model		20.8%
RGB Fundamental Factors Model		15.0%
RGB Credit Conditions Model		25.0%
Model Equity Allocation:		85.8%

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 economic sensitive bond groups (BD03, BD04, BD07, BD08, BD10) continue to provide excellent risk-adjusted returns. While these returns have flattened out during the period leading up to the elections, they have all resumed trending up since November 1 and provide a very reasonable option for investors who want to manage risk and earn a fair return. The revamping of BD07 (Non-Agency MBS) provides another option for investors looking to diversify among these low volatility groups. Using a tool like FastTrack can help identify funds that fall into this group.

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.