Market Monitor

Version 2021-07

Written by Rob Bernstein

July 22, 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.

Thanks to everyone who attended the Fasttrack (FTCloud) training classes that I conducted between June 30 and July 13. These classes were hosted by the San Diego Chapter of AAII—Risk Management SIG and designed to provide you access to a tool that allows individual investors to use the information provided on pages 8, 9 and the bottom of page 10 and translate that information into specific investment decisions that match your tolerance for risk and need for return. If you did not attend these sessions, the recordings and the 100-page FTCloud manual are available on the Risk Management SIG page of the San Diego of AAII website.

I am now providing access to the low volatility, bond / income indices that are outlined on page 8 and 9 of this newsletter. The FNU files that represent each group are available on the RGB Capital Group website on the Resources Page. These files are currently updated each Monday morning and I am working on automating the process so that they can be made available on a more frequent basis. I will let you know when that is accomplished. These files are only useful to users of the Fasttrack system (either FTCloud or FT4Web). For more information on Fasttrack, visit the Fasttrack website at www.investorsfasttrack.com. (Rob Bernstein and RGB Capital Group are not affiliated with Investors Fasttrack. Anyone interested in using Fasttrack should subscribe directly through their website.)

Market breadth continues to deteriorate as much of the market gains recently are centered around the largest stocks in the cap-weighted S&P 500 Index and Nasdaq Composite Index. When the market becomes highly concentrated such as this, additional attention is warranted. The market was oversold at the start of this week and the rally over the last two days alleviated the oversold condition. What the market does over the remainder of this week will be indicative of whether this was just a normal short-term correction within an ongoing uptrend or the start of a more significant decline.

For those investors focused on risk management, the bond / income segments we follow in the RGB Market Monitor continue to provide excellent risk-adjusted returns.

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	Hold	Neutral	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	Buy	Neutral	7.5%
Long-Term Momentum Model	Buy	Positive	15.6%
Fundamental Analysis:			
Economic Model	Hold	Neutral	4.3%
Earnings Model	Hold	Neutral	7.9%
Monetary Model	Sell	Neutral	7.3%
Inflation Model	Sell	Negative	-4.0%
Valuation Model	Sell	Negative	-1.4%
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	10.2%
Long-Term Overbought/Oversold Signal	Buy	Positive	NA
Investor Sentiment Analysis:			
Short-Term Sentiment Model	Buy	Positive	29.0%
Intermediate-Term Sentiment Model	Buy	Positive	30.5%
Long-Term Sentiment Model	Sell	Negative	-0.6%
The Weight of the Evidence Average:			**10.11%**
S&P 500 average gain/annum from 11/16/1979:			**9.29%**

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 trend and momentum sections deteriorated a little since last month while we are starting to see some improvement in the fundamental analysis section of the RGB Capital Group Stock Market Scorecard. The Early Warning indicators (Overbought/Oversold and Investor Sentiment) have improved dramatically as a result of the recent sell off.

Stock Market Environment
Primary Cycle Analysis

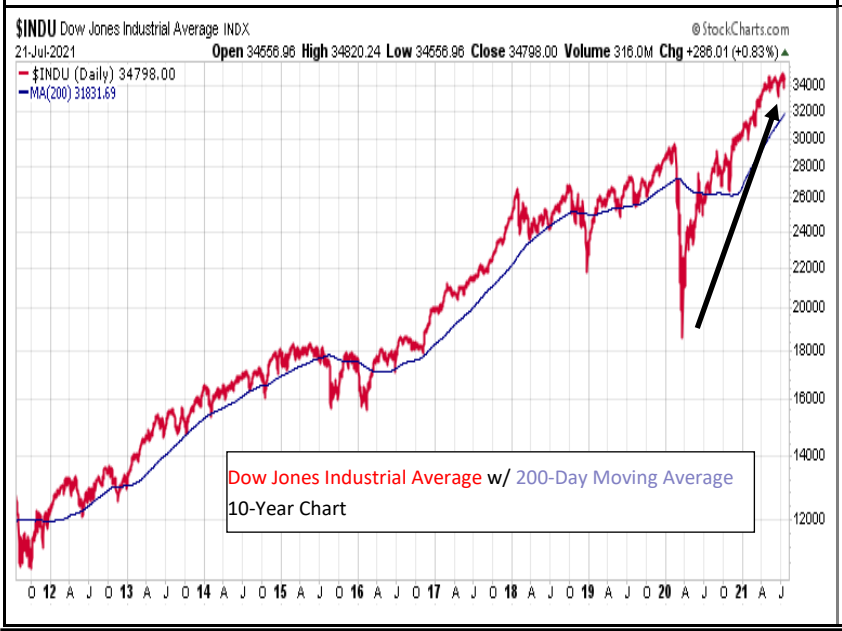
The stock market tends to move in cycles that tend to repeat over time and are generally associated with the overall business cycle.

- **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.



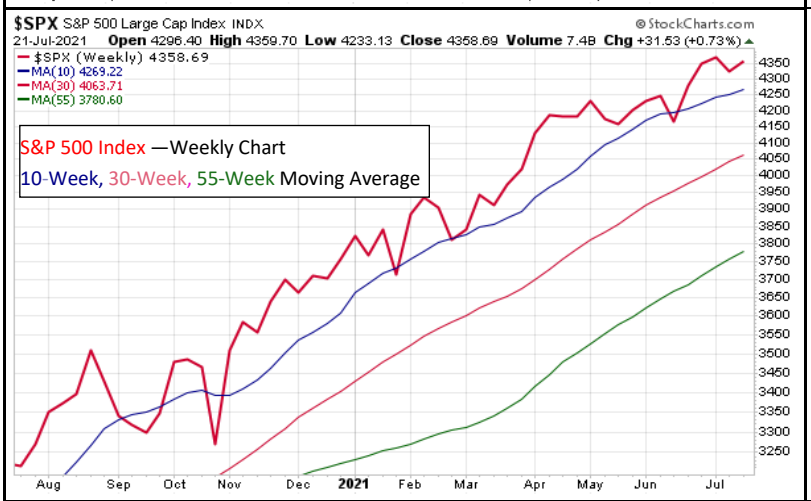
Bull Market

Cyclical Market Cycle: Although the Dow Jones Industrial Average has trended mostly sideways over the last several months, it has not changed the cyclical market cycle which remains bullish.

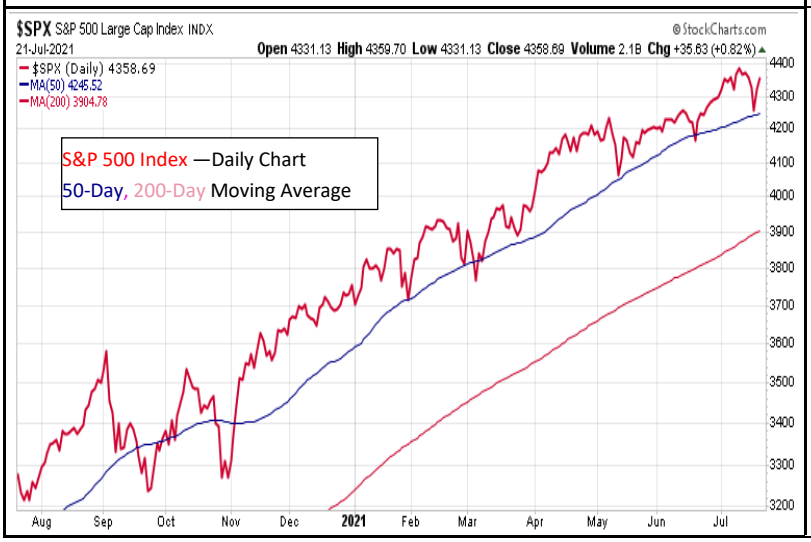
Stock Market Environment
Trend Analysis — One-Year Charts

Trend Analysis:	Signal	Indicator	Historical Return
Short-Term Trend Rating	Hold	Neutral	NA
Intermediate-Term Trend Rating	Buy	Positive	NA
Long-Term Trend Rating	Buy	Positive	9.7%

Short-Term Trend: The sharp decline in the stock market, followed by the rally over the last two days, has created uncertainty about the short-term direction of the S&P 500 Index. While the index is above all three moving averages, the 5-day and 10-day moving averages are declining.



Intermediate-Term Trend: The intermediate-term trend (3 weeks to 6 months) remains in a well-defined uptrend. The uncertainty in the stock market over the last week has had no impact on the weekly chart of the S&P 500 Index which is trending above its rising 10-week, 30-week and 55-week moving averages.

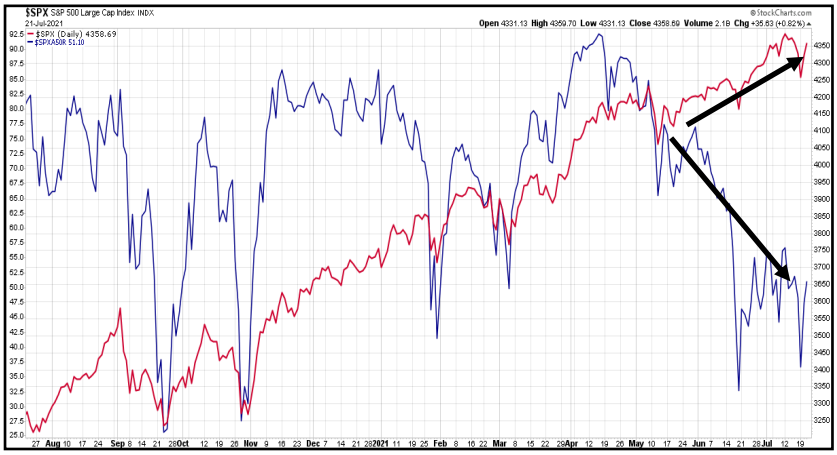


Long-Term Trend: The S&P 500 Index remains in a long-term up trend. The index sold off over the last week but bounced right at its 50-day moving average as it has done many times over the last six months.

Stock Market Environment
Momentum / Fundamental Analysis

	Signal	Indicator	Historical Return
Momentum Analysis:			
Short-Term Momentum Model	Hold	Neutral	15.5%
Intermediate-Term Momentum Model	Buy	Neutral	7.5%
Long-Term Momentum Model	Buy	Positive	15.6%

The deterioration in momentum we saw last month continued. For example, the percentage of sub-industry groups that make up the intermediate-term momentum model dropped to 56.8% (a reading below 56% would be considered negative). The negative divergence that I pointed out last month between the S&P 500 Index and the percentage of stocks above their 50-day moving average continues to widen. The S&P 500 Index (red line) is trending higher while the percentage of stocks above their 50-day moving average (blue line) is trending down. Currently, 51% of stocks are above their 50-day moving average (down from 68% last month). This is generally not an indication of a strong market environment.



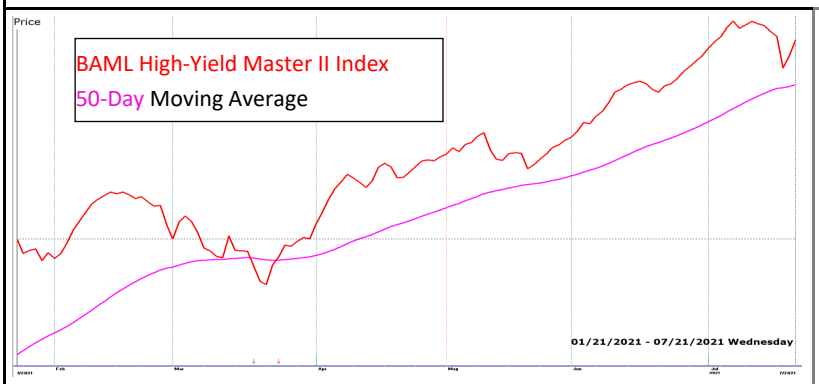
	Signal	Indicator	Historical Return
Fundamental Analysis:			
Economic Model	Hold	Neutral	4.3%
Earnings Model	Hold	Neutral	7.9%
Monetary Model	Sell	Neutral	7.3%
Inflation Model	Sell	Negative	-4.0%
Valuation Model	Sell	Negative	-1.4%

The Fundamental Analysis section of the RGB Stock Market Scorecard is starting to show some slight improvement with both the Earnings Model and the Monetary Model moving from 'negative' last month to 'neutral' this month. While we are starting to see improvement, the overall environment remains weak. For example, the four indicators that support the Valuation Model are all indicating extreme overvalued conditions. This is generally a bearish signal for the stock market and not a time period where investors will see outsized gains. In addition, the NDR Inflation model, that consists of 22 different indicators, is indicating high inflationary pressures. Only time will tell if these pressures are transitory as the Federal Reserve is indicating.

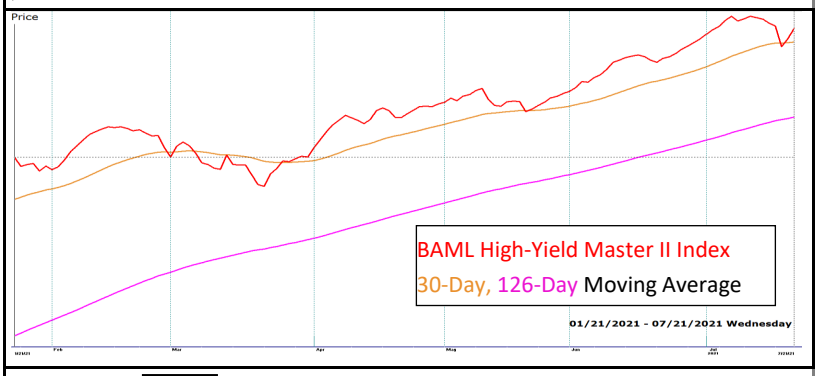
Stock Market Environment
Credit Conditions Analysis — One-Year Charts

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.

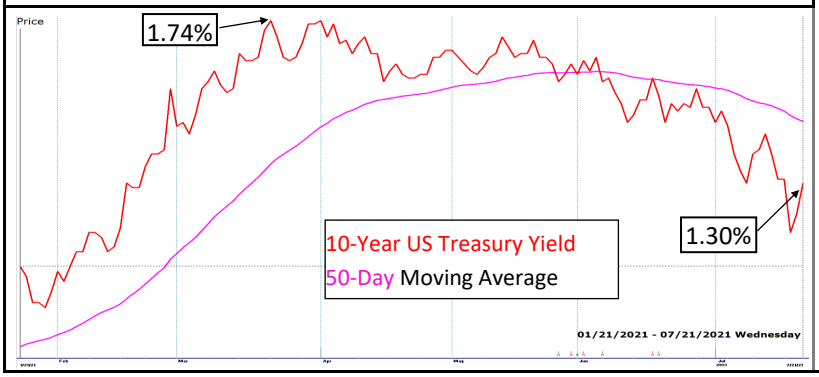
Credit Conditions Analysis:	Signal	Indicator	Historical Return
Short-Term Credit Conditions Model	Buy	Positive	NA
Intermediate-Term Credit Conditions Model	Buy	Positive	NA
Long-Term Credit Conditions Model	Buy	Positive	NA



Short-Term Credit Conditions: Junk bonds sold off with the equity markets but recovered about half of the decline over the last two days. The BAML High-Yield Master II Index never crossed below its 50-day moving average and remains in an uptrend.



Intermediate-Term Credit Conditions: The intermediate-term trend of the BAML High-Yield Master II Index remains positive. The 30-Day and 126-Day moving averages continue to trend up.



Treasury Yields: I track US Treasury yields to help understand whether there is a flight to safety. Generally, if the junk bond index is trending up as US Treasury yields are declining, it is not much of a concern. However, the recent rapid decline in yields may be indicative of a flight to safety which may be a cautionary sign.

Summary: The overall credit conditions, including Long-Term Credit Conditions (not shown), remain positive and therefore supports a healthy stock market environment. However, the strong decline in Treasury yields (i.e. surge in Treasury prices) combined with the recent equity market sell off does raise a caution flag that bears watching.

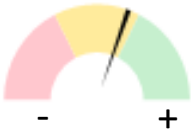
Stock Market Environment
Early Warning Model

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.

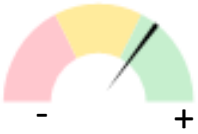
Overbought / Oversold

Short-term

Intermediate-term



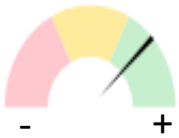
Long-term



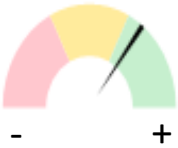
The recent decline in the stock market has pushed the overbought / oversold indicators into positive territory indicating that there is a higher possibility of a continuation of the recent, two-day rally.

Investor Sentiment

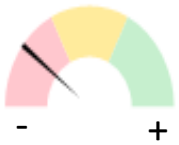
Short-term



Intermediate-term



Long-term



Investors also became much more bearish across both short– and intermediate-term time frames during the recent selloff. Generally market gains tend to be better when investors become more bearish. (Note: as a contrarian indicator, bearish readings are shown as green).

Summary

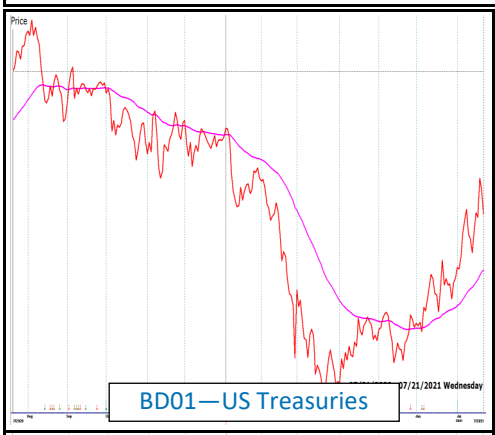
Mean Reversion Potential	High
New Investment Rating	Buy

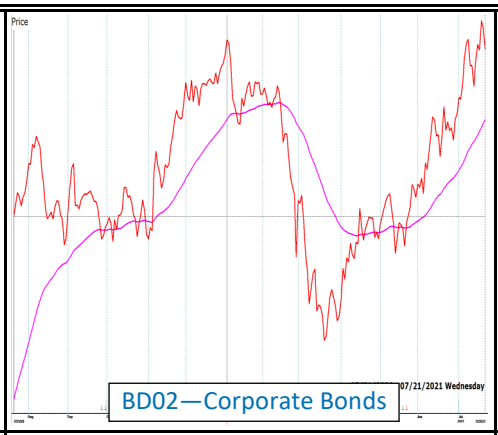
The recent selloff has increased the overall probability for at least a short-term bounce in the stock market.

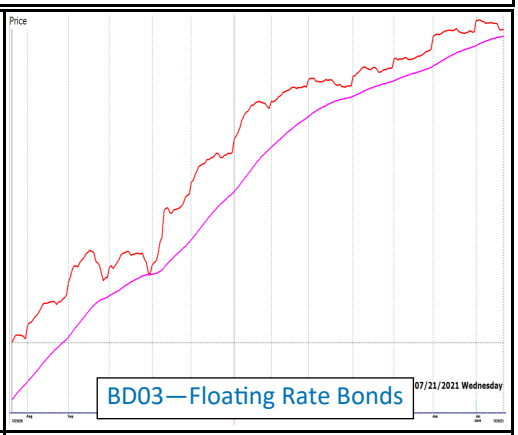
The Early Warning Model is a tool designed to provide an indication when the market has moved too far in one direction, which in our view, means the probability of a counter trend rally is above average. The Mean Reversion Potential, based on the trend reversal data displayed, is a belief that prices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

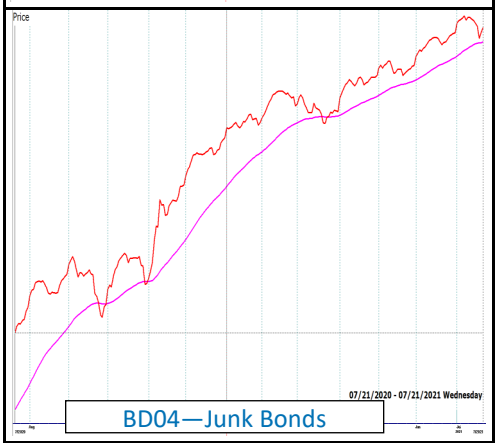
Bond / Income Environment
Overall Assessment

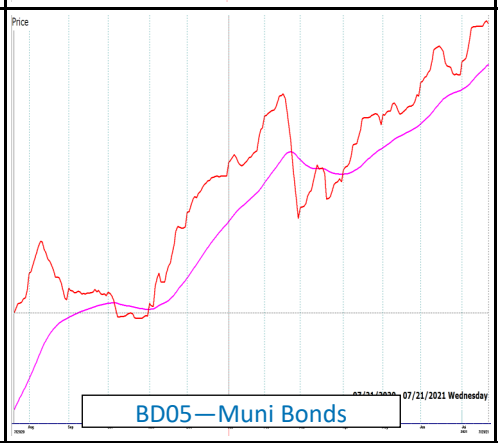
The following one-year charts represent 10 groups that encompass a large portion of the bond / income environment. Each group is an equally-weighted composition of representative mutual funds. Each group is plotted with its 50-Day moving average to help visualize the trend.

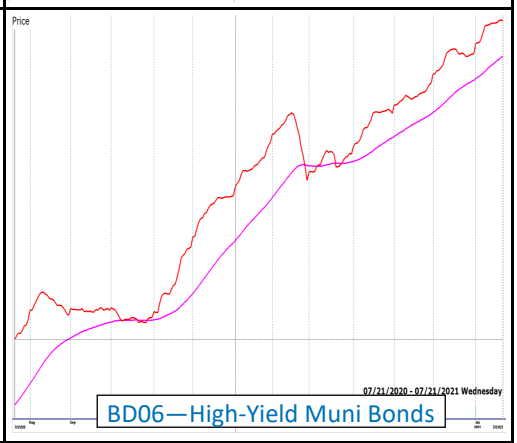


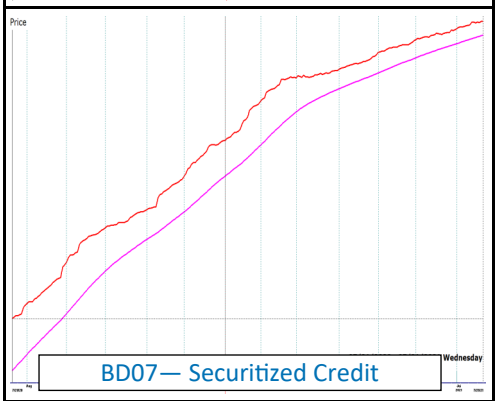


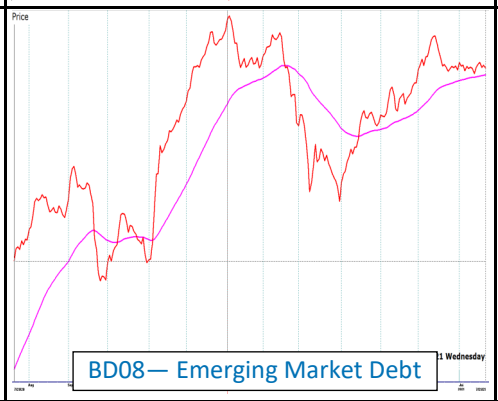


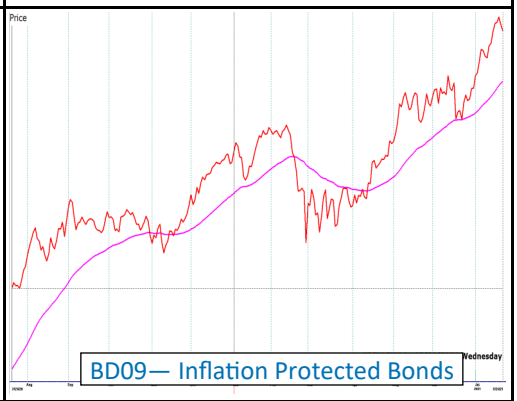


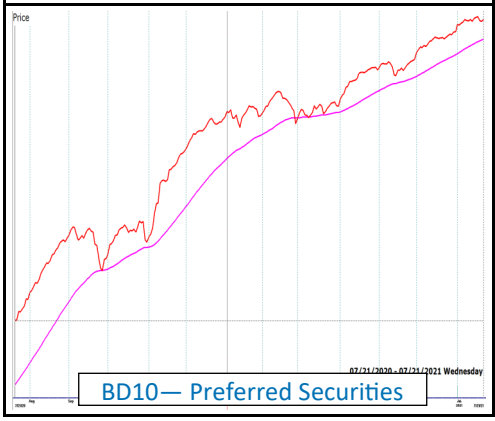












All of the bond / income groups are trending up above their 50-day moving averages but the economically sensitive groups continue to provide the best risk-adjusted returns.

I changed the name of BD07 from Non-Agency Mortgage Backed Securities to Securitized Credit several weeks ago to better identify the funds that make up this asset class. The actual mutual funds that comprise this group did not change.

Bond / Income Environment
Detailed Analysis

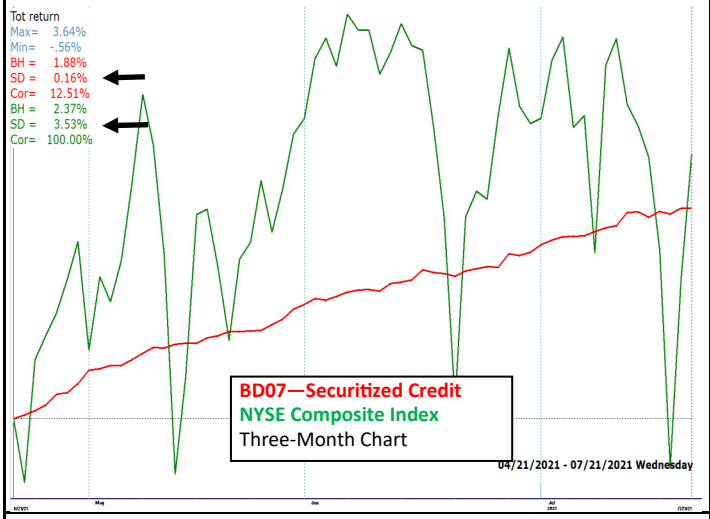
The chart below ranks the bond / income groups over what I consider to be the recent market environment. I am defining this time period to start on 3/19/2021 as this is when interest rates started to decline and some segments of the equity market started to enter a trading range environment. It is important to assess performance over multiple time periods which Fasttrack users should be able to accomplish using the FNU files that represent each group as they are available for download at www.rgbcapitalgroup.com/scorecard. Refer to section 6 of the FT Cloud Training Manual I provided as part of the recent Fasttrack (FTCloud) training session for details on how to accomplish this, if necessary. Manual is available here.

			Statistics for 3/19/21 - 7/21/21						YTD	One Year
Symbl	Description	FTCloud Family	Return	Annual Return	ULCER	UPI	MaxDrawDown	SD	Return	Return
BD07	Bond/Inc - Securitized Credit	N/A	2.47%	7.51%	0.01	651.16	-0.06%	0.15%	5.72%	14.93%
BD06	Bond/Inc - High Yield Muni	High Yield Muni	5.06%	15.77%	0.07	216.71	-0.26%	0.40%	5.75%	11.38%
BD10	Bond/Inc - Preferred Securities	Preferred Stock	3.69%	11.35%	0.12	84.42	-0.55%	0.44%	3.70%	12.60%
BD05	Bond/Inc - Muni Bond	Muni National	2.98%	9.10%	0.15	54.14	-0.48%	0.36%	2.36%	4.97%
BD03	Bond/Inc - Floating Rate	Bank Loan	1.66%	4.99%	0.08	50	-0.29%	0.35%	3.25%	9.58%
BD04	Bond/Inc - Junk	High Yield	3.80%	11.70%	0.22	49.19	-0.86%	0.65%	3.98%	12.66%
BD09	Bond/Inc - Inflation Protected	Inflation-Protected	4.54%	14.05%	0.3	43.29	-0.99%	1.00%	2.78%	6.07%
BD02	Bond/Inc - Corporate	Corporate	3.96%	12.19%	0.26	42.36	-0.80%	0.95%	-0.13%	2.29%
BD01	Bond/Inc - US Treasuries	Government	3.52%	10.80%	0.38	25.64	-0.96%	1.18%	-1.63%	-2.70%
BD08	Bond/Inc - Emerging Market Debt	Emerging Markets	2.82%	8.61%	0.63	12.03	-1.47%	0.96%	-1.56%	6.38%

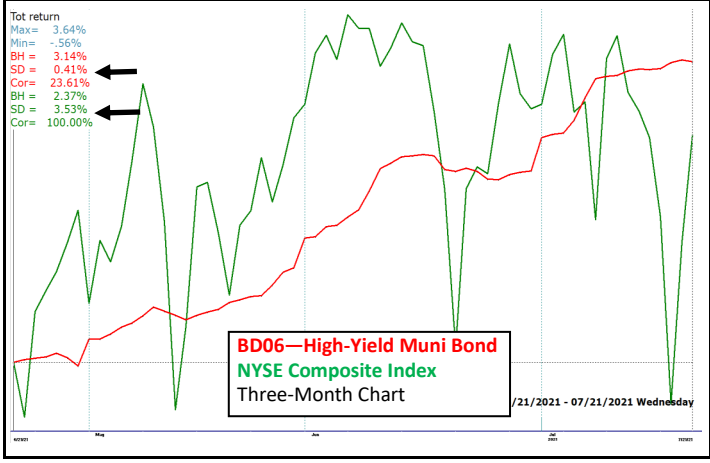
The bond / income groups listed above are comprised of equally weighted groups of mutual funds representing each group. You cannot invest directly into one of these bond / income groups.

The chart above is sorted by UPI, a measure of risk-adjusted return. I have added a FTCloud Family column to help FTCloud users identify potential funds within each group.

The recent decline in interest rates have helped both interest rate sensitive and economically sensitive bonds. However, BD07 and BD10 continue to remain at the top of the list with steady returns and very little draw down. High-yield municipal bonds (BD06) and municipal bonds (BD05) have started to infiltrate the top half of the UPI ranked list and are worth looking at.



The three-month chart to the left shows the top performing bond / income group, BD07—Securitized Credit, to the NYSE Composite Index which is a reasonably good representation of the overall market. Securitized credit mutual funds have provided similar returns during this three month time period (7.7% annualized) compared to the NYSE Composite Index (9.8% annualized) on less than 1/20th of the volatility as measured by standard deviation (0.16% vs. 3.53%). It is the lower volatility return stream that makes these types of investments attractive to many investors who want to manage risk and limit downside volatility.



Similarly, BD06—High-Yield Municipal Bonds, are providing stronger returns than BD07 on slightly higher volatility. BD06 generated a 13.2% annualized return on volatility that was approximately 1/10th that of the NYSE Composite Index over the last three months. Notice that as the NYSE Composite Index declined recently, BD06 continued its steady uptrend. Low volatility groups will not always trend up but when they start to trend down, the change in direction is less abrupt which gives individual investors ample time to assess that change in trend.

Equity and Bond / Income Environments
Overall Assessment

Overall Assessment: The stock market environment is still a bit uncertain with a conflicting signal being generated by the fundamental model when compared to the trend, momentum and credit models. This divergence between the models is a caution sign for the stock market. The low volatility bond / income funds, on the other hand, continue to provide excellent risk-adjusted returns and deserve some attention from investors looking to manage risk in this market environment.

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 70.0%. Previous readings are June 73.3%; May 64.2%; April 78.3%; March 74.2%; February 79.8%; and January 78.3%.

Equity Allocation Models	Model Rating	% Equity Allocation
RGB Market Trend Model		20.8%
RGB Market Momentum Model		16.7%
RGB Fundamental Factors Model		7.5%
RGB Credit Conditions Model		25.0%
Model Equity Allocation:		70.0%

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

Stay invested in the groups at the top of the UPI ranked chart on page 8 including Securitized Credit (BD07), High-Yield Municipal Bonds (BD06), Preferred Securities (BD10) and Junk Bonds (BD04). Each of these groups with the exception of BD07 has a corresponding, pre-defined family in Fasttrack (which I have included on the chart on page 9) to help you identify funds that might be appropriate. I discussed how to identify funds in the BD07 group using the correlation field during the final (session #4) Fasttrack training. If you are a Fasttrack user, please reference the recording for details on how to identify these funds if you are interested.

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.